Colliers

CLIFFORD CHANCE

Investing in
German Real Estate

Colliers Global Key Facts

€ 100 Billion +
Transaction volume

185 Million sq m managed

17,000 +
Professionals

63
countries

Contents

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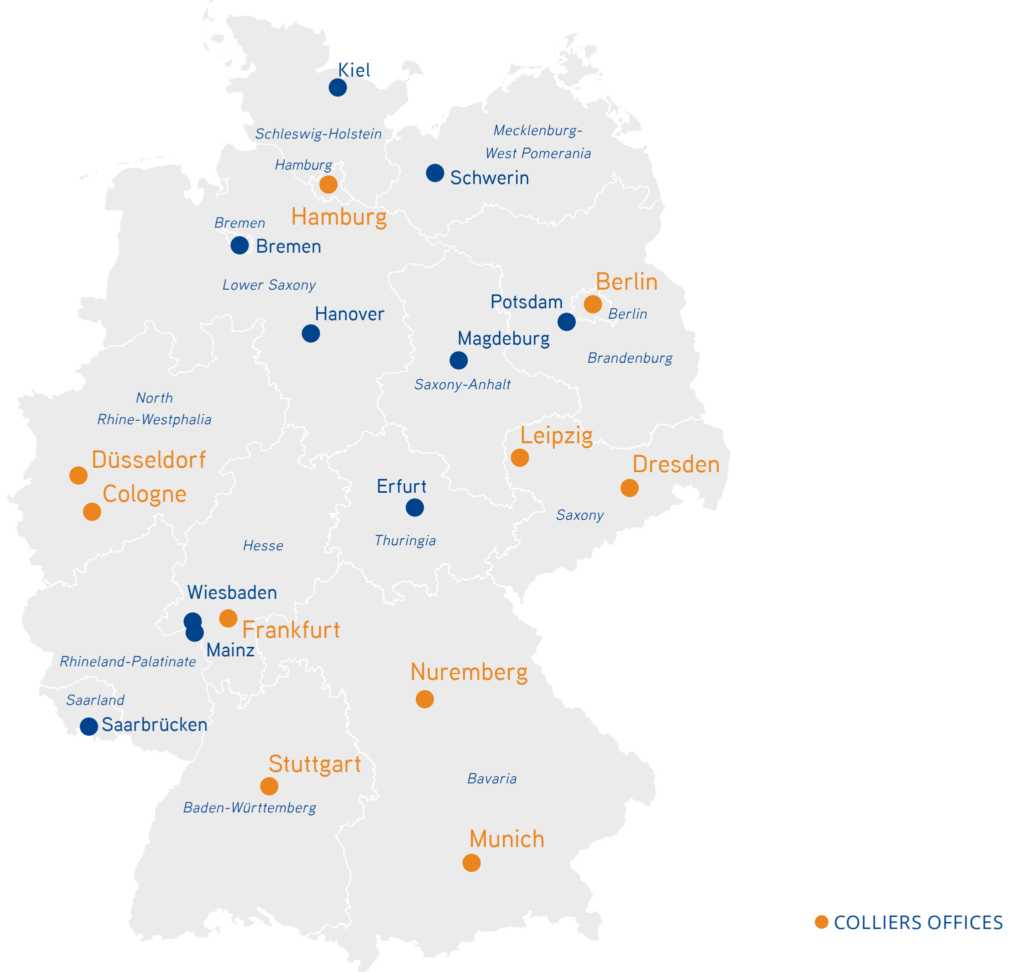
The impact of the pandemic, which continues to linger, the unexpected outbreak of the war in Ukraine and the corresponding rapid rise in inflation are currently animating investors to restructure their investment strategies. The fact that all of these events are happening at the same time combined with high uncertainty as to how long these crises will last and what course they will take has triggered an unprecedented abrupt turnaround on the investment market within a just few weeks. The ECB decided to join in the shift in interest rates being implemented by central banks worldwide, and, after eleven years, ended its zero-interest rate policy in July with a significant interest rate increase of 50 basis points and another 75 basis points in September. Financing and construction costs have risen massively and are determining the price calculations of potential buyers. The willingness to pay high prices, which was already beginning to crumble at the start of the year after having been driven by supply shortages and pressure to invest, is no longer a factor on a broad basis given the current conditions. We have also seen the spread between real estate investment and alternative asset classes, especially government bonds, narrow significantly since the start of the year.

In view of these developments, it is all the more important, especially for cross-border investors, to gain insight and guidance as to which sustainable market conditions they can expect in Germany. The purpose of this brochure is to provide some initial guidance in this. In addition to outlining a market perspective for foreign investors in Germany and in the country's top 7 investment centers, the overview of the legal and tax framework for real estate investments in Germany outlined by our partner Clifford Chance provides a valuable initial basis for making sound investment decisions. Building upon this initial guidance, my team and I would be pleased to help you personally in your investment decisions. Please contact us at any time!

1. Introducing Germany



Federal structure

The Federal Republic of Germany is a federation with approximately 83.2 million inhabitants. The capital city is Berlin with a population of about 3.7 million.

7 top cities for real estate investment

Germany strongly differs from other major European real estate markets. Unlike the UK (London) and France (Paris), Germany does not have one particular dominant local market. The country's most important economic centers and real estate markets are Berlin, Cologne, Düsseldorf, Frankfurt am Main, Hamburg, Munich and Stuttgart together with their metropolitan areas. It is in these seven cities that the most office space is leased, with 50 % to 55 % of commercial transaction volume being generated in Germany's top 7 cities every year.

Economic facts

With the largest population and highest gross domestic product (GDP), Germany is the largest economy in the European Union and the fourth largest in the world. The country's GDP at current prices came to € 3.571 bn in 2021.

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

Germany has one of the lowest unemployment rates in the European Union. The country has experienced an ongoing a drop in unemployment with the exception of a temporary increase in unemployment in 2009 and 2020 in the wake of the two exceptional, global recessions. The German government's reduced working hours model, which proved effective in bridging the severe recession in 2009, also helped the labor market cope with the impact of the pandemic.

Although the service sector is a dominant force in the German economy, the country still has a very strong manufacturing base. This broad economic basis is one of the major reasons for the economy's extraordinary resilience in the face of crises, something that is effectively illustrated in the latest crisis triggered by the war in Ukraine.

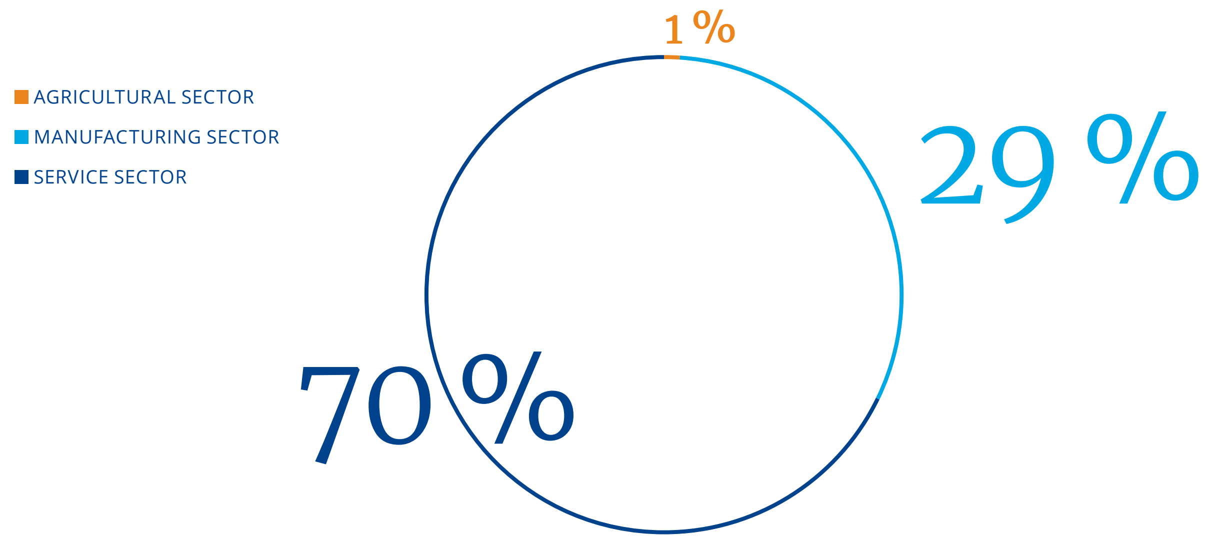
Although Germany´s export-driven industry will experience some constraints in the months ahead due to its dependence on raw materials and intermediate products and the slowdown of the global economy as a whole, experts expect German GDP and the unemployment rate to return to pre-pandemic levels by the turn of the year 2022/2023. This, however, will depend on whether or not we see a Russian gas embargo. Another factor here is that pandemic events have not yet fully been contained. However, as basic immunity in the population is much higher in contrast to the previous waves and the current occurrence of virus variants has resulted in reduced severity of the disease, consensus is growing that lockdowns should be avoided as long as the health system is not in danger of being

Sectors, brands

Germany is home to 30 of the top 1,000 companies according to the latest annual Forbes Global 2000 ranking, which measures the leading listed companies based on their sales, profit, assets and market value. Germany is also home the largest percentage of hidden champions, which refers to companies that are less visible but that hold a dominant position in the industry.

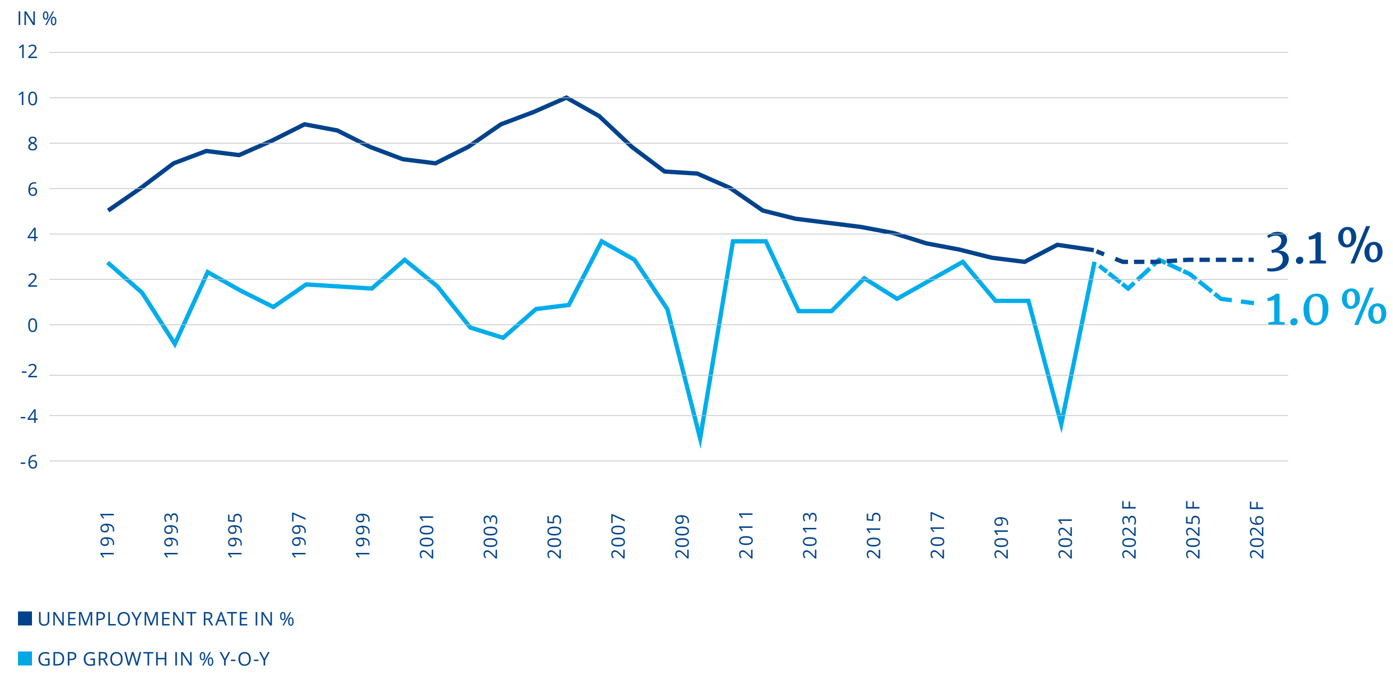
In addition to engineering and automotive, key industries in Germany include a variety of sectors such as ICT, insurance, chemicals, retail and trade and the financial services sector.

Economic structure (share of GDP 2021)



SOURCE:
FEDERAL STATISTICAL OFFICE

GDP growth and unemployment rate



SOURCE: OXFORD ECONOMICS AS AT JUNE 30TH 2022

Germany's top companies 2022 (Forbes Global 2000)

GERMAN CORPORATIONS LISTED BY FORBES GLOBAL 2000 (REVENUE IN € BN)

SOURCE: FORBES

$ 296	VOLKSWAGEN
$ 179	Mercedes-Benz
$ 151	PORSCHE SE
$ 139	Allianz
$ 131	BMW GROUP
$ 129	TELEKOM
$ 97	Deutsche Post DHL Group
$ 93	BASF We create chemistry
$ 91	e·on
$ 85	Munich RE
$ 76	SIEMENS
$ 52	BAYER
$ 52	talanx.
$ 47	DAIMLER
$ 44	FRESENIUS
$ 40	Continental
$ 38	ENBW-ENERGIE BADEN
$ 37	DEUTSCHE BANK
$ 33	SAP
$ 33	SIEMENS energy
$ 29	RWE
$ 25	adidas
$ 24	Henkel
$ 23	MERCK
$ 22	HEIDELBERGCEMENT
$ 19	covestro
$ 19	EVONIK Leading Beyond Chemistry
$ 14	INFINEON TECHNOLOGIES
$ 7	VONOVIA
$ 5	DEUTSCHE BÖRSE GROUP

2. Why Germany

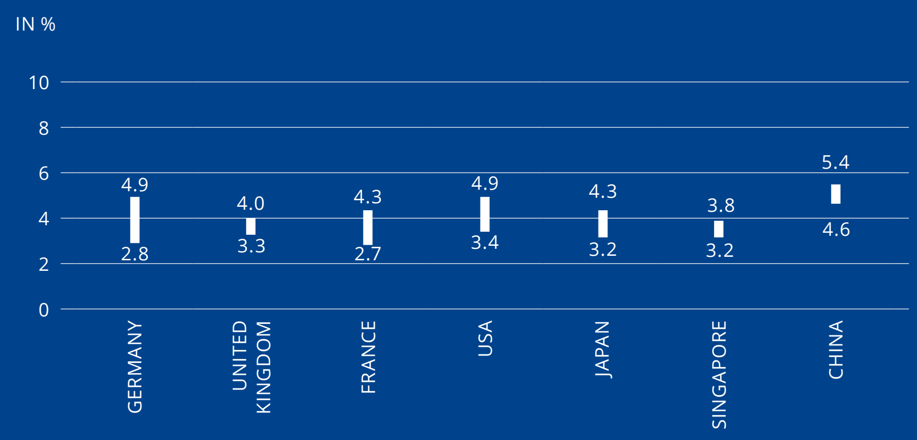
- Germany has one of the world's leading economies, is the economic center of Europe and is a global export country
- The country's population is focused on sustainability and is driving the trend in Europe towards greater ESG compliance
- A highly liquid real estate market means easy entry and exit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

Location information

	GERMANY	BERLIN	COLOGNE	DÜSSELDORF	FRANKFURT	HAMBURG	MUNICH	STUTTGART
POPULATION IN 1,000	83,155	3,664	1,083	621	764	1,852	1,488	630
GEOGRAPHIC AREA IN KM²	357,581	891	405	217	248	755	311	207
EMPLOYEES PAYING SOCIAL SECURITY CONTRIBUTIONS IN 1,000	34,284	1,623	604	438	611	1,029	925	435
UNEMPLOYMENT RATE IN %	5.2	8.7	8.4	6.6	5.7	6.7	4.2	4.4
PER CAPITA DISPOSABLE INCOME IN €	24,949	23,050	26,374	29,275	27,722	26,220	31,195	27,910

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

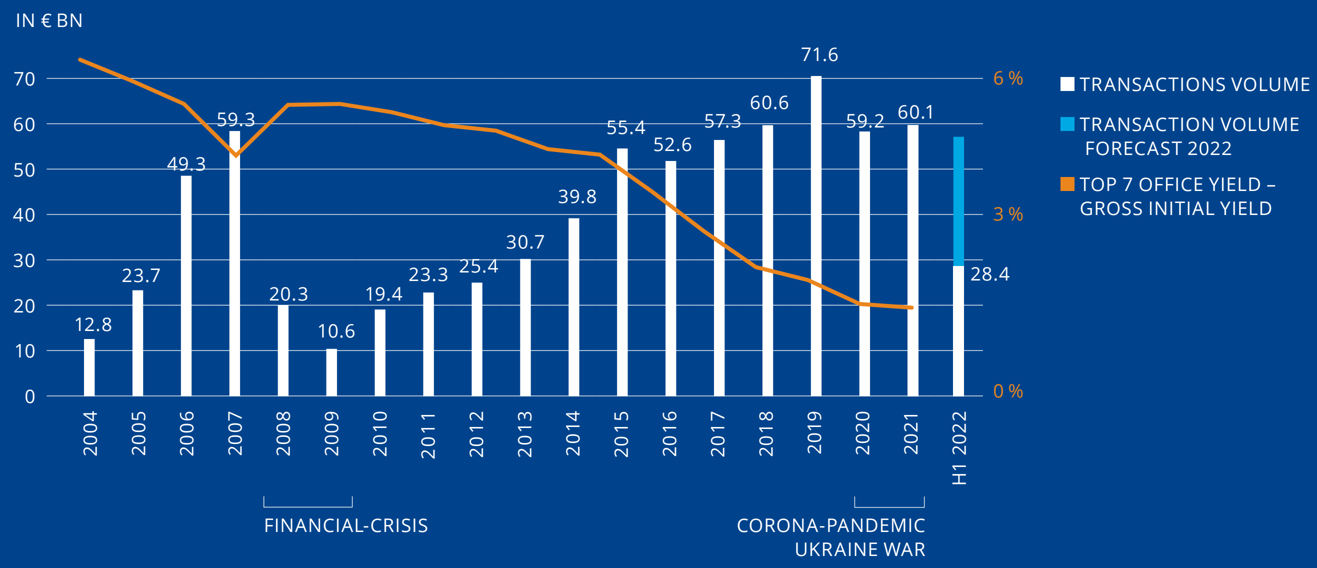
Yield volatility of prime offices (2012–H1 2022)



SOURCE: COLLIERS

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

Commercial transaction volume in Germany



SOURCE: COLLIERS

3. German investment market at mid-year 2022 – at the turning point

› The investment market at mid-year 2022 was characterized by high uncertainty among investors due to the ongoing Covid-19 crisis, the war in Ukraine and the corresponding rapid rise in inflation. Although transaction volume in H1 posted the second-strongest result of the decade at € 28.4 bn, this record start to the year was followed by an abrupt turnaround, which was reflected in a weak quarterly result in terms of transaction volume and a significant rise in yields across all asset classes.

› The gap between asking prices and those being offered has widened since the outbreak of the war. The willingness to pay high prices buy-side, which was already beginning to crumble at the start of the year after having been driven by supply shortages and pressure to invest, is no longer a factor on a broad basis due to rising financing and construction costs.

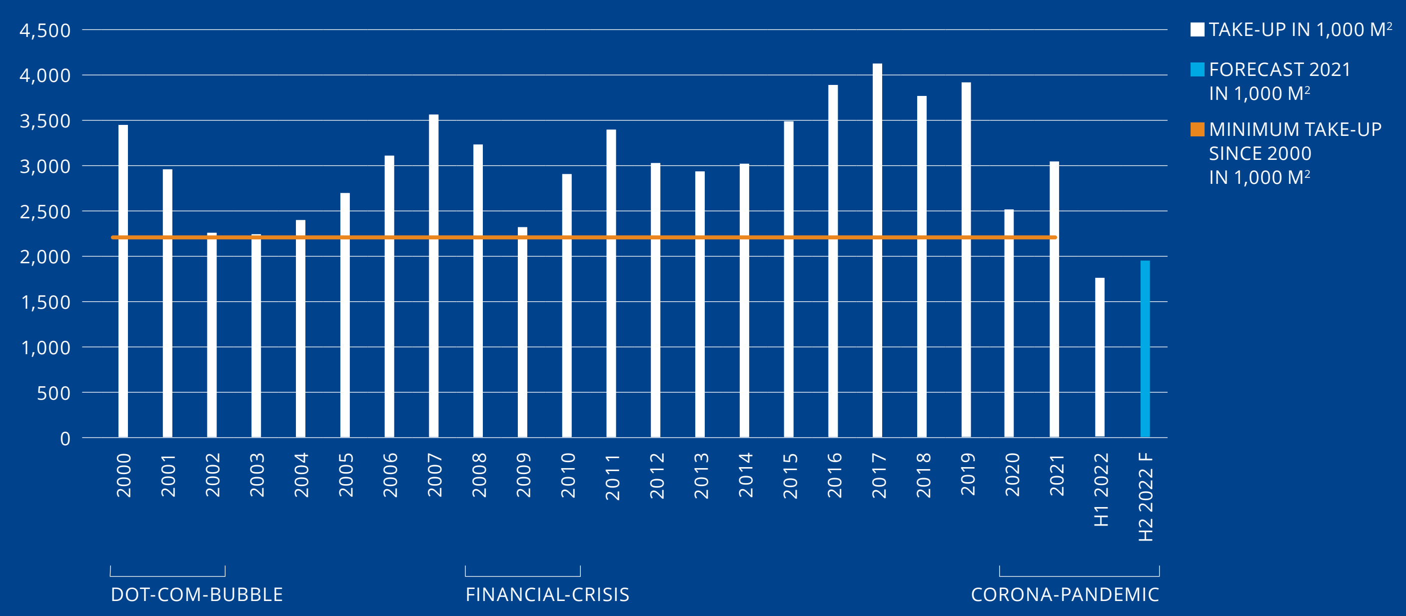
› Decisions to prolong negotiation processes led to a sharp drop in transaction activity between April and June, particularly in Germany's 7 top investment hubs, which tend to be characterized by lively transaction activity and high prices. None of the top 7 cities were able to hit their 5-year averages during this period, primarily due to the absence of major deals.

› Fall can be expected to bring with it an intense negotiation phase in the wake of a quiet summer marked by strategic realignment of investment plans. A price-dictated drop in transaction volume, particularly in the core segment, poses a challenge to the € 60 bn in total transaction volume forecast for 2022, not least because the duration and development of current conditions remains as yet unknown.

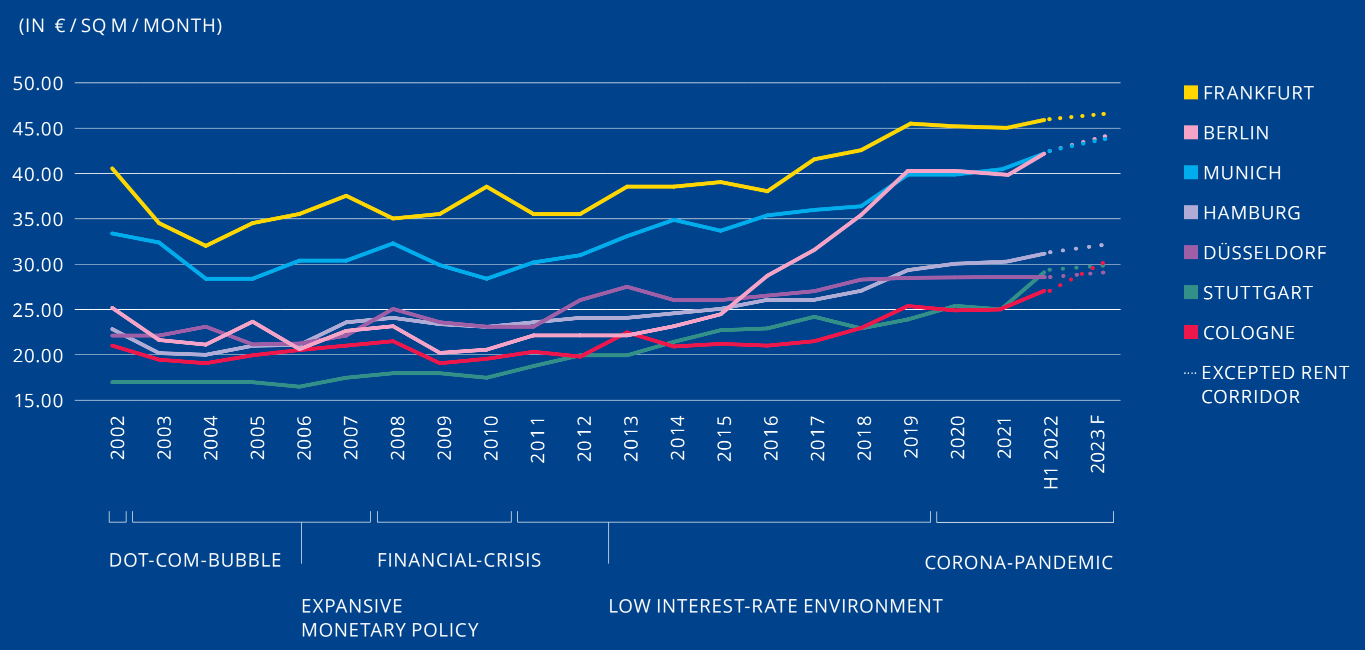
› The trend toward ESG will continue to shape market activity as well even through it has temporarily taken a back seat for many investors due to the current geopolitical and global economic crisis. At the same time, however, the effects of the current situation make swift action all the more necessary, especially in the real estate sector. Even though a specific, uniform industry standard is not yet in place, it is has already become clear that investors will have to focus on stock property renovation going forward. The explosion in energy prices triggered by the current crisis has already become a larger catalyst in this trend than any pending regulatory requirements.

› Developments on the rental market will have a major influence on willingness to buy. The following section briefly examines the main developments.

