

Market in Minutes

Germany investment markets

Q2 2014



The facts at a glance

Commercial investment market boom continues - residential portfolios lose momentum

■ Investment in German commercial property in the first half of 2014 totalled almost €17bn. A further €6.8bn was invested in residential portfolios. In both cases, this represents a significant increase on the corresponding period last year (+27% and +18% respectively).

■ Risk aversion is decreasing in both the commercial and residential markets and investors are increasingly shifting their focus to B locations and B cities. However, they are doing so cautiously and prices for B properties and in B locations have only risen sporadically.

■ In the commercial segment, the extraordinarily high half-year investment volume has been particularly driven by portfolio transactions. These accounted for 45% of overall investment (ca. €7.7bn).

■ Private equity investors were among the most active market participants in the first half year in both the commercial and residential markets, albeit in differing roles. While these represented the second largest group of purchasers in the commercial segment with investments totalling ca. €2.6bn, in the residential segment they were primarily vendors (ca. €1.7bn).

■ Correspondingly, the commercial segment is once again dominated by foreign purchasers while residential portfolios are primarily being purchased by listed German property companies.

■ For the second half year, we expect a stable, high transaction volume in terms of commercial property (projection for 2014: minimum €35bn). Residential portfolio investment, on the other hand, is likely to decline since there are very few large portfolios remaining on the market (projection: approx. €11bn).

Commercial investment market Germany

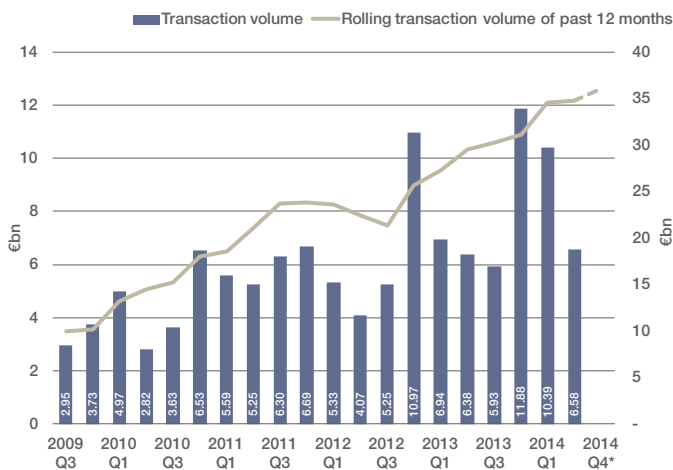
1H 2014

TABLE 1
Key investment market figures

| | Transaction volume (€m) | | Dominating sector | | Share of domestic investors | | Office prime net initial yield | | High street prime net initial yield | |
|------------|-------------------------|--------------|-------------------|-------|-----------------------------|---------|--------------------------------|--------------|-------------------------------------|--------------|
| | 1H 2014 | y-o-y change | Sector | Share | 1H 2014 | 1H 2013 | 1H 2014 | y-o-y change | 1H 2014 | y-o-y change |
| Berlin | 1,250 | -12% | Office | 65% | 60% | 64% | 4,6% | -20bps. | 4,2% | -40bps. |
| Düsseldorf | 1,117 | 11% | Office | 67% | 63% | 81% | 4,6% | -20bps. | 4,1% | -10bps. |
| Frankfurt | 1,038 | -42% | Office | 66% | 56% | 75% | 4,5% | +/-0bps. | 3,7% | +/-0bps. |
| Hamburg | 1,175 | 11% | Office | 44% | 38% | 62% | 4,5% | -10bps. | 4,4% | -10bps. |
| Cologne | 383 | 13% | Office | 60% | 51% | 49% | 4,8% | -20bps. | 4,4% | +/-0bps. |
| Munich | 1,573 | 13% | Office | 51% | 47% | 64% | 4,3% | +/-0bps. | 3,5% | +/-0bps. |
| Germany* | 16,971 | 27% | Office | 39% | 44% | 67% | 4,5% | -12bps. | 4,1% | -10bps. |

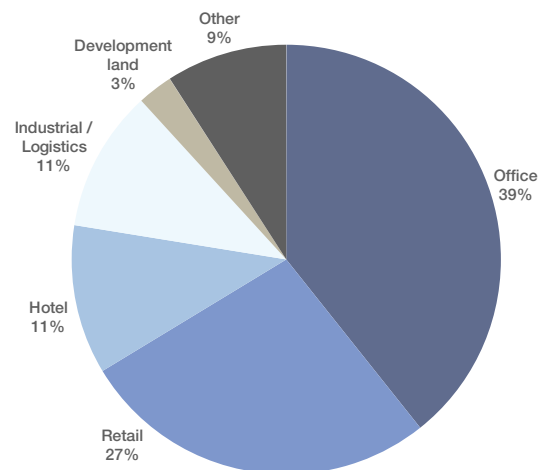
Source: Savills / * prime yields = Ø top six

GRAPH 1
Transaction volume



Source: Savills / * forecast

GRAPH 2
Transaction volume by sector



Source: Savills

German commercial investment market in minutes

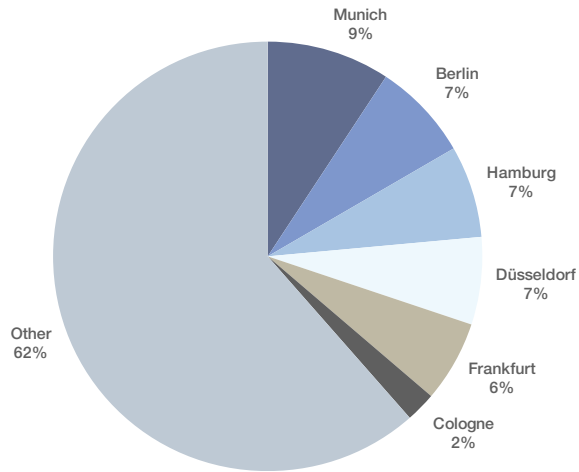
Foreign investors once again more active than domestic counterparts

- The transaction volume between April and June totalled €6.6bn, taking investment in commercial property for the first half year to almost €17bn; an increase of 27% year on year.
- For the first time since the financial crisis, foreign investors were significantly more active on the purchaser side than domestic players. Some 56% of the transaction volume in the first half year was attributable to foreign purchasers, led by private equity funds with investments totalling €2.6bn.
- Even at the end of the first half year, it seems apparent that we will look back on 2014 as a year dominated by portfolio transactions. Commercial property portfolios have accounted for almost €7.7bn; some 45% of the total investment volume to date. In 2013, the corresponding figure was €7.4bn for the full year. The increased activity in the portfolio segment is benefiting all major use classes (offices, retail, hotels, logistics)

