Dynamic market for rental flat portfolios

After sellers and investors, due to the economic and financial crises in the past years, were markedly reserved with respect to housing stock transactions, that market showed visible signs of movement again in 2011.

This issue presents the current sales situation involving major housing stock in 2011:

- **Number of rental flat transactions up significantly**
- **International financial investors instrumental in transactions of major housing stock**
- **Portfolio prices rising on the national average**
- **Almost no transactions of new major portfolios**
- **Berlin – currently spatial centre of transaction activities**
Since the end of the 1990s, more and more major rental flat portfolios and/or entire housing companies have been sold in Germany’s rental housing market. The BBSR (German Federal Institute for Research on Building, Urban Affairs and Spatial Development) maintains a Housing Transactions Database to observe the essential developments of the sales and to analyse the resulting changes in the supply structure in Germany. The BBSR has evaluated the database on a regular basis since 2008. The current results of transactions in 2011 are presented in this issue.

Sincerely

(Director and Professor Harald Herrmann)
Number of housing transactions up significantly

Following two years of very little transaction activity, the German market of rental housing stock is currently picking up speed again. The number of unit transactions in larger portfolios and in smaller ones increased noticeably over the previous year.

New increase in major portfolio sales

Last year, the German market of housing portfolios showed a clear increase in transaction activity. In 21 sales of major housing stock of 800 units and up, a total of around 90,200 units changed hands in 2011. Compared to the relatively smaller sales scope of the two previous years of 33,500 (2010) and 28,300 (2009) flats sold, the transaction volume nearly tripled in 2011. Thus, the transaction activity of housing portfolios in 2011 is back to where it was prior to the boom years 2004 to 2007 (cf. Figures 1 and 2).

Almost half of the flats traded in 2011 can be attributed to the exit of the investors Cerberus and Goldman Sachs from the Berlin housing company GSW Immobilien. When GSW Immobilien went public, the owners Cerberus and Goldman Sachs divested in spring 2011 60 % of the company at first, which represents around 30,000 units. In October 2011 they sold another 20 %. At the beginning of 2012, the investors sold the remaining 20 % and thus pulled out entirely from the investment. Another major transaction in 2011 also involved a public company: this was the takeover of a total of approx. 70 % of the shares in Colonia Real Estate AG by TAG Immobilien AG in two purchase activities at the beginning of the year and in summer 2011; as part of the process, around 13,000 units were traded. In the biggest portfolio sale of the year, the American financial investment company Blackstone Group acquired a partial portfolio of around 6,800 units from the insolvency of Level One Group. Seven of the registered major transactions involved housing stock in the range of 2,000 to 5,000 flats. An additional ten portfolio sales occurred in the segment 800 to under 2,000 units.

Among transactions of 800 units and up, there was more trade in housing portfolios than there were (partial) company sales in 2011, like in the previous years. While in 2009 and 2010, a very low sales volume brought up a tangible reduction in the size of portfolios traded, 2011 saw again, on average, sales of larger portfolios.

(1) In looking at the transactions, it seems meaningful to include IPOs of housing companies as well, because the sale of companies and/or company shares on the stock exchange represents an option for exiting (partially) from the original investment.

Figure 1

Flats sold according to portfolio size 1999 to 2011

<table>
<thead>
<tr>
<th>Portfolio size in housing units</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
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<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
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</thead>
<tbody>
<tr>
<td>800 up to under 2,000</td>
<td>50</td>
<td>60</td>
<td>70</td>
<td>80</td>
<td>90</td>
<td>100</td>
<td>110</td>
<td>120</td>
<td>130</td>
<td>140</td>
<td>150</td>
<td>160</td>
<td>170</td>
</tr>
<tr>
<td>2,000 up to under 5,000</td>
<td>350</td>
<td>360</td>
<td>370</td>
<td>380</td>
<td>390</td>
<td>400</td>
<td>410</td>
<td>420</td>
<td>430</td>
<td>440</td>
<td>450</td>
<td>460</td>
<td>470</td>
</tr>
<tr>
<td>5,000 up to under 10,000</td>
<td>35</td>
<td>40</td>
<td>45</td>
<td>50</td>
<td>55</td>
<td>60</td>
<td>65</td>
<td>70</td>
<td>75</td>
<td>80</td>
<td>85</td>
<td>90</td>
<td>95</td>
</tr>
<tr>
<td>10,000 up to under 25,000</td>
<td>5</td>
<td>6</td>
<td>7</td>
<td>8</td>
<td>9</td>
<td>10</td>
<td>11</td>
<td>12</td>
<td>13</td>
<td>14</td>
<td>15</td>
<td>16</td>
<td>17</td>
</tr>
<tr>
<td>25,000 and higher</td>
<td>0</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>7</td>
<td>8</td>
<td>9</td>
<td>10</td>
<td>11</td>
<td>12</td>
</tr>
</tbody>
</table>