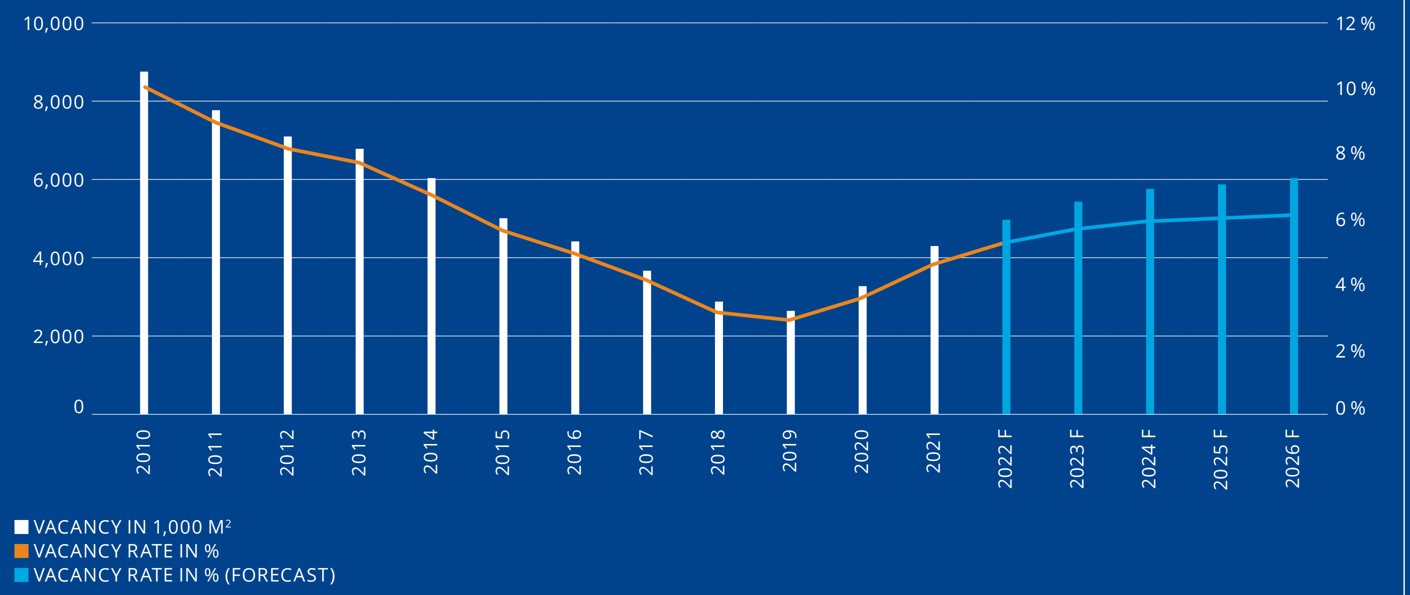
Aggregated take-up in top 7 office markets



Top 7 prime office rents – Impact of past crises



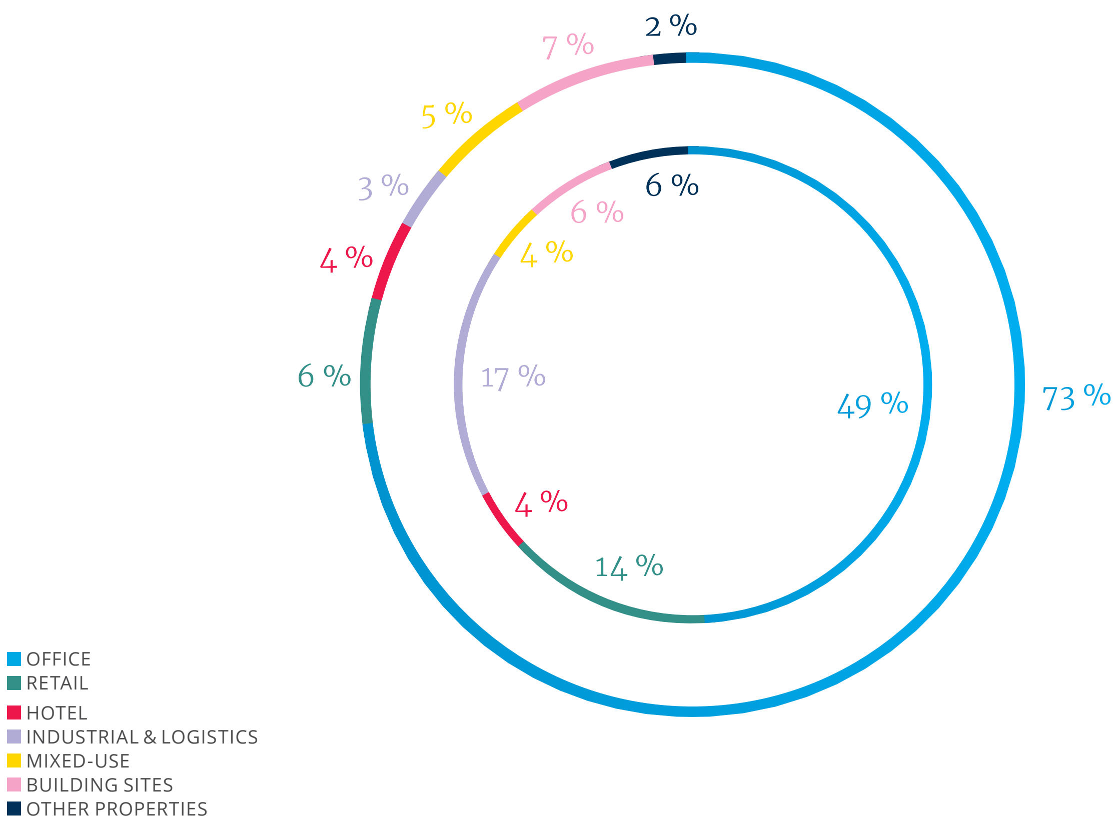
Colliers vacancy forecast 2022–2026



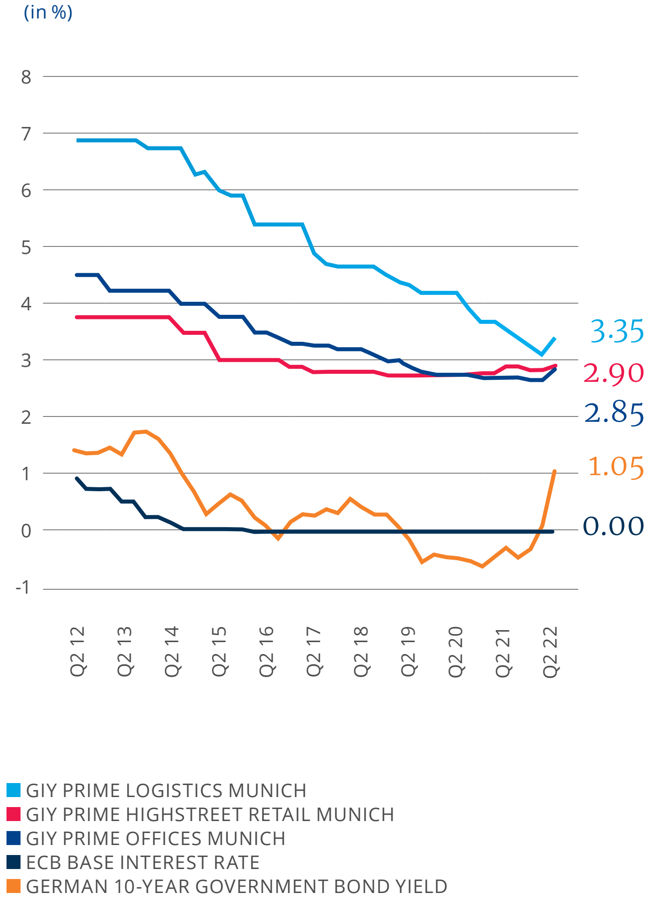
Even though Covid-19 and working from home have slipped somewhat into the shadow of the war in Ukraine and a possible recession in Germany and the Euro area in public perception in recent months, the question of the impact that a workforce increasingly engaged in remote working will have on vacancy in particular remains an important one for the real estate industry. We assume that higher numbers of people working from home will lead to lower office space per employee in some new leases but that the share of general space (including retreat rooms, conference rooms, etc.) will increase. The amount of office space per employee will only decline slightly as a result. We have therefore to date not seen a structural break and do not expect to see one in the future. However, vacancy rates in Germany's top 7 cities will be higher in the coming years than prior to the outbreak of the pandemic. We have revised our model according to recent developments including the war in Ukraine and the resulting economic uncertainty as well as the rising prices that are hitting the construction sector. We now estimate slightly higher vacancy across all of the country's top 7 cities. The spread between our estimates for the top 7, however, peak in 2026 at 80 bps. The results are mainly driven by lower net absorption and somewhat lower completion numbers. In terms of rent prices, we expect to see an upward trend due to rising inflation and competition for scarce high quality new-build office space.

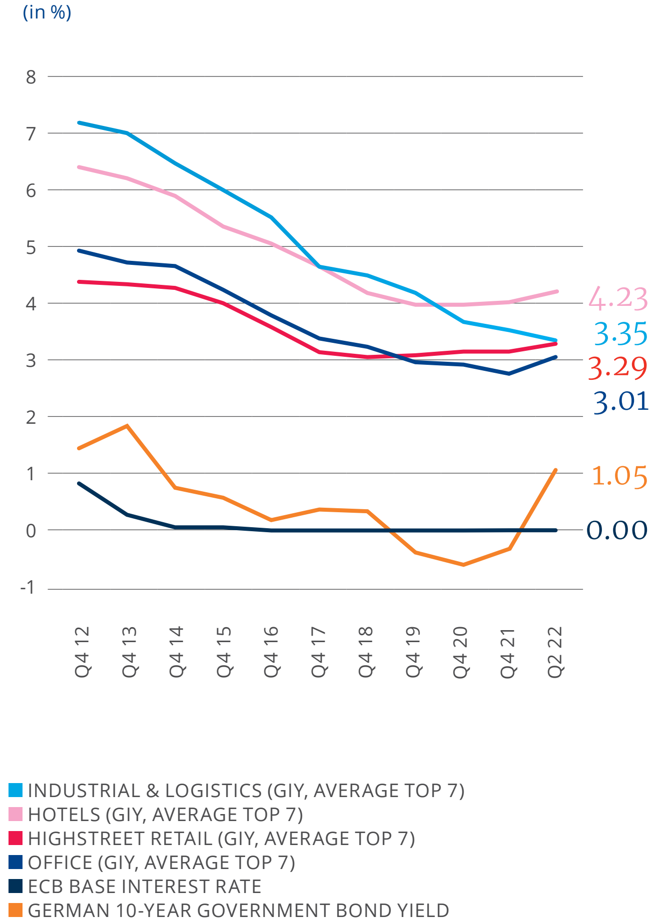
Commercial transaction volume by property type 2021 & H1 2022

OUTER RING: TAV TOP 7 INNER RING: TAV GERMANY



Yields and interest rates





- Office has solidified its position as strongest asset class going forward. Investor appetite for office assets remains strong despite discussions around the shift to remote working, which have become more objective two years into the pandemic. Market players are now analyzing the situation more closely when it comes to reducing space requirements
- Industrial and logistics assets are increasingly asserting themselves as the second most popular asset class and are now regularly bringing in market shares of more than 20% of total commercial investment market, values that in the past only retail and office assets were able to achieve. Many newcomers to the segment have joined in the investment activity, attracted by the resilience of the asset class in light of the boost in e-commerce sparked by the pandemic.
- The fact that new foreign investors, including Sonae Sierra and the New Zealand Superannuation Fund, which invested in Slate's German portfolio, have been entering the market in 2021 points to the attractiveness of retail, particularly those assets that are based around local amenities. Generally speaking, however, the transaction volume generated by food-anchored retail warehouses and retail parks, which has been limited by lack of supply and had already started to decline prior to the pandemic, was not enough to compensate for the absence of high-volume deals involving downtown commercial-retail mix properties, department stores and shopping centers.
- The hotel market is set to approach pre-pandemic levels in terms of overnight stays in the medium term and is already exceeding them in some locations. Travel is on the rise and the number of overnight stays is also increasing significantly, which is putting an important foundation for the hotel market back into place. Market participants currently consider the risk that pandemic-related restrictions will be reinstated to be low. However, because a possible recession would also impact the hotel market, the extent to which macroeconomic developments, particularly the gas shortage, will affect the sector over the course of the year remains to be seen.

- After the highs of the past years, price corrections can be observed across the board in light of current uncertainties. The gap between asking prices and those being offered has widened since the outbreak of the war in Ukraine. Sales negotiations are being prolonged or put on hold in the expectation that more clarity around pricing will be gained over the summer. This will largely determine transaction activity over the further course of the year. Financing costs have increased as well while banks have become more selective and risk sensitive.
- Much will depend on how the rental markets develop, as these have gained considerable momentum since the turn of the year 2021/2022. Another factor is that there is also a positive aspect to rising inflation, one that makes investing in commercial real estate attractive. Leases with index clauses offer protection from inflation, which means that the much-touted 'concrete gold' can help investors maintain real values and cash flows over the long term.
- Weighted gross prime yields for office assets in Germany's top 7 markets are likely to climb above the 3 % mark for the first time in quite a while. The slight yield compression that was forecast for the year on the basis of a well-stocked deal pipeline has morphed into an increase of 10 bps to 25 bps within 3 months. We also currently expect yields in the country's 8 top logistics regions to increase by 25 bps. Prime yields are up an average of 10 bps in the high-street sector, where a trend reversal already took hold in 2019.
- Due to the rise in ECB's key interest rates and the clouding of the economic climate, the 10-year federal bond has clearly returned to positive territory. That means that the yield spread has narrowed despite the simultaneous increase in prime property yields. This spread nevertheless remains significant around 200 bps, e.g. in the office segment, and continues to draw attention to the attractiveness of real estate as an asset class.

4. Forestry

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

Climate change and the changes to nature and society that accompany it are bringing about physical as well as transitory risks that are growing in importance for you, the players on the capital and credit markets.

In addition to physical risks (natural disasters), including heat waves, droughts, flooding and forest fires, transformational risks arising in connection with the switch to a decarbonized economy are triggering significant developments on the German real estate market. These also include potential impact on the reputation of companies and business ventures, market disruptions caused by technological innovations and court decisions such as those we have recently seen, which will have long-term impact and are associated with claims for compensation and calls for regulatory remediation. Transnational and national institutions and governments are particularly behind ongoing changes in the real estate sector's regulatory market environment, which address the challenges and required changes arising from climate change.

The European Union has launched the Green Deal and Fit for 55 package, a clear road map for its zero-carbon, resource-conserving sustainable growth strategy with the aim of transforming Europe's society. The package is based on the Paris Climate Agreement, which went into effect in November 2016, and the UN Agenda 2030 with its 17 Sustainable Development Goals (SDGs). One key target is to achieve zero carbon emissions in the European Union by 2050. This effort is supported by regulations designed to promote sustainable investment with private capital.

Key regulations at European level include disclosure obligations (SFDR, CRR/IFR, NFRD and CSRD, which is currently being adjusted), MIFID II regulations, the classification system, or Taxonomy Regulation and the related Delegated Regulation (EU) 2021/2139, which is intended to establish "technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation or climate change adaptation and for determining whether that economic activity causes no significant harm to any of the other environmental objectives."

This regulatory framework ensures greater transparency and much clearer guidance for measuring the criteria used to evaluate the performance of a company or enterprise while promoting the integration of corporate reporting and the sustainability criteria set forth under the Taxonomy Regulation. Implementation, however, remains challenging as some regulations do not fully harmonize with each other. Another factor here is the fact that standards and fundamentals are insufficient at European level. This includes the need for more benchmarks and databases and the creation of a standardized energy certification system in the EU.

In addition to the framework that impacts properties indirectly, many sustainability regulations in the form of laws, ordinances and guidelines have been adopted in recent years. We are also seeing ongoing revision processes, which tighten requirements. Some examples include the recent amendments of the Building Energy Act (GEG) at German federal level and the amendment of the Energy Performance of Buildings Directive (EPBD) at European level.

We will only be able to truly see the results and impact of the process initiated in this regulatory market environment in the medium to long term. Decarbonizing Europe's stock buildings along with its companies and enterprises, which includes capital market products for the asset class and players in the real estate sector, poses significant challenges for everyone involved. These challenges cannot be resolved from one day to the next. As such, compensation solutions for carbon emissions are becoming increasingly important during this transitional phase.

Accelerating Net Zero – Impact investing in forestry

One way of compensating carbon emissions is to invest in sustainable forestry. Forests support the ecosystem in many ways that are currently under-valued. Forests are the only type of land use that cost-effectively extracts CO2 from the atmosphere. This unique function is being increasingly recognized, documented by independent certification and taken into account in valuation. The goal is to only offset the share of your carbon footprint that you cannot prevent or reduce. Investing in forests with Colliers is an important step towards achieving a balanced carbon footprint.

Certificates serve as proof of forestry sustainability. The FSC and PEFC certification systems, with their extensive management and reporting requirements, largely overlap with ESG criteria.

Sustainable forestry also has a positive impact on several of the United Nations' 17 Sustainable Development Goals (UN SDGs). Colliers already advises clients on impact investments in forestry. These are under active management and report contributions to the UN SDGs on an annual basis. Impact is not tied to locations in developing and emerging countries but can also be achieved in the three regions where we are internationally active.

Reforestation initiatives

One third of Germany is covered with forest. Although forests have a significant positive impact on the climate, they are also strongly affected by climate change. Over 500,000 hectares of German forests have been destroyed by natural disasters, i.e. storms, drought and bark beetles. These areas need fast reforestation to enable CO_2 storage in the future. The costs of reforestation, however, are not fully covered by public subsidies. That means that this financing gap of around € 3.5 bn has to be borne by forest owners. That is why the sector needs private investors.

Colliers brings together forest owners whose forests have been damaged by climate change and companies interested in financing reforestation and protecting the benefits of valuable forest land. In return, the companies can claim the CO_2 storage capacity of the forests they invest in for themselves.

Investment promotes the development of climate-responsive forests and sustainable forestry with regard to wood as a valuable raw material while making an important contribution to climate protection and biodiversity. Certificates will soon enable investors to provide proof of and to benefit from the CO_2 storage capacity of forests.

RESTORATION OF FOREST FUNCTIONS

THE ANNUAL ECOSYSTEM SERVICES OF 1 HECTARE (10,000 M²) OF A GERMAN FOREST / ON AVERAGE:

- PRODUCTION OF 10 M³ OF WOOD
- PURIFICATION OF 100,000 M³ OF WATER
- FILTRATION OF 50 T OF SOOT AND DUST FROM THE AIR
- PRODUCTION OF 20 T OF OXYGEN
- SEQUESTRATION OF 10 T CO_2

FOREST OWNER

FINANCIAL RESOURCES FOR REFORESTATION ARE MADE AVAILABLE TO THE FOREST OWNER. AFTER COMPLETION OF THE 30-YEAR PROJECT PHASE, THE FOREST AREAS ARE THEN AVAILABLE TO THE FOREST OWNER FOR SUSTAINABLE MANAGEMENT AND USE.

COMPANIES

COMPANIES CAN CLAIM THE CO_2-SEQUESTRATION OF THE FOREST FOR THEIR CARBON FOOTPRINT. IN THE NEAR FUTURE, IT WILL BE POSSIBLE TO VERIFY THE SEQUESTERED CO_2 IN THE FORM OF CARBON-CREDITS.

COLLIERS

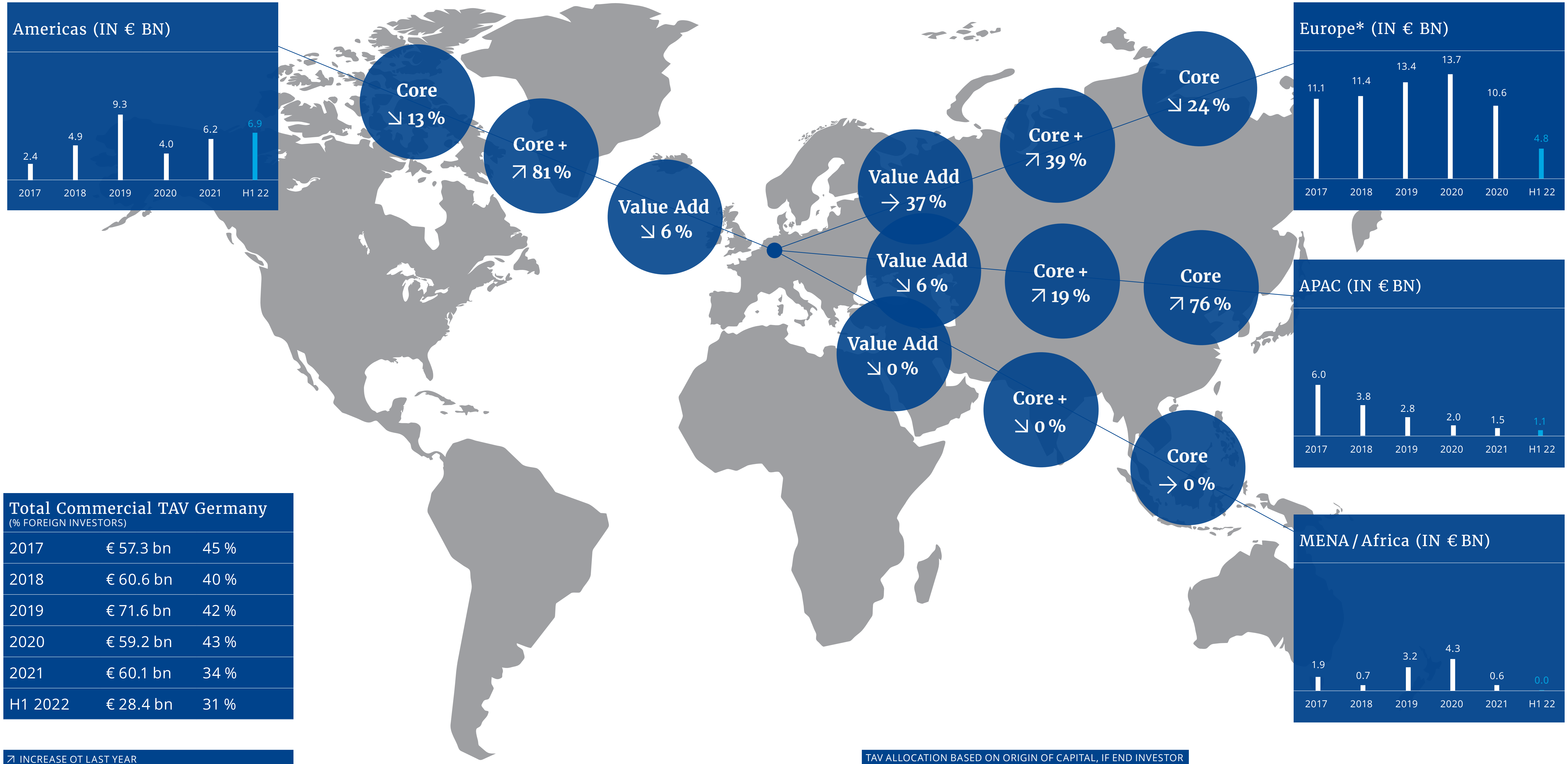
COLLIERS CONNECTS COMPANIES (INVESTORS) AND FOREST OWNERS AND IS A PIONEER ON THE INTERNATIONAL MARKET AS AN INTERMEDIARY AND ADVISOR FOR CARBON-FOREST-PROJECTS.

5. Major acquisitions by foreign investors 2021 & H1 2022

Foreign investor capital has been driving German commercial transaction volume over the past several years to a substantial extent, with foreign investors repeatedly claiming a share of 40 % to 50 % in total transaction volume. As many as five deals involving foreign investors and going for € 1 bn and above changed hands in 2021 and H1 2022. The takeover of alstria AG by Brookfield is also one of the largest real estate deals the German investment market has ever seen. Other landmark deals such as the FOUR T1 Tower in Frankfurt and FÜRST in Berlin highlight the attractiveness of the German real estate market for cross-border investments. In 2021 and H1 2022, 383 deals involving foreign capital were recorded with € 33.9 bn in total transaction volume.

NAME	CITY	PURCHASER	DATE	PURCHASE PRICE IN € M²	MAIN USAGE
ALSTRIA TAKE-OVER	ALL OVER GERMANY, FOCUS ON TOP 7	BROOKFIELD ASSET MANAGEMENT	2022 Q1	4,400	OFFICE
FOUR T1	FRANKFURT AM MAIN	UNIVERSAL-INVESTMENT, ALLIANZ REAL ESTATE GERMANY	2021 Q3	1,400	OFFICE
FÜRST (FORMERLY KUDAMM-KARREE)	BERLIN	AGGREGATE HOLDINGS / CORESTATE	2021 Q2	1,250	OFFICE
RHEINPARK-METROPOLE	KÖLN	RFR HOLDING	2021 Q4	1,000	MIXED-USE
34 REAL-HYPERMARKETS	ALL OVER GERMANY	X+BRICKS	2021 Q3	1,000	RETAIL/HYPER-MARKETS
MONT PORTFOLIO	ALL OVER GERMANY	TRISTAN	2021 Q2	980	MIXED-USE
SHARE DEAL VIB VERMÖGEN	ALL OVER GER-MANY, FOCUS ON REGIONAL CITIES	DIC ASSET REIT	2022 Q1	910	LIGHT INDUSTRIAL
MARIENTURM	FRANKFURT AM MAIN	DWS	2022 Q1	810	OFFICE
DIR TAKE-OVER (89 LIGHT INDUSTRIAL PROPTERTIES)	ALL OVER GERMANY	CTP	2022 Q2	800	LIGHT INDUSTRIAL
OPTIMUM PORTFOLIO	BERLIN	BLACKSTONE	2021 Q4	740	MIXED-USE
SONY CENTER	BERLIN	NORWEGISCHER STAATSFONDS NORGES	2022 Q2	677	OFFICE
MEDIAWORKS - CAMPUS	MUNICH	UNION INVESTMENT, HINES IMMOBILIEN GMBH	2021 Q2	660	OFFICE
PANDION OFFICEHOME SOUL	MUNICH	UNION INVESTMENT	2021 Q4	645	OFFICE
UPTOWN MÜNCHEN	MUNICH	DIC DEUTSCHE IMMOBILIEN CHANCEN	2021 Q2	635	OFFICE
HIGHLIGHT TOWERS	MUNICH	IMFARR BETEILIGUNGS GMBH, SN HOLDING	2021 Q2	635	OFFICE
ALPHABET PORTFOLIO (13 OFFICE BUILDINGS)	ALL OVER GERMANY, A&B CITIES	APOLLO GLOBAL MANAGEMENT	2021 Q3	628	OFFICE
EQT/EXETER TAKE-OVER	PART OF EUREPEAN PORTFOLIO	GOVERNMENT OF SINGAPORE INVESTMENT CORPORATION PTE LTD (GIC)	2021 Q4	600	LOGISTICS
UPTOWN MÜNCHEN	MUNICH	UNIVERSA KRANKENVERSICHERUNG, APOTHEKENKAMMER WESTFALLEN-LIPPE, HIH REAL ESTATE GMBH	2021 Q4	570	OFFICE
ELEMENTUM	MUNICH	IMFARR BETEILIGUNGS GMBH, SN BETEILIGUNGEN HOLDING AG	2021 Q4	565	OFFICE
SKYPER	FRANKFURT AM MAIN	AMPEGA INVESTMENT GMBH	2021 Q3	560	OFFICE

6. Foreign capital flow into Germany



Total Commercial TAV Germany
(% FOREIGN INVESTORS)

2017	€ 57.3 bn	45 %
2018	€ 60.6 bn	40 %
2019	€ 71.6 bn	42 %
2020	€ 59.2 bn	43 %
2021	€ 60.1 bn	34 %
H1 2022	€ 28.4 bn	31 %

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

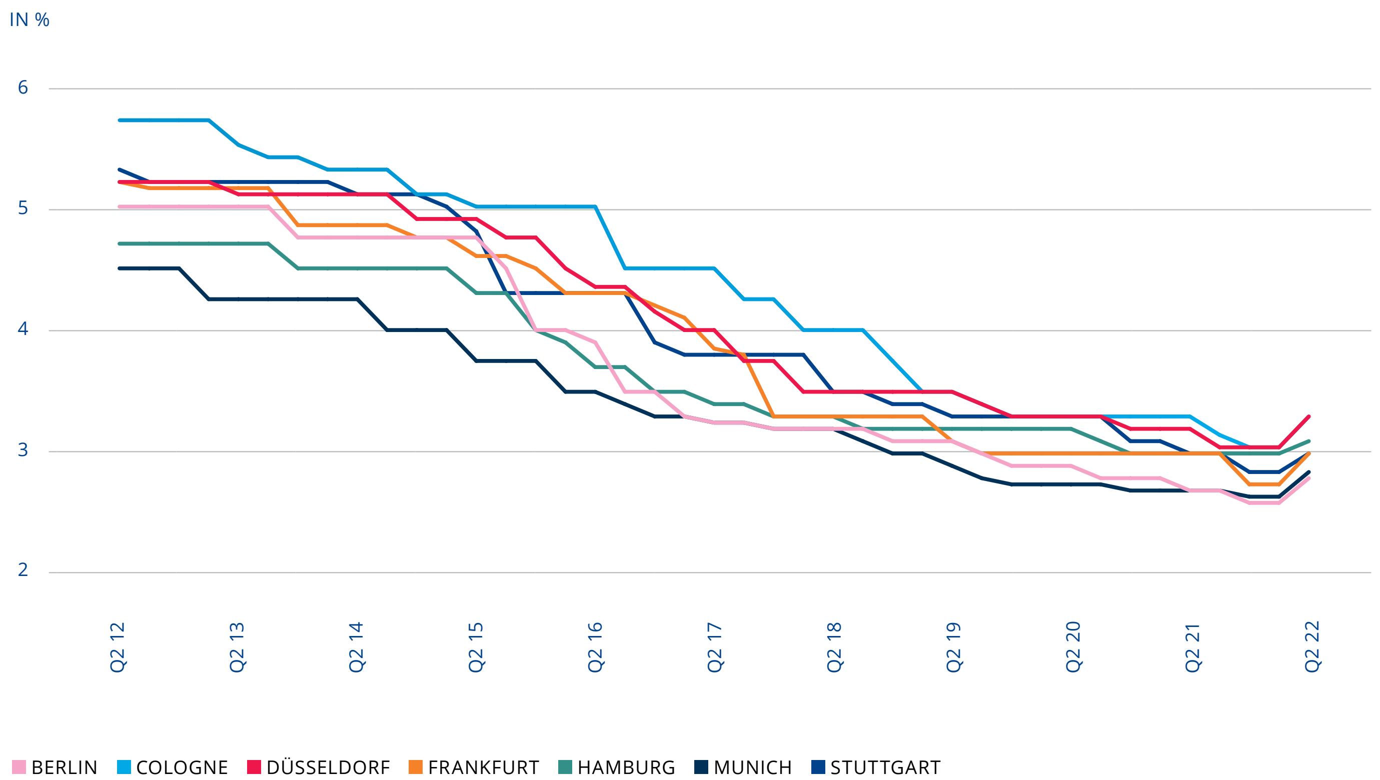
TAV ALLOCATION BASED ON ORIGIN OF CAPITAL, IF END INVESTOR NOT DISCLOSED ORIGIN OF INVESTMENT MANAGER

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

Investing in Germany: Real estate market normalizes after longest boom on record

Downward growth projections, rapid price increase, tighter monetary policy and the war in Ukraine have caused investors in some major European investment markets to take a wait-and-see stance. The softening in investment demand was felt across most asset classes in Q2 2022, particularly at the core end of the market. We are seeing some evidence that investors are adjusting their strategies to take these new operating conditions into account, with asset pricing beginning to adjust across the region. Germany and Spain are two markets where yields have already started to move out by a range of 10 – 25 basis points (bps).