Commercial investment market Germany

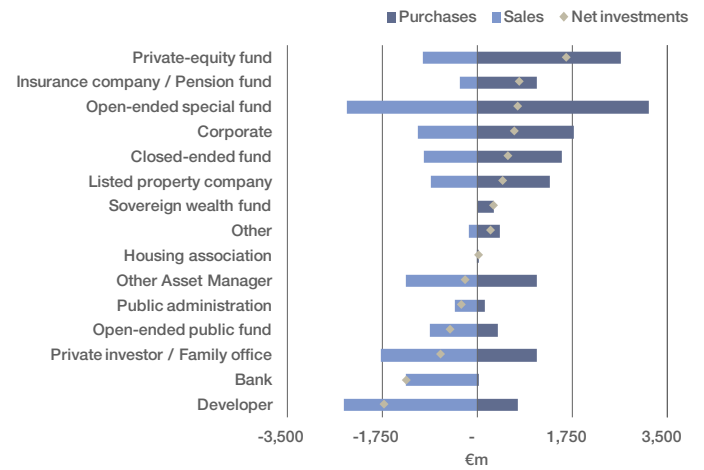
1H 2014

GRAPH 3
Transaction volume by location



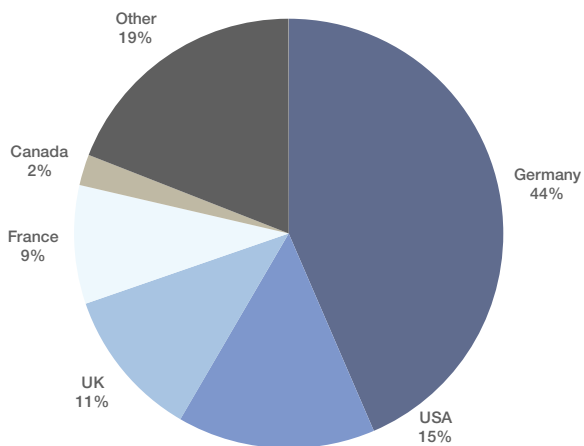
Source: Savills

GRAPH 4
Transaction volume by type of investor



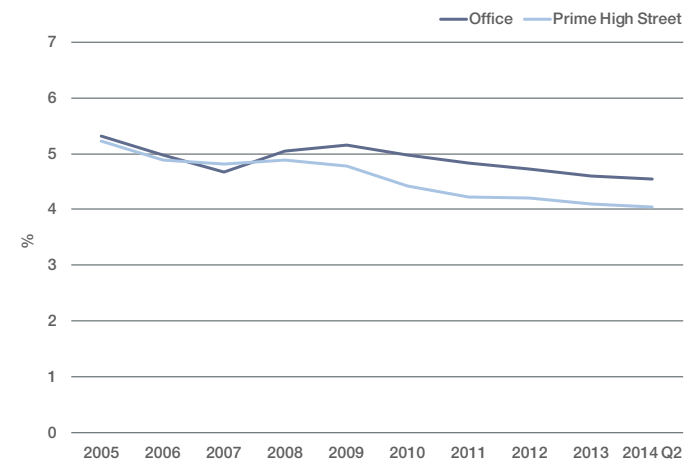
Source: Savills

GRAPH 5
Transaction volume by origin of buyer



Source: Savills

GRAPH 6
Prime yields



Source: Savills

TABLE 2
The largest transactions in H1 2014 at a glance*

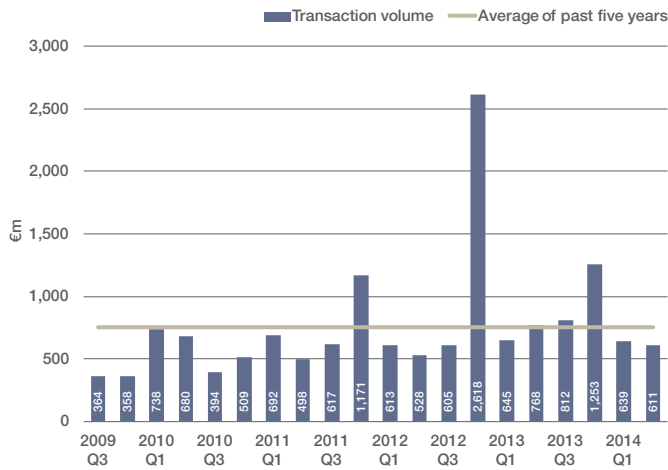
| Property / Portfolio | Type of use | Location(s) | Volume | Buyer | Vendor |
|----------------------|--------------|-----------------------|-----------------|-----------------------|-------------------|
| Leo 1 portfolio | Office | Hesse | approx. €1,000m | Patrizia | Commerz Real |
| Accor portfolio | Hotel | Germany + Netherlands | approx. €720m | Accor | Moor Park |
| Centro (50% share) | Einzelhandel | Oberhausen | approx. €540m | Unibail-Rodamco | Stadium Group |
| Christie portfolio | Einzelhandel | East Germany | approx. €400m | Morgan Stanley, Redos | Prudential et al. |
| Portigon ensemble | Office | Düsseldorf | approx. €350m | Blackstone | Portigon |

