

MARKETBEAT BERLIN

Investment Q2 2022



YoY
Change

12-Month
Forecast

€3.78 bn

Transaction Volume (cum.)



65%

Share of Foreign Capital



2.85%

Office Prime Yield, net



42%

Share Office Investment Volume



ECONOMIC INDICATORS

YoY
Change

12-Mo.
Forecast

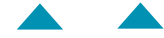
8.7%

Berlin Unemployment
Rate (Jun 2022)



818,800

Berlin Office Employees
(Jun 2022)



0.0%

ECB Interest Rate
(Jun 2022)



0.99%

10-Year Government
Bond Yield (Q2 2022)



Sources: Federal Employment Agency, Moody's Analytics

TRANSACTION VOLUME BELOW PREVIOUS YEAR'S LEVEL

For the 1st half of 2022 a transaction volume of €3.78 billion was noted in Berlin's commercial real estate market. This is 14% less than in a year previously and 2% less than the H1 five-year average. At €1.88 billion, the transaction volume of the second quarter was similar to that of the first. For the first time since the beginning of 2021, the rolling annual volume is declining again, but is still at a very high level of €10.69 billion.

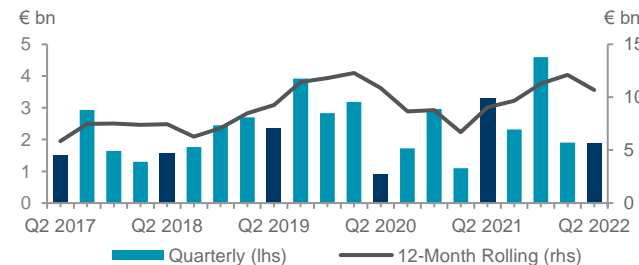
With €1.59 billion and 42% of the total commercial real estate (CRE) transaction volume, office properties were again the leading asset class in the first half of the year. Four transactions exceeded the €100 million mark, including the "Gloria Galerie" deal in Q1 2022 with a volume of over €200 million.

Mixed-use properties achieved a transaction volume of around €1.1 billion. The acquisition of 50% of the Sony Center for €680 million by Norges and the sale of Galeries Lafayette for around €300 million to Tishman Speyer made a significant contribution here.

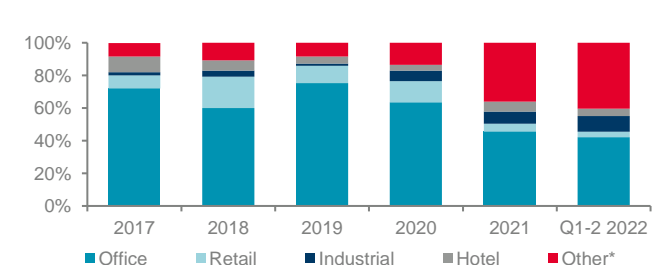
Despite a sharp rise in financing interest rates and construction costs, commercial plots were still in demand in the first half of the year, generating a transaction volume of €350 million. Logistics and industrial properties, at €360 million, and contributing 10% of total commercial real estate transaction volume, achieved a significantly better result than a year ago (€132 million, 3%). Retail properties did not play a major role, with €130 million and a 3% contribution.

Single-property transactions dominated the CRE investment market generating €3.35 billion and 89% of transaction volume. Investment and asset managers were the main buyers, contributing 58% of the volume. Developers were in second place at 24%. International demand for CRE in Berlin was high. The proportion of international capital was 65%. The office submarket making the largest contribution to the transaction volume was CBD Potsdamer Platz, at 18%, followed by CBD East at 15%.

COMMERCIAL TRANSACTION VOLUME*



SHARE OF TRANSACTION VOLUME BY ASSET CLASS



*Office, Retail, Logistics/Industrial, Hotel, Other (Leisure, Health Care, Mixed Use, Development Plots)



CORE PROPERTY TRANSACTIONS EXHIBITED SIGNIFICANT DECLINE

Core+ was the segment with the highest transaction volume at 34%, followed by value-add at 29% and opportunistic at 22%. In contrast to previous years, transactions in the core segment only accounted for a minor proportion, at 13%. The rise in interest rates is having a strong impact on prospective buyers' calculations. Due to the low yields in the core segment, this risk class is affected particularly strongly. Transactions are currently more feasible in the value-add sector because the buyers' influence on returns is greater due to active development measures.

HIGH PROPORTION OF LARGE-SCALE TRANSACTIONS

54% of Berlin's investment transaction volume was generated by the €100 million and above price category, whereby the sales of 9 properties generated a total transaction volume of just over €2.0 billion. The second-strongest size category was that of €50 million to less than €100 million with a 22% share. Followed in third place by the €25 million to under €50 million category, with 13%.