Note:
Sales of large housing stock of 800 flats and up are taken into account.
Data source: BBSR Housing Transaction Database
Particularly sales of companies and/or company shares, due to the aforementioned share sales, with an average of around 10,000 flats, were up significantly in 2011 compared to 2009 and 2010 (average of around 3,100 flats). However, the average portfolio size of portfolio sales increased only slightly from around 1,900 flats (2009 to 2010) to around 2,000 housing units (2011).

Trade in smaller housing portfolios was also dynamic

Apart from the increase in major transactions, there was also again more investment in the purchase of smaller housing portfolios of 100 to under 800 units in the past year. In this market segment, only 14,300 housing units were sold in 2010. In 2011 the number of traded units went up compared to the previous year, by around 89 % to approx. 26,900 units. After 2007 when 33,500 flats were traded, this constituted the highest number of sales of smaller portfolios in the period under review (2006-2011). The increasingly growing demand for smaller portfolios in 2011 is especially significant in the sales transactions. A total of 95 smaller portfolio sales were recorded, which is twice as many as in 2010 (cf. Figure 3).

The smaller sales observed have gained in growing importance in the entire transaction volume in recent years. The share of smaller portfolio transactions recorded, measured against total sales figures, was at around 9 % in the period from the second half of 2006 to the first half of 2008. Against the background of a sharp drop in the sales figures of major portfolios of 800 units and up since the second half of 2008, the smaller portfolios between 100 and 800 units of flats sold accounted for around 40 % of all units traded in the transaction market by the end of 2010. Last year, around 117,200 flats were sold in 116 portfolios of 100 units and up. In terms of smaller transactions (100 to under 800 units), thus, one in four flats changed hands. Accordingly, the share of smaller portfolio sales was still relatively high despite the substantial gain in sales of major portfolios in the previous year.

Research project regarding sales of smaller rental unit stocks

To obtain more detailed information on the quantities and structures of housing stock sales of under 800 flats, the IfS Institut für Stadt- und Strukturpolitik GmbH (an institute specialising in urban studies and structural policy) was commissioned by the BMVBS (German Federal Ministry for Transport, Building and Urban Development) and BBSR to carry out a study². For the analysis of sales of smaller housing stock, primarily data from the valuation boards and/or higher valuation boards were used.

According to the result of the IfS projection, a total of approx. 2,100,000 flats in multi-family dwellings were traded in Germany as part of smaller transactions (under 800 housing units) between 2000 and 2008. These transactions are substantially characterised by trade in individual properties (multi-family dwellings) and small housing portfolios with generally less than 100 flats. During that period, somewhat more flats in smaller stock were traded than in large portfolios of 800 units and up (1,835,000 flats). Overall, the total volume of large and small transactions between 2000 and 2008 amounted to around 3,931,000 rental flats, which corresponds to an average annual turnover of around 1% of the housing stock.

The findings of the study also show that small housing stock is traded to a large degree among small private proprietors and conventional institutional investors (active in the German market for a long time),
whose market behaviour is less dependent on demand trends. This also explains the lower fluctuation in annual sales figures relative to the major transactions (cf. Figure 4). Only in the boom years 2006 to 2007, due to the attractive sales prices and high demand, did small private proprietors also increasingly sell to commercial and/or new investors (international investors, opportunity investors), resulting in a certain shift of stock among groups of owners until the financial crisis hit. Since then, small private proprietors and commercial investors have become equally active as sellers and buyers again. Given the heterogeneous composition of the groups of buyers and related purchasing motives, the smaller transactions, due to a more stable demand, are, overall, less susceptible to short-term market fluctuations than the large transaction market segment, which is more sensitive to the arrival or departure of new investors.

As a result of stronger demand for security- and asset-based investment properties after the financial market crisis of both private individuals and institutional investors, the IfS expects an increase in the sales figures of smaller housing stock.

