Colliers INTERNATIONAL

CLIFFORD CHANCE

Investing in German Real Estate

INVESTING IN GERMAN REAL ESTATE

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COLLIERS GLOBAL KEY FACTS

€ 115 BILLION
TRANSACTION VOLUME

186 MILLION
SQM MANAGED

18,000 +
PROFESSIONELS

438 OFFICES
IN 68 COUNTRIES

CONTENTS

CHRISTIAN KADEL, FRICS

MANAGING DIRECTOR

HEAD OF CAPITAL MARKETS | GERMANY

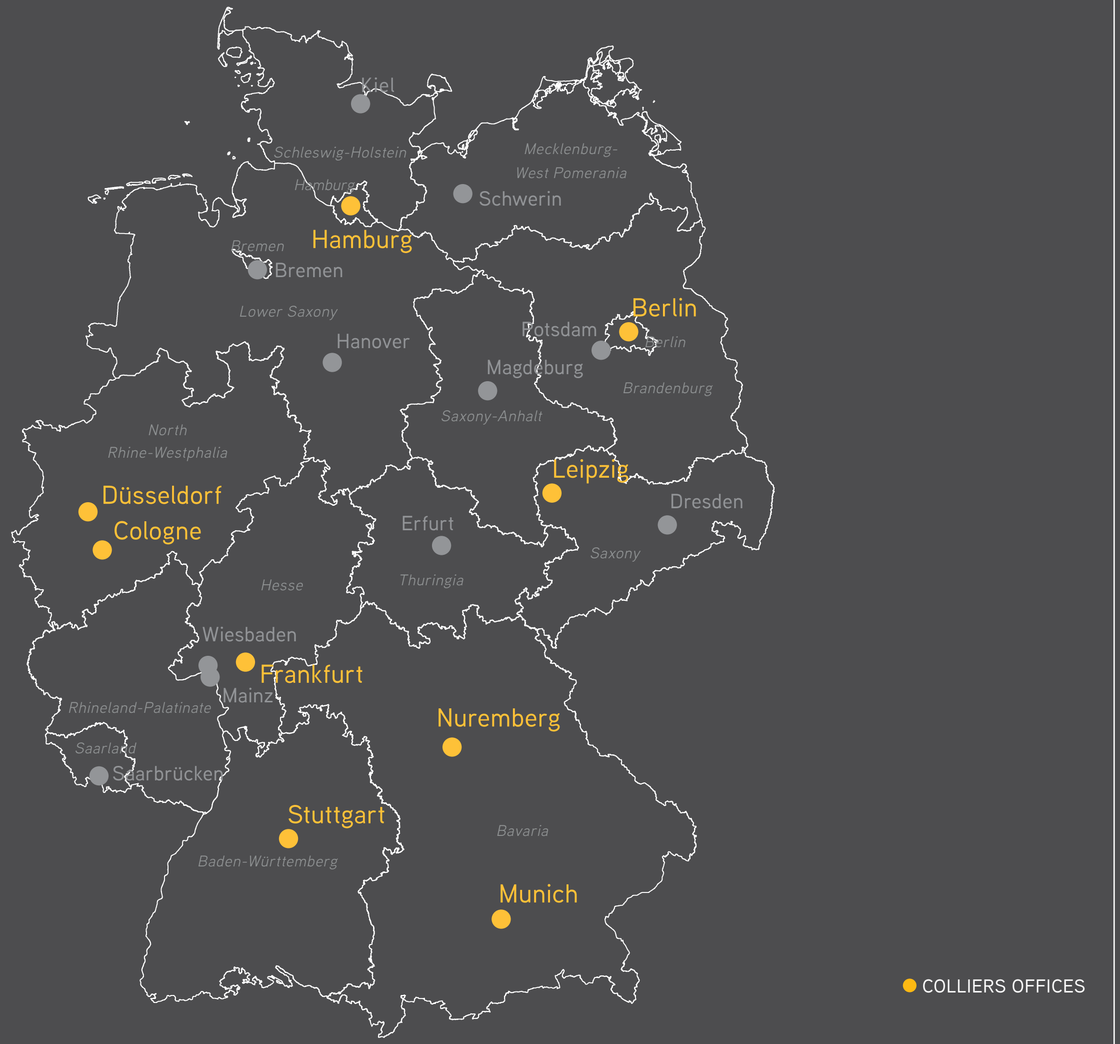
We are pleased to present the 4th edition of our Investing in German Real Estate buyer's guide. Our 2015, 2017 and 2019 issues covered the prolonged peak phase on the German investment market, which was characterized by new record transactions year after year and landmark deals. As to be expected, this latest issue focuses on our analysis of market activity in the face of the most severe recession post-war Germany has seen, brought on by the pandemic. It goes without saying that these developments will also leave their mark on the German leasing and investment markets. However, one of the German market's most impressive fundamentals can be seen in its resilience to the impact of the pandemic as compared to many core real estate markets in Europe and around the world. The country boasts actionable economic and political structures, and fundamentally healthy general conditions strongly support the crisis resilience and value stability of Germany's real estate markets.

As in previous years, the purpose of this buyer's guide is to provide especially our international clients with a general overview of the country's investment market and a detailed look at Germany's seven largest investment hubs as well as an up-to-date overview of the legal aspects involved in acquiring real estate in Germany. Thanks to our close collaboration with Clifford Chance, we are also able to provide you with information on the latest changes in tenancy and tax law.

This guide will give you a basic overview of the topics you find most relevant. I look forward to advising you with of our teams, such as in working out the details of your investment strategy, identifying attractive investment opportunities, assisting you in the acquisition process or optimizing, recapitalizing or disposing of your current assets.

Your Colliers Team

1. INTRODUCING GERMANY



1.1 FEDERAL STRUCTURE

The Federal Republic of Germany is a federation with approximately 83.0 million inhabitants. The capital city is Berlin with a population of about 3.6 million.

7 TOP CITIES FOR REAL ESTATE INVESTMENT

Germany strongly differs from other major European real estate markets. Unlike the UK (London) and France (Paris), Germany does not have one particular dominant local market.

The country's most important economic centers and real estate markets are Berlin, Düsseldorf, Frankfurt am Main, Hamburg, Cologne, Munich and Stuttgart together with their metropolitan areas.

It is in these seven cities that the most office space is leased, with 50 % to 55 % of commercial transaction volume being generated in Germany's top 7 cities every year.

1.2 ECONOMIC FACTS

With the largest population and highest gross domestic product (GDP), Germany is the largest economy in the European Union and the fourth largest in the world. GDP came to € 3,435 bn in 2019.

The world's 500 largest companies and a total of approximately 45,000 companies from abroad have operations in Germany.

Germany has one of the lowest unemployment rates in the European Union. Except for a temporary increase in 2009, the country has been experiencing a drop in unemployment since 2005 and even the financial crisis did not really impact the German labor market. The "reduced hours" model, which proved effective in bridging the severe recession in 2009, is again heavily used to help the labor market cope with the impact of the pandemic.

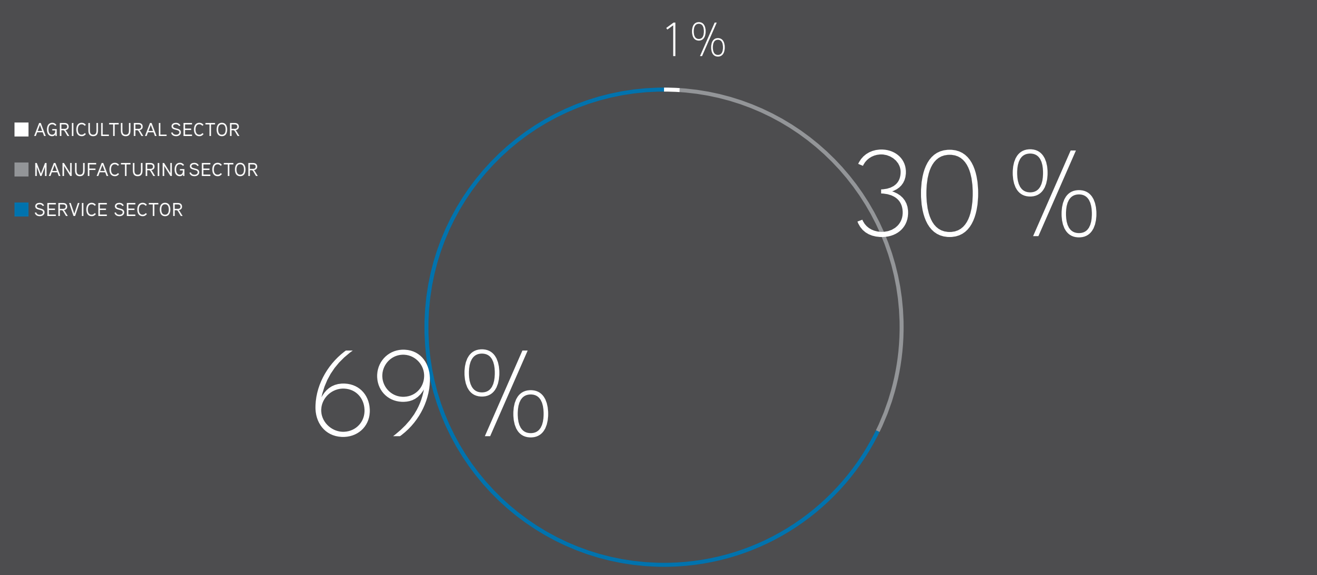
Although the service sector is a dominant force in the German economy, the country still has a very strong manufacturing base.

SECTORS, BRANDS

Germany is home to 27 of the top 500 companies according to the latest annual Fortune Global 500 ranking, which measures the leading 500 listed companies based on revenue. In addition, it hosts a significant amount of so called hidden champions per country, companies less visible but with a dominating position in the industry.

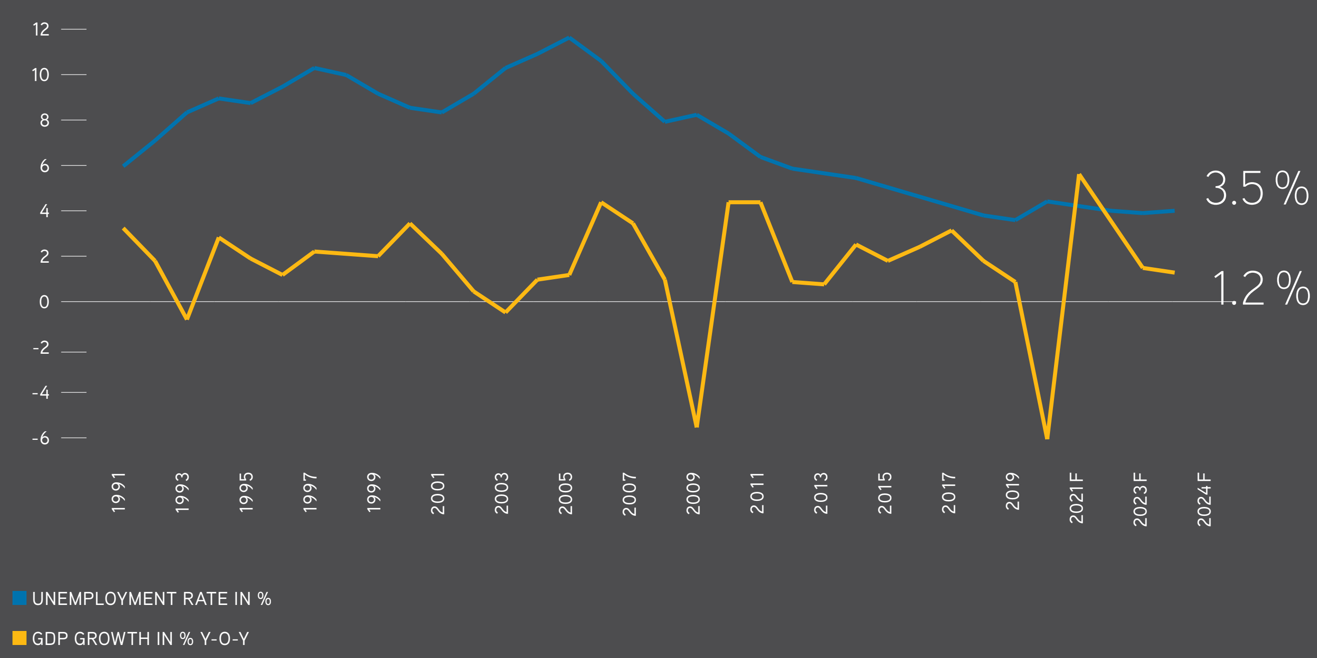
Besides engineering and automotive, key industries in Germany include a variety of sectors such as ICT, insurance, chemicals, retail and trade and the financial services sector.

ECONOMIC STRUCTURE (SHARE OF GDP 2019)



SOURCE:
FEDERAL STATISTICAL OFFICE

GDP GROWTH AND UNEMPLOYMENT RATE (IN %)



SOURCE: OXFORD ECONOMICS

GERMANY'S TOP COMPANIES 2020 (FORBES GLOBAL 500)

GERMAN CORPORATIONS LISTED BY
FORTUNE GLOBAL 500 (REVENUE IN BN $)
SOURCE: FORTUNE

$ 282.760	VOLKSWAGEN
$ 193.346	DAIMLER
$ 130.359	Allianz
$ 116.638	BMW GROUP
$ 97.937	SIEMENS
$ 90.135	TELEKOM
$ 86.990	BOSCH
$ 73.652	uniper
$ 72.537	Munich RE
$ 70.895	Deutsche Post DHL Group
$ 70.723	BASF We create chemistry
$ 51.807	BAYER
$ 49.783	Continental
$ 49.729	DEUTSCHE BAHN
$ 47.358	thyssenkrupp
$ 46.861	e.on
$ 44.020	talanx.
$ 41.780	DEUTSCHE BANK
$ 41.371	METRO GROUP
$ 40.873	ZF FRIEDRICHSHAFEN
$ 40.768	Lufthansa Group
$ 39.824	EDEKA
$ 39.632	FRESENIUS
$ 39.144	DZ BANK Die Initiativbank
$ 30.839	SAP
$ 30.509	PHOENIX group
$ 26.459	adidas GROUP

2. WHY GERMANY

- Germany has one of the world's leading economies, is the economic center of Europe and is a global export country
- A highly liquid real estate market means easy entry and exit
- The German real estate market is very decentralized with at least 7 top locations and several liquid markets in secondary cities
- Product is highly diversified (office, retail, industrial, residential, hotel, etc.) with availability throughout the country
- Germany enjoys a history of price stability and low yield volatility, especially in the real estate hubs, and is regarded by many institutions as a safe-haven investment location
- High economic, social and political stability mean low external risk
- The occupier market is characterized by ongoing high demand for office, logistics and retail space coming from a wide range of sectors and businesses

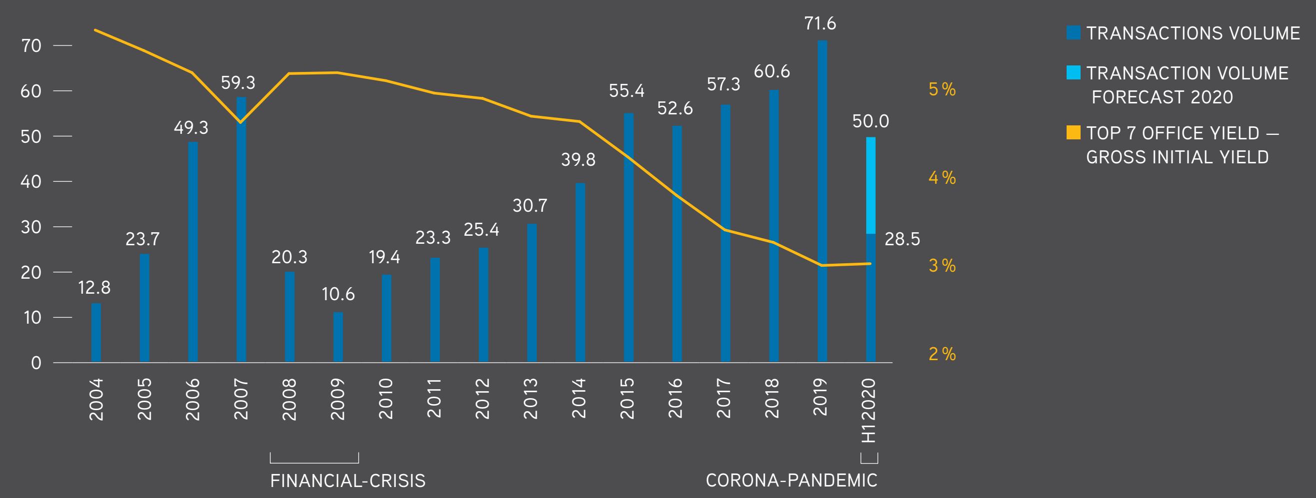
LOCATION INFORMATION

	GERMANY	BERLIN	COLOGNE	DÜSSELD.	FRANKFURT	HAMBURG	MUNICH	STUTTGART
POPULATION IN 1,000	83,019	3,645	1,086	619	753	1,841	1,472	635
GEOGRAPHIC AREA IN KM²	357,582	892	405	217	248	755	311	207
EMPLOYEES PAYING SOCIAL SECURITY CONTRIBUTIONS IN 1,000	33,740	1,559	592	435	614	1,015	911	429
UNEMPLOYMENT RATE IN %	6.2	10.5	9.6	8.2	7.2	8.2	5.3	5.7
PER CAPITA DISPOSABLE INCOME IN €	23,245	22,294	25,684	28,528	27,055	25,695	30,417	27,277

SOURCES:
FEDERAL STATISTICAL OFFICE,
LAND STATISTICAL OFFICES,
FEDERAL EMPLOYMENT AGENCY,
NEXIGA GMBH

VOLATILITY OF PRIME OFFICE YIELDS (2010-H1 2020 IN %)

COMMERCIAL TRANSACTION VOLUME IN GERMANY (IN BN €)



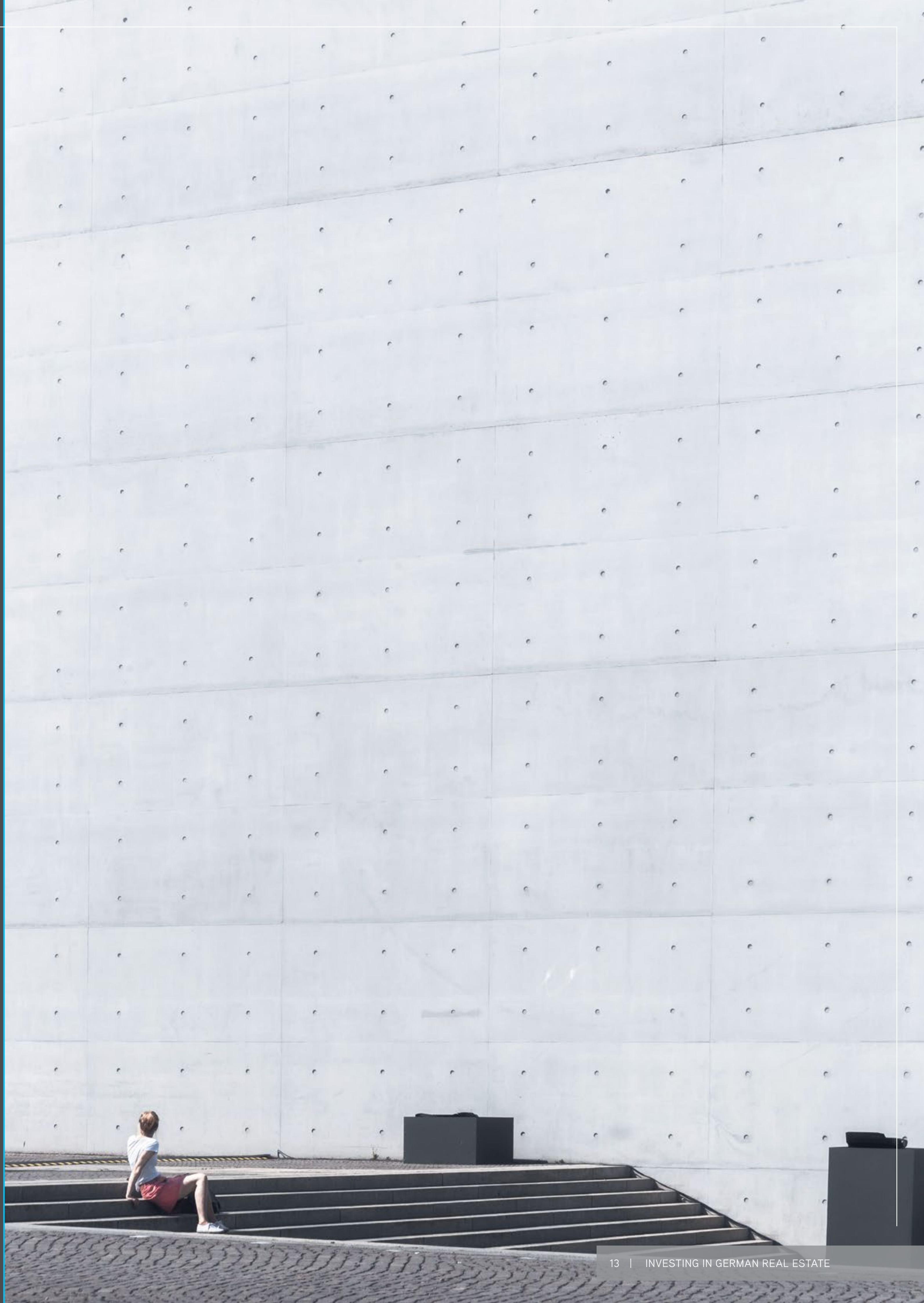
3. IMPACT OF COVID-19 — BONUS FOR GERMAN REAL ESTATE

The standstill feared by real estate market participants during the lockdown in spring 2020 has not materialized.

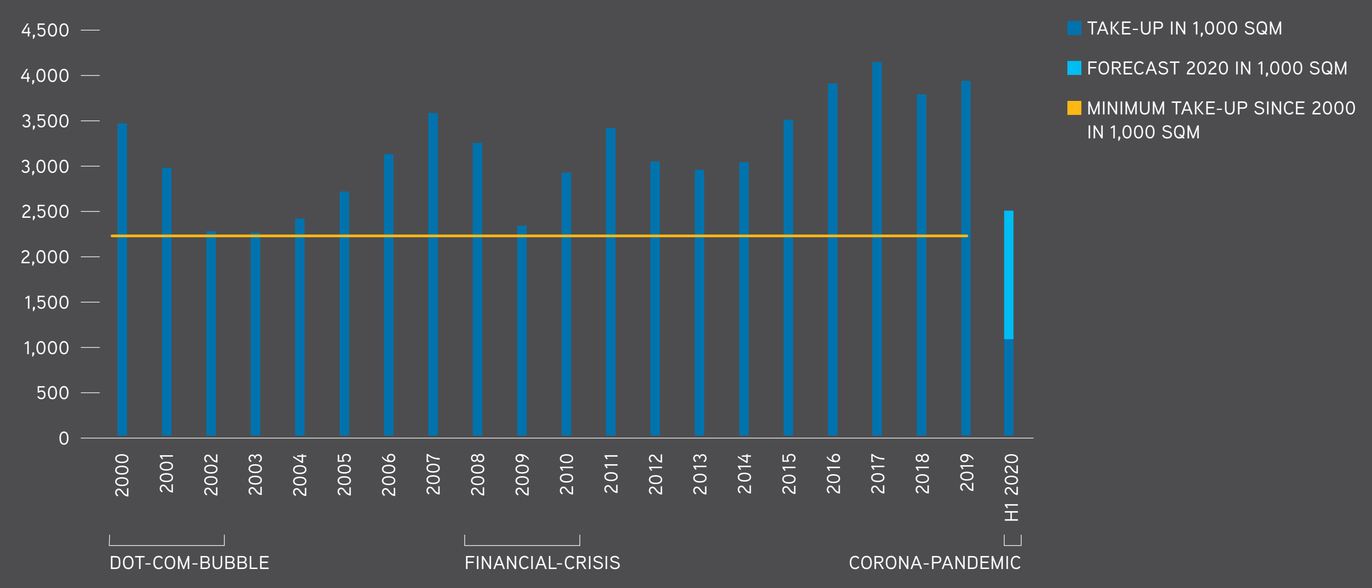
At the same time, we are already seeing renewed interest in new deals both buy and sell-side, particularly as real estate remains a popular asset class in this persistently low interest-rate environment and with pressure on liquidity continuing to grow. At mid-2020 it is difficult to make predictions for the entire year and beyond as uncertainties remain complex. However, based on the periodic market sentiment surveys conducted among market participants by Colliers and the many deals that filled the pipeline during the boom phase and that are still underway, we may see transaction volume come in at over € 50 bn, a result recorded just before the start of the extraordinary peak phase in 2015. With many expecting the deepest recession since World War II, this outlook again reflects the impressive resilience of the German real estate markets.

GERMAN TRANSACTION VOLUME WITH HIGHER CRISIS RESILIENCE THAN THE REST OF EUROPE DUE TO

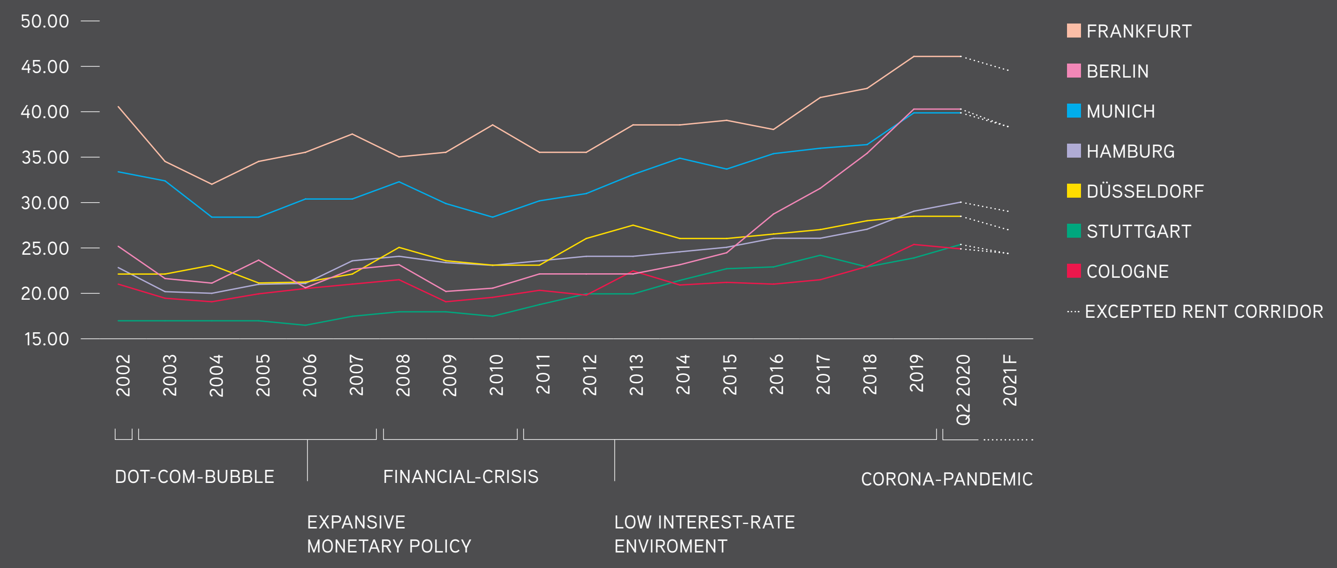
- Effective management of the pandemic, massive fiscal response and strong domestic buyers. All of these could be reasons why the Germany real estate market is holding up better than those of other countries
- Very strong fundamentals on the leasing markets, especially with regard to office and industrial and logistics assets
- Following 10 years of a continuous downward trend, vacancy rates in all of the country's top 7 cities are currently at historic low levels. Vacancy rates in all relevant CBDs are well below 5 % benchmark, ranging from 0.5 % in Munich to 4.3 % in Düsseldorf and Frankfurt.
- No return to peak vacancy levels seen in dot-com bubble and financial crisis expected
- Moderate vacancy increase keeps rents high; drops in rents not expected for most cities. This is backed by high demand surplus prior to the outbreak of the crisis, a moderate development pipeline and an expected reduction in speculative development in the medium-term
- Rent reductions in many markets not likely until vacancy rate hits 6 % benchmark
- Take-up of office space has been consistently registered at a minimum level even during crises — 2.3 million sqm in the Top 7 office markets in both the dot-com and the financial crisis



AGGREGATED TAKE-UP IN TOP 7 OFFICE MARKETS

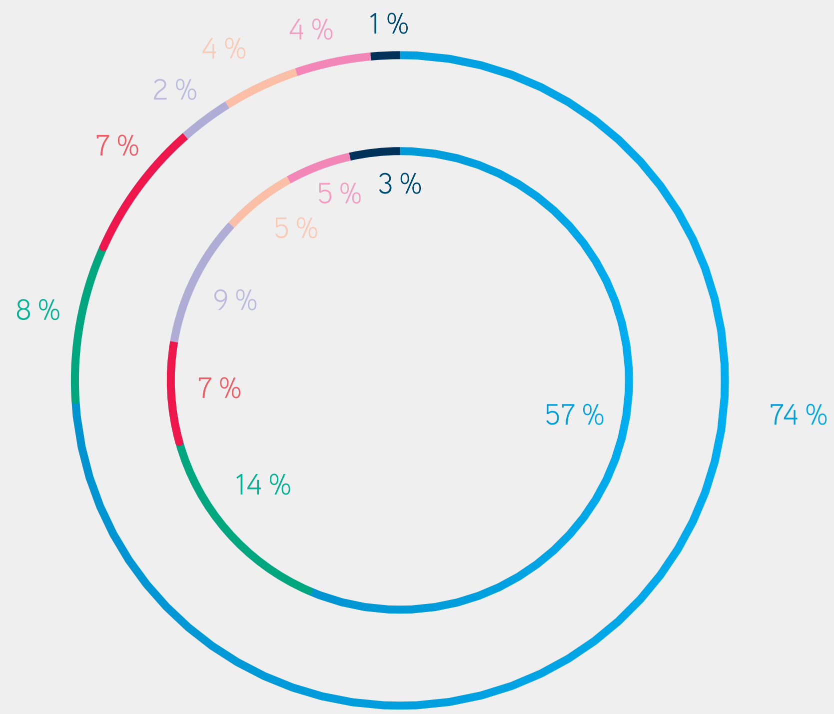


TOP 7 PRIME OFFICE RENTS – IMPACT OF PAST CRISES (IN € / SQM / MONTH)



