

MARKETBEAT GERMANY

Investment Q4 2023



€21.46 bn
Transaction Volume (cum.)

YoY
Change



12-Month
Forecast



35%
Share of Foreign Capital



4.78%
Office Prime Yield Top-7*

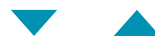


*Average net initial yield in German Top-7 markets

ECONOMIC INDICATORS

-0.16%
GDP Growth
(Q4 2023 vs. Q4 2022)

YoY
Change



12-Month
Forecast



5.7%
Unemployment Rate
(Dec 2023)



86.4
Ifo Business Climate Index
(Dec 2023)



4.50%
ECB Interest rate
(Dec 2023)



2.58%
10-Year Government Bond
Yield (Q4 2023)



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

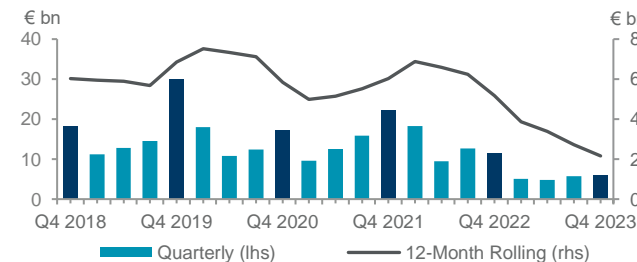
LOWER ECONOMIC GROWTH AND DECREASING KEY INTEREST RATE EXPECTED FOR 2024

Germany's economic output fell by around 0.2% in 2023 compared to the previous year. As an export-oriented economy, Germany was hit hard by high energy costs and weak global trade. According to Consensus Economics forecasts, GDP is expected to grow slightly, by 0.2% in 2024. This is due to the continued sluggish progress of the global economy and the slow recovery in consumer spending to date. In Germany, the inflation rate was 3.7% in December 2023, having already fallen to 3.2% in November. The renewed increase is due to the price-dampening effect of a year previously, when the state took over the monthly instalment payments for gas and district heating customers on a one-off basis. The average inflation rate for the year reached 5.9%. In the course of 2024, there are therefore increasing signs that the key interest rate will be cut again. At the first Governing Council meeting in 2024, the European Central Bank (ECB) left the main re-financing rate at 4.50% for the third consecutive time. Nevertheless, mortgage and bond interest rates have already anticipated the expected reduction. Mortgage interest rates with a 10-year term fell to 3.40% at the end of December/beginning of January 2024, after reaching a 10-year high of 4.20% in November. The yield on 10-year German government bonds averaged 2.58% in the fourth quarter of 2023 and even fell below the 2% mark for a short time. There are therefore positive signs of more stable and improved conditions in the financial and capital markets, meaning that transaction momentum on the residential and commercial investment market is also likely to pick up again. In view of the stable and high yield expectations for 2024, real estate investment will also benefit again from the higher risk premium implicit in the increased yield spread compared to German government bonds and the resulting increased propensity to make acquisitions.

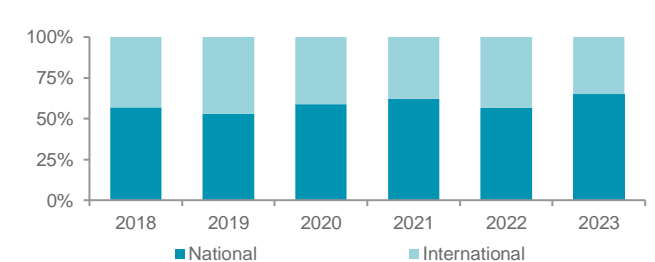
WEAK INVESTMENT MARKET IN 2023 AND A FINAL QUARTER LACKING A YEAR-END RALLY

The commercial real estate investment market in Germany achieved a transaction volume of €21.46 billion in 2023 as a whole which was the weakest result of the past twelve years. Compared to the previous year, the transaction volume more than halved (-59%). As expected, the year-end rally failed to materialise, but the fourth quarter was nonetheless the strongest of the year, at €5.94 billion. The investment market was burdened by a difficult combination of high borrowing rates, tough price correction phases, high inflation and a weakening economy, with the result that institutional investors were very hesitant and cautious.

