



Federal Institute for
Research on Building,
Urban Affairs and
Spatial Development

within the Federal Office for
Building and Regional Planning



Latest results of the BBSR Housing Transaction Database

The first half of 2018 was characterised by a further stagnation in transactions on the German housing market. The number of sales continued to fall. However, for the first time since 2016, a major transaction was performed with around 25,000 housing units, thereby causing the overall purchasing volume to rise.

This document presents the current analysis of the BBSR Housing Transaction Database, including results and analyses on housing portfolios in the first half of 2018 with the following focuses:

- **Slight increase in the transaction volume in the first half of 2018**
- **Private investors are the only active buyers' group on the market**
- **Falling number of small transactions**

Purchasing activity for rented housing units continues to stagnate in the first half of 2018

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Foreword



Dear readers,

Since the late 1990s, trading in rented housing portfolios and entire housing companies has grown steadily and become a subject of increasing interest to the general public. The BBSR records current market events in its Housing Transaction Database. Every six months, we publish analysis results on the development of transactions and the market structure.

In the first half of 2018, the number of transactions relating to rented apartment portfolios continued to fall, although the trading volume increased slightly. Only few portfolios were on sale and investors' demand far exceeds the supply. The number of transactions for small portfolios between 100 and 800 housing units also fell. Listed public companies continue to dominate the market. In the first half of the year, they were responsible for the only major housing transaction with more than 10,000 housing units.

We hope you find this publication interesting.

Dr. Robert Kaltenbrunner
Deputy Director of the Federal Institute for Research on Building,
Urban Affairs and Spatial Development

BBSR Housing Transaction Database

The BBSR database has been recording housing portfolio transactions with 800 units and above since 1999. Since the second half of 2006, it has also recorded transactions with smaller housing portfolios of between 100 and 800 units. The database is developed through systematic research of a range of print and Internet sources. The data sources are regarded as reliable.

Despite the good quality of the sources and careful processing, the BBSR assumes no liability, guarantee or warranty for the correct, complete nature of data in the Housing Transaction Database, or its suitability for a specific purpose.

Slight increase in the transaction volume in the first half of 2018

Sales activities on the German housing portfolio market declined slightly in the first half of 2018. While the number of transactions continued to fall, the number of traded housing units increased. The reason for this is a takeover in the public listed housing corporation sector.

The BBSR Housing Transaction Database shows that in the first half of 2018, fewer transactions were recorded than in the preceding years. Thus the trend of recent years is continuing, as the number of transactions has fallen for the fifth year in succession: while there were 51 transactions in the whole of 2013, that figure fell by around a third to 33 transactions in 2017. In the first half of 2018, only 11 transactions were recorded, so a further reduction can be expected for the full year 2018 (see Fig. 1).

However, the sales volume, i.e. the number of traded housing units, has actually increased. In the first six months of 2018, 49,200 housing units were traded in portfolios of 800 units or more (see Fig. 2). Thus, 84 % of last year's trading volume has already been achieved by mid-year.

Single major transaction significantly increases transaction volumes

The significant increase in the transaction volume is the result of the first major transaction (over 10,000 housing units) since 2016. In the spring of 2018, Vonovia SE took over around 91 % of the Austrian BUWOG AG in two stages, representing a volume of around 24,700 traded housing units. In 2017, there had been no transactions of that size. Vonovia SE was also responsible for the last acquisition of that order, when it took over a large share of Conwert Immobilien Invest SE in December 2016.

The takeover of BUWOG AG is a major transaction that forms half of the entire sales volume during the first half of 2018. In the second boom period between 2012 and 2015, major

