MARKETBEAT

GERMANY

Investment Q2 2021

CUSHMAN & WAKEFIELD

	YoY Change	12-Month Forecast
€22.08 bn Transaction Volume (cum.)	▼	▲
38% Share of Foreign Capital	▬	▲
2.84% Office Prime Yield Top-7*	▼	▼

Average net initial yield in German Top-7 markets

ECONOMIC INDICATORS

	YoY Change	12-Month Forecast
10.4% GDP Growth (Q2 2021 vs. Q2 2020)	▲	▼
5.7% Unemployment Rate (Jun 2021)	▼	▬
101.7 Ifo Business Climate Index (Jun 2021)	▲	▲
0.0% ECB Interest rate (Jun 2021)	▬	▬
-0.23% 10-Year Government Bond Yield (Q2 2021)	▲	▲

Source: Moody`s Analytics, Agentur für Arbeit, ifo-Institut

Conditions on the financial markets are still attractive for real estate

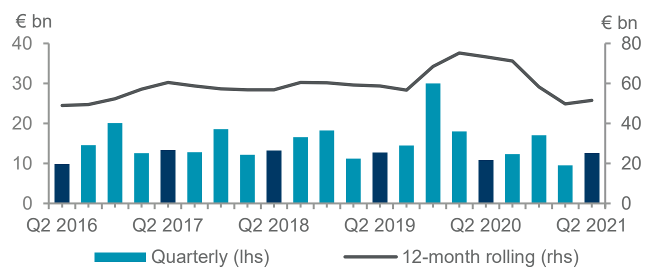
During the second quarter, the pandemic weakened considerably, and the signs are pointing to economic recovery. Inflation has picked up significantly in recent months, reaching 2.5% in May and a slightly lower 2.3% in June. Against the background of the ultra-loose monetary policy of the European Central Bank (ECB), real estate investments are extremely profitable. Due to the extension of the ECB's crisis bond purchase programme ("PEPP"), interest rates for government and corporate bonds will remain at a low or even negative level. Mortgage rates with medium to long-term maturities will also remain at very low levels, allowing investors to borrow at extremely favourable rates. Benefiting from the ECB's negative deposit facility rate (June 2021: -0.50%), banks are granting high leverage ratios, especially for low-risk core properties.

Transaction volume gaining momentum in second quarter

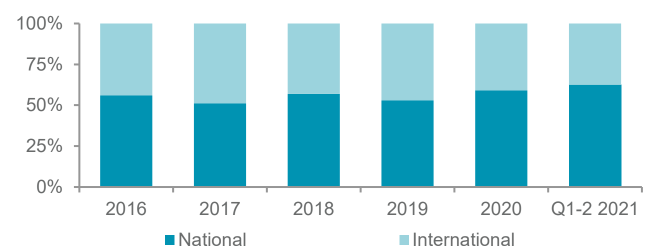
The German investment market for commercial real estate achieves a transaction volume of around €22.1 billion in the first half of 2021, falling short of the previous year's result of just under €28.8 billion by 23%. The transaction volume did however exceed the first-half 10-year average by 13 %. Compared to the first quarter, the investment market gained much more momentum in the second quarter and, at around €12.5 billion, almost matched the pre-crisis level of 2019. The main reason for this positive development was a number of very large transactions in the triple-digit-million-euro range. The largest deal to date was the sale of the Fürst development project in Berlin to Aggregate Holdings for around €1.2 billion and the acquisition of 69 properties from the Summit portfolio by Tristan Capital for around €900 million.

With the falling infection figures, further easing measures with regards to contact and travel restrictions were also implemented across a large swathe of Europe during the second quarter. As a result, international investors significantly increased their investment activity contributing some 38% of total transaction volume over first half of the year (€8.3 billion). In the first quarter, the figure was at a low 28%. However, investors from overseas or without a European base remained cautious and were also more restricted by still stricter travel restrictions.

COMMERCIAL TRANSACTION VOLUME



SHARE OF TRANSACTION VOLUME BY SOURCE OF CAPITAL



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Office properties remain in focus

Demand for office properties remains high even as the pandemic continues and despite the ongoing discussions about the effects of remote working on the office market, with a transaction volume of around €9.4 billion in the first half of the year, contributing around 43% of the total. Compared to the first half last year, the decline in transaction volume is almost 19%. High-quality core properties with tenants with strong credit ratings and long-term leases continue to be highly sought-after among prospective buyers. Industrial and logistics properties have established themselves as the winners of the pandemic and experienced a strong increase in demand in the first half. With an investment volume of around €3.5 billion and a share of around 16%, they are the second-strongest use-type. The effects of the pandemic are still clearly noticeable in transaction volume for retail properties. The share of total volume in the first six months of 2021 was just under 10%. Hotel transactions have also hardly made a mark in the year to date and achieve a low market share of around 4%.

