RETAIL INVESTMENT GAINS MOMENTUM

In the third quarter – after just a reticent first half – investment in retail assets really picked up. The transaction volume now totals just over 8.5 bn €. This falls 39% short of last year’s all-time record result, but that cannot serve as a basis for comparison because of the special effect generated by two portfolio deals (Corio and Kaufhof) which just by themselves accounted for around one quarter of all investment. One indication that this year’s performance was nevertheless very good is that it represented the fourth-best result ever registered. In fact, taking just single deals into consideration, turnover was the second-best of all time, with just under 6.24 bn €; that was 2% up on the prior-year figure. So the overall decline was due entirely to portfolio sales, which amounted to just 2.27 bn €, more than 70% less than last year. This downturn was not caused by any lack of investor interest, though, but solely by an inadequate supply.

BIG SIX PARALLEL NATIONWIDE TREND

The development in the so-called Big Six locations (Berlin, Cologne Düsseldorf, Frankfurt, Hamburg, Munich) paralleled the nationwide trend. Since they had also benefited from exceptionally large portfolio contributions in 2015, they this year suffered a similar decline, of just over 39%. All the same, their aggregate transaction volume, at close to 2.4 bn €, was nearly 2% above the ten-year average. The biggest turnover was achieved in Berlin, with 828 m € (-38%). Next, with 606 m €, came Hamburg, the only city to post a year-on-year increase (+201%). The fall in Munich was relatively small (-15%), producing a volume of 471 m €. Then came Düsseldorf, with 286 m € (-67%), Cologne, with 124 m € (-78%), and Frankfurt, with 81 m € (-81%).

DISCOUNT STORES/SUPERMARKETS WITH MARKED LEAD

The category of discount stores and supermarkets, which had already exhibited its strength last year, has now extended its lead in the asset-class ranking by achieving a share of almost 45%. Downtown retail/office buildings have moved up into second place with 28%, becoming the only class with more or less the same absolute volume as in 2015. Shopping centres have accounted for nearly 17%; here, it was particularly notable that strong demand was encountering a shortage of supply. Department and general stores, which last year benefited extensively from the Kaufhof deal, have this year been responsible only for just under 11%.
Real Estate for a changing world

Net prime yields according to type of property

SPECIAL-PURPOSE FUNDS GAIN BIGGEST SHARE

More than one third of the transaction volume has been generated by special-purpose funds, which have thus strengthened their lead in the course of the year. They were especially active in the discount store/supermarket segment, where higher yields can be obtained. In second place came investment managers, with a contribution of just over 12% to the result. All the other buyer groupings obtained just single-digit shares. Sizeable slices of total turnover were gained by equity/real estate funds (just under 9%), listed real estate companies (over 8%), closed-end funds (nearly 7%), private investors (6.5%) and pension funds (over 6%). By long-term standards, the proportion generated by foreign investors, at 27%, is relatively low. In the portfolio field, though, it was considerably higher (38%) than in the field of single deals (23%).

FURTHER DECLINE IN PRIME YIELDS

Something highlighting the fact that the year-on-year fall in turnover has not been due to any lack of investor interest is the way that yields have continued to ease. On average across the Big Six locations, the prime yields for downtown retail/office properties have fallen by a further 22 basis points. As before, the most expensive city is Munich, with 3.25%, but it is now followed closely by Berlin, with 3.40%. Next comes Hamburg (3.50%), ahead of Cologne, Düsseldorf and Frankfurt (each: 3.60%). For absolutely premium assets, though, buyers are in isolated cases prepared to pay even higher prices if the framework conditions are right.

It is not just retail/office properties which have posted ongoing yield compression. Some slight falls in yields have also been evident in other market segments, too. While the yield for shopping centres remains at the level it reached at the end of 2015 (4.10%), the yield for successful specialist retail centres in premium locations has eased by a further 30 basis points to 5.20%. Individual discount stores and supermarkets have undergone a similar development, with a yield that now stands at 5.50%.

OUTLOOK

In the final quarter, too, demand for retail properties in Germany will remain buoyant. This means that the transaction volume for the year as a whole will depend primarily on the available supply, and particularly in higher-value market segments this remains insufficient. All the same, from today’s angle it seems likely that the whole-year investment total will be boosted by several sizeable transactions, including deals in the portfolio field. Even if the result should fail to match last year’s record, all the signs suggest that it will not only exceed the long-term average but could also be among the four best ever registered.

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