www.dip-immobilien.de

DIP
DEUTSCHE IMMOBILIEN-PARTNER

Markets and Facts

Developments and Trends in the German Real Estate Market

2021


The Markets for

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


Content

Approval in principle
represents the politest form
of rejection. *Robert Lembke*

(referring to the 2020/2021 lockdowns)

Dear Readers,

We begin to have a feeling that the pandemic might at last be controllable. However, it is also recognisable that the way back to what is "normal" will take much more time than we had originally expected. In addition, so far there is no answer to the question of what will be considered to be "normal" in the future. Almost certainly, it will not always be what we were used to in the past!
All the DIP partners wish you such level of composure which is required to appropriately cope with the uncertainty which is lying ahead of us.

It is somehow typical that we must adapt to new situations and circumstances at ever shorter intervals. This is true for all industrial sectors, for all professions, but also for the DIP partners and, not least, for the EXPO REAL trade fair management.

COVID-19 forced us to throw to the four winds or, at least, considerably restrict, our habits and processes. We must now concentrate on efficiency and costs and consider what really matters and is useful. We believe that we take the right path by looking for a personal added value which we intend to offer both our clients and ourselves.

Putting the people – consisting of our families, the clients, customers and the employees with all their different needs – at the heart of what we do will become much more important in the future than we had been aware of in the past, and this will certainly contribute to the success of our business.

Paul Nolte, a Berlin-based historian, describes this period as being characterised by "rough democracy". This is an appropriate description of the political atmosphere we are living these days, which does not only exist in Germany and in Europe, but also and particularly in the United States. The combination of contempt, speechlessness, hostility and an intention to destroy lead to a way of behaviour which puts the fear of God into some of us. In some situations, we have already seen dams bursting – let us hope that the remaining dams are solid enough!

Most people assume that the high demand for properties is related to easy money policy which has the consequence of inflating property prices. However, I also believe that another reason for this development consists in democratic instability on the horizon all over the world. Particularly Germany as a thinktank must not, in any case, lose sight of the fact that it is absolutely necessary to remain a great exporting country. This is the only way we will be able to protect our wealth! This applies also - together with our neighbours in the Netherlands and in Austria - to the status as a stable property region at the heart of Europe which sees high levels of demand on international level!

The extended group of DIP partners provides you with perfect conditions for a good, competent and reliable co-operation full of great ideas in 2021 and beyond!

Sincerely yours,

Henrik Hertz
Spokesperson of the DIP Partners

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: Important and 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 partners/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 33rd 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 analyses, 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 these of German investors in the Netherlands, the DIP network has been strengthened by the renowned company FRIS, Amsterdam, since August 2017. Since fall 2019, Logar & Partner Immobilientreuhand GmbH, Vienna, has supported the DIP association in order to meet the interests of Austrian investors in Germany and also to take into account these of German investors in Austria.

The following always applies: Any client co-attended to by a partner enjoys 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 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.

A unique characteristic of the DIP Group is the partnership with the following well-known companies, which complement the holistic scope of real estate with their services:

- ALLIANZ Handwerker Services GmbH, Aschheim (Munich)
- EBZ BUSINESS SCHOOL GMBH - University of Applied Sciences, Bochum
- FRIS, Amsterdam
- GÖRG Partnerschaft von Rechtsanwälten mbB, Cologne
- Logar & Partner Immobilientreuhand GmbH, Vienna
- Olivier Versicherungen, Monschau
- 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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Max Aengevelt

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New with DIP
BEYER IMMOBILIEN

As a family-owned company, Beyer Immobilien combines 28 years of experience in the real estate sector. Our team of 15 employees places emphasis on traditions. We are specialists in selling and renting residential and commercial properties as well as building plots, and we are property experts of the "three-corners-region" of Germany (southern Baden), France (southern Alsace) and Switzerland (Basel region). Most recently, we were honoured by Capital Magazin, receiving the highest rating and making us one of the top brokerage service providers in Freiburg (Germany).

Leo Beyer
- Owner and Managing Director -

On behalf of more than 20,000 clients we manage qualified brokerage requests for flats, houses and mansions for purchase prices of up to EUR 4,500,000. When it comes to commercial properties, apartment buildings and capital investments, we have assignments with total investment volumes of up to EUR 150,000,000. Until today, Beyer Immobilien brokered assets with a total value of more than EUR 420,000,000.

Beyer Finanz has brokered individual funding concepts with a total investment value of EUR 65,000,000 since its establishment in 2017.

Our specialists in the fields of commercial properties and property investments prepare and elaborate location analyses, property evaluations and investment strategies as well as project and feasibility studies. We assist with investments by performing checks prior to property transactions such as technical and financial due diligence. In doing so, we utilise the expertise of more than 60 construction engineers, structural engineers and building physicists who work for our group of offices as well as internal property financiers and project developers. It is our intention to procure capital investments generating high yields for our clients.

Via Beyer Wohnbau GmbH, we realise our own project development ideas together with trusted long-term partners and guarantee both high standards and creative ideas, with architecture and the people being at the heart of what we do.

The suit of Beyer Building Brands is tailored to building promoters and project developers. Thanks to high-quality visualisation and development branding buyers get an excellent idea of projects and are thus able to make an easier purchase decision.

We provide our clients with all-inclusive services during the entire property value-added chain.

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New with DIP
OLIVIER VERSICHERUNGEN

"Olivier Versicherungen", our insurance agency, specialises in competently and completely developing and implementing any projects on behalf of corporate clients. In this regard, any and all project parameters will be aligned to every-day processing activities in whatever form they might exist. Project development activities will be performed in close and constant consultation with our clients. It goes without saying that we fully consider all legal circumstances and the client's requests. We pay special attention to permanent documentation of all processes, modifications and adjustments to avoid any liability for the clients.


Dirk Olivier
Managing Director

Our clients can conclude the below types of insurance contract and service:

- Building insurance contracts, including all-risk coverage and unlimited insurance coverage for real estate from ownership and management.
- Combined building insurance: the single-product solution for building projects which excludes mutual liability.
- Insurance protection with a property manager concept.
- Preparation of concepts for special clients and product development services.
- Development of concepts on employee benefits to find and retain new employees.
- Licensed BAV-Guard sales partner.

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News within DIP

Aengevelt Expands the Group of Partners. In the Context of Strategic Succession Planning.

With effect from 1st October 2020, Max Aengevelt became a new managing partner of AENGEVELT IMMOBILIEN GMBH & CO.KG. Until now, the partners have been Dr. Lutz Aengevelt, Chiara Aengevelt, Dr. Wulff Aengevelt and Mark Aengevelt.

Apart from managing and strategically positioning the company together with the other partners, Max Aengevelt will continue to be responsible for the "International Desk" as well as other key tasks within the family association.

This means that, even 111 years after the company was established, we continue our tradition of operating as a family-owned business absolutely free from any external instructions and completely independent from outside influence and any financial interactions.

Considering the size of the company, we represent an absolute exception in the sector, and this helps us to further develop Aengevelt Immobilien as a successful family-owned company and its values

Personal – Professional – As a Partner.

Both clients and business partners can refer to 130 experts who provide them with both their competence and passion for every-day co-operation in the fields listed below:

AENGEVELT **SOLUTIONS**
AENGEVELT **INVESTMENT**
AENGEVELT **LETTINGS**
AENGEVELT **PROJECTS**
AENGEVELT **RESIDENTIAL**
AENGEVELT **VALUATIONS**
AENGEVELT **RESEARCH**

Personality and cooperation as partners are of key importance. These are the values that continue to drive Aengevelt to ever new top performances and which represent their understanding of professionalism.

Von links nach rechts:
Dr. Wulff Aengevelt
Mark Aengevelt
Chiara Aengevelt
Max Aengevelt
Dr. Lutz Aengevelt

In short: Performance that benefits our clients and our partners.

AENGEVELT

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Overviews of markets

The Market for

The Market for

office space

Office space market	Berlin	Bremen	Dresden	Düsseldorf	Essen	Frankfurt	Hamburg
Take-up in m² - 2020 leased and owner-occupied space	705,000	85,000	65,000	284,000	89,000	333,000	350,000
Take-up in m² - 2019 leased and owner-occupied space	986,000	96,000	95,000	525,000	165,000	561,000	540,000
Take-up in m² - 2018 leased and owner-occupied space	840,000	95,000	85,000	390,000	128,000	616,000	565,000
Top rent in 2020 in EUR/m²/month	39.00	13.80	15.00	28.50	16.30	45.00	30.20
Top rent in 2019 in EUR/m²/month	38.00	13.50	15.00	28.50	16.00	42.50	29.50
Top rent in 2018 in EUR/m²/month	34.00	13.00	14.00	28.00	15.00	41.00	27.00
Average rent - entire city in 2020 in EUR/m²/month	26.00	8.00	10.50	16.00	10.00	22.40	18.50
Average rent - inner-city in 2020 in EUR/m²/month	28.00	9.10	12.00	21.90	11.00	26.80	21.70
Average rent - city periphery in 2020 in EUR/m²/month	24.50	7.90	10.00	17.50	9.00	18.10	17.20
Average rent - subburbs in 2020 in EUR/m²/month	16.00	6.80	9.00	12.90	7.30	16.60	12.50
Vacancy, absolute, in m² - end of 2020	390,000	118,000	115,000	600,000	100,000	810,000	440,000
Vacancy, absolute, in m² - end of 2019	280,000	113,000	135,000	620,000	105,000	740,000	400,000
Vacancy, absolute, in m² - end of 2018	360,000	110,000	170,000	730,000	140,000	830,000	560,000
Vacancy rate in % - end of 2020	2.0	3.4	4.6	6.4	3.3	7.0	3.0
Vacancy rate in % - end of 2019	1.5	3.2	5.3	6.6	3.3	6.3	2.8
Vacancy rate in % - end of 2018	1.9	3.1	6.8	7.8	4.4	7.1	3.9
Projected take-up in 2021	↗	→	↘	→	↗	↘	↗
Projected top rent - end of 2021	→	→	↗	→	→	→	→
Projected average rent - entire city - end of 2021	↘	→	↗	↘	→	→	↘
Projected vacancy, absolute - end of 2021	↗	↗	↘	↗	↗	↗	↗

n. a. = data not available

Hanover	Karlsruhe	Cologne	Leipzig	Magdeburg	Munich	Nuremberg	Stuttgart	Amsterdam
130,000	70,000	174,000	128,000	22,000	600,000	48,000	220,000	180,000
135,000	59,000	282,000	140,000	23,000	840,000	92,000	305,000	290,000
160,000	68,000	297,000	135,000	23,000	932,000	90,000	220,000	450,000
17.00	15.00	26.00	16.00	13.50	40.00	16.00	25.00	38.00
17.00	15.00	26.00	15.50	13.50	40.00	16.00	24.00	35.50
15.50	15.00	22.50	14.00	12.75	38.50	15.50	23.00	33.00
10.00	n. a.	15.00	10.00	n. a.	22.50	12.00	16.00	20.80
11.20	12.50	17.00	10.80	9.80	27.00	13.00	17.00	20.80
9.40	12.00	13.50	9.50	8.50	16.00	11.10	12.50	16.65
7.90	11.00	8.90	6.70	6.50	12.00	10.00	10.00	12.50
142,000	92,000	232,000	185,000	72,000	590,000	85,000	200,000	372,000
135,000	83,000	185,000	188,000	73,000	500,000	65,000	170,000	553,500
150,000	80,000	230,000	235,000	75,000	645,000	125,000	170,000	1,019,300
3.1	3.5	2.9	5.5	7.0	2.9	2.3	2.5	6.2
2.9	3.3	2.4	5.6	6.9	2.5	1.8	2.1	5.0
3.3	3.3	3.0	6.9	7.2	3.3	3.5	2.2	8.8
→	→	↗	→	→	↘	→	↘	↘
→	→	→	→	→	→	→	↘	→
→	→	→	→	→	↘	↘	↘	↘
→	↗	↗	↗	↘	↗	↗	↗	↗

The market for
retail space

Retail space market	Berlin	Bremen	Dresden	Düsseldorf	Essen	Frankfurt	Hamburg
Top rent (absolutely prime location in EUR/m²)	325	130	100	285	90	315	280
Rent in EUR/m²: Prime inner-city location (ground floor < 100 m²)*	80-300	70-125	40-80	140-250	50-85	150-315	210-270
Rent in EUR/m²: Secondary inner-city location (ground floor < 100 m²)*	15-40	25-55	20-50	40-70	20-30	90-140	45-70
Rent n EUR/m²: City periphery / centre of a city district (ground floor < 100 m²)*	20-30	12-18	10-15	15-30	12-25	20-45	35-70
Rent in EUR/m²: Discounter/specialised big box store - nonfood	6-15	6-12	5-12	10-16	8-15	15-25	n. a.
Rent in EUR/m²: Discounter/specialised big box store - food	10-22	7-18	5-17	10-15	8-18	14-18	n. a.

