Germany Retail - October 2024

MARKET IN MINUTES

Savills Research

Retail Property Market

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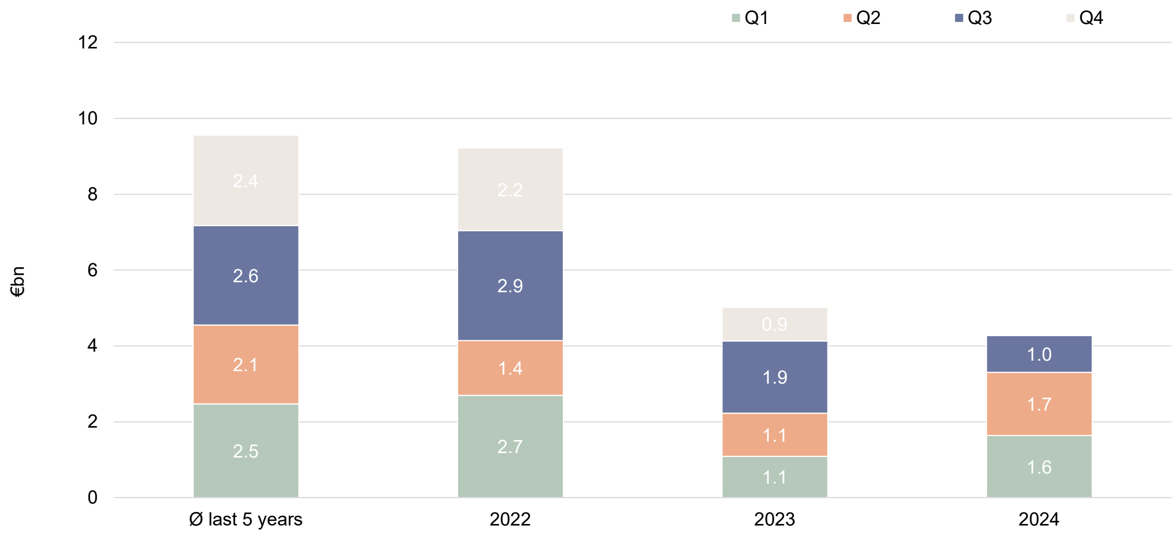
Graph 1: Retail transaction volume Germany



Source Savills

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60%

The five largest single transactions of the current year account for almost 60% of the transaction volume.

96.13

According to the HDE, consumer sentiment fell for the fourth time in a row, with the index dropping to 96.13 points in October.

Small properties generate activity and large ones drive volume

With just under 50 completed transactions, activity on the investment market for retail properties in Q3 2024 was roughly on a par with previous quarters. However, with a transaction volume of €970 million, it was the lowest in the year to date. Although there have been more sales preparations since the middle of the year, it is likely to be a few months before these result in completed transactions and are reflected in the figures. The upper investment limit for many investors remains in the mid double-digit million range. This picture is also reflected in the figures: in the past quarter, there were only four single transactions over €30 million, which is less than half the quarterly average of the last five years.

Grocery-anchored properties and small commercial buildings sell best

The focus of many investors on smaller property volumes is benefiting grocery-anchored properties and commercial properties outside of the top 7 in particular, but other factors are also supporting demand in these segments: In the case of grocery-anchored properties, the fundamental robustness of the food retail sector ensures that demand remains high, including from institutional investors. In the case of commercial properties, it is local investors, often with strong equity, who are taking advantage of the correction in prices to make purchases. While these segments account for the majority of transactions, the volume in the first three quarters was mainly driven by large single transactions in other segments. These include the sale of Fünf Höfe, KaDeWe and, most recently, Pasing Arcaden, which was acquired by IKEA's sister company Ingka Centres. However, these sales are exceptional transactions in otherwise less liquid market segments. Just a few years ago, investors

Table 1: Retail market indicators at a glance

	Q1 - Q3 2024	Y-O-Y CHANGE	PAST 12 MONTH	Q-O-Q CHANGE
High street properties	1,258	+182%	1,288	-3%
Retail warehouse parks	584	-1%	767	+9%
Departments stores	1,366	+184%	1,411	-2%
Shopping centres	507	+1%	594	+240%
Supermarkets/discounter	397	-79%	766	-62%
Other	162	-38%	332	-16%
Total	4,273	+3%	5,159	-15%

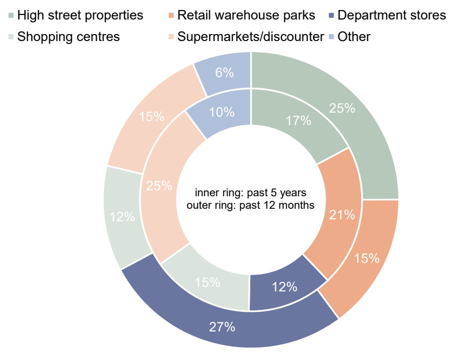
Source Savills / transaction volume in million Euro were lining up to acquire trophy assets such as KaDeWe, but today it takes special circumstances for such properties to find a buyer at all. The pool of investors able and willing to handle transactions in the triple-digit millions range has shrunk considerably. This has been particularly evident in the stagnation of shopping centre transactions for months, although there was some movement in the third quarter with several deals. The opportunistic and value-add segments are showing signs of renewed interest. Many owners are now critically reviewing their portfolios and considering whether to invest in repositioning their centres. If not, they are increasingly willing to accept discounts, bringing the expectations of buyers and sellers closer together. For prime assets, on the other hand, the situation is different and we do not expect increased market activity in the short term. Risk-averse investors are focusing on reducing rather than expanding their shopping centre portfolios, which has led to a thinner pool of potential buyers. The prime yield for shopping centres rose by 10 basis points in the third quarter to 5.8% in September, the highest initial yield in the commercial property market.

The number of followers is the new tenant credit rating

The reluctance of risk-averse investors is not limited to shopping centres but affects retail properties in general. This trend is the result not only of a changing capital market environment, but also of uncertainties in the occupier market. Stable cash flows outside the grocery sector are becoming rarer and it is increasingly difficult to identify long-term viable retail locations. The ongoing consolidation of retail space has, however, provided some clarity. The structural change in the retail sector is now well advanced and demand for space has stabilised to the point where we can assume that previously successful locations will continue to perform well in the future. But even in locations that are working, not all concepts work. A key factor that separates successful concepts from less successful ones is customer retention, whether through brand, product or service. Customer retention is no longer only created in the store, but also through various online channels. When assessing whether a retailer has the necessary customer retention, looking at the number of social media followers can be more revealing than checking their credit rating.

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

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