RETAIL INVESTMENT MARKET GERMANY

RETAIL INVESTMENTS DOWN ON LAST YEAR

The volume of investment in retail properties in the first quarter of 2016 was well below the record level of the prior-year period. At around 1.82 bn €, it was in fact only about half that posted in the first three months of 2015. The total also fell short of the long-term average. There are several reasons for this. For a start, unlike in previous years, there have so far been no sizeable portfolio transactions. This contrasts with last year, when by itself the Corio acquisition generated an investment volume of more than 1 bn €. Something else is that in the field of single deals, the shortage of core and also core-plus products is making itself felt more and more. In particular, assets priced at between 25 and 50 m € are rare – in the first quarter of 2015, there were more than three times as many transactions in that segment as this year.

MASSIVE FALL IN THE BIG SIX

The shortage of supply is also becoming increasingly apparent in the Big Six locations. Altogether, these attracted only around 304 m €, which is just one-third of the total registered in the first three months of 2015. The biggest slice of investment was generated by Munich. With slightly more than 163 m €, the Bavarian capital is also the only location to post a year-on-year increase and to step up investment several times over (+723 %). In second place, with a total already well below the 100 m € mark, came Hamburg (63 m €, -69 %). It was followed by Berlin, where investment totalled 52 m €; in absolute terms, this represented the largest decline among the major cities (-428 m €), but it must be pointed out that the high prior-year figure was fuelled strongly by the Corio acquisition, which brought a change of ownership in the Boulevard Berlin shopping mall.

DISCOUNT STORES/SUPERMARKETS ACCOUNT FOR HALF

Just like last year, specialised discount stores and supermarkets attracted the biggest share of investment and in fact even strengthened their lead slightly by accounting for close to 50 % of the total volume. The proportion generated by retail/office buildings has also expanded, to over 30 %. But, as in almost all the other asset classes, the absolute amounts of capital deployed were smaller. This confirms that the overall decline in the volume of investment is not due to any changes in strategy but simply relates to the scale of supply. Shopping centres, which – thanks to the Corio sale – were last year responsible for one third of all turnover, have up to now contributed around 18 %.
Retail investments according to buyers’ groups Q1 in %

- Special-purpose funds: 27.3%
- Investment/asset managers: 17.5%
- Equity/real estate funds: 12.2%
- Closed-end funds: 12.4%
- Listed real estate companies/REITs: 7.9%
- Private investors: 7.9%
- Property developers: 4.2%
- Others: 9.5%

SPECIAL-PURPOSE FUNDS TOP BUYER
With a share of more than 27% of the total, special-purpose funds are the most active buyer grouping by a considerable margin. They invested extensively in both portfolios and individual properties. Investment/asset managers took second place with around 18%, finishing ahead of equity/real estate funds (over 13%), which focused almost entirely on package purchases. With just over 12%, closed-end funds accounted for only marginally less. Sizeable contributions were also made by listed real estate companies/REITs and private investors (each: 8%), and by property developers (more than 4%). At around 37%, the proportion of foreign buyers is more or less on a par with the level registered in commercial property investment overall, with such buyers particularly dominant in the field of portfolios.

PRIME YIELDS STILL UNDER PRESSURE
Although the prime yields for retail/office buildings were already at a historically low level at the beginning of 2015, in the second half of the year they eased slightly further, but have stayed stable since then. With a yield of 3.40%, Munich remains Germany’s most expensive city. Then comes Berlin, which is where the biggest price increase was observed, this is reflected by a yield decline of 30 basis points to 3.65%, making the German capital the country’s second-dearest location. The net prime yield in Hamburg now stands at 3.75%, while the figure for Düsseldorf, Frankfurt and Cologne is 3.80%. Especially in this segment, though, buyers are occasionally prepared to accept even higher prices.

In the other market segments, there have been even more appreciable year-on-year falls in prime yields. The top figure for shopping centres, for instance, is now 4.10% (-40 basis points), while for stand-alone discount stores and supermarkets it is 5.70%, which is also 40 basis points lower than a year ago. Well-functioning specialist retail centres in good locations are traded at 5.30%, so that they are 20 basis points more expensive than in the same time last year.

OUTLOOK
The comparatively modest first-quarter investment volume hides the fact that demand fundamentally remains strong in no other asset class do the investment figures highlight the shortage of supply so distinctly. At the same time it is important to bear in mind that the picture is just an interim one, reflecting only the first three months, and that in previous years there have also been sharp quarter-on-quarter falls in investment. Against this background, the months ahead in 2016 can again be expected to produce lively market activity. The actual scale of the transaction volume for the year as a whole, though, will depend substantially on the availability of sizeable products and portfolios.