Investing in German Real Estate

INVESTING IN GERMAN REAL ESTATE

COLLIERS INTERNATIONAL IN COOPERATION WITH CLIFFORD CHANCE

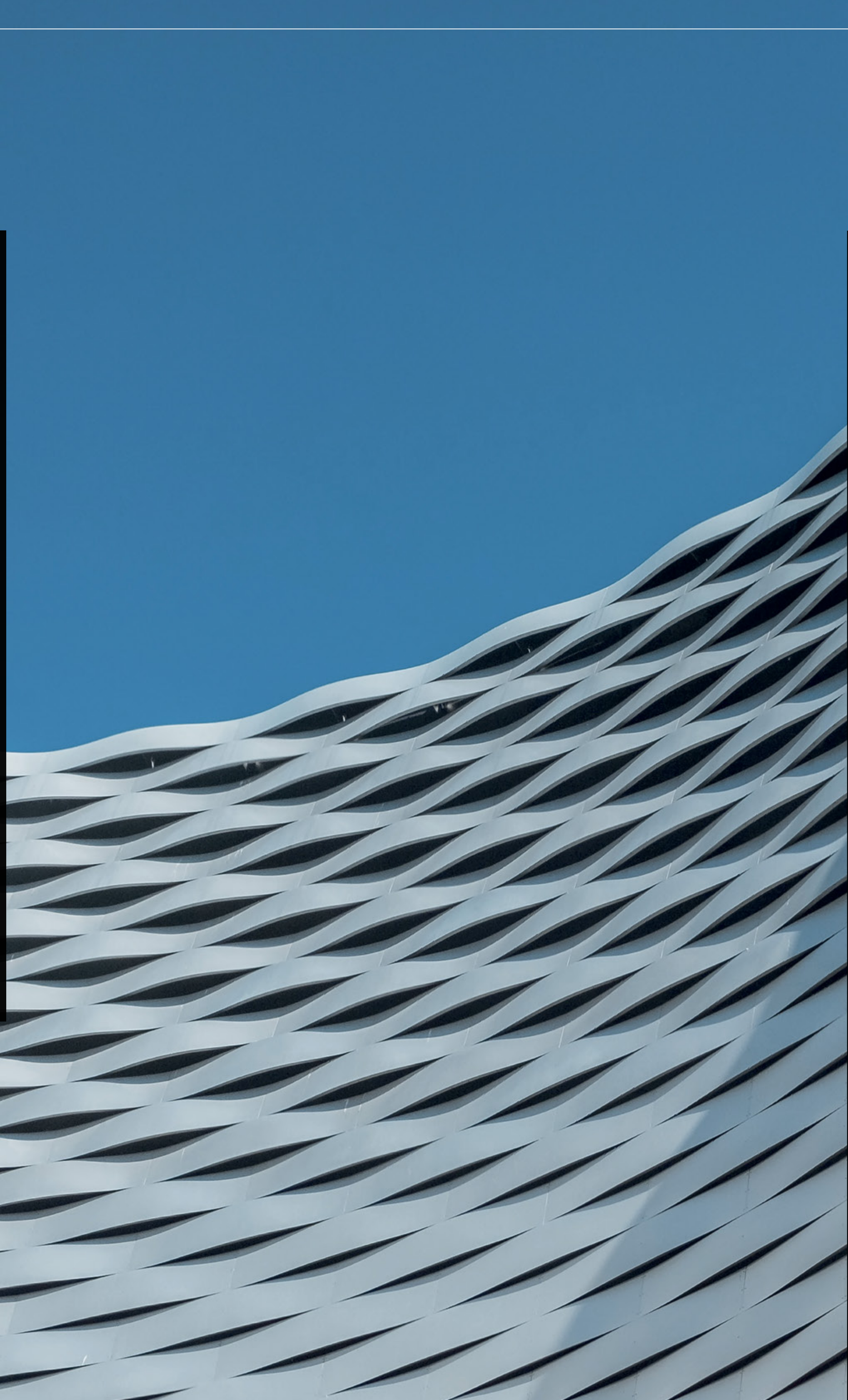
GLOBAL KEY FACTS

€ 117 BILLION
IN OVER 69,000 TRANSACTIONS

186 MILLION
SQ M MANAGED

17,000 +
EMPLOYEES

438 OFFICES
IN 68 COUNTRIES



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CHRISTIAN KADEL, FRICS

MANAGING DIRECTOR

HEAD OF CAPITAL MARKETS | GERMANY

Following the successful launch of our 2015 and 2017 editions, we are pleased to present you with the third issue of our "Investing in German Real Estate" advisory publication. Not only has the German investment market continued its strong upward trend since our first publication but market activity has even picked up the pace. 2018 closed out with an all-time record of over € 60 billion in transaction volume, and activity in the first half of 2019 gives cause to expect a similarly high result at year end.

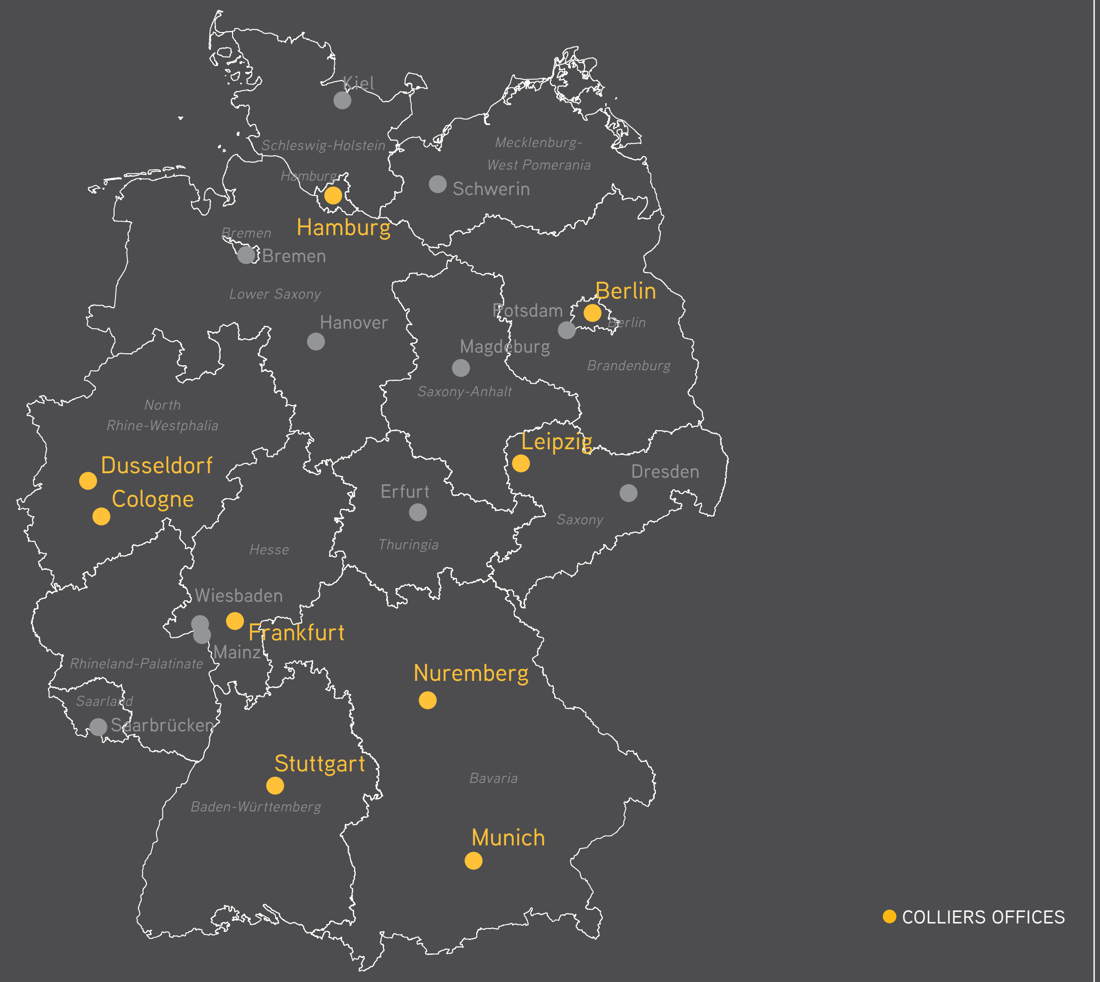
We anticipate that both the rental and acquisition space will continue to be characterized by excess demand. In addition to a crisis-resistant economy and despite the many challenging global economic and political risks, the corner-stones of this upward trend continue to be the low interest-rate environment and very moderate new-build activity, particularly in light of currently favorable general conditions. International investors are particularly appreciative of this low-risk environment, regularly claiming a market share of between 40 % and 50 % during the ongoing boom phase following the end of the financial crisis.

The purpose of this publication is to provide our international clients in particular with a general overview of the investment market, details regarding the specifics of Germany's seven largest investment hubs and an overview of the legal aspects involved in purchasing real estate in Germany. Thanks to our close collaboration with Clifford Chance, we also bring you up to date on the most recent develop-ments in rent and tax law (rent control, new property tax regulations, structuring share deals).

In addition to providing you with this initial overview, I look forward to having the opportunity to advise you on site with my team, whether it be helping you design your investment strategy, finding the perfect investment opportunities or assisting you in the acquisition process or in optimizing, refinancing and/or selling your stock properties.

Your Colliers Team

1. INTRODUCING GERMANY



1.1 FEDERAL STRUCTURE

The Federal Republic of Germany (16 Fed-eral States) is a federation with approximately 82.8 million inhabitants. The capital city is Berlin with a population of about 3.6 million.

7 TOP CITIES FOR REAL ESTATE INVESTMENT

Germany strongly differs from other major Euro-pean 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, Dus-seldorf, Frankfurt am Main, Hamburg, Munich and Stuttgart together with their metropolitan areas.

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

1.2 ECONOMIC FACTS

With the largest population and highest gross domestic product (GDP), Germany is the largest economy in the European Union and the fourth largest in the world. GDP in 2018 came to € 3,386 bn.

A number of the world's 500 largest companies and a total of approximately 45,000 international companies have operations in Germany.

Germany has one of the lowest unemployment rates in the European Union. Except for a temporary increase in 2009, the country has been experiencing a drop in unemployment since 2005 and even the financial crisis did not manage to negatively impact the German labor market.

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

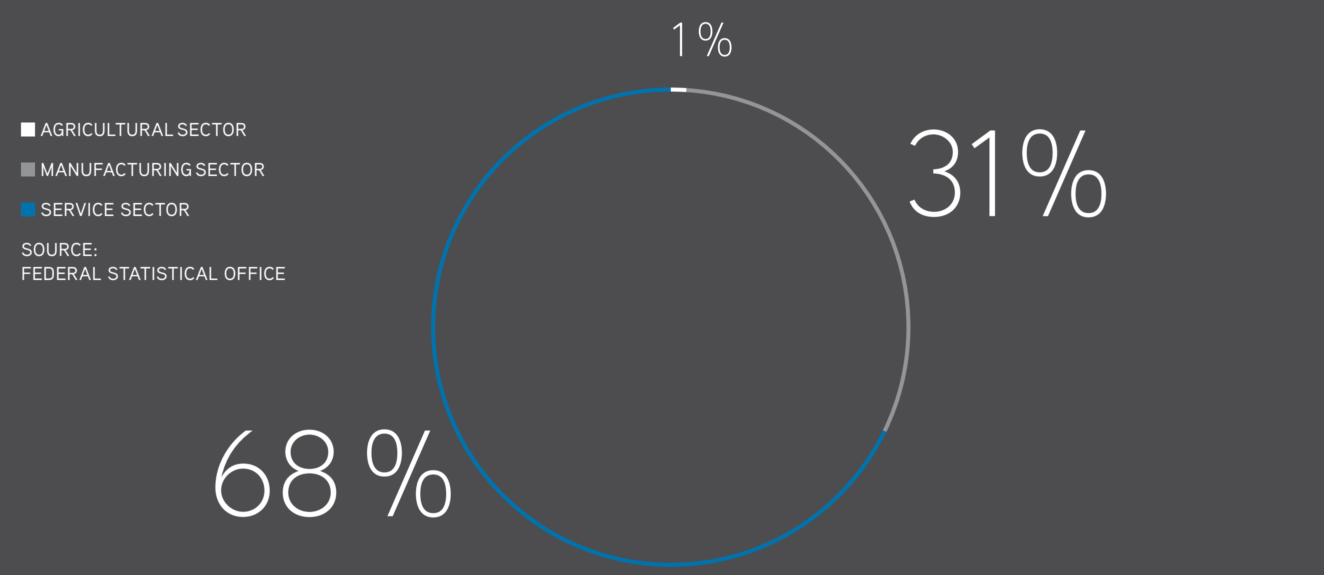
SECTORS, BRANDS

Germany is home to 29 of the Top 500 companies according to the latest annual Fortune Global 500 ranking, which measures the leading 500 listed companies based on revenue. In addition, it hosts the largest amount of so-called "hidden Champions" per country, companies less visible but with a dominating position in the industry*. Eight of the Top 100 companies worldwide are German corporations.

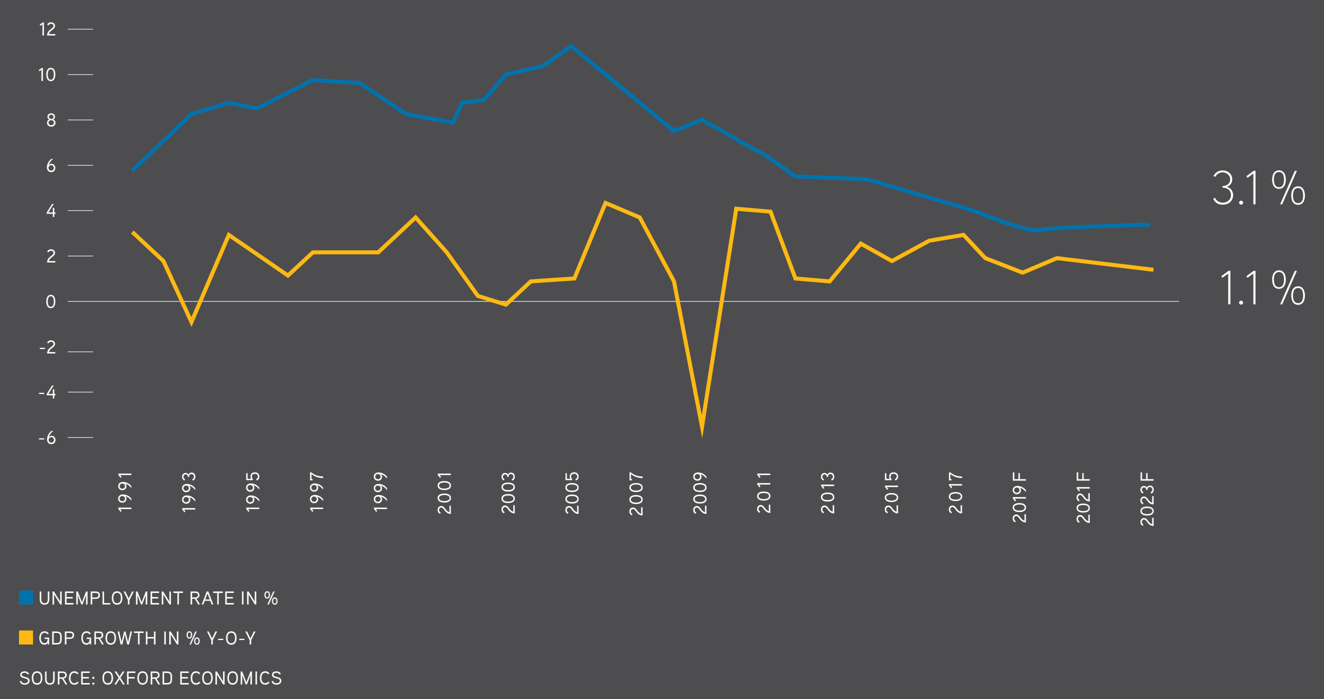
Beside engineering and automotives, key industries in Germany include a variety of sectors such as ICT, insurance, chemicals, retail and trade and the financial services sector.

* 461 according St Gallen study 2018, more than 1500 according to a study for the "Centre for European Economic Research (ZEW)"

ECONOMIC STRUCTURE (SHARE OF GDP 2018)



GDP GROWTH AND UNEMPLOYMENT RATE (IN %)



GERMANY'S TOP 25 COMPANIES 2018 (FORBES GLOBAL 500)

GERMAN CORPORATIONS LISTED BY

FORTUNE GLOBAL 500 (REVENUE IN $ BN)

SOURCE: FORTUNE

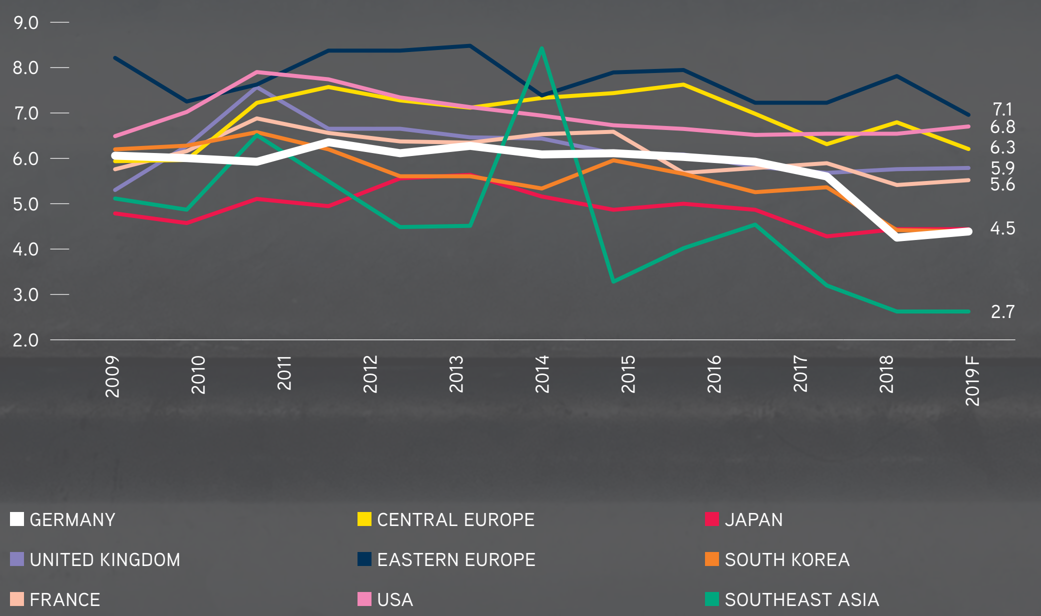
$ 278.3 VOLKSWAGEN	$ 197.5 DAIMLER	$ 126.8 Allianz	$ 115.0 BMW GROUP
$ 98.8 SIEMENS	$ 92.6 BOSCH	$ 92.3 uniper	$ 89.3 TELEKOM
$ 78.8 BASF We create chemistry	$ 75.0 Deutsche Post DHL Group	$ 67.2 Munich RE	$ 56.2 RWE
$ 52.4 Continental	$ 52.0 DEUTSCHE BAHN	$ 50.9 thyssenkrupp	$ 47,0 DEUTSCHE BANK

$ 40.7 BAYER	$ 43.6 ZF FRIEDRICHSHAFEN	$ 43.5 METRO GROUP	$ 42.4 talanx.
$ 42.3 Lufthansa Group	$ 40.5 EDEKA	$ 39.6 FRESENIUS	$ 35.7 e.on
$ 32.0 DZ BANK Die Initiativbank			

2. WHY GERMANY

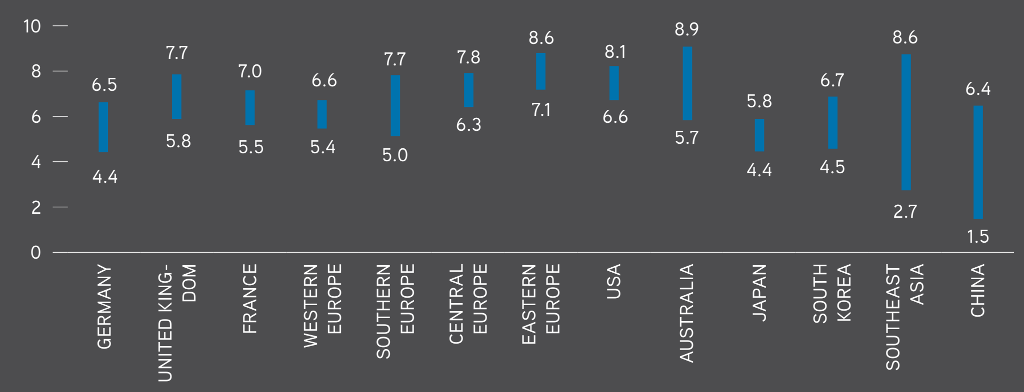
- Germany has one of the world's leading economies, is the economic center of Europe and hosts several world leading companies
- A highly liquid real estate market means easy entry and exit
- The German real estate market is very decentralized with at least 7 Top locations and a number of liquid markets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

COMPARISON OF AVERAGE NET INITIAL YIELDS FOR OFFICES (IN %)



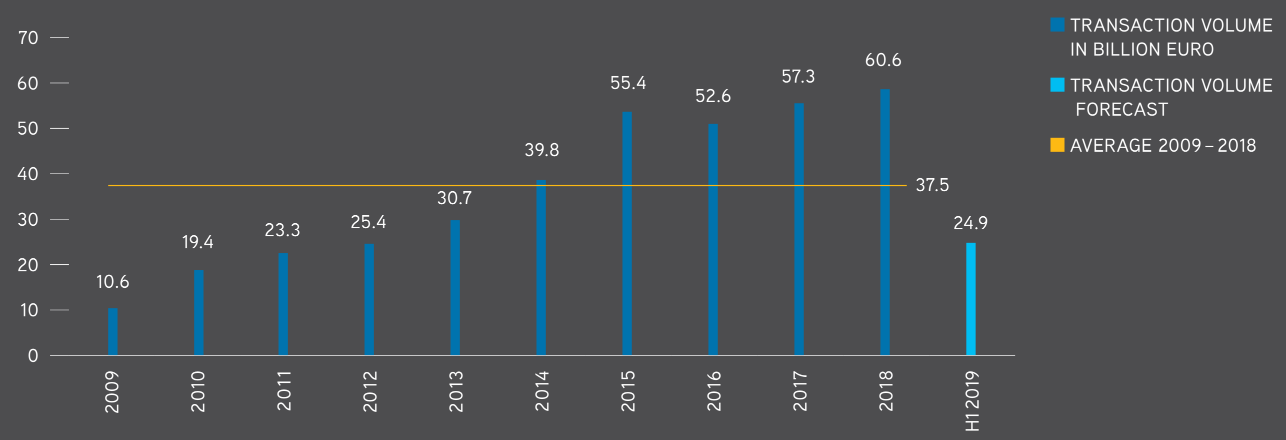
SOURCE: RCA; AVERAGE CAP RATES CAP RATES INCLUDE REFINANCE TRANSACTIONS AND EXCLUDE PORTFOLIO TRANSACTIONS.

YIELD VOLATILITY OF PRIME OFFICES (2009—H1 2019 IN %)



SOURCE: RCA; AVERAGE CAP RATES CAP RATES INCLUDE REFINANCE TRANSACTIONS AND EXCLUDE PORTFOLIO TRANSACTIONS

COMMERCIAL TRANSACTION VOLUME IN GERMANY (IN € BN)



Backed by a strong mid-year commercial transaction volume, 2019 is poised to become the fifth consecutive year to clearly exceed the € 50 bn benchmark. As in previous years, particularly 2018/2019, the large number of high-volume transactions in Germany's Top 7 markets remains the key driver behind these results, pushing the average of the post-crisis era above levels previously witnessed. Taking into account the current deal pipeline, we expect annual results to come in close to the previous-year record of € 60 bn.