PRIME OFFICE YIELDS GERMANY



SOURCE: COLLIERS

However, the fact that most COVID-19 restrictions have been lifted has fueled a boom in recreational travel that is bringing interest back to the hotel and hospitality sector, particularly in the tourism hotspots of southern Europe. Although we can expect uncertainty to persist in the latter half of 2022, any broad downturn is likely to be accompanied by bright spots in certain sectors and submarkets as investors look to unlock value.

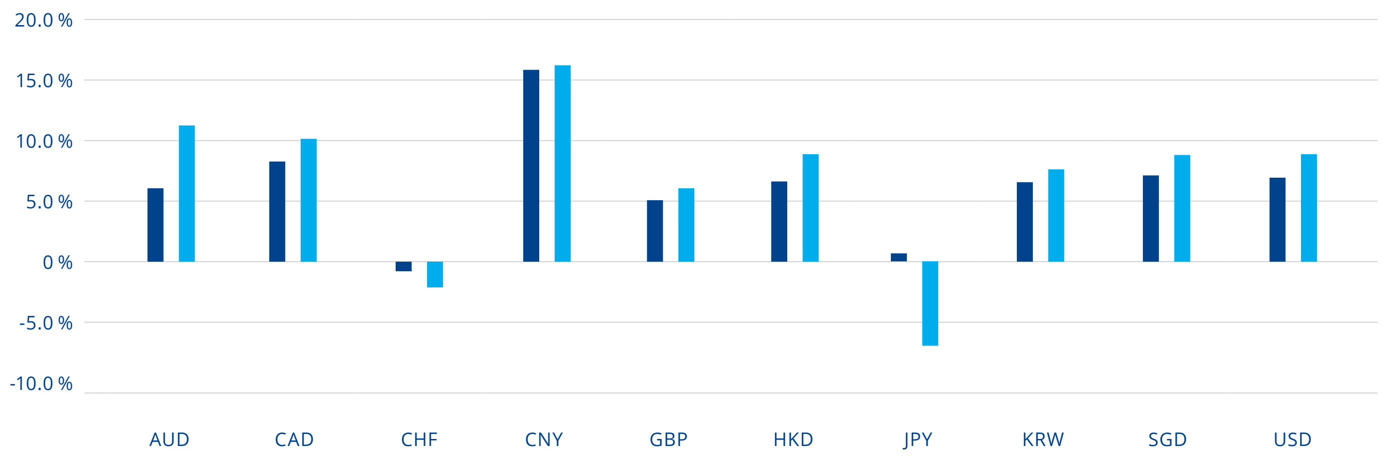
Before the war in Ukraine began, the German real estate market was experiencing a strong recovery from the mid-2020 slump caused by COVID-19. Since then, market conditions have changed significantly. High inflation is putting pressure on consumers, leading to higher interest rates and slower economic growth. In this context, 10-year government bond yields as well as yields for triple BBB rated corporate bonds have risen significantly and have moved well away from record lows. Oxford Economics expects the German bund to reach 1.6 % in 2023, although this would still be quite low in a historical context.

Although the overall conditions for the German real estate markets in mid-2022 do not look overwhelmingly rosy, investors need to consider a couple of decisive factors. Although the German economy is not growing as fast as those of its European neighbors, Germany is still the by far largest economy and consumer market in Europe. According to MSCI figures, Germany's real estate investment market is the second largest in Europe after the UK, which is why liquidity and availability of product across all commercial and residential sectors is good. Compared to the UK and France, Germany's real estate market has a poly-central structure with Berlin, Frankfurt, Hamburg and Munich representing its largest markets when it comes to transaction volume, followed by Cologne, Düsseldorf and Stuttgart as well as at least 12 secondary cities. Although liquidity is much lower in the smaller markets, investors with a local footprint and expertise can easily diversify capital into different cities and property sectors.

FX hedging gains to EUR on the rise

For many global investors, the hedging benefit of buying EUR-denominated assets will continue to support the flow of capital into Germany and the broader European region at a time when the search for yields and income is posing a major challenge. A positive hedging gain has returned as of August 2022 and the reason to invest in EUR-denominated assets is more compelling when 5-year spreads to USD and GBP assets would represent a loss (figure xx).

5-YEAR HEDGE FROM EUR TO INVESTOR CURRENCY



AUG 21 AUG 22 SOURCE: CHATHAM FINANCIAL/COLLIERS

7. Market data – office leasing & investment top 7

	A-CITIES (TOP 7)	BERLIN	COLOGNE	DÜSSELDORF	FRANKFURT	HAMBURG	MUNICH	STUTTGART
STOCK OF OFFICE SPACE IN MILLION SQ M	93.92	21.20	8.07	7.97	11.57	14.13	22.60	8.38
OFFICE SPACE TAKE-UP 2021 IN SQ M	3,110,200	830,000	270,000	280,000	437,500	470,800	664,500	157,400
OFFICE SPACE TAKE-UP IN SQM AVERAGE 2012–2021	3,393,000	792,000	281,100	332,300	490,400	500,900	742,000	254,300
PRIME RENT IN € / SQ M (H1 2021)		42.30	27.00	28.50	46.00	32.50	42.50	29.40
AVERAGE RENT IN € / SQ M (H1 2022)		29.30	16.20	17.80	22.80	20.10	23.80	17.10
VACANT OFFICE SPACE IN SQ M (H1 2022)	4,467,600	651,100	214,000	593,800	1,032,600	552,500	1,102,300	321,300
VACANCY RATE IN % (H1 2022)	4.8	3.1	2.7	7.4	8.9	3.9	4.9	3.8

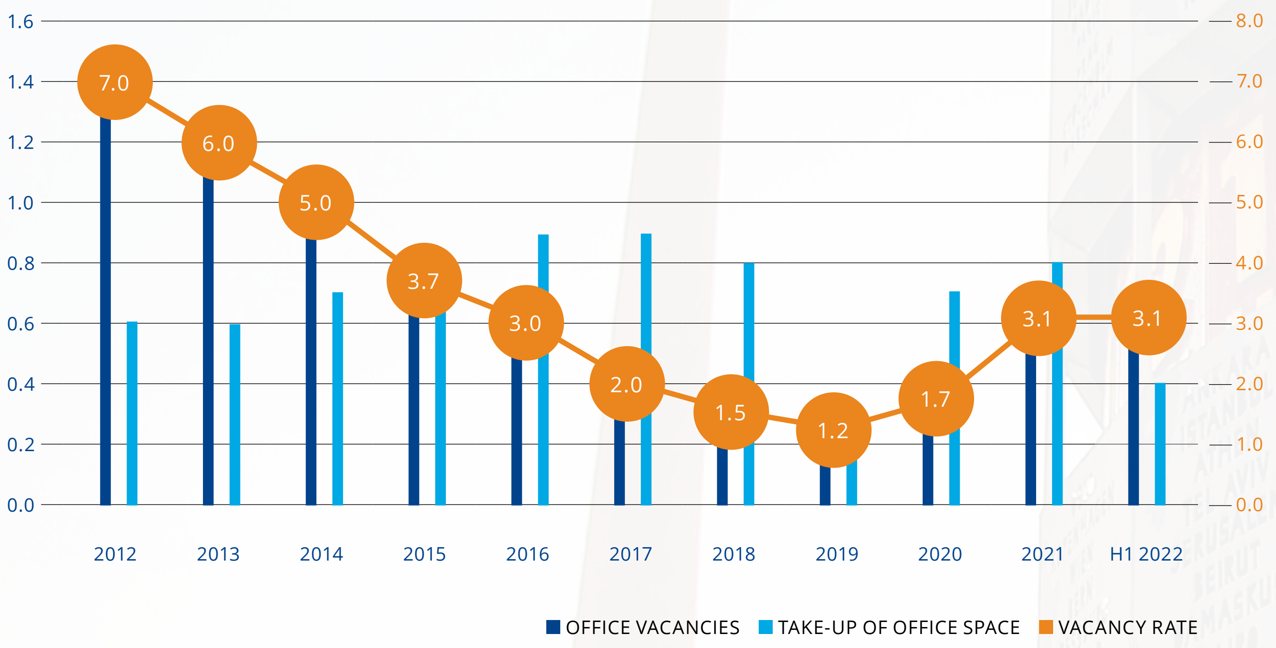
THE DATA FOR BERLIN, DÜSSELDORF, HAMBURG AND COLOGNE ARE RELATED TO THE RESPECTIVE CITY AREA.
THE DATA FOR FRANKFURT, MUNICH AND STUTTGART ARE RELATED TO EACH OF THE RESPECTIVE MARKETS ON THE WHOLE.

Market data – office leasing & investment in the top

	GERMANY	A-CITIES (TOP 7)	BERLIN	COLOGNE	DÜSSELDORF	FRANKFURT	HAMBURG	MUNICH	STUTTGART
TRANSACTION VOLUME 2021 IN MILLION €	60,138	34,198	10,453	3,250	2,150	5,762	3,301	7,400	1,882
TRANSACTION VOLUME IN MILLION € AVERAGE 2012–2021	51,281	28,904	7,027	1,823	2,477	5,972	3,894	6,235	1,476
PRIME YIELD OFFICES IN % (H1 2022)			2.80	3.30	3.30	3.00	3.10	2.85	3.00
PRIME YIELD HIGH STREET RETAIL IN % (H1 2022)			3.30	3.50	3.55	3.00	3.50	2.90	3.30
PRIME YIELD INDUSTRIAL & LOGISTICS IN % (H1 2022)						3.25*			

* REFERS TO THE DEFINED LOGISTICS MARKET AREAS

Office take-up, office vacancy (in million m²) and vacancy rate (in %)



Despite all the possible risks due to the changing macroeconomic environment and the structural changes on the office market in general, the mood on Berlin's office leasing market is thoroughly positive and the pipeline is well-stocked with units of all size segments. Berlin posted 357,000 m² in office take-up in H1 2022, reflecting a YoY increase of 15 %. Demand for high-quality space, especially in central locations, remained high despite the macroeconomic and geopolitical upheavals. This situation effectively highlights the resilience of the Berlin office market. The area-weighted vacancy rate rose slightly to 3.1 % at the end of June. The vacancy rate rose as well as expected but remains quite low.

Office leasing fast facts:

- Office stock: 21.20 million m²
- Office take-up (10-year average): 792,000 m² p.a.
- Prime office rent (H1 2022): € 42.30/m²
- Average office rent (H1 2022): € 29.30/m²
- Vacancy rate (H1 2022): 3.1 %

Investment fast facts:

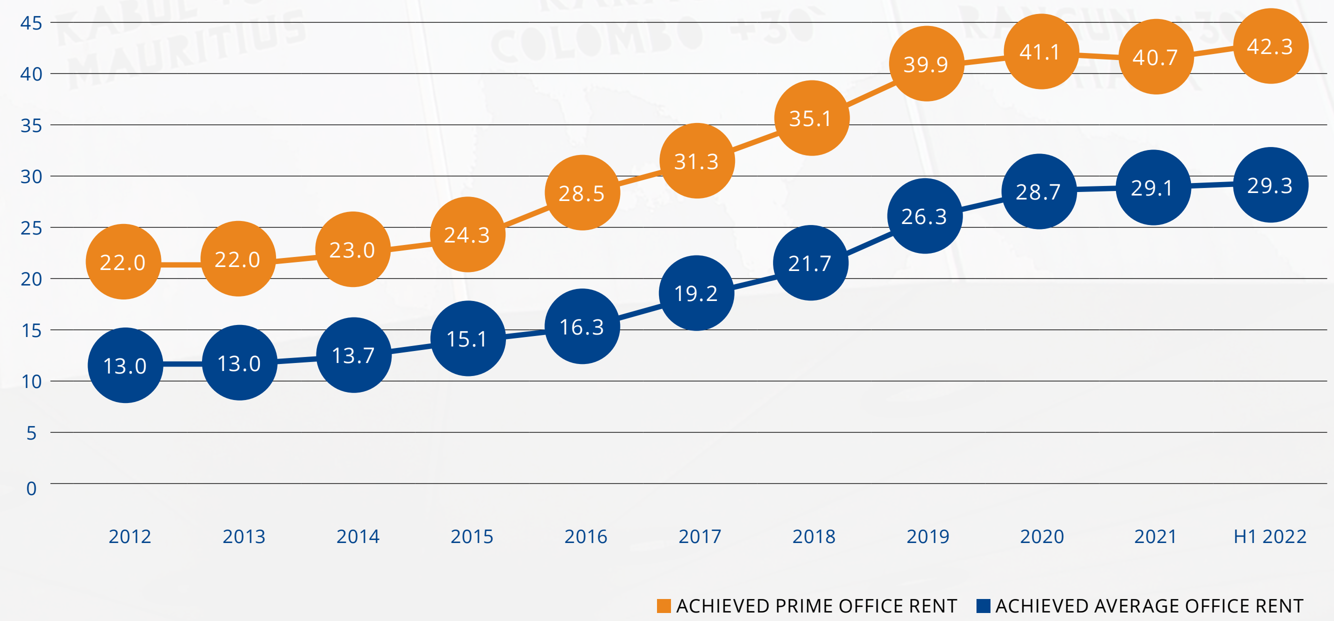
- Commercial transaction volume (10-year average): € 7.0 bn p.a.
- Share of foreign investors (2019–2021): 52.0 %
- Gross initial yields (H1 2022)

  Office: 2.80 %

  High street retail: 3.30 %

  Logistics: 3.35 %

Prime and average office rent (in €/m²)



The increase in rent prices that we have been seeing for some years continues unabated. Prime rents are currently posting € 42.30/m² with average rents throughout the municipal area at a current € 29.30/m². We expect further significant increases by the end of the year thanks to high demand for space at new-build developments in central locations. That will put the € 45/m² mark well within reach.

Berlin once again proved itself a safe haven in a volatile market environment. With low vacancy rates, rising office rents and ongoing high office demand anchored by the public sector and the digital economy, Berlin remains one of Europe's most sought-after investment locations.

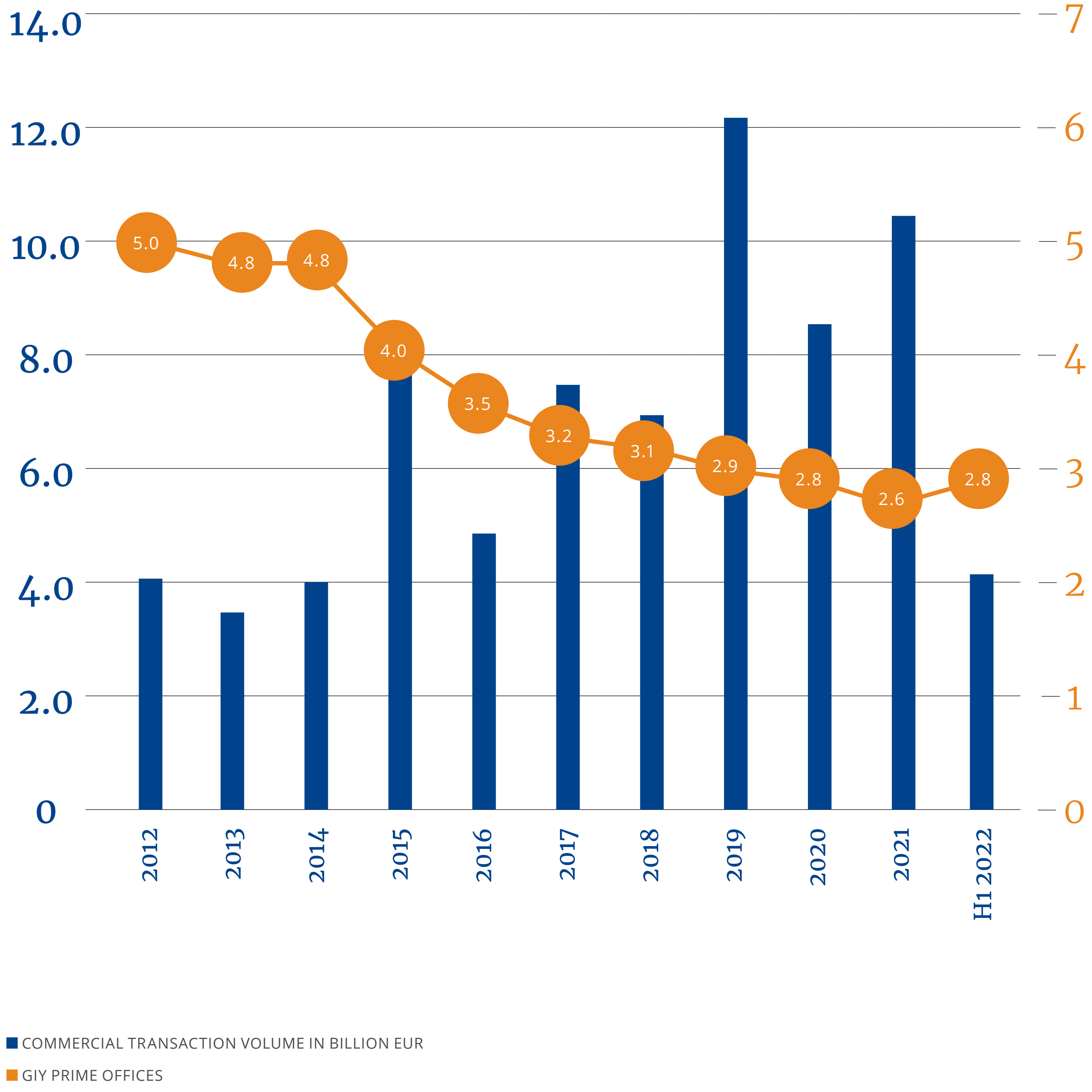
2021 marked a return to pre-pandemic levels for the Berlin investment market. The year-end result of € 10.5 bn crossed the € 10 bn-barrier for the second time. A deal pipeline at record levels was temporarily slowed in H1 2022 by rising financing costs although overall transaction volume was still on par with previous-year results and 7 % above the 5-year average.

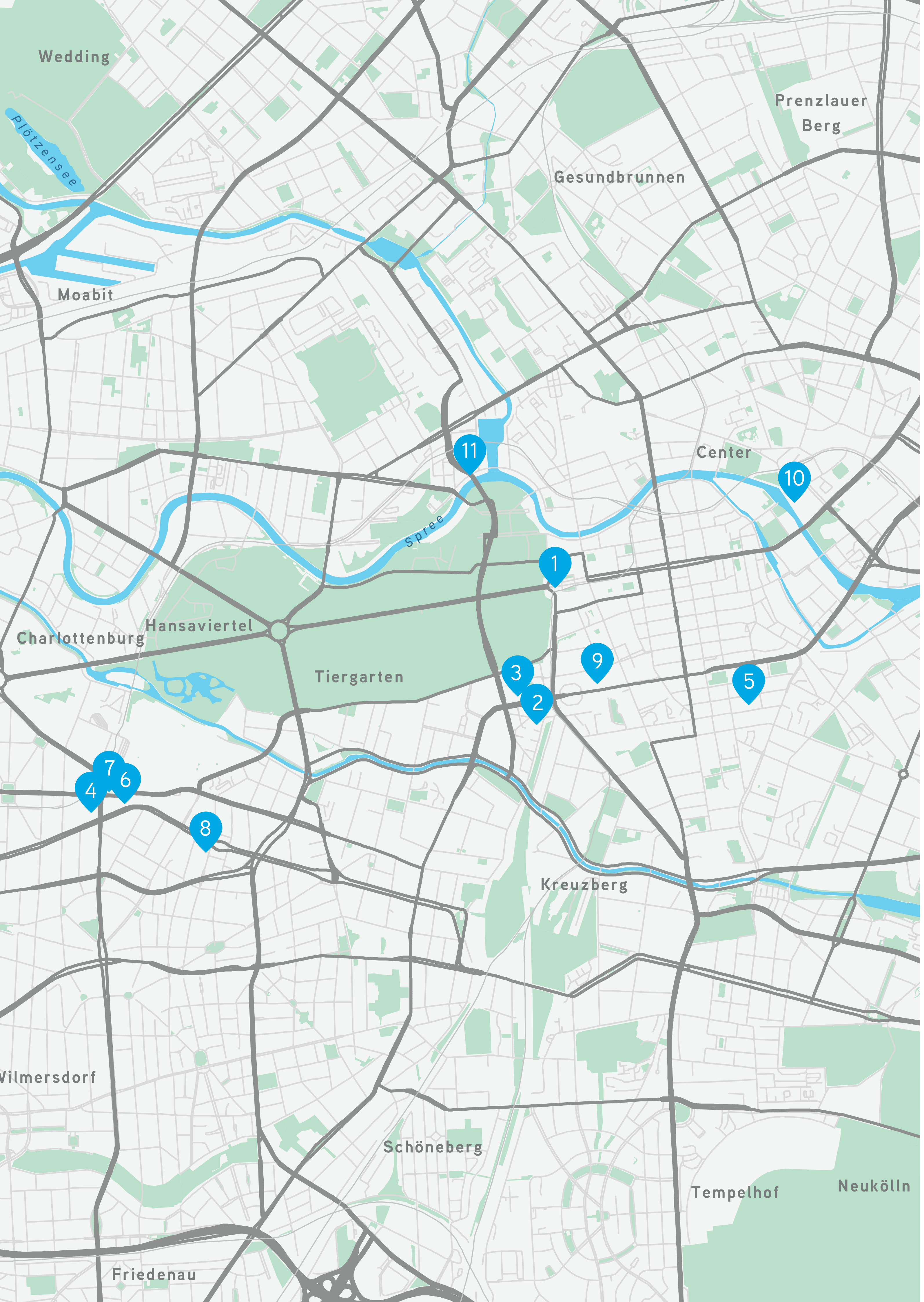
Price adjustments are still in full swing across all asset classes but prime office yields are expected to remain lowest in Germany's top 7 cities thanks to high demand for Berlin real estate and plenty of dry powder still waiting to be invested. Foreign investors in particular are on the lookout for opportunities and piled up the highest market share seen in three years in H1 2022.

Core assets are more affected due to high interest rate sensitivity. Value-add products and lots for property development are more in demand by comparison, which points to the trust that buyers and developers are putting in Berlin's future growth potential. They are placing their focus, however, more than ever on downtown locations within the circle line and on secondary locations with good accessibility.

Transaction activity is expected to increase over the coming months, ensuring an above average year-end result. After all, the deal pipeline remains fully stocked.