**Figure 3**

<table>
<thead>
<tr>
<th>Sales transactions (in thousands)</th>
<th>Portfolio size in housing units</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-100</td>
<td>100 to under 800</td>
</tr>
<tr>
<td>100-200</td>
<td>Sales transactions 100 to under 800</td>
</tr>
<tr>
<td>200-300</td>
<td>800 and higher</td>
</tr>
<tr>
<td>300-400</td>
<td>Sales transactions 800 and higher</td>
</tr>
</tbody>
</table>

**Note:**
Sales of housing stock of 100 flats and up are taken into account. Data source: BBSR Housing Transaction Database

**Figure 4**

<table>
<thead>
<tr>
<th>Flats sold according to portfolio size 2000 to 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Flats in 1,000</td>
</tr>
<tr>
<td>Sales of smaller stock under 800 flats</td>
</tr>
</tbody>
</table>

**Note:**
*2008 estimate based on survey done by AK-9GA
Data source: BBSR Housing Transaction Database, AK-9GA, selected valuation boards, calculations of IfS
International financial investors instrumental in transactions of major housing stock

Foreign investors, as buyers and sellers, shaped the market events of large transactions in 2011, and in total they bought around 4,500 more flats than they sold. The market for smaller housing portfolios, however, was characterised by German buyers of the private sector with a share of approx. 52 % of the total volume.

Municipal housing stock is sold less often

As part of large portfolio sales of 800 units and up, a total of 2.06 million flats were traded across Germany between 1999 and the end of 2011. Of that number, the public sector sold a total of around 917,000 flats (45 %); municipalities sold around 385,000 flats, and the federal government and states around 532,000 flats.

Private sector companies represent the largest group of sellers. In the entire period under review, they sold approx. 1.028 million flats (cf. table). In the last three years, municipalities sold stock only rarely (cf. Figure 5). While there was not a single major sale of municipal housing stock in 2010, three municipal sales took place in 2011 for a total of around 8,200 flats.¹ One sale between municipalities represented the largest transaction in this context: as part of a takeover of a subsidiary of Corpus Sireo – a German real estate company with majority municipal shareholdings – two municipal housing companies, Degewo and Gesobau, acquired around 4,700 flats in Berlin. The other two municipal sales involved partial sales: in one case, the transaction served to pay off the debt of a municipal housing company, and in the other case, it was done to finance new construction.

The biggest share of units traded in 2011 was sold by international financial investors (around 58,700 flats). Investors Cerberus and Goldman Sachs, with their two biggest transactions in 2011, gradually pulled out of their investment in GSW. Fortress, too, sold in 2011 a larger housing portfolio of 4,800 housing units and three other smaller portfolios with a total of 1,500 flats.

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Note:
Discrepancies in sum total due to rounding; sales of large housing stock of 800 flats and up are taken into account.
Data source: BBSR Housing Transaction Database

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(1) For the ranking of municipal housing and the sales of municipal housing stock, see BBSR (ed.): Informationen zur Raumentwicklung (IzR), Issue 12.2011: Kommunale Wohnungsbestände aus verschiedenen Perspektiven. [Different perspectives of municipal housing stock.]

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<table>
<thead>
<tr>
<th>Sales and purchases differentiated by type of owner/investor</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sales</strong></td>
</tr>
<tr>
<td>Flats</td>
</tr>
<tr>
<td>-------</td>
</tr>
<tr>
<td>Public sector</td>
</tr>
<tr>
<td>Municipality</td>
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<tr>
<td>Federal/State</td>
</tr>
<tr>
<td>Private</td>
</tr>
<tr>
<td>German private sector company</td>
</tr>
<tr>
<td>Companies, Anglo-Saxon, overseas</td>
</tr>
<tr>
<td>Companies, Continental Europe, overseas</td>
</tr>
<tr>
<td>Private owner without classification</td>
</tr>
<tr>
<td>Other</td>
</tr>
<tr>
<td>(cooperation, church, no information, etc.)</td>
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<tr>
<td>Total</td>
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</table>
Foreign financial investors were the dominant buyers in 2011. In 11 of 21 transactions, they acquired around 70% of the flats traded. German private sector companies engaged in 11 purchases, buying around 25% of flats traded in large portfolios. On the buyers’ side, TAG Immobilien AG stepped up its activity in 2011 and acquired, besides a majority stake in Colonia Real Estate, a larger portfolio with over 3,000 flats as well as three smaller portfolios of 400 to 600 units. In addition, Corestate Capital AG from Switzerland made its presence felt as a key buyer in the German residential housing market by purchasing two large portfolios with a total of around 5,000 housing units. Of the around 2 million flats traded since 1999, approx. 57% were bought by foreign investors and 22% by German private sector companies. In the entire time period, the public sector bought around 15% of the flats.

