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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 countires

Contents

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Managing Director

Head of Capital Markets | Germany

In view of the difficult conditions we all faced during the second year following the outbreak of the global Covid-19 pandemic, it is a particular pleasure for me and my team to present to you the 5th edition of our "Investing in German Real Estate" guide. Ultimately, the market developments of the past 12 months provide impressive evidence of what makes the German real estate market stand out in an international comparison: value and stability. After occupiers and investors took a short break for orientation in mid-2020, we saw a revival in activity despite the second lockdown in Germany that started in early November. Now, at mid-2021, the market is almost back to "normal." Most importantly, the Covid-19 crisis, which marked an abrupt break in the country's outstanding investment boom, has given cause to reassess the quality and future viability of properties through heightened risk awareness, something that cross-border investors, in particular, appreciate. Likewise this environment created new opportunities at modified price levels to profit of the countries future growth.

Similar to previous editions, this investment guide primarily focuses on our international clients with the aim of providing a compact overview of the German investment market as a whole as well as the country's seven most important investment centers. In proven cooperation with Clifford Chance, we are also able to provide an update on the legal and tax framework involved in real estate acquisitions in Germany.

My team and I are happy to be at your disposal to clarify any questions you may have regarding your individual investment strategy. Please do not hesitate to contact us.

Your Colliers Team

1. Introducing Germany

1.1 Federal Structure

The Federal Republic of Germany is a federation with approximately 83.1 million inhabitants. The capital city is Berlin with a population of about 3 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, Cologne, Düsseldorf, Frankfurt am Main, Hamburg, 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. Real GDP at 2015 prices came to € 3.067 bn in 2020.

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 and 2020 in the wake of the two exceptional global recessions, the country has been experiencing a drop in unemployment. The "reduced hours" model, which proved effective in bridging the severe recession in 2009, has also helped the German 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. This broad economic basis is one of the major reasons for its extraordinary crisis-resilience. Experts predict that the country will return to its pre-crisis employment and economic output levels as early as 2022.

Sectors, brands

Germany is home to 27 of the world's top 500 companies according to the latest annual Fortune Global 500 ranking, which measures the leading 500 listed companies based on revenue. In addition, Germany also boasts the largest number of hidden champions per country, i. e. companies that are less visible but that hold a dominant position in the industry. Eight of the top 100 companies worldwide are German corporations.

Besides engineering and automotive, key industries in Germany include a variety of sectors such as ICT, insurance, chemicals, retail and trade as well as the financial services sector. companies less visible but with a dominating position in the industry.

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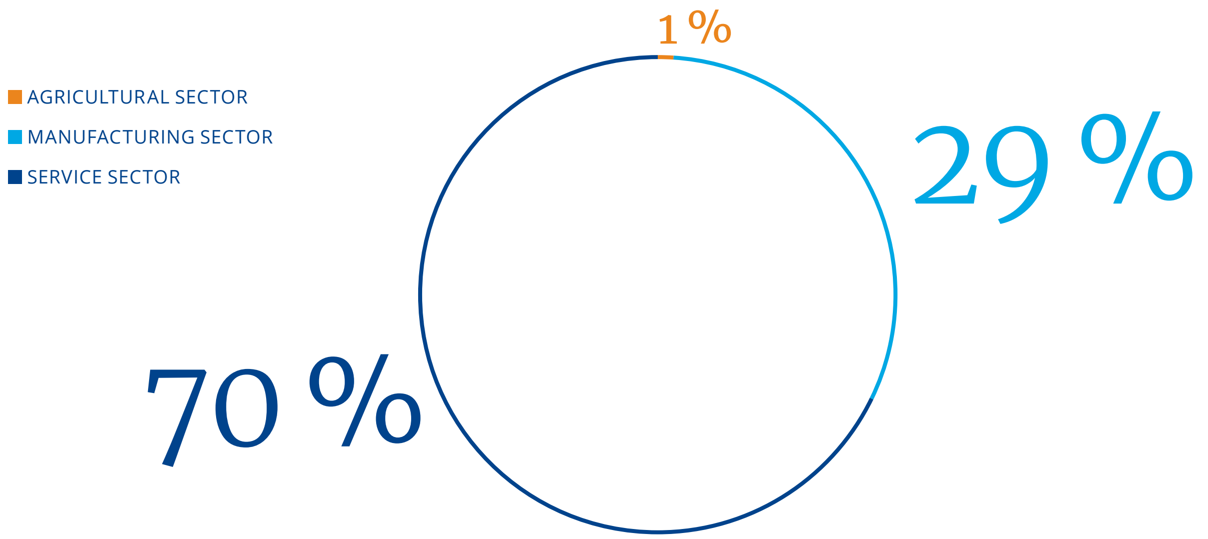
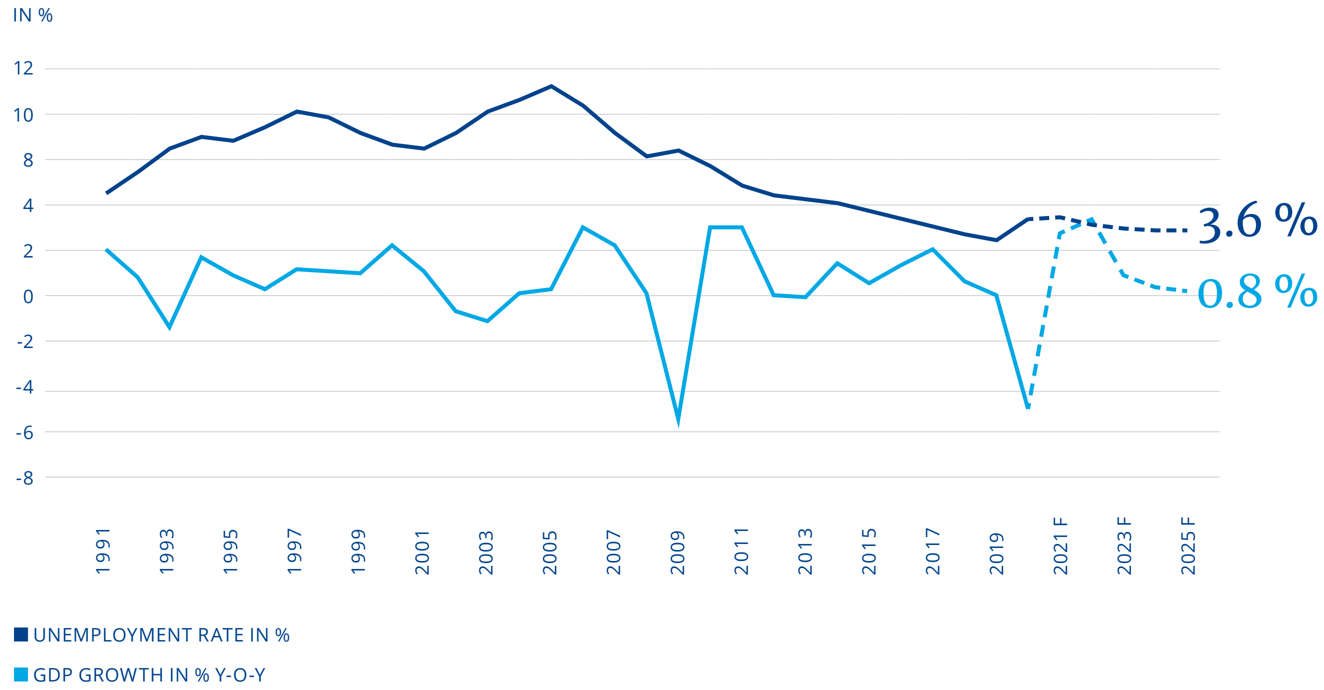
Economic Structure (Share of GDP 2020)



SOURCE:
FEDERAL STATISTICAL OFFICE

GDP growth and unemployment rate



SOURCE: OXFORD ECONOMICS

Germany's TOP Companies 2021 (Forbes Global 500)

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

$ 253	VOLKSWAGEN
$ 175	DAIMLER
$ 136	Allianz
$ 115	TELEKOM
$ 112	BMW GROUP
$ 81	BOSCH
$ 76	Deutsche Post DHL Group
$ 74	Munich RE
$ 70	e.on
$ 69	BASF We create chemistry
$ 63	SIEMENS
$ 48	BAYER
$ 46	talanx.
$ 45	DEUTSCHE BAHN
$ 44	EDEKA
$ 42	Continental
$ 41	FRESENIUS
$ 39	thyssenkrupp
$ 37	DEUTSCHE BANK
$ 37	ZF FRIEDRICHSHAFEN
$ 36	METRO GROUP
$ 35	Heraeus
$ 35	DZ BANK Die Initiativbank
$ 32	PHOENIX group
$ 31	SAP
$ 30	SIEMENS energy
$ 26	Boehringer Ingelheim

2. Why Germany

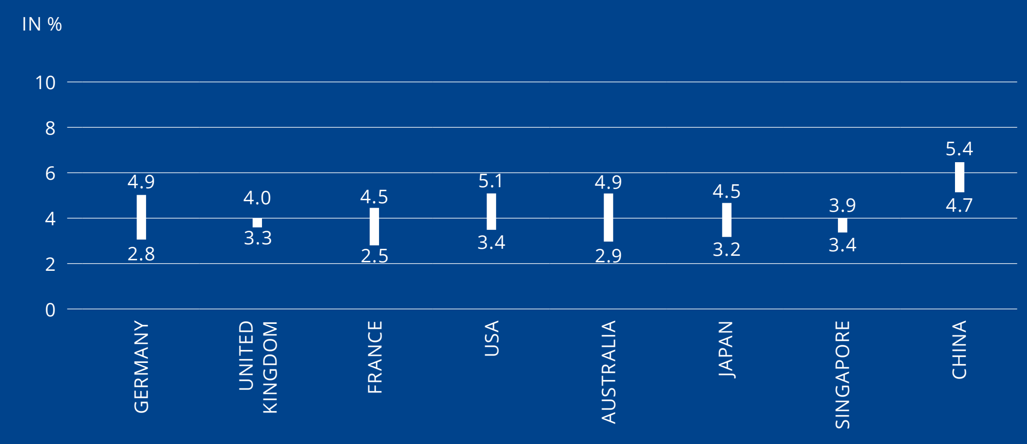
- Germany has one of the world's leading economies, is the economic center of Europe and is a global export country
- The country's population is focused on sustainability and drives the trend in Europe towards more ESG conformity
- A highly liquid real estate market means easy entry and exit
- The German 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, high liquidity 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	83.121	3.669	1.088	622	763	1.847	1.484	636
GEOGRAPHIC AREA IN KM²	357.581	891	405	217	248	755	311	207
EMPLOYEES PAYING SOCIAL SECURITY CONTRIBUTIONS IN 1,000	33.700	1.563	588	434	605	1.010	904	430
UNEMPLOYMENT RATE IN %	5,7	9,8	9,5	7,9	6,6	7,6	4,9	5,2
PER CAPITA DISPOSABLE INCOME IN €	23.861	22.015	25.316	28.075	26.540	25.144	29.870	26.737

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

Yield Volatility of Prime Offices (2011 – H1 2021)

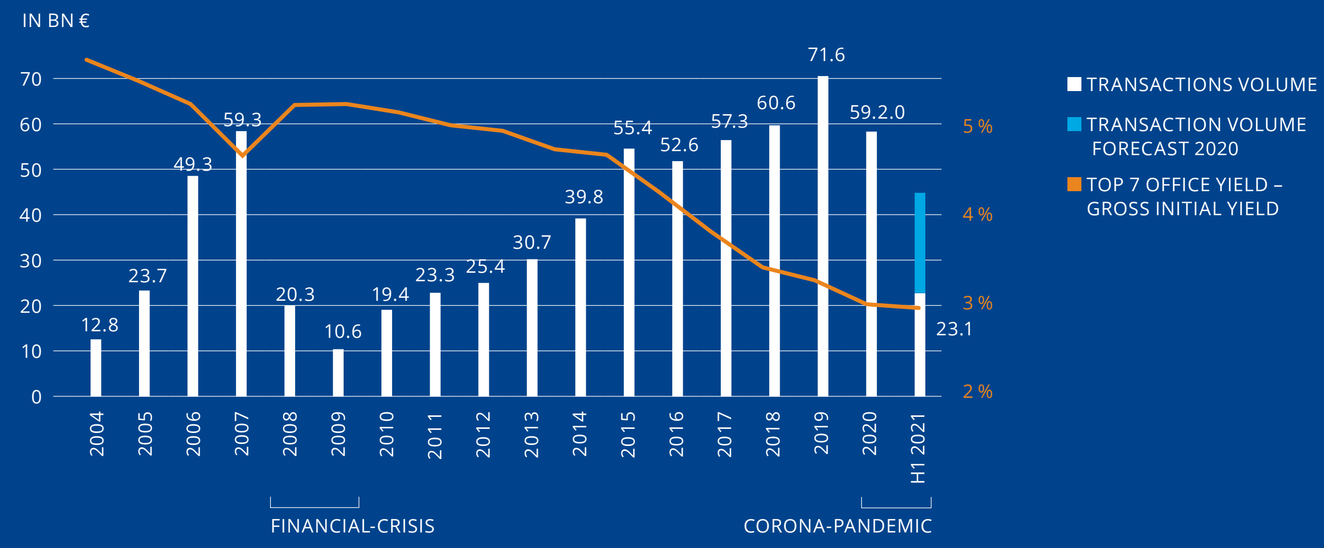


SOURCE: COLLIERS

PRIME CBD YIELD: THE YIELD AN INVESTOR IS PREPARED TO PAY TO BUY A GRADE A BUILDING, FULLY-LET TO HIGH QUALITY TENANTS AT AN OPEN MARKET RENTAL VALUE IN A PRIME LOCATION.

LEVERED CAP RATES	MIN	MAX
GERMANY	4.6	8.0
UNITED KINGDOM	5.6	6.2
FRANCE	4.0	7.2
USA	5.8	8.4
AUSTRALIA	4.8	8.0
JAPAN	5.4	7.2
SINGAPORE	5.8	6.0
CHINA	8.4	9.0

Commercial Transaction Volume (TAV) in Germany



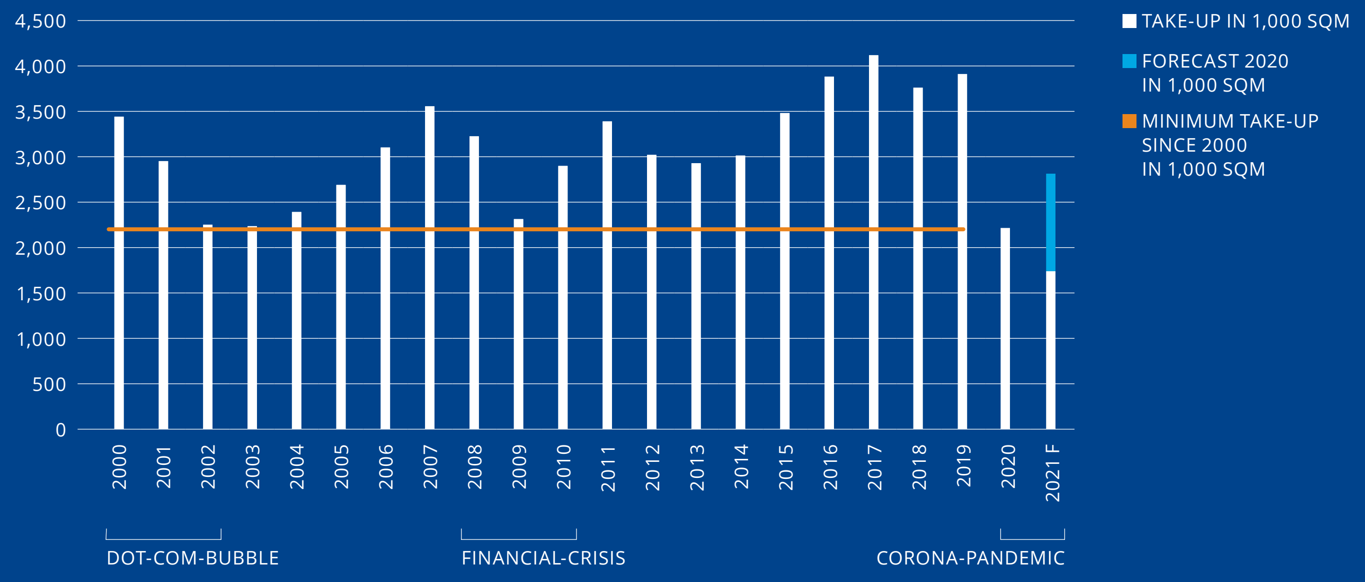
SOURCE: COLLIERS

3. German Investment Market at Mid-Year 2021 – Back On Track

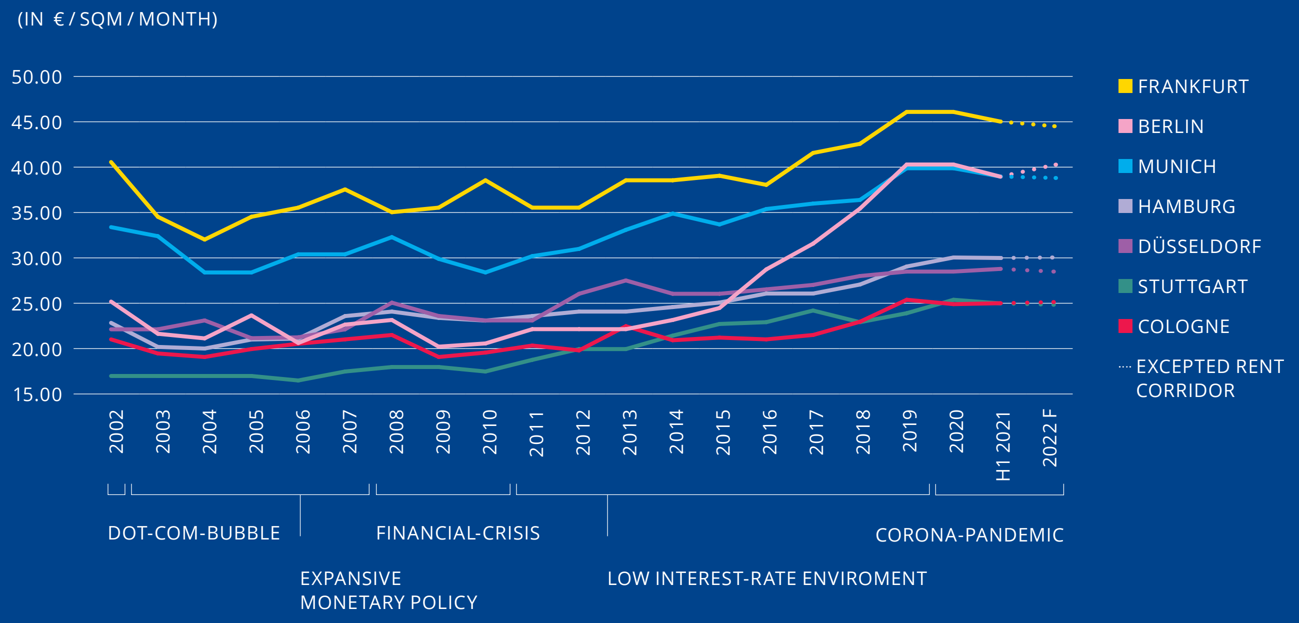
The German investment market is back on course. With a mid-year result almost in line with the levels seen in previous boom years, investment activity proved quite lively after a short breather at the beginning of the year. A key driver here was the return of several megadeals with a volume upwards of € 500 m. The deals signed in the first half of the 2021 changed hands with full knowledge of the pandemic and its impact and are therefore a clear sign of confidence in the German investment market. Investment strategies are already being realigned in the wake of the pandemic with a growing shift towards more resilient usage types. In light of this trend, property developments in the popular logistics and office segments, particularly assets under long-term lease, will gain significance as an investment product.

- With a number of major deals in the pipeline, including previously scarce portfolios, combined with pent-up demand, particularly from foreign investors, we can expect annual transaction volume for 2021 to exceed € 55 bn.
- German transaction volume proved more crisis resilience than results in the rest of Europe due to effective management of the pandemic, massive fiscal response and the capacity of market players to adapt to the crisis
- 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 historically low levels.
- No return to the peak levels seen after the dot-com bubble and global financial crisis expected
- Moderate increase in vacancy is keeping rents high; rents in most cities not expected to drop. This is backed by high surplus demand prior to the outbreak of the crisis, a moderate development pipeline and an expected reduction in speculative development in the medium-term
- Quality of space becomes more important and creates chance to further increase rents
- Office take-up has consistently posted minimum levels even during crises – 2.3 million sqm after both the dot-com and the global financial crisis and expected to increase the next 12 months

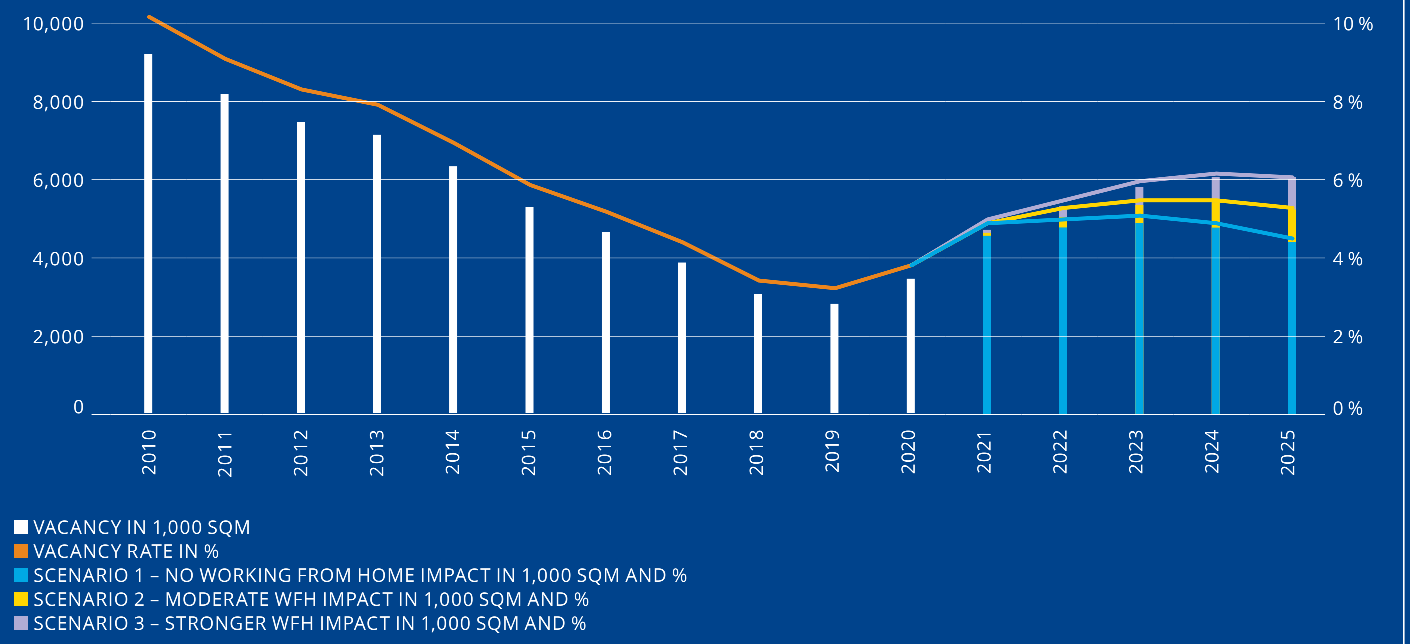
Aggregated Take-Up in TOP 7 Office markets



TOP 7 prime office rents – Impact of past crises



Colliers vacancy forecast 2021–25



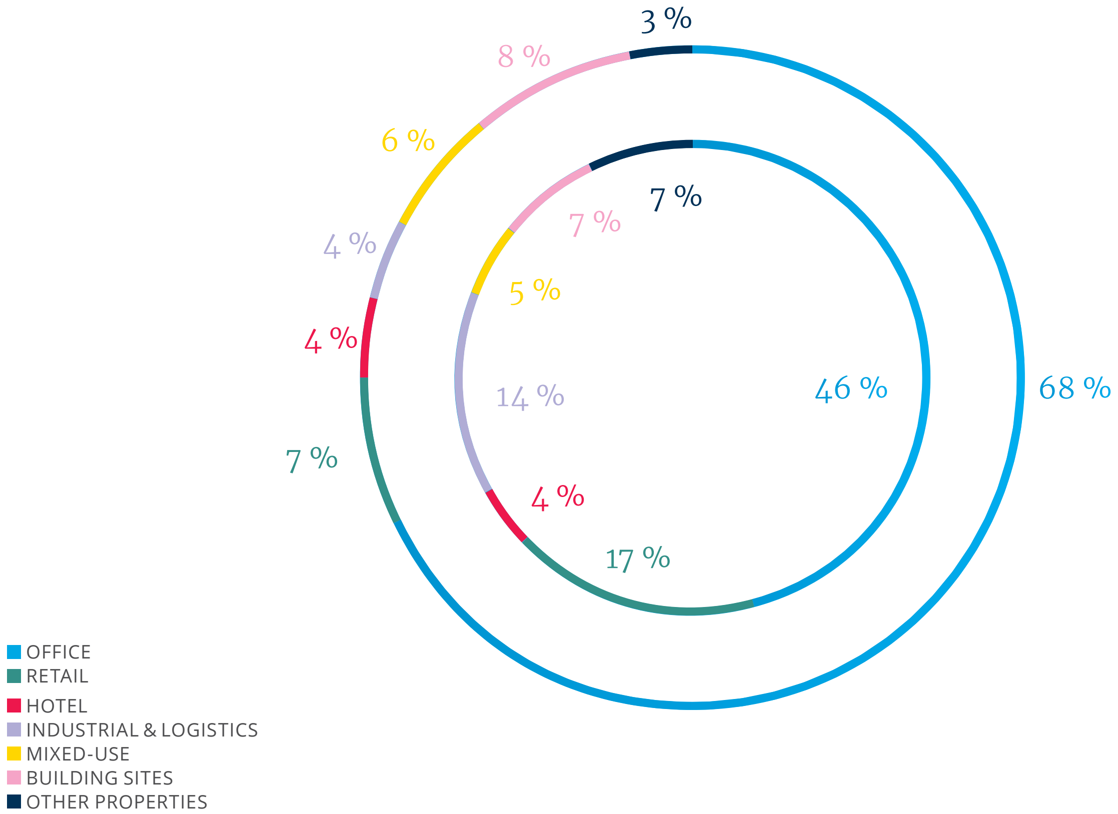
We assume that higher WFH* ratios will lead to lower office space per employee in some of the new leases, but that the share of general space (including retreat rooms, conference rooms, etc.) will increase. The bottom line is that office space per employee will only decline slightly. In Germany's top 7 cities, this does not mean a structural break in the previous trend, even though vacancy rates at most locations will be higher at the end of the period under review than before the crisis. This will be flanked by the ongoing favorable trend in office employment, albeit at a slower pace and a decline in speculative new-build activity.

