GERMANY

CITY SURVEY

OFFICE AND INVESTMENT MARKETS – AN OVERVIEW

2020/2021

ACCELERATION INSTEAD OF STANDSTILL

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At the last publication of our City Survey, no one could even guess at the challenges the economy and the real estate markets would face in 2020. Although the impact of the economic downturn and challenging global environment on the German leasing and investment markets were a topic of discussion a year ago, no one doubted that the unusually long, robust boom would continue. The prospect of ongoing, strong market performance now appears obsolete, however, in view of a pandemic that temporarily eclipses all previous risks of a downturn and is difficult to get a handle on because of its complexity. But is this actually the case?

At no time did activity on the German real estate market come to a full standstill. Following a brief orientation phase on the investment and leasing markets in Q2 2020, activity began to pick up in the second half of the year and again tangibly accelerated in Q4 despite a second lockdown in early November. This momentum is an impressive indication of the robust nature of the German real estate market and the capacity of market players to adapt to an environment that is new to all of us.

Digitalization, which has now also made a breakthrough in the real estate sector, has been acting as a pioneer in all of this and setting the pace for market activity. By making it possible to finalize deals and sign leases online in light of the contact restrictions in place, offering many employees the option to work from home and further spurring the e-commerce sector, digitalization has brought with it transformational changes to the office, retail, logistics and hotel sectors.

However, the Covid-19 crisis has also increased risk awareness and brought with it the tendency to place greater importance on the quality and future-resilience of an asset. Being able to identify and realize sustainable concepts that fit the demands of market players in that location, like Forum Steglitz featured on our cover page, is key to crisis-resilient investment.

I look forward to exploring these new opportunities with you.

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MARKET DATA

Office Leasing

	TOP 7	Berlin	Düsseldorf	Frankfurt	Hamburg	Cologne	Munich	Stuttgart
Stock of Office Space in million sqm	92.83	20.90	7.86	11.49	13.99	7.92	22.50	8.17
Office Space Take-up 2020 in sqm	2,555,100	734,000	248,000	329,500	334,300	202,000	567,800	139,500
Change year-on-year in %	– 35.3	– 28.7	– 47.8	– 40.1	– 37.6	– 26.5	– 26.3	– 55.3
Forecast for 2021	▲	►	▲	▲	▲	▲	►	▲
Office Space Take-up in sqm Average 2010–2019	3,457,000	750,580	344,500	505,300	525,000	296,600	762,600	272,500
Prime Rent in €/sqm		41.10	28.50	45.00	30.00	25.75	39.50	25.50
Forecast for 2021		►	►	►	►	►	▼	▲
Average Rent in €/sqm		28.70	16.30	23.00	17.10	15.90	21.50	16.60
Forecast for 2021		►	►	▼	►	►	►	►
Vacant Office Space in sqm	3,269,900	354,000	436,500	810,200	413,300	219,300	787,900	248,700
Vacancy Rate in %	3.5	1.7	5.5	7.1	3.0	2.8	3.5	3.0
Change year-on-year in bp*	60	50	– 40	20	50	60	130	110
Forecast for 2021	▲	▲	▲	▲	▲	▲	▲	▲

The data for Berlin, Düsseldorf, Hamburg and Cologne are related to the respective city area. The data for Frankfurt, Munich and Stuttgart are related to each of the respective markets on the whole.
* basis points

Investment

	Germany	TOP 7	Berlin	Düsseldorf	Frankfurt	Hamburg	Cologne	Munich	Stuttgart
Transaction Volume 2020 in million €	59,247	30,576	8,549	3,220	6,335	5,008	1,450	4,969	1,045
Change year-on-year in %	– 17.3	– 30.6	– 29.8	– 16.1	– 19.2	16.7	– 55.2	– 54.4	– 40.5
Forecast for 2021	►	►	▲	▼	▼	▼	▲	▲	▲
Transaction Volume in million € Average 2010–2019	43,599	24,702	5,658	2,127	5,220	3,473	1,501	5,459	1,264
Prime Yield Offices in %			2.80	3.20	3.00	3.00	3.30	2.70	3.10
Prime Yield High Street Retail in %			3.20	3.40	2.80	3.30	3.40	2.80	3.30
Prime Yield Logistics in %			3.70**						

** Refers to the defined logistics market areas

COMMERCIAL REAL ESTATE MARKET GERMANY

OFFICE LEASING

Take-up

The German office leasing market was hit hard by the Covid-19 pandemic. In early 2020, the global economic downturn mainly impacted manufacturing and export-oriented sectors. At the latest by spring, however, almost all sectors have found themselves in a recession. As expected, the office leasing market is being affected by the economic crisis as well. Expansion plans have been postponed or are simply not being implemented as the result of the pandemic. Roughly 2.6 million sqm in take-up was posted in Germany's 7 top office hubs in 2020, down roughly 35% compared to the previous year's exceptional results and around 25% below the ten-year average. Nevertheless, 2020 take-up results are still higher than they were during the 2009 financial crisis, in which only 2.3 million sqm of office space was taken up.

Following a slow start to the year, the German office leasing market hit its trough in Q3 with take-up at just under 600,000 sqm. Sentiment improved at year-end and Q4 2020 posted the year's highest quarterly take-up of 712,300 sqm.

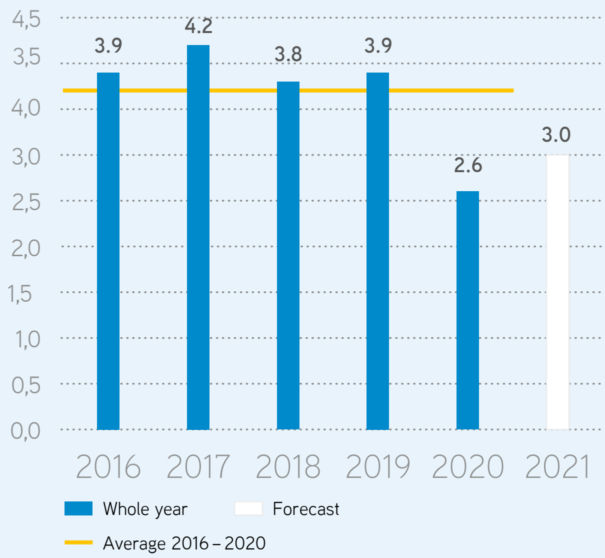
Activity proved livelier in Berlin than in Germany's other top 7 cities. The German capital recorded 734,000 sqm in take-up in 2020, only slightly below the ten-year average of 750,000 sqm. Annual take-up in the other cities came in 25% to 50% below the long-time average. Most locations only saw a handful of large-scale leases signed for over 10,000 sqm. Leases targeting over 5,000 sqm were also scarcer than in the previous year. Take-up of small and medium-scale units was not as heavily impacted by the pandemic with some locations posting relatively substantial results.

Fast Facts

Office Leasing TOP 7	2020	Change year-on-year
Office Space Take-up	2,555,100 sqm	–35.3%
Vacant Floor Space	3,269,900 sqm	22.9%
Vacancy Rate	3.5%	60 bp*
Office Space Stock	92.83 million sqm	0.2%

* basis points

FIGURE 1: **Office Space Take-up in the TOP 7**
in million sqm



Rents

The increase in prime rents over the past several years, sometimes in the double digits, stopped short in early 2020, and prime rents have been trending sideways ever since. The only exception is Stuttgart, where prime rents rose more than 6% to a current €25.50 per sqm. Prime rents in Frankfurt fell slightly by 50 cents to €45.00 per sqm, allowing the city to keep its status as having the highest prime rents in Germany. Frankfurt primarily has this reputation due to the unique office space offered by the city's CBD combined with the presence of solvent tenants from the consulting, communication and finance sectors.

The situation around average rents painted a diverse picture. Average rents in Berlin, Frankfurt and Munich continued to rise considerably by 9%, 8% and 7%, respectively. Tenants in Berlin could expect to pay an average of €28.70 per sqm with €21.50 per sqm the standard in Munich and €23.00 per sqm in Frankfurt. Düsseldorf experienced a very different trend with average rents down almost 6% to €16.30 per sqm. Incentives granted by landlords in the form of rent-free periods began to play an increasingly important role towards the end of the year.

Supply and Vacancy

Unlike 2019, vacancy increased across the board with the exception of Düsseldorf. However, the wave of vacancies feared by some market participants did not materialize. Vacancies were only up moderately with the vacancy rate still below the 5% threshold in all cities except for Düsseldorf and Frankfurt, indicating a tense market situation.

Although the practice of subletting increased in significance in H2, offers remained scattered and subletting has yet to become a widespread phenomenon. The average share of vacancies in the TOP 7 is less than 10%.

Only a few new-build developments saw their completion delayed and around 1.7 million sqm of new office space hit the market in 2020. Almost 80% of that space had been taken up by year-end. A similar amount of office space is scheduled for

FIGURE 2: **Completions of Office Properties in the TOP 7 in total** in 1,000 sqm

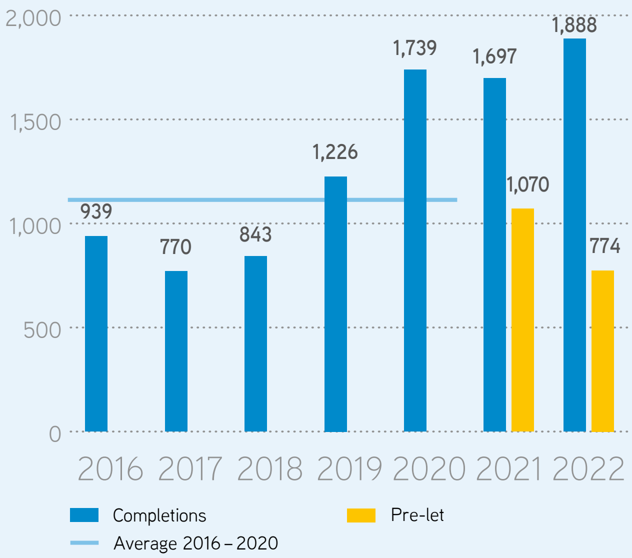
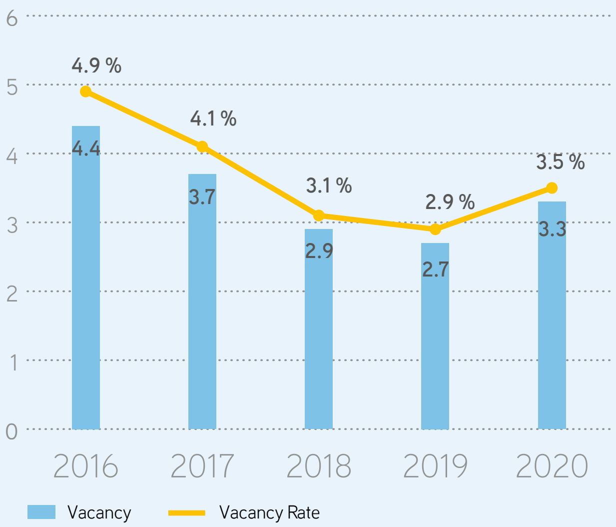


FIGURE 3: **Vacancy Rate in the TOP 7** in % **and Vacancy** in million sqm



completion in the next two years as well. Around 63% of the space scheduled for completion in 2021 has been preleased along with 40% of the space scheduled for completion in 2022. Despite the spike in remote working since the spring, companies do not appear to be turning their backs on the office despite the fact that working from home is gaining increasing acceptance with employers and their employees. Offices will continue to be the main hub for communication and innovation going forward.

Summary and Outlook

2020 was a challenging year for the office leasing market. Many companies were more reserved in their leasing activity than in past years because of the Covid-19 crisis and the uncertainties it has brought with it.

The start of vaccinations and general upswing in the economy give cause for hope. According to the ifo Business Climate Index, company business sentiment for 2021 was up in December and a number of economic forecasts are predicting GDP growth of over 4%. This positive outlook will trigger a boost in demand on the office markets, albeit somewhat delayed. Due to the second wave of the pandemic, we do not expect the markets to return to pre-crisis levels in the near future. However, a result of 3.0 million sqm take-up is feasible.

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FIGURE 4: **Vacancy Rate in the TOP 7** in %

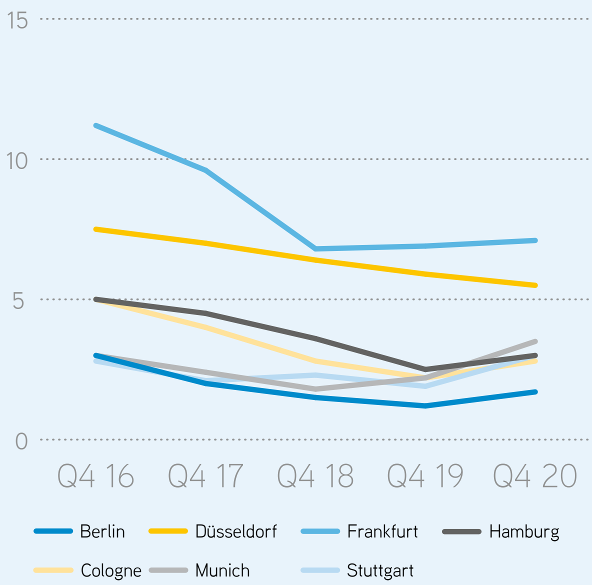
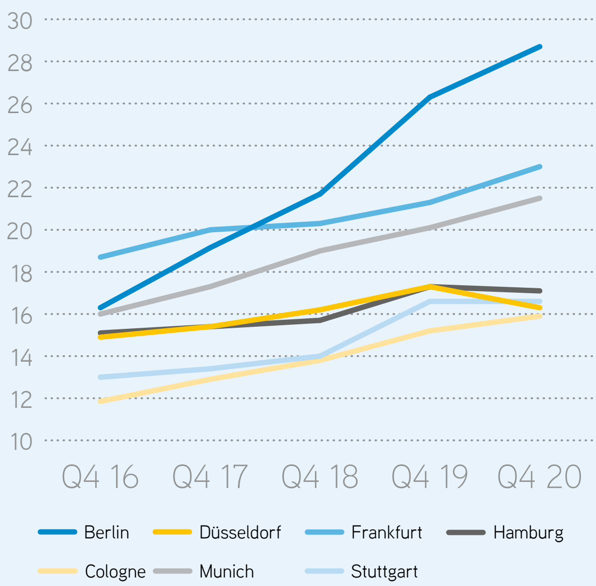


FIGURE 5: **Average Rents in the TOP 7** in €/sqm



INVESTMENT

Transaction Volume

German commercial real estate assets posted a transaction volume of €59.2bn in 2020, reflecting the third-best result in the past decade while significantly exceeding the €50bn mark for the sixth year in a row despite the Covid-19 pandemic. Q4 contributed €18.2bn, or 31%, to the annual result, slightly exceeding the record start to the year of €17.7bn. This indicates a return to the upward trend that characterized the investment market in H2 2020 following the relatively moderate impact of the first lockdown, with market activity even gaining additional momentum in the last three months of the year.

Investors continue to focus on Germany's top 7 investment hubs, pouring roughly €30.6bn, or 52% of transaction volume, into these markets in 2020. However, despite the fact that there were high-volume deals signed in H2, none of the country's top 7 investment locations were able to exceed the €10bn mark in 2020 as Berlin and Munich managed in 2019.

Supply and Demand

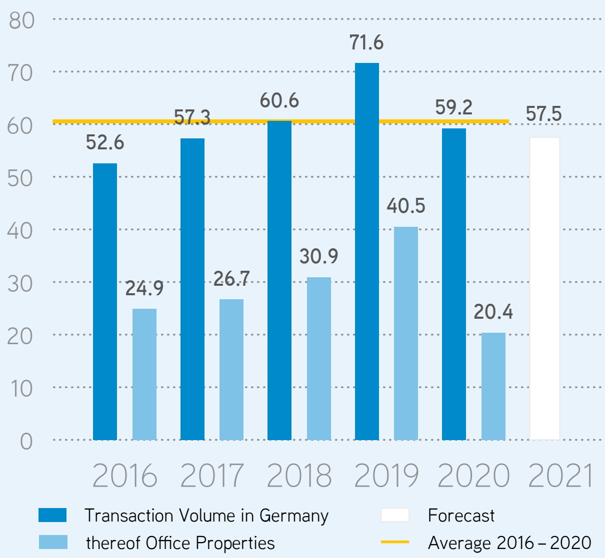
Investor confidence in the German real estate market was quick to rebound following a brief orientation phase in Q2. With ten large-scale transactions changing hands for over €250m in Q1, this number halfed to five in Q2, bounced back to ten in Q3 and increased to thirteen in Q4.

The year's highest-volume deal by far was the TLG portfolio acquisition for around €4bn in Q1 within the scope of the Aroundtown merger. This noteworthy deal alone accounts for one-fifth of the annual total volume generated by portfolio acquisitions, reflecting €20.9bn, or a 35% market share. The largest single-asset deal of the year was Silberturm in Frankfurt, which was sold on behalf of Samsung Life Insurance and asset manager Hines to Austrian Imfarr Beteiligungs AG and Swiss SN Beteiligungen Holding AG. The deal marks an important milestone for the overall market in terms of the return of foreign investors, particularly from Asia, after the lockdown in March.

Fast Facts

Transaction Volume in million €	2020	2019	Change
Commercial Properties total	59,247	71,630	– 17.3%
Total Top 7	30,576	44,047	– 30.6%
Type of transaction			
Individual Transactions	38,341	50,576	– 24.2%
Share in the TOP 7	*23,324*	*34,908*	*– 33.2%*
Portfolio Transactions	20,906	21,053	– 0.7%
Share in the TOP 7	*7,252*	*9,140*	*– 20.7%*
Source of capital			
Share by International Buyers	25,344	30,436	– 16.7%
Share in the TOP 7	*13,151*	*19,841*	*– 33.7%*
Share by International Sellers	17,900	30,526	– 41.4%
Share in the TOP 7	*9,126*	*20,356*	*– 55.2%*

FIGURE 1: **Total and Office Transaction Volume in Germany** in billion €



Foreign investors accounted for an overall market share of 43% and a transaction volume of €25.3bn. Domestic investors with their strong equity base, however, acted as a particularly stabilizing factor in the face of the crisis over the course of the year. German institutional investors proved quite active in the small-to-medium market segment of under €100m, particularly in Q2 and Q3 when foreign investors tended to prefer a wait-and-see stance. Throughout all of 2020, German institutional investors dominated this size segment with a market share of 75% and a 57% market share across all size segments.

Open-ended real estate funds and special funds took the lead buy-side with €13.2bn, or 22%, ahead of asset and fund managers with €11.6bn, or 20%, and listed property companies with €7.1bn, or 12%.

Yields

Gross prime yields experienced further compression ranging between 5 bps and 20 bps in Germany's office hubs of Munich, Düsseldorf, Hamburg and Stuttgart due to excess demand for core assets, particularly in Q4. As a result, prime yields are currently posting anywhere from 2.70% in Munich to 3.30% in Cologne. However, building quality and length of lease term are playing an increasingly important role in determining the purchase price and marketability of a property. Highly sought-after logistics properties that meet current market standards recorded the most substantial price increases throughout 2020. Average prime yields in Germany's top locations came to 3.70% in December. However, we expect to see considerable price reductions outside the premium segment. Office/retail mix buildings in prime locations were only sporadically involved in deals in 2020, with yields rising in many markets.

Office Investment

Office assets were able to strengthen their lead and increase their market share to 46% in the past three months. Discussions surrounding the topic of the office of the future in light of the current trend towards remote and flexible working arrangements as well as the pandemic's

FIGURE 2: **Transaction Volume by Size Category 2020** share in %

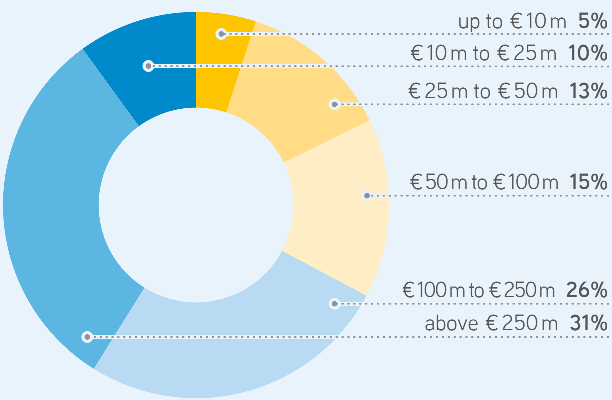
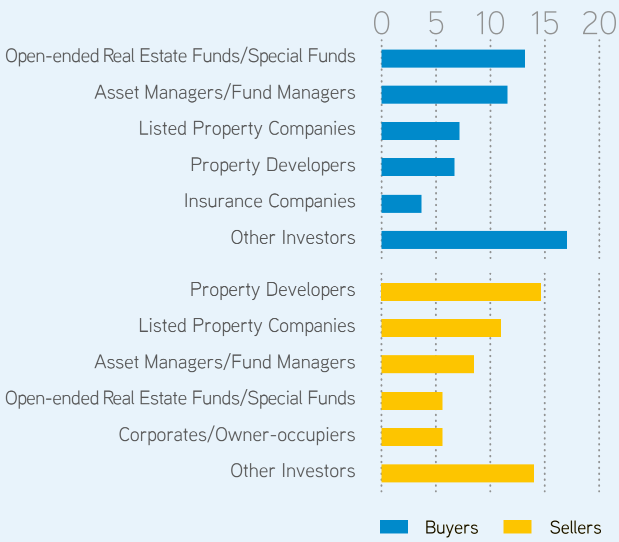


FIGURE 3: **Buyer and Seller Groups in Germany** in billion €



overall economic impact on the leasing markets do not fundamentally call into question the segment's significance as an asset class. Compared to the exceptional €40.5bn recorded in the office segment in 2019, transaction volume was down one-third to €27.1bn. At the start of the pandemic, investors tended to shy away from investments in high-volume properties, which had fueled previous-year results. This particularly affected the office segment.

Summary and Outlook

Unlike the first lockdown, the underlying sentiment among investors following the announcement of a second lockdown was positive to optimistic. Market players have learned that it is possible to conduct most steps in a transaction digitally, even if the process may take somewhat longer.
The crisis has brought with it opportunities in certain asset and risk classes. In terms of the dip seen on the rental markets, however, which were hit harder by the crisis than the investment markets, financial reviews of tenants and properties will take longer than before the outbreak of the pandemic. In the current market environment, off-market options should prove more popular than structured sales processes. With pressure to invest high, we expect transaction volume to come in between €55bn and €60bn in 2021 despite the many uncertainties still impacting the markets.