CROSS-BORDER INVESTING IN GERMANY

Cross-border capital flows continue to play a critical role in German commercial real estate, as an increasingly diverse range of investors seek to diversify their European and global holdings.

For many global investors, the relative yield available in Europe to their own domestic market often generates an immediate gain including leverage and hedging effects. This is especially the case for APAC based- investors such as Hong Kong and Singapore where the relative pricing of investment grade product trades at a discount to the European equivalent. The reverse however is true of the US-based investors where interest rates and real estate yields are currently higher than their European equivalent.

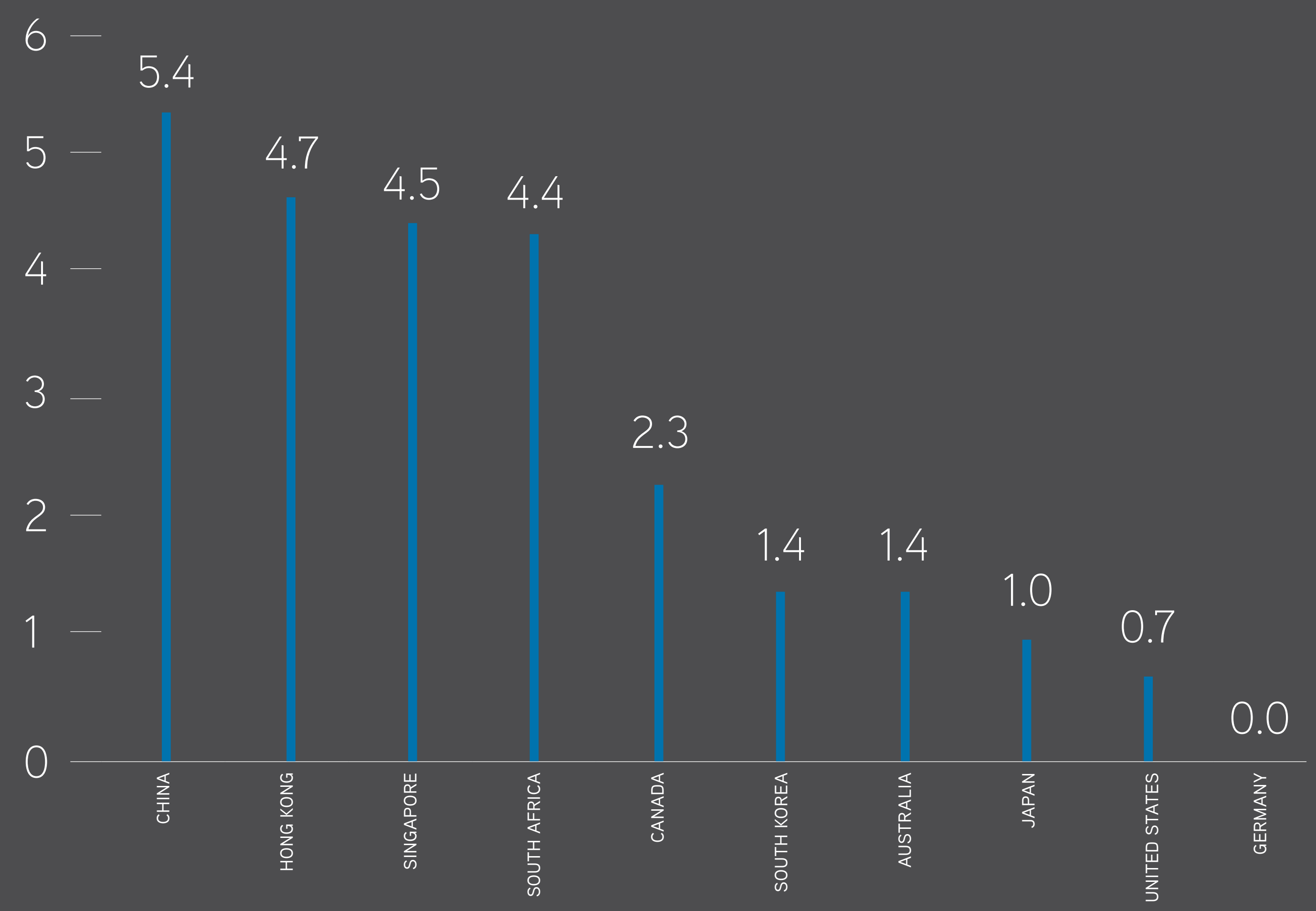
When we consider the impact of hedging, which is increasingly used to protect against currency risk / volatility, the yield differential is often amplified. In the case of US-based investors, the hedging gain from investing into EUR-denominated assets can compensate for the negative yield differential.

This illustrates how very low interest rates in the Eurozone – and a depreciating Euro – have enabled foreign capital operating at higher rates of interest in their local domicile to use currency hedging to their advantage and increase returns.

Considering the currency trading yields as well as current cross currency swap rates, hedging posts a positive impact for all major global markets, especially for Asian buyers. Chinese investors see gains of 540 basis points, while US investors can still manage a 70 basis points boost in Germany.

Looking forward, a continuation of the benign interest rate environment in the Eurozone will continue to support a competitive edge for global investors in Germany, pointing to another competitive German market in the year ahead.

HEDGING IMPACT ON YIELD PREMIUMS (2019 IN %)



SOURCE: COLLIERS/CHATHAM FINANCIAL, AS OF SEPTEMBER 2019

MARKET DATA — OFFICE LEASING

	A-CITIES (TOP 7)	BERLIN	DUSSEL-DORF	FRANK-FURT	HAMBURG	COLOGNE	MUNICH	STUTT-GART
STOCK OF OFFICE SPACE IN MILLION SQM	91.92	20.50	7.69	11.47	13.78	7.85	22.63	8.00
OFFICE SPACE TAKE-UP 2018 IN SQM	3,796,400	791,000	338,000	618,000	564,000	290,000	979,300	216,100
OFFICE SPACE TAKE-UP IN SQM AVERAGE 2009—2018	3,294,300	693,700	314,700	487,500	510,900	290,700	738,400	258,300
PRIME RENT IN € / SQM (H1 2019)		36.50	28.00	43.00	28.00	25.00	36.20	24.00
AVERAGE RENT IN € / SQM (H1 2019)		24.10	16.10	20.50	16.50	14.50	19.00	15.00
VACANT OFFICE SPACE IN SQM (H1 2019)	2,754,400	287,000	497,200	827,700	398,000	187,200	390,600	166,700
VACANCY RATE IN % (H1 2019)	3.0	1.4	6.4	7.2	2.9	2.4	1.7	2.1

THE DATA FOR BERLIN, DUSSELDORF, 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.

MARKET DATA — INVESTMENT

	GERMANY	A-CITIES (TOP 7)	BERLIN	DUSSEL-DORF	FRANK-FURT	HAMBURG	COLOGNE	MUNICH	STUTT-GART
TRANSACTION VOLUME 2018 IN MILLION €	60,593	36,305	6,959	3,420	9,664	5,665	1,860	6,531	2,206
TRANSACTION VOLUME IN MILLION € AVERAGE 2009 – 2018	37,500	20,947	4,566	1,832	4,508	3,190	1,227	4,504	1,120
PRIME YIELD OFFICES IN % (H1 2019)			3.10	3.50	3.10	3.20	3.50	2.90	3.30
PRIME YIELD HIGH STREET RETAIL IN % (H1 2019)			3.10	3.20	2.80	3.20	3.30	2.75	3.30
PRIME YIELD INDUSTRIAL & LOGISTICS IN % (H1 2019)						4.35*			

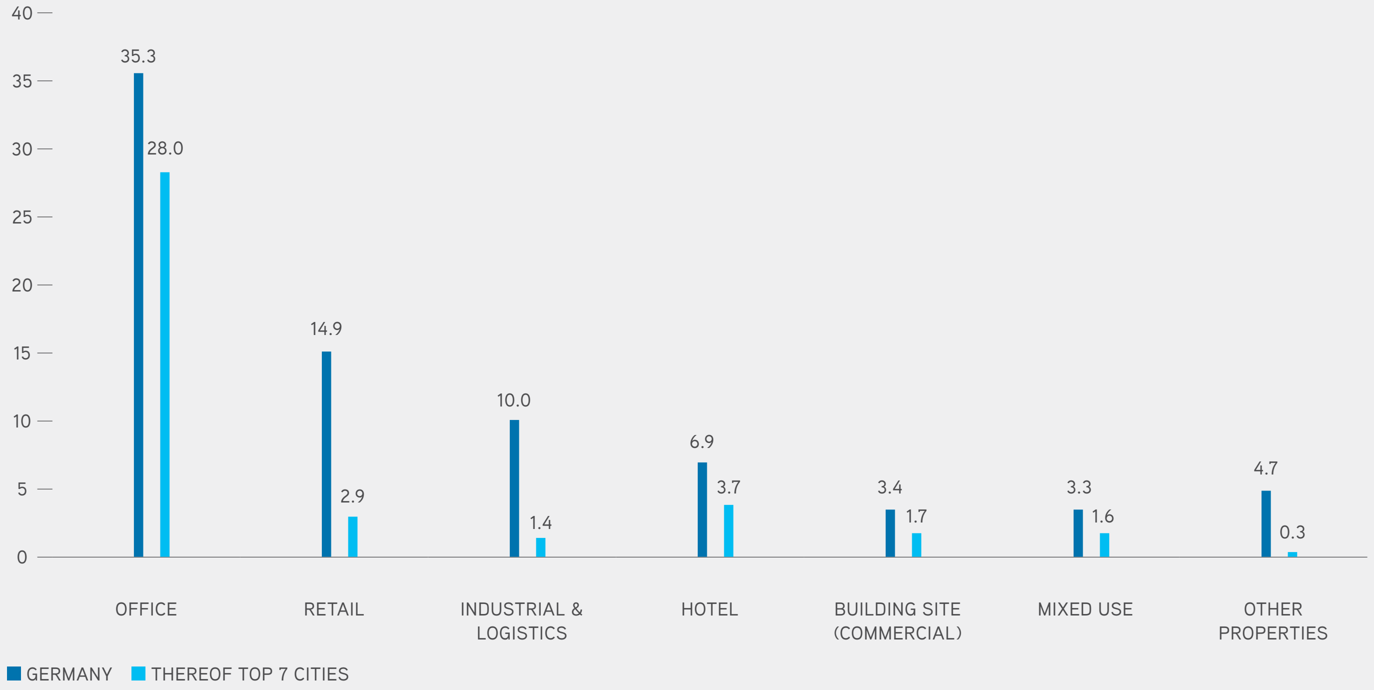
* REFERS TO THE DEFINED LOGISTICS MARKET AREAS

INVESTMENT A- AND B-CITIES

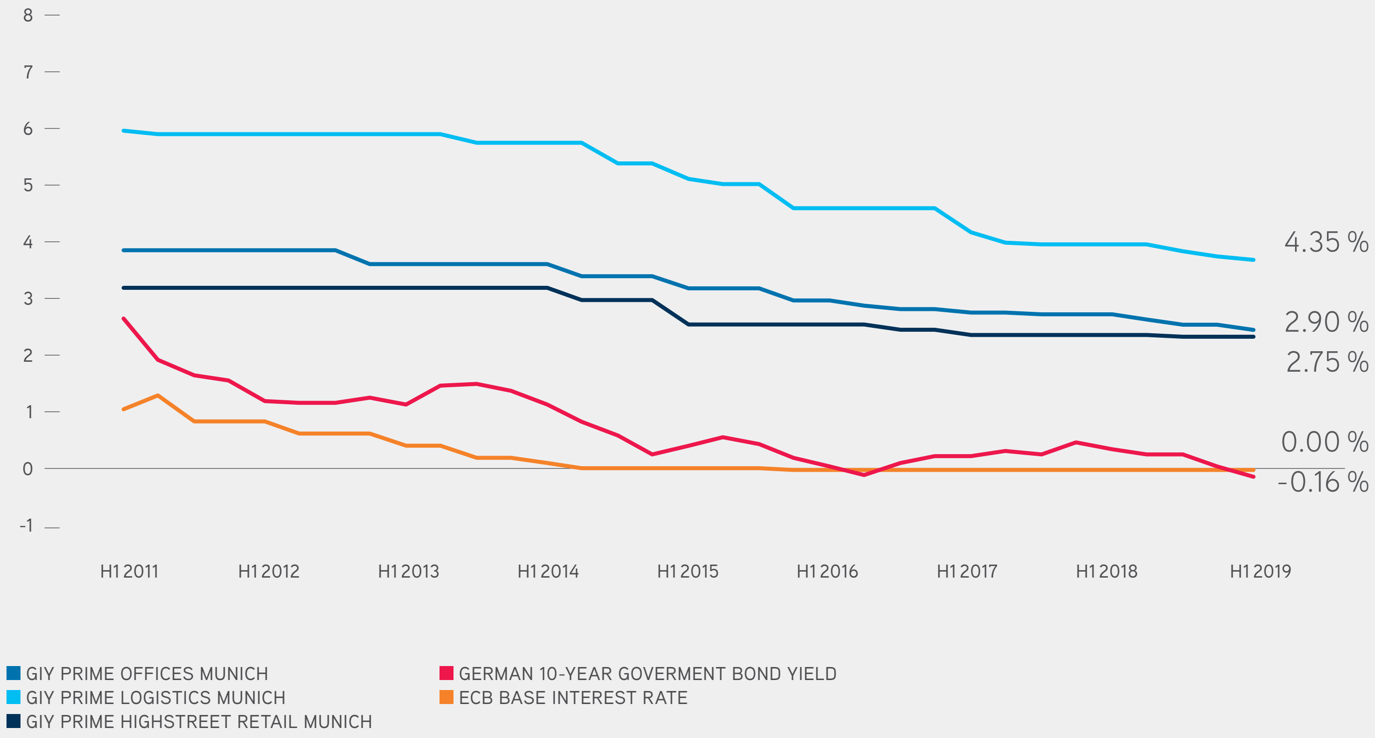
	TAV* 2014 – 18	AVERAGE 5 Y
A-CITIES (TOP 7)		
BERLIN	€ 32,024,114,031	€ 6,404,822,806
FRANKFURT	€ 31,366,498,051	€ 6,273,299,610
MUNICH	€ 30,784,884,025	€ 6,156,976,805
HAMBURG	€ 21,609,456,727	€ 4,321,891,345
DUSSELDORF	€ 12,037,520,038	€ 2,407,504,008
COLOGNE	€ 8,646,645,184	€ 1,729,329,037
STUTTGART	€ 8,118,168,514	€ 1,623,633,703
	€ 144,587,286,569	**€ 28,917,457,314**
B-CITIES		
NUREMBERG	€ 2,559,785,177	€ 511,957,035
LEIPZIG	€ 2,524,732,273	€ 504,946,455
ESSEN	€ 2,407,403,440	€ 481,480,688
DRESDEN	€ 2,300,146,866	€ 460,029,373
BONN	€ 2,115,026,930	€ 423,005,386
WIESBADEN	€ 1,947,417,649	€ 389,483,530
HANOVER	€ 1,856,858,773	€ 371,371,755
BREMEN	€ 1,777,450,314	€ 355,490,063
MANNHEIM	€ 1,512,581,939	€ 302,516,388
DORTMUND	€ 1,470,613,168	€ 294,122,634
DUISBURG	€ 1,382,444,409	€ 276,488,882
BOCHUM	€ 869,186,148	€ 173,837,230
KARLSRUHE	€ 699,758,269	€ 139,951,654
MÜNSTER	€ 547,669,750	€ 109,533,950
	€ 23,971,075,104	**€ 4,794,215,021**

*TRANSACTION VOLUME

COMMERCIAL TRANSACTION VOLUME BY PROPERTY TYPE (IN € BN) 2018 & H1 2019



YIELDS AND INTEREST RATES (IN %)



The fireworks around landmark deals that we saw in 2018 and H1 2019 particularly boosted the office segment.

Numerous investment opportunities put the market share claimed by this most popular asset class above 50 %, and thus above the long-term average of 40 % to 45 %. Despite historically low yields following a long period of compression, investors see ongoing rental increases particularly in the office market, as motivation to invest.

The yield spread among the Top 7 currently amounts to a mere 60 basis points, spanning from 2.90 % in Munich to 3.50 % in Dusseldorf and Cologne.

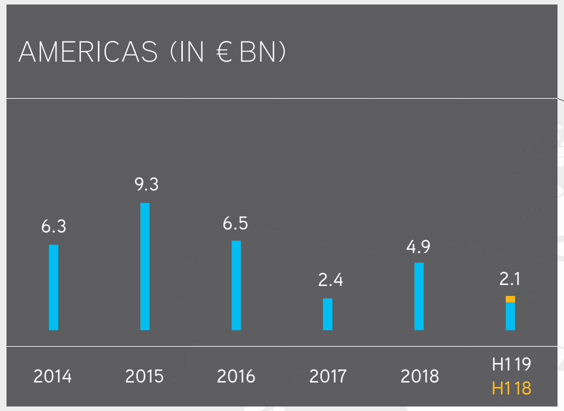
Retail assets typically place 2nd in the ranks, this time with a market share of around 20 %. Food anchored retail parks and retail warehouse portfolios proved to be popular with investors, the general sentiment being that these assets offer the best possible protection against the negative effects of e-commerce while still offering comparably attractive yields of around 5 %.

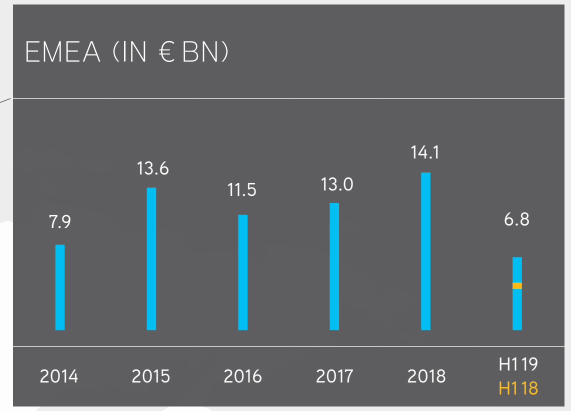
Industrial and logistics assets, which are benefiting from e-commerce and digitization and offer sustainable upside potential, are becoming increasingly popular with conservative investors. Market shares for these assets have been in the double digits for the past few years. Following a recent significant drop in yields for logistics assets in established locations to a current 4.35 %, light industrial assets in comparable locations are proving even more attractive with gross yields at 5.70 %.

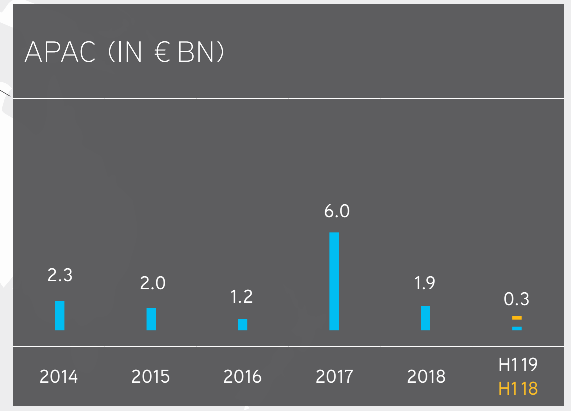
Hotels have ranked fourth in recent years with scarcity of suitable products proving a limiting factor in terms of transaction activity. Investors looking for adequate returns and quality products are increasingly discovering opportunities in medical properties and care facilities. These types of niche investments, however, are strongly dependent on the opportunity itself, a factor that is reflected in the steep fluctuations we have seen in this sector over the years, e. g. between 2 % in 2017/2018 and 6 % in 2018.

Despite yields continuing to hit new record lows, the attractiveness of property investments remains high given the unchanged low interest-rate environment. The ECB's announcement that it would postpone reversal of its zero-rate policy until late 2020 and continue to pursue its quantitative easing policy will help keep real estate an attractive asset class over the next two years. At mid-year 2019, 10-year German government bonds recorded negative interest rates, a development that mirrors current expectations, particularly of risk-averse investors, regarding Germany's crisis resilience.

3. FOREIGN CAPITAL FLOW INTO GERMANY
TOTAL INVESTMENT VOLUME IN € BN 2014–H1 2019







TOTAL COMMERCIAL TAV GERMANY (% FOREIGN INVESTORS)		
2014	€ 39.8 BN	43 %
2015	€ 55.4 BN	47 %
2016	€ 52.6 BN	40 %
2017	€ 57.3 BN	45 %
2018	€ 60.6 BN	40 %
H1 2019	€ 24.9 BN	43 %

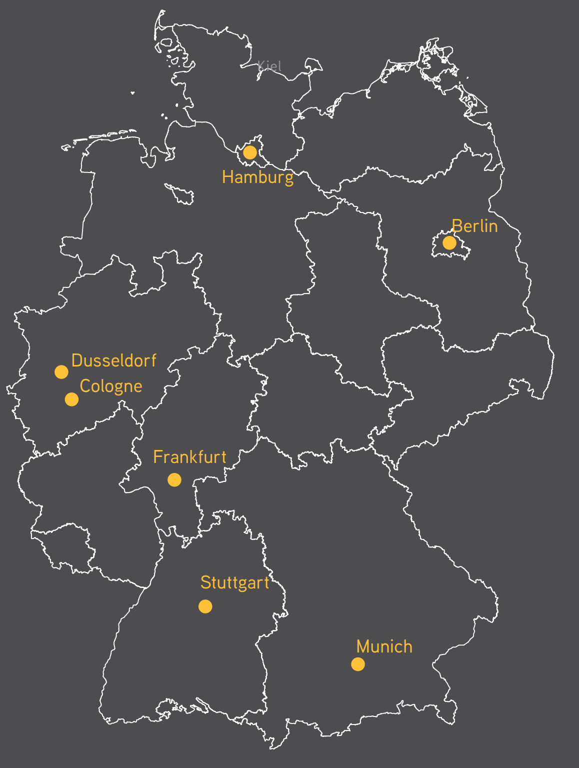
↗ INCREASE OT LAST YEAR
→ MINIMAL CHANGE TO LAST YEAR
↘ DECREASE AT LAST YEAR

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)

4. OFFICE MARKET IN 7 TOP CITIES

In line with activity on the investment market, office properties, which are currently the most popular asset class, are in the midst of a very dynamic, sustainable letting cycle. Following several consecutive years with annual take-up above 3.5 million sq m, market activity in Germany's Top 7, Berlin, Cologne, Dusseldorf, Frankfurt, Hamburg, Munich and Stuttgart, remained lively throughout H1 2019. Thanks to a strong start to the year, we expect year-end take-up results of at least 3.7 million sq m, particularly in light of ongoing high demand. Employment rates will remain the driving force behind future leasing activity in the years to come.



Backed by ongoing high demand, vacancy has been falling over the past ten years with only 2.75 million sq m available for immediate tenancy in Germany's Top 7 at the end of H1 2019. The vacancy rate has dropped to an all-time low of 3 %. At the same time, however, the development pipeline is well stocked in most cities in response to current high demand and low vacancy rates. 1.6 million sq m of office space is currently scheduled for completion in the Top 7, with 5.3 million sq m scheduled to hit the market by 2021. However, this much-needed new space will only temporarily relax the situation on the country's overstressed office leasing markets according to most market specialists. That puts owners of modern office space in a very strong negotiating position with further rent hikes likely, particularly in very tense markets such as Munich and Stuttgart.