COMMERCIAL TRANSACTION VOLUME*



SHARE OF TRANSACTION VOLUME BY SOURCE OF CAPITAL



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

HIGH-STREET COMMERCIAL AND LOGISTICS-INDUSTRIAL PROPERTIES AHEAD

Sales of logistics and industrial properties achieved a transaction volume of €5.82 billion for the year as a whole, making them the strongest asset class in the CRE investment market. The year-on-year decline amounted to 37%. As the second-strongest sector, retail properties achieved a total transaction volume of €5.12 billion. This is around 35% less than in the previous year. The main driver here was the portfolio transaction of 188 grocery stores from X-bricks to Slate Asset Management for around €1 billion in the third quarter. Office properties were by far the asset class most affected by the turnaround in interest rates and the discussions regarding value retention in the wake of increasing desk-sharing and remote working quotas as well as the growing debate about ESG compliance. Around €4.40 billion was invested in office real estate in 2023, a significant decrease of 78%.

BERLIN REMAINS THE STRONGEST MARKET

In the Top-7 market areas, around €8.17 billion was invested in 2023 as a whole, which corresponds to 38% of the total transaction volume in Germany. The year-on-year decrease amounted to 69%. Office properties were nevertheless the most popular asset class within the Top-7 markets. More than half of the office transaction volume across Germany (56%, €2.47 billion) was transacted in the seven largest German office markets. Berlin remains the location with the highest transaction volume at €3.27 billion, followed at a considerable distance by Hamburg (€1.20 billion) and Munich (€1.18 billion). The investment market with the lowest transaction volume was Stuttgart at €435 million.

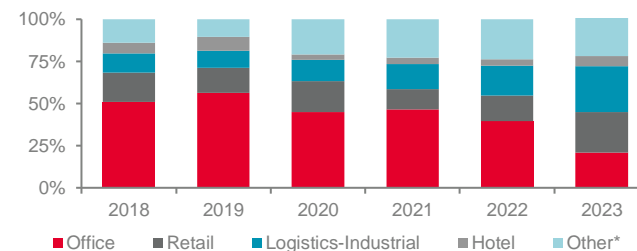
PRIME YIELDS APPROACHING THEIR PEAK

At the end of the fourth quarter, the average prime office yield for core properties in the Top-7 markets was 4.78%, 29 basis points higher than at the end of the third quarter. The average prime yield for high-street commercial properties rose by 30 basis points to 4.49%. The average yield for logistics properties is currently 4.50% and thus 20 basis points higher compared to Q3 2023.

Outlook

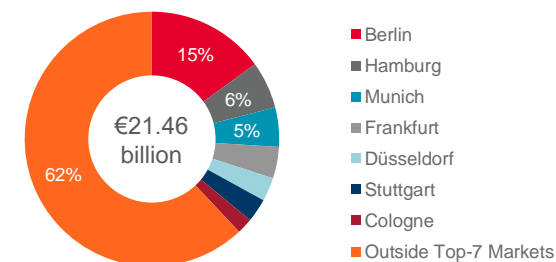
- A further decline in inflation coupled with weakening economic data is likely to prompt the European Central Bank (ECB) to cut its key interest rate for the first time in 2024.
- The protracted price correction phases are gradually approaching their peak, so there are signs that yields will stabilise as the year progresses.
- With a reliable and predictable financing environment, confidence in an imminent market recovery will grow and with it the transaction volume.
- Upcoming refinancing is likely to increase some owners' pressure to sell. Cushman & Wakefield anticipates an increasing number of attractive investment opportunities.

SHARE OF TRANSACTION VOLUME BY ASSET CLASS

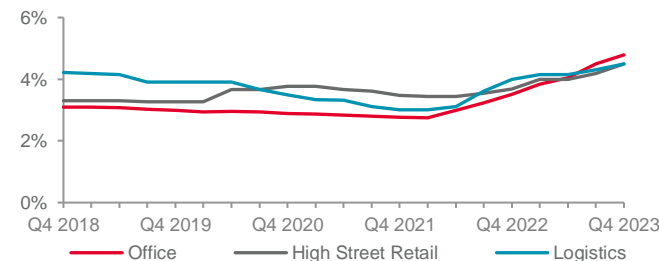


*Other (Leisure, Healthcare, Mixed Use, Development Plots)

