Current trends in the German real estate market

Overview for institutional investors

September 2017
Contents

Executive Summary: The German real estate market  04

Analysis of current trends in the market  06

1_Economic developments in Germany:
   How do they impact the real estate market?  07

2_Retail Trade: Strong demand for A-class locations  09

3_Residential Property: Increasing demand for new residential properties  12

4_Office Properties: Boost in the office letting market  18

5_Investment Trends: Continuous appetite for new investment targets  21

6_Project Developers: Boost in the trader development market  24

7_Real Estate Financing: Financing market is stable  26

We can assist you  28
Executive Summary
Despite ongoing discussions about a possible real estate bubble, the outlook for the German real estate sector continues to be positive for investors. The main reasons for this assumption can be summarised as follows:

**Positive economic environment:** Given the European Central Bank’s (ECB) zero interest rate policy, interest rates remain at a record low with financing conditions historically favourable. New construction activity significantly lags behind the increasing demand, which pushes up real estate prices. In 2016, the German Property Index (GPI), the total return of all German real estate investments, reached a record level of 14.7% since German reunification.

Furthermore, the ECB’s glut of money ensures ample liquidity, which increases investment pressure, investors search for investments that are relatively safe and at the same time yield an above-average return. Moreover, the very expansive policy pursued by the ECB weakens the Euro, which makes German real estate even more attractive to investors outside of the Eurozone.

**Boom in demand for commercial and residential property:** The macroeconomic and demographic trend in Germany also increases the demand for high-quality real estate: given the increasing urbanisation and the population of conurbations grows, where housing space is scarce. Office properties are in great demand due to low unemployment rates and record employment levels, and commercial properties additionally benefit from the increase in purchasing power and a great propensity to consume. Due to the increasing volumes in wholesale and retail trade, storage and logistics properties are strategically important and thus in particularly high demand.

On the following pages, we have compiled an overview of the real estate market conditions and segments in Germany to provide you with a more detailed view on the German real estate market. Should you have any questions or would like to discuss market opportunities in detail, please contact a key member of our real estate team listed on page 34 of this brochure.

**Disclaimer**

This market overview is intended as guidance. Allen & Overy LLP has taken reasonable care to ensure that the information is accurate. For the relevant data, please refer to the respective source material, on which this market overview is based. Please note, that this document is for general information only and does not constitute or replace legal advice.
Analysis of current trends in the market

1. Economic developments in Germany: How do they impact the real estate market? 07
2. Retail Trade: Strong demand for A-class locations 09
3. Residential Property: Increasing demand for new residential properties 12
4. Office Properties: Boost in the office letting market 18
5. Investment trends: Continuous appetite for new investment targets 21
6. Project Developers: Boost in the trader development market 24
7. Real Estate Financing: Financing market is stable 26
Robust economic development: Growth of the German gross domestic product (GDP), with a rate of 1.9% most recently in 2016, was continuously above that of its European neighbours. This ongoing stable development is forecasted to continue in the years to come. Moreover, two of the economically strongest European regions (measured by GDP per capita), Hamburg and Upper Bavaria, are located in Germany.

Low unemployment rate, strong purchasing power: With an average unemployment rate of 6.1% in 2016, Germany holds one of the top positions in the Eurozone in terms of employment. This trend is also reflected in its strong purchasing power which totals EUR1,776.5 billion for Germany as a whole and EUR21,879 per capita: again, holding the top spot in Europe. The same applies to consumer confidence.

Increasing birth rate and migration surplus: Like many industrialised countries, Germany has had a decreasing birth rate for years, together with an increasingly ageing population. However, a reversal in this trend has emerged recently. The birth rate per woman increased from 1.39 to 1.50 children between 2011 and 2015. In addition, there is a continuing migration surplus, which compensates for the demographic imbalance in part.
According to a study, the major German cities will grow significantly. Particularly strong growth will be seen in the population of the greater Munich area, ie by 24% to 3.25 million by 2030. Similar influx rates apply to Berlin, Frankfurt, Hamburg, Stuttgart, Düsseldorf and Cologne.

Against this background, real estate investments in the German metropolitan regions as well as in some rapidly growing B-class locations continue to represent an attractive option for institutional investors – across all asset classes.

**Top-7 real estate locations in Germany with their metropolitan areas**

Number of inhabitants of the Top-7 real estate locations and their metropolitan areas in millions.

<table>
<thead>
<tr>
<th>Top-7 real estate locations (including metropolitan areas)</th>
<th>2012</th>
<th>2030</th>
<th>Change in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Düsseldorf and Cologne</td>
<td>4.32m</td>
<td>4.57m</td>
<td>+5.8% ▲</td>
</tr>
<tr>
<td>Berlin</td>
<td>3.53m</td>
<td>4.04m</td>
<td>+14.6% ▲</td>
</tr>
<tr>
<td>Frankfurt</td>
<td>3.12m</td>
<td>3.45m</td>
<td>+10.7% ▲</td>
</tr>
<tr>
<td>Hamburg</td>
<td>2.77m</td>
<td>3.04m</td>
<td>+9.8% ▲</td>
</tr>
<tr>
<td>Munich</td>
<td>2.62m</td>
<td>3.25m</td>
<td>+24% ▲</td>
</tr>
<tr>
<td>Stuttgart</td>
<td>2.40m</td>
<td>2.55m</td>
<td>+6.3% ▲</td>
</tr>
</tbody>
</table>

Source: Cologne Institute for Economic Research (IW)

According to a study, the major German cities will grow significantly. Particularly strong growth will be seen in the population of the greater Munich area, ie by 24% to 3.25m in 2030.
2_Retail Trade: Strong demand for A-class locations

Record employment levels, increasing real wages, high income expectations as well as historically low interest rates and a low savings ratio continue to boost consumption in Germany. However, the German retail trade also has to face tough competition from e-commerce.

