MARKETBEAT

GERMANY

Investment Q3 2022

	YoY Change	12-Month Forecast
€40.2 bn Transaction Volume (cum.)	▲	▬
46% Share of Foreign Capital	▲	▬
3.23% Office Prime Yield Top-7*	▲	▲

**Average net initial yield in German Top-7 markets*

ECONOMIC INDICATORS

	YoY Change	12-Month Forecast
0.7% GDP Growth (Q3 2022 vs. Q3 2021)	▼	▼
5.4% Unemployment Rate (Sep 2022)	▬	▲
84.3 Ifo Business Climate Index (Sep 2022)	▼	▲
1.25% ECB Interest rate (Sep 2022)	▲	▲
1.35% 10-Year Government Bond Yield (Q3 2022)	▲	▲

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

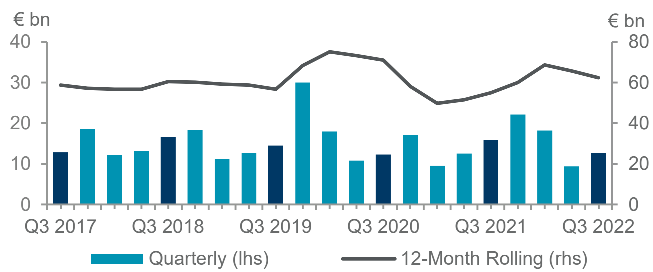
ENERGY PRICE BRAKE TO CUSHION HIGH ENERGY PRICES, INTEREST RATE CONTINUES TO RISE

The economic situation remains difficult and is associated with major uncertainties for companies. Sentiment in the German economy deteriorated further in September 2022, with the ifo Business Climate Index falling to 84.3 points from 88.6 the previous month. At the same point last year, the index stood at 99.2 points, the highest level of the past 12 months. Essentially, the German economy is facing the same problems and challenges as three months ago: high inflation due to extreme energy and raw material prices, continuing supply bottlenecks for important primary products and great uncertainty due to the threat of recession. With its planned "energy price brake", the German government aims to cushion the energy crisis and provide financial support for companies and consumers. However, no rapid decline in the rate of inflation is expected in the short to medium term. The yield on 10-year German government bonds has increased significantly since the beginning of the year, reaching 2.25% at the end of September. Bond yield having averaged 1.35% over Q3. High inflation and further expected interest rate hikes by the European Central Bank (ECB) will further increase yields on German government bonds and mortgage rates. On October 27, 2022, there was already another significant increase in the key interest rate, by 0.75 percentage points, to the current level of 2.00%. The real estate investment market has already reacted to the changed interest rate environment with subdued investment momentum since the 2nd quarter.

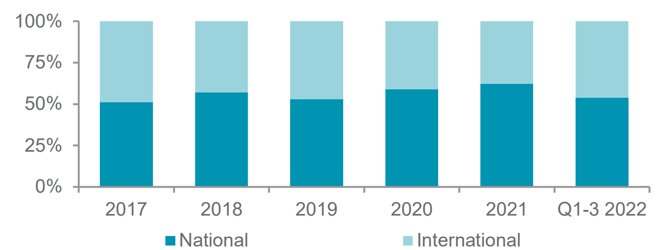
PERCEIVED STANDSTILL IN THE INVESTMENT MARKET, PRICING PROCESSES STALLED

The commercial real estate investment market in Germany achieved a transaction volume of around €40.2 billion in the first three quarters of 2022. Compared to the equivalent period last year, the result corresponds to an increase of 6%. The transaction volume is therefore on a par with the 5-year average for each of the first three quarters. After a slight slowdown in transaction activity in the 2nd quarter due to the changed financing environment (€9.4 billion), this was followed in the 3rd quarter by a figure of €12.6 billion. Nevertheless, the investment market is in a difficult situation due to the interest rate turnaround and the resulting uncertainty among market participants. Particularly in the case of core assets, many pricing processes between buyers and sellers are still far from completion.