TRANSACTION VOLUME BY MARKET 2023



PRIME YIELD BY ASSET CLASS*



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

HISTORICALLY LOW OFFICE TRANSACTION VOLUME

The interest rate turnaround initiated in 2022, high desk-sharing ratios and the weak demand for office space, both structurally and cyclically, are ensuring that banks remain restrictive in their lending. This particularly affects high-priced core office properties, of which only very few transactions were registered in 2023. Institutional investors in particular, who are traditionally responsible for the majority of the volume, acted very selectively and cautiously due to high and volatile interest rates. Forward deals were particularly risky, with the market coming to a virtual standstill. Around €250 million was transacted here, compared to €1.4 billion in the previous year. Overall, the volume of office transactions across Germany totalled around €4.40 billion, the lowest level in the past 13 years. Compared to the previous year, this corresponds to a decrease of 78%.

MAJORITY OF OFFICE ACQUISITIONS IN THE TOP-7 MARKETS

Despite the subdued transaction volumes for office properties, the Top-7 markets were the preferred locations for office acquisitions by the majority of investors. There is sustainable growth potential, particularly in view of the stable-to-rising rent levels in very good city centre locations, meaning that investors were much more willing to buy core-plus and value-add properties. Approximately 56% of office transaction volume (€2.47 billion) was invested in the Top-7 office markets in 2023. The highest transaction volumes were registered in Hamburg and Berlin, at around €690 million and € 675 million respectively, while only around €90 million was recorded in Stuttgart.

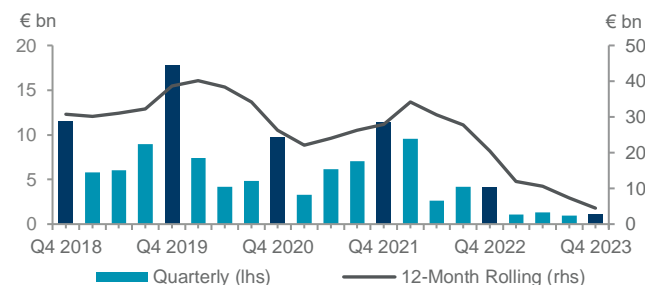
PRIME YIELD EXPECTED TO PEAK IN 2024

The average prime yield for core office properties in the Top-7 markets stood at 4.78% at the end of 2023, 29 basis points higher than at the end of September 2023. Higher price discounts and yield increases were recorded for properties in peripheral locations, with an increase of 33 basis points. Prices and yields are expected to bottom-out over the course of 2024, primarily for core properties in central locations.

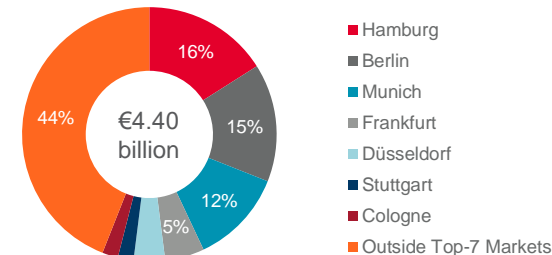
Outlook

- The repositioning or conversion of older, no longer marketable office properties, particularly in peripheral locations, is becoming increasingly important.
- Yields on core properties are expected to peak in the course of 2024, although further slight increases in yields are likely to take place within individual risk classes - both at property and location level.
- On the supply side, upcoming refinancing and increasing pressure to sell should result in attractive acquisition opportunities. With the expected stabilisation of real estate prices and interest rates, Cushman & Wakefield also foresees an increasing upturn in office transactions.

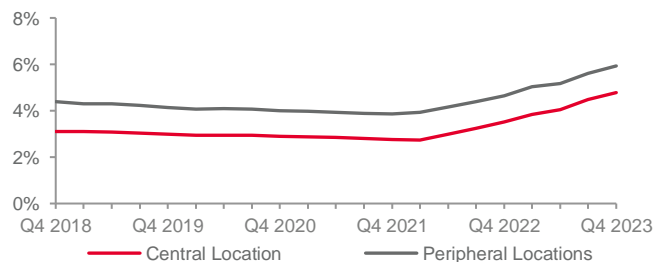
OFFICE TRANSACTION VOLUME



TRANSACTION VOLUME BY MARKET 2023



OFFICE PRIME YIELD BY LOCATION*



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

SECOND HALF OF THE YEAR WAS DOMINATED BY PORTFOLIO TRANSACTIONS

The retail real estate transaction volume amounted to €5.12 billion in 2023 and accounted for 24% of total CRE transaction volume in Germany. Compared to the previous year, this represents a decrease of around 35%. Retail properties are therefore the second-strongest category after logistics properties. The main driver here was the portfolio transaction of 188 food stores from x-bricks to Slate Asset Management for around €1 billion in the third quarter. In the fourth quarter, the majority of transactions were limited to individual-property transactions of less than €50 million, bringing the transaction volume between October and December to €950 million.

