

Germany's Unternehmensimmobilien Overcome their Exotic Status even Abroad

High level of acceptance for asset class reflected in plummeting cap rates / international investors enter market via portfolio acquisitions / high owner-occupancy rate in Germany hampers investments

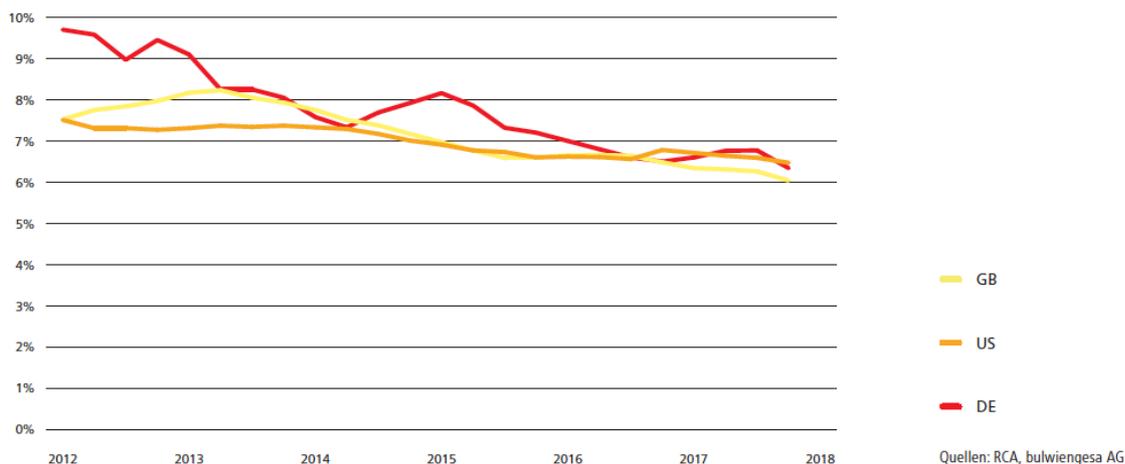
Berlin, 11 June 2018 – On the US and UK real estate markets, light industrial properties are nothing exotic but have been established for a long time and remain a popular investment objective then as now. The German “Unternehmensimmobilien” category of multi-use and multi-let commercial real estate has caught up lately, and the massive portfolio acquisitions by foreign investors as well as the steadily hardening cap rates¹ suggest as much. These are the key findings of the second issue of the magazine [UI Insight #02](#) with its focus topic of “German Unternehmensimmobilien in the Global Context.”

The German term “Unternehmensimmobilien” includes, unlike the term “light industrial property,” converted properties, which require a comprehensive revitalisation and structural alteration before being put to new commercial use. They tend to come with a historic industrial charm.

Steep Drop in Cap Rates

Looking at the average cap rate for industrial real estate (including large-scale logistics assets) is a good way to put the German market for Unternehmensimmobilien into the international context (see Fig. 1).

Ø-Cap-Rates von Industrial-Immobilien



The average cap rate in Germany's industrial real estate segment was much more volatile between 2012 and 2015 when compared to the markets in the United States and the United Kingdom. But in 2015, investment demand in Germany began to surge at such a brisk pace that the average cap rate

¹ The “cap rate” signifies the ratio of net earnings to purchase price, with management costs taken into account whereas incidental acquisition costs are not.

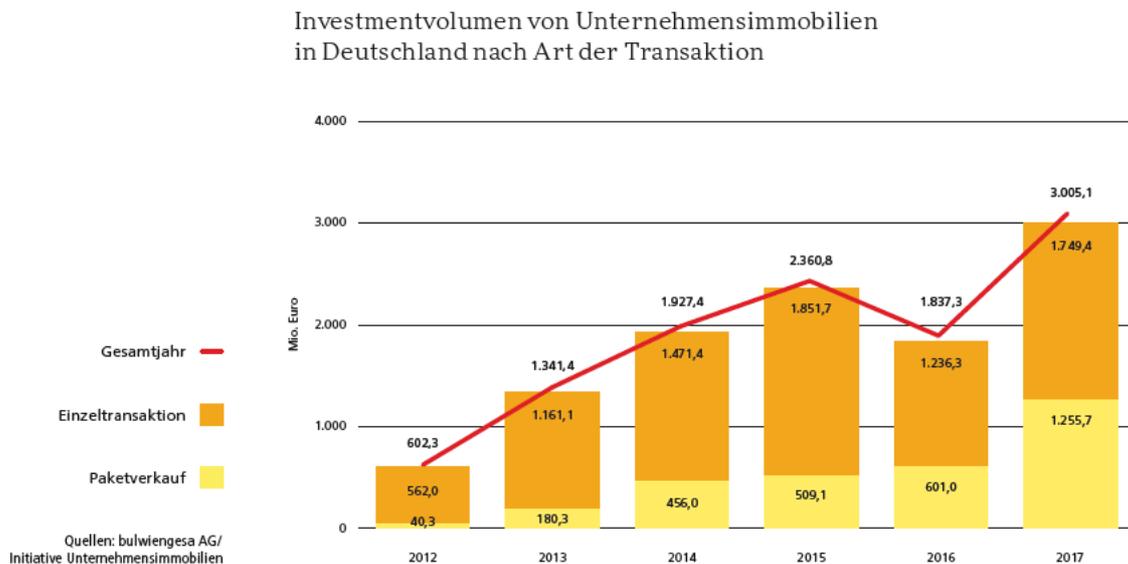
declined more or less steadily, dropping from 8.0% (2015) to 6.3% by the end of 2017, in some places actually undercutting comparables in the US and UK markets.