COMMERCIAL TRANSACTION VOLUME



SHARE OF TRANSACTION VOLUME BY SOURCE OF CAPITAL



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GERMANY

Investment Q3 2022

TRANSACTION VOLUME OF RETAIL AND LOGISTICS PROPERTIES INCREASED

In the year to date, office properties have made the largest contribution to transaction volume, around 41% and €16.3 billion, confirming their customary first place among investors. However, the transaction volume did not increase despite some very large-scale transactions. By contrast, the transaction volume of logistics and industrial properties achieved a year-on-year increase of around 38% and a total transaction volume of €7.9 billion. This positive development was driven in particular by several large-scale acquisitions and portfolio sales from the 1st quarter. In the retail real estate segment, a shareholding increase in Deutsche Euroshop AG by Oaktree and Cura Vermögensverwaltung in the 3rd quarter ensured that the transaction volume rose by 20% year-on-year to €6.3 billion.

BERLIN WITH HIGHEST TRANSACTION VOLUME

Transaction volume in the top-7 markets totalled €21.1 billion in the first three quarters of 2022, contributing 52% of the national total. Compared with the previous year, the total transaction volume of these markets increased only marginally, by just under 2%. The highest transaction volumes were achieved in Berlin and Frankfurt, at around €5.9 billion and €4.0 billion respectively. Cologne just exceeded the €1 billion mark, while Stuttgart remained slightly below with €0.9 billion. Dusseldorf and Hamburg in particular, but also Stuttgart, recorded increases in transaction volume. The other markets remained below their prior-year levels.

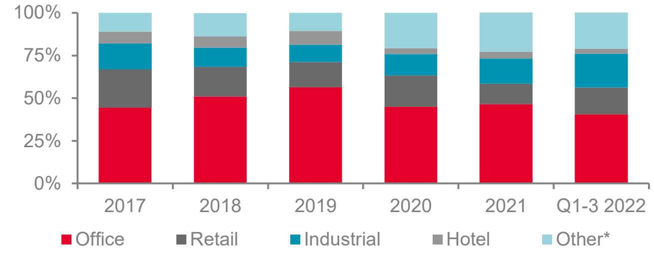
PRIME YIELDS CONTINUE TO RISE

The rise in prime yields which began in the 2nd quarter continued in the 3rd quarter. In the top-7 markets, the median prime yield for office properties is now 3.23% (+24 bps), for first-class high street retail properties 3.48% (+11 bps) and for logistics properties 3.61% (+50 bps). The median prime yield for offices is thus higher than at any time since mid-2018.

Outlook

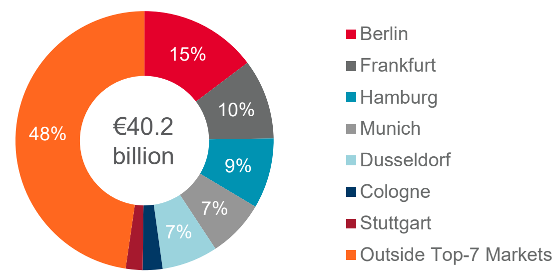
- The purchase price expectations of buyers and sellers are currently still far apart. The pricing phase will therefore continue to slow down market activity for several months.
- Against the background of the uncertain financial situation, interesting and attractive investment opportunities are likely to arise for investors with a strong equity base.
- The volatile financing and bond market does not currently offer a reliable financing environment for investors. No strong year-end rally is expected, so that Cushman & Wakefield expects a transaction volume slightly above €50 billion for the year 2022 as a whole.

SHARE OF TRANSACTION VOLUME BY ASSET CLASS



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

TRANSACTION VOLUME BY MARKET Q1-3 2022



PRIME YELD BY ASSET CLASS*

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

MARKETBEAT

GERMANY

Investment Q3 2022 – Office

OFFICE TRANSACTION VOLUME RISES AGAIN IN 3RD QUARTER

Office real estate transaction volume totalled around €16.3 billion from January to September 2022, only slightly down on the previous year (-1%). After a strong start to the year and a weak 2nd quarter with around €2.6 billion, the 3rd quarter was significantly more dynamic with €4.2 billion. This was mainly due to several single-asset transactions with purchase prices in excess of €250 million each. In particular, the sale of the "VoltAir" in Berlin for €460 million to Swiss Life and Norges Bank from ABG Real Estate should be mentioned here. By contrast, no acquisitions above the €250 million mark were registered in the previous quarter. However, higher borrowing costs continue to dampen investment momentum, leaving the market well below its potential. In the core segment, the purchase price expectations between seller and buyer are still very far apart.

