MARKET IN MINUTES
Savills Research

Investment Market Germany

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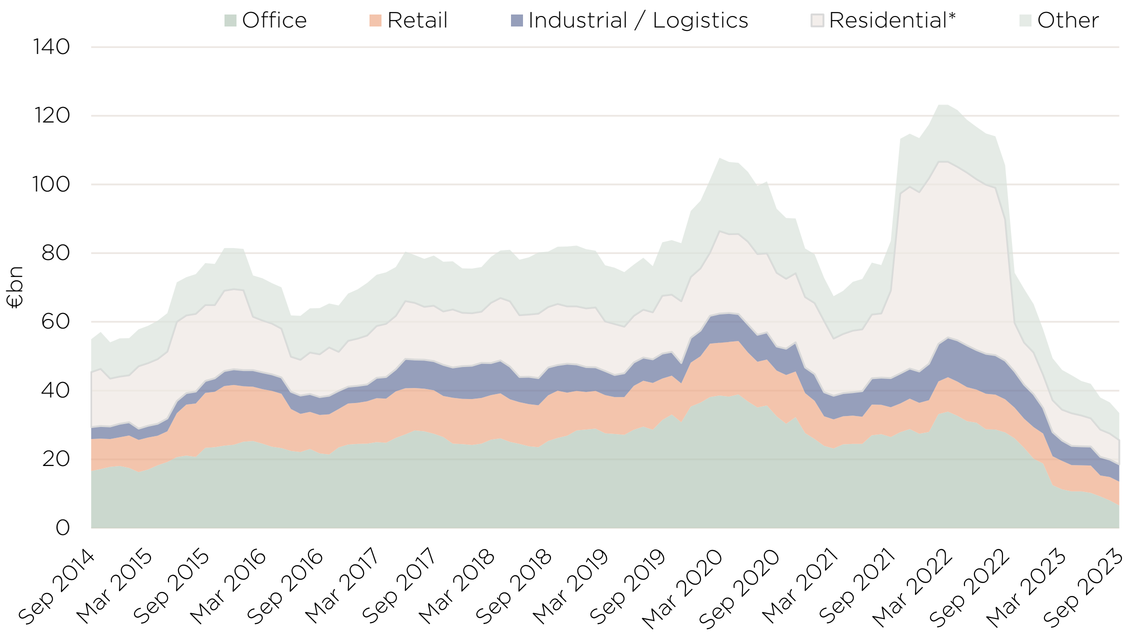
Graph 1: Transaction volume Germany (past 12 months rolling)



Source Savills / *only transactions with at least 50 residential units

Turnover stable, prices not yet

The transaction volume and the number of transactions have probably bottomed out, while prices have initially continued to fall in recent months - this is how the situation on the German real estate investment market at Expo Real 2023 can be summarised according to our reading. The figures are as follows: In the third quarter of 2023, commercial and residential properties changed hands for around €6.7bn in just over 200 transactions. Both figures thus roughly correspond to the comparative values from the two previous quarters. Prime yields, on the other hand, increased in all segments, mostly by 20 to 30 basis points. Only a comparison with the previous year shows that the market has moved to a level not seen for a long time, both in terms of transaction volume and prices. The transaction volume for the first three quarters of the current year, at approx. €21.2bn, is around 60% below the previous year's level and the prime yields of the main property uses have risen by an average of almost 1 percentage point within a year and even by almost 1.5 percentage points since their low point in Q1 2022.

Extent of price correction affects liquidity

This price correction is accompanied by at least a temporary withdrawal of many institutional buyers. The still uncertain environment, the expectation of a further price decline and the increased bond yields are all contributing to their reticence. The field of sellers has also thinned out, as many owners have postponed planned sales for fear of not being able to realise their advised sales price. Since the prices for the individual types of use have fallen differently, some market segments have remained more liquid

FOCUS ON SELECTED FIGURES

1.5 pp.

Since their low in Q1 2022, prime yields for most subsectors have risen by around 1.5 percentage points.

-79%

With a transaction volume of around €3.6bn in the year to date, offices have seen a 79% decline in take-up compared to the same period last year. This is the highest decline of all uses.

