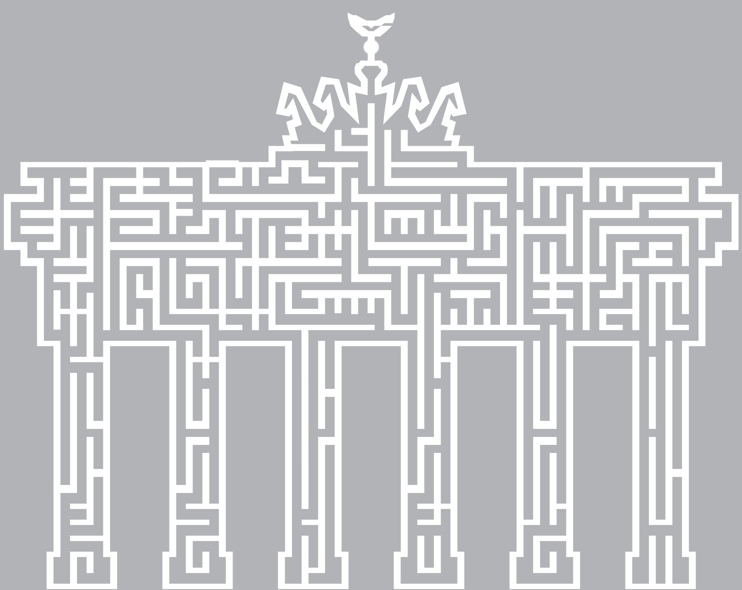
MARKET REPORT GERMANY 2021



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This market report has been compiled by the experts of KENSTONE Real Estate Valuers (KENSTONE). The basis of the report is provided by data from valuations evaluated centrally and publicly accessible information. KENSTONE was in charge of putting together the evidence from these sources, evaluating it and presenting the results of its analysis in the market report.

It gives the reader a general overview of the situation in the office, retail, hotel, logistics, investment and residential markets in Germany. It focuses on eight German cities: Berlin (B), Dusseldorf (D), Frankfurt (F), Hamburg (HH), Cologne (C), Leipzig (L), Munich (M) and Stuttgart (S).

FORWARD

Prices and rents – in general terms – have only known one direction for more than a decade: upwards. The Covid – 19 pandemic reminded us very unexpectedly and very clearly that developments are also possible in the other direction and can also be triggered by exogenous factors which can hardly be foreseen.

In addition to the pandemic which has proved to be, in significant parts of the market, an accelerator of existing processes or at least defining processes, property markets are still being driven very strongly by further, long-term developments and the pandemic has hardly proved to be a game changer. Of course one thinks first of all of the two large megatrends – digitalisation and sustainability.

Now one can argue whether the term megatrend can meet the requirements of digitalisation or whether one should rather refer to a revolution. It is however a fact that digital development has changed in the shortest period of time our way of life and therefore our requirements in almost all areas of economic and social life through the creation of (entirely) new opportunities. Many offers which were previously only available live can now be viewed online and the Internet has become a basic need. Job profiles and processes are changing, becoming superfluous or are being completely reinvented. With all these developments user requirements in terms of property and location are changing and this, one feels, is more significant and also more rapid than was the case before.

Whilst digitalisation creates new opportunities, the issue of sustainability represents initially more in the way of limitations, impacting on all those areas which correspond to further changing requirements in terms of sustainable life and conduct – which have (not yet) changed irrespective as to whether this relates to environmental management, social aspects or corporate management. There are, again and again, requirements for adaptation resulting from this trend predominantly in the course of legal regulations and technical innovations.

Both developments are associated with extremely differing effects but they have one thing in common: flexibility/adaptability of property will increase in the future in significance in comparison to the current day.

But it is not only digitalisation and sustainability which are influencing property markets very significantly. It is also the positive economic development and excess demand which are having an effect due to the high level of liquidity in the market in the last few years. The volumes of construction have risen but building land is becoming increasingly scarce in particular in conurbations – also as result of ecological aspects such as the objective of reducing sealed natural ground – and this increases competition between the usage types. The consequence is rising prices both in the rental sector and also within the investment sector. The market is countering this problem fundamentally with two strategies: growth upwards and shifts to areas which are less central with a consequence that locations are becoming a focus of investment which were previously only on the agenda of a small number of investors.

In addition to location preferences the view of individual asset classes is also changing very significantly. Logistics is no longer merely logistics and hotel is no longer only hotel. On the one hand asset classes are being differentiated much more significantly. Thus the focal point for investors is for example within trade on specialist markets and specialist market centres (preferably with food as an anchor) and is distancing itself from other segments (such as for instance shopping centres). And in the hotel market not all types of hotel and classification are facing the same levels of demand.

On the other hand the usages are becoming increasingly blurred which is reflected in the increasing popularity of mixed usage properties. In addition to the megatrends, the property markets are being influenced by many other developments which, in the view of valuers makes it necessary to question, again and again models, property characteristics and locations.

POLITICAL AND ECONOMIC ENVIRONMENT

Recovery expected for 2021 and 2022 – GDP forecasts recently corrected slightly upwards

The development of GDP was on average for the year in 2020 -4.9% which is the most significant fall since the financial crisis and reached a low in the second quarter of -11.3%. The significant upturn in quarter three due to the relatively low level of restrictions in the summer ended abruptly with the start of the second wave of the pandemic. If until 2020 strong domestic demand was the driver of economic development, then since the second half-year 2020 it was driven predominantly by industry and construction. Both economic sectors were limited however by the then problems with deliveries.

Private consumption still significantly restrained

Private consumption was after several years of solid growth in 2020 5.4% below the level of the previous year which is surely to be attributed to the limited availability of products and services but also to available net income which sank in 2020 and also the feeling of insecurity amongst consumers. Economic insecurity is reflected in this regard clearly in the development of the propensity to save and this rose at an above average level in 2020 which again leads to hopes that this will lead to a catch up effect at a high level but which also conceals the risk of price rises in the event that supply remains limited.

Inflation rate rising

The current rises in the inflation rate should however significantly be attributable to special effects such as the reduction in VAT and increases in energy costs (not least as a result of the CO2 pricing effective as of January).

Is a wave of insolvencies a threat?

Completely independently of the development of the economy as a whole, the number of insolvencies fell in 2020, supported by state measures, according to the credit insurer Euler Hermes by 15.5% (worldwide 10%) and was therefore at the lowest level for almost 30 years. From this however no significant reduction in bad debts is to be ascertained as according to Euler Hermes at the same time the total of all bad debt suffered by creditors increased slightly at 60% which was caused not least by the significant increase in large-scale insolvencies (companies with a turnover in excess of €50 million) by 80%.

Expectations as to the impact of insolvencies in the short term to medium term differ within a considerably large range. Ultimately future insolvency numbers at present do not depend on economic development but mainly on the level of state intervention and how long this is continued. Euler Hermes is counting on a gradual reduction in state aid and a moderate increase in insolvency numbers of 6% for 2021 and 15% for 2022 which would mean a slight increase in comparison to the level of 2019. In the event of a rapid withdrawal of the state, the credit insurer forecasts for the period Q1/2021 an increase exceeding 30%.

After the crisis = before the crisis?

In addition to the discussions regarding insolvency potential in the media recently (American) voices have risen in volume with respect to the risk of a crisis after the crisis. The focal point of such scenarios is the behaviour of the central banks (mainly Fed and ECB) which regard the current development of inflation as a temporary catch up effect and continue to drive the economy with their relaxed financial policy. If it becomes apparent that the current developments are actually not just short-term trends but real economic growth then the high level of liquidity threatens to overheat the markets which consequently can make necessary rapid and more significant reactions on the part of central banks which could comprise of not only a reduction in bond purchases but also an increase in the base rate. The markets would then not be slowly confronted with a change in this long-term financial policy but with a rapid U-turn.

Increasing indebtedness and falling equity levels make companies more susceptible to increases in interest rates

The indebtedness of German companies as in the last 5 to 6 years has risen significantly not least to the availability of money; due to the pressure on investment it was also easier for less economically sound companies/sectors to secure loans. Additional dynamism arose in 2020 due to the pandemic and to the nature of the state support facilities. Up to the second quarter, according to an analysis of the Boston Consulting Group the indebtedness of the 300 companies examined in the Germany, Austria, Swiss region with an annual turnover in excess of €100 million increased by 16% in comparison to the comparable period of the previous year. At the same time for many companies turnover, profit and equity ratio went down which increases the susceptibility level for interest on debt. In addition the reduction in equity levels reduces for companies the ability to invest which is needed in the short term to stimulate business following the end of restrictions and in the long term for structural adaptation with respect to digitalisation and sustainability and therefore to maintain their competitiveness..

When a glut in liquidity meets a lack of specialists and pay rises

Due to bond purchasing on the part of the ECB, markets have been and are still flooded with money, in particular in the course of the pandemic. This flood of money impacts on the demand side but does not overcome the problems on the supply side (such as lack of specialists, shortcomings in transport capacity and raw materials/primary products). If in such a situation a significant lack of specialists leads to increasing wages which are then passed on in the form of price increases then rapidly a price spiral can develop which drives inflation upwards.

One cannot however completely reject such crisis after the crisis scenario. And even if this were only to occur in the US as here the starting factors are more extreme (in particular the lack of specialists), the German economy would not remain unaffected as the US alongside China is the largest trading partner of the German Federal Republic.

Lack of specialists as a barrier to development and potential driver of inflation

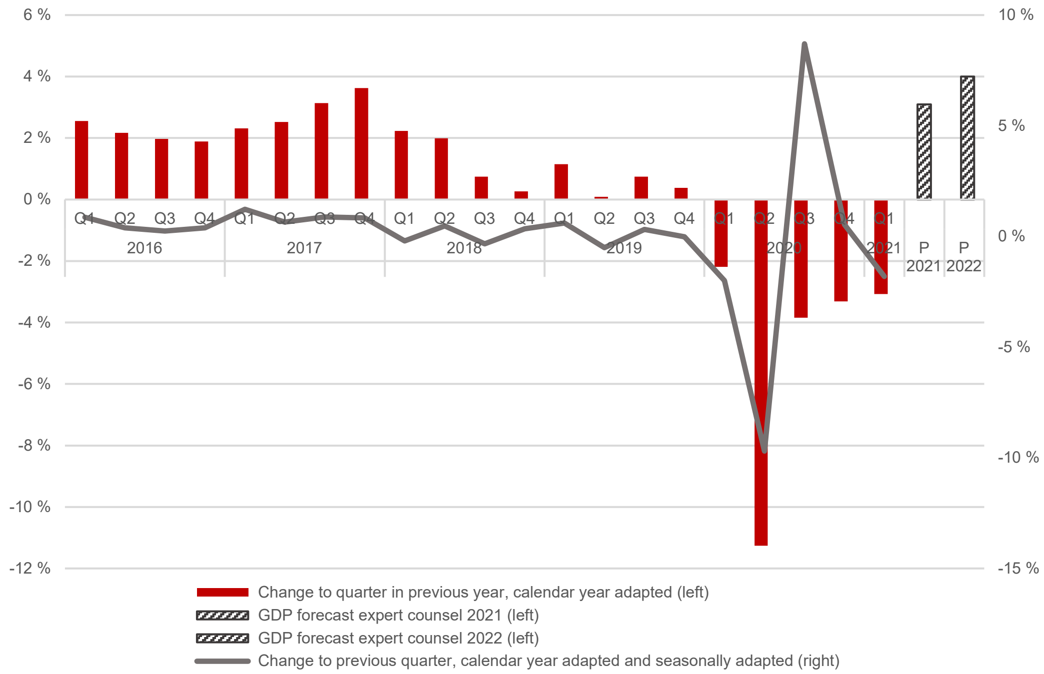
It is precisely the lack of specialists which has taken a backseat due to the pandemic and the economic shifts which occurred, which represents one of the largest economic – political problems of the next 1 to 2 decades and is certainly already one of the drivers of current price developments in the US. It constitutes a risk for the ability to perform of companies based there and therefore also for the attractiveness of Germany as a commercial location

According to the Federal Ministry for the Economy and Energy currently 352 of 801 professions are confronted with a lack of personnel and those areas particularly badly affected are MINT (mathematics, IT, science, technology) and health. The job surplus calculated by the Kompetenzzentrum Fachkräftesicherung (KOFA) was at the start of 2020 27.4%, i.e. for every fourth job, despite the influence of the pandemic, there was no suitable, qualified unemployed person. In the regular DIHK surveys the lack of specialists between 2017 until the first lockdown was one of the most frequently listed business risks by companies. Following a significant fall at the start of the pandemic in the early summer 2021 again approximately 43% of companies regarded the lack of specialists as a commercial risk, Outlook negative. Also the unemployment rate has been negative since February (current status 6.3%) and was in May 5.9% but therefore still significantly above the annual average in 2019.