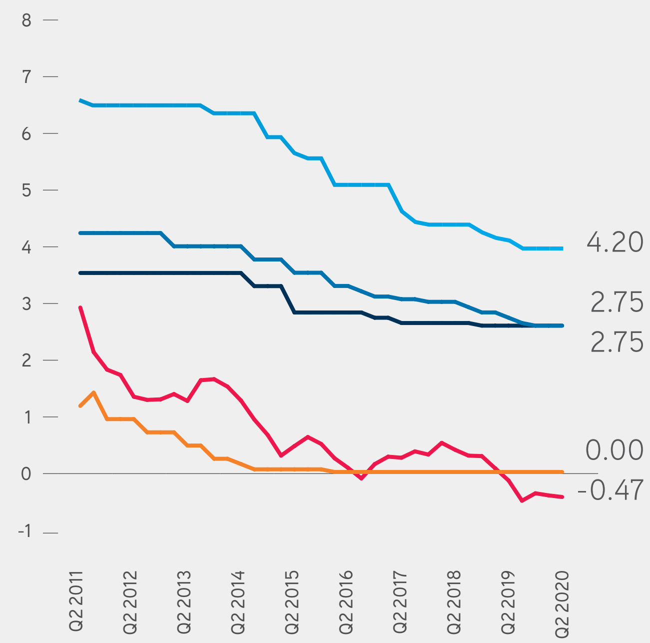
COMMERCIAL TRANSACTION VOLUME BY PROPERTY TYPE 2019

OUTER RING: TAV TOP 7
INNER RING: TAV GERMANY

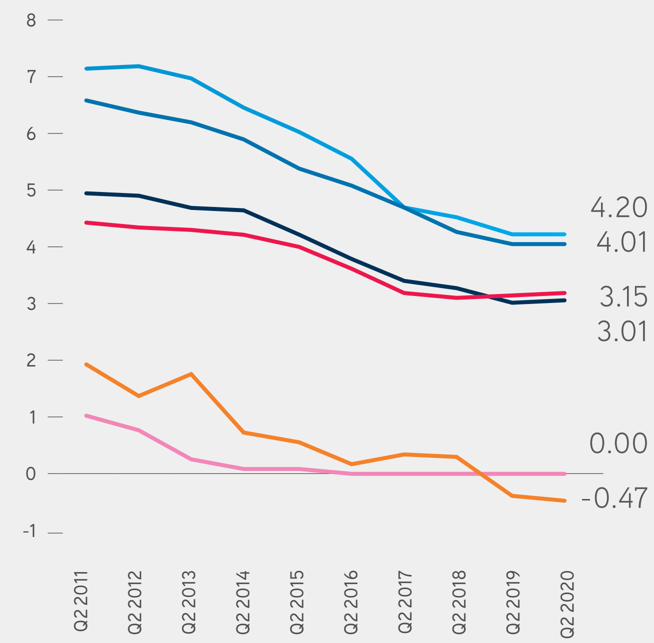


OFFICE
RETAIL
HOTEL
INDUSTRIAL & LOGISTICS
MIXED-USE
BUILDING SITES
OTHER PROPERTIES

YIELDS AND INTEREST RATES (IN %)



GIY PRIME LOGISTICS MUNICH
GIY PRIME HIGHSTREET RETAIL MUNICH
GIY PRIME OFFICES MUNICH
ECB BASE INTEREST RATE
GERMAN 10-YEAR GOVERMENT BOND YIELD



INDUSTRIAL & LOGISTICS (GIY, AVERAGE TOP 7)
HOTELS (GIY, AVERAGE TOP 7)
HIGHSTREET RETAIL (GIY, AVERAGE TOP 7)
OFFICE (GIY, AVERAGE TOP 7)
ECB BASE INTEREST RATE
GERMAN 10-YEAR GOVERNMENT BOND YIELD

› Due to average initiation periods for larger deals coming in at half a year at least, transaction activity by asset class still largely reflects investment decisions made pre-pandemic

› As such, offices remained the most popular asset class with a 52 % market share (TAV aggregated for 2019 and H1 2020). When it comes to the TOP 7 markets, the dominance of offices is even higher with a 72 % share.

› Despite the marked weakening of the retail sector due to the pandemic, the retail asset class managed to keep its position as second important asset class. This accomplishment is to a large extent the result of the sale of food-anchored retail warehouse portfolios, which are generally seen as benefiting from the crisis.

› The same also applies for industrial and logistics assets, which managed to hold its third position. Pushed by e-commerce and digitalization, these properites are becoming increasingly popular with conservative investors.

› Hotel assets, which have been most affected by the crisis, record a market share of 6 %. In recent years, scarcity of suitable assets were the limiting factor in terms of transaction activity.

› Until mid-year 2020, no significant price reductions had been recorded. This applies particularly to the prime segments of Germany's top 7 cities.

› Yields remain at the low level recorded at the end of 2019.

› In view of the 'flight to quality' that is trending among investors, prime yields will stay their course. However, higher risk, which is already a factor just in terms of increases in financing costs, will be more strongly reflected in pricing going forward.

› In the light of a continued low-interest environment the attractiveness of properties remains high. Negative interests on deposits and a yield gap of almost 350 bp on German 10-year government bonds will push further liquidity into real estate.

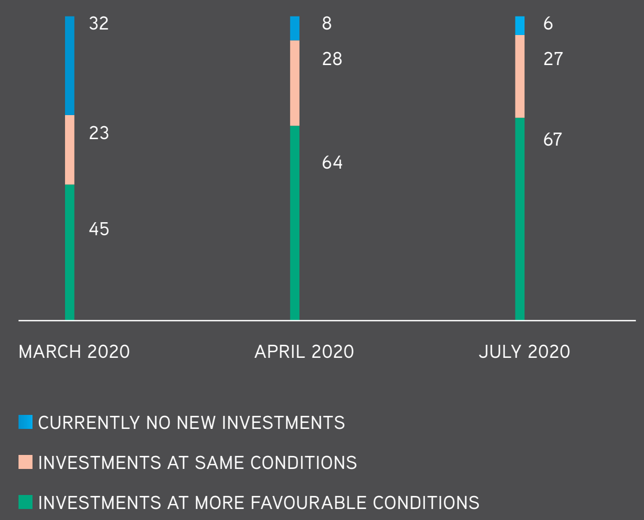
COVID-19 survey by Colliers International Germany: How has sentiment on the German real estate markets changed?

Since March 2020, Colliers has interviewed the same top decision-makers in the real estate industry three times in a row following relevant phases of the pandemic: lockdown, initial, limited reopening and announcement of fiscal package and continued reopening and economic turnaround of "first hit". The key players surveyed have around 500 billion € in assets under management. Key findings include:

1. **General sentiment:** Results from Collier's periodic COVID-19 survey reflect the positive sentiment among key investors and high interest in German assets since COVD-19 started to impact the market

2. **Investment decisions in the turmoil of the pandemic:** A stable majority of investors is ready to buy; however, the expectation of being able to buy at more favorable terms prevails. Only 6 % of those surveyed maintain a wait-and-see stance. Pandemic-related price reductions are barely tangible to date

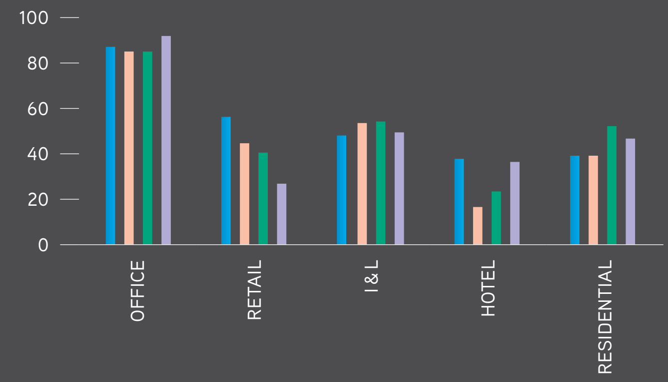
INVESTMENT DECISIONS
(IN %)



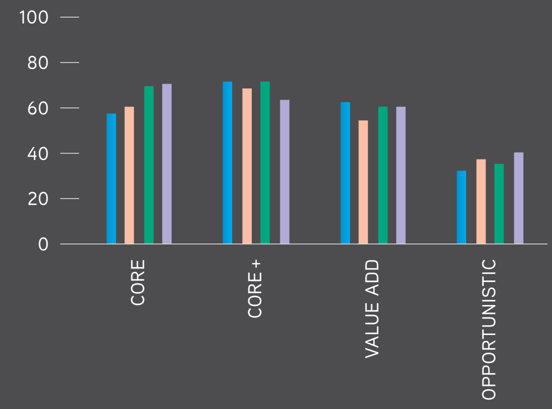
3. **Asset classes - demand for office unabated:** All three surveys confirm a trend towards more core, office, residential and logistics assets. Appetite for retail is still down and buying behavior is selective, with interest more focused than ever on retail parks. Demand for hotel assets persists at pre-crisis levels; anticipation of price discounts could be behind increased interest

4. **Flight to quality:** Core continues its growth course; acceptance of high pre-crisis prices can be observed in this market segment. Nearly everyone wants to invest in primary cities; secondary cities are in more demand than ever

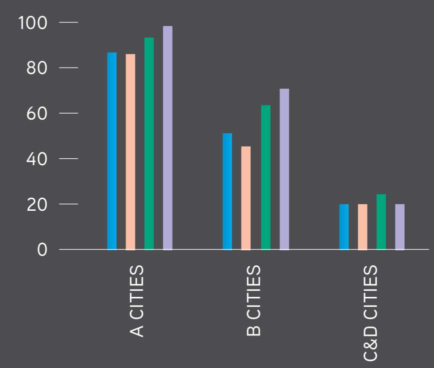
SHIFT IN DEMAND FOR ASSET CLASSES
(IN %)



CHANGES IN RISK PROFILES
(IN %)



PREFERRED CITIES
(IN %)

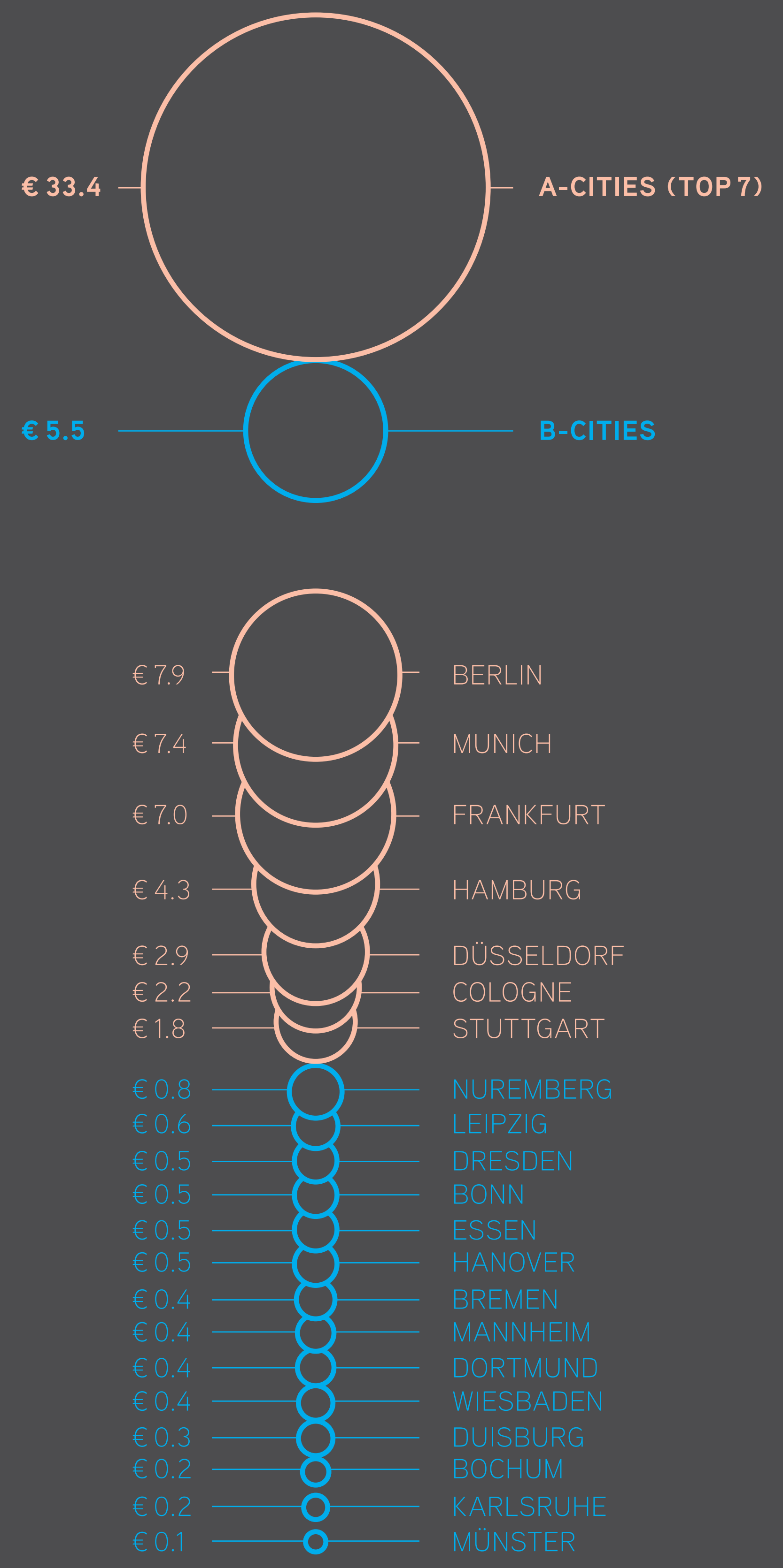


PRE-CRISIS MARCH 2020 APRIL 2020 JULY 2020

4. INVESTMENT A- AND B-CITIES (IN BN €)

	TRANSACTION VOLUME 2015–19	AVERAGE 5 YEARS
A-CITIES (TOP 7)		
BERLIN	€ 39.5	€ 7.9
MUNICH	€ 36.7	€ 7.4
FRANKFURT	€ 34.8	€ 7.0
HAMBURG	€ 21.5	€ 4.3
DÜSSELDORF	€ 14.5	€ 2.9
COLOGNE	€ 10.7	€ 2.2
STUTTGART	€ 8.9	€ 1.8
	€ 166.7	**€ 33.4**
B-CITIES		
NUREMBERG	€ 3.9	€ 0.8
LEIPZIG	€ 2.8	€ 0.6
DRESDEN	€ 2.4	€ 0.5
BONN	€ 2.4	€ 0.5
ESSEN	€ 2.4	€ 0.5
HANOVER	€ 2.4	€ 0.5
BREMEN	€ 2.1	€ 0.4
MANNHEIM	€ 2.0	€ 0.4
DORTMUND	€ 1.8	€ 0.4
WIESBADEN	€ 1.8	€ 0.4
DUISBURG	€ 1.5	€ 0.3
BOCHUM	€ 1.0	€ 0.2
KARLSRUHE	€ 0.8	€ 0.2
MÜNSTER	€ 0.6	€ 0.1
	€ 27.7	**€ 5.5**

TRANSACTION VOLUME A CITIES VERSUS B CITIES (AVERAGE 5 Y, IN M €)



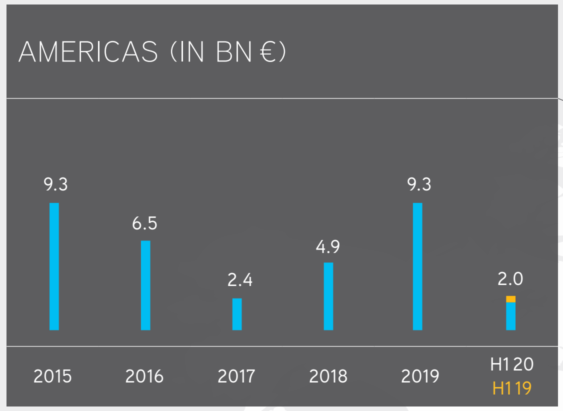
5. MAJOR ACQUISITIONS FROM INTERNATIONAL INVESTORS

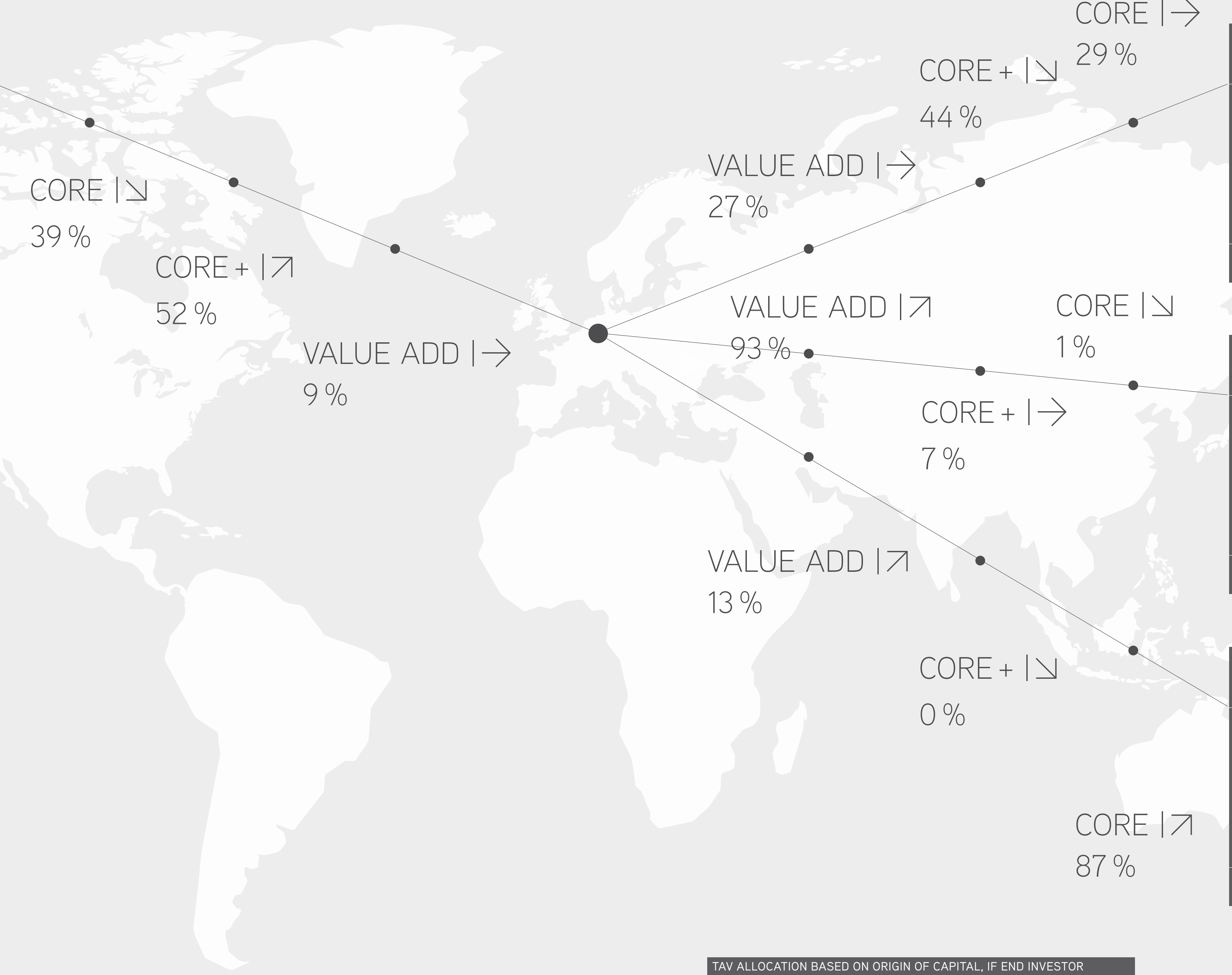
2019 & H1 2020

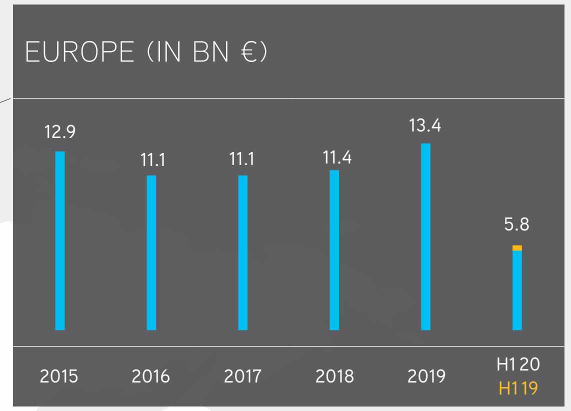
Foreign investor capital has been driving German commercial transaction volume over the past several years to a substantial extent, with foreign investors repeatedly claiming a share of 40 % to 50 % in total transaction volume. Foreign investors were able to beat out the domestic competition, particularly when it came to mega deals, with a transaction volume exceeding € 250 m. In 2019 and H1 2020, 434 deals involving foreign capital were recorded with € 43.2bn in total transaction volume.

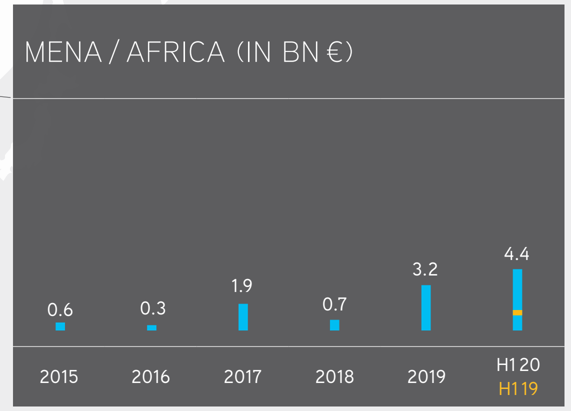
NAME	CITY	PURCHASER	DATE	PURCHASER PRICE IN € M	MAIN USAGE
AROUNDTOWN TAKE-OVER TLG	ALL OVER GERMANY; FOCUS ON BERLIN	AROUNDTOWN	2020 / Q1	>4,000	MIXED-USE
BLACKSTONE TAKE-OVER DREAM GLOBAL	ALL OVER GERMANY	BLACKSTONE GROUP	2019 / Q4	>3,000	OFFICE
SIGNA TAKE-OVER HBC EUROPE (GERMAN PART/GALERIA KAUFHOF/ 59 PROPERTIES)	ALL OVER GERMANY	SIGNA PRIME SELECTION	2018 / Q3 & 2019 / Q2	>3,200	RETAIL / DEPARTMENT STORES
COVIVIO TAKE-OVER GODEWIND	ALL OVER GERMANY	COVIVIO	2020 / Q2	>990	OFFICE
THE SQUAIRE	FRANKFURT/MAIN	AGC EQUITY PARTNERS FOR PIF	2019 / Q4	>930	MIXED-USE
90 REAL-HYPERMARKETS	ALL OVER GERMANY	SCP GROUP	2020 / Q2	>900	RETAIL / HYPER-MARKETS
FÜRST	BERLIN	AMIR DAYAN	2019 / Q3	>850	OFFICE
TUCHERPARK	MUNICH	HINES, COMMERZ REAL	2019 / Q4	>800	OFFICE / MIXED-USE
DIE WELLE	FRANKFURT/MAIN	INVESCO REAL ESTATE GMBH	2019 / Q2	>615	OFFICE
OMEGA PORTFOLIO (PART II)	ALL OVER GERMANY	PEAKSIDE	2019 / Q4	>540	OFFICE
GERMAN PART OF MAXIMUS PORTFOLIO (14 LOGISTICS PROPERTIES)	ALL OVER GERMANY	GIC SINGAPUR	2019 / Q4	>540	LOGISTICS
SIEMENS NEUPERLACH (60 %)	MUNICH	AROUNDTOWN	2019 / Q2	>495	OFFICE
OBERBAUM CITY	BERLIN	BLACKSTONE GROUP	2019 / Q1	>495	OFFICE
STREAM	BERLIN	PGIM	2019 / Q4	>470	OFFICE
KUSTERMANN PARK	MUNICH	HENDERSON PARK, SWISS LIFE ASSET MANAGEMENT	2019 / Q3	>405	OFFICE
THE CUBE	ESCHBORN/MARKET AREA FRANKFURT/ MAIN	SWISS LIFE ASSET MANAGEMENT	2019 / Q4	>365	OFFICE
B:HUB	BERLIN	JP MORGAN	2019 / Q1	>355	OFFICE
YPSILON PORTFOLIO (3 LOGISTICS PARKS)	ALL OVER GERMANY	GREENOAK	2019 / Q2	>345	LOGISTICS
LUDWIG	MUNICH	KANAM GRUND FOR PACIFIC EAGLE	2019 / Q3	>345	OFFICE
GERMAN PART OF HOTEL PORTFOLIO (7 HOTELS)	ALL OVER GERMANY	AXA INVESTMENT MANAGERS	2019 / Q3	>335	HOTEL

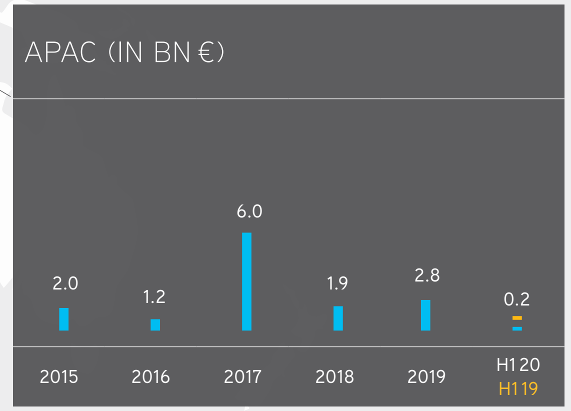
6. FOREIGN CAPITAL FLOW INTO GERMANY
TOTAL INVESTMENT VOLUME IN BN € 2015–H1 2020











TOTAL COMMERCIAL TAV GERMANY (% FOREIGN INVESTORS)		
2015	€ 55.4 BN	47 %
2016	€ 52.6 BN	40 %
2017	€ 57.3 BN	45 %
2018	€ 60.6 BN	40 %
2019	€ 71.6 BN	42 %
H1 2020	€ 28.5 BN	45 %

↗ INCREASE OT LAST YEAR
→ MINIMAL CHANGE TO LAST YEAR
↘ DECREASE AT LAST YEAR

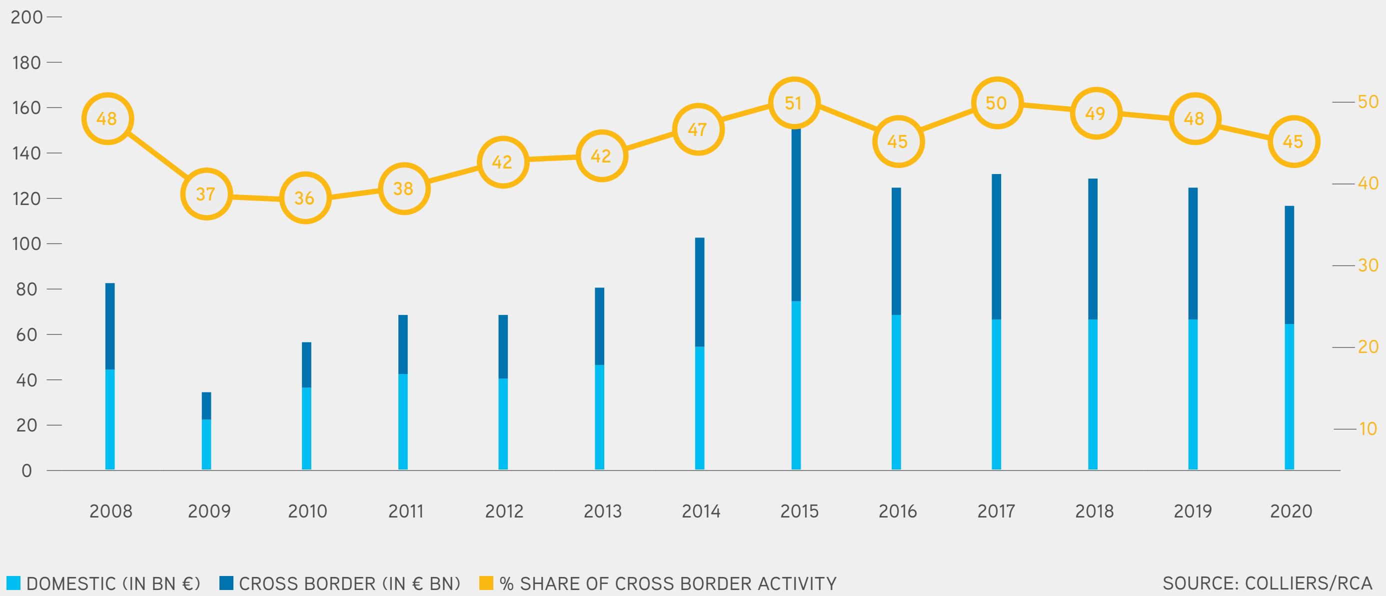
TAV ALLOCATION BASED ON ORIGIN OF CAPITAL, IF END INVESTOR NOT DISCLOSED ORIGIN OF INVESTMENT MANAGER

VALUE-ADD CLASS INCLUDES VALUE ADD, OPPORTUNISTIC AND DEVELOPMENT PROPERTIES (RISK ALLOCATION EXCLUDES OWNER-OCCUPIED PROPERTIES)

CROSS-BORDER INVESTING IN GERMANY: HEDGING YOUR BETS

Although COVID-19 has changed the playing field in favour of domestic investors, cross-border capital flows continue to play a critical role in the European and German commercial real estate market. Cross-border investors accounted for around 45% of European activity in H1 2020, down by only 4% year-on-year. Despite the huge raft of restrictions placed on international mobility, limiting the ability of non-domestic investors to inspect and transact, Investors continue to diversify their European and global holdings, with many looking to take advantage of reduced demand-side competition, where possible.

