

MARKETBEAT GERMANY

Investment Q3 2023



€15.52 bn

Transaction Volume (cum.)

YoY
Change

12-Month
Forecast



36%

Share of Foreign Capital



4.49%

Office Prime Yield Top-7*



*Average net initial yield in German Top-7 markets

ECONOMIC INDICATORS

-0.68%

GDP Growth
(Q3 2023 vs. Q3 2022)

YoY
Change

12-Month
Forecast



5.7%

Unemployment Rate
(Sep 2023)



85.8

Ifo Business Climate Index
(Sep 2023)



4.50%

ECB Interest rate
(Sep 2023)



2.53%

10-Year Government Bond
Yield (Q3 2023)



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

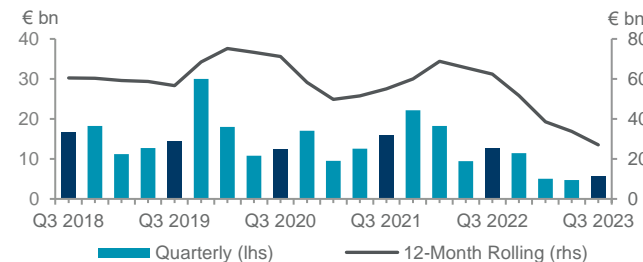
ECB HOLDS INTEREST RATES, LOWER ECONOMIC GROWTH EXPECTED FOR 2024

According to the Consensus Economics forecasts, Germany's economic output is expected to fall by 0.4% year-on-year, resulting in a slight recession due to continued high inflation and a weakening global economy. Growth is expected to return to around 0.5% in the coming year. In addition, geopolitical conflicts such as the war in Ukraine and the conflict in the Middle East are causing further uncertainty. As an export-oriented economy, weak foreign trade is also weighing particularly heavily on Germany's economic performance. According to economic institutes, growth impetus is therefore likely to come primarily from private consumption. The labour market remains very robust with an unemployment rate of 5.7%. The hold on interest rates initiated by the ECB is having a noticeable impact on inflation. In Germany, the inflation rate fell steadily and stood at 4.5% in September 2023 and 3.8% in October. This was the lowest level since August 2021. Nevertheless, there is still no sign of a key interest rate cut. The yield on 10-year German government bonds averaged 2.53% in the third quarter of 2023 and thus remains at a high level. Similarly, 10-year mortgage rates have also risen steadily and stood at around 4.10 % at the end of September and October. For risk-averse investors, the current bond market level is certainly attractive and should also lead to an increasing realignment of asset allocation in the medium term due to the volatile financing landscape and serve as an alternative investment product for portfolio diversification.

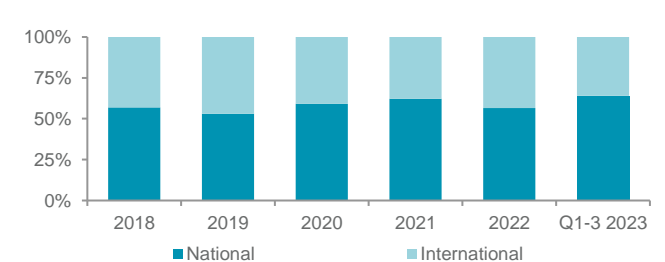
3RD QUARTER BRINGS SLIGHT INVESTMENT MARKET RECOVERY

The commercial real estate investment market in Germany achieved a transaction volume of around €15.52 billion in the first three quarters of 2023. Compared to the same period of the previous year, this corresponds to a 61% decrease, also relative to the 5-year average for the first three quarters of each year. At just under €5.71 billion, the 3rd quarter is the strongest quarter of the year so far in terms of transaction volume. Several portfolio transactions in the triple-digit-million-euro range were largely responsible for the surge in transaction volume. Price expectations between buyers and sellers are still not aligned in many areas, leading to the low transaction volume. However, a gradual convergence is being observed, as prices have already fallen significantly. Among the investor types, institutional investors continue to be very cautious regarding core office properties.