Outlook

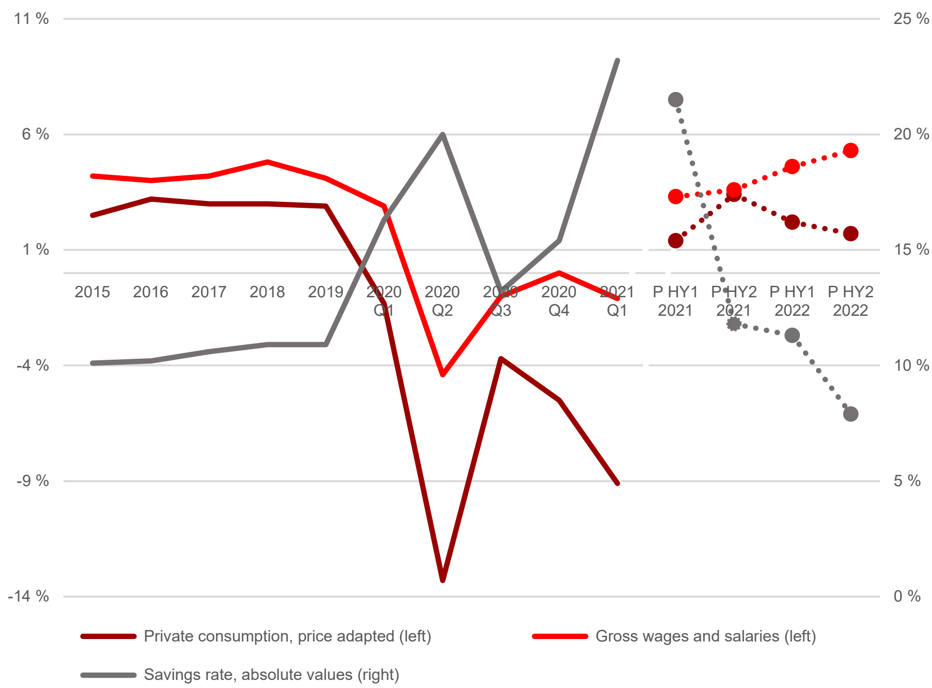
Also for ifo the current state of business and expectations have risen again significantly following their low points in the middle of 2020 and again at the start of 2021. Business expectations thus reached in June the highest level since 11/2017 even if they (probably in anticipation of a fourth wave) have since fallen again slightly. Also the purchasing manager indices are developing positively. The Federal Government is assuming in its spring forecast GDP growth of 3.5% in 2021 and 3.6% in 2022. Relevant economic institutes anticipate for 2021 slightly lower growth of between 3.0 and 3.3% but also in 2022 more strong growth ranging between 3.8% and 4.3 %.

Gross domestic product – development to previous year/quarter



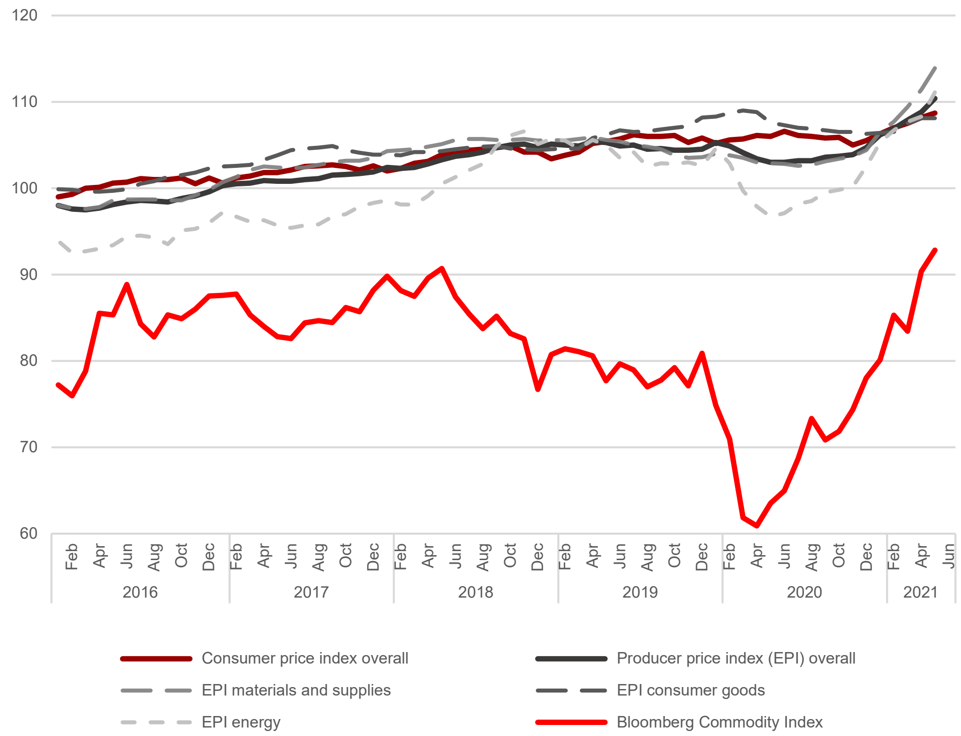
Sources: National statistics office, forecast values: expert counsel for the assessment of total economic development; own material

Consumer factors (private consumption, wages/salaries, savings rate – change to previous year period)



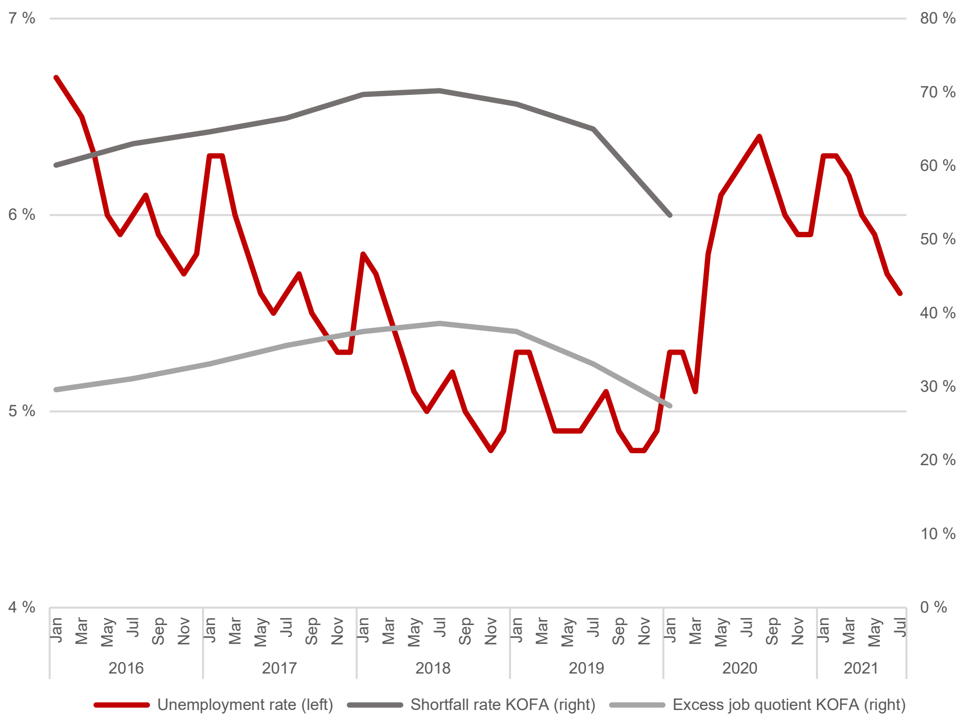
Sources: National statistics office, forecast values: expert counsel for the assessment of total economic development; own material

Price development (VPI, producer prices, raw material prices)



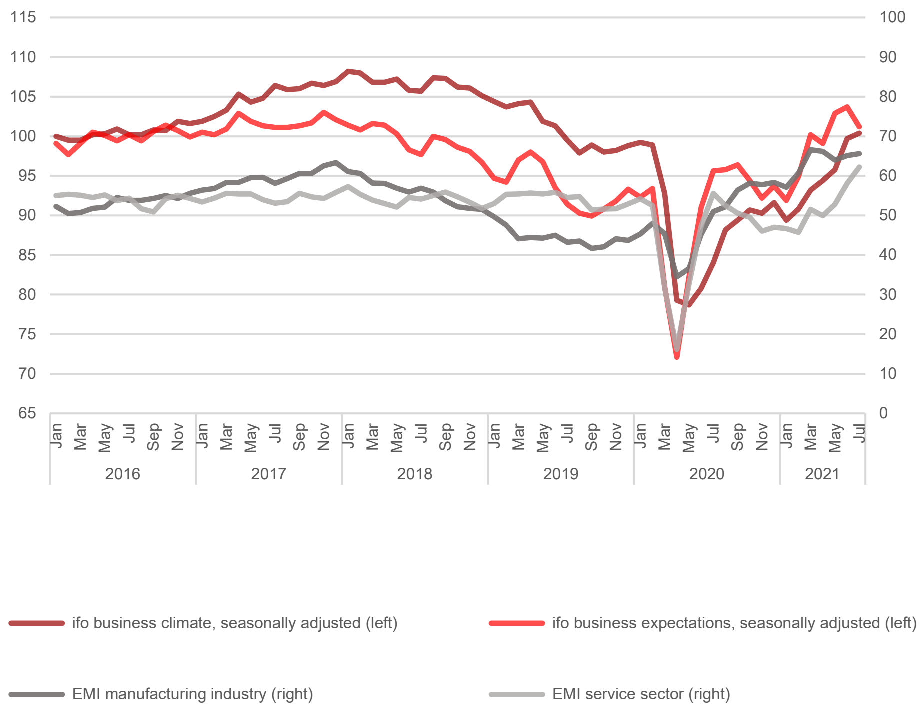
Source: National statistics office (VPI, EPI), Bloomberg; own material

Labour market (unemployment rate, KOFA shortfall rate, KOFA excess job quotient)



Sources: Nationa Job Centre; Kompetenzzentrum Fachkräftesicherung (www.kofa.de). Calculations based on special assessments of the national job centre and the IAB 2021, own material

Business climate indicators (business climate index, purchasing manager indices)



Sources: ifo (business climate /expectations), IHS Markit Ltd. (EMI); own material; EMI: value > 50 positive development < 50 negative development

Forecasts

annual change			**2020**		**P 2021**
GDP	%	-4.9	CAED	3.1	4.0
			FME	3.5	3.6
Private consumption	%	-5.4	CAED	(HY1) -3.0 (HY2) 7.2	(HY1) 17.2 (HY2) 7.0
			FME	0.8	5.5
CPI	%	0.5	CAED	2.1	1.9
Gross wages and salaries	%	-0.8	CAED	3.4	4.9
			FME	3.2	3.9
Absolut					
Unemployment rate	%	5.9	CAED	5.9	5.3
			FME	5.7	5.3
Savings rate	%	16.2	CAED	16.6	9.6
			FME	15.7	12.2

Source: Federal Ministry for the economy, expert counsel for the assessment of total economic development; own material

OFFICE MARKET

Vacancy levels rising

The demand for office space has risen continuously in the last few years. The shift in development for the German economy to the tertiary sector has led to an ongoing increase in personnel and therefore to increases in the number of staff employed in offices for the last 15 years. Despite falling numbers of office space per staff member in the course of redensification, the large office markets in the last 10 years were characterised by a significant level of excess demand in the course of which existing vacancy rates were significantly reduced. Thus the vacancy rate for the big eight in Q1 and again in Q3 in 2020 – despite the significant reduction in turnover of space due to the pandemic – reached new lows. Since Q4 as a consequence of the restraint for rentals and contract extensions, an increase in vacancy levels has been recorded (also for modern space) which has again flattened out somewhat from Q1 until Q2 2021. Except in Düsseldorf and Frankfurt vacancy rates are still below the turnover reserve level.

Take Up collapses but top rents stable

Take up fell in 2020 when compared to 2019 by approximately 45% and was therefore very significantly below the levels of previous years. In the first half-year 2021 there was however a slight rise of approximately 5.7% in comparison to the level of the previous year but this result is still significantly below the 10 year average. Top rents remained however – supported by historically low vacancy rates – stable/even recorded from Q3 2020 to Q4 even slight rises in Leipzig, Stuttgart, Hamburg and Berlin. However one has to assume that the effective rents, in view of more difficult letting conditions due to the reduction in demand, must have fallen due to more intensive usage of incentives.

Pre-rental level falling

Alongside the positive development of office markets over the years the pipeline for office space being constructed and planned also increased. Thus the volume between 2016 and 2020 more than doubled. Even if the pipeline grew more rapidly than the turnover of space, the pre-rental level remained extremely stable until Q2 2020 at > 55 %. From Q3 2020 until Q2 2021 a fall however from 56% to 45% was to be recorded.

