

GERMANY

Retail Market Snapshot

Third Quarter | 2018



MARKET INDICATORS

Market Outlook

- Prime Rents: Rents expected to remain stable in key locations and might decrease in some secondary locations within the larger catchment of strong centres. ▶
- Prime Yields: Yields to decrease slightly in some of the major markets and for well managed retail warehouses/retail parks. ▶
- Supply: Ongoing refurbishment activities in prime locations and in shopping centres; steady new supply with supermarkets and small neighbourhood centres. ▶
- Demand: Demand from retailers from abroad, from the F&B sector and leisure/fitness in high streets ▶

Prime Retail Rents – September 2018

HIGH STREET SHOPS	€		US\$	GROWTH %	
	SQ.M MTH	SQ.M YR	SQ.FT YR	1YR	5YR CAGR
Berlin	315	3,780	410	0.0	2.0
Frankfurt	310	3,720	403	-1.6	1.0
Hamburg	310	3,720	403	0.0	1.0
Munich	370	4,440	482	0.0	0.5
Dusseldorf	290	3,480	377	1.8	1.8
Stuttgart	275	3,300	358	0.0	0.7
Cologne	295	3,540	384	0.0	0.7
Leipzig	130	1,560	169	0.0	0.0
OUT OF TOWN RETAIL (RETAIL PARKS)	€		US\$	GROWTH %	
	SQ.M MTH	SQ.M YR	SQ.FT YR	1YR	5YR CAGR
Frankfurt	15.20	182	19.8	0.0	0.1
Munich	16.30	196	21.2	0.0	0.2

Prime Retail Yields – September 2018

HIGH STREET SHOPS (FIGURES ARE NET, %)	CURRENT	LAST	LAST	10 YEAR	
	Q	Q	Y	HIGH	LOW
Berlin	3.20	3.30	3.50	4.80	3.20
Frankfurt	3.40	3.50	3.60	4.65	3.40
Hamburg	3.40	3.40	3.50	4.40	3.40
Munich	2.90	2.90	3.10	4.20	2.90
Dusseldorf	3.50	3.50	3.70	4.70	3.50
Stuttgart	3.50	3.50	3.80	4.85	3.50
Cologne	3.50	3.50	3.70	4.65	3.50
Leipzig	4.50	4.50	4.60	5.65	4.50
OUT OF TOWN RETAIL (RETAIL PARKS) (FIGURES ARE NET, %)	CURRENT	LAST	LAST	10 YEAR	
	Q	Q	Y	HIGH	LOW
Frankfurt	5.00	5.00	5.20	7.60	5.00
Munich	4.75	4.75	4.90	7.60	4.75
SHOPPING CENTRES (FIGURES ARE NET, %)	CURRENT	LAST	LAST	10 YEAR	
	Q	Q	Y	HIGH	LOW
Country prime	3.70	3.70	3.70	5.40	3.70

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.

Overview

Consumer sentiment, as measured by the GfK Consumer Climate Index, fell a little in Q3 2018, however, is still at a high level. A healthy labour market with high employment figures and some wage increases is supporting positive sentiment. Private consumption remained an important pillar of economic growth in Germany.

Occupier focus

In September, Hudson's Bay Company and Signa agreed a merger of the two major German department store chains. As store locations overlap in some cities, stores are likely to be individually re-evaluated to sharpen profiles and maximize market penetration and turnover. Demand for high street stores is still led by the fashion sector, however food & beverages, health/ beauty and fitness/sport are steadily increasing their presence. Refurbishments and re-positioning of old stock offer opportunities to attract new tenants. Large-scale retailers are also offering space for pop-up shops to augment the shopping experience, for example, BMW opened a pop-up store for its motorbikes in the SportScheck sales area on Neuhauser Strasse in Munich and Peek & Cloppenburg announced pop-up-shop tests for books and beauty in its fashion stores.

Investment focus

In Q3 2018, new investment in retail assets reached an aggregated investment volume of €3.95 bn and brought the cumulative result for the first nine months to €3.4 bn, a 9% increase on the same period last year. The largest transaction thus far was the merger between department chains Karstadt and Kaufhof (Q3) which included a 50%-acquisition of 57 Kaufhof buildings plus 100%- of two Kaufhof buildings by Signa Prime Selection for €1.84 bn. The other twelve major deals remained below €400 mn each. High-street assets in well-established retail destination towns attracted investors most, with supermarkets, food discounters and retail parks ranking second. Shopping centre deals were rare due to the tightness of well-managed supply in this asset group. The purchase of "Das Schloss" by Deko Immobilien (Q3) was the major deal in this sector. Foreign retail investments rose to 45% by the end of September. Yields for prime high street shops compressed in Q2 by 10 basis points in Berlin and Frankfurt, while yields for retail parks and shopping centres remained stable.

Outlook

In September Oxford Economics forecasts German retail sales growth of 1.3% (at constant prices) in 2018. Online retailing will remain the main challenge for in-store retail with Amazon dominating online sales at 25% currently.

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