TOTAL VOLUMES BY DOMICILE, H1 TOTALS



SOURCE: COLLIERS/RCA

For many global investors, the yield available in Europe relative to their own domestic market often generates an immediate gain. Whilst the same can be said for hedging costs, the events of the past four months in particular have significantly changed this dynamic. The onset of COVID-19, couple with geopolitical friction between US and China has seen the Euro rise sharply against most major global currencies.

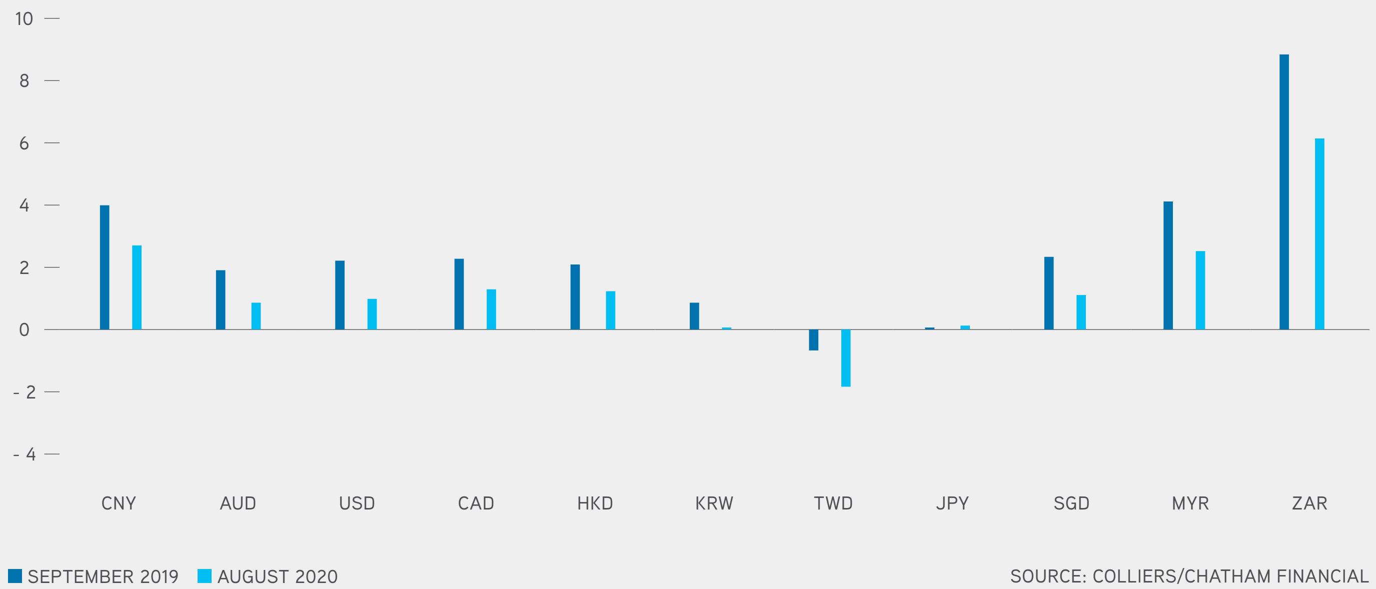
The currency's appreciation is likely to continue, certainly against the US dollar, not only due to world events but also the unwinding of the dollar's overvaluation relative to its fair value.

In contrast, sentiment is still behind the euro which has been historically undervalued and, relatively speaking, offers a reasonable money market yield.

The recent EU27 agreement to create a 750 billion-euro ($855 billion) 'COVID-19' recovery fund, used to boost an economic rebound, represents the biggest-ever effort of cross-border solidarity and a sign of improving internal cohesion. using the European Union's collective strong credit rating that keeps interest costs low, points to a continued and prolonged euro appreciation.

The negative impact for cross-border investors is that the hedging gains that were available a year ago have diminished, impacting the overall competitive pricing of European real estate to global investors. That said, a positive FX gain for a five-year cross-currency swap continues to provide a positive gain for global investors, all bar those operating in Taiwanese Dollars.

€ VS. GLOBAL CURRENCIES: FX 5 Y HEDGING GAIN / LOSS (IN %)



SOURCE: COLLIERS/CHATHAM FINANCIAL

For most global investors, they can buy assets in Euros at around a 100 basis points (bps) advantage to their own local/domestic currency, positively impacting the overall attractiveness of Euro-denominated assets. For South African investors the gain is as high as 600 basis points, whereas the advantage is marginal for Japanese and South Korean investors given their equivalent low interest rate environments.

Whilst the Euro may not have the FX pricing advantages of a year ago, one positive aspect of this change is that the Eurozone - and the major markets that drive it, such as Germany - move down the global risk curve as clear safe-haven markets during a time of global uncertainty. The recent appreciation of the euro will also make it easier for the ECB to maintain low (or even lower) interest rates if needed to stimulate economic consumption, supporting a low real estate yield environment.

7. MARKET DATA - OFFICE LEASING & INVESTMENT TOP 7

MARKET DATA — OFFICE LEASING

	A-CITIES (TOP 7)	BERLIN	COLOGNE	DÜSSELD.	FRANKFURT	HAMBURG	MUNICH	STUTTGART
STOCK OF OFFICE SPACE IN MILLION SQM	92.30	20.50	7.91	7.78	11.47	13.87	22.70	8.07
OFFICE SPACE TAKE-UP 2019 IN SQM	3,948,400	1,030,000	275,000	475,000	550,500	535,400	770,400	312,100
OFFICE SPACE TAKE-UP IN SQM AVERAGE 2010-2019	3,477,600	750,600	296,200	344,500	505,300	525,000	783,500	272,500
PRIME RENT IN € / SQM / MONTH (H1 2020)		39.90	25.00	28.50	45.50	30.00	39.50	25.50
AVERAGE RENT IN € / SQM / MONTH (H1 2020)		27.90	14.80	17.20	22.50	17.00	22.10	17.00
VACANT OFFICE SPACE IN SQM (H1 2020)	2,839,900	246,000	198,700	428,600	795,000	382,900	614,500	174,200
VACANCY RATE IN % (H1 2020)	3.1	1.2	2.5	5.5	6.9	2.8	2.7	2.2

THE DATA FOR BERLIN, DÜSSELDORF, HAMBURG AND COLOGNE ARE RELATED TO THE RESPECTIVE CITY AREA.
THE DATA FOR FRANKFURT, MUNICH AND STUTTGART ARE RELATED TO EACH OF THE RESPECTIVE MARKETS ON THE WHOLE.
MUNICH BASED ON GROSS FLOOR AREA(GFA).

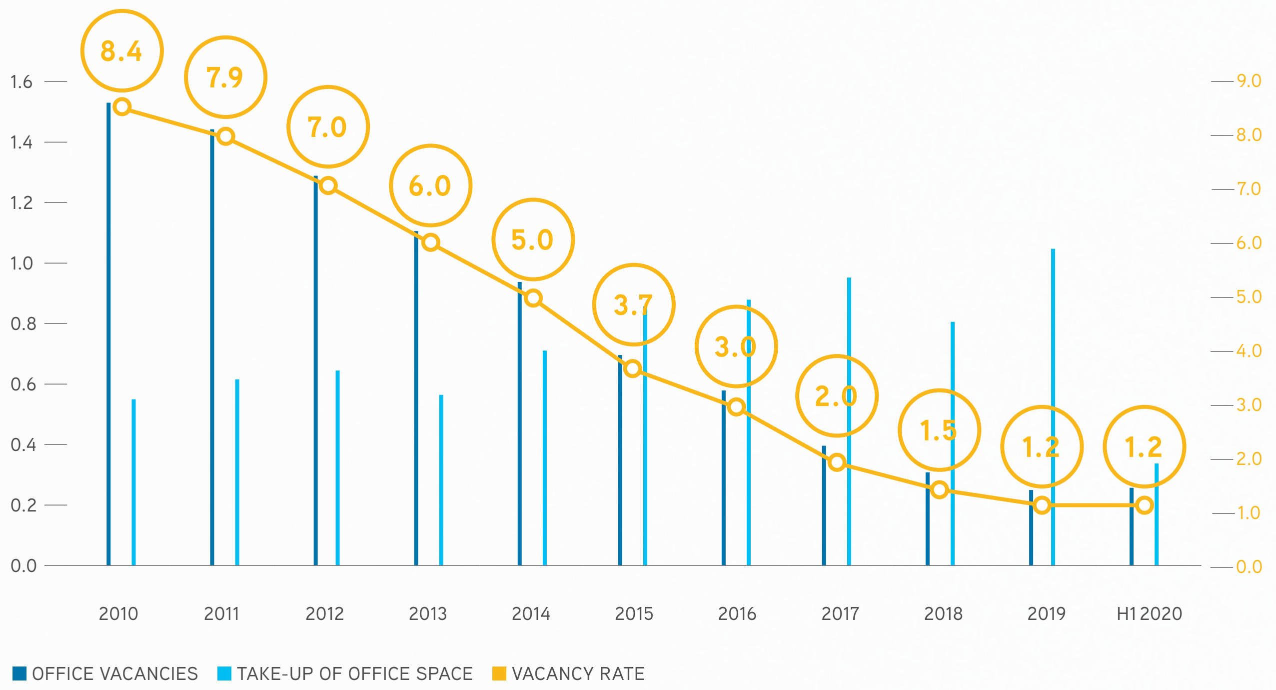
MARKET DATA — INVESTMENT

	GERMANY	A-CITIES (TOP 7)	BERLIN	COLOGNE	DÜSSELD.	FRANKFURT	HAMBURG	MUNICH	STUTTGART
TRANSACTION VOLUME 2019 IN MILLION €	71,630	44,047	12,172	3,240	3,840	7,843	4,293	10,904	1,755
TRANSACTION VOLUME IN MILLION € AVERAGE 2010—2019	43,599	24,702	5,658	1,501	2,127	5,220	3,473	5,459	1,264
PRIME YIELD OFFICES IN % (H1 2020)			2.90	3.30	3.30	3.00	3.20	2.75	3.30
PRIME YIELD HIGH STREET RETAIL IN % (H1 2020)			3.10	3.40	3.40	2.80	3.30	2.75	3.30
PRIME YIELD INDUSTRIAL & LOGISTICS IN % (H1 2020)						4,20*			

* REFERS TO THE DEFINED LOGISTICS MARKET AREAS

BERLIN

OFFICE TAKE-UP, OFFICE VACANCY (IN M SQM) AND VACANCY RATE (IN %)



After several years with take-up well above the long-term average, the Berlin office leasing market continues to post very robust activity despite the pandemic, once again demonstrating its status as a highly attractive market. The public administration sector, which has always proven strong in terms of take-up and tends to be crisis-resistant, will particularly continue to dominate the market. With pre-letting rates at property developments set to be high in the coming years, we do not expect the tension around supply to ease significantly any time soon. Suitable space remains difficult to come by, particularly in central locations. The crisis may even bring some relief to this critical situation. Going forward, we may see the vacancy rate level off and begin to stabilize at between 3 % and 4 % by 2022.

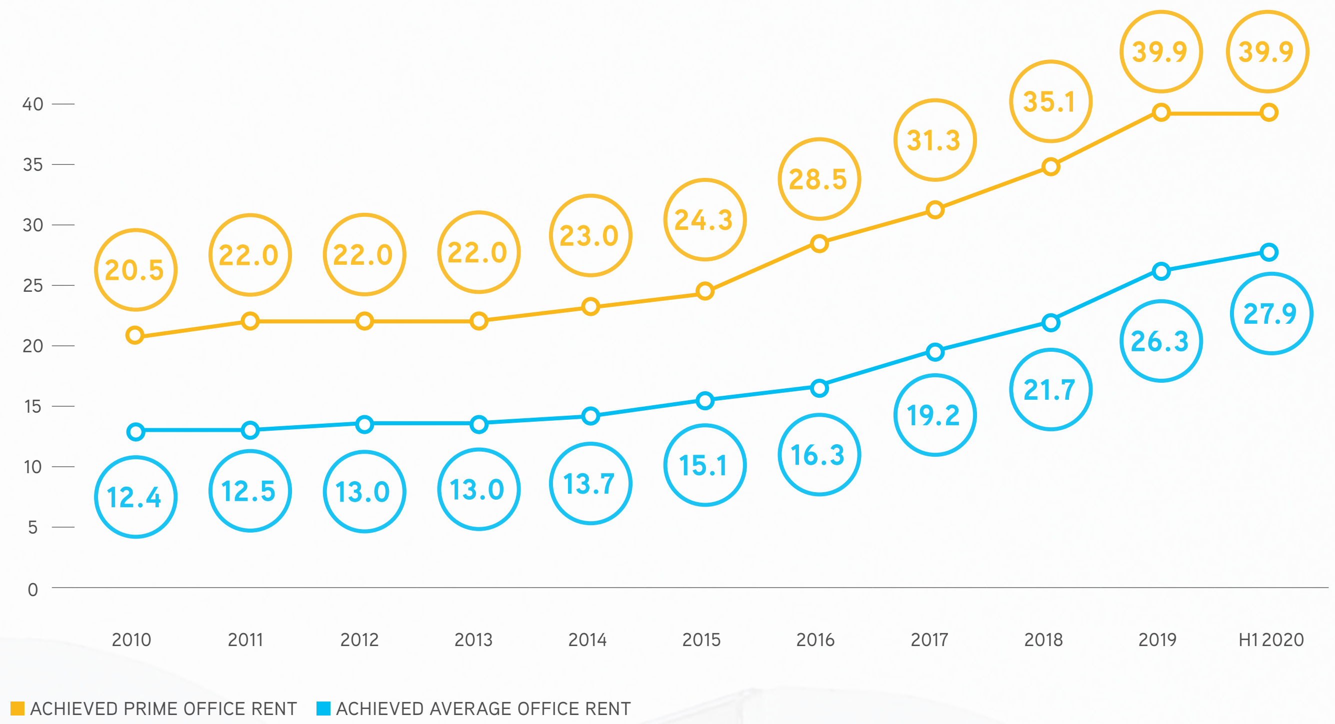
OFFICE FAST FACTS:

- OFFICE STOCK: 20.50 MILLION SQM
- OFFICE TAKE-UP (10-YEAR AVERAGE): 750,500 SQM P.A.
- PRIME OFFICE RENT (H1 2020): € 39.90 / SQM / MONTH
- AVERAGE OFFICE RENT (H1 2020): € 27.90 / SQM / MONTH
- VACANCY RATE (H1 2020): 1.2 %

INVESTMENT FAST FACTS:

- COMMERCIAL TRANSACTION VOLUME (10-YEAR AVERAGE): € 5.7 BN P.A.
- SHARE OF FOREIGN INVESTORS (2017–2019): 51.0 %
- GROSS INITIAL YIELDS (H1 2020)
  - OFFICE: 2.9 %
  - HIGH STREET RETAIL: 3.1 %
  - LOGISTICS: 4.2 %

PRIME AND AVERAGE OFFICE RENT (IN € / SQM / MONTH)



Office rents in Berlin have almost doubled in the past five years thanks to ongoing high demand. The city has also been posting average rents at record highs compared to Germany's other top 7 cities. We can expect office rents in the prime segment to remain stable at just below € 40.00 per sqm in both the short and medium term.

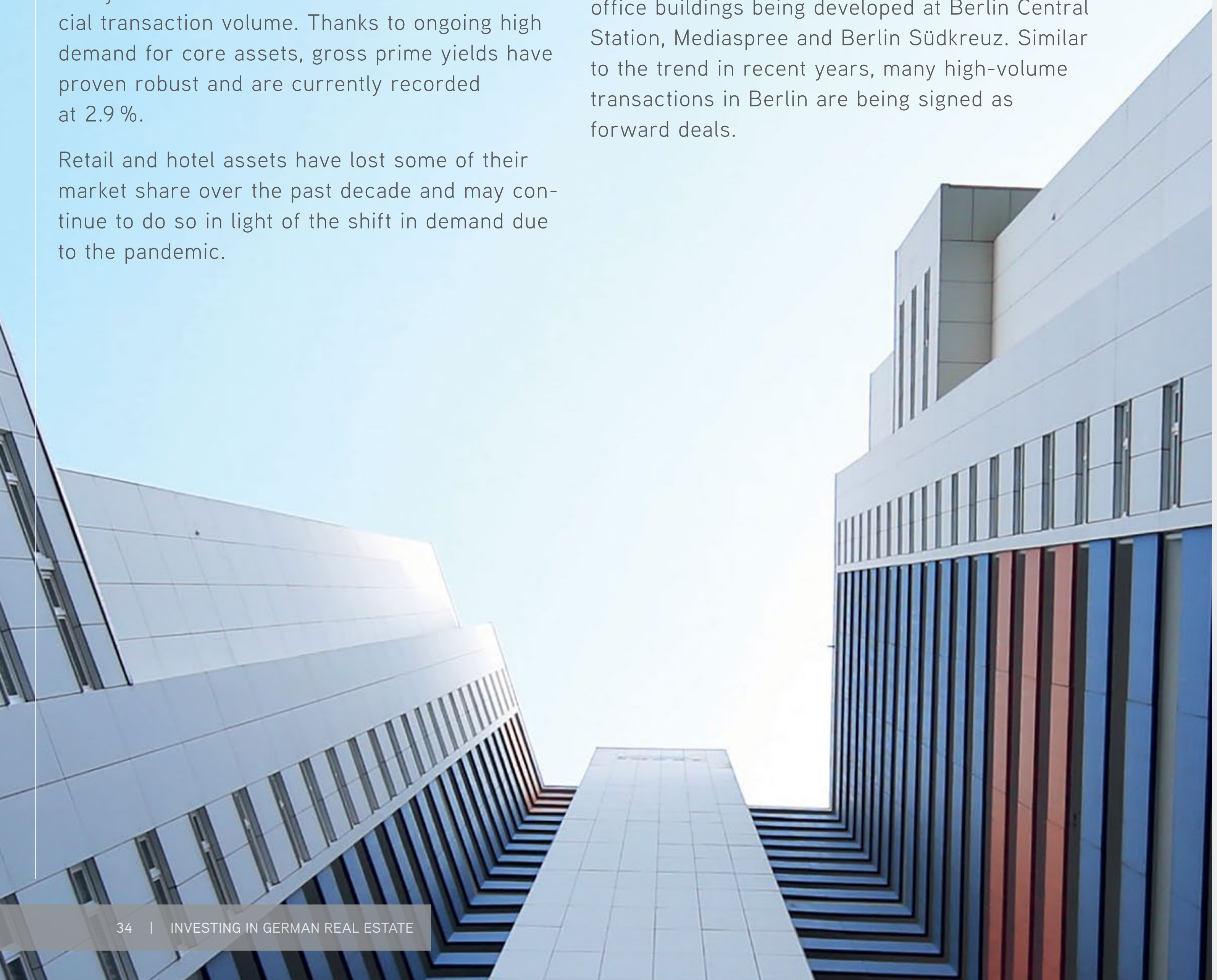
Berlin is the place to invest, particularly when it comes to core office assets, as vacancies are low and the city accommodates highly creditworthy tenants such as the public administration sector.

After an all-time high in commercial transaction volume of € 12.2 bn in 2019, the pandemic slowed down transaction activity in Berlin. As the market begins to pick up speed again, the recent trends seen in Berlin appear to be continuing as well: Office assets are as popular as ever and currently account for two thirds of total commercial transaction volume. Thanks to ongoing high demand for core assets, gross prime yields have proven robust and are currently recorded at 2.9 %.

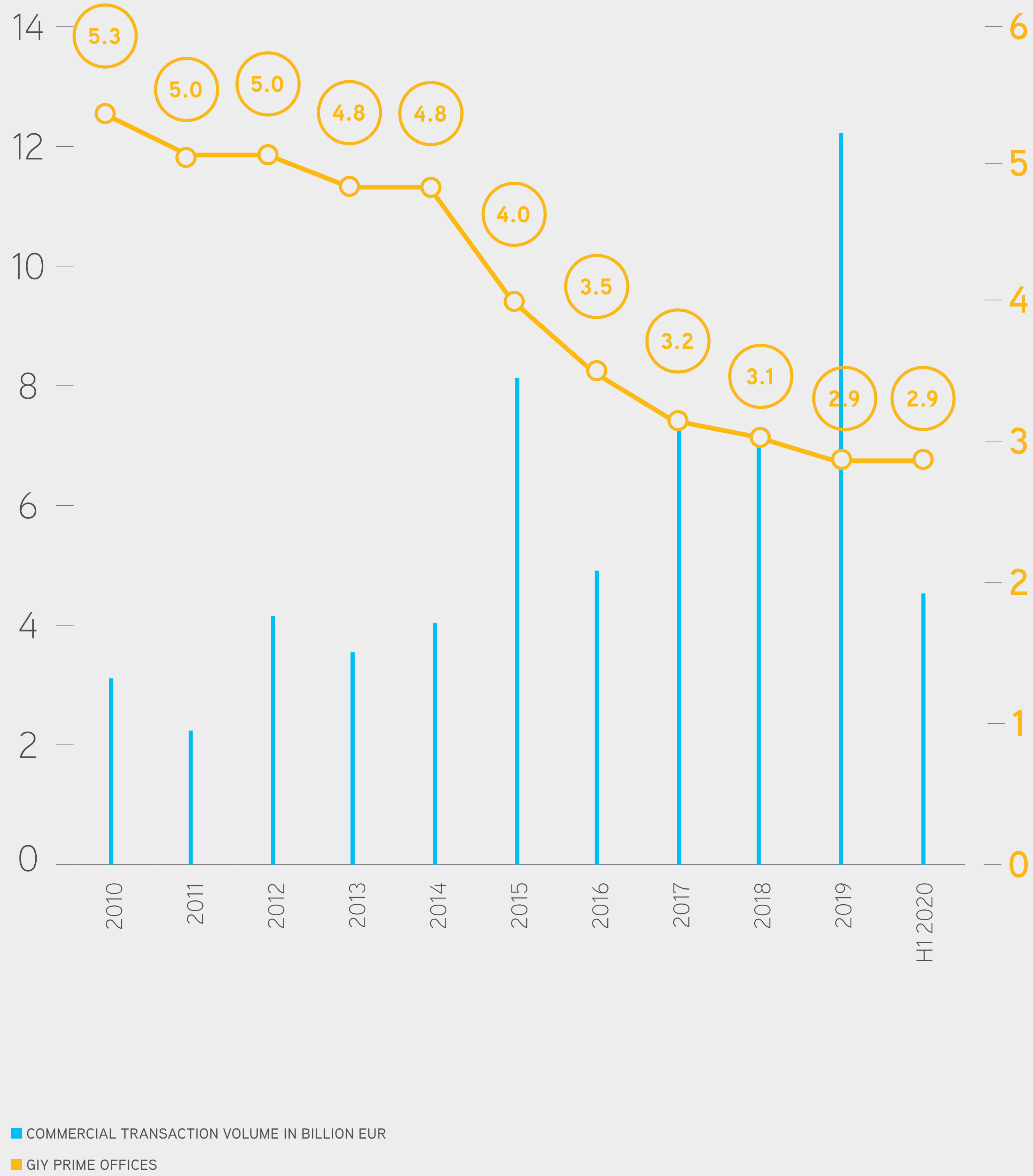
Retail and hotel assets have lost some of their market share over the past decade and may continue to do so in light of the shift in demand due to the pandemic.

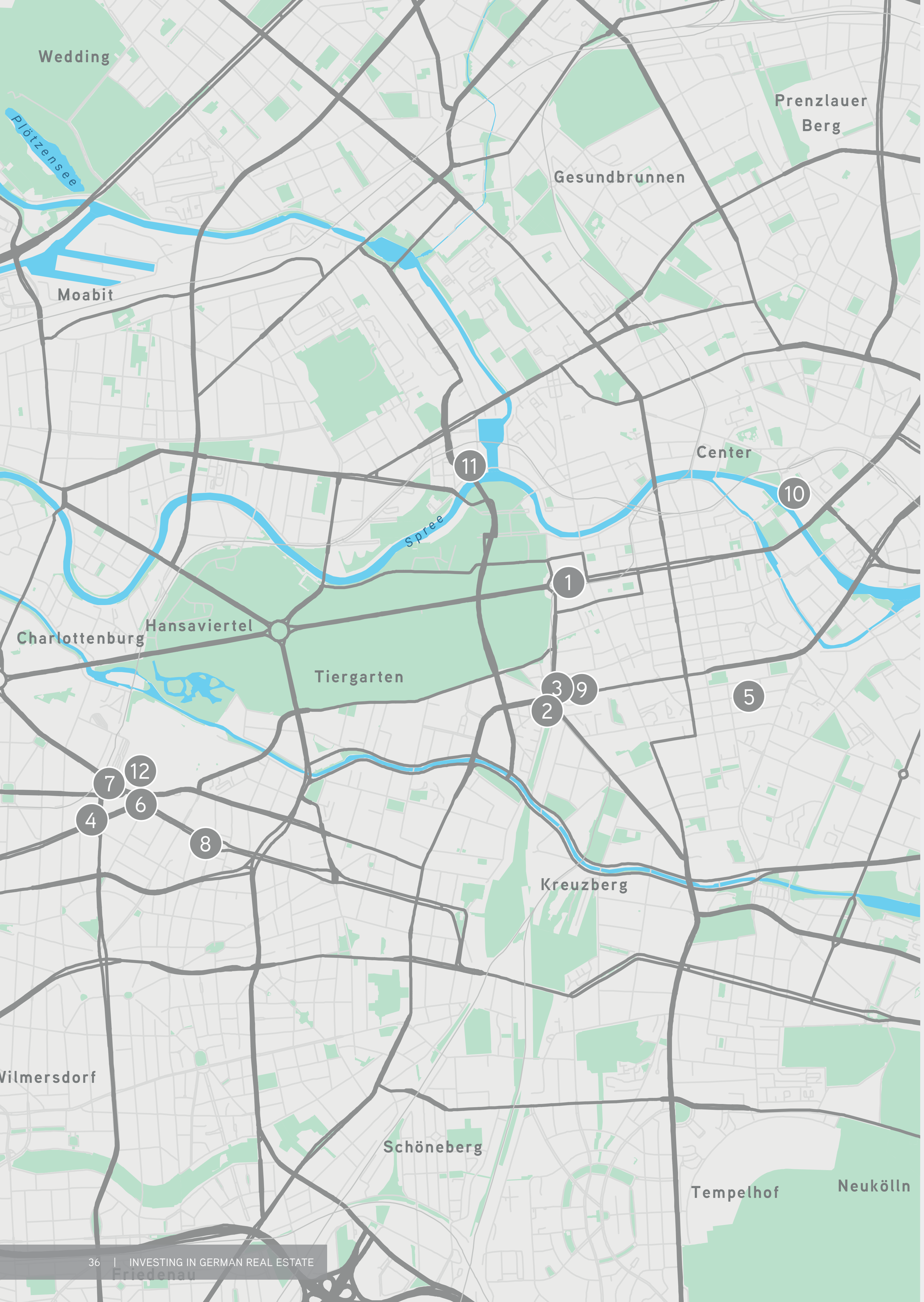
Prime yields of 3.1 % for retail assets and 4.4 % for hotels may increase as a result, whereas yield compression on industrial and logistics assets (4.2 %) is expected to continue.

New submarkets outside the central business districts are gaining in popularity, with modern office buildings being developed at Berlin Central Station, Mediaspree and Berlin Südkreuz. Similar to the trend in recent years, many high-volume transactions in Berlin are being signed as forward deals.



COMMERCIAL TRANSACTION VOLUME (IN BN €) AND OFFICE PRIME YIELDS (IN %)





BERLIN MAP AND PROMINENT BUILDINGS

1. BRANDENBURGER TOR

2. POTSDAMER PLATZ

3. SONY CENTER

4. KRANZLER-ECK

5. MOSSE ZENTRUM

6. UPPER WEST

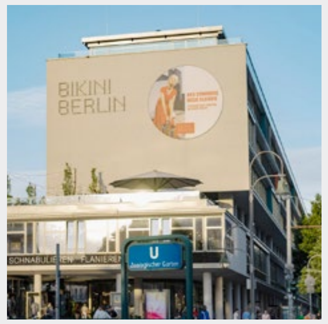
7. ZOOFENSTER

8. KADEWE

9. MALL OF BERLIN

10. SPREEPALAIS AM DOM

11. CUBE

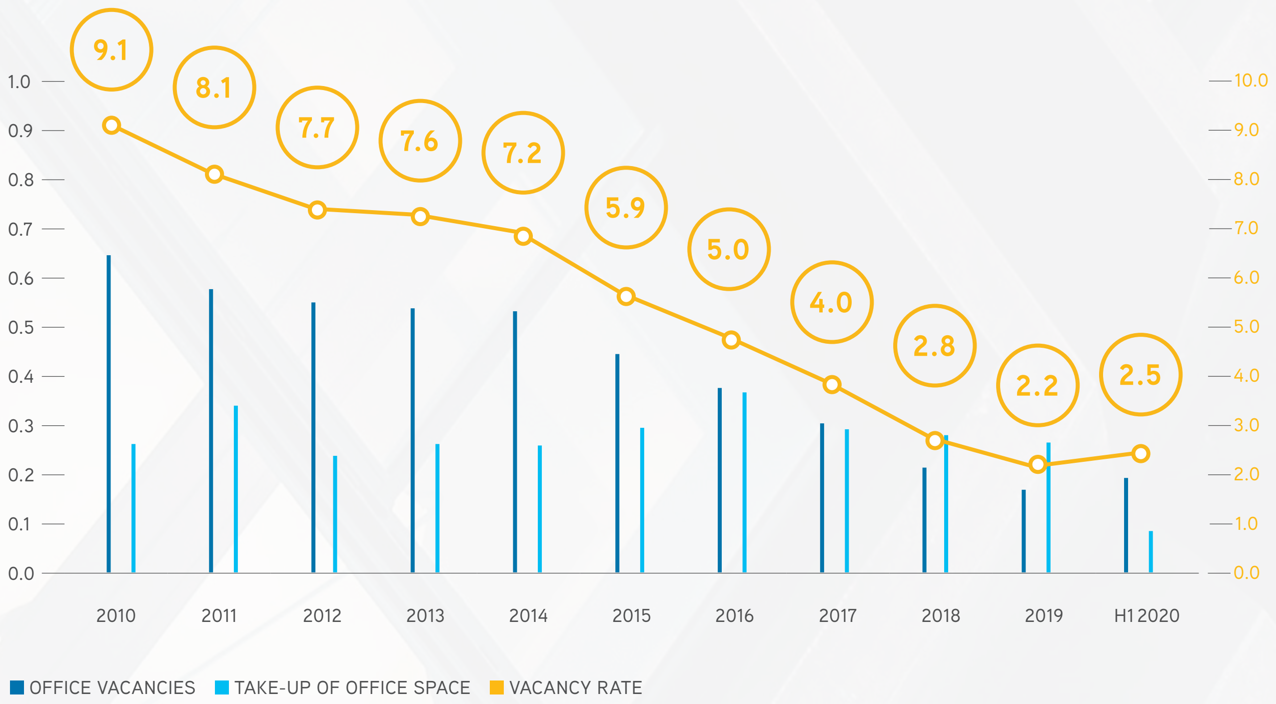


12. BIKINI

COLOGNE

COLOGNE

OFFICE TAKE-UP, OFFICE VACANCY (IN M SQM) AND VACANCY RATE (IN %)



The Cologne office leasing market has posted solid take-up results in recent years. As expected against the backdrop of the COVID-19 crisis, the Cologne office leasing market was unable to match the strong results of previous years, posting 85,000 sqm in take-up in H1 2020. A hesitant start to the year combined with uncertainties caused by the pandemic particularly led to a noticeable decline in office take-up. It is important to note, however, that many companies that had initially postponed their search activities began to again become increasingly active on the Cologne market after the lockdown was eased. Based on this development, we can expect demand to remain stable in the long term. The amount of space available for immediate tenancy remains quite low at just under 200,000 sqm, reflecting a vacancy rate of 2.5 % at mid-2020. The vacancy rate is even lower in central locations. Despite a slight increase in construction activity in coming years, we only anticipate a moderate upward trend in vacancy.