Although retail turnover (excluding motor vehicles, petrol stations, fuels and pharmacies) increased to more than EUR480bn in 2016, the business trend in stationary retail trade remains challenging, mainly due to growing competition from e-commerce.

The big exception, however, is the small market segment of urban A-class locations (inner city prime locations), which clearly stand out from the average trend at the top locations. In Berlin, Düsseldorf, Frankfurt, Hamburg, Cologne, Munich and Stuttgart, the demand for these in demand spaces is so strong that considerable rent increases have been possible in previous years despite a number of large project developments.

This positive development is supported by a number of factors. All metropolitan regions and their core cities are characterised by a strong growth in the number of inhabitants. Since the turn of the millennium, the population in the Top-7 real estate locations has increased by more than 9% – and with it added purchasing power.

In addition, urban tourism in Germany is booming. Over the past 20 years, the number of tourists, both long and short-term, in large cities has more than doubled. Retailers are also feeling the effects of this. In Berlin alone, foreign visitors have accounted for a quarter of the turnover in retail trade recently. Even their actual rival, e-commerce, tends to offer opportunities to urban retail providers.

In particular, national and international chain stores benefit through their often hybrid sales concepts combining online and offline.
Attractive top rents for retail space

Certain A-class locations have benefited from the favourable conditions for retail trade in the major cities. For ten years now, the top rent has increased significantly. From 2005 to 2015, it increased by 52% on average in the Top-7 real estate locations. At present, around EUR303/m² of retail space can be found in the major cities. Lower down the chain, the rent has remained steady over the past few years.

Despite the current high of the rent level for top locations, they still continue to be attractive for many retailers from Germany and abroad. The demand for space is particularly high, since new concepts are preferably tested in the major cities and this is where market launches in Germany usually take place. However, this trend will not continue forever. After all, the high rents must be financed by the turnover generated per square metre. Subsequently, the willingness of tenants to pay even higher rents gradually recedes. All in all, the rent increase is expected to plateau in the future.

In Munich, more than EUR350 are paid per m² for top locations for retail space

![Graph showing rental prices in different cities]

Source: buwiengesa AG, DZ BANK AG forecast
Increase in retail space

Just like the top rent, retail space has also increased in all Top-7 real estate locations over the past twenty years. This increase in retail space ranges from 20% in Cologne to more than 100% in Berlin; the average is around 70%.

The retail space per inhabitant has also increased – with the exception of Cologne. This increase of retail space per inhabitant is in line with the growth of the population. On average, the Top-7 real estate locations have retail space of around 1.7 m² per inhabitant. In Düsseldorf and Frankfurt it is more than 2 m² per inhabitant, while in Cologne and Munich it amounts to around 1.4 m² per inhabitant.

Against this background, investments in A-class locations of the Top-7 real estate locations in Germany as well as in selected regional growth centres should continue to offer an attractive return on investment which is also reflected by the current “appetite” of domestic and foreign investors. Numerous market participants closely watch Germany as a retail location in particular, waiting for suitable opportunities.

Within 20 years, the retail space of the top locations increased by 70% on average
3_Residential Property: Increasing demand for new residential properties

Restrained economic development, stagnating income and a declining population had led to a slower demand for new housing developments and a significant slowdown of new construction activities in the German market in the years after the financial crisis. However, with an improving economic recovery, the framework conditions in the German residential property market have improved significantly since 2009.

The construction of residential properties has been increasing steadily for some years. In 2016 alone, about 277,000 housing units were completed in Germany. Almost half of the homes were built in the form of multiple dwellings. In 2015, residential construction accounted to about EUR170bn in Germany, ie a share of more than 60% of the total construction volume.

Demand now significantly exceeds the volume of completions. Despite a visible increase in construction permits and record levels of completions – 375,400 housing construction permits were granted in Germany in 2016 – housing supply significantly lags behind increasing demand.

Forecasts expect an annual new construction requirement of 230,000 units until 2030, and even 272,000 per year until 2020. In the short term, demand could be even higher with up to 380,000 homes needed due to increased immigration.

However, demand levels differ significantly by region. While the gap between the supply available and the demand could be closed soon in some regions of eastern Germany, available housing units will remain very scarce in the thriving urban areas in the future. Annual construction volumes at the top locations are likely to expand, according to forecasts, between 16 (Düsseldorf) and 125% (Berlin).