COMMERCIAL TRANSACTION VOLUME*



SHARE OF TRANSACTION VOLUME BY SOURCE OF CAPITAL



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

COMMERCIAL AND LOGISTICS REAL ESTATE DOMINATES

Retail properties have made the largest contribution to commercial real estate investment transaction volume so far this year at €4.17 billion. This represents a strong 27% and is also the largest proportion since 2015. Compared to the same period of the previous year, transaction volume is down by around 34%. Logistics and industrial properties achieved a transaction volume of €3.59 billion and are the second-strongest sector behind retail properties (23%). At €1.89 billion, this segment was even the strongest in terms of transaction volume in the 3rd quarter. Four portfolio transactions, each worth over €100 million, made a significant contribution to the positive result. The transaction volume for office properties remains very low, at €3.29 billion in the first three quarters. Compared to the previous year, this corresponds to a decrease of 80%.

BERLIN STRONGEST TOP-7 MARKET

In the Top-7 markets, transaction volume totalled to €6.42 billion from January to September 2023, which corresponds to 41% of the total transaction volume in Germany. Berlin remains the market with the highest result at a total transaction volume of €2.69 billion. Munich also just exceeded the €1 billion mark (€1.03 billion). The markets with the lowest current transaction volume are Cologne with €305 million and Stuttgart with €525 million. All markets recorded a significant decrease compared to the previous year: Stuttgart (-38%) and Berlin (-55%) fell by the least, while Frankfurt (-86%) and Hamburg (-80%) saw the largest falls.

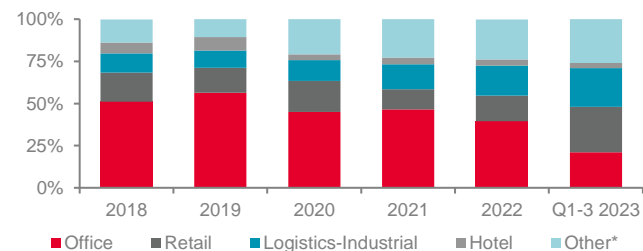
PRIME YIELDS CONTINUE TO RISE, ESPECIALLY FOR OFFICE PROPERTIES

From the end of June to the end of September 2023, the average prime office yield for core properties in the Top-7 markets rose by 45 basis points to the current 4.49%. The average prime yield for high street retail properties in prime locations rose by 20 basis points to 4.10%. The average for logistics properties is currently 4.30%, 15 basis points higher than a quarter earlier.

Outlook

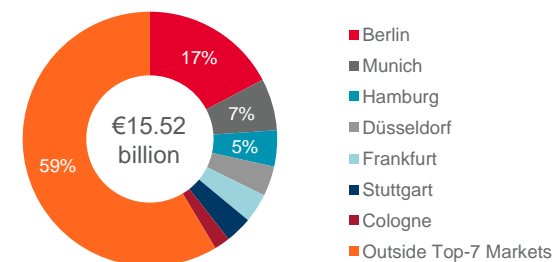
- The turnaround in interest rates initiated by the European Central Bank is now having a dampening effect on the further course of inflation, meaning that another interest rate hike in December seems very unlikely. Instead, a longer pause in interest rates is expected.
- Prime yields for core real estate are likely to peak in the coming quarters, making a bottoming out of purchase prices appear possible.
- No traditional year-end rally in transactions is expected in the final quarter. Interest rates on the capital markets are still too high and volatile for the majority of institutional investors.

SHARE OF TRANSACTION VOLUME BY ASSET CLASS

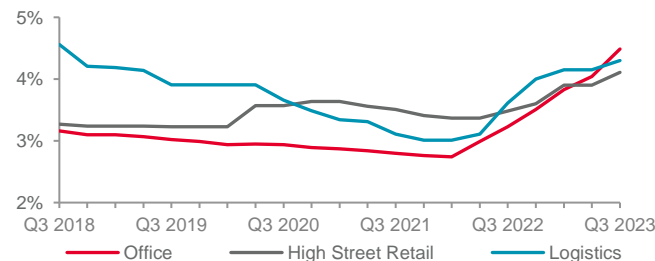


*Other (Leisure, Health Care, Mixed Use, Development Plots)

TRANSACTION VOLUME BY MARKET Q1-3 2023



PRIME YIELD BY ASSET CLASS*



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

LITTLE MOVEMENT IN THE OFFICE INVESTMENT MARKET

While buyers' and sellers' purchase price expectations continue to gradually converge, the current interest rate level and the higher equity requirements of banks are currently the major obstacle to acquisitions for the majority of institutional investors. This affects high-priced core office properties in particular, of which very few have changed hands so far this year. As a result, the overall office transaction volume is still very subdued and at its lowest level of the past ten years. From January to September 2023, office properties worth €3.29 billion were traded, 80% less than a year earlier. The clear majority of sales were for properties under €50 million with a clear focus on value-add and core-plus properties.