Investment volumes significantly lower but top returns stable

The investment volume in 2020 was on the one hand significantly below the record results of 2018 and in particular 2019 but still above the levels of the previous years. The significant reticence which was to be felt in the rental market thus had an effect in very significant terms on the investment market but not quite so seriously as was the case in the rental segment. The top rents of the big eight remained predominantly stable, with Berlin, Hamburg and Cologne even recording slightly falling returns.

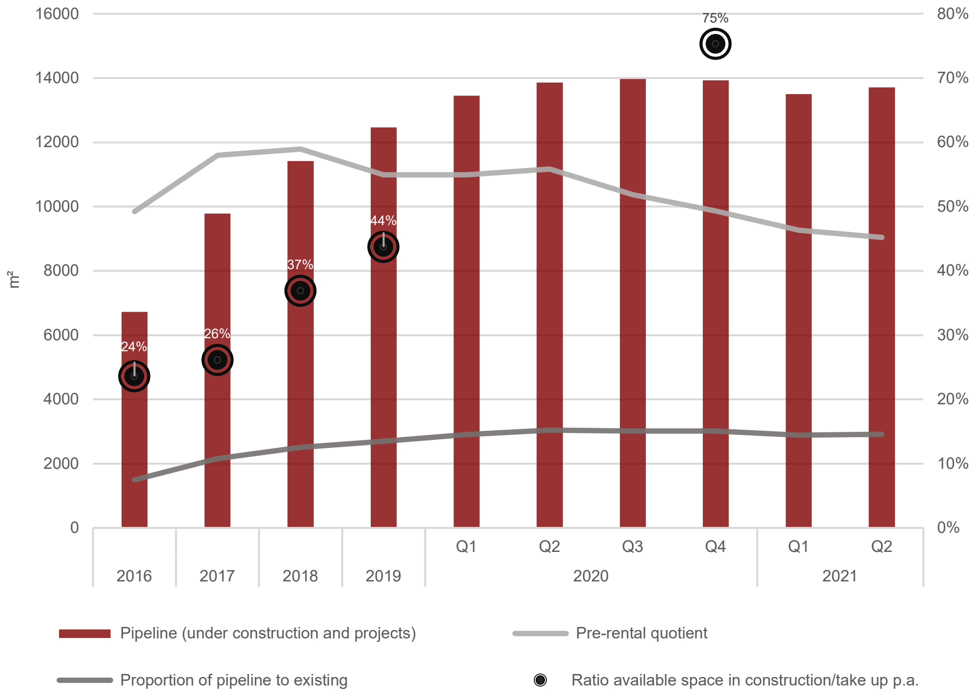
Which future developments are emerging?

Should the pandemic continue to abate then one can assume the start of a revival for the rental market in the second half of the year and for the investment markets slightly delayed in 2022. In the medium term to the long term however the demand for office space will fall. The cause for this lies in several factors. On the one hand the number of staff will fall due to demographic development and on the other hand increased cost pressure for companies which must have increased in the course of the pandemic even further will lead to savings in space. And the Home Office issue should also to a certain extent at least reduce the need for space even if it is not clear – as was discussed in the media at the start of 2020 – whether this will mean the end of office space.

The desire for flexibility characterised demand before the start of the pandemic and will do this in the future even more significantly. On the one hand shorter rental contract terms and break options play a role but also the demands placed on the flexibility of office space which are now at a higher level. In addition new (hybrid) working models will be established and part of this will also be the usage of flexible office space.

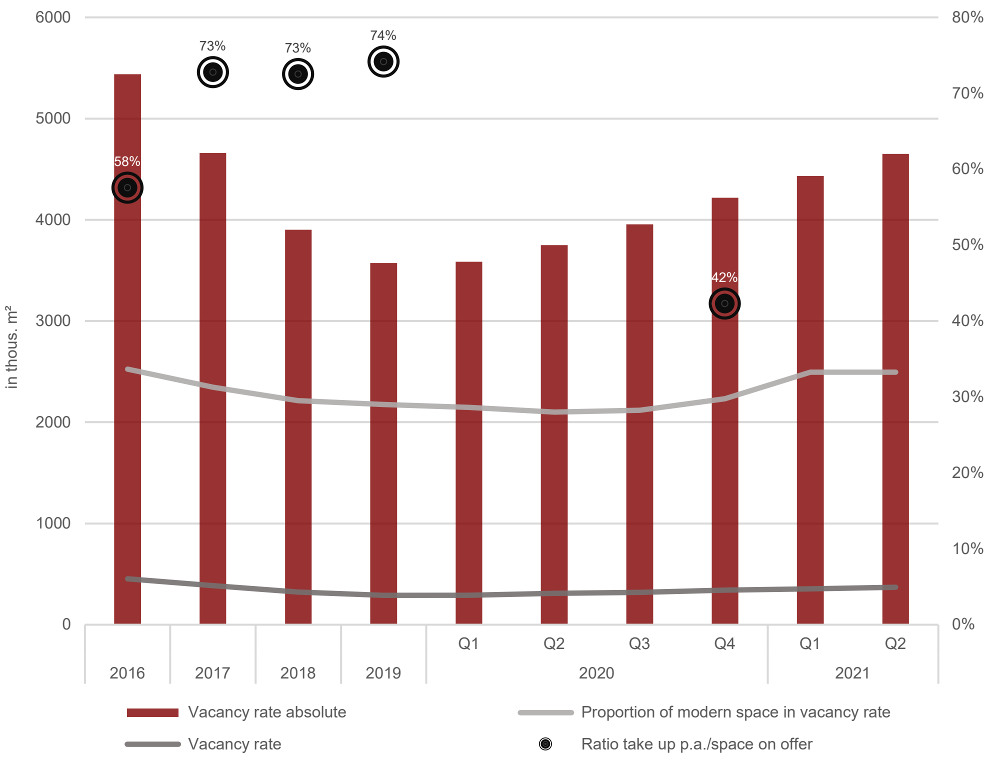
Overall digitalisation will continue to change job profiles and also the requirements for office space which requires a significant adaptability for office space. The same also applies to sustainability.

Development of supply of space (without Stuttgart)



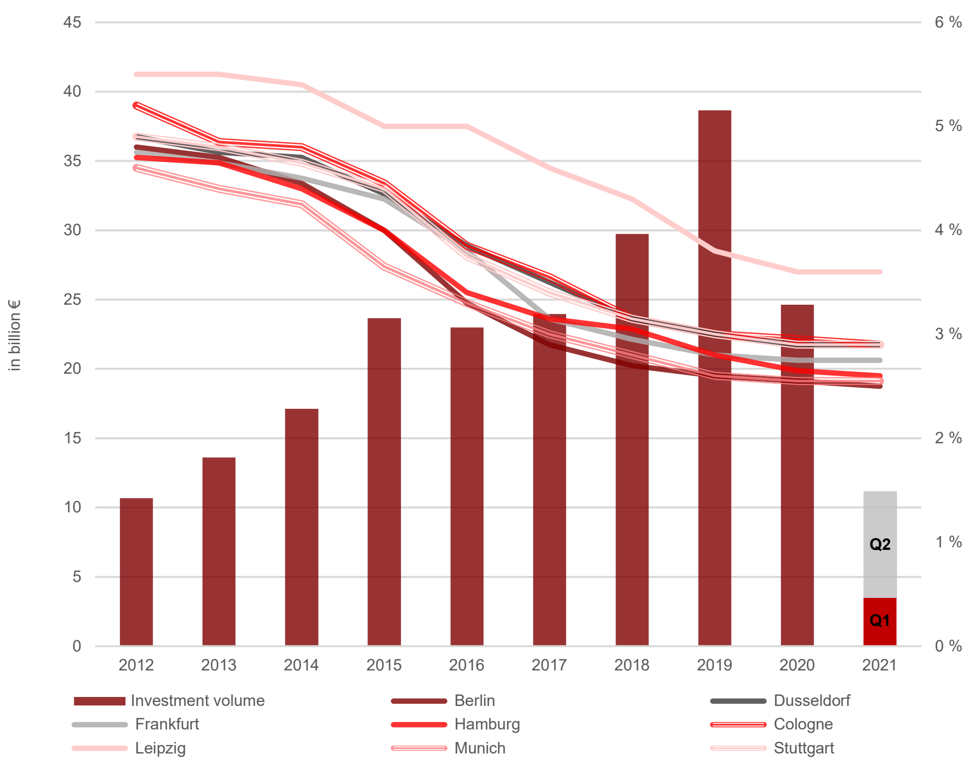
Sources: BNP Paribas Real Estate; own calculations, diagram

Vacancy development (without Stuttgart)



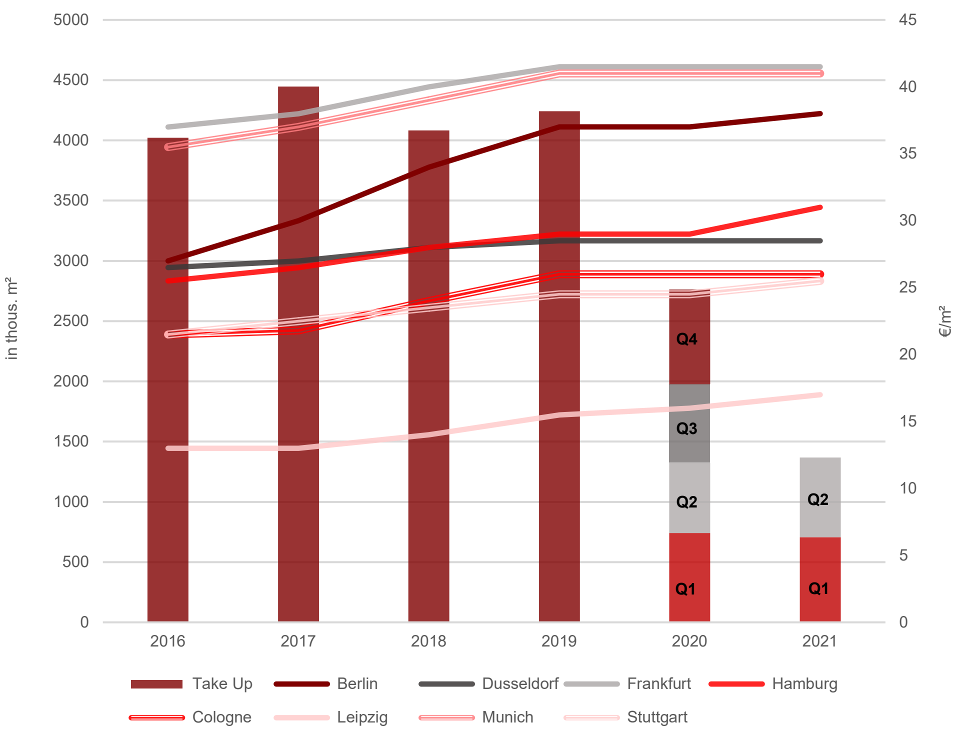
Sources: BNP Paribas Real Estate; own calculations, diagram

Investment volume and prime yields (without Leipzig)



Sources: BNP Paribas Real Estate, JLL (Leipzig); own material

Take Up and prime rents



Sources:JLL (rents), BNP Paribas Real Estate (take up); own material

RETAIL MARKET

Boom for online business, hard times for large part of stationary businesses

In the year 2020 retail achieved an increase in turnover of approximately 5.7% thus achieving a share of 34% of the expenditure on consumption for private households in total and this was significantly above the level of previous years. At first sight this appears to be a positive development – despite all the distortions. However the share in consumption stems probably less from stabilisation than from a significant fall in consumption expenditure amounting to approximately 5%. In addition the online share of retail turnover grew disproportionately by 18%. The increase in stationary retail was at approximately 3.6% and must have been focused significantly on food retail.

Sectors affected differently by pandemic

The Covid 19-pandemic hit stationary retail in the middle of digitalisation moving forward and a transformation process triggered by customer needs which have changed and this affects all sectors but to a very different extent and even before the pandemic shook the economic stability of many companies. Even the restrictions imposed due to the pandemic affected different sectors very differently. In this regard those affected most by the transformation process were also those who suffered most due to shop closures. Thus turnover in food retail continued to develop in a positive manner, online business absolutely exploded. Textile business however collapsed with each lockdown. The propensity to save which was significantly above the level of previous years on average provides hope that there will be certain catch up effect is but this should only impact in part on retail and will in no way make up for lost turnover. Purchasing power has on the one hand fallen again recently but at least consumer sentiment has been developing in a positive manner since Q2 2021 in anticipation of a summer with low levels of new infections even if the level for August is stagnating at the level of July; possibly as a reaction to the first signs of a possible fourth wave.

