Facts and Figures

Office Investment and Office Lettings Market
Germany 2019

CUBION · IMMORAUM REAL ESTATE ADVISORS · imovo · KASTEN-MANN REAL ESTATE ADVISORS · LARBIG & MORTAG · NAI apollo · OBJEKTA REAL ESTATE SOLUTIONS · STRATEGPRO REAL ESTATE · VÖLCKERS & CIE

One partner – all services – all asset categories

Learn more about the varied opportunities offered to you by the NAI apollo group and its owner-managed partner companies across Germany. Contact us at any time for a personal discussion about the additional benefits our network can provide. We look forward to hearing from you! We are represented across Germany with offices in Frankfurt am Main, Berlin, Hamburg, Munich, Dusseldorf, Cologne/Bonn, Stuttgart, in the Ruhr area, Mannheim and Ulm. As a partner of NAI Global, we offer our customers access to more than 7,000 real estate specialists in 400 partner offices worldwide.

Strong partnership – throughout Germany

NAI apollo group is the leading network of independent real estate consultancies in Germany. For more than 30 years our active partners have been successfully advising national and international companies. The service range of our group encompasses sales, lettings, construction management, valuation, research, corporate finance, healthcare, investment management and property and asset management.

NAI apollo group – your partner for Germany

Berlin – Kasten-Mann Real Estate Advisors

Hamburg – VÖLCKERS & CIE

Munich – NAI apollo

Frankfurt am Main – NAI apollo

Dusseldorf – imovo

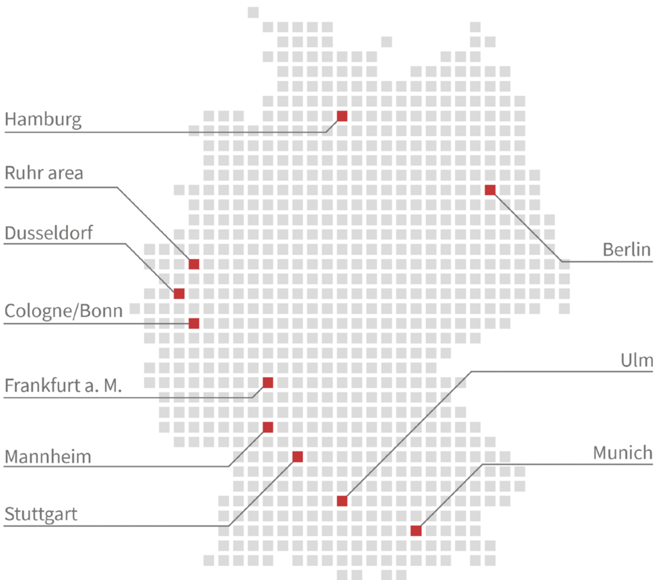
Stuttgart – IMMORAUM Real Estate Advisors

Cologne/Bonn – Larbig & Mortag Immobilien

Ulm – Objekta Real Estate Solutuions

Ruhr Area – CUBION Immobilien

Mannheim – STRATEGPRO REAL ESTATE



NAI APOLLO GROUP – WHO WE ARE

apollo real estate GmbH & Co. KG

For more than 30 years we have been firmly established on the Frankfurt and Munich markets as an owner-managed and independent real estate service provider with a high-performance team. The highest standards of professional ethics are part and parcel of our everyday business, which is always oriented towards the customer and not controlled by cash flow. We are your professional partner for all real estate matters, from purchasing, letting, restructuring and expansion through to management, valuation and sales. Together with our NAI partners we have established excellent networks in all economically strong locations throughout Germany.
Our team covers the entire spectrum of services relating to real estate matters. NAI apollo operates across Germany as part of the NAI apollo group and also functions as the central location of this high-performance network. NAI apollo, which was founded in 1988 and is run today by its owners, has access to over 7,000 real estate specialists worldwide through its role as the exclusive partner of NAI Global in Germany.

CUBION Immobilien AG

For over 15 years, we have been offering the traditional range of services in the field of business real estate. Our office letting performance consistently amounts to between 60,000 sqm and 80,000 sqm of office space, and we have become an industry benchmark for this segment as a result. On the sales side, we have established confidential working relationships with (very) wealthy private investors as well as with domestic and foreign investors. Our transaction volume is in the three-digit-million range, and most of our transactions are not publicly announced. We think like entrepreneurs, act ethically and provide robust statements. Our team consists of young performers and industry veterans, which is evidently the right mix for our continued success.

KASTEN-MANN
REAL ESTATE ADVISORS GmbH & Co. KG

Kasten-Mann Real Estate Advisors advises companies, organisations and associations that are seeking a new location in Berlin - from traditional office spaces to creative loft conversions.

Our company has made a name for itself in Berlin as an owner and developer of attractive office properties. In 2002, we also established Kasten-Mann Real Estate Advisors as a further branch of the company.
As an owner-managed family company we have maintained an unparalleled network of contacts in the German capital for decades. We thus provide our customers with preferential access to the local market and cover the full office property market in Berlin.

imovo GmbH

“We don’t want to do everything differently, just better.” imovo was founded based on this philosophy. In contrast to brokerage companies that are driven by sales in terms of how they work, think and act, our approach is to work on a solutions-oriented basis. When you choose imovo, you gain the support of a strong team that acts as adviser and problem solver on equal terms. You benefit from both our way of working as well as our experience. Our many years of activity on the property market ensure that we are a competent and reliable transaction consultant in the fields of office and showroom letting, investment as well as residential and private real estate. In addition to all of the above, we offer extensive market research services.

IMMORAUM GmbH Real Estate Advisors

Immoraum GmbH Real Estate Advisors was founded in 2012 and has developed into a leading service provider on the commercial real estate market in Stuttgart. The philosophy of the four founders was to create a real estate consulting company with its own personality and the "extra" of service. Above-average commitment to each individual and his needs prompts our clients to enter into close business partnerships with us. We provide tailor-made solutions for the buying and selling process. Regardless of whether it is a question of market-oriented analyses, excellent preparation of documents, transparent or active approach to potential investors. Our highly qualified and motivated employees work in a team and draw on a wealth of experience and property-specific knowledge. Combined with local expertise, we offer high quality advice and meet the highest standards in both sales and letting.

Larbig & Mortag Immobilien GmbH

Our real estate consultancy work covers the entire value chain of a commercial property in the office lettings segment, commercial investment and retail lettings in secondary locations. Our services extend from market analysis and property valuation through to marketing concepts for existing buildings and new building projects (lettings and sales). Since 2008, our customers have been able to rely on our strengths including market penetration, innovative and targeted consulting, and long-term, personal support. Our structure as an owner-managed consultancy firm ensures that we are able to act locally and independently, and we are now one of the leading real estate consultancies in the Cologne/Bonn region. We have built up a broad knowledge base through the negotiation of over 1,300 lease contracts, and are more than happy to share this knowledge with our customers.

OBJEKTA Real Estate Solutions GmbH

We are one of the leading real estate service providers in the Stuttgart – Ulm – Augsburg and Lake Constance region with a registered office in Ulm and other branches in Stuttgart / Filder und Göppingen. Our philosophy: individual and performance-based strategies and concepts for owners, investors and users. Our highly qualified and multilingual team offers a mix of experience, market knowledge, creativity and innovative thinking and provides consultancy services in the areas of marketing, the development of building strategies, the optimisation of income, investment and property management.

STRATEGPRO Real Estate Solutions GmbH

We are an owner-managed company specialising in real estate consultancy and brokerage in the Rhine-Neckar metropolitan region. Our focus is on the marketing of commercial property. Our many years of experience on the Mannheim, Heidelberg and Ludwigshafen sub-markets have given us a deep knowledge of the market and a strong network of partners. With our assistance you gain a transparent overview of the market - one of the basic requirements for a correct and successful property strategy.
We take a holistic approach to property, putting the focus on you and the agreed strategy. We firmly believe in the statement that “only when the customer succeeds will we also succeed.”

VÖLCKERS & CIE Immobilien GmbH
Real Estate Advisors

For more than 20 years VÖLCKERS & CIE has operated as a reputable real estate agent in the office, retail, industrial and residential segments. As one of the largest owner-managed brokerage houses in Hamburg, we rely on our strengths and the values we have created. We always want to be a step ahead of our colleagues and competitors. An abiding interest in challenging tasks related to real estate brokerage continually spurs us on to new achievements.

WELCOME

Dear business partners and friends of NAI apollo,
My most esteemed readers,

For many years, the German real estate market has known only one direction, namely upwards. And 2018 proved to be no exception, even though the commercial property transaction volume was more in line with the previous year at about €60.8 billion. Germany has thus been able to maintain its leadership position in Europe. That in turn allows us to present some encouraging results in almost all areas of this study. Of course it is always particularly enjoyable to be able to report on such positive developments.

Germany is the safe haven of the European Union, and this position is important in a climate of rising populism, protectionism and economic isolationism. In this context, 2019 could prove to be a fateful year. How will Brexit affect the German real estate markets? In which direction will the trade dispute between the US, China and the EU develop? Will the change in president at the European Central Bank in the autumn bring about a reversal of the interest rate policy? Moreover, when will new construction activity really get underway to relieve the tense situation on Germany's property markets?

We probably won't be able to answer all of these questions before the end of the year. However, one thing is already clear: NAI apollo is well prepared to meet all challenges. In 2018, we made use of our time to recruit new partners in important regions of Germany, thereby creating real benefit for our clients. We also successfully completed 71 joint projects involving at least two partners of the NAI apollo group.

This also proves that NAI apollo need not shy away from competing with other market players. Even in times of growth, we have maintained our structure as a network of entrepreneurs. Our clients are always in contact with the partners and managing directors of our group. This top-level support provided by NAI apollo is no longer a secret but rather a guarantee for the success of our company. Our promise to you is that this will remain the case in 2019.