Commercial transaction volume (in € BN) and office prime yields (in %)





Berlin map and prominent buildings

1. BRANDENBURGER TOR

2. POTSDAMER PLATZ

3. SONY CENTER

4. KRANZLER-ECK

5. MOSSE ZENTRUM

6. UPPER WEST

7. ZOOFENSTER

8. KADEWE

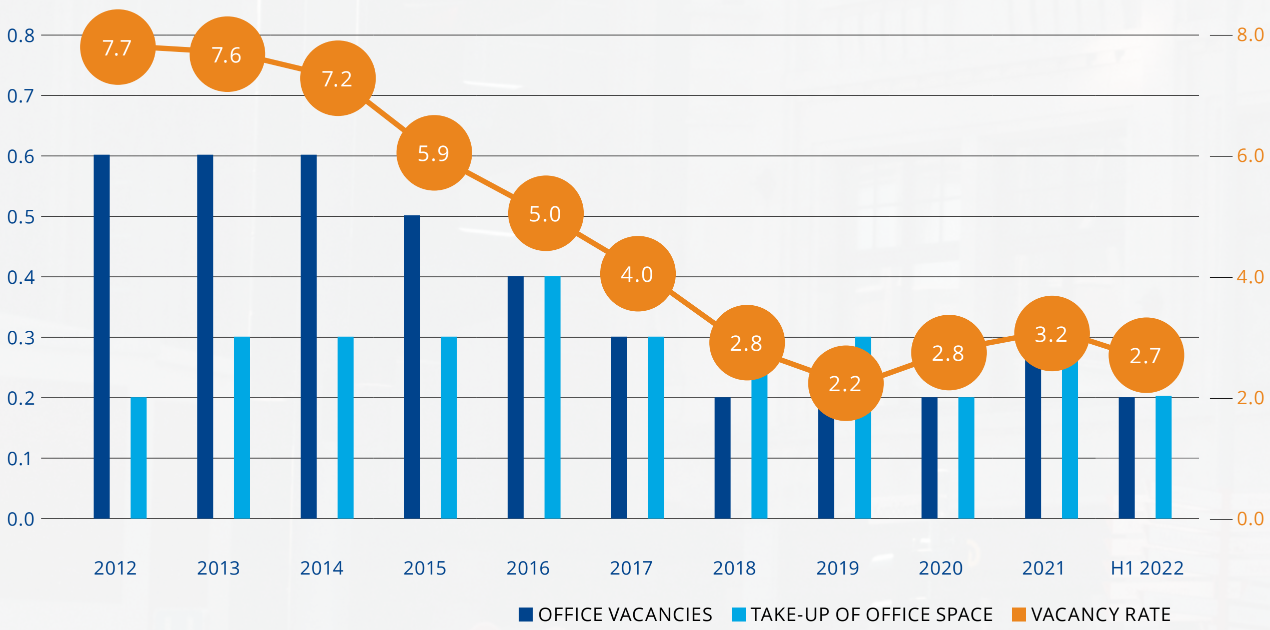
9. MALL OF BERLIN

10. SPREEPALAIS AM DOM

11. CUBE

Cologne

Office take-up, office vacancy (in million m²) and vacancy rate (in %)



The Cologne office leasing market recorded a historic mid-year take-up result, reflecting a YoY increase of 93 % thanks to some large-scale leases. The public sector once again played a key role, signing three large leases, which accounted for almost half of the city's total take-up in the first half of the year. The amount of space available for immediate tenancy has dropped this year to date due to a number of larger-scale leases being signed for space at stock properties. As such, vacancy (including sublets) remained low at mid-year at 2.7 %. In view of the high pre-letting rates at current property developments and the large-scale applications on the market, we do not expect the vacancy rate to exceed the 3% mark until 2024. Assuming that activity continues to be lively throughout 2022, annual take-up results could surpass the 10-year average as well as the 300,000 m² mark.

Office leasing fast facts:

- Office stock: 8.07 million m²
- Office take-up (10-year average): 280,000 m² p.a.
- Prime office rent (H1 2022): € 27.00/m²
- Average office rent (H1 2022): € 16.20/m²
- Vacancy rate (H1 2022): 2.7 %

Investment fast facts:

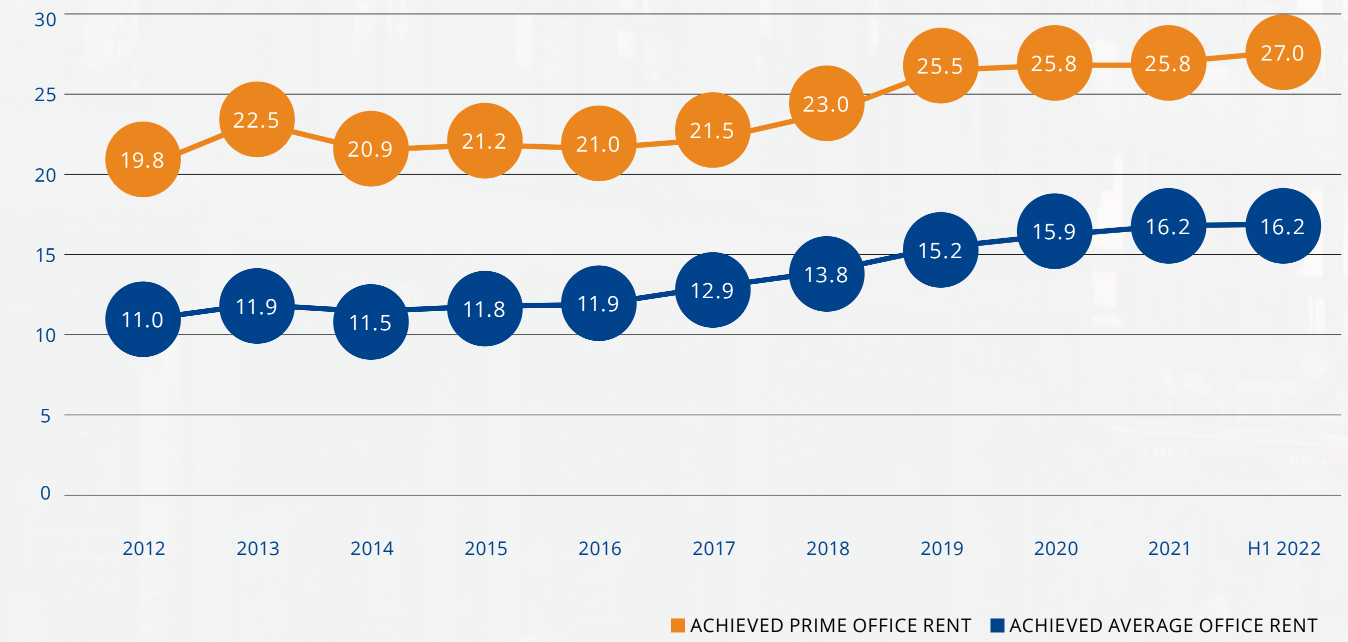
- Commercial transaction volume (10-year average): € 1.8 bn p.a.
- Share of foreign investors (2019–2021): 46.0 %
- Gross initial yields (H1 2022)

  Office: 3.3 %

  High street retail: 3.5 %

  Logistics: 3.35 %

Prime and average office rent (in €/m²)

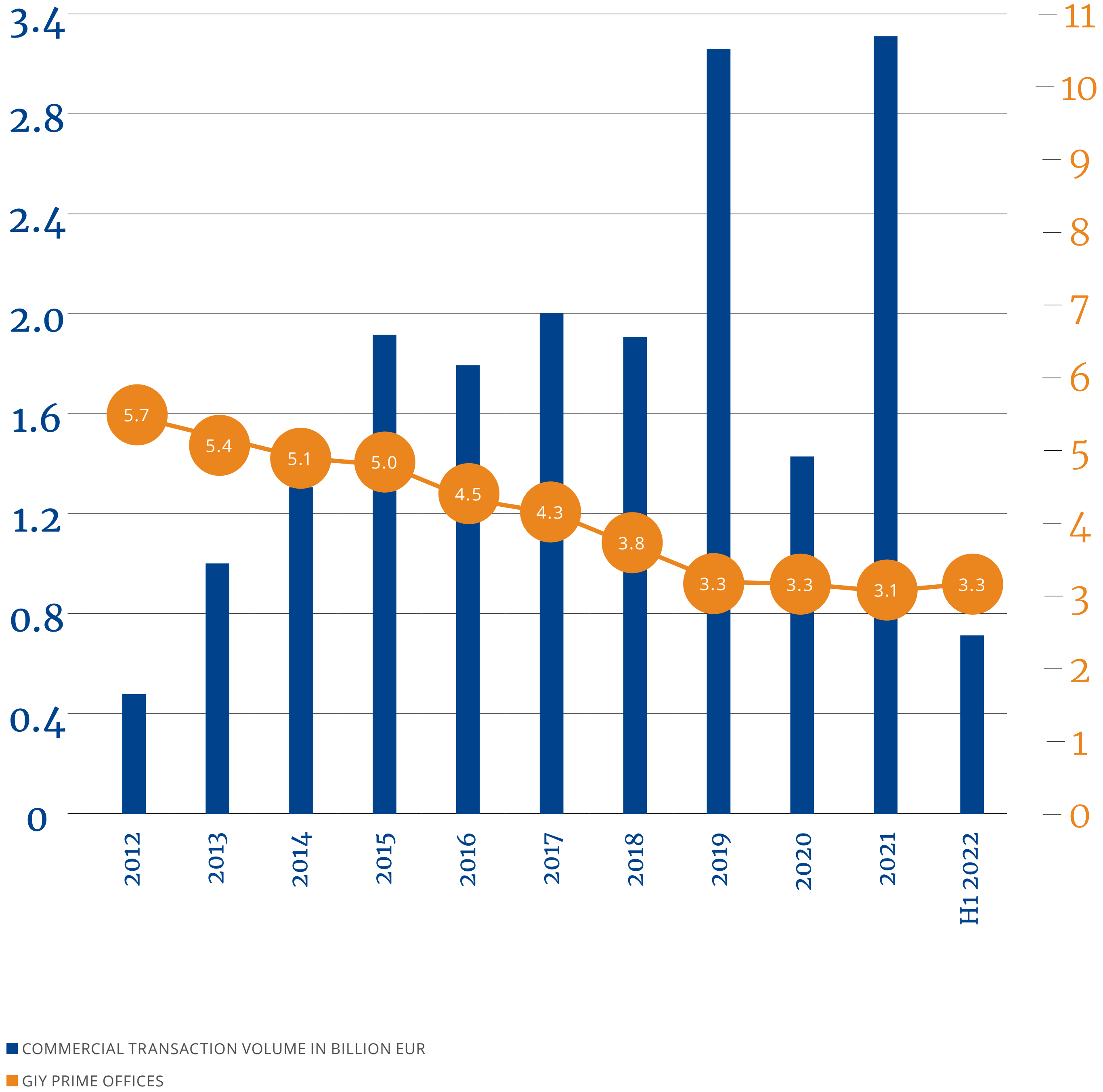


Prime rents in Cologne have continued their positive trend, hitting € 27.00/m² for the first time after having already reached € 26.00/m² earlier this year. By contrast, weighted average rent fell YoY to € 16.20/m² due in part to large-scale public sector rentals paying below average rent prices. Driven by a low vacancy rate and the ongoing rise in construction costs, the favorable price trend behind prime rents is likely to continue, presumably approaching € 30.00/m² before the end of the year.

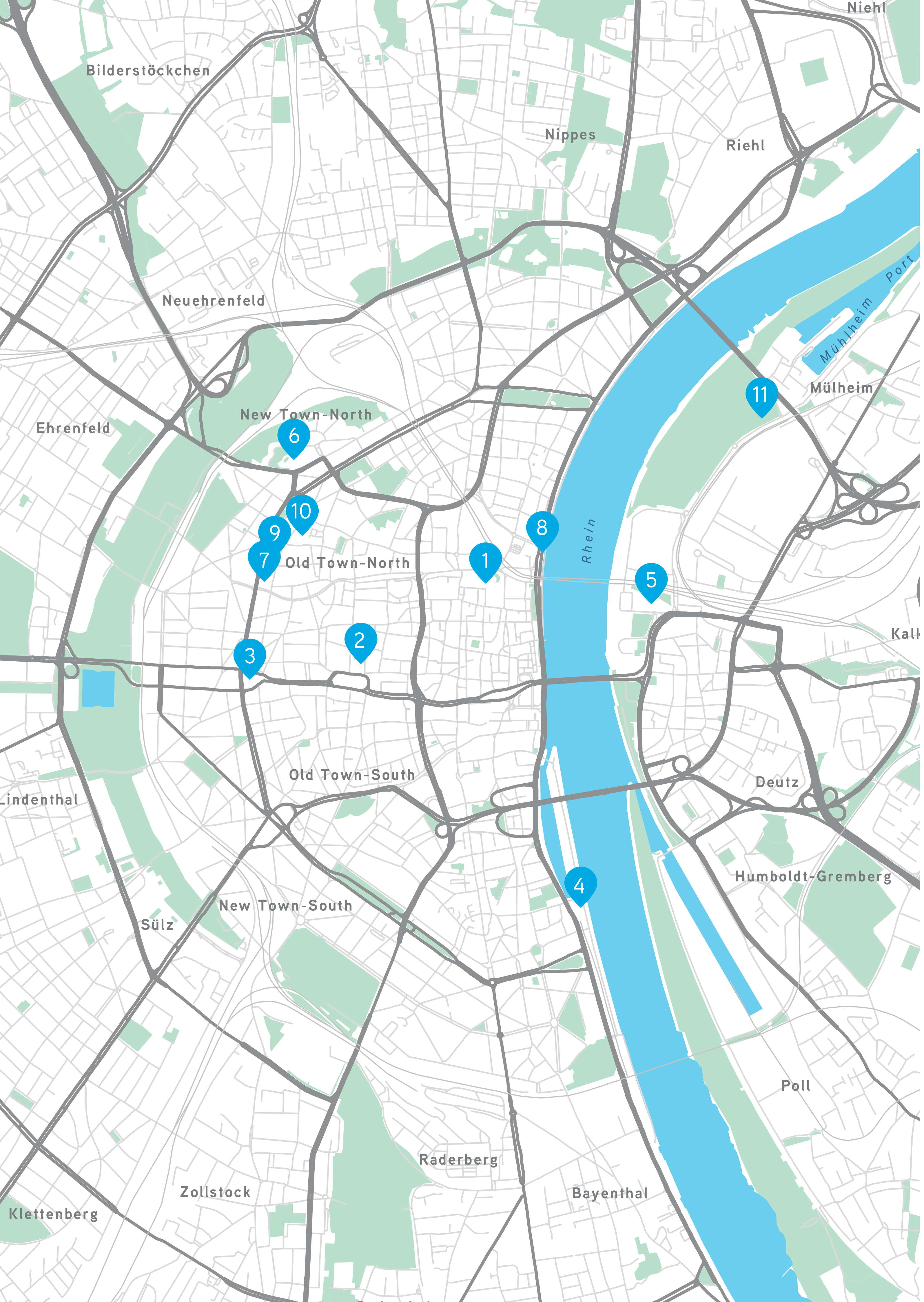
Cologne's investment market generated a solid transaction volume of roughly € 700 m in H1 2022. Despite a strong start to the year, the Cologne investment market saw market activity drop towards mid-year with the number of deals down.

Activity tended to target the City submarket where over one-half of total transaction volume was generated. Office assets once again claimed pole position with a 43 % share in transaction volume, followed by mixed-use and retail. Demand for office properties remains high, particularly in the core segment. Price corrections are currently taking place across asset classes and locations. Prime office yields in Cologne rose 25 bps and have stabilized at 3.30 %. As such, prime yields have overcome their all-time low for the time being. Rising construction costs, supply bottlenecks, rising interest rates and steadily increasing government regulations are posing new challenges to the real estate sector. We are seeing growing investor hesitation and a slowdown in transaction processes as a result. Nevertheless, we can expect activity on the transaction market to pick up again towards the end of the year. Based on the current environment, we estimate that 2022's annual result will come in below the 10-year average of around € 1.8 bn.

Commercial transaction volume (in € BN) and office prime yields (in %)



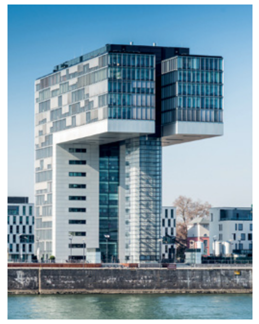
Cologne map and prominent buildings



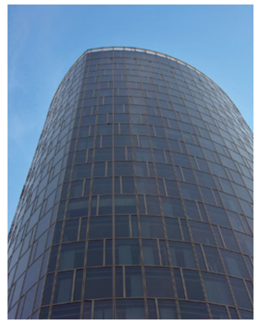
1. KÖLNER DOM

2. NEUMARKT-GALERIE

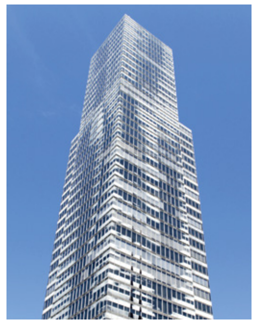
3. WALLARKADEN



4. KRANHAUS EINS



5. KÖLN TRIANGLE

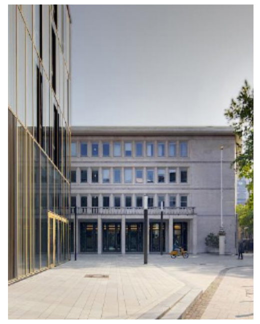


6. KÖLNTURM

7. RING-KARREE

8. NEUE DIREKTION KÖLN

9. KAISER HOF



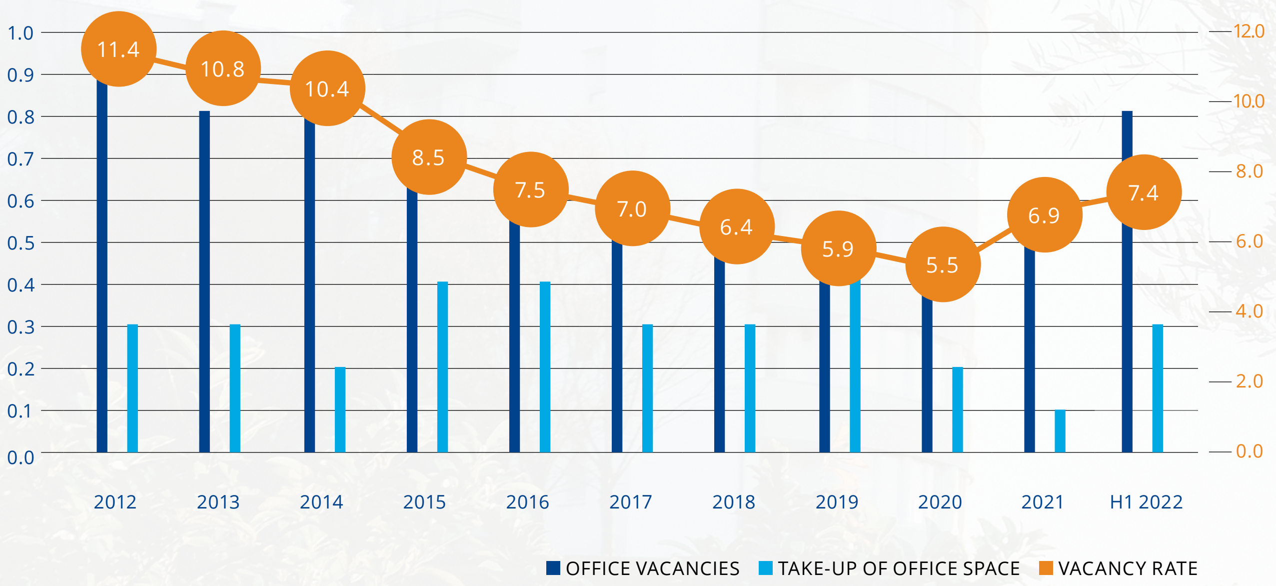
10. GERLING QUARTIER

11. RHEINPARK-METROPOLE

12. I/D COLOGNE LOFT HAUS

Düsseldorf

Office take-up, office vacancy (in million m²) and vacancy rate (in %)



Following a subdued start to 2022, activity on the Düsseldorf office leasing market picked up significantly as the year progressed. Take-up increased 66 % compared to the previous year's weak H1 result with two large-scale leases signed for over 10,000 m². The fact that this favorable trend behind increasing take-up results extends across most space segments is particularly worth mentioning. In addition to a number of lease extensions, roughly 290,000 m² in total take-up is definitely a realistic annual result for 2022. This, however, would reflect a decrease of roughly 13 % compared to the 10-year-average. The increase in supply has slowed significantly since early 2022, resulting in a vacancy rate of 7.4 % at mid-year. One trend worth mentioning was a noticeable increase in the number of available sublets. We can also expect some planned property developments to require reassessment going forward as the financing environment combined with the current rise in construction costs is having a significant impact on the market.

Office leasing fast facts:

- Office stock: 7.97 million m²
- Office take-up (10-year average): 332,300 m² p.a.
- Prime office rent (H1 2022): € 28.50/m²
- Average office rent (H1 2022): € 17.80/m²
- Vacancy rate (H1 2022): 7.4 %

Investment fast facts:

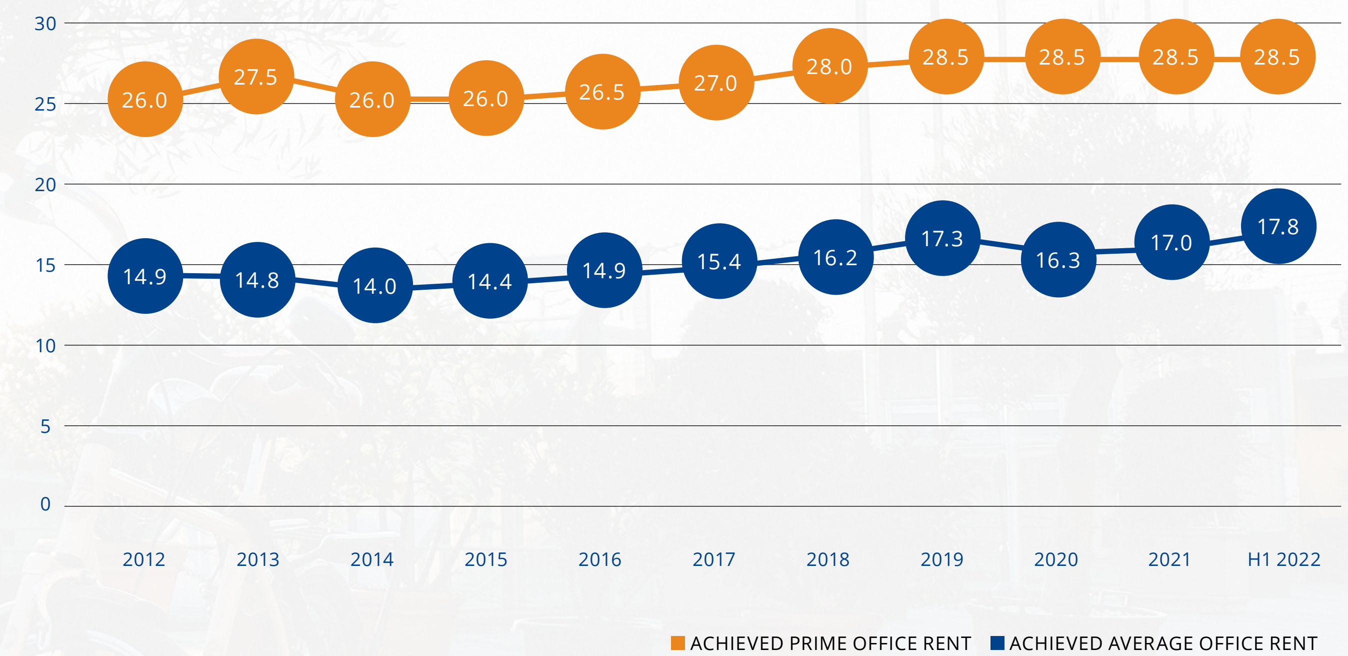
- Commercial transaction volume (10-year average): € 2.5 bn p.a
- Share of foreign investors (2019–2021): 23.0 %
- Gross initial yields (H1 2022)

  Office: 3.3 %

  High street retail: 3.55 %

  Logistics: 3.35 %

Prime and Average Office Rent (in € / m²)

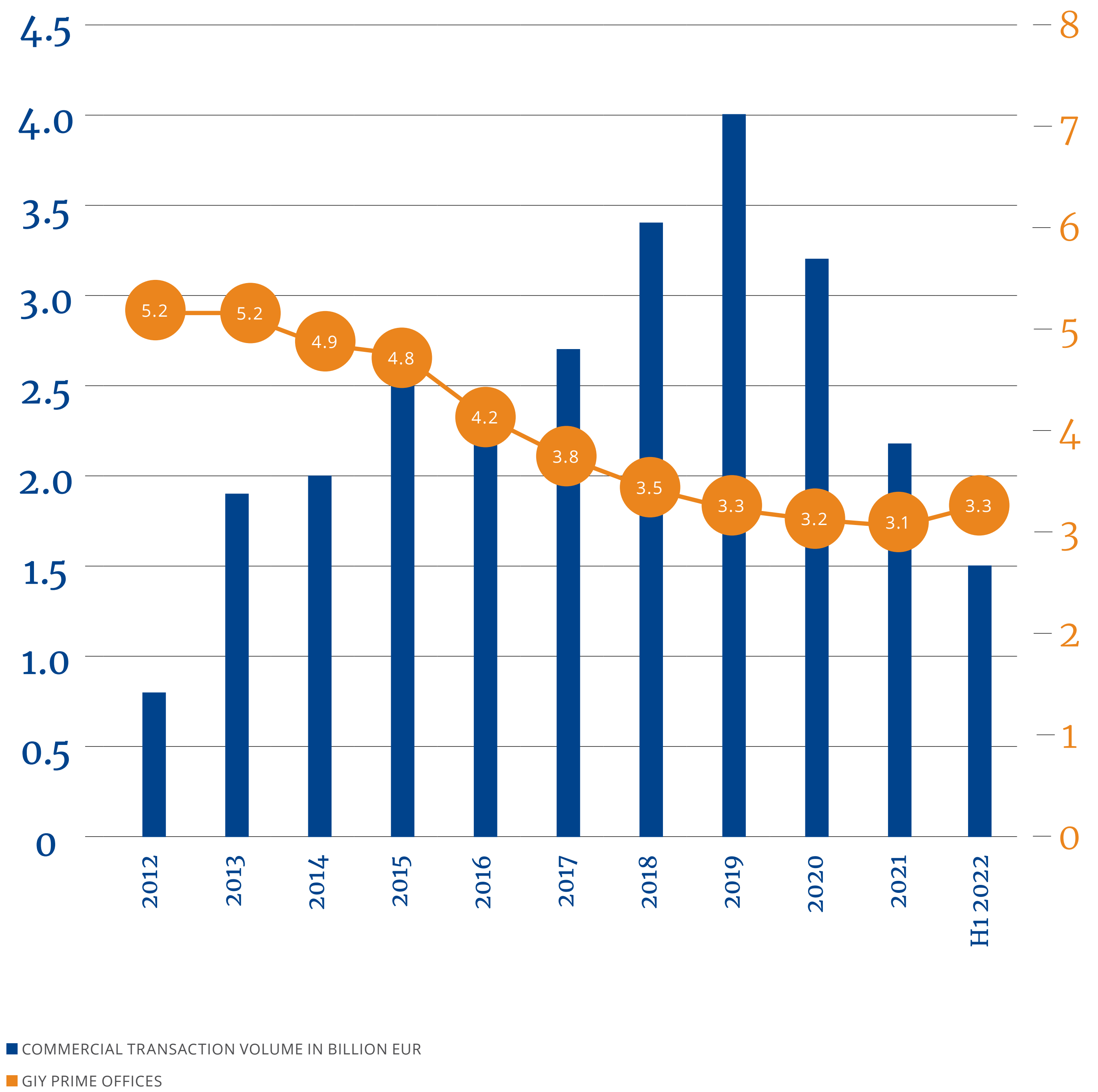


Weighted average rents have seen noticeable YoY growth of 9 % up to an all-time high of € 17.80/m² and are now approaching the € 18.00 mark for the first time. Düsseldorf's office leasing market has nevertheless overcome a period of weak growth as the noticeable rise in average rents shows. This trend of rents rising will transition over to the prime segment in the coming quarters.

Despite that fact that few deals were signed in Q2 2022 due to the wait-and-see stance being taken by many investors, the previous year's mid-year result roughly doubled. The can primarily be attributed to strategic high-volume company acquisitions and investments in early 2022.

