

GERMANY

Industrial Market Snapshot

Second Quarter | 2019



MARKET INDICATORS

Market Outlook

Prime Rents: Prime rents for logistics assets will increase in some of the key German hubs with stable rents in the majority of markets for large distribution centres. ➤

Prime Yields: Yields will slightly compress further, as demand is strong. ▲

Supply: Majority of new developments due to pre-lets and owner-occupation with speculative construction starts gaining momentum, availability of land is crucial ➤

Demand: Ongoing strong demand for modern quality space. ➤

Prime Industrial Rents – June 2019

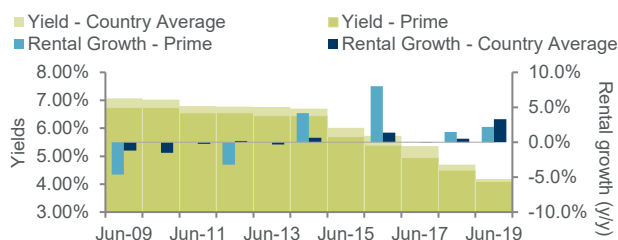
LOGISTICS LOCATIONS	€	€	US\$	GROWTH %	
	SQ.M MTH	SQ.M YR	SQ.FT YR	1YR	5YR CAGR
Berlin	4.70	56.4	6.33	0.0	0.0
Frankfurt	6.20	74.4	8.35	3.3	0.7
Hamburg	6.00	72.0	8.08	11.1	2.1
Munich	7.00	84.0	9.43	2.2	2.3
Dusseldorf	5.60	67.2	7.54	3.7	0.7
Stuttgart	6.25	75.0	8.42	1.6	1.2
Cologne	5.00	60.0	6.73	0.0	0.0
Leipzig	4.10	49.2	5.52	0.0	0.5

Prime Industrial Yields – June 2019

LOGISTICS LOCATION (FIGURES ARE NET, %)	CURRENT	LAST	LAST	10 YEAR	
	Q	Q	Y	HIGH	LOW
Berlin	4.15	4.15	4.70	7.25	4.15
Frankfurt	4.10	4.10	4.60	6.90	4.10
Hamburg	4.10	4.10	4.65	7.15	4.10
Munich	4.10	4.10	4.50	6.75	4.10
Dusseldorf	4.15	4.20	4.70	7.05	4.15
Stuttgart	4.20	4.30	4.65	7.40	4.20
Cologne	4.15	4.40	4.70	7.05	4.15
Leipzig	4.30	4.30	4.90	7.40	4.30

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

German business sentiment, as measured by the Ifo business climate index, weakened almost steadily from September 2018 and reached its lowest point since November 2014 in June 2019. An unresolved Brexit and ongoing trade tensions continue to dampen German exports. Growth in industrial output was low and factory orders decreased. However, so far, domestic demand and private consumption have remained resilient and act as a prop for the distribution sector.

Occupier focus

Demand for warehouse and logistics space maintained its high level, driven by the growth of businesses and changes in distribution networks. Challenged by a lack of availability in existing stock, occupiers are signing pre-leases or are starting construction of space themselves, particularly when they require large spaces. In May, car manufacturer BMW began works to extend its component warehouse in Dingolfing by 100,000 sq.m. The second-largest take-up of the first half year was also by a car manufacturer: VW signed a pre-let for 87,000 sq.m in a future two-storey building due for completion in 2020. Nevertheless, retailers and logistics and transport companies are currently the sectors that require most spaces. In total, take-up has reached almost three million sq.m so far this year making H1 2019 a little weaker than the first six month of last year but reflecting the imbalance of demand and availability. Prime rents for logistics space increased in Hamburg by €0.20 per sq.m and month and remained stable in the other major markets in Q2. Munich is by far the most expensive market.

Investment focus

New acquisitions of industrial and logistics assets reached an aggregated volume of €1.32 bn in the second quarter lifting the half year result to a total of €2.52 bn and re-confirming the strong investor interest in this asset class. The sale of three distribution centres to Green Oak JV Apeiron for more than €360 million was the largest deal so far and Savills IM signed the largest single asset transaction worth €120 million. Yields for prime assets remained static in five of the eight major markets in Q2. Annual compression ranged from 40 basis points (Munich) to 60 basis points (Leipzig).

Outlook

Demand for modern well-located warehouse and logistics space remain at a high level. City logistics space inside town boundaries is scarcely available with rents significantly above the prime rents for large warehouses outside city boundaries.

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