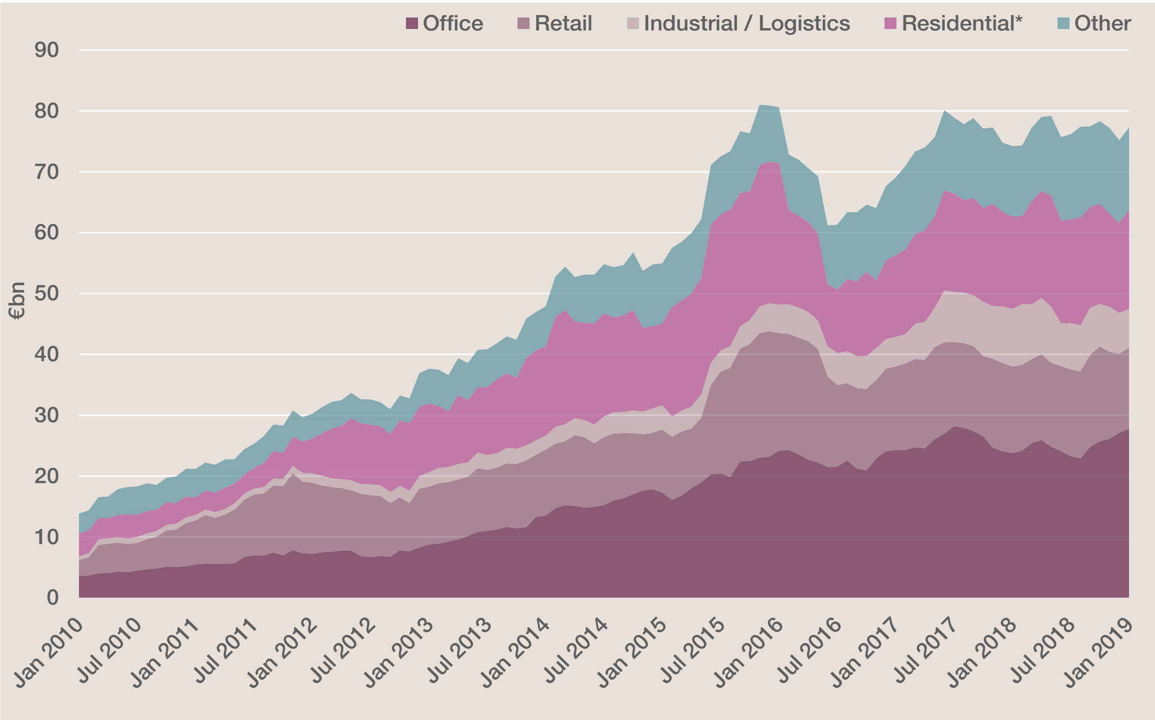
February 2019

Investment Market Germany

savills

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



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

The boom still continues

Commercial and residential property in Germany changed hands for approximately €77.3bn over the last twelve months (Table 1). Consequently, the twelve-month rolling volume has exceeded €75bn for the eleventh month in succession, representing an unprecedented boom in the current cycle (Graph 1). The transaction volume is expected to show a modest decline in 2019, however, with yield compression largely coming to a halt (Graph 3). In addition, pressure to invest is likely to relent somewhat for many multi-asset investors, inter alia due to corrections in the equity markets. Furthermore, economic risks have increased in recent times, which is likely to be reflected by more cautious activity among investors. With the US Federal Reserve taking a temporary break from interest rate hikes and the ECB postponing its planned reversal in interest rate policy for the time being, at least there is no imminent change in the interest rate environment in sight.

The residential property investment market produced by far its strongest opening month of the last ten years in January 2019, with the disposal of a minority share in Deutsche Wohnen by Vonovia (Table 2) making a significant contribution to the investment volume. Given the fact that many investors seeking the most defensive possible investments will be focusing on German residential property more than ever before, we expect demand in the sector to remain high throughout 2019. With new-build activity still insufficient, there is currently much to suggest that landlords can expect rental growth in many metropolitan areas over the coming years.

Focus on selected figures

4.0%
That is the bottom line for prime yields on retail parks, which is likely to remain below the prime yield on shopping centres throughout the year.

60%
The proportion of the transaction volume attributable to German buyers over the last 12 months. The logistics sector produced their lowest share (46%).

+4.5%
The year-on-year increase in the number of permitted apartments in multi-family buildings from January to November 2018.