Office properties remain the most popular asset class by far. The CBD, City Center, Kennedydamm and Hafen submarkets are currently the city's most sought-after submarkets. We are currently seeing price corrections across all asset classes, although to varying degrees. Prime yields for office assets rose from an all-time low to a current 3.30 %, which corresponds to the level seen at mid-year 2020. We expect most of the current uncertainties around pricing to resolve over the summer and transaction activity in the second half of 2022 will largely depend on this. Overall, we expect transaction volume to reach the € 2 bn mark at year-end, which would at most reflect a decrease of 20 % compared to the 10-year-average. Closings will be particularly focused around the final quarter of the year.

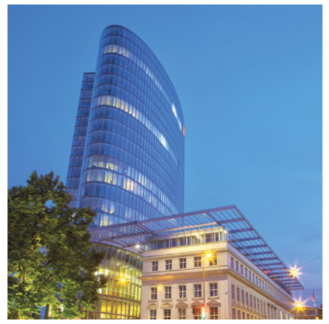
Commercial transaction volume (in € BN) and office prime yields (in %)



Düsseldorf map and prominent buildings


1. GEHRY BUILDINGS


2. WILHELM-MARX-HAUS


3. GAP15


4. KÖ-GALERIE


5. SKY OFFICE


6. DREISCHEIBENHAUS


7. STADTTOR


8. KÖ-QUARTIER


9. VODAFONE CAMPUS

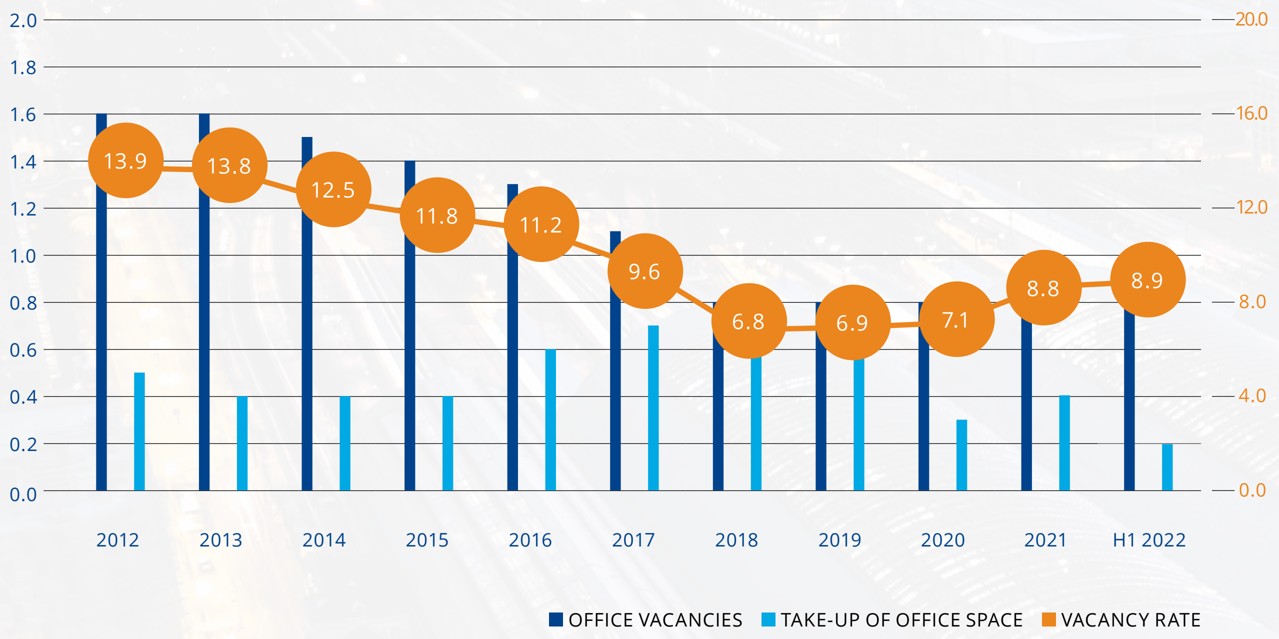

10. HAFENSPITZE


11. KÖ-BOGEN


12. TRIVAGO HQ

Frankfurt

Office take-up, office vacancy (in million m²) and vacancy rate (in %)



The Frankfurt office leasing market recorded roughly 190,600 m² in take-up in H1 2022, reflecting an increase of 14 % YoY. This result comes in only 5 % below the long-term average and shows that, on the one hand, the office leasing market has largely recovered from the pandemic and, on the other, the market has to date hardly been affected by the changed market environment triggered by the war in Ukraine. With demand still strong, we can expect activity to pick up further, keeping the favorable trend in place. The major deals (e.g. Citigroup) concluded in 2022 to date highlight the fact that in recent years demand has been particularly high for space at property developments and new-builds. Office stock, which often does not meet the more complex tenant requirements (e.g. sustainability, New Work), is being vacated. This has caused vacancy to rise, putting it above the 1 million-mark at the end of 2021. The further increase on the supply side combined with the intensified competition has turned the market in recent years into a tenant's market, which means more extensive incentive packages with respect to rent-free periods.

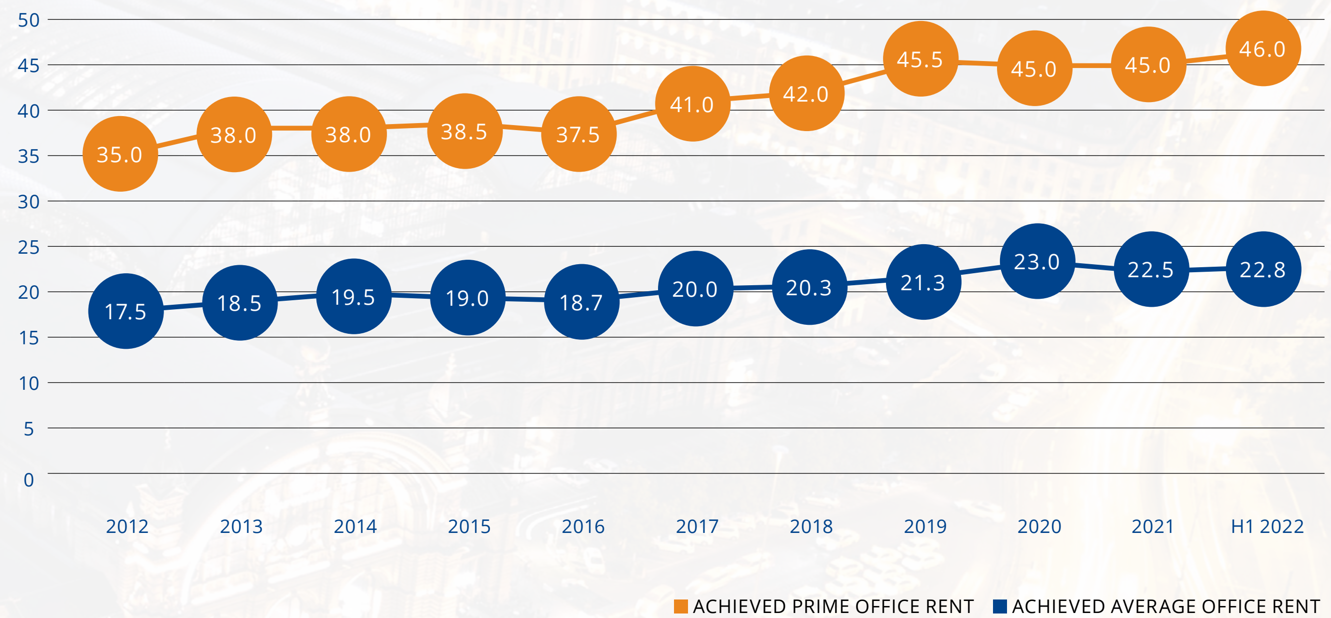
Office leasing fast facts:

- >Office stock: 11.57 million m²
- Office take-up (10-year average): 490,400 m² p.a.
- Prime office rent (H1 2022): € 46.00/m²
- Average office rent (H1 2022): € 22.80/m²
- Vacancy rate (H1 2022): 8.9 %

Investment fast facts:

- Commercial transaction volume (10-year average): € 6.0 bn p.a.
- Share of foreign investors (2019–2021): 41.0 %
- Gross initial yields (H1 2022)
  Office: 3.0 %
  High street retail: 3.0 %
  Logistics: 3.35 %

Prime and average office rent (in € / m²)

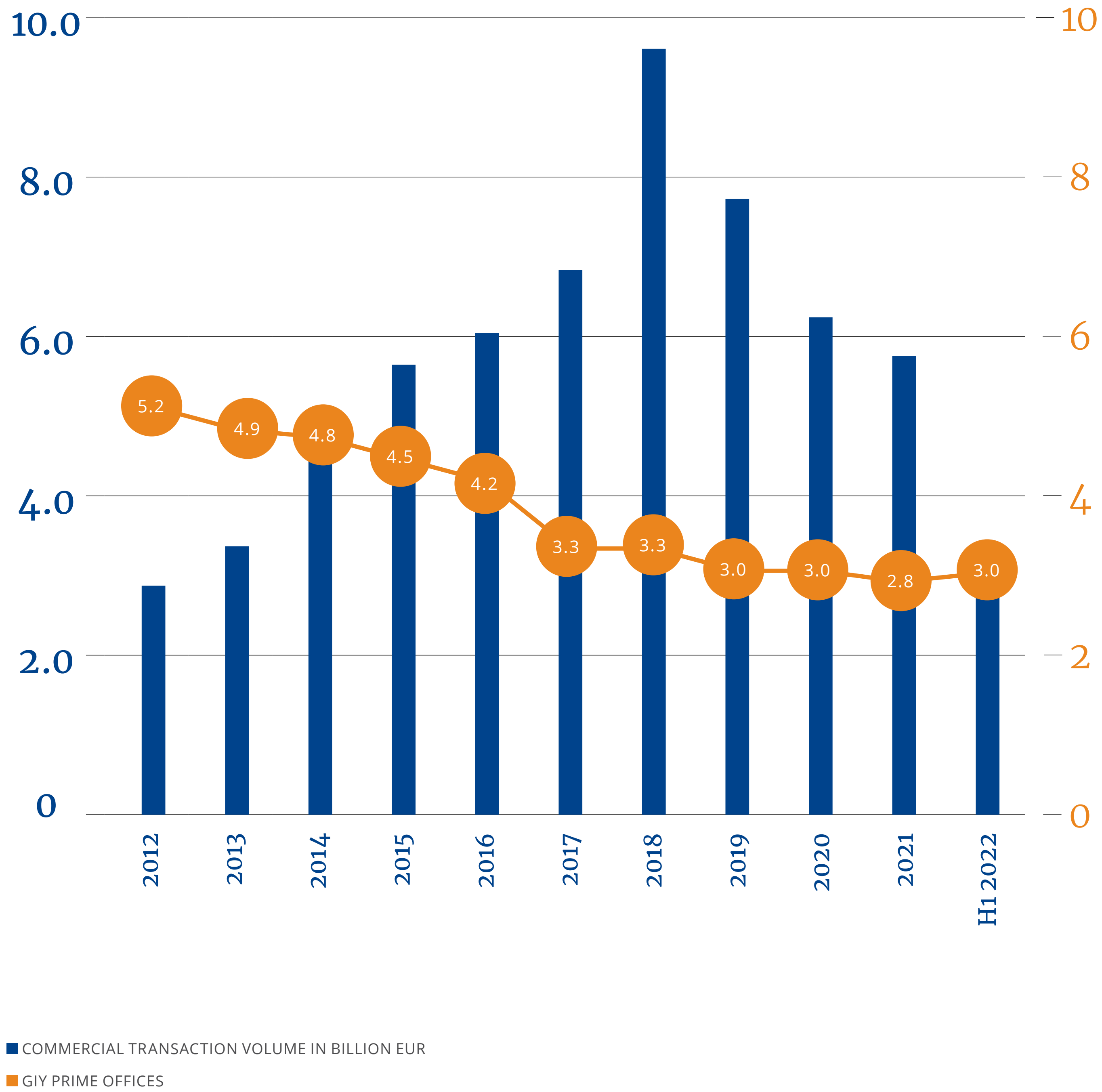


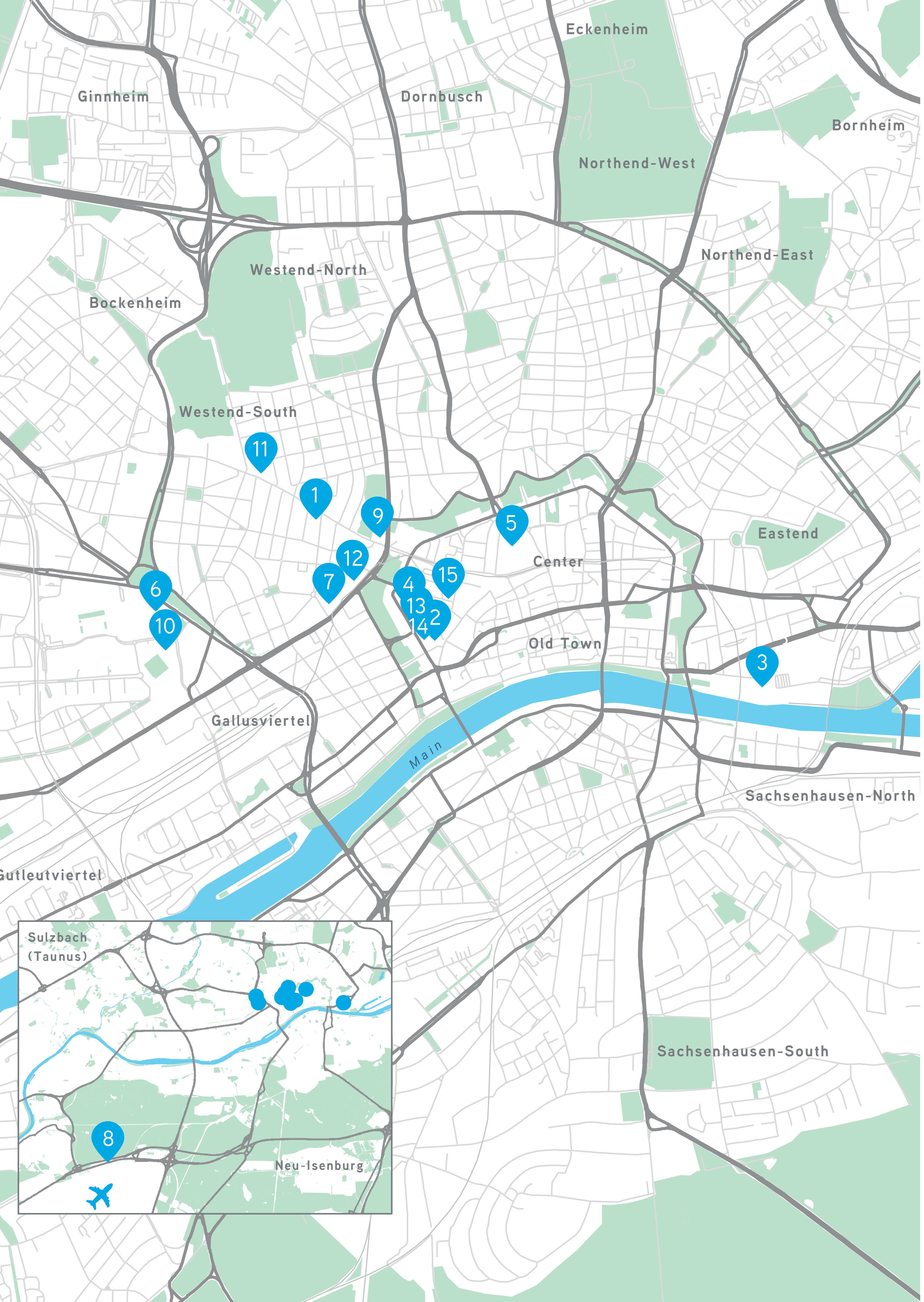
Prime rents in the city recorded an increase of € 1.00/m² to € 46.00/m² after two years of sideways movement and continue to be the highest in Germany. High-quality, ESG-compliant office space continues to be in high demand, as can be seen in high-priced, large-volume deals such as the lease signed at the Taurus property development for roughly 10,100 m² in Q2. Although average rents remain stable at € 22.80/m², we have seen some initial rent adjustment in recent months due to the changes in the market environment, which indicates further increases in the foreseeable future.

Despite the omnipresent pandemic, the Frankfurt commercial real estate investment market recorded robust activity this past year and exceeded the 10-year average.

Despite the absence of a year-end rally, sentiment was already clearly improving and market momentum increasing at the turn of the year. This development was reflected in numerous deals being initiated and big-ticket transactions at the start of 2022. The return of foreign investors, who were involved in high-volume transactions in the financial hub (e.g. Marienturm) once restrictions were lifted, contributed to this and boosted a strong mid-year result. Foreign buyers have brought a market share of around 41 % in recent years. This highlights local attractiveness and a positive long-term outlook, both of which are favored by the robust performance of the local leasing market. The rapidly changing conditions due to the war in Ukraine have caused the market to calm down considerably in recent months, primarily the result of many market participants taking a wait-and-see stance. Investor hesitation and the fact that initiated purchase processes are now being assessed around realistic exit assumptions has led caused processes to be prolonged or put on hold. The market is currently undergoing consolidation and the first price adjustments will become apparent in the second half of the year, ideally as macroeconomic conditions stabilize. Market activity continues, albeit at a slower pace, especially because opportunities are still out there for investors, particularly those with a strong equity base. High-quality office assets continue to attract the greatest investor interest with location preferences shifting increasingly towards the CBD submarkets.

Commercial transaction volume (in € BN) and office prime yields (in %)

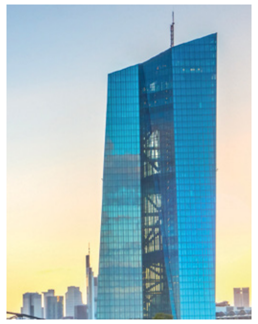




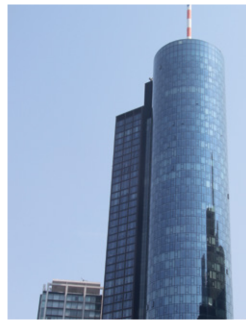
Frankfurt map and prominent buildings

1. FOUR

2. COMMERZBANK TOWER



3. EZB

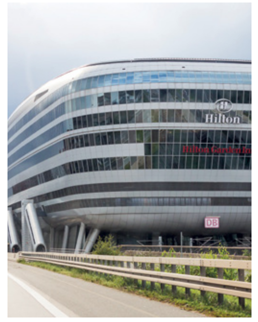


4. MAINTOWER

5. PALAIS QUARTIER

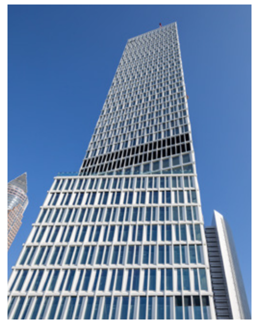
6. MESSE TURM

7. TRIANON

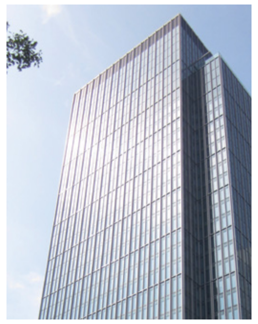


8. THE SQUAIRE

9. OPERNTURM



10. ONE



11. MARIENTURM

12. DEUTSCHE BANK TWIN TOWERS

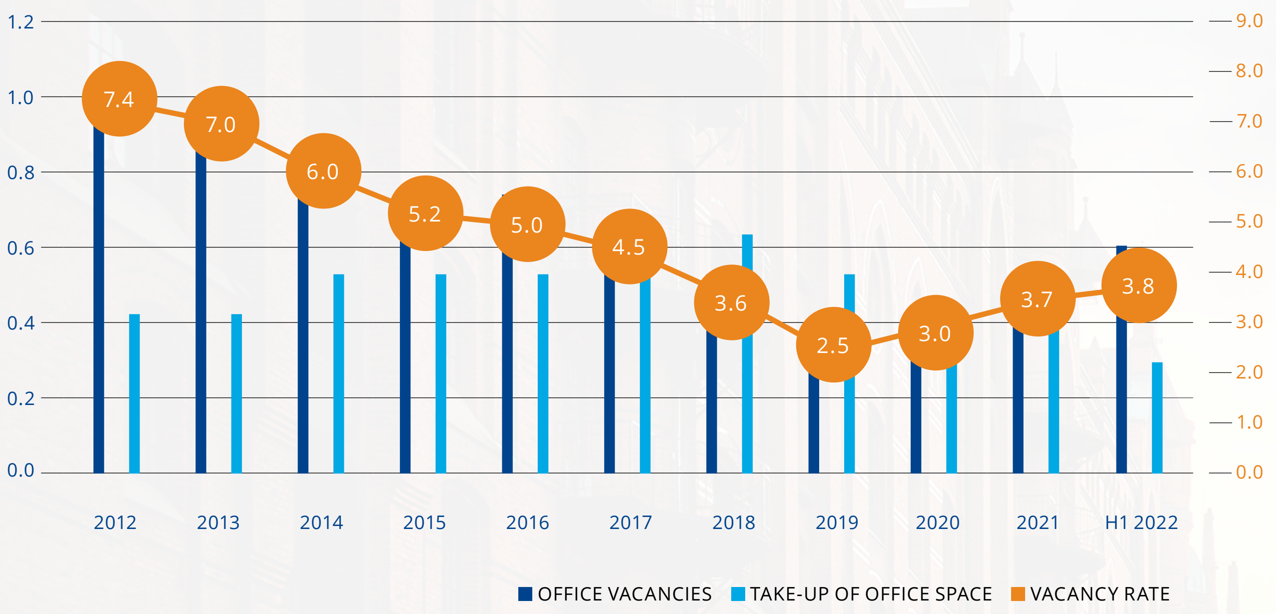
13. OMNITURM

14. TAUNUSTURM

15. ONE GOETHEPLAZA

Hamburg

Office take-up, office vacancy (in million m²) and vacancy rate (in %)



The Hamburg office market has generated more than 500,000 m² in average take-up over the past 10 years. The office leasing market finished out H1 2022 with 302,000 m² in take-up. Although the pandemic has moved slightly into the background, the war in Ukraine and especially the inflationary situation in Germany are creating tension. The vacancy rate in Q2 remained stable at the previous quarter's 3.9 % and is expected to remain at a healthy level of around 4.5 % in the medium-term. A total of 552,500 m² of office space is currently available for immediate tenancy on the Hamburg office market. We expect further growth going forward as companies continue to be on the lookout for space and with many attractive properties available on the market.

Office leasing fast facts:

- Office stock: 14.13 million m²
- Office take-up (10-year average): 500,900 m² p.a.
- Prime office rent (H1 2022): € 32.50/m²/month
- Average office rent (H1 2022): € 20.10/m²
- Vacancy rate (H1 2022): 3.9 %

Investment fast facts:

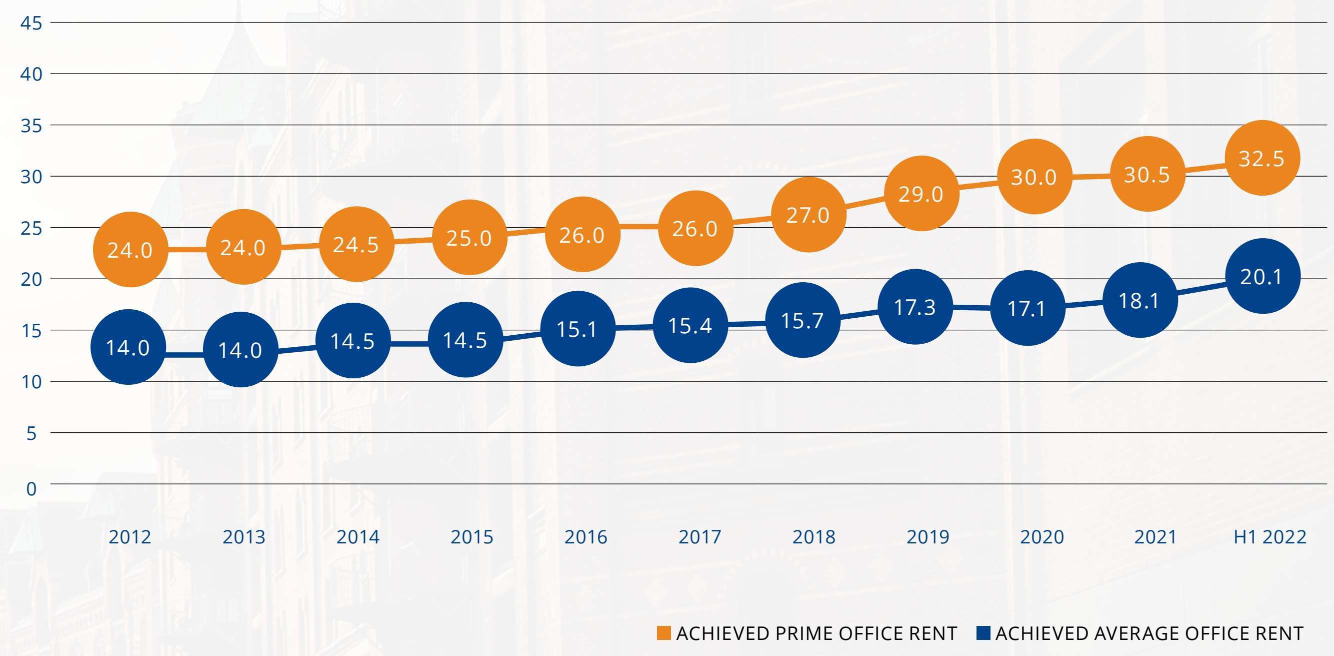
- Commercial transaction volume (10-year average): € 3.9 bn p.a.
- Share of foreign investors (2019–2021): 35.0 %
- Gross initial yields (H1 2022)

  Office: 3.1 %

  High street retail: 3.5 %

  Logistics: 3.35 %

Prime and average office rent (in €/m²)