TOP-7 MARKET SHARE SIGNIFICANTLY DECREASED

In line with the low office transaction volume, the market contribution of the Top-7 markets has also fallen sharply. At €1.95 billion, the current proportion of transaction volume is around 59%, compared to an average of around 80 % over the past five years. In the same period last year, the share was still at 80% with a transaction volume of €13.15 billion. Among the Top-7 markets, Munich is the location with the highest transaction volume to date, with a total of €520 million. The office transaction volume in Berlin and Hamburg is also still above the €400 million mark.

RISE IN OFFICE PRICE YIELDS CONTINUES

The average prime yield for office properties in the Top-7 markets currently stands at 4.49 %, 45 basis points higher than at the end of June 2023 and as much as 126 basis points higher than a year previously. Similar price discounts can also be observed in peripheral locations. Here, the prime yield rose by 44 basis points quarter-on-quarter to an average of 5.61%. Compared to the 3rd quarter last year, the increase amounts to 122 basis points. While there are signs that prime yields for office properties in city centre locations will stabilise in the coming quarters, the peak in peripheral locations is likely to be some time in coming.

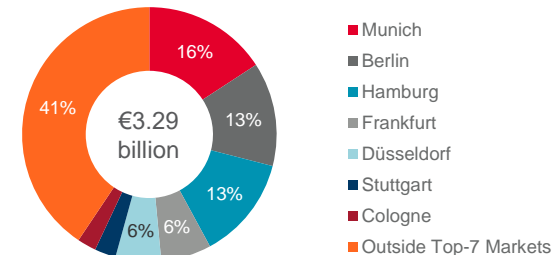
Outlook

- The repositioning or repurposing of older office properties in peripheral locations is becoming increasingly important and necessary. In the medium to long term, owners must weigh up the commercial viability of optimisation of existing properties against potential repurposing.
- Cushman & Wakefield expects prime yields to continue to rise in the 4th quarter. The different yield requirements are evident both at the risk class level and at the property and location level.
- Against the backdrop of a reliable and predictable financing environment and further increases in rents, the recent clearly restrictive attitude towards office properties is likely to ease somewhat in the coming year. The focus will be on high-quality properties in very good locations.

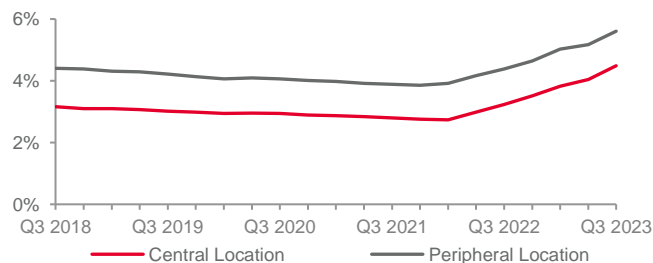
OFFICE TRANSACTION VOLUME



TRANSACTION VOLUME BY MARKET Q1-3 2023



OFFICE PRIME YIELD BY LOCATION*



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

PORTFOLIO TRANSACTIONS BOOST TURNOVER IN THE THIRD QUARTER

The transaction volume for retail properties totalled €4.17 billion in the first nine months, making retail properties the strongest asset segment in the German commercial real estate investment market. Compared to office properties, the year-on-year decline is currently much lower at 34%. At the same time, the strongest transaction volume of the current year was achieved in the 3rd quarter, with €1.77 billion. Two large portfolio transactions contributed to this positive result: Slate Asset Management acquired a total of 188 grocery stores from X-Bricks for around €1 billion and Aldi-Süd secured 77 grocery stores from Pimco Real Estate for a total of €240 million.

