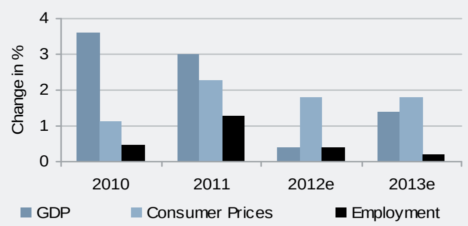
IVG | **Market Tracker Germany** | **February 2012**

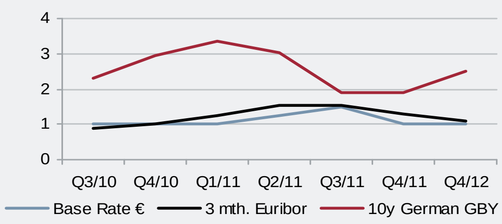
Macroeconomic Framework

Macroeconomic Indicators Germany



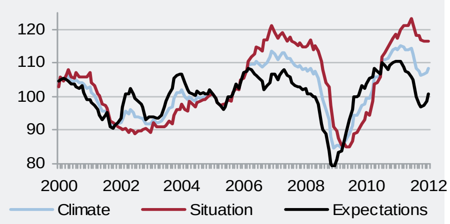
Source: IVG Research

Interest Rates in %



Source: Various commercial banks

ifo Business Climate (basis 2005 = 100)



Source: ifo Institute

Comments

* Weakening of business climate in second half of 2011 as consequence of sovereign debt crisis in eurozone: Probably slight decrease of German GDP in final quarter of 2011.
* In spite of slower global economic growth, the German economy is well positioned by international comparison : Highly competitive export industry benefits from weak euro. Germany regarded as safe haven for capital. Government takes therefore the opportunity to refinance its public debt at very low interest rates (10-year government bond at 1.85%).
* Expectation of some economic recovery after temporary recession at turn 2011/2012. Labour market still in excellent shape: Employment growth of 0.3% in 4th quarter of 2011.
* But risk of an escalation of sovereign debt crisis in the eurozone: Insolvency of Southern European governments would affect German economy causing a drop of exports, another credit crunch, an increased need of consolidation of public budgets due to rising debt (public guarantees become effective) and a renewed recession.
* Relief regarding pressure on consumer prices: Inflation rate was only at 2.0% year-to-year in January 2012 compared to 2.8% in November 2011.

Office Markets

		Prime Rent: Level and Change				Vacancy Rate			Investment Volume in mn €°			Prime Net Yield		
		in €/sqm	Q-on-Q	Y-on-Y	Outlook+	Q3/11	Q4/11	Outlook+	Q3/11	Q4/11	Outlook+	Q3/11	Q4/11	Outlook+
Berlin	CBD	264	0,0%	4,8%	→	8,5%	8,2%	→	283	790	→	4,95%	4,95%	→
	Secondary	132	0,0%	0,0%	→							5,90%	5,90%	→
Cologne	CBD	258	0,0%	0,0%	→	8,8%	9,0%	→	144	227	→	5,25%	5,25%	→
	Secondary	168	1,0%	3,3%	→							7,00%	7,00%	→
Dusseldorf	CBD	282	0,0%	2,2%	→	12,4%	12,0%	↗	271	216	↗	5,15%	5,05%	→
	Secondary	270	0,0%	2,3%	→							5,75%	5,75%	→
Frankfurt	CBD	420	0,0%	0,0%	→	13,8%	13,9%	→	817	830	→	4,90%	4,90%	→
	Secondary	300	0,0%	0,0%	→							6,00%	6,00%	→
Hamburg	CBD	282	0,0%	2,2%	→	8,4%	7,9%	↗	307	550	→	4,85%	4,85%	→
	Secondary	228	0,0%	-2,0%	→							5,90%	5,90%	→
Munich	CBD	360	3,4%	0,0%	↗	9,2%	8,5%	↘	818	1310	↘	4,75%	4,75%	→
	Secondary	276	2,0%	5,0%	↗							5,45%	5,45%	→
Stuttgart	CBD	222	0,0%	5,7%	→	5,6%	5,7%	→	134	78	↗	5,25%	5,20%	→
	Secondary	144	2,2%	4,0%	→							6,00%	6,00%	→
German Top 7	CBD	298	0,5%	2,6%	→	9,9%	9,6%	→	2774	4001	→	5,01%	4,99%	→
	Secondary	217	0,7%	1,8%	→							6,00%	6,00%	→