In times of historically high demand and a consistent shortage of space, our team of more than 200 dedicated real estate experts from the NAI apollo group stands ready to offer the best possible services from a single source. Where others see problems, we find solutions. This year, allow us once again to support you as you expand your business, implement joint projects and find suitable spaces for all your needs. That is our core business.

With best regards,

Andreas Wende FRICS
Managing Partner
apollo real estate GmbH & Co. KG

Dr. Marcel Crommen
Managing Partner
apollo real estate GmbH & Co. KG

FACTS & FIGURES

	Berlin	Hamburg	Munich	Frankfurt	Stuttgart	Dusseldorf	Cologne	Bonn	Ulm	Dortmund	Essen	Mannheim	Heidelberg
Popuplation (31.12.2016)	3,574,830	1,810,438	1,464,301	736,414	628,032	613,230	1,075,935	322,125	123,953	585,813	583,084	304,781	159,914
Change Y-o-Y (in %)	+1.6	+1.3	+1.0	+0.5	+0.7	+0.2	+1.4	+1.0	+1.1	-0.1	+0.1	-0.3	+2.3
Purchasing Power Index (Ø Germany = 100) (2018)	91.5	109.8	134.8	114.2	112.5	117.7	106.5	110.8	109.6	91.7	97.2	98.6	97.5
Change Y-o-Y (in Points)	-0.2	+0.4	-0.7	-0.6	+0.7	-1.0	-1.6	-0.8	+1.5	-0.7	-1.0	+1.0	+0.7
Unemployment Rate (01/2019)	8.1	6.3	3.8	5.2	4.1	6.8	7.8	6.4	3.4	10.3	10.6	5.0	3.9
Change Y-o-Y (in %-Points)	-0.7	-0.5	-0.5	-0.7	-0.5	-0.4	-0.6	-0.5	-0.2	-0.4	-0.6	-0.2	-0.4
Employees subject to Social Insurance Contributions (06/2018)	1,476,248	974,482	874,099	584,220	416,667	419,244	568,635	176,689	94,611	239,745	246,196	189,940	93,301
Change Y-o-Y (in %)	+4.5	+3.0	+2.7	+1.8	+1.3	+1.3	+1.7	+0.5	+0.3	+0.7	+0.7	+0.6	+0.3

Source: Federal Employment Office, GfK GeoMarketing GmbH, State Statistical Offices, NAI apollo group

Economy & Population

The German economy remains in robust form. Although the steady rise in economic growth that was registered before the summer tapered off somewhat in the second half of 2018, a severe downturn is not expected in 2019. Instead, the economy will continue to grow but at a more moderate pace. According to the Federal Statistical Office the actual GDP increased by 1.5 % in 2018, compared to the previous year, following adjustments for seasonal and calendar factors. This was also the ninth consecutive year of growth. Domestic consumption remains the mainstay of economic development. Private consumer spending increased by 1.0 % when adjusted for prices, while gross capital investments grew by 3.0 %.

According to the most recent government forecasts, the economy will continue to grow over the next two years but at a more moderate rate. GDP is expected to rise by 1.0 % in 2019 and by 1.6 % in 2020.

The employment market has also continued to benefit from the strong economy. The number of employees subject to social security contributions increased to 33,496 according to preliminary figures from the Federal Labour Office. That means the number of employees has reached an all-time high.

Consequently, the number of unemployed people in Germany stood at 2.405 million in January 2019, representing a decline of about 165,000 compared to the previous year. This corresponds to an unemployment rate of 5.3 %, which has fallen by a further 0.5 %-points.

Employment has also continued to rise in the 13 cities included in this study. According to the latest update on 30 June 2018, the number of employees increased by between 0.3 % in Ulm and Heidelberg and 4.5 % in Berlin. The unemployment rate has fallen by between 0.2 %-points in Ulm and Mannheim and 0.7 %-points in Berlin and Frankfurt.

Office Property Market in 2018

	Berlin	Hamburg	Munich	Frankfurt	Stuttgart	Dusseldorf	Cologne	Bonn	Ulm	Dortmund	Essen	Mannheim	Heidelberg
Office Stock (in sqm)	18,620,000	13,750,000	20,280,000	11,346,000	7,850,000	7,510,000	8,004,000	3,869,000	860,000	3,011,000	3,202,000	2,068,000	982,000
Change Y-o-Y	↗	↗	↗	↘	↗	↗	↗	↗	↗	↗	↗	↗	↗
Take-Up (in sqm)	851,000	568,000	980,000	622,100	216,000	329,000	283,000	124,300	14,700	79,500	155,500	68,000	35,000
Change Y-o-Y	↘	↘	↗	↘	↘	↘	↘	↗	↘	↘	↗	↘	↘
Prime Rent (in €/sqm)	35.50	27.30	38.00	43.20	23.00	27.50	23.10	23.33	18.00	14.50	15.00	18.00	15.50
Change Y-o-Y	↗	↗	↗	↗	↘	↗	↗	↗	↗	↗	↗	↗	↘
Average Rent (in €/sqm)	21.40	15.90	18.70	21.70	13.90	16.06	13.21	12.40	10.80	10.06	11.32	12.90	12.60
Change Y-o-Y	↗	↗	↗	↗	↗	↗	↗	↗	↗	↗	↗	↗	↗
Vacancy Rate	1.5	3.8	2.1	6.5	2.4	7.2	3.2	1.6	3.9	2.2	4.2	3.9	2.8
Change Y-o-Y	↘	↘	↘	↘	↗	↘	↘	↘	↘	↘	↘	↘	↘
Prime Yield (in %)	2.80	3.00	2.85	3.05	3.30	3.20	3.40	4.10	4.70	4.50	4.45	4.25	4.50
Change Y-o-Y	↘	↘	↘	↘	↘	↘	↘	↘	↘	↘	↘	↘	↘
Transaction Volume Office (in m €)	3,970	2,370	4,280	8,990	1,250	2,590	720	n/a	n/a	Ruhr area 1,360		n/a	n/a
Change Y-o-Y	↘	↗	↗	↗	↗	↗	↘	n/a	n/a	↗		n/a	n/a

Source: NAI apollo group

NAI apollo group

OFFICE INVESTMENT GERMANY

The investment market for office real estate ended 2018 almost with a record-breaking transaction volume of €30.11 billion, so that the figure was only marginally below the previous all-time high achieved in 2007. Thus, the 2018 volume was significantly higher compared to both the previous year's result (€27.66 billion, an increase of 8.9 %) and the mid-term average (€25.27 billion; +19.1 %). This positive performance was primarily owing to major single asset transactions in the top-5-cities. Transactions here amounted to €22.20 billion and accounted for 73.7 % of the total office property investment volume.

In terms of single asset transactions, the already very high transaction volume of 2017 increased by a further 13.0 % to reach €25.87 billion in 2018. In contrast, portfolio deals fell by 10.9 % to €4.24 billion, although this can also be described as a high value from a long-term perspective.

German investors took centre stage on the German office investment market, increasing their invested capital by almost 20 % to €18.39 billion. Foreign players reduced their transaction volume by about 5 % to €11.72 billion. The main foreign investment nations included the United States, South Korea and the UK.

In terms of the different types of investors, both "asset managers / fund managers" (€11.36 billion) and "open-ended funds / special funds" (€7.83 billion) invested significantly more in office properties compared to the previous year. Investments by "listed property companies / REITs" (€2.87 billion) were at broadly the same level as the year before.

The largest deals of the year included the sale of the project "Omniturm" for approx. €612 million to an open-ended fund of Commerz Real called HausInvest; the acquisition of "Trianon" for approx. €670 million by Igis Asset Management; and the purchase of "Eurotower" by Fubon Life for about €530 million. All three properties are located in Frankfurt, ensuring that the banking metropolis on the river Main is now positioned as the strongest office property market with €8.99 billion or almost 30 % of the total German investment volume. At the same time, three-digit-million office property deals took place in other top-5-cities. For example, the "Oskar" building in Munich changed hands for about €390 million; the "Olympus Campus" in Hamburg was sold for an estimated €250 million; the "Zalando Campus" in Berlin changed hands for approx. €235 million; and the "Metro HQ" in Dusseldorf had a price tag of about €270 million.

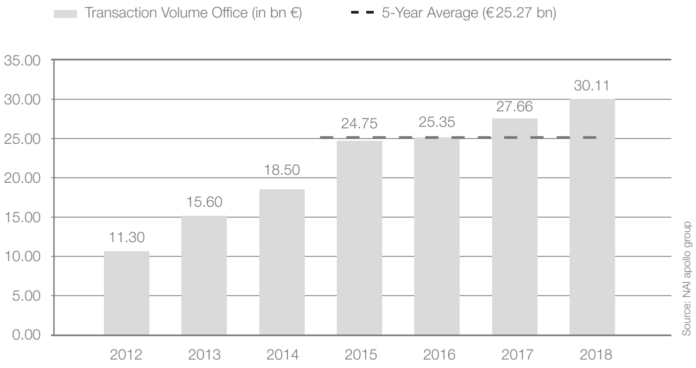
The high demand for German commercial real estate caused a further decline in prime yields for office property in the fourth quarter of 2018. The average yield for the top-5 markets fell by eight basis points compared to the previous quarter.

Dusseldorf (3.20 %) and Frankfurt (3.05 %) registered the biggest declines of 15 and 10 basis points respectively. In Berlin (2.80 %), Munich (2.85 %) and Hamburg (3.00 %) the prime yields each fell by a further 0.05 %-points.

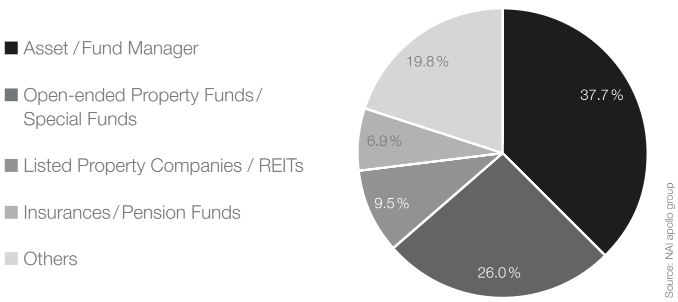
The office lettings market will continue to be influenced by insufficient completions accompanied by strong demand in 2019. Rental prices will therefore be going in only one direction: upwards. This means that office property will remain a favourite with investors.

