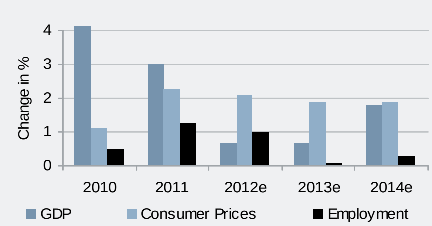
Market Tracker Offices Germany

IVG Passion for Real Assets

February 2013

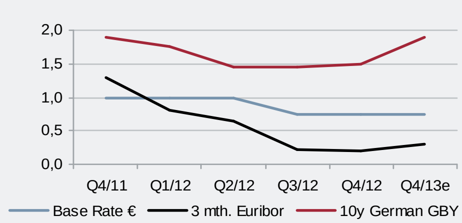
Macroeconomic Framework

Macroeconomic Indicators Germany



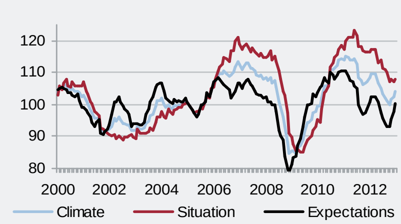
Source: IVG Research

Interest Rates in %



Source: Various commercial banks

ifo Business Climate (basis 2005 = 100)



Source: ifo Institute

Comments

* As a consequence of the Eurozone crisis, the German economy has been in a downturn recently: GDP shrank by an estimated 0.4% in the fourth quarter 2012 due to reduced orders in the manufacturing sector and lower investment activity. Unemployment rate has been stable at 5.4% since September 2012 according to Eurostat.
* But German business climate has improved strongly in recent months: Fears of a total breakdown of the European Monetary Union have receded, given the fact that the European Central Bank declared to buy government bonds of the countries in trouble under certain conditions. Establishment of the European Stability Mechanism and the plan for a Banking Union and renewed financial support for Greek government were also helpful to restore confidence.
* German economy is therefore expected to stabilize and recover along 2013. Forecast of GDP growth of 0.7% in 2013 and of 1.8% in 2014.
* German inflation rate (around 2% in December 2012) will remain below 2% as consequence of slow economic growth and and weaker labour market.

Office Markets

		Prime Rent: Level and Change				Vacancy Rate			Office investments in mn €			Prime Net Yield		
		in €/sqm	H-on-H	Y-on-Y	Outlook+	H1/12	H2/12	Outlook+	H1/12	H2/12	Outlook+	H1/12	H2/12	Outlook+
Berlin	CBD	264	0,0%	0,0%	→	8,0%	7,8%	→	542	1339	↘	4,95%	4,80%	→
	Secondary	144	0,0%	9,1%	→							5,90%	5,80%	→
Cologne	CBD	258	0,0%	0,0%	→	7,9%	7,5%	→	110	144	→	5,20%	5,20%	↘
	Secondary	168	0,0%	0,0%	→							7,00%	7,00%	→
Dusseldorf	CBD	312	6,1%	10,6%	→	11,7%	11,3%	↗	272	344	↗	4,95%	4,85%	→
	Secondary	270	0,0%	0,0%	→							5,75%	5,75%	→
Frankfurt	CBD	420	0,0%	0,0%	→	13,5%	12,5%	↗	619	1590	→	4,90%	4,80%	→
	Secondary	300	0,0%	0,0%	→							5,90%	5,85%	→
Hamburg	CBD	288	0,0%	2,0%	→	7,6%	7,4%	→	397	731	→	4,75%	4,70%	→
	Secondary	218	0,0%	-5,0%	→							5,90%	5,70%	→
Munich	CBD	372	1,6%	3,3%	↗	8,0%	7,6%	↘	980	1807	↘	4,70%	4,50%	→
	Secondary	288	0,0%	4,3%	↗							5,40%	5,35%	↘
Stuttgart	CBD	234	0,0%	5,4%	→	5,3%	5,4%	→	320	70	↗	5,10%	5,10%	→
	Secondary	150	4,2%	0,0%	→							5,95%	5,90%	→
German Top 7	CBD	307	1,1%	3,0%	↗	8,8%	8,5%	→	3240	6025	→	4,94%	4,85%	↘
	Secondary	220	0,6%	1,2%	→							5,97%	5,91%	↘

