Retail investment started the year on a truly dynamic note, more than doubling in volume compared to the first quarter of last year. At nearly 3.02 bn €, total investment in retail properties was not only the best result for six years; it was also around 11 % above the ten-year average. One of the main reasons for this striking display of transactions is that many investors are now also prepared to invest outside the core segment. This benefits not only shopping centres but also discount stores, supermarkets and specialist retail centres. Single deals again accounted for the largest share of transaction volume – around 62 % – and improved on their prior-year total by approximately 63 %. Even more remarkable, however, is the resurgence of portfolio transactions, which more than trebled their investment volume to around 1.16 bn € and accounted for 38 % of total turnover.

Against the general trend, retail investment in the Big Six markets (Berlin, Cologne, Düsseldorf, Frankfurt, Hamburg, Munich) actually decreased. Total investment there was around 815 m €, which is nearly 15 % less than in the first quarter of last year. This reflects an ongoing bottleneck in the supply of premium properties in the very top locations. Well ahead of the field at present is Munich with a transaction volume of nearly 355 m €, followed by Berlin (241 m €) and Hamburg (147 m €). In Frankfurt, turnover, at 44 m €, was sharply down on the prior-year period. In Düsseldorf (16 m €) and Cologne (12 m €), only few sales have been registered so far.

In contrast to recent years, investors showed renewed interest in discount stores, supermarkets and specialist retail centres, which clearly topped the asset class table with 51 % of all turnover. This backs the observation that investors are venturing increasingly outside the core market. Second place went to shopping centres, which accounted for nearly 26 % and registered a vigorous surge in volume against the prior-year period. Department stores also gained ground in absolute terms and contributed nearly 11 % to turnover. Retail/office buildings, however, accounted for less than 13 % of total investment, after leading the field last year with around 50 %.
INVESTOR INTEREST KEEN AND BROAD-BASED

The breakdown of results by type of investor shows that the high demand-side interest is spread over a range of investor groupings. No fewer than five types of buyer generated double-digit shares of turnover. At the top of the ranking, with nearly 19% are listed real estate companies or REITs. However, closed-end funds and special-purpose funds were also very active in the market, with shares of over 15% and around 14% respectively. The leading quintet was completed by corporates, contributing 11.5% of turnover, and investment managers, accounting for 10%. Remarkably, pension funds and private investors, which ranked among the leaders in this quarter in 2013, have played only a minor role so far this year. This, too, can be seen as an indication that the supply situation in the core segment is still not adequate because that is the segment favoured by these equity-strong investors who are finding it difficult at present to identify sufficient investment opportunities.

FURTHER FALL IN PRIME YIELDS

During the course of 2013, prime yields in the retail property sector eased further. This was due to rising competition fuelled by sustained high investor interest encountering limited supply in the premium segment. Net initial yields for downtown retail/office buildings in the major German cities currently range between 3.75% in Munich – the only city already below the 4.00% threshold – and 4.35% in Berlin. The second-most expensive location is still Hamburg with 4.10%, ahead of Düsseldorf and Cologne with 4.15%. However, Frankfurt is almost level with 4.20%. The average prime yield across the six major cities is 4.12%, which is an all-time low.

The prime yield for shopping centres is currently around 4.75%. Specialist retail centres, now yielding 6.00%, have also become more expensive, as have stand-alone specialised discount stores, where the prime yield is slipped to 6.50%.

OUTLOOK

Undiminished interest among both national and international investors, greater willingness to invest outside the core segment and the favourable financing environment will combine to spur retail investment over the rest of the year. Growth will particularly be boosted by a number of new large portfolios that are already being marketed or are in the pipeline. Against this backdrop, there is a good chance that the transaction volume in 2014 will again exceed the 10 bn € mark.