Given the current market conditions, the office investment market is again expected to deliver an outstanding performance in 2019, with a result that will be well above average. Therefore the office transaction volume is expected to be in the range of €27 billion to €31 billion in 2019 as a whole.

Office Transaction Volume in Germany



Office Transaction Volume by Investor Type 2018



OFFICE TENANTS AND OWNER-OCCUPIERS IN GERMANY

During 2018, the German market for office space underperformed slightly compared to the very strong period in the previous year. Total space take-up by tenants and owner-occupiers in the cities covered by this report amounted to 4.33 million sqm. Although the figure was 5.9 % below the outstanding result of the previous year, it was 5.1 % above the long-term average. Within the top-7 cities (Berlin, Hamburg, Munich, Frankfurt am Main, Cologne, Dusseldorf and Stuttgart), the growing shortage of space was evident from the weaker take-up performance. Here, the volume was 7.0 % below the year ago level at 3.85 million sqm. In contrast, the other six cities (Bonn, Essen, Dortmund, Mannheim, Heidelberg and Ulm) in total experienced a 4.0 % increase in space take-up to a total of 477,000 sqm in 2018.

Particularly strong changes in take-up compared to the previous year — both negative and positive —were recorded in the cities outside the top-7. In Bonn, take-up grew by 26.2 % to 124,300 sqm, closely followed by Essen with a rise of 25.4 % to 155,500 sqm. Both Heidelberg and Mannheim registered significant declines, however.

Munich remains the largest office property market in this report with office stock of 20.28 million sqm. Berlin was in second place (18.62 million sqm), followed by Hamburg (13.75 million sqm), Frankfurt (11.35 million sqm), Cologne (8.00 million sqm), Stuttgart (7.85 million sqm) and Dusseldorf (7.51 million sqm). The total stock of the Ruhr cities Essen and Dortmund amounts to about 6.21 million sqm, while Bonn possesses 3.87 million sqm, Mannheim and Heidelberg (Rhine-Neckar) 3.05 million sqm and Ulm 0.86 million sqm.

The well-entrenched trend of falling vacancies also continued in 2018. In the 13 markets, only 3.35 million sqm was available at short notice by end-2018, which was a fifth below the year ago level. Vacancies declined in all cities with the exception of Stuttgart, and the percentage reduction in space availability outside the top-7 accelerated to minus 30.4 % compared to the previous year. In Bonn, Essen, Dortmund, Mannheim, Heidelberg and Ulm, only about 404,000 sqm of office space is still available. Vacancies fell by 18.6 % in the top-7, to 2.95 million sqm.

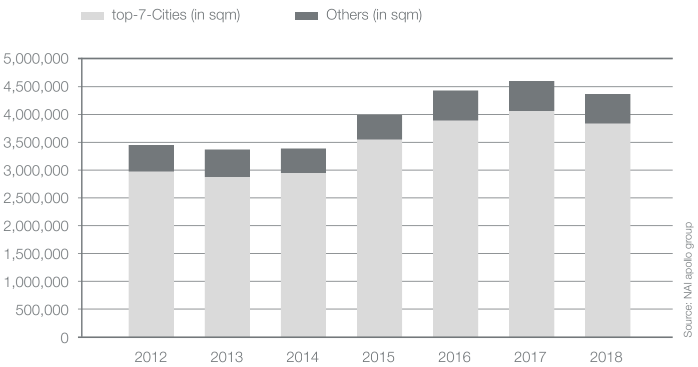
Among the individual cities, Frankfurt again possessed the highest level of vacancies at 743,000 sqm, even though the decline in vacancies accelerated considerably here. In addition, Bonn, Dortmund, Essen, Berlin and Munich recorded hefty reductions in available space by almost 30 % or above in some cases.

Much of the market continues to experience brisk demand that is now often inhibited by the, at times, pronounced shortage of space. Although the projected volumes have increased in many locations, the arrival of new space will only ease the situation on the supply side in the medium term because of the high pre-letting quotas.

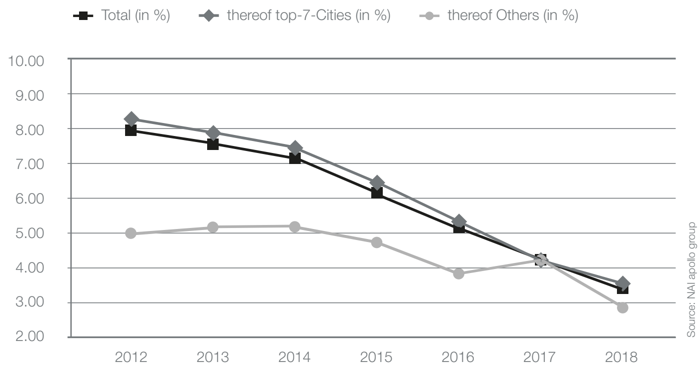
Accordingly, office space take-up in all office markets is expected to be more in line with the medium term average in 2019. New record results will be the exception rather than the rule.

Frankfurt and Dusseldorf offer the greatest potential to achieve above-average space take-up. In contrast, Berlin, Bonn, Dortmund and Heidelberg are virtually fully occupied, so take-up is expected to remain at a more moderate level.

Space take-up in Partner Cities



Vacancy Rates in Partner Cities



BERLIN

OFFICE INVESTMENT BERLIN

Transaction volume & yield

The Berlin office investment market maintained its strong momentum in 2018 and registered the second-highest result ever achieved following the previous year's record. The total transaction volume amounted to €3.97 billion, which is almost a fifth higher than the average for the past five years. Only the absence of megadeals above €500 million prevented a new record from being attained.

The German capital, which has been of interest to investors for some time, is experiencing an unbroken run on the office asset class as a result of the office market's extremely good performance. Thus, the office prime yield fell by a further 10 basis points during 2018 to reach 2.80 %, signalling that Berlin is the most sought-after office investment market in Germany.

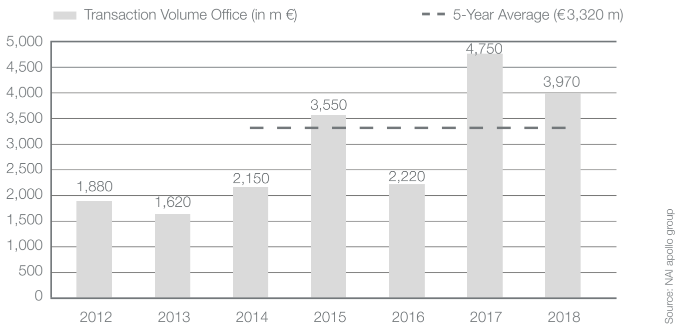
Investor type and origin

Owing to the absence of office transactions above €500 million in 2018, the average size of deals fell from close to €90 million in the previous year to about €70 million. With a share of about 86.3 %, most transaction activity took place in the "€50m<€500m" segment and thereby also in the institutional field. Thus, "asset / fund managers" and "open-ended funds / special funds" dominated the market with shares of 32.8 % and 29.5 % respectively. They are followed by seven other types of investors that each invested triple-digit-million sums.

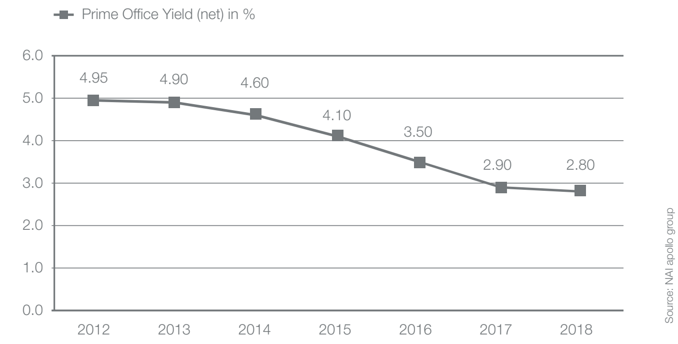
Foreign players accounted for the lion's share of the office investment market in 2018 with a volume of approx. €2.18 billion (54.8 % market share). The most active investors originated from Luxembourg, France, South Korea, and the United States.

The key figures of the Berlin office lettings market still argue in favour of the city as an office investment destination, supported by the continuously high demand. An above-average investment volume in excess of €3 billion can therefore also be predicted for 2019.

Transaction Volume



Prime Yield



Top 3 Transactions

1. Up! acquired by DWS for approx. €335,000,000
2. Mosse-Palais acquired by BMO Real Estate Partners for approx. €300,000,000
3. Zalando-Campus acquired by Hines for approx. €235,000,000

OFFICE LETTINGS & OWNER-OCCUPIERS BERLIN

Space take-up

The Berlin market for office space continued to experience a high level of market activity in 2018. Space take-up by tenants and owner-occupiers reached 851,000 sqm in the full year. Although the result was 8.7 % below the record figure of the previous year, take-up in 2018 was still above 800,000 sqm and therefore represented one of the best annual results. The fourth quarter made a strong contribution here as it accounted for 273,000 sqm or almost a third of total annual take-up.

Although eight deals for spaces larger than 10,000 sqm were completed in 2018, extremely large contracts for above 30,000 sqm were absent from the market. Vattenfall was responsible for the largest deal as it signed a lease contract for 29,000 sqm of office space at 55-60, Sachsendamm. In addition, BImA leased about 15,000 sqm and DIN e.V. approx. 14,000 sqm. In terms of the different industries, companies from the “communications & IT” sector accounted for the largest shares of take-up.

When it comes to location, the highest proportion of take-up was realised in areas on the edge of the city because of the almost complete lack of available space in central sub-markets.