Source: IVG Research based on agents' data

+ outlook for next 12 months

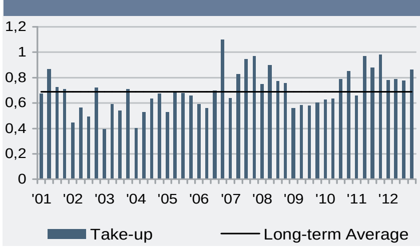
Letting Market

* Aggregated take-up in the seven major markets fell in the year 2012 by 8% compared to 2011 due to the weaker economic framework, but remained far above the long-term average in all four quarters. Take-up was particularly strong by long-term comparison in Berlin and Munich, while Frankfurt was the only market to experience an increase in take-up in 2012. Lettings significantly decreased in Cologne and Stuttgart
* The vacancy rate fell steadily from 9.2% to 8.5% along 2012 as consequence of continued strong net absorption and a very low level of completions (stock expansion of 0.4% in 2012).
* Strong decrease of vacancy rates in 2012 in Cologne, Frankfurt, Munich and Dusseldorf, only minor changes in Berlin and Stuttgart. Modern space becomes more scarce.
* Prime rents only increased in Dusseldorf and Munich in the second half of 2012 (Ø Growth Top-7 in 2012: 3.0%). Upward trend in some secondary locations. Regional markets stable.
* Expectation: The recent economic downturn will have a dampening effect on office demand and letting activities in the first two quarters of 2013. Nevertheless the vacancy rate will remain widely stable along 2013, as office completions are at low level and as the major part of the additional office space is already pre-let. Prime rents are therefore expected to remain stable or even to increase in some locations, while rents of outdated stock might be under downward pressure.

Investment Market

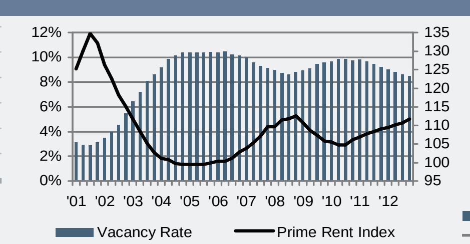
* Year ended with a strong rally on the office investment market resulting in a high office transaction volume of 10.7 bn € in all Germany (with 1.5 bn € portfolio transactions).
* 1st explanation: High investment demand due to enormous yield gap to government bonds, improved business climate, increase of property acquisition tax in Hesse, year-end.
* 2nd explanation: High number of large transactions > 100 mn € at the end of the year, e.g. sale of Frankfurter Welle (410 mn €) and Junghof (135 mn €) in Frankfurt and of Ten Towers (206 mn €) and Angerhof (150 mn €) in Munich.
* Strong concentration of the office deals in the major seven markets (86% of all German office investments), especially in Munich, Frankfurt and Berlin.
* Further compression of prime yields in the fourth quarter, also partly reduction of yields for properties in secondary locations due to higher propensity of investors to take risk.
* Expectation: Investment demand expected to remain high, but supply of core products will be scarce. It will depend on the strength of the economic recovery in Germany and the Eurozone, whether investors are ready to accept higher risks or not. The restricted availability of property finance will be an obstacle to non-core investments due to the regulations by Basel III and the expiration of many German CMBS. Prime yields expected to stabilize along 2013.