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FIGURE 4: **Transaction Volume by Type of Property in billion €**

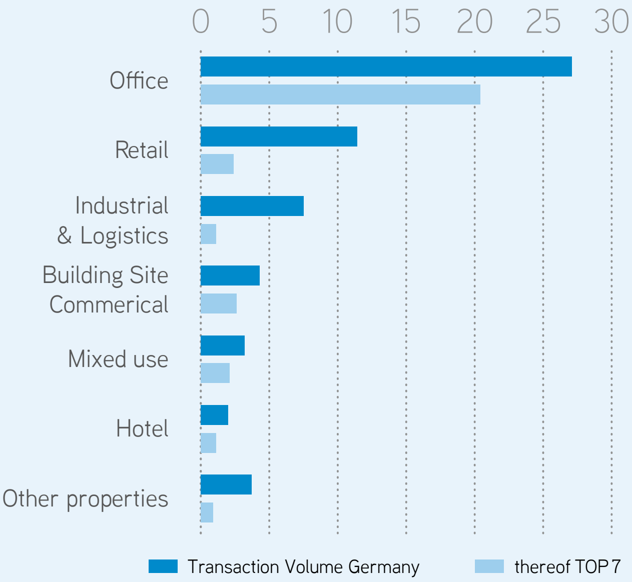
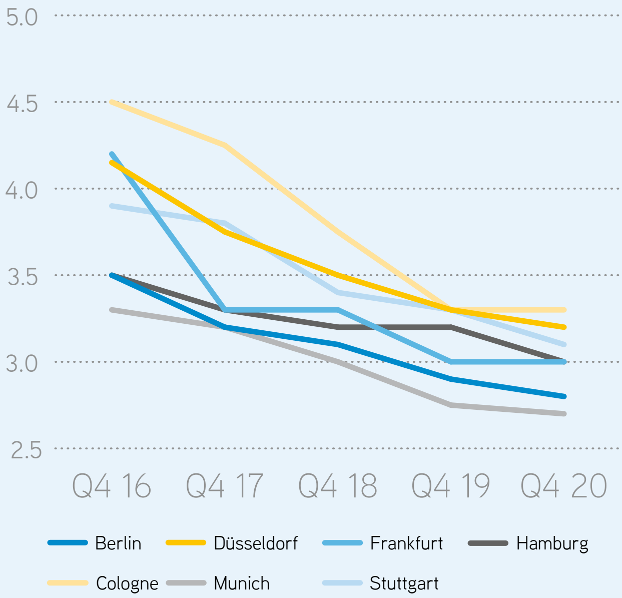


FIGURE 5: **Office Prime Yield in the TOP 7** in %



RETAIL INVESTMENT

Transaction Volume

German retail assets changed hands in 2020 for roughly €11.4bn in total. Transaction volume was up 12% yoy, with 2020 replacing 2019 as the third-best year of the decade. The trend reversal we saw at the end of the year, with transaction volume up 42% qoq, was particularly key in guaranteeing a positive end to a year marked by the Covid-19 pandemic.

Supply and Demand

The highest-volume retail deals in 2020, however, were signed in Q1, including the sale of more than 30 retail assets within the scope of the TLG acquisition by Aroundtown. In terms of transaction volume, the retail portion of the mixed portfolio accounted for around 25% of the deal's total volume of €4bn. Of similar scope was the deal involving a portfolio comprised of 80 Real hypermarkets, which was acquired by Russian SCP Group from Metro for around €900m. Q4 saw the sale of the Matrix portfolio comprising 33 Metro wholesale stores, which was sold by Aroundtown to P3, the European logistics platform of Singapore-based sovereign wealth fund GIC, for around €800m.

These megadeals contributed considerably to the high market share claimed by portfolio deals, which accounted for roughly two-thirds of total transaction volume, or €7.7bn.

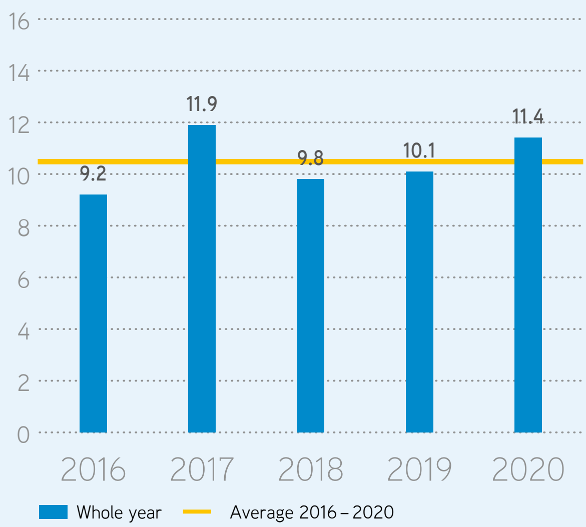
Quantum's sale of the Karstadt department store on Mönkebergstraße in Hamburg to Signa in Q3 for roughly €250m was the largest single-asset deal in 2020. A total of five single assets were sold in 2020 in the 9-figure range, two of which changed hands in Q4. Even after the second lockdown was imposed, market activity remained intact.

Pure-play food retail has become the major driver behind investment activity in terms of use type. Between 2016 and 2020, transaction volume involving this

Fast Facts

Investment	2020	2019
Transaction Volume in million €	11,365	10,122
Portfolio Transactions	67%	57%
TOP 7	21%	33%
Share by International Buyers	52%	39%
Share by International Sellers	42%	53%
Prime Yield High Street Retail	2.80%	2.75%

FIGURE 1: **Transaction Volume Retail in billion €**



retail segment more than tripled to a record €2.0bn from a previous €0.6bn. Discounters, supermarkets and hypermarkets experienced a boom in 2020 due to the Covid-19 pandemic with volumes increasing 30% in 2020 alone. The share in total retail investment claimed by this sector has risen steadily over the past five years from 6% to 18%.

Retail warehouses and retail parks accounted for €5.7bn this past year, reflecting half of total retail transaction volume and an increase of 13 percentage points yoy. Downtown office-retail mix properties in prime locations, which also include department stores, came in second place with €4.0bn, or 35%, down 10 percentage points yoy. Deals like the one in Hamburg also show that investors are becoming increasingly aware of opportunities to reposition downtown assets with high footfall as mixed-use properties. Although this trend is still in its infancy, it continues to grow in significance because of the pandemic. Shopping centers registered a decrease in market share from 18% to 15% and generated a transaction volume of €1.7bn. The low share generated by office-retail mix assets and shopping centers correlates with the low rate of transactions recorded in Germany's top 7 investment hubs, with market share down to 21% yoy from 33% in 2019.

Foreign investors accounted for a 52% market share and German investors for 48%. In light of the major deals outlined above, the dominant investor groups rank as follows: Open-ended real estate funds and special funds (€2.2bn, or 19%) led the pack buy-side followed by listed property companies and asset and fund managers (both with €2.0bn, or 18%). Listed property companies dominated sell-side with €4.5bn, or 39%, ahead of asset and fund managers (15%) and open-ended real estate funds and special funds (13%).

Yields

The yield trend of different usage types continued to diverge, reflecting differences in investor demand. Highstreet assets in Germany's 7 major investment hubs have departed from their historically low yield levels and currently range between 2.80% in Munich and Frankfurt and 3.40%

FIGURE 2: **Transaction Volume by Type of Building 2020** share in %

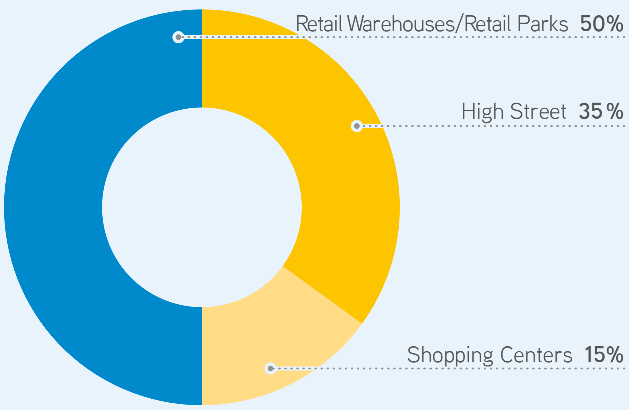
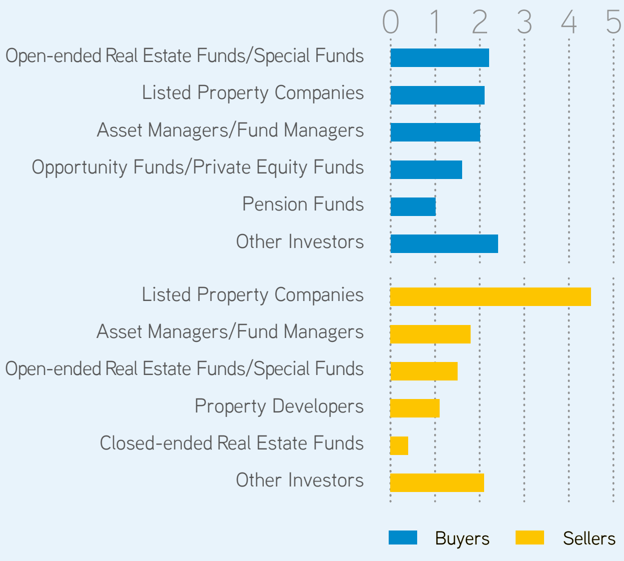


FIGURE 3: **Transaction Volume by Buyer and Seller Groups** in billion €



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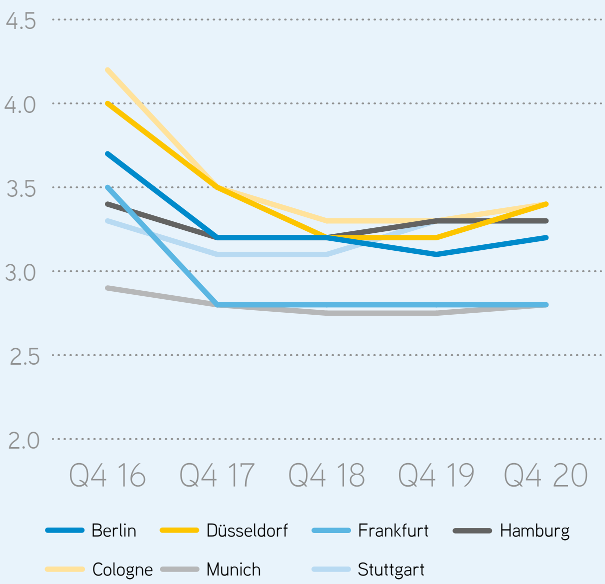
in Düsseldorf and Cologne, while shopping centers in high-footfall locations are posting yields at 4.80%. Prime yields for retail parks continue moving toward 4.00%, which is lower than those recorded for shopping centers in prime locations. Some stand-alone retail warehouses are posting yields well below the 5.00% mark, while food retail is trading at a significant premium.

Summary and Outlook

The Covid-19 pandemic shows how important it is to evaluate retail assets particularly in terms of their resilience based on their heterogeneous composition. While downtown brick-and-mortar fashion retailers took a heavy hit, other sectors are benefiting from a selective boom including grocery as well as non-food sectors such as recreation, sporting goods and DIY. Even in this challenging environment and thanks to the comparatively small-volume retail warehouse and retail park segments as the main driver, annual transaction volume came in at well over €10bn, which we expect will set the bar for next year.

FIGURE 4: **Prime Yield High Street Retail** in %



INDUSTRIAL AND LOGISTICS INVESTMENT

Transaction Volume

The German industrial and logistics investment market finished out 2020 with an exceptional transaction volume totaling at roughly €7.5bn. Topping previous-year results by 14%, this strong annual result is second only to record year 2017 (€8.7bn). Although the logistics asset class continued to rank third on the overall commercial real estate market, it did manage to up its market share to 13% compared to the previous year’s 9%. 2020 was marked by remarkable deals that highlighted the strength and attractiveness of this asset class more than ever before. The global Covid-19 pandemic created additional impetus for investment in logistics assets and put the logistics asset class on the radar of many investors for the first time. An increasing number of investors with very little or even no prior exposure to logistics were involved in bids for this asset class. Ongoing limited supply, particularly in the core segment, also served to intensify the fierce competition and 2020 saw multiples in a range that you would typically only expect for office assets.

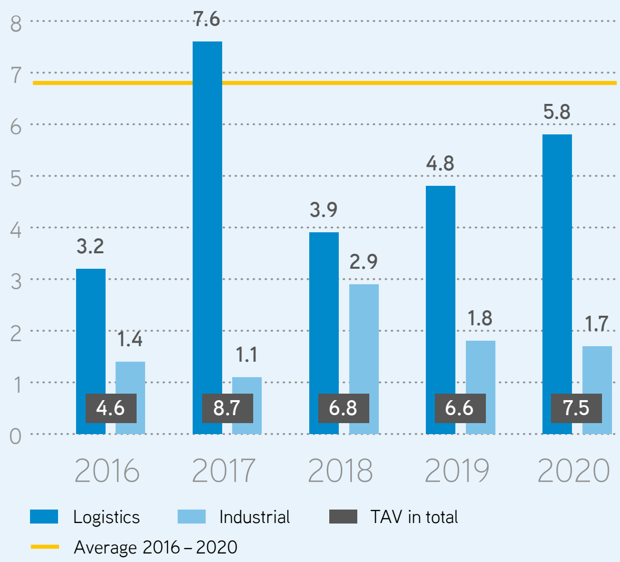
Supply and Demand

An above-average number of sale-and-leaseback transactions generated some additional supply throughout the year. This increase in sale-and-leaseback transactions can primarily be attributed to economic fallout from the Covid-19 pandemic, as some companies are seeking liquidity by selling their own properties in this attractive market environment, in part to bolster their operative growth and competitive position through corporate acquisitions. This trend has meant a slight boost in investment opportunities and has proven particularly beneficial to investors looking for new, sometimes riskier and more profitable opportunities in a logistics investment market with very little supply on offer.

Fast Facts

Investment	2020	2019
Transaction Volume in million €	7,478	6,566
Portfolio Transactions	35%	40%
TOP 7	33%	35%
Share by International Buyers	43%	60%
Share by International Sellers	28%	30%
Prime Yield Logistics in the TOP 7 (average in %)	3.70%	4.20%

FIGURE 1: **Transaction Volume Industrial and Logistics** in billion €



German investors generated the majority of annual transaction volume, pouring roughly €4.2bn into industrial and logistics assets and increasing their market share by another 18 percentage points yoy to 57%. Because of travel restrictions, foreign investors had very limited opportunities to schedule property viewings or on-site visits. This situation caused their market share to drop significantly over the course of the year. Remarkably, the logistics investment market was able to achieve such strong annual results without the help of major portfolio deals in the multi-billion-euro range. Transaction volume for logistics assets even managed to come in just behind the exceptional record-breaking year of 2017. Portfolio deals accounted for around €2.6bn, reflecting a 35% share in total transaction volume. One of the largest portfolio deals to change hands in 2020 was Union Investment's acquisition of the European Logistrial portfolio early in the year. The deal posted a volume of roughly €800m with more than half of total value generated by the portfolio's assets in Germany. Other portfolio deals to change hands in the mid-9-figure range were the sale of the Roots portfolio featuring 14 assets, which was bought by AEW Europe for over €500m in Q4, and Union Investment's acquisition of the Rocket portfolio.

Yields

The boom in investor demand for logistics and the resulting fierce competition for these assets led to significant yield compression in Germany this past year. While the average gross prime yields for state-of-the-art logistics assets in Germany's top logistics regions came to roughly 4.20% in 2019, they fell a further 50 bps to below 3.70% over the course of 2020 (reflecting a net yield of around 3.30%). Some of the deals finalized in 2020 were absolute outperformers in terms of the total package they offered. These properties saw purchase price multiples in excess of 28x based on annual net rent. Multiples in this range are typically more common in the office and residential markets. As a result, the purchase prices achieved per square meter in some cases exceeded the €2,000 mark, setting the tone for future transactions with similar features.

FIGURE 2: **Transaction Volume by Size Category 2020** share in %

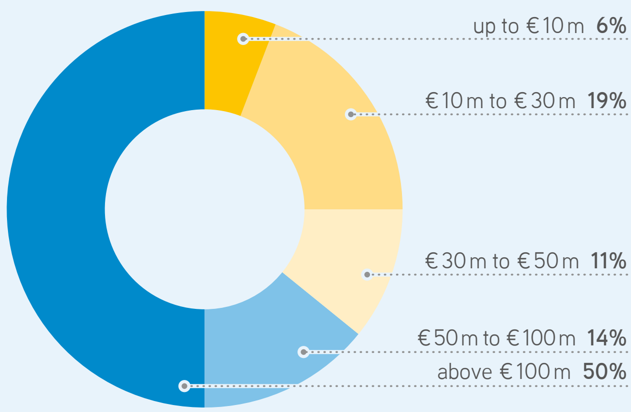
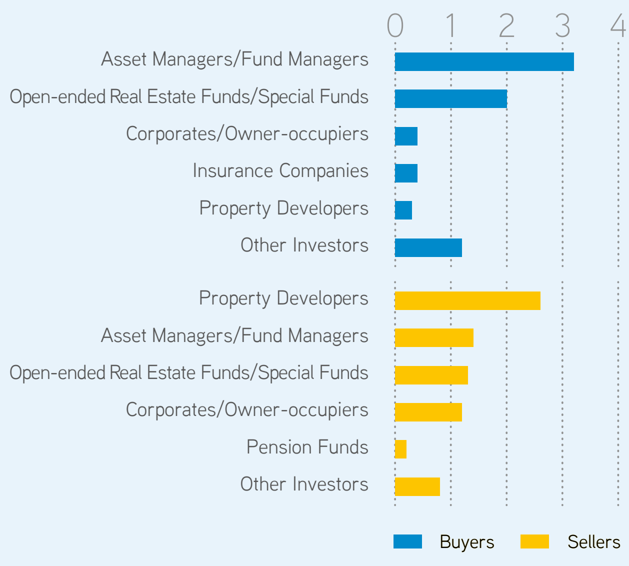


FIGURE 3: **Transaction Volume by Buyer and Seller Groups** in billion €



Outlook

The growth trend in e-commerce speaks to the increasing attractiveness and importance of logistics assets in Germany. Due to the spread of the Covid-19 pandemic in 2020 and the resulting restrictions on everyday life, more and more people are choosing to order online and have groceries delivered to their homes. This has considerably increased parcel delivery volumes in Germany and triggered greater demand for warehouse and logistics space. We also expect growing pressure to optimize and innovate in some areas of traditional industry in the post-Covid-19 era to lead to calls for leaner operations in modern logistics assets. Because the logistics sector has once again proven resilient in times of crisis, we anticipate that the run on industrial and logistics assets will continue, possibly causing further yield compression in 2021.

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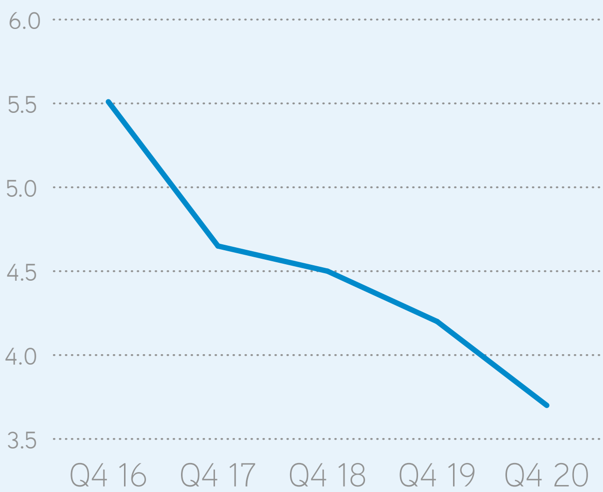
FIGURE 4: **Prime Yield Logistics in the TOP 7**
Average in %



HOTEL INVESTMENT

Transaction Volume

Hotel assets changed hands for a total of €2.0bn in 2020. The hotel investment market almost came to a standstill due to the Covid-19 pandemic following a solid start to the year, in which Q1 brought in roughly €1.0bn in transaction volume. The unsteady recovery in Q3 was unable to put down roots before the second wave of the pandemic and the restrictions it brought with it again hit the hotel business in general, and along with it, the investment market for hotel assets. Transaction volume fell almost 60% compared to strong previous-year results and came up almost one-third short of the ten-year average. As overall commercial transaction volume in Germany was not nearly hit as hard by the Covid-19 crisis as the hotel segment, hotel assets saw their market share fall to 3%.

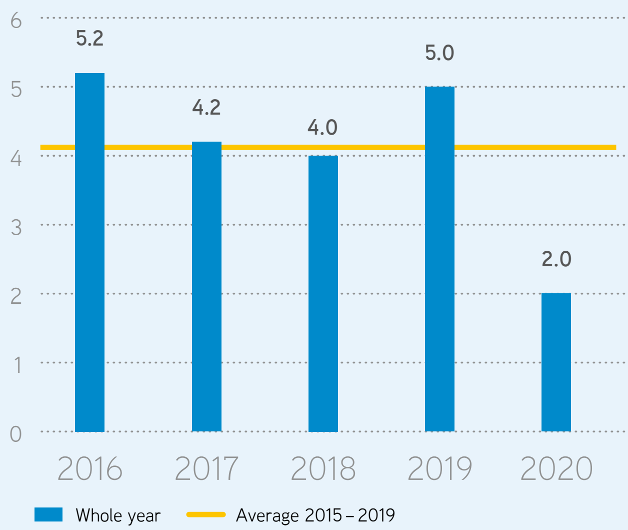
Supply and Demand

Similar to 2019, an increasing number of hotels changed hands within the scope of portfolio deals, which generated a market share of roughly 38%. Aroundtown's takeover of TLG in Q1 2020 was the primary driver behind this high market share along with several smaller portfolios that changed hands over the course of the year. The sale of nhow in Berlin was the largest single-asset deal of the year. Although a dozen additional assets broke through the €50m barrier, most of the assets sold went for below €30m. Core assets in good locations remained attractive and competitive despite the challenging market environment. Conversions have been gaining in significance as well with a growing number of hotel assets sold for conversion projects in 2020, particularly towards the end of the year. Hotel assets are currently being converted into office and residential properties as well as healthcare and mixed-use.

Fast Facts

Investment	2020	2019
Transaction Volume in million €	2,035	5,033
Portfolio Transactions	38%	27%
TOP 7	53%	60%
Share by International Buyers	41%	41%
Share by International Sellers	18%	30%
Prime Yield Hotel	4.01%	3.70%

FIGURE 1: **Transaction Volume Hotel in billion €**



One favorable development is the fact that foreign investors maintained their 41% market share buy-side despite the pandemic. That means German hotel assets continue to attract foreign capital. Listed property companies were the most active buy-side in 2020 with a market share of just over 23%. Asset and fund managers followed in the ranks with 18% in the wake of a considerably more active 2019 where they generated a share of 27%. While open-ended real estate funds and special funds were the most active buy-side into 2019, they slid to third place in 2020 with 13%.