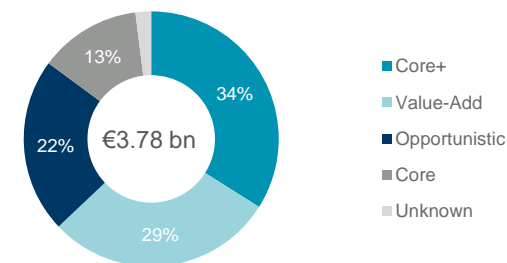
INTEREST RATE TURNAROUND CAUSES PRIME OFFICE YIELDS TO RISE

In view of the significant increase in financing interest rates, office yields are rising and thus initiating a trend reversal. Currently, the prime office yield is 2.85%, 25 basis points higher than in both the first quarter and a year ago. The prime yield for logistics properties is currently 3.10%, up 10 basis points on the previous quarter. For city centre high street retail properties, prime yields remained stable compared to the first quarter, at 3.30%.

Outlook

- As long as interest rate volatility remains high, pricing will remain difficult. In view of these conditions, institutional investors will not make any major investment decisions over the summer, which is why the transaction volume in the 3rd quarter is likely to be weak.
- For many properties on the market there is currently a significant gap between the asking and bid prices. Only when this gap closes will the exact extent of the yield increase become apparent. However, based on current financing conditions, yields are expected to increase further to the end of the year.
- A gas delivery stop would lead Germany into a deep recession. However, its absence could also cause a positive reaction in the market.
- In view of the persistently high inflation, the financial markets assume that the major central banks will react more forcefully than what was priced-in during the last quarter. Key interest rate hikes will apply additional braking to the already slowing economy.

TRANSACTION VOLUME BY RISK CATEGORY Q1-2 2022

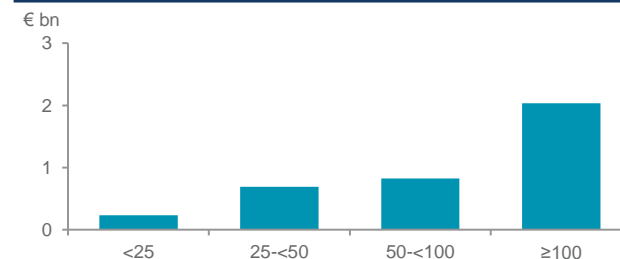


PRIME YIELD BY ASSET CLASS*



* Net initial yield

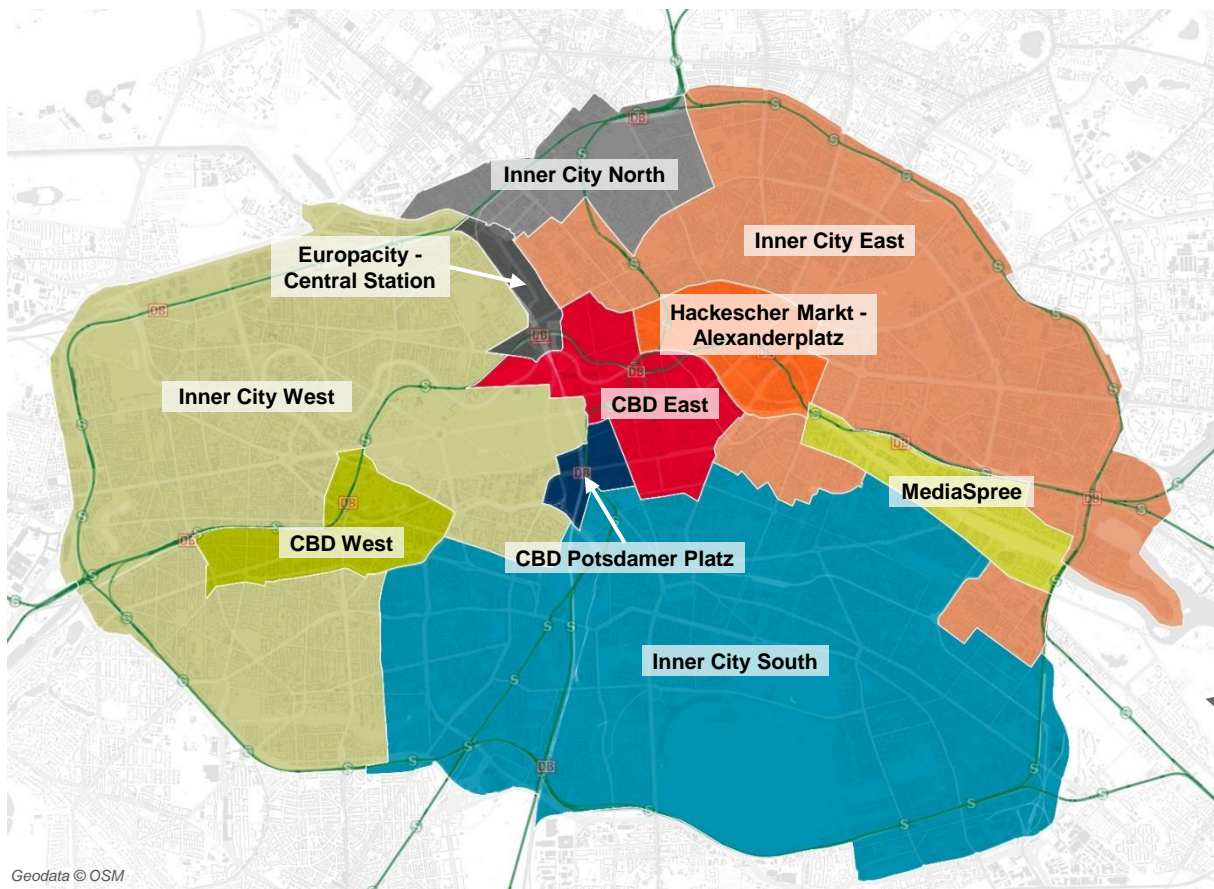
TRANSACTION VOLUME BY SIZE CATEGORY Q1-2 2022*