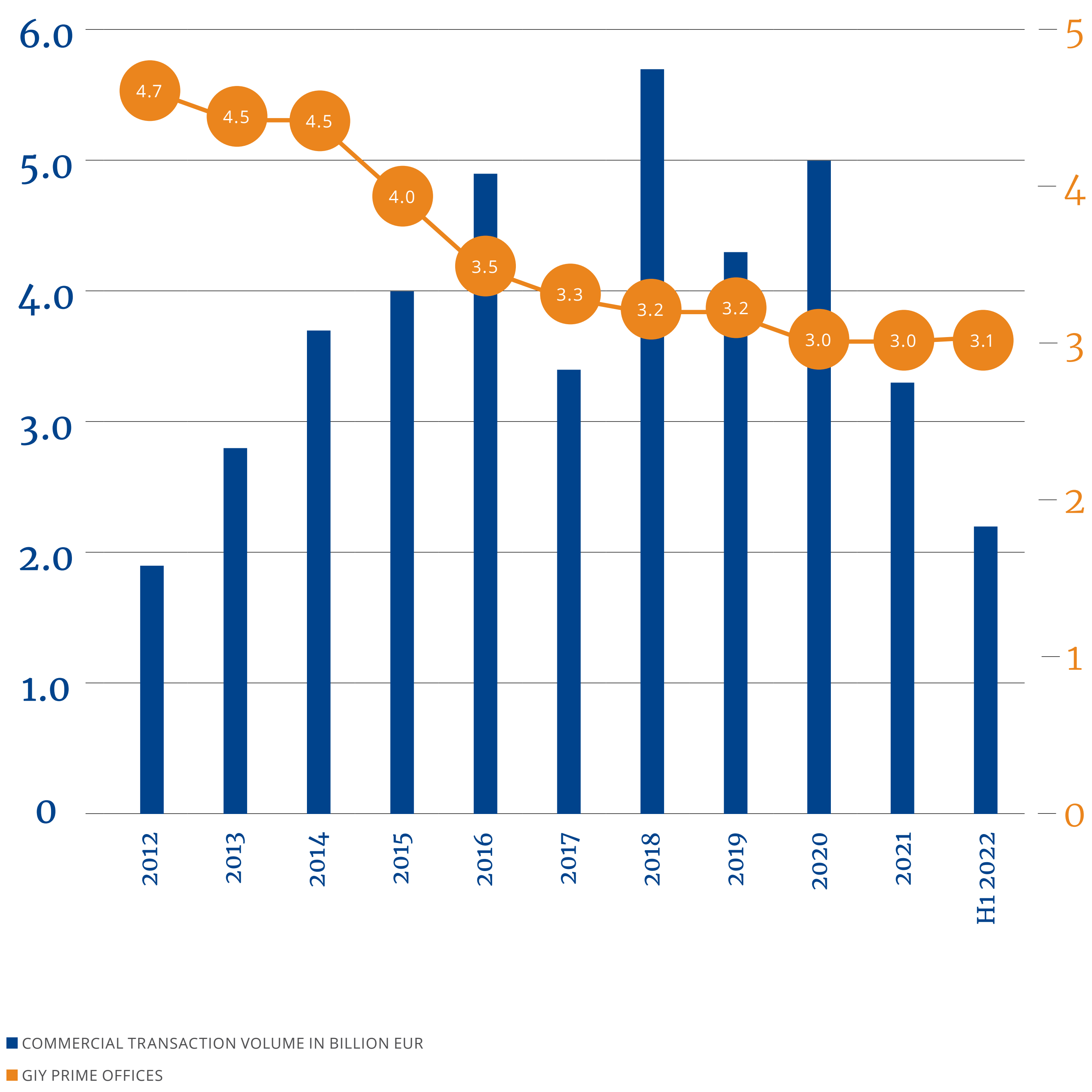


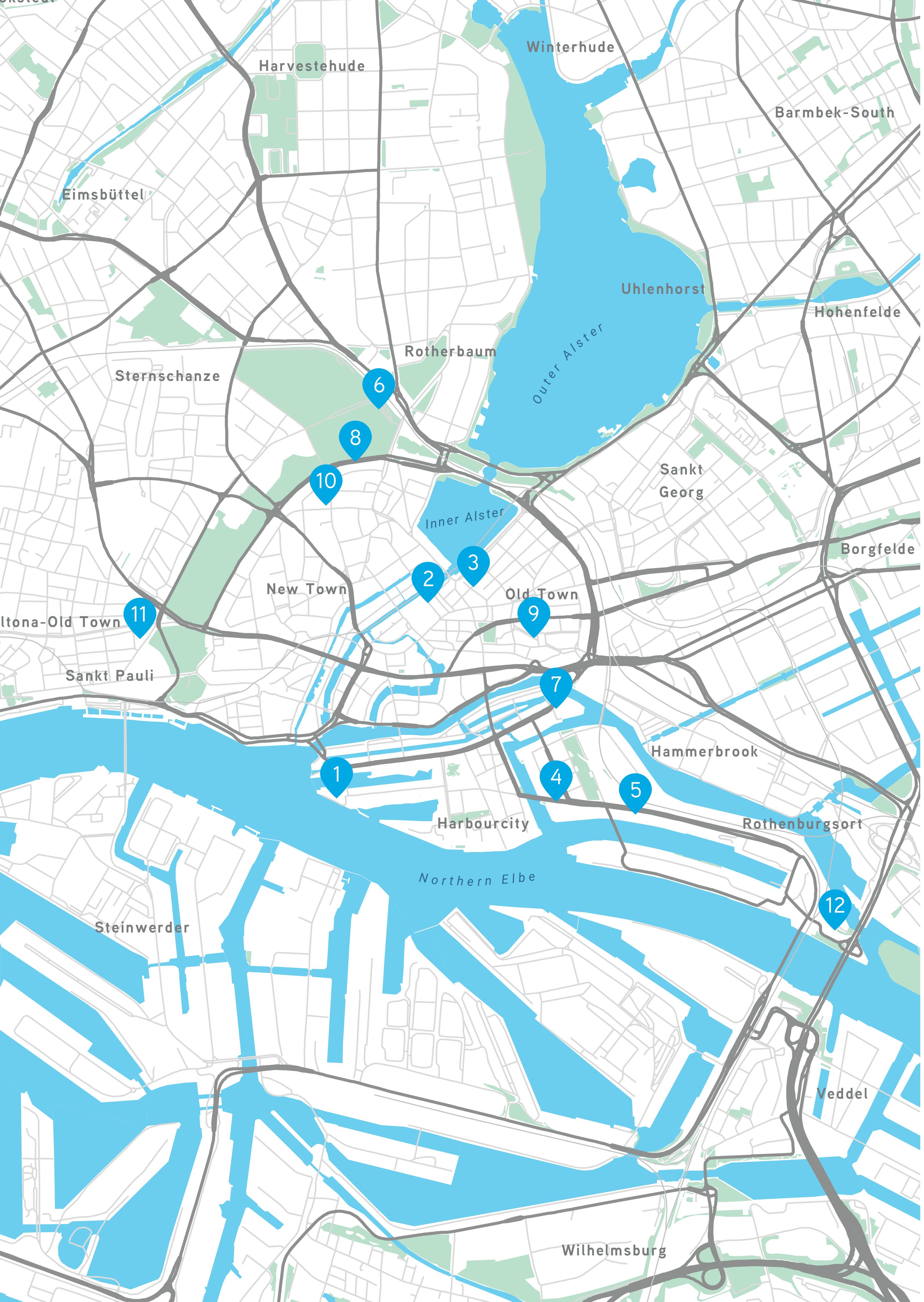
Prime rents experienced dynamic growth and rose to € 32.50/m². Average rents experienced a similar trend and increased to € 20.10/m² thanks to large-scale and high-priced leases signed in the City and HafenCity submarkets. This reflects a 12.3 % increase YoY. We expect rising costs in the construction sector and inflation to have further impact on rent prices.

The Hamburg investment market finished out 2021 with a commercial transaction volume of € 3.3 bn, despite the fact the year was still under the influence of the pandemic combined delayed market launches.

Following this moderate result, the investment market closed H1 2022 with a relatively strong transaction volume of € 2.1 bn, mainly due to Brookfield's acquisition of Alstria. Hamburg benefits from a stable economy and the variety of sectors located there. We may see catch-up in H2 2022 before the year ends if the investment environment adjusts the new situation. Hamburg boasts a solid diversification of asset classes with office assets currently the investor favorite. Gross prime yields increased to a current 3.10 % in the office segment and 3.50 % in the retail segment. The war in Ukraine, changes in financing conditions and the inflation situation are having an impact on prices both buy and sell-side. Process repricing may cause yields to continue to rise.

Commercial transaction volume (in € BN) and office prime yields (in %)



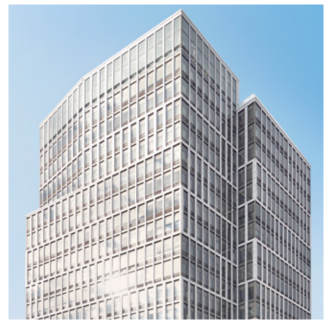


Hamburg map and prominent buildings

1. ELBPHILARMONIE

2. CITY HALL

3. EUROPA PASSAGE



4. WATERMARK

5. CAMPUS TOWER

6. RADISSON BLU

7. ERISKUSSPITZE – SPIEGEL BUILDINGS

8. WORK LIFE CENTER

9. MOHLENHOF IM KONTORENVIERTEL

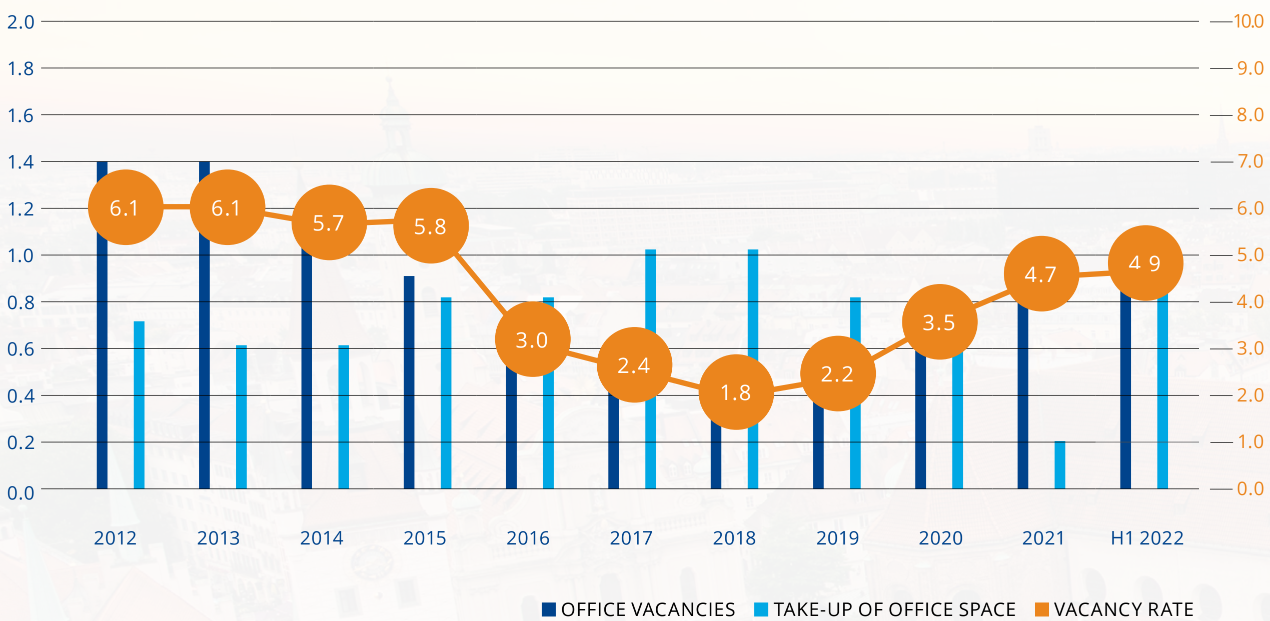
10. EMPORIO

11. TANZENDE TÜRME

12. ELBTOWER

Munich

Office take-up, office vacancy (in million m²) and vacancy rate (in %)



Take-up in Munich was recorded at 389,700 m² in H1 2022, almost exactly on par with the 10-year average. Demand has been recovering since H2 2021 and activity is back to normal in most market segments. Vacancy has risen but is still low at 4.9 % and office space remains scarce in central locations. Munich continues to be an important office location for both national and international companies, which sets the stage for a structural increase in demand for office space. The outlook for the Munich office market remains very favorable thanks to the city's reputation as a hub for key technologies in the fields of digitalization and life sciences, although the impact of the current economic downturn may also take its toll on the office market.

Office fast facts:

- Office stock: 22.66 million m²
- Office take-up (10-year average): 742,000 m² p. a.
- Prime office rent (H1 2022): € 42.50/m²
- Average office rent (H1 2022): € 23.80/m²
- Vacancy rate (H1 2022): 4.9 %

Investment fast facts:

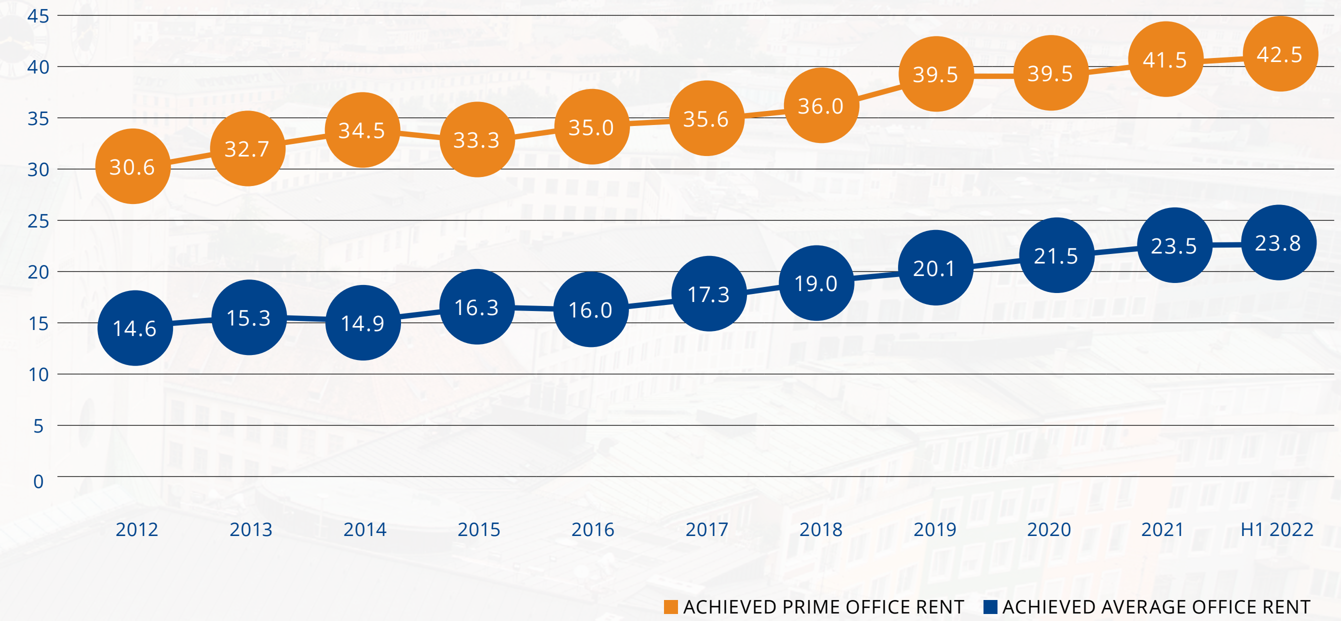
- Commercial transaction volume (10-year average): € 6.2 bn
- Share of foreign investors (H1 2022): 14.0 %
- Gross initial yields (H1 2021)

  Office: 2.85 %

  High street retail: 2.9 %

  Logistics: 3.35 %

Prime and average office rent (in € / m²)



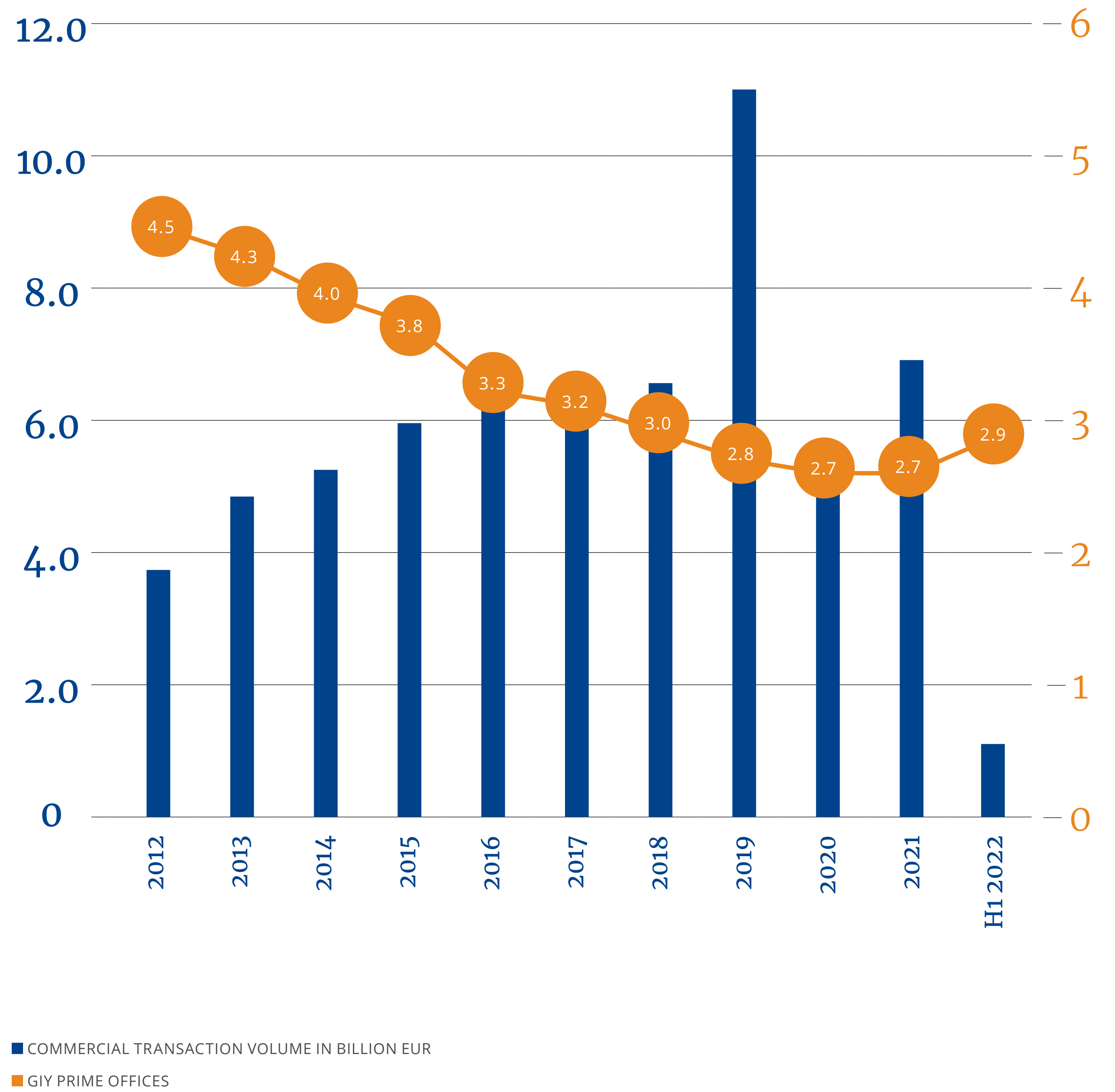
After a number of quarters characterized by sideways movement, rent prices have again started to rise. Average rents came to € 23.80/m² in H1 2022. Average rents within city limits were recorded at € 26.20/m² and € 13.80/m² in the surrounding areas at the end of June 2022. Prime rents posted € 42.50/m². Modern space in prime locations is bringing in rent prices the like of which the market has never seen. Because the importance of location and quality of space has grown since the pandemic, we expect rent prices to begin diverging more than what we have seen in the past.

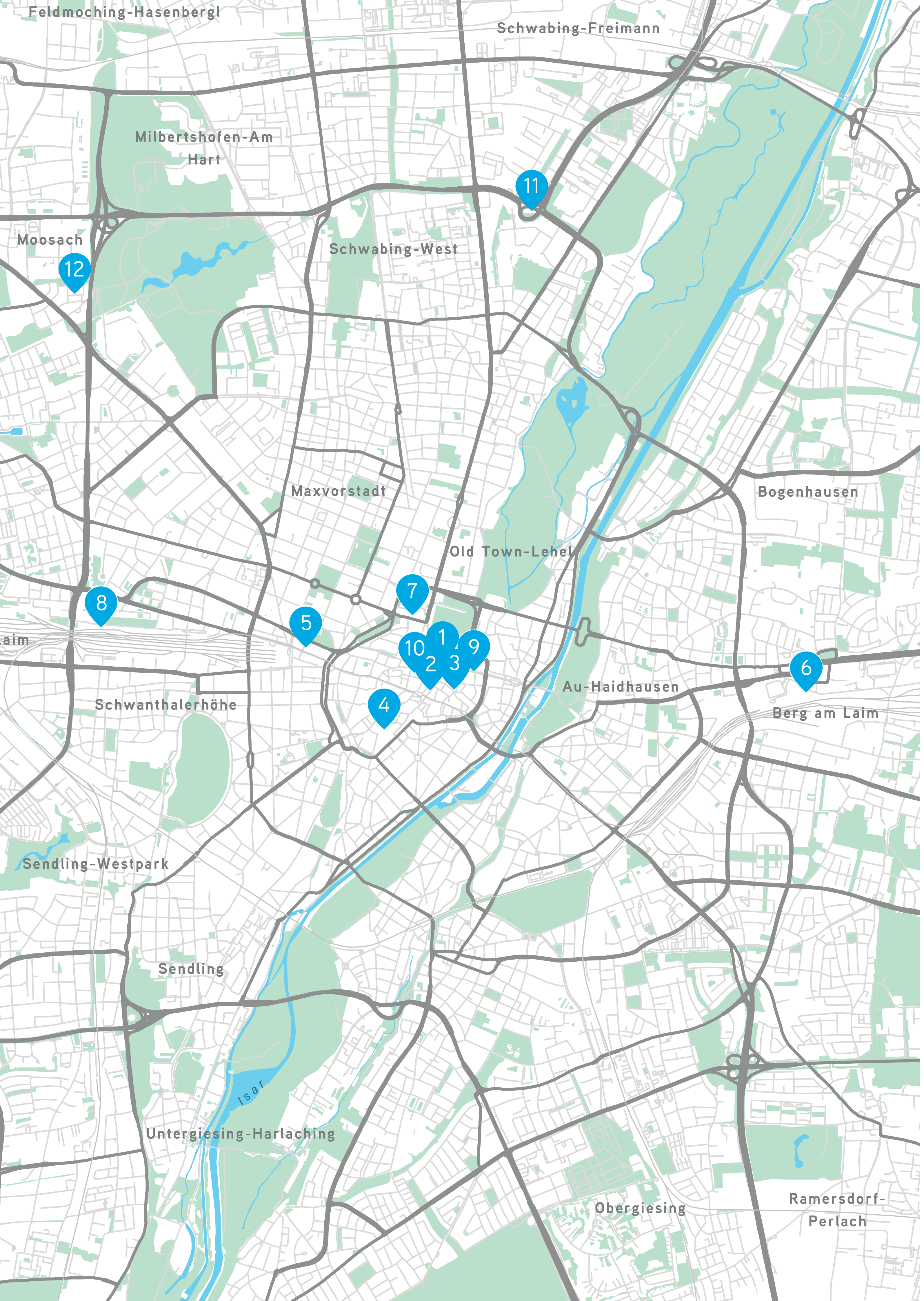
The Munich commercial real estate investment market posted a transaction volume of € 1.332 m in the first half of the year, down approximately 57 % YoY. Following a lively start in the first three months, investors adopted a wait-and-see strategy in Q2 due to the economic and political uncertainties the market is facing.

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

Yields are slightly higher than they were a couple of months ago as financing conditions have become more challenging and yields for alternative asset classes, especially government bonds, have increased as well. However, a substantial amount of liquidity is still looking for investment opportunities in Munich. The city with its diversified economy and reputation as an international hub is still considered a safe haven that is more resistant to risks than many other locations. The pipeline is currently filled with deals that will be signed by the end of the year and we can expect the recent drop in activity to be quickly overcome.

Commercial transaction volume (in € BN) and office prime yields (in %)





Munich map and prominent buildings

1. MARIENPLATZ

2. PALAIS AN DER OPER

3. MAXIMILIANHÖFE

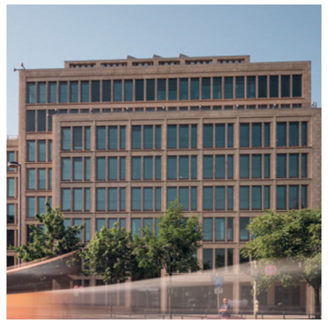
4. HOFSTATT

5. LENBACHGÄRTEN

6. BAVARIA TOWERS

7. OSKAR

8. NOVE



9. HOFGARTEN PALAIS

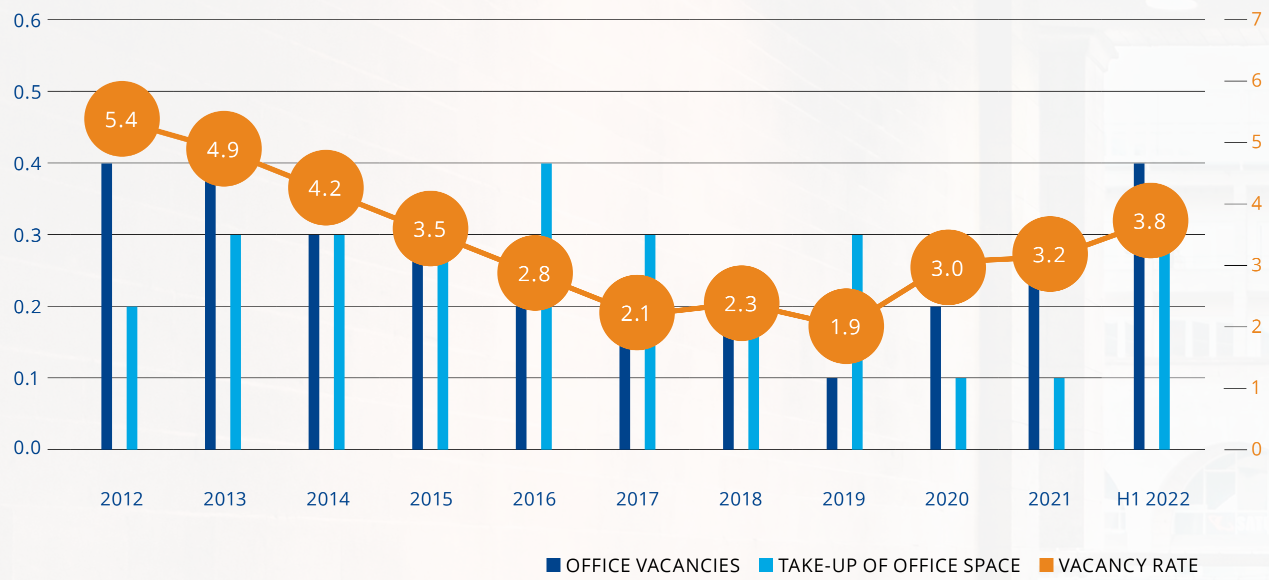
10. FÜNF HÖFE

11. HIGHLIGHT TOWERS

12. UPTOWN MÜNCHEN

Stuttgart

Office take-up, office vacancy (in million m²) and vacancy rate (in %)



Despite the challenges of the current market environment, activity on the Stuttgart office leasing market was quite lively in 2022 with record take-up results. The good H1 results can be attributed to high demand and a number of large-scale leases, which made their comeback after the years characterized by the pandemic in 2020/2021. Vacancy rates rose noticeably in peripheral locations but remained at an extremely low 1.5 % in central locations. We can expect to see increasing polarization on the rental market in the years to come. This polarization will be felt in terms of location, i.e. between central locations and peripheral submarkets. It will also be felt in terms of property quality, i.e. between new-builds and revitalized properties on the one hand and stock properties on the other, although demand for space will remain substantial.