New construction requirement in Germany until 2030

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Homes in single-family and two-family houses</td>
<td>146,000</td>
<td>129,000</td>
<td>105,000</td>
<td>128,000</td>
</tr>
<tr>
<td>Homes in multiple dwellings</td>
<td>127,000</td>
<td>100,000</td>
<td>75,000</td>
<td>102,000</td>
</tr>
<tr>
<td><strong>Total homes</strong></td>
<td><strong>272,000</strong></td>
<td><strong>229,000</strong></td>
<td><strong>180,000</strong></td>
<td><strong>230,000</strong></td>
</tr>
</tbody>
</table>

Data base: BBSR housing market forecast 2030
© BBSR Bonn 2015
The regional differences in demand are also reflected in the vacancy rates. Thus, the lowest vacancies are found in thriving large cities and their surrounding areas, as well as the economically strong regions of southern and north-western Germany, with a high demand in the housing markets. For example, the active-market vacancy rate (of homes actually lettable at short notice) is mostly well below 1% in the top locations with the exception of Berlin where the rate is still the highest, at slightly above 1%. In contrast, some rural and structurally weak regions have high vacancy rates of more than 10%.
Rent and purchase price trend

With the growing demand and insufficient supply, quoted rents have also increased again in Germany since 2008, by about 4% per year since 2011. Particularly in large cities, this trend is even more significant: firstly the increase often started even earlier here, secondly it has often been more dynamic than the German average since then. While the annual growth rate in Germany has been around 1.7% since 2004, rent increases of 3.9 and 3.5% were achieved in Berlin and Munich. In addition to economic recovery, the driving force here is the strong growth in the local population. At the Top-7 real estate locations, the number of inhabitants increased by almost 10% since 2000. That is around 800,000 people, which, considering the many single households, roughly corresponds to an additional demand of almost 550,000 homes. The strongest growth and increase in housing demand was seen in Munich and Frankfurt, with jumps in the number of inhabitants of 20 and 12%.

The strong rental demand also affects the prices of residential property. Since 2009, increasing prices have been seen in the market as a whole. Now, however, a divergence can be observed between rents and purchase prices, with increases in the purchase segment often being twice as high as in the rental housing market. Just as in the case of rental demand, higher dynamics can be observed for the large cities than for Germany as a whole in this segment. For example, since 2004 particularly high price increases have been seen in Berlin and Munich (6.0% p.a. each).
Residential properties – an attractive market for investors

The historically attractive financing environment and the increasing availability of equity act as a catalyst for residential property investments – both for institutional and private investors. Since mid-2011, mortgage rates with a fixed interest rate period of ten years have fallen from more than 4% to just below 2%. Large portfolio holders such as residential property corporations have used the attractive interest rates of the past few years for both refinancing and extensive transactions.

Since the financial crisis, the market has returned to continuous growth. In 2015, it even achieved its highest turnover so far with around EUR25bn. Although the transaction volume decreased to about EUR4.4bn in the first half of 2016, the weakest half-year turnover in the past five years was not due to a slump in demand but simply a lack of opportunities for larger (portfolio) deals, which had substantially determined the market development and turnover in the past few years.

Housing investment market according to housing units and market volume

<table>
<thead>
<tr>
<th>Housing units in thousands</th>
<th>Market volume (EURbn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>10</td>
</tr>
<tr>
<td>2012</td>
<td>15</td>
</tr>
<tr>
<td>2013</td>
<td>20</td>
</tr>
<tr>
<td>2014</td>
<td>25</td>
</tr>
<tr>
<td>2015</td>
<td>20</td>
</tr>
<tr>
<td>2016</td>
<td>5</td>
</tr>
</tbody>
</table>

Source: JLL
Evidence of the fact that the demand of institutional investors for residential properties has remained unchanged includes the growing number of forward deals to acquire project developments. About a quarter or EUR1.2bn were turned over in this segment in the first half of 2016. With more than EUR300m, micro apartment houses and student apartments also account for a growing share. Berlin remains the location for housing investments in Germany; a quarter or more than EUR1bn was invested in the capital in the first half of 2016.

Due to the high demand, which is accompanied by higher real estate prices, yields on the residential property market have declined. The stable earnings situation, the robust economic environment and the comparatively low price levels compared to other Western European metropolitan regions all mean that the segment nevertheless remains attractive to investors. The declining yield level, however, is increasingly leading to shifts or growth in demand from investors to B-locations and sites.
The German office letting and investment market is in very good shape. In particular, the further expansion of employment boosted floor-space turnover in the office letting market.

In 2016, about 3.9m² of office space were let at the Top-7 real estate locations. This corresponds to an increase of 12% compared to the previous year.