Uncertainty regarding future development of shopping centres and commercial buildings

In the investment market the developments which started as early as 2018 in part continued in 2019: shopping centres lost further in terms of their share in the investment volume, returns increased again also for commercial buildings. This may bei an expression of the upheavals in particular in textile retail but also the discussions regarding the future of city centres. Specialist jobs and above all specialist shop centres gained further in popularity, in particular in the event of a strong focus on food retail. Accordingly returns fell. The pandemic significantly increased the impact in this regard in each case.

What should we expect?

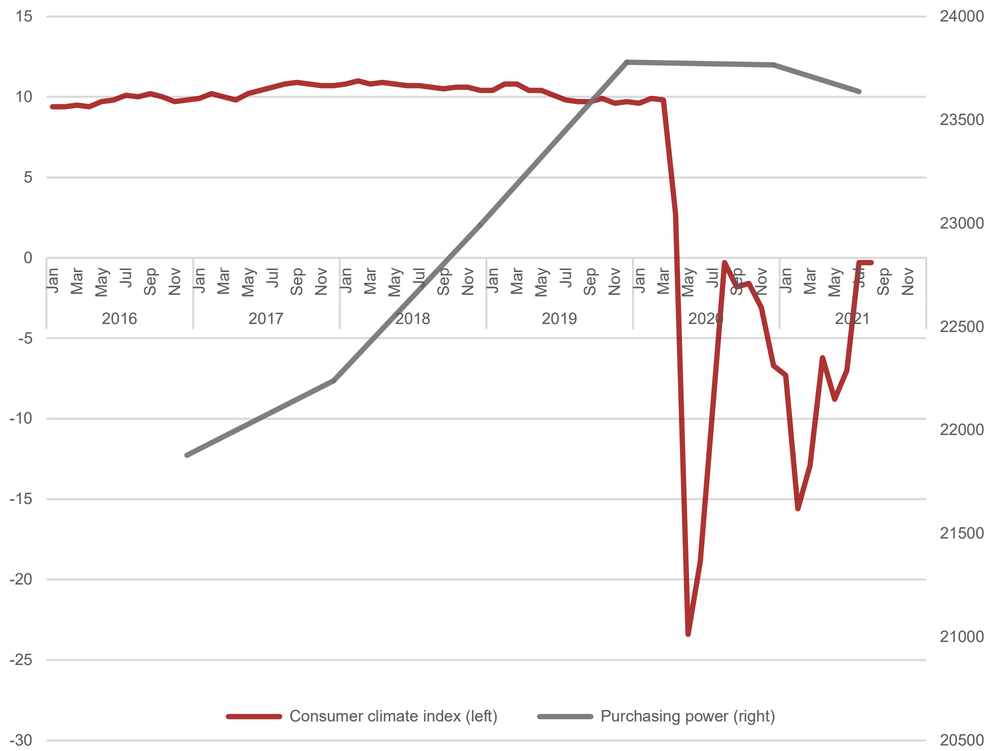
The ongoing digitalisation will lead to a further interlocking of online and stationary business and thus according to the HDE Online-Monitor currently the largest increases in turnover for online business are being generated by traders with stationary DNA.

The high streets will be confronted – in the context of businesses giving up and reductions in branch networks – as a consequence of rapid market consolidation with sinking demand for space in retail which affects in particular surface areas > 1,000 m² / multi-storey locations (>1 upper floor) and thus above all, but not only, the classic department store properties. In the course of this many sector specialists are expecting an increased concentration on a locations which in future will be tighter. In addition distribution within sectors will change again: less textiles, more food and in the future more basic provision which will impact on rents. Overall one can assume tenant friendly contracts which will contain a higher level of risk involvement on the part of the landlord in the form of turnover rents.

Shopping centres, due to their very frequent focus on textiles, are faced with significant repositioning and a revitalisation requirement. One can assume rents which continue to fall. In addition the negotiating position of tenants will gain further in strength.

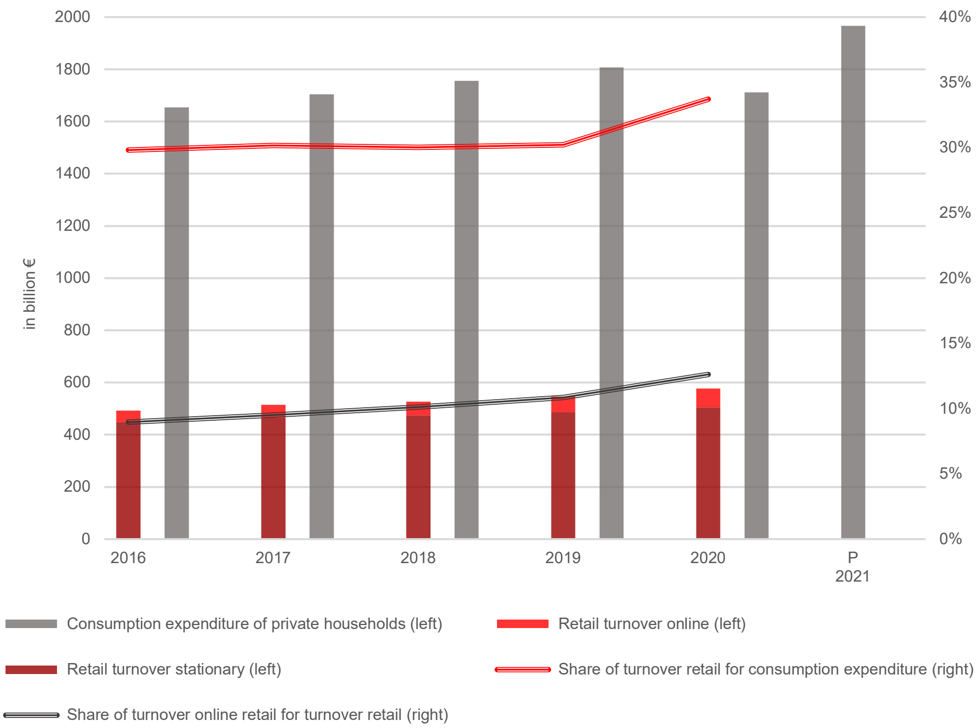
For specialist shops in food, DIY shops and specialist shop centres, further slight reductions in returns are to be expected due to the high level of demand.

Purchasing power and consumer climate



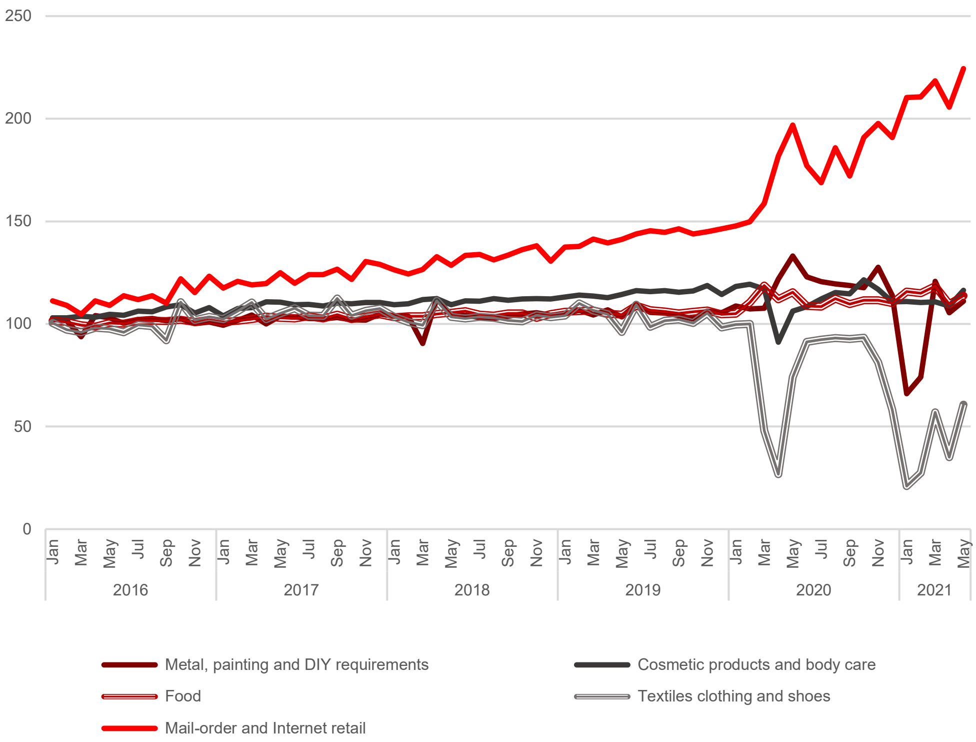
Source: GfK; own material

Turnover development



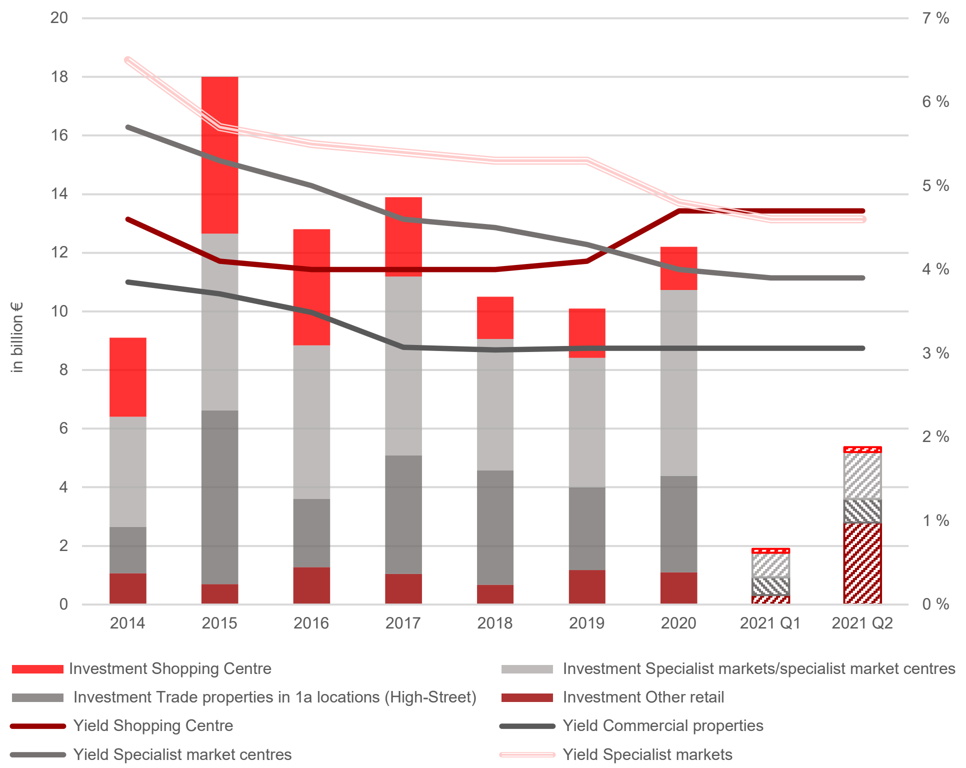
Source: National statistics office; own material

Turnover development of individual sectors



Source: National statistics office; own material

Investment volume and prime yields



Sources: CBRE (investment volume), BNP Paribas Real Estate (yields); own material

HOTEL MARKET

Sound economic basis due to positive developments before the crisis

The highly fragmented German hotel market was characterised in the last few years by consolidation which was driven by financially strong chain operators and increases in capacity and as a consequence led to improved efficiency. The sound economic development in the years before 2020, both at national level and also for the tourist sector made for a further strengthening of the economic position of the hotel sector which thus at the start of the pandemic had at his disposal an overall solid economic basis.

Significant collapse of capacity utilisation ADR and RevPar in 2020, to date only slow recovery in 2021

However the results for the year 2020 – despite a brief recovery which was temporary between May and November – with a reduction in capacity usage of 60%, for the ADR 13 % and RevPar 68 %, staggering. And also in the year 2021 the position only improved slowly. An improved capacity usage and RevPar – similar to the previous year – were only to be recorded in June. The huge financial burden of hotels impacted in this regard on their ability to pay rent, many rental and leasing contracts were renegotiated, rents and leases were reduced. According to their location and their client base hotels were affected differently by economic losses as a result of the pandemic.

A good year for the holiday hotel business

Demand fell on average for the year 2020 by approximately 40%, Germany benefited in this regard from the traditionally high proportion of domestic overnight stays as these fell at -33% less strongly than was the case for overseas overnight stays (-64%) caused by border closures and entry restrictions. At the same time leisure tourism was significantly more stable than business tourism which was impacted whereby here the problem was the speed in terms of changing to adapt to company travel guidelines but also the significant increase in cost pressure on companies. As a consequence international tourist cities and exhibition locations were hit harder by a collapse in demand than was the case for domestic leisure tourism locations/regions. The same applies to the hotel categories: it is particularly hard for business and exhibition hotels whilst holiday based hotels certainly had a good year. In addition budget and economy hotels performed (in this crisis) better than luxury hotels.