Aggregated Take-up in mn sqm (7 Markets)



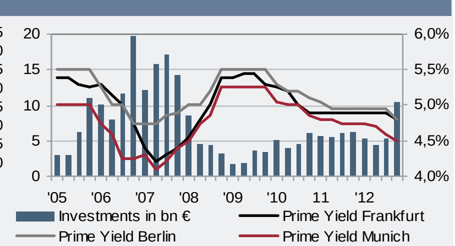
Source: IVG Research, Cushman & Wakefield

Vacancy Rate and Prime Rent Index (7 Markets)



Source: IVG Research, Cushman & Wakefield

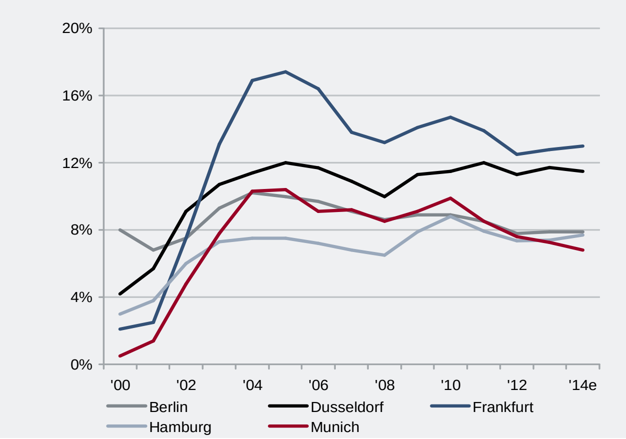
German Investment Market (all sectors)