For the end of 2021, we forecast vacancy rates ranging from 2.5 % (Berlin) to 8.8 % (Frankfurt). We expect vacancy rates to peak in 2023 / 2024 under the economic and structural influence of the Covid-19 crisis as we asses the situation today. In the country's top 7 markets, where supply has been very tight for years, an increasing WFH impact could provide relief in line with the market as the economic consequences of Covid-19 begin to fade. In view of this moderate vacancy trend, prime rents have been largely stable and have not come under pressure due to the pandemic, while average rents have fallen slightly.

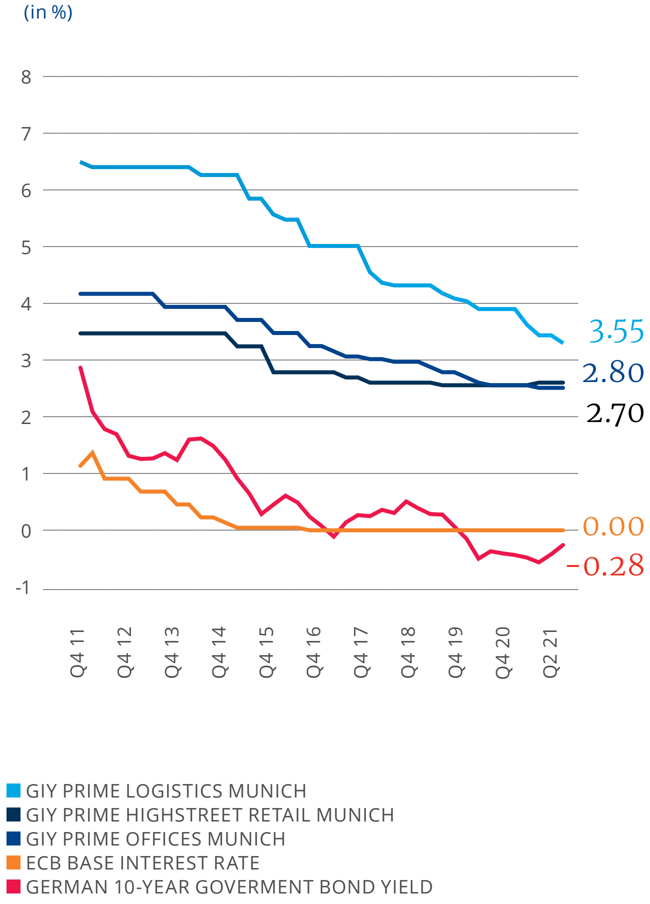
*WHF = WORKING FROM HOME

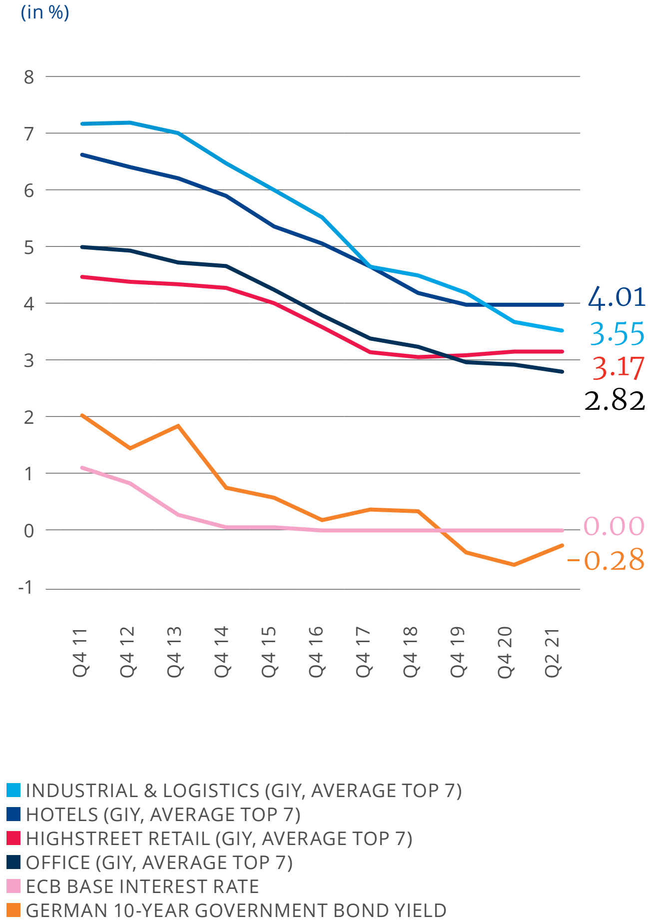
Commercial Transaction Volume By Property Type 2020 & H1 2021

OUTER RING: TAV TOP 7 INNER RING: TAV GERMANY



Yields and Interest Rates





- Office has solidified its position as most popular asset class ahead of highly sought-after industrial and logistics assets. Investor appetite for office assets remains strong despite discussions around the shift to remote working, which have become more objective a year into the pandemic and market players are now analyzing the situation more closely when it comes to reducing space requirements.
- Industrial and logistics assets were able to strengthen their position among the more established usage types in terms of popularity. Many newcomers to the segment joined the investment activity, attracted by the resilience of the asset class in light of the boost in e-commerce sparked by the pandemic.
- As for retail assets, demand for retail warehouses and retail parks with a food anchor remains high. Food retail experienced a boost in demand in the wake of the pandemic due to its essential nature. Market activity was also shaped by the sale and acquisition of shares in a number of department store portfolios, which offer the perspective of attractive returns thanks to their potential for conversion into mixed-use properties due to their location in the heart of the city centers.
- Deals involving commercial sites increased, climbing the ranks to fourth place, an indication of investors' trust in the robustness of the market.
- Although hotels have been most affected by the crisis, sentiment on the hotel market is beginning to brighten. With prolonged negotiations and financing banks conducting extensive reviews, it may be some time before hotel assets see investment activity return to previous levels.

- Due to increased risk awareness among investors and a trend towards "flight into quality," prime yields remained generally stable at very low levels over the past year. Locations and segments that posted core benchmark deals saw some yield compression, which should spread even further afield in coming months. Current negotiations point to further price hikes for core products in a number of locations.
- Besides offices, excess demand for logistics assets has already pushed down prime yields in top locations throughout the country and they have not yet to reach their trough at a current all-time low of 3.55 %.
- As beneficiaries of the crisis, retail warehouses with a food focus and food-anchored retail centers will see further risk-adjusted price increases over the course of 2021 and net yields will continue to fall towards 4 %. Against this background, a timely entry into the market segment is recommended. In contrast, downtown commercial properties, which were heavily affected by both lockdowns, have played a rather minor role in terms of investment activity and anticipated yield increases remained elusive due to insufficient transaction numbers.
- In the case of the risk-free classified 10-year federal bonds, yields have been slipping into negative territory since mid-2019. This trend can be attributed to higher risk aversion among investors as well as to a liquidity glut on the investment markets brought about by low interest rates. As a result, a still high yield gap of almost 300 bps to 400 bps on prime property investments underlines the unbroken attractiveness of real estate investments. In addition, financing costs for prime product also remained low. At the same time, however, banks are proving more selective and risk sensitive than prior to the outbreak of the crisis.

4. Forestry

Forestry: Emerging asset class in the realm of ESG-conscious investments

Private and institutional investors in Europe have become increasingly aware of forests as an asset class in recent years. This shift can be traced back to a number of factors. Unlike real estate, forests are not exposed to wear and tear. In addition to the asset class' stable performance, its low correlation to other asset classes is another important factor that can be used to increase portfolio diversification, thereby reducing overall risk exposure. This diversification can also prevent losses due to inflation. Global demand for wood products ranges from long-term stability to growth and is easy to predict.

The critical role that forests play in mitigating climate change has become widely recognized as well. Forests extract CO_2 from the atmosphere, filter air and water and preserve biodiversity. Financial rewards that take into account the important role forests play in protecting the climate are currently the subject of political debate in Germany and have, in principle, already been adopted by the German Bundestag. Countries such as New Zealand and Scotland have already established effective models that create additional return on investment in addition to income from timber production.

Forest and afforestation areas can be purchased around the globe in almost any size. The only decisive factors here are the investor's individual risk-return profile and their access to a professional asset manager. Colliers Agriculture & Forestry division uses its international network and presence to successfully identify assets and find the right manager.

Long-term yields of 1.5 % p. a. are currently realistic in Germany without factoring in any increase in land value. Yields abroad are posting a current 3 %–6 % p. a. without disproportionately higher risk. Compliance with ESG criteria, which for forest land is ensured via certification, plays a significant role for many investors as the asset class is considered a classic sustainable investment.

In recent years, the German timber market has had to deal with considerable timber damage by storm or pests. This had a significant impact on raw timber prices and the income situation of forestry businesses. Prices recovered noticeably in 2021, however, and the current outlook is favorable.

Based on past performance, investments in this asset class still offer considerable return potential and protection against inflation long term.

Reasons to invest

1. Forest properties offer strong yields – provided that purchase prices are attractive and professional management is in place. Demand for high-quality timber will remain stable long term and timber growth can be planned.

2. Forest investments provide sensible diversification, effectively reduce overall portfolio risk and protect against losses due to inflation. long term and timber growth can be planned.

3. Forests are the only form of land use that cost-effectively extracts CO_2 from the atmosphere and stores it for long periods. Forests also benefit the ecosystem in many other ways, e.g. by conserving water and filtering dust and soot. As such, forests are currently undervalued.

4. Potential uses of wood continue to increase in the EU. Plastics, steel and concrete are increasingly being replaced by wood thanks to new technologies, which will drive demand and timber prices going forward.

5. Forest investments can also be advantageous from a tax perspective, e. g. in terms of inheritance tax.

6. Depending on the location and wildlife population, hunting rights can be licensed out as an attractive additional source of income. Investors who hunt themselves have the opportunity to combine an economically sensible investment with memorable experiences outdoors.

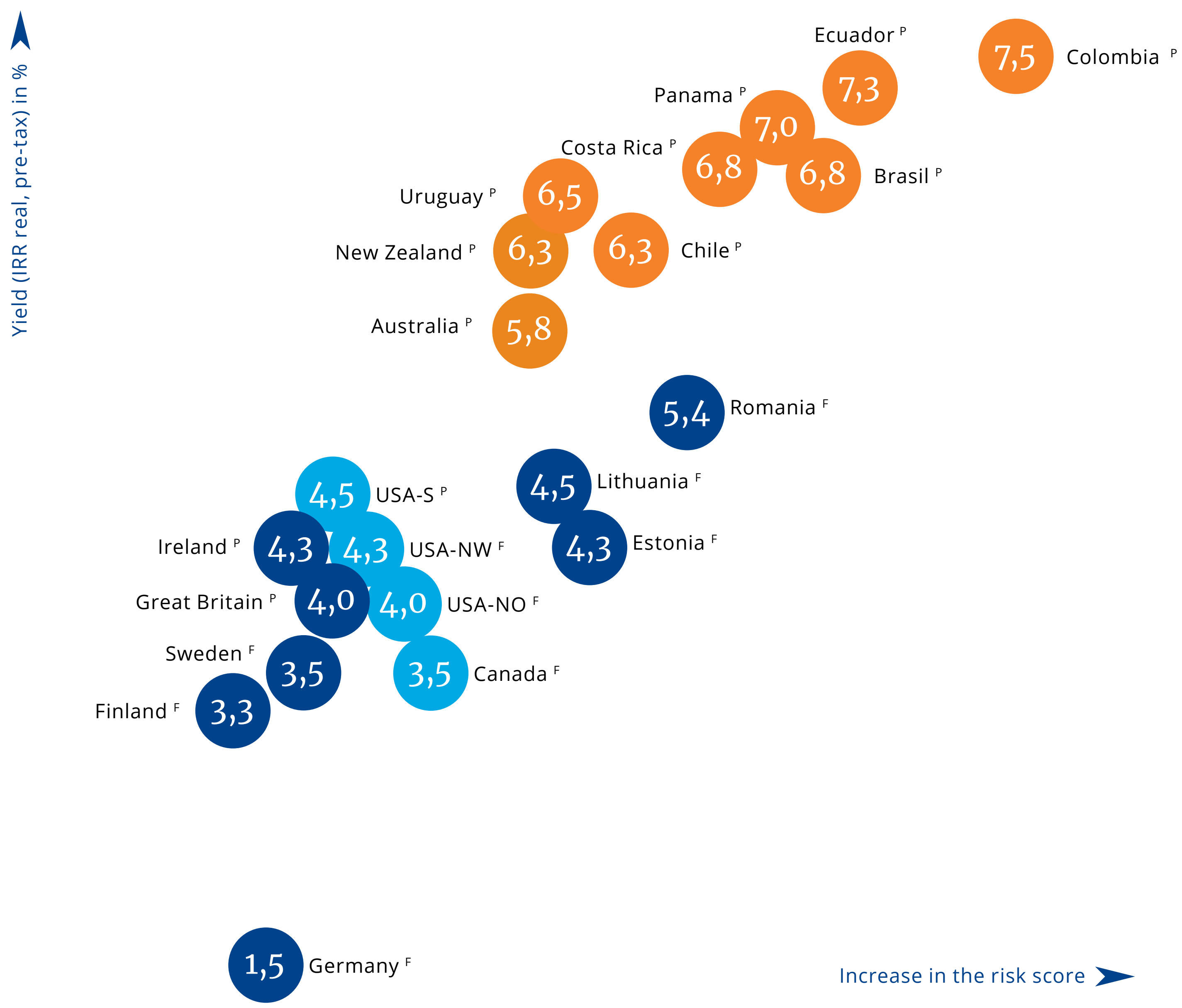
Global risk and yield overview

Long-term sustainable yields in Germany currently come to roughly 1.5 % p. a. plus upside potential. Significantly higher yields can be achieved in other European countries, in some cases at only slightly higher risk.

North America, Oceania and Latin America also offer attractive investment opportunities that would complement any portfolio. Only countries where land ownership is possible have been selected.

■ EUROPE
■ NORTH AMERICA
■ LATIN AMERICA
■ OCEANIA
F FOREST
P PLANTATION

SOURCE: V. SCHMIDT, N. (2021). RISK RETURN MODEL (RRM) FOR INTERNATIONAL FOREST INVESTMENTS. UNPUBLISHED PAPER.



Forestry investment

Demand for forest investments has increased in recent years. This can be attributed to the asset class' reliably predictable yields, as timber growth can be easily planned and demand for high quality timber remains stable.

German forests also offer growth and upside potential going forward, in part due to rising land values, growing demand for wood as a raw material and potential valorization of the ecosystem services provided by forests. The German forest property and transaction market, similar to the ownership structures involved, is quite fragmented and not very transparent.

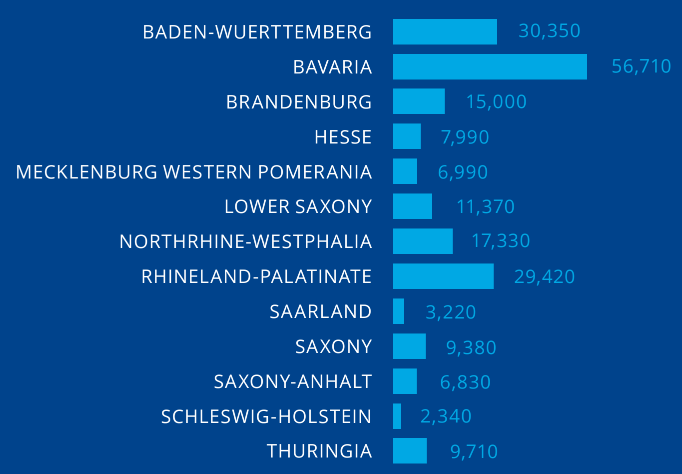
A total of 206,640 deals were signed for forest property in Germany in the past 10 years. A total of 383,740 hectares of forest area changed hands in these deals, reflecting an average of only 1.8 hectares per transaction.

Bavaria accounted for **56,710 of these transactions**. However, as only 58,980 hectares changed hands within the context of these deals and considering the average of just over one hectare per transaction, Bavaria is significantly below the national average of 1.8 hectares (2018).

Only **15,000 transactions** were recorded in Brandenburg in the past 10 years. However, 88,860 hectares of forest area were sold within the scope of these deals.

This reflects **5.9 hectares** per transaction. That puts the average in Brandenburg at more than three times the national average. This can be attributed to the ownership structure in Brandenburg and, in particular, to the reprivatization of forest properties in the state between 1990 and 2014.

TOTAL PURCHASE CASES 2009–2018



PURCHASE CASES IN GERMANY

SOURCE: AK OGA 2019 – IMMOBILIENMARKTBERICHT DEUTSCHLAND 2019

Forestry investment

Almost twice as many transactions (133,810) compared to Germany's other states were registered in the four German states of Bavaria, Baden-Wuerttemberg, Rhineland-Palatinate and North Rhine-Westphalia. This high number can be attributed to the fact that these four states have larger forested areas and a more fragmented ownership structure.

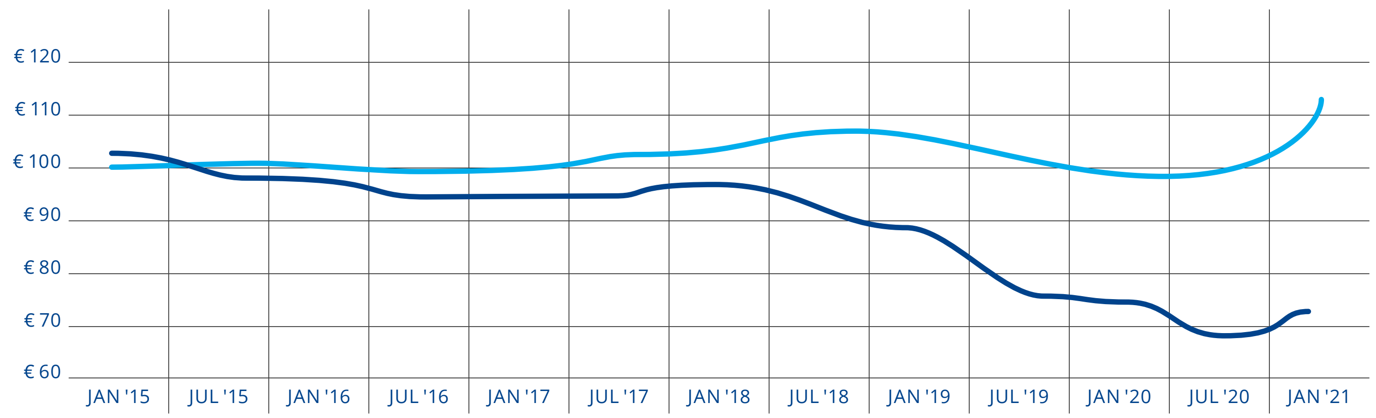
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	SUM 10Y
BADEN-WUERTTEMBERG	2,500	2,510	5,550	4,770	3,320	3,250	2,320	2,440	1,850	1,840	30,350
BAVARIA	7,310	7,220	5,150	4,740	4,630	4,650	5,450	5,800	5,710	6,050	56,710
BRANDENBURG	1,440	1,560	1,760	1,920	1,830	1,660	1,370	1,180	1,190	1,090	15,000
HESSE	680	870	790	780	720	690	880	920	830	830	7,990
MECKLENBURG WESTERN POMERANIA	770	720	650	660	790	810	630	620	720	620	6,990
LOWER SAXONY	1,290	1,360	1,370	1,230	1,140	1,170	930	960	980	940	11,370
NORTHRHINE-WESTPHALIA	1,700	1,670	1,840	1,710	1,660	1,880	1,770	1,810	1,600	1,690	17,330
RHINELAND-PALATINATE	3,520	3,440	2,960	2,850	2730	3,080	2,310	2,790	2,900	2,840	29,420
SAARLAND	370	420	260	230	350	370	290	310	330	290	3,220
SAXONY	1,090	1,060	850	840	970	990	960	830	860	930	9,380
SAXONY-ANHALT	950	770	860	900	650	640	590	480	480	510	6,830
SCHLESWIG-HOLSTEIN	360	400	300	270	110	100	220	200	190	190	2,340
THURINGIA	830	840	1,120	1,170	1,140	1,110	930	870	810	890	9,710
GERMANY	**22,810**	**22,840**	**23,460**	**22,070**	**20,040**	**20,400**	**18,650**	**19,210**	**18,450**	**18,710**	**20,6640**

INCREASE DECREASE

Price trend for round timber vs. wood products

Round timber prices remained stable between 2015 and 2018 before dropping significantly in the following years. This change was the result of a strong oversupply of coniferous timber, a situation that is directly related to the impact of climate change as well as forest damage from storms, drought and bark beetle infestation. Prices for wood products, on the other hand, experienced a much milder decline and saw a significant turnaround, especially as of 2020. This trend has mainly been driven by strong demand for building and construction timber from the US, which has also resulted in large quantities of timber products from Scandinavia being exported to the US rather than to Europe, as is usually the case. With the warehouses of German timber traders and sawmills still full due to the favorable round timber prices, forest owners were not able to benefit from these price increases for timber products. However, with round timber stock decreasing, particularly since early 2021, prices for fresh round timber are set to recover in Germany.

RAW WOOD VS WOOD PRODUCTS PRICE TREND

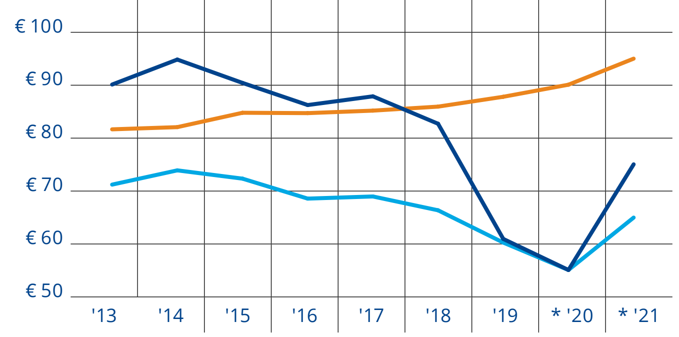


PRODUCER PRICE INDEX FOR LOGGING PRODUCTS P. P. I. FOR INDUSTRIAL WOOD PRODUCTS (SAWN, ALSO PLANED OR IMPREGNATED)

SOURCE: STATISTA

The most important tree species on the timber market are spruce, pine and beech. Prices for spruce, which was strongly affected by bark beetle infestation, recorded a particularly sharp drop. Pine saw prices decline as well due to an oversupply of coniferous timber on the market.

ROADSIDE TIMBER PRICE TREND IN GERMANY * (IN€ / CUBIC METER)



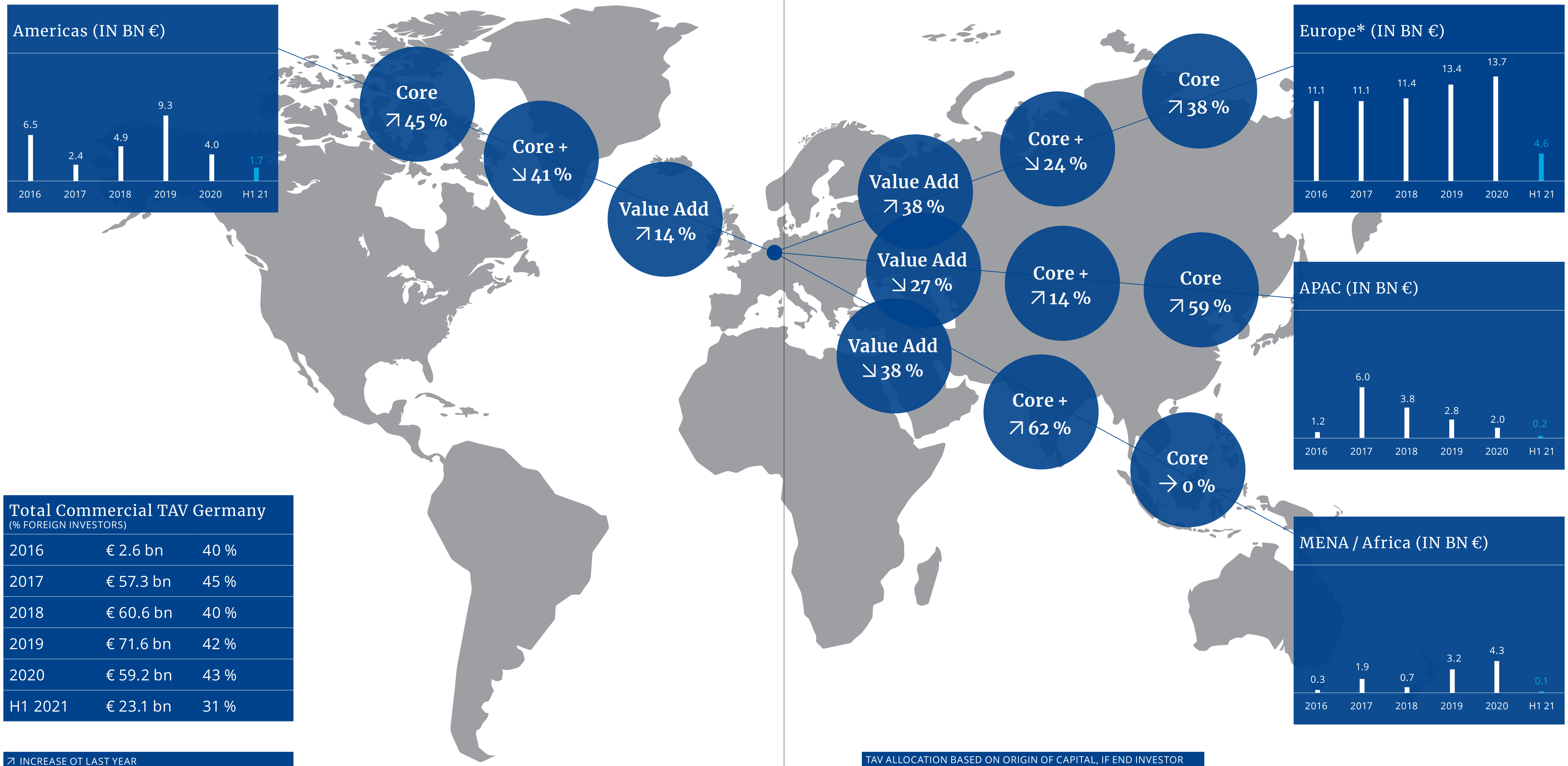
SPRUCE PINE BEECH SOURCE: HOLZMARKT INFO

5. Major Acquisitions by International Investors 2020 & H1 2021

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. Although a slowdown in transaction activity was observed in H2 2020 and in Q1 2021 due to pandemic-related restrictions on travel and a short-lived wait-and-see attitude that was adopted by investors across the board, Tristan's purchase of the Summit portfolio in mid-2021 as well as several other megadeals in 2021 signaled the return of foreign capital. In 2020 and H1 2021, 404 deals involving foreign capital were recorded with € 34.7 bn in total transaction volume.