Investment volume collapse

The investment volume collapsed significantly in comparison to previous years which is an expression of reluctance on the part of investors due to the uncertainty but also due to the financing environment which deteriorated significantly. In addition it was for overseas investors, due to entry restrictions, only possible to a limited extent to make transactions. Returns increased slightly and from the low number of transactions however, no sustainable trends can be identified yet.

Where is the journey going?

Overall the sector is anticipating a rapid recovery of domestic tourism at a level before the crisis. Business travel activity however will recover more slowly and probably not achieve the level it had before the pandemic. In the future the result will be with regard to performance a more significant differentiation for hotel categories and locations. In this regard sustainability will become an increasingly significant factor of competition above all in the field of business travel. There are still many projects in the pipeline (above all in the midscale segment) such that the pressure on supply will initially remain. The consolidation of the market which is already in motion will be accelerated favouring chains which are financially strong. In addition one must assume mergers and takeovers and with a growing brands concentration (several brands under one roof). Lifestyle models which have been very successful in the last few years will gain further in significance. In addition one must assume numerous new business models (e.g. work/accommodation). The development away from mono functional large operations to slightly smaller properties with a wider profile/without focusing on individual customer groups will continue. In addition, the interest in towns and cities is increasing and this also applies to holiday regions. This trend will grow further.

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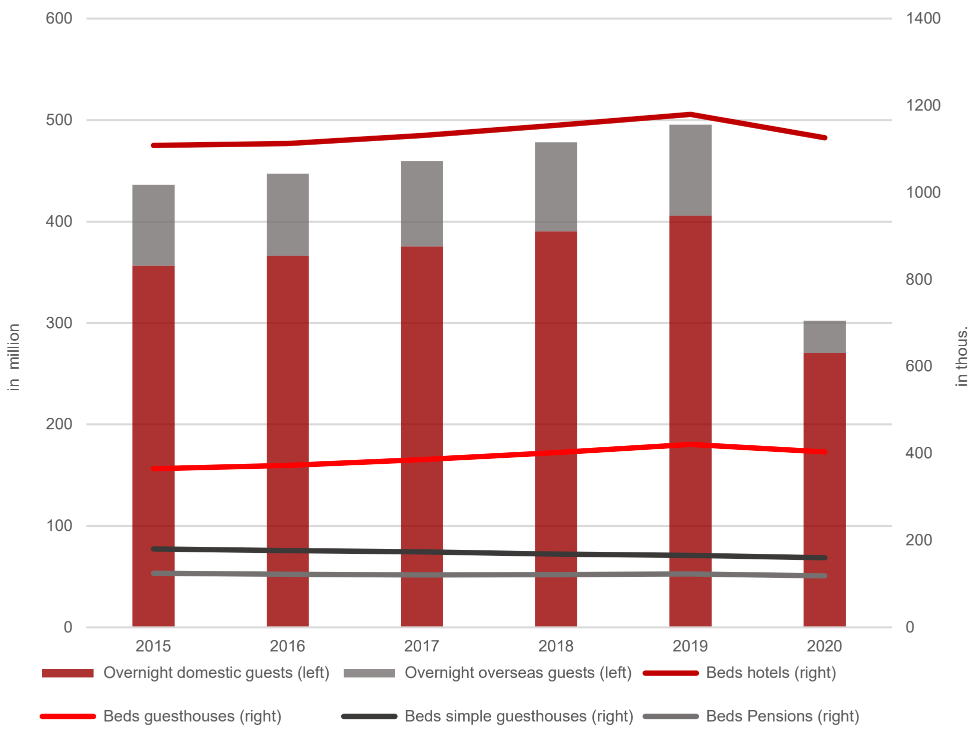
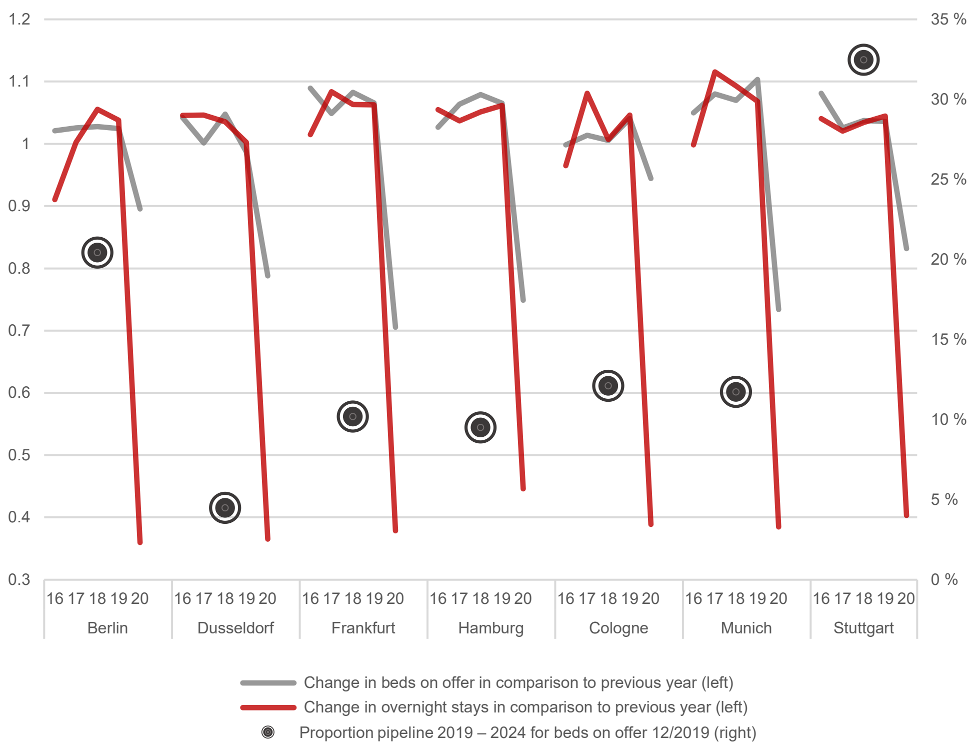
Overnight stays and number of beds on offer



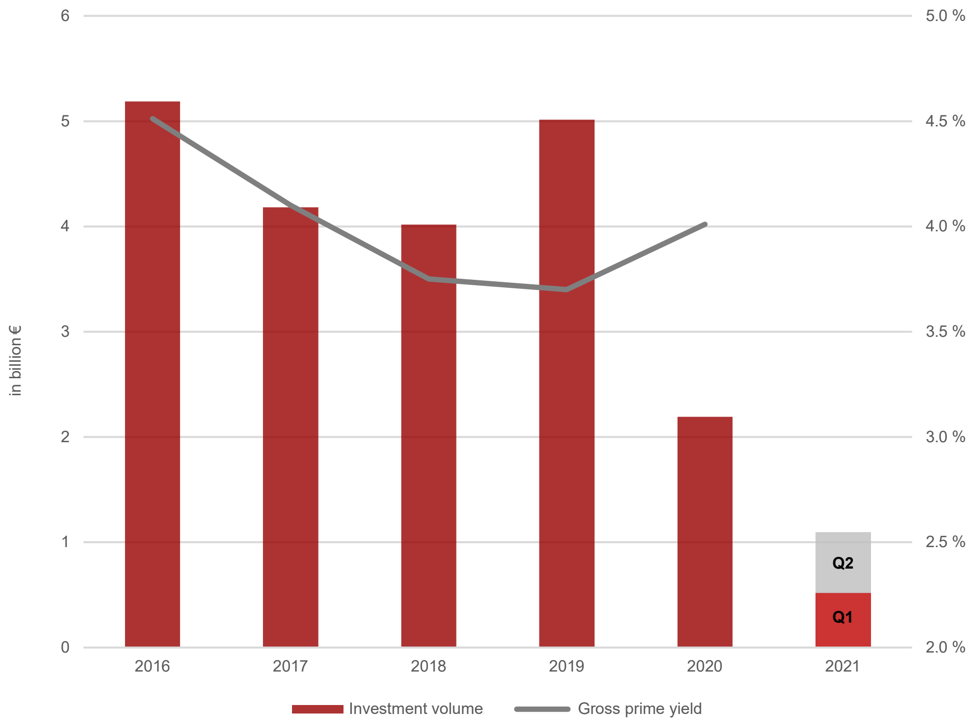
Sources: National statistics office; own material

Comparison of development of beds and overnight stays



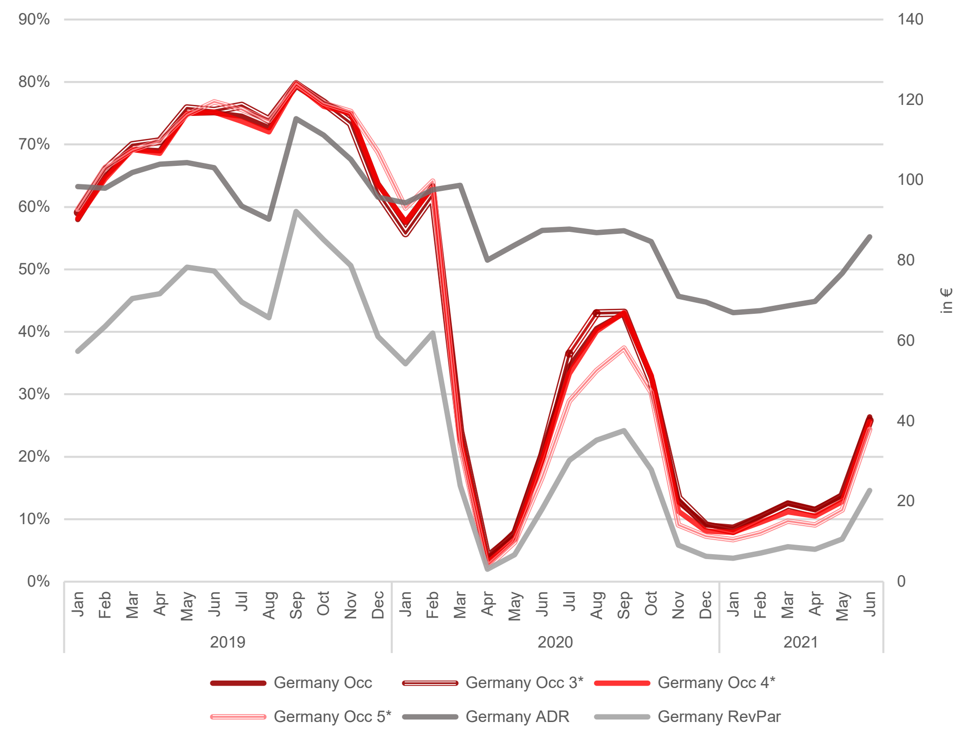
Sources: Statistical office of the federal states (beds, overnight stays), CBRE (pipeline); own material

Investment volume and prime yields



Sources: BNP Paribas (investment volume), Colliers (yield); own material

Operating ratios



Sources: Fairmas & STR Global; own material

LOGISTICS MARKET

Federal Government Association Logistics - economic climate improves but not across the board in all sectors

Triggered by the economic shock, business sentiment, status and expectations collapsed significantly in the time period March until May 2020 and the balance of decline was even significantly beyond that of the financial crisis 2007/2008. Since June 2020 there has been a continuous improvement of the indicators. The partial indicators for industry and trade are performing in this regard slightly better than those for logistics service providers however there are also here positive developments to be seen. Thus order books in June 2021 are no longer negative. What is noticeable is the price levels which have been increasing significantly since Q3 2020 which are presumably an expression of the increasing scarcity of resources. Overall the sector has proved to be extremely crisis resistant.

Will Covid-19 increase the need for space due to supply chain changes and location strategies?

The term resilience has become, with regard to the economy, one of the key buzzwords of the Covid-19-pandemic. What has proved not quite as resilient as anticipated are the – in the meantime frequently to be observed – just-in-time/just-in- sequence production and supply chains. Border closures and the halting of production led above all in 2022 to supply chains being interrupted and these were, according to Euler Hermes Global Supply Chain Survey, to be found by almost all questioned (German) companies and this is reflected – also in comparison to previous years – in the significantly lower levels of transportation. As a consequence of this experience currently many companies are reassessing their supply chains; re-shoring and nearshoring are frequently topics in the media at the moment. According to Euler Hermes, a surprising 47 up to 50% of those German companies questioned are considering relocating their production, however only between six and 10% are considering re-shoring. It is likely that non-EU countries will therefore be more involved in changing location strategies (nearshoring) than Germany itself. Switching to German suppliers is being planned by between 14 and 19% of companies. In addition to the issue of re-shoring therefore it could be that changes in supply chains lead to an increased need for space in Germany.