LOCATION INFORMATION

	GERMANY	BERLIN	COLOGNE	DUSSEL-DORF	FRANKFURT	HAMBURG	MUNICH	STUTTGART
POPULATION IN 1,000	82,792	3,613	1,080	617	747	1,831	1,456	633
GEOGRAPHIC AREA IN KM²	357,386	892	405	217	248	755	311	207
EMPLOYEES PAYING SOCIAL SECURITY CONTRIBUTIONS IN 1,000	33,286	1,511	580	424	597	991	888	424
UNEMPLOYMENT RATE IN %	4.9	7.8	7.9	6.6	4.9	6.1	3.4	3.9
PER CAPITA DISPOSABLE INCOME IN €	24,000	22,220	25,806	28,742	27,138	25,720	30,478	27,314

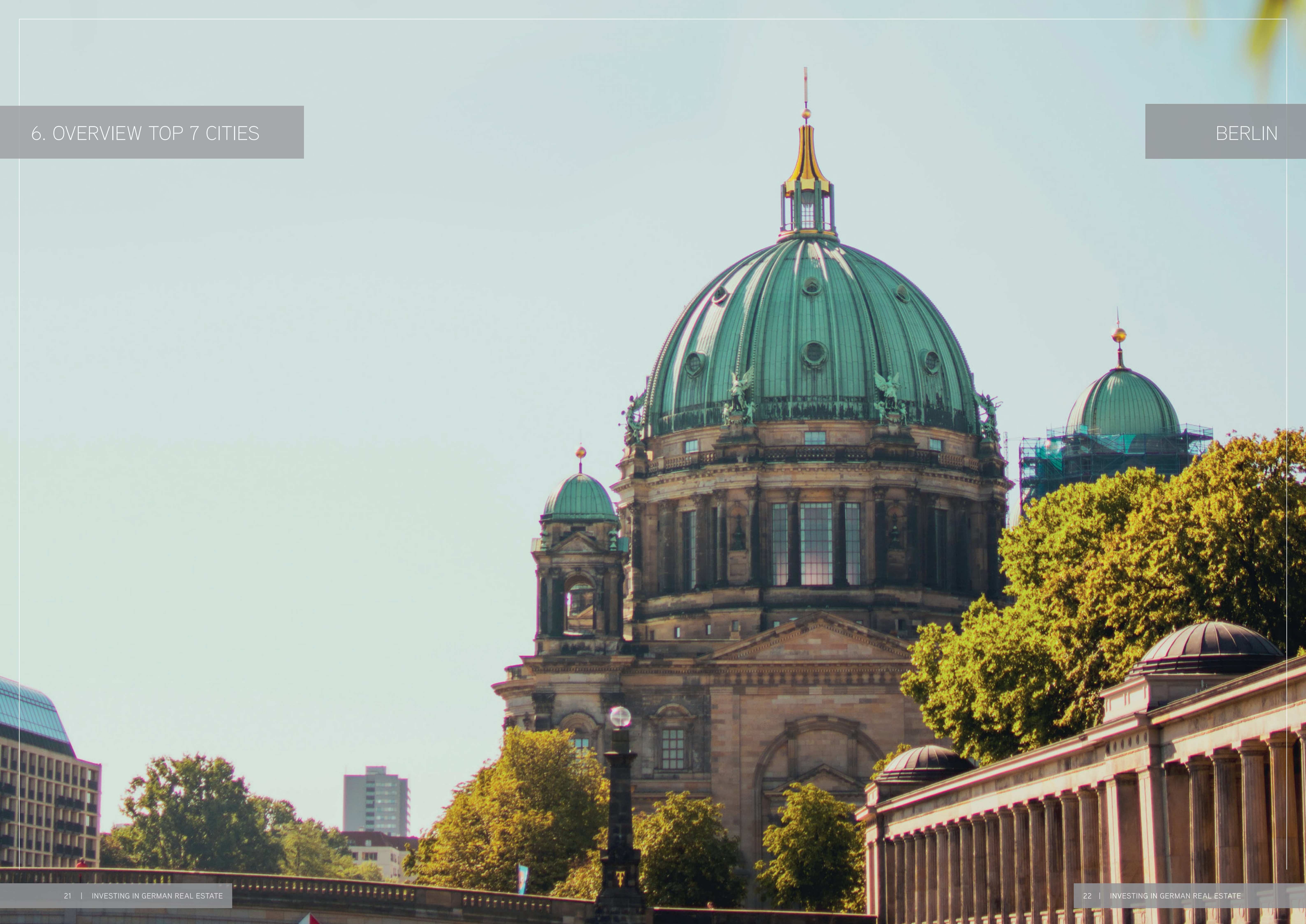
SOURCES: FEDERAL STATISTICAL OFFICE, LAND STATISTICAL OFFICES, FEDERAL EMPLOYMENT AGENCY, NEXIGA GMBH

5. MAJOR ACQUISITIONS FROM INTERNATIONAL INVESTORS

2018 & H1 2019

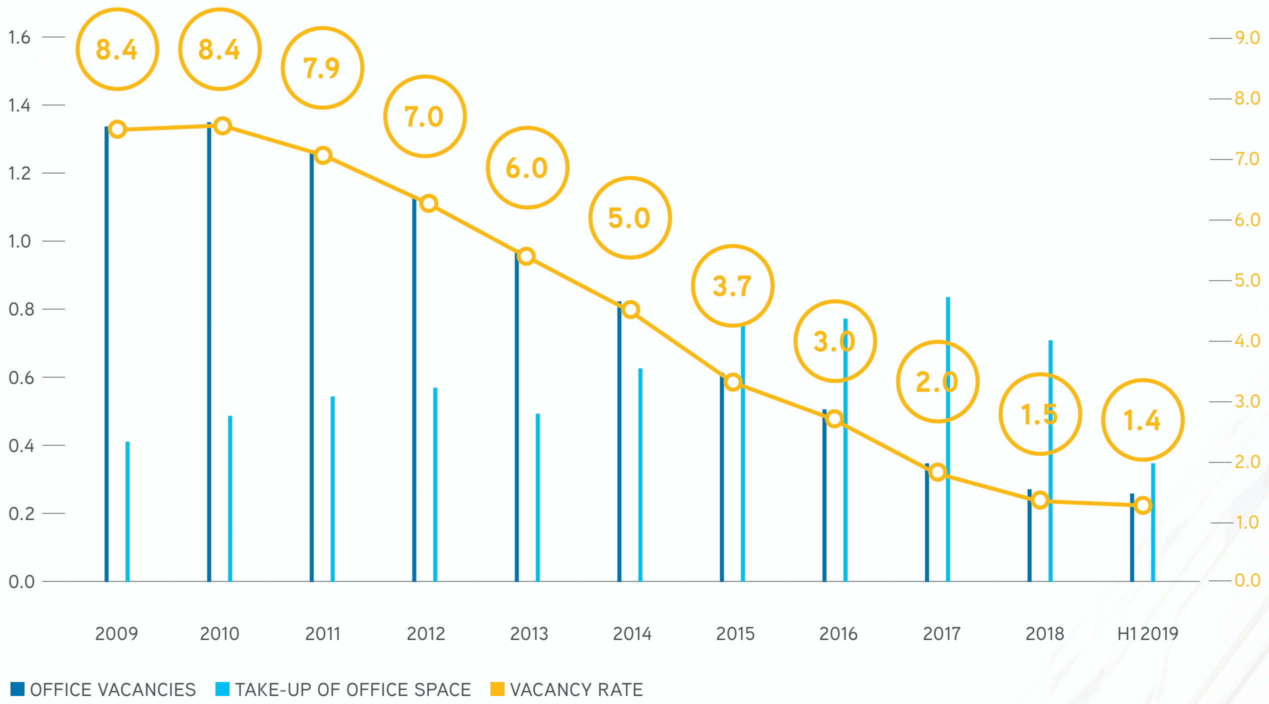
Foreign investor capital has been driving German commercial transaction volume over the past several years to a substantial extent, with foreign investors repeatedly claiming a share of 40 % to 50 % of total transaction volume. Foreign investors were able to beat out the domestic competition, particularly when it came to mega deals with a transaction volume exceeding € 250 m. In 2018 and H1 2019, 23 deals with foreign capital were recorded at € 12.8 bn in total transaction volume.

NAME	CITY	PURCHASER	DATE	PURCHASE PRICE IN € M	MAIN USAGE
SIGNA TAKE-OVER HBC EUROPE (GERMAN PART / GALERIA KAUFHOF / 59 PROPERTIES)	ALL OVER GERMANY	SIGNA PRIME SELECTION	2018 / Q3 & 2019 / Q2	> 3,200	RETAIL / EPARTMENT STORES
PRIMONIAL 50 % TAKE-OVER MPT (71 HOSPITALS)	ALL OVER GERMANY	PRIMONIAL GRUPPE	2018 / Q2	> 815	HEALTH CARE
TRIANON	FRANKFURT / MAIN	IGIS ASSET MANAGEMENT	2018 / Q4	> 650	OFFICE
DIE WELLE	FRANKFURT / MAIN	INVESCO REAL ESTATE GMBH	2019 / Q2	> 615	OFFICE
TOP FIVE PORTFOLIO	BERLIN, FRANKFURT, HAMBURG	L'ETOILE PROPERTIES	2018 / Q4	> 570	OFFICE
EUROTOWER	FRANKFURT AM MAIN	PATRIZIA	2018 / Q4	> 525	OFFICE
TAKE-OVER ALPHA INDUSTRIAL BY FRASERS (17 PROPERTIES)	ALL OVER GERMANY	FRASERS PROPERTY	2018 / Q1	> 500	INDUSTRIAL & LOGISTICS
CIVIL SERVICE CENTER	FRANKFURT / MAIN	AROUNDTOWN	2018 / Q1	> 500	OFFICE
SIEMENS LEGOLAND (60 %)	MUNICH	AROUNDTOWN	2019 / Q2	> 495	OFFICE
OBERBAUM CITY	BERLIN	BLACKSTONE GROUP	2019 / Q1	> 470	OFFICE
B:HUB	BERLIN	JP MORGAN	2019 / Q1	> 355	OFFICE
GALLILEO	FRANKFURT / MAIN	CAPITALAND COMMERCIAL TRUST	2018 / Q2	> 355	OFFICE
YPSILON PORTFOLIO (3 LOGISTICS PARKS)	ALL OVER GERMANY	GREENOAK	2019 / Q2	> 345	LOGISTICS
ALLIANZ-KAI	FRANKFURT / MAIN	CREDIT SUISSE ASSET MANAGEMENT	2018 / Q2	> 310	OFFICE
LEIPZIGER PLATZ 14,15,16	BERLIN	BMO REAL ESTATE PARTNERS	2018 / Q2	> 300	RETAIL / OTHER USES
HILTON AM GENDARMENMARKT	BERLIN	AROUNDTOWN	2018 / Q2	> 295	HOTEL
KÖNIGSBAU-PASSAGEN	STUTTGART	ANTIRION SGR S.P.A.	2019 / Q1	> 275	RETAIL / SHOPPING CENTER
TAKE-OVER HINES (5 LOGISTICS PROPERTIES)	ALL OVER GERMANY	BLACKSTONE GROUP	2018 / Q3	> 270	LOGISTICS
CORREO	MUNICH	CREDIT SUISSE ASSET MANAGEMENT	2018 / Q1	> 270	OFFICE
IKB DEUTSCHE INDUSTRIEBANK	DUSSELDORF	CELLS PROPERTY INVESTORS	2018 / Q4	> 245	OFFICE



BERLIN

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



With unbroken high demand and a historically low vacancy rate, office take-up in Berlin continues to flirt with the one-million-square-meter mark. The flourishing ICT sector, which has recently seen a number of new start-ups, has given Berlin fresh impetus and turned the city into Germany's start-up capital and one of the most sought-after markets in the country. Developers are responding to this trend with intensified building activity. Several new landmark buildings in the pipeline put Berlin on the radar for big company leases as well as relocations. Boosted by this trend, Berlin will be able to expand this newfound popularity in years to come and market momentum will pick up speed.

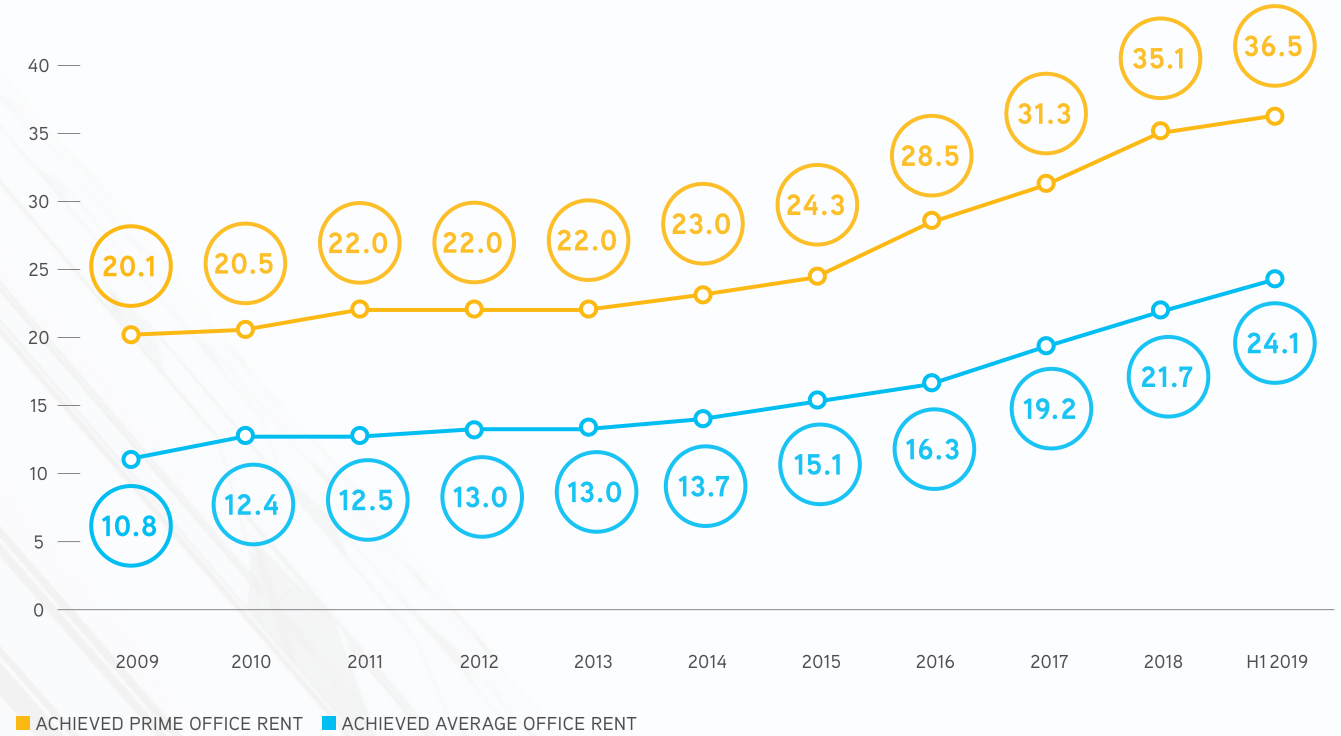
OFFICE FAST FACTS:

- OFFICE STOCK: 20.50 MILLION SQ M
- OFFICE TAKE-UP (10-YEAR AVERAGE): 693,700 SQ M P.A.
- PRIME OFFICE RENT (H1 2019): € 36.50 / SQ M
- AVERAGE OFFICE RENT (H1 2019): € 24.10 / SQ M
- VACANCY RATE (H1 2019): 1.4 %

INVESTMENT FAST FACTS:

- COMMERCIAL TRANSACTION VOLUME (10-YEAR AVERAGE): € 4.6 BN P.A.
- SHARE OF INTERNATIONAL INVESTORS (2016 – 2018): 53 %
- GROSS INITIAL YIELDS (H1 2019)
  - OFFICE: 3.10 %
  - HIGH STREET RETAIL: 3.10 %
  - LOGISTICS: 4.35 %

PRIME AND AVERAGE OFFICE RENT (IN € / SQ M)



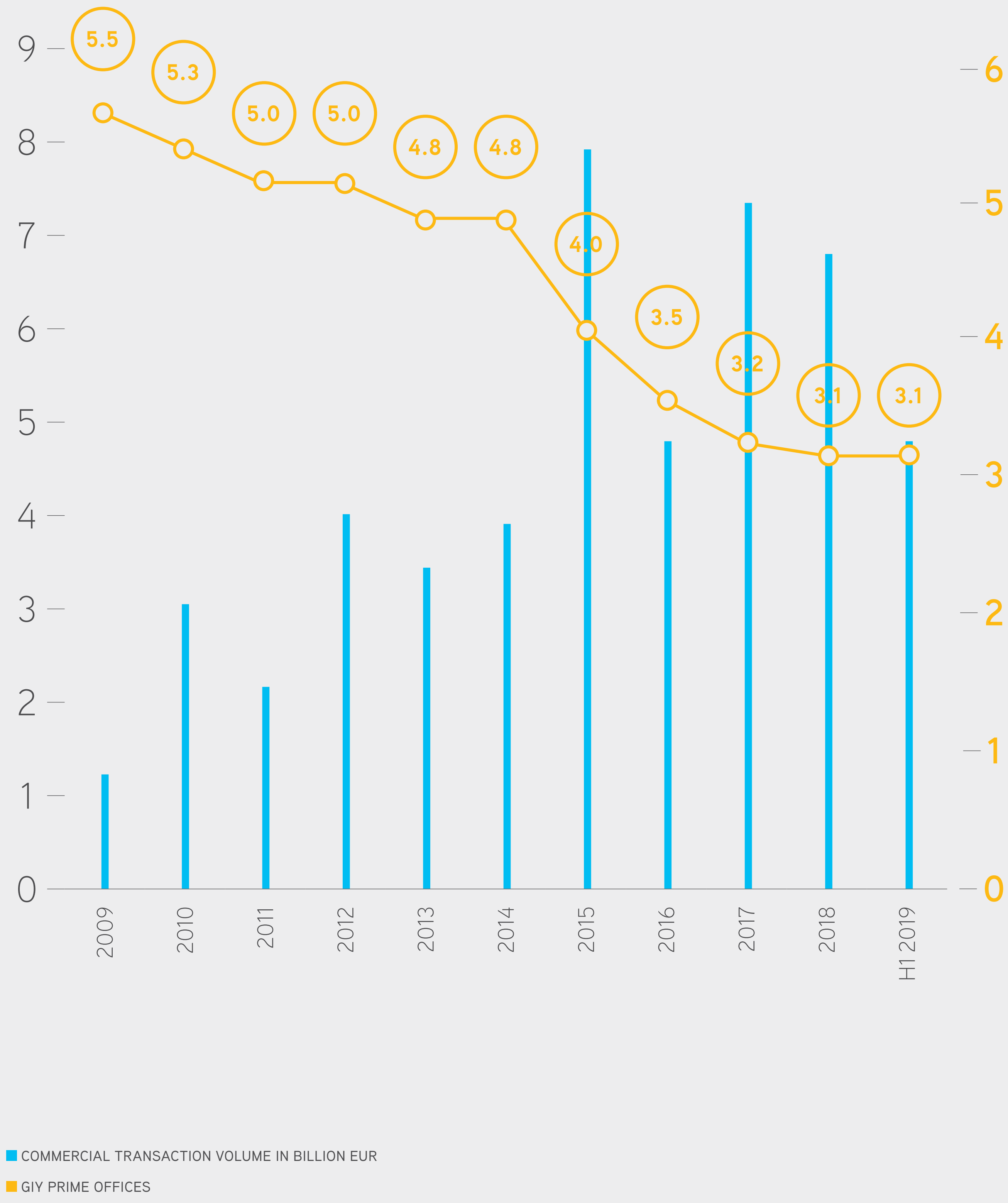
Office rents in Berlin have almost doubled in the past five years due to ongoing high demand. Berlin currently has the highest average rents ever recorded in Germany's Top 7 cities. Office space in the prime segment is currently more expensive than in Munich – and the trend continues.

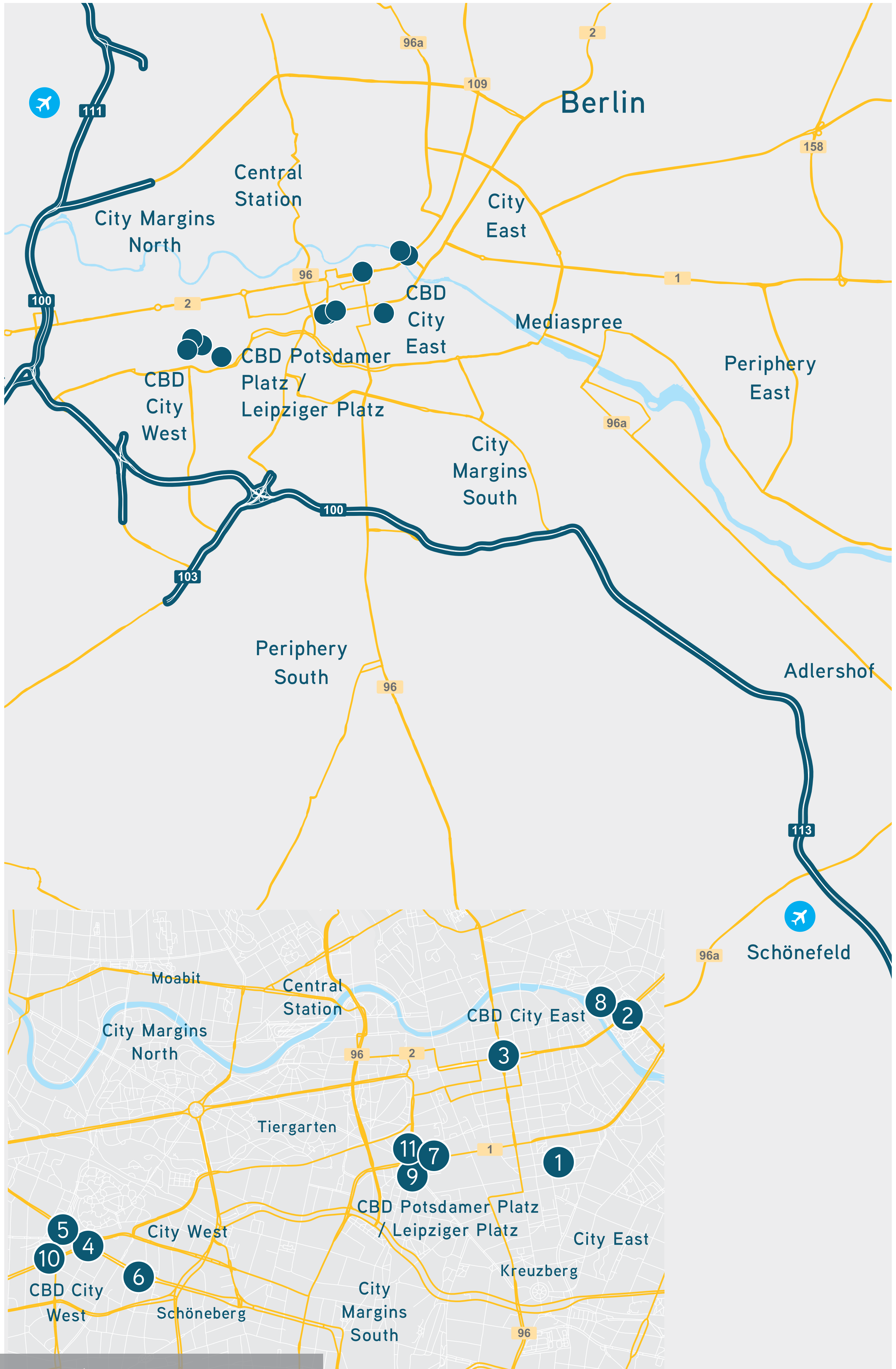
The Berlin commercial investment market continues to post above-average results. H1 2019 results are already in line with 2016's annual result of € 4.9 bn, indicating new yearly record levels.

