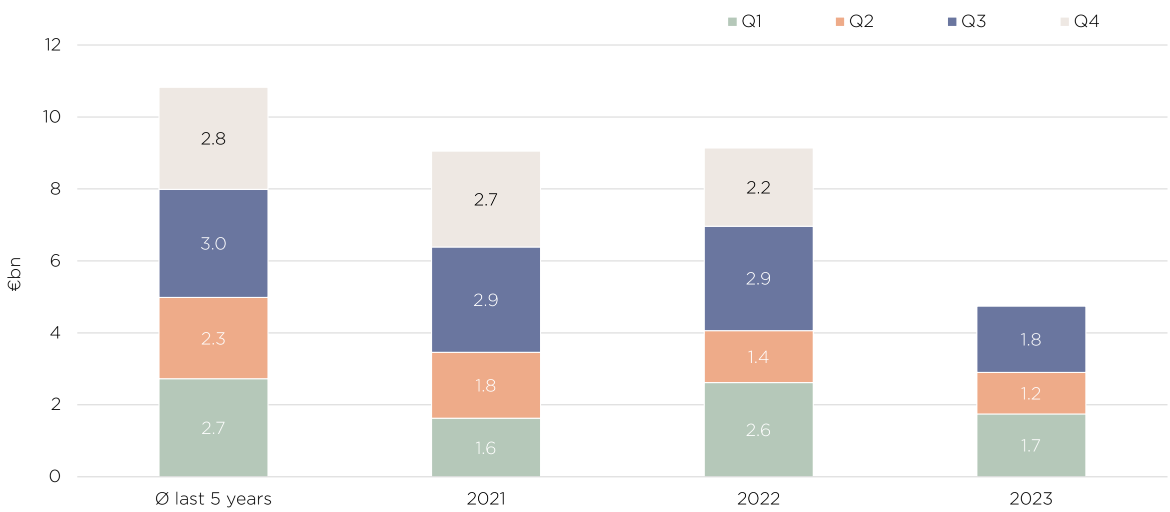
Germany Retail - October 2023

Retail Property Market

savills

Graph 1: Retail transaction volume Germany



Source Savills

Grocery retail market boosts transaction volume

The investment market for retail properties can look back on the strongest quarter of turnover in the year to date. Between July and September, properties with a volume of €1.8 billion changed hands. In total, the transaction volume for the current year amounted to around €4.7 billion, which represents a decline of 32% compared to the same period of the previous year. In contrast to other segments of the commercial investment market, the retail property market recorded the smallest decline and remained comparatively liquid. Thus, as in the previous quarters, the retail property market was the type of use with the highest turnover, accounting for 32 % of the commercial investment volume. And as in the previous quarters, a large-volume transaction supported the transaction volume: the multi-billion dollar acquisition of all 188 grocery anchored properties by Slate Asset Management from X+bricks. As soon as the pandemic began, a clear dichotomy emerged in the retail property market: On the one hand, there is a robust grocery retail segment and, on the other hand, the rest of the market, which is facing numerous structural changes. This dichotomy has resulted in the term 'retail property market' no longer adequately describing the complexity of the sector. Instead, we see a growing diversification within the sector, with each segment having its own specific dynamics and challenges.

FOCUS ON SELECTED FIGURES

€ 1.4 bn

The transaction volume of supermarkets and discounters was just under 1.4 billion euros in the 3rd quarter alone.

- 76 %

With a minus of 76%, shopping centres recorded the strongest decline in turnover compared to the same period of the previous year.period of the previous year.

Table 1: Retail market indicators at a glance

	Q1 - Q3 2023	Y-O-Y CHANGE	PAST 12 MONTH	Q-O-Q CHANGE
High street properties	464	-72%	766	-14%
Retail warehouse parks	588	-63%	1,246	-16%
Departments stores	1,107	+939%	1,159	+2%
Shopping centres	504	-76%	1,165	-61%
Supermarkets/discounter	1,821	+80%	1,953	+117%
Other	255	-48%	625	+7%
Total	4,739	-32%	6,914	-13%

