LOT OF ACTIVITY IN SMALL AND MID-RANGE SEGMENT

Investment in sizeable stocks of residential properties (upwards of 30 residential units) in the first quarter of 2016 totalled 2.26 bn € and was thus well below the record level set in the same period last year. However, that result cannot be taken as a yardstick, since it was shaped decisively by Deutsche Annington’s acquisition of Gagfah. But even leaving that transaction out of consideration, investment was still over one quarter lower than in the first three months of 2015. This is definitely due to the lack of large-volume packages, something which has appreciably cut back investment turnover, especially in the triple-digit million range. The shortage of products prevents the strong demand – which certainly extends to the top market segment, too – from being met fully, and this holds back the overall scale of investment. The situation in the size classes up to 100 m € is somewhat different. Turnover there in the first three months came to just over 1.7 bn €, which was 26 % more than in the prior-year period and also the best result in this segment in the past seven years. That impressively highlights the fundamental buoyancy of the market. Altogether, the survey covered more than 70 deals involving a total of just under 23,000 residential units. The average price per sale was around 31 m €.

PROJECT DEVELOPERS ON THE ADVANCE

Existing portfolios once again accounted for the biggest share of turnover, with more than 46 %, but that is not anywhere near the long-term average of over 70 %. In view of the restricted supply of larger existing portfolios, project developments are playing an increasingly important role, and in the first quarter they represented 27.5 % of aggregate investment. A strong contribution of over 20 % was also made by block sales of older properties in a single location. This is an indication that when investors are unable to acquire more sizeable portfolios, they are increasingly ready to opt for products of this kind, even though these are frequently smaller in scale.

BALANCED DISTRIBUTION ACROSS ALL SIZE CLASSES

Unlike in previous years, when major deals often dominated the scene, the distribution of investment across the different size categories is currently relatively balanced. The biggest share of turnover, more than 34 %, went into the 25-50 m € bracket. Some distance behind came sales in the three-figure million euro class, with just over 24 %. This put that class marginally ahead of the 50-100 m € bracket (just under 23 %). Transactions of between 10 and 25 m € accounted for close to 13 %, while even small deals of up to 10 m € were responsible for more than 6 % of the result.
FOUR GROUPINGS WITH DOUBLE-DIGIT TURNOVER SHARES

Four categories of buyers generated double-digit shares of turnover, together accounting for nearly three-quarters of the transaction volume. Heading the list, with just under 29%, were special-purpose funds, which often serve as investment market vehicles for other types of buyers, such as pension funds, insurances or savings banks. Next, with 21.5%, came listed real estate companies/REITs, ahead of property firms, with just over 13%. Completing the leading quartet were private investors, who once again performed strongly and secured a share of slightly more than 10%.

GERMAN INVESTORS DOMINATE FIELD

German investors were responsible for more than two-thirds of all turnover. At just over 31%, the proportion of investment due to buyers from abroad was more or less on a par with their share on the commercial property market. The most active players were European investors, who generated nearly one fifth of the total. A considerable way behind in second place in the list of foreign investors came those from North America, with under 7%. Up to now, all the other countries have played only a subordinate role.

FURTHER RISE IN PURCHASE PRICES

The strong demand in the face of limited supply has intensified competition and led to an increase in prices. The average purchase price per existing residential unit (excluding projects and special categories) in the first quarter was just over 79,000 €. Leaving the Gagfah deal out of consideration to avoid distorting the picture, the average price in the same period last year was just under 75,000 €. So overall, prices have climbed by around 5%. In the field of block sales, the rise was particularly marked, because many investors who fail to acquire large country-wide portfolios have been opting for such offers, with the result that availability in this segment is becoming increasingly tight.

RESULT ABOVE LONG-TERM AVERAGE IN SIGHT

At the moment, there are no large billion-euro transactions on the horizon, so market activity will probably be confined mainly to the small and mid-range market segment. But since there is a lot going on there, the quarters ahead should certainly produce good investment turnovers. Excluding the extraordinary record result of 2015, the average whole-year investment total is around 10.3 bn €, and from today’s angle that should definitely be feasible in 2016, with the likelihood that it can actually be exceeded by a considerable margin. At the moment, there is at least the possibility of a further slight increase in purchase prices in some submarkets.