Germany Cross-sector - April 2024

MARKET IN MINUTES
Savills Research

Investment Market Germany

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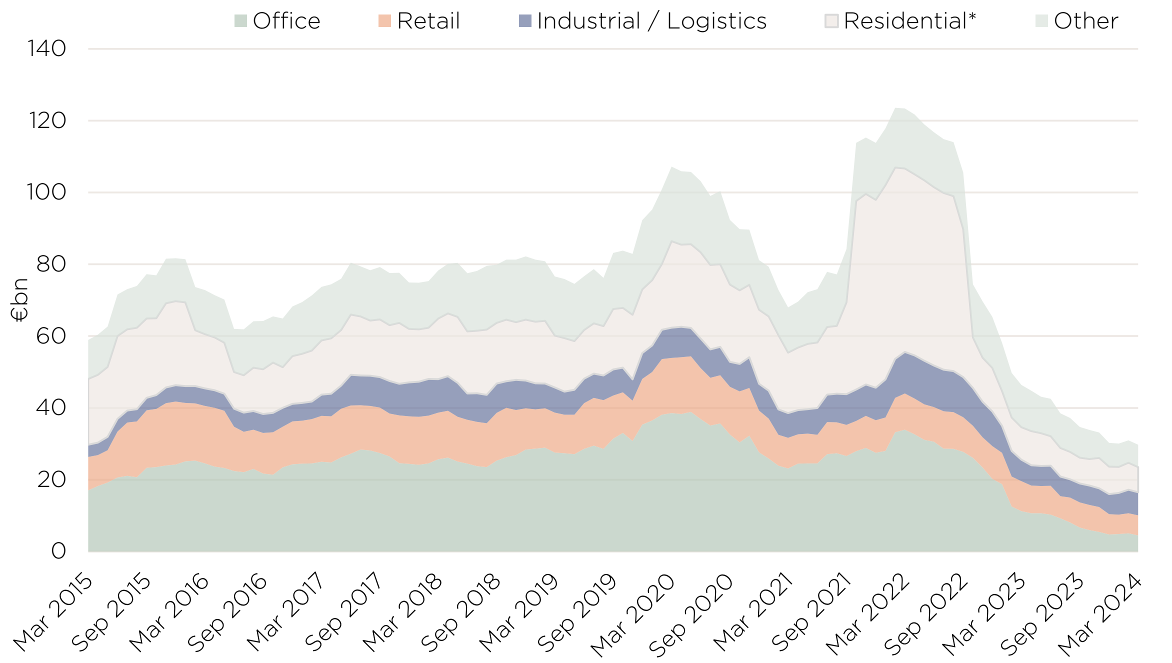
Graph 1: Transaction volume Germany (past 12 months rolling)



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

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€6.0bn

The transaction volume in the 1st quarter totalled 6.0 billion euros. This is a fifth less than last year's quarterly average.

37%

Over the last four quarters, the share of the big 7 markets in investment turnover was only 37%. This is the lowest figure ever recorded since we began collecting data.

Arriving in the new reality

Almost two years after the German property investment market went into a tailspin, we are seeing the first (tentative) signs of increasing momentum again, at least on the supply side. The number of sales processes initiated or in preparation has increased across almost all types of use in recent weeks. This means that the stalemate situation that has now lasted for a year and a half, in which a small number of investors willing to buy are faced with even fewer landlords willing to sell, could slowly dissipate in the coming months. However, the market figures for Q1-2024 still show no sign of greater momentum. The transaction volume totalled around €6.0bn. This is around a fifth less than last year's quarterly average, but this is solely due to the below-average turnover on the residential market. In the commercial property segment, both turnover and the number of transactions remained stable.