“Despite the volatility, the German market has shown a dynamic performance in recent years. A look at the overall investment potential, however, makes it safe to say there is plenty of growth potential left,” said Tobias Kassner, division head for industrial and logistics real estate at bulwiengesa.

The share that industrial real estate claimed in the commercial transaction total in Germany was admittedly much lower than on the reference markets during the period under review (2012 and subsequent years). But lately, the asset class has noticeably gained in significance in Germany: At 12%, it crossed into the two-digit range in 2017 for the first time, which is twice of what it was in 2015—a fact explained, in addition to investments in Unternehmensimmobilien, by the strong demand for large-scale logistics real estate.

Portfolio Acquisitions Favour Metro Areas

The keen interest among international players is also highlighted by the way transaction volumes of portfolio acquisitions have been trending. Investments in larger portfolios or the acquisition of entire companies permit the instant placement of large sums of capital in a given market (see Fig. 2).



During the banner year of 2017, both the transaction total and the market share of package sales climbed to a new high-water mark at roughly 42%. Over 1.2 billion euros were invested in portfolio acquisitions, which is more than the year-end totals of 2015 and 2016 combined. Tobias Kassner: “International investors accounted for the bulk of it. Their market entry has caused the sum total committed in Unternehmensimmobilien portfolios to multiply. Accordingly, the record-breaking transaction volumes recently seen in the asset class of Unternehmensimmobilien is closely linked to the intense market presence of international investors.”

There is a manifest difference between domestic and cross-border investors as far as regional

preferences go: International investors have so far bought mainly in or near German metro regions. Given the positive demographic and economic developments, these are exposed to a relatively low investment risk.

Conversely, domestic investors with a detailed knowledge of the market will often invest in Unternehmensimmobilien outside the conurbations because they have an easier time appraising a given property over and above its macroeconomic performance indicators.

Alistair Marks, Chief Financial Officer of Sirius Facilities GmbH, suggests as much when elaborating his company's approach: "Going forward, we will keep our investment focus on secondary and tertiary locations in the metro regions of the 'Big 7' cities. After all, demand and pricing for our range of products is much higher in these locations. Moreover, we believe that tertiary locations around Class A cities offer better opportunities than secondary locations in the vicinity of B or C class cities."

High Owner-Occupancy Rate Stalling Investments

Now, as then, Unternehmensimmobilien assets are owner-occupied more often than is the case in the US or the UK. To ensure that the German market for Unternehmensimmobilien remains a sustainably attractive investment destination, more of the owner-occupied stock should be diverted to the investment market. It is the only way to prevent a slowdown in investment activity due to short supply. This is particularly true for the floor space stock of major industrial companies that are often no longer required in their entirety for owner-occupancy.

Martin Czaja, CEO of BEOS AG, commented on the link between property ownership rates and transparency: "In the same sense that international investors have made swifter progress in terms of transparency, they are also more experienced in our asset class. A look at the ownership rates alone suggests as much: While 70% of the companies in Germany own their real estate outright, the ratio is no higher than 40% in the United Kingdom, only 30% in the United States, and just 20% in Asia. Indeed, the German Unternehmensimmobilien market would not have taken off the way it did without international investors."

About INITIATIVE UNTERNEHMENSIMMOBILIEN

At the moment, INITIATIVE UNTERNEHMENSIMMOBILIEN is made up of eleven member companies active on the German market for the multi-use, multi-let commercial real estate called "Unternehmensimmobilien"— ATOS/Corestate, Aurelis, BEOS, Cromwell Property Group, Garbe Industrial Real Estate, Geneba Properties, GSG Berlin, Investa, SEGRO, Siemens and Sirius.

Their common objective is to enhance the transparency of this market segment and thereby to facilitate access to the asset class. For this purpose, a reporting system was set up in collaboration with bulwiengesa whose purpose is to evaluate all of the transaction and letting data made available by initiative members. Investors and market analysts are regularly briefed about the sector's trading volume and performance. The vehicle of choice for this purpose is the market report published twice a year.

Contact: Tobias Kassner, kassner@bulwiengesa.de, Phone +49 (0)40-42 32 22-20



About bulwiengesa

bulwiengesa is one of the major independent analytics firms for the real estate industry in Continental Europe. For more than 30 years, bulwiengesa has supported its partners and clients in real estate industry issues as well as location and market analyses, providing detailed data services, strategic consultancy and bespoke expert opinions, among other deliverables. The data of bulwiengesa are used by Deutsche Bundesbank for the European Central Bank (ECB), the Bank for International Settlements (BIS) and the OECD, among other clients.

Press Contact

bulwiengesa AG
Sigrid Rautenberg
Wallstr. 61
D-10179 Berlin
Tel.: +49 (0)30-2787 68-24
rautenberg@bulwiengesa.de

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