Germany Cross-sector - July 2024

MARKET IN MINUTES
Savills Research

Investment Market Germany

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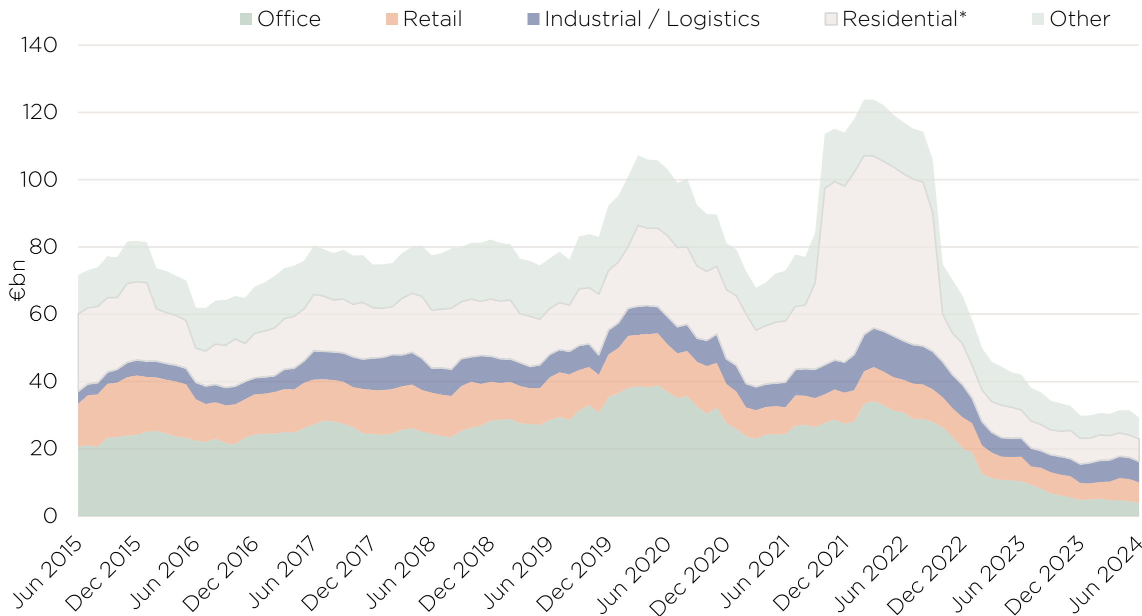
Graph 1: Transaction volume Germany (past 12 months rolling)



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

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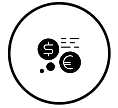
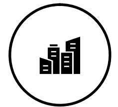


500

In the first half of 2024, we registered around five hundred completed transactions. This is roughly on a par with the previous year, but is still only around half as many transactions as the average for 2019-2023.



12%

Office properties have accounted for just 12% of the total transaction volume so far this year. The lowest annual figure to date is 16% (2023), while the 10-year average is 31%.

Labouring out of the transaction valley

Activity on the German property investment market remained at a very low level in the first half of 2024. The transaction volume totalled around €13.6bn, roughly the same level as in the same period of the previous year, as did the approximately five hundred transactions concluded. This means that the market has now been at its bottom for around one and a half years and there are still no signs of a vigorous increase in activity. However, there are a few points that we believe speak in favour of at least a gradual increase over the course of the second half of the year. Firstly, the number of sales processes initiated or in the pipeline has increased in recent months. This does not apply to all segments and markets, but by and large it does. Secondly, (prime) yields have stabilised over the course of the first half of the year. In both the first and second quarters, they rose only selectively and slightly. This could alleviate the concerns of some potential buyers that they are buying too early and therefore too expensively. Thirdly, book values are likely to have fallen further, unlike transaction prices, so that both values are now closer together. This makes it easier for investors who are anchored to the book value, such as open-ended mutual funds, to sell.