Opposing trends in the individual types of use

However, the stagnation of the market as a whole is made up of partly opposing developments in the individual types of use. While transaction volumes in the office segment and healthcare properties have continued to decline in recent months, industrial and logistics properties have recorded rising sales again. Turnover with retail properties and hotels has at least stabilised and we regard the weak residential turnover as a downward outlier. One consequence of these diverging developments is a new hierarchy of sectors: based on the last twelve months

Table 1: Transaction volume (€m)

	MAR 2024	LAST 12 MONTHS (APR 2023 TO MAR 2024)	AGAINST (APR 2022 TO MRZ 2023)	AGAINST (MRZ 2023 TO FEB 2024)
COMMERCIAL	1,969	22,705	-39.2%	-3.1%
RESIDENTIAL*	141	7,015	-22.5%	-6.6%
TOTAL	2,110	29,720	-36.0%	-4.0%

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

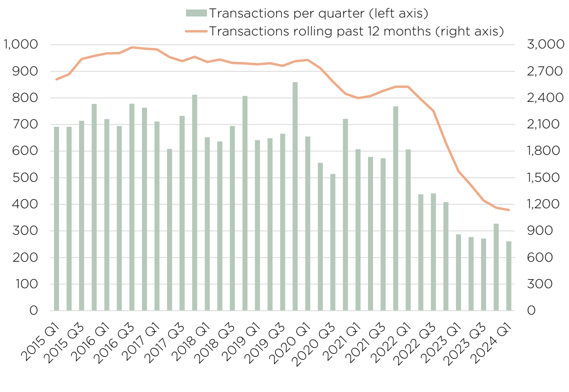
(April 2023 to March 2024), the most money was invested in residential properties (approx. €7.0bn), followed by industrial and logistics properties (approx. €6.4bn) and retail properties (approx. €5.6bn). Offices are only in 4th place (approx. €4.5bn). If investors' preferences are anything to go by, this is unlikely to change for the time being. Office properties in particular, which accounted for the largest share of annual investment volumes on the German commercial property market for more than a decade, have lost much of their popularity. They are still part of the acquisition profile of most risk-averse investors, but the properties in question must be beyond reproach and not too large. For most investors, a high double-digit million euro volume is the end of the line, and the preferred purchase volumes are usually well below €50 million. Many office properties, especially in the big 7 markets, are therefore not liquid in the current market environment. This is probably also the main reason why the share of these markets in the total transaction volume has fallen considerably in recent months. Based on the last four quarters (Q2-23 to Q1 24), it stood at 37% - the lowest figure ever recorded since we began collecting data in 2009.

Letting markets largely investor-friendly

Prime yields have largely stabilised for all types of use and range between 3.6% for apartment buildings and 5.7% for shopping centres, although there is still a great deal of uncertainty about price levels in the less liquid segments. We believe that yields should have largely adjusted to the new interest rate environment, although we consider a further (temporary) increase as possible, particularly for offices. We expect supply to increase in the coming months and it is unclear whether this supply will be matched by sufficient demand. However, even if prime yields were to rise again slightly, the capital values of high-quality properties would probably remain largely stable, as the ongoing rental growth would compensate for this increase in yields. This applies to offices as well as most other types of use. Despite the weak economic environment, most occupier markets are in an owner-friendly state - vacancy rates are low and demand is rising or stable. In view of the deep recession in the construction industry, at least the supply side suggests that this will remain the case. The significant rise in construction costs combined with the "need to refurbish" resulting from legal requirements and investor demands suggest that rents and thus capital values in segments with at least stable demand for space will rise in the medium term. This results in an attractive investment case for those investors who now have access to capital.

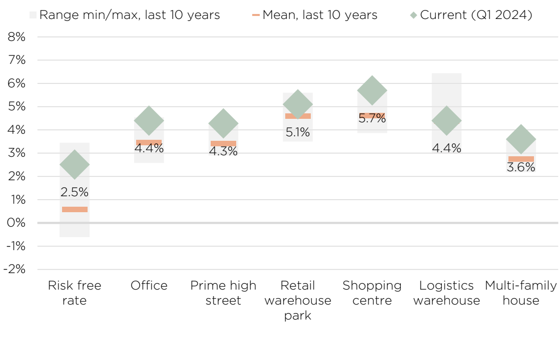
Download the charts and raw data here

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

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