Office investments accounted for about half of total transaction volume in the first half of the decade and office assets have recently dominated transaction activity in Berlin. Investors poured € 3.7 bn into office buildings in H1 2019, reflecting 77 % of total transaction volume. Retail (11 %) and land investments (4 %) claimed second and third place, respectively.

Transaction activity in prime locations remains consistently high. However, up-and-coming office locations such as Mediaspree are playing an increasingly important role in the market. The recent sale of East Side Tower for over € 600 m represents the second largest single-asset transaction after the sale of the Sony Center for € 1.1 bn in 2017.

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





BERLIN MAP AND PROMINENT BUILDINGS


1. MOSSE ZENTRUM


2. DOMAQUARÉE


3. UPPER EASTSIDE


4. UPPER WEST


5. ZOOFENSTER


6. KADEWE


7. MALL OF BERLIN


8. SPREEPALAIS AM DOM


9. SONY CENTER

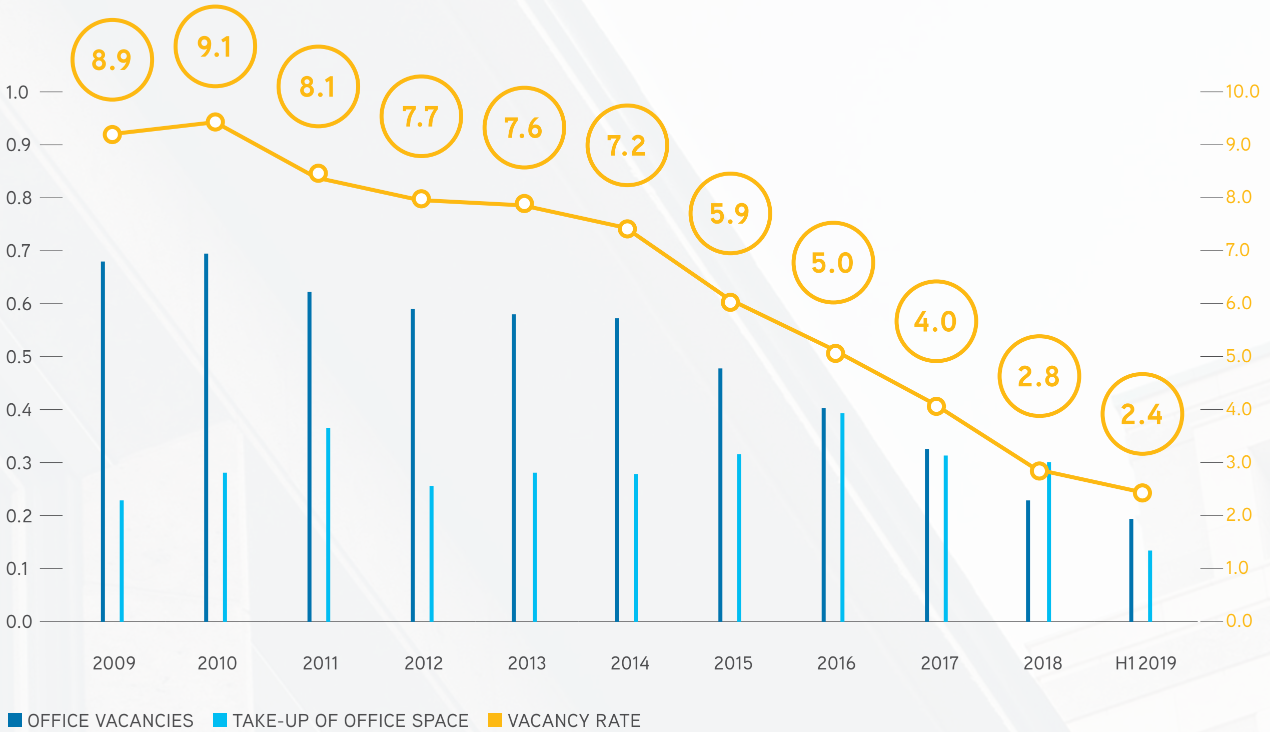

10. KRANZLER-ECK


11. POTSDAMER PLATZ

COLOGNE

COLOGNE

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



The Cologne office leasing market has posted solid take-up results in recent years even though H1 results fell short of the 5-year average. With demand consistently high, this drop can only be attributed to the ongoing shortage of available space. Property developments are becoming increasingly popular as reflected in high pre-leasing rates and a significant share in take-up over the past few years. Vacancy has been declining steadily since 2010 with roughly 187,200 sq m available for immediate tenancy at mid-2019, reflecting a vacancy rate of 2.4 %. The vacancy rate is even lower in central locations. Despite an increase in construction activity in coming years, we expect this trend to continue.

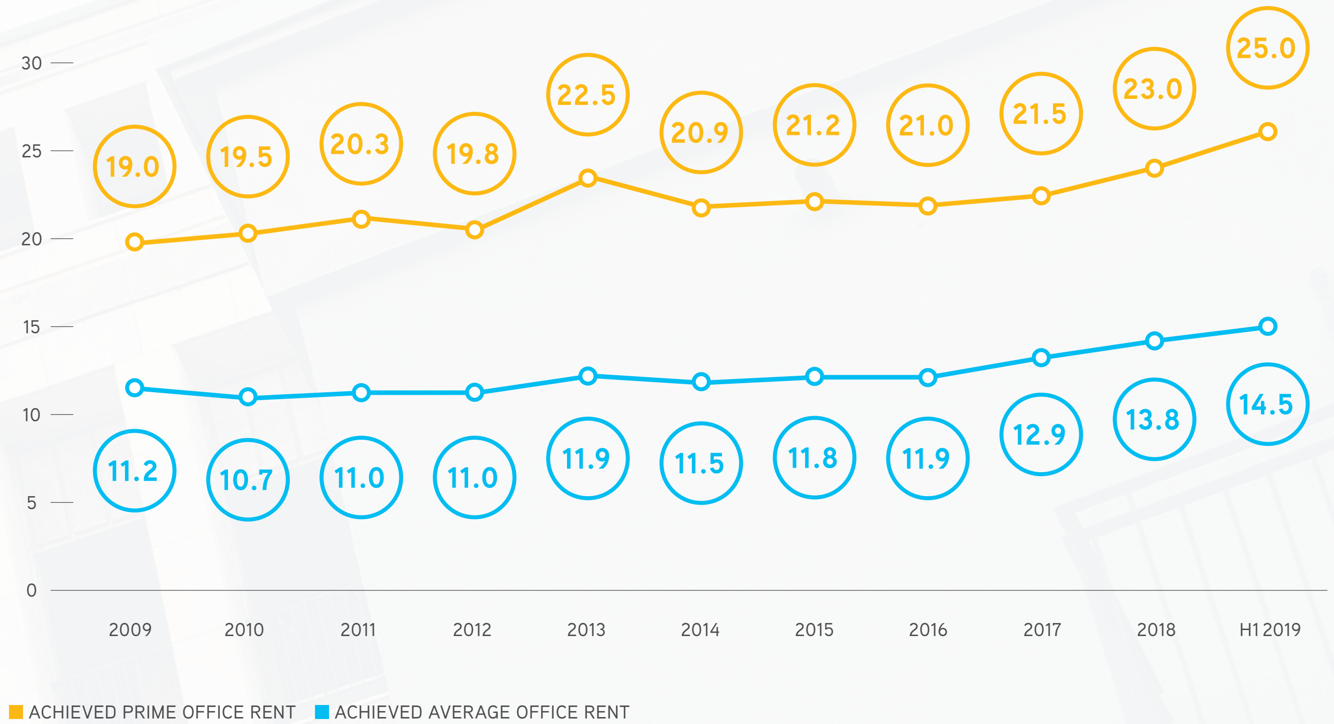
OFFICE FAST FACTS:

- OFFICE STOCK: 7.85 MILLION SQ M
- OFFICE TAKE-UP (10-YEAR AVERAGE): 290,700 SQ M P.A.
- PRIME OFFICE RENT (H1 2019): € 25.00 / SQ M
- AVERAGE OFFICE RENT (H1 2019): € 14.50 / SQ M
- VACANCY RATE (H1 2019): 2.4 %

INVESTMENT FAST FACTS:

- COMMERCIAL TRANSACTION VOLUME (10-YEAR AVERAGE): €1.2 BN P.A.
- SHARE OF INTERNATIONAL INVESTORS (2016 – 2018): 40 %
- GROSS INITIAL YIELDS (H1 2019)
  - OFFICE: 3.50 %
  - HIGH STREET RETAIL: 3.30 %
  - LOGISTICS: 4.35 %

PRIME AND AVERAGE OFFICE RENT (IN € / SQ M)

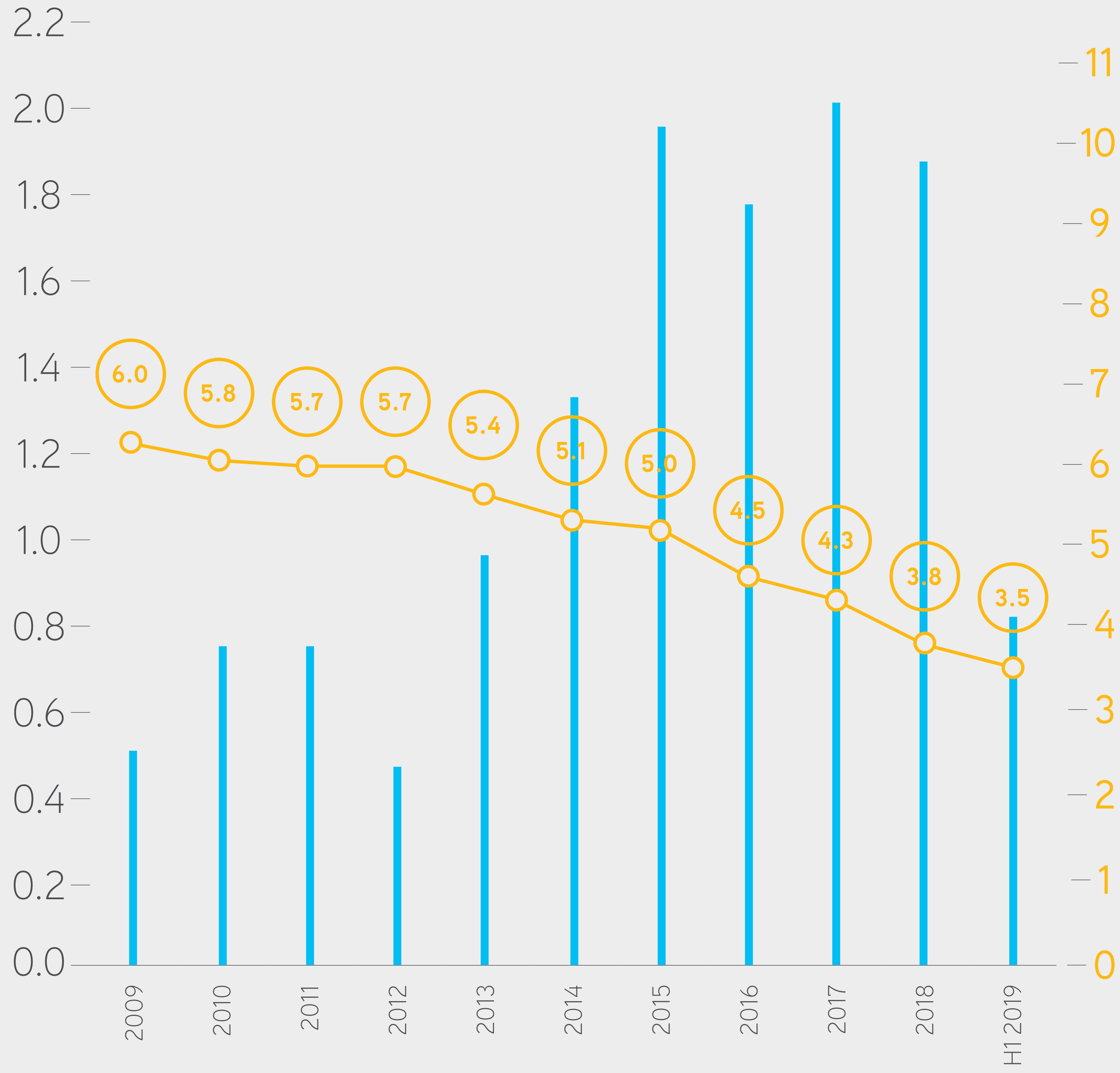


Due to an increasing shortage of space at stock properties, tenants are being forced to move to property developments, resulting in upward movement of average rents as well as prime rents. Prime rents in Cologne have increased by 19 % to € 25.00 per sq m since 2016. Average rents have increased even more by 22 % to a current € 14.50 per sq m.

The Cologne commercial investment market has been posting impressive results since 2015 with an average transaction volume of over € 1.6 bn.

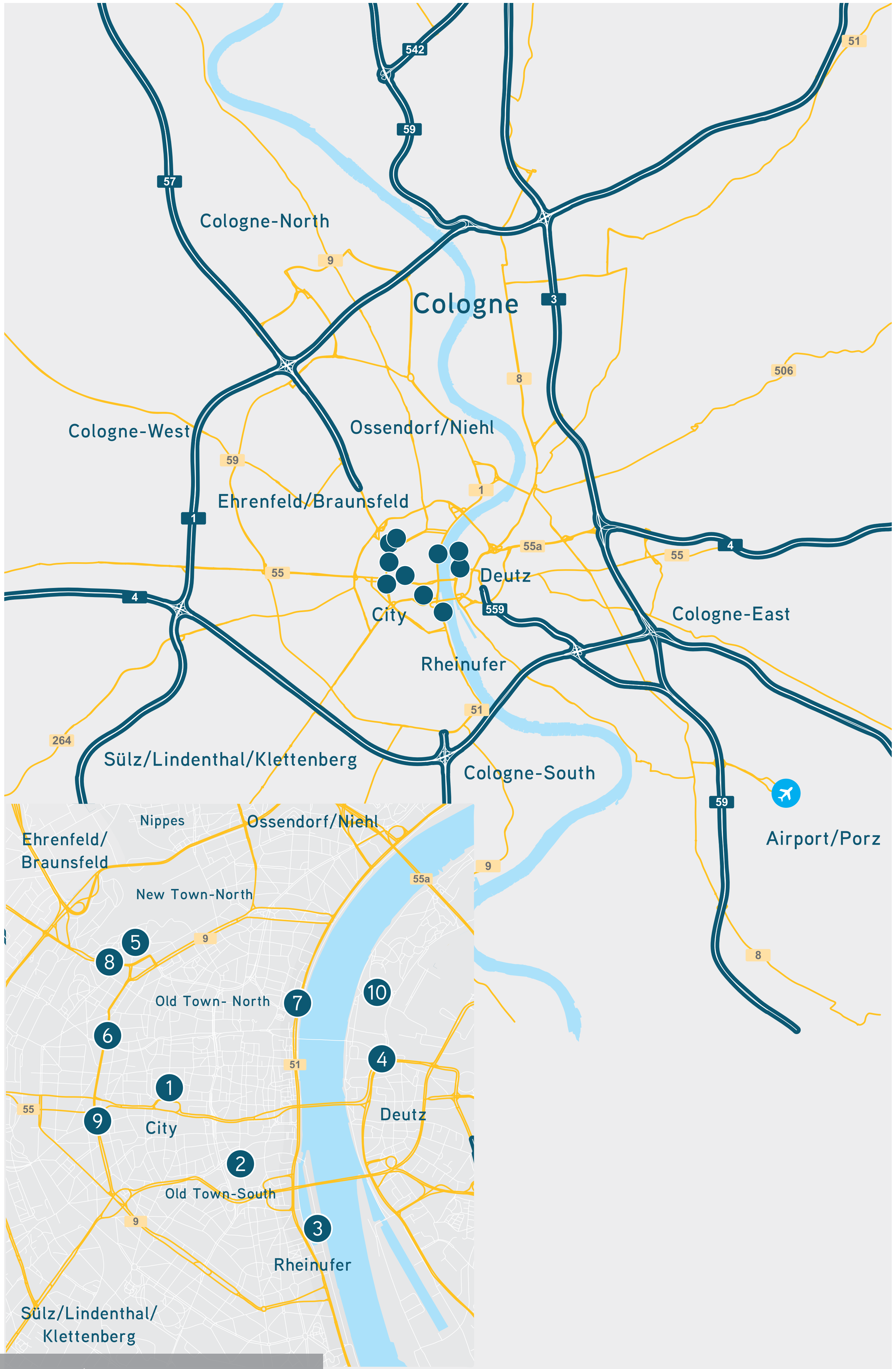
Demand for real estate in Cologne continues to be strong, but supply, particularly in prime downtown locations, remains extremely limited with investors increasingly turning to suburban locations. Office assets continue to prove most popular, followed by hotels, which have recently seen increased investment activity. Yield compression continues due to the growing shortage of available space in Cologne, with prime yields for office assets at a current 3.50 %. That means that prime office properties in generally higher yielding Cologne are currently changing hands at the same yields as similar assets in Dusseldorf. Yields have also fallen sharply in peripheral locations in recent years. Foreign investors remain active, accounting for around 40 % of transaction volume over the past three years.

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



COMMERCIAL TRANSACTION VOLUME IN BILLION EUR

GIY PRIME OFFICES



COLOGNE MAP AND PROMINENT BUILDINGS

1 NEUMARKT-GALERIE

2 WAIDMARKT

3 KRANHAUS EINS

4 KÖLN TRIANGLE

5 KÖLNTURM

6 RING-KARREE

7 NEUE DIREKTION KÖLN

8 KAISER HOF

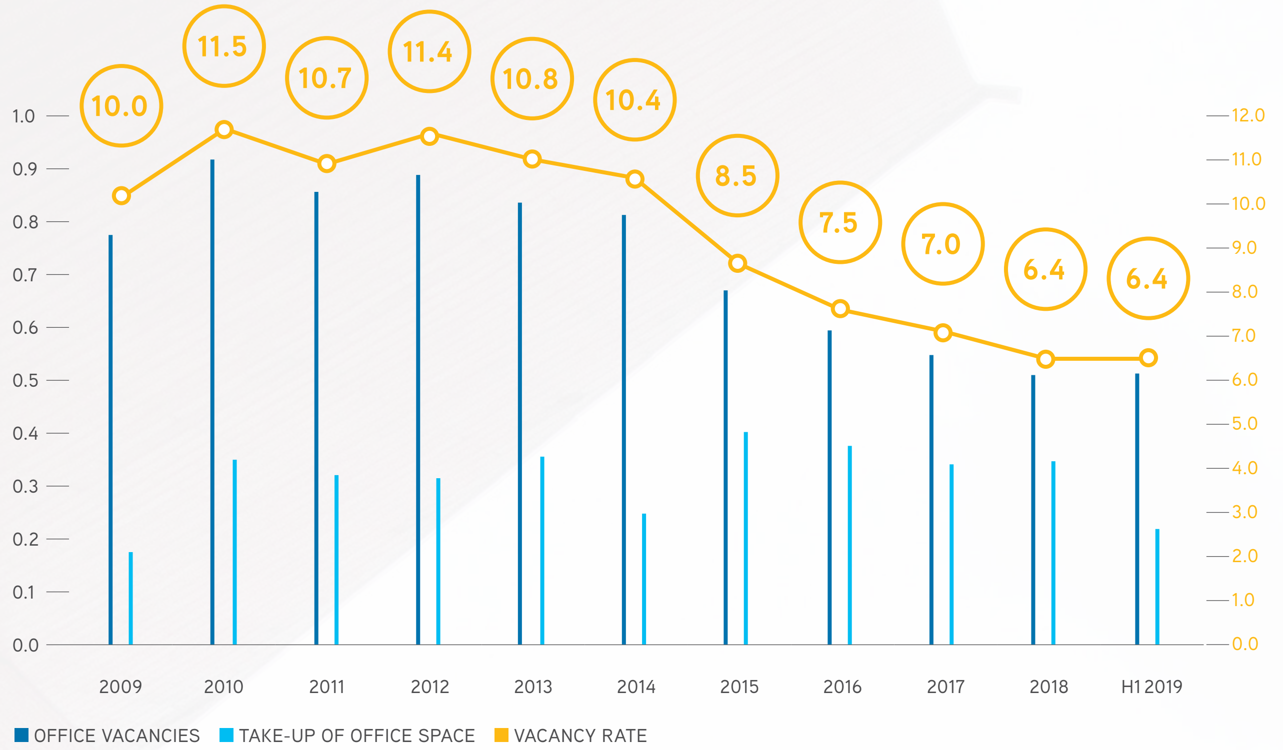
9 WESTGATE

10 RHEINPARK METROPOLE

DUSSELDORF

DUSSELDORF

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



With three large-scale leases signed for over 10,000 sq m in H1 2019, the Dusseldorf municipal area saw a new record take-up result, slightly above 2010's previous record high. Another four leases signed for units of over 5,000 sq m reflect the current exceptionally high demand from large corporations, a trend that is expected to continue. The majority of take-up tended to revolve around the Hafen, left of the Rhine and City Center submarkets. Space availability continues to drop due to ongoing high demand, particularly in central locations, putting the vacancy rate at 6.4 %. Very few units larger than 2,000 sq m are currently available in the CBD. This trend will foster further increases in both prime and average rents in popular locations.