Office leasing fast facts:

- Office stock: 8.38 million m²
- Office take-up (10-year average): 254,300 m² p.a.
- Prime office rent (H1 2022): € 29.40/m²
- Average office rent (H1 2022): € 17.10/m²
- Vacancy rate (H1 2022): 3.8 %

Investment fast facts:

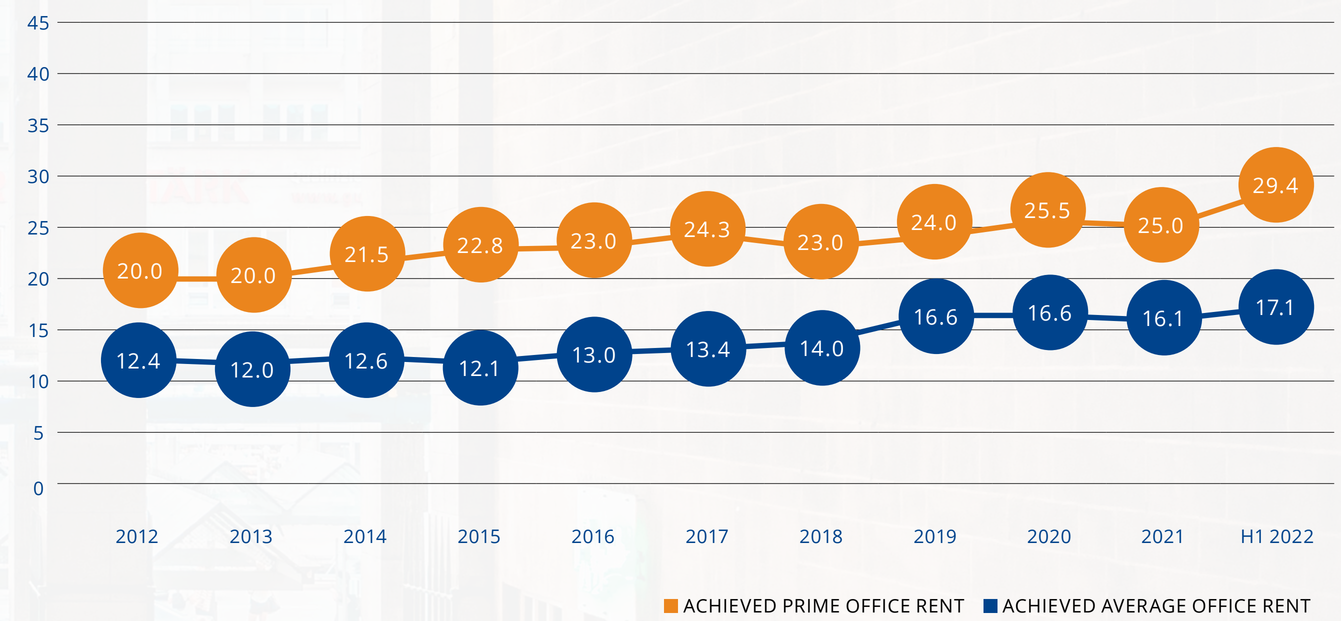
- Commercial transaction volume (10-year average): € 1.5 bn p.a.
- Share of foreign investors (2019–2021): 30.0 %
- Gross initial yields (H1 2022)

  Office: 3.0 %

  High street retail: 3.3 %

  Logistics: 3.35 %

Prime and average office rent (in €/m²)

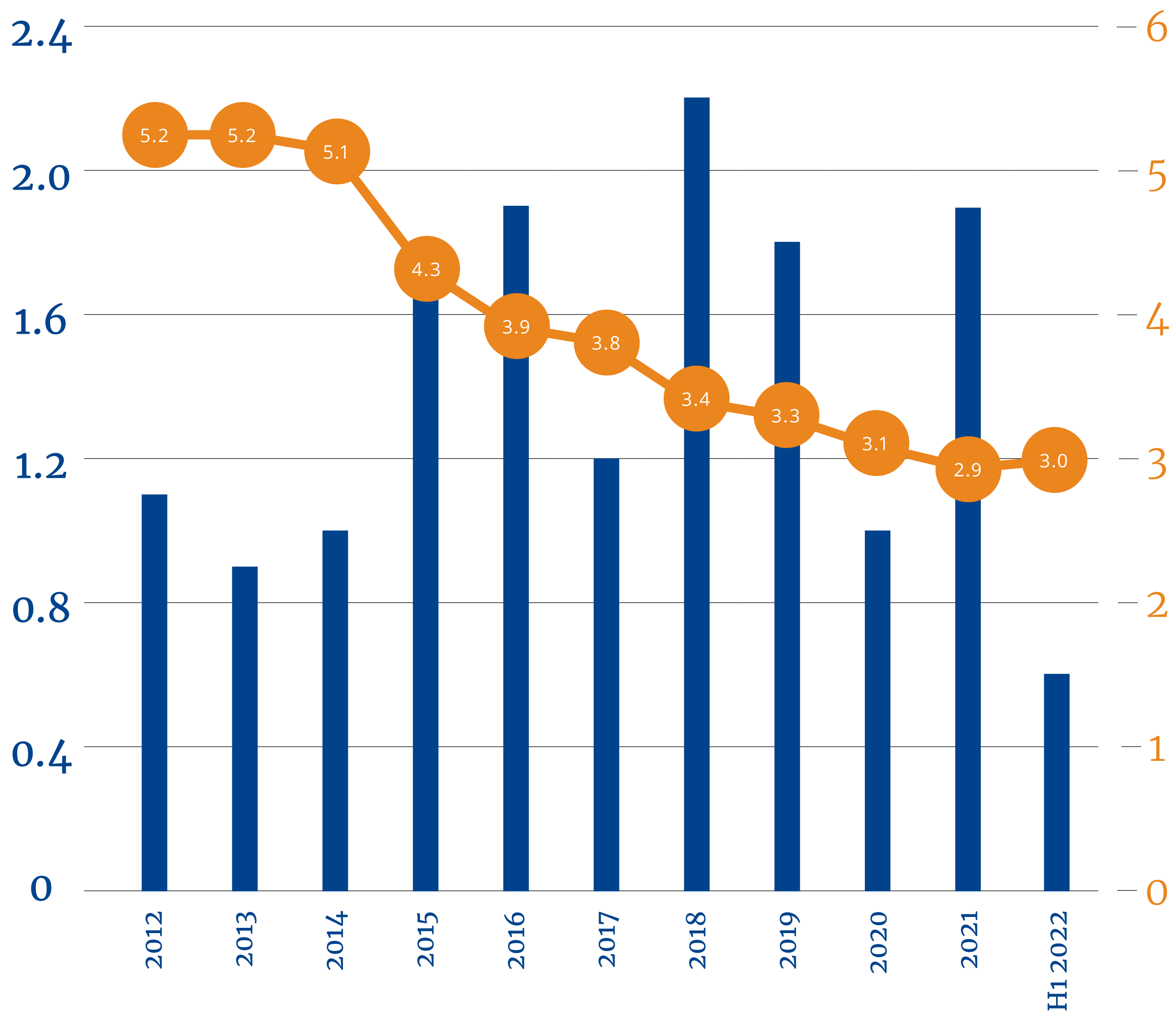


In addition to the rapid rise in construction costs and the extremely limited supply of high-quality space, particularly in central locations, the significant reduction in construction activity already seen with the onset of the pandemic will keep rental prices high in mid-2022. The low level of construction activity is also likely to result in a significant surplus of demand for new office space in two to three years' time.

Although the Stuttgart investment market was able to build on the previous year's brilliant performance with a high transaction volume in Q1 2022, Q2 was characterized by investors taking a wait-and-see stance because of the changes in the situation on the financing market and the current uncertain macroeconomic conditions.

We particularly saw market players initial waiting out further pricing developments in the core segment. In some cases, even advanced sales processes were aborted or postponed because of the changed conditions. On the other hand, investors with a strong equity base currently have access to interesting opportunities in the value-add segment where we have recently been seeing some investors are sounding out the market with expectations of more clarity around central bank monetary policy and an incipient upswing in the coming year. The yield compression that has been growing over the past few years has recently reversed. Prime yields for premium office assets rose 15 bps at the midyear, for example. However, there is a certain degree of uncertainty when it comes to quantifying discounts as the majority of deals have yet to be finalized. We can expect the subdued activity in Q2 to cause annual transaction volumes to fall significantly short of the previous year's stellar performance.

Commercial transaction volume (in € BN) and office prime yields (in %)



COMMERCIAL TRANSACTION VOLUME IN BILLION EUR
GIY PRIME OFFICES

Stuttgart map and prominent buildings


1. KÖNIGSBAUPASSAGEN


2. CALEIDO


3. ZEPPELIN-CARRÉ


4. PHÖNIXBAU


5. BILMA HAUS


6. CITY GATE


7. GERBER


8. DOROTHEEN-QUARTIER


9. WINDOW'S


10. CITY PLAZA


11. BÜLOW TOWER


12. CALWER PASSAGE

9. Office investment B&C-cities

Assignment of city categories

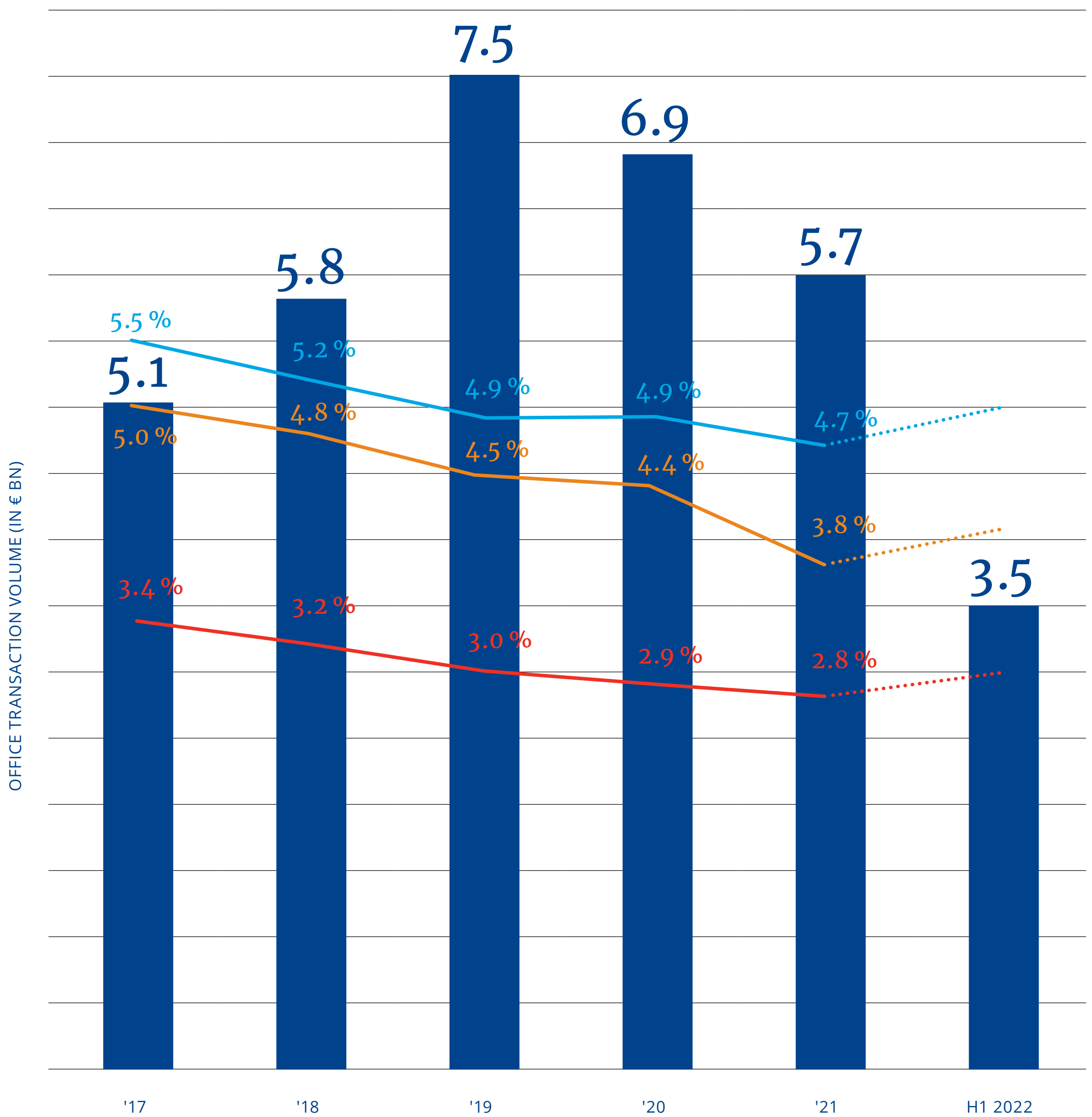
Feature	A-Cities / top 7	B-Cities	C&D-Cities	
OFFICE STOCK	> 7 MILLION M²	1.5 – 5 MILLION M²	< 1.5 MILLION M²	
TAKE-UP (P.A.)	> 200,000 M²	> 35,000 M²	< 35,000 M²	
PRIME RENT	> € 20.00 / M²	> € 13.00 / M²	< € 13.00 / M²	
SIGNIFICANCE	NATIONAL CENTER	CITY OF NATIONAL/REGIONAL SIGNIFICANCE	REGIONAL CENTER	SMALL REGIONAL CENTER
Number	7	14	22	84

Investing in offices in Germany's B&C-cities is and will remain an attractive option for investors. Despite recent economic turmoil, office real estate markets outside the country's top 7 locations offer viable opportunities.

Unlike other large European office property markets, which are almost exclusively concentrated in one region, i.e. London in the UK and Paris in France, the German property market is characterized by its polycentricity. This, however, is not limited exclusively to the country's top 7 or A-cities. The German investment market for office assets also offers attractive investment opportunities outside the seven largest office markets. A decentralized economic structure with many hidden champions and strong SMEs outside the country's largest cities contributes significantly to this. The fact that more than half of companies listed on the DAX 40 have their headquarters outside Germany's top 7 cities also points to the decentralized nature of the German corporate landscape.

However, we are also seeing the impact of the war in Ukraine and investor restraint due to the economic uncertainties and significant increase in financing costs in the office investment markets outside Germany's A-cities. Similar to the situation in the top 7, investors appear to no longer be willing to pay the prices previously being asked outside the country's top locations. However, these hurdles are nowhere near as great as in they are in German A cities and the B&C markets are currently showing greater resilience. Even if some institutional investors taking a rather cautious stance at the moment, demand for adequate properties is definitely still substantial.

Transaction volume and prime office yields

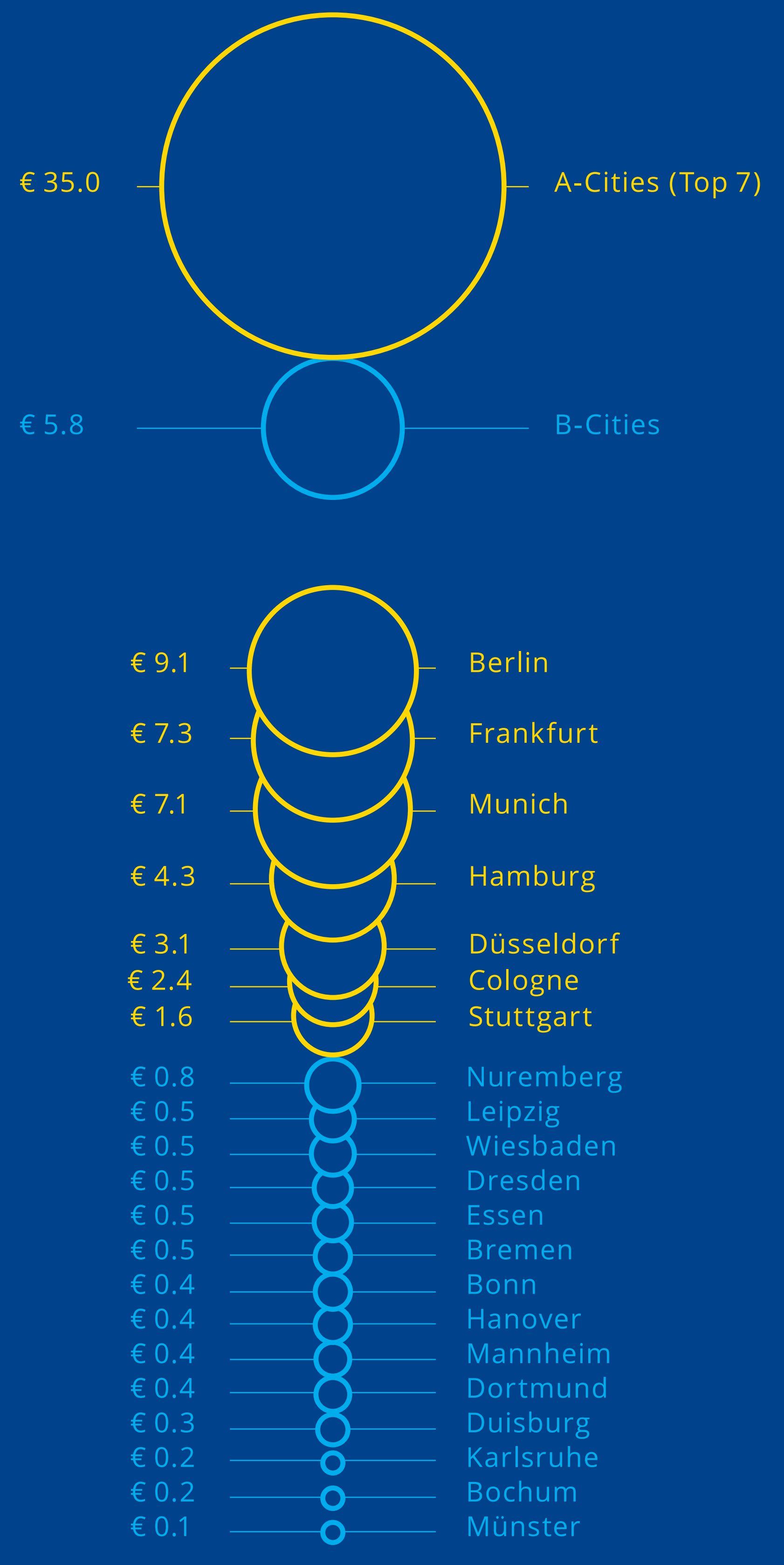


OFFICE TRANSACTION VOLUME (IN € BN)
GIY PRIME OFFICE (AVERAGE ACROSS TOP 7 CITIES)
GIY PRIME OFFICE (AVERAGE ACROSS B-CITIES)
GIY PRIME OFFICE (AVERAGE ACROSS C-CITIES)

SOURCE: COLLIERS

Transaction volume 2017–21		Average 5 Years
A-Cities (Top 7)		
Berlin	€ 45.7	€ 9.1
Frankfurt	€ 36.5	€ 7.3
Munich	€ 36.0	€ 7.2
Hamburg	€ 21.7	€ 4.3
Düsseldorf	€ 15.4	€ 3.1
Cologne	€ 11.8	€ 2.4
Stuttgart	€ 8.1	€ 1.6
	€ 175.2	**€ 35.0**
B-Cities		
Nuremberg	€ 4.0	€ 0.8
Leipzig	€ 2.7	€ 0.5
Wiesbaden	€ 2.6	€ 0.5
Dresden	€ 2.6	€ 0.5
Essen	€ 2.6	€ 0.5
Bremen	€ 2.3	€ 0.5
Bonn	€ 2.2	€ 0.4
Hanover	€ 2.1	€ 0.4
Mannheim	€ 2.0	€ 0.4
Dortmund	€ 1.8	€ 0.4
Duisburg	€ 1.6	€ 0.3
Karlsruhe	€ 0.9	€ 0.2
Bochum	€ 0.8	€ 0.2
Münster	€ 0.7	€ 0.1
	€ 28.9	**€ 5.8**

Transaction volume A-Cities vs B-Cities (in € BN)



10. Legal aspects for real estate in Germany

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

1. Real estate ownership

There are three different kinds of real estate ownership in Germany that are registered

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

- Full freehold ownership, i.e. ownership of a plot of land and all buildings located on it (the most common form of real estate ownership in Germany);
- Condominium ownership, i.e. ownership of separate individual units in a building, e.g. an apartment; and
- Hereditary building rights, i.e. ownership of a building on a plot of land without ownership of the respective plot of land (hereditary building rights are often granted by corporations under public law).

1.1 Full Freehold Ownership

Full freehold ownership is ownership of a plot of land and all buildings and other immovable fixtures located on it in perpetuity. These fixtures are seen as integral parts of the plot of land, which means that, in the event of disposal of the plot of land, they are automatically transferred along with the plot of land to the purchaser.

The owner of this type of asset has complete control of the entire plot of land and the buildings located on it. The owner's property rights cover the surface of the plot as well as the space above and ground and soil below it. The owner has comprehensive rights, including the right to use the asset, dispose of it, rent it to third parties and encumber it with rights in rem (e.g. rights of way in favor of neighbors and mortgages in favor of financing banks).

1.2 Condominium Ownership

Condominium ownership results from the separation of individual units in a building and, as such, typically occurs in connection with residential properties. Condominium ownership consists of an owner's/co-owner's share in the ownership of the entire plot of land and the built structure on it combined with an individual part of the building (such

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as an apartment). Independence and exclusiveness are crucial aspects of condominium ownership. This means that only those parts of a building that are clearly separate from the other units and communal areas may forman individual apartment.

As a freehold owner of land, the owner of a condominium unit has comprehensive rights. However, their comprehensive rights are limited to the individual part of the building that they own. The relationship among condominium owners is governed by co-ownership rules, i. e. a contract which contains provisions on maintenance and repairs, the decision-making process and sharing costs and public charges. In most cases, a condominium administrator is in charge of managing the affairs of all of the condominium owners. This arrangement can also be applied to commercial buildings.

1.3 Hereditary Building Rights

Hereditary building rights are a type of quasi-ownership rights to real estate. They grant the transferable and inheritable right to have a structure above or below the surface of the land without being the registered owner of that plot of land. Hereditary building rights

are similar to freehold ownership in that the beneficiary has comprehensive rights to use them. However, selling hereditary building rights and encumbering them with land charges and mortgages in favor of financing banks typically requires the consent of the owner of the plot of land. In contrast to freehold ownership, hereditary building rights are only temporary in nature. After the term of the hereditary building rights has expired, the rights cease to exist and the usage rights are conferred back to the freehold owner of the plot of land along with all other rights. Hereditary ownership rights typically last 99 years. It is, however, possible to extend that term.

In return for the ability to engage in ownership-like usage of the building on a plot of land, the owner of the plot usually receives an annual rent for the term of the hereditary building rights. As is the case with freehold ownership and condominium ownership, hereditary building rights are also entered in the land register. For this purpose, a further land register folio is created to register the hereditary building rights and any encumbrances in addition to the land register folio pertaining to freehold ownership of the land. Hereditary building rights are used by entities that, while wishing to allow third parties to use and redevelop a plot of land on a very long-term basis, are hesitant to sell their full freehold ownership.

The most prominent examples are German municipalities and Christian churches, both of which regularly make use of hereditary building rights.

2 Transfer of Title of Ownership

Transfer of real estate ownership (full freehold ownership, condominium ownership as well as hereditary building rights) is typically structured as:

- Asset deals. by way of which the purchaser directly acquires the real estate and is registered as the new owner in the land register;
- Share deals, by way of which the purchaser acquires the shares in the entity that owns the real estate (usually a special purpose vehicle) and that is registered as the owner in the land register or
- Unit deals are transactions in which a purchaser acquires the units in an investment fund structured as a special fund (German: Sondervermögen). In this type of transaction, the capital management company officially owns the property and is therefore registered as the owner in the land register. The property, however, is "commercially owned" by the investors. Since mid- 2021, it has become possible to also structure these types of special funds as closed-ended investment funds, i.e. as a single asset fund.

2.1 Asset deals

In an asset deal, freehold ownership, condominium ownership or hereditary building rights are transferred in rem from the seller as the current owner to the buyer as the future owner, which results in the buyer being entered in the land register. This transfer of title requires a notarized asset purchase agreement signed by the seller and the buyer. The terms of the agreement, such as conditions precedent, representations and warranties, payment mechanism and liability, are at the discretion of the parties. The parties generally agree on a certain date for handover of the asset, which means that the beneficial transfer of possession, use and risks from the seller to the buyer takes place on that date. The registration of the buyer as the owner in the land register does not take place until after handover and not until the real estate transfer tax has been duly paid.

2.2 Share deal

In a share deal, the buyer does not acquire the asset itself but rather shares in the entity that owns the asset. This means that a new owner is not entered in the land register.

Instead, the buyer becomes a shareholder/partner in the company and therefore also becomes the indirect, but commercially comprehensive, owner of the property along with any connected rights and obligations.

2.3 Unit deal

In a unit deal, the buyer does not actually acquire the asset(s) itself. Instead, the buyer acquires units in an investment fund that has been set up and is managed by a capital management company. The fund is structured as a contractual type of fund (Sondervermögen) in which the capital management company owns the asset(s) in its own name but does so on behalf the investment fund. The buyer therefore becomes an investor in that investment fund, but the assets continue to be held by the capital management company, which also remains the registered owner in the land register.

Both parties can benefit from share deals instead of asset deals since, depending on the structure, they may not trigger real estate transfer tax in an amount of between 3.5% and 6.5% of the purchase price (see item 5

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below). Investors often make use of special purpose vehicles in order to invest in the German real estate market. These special-purpose vehicles are companies that are formed exclusively for the purpose of transferring and financing real estate and are legally independent and bankruptcy-remote.

2.4 Costs

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

3. Lease contracts

3.1 Commercial leases

The German Civil Code contains various provisions governing the contents of leases, assuming that the parties do not choose to deviate from the general rules of the law.

In many ways, the law does not differentiate between leases for real property and those for chattels exempt in regards to special provisions protecting residential tenants. The legal provisions therefore leave many important aspects of commercial leases partially or completely unregulated. In cases where there is adequate regulation, most matters are left to the discretion of the parties to the lease.

If this is the case, it is important to note that for leases containing general terms and conditions of trade pertaining to one party (generally the landlord), the contract will be subject to the provisions of such general terms and conditions of trade (sec. 305 et seq. German Civil Code). If the contract includes general terms and conditions of trade that place an unreasonable disadvantage on the other party, these provisions are deemed void. In general, German tenancy law can be said to be slightly biased towards the tenant, more than in the United Kingdom for example, but less so than in France. A German lease will regularly contain provisions on the following items:

› term and termination
› written form
› rent and rent adjustment
› rent deposit
› ancillary costs
› maintenance and repair
› operating obligation
› protection against competition and assortment restriction
› change of control

(a) Term and termination

Under German law, the parties are free to specify a fixed term or to leave the duration of a lease unspecified. In the latter case, a commercial lease may generally be terminated with six to nine months' notice. If a fixed term is agreed, the term is subject to established market practice. Retail properties tend to be let for 10 to 15 or 20 years, whereas office buildings are usually let for an initial term of five to ten years with shorter terms thereafter. Other types of use may have different standard terms.

When specifying a fixed lease term, it is important to remember that the statutory provisions of extraordinary termination for cause cannot be excluded. Although contractual renewal options that must be agreed upon by both parties are not a matter of statutory law, they are possible and common.