RETAIL MARKET TRANSACTIONS WITH A DOMINANT FOCUS ON FOOD

Retail warehouses and retail parks continue to be very popular with investors. Almost €3.1 billion was transacted within these property types in 2023 as a whole, which corresponds to around 60% of the total retail transaction volume. Five grocery-oriented portfolio transactions above the three-digit-million-euro range were largely responsible for the positive result. Compared to the previous year, the decline in transaction volume was also quite moderate at 18%. Individual-property transactions dominated the market in the high-street commercial and department store segment. In total, properties worth around €1.36 billion were traded here, almost on a par with the previous year (€1.37 billion). Shopping centres accounted for just 12% of the retail real estate transaction volume at around €620 million: A sharp decline of 77% compared to the previous year.

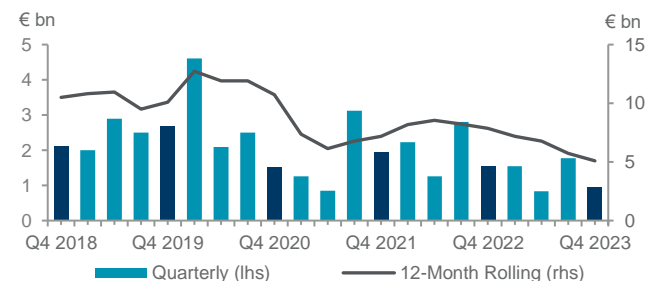
PRIME YIELD FOR SHOPPING CENTRES EXCEEDS 6%

The average prime yield for retail parks was 5.10% in the Top-7 markets at the end of the fourth quarter of 2023. The prime yield for high-street commercial properties is 4.49%. The average level for shopping centres has now exceeded the 6% mark and stood at 6.28% at the end of 2023. Over the past 12 months, prime yields for all three property types have risen by between 74 and 81 basis points.

Outlook

- Investors continue to prefer grocery-oriented retail properties in the retail park segment. Cushman & Wakefield continues to expect the highest transaction activity in the stable and more crisis-resistant local supply segment.
- Value-add acquisitions are likely to become more of a focus for centrally-located high-street commercial properties in highly-frequented and attractive locations. However, this will still require significant price corrections in this segment. Interesting opportunities could arise as a result of Signa's insolvency.
- Stronger price corrections are still expected for older shopping centres. The supply of new and ESG-compliant properties will remain very low in the medium term. Restructuring measures remain difficult for owners to implement due to high interest rates and construction costs.

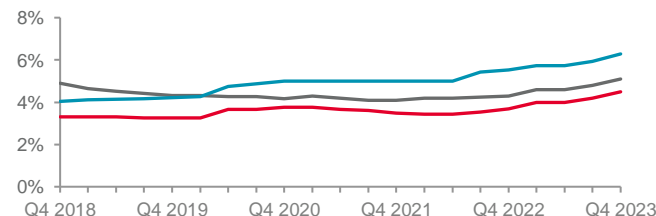
RETAIL TRANSACTION VOLUME



TRANSACTION VOLUME BY TYPE OF PROPERTY 2023



PRIME YIELD BY TYPE OF PROPERTY



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

HIGH TRANSACTION MOMENTUM IN THE SECOND HALF OF THE YEAR

The logistics and industrial real estate investment market appears to have bottomed-out in terms of transaction volume. The second half of the year in particular provided a positive boost due to large portfolio transactions. In 2023 as a whole, transaction volume for logistics and industrial properties reached €5.82 billion and was still 37% lower than in 2022, but the asset class has stabilised and recovered much faster than office and retail properties in recent quarters. There were four portfolio transactions above €200 million in 2023. At around €560 million, the largest portfolio sale was the purchase of a 50% stake as part of a joint venture of five logistics properties from VGP to Deka Immobilien.