NAME	CITY	PURCHASER	DATE	PURCHASE PRICE IN € M	MAIN USAGE
AROUNDTWON TAKE-OVER TLG	ALL OVER GERMANY; FOCUS ON BERLIN	AROUNDTOWN	2020 Q1	4000	MIXED-USE
MONT PORTFOLIO	ALL OVER GERMANY; FOCUS ON REGIONAL CITIES	TRISTAN	2021 Q2	1000	MIXED-USE
COVIVIO	ALL OVER GERMANY	COVIVIO	2020 Q2	994	OFFICE
80 REAL-HYPERMARKETS	ALL OVER GERMANY	SCP GROUP	2020 Q1	900	RETAIL
33 METRO-C+C	ALL OVER GERMANY; FOCUS ON REGIONAL CITIES	P3 (GIC)	2020 Q4	800	WHOLESALE
HIGHLIGHT TOWERS	MUNICH	IMFARR, SN HOLDING	2021 Q2	690	OFFICE
ROSENHEIMER HÖFE	MUNICH	UNION INVESTMENT, HINES IMMOBILIEN GMBH	2021 Q2	660	OFFICE
SILBERTURM	FRANKFURT / MAIN	IMFARR, SN HOLDING	2020 Q4	600	OFFICE
GRAND CAMPUS	FRANKFURT / MAIN	ARMINIUS GROUP FOR UK HOTEL PORTFOLIO HOLDING / JUNSON CAPITAL	2020 Q4	560	OFFICE
8 DEVELOPMENTS TAKE-OVER CONSUS	ALL OVER GERMANY; FOCUS ON HAMBURG, MUNICH, COLOGNE	PARTNERS IMMOBILIEN CAPITAL MANAGEMENT	2020 Q2	547	BUIDLING SITE (COM-MERCIAL)
ROOTS PORTFOLIO	ALL OVER GERMANY	AEW	2020 Q4	508	LOGISTICS
SELECTION OFFICE PORTFOLIO	TOP 7	TRISTAN	2020 Q3	436	OFFICE
G+J PUBLISHING HOUSE / GETREIDEHEBERHAUS	HAMBURG	TISHMAN SPEYER, EON-PENSIONSKASSE, KONZERN VERSICHERUNGSKAMMER BAYERN	2020 Q3	307	OFFICE
DATA CENTER BORSIGALLEE	FRANKFURT / MAIN	AGC EQUITY PARTNERS	2020 Q4	300	DATA CENTER
FOCUS TELEPORT II	BERLIN	ASIA PACIFIC LAND	2020 Q4	290	OFFICE
KARSTADT MÖNCKEBERGSTRASSE	HAMBURG	SIGNA	2020 Q3	260	RETAIL / DE-PARTMENT STORE
WESTEND CARREE	FRANKFURT / MAIN	ARDIAN REAL ESTATE	2021 Q2	225	OFFICE
HAMBURG COMMERCIAL BANK HQ + PERLE HAMBURG-PASSAGE	HAMBURG	SIGNA	2020 Q4	225	OFFICE
QUARTIER 206	BERLIN	RFR HOLDING	2021 Q2	220	OFFICE
KARSTADT HQ BREDENEY / QUATTRO	ESSEN	SIGNA	2020 Q3	220	OFFICE

6. Foreign capital flow into Germany
Total investment Volume in bn € 2016–H1 2021



Total Commercial TAV Germany
(% FOREIGN INVESTORS)

2016	€ 2.6 bn	40 %
2017	€ 57.3 bn	45 %
2018	€ 60.6 bn	40 %
2019	€ 71.6 bn	42 %
2020	€ 59.2 bn	43 %
H1 2021	€ 23.1 bn	31 %

↗ 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)

* EX GERMANY

Cross-border investing in Germany: Hedging your bets

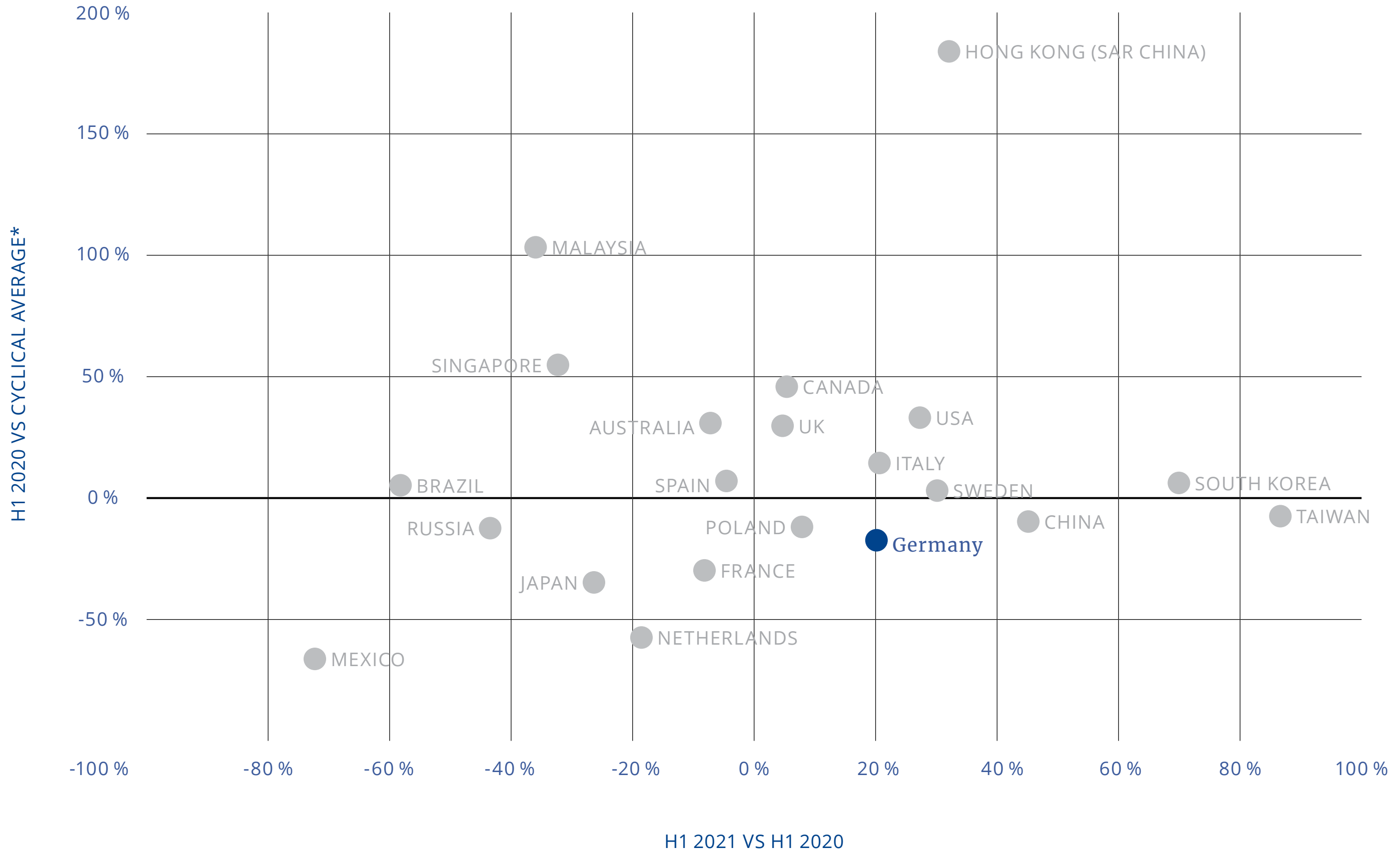
Germany response strong

Over a year on from the COVID-19 pandemic impacting global real estate markets, activity in the first half of 2021 points to a sustained recovery across key global capital destinations. Germany is one of several major markets that has witnessed H1 2021 volumes surpass the levels recorded in H1 2020. The rebound in activity is significant enough for H1 2021 activity to almost match the six-month average for Germany across the previous investment cycle.

Global capital is back in Europe

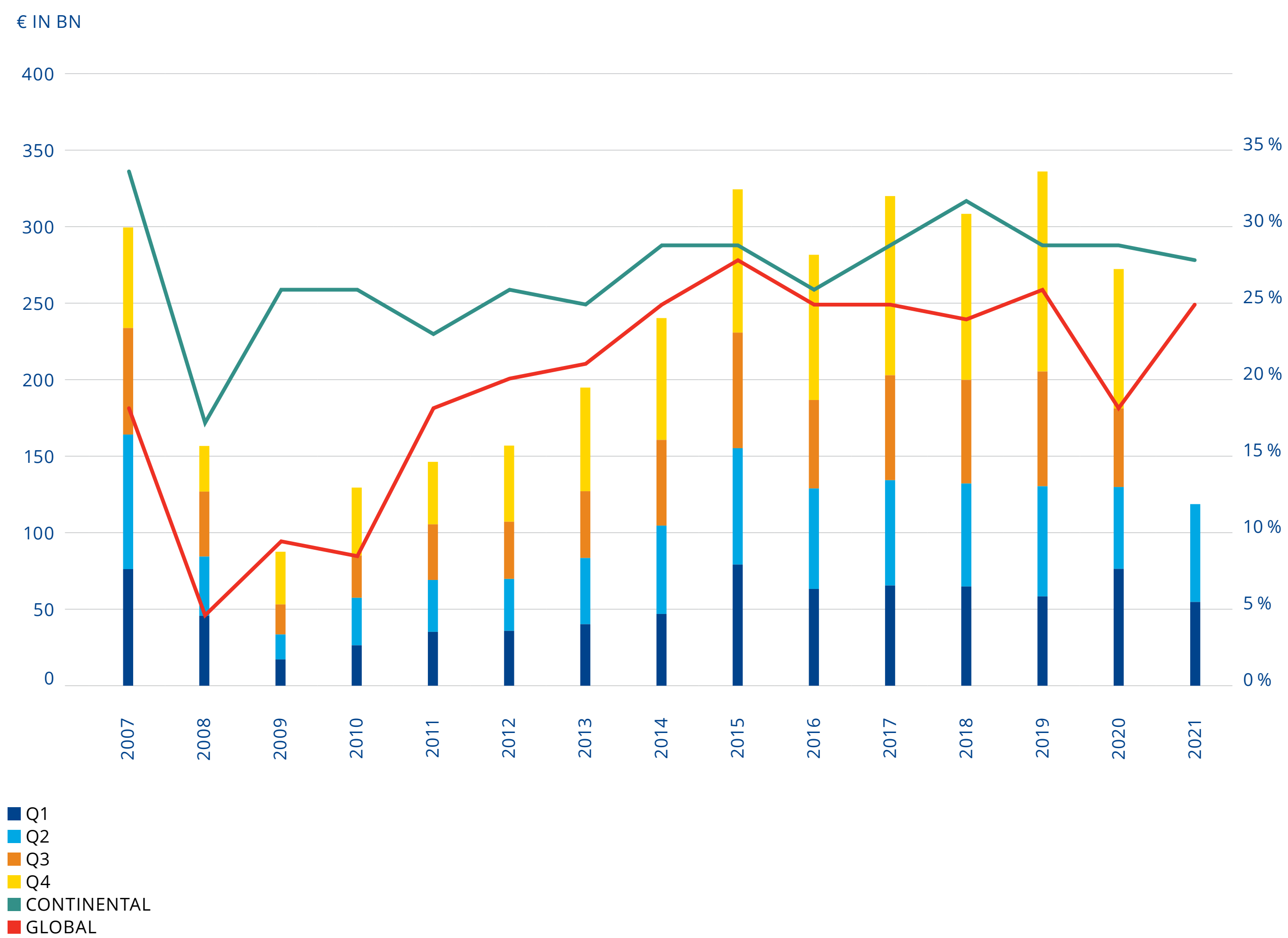
Much of this activity is due to the strength of German-domiciled capital, but the low risk / high liquidity appeal of the country to other intra-regional European capital has enabled investment volumes to expand. More recently, the return of global capital to Europe is also serving to buoy and sustain activity. The share of activity undertaken by global capital dropped to 19 % in 2020 but has risen back to 25 % as of H1 2021 – the same average level that persisted for the five years pre-pandemic.

H1 INVESTMENT ACTIVITY BY COUNTRY- IN CONTEXT



SOURCE: COLLIERS/RCA
*INVESTMENT VOLUMES FROM Q2 2007 TO Q1 2020, PEAK TO PEAK

CROSS BORDER ACTIVITY EMEA / CONTINENTAL VS GLOBAL DOMICILE



SOURCE: COLLIERS/RCA

Benign inflation in Euro denominated currencies?

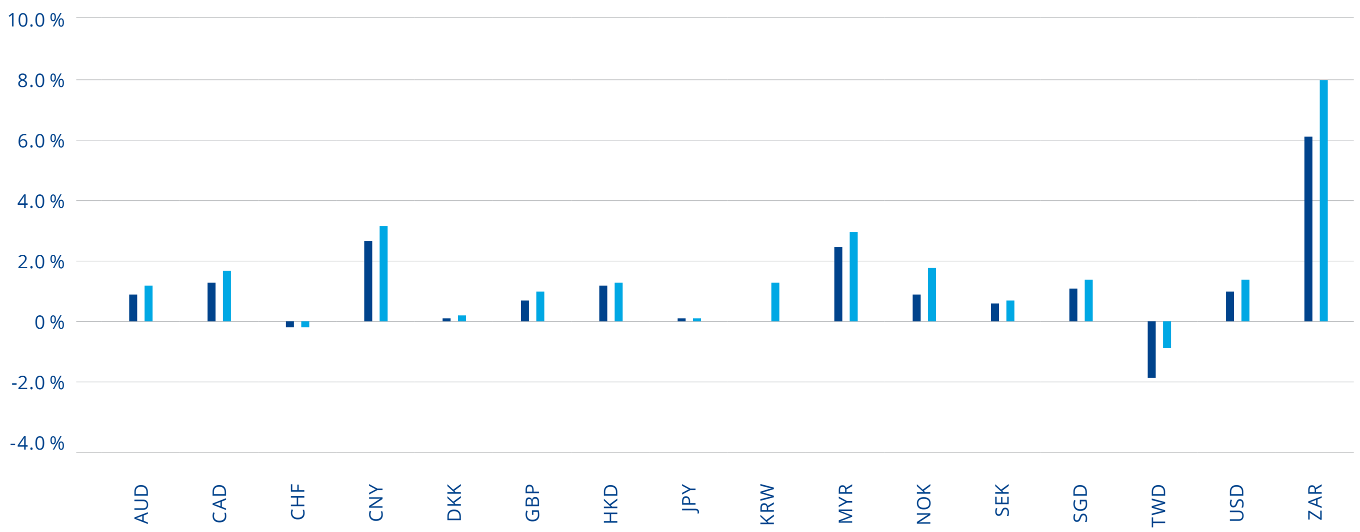
While global capital is back, there are question marks over how long this interest can be sustained considering potential challenges brought about by inflation, rising interest rates and currency fluctuations. Inflation is certainly a global factor: rising energy prices, global supply-chain blockages and good shortages and labour market constraints further compounding price rises in certain sectors. Equally, government stimulus packages have stimulated capital markets and asset values. Although this stimulus will be gradually tapered off as markets return to a new normal, there is a likelihood that interest rates will be increased to phase out the risk of higher price inflation. The tapering of the European Central Bank bond-buying scheme.

FX hedging gains to EUR on the rise

When we look at current FX gain / loss spreads for 5 year hedging instruments from EUR back to a range of other global currencies, the market is pricing in much lower rises in interest rates in the EU – specifically EUR denominated assets – than elsewhere. This is reflected in the size of the gain achievable as of end August 2021 from almost every other major investor currency globally, bar Taiwan and Switzerland. This gain has expanded, quite ignificantly since August 2020. For investor domiciled in locations such as Korea, where acquisition strategies often incorporate hedging as a significant factor, the reason to invest into EUR-denominated assets becomes more favorable. As of August 2021, a positive hedging gain has returned, and the reason to invest in EUR-denominated assets is more compelling when 5 year spreads to USD and GBP assets would represent a loss.

For many global investors, the hedging benefit of buying EUR-denominated assets will continue to support the flow of capital to Germany and the broader European region, when the search for yield and income is a major challenge.

5 YEARS HEDGE FROM EUR TO INVESTOR CURRENCY



■ 2020 5 YEAR HEDGE ■ 2021 5 YEAR HEDGE SOURCE: CHATHAM FINANCIAL/COLLIERS

7. Market Data - Office Leasing & Investment TOP 7

	A-CITIES (TOP 7)	BERLIN	COLOGNE	DÜSSELD.	FRANKFURT	HAMBURG	MUNICH	STUTTGART
STOCK OF OFFICE SPACE IN MILLION SQM	93.01	20.9	7.95	7.88	11.51	14.02	22.52	8.23
OFFICE SPACE TAKE-UP 2020 IN SQM	2,555,100	734,000	202,000	248,000	329,500	334,300	567,800	139,500
OFFICE SPACE TAKE-UP IN SQM AVERAGE 2011–2020	3,459,000	769,800	325,900	335,300	491,600	507,800	761,600	267,000
PRIME RENT IN € / SQM (H1 2021)		38.9	25.75	28.5	45	30	39	25
AVERAGE RENT IN € / SQM (H1 2021)		27.9	17	16.4	23	17.9	21.1	16.1
VACANT OFFICE SPACE IN SQM (H1 2021)	3,810,400	501,600	207,600	530,200	866,100	470,000	980,400	254,500
VACANCY RATE IN % (H1 2021)	4.1	2.4	2.6	6.7	7.5	3.4	4.4	3.2

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

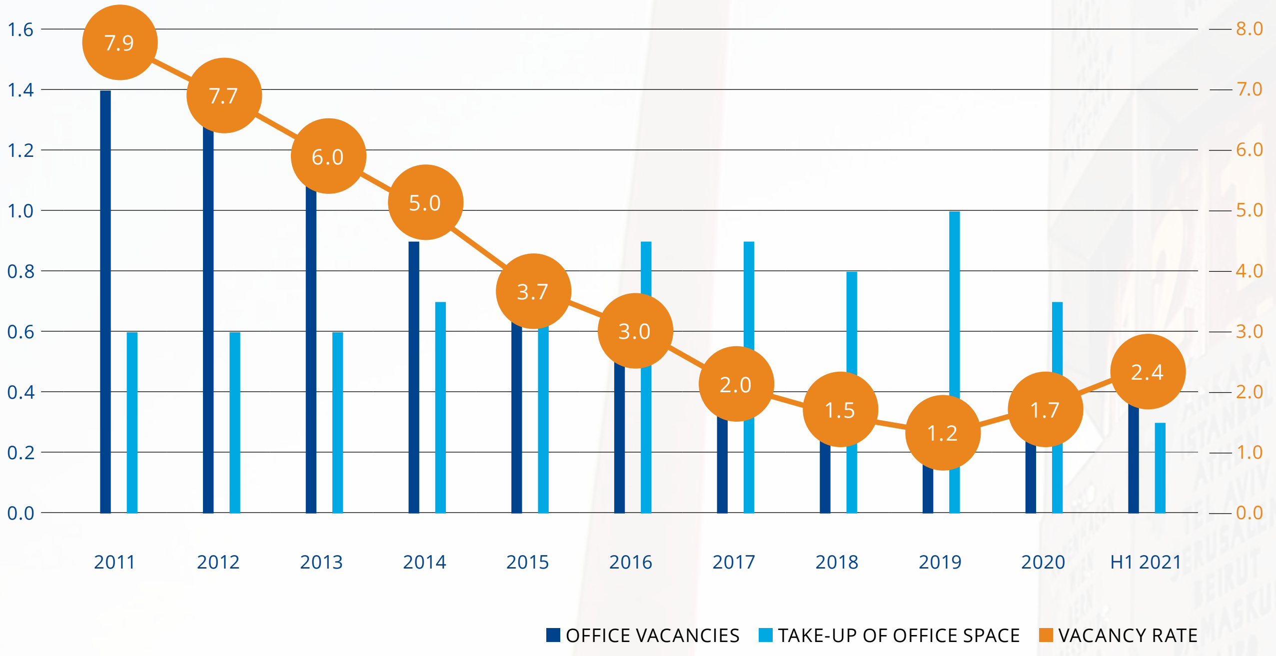
	GERMANY	A-CITIES (TOP 7)	BERLIN	COLOGNE	DÜSSELD.	FRANKFURT	HAMBURG	MUNICH	STUTTGART
TRANSACTION VOLUME 2020 IN MILLION €	59,247	30,567	8,549	1,450	3,220	6,335	5,008	4,969	1,045
TRANSACTION VOLUME IN MILLION € AVERAGE 2011–2020	47,584	26,670	6,202	1,572	2,329	5,676	3,784	5,784	1,322
PRIME YIELD OFFICES IN % (H1 2021)			2.7	3.3	3.2	3	3	2.7	3
PRIME YIELD HIGH STREET RETAIL IN % (H1 2021)			3.2	3.4	3.4	2.8	3.4	2.9	3.3
PRIME YIELD INDUSTRIAL & LOGISTICS IN % (H1 2021)						3,55*			

* REFERS TO THE DEFINED LOGISTICS MARKET AREAS

8. Overview TOP 7 Cities

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. In view of national and regional economic forecasts, pre-letting rates for property developments can be expected to remain high. We therefore do not expect the tension supply-side to ease significantly any time soon. Suitable space remains hard to come by, especially in central locations. We expect the vacancy rate to stabilize between 3 % and 4 % going forward.

Office Fast Facts:

- Office Stock: 20.90 million sqm
- Office Take-up (10-year average): 769,800 sqm p.a.
- Prime Office Rent (H1 2021): € 38.50 / sqm / month
- Average Office Rent (H1 2021): € 27.50 / sqm / month
- Vacancy Rate (H1 2021): 2.4 %

Investment Fast Facts:

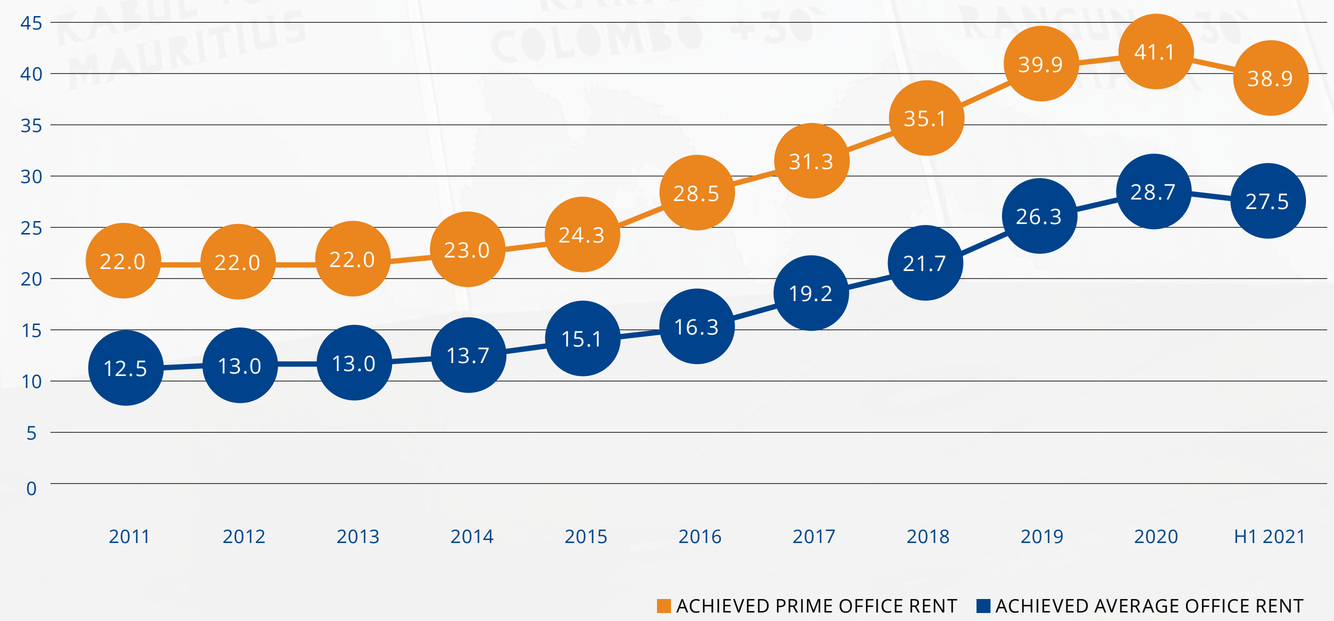
- Commercial transaction volume (10-year average): € 6.2 bn p. a.
- Share of foreign investors (2018-2020): 54.0 %
- Gross initial yields (H1 2021)

  Office: 2.70 %

  High street retail: 3.20 %

  Logistics: 3.55 %

Prime and Average Office Rent (in € / sqm / month)



Office rents in Berlin have increased significantly in the past several years. Berlin currently leads the ranking of Germany's top 7 cities with an average rent of € 27.50 per sqm (Q2 2021). Taking into account pre-letting rates for current property developments as well as the latest economic forecasts, we can expect to see a further slight increase following pandemic-related stagnation.

