MORE THAN 8.3 BN € TURNOVER: STRONG OPENING QUARTER

The German investment markets made a very good start to the year, despite a decline of around 14% compared with the same period in 2015. In view of the fact that a great many transactions had been concluded just before the end of last year and that the supply especially of large-unit assets is continuing to shrink, a somewhat weaker first quarter was foreseeable and had been expected. That the ten-year average was nevertheless exceeded by nearly 14% underlines the ongoing strong stability of demand and the unabated scale of interest in German real estate. In the field of single deals, the result, at 6.38 bn € was actually the second-best of all time, only just marginally failing to match last year’s record total. Such deals accounted for 77% of overall investment. So the drop in aggregate turnover was due almost entirely to the shortage up to now of major portfolio transactions; these registered a marked fall of 39% to 1.94 bn €. But their number is set to climb substantially during the year.

DECLINE IN TURNOVER IN SOME MAJOR LOCATIONS

Around 46% of aggregate investment was generated by Germany’s Big Six locations, but their combined turnover was 20% down on the prior-year figure. On the one hand this reflects the limited availability of large-unit products in the core segment; on the other it results from the much lower volume of sizeable portfolio deals included on a pro rata basis. Top place in the first quarter was taken by Munich, with 1 bn € (-10%). In second place came Hamburg, which lifted its turnover by 17% to 953 m €. Berlin began the year rather reticently, with 763 m € (-41%), but this was at least partly because it had been the scene of a particularly sizeable number of deal conclusions in the closing weeks of 2015. Frankfurt got off to a similar start, with 603 m € (-45%). In contrast, increases were posted by Düsseldorf with 280 m € (+7%) and Cologne with 197 m € (+15%).

OFFICE ASSETS HEAD CLASS RANKING CLEARLY

Office buildings once again generated easily the biggest share of investment, with 42% (3.48 bn €). Of this, more than 82% resulted from single deals. Second place in the ranking was taken by retail properties with 22% (1.82 bn €); there, the package proportion was considerably higher, at nearly 42%. In third place came logistics complexes with almost 10% (818 m €), thus continuing their upward trend. Hotels posted their third-best result ever, with 687 m € (over 8%) and in the single-deal segment actually set a new record. Care-oriented facilities, especially nursing homes, accounted for 5% of the total, and are becoming an increasingly important asset class.
Investments according to buyers’ groups Q1

- Special-purpose funds: 23.8%
- Investment/asset managers: 11.2%
- Property developers: 10.7%
- Equity/real estate funds: 10.4%
- Listed real estate companies/REITs: 5.4%
- Insurances: 5.8%
- Private investors: 5.5%
- Others: 23.3%

Investments according to origin of capital Q1

- Germany: 66.9%
- Europe: 19.4%
- North America: 10.3%
- Asia: 1.0%
- Middle East: 1.1%
- Others: 0.0%

FOUR GROUPINGS WITH DOUBLE-DIGIT TURNOVER SHARES

Altogether, four groups of investors generated double-digit shares of turnover in the first quarter. Heading the list were special-purpose funds, with close to 24% of the total. Then came investment managers with just over 11%, property developers with just under 11%, and equity/real estate funds with slightly more than 10%. A sizeable contribution was also made by listed real estate companies, with just over 9%.

PROPORTION OF FOREIGN INVESTORS STILL RELATIVELY LOW

Because of the so-far modest portfolio turnover, foreign buyers have accounted for only just over 33% up to now, a comparatively low share. All the same, they still represent the most active grouping in the package-deal segment, with some 52% of the relevant total. In the field of single deals, their share was only 27%. European investors have been responsible for the biggest proportion of all foreign capital, with 59%. North American investors deployed around half as much as that (31%). At about 4%, the contribution made by Asian buyers is still low but should rise later this year.

PRIME YIELDS STABLE IN FIRST QUARTER

In the opening quarter, prime yields took a breather. In view of the restricted supply of premium properties, though, the tough competition among investors will probably increase, with the possibility of prices climbing again in the months ahead. Munich remains the most expensive city, with a net initial yield for offices of 3.65%. It is followed by Berlin and Hamburg, each with 4.00%. The figures for the other cities are: Frankfurt 4.30%, Düsseldorf 4.35% and Cologne 4.45%. This development is also evident in the other asset classes, and is especially dynamic in the logistics field, where the average prime yield across the major locations is now 5.27%. The average figure for retail/office properties has slipped below 4%, to 3.70% at present.

OUTLOOK

The strong first quarter and the still bright financing environment point towards another very good investment year. The dynamic user markets, for instance with office take-up reaching a new high, should also stimulate turnover. For the overall result, two aspects play a key role: the way the supply of large assets evolves, and the development of the portfolio segment. Since a whole series of sizeable packages are currently on the market, turnover in this field is set to climb appreciably. Against this background, we expect the transaction volume in 2016 to reach at least 45 bn €. Whether the 50 bn threshold can again be exceeded, though, will depend on how things develop in the next two quarters.