www.dip-immobilien.de

DEUTSCHE IMMOBILIEN-PARTNER

Markets and Facts

Developments and Trends in the German Real Estate Market

2018


The Market for

- Office Space
- Retail Space
- Real Estate Investments
- Logistics Space


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The customer expects us to be more knowledgeable than he is.
But the customer rejects know-it-alls.
The DIP network can pull off this balancing act thanks to its structure and the diversity of its services.

Dear reader,

In addition to the real estate consultants and brokers as **"Partners"** of equal standing, the DIP network also includes associated so-called "Preferred Partners". These have specific, real estate-relevant core competences the range of which is second to none in the real estate industry.

The rapid changes on the market and the changing requirements of real estate owners and users can be greatly beneficial to you if you consult our partners in complex matters!

We continue our development in order to meet your requirements:

- The transaction volume contracted by the DIP network in real estate sales amounted to about EUR 1.7 billion in 2017. Commercial letting performance totalled about 300,000 m².

- The entire region of northern Germany was closely linked and expanded with the new DIP partner Möllerherm Immobilien. It is now possible to serve the regions along the Baltic Sea and North Sea, the locations of Schleswig-Holstein and Mecklenburg–Western Pomerania and the greater Bremen area as well as the location Hamburg much better in cooperation with ARNOLD HERTZ. Founded in Scharbeutz in 1999, Möllerherm Immobilien has been expanding since the first branch was establshed in Kiel in 2012 and continuously extends the regions for which it offers real estate services.

- The Dutch and German real estate markets form an attractive alliance at DIP: The renowned family company FRIS, founded in 1923 and headquartered in Amsterdam, is one of the largest Dutch suppliers in the sectors "investment properties" and "real estate management" with about 80 employees. As convincing "full service provider", it has now become a DIP Preferred Partner.

- "Absolutely right" was the decision to accept TÜV Rheinland Industrie Service with its headquarter in Cologne and 42 further branches as another Preferred Partner and competent source for, amongst others, technical due diligence and valuations of buildings etc. into our team.

Please see the following pages for more information on the new partners.

Our nationwide competence network supports you in all your real estate questions and concerns. Please contact a trusted DIP partner or a DIP partner from your region.

Yours sincerely,

Henrik Hertz DIP
Spokesperson 2018

DIP Deutsche Immobilien-Partner
An attractive group of specialists!

History:
In 1988, the increasing supra-regional tasks, especially in the sectors "Investment" and "Commercial letting", led the befriended and owner-managed, long-established companies AENGEVELT (est. 1910) in Düsseldorf, ARNOLD HERTZ (est. 1900) in Hamburg and ELLWANGER & GEIGER (est. 1912) in Stuttgart to establish a group. The goal: The most important and most interesting locations were to be closely linked by the accession of renowned real estate agents.

It was the right solution to the question of how the requirements of national and international investors, acting across regions, could be fulfilled!

The high level of renown of the three founding companies was to give other selected partner companies in other regions the opportunity to open the nationwide property market to their regional clients as well. The collection of regional market data allowed for the publication of the market report "MARKETS and FACTS", a pioneering achievement in the industry, which compared all relevant property markets in Western and Eastern Germany for the first time and the 30th annual issue of which you are now holding in your hands. Ever since then, it is considered to be one of the most important market reports, given its comparison of market data from Western and Eastern German cities.

News:
Today, eight top property services providers with more than 25 branch offices are members of the nationwide DIP group. Each and every partner is experienced at its location, linked through networks, superbly integrated and has an excellent reputation. Our cooperation is based on strong trust and builds on the foundations of professional qualification and active presence on the market.

In order to offer first-rate consideration of the interests of Dutch investors in Germany and of German investors in the Netherlands, the DIP network has been strengthened by the renowned company FRIS, Amsterdam, since August 2017.

Any client co-attended to by a partner enjoys our deepest respect, has utmost priority and experiences the reliable consultation and transaction participation he may naturally expect and is used to receiving from his regional property consultant!

Our "Code of Conduct" is the basis of our success and offers the corresponding unique advantages for our clients:

- More Trust:
  Each partner acts honestly and in a responsible manner in all transactions.
- More competence:
  Each partner utilises its good reputation and offers a high-quality service.
- More quality:
  With their market position at the respective locations, the partners guarantee the assured high quality standard.

Through the partnerships with the following well-known companies, which complement the holistic scope of real estate with their services, the DIP render unique services:

- ALLIANZ Handwerker Services GmbH, Aschheim (Munich)
- Deutsche Lichtmiete Vermietgesellschaft mbH, Oldenburg
- EBZ BUSINESS SCHOOL GMBH - University of Applied Sciences, Bochum
- FRIS | Real People, Amsterdam
- GÖRG Partnerschaft von Rechtsanwälten mbB, Cologne
- Justus Grosse Projektentwicklung GmbH, Bremen
- TÜV Rheinland Industrie Service GmbH, Cologne

Joint values are the best basis for your success!
- More ideas, more competencies, more opportunities for the sale or acquisition of your property most effectively complement our core competencies for you!

DIP Partners


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Dr. Wulff Aengevelt


Chiara Aengevelt


Mark Aengevelt


Max Aengevelt

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New with DIP

New Partner
MÖLLERHERM IMMOBILIEN INH. A. MÖLLERHERM E. K.

Möllerherm Immobilien has been active as leading real estate broker for houses, flats and plots of land as well as commercial and investment properties for purchase, sale and rent in Scharbeutz (headquarters), Ostholstein and Kiel for 19 years. Other successful branches were established in Lübeck, Bremen and Hamburg.

With its by now 26 employees, Möllerherm Immobilien is a consistently growing family company with the highest quality standards. Particular importance is placed on competence, personality and transparency. There are competent direct contact partners with years of experience for each area, be it the sale of residential properties or investment properties, in order to guarantee the highest degree of quality services. At Möllerherm Immobilien, customers receive the "all-round carefree package".

Amongst others, Möllerherm Immobilien is one of the FOCUS-Spezial top real estate brokers 2018.

Services

- Our "personal, good consulting"
- Cost-free determination of market value and consulting
- Sale and brokering of investment properties across Germany: office/residential and commercial properties, high street properties, residential complexes, logistics properties, specialist retail centres, self-service supermarkets, hotels, apartment complexes, residential space for rent, office premises, health care sector premises (medical centres, care, assisted living)
- Sale/letting of residential properties and building plots: apartment blocks, single-/two-family homes, semi-detached houses, terraced houses, freehold flats

Detlev Delfs
DIP Contact

Annegret Möllerherm (owner) | Johannes Möllerherm (management) | Dr. Marcel Hofeditz (management)

Persönlich gut beraten
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New with DIP

New Preferred Partner
FRIS | Real People

Since 1923, the family company FRIS has become one of the largest independent real estate managers in the Netherlands. We are the helpful contact and business partner for clients from the Netherlands and abroad in regard to management, brokering and (new) development of your properties and support you in generating the best returns. As full service real estate services provider, we are active from the first drafts to implementation and realisation of real estate projects. The width of our organisation and the range of our services enable us to overview the entire real estate cycle.

Hans Peter Fris
Managing Partner

Thanks to our extensive range of services as brokers, managers, valuers, consultants and insurance agency, FRIS means something to tens of thousands of private clients and companies. Exceptional performance in operative business and respectful customer service as well as our talent for innovative marketing are the factors for the success of the way of work, growth and culture at FRIS. We guarantee that every customer will receive the best, worry-free service.

Services

- Administrative, technical and commercial management of commercial and residential properties, schools and health sector buildings
- Investment brokering and consulting
- Letting/sale of commercial and residential properties
- Research and consulting
- Property valuations of both office and commercial premises as well as freehold flats
- Insurance for commercial and residential properties

In addition to our headquarters in Amsterdam, we have offices in Zaandam, Amsterdam Buitenveldert and Bergen op Zoom.

FRIS | Real People

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New with DIP

New Preferred Partner
TÜV RHEINLAND INDUSTRIE SERVICE GMBH

TÜV Rheinland is a worldwide leading independent provider of inspection services with more than 140 years of company history. The company employs 19,600 people across the world, who generate an annual turnover of almost EUR 1.9 billion. The independent experts stand for quality and the safety of people, technology and environment in almost all areas of life. TÜV Rheinland inspects technical facilities, products and services and accompanies projects and processes for companies. The experts train others in a variety of professions and industries. To do this, TÜV Rheinland has a global network of accredited laboratories, inspection and training centres.

Our area **"Industry Service"** includes the sectors printing equipment and plant engineering, conveyor and machine technology, lifts, electrical and building services engineering, industrial inspection, infrastructure & construction technology, energy & environment, project management as well as material inspection and non-destructive examinations.

In addition to other services, TÜV Rheinland Industrie Service offers a range of services in the real estate industry. The following sectors are covered:

- Technical due diligence
- Property valuation
- Certified quality inspections during construction
- Assessment/documentation of building condition
- Preservation of evidence
- Plan plausibility checks for construction and technical building equipment
- Inspections during construction phase
- Life cycle assessments
- Constructional sound and heat insulation
- Coordination of occupational health and safety on construction sites (SiGeKo)
- Preparation of result-oriented fire protection concepts
- Structural acceptance of expertises for fire protection
- Inspection of engineering buildings
- Building certifications according to DGNB®, LEED®, BREEAM®
- Civil/geotechnical engineering
- Building monitoring
- Hazardous materials
- Building pollutants
- Mould inspections
- Sustainability consulting
- Simulation (fire, smoke, thermal influences, current)
- Inspection according to specifications of the Bundesländer: (ventilation systems, CO_2-warning systems, natural and machine-operated smoke extraction systems, automatic fire extinguishing systems (sprinkler systems) and non-automatic fire extinguishing systems)

Gamal Nasser
Department Head Germany
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DIP News

AENGEVELT continues to expand its international business: Max Aengevelt "Head of International Desk"

In order to systematically expand its traditionally important international consulting and transaction business, AENGEVELT created an "International Desk" under the management of Max Aengevelt, member of the fourth generation and son of Dr. Lutz Aengevelt.

A first important step in this process is the agreement of a close bilateral partnership between AENGEVELT and the long-established brokers FAREBROTHER, London, initiated by Max Aengevelt, with the following strategic goals:

- Optimised exposure of German real estate under AENGEVELT/DIP mandate through wider access to international capital located in London
- Systematic handling of Brexit effected occupiers
- Ideal access to London's investment market for AENGEVELT/DIP clients
- Support for FAREBROTHER clients regarding their investments and occupier requirements in Germany

The systematic service for international clients has traditionally been an important pillar of the consulting and transaction business for AENGEVELT and DIP and subsequently results in considerable fee turnover each year. For example, AENGEVELT has also been operating an own "China Competence Center" for many years, in which Chinese native expert consultants trained at German universities work hand in hand with their German specialist colleagues to deliver occupier and investment services to Chinese clients.

With the now also formalised establishment of an "International Desk", AENGEVELT considerably increases its support for international property clients. Max Aengevelt as responsible contact partner and "Head of International Desk AENGEVELT IMMOBILIEN" systematically prepared for this task with his real-estate training in London (Bachelor degree at the European Business School, "Master of Science in Real Estate" at the Cass Business School) and, to ensure the best possible coordination of cooperation, he has a dual place of work with FAREBROTHER in London as well as in the AENGEVELT headquarters in Düsseldorf.

Already at the EXPO REAL 2017, FAREBROTHER and AENGEVELT presented the strengths, opportunities and risks of the real estate giants London and Frankfurt/M. in the context of Brexit during the high-profile joint trade event "BREXIT - Impact on German and Centre of London Real Estate Markets".

Max Aengevelt
Head of International Desk

AENGEVELT
Immobilien für Ihren Erfolg

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EXPO REAL 2017:

Professional fair with interesting topics

Highly professional mood, a wealth of topics and a question mark here and there. This is one way to summarise the twentieth EXPO REAL in Munich with about forty thousand participants.

One of the much-discussed issues was the rapidly progressing digitalisation and its effects on retail and logistics – key phrase "same day" or "same hour" delivery versus stationary trade – and the workflow in the real estate industry.

Brexit was subject to further discussion, and how the German real estate market profits from it. The strong interest was also reflected in the sold-out trade event addressing this issue that was held by our company in cooperation with our partner FAREBROTHER from London. Even though not all results of the Brexit negotiations are certain yet: There was a consensus that Frankfurt will be one of the beneficiaries, but it will have to considerably increase new construction volume regarding both offices and residential premises due to increasing demand in both sectors.

We also addressed affordable residential construction in German growth centres: While Düsseldorf introduced the functioning "Handlungskonzept Wohnen", Munich is suffering from a lack of price-adequate plots in particular and the federal capital faces a shortage of implementable regulations.

