Portfolio deals continue to boost volume on German retail investment market

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Transaction volume on the retail investment market more than doubled (up 120%) in the first three quarters of 2015 to around €12.94 billion compared to the same period in 2014 (€5.9 billion). This gives retail assets an almost 34% share of the total German commercial investment market, putting them second in the ranks after office assets, the most popular asset class (42% market share).

Retail portfolio deals total at roughly €8.6 billion

Just like during the first half of the year, portfolio deals in Q3 continued to be a driving force behind transaction volume on the German retail investment market. Retail portfolios account for €8.6 billion in total this year to date, with seven package deals recorded as going for more than €250 million each.

After the sale of more than 40 Kaufhof stores for around €2.4 billion and the sale of the Corio portfolio featuring five shopping centers for almost €1 billion during the first half of the year, Deka’s purchase of the Julia portfolio comprised of 51 buildings featuring an office-retail mix for roughly €700 million ranks as the largest retail transaction in Q3.

Transaction volume retail investment in Germany (in million €)

Market share by type of building (in %)
More Than Half of Invested Capital of International Origin

International investors poured a total of some €7.7 billion into German retail assets, pocketing a 60% share of total transaction volume. Portfolio deals account for 80% of this international capital (€6.15 billion). This exceptionally high share is an excellent indicator of the popularity that German retail assets currently enjoy among international investors.

Although REITs were particularly active as buyers during the first half of the year, the situation changed over the past few months. Open-ended real estate funds/special funds took pole position with almost €4 billion, followed by REITs with slightly more than €2.7 billion in transaction volume. Listed property companies also generated a considerable share (around €1.8 billion).

Shopping Centers Post Highest Transaction Volume

Despite numerous portfolio deals signed in the warehouse store segment, shopping centers were able to defend their position as the most popular usage type among German retail investments during Q3. Since the start of the year, investors have poured slightly more than €5.6 billion, or roughly 44% of total transaction volume, into shopping centers. That puts shopping centers well ahead of retail parks and warehouse stores this year to date, which accounted for around €3.8 billion, or 29% of total transaction volume. Downtown business buildings and department stores as well as High Street properties accounted for a combined total of €3.5 billion, or 27% of invested capital.

Transaction Volume Increases Outside Top 7 Cities

Although around 26% of all retail investments were made in Germany’s top 7 cities during the first half of 2015, transaction volume outside the major real estate hubs increased as the year progressed. A total volume of around €2.7 billion was recorded in the seven real estate hubs of Berlin, Düsseldorf, Frankfurt, Hamburg, Cologne, Munich and Stuttgart between January and the end of September, reflecting a share of just under 21%.
Numerous portfolio deals were signed in the warehouse store segment outside these top locations, including the Hürth Park shopping center near Cologne, which was purchased in Q3 by Deka for the WestInvest InterSelect retail real estate fund for around €213 million. This transaction is the third-largest single deal signed in the retail segment this year to date following the Ruhr Park shopping center (shares) in Bochum and Waterfront in Bremen.

Ongoing yield compression

The continued run on German retail assets and the fact that supply remains limited in some sub-segments has resulted in an expected yield correction over the past few months. Prices once again climbed in many locations following the summer months. Gross initial yields of up to 5.50% are currently being obtained for retail parks that were recently completed and are fully let with an attractive tenant-mix in prime locations, reflecting a decrease of 25 basis points. Some warehouse stores are already matching these levels, with the range generally between 5.90% and 7.00%. New, modern shopping centers in prime locations in the top 7 cities are generating yields of up to 4.50%.

Outlook: Strong end-of-year result in sight

High demand for retail investments will continue in the next three months, giving us a strong end-of-year result. In any case, total results for 2015 will be the strongest the retail investment market has seen since 2006, an exceptional year where we saw a transaction volume of almost €20 billion.
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