MARKETBEAT

GERMANY

Investment Q2 2022

	YoY Change	12-Month Forecast
€27.7 bn Transaction Volume (cum.)	▲	▼
48% Share of Foreign Capital	▲	▬
2.99% Office Prime Yield Top-7*	▼	▬

Average net initial yield in German Top-7 markets

ECONOMIC INDICATORS

	YoY Change	12-Month Forecast
1.8% GDP Growth (Q2 2022 vs. Q2 2021)	▲	▼
5.2% Unemployment Rate (Jun 2022)	▼	▬
92.3 Ifo Business Climate Index (Jun 2022)	▼	▲
0.0% ECB Interest rate (Jun 2022)	▬	▲
0.99% 10-Year Government Bond Yield (Q2 2022)	▲	▲

Sources: Moody`s Analytics, National Labour Office, ifo institute

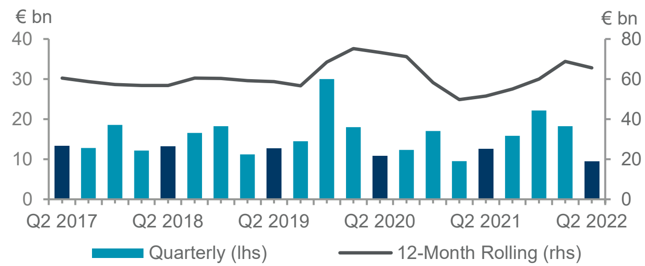
MONETARY POLICY TURNAROUND COMPLETED – GAS SHORTAGE WORRIES INDUSTRY

Since the outbreak of the war in Ukraine, German economic sentiment has deteriorated significantly. The ífo business climate index fell to 92.3 points in June 2022, down from 93.0 points the previous month. Compared to a year previously, the decline even amounts to 9.1 points (June 2021: 101.4 points). Investment activity is being held back primarily by the persistently high inflation rate, material bottlenecks, higher prices for energy and intermediate products as well as the ECB's interest rate turnaround, which has now been implemented. This is aggravated by fears of recession due to a possible loss or reduction of gas supplies from Russia, which is particularly worrying for companies in the manufacturing sector. The retail sector was also only able to recover somewhat from the Covid-19 restrictions for a short time and is now facing weakened consumer sentiment among private households. Yields on German 10-year government bonds have risen significantly in recent months and are once again in positive territory. The ECB ended its expansionary monetary policy on 21 July 2022 and raised its key interest rate for the first time in eleven years, from zero to 0.50%. At the same time, the already increased borrowing costs have shown their first effects on the real estate investment market. Nevertheless, real estate is an attractive investment class even in times of economic uncertainty, as the risk-return ratio is more stable than for shares, gold or bonds.

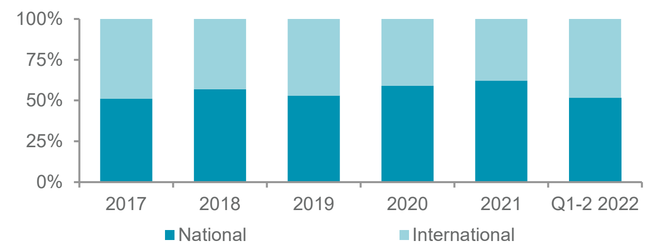
UNCERTAIN INTEREST RATE ENVIRONMENT SLOWS INVESTMENT MOMENTUM IN THE SECOND QUARTER

The commercial real estate (CRE) investment market in Germany achieved a transaction volume of around €27.7 billion in H1 2022. Compared to the same period last year, this corresponds to an increase of almost 25 %. The H1 10-year average was exceeded by around 33 %. This above-average figure was achieved despite the € 9.4 bn of the second quarter being significantly lower than the first quarter’s €18.3 billion, when the takeover of office REIT-AG by Brookfield Asset Management for more than € 4 billion significantly boosted transaction volume. The largest transaction in the period from April to June 2022 was the sale of shares in the Sony Center in Berlin to NBIM for around €700 million. Of the other transactions in the three-digit-million-euro range, none exceeded the €250 million threshold in Q2.