° all sectors   + outlook for next 12 months

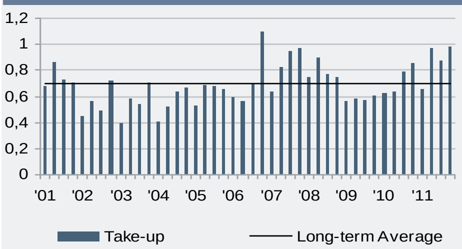
Letting Market

* Economic slowdown without consequences on the letting market: Take-up in major 7 markets in final quarter on very high boom level.
* Annual take-up in Berlin, Cologne, Munich and Stuttgart particularly strong. Frankfurt as exception to the rule due to ongoing problems in financial sector.
* Further decrease of vacancy rate. Along the whole year 2011, it fell from 10.3% to 9.6%. Modern space becoming scarce. Only Dusseldorf and Cologne saw vacancy rates rise during 2011.
* Indication for slowing prime rental growth in final quarter of 2011. Prime rents rose by 2.6% in 2011 on the average. Significant rental growth in secondary submarkets in some cities.
* Also the smaller regional office markets, e.g. Hanover and Leipzig, saw a strong recovery in 2011: Even stronger increase of take-up than in the major markets.
* Expectation: Slower economic expansion will be reflected in a decrease of office demand and take-up. But as the major German office markets will be subject to a low level of completions of new office space, vacancy rates are expected to evolve stable more or less and modern high-quality space will become more scarce. Therefore prime rents will hold stable in spite of the economic slowdown. Secondary office space might suffer from weaker office demand. So German office market forecast to remain stable, unless a dramatic aggravation of the sovereign debt crisis causes a new strong economic recession.

Investment Market

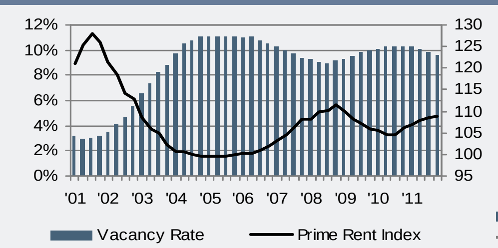
* Germany property investment market remained liquid with a transaction volume of around € 6 bn in the 4th quarter and € 23.5 bn in all 2011 (market share of major 7 cities around 53%).
* As a consequence of growing economic uncertainty in the second half of 2011, focus of investors on core properties increased in comparison to the first half of 2011.
* Retail sector benefitted from demand of investors for assets with long-term stable cash-flow: High share of 46% of investment volume compared to 30% for office properties.
* Equity-rich investors as insurance companies/pension funds and closed-end funds as main demand drivers in 2011. Foreign investors responsible for 33% of transaction volume.
* Prime yields have stabilized in the second half of 2011 in spite of a rising yield gap to government bonds. Widening yield spread between prime and secondary properties.
* Expectation: Transaction volume will hold the level of 2011, as commercial properties remain an attractive asset class particularly in Germany. This applies especially to high quality-properties let in the long-term, as the letting market for modern offices is forecast to remain stable at least in 2012. Prime yields remain stable: Upward pressure due to weakening rental growth expectations balanced by downward pressure due to large yield gap to government bonds. Prices for secondary properties will suffer from downward pressure, as they are not the preferred asset from both investors' and creditors' view. Investment activities limited by credit constraints.