A dynamic development in floor-space turnover has recently been seen in Stuttgart, Frankfurt and Cologne, with growth rates, ranging from 48.4 to 25.0%. Decrease or stagnation tendencies of floor-space turnover, compared to the previous year, have been seen in Düsseldorf, Hamburg, Berlin and Munich. Nevertheless, the floor-space turnover in these cities is still moving at a high level.
### Hamburg

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Take-up of Space in m²</td>
<td>547,300</td>
<td>540,000</td>
<td>1.4%</td>
</tr>
<tr>
<td>Vacancy Rate in %</td>
<td>5.0</td>
<td>5.2</td>
<td>-0.2%</td>
</tr>
<tr>
<td>Prime Office Rent in EUR/m²</td>
<td>26.00</td>
<td>25.00</td>
<td>-4.0%</td>
</tr>
<tr>
<td>Commercial Transaction Volume in millions of EUR</td>
<td>4,910</td>
<td>4,000</td>
<td>22.8%</td>
</tr>
<tr>
<td>Gross Prime Yield for Office Properties in %</td>
<td>3.50</td>
<td>4.00</td>
<td>-0.5%</td>
</tr>
</tbody>
</table>

### Berlin

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Take-up of Space in m²</td>
<td>863,000</td>
<td>843,000</td>
<td>2.4%</td>
</tr>
<tr>
<td>Vacancy Rate in %</td>
<td>3.0</td>
<td>3.7</td>
<td>-0.7%</td>
</tr>
<tr>
<td>Prime Office Rent in EUR/m²</td>
<td>28.50</td>
<td>24.30</td>
<td>17.3%</td>
</tr>
<tr>
<td>Commercial Transaction Volume in millions of EUR</td>
<td>4,900</td>
<td>8,100</td>
<td>-39.5%</td>
</tr>
<tr>
<td>Gross Prime Yield for Office Properties in %</td>
<td>3.50</td>
<td>4.00</td>
<td>-0.5%</td>
</tr>
</tbody>
</table>

### Frankfurt

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Take-up of Space in m²</td>
<td>552,000</td>
<td>389,100</td>
<td>41.9%</td>
</tr>
<tr>
<td>Vacancy Rate in %</td>
<td>11.2</td>
<td>11.8</td>
<td>-0.6%</td>
</tr>
<tr>
<td>Prime Office Rent in EUR/m²</td>
<td>37.50</td>
<td>38.50</td>
<td>-2.6%</td>
</tr>
<tr>
<td>Commercial Transaction Volume in millions of EUR</td>
<td>6,143</td>
<td>5,687</td>
<td>8.0%</td>
</tr>
<tr>
<td>Gross Prime Yield for Office Properties in %</td>
<td>4.20</td>
<td>4.50</td>
<td>-0.3%</td>
</tr>
</tbody>
</table>

### Munich

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Take-up of Space in m²</td>
<td>780,300</td>
<td>756,700</td>
<td>3.1%</td>
</tr>
<tr>
<td>Vacancy Rate in %</td>
<td>3.0</td>
<td>3.8</td>
<td>-0.8%</td>
</tr>
<tr>
<td>Prime Office Rent in EUR/m²</td>
<td>35.00</td>
<td>33.30</td>
<td>5.1%</td>
</tr>
<tr>
<td>Commercial Transaction Volume in millions of EUR</td>
<td>6,860</td>
<td>5,654</td>
<td>17.2%</td>
</tr>
<tr>
<td>Gross Prime Yield for Office Properties in %</td>
<td>3.30</td>
<td>3.75</td>
<td>-0.4%</td>
</tr>
</tbody>
</table>

### Stuttgart

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Take-up of Space in m²</td>
<td>431,000</td>
<td>290,500</td>
<td>-48.4%</td>
</tr>
<tr>
<td>Vacancy Rate in %</td>
<td>2.8</td>
<td>3.5</td>
<td>-0.8%</td>
</tr>
<tr>
<td>Prime Office Rent in EUR/m²</td>
<td>23.00</td>
<td>22.80</td>
<td>0.9%</td>
</tr>
<tr>
<td>Commercial Transaction Volume in millions of EUR</td>
<td>1,913</td>
<td>1,695</td>
<td>12.8%</td>
</tr>
<tr>
<td>Gross Prime Yield for Office Properties in %</td>
<td>3.90</td>
<td>4.30</td>
<td>-0.4%</td>
</tr>
</tbody>
</table>

### Cologne

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Take-up of Space in m²</td>
<td>380,000</td>
<td>304,000</td>
<td>25.0%</td>
</tr>
<tr>
<td>Vacancy Rate in %</td>
<td>5.0</td>
<td>5.9</td>
<td>-0.9%</td>
</tr>
<tr>
<td>Prime Office Rent in EUR/m²</td>
<td>21.00</td>
<td>21.20</td>
<td>-0.9%</td>
</tr>
<tr>
<td>Commercial Transaction Volume in millions of EUR</td>
<td>1,760</td>
<td>1,940</td>
<td>-9.3%</td>
</tr>
<tr>
<td>Gross Prime Yield for Office Properties in %</td>
<td>4.50</td>
<td>5.00</td>
<td>-0.5%</td>
</tr>
</tbody>
</table>

### Düsseldorf

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Take-up of Space in m²</td>
<td>360,000</td>
<td>391,000</td>
<td>-6.4%</td>
</tr>
<tr>
<td>Vacancy Rate in %</td>
<td>7.5</td>
<td>8.5</td>
<td>-1.0%</td>
</tr>
<tr>
<td>Prime Office Rent in EUR/m²</td>
<td>26.50</td>
<td>28.00</td>
<td>1.9%</td>
</tr>
<tr>
<td>Commercial Transaction Volume in millions of EUR</td>
<td>2,190</td>
<td>2,550</td>
<td>-14.5%</td>
</tr>
<tr>
<td>Gross Prime Yield for Office Properties in %</td>
<td>4.15</td>
<td>4.75</td>
<td>-0.9%</td>
</tr>
</tbody>
</table>
Decreasing vacancy rate and increasing rent level for office space

Within the Top-7 real estate locations, the overall vacancy rate of portfolio office property has further decreased recently. Key factors in this respect were in addition to the dynamic demand, an only moderate expansion of floor space as well as high pre-letting rates and conversions. Across all Top-7 real estate locations with office properties, the decrease amounted to 0.7 percentage points. The vacancy rate is now at a level of 4.9%.

