

Press Release

**GARBE PYRAMID-MAP: Forecast Sees Rental Growth Outpace
Inflation in Germany's Top Markets**

- Transaction volume is picking up momentum while decompression cycle of prime net initial yields is gradually coming to an end
- GARBE and Oxford Economics publish their first PYRAMID Forecast: Over the next five years, compression in the top markets is expected to range between 100 and 120 basis points

Hamburg, 10 September 2024. Germany's logistics real estate market is showing first signs of recovery. For one thing, the transaction volume picked up some steam during the first half of 2024. Nonetheless, prime net initial yields moved up by another ten to twenty basis points because the price correction had not fully run its course yet. Transactions focus predominantly on the value-add segment. Prime rents in Germany increased by an average of 1.8 percent during the first half of 2024 and thus slightly faster than the European average.

These are the findings that GARBE Research presented in its latest GARBE PYRAMID MAP, the 2024 mid-year update of the company's overview of prime rents and prime net initial yields for the 116 most important logistics real estate submarkets in 24 European countries.

Author Tobias Kassner, Head of Research and a member of the Management Board of GARBE Industrial Real Estate, said: "The German logistics real estate market was mainly defined by stabilisation during the first half-year. But certain markets nonetheless registered a substantial growth of prime rents."

Dr Peter Bartholomäus, Head of Fund Management & Capital Markets and member of the Management Board at GARBE, elaborated: “While the transaction volume still fell short of the long-term average during the first half of 2024, it did exceed last year’s figure. Especially portfolio transactions are gaining in significance in this context.” Bartholomäus went on to say: “At mid-year, yield levels in the top logistics markets ranged from 4.9 to 5.0 percent. Yield rates in logistics regions beyond the top markets varied between five and six percent.” For the second half-year, GARBE analysts predicted a stable sideways movement of yield rates, with investment activities assumed to grow on a low level.

GARBE PYRAMID Forecast Lays Ground for Target-Oriented Strategy

For the first time, a forecast developed together with Oxford Economics was added to the GARBE PYRAMID map. “A valid assessment of the status quo is crucial for a correct diagnosis of market opportunities and risks. But only a well-informed forecast will enable you to devise a pinpoint strategy,” as Kassner elaborated. The forecast provides a five-year outlook for the trends in prime rents and net initial yields in 30 selected European top logistics regions, and it integrates comprehensive macroeconomic and market-specific factors.

The key insights for the German logistics market are these: While prime net initial yield rates have been subject to strong decompression for more than two years now, the level of prime yields will see a significant decline before 2029. For the German top markets, the predicted compression during this period ranges from 100 to 120 basis points each. “In the years to come, demand for logistics facilities will go back up, according to our forecast. However, since the supply shortage is here to stay, especially in the top markets, this will push down yield rates,” as Kassner elaborated, adding: “Even by the end of the forecast period, we will not have regained the yield level of early 2022, meaning the time before the price corrections kicked in.” The background to this, in his opinion, is the permanently increased level of base rates and investment alternatives such as German government bonds.

Germany's Occupier Market Showed a Modest Gain at 1.4m sqm in Q2

Take-up in the German occupier market for logistics real estate approximated 2.4 million sqm by mid-year 2024. That is 16 percent less than the prior-year result and 25 percent below the long-term average. "This trend is similar in all sectors and areas because Germany's weak economy is increasingly dampening demand," explained Adrian Zellner, Head of Business Development at GARBE. "Demand among logistics service providers has dried up faster than it did in the industrial and retail sectors."

The vacancy rate has ascended from a historic trough to an average of three percent nationwide. What has kept the vacancy rate from rising rapidly in many places is the low-level building activity. "The degree of differentiation between the markets has noticeably increased again," Zellner emphasised. While top markets like Munich and Hamburg show virtually no vacancies at all, vacancy rates in markets like Bremen and Leipzig have surged lately. "In Leipzig, several speculative developments will come on-stream soon that the market will be unable to absorb right away and that will drive up local vacancies," Zellner elaborated.

During the first six months of 2024, prime rents grew particularly quickly in Munich (+7.1 percent) and Mannheim (+5.9 percent). In fact, the two cities are among the top five across Europe. That is because persistently strong demand coincides with a very limited supply here. Other cities with very substantial rent hikes include Karlsruhe (+4.3 percent), Duisburg (+4.0 percent) and Nuremberg (+3.9 percent). At EUR 12.00/sqm, by far the highest prime rents were still charged in Munich. Next in line were the other top markets, the going rates being EUR 8.70/sqm in Stuttgart and EUR 8.60/sqm in Berlin, Dusseldorf and Hamburg. "With a view to the years ahead, we assume that prime rents in the top markets will keep going up. This is particularly true for 2026 and the years thereafter. By then, the German economy should have bounced back, according to our forecasts, while land prices, construction costs and financing costs will remain elevated," as Kassner explained. Especially in the top markets, rising demand will be confronted by limited supply.

For more figures and methodological details, please see the interactive GARBE PYRAMID MAP (<https://www.garbe-industrial.de/pyramid-map/>). The data referenced in our press release are sourced from the PYRAMID project.

GARBE PYRAMID Forecast for 30 selected top markets in Germany:

Region/city	Q2 2024 (in euro)	CAGR*2024–2029 (in %)
Munich	12.00	3.8
Stuttgart	8.70	3.0
Berlin	8.60	3.5
Dusseldorf	8.60	3.0
Hamburg	8.60	3.5
Cologne	8.50	2.9
Frankfurt	8.20	3.2
Duisburg	7.80	2.9
Hanover	6.80	2.7
Leipzig	5.80	2.7

Source: GARBE Industrial Real Estate

*CAGR = Compound Annual Growth Rate

Region/city	Q2 2024 (in %)	Q2 2029 (in %)
Munich	4.8	3.7
Berlin	4.9	3.7
Hamburg	4.9	3.7
Cologne	4.9	3.9
Hanover	4.9	4.0
Stuttgart	5.0	3.9
Dusseldorf	5.0	3.9
Frankfurt	5.0	3.9
Duisburg	5.0	4.0
Leipzig	5.1	4.0

Source: GARBE Industrial Real Estate

*CAGR = Compound Annual Growth Rate

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About GARBE Industrial Real Estate GmbH

Based in Hamburg, GARBE Industrial Real Estate GmbH ("GARBE") is one of Germany's leading companies selling and managing logistics, light industrial and technology real estate. For over 30 years, the company has counted among the most important collaboration partners for transport and logistics service providers, the trade sector and the manufacturing industry. GARBE develops, buys or sells, lets, manages and finances high-end commercial properties in attractive transport nodes and industrial locations inside and outside Germany. At the moment, GARBE has around 6.4 million sqm of lettable area and a property development pipeline of around 2.0 million sqm in Germany and elsewhere in Europe under management that represent property and fund assets in a combined value of c. 10.6 billion euros (as of 30 June 2024).