RETAIL STORE TRANSACTIONS WITH HIGH MARKET

The transaction volume for retail warehouses and retail parks reached a total of around €2.38 billion due to the large portfolio sales and contributed the majority (57%) of the total retail transaction volume. Compared to the previous year, the decline was quite moderate at 14%. Shopping centres, on the other hand, recorded a significantly more substantial fall in transaction volume of around 79%. The largest single transaction of the year was the sale of the "Nordlicht" shopping centre in Kiel for €60 million in the 3rd quarter. High street retail properties and department stores accounted for the second-largest proportion at around 30%. With a total of €1.24 billion, the result is actually 34% higher compared to the equivalent period last year.

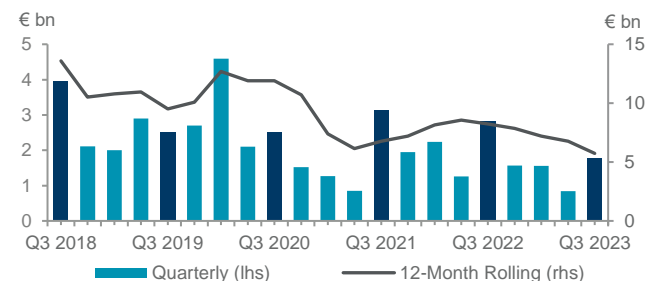
YIELD FOR HIGH STREET RETAIL PROPERTIES EXCEEDS 4 PERCENT MARK

The average prime yield for retail parks was 4.80% in the top-7 markets at the end of the third quarter of 2023. The prime yield for high street retail properties in prime locations is 4.11% and for shopping centres at 5.93%. Year-on-year, prime yields for high street retail properties have risen the most at 63 basis points. With a prime yield of 3.80 %, Munich is currently the most expensive market for high street retail properties.

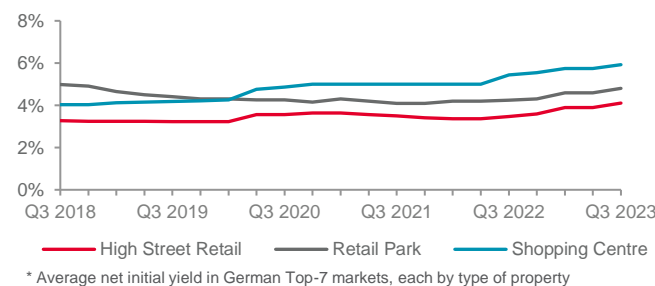
Outlook

- Investors continue to focus on food-oriented retail properties. Cushman & Wakefield continues to expect the highest willingness to invest in this segment.
- In the short to medium term, significantly higher investment momentum is not expected for high street retail properties and shopping centres. The threat of rent losses or insolvencies, particularly for properties with a proportion of tenants from the fashion industry, is dampening investors' willingness to invest.
- The marketing prospects for shopping centres with a high maintenance backlog are likely to remain challenging in the medium term. At the same time, the price reductions in this segment will continue to be the strongest.

RETAIL TRANSACTION VOLUME



PRIME YIELD BY TYPE OF PROPERTY



TRANSACTION VOLUME BY TYPE OF PROPERTY Q1-3 2023



PORTFOLIO TRANSACTIONS RESPONSIBLE FOR A STRONG 3RD QUARTER

Logistics and industrial properties generated a transaction volume of €3.59 billion in the first three quarters of 2023. This makes it the second-strongest segment after retail. Compared to the equivalent period last year, however, logistics and industrial real estate transaction volume has decreased by around 55%. Nevertheless, at €1.89 billion it was the best performing segment in the 3rd quarter. While large-volume individual transactions above the €100-million mark played a rather subordinate role, four portfolio transactions of this size took place. At around €560 million, the largest portfolio transaction was the sale of a 50% stake, as part of a joint venture, of five logistics properties by VGP to Deka Immobilien.

COMMERCIAL PARKS AND DISTRIBUTION WAREHOUSES ARE POPULAR

A total of around €835 million and 23% of the nationwide logistics and industrial transaction volume is attributable to the Top-7 market areas. This is around 56 % less than in the same period last year. Only €170 million transacted in the 3rd quarter. The majority of transaction volume within the Top-7 markets is attributable to individual transactions in the business parks and transshipment and distribution warehouse segments. Portfolio transactions, on the other hand, all took place outside the Top-7 market areas. The markets with the highest transaction volumes were Berlin and Düsseldorf with around €240 million and €170 million respectively.