German investors dominated market activity sell-side and accounted for 82% of total transaction volume. As in previous years, property developers proved the most active, selling assets valued at more than €724m, which reflects a market share of almost 36%. Listed property companies ranked second with 18%, largely due to the TLG takeover. Family offices and private investors claimed third place with 14%.

Hotels in the 4-star segment remained the most popular investment, pulling in a market share of 56%. Second place went to 3-star hotels with a one-third share of the market. Investment in budget and luxury hotels almost came to a complete standstill with only a few deals registered. Serviced apartments were the only hotel category to experience a favorable trend with their share in total hotel transaction volume up five percentage points to 8%, or €166m. Serviced apartments have navigated the crisis well to date thanks to strong occupancy rates and are becoming increasingly popular with investors.

Core assets are currently the most popular among the risk classes. Supply, however, is limited. Many investors are avoiding core+ assets in the current market environment, particularly due to the tense situation currently being faced by hotel operators. Value-add assets are rarely being sold as such but are rather being further developed into core or core+ assets before being listed on the market.

FIGURE 2: **Transaction Volume by Star Segment 2020** share in %

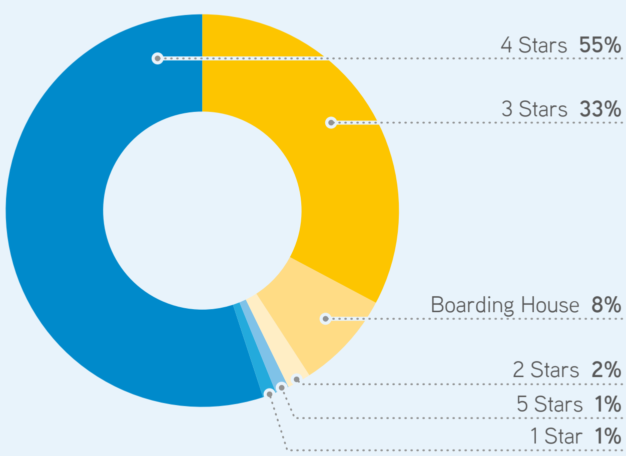


FIGURE 3: **Transaction Volume by Buyer and Seller Groups** in billion €

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As a result of these activities, the core segment posted €1.1bn in transaction volume in 2020, reflecting a market share of 59%. Core+ and value-add followed in the ranks with 32% and 6%, respectively.

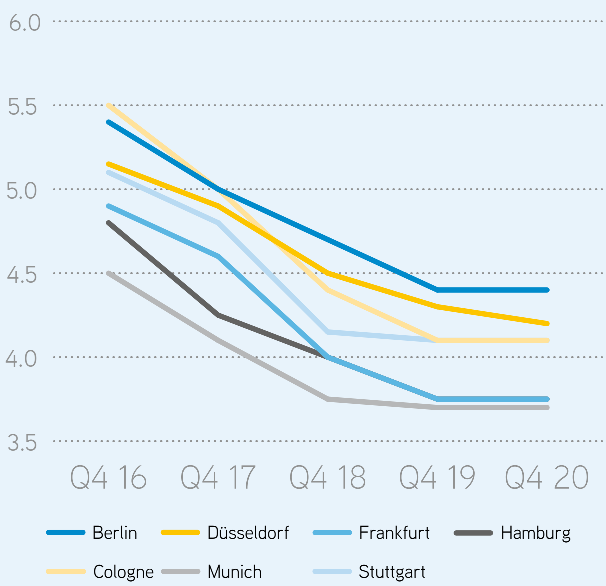
Yields

Yields for hotel investments remained stable over the course of the year. Munich continued to post the lowest gross prime yields at a flat 3.70% with yields in Berlin at the other end of the spectrum at 4.40%. Gross prime yields nationwide are posting at an average of roughly 4.00%. Because so few deals were transacted in 2020, these numbers are based on limited data.

Summary and Outlook

The hotel segment is likely to face another difficult year in 2021. Convention hotels will particularly continue to suffer under the ongoing restrictions. Operators are expected to continue to pursue market consolidation. Hotel chains, particularly those in the budget segment, appear to be navigating the crisis more successfully. Major operators in the lower price segment are even continuing with their expansion strategies. Core assets in top locations remain an attractive investment and the same applies to properties boasting conversion potential, which offer opportunity as well. We expect the market to return to pre-crisis levels no earlier than 2023. Look for market recovery to move from the inside out and from bottom to top. That means that hotels in downtown locations will likely recover more swiftly than those located in city outskirts and that demand for budget accommodation will pick up earlier than demand for higher priced accommodation.

FIGURE 4: **Prime Yield Hotel** in %



CITY REPORTS

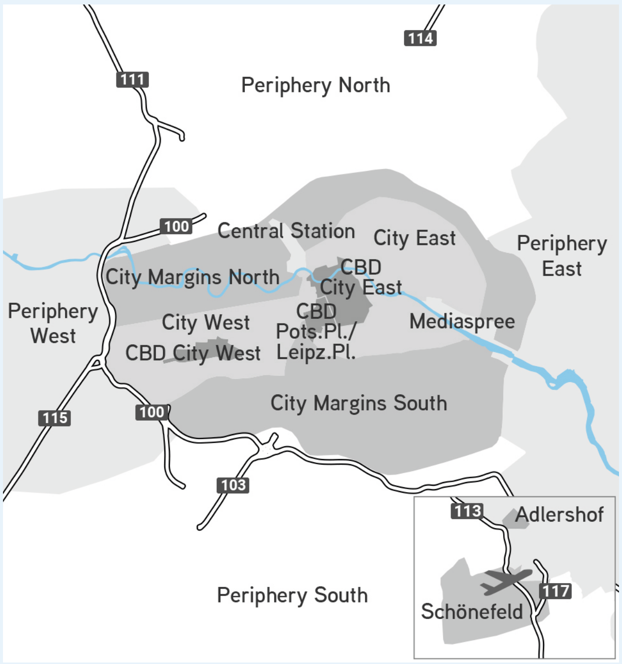
BERLIN

CITY FACTS BERLIN

Population in 1,000	3,669
Employees Paying Social Security Contributions in 1,000	1,539
Unemployment Rate in %	10.1
Per Capita Disposable Income in €	22,294

Fast Facts

Office Leasing Berlin	2020	Change year-on-year
Office Space Take-up	734,000 sqm	–28.7%
Leasing Take-up	668,600 sqm	–32.4%
Prime Rent	41.10 €/sqm	3.0%
Average Rent	28.70 €/sqm	9.1%
Vacancy Rate	1.7%	50 bp
Office Space Stock	20.90 million sqm	2.0%



Rents in €/sqm

Submarket	Range of Rents
CBD City West	20.75-42.50
CBD City East	20.00-39.80
CBD Potsdamer Platz/Leipziger Platz	20.85-38.00
Central Station	28.00-35.00
Mediaspree	24.00-36.15
City West	17.00-32.00
City East	18.45-42.30
City Margins North	19.40-38.25
City Margins South	18.00-34.00
Periphery North	13.50-27.50
Periphery West	21.00-28.50
Periphery South	14.00-30.00
Periphery East	14.45-26.00
Adlershof	15.00-20.00
Schönefeld	14.45-16.25

OFFICE LEASING

Take-up

The Berlin office leasing market posted around 734,000 sqm in take-up in 2020, a good result in line with the ten-year average of roughly 750,000 sqm despite the impact of the Covid-19 pandemic. The final quarter of the year proved particularly robust with take-up coming in at 231,000 sqm. A number of large-scale leases signed for over 10,000 sqm played a significant role, accounting for more than 300,000 sqm in take-up.

Public administration was responsible for roughly 270,000 sqm in take-up, generating a market share of almost 40%. With this result, the public sector solidified its dominant position on the Berlin office market. Companies from the ICT, banking and finance sectors trailed in the ranks at some distance, each falling just shy of double-digit results.

Market activity once again revolved around the CBD City Ost and City Ost submarkets, which contributed around 253,000 sqm to total take-up. The largest lease of 2020, which was signed by insurer Deutsche Rentenversicherung for more than 84,000 sqm at the An den Treptowers property, was a major driver behind the above-average result posted in the Mediaspree submarket of 113,000 sqm. Neighboring locations are also attracting increasing demand due to the ongoing supply bottleneck in central locations. The City Periphery North and City Periphery South submarkets both benefited from current market conditions and also ranked high among the city's most popular office locations. Take-up in the City Periphery South submarket was particularly impacted by the lease signed by Deutsche Bahn for roughly 30,000 sqm at EUREF-Campus on Torgauer Straße.

FIGURE 1: **Office Space Take-up** in 1,000 sqm

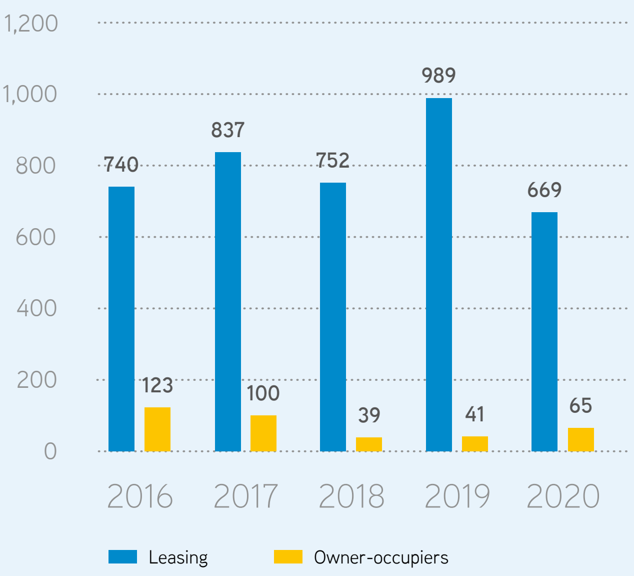
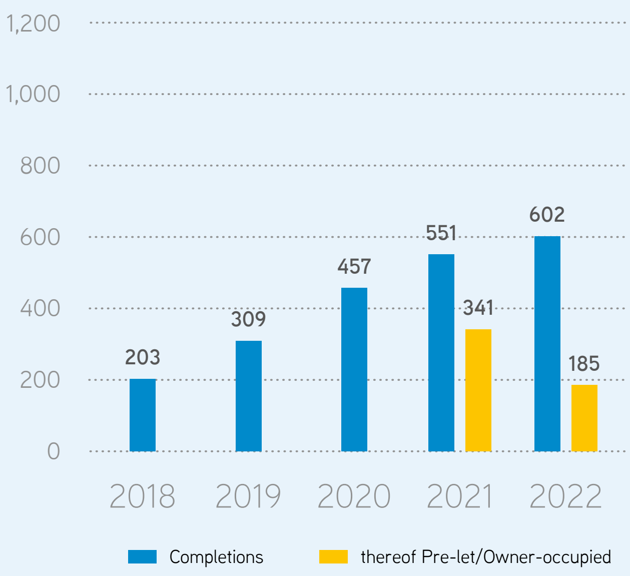


FIGURE 2: **Completion Volume** in 1,000 sqm



Rents

Office rents have been showing very little change in the wake of the pandemic and remained high at year-end 2020. Prime rents come to a current €41.10 per sqm with average rents at €28.70 per sqm, reflecting a yoy increase of 3% and 9%, respectively. Tenants were willing to pay more than €35.00 per sqm for roughly 106,000 sqm of new office space.

Supply and Vacancy

Berlin's extremely low vacancy rate of 1.2% increased slightly over the course of 2020 to 1.7% at the end of December. The amount of space available for immediate tenancy rose yoy to around 354,000 sqm. The situation in submarkets outside Berlin's suburban train ring remains particularly tense at below 1.0%.

Key Developments

A total of 551,000 sqm are currently in the development pipeline for 2021 with around two-thirds of this space already taken up as at the start of the year. These developments are primarily targeting CBD locations in the City Ost and West submarkets and around the Berlin central station.

Summary and Outlook

We can look for rents to continue to rise slightly in 2021, albeit with significantly less momentum than in past years. Numerous businesses are on the lookout for large-scale units in 2021 as well, guaranteeing the Berlin market a solid foundation going forward despite the impact of the pandemic. We have yet to see a dramatic drop in vacancy. Office properties will continue to play an important role for companies. In light of the above, 2021 is set to post another increase in annual take-up to over 800,000 sqm.

FIGURE 3: **Vacancy Rate** in % **and Vacancy** in 1,000 sqm

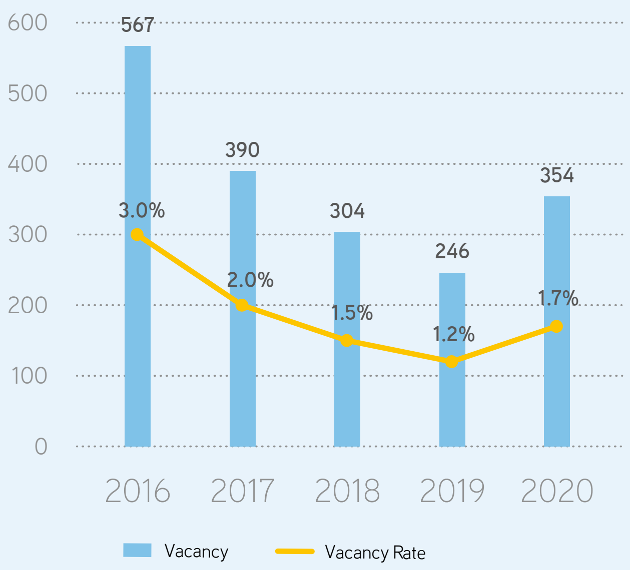
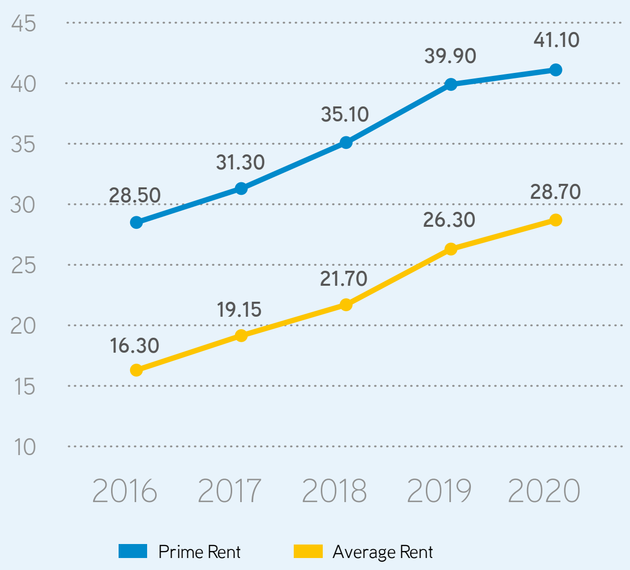


FIGURE 4: **Prime and Average Rents** in €/sqm



INVESTMENT

Transaction Volume

2020 was an unusual year that started off on Berlin's commercial real estate investment market as strong as record-year 2019 ended, which was with €12.2bn in transaction volume. Then market activity came to an abrupt halt. Investors, however, quickly regained confidence in the market, pouring €8.5bn into the city's commercial assets by year end, putting 2020's strong transaction results in second place after 2019.

The second wave of the pandemic in Q4 2020 was unable to stop the end-of-year rally on the Berlin market. The dip in market activity due to high uncertainty at the start of the pandemic created excess demand that hit the market in H2 and boosted deal activity. Commercial transaction volume came in 50% above the ten-year average despite the crisis.

Fast Facts

Investment Berlin	2020	2019
Transaction Volume	8,549 million €	12,172 million €
Portfolio Transactions	38%	17%
Share by International Buyers	52%	59%
Share by International Sellers	29%	46%
Most Important Property Type	Office 64%	Office 79%
Prime Yield Office	2.80%	2.90%

FIGURE 5: **Transaction Volume** in million €

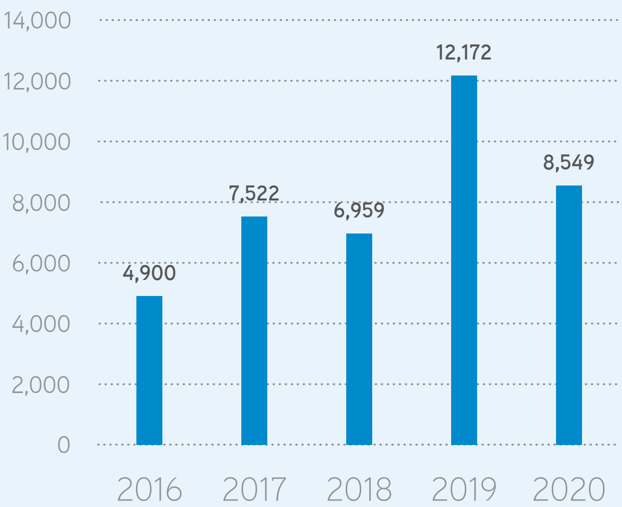
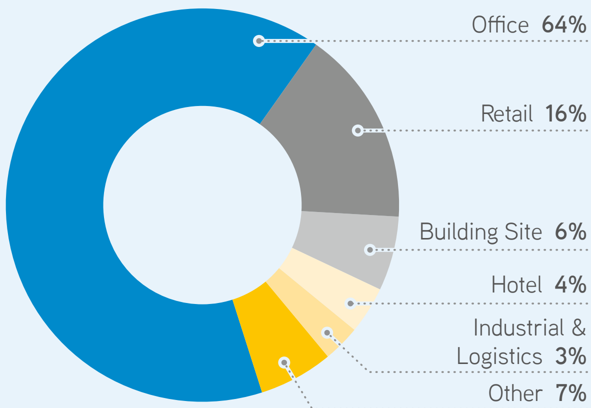


FIGURE 6: **Transaction Volume by Type of Property 2020** share in %



Supply and Demand

Office assets accounted for two-thirds of total transaction volume in 2020 with €5.5bn. Retail assets ranked second with €1.4bn, or a 16% market share. Commercial land sites posted above-average transaction volume at over €500m, securing third place.

Large landmark deals such as those in the record year 2019 with more than half a billion euros were absent in 2020. However, three single-asset deals were signed for over €250m. One of the year's most pricey deals was the sale of the western section of the office complex at Humboldthain. A section of the Focus Teleport office center in Moabit and the Südkreuz Offices in Schöneberg joined the ranks towards the end of the year. The sale of Spreeturm at Postbahnhof in the Mediaspree submarket was another high-volume deal that changed hands for just shy of €200m.

Aroundtown's takeover of TLG was the largest portfolio deal in 2020. Listed property companies ranked most active buy-side (€2.4bn) and sell-side (€2.5bn) as a result. Property developers came in second sell-side with €1.6bn, followed closely by asset and fund managers, which posted just under €1.6bn. Asset and fund managers purchased assets in the same volume and ranked third buy-side just behind open-ended real estate funds and special funds with €1.8bn.

Property developers in Berlin particularly benefited from the fact that demand for large-scale adjoining office space, something that is hard to come by in stock properties, remained quite high among tenants from the public sector despite the pandemic. Interest in assets guaranteeing long-term secure cashflow is on the rise.

FIGURE 7: **Transaction Volume by Buyer Groups**
in million €, share in %

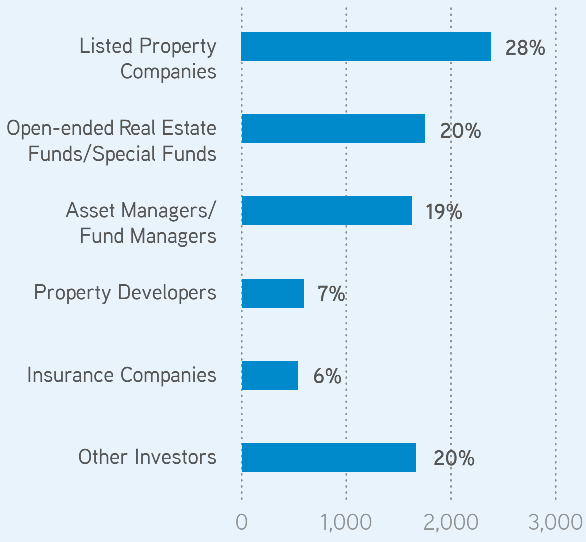
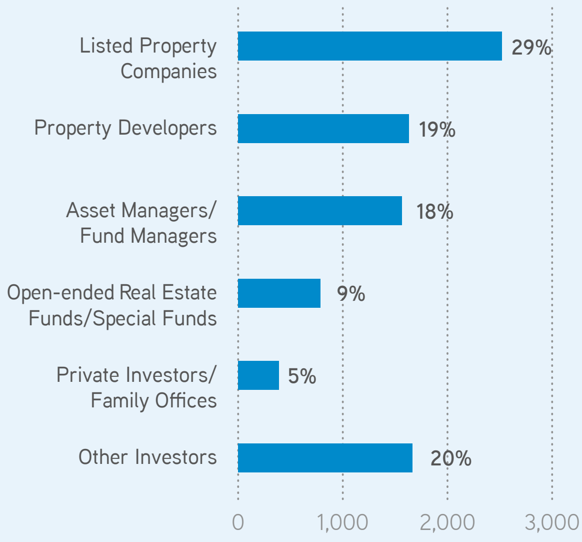


FIGURE 8: **Transaction Volume by Seller Groups**
in million €, share in %



Yields

Gross initial yields for core office assets dropped a further 10 bps yoy to 2.80%. Increased demand for industrial and logistics assets because of the pandemic triggered strong yield compression of 50 bps. Retail assets in high-street locations saw an increase of 10 bps in contrast.

The two property developments, IMPULS on Stresemannstraße and NEO on Knesebeckstraße, both of which are under long-term lease and were transacted within the scope of forward deals, are representative of the current trend in office yields. Financing for office investments with value-add or opportunistic risk files, on the other hand, has become more expensive, leading to owners having to accept considerable price reductions of 10% to 15%. While the parties involve were able to notarize the sale of the Goldstück office building in the Moabit district in 2020 at roughly €5,000 per sqm and an expected yield of 5.60%, the sale of The Heinrich office complex in Schöneberg, which would have likely been the largest single-asset deal of the year, fell through as the parties were unable to agree on the price.