Figure 1

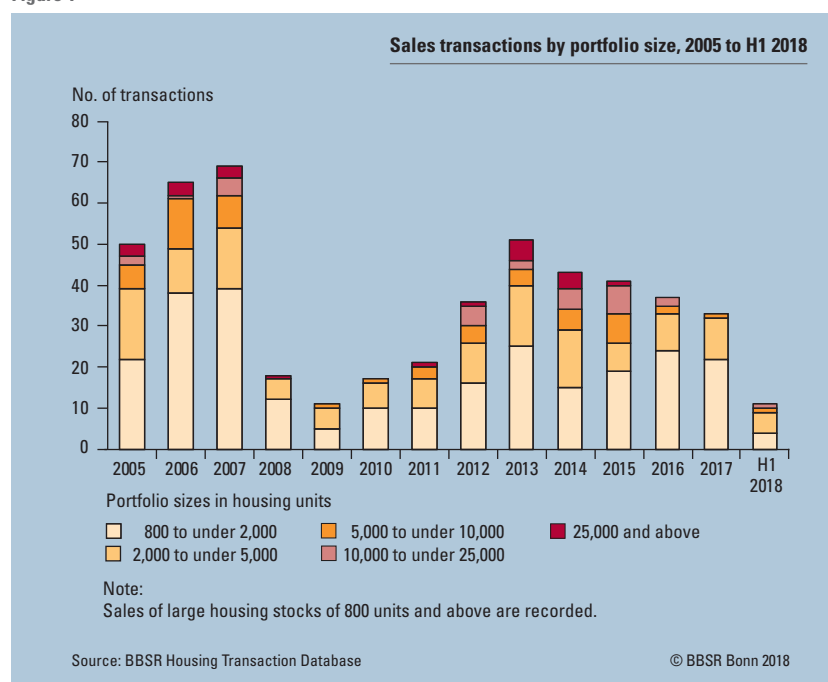
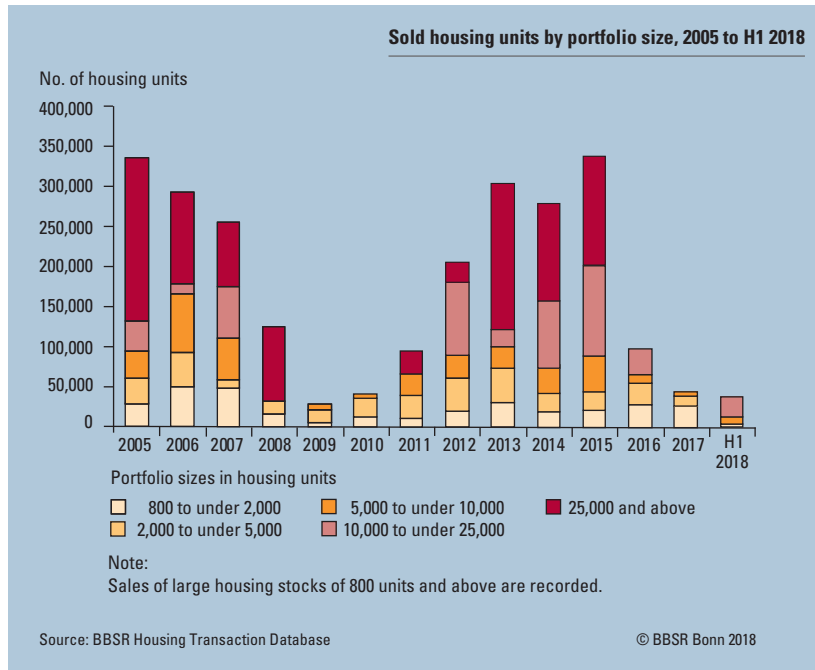
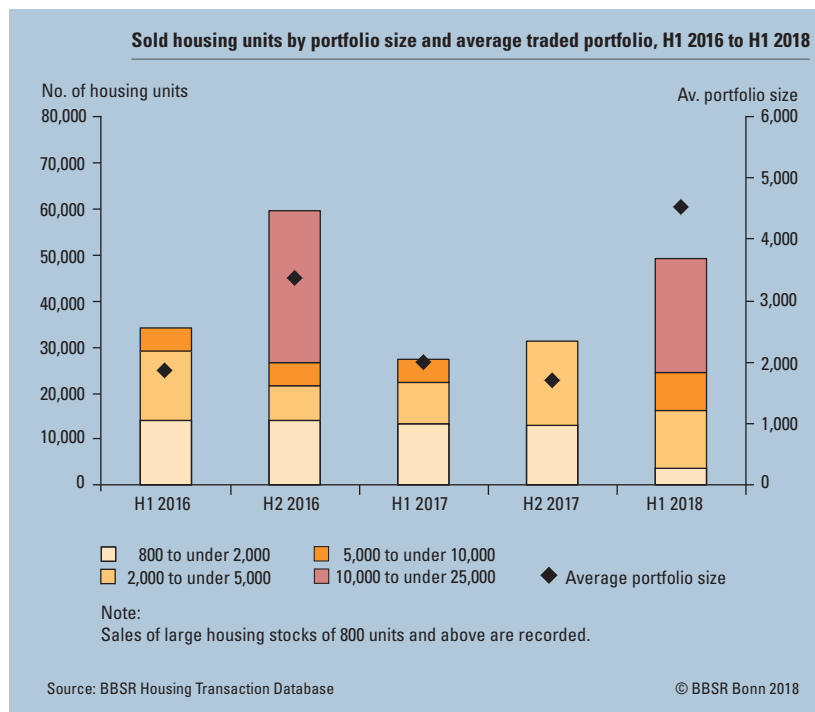