COMMERCIAL TRANSACTION VOLUME



SHARE OF TRANSACTION VOLUME BY SOURCE OF CAPITAL



MARKETBEAT

GERMANY

Investment Q2 2022

OFFICE TRANSACTION VOLUME UNCHALLEGEND AT THE TOP

Office properties remained the most sought-after asset class among investors. In the first half of the year, they recorded a transaction volume of €12.2 billion, contributing 44% of the total. Low-risk properties in locations with good transport links and established office submarkets with high occupancy rates and long lease terms are particularly popular. Logistics and industrial properties continue to consolidate their position as the second-strongest commercial property type. In the first half of the year, transaction volume totalled € 5.9 billion, which is the highest half-year result ever. Several large-volume portfolio sales contributed to this. The contribution of retail properties was just under 13 % via a transaction volume of €3.5 billion. Compared to the previous H1, this was an increase of 65 %. Investors continue to be particularly interested in retail parks with local supply and grocery retail as anchor tenants, as well as supermarkets and food discounters.

ALL TOP 7 MARKETS RECORD SIGNIFICANT INCREASES IN TURNOVER

Transaction volume in the top-7 markets totalled almost €16.7 billion in the first half of 2022, which corresponds to 53% of the total and a year-on-year increase of around 15%. The highest results were achieved in Berlin and Frankfurt with just under €3.8 billion and €3.4 billion respectively. Hamburg (€ 2.3 billion) and Düsseldorf (€ 1.9 billion) follow at a great distance. Compared to the previous H1, only Berlin and Munich recorded declines of -14% and -48% respectively.

LONG PHASE OF YIELD COMPRESSION OVER

The median prime yield for office properties in the top-7 markets is currently 2.99%, 25 basis points higher than three months ago. For logistics properties, the median has risen by 10 basis points to 3.11%. The prime yield for first-class high street retail properties remained stable at 3.46%.

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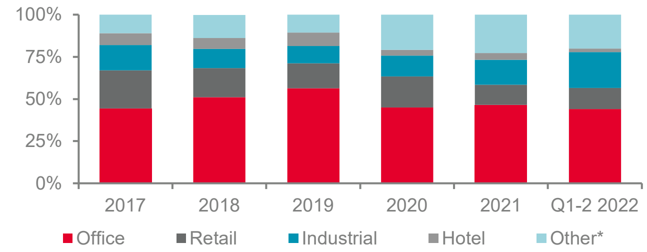
Outlook

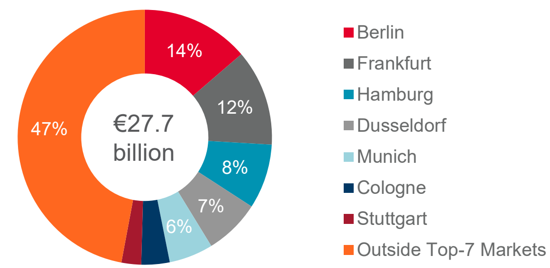
- In view of continued high market liquidity and increasing investment pressure, market activity will regain momentum in autumn. High inflation also manifests the attractiveness of tangible assets such as real estate.
- As soon as there is more transparency about where interest rates and the overall economy are heading, sellers' and buyers' pricing will converge and transaction prices will be settled on more quickly
- The pleasing development in the rental market, especially in the office and logistics segments, will be perceived positively by investors and will additionally support sales momentum in the second half of the year.

SHARE OF TRANSACTION VOLUME BY ASSET CLASS



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

TRANSACTION VOLUME BY MARKET Q2 2022



PRIME YELD BY ASSET CLASS*

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

CUSHMAN & WAKEFIELD

SIGNIFICANTLY FEWER LARGE TRANSACTIONS IN THE SECOND QUARTER

The office property transaction volume reached a total of some €12.2 billion in the first half of 2022. Compared to a year previously, this corresponds to an increase of almost 29%. The last time the transaction volume was higher was in the first half of 2007. The H1 5-year average was also exceeded by around 11 %. While the office transaction volume of € 9.5 bn in Q1 2022 significantly boosted by the takeover of alstria office REIT-AG by Brookfield Asset Management, the transaction volume in Q2 only totalled around € 2.6 bn. The increased borrowing costs of recent months are making the pricing phase in bidding processes increasingly difficult. Negotiations are taking longer and are sometimes stopped because market participants are waiting for further interest rate developments. Investment momentum has slowed significantly.

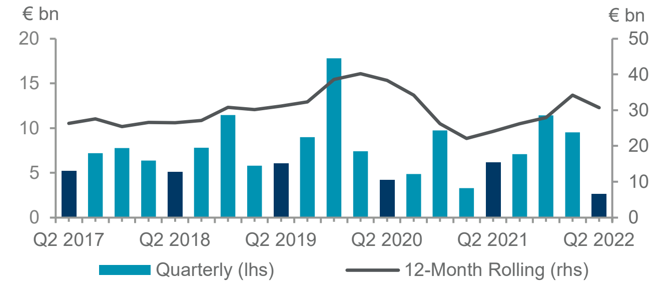
TOP-7 MARKETS REMAIN PREFERRED LOCATIONS FOR OFFICE INVESTMENTS

The majority of office transaction volume in Germany is generated in the top-7 cities, contributing around 78% or €9.5 billion. Half of the national transaction volume is contributed by Frankfurt, Hamburg and Berlin alone. In Frankfurt and Hamburg the high proportion of alstria's real estate portfolio is particularly noticeable. With the exception of Munich, all the top markets recorded significant year-on-year growth in take-up.