Summary and Outlook

Activity in 2020 has shown investor confidence in the Berlin market remains strong, also and especially in times of great uncertainty. Because we are still unable to predict the course of a pandemic that is still waging, we cannot realistically forecast transaction volume for 2021 with the necessary degree of precision. However, the development of promising vaccines has been a major victory in the fight against Covid-19. As such, we have reasonable cause to hope that life will soon be getting closer to normal and that uncertainties around the market will begin to fade. The development pipeline is well-stocked at the moment and, combined with the benefits of the recent grand opening of Berlin's BER airport, should create the perfect conditions for even livelier market activity in 2021 with the current year possibly even taking over 2020's second-place ranking.

The Berlin office leasing market remains robust despite the impact of the pandemic. Rents continue to rise and the boom on the investment market remains intact.

CONTACT

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DÜSSELDORF

CITY FACTS DÜSSELDORF

Population in 1,000	622
Employees Paying Social Security Contributions in 1,000	430
Unemployment Rate in %	8.0
Per Capita Disposable Income in €	28,528

Fast Facts

Office Leasing Düsseldorf	2020	Change year-on-year
Office Space Take-up	248,000 sqm	– 47.8%
Leasing Take-up	234,500 sqm	– 50.2%
Prime Rent	28.50 €/sqm	0.0%
Average Rent	16.30 €/sqm	– 5.8%
Vacancy Rate	5.5%	– 40 bp
Office Space Stock	7.86 million sqm	1.4%

Rents in € / sqm

Submarket	Range of Rents
CBD	18.50 - 28.50
City Center	13.00 - 26.00
Harbour Area	16.50 - 25.00
Kennedydamm	16.50 - 25.00
Left of the Rhine	11.00 - 22.00
Düsseldorf-North	11.00 - 18.00
Airport City	14.50 - 17.50
Grafenberger Allee	12.00 - 14.50
City Center-East	10.00 - 16.00
Düsseldorf-South	9.00 - 12.00

OFFICE LEASING

Take-up

The Düsseldorf office leasing market (municipal area only) recorded 248,000 sqm in take-up in 2020, down 48% as anticipated compared to the previous year's all-time high of 475,000 sqm. These results can be attributed to to the restrictions imposed due to the pandemic. Looking at performance over the course of the year, take-up was noticeably up in Q3 compared to a very weak Q2 at around 60,000 sqm. Activity dropped again slightly in Q4 due to the stricter Covid-19 restrictions implemented around that time. Around 25% of 2020 annual take-up can be attributed to the public sector. Consulting firms, which typically comprise one of the city's strongest tenant groups, increased their activity noticeably in H2, putting them in second place with an overall market share of 14%.

Most space segments recorded significant decreases in take-up compared to the previous year, the sole exception being the segment of between 500 sqm and 1,000 sqm, which posted an increase of roughly 5% yoy. The medium and large-sized space segments saw take-up drop significantly compared to the previous year's excellent result, as considerably fewer leases were signed in 2020.

In terms of location, the majority of take-up tended to revolve around three different submarkets. The City Center East submarket led the pack with 41,000 sqm thanks a large-scale lease signed by the financial administration office, closely followed by the Düsseldorf North and Linksrheinisch submarkets with roughly 39,000 sqm each.

FIGURE 1: **Office Space Take-up** in 1,000 sqm

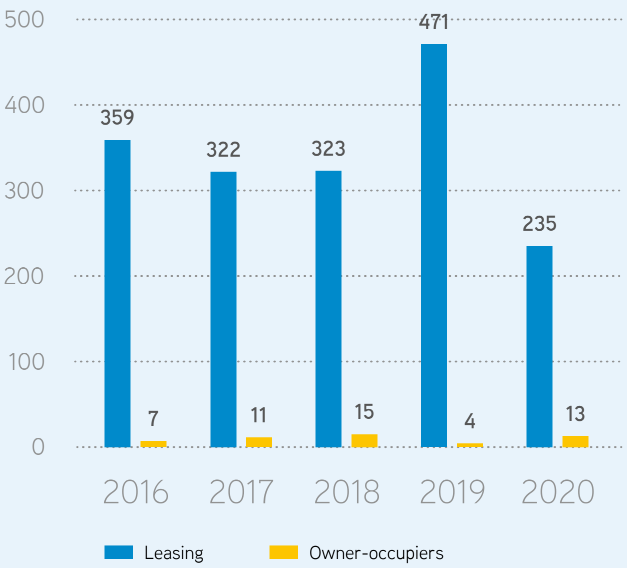
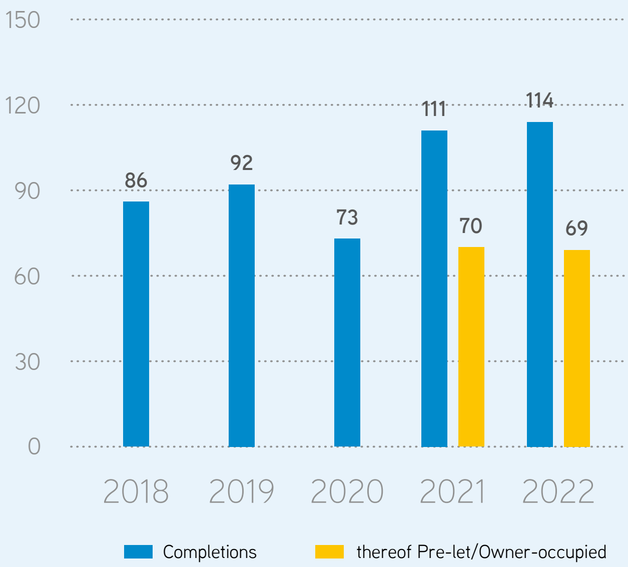


FIGURE 2: **Completion Volume** in 1,000 sqm



Rents

Rents in Düsseldorf most recently posted a moderate increase with the majority of rents following a stable trend compared to the previous year. While prime rents in the CBD at year-end remained unchanged yoy at €28.50 per sqm, weighted average rents posted €16.30 per sqm, down a slight 6% compared to 2019's all-time high.

Key Developments

Roughly 73,000 sqm of new office space was completed in 2020 with a pre-lease rate of almost 82%. Around 110,000 sqm are scheduled for completion in 2021 and another 110,000 sqm in 2022. Prelease rates for this space are slightly above 60%. Most of this construction is taking place around the Hafen, Kennedydamm and Airport City submarkets.

Supply and Vacancy

Vacancy in Düsseldorf continued its downward trend into early 2020, at one point almost hitting the 400,000 sqm mark. The vacancy rate (including sub-lets) in the city's municipal area came to 5.5%, or roughly 437,000 sqm, at year end. One noteworthy trend was the slight increase in the number of available sublets over the course of the year. While 2019 saw few units available for sublet at the end of the year, sublets currently account for almost 7% of office space available for immediate tenancy in the city.

Summary and Outlook

As anticipated at the outset of the crisis based on data from previous crises, 2020 annual take-up in the Düsseldorf munici-pal area came in roughly 28% below the ten-year average because of the re-strictions imposed due to the pandemic. At least 275,000 sqm in take-up appears realistic for 2021. The number of lease extensions is set to increase further, and the same applies to the market share generated by units available for sublet.

FIGURE 3: **Vacancy Rate** in % **and Vacancy in 1,000 sqm**

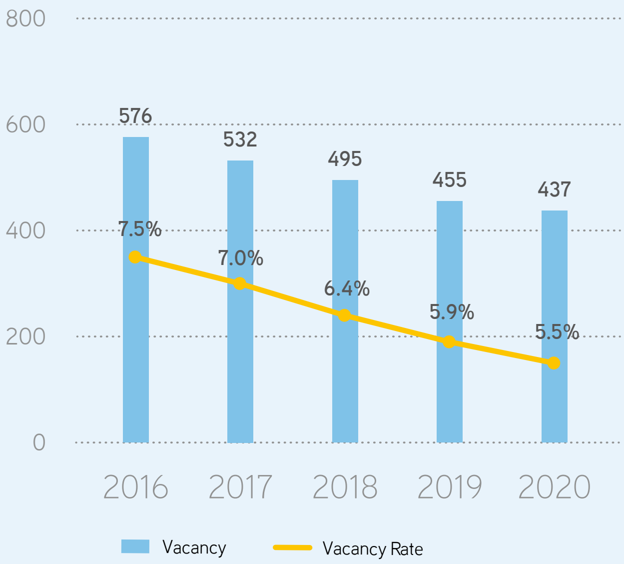
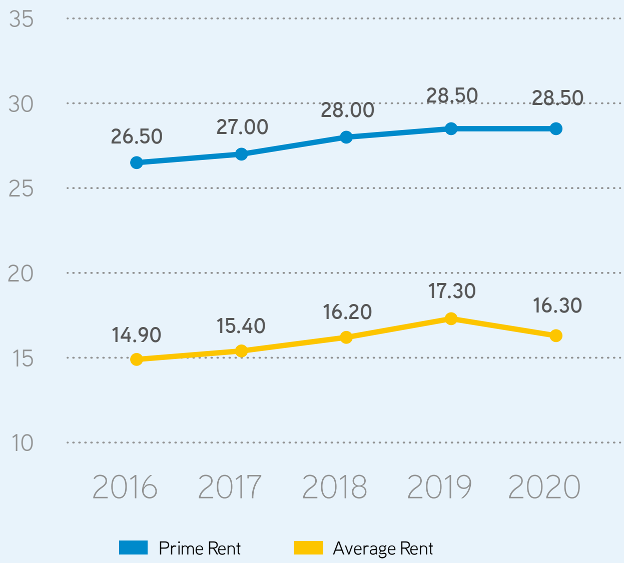


FIGURE 4: **Prime and Average Rents** in €/sqm



INVESTMENT

Transaction Volume

Commercial assets and lots valued in total at € 3.2 bn changed hands on Düsseldorf's commercial investment market (Düsseldorf municipal area only) in 2020. Although 2020's result fell 16% short of the previous year's record result as expected, it did manage to exceed the five-year average by 9%. Roughly € 400 m in additional transaction volume was generated in Düsseldorf's surrounding areas, which puts total transaction volume in the Düsseldorf region at around € 3.6 bn. Activity in Q4 was particularly lively and, as a result, 2020's annual result exceeded the € 3 bn threshold for the third time in a row despite the restrictions imposed due to the pandemic.

A number of deals initiated in late summer and fall contributed to this impressive transaction volume. Eight deals for over € 100 m were signed in the municipal area alone. The segment of between € 50 m and € 100 m accounted for another 12 transactions. Demand for core office assets remains generally high with prime yields experiencing further compression.

Fast Facts

Investment Düsseldorf	2020	2019
Transaction Volume	3,220 million €	3,840 million €
Portfolio Transactions	23%	22%
Share by International Buyers	22%	24%
Share by International Sellers	30%	48%
Most Important Property Type	Office 83%	Office 64%
Prime Yield Office	3.20%	3.30%

FIGURE 5: **Transaction Volume** in million €

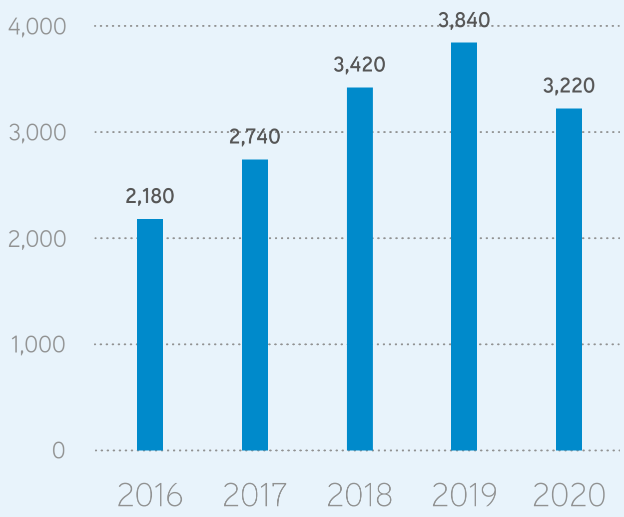
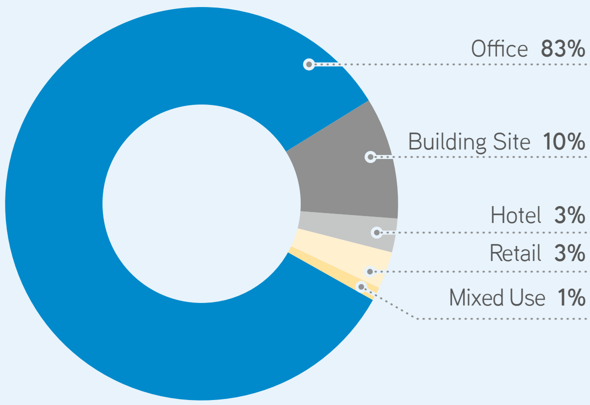


FIGURE 6: **Transaction Volume by Type of Property 2020** share in %



Supply and Demand

Investor appetite for office assets remains unabated despite the shift to remote working, as indicated by the considerable share of total transaction volume generated by this asset class. Office assets took pole position as usual, claiming 83% of transaction volume (almost € 2.7 bn), followed by several land site deals for future property and district developments (10%, or € 320 m). Over the coming years these developments – primarily mixed-use projects in prime locations – will contribute significantly to transaction volume, a contribution currently estimated at over € 1 bn. Hotel and retail assets accounted for most of the remaining transaction volume.

Throughout the year, transaction activity in all asset classes revolved around the city center, which generated just over € 700 m. The Düsseldorf-Nord, CBD and Hafen submarkets followed in the ranks with roughly € 500 m each.

In terms of buy-side activity, investors came from a variety of sectors in 2020, highlighting the city's popularity with a wide range of investor groups. Open-ended real estate funds and special funds accounted for the largest share in transaction volume with roughly € 760 m (24%). These results can primarily be attributed to Hines' sale of the Medicus office portfolio comprising four assets in the Düsseldorf CBD to Union Investment, which was finalized in the fall. Insurance companies and property developers/development companies followed in the ranks neck-and-neck with a share of around 18% each. With 20 deals signed, property developers accounted for the largest number of transactions in 2020. As expected, property developers dominated market activity sell-side with a transaction volume of just over € 800 m, followed by listed real estate companies with just under € 680 m.

FIGURE 7: **Transaction Volume by Buyer Groups**
in million €, share in %

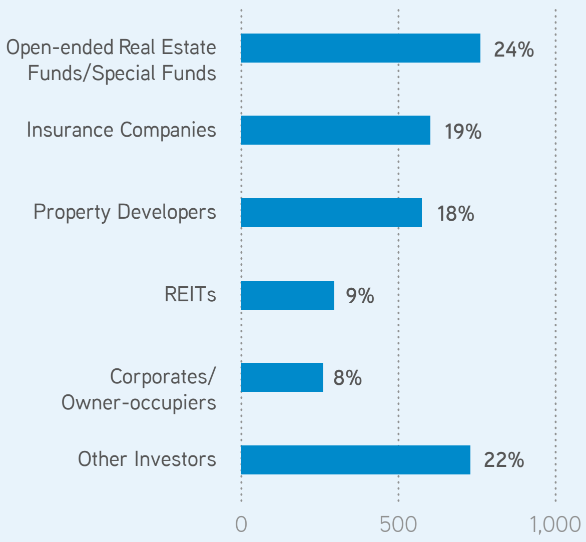
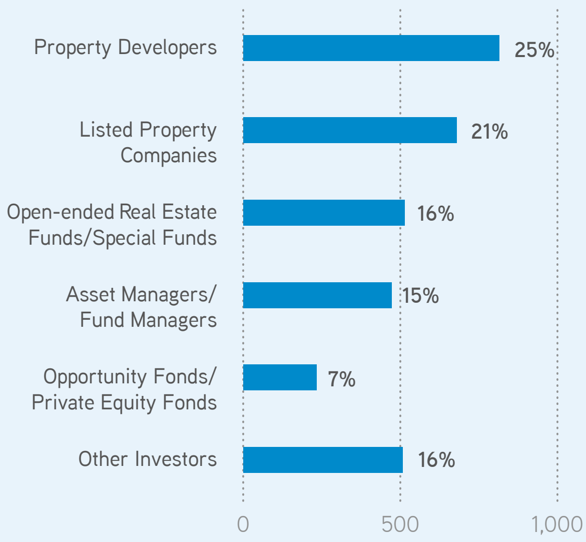


FIGURE 8: **Transaction Volume by Seller Groups**
in million €, share in %



Portfolio deals accounted for roughly 25% of total transaction volume. Besides the Medicus portfolio, another portfolio to change hands was the Selection portfolio, which Tristan acquired from AEW. Foreign investors accounted for roughly 25% of transaction volume buy-side, in line with previous-year levels. Looking back at years prior, foreign investors claimed significantly larger shares of between 40% and 55%. Foreign investors proved slightly more active sell-side with 30% of total transaction volume.

Yields

Prime yields for top office assets in Düsseldorf's premium locations were most recently recorded at 3.20%, down 10 bps yoy. The current trend in prime yield compression could be seen in several transactions in the CBD and City Center submarkets, particularly at year end. Yields in prime secondary locations in the sought-after Kennedydamm and Hafen submarkets should remain mostly unchanged in the coming quarters as well. This trend can be explained by the limited supply of new space scheduled to hit the market in the near future, which will force investors to focus on the few assets available. Value-add assets, on the other hand, are likely to see a slight rise in yields.

Summary and Outlook

Despite the restrictions imposed due to the pandemic, the Düsseldorf investment market experienced a robust 2020 with excellent annual transaction volume, a feat no one expected at mid-year. Several large-scale transactions, most of which involved office assets, contributed to this result.

Market activity is likely to remain lively in 2021 as new deal activity picks up, albeit with less involvement in terms of high-volume transactions. As such, we can expect total 2021 transaction volume in the Düsseldorf municipal area to post roughly 10% to 20% above the ten-year average of just over € 2.3 bn.

The Düsseldorf investment market managed to exceed the € 3 bn mark in 2020 for the third time in a row despite the restrictions imposed due to the pandemic.

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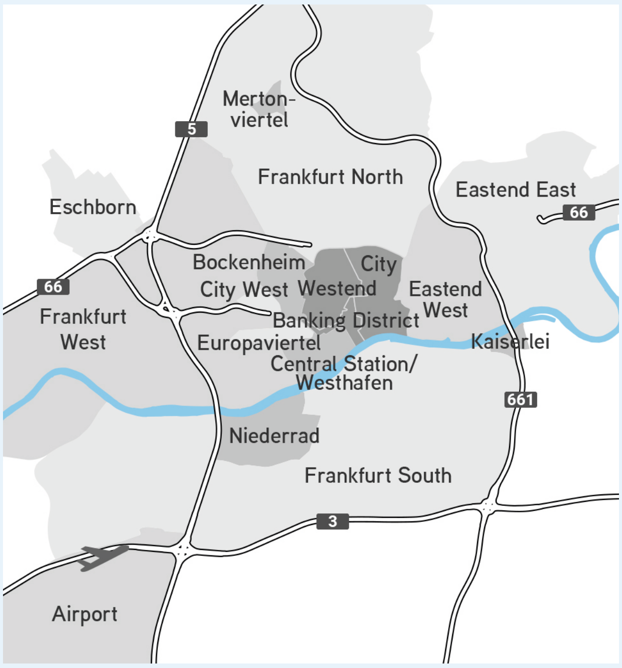
FRANKFURT

CITY FACTS FRANKFURT

Population in 1,000	763
Employees Paying Social Security Contributions in 1,000	602
Unemployment Rate in %	7.0
Per Capita Disposable Income in €	27,055

Fast Facts

Office Leasing Frankfurt	2020	Change year-on-year
Office Space Take-up	329,500 sqm	– 40.1%
Leasing Take-up	328,500 sqm	– 38.4%
Prime Rent	45.00 €/sqm	– 1.1%
Average Rent	23.00 €/sqm	8.0%
Vacancy Rate	7.1%	20 bp
Office Space Stock	11.49 million sqm	– 0.6%



Rents in € / sqm

Submarket	Range of Rents
Banking District	24.00 - 50.00
Westend	17.00 - 36.00
City	14.00 - 30.00
Central Station/Westhafen	13.50 - 28.00
Bockenheim	16.00 - 20.00
Europaviertel/Fair District	17.00 - 22.50
City West	13.00 - 17.00
Frankfurt South	12.00 - 22.00
Airport	18.00 - 23.50
Frankfurt West	10.00 - 13.50
Frankfurt North	7.00 - 14.50
Mertonviertel	12.00 - 15.00
Eastend West	12.00 - 21.50
Eastend East	7.00 - 12.00
Niederrad	11.00 - 16.50
Eschborn	8.00 - 18.00
Kaiserlei	9.50 - 17.50

OFFICE LEASING

Take-up

The Frankfurt office leasing market posted its second-lowest result since the turn of the millennium with roughly 330,000 sqm in take-up. Under the impact of the Covid-19 pandemic, take-up in the city was down 40% yoy and fell 35% short of the ten-year average. Despite a second lockdown at year-end, Q4 posted the strongest result of the year at over 125,000 sqm. An exceptionally weak H1, however, put the brakes on potentially higher take-up levels.

A large number of tenants continued to commit to locations by signing long-term leases and took-up space at property developments. More than 25% of total take-up was again recorded at property developments or buildings still under construction. This particularly holds true for the large-scale space segment where six of the ten largest leases signed involved space at properties not yet completed. This also applies to the largest lease recorded in 2020, which was signed by Samsung Electronics for roughly 17,600 sqm at the Eschborn Gate development. The high-rise development FOUR remained a popular choice as well with an additional four tenants signing leases at the property in 2020.

Frankfurt's Banking District again led the ranks among the city's submarkets with 81,300 sqm in take-up, reflecting an only marginal yoy drop of around 3%. Eschborn came in second with an annual result that even managed to exceed 2019's performance by 10%. The lease signed by Samsung Electronics as well as contracts signed by Mobis for 9,500 sqm and Manpower for 3,200 sqm at the Sky Eschborn development contributed to the district's take-up result of over 50,000 sqm.

