

MARKETBEAT GERMANY

Investment Q2 2023



	YoY Change	12-Month Forecast
€9.81 bn Transaction Volume (cum.)	▲	▲
34% Share of Foreign Capital	▲	▲
4.04% Office Prime Yield Top-7*	▲	▲

*Average net initial yield in German Top-7 markets

ECONOMIC INDICATORS

	YoY Change	12-Month Forecast
0.20% GDP Growth (Q2 2023 vs. Q2 2022)	▲	▲
5.5% Unemployment Rate (Jun 2023)	▲	■
88.5 Ifo Business Climate Index (Jun 2023)	▼	▲
4.00% ECB Interest rate (Jun 2023)	▲	▲
2.43% 10-Year Government Bond Yield (Q2 2023)	▲	▲

Sources: Moody's Analytics, National Labour Office, Ifo Institute

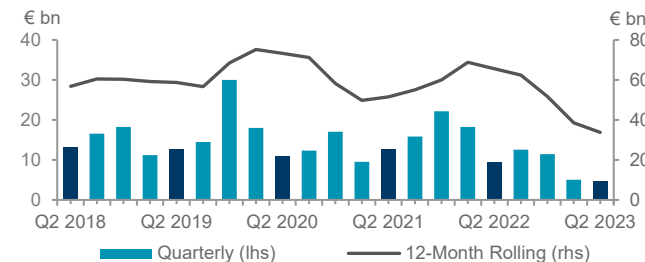
HIGH AND VOLATILE INTEREST RATE ENVIRONMENT HOLDS BACK THE INVESTMENT MARKET

After two recent quarters of declining economic output, economists at some major financial institutions and the German government are still at odds over the prospects for the German economy. While banks expect the economy to contract slightly (-0.3%) by the end of the year, the German government forecasts a slight increase of 0.4%. According to the latest Ifo economic survey, however, sentiment has deteriorated further, with the June 2023 business climate index standing at 88.5 points. In the previous month of May, the index value was still 91.5 points. Compared with the June figure for the previous year, the business climate also fell by 3.8 points. In the retail sector, persistently high inflation is still depressing consumer purchasing power, and in the manufacturing sector, foreign demand is particularly weak, with the result that orders on hand are also likely to decline further in the medium term. Furthermore, the effects of the interest rate turnaround will also be increasingly felt in the second half of the year. With inflation still too high in both the eurozone (5.5%) and Germany (6.4%), a further increase in key interest rates by the European Central Bank (ECB) cannot be ruled out. The yield on 10-year German government bonds averaged 2.43% in the second quarter of 2023, meaning that mortgage rates with a 10-year term also increased to 3.94% at present from 2.90% a year earlier. As a result of the currently prevailing mixed situation, the interest rate environment and volatility on the bond and credit markets remain high. Many risk-averse investors are realigning their asset allocation due to the unreliable financing landscape, so demand and increasingly also capital is likely to be shifted to risk-free investment products such as government bonds or fixed-term deposit accounts.

CORE PROPERTIES INCREASINGLY MOVING INTO THE BACKGROUND

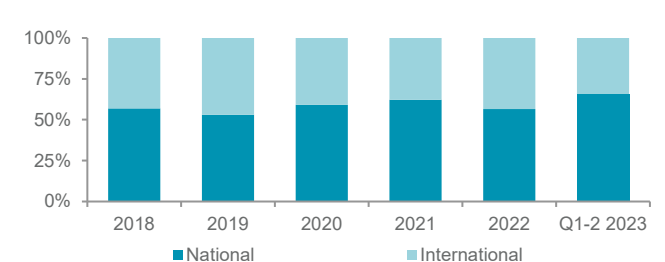
The commercial investment market in Germany achieved a transaction volume of €9.81 billion in the first half of 2023. The result is around 65% lower than in the same period of the previous year and marks the weakest half-year result since 2012. Compared with the 5-year average for the first half of each year, there is also a decrease of 62%. The size and number of portfolio transactions remained manageable in the year to date, and acquisitions by international investors in Germany were also very restrained (34% share of sales). Since the turnaround in interest rates, demand and investment momentum for core properties have slowed considerably. Institutional investors focus almost exclusively on core+, value-add and opportunistic investments.