Supply and demand

Vacancies fell further in 2018 owing to current market developments. At the end of December 2018, the vacancy rate stood at only 1.5 % after falling by 60 basis points over the previous 12 months. Central areas are essentially at full occupancy.

Even though the project development volume has increased to well above 1 million sqm in the period to 2020, only almost a third of this space is still freely available. Thus, no relief can be expected on the supply side on account of the strong demand.

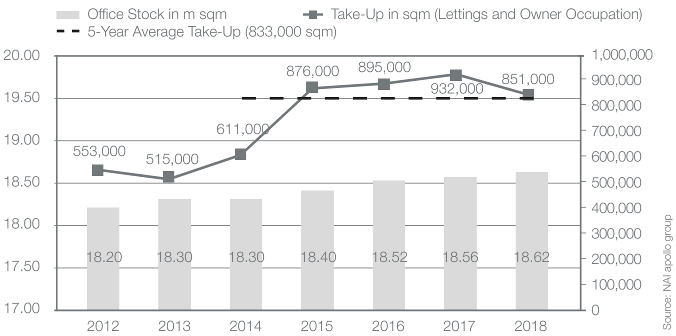
Rents

The shortage of available space combined with extremely high demand drove a sharp rise in rental prices in all sub-markets of Berlin. Therefore, the prime rent increased by 14.5 % year-on-year to €35.50/sqm, while the average rent rose by 11.5 % to €21.40/sqm by the end of the fourth quarter. Rental prices are set to experience further growth in 2019.

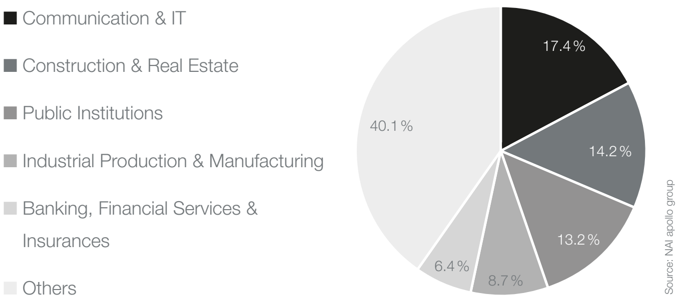
Outlook

The booming German capital continues to attract interest from users. The biggest obstacle to further growth on the office market is the lack of office space that is available at short notice. However, take-up activity will remain buoyant given the expanding project pipeline and the volume is again expected to be in the 800,000-sqm range in 2019.

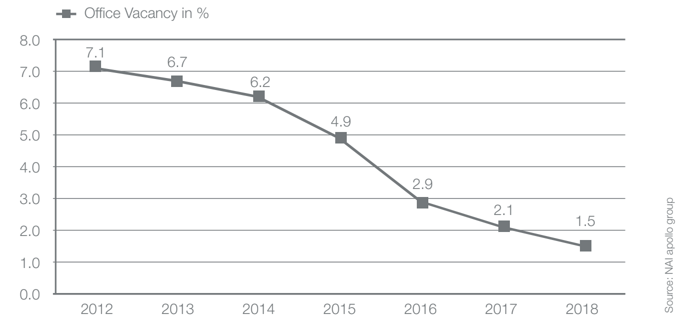
Office Stock & Take-Up



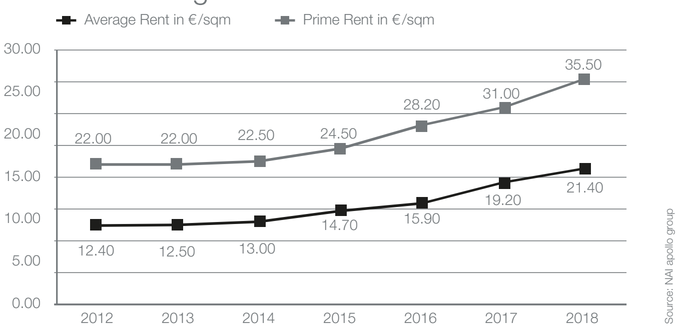
Take-Up by Industry



Vacancy Rate



Prime- & Average Rent



Top 3 Take-Up

1. 55-60, Sachsendamm by Vallenfall for 29,000 sqm
2. 126-134, Ringbahnstraße by Landeskriminalamt for 26,000 sqm
3. Spreestern, 27-30, Englische Straße by BIMA Bundesanstalt für Immobilienaufgaben for 15.000 m²

HAMBURG

OFFICE INVESTMENT HAMBURG

Transaction volume & yield

The Hamburg office investment market experienced brisk demand from investors in 2018 and ended the year with an above-average result that is still only the third-highest figure since records began. The total transaction volume amounted to €2.37 billion, which is almost a fifth higher than the previous year's figure. This positive performance was largely owing to the particularly strong increase in transactions in the "€100m<€500m" category. Deals worth noting here included the acquisition of the Olympus Campus by Ärzteversorgung Westfalen-Lippe (medical care association for Westphalia-Lippe) and Hines for approx. €250 million. The active demand for Hamburg office property also pushed down the prime yield by five basis points to 3.00 % in the fourth quarter of 2018,

Investor type and origin

German investors again accounted for the bulk of office investment activity in Hamburg, with a market share in 2018 of 75.8 %. In the previous year, the share of domestic players was still only 66.4 %. The principal foreign investor markets were the United States, France and the UK.

In terms of the different investor groups, "asset / fund managers" were in a dominant position with a market share of almost 60 %. The group's invested volume was slightly higher than in the previous year at €1.41 billion. Next in line were "insurances / pension funds", "open-ended funds / special funds" and "listed property companies / REITs". Owing to a larger number of deals in the "€100m<€500m" cluster (48.5 % market share), the average transaction size increased slightly from about €42 million in 2017 to almost €47 million in 2018.

The office investment market in Hamburg will continue to be influenced by high demand in 2019, underlined by the positive fundamental data. Depending on space availability, the transaction volume is again expected to exceed €2.0 billion.

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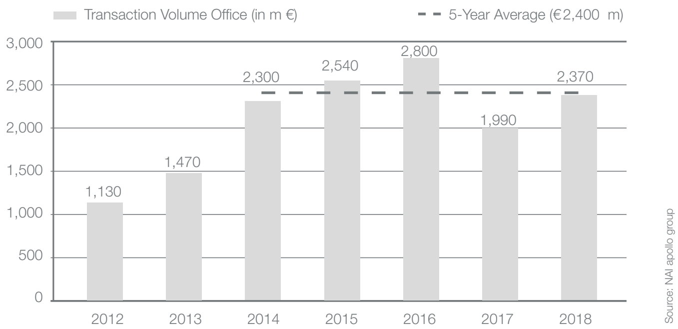
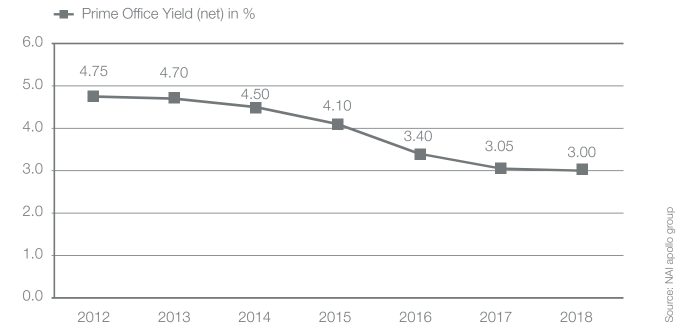
Transaction Volume



Prime Yield



Top 3 Transactions

1. Olympus Campus by Ärzteversorgung Westfalen-Lippe and Hines for approx. €260,000,000
2. Sumatrakontor by Real I.S. for approx. €180,000,000
3. Poseidonhaus by Arax Properties for approx. €110,000,000

OFFICE LETTINGS & OWNER-OCCUPIERS HAMBURG

Space take-up

The Hamburg market for office space experienced a positive year in 2018. Although space take-up of 568,000 sqm by tenants and owner-occupiers did not represent a new record, it was still the third-highest result of all time and 10.7 % above the ten-year average. A much higher result would have been possible were it not for the shortage of space. There was a sharp rise in lease renewals because of the lack of alternative options.

The positive annual result was partly owing to the completion of 15 deals above 5,000 sqm, which accounted for about 28 % of the overall market activity. As a result of the reduction in available space, deals with particularly large, connected spaces are increasingly taking place in project developments. The biggest deals in 2018 included the start of contruction work on the owner-occupier project of Beiersdorf AG with approx. 45,000 sqm of office space, the rental of about 13,800 sqm by Postbank in the “Ipanema” project (28, Überseering) and the lease signed by akquinet for 12,000 sqm in the “Bramfelder Spitze” project (106-112, Bramfelder Chaussee).

Although available space has fallen significantly in the City, this sub-market continues to dominate take-up activity. Around 120,000 sqm was registered here, partly owing to the leases signed by WeWork at 1-3, Gerhofstraße (5,100 sqm) and by Facebook for a space at 13, Schopenstehl (4,200 sqm).

Supply and demand

The positive market development has caused a further reduction in available space in Hamburg. At the end of 2018, the vacancy rate stood at just 3.8 %. The rate has therefore fallen by a further 0.6 %-points over the past 12 months. Developers have recently increased their building activity, but this will not ease the supply situation in the next two years. That is because over 60 % of the 300,000 sqm of planned office space has already been let.

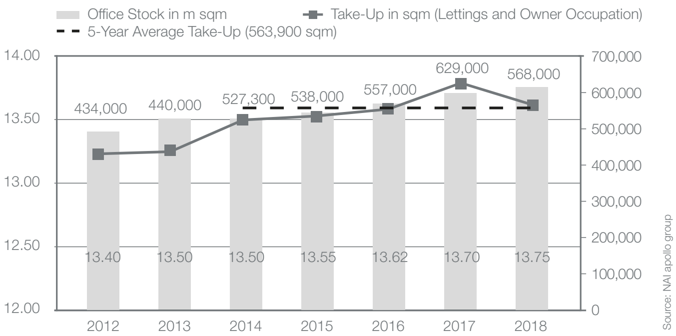
Rents

The prime rent rose to €27.30/sqm as a consequence of the reduction in available space accompanied by strong demand, as well as the signing of lease contracts in high-priced project developments. Compared to the previous year, the rate has risen by 3.0 %. The average rent stood at €15.90/sqm by the end of 2018, following an increase of 5.3 % over the year.