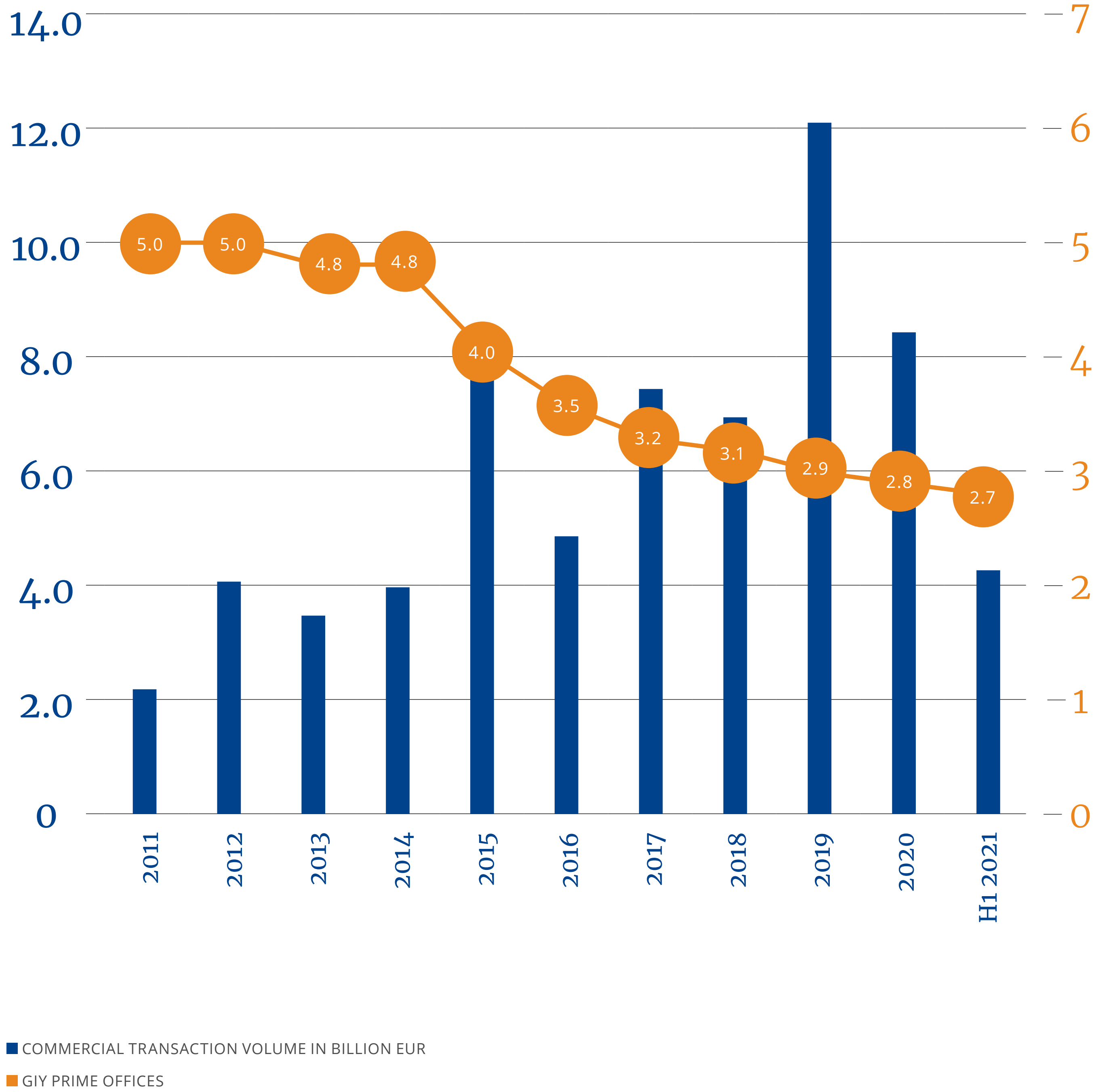
Berlin is the place to invest, particularly when it comes to core and value-add office assets, as well as new-build developments, with the city posting the lowest office vacancy rate among the country's top 7 cities and boasting strong-covenant tenants such as the public administration sector.

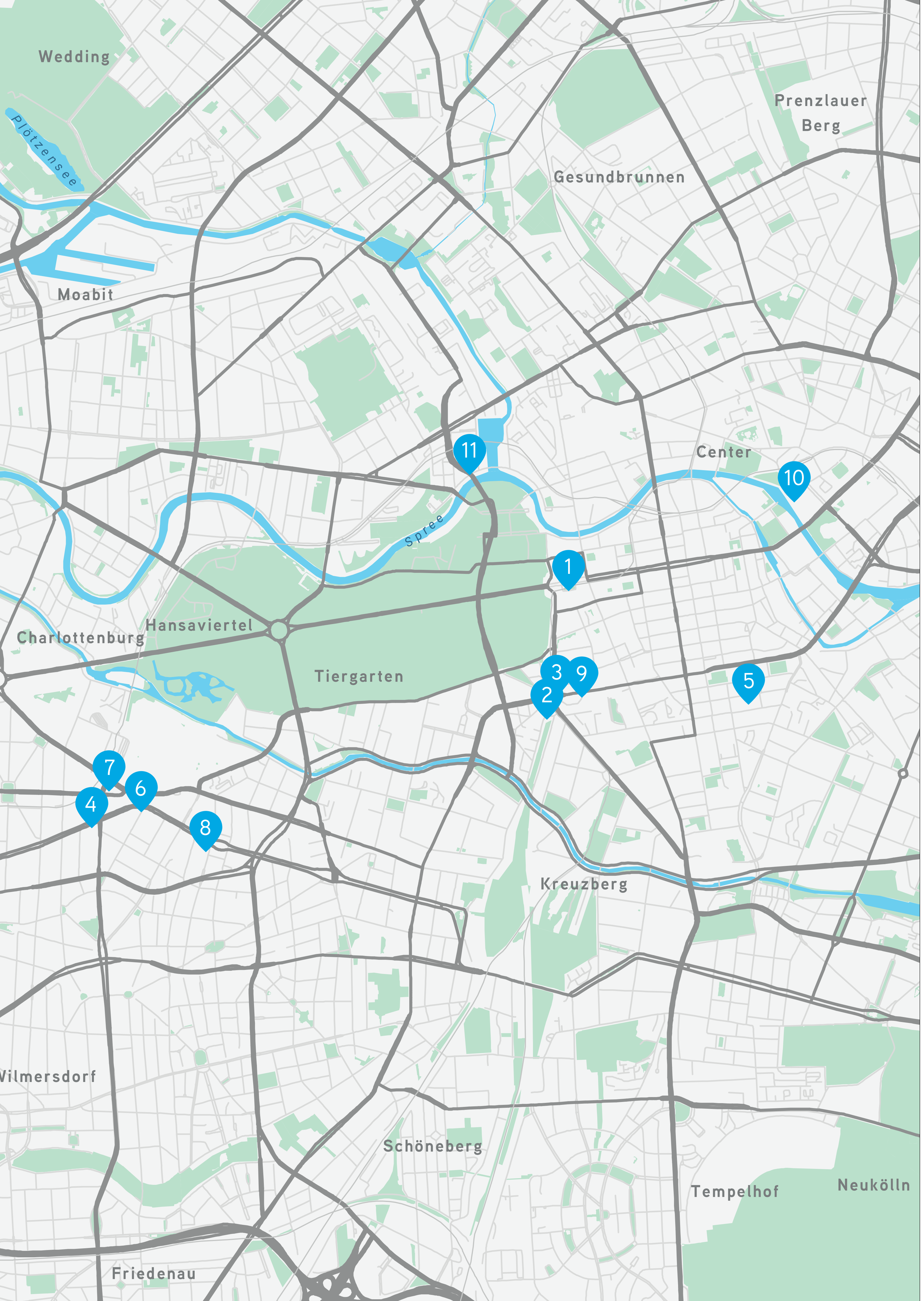
The pandemic has only marginally slowed down transaction activity in Berlin and 2020 saw the second-best result ever posted at € 8.5 bn. The Berlin market was nearly back to pre-pandemic levels by the end of H1 2021 and recent trends appear to be ongoing. Office assets, especially those under lease with strong-covenant tenants, are as popular as ever and currently account for four-fifths of total commercial transaction volume. Thanks to ongoing high demand for core assets, gross prime yields decreased further to a current 2.7 %.

Retail and hotel assets have lost some of their market share over the past decade and need to adapt to shifts in demand that have been intensified by the pandemic. However, prime yields of 3.2 % for retail assets and 4.4 % for hotels have proven stable throughout the pandemic, indicating a strong demand for core assets, while yield compression on industrial and logistics assets (3.55 %) 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, Berlin Südkreuz, Adlershof and the newly opened BER Airport. 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

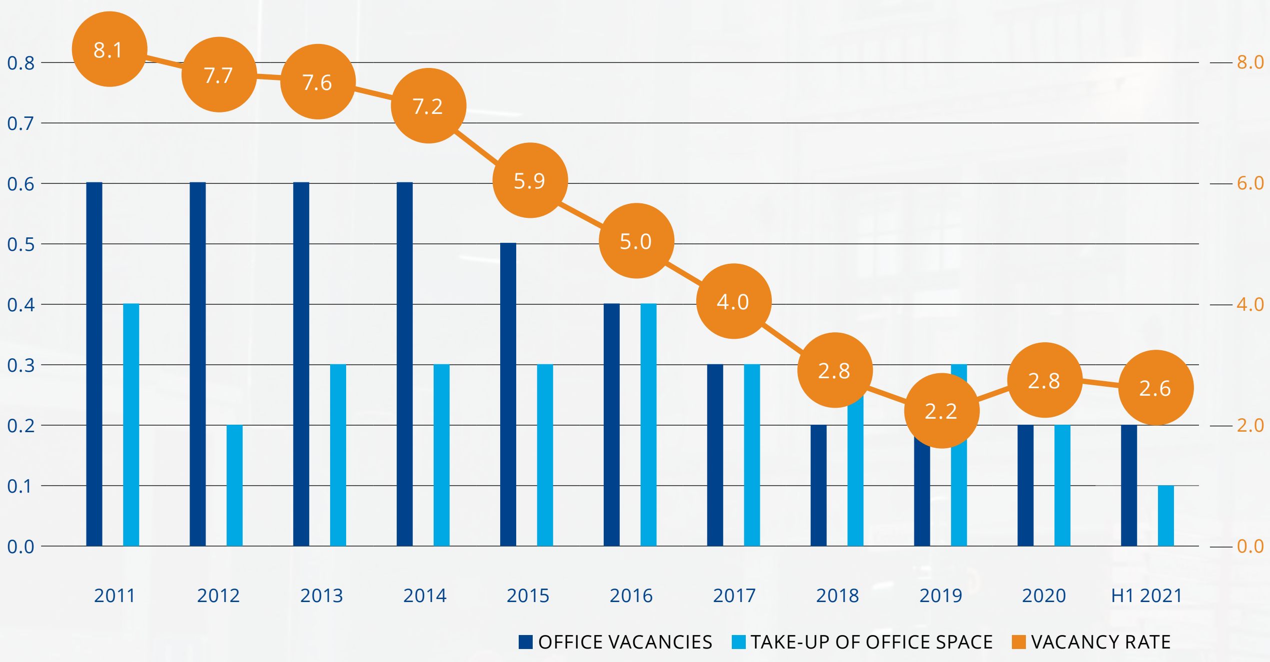
9. MALL OF BERLIN

10. SPREEPALAIS AM DOM

11. CUBE

Cologne

Office take-up, Office Vacancy (in m / sqm) and Vacancy rate (in %)



Looking back at 2020, the Cologne office leasing market was unable to match the strong results of previous years as expected against the backdrop of the Covid-19 crisis. The office market posted 110,000 sqm in take-up in H1 2021, reflecting a 29 % yoy increase thanks to several large-scale leases. The public sector once again played a key role in take-up results, signing three large-scale leases in the first half of the year. These three leases accounted for roughly 44 % of the city's total take-up in H1. There was little movement, however, in terms of excess available space. The vacancy rate rose slightly to 2.6 %. We have yet to see an increase in units listed for sublet in the city. We can realistically expect take-up in the Cologne municipal area to post at least 225,000 sqm in 2021, roughly 20% below the 10-year-average. Demand is poised to remain stable in the long term and we only anticipate a moderate upward trend in vacancy.

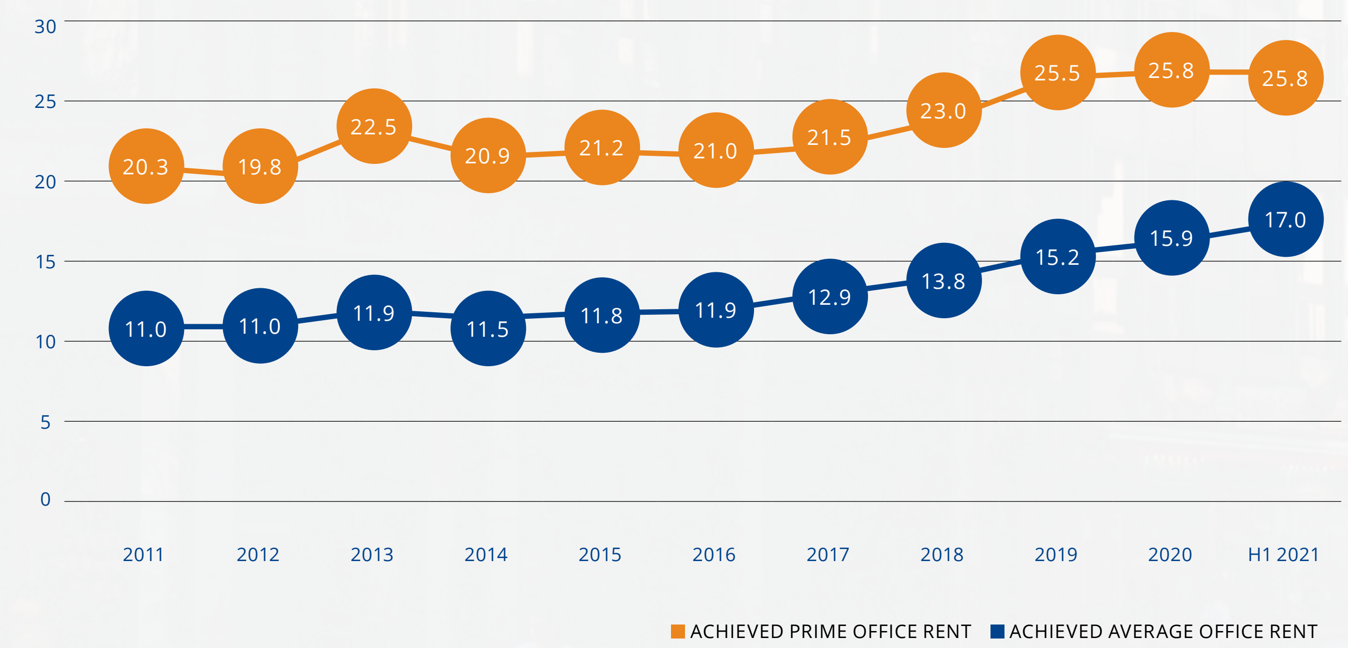
Office Fast Facts:

- Office Stock: 7.95 million sqm
- Office Take-up (10-year average): 325,900 sqm p. a.
- Prime Office Rent (H1 2021): € 25.75 / sqm / month
- Average Office Rent (H1 2021): € 17.00 / sqm / month
- Vacancy Rate (H1 2021): 2.6 %

Investment Fast Facts:

- Commercial transaction volume (10-year average): € 1.6 bn p. a.
- Share of foreign investors (2018–2020): 43.0 %
- Gross initial yields (H1 2021)
  Office: 3.3 %
  High street retail: 3.4 %
  Logistics: 3.55 %

Prime and Average Office Rent (in € / sqm / month)

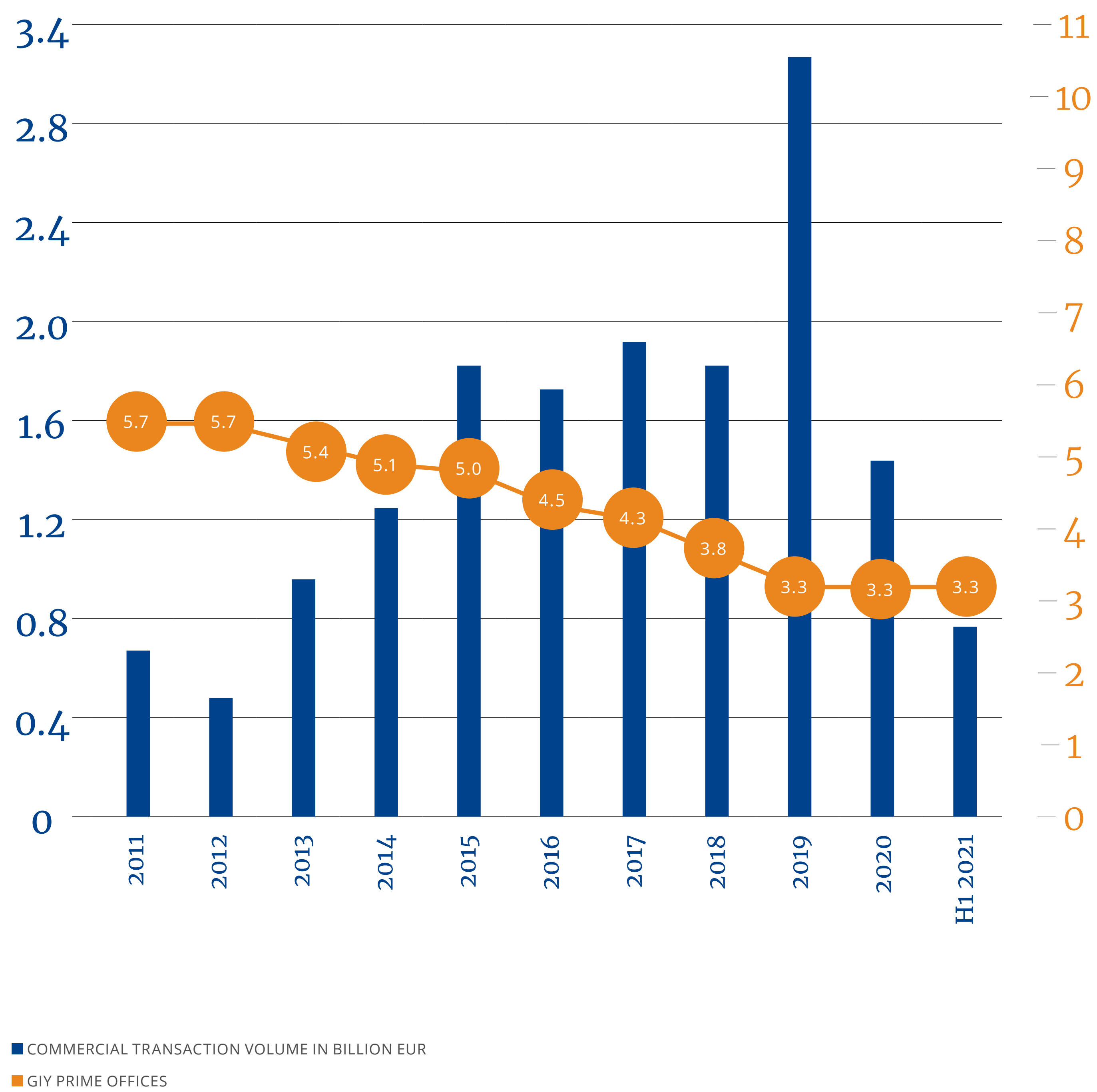


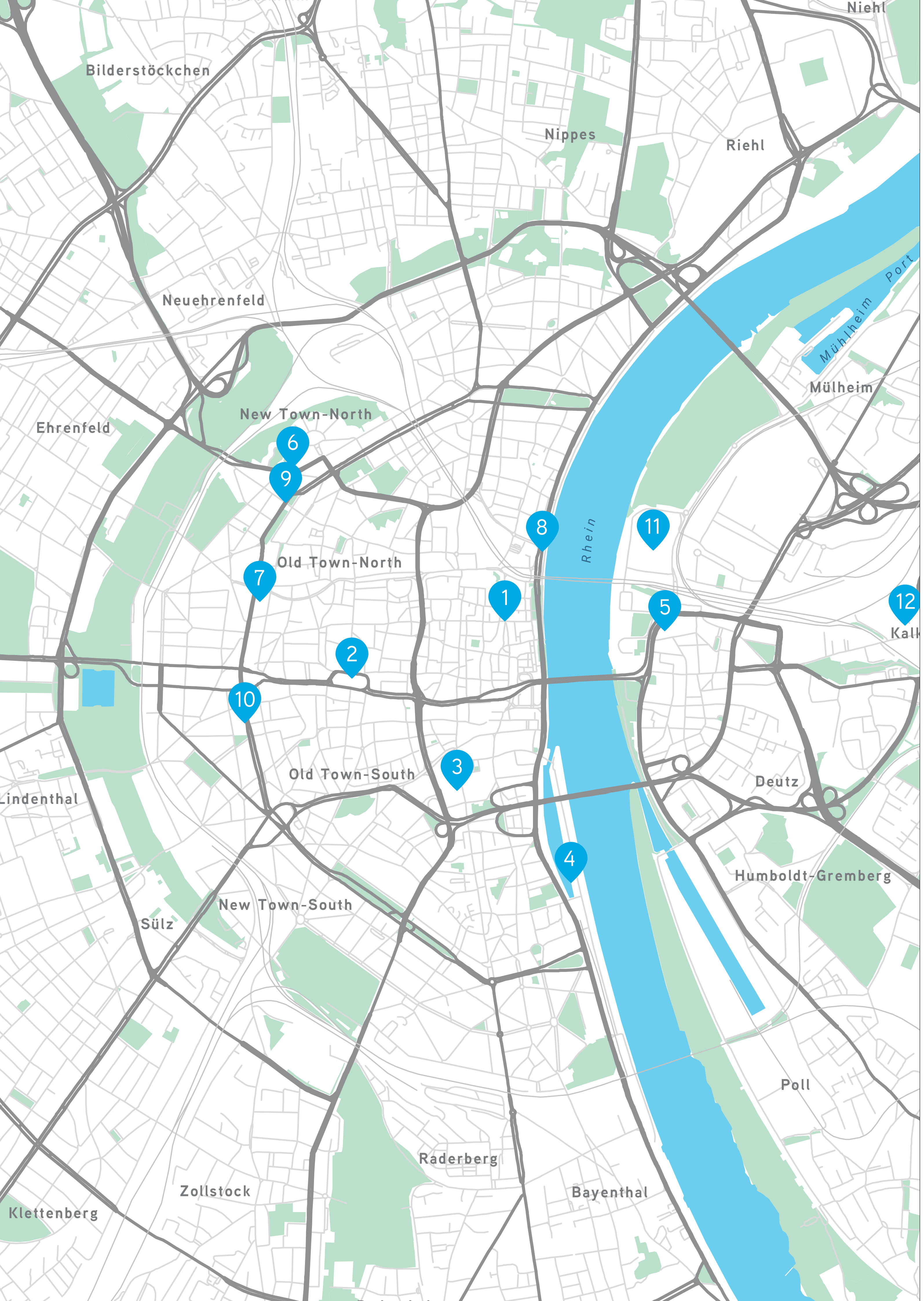
The Cologne office market managed to increase office rents in most market segments in the past few quarters despite the ongoing pandemic. Due to the shortage of space available at stock properties, tenants looking for high quality office space are being forced to turn to property developments. Prime rents rose slightly, while the weighted average rent increased a whopping 15 % yoy, setting a new record at € 17.00 per sqm in mid-2021.

After the Cologne investment market posted a new all-time record high in 2019 with a transaction volume of over € 3.2 bn, results fell short of the city's record by more than half in 2020. Following a slow start to the year in 2021, activity picked up speed to bring home an excellent H1 2021 result.

Numerous market players also proved more active in Q2, boosting transaction volume slightly compared to H1 2020. The City submarket set the stage for the majority of deals closed in all asset classes in H1, accounting for slightly more than 50 % of total transaction volume. As forecast at the start of the year, transaction activity in 2021 will focus on the second half of the year. With that said, transaction volume at year-end 2021 could even exceed the 10-year average of € 1.5 bn by 15 % to 20 %. Office properties remain the most popular asset class by far, followed by an intensified focus on sites for new developments. Prime yields for office assets may experience some slight compression depending on supply in the following months.

Commercial Transaction Volume (in BN €) and Office Prime Yields (in %)





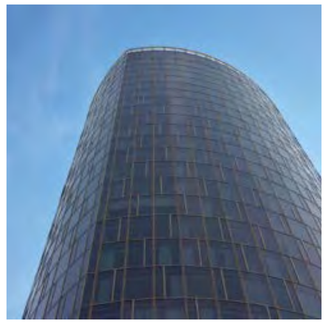
Cologne map and prominent buildings

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

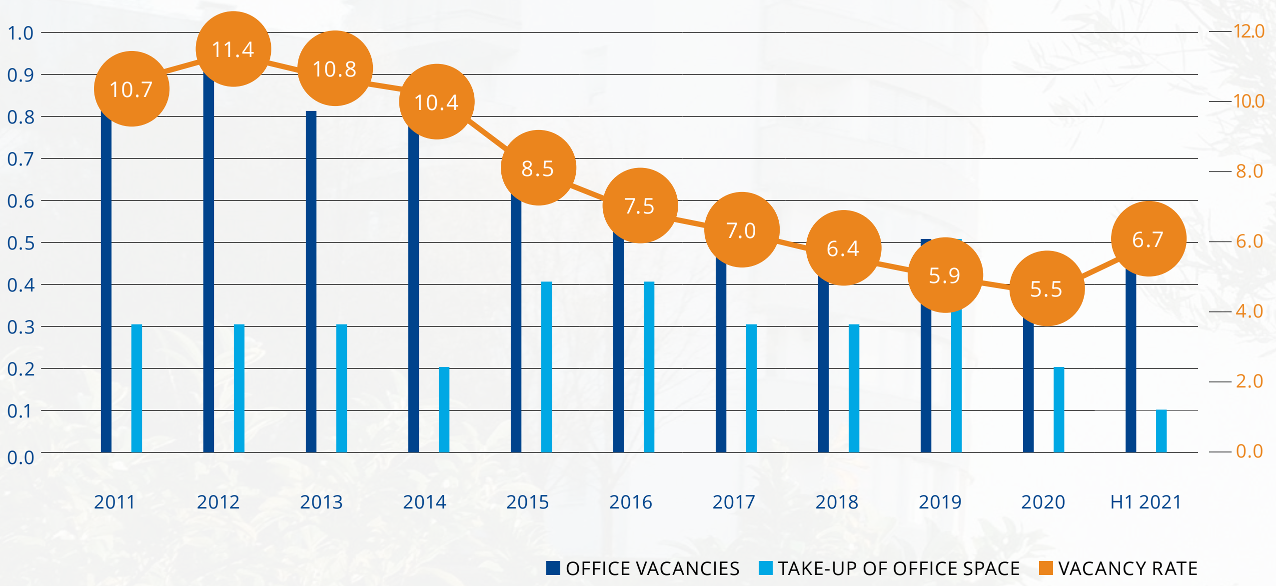
10. WESTGATE

11. RHEINPARK METROPOLE

12. KÖLN CUBUS

Düsseldorf

Office take-up, Office Vacancy (in m / sqm) and Vacancy rate (in %)



Most companies across all sectors on the Düsseldorf market continue to maintain their wait-and-see stance. That said, tenant activity remained reserved as expected during H1 2021. We can, however, only rely on a previous-year comparison to a limited extent because of the exceptional lease signed by the tax authorities for around 30,000 sqm in early 2020. Nevertheless, thanks to solid leasing activity in the small-space segment of below 1,000 sqm, the result achieved this year to date is almost 15 % above the bottom line that emerged in H1 2009 during the financial crisis. The number of units available for immediate tenancy has increased as expected. One noteworthy trend has been a noticeable increase in the number of available sublets. In addition to a number of lease extensions, we can expect the popularity of the larger space segments to increase in H2 2021. Annual take-up of roughly 260,000 sqm is definitely realistic for 2021. This annual result would be down roughly 20 % from the 10-year-average.