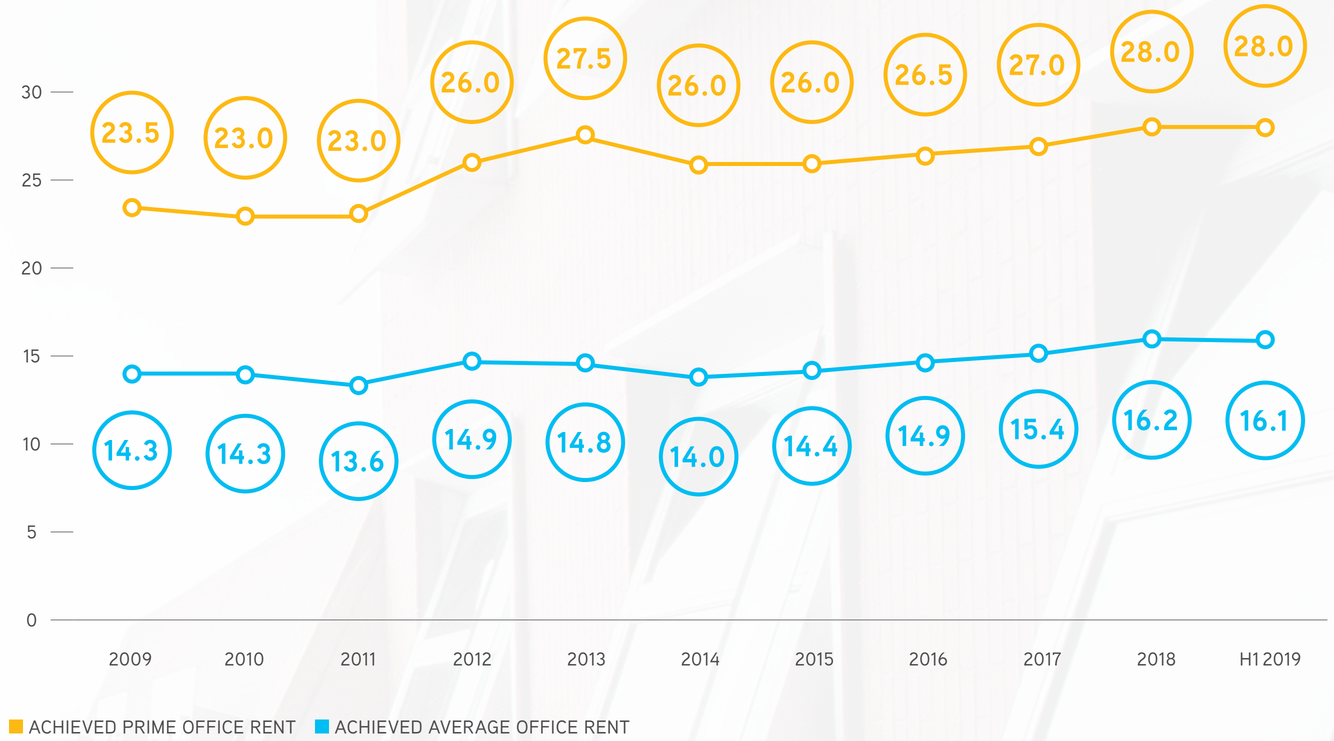
OFFICE FAST FACTS:

- OFFICE STOCK: 7.69 MILLION SQ M
- OFFICE TAKE-UP (10-YEAR AVERAGE): 314,700 SQ M P.A.
- PRIME OFFICE RENT (H1 2019): € 28.00 / SQ M
- AVERAGE OFFICE RENT (H1 2019): € 16.10 / SQ M
- VACANCY RATE (H1 2019): 6.4 %

INVESTMENT FAST FACTS:

- 'OMMERCIAL TRANSACTION VOLUME (10-YEAR AVERAGE): € 1.8 BN P.A.
- SHARE OF INTERNATIONAL INVESTORS (2016 – 2018): 49 %
- GROSS INITIAL YIELDS (H1 2019)
  - OFFICE: 3.50 %
  - HIGH STREET RETAIL: 3.20 %
  - LOGISTICS: 4.35 %

PRIME AND AVERAGE OFFICE RENT (IN € / SQ M)



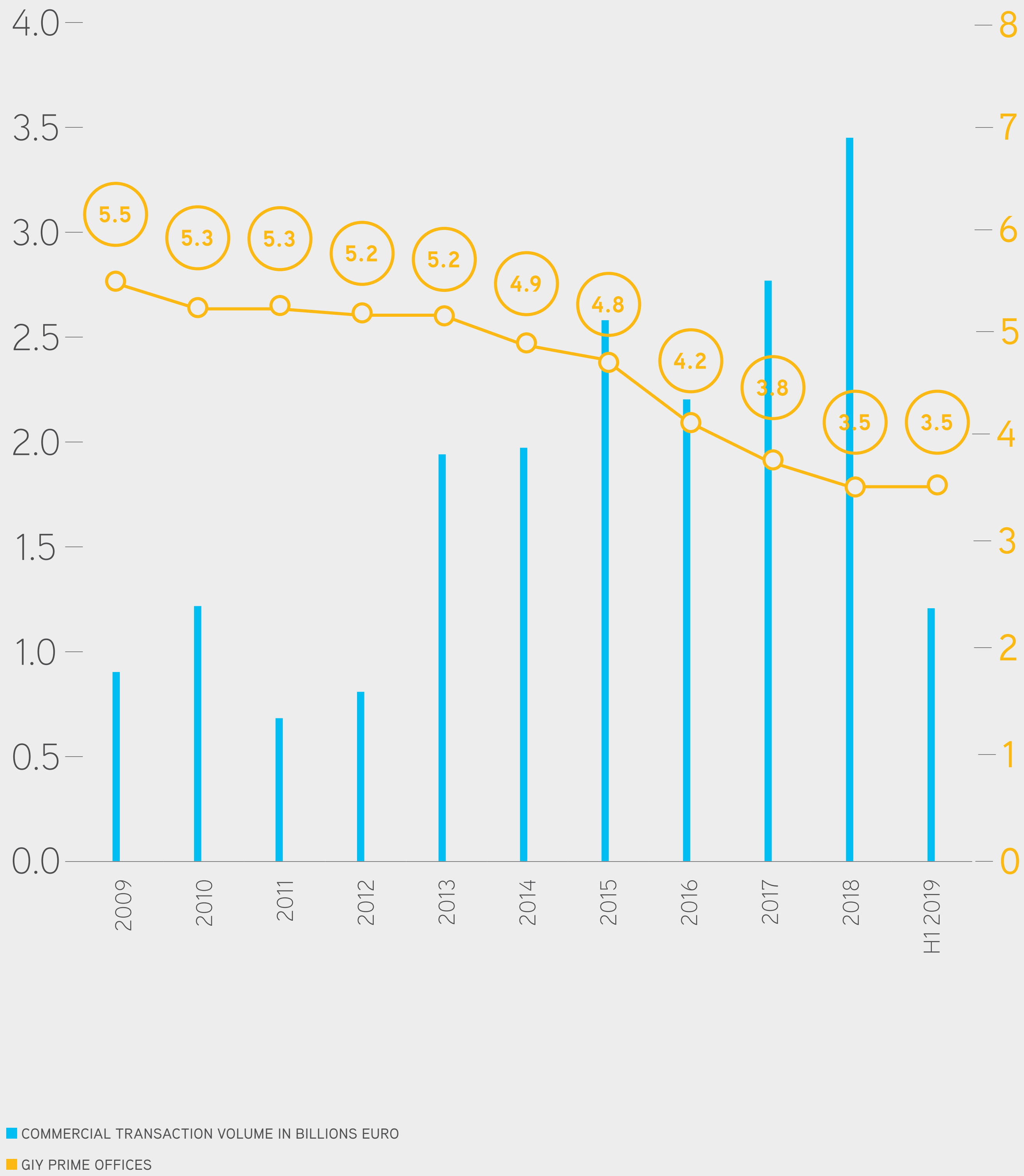
Prime rents in the CBD have increased by 6 % to € 28.00 per sq m since 2016. This trend can primarily be attributed to the increasing shortage of space at stock properties, which is expected to continue for quite some time. Tenants are partly shifting to a limited number of high-end developments as a result. Average rents remain stable at a current € 16.10 per sq m.

After posting a record high transaction volume in 2018, the Dusseldorf commercial real estate market continued to see high demand in 2019 with another mid-year record.

This result can be largely attributed to three deals signed for over € 100 m each as well as two transactions slightly below the € 100 m mark. Office properties remain the most popular asset class. The City Center, Kennedydamm and Hafen submarkets are the most sought-after submarkets this year to date.

An annual transaction volume of around € 2.75 bn, which is far above long-term average, is feasible for the Dusseldorf municipal area in 2019 for the third consecutive year in a row. Prime yield compression appears to have come to an end. Prime yields for assets in top locations of the Kennedydamm and Hafen submarkets are almost on par with the prime yields of 3.50 % recorded in the Dusseldorf CBD.

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



DUSSELDORF MAP AND PROMINENT BUILDINGS

1. WILHELM-MARX-HAUS

2. GAP15

3. KÖ-GALERIE

4. SKY OFFICE

5. DREISCHEIBENHAUS

6. STADTTOR

7. KÖ-QUARTIER

8. GEHRY BUILDINGS

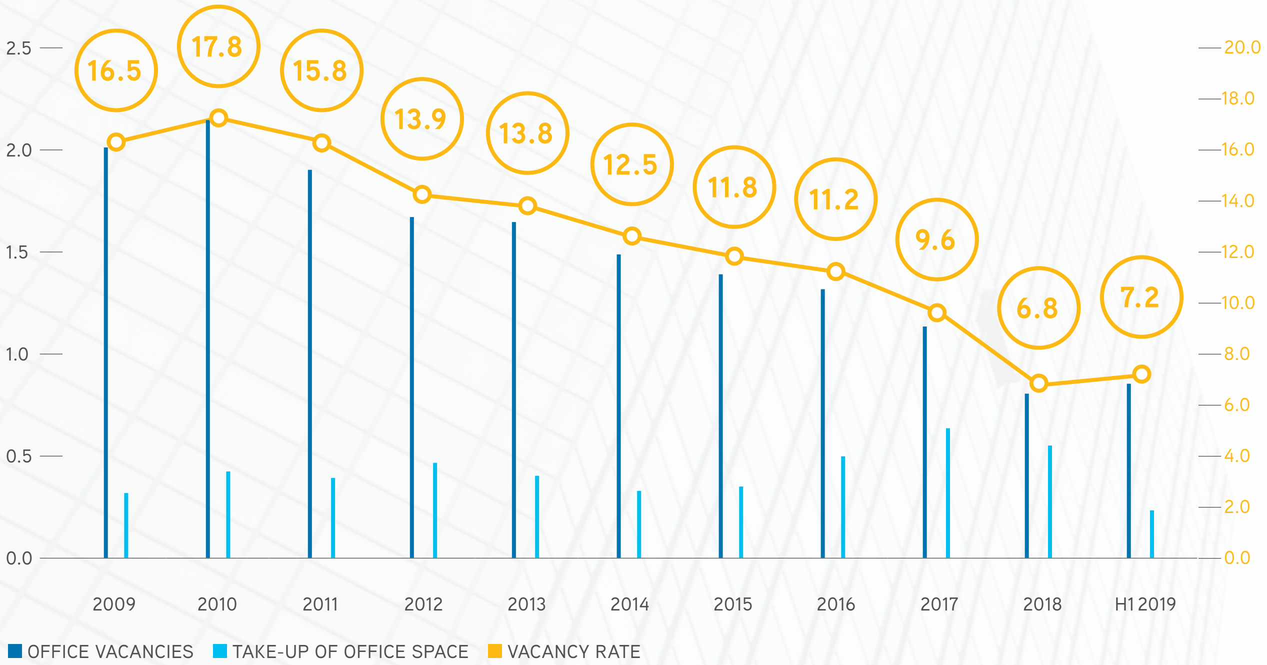
9. HAFENSPITZE

10. KÖ-BOGEN

FRANKFURT

FRANKFURT

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



Following several years with take-up above the long-term average, the Frankfurt market continues to enjoy high momentum in terms of demand for office space. The fact that the European financial hub remains highly attractive can be seen in strong cross-sector demand driven by the banking and finance sector as well as consultancy firms. With high pre-letting rates at upcoming property developments, supply is likely to remain tight going forward. The situation in the CBD is particularly tense with vacancy rates below the overall market level. With the market becoming increasingly landlord-friendly, tenants are having a hard time finding attractive incentives in central locations.

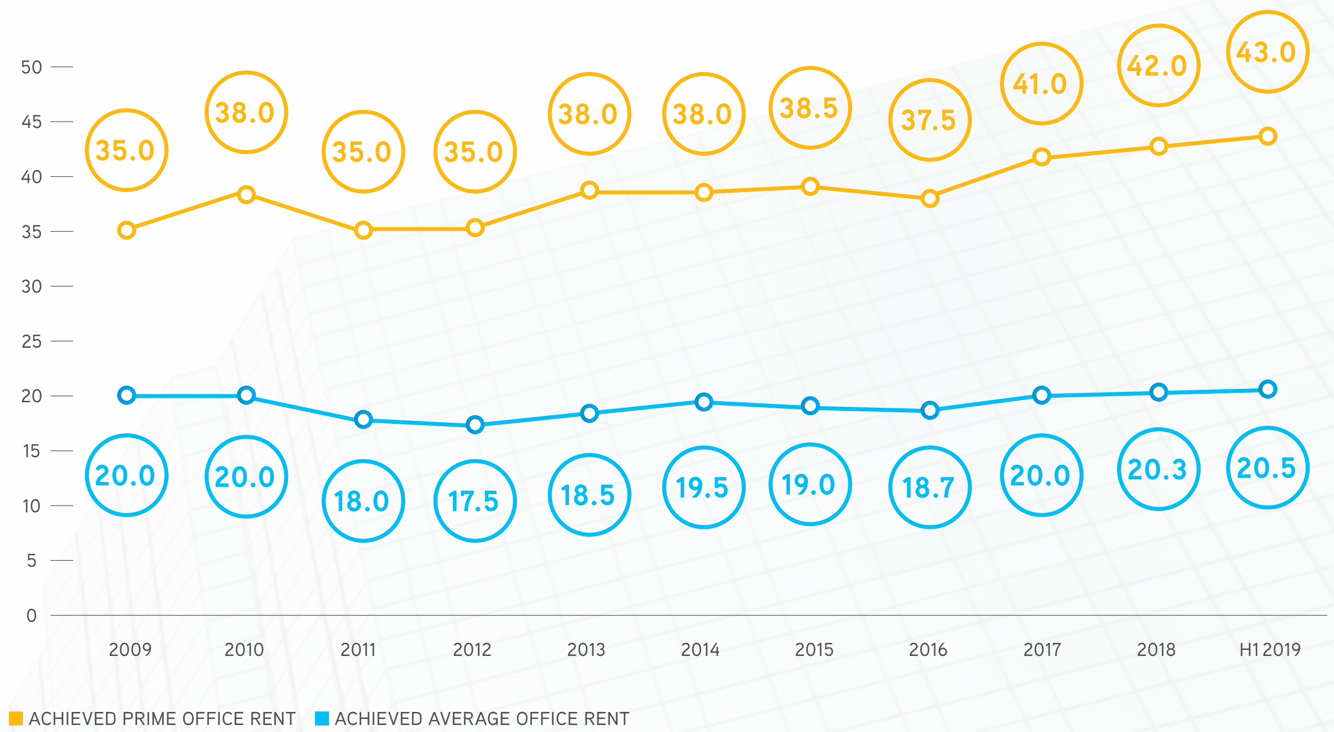
OFFICE FAST FACTS:

- 'OFFICE STOCK: 11.47 MILLION SQ M
- OFFICE TAKE-UP (10-YEAR AVERAGE): 487,500 SQ M P.A.
- PRIME OFFICE RENT (H1 2019): € 43.00 / SQ M
- AVERAGE OFFICE RENT (H1 2019): € 20.50 / SQ M
- VACANCY RATE (H1 2019): 7.2 %

INVESTMENT FAST FACTS:

- COMMERCIAL TRANSACTION VOLUME (10-YEAR AVERAGE): € 4.5 BN P.A.
- SHARE OF INTERNATIONAL INVESTORS (2016 – 2018): 46 %
- GROSS INITIAL YIELDS (H1 2019)
  - OFFICE: 3.10 %
  - HIGH STREET RETAIL: 2.80 %
  - LOGISTICS: 4.35 %

PRIME AND AVERAGE OFFICE RENT (IN € / SQ M)

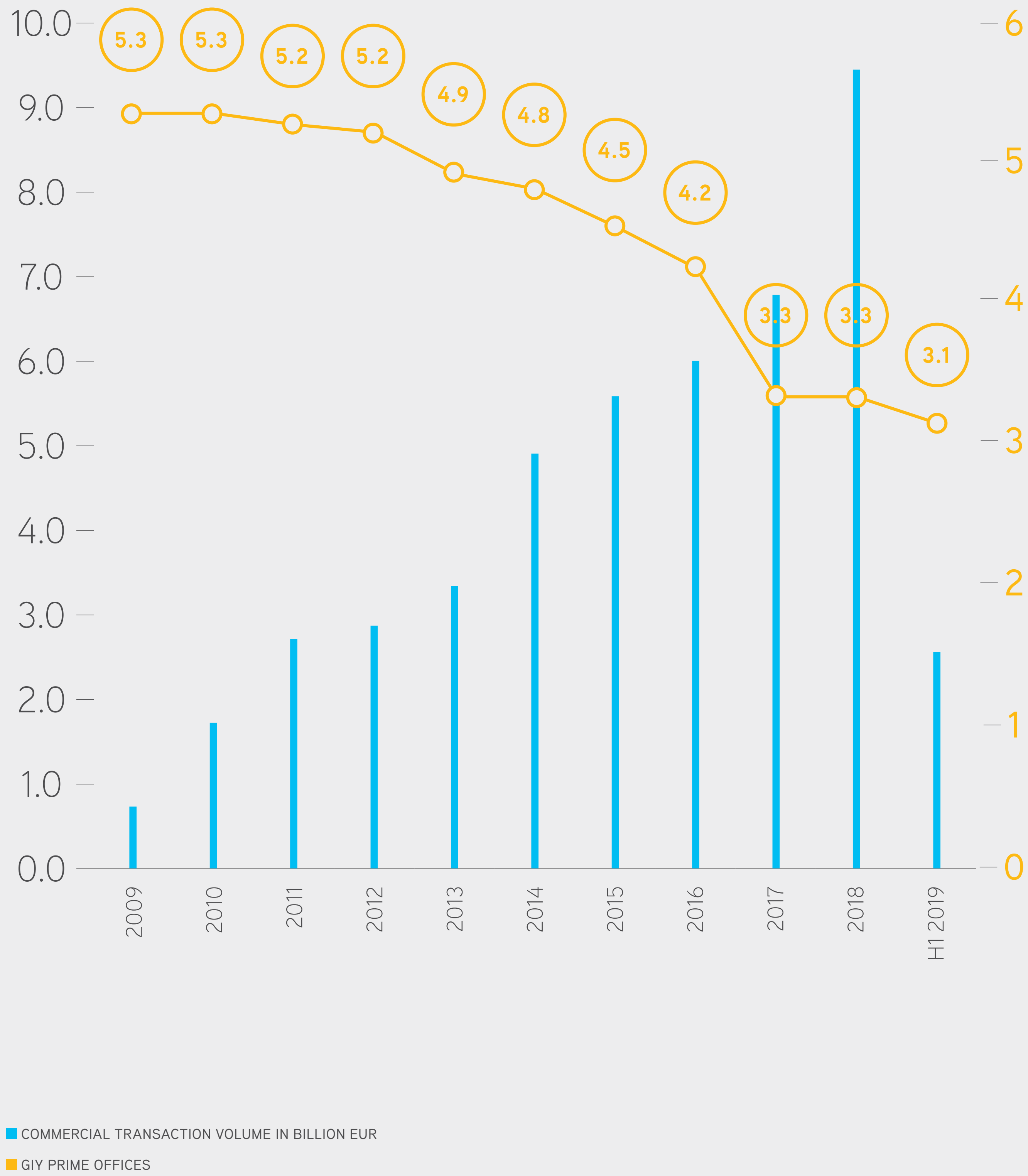


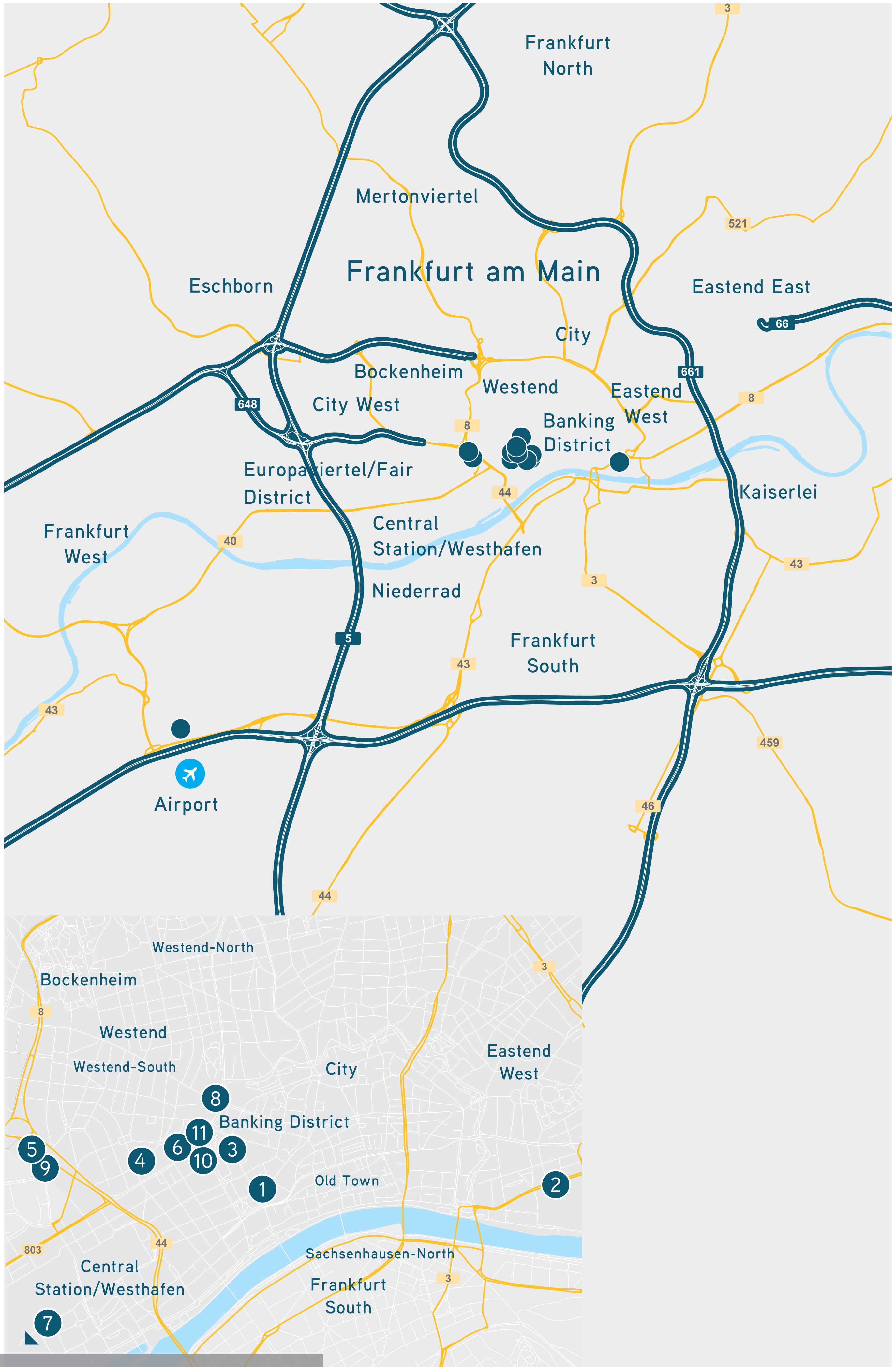
Rent levels continue to rise due to limited supply and consistently high demand. In a national comparison, Frankfurt continues to post the highest prime rent at € 43.00 per sq m. This ongoing increase can be attributed to leases signed at high-rise buildings in prime locations. We expect prime and average rent to maintain their upward trajectory due to high absorption rates.

Benefiting from the favorable situation in the office leasing market, office assets are currently the most popular asset class with an annual market share of roughly 80 %.

Shortage of supply dominates the market situation in the wake of several record years culminating in 2018. Yield compression and steady demand continues, boosted by the low-interest environment and stable economic conditions. Deals continue to revolve around the CBD with its skyscraper properties. Foreign investors in particular are taking advantage of the opportunity to invest in the high-rise segment, with core and core+ assets preferred investment targets. Property developments will expand Frankfurt's product portfolio going forward. Along with Omniturm and Marienturm, the FOUR development will create a new urban quarter. FOUR features a skyscraper ensemble consisting of four high-rise buildings for office, retail, hotel and residential use.

