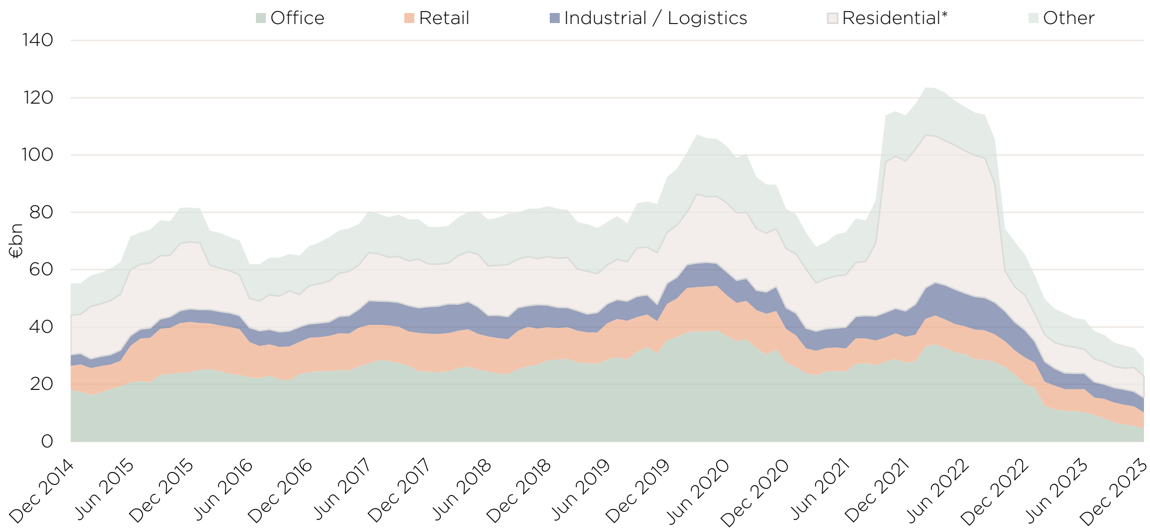
Germany Cross-sector - January 2024

MARKET IN MINUTES
Savills Research

Investment Market Germany

savills

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



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

FOCUS ON SELECTED FIGURES

+ 57 bp.

The prime yield rose by 57 basis points over the course of the past year across all of the sectors we monitor. This compares to 76 basis points in the previous year.

€4.6bn

With a transaction volume of €4.6bn, offices only took fourth place in the turnover ranking of all types of use last year. Compared to the previous year, the volume fell by 77% and was thus the sharpest decline of all uses.

The downturn is largely over

The German property investment market ended 2023 with a turnover of around €29.0bn (Graph 1). This corresponds to a decline of 56% compared to the previous year and is the lowest figure since 2010. Although the bottom appears to have been reached, we do not expect activity to pick up until later in the year.

Strongest price correction ever recorded should end in 2024

Initial yields rose more slowly in the last three months of 2023 than in the previous quarters (Graph 3). The rise in yields in 2022/23 is by far the strongest ever measured on the German property market. We assume that the price correction is well advanced and that initial yields will stabilise over the course of the year. The fact that long-term interest rates have fallen significantly in the last three months and are now even just below the level reached a year ago should also help to stabilise property yields in the medium term. In the short term, however, the predominant factor is that there is still a gap between the prices on offer and those in demand in large parts of the market and the pressure on the landlords tends to be greater than on the side of potential buyers. This is all the more true as borrowing costs have recently fallen somewhat, but banks are still exceptionally restrictive in their lending. This makes refinancing difficult. In view of upcoming devaluations and the recent significant increase in the proportion of non-performing loans, this is unlikely to change much for the time being. In this respect, we expect supply on the commercial property market to increase in the coming months

Table 1: Transaction volume (€m)

	DEC 2023	LAST 12 MONTHS (JAN 2023 TO DEC 2023)	AGAINST (JAN 2022 TO DEC 2022)	AGAINST (DEC 2022 TO NOV 2023)
COMMERCIAL	1,822	21,523	-59.6%	-11.6%
RESIDENTIAL*	234	7,479	-38.5%	-10.6%
TOTAL	2,056	29,001	-55.6%	-11.3%