Source: Savills / * only published transactions are shown

Commercial investment market Berlin

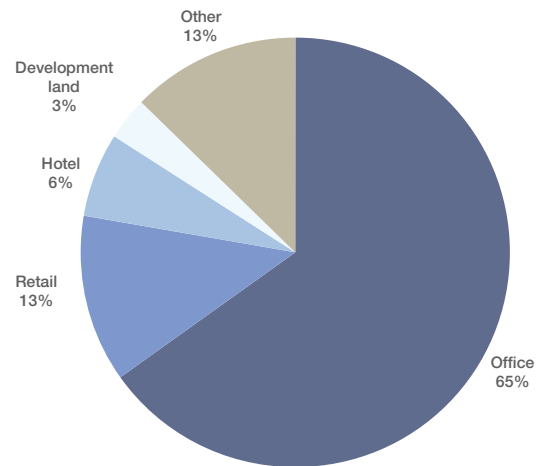
1H 2014

GRAPH 7
Transaction volume



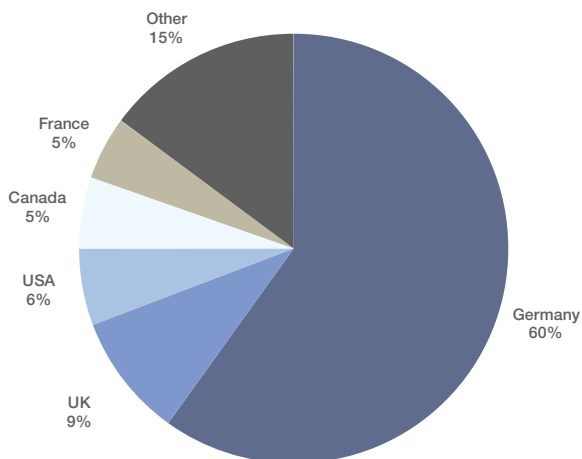
Source: Savills / * forecast

GRAPH 8
Transaction volume by sector



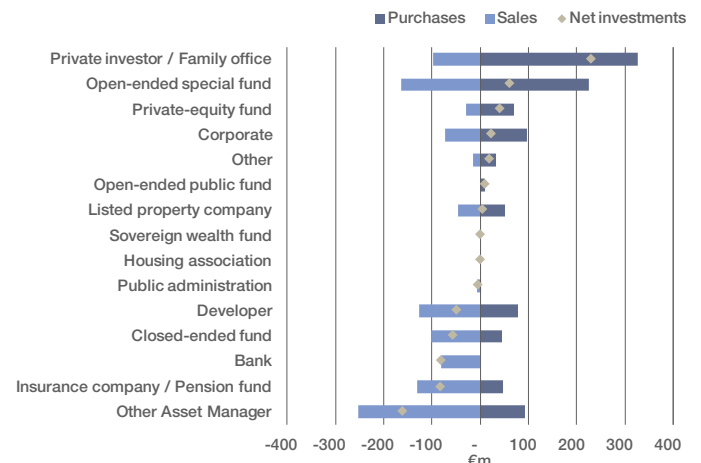
Source: Savills

GRAPH 9
Transaction volume by origin of buyer



Source: Savills

GRAPH 10
Transaction volume by type of investor



Source: Savills

Berlin market in minutes

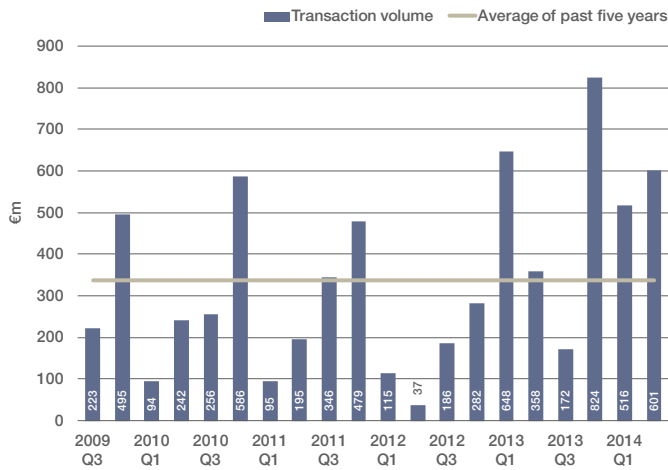
B locations and private investors drive market activity

- The transaction volume in the first half year totalled €1.3bn, representing a 12% decline in investment compared with the same period last year.
- However, the lower investment volume belies the actual market activity. Faced with a lack of prime properties in the top markets, investors are increasingly shifting their attention to B locations and B properties, for which the sales process is considerably longer. Owing to the acute surplus demand in the core segment, prime yields tightened slightly further both for offices (4.6%) and high-street properties (4.3%). Purchasers of such properties increasingly comprise private investors, who also generally represented the largest group of purchasers.
- Against a background of positive letting conditions from an investor's perspective (declining vacancies, rising rents), there has been a particularly pronounced shift from the established submarkets to the adjacent locations in the office market. Most recently, the media district and Kreuzkölln locality have received particular attention.