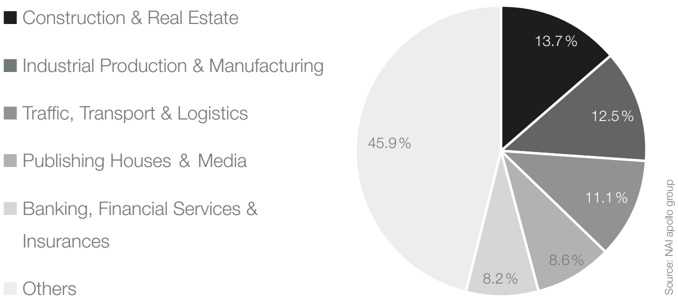
Outlook

The continuously strong demand in Hamburg is primarily inhibited by the shrinking supply of office space. Rentals in project developments will rise as a result, especially now that development activity is picking up. Thus, take-up in the range of 500,000 sqm is regarded as a realistic forecast for 2019.

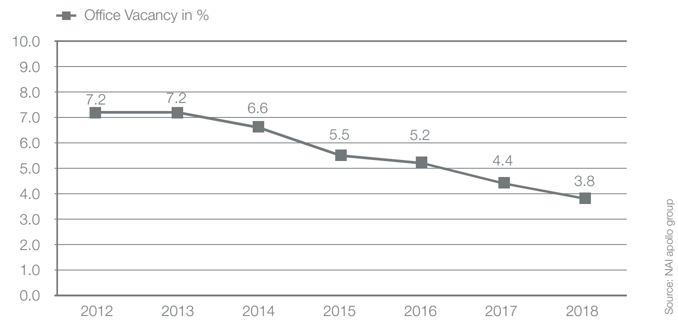
Office Stock & Take-Up



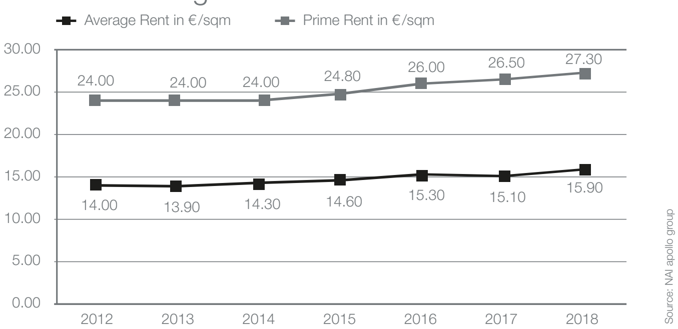
Take-Up by Industry



Vacancy Rate



Prime- & Average Rent



Top 3 Take-Up

1. Troplowitzstraße by Beiersdorf AG for 45,000 sqm
2. Ipanema, 28, Überseering by Postbank for 13,800 sqm
3. 106-112, Bramfelder Chaussee by akquinet AG for 12,000 sqm

MUNICH

OFFICE INVESTMENT MUNICH

Transaction volume & yield

The Munich office investment market experienced an extremely high level of activity over the past 12 months, and ended 2018 with an above-average transaction volume. A total of €4.28 billion was invested in office properties, which was 7.6 % higher than the average for the past ten years and as much as 22.6 % above the previous year's level. The high number of deals in the "€100m<€500m" segment made a particularly strong contribution to the overall result, accounting for about two thirds of the invested capital. The biggest office transactions included the sale of "Oskar" for approx. €390 million to Swiss Life.

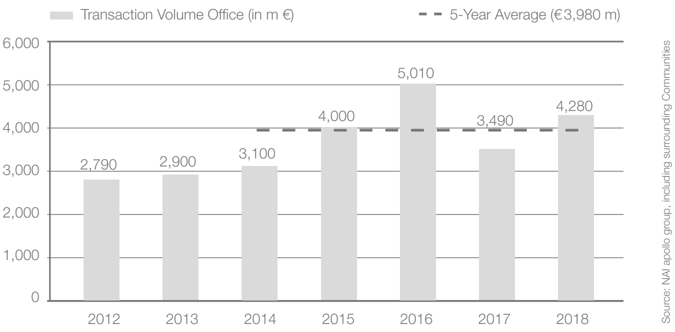
The fully occupied Munich office lettings market, with its continuously rising rental prices and relentless demand for space, is one of the most attractive office markets for investors in Germany. It is therefore of little surprise that strong investor demand is driving up sales prices to even greater heights. The prime yield fell by a further 20 basis points over the year to 2.85 %.

Investor type and origin

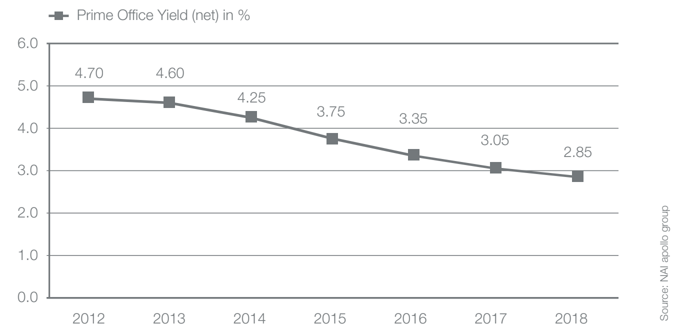
Most of the demand still comes from within Germany, which accounts for 55.2 % of the invested office transaction volume in 2018. It was followed by the United States, South Korea and the UK with investments in the three-digit-million range. With regard to the different types of investors, "asset / fund managers" and "open-ended funds / special funds" were responsible for the biggest shares of take-up at 36.3 % and 25.8 % respectively.

The Munich office market is also unlikely to experience any relief on the supply side in 2019. As a result, it will the lettings market will also be influenced by potential rent increases in the medium term. In addition, the absence of alternative investment opportunities and the intense interest of investors will continue to have repercussions for the Munich investment market. Taking all this into account, an office transaction volume of about €4.0 billion can be expected for 2019.

Transaction Volume



Prime Yield



Top 3 Transactions

1. Oskar by Swiss Life Asset Managers and Universal-Investment for approx. €390,000,000
2. Correo Quartier by Credit Suisse for approx. €275,000,000
3. aviva Munich by Korea Investment Corporation for approx. €245,000,000

OFFICE LETTINGS & OWNER-OCCUPIERS MUNICH

Space take-up

The Munich market for office space continued the previous year's positive development in 2018, achieving a new record take-up volume. Take-up by tenants and owner-occupiers amounted to 980,000 sqm. Although this was only 3,000 sqm (0.3 %) above the previous year's level, the volume exceeded the five-year average by 18.4 %. The fourth quarter contributed 288,000 sqm and thus almost a third of take-up to the very good overall result.
The new record figure was largely owing to the positive lettings performance. As a result, the owner-occupier share fell significantly compared to the previous year. Close to three dozen large lettings above 5,000 sqm accounted for almost 40 % of space take-up. The largest leases signed in 2018 also represent the biggest deals of the past 10 years. For example, Wirecard rented 40,500 sqm at 30, Einsteinring in Aschheim, while Serviceplan intends to move into a 38,500 sqm office space in "Alpha Beta Gamma" on Friedenstraße in Munich. In view of these contract signings, the biggest demand came from the "communication & IT" sector with around a 20 % share. In terms of the various sub-markets, the central locations still accounted for the majority of market activity. Almost a third of total take-up here is realised in project developments.

Supply and demand

Vacancies continued to fall in 2018, maintaining a longstanding trend. Within the last 12 months, the vacancy rate fell to 2.1 % thus dropping below 3 % for the first time. Compared to the previous year, this represents a decline of 0.9 %-points. The central locations of the city are now at full occupancy. The tense situation on the supply side is not expected to ease any time soon. Of the 450,000 sqm of projected building space, less than 15 % is currently still available. It will not be until 2020/2021 at the earliest that the supply situation will experience some relief, as around 850,000 sqm is expected to be completed at that time. Here, the pre-letting quota currently stands at well below 30 %.

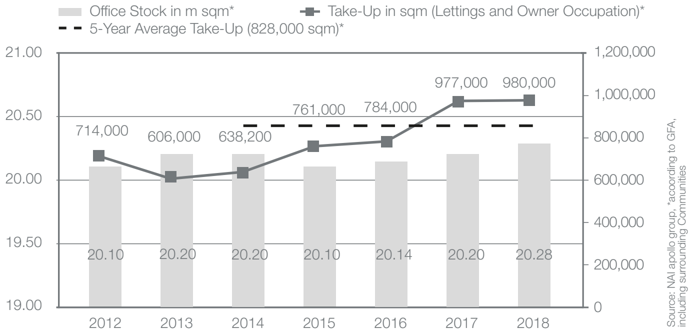
Rents

The shortage of available space was evident from the significant increase in rental prices in 2018. The average rent stood at €18.70/sqm by the end of the year, a rise of 9.4 % compared to the previous year. The prime rent increased by 4.1 % year-on-year to €38.00/sqm by the end of the fourth quarter. A further increase is also likely in 2019 given the current market conditions, especially as potential tenants are now engaging in bidding wars for the remaining space.

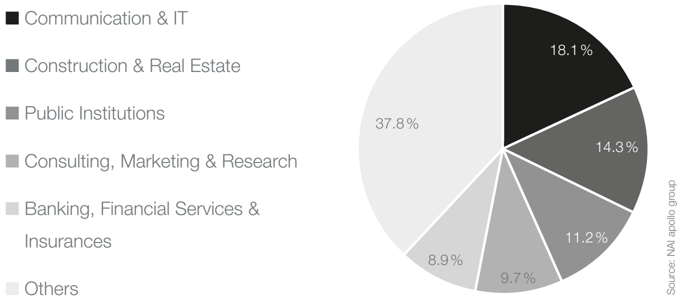
Outlook

Munich's positive market environment and economic development suggest that take-up activity will be extremely buoyant in 2019. The lack of available office space that meets user demands represents a limiting factor on the market. However, take-up is expected to be above 800,000 sqm in 2019.