COMMERCIAL TRANSACTION VOLUME*



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

SHARE OF TRANSACTION VOLUME BY SOURCE OF CAPITAL





TRANSACTION VOLUME DOMINATED BY RETAIL PROPERTIES

At 25% and 24% respectively, retail and office properties accounted for the highest share of the overall German transaction volume in the first half of 2023. In particular, the market dominance of office properties, which has been high in recent years, has now suffered a sharp drop in transaction volume. At currently around €2.36 billion, the half-year result is 81% below the previous year's figure. The transaction volume with retail properties reached €2.40 billion and thus slightly more than office properties. Compared with the first half of 2022, the volume has thus fallen by 31%. Transaction volume of logistics and industrial properties generated around €1.7 billion, almost 71% less than a year earlier. Hotel sales also recorded a year-on-year decline of 45% to €330 million.

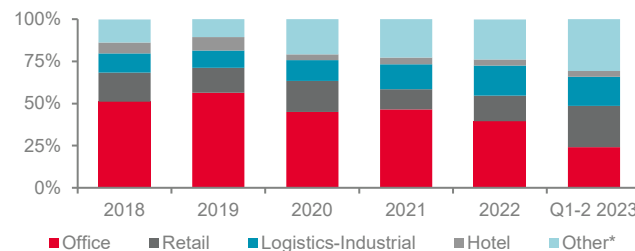
BERLIN TOP-7 MARKET IN TERMS OF TRANSACTION VOLUME

A total of around €4.79 billion was invested in the Top-7 markets in H1 2023, representing almost half (49%) of Germany's total transaction volume. Compared with the previous year's result, however, there was a decline in transaction volume of 67%. Berlin is clearly in the lead with around €2.12 billion and a share of 22% of the total transaction volume. Mixed-use properties and retail properties dominated the market. The other markets with the highest transaction volume were Munich (€690 million) and Dusseldorf (€545 million). Frankfurt and Cologne brought up the rear with €365 million and €195 million, respectively. The financial metropolis of Hesse recorded the sharpest decline in sales, down by 89%.

YIELDS FOR HIGH STREET RETAIL AND LOGISTICS STABLE, OFFICE RISING

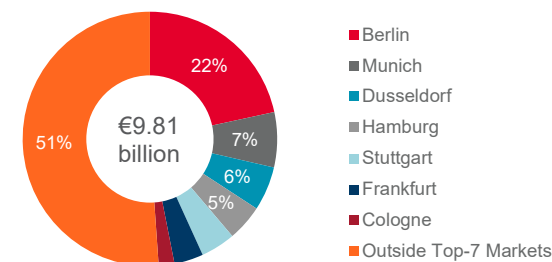
The rise in yields for prime properties triggered by the interest rate turnaround in Q2 2022 continued unabated for office properties in Q2 2023. From the end of March to the end of June 2023, the average office prime yield in the Top-7 markets increased by 21 basis points to now 4.04%. By contrast, the prime yields for high street retail properties in prime locations (3.90% in the Top-7 markets) and for logistics properties (4.15%) remained unchanged compared with Q1 2023.

SHARE OF TRANSACTION VOLUME BY ASSET CLASS

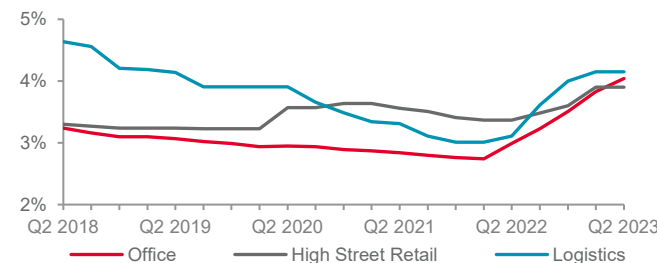


*Other (Leisure, Health Care, Mixed Use, Development Plots)

TRANSACTION VOLUME BY MARKET Q1-2 2023



PRIME YIELD BY ASSET CLASS*



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

Outlook

- Inflation in the eurozone is still far from the target set by the European Central Bank (ECB). It is highly likely that a further key rate hike will take place at the end of July 2023.
- In conjunction with the still strong restraint on the part of buyers and sellers, the rise in yields will continue, especially for low-risk core investments.
- Demand and investment activity are increasingly shifting towards value-add and core+ properties in very good locations. Here, Cushman & Wakefield expects a noticeable revival of transaction dynamics towards the end of the year.



OFFICE TRANSACTION VOLUME STILL SUBDUED

The currently emerging lower demand for office space on the part of companies due to increased home-office odds is in many cases causing potential buyers to adopt a wait-and-see attitude toward this asset class and for sellers and buyers to have different price expectations - especially for high-priced core properties. The transaction volume with office properties only reached €2.36 billion in H1 2023, marking the lowest half-year result in the last 10 years. Compared with the previous year, this corresponds to a sharp decrease of 81%. The majority of office sales in the year to date have been for properties below the €50 million mark and for value-add and core+ properties. By contrast, there have hardly been any sales of large-volume and high-priced core properties.

