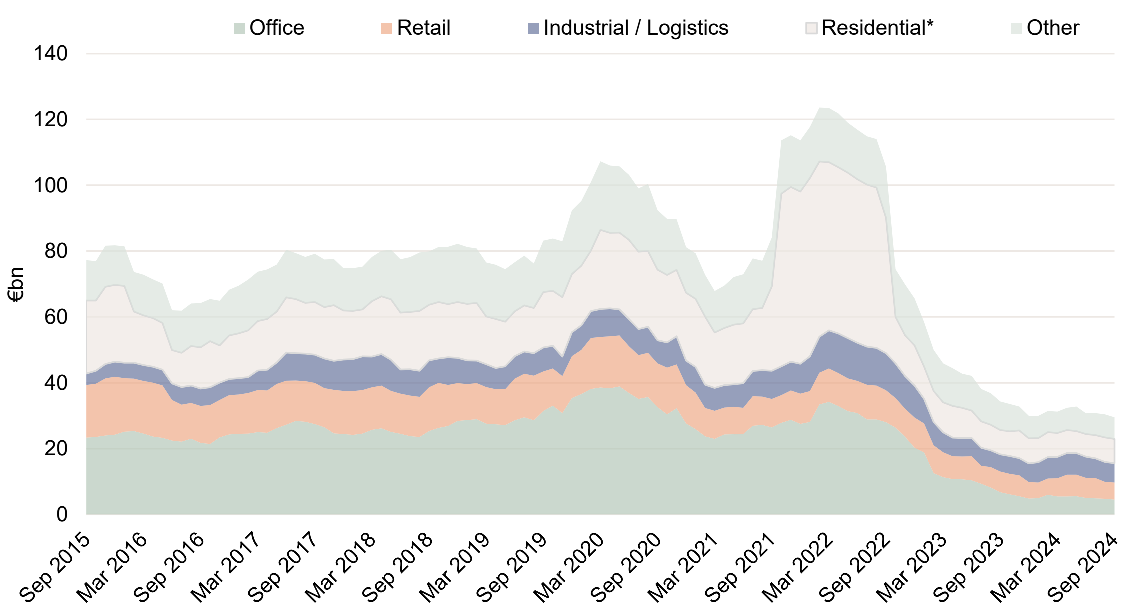
Germany Cross-sector - October 2024

MARKET IN MINUTES
Savills Research

Investment Market Germany

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



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

Stable foundation

Against the backdrop of the first interest rate cuts by the European Central Bank and the continuing difficult conditions in the real economy, the German property investment market has remained stable over the past three months. For the year as a whole, the transaction volume totalled around €21.2bn, which is roughly the same as in the corresponding period of the previous year (€21.7bn). Looking ahead, we are cautiously optimistic that the market will gradually become more active. According to our observations, the price expectations of potential buyers and sellers are much closer to each other than they were at the beginning of the year and the turnaround in interest rates should help to bring them even closer together. This means that one of the biggest brakes on the investment market over the last two years is losing weight and this should allow more transactions to take place again.

Private investors with record-high share as buyers

Not only did the transaction volume remain stable, but prime yields were also stable once again. Apart from shopping centres, where we raised yields by 10 basis points compared to the previous quarter, there were no changes. This price stability, which is increasingly backed by transaction evidence, also facilitates the realisation of transactions because buyers and sellers can rely on these price points. Equity buyers continue to dominate, particularly in the core segment, including private investors and family offices. The latter have accounted for more

FOCUS ON SELECTED FIGURES

-80%

Compared to the annual transaction volume for the years 2012 to 2021, the transaction volume in the office segment was 80% lower in the last twelve months. No other sector recorded a greater decline.

11%

Private investors, including family offices, accounted for more than one in ten euros of the purchase volume this year. Their share has never been higher.