Commercial investment market Düsseldorf

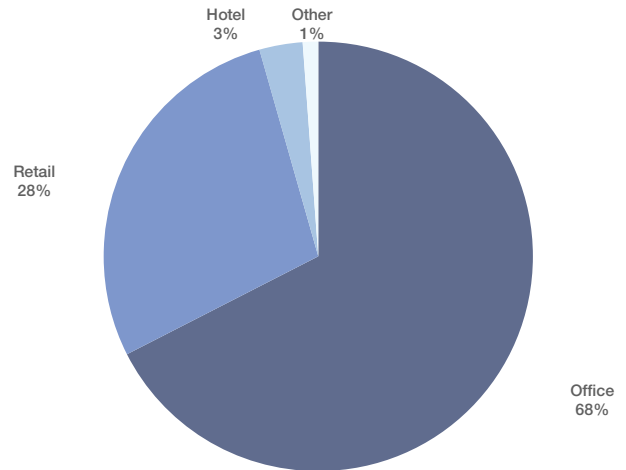
1H 2014

GRAPH 11 Transaction volume



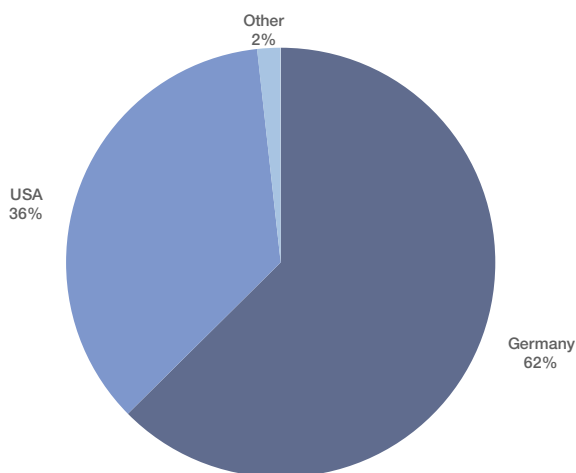
Source: Savills / * forecast

GRAPH 12 Transaction volume by sector



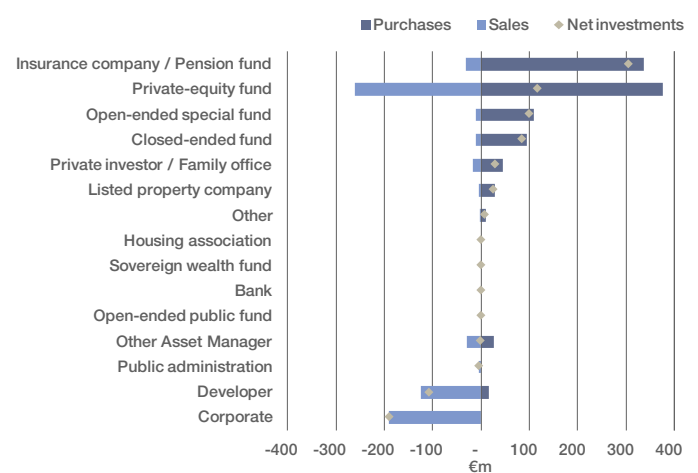
Source: Savills

GRAPH 13 Transaction volume by origin of buyer



Source: Savills

GRAPH 14 Transaction volume by type of investor



Source: Savills

Düsseldorf market in minutes

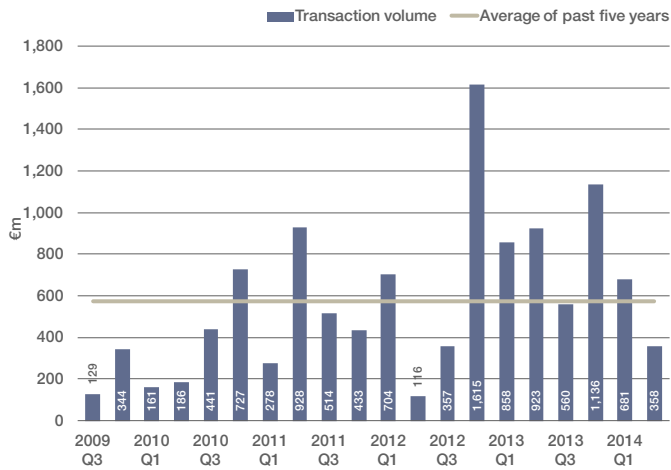
Value-add segment remains highly active

- Some €1.1bn was invested in Düsseldorf commercial property in the first half of 2014; a further increase on the extraordinary corresponding period last year (+11%).
- Düsseldorf stands out among the top markets for its particularly high levels of activity in the value-add segment. This is also reflected in the investor structure. With an investment volume of more than €370m, private equity investors were the most active group of purchasers ahead even of insurance companies / pension funds (approx. €340m).
- Value-add investments are particularly seen in the office segment. There are two principal reasons for the high levels of activity here. Firstly, there are numerous properties in good B locations that no longer meet occupier requirements in terms of quality of accommodation. Secondly, the consistently high take-up in recent years combined with rising rents in B locations ensure promising letting potential.

Commercial investment market Frankfurt

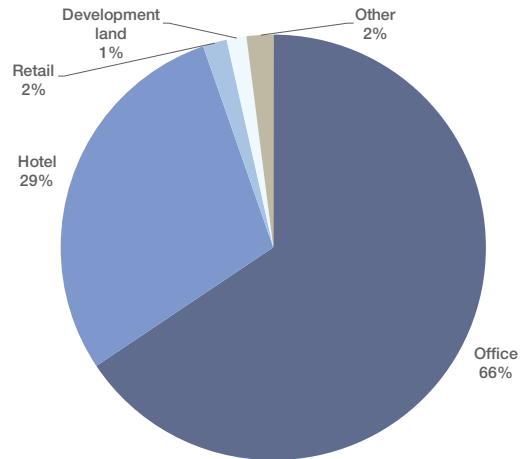
1H 2014

GRAPH 15
Transaction volume



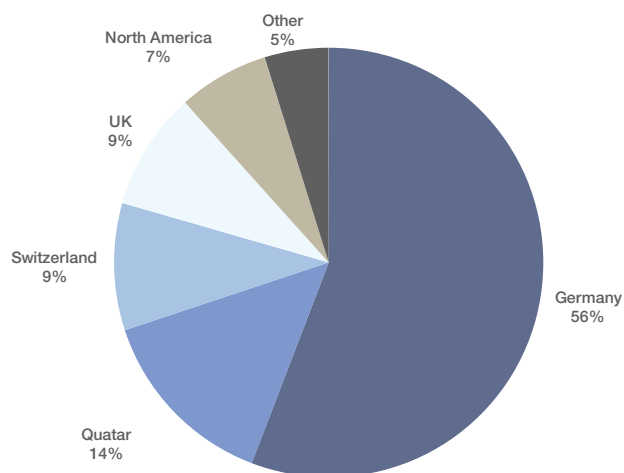
Source: Savills / * forecast

GRAPH 16
Transaction volume by sector



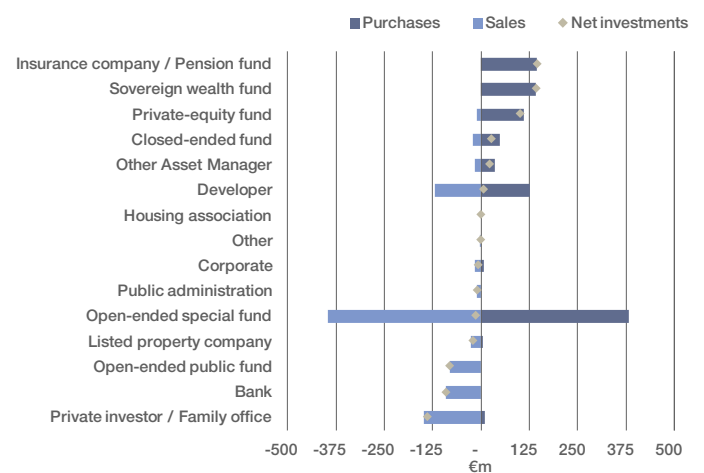
Source: Savills

GRAPH 17
Transaction volume by origin of buyer



Source: Savills

GRAPH 18
Transaction volume by type of investor



Source: Savills

Frankfurt market in minutes

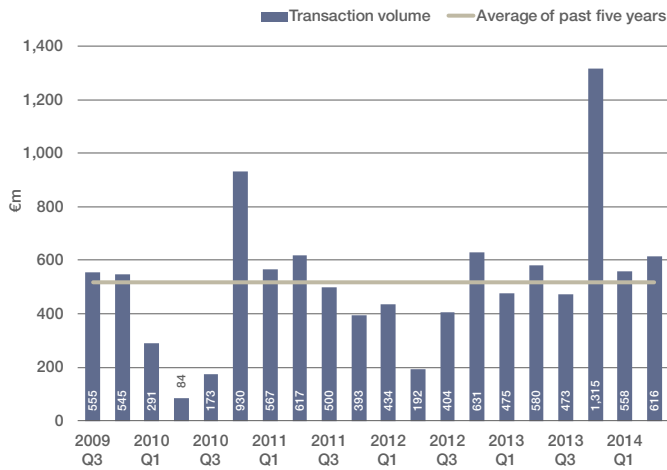
Lower transaction volume despite high demand - increase expected in 2H

- Some €1bn was invested in Frankfurt commercial property in the first half of 2014; a decrease of approx. 40% year on year.
- Demand for commercial property in Frankfurt is certainly high, but the right product is not always available. Core properties remain rare and, in the higher-risk segments, the price expectations of purchasers and vendors are (still) often quite different. Significantly, office take-up is relatively low in the Frankfurt market at present, which brings corresponding risks in terms of re-letting office space.
- The transaction volume is expected to be significantly higher in the second half year. The planned real estate transfer tax increase should be a contributing factor as well as a number of large properties on the market, including the PalaisQuartier.