FORECAST 2021	Berlin	Bremen	Dresden	Düsseldorf	Essen	Frankfurt	Hamburg
Development of rents prime locations	↘	↘	↘	→	↘	↘	↘
Development of rents secondary locations	↘	↘	↘	↘	↘	↘	↘
Demand for retail space prime locations	↘	↘	↘	↘	↘	→	↘
Take-up of retail space prime locations	↘	↘	↘	↘	↘	↘	→

n. a. = non available
* = typical market range

Hanover	Karlsruhe	Cologne	Leipzig	Magdeburg	Munich	Nuremberg	Stuttgart	Amsterdam
185	90	240	125	68	370	150	200	230
120-175	40-95	120-240	80-110	35-40	220-370	130-150	80-150	50-200
30-60	20-70	70-100	40-70	22-25	70-140	60-90	20-60	25-40
14-36	15-40	15-35	10-15	9-13	n. a.	25-40	5-15	10-65
6-12	n. a.	10-14	7-13	6-12	n. a.	10-30	10-15	6-10
8-14	n. a.	10-15	10-16	6-12	n. a.	10-30	10-18	10-20
→	↘	↘	→	→	→	↘	↘	→
→	↘	↘	↘	↘	↘	↘	↘	↘
↘	↘	↘	↘	↘	↘	→	↘	→
↘	↘	↘	↘	↘	↘	→	↘	↘

The market for

building land and investments

The market for land - purchase prices in EUR/m²	Berlin	Bremen	Dresden	Düsseldorf	Essen	Frankfurt	Hamburg
Commercial land*	100-400	50-150	40-100	200-450	65-160	280-470	130-320
Land for office and commercial buildings (city locations)	5,000-15,000	1,400-5,500	700-4,700	3,100-40,000	n. a.	6,800-45,000	5,000-28,000
Land for residential buildings (good locations)	2,500-6,000	850-1,600	550-1,000	650-2,400	600-900	1,350-3,900	2,500-7,500
Commercial investment - peak multipliers							
commercial building	33.00	23.0	34.5	35.00	22.0	35.5	44.0
office building	33.00	22.0	20.0	35.00	23.0	34.0	40.0
self-service shop/specialised retailer/ specialised big box store	21.00	18.0	18.0	25.00	18.0	22.0	23.0
industry/commercial/logistics	22.00	19.0	16.0	20.00	18.0	25.0	25.0
Commercial investment - typical initial multipliers							
commercial building	20-24	17-21	15-21	25-30	18-22	20-22	27-40
office building	20-24	17-20	13-20	25-30	18-21	19-20.5	27-40
self-service shop/specialised retailer/ specialised big box store	15-19	15-17	11.5-18	15-18	15-18	14-16	17-20
industry/commercial/logistics	15-18	13-16	9-12	9-13	13-17	13.5-15.5	17.5-21
Residential investment - typical initial multipliers							
Multi-family house - new building (standard fittings)	21-23	21-25	18.5-23.5	27-32	18-22.5	25.5-26.5	30-35
Multi-family house - inventory (standard fittings)	25-27	18-23	15-21	26-31	14-19	23.5-24.5	28-32

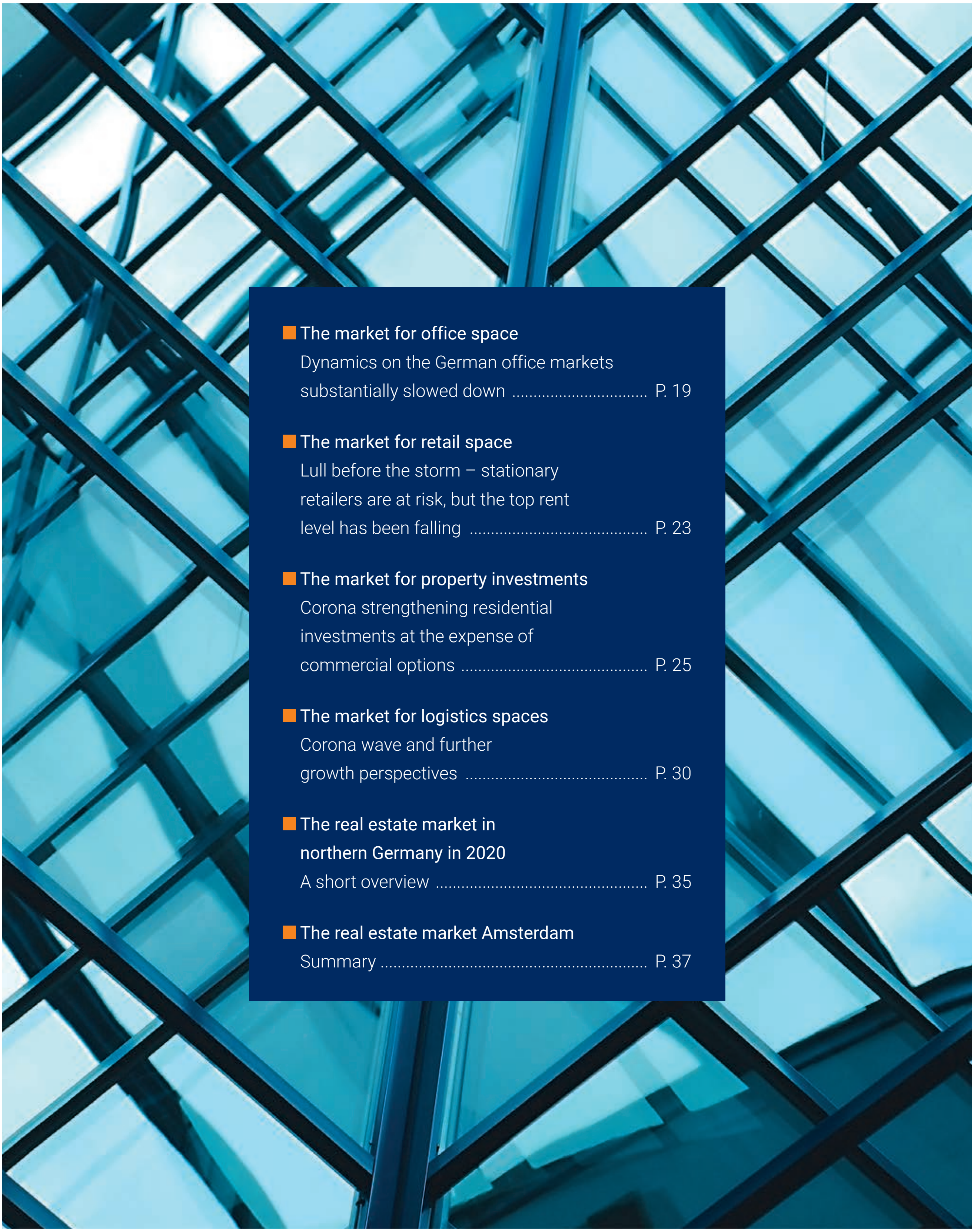
n. a. = data not available

*These prices are for a developed plot in higher-quality industrial areas or for commercial areas that are reached easily (excluding old industrial or production sites in city centres), usually with a floor space index between 0.6 to 1.1.

Multiplier = net multiplier (final purchase price to annual net rent)
top multiplier = highest multiplier to be achieved in the market
new building = completion within the past two years

Hanover	Karlsruhe	Cologne	Leipzig	Magdeburg	Munich	Nuremberg	Stuttgart	Amsterdam
85-265	150-250	145-220	50-250	17-70	600-4,000	175-410	380-800	n. a.
n. a.	1,600- 6,500	900- 29,000	2,900- 4,500	600- 1,100	3,400- 12,000	4,000- 18,000	3,000- 29,000	n. a.
750-1,100	450-900	800-1,700	900-1,800	350-550	2,900-6,600	1,100-2,000	1,600-3,400	n. a.
26.0	25.0	32.5	27.00	23.00	39.0	29.0	30.0	18.2
25.0	18.0	30.0	26.00	23.50	37.0	24.0	28.0	26.7
19.5	12.0	21.5	18.00	16.00	26.5	16.0	18.0	n. a.
20.5	14.0	22.0	21.00	18.00	28.0	14.5	18.0	26.7
19-24	16-26	22-27	20-26	16-18	23-32	23.5	20-30	n. a.
18-23	11-15	19-25	18-24	16.5-18.5	22-30	21.0	20-25	12.5-15.4
14-17	8-14	15.5-18	15-17	13-14	15-20	14-15	12-15	n. a.
14.5-17.5	10-15	15-19	13-18	11-15.5	15-22	13-14	11-17	20-25
19-27	25-30	24-32	26-29	22-25	37-53	27-29	25-33	22.2-28.6
18-25	22-30	21-28	22-30	18-24	35-51	25-25.5	23-33	14.3-25

Markets in detail



The market for office space

Dynamics on the German office markets substantially slowed down

During the 2020 reporting year, the office space market was considerably characterised by the Covid-19 pandemic and saw, until the end of that year, substantially lower take-up dynamics compared to the previous years. It is no surprise that all the restrictions on day-to-day life also drastically affected the working environment:

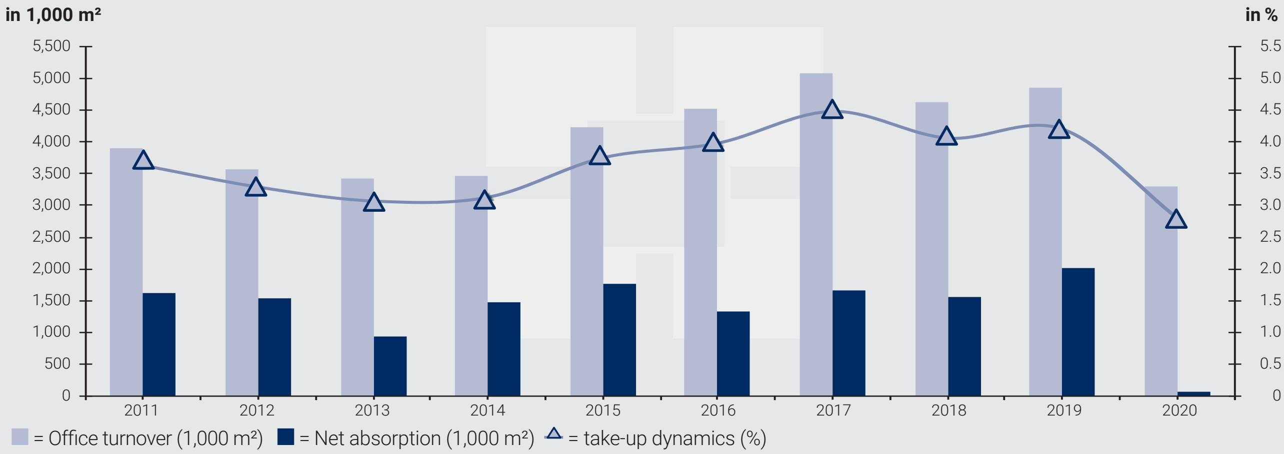
- Contrary to the medical, health and logistics sectors, numerous other industrial sectors demanding business spaces (in particular tourism, retail, automotive industry, aviation industry, cultural industry, services closely related to businesses) suffered from heavy losses in revenue forcing them to cut their staff and their costs, including rents.
- Due to an overall positive experience with their personnel working from home, a large number of companies started to think about reducing their demand for office spaces in the future.
- Uncertainty with regard to the development of the pandemic and all the economic effects related to it often prompted investors to postpone any investments they intended to make.