Aggregated Take-up in mn sqm (7 Markets)



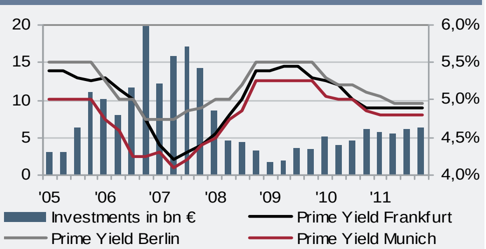
Source: IVG Research, Cushman & Wakefield

Vacancy Rate and Prime Rent Index (7 Markets)



Source: IVG Research, Cushman & Wakefield

German Investment Market

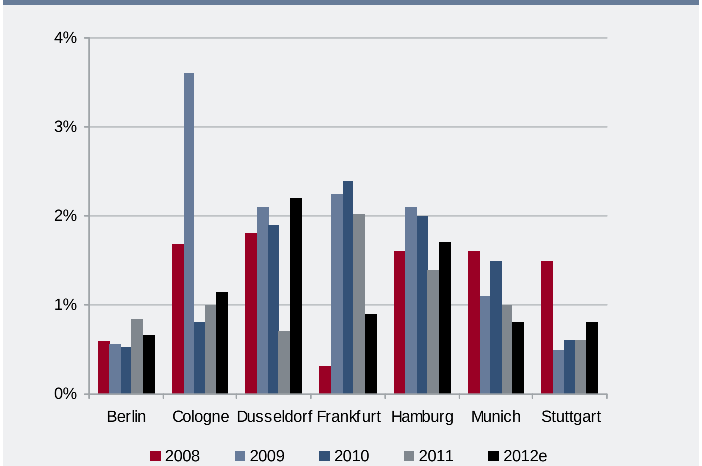


Source: IVG Research, BNP Paribas RE

Market Tracker Germany — February 2012

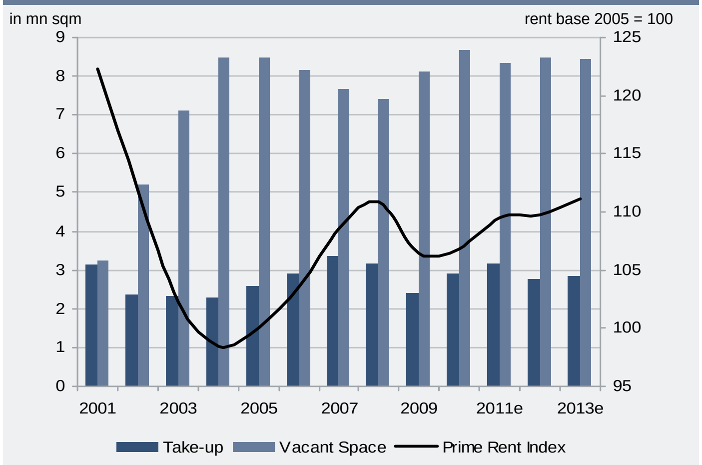
Office Markets: Additonal Graphs

Completions as a Percentage of Office Stock



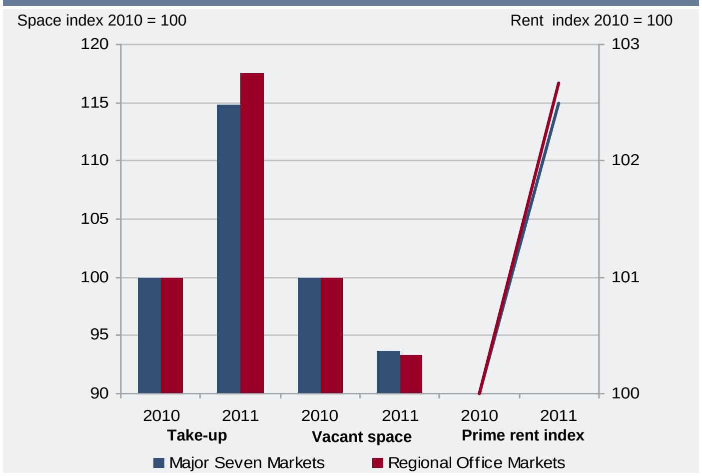
Source: IVG Research. Dusseldorf: High level due to completion of Vodafone HQ

