

INVESTMENTS IN GERMANY UNDER COVID-19

TURNING A CRISIS INTO OPPORTUNITIES

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The COVID-19 pandemic has already been declared as history's gravest economic crisis. Chancellor Angela Merkel described the current situation as "the most challenging crisis we have faced since the Second World War." But history also shows numerous ways in which crises have offered unexpected benefits for societies and the world economy. Against this background, the current crisis may offer investors the opportunity to improve their competitive position and accelerate future growth through favourable investments. The purpose of this article is to provide an overview of the recent investment trends in Germany taking into account the current circumstances.

Dynamic Real Estate Market

In Q1 of 2020, €41.8 billion was invested in the German real estate market. Compared with Q1 of 2019, this represents an increase of 34%. The transaction volume in Q2 of 2020 fell by 52% to €13.6 billion. However, in view of the dramatic social and economic upheavals and the limited room for manoeuvre due to COVID-19, this is still a good result. This emphasizes the high confidence of investors in the German real estate market. By way of comparison, the total transaction volume in 2009 was just under €10.5 billion. This is the result of an analysis by the global real estate service provider CBRE. In Germany real estate investment activity continued to be dynamic, especially in large-volume deals. Despite the COVID-19-related lockdown and the recently lifted travel restrictions, which also made it more difficult to carry out transactions, 32 transactions with a total volume of €7.7 billion were recorded. In total, 74 transactions above the €100 million mark were recorded in the first half of 2020, totalling €26.8 billion. These figures highlight the strength of the German real estate investment market, which continues to be considered one of the most stable and safest investment destinations worldwide.

Digital Healthcare Revolution

Germany is one of the world's fastest-growing digital healthcare markets. Based on a report by Spitzenverband Digitale Versorgung e.V., the annual digital healthcare spending in Germany will rise to around \$40 billion by 2030, representing 8% of national healthcare expenditure. More than 80% of digital healthcare start-ups consider COVID-19 to be an opportunity rather than a threat to their business. This optimistic outlook is based on the fact that COVID-19 has increased public awareness of tech-enabled methods to manage one's own health. The combination of health and technology is probably causing the economic sector to focus increasingly on disease prevention. At the same time, small, highly specialized companies can also be attractive to investors. This is because the small and medium-sized companies are making a very significant contribution to innovation in both the healthcare industry and the technology sector.

Pharmaceutical Industry

DAX's verdict is clear: The pharmaceutical industry is one of the winners of the crisis. The pharmaceutical industry has evolved to become one of the most important global growth markets, with Germany as a significant global industry player. Germany is home to Europe's largest – and the world's fourth largest – pharmaceuticals market. Having established itself as the "world's pharmacy", Germany is also the world's leading medical biopharmaceuticals producer. German pharmaceutical companies are therefore taking centre stage in the COVID-19 fight. The population's health is a top priority for governments. The German government has already invested €300 million in the pharmaceutical industry to fight COVID-19. For investors, German pharma companies can therefore be a viable investment opportunity.

Food and Agricultural Industry

With people becoming more health-conscious and spending more time in their own kitchens, COVID-19 has further boosted the already growing demand for fresh, healthy, additive-free food with traceable origins. Against the background of the current crisis, food industry and security become extremely important. Investors consider the food industry crisis resistant. This increases the value of listed food companies. Medium-sized food companies are now also in demand. The German government is working to improve food security through agricultural investment. But it's not just the government that can improve food security by investing in agriculture. Investors can do so as well.

Infrastructure Investments

Infrastructure investments in Germany which include investments, *inter alia*, in roads, railways, bridges, water supply, sewers, energy, fibre broadband and mobile networks and logistics are a profitable investment opportunity for long-term investors, as they provide potentially lucrative risk-adjusted return on equity, and an opportunity to lend money to sectors in need of funding, which leads to social and potentially reputational benefits.

Tech Boom

One obvious trend accelerated by the pandemic has been the universal adoption of technology in everyday life. Whether it comes to virtual meetings via Zoom, TeamViewer, Microsoft Teams or virtual services such as online shopping, online payment, hardware and software devices – technology is determining our everyday life across all sectors. The Tech sector appears to be more confident in the deal outlook than other sectors. DZ-Bank expects a significant increase in M&A deals in the Tech sector after the end of the COVID-19 pandemic. In addition to mergers within the Tech sectors, takeovers of software providers by industrial companies are also expected. Many buyers are looking to cross-sell complementary technology solutions after the takeover.

The Importance of Looking Long-Term

Even in extraordinary times, Germany is a good choice for sustainable businesses. For investors with a long-term view, the current crisis has resulted in a unique opportunity: They can buy companies with strong business models which, due to COVID-19, are struggling. Hence, offering attractive valuations to invest.

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