Figure 2


transactions with 10,000 units and above still decisively influenced the market volume, with a proportion of between 61 % and 74 %. In 2016, that proportion fell to 35 % and last year it was 0 %. By comparison, medium-sized rented housing portfolios play only a minor role with respect to the volume of traded housing units in the first half of 2018. The four transactions with between 800 and 2,000 units represent only 8 % of all housing units sold. In 2017, the significance of the 22 transactions in that category had been considerably higher at 45 %.

With respect to the number of transactions, however, medium-sized portfolios continue to dominate: four sales were carried out in the segment between 800 and 2,000 housing units, while there were five in the next higher category of 2,000 to 5,000 units. Thus, the two categories together form over 80 % of recorded sales. Nevertheless, this figure represents a considerable reduction compared to the two previous years, which were characterised by low market activity and few transactions in those segments (2016: 90 %, 2017: 97 %). During that period, portfolio sales in the 800 to 1,000 segment alone represented two thirds of all sales, while in the first half of 2018, they only account for a third of recorded transactions.

Figure 3


Average portfolio size growing

The low number of sale transactions and the comparatively higher number of sold housing units in recent years also have an effect on the average size of the traded housing portfolio, which is now noticeably larger at 4,500 units compared to the average in the previous two years, which ranged between 2,500 and 1,800 units per transaction. The current value is still significantly lower than the overall database average of 5,700 traded housing units and far from the average values achieved during the two booming periods, with up to 14,000 traded units per transaction.

Half-year perspective highlights growth in trading volumes

Looking only at the values of the past five half-year periods since the end of the second boom in transaction

activity, the past six months stand out with a larger transaction volume: the almost 50,000 traded housing units represent the second highest half-year value and are only surpassed in the second half of 2016, when 60,000 units were traded on the transaction market (see Fig. 3). In 2017, approximately 27,000 and 31,000 units were sold respectively, which are significantly lower levels.

However, it would be inaccurate to speak of new market dynamism in this context. The number of sales continues to be low and hardly any portfolios are offered for sale on the market. Furthermore, the takeover of BUWOG AG was a major transaction that forms half of the entire traded volume. Without that stand-out transaction, the sales volume would have stagnated at the level of six-monthly values in 2017. Further transactions of that magnitude are not in sight at present. The current period resembles much more closely the trough between 2008 and 2011 –

at least with respect to sales values – as market dynamism also decelerated and transaction activities almost ceased completely.

Nevertheless, the background to those two low periods is different: with the onset of the global economic and financial crisis in 2008, the financial sector acted more cautiously and investors hardly found any purchasers for their stocks; by contrast, there has been a strong shortfall in the supply of offers for a number of years, with great interest on the demand side.

Private investors the only buyers' group active on the market

Private investors define the German transaction market. Above all the group of public listed corporations determines the market dynamism. Some parties are active both as buyers and as vendors

Public sector not active on the market

Of the 3.38 million traded units recorded by the BBSR Housing Transaction Database, private investors were the key active group during the observed period, with 87 % of bought and 63 % of sold housing units. For many years, private investors have dominated the German transaction market, while the public sector has been noticeably withdrawn.

