Germany Retail - January 2024

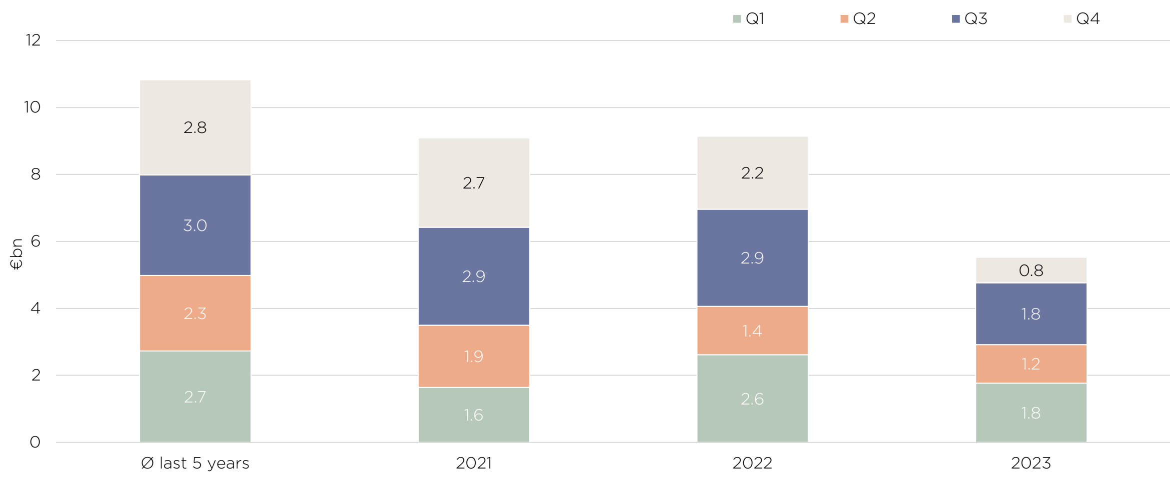
MARKET IN MINUTES

Savills Research

Retail Property Market

savills

Graph 1: Retail transaction volume Germany



Source Savills

FOCUS ON SELECTED FIGURES

-3.1%

Price-adjusted German retail sales in 2023 were 3.1% below the previous year's level

25%

With a share of 25%, the market for retail property occupies the top position in the commercial investment market.

Brilliant at first glance, clouded at second

With a transaction volume of around €5.5bn, the retail segment topped the turnover rankings for all types of commercial use in 2023. That is one way of summarising the investment year. Another is that the transaction volume fell by almost 40% compared to 2022, while the number of transactions fell by 36%. The high volume share of the commercial investment market can therefore be explained by the relative weakness of the other types of use. At the same time, the retail property market recorded the smallest year-on-year decline in volume of all segments. The comparatively stable sales volume is attributable to the liquid grocery and local shopping segment respectively, the more advanced repricing process compared to other types of use and some large-volume exceptional transactions.

Stable interest rates as potential price support

Prime yields for supermarkets and discount stores rose by 10 basis points to 4.8% in the 4th quarter. Shopping centres recorded an increase of 20 basis points, although we continue to report a yield range of 5.5% - 5.9% due to a lack of transactions. Yields for prime highstreet properties (4.0% - 4.4%) and retail parks (5.1%) remained unchanged. The fact that there have still been cancelled transactions recently due to different price expectations on the part of buyers and sellers reflects the fact that the price correction is not yet complete. This applies in particular to properties that do not fulfil all requirements from the buyer's point of view. Compared to prime properties, these are being offered at significant discounts. At the same time, as there has been little pressure to

Table 1: Retail market indicators at a glance

	Q1 - Q4 2023	Y-O-Y CHANGE	PAST 12 MONTH	Q-O-Q CHANGE
High street properties	631	-68%	631	-19%
Retail warehouse parks	741	-67%	741	-41%
Departments stores	1,153	+605%	1,153	-1%
Shopping centres	544	-80%	544	-53%
Supermarkets/discounter	2,134	+86%	2,134	+9%
Other	329	-62%	329	-47%
Total	5,531	-40%	5,531	-20%

Source Savills / transaction volume in million Euro sell on the part of owners, transactions have stalled. One factor supporting prices in the future is the more stable interest rate environment. The ECB has not raised its key interest rate since autumn and swap rates are falling. The associated lower financing costs could make deals that previously seemed unprofitable due to a negative leverage effect attractive again. Even though the financing environment has eased, the retail property market is facing the challenge of attracting fewer buyers and therefore less capital due to falling demand, which is also slowing down transaction activity.