FIGURE 1: **Office Space Take-up** in 1,000 sqm

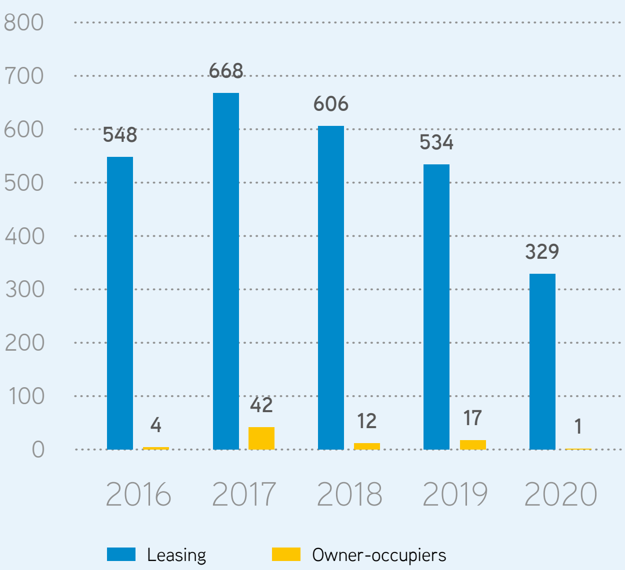
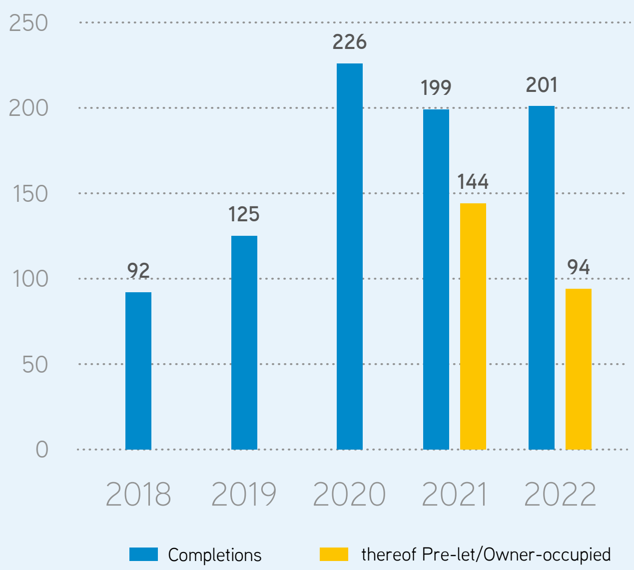


FIGURE 2: **Completion Volume** in 1,000 sqm



Rents

Curtailed demand has yet to impact rent levels. Weighted average rents increased to €23.00 per sqm in the wake of leases signed at high prices with prime rents down somewhat in contrast to €45.00 per sqm.

Supply and Vacancy

After posting increases in previous quarters, the vacancy rate in Frankfurt finished out the year at 7.1%. Several leases signed for space at existing buildings in Q4 impacted vacancy and contributed to this increase. The vacancy rate was particularly affected by the planned conversion of Lurgiallee 5 in Mertonviertel, the city's largest vacant property to date comprising more than 70,000 sqm. Despite this one-off effect, however, vacancy in many of the city's submarkets rose compared to 2019 levels. Additional space is expected to hit the market in the coming year as well. Subletting activity is playing an increasingly significant role with 82,000 sqm, almost double that recorded in 2019.

Key Developments

Completion volumes remained high in 2020 at roughly 225,000 sqm despite delays at several developments. We can expect to see competition for existing properties intensify in 2021 due to high occupancy rates and above-average construction activity.

Summary and Outlook

The fact that take-up levels stabilized in H2 2020 combined with the anticipated economic recovery in summer 2021 give cause to hope for a resurgence in demand, even if at overall low levels. In view of shifting demand for office space due to flexible working models and restructuring in some sectors, the Frankfurt market will continue to be impacted by rising vacancy in the next quarters. This will impact rent levels, particularly as incentive offers grow.

FIGURE 3: **Vacancy Rate** in % **and Vacancy** in **1,000 sqm**

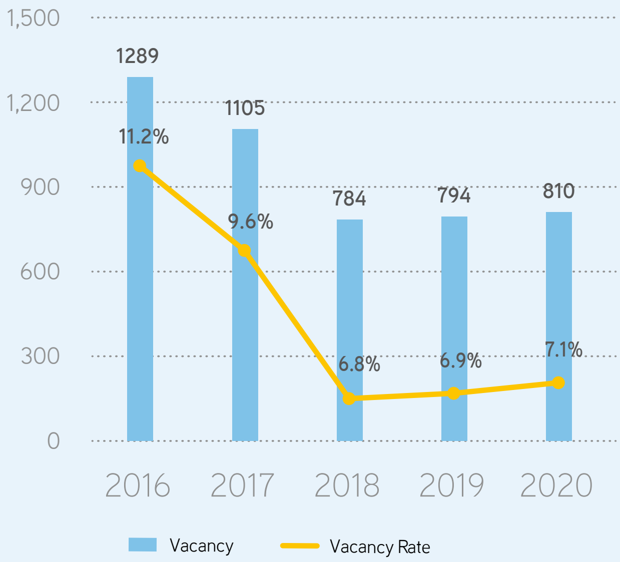
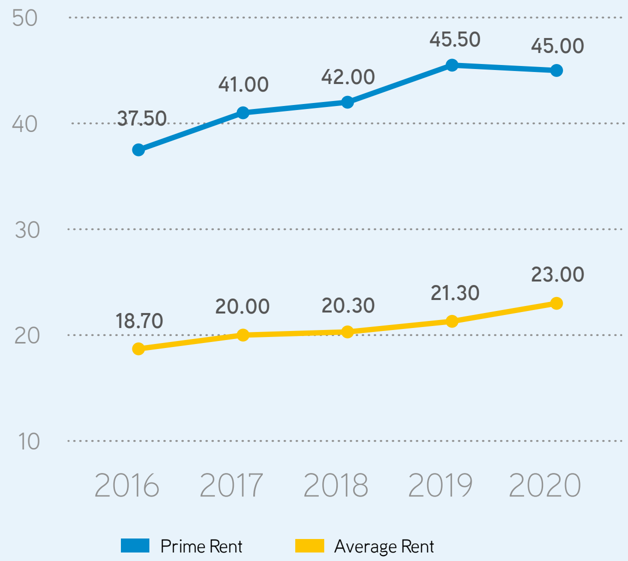


FIGURE 4: **Prime and Average Rents** in **€/sqm**



INVESTMENT

Transaction Volume

Frankfurt finished out 2020 with annual commercial transaction volume at roughly €6.3bn thanks to a lively end-of-year rally. Even though the city's annual result was down roughly 19% yoy, it did come in at around 21% above the ten-year average thanks to a strong Q4.

Investment activity primarily revolved around locations neighboring the city's premium spots with the CBD only accounting for one-quarter of total transaction volume. Frankfurt's Banking District generated the highest market share at 15%, in part because it served as the stage for the largest deal of the year, Hines' off-market sale the of Silberturm property on behalf of an international owner consortium to family offices Imfarr and SN Beteiligungen Holding AG. Niederrad and Eastend East followed in the ranks, both with double-digit market shares as well. In addition to the high-volume portfolio deals featuring a large number of assets in secondary locations, roughly three-quarters of the 16 single-asset deals signed for over €100m involved properties in prime secondary locations.

Fast Facts

Investment Frankfurt	2020	2019
Transaction Volume	6,335 million €	7,843 million €
Portfolio Transactions	20%	15%
Share by International Buyers	52%	51%
Share by International Sellers	42%	55%
Most Important Property Type	Office 76%	Office 80 %
Prime Yield Office	3.00%	3.00%

FIGURE 5: **Transaction Volume** in million €

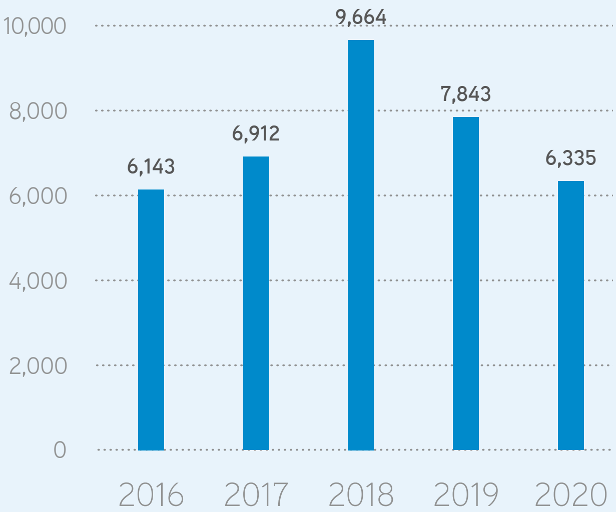
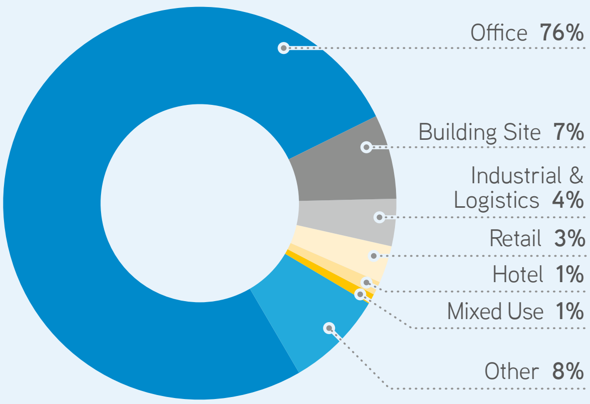


FIGURE 6: **Transaction Volume by Type of Property 2020** share in %



Supply and Demand

Office assets were the most popular asset class in 2020 with roughly €4.8bn in transaction volume and a market share of 76%. Despite current discussions around the future of the traditional office and the expansion of remote working, investors continue to focus on office assets in the core and core+ segments. Investors showed particular interest in fully let, stabilized office assets with long-term cashflow, preferably under lease to strong-covenant tenants. Property developers with a long-term investment horizon and under pressure to invest acquired lots in prime locations, which pushed the market share generated by lot deals up to roughly 7%. It comes as no surprise that investment activity around hotel assets was quite subdued compared to the double-digit share posted by this asset class in the previous year.

Foreign investors expanded their share in total transaction volume to over 50% over the course of the year, putting them on a level with previous-year values. Investments made by international market players in numerous high-volume single-asset deals in Q4 were decisive in these results. In addition to strong demand from neighboring European countries, Asian investors again found their way to the Frankfurt investment market.

Family offices were most active buy-side with a transaction volume of roughly €1.5bn, partially due to their involvement in major deals like Silberturm and Grand Campus. Open-ended real estate funds and special funds followed in the ranks with over €1bn and a market share of 17%. Asset and fund managers were most active sell-side and accounted for one-quarter of total transaction volume. Listed property companies ranked second at around 19%, with their market share boosted by investments in portfolio deals.

FIGURE 7: **Transaction Volume by Buyer Groups**
in million €, share in %

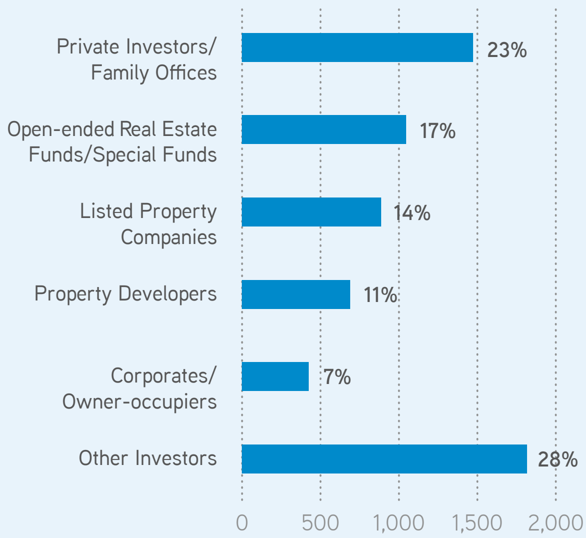
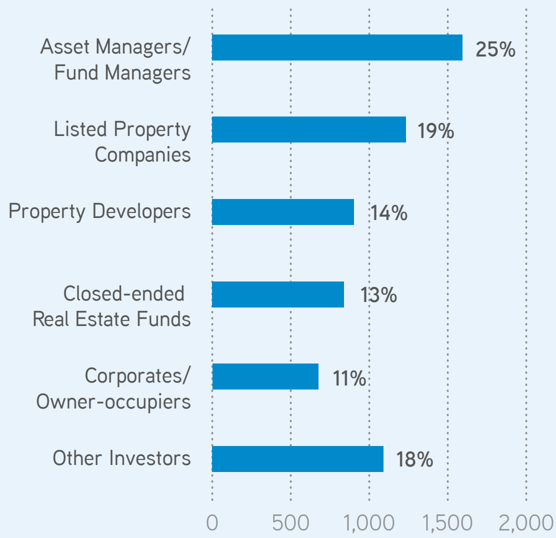


FIGURE 8: **Transaction Volume by Seller Groups**
in million €, share in %



Yields

Prime yields remained low at the end of the year. Increased risk aversion combined with high pressure to invest led to increased investment in secure assets. Core products were sold at high prices, in some cases the result of bidding competition. Core assets even managed to bring in prices higher than those seen before the pandemic. Very few assets with significant vacancy risk are being traded in the current market environment, making it difficult to accurately gauge the anticipated yield gap due to the lack of comparable transactions. This particularly holds true for hotel and retail assets, although we can expect to see more of these assets changing hands and impacting yields in the wake of takeovers, repositioning measures and conversions in the next year.

Summary and Outlook

A year full of extremes came to a close with high deal activity at year-end. Following a promising record Q1, the investment market lost the majority of its momentum because of the global pandemic and historic economic slump. Fueled by economic recovery and a lack of alternative investment options, investment activity gradually began to pick up as the year progressed with some sales processes being reactivated. This led to a number of high-volume office deals being signed in Q4 despite the second lockdown, with almost half of total transaction volume generated thanks to these deals. Even in an economic environment characterized by great uncertainty, the Frankfurt market once again proved a highly attractive investment destination.

We can expect to see scattered catch-up effects moving into the new year and for investment activity to return to normal levels at mid-year. Market activity in the second half of the year will depend heavily on the further course of the pandemic and its impact on the leasing market. Assuming pressure to invest remains high, we can expect 2021 to post above-average transaction volume thanks to a well-filled, diverse product pipeline.

Although deal activity continues to be driven by stable fundamentals, we are starting to see signs of a restructuring process on the Frankfurt leasing market that could take several years.

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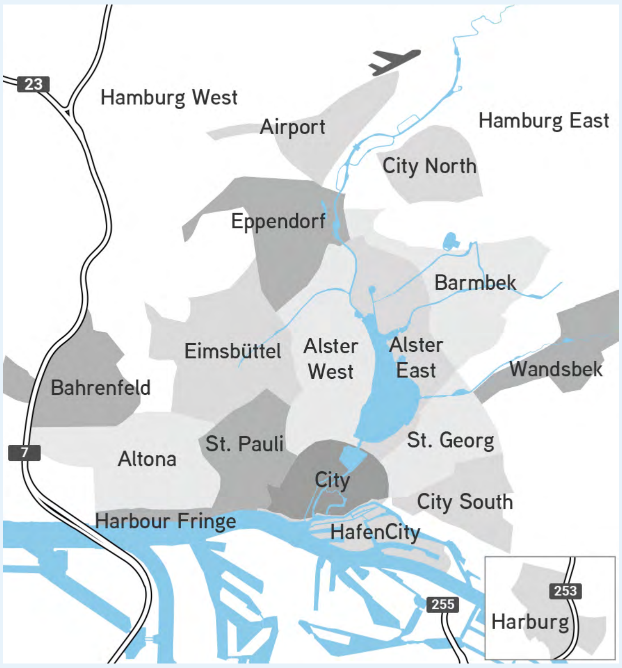
HAMBURG

CITY FACTS HAMBURG

Population in 1,000	1,847
Employees Paying Social Security Contributions in 1,000	998
Unemployment Rate in %	7.7
Per Capita Disposable Income in €	25,695

Fast Facts

Office Leasing Hamburg	2020	Change year-on-year
Office Space Take-up	334,300 sqm	– 37.6%
Leasing Take-up	320,200 sqm	– 34.4%
Prime Rent	30.00 €/sqm	3.5%
Average Rent	17.10 €/sqm	– 1.2%
Vacancy Rate	3.0%	50 bp
Office Space Stock	13.99 million sqm	1.0%



Rents in € / sqm

Submarket	Range of Rents
City	15.00 - 31.50
HafenCity	16.50 - 30.00
Harbour Fringe	15.00 - 23.50
Alster West	15.00 - 24.00
Alster East	12.50 - 24.00
St. Georg	14.00 - 20.00
City South	9.50 - 17.50
St. Pauli	14.50 - 23.50
Altona	12.00 - 18.00
Bahrenfeld	9.00 - 19.50
Eimsbüttel	8.50 - 18.00
Eppendorf	10.50 - 18.50
Airport	9.00 - 13.00
City North	8.50 - 16.00
Barmbek	10.50 - 16.50
Wandsbek	8.00 - 15.00
Harburg	9.50 - 16.00
Hamburg East	7.00 - 16.50
Hamburg West	8.00 - 16.00

OFFICE LEASING

Take-up

Hamburg posted office take-up results of 334,300 sqm in 2020, down 37% yoy and 36% below the ten-year average. The impact of the Covid-19 pandemic was the major factor on the Hamburg office market in 2020, putting delays on the market both in terms of supply and demand.

Despite this overall modest result, however, Q4 did manage to post an increase in take-up at 92,800 sqm compared to a weak Q2 and Q3. During these six months, leasing activity was significantly limited by the impact of the pandemic and take-up was down to below 80,000 sqm in both quarters. With leases in the large-scale segment of over 10,000 sqm remaining entirely absent in the first three quarters of the year, Hamburg Commercial Bank signed the largest-scale lease of 2020 for 11,000 sqm at the Elbtower development shortly before year-end. Q4 also saw the year's second-largest lease signed by consumer goods manufacturer Henkel for some 9,000 sqm in Hamburg-Bahrenfeld.

The Hamburg City submarket once again generated the most take-up with 74,100 sqm, or a 22% share in the city's total take-up result, followed by the City South submarket with 53,500 sqm, or 16%. The majority of leases signed in the submarket involved smaller units of less than 1,000 sqm. Companies from the consulting sector and manufacturing were most active, generating a market share of 14% and 13%, respectively.

FIGURE 1: **Office Space Take-up** in 1,000 sqm

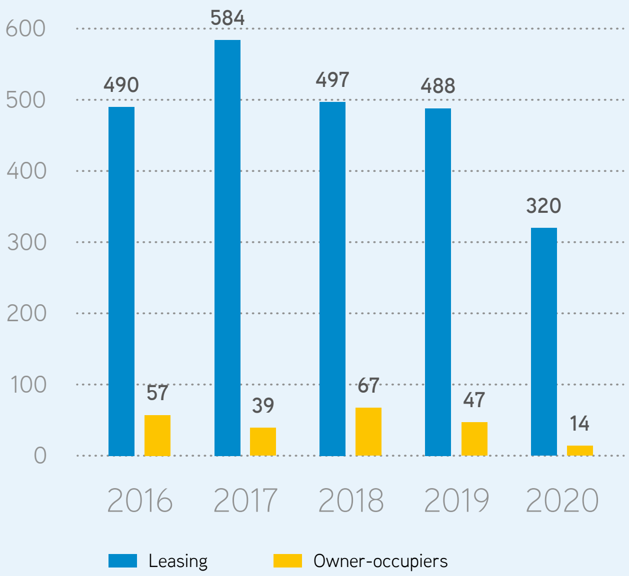
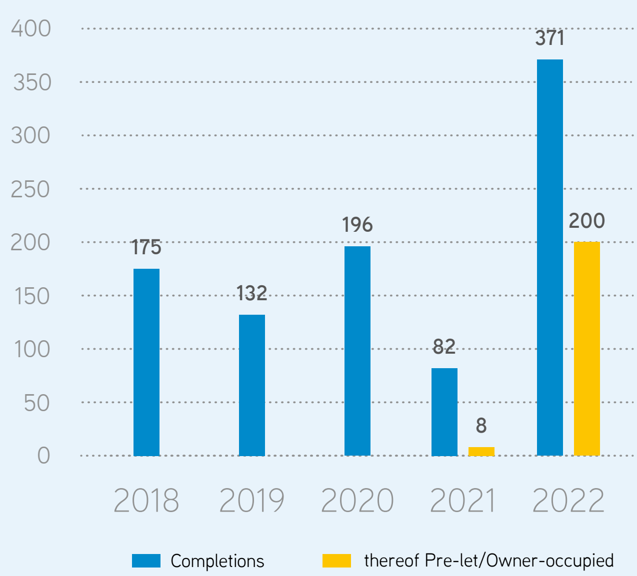


FIGURE 2: **Completion Volume** in 1,000 sqm



Rents

Prime rents in Hamburg remained stable throughout the year at €30.00 per sqm and did not encounter a downward trend despite the drop in leasing activity over the course of the year, coming in 3% above previous-year levels. Leases were signed for over €30.00 per sqm primarily at new-build developments and for space at high-end refurbished buildings in downtown prime locations. Weighted average rents fell 1% over the course of the year to a current €17.10 per sqm. The upward rent trend of the past several years did not continue in 2020.

Supply and Vacancy

The vacancy rate rose 50 bps over the course of the year from 2.5% to 3.0%. At year-end, 413,300 sqm was available for immediate tenancy, 52,000 sqm of which was available for sublet.

Key Developments

A total of 196,000 sqm of office space was completed in 2020. However, due to high prelease rates during the development phase, very little of this space was actually added to the market. Construction activity tended to target the City submarket where a total of ten developments were completed.

Summary and Outlook

We can expect demand to remain subdued in 2021, particularly in the first half of the year. Economic uncertainty will continue to limit new leasing activity. We can expect demand to increase as circumstances around the pandemic improve in the second half of the year. Under this scenario, take-up for the year could reach 400,000 sqm. We do not expect to see prime rent compression as demand for space in the premium segment remains high.