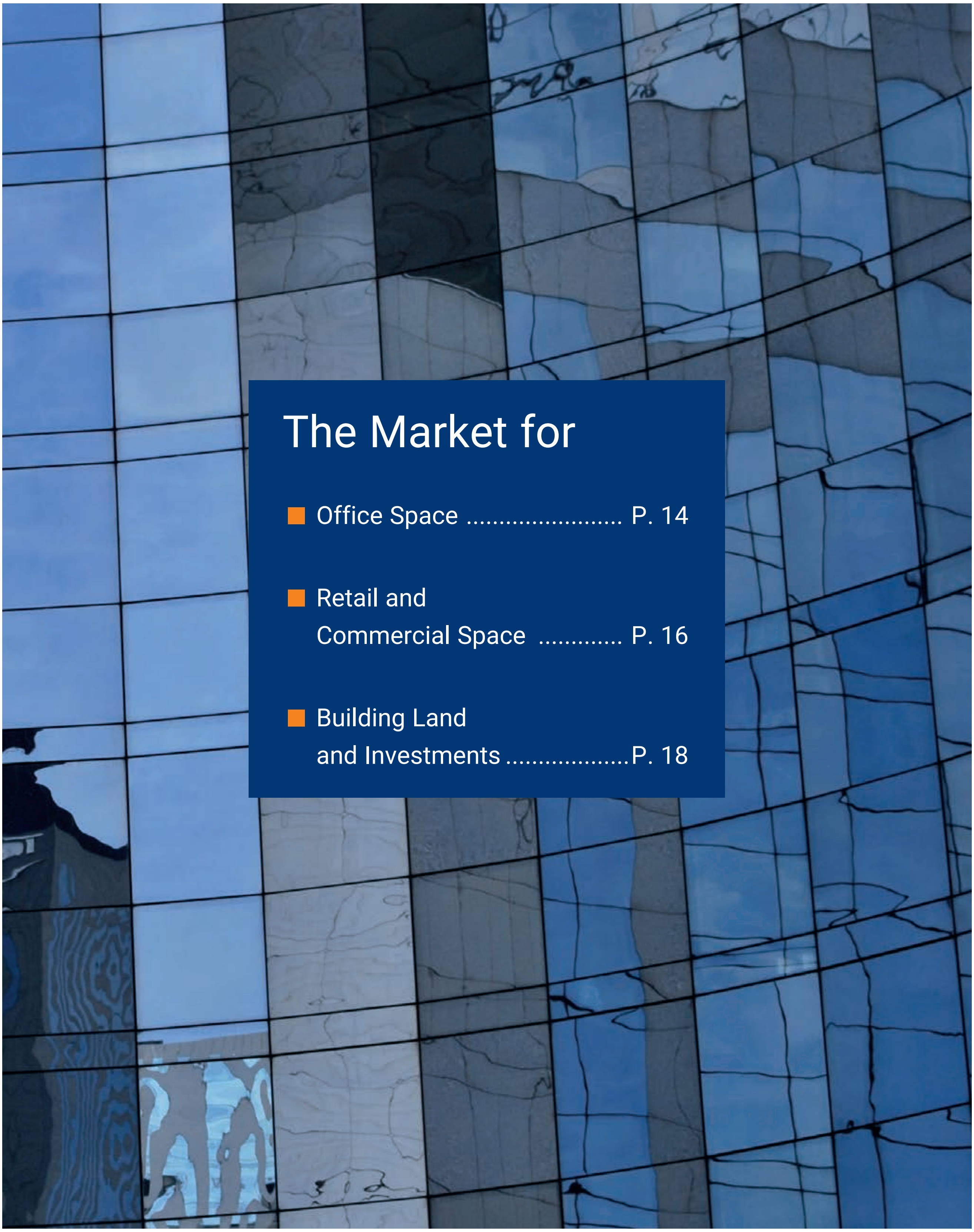
Shortages also on the investment market, namely regarding supply that is adequate for the market. Additionally, acquisitions and calculations increasingly factor in a rise of interest levels in the near future.

Furthermore, the industry has high expectations towards the future federal government following the announced discontinuation of the failed cap on rent increases.

Overall, the EXPO REAL with its wealth of high-ranking letting and sales reports and professional project presentations once again illustrated its outstanding importance as unique platform for real estate networkers.

Dr. Wulff Aengevelt

Overviews of markets



The Market for

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The market for

office space

Office space market	Berlin	Bremen	Dresden	Düsseldorf	Essen	Frankfurt
Turnover in office space in m² - 2017 leased and owner-occupied space	930,000	92,000	105,000	451,000	116,000	702,000
Turnover in office space in m² - 2016 leased and owner-occupied space	893,000	79,000	78,000	355,000	89,000	546,000
Turnover in office space in m² - 2015 leased and owner-occupied space	854,000	75,000	88,000	471,000	123,000	389,000
Top rent in 2017 in EUR/m²/month	30.00	12.80	13.00	27.00	15.00	40.00
Top rent in 2016 in EUR/m²/month	28.00	12.60	12.00	26.50	14.00	39.00
Top rent in 2015 in EUR/m²/month	23.50	12.50	12.00	26.00	14.00	39.00
Average rent - entire city in 2017 in EUR/m²/month	19.10	n. a.	9.00	14.40	n. a.	20.70
Average rent - inner city in 2017 in EUR/m²/month	20.00	8.70	10.15	18.40	10.20	26.10
Average rent - city periphery in 2017 in EUR/m²/month	19.90	7.80	8.00	14.90	8.20	17.70
Average rent - suburbs in 2017 in EUR/m²/month	12.00	7.00	7.00	12.20	6.10	13.20
Vacancy absolute value in m² - end of 2017	560,000	115,000	190,000	780,000	204,000	1,050,000
Vacancy absolute value in m² - end of 2016	810,000	105,000	218,000	850,000	183,000	1,240,000
Vacancy rate in % - end of 2017	3.0	3.3	7.7	8.4	6.5	8.9
Vacancy rate in % - end of 2016	4.3	3.0	8.8	9.2	5.9	10.4
Projected turnover of office space in 2018	↘	n. a.	→	↘	→	↘
Projected top rent - end of 2018	↗	n. a.	↗	→	→	↗
Projected average rent - entire city - end of 2018	↗	n. a.	↗	↗	→	↗
Projected vacancy - absolute value - end of 2018	↘	n. a.	↘	↘	n. a.	↘

n. a. = not available

Hamburg	Hanover	Karlsruhe	Cologne	Leipzig	Magdeburg	Munich	Nuremberg	Stuttgart	Amsterdam
625,000	98,000	84,000	306,000	158,000	18,500	960,000	100,000	300,000	412,000
550,000	110,000	81,000	383,000	94,000	25,000	745,000	102,000	390,000	403,000
540,000	120,000	78,000	295,000	102,000	33,000	720,000	62,000	290,000	217,000
26.50	15.00	15.00	21.70	13.00	12.25	36.50	15.00	23.00	38.00
26.00	14.60	14.00	21.50	13.00	10.80	35.00	15.00	22.00	35.00
25.00	14.30	13.00	21.30	13.00	10.80	34.50	14.20	21.00	31.00
15.20	n. a.	n. a.	13.70	8.60	6.40	16.50	10.30	13.00	18.00
19.10	10.50	9.30	14.20	9.50	8.50	24.70	11.50	16.00	30.00
15.00	8.50	8.50	13.00	8.10	6.50	16.20	11.50	12.00	12.50
11.80	7.60	6.30	8.30	6.90	4.80	12.50	8.50	10.00	10.50
680,000	165,000	83,000	290,000	265,000	91,000	690,000	150,000	180,000	691,000
790,000	205,000	88,000	410,000	305,000	99,000	860,000	195,000	240,000	818,000
4.8	3.7	3.4	3.7	8.1	8.7	3.0	4.1	2.3	9.0
5.6	4.6	3.7	5.3	9.3	9.5	3.8	5.4	3.1	11.0
→	n. a.	↗	↗	↘	→	↘	↘	→	→
→	n. a.	↗	↗	→	→	→	→	→	↗
→	n. a.	↗	↗	↗	→	→	→	→	↗
↘	n. a.	↘	↘	↘	↘	↘	→	→	↘

The market for

retail and commercial space

Retail space market	Berlin	Bremen	Dresden	Düsseldorf	Essen	Frankfurt
Top rent (absolutely prime location) in EUR/m²	340	150	120	290	105	320
Rent in EUR/m²: Prime inner-city location (ground floor < 100 m²)*	90-235	n. a.	50-120	140-250	n. a.	150-300
Rent in EUR/m² Secondary inner-city location (ground floor < 100 m²)*	15-40	n. a.	20-50	60-90	n. a.	100-150
Rent in EUR/m²: City periphery / centre of a city district (ground floor < 100 m²)*	15-55	n. a.	10-20	20-40	8-27	20-50
Rent in EUR/m²: Discounter/specialized big box store - nonfood	10-15	n. a.	5-12	10-20	n. a.	15-25
Rent in EUR/m²: Discounter/specialized big box store - food	10-15	n. a.	7-17	10-14	n. a.	14-18

FORECAST 2018	Berlin	Bremen	Dresden	Düsseldorf	Essen	Frankfurt
Development of rents in prime locations	→	n. a.	↗	→	→	→
Development of rents in secondary locations	↘	n. a.	→	↘	n. a.	→
Demand for retail space in prime locations	→	n. a.	→	↗	n. a.	→
Turnover in retail space in prime locations	→	n. a.	→	↘	n. a.	→

n. a. = not available
* = typical market range

Hamburg	Hanover	Karlsruhe	Cologne	Leipzig	Magdeburg	Munich	Nuremberg	Stuttgart	Amsterdam
290	200	115	280	135	68	380	160	280	250
120-280	n. a.	50-110	130-280	60-130	30-65	220-370	100-160	150-280	108 -250
60-120	n. a.	25-75	80-120	40-80	20-25	90-200	60-90	50-80	12-83
30-70	n. a.	12-80	20-40	15-25	8-12	45-95	20-60	5-20	12-71
n. a.	n. a.	n. a.	10-14	10-14	6-12	14-22	10-25	10-15	6-10
n. a.	n. a.	n. a.	10-15	14-18	6-12	20-35	10-25	10-18	8-50
→	n. a.	↗	→	→	↗	→	→	→	↗
↘	n. a.	↗	n. a.	→	→	→	→	↘	↗
↗	n. a.	↗	n. a.	↗	↗	→	→	→	↗
→	n. a.	↗	n. a.	↗	↗	→	→	→	↗

The market for
building land and investments

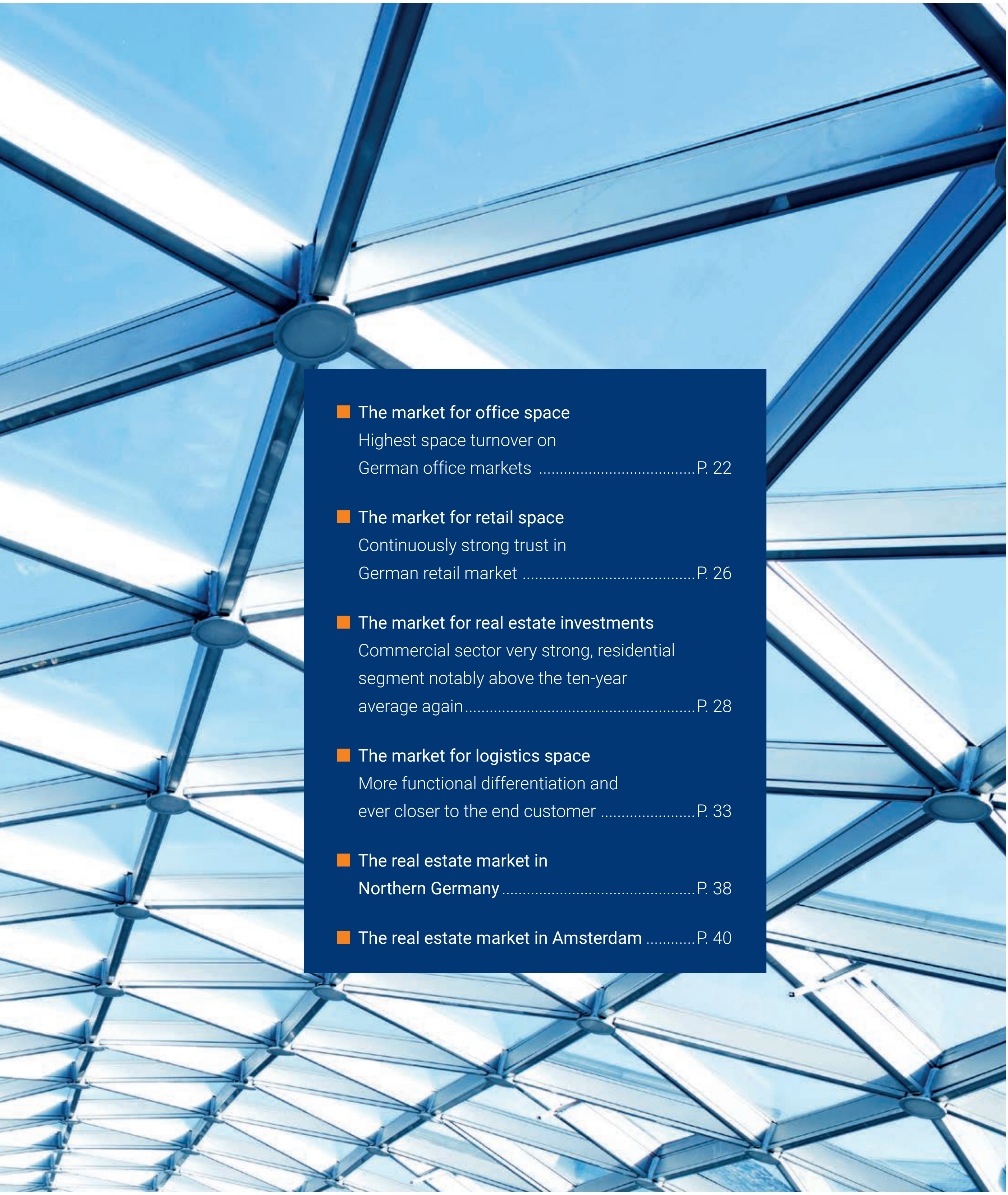
The market for land - purchase prices in EUR/m²	Berlin	Bremen	Dresden	Düsseldorf	Essen	Frankfurt
Commercial land (average locations)	800-2,000	40-130	25-100	210-600	65-140	n. a.
Secondary sector (production)	100-200	n. a.	25-70	140-310	n. a.	n. a.
Tertiary sector (services)	300-2,000	n. a.	40-100	350-620	n. a.	n. a.
Land for office and business buildings (in city locations)	3,000-15,000	800-1,300	200-1,300	2,600-28,000	n. a.	7,500-36,000
Land for residential buildings (in good locations)	1,300-5,000	800-1,300	150-1,300	460-2,000	600-800	1,500-4,000
Commercial investment - top multipliers (net)						
Business building	33.0	21.00	21.0	28.0	21.50	33.0
Office building	33.0	20.00	19.5	28.0	20.50	28.0
Shopping centre/specialized big box store	18.0	16.00	15.5	18.5	16.00	20.0
Industry/Commercial/Logistics	20.0	18.00	15.0	19.0	17.00	20.0
Commercial investment - typical initial multipliers						
Business building	18.5-24	16-19.5	13.5-18.5	18-22	17-21	20-21.5
Office building	18-23	16-19.5	12.5-18	18-24	17-21	19-21
Shopping centre/specialized big box store	13.5-17	14-15	11.5-14.5	13-16	14-15	13-15
Industry/Commercial/Logistics	10-15	13-16	9-12.5	8-13	13-17	12-14.5
Residential investment - typical initial multipliers						
multi-family house new building (standard fittings)	23-26	19.5-22.5	18.5-23.5	22-28	17.5-21	24-26
multi-family house inventory (standard fittings)	25-33	15.5-19	15-21	18-24	12-17	23-25