Depending on the degree to which they were affected, companies implemented different measures which, in total, led to a reduction of the demand for office spaces: abandoning expansion plans (that is, the renting of additional office spaces which a company had originally intended to do) or reducing the size of rented office spaces by sub-letting them, by refraining from renewing tenancy contracts or even by cancelling existing ones. Following the abrupt and massive drop in April/May 2020, the rest of the year saw dynamics increasing again in many areas, particularly during the fourth quarter.

Office space take-up significantly lower than in the previous year

- Whilst a total of about 4.84 million m^2 of office space had been traded at the 15 analysed DIP locations in 2019, the transaction volume in the subsequent year, that is, in 2020, fell by about 1.54 million m^2 and/or 31.8 % to approx. 3.3 million m². The most recent take-up figure is the lowest since 2009 and it is about 19.6 % below the average sales value of the past decade (Ø 2011 – 2020: 4.1 million m² per year).
- About 2.66 million m² or 80.7 % of office space take-up 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 a 34.0 % lower space take-up than in 2019 (4.04 million m²). The four markets which generated the highest take-up in 2020

DIP office markets*:
office turnover, net absorption and take-up dynamics



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

Source: DIP, Aengevelt Research

include Berlin (705,000 m²), Munich (600,000 m²), Hamburg (350,000 m²) and Frankfurt am Main (333,000 m²).

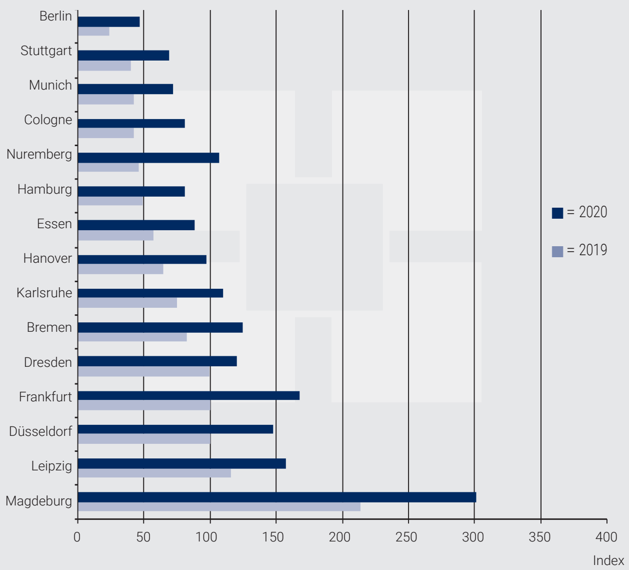
- Take-up dynamics, i.e. the share of space take-up compared to existing buildings, reached a significantly lower level than in the previous year (2020: 2.8 %, 2019: 4.2 %). Space take-up at the 15 DIP markets was most dynamic, i.e. exceeding the average performance (2.8 %), on the markets in Leipzig (3.8 %), Berlin (3.6 %), Düsseldorf (3.0 %), Munich (2.95 %) and Essen (2.9 %). Frankfurt am Main and Hanover (2.8 % each) as well as Stuttgart (2.75 %) exhibited more or less average growth dynamics. More moderate office space take-up volumes, on the other hand, were recorded in Karlsruhe (2.6 %), Dresden (2.6 %), Bremen (2.45 %), Hamburg (2.4 %), Cologne (2.2 %), Magdeburg (2.0 %) and Nuremberg (1.3 %).

Net absorption amounting to levels of close-to-zero growth

With net absorption amounting to only 40,000 m² in 2020, that is, recording close-to-zero growth rates, we saw the lowest value we have ever recorded. Positive net absorption means that the overall size of office spaces newly rented by companies during the reporting period is higher than that of vacant spaces which companies left. If net absorption is negative during the reporting period, the overall size of vacant office spaces is larger than that of newly rented office spaces. The 2020 reporting year clearly missed the long-term positive average value (2011 - 2020: 1.42 million m²). After net absorption of office space on the German office space markets had fallen to less than one million square metres as a result of the economic slowdown and a corresponding polycyclic hesitation to rent by 2013, the positive economic development in the years until and including 2019 led to a persistently higher net absorption rate. About 1.6 million m²/a were absorbed on average between 2014 and 2018. In the year of 2019, net absorption even amounted to about 2.0 million m² of office spaces. The pandemic certainly put a sudden end to robust growth rates we have been seeing with the demand for office spaces. However, at least we can say that, on an overall basis, demand for office spaces did not go down on the relevant markets we analysed, in spite of the difficult market situation.

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

Slight increase in office space surplus

Given the low net absorption, the total amount of office spaces available at short notice on the 15 German markets that were analysed rose by about 379,000 m² to about 4.17 million m² of office space in the course of 2020, as forecast by DIP. The average vacancy rate on the 15 DIP markets thus rose from 3.3 % at the end of 2019 to 3.6 % over the course of the year.

On average, around 10 % more office space has been available since December 2020 for renting at short notice than only a year before. Hence, the trend of supply reserves rapidly melting away was stopped for now:

- The markets characterised by particularly dynamic increases in supply reserves in 2020 include Berlin (39.3 %), Nuremberg (30.8 %), Cologne (25.4 %), Munich (18.0 %) and Stuttgart (17.6 %).
- We saw supply reserves increase on a comparatively moderate basis in Karlsruhe (10.8 %), Hamburg (10 %), Frankfurt (9.5 %), Hanover (5.2 %) and Bremen (4.4 %).
- Moderate decreases in the supply reserve were analysed in Essen (-4.8 %), Düsseldorf (-3.2 %), Leipzig (-3.2 %) and Magdeburg (-1.4 %). With a decrease amounting to 14.8 %, Dresden was clearly on top of this classification.

- However, it is not sufficient to evaluate locations exclusively based on the size of vacant spaces and/or their rates of change because fluctuation reserves must also be considered which, in return, depend on take-up dynamics. Rather, the changing ratios between space take-up and increase of the number of existing buildings through new construction are decisive and thus relevant to that assessment: The vacancy index developed for that purpose several years ago by Aengevelt Research called "ARLEX" (**A**engevelt **R**esearch **LE**erstandsinde**X**) and to be used by this industry sector as an evaluation indicator considers that relation between the development of vacancies on the one hand and the take-up dynamics, as well as the short-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 a purely quantitative assessment of nominal vacancy rates and their rates of change would suggest:
- The ARLEX has seen considerable rises on all the 15 markets for offices analysed. Across all the market areas reviewed, the vacancy index rose from 59 points at the end of 2019 to 95 points now. This means that the overall market we analysed, after years of permanent lack of supply, is nearly balanced in the 2020 reporting period – even though there are massive regional differences.
- Nearly balanced ratios of available office spaces, demand and medium-term expansion of spaces can be found these days in Hanover (97), Essen (88), Nuremberg (107) and Karlsruhe (110).
- In the other locations analysed, the index values fall into the 47 (Berlin) to 301 (Magdeburg) range. The trend of lower index values in cities including, but not limited to, Berlin (47), Stuttgart (69), Munich (72), Hamburg (81) and Cologne (81) bear witness to a certain discrepancy between very high demand for office space, low vacancy rates and an insufficient number of new buildings that are completed in time. In the previous year, 2019, surplus demand was much more significant.
- The most notable increases in the ARLEX in the report year were recorded in Magdeburg (+87), Frankfurt (+68) and Nuremberg (+61).

Performance on the 15 DIP markets according to the Office Barometer

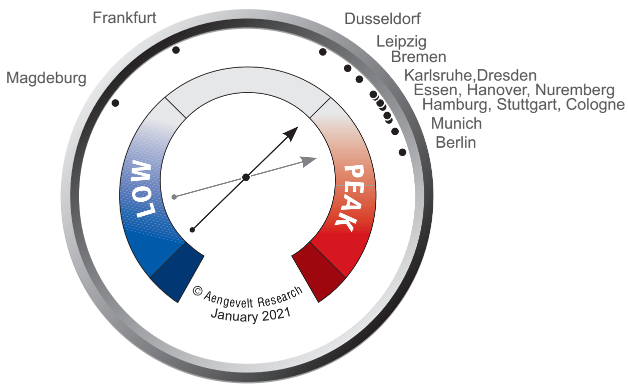
The **"Office Barometer"** that Aengevelt Research has been calculating for years does not only consider the developments in office rents, but also of all other main key indicators that reflect the supply and demand relationships[1].

As a consequence of decreasing demand during the year under report, index values at all locations saw negative developments. Compared to the previous year, the national, that is German, index value fell from its historical high record value of 75 (all-time high since 1994) to a value of 54 at the end of 2020. Compared to the long term (2011 – 2020: 19), it is true to say that this performance level is solid. It is necessary to remember that record performance levels had been reached particularly during the three-year period from 2017 to 2019.

The lowest overall barometer values were determined for Magdeburg, Frankfurt am Main and Düsseldorf, while the Berlin, Stuttgart, Munich, Hamburg and Stuttgart office markets showed the highest values.

Stable rent levels

The office rent levels have been rising continuously across many segments since 2011. The weighted prime rent subject to space turnover on the investigated markets amounted to about EUR 31.80/m² at the end of 2020 and was thus 0.6 % higher than at the same time of the previous year. Even if we have a look at individual values, there are no extreme outliers. Only Frankfurt (5.9 %) and Stutt-



[1] The following key indicators are considered when calculating the index values: office space take-up, net absorption, available space supply, supply reserve available at short notice, necessary mobility reserve, completion volumes, existing space, top rent, average rent.

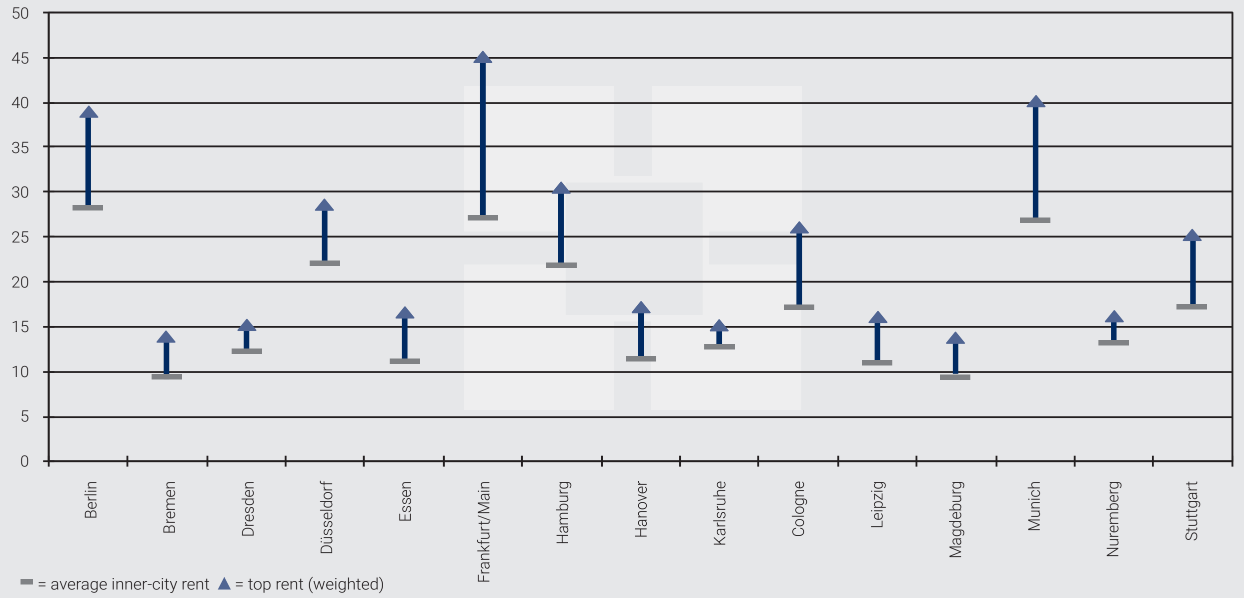
gart (4.2 %) recorded increases in prime rents above the average if the year under report is considered.
A slightly negative trend is also apparent when comparing the average rents for office space in city locations at the end of 2020. A value of about EUR 21.90/m² was determined as the weighted average rent for office space in city locations; at the end of 2019, its value had amounted to EUR 22.20/m². Therefore, the medium rent price growth rates completed the year with a moderately negative overall value of -0.3 %. Contrary to this, the increase in medium city rents was particularly strong only in Nuremberg.
From an overall point of view, rent prices did not change much at DIP locations during the reporting year. However, considering the Covid-19 consequences we did not expect to see dynamic increases which we had been experiencing in the past years. Low demand levels, however, met low vacancy levels - also from an international perspective -, which is why prices have not yet collapsed, but they remained on the previous year's levels.