Office Fast Facts:

- Office Stock: 7.88 million sqm
- Office Take-up (10-year average): 335,300 sqm p.a.
- Prime Office Rent (H1 2021): € 28.50 / sqm / month
- Average Office Rent (H1 2021): € 16.40 / sqm / month
- Vacancy Rate (H1 2021): 6.7 %

Investment Fast Facts:

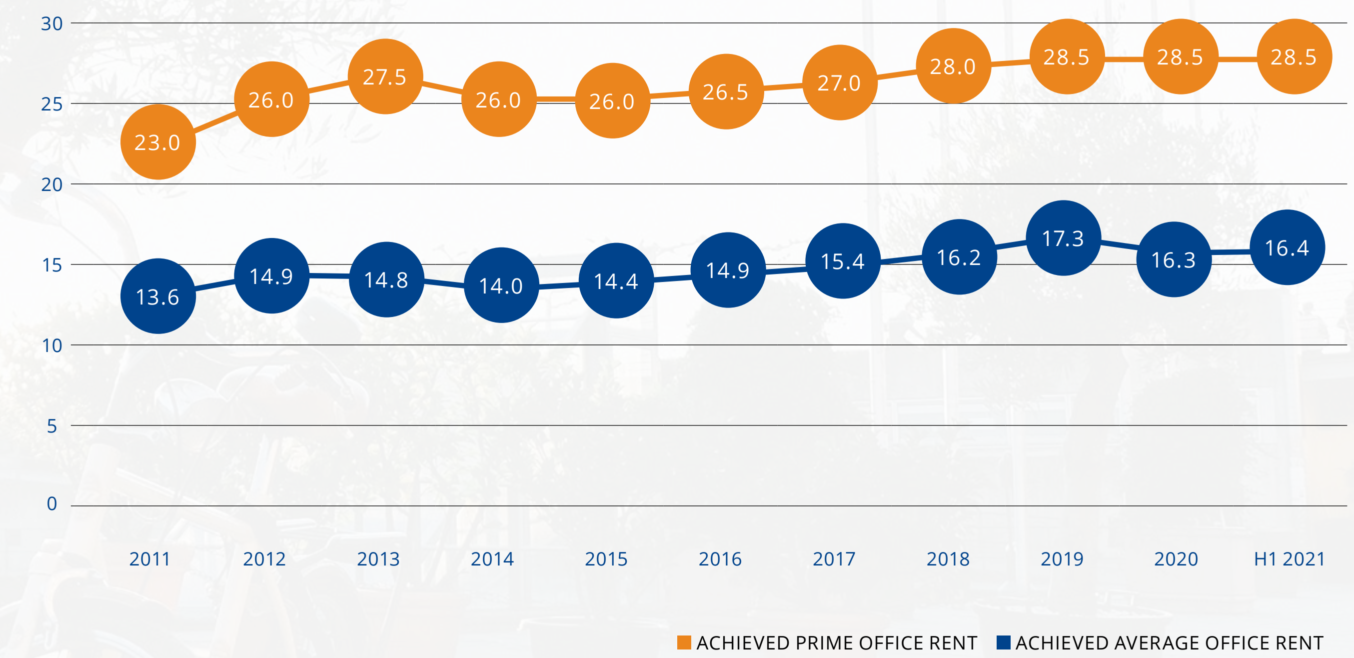
- Commercial transaction volume (10-year average): € 2.3 bn p.a
- Share of foreign investors (2018–2020): 29.0 %
- Gross initial yields (H1 2021)

  Office: 3.2 %

  High street retail: 3.4 %

  Logistics: 3.55 %

Prime and Average Office Rent (in € / sqm / month)



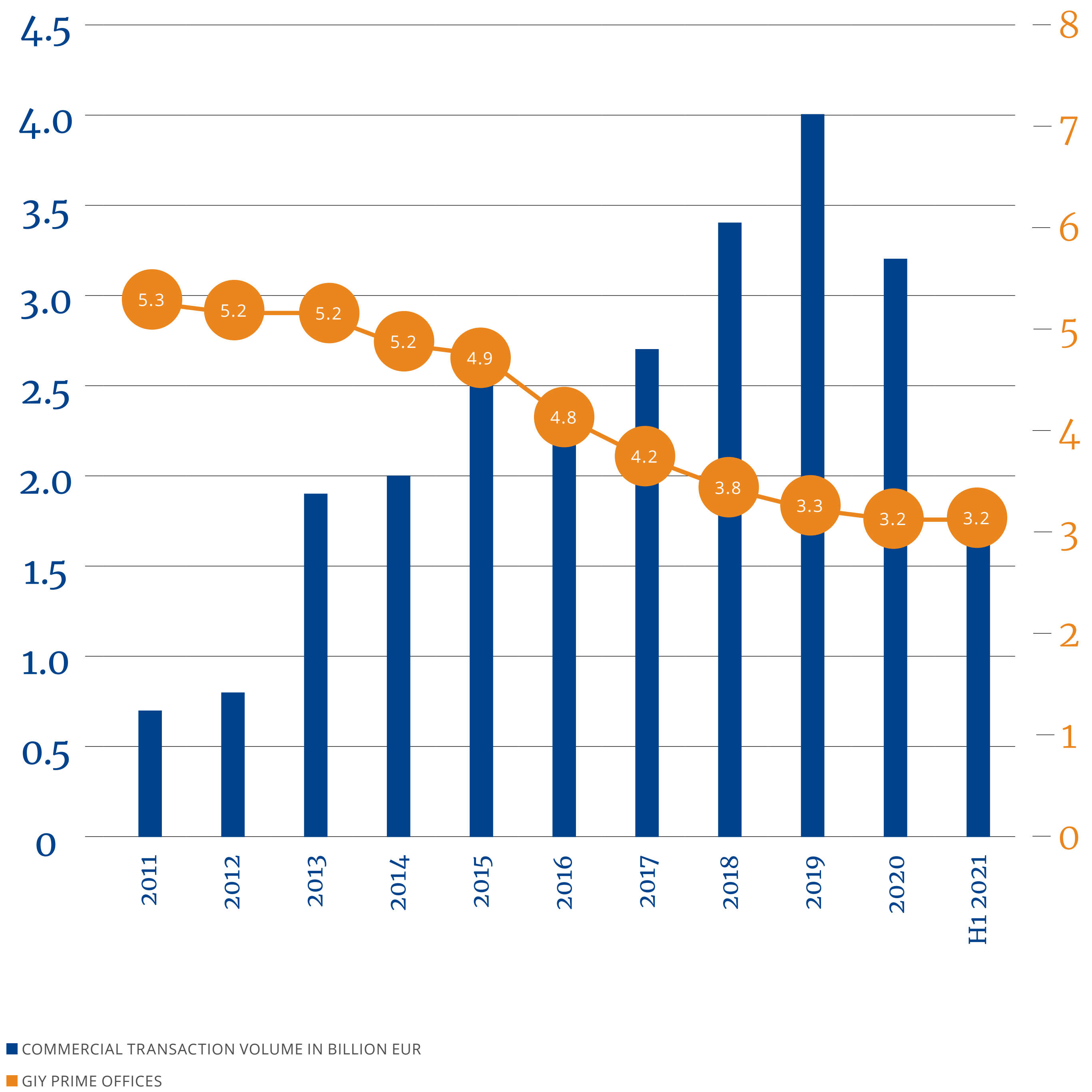
Rents remained quite stable across all market segments yoy. With take-up concentrating on stock properties with moderate rental levels over the past quarters, weighted average rents are down roughly 5 % to € 16.40 per sqm since mid-2020. Prime rents in the CBD remain stable yoy at € 28.50 per sqm with hardly any deals registered in this segment in the last 12 months.

With a limited deal pipeline leading to a slow start to the second year into the pandemic, as expected, a number of market players proved more active in Q2 2021.

Although transaction volume naturally fell shy of the previous-year result, it is clearly apparent that activity on the Düsseldorf investment market is starting to pick up speed. Office properties remain the most popular asset class by far, followed by sites for new developments. The CBD, City Center, Kennedydamm, Hafen and Airport City submarkets are currently the city's most sought-after submarkets.

Prime yields for top office assets in Düsseldorf's prime locations in the CBD were most recently recorded at 3.2%, down 10 bps yoy. New deals were still being cautiously initiated and subjected to constant review as to the best time to list in H1 2021. That means that transaction activity in 2021 will definitely revolve around the second half of the year. As a result, transaction volume in Düsseldorf may exceed the 10-year average of €2.3bn by roughly 10% to 20% by year end.

Commercial Transaction Volume (in BN €) and Office Prime Yields (in %)



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

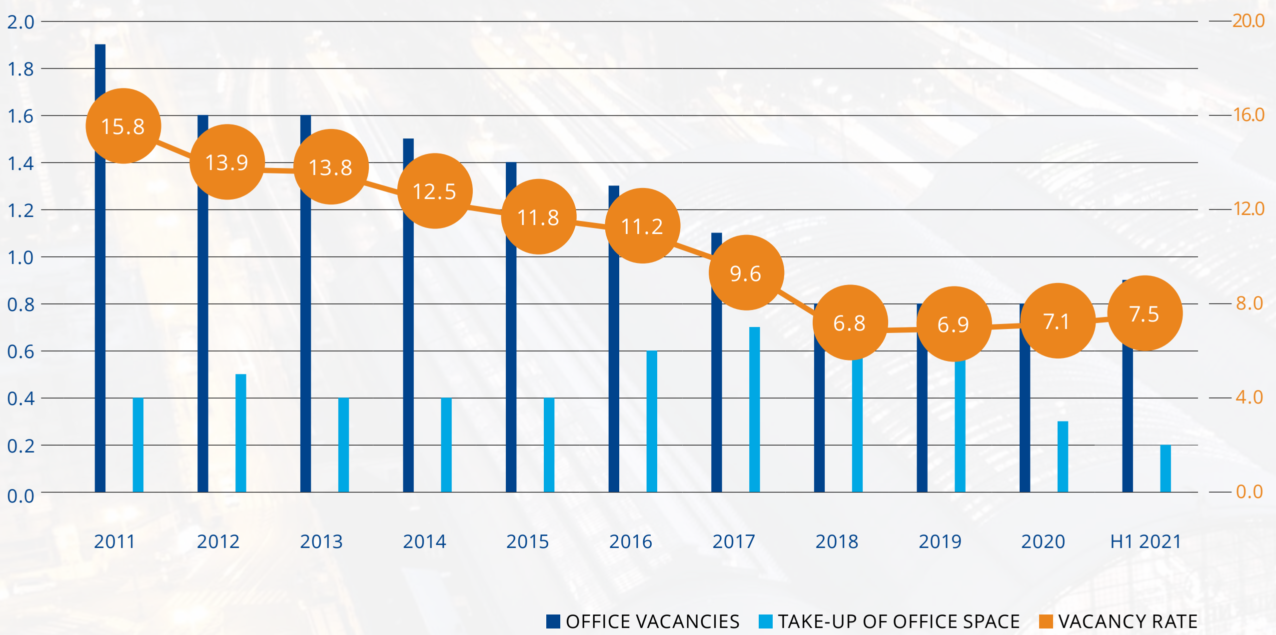

10. HAFENSPITZE


11. KÖ-BOGEN


12. TRIVAGO HQ

Frankfurt

Office take-up, Office Vacancy (in m / sqm) and Vacancy rate (in %)



Letting activity on the Frankfurt office market was noticeably slowed down by the pandemic in 2020 following the dynamic trend of previous years. Following a favorable start to the year, this upward trend continued as market activity picked up further at mid-year, managing to surpass H1 2020's subdued result. Restrained leasing activity, however, caused further increases in vacancy with clear differences between the central and peripheral submarkets evident. Vacancy increased significantly, especially in stock buildings and particularly in peripheral locations such as Eschborn. With supply growing and a shift to intensified competition, the market is increasingly becoming a tenant's market, a development that is reflected in an increase in incentive packages in those submarkets.

Office Fast Facts:

- ›Office Stock: 11.51 million sqm
- Office Take-up (10-year average): 491,100 sqm p.a.
- Prime Office Rent (H1 2021): € 45.00 / sqm / month
- Average Office Rent (H1 2021): € 23.00 / sqm / month
- Vacancy Rate (H1 2021): 7.5 %

Investment Fast Facts:

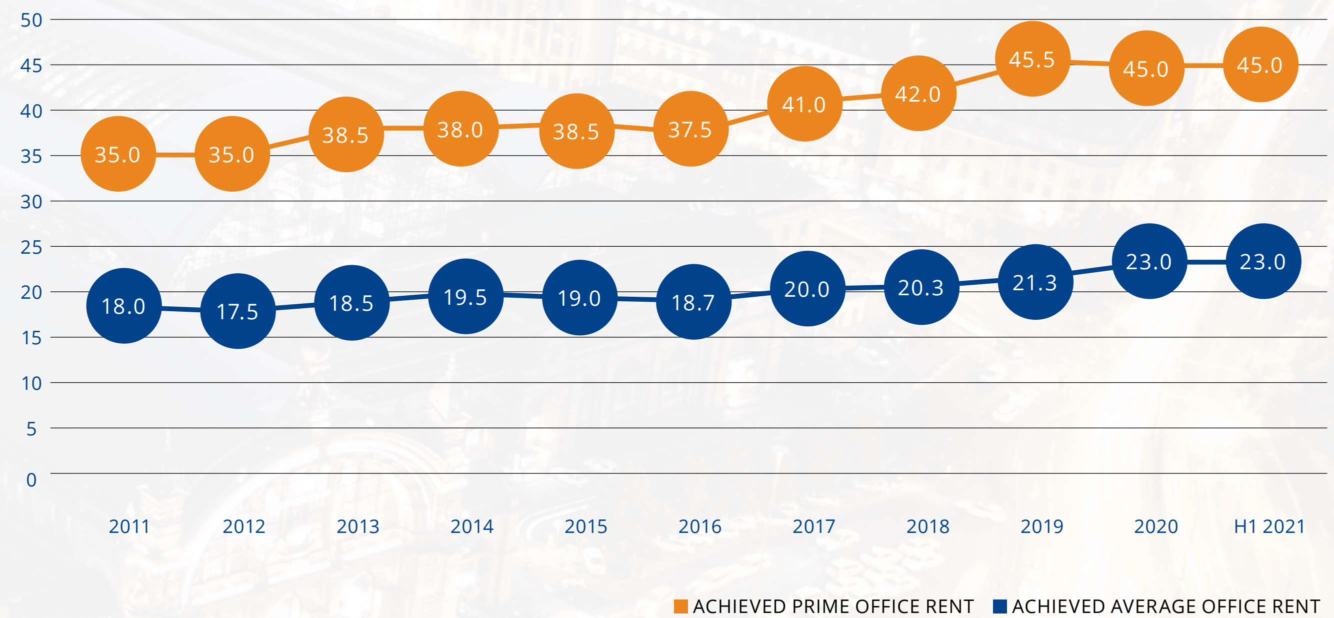
- Commercial transaction volume (10-year average): € 5.7 bn p. a.
- Share of foreign investors (2018–2020): 51.0 %
- Gross initial yields (H1 2021)

  Office: 3.0 %

  High street retail: 2.8 %

  Logistics: 3.55 %

Prime and Average Office Rent (in € / sqm / month)

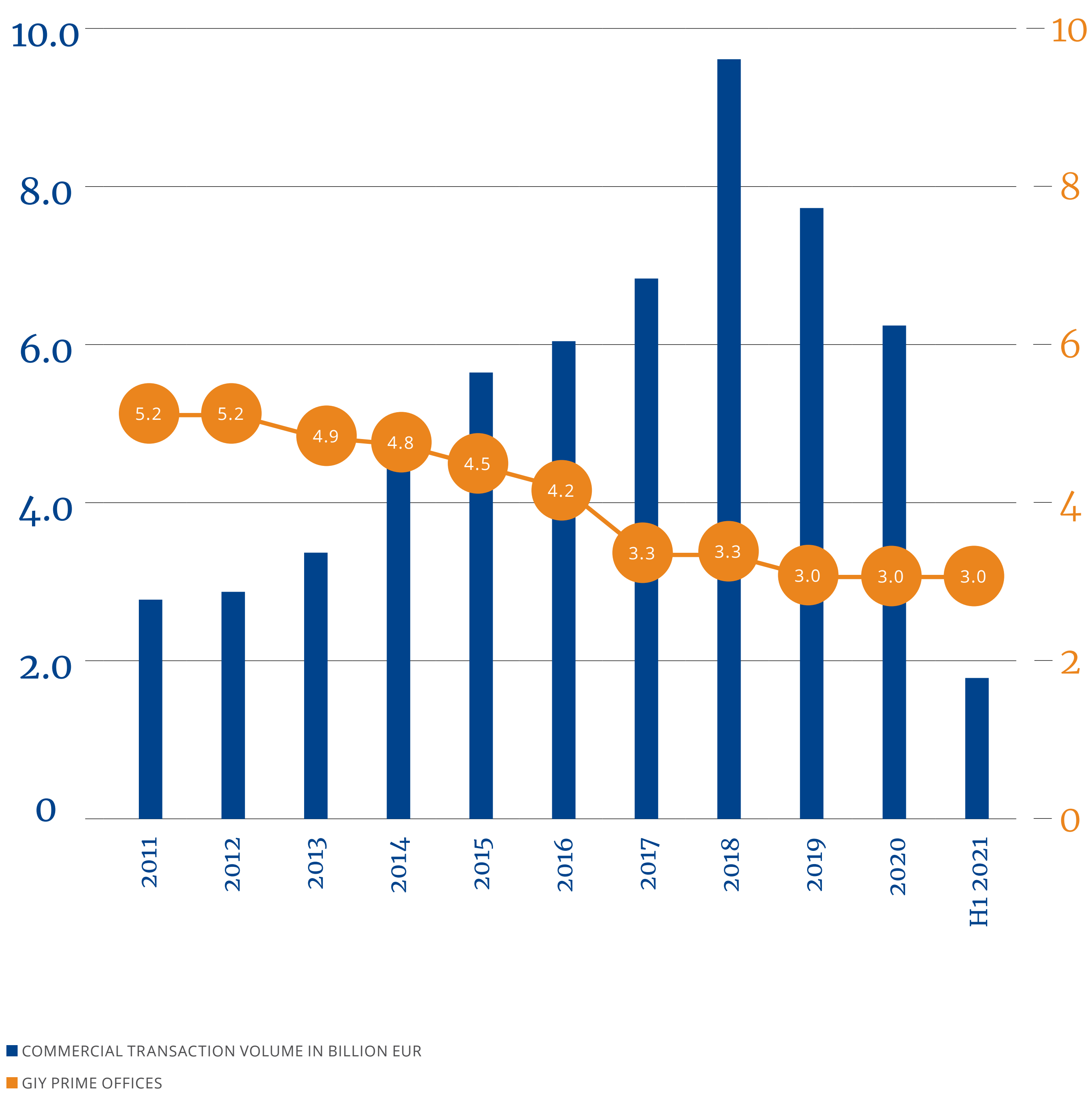


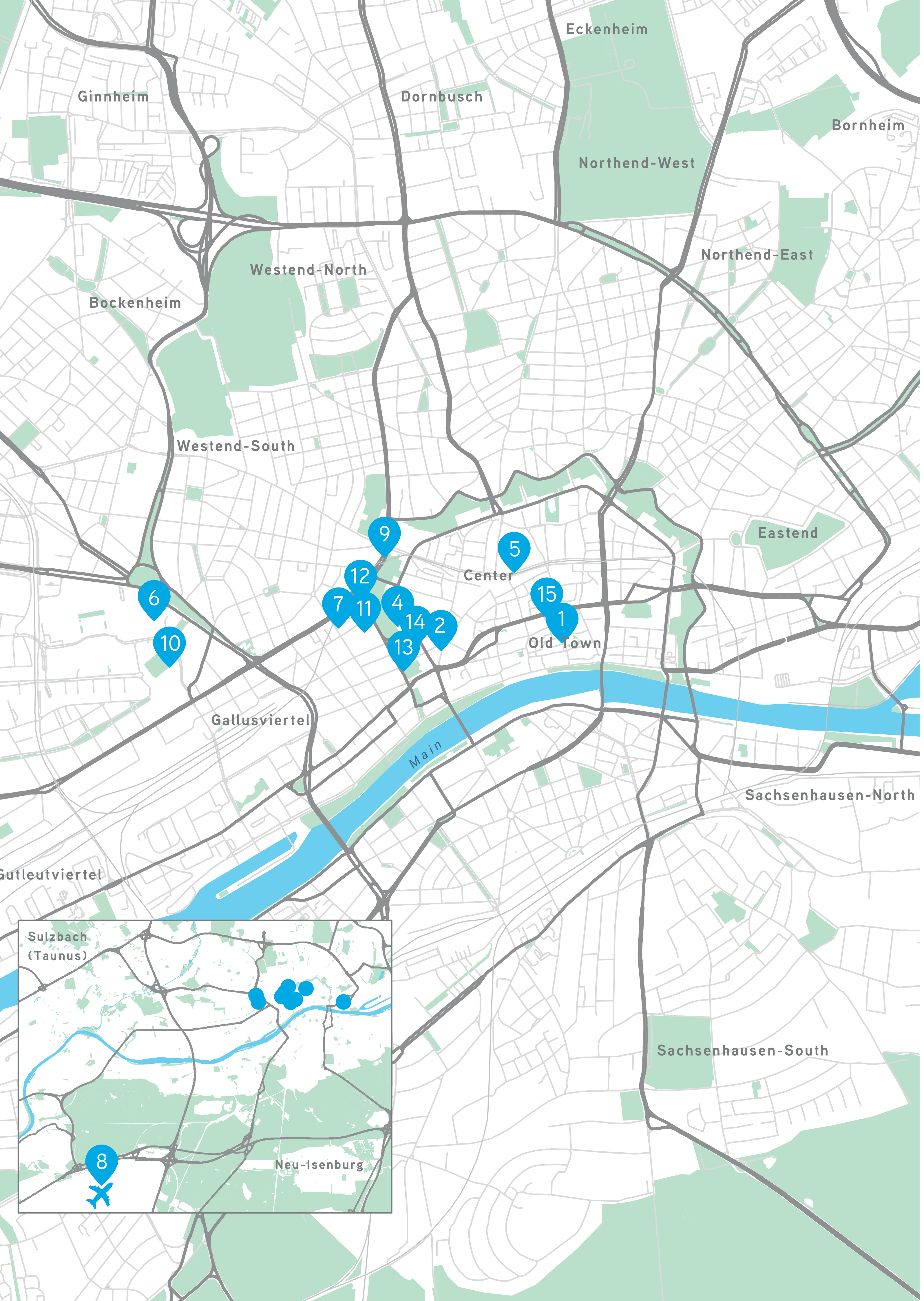
Ongoing robust demand for high-quality office space again paved the way for numerous lettings in high-rise buildings and developments such as Marienturm, ONE and Junghof Plaza. These high-priced deals caused the weighted average rent to rise by € 0.50 per sqm to € 23.00 per sqm compared to the previous year. Prime rents remained unchanged at € 45.00 per sqm, making these prices the highest among Germany's top 7 investment hubs. We can expect to see further lettings in the popular high-rise segment, including the FOUR property, which should promote a stable rental price trend in the future.

The Frankfurt investment market for commercial real estate has continued to benefit from stable economic fundamentals, activity did not come to a standstill even in the wake of the economic turbulence around the pandemic.

The market even managed to exceed its long-term average of € 5.7 bn in 2020. With the economic recovery process ongoing and increasing vaccination activity, a noticeable improvement in sentiment was evident, which will also be reflected in upcoming transactions over the course of the year. The market currently boasts a wide range of supply, with major transactions foreseeable in the CBD high-rise segment. Prime yields remained low due to ongoing buoyant demand for office product. Particularly modern office properties under long-term lease featuring an attractive tenant structure in the market's top locations experienced an increased influx of capital due to enhanced risk perception, and a high willingness to pay along with high prices for such properties were also observed in secondary locations. With an annual market share of over 70 %, investors continue to strongly favor office properties and this trend appears to be here to stay long term. In addition to the popular core and core+ segment, this positive outlook also favored long-term investments in building sites and stock properties with value-add-potential. Competition is expected to intensify with the removal of international travel restrictions. Since 2018, international investors have been responsible for approximately half of transaction volume and have been involved in numerous big-ticket deals. Looking at the development pipeline, additional product for those investors is already guaranteed going foward.