Multiplier = figure (net purchase price to contractual rent per anno)
Top multiplier = highest multiplier to be achieved in the market
New building = completion within the past two years

Hamburg	Hanover	Karlsruhe	Cologne	Leipzig	Magdeburg	Munich	Nuremberg	Stuttgart	Amsterdam
100-230	65-250	175-225	120-185	50-80	50-80	600-1,500	160-370	240-760	n. a.
n. a.	n. a.	n. a.	120-150	50-80	50-80	450-660	160-300	210-550	n. a.
n. a.	n. a.	n. a.	130-185	50-80	50-80	600-1,500	220-370	300-760	n. a.
4,000-30,000	n. a.	1,750-6,000	800-28,500	2,000-3,000	500-800	2,500-12,000	3,500-13,000	3,000-29,000	n. a.
500-4,500	750-950	450-800	800-1,400	600-800	250-350	2,000-5,000	900-1,500	1,050-2,600	n. a.
31.3	24.0	23.5	29.0	25.0	16.0	39.0	25.0	30.0	n. a.
30.3	24.0	18.0	29.0	20.0	16.0	29.0	22.0	28.0	28.5
20.0	18.5	14.0	20.0	15.0	14.0	22.0	15.5	17.0	16.5
21.0	18.0	17.0	20.0	18.0	13.0	21.0	17.0	19.0	19.0
23-30	16-22	16-24	20-26	20-25	13-16	23-36	20.0	20-28	n. a.
23-30	15-21	12-16	15-23	16-20	13-16	19-28	16-18	20-25	12.5-28.5
16-18	13.5-15.5	10-15	14-17	11-15	12-14	15-20	13.5-14.5	11-17	13.0-16.5
14-19	13-17	10-15	12-18	9-13	9-13	14-19	12.5-13.5	11-16	10-19
23-25	18-21	25-30	22-28	20-26	20-22	28-34	23-25	23-30	16.0-28.5
25-28	15.5-23	22-30	19-25	20-26	16-19	26-39	17-19	20-30	14.0-22

n. a. = not available

Markets in detail



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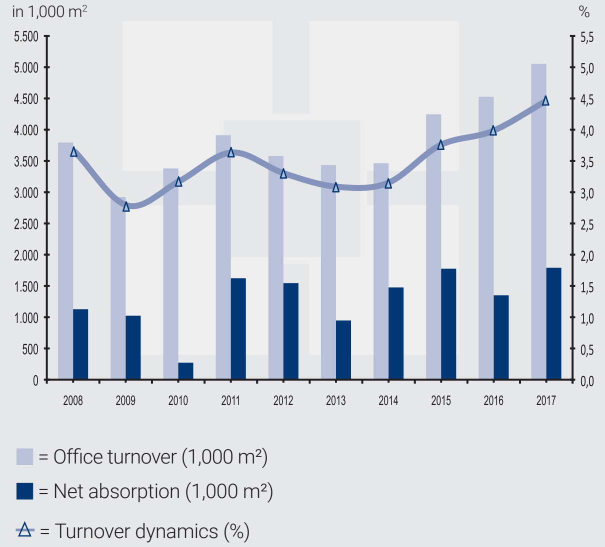
The market for office space

Highest space turnover on German office markets

In the course of continuous positive economic development in Germany, allowing for a GDP increase of 2.2 % in 2017, domestic office rental markets were able to liberate themselves from insecurities arising from geopolitical risks and risks regarding the global economy. Innumerable companies realised more of their space expansion plans and often also their optimisation-driven plans for relocation. The corresponding effects were felt to both different extents and at different speeds on the various market segments and locations.

DIP Office markets*:
office turnover, net absorption and turnover dynamics



* B, HB, DD, D, E, F, HH, H, KA, K, L, MD, M, N, S; incl. owner occupiers

Source: DIP, AENGEVELT-RESEARCH

Office space turnover at record high

- Whilst a total of about 4.52 million m² of office space was traded at the 15 DIP locations in 2016, space turnover in the subsequent year, 2017, rose by about 530,000 m² or 12 % to 5.05 million m². The most recent turnover figure is the highest of the past 25 years and about 35 % higher than the average sales turnover of the past decade (Ø 2007 - 2016: 3.73 million m² per year).

- About 4.27 million m² or 85 % of office space turnover at all 15 DIP locations were traded in the seven biggest German office space markets (Berlin, Düsseldorf, Frankfurt am Main, Hamburg, Cologne, Munich and Stuttgart). Accordingly, this constituted an 11 % higher space turnover than in 2016 (3.86 million m²). The current result is 36 % higher than the average level of the previous decade (Ø 2007 - 2016: 3.13 million m² per year). The four markets with the highest turnover in 2017 were Munich (960,000 m²), Berlin (930,000 m²), Frankfurt a. M. (702,000 m²) and Hamburg (625,000 m²).

- Turnover dynamics, i.e. the share of space turnover compared to existing buildings, reached a higher level than in the previous year (2017: 4.5 %, 2016: 4.0 %). The most dynamic of the 15 DIP markets, i.e. exceeding the average performance (3.9 %), were the space turnovers on the markets in Frankfurt am Main (5.9 %), Berlin (5.0 %), Düsseldorf (4.9 %), Munich (4.9 %), Leipzig (4.8 %) and Hamburg (4.4 %). Dresden (4.2 %), Cologne (4.0 %), Stuttgart (3.8 %), Essen (3.7 %) and Karlsruhe (3.5 %) exhibited more or less average growth dynamics. On the other hand, Nuremberg (2.8 %), Bremen (2.6 %), Hanover (2.2 %) and Magdeburg (1.8 %) saw restrained office space turnover rates.

Continuously high net absorption of office space

After net absorption of office space (additional consumption) on the German office space markets had fallen to less than one million m² in 2013 as a result of the economic slowdown and a corresponding polycyclic hesitation to rent, the positive economic development in the past four years led to a higher net absorption rate. In 2014, about 1.5 million m² of office space were absorbed, in 2015 approx. 1.8 million m², in 2016, about 1.4 million m² and approx. 1.8 million m² in the currently analysed year 2017.

General further reduction of office space surpluse

Given constantly high net absorption, the total amount of office space available at short notice on the 15 German markets analysed fell by about 1.1 million m² to about 5.5 million m² of office space in the course of 2017, as forecast by DIP. The average vacancy rate on the 15 DIP markets thus fell from 5.9 % at the end of 2016 to 4.9 % over the course of the year.
On average, around 17 % less office space was available for renting at short notice in 2017 than only a year before. With that, the vacancy figures on the 15 DIP markets reached their lowest level since 2001 (around 4.2 million m²):

- Among the markets with stronger dynamics in reducing vacancy rates in 2017 were especially Berlin (-31%), Cologne (-29 %), Stuttgart (-25 %) and Nuremberg (-23 %) as well as Munich and Hanover (-20 % each).

- More moderate rates of vacancy reduction were analysed for Frankfurt a. M. (-15 %), Hamburg (-14 %), Dresden (-13 %), Leipzig (-13 %), Düsseldorf (-8 %), Magdeburg (-8 %) and Karlsruhe (-6 %).

- Only Bremen (+10 %) and Essen (+12 %) saw an increase in supply reserves.

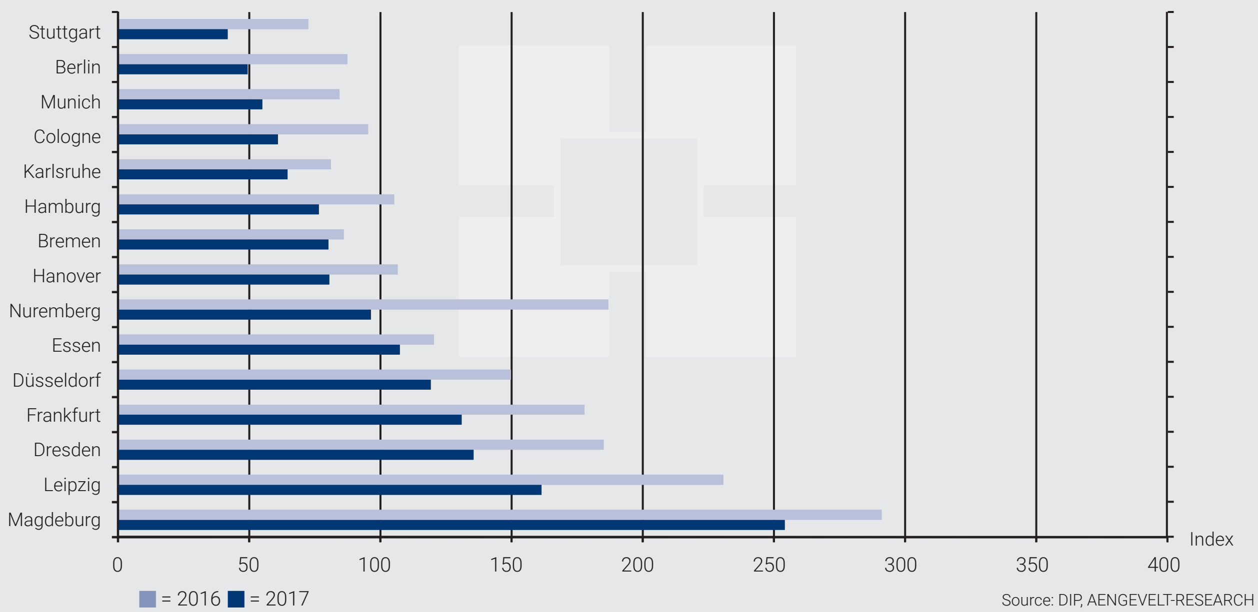
Assessing a location based merely on vacancy levels and their rates of change, however, does not reveal the entire picture. Rather, the changing ratios between space turnover and increase in the number of existing buildings through new construction are decisive and thus relevant to that assessment:

The vacancy index developed for that purpose by AENGEVELT-RESEARCH, "ARLEX" (**A**ENGEVELT-**R**ESEARCH **LE**erstandsinde**X**) [AENGEVELT-RESEARCH vacancy index]) takes into account the relationship between the development regarding vacancies on the one hand and turnover dynamics as well as the medium-term (future) completion volumes on the other hand. An index value of 100 corresponds to an ideal market in equilibrium; values under 100 represent surplus demand and values over 100 a supply surplus. After calculation of the ARLEX, the results for the various locations sometimes appear in a completely different light than purely looking at nominal vacancy rates and their rates of change would suggest:

- Supply-demand relations have improved on seven of the 15 analysed office markets over the year and thus continued to approach a market balance. The vacancy index for all German office space markets examined reached a level of 110 at the end of 2016 and of 82 a year later. This means that the overall market is

ARLEX: Index of vacancies of DIP office markets

Index 100: Vacancies are in line with fluctuation reserves required in the medium-term



Source: DIP, AENGEVELT-RESEARCH

characterised by a demand surplus in 2017.

- Among the office space markets with the most favourable market ratios between the supply of space, demand and medium-term expansion of space are Essen (index 108) and Nuremberg (97).

- In the other locations analysed, the index values fall into the 42 (Stuttgart) to 255 (Magdeburg) range. The extremely low index values in Stuttgart (42), Berlin (50), Munich (55), Cologne (61) and Karlsruhe (65) indicate a distinct discrepancy between very high demand for office space, low vacancy rates and an insufficient number of new buildings being completed.

- The most striking improvements of the ARLEX were registered in Nuremberg (90 index points), Leipzig (69), Dresden (50) and Frankfurt am Main (47).

Performance on the 15 DIP markets

Following continuous stable economic development in Germany during the reporting year, an overall positive performance was recorded for the German office space markets in 2017. Compared to the same point in time of analysis last year, index values have developed positively at 14 of the 15 locations. For 2018, DIP expects an above-average demand for office space as part of the dynamic economic development, which will be met by a very lean market that is characterised by a further reduction of vacancy levels and a high absorption of modern and market-adequate office premises.