Perspectives and opportunities

For the year of 2021, recent forecasts assume that the GDP will grow at a range of 2.8 % to 4.9 % compared to the pandemic year of 2020. Several economic research institutes estimate that the second lockdown in Germany will have smaller effects on the economic development than the first lockdown last year. Considering the above, we make the below forecast, although making forecasts is particularly difficult these days:

- For the year of 2021, DIP expects office space take-up to stagnate on the majority of the markets for office spaces we analyse if we consider the long-term medium value, that is, to be more precise, a transaction volume of approx. four million square metres. However, one condition for this is that, in the course of an increasing number of progressive vaccinations on a global scale, it will be possible to gradually, over a period of two to three years, return to normal levels which we saw prior to the Covid-19 pandemic breakout.
- The trend of continued supply shortage was stopped for now. Depending on the location and infrastructure quality, it must be assumed that vacancies with less favourable price-performance ratios will (moderately) increase, also under consideration of more intensive marketing competition, which can be particularly attributed to rising office space completion volumes on many DIP markets.
- With regard to rent levels, we still believe that prices will not change much in the near future. On the one hand, there are moderate increases in space supply, on the other hand demand driving growth will, if anything, have impact on the market only in the course of the second half of the year.

Rent levels in inner-city locations
Top rents and average rents (as of 31st Dec. 2020) in EUR/m²



Source: DIP, Aengevelt Research
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The market for retail space

Lull before the storm – stationary retailers are at risk, but the top rent level has been falling only to a small extent

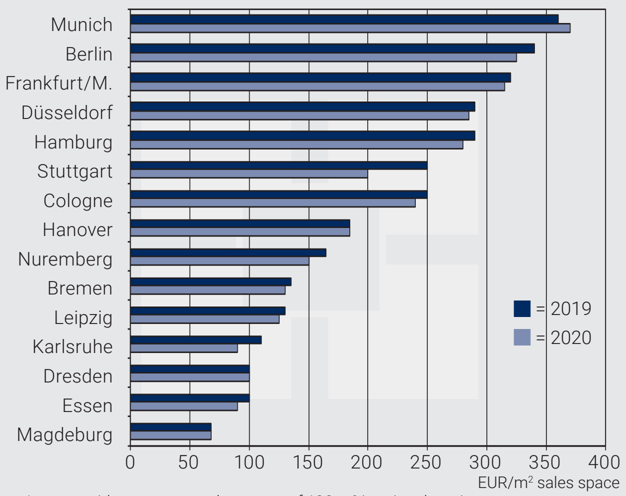
The Covid-19 pandemic caused the German economy to pass through a severe downturn in 2020, one which is comparable to the 2008 - 2009 economic and financial crisis. The 2020 gross domestic product contracted by 5.0 % compared to the previous year. Even though rapid and generous extension of possibilities for companies to apply for short hours and payments of financial Covid-19 aid helped to prevent heavy losses in revenue, which many companies suffered, from fully impacting on the labour market, it was impossible to prevent that the number of those employed declined from February, the month prior to the first Covid-19 restrictions, to November 2020 by 1.6 %. The unemployment level increased from 4.9 % in December 2019 to 5.9 % (December 2020).

The decline concerning economic development in the year of 2020 was also reflected by a slightly falling income development with private households who, at the same time, increased their savings rates. In 2020, the savings ratio arrived at a historic record value of 16 %. The reasons for this increase in savings rates were, on the one hand, reduced spending on travels, restaurants, free-time and cultural activities, and, on the other hand, the making of provisions for a possible deterioration of one's own income situation.
After the GfK [Gesellschaft für Konsumforschung] consumer climate index had reached a record high of 9.7 in December 2019, the consumer climate changed from its positive values to ever lower negative values even several times in the course of the 2020 Covid-19 pandemic. In May 2020, with the index amounting to -23.1 despite the lifting of restrictions on retail businesses which had started at the end of April, we saw the lowest value in the history of consumer climate recording.
Despite income decreases and higher savings rates, the retail business in Germany, which had been constantly expanding since 2010, continued its growth path at a nominal turnover increase of 2.4 % compared to the previous year to approx. EUR 548 billion – also due to the fact that other expenses were (initially) dispensed with because of the pandemic-related restrictions. While sales figures with online retailers and mail order companies, which had been on a growth path for the past years anyway, increased by leaps and bounds (+33 % in November 2020 on a year-on-year basis), stationary retailers suffered from the restrictions implemented to fight against the pandemic. This crisis hit the textiles, clothing, footwear and leather goods industry particularly hard, causing them to lose 20 % of their turnover, while others, including, without limitation, pharmacists, drug stores, home improvement stores and bicycle dealers were able to benefit from the crisis. Especially the second lockdown had the effect that, according to information provided by the German Trade Association, up to 50,000 retailers are close to facing insolvency.
The reporting year's crisis has not yet completely impacted on the market for retail properties. In fact, in 2020, prime rents at the most important locations for the retailing business (Berlin, Hamburg, Munich, Frankfurt am Main, Cologne, Düsseldorf, Stuttgart) fell by a (still) moderate 4.0 % compared to the previous year, mainly due to the fact that the pandemic ruined many expansion plans.

Slightly decreasing rent levels at attractive top locations

In the course of the Covid-19 pandemic, demand for sales spaces decreased at both city centres and peripheral locations.

Peak rents for retail spaces



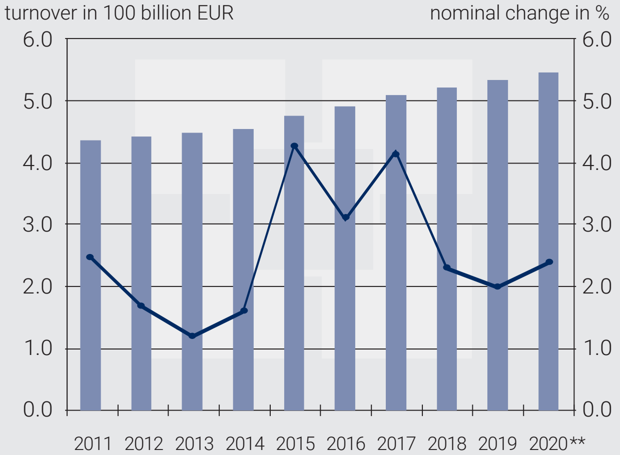
* stores with an approx. sales space of 100 m² in prime locations, on ground level
Source: DIP, Aengevelt Research

In the "Big Seven", rents levels at absolutely top locations at the end of 2020 ranged between EUR 200.00/m² of sales area in Stuttgart and EUR 370.00/m² in Munich. Generally, prime rents at prime locations are predominantly stabilised in years with weak or no economic growth.
Apart from the locations of Dresden, Hanover, Magdeburg and Munich, prime rents for the retailing sector were under pressure during the 2020 reporting year at other locations belonging to the "Big Seven" and other DIP locations which we systematically analysed (Bremen, Essen, Karlsruhe, Leipzig and Nuremberg). We saw stagnating prime rents in Dresden, Hanover and Magdeburg; only Munich experienced rising rent levels. At all other DIP locations, peak rents decreased by 5 % to 20 % at the end of 2020.

Perspectives and investment opportunities

The Covid-19 pandemic probably led to trust in the German property market rising even further, although this had already been on a high level for several decades. This is also due to the fact that investments into "concrete gold" have become rather attractive in the light of the persisting zero-interest policy in the EU and uncertainty on both geopolitical and global economic level. However, this does not equally apply to all asset classes. For example, an Aengevelt Research survey of October 2020 showed that 75 % of all market participants and market observers believed to see shrinking attractiveness of investments into retail properties because 60 % of them expect the demand for

Turnover of retail spaces* in Germany 2011 until 2020



■ = nominal turnover in 100 billion EUR
●– = nominal change compared to previous year
*without automotive, gas stations, fuels and pharmacies
**forecast
Source: HDE, Statistisches Bundesamt

spaces to permanently dwindle. During the five years prior to the pandemic, as many as 29,000 retail locations had already been abandoned, equalling 7 % of the total spaces. This contraction has accelerated during the pandemic.
In 2020, the majority of market players initially decided to wait and see what was coming. Following the state of shock lasting from mid-March to the end of May 2020, transactions finally resumed in summer. Nonetheless, space take-up at inner-city locations decreased by approx. 40 % in the course of the pandemic. Contrary to the rental ratio development, however, transaction volumes on the German investment market for retail properties rose by about 4 % to almost EUR 12 billion in the previous year – which is a typical sign of uncertainty and deviations between the estimates concerning the future development. In this regard, top returns as net initial returns for German retail properties (commercial buildings) in the "Big Seven" range between 2.3 % in Munich and 3.3 % in Stuttgart.
Development in the year of 2021 depends on the pandemic, in particular on the duration and the intensity of the lockdown(s), but also on the extent of Covid-19 financial aid being paid and the gradual effect of large groups of the population being vaccinated since the beginning of the year. We assume that some shops will be forced to close for good, particularly at economically underdeveloped locations. However, this will be co-attended by growing transaction dynamics because (emergency) sales, rededication of spaces, modernisation, restructuring, revitalisation and demolition/new constructions will be accelerated and increase in numbers in the course of the structural change concerning city centres, public transport (expansion of public transport; air-taxis; drones) and retail businesses, particularly driven by Covid-19 and the climate change.
When it comes to investments into retail properties, catch-up effects offer great opportunities once large parts of the population are vaccinated and once all the pandemic-related restrictions are lifted. In addition to the above, the lockdown also provides the opportunity of restructuring stationary retailing businesses and its properties so that it will be able to emphasise its advantages compared to e-commerce in a way even more specific to the target groups. This might occur, for example, by revitalising quarters and city centres and by increasing the number of passers-by through attractive mixtures of usage purposes tailored to relevant needs, multifunctional combinations of usage purposes at the same building, 24/7 usage, experience accumulation or modern retail concepts, such as, for example, pop-up stores.

