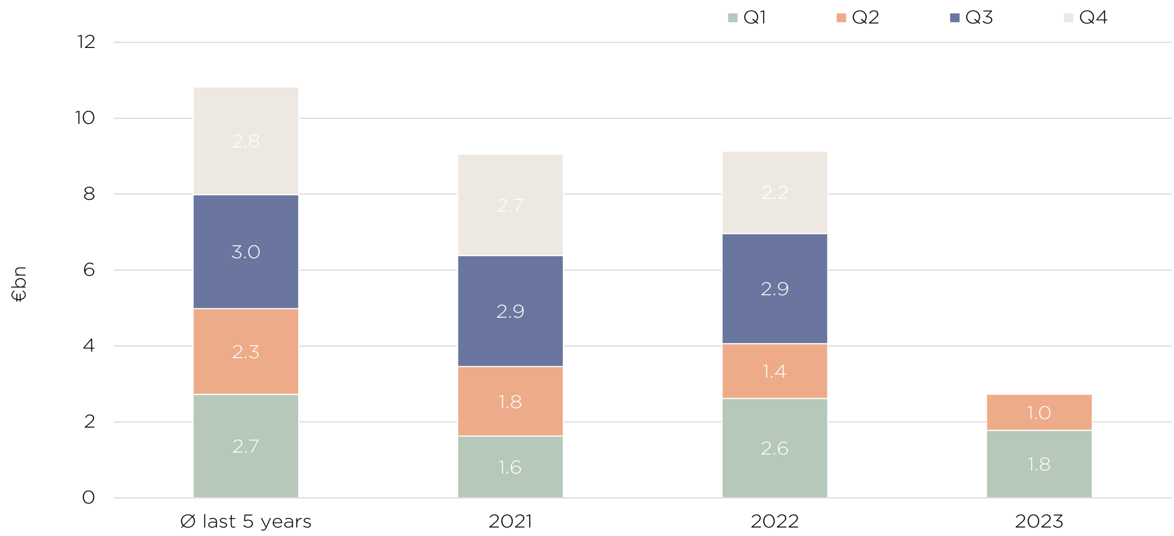
Germany Retail - July 2023

MARKET IN MINUTES
Savills Research

Retail Property Market

savills

Graph 1: Retail transaction volume Germany



Source Savills

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2.7

With a turnover volume of €2.7 billion, retail properties took the top spot in the first half of the year as the type of commercial property with the highest turnover.

1.0

Between April and June, properties with a volume of €1.0 billion changed hands.

Plenty of value-add potential

With a share of just under 29% of the commercial investment volume, retail properties were the type of use with the highest turnover in the first half of the year. In total, the transaction volume in the year to date amounted to €2.7 billion, which represents a decline of 33% compared to the same period last year. Thus, the investment market for retail property is more stable compared to other segments. This is due, among other things, to this year's large-volume share acquisitions, the robust food retail segment as well as the advanced price adjustment for retail properties and the resulting increased transaction activity. This stability, coupled with the increasing willingness to sell that we are observing, could point to a retail comeback later in the year.

Large-scale equity acquisitions drive transaction volume

Department stores have been the highest-turnover segment of the retail property market so far this year, with a transaction volume of €1.1bn and a share of just under 42%. This result is mainly based on the sale of a 50% stake in KaDeWe in the first quarter and the acquisition of eight department stores by Signa Prime in the second quarter. The only other segment to record a year-on-year increase in revenue were shopping centres (58%), which is attributable to the increase in Deutsche Euroshop's ownership share in several shopping centres.

Table 1: Retail market indicators at a glance

	Q1 - Q2 2023	y-o-y change	past 12 month	q-o-q change
High street properties	187	-86%	793	-33%
Retail warehouse parks	460	-63%	1,490	-16%
Departments stores	1,136	+1005%	1,192	+45%
Shopping centres	359	+58%	2,895	-4%
Supermarkets/discounter	418	-41%	850	+/-0%
Other	169	-62%	581	-12%
Total	2,729	33%	7,800	-6%