Refinancing-driven wave of sales still possible

We believe that a sharp rise in momentum on the investment market is only possible if many landlords are only able to secure their liquidity by selling at the same time. This would increase supply to such

Table 1: Transaction volume (€m)

	JUN-24	LAST 12 MONTHS (JUL 2023 TO JUN 2024)	AGAINST (JUL 2022 TO JUN 2023)	AGAINST (JUN 2023 TO MAI 2024)
COMMERCIAL	1,333	22,535	-33.3%	-9.2%
RESIDENTIAL*	530	6,740	-19.2%	1.3%
TOTAL	1,863	29,275	-30.5%	-7.0%

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

an extent that prices would start to slide again. This increasing supply would be offset by abundant capital on the demand side, which has not been realised to date due to excessive yield requirements. It is not possible to estimate how likely such a scenario is. However, given that interest rates have remained largely unchanged for two years now, we believe it is possible. This applies first and foremost to offices: Here, properties in unfavourable locations are showing increasing letting difficulties. It is also very expensive or even impossible to refinance such properties. In addition, many institutional investors want to reduce the proportion of offices in their portfolios and are looking to sell properties even without liquidity pressure. For the same reason, there are only a few buyers for some offices, regardless of the price. In the knowledge of this, some landlords are likely to decide not to sell the worst properties, but those that are most likely to sell in the current market phase. In extreme cases, these could even be properties with other types of use. In other words, we believe that initial yields could well rise in unexpected places.

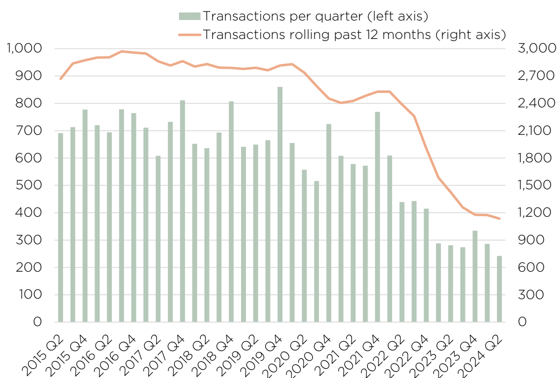
Rise in interest rates now fully priced in

However, even such increases are likely to be almost negligible compared to the interest rate-induced upward movement. We believe that the rise in interest rates is now fully priced into initial yields and that their further development will be largely driven by changes in the supply/demand ratio on the investment market and fundamental developments on the letting markets. In sectors with improving fundamental conditions and/or rising investor demand, yields could therefore fall again in the medium term - in our view, niches such as micro living or data centres are the main candidates for this, as is the multi-family sector to a lesser extent. On the whole, however, we expect initial yields to move sideways over the next one to two years.

Rental growth instead of yield compression

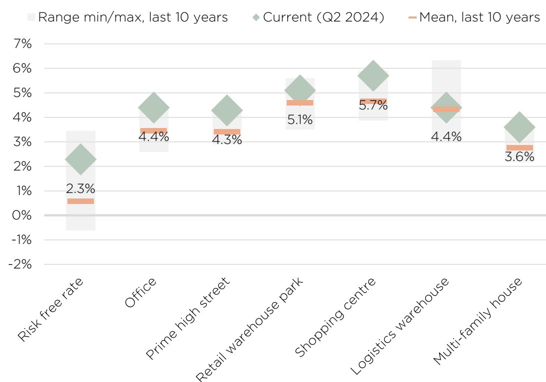
From the owner/investor perspective, stable initial yields also mean that the majority of the total return comes from rents and their growth. This was largely not the case in the previous cycle and is to a certain extent a return to normality in the property sector. In our view, this is precisely where the opportunities lie. Firstly, the current cycle change is characterised by the fact that prices have corrected very sharply, but rents are continuing to rise in most sectors. Put simply, investors can now buy the same cash flow as before the interest rate turnaround, but for an initial yield that is 2 percentage points higher. Secondly, the combination of a steep rise in interest rates and high inflation has led to a recession in the construction sector, which favours further rental growth in sectors with at least stable demand for space. Thirdly and finally, the new regime is particularly attractive for those investors who "know property", i.e. who have both excellent asset management expertise and local market knowledge and are therefore able to implement a business plan that focuses on increasing rental income rather than yield compression.

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 / Multi-family house: only existing stock, calculated according to Bulwiengesa; Note: The yields for shopping centres shown since 2022 reflect the midpoint of the spread of +/-20 basis points we have observed between offered and demanded prices.

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