Large-volume properties are on hold

Supermarkets and discounters dominated the transaction volume with 39% and recorded an 86% increase in turnover compared to the previous year. However, this result was also driven by the billion-euro acquisition of all local shopping properties by Slate Asset Management from X+bricks. In addition, only department stores recorded an increase in turnover with a transaction volume of €1.2bn (+ 605% compared to the previous year). This result was primarily due to the sale of a 50% stake in KaDeWe and the acquisition of eight department stores by Signa Prime. Shopping centres recorded the sharpest decline in volume in the retail segment with a fall of 80%. This is not only due to a one-off effect worth billions in the previous year, but also to the negative factors in the segment. This is because shopping centres bring together almost all of the factors that are currently unattractive from an investor's perspective. These include structural problems in the occupier market, large transaction volumes and restrictive financing conditions. Demand is correspondingly low and as long as the pressure on the landlords does not increase, it will continue to be mainly small-volume value-add transactions that take place. The picture is similar for large-volume retail parks: at €740m, the transaction volume was also significantly lower than in the previous year (-70%) and the same influencing factors had a negative impact on transaction activity. Only three transactions above the investment threshold of €40m were recorded in 2023 - compared to almost 13 on a 5-year average. Investors take a different view of retail parks with a high proportion of FMCG; these are more likely to be assigned to the local supply segment and can continue to rely on stable demand.

Investors remain hesitant due to the situation in city centres

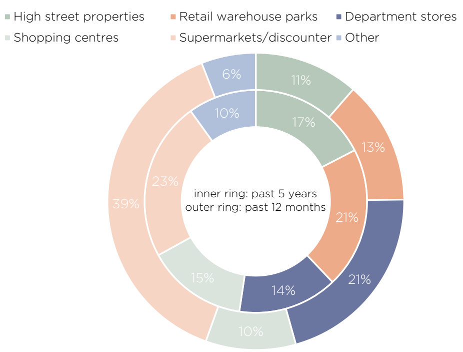
The downturn on the investment market for retail property has also affected highstreet properties. The transaction volume of €631m corresponds to a decline of almost 70%. The risk perception of the segment has hardly improved due to the depressed occupier market: declining sales, numerous insolvencies and space consolidations characterised the past year. The catering industry is currently worried about the VAT increase and the latest development at Galeria Karstadt Kaufhof raises questions about the future of the properties concerned. There is a threat of lengthy conversion scenarios with a major impact on the city centres affected. Against this backdrop, investors in the segment are becoming increasingly cautious.

Outlook: Between increasing supply and restrained demand

The question of a possible increase in the transaction volume is not so much directed at the demand side, as this is likely to remain at a low level for the time being. Rather, it depends on the landlord side and whether the willingness or the pressure to sell increases. This development will influence transaction activity on the entire retail property market. One exception is the local shopping centre segment, which is unlikely to have any problems on the supply and demand side in the future. However, that sector alone will not be able to support the transaction volume. If we see exceptional transactions again next year, the transaction volume could even be slightly higher than in 2023 in conjunction with the improved financing situation and adjusted prices.

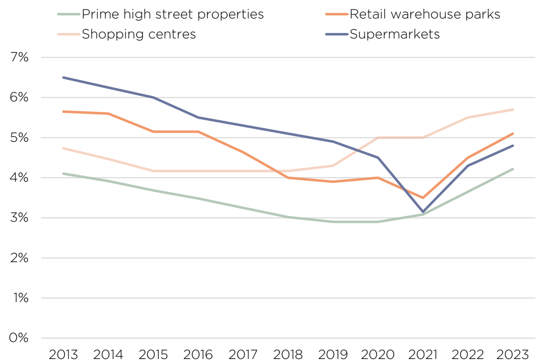
Download the charts and raw data here

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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