However, the term of a commercial lease may not exceed 30 years under law; after that time, both parties can terminate the lease, even if the contract stipulates a longer period.

(b) Written form

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

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

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

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As a consequence, termination based on lack of written form was considered a violation of the principle of good faith. According to the recent jurisdiction of the German Federal Supreme Court, written form curing clauses are void and can therefore not be considered a remedy for written form defects. As a result, it might not be possible to prevent termination by a tenant with reference to written form defects. It is therefore of utmost importance to comply with written form requirements for the entire term of the lease in order to avoid any written form defects and hence termination rights arising from them.

(c) Rent and rent adjustment

In the absence of statutory provisions, the rent price is freely agreed between parties to commercial leases. All the standard methods of rent calculation are used in Germany (fixed rent, turnover rent, market rent and hybrids thereof, etc.), including all the common methods of incentivizing tenants (e.g. rent-free periods or building cost subsidies). Because of inflation, it is in the landlord’s interest to agree on stable value clauses providing for automatic rent adjustments linked to inflation, e.g. the German consumer price index. Such adjustments are generally triggered annually or once a hurdle rate has been reached. Once triggered, the current rent is adjusted to reflect the change in the index. Frequently, however, the change in the index is not fully incorporated into the new rent, perhaps only at a rate of 80% to 90%. It should be noted that rental adjustments, while possible in principle, must allow for both increases and reductions in the rent due in line with the current market situation and may not change by more than the percentage change in the relevant price index in order to be valid. Furthermore, these index clauses can only be used if the term is at least 10 years (fixed rental period plus tenant's option periods) - calculated from the start of the rental period. Another kind of rent review is a "step-up plan" which is explicitly agreed upon in advance. The step-up plan requires disclosure of the respective amount of rent or percentage rent increase.

(d) Rent deposit

It is up to the parties to specify a rent deposit, something that is typically required under German leases. The amount of the deposit is limited under the principle of morality; typical amounts specified in commercial leases come in at between three and six months’ net rent. Rent security is usually provided in the form of a deposit, a bank guarantee or a parent guarantee. In the case of guarantees, consideration should be given to the fact that their validity might be affected if the parties to the lease subsequently agree on substantial changes in a given lease without the consent of the guarantor.

(e) Ancillary costs

Rent usually consists not only of actual compensation for the use of the leased property, but also of compensation for the landlord's costs arising in connection with operation of the property (e.g. waste disposal, heating, utilities, water supply, ground rent, maintenance and repair of communal areas, administration). According to statutory law, the landlord has to bear these ancillary costs. However, the landlord can transfer them to the tenant to a certain extent. Such costs may be charged to the tenant either according to usage (e.g. for water) or pro rata according to the size of the leased premises in comparison with the size of the total lettable space of the building (e. g. for cleaning communal areas).

Ancillary costs may only be charged to the tenant if and to the extent expressly agreed in the lease; the amount of ancillary charges has to be clear to the tenant. It is therefore common practice in leases to refer to certain legal provisions listing the most important kinds of ancillary costs, such as the operational costs ordinance. In this context, various decisions handed down by the German Federal Court of Justice should be noted according to which the allocation of costs needs to be defined precisely in the contract.

(f) Maintenance and repair

Although the landlord is responsible for maintenance and repair under law, it is common for the tenant to take over the execution and costs of maintenance and repair work to a certain extent with the landlord only remaining responsible for structural work. This transfer of obligations from landlord to tenant, however, generally has to comply with the statutory provisions set forth in the general terms and conditions. It is therefore not unusual to specify cost caps at a certain percentage p.a. or to only allocate minor repairs up to a certain amount in each individual case. A landlord might also reach an agreement according to which the tenant is responsible for the entire property and building and even for any structural work (e.g. if leasing to a single tenant). These types of leases are referred to "triple-net leases" (see below). This practice, however, is less common and subject to certain restrictions (see below).

Excurses: double-net and triple-net leases

The commercial real estate industry uses standard names for different sets of costs that are passed on to the tenant in a net lease.

One of these is the "double-net lease". In a double-net lease, tenants are typically responsible for (i) real estate tax, (ii) building insurance, (iii) ancillary costs and (iv) costs for maintenance and repair to a certain extent. Tenant are also exempt from costs that occur in connection with maintenance and repair of structural elements and the roof of the building.

A triple-net lease, on the other hand, is a lease that designates the tenant as being solely responsible for all costs pertaining to the asset under lease. Going beyond a double-net lease, this in particular includes uncapped costs for maintenance and repair of (i) the property under lease, (ii) common areas and (iii) structural elements and the roof of the building. That means that the tenant is required to bear all costs that accrue in addition to the rent due under the lease without any exemptions or agreements on caps or flat charges. Net rent in this case is therefore generally lower than the rent charged under a standard lease.

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It is important to keep in mind that triple-net leases have to be carefully monitored and intensively negotiated to avoid clauses allocating costs and risks to the tenant under the regime of general terms and conditions of trade being declared void.

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

(g) Operating obligation

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

(h) Protection against competition and assortment restrictions

In leases for space at shopping centers it is also common that the landlord be required to grant protection against competition and to require the tenant to only sell certain products. The landlord thereby places itself under the obligation not to lease rentable space to a competing company within the shopping center or within close proximity to the tenant.

The tenant, on the other hand, commits to a specific use of the premises and to refraining from selling certain products so that the landlord can keep its competition protection commitment to other tenants. Sometimes leases contain "radius clauses", which provide protection against competition in favor of the landlord as the owner of an outlet shopping center, for example. In such cases, the tenant is not allowed to open any further shops or a similar business within a certain radius around the shopping center. Due to decisions passed by the German Federal Cartel Office, such clauses are not in line with competition law requirements and therefore in principle unlawful. Therefore, special attention should be paid in any case to whether or not such clauses can still be agreed in a lawful and exceptional manner.

(i) Change of control

Change of control clauses are clauses that make a structural reorganization of an entity (either the tenant or the landlord) or disposal of a property subject to the consent of the respective counterparty. Such clauses are beneficial to the landlord to the extent they require its consent to a structural reorganization of the tenant and its affiliates since such clauses assure certain continuity with regard to the entity of the tenant and its solvency.

However, change of control clauses can also be a hurdle for a transaction if they require the tenant's consent before shares in the landlord are sold.

(J) Covid-19 and its effect on rent

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

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

3.2 Residential leases

There is a chapter in the German Civil Code that pertains solely to residential leases. The standard regulations are generally applicable to residential leases but, unlike commercial leases, there are some restrictions to the freedom of contract in place to protect the tenant. This stems from the fact that residential tenants are under more pressure because of their essential need to find a place to live and because they are often less experienced than commercial tenants.

Statutory restrictions are particularly in place when it comes to determining rent and rent increases, both of which need to be linked to the local market or any altered economic circumstances. In addition, the landlord's rent security requirement is capped at three months' rent. The landlord is also restricted regarding its options to terminate a lease. This requires a particular legitimate interest on the part of the landlord, and, if termination of tenancy would cause the tenant unjustifiable hardship, the tenant has the right to request an extension of the lease despite notice of termination.


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4. Public law

The construction of buildings on land and the use of such land is often governed by local zoning plans, namely the land use plan and the detailed local development plan. The local development plan is binding and forms the basis for building permits approving a structure on a property or a particular use of a property to be granted to the owner or user of that property. Therefore, any permits for current or future use must comply with the local development plan.

In addition, the area where a property is located may be subject to public zoning peculiarities that stipulate certain provisions for use of that area as well as requirements for disposals and lettings (such as (re)development zones, relocation zones, protected monument zones). Since such public zoning peculiarities may also have financial consequences and implications for the purchaser's freedom to acquire and use a property, they should be taken into legal and commercial consideration in the course of the acquisition process.

Another important consideration that is often relevant in real estate transactions is potential site contamination. Under public law, both the disturber in fact (the respective owner and/or the occupier) and the disturber by conduct (the party causing the contamination) bear responsibility for soil and groundwater contamination and are obliged to remedy such contamination. The German Federal Soil Protection Act also provides for perpetual liability of former owners.

Essentially, the relevant public authority can decide which party is responsible for sealing off and/or removing any residual contamination. Its decision can be based on considerations as to what will be most effective, regardless of any consideration of fault.

5. German tax aspects

5.1 Taxation upon acquisition

(a) Real estate transfer tax

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

Based on German RETT law applicable as of today, RETT in a share deal is levied on the property value (as determined under tax rules) if 90 % or more of the interests in a property-owning partnership are directly or indirectly transferred to new partners ("partnership movement rule") or if 90 % or more of the shares in a property-owning corporation are directly or indirectly transferred to new shareholders ("corporation movement rule"). This applies in each case at the level of the property-owning company.

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

The RETT rate is determined by the German federal state in which the property is located and currently ranges from 3.5% to 6.5%.

RETT is generally not triggered in a unit deal provided that the investment fund is based on a solution involving a trust rather than a solution involving co-ownership.

(b) Value added tax

The sale of German real estate is generally exempt from German VAT. However, the seller can opt to pay VAT on transfer of real estate provided it is an entrepreneur within the meaning of the German VAT Act and the property is sold to another entrepreneur who uses the property for business purposes. If the seller has exercised the VAT option and VAT is triggered, the quota of space leased out subject to VAT will determine the extent to which the respective purchasers will be able to recover related input VAT. In contrast, the acquisition of real estate is not subject to VAT if the requirements for the transfer of going concern are met. Any such transfer requires substantially all business assets to be transferred to the acquirer and the acquirer to continue operating the business. If and to the extent the sale and transfer of a property is considered a regular delivery (benefitting from VAT exemption under German VAT law) and no VAT option is exercised, the seller may have to repay VAT to the tax authorities in the amount that was deducted as input VAT by the seller if existing VAT clawback periods have not expired when the sale occurs. If the sale and transfer of the property qualifies as a transfer of going concern, no input VAT correction is triggered.

Instead, the respective purchaser steps into the (remaining part of) the VAT clawback periods in place for that property.

The transfer of fund units is also generally exempt from German VAT.

5.2 Ongoing taxation

(a) (Corporate) income tax

Foreign or domestic corporations owning German real estate are subject to German corporate income tax on their income from letting and leasing real estate at a rate of 15.825% (including solidarity surcharge). If an individual owns the property, German income tax at an individual marginal rate up to 47.475% (including solidarity surcharge) on rental income from the property is triggered. As of 2021, the solidarity surcharge no longer applies for some taxpayers. Acquisition costs and expenses borne by the purchaser should be recognized for German tax purposes to the extent they qualify as ancillary acquisition costs or operating expenses pertaining to the property. Interest expenses incurred under arm’s length conditions and actually accrued in the respective business year should generally be tax-deductible against profits derived if such expenses directly relate to “German source” income (i.e. to the extent these pertain to the acquisition of property) and do not fall within the scope of interest barrier rules or anti-hybrid mismatch rules.

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(b) German interest barrier rule

(i) General rule

Pursuant to the interest barrier rule, interest expenses of a German business) are, subject to certain exceptions, only tax-deductible up to an amount equal to the sum of (a) the interest income of such business in the same fiscal year and (b) the amount of EBITDA of such business that can be offset. The amount of EBITDA that can be offset is defined as 30% of the EBITDA calculated for tax purposes.

The interest barrier rule applies to all kinds of debt, irrespective of whether such debt is provided by a third party, a shareholder or a party affiliated with a shareholder. The distinction between shareholder and third-party debt is only of relevance with regard to the exceptions set out below. As a rule, each legal entity constitutes a business for purposes of the interest barrier rule; members of a fiscal unity, however, are accounted for as one single business. Interest expenses and interest income are defined broadly to include all kinds of interest taken into account when determining taxable income, i.e. including income or expenses from compounding or discounting receivables or loans.

(ii) Escape clauses

There are three general exceptions to the interest barrier rule, whereby the second and third exception are subject to counter-exceptions if the business is a corporation.

Accordingly, the interest barrier rule does not apply if:

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

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

(C) the business belongs to a group but is able to demonstrate that, at the last preceding balance sheet date, its equity ratio is equal to or higher than the equity ratio of the group of which it is a member ("group escape clause"). A shortfall of two percentage points of the business in the equity ratio is harmless.

The equity ratio is defined as the equity in relation to the total assets, whereby certain adjustments have to be made to the equity and the total assets.

(iii) Exceptions in the case of corporations

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

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

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

(c) Withholding tax

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

(d) Trade tax

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

(e) Value-added tax

Leasing and letting German real estate is generally exempt from VAT. However, it is possible to opt for VAT under certain circumstances. This option is commonly made use of, provided the tenants use the property for business subject to VAT. It is important to note note that a VAT option is not feasible for properties used

for residential purposes or leased out to tenants rendering VAT-exempt services (such as banks or doctors).

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(f) Property tax

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

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

(g) Taxation of fund investors

Ongoing taxation of fund investors (in the case of a unit deal) needs to be analyzed on a case-by-case basis.

5.3 Taxation upon disposal/exit

(a) Asset deal

Upon disposal of a property, RETT is triggered at the applicable rate levied on the purchase price, which is generally borne by the purchaser under the respective APA. However, both the seller and purchaser are liable to the German tax authorities.

The capital gains of a non-resident corporate seller is likely to be subject to German corporate income tax (purchase price less acquisition cost less disposal cost) at a rate of 15.825%, but not to trade tax, provided such corporate seller does not have a German permanent establishment. Corporate income tax is levied via an assessment procedure and Germany is, in principle, also entitled to levy such tax under an applicable double taxation treaty (e. g. with Luxembourg if the seller is a company resident in Luxembourg).

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

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

(b) Share deal

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

Capital gains realized by a corporate seller upon the sale of shares in a German corporation owning a German property should be 9% tax-exempt if the seller is tax resident in Germany and even 100% if the seller is tax resident outside of Germany and does not maintain a German permanent establishment or a German permanent representative. This, of course, is subject to certain exceptions (e.g. life insurance companies).

There are several possible scenarios if the capital gains are realized by a corporate seller upon the sale of shares in a foreign corporation owning a German property. If the seller is tax resident in Germany, such capital gains are generally 95% tax-exempt, subject to certain exceptions (e.g. life insurance companies). If the seller is tax resident outside of Germany, such capital gains are, in principle, subject to limited taxation in Germany if the corporation qualifies as property rich but should be 100% tax-exempt subject to certain exceptions (e. g. life insurance companies); in cases in which an exception applies, a double taxation treaty may provide protection.

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

(c) Unit deal

RETT is not generally triggered in a unit deal, provided that the investment fund is based on a solution involving a trust rather than a solution involving co-ownership.

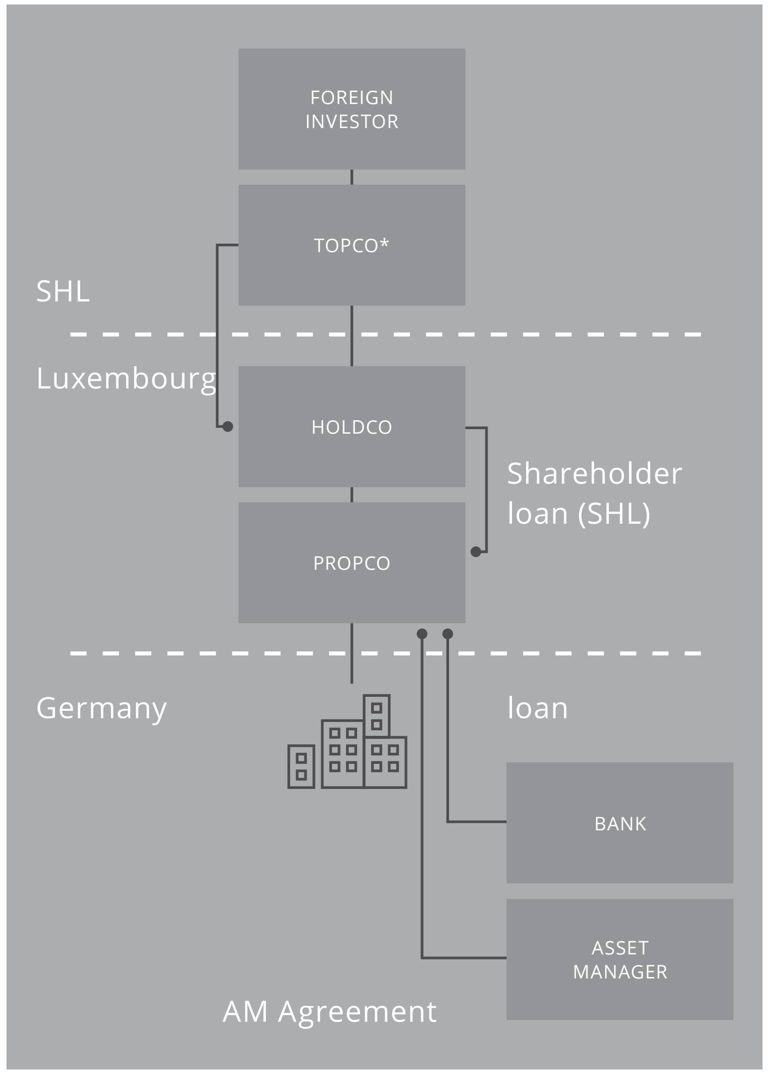
(Corporate) income taxation of fund investors in a unit deal needs to be analyzed on a case-by-case basis.

6. Typical SPV structure for a foreign investor

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

Please see the following examples below:

Alternative 1: Typical structure with Luxembourg S.à r.l. as PropCo



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

Ongoing corporate income tax in Germany p.a.

LEASE PAYMENTS		**€10M**
expenses (incl. asset management)		./.€ 0.2m
= EBITA		**€9.8m**
building depreciation: 3 %		./. €4.2m
interest on SHL: 4 % (subject to interest benchmarking)		./. €2.0m
interest on bank loan: approx. 1 %		./. €1.2m
= taxable income before interest barrier rule		**€2.4m**
ince interest is higher than €3 million p.a. and no other exception applies, the interest barrier rule limits the deductible amount		
according to the interest barrier rule only 30 % of EBITDA for tax purposes is deductible: i.e. 30 % of €9.8m	€2.94m	
Non-deductible interest amount	€3.2m ./. €2.94m =	+ €0.26m
= taxable income		**€2.66m**
Corporate income tax (15.825 %) on €2.66m		**€0.42m**

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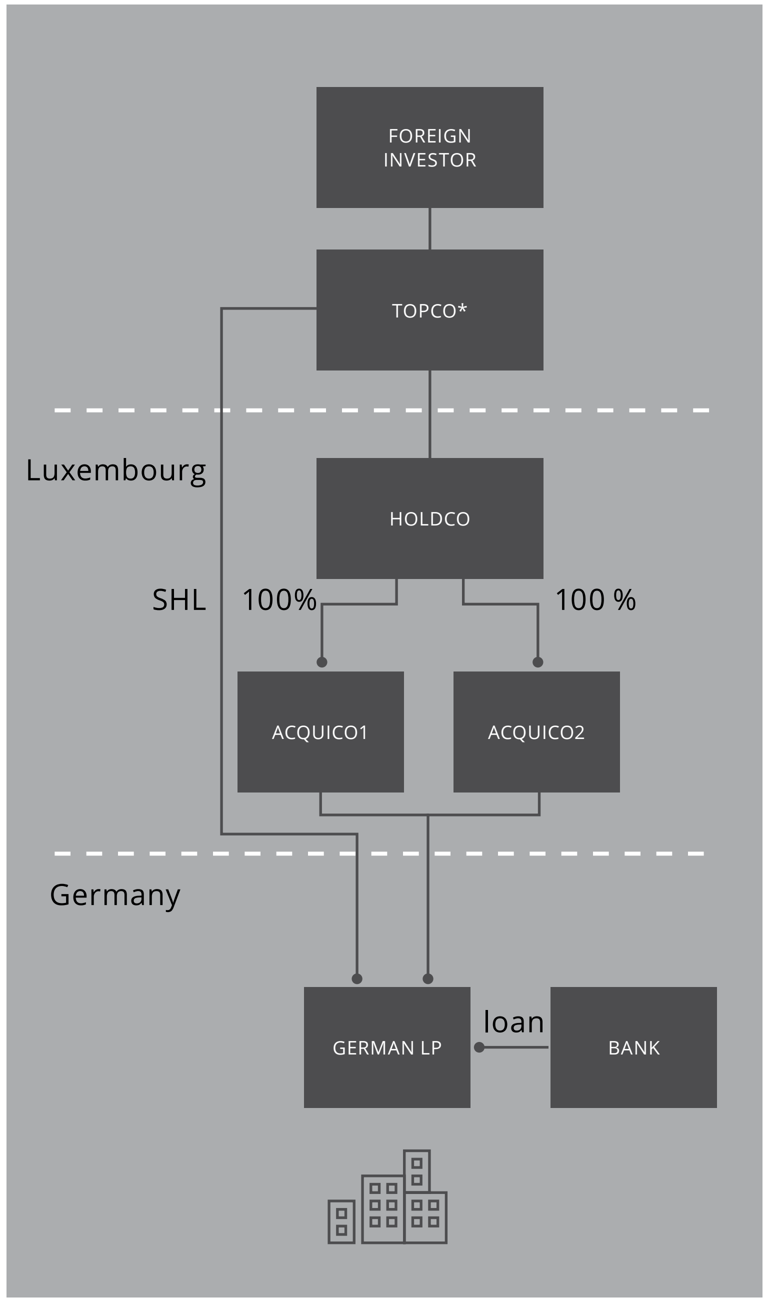
Alternative 2: Structure with German LP as PropCo to mitigate limitation of interest deductibility in Germany



* HONG KONG, SINGAPORE

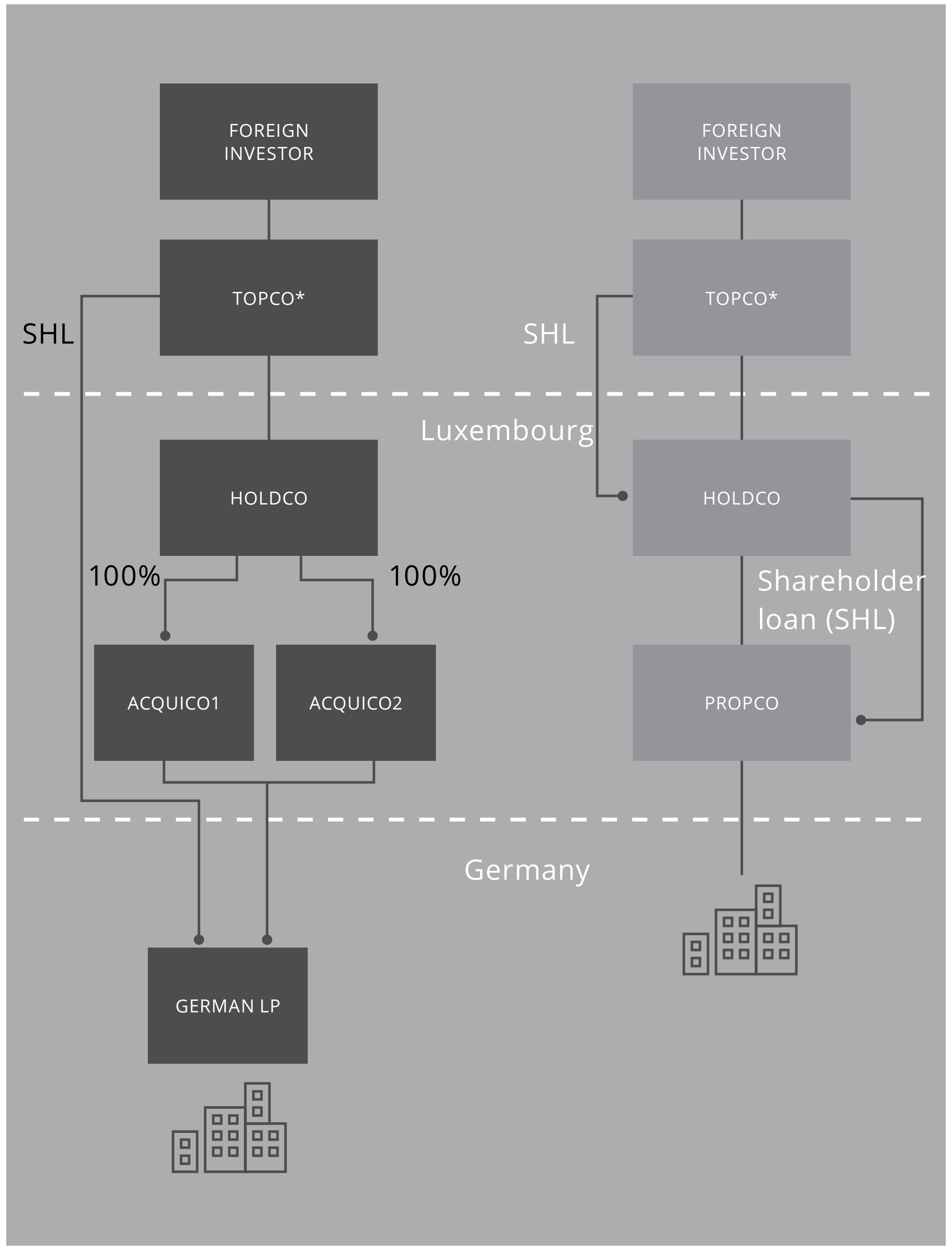
- Mitigation of €3m interest threshold e.g. by interposing German tax transparent limited partnership and investment through 2 (or more) intermediate AcquiCos.
- German partnership does not qualify for income tax purposes.
- Interest payments allocated to AcquiCo1 and AcquiCo2; €3m interest threshold applied at each AcquiCo level.
- Interest fully tax deductible if and to the extent is qualifies as arm's length

Ongoing corporate income tax in Germany p.a for AcquiCo1 / AcquiCo2 respectively

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

	AcquiCo1	AcquiCo2
Lease payments	€5m	€5m
Expenses (incl. asset management)	./. €0.1m	./. €0.1m
Building depreciation: 3%	./. €2.1m	./. €2.1m
interest on SHL: 4 % (subject to interest benchmarking)	./. €1.0m	./. €1.0m
interest on bank loan: ca. 1 %	./. €0.6m	./. €0.6m
= Taxable income before interest barrier rule	**€1.2m**	**€1.2m**
interest barrier rule does not apply at the level of AcquiCo1/ AcquiCo$_2$ since interest expenses are below €3m at each AcquiCo level		
= taxable income	**€1.2m**	**€1.2m**
corporate income tax (15.825 %) on 4.1m	**€0.19m**	**€0.19m**
Consolidated		**€0.38m**

Corporate income tax in Germany upon exit in alternative 1 and 2



■ ALTERNATIVE 2 * HONG KONG, SINGAPORE

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

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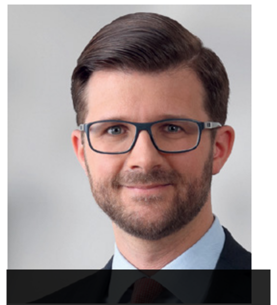

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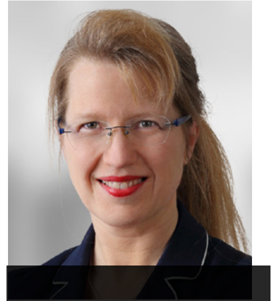

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