Once again in the first half of 2018, private investors are the dominant group of buyers and vendors: all eleven purchases were carried out by that group. Nine sales were also performed by the group, while both of the vendors in the remaining two transactions are unknown. Thus,

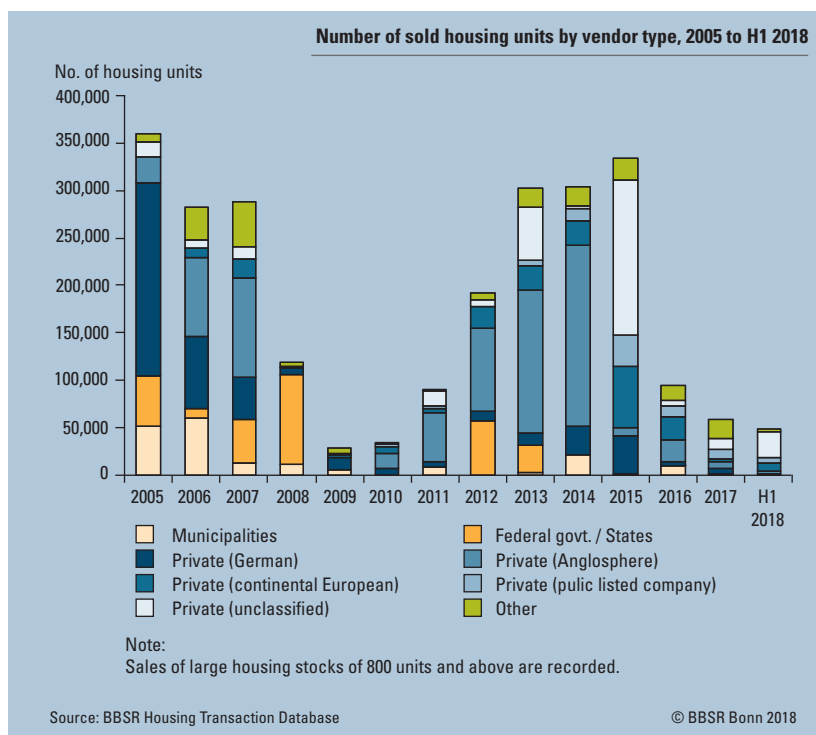
rented housing portfolios on the German market are experiencing a shift in stocks between different private parties pursuing contrasting strategies. The Federal Government and federal states were last involved on an individual basis in 2016, both on the vendor and buyer side, having previously sold public stock, mainly until 2013.

In recent years, there has been regular municipal activity on the German transaction market, albeit mostly on a small scale; there have been no large sales for a number of years. Instead, many municipalities – especially on tense markets – have become more aware of the importance of their own stock to housing policy and are looking to expand stocks with new construction measures and by buying project developments. One new BBSR research initiative is studying that development: the ExWoSt project “Expanding municipal housing stock as a strategy of housing policy” systematically studies the different strategies of municipalities and their housing associations in expanding their stock. The project will continue until 2020.

Listed real estate corporations as market participants

Instead, private participants with a variety of investment backgrounds currently play a decisive role on the German transaction market: all of the 49,200 purchased housing units and all sold housing packages where the vendor is known were made by that group (see Fig. 4). Sales are dominated by private owners without classification, above all the shareholders of BUWOG AG, which

Figure 4



was largely owned by free-float shareholders before the takeover by Vonovia SE. Furthermore, continental European private investors were active with 9,200 units, representing around 20 % of the market volume, as well as listed public corporations without controlling ownership, with 5,900 housing units (12 % market share). German and Anglosphere corporations have hardly sold any of their stock: with 2,000 units respectively, they each represent 4 % of sold housing units.

On the buyer side, listed companies dominate, as has been the case in recent years: 35,000 housing units were purchased by real estate companies, which thereby form the most important group of buyers for the fourth year in a row (see Fig. 5). In recent years, their share of the market volume has been between 28 % and 59 %, but in the first half of 2018, that figure even increased to 71 %, underlining their growing importance in recent years. In addition to Vonovia SE, another active investor with a major transaction was Adler Real Estate AG: in March, it acquired 70 % of Brack Capital Partners, which has a portfolio that includes former municipal housing in Leipzig as well as extensive stock in the Ruhr region and northern Germany.