The market for real estate investments

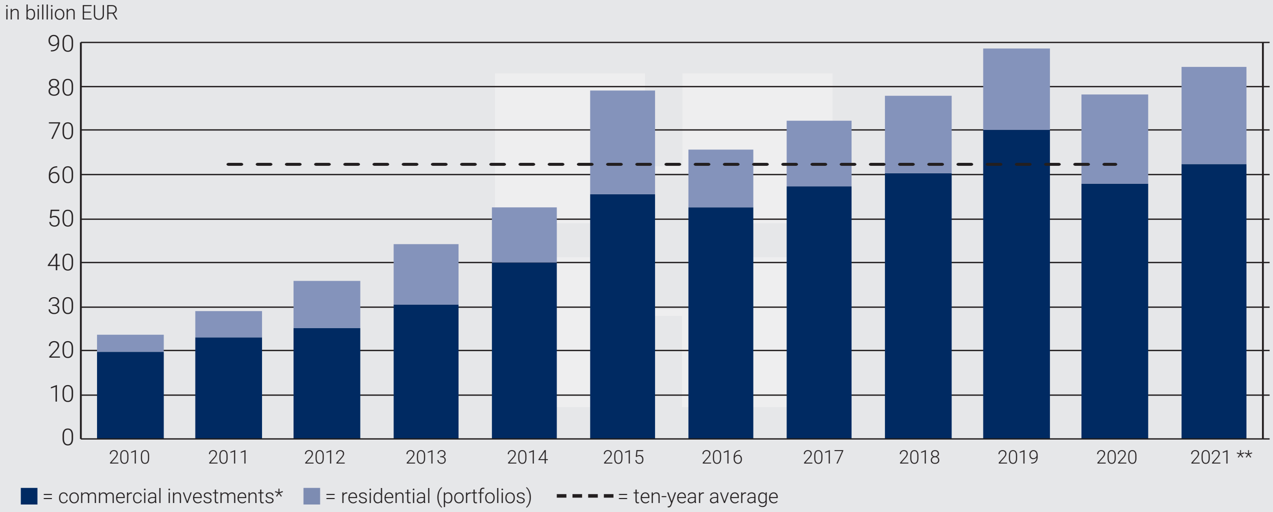
Corona strengthening residential investments at the expense of commercial options

In March and April 2020, the coronavirus sent the investment markets into a state of shock. In early summer, many investors were still holding back. By the time autumn had rolled round, investors were trying to gauge the long-term effects of the pandemic. 61 % of the market participants and observers contacted by Aengevelt Research reported that performance regarding office premises had fallen and performance regarding retail properties had even collapsed by 75 % by October 2020. On the other hand, 63 % are stating that logistics properties will become more attractive, while residential investments as well are popular - especially private residential investments that 48 % of respondents saw become more relevant on the market. And these were neither empty declarations of intent nor short-term opportunists: The number of building permits for offices and administrative buildings had already fallen by 31 % in November 2020 when compared to the previous year, while numbers for logistics properties rose by 4 % and for residential buildings by 10 %.

Investments in commercial properties fell a considerable 17 % in 2020 when compared to the previous year. The transaction volume in the segment residential investments drew attention with an increase of almost 10 % and it recorded its second highest result in the all-time rankings behind the record year 2015:

- The **investment market** recorded a total transaction volume of EUR **78.1 billion** in 2020, just under 12 % less than in the previous year (EUR 88.6 billion), but these figures were still 25 % higher than the ten-year average.
- **Commercial investments** remained the largest group with about **EUR 57.9 billion**, yet this is approximately **17 %** less compared to the previous year. However, this result was still 23 % higher than the ten-year average.
- **Residential portfolios** accounted for approx. **EUR 20.2 billion**, 9 % more than in the previous year and 34 % above the ten-year average.

The German Real Estate Market: transaction volumes: commercial and residential investments



*only published transactions ** forecast
Source: own calculations/records
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Table 1: Real estate investment in Germany split by property type

Property type	RANK	Turnover				Share	
		2020	Difference to the previous year		2019	2020	2019
	2020	EUR Mrd.	EUR Mrd.	(%)	EUR Mrd.	(%)	(%)
Office	1	25.9	-10.6	-29.1%	36.5	44.7%	52.0%
Retail including. commercial buildings	2	11.8	0.5	4.1%	11.3	20.3%	16.1%
Logistics (including. light industrial)	3	7.7	0.9	12.4%	6.9	13.4%	9.8%
Others	./.	12.5	-3.0	-19.4%	15.5	21.6%	22.1%
Commercial properties	./.	57.9	-12.3	-17.5%	70.2	100	100
Residential portfolios	./.	20.2	1.8	9.8%	18.4		
Total real estate investments	./.	78.1	-10.5	-11.86%	88.6		

Offices again remained the most sought-after asset class in 2020 with about 45 % of commercial investment volume, followed by the segment retail investment/commercial properties that saw a slight increase. With an increase in a year-on-year comparison, logistics premises recorded the third highest value again and continue to offer considerable potential for the future. Other investments, such as hotels and nursery homes, saw their market shares fall slightly.

The still low interest rates and the lack of secure alternatives with higher returns continue to drive the investment market, according to analyses of DIP. The return spread between commercial buildings and running returns has largely been amounting to more than four percentage points in past years - it currently sits at about 4.1 percentage points. Logistics returns are only 0.4 points higher. The increasing scarcity of core properties that meet market requirements remains a limitation for trade. Returns tend to fall further at a moderate rate and, at top locations, already amount to less than 3 %, especially in the segment residential, but also for offices. The base rate remains at zero. At which pace and to what extent this will act as a negative parameter on the investment market remains to be seen. The economic wise men claim that the market can no longer be explained solely based on fundamental factors, since prices in the seven large cities have already been 204 % higher in 2017 than they had been in 2010. The strong rise of prices for office and commercial properties can, amongst others, be explained by still too low

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

Location	Turnover				
	Rank 2020	2020 (EUR billion)	Difference to the previous year		2019 (EUR billion)
			(EUR billion)	(%)	
Berlin	1	10.8	-2.3	-17.6%	13.1
Frankfurt	2	7.4	-0.9	-10.8%	8.3
Hamburg	3	6.3	1.7	37.0%	4.6
Munich	4	5.5	-5	-47.6%	10.5
Düsseldorf	5	3.8	-0.1	-2.6%	3.9
Cologne	6	1.5	-1.8	-54.5%	3.3
Stuttgart	7	1.2	-0.8	-40.0%	2
Real estate investment “Big Seven”		36.5	-9.2	-20%	45.7
“Big Seven” share in commercial investments		63%	2%		65%

investments in commercial construction, which fall far short of meeting the high demand.

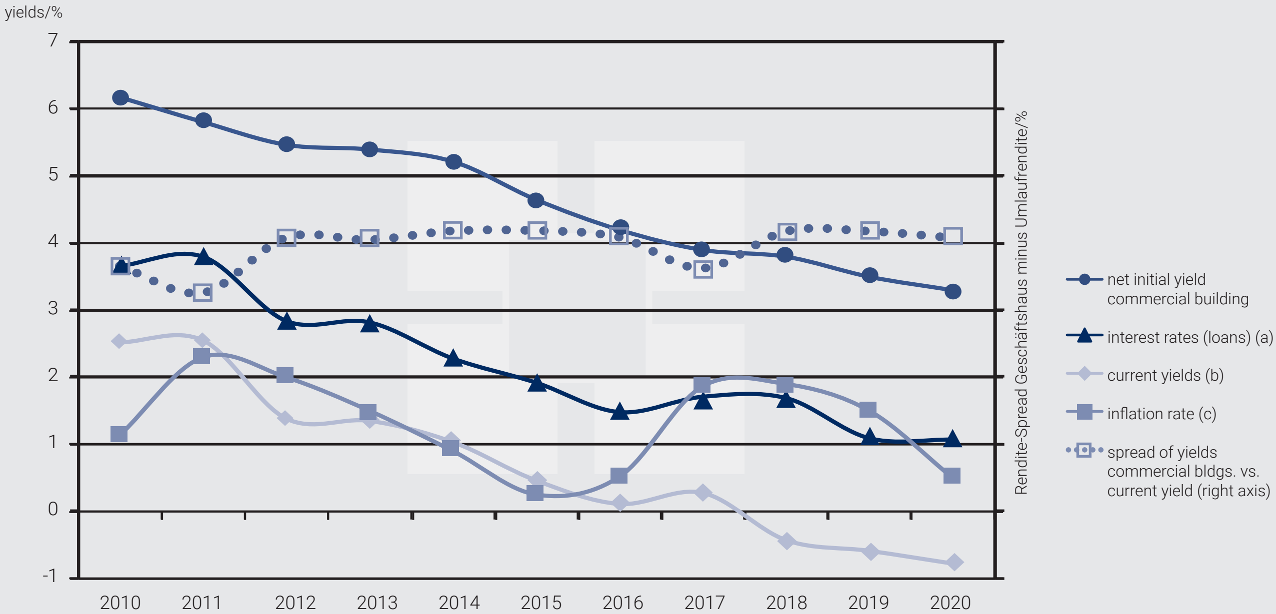
Commercial investments in the "Big Seven"

The transaction volume in the "Big Seven" amounted to EUR 36.5 billion in 2020, about 20 % less than in the previous year. The share in overall German commercial investments accounted for by the "Big Seven", on the other hand, remained almost identical to the previous year with 63 % (2019: 65 %). As in the previous year, Berlin is leading the list of the "Big Seven", even though the turnover of EUR 10.8 billion was 18 % lower than the excellent result of the previous year. The only location to see an increase in turnover in the report year was Hamburg. Hamburg saw an increase of 37 % compared to the previous year and concluded the year with a commercial turnover of EUR 6.3 billion. The highest relative decline was recorded in Cologne (-55 %), Munich (-48 %) and Stuttgart (-40 %). Yet it has to be borne in mind here that especially Munich and Cologne had seen growth rates of up to 75 % in 2018 and 2019, which puts the current decline into more of a perspective. Given the corona-driven restrictions on everyday life and work, a turnover of EUR 36.5 billion on the commercial investment market of the "Big Seven" is a solid result that is even 2.8 % higher than the average of the past five years. The effects of the pandemic are obvious in the turnover figures for the second and third quarter of 2020 in particular, with only about EUR 10.3 billion and/or EUR 11.9 billion respectively. For 2021, DIP is expecting a potential increase in commercial turnover in the "Big Seven" and across Germany, which will, however, depend on the Corona crisis. As many investors were unable to meet their investment schedule in 2020 as a result of the Corona crisis, it can be assumed that they will compensate for this later in 2021.

Returns continue to fall

Comparatively high tenancy rates of core properties in top locations are still proof that national and international investors are accepting low top returns. The still low interest rate level and the security that also international investors see in German investments are compressing returns in regions that are not the prime cities. As forecast by DIP, returns continued to fall moderately in all German centres of the DIP association, namely by an average 10 - 30 base points between 2019 and 2020. Yet they are still higher

Investment environment yields (commercial buildings, securities) interest, inflation



Note: (a) loans for residential bldgs., 5 to 10 years, as of Sept. of each year, private, new loan (b) current yields of domestic bearer bonds, total of averages (c) consumer price index (total) for Germany
Source: Deutsche Bundesbank, own calculations, Aengevelt Research

than those for other similarly long-term and simultaneously safe investments:

- Top returns for **top commercial properties** are approximately **3.3 %** (2019: 3.5 %), the returns for pure **office buildings** are higher with **3.6 %** (2019: 3.9 %), on average 30 base points and at some locations between 20 and 50 basepoints.
- Returns for **self-service shops** and **specialist retailers** continued to stagnate, but these properties remain attractive with average top returns of 5.1 % (2019: 5.4 %).
- A further fall was recorded for the top returns for logistics properties, amounting to **4.5 %** in 2020 (2019: 4.9 %).

The picture of top returns or top factors can be differentiated as follows for the different cities of the DIP association: 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 considerably or, sometimes, not reached: In an optimal mix with retail (residential and commercial building), top properties can, in individual cases, achieve prices that are much higher than the average. At the moment, it is predominantly a sideways shift of returns that can be observed in prime cities, while the trend towards a compression of returns in secondary cities continues. Given the (still) good financing level and the lack of alternatives with equally good return-risk profiles, the trend on the overall market will continue in 2021, also against the backdrop of strong liquidity investment pressure among large groups of investors.

Residential investments

2020 could have become a record year for residential investments - had it not been for the Gagfah acquisition for EUR 8 billion in 2015 that blew the result for that year out of all proportions. Yet the Corona pandemic fuelled the interest in residential investments even further with lockdowns making larger, more attractive flats yet more appealing, and given the persistent lack of housing almost everywhere, residential investments are considered a safe haven for capital investors.