German private sector companies are especially active in small purchases

When it comes to transactions for small housing stock of 100 to under 800 flats, German private sector companies dominated the trading activities in 2011. They sold over 40% of the flats traded in this market segment. Foreign actors sold only one in four flats. Municipalities let go of eight smaller portfolios with a total of 2,700 units. On the buyers’ side German private sector companies were the most active group of actors too. German private sector companies acquired about half of the flats traded in smaller portfolios in 2011. International financial investors purchased around a third of the smaller portfolios.
Large housing portfolios were traded for around EUR 4.6 billion in 2011. This more than tripled the investment turnover in this segment compared to 2010. The significantly higher annual turnover can be attributed, apart from the rise in sales figures, also to the increase in purchase prices.

More was paid again for housing portfolios in 2011

The purchase prices for large housing portfolios of 800 flats and up increased significantly on the national average in 2011 compared to the previous year. On average, around EUR 50,000 was paid for each flat in 2011, while housing portfolios in 2010 cost an average of approx. EUR 41,000 per flat. At the end of the boom in transactions in 2007, the purchase prices had reached, due to strong demand especially among large international investors, a price level of around EUR 53,000 with a relatively smaller supply of housing stock. In 2008 the collapse in transactions resulted in a price decline in view of the financial crisis. But with the purchase prices mentioned, one must consider that the average purchase prices are partly affected by individual circumstances as well as differences in structure and location, which creates more pronounced fluctuations. Thus, the average purchase price in 2008 was noticeably dominated by the sale of LEG NRW at a relatively low sales price. With an overall lower transaction volume in 2009, sales of some higher-priced portfolios resulted in a relatively high price level. In 2010 and 2011, the spread in portfolio sizes and prices was rather minimal. What is more, the average price is less affected by individual cases, because the two major corporate sales traded on the stock exchange in 2011 are not factored into the price calculation.

The purchase prices of small housing portfolios (100 to under 800 units) exhibit a substantially larger margin than those of large portfolios. For some small portfolios, significantly more than EUR 100,000 is paid for a flat. The average purchase price for smaller stock amounts in 2011 was around EUR 60,000 per flat. This segment has seen a growing price trend already since 2010: the average purchase price per flat in 2009 was EUR 51,000 and in 2010, EUR 57,000 (cf. Figure 6).

New increase in investment volume in 2011

With the result of significantly increased sales figures and positive purchase price trends, the investment turnover for major housing stock portfolios rose again noticeably in 2011 (cf. Figure 7). Around EUR 4.6 billion was invested in 2011 as part of larger transactions involving housing stock of 800 units and up. While between 12.9 and EUR 17.4 billion was moved in the boom years from 2004 to 2007, the investment volume since 2008 had been on a steep decline (EUR 4.4 billion). Only EUR 1.6 and/or 1.4 billion was turned over in 2009 and 2010, respectively. This trough was cleared in 2011.
Almost no transactions of new major portfolios in 2011

First-time sales are rather low across the country measured against the total housing stock

Of the housing units traded as part of major portfolio transactions in Germany between 1999 and 2011, first-time sales accounted for 1.42 million, and 630,000 flats changed hands several times throughout that time period (so-called resales4). Thus, in that period under review, around 3.5% of the entire housing stock in Germany was sold as part of major transactions (first-time sales). The major transactions in 2011 are predominantly characterised by resales totalling 84,600 traded flats, compared to only around 5,600 flats traded for the first time.

Resales reach highest share in 2010 and 2011

Resales have gained immensely in importance with respect to transactions of 800 units and up, particularly in the last two years. In 2010 and 2011, it was almost only portfolios coming on the market that had been traded before. Seventeen of the 21 major transactions of the past year involved resales. During the boom of the German transaction market, the ratio of flats sold multiple times rose to over 50% in 2006 and 2007, and resales thus became a crucial partial segment. With the onset of the financial crisis, resales virtually stopped in 2008, and in 2009, too, only relatively few resales occurred. With an overall low transaction level in 2010, resales of flats reached again a relatively high share of 84% of all flats traded. This share was exceeded once again in 2011. With a sharply increased transaction volume in 2011, the ratio of resales of flats is now 93%.

(4) Resales are cases where flats were subject to at least one transaction already from 1999 on.
**Berlin – currently the spatial centre of transaction activities**

Investors’ interest is currently focused on Berlin. In total, Berlin accounts for around 59% of the flats traded in large portfolio sales in the last two years. Smaller portfolios were traded at 30% of all flats sold mostly in North Rhine-Westphalia.