Furthermore, Anglospheric companies participated on the German transaction market with 13 % of purchased housing units, while German investors represented a share of 12 %. Anglospheric companies bought 6,300 additional units in three transactions. Thus, as in 2017, their trade balance saw a slight increase in the first half of 2018 at over 4,000 units. Previously, Anglospheric investors had sold more housing units than the number of purchases for seven years

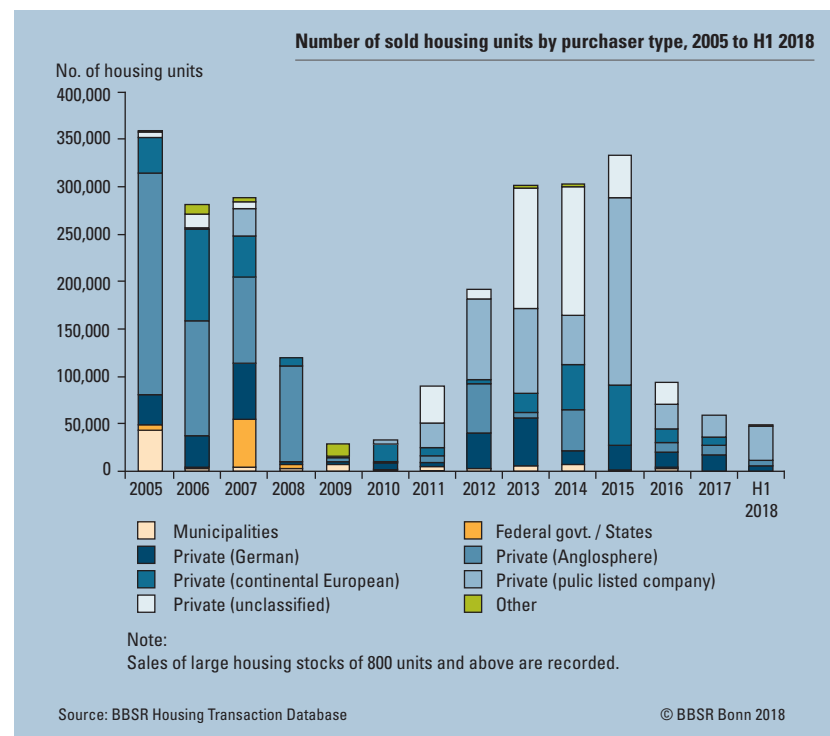
in succession. German investors bought 5,900 units in the first six months of this year. In this context, ZBI AG should be mentioned since together with Union Investment, it acquired 5,000 housing units for the public fund Unilmmo: Wohnen ZBI in the first half of the year, including purchases from Vonovia SE.

The strategies of real estate companies

Consolidation of listed housing corporations was further advanced in the first half of 2018. Vonovia SE has continued to expand its housing stock,

as it has done in recent years, with the takeover of BUWOG AG. However, listed real estate companies are not only expanding their stock through takeovers; they also use the current excess demand to sell housing packages that do not form part of their core stock to optimise their portfolio. For instance Vonovia SE and Adler Real Estate AG, the two companies that carried out the greatest additional purchases in the first half of 2018, also sold stock. Vonovia SE sold almost 3,500 units in Zwickau and the Upper Palatinate region, while Adler Real Estate AG has sold a large proportion of its non-core stock to Benson Elliott Capital from Great Britain.

Figure 5



Falling number of small transactions

Like major transactions for 800 housing units and above, the number of sales of small housing packages has also declined. Due to the low overall transaction volume, their market share of the overall trading volume is nevertheless above average.

Lowest half-year balance for four years

The number of small transactions for between 100 and 800 housing units recorded by the BBSR Housing Transaction Database has fallen for the first time in three years and represents the lowest level since the first half of 2014. While market dynamism with respect to small housing stocks remained high in recent years despite the change in trading with portfolios with 800 units or more, it is now becoming apparent that there is also a shortage of available housing portfolios in the smaller portfolio segment. The number of registered small transactions in the first half of 2018 fell to 36 sales.¹ In the last four years, the respective number of transactions was always at least 40.