With prime rents of between EUR21/m² and EUR37.50/m² sustainably achievable, all Top-7 real estate locations offer attractive return potential. This particularly applies to Berlin, where rents increased to EUR28.7/m², up more than 17% compared to 2015. Following Frankfurt (EUR37.50/m²) and Munich (EUR35/m²), rents in Berlin are currently the third highest in Germany. The gap between rents in Berlin and those in Düsseldorf (EUR26.50/m²) and Hamburg (EUR26.00/m²) has continued to widen.

The tenant structure reflects the diversified economic landscape of Germany across the top locations. Moreover, with a maximum share of 35% of the market volume, the sector groups with the highest turnover in the rental market at the respective locations show a comparatively low sector concentration in the tenant mix.
5_Investment Trends: Continuous appetite for new investment targets

Demand in the German real estate investment market also continues unabated.

With an investment volume of EUR52.6bn in commercial properties, the level in 2016 was 5% below the top figures of 2015. For the third time, the EUR50bn mark has been surpassed and the ten-year average (2007 to 2016) was exceeded by 56%.

With a volume of EUR33.2bn and/or a share of 63.1%, individual transactions accounted for the lion’s share of business. In contrast, larger portfolio transactions decreased. Comparing 2015 and 2016, this figure fell from EUR21.3 to EUR19.4bn.

Due to a spectacular end-of-year rally that largely resulted from a previous lack of purchase opportunities in the core and core plus segments, transactions involving amounts over EUR250m accounted for 24.8% of the transaction volume, with most deals exceeding EUR500m taking place in the fourth quarter of 2016.

The main reason for the decrease in transaction volume should be the increasing lack of preferred premium targets in particular. In addition, foreign investors are increasingly struggling to acquire larger volumes and/or portfolios at the top locations. However, the economic crises in other European countries and uncertainties in the corresponding real estate markets should lead to a further boost in demand for investments in Germany.

Transaction Volume according to size classes in Germany (share in %)

- Up to EUR10m: 7.7%
- EUR10m to EUR25m: 12.9%
- EUR25m to EUR50m: 18.4%
- EUR50m to EUR100m: 18.9%
- EUR100m to EUR250m: 17.3%
- More than EUR250m: 24.8%
Office properties continue to be the most popular asset class

In 2016, German investors retained their dominant market position, accounting for about 60% of transaction activity. EUR20.9bn and thus two fifths of the transaction volume registered in 2016 originate from foreign capital sources. By far the strongest purchaser group is formed by asset/fund managers with a market share of 22%, largely acting on behalf of institutional investors under pressure to invest. They were followed by open-ended real estate and special funds with a share of 20%. On the seller side, project developers accounted for the strongest group once again, with a market share of 18%, followed by asset/fund managers (16%). This trend reflects the scarce property supply in the premium segment of the market.

Office properties continue to be the most popular asset class in the German investment market. Due to large-volume portfolio deals as well as the office landmarks that changed hands in 2016, their share in the total investment volume of 2016 amounted to 47% of the total transaction volume. This is mainly due to the positive signals from the letting market. Retail properties accounted for 18% of the transaction volume. Small-scale warehouse store and supermarket portfolios were particularly popular, which resulted in a large number of properties being sold at low transaction volumes. Moreover, changes in ownership of large hotel portfolios as well as good framework conditions in the German tourism market led to an increase of the share of hotel properties to 10% in 2016, followed by 9% for logistics properties. In particular outside of the key investment hubs, these asset classes provide secure, higher-yield investment alternatives to office and retail property investments.

Purchaser and seller groups in Germany (in EURbn)
With an invested amount of EUR28.7bn, the Top-7 real estate locations accounted for about 55% of the total German volume in 2016. Munich saw transaction volumes of around EUR6.9bn, up 17% compared to 2015. With a transaction volume of EUR6.1bn (+8%) Frankfurt was closely behind, followed by Berlin and Hamburg with respectively EUR4.9bn. With its strongest year ever, Stuttgart recorded transaction volumes of approximately EUR1.9bn, followed by Düsseldorf with EUR2.2bn and Cologne with EUR1.8bn.

Share of real estate types in Germany (in EURbn)
6_Project Developers: Market in solid shape

The German market for project development, which traditionally is divided into developers who are developing for their own portfolio (investor developer) and those who are developing to sell their developed property (trader developer), has grown considerably in 2016.