Berlin and Munich attract the most capital

The Top-7 markets increased their transaction volumes significantly in the second quarter, not least due to some large-volume transactions in Berlin and Munich. They thus contributed €12.2 billion and 55% of total German transaction volume. Berlin leads (€4.4 billion), followed by Munich (€3.0 billion), Frankfurt (€1.6 billion) and Hamburg (€1.2 billion) as well as Düsseldorf (€890 million), Cologne (€750 million) and Stuttgart (€405 million). Among the Top-7 markets, only Berlin, Munich and Cologne achieved higher investment volumes than in the equivalent period last year.

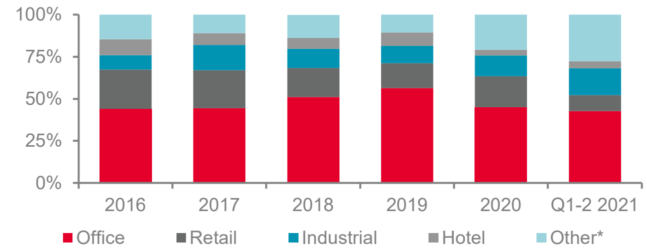
Prime yields at low level

Investor competition for low-risk core real estate remains high and continues to drive up prices for high quality prime properties. In the office sector, the median prime yield in the Top-7 markets is currently 2.84%, 11 basis points below the mid-2020 level. Yield compression over the past 12 months has been much more pronounced for logistics properties; by 60 basis points to an average of 3.31%. The yield spread between the two asset classes has narrowed significantly and currently stands at 47 basis points. The average prime yield for high street retail properties is currently 3.68% and thus at a similar level as at the mid-point 2020 (3.70%).

Outlook

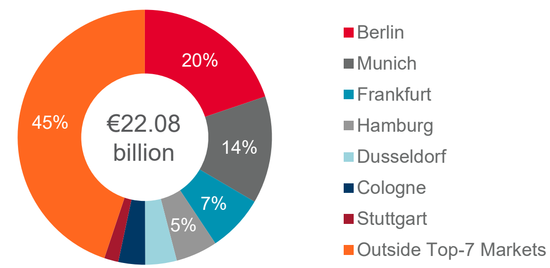
- In the second half of the year, a further revival in willingness to close transactions is to be expected. Many large property transactions are already in an advanced due diligence phase.
- Due to the very limited availability for core products, many investors are expected to shift their asset allocation towards core+ and value-add investments.
- Seeking attractive returns and good investment opportunities with stable cash flows, markets outside the Top-7 locations will also attract investors' interest.
- Taking into account improved framework conditions such as the significant pick-up in vaccination momentum and the increasing easing of travel restrictions, a total transaction volume of well over €50 billion can be expected by the end of the year.

SHARE OF TRANSACTION VOLUME BY ASSET CLASS

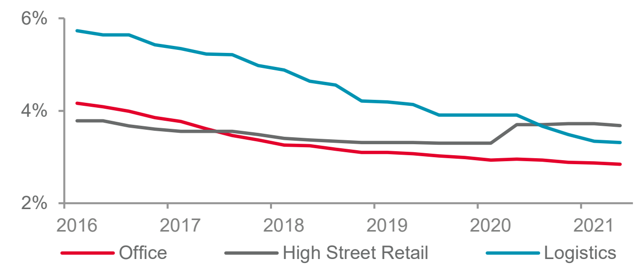


*Other (Leisure, Health Care, Mixed Use, Development Plots)

TRANSACTION VOLUME BY MARKETS Q1-2 2021



PRIME YELD BY ASSET CLASS*



* Average net initial yield in German Top-7 markets, each by type of asset

MARKETBEAT

GERMANY

Investment Q2 2021 – Office

CUSHMAN & WAKEFIELD

Office investments with a strong second quarter

Office property transaction volume totalled around €9.4 billion in the first half of 2021. Compared to the equivalent period last year, the result corresponds to a decline of almost 19%. Compared to the H1 5-year average, transaction volume is down by almost 11%. Nevertheless, due to the pandemic and the discussions about the effects of flexible working on the demand for space, this result is considered solid. Transaction momentum increased noticeably, especially in the second quarter, and with around €6.1 billion in investment volume, a strong increase of almost 88% was recorded compared to the first quarter of 2021. Several large transactions above the €500 million mark contributed to this positive development in the second quarter.

