German merger mania has run its course, says PATRIZIA head of research

By Sophia Furber

The theme of consolidation in the German residential market has run its course, according to PATRIZIA Immobilien AG's head of research, Marcus Cieleback.

"We are more likely to see companies focus on optimizing their existing portfolios than trying to acquire competitors," he told S&P Global Market Intelligence on the sidelines of the Property EU European Residential & Student Housings Investment Briefing in London on Feb. 17.

Cieleback's comments come just shortly after Vonovia SE’s attempt to buy rival Deutsche Wohnen AG in a €14 billion deal failed thanks to a lack of support from shareholders.

German residential transaction values hit a record high of €25.0 billion in 2015, driven by a flurry of M&A in the listed market, according to research from JLL, as previously reported. This included the company formerly known as Deutsche Annington SA's acquisition of GAGFAH SA to create Vonovia.

Separately, Cieleback said during a panel discussion at the event that London was looking too expensive for institutional-scale residential investment. "You simply can't find things. If you have something to sell, I will talk to you," he told the audience.

House prices in London may be at the top of the cycle, but the market is not heading toward bubble territory because there is simply not enough new stock being built, he added.

John German, director, residential investments, Invesco Real Estate U.K., was also concerned about how expensive London residential had become:

"It's a challenge to get the right opportunities in London," he said during the panel discussion.

If capital values were to fall it would potentially create an opportunity for institutional investors work alongside house builders to take unsold homes off their hands and manage them, he said.

In answer to the question of how he would spend £500 million, PATRIZIA's Cieleback said he would look at residential property in Dublin where there is a huge housing shortage, and in Finland, which has been a "late starter" in terms of urbanization compared with its peers in Europe, and presents some good opportunities for residential investment.

Aleksandar Obradovic, chief investment officer of Deutsche Real Estate Funds, gave an upbeat presentation on German student housing:

"Germany is one of the most sought-after locations for education in Europe. There is an opportunity to invest in an under-managed market with fragmented ownership," he said. "Germany is better value for money for education than other European locations. We hope that the number of international students will increase in future."