Consequences of the pandemic and further effects fuelling the demand for space

A further driver of the demand for space still comes from e-commerce which, due to shop closures during the lockdowns, even managed to acquire further impetus. But also the Brexit will presumably lead to an increase in demand for space in Europe due to the more difficult links to British distribution centres and part of this should impact in Germany. There are also temporary factors in addition such as the increase in stockpiles as a protection mechanism with respect to interruptions in the supply chain and also double stock keeping in the automotive sector due to the change from combustion engines to electro-mobility. These increases in demand are reflected in increased space turnover in 2020 despite the economic collapse in the spring.

Change in risk assessment on the part of investors

The investment market is also characterised by increasing demand given a supply base which has remained constant. Thus in 2020 the second highest level of investment volume ever was achieved and returns continued to fall at the same time. What is noticeable, due to the high level of return compression for logistics properties, is the very low spread to office returns which is surely an expression of the pressure on investment but which is also, above all, on the part of investors a significant change in risk assessment with respect to logistics properties.

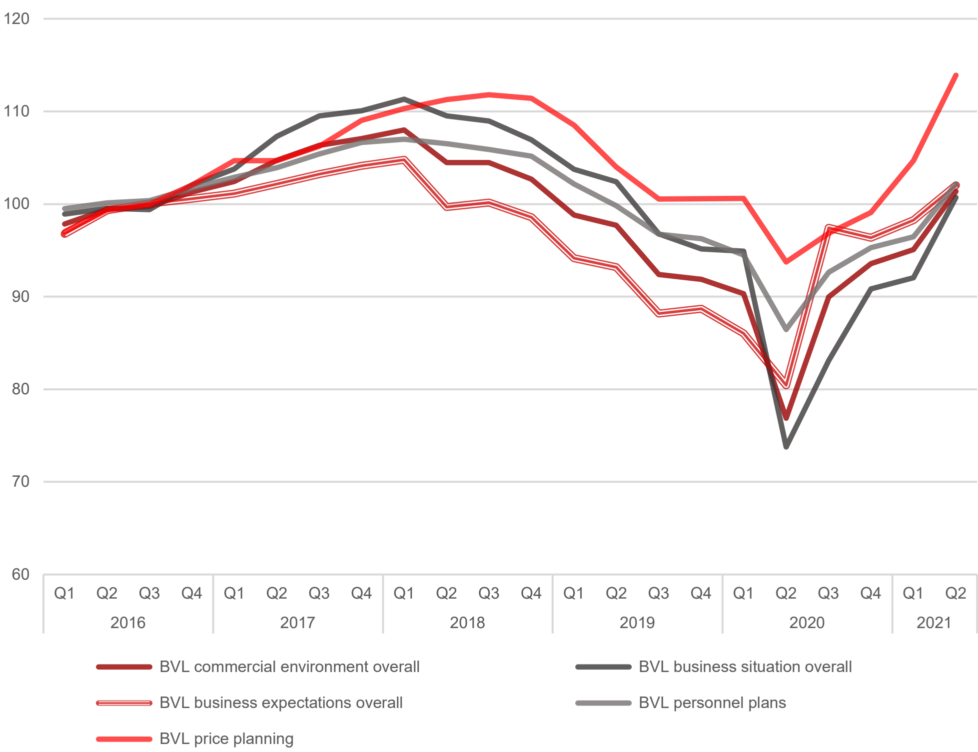
What will affect the logistics sector in the future?

The logistics sector is also significantly impacted by the megatrends digitalisation and sustainability and in addition to this there is a lack of building land. The scarcity of space in the logistics hubs will lead to – in connection with strong excess demand – a further increase in the significance of brownfield developments and usage changes but (despite efficiency deficits and more difficult approval processes) will also mean the establishment of double floored logistics buildings (such as e.g. MACH 2 by Four Parx in Hamburg). Furthermore logistics locations will also gain, beyond the big seven, which in addition to space often provide better availability of specialists, further in acceptance. In this process therefore one can assume further increases in rents and falling returns.

Transport development

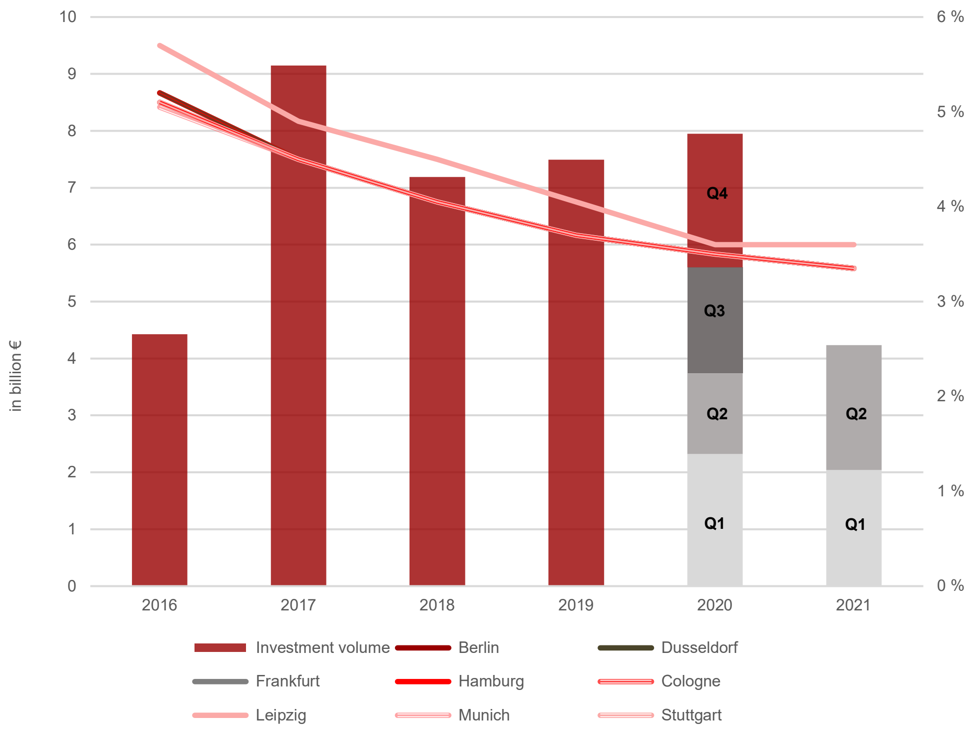
Sources: National office of freight traffic (transport volume), National statistics office (imports exports, transport index); own material

Business development



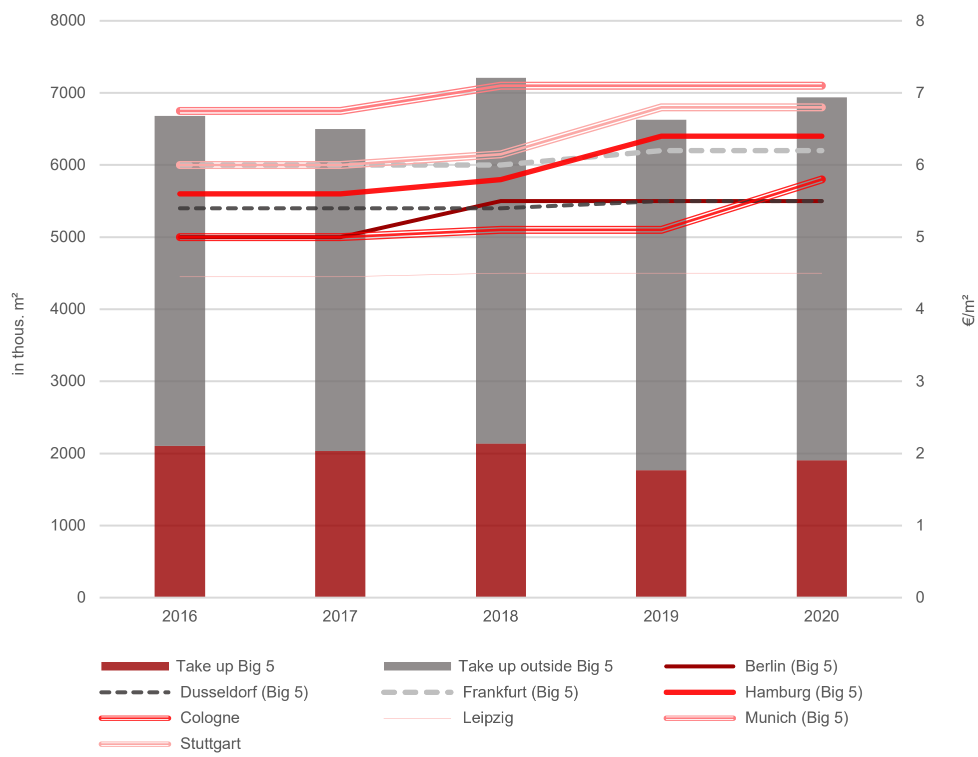
Sources: National Association of logistics (BVL), own material

Investment volume and prime yields



Sources: BNP Paribas; own material

Take up and prime rents



Sources: JLL, BNP Paribas (yield Leipzig); own material

RESIDENTIAL MARKET

Residential market with rising prices despite pandemic

Even the pandemic with now three lockdowns has not changed much in the price rises to be observed in the past years in particular in conurbations. On the contrary the trend has even intensified if one looks at the vdp-property price index with an increase of 9.5% for residential property for self usage from Q1 2022 to Q1 2021; between 2017 and 2020 the rates of increase (relating to the first quarter) were respectively a good 7%. Even for the year on average self used flats became even more expensive in 2020. Owned flats in themselves recorded a significant price increase (9.8% vs. approximately 6% between 2017 and 2020).

Multifamily housing also recorded between 2019 and 2020 price increases of 6.2% (or since the beginning of the pandemic 7.6%) whereby the dynamic of increases has weakened somewhat since 2019. Due to various rental law regulations, new contract rents rose less strongly than in previous years. Despite returns sinking further, multi-family houses remain a much sought-after investment product.

Demand exceeds supply

The causes of the price rises described above is the unchanged high level of demand on the part of investors for residential property and this is again driven by the ongoing financing conditions which remain cheap. In addition the high level of demand for residential space makes for, in built-up areas, stable to rising rental cash flows and therefore a comparatively safe asset class. Due to, in comparison to demand, a low level of new building activity and the fact that building land is scarce and that land prices in many places have increased significantly, the supply of residential property – both for self usage and also for investment purposes – remains limited.

Berlin as national role model?

The residential rental market in Berlin is, as is the case in the other top locations, very difficult. Residential space in the city is becoming increasingly expensive and unaffordable for many people. New buildings may provide relief but this takes a long time. Rapid solutions are desired but the corresponding (realistic) approaches remain absent. Now one of the few attempts to find a solution, the highly controversial in the media omnipresent Berlin rent, found its bitter end due to the Berlin Senate acting beyond its scope of competence. The Federal Constitutional Court regards this responsibility as a matter for the state at national level; this is the basis for discussions for a nationwide rental cap.

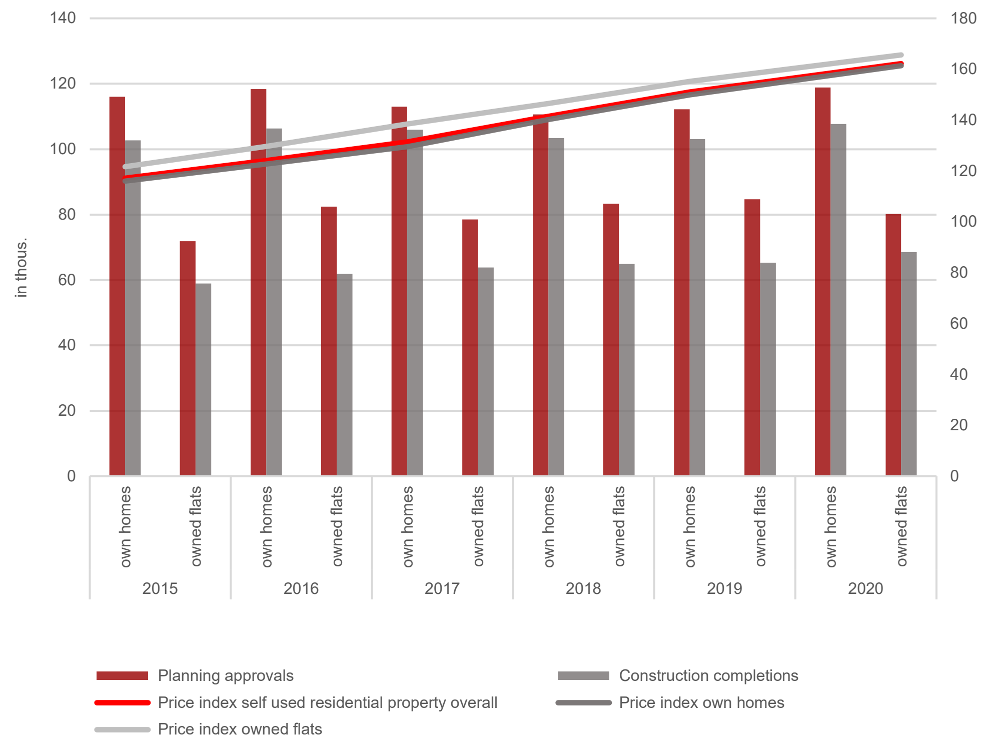
Simultaneously the initiative Disappropriate Deutsche Wohnen & Co! gathered signatures for a referendum with the objective of preventing large blue-chip companies speculating with rented flats in the future. Now in September the referendum is on the agenda. In addition a citywide protected zone area is in discussion which is to prevent the conversion of rented flats into expensive flats for sale. In view of the upcoming national election, affordable residential space will be a significant election issue. It remains to be seen whether and which (national) regulations result from this.