Commercial investment market Hamburg

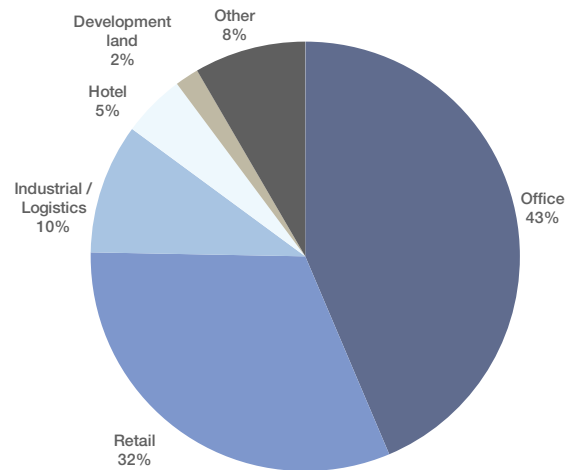
1H 2014

GRAPH 19 Transaction volume



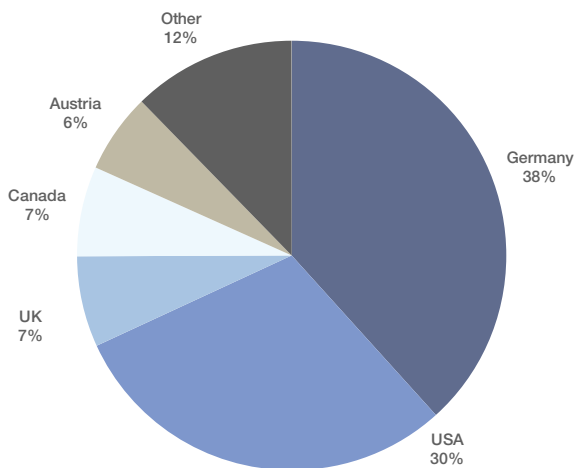
Source: Savills / * forecast

GRAPH 20 Transaction volume by sector



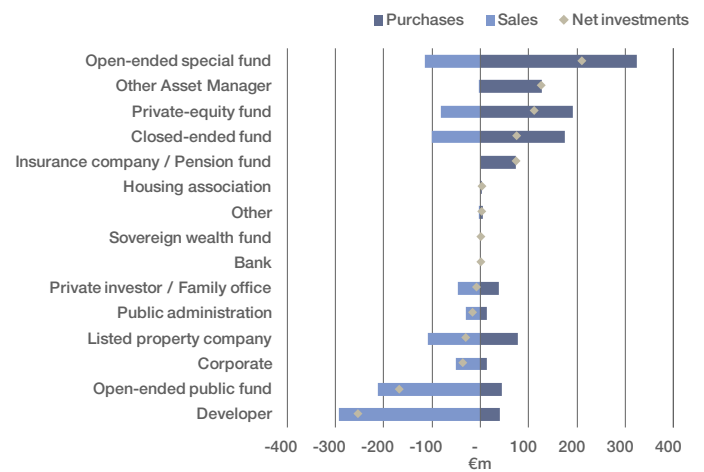
Source: Savills

GRAPH 21 Transaction volume by origin of buyer



Source: Savills

GRAPH 22 Transaction volume by type of investor



Source: Savills

Hamburg market in minutes

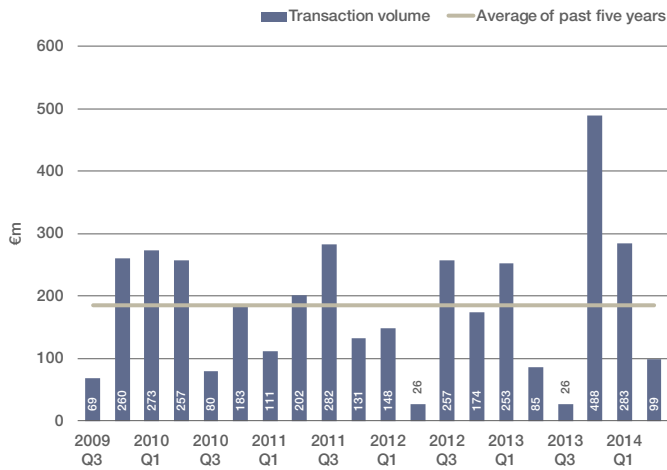
Reluctance to sell in the core segment

- Almost €1.2bn was invested in Hamburg commercial property in the first six months of the current year; an increase of 11% compared with the corresponding period last year.
- While the retail investment volume rose almost six-fold year on year to approx. €380m, it was office property that accounted for the most transactions in the first half year. More than €500m was invested in the office segment, although this represented a decrease of 35% on the corresponding period last year.
- Almost all properties that changed hands were located outside of the city centre since owners of good properties in central locations generally have no intention to sell. Particularly local private investors, who are very well represented in Hamburg, want to hold their properties despite record capital values.