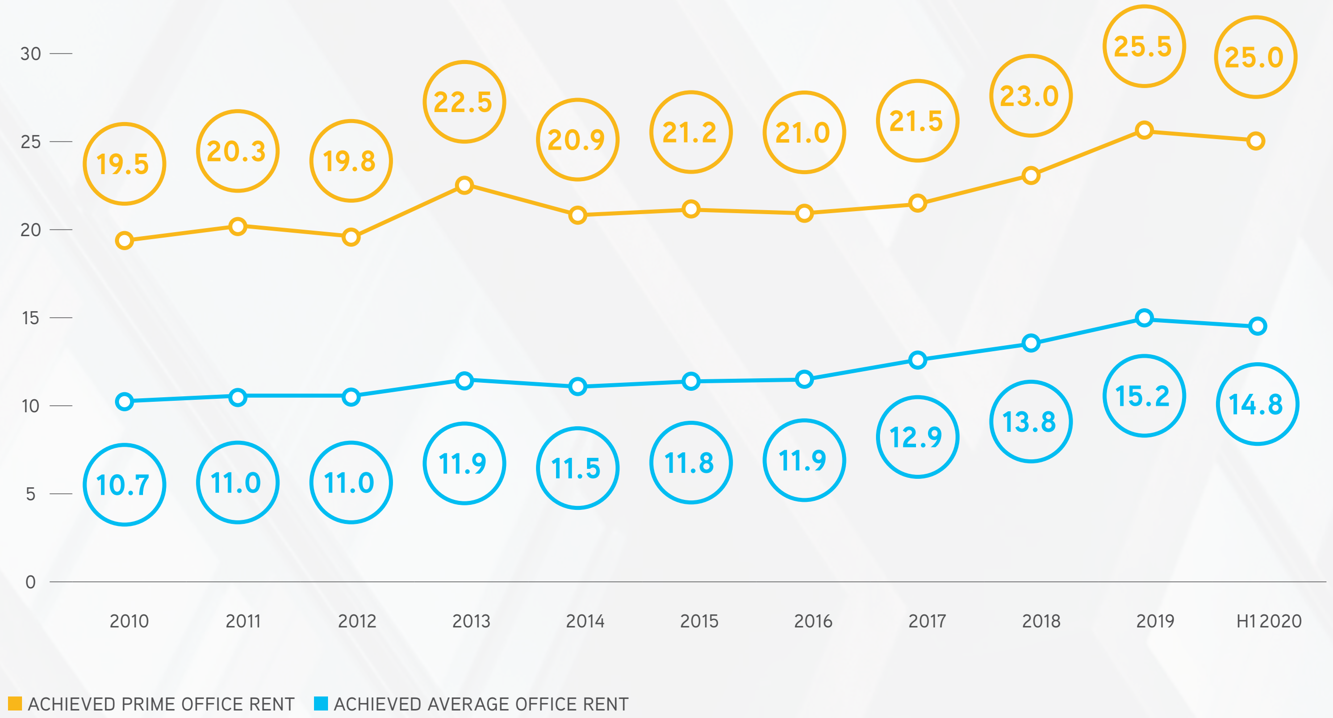
OFFICE FAST FACTS:

- OFFICE STOCK: 7.91 MILLION SQM
- OFFICE TAKE-UP (10-YEAR AVERAGE): 296,200 SQM P.A.
- PRIME OFFICE RENT (H1 2020): € 25.00 / SQM / MONTH
- AVERAGE OFFICE RENT (H1 2020): € 14.80 / SQM / MONTH
- VACANCY RATE (H1 2020): 2.5 %

INVESTMENT FAST FACTS:

- COMMERCIAL TRANSACTION VOLUME (10-YEAR AVERAGE): € 1.5 BN P.A.
- SHARE OF FOREIGN INVESTORS (2017–2019): 44.0 %
- GROSS INITIAL YIELDS (H1 2020)
  - OFFICE: 3.3 %
  - HIGH STREET RETAIL: 3.4 %
  - LOGISTICS: 4.2 %

PRIME AND AVERAGE OFFICE RENT (IN € / SQM / MONTH)

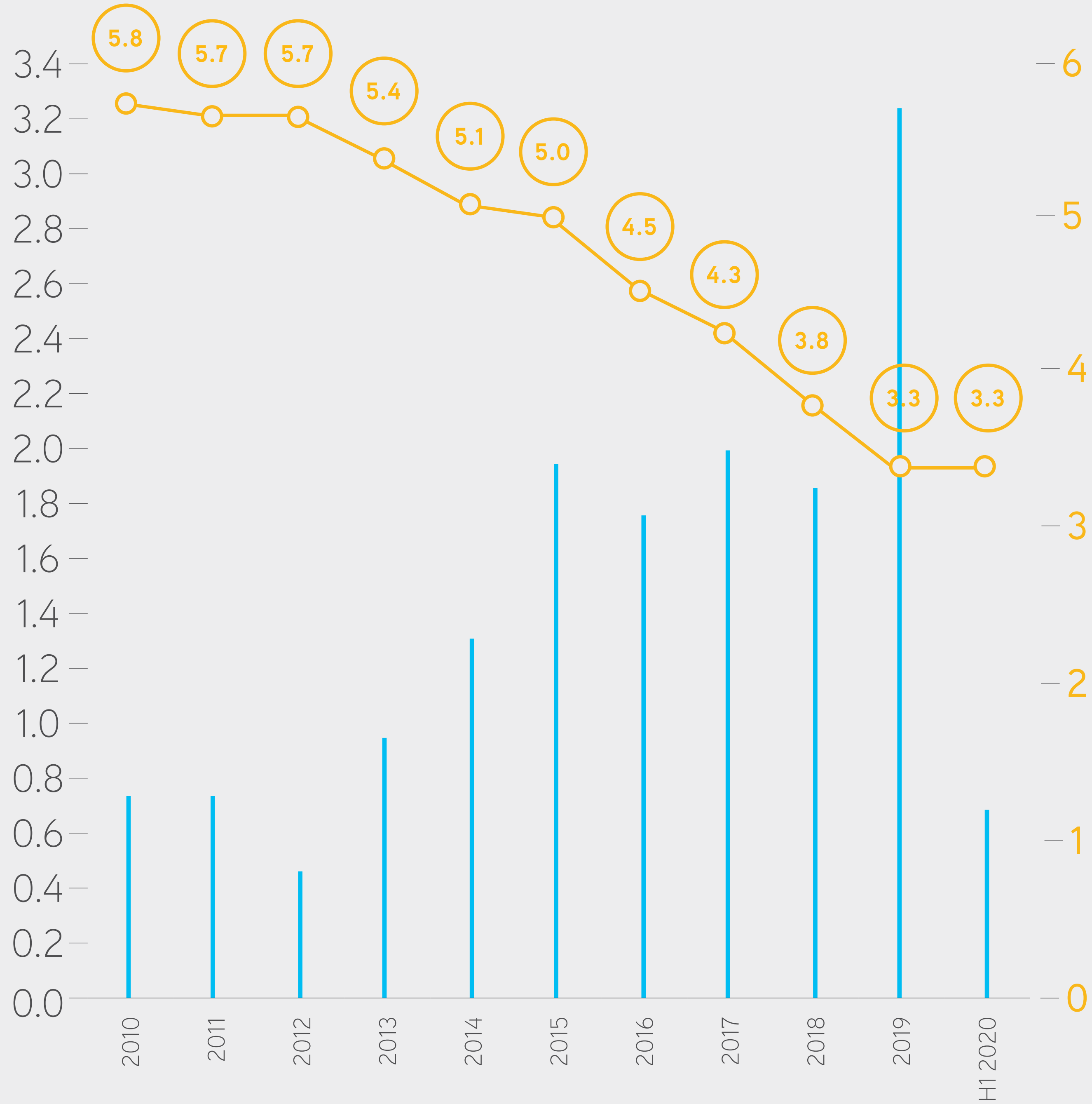


Due to an increasing shortage of space at stock properties, tenants are being forced to turn to property developments. Both prime and average rents recently saw an upward trend as a result, with prime rents at a current € 25.00 per sqm and average rents at € 14.80 per sqm. This upward trend has taken a breather due to the crisis, however, and we can expect rents to exhibit sideways movement for the time being.

After the Cologne investment market posted a new record in 2019 with a transaction volume of over € 3.2 bn, results fell slightly in the first half of 2020.

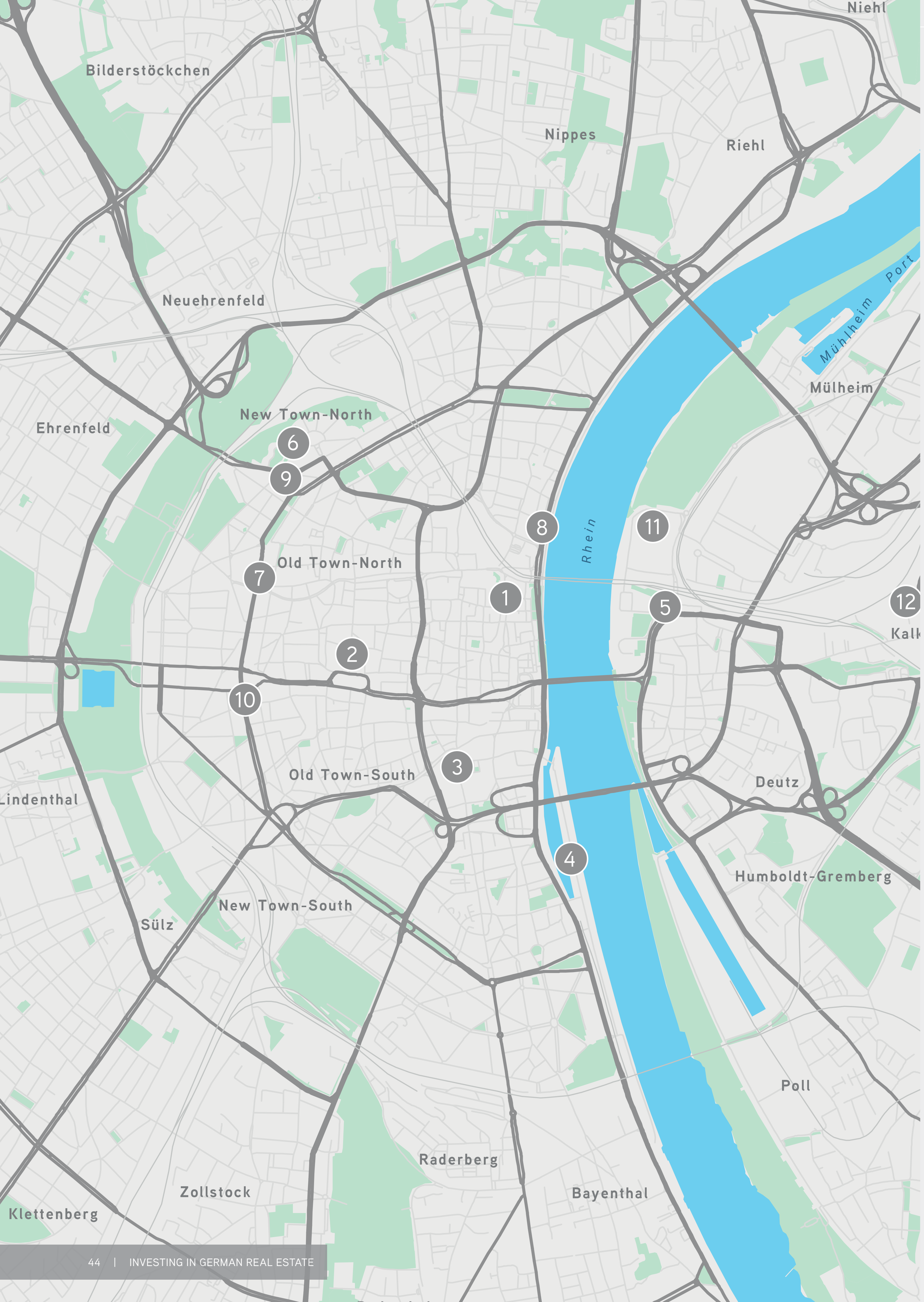
However, although the market was strongly affected by the lockdown, particularly in Q2 2020, we have seen activity pick up again. Demand for real estate in Cologne will continue to be strong, but supply, particularly in prime downtown locations, remains extremely limited. The office asset class had to temporarily relinquish its top position in the first half of 2020 as a result of several high-volume deals signed for development sites, a strong indication of the ongoing confidence that developers have in the Cologne market. Availability of new office products in the core segment will be limited in the near future and investors will have no choice but to focus on a small number of assets. This situation should result in prime office yields remaining stable at 3.30 %.

COMMERCIAL TRANSACTION VOLUME (IN BN €) AND OFFICE PRIME YIELDS (IN %)



COMMERCIAL TRANSACTION VOLUME IN BILLION EUR

GIY PRIME OFFICES



COLOGNE MAP AND PROMINENT BUILDINGS

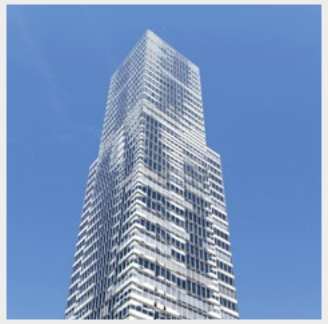
1. KÖLNER DOM

2. NEUMARKT-GALERIE

3. WAIDMARKT

4. KRANHAUS EINS

5. KÖLN TRIANGLE



6. KÖLNTURM

7. RING-KARREE

8. NEUE DIREKTION KÖLN

9. KAISER HOF

10. WESTGATE

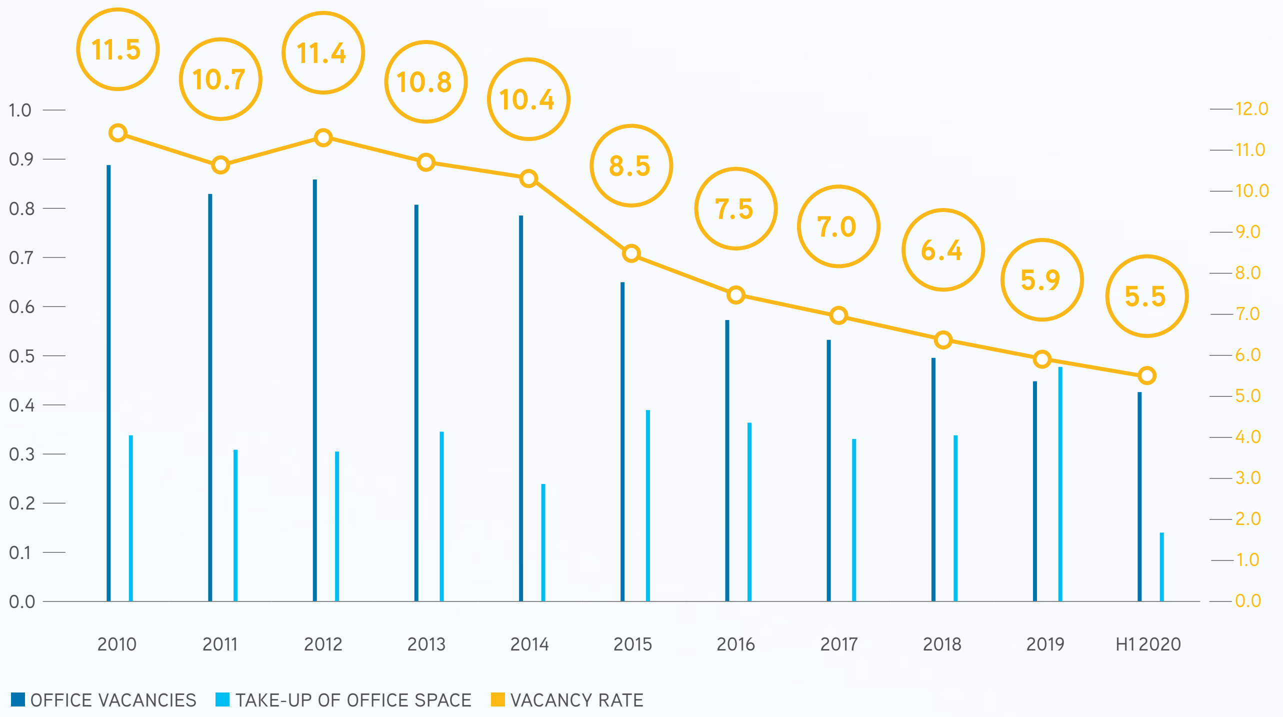
11. RHEINPARK METROPOLE

12. KÖLN CUBUS

DÜSSELDORF

DÜSSELDORF

OFFICE TAKE-UP, OFFICE VACANCY (IN M SQM) AND VACANCY RATE (IN %)



Following a new record take-up result on the Düsseldorf market in 2019, most companies across all sectors maintained their wait-and-see stance after the lockdown in Q2 2020, as the full economic impact of the pandemic remains unknown. This uncertainty could especially be seen in the trend in office take-up by consulting firms, which tend to rank high in Düsseldorf but accounted for less than 4,000 sqm in take-up in Q2 2020. The public sector accounted for one-third of total take-up in H1 2020. We can expect the number of lease extensions and subletting activity to continue to rise in the coming months. Space availability is limited particularly in central locations, putting the vacancy rate at a relatively low 5.5 % in Q2 2020. Only very few units larger than 2,000 sqm are currently available in the CBD. All in all, these sound fundamentals should help the Düsseldorf office leasing market cope well with demanding economic conditions.

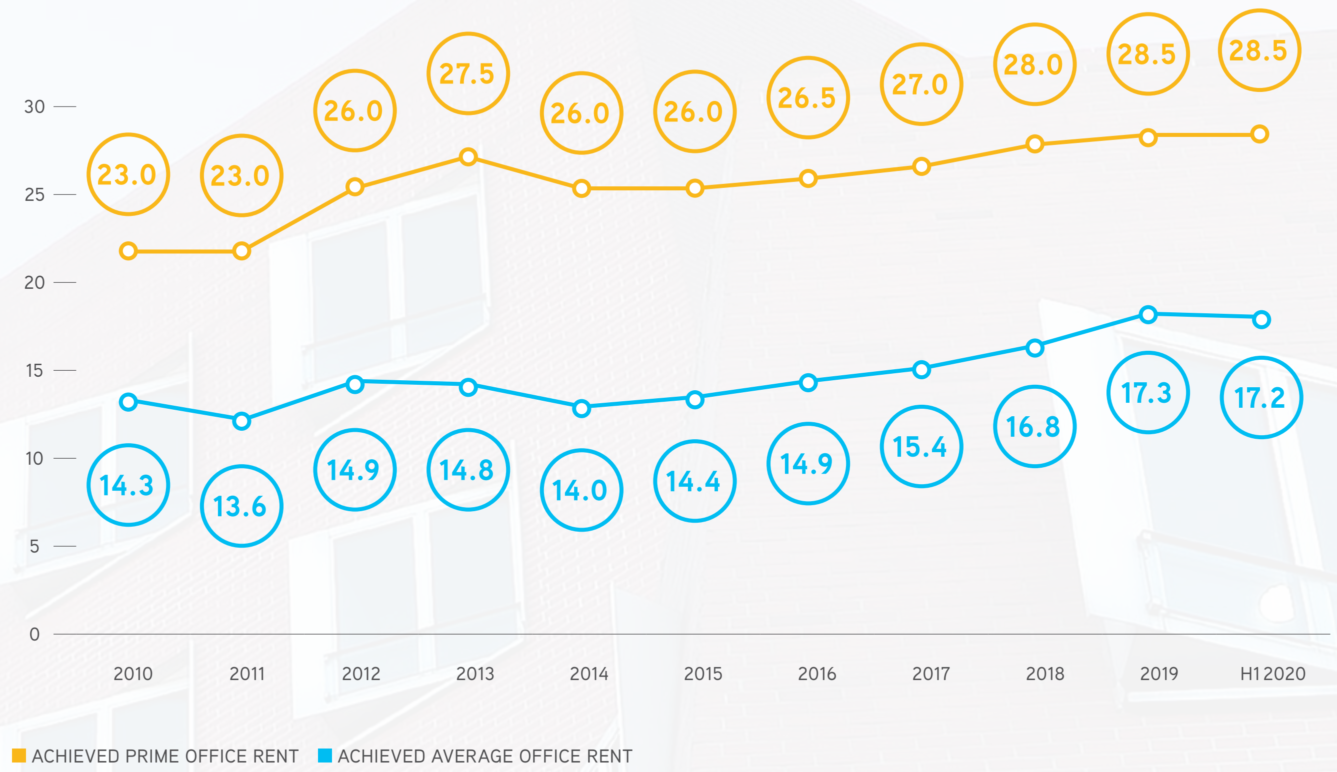
OFFICE FAST FACTS:

- OFFICE STOCK: 7.78 MILLION SQM
- OFFICE TAKE-UP (10-YEAR AVERAGE): 344,500 SQM P.A.
- PRIME OFFICE RENT (H1 2020): € 28.50 / SQM / MONTH
- AVERAGE OFFICE RENT (H1 2020): € 17.20 / SQM / MONTH
- VACANCY RATE (H1 2020): 5.5 %

INVESTMENT FAST FACTS:

- COMMERCIAL TRANSACTION VOLUME (10-YEAR AVERAGE): € 2.1 BN P.A
- SHARE OF FOREIGN INVESTORS (2017–2019): 40.0 %
- GROSS INITIAL YIELDS (H1 2020)
  - OFFICE: 3.3 %
  - HIGH STREET RETAIL: 3.4 %
  - LOGISTICS: 4.2 %

PRIME AND AVERAGE OFFICE RENT (IN € / SQM / MONTH)



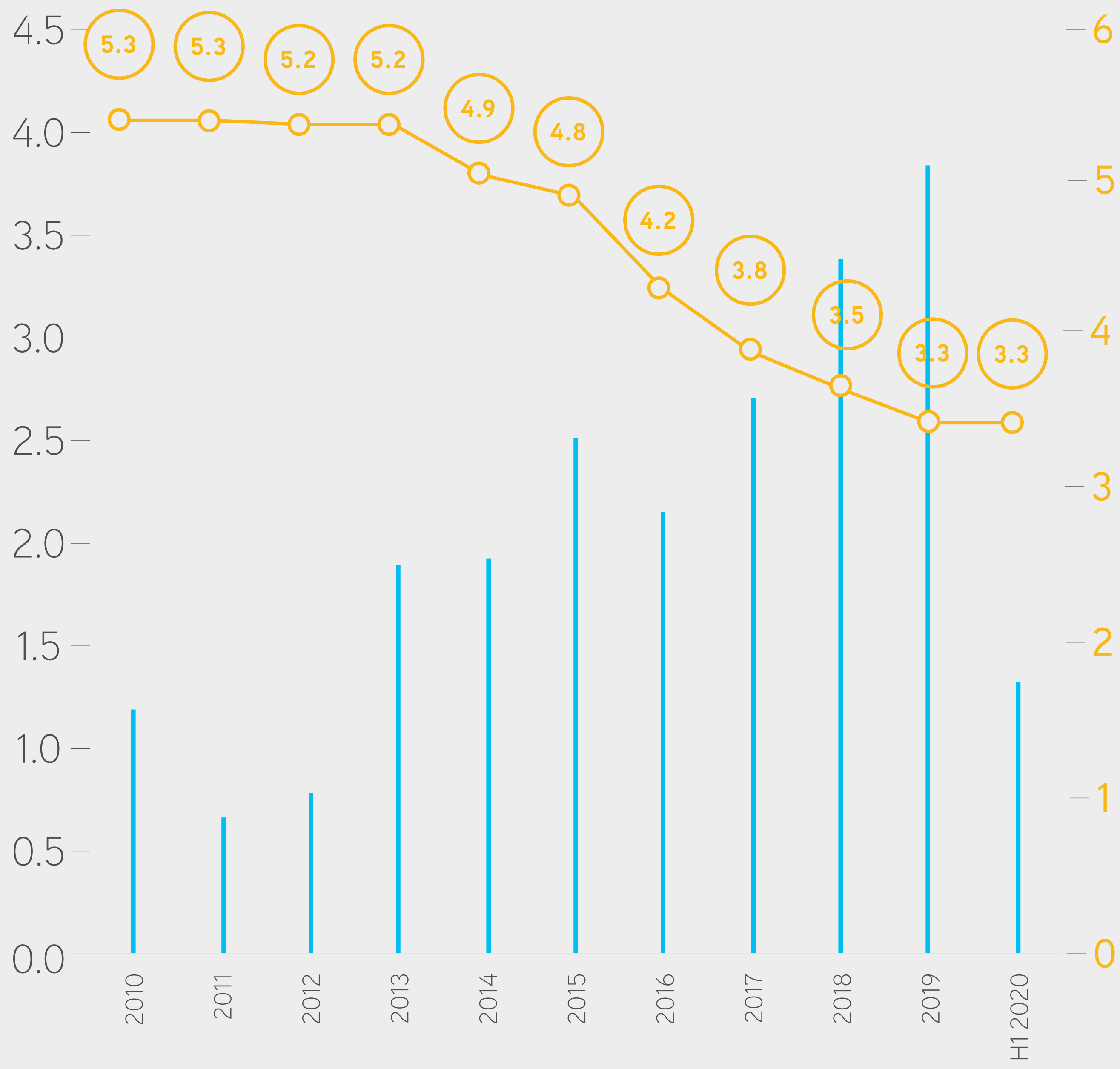
Prime rents have increased 6 % to € 28.50 per sqm since 2017. This trend can primarily be attributed to the shortage of space at good quality stock properties in the CBD. The number of new developments is also very limited in central locations. Weighted average rents have increased 12 % to € 17.20 per sqm since 2017 due to declining vacancy.

After posting a record high transaction volume in 2019, the Düsseldorf commercial real estate market continued to see high demand in Q1 2020.

Although the market was hit by the lockdown in Q2, transaction volume on the Düsseldorf investment market remained stable in H1 2020. Deals initiated prior to the lockdown kept transaction volumes high. Office properties remain the most popular asset class by far. The City Center, Kennedydamm and Hafen submarkets are currently the city's most sought-after submarkets.