The “Office Barometer” not only considers the developments in office rents, but also all other main key indicators that reflect the supply and demand relationships[1]. When interpreting the analysed index values, one has to consider not only the size of shifts towards market lows or market highs, but also the speed and direction of fluctuations compared to the previous year.

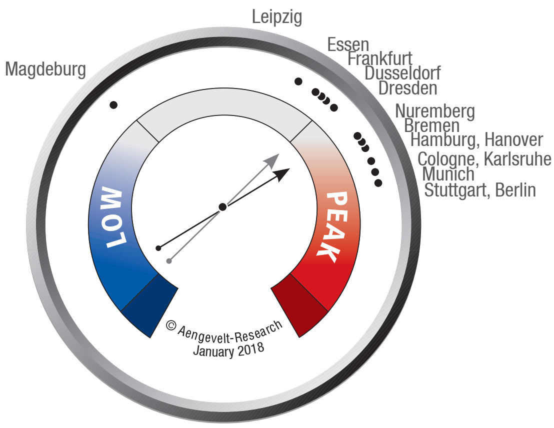
The reaction to current positive economic developments differs in the 15 DIP office markets that were analysed. This is reflected by the individual positions of markets on the office barometer. After the average office barometer value of the 15 office space markets analysed had fallen to a value of -63 in the crisis year of 2009, it rose continuously by 122 index points in the course of the market recovery from 2010 onwards and reached an index value of 59 in 2017 (2016: 46). Accordingly, the highest index value of the historical series (from 1994) was recorded in the report year 2017.

Among the office space markets with the best performance values in the report year 2017 are Leipzig, Frankfurt a. M. and Dresden. Essen was the only one of the 15 DIP markets that saw a notably negative change.

The overall lowest barometer values were determined for Magdeburg, Leipzig and Essen, while Berlin, Stuttgart, Munich, Karlsruhe and Cologne achieved the highest values.

Rising top rents

Office rents, which came under increasing pressure in 2009 and 2010 due to the crisis, have been picking up consistently on a broad front since 2011. The weighted prime rent subject to space turnover on the investigated markets amounted to about EUR 28.60/m² at the end of 2017 and was thus higher than at the same time last year (about EUR 27.00/m²). Among the markets with a significant recovery in prime rents in a year-on-year comparison were above all Magdeburg (+13 %) and Dresden (+8 %) as well as Berlin, Essen and Karlsruhe (7 % each). Higher prime rents than in the previous year were also generated in Stuttgart (+5 %), Munich (+4 %), Frankfurt a. M. (+3 %) and Hanover (+3 %) as well as in Bremen, Düsseldorf and



[1] The following key indicators are considered in the calculation of the index values: Space turnover, net absorption, available space supply, supply reserve available at short notice, necessary mobility reserve, completion volumes, existing space, top rent, average rents.

Hamburg (2 % each). A minimal increase in prime rents by 1 % was also analysed for Cologne. Only in Leipzig and Nuremberg were prime rent levels registered that remained stable compared to the previous year.

A positive trend is also apparent when comparing the average rents for office space in inner-city locations at the end of 2017. At the end of 2016, a value of about EUR 18.30/m² was determined as the weighted average rent for office space in city locations in the 15 German markets analysed; at the end of 2017, it had been EUR 19.40/m². Average increase in rent ran to around 6 % within only a year. No reduction of average office rent in inner-city locations was registered in any of the 15 office markets. A particularly high increase in average city rent was registered in Stuttgart (+14 %), Dresden (+8 %), Nuremberg (+8 %) and Frankfurt a. M. (+7 %).

Perspectives and opportunities

The German economy will continue to focus on growth in 2018, so that the sound fundamental condition of companies and households in Germany, combined with a positive development of employment and wages, continues to lead to strong demand levels. However, known geopolitical uncertainties and imponderables regarding the global economy, for example in China and the Middle East, Brexit or the fiscal market regulations (rising interest etc.) that are to be expected, may also affect the national property markets, depending on their course and intensity:

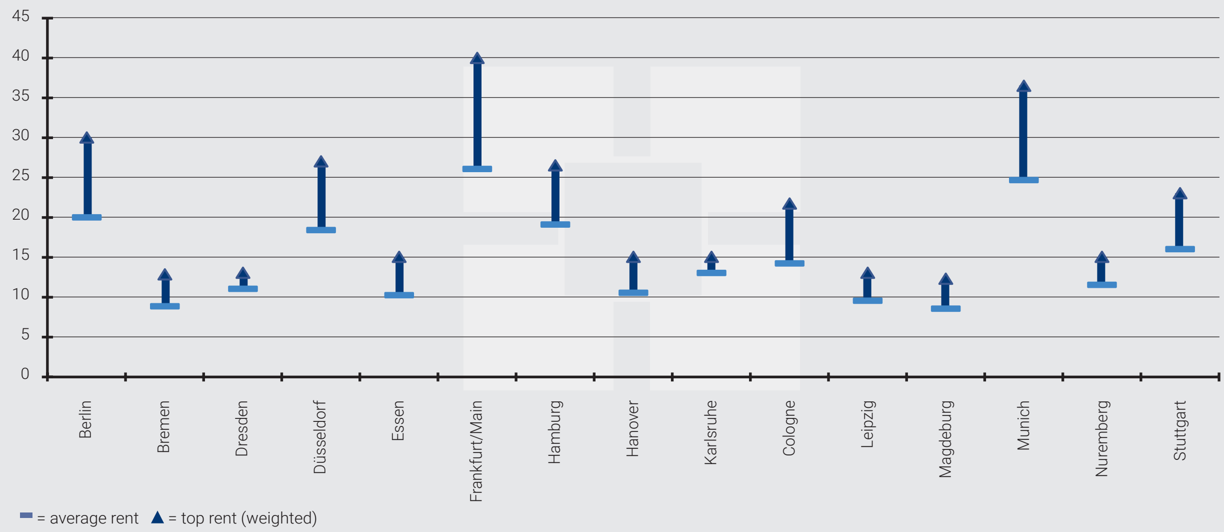
- For the year 2018, DIP expects a high, above-average office space turnover for the majority of the analysed offices markets, which may not reach the record of the previous year of just over 5 million m², but which will nonetheless record an above-average turnover volume (Ø 2008 - 2017: 3.8 million m² per year) beyond the 4 million mark.

- In sub-markets, there will be further supply shortages in demand-intensive market areas. The reason for partial supply shortages is, among other things, the lack of speculative office space completion, which will turn out below average in 2018 as well.

- The corresponding further reduction of marketable office space vacancies in central locations is causing a shortage of modern spaces in prime locations that would meet demand. This continues to cause rent levels to rise and triggers further growth potential in some cases so that, according to forecasts of DIP, the trend towards moderately higher prime rents, especially on the most dynamic markets, will continue in 2018, too.

Rent level in inner-city locations

Top rents as well as average rents (as of 31st December 2017) in EUR/m²



Source: DIP, AENGEVELT-RESEARCH

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The market for retail space

Continuously strong trust in German retail market

The German economy continues its very dynamic growth. Despite geopolitical uncertainties and imponderables in global and domestic politics, economic growth did very well in 2017. Crisis scenarios in the Middle East, the effects of Brexit and other imponderables did not have a negative impact on the German economy so far. The German economy grew by 2.2 % in 2017 (2016: +1.9 %). According to its current economic forecast (December 2017), the "ifo Institut für Wirtschaftsforschung" is expecting a GDP increase of 2.6 % in 2018. Accordingly, Germany will remain the engine of and continue to drive European economic development in this year as well. The long-standing lively interest of investors and retail tenants, especially at top locations in the particularly sought-after cities and core growth areas, is continuing at a high level.

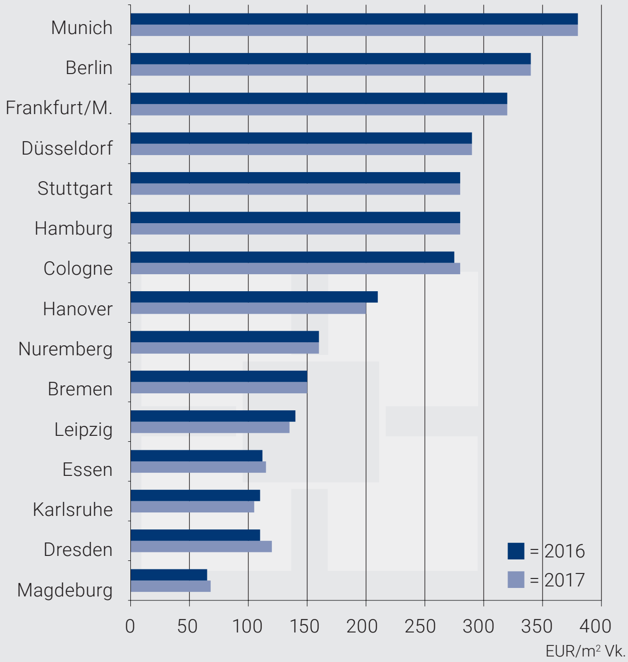
The retail market in Germany, which has been expanding continuously since 2010, continued to grow by a nominal increase in turnover of 3.0 % in the report year 2017 to about EUR 501 billion, compared to the previous year. Notwithstanding this positive background, the prime rents in the most important German retail metropolises (Berlin, Hamburg, Munich, Frankfurt am Main, Cologne, Düsseldorf and Stuttgart) rose relatively moderately by 0.2 % over the course of 2017.

The continuously dynamic development is above all borne by a positive development of income among private households with an average rate of savings (2017: 9.8 %). Additionally, the steady increase over the last few years of the very high employment level in the German economy continues. Unemployment remains very low with a rate of 5.3 % (December 2017), despite a partial lack of skilled workers. The "GfK" consumer climate index reached an indicator score of 10.7 in December 2017, the highest December score in the last 15 years. The positive framework conditions in Germany, development on the labour market and of wages, long-standing very low inflation despite the currently slight rise in consumer prices as well as the base rate of zero of the European Central Bank are the main drivers of the relatively high consumption level at the moment. This means that Germany remains the most important retail market in Europe in 2018 as well, and that it continues to enjoy the continuously strong expansion interest of both national and international labels, especially in the growth centres and agglomeration areas.

Stagnating rent levels in attractive top locations

Demand for retail space remains very high, in city centres in particular. In recent years, established and highly frequented prime locations especially benefited from the targeted new establishments of expanding national chains and the market entry of international chains, especially in the textiles industry. In the "Big Seven", rents at these top locations amount to between EUR 280.00/m² of retail space in Hamburg, Cologne and Stuttgart and EUR 380.00/m² of retail space in Munich at the start of 2018.

Prime rents* for retail spaces



*stores in prime locations with a sales space (Vk.) of approx. 100 m² on ground floor

Source: DIP, AENGEVELT-RESEARCH

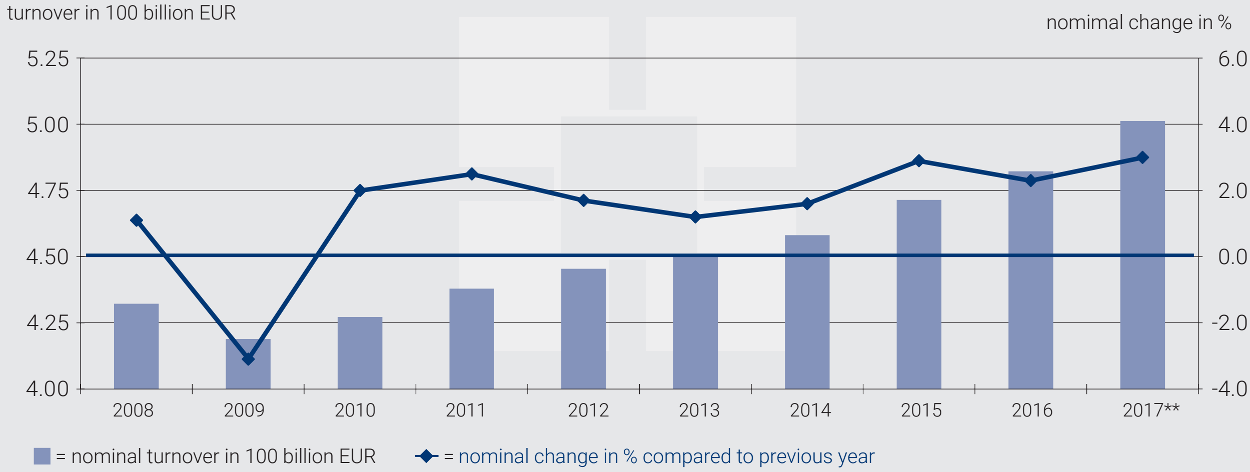
Demand for spaces is focused on top locations, especially on the part of solvent financial investors and their associated companies, who, without exception, carry top labels, and is stimulating the rise of prime rent levels in such favoured locations, especially in years of strong growth. In years of weaker economic development, prime rents at top (1A) addresses at least stabilise. This mainly applies to the highly frequented main shopping locations in the bigger German cities or conurbations like Berlin, Hamburg, Munich, Frankfurt am Main, Cologne, Düsseldorf and Stuttgart. Over the last ten years, top rents generated for small-scale shops at these locations rose from, on average, EUR 224.00/m² of retail space (2007) by about 38 % to currently EUR 310.00/m². This notwithstanding, a moderate fall of growth dynamics in stationary trade can be determined over the recent years as a result of the ever-increasing turnover share of online trade (increase of 10 % to about EUR 49 billion in 2017) and a certain saturation of the market following from insufficient product diversity.