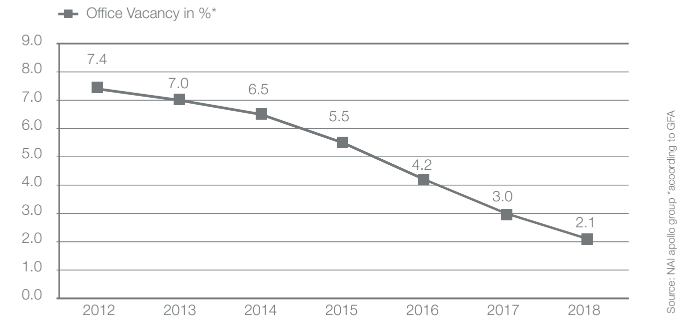
Office Stock & Take-Up



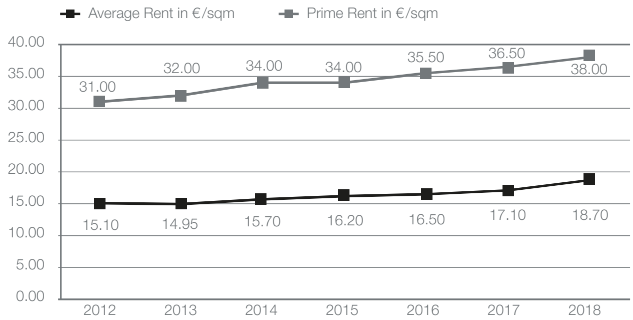
Take-Up by Industry



Vacancy Rate



Prime- & Average Rent



Top 3 Take-Up

1. Campus One, 30, Einsteinring by Wirecard AG for 40,500 sqm
2. iCampus, Friedenstraße by Serviceplan Gruppe für innovative Kommunikation for 38,500 sqm
3. Kustermann Park, 116-118, Rosenheimer Straße by City of Munich for 25,000 sqm

OFFICE INVESTMENT FRANKFURT

Transaction volume & yield

The Frankfurt office investment market was in top form in 2018 and achieved the highest transaction volume ever recorded by a single German city. The new record result amounted to €8.99 billion, which is almost both 60 % above the previous record in 2017 and the average result for the last five years. This extremely high level of investment activity was primarily owing to the completion of almost two dozen deals above €100 million. Such deals included the sale of the Omniturm for €612 million by Tishman Speyer to the HausInvest open-ended fund of Commerz Real.

The strong demand for Frankfurt office real estate was also evident from the further reduction in yields. The prime yield fell by 15 basis points during 2018 to 3.05 %, marking a new historic low for the city.

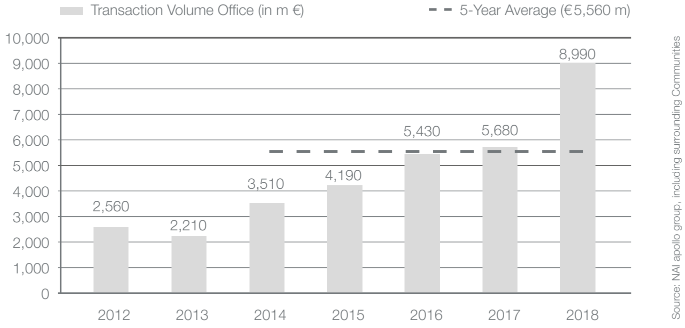
Investor type and origin

A broad range of investors targeted the Frankfurt office investment market in 2018. German investors accounted for 50.4 % of the transaction volume, but nine other countries invested three-digit-million sums in Frankfurt office property. As well as South Korea and Luxembourg, the United States, the UK and Taiwan particularly stood out here.

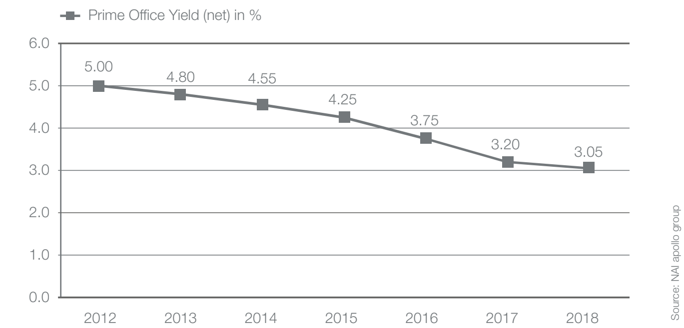
With regard to the different types of investors, four groups accounted for a combined 90 % of the volume. “Asset / fund managers” achieved a market share of 37.4 %, followed by “open-ended funds / special funds” (30.6 %), “listed property companies / REITs” (14.9 %) and “insurances / pension funds” (7.2 %).

Frankfurt will continue to be of strong interest to office investors in 2019. The investment market is again expected to be characterized by intensive activity in 2019. The investment volume will nevertheless fall far short of the exceptional result recorded in 2018, with an expected office transaction volume of between €5.0 billion and €6.0 billion.

Transaction Volume



Prime Yield



Top 3 Transactions

1. Trianon by Igis Asset Management for approx. €670,000,000
2. Omniturm by Commerz Real for approx. €612.000.000
3. Eurotower by Fubon Life for approx. €530,000,000

OFFICE LETTINGS & OWNER-OCCUPIERS FRANKFURT

Space take-up

The Frankfurt market for office space including Eschborn und Offenbach-Kaiserlei ended 2018 with a historically high take-up figure. Office space take-up in the year as a whole amounted to 622,100 sqm, which represents the second-highest result of the last 15 years after 2017. At the same time, take-up is more than 30 % above the long-term average.

The buoyancy of the Frankfurt office market is primarily owing to the strong interest in small rental spaces. The “<1,000 sqm” cluster experienced substantial growth compared to the previous year and accounts for 35.4 % of take-up. The biggest deals of the year included the contracts signed by Commerzbank for more than 36,100 sqm in the Cielo building at 100, Theodor-Heuss-Allee and by Frankfurter Allgemeine Zeitung in a project development at 92, Europa-Allee for more than 24,000 sqm. In addition, the rental of 9,200 sqm in the Global Tower by Spaces also counts as one of the larger deals. NAI apollo advised Spaces on the lease contract.

In terms of the industry ranking, “banking, financial services & insurances” remained in first place with 141,200 sqm or a 22.7 % market share. In terms of location, the Central Business District was the preferred area for companies and accounted for a 61.4 % share. The banking district and City West were the most popular sub-markets.

Supply and demand

The positive take-up activity accompanied by a moderate increase in stock brought about a decline in vacancies. At the end of 2018, vacancies on the Frankfurt office market amounted to only 743,000 sqm, falling to the lowest level since 2001. Accordingly, the vacancy rate fell by 2.1 %-points to 6.5 %. Office space completions in 2019 are expected to amount to 177,200 sqm, of which only a third is still available. Thus, it can be assumed that vacancies will continue to decline this year.

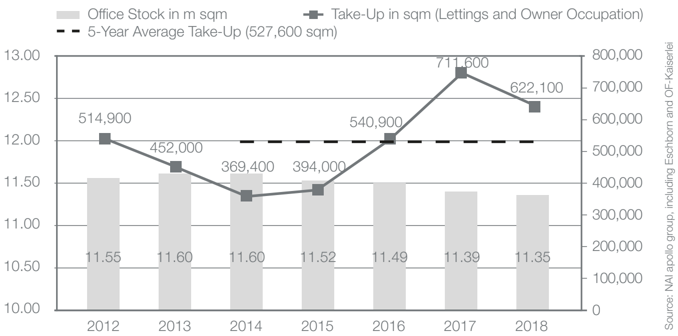
Rents

High-priced lettings in project developments pushed up rental prices significantly in 2018. Thus, at €43.20/sqm, the prime rent has now reached its highest level since 2001. Compared to the previous year, the prime rent increased by 7.2 %. In the same period, the average rent rose by 4.8 % to €21.70/sqm. This trend looks set to continue under the current market conditions.

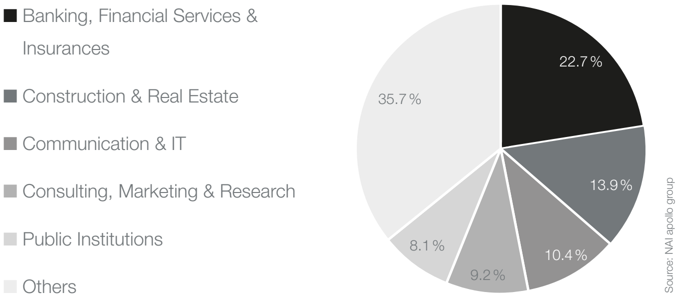
Outlook

The Frankfurt office market continues to register a high level of demand. In line with this trend, above-average space take-up of 550,000 to 600,000 sqm is expected for 2019. The market will continue to experience a further reduction in available space and rising rents.