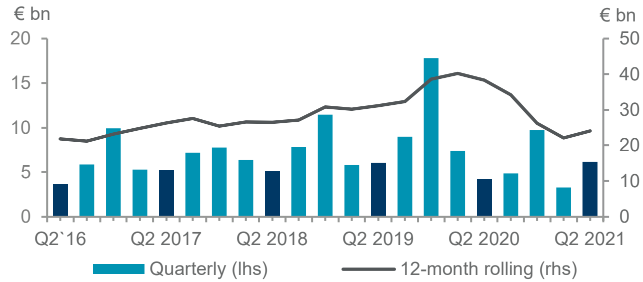
Munich office investment market clearly dominates

The Top-7 markets account for the largest share of office transaction volume in Germany, at around 68% or €6.3 billion. Munich recorded by far the highest result at almost €2.6 billion, mainly thanks to three individual sales with purchase prices of over €500 million each. In Berlin too, more office sales in the triple-digit-million-euro range were registered in the second quarter, so that the federal capital achieved an office volume of €1.2 billion at the end of the first half. Contributing around 9%, with an office transaction volume of just under €900 million, Frankfurt follows in third place. Of the other markets, only Düsseldorf can boast an office volume above the €500 million mark, at €688 million.

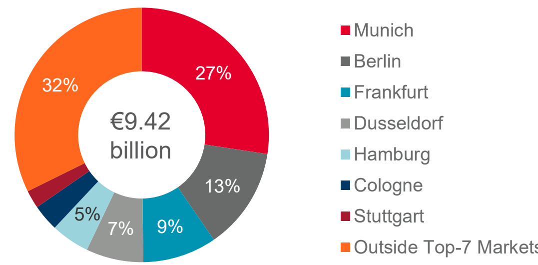
Yield spread of location categories continues to narrow

The prime office yield for high-quality core properties in the Top-7 markets average 2.84% at the end of the second quarter of 2021. Compared to the same point in 2020, this corresponds to a decline of 11 basis points. Due to the severely limited supply of high-quality office properties in central locations, investors' willingness to invest has expanded towards peripheral locations, so that the average prime yield is also compressing continuously here. It currently stands at 3.77%. Compared to the second quarter of the previous year, this also represents a decline of 11 basis points. The yield spread between the two location categories is currently 93 basis points.

OFFICE TRANSACTION VOLUME



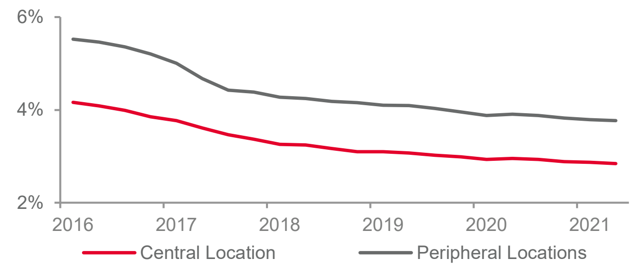
TRANSACTION VOLUME BY MARKETS Q1-2 2021



Outlook

- The high demand for low-risk core office properties with stable cash flow will continue to dominate market activity in the second half of the year.
- However, structural upheavals in the office sector also provide attractive investment opportunities for risk-averse investors in the direction of value-add investments with good potential for value appreciation.
- Against the backdrop of increased user requirements for ESG and green building compliant properties, the importance of building quality and space efficiency will continue to grow.
- With the steadily increasing vaccination momentum and further easing of travel restrictions, foreign investors will also increasingly invest capital in German office properties again.

OFFICE PRIME YIELD BY LOCATION*



* Average net initial yield in German Top-7 markets, each by type of location

MARKETBEAT
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Investment Q2 2021 – Retail

Retail real estate characterised by uncertainties and restraint
The transaction volume for retail properties totalled around €2.1 billion in the first half of 2021, the weakest result since financial crisis year 2009. Compared to the first half of 2020, the decline in transaction volume amounts to around 68%. The transaction volume has investors' restraint are, on the one hand, the still high degree of uncertainty with regard to the price levels for high street retail properties and, on the other hand, the limited supply of retail parks with food-anchored properties. In addition, large-volume transactions were almost completely absent. The largest deal of the year remains the sale of seven Karstadt properties from RFR to Apollo Group for €150 million in the first quarter.