The residential investment turnover in 2020 benefited from the acquisition of Adler Real Estate with almost 60,000 residential units and a value of about EUR 6.0 billion by Ado Properties. This mega deal single-handedly ac-

Table 3: Top returns and multipliers at DIP locations

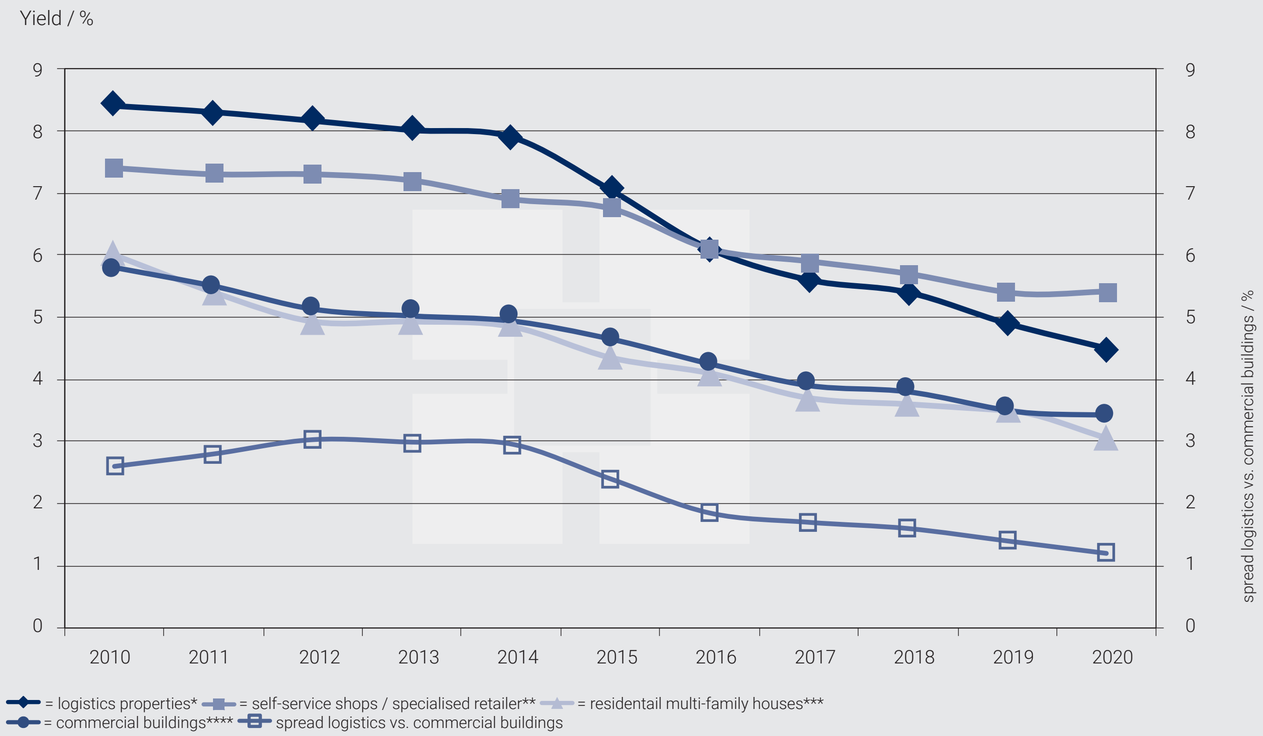
Location	Commercial buildings		Residential		Self-service/specialist retailer	
	Return	Multiplier	Return	Multiplier	Return	Multiplier
Berlin	2.80%	33	2.50%	39	4.80%	21
Bremen	4.40%	23	4.10%	24.5	5.60%	18
Dresden	3.00%	34.5	3.80%	27	5.60%	18
Düsseldorf	2.60%	35	2.90%	34	5.00%	25
Essen	4.60%	22	4.20%	23.5	5.60%	18
Frankfurt/Main	2.70%	35.5	3.00%	34.5	4.80%	22
Hamburg	2.30%	44	2.60%	38	4.30%	23
Hanover	3.90%	26	3.60%	28	5.10%	19.5
Karlsruhe	4.00%	25	3.30%	30	7.10%	12
Cologne	3.10%	32.5	3.00%	33	4.70%	21.5
Leipzig	3.90%	27	3.10%	32.5	5.60%	18
Magdeburg	4.40%	23	4.00%	25	6.70%	16
Munich	2.30%	39	1.90%	50	4.00%	26.5
Nuremberg	3.50%	29	3.30%	30	6.50%	16
Stuttgart	3.30%	30	3.30%	30	5.60%	18
DIP-15	3.50%	29.3	3.00%	34.5	5.40%	18.6

counted for more than 25 % of the total transaction volume generated with residential assets. Another large-scale transaction was the sale of approx. 6,500 residential units of Deutsche Wohnen SE to LEG for about EUR 660 million. In 2020, domestic and foreign investors accounted for almost equal shares in the residential investment sector.

The average **returns** for residential properties on the DIP markets that were analysed amounted to only **3.8 %** (2019: 4.1 %); in the **top segment** (new buildings or existing buildings following extensive refurbishment), average returns fell by 40 base points from 3.4 % (2019) to **3.0 %** (2020). Again, Munich is still topping the price list with 1.9 %, followed by the remaining "Big Seven" with between 2.5 % and 3.3 %. In accordance with the general trend of more investments at secondary and tertiary locations, the returns on all DIP markets are lower than 4 % – and sometimes notably so - with the exception of Essen (4.2 %), Bremen (4.1 %) and Magdeburg (4.0 %).

One way to relax the price and return race would be the creation of a larger supply in form of new builds, refurbishments of existing residential developments and the rededication of disused and potentially soon vacant commercial and office buildings. Even though the number of building permits for new construction rose slightly in 2020 when compared to the previous year (approx. +3.9 % comparing the periods until November), it remains to be seen how the lack of available plots and areas for construction that meet the demand and are available at short notice, the sometimes (too) time-consuming administrative hurdles posed by (excessively) long planning and application approval procedures as well as the lack of capacity in the construction companies will cause permit and especially completion figures to fall in the future. Irrespective of continuing high capacity utilisation, we expect to see a somewhat positive development, with the fringes of urban centres standing to benefit the most - both as a result of no empty plots being available for construction in city centres and due to the rising popularity of home office work. According to analyses of DIP, returns will continue to fall in secondary cities and we will see a further sideways shift of returns at prime cities, at least in the medium term.

Net initial yields* of real estate asset classes



*peak **food stoores and specialised retailers ***multi-family houses, prime locations and high-quality fittings
****inner-city locations, high-quality or contemporary fittings with a major part of retail

Source: own calculations, DIP

© DIP, Aengevelt Research

The market for logistics spaces

Corona wave and further growth perspectives

The logistics industry is one of the winners of the Corona pandemic. In a survey conducted by Aengevelt Research in October 2020, 63 % of companies and observers active in that sector thought investments in logistics properties are becoming more attractive. 56 % of those looking for logistics properties are expanding their premises, 67 % of these because after continuous growth in recent years, online trade has seen a disproportional rise in the wake of the global pandemic, and 44 % as a result of corona-specific products providing additional fuel for the logistics industry (such as protective face masks, hygiene products, medical and pharmaceutical products).

Location	peak rent in EUR/m²			top yield %/a		
Year	2019	2020	Trend	2019	2020	Trend
Berlin	6.3	6.4	→	4.4	4.3	↘
Bremen	4.7	4.7	→	4.8	4.8	→
Dresden	5.0	5.1	→	6.2	6.0	↘
Düsseldorf	5.9	6.0	→	4.9	4.7	↘
Essen	5.1	5.1	→	5.4	5.4	→
Frankfurt am Main	6.6	6.7	→	4.1	3.9	↘
Hamburg	6.3	6.4	→	4.0	3.8	↘
Hanover	5.1	5.2	→	4.1	4.1	→
Karlsruhe	5.5	5.7	↗	5.4	5.4	→
Cologne	5.8	5.8	→	4.3	4.2	↘
Leipzig	4.9	4.9	→	4.8	4.8	→
Magdeburg	4.4	4.5	↗	6.5	6.1	↘
Munich	7.3	7.3	→	4.0	3.7	↘
Nuremberg	5.8	5.8	→	5.6	5.6	→
Stuttgart	6.8	6.9	→	4.8	4.6	↘
DIP average	5.7	5.8	→	4.9	4.8	↘

Source: DIP, Aengevelt Research

According to studies by the GfK, the first lockdown month (April 2020) brought an 84 % increase to online trade when compared to the previous year. Yet even in months with eased restrictions, June and July, the industry recorded growth rates of between 43 % and 52 % compared to the same months of the previous year. This shows that the lockdown has caused many customers to shift their patterns to online trade for more and more products, including fresh items. It is expected that a similar effect will remain after the second lockdown, also because the share of online trade has been growing consistently over the past years. Economic researchers at the University of Regensburg expect online trade to grow by another 50 % within the next five years.

But it is not only the B2C business that generates long-term growth perspectives for the logistics sector. Also in the B2B segment an increasing degree of globalisation, supra-regional product networking, just-in-time deliveries and supply chain management for the “industry 4.0” - intelligent factories that order more raw materials themselves, adjust production and initiate necessary repairs and maintenance - result in more demand for this asset class of multi-modal traffic hubs with national and international connections.

Advanced concepts

The expansion of online trade and inclusion of fresh items result in rising demand for innovative concepts such as same day or even same hour delivery, delivery to your car, crowd delivery, delivering fresh items in a continuous cold chain and potentially, subject to solving technical, organisational and legal problems, delivery by autonomous or manned drones, air taxis and robots. In connection with the increasing traffic volume in city centres and in densely populated residential areas, it is likely that we will see more and more demand for - relatively small - electric vehicles (e-Scooters, e-vans) and, as soon as possible, also for air taxis and drones. Simultaneously, demand for such restructuring is coming from backgrounds such as the global efforts regarding climate change, change of energy use and new mobility. The bottom line is that, in order to be realised in the near future, all these developments require smaller, more decentralised logistics premises (cross docking stations) across cities.

As a result, DIP is forecasting rising figures for development, letting and investment in both the “traditional” logistics segment and also and especially for smaller logistics premises with the competitive advantage of being closer to the customer. The latter development is expected to be particularly pronounced in metropolitan areas as part of the changes in transport infrastructure. Yet the rising demand for cross docking stations, urban fulfilment centres, parcel collection points and online shops on the high streets, in shopping centres and residential areas is often still facing an insufficient supply of suitable and affordable premises because high streets and areas close to the city centres were not intended for this kind of use.

Here, there are opportunities in the rededication of retail premises that will be or even already are otherwise left unused as they are - despite their privileged location - suffering from an ever-higher number of vacancies. Such rededication could bring the chance of continued profit. Similar developments can be seen in regard to conveniently placed premises used by petrol stations and commercial businesses. City logistics will have to learn to integrate itself into innovative urban traffic concepts that are being developed and implemented now and in the next years.

Logistics investment and letting / owner-occupiers in Germany

Since 2016, more than 4 million square metres of new logistics premises have been completed every year. Given the much shorter profit life cycle of logistics properties when compared to other asset classes, only a small share of the total supply is sufficiently modern and sustainable to offer options for third-party use and to therefore be of interest for traditional investors. This means that producers, traders and providers of logistics services are more and more often opting for project developments, either those to be realised in cooperation with specialised developers and investors, or which they realise independently. Especially some large-scale traders have settled on own project developments in order to not only get a customised property, but also to utilise the proximity of logistics premises to motorways and other highly frequented roads for their branding, as is shown by producers or traders of organic products who have their high-bay warehouses cladded in wood.

The logistics market was able to harness the strong growth that online trade saw as a result of the pandemic and grew by 12.4 % in 2020. This translates into a turnover of about EUR 7.7 billion in the report year. Leader among the “Big Seven” this year was Berlin with a turnover of about EUR 1 billion, with all other cities falling far behind. The top transactions included the sale of the “IVG Garbe Logistik Fund” that owns 14 logistics properties in Germany. AEW purchased the fund from Patrizia for about EUR 500 million. Another expensive deal was the sale of eight Amazon logistics centres by Garbe Industrial. The so-called “Rocket Portfolio” was purchased by Union Investment for approximately EUR 450 million. Almost the same sales price was generated with the “Logistrial-Portfolio”. Union Investment bought the portfolio from Garbe Industrial for EUR 800 million. About EUR 430 million thereof were accounted for by German properties. Ares Management sold its share in a European logistics portfolio to the Investec Property Fund for a total of EUR 900 million, with the German properties valuing about EUR 300 million.