**States and cities affected differently by transactions**

The geographical distribution of transaction activities of major housing portfolios according to states shows significant regional differences. In the entire period from 1999 to 2011, in absolute terms, the most flats by far were traded in North Rhine-Westphalia (529,000 flats) and Berlin (476,000 flats). If one looks at the volume of flats traded for the first time in relation to the overall housing stock, a slightly different picture emerges. This share is the highest in the city states – 15% in Berlin, 7% in Hamburg and 5% in Bremen – and is thus in some areas significantly above the national average. Schleswig-Holstein is the territorial state with the highest share of first-time sales measured against the overall housing stock (cf. Map 1). In some cities, individual transactions can account for relevant shares of the local housing stock. Thus, for example, the sales of the housing company Jade in Wilhelmshaven and WOBA in Dresden resulted in the sale of 17% and/or 18% of the entire housing stock.

Regional differences were also identified in the seller and buyer structures. These vary greatly between states: in North Rhine-Westphalia, sales by municipalities in the period mentioned constituted only a relatively small share, at 3%, of all flats traded. In Thuringia,
however, most (85 %) of all flats sold, by far, are former municipal stock, but with a rather small total sales volume of around 42,000 flats. In Hamburg, too, at 58 % (sale of GWG to the municipal subsidiary SAGA), and Saxony, at 57 % (particularly due to the sale of WOBA Dresden to GAGFAH), it was mostly municipal flats that were sold. What is more, in Berlin municipal stock accounts for an above-average high share of 36 % of flats sold. Sales in Bavaria (63 %) and Hesse (61 %) were dominated by sales by federal and state governments. In North Rhine-Westphalia, the share of flats sold by federal and state governments amounts to 31 %, slightly above the national average. Here, most flats (47 %) were sold by German private sector companies. Other states with a high share of flats traded that were sold by German private sector companies are Lower Saxony (42 %) and Schleswig-Holstein (38 %). When it comes to sales in state-to-state comparison, Saxony, at 90 %, and North Rhine-Westphalia, at 75 %, have above-average high shares of flats traded that were acquired by foreign financial investors. In addition, Bremen (70 %) and Baden-Württemberg (56 %) – with overall low sales volumes of 35,000 and/or 27,000 units – sold most flats to foreign investors (cf. Map 2).

Current focus of transaction activities is on Berlin

In the last two years, a high sales dynamic was seen, especially in Berlin: between 2010 and 2011, the transaction volume in Berlin amounts to a total of around 73,400 flats traded. This corresponds roughly to 59 % of all flats sold in Germany during that period. With such a relatively high share of the total transaction volume of major housing stock, however, one must consider that the IPO of the Berlin housing company GSW Immobilien alone resulted in around 39,000 flats in Berlin being sold. Very far behind are the two states with the next largest transaction volume over the last two years: North Rhine-Westphalia with around 14,700 units traded and Lower Saxony with about 14,500 flats sold.

Smaller housing stock portfolios of 100 to under 800 flats were traded in 2010 and 2011 primarily in North Rhine-Westphalia. Around 12,200 flats of the 41,000 flats traded in this market segment nationwide changed hands there. Berlin also exhibited a relatively high demand for smaller housing stock in that period, with approx. 7,500 flats sold.
Conclusion and summary

Some large-volume sales could be concluded in the future. With the renewed rise in sales activity, the market in 2011 overall moves back to a level similar to the time before the boom years 2004 to 2007. The German real estate market, very stable by international standards, still enjoys a good reputation, both at home and abroad, as a relatively low-risk investment location. Particularly the substantially increased number of transactions of smaller and medium-sized portfolios, as well as the positive price trend, are a reflection of the increased demand in the German real estate market. Financial investors also take advantage of the favourable market environment to exit investments and/or to improve their equity situation.

The BBSR expects a sustained and high sales dynamic for 2012 as well. Apart from the sale of LBBW flats (21,500) to private bidders, which was announced in February, the federal government and states are planning further major sales: 33,000 GBW flats and 11,500 TLG flats. As early as in January 2012, Cerberus and Goldman Sachs sold their remaining shares of approx. 20 % in GSW and, thus, around 9,800 flats. In addition, the housing stock of some housing companies that have found themselves in difficulty is up for sale. The 25,000 flats of Speymill Deutsche Immobilien Company that are under forced administration are to be offered on the market. Furthermore, the housing stock of the housing company Baubecon (24,000 flats) might be sold in the near future.