TOP-7 MARKETS REMAIN PREFERRED TARGET FOR OFFICE PROPERTIES

Despite the very subdued pace of investment in office properties to date, the Top-7 markets remain the preferred target for investors. Around €1.36 billion was invested within the seven markets in the first half of the year, accounting for 58% of the total German office transaction volume. In the same period of the previous year, the share was still at high 78% with a transaction volume of around €9.54 billion. The strongest single market in terms of transaction volume to date is Berlin with €360 million, followed by Hamburg with €270 million. Only Cologne and Stuttgart remain below the €100 million mark with their respective office transaction volume.

PRIME OFFICE YIELDS HAVE RISEN FOR FIVE QUARTERS IN A ROW

The average prime yield for office properties in the Top-7 markets is currently 4.04%, 21 basis points higher than at the end of March 2023. In a 12-month comparison, this means an increase of 105 basis points. The average prime yield was last quoted at a similarly high level in Q2 2016. In peripheral locations, the prime yield is currently 5.17%, 14 basis points higher than in March 2023. Looking ahead, the yield spread is likely to widen further, to the detriment of peripheral locations.

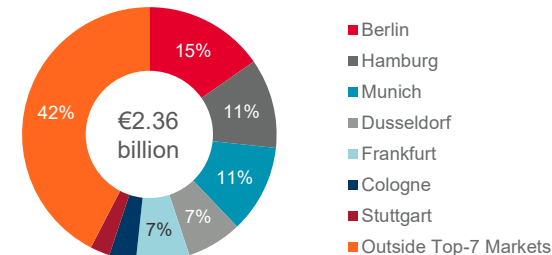
Outlook

- The price discovery and correction phase for low-risk core office properties will continue in the second half of 2023 and will still severely limit the willingness to invest within this risk class.
- Further increases in prime office yields are expected by the end of the year, albeit to a lesser extent than the previous quarters. Prices for value-add and core+ properties in very good locations are slowly stabilizing.
- Cushman & Wakefield still expects hardly any high-priced transactions in the triple-digit million-euro range. Equity-strong investors are likely to find attractive investment opportunities due to the volatile and high interest rate environment.

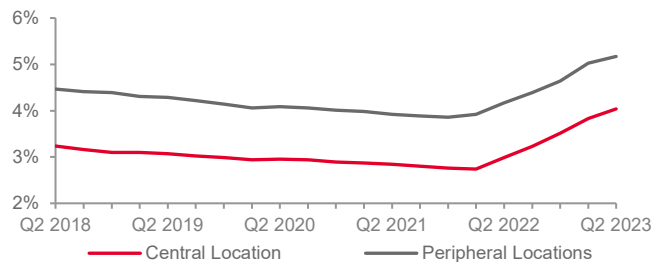
OFFICE TRANSACTION VOLUME



TRANSACTION VOLUME BY MARKET Q1-2 2023



OFFICE PRIME YIELD BY LOCATION*



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

SHARE ACQUISITIONS PUSH RETAIL TRANSACTION VOLUME

The transaction volume of retail properties reached €2.40 billion in the first half of the year, slightly higher than that of office properties. Compared with the same period last year, retail property transaction volume decreased by 31%, significantly less than the overall volume for Germany as a whole. Share purchases and increases in shareholdings were the main driver of transaction volume in this segment. In the first quarter, the sale of 49.9% of the shares in Berlin's KaDeWe department store to the Central Group from Thailand and the increase in Deutsche Euroshop's shareholding in five German shopping centers should be mentioned here. In the second quarter, it was the acquisition by Signa of a 20% share in seven properties used by Galeria Kaufhof and one by Zweirad Stadler in seven German cities.

HIGH PROPORTION OF HIGHT STREET RETAIL AND RETAIL PARKS

The transaction volume with high street retail properties reached a total transaction volume of €1.14 billion in H1 2023, meaning that just under half of the total retail volume is attributable to these property types. Compared with the previous year's result, there was even an increase in transaction volume of around 50%. This is mainly attributable to the large-volume sale of shares in Berlin's KaDeWe department store and the 20% stake in a total of eight Galeria department stores held by Commerz Real in the second quarter. Around €860 million have been transacted in retail parks in the year to date. There was a lack of major individual and portfolio sales here, particularly in the second quarter. Since the pandemic, the propensity to invest in shopping centers has remained restrained, resulting in the lowest transaction volumes.