Letting continues on a high level

With about 6.96 million m² let or newly build premises for owner-occupiers in 2020, take-up remained stable when compared to the previous year, even in times of the pandemic (2019: 6.95 million m²; 2018: 7.00 million m²); the result even exceeded the 5-year-average by 2.1 %. With a take-up of 1.76 million m², a large share was again accounted for by the “Big Five” regions in 2020 (2019: about

1.7 million m²), among which the logistics region Frankfurt ranked first with 481,500 m², followed by Hamburg (473,000 m²), Berlin (441,000 m²), Munich (226,000 m²) and Düsseldorf (138,000 m²). The largest increase compared to the previous year 2019 was recorded in Hamburg (45.5 %). The continuous strong and further increasing interest in logistics spaces also illustrates the rising attractiveness of this asset class for investors. As strong demand is focusing more and more on highly modern premises, pre-letting figures are high which means that only a very small share of project developments is available on the market.

The price level for first-class logistics premises rose again and the returns kept falling in the course of 2020. Individual top properties saw returns fall to less than 4 %. Top returns in across the 15 DIP locations analysed (Berlin, Bremen, Dresden, Düsseldorf, Essen, Frankfurt am Main, Hamburg, Hanover, Karlsruhe, Cologne, Leipzig, Magdeburg, Munich, Nuremberg and Stuttgart) averaged out at 4.5 % in 2020 and were thus 40 base points lower than in the previous year (2019: 4.9 %):

- The most expensive cities, based on top returns for top logistics properties, were Munich with 3.7 % and Hamburg with 3.8 % as well as Frankfurt am Main with 3.9 % and Hanover with 4.1 %. Higher returns were generated in Cologne (4.2 %) and Berlin (4.3 %).

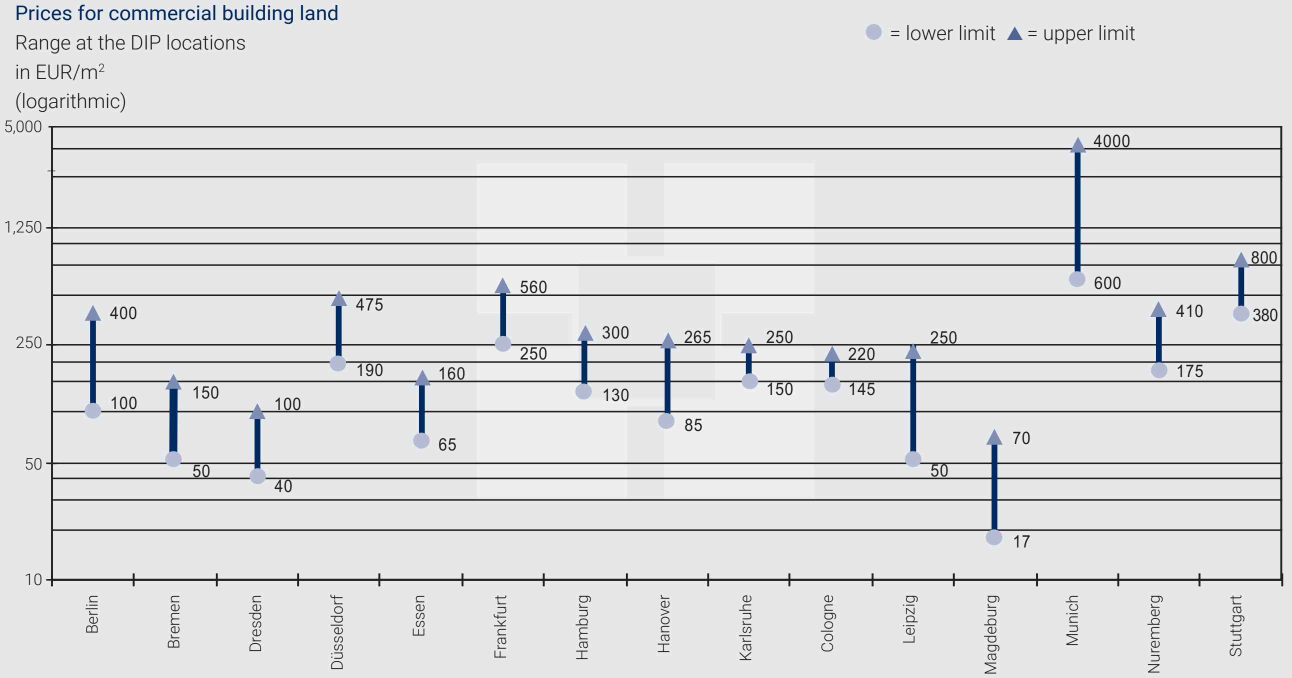
- Comparing 2020 to 2019, returns in the "Big Seven" fell by, on average, 20 base points.

- Roughly around the DIP average are top logistics properties in Düsseldorf (4.7 %) as well as in Bremen and Leipzig with 4.8 % each and Stuttgart with 4.6 %.

- Higher top returns are recorded with top logistics properties in Essen (5.4 %), Karlsruhe (5.4 %), Nuremberg (5.6 %), Dresden (6.0 %) and Magdeburg (6.1 %).

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 3.5 percentage points higher at the other locations. The willingness of investors to take risks rose, especially in the segment of the "Value Add" assets. More and more investors are willing to accept short (remaining) tenancy terms and higher vacancy rates with sometimes sub-optimal property quality.

Prices for commercial building land
Range at the DIP locations
in EUR/m²
(logarithmic)



Source: RIWIS, Bulwiengesa
Note: The aforementioned prices are for a developed plot in higher-quality industrial estates or for commercial areas that are reached easily (excluding old industrial or production sites in city centres). Usually, these have a property price space index of between 0.6 to 1.1.

Rising rents

Given the growing supply-demand disparities of the locations - an often too low demand-adequate supply of premises meets considerable specific demand among users - rent levels at both top and secondary locations for both top prices and general price levels are rising. Within the course of a year, the prime rents at DIP locations rose, on average, from EUR 5.70/m² (2019) to EUR 5.80/m² (2020) (+1.8 %); due to the even stronger rise of purchase prices, however, the compression of returns continues:

- The southern cities Munich (EUR 7.30/m²) and Stuttgart (EUR 6.90/m²) with their strong economies but consistently scarce supply continue to be the leaders with a further rise in prime rents. Frankfurt (EUR 6.70/m²), Hamburg (EUR 6.40/m²) and Berlin (EUR 6.40/m²) are also recording high rent levels.

- Düsseldorf (EUR 6.00/m²), Cologne and Nuremberg (EUR 5.80/m² each) are roughly about the DIP average, while premises in Karlsruhe (EUR 5.70/m²), Essen (EUR 5.10/m²), Hanover (EUR 5.20/m²) and Leipzig (EUR 4.90/m²) can be rented for less.

- Bremen (EUR 4.70/m²) and Magdeburg (EUR 4.50/m²) continue to record the lowest prices.

Land price levels for new builds

The average prices for commercial building land have now risen to EUR 245.00/m² on the analysed 15 DIP markets. This constitutes a further increase by 2.9 % when compared to the previous year (2019: EUR 238.00/m²). Many property markets have seen a considerable change in prices in the recent past. The increasing scarcity of building land that meets demand and is therefore suitable for the market causes prices across Germany to rise. Especially in the “Big Seven”, this often causes investors to engage in real estate speculation and to wait in order to achieve the highest possible sales price.

- The still most expensive city is Munich with an average of now EUR 750.00/m², followed at an increasing distance by Stuttgart (EUR 550.00/m²), Frankfurt (EUR 380.00/m²) and Düsseldorf (EUR 340.00/m²).

- The mid-table is formed by Karlsruhe (EUR 210.00/m²), Berlin (EUR 220.00/m²), Hamburg (EUR 220.00/m²), Nuremberg (EUR 200.00/m²), Cologne (EUR 200.00/m²) and Hanover (EUR 180.00/m²).

- Prices are considerably lower in: Essen (EUR 110.00/m²), Leipzig (EUR 95.00/m²), Bremen (EUR 90.00/m²) and Dresden (EUR 85.00/m²).

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

The aforementioned prices are for a developed plot without prior contamination in higher-quality industrial estates or for commercial areas that are reached easily (excluding old industrial or production sites in city centres) with a property price space index of between 0.6 to 1.1.

When assessing the development of property prices, however, it has to be borne in mind that a sharp increase in prices at central and ideal locations has to be expected due to scarcity of premises in particular. For example, well-sized plots are subject to considerable mark-ups, especially industrial land, brownfield sites or former production sites in city centres. The market developments in the “Big Seven” have been characterised by a significant rise of prices in recent years, especially for conversion areas.

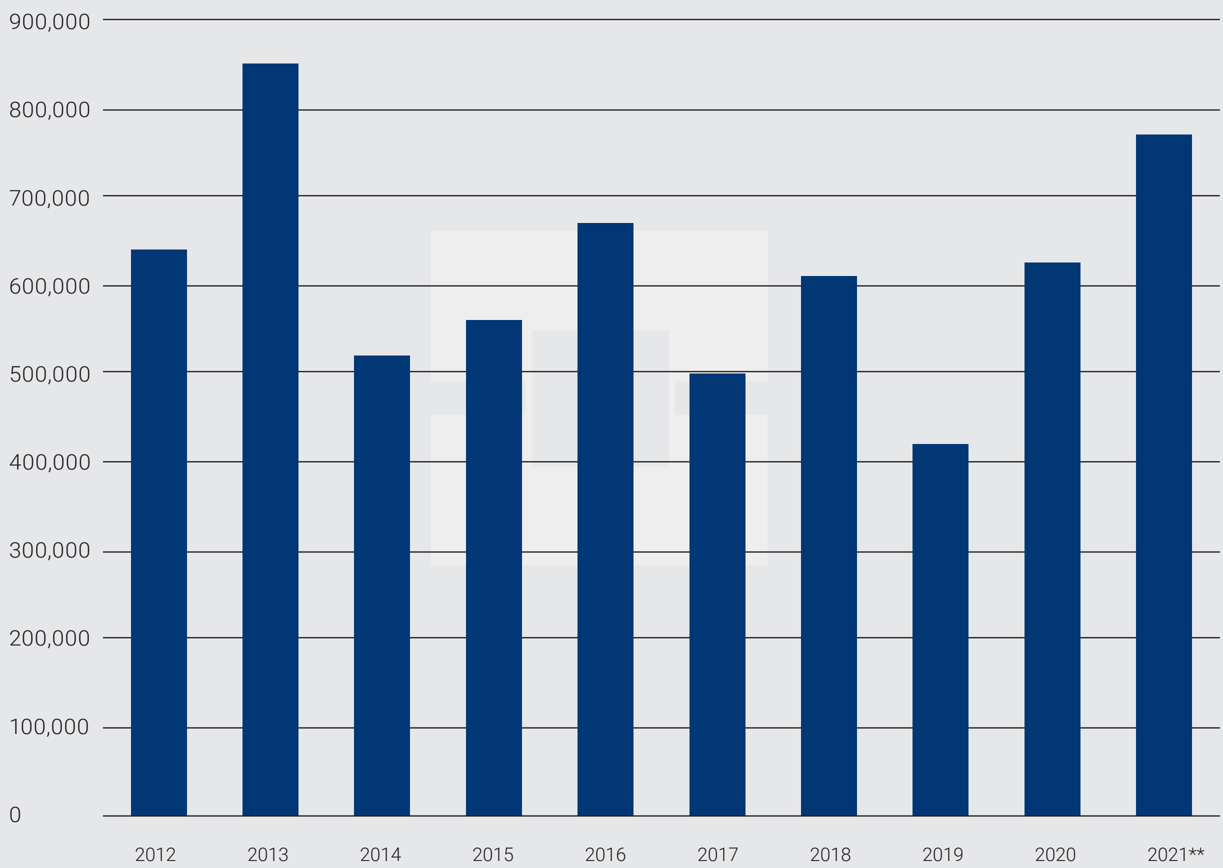
Construction at high level

The continuously high demand for modern logistics properties has resulted in consistently high completion rates at the DIP locations for years. In 2020, about 625,000 m² of logistics premises were completed in and around DIP cities, so that the already very good result of the previous year and the long-term average (2011 - 2020: 581,000 m² p.a.) were exceeded again. On the one hand, the strong growth of online trade had a positive effect on demand for small logistics premises on the high streets, but on the other hand, highly advantageous factors like infrastructure connections such as access to federal motorways and the airports of the DIP cities / regions also favour “green field” construction. The Corona pandemic is added fuel for the high demand for logistics premises, and construction and project planning are responding. We therefore expect even more new premises with about 770,000 m² for DIP locations in 2021.