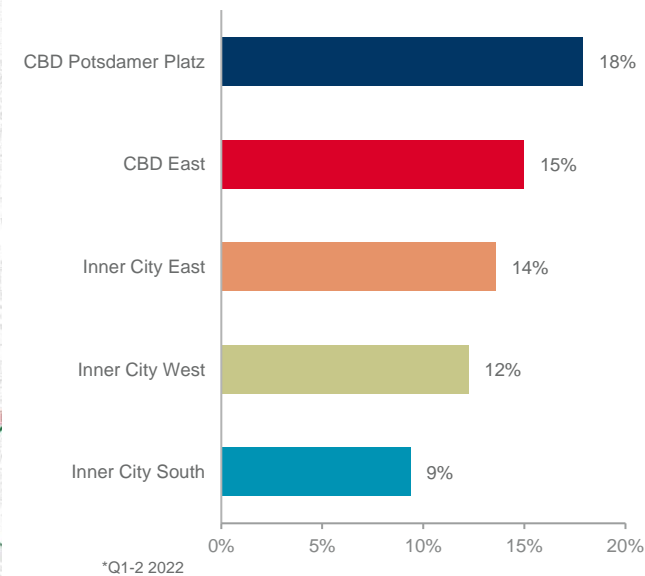
* Each size category in euro million



SUBMARKET OVERVIEW



TOP-5 SUBMARKETS BY TRANSACTION VOLUME*





MARKET STATISTICS Q1-2 2022

MARKET	Transaction Volume (€ bn)	Share of Office Volume	Share of Retail Volume	Share of Industrial Volume	Share of International Capital	Office Prime Yield*	High Street Retail Prime Yield*	Logistics Prime Yield*
Berlin	3.78	42%	3%	10%	65%	2.85%	3.30%	3.10%
YoY Change	-14%	+14 PP	-1 PP	+7 PP	0 PP	+25 bps	-20 bps	-20 bps
Top-7 Markets	14.66	65%	4%	11%	61%	2.99%	3.46%	3.11%
YoY Change	+14%	+13 PP	+1 PP	+4 PP	+19 PP	+15 bps	-22 bps	-20 bps
Germany	27.67	44%	13%	21%	48%	2.99%	3.46%	3.11%
YoY Change	+25%	+1 PP	+3 PP	+5 PP	+11 PP	+15 bps	-22 bps	-20 bps

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

PP = Percentage Points bps = Basis Points

SELECTED TRANSACTIONS 2022

Property / Address	Quarter	Type Of Use	Submarket	Vendor / Buyer	Price (€ million)
Sony Center (50%)	Q2	Office	CBD Potsdamer Platz	Oxford Properties / Norges Bank Investment Management	~ 680
Takeover alstria office-REIT AG: subportfolio Berlin (12 properties)	Q1	Office	Various	alstria office REIT-AG / Brookfield Asset Management	~ 390
Q207 Galeries Lafayette, Friedrichstraße 76-78	Q1	Mixed Use	CBD East	Allianz Real Estate / Tishman Speyer	~ 300
Gloria Galerie, Kurfürstendamm 12	Q1	Office	CBD West	RFR / Savills IM	~ 200

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