In the Top-7 real estate locations, the trader development sector recorded an increase in transaction volume of 4%, which equates to 1.03m m². Including the volume of the previous years, this means that until year 2021 approximately 27m m² of trader development space is in the planning, building or finishing stage.

In addition, the investor development sector plays again a prominent role accounting for around 15m m² of additional project development space. In comparison, in 2015 the investor development space accounted for 10m m².

Boost in office property segment

With 573,000 m², residential properties still account for the largest share of the project development business. This equates to a growth rate of 3.4%. By comparison to the previous years, where the growth rate of residential properties lay between 10 and 20% per annum, there has been a marked slowdown in favour of the office property segment, which has increased by 8.3% (405.000 m²).

The top growth cities in the trader development market are Berlin, followed by Hamburg and Düsseldorf. In comparison to the previous year, the development market in Munich stagnated and the volumes in Stuttgart, Cologne and Frankfurt am Main have recently fallen moderately.

Increasing demand for own inventories

As interest in real estate investments remains high yields have fallen significantly across all segments, investors themselves are tending to enter into projects at an early stage. In this way they are complementing their portfolio and securing return. Traditionally, residential, communal or private housing companies develop in the residential segment. In the office segment federal authorities or resident large companies can be found. The total investor-development share of the total project areas thus developed is over one-third.
Constantly growing project volume in German Top-7 real estate locations with boost in the office property segment

Volume of trader development space of German Top-7 real estate locations (in millions of m²), 2008-2017

* Source: Project developer study 2017, bulwiengesa AG
7_Real Estate Financing: Financing market is stable

The mood among real estate finance providers has slightly improved recently. The current BF Quarterly Barometer for Q2/2017 suggests a balanced market with a score of 0.49 points (Q1/2017: 0.11 points). One third of the credit institutions surveyed expect progressive conditions in the financing market – a significant rise compared with the previous quarter. The remainder expect the situation to remain unchanged.

Even though new business of real estate finance providers tends to decrease at present, 46% continue to expect an increase in new business, while 40% expect stagnation. Larger financing volumes are clearly gaining significance: the category ranging from EUR50 to EUR100m has reached the highest total share since the end of 2013, amounting to 22.9%. Likewise, demand for volumes exceeding EUR100m has increased.

From the perspective of finance institutions, residential and office properties, with a share of 18.4% each, remain the most popular asset classes in the existing segment, followed by retail properties with a share of 16.2%. As regards project developments, property developer financings for residential properties have seen a slightly weaker development than in the previous quarter, ranking behind office and residential properties (17.8% each). In contrast, hotel properties are on the rise.

The following financing alternatives to conventional bank loans are experiencing the strongest demand at present: mezzanine capital (40%), followed by equity (20%) and forward commitments (16.7%). In contrast, alternative debt capital instruments such as bonds are less significant.

As regards alternative capital providers, family offices and private investors are of particular importance (28.2%), followed by insurance companies and pension schemes (25.6%) as well as foreign funds (17.9%). In contrast, German funds and foreign institutions as direct investors have lost significance.

Thus, the financing market continues to stabilise on the whole: finance providers and market participants are cautiously optimistic, obviously not expecting a significant deterioration of the market sentiment. This is also due to the fact that the ECB has largely announced its strategy until the end of the year and there is no sign of a quick interest rate turnaround at present. The bond purchase programme will be continued until December 2017 at least and key interest rates are expected to remain unchanged. Consequently, long-term interest rates slightly decreased again in April 2017.
We can assist you
We have outstanding expertise in the real estate sector and have successfully assisted international market participants with regard to all questions concerning the acquisition, financing, structuring, management and sale of properties and portfolios of all asset classes for years.

Our offering

We have outstanding expertise in the real estate sector and have successfully assisted international market participants with regard to all questions concerning the acquisition, financing, structuring, management and sale of properties and portfolios of all asset classes for years.

**Transacting business**
- Acquisitions and disposal
- Letting
- Asset & property management
- Development & construction
- Notarial
- Public law/environmental law/planning
- Tax
- Joint ventures
- Regulatory/Passporting

**Minimising risks**
- Structuring
- Non-performing loans

**Financing**
- Real estate finance
- Investment funds and structures
- Derivatives and securitisation

**Defending values**
- Resolving real estate disputes
Transacting business

– **Lino Management B.V.** the principal lessor, in connection with the restructuring and negotiation of new lease agreements with the A.T.U. Auto-Teile-Unger group (more than 250 properties).

– **International Campus AG**, a specialist for micro-living products, in connection with the development project “THE FIZZ Short Stay” in Munich. We also advised International Campus AG on launching a student housing fund under Luxembourg law with an equity volume of EUR600m.

– **A global leading real estate** group in connection with the sale of a high-volume property portfolio to the Garbe Group, a German family-owned real estate investor.

– **PATRIZIA** on the sale of the so-called Harald (Olav) Real Estate Portfolio to Deutsche Wohnen AG (DW). The sales price for a total of approx. 14,000 rental apartments is approx. EUR1.1bn.