Commercial Transaction Volume (in BN €) and Office Prime Yields (in %)

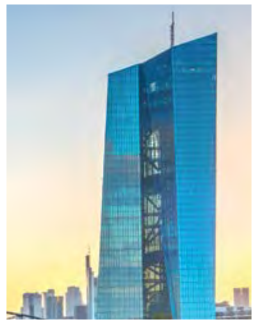




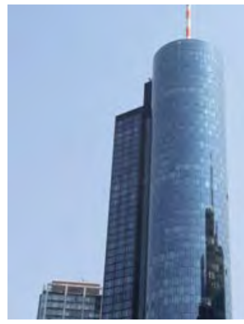
Frankfurt map and prominent buildings

1. RÖMERBERG

2. COMMERZBANK TOWER

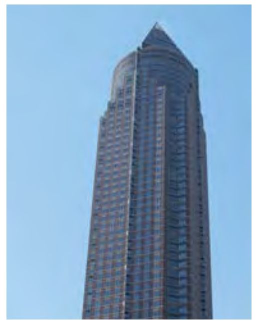


3. EZB



4. MAINTOWER

5. PALAIS QUARTIER



6. MESSE TURM

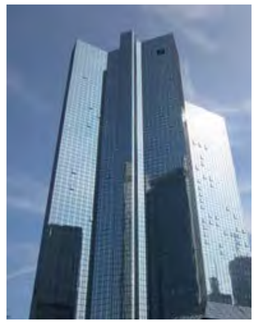
7. TRIANON

8. THE SQUAIRE

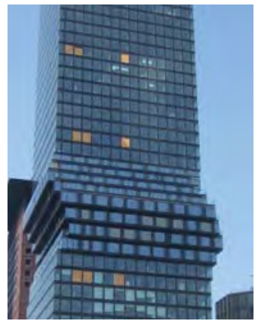
9. OPERNTURM

10. ONE

11. MARIENTURM



12. DEUTSCHE BANK TWIN TOWERS



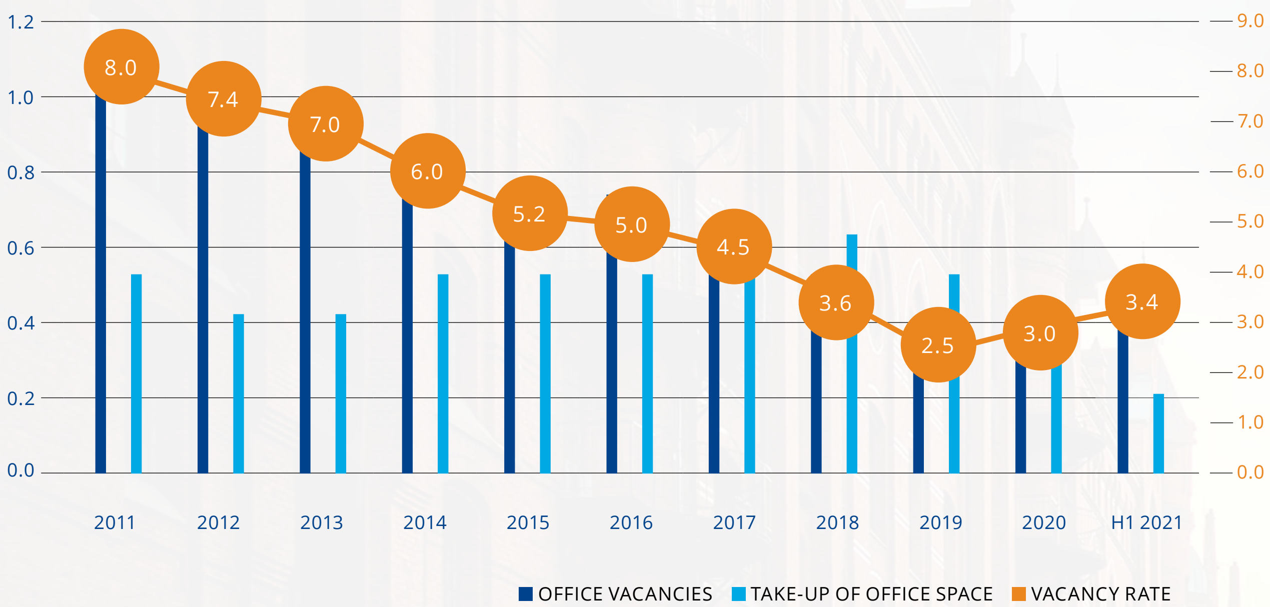
13. OMNITURM

14. TAUNUSTURM

15. ONE GOETHEPLAZA

Hamburg

Office take-up, Office Vacancy (in m / sqm) and Vacancy rate (in %)



The Hamburg office market has generated more than 500,000 sqm in average take-up over the past 10 years. The office leasing market finished out the first half of 2021 with 213,000 sqm in take-up. After experiencing a veritable downturn due to COVID-19 in 2020, leasing activity is again on the rise. The vacancy rate remains low at 3.4 % and is expected to continue to post a healthy level at around 5% medium-term. A total of 470,000 sqm of office space is currently available for immediate tenancy on the Hamburg office market. With the situation around the pandemic brightening and a number of large-scale leases set to be signed after investors haven taken a wait-and-see stance, market activity is expected to again gain traction in the second half of 2021.

Office Fast Facts:

- › Office Stock: 14.02 million sqm
- › Office Take-up (10-year average): 507,800 sqm p.a.
- › Prime Office Rent (H1 2021): € 30.00 / sqm / month
- › Average Office Rent (H1 2021): € 17.90 / sqm / month
- › Vacancy Rate (H1 2021): 3.4 %

Investment Fast Facts:

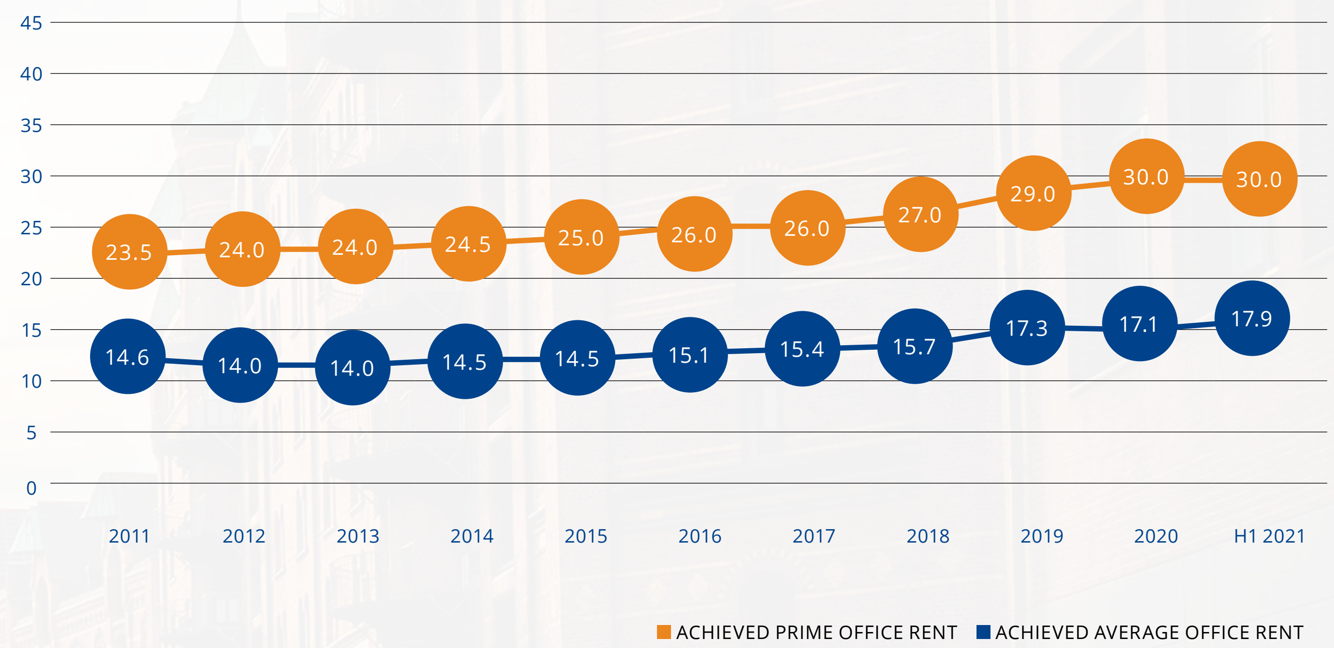
- › Commercial transaction volume (10-year average): € 3.8 bn p. a.
- › Share of foreign investors (2018–2020): 35.0 %
- › Gross initial yields (H1 2021)

  Office: 3.0 %

  High street retail: 3.4 %

  Logistics: 3.55 %

Prime and Average Office Rent (in € / sqm / month)



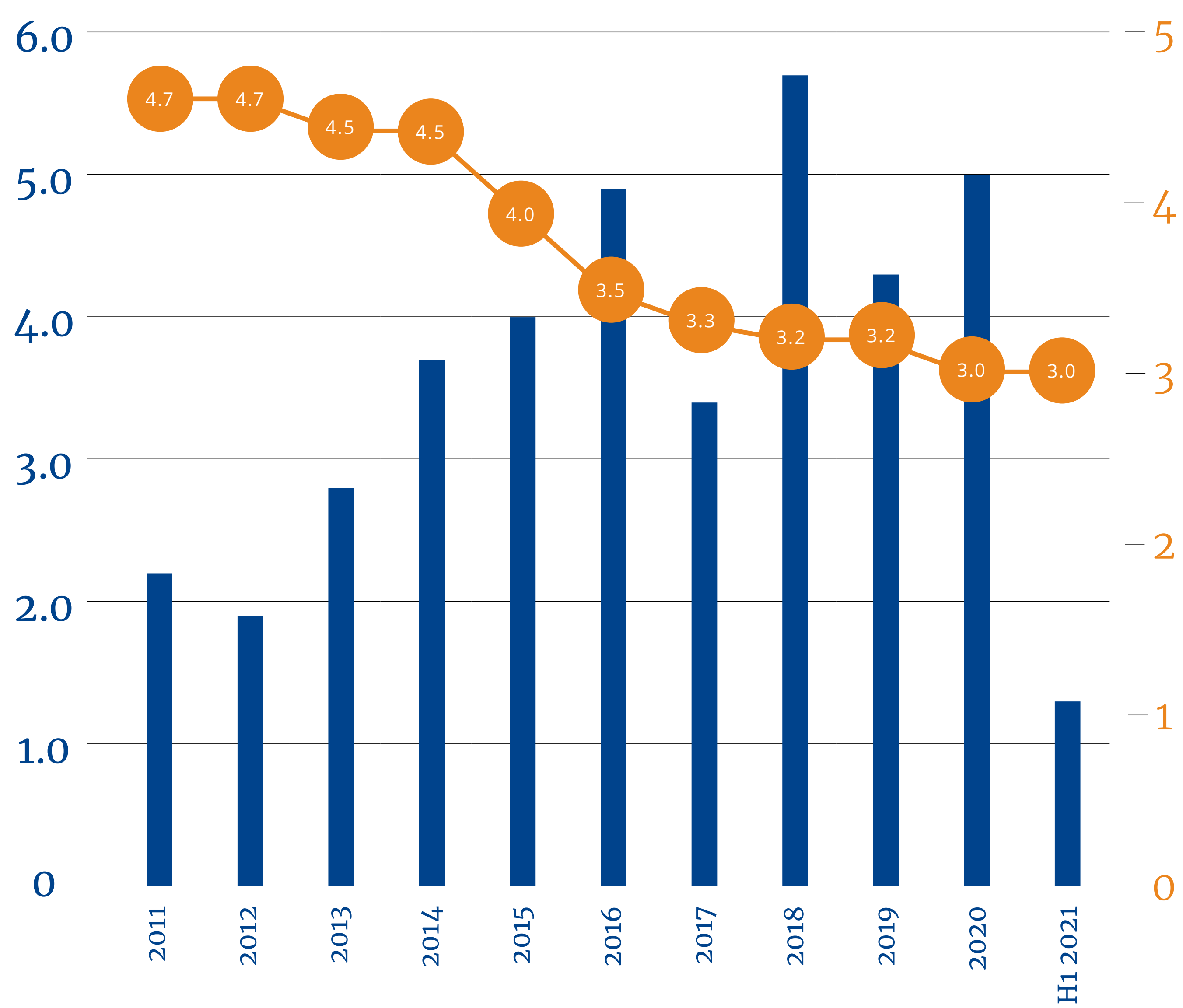
Prime rents are stable at € 30.00 per sqm, while average rents reached a new record-high of € 17.90 per sqm as a result of high-priced, large-scale lease signings in the City submarket in mid-2021. This reflects a 5 % increase yoy. The pandemic put the brakes on rental growth in 2020, but did not result in any noticeable rent price reduction.

The Hamburg investment market finished out 2020, which was heavily impacted by the Covid-19 pandemic, with commercial transaction volume of € 5.0 bn and proved itself a resilient market for investment, even under challenging circumstances. 2020 was thus the second year to beat the € 5 bn mark after record year 2018.

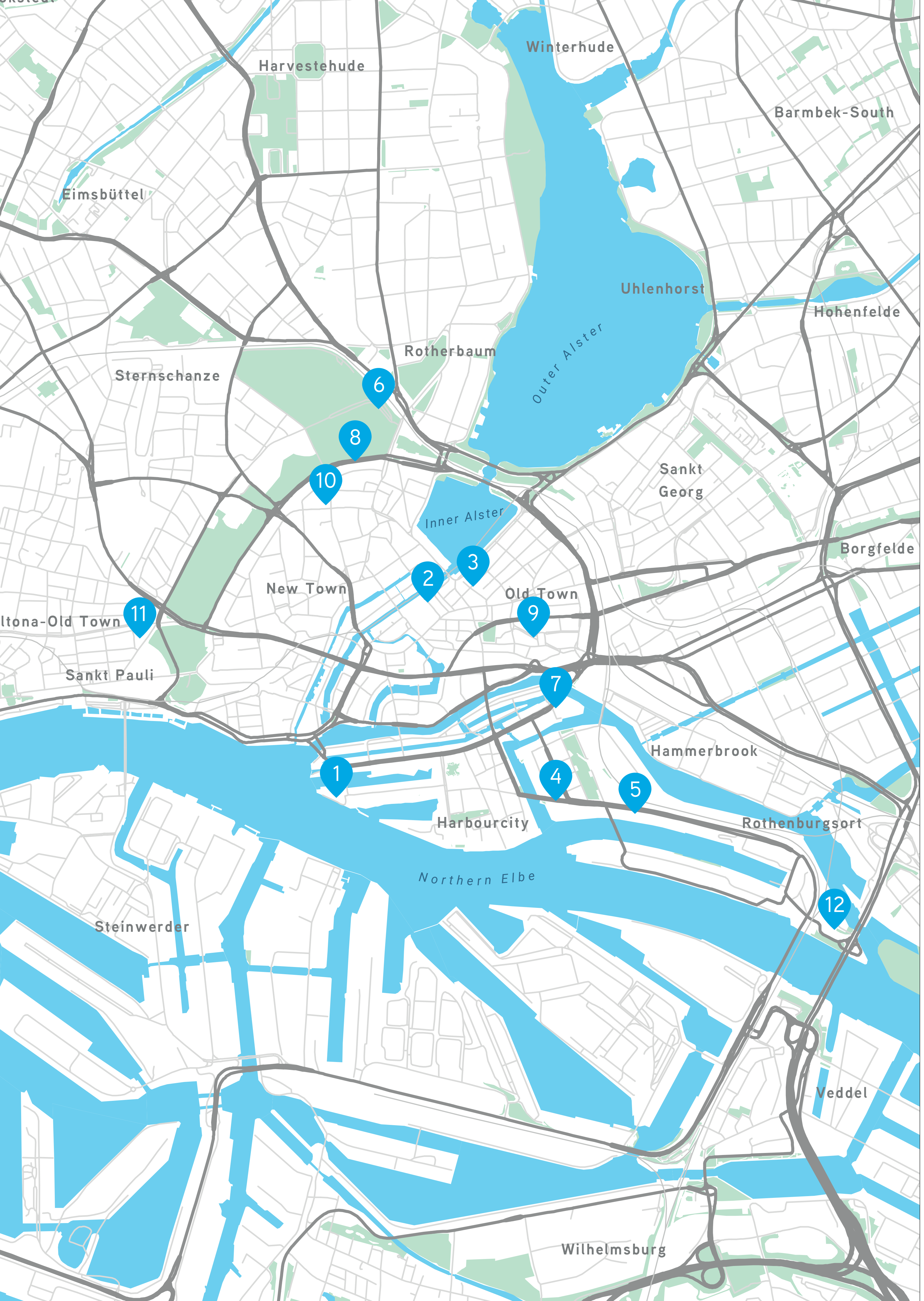
Following this strong result, the Hamburg investment market closed out the first half of 2021 with a relatively moderate transaction volume of € 1.3 bn due to the scarcity of high-volume core-deals, which we are expecting to see again, however, in the second half of 2021. Hamburg boasts solid asset class diversification, with office currently the investor favorite and capturing roughly two thirds of annual market share over the past five years. Gross prime yields are currently posting 3.20 % in the office segment and 3.30 % in retail. The particularly strong demand for core office assets will keep pressure on yields high and could lead to further yield compression.

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

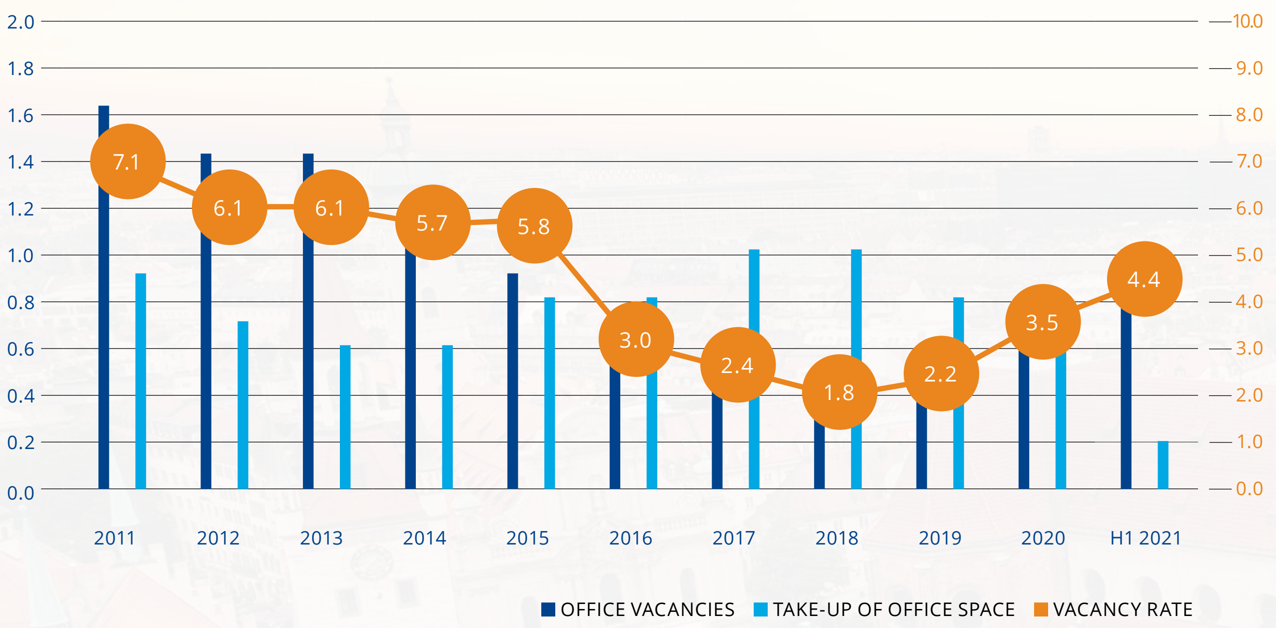
10. EMPORIO

11. TANZENDE TÜRME

12. ELBTOWER

Munich

Office take-up, Office Vacancy (in m / sqm) and Vacancy rate (in %)



Take-up in Munich was recorded at 230,200 sqm in H1 2021, 39 % below the 10-year average. The economic impact of the pandemic has, of course, taken its toll on the Munich office market as well. With the economy now recovering, demand for office space is also starting to again increase slightly. Vacancy has risen, but the current 4.4 % is still low and space remains scarce in central locations office. 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. Due to its position as a hub for key technologies in the fields of digitalization and life sciences, the outlook on the Munich office market remains very positive.

Office Fast Facts:

- Office Stock: 22.52 million sqm
- Office Take-up (10-year average): 761,600 sqm p. a.
- Prime Office Rent (H1 2021): € 39.00 / sqm / month
- Average Office Rent (H1 2021): € 21.10 / sqm / month
- Vacancy Rate (H1 2020): 4.4 %

Investment Fast Facts:

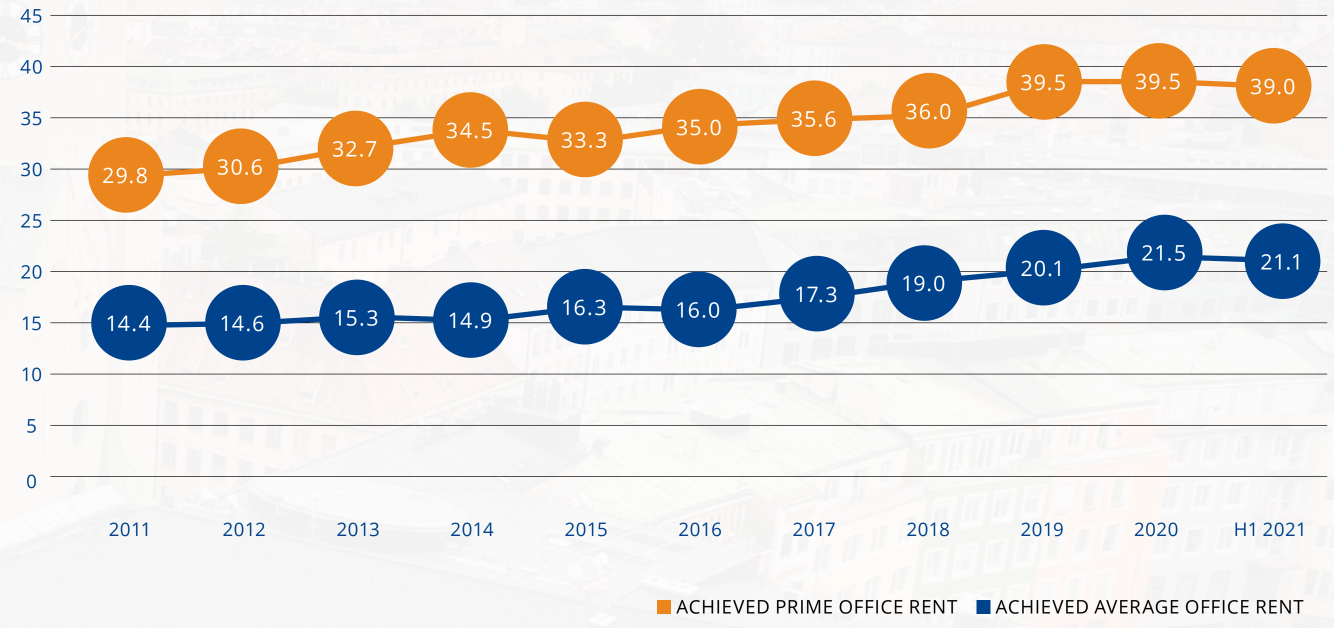
- Commercial transaction volume (10-year average): € 5.8 bn
- Share of foreign investors (H1 2021): 42.0 %
- Gross initial yields (H1 2021)

  Office: 2.7 %

  High street retail: 2.9 %

  Logistics: 3.55 %

Prime and Average Office Rent (in € / sqm / month)



After several years of steep increases, rent prices remained stable during the year and a half due to the weaker demand. Average rents were recorded at € 21.10 per sqm in H1 2021. Average rents within city limits posted € 23.70 per sqm at the end of June 2021 and € 13.50 per sqm in the surrounding areas. Prime rents were recorded at € 39.00 per sqm, with most prime space within the city's Altstadtring (inner ring road) being let for over € 30.00 per sqm. We expect this sideways movement to continue in coming quarters until demand recovers. Incentives, which were practically absent prior to the pandemic, will continue to play a more important role in lease negotiations.

The Munich commercial real estate investment market posted a transaction volume of € 3.129 m in the first half of the year, up almost 70 % yoy. Market activity has picked up significantly even though pre-pandemic levels have not been reached yet.

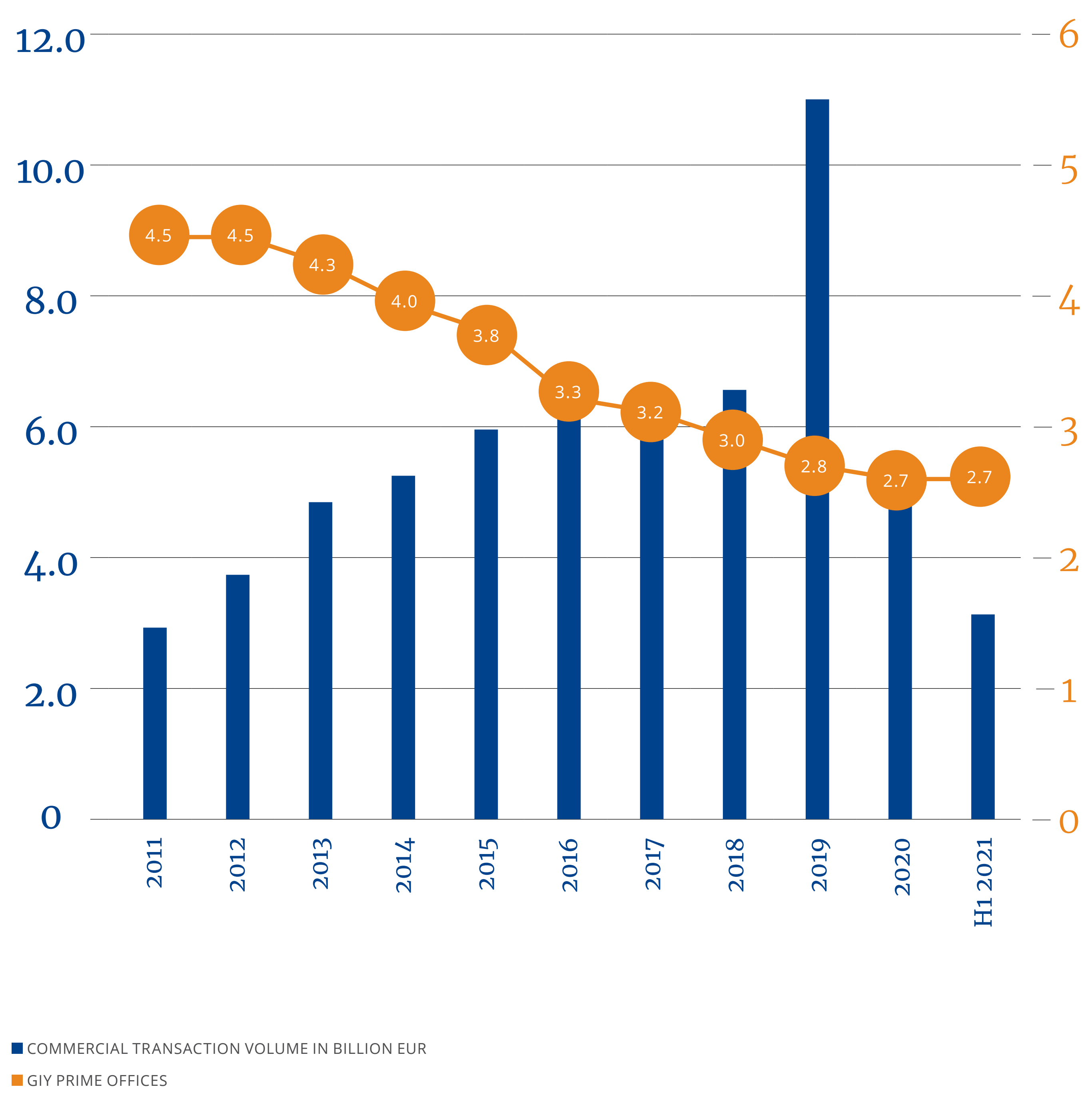
Office deals accounted for 85 % of transaction volume. Other popular asset classes on the Munich market include mixed-used assets and hotels. Compared to other markets, large retail transactions are very rare on the Munich market due to a lack of product and the long holding periods of most retail property owners in the city center.

