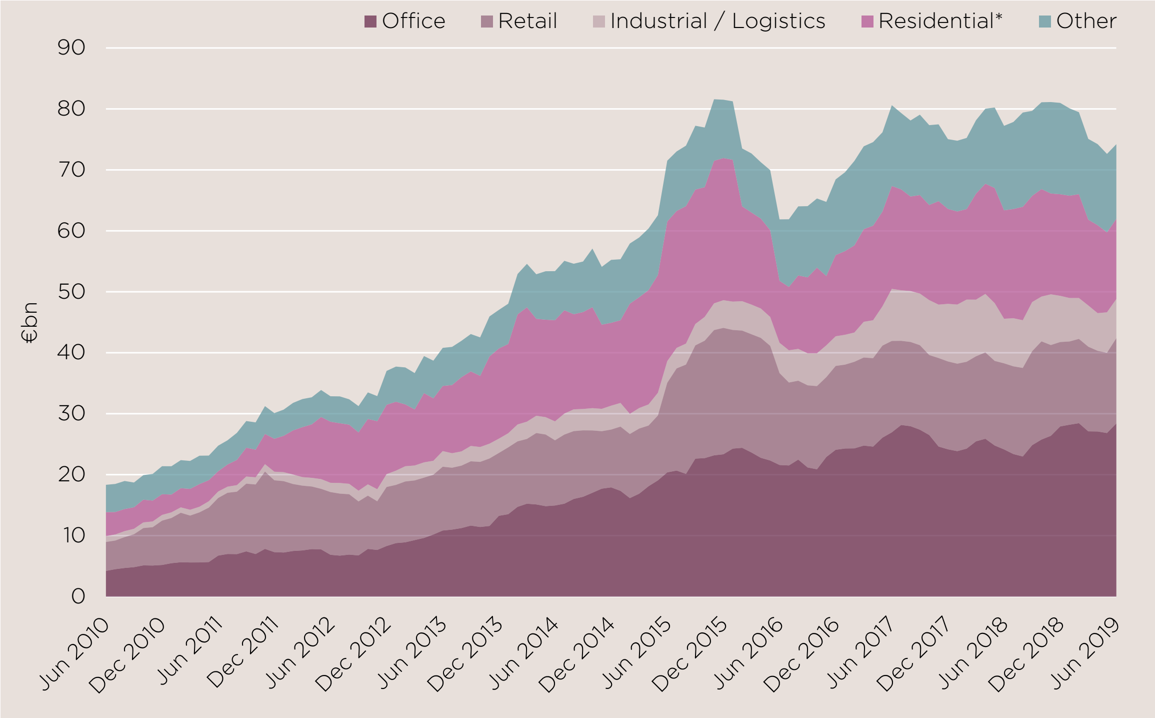
July 2019

MARKET IN MINUTES

Savills Research

Investment Market Germany

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



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

A never-ending supercycle?

Properties in the German commercial real estate investment market changed hands for approximately €24.2bn in the first half of the year, which is approximately 12% lower than in the first half of 2018. The transaction volume for residential property totalled approximately €6.2bn, representing a decrease of around 36% year on year. The rolling twelve-month volume in the German real estate market stood at €74.2bn at the end of June, rising marginally compared with the previous month (Table 1).

Although transaction volumes have been in a downward trend since November 2018 (Graph 1), there is no significant downturn in the German real estate investment market on the horizon, even in the eleventh year of the supercycle. Consequently, the commercial transaction volume is once again likely to exceed €50bn by the end of the year, which would be the fifth year in succession that this threshold has been surpassed. The sustained high level of investment activity is also explained by the lack of attractive alternative investments. Yields on ten-year German government bonds are currently negative, with the prime yield on German office property around 340 basis points higher at present (Graph 3). This is the third highest yield differential in the last 30 years. Furthermore, not only have interest rate hikes been deferred, a rate cut is currently being discussed in the USA. This will mean penalty interest on large, short-term bank deposits and, as a result, investors will remain under high pressure to invest. Global capital flows into real estate are, therefore, likely to continue and Germany will benefit as one of the most liquid markets.

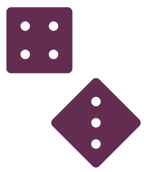
Focus on selected figures

+4.8%

Office properties have changed hands for around €10.9bn since the start of the year – a 4.8% increase y-o-y. This underlines the importance of the sector.