COMMERCIAL PARKS AND DISTRIBUTION HALLS ARE POPULAR

Within the Top-7 markets, around €1.21 billion was generated via logistics and industrial property transactions in 2023 as a whole. Compared to the previous year, the transaction volume halved. With the exception of a major portfolio sale in Hamburg and the sale of the Böhler Areal in Düsseldorf for more than €100 million, the majority of transactions involved single properties. In the Top-7 markets, investors focused almost exclusively on business parks and logistics properties (82% of transaction volume).

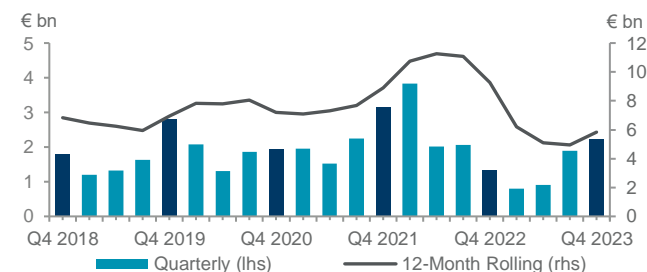
LOGISTICS PRIME YIELD NOW LOWER THAN OFFICE PROPERTIES

The average prime yield for logistics properties in the Top-7 markets was 4.50% at the end of the fourth quarter of 2023, up by 20 basis points compared to the previous quarter. Compared to the end of 2022, the prime yield increased by 50 basis points. This means that the prime yield for core logistics properties remains below that of office properties. The year-on-year increase in yields for light industrial properties is slightly higher at 60 basis points. Within the Top-7 markets, the average prime yield is currently 5.51%.

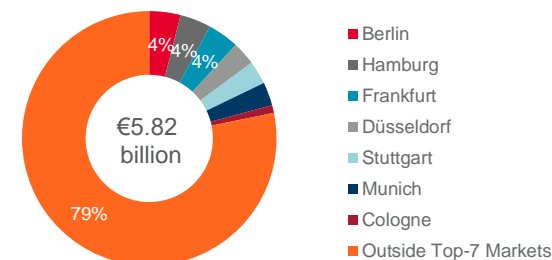
Outlook

- According to the German Retail Association (HDE), as inflation continues to fall and the economy picks up overall, primarily due to private consumption, e-commerce sales are expected to rise again, leading to an increase in demand for space.
- For 2024, there are increasing signs of yield and price stabilisation for modern and as-new core logistics and distribution properties.
- Whether industrial and logistics properties will remain the strongest asset class on the commercial investment market in 2024 will largely depend on availability and the expected recovery within the other asset classes such as office, retail and residential.

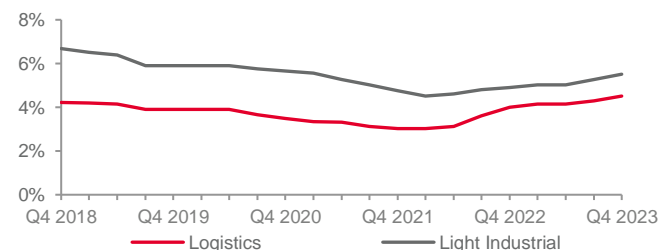
LOGISTICS-INDUSTRIAL TRANSACTION VOLUME



TRANSACTION VOLUME BY MARKET 2023



PRIME YIELD BY TYPE OF PROPERTY



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

TRANSACTION VOLUME REMAINS LOW, PRICE STABILISATION CONSOLIDATES

The German residential investment market achieved a transaction volume of €6.39 billion in 2023 as a whole, more than halving (-51%) compared to the previous year. The fourth quarter was not characterised by a real year-end rally, but final quarter was still the strongest of the year with a total of €1.94 billion. The majority of residential real estate transactions related to existing properties. Investors currently prefer immediate cash flows rather than forward deals with long completion horizons. Development projects where completion is more than six to twelve months in the future are particularly critically regarded. At the same time, the first signs of price stabilisation can be seen in the market. The prime yield for apartment buildings was 3.90% at the end of the fourth quarter and thus at the same level as the previous quarter. Compared to the previous year, the prime yield has increased by 110 basis points. Student residences and micro-living properties also remain in high demand among investors, although a lack of availability is hampering stronger transaction activity.