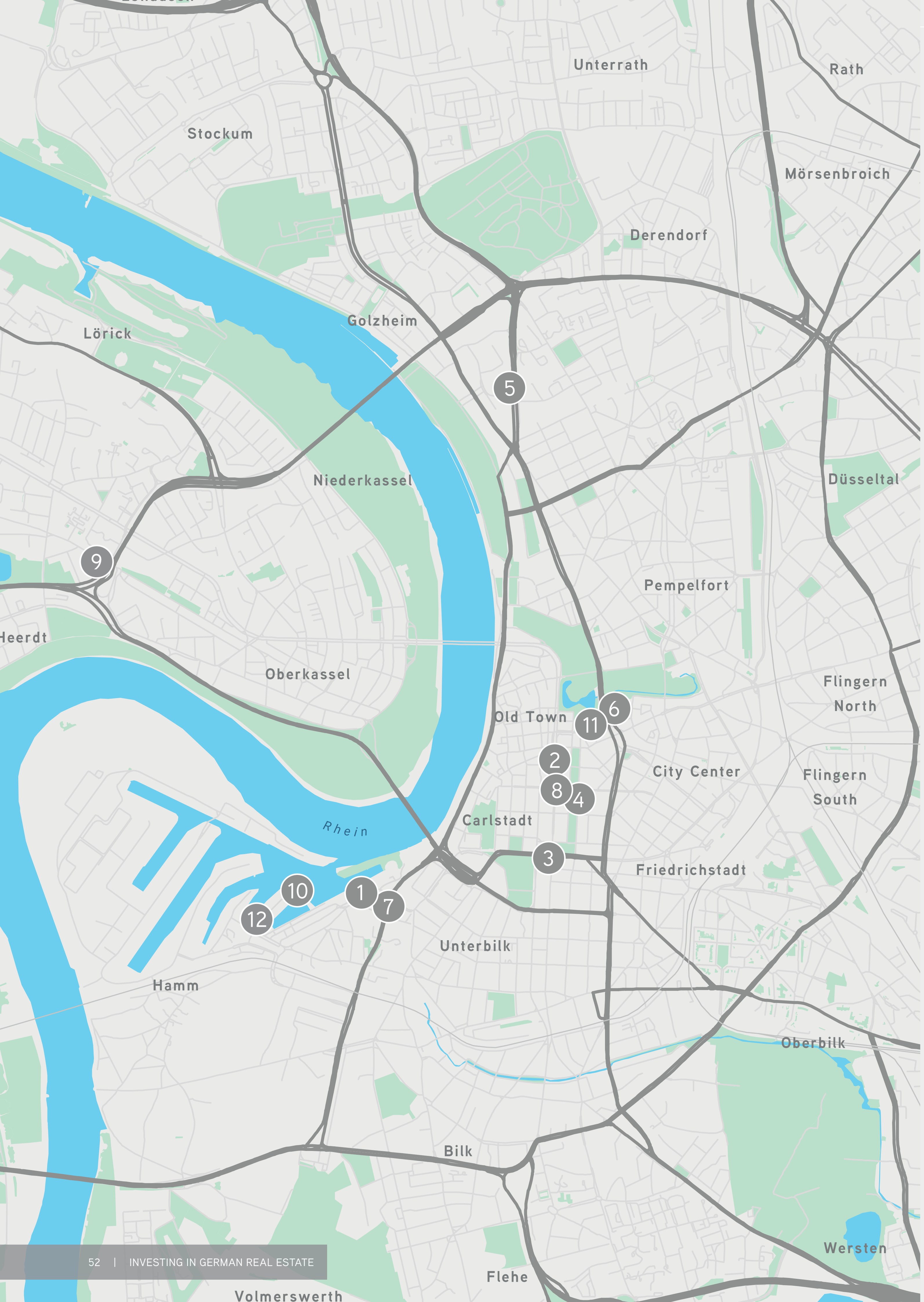
New deals are still being cautiously initiated and subjected to constant review as to the best time to list. There are a number of deals currently on the market that could potentially be finalized in H2 2020, and deal activity could quite realistically pick up in the months ahead as well. Should these factors come to fruition, 2020 annual transaction volume is likely to post somewhere in line with the 10-year average, confirming Düsseldorf as one of Germany's top destinations for property investment.

COMMERCIAL TRANSACTION VOLUME (IN BN €) AND OFFICE PRIME YIELDS (IN %)



COMMERCIAL TRANSACTION VOLUME IN BILLIONS EURO

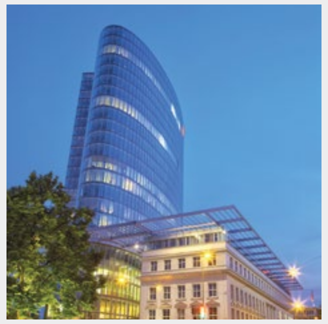
GIY PRIME OFFICES



DÜSSELDORF MAP AND PROMINENT BUILDINGS

1. GEHRY BUILDINGS

2. WILHELM-MARX-HAUS



3. GAP15

4. KÖ-GALERIE

5. SKY OFFICE

6. DREISCHEIBENHAUS

7. STADTTOR

8. KÖ-QUARTIER

9. VODAFONE CAMPUS

10. HAFENSPITZE

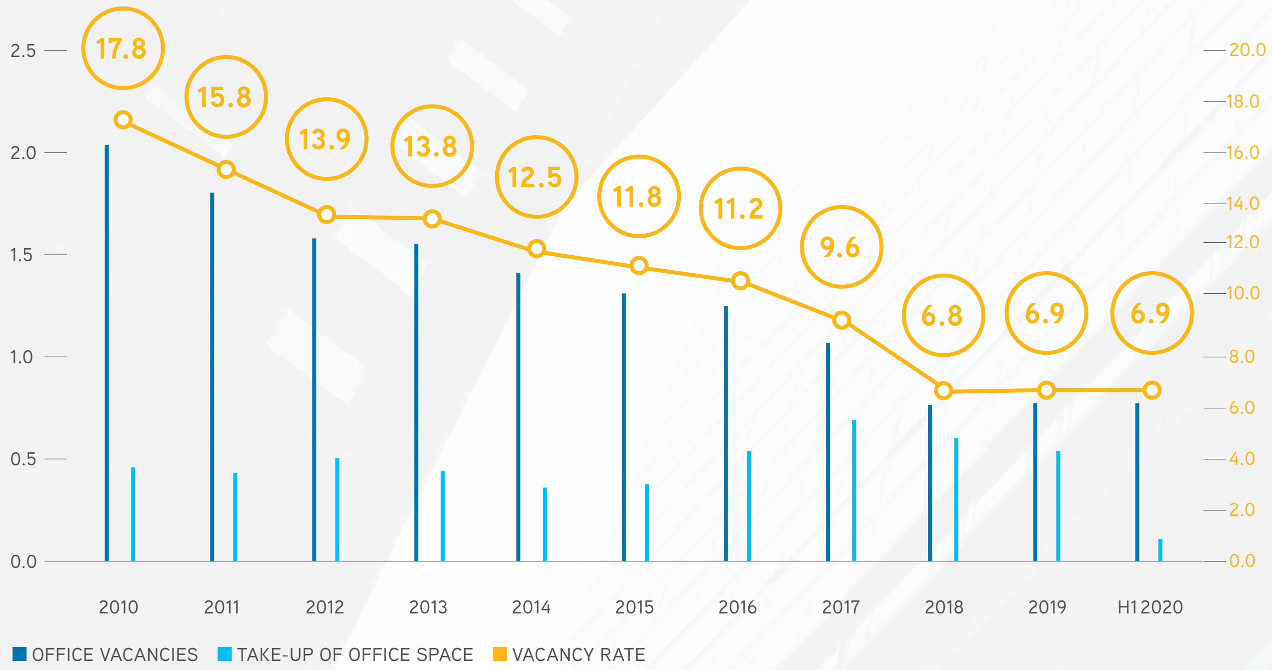
11. KÖ-BOGEN

12. TRIVAGO HQ

FRANKFURT

FRANKFURT

OFFICE TAKE-UP, OFFICE VACANCY (IN M SQM) AND VACANCY RATE (IN %)



In recent years, the Frankfurt office leasing market has consistently recorded take-up results above the 500,000 sqm mark. Although 2020 was strongly affected by the lockdown in the wake of the global pandemic with annual take-up coming in below this benchmark perhaps as a result, activity is starting to pick up again as the market gradually recovers. Prime locations in the CBD continue to see high demand, a trend that is resulting in below-average vacancy rates. After years of downward movement, vacancy at the moment is primarily to be found in peripheral office locations. We expect vacancy to increase modestly at most in the wake of the economic slowdown, as the completion pipeline is currently characterized by high pre-letting rates.

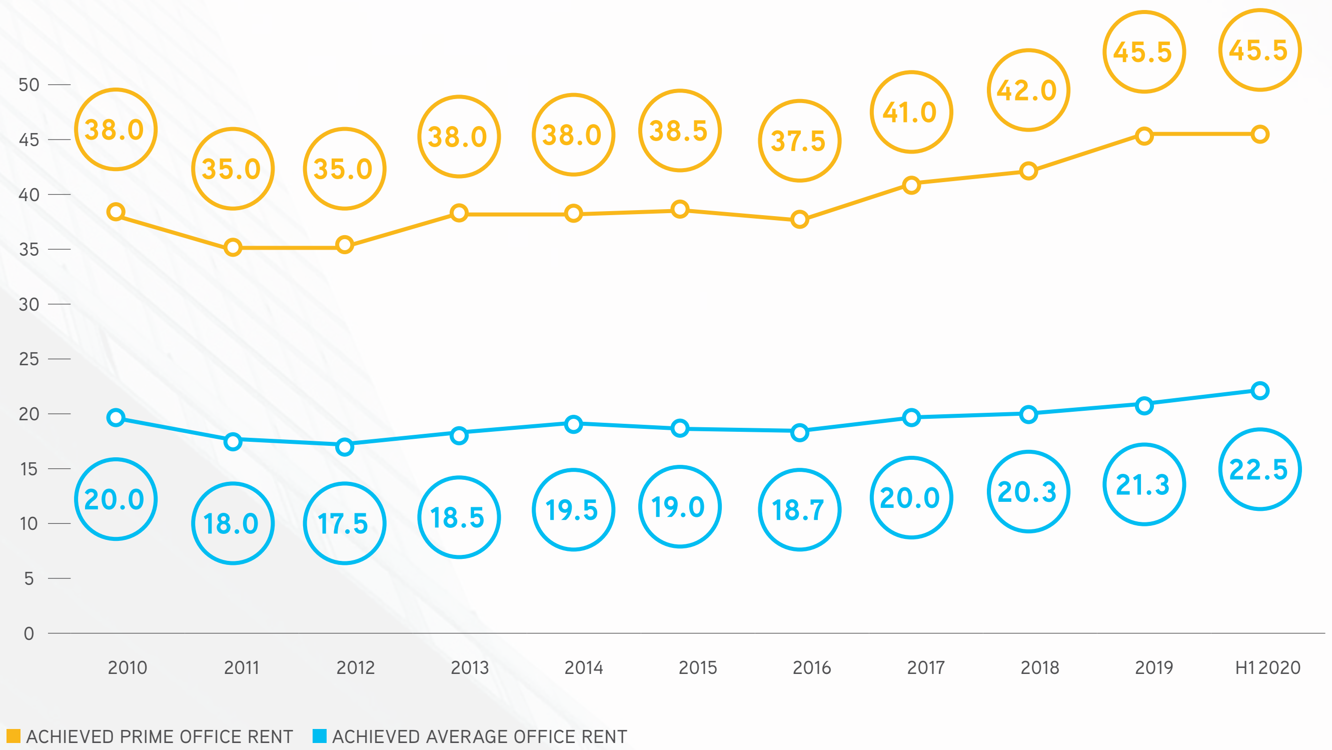
OFFICE FAST FACTS:

- ›OFFICE STOCK: 11.47 MILLION SQM
- OFFICE TAKE-UP (10-YEAR AVERAGE): 505,300 SQM P.A.
- PRIME OFFICE RENT (H1 2020): € 45.50 / SQM / MONTH
- AVERAGE OFFICE RENT (H1 2020): € 22.50 / SQM / MONTH
- VACANCY RATE (H1 2020): 6.9 %

INVESTMENT FAST FACTS:

- COMMERCIAL TRANSACTION VOLUME (10-YEAR AVERAGE): € 5.2 BN P.A.
- SHARE OF FOREIGN INVESTORS (2017–2019): 49.0 %
- GROSS INITIAL YIELDS (H1 2020)
  - OFFICE: 3.0 %
  - HIGH STREET RETAIL: 2.8 %
  - LOGISTICS: 4.2 %

PRIME AND AVERAGE OFFICE RENT (IN € / SQM / MONTH)



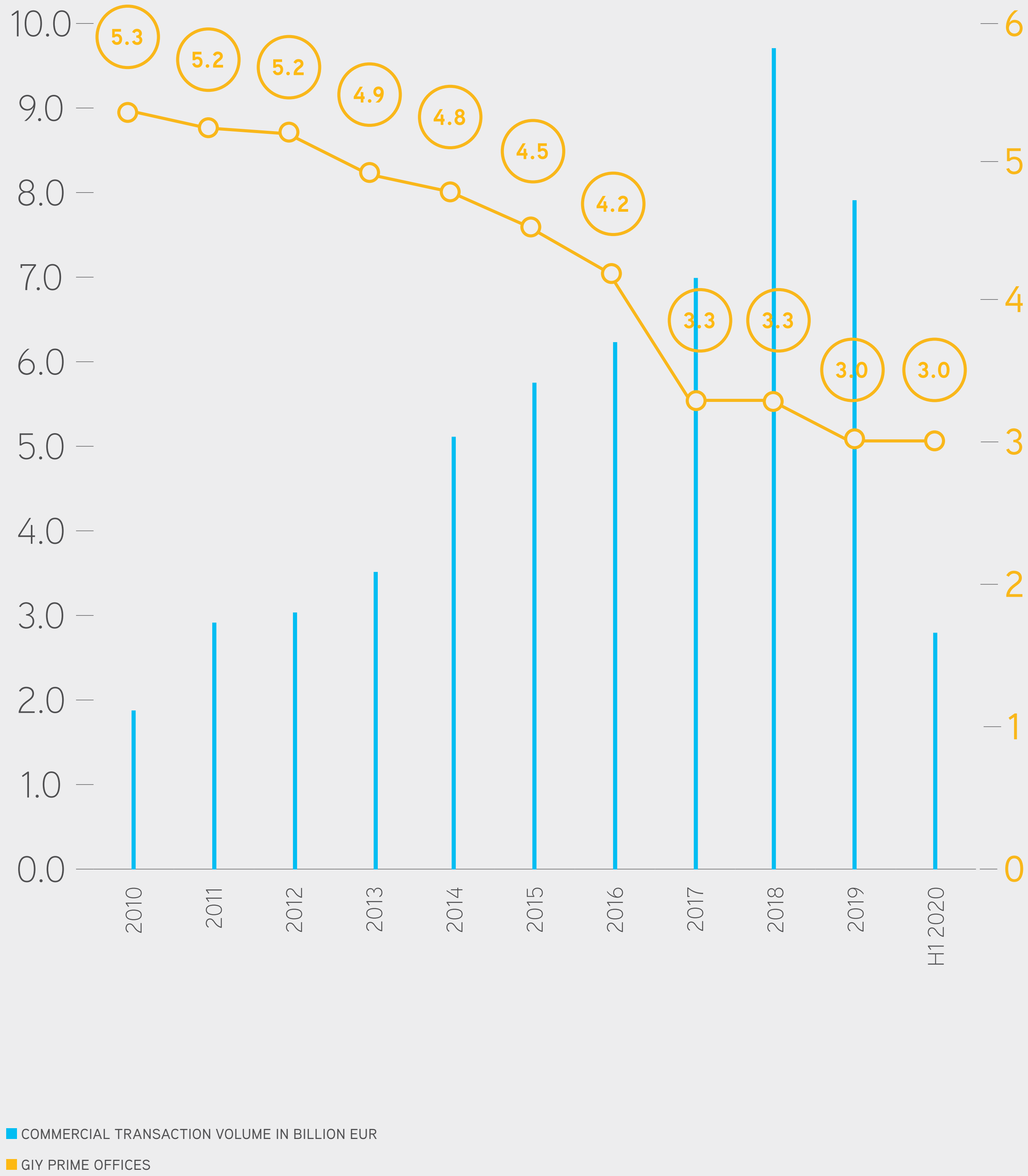
Due to the high willingness of tenants to pay for top-quality office space, rents continued their long-year upward movement. Prime rents in Frankfurt posted €45.50 per sqm at mid-2020 and average rents came in at € 22.50 per sqm. Further rentals in new-build assets and property developments in prime locations (e.g. FOUR T1 & T4) will continue to determine pricing in the upper price segment going forward as well.

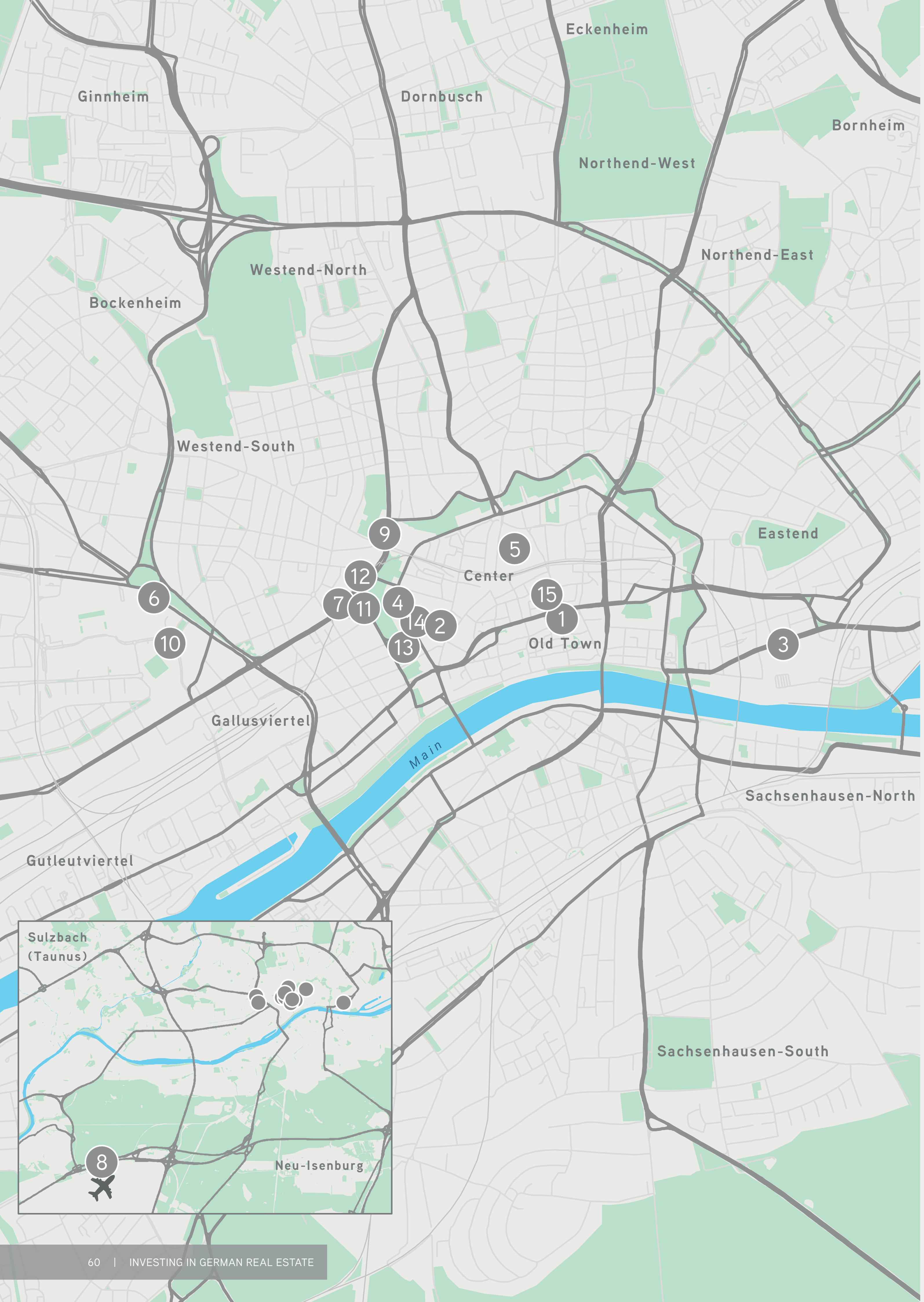
A history of high transaction volumes highlights the popularity of the Frankfurt commercial investment market, which has generated an annual volume of € 5.2 bn over the past ten years.

This trend is largely driven by the fact that the financial hub has increasingly established itself as an attractive investment destination for foreign capital, in part thanks to the city's supply of large-scale landmark properties. Foreign investors accounted for almost half of total transaction volume between 2017 and 2019, in part due to their participation in a number of landmark deals.

In line with the overall market, foreign investors tend to focus their activity primarily on office investments, which traditionally generate the largest market share of between roughly 70 % and 80 %. Due to the high liquidity reserves of many market players, a lack of attractive investment alternatives and the strong market stability of Germany as a whole, commercial real estate will continue to experience ongoing high demand. Despite the economic slowdown, demand for core assets remains high, with office yields for assets in prime locations stabilizing at a low level.

COMMERCIAL TRANSACTION VOLUME (IN BN €) AND OFFICE PRIME YIELDS (IN %)

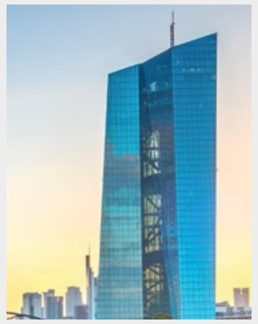




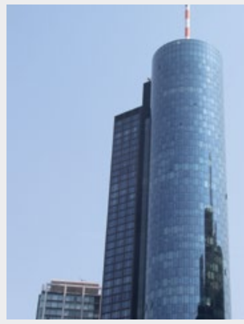
FRANKFURT MAP AND PROMINENT BUILDINGS

1. RÖMERBERG

2. COMMERZBANK TOWER

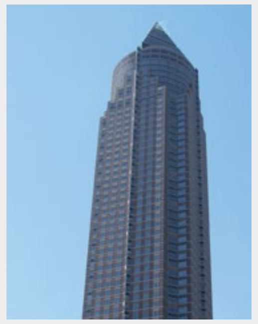


3. EZB



4. MAINTOWER

5. PALAIS QUARTIER

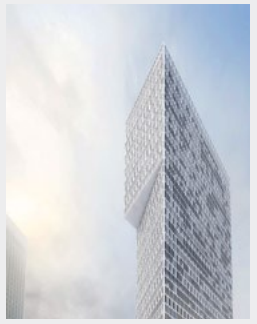


6. MESSE TURM

7. TRIANON

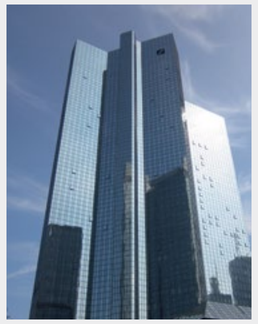
8. THE SQUAIRE

9. OPERNTURM

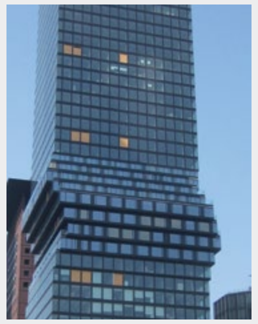


10. ONE

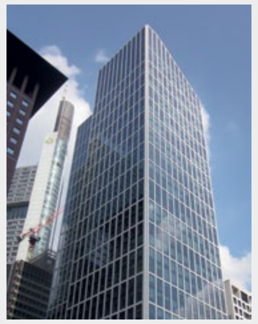
11. MARIENTURM



12. DEUTSCHE BANK TWIN TOWERS



13. OMNITURM



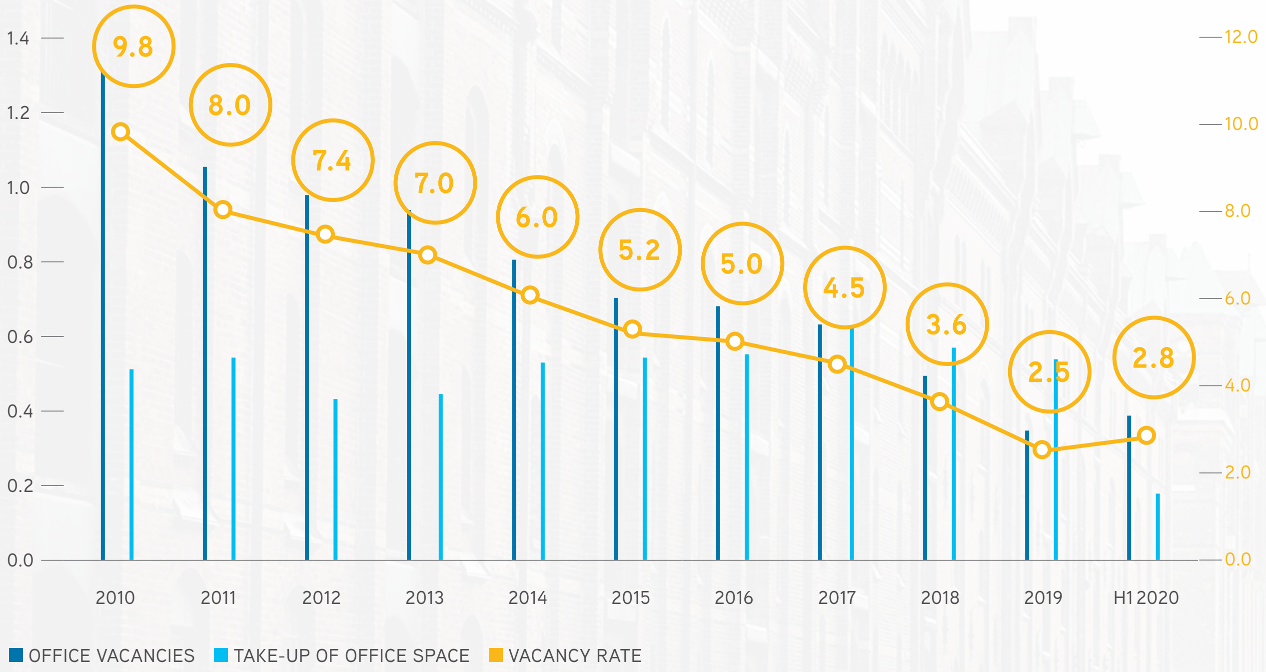
14. TAUNUSTURM

15. ONE GOETHEPLAZA

HAMBURG

HAMBURG

OFFICE TAKE-UP, OFFICE VACANCY (IN M SQM) AND VACANCY RATE (IN %)



The Hamburg office market has generated an average take-up of around 500,000 sqm over the past 10 years. The traditionally stable Hamburg office market recently experienced a veritable downturn due to COVID-19, however, ending the first half of the year with only 175,000 sqm in take-up. Nevertheless, the city's strong industry mix serves as a stabilizing factor in terms of ongoing leasing activity. Hamburg posted 382,900 sqm of vacant space and a vacancy rate of 2.8 % at the end of Q2. The city's vacancy rate is expected to remain in a healthy range below 5 % in the medium term. The development pipeline for the coming years continues to be well filled, a good indication that Hamburg will remain an attractive location. Owners, however, are likely to more closely evaluate office requirements and tenant structure in the current market environment.

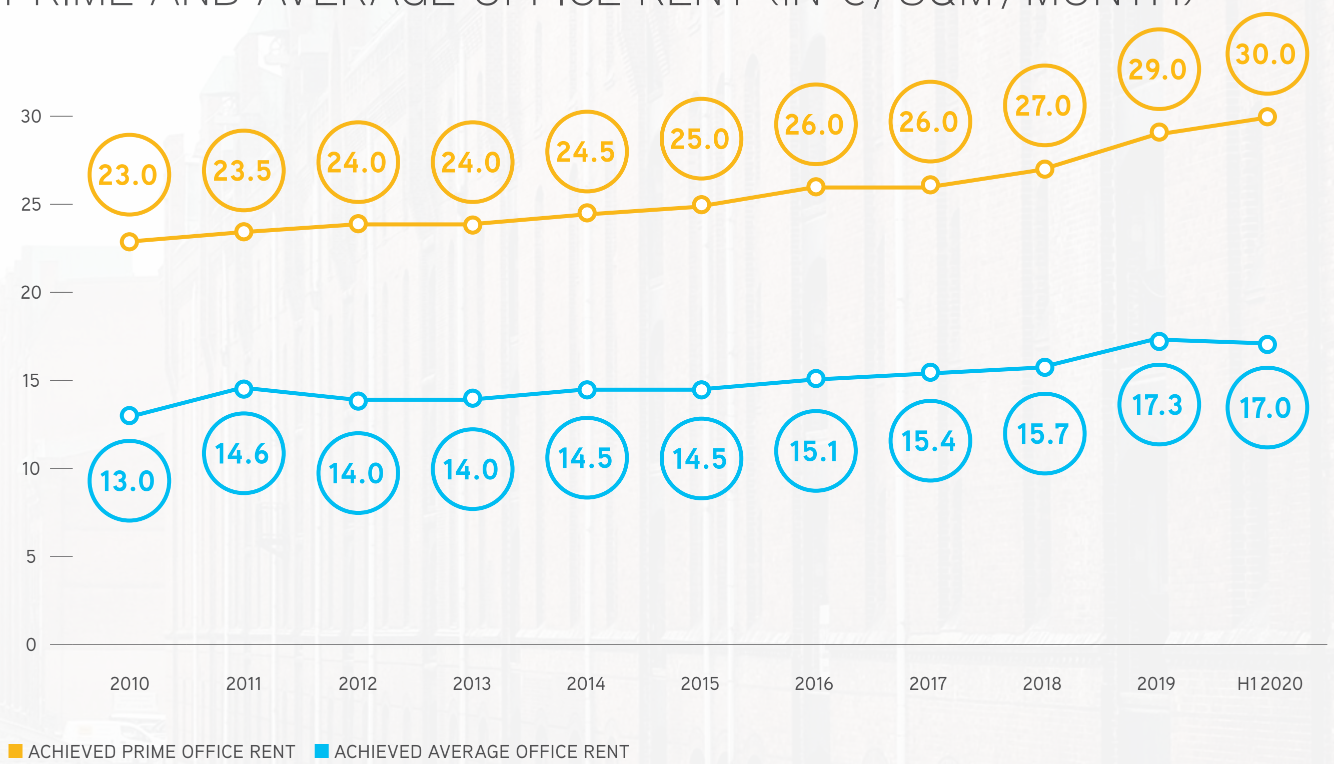
OFFICE FAST FACTS:

- OFFICE STOCK: 13.87 MILLION SQM
- OFFICE TAKE-UP (10-YEAR AVERAGE): 525,000 SQM P.A.
- PRIME OFFICE RENT (H1 2020): € 30.00 / SQM / MONTH
- AVERAGE OFFICE RENT (H1 2020): € 17.00 / SQM / MONTH
- VACANCY RATE (H1 2020): 2.8 %

INVESTMENT FAST FACTS:

- COMMERCIAL TRANSACTION VOLUME (10-YEAR AVERAGE): € 3.5 BN P.A.
- SHARE OF FOREIGN INVESTORS (2017–2019): 34.0 %
- GROSS INITIAL YIELDS (H1 2020)
  - OFFICE: 3.2 %
  - HIGH STREET RETAIL: 3.3 %
  - LOGISTICS: 4.2 %

PRIME AND AVERAGE OFFICE RENT (IN € / SQM / MONTH)



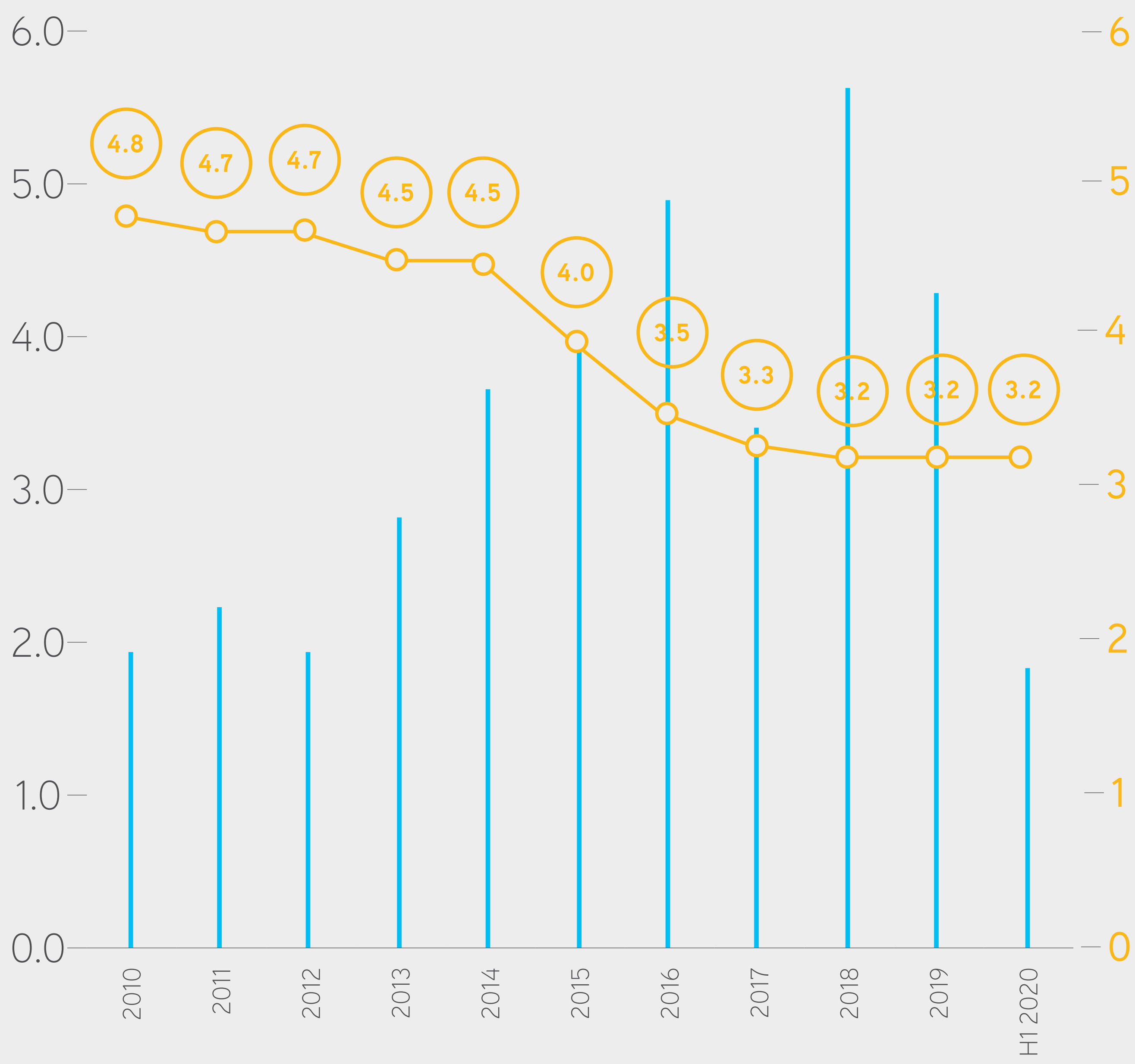
Prime rents in Hamburg were up to €30.00 per sqm, with average rent at €17.00 per sqm. High-quality property developments and properties in prime locations have contributed to this trend of steadily rising rents. The pandemic, however, has temporarily put the brakes on rental growth.