Source: IVG Research, BNP Paribas RE

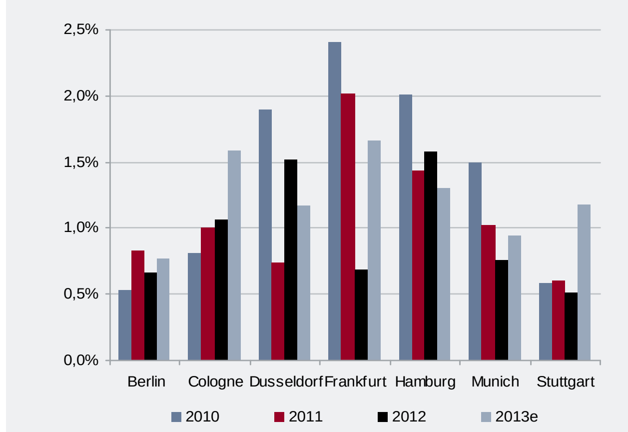
Office Markets: Additonal Graphs

Vacancy rates in the major German office markets



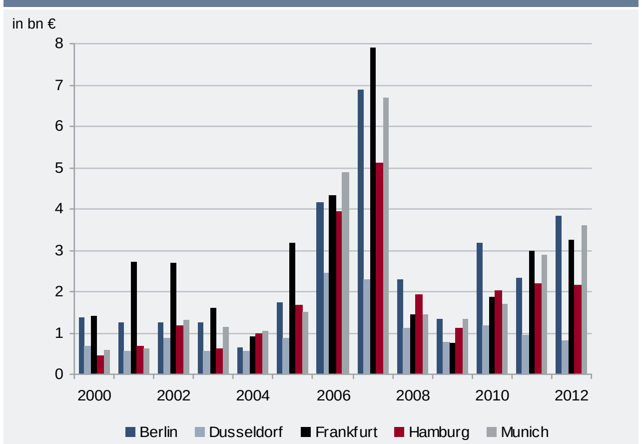
Source: IVG Research

Net Growth of Office Stock in the Major Markets



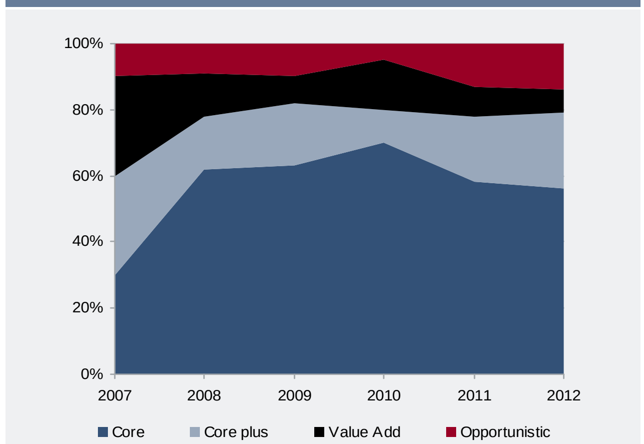
Source: IVG Research

Commercial Property Investments in German Major Markets



Source: BNP Paribas Real Estate. All property sectors

Commercial Property Investments according to Risk Category



Source: Jones Lang LaSalle. All property sectors

Recent Property Market News

* A survey by **Union Investment** indicates a rise of confidence of property investors in Germany, the UK and France as consequence of the improvement of the economic climate. Nevertheless the majority of the participants still expects capital requirements and interest rates of real estate financing to increase further. Also the recent **Deutsche Hypo** Real Estate Index shows an improvement of the business climate especially with regard to the German office sector.

* Players not active on the German market for property finance anymore like traditional mortgage banks Eurohypo and Westdeutsche Immobilienbank and CMBS lenders and foreign banks have left a financial gap of around 80 to 90 bn €, according to estimates by **CBRE**.

* Considering the stricter banking regulation by Basel III, the majority of participants of a survey realized by **ZEW** expects conditions on the German property finance market to become more constrained, especially with respect to the financing of project developments.

* Munich, Berlin and Hamburg are among the five European real estate markets with the best investment perspectives, regarding the investigation "Emerging Trends in Real Estate" of **Urban Land Institute** and **PwC**. The attractiveness of the German market is also underlined by the results of two surveys by **INREV** and **Ernst & Young**.

Recent Transactions (January 2013)

* **Dusseldorf City**: Coresis Management acquired a property (6 floors, 3,200 sqm offices and laboratories let long-term) in Werdener Strasse from German institutional investor.
* **Frankfurt Westend**: Phoenix Real Estate Development bought the former "Lahmeyer-Haus" (Guiollettstrasse 48, 10 floors with 4,600 sqm of offices) from a fund of Warburg Henderson with the objective of refurbishing the vacant property until 2014.
* **Frankfurt Banking District**: Luxembourg Gulix Investments sold "Alkmene"/Mainzer Landstrasse (20,500 sqm of offices let by a Telekom company) to SSRP fund for 60-70 mn €.
* **Frankfurt Bockenheim**: Corpus Sireo sold property Rohmerplatz 33-35/Grosse Seestrasse 43 (6,900 sqm of offices fully let) for 16 mn € to a Spezialfonds of Schroder Property.
* **Hamburg St. Georg**: Talanx acquired so-called "Haus der Gerichte" at Luebeckertordamm 4 (15,000 sqm, completed in 2002) from a iii-Spezialfonds for around 45.9 mn €.
* **Hamburg Uhlenhorst**: Private investor Averhoff Living acquired from Deutsche Telekom a protected mixed-use property at Heideweg (7,300 sqm of space with 4,830 sqm of offices and technical space and 11 flats).
* **Mainz** close to central station: A fund from Luxembourg bought the office property Taubertsberg 2 (19,000 sqm let to a medical centre and 2 public sector tenants).
* **Portfolio**: A private equity fund invested up to 180 mn € in 7 office properties in Berlin, Cologne, Dusseldorf, Hamburg, Karlsruhe, Landshut and Muenster (total surface 160,000 sqm) which had formed part of the CMBS portfolio Cornerstone Titan 2007-1.
* **Stuttgart City**: UniImmo Deutschland acquired Bülow-Carré (26,000 sqm offices and retail) from local developer and investor Bülow AG (investment volume 140-150 mn €).

For further information: **Thomas Beyerle +49-228-844 454** **Oliver Voß +49-228-844 298** **Holger Weber +49-228-844 498**