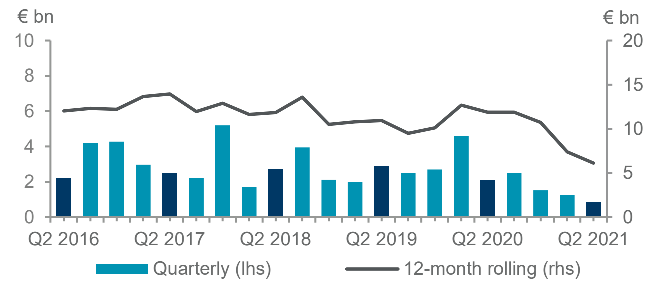
Retail warehouse and retail parks dominating transaction volume
At around €1.3 billion, more than half of the total retail transaction volume was invested in retail warehouses and retail parks. In the case of shopping centres and high street retail properties, many investors continue to act cautiously and are observing the further development of rent levels.

High demand for retail parks driving prices up
While average prime yields within the Top-7 markets for shopping centres and high street retail buildings are gradually stabilising again, prime yields for retail parks have continued to compress further. At the end of the second quarter of 2021, the median prime yield for retail parks is 4.11%, a decrease of 15 basis points compared to the equivalent point last year. These price increases are primarily driven by the high investor demand for high-quality properties, preferably from the grocery, drugstore or DIY sectors. The average prime yield for high street retail properties is currently 3.68% and thus almost at the same level as 12 months ago. Munich remains the most expensive market (3.20%), while Cologne, Stuttgart and Düsseldorf offer more attractive prices at 3.85% each. Prime yields for shopping centres have now stagnated for three quarters at an average of 5.00%.

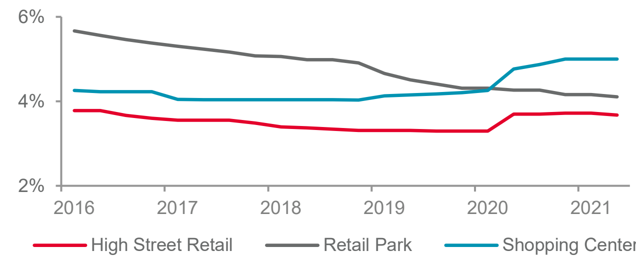
Outlook

- Retail properties with anchor tenants from the food, drugstore and DIY sectors will continue to be the focus of investors. Further declines in yields are to be expected here.
- The pandemic has drastically accelerated the structural change of the retail trade. In the long term, department stores and shopping centres in particular will have to reposition themselves. A good mix of shopping, leisure, gastronomy and residential use will become increasingly important.
- Regarding high street and shopping center investments, the majority of investors will still adopt a wait-and-see attitude with regard to further price developments.
- For investors willing to take higher risks, shopping centers and department stores therefore offer attractive opportunities for extensive restructuring measures.

RETAIL TRANSACTION VOLUME

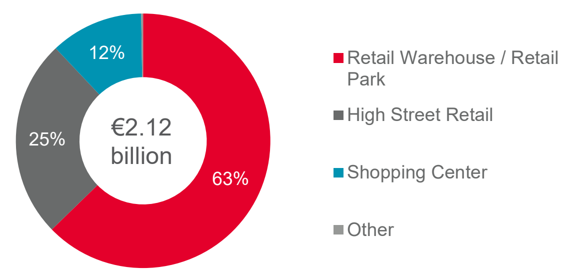


PRIME YIELD BY TYPE OF PROPERTY



* Average net initial yield in German Top-7 markets, each by type of property

TRANSACTION VOLUME BY TYPE OF PROPERTY Q1-2 2021



MARKETBEAT

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Investment Q2 2021 – Industrial

CUSHMAN & WAKEFIELD

Industrial properties remain in high demand

The high demand for industrial properties continued and resulted in a transaction volume of around €3.5 billion in the first half of 2021. Compared to the first half of 2020, this corresponds to a slight increase of just under 3%. This asset class is the only one to record an increase in transaction volume. Newly-launched logistics funds and the reorientation of many investors' asset allocations have expanded the demand universe. Due to the lack of attractive and low-risk core and core+ properties, investors are also considering value-add products with good third-party usability and appreciation potential.

Investments mainly outside the top-7 markets

Around three quarters of the industrial transaction volume was allocated outside the Top-7 markets. Of the ten largest transactions in the first half of the year, only one took place in a Top-7 market, that being the sale and leaseback transaction of a distribution hall of the logistics company Fiege to the DWS Group for around €190 million. The majority of the Top-7 markets only have a very limited supply of attractive properties within their respective city areas. At the same time, large development sites or brownfield sites for possible conversion scenarios are rare and primarily reserved for residential construction.