Following a streak of strong results over the past few years, the Hamburg commercial investment market ended 2019 with a transaction volume of € 4.3 bn.

Despite recession scenario predictions for 2020, the Hamburg commercial investment market also posted strong results in H1 2020, with transaction volume coming in at € 1.8 bn. The Ericus-Contor and Neuer Dovenhof deals acted as the main drivers behind market activity in Q2 2020 during the Lockdown and proved Hamburg´s robust market condition Hamburg boasts a solid diversification of asset classes, with office currently the investor favorite, capturing roughly two thirds of annual market share over the past five years.

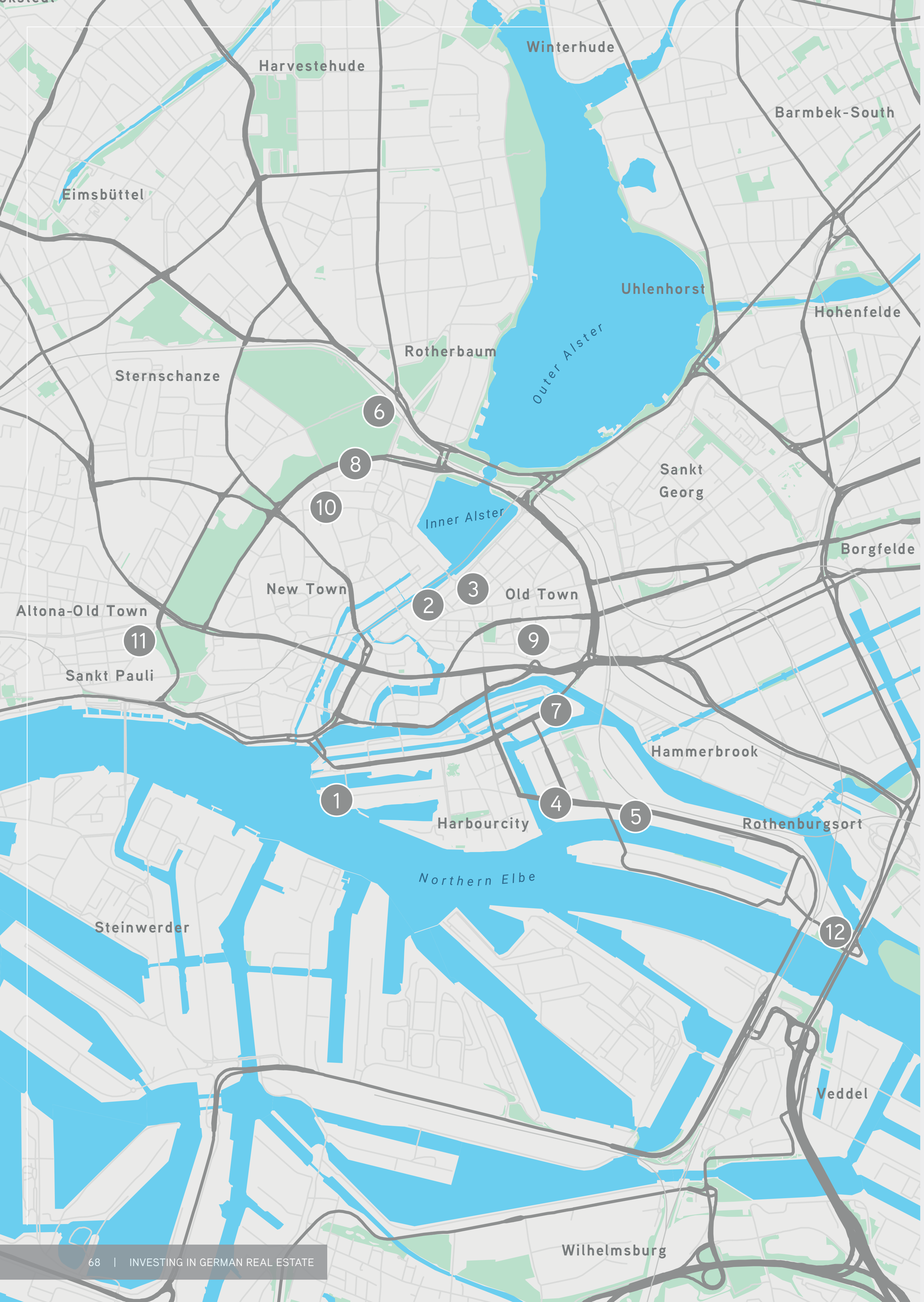
Mixed-use developments and building sites, however, are also on investor agendas. In light of the market conditions driven by COVID-19, core assets are particularly gaining traction, which should keep prime yields low. Gross prime yields are at 3.20 % in the office segment and at 3.30 % for retail. Assuming no further lockdown measures become necessary, we do not expect to see a significant dip in transaction numbers thanks to the robust conditions on the Hamburg investment market.

COMMERCIAL TRANSACTION VOLUME (IN BN €) AND OFFICE PRIME YIELDS (IN %)



COMMERCIAL TRANSACTION VOLUME IN BILLION EUR

GIY PRIME OFFICES

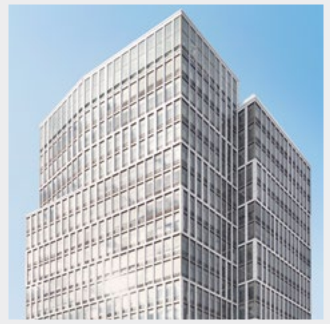


HAMBURG MAP AND PROMINENT BUILDINGS


1. ELBPHILARMONIE


2. CITY HALL


3. EUROPA PASSAGE


4. WATERMARK


5. CAMPUS TOWER


6. RADISSON BLU


7. ERISKUSSPITZE – SPIEGEL BUILDINGS


8. WORK LIFE CENTER


9 .MOHLENHOF IM KONTORENVIERTEL


10. EMPORIO

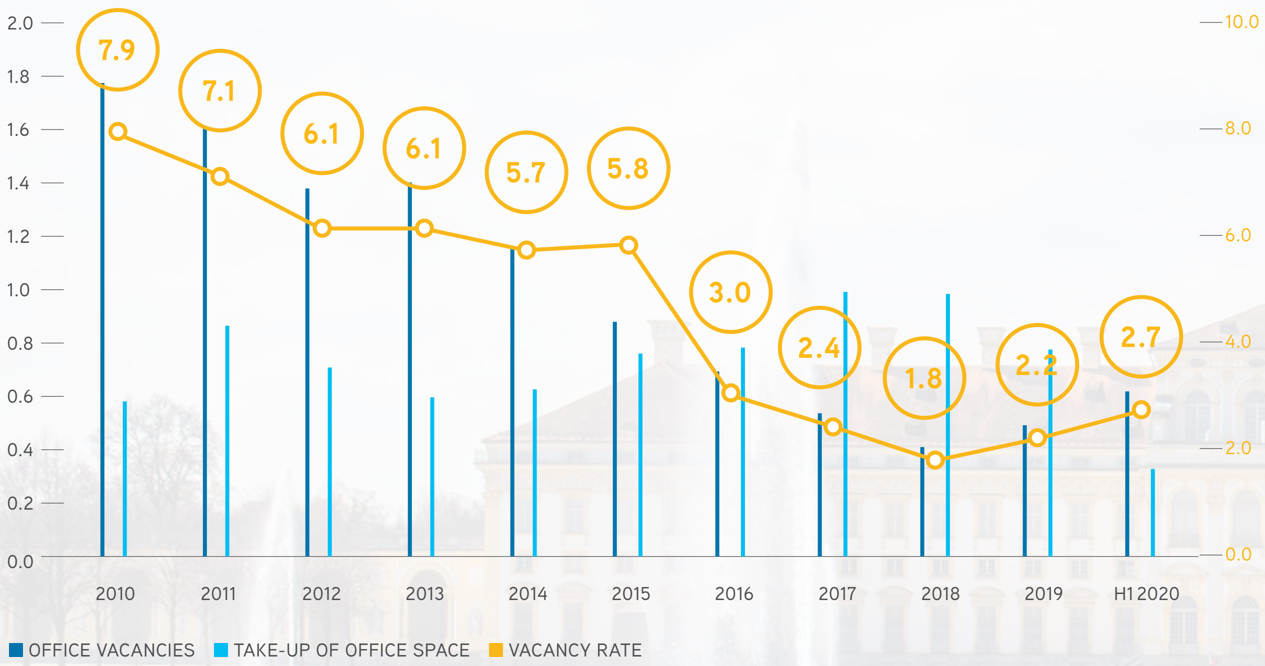

11. TANZENDE TÜRME


12. ELBTOWER

MUNICH

MUNICH

OFFICE TAKE-UP, OFFICE VACANCY (IN M SQM) AND VACANCY RATE (IN %)



Take-up in Munich was recorded at 326,100 sqm in H1 2020, 8 % below the 10-year average. This drop can be attributed to Germany's currently weaker economic situation. Limited supply has been the dominating factor on the Munich market for years now. Office completions have picked up slightly since 2019, which has helped alleviate some of the pressure. Vacancy rates have risen slightly but remain quite low. The Munich municipal area is currently posting vacancy rates of only 1.9 % and an even lower 0.8 % inside the city's central ring road (Mittlerer Ring). Munich continues to be an important office location for both national and international companies, setting the stage for a structural increase in demand for office space. Although we can expect vacancy to slightly rise in the wake of lower demand triggered by the crisis, the Munich office market continues to be in good shape.

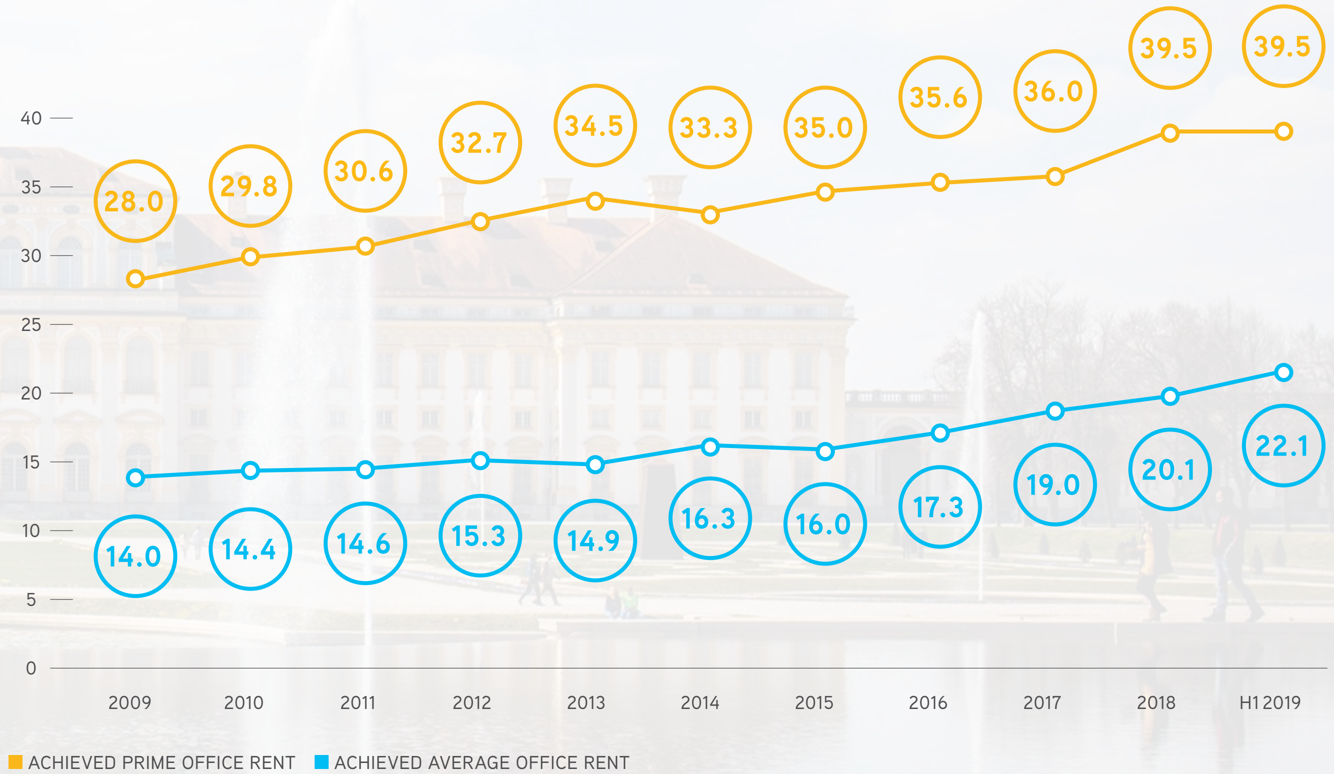
OFFICE FAST FACTS:

- OFFICE STOCK: 22.7 MILLION SQM
- OFFICE TAKE-UP (10-YEAR AVERAGE): 783,500 SQM P.A.
- PRIME OFFICE RENT (H1 2020): € 39.50 / SQM / MONTH
- AVERAGE OFFICE RENT (H1 2020): € 22.10 / SQM / MONTH
- VACANCY RATE (H1 2020): 2.7 %

INVESTMENT FAST FACTS:

- COMMERCIAL TRANSACTION VOLUME (10-YEAR AVERAGE): € 5.5 BN
- SHARE OF FOREIGN INVESTORS (H1 2020): 33.0 %
- GROSS INITIAL YIELDS (H1 2020)
  - OFFICE: 2.75 %
  - HIGH STREET RETAIL: 2.75 %
  - LOGISTICS: 4.2 %

PRIME AND AVERAGE OFFICE RENT (IN € / SQM / MONTH)



Due to the scarcity of office space, average rents have been rising significantly for years, reaching a new peak at € 22.10 per sqm in H1 2020. Average rent as at the end of June 2020 came to € 24.90 per sqm within city limits and € 12.50 per sqm in the surrounding areas. Prime rents were recorded at € 39.50 per sqm, with most prime space within the city's Altstadtring (inner ring road) let for over € 30.00 per sqm. Although we do not expect rents to fall as a result of the crisis, the pace of rent increases is likely to slow.

The Munich commercial real estate investment market posted a transaction volume of € 1.860 m in the first half of the year, down 16 % yoy.

The impact of the pandemic and the lockdown led to significantly lower market activity than usual in Q2 and a number of transactions have been postponed until H2 2020.

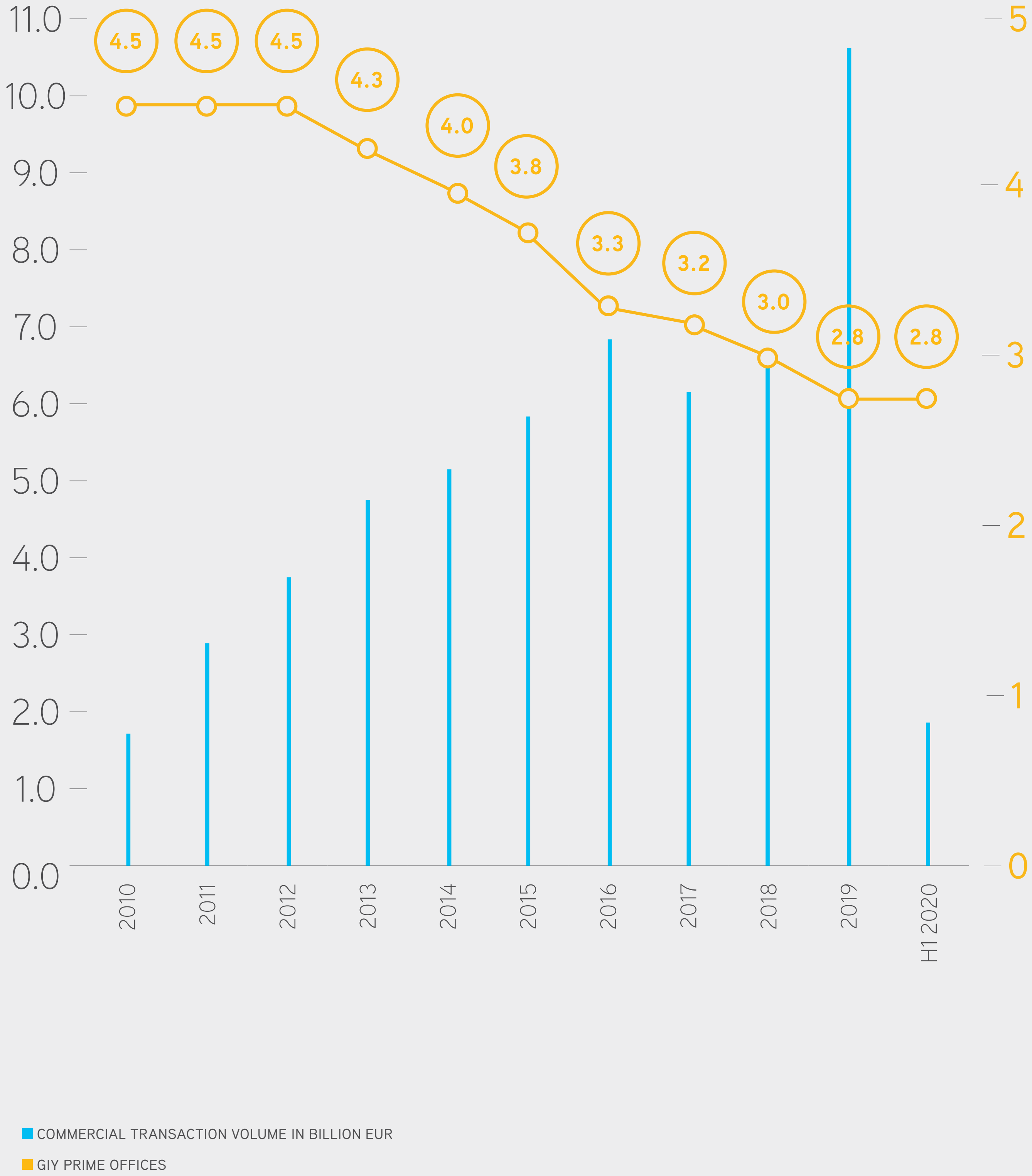
Office deals accounted for 65 % of transaction volume. Other popular asset classes on the Munich market include mixed-used assets and hotels. Compared to other markets, large retail transactions are very rare on the Munich market due to a lack of product and the long holding periods of most retail property owners in the city center.

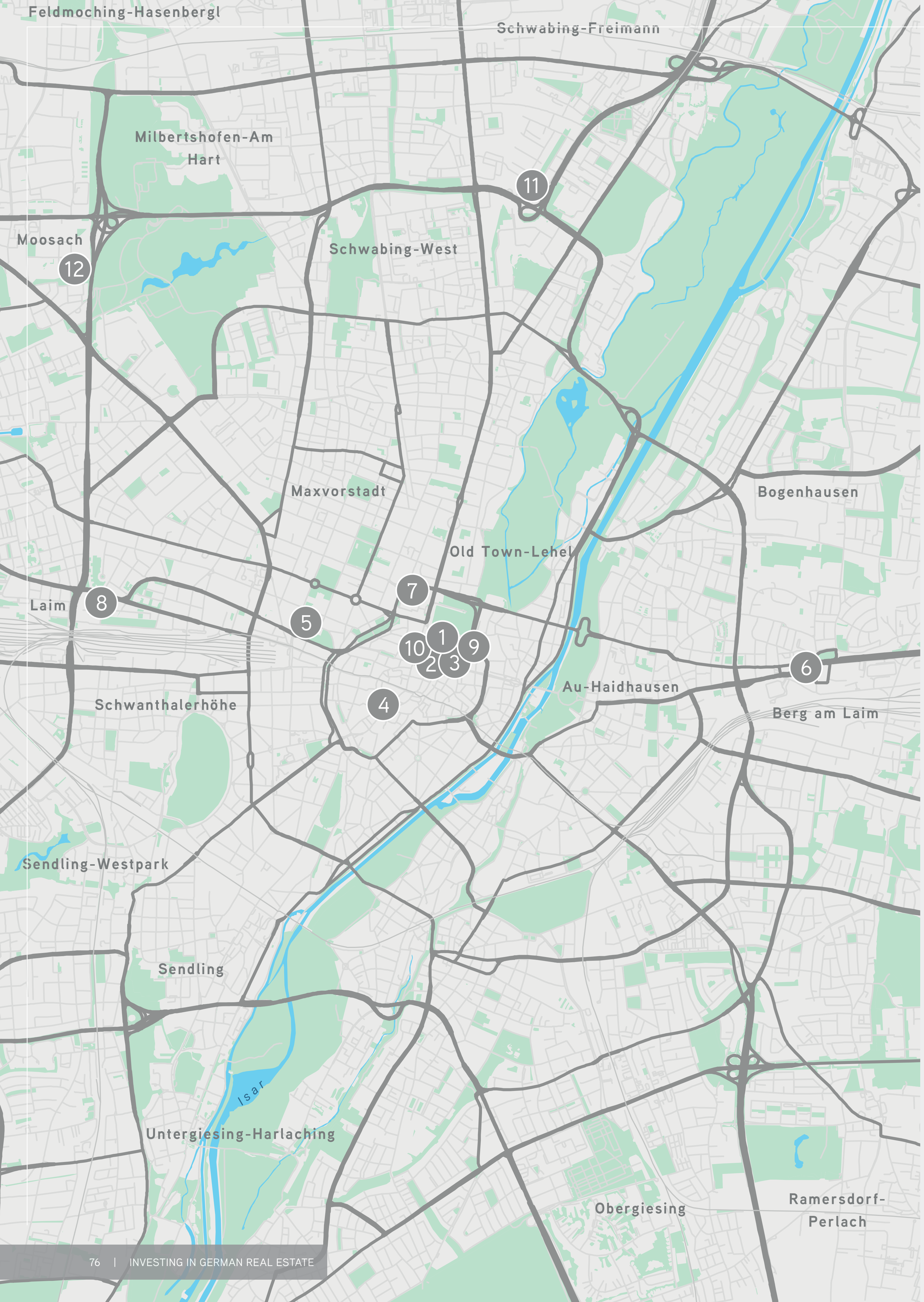
Market activity has already picked up again and investors continue to show high interest in buying assets in the Bavarian capital.

Due to its diversified economy and status as an international hub, investors consider Munich a safe haven that is more resistant to risks than many other locations. The share of foreign capital in the city has risen in recent years and Munich is currently one of the most sought-after investment markets in Europe.

Yields have remained stable; however, we may see slight changes in the next few quarters due to more difficult financing conditions and the possible impact of the pandemic on the leasing market.

COMMERCIAL TRANSACTION VOLUME (IN BN €) AND OFFICE PRIME YIELDS (IN %)





MUNICH MAP AND PROMINENT BUILDINGS


1. MARIENPLATZ


2. PALAIS AN DER OPER


3. MAXIMILIANHÖFE


4. HOFSTATT


5. LENBACHGÄRTEN


6. BAVARIA TOWERS


7. OSKAR


8. NOVE


9. HOFGARTEN PALAIS


10. FÜNF HÖFE

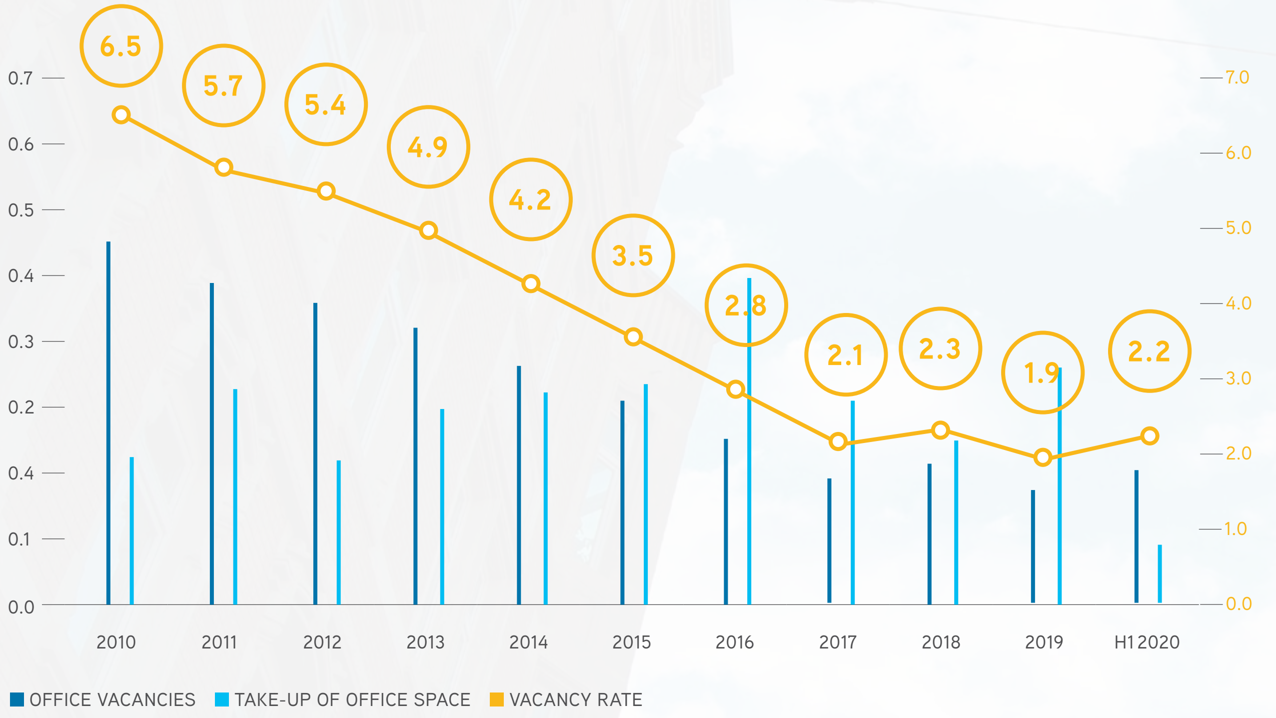

11. HIGHLIGHT TOWERS


12. UPTOWN MÜNCHEN

STUTTGART

STUTTGART

OFFICE TAKE-UP, OFFICE VACANCY (IN M SQM) AND VACANCY RATE (IN %)



Take-up in Stuttgart averaged at 272,500 sqm between 2010 and 2019. However, significantly higher take-up could have been achieved if more space had been available. With the onset of the pandemic, take-up fell significantly in the first half of 2020. The vacancy rate initially remained at its long-year level of around 2 % but is expected to increase as the crisis progresses. Nevertheless, we do not expect this increase to be very steep, as the Stuttgart office leasing market has traditionally been characterized by limited supply and high pre-letting rates at property developments. Large-scale vacancy at properties in central locations will particularly remain absent on the market. Chances are therefore high that not all businesses will be able to find suitable space in the next few years.