FIGURE 3: **Vacancy Rate** in % **and Vacancy in 1,000 sqm**

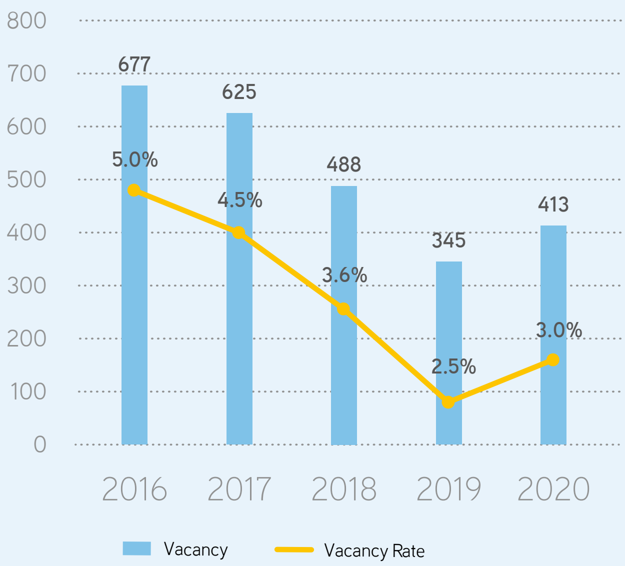
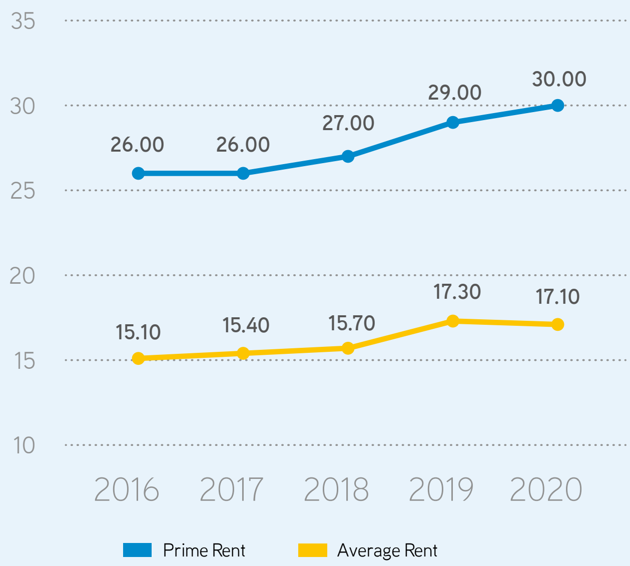


FIGURE 4: **Prime and Average Rents** in €/sqm



INVESTMENT

Transaction Volume

The Hamburg investment market finished out 2020, which was heavily impacted by the Covid-19 pandemic, with commercial transaction volume of €5.0bn. Not only did these strong results by far exceed the previous year's €4.3bn, they also came in 12% above the five-year average. 2020 was also the second year to beat the €5bn mark after record year 2018. The Hamburg investment market benefited from a lively end-of-year rally in 2020. Assets changed hands in Q4 alone for around €1.5bn, the year's highest quarterly result. Transaction volume in 2020 was particularly driven by numerous deals in the 9-figure range. At total of six deals were even recorded at over €200m. Although the pandemic did limit transaction activity, the average size of the deals that were signed was larger than in the previous year.

Fast Facts

Investment Hamburg	2020	2019
Transaction Volume	5,008 million €	4,293 million €
Portfolio Transactions	19%	36%
Share by International Buyers	46%	29%
Share by International Sellers	24%	37%
Most Important Property Type	Office 59%	Office 71%
Prime Yield Office	3.00%	3.20%

FIGURE 5: **Transaction Volume** in million €

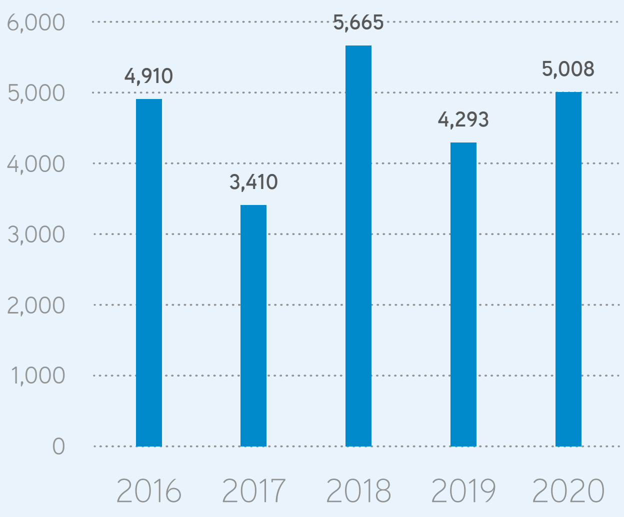
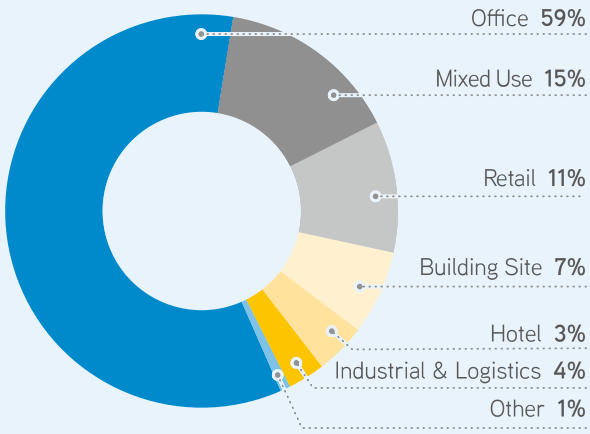


FIGURE 6: **Transaction Volume by Type of Property 2020** share in %



Supply and Demand

The trend we saw at year-end towards high demand for secure core investments with long-term leases in place and transactions targeted at conversion of the acquired asset under a long-term planning horizon was reflected in deals like the sale of EDGE Elbside in HafenCity and HCOB headquarters in the Hamburg city center. Core assets saw their share in total transaction volume increase yoy to 56% from a previous 50%. Property developments experienced an even steeper increase to 19% from a previous 6%.

Investors also focused on single-asset deals and office assets, particularly in prime locations like City and HafenCity. Portfolio deals only accounted for 19% of total transaction volume, coming in below the five-year average due to the fact that potential investors were restricted in their travel plans in the wake of the Covid-19 pandemic. Office assets proved the most popular asset class with a share of 59% followed by mixed-use assets, which were able to increase their share yoy to 15% from a previous 7% and particularly benefited from deals involving district developments.

Foreign investors generally claimed a comparatively high share in total transaction volume at 46% despite the travel restrictions. The investments made by Austrian SIGNA Holding and US investor Tishman Speyer in high-volume deals of over €200m played a significant role in these results.

Asset and fund managers were again most active buy-side, claiming a share of 27% in total transaction volume. Open-ended real estate funds and special funds came in second with roughly 19%. As usual, property developers and development companies were the most active sell-side with a share of 33%, or €1.6 bn in transaction volume.

FIGURE 7: **Transaction Volume by Buyer Groups**
in million €, share in %

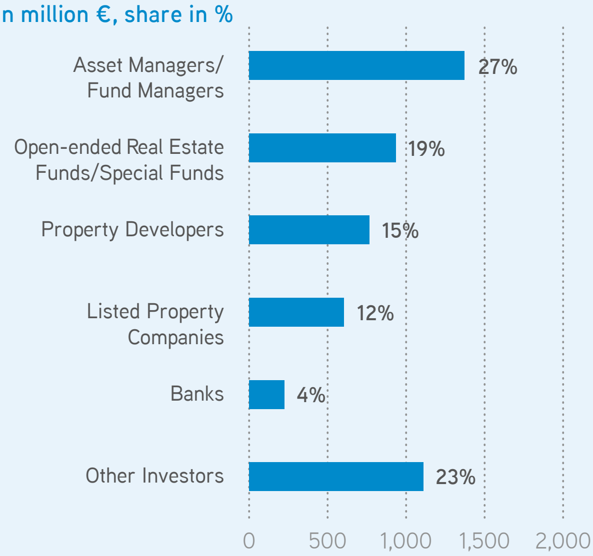
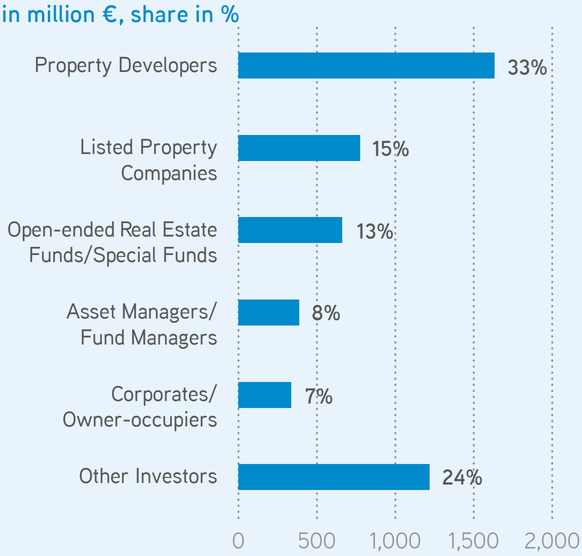


FIGURE 8: **Transaction Volume by Seller Groups**
in million €, share in %



Yields

High demand for assets in the premium segment drove down prime yields for office assets again at year-end with assets in top locations posting 3.00%. As such, prime yields were down 20 bps compared to December 2019. Price reductions remained absent in the city's district locations as well. High demand for premium assets featuring long-term, secure cash-flow boosted prices for these assets regardless of location. The boom in demand for logistics assets and the resulting steep competition led to significant yield compression in this segment down to 3.70% from a previous 4.20%. Prime yields for assets featuring retail and hotels, both of which were more heavily impacted by the Covid-19 pandemic, remained stable at year-end at 3.30% and 3.75%, respectively. However, very few assets actually changed in either asset class in 2020.

Summary and Outlook

The Hamburg investment market managed to emerge from 2020, which was heavily shaped by the Covid-19 pandemic, relatively unscathed, confirming strong investor confidence in the performance of Hamburg's traditionally stable market. In a national comparison of Germany's top 7 cities, Hamburg again ranked third behind Berlin (€8.5bn) and Frankfurt (€6.3bn) and was the only top 7 city in Germany to exceed its previous-year results despite the challenging environment.

The outlook is favorable accordingly. Even though the conditions in place in 2021 would enable lively market activity, we do not expect annual results to again post at around €5bn, as another build-up of high-volume deals like what we saw in 2020 is unlikely. However, we can look for the Hamburg investment market to pull in a result in line with the five-year average of €4.5bn. Ongoing high pressure to invest in the current low-interest environment will keep yield compression in place in 2021, with yields in the office segment likely to experience another slight drop.

The Hamburg investment market has shown itself extremely robust with over €5bn in transaction volume despite the challenging environment.

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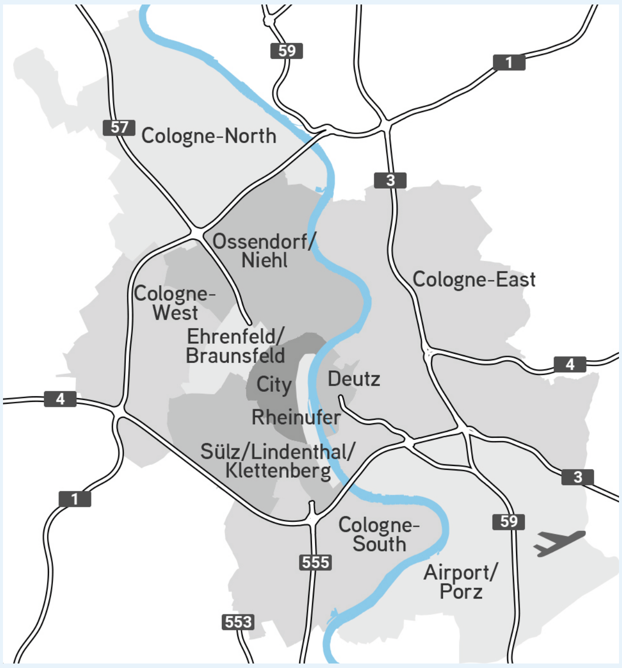
COLOGNE

CITY FACTS COLOGNE

Population in 1,000	1,088
Employees Paying Social Security Contributions in 1,000	580
Unemployment Rate in %	9.4
Per Capita Disposable Income in €	25,684

Fast Facts

Office Leasing Cologne	2020	Change year-on-year
Office Space Take-up	202,000 sqm	– 26.5%
Leasing Take-up	192,000 sqm	– 26.7%
Prime Rent	25.75 €/sqm	1.0%
Average Rent	15.90 €/sqm	4.6%
Vacancy Rate	2.8%	60 bp
Office Space Stock	7.92 million sqm	0.1%



Rents in € / sqm

Submarket	Range of Rents
City	15.00-25.75
Rheinufer	17.00-24.00
Deutz	16.50-24.00
Cologne-East	11.50-17.50
Ossendorf/Niehl	10.00-15.50
Ehrenfeld/Braunsfeld	10.50-17.50
Cologne-West	9.90-13.80
Cologne-North	8.50-12.00
Sülz/Lindenthal/Klettenberg	12.20-17.50
Cologne-South	8.50-12.00
Airport/Porz	9.00-14.00

OFFICE LEASING

Take-up

The Cologne office leasing market (municipal area only) recorded 202,000 sqm in take-up in 2020, down 27% yoy due to the restrictions imposed because of the Covid-19 pandemic. The 2020 annual result also fell one-third short of the ten-year average. Despite the fact that restrictions were further tightened due to the pandemic, take-up managed to come in just shy of 70,000 sqm in Q4, primarily thanks to two large-scale transactions. Public administration and organisations contributed roughly 25% to total annual take-up in 2020. In addition to its involvement in the large-scale lease signed for the main customs office building in Ehrenfeld, the public sector was also involved in several leases signed for units of between 2,000 sqm to 5,000 sqm. Consulting firms significantly increased their market share thanks to a large-scale lease signed in Q4 by KPMG in the MesseCity putting the sector in second place.

Units of between 1,000 sqm and 5,000 sqm registered the steepest drop in take-up, down 40% yoy. Large-scale leases signed for more than 5,000 sqm were the only market segment to come close to the previous year's result.

In terms of location, the majority of take-up tended to revolve around three different submarkets. The Ehrenfeld/Braunsfeld and Airport/Porz submarkets ranked in the lead with 32,000 sqm each. The traditionally strong City submarket only managed to come in third with just shy of 31,000 sqm as no large-scale leases were signed in this submarket in 2020.

Rents

Office rents remained unaffected by the pandemic in 2020. Prime rents in Cologne registered at €25.75 per sqm in the end of December, up slightly yoy. Weighted average rents rose 5% yoy to €15.90 per sqm thanks to large-scale leases signed for space at property developments.

FIGURE 1: **Office Space Take-up** in 1,000 sqm

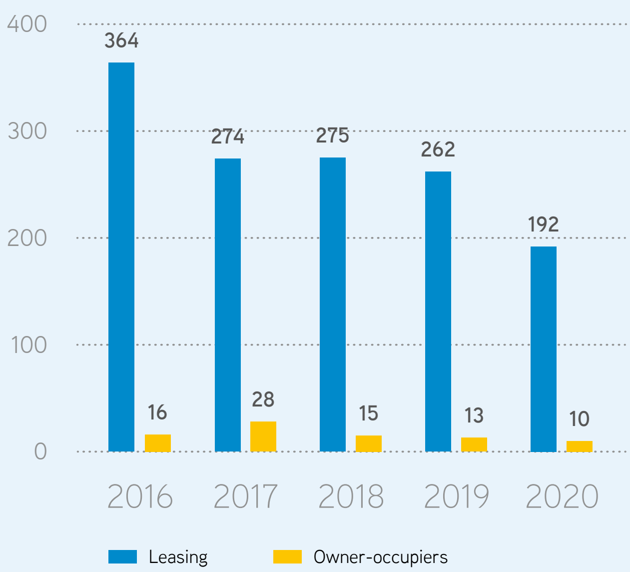
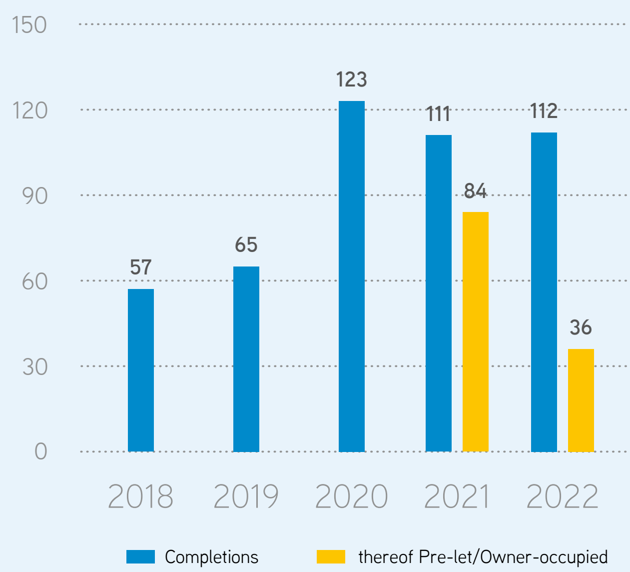


FIGURE 2: **Completion Volume** in 1,000 sqm



Supply and Vacancy

219,300 sqm was available for immediate tenancy on the Cologne market at year-end 2020. The vacancy rate posted only a moderate increase of 60 bps yoy, remaining quite low at 2.8%. A further increase in vacancy in the medium-term would actually benefit the market as it would provide more leasing options, particularly to large-scale tenants.

Key Developments

Roughly 123,000 sqm of new office space were completed in 2020. Completion volumes of around 110,000 sqm have been announced for each of the years 2021 and 2022. The pre-lease rate for 2021 is already posting a high 76%. The areas of focus for development are Butzweilerhof in the Ossendorf/Niehl submarket, the Ehrenfeld/Braunsfeld submarket and the East submarket.

Summary and Outlook

The office leasing market in the Cologne municipal area recorded a drop in take-up as anticipated due to the restrictions imposed because of the pandemic. The number of lease extensions is likely to increase further in the coming months with sublets continuing to gain in significance. We can realistically expect take-up in the Cologne municipal area to post at least 225,000 sqm in 2021.

FIGURE 3: **Vacancy Rate** in % **and Vacancy in 1,000 sqm**

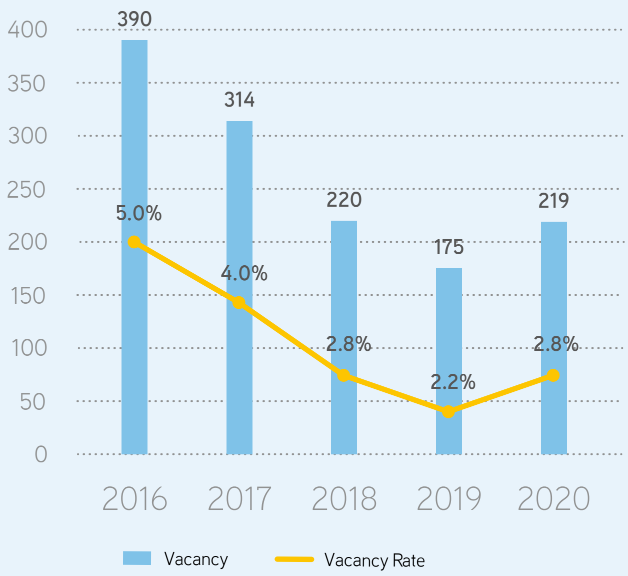
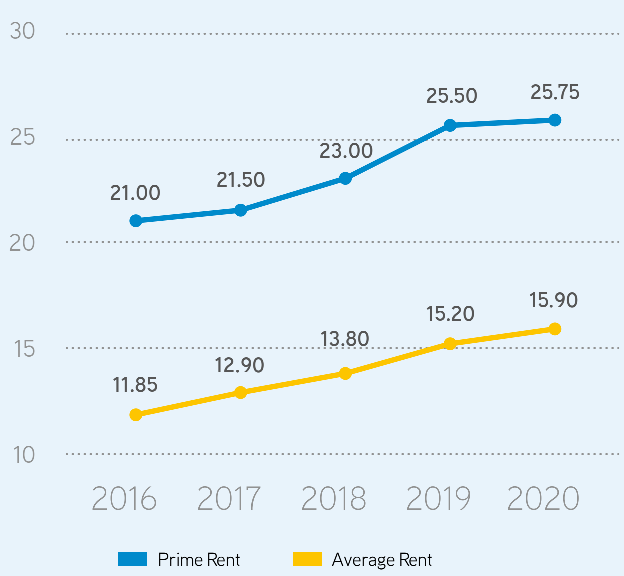


FIGURE 4: **Prime and Average Rents** in €/sqm



INVESTMENT

Transaction Volume

Commercial assets and land sites valued in total at €1.5bn changed hands on Cologne's commercial investment market (Cologne municipal area only) in 2020. Although the city's 2020 annual result fell 55% short of the previous year's record result as expected, it still came close to the ten-year average. While the Cologne investment market was able to keep up with the previous year's strong results in Q1, most new transaction processes were put on hold in Q2 and Q3 due to the crisis. Activity, however, began to resume again in Q4 with transaction volume coming in at over €400m.

In 2020 only three deals signed for over €100m were realized. Another seven transactions were registered in the segment of between €50m and €100m. Not only was the Cologne investment marked impacted by the pandemic, it also had to struggle with limited supply.

Fast Facts

Investment Cologne	2020	2019
Transaction Volume	1,450 million €	3,240 million €
Portfolio Transactions	25%	32%
Share by International Buyers	36%	41%
Share by International Sellers	21%	56%
Most Important Property Type	Office 53%	Office 68%
Prime Yield Office	3.30%	3.30%

FIGURE 5: **Transaction Volume** in million €

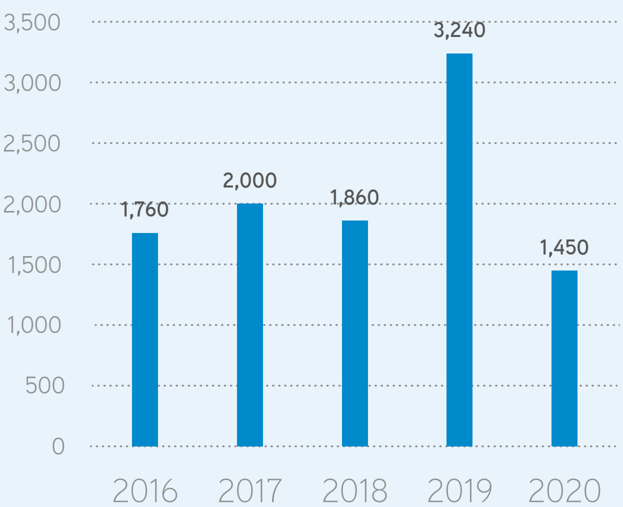
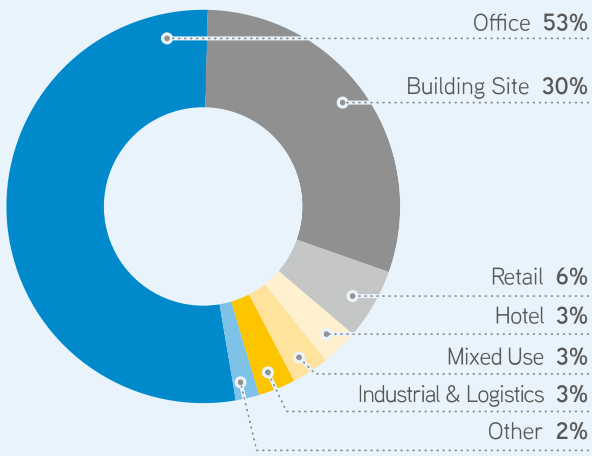


FIGURE 6: **Transaction Volume by Type of Property 2020** share in %



Supply and Demand

The traditionally popular office asset class appears unfazed by debate on remote working due to the pandemic and once again claimed pole position with a share of 53%, or roughly €770m in transaction volume. Land sites came in second with a 30% share in total transaction volume, or roughly €430m. Retail and hotel assets followed in the ranks with 6% and 3%, respectively. The property and district developments being planned on the land sites sold in 2020 will contribute significantly to transaction volume going forward.