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





FRANKFURT MAP AND PROMINENT BUILDINGS

1. COMMERZBANK TOWER

2. EZB

3. MAINTOWER

4. PALAIS QUARTIER

5. MESSE TURM

6. TRIANON

7. THE SQUAIRE

8. OPERNTURM

9. ONE

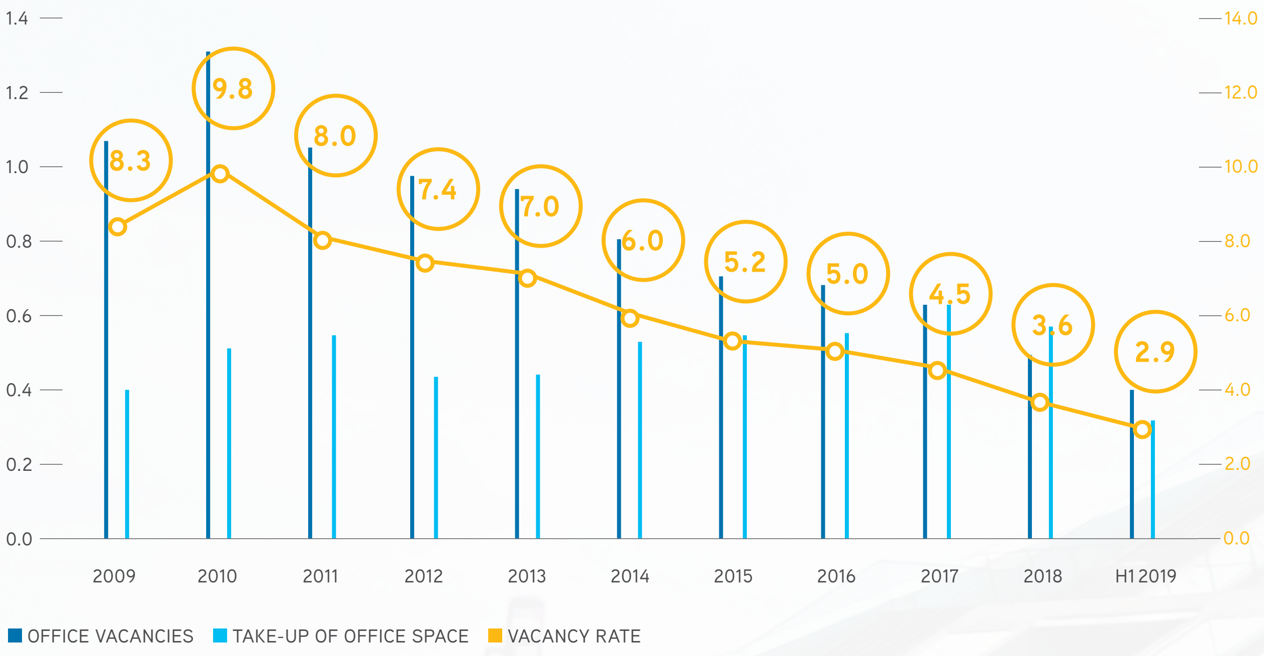
10. MARIENTURM

11. DEUTSCHE BANK TWIN TOWERS

HAMBURG

HAMBURG

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



Hamburg posted record take-up in H1 2019, continuing its streak of high results of over 500,000 sq m per year. The current trend is primarily being fueled by large-scale leases of over 10,000 sq m. Thanks to the city's diverse economy, which is driven by manufacturing, transport and logistics as well as ICT, demand for office space remains above average. Vacancy rates have decreased significantly as a result, reaching a record low of 2.9 % in H1 2019 with further drops ahead. Property developments are beginning to play an increasingly important role, with the development pipeline picking up steam; much of this space, however, is already pre-let. The tense situation on the office market will thus continue in the foreseeable future.

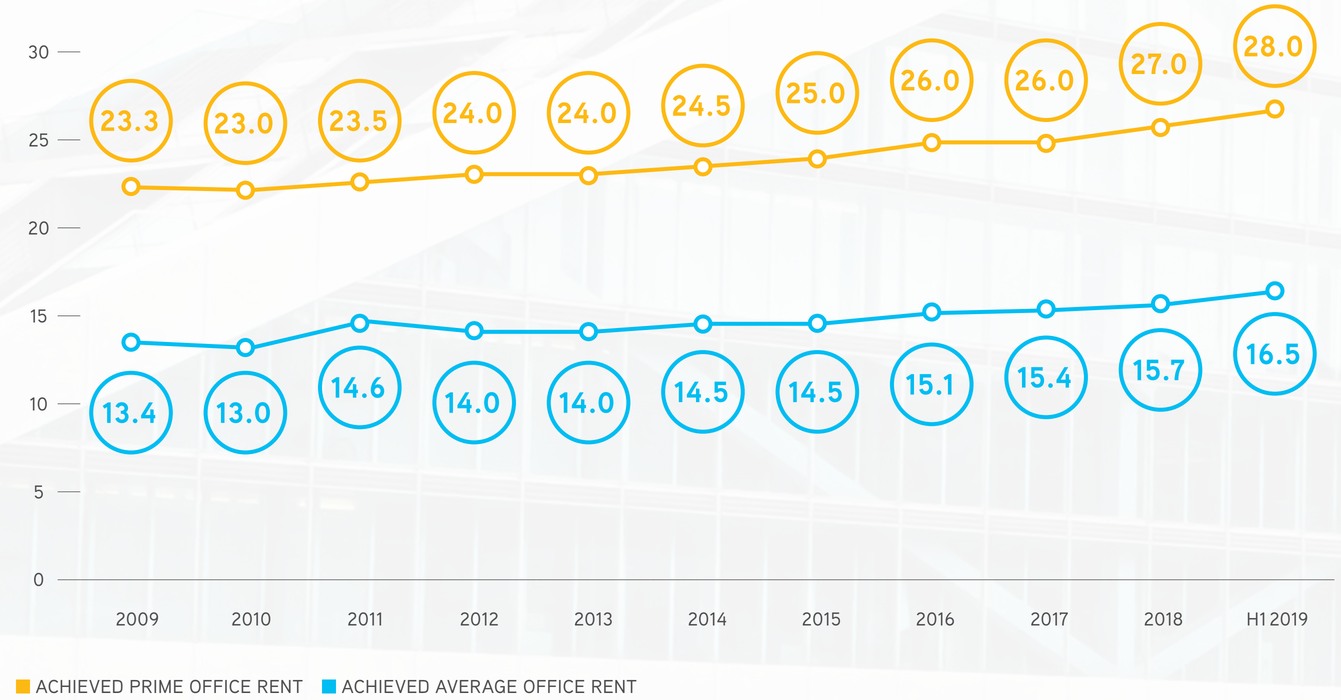
OFFICE FAST FACTS:

- OFFICE STOCK: 13.78 MILLION SQ M
- OFFICE TAKE-UP (10-YEAR AVERAGE): 510,900 SQ M P.A.
- PRIME OFFICE RENT (H1 2019): € 28.00 / SQ M
- AVERAGE OFFICE RENT (H1 2019): € 16.50 / SQ M
- VACANCY RATE (H1 2019): 2.9 %

INVESTMENT FAST FACTS:

- COMMERCIAL TRANSACTION VOLUME (10-YEAR AVERAGE): € 3.2 BN P.A.
- SHARE OF INTERNATIONAL INVESTORS (2016 – 2018): 36 %
- GROSS INITIAL YIELDS (H1 2019)
  - OFFICE: 3.20 %
  - HIGH STREET RETAIL: 3.20 %
  - LOGISTICS: 4.35 %

PRIME AND AVERAGE OFFICE RENT (IN € / SQ M)

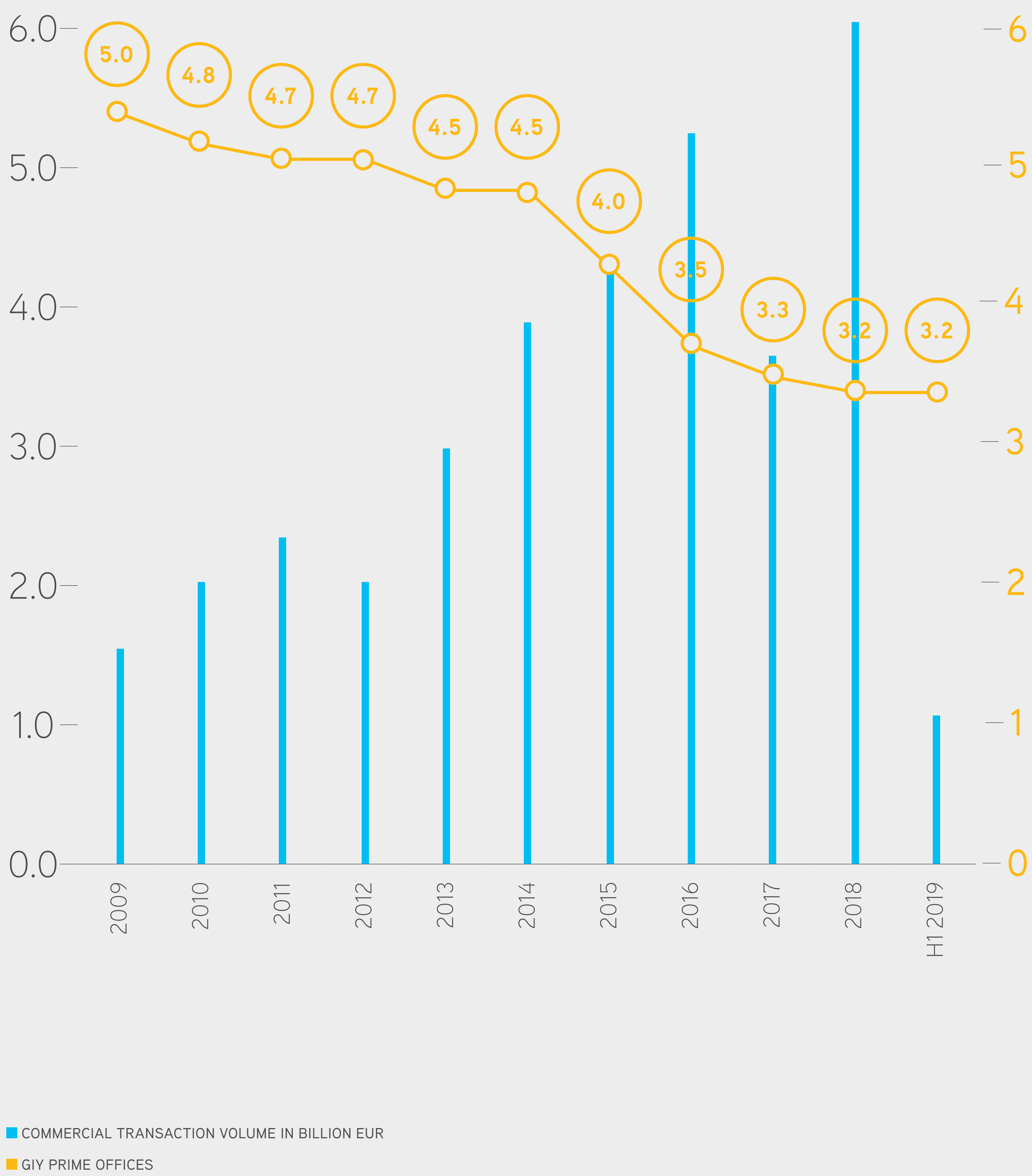


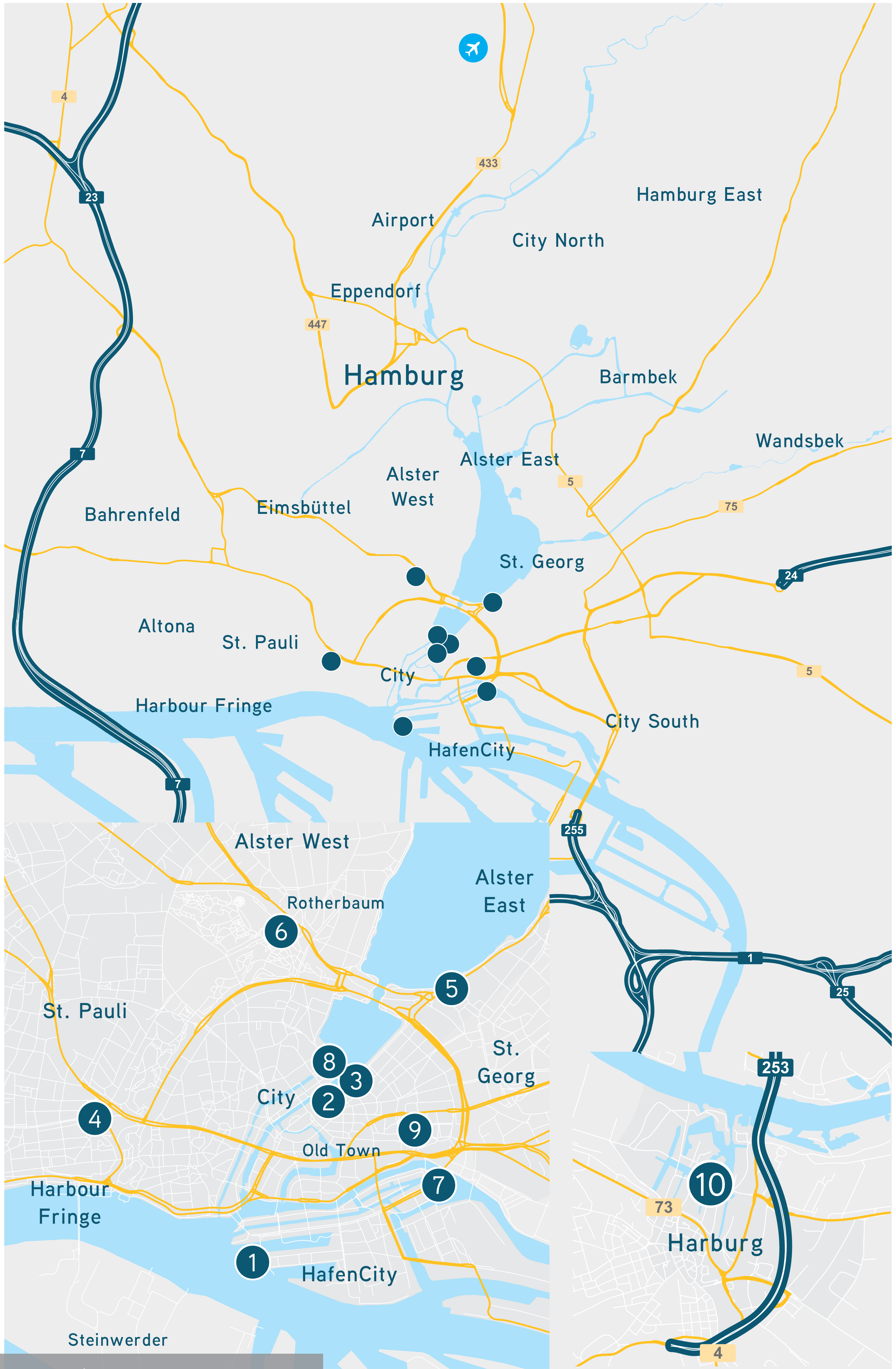
High demand has led to soaring rents over the past few years, particularly due to new leases signed at property developments, with average rents up to € 16.50 per sq m. Prime rents have increased to € 28.00 per sq m. Given the scarcity of office space, which will persist over the next few years, rents are poised to climb even higher.

Following a streak of strong results over the past few years, the Hamburg commercial investment market ended 2018 with a record high of € 5.7 bn.

Shortage of supply currently dominates the Hamburg market as a result and prime yields for both office and retail have dropped to 3.2 %. New peripheral submarkets, where yields are still higher, are therefore gaining traction. Hamburg boasts a solid diversification of asset classes, with office capturing roughly two thirds of annual market share. Mixed-use developments, hotels and building sites, however, are also on investor agendas. Current shortage of supply will only temporarily affect transaction volume, as lively building activity throughout the city will guarantee a full development pipeline and new supply going forward. New developments will be snapped up quickly, as investor interest and willingness to take risk remains high.

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





HAMBURG MAP AND PROMINENT BUILDINGS

1. ELBPHILARMONIE

2. CITY HALL

3. EUROPA PASSAGE

4. TANZENDE TÜRME

5. HOTEL ATLANTIC KEMPINSKI

6. RADISSON BLU

7. ERISKUSSPITZE – SPIEGEL BUILDINGS

8. ALSTERHAUS

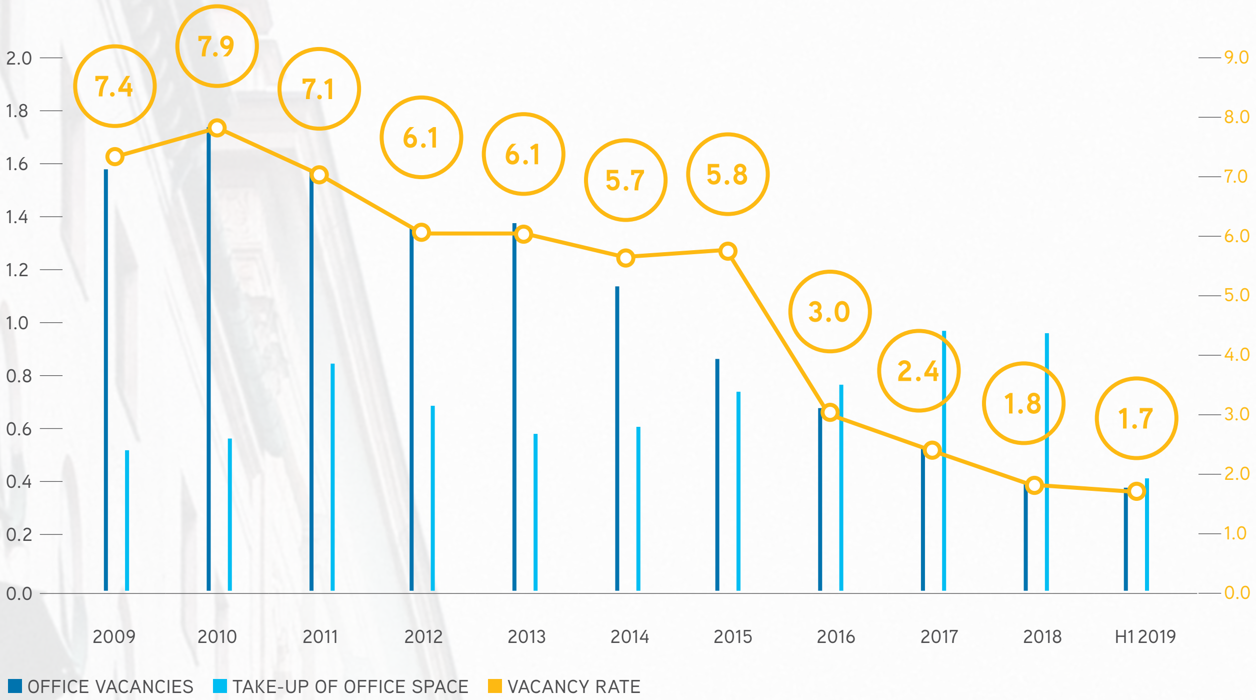
9 .MOHLENHOF IM KONTORENVIERTEL

10. VERITASKAI

MUNICH

MUNICH

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



Take-up was recorded at 422,900 sq m in H1 2019, exceeding the long-term average but falling short of previous-year H1 results with only few large-scale leases signed. Demand has been above average for years now and demand for office space remains high. Limited supply continues to dominate the Munich market. Vacancy rates continue to drop, with vacancy almost non-existent in many locations. The Munich municipal area is currently posting vacancy rates of only 1.0 % and just 0.2 % inside the city's central ring road (Mittlerer Ring). Many leases are being signed long before the move-in date as a result. As such, leases signed for space at property developments and buildings under construction accounted for 30 % of total H1 take-up. In the light of the ongoing demand surplus, these characteristics of a tight landlord market will continue for quite some time.

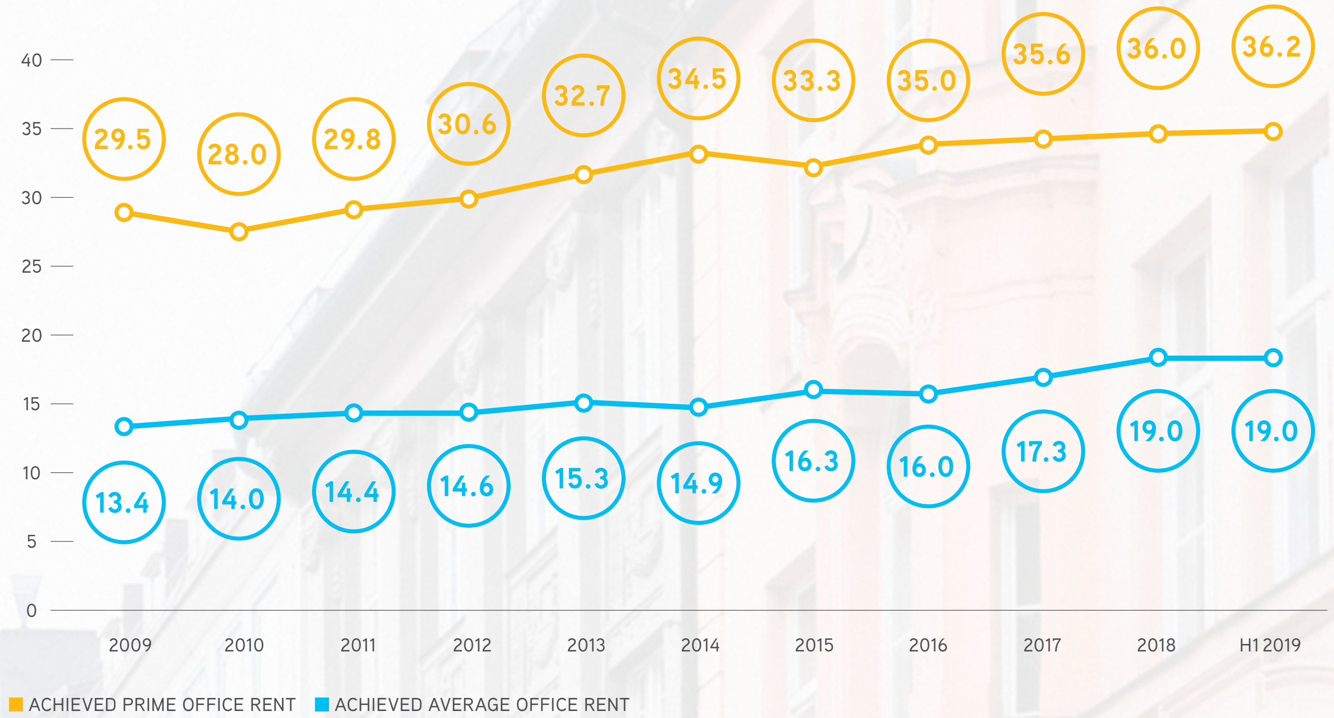
OFFICE FAST FACTS:

- OFFICE STOCK: 22.63 MILLION SQ M
- OFFICE TAKE-UP (10-YEAR AVERAGE): 738.400 SQ M P.A.
- PRIME OFFICE RENT (H1 2019): € 36.20 / SQ M
- AVERAGE OFFICE RENT (H1 2019): € 19.00 / SQ M
- VACANCY RATE (H1 2019): 1.7 %

INVESTMENT FAST FACTS:

- COMMERCIAL TRANSACTION VOLUME (10-YEAR AVERAGE): € 4.5 BILLION
- SHARE OF INTERNATIONAL INVESTORS (H1 2019): 48 %
- GROSS INITIAL YIELDS (H1 2019)
  - OFFICE: 2.90 %
  - HIGH STREET RETAIL: 2.75 %
  - LOGISTICS: 4.35 %

PRIME AND AVERAGE OFFICE RENT (IN € / SQ M)



Due to very low vacancy rates and high demand, average rents have been increasing significantly for years, reaching a new peak at € 19.00 per sq m in H1 2019. This growth in rent levels will continue in the medium term as the shortage of supply in city locations persists. Average rent comes to a current € 21.00 per sq m within city limits and € 13.40 per sq m in the surrounding areas. Prime rent was recorded at € 36.20 per sq m, with most prime space within the city's Altstadtring (inner ring road) being leased for over € 30.00 per sq m.