PRICING PROCESS PROGRESSING, PRIME YIELDS CONTINUING TO RISE

The average prime yield for logistics properties in the Top-7 markets is currently 4.30% and has therefore risen by 15 basis points compared to the previous quarter. Compared to the 3rd quarter of last year, the prime yield has increased by 69 basis points. The prime yield is therefore back at the level of 2018. The year-on-year increase in yields for light industrial properties is somewhat more moderate at 45 basis points. Within the Top-7 markets, the average prime yield is currently 5.26%.

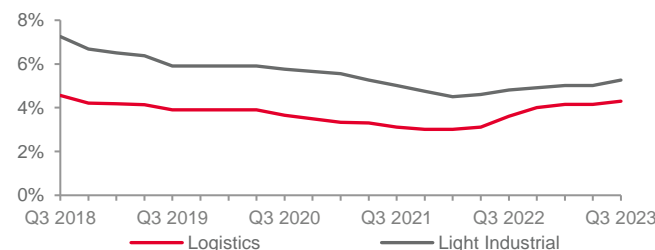
Outlook

- Institutional investors are increasingly focusing on ESG-compliant logistics and distribution properties. Cushman & Wakefield expects that refurbishment measures to optimise the portfolio will also increase on the owners' side.
- The increase in yields for core properties will continue in the 4th quarter, albeit to a lesser extent than in the same period last year.
- The warehouse and logistics rental market offers good potential for value appreciation, particularly with regard to further rental growth. There continues to be a strong surplus of demand with low completion figures and still-low take-up.

LOGISTICS-INDUSTRIAL TRANSACTION VOLUME

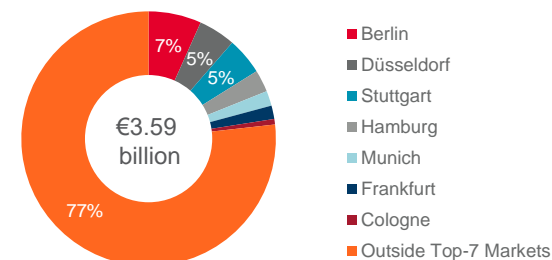


PRIME YIELD BY TYPE OF PROPERTY



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

TRANSACTION VOLUME BY MARKET Q1-3 2023



RESIDENTIAL INVESTMENT MARKET REMAINS WEAK, PRICE ADJUSTMENTS CONTINUE

The transaction volume on the German residential real estate market reached €4.45 billion in the first three quarters of 2023. In the third quarter, residential properties with a total value of around €1.40 billion were traded. The market was dominated by two sales in particular: firstly, the acquisition of the Omega Group by Whitefield. The second was the sale of "Wasserstadt Mitte" in Berlin with 711 apartments from Adler Real Estate to Quantum Immobilien. Overall, individual transactions dominated the market, whereas only a few large-volume portfolio transactions were registered. The price adjustment processes on the residential investment market are also not yet complete, but the first signs of stabilization are increasing. This applies in particular to residential investments that meet the increased ESG requirements. Investors are focusing on products with good energy ratings and certifications. The average prime yield for apartment buildings in the Top-7 markets is currently 3.93%. The most expensive individual market is Munich with a current yield of 3.80%.