Commercial investment market Cologne

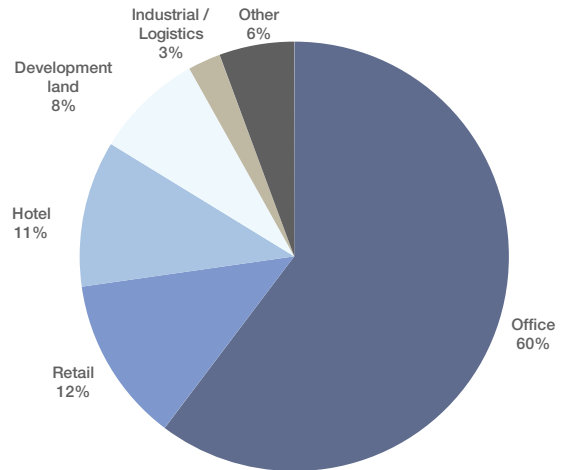
1H 2014

GRAPH 23 Transaction volume



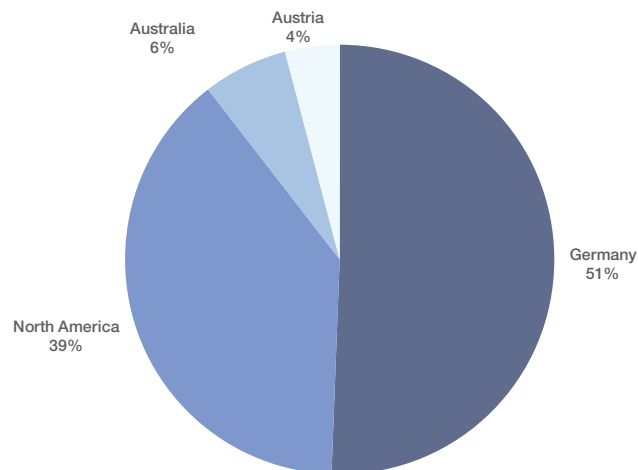
Source: Savills / * forecast

GRAPH 24 Transaction volume by sector



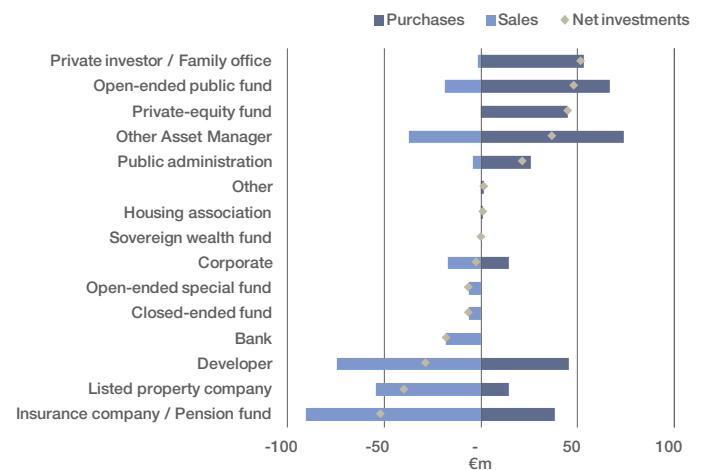
Source: Savills

GRAPH 25 Transaction volume by origin of buyer



Source: Savills

GRAPH 26 Transaction volume by type of investor



Source: Savills

Cologne market in minutes

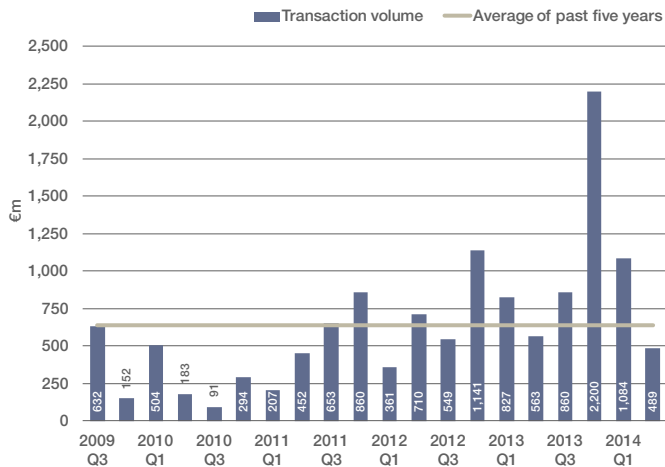
Numerous small transactions, particularly in the city centre

- The transaction volume in Cologne reached more than €380m in the first half year; some 13% higher than the figure achieved in 1H 13.
- It is notable that almost half of the 32 commercial properties sold changed hands via portfolio transactions. Most of the individual and portfolio transactions completed were at the lower end of the price spectrum. Transactions above €100m, or even in the high double-digit millions, were rare in the first half year.
- In contrast with most of the other top markets, Cologne's city centre registered particularly high levels of activity. This submarket accounted for a large proportion of transactions, with purchasers largely comprising private investors, who also represented the most active group of net purchasers.