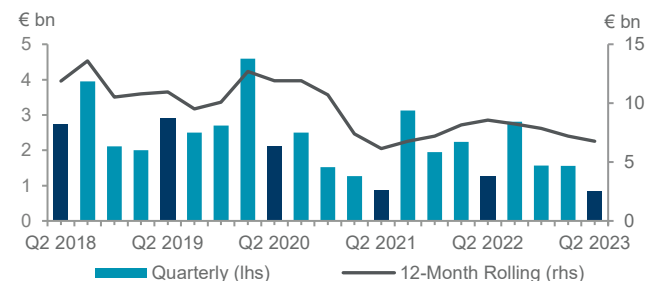
NO FURTHER INCREASE IN PRIME YIELDS IN THE SECOND QUARTER

The average prime yield for retail parks is 4.60% in the Top-7 markets at the end of Q2 2023. For high street retail properties, the prime yield is 3.90% and for shopping centers, the average yield is 5.74%. Compared with the previous quarter, prime yields have remained unchanged. Slowly but steadily, a bottoming out of price levels is becoming apparent in the retail segment.

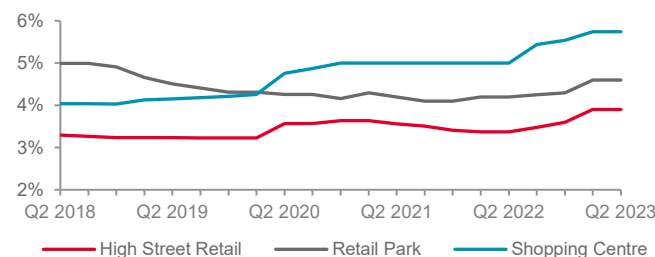
Outlook

- Investors continue to focus on food-oriented retail properties. We continue to expect the greatest willingness to invest in this segment, although owners are still reluctant to sell.
- Whether the transaction volume picks up in the second half of the year will also depend to a large extent on the willingness of owners to sell and an increase in portfolio transactions.
- A significant revival and stronger investment momentum with commercial properties in prime locations and shopping centers is still not in sight. Investors continue to be very selective in their investments. The marketing prospects for shopping centers with a high maintenance backlog are likely to remain challenging in the medium term.

RETAIL TRANSACTION VOLUME

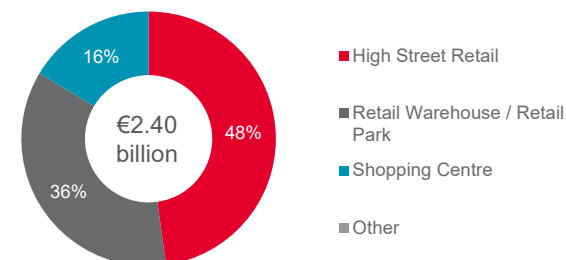


PRIME YIELD BY TYPE OF PROPERTY



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

TRANSACTION VOLUME BY TYPE OF PROPERTY Q1-2 2023



LACK OF LARGE-VOLUME LOGISTICS TRANSACTIONS

The turnaround in interest rates has also significantly slowed down the volume of transactions in logistics and industrial real estate in recent quarters. Transaction volume reached €1.70 billion, 71% less than in the same period of the previous year. Nevertheless, at around €900 million, the transaction volume in the months from April to June was slightly higher than in Q1 2023. Only two transactions worth €100 million each have been registered so far, including the sale of the "Areal Böhler" industrial and commercial park in Meerbusch near Düsseldorf to Jamestown. Both transactions took place in the first quarter. A larger sale in the second quarter includes the acquisition of a projected logistics campus in Hanover to AEW External Link and the sale of Coreport Leipzig II in Schkeuditz to Values Real Estate.

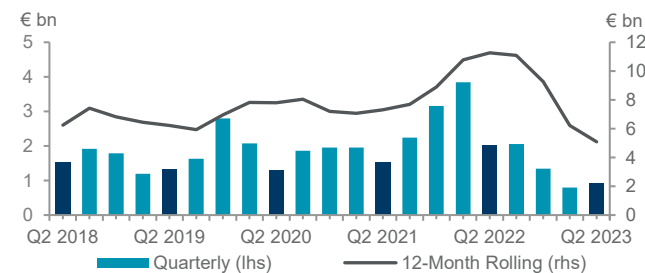
ONLY DUSSELDORF AND STUTTGART WITH GROWTH IN TRANSACTION VOLUME

A total of around €665 million and 39% of Germany's logistics and industrial transaction volume was invested in the market area of the Top-7 markets. This is around 57% less than in the comparable prior-year period. In Q2 2023, transaction activity was particularly restrained, with only €155 million being transacted. Similarly, no transactions in the triple-digit million-euro range were registered within these three months. The strongest individual markets in terms of transaction volume were Düsseldorf and Stuttgart, with around €170 million and €145 million respectively. Both markets were also able to achieve year-on-year increases, while the other locations achieved a decline in transaction volume, in some cases significantly, by between 30% in Munich and 88% in Cologne.