Increase in construction activity with rising costs and planning risk

At the end of 2020 the stock of existing German flats totaled 42.8 million in residential and non-residential buildings which represents a growth compared to the previous year of 0.7%/290,966 flats. Also the number of approvals for planning permission rose in comparison to 2019 by a total of 2.2%. In this regard the increase in approvals for flats in new buildings grew by 2.9% which is to be attributed to strong growth in semi-detached houses (20.5%) whilst the approval numbers for detached houses and multi-family houses rose moderately at 2.4%/a mere 0.4%.

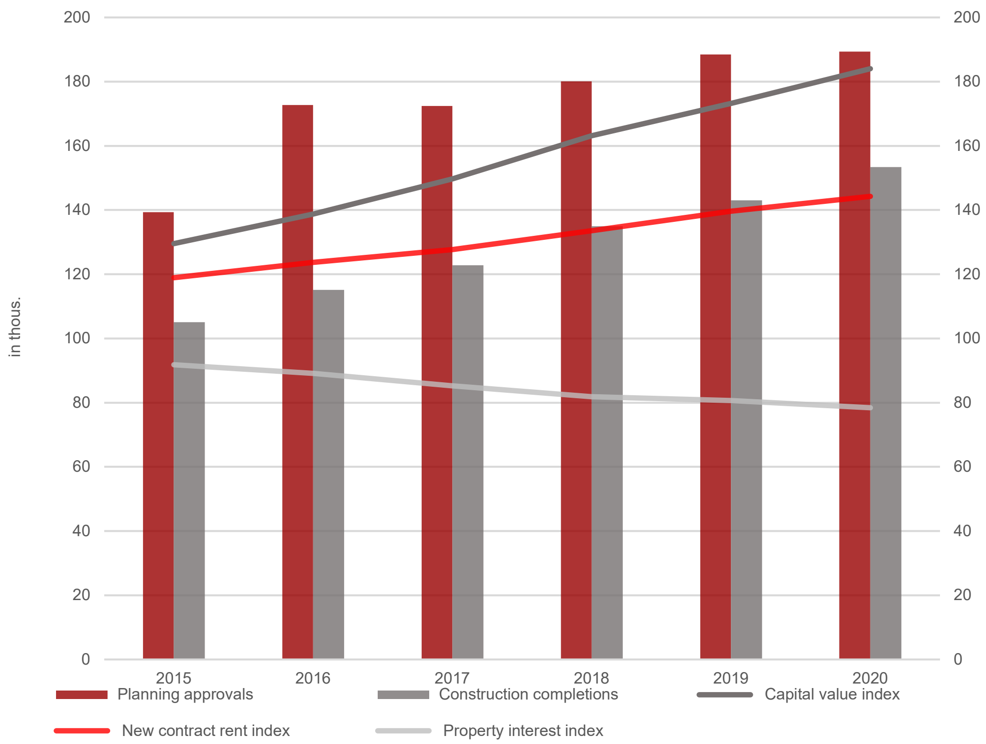
Rising approval numbers for planning permission should make for an increase in construction activity, there is however still a high level of backlog for approvals even if this has been slightly reduced in the past few years. In addition to possible difficulties due to the Covid-19 pandemic, the recent significant increases in raw material prices coupled with lack of materials as a cost and planning risk and also the lack of specialists should impact on construction activity in a dampening manner. The drivers of costs are not only higher material prices but also the stringent energy requirements which in particular for apartments in the past few years has repeatedly led to discussions regarding the present ability of affordable rents.

Residential property (own homes, owned flats)



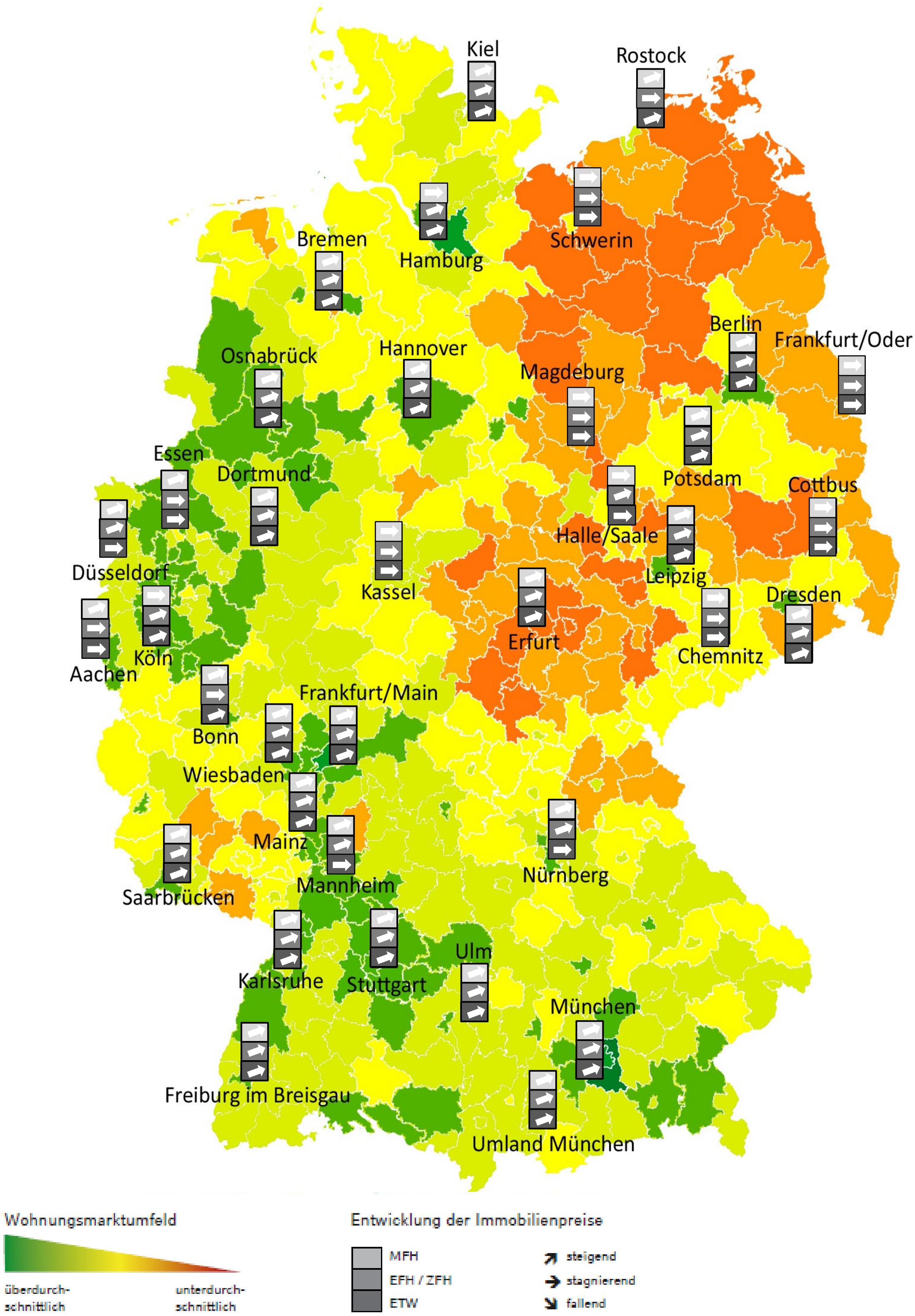
Sources: vdp Research (price index), National statistics office (approvals, completions); own material

Multi-family houses



Sources: vdp Research (capital values, rents, interest rates) National statistics office (approvals, completions); own material

Market outlook 2022



Sources: KENSTONE

INVESTMENT MARKET

Hardly any investment alternatives

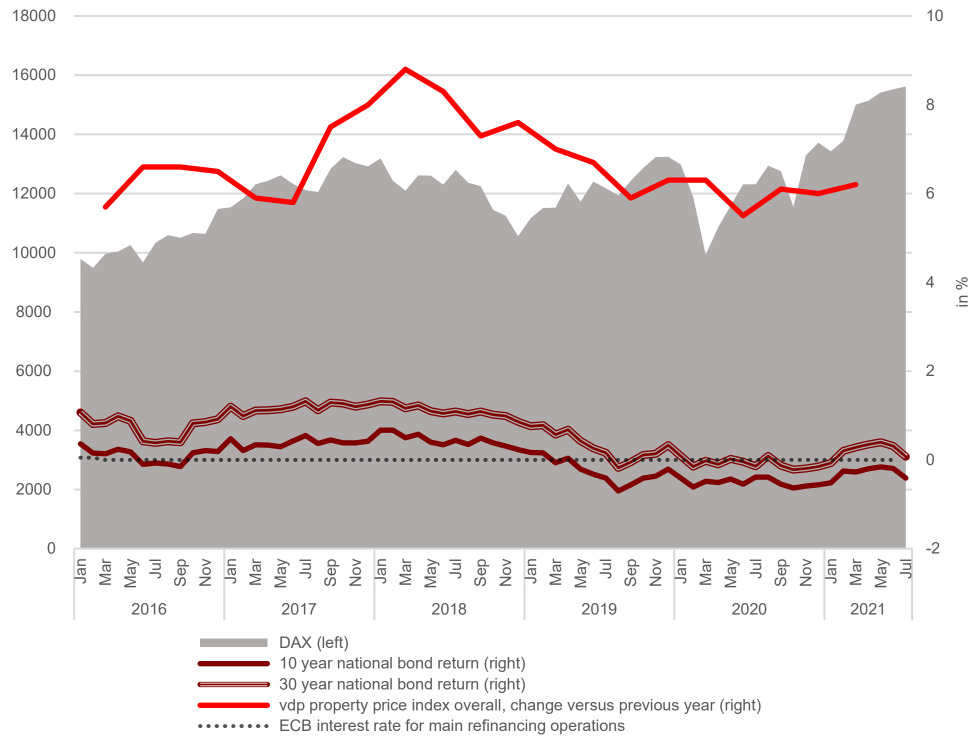
That the ECB abandons its long-term low interest rate policy is – provided there is no scenario of the market overheating – as explained in the previous chapter, currently not likely. The volume of money in the market remains high, alternative investments are few and far between due to the high level of pressure on investment. Property was therefore also a popular investment in 2020 even if the effects of the pandemic in the context of commercial investment were to be felt in significant terms. Thus commercial investment volumes fell by approximately 19% in the year of the crisis and this was to be felt in particular with office property (-36%) and hotels (-56%). This is reflected in the economic uncertainty on the part of those driving demand and the travel restrictions for foreign investors but also due to financing bodies holding back and a deterioration in financing conditions.

Financing environment improves

Whilst loan payments and agreements rose again in 2020 by 10%/8% respectively and financing bodies in the residential market were completely unimpressed by the crisis, payments and agreements for commercial properties fell by a significant 18%/21% which is to be attributed to the reduction in investment volume (construction volume stable in the same period) but also to a deterioration in the financing environment; e.g. loan agreements for hotel properties in 2020 almost halved whereby margins increased significantly.