Transaction activity across all asset classes was concentrated around the Cologne East submarket, which accounted for the highest transaction volume at roughly €550m thanks to six high-volume deals. The Ehrenfeld/Braunsfeld submarket took second place with almost €420m, followed by the City submarket with just shy of €150m.

In terms of buy-side activity by sector, property developers were particularly active with roughly €540m, which can be considered a sign of the overall positive development of Cologne as a real estate location. Open-ended real estate funds and special funds followed in second place with roughly €350m. Property developers also dominated market activity sell-side with €570m and a 39% share in transaction volume.

Portfoliodeals accounted for roughly 25% of total transaction volume. Tristan, for example, acquired two office assets in Cologne from AEW with its takeover of the Selection portfolio. Foreign investors accounted for roughly one-third of total capital invested. Looking back at years prior, foreign investors claimed significantly larger shares of between 40% and 56%. Foreign investors proved slightly less active sell-side, however, with a 21% share in total transaction volume.

FIGURE 7: **Transaction Volume by Buyer Groups**
in million €, share in %

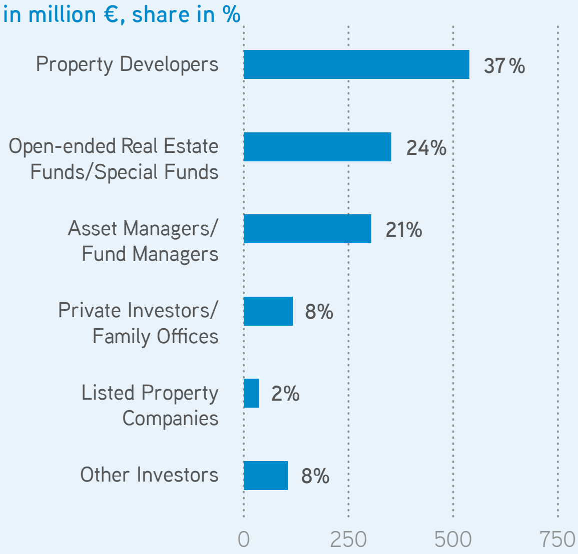
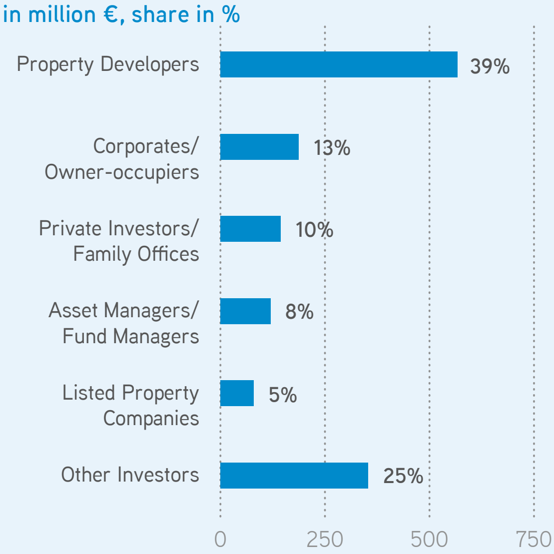


FIGURE 8: **Transaction Volume by Seller Groups**
in million €, share in %



Yields

Prime yields for premium office assets in Cologne's top locations remained stable yoy at 3.30%. Not least due to limited supply in the City submarket, prime secondary locations in the sought-after Deutz, Ehrenfeld/Braunsfeld and Cologne East submarkets experienced slight yield compression of 20 bps to a current 3.60%. The availability of new products will continue to be limited in 2021, which will force investors to focus on the few assets available. Assuming enough core assets hit the market, this risk class could see some further yield compression as a result.

Summary and Outlook

As expected, the 2020 Cologne investment market was unable to replicate the previous year's record result because of the restrictions imposed due to the Covid-19 pandemic. However, lively activity on the part of property developers indicates that Cologne remains an attractive investment market and that investors anticipate a favorable trend for the city's real estate market in the years to come.

With a number of deals currently in the pipeline, we expect new deal activity to gain momentum. As such, we can look for 2021 annual transaction volume in the Cologne municipal area to exceed the ten-year average of around €1.5bn by roughly 15% to 25%.

Results on the Cologne investment market fell short of the €1.5bn mark in 2020 due to markedly limited supply.

CONTACT

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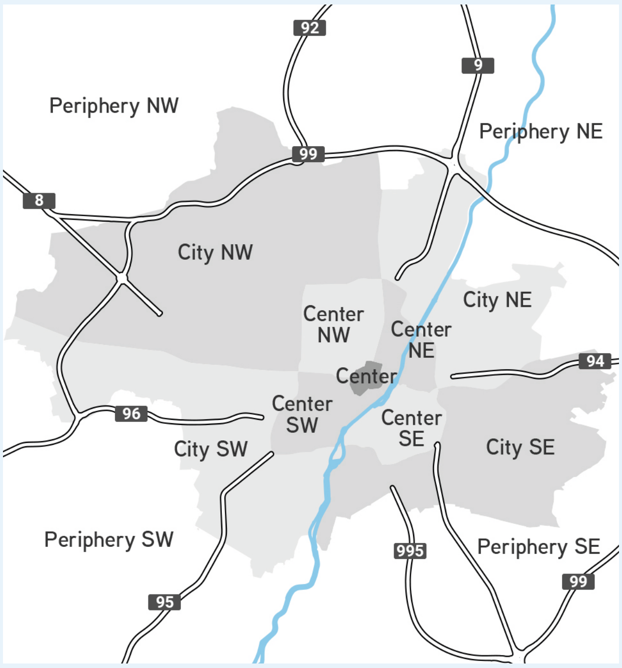
MUNICH

CITY FACTS MUNICH

Population in 1,000	1,484
Employees Paying Social Security Contributions in 1,000	898
Unemployment Rate in %	4.8
Per Capita Disposable Income in €	30,417

Fast Facts

Office Leasing Munich	2020	Change year-on-year
Office Space Take-up	567,800 sqm	– 26.3%
Leasing Take-up	512,300 sqm	– 18.3%
Prime Rent	39.50 €/sqm	0.0%
Average Rent	21.50 €/sqm	7.0%
Vacancy Rate	3.5%	130 bp
Office Space Stock	22.50 million sqm	0.7%



Rents in € / sqm

Submarket	Range of Rents
Center	22.00 - 41.00
Center NW	18.00 - 34.50
Center NE	20.00 - 35.00
Center SE	17.00 - 34.00
Center SW	16.50 - 34.00
City NW	11.50 - 30.00
City NE	11.00 - 29.50
City SE	10.00 - 28.00
City SW	10.50 - 26.00
Periphery SW	10.00 - 18.00
Periphery NW	8.00 - 15.00
Periphery NE	8.00 - 15.00
Periphery SE	10.00 - 18.00

OFFICE LEASING

Take-up

The Munich office leasing market was heavily impacted by the Covid-19 pandemic in 2020, posting its weakest result since 2009 with 567,800 sqm, down 26% yoy. While take-up remained relatively strong in H1 thanks to several high-volume transactions, H2 saw a particularly tangible drop in activity. All size segments were impacted by the dip in take-up, with the decrease somewhat less dramatic in the small-scale segment. The manufacturing industry was most active with a share of 20% in total take-up, followed closely by the IT sector with 19%. Consulting firms came in third with 15%. The largest-scale leases in 2020 exceeded the 30,000 sqm mark and were signed for space at property developments. Amazon leased more than 36,000 sqm of office space at a new-build in the Parkstadt Schwabing submarket. KraussMaffei will be moving its headquarters from Munich to a new location in Vaterstetten-Parsdorf and has leased 32,000 sqm of office space in addition to new production facilities. KPMG accounted for the third-largest deal, leasing 31,000 sqm at Optineo in Munich's Werksviertel.

Rents

Average rents were up 7% yoy to €21.50 per sqm, following their mid-year peak with a slight downward trend. Tenants looking for space within city limits met with rents of €24.20 per sqm on average, up 6% yoy. Average rents in the city outskirts were also up 6% to €13.10 per sqm. Prime rents remained in line with previous-year levels at €39.50 per sqm.

Supply and Vacancy

Vacancy was up yoy almost 300,000 sqm to 787,900 sqm, putting the vacancy rate at 3.5%. Around 2.8% of office stock was available for immediate lease within city limits and 5.5% in the city outskirts. Subletting accounted for roughly 100,000 sqm. A total of 276,500 sqm were completed in 2020 with an occupan-

FIGURE 1: **Office Space Take-up** in 1,000 sqm

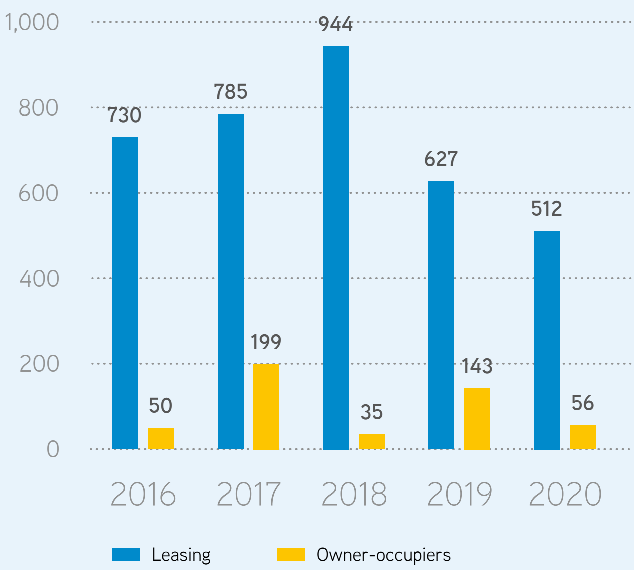
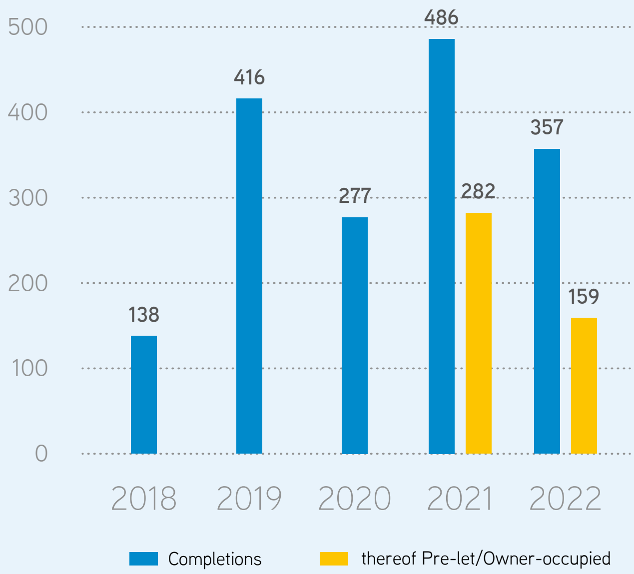


FIGURE 2: **Completion Volume** in 1,000 sqm



cy rate of 93% at the end of the year. Around 1 million sqm are currently under construction, 54% of which has been pre-leased or taken up by owner-occupiers.

Key Developments

The east of Munich along St.-Martin-Straße from Werksviertel to the Berg am Laim district remains the city's hot spot for office development, with more than 200,000 sqm of office space currently under construction. There are also several property developments still in the planning phase in Zamdorf further to the east. Munich's northern districts between Moosach and the Frankfurter Ring road as well as Obersendling are also considered focal points of development activity. Construction has picked up in the city outskirts as well, with some developments even being fully or partially developed there on a speculative basis.

Summary and Outlook

The economic downtrend seen in late 2019 seamlessly transitioned over into the Covid-19 crisis in 2020. As a result, many tenants put a halt to their expansion plans and, in many cases, those moving decided to lease less space. Many companies are likely to maintain a wait-and-see stance until they have a clearer picture of their business situation and any potential changes to their office space requirements. We can expect to see demand at below-average levels in the quarters ahead. However, with some companies still in the market for large-scale space, 600,000 sqm in total take-up is realistic for 2021. Although vacancy is set to increase further in the coming year in light of ongoing low demand and a well-stocked development pipeline, it is unlikely to exceed the 5% threshold. The steep rise in rents seen in past years has come to a standstill for the time being. Nevertheless, supply remains too limited to trigger a drop in asking rents. Prime rent may even decrease, which is also caused by the lack of supply in the top segment.

FIGURE 3: **Vacancy Rate** in % **and Vacancy** in 1,000 sqm

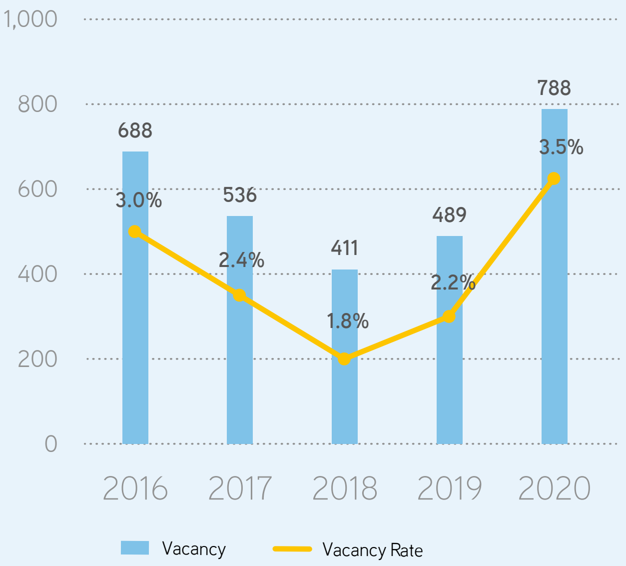
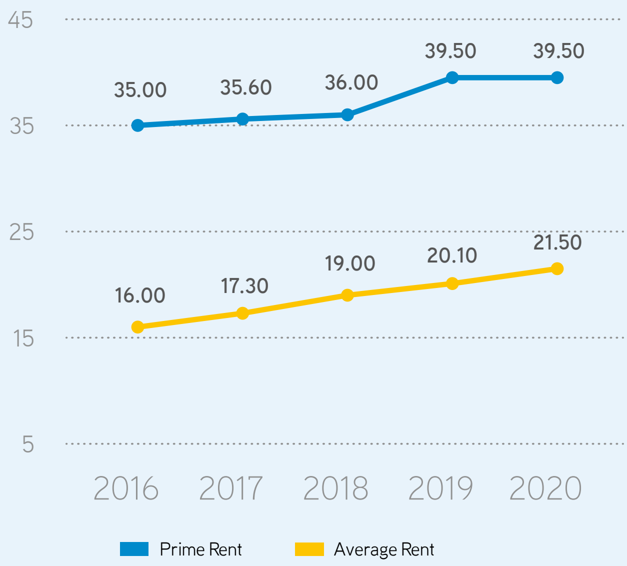


FIGURE 4: **Prime and Average Rents** in €/sqm



INVESTMENT

Transaction Volume

The commercial real estate market remained robust in the face of the Covid-19 pandemic, posting a transaction volume of roughly €5bn. While this result is down 56% from the exceptional performance seen in the previous year, it still posts close to the long-term average of €5.8bn. Market activity was limited by the restrictions imposed due to the pandemic combined with ongoing uncertainty in 2020 and into 2021 as to the impact of the pandemic on the economy and the real estate market. However, activity continued nonetheless, and deals were signed even during the first lockdown. The market steered towards normalcy in the second half of the year with increasing transaction activity and a strong final quarter. The number of deals finalized was down by one-third, which, however, came as no surprise in light of limiting global restrictions. Of the twelve major deals signed for €100m each, ten were signed in the second half of the year.

Fast Facts

Investment Munich	2020	2019
Transaction Volume	4,969 million €	10,904 million €
Portfolio Transactions	13%	17%
Share by International Buyers	32%	39%
Share by International Sellers	29%	38%
Most Important Property Type	Office 58%	Office 74%
Prime Yield Office	2.70%	2.75%

FIGURE 5: **Transaction Volume** in million €

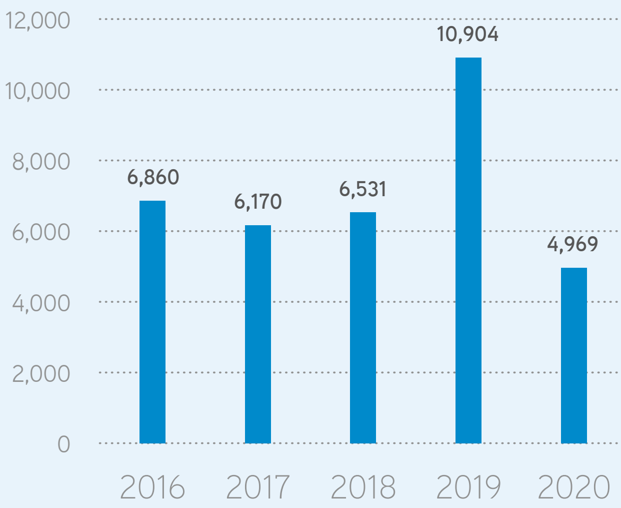
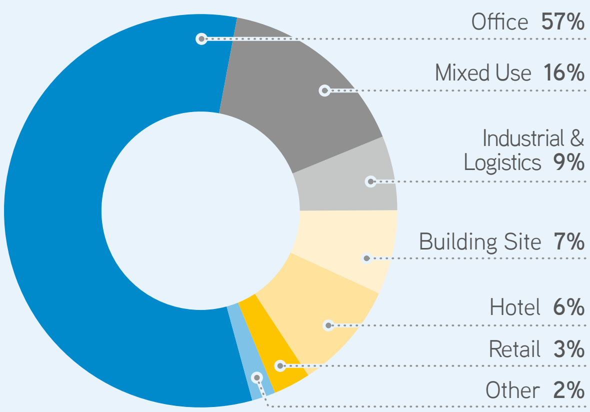


FIGURE 6: **Transaction Volume by Type of Property 2020** share in %



Supply and Demand

Office investments once again proved the investor favorite with €2.9bn, or a market share of 58%. More than 580,000 sqm of office space changed hands on the Munich market, almost 100,000 sqm of which were vacant. Mixed-use properties came in second with €800m, or 16% of total transaction volume, while highly sought-after logistics assets trailed at some distance in third place with €465m, or 9%. The partial sale of Weißes Quartier to a Deka fund and the sale of a new-build development at Campus Neue Balan to a fund managed by Union Investment, both in the nine-figure range, were among the largest single-asset deals signed in 2020.

Even though foreign investors were more heavily impacted by travel restrictions, they were still able to maintain their weighted share of 32% in total transaction volume, in part thanks to the support of local investment managers. The majority of foreign capital came from investors based in the US, France and Austria. In times of crisis, globally active investors tend to turn with even greater interest towards stable markets like Munich, and such markets are again poised to play a key role on the investment market in 2021.

Property developers sold new-builds and signed forward deals for more than €1.6bn, accounting for roughly one-third of total transaction volume sell-side. Private investors and opportunistic investors trailed at some distance with 17% and 14%, respectively.

FIGURE 7: **Transaction Volume by Buyer Groups**
in million €, share in %

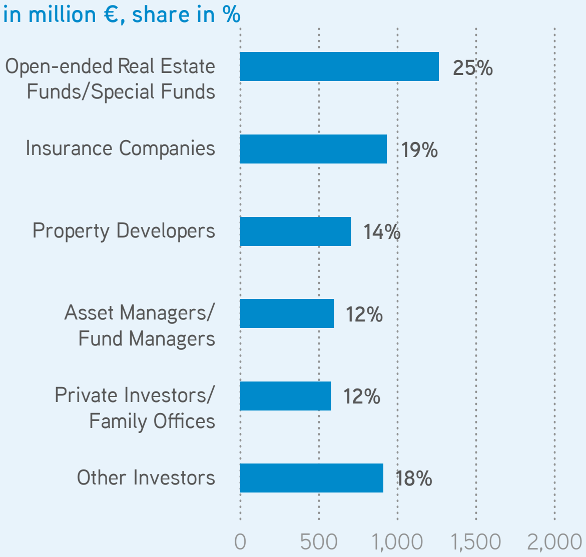
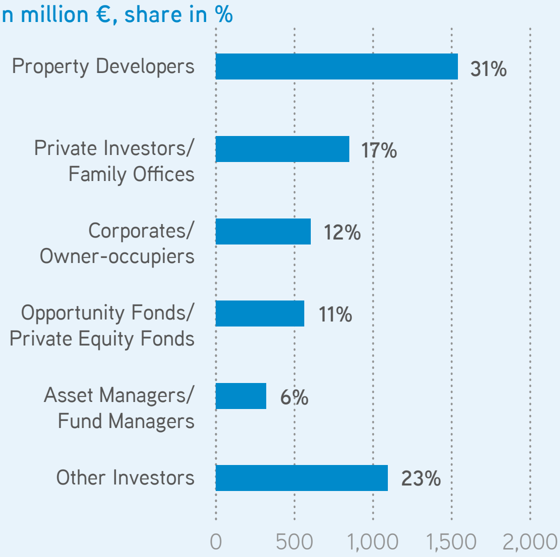


FIGURE 8: **Transaction Volume by Seller Groups**
in million €, share in %



Yields

Investors have adapted their risk profiles to current market conditions and intensified their focus on secure investment options. As a result, core deals posted their highest market share in recent years at 56%, previously ranging between 30% and 38%. Investors, however, have not changed their risk profiles fundamentally and Munich continues to offer stability and a strong economy, even outside the city's central locations, that is attractive to risk-averse investors.

Although the slump on the leasing market will be felt on the investment market as well, nevertheless purchase prices will be affected only in some cases thanks to ongoing excess demand and extremely low interest rates. Core transactions may even be subject to slight yield compression as competition in this segment continues to intensify. Pressure to invest remains high. In the current interest and investment environment, there are no signs of significant impact on yields at the moment. While this risk has already been priced in for hotels and some retail assets, yields for industrial and logistics assets once again dropped tangible to around 3.70%, one percentage point above current office prime yields of 2.70%.