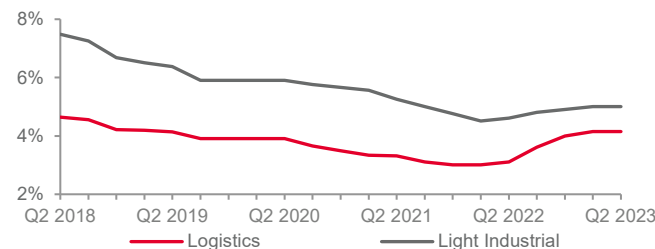
PRICING PROCESS PROGRESSING, PRIME YIELD STABLE

The average prime yield for logistics properties in the Top-7 markets is currently 4.15%, unchanged from Q1 2023. However, compared to the June figure last year, the prime yield has increased by 104 basis points. The average prime yield for light industrial properties increased less sharply. This currently stands at 5.01%, up 40 basis points year-on-year.

LOGISTICS-INDUSTRIAL TRANSACTION VOLUME

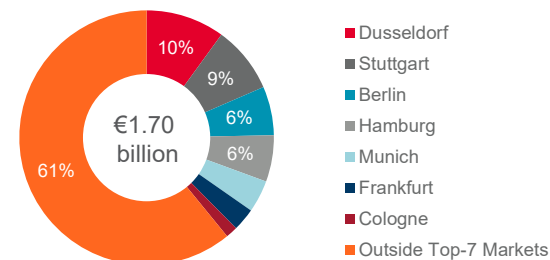


PRIME YIELD BY TYPE OF PROPERTY



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

TRANSACTION VOLUME BY MARKET Q1-2 2023



Outlook

- Investor interest in the logistics and industrial investment market will also increasingly focus on core+ and value-add properties. However, supply will remain limited due to the very low vacancy rates on the rental markets.
- In view of the recent flattening and stabilizing trend in yields for core properties, a new price level appears to be emerging at which buyers and sellers are once again finding each other.
- However, further small increases in prime yields cannot be ruled out. Possible price corrections also essentially depend on the ECB's upcoming key interest rate hike.

MARKETBEAT GERMANY

Investment Q2 2023



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MARKET STATISTICS Q1-2 2023

Market	Transaction Volume (€ bn)	Change YoY (%)	Share of Office Volume (%)	Share of International Capital (%)	Office Prime Yield (%)	Retail High Street Prime Yield (%)	Logistics Prime Yield (%)
Berlin	2.12	-44	17	48	3.95	3.80	4.15
Dusseldorf	0.55	-70	30	50	4.25	3.50	4.15
Frankfurt	0.37	-89	44	57	3.95	4.10	4.15
Hamburg	0.45	-80	60	34	4.00	4.10	4.15
Cologne	0.20	-79	41	44	4.25	4.30	4.15
Munich	0.69	-53	38	51	3.70	3.40	4.15
Stuttgart	0.44	-37	14	9	4.15	4.10	4.15
Germany	9.81	-65	24	34	4.04*	3.90*	4.15*

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

SELECTED TRANSACTIONS 2023

Property / Address	Quarter	Type of Use	Location	Seller / Buyer	Price (€ million)
KaDeWe (49,9 % Share)	Q1	Retail	Berlin	Signa / Harng Central Department Store	confidential
Ensemble Mynd & Galeria-Weltstadthaus	Q2	Mixed-Use	Berlin	Signa / Commerz Real	confidential
Increase in shareholding Deutsche Euroshop	Q1	Retail	Nationwide	Numerous partnerships / Deutsche Euroshop	~ 260
Seidlstraße 15-19	Q1	Office	München	Freistaat Bayern / Apple	~ 250
Areal Böhler	Q1	Industrial	Meerbusch	Voeastalpine / Jamestown	~ 160
Fritz-Schumacher-Gebäude, Gänsemarkt 36-38	Q2	Office	Hamburg	PPS Immobilien Holding / Stadt Hamburg	~ 120
Bayernwerk-Zentrale, Lilienthalstraße 7	Q2	Office	Regensburg	Real I.S. / Fondsgrund	~ 100
Bauknecht Business Park	Q1	Industrial	Fellbach	Quantum / Bauknecht Immobilien Gruppe	~ 100

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