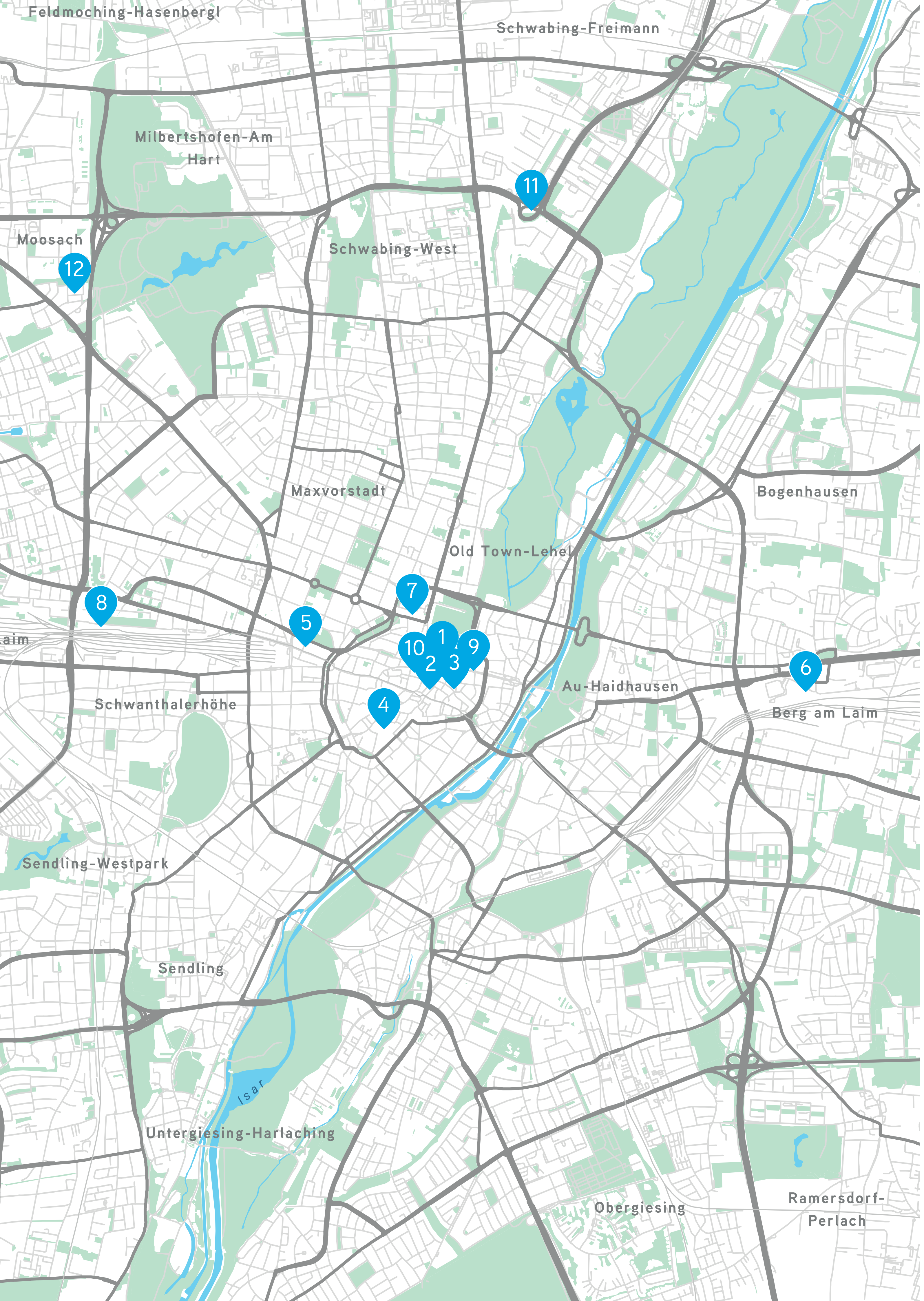
Market activity has already picked up again and investors continue to show high interest in buying assets in the Bavarian capital.

Thanks to its diversified economy and status as an international hub, investors consider Munich a safe haven that is more risk-resilient 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 remain stable; however, we may see a slight decrease in core asset yields as investors are particularly interested in assets with secure long-term rental income in good locations.

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

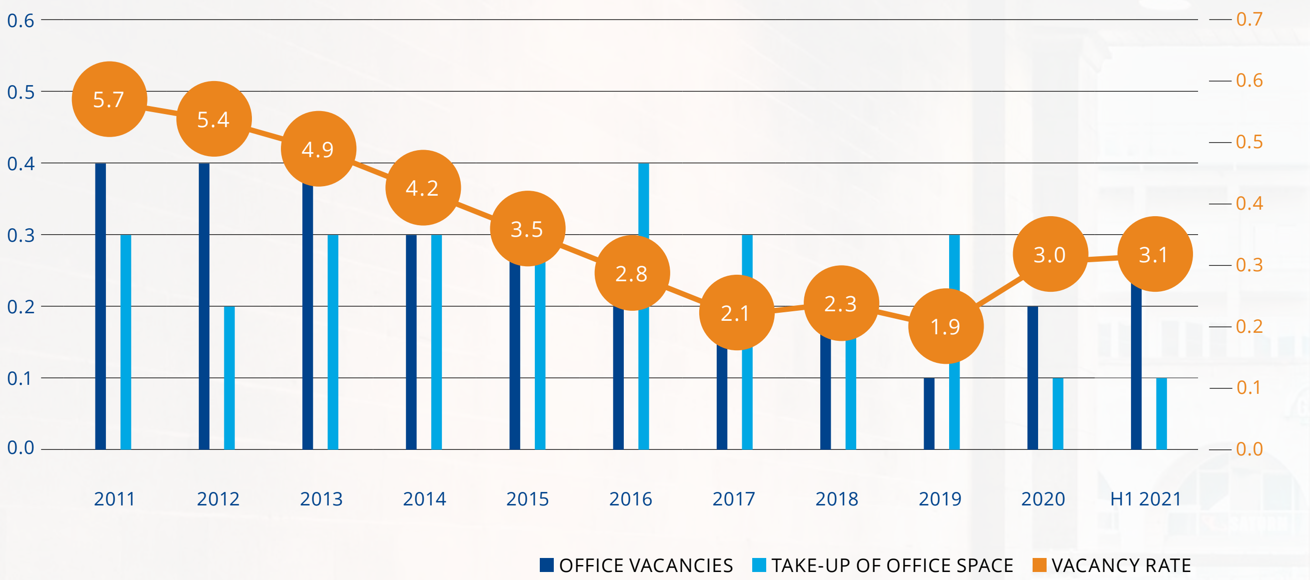

10. FÜNF HÖFE


11. HIGHLIGHT TOWERS


12. UPTOWN MÜNCHEN

Stuttgart

Office take-up, Office Vacancy (in m / sqm) and Vacancy rate (in %)



Take-up on the Stuttgart office leasing market has not been able to match the high take-up results of previous years since the start of the pandemic. Ever since early 2020, the market has been experiencing a lack of large-scale deals involving more than 5,000 sqm, while the small segment has been posting just about as many deals as before the crisis. These low take-up results, however, are not solely due to lower demand. Rather, take-up has also been limited the ongoing low availability of vacant space. In mid-2021, for example, Stuttgart recorded the third-lowest vacancy rate among Germany's top 7 locations. There are very few larger units available, particularly in the city's central sub-markets. Due to high pre-letting rates from property developers, we can expect to see a moderate increase in vacancy in the coming years.

Office Fast Facts:

- Office Stock: 8.23 million sqm
- Office Take-up (10-year average): 267,000 sqm p.a.
- Prime Office Rent (H1 2021): € 25.00 / sqm / month
- Average Office Rent (H1 2020): € 16.10 / sqm / month
- Vacancy Rate (H1 2021): 3.1 %

Investment Fast Facts:

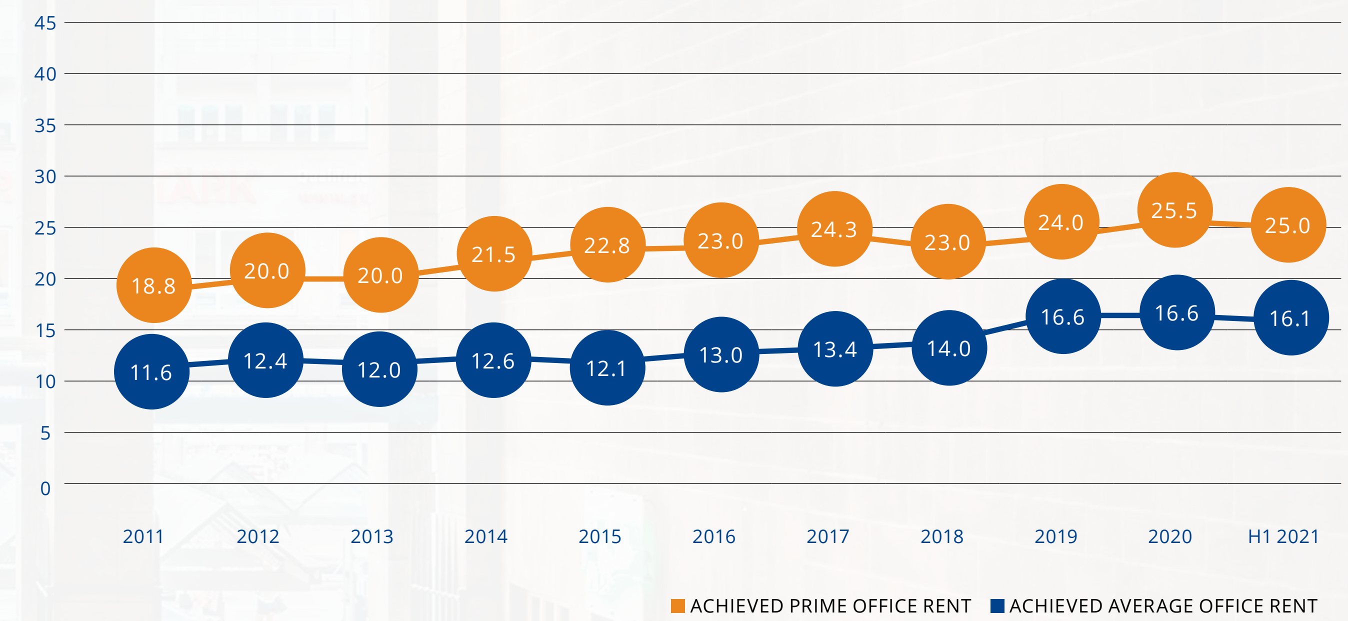
- Commercial transaction volume (10-year average): € 1.3 bn p. a.
- Share of foreign investors (2018–2020): 37.0 %
- Gross initial yields (H1 2020)

  Office: 3.3 %

  High street retail: 3.3 %

  Logistics: 4.2 %

Prime and Average Office Rent (in € / sqm / month)

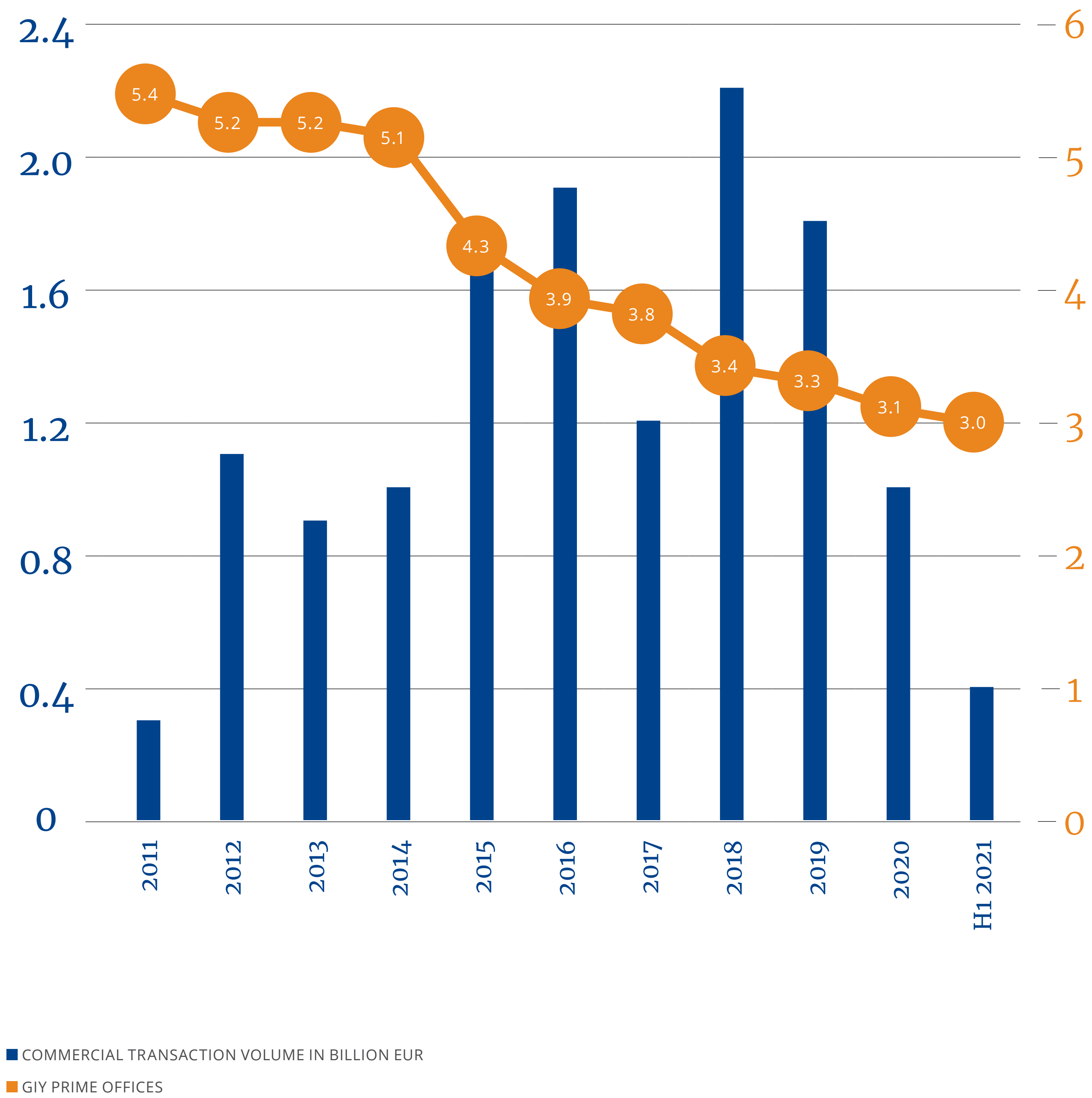


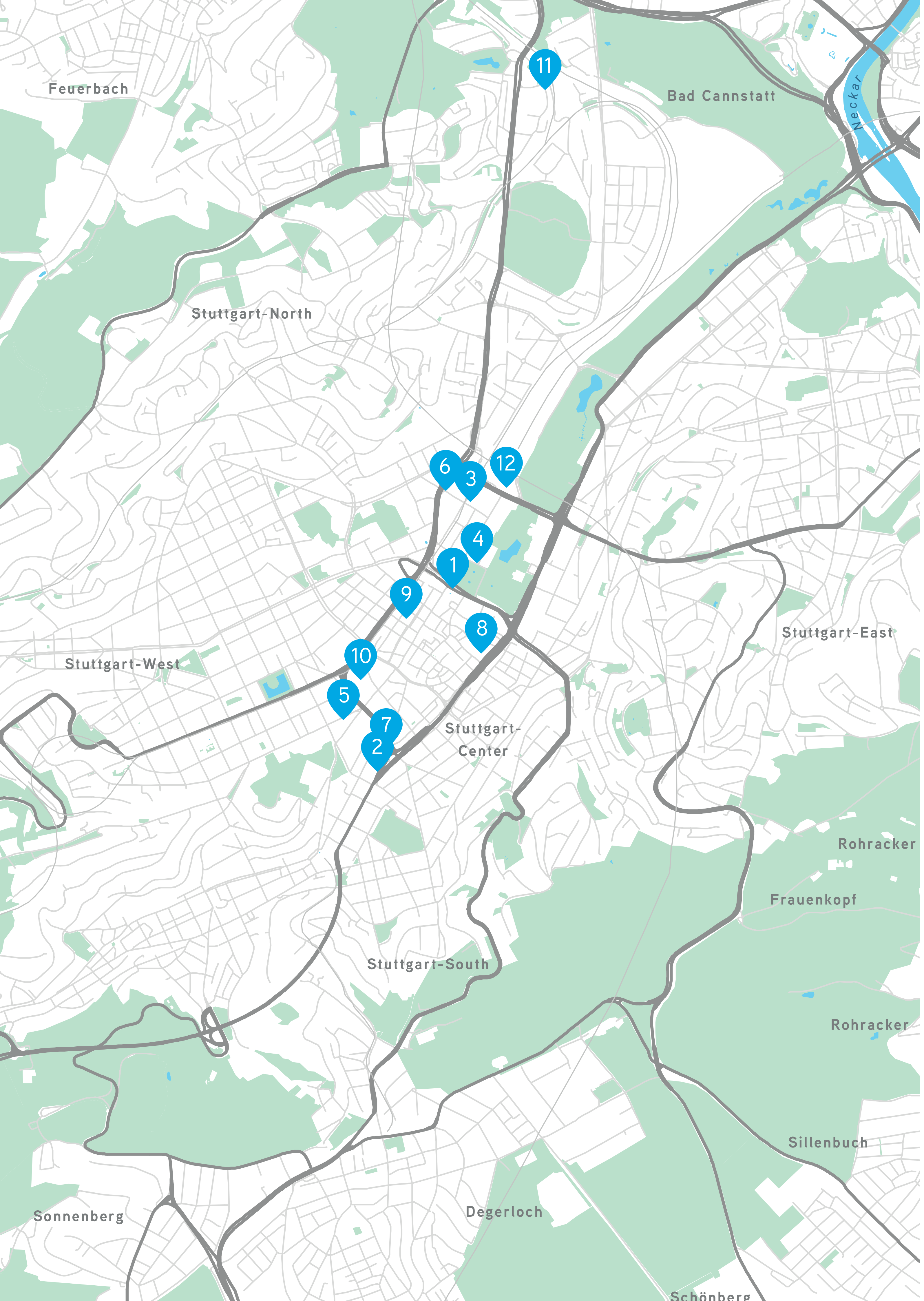
The vacancy rate has only increased slightly during the pandemic, which means rents have managed to stay at almost the same level as before the start of the pandemic. In mid-2021, prime rents were even higher than the pre-pandemic levels. Since the supply of office units in the high-price segment is relatively low, prime rents have yet to exhaust their full potential. Average rents fell slightly compared late 2019 levels.

Demand on the Stuttgart real estate investment market remains high despite Covid-19, with supply still extremely limited.

Interest among German and foreign investors in the Stuttgart real estate investment market remained high, even during the pandemic. This can particularly be attributed to the city's economic stability and the robustness of the Stuttgart office market, which, despite the pandemic, continues to boast a low vacancy rate and largely stable rent levels. This indicates that the current lower transaction volume can be traced back to ongoing extremely limited supply and not to a decline in demand. Compared to the country's other top 7 locations, Stuttgart's moderate yield levels remain attractive for investors. Thanks to these favorable conditions, the city continues to offer investors exciting investment opportunities, with office assets still expected to make up the largest share of the transaction volume in the coming years. We can also look for the share in transaction volume claimed by foreign investors to increase further in the next few years.

Commercial Transaction Volume (in BN €) and Office Prime Yields (in %)





Stuttgart map and prominent buildings


1. KÖNIGSBAUPASSAGEN


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. MAINSTATION

9. Investment Tier-2 & Tier-3 Cities

Feature	Tier-1 Cities	Tier-2 Cities	Tier-3 Cities	
OFFICE STOCK	> 7 MILLION SQM	1.5 – 5 MILLION SQM	< 1.5 MILLION SQM	
TAKE-UP (P.A.)	> 200,000 SQM	> 35,000 SQM	< 35,000 SQM	
PRIME RENT	> €20.00/SQM	> €13.00/SQM	< €13.00/SQM	
SIGNIFICANCE	NATIONAL CENTERS	CITIES OF NATIONAL/ REGIONAL SIGNIFICANCE	REGIONAL CENTERS	SMALL REGIONAL CENTERS
Number	7	14	22	84

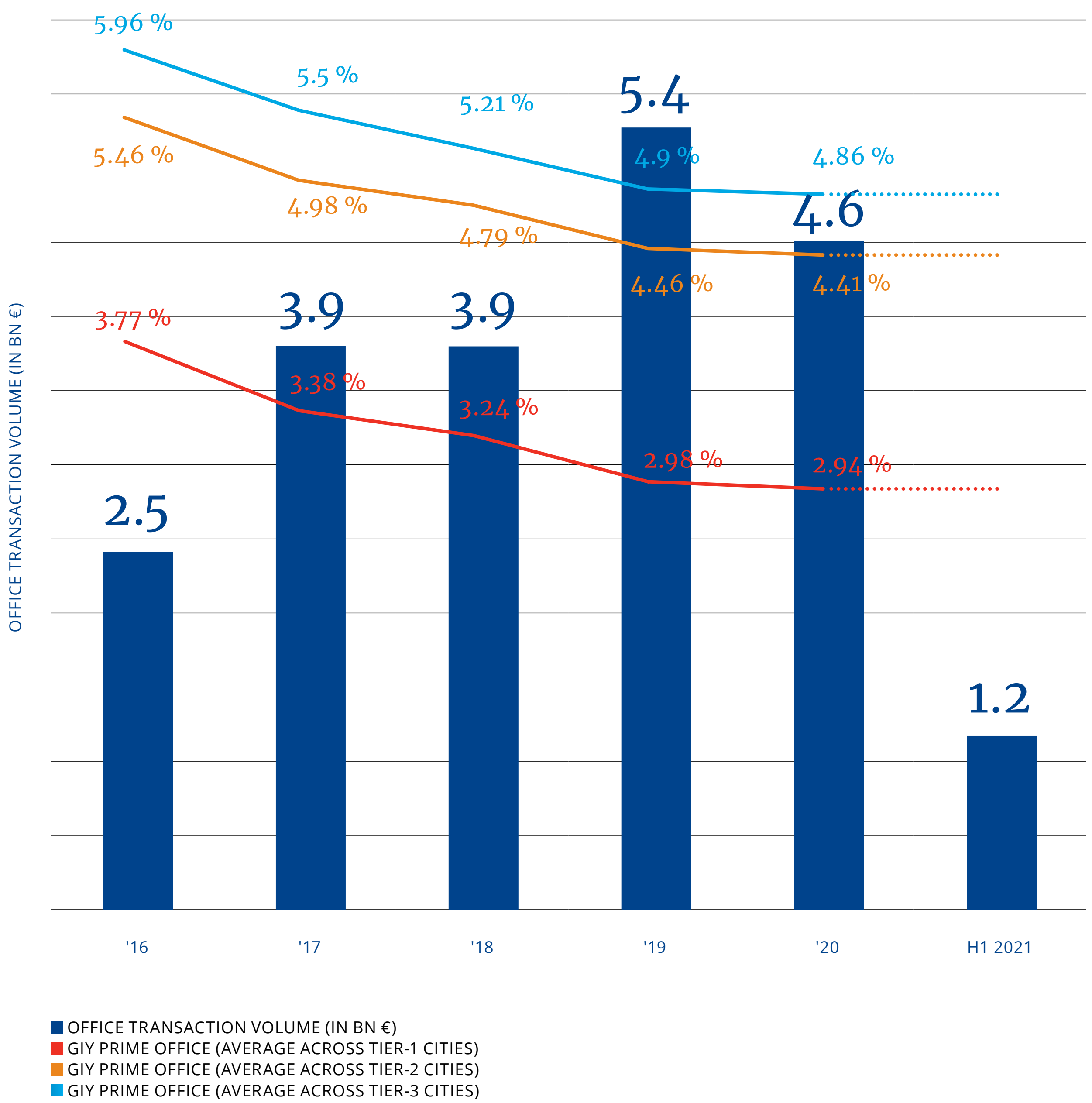
Office investment in German tier-2 and tier-3 cities has become increasingly popular over the past few years. Following a recent slowdown due to the pandemic, the market has now regained momentum.

Over the past few years, office investment in German tier-2 and tier-3 cities has become increasingly popular with real estate investors. Germany differs strongly from other major European markets in terms of its real estate market. Unlike the UK (London) and France (Paris), Germany does not have a single, particularly dominant local market. In addition to the country's seven largest office markets, many smaller cities also boast viable office markets. Around 50 % of annual transaction volume is generated outside the Germany's top 7 cities.

This increase of capital flows into office investments in tier-2 and tier-3 cities had led to steady, significant yield compression in recent years, with yields, however, still coming in well above the level posting in the top 7 cities. Core and core+ assets traditionally attract the most investment. Nevertheless, some investors are also daring to invest in properties that will require more management going forwars. Prior to the Covid-19 pandemic and with the exception of 2018, around one-fifth to a quarter of total office investment in Germany's tier-2 and tier-3 cities targeted value-add and opportunistic deals, which give investors the opportunity to generate higher returns.

Another notable feature of German secondary markets is that developments are demand-driven and rarely speculative. Thus, investments are less risky and provide stable cash flow.