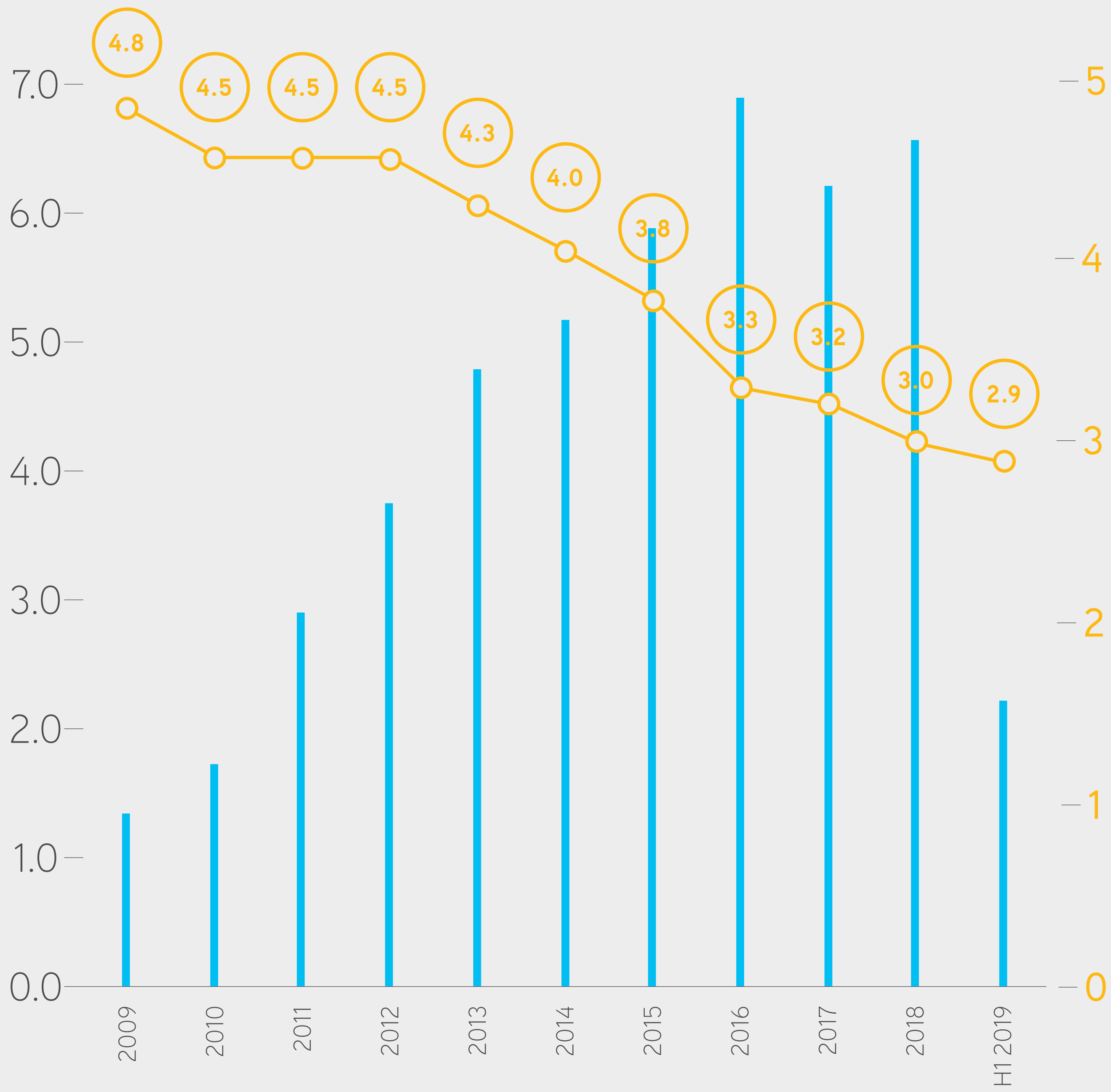
The Munich commercial investment market gained momentum after a modest start in 2019.

Compared to other cities Munich shows a relatively low amount of high volume deals per year due to lack of product. Nevertheless, transaction volume has been well above the long-term average for years now and Munich remains a focal point for investors. Office assets generated around € 1.5 bn in H1 2019, making them by far the most popular asset class as in the previous year. Other popular asset classes in the Munich market include mixed-used properties and hotels. Compared to other markets, large retail transactions are very rare in the Munich market due to a lack of product and the long-term holding periods of most retail property owners in the city center. The highest-volume deal signed in Munich's city center was the sale of M8 at Werksviertel, currently Munich's most coveted district. Werksviertel and the surrounding areas in the eastern parts of Munich will remain high on investor agendas going forward.

The sale of Sky headquarters in Unterföhring was the largest deal signed in Munich's surrounding areas. The Munich periphery also benefited from high demand, especially from investors looking for higher returns. Thanks to a pipeline stocked with several major transactions and ongoing high demand for core products, we anticipate lively market activity in H2.

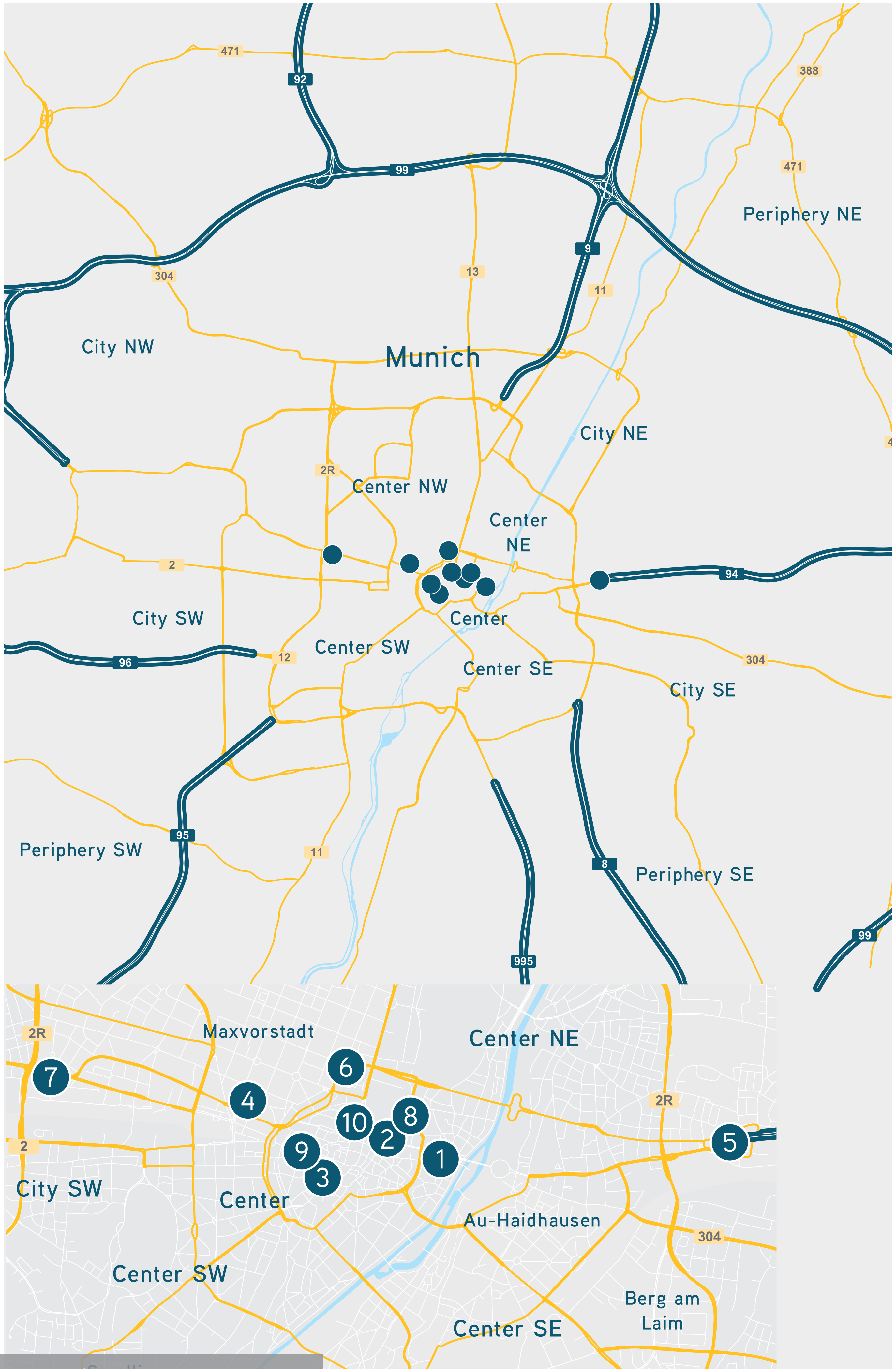
Yield compression continues, especially for core assets in the city center. Other locations like Werksviertel also experienced a significant drop in yields due to high demand. We expect slight yield compression to continue in Munich in the next few quarters.

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



COMMERCIAL TRANSACTION VOLUME IN BILLION EUR

GIY PRIME OFFICES



MUNICH MAP AND PROMINENT BUILDINGS

1. PALAIS AN DER OPER

2. MAXIMILIANHÖFE

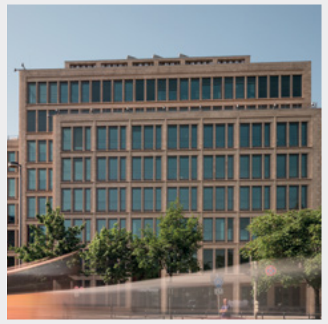
3. HOFSTATT

4. LENBACHGÄRTEN

5. BAVARIA TOWERS

6. OSKAR

7. NOVE



8. HOFGARTEN PALAIS

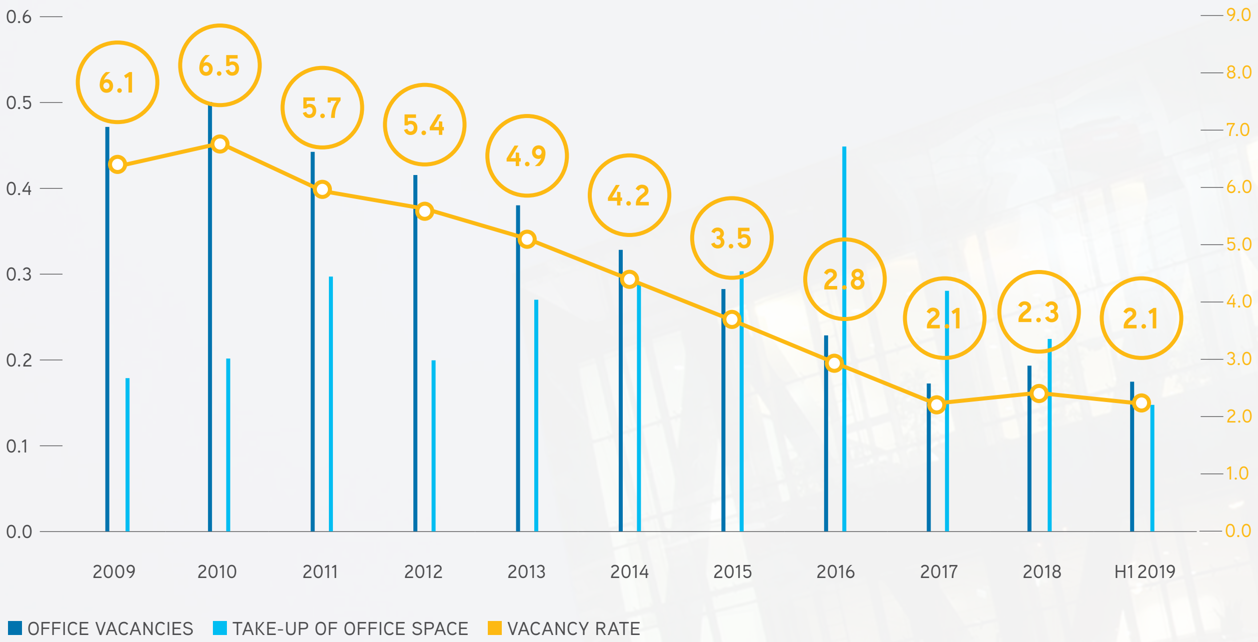
9. JOSEPH-PSCHORR-HAUS

10. FÜNF HÖFE

STUTTGART

STUTTGART

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



Take-up has stabilized in recent years, sometimes well above 200,000 sq m per year. Significantly higher take-up could be achieved if more space was available. The vacancy rate has only been just over 2 % in the past few years and hardly any larger units are currently available, especially in central areas. Although the vacancy rate has stabilized somewhat recently, further drops can be expected in coming years. This can be attributed to high pre-letting rates, meaning that only a few available units will actually come to market. Chances are therefore high that not all businesses will be able to find suitable space in the next few years and that some might even find it necessary to relocate from Stuttgart.

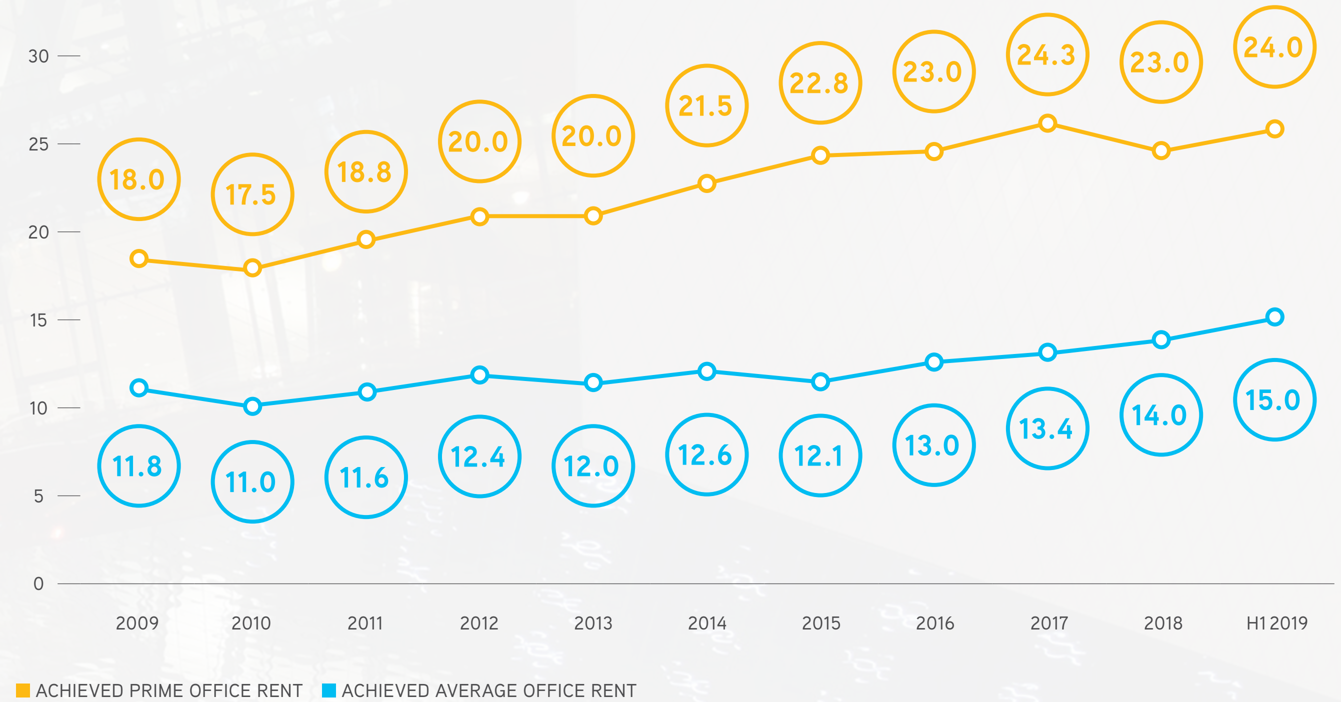
OFFICE FAST FACTS:

- OFFICE STOCK: 8.00 MILLION SQ M
- OFFICE TAKE-UP (10-YEAR AVERAGE): 258,300 SQ M P.A.
- PRIME OFFICE RENT (H2 2019): € 24.00 / SQ M
- AVERAGE OFFICE RENT (H2 2019): € 15.00 / SQ M
- VACANCY RATE (H2 2019): 2.1 %

INVESTMENT FAST FACTS:

- COMMERCIAL TRANSACTION VOLUME (10-YEAR AVERAGE): € 1.1 BN P.A.
- SHARE OF INTERNATIONAL INVESTORS (2016 – 2018): 36 %
- GROSS INITIAL YIELDS (H1 2019)
  - OFFICE: 3.30 %
  - HIGH STREET RETAIL: 3.30 %
  - LOGISTICS: 4.35 %

PRIME AND AVERAGE OFFICE RENT (IN € / SQ M)



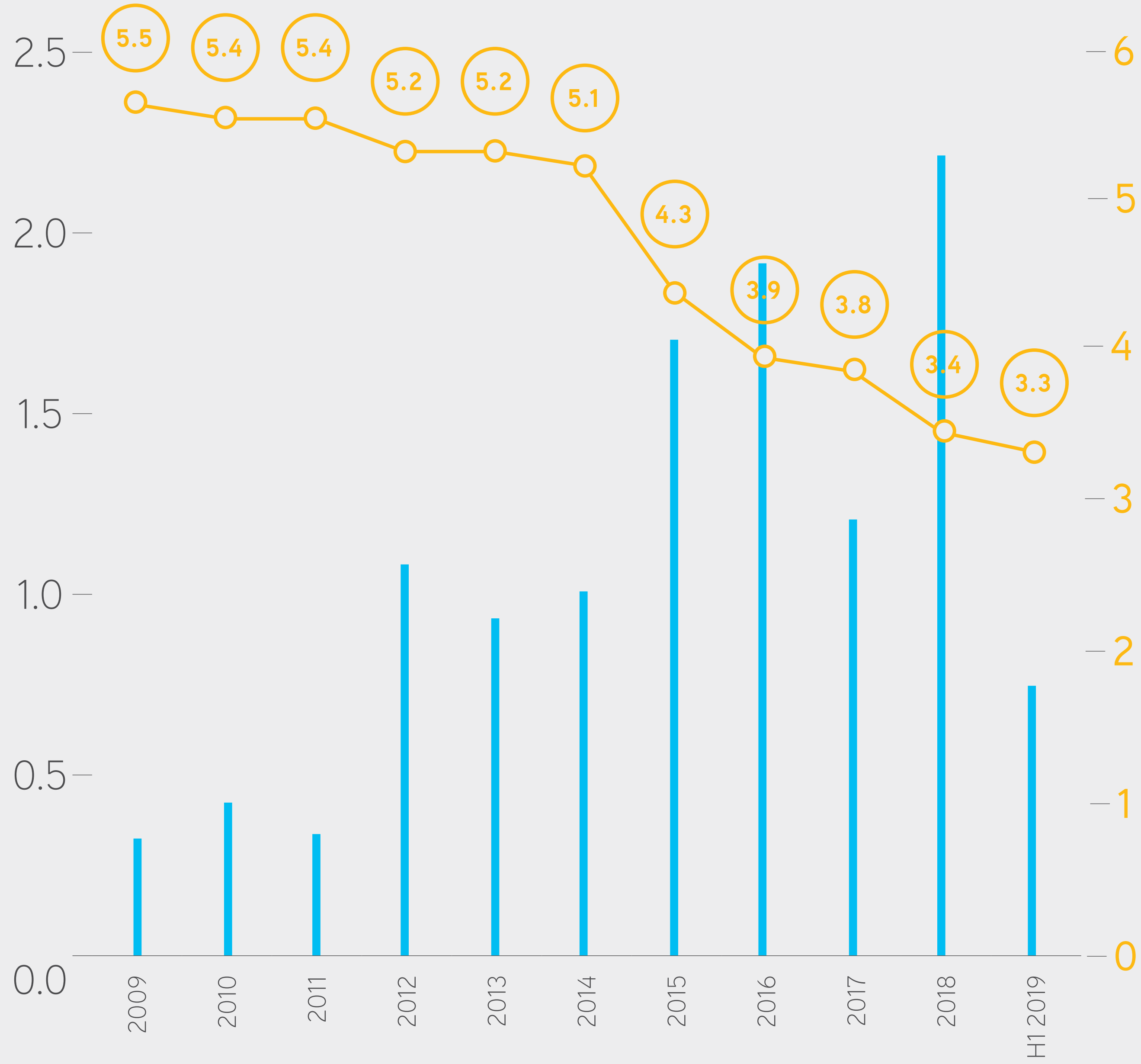
Tenants remain willing to pay higher rents for the limited space on offer, putting average rents at a new all-time high of € 15.00 per sq m. Prime rents have also risen to € 24.00 per sq m, although a significantly higher level would be possible if more units were available in the high-price segment.

The Stuttgart investment market has seen high transaction volumes over the past few years, primarily due to ongoing high demand for real estate assets.

In addition to the city's economic stability, investors continue to value the yield and rent levels to be found in the state capital, which are still comparatively moderate. In H1 2019, investors particularly focused on office properties as well as on retail and mixed-use assets. Nevertheless, transaction volume continues to lag behind its potential in light of the current shortage of supply.