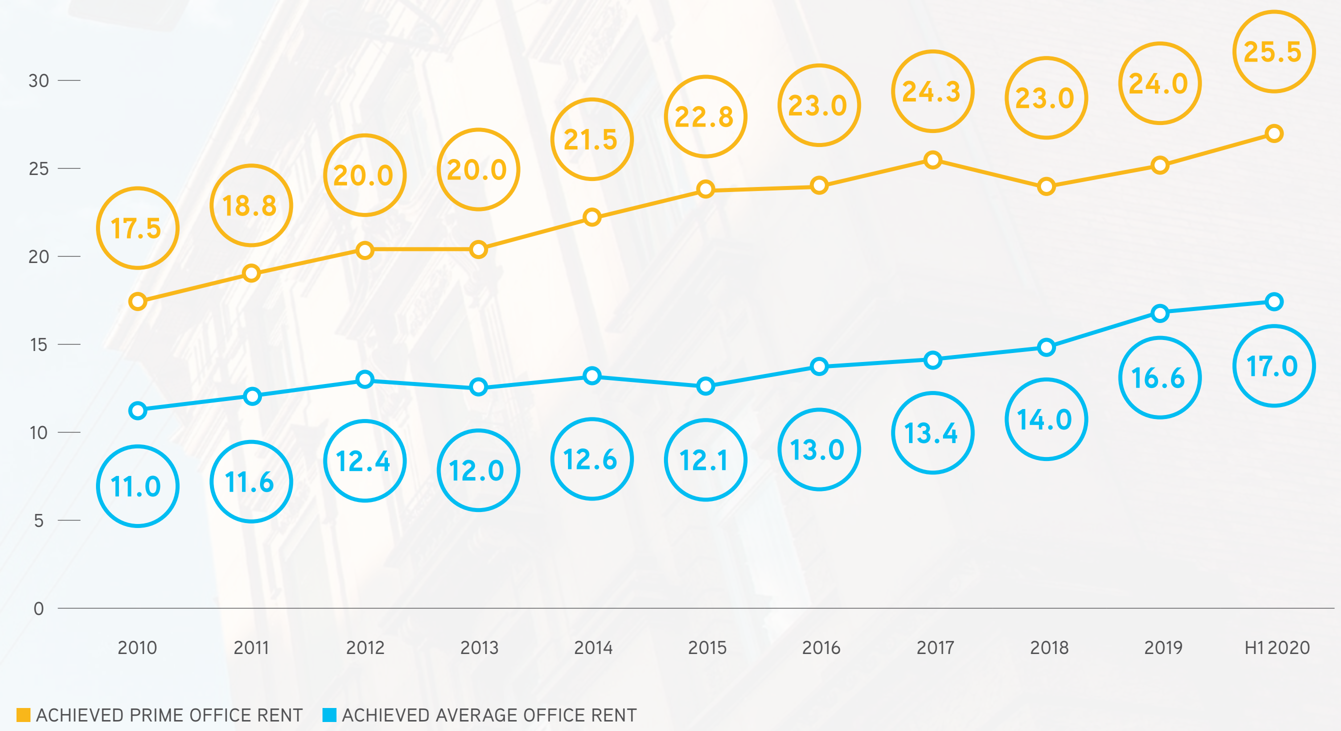
OFFICE FAST FACTS:

- OFFICE STOCK: 8.07 MILLION SQM
- OFFICE TAKE-UP (10-YEAR AVERAGE): 272,500 SQM P.A.
- PRIME OFFICE RENT (H1 2020): € 25.50 / SQM / MONTH
- AVERAGE OFFICE RENT (H1 2020): € 17.00 / SQM / MONTH
- VACANCY RATE (H1 2020): 2.2 %

INVESTMENT FAST FACTS:

- COMMERCIAL TRANSACTION VOLUME (10-YEAR AVERAGE): € 1.3 BN P.A.
- SHARE OF FOREIGN INVESTORS (2017–2019): 37.0 %
- GROSS INITIAL YIELDS (H1 2020)
  - OFFICE: 3.3 %
  - HIGH STREET RETAIL: 3.3 %
  - LOGISTICS: 4.2 %

PRIME AND AVERAGE OFFICE RENT (IN € / SQM / MONTH)



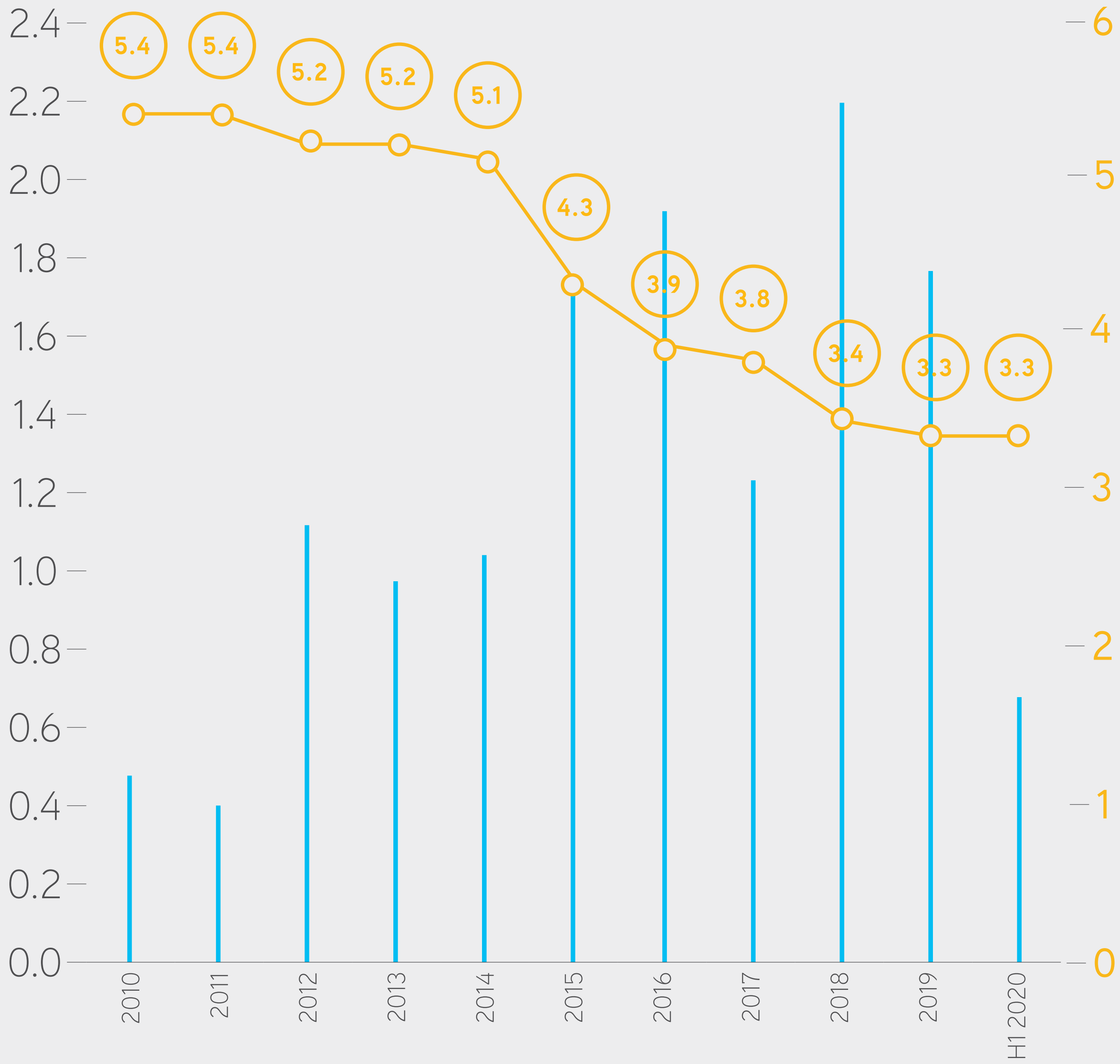
Because the number of office units available in the high-price segment is quite low, prime rents have yet to reach their full potential. Nevertheless, H1 2020 saw a significant increase in prime rents to € 25.50 per sqm, a new record for the Stuttgart office leasing market. Average rents also reached a new high of € 17.00 per sqm, as tenants remain willing to pay higher rents for the limited space on offer.

The Stuttgart investment market has in recent years been characterized by high demand met with extremely limited supply.

Since office accounts for the majority of products available on the Stuttgart real estate market, investors typically tend to focus on this asset class. Nevertheless, transaction volume continues to lag behind its potential in light of the current shortage of supply. An increasing number of international players have been discovering the market in recent years, while yields have remained relatively stable at a moderately low level since 2018.

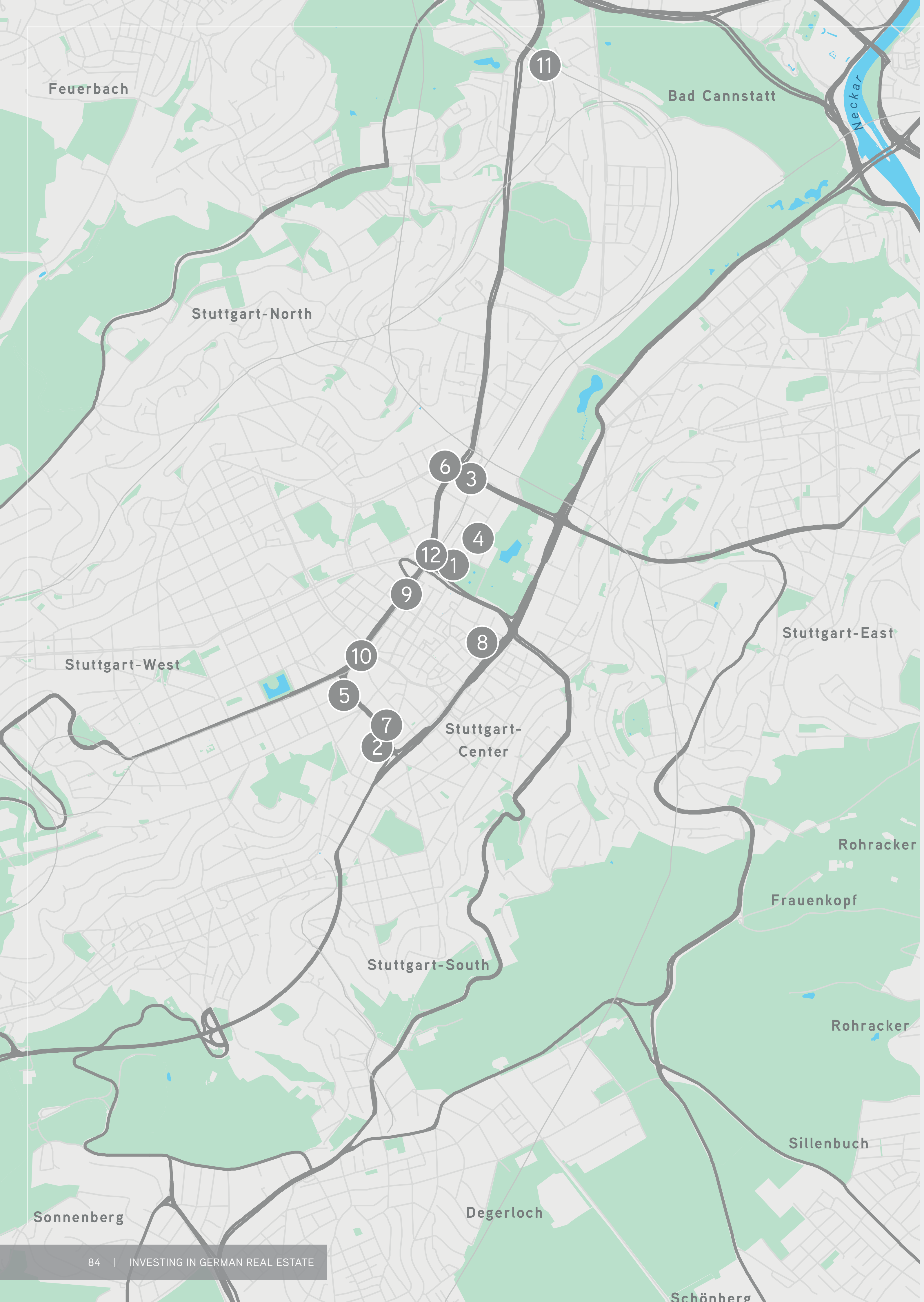
In the past, investors have tended to estimate the city's economic stability and moderate rent and yield level as compared to the country's other top 7 locations. As such, and thanks to Stuttgart's extremely robust office leasing market, the city continues to offer investors exciting investment opportunities despite the current crisis.

COMMERCIAL TRANSACTION VOLUME (IN BN €) AND OFFICE PRIME YIELDS (IN %)



COMMERCIAL TRANSACTION VOLUME IN BILLION EUR

GIY PRIME OFFICES



STUTTGART MAP AND PROMINENT BUILDINGS

1. MAIN STATION

2. CALEIDO

3. ZEPPELIN-CARRÉ

4. PHÖNIXBAU

5. BILMA HAUS

6. CITY GATE

7. GERBER

8. DOROTHEEN-QUARTIER

9. WINDOW'S

10. CITY PLAZA

11. BÜLOW TOWER

12. KÖNIGSBAUPASSAGEN

9. LEGAL ASPECTS FOR REAL ESTATE IN GERMANY

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In the coming chapter you will find the general information about relevant legal and tax framework for investing in German real estate prepared by the international law firm Clifford Chance.

1. REAL ESTATE OWNERSHIP

In Germany there are three different kinds of real estate ownership which are registered in a public register, the land register, and which provide comprehensive rights to the respective owner. The title of ownership to real estate assets is always registered in the land register, as are the most important encumbrances which can be placed on real property (such as easements and mortgages).

› Full freehold ownership, which is the ownership over a plot of land and all buildings located on it (the most common form of real estate ownership in Germany);

› Condominium ownership, which is the ownership over separate individual units in a building, e.g. a flat; and Hereditary building rights, which is the ownership to a building on a property without being the owner of the respective land.

1.1 FULL FREEHOLD OWNERSHIP

Full freehold ownership is the ownership over a plot of land and all buildings or other immovable fixtures located on it in perpetuity. These fixtures are seen as integral parts of the plot of land, so that they are – in the event of a disposal of the plot of land – automatically transferred along with the plot of land. The owner of this type of asset has complete control of the entire plot of land and the buildings located on it. His property rights cover the surface of the plot and the space above and below it. The owner has comprehensive rights, including the right to use the asset, dispose of it, rent it to third parties and to encumber it with land charges and mortgages in favour of financing banks.

1.2 CONDOMINIUM OWNERSHIP

Condominium ownership is the result of a separation of individual units in a building and, as such, typically occurs in connection with residential properties. Condominium ownership consists of an owner's/co-owner's share in the land and the built structure combined with an individual part of the building (such as an apartment). Independence and exclusiveness are crucial aspects for the existence of condominium ownership. This means that only those parts of a building that are clearly isolated from other units and the communal areas may form an individual flat.

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This allows the real estate developer a certain amount of autonomy to decide that certain parts of the scheme should be designated as communal areas and others as parts of individual apartments. As a freehold owner of land, the owner of an apartment has comprehensive rights. However, his comprehensive rights are limited to his individual part of the building. The relationship between the condominium owners is governed by co-ownership rules, i.e. a contract which contains provisions on maintenance and repairs, the decision-making process and sharing costs and public charges. In larger condominiums, there is a condominium administrator in charge of managing the affairs of the condominium owners. This arrangement can also be applied to commercial buildings.

1.3 HEREDITAY BUILDING RIGHT

Hereditary building rights are a type of quasi-ownership rights to real estate. They grant the transferable and inheritable right to have a structure above or below the surface of the land without being the registered owner of that plot of land. Hereditary building rights are similar to freehold ownership in that the beneficiary has comprehensive rights to use them. However, selling this right and encumbering it with land charges and mortgages in favour of financing banks regularly requires the consent of the owner of the plot of land. In contrast to freehold ownership, a hereditary building right is only temporary in nature. After the term of the hereditary building right has expired, the right ceases to exist and the usage rights are conferred back to the freehold owner of the plot of land along with all other rights. A hereditary ownership right typically lasts for 99 years, but it is possible to extend that term. In return for the possibility of an ownership-like usage of the building on a plot of land, the owner of the plot usually receives an annual rent for the term of the hereditary building right. As is the case with freehold ownership and condominium ownership, hereditary building rights are also registered in the land register. For this purpose, in addition to the land register folio for the freehold ownership of the land, a further land register folio is created to register the hereditary building right and its encumbrances. Hereditary building rights are used by entities which, while wishing to allow third parties to use and redevelop a plot of land on a very long-term basis, hesitate to sell their full freehold ownership. The most prominent examples are German municipalities and Christian churches, both of which regularly make use of hereditary building rights.

2. TRANSFER OF TITLE OF OWNERSHIP

The transfer of real estate ownership (full freehold ownership, condominium ownership as well as hereditary building rights) is regularly structured as:

› "Asset transactions" by way of which the purchaser directly acquires the real estate and is registered as new owner in the land registers; and

› "Share transactions" by way of which the purchaser acquires the shares in the real estate owning entity (regularly a special purpose vehicle) that is registered as owner in the land register.

2.1 ASSET TRANSACTION

In the course of a real estate asset transaction, the freehold ownership, condominium ownership or hereditary building right is transferred in rem from the seller as current owner to the buyer as future owner, resulting in the buyer being registered in the land register. Such transfer of title requires a notarised asset purchase agreement between the seller and the buyer. The terms of the agreement – such as conditions precedent, representations and warranties, payment mechanism and liability – are at the discretion of the parties. The parties generally agree on a certain date for the handover of the asset, which means that the beneficial transfer of possession, use and risks from the seller to the buyer takes place on that date. The registration of the buyer as owner in the land register often only takes place some weeks or months after the commercial closing and not before the real estate transfer tax has been duly paid, with this having been confirmed to the land registry by the tax authorities.

2.2 SHARE TRANSACTION

In the course of a real estate share transaction, the buyer does not acquire the asset itself but rather the shares of the entity which owns the asset. This means that there is no entry of a new owner in the land register, but the buyer does become a shareholder/partner in that company and therefore also the indirect but commercially comprehensive owner of the real estate and any connected rights and obligations. Both parties can benefit from share transactions instead of asset transactions since, depending on their structure, they may not trigger real estate transfer tax of between 3.5 % and 6.5 % of the purchase price (see below under 5.). In order to invest in the German real estate market, investors often make use of special purpose vehicles. These special-purpose vehicles are companies which are formed exclusively for the purpose of transferring and financing real estate, being legally independent and bankruptcy-remote.

2.3 COSTS

Certain costs may arise as a result of the transfer of real estate under both asset deals and share deals, where these may include notary costs, land register charges, broker fees and advisory fees. While the costs for brokers and advisors have to be negotiated between the parties, the amount of any notary costs and land register charges is, in the same way as taxes, stipulated by statutory law and depends on the value of the respective transaction or act. The buyer is generally required to bear all costs other than the seller's advisory fees. Otherwise the seller would raise the purchase price and this would lead to an increase in the incurring statutory fees.

3. LEASE CONTRACTS

3.1 COMMERCIAL LEASES

› The German Civil Code contains various provisions governing the contents of lease agreements if the parties do not choose to deviate from the general rules of the law. In many ways, the law does not differentiate between leases for real property and those for chattels exempt from special provisions protecting residential tenants.

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The statutory provisions therefore leave many important aspects of commercial leases partially or completely unregulated and also, if there is adequate regulation, most matters are left to the discretion of the parties to the lease agreement. If this is the case, it should be remembered that leases which contain general terms and conditions of trade of one party (generally the landlord) the contract will be subject to the provisions of general terms and conditions of trade (Section 305 et seq. German Civil Code). If the contract includes general terms and conditions of trade that place an unreasonable disadvantage on the other party, these provisions are deemed void. In general, German tenancy law can be said to be slightly biased towards the tenant, more than in the United Kingdom for example, but less so than in France. A German lease agreement will regularly contain provisions on the following items:

› Terms and termination;

› Written form;

› Rent and rent adjustment;

› Rent deposit;

› Ancillary costs;

› Maintenance and repair;

› Operating obligation;

› Protection against competition and assortment restriction; and

› Change of control.

(A) TERM AND TERMINATION

Under German law, the parties are free to agree to a fixed term or to leave the duration of a lease agreement unspecified. In the latter case, a commercial lease may generally be terminated giving six to nine months' notice. If a fixed term is agreed, the term is subject to established market practice. Retail properties tend to be let for ten to fifteen or twenty years, whereas office buildings are usually let for an initial term of five to ten years, and shorter terms thereafter. Other types of use may have different standard terms.

When agreeing a fixed lease term, it has to be considered that the statutory provisions of an extraordinary termination for cause cannot be excluded. Not a matter of statutory law, but possible and common are contractual renewal options that must be agreed upon by both parties. But, as a matter of law, the term of a commercial lease must not exceed thirty years; after that time, both parties can terminate the lease, even if the contract stipulates a longer period..

(B) WRITTEN FORM

In general, leases with a duration of more than one year must be concluded in writing. In order to meet any written form requirements in the context of leases, it is not sufficient simply for all the material parts of the agreement which form the lease agreement to be in writing. Pursuant to the requirement of written form, all agreements between the parties including any subsidiary agreements/addenda and appendices, such as any building descriptions, lists of ancillary charges, etc., must be attached to each other in a way evidencing the parties' intent that they should be permanently connected (such as by sealing or stapling). Any objective reader, in particular a buyer as future landlord, must be able to determine with certainty if one of the elements of the contract is missing or has been removed. Alternatively, it may be sufficient if the completeness and unity of the agreements can be deducted from serial numbering of pages, pagination, uniform graphic designs and the continuous content of the text.

Even if a lease or any addendum does not comply with the legal requirements of written form, it remains valid and in force, but the entire lease may be terminated by either party after one year in the same way as if the lease had an unspecified term, i.e. six to nine months' notice. From our experience, a lack of written form is an argument also often used by both tenant and landlord to at least gain some leverage for negotiations on rent reductions and the like, sometimes even for purposes of early termination. Therefore, a lack of written form requirements may impact the rental cash-flow unexpectedly.

Since the requirements of written form are easily violated and jurisdiction on this issue develops constantly, commercial lease agreements in the past mostly provided a so-called "written form curing clause". Under such clause – in general – each party of the lease was entitled to file a claim against the other party to "re-enter" into the lease agreement according to the requirements of written form. As a consequence, termination based on lack of written form was considered a violation of the principle of good faith. According to the recent jurisdiction of the Federal Supreme Court, written form curing clauses are void and can therefore not be considered being a remedy for written form defects. As a consequence, it might not be possible to prevent termination by a tenant with reference to written form defects. It is, therefore, of utmost importance to comply with written form requirements for the entire term of the lease to avoid any written form defects and hence termination rights arising.

(C) RENT AND RENT ADJUSTMENT

In the absence of statutory provisions the rent is freely agreed between the parties to commercial leases. All the standard methods of rent calculation are used in Germany (fixed rent, turnover rent, market rent and hybrids thereof etc.), including all the common methods of incentivising tenants (e.g. rent-free periods or building cost subsidies). Because of inflation, it is of interest to the landlord to agree on stable value clauses providing for automatic rent adjustments linked to inflation, e.g. the German consumer price index. Such adjustments are generally triggered annually or by the attainment of a hurdle rate. Once triggered, the existing rent will be adjusted to reflect the change in the index. Frequently, however, the change in the index is not fully incorporated into the new rent, perhaps only at a rate of 80 % to 90 %. It should be noted that rental adjustments, while possible in principle, must allow for both increases reductions in the rent due, reflecting the current market situation, and must not change by more than the percentage change in the relevant price index in order to be valid. Another kind of rent review is a "step-up plan" which is explicitly agreed upon in advance. The step-up plan has to disclose the respective amount of rent or percentage rent increase.

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(D) RENT DEPOSIT

It is up to the parties to agree upon a rent deposit, which is regularly required under German lease agreements. The amounts of the rent deposit are limited in the principle of morality; usual amounts in commercial lease agreements are between three and six monthly net rent. Rent security is usually provided in the form of a deposit, a bank guarantee or a parent guarantee. In the case of guarantees, consideration should be given to the fact that their validity might be affected if the parties to the lease agreements subsequently agree on substantial changes in a given lease without the consent of the guarantor.

(E) ANCILLARY COSTS

The rent usually consists not only of the actual compensation for the use of the leased property, but also compensation for the landlord's costs arising in connection the operation of the property (e.g. waste disposal, heating, utilities, water supply, ground rent, maintenance and repair of communal areas, administration). According to statutory law, the landlord has to bear these ancillary costs, but he can transfer them onto the tenant to a certain extent. Such costs may be charged to the tenant either according to usage (e.g. for water) or pro rata according to the size of the leased premises in comparison to the size of the total lettable space of the building (e.g. for cleaning communal areas). Ancillary costs may only be charged to the tenant if and to the extent expressly agreed in the lease agreement; the amount of the ancillary charges has to be clear to the tenant. It is therefore common practice in lease agreements to refer to certain legal provisions listing the most important kinds of ancillary costs, such as the operational costs ordinance.

In this context, various decisions handed down by the Federal Court of Justice should be noted according to which the allocation of costs need to be defined precisely in the contract.

(F) MAINTENANCE AND REPAIR

Although the landlord is responsible for maintenance and repair by law, it is common for the tenant to take over the execution and costs of maintenance and repair work up to a certain extent, whereas the landlord remains responsible only for structural work. However, such transfer of obligations from the landlord to the tenant generally has to comply with statutory provisions of general terms and conditions. It is, therefore, not unusual to agree cost caps at a certain percentage p.a. or the allocation of only minor repairs up to a certain amount in each individual case. A landlord might also reach an agreement according to which the tenant shall be responsible for the entire property and building and even for the structural work (e.g. in case of single-tenant leasing). Those leases are called "triple net leases" (see below). However, this is less common and subject to certain restrictions (see below).

EXCURSION: DOUBLE NET AND TRIPLE NET LEASE

In the commercial real estate industry, there are standard names for different sets of costs passed on to the tenant in a net lease.

One of them is the "double net lease". In a double net lease agreement, the tenant is typically responsible for (i) real estate tax, (ii) building insurance, (iii) ancillary costs and (iv) costs for maintenance and repair to a certain extent and exempt for costs which occur in connection with maintenance and repair of structural parts and the roof of the building.

A so-called "triple net lease" on the other hand is a lease agreement that designates the tenant as being solely responsible for all of the costs pertaining to the asset being leased. Beyond double-net, this in particular includes uncapped costs for maintenance and repair of (i) the leased object, (ii) communal areas and (iii) structural parts and the roof of the building. Hence, tenant has to bear all costs that accrue in addition to the rent due under the lease without any exemptions or agreements on caps or flat charges. Therefore, the net rent is generally lower than the rent charged under a standard lease agreement. It has to be considered that such triple net lease agreements have to be carefully monitored and intensively negotiated to avoid clauses allocating costs and risks to the tenant under the regime of general terms and conditions of trade being declared void. German courts will closely scrutinise such agreements and are not afraid to hold such provisions to be invalid if they are agreed due to the overwhelming market power of the landlord. Therefore, triple-net lease agreements can be considered as exceptional cases and can be found sometimes in connection with single tenant asset (especially in case the current tenant is the former owner of the property, so-called sale and lease back-transaction).

(G) OPERATING OBLIGATION

In terms of leasing retail space, it may be of interest to the landlord that the tenant's business is conducted continuously to preserve the attractiveness of the location (e.g. a shopping centre) or because the parties agreed on a turnover-based rent. Against this background, the parties may agree to the tenant being required to operate its business on the leased premises continuously and to open its business in accordance with the opening hours determined by the landlord. Temporary closing of the tenant's shop is, to the extent permitted by law, not allowed.

(H) PROTECTION AGAINST COMPETITION AND ASSORTMENT RESTRICTIONS

It is also common in shopping centre leases to require the landlord to grant protection against competition and to require the tenant to only sell certain products. The landlord thereby commits not to lease rentable space to a competing company within the shopping centre or within close proximity to the tenant. The tenant, on the other hand, commits to a specific use of the premises and not to sell certain products so that the landlord can keep his competition protection commitment to other tenants. Sometimes lease agreements contain "radius clauses" providing protection against competition in favour of the landlord as owner of an outlet shopping centre, for example. In such cases, the tenant is not allowed to open any further shops or a similar business within a certain radius around the shopping centre. Due to decisions of the Federal Cartel Office, such clauses are not in line with competition law requirements and therefore in principle unlawful. Therefore, in any case special attention should be paid to see whether such clauses still can be agreed in a lawful and exceptional manner or not.

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(I) CHANGE OF CONTROL

Change of control clauses are clauses which make a structural reorganisation of an entity (either the tenant or the landlord) or a disposal of a property subject to the consent of the respective counterparty. Such clauses are beneficial to the landlord in case they require its consent to a structural reorganisation of the tenant and its affiliates since they assure certain continuity with regard to the entity of the tenant and its solvency. However, change of control, clauses can also be a hurdle for a transaction in case they require the tenant's consent to sell the shares in the landlord.

(J) COVID AND ITS EFFECT ON THE RENT

The covid pandemic caused various businesses to close or to slow down for a certain period of time. However, the tenant's duty to pay the agreed rent remains basically unaffected. This basic rule also applies in case official orders limit or prohibit the business operations as a consequence of the covid pandemic.