CLEAR INVESTMENT FOCUS ON TOP 7 MARKETS

The top-7 markets contributed the vast majority of office transaction volume in Germany, at around 80% and €13.2 billion. Compared to the equivalent period last year, the volume of office transactions within these markets increased by almost 6%. Half of the national office transaction volume is contributed by the cities, Frankfurt, Berlin and Hamburg, alone. Dusseldorf and Hamburg contributed exceptionally positive results. Compared to the equivalent period last year, Dusseldorf recorded an increase in of 118% and Hamburg around 98%.

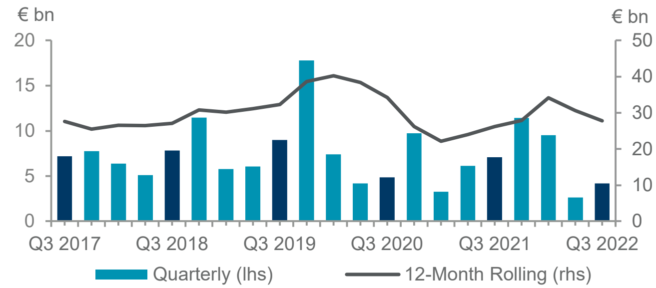
PRIME OFFICE YIELDS CONTINUE TO RISE IN Q3 QUARTER

The median prime yield for office properties in the top-7 markets is currently 3.23%, 24 basis points higher than at the end of June 2022. Compared to the equivalent point last year, prime yields have risen by 43 basis points. Meanwhile, no location is below the 3.00% mark. Munich is the most expensive market (3.00%), followed by Frankfurt at 3.10% and Hamburg at 3.15%. Stuttgart is the cheapest market at 3.60%.

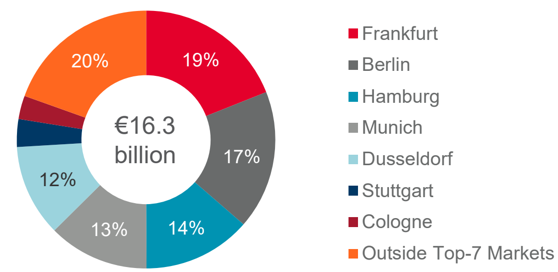
Outlook

- Office properties will continue to dominate transaction activity. Shifts in demand within the risk classes in favour of value-add and core-plus properties can already be observed. The previously strong investment momentum regarding high-priced core products will initially continue to weaken.
- Against the backdrop of further increases in borrowing costs and as yet unfinished pricing processes, prime office yields will continue to rise.
- In the case of value-add or core-plus office properties, attractive investment opportunities with good value enhancement potential and manage-to-core strategies may arise in the future. The top-7 office letting markets are increasingly recovering from the Covid-19 pandemic and offer good reletting potential.

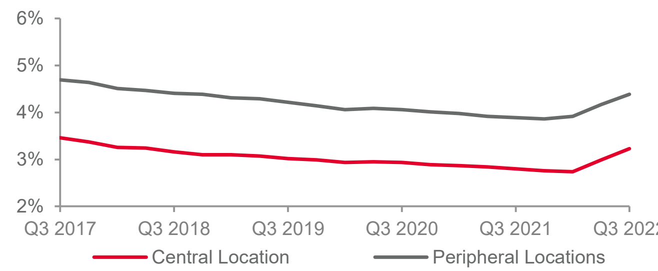
OFFICE TRANSACTION VOLUME



TRANSACTION VOLUME BY MARKET Q1-3 2022



OFFICE PRIME YIELD BY LOCATION*



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

MARKETBEAT

GERMANY

Investment Q3 2022 – Retail

RETAIL INVESTMENT MARKET WITH STRONG 3RD QUARTER

Retail property transaction volume totalled €6.3 billion in the first three quarters of 2022. Compared to the equivalent period last year, this represents an increase of almost 20%. At €2.8 billion, the 3rd quarter achieved the second-highest quarterly result since the outbreak of the pandemic. The shareholding increase in Deutsche Euroshop AG by Oaktree and Cura Vermögensverwaltung for well over €1 billion was a major factor in the sales surge.

RETAIL WAREHOUSE AND RETAIL PARK CONTRIBUTION SHRINKING

Investors continue to favour retail warehouses and retail parks. The transaction volume totalled €2.6 billion, contributing 41% of the total retail transaction volume in Germany. However, compared to the equivalent period last year, transaction volume decreased by around 34%. Investment momentum in this property category has slowed due to owners' unwillingness to sell and the changed interest rate environment. Their proportion of transaction volume is currently at its lowest level since the outbreak of the pandemic. In Q1-3 2021, the contribution was 75%. In the case of first-class high street retail properties, investors are still acting very selectively. At €1.1 billion, the transaction volume is around 41% higher compared to the equivalent period last year. Due to the increase of shareholder stock in Deutsche Euroshop AG, the transaction volume for shopping centres (€2.5 billion) was at its highest since 2015.