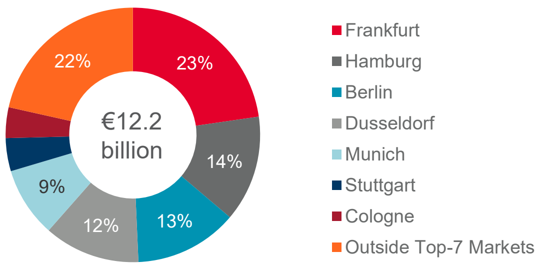
YIELD COMPRESSION STOPPED

The median prime yield for office properties in the top-7 markets is currently 2.99 %, 25 basis points higher than at the end of March 2022. Compared to the same time last year, yields have increased by 15 basis points. Munich remains the most expensive market (2.75%), followed by Berlin and Frankfurt with 2.85% each. Stuttgart is the cheapest market at 3.35 %.

OFFICE TRANSACTION VOLUME



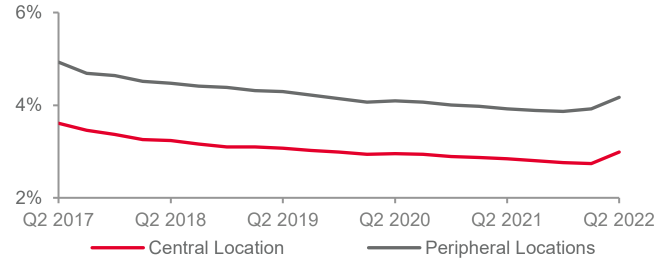
TRANSACTION VOLUME BY MARKET Q1-2 2022



Outlook

- High inflation will intensify investor competition for low-risk core office properties. In view of rising borrowing costs and the ECB's now implemented monetary policy turnaround, yields are not expected to fall.
- In view of the increasing user demands for ESG compliance, the gap between supply and demand is also generating interest in suitable properties from property developers and value-add investors.
- Value-add or core-plus office properties may offer attractive investment opportunities with good value appreciation potential for equity-rich investors.

OFFICE PRIME YIELD BY LOCATION*



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

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GERMANY

Investment Q2 2022 – Retail

RETAIL INVESTMENT MARKET WITH SOLID HALF-YEAR RESULTS

The transaction volume for retail properties reached around €3.5 billion in H1 2022. Compared to the same point last year, this represents an increase of almost 65 %., but is still around 26% below the H1 5-year average. Analogous to the overall situation in the CRE investment market in Germany, the retail property transaction volume in Q2 2022 also declined compared to the previous quarter. The larger individual-property transactions in Q2 include the sale of a former Kaufhof in Hamburg to Tishman Speyer for around €160m and the sale of Gera Arcaden to Redos for just under €116m. Investors are primarily interested in local shopping centres or retail parks with grocery retailers as anchor tenants.

RETAIL WAREHOUSES AND RETAIL PARKS CENTRES CLEAR FOCUS OF INVESTORS´ ATTENTION

With around € 2.1 billion and a contribution of almost 59 %, the majority of the transaction volume came from the sale of retail warehouses and retail parks. Compared to the previous year, this property type achieved an increase in transaction volume of around 55 %. Although investors are still acting very selectively in the case of city centre high street retail and department stores, the transaction volume has been increasing again for several quarters and, at 29 %, has reached its highest proportion of turnover since the first quarter of 2021. Shopping centre transactions remain restrained at around €380 million.

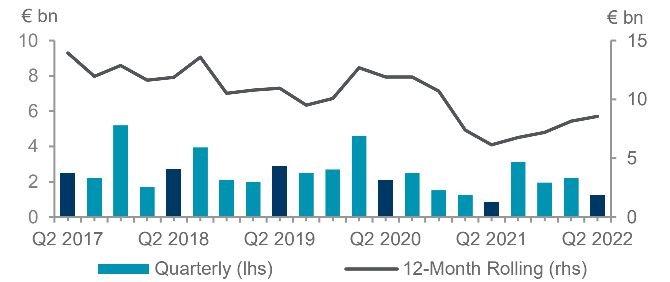
STABLE PRIME YIELDS IN THE SECOND QUARTER

The average prime yield for retail parks is currently 3.41% in the top-7 markets at the mid-point of 2022. Retail parks thus continue to be among the most expensive assets in the retail property segment. The average prime yield for city-centre high street retail properties is 3.46%. Since the fourth quarter of 2020, the average prime yield for shopping centres has remained unchanged at 5.00%. Compared to the previous quarter, prime yields in the retail segment remained stable for all property types.

