Germany Retail - July 2024

MARKET IN MINUTES

Savills Research

Retail Property Market

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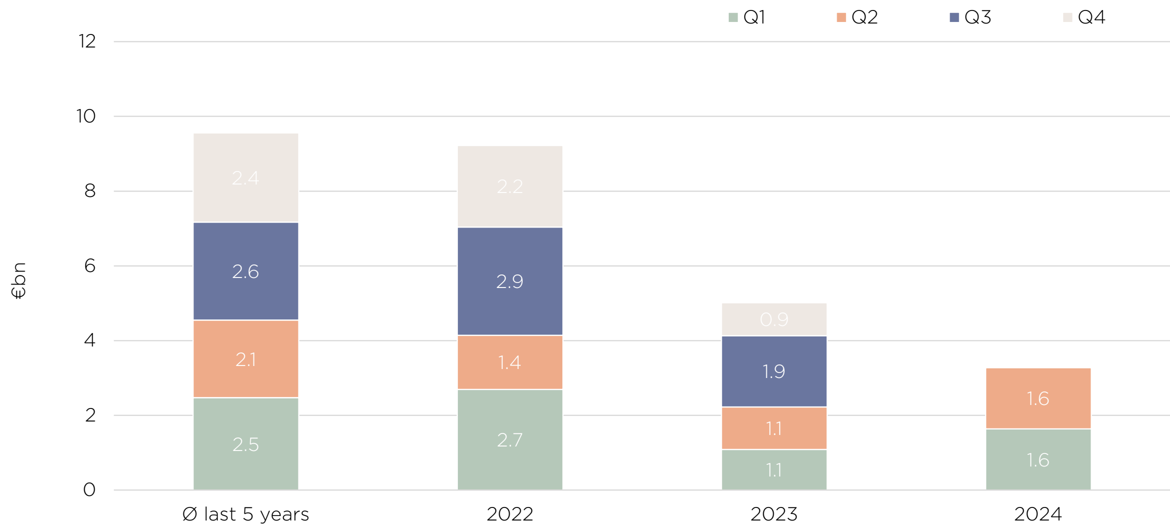
Graph 1: Retail transaction volume Germany



Source Savills

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88

So far this year there have been 88 transactions in the retail property market, a total of both individual and portfolio deals.

97.76

After rising for five months in a row, the HDE consumer barometer fell again in July to 97.76 points.

Trophy assets find buyers, repurpose candidates not yet

Retail properties generated the highest turnover in the first half of 2024, accounting for 31% of the commercial investment volume. However, the top position and the transaction volume of €3.3 bn may suggest greater momentum than is actually the case. The high share of commercial volume is due to the weakness of other types of use, such as offices, and the transaction volume is driven by a small number of deals. Examples include Signa's sale of KaDeWe to the Central Group, the sale of Fünf Höfe and another commercial building on Maximiliansstrasse in Munich, and RFR's acquisition of shares in seven Galeria properties from Signa. The first two transactions alone accounted for more than half of the total volume. But it also shows that retail is currently the only market segment, apart from logistics, that has the liquidity for transactions in the triple-digit million range. In terms of the number of transactions completed, it was a weak half year. In fact, it was the weakest since the start of the interest rate turnaround. One reason for the low number of transactions is the low supply. This seems to be changing, with more sales preparations taking place again. We are observing that there are more owners who are willing to sell again – across almost all segments – due to the more stable yields and those who are reallocating in order to reduce their property ratio.