Outlook

The logistics segment of the German property market is one of the big winners of the year with all demand trends in urban centres to continue as before in the medium term. The effects of the Corona crisis act as an additional catalyst for the e-Commerce sector that has already been seeing strong continuous growth for several decades. Even traditional retail is now shifting to multi-channel trade strategies, i. e. a combination of a traditional retail and online presence with the option to deliver or collect the purchased items. Companies that still have not implemented such options will have to do so in the near future in order to remain competitive as a large number of consumers has had a positive online shopping experience and will therefore continue to shop online. This trend on the market has long since moved past traditional products such as books or electronic items and also starts to affect articles of daily use or fresh food. The resulting need to be close to the customer will be reflected in a rising demand for modern, central or high street logistics hubs. According to DIP analyses, this will continue to fuel the demand for innovative concepts which will see above-average dynamics and good perspectives for the logistics properties industry in the long term.

DIP locations
construction activity for logistics in m²*



* within the city fringe **forecast, recorded projects only

Source: DIP, Aengevelt-Research

The real estate market in northern Germany in 2020
– a short overview

Residential properties

The attractiveness of northern Germany as a place to live, mainly fuelled by the high quality of life along the coasts, is increasing continuously, and this has not changed in 2020. However, internal analyses show that the cities of Kiel and Lübeck, the coastal region along the Baltic Sea and the interior must be submitted to a differentiated analysis.

The prices for used residential properties and freehold flats in Kiel and in Lübeck as well as those for newly constructed flats continued to rise considerably. The price per square metre for existing single-family homes in Lübeck increased by approx. 12 % compared to the previous year to now approx. EUR 3,120.00/m²). Existing single-family homes situated in Kiel saw price increases per square metre of approx. EUR 543.00.

Prices on offer for existing homes at the coastal regions along the Baltic Sea, which continued to be in strong demand, significantly deviate from the price levels at these two large cities, that is, to be more precise, they are EUR 1,000.00/m² to EUR 2,000.00/m² and more above the prices requested in Kiel and Lübeck. The average price offered for newly constructed flats in Scharbeutz and Timmendorfer Strand has risen to values of more than EUR 7,000.00/m². In these towns, top locations even reach levels of more than EUR 10,000.00/m².

Promising newcomers along the Baltic Sea coastal region are Neustadt i. H., Heiligenhafen and Kellenhusen. Both the interior and the smaller regional centres are also becoming ever more attractive.

Prices for private residential properties in 2020

Location	Detached house, not new build* EUR / m² *(previous year)*	Existing freehold flat EUR / m² *(previous year)*	Newly built freehold flat EUR / m² *(previous year)*
Kiel	2,872 *(2,329)*	3,107 *(2,770)*	5,023 *(5,816)*
Lübeck	3,120 *(2,788)*	3,968 *(3,675)*	5,618 *(4,802)*
Timmendorf und Scharbeutz	4,154 *(3,361)*	6,175 *(5,206)*	7,251 *(6,123)*

Source: IMV-Markdaten-Vertrieb GmbH
*Construction year 2018 or earlier

Retail spaces

Parallel to the development which we have been seeing in the past, rental prices per square metre continued to fall slightly in Kiel. The e-commerce continues to play an important role and has negative effects on traditional retailers and their shops. The tendency to rent smaller premises continues in order to withstand the cost pressure exercised by online competition. At least for now, rental prices per square metre in Lübeck in 2020 remained (still) stable if compared to the previous year.

As a consequence of the persisting COVID-19 pandemic, parallel to the imminent threat of retailers becoming insolvent and being forced to close their shops, it is possible to assume that prices for retail spaces will see a significant downturn in 2021 all over northern Germany. Knock-on effects on prime rents for top locations at the city centre of Lübeck cannot be fully excluded, for example, due to considerable concessions on the part of the new owners of the Karstadt property when it comes to rental prices.

Comparison of rents for retail premises 2020 and 2019

Commercial core in EUR net, base rent	Prime location, small (approx. 60 m²) EUR / m² *(previous year)*	Prime location, large (approx. 150 m²) EUR / m² *(previous year)*	Prime rent in top locations EUR / m² *(previous year)*
Kiel	45.00 *(50.00)*	22.00 *(25.00)*	70.00 *(75.00)*
Lübeck	80.00 *(80.00)*	30.00 *(30.00)*	80.00 *(80.00)*

Source: IVD Gewerbe-Preisspiegel 2019/2020

Office spaces

Rental prices for office spaces at the large cities in Schleswig-Holstein have undergone only minor changes:

In fact, rents in Kiel have seen nearly no changes in 2020.

Rent levels for office premises in Lübeck, while relatively stable in the medium term, are lower than those in Kiel. Here, offices with good utilisation values have seen rent rises by about EUR 0.50/m². The rents in top locations rose by approx. EUR 1.00/m².

Office rent – net rent exclusive of water and electricity costs, in EUR/m²

Location	Usage value simple *(previous year)*	Usage value medium *(previous year)*	Usage value good *(previous year)*	Top locations *(previous year)*
Kiel	5.00 *(4.80)*	7.00 *(7.00)*	9.00 *(9.00)*	14.50 *(14.40)*
Lübeck	4.50 *(4.50)*	6.00 *(6.00)*	8.00 *(7.50)*	10.00 *(9.00)*

Source: IVD Gewerbe-Preisspiegel 2019/2020

Commercial building plots

Prices for building plots located at industrial estates in Lübeck remained stable if compared to the previous year.

On the contrary, prices for commercial building plots in Kiel saw average increases in all three utilisation values by approx. 4.16 %. The largest increase in percentage terms was recorded with the “simple utilisation” segment where the price per square metre rose by approx. 5 %.

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 *(previous year)*	Usage value medium *(previous year)*	Usage value good *(previous year)*
Kiel	50.00 *(47.50)*	65.00 *(62.50)*	80.00 *(77.50)*
Lübeck	40.00 *(40.00)*	50.00 *(50.00)*	60.00 *(60.00)*

Source: IVD-Gewerbe-Preisspiegel 2019/2020

The real estate market Amsterdam

Summary

Covid-19

The year 2020 was dominated by the corona crisis, which not only gripped the Netherlands, but the whole world. Where we started the year excellently with unprecedented prices and profits, the pandemic threw a spanner in the works, resulting in a bleak outlook. Many countries were locked up, a bad sign for a large import/export market like the Netherlands. Expectations were revised downwards for all sectors, and some sectors were hit hard. This applies to the hospitality industry and transporters, among others. The retail market was also hit hard, but an enormous increase in online sales meant that the blows were not so severe in the end. Included in retail are also supermarkets, which turned records.
Initially, investors seemed reluctant to invest, but in the third quarter, according to the Central Bureau of Statistics, the economy grew by 7.7 %, the largest growth ever recorded. However, in the fourth quarter, measures followed to reduce the second wave of corona infections. This lockdown undoubtedly put a brake on growth.

Residential Investments

On the real estate market, we see a varying picture. Due to the enormous scarcity on the Dutch housing market, prices have risen again to record highs. Due to restrictions on construction in connection with nitrogen emissions and PFAS, plus a lack of building space, prices are unlikely to drop. In the rental segment, we see a dichotomy; rents in the top segment are falling. This concerns rents in cities such as Amsterdam and The Hague, where mainly expats had rented in the high segment. As this group often left the country due to corona, price drops are visible here. The rents increased up to € 1,500 in many cases.
On the residential market, we see a lot of transactions. This is mainly because the Dutch government announced to increase the transfer tax from 2 % to 8 % in 2021 for residential investors (private buyers still pay 0 % to 2 % transfer tax). The transfer tax on commercial real estate went up from 6 % to 8 %. This is why many investors wanted to buy or sell before 2021.
However, the scarcity on the Dutch housing market remains, making it an interesting investment; with gross initial yields varying between 3.5 % and 4.5 % for new construction and 4 % and 7 % for existing construction.

Office market

The COVID-19 crisis has had an enormous influence on how we work. The advice of the Dutch government to work from home as much as possible has accelerated the "new way of working". Many large offices closed their doors to employees and where employees were still allowed to go to the office, this was to a much lesser extent and with the necessary measures. The question is whether the future of working at the office has changed forever. In most predictions for the future, the office certainly still plays a role, as a meeting place for employees and customers.
In the figures for the Amsterdam office market, we see that tech companies in particular have ensured that the take-up has not stagnated. For example, payment processor Adyen leased the vacant space of Hudson Bay on the Rokin, with an LFA 16,000 sqm, in the center of Amsterdam. Uber also purchased new office space of 30,000 sqm on the Zuidas. This means that the total area taken up is less than in previous years, but the decrease was not as large as feared. Rental prices on the Zuidas remain among the highest, i. e. around € 450 per sqm per year.

Logistics

The Netherlands is known as a major transit country, thanks to the hubs Schiphol and Port of Rotterdam. Not surprisingly, the logistics market in the Netherlands has been on the rise for years. Of course, there are logistics sectors that have been affected, but partly due to the enormous increase of e-commerce and the awareness of companies that too tight planning in the supply chain entails risks, as a result of which companies want to store their stock closer to the production facility and demand extra logistics space. As a result, the gross initial yield (GIY) remains at the top with a top GIY of 3.75 % and a bandwidth of 3.75 % - 5 %.

Retail

As mentioned earlier, e-commerce has increased enormously due to the corona crises. We saw this trend last year, but the pandemic has accelerated this process. Last year, we also reported that the Amsterdam city centre had a huge appeal to tourists so the prices in the centre were not expected to drop. However, because tourists are now staying away and crowds have to be avoided due to corona, we have to adjust this picture. The top location, Amsterdam's Kalverstraat, sees falling prices and more vacancy. And although the Dutch government offers financial support to affected sectors, it is hardly enough to keep retail running. In addition, there is a chance that if the support stops, these companies will still fall. The expectation is that rents at prime locations will not rise (up to € 3,000 per sqm per year in Amsterdam) and that rents outside prime locations for retail will fall.

Preview of the Dutch investment market in 2021

2021 is going to be an exciting year. Of course, there is hope that the vaccines will allow the situation to return to normal and the impact on the economy will remain somewhat limited. Investors in the Dutch housing market are expected to be cautious at first, given the increased tax burden. The expectation is that this will eventually return to normal, as the Dutch housing investment market remains very much in demand. As the housing shortage continues unabated and due to the new measures, there will be even less construction, which means that demand for Dutch housing products will remain high, especially in Amsterdam. Although residential investors prefer being active in the G4 cities (Amsterdam, Rotterdam, Utrecht, The Hague), other cities are also popular. Moreover, residential properties are often traded as portfolios what is accompanied by a large geographical spread. Growth in rents and values still make rental housing popular despite the very sharp initial yields at sought-after locations.

National elections will be held in March, and in the run-up to these elections parties will be able to raise their profile by proposing solutions to the Dutch housing shortage, thus creating a more positive investment climate. Parties from left to right agree that many additional houses need to be built. We are looking forward to the party programs with great anticipation.

The Brexit can offer a solution for the office market. As we saw last year with the arrival of EMA, Discovery, CBA among others, other companies may also decide to open their headquarters in Amsterdam.

The Brexit also affects the logistics sector, proving the need for local storage. The outcome of the Brexit deal ultimately determines the impact on the logistics market.

We will feel the inevitable blows of the corona crisis mostly in retail. If the state aid decreases, it is likely that stores will collapse. Empty stores and catering establishments will give the inner city a new look.

Making predictions about what course real estate will take remains uncertain, but at FRIS we will be keeping a close eye on it!

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Sales tax ID under Sec. 27a of the German Sales Tax Act (UstG): DE195682119

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