Table 1: Transaction volume (€m)

	SEP 2023	LAST 12 MONTHS (OKT 2022 TO SEP 2023)	AGAINST (OKT 2021 TO SEP 2022)	AGAINST (SEP 2022 TO AUG 2023)
COMMERCIAL	2,185	26,409	-59.0%	-8.9%
RESIDENTIAL*	675	7,073	-82.8%	-6.6%
TOTAL	2,860	33,483	-68.3%	-8.4%

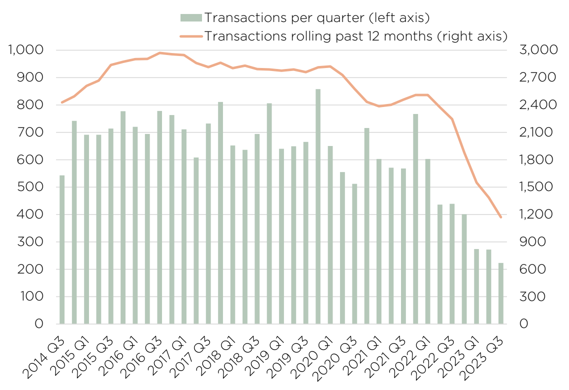
Source Savills / * only residential transactions with at least 50 units than others. For example, although residential is the strongest subsector in terms of turnover with just under €5bn in the year to date, this turnover is spread over little transactions, the number of which has fallen by around two thirds compared to the same period last year. With a transaction volume of approx. €4.7bn or a share of 29% of the total turnover, retail properties follow in second place in the turnover ranking and, with -32% compared to the same period last year, they show the smallest decline. This comparatively good performance probably also has to do with the fact that the rise in yields since the beginning of the turnaround in interest rates has been milder overall in most retail segments than in other uses, or that strong rental growth has at least partially compensated for the increased yields and supported the capital values accordingly. The latter is the case with food retail properties, which account for the largest share of turnover. Increased rents have also stabilised capital values for industrial/logistics properties, which rank third in the turnover ranking with a transaction volume of just under €3.6bn. Office properties, which also have a transaction volume of just under €3.6bn, suffered the sharpest decline in turnover of all uses at -79%. Although rents rose here too until recently, the increase in yields was particularly strong for offices because investors are pricing in a higher risk here in view of the structural changes in the occupier market.

Environment is predestined for anti-cyclical and value-add investors

In any case, the structural changes in the office markets are likely to dampen demand from risk-averse institutional investors for the time being. The transformation to mobile working has set many things in motion on the office occupier markets: lower space requirements, changed location preferences, different demands on fit-out. What is a difficult environment for risk avoiders is predestined for value-add investors. In our observation, the availability of capital for this risk profile is already the greatest and is likely to increase further. This also applies to other uses, especially retail. The withdrawal of institutional investors is also benefiting those investors who have not or only rarely come to the fore in recent years. In the transaction processes, for example, we are seeing more family offices and other long-term oriented private capital sources on the bidding side and others who are sounding out the market and who now see the time for anti-cyclical investments as having come. This could stabilise the market, although both prices and volumes are likely to settle at a much lower level in the medium term than before the interest rate turnaround. This is because the large gap opened up by the reluctance of institutional investors will not be able to be closed either by the risk-taking money or by private investors with a long-term orientation. For this year, we expect a transaction volume of just under €30bn and no increase in market activity for the first half of 2024 either.

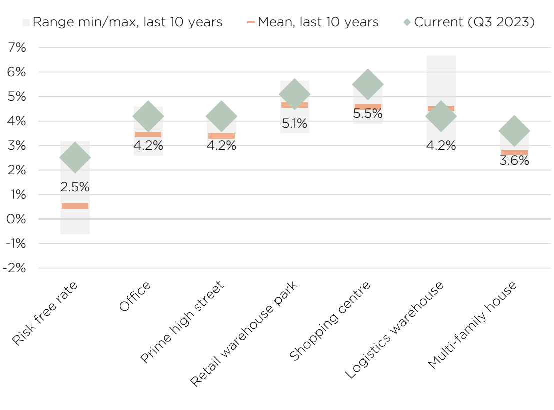
Download the charts and raw data here

Graph 2: Number of Transactions*



Source Savills/ * commercial and residential properties

Graph 3: Prime yields (Ø Top 6)



Source Focus Economics, Savills / risk free rate = 10Y government bunds / Multi-family house: only existing stock, calculated according to Bulwiengesa; Note: The yields shown for 2022/2023 reflect the midpoint of the spread of +/-20 basis points we have observed between askings and offerings.

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