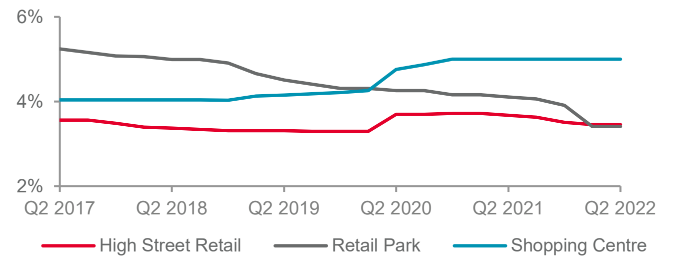
Outlook

- Retail properties such as supermarkets, food discounters and retail parks with anchor tenants from the grocery segment remain the focus of investors' attention.
- The transaction volume for city centre high street retail properties has already picked up, although many investors are still acting very selectively in this segment and prefer properties in prime retail locations. Investors' concerns about repeated Covid-related restrictions are also increasingly fading.
- In the case of shopping centres, demand is focused on properties that meet sustainability criteria and on properties with a balanced mix of uses (retail, leisure, gastronomy).

RETAIL TRANSACTION VOLUME

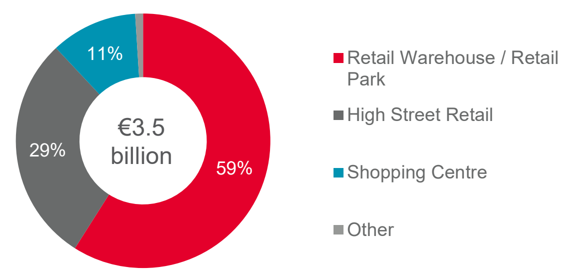


PRIME YIELD BY TYPE OF PROPERTY



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

TRANSACTION VOLUME BY TYPE OF PROPERTY Q1-2 2022



MARKETBEAT

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Investment Q2 2022 – Industrial

LOGISTICS AND INDUSTRIAL PROPERTIES WITH RECORD TRANSACTION VOLUMES

The investment market for logistics and industrial properties achieved a transaction volume of around €5.9 billion in the first half of 2022. In absolute terms, the current volume is the highest half-year total ever achieved. Compared to the previous H1, the result represents an increase of almost 68 %. After recent consecutively strong quarters, the logistics and industrial investment segment also suffered a dampened Q2 2022. After € 3.8 billion in Q1, transaction volume fell to around € 2.0 billion between April and June. Overall, the market was largely dominated by several large-volume portfolio transactions. For example, Dutch firm CTP took over Deutsche Industrie REIT and Prologis bought a portfolio from Ergo Trust Logistikfonds.

LARGE PORTFOLIO SALES OUTSIDE THE TOP-7 MARKETS

As ever, the majority of the logistics and industrial transaction volume is attributable to the federal territory outside the top-7 markets. In H1 2022, the contribution to total logistics and industrial transaction volume of the top-7 markets totalled around 29%. At the same time, this value marks the highest level of the past five years. In the first half of 2017, the top-7's contribution was only around 12%. The high significance of the e-commerce sector, including the shift of distribution and logistics real estate towards urban regions, is increasingly reflected in the contributions to transaction volume.

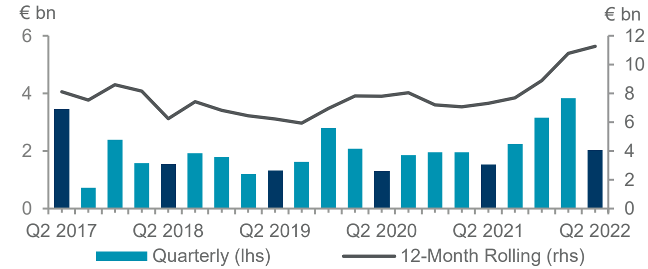
PRIME YIELD FOR INDUSTRIAL PROPERTIES RISES

The average prime yield for logistics properties in the top-7 markets is currently 3.11%. Compared to the previous quarter, this corresponds to an increase of 10 basis points, but compared to the 2nd quarter of last year, a decrease of 20 basis points. The prime yield for light industrial properties in Q2 2022 has increased by 10 basis points compared to the previous quarter to now average 4.60%.