Seven Major German Office Letting Markets



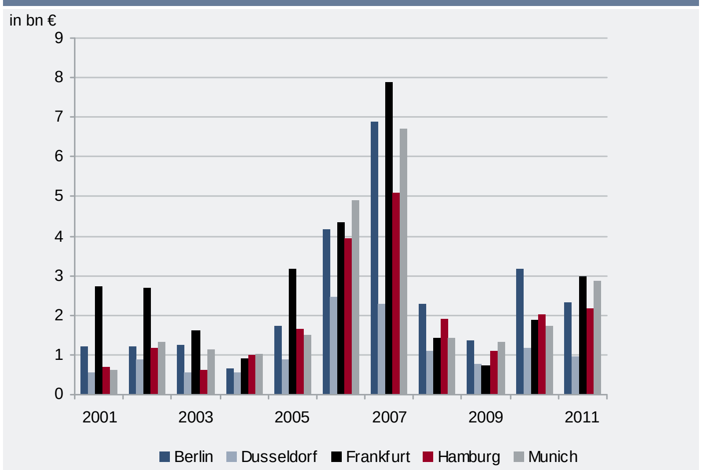
Source: IVG Research

Major Seven Markets vs. 14 Regional Office Markets



Source: IVG Research based on agents' data

Transaction Volume in Major Commercial Investment Markets



Source: BNP Paribas Real Estate

Recent Property Market News

* According to **Deutsche Hypo Real Estate Index,** strong improvement of sentiment within the German real estate sector in January, especially with regard to office properties.

* Real Estate **Trendbarometer of Ernst & Young** indicates that the attractiveness of the German property market has risen by European comparison. The large majority of real estate experts surveyed expect prices to rise or to remain stable in the central locations, while 80% fear a price reduction in the peripheral submarkets. Transaction volume estimated to increase in Germany in spite of limited availability of property finance.

* IPD's **OFIX** indicates a total return of German open-ended Funds in 2011 of 1.5%. Funds with German focus performed better (2.3%) than funds with global orientation (1.1%).

* A survey by **Scope** says that managers of German closed-end funds will focus their activites on the German market in 2012 (preference for Germany in front of the Netherlands and Austria). Last year 70% of equity of new closed-end funds referred to funds with German properties.

* According to "Emerging Trends in Real Estate 2012" by **Urban Land Institute/PwC**, Munich, Berlin and Hamburg belong to the ten European metropolitan areas with the best investment perspectives.

Recent Transactions (January 2012)

* **Leipzig City Centre**: A fund of JP Morgan AM sold the office and retail complex Speck's Hof and Hansa-Haus (22,200 sqm of lettable space with 12,000 sqm office and 5,200 sqm retail) to Deka Immobilien.
* **Munich-Bogenhausen**: Real I.S. bought the headquarters of Schörghuber (9,500 sqm) in Denninger Straße 165 for 25 mn €.
* **Berlin City Centre**: Blackstone Group sold office property Otto-Suhr-Allee 6-16 (14,000 sqm let to Deutsche Bank) at Ernst-Reuter-Platz to Art Invest Real Estate.
* **Duesseldorf-Golzheim**: Hansainvest acquired "Four Elements" at Kaiserswerther Straße 299 (14,700 sqm with 12,800 sqm of office space) from Hamburgische Immobilien Handlung.
* **Berlin City Centre**: Institutional fund sold mixed-use property Zimmerstraße (office and retail; 16,000 sqm of lettable space) to iii Internationales Immobilien Institut.
* **Munich-Pasing**: KGAL bought for three institutional investors the "Pasinger Hofgärten", a mixed-use urban district center (19,550 sqm lettable space: 14,300 sqm offices, 3,750 sqm retail, 1,500 sqm doctor's offices), from Rio Real Estate, Gebhard Real Estate and Patria Beteiligungsgesellschaft.
* **Duesseldorf-Airport:** Developer Strabag Real Estate sold "Airport Garden's" (2010 completed, 14,400 sqm of office space) to Union Investment for UniImmo Fund.
* **Munich-Maxvorstadt**: Tishman Speyer sold the "Karlshöfe" (11,500 sqm) in a portfolio deal together with a Rotterdam office property to Credit Suisse Real Estate Fund Global. Price of "Karlshöfe" estimated to be between 40 and 50 mn €.
* **Frankfurt airport**: OFB Projektentwicklung/ Groß & Partner sold to HuK-Coburg the future headquarters of Condor (14,800 sqm of lettable space under construction, 2,700 sqm vacant).

Source: IVG Research

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