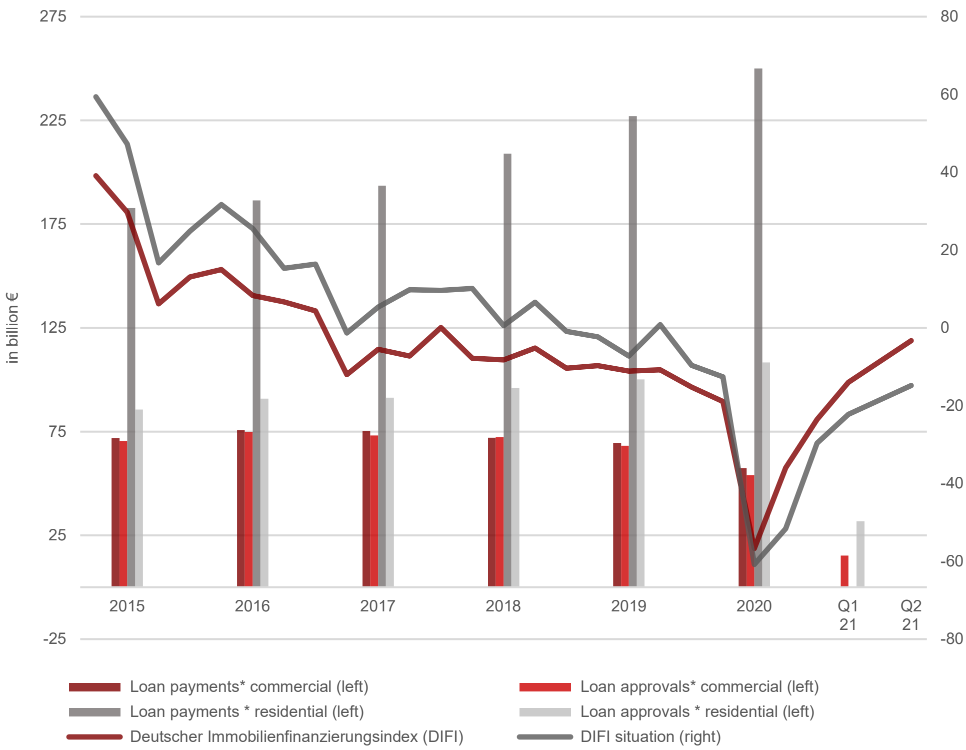
The German Property Financing Index (DIFI) which had experienced since 2016 a slightly negative trend in Q2 2020 due to the exogenous shock falling to a historical low, has developed since Q3 2020 positively once more and achieved in Q2 2021 its highest level since the end of 2017. The financing expectations in themselves even exceeded the results of the last six years and appear since Q2 2020 significantly more positive than the financing situation. With regard to the individual asset classes it can be ascertained that those usage types significantly affected by the pandemic – trade, hotel and also office - have been recording since Q2 2020 index levels which are increasing significantly. In this regard office properties are recording the best level of the three asset classes, hotels are at the same level as retail properties. Despite this positive development segments hotel and office have not yet achieved their pre – crisis level. Retail however where the financing index has been developing in a significantly negative manner since 2017 due to ongoing structural change achieved in Q2 2021 its highest level since Q1 2018.

Development of classical investment options



Sources: Deutsche Börse (DAX), German central bank (bonds, base rate); vdp (price index); own material

Financing conditions



Sources: vdp (granting of loans); JLL / ZEW (DIFI); own material

MARKET INDICATORS

Market indicators 2019 – Q2 2021 Office Market

		Berlin 2019 - 2020 *2021*	Dusseldorf 2019 - 2020 *2021*	Frankfurt 2019 - 2020 *2021*	Hamburg 2019 - 2020 *2021*	Cologne 2019 - 2020 *2021*	Leipzig 2019 - 2020 *2021*	Munich 2019 - 2020 *2021*	Stuttgart 2019 - 2020 *2021*
Take up	thous. m²	1,016 - 710 *Q2 338*	536 - 275 *Q2 108*	635 - 385 *Q2 201*	514 - 333 *Q2 213*	306 - 211 *Q2 160*	147 - 139 *Q2 63*	770 - 568 *Q2 234*	319 - 141 *Q2 49.8*
Prime rent	€/m²	40 - 40 *Q2 40*	28.5 - 28.5 *Q2 28.5*	45 - 47 *Q2 47*	31 - 32 *Q2 32*	26 - 26 *Q2 26.5*	42.870,0 *Q2 17*	39.5 - 39.5 *Q2 39.5*	24.5 - 25.5 *Q1 25.5*
Prime yield	%	2.6 - 2.55 *Q2 2.5*	39.847,0 *Q2 2.9*	2.8 - 2.75 *Q2 2.75*	2.8 - 2.65 *Q2 2.6*	34.733,0 *Q2 2.9*	3.8 - 3.6 *Q2 3.6*	2.6 - 2.55 *Q2 2.55*	39.847,0 *Q2 2.9*
Vacancy	%	1.5 - 2.4 *Q2 2.9*	7.6 - 8.8 *Q2 9.2*	6.8 - 7.8 *Q2 8*	4.1 - 4.1 *Q2 4.1*	2.8 - 3.6 *Q2 3.6*	4.9 - 4.8 *Q2 4.3*	02.04.2003 *Q2 4*	2.3 - 2.1 *Q2 2*
Take Up/available space	%	101.1 - 57	70 - 30	46 - 26	72 - 43	117 - 57	75 - 65	80 - 48	k.A.
Proportion pipeline to existing	%	*20.9 - 24.2* *Q2 24.9*	*6.9 - 8.5* *Q2 10.1*	*12.4 - 13.3* *Q2 11.2*	*9.7 - 11.7* *Q2 9*	*5.9 - 8.5* *Q2 8*	*5.7 - 7.3* *Q2 10.8*	*17 - 16.9* *Q2 16*	k.A.
Pre-rental quotient	%	*46.8 - 43.4* *Q2 40.2*	*80.6 - 71.9* *Q2 70.7*	*47.6 - 53.7* *Q2 41.1*	*67.1 - 52.6* *Q2 55.7*	*66 - 58.7* *Q2 58.6*	*89.6 - 52.2* *Q2 47.9*	*55.8 - 45.5* *Q2 40.1*	k.A.
Available space in construction /take up p.a.	%	69 - 106.9	7.6 - 25.5	52 - 74	27.06.1958	11.8 - 39.3	05.04.2023	59.4 - 97.2	k.A.

Sources: BNP Paribas Real Estate (Take Up, yield, vacancy), JLL (rent), own calculations; own diagram

Market indicators 2019 – Q2 2021 Retail Market

			Berlin	Dusseldorf	Frankfurt	Hamburg	Cologne	Leipzig	Munich	Stuttgart
Prime rent High Street 80 - 120 m²	€/m²		400 - 380	295 - 310	290 - 305	310 - 310	255 - 235	120 - 110	270 - 370	190 (2019)
Prime rent High Street 300 - 500 m²	€/m²		170 - 160	160 - 170	150 - 155	190 - 180	130 - 115	60 - 50	240 - 235	90 (2019)
Gross prime yield	% *(Q1 each)*		2.6 - 2.6	36953,00	2.9 - 2.9	2.8 - 2.8	3.1 - 3.3	3.3 - 3.3	2.4 - 2.4	3.1 - 3.3
Gross yield multipliers	x-fold	2019	32.0 – 34.0	33.0 – 35.0	32.0 – 34.0	33.0 – 35.0	30.5 – 32.5	22.0 – 24.0	39.0 – 41.0	22.0 – 24.0
		2020	32.0 - 34.0	33.0 - 35.0	32.0 - 34.0	33.0 - 35.0	30.0 - 32.0	22.0 - 24.0	40.0 - 42.0	k.A.
Population level	in thous.		3,664	621	764	1,852	1,083	597	1,488	630
	%	2011-2019	10.3	5.5	12.8	7.5	7.3	16.3	8.7	7.6
Population forecast	%	2012-2030	10.3	3.8	14.2	7.5	7.9	13.9	14.1	7.0
GDP per head	€/head	2018	72,186	92,974	97,735	93,318	83,011	62,815	103,355	105,982
Unemployment rate	%	2019 - 2020	7.8 - 9.7	6.6 - 7.8	5.0 - 6.7	6.1 - 7.6	7.8 - 9.2	7.5 - 6.3	3.5 - 4.8	4.1 - 5.3
		2021	*Jun 9.8*	*Jun 7.9*	*Jun 6.6*	*Jun 7.6*	*Jun 9.5*	*Jun 7.3*	*Jun 4.9*	*Jun 5.2*
Purchasing power index		2019 - 2020	91.2 - 91.3	117.7 - 116.5	113.9 - 113.5	109.7 - 109.3	105.4 - 105.1	87.4 - 87.3	134.3 - 134.6	113.2 - 113.6
		P 2021	92.4	116	111.6	108.3	105	88.2	132.8	112.5

Sources: Comfort (rents, gross yield multipliers), JLL (Renditen), National statistics office (population), Bertelsmann Stiftung (population forecast), National Job Centre; (ALO), GfK (purchasing power); own material

Market indicators 2019 – Q2 2021 Hotel Market

			Berlin 2019 - 2020 *2021*	Dusseldorf 2019 - 2020 *2021*	Frankfurt 2019 - 2020 *2021*	Hamburg 2019 - 2020 *2021*	Cologne 2019 - 2020 *2021*	Munich 2019 - 2020 *2021*	Stuttgart 2019 - 2020 *2021*
Gross prime yield	%	(Q4 each)	4.4 - 4.4 Q2 4.4	4.3 - 4.3 Q2 4.3	3.75 - 3.75 Q2 3.75	3.75 - 3.75 Q2 3.75	4.1 - 4.1 Q2 4.1	3.7 - 3.7 Q2 3.7	4.1 - 4.1 Q2 4.1
Beds available	thous.		150.3 - 134.7 *Apr 111.4*	27.09.2022 *Apr 22.6*	59.8 - 42.2 *Apr 41.7*	72.7 - 54.5 *Apr 53.1*	34 - 26.2 *Apr 25.8*	88 - 64.6 *Apr 63.7*	22.1 - 20.1 *Apr 18.3*
Occupation	%		61.4 - 26.3 *Apr 10.1*	48.4 - 21.2 *Apr 8.6*	51 - 24.3 *Apr 13.5*	59.1 - 30.4 *Apr 10.4*	52.9 - 25 *Apr 9.2*	59.1 - 27 *Apr 13*	50.7 - 24.3 *Apr 13.5*
Arrivals	100 thous.		139.6 - 49.5 *Apr 3.6*	30.5 - 10.8 *Apr 0.3*	61.9 - 21.6 *Apr 3*	76.2 - 31.7 *Apr 2.4*	38.3 - 14.4 *Apr 0.3*	87.5 - 29.9 *Apr 2.6*	21.8 - 8.3 *Apr 0.9*
Share of overseas guests	%		39.3 - 26 *Apr 12.1*	36.8 - 28.2 *Apr 20.1*	41.6 - 32.3 *Apr 29.4*	22 - 15.1 *Apr 10.5*	32.5 - 22.4 *Apr 23.2*	44.8 - 29.8 *Apr 20*	27 - 20.4 *Apr 11.7*
Overnight stays	100 thous.		341.2 - 122.8 *Apr 9.9*	50 - 18.3 *Apr 0.6*	107.9 - 40.9 *Apr 6.7*	154.3 - 68.8 *Apr 6.5*	65.8 - 25.6 *Apr 0.7*	182.9 - 70.3 *Apr 9.4*	40.9 - 16.5 *Apr 2.5*
Share of overseas guests	%		45.4 - 30.3 *Apr 15.9*	59.8 - 69.7 *Apr 18.4*	43.9 - 34.6 *Apr 29.1*	24.6 - 16.7 *Apr 14.3*	35.2 - 24 *Apr 17.3*	48 - 31.6 *Apr 25.3*	31 - 23.6 *Apr 20.2*

Sources: Colliers (yield), Statistical office of the federal states (capacity usage, overnight stays, arrivals), own material

Market indicators 2019 - Q2 2021 Logistics Market

		Berlin 2019 - 2020 *2021*	Dusseldorf 2019 - 2020 *2021*	Frankfurt 2019 - 2020 *2021*	Hamburg 2019 - 2020 *2021*	Cologne 2019 - 2020 *2021*	Leipzig 2019 - 2020 *2021*	Munich 2019 - 2020 *2021*	Stuttgart 2019 - 2020 *2021*
Take up	thous. m²	493 - 452	177 - 173	413 - 473	464 - 498	89 - 187	164 - 337	219 - 307	53 - 108
Prime rent	€/m²	5.50 - 5.50	5.50 - 5.50	6.20 - 6.20	6.40 - 6.40	5.10 - 5.80	4.50 - 4.50	7.10 - 7.10	6.80 - 6.80
Investmentvolume	B €	320 - 1,005 *Q2 94.5*	147 - 41 *Q2 82.8*	465 - 344 *Q2 22.9*	97 - 384 *Q2 434.2*	110 - 112 *Q2 74.3*	145 - 65 Q2 8.0	445 - 440 Q2 91.2	125 - 165 *Q2 9.9*
Prime yield	%	3.7 - 3.5 *Q2 3.35*	3.7 - 3.5 *Q2 3.35*	3.7 - 3.5 *Q2 3.35*	3.7 - 3.5 *Q2 3.35*	3.7 - 3.5 *Q2 3.35*	4.05 - 3.6 *Q2 3.6*	3.7 - 3.5 *Q2 3.35*	3.7 - 3.5 *Q2 3.35*

Sources: (rental market), BNP Paribas Real Estate (investment market, rental market Leipzig); own material

DISCLAIMER

IMAGE EVENT

S As at October 2020 · Protective Charge 50,– €

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