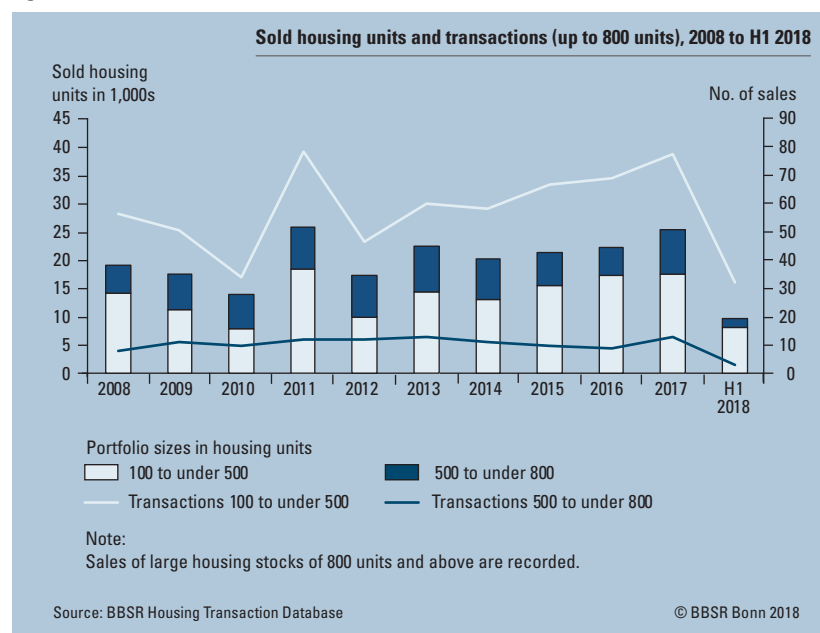
(see Fig 6). The result is therefore around 25 % lower than the market volume in the two respective half-year periods in 2017 and highlights the declining transaction activity. In the last five years, the average half-year transaction volume was 11,900 housing units; the last time the number of traded units was below 10,000 was in the first half of 2014.

Traded portfolios becoming smaller

Not only the number of recorded transactions decreased in the first six months of this year, but also the sizes of traded housing packages. For instance 33 of the 36 transactions – i.e. 92 % of sales – were portfolios with 100 to 500 housing units. That represents the highest proportion since small transactions were recorded. There were only three transactions with portfolios of 500 to 800 housing units and these only just

(1) It should be noted that the coverage rate of actual transaction activity and the researched transactions deteriorates with falling transaction numbers.

Figure 6



exceeded the threshold with volumes of just over 500 units. The segment's share of the transaction volume is thereby 16 %, which is significantly lower than in previous years.

German companies especially active

Private companies dominate the market activities as vendors and buyers in the sector of small transactions for stock between 100 and 800 housing units in the first half of 2018. They are responsible for the transaction dynamism, with a majority of sales (58 %) and all the purchases (100 %).² Their importance with respect to overall transaction activity has thereby increased further: while in recent years, there were several small transactions where public participants were active as vendors and buyers, in the first half of 2018, the public sector has completely withdrawn from that market segment.

Above all German companies are active on the transaction market with small portfolios. In the first six months of 2018, they sold 2,600 and purchased 5,700 housing units, representing a market share of 27 % and 58 % respectively.³ Although domestic owners were already the key group of investors in recent years, their current market share once again exceeds their previous level. Deutsche Invest Immobilien GmbH, arsago Real Estate and Magna Asset Management purchased small housing portfolios in two transactions each. In recent years, many current purchasers also participated on the market as buyers and have been able to expand their housing stock despite the fact that there are hardly any available portfolios. By contrast, some foreign buyer groups have had particular difficulties with small

housing packages since they cannot draw on regional knowledge of the market and local networks.

Companies participating both as buyers and vendors

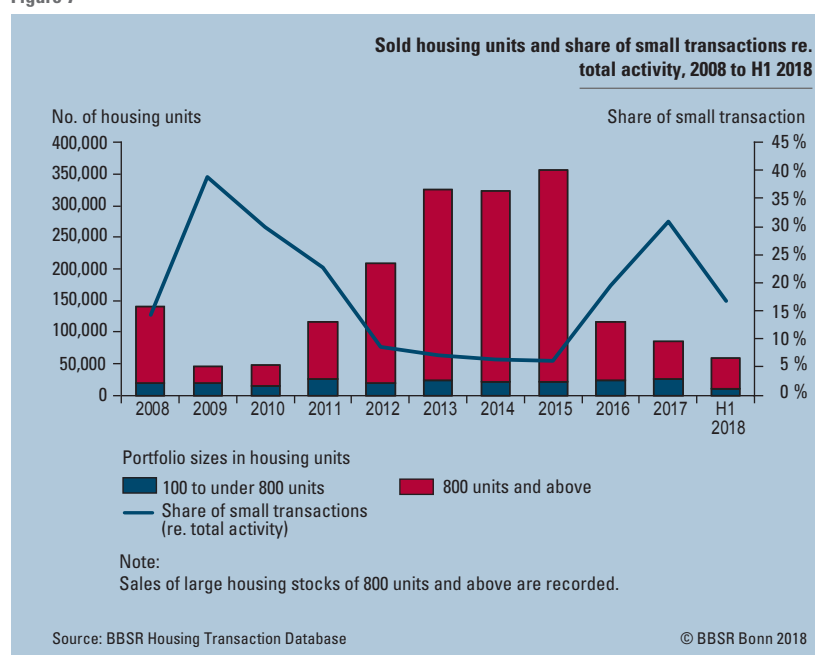
Publicly listed companies that have decisively influenced the German transaction market in recent years also play a key role in small sales in the first half of 2018: their proportion of market activities in recent years has been between 5 % and 10 % of sales and between 12 % and 18 % of purchases. In the first half of 2018, listed companies without a controlling shareholder sold 500 housing units (5 % of the market share) and also purchased 1,500 housing units (15 % of the market share). The ownership group of Anglosphere and continental European investors is also active as vendors and buyers, thereby