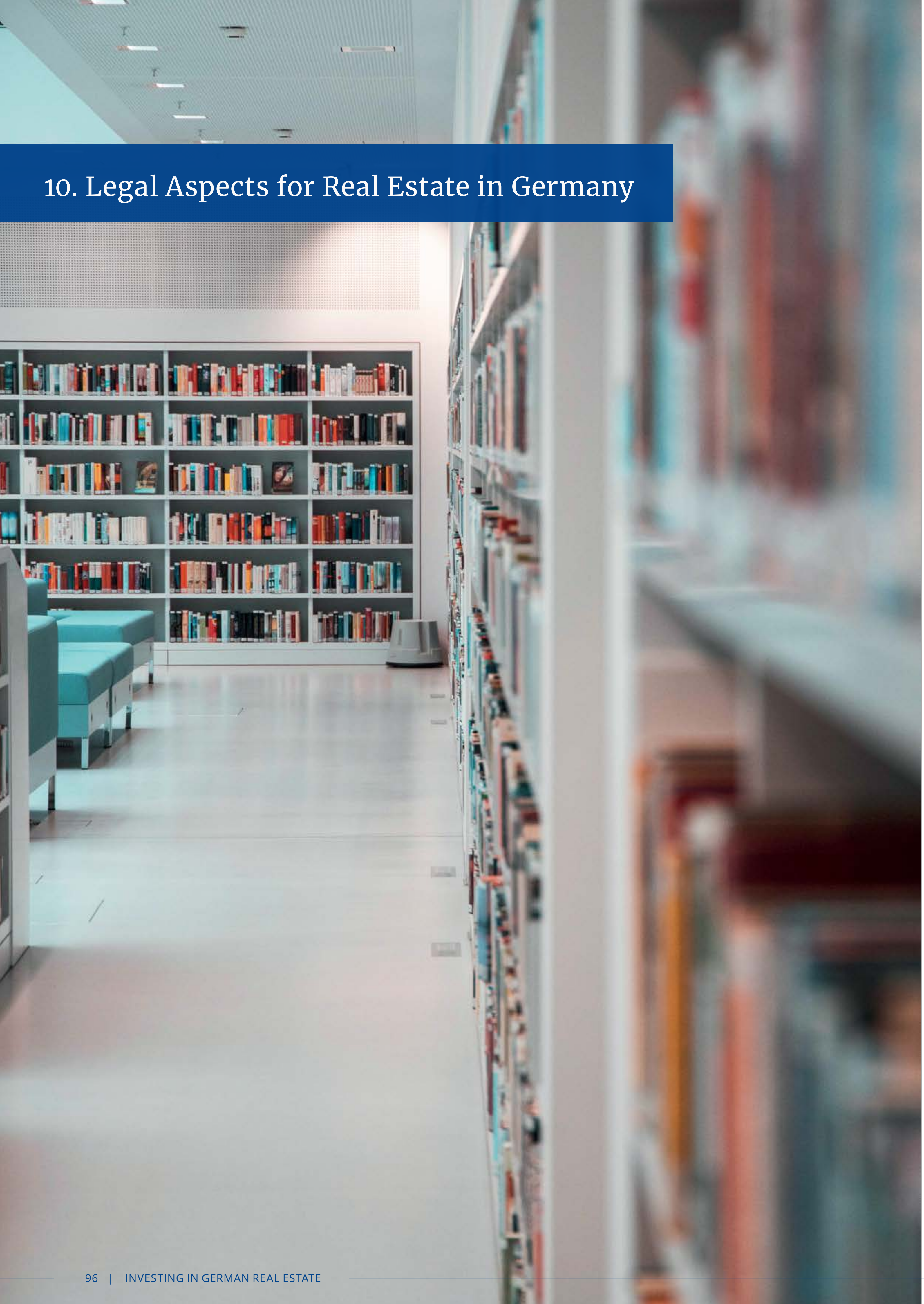
Transaction Volume and Prime Office Yields



SOURCE: COLLIERS

	Transaction Volume 2016–20	Average 5 Years
Tier-1 Cities (Top 7)		
Berlin	€ 40.1	€ 8.0
Munich	€ 36.9	€ 7.4
Frankfurt	€ 35.4	€ 7.1
Hamburg	€ 23.3	€ 4.7
Düsseldorf	€ 15.4	€ 3.1
Cologne	€ 10.3	€ 2.1
Stuttgart	€ 8.1	€ 1.6
	€ 169.5	€ 33.9
Tier-2 Cities		
Nuremberg	€ 4.2	€ 0.8
Leipzig	€ 2.8	€ 0.6
Dresden	€ 2.8	€ 0.6
Essen	€ 2.7	€ 0.5
Bonn	€ 2.4	€ 0.5
Wiesbaden	€ 2.1	€ 0.4
Hanover	€ 2.1	€ 0.4
Mannheim	€ 2.1	€ 0.4
Bremen	€ 2.0	€ 0.4
Dortmund	€ 1.7	€ 0.3
Duisburg	€ 1.5	€ 0.3
Karlsruhe	€ 1.0	€ 0.2
Bochum	€ 0.7	€ 0.1
Münster	€ 0.6	€ 0.1
	€ 28.7	**€ 5.7**

Transaction Volume Tier-1 vs Tier-2 Cities (in BN €)



10. Legal Aspects for Real Estate in Germany

CLIFFORD CHANCE

The following chapter contains general information about the relevant legal and tax framework for investing in German real estate. This information has been prepared by the international law firm, Clifford Chance.

1. Real Estate Ownership

There are three different kinds of real estate ownership in Germany that are registered in a public register, the land register and that 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 that can be placed on real property (such as easements and mortgages).

- Full freehold ownership, which is ownership of a plot of land and all buildings located on it (the most common form of real estate ownership in Germany);
- Condominium ownership, which is ownership of separate individual units in a building, e. g. a flat; and
- Hereditary building rights, which is ownership of a building on a property without including ownership of the respective land.

CLIFFORD CHANCE

1.1 Full Freehold Ownership

Full freehold ownership is ownership of a plot of land and all buildings and other immovable fixtures located on it in perpetuity. These fixtures are seen as integral parts of the plot of land, which means that, in the event of disposal of the plot of land, they are 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. Their 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 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 (abgesondert) from the other units and communal areas may form an individual flat. This allows the real estate developer a certain amount of autonomy in deciding whether 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, their comprehensive rights are limited to their individual part of the building. The relationship among 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, a condominium administrator is 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 typically 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 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 entered in the land register. For this purpose, in addition to the land register folio pertaining to 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 typically structured as:

- "Asset deals" by way of which the purchaser directly acquires the real estate and is registered as new owner in the land register; and
- "Share deals" by way of which the purchaser acquires the shares in the entity that owns the real estate (usually a special purpose vehicle) and that is registered as the owner in the land register.

2.1 Asset Deals

IIn the course of a real estate asset deal, freehold ownership, condominium ownership or hereditary building rights are transferred in rem from the seller as current owner to the buyer as future owner, resulting in the buyer being entered 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 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 several weeks or months after 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 Deal

In the course of a real estate share deal, the buyer does not acquire the asset itself but rather acquires the shares in 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.

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Both parties can benefit from share deals instead of asset deals since, depending on the structure, these may not trigger real estate transfer tax of between 3.5 % and 6.5 % of the purchase price (see item 5 below). In order to invest in the German real estate market, investors often make use of special purpose vehicles. These special-purpose vehicles are companies that 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, and these may include notary costs, land register charges, broker fees and advisory fees. While broker and advisor fees have to be negotiated between the parties, the amount of any notary costs and land register charges is, similar to 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 leases 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. The statutory provisions therefore leave many important aspects of commercial leases partially or completely unregulated. In cases where there is adequate regulation, most matters are left to the discretion of the parties to the lease. If this is the case, it is important to note that for leases containing general terms and conditions of trade pertaining to one party (generally the landlord), the contract will be subject to the provisions of such general terms and conditions of trade (sec. 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 will regularly contain provisions on the following items: Terms and termination;

› 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 specify a fixed term or to leave the duration of a lease unspecified. In the latter case, a commercial lease may generally be terminated with 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 with shorter terms thereafter. Other types of use may have different standard terms.

When specifying a fixed lease term, it is important to remember that the statutory provisions of extraordinary termination for cause cannot be excluded. Although contractual renewal options that must be agreed upon by both parties are not a matter of statutory law, they are possible and common. However, the term of a commercial lease may not exceed thirty years under law; 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 for all the material parts of the agreement which constitute the lease to simply 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 an addendum does not comply with the legal requirements of written form it remains valid and in force. However, 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 unexpectedly impact the rental cash-flow.

Since the requirements of written form are easily violated and jurisdiction on this issue is constantly developing, commercial lease agreements in the past mostly provided a so-called "written form curing clause". Generally under such clause, each party to the lease was entitled to file a claim against the other party to "re-enter" into the lease according to the requirements of written form.

CLIFFORD CHANCE

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 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 in order to avoid any written form defects and hence termination rights arising from them.

(c) Rent and Rent Adjustment

In the absence of statutory provisions, the rent price is freely agreed between 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 current rent is 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 and reductions in the rent due in line with 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 requires disclosure of the respective amount of rent or percentage rent increase.

(d) Rent Deposit

It is up to the parties to specify a rent deposit, something that is typically required under German leases. The amount of the deposit is limited under the principle of morality; typcial amounts in commercial leases are between three and six months' 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 subsequently agree on substantial changes in a given lease without the consent of the guarantor.

(e) Ancillary Costs

Rent usually consists not only of actual compensation for the use of the leased property, but also of 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 the landlord 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; the amount of ancillary charges has to be clear to the tenant. It is therefore common practice in leases 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 needs 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 specify cost caps at a certain percentage p. a. or only allocate minor repairs up to a certain amount in each individual case. A landlord might also reach an agreement according to which the tenant is responsible for the entire property and building and even for any 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 these 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 elements and the roof of the building.

A triple-net lease, on the other hand, is a lease that designates the tenant as being solely responsible for all costs pertaining to the asset under lease. Going beyond a double-net lease, this in particular includes uncapped costs for maintenance and repair of (i) the property under lease, (ii) communal areas and (iii) structural elements and the roof of the building. This means that the 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. It is important to keep in mind that such triple-net leases 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.

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German courts will closely scrutinise such agreements and are not afraid to hold such provisions invalid if they are agreed the result of the overwhelming market power of the landlord. Therefore, triple-net leases can be considered exceptional cases and can be found sometimes in connection with single-tenant assets (especially of the current tenant is the former owner of the property, which is referred to as a sale-and-leaseback 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 have agreed to 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

IIt 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 places itself under the obligation 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 to refrain from selling certain products so that the landlord can keep its competition protection commitment to other tenants. Sometimes leases contain "radius clauses", which provide protection against competition in favour of the landlord as the 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 as to whether or not such clauses can still be agreed in a lawful and exceptional manner.

(i) Change of Control

Change of control clauses are clauses that make a structural reorganisation of an entity (either the tenant or the landlord) or disposal of a property subject to the consent of the respective counterparty. Such clauses are beneficial to the landlord to the extent they require its consent to a structural reorganisation of the tenant and its affiliates since such clauses 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 if they require the tenant's consent before selling shares in the landlord.

(J) Covid-19 and its effect on rent

The Covid-19 pandemic caused various businesses to close or slow down operations for a specific period of time. However, the tenant's duty to pay the specified rent remained basically unaffected. This basic rule also applies should official orders limit or prohibit business operations as a consequence of the Covid-19 pandemic.

In contrast to the tenant's obligation to pay rent, the landlord's termination rights did not remain unaffected. According to statutory law, the landlord has the right to terminate the lease for cause if the tenant is in arrears with payment of rent (or a significant part thereof) for at least two successive months or an amount equal to two months' rent. This right to terminate the lease was 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-19 pandemic. Such arrears cannot justify termination of the lease provided that the corresponding default rent is paid until 30 June 2022 at the interest rate of arrears, which is currently 8.12% p.a.

3.2 Residential Leases

There is a chapter in the German Civil Code which pertains solely to residential leases. The standard regulations are generally applicable but, unlike commercial leases, there are some restrictions to the freedom of contract in place to protect the tenant. This stems 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 particularly in relation to determining rent and rent increase, which is to be linked to the local market or altered economic circumstances. In addition, the landlord's rent security requirement is capped at three months' rent. The landlord is also restricted as to its options terminate a lease, which requires a particular legitimate interest on the part of the landlord, and, if termination of the tenancy would cause the tenant unjustifiable hardship, the tenant has the right to request an extension of the lease despite any notice of termination.

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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 that approve 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 may be public zoning peculiarities concerning the area where a property is located that stipulate certain provisions for use of that area as well as requirements for disposals and lettings (such as (re-)development zones, relocation zones, protected monument zones).

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 the acquisition process. Another important consideration involved in 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 contamination. Additionally, the German Federal Soil Protection Act provides for perpetual liability of former owners.

Essentially, the relevant public authority can decide which party is responsible for sealing off and/or removing any residual contamination; its decision can be based on considerations as to 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

IIn the case of an asset deal, German real estate transfer tax ("RETT") is levied on the purchase price. Although both parties are liable for RETT vis-à-vis the German tax authorities, RETT is typically contractually borne by the purchaser.

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 90 % or more of the interests in a property owning partnership are directly or indirectly transferred to new partners ("Partnership Movement Rule") or if 90 % or more of the shares in a property-owning corporation are directly or indirectly transferred to new shareholders ("Corporation Movement Rule"), in each case at the level of the property-owning company.

If neither the Partnership nor the Corporation Movement Rule applies, RETT will nevertheless be levied if 90 % or more of the capital in a property-owning company are, directly and/or indirectly, acquired or unified by the same person or entity (and/or entities related to each other or being part of a tax group). In such a case, RETT will be levied at the level of the acquiror or acquirors.

The RETT rate depends on the German Federal State in which the property is located and currently ranges from 3.5 % to 6.5 %.

(b) Value-Added Tax

TThe 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 property is sold to another entrepreneur who uses the property for business purposes. 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 for the 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 operation of the business. If and to the extent the sale and transfer of the properties is considered a regular delivery (Lieferung) benefitting from VAT exemption under statutory German VAT law and no option for VAT is exercised, the seller may have to repay VAT to the tax authorities in the amount that was deducted as input VAT by the seller if existing VAT clawback 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 in place for that property.

5.2 Ongoing Taxation

(a) (Corporate) Income Tax

FForeign or domestic corporations owning German real estate are subject to German corporate income tax on their income from letting and leasing real estate at a rate of 15.825 % (including solidarity surcharge). If an individual owning the property, German income tax at an individual marginal rate up to 47.475 % (including solidarity surcharge) on rental income from the property is triggered. The solidarity surcharge will no longer apply for some taxpayers as of 2021. Acquisition costs and expenses borne by the purchaser should be recognised for German tax purposes to the extent they qualify as ancillary acquisition costs (Anschaffungsnebenkosten) or operating expenses (Betriebsausgaben) pertaining to the property. Interest expenses incurred under arm’s length 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 these pertain to the acquisition of property) and do not fall within the scope of the interest barrier rules (Zinsschranke).

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(b) German Interest Barrier Rules

(i) 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 amount of EBITDA that can be offset (verrechenbares EBITDA) of such business. The amount of EBITDA that can be offset is defined as 30 % of the EBITDA calculated for tax purposes. The interest barrier rule applies to all kinds of debt, irrespective of whether such debt is provided by a third party, a shareholder or a party affiliated with 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 are defined broadly to include all kinds of interest taken into account when determining the taxable income, i. e. also income or expenses from compounding or discounting receivables or loans.

(ii) Escape clauses

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

(A) 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, is less than EUR 3,000,000 in one fiscal year;

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

(C) 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 ("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.

(iii) Exceptions in the case of corporations

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

(A) The stand-alone clause is only applicable to corporations if the payments for debt capital that are made to ›a shareholder directly or indirectly holding more than one fourth of the share capital, or ›a person related to such 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 % of the net interest expenses of such company.

(B) 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 directly or indirectly holding more than one fourth of the share capital in a group company, or ›a person related to such 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% of the net interest expenses of such company.

(c) 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 may be reduced in the event that a double taxation treaty applies and may even be reduced to 0% under the European Parent-Subsidiary Directive, if applicable. However, such reductions of WHT are subject to substantial substance requirements.

(d) 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 pertain particularly to interest payments, 25% of which 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 would trigger an additional tax burden. Leasing income might be fully exempt from TT if the German lessor is an SPV that does not conduct any activities other than leasing its own real estate (real estate traders would not qualify for such TT exemption).

(e)Value-added tax

Leasing and letting German real estate is generally exempt from VAT. However, it is possible to opt for VAT under certain circumstances and this option is 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).

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(f) Property tax

In general, German property owners are subject to property tax in Germany. However, it is generally standard practice for property tax to be borne by the tenant as an ancillary cost, provided the respective lease contains such a pass-through provision. 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 special property value were 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. Property tax based on the new values will be determined for the first time on 1 January 2025.

5.3 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 APA. However, both the seller and purchaser are liable to the German tax authorities.

A non-resident 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 such corporate seller does not have a German permanent establishment. 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 is a company resident in Luxembourg).

A German resident corporate seller is also subject to German corporate income tax on its capital gains (purchase price less acquisition cost less disposal cost) at a rate of 15.825%. In addition, TT may apply unless the extended trade tax exemption applies.

If the seller is a partnership, such partnership is generally transparent for corporate income tax purposes and may be transparent for TT purposes.

(b) Share deal

In the case of a share deal exit, the same RETT rules apply as described above with respect to a share deal acquisition.

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).

There are several possible scenarios if the capital gains are realised by a corporate seller upon the sale of shares in a foreign corporation owning a German property. 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); in cases in which an exception applies, a double taxation treaty may provide protection.

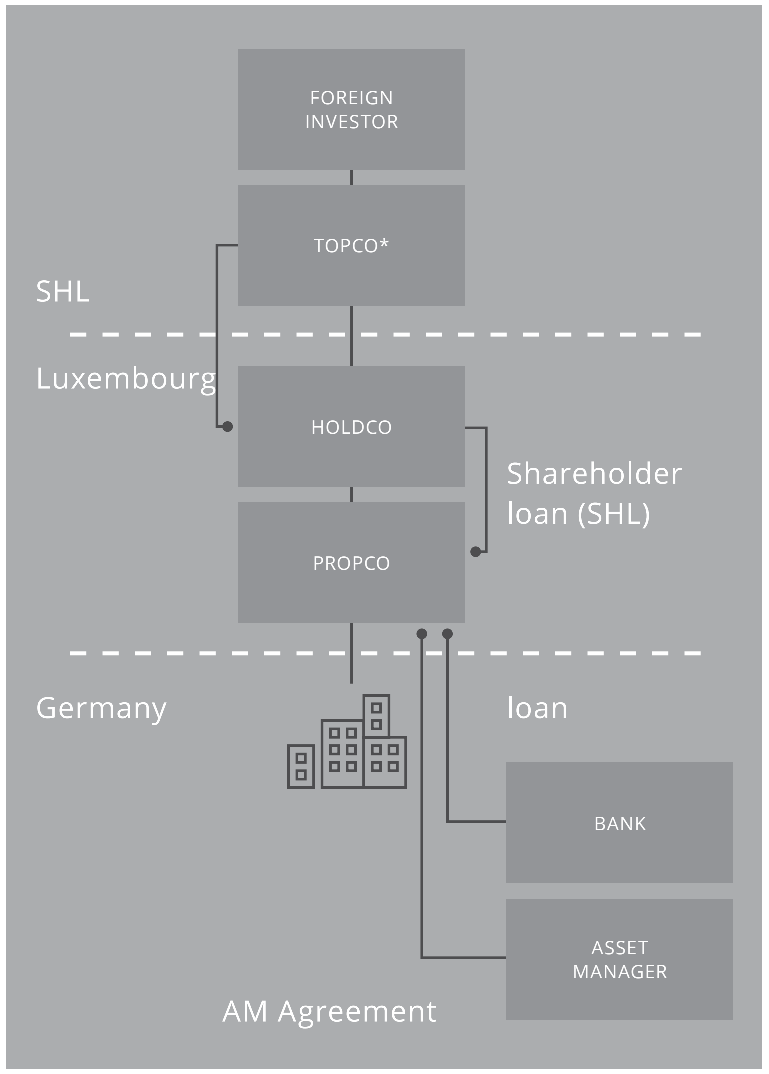
The sale of interests in a foreign or German partnership is treated like an asset deal and triggers (corporate) income tax and potentially, in the case of a German permanent establishment, trade tax.

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



* HONG KONG, SINGAPORE

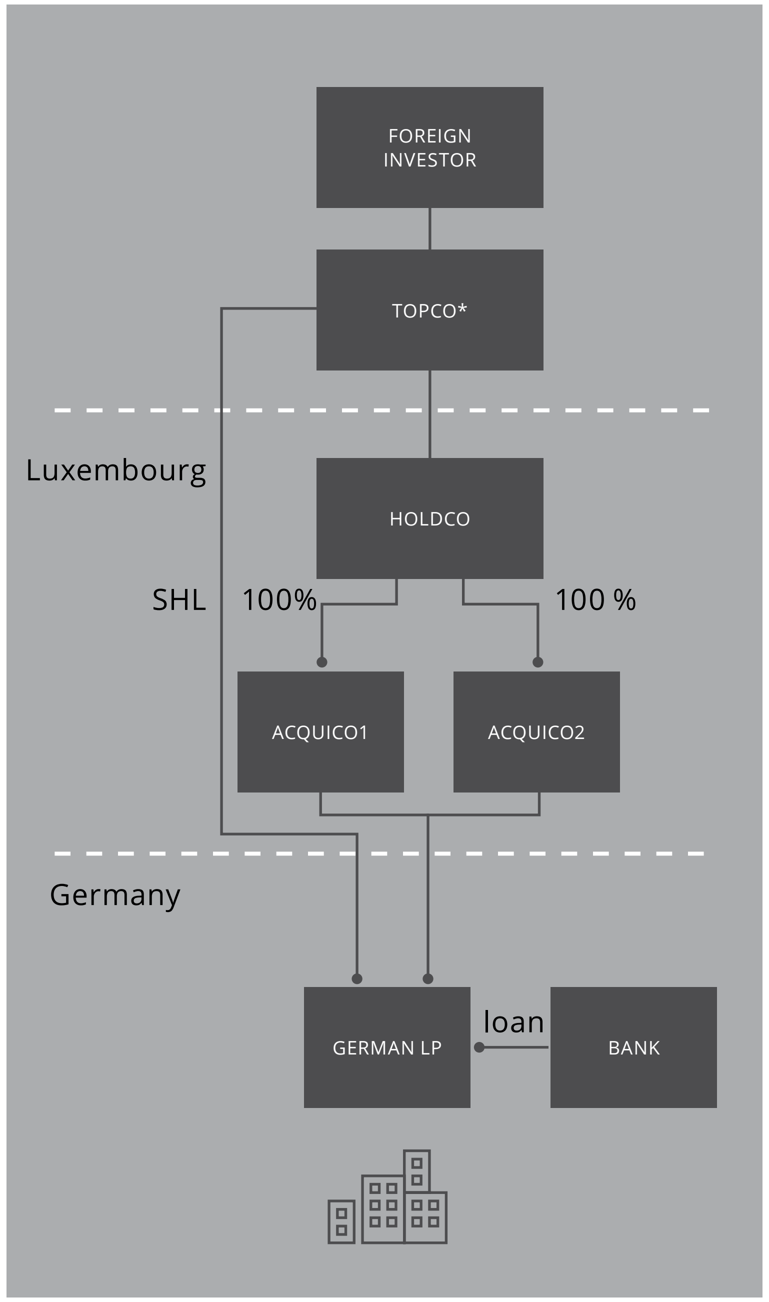
› Assumption: acquisition of property for 200m (70 % building and 30 % land), bank loan 120m, shareholder loan 50m, annual lease payments 10m, other expenses 2 % of annual lease payments.

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**

C L I F F O R D
C H A N C E

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.

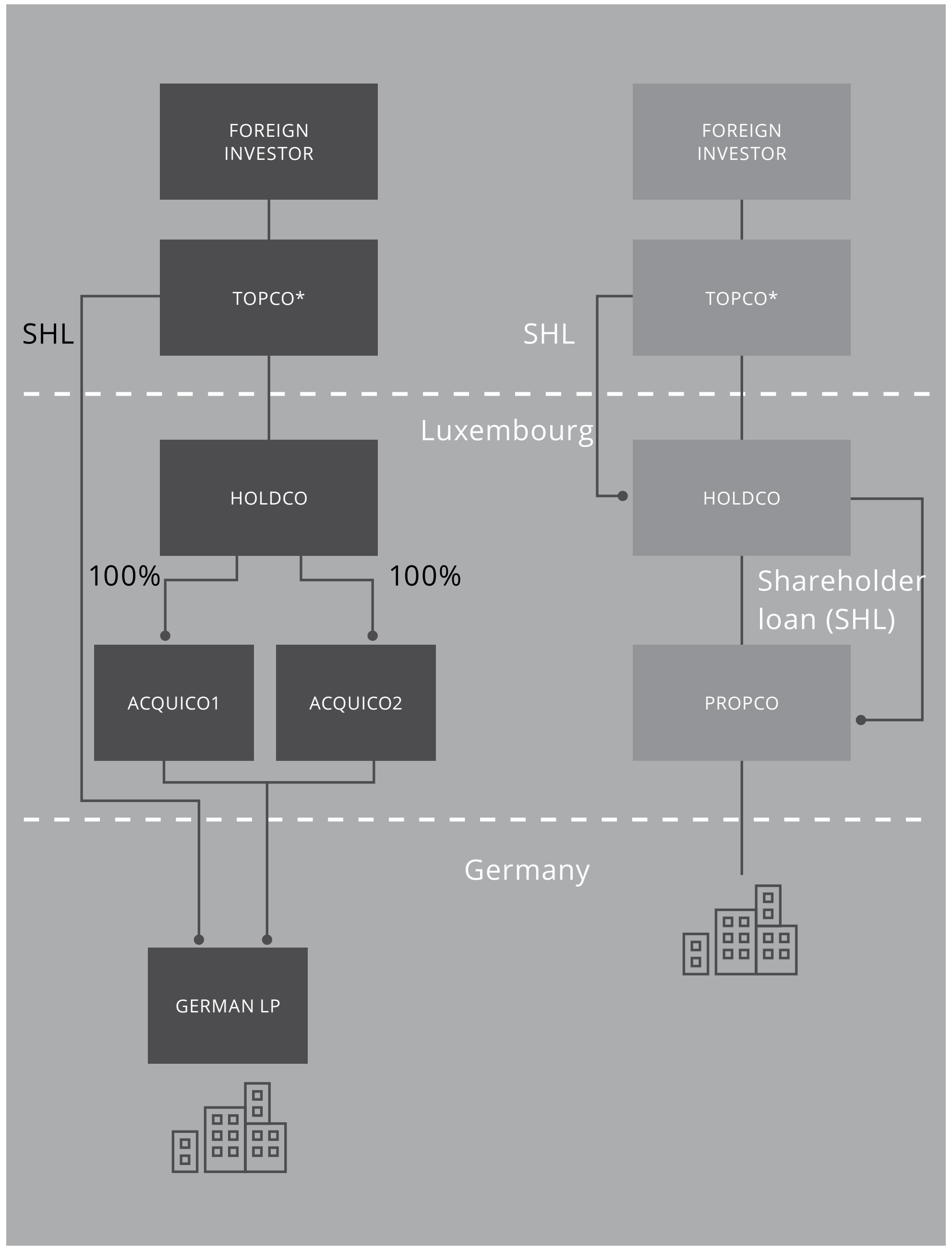
› Interest fully tax deductible if and to the extent arm's length.

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

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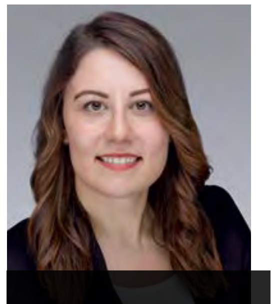

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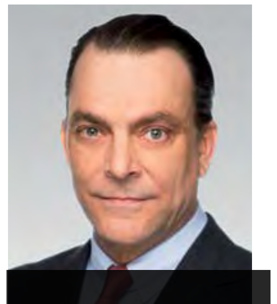

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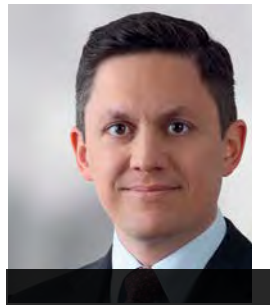

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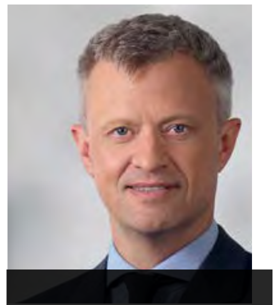

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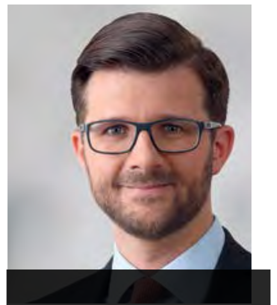

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