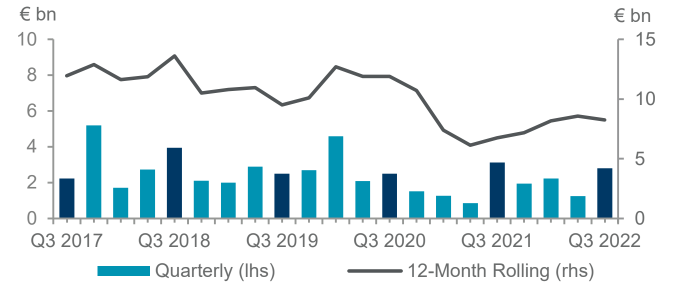
PRIME YIELD FOR RETAIL PARKS ALSO RISES

As of Q3 2022, the average prime yield for retail parks in the top-7 markets was 4.25%, an increase of 5 basis points compared with the previous quarter. The average prime yield for first-class high street properties is 3.48%, up by 11 basis points from Q2. The rise in yields for shopping centres was even stronger. The average prime yield here rose from 5.00% in June 2022 to the current 5.44%.

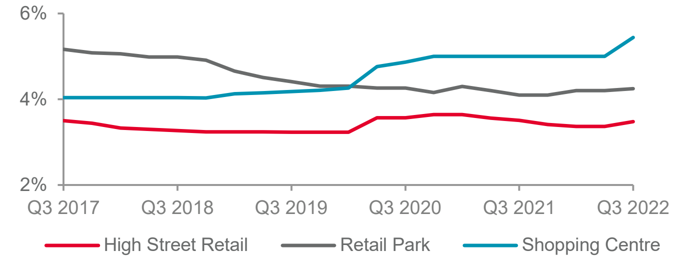
Outlook

- Retail properties such as supermarkets, discount supermarkets or retail parks with anchor tenants from the food sector remain the most sought-after property types. However, investment momentum remains below its potential due to owners' lack of willingness to sell.
- In the case of high street retail properties, investors continue to act very selectively, with a clear focus on specific high-street locations. It remains to be seen whether turnover or graduated rents will once again play an increasingly important role in contract negotiations.
- In the case of shopping centres, the propensity of investors to buy is likely to remain low. High inflation will continue to dampen consumer spending for an indefinite period. Concerns about declining sales or the closure of individual retailers are too great.

RETAIL TRANSACTION VOLUME

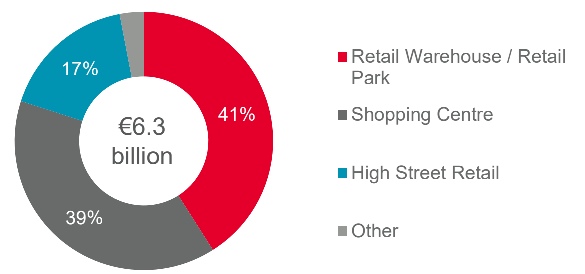


PRIME YIELD BY TYPE OF PROPERTY



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

TRANSACTION VOLUME BY TYPE OF PROPERTY Q1-3 2022



GERMANY

Investment Q3 2022 – Industrial

FEWER PORTFOLIO TRANSACTIONS IN THE 2ND AND 3RD QUARTERS

The logistics and industrial property transaction volume was around €7.9 billion from January to September 2022. Compared to the equivalent period last year, this corresponds to an increase of 38% and setting a new first three quarters record. At around €2.0 billion each, the 2nd and 3rd quarters were significantly lower than the €3.8 billion strong start to the year. The main reason for this was a sharp decline in portfolio transactions, which fell from €2.2 billion in the 1st quarter to a combined €1.3 billion in the two subsequent quarters.