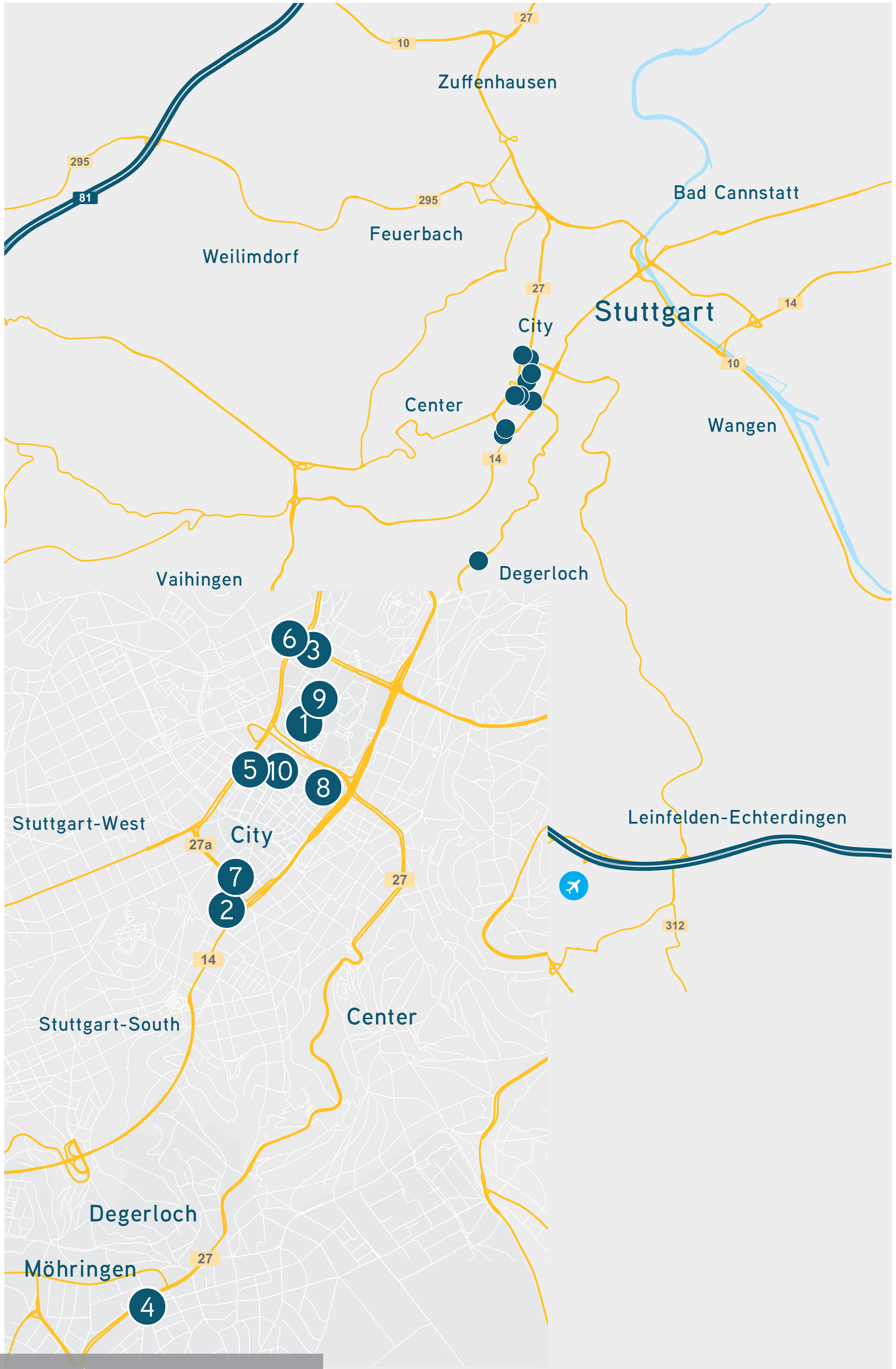
The comparatively moderate yield and rent levels to be found in Stuttgart continue to drive demand. Both the office and retail segments are currently posting prime yields of 3.3 %. In the second half of 2019, we can expect yields to remain stable and transaction volume to continue to fall short of its potential as well as the previous year's record high due to lack of supply.

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



COMMERCIAL TRANSACTION VOLUME IN BILLION EUR

GIY PRIME OFFICES



STUTTGART MAP AND PROMINENT BUILDINGS

1. KÖNIGSBAUPASSAGEN

2. CALEIDO

3. ZEPPELIN-CARRÉ

4. ALBPLATZFORUM

5. KRONPRINZBAUKEMPINSKI

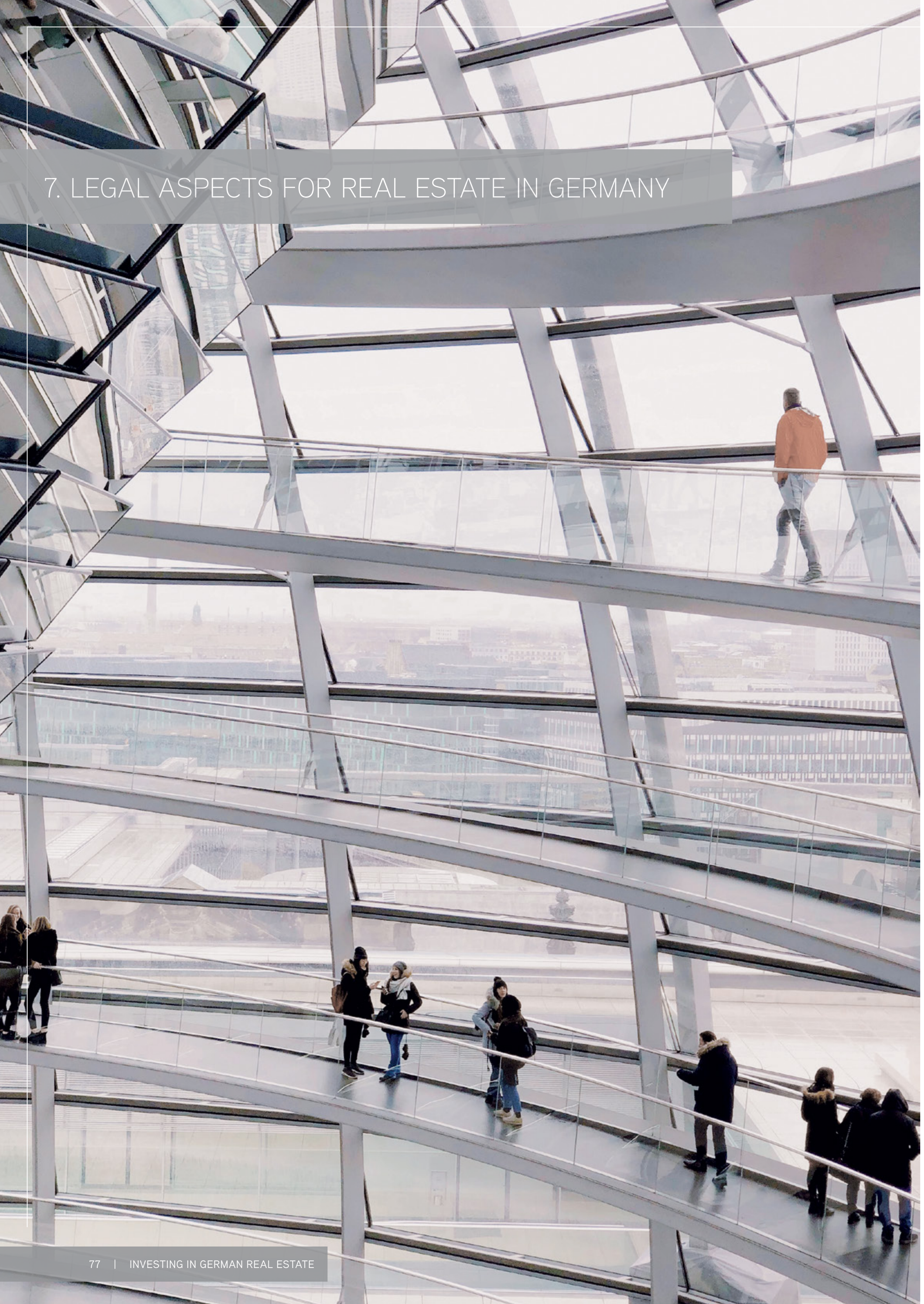
6. CITY GATE

7. GERBER

8. DOROTHEEN-QUARTIER

9. S´ ZENTRUM

10. SALAMANDERHAUS



7. LEGAL ASPECTS FOR REAL ESTATE IN GERMANY

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

1. REAL ESTATE OWNERSHIP

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

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

› Condominium ownership, which is the ownership over separate individual units in a building, e.g. a flat; and

› Hereditary building rights, which is the ownership to a building on a property without being the owner of the respective land.

1.1 FULL FREEHOLD OWNERSHIP

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

1.2 CONDOMINIUM OWNERSHIP

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

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

1.3 HEREDITAY BUILDING RIGHT

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

2. TRANSFER OF TITLE OF OWNERSHIP

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

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

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

2.1 ASSET TRANSACTION

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

2.2 SHARE TRANSACTION

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

2.3 COSTS

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

3. LEASE CONTRACTS

3.1 COMMERCIAL LEASES

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

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

› Terms and termination;

› Written form;

› Rent and rent adjustment;

› Rent deposit;

› Ancillary costs;

› Maintenance and repair;

› Operating obligation;

› Protection against competition and assortment restriction; and

› Change of control.

(A) TERM AND TERMINATION

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

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

(B) WRITTEN FORM

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

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

Since the requirements of written form are easily violated and jurisdiction on this issue develops constantly, commercial lease agreements in the past mostly provided a so-called "written form curing clause". Under such clause – in general – each party of the lease was entitled to file a claim against the other party to "re-enter" into the lease agreement according to the requirements of written form. As a consequence, termination based on lack of written form was considered a violation of the principle of good faith. According to the recent jurisdiction of the Federal Supreme Court, written form curing clauses are void and can therefore not be considered being a remedy for written form defects.

As a consequence, it might not be possible to prevent termination by a tenant with reference to written form defects. It is, therefore, of utmost importance to comply with written form requirements for the entire term of the lease to avoid any written form defects and hence termination rights arising.

(C) RENT AND RENT ADJUSTMENT

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

(D) RENT DEPOSIT

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

(E) ANCILLARY COSTS

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

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

(F) MAINTENANCE AND REPAIR

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

EXCURSION: DOUBLE NET AND TRIPLE NET LEASE

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

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

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

(G) OPERATING OBLIGATION

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

(H) PROTECTION AGAINST COMPETITION AND ASSORTMENT RESTRICTIONS

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

(I) CHANGE OF CONTROL

Change of control clauses are clauses which make a structural reorganisation of an entity (ei-

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

3.2 RESIDENTIAL LEASES

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

4. PUBLIC LAW

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

5. GERMAN TAX ASPECTS

5.1 TAXATION UPON ACQUISITION

(A) REAL ESTATE TRANSFER TAX

In the case of an asset deal, German real estate transfer tax ("RETT") is levied on the purchase price.

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

Pursuant to a draft law, the RETT rules for share deals shall be changed as of 1 January 2020 such that (i) the threshold shall be reduced from 95 % to 90 %, (ii) holding and watching periods shall be extended from five years to generally ten (in certain cases even to fifteen years) and (iii) to Movement Rule shall also apply where the property is held by a corporation. Limited grandfathering rules shall apply.

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

(B) VALUE ADDED TAX

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

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5.2 ONGOING TAXATION

Foreign or domestic corporations owning German real estate will be subject to German corporate income tax on their income from letting and leasing of the real estate at a rate of 15.825 % (including solidarity surcharge). In the case of an individual owning the real estate, German income tax at an individual marginal rate up to 47.475 % (including solidarity surcharge) on the rental income will be triggered. Acquisition costs and expenses borne by the purchaser should be recognised for German tax purposes to the extent that they qualify as ancillary acquisition costs (Anschaffungsnebenkosten) of the real estate or as expenses (Betriebsausgaben) relating to the property. Interest expenses incurred under arm's lengths conditions and actually accrued in the respective business year should generally be tax-deductible against profits derived if such expenses directly relate to 'German source' income (i.e. to the extent relating to the acquisition of the properties) and do not fall within the scope of the interest barrier rules (Zinsschranke).

5.3 GERMAN INTEREST BARRIER RULES

(A) GENERAL RULE

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

(B) ESCAPE CLAUSES

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

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

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

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

(C) EXCEPTIONS IN CASE OF CORPORATIONS

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

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

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

(D) WITHHOLDING TAX

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

(E) TRADE TAX

A foreign investor without a German permanent establishment should not be subject to German trade tax ("TT") on lease income and capital gains. It is generally accepted that the mere leasing and letting of real estate located in Germany to a German domiciled tenant by itself does not constitute a permanent establishment of the respective foreign lessor in Germany. Avoiding a German permanent establishment is essential in order to mitigate German TT. TT ranges, depending on the municipality in which the permanent establishment would be located, from 7 % to more than17 %. The trade tax base is, in principle, derived from the tax base for German (corporate) income tax purposes (net income) by applying certain add-backs and deductions. Such adjustments relate in particular to interest payments, of which 25 % would be added back and, thus, increase the relevant trade tax base.
Please note that if the purchaser were to unintentionally have a German permanent establishment, the add-back for the financing expenses in particular would trigger an additional tax burden.

Leasing income might be fully exempt from TT in case of a German lessor SPV which does not conduct any activities other than leasing of own real estate (real estate traders would not qualify for such TT exemption).

(F) VALUE ADDED TAX

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

(G) PROPERTY TAX

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

After the German Federal Constitutional Court (Bundesverfassungsgericht) decided that these values did not reflect economic reality, the rules to determine the special property value shall be amended, which may lead to increased or decreased property tax going forward.

5.4 TAXATION UPON DISPOSAL / EXIT

(A) ASSET DEAL

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

(B) SHARE DEAL

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

As mentioned above, pursuant to a draft law, the RETT rules for share deals shall be changed as of 1 January 2020 such that (i) the threshold shall be reduced from 95 % to 90 %, (ii) holding and watching periods shall be extended from five years to generally ten (in certain cases even to fifteen years) and (iii) the Movement Rule shall also apply where the property is held by a corporation. Limited grandfathering rules shall apply.

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

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

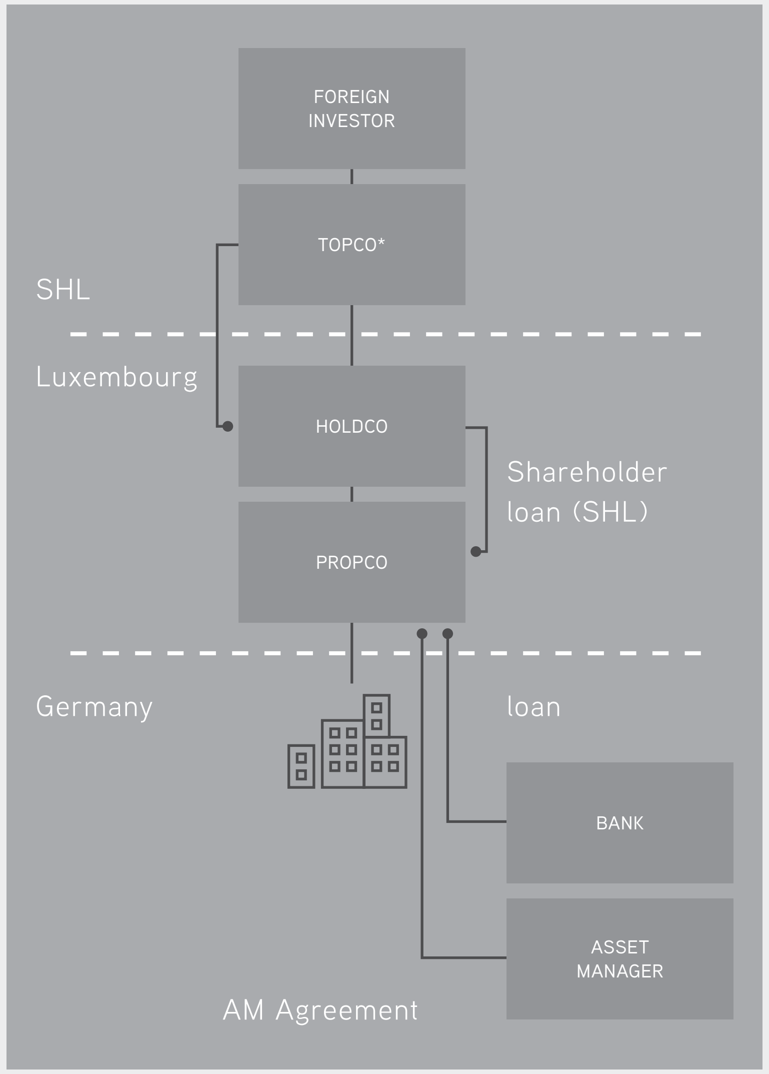
The sale of interests in a foreign or German partnership is treated like an asset deal and triggers (corporate) income tax and potentially – in case of a German permanent establishment – trade tax.

6. TYPICAL SPV STRUCTURE FOR A FOREIGN INVESTOR

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

Please see the following examples below:

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



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

ONGOING CORPORATE INCOME TAX IN GERMANY P.A.

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

* HONG KONG, SINGAPORE

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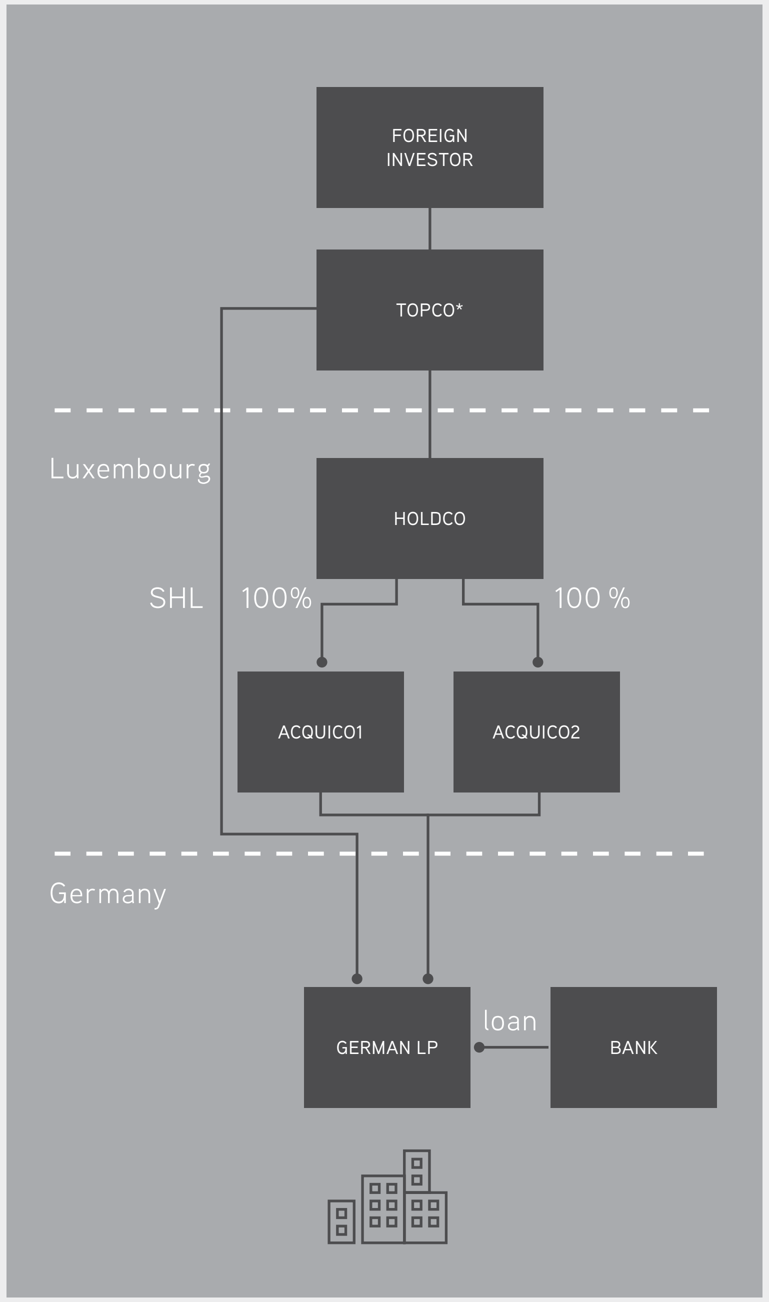
ALTERNATIVE 2: STRUCTURE WITH GERMAN LP AS PROPCO TO MITIGATE LIMITATION OF INTEREST DEDUCTIBILITY IN GERMANY



* HONG KONG, SINGAPORE

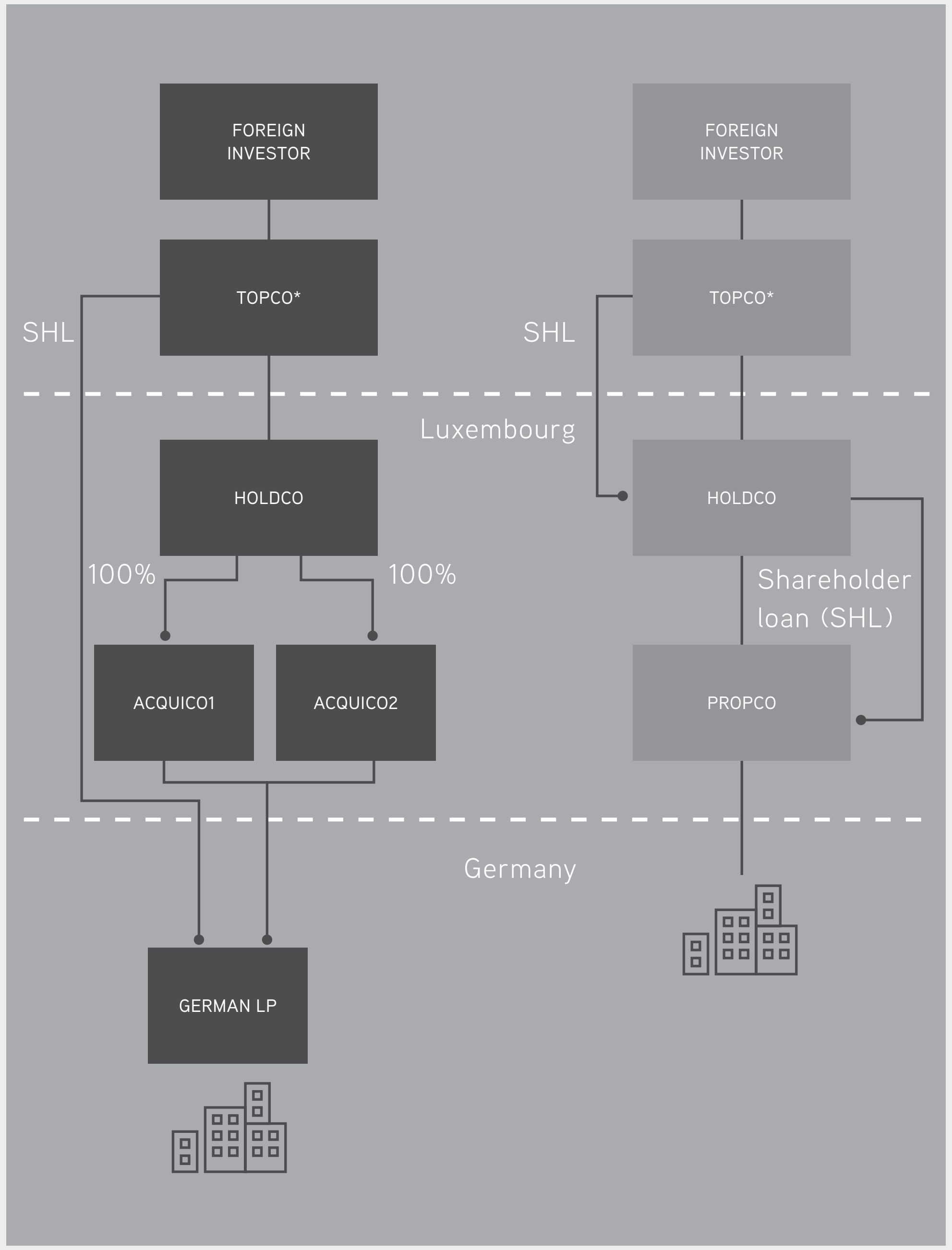
- Mitigation of € 3 million interest threshold e.g. by interposing German tax transparent limited partnership and investment through 2 (or more) intermediate AcquiCos.
- German Partnership disregarded for income tax purposes.
- Interest payments allocated to AcquiCo1 and AcquiCo2; € 3 million interest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

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

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

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

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

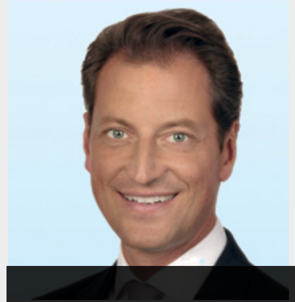


■ ALTERNATIVE 2 * HONG KONG, SINGAPORE

	ALTERN. 1 PropCo	ALTERN. 2 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

8. ADVISORY TEAM

Colliers INTERNATIONAL



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