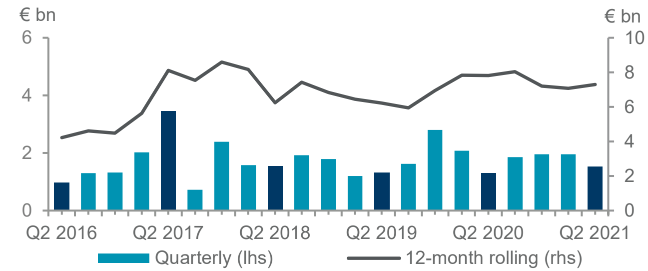
Yield compression continues

The continued increase in investment in industrial property is leading to further price increases and compressing yields, a trend which has become especially pronounced since the outbreak of the pandemic in spring 2020. The average prime yield for logistics properties in the Top-7 markets was 3.31% at the end of the second quarter, 60 basis points below the equivalent point last year. In contrast, light industrial properties offer more attractive yields, currently averaging 5.26% in the Top-7 markets. In the past 12 months, the average prime yield has compressed by 65 basis points here.

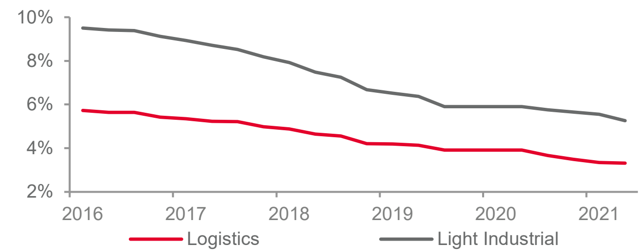
Outlook

- The high demand for industrial real estate will continue in view of the booming e-commerce sector and the greater importance of last-mile logistics.
- Further yield compression is expected. Prime yields within the Top-7 markets are still significantly above the level of office properties, and investors see attractive potential here.
- The very limited availability of core products will lead to further shifts in demand and investment activities in the direction of risk-affine products.

INDUSTRIAL TRANSACTION VOLUME

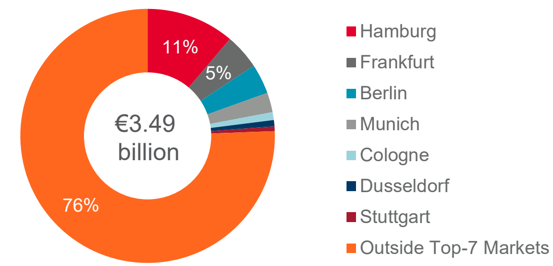


PRIME YIELD BY TYPE OF PROPERTY



* Average net initial yield in German Top-7 markets, each by type of property

TRANSACTION VOLUME BY MARKETS Q1-2 2021



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Market	Transaction Volume (€ billion)	Change YoY (%)	Share Office Volume (%)	Share International Capital (%)	Office Prime Yield (%)	High Street Retail Prime Yield (%)	Logistics Prime Yield (%)
Berlin	4.38	7	28	65	2.60	3.50	3.30
Dusseldorf	0.89	-51	77	23	2.90	3.85	3.30
Frankfurt	1.59	-46	56	26	2.75	3.70	3.30
Hamburg	1.16	-43	40	10	2.80	3.80	3.30
Cologne	0.75	15	43	71	3.10	3.85	3.30
Munich	3.01	55	86	35	2.50	3.20	3.30
Stuttgart	0.41	-33	55	17	3.20	3.85	3.40
Germany	**22.08**	**-23**	**43**	**38**	**2.84***	**3.68***	**3.31***

**Prime yield is net initial yield, displaying achievable values. Prime yield Germany = Average of Top-7 Markets*

SELECTED TRANSACTIONS 2021

Property / Transaction	Quarter	Type of Use	Location	Seller / Buyer	Price (€ million)
Fürst, Kurfürstendamm 207-208	Q2	Mixed Use	Berlin	Vivion / Aggregate Holdings	~1,250
Summit Portfolio (69 properties)	Q2	Office	Diverse	Summit Real Estate / Tristan Capital	~900
MediaWorks Munich, Rosenheimer Straße 145	Q2	Office	Munich	Blackstone / Union Investment	~660
Highlight Towers, Mies-van-der-Rohe-Straße	Q2	Office	Munich	Commerz Real / Imfarr	~650
O2 Tower & Campus C, Georg-Brauchle-Ring	Q2	Office	Munich	GIC / DIC Asset	~640
2 distribution centres	Q1	Industrial	Geiselwind, Lich	Dietz AG / Tritax Eurobox	~290
Healthcare Portfolio (19 properties)	Q1	Healthcare	Diverse	Azurit Gruppe / Aedeficia	~250

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