completing the groups of participants with respect to small transactions: both are responsible for 5 % of purchases, and 15 % and 11 % respectively of sales.

Several investors acted both as vendors and buyers, underlining the assumption that many are not only expanding their stock, but also using current the high prices to sell stock that is not part of their core portfolio. For instance Accentro Real Estate AG, Domicil Real Estate and Deutsche Invest Immobilien GmbH, among others, all acted both as buyers and vendors.

- (2) The low level of vendors is above all due to the fact that there is very little information on vendors among small transactions. In the first half of 2018, almost half of all vendors are unknown.
- (3) The vendors are unknown in around half of all small transactions in the first half of 2018.

Figure 7



Importance of small transactions continues to be above-average

In the first half of 2018, a total of 47 sales with more than 100 housing units was recorded, representing a total number of 59,100 traded housing units. More than three quarters of transactions are in the segment of small sales of portfolios with fewer than 800 housing units. By comparison, around a quarter of

sales are major transactions with more than 800 housing units. In the second boom period between 2012 and 2015, the market share of major transactions was almost 40 %. The current market activity is dominated by small transactions with respect to the number of sales.

The market volume continues to be determined by major transactions. In the first six months of 2018, the market share of transactions

between 100 and 800 housing units was 17 %, which was thereby at times significantly lower than the two preceding annual levels of 31 % and 20 %. However, it is far higher than the level between 6 % to 9 % during the years of the second boom period of transaction activity until 2015.

The long-term average since small transactions were recorded is 12 %. Thus the value for the first half of 2018 is slightly above that average.

Conclusion and outlook

In the first half of 2018, the trend of recent years has continued on the transaction market with respect to housing stock portfolios: the number of sales has declined further. That applies to transactions with stocks of 800 units or more and to trade with smaller housing packages with 100 to 800 housing units. Thus for the first time, the number of small transactions has also fallen. It appears that market participants' ability to switch to small portfolios is dwindling.

However, the trading volume of transactions with 800 units and above has risen significantly. The increase is due to one major transaction in which almost 25,000 units were sold. The listed housing companies that already dominated trading activity

in recent years have continued to expand their stock and consolidate their portfolios through sales.

In addition to further acquisitions, the active parties on the market – above all listed real estate companies – are also seeking alternatives to generate growth. For instance the largest German housing company, Vonovia SE, is planning the development of 2,000 housing units a year in a modular construction method. Furthermore, Vonovia SE has begun internationalising its stock by taking over BUWOG AG and the Swedish Victoria Park. In addition to housing units in Germany, BUWOG AG also owns around 21,500 housing units in Austria, while Victoria Park has a stock of 14,000 units that are exclusively in Sweden. Deutsche

Wohnen AG is pursuing a different growth strategy by purchasing nursing home portfolios. Other market participants such as Adler Real Estate AG are buying new development projects in forward deals.

Further major transactions and corporate takeovers are not currently in sight, so it can be assumed that individual sales of small and medium-sized portfolios will continue to define the market activity in the second half of 2018. At the same time, continued demand is to be expected: listed housing companies focus on growth strategies and the purchasing pressure on investors such as insurers and pension funds is high since interest rates remain low.



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