Commercial investment market Munich

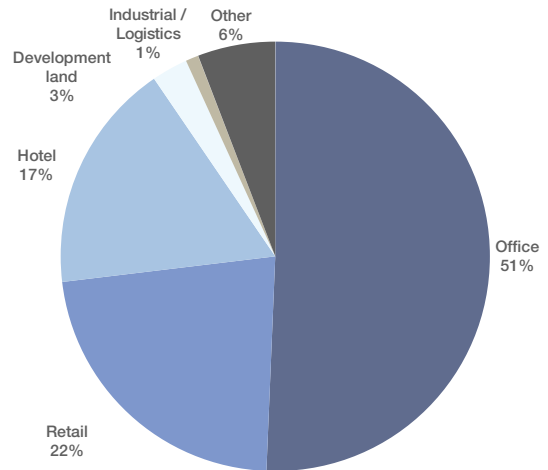
1H 2014

GRAPH 27
Transaction volume



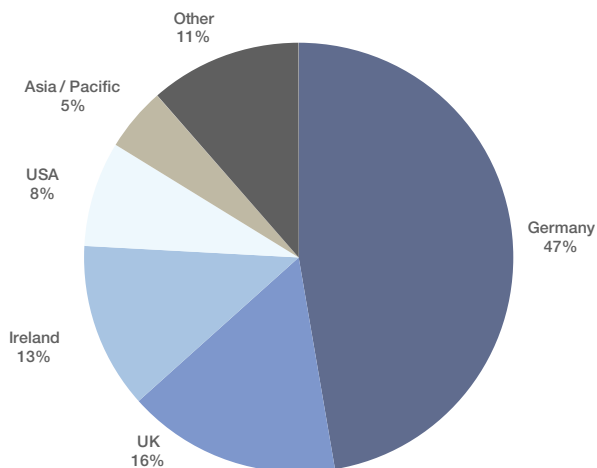
Source: Savills / * forecast

GRAPH 28
Transaction volume by sector



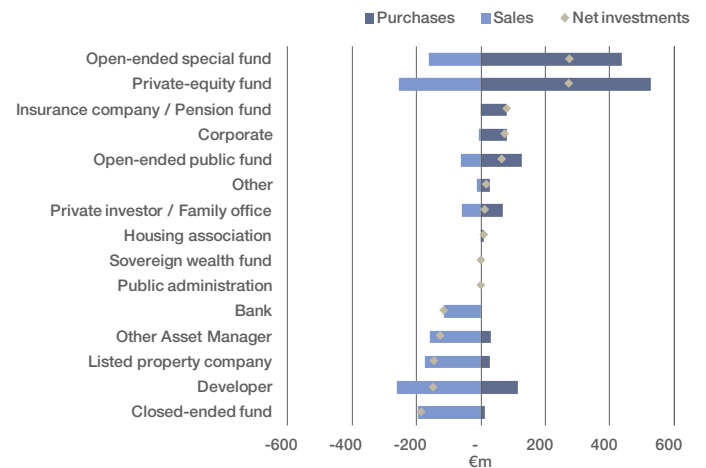
Source: Savills

GRAPH 29
Transaction volume by origin of buyer



Source: Savills

GRAPH 30
Transaction volume by type of investor



Source: Savills

Munich market in minutes

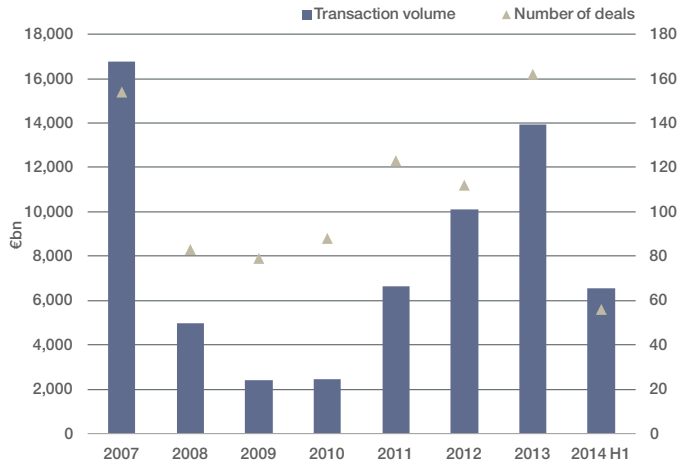
Brisk activity in the B markets - although only in good locations

- Although investment in commercial property in Munich was significantly lower in Q2 (approx. €0.5bn) than in the first three months (approx. €1.1bn), the transaction volume for the half year was still 13% higher year on year at €1.6bn.
- The decline in investment in Q2 was largely attributable to the fact that few large properties in central locations changed hands. Many such properties are owned by very long-term investors and are therefore not on the market.
- Consequently, investors are shifting their search for investment opportunities to other locations, albeit with caution. Properties that have shortcomings in respect of structural quality or occupancy levels but are situated in good locations normally meet with wide interest in terms of potential purchasers. Those in difficult locations, on the other hand, are typically overlooked.

Residential portfolio investment market Germany

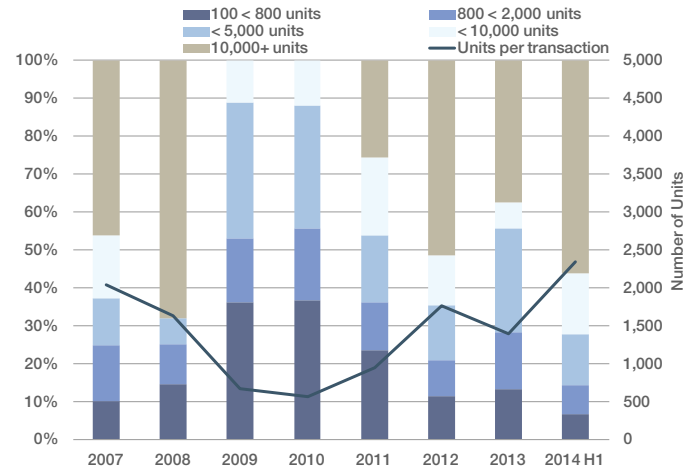
1H 2014

GRAPH 31
Transaction volume and number of deals*



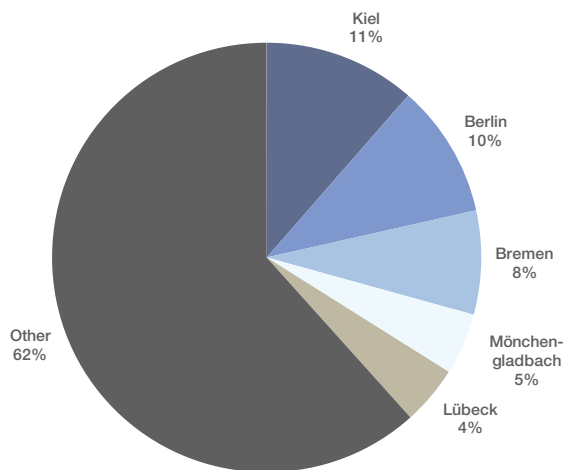
Source: Savills / * portfolios with at least 100 units each

GRAPH 32
Size of portfolios transacted



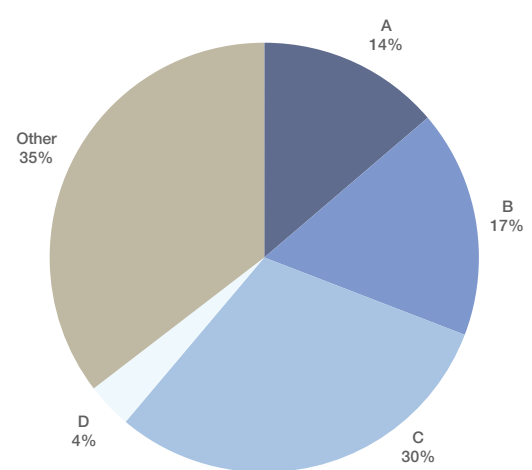
Source: Savills

GRAPH 33
Transacted units by location



Source: Savills

GRAPH 34
Transacted units by type of city*



Source: Savills / * based on the Bulwiengesa classification

German residential portfolio market in minutes

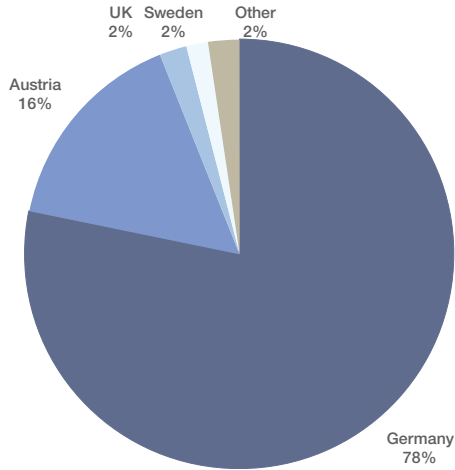
Property companies buying, private equity companies selling

- The transaction volume in the first half year totalled approx. €6.8bn, representing an 18% increase in investment year on year. As expected, investment in Q2 (approx. €1.7bn) was significantly lower than in Q1 (approx. €5.1bn).
- While three A cities featured among the top five investment destinations in the first half of last year in Berlin, Munich and Düsseldorf, only Berlin remained in this elite group in the first six months of this year. Against a background of significantly higher capital values and lack of supply in the A cities, investors are increasingly shifting their attention to other cities.
- The lower risk aversion on the part of investors and the associated vendor-friendly environment has particularly engaged private equity companies. With a sales volume of €1.7bn, these represented the most active vendor group in the first half year. Their counterparties mainly comprised listed property companies and REITs.