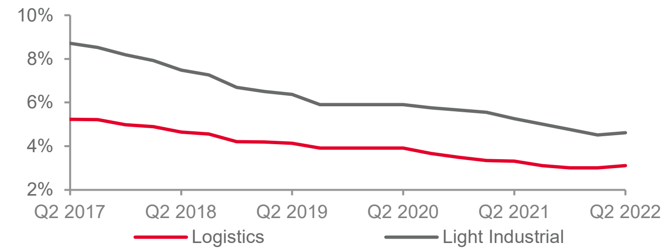
Outlook

- In line with the overall situation on the German CRE investment market, the market for logistics and industrial properties will also regain momentum in the second half of the year and continue to consolidate its position as the second-strongest real-estate segment in Germany.
- In view of the changed financing environment, some bidding processes are no longer expected to be highly competitive at the level of the previous quarter. Buyers' and sellers' pricing will become increasingly divergent.
- Light industrial properties are currently under strong pressure due to high energy and commodity prices. Uncertainty due to a possible energy crisis will continue to dampen investment here in the remainder of the year.

INDUSTRIAL TRANSACTION VOLUME

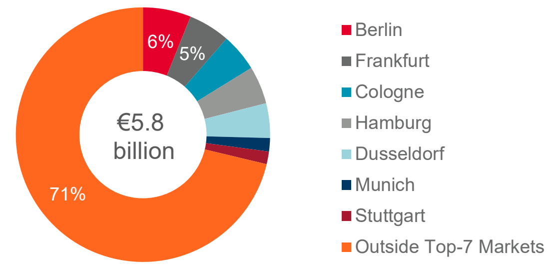


PRIME YIELD BY TYPE OF PROPERTY



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

TRANSACTION VOLUME BY MARKET Q 1-2 2022



MARKETBEAT

GERMANY

Investment Q2 2022

Market	Transaction Volume (€ billion)	Change YoY (%)	Share Office Volume (%)	Share International Capital (%)	Office Prime Yield (%)	High Street Retail Prime Yield (%)	Logistics Prime Yield (%)
Berlin	3.87	-14	42	65	2.85	3.30	3.10
Dusseldorf	1.96	75	76	76	3.15	3.65	3.10
Frankfurt	3.37	89	82	61	2.85	3.40	3.10
Hamburg	2.28	97	72	80	2.90	3.60	3.10
Cologne	1.00	11	48	31	3.05	3.65	3.10
Munich	1.56	-48	70	13	2.75	3.00	3.10
Stuttgart	0.69	61	73	85	3.35	3.65	3.20
Germany	**27.67**	**25**	**44**	**48**	**2.99***	**3.46***	**3.11***

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

SELECTED TRANSACTIONS 2022

Property / Transaction	Quarter	Type of Use	Location	Seller / Buyer	Price (€ million)
Takeover alstria office-REIT AG	Q1	Office	Nationwide	alstria office REIT-AG / Brookfield Asset Management	~ 4,500
Takeover VIB	Q1	Various	Nationwide	VIB Vermögen AG / DIC Asset	~ 900
Marienturm, Taunusanlage 9-10	Q1	Office	Frankfurt am Main	Pecan Holdings / DWS Group	~ 800
Sony Center (50%), Kemperplatz 1	Q2	Mixed use	Berlin	Oxford Properties / Norges Bank Investment Management	~ 680
UBS Portfolio (11 Objekte)	Q1	Logistics, Industrial	Nationwide	UBS / Prologis	~ 450
Takeover Immofinanz AG	Q1	Office	Dusseldorf	Immofinanz AG / CPI Property Group	~ 330
Q207 Galeries Lafayette, Friedrichstraße 76-78	Q1	Mixed use	Berlin	Allianz Real Estate / Tishman Speyer	~ 300
Maintower, Neue Mainzer Straße 52-58	Q2	Office	Frankfurt am Main	Hannover Leasing / Helaba	~ 230

ALEXANDER KROPF
Head of Capital Markets Germany
Tel: +49 30 72 62 18 240
Alexander.kropf@cushwake.com

URSULA NEISSER
Head of Research Germany
Tel: +49 69 50 60 73 140
ursula-beate.neisser@cushwake.com

HELGE ZAHRNT MRICS
Head of Research & Insight Germany
Tel: +49 40 300 88 11 50
helge.zahrnt@cushwake.com

ANDREAS SLUPIK
Senior Research Analyst
Tel: +49 211 54 08 98 70
Andreas.slupik@cushwake.com

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