Source Savills / transaction volume in million Euro

Grocery retail market defies the challenging market environment

Retail park turnover in the first half of the year was €460 million (-63% y-o-y), while supermarkets declined to €418 million (-41% y-o-y). In terms of transaction volume, this is a significant decline, but the number of transactions for supermarkets is only 15% below the same period last year and only 22% below the 5-year average. In contrast to other segments on the commercial investment market, the segment therefore only recorded a moderate decline and remained comparatively liquid. Several factors play a role here: the prime yield, for example, rose by about 100 basis points compared to the same quarter of the previous year and was at 4.5 % at the end of June. This means that prices are at the level of 2020. Consequently, all owners who bought before can still make sales profits despite the price correction. At the same time, the attractive fundamentals of the segment have not changed. Rather, the sector benefited from high in-migration, but there is also growth potential beyond this: higher home-office ratios and increased demand for local supply promote more decentralised structures in retail and open up opportunities for expansion in the grocery retail market. This could additionally increase the availability of investment properties and, in the case of new-build properties, should also meet the ESG requirements of investors.

Great value-add potential

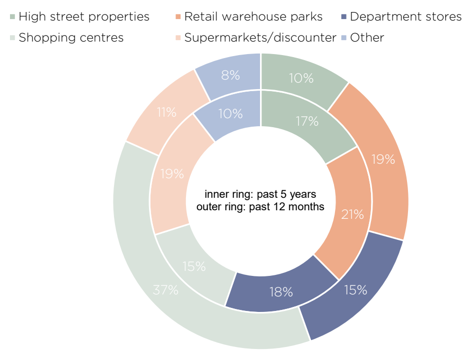
At the peak, the yield level for retail-oriented retail parks is 4.8%. For retail parks with a higher non-food occupancy, the yield level is similar to that of shopping centres, for which we report a yield range of 5.3% to 5.7% for the first half of the year. The prime yield for commercial properties is rising from the previous 3.7% - 4.1% to 3.8% - 4.2%. At this point in time, there have not yet been enough transactions in these segments to show reliable yield levels again. Commercial properties, for example, lost 86 % of their turnover volume compared to the first half of the previous year, with just 187 million euros. The number of transactions could increase in both segments due to sellers' pressure to sell. Many owners of shopping centres and commercial buildings are confronted with the problem that the current book value of their properties is below the original purchase price due to the prolonged decline in capital values. This complicates refinancing and requires additional equity. Against this background, sales of such properties are likely to become more likely and there could be more distress sales. The situation in the occupier markets also remains tense: Although inflation is moderating, consumer spending is unlikely to increase in the short term. This is because energy cost subsidies are coming to an end and, despite upcoming wage adjustments, many households are still facing real wage losses. This offers little scope for a recovery in retail sales, which could lead to further insolvencies. As a result, owners are showing increased willingness to negotiate on the one hand, and on the other hand they are now increasingly looking for alternative forms of use when vacancies occur - also in high-street locations. Although stable returns on the retail property market - with the exception of the food-anchored properties - are becoming increasingly rare, opportunities are opening up for project developers and value-oriented investors to exploit the existing value-add potential. However, there may be a lack of buyers for such properties, as project developers are in crisis mode. An indication of this could be their purchase volume this year: With a volume share of 1%, they have been virtually inactive as a buyer group so far this year and are significantly below the 5-year average of 6%.

More transaction activity expected

For the rest of the year, we expect a moderate market recovery, as we are currently observing more sales preparations. From autumn onwards, this could lead to a noticeable increase in transactions. We forecast an annual transaction volume of over €5 billion.

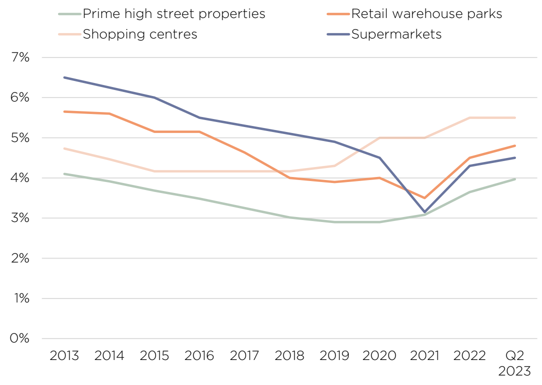
Download the charts and raw data here

Graph 2: Transaction volume by type of use



Source Savills

Graph 3: Prime yields retail properties



Source Savills / Note: The yields for prime high street properties and shopping centres shown for 2022/2023 reflect the midpoint of the spread of +/- 20 basis points (yield range reflects the different purchase price expectations of vendors and buyers)

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