Residential portfolio investment market Germany

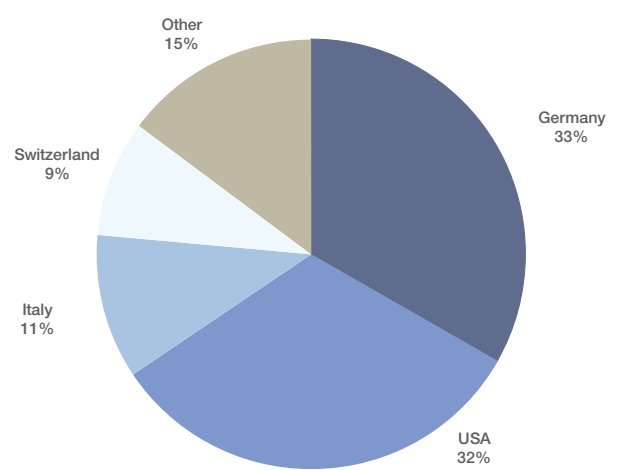
1H 2014

GRAPH 35
Transaction volume by origin of buyer



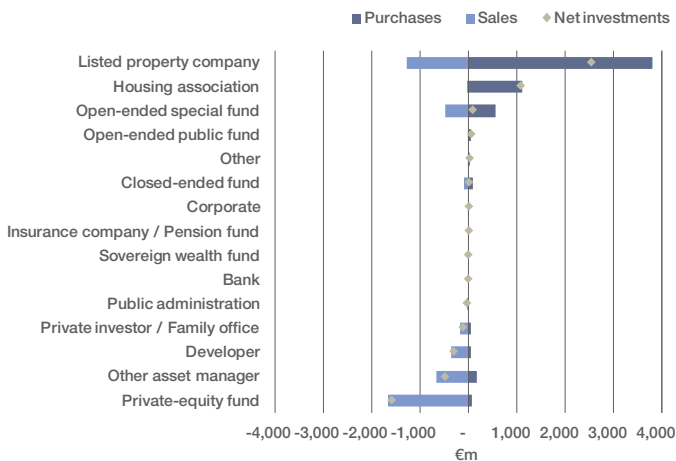
Source: Savills

GRAPH 36
Transaction volume by origin of seller



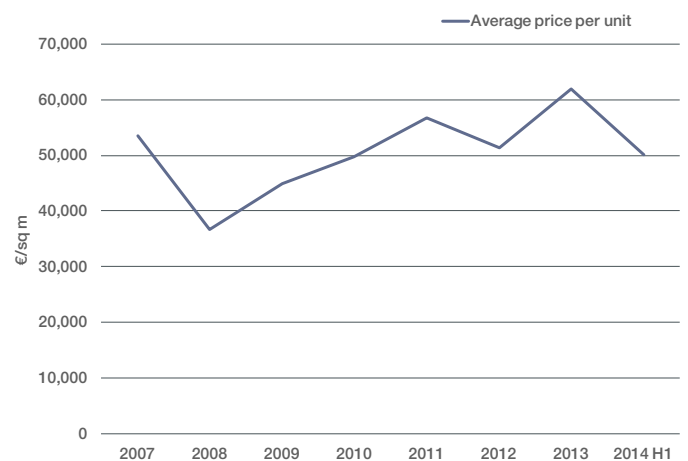
Source: Savills

GRAPH 37
Transaction volume by type of investor



Source: Savills

GRAPH 38
Development of prices*



Source: Savills / * for portfolios with at least 100 units each

TABLE 3
The largest residential portfolio transactions in 1H 2014 at a glance*

| Portfolio | Number of units | Volume* | Buyer | Vendor |
|-----------|-----------------|-------------|------------------------------------|---|
| Vitus | ca. 30,000 | €1,400m | Deutsche Annington | Vitus |
| Dewag | ca. 11,500 | €970m | Deutsche Annington | Equity Residential, AvalonBay Communities |
| DGAG | ca. 18,000 | €892m | Buwog / Immofinanz | Prelios, Deutsche Asset & Wealth Management |
| - | ca. 8,200 | Undisclosed | Adler Real Estate | Corestate |
| Merkur | ca. 3,750 | Undisclosed | Deutsche Asset & Wealth Management | Corpus Sireo |

Source: Savills / * only published transactions are shown

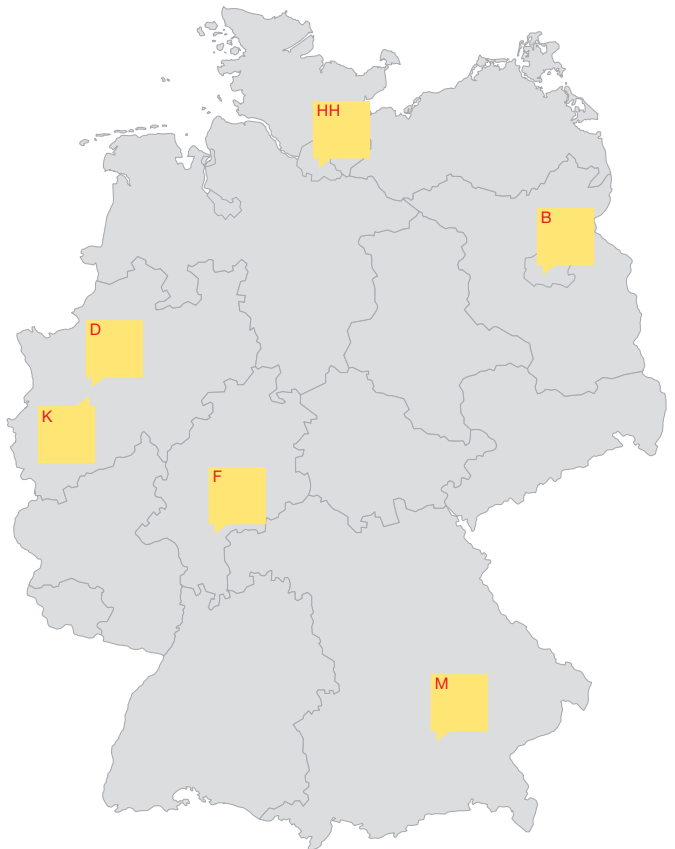
Savills Germany

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Our services

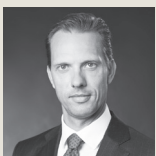
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- » Corporate Real Estate Services

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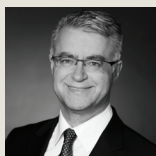


Savills Germany

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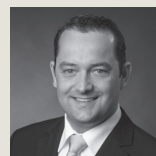
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