Apart from the "Big Seven", also the remaining systematically analysed DIP locations (Bremen, Dresden, Essen, Hanover, Karlsruhe, Leipzig, Magdeburg and Nuremberg) exhibit overall stable prime retail rents. Here, the growth rate reached a level of 20 % in the aforementioned period (2007 to 2017), which is thus somewhat lower than in the larger cities. Compared to absolute values, the prime rents at the other analysed DIP locations are, with an average EUR 132.00/m², about 57 % lower than in the market-leading retail metropolises.

Perspectives and investment opportunities

The strong confidence in the German property market and targeted investment in "concrete gold" continues in 2018, given continuance of the zero-interest policy in the EU - despite an increase in base rates by 75 base points in the USA since December 2016 - as well as geopolitical uncertainties and imponderables regarding the global economy. The share of properties owned by market-leading national and international insurance companies, state funds, pension funds etc. remain high or even tend to rise due to a lack of investment alternatives. Top returns as net initial returns for German retail properties (commercial buildings) in the "Big Seven" range between 2.6 % in Munich and 3.6 % in Düsseldorf. For 2018, a locally differentiated further contraction of prime rents at a very low level can be expected, due to unbroken prospects of increase in value and attractiveness of this asset class combined with simultaneous and persistent low market-adequate supply. High-end retail properties in top locations represent a safe asset class that is also likely to generate an increase in value, given their comparatively stable/dynamic cash flows, and they remain in great demand, especially so in turbulent times, given the persistently low credit interest rates and a persistently high need for safety. According to extensive analyses by DIP, this trend will continue in 2018 as well.

Turnover of retail spaces* in Germany from 2008 until 2017



*without automotive, gas stations, fuels and pharmacies **forecast

Source: HDE, Federal Office of Statistics

The market for real estate investments

Commercial sector very strong, residential again significantly above ten-year average

Thanks to an excellent fourth quarter, the investment market continued on a high level in 2017. Investments in commercial properties exceeded the record year 2015, while the transaction volume in the sector residential investments exhibits an upwards trend in the comparison 2016 - 2017:

- The **investment market** closed at a total of **EUR 72.1 billion**, which was a considerable 7.8 % higher than in the previous year (EUR 66.9 billion) and thus a significant 56 % above the most recent ten-year average (ten-year-average 2007 until 2016: EUR 46.1 billion).

- The focus remained on **commercial investments** with approx. **EUR 57.3 billion**, an increase of a significant 60 % above the ten-year average of EUR 35.7 billion.

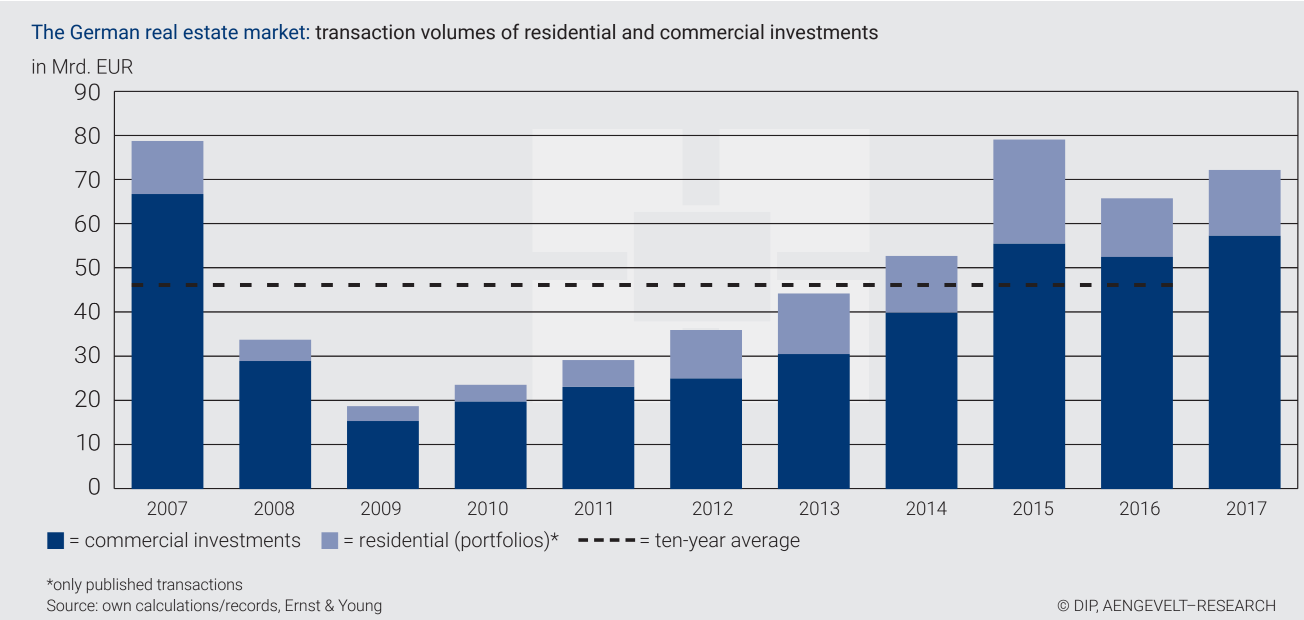
- **Residential portfolios** accounted for **EUR 14.8 billion**, corresponding to 42 % above the ten-year-average of EUR 10.4 billion.

Office investments remained the most sought-after asset class at a stable level of about 43 % of investment volume, followed by retail with a normal level of success. New in third place are logistics investments, which is, amongst others, the result of the general high demand for modern premises, for example on the part of online traders. Hotels and other investments exhibited a moderate decline of market shares in 2017.

In the investment year 2017, almost all asset classes were represented among the largest transactions, such as the acquisition of the Blackstone-managed Logicor portfolio by the Chinese sovereign wealth fund CIC (German logistics portfolio share approx. EUR 2.2 billion – the total volume amounted to more than EUR 12 billion), the sale of the office and retail portfolio "Primus" of RFR Holding to Signa Prime Selection (EUR 1.5 billion), Berlin's record transaction with the sale of the Sony Center by NPS to Oxford Properties and Madison International Realty (EUR 1.15 billion), the acquisition of the hotel portfolio "SITQ" of Apollo Global Management by Invesco Real Estate (EUR 500 million), the sale of five residential project developments of the CG Group to Corestate (EUR 670 million) as well as the largest

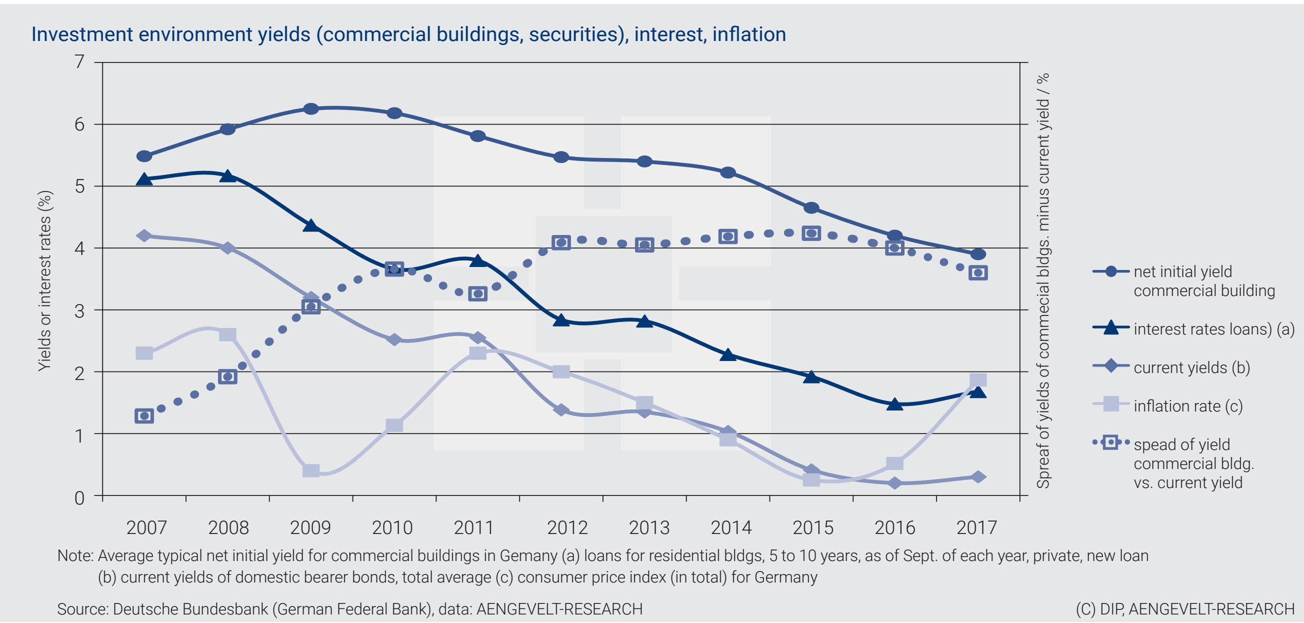
Table 1: Real estate investment in Germany by property type

TYPE OF PROPERTY	RANK	TURNOVER				SHARE	
		2017	Difference to the previous year		2016	2017	2016
	2017	EUR billion	(EUR billion)	(%)	EUR billion	(%)	(%)
Office	1	24.8	+0.7	+2.9%	24.1	43.3	45.3
Retail including commercial buildings	2	12.8	+0.9	+7.6%	11.9	22.3	22.4
Logistics (including light industrial)	3	8.8	+4.1	+87.2%	4.7	15.3	8.8
Hotel	4	4.1	-1	-19.6%	5.1	7.2	9.6
Other	./.	6.8	-0.6	-8.1%	7.4	11.9	13.9
Commercial properties	./.	57.3	+4.1	+7.7%	53.2	100	100
Residential portfolios	./.	14.8	+1.1	+8.0%	13.7		
Total real estate investment	./.	72.1	+5.2	+7.8%	66.9		

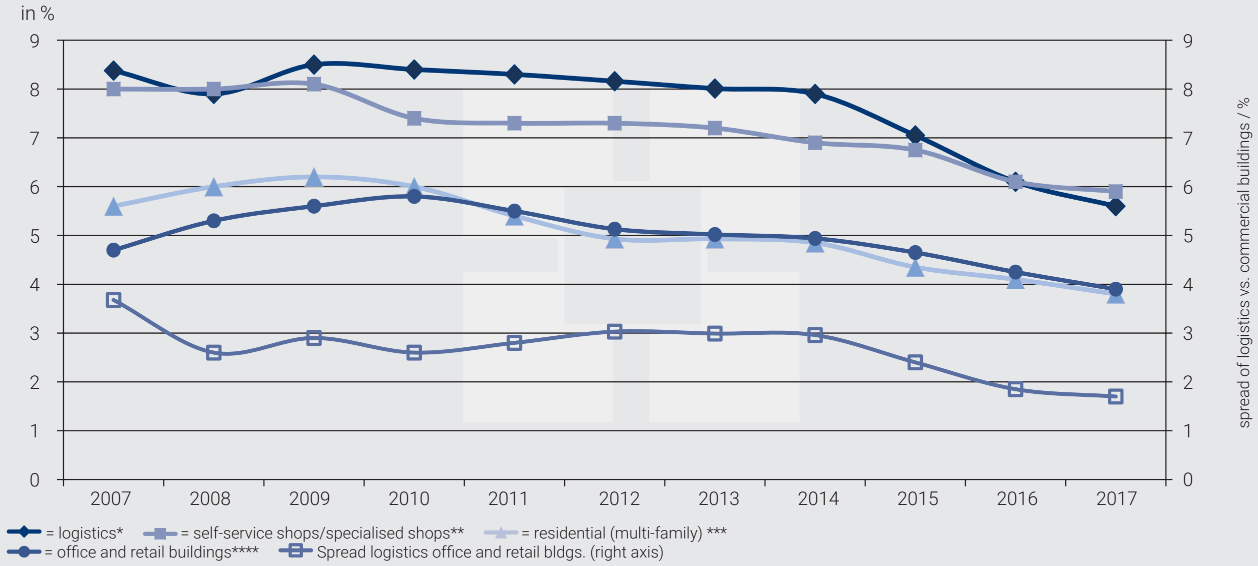


residential portfolio transaction of the year with the sale of 3,900 residential and 270 retail units in Berlin by an international investor to Deutsche Wohnen (EUR 655 million).

A stimulant in the investment marathon, which, according to extensive analyses of DIP, will continue in 2018 as well, is the consistently low interest level combined with a scarcity of high-yield alternatives. The yield spread between office/commercial properties and current yields rose to more than four percent at times in the past ten years and currently amounts to about 3.6 %, yields in the logistics segment are only 1.7 % higher. A limitation for trade is the increasing scarcity of core properties that meet market requirements. Returns tend to fall further and, at top locations, already amount to less than 3 %, substantially in the segment residential, but also for offices. Even though European financial backers continue to step up their requirements even further, especially in regard of equity ratio and risk management, including property quality, with Basel III/IV and Solvency II, in the light of in part very high purchase price multipliers, there are worries that real estate bubbles may form, at least locally in growth centres. These scenarios, however, are for the most part still being rejected by the majority of industry-specific opinion leaders with reference to the objective solidity of market parameters and professionalism of calculations.