In contrast to the tenant's obligation to pay the rent, the landlord's termination rights did not remain unaffected: According to statutory law, the landlord has the right to terminate the lease agreement for cause if the tenant is in arrears with the payment of the rent (or a significant part thereof) for at least two successive months or an amount equal to the rent for two months. This right to terminate the lease agreement had been suspended with regards to arears incurred between 1 April and 30 June 2020 if the tenant made plausible, that its inability to pay the rent was caused by the covid pandemic and . Such arrears cannot justify a termination of the lease agreement provided that the corresponding default rent is being paid until30 June 2022 with the interest rate of arrears, currently 8.12 % p.a.

3.2 RESIDENTIAL LEASES

There is a chapter in the German Civil Code which relates solely to residential leases. The standard regulations are generally applicable but, in comparison to commercial leases, there are some restrictions to the freedom of contract in place to protect the tenant. This results from the fact that residential tenants are under more pressure because of their essential need to find a place to live and because they are often less experienced than commercial tenants. Statutory restrictions are in place in particular in relation to the determination of the rent and the rent increase which is to be linked to the local market or altered economic circumstances. In addition, the demand of the landlord for rent security is capped at three monthly rent amounts. The landlord is also restricted in its possibilities to terminate a lease agreement, which requires a particular legitimate interest on the side of the landlord, and, if the termination of the tenancy would cause the tenant unjustifiable hardship, the tenant has the right to request an extension of the lease in spite of any notice of termination.

4. PUBLIC LAW

The construction of buildings on land and the use of such land is often governed by local zoning plans, namely the land use plan and the detailed local development plan. The local development plan is binding and forms the basis for building permits to be granted to the owner or user of a property approving a structure on a property or a particular use of a property. Therefore, any permits for current or future uses must comply with the local development plan. In addition, there might be public zoning peculiarities concerning the area where a property is located and stipulating certain provisions for the use of that area, as well as requirements for disposals and lettings (such as (re-)development areas, relocation areas, monument protection areas). Since such public zoning peculiarities may also have financial consequences and implications for the purchaser's freedom to acquire and use a property, they should be considered in the course of acquisitions. Another important consideration in the course of real estate transactions is potential site contamination. Under public law, both the disturber in fact (the owner and/or occupier) and the disturber by conduct (party causing the contamination) bear responsibility for soil and groundwater pollution. Additionally, the German Federal Soil Protection Act provides for perpetual liability of former owners. Essentially, the relevant public authority can decide which party shall seal off and/or remove the residual pollution; its decision can be based on considerations of what will be most effective, regardless of any consideration of fault.

5. GERMAN TAX ASPECTS

5.1 TAXATION UPON ACQUISITION

(A) REAL ESTATE TRANSFER TAX

In the case of a share deal, based on German RETT law applicable as of today, RETT will be levied on the property value (as determined by the tax rules) if 95 % or more of the capital in a property owning company is, directly and/or indirectly, acquired by the same person or entity (and/or entities related to each other, or being part of a tax group). If the property is held by a partnership, RETT is triggered if, within five years, more than 95 % of the interest in such partnership is directly or indirectly transferred to new partners (**"Movement Rule"**). However, structures to mitigate RETT might be available.

Pursuant to a draft law, the RETT rules for share deals shall be changed such that (i) the threshold shall be reduced from 95 % to 90 %, (ii) holding and watching periods shall be extended from five years to generally ten (in certain cases even to fifteen years) and (iii) to Movement Rule shall also apply where the property is held by a corporation. Limited grandfathering rules shall apply. However, since the legislative process has not yet been completed the law's effective date is uncertain and it cannot be excluded that there will be other adjustments.


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The RETT rate depends on the German Federal State in which the property is located and currently ranges from 3.5 % to 6.5 %. Although both parties are liable for RETT vis-à-vis the German tax authorities, RETT is generally contractually borne by the purchaser.

(B) VALUE ADDED TAX

The sale of German real estate is generally exempt from German VAT. However, the seller can opt to subject a real estate transfer to VAT provided it is an entrepreneur within the meaning of the German VAT Act and the sale occurs to another entrepreneur who uses the property for business purposes. It should be noted that, in order to mitigate the impact of the Covid-19 crisis, the tax rate has been reduced until 31 December 2020 from 19 % to 16 %. If the seller has exercised the VAT option and VAT is triggered, the quota of space leased out subject to VAT will determine the extent to which the respective purchasers will be able to recover related input VAT. In contrast, the acquisition of real estate is not subject to VAT if the requirements of a transfer of an entire business (Geschäftsveräußerung im Ganzen) are met. Any such transfer requires that substantially all business assets are transferred to the acquirer and that the acquirer continues the operation of the business. If and to the extent the sale and transfer of the properties is considered a regular supply (Lieferung) benefitting from the VAT exemption under statutory German VAT law and no option for VAT is exercised, the seller might have to repay VAT to the tax authorities which has been deducted as input VAT by the seller if existing VAT claw-back periods have not expired when the sale occurs. If the sale and transfer of the property qualifies as a transfer of an entire business, no input VAT correction is triggered. Instead, the respective purchaser steps into the (remaining part of) the VAT clawback periods existing in respect of the property.

5.2 ONGOING TAXATION

Foreign or domestic corporations owning German real estate will be subject to German corporate income tax on their income from letting and leasing of the real estate at a rate of 15.825 % (including solidarity surcharge). In the case of an individual owning the real estate, German income tax at an individual marginal rate up to 47.475 % (including solidarity surcharge) on the rental income will be triggered. For some taxpayers, the solidarity surcharge will no longer apply from 2021. Acquisition costs and expenses borne by the purchaser should be recognised for German tax purposes to the extent that they qualify as ancillary acquisition costs (Anschaffungsnebenkosten) of the real estate or as expenses (Betriebsausgaben) relating to the property. Interest expenses incurred under arm's lengths conditions and actually accrued in the respective business year should generally be tax-deductible against profits derived if such expenses directly relate to 'German source' income (i.e. to the extent relating to the acquisition of the properties) and do not fall within the scope of the interest barrier rules (Zinsschranke).

5.3 GERMAN INTEREST BARRIER RULES

(A) GENERAL RULE

Pursuant to the interest barrier rule, interest expenses of a German business (Betrieb) are, subject to certain exceptions, only tax-deductible up to an amount equal to the sum of (a) the interest income of such business in the same fiscal year and (b) the offset-able EBITDA (verrechenbares EBITDA) of such business. The offset-able EBITDA is defined as 30 % of the EBITDA calculated for tax purposes. The interest barrier rule applies to all kind of debt, irrespective of whether such debt is provided by a third party, a shareholder or a related party to a shareholder. The distinction between shareholder and third party debt is only of relevance with regard to the exceptions as set out below. As a rule, each legal entity constitutes a business for purposes of the interest barrier rule; members of a fiscal unity, however, are accounted for as one single business. Interest expenses and interest income is defined broadly to include all kind of interest taken into account when determining the taxable income, i.e. also income or expenses from the compounding or discounting of receivables or loans.

(B) ESCAPE CLAUSES

There exist three general exceptions to the interest barrier rule, whereby the second and third exception are subject to counter-exceptions where the business is a corporation. Accordingly, the interest barrier rule shall not apply if:

(i) the annual negative interest balance ("ANIB"), defined as the sum of all interest expenses less the sum of all interest income in one fiscal year, increased by any interest carry forward, in one fiscal year is less than EUR 3,000,000;

(ii) the business does not belong to a group of companies, i.e. it is not or only partly consolidated (and cannot be fully consolidated) under IFRS, German GAAP or US GAAP (so-called "stand-alone clause"); or

(iii) the business belongs to a group, but is able to demonstrate that, at the last preceding balance sheet date, its equity ratio is equal to or higher than the equity ratio of the group of which it is a member (so-called "group escape clause"). A shortfall of 2 percentage points of the business in the equity ratio is harmless. The equity ratio is defined as the equity in relation to the total assets, whereby certain adjustments have to be made to the equity and the total assets.

(C) EXCEPTIONS IN CASE OF CORPORATIONS

In case of corporations, the exceptions mentioned above are subject to further qualifications:

(i) The stand-alone clause is applicable to corporations only if the payments for debt capital that are made to ›a shareholder holding directly or indirectly more than one fourth of the share capital, or ›a person related to such a shareholder, or ›a third party with a right of recourse against the shareholder holding more than one fourth of the share capital do not exceed 10 per cent of the net interest expenses of such company.

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(ii) The group escape clause is applicable to corporations only if the payments for debt capital of the corporation or of any other legal entity belonging to such group that are made to ›a shareholder holding directly or indirectly more than one fourth of the share capital in a group company, or ›a person related to such a shareholder, or ›a third party with a right of recourse against a shareholder holding more than one fourth of the share capital do not exceed 10 per cent of the net interest expenses of the such company.

(D) WITHHOLDING TAX

In principle, no German withholding tax ("WHT") should apply to (non-profit-linked) interest payments and rental revenues paid by a German entity. However, in certain circumstances, the German tax authorities may order the application of WHT at a rate of 26.375 % or 15.825 % respectively (including solidarity surcharge). Dividends paid by a German corporation are generally subject to German WHT at a rate of 26.375 % (including solidarity surcharge). The rate might be reduced in the event that a double tax treaty is applicable and might even be reduced to 0 % under the European Parent-Subsidiary Directive, if applicable. However, such reductions of WHT are subject to substantial substance requirements.

(E) TRADE TAX

A foreign investor without a German permanent establishment should not be subject to German trade tax ("TT") on lease income and capital gains. It is generally accepted that the mere leasing and letting of real estate located in Germany to a German domiciled tenant by itself does not constitute a permanent establishment of the respective foreign lessor in Germany. Avoiding a German permanent establishment is essential in order to mitigate German TT. TT ranges, depending on the municipality in which the permanent establishment would be located, from 7 % to more than 17 %. The trade tax base is, in principle, derived from the tax base for German (corporate) income tax purposes (net income) by applying certain add-backs and deductions. Such adjustments relate in particular to interest payments, of which 25 % would be added back and, thus, increase the relevant trade tax base. Please note that if the purchaser were to unintentionally have a German permanent establishment, the add-back for the financing expenses in particular would trigger an additional tax burden. Leasing income might be fully exempt from TT in case of a German lessor SPV which does not conduct any activities other than leasing of own real estate (real estate traders would not qualify for such TT exemption).

(F) VALUE ADDED TAX

The leasing and letting of German real estate is generally exempt from VAT. However, the possibility to opt for VAT is available under certain circumstances and commonly made use of, provided the tenants use the property for business subject to VAT. Please note that no VAT option is feasible for properties used for residential purposes or leased out to tenants rendering VAT-exempt services (such as banks or doctors).

(G) PROPERTY TAX

In general, German real estate owners are subject to property tax in Germany. However, it is virtually standard practice for property tax to be borne by the tenant as an ancillary cost, provided the respective lease agreement comprises such a pass-through provision. The property tax rates range between 1 % and 2 % of a special property value determined under the German Valuation Tax Act (reflecting values as of the year 1964), which is generally substantially lower than the current fair market value of the property.

After the German Federal Constitutional Court (Bundesverfassungsgericht) decided that these values did not reflect economic reality, the rules to determine the special property value have been amended. In principle, the new rules will apply for property all over Germany, but the federal states have the option of determining property tax individually. The property tax based on the new values will be determined for the first time on 1 January 2025.

5.4 TAXATION UPON DISPOSAL / EXIT

(A) ASSET DEAL

Upon disposal of the property, RETT will be triggered at the applicable rate levied on the purchase price, which is generally borne by the purchaser under the respective SPA. However, both seller and purchaser are liable towards the German tax authorities. The corporate seller should be subject to German corporate income tax with its capital gain (purchase price less acquisition cost less disposal cost) at a rate of 15.825 %, but not to TT, provided the purchaser has not established a German permanent establishment. The corporate income tax will be levied via an assessment procedure and Germany is, in principle, also entitled to levy such tax under an applicable double taxation treaty (e.g. with Luxembourg if the seller was a company resident in Luxembourg).

(B) SHARE DEAL

Based on German RETT law applicable as of today, no RETT should be triggered if shares in a corporation are sold to at least two independent purchasers, none of which purchases 95 % or more of the respective shares in corporation. In case of a direct or indirect sale of 95 % or more of the interests in a partnership to one or more purchasers, RETT would, however, be triggered based on the Movement Rules.

As mentioned above, pursuant to a draft law, the RETT rules for share deals shall be changed such that (i) the threshold shall be reduced from 95 % to 90 %, (ii) holding and watching periods shall be extended from five years to generally ten (in certain cases even to fifteen years) and (iii) the Movement Rule shall also apply where the property is held by a corporation. Limited grandfathering rules shall apply.

Capital gains realised by a corporate seller upon the sale of shares in a German corporation owning a German property should be 95 % tax-exempt if the seller is tax resident in Germany and even 100 % if the seller is tax resident outside Germany and does not maintain a German permanent establishment or a German permanent representative, subject to certain exceptions (e.g. for life insurers).

If capital gains are realised by a corporate seller upon the sale of shares in a foreign corpora-

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tion owning a German property, it depends. If the seller is tax resident in Germany, such capital gains are generally 95 % tax-exempt, subject to certain exceptions (e.g. for life insurers). If the seller is tax resident outside Germany, such capital gains are, in principle, subject to limited taxation in Germany if the corporation qualifies as property rich, but should be 100 % tax-exempt, subject to certain exceptions (e.g. life insurers); where an exception applies a double tax treaty might provide protection.

The sale of interests in a foreign or German partnership is treated like an asset deal and triggers (corporate) income tax and potentially – in case of a German permanent establishment – trade tax.

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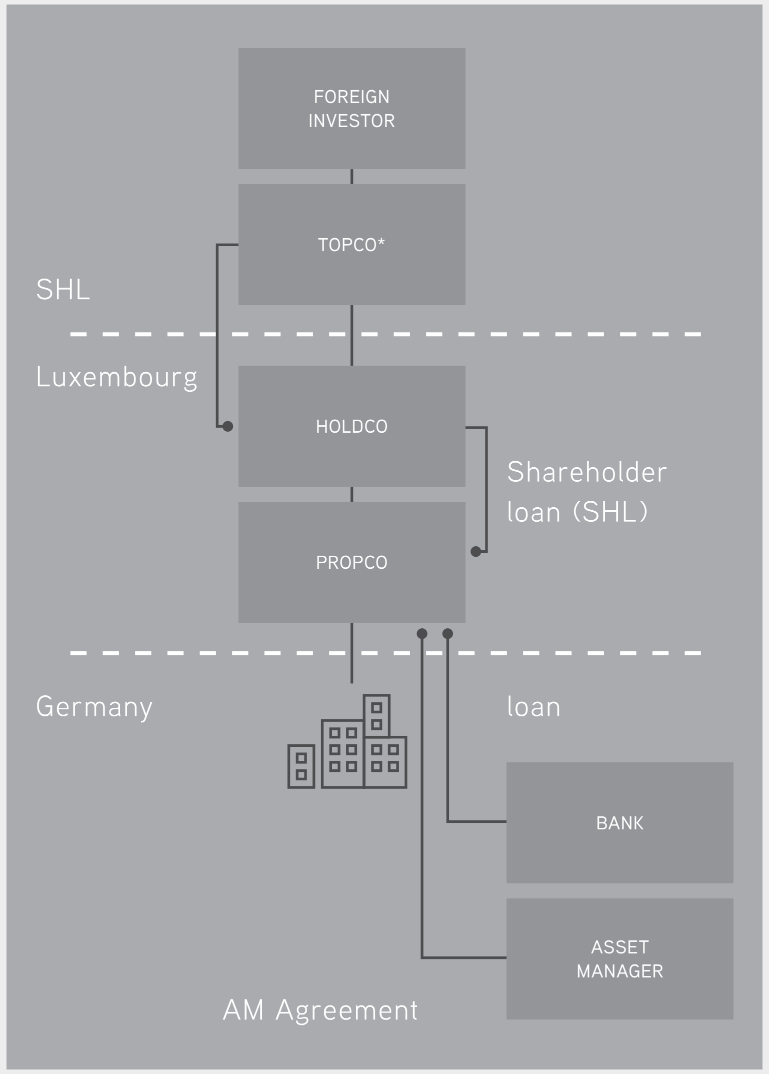
The sale of interests in a foreign or German partnership is treated like an asset deal and triggers (corporate) income tax and potentially – in case of a German permanent establishment – trade tax.

6. TYPICAL SPV STRUCTURE FOR A FOREIGN INVESTOR

Foreign investors usually acquire German real estate through a tax-optimised unregulated structure by using a Luxembourg HoldCo and Luxembourg PropCos. A Dutch holding structure might also be considered.

Please see the following examples below:

ALTERNATIVE 1: TYPICAL STRUCTURE WITH LUXEMBOURG S.À R.L. AS PROPCO



› Assumption: acquisition of property for 200m (70 % building and 30 % land), bank loan 120m, shareholder loan 50m, annual lease payments 10m, other expenses 2 % of annual lease payments.

ONGOING CORPORATE INCOME TAX IN GERMANY P.A.

LEASE PAYMENTS		**10M**
expenses (incl. asset management)		./. 0.2m
= EBITA		**9.8m**
depreciation building: 3 %		./. 4.2m
interest on SHL: 4 % (subject to interest benchmarking)		./. 2.0m
interest on bank loan: approx. 1 %		./. 1.2m
= taxable income before interest barrier rule		**2.4m**
interest deduction limited in principle to € 3 million p.a. (exceeding interest only deductible if and to the extent interest is less than 30 % of EBITDA)		
according to interest barrier rule only 30 % of the EBITDA for tax purposes is deductible: i.e. 30 % of 9.8m	2.94m	
Interest amount non-deductible	3.2m ./. 2.94m =	+ 0.26m
= taxable income		**2.66m**
corporate income tax (15.825 %) on 2.66m		**0.42m**

* HONG KONG, SINGAPORE

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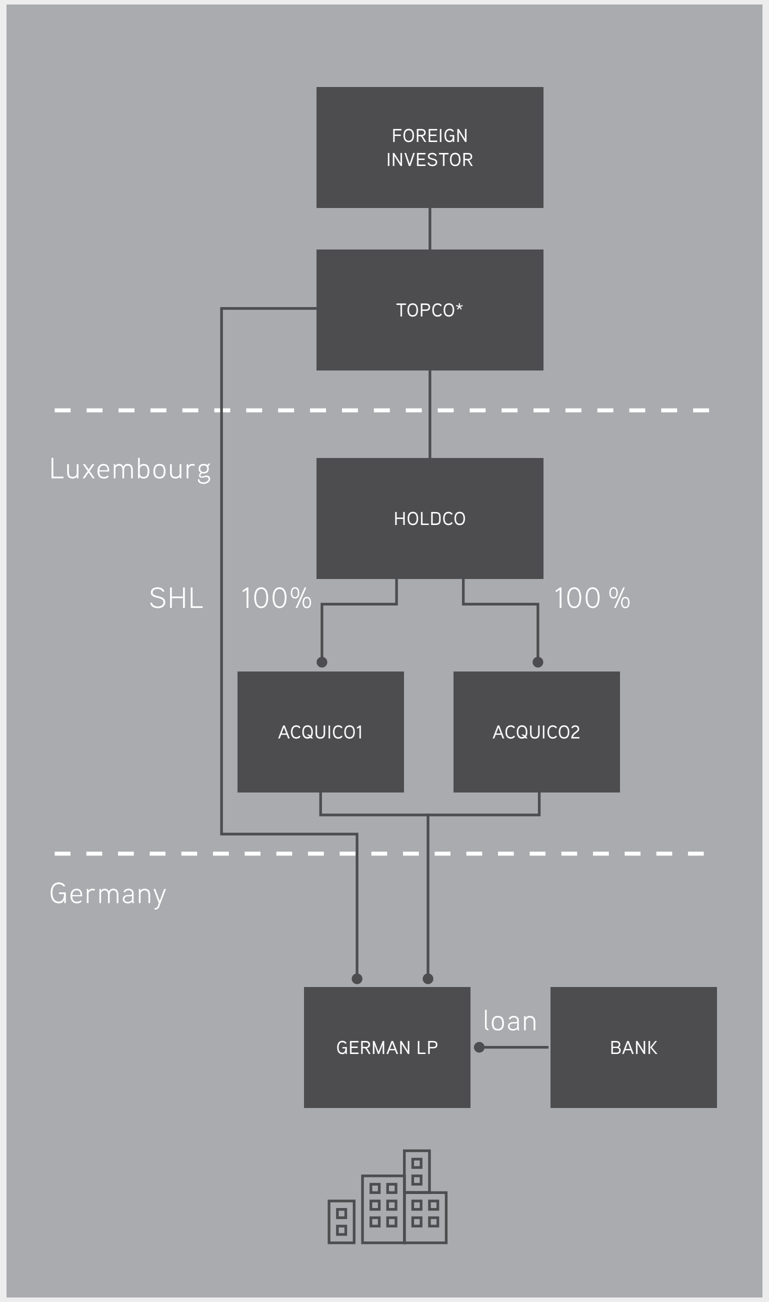
ALTERNATIVE 2: STRUCTURE WITH GERMAN LP AS PROPCO TO MITIGATE LIMITATION OF INTEREST DEDUCTIBILITY IN GERMANY



* HONG KONG, SINGAPORE

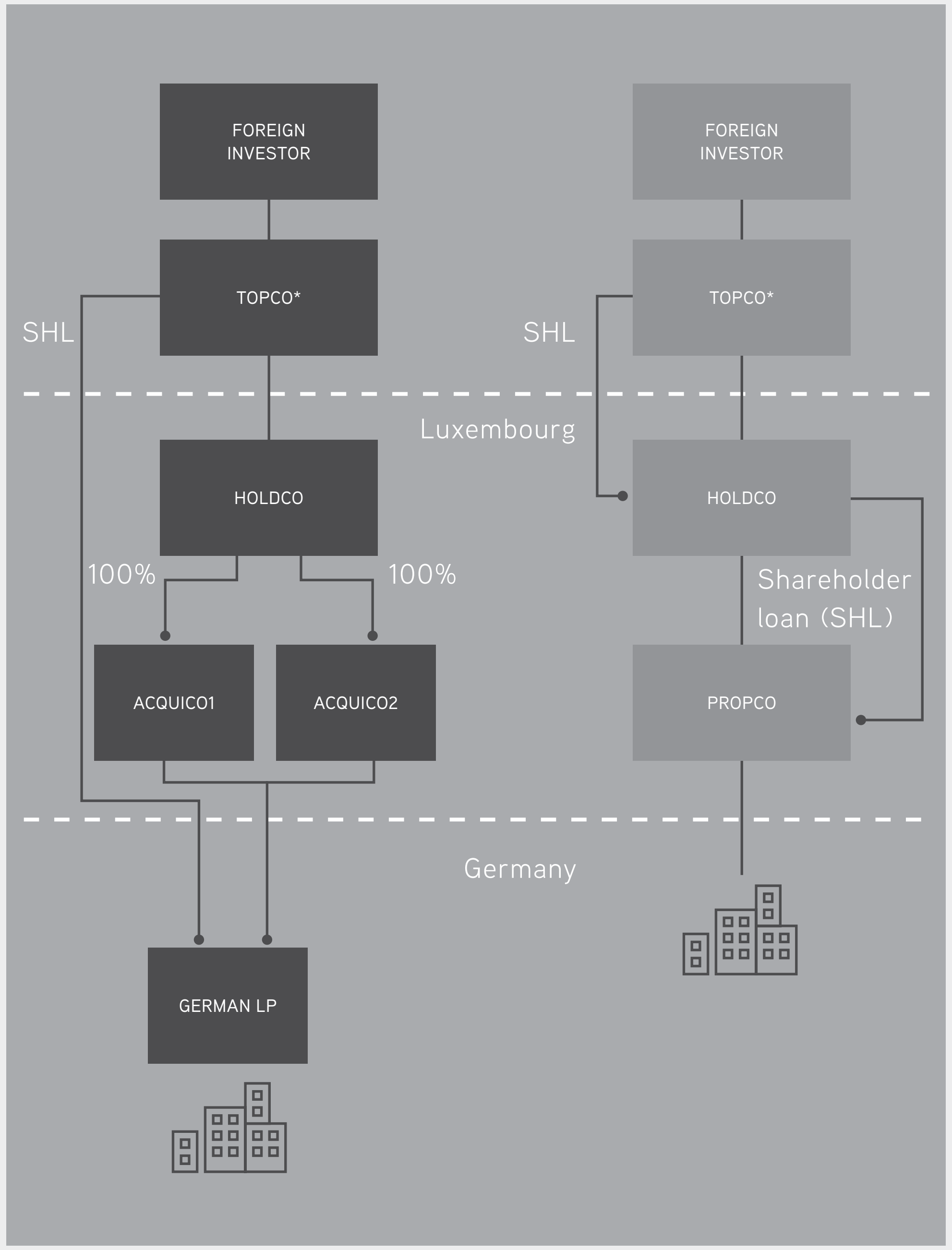
- Mitigation of € 3 million interest threshold e.g. by interposing German tax transparent limited partnership and investment through 2 (or more) intermediate AcquiCos.
- German Partnership disregarded for income tax purposes.
- Interest payments allocated to AcquiCo1 and AcquiCo2; € 3 million interest threshold applied at each AcquiCo level.
- Interest fully tax deductible if and to the extent arm's length.

ONGOING CORPORATE INCOME TAX IN GERMANY P.A FOR ACQUICO1 / ACQUICO2 RESPECTIVELY

(assumptions as in alternative 1, but income and expenses split between AcquiCo1 and AcquiCo2)

	AcquiCo1	AcquiCo2
Lease payments	5m	5m
expenses (incl. asset management)	./. 0.1m	./. 0.1m
depreciation building: 3 %	./. 2.1m	./. 2.1m
interest on SHL: 4 % (subject to interest benchmarking)	./. 1.0m	./. 1.0m
interest on bank loan: approx. 1 %	./. 0.6m	./. 0.6m
= taxable income before interest barrier rules	1.2m	1.2m
interest barrier rule does not apply at the level of AcquiCo1/AcquiCo2 since interest expenses are below EUR 3m at each AcquiCo level		
= taxable income	1.2m	1.2m
corporate income tax (15.825 %) on 4.1m	0.19m	0.19m
Consolidated		0.38m

CORPORATE INCOME TAX IN GERMANY UPON EXIT IN ALTERNATIVE 1 AND 2



■ ALTERNATIVE 2 * HONG KONG, SINGAPORE

	ALTERN. 1	ALTERN. 2
	PropCo	GermanLP
Assumption: capital gain	50m	50m
capital gains tax (15.825%) in case of asset deal	7.913m	7.913m
capital gains tax if shares in PropCo are sold	0	n/a
capital gains tax (15.825%) if shares in German LP are sold	n/a	7.913m
capital gains tax (15.825%) if shares in AcquiCos are sold	n/a	0

10. ADVISORY TEAM

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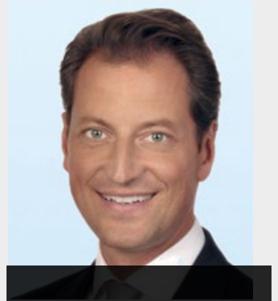

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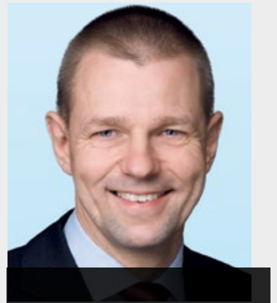

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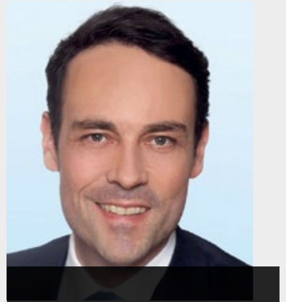

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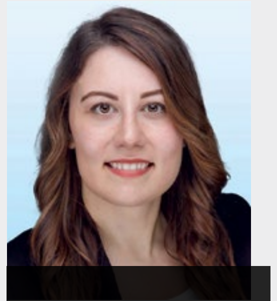

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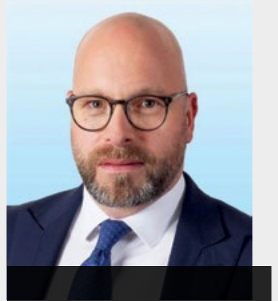

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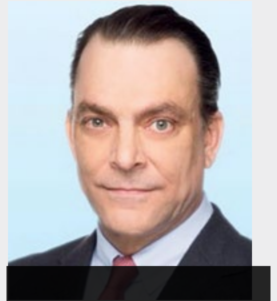

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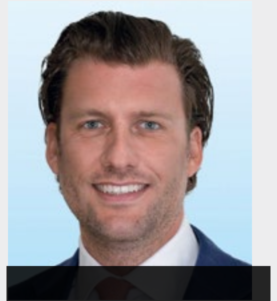

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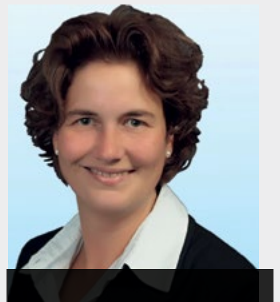

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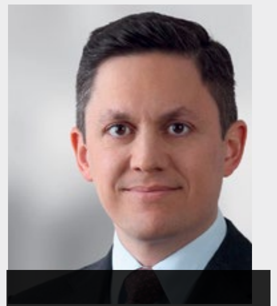

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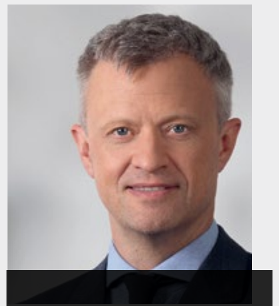

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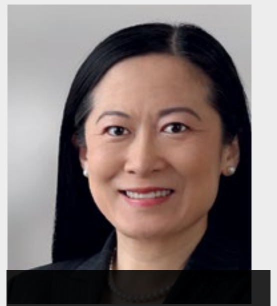

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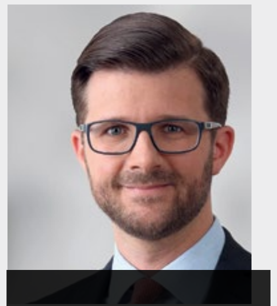

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