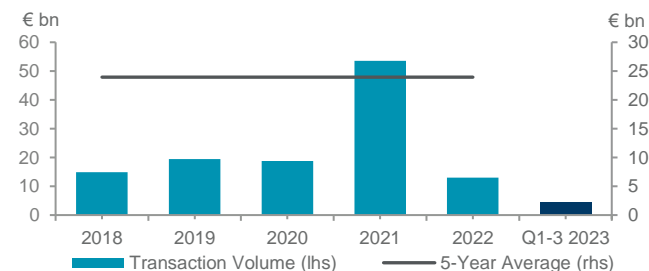
HIGH OPERATING COSTS WEIGH ON THE HEALTHCARE INVESTMENT MARKET

The investment market for healthcare properties recorded a total transaction volume of €835 million in the first nine months of 2023. This is around 53% less than a year earlier. At around €325 million, the assisted living segment generated the majority of the total transaction volume. Around €300 million was transacted with nursing home properties. The remaining volume was attributable to medical care properties. Overall, the market for healthcare properties remains liquid, but yield requirements have risen in all risk classes. In addition, higher personnel and material costs and the shortage of adequate nursing staff are leading to higher operating costs overall and squeezing the operators' margins. Future ESG refurbishment measures are also already being priced in by investors, which is leading to higher purchase price corrections for older existing properties. The prime yield for nursing homes rose to 5.10% at the end of the third quarter of 2023. This is 30 basis points more than a quarter earlier.

Outlook

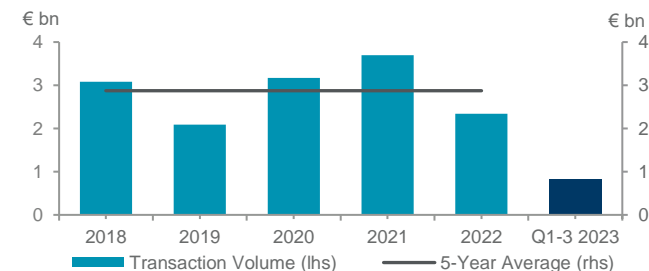
- The demand for ESG-compliant residential investments will continue to increase. With regard to purchase price expectations, the pressure on developers will continue to rise due to the increasingly low purchase price factors. No easing is expected on the supply side. Residential construction activity will continue to fall well short of the annual target.
- Purchase prices for healthcare properties have been adjusted further downwards due to the deterioration in the financial environment and the current operating risks faced by operators. Many institutional investors are still very cautious and are monitoring the medium-term interest rate trend on the financial markets. Higher price markdowns are to be expected for existing properties in the future, as high investments will be required to implement necessary modernization measures.

RESIDENTIAL TRANSACTION VOLUME*



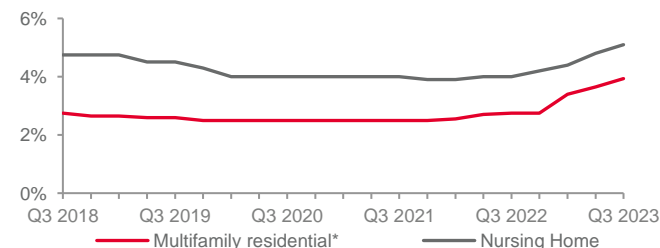
*properties with more than 20 residential units

HEALTHCARE TRANSACTION VOLUME*



* Nursing Homes, assisted Living, ambulant- and stationary medical properties

PRIME YIELD BY TYPE OF PROPERTY



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

MARKETBEAT GERMANY

Investment Q3 2023



MARKET STATISTICS Q1-3 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	2.69	-55	16	46	4.40	4.00	4.30
Düsseldorf	0.59	-79	32	46	4.75	3.70	4.30
Frankfurt	0.57	-86	37	45	4.35	4.20	4.30
Hamburg	0.72	-80	60	30	4.40	4.30	4.30
Cologne	0.31	-70	26	41	4.75	4.40	4.30
Munich	1.03	-65	50	34	4.20	3.80	4.30
Stuttgart	0.53	-38	17	8	4.55	4.40	4.30
Germany	15.52	-61	21	36	4.49*	4.11*	4.30*

*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
X-Bricks Portfolio (188 properties)	Q3	Retail	Nationwide	X-Bricks / Slate Asset Management	~ 1,000
VGP Logistics-portfolio (50 % share, 5 properties)	Q3	Logistics-Industrial	Nationwide	VGP / Deka Immobilien	~ 560
Wasserstadt Mitte, Heidestraße 17-24	Q3	Residential	Berlin	Adler Real Estate / Quantum	~ 350
DFI Logistics-portfolio (6 properties)	Q3	Logistics-Industrial	Nationwide	DFI Real Estate / Hansainvest	~ 270
Increase in shareholding Deutsche Euroshop	Q1	Retail	Nationwide	Numerous partnerships / Deutsche Euroshop	~ 260
Seidlstraße 15-19	Q1	Office	Munich	Freistaat Bayern / Athos Real Estate	~ 250

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