Table 1: Transaction volume (€m)

	SEP-24	LAST 12 MONTHS (OKT 2023 TO SEP 2024)	AGAINST OKT 2022 TO SEP 2023	AGAINST SEP 2023 TO AUG 2024
COMMERCIAL	1,805	22,061	-18.2%	-3.7%
RESIDENTIAL*	688	7,410	0.8%	-1.4%
TOTAL	2,493	29,471	-14.1%	-3.1%

Source Savills / * only residential transactions with at least 50 units than one in ten euros of the purchase volume so far this year. This is the highest proportion that we have registered since we began recording this data in 2009.

Value-add strategies seem particularly attractive

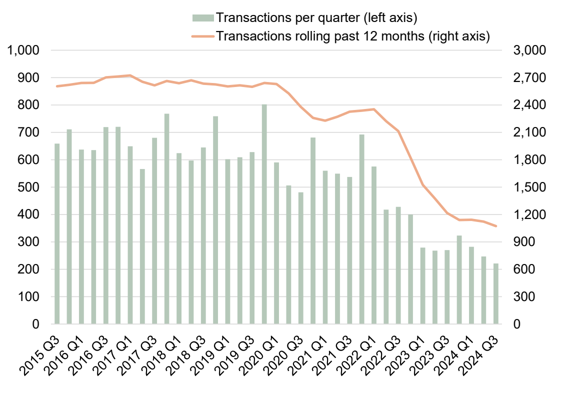
While private investors are most active in the core segment, many investment managers and institutional investors primarily have value-add money that they want to allocate. In view of the pronounced discrepancy between the capital values of prime and secondary properties, value-add approaches appear very attractive despite the high construction costs. In view of the sharp decline in the volume of new construction in virtually all segments, this price gap could widen even further in the coming years and lead to an increasing shortage of modern space on the occupier markets, from which landlords can benefit in the form of rising rents. In this respect, we assume that the circle of investors for properties with value-add potential will continue to grow. This also includes properties that are suitable for repurposing. For example, we are seeing an increasing number of attempts to convert office properties without economically viable prospects into micro living.

Widespread office scepticism opens up buying opportunities

Office properties have only accounted for 16% of the total transaction volume so far this year, putting them in fourth place after residential (23%), retail (20%) and industrial properties (18%). By comparison, the average share in the ten years prior to the interest rate turnaround was 31%. The reluctance of institutional investors is particularly evident in the office segment. This year, we have not yet registered the purchase of an office property by an insurance company or pension scheme (excluding indirect purchases, e.g. via special funds). If this remains the case until the end of the year, it would be a first in our data history. Since, according to our observations, many institutional investors want to reduce the proportion of offices in their portfolios, they are not only no longer potential buyers, they are actually more likely to be on the seller's side. However, they are faced with the dilemma that many of the properties in their portfolios are difficult to sell in the current market environment due to their large volume. The number of office transactions above €50m has been in single figures so far this year. On average, the volume of individual property sales totalled just under €20m. All of this expresses: Investors are very sceptical about office properties. However, the fact that more or less all offices are being taken into custody because some of them no longer have a future is, in our view, an opportunity for those investors who have the leeway to swim against the tide. As difficult as it is to sell even modern offices on the investment market, they are in high demand on the occupier market. Despite rising vacancy rates and the weak economy, rents for high-quality offices have continued to rise until recently and the new construction slump that is sure to follow could cause the shortage to increase even further in the coming years.

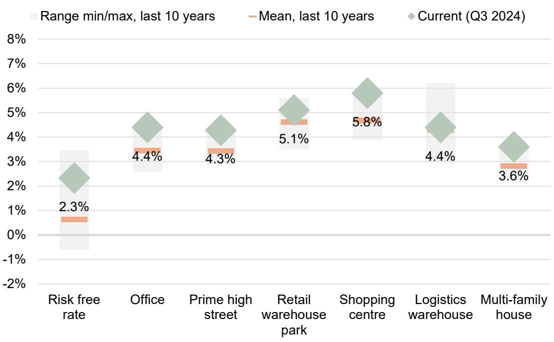
Download the charts and raw data here

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

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