– One of the Top Real Estate Transactions 2015 – Thomas Daily 2015

– **PATRIZIA** on the acquisition of a EUR1.05bn commercial real estate portfolio from a subsidiary of Commerz Real AG. Allen & Overy advised PATRIZIA on all aspects of the transaction, ie on the due diligence, the legal and tax structuring and financing.

– **PATRIZIA** on the acquisition of a portfolio of 36 office properties with a value of EUR800m from listed Austrian CA Immobilien Anlagen. Allen & Overy advised PATRIZIA on all aspects of the transaction, ie on the due diligence, the legal and tax-related structuring and (re-)financing.

– **PATRIZIA** on the EUR2.45bn acquisition of GBW AG comprising 32,000 rental apartments from state-owned bank BayernLB.

– **PATRIZIA** on the acquisition, including the financing, of a real estate portfolio in Germany comprising 107 commercial properties with a value of EUR286.5m.

– **Ivanhoé Cambridge** on the sale of the shopping center Zwickau Arcaden to ECE.

– **Ivanhoé Cambridge** on the sale of the shopping center “Düsseldorf Arcaden” to Hines/Universal Investment.

– **Allianz** on the sale of an office and commercial real estate portfolio.

– **BSG Real Estate** on the formation of a joint venture with SIGNA Prime Selection in relation to the Highstreet retail store portfolio including the landmark Berlin store KaDeWe in Germany with a value exceeding EUR2bn.

– **CORESTATE** in relation to the sale of Austria’s largest student housing asset as well as its German Student Housing Portfolio to a fund vehicle launched on the fund platform of Universal-Investment.

– **CORESTATE** on the sale of retail portfolios worth EUR687m to the Universal-Investment fund of Bayerische Versorgungskammer (BVK).

– **CORESTATE** in relation to a joint venture regarding the development of four high-rise buildings in Vienna with an investment volume of EUR432m.

– **CORESTATE** on the establishment of a joint venture project with Inmobiliaria Espacio and its affiliated company OHL Desarrollos.

– **Aérium Finance Ltd.** on the disposal of a portfolio of retail centres (transaction volume approximately EUR150m) and the management of its entire German real estate portfolio including several developments.

– **RAG-Stiftung** on its 30% investment in Vivawest GmbH and the subsequent merger of Vivawest GmbH and THS GmbH.

– **Swiss Life** on the acquisition of CORPUS SIREO.
Minimising risks

– Deutsche Bank AG, London Branch, in relation to the refinancing of IVG with EUR1.5bn debt across two loans, for EUR805m and EUR680m, that the bank lent to members of the IVG group in order to restructure their debt.

  – Global Finance Deal of the Year: Restructuring (Germany)
  – American Lawyer Global Legal Awards 2015
  – Deutsche Bank – Pan-European Lender of the Year
  – Real Estate Capital Awards 2015

– Deutsche Annington Immobilien Group on the rescheduling of the EUR4.3bn German multi-family CMBS. This is one of the largest European real estate finance and CMBS refinancings since the financial crisis.

  – Highly recommended in the Finance category –
  – FT Innovative Lawyers 2013

– Hypothekenbank Frankfurt AG, a subsidiary of Commerzbank Aktiengesellschaft, in connection with the tender for the sale of a Europe-wide commercial real estate (CRE) loan portfolio with a nominal volume of EUR2.2bn to a syndicate consisting of J. P. Morgan and Lone Star. The portfolio comprises properties in Austria, Belgium, the Czech Republic, Cyprus, Denmark, Finland, Hungary, Luxembourg, the Netherlands, Romania, Sweden, Switzerland, Slovakia and Turkey.
Financing

The arrangers and lenders on the financing with a volume of around EUR1.7bn in connection with the acquisition of OfficeFirst Immobilien AG (Office First) by Blackstone. It has been the largest acquisition of office properties and the largest acquisition financing in Europe in the past ten years.

A joint venture consisting of RFR Group, DC Values and other parties as borrower in relation to the financing of the “Upper Zeil” project development in Frankfurt am Main.

PATRIZIA Immobilien AG in relation to its EUR300m Schuldchein loan.

Deutsche Annington Immobilien SE in connection with the financing of a voluntary public takeover offer to the shareholders of Gagfah S.A. (Volume: EUR6.5bn)

Top Real Estate Transaction 2015 – Thomas Daily 2015

HSBC Bank PLC on a EUR855m financing of the acquisition of the Potsdamer Platz site in Berlin.

Macquarie Bank Limited, London Branch (Macquarie) on the issue of residential mortgage backed securities (RMBS) in the aggregate amount of EUR190m secured by a portfolio of approximately 1,600 residential mortgage loans granted over properties in Germany to German consumers. The transaction is the first of public German RMBS transactions in five years.

GE Real Estate Loans Limited in connection with an approx. EUR770m facility to finance the acquisition of the Project Tower portfolio of loans from NAMA by Blackstone Real Estate Partners. The transaction was notable as it was Blackstone and GE’s first ‘loan on loan’ financing in the European market.

LaSalle Investment Management and Helaba as arrangers of secured senior and mezzanine facilities for a joint venture sponsored by Blackstone and ECE in connection with its acquisition of Rhein-Ruhr-Zentrum shopping centre, Germany.