Table 1: Transaction volume (€m)

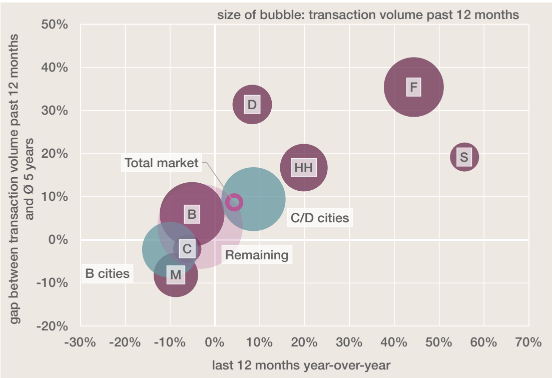
	Jan 2019	last 12 month (Feb 2018 to Jan 2019)	against Feb 2017 to Jan 2018	against Jan 2018 bis Dec 2018
Commercial	2,886	60,931	+3.2%	-1.7%
Residential*	1,632	16,351	+7.5%	+7.2%
Total	4,518	77,282	+4.1%	+0.1%

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

Stuttgart and Frankfurt particularly stood out over the last twelve months with significantly stronger investment activity year-on-year (Graph 2). In both cities, office properties have been the driver of this trend. This corresponds with the overall trend for Germany, with the office transaction volume increasing 17% year-on-year. Conversely, investment volume in logistics and industrial property as well as retail property showed a decline (Graph 1). Office properties are likely to remain high on investors' agendas in 2019. Record-low vacancies and continued rental growth, albeit slower, promise stable income, which precisely matches the search profile of many investors.

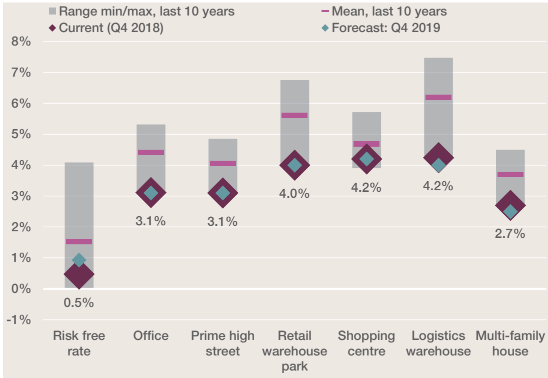
The nine-month downtrend in the number of transactions continued in January, with the last twelve months producing around 6% fewer transactions compared with a year earlier. With yield compression coming to an end, we expect the declining number of transactions to be compensated by higher volume to an increasingly lesser extent, which is also likely to contribute to a decline in transaction volume this year.

Graph 2: Level and momentum by locations



Source Savills / Note: city categories based on the Bulwiengesa classification; only residential transactions with at least 50 units

Graph 3: Prime yields (Ø Top 7)



Source Focus Economics, Savills / risk free rate = 10Y government bunds; multi-family: only stock, calculation based on Bulwiengesa

Table 2: Top 10 transactions in January 2019*

Property /Portfolio Location(s)	(Main) Type of property	Volume (€m)↓	Area (sq m)	Buyer	Seller
Deutsche Wohnen-Share	Residential	undisclosed	n/a	institutional investor	Vonovia
Wallarkaden Cologne	Office	ca. 140	ca. 20	several pension schemes	Momeni Projektentwicklung
Herzog-Terrassen Düsseldorf	Office	ca. 140	ca. 56	Godewind Immobilien AG	Blackstone Group Deutschland GmbH
Helix / Vitreum Eschborn	Office	ca. 120	ca. 36	Hana Financial Group	Commerzbank AG
Gänsemarkt Passage, Hamburg	Retail	ca. 120	ca. 15	SIGNA Holding	MEAG MUNICH ERGO AssetManagement
Portfolio Northern Germany	Residential	undisclosed	n/a.	ZBI Zentral Boden Immobilien AG	Eckpfeiler Immobilien Gruppe
Hallesches Ufer 60, Berlin	Office	undisclosed	ca. 31	Art-Invest Real Estate GmbH & Co KG	CG Gruppe
No. 1 Mannheim	Mixed-use property	ca. 100	ca. 24	German institutional investor	Consus Real Estate AG
South One Munich	Office	ca. 95	ca. 36	Empira	Isara Wohnbau AG
Polizeipräsidium Aachen	Office	undisclosed	ca. 23	i. a. Collineo Asset Management	Hochtief Solutions

Source Savills / * only published transactions are shown

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