Public sector is No. 1 buyer of department stores

In view of the sale of KaDeWe and several Galeria stores, it is hardly surprising that department stores have been the highest-turnover segment on the retail

Table 1: Retail market indicators at a glance

	Q1- Q2 2024	Y-O-Y CHANGE	PAST 12 MONTH	Q-O-Q CHANGE
High street properties	1,150	+ 280 %	1,323	-8%
Retail warehouse parks	349	- 17 %	702	-12%
Departments stores	1,311	+ 236 %	1,447	180%
Shopping centres	35	- 92 %	175	-49%
Supermarkets/discounter	295	- 39 %	2,028	-4%
Other	136	- 23 %	393	10%
Total	3,276	+ 47 %	6,068	9%

Source Savills / transaction volume in million Euro property market so far this year, with a transaction volume of €1.3 bn. It is possible that some of the most recently traded department stores have been traded as such on the investment market for the last time. Of the eighteen properties (excluding portfolios) sold in the last year and a half, eleven were already earmarked for redevelopment. It is worth noting that over 70% of these properties were acquired by the public sector. It could be argued that other potential buyers of such properties - especially project developers - were in crisis mode during this period. But even over the last five years, the public sector has accounted for just under 50% of purchases of department stores earmarked for redevelopment. The fact that many disused department stores are bought by the public sector rather than by private investors also shows how difficult it is to convert these properties to economically viable uses. However, there is also a need for repositioning in shopping locations other than department stores. It remains to be seen whether more private investors will venture into these properties. This could be supported by the fact that other high street properties may be more attractive for such projects from an investor's point of view, as they are much smaller and the conversion is not as extensive, particularly in the case of commercial buildings with an existing mix of uses. The project volumes are correspondingly smaller, making more investors viable. The first developers seem to have already addressed the issue of high street revitalisation. This is because retail space in city centres will continue to shrink, even beyond mono-use retail properties. Retailers are in the process of consolidating and adapting their space in order to increase space productivity. This is because there are still shops that have staff-intensive areas on several floors, even though the majority of sales are made on the ground or first floor - an unprofitable situation, especially given the shortage of skilled labour.

Shopping centres: Many processes, few transactions

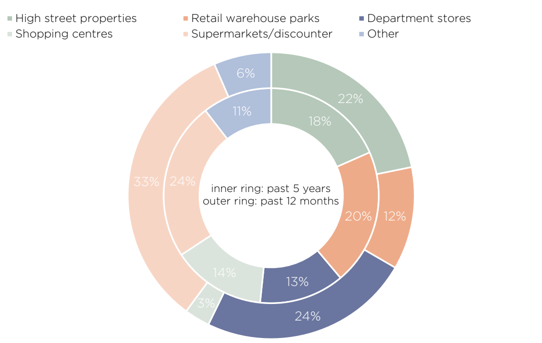
However, the need to reposition is not limited to high street properties. This also applies to shopping centres. Whether more buyers can be found for centres in need of repositioning should become clear during the course of the year. There are currently a number of centres on the market that have a clear need for repositioning or conversion. But this has also been the case in recent months and last year. Nevertheless, transactions have not been completed - partly due to differing price expectations - and the processes are still ongoing or have been stopped altogether. As a result, there is still no reliable price level for such properties. As there have been practically no transactions in the prime segment either, we continue to report a range of 5.5% to 5.9% for prime yields, which is the highest initial yield in the commercial segment. Ongoing processes suggest that yields could rise further. Prime properties may be overly penalised, as the structural problems in the segment, which undoubtedly exist, are spread across the centre landscape. For those investors willing to take a more nuanced view, this could be a good opportunity to acquire prime assets at a reasonable price.

Outlook

The HDE consumer barometer shows a slight but Although more properties are coming onto the market, recent months have shown that not every sales process results in a transaction. And with the summer period approaching, the third quarter is also likely to be rather subdued, with the market unlikely to see any visible momentum in terms of numbers until the end of the year. Speaking of momentum, the user market also seems to be picking up. Some of the retailers that are just starting to expand again have done well in the past and now have the opportunity to conclude leases on comparatively attractive terms, as rents have already corrected in some areas and competition is still restrained. At the same time, however, rental decisions are taking much longer than they did a few years ago.

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 / Note: The yields for shopping centres shown since 2022 reflect the midpoint of the spread of +/- 20 basis points (yield range reflects the different purchase price expectations of vendors and buyers).

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