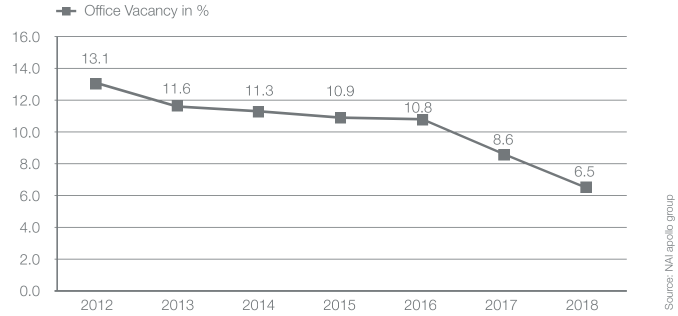
Office Stock & Take-Up



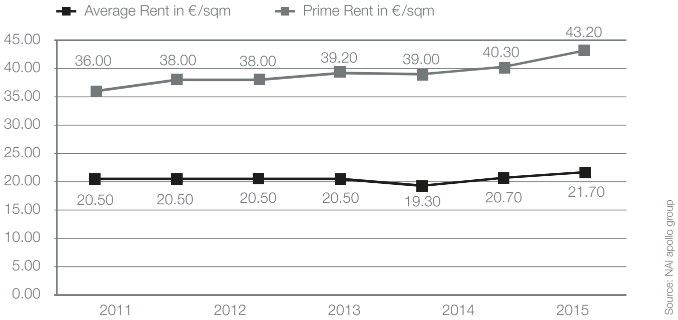
Take-Up by Industry



Vacancy Rate



Prime- & Average Rent



Top 3 Take-Up

1. Cielo, 100, Theodor-Heuss-Allee by Commerzbank for 36,100 sqm
2. 92, Europa-Allee by Frankfurter Allgemeine Zeitung for 24,000 sqm
3. Zebra, 91-93, Europa-Allee by Deloitte for 15,800 sqm

OFFICE INVESTMENT STUTTGART

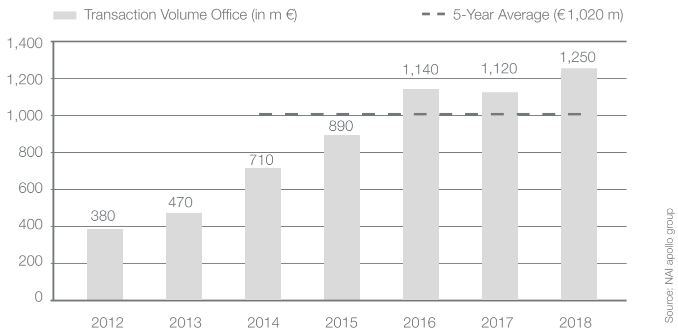
Transaction volume & yield

The Stuttgart office investment market was in excellent shape during 2018 and achieved a new record result. The total investment volume amounted to €1.25 billion. This not only exceeded the previous record result in 2016 by almost 10 % but was also more than a fifth higher than the medium-term average. This performance was largely owing to the two biggest deals of the year, which accounted for a combined 44.8 % share of the office transaction volume. On one hand, Hines acquired Allianz-Campus for approx. €340 million and on the other the HausInvest fund of Commerz Real bought Uhland Carré for approx. €220 million. The high demand for commercial real estate in Stuttgart was also apparent in the considerable yield reduction, in part also from foreign investors. In 2018, the prime yield for office property fell by 0.25 %-points to 3.30 %, which represents a new record.

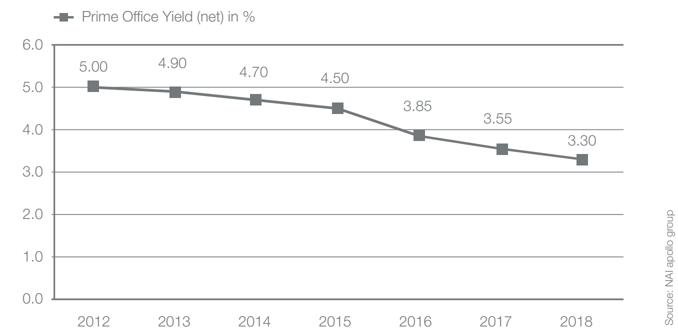
Investor type and origin

The Stuttgart investment market for office property is mostly in German hands. Domestic players account for a 61.9 % market share or €770 million, which equates to more than double the amount of the previous year. Among the foreign markets, investors from the United States particularly stood out. This is hardly surprising since a US investor was responsible for completing the largest deal. In addition, "asset / fund managers" and "open-ended funds / special funds" generated around three quarters of the investment activity with a combined volume of €0.95 billion.
The Stuttgart office market continues to attract the attention of office investors, and buyers will quickly pick up properties on the market. Ths office transaction volume is again expected to exceed €1.0 billion in 2019 based on the current market conditions.

Transaction Volume



Prime Yield



Top 3 Transactions

1. Allianz-Campus by Hines for approx. €340,000,000
2. Uhland Carré by Commerz Real for approx. €220,000,000
3. Bürocampus Wangen by Investcorp for approx. €80,000,000

OFFICE LETTINGS & OWNER-OCCUPIERS STUTTGART

Space take-up

The Stuttgart market for office space was characterised by a significant reduction in take-up activity during 2018. Take-up by tenants and owner-occupiers amounted to 216,000 sqm, which was 16.6 % below the previous year's level and also the lowest volume since 2012. The decline was not caused by a decrease in demand for space, but primarily by the shortage of available space. Almost a third of take-up took place in project developments.

Thus, the largest deal of the year was an owner-occupier project by Bosch in Stuttgart-Feuerbach with approx. 50,000 sqm. The state of Baden-Wurttemberg accounted for the second-largest deal, buying the Ledererbau with almost 11,000 sqm for its own use. The state was also responsible for the largest lease contract as it rented approx. 8,800 sqm in Fasanenweg in Leinfelden-Echterdingen.

The bigger deals also ensured that Feuerbach dominated the sub-market ranking with a 25 % share, putting it well ahead of City and Bad Canstatt. This is also expected to remain the case in the near future. Spaces larger than 2,500 sqm are primarily available in locations in outlying areas, also providing potential space for new developments. The larger deals also influenced the ranking by industry. Companies from the "industrial production and manufacturing industry" generated the largest percentage of space take-up in 2018 with a share of 40.6 %.

Supply and demand

Available space on the Stuttgart office market increased slightly during 2018, although it declined again in the second half of the year. The vacancy rate stood at 2.4 % by end-2018 rising 0.1 %-points above the year ago level. In central locations, large, continuous spaces are virtually absent from the market, and little relief is expected from the supply side for the time being. Of the more than 300,000 sqm of planned office space that is expected to come onto the market by end-2020, only just under a third is still available.

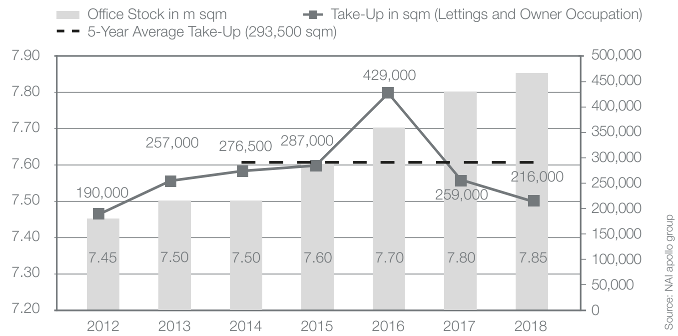
Rents

The shortage of high-priced space in central locations brought about a slight reduction in the prime rent in 2018. The rate fell 4.6 % from the previous year's level to €23.00/sqm. The average rent presented a different picture. As a result of a greater willingness to pay, the rate increased by 5.3 % and reached an unprecedented level of €13.90/sqm.

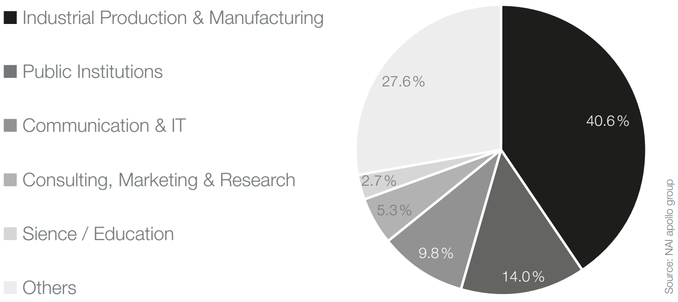
Outlook

In 2019 the market is very likely to perform in a similar vein to last year. The Stuttgart office market continues to experience strong demand, which is mainly met by new space in project developments or in outlying areas because office stock is in short supply. Thus, take-up in 2019 is expected to be in the range of 220,000 sqm.

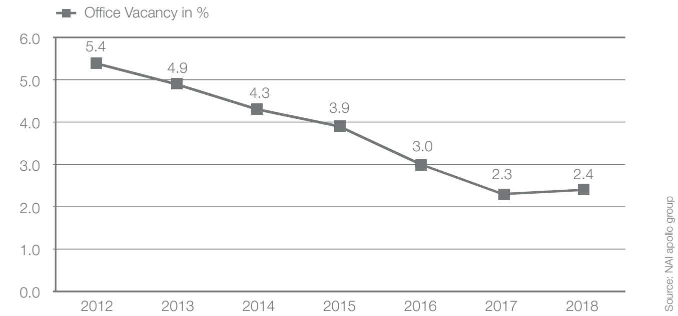
Office Stock & Take-Up



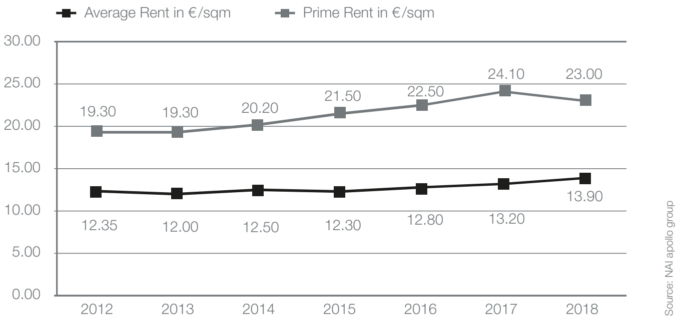
Take-Up by Industry



Vacancy Rate



Prime- & Average Rent



Top 3 Take-Up

1. Bregenzer-/Steiermärker Straße by Robert Bosch GmbH for 50,000 sqm
2. Kriegsbergstraße 32 by federal state of Baden-Wurttemberg for 10,800 sqm
3. Fasanenweg, Stuttgart by federal state of Baden-Wurttemberg for 8,800 sqm