Source Savills / * only residential transactions with at least 50 units while demand remains unchanged, which suggests that initial yields will continue to rise. Added to this is the weak economic environment, which, according to the latest forecasts by several economic research institutes, will not improve in the current year either. This in turn is likely to be reflected in lower rental growth expectations on the part of investors, which also argues in favour of rising initial yields. In contrast, yields on new-build residential property have probably already peaked and we do not expect a relevant increase in selling pressure on the housing market due to non-performing loans. In addition, further increases in residential rents and falling vacancy rates are to be expected.

Financing stress likely to increase significantly

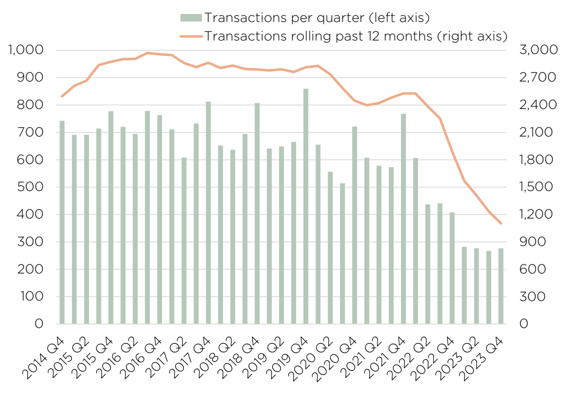
Although interest rates have probably already peaked, the property markets are still far from having fully digested the higher interest rates. Both the devaluations and the rise in lending rates are only gradually eating into investors' portfolios and much of this process is still to come. Recently, the proportion of non-performing loans and the banks' risk buffers have already risen significantly at a low level. As most of the financing taken out at the price peak or during the interest rate trough is yet to expire, we expect increasing stress on both the banks and owners, particularly on the commercial property market. Additional equity will be required for many follow-up financings, which will then no longer be available for property purchases and will dampen demand accordingly. The extent to which the increasing refinancing stress will trigger sales will largely depend on the behaviour of the banks. We are still not seeing any signs of a wave of distressed sales. Nevertheless, we expect to see an increasing number of sales that serve to preventively secure liquidity. Seller groups here are likely to include project developers, listed companies and open-ended mutual property funds.

Yields expected to stabilise over the course of the year and a slight increase in transaction activity

While the number of sales processes should gradually increase in the current year, the potential pool of buyers will initially remain small. However, it should have sufficient capital to absorb the increasing supply and thus ensure a slightly higher transaction volume than last year. We anticipate a volume of between €25bn and €30bn for commercial property and slightly less than €10bn for residential property.

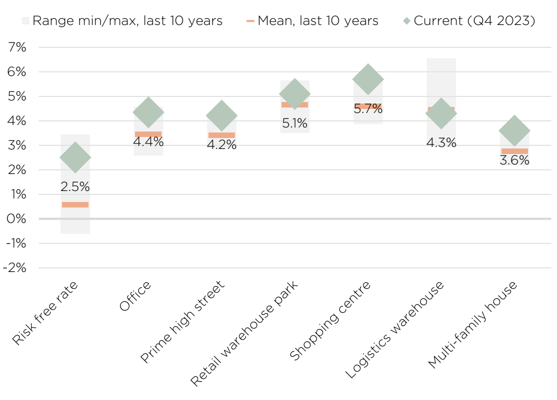
Download the charts and raw data here

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.

SAVILLS TEAM

Please contact us for further information

MARCUS LEMLI
CEO Germany
Head of Investment Europe
+49 69 273 000 12
mlemli@savills.de

MATTHIAS PINK
Director
Head of Research Germany
+49 30 726 165 134
mpink@savills.de

Savills is a leading global real estate service provider listed on the London Stock Exchange. The company, established in 1855, has a rich heritage with unrivalled growth. It is a company that leads rather than follows and now has over 700 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East with more than 40,000 employees worldwide. Savills is present in Germany with more than 400 employees with seven offices in the most important estate sites.

savills