LOGISTICS INVESTMENT MARKET GERMANY

Q3 2014

LOGISTICS INVESTMENTS AT RECORD LEVEL

The growing popularity of logistics assets which has been apparent for some time is continuing impressively. By the end of September, the volume of transactions in the field of logistics and light industrial properties already totalled around 3 bn € – an all-time record. This means that logistics complexes have definitely become established as an asset class attracting a whole spectrum of different investors. A role in this is played by this business sector’s promising prospects for the future and also by the comparatively high yields which can be obtained. It is notable that this development is evident in all market segments and has a broad basis. Single deals have so far generated a turnover of nearly 1.7 bn € (57 % of the total), thus stepping up their prior-year volume by around 38 %. But the contribution made by portfolios has also risen on much the same scale to register a transaction volume of nearly 1.3 bn €. Investors no longer shy away from large-volume package purchases and so this year there have already been five portfolio deals in the triple-digit million euro range.

TOP LOCATIONS FAIL TO BENEFIT

Contrary to the trend in the market as a whole, investment in the chief locations has actually slipped slightly (-5 %). One reason is the frequent shortage of market-conformant products, due in some cases to the restricted availability of suitable land. However, developments vary between the major centres. Alongside some increases, such as in Hamburg (200 m €), Berlin (139 m €), Düsseldorf (85 m €) and Leipzig (77 m €), there have been downturns in Frankfurt (137 m €), Cologne (83 m €) and above all Munich (73 m €). The Munich figure actually represented a decline of 76 %; without that, aggregate investment across the centres would have produced a positive year-on-year picture.

MAJOR DEALS DRIVE TURNOVER

The sharp rise in aggregate investment has been fuelled in particular by an increase in major deals. The scale of deals upwards of 100 m € has risen by 82 % and these account for around one third of all turnover. But the volume of sales of between 50 and 100 m € has also increased quite exceptionally (+102 %) and these have so far contributed nearly 21 % to the total. Results in the other size categories were more or less on a par with those the year before – which means that they were excellent in any long-term comparison.
THREE INVESTOR GROUPINGS ESPECIALLY ACTIVE

Altogether, three different investor groupings have generated double-digit shares of turnover, thus making substantial contributions to the total. In first place come investment/asset managers (over 27%), who frequently act on behalf of foreign investors new to the German market. Next come last year’s leaders, special-purpose funds (almost 17%), followed in third place by equity/real estate funds (over 11%). Sizeable amounts of capital have also been deployed by corporates (8%), listed real estate companies (just under 7%), pension funds (more than 5%) and private investors (close to 5%). This shows that logistics and light industrial assets interest a very broad spectrum of market players.

FOREIGN INVESTORS PREDOMINATE

Investors from outside Germany are continuing their brisk advance. After accounting for 49% of turnover last year, they have this year stepped up their share to 68%. In the portfolio segment, the predominance of foreign investors is even more striking (92% of the transaction volume). The reasons for this strong commitment are many and varied. They include Germany’s general economic framework, the positive outlook for the logistics sector, and the favourable financing environment. But another reason prompting many investors from abroad to opt for Germany is that the prices for logistics assets in other favoured countries are in some cases even higher than here. One example is the UK. The ranking in this field is headed by European investors (28%), followed by those from North America (15%). Activity by Asian investors, including players from the Middle East, has increased appreciably, and their contribution comes to over 10%.

MARKED FALL IN PRIME YIELDS

The buoyant demand and especially the tough competition for attractive, modern complexes let on long-term leases has produced perceptible yield compression. In the major logistics centres, prime yields have eased on average by some 30 basis points. The lowest yield is that posted in Munich, 6.20%. The figures for the other main cities are: Hamburg and Frankfurt, each 6.30%, Düsseldorf and Cologne, each 6.50%, and Berlin 6.60%. But Leipzig has now also slipped below the 7% mark, to register a prime yield of 6.90%.

NEW TURNOVER RECORD IN SIGHT

With interest on the part of investors evidently undiminished, market activity in the remaining months of the year is set to remain very lively – and this suggests that the transaction volume in 2014 as a whole can reach a new all-time record. At the same time, the strong competition for premium properties could well expose top yields to further downward pressure.