Société Générale S.A. in connection with the financing of the acquisition of 18 Accor hotels in Germany and 11 Accor hotels in the Netherlands by a special purpose vehicle controlled by Blackstone. The total transaction volume amounts to EUR234m; vendor is Accor.

Bank of America Merrill Lynch and Citibank Bank Plc in connection with the EUR250m financing of the acquisition of the Interhotels portfolio in 2015 and post the self-administration insolvency proceedings.

M&G Investment Management Limited on a EUR150m senior facility for a joint investment by Fattal Hotels and Zenprop secured over a portfolio of 20 hotels in Germany. This was the largest hotel acquisition in 2013.

GAGFAH on the refinancing and securitisation by way of two CMBS transactions. The proceeds of the new CMBS (German Residential Funding 2013-1 Limited) with a volume of EUR2.061bn were applied to refinance a loan that was securitised in 2006 and secured by GAGFAH’s GRF portfolio comprising approx. 61,600 residential and 469 commercial units. Immediately after the first transaction Allen & Overy advised GAGFAH on a EUR736.6m CMBS (German Residential Funding 2013-2 Limited) refinancing of its Quadriga portfolio of multifamily properties.

Royal Bank of Canada and Citigroup on the financing for Lone Star’s EUR1.1bn acquisition of TLG Immobilien from the German Government. TLG Immobilien owns 800 real estate assets in Germany’s eastern states, comprising retail, offices, warehouses and hotels.
Defending values

– Advising an international service company in the area of power plant technology and environmental engineering with regard to claims under a contract based on the FIDIC Silver Book and the FIDIC Yellow Book regarding the modernisation of a power plant in Eastern Europe and initiating a proceeding for interim relief prohibiting the contract partner to draft a guarantee on first demand; further acting for the client in proceedings before a dispute adjudication board and in subsequent ICC arbitration proceedings.
– Representing an internationally operating client in DIS arbitration proceedings after terminating a contract for works and services because of alleged delays, alleged defects of the works, in particular welding defects, and an alleged non-conformity with the applicable construction standards. We also represented the client in independent evidentiary proceedings before state courts regarding the alleged defects.
– Advising and representing a major construction company in Eastern Europe in an ICC arbitration proceeding with seat in Frankfurt for payment under two FIDIC Red Book construction contracts against the employer in connection with the dismantling of a nuclear power plant. The parties were, in inter alia, in dispute regarding the termination of the contract, outstanding payments for work performed and claims for rectification of defects.
– Advising a foreign real estate company in an out-of-court dispute amounting to a three-digit million euro figure regarding the validity and renegotiation of similar commercial tenancy contracts for real estate in Germany and in the subsequent settlement negotiations.
– Advising and representing a global real estate company in post M&A dispute with commercial tenants on service charges.
– Representing and advising a major international consulting firm in court proceedings with a real estate company regarding alleged professional liability claims in the amount of EUR50m.
– Advising in D&O liability disputes between a major corporation and former board members regarding alleged breaches of duty in connection with several real estate transactions and the insolvency of the corporation; the amount in dispute is around EUR1bn.
Your key contacts in Germany

Our Real Estate practice in Germany brings together lawyers from across all practice groups with particular involvement from our real estate, real estate finance, private equity/corporate, tax, securitisation, capital markets, litigation, public law, investment funds and restructuring groups. We provide an innovative and flexible approach to handling complex transactions to ensure that we are well placed to meet the demands of our clients and the marketplace. Our in-depth knowledge of the real estate sector and close working relationships across our global network allow us to add value to our clients’ transactions with high-quality, practical and tax-effective legal advice.

Transacting business

“Allen & Overy is one of few firms which can regularly participate in complex real estate transactions with the necessary quality and speed.”

Chambers Europe 2016 (Real Estate)

“Allen & Overy is by far the pre-eminent real estate finance firm in Germany.”

Chambers Europe 2016 (Real Estate Finance)
Your international key contacts

Our global Real Estate group works seamlessly across all aspects of the sector, legal disciplines and jurisdictions to provide clients with a truly comprehensive service. Our expertise and strong team working enables us to advise on both domestic and cross-border deals involving real estate as an asset class.
Methodology

Objective of the study

The study’s goal is to give a general overview on the current trends in the German real estate market which should allow institutional investors to evaluate their interest and opportunities in the German real estate market.

Body of source material

The study portrays general market observations based on a number of different sources, each of them applies its own methodology. Hence, there is no uniform data base.

Data base

Basis for this study are publicly accessible and purchased figures and studies. No own figures were raised. We based our research on the following sources:

Institutions:
– Federal Institute for Research on Building, Urban Affairs and Spatial Development
– Federal Statistical Office
– Cologne Institute for Economic Research (IW)
– GfK SE
– HDE – Handelsverband Deutschland
– RegioData Research
– Bertelsmann Stiftung

Market research companies:
– bulwiengesa AG
– Feri AG
– Jones Lang LaSalle Incorporated

Magazines:
– Die Welt
– Süddeutsche Zeitung
– Wirtschaftswoche

This study does not constitute definitive advice and should not be used as the basis for giving definitive advice without checking the primary sources.
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