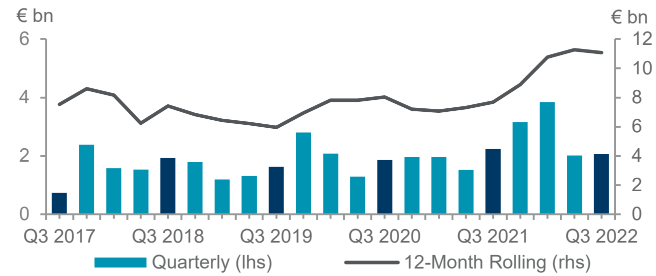
UPWARD TREND IN VOLUMES WITHIN THE TOP 7 MARKETS

As before, the majority of the national logistics and industrial transaction volume (around 75%) was generated outside Germany's top-7 markets. A total of around €2.0 billion was transacted in the top-7 markets, almost 24% more than in the same period last year, while the proportion contributed to the national total has increased from 20% to 25%. Frankfurt and Berlin are the top markets by transaction volume, at €480 million and €370 million respectively. The high importance of the e-commerce sector together with the shift of distribution and logistics real estate towards urban regions is increasingly reflected in change in distribution of transaction volume.

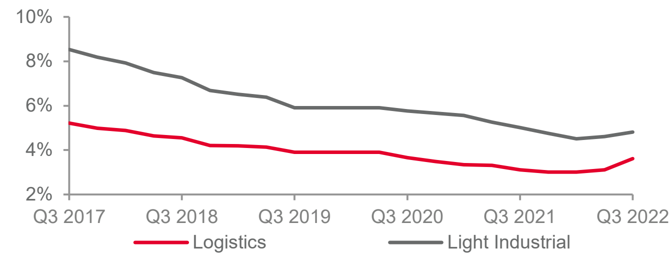
PRIME YIELDS FOR INDUSTRIAL PROPERTIES ON THE RISE

The average prime yield for logistics properties in the top-7 markets is currently 3.61%. Compared with the previous quarter and the September figure last year, this represents an increase of 50 basis points. The prime yield for light-industrial properties in Q3 2022 increased 20 basis points from the previous quarter to an average of 4.81%. A possible recession as well as high energy and manufacturing costs have caused great uncertainty among investors in this property category.

INDUSTRIAL TRANSACTION VOLUME

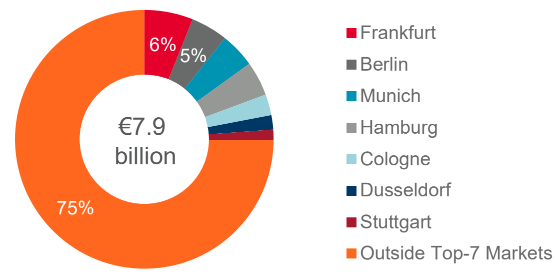


PRIME YIELD BY TYPE OF PROPERTY



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

TRANSACTION VOLUME BY MARKET Q 1-3 2022



Outlook

- The transaction volume involving logistics and industrial properties is expected to achieve a new record result for 2022 as a whole. Nevertheless, restraint has also increased in this sector as a result of higher interest rates.
- The shift in demand towards the top-7 markets will continue. The growth trend in online retailing continues unabated, with growing demand for logistics space in urban regions.
- The continuing high energy and commodity prices are having a negative impact on investors' willingness to buy light industrial/manufacturing properties. Further declines in purchase prices and rising prime yields can therefore be expected.

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GERMANY

Investment Q3 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	5.92	-12	48	61	3.20	3.40	3.60
Dusseldorf	2.83	127	67	67	3.25	3.10	3.60
Frankfurt	4.01	-17	77	55	3.10	3.60	3.60
Hamburg	3.55	77	62	58	3.15	3.70	3.60
Cologne	1.01	-9	48	31	3.30	3.75	3.60
Munich	2.91	-25	71	12	3.00	3.10	3.60
Stuttgart	0.85	16	68	61	3.60	3.70	3.70
Germany	**40.24**	**6**	**41**	**46**	**3.23***	**3.48***	**3.61***

**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
VoltAir, Voltairestraße 1	Q3	Office	Berlin	ABG Real Estate / Swiss Life, Norges Bank Investment Management	~ 460
UBS Portfolio (11 Objekte)	Q1	Logistics, Industrial	Nationwide	UBS / Prologis	~ 450
Former Fernmeldeamt, Schlüterstraße 51	Q3	Office	Hamburg	Peakside Capital / Values Real Estate	~ 400
Q207 Galeries Lafayette, Friedrichstraße 76-78	Q1	Mixed use	Berlin	Allianz Real Estate / Tishman Speyer	~ 300

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