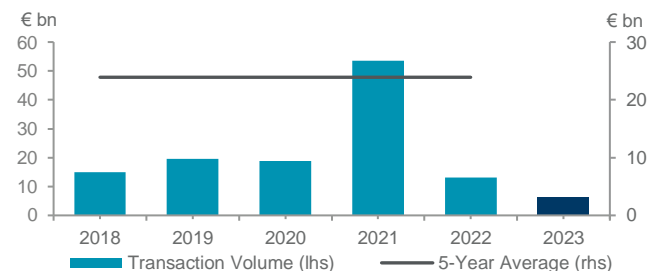
HEALTHCARE REAL ESTATE TRANSACTION VOLUME MORE THAN HALVED

The investment market for healthcare properties recorded a total transaction volume of €1.02 billion in 2023. This is around 57% less than a year earlier. The year-end rally failed to materialise, with only €185 million was invested in healthcare properties from October to December. Both care facilities and assisted living properties accounted for the majority of the total transaction volume at €376 million and €378 million respectively. The remaining volume was attributable to medical care properties. Prime yields for healthcare properties stabilised at the end of 2023. The prime yield for care facilities remained unchanged at 5.10% in the fourth quarter. The figure for senior assisted living facilities also remained stable at 4.50%. The prime yield for ambulant medical care facilities is between 4.50% and 4.75%, and between 5.50% and 6.00% for stationary medical care facilities (clinics).

Outlook

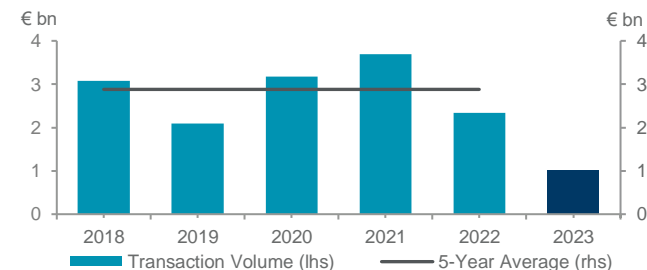
- ESG issues will play an increasingly important and decisive role in residential real estate investment decisions and purchasing processes. Due to impending interest rate cuts, lower inflation and declining construction costs, construction activity is expected to increase in 2024 and prices for core properties are expected to stabilise as a result.
- The stabilisation of yields and prices for healthcare properties seen at the end of 2023 will also continue in 2024. From an operator's perspective, the high operating costs are increasingly becoming a risk factor, meaning that incentives for the realisation and commissioning of additional care places will become essential in the coming years.

RESIDENTIAL TRANSACTION VOLUME*



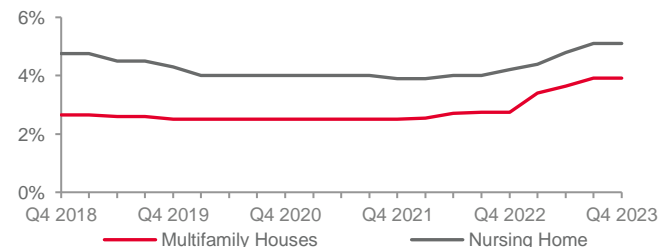
*properties with more than 20 residential units

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 Q4 2023



MARKET STATISTICS 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	3.27	-62	21	43	4.60	4.35	4.50
Dusseldorf	0.67	-80	29	41	5.00	4.45	4.50
Frankfurt	0.84	-82	25	47	4.70	4.55	4.50
Hamburg	1.21	-71	57	18	4.75	4.65	4.50
Cologne	0.44	-67	23	31	5.00	4.65	4.50
Munich	1.18	-68	44	37	4.60	4.10	4.50
Stuttgart	0.58	-53	16	7	4.80	4.65	4.50
Germany	21.46	-58	21	35	4.78*	4.49*	4.50*

*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
A&O Hostelportfolio (10 Objekte)	Q4	Hotel	Nationwide	TPG Real Estate / Proprium Capital	confidential
Center Parcs Allgäu	Q4	Hotel	Leutkirch im Allgäu	Lagune International / Twenty Two Real Estate	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 / Deko Immobilien	~ 560
Residential portfolio Berlin (1,200 units)	Q4	Residential	Berlin	Vonovia / CBRE IM	~ 360
Wasserstadt Mitte, Heidestraße 17-24	Q3	Residential	Berlin	Adler Real Estate / Quantum	~ 350

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