22%

More than a fifth (€6.7bn) of the real estate transaction volume was attributable to Berlin in the first half of 2019, making the city the most active market.



34%

Around a third of apartments sold over the last twelve months were located in one of the top seven cities (5-year average: 28%).

Table 1: Transaction volume (€m)

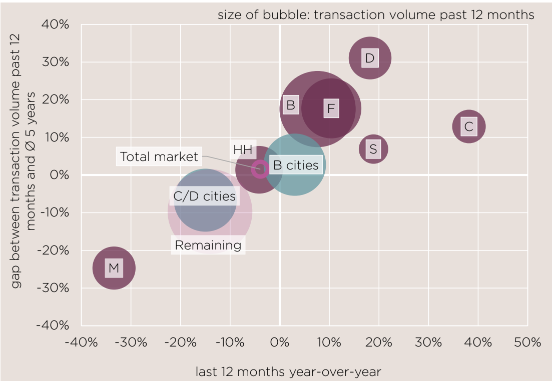
	Jun 2019	last 12 months (Jul 2018 to Jun 2019)	against Jul 2017 to Jun 2018	against Jun 2018 to May 2019
Commercial	6,803	61,053	+2.7%	+2.6%
Residential*	1,061	13,163	-26.0%	+0.4%
Total	7,864	74,216	-3.9%	+2.2%

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

A total of around 1,150 transactions were completed in the first half of the year, which is 9% lower than in the corresponding period last year. The average transaction size also fell (-8%) to around €26.5m over the last six months. This decline is primarily attributable to the fact that there have been significantly fewer sales in excess of €100m. A total of 68 transactions of this magnitude were completed in the first half of the year, which is 11 fewer than in the corresponding period last year. The volume of these transactions fell by 22%. Particularly in the commercial real estate market, high-value core properties have changed hands almost exclusively to long-term investors in recent years and are, therefore, rarely offered for sale.

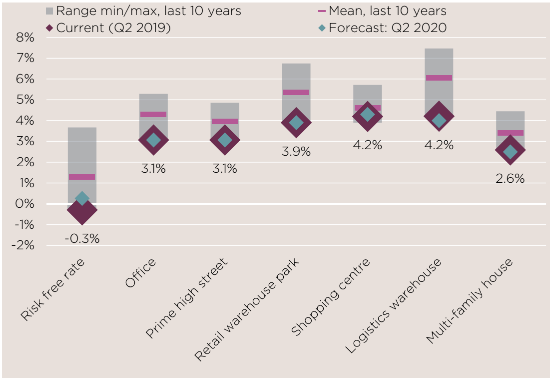
Meanwhile, capital values have risen across the board. The median office transaction in the first half of the year stood at €18.9m, representing an increase of 26% year on year. Capital values are no longer being driven by hardening yields but by the pricing in of rental growth potential. While no significant further yield compression is expected over the next twelve months (Graph 3), average office rents across the top seven cities are likely to rise by around 6%.

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 June 2019*

Property /Portfolio Location(s)	(Main) Type of property	Volume (€m)↓	Area (sq m in 000s)	Buyer	Seller
Karstadt Kaufhof 50%- share	Retail	undisclosed	n/a	SIGNA Holding	Simon Property Group, HBC
Die Welle, Frankfurt	Office	ca. 620	ca. 80	Invesco Real Estate	Axa, NBIM
T8, Frankfurt	Office	ca. 400	ca. 29	Wirtgen Invest	Mirae Asset Global Investments
Portfolio, i. a. Dorsten	Residential	undisclosed	ca. 208	VELERO PARTNERS	LEG Immobilien
Tafelhof Palais, Nuremberg	Mixed-use	ca. 230	ca. 47	BMO Real Estate Partners	Hubert Haupt Immobilien Holding
Portfolio, i. a. Berlin, Leipzig	Residential	ca. 220	ca. 79	Deutsche Investment Kapitalverw.-Gesellsch.	Family Office (Europe)
The Westlight, Berlin	Office	undisclosed	ca. 20	Generali, Poste Vita	Barings Real Estate Advisers GmbH
M8 - Work & Create, Munich	Office	ca. 160	ca. 17	REAL I.S.	Optima-Aegidius
Sky Headquarter, Unterföhring	Office	undisclosed	ca. 45	publity AG	Gold Tree Group
Otto Logistics Centre, Ansbach	Logistics	undisclosed	ca. 77	Savills IM	ECE

Source Savills / * only published transactions are shown

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