Net initial yields of different asset classes



* logistics properties (without typical warehouses) ** food stores and specialised retailers *** multi-family houses , inventory, prime location and high-quality fittings
**** inner-city locations, high quality and/or contemporary fittings with a major part of retail

Source: own calculations, DIP

© DIP, AENGEVELT–RESEARCH

"Big Seven": Large-scale transactions push commercial investment in Berlin, strong turnover also at other locations

Overall transaction volume in the German property strongholds, the **"Big Seven"** (Berlin, Düsseldorf, Frankfurt am Main, Hamburg, Cologne, Munich and Stuttgart) recorded a 4 % higher result in 2017 when compared to the previous year, corresponding to an increase by EUR 1.2 billion from EUR 28.9 billion to **EUR 30.1 billion.** The share of Germany-wide commercial investment contracted in the "Big Seven" remained almost stable at 53 % in the report year 2017 (2016: 54 %).

Thanks to several high-priced transactions, Berlin was able to pass Frankfurt and Munich and to recapture first place in Germany. The sale of the Sony Center to a Canadian pension fund for more than EUR 1.1 billion, the project developments of the media campus Axel-Springer and the Allianz headquarters for EUR 425 million and EUR 318 million respectively and the sale of the Axel-Springer-Passage for EUR 330 million by themselves accounted for almost a third of the annual volume.

Frankfurt as well saw a new single transaction record with the sale of "Tower 185" by CA Immo to Deka for about EUR 775 million. Munich, on the other hand, showed a strong performance with a range of transactions regarding mixed-used properties, often with a large share of hotel use. While falling investment turnover was observed in Hamburg and Stuttgart, the Rhine cities Cologne and Düsseldorf were able to present themselves in further gaining form.

Returns continue to fall

As institutional investors continue to rely on the safety of well-let top properties in prime locations, top returns in these areas in particular remain under considerable pressure. At the same time, returns are also falling in all German centres of the DIP association following an increase in willingness to take risks, by an average 30 base points (bps) between 2016 and 2017. Yet they are still markedly higher than other similarly long-term and simultaneously safe investments:

- For **top commercial properties,** top returns amount to approximately **3.9 %** (2016: 4.2 %), the average top returns for pure **office buildings** are, on average, 30 base points higher with **4.3 %** (2016: 4.6 %), at some locations between 20 and 50 bps.

- Returns for **self-service shops/specialised retailers** are also falling, but remain attractive with a top average of **5.9 %** (2016: 6.1 %).

- A significant squeeze was recorded for initial returns for **logistics properties**, amounting to **5.6 %** in 2017 (2016: 6.1 %).

The picture of top returns or top multipliers can be differentiated as follows for the DIP locations: Munich has been the traditional leader in regard to prices, followed by the remaining "Big Seven".

In justifiable individual cases, the aforementioned factors typical for reductions are in some cases exceeded or, sometimes, far from reached: In an appropriate mix with retail (residential and commercial building), top properties can, in individual cases, achieve prices that are much higher than the average.

The trend towards a compression of returns may be replaced by a "sideways movement" of returns, at least in some market segments at prime locations. Given the continuous good financing level and the lack of alternatives with equally good return-risk profiles, the trend on the overall market will continue in 2018.

Residential investments

Despite the high price level, residential properties remain very attractive as retirement securities for private investors as well as for the diversification of family offices and institutional investors, given the persistently low interest levels, so that the still only limited number of market-adequate supply (trend: increasing shortage) is assessed and bought quickly. That the transaction volume is still considerably higher than the average of the most recent decade, despite some significant increases in purchase price factors, is an indicator of the current sellers' market.

Even though no individual transactions exceeding the one billion euro mark could be recorded in 2017, especially the sales of project developments, such as by the CG Group to Corestate (1,700 units for about EUR 670 million) or the Ten Brinke Group to INDUSTRIA WOHNEN (620 units for about EUR 226 million) contributed to **portfolio turnover** amounting to **EUR 14.8 billion** in 2017, a notable approx. 8 % higher than the turnover in the previous year and again much higher, by 42 %, than the ten-year average (2007 - 2016: EUR 10.4 billion).

As in previous years already, the portfolios exhibited a geographical spread, while especially high-value project developments in the "Big Seven" piqued the interest of a variety of institutional and private potential buyers. All major residential companies continue their efforts in the qualified increase or optimised adjustment of their inventory; analogously, also smaller and medium-sized players are systematically increasing the number of their existing buildings. The share of German investors in the market activities regarding residential portfolios is, with more than 70 % of total investments, higher than the domestic share in commercial investments, where only slightly less than half of the market volume was accounted for by domestic purchasers in the report year 2017.

Table 2: Commercial real estate investments in the "Big Seven"

LOCATION	Turnover				
	Rank 2017	2017 (EUR billion)	Difference to the previous year (EUR billion)	Difference to the previous year (%)	2016 (EUR billion)
Berlin	1	7.6	2.5	49.0%	5.1
Frankfurt	2	6.9	0.4	6.2%	6.5
Munich	3	5.5	-1	-15.4%	6.5
Hamburg	4	3.6	-1.2	-25.0%	4.8
Düsseldorf	5	3	0.6	25.0%	2.4
Cologne	6	2.2	0.3	15.8%	1.9
Stuttgart	7	1.3	-0.4	-23.5%	1.7
commercial real estate investments in the „Big Seven" in billion EUR		30.1	1.2	4%	28.9
"Big Seven"-share in commercial investments		53%	-1%		54%

On average, the mean **returns** for residential properties on the DIP markets analysed were **4.8 %** (2016: 5.1 %); in the **top segment** (new buildings or existing buildings following extensive refurbishment), average returns fell by 30 base points from 4.0 % (2016) to **3.7 %** (2017) in the course of the year. Again, Munich is heading the price list with 2.6 %, followed by the remaining "Big Seven" with 3.0 % to 3.6 %. In accordance with the general trend of increasing investments at secondary and third locations, the returns on the DIP markets are all less than 5 %.

Growth centres and large cities are mainly seeing freehold flats in the upper segment being built, supplemented by individual "obligatory shares" of communities regarding the provision of limited-rent or publicly funded flats. On the other hand, 2017 was not able to continue the positive development of previous years in regard to rising numbers of construction permits and completions. Especially in growth centres completions are not keeping up with demand for residential premises, in particular in regard to affordable rented flats and freehold flats for people with a low to average income. Falling construction activities are also a result of the increasing shortage of listed construction land and, in particular, the result of the rising waiting times and construction costs caused by the high capacity utilisation in the construction industry and craft trades, in growth centres especially. At the end of the year, the construction price index had risen by 3.4 % when compared to the end of 2016.

There is no doubt that the directive influence for future development will be the new federal government's position on construction policy. It is intended to combat the trend towards higher prices on the residential market, both renting and buying, by introducing further subsidies for social residential construction and support for property ownership. Similar plans apply to new residential construction and land prices, where fiscal measures are designed to lead to more activity regarding new construction in the limited rent and purchase price segment in growth regions. Whether the future incentives will give the freely financed residential market as well as social and limited-price residential construction the long overdue lasting economic boost will be one of the interesting questions in the sector during the current legislative period.

It is certain that the trend towards compression of returns at secondary locations and the often-quoted sideways movement of returns at prime locations will continue at least in the near future, according to analyses of DIP. Further high turnover is expected on the market in 2018.

Table 3: Top returns and multipliers at the 15 DIP locations

Location	Commercial buildings		Residential		Self-service/specialist retailer	
	Return	Factor	Return	Factor	Return	Factor
Berlin	3.0%	33	3.0%	33	5.6	18
Bremen	4.8%	21	4.4%	22.5	6.3	16
Dresden	4.8%	21	4.0%	25	6.3	16
Düsseldorf	3.6%	28	3.3%	30	5.4	18.5
Essen	4.7%	22	4.8%	21	6.3	16
Frankfurt am Main	3.0%	33	3.5%	28.5	5.0	20
Hamburg	3.2%	31	3.0%	33	5.0	20
Hanover	4.2%	24	3.8%	26	5.3	19
Karlsruhe	4.3%	24	4.0%	30	7.1	14
Cologne	3.5%	29	3.6%	28	5.0	20
Leipzig	4.0%	25	4.0%	26	6.7	15
Magdeburg	6.3%	16	4.5%	22	7.1	14
Munich	2.6%	39	2.6%	38	4.5	22
Nuremberg	4.0%	25	3.8%	26	6.3	16
Stuttgart	3.3%	30	3.2%	31	6.3	16
DIP-15	3.9%	25	3.7%	27	5.9	17

The market for logistics space

More functional differentiation and ever closer to the end customer

Logistics properties are usually primarily constructed in the vicinity of high-performance producers, large agglomerations of consumers in metropolitan areas and at multi-modal transport hubs with national and international connections. Trans-regional product networks, supply chain management for the ”industry 4.0“ - intelligent factories that independently reorder raw materials, adjust production and initiate necessary repairs or maintenance work - as well as the conceptual change of retail structures through a so far rapidly growing share of online orders for durable and perishable goods result in pressures for efficiency and in logistics activities becoming ever more important. As a result, DIP sees a conceptual differentiation and further development regarding integrated processing in ”Fulfilment Centres“, in addition to an increase in development, letting and investment figures regarding “classical” logistics properties. Same-day-delivery and “order online, collect at store” concepts lead to ever smaller logistics spaces closer and closer to the customer, as rentals of Amazon (for Prime Now), eBay and LIDL in metropolises like Berlin and Munich in the most recent past clearly show. Additionally, surveys confirm the trend towards city centre logistics. Accordingly, experts increasingly assume that a new asset class may develop against the background of this process with the concepts of city centre logistics. A problem in this regard may be the lack or insufficiency of space supply suited to demand in combination with affordable rents in many cities. So-called ”Urban Fulfilment Centres” that allow direct delivery of online orders to the customer (e.g. groceries, especially fresh food logistics involving refrigeration chains) constitute another sales channel for online trade, which may increasingly shift the focus to subsequent use of, for example, empty specialised retail centres due to a lack of new construction projects.

History and conceptual advancement

In terms of volume, the “Big Box” production, warehousing and transfer sites, supplemented by high-shelf warehouses, refrigerated warehouses and warehouses for hazardous goods, are still in the majority. Owner-occupiers especially rely on specialised built-to-suit solutions when engaging in new developments: The automotive and other industries optimise their locations to suit component logistics. ”Fulfilment Centres” - hybrids of warehousing/ transport and office properties - are not only used for product handling by large-scale online traders such as Amazon (by now the sixth-largest retailer in the world) and Zalando, but also for part of the value-creation chain from the acceptance of orders, order picking, shipping and invoicing to after-sales customer support with hundreds of employees working in a shift system. Simultaneously, transport service providers such as DHL are optimising the parcel distribution centres and mechanical distribution bases (PVZ, MechZB), for which the property is optimised around a vast sorting facility. In addition to cross-docking properties that allow for an efficient, time and storage space saving transfer from large-volume units to small loads packaged in detail, more and more even smaller spaces close to the end customers and city centres are rented to allow, as “dark stores” or product handling space, for short-term small-unit packaging of goods and shipping to customers in a close range via flexible courier systems or pick-up stations which are required for urban distribution.

Market expansion

Estimates and market projections assume that the average annual growth rate of online turnover will amount to about 8 % by 2021. This means that the development of online turnover receives a much better rating than that of stationary trade, which reaches an average annual growth rate of 0.6 % over the same period. Already today, the pronounced dynamics is reflected in the strong demand for premises on the logistics market.

Every year, additional modern logistics space in the 4 million m² range is required in Germany. Since only about 50 million m² of the current total space of approximately 300 million m² (just under 17 %) are sufficiently modern and sustainable (suitable for third-party use) and therefore structurally suitable for "classical" investors, producers, traders and logistics service providers are thus increasingly implementing new developments or, due to lack thereof, modernisation requirements in cooperation with specialised developers and investors. Striking examples are the large-scale new developments or rentals of traders such as Amazon or Zalando, logistics services providers like DHL and industrial companies such as BMW and Volkswagen. Also "classical" retailers such as the Schwarz-Gruppe, Edeka and REWE are developing a considerable number of properties based on optimised concepts. Regarding numbers, half of the properties is smaller than 10,000 m², while half of the total space is created in properties exceeding 25,000 m², with a focus on the segment of 25,000 m² to 50,000 m².

	PEAK RENT EUR/m²			PEAK YIELD in % per year		
	2016	2017	Trend 2018	2016	2017	Trend 2018
Berlin	4.90	5.00	↗	5.50	5.00	↘
Bremen	4.40	4.50	↗	6.20	5.70	↘
Dresden	4.60	4.70	↗	7.20	6.90	↘
Düsseldorf	5.40	5.40	→	5.90	5.20	↘
Essen	4.80	5.00	↗	6.70	5.90	↘
Frankfurt am Main	6.10	6.20	→	5.40	5.00	↘
Hamburg	5.70	5.70	→	5.30	4.90	↘
Hanover	4.70	5.00	↗	6.00	5.60	↘
Karlsruhe	5.30	5.30	→	6.00	5.70	↘
Cologne	5.60	5.60	→	5.50	5.10	↘
Leipzig	4.70	4.80	↗	6.00	5.50	↘
Magdeburg	4.20	4.30	↗	8.80	7.90	↘
Munich	6.80	6.80	→	5.30	4.70	↘
Nürnberg	5.20	5.30	→	6.50	6.00	↘
Stuttgart	6.30	6.30	→	5.60	5.20	↘
DIP average	5.25	5.33	→	6.13	5.60	↘

Source: DIP, AENGEVELT-RESEARCH

Logistics investment and letting / owner-occupation in Germany

With more than EUR 8.77 billion, the transaction volume realised with logistics properties in 2017 was about 87 % higher than in the previous year (2016: EUR 4.7 billion) and accounted for more than 15 % of total commercial property investment turnover. Here, three portfolio transactions made it into the "top six" of the largest commercial investments 2017. The by far largest transaction of the year was recorded by Blackstone with the sale of the Logicor portfolio to the Chinese sovereign wealth fund CIC for EUR 2.2 billion (total volume: EUR 12.3 billion). Blackstone also concluded the second largest deal of the year: In joint venture with M7, it purchased the Hansteen portfolio for EUR 974 million from the REIT with the same name from the United Kingdom. GLP, mainly owned by Singapore's sovereign wealth fund GIC, acquired the European business for logistics properties of Brookfield for EUR 2.4 billion, with Germany reportedly accounting for EUR 800 million of the purchase price with the Gazeley portfolio. Accordingly, foreign investors were more interested in larger "all-round carefree packages", while domestic investors also considered smaller, more management-intensive individual properties and locations. This is also reflected in the distribution of purchaser groups, with more than 60 % of logistics transactions being concluded by foreign investors.