Source Savills / transaction volume in million Euro

Retailers as investors

A look at the transaction activity in the year to date makes the division even clearer. While retail parks with a transaction volume of €588 million, commercial buildings of €464 million and shopping centres of €504 million have suffered a decline in turnover of around 60% to 80%, supermarkets and discounters have recorded a significant increase in turnover (+80%). The transaction volume of approx. 1.8 billion euros was largely driven by two large-volume portfolio transactions. This makes the grocery retail segment, along with logistics, seemingly the only segment on the commercial investment market that is still liquid for large-volume portfolio transactions. The two transactions are the acquisition of the X-bricks properties by Slate Asset Management and the Royal Blue portfolio, in which Aldi Süd bought over seventy of its own stores from Allianz. The Royal Blue portfolio illustrates two important developments that have been observed in this segment in recent months. First, some investors seem to view the risk of short lease terms as less significant. This could be due to the above-average rental growth and the expectation of quasi-certain rent increases. On the other hand, food retailers are increasingly present as potential buyers, which additionally supports the demand side on the investment market. By acquiring their own properties, retailers not only secure their locations, but also partially escape the current rental price development.

Lack of cash flow as a catalyst for distress sales?

The development of the shopping centre market is in stark contrast to this. Here, a downward trend in rents is becoming apparent, accompanied by growing vacancy rates. According to our figures, about 15% of German shopping centres already have a vacancy rate of more than 20%. The stagnating or falling rents in conjunction with increasing vacancy could increase the pressure on owners to sell in upcoming refinancing. This is because some owners are likely to face the challenge of no longer being able to service the increased interest rates from the cash flow of their centres. In addition, the capital values of many centres are now likely to be below their original sales price, making refinancing even more difficult. Therefore, after project developments, shopping centres could be the next segment in which sales to secure liquidity are in the pipeline and more transactions could be recorded.

Prime yield rises in almost all segments

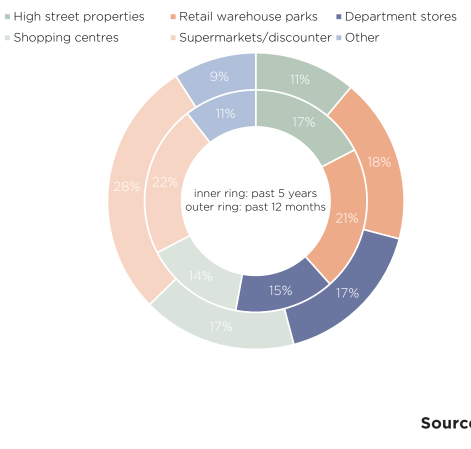
Prime yields rose by a further 20 basis points in almost all segments in the third quarter. The prime yield of supermarkets and discounters, for example, was 4.7% at the end of September. Within one year, it has thus risen by 90 basis points. The increase was only stronger for retail parks, which are now at 5.1 % with a plus of 100 basis points compared to the same quarter of the previous year. We continue to show yield spreads for high street properties and shopping centres. The prime yield for high street properties rose from 3.8% - 4.2% to 4.0% - 4.4%. The yield range for shopping centres remained stable at 5.3% - 5.7%. Here, in contrast to other retail segments, the major price correction did not take place with the onset of the interest rate turnaround, but already at the beginning of the pandemic. For this reason, the rise in yields here has recently been moderate compared to other segments.

Buyer structure in transition

Currently, many property owners are still in a comfortable situation and we have registered little pressure to sell. With a more active transaction market, it should become clear how much the buyer structure in the retail property market has changed. This is partly due to the turnaround in interest rates, but even before that the market was in a process of transformation and retail properties were increasingly rarely classified as core properties. Thus, the sector is likely to become the playground for value-oriented investors in the future, while conservative capital providers are largely withdrawing from the market.

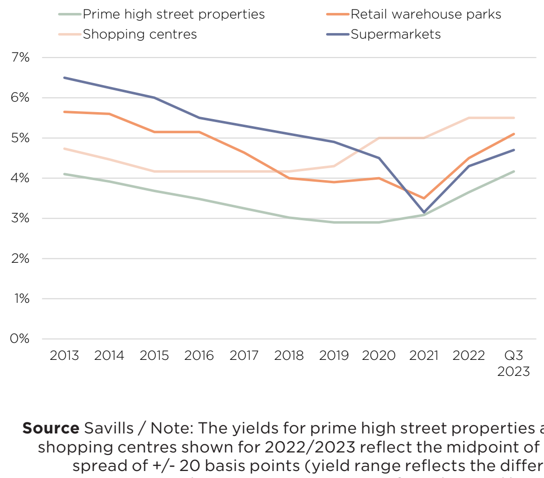
Download the charts and raw data here

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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