

GERMANY

# Industrial Market Snapshot

Third Quarter | 2017



## MARKET INDICATORS

### Market Outlook

- Prime Rents: Prime rents for large logistics assets are expected to remain static across the key German hubs whereas rents for smaller distribution centres close to the cities will increase. ▶
- Prime Yields: Yields will compress further, as demand is strong. ▲
- Supply: Availability of land is crucial, speculative construction is increasing from a low level. ▶
- Demand: Ongoing strong demand for good quality space, not least driven by eCommerce. ▶

### Prime Industrial Rents – September 2017

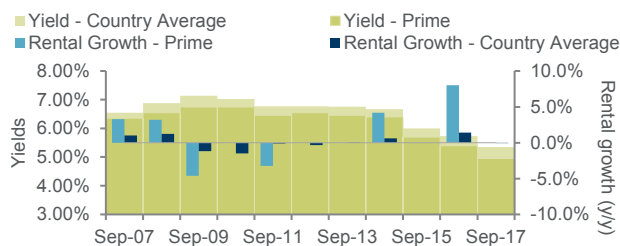
LOGISTICS LOCATIONS	€		US\$	GROWTH %	
	SQ.M MTH	SQ.M YR	SQ.FT YR	1YR	5YR CAGR
Berlin	4.70	56.4	6.22	0.0	0.0
Frankfurt	6.00	72.0	7.94	0.0	0.0
Hamburg	5.40	64.8	7.14	0.0	0.0
Munich	6.75	81.0	8.93	0.0	2.4
Dusseldorf	5.40	64.8	7.14	0.0	0.0
Stuttgart	6.00	72.0	7.94	0.0	0.3
Cologne	5.00	60.0	6.62	0.0	0.0
Leipzig	4.00	48.0	5.29	0.0	0.0

### Prime Industrial Yields – September 2017

LOGISTICS LOCATION (FIGURES ARE NET, %)	CURRENT	LAST	LAST	10 YEAR	
	Q	Q	Y	HIGH	LOW
Berlin	5.35	5.35	5.70	7.25	5.35
Frankfurt	5.10	5.15	5.55	6.90	5.10
Hamburg	5.20	5.20	5.60	7.30	5.20
Munich	4.95	4.95	5.40	6.75	4.95
Dusseldorf	5.25	5.25	5.60	7.05	5.25
Stuttgart	5.30	5.35	5.85	7.40	5.30
Cologne	5.35	5.35	5.80	7.05	5.35
Leipzig	6.05	6.05	6.40	7.40	6.05

With respect to the yield data provided, in light of the changing nature of the market and the costs implicit in any transaction, such as financing, these are very much a guide only to indicate the approximate trend and direction of prime initial yield levels and should not be used as a comparable for any particular property or transaction without regard to the specifics of the property.

### Recent performance



## Overview

Market conditions have been beneficial for the industrial and logistics market in recent months. Industrial output and new industrial orders remained at a good level, employment continued to increase and retail sales profited, not least from eCommerce. The ifo business climate hit a new record at the end of July. Despite weakening in August/September, sentiment is still at a long-term high level. GDP grew by 2% (Q1) and 2.1% (Q2) over the same periods last year and a similar rate is expected for Q3. The occupational sectors report robust activity, investment demand is strong.

## Occupier focus

Demand for industrial space remains at a high level and is fed by all sectors, with trade and 3PLs dominating the take-up activity. A salient factor continues to be the ongoing intensification of digitalization and the steady growth of eCommerce which requires new spaces, as existing stock does not match modern requirements in terms of location, size and /or fit-out. Building activity is therefore strong, both by owner occupiers and developers, and completions will attain a new record level this year. Within the main industrial areas developers are increasing their speculative building activities, however, pre-let completions still dominate even these markets. Availability of land for logistics purposes is very limited and land prices are increasing. Multi-level logistics facilities have thus far been rare in Germany, but a step in this direction has been taken in the eastern suburbs of Munich, where Germany's first real two-level distribution centre has opened with external ramps on both levels enabling highly flexible use.

## Investment focus

Whereas in the first half of 2017 some large portfolio transactions took place, investment activities in Q3 were dominated by single asset deals, reflecting a lack of suitable packages available for purchase despite strong demand from national and international capital. Investment volumes reached €6.2 bn by the end of September which is the highest-ever result. Yields were static in Q3 at their Q2 level but are expected to compress further over the remainder of 2017.

## Outlook

Despite a number of global risks, solid economic growth of 2.1% is forecast for Germany. Demand for industrial space will be increasingly focused on urban logistics space.

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