Summary and Outlook

Hardly any other major German city has remained as stable and crisis resilient as Munich in the past years. Munich will remain high on the agendas of national and international investors alike and is set to once again exceed the long-time average in terms of transaction volume in 2021, assuming market conditions normalize. Several deals were initiated in Q4 2020 that will be concluded in the first half of the year, hinting at total transaction volume of roughly €6bn in 2021.

We will continue to see excess demand for core products in Munich as more capital will be poured into secure assets. Yield compression will continue as well, although the gap with yields recorded for other asset classes and in peripheral locations is likely to widen somewhat, at least temporarily.

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STUTTGART

CITY FACTS STUTTGART

Population in 1,000	636
Employees Paying Social Security Contributions in 1,000	423
Unemployment Rate in %	5.4
Per Capita Disposable Income in €	27,277

Fast Facts

Office Leasing Stuttgart	2020	Change year-on-year
Office Space Take-up	139,500 sqm	– 55.3%
Leasing Take-up	125,600 sqm	– 55.0%
Prime Rent	25.50 €/sqm	6.3%
Average Rent	16.60 €/sqm	0.0%
Vacancy Rate	3.0%	110 bp
Office Space Stock	8.17 million sqm	1.7%

Rents in € / sqm

Submarket	Range of Rents
City	15.00-29.00
Center	13.00-24.00
Zuffenhausen/Feuerbach	11.50-23.50
Weilimdorf	10.50-18.00
Bad Cannstatt/Wangen	11.00-20.00
Vaihingen	11.50-20.00
Degerloch	11.00-22.00
Möhringen	11.00-20.00
Fasanenhof	10.50-17.50
Leinfelden-Echterdingen	10.00-19.50

OFFICE LEASING

Take-up

Activity on the Stuttgart office leasing market (including Leinfelden-Echterdingen) was subdued in 2020 due to the Covid-19 pandemic with take-up at roughly 139,500 sqm, signifying a significant drop yoy. 2020's annual result also fell almost 49% short of the ten-year average of 272,500 sqm and was down roughly 55% compared to 2019 (312,100 sqm). Leasing activity was unable to keep pace with previous year levels as well with a total of 154 leases signed in 2020, just over half of the ten-year average (286 leases). Starting in Q2, the impact of the pandemic was felt consistently throughout the year. Many companies postponed their expansion plans or were unable to see them through. Ongoing low supply on the Stuttgart leasing market was another factor limiting take-up. The public sector accounted for the majority of take-up by far with around 41,900 sqm, 14,500 sqm of which were involved in the lease signed for the Federal Institute for Postal Affairs and Telecommunications at Nauheimer Straße in Bad Cannstatt. Consulting firms came in second with around 26,100 sqm. Manufacturing followed in third place with roughly 22,400 sqm, a significant yoy drop due to the pandemic. Consulting firms once again accounted for the lion's share of leasing activity with 42 leases signed. The share in total annual take-up generated by owner-occupiers was extremely low at just shy of 10% in contrast.

FIGURE 1: **Office Space Take-up** in 1,000 sqm

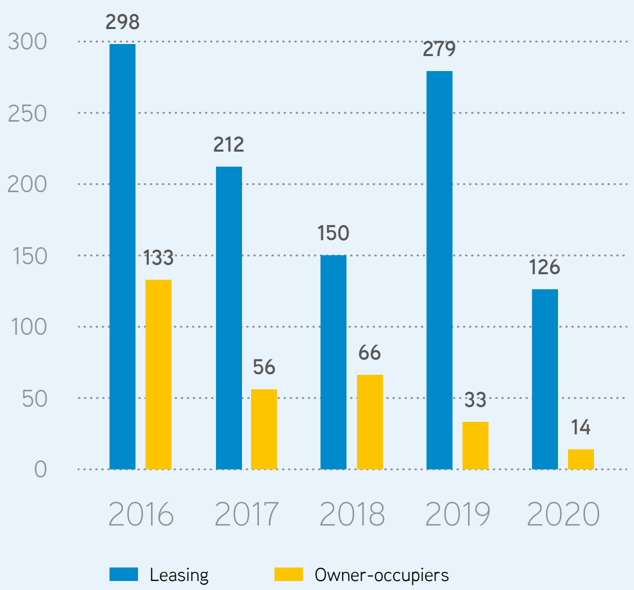
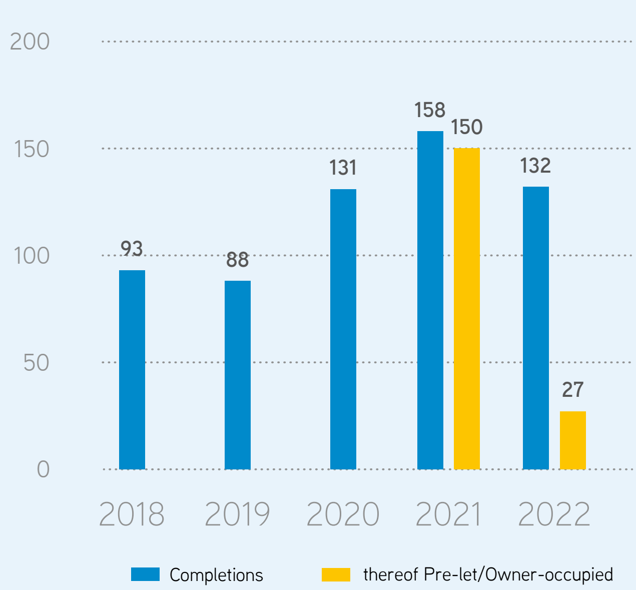


FIGURE 2: **Completion Volume** in 1,000 sqm



Rents

Rents continued their upward trend in 2020. Only around 12% of total take-up involved rents of under €12.50 per sqm with few leases signed in this low-price segment. While prime rents continued to post a record €25.50 per sqm until year-end, average rents were down 1% compared to the previous quarter to €16.60 per sqm. The fact that rent levels remain high indicates that tenants are still willing to pay higher rents because of the traditionally low supply on the Stuttgart market.

Supply and Vacancy

Although vacancy levels proved only slightly affected by the Covid-19 pandemic in the first two quarters of the year, vacancy had increased by year-end. With stock at roughly 8.17 million sqm and available space at around 248,700 sqm, the vacancy rate on the Stuttgart market came to 3.0% at the end of 2020 with subletting activity particularly on the rise.

Key Developments

Similar to 2020, the majority of property developments were situated in peripheral areas due to the lack of available space in central locations. A total of 131,100 sqm was completed on the Stuttgart office leasing market in 2020. Developments will continue to focus on peripheral submarkets in 2021 with pre-leasing rates high in line with previous year levels.

Summary and Outlook

The impact of the Covid-19 pandemic made its presence felt on the Stuttgart office leasing market in 2020. However, the drop in take-up can also be attributed to the lack of suitable space that has persisted on the market for years. With the outlook for 2021 brightening thanks to the start of vaccinations, leasing activity is set to pick-up on the Stuttgart office leasing market. The increase in vacancy will also help to reduce excess demand, creating suitable options for companies looking to lease.

FIGURE 3: **Vacancy Rate** in % **and Vacancy** in 1,000 sqm

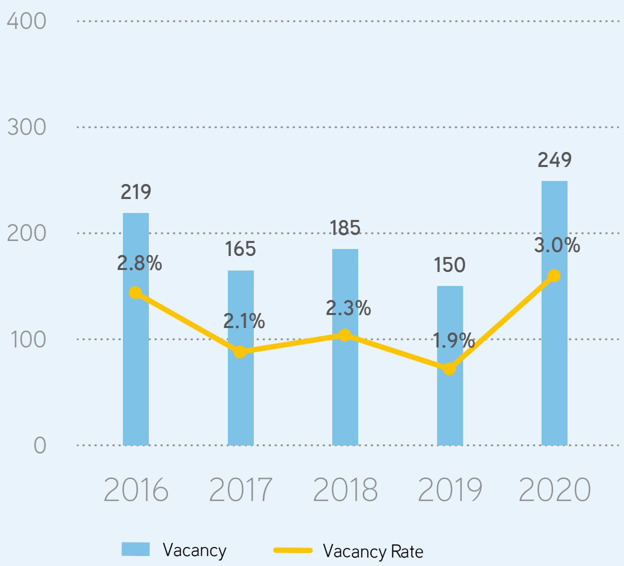
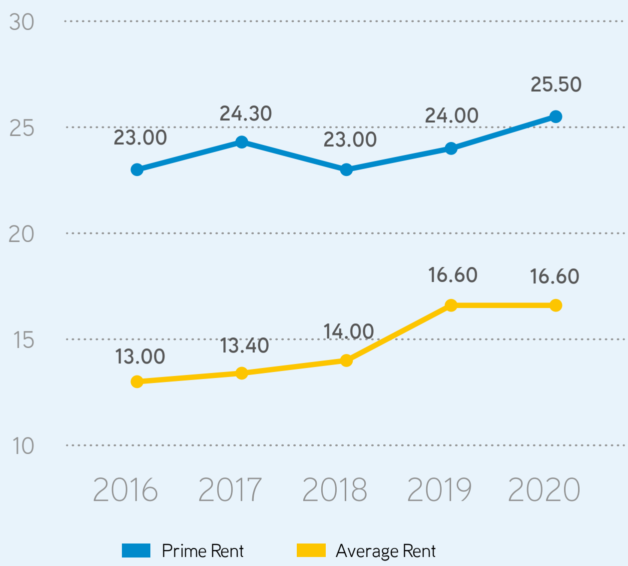


FIGURE 4: **Prime and Average Rents** in €/sqm



INVESTMENT

Transaction Volume

The Stuttgart investment market posted lively activity 2020 with a transaction volume of roughly €1.2bn, falling short of the above-average results recorded in previous years, however, due to the Covid-19 pandemic. After a promising start to the year with a transaction volume of over €470m, investment activity was affected by the pandemic in the following quarters. This also led to the absence of the year-end rally that has been typical for the market in previous years. Commercial investments accounted for around €1bn with an additional €164m generated by primarily institutional investments in residential. The number of deals signed at 58 experienced a less significant drop than transaction volume (2019: 72 leases signed).

Supply and Demand

As in previous years, office assets once again dominated the market with a share of over 72% in transaction volume. This can be attributed to limited supply in other asset classes combined with high-volume investments in the 9-figure range being made in the office segment. The

Fast Facts

Investment Stuttgart	2020	2019
Transaction Volume	1,045 million €	1,755 million €
Portfolio Transactions	10%	35%
Share by International Buyers	16%	53%
Share by International Sellers	9%	47%
Most Important Property Type	Office 72%	Office 50%
Prime Yield Office	3.10%	3.30%

FIGURE 5: **Transaction Volume** in million €

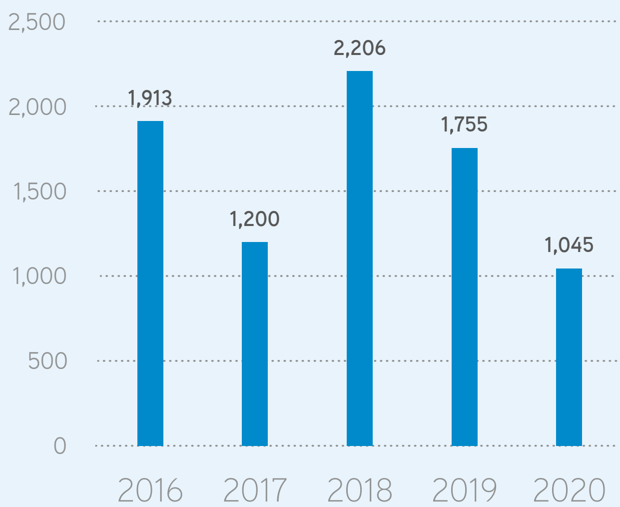
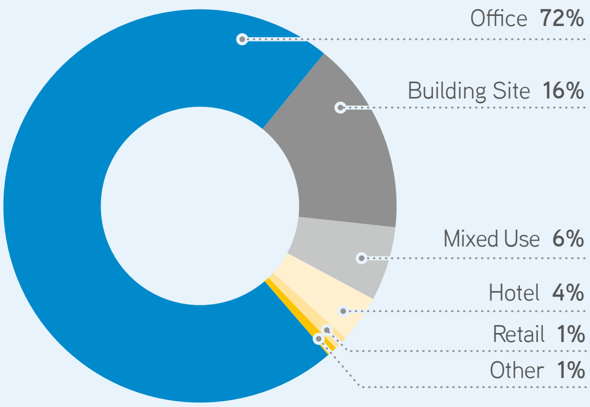


FIGURE 6: **Transaction Volume by Type of Property 2020** share in %



three largest office deals signed in Stuttgart were alone responsible for around €360m in transaction volume. These included insurer R+V Versicherung's acquisition of the NEO office new-build at Synergiepark in Stuttgart-Vaihingen in Q1 and Wöhr & Bauer's sale of the W9 Wissenscampus office new-build in Stuttgart-Weilimdorf to HanseMerkur AG in Q2, which was also the largest deal recorded in 2020. DIC's acquisition of the Look 21 office new-build located in downtown Stuttgart followed in Q3.

German insurance companies were particularly active buy-side, accounting for the largest share of total transaction volume at almost 34%. In addition to the above-mentioned deals involving W9 Wissenscampus and NEO, the sale of the Stuttgarter Tor office building at Pragsattel for more than €70m to German insurance company Arminius Group was another significant deal in this segment.

Foreign investment activity was down yoy, in part due to the travel restrictions imposed in the wake of the pandemic. As a result, foreign investors accounted for roughly 16% of transaction volume buy-side and only 9% sell-side. This dip in activity can also be attributed to the fact that many investors put decisions involving international real estate on hold as they increasingly shifted their focus to crisis management in home markets. We expect interest from foreign investors to pick up again post-pandemic as they tend to value the city's economic stability and the traditionally low vacancy rate on the office leasing market.

Yields

Investors focused on the risk-averse core and core+ segments throughout the year. This trend reflects the desire of many investors for increased security in light of the pandemic, which has led office assets with long-term leases in place to experience further yield compression in the past several months. Prime yields for premium office assets in the City submarket fell from roughly 3.30% to around 3.10% and were only slightly higher in preferred submarket locations at roughly 3.30%. The other asset classes continued to post extremely low yields as well with demand

FIGURE 7: **Transaction Volume by Buyer Groups**
in million €, share in %

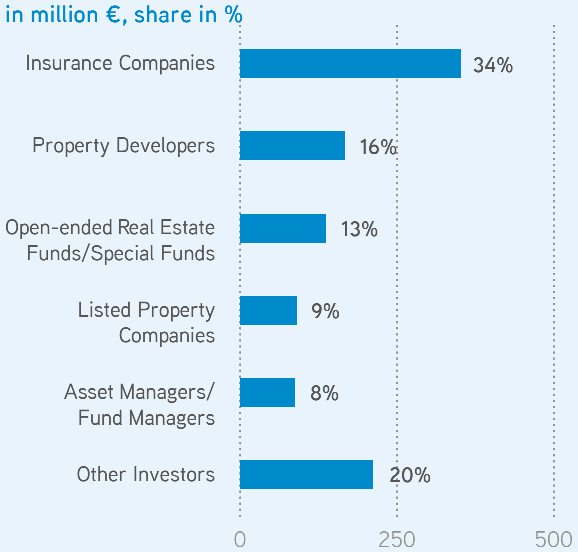
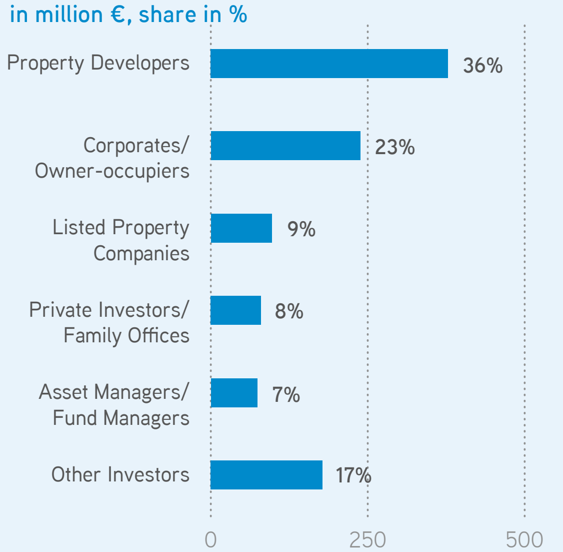


FIGURE 8: **Transaction Volume by Seller Groups**
in million €, share in %



confronted by limited supply. At year-end 2020, prime yields for downtown buildings featuring a retail-office mix came in at 3.30% with 3.70% recorded for modern logistics assets and roughly 3.00% for prime residential.

Summary and Outlook

Investor confidence in the stability of the Stuttgart real estate market remains high thanks to low vacancy rates and comparatively low capital values. This confidence is also reflected by the fact that local as well as nationally active property developers showed noticeable interest in commercial sites throughout 2020. Nevertheless, activity at year-end and throughout the year was more subdued compared to previous years. The restrictions imposed due to the pandemic combined with limited supply put the brakes on investment activity on the Stuttgart real estate market. Demand from national and international investors is likely to pick up once again in 2021 and yields will remain low as a result. Although 2021's transaction volume is likely to fall short of the record results recorded in 2018 and 2019 in light of current restrictions and limited supply, we do expect to see a considerable yoy increase with annual transaction volume coming in at roughly €1.5bn. This forecast is particularly based on the number of to high-volume office deals already in the pipeline.

Vacancy on the Stuttgart office leasing market is relatively low despite the pandemic. Investor demand will remain high as a result, supported by the city's general economic stability.

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You know property development, we know the market

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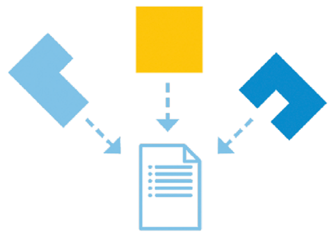
Macro & micro environment
Feasibility analysis
Potential analysis

Analysis of marketability



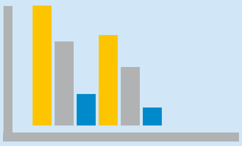
Letting potential analysis
Target group and Usage analysis
Location and market analysis

THE PILLARS OF OUR MARKET EXPERTISE

- Germany-wide database containing primary data on more than 78,000 leases and 27,000 investment deals
- Local research experts with extensive market penetration and years of experience in Germany's top locations
- Geographic information specialists for mapped imaging and geoanalyses

ANALYSES FOR EACH STAGE OF YOUR PROPERTY INVESTMENT.

Customer/property-specific analyses and advisory services



Independent customized and trend analyses

Analyses supported by geographic information systems (GIS)

03 LETTING MARKEITNG

How competitive is your property?

We analyze market rents, identify your competitors and point out aspects that set your property apart from the competition. We know the conditions at which your competitors are leasing their space and use effective tools to help predict your success.

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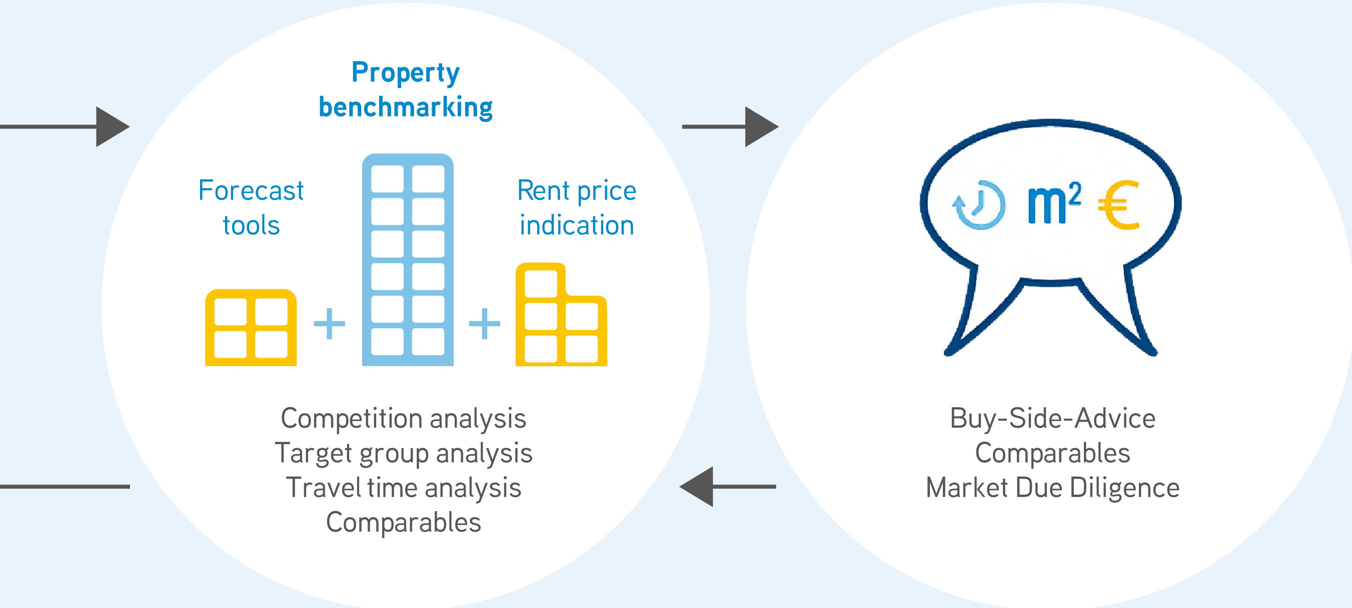

EFFECTIVE RESEARCH SERVICES

- Expert monitoring of current and future market trends
- Inclusion of trends driven by macro-economic and capital market factors
- Collaboration with investment and leasing teams as well as external market players

GLOSSARY

Take-up of Space

Take-up of space is the sum of all spaces either newly let, sold to owner-occupiers, or built for or by an owner-occupier within the period under consideration. The salient date is that on which the lease or purchase agreement is signed. The renewal of an existing lease is not counted in the take-up of space.

Leasing Performance

Leasing performance reflects take-up excluding owner-occupied space.

Prime Rent

The premium rent represents the median of the top 3 % of new lets (not counting owner-occupiers) during the 12 months just ended.

Average Rent

The average rent is calculated by taking the individual rents agreed to in all new leases, weighting them by the amount of space rented and computing the mean value.

Vacancy

Vacancy is defined as all office space available for occupation within three months.

Prime Yields

Prime yields are the best return that can be realized for a property of highest quality and in the best location when leased under usual market conditions (highly solvent tenant). The figures here are gross yields.

Completions

New-build space and space listed on the market after a renovation period of at least 12 months is included in total available office space for the quarter in which the development or renovation was completed. In regards to expansion or the addition of floors, only the amount of new additional space is included.

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