Letting at continuously high levels – falling owner-occupier rates

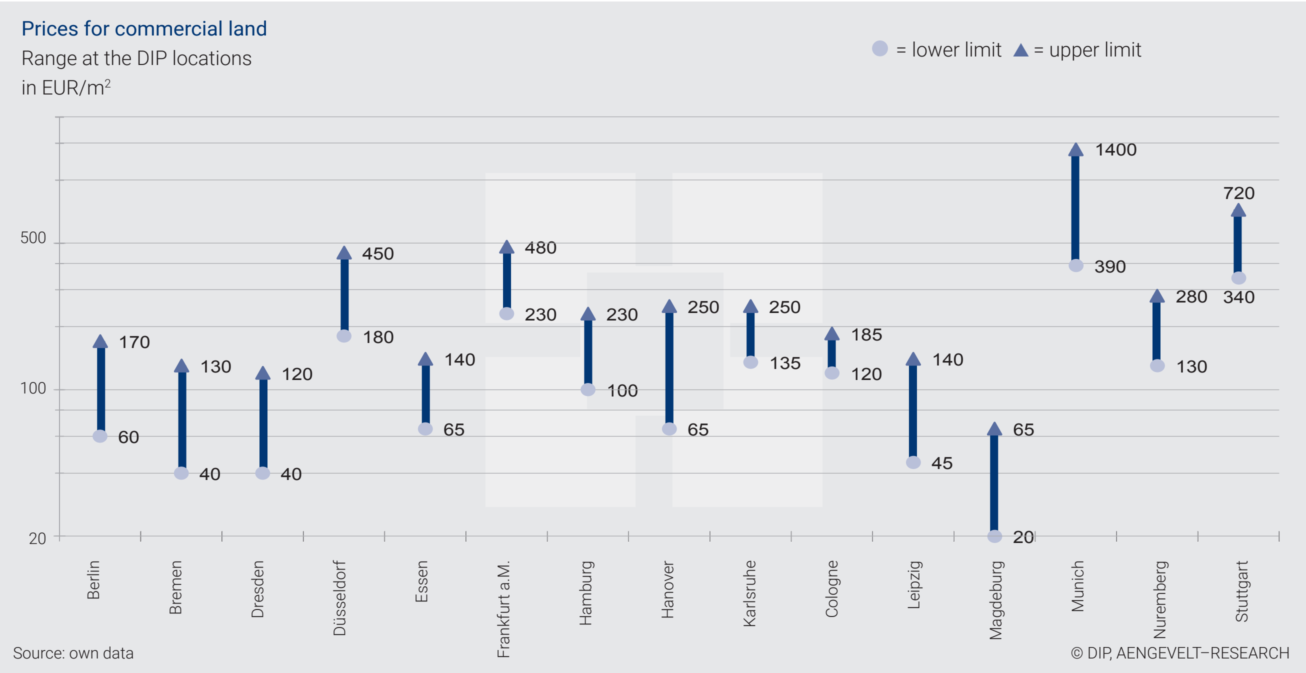
About **6.5 million m²** of let or newly created spaces for owner-occupier use in 2017 may constitute a moderate decline of turnover (-3 % compared to 6.7 million m² in 2016), but it still exceeded the five-year average by more than 15 % (2012 - 2016: about 5.6 million m²). As in previous years, a large share was accounted for by the regions of the "Big Five" in 2017 (about 2 million m²), where Frankfurt with a space turnover of more than 650,000 m² generated about 40 % more turnover than the region of Hamburg that ranked second with approx. 460,000 m², closely followed by Berlin with a turnover of 420,000 m². Five of the six largest lettings in the "Big Five" took place in Frankfurt, including the rentals of Bosch in Butzbach (about 54,000 m²) and Nagel Group in Trebur (about 40,000 m²).

The continuous strong and further increasing interest in logistics spaces also illustrates the rising attractiveness of this asset class for investors. Since the strong demand is increasingly focusing on highly modern spaces, the share of project developments rises, large parts of which are not entering the market speculatively due to high pre-letting levels. This persistent shortage of modern spaces continues to drive the rent and purchase price levels. Striking in this respect is the falling share of owner-occupier use, in the "Big Five" in particular. While an average space turnover of 0.5 million m² was generated by owner-occupiers between 2013 and 2015, the figure had fallen to only about 380,000 m² and 330,000 m² respectively in 2016 and 2017. The falling share of owner-occupier use indicates that especially project developers have realised the sustainability of the asset class with spaces suitable for third-party utilisation and that logistics properties are a certainly attractive investment. Renting is worthwhile both for the owner and for companies with demand for extensive space.
Logistics properties will continue to account for a large share of commercial investments in the future. Despite falling returns, there remains one advantage over other asset classes, e.g. about 1.7 percentage points of return difference when compared to business premises, so that development specialists and investors successfully utilise this asset class for the diversification of their investments following ever better property and market transparency.

In regard to first-rate logistics properties, prices rose in the course of 2017 and returns fell considerably; for absolutely top properties, returns amount to less than 5 %. On average across the 15 DIP locations analysed (Berlin, Bremen, Dresden, Düsseldorf, Essen, Frankfurt am Main, Hamburg, Hanover, Karlsruhe, Cologne, Leipzig, Magdeburg, Munich, Nuremberg and Stuttgart), the **top return** was **5.60 %** in 2017 and thus 53 base points lower than the previous year's return (2016: 6.13 %):

- The most expensive cities, judged by the top return for top logistics properties, are **Munich** with **4.7 %, Hamburg** with **4.9 %** as well as **Berlin** and **Frankfurt am Main** with **5.0 %** each. Only slightly less expensive are **Cologne** with **5.1 %** and **Stuttgart and Düsseldorf** with **5.2 %** each. Compared to 2016, returns in the "Big Seven" fell by 50 base points.

- Slightly below or at the DIP average are top logistics properties in **Leipzig (5.5 %)** and **Hanover (5.6 %),**



slightly higher in **Bremen** and **Karlsruhe (5.7 %** each**), Essen (5.9 %)** and **Nuremberg (6.0 %).** Top returns in these cities fell by between 30 to 80 base points. The best relative performance was recorded by **Essen.**

- Higher top returns for top logistics properties can only be found in **Dresden (6.9 %),** with **Magdeburg** registering considerably higher returns **(7.9 %).** However, top returns also fell by about 30 and 90 base points respectively at these two locations.

There are opportunities for targeted investment if one takes into account that, depending on the quality of the rental contracts (rent, term, creditworthiness of the tenants) and the property (location, type of third-party use, structural age, condition), initial returns are usually spread 2 percentage points higher than the top returns at top locations and up to 4 percentage points higher at the other locations.

Land price levels for new constructions

In the competition with their neighbours, municipalities engage in active building land policies to achieve attractive land price levels for commercial development. These levels had been changing moderately for a long time, in recent times, however, they have been caught up in the general increase in real estate prices in some regions, caused by the low interest rates. By now, **average prices for commercial building land** rose to **EUR 207.00/m²** on the analysed 15 DIP markets. This constitutes an increase by 4.5 % when compared to the previous year (EUR 198.00/m²). Excluding Munich and Stuttgart, the result would be EUR 148.00/m² (plus 4 %).

- The most expensive city is **Munich** with prices of now **EUR 700.00/m²,** followed by **Stuttgart** (**EUR 480.00/m²**), **Frankfurt** (**EUR 330.00/m²**) and **Düsseldorf** (**EUR 310.00/m²**).

- The middle range is occupied by **Karlsruhe** (**EUR 190.00/m²**), **Nuremberg** (**EUR 175.00/m²**), **Hamburg** (**EUR 170.00/m²**), **Cologne** (**EUR 155.00/m²**) and **Hanover** (**EUR 100.00/m²**).

- Prices are considerably lower in **Berlin** (**EUR 95.00/m²**), **Essen** (**EUR 95.00/m²**), **Leipzig** (**EUR 80.00/m²**), **Dresden** (**EUR 75.00/m²**) and **Bremen** (**EUR 60.00/m²**).

- On average, the cheapest commercial plots can be found in **Magdeburg** (**EUR 40.00/m²**).

Given increasing plot price levels, many locations suffer from shortages in central areas; large spaces are therefore pushed farther and farther into the periphery. Concentration of locations for the “last mile” of same-day delivery, be it to the end customer or multi-channel pick-up locations (“offline goes online”), takes place on considerably more expensive areas closer to the city centres, which are also much smaller.

Continuous increase in rent levels

The increasing share of high-quality new buildings and the limited market simultaneously result in higher rents at both the top and secondary locations. Following a moderate increase between 2015 and 2016, the prime rent at DIP locations rose between **2016** (**EUR 5.25/m²**) and **2017** (**EUR 5.33/m²**), on average only by more than 1 %, but due to the even stronger increase in purchase prices, returns continued to fall.

- The locations in Southern Germany with a strong economy and limited space such as **Munich (EUR 6.80/m²)** and **Stuttgart (EUR 6.30/m²)** remain the leaders with a stable high top rent level, closely followed by **Frankfurt (EUR 6.20/m²), Hamburg (EUR 5.70/m²)** and **Cologne (EUR 5.60/m²).**

- **Düsseldorf (EUR 5.40/m²), Karlsruhe** and **Nuremberg (EUR 5.30/m² each)** are close to the DIP average, while space in the areas **Berlin, Hanover** and **Essen (EUR 5.00/m² each), Leipzig (EUR 4.80/m²)** and **Dresden (EUR 4.70/m²)** can be rented for less.

- **Bremen (EUR 4.50/m²)** and **Magdeburg (EUR 4.30/m²)** (still) record prices lower than that.

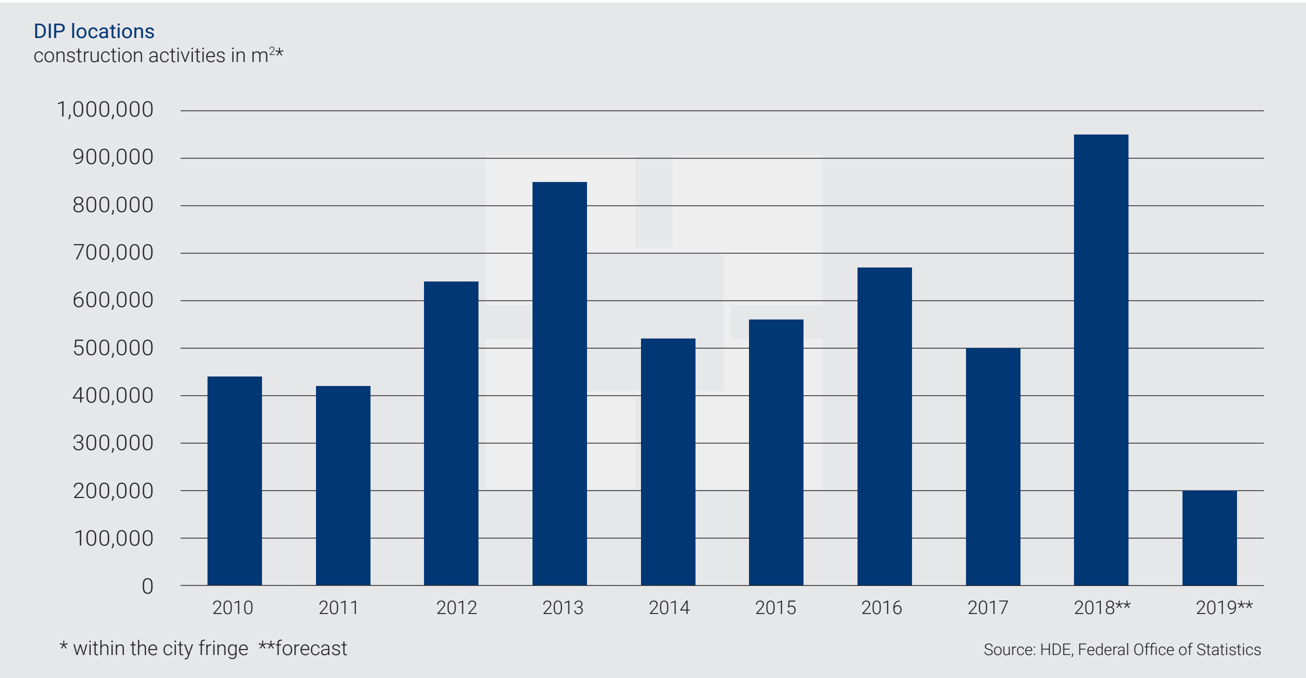
Construction activities on good and further rising level

The consistently high demand for large, modern logistics premises in the most recent past has led to consistently high completion rates at DIP locations. This trend is supported, amongst others, by the overall very strong growth of online trade and the excellent connection of the DIP locations to the long-distance network. Since each of the analysed cities or regions has access to at least two federal motorways, the conditions here have to be rated as particular positive. Completion rates in the immediate vicinity of the DIP cities are even better. The cheaper "greenfield development" with high-performance transportation connections usually tends to take place in the city outskirts. Germany-wide, about 5 million m² of warehousing and logistics space were completed in 2017, a not insubstantial part of these premises were consequently built at DIP locations. According to analyses of DIP, the market for logistics properties at DIP locations is looking at a record year in 2018: It is expected that more than **900,000 m²** of buildings will be completed within city fringes.

With the online trader Amazon, one user single-handedly accounts for six of the ten largest project developments in 2017 - 2019. The probably largest project with 150,000 m² is scheduled to be completed near Mönchengladbach at the end of 2018. It is the fourth logistics centre of the online giant in North Rhine-Westphalia and, in addition to the logistics centres in Winsen/Luhe near Hamburg (about 130,000 m², completed in 2017) and Werne near Dortmund (about 104,000 m², completion scheduled for Q1 2018), the largest project in the past 12 months.

Outlook

Demand for high-performance, modern logistics space continues to rise. Modern logistics facilities record minimal vacancy levels, despite the vast spaces that are still being developed. Given the most recent developments such as the strong growth of online trade, rising completion figures regarding modern premises and the high number of large-volume portfolio deals, the return spread between logistics investments and commercial buildings may be falling further, but the return levels remain attractive. Logistics properties allow for a profitable diversification of investments following an ever better ability to objectively assess risks; investments in this asset class are rising, both at classical large-scale locations and at smaller, well-connected locations closer to city centres. Here, the requirements for ideal flexibility of use (key words change in use, re-letting) are good infrastructure connections, liberal operating hours, low labour cost levels with good workforce potential and, last but not least, modern equipment in the facilities.



The real estate market in northern Germany
– an overview

Residential properties

Prices for residential properties continue to rise, also in the north. Own analyses (basic source: IMV market data) show, however, that the two large cities Kiel and Lübeck, the coastal area along the Baltic Sea and the interior have to be submitted to a differentiated analysis. The prices for used residential buildings and freehold flats as well as new flats continue to rise in Kiel and Lübeck at the moment, though at slightly lower rates than in previous years.

The same applies to the very sought-after holiday regions and hot spots at the Baltic Sea, such as Timmendorfer Strand and Scharbeutz. Promising newcomers are Neustadt i. H., Heiligenhafen and Kellenhusen. In the interior and in smaller regional centres, the achievable prices increasingly stagnate or are falling slightly already.

Prices for residential properties

Location	Detached house existing EUR / m²	Multi-family houses existing EUR / m²	Freehold flat existing EUR / m²	Freehold flat new EUR / m²
Kiel	2,392	2,046	2,707	3,753
Lübeck	2,307	1,426	3,083	4,333
Total Ostholstein	2,180	1,486	3,418	4,366
Timmendorf and Scharbeutz	3,074	2,548	4,805	5,419
Interior Ostholstein	1,831	1,221	2,249	3,539

Source: IMV-Markdaten-Vertrieb GmbH

Retail premises

In general, the competition between online trade and stationary trade is reflected in retail rents in the far north as well. Moreover, a trend towards a reduction of premises can be observed, in order to withstand the increasing cost pressure posed by the digital competition.

- In Kiel, prices per square metre in prime locations already fell from EUR 75.00/m² in the previous year to now EUR 70.00/m², in absolutely top locations even from EUR 100.00/m² to now only EUR 90.00/m².
- In Lübeck, prices stagnate at EUR 95.00/m² in top locations. According to the "Wirtschaftsförderung Lübeck", reasons include the expansion of the ***Citti Park,*** new lettings in the ***Breite Straße*** and the modernisation of the ***Mönkhof Karees.***

Rents for retail premises

Commercial core in EUR net, base rent	prime location, small (approx. 60 m²) EUR / m²	prime location, large (approx. 150 m²) EUR / m²	Prime rent in top locations EUR / m²
Kiel	70.00	35.00	90.00
Lübeck	95.00	40.00	95.00

Source:IVD Commercial price levels 2017/2018

Office premises

The long-term trend regarding office rent levels in the large cities in Schleswig-Holstein is stagnation to slight decline (exception: absolute top locations).

- In Kiel, about 5 % less rent is generated across all usage values when compared to 2010. Only prices for top locations have risen by about 10 % since then.
- Rent levels for office premises in Lübeck, while relatively stable in the medium term, are about 15 % lower than in Kiel.

Office rent – net, base rent, in EUR/m²

Location	Usage value simple	Usage value medium	Usage value good	Top locations
Kiel	4.80	7.00	9.00	14.00
Lübeck	4.00	6.00	7.50	no information

Source: IVD Commercial price levels 2017/2018

Commercial building plots

Prices for commercial building plots in Kiel and Lübeck amount to about one third of those paid in the regional metropolis Hamburg and, with the exception of prices for top locations in the federal state capital Kiel, remained almost stable in the past eight years.

Building plots in industrial estates in EUR / m² (including development costs, no subsidised prices)

Location	Usage value simple	Usage value medium	Usage value good
Kiel	40.00	55.00	70.00
Lübeck	30.00	40.00	60.00

Source: IVD Commercial price levels 2017/2018

The real estate market Amsterdam

Office space market

Strong demand

The strong economy in the Netherlands has a significant effect on demand and on strong market dynamics on the office market. Especially demand for high-quality and large office premises in Amsterdam is extremely high, with a simultaneous considerable shortage of modern and large offices premises in particular. Despite strong demand, office space turnover in 2017 has risen by only 2.3 % to 412,000 m² when compared to the previous year, due to the short supply of high-quality office premises. As in 2016, however, turnover volume is thus still considerably higher than the long-term average.

Reduction of supply of available office premises

In addition to high demand, space conversion of outdated and structurally vacant office buildings into mainly residences and hotels led to a strong reduction of available office premises supply in recent years. Supply nearly halved since reaching a high in 2015. It is expected that the continuing rededication of use in, for example, Zuidoost and Sloterdijk will have a positive effect on supply.

Quality mismatch

Due to limited supply of office premises, demand cannot always be satisfied on the market. Even though Amsterdam still has about 690,000 m² of office space available on the market, the market dynamics are coming under pressure as a result of limited supply of adequate quality. At sought-after locations, especially in the city centre, the CBS Zuidas (south axis) and ArenAPoort in the southeast of the city (Zuidoost), this inevitably results in a shortage of office space. Moreover, technical features of the office buildings and their location as well as, for example, parking opportunities, are influential. Furthermore, there are relatively few office premises with a continuous area of at least 3,000 m² available on the market.

Demand for new office premises

In order to be able to counter the shortage of new office premises, the city of Amsterdam will conduct at least two tendering processes for the construction of new office premises per year in upcoming years. Nevertheless, the rapid growth of companies in Amsterdam and the Brexit will necessitate the construction of new office premises at sought-after locations.

Strong rise in rents

Rents are experiencing a strong upward pressure as a result of the strong market dynamics. In almost all areas of Amsterdam, rents have risen in 2017. On the one hand, this results in a higher realised gross rent, on the other hand, a decrease in incentives can be observed. The prime rent on the Zuidas has risen to 38.00/m² at the end of 2017 (with an average rent of about EUR 30.00/m²). Rent levels in other areas are significantly lower, but rents are rising considerably there as well. Average city-wide rents amounted to about EUR 18.00/m² at the end of 2017. In the face of the current market situation and the shortage of premises, especially in regard to high-quality and large office premises, rent levels are expected to rise further.

Retail

Retail market on the rise

The mood on Amsterdam's retail market is mainly positive. The favourable economic climate results in positive consumer figures. As a result of confidence in the economy and a good employment situation, purchasing power and willingness to purchase rise.

There are hardly any vacancies in the central shopping areas of Amsterdam. With a vacancy rate of 1.9 %, Amsterdam exhibits the lowest supply of retail space when compared to all large European cities. In the most popular streets, the vacancy rate is even lower; at prime locations, fewer than 1 % of shops are not in use.

Positive market development

This positive development is also reflected in rents. At central top locations, prime rents reached a country-wide record level of EUR 250.00/m² at the end of 2017. The price level in the good and very good business locations of the city centre amounts to up to EUR 85.00/m². It is expected that both demand for premises and the retail turnover in Amsterdam will see a further positive development in the next year, and that rents, in central locations in particular, will continue to rise.

Investment

Attractive investment market thanks to strong increases in value

Thanks to low money market interests and the high availability of money, national and international investors in the Netherlands, and first and foremost in Amsterdam, have for some time now been showing an increasing interest in commercial properties and residential properties for rent. As a result of the lack of supply on the investment market, the initial returns on investments for residential and office properties for rent in Amsterdam, especially at prime locations, are falling considerably. While Amsterdam's office market has been enjoying the attention of international investors for a while now, the residential market has also become a popular investment product among international investors in the course of the last two years, following strong demand for urban residential space and a corresponding rise of rent levels. The entry factors for prime products on the office and residential market in Amsterdam rose to up to 28.5 of the net annual rent (without heating and service costs) in 2017.

Good conditions for residential investment

Demand for housing remains unchanged: According to estimates, the Netherlands will have to build one million new residential units in upcoming years, most of those in the country's urban agglomerations and 230,000 residential units thereof in the metropolitan region Amsterdam alone. It can be expected that the rising demand for investment properties will not cease and that initial returns will see a further squeeze. This makes investments in the metropolitan region Amsterdam, for example in the rapidly growing Zaandam, more and more attractive.

Investment	Entry factors
Office buildings	12.5 - 28.5
Self-service stores/ specialist retail centres	13.0 - 16.5
Industry/commercial/logistics	10.0 – 19.0
Multi-family houses new	16.0 - 28.5
Multi-family houses existing	14.0 – 22.0

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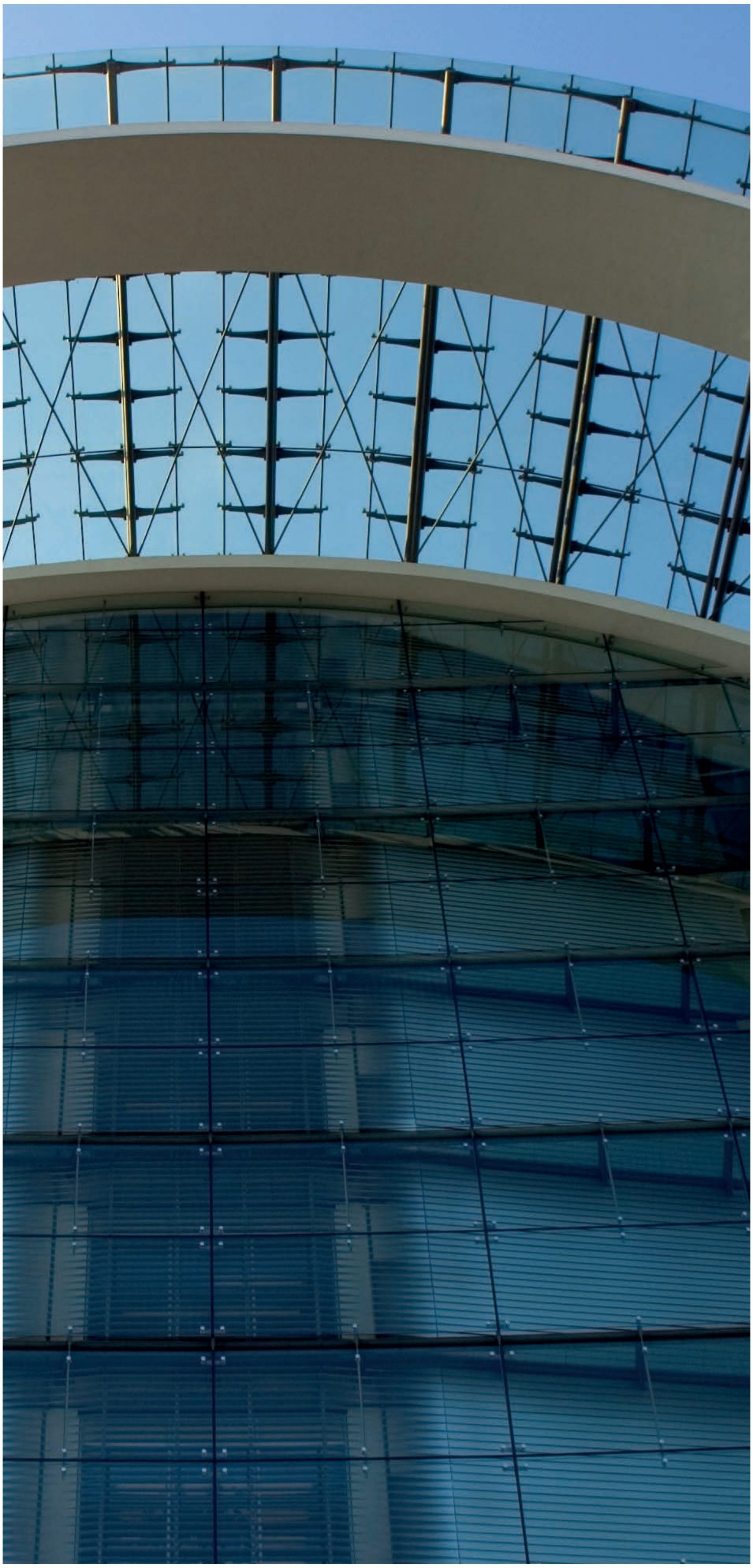

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