DUSSELDORF

OFFICE INVESTMENT DUSSELDORF

Transaction volume & yield

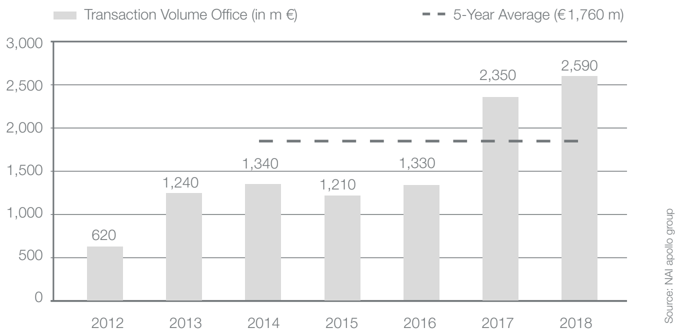
The Dusseldorf office investment market continued on its upward trajectory in 2018 and smashed the record result achieved in 2017. The new all-time high now stands at €2.59 billion, which is 10.2 % above the previous year's level and as much as 46.8 % higher than the mid-term average. A number of deals in the three-digit-million range made a significant contribution towards this development. As a consequence, the "€100m<€500m" category accounted for a market share of almost 42 %. Transactions that had a particular impact on the market included the sale of the Metro-Headquarters for €270 million to Arminius, the acquisition of the Stadttor by Deka-Fonds Westinvest Immovalue for approx. €205 million, and the sale of the IKB Headquarters for about €230 million to Cells Property Investors. The strong demand for Dusseldorf office property was also reflected by the prime yield, which declined by 0.40 %-points to 3.20 % over the past 12 months.

Investor type and origin

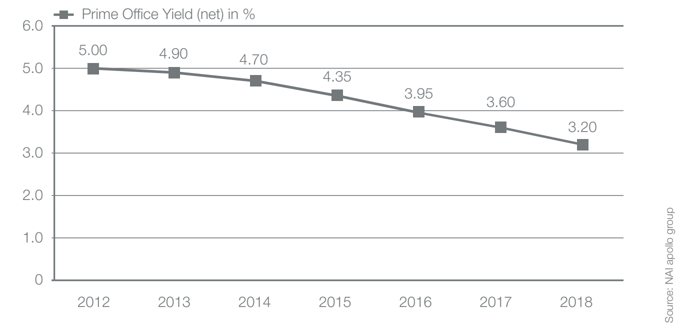
Domestic investors played the most significant role on the office investment market in Dusseldorf as they were not only responsible for 76 % or €1.96 billion of the total volume but also more than doubled their allocated capital. The main foreign players came from the UK, the United States and Luxembourg. In terms of the different types of investors, "open-ended funds / special funds" and "asset / fund managers" again accounted for the largest shares of the transaction volume at €0.98 billion (38.0 %) and €0.89 billion (34.5 %) respectively.

The Dusseldorf office market is in a very sound condition with rising rental prices, take-up, and a general decline in available space. Against this background, interest from international investors is expected to pick up again, along with the strong demand from domestic players. For 2019 as a whole, it is entirely realistic that the office investment volume will be above the long-term average.

Transaction Volume



Prime Yield



Top 3 Transactions

1. Metro HQ by Arminius for approx. €270,000,000
2. IKB HQ by Cells Property Investors for approx. €230,000,000
3. Stadttor by Deka Immobilien for approx. €205,000,000

OFFICE LETTINGS & OWNER-OCCUPIERS DUSSELDORF

Space take-up

The Dusseldorf office market remained relatively stable in 2018. Total office space take-up by tenants and owner-occupiers amounted to 329,000 sqm, which was broadly in line with the previous year's level (-4.5 %). The figure also exceeded the 10-year average by almost 14,000 sqm.

Although take-up was fairly evenly distributed among the different size categories, the 500 sqm to 2,000 sqm category accounted for the largest share with 109,000 sqm or 34.1 %. Five deals concerned spaces larger than 5,000 sqm, including the rental of 5,200 sqm by WTS Steuerberatungsgesellschaft in the "Shift" building. The company was advised on an exclusive basis by imovo.

Management consultancy Deloitte was responsible for the biggest lease contract in 2018 as it rented 35,500 sqm in the Heinrich Campus project development. Owing to this large deal, the "auditors & consulting" sector accounted for the highest share of take-up at 53,600 sqm. Also as a consequence of the two biggest deals, the largest proportion of take-up (28 %) took place in the North sub-market.

Supply and demand

Although take-up fell slightly, the availability of space also decreased. The vacancy rate stood at 7.3 % by the end of 2018, falling by 0.3 %-points over the past 12 months. Office space is expected to remain in short supply, especially since 60 % of projects that are due to come onto the market by end-2020 have already been let.

Rents

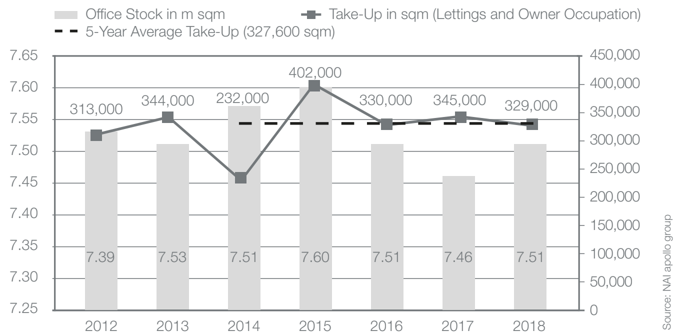
The prime rent in Dusseldorf increased by €0.50/sqm or 1.9 % to €27.50/sqm by end-2018, and remains at a high level. The average rent increased by a much higher rate of 13.1 % compared to the previous year, and currently stands at €16.06 sqm.

The signing of large, high-priced lease contracts primarily influenced this development. As space becomes increasingly scarce in central locations, it is possible that rents could rise further still.

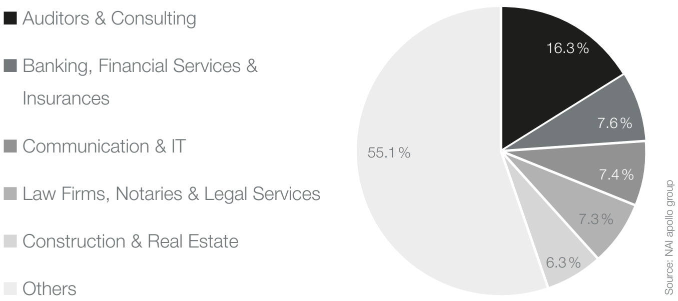
Outlook

The consistently high demand, as well as evidence that companies are on the search for large spaces, indicate that take-up on the Dusseldorf market is set to increase in 2019. Based on this assumption, it is regarded as extremely likely that annual take-up will amount to 350,000 sqm-400,000 sqm in the coming year.

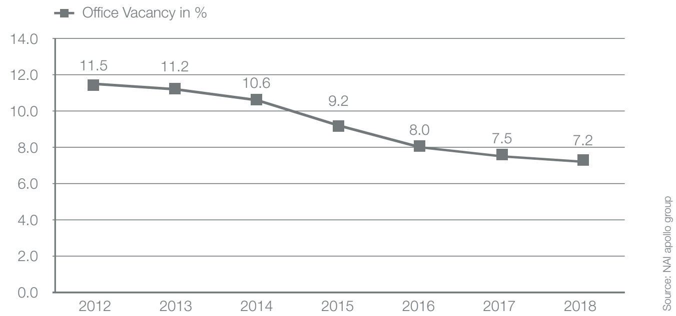
Office Stock & Take-Up



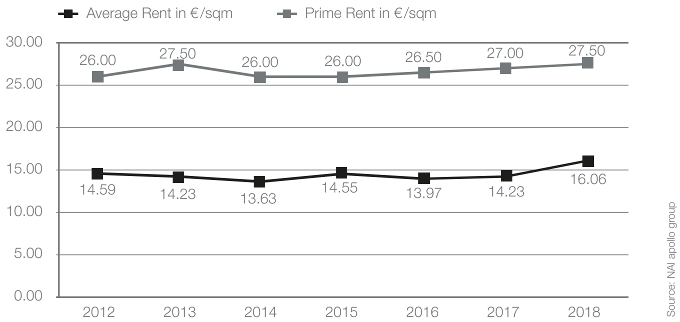
Take-Up by Industry



Vacancy Rate



Prime- & Average Rent



Top 3 Take-Up

1. Heinrich Campus, 61, Heinrich-Ehrhardt-Straße by Deloitte for 35,500 sqm
2. Herzogterrassen, 15, Herzogstraße by NRW.BANK for 7,000 sqm
3. ARCA-Haus, 17, Kennedydamm by Landesbetrieb Technologie und Information for 7,000 sqm

OFFICE INVESTMENT COLOGNE/BONN

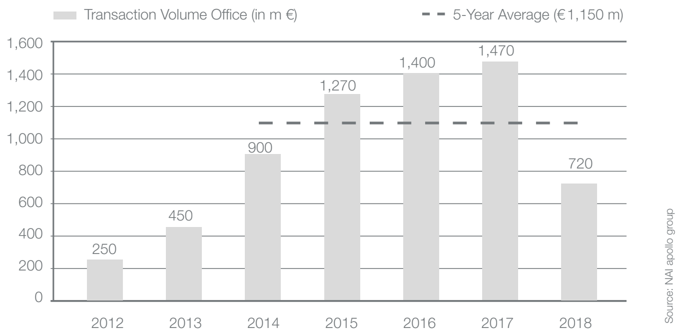
Transaction volume & yield

In 2018 the office investment market in Cologne was unable to repeat the record result of the previous year. Cologne office property was sold for a total amount of €720 million, which was more than 50 % below the year ago volume. The availability of tradeable investment products was reduced, and this proved to have a limiting effect on the market. Demand for investment products in Cologne remains at a high level.
Owing to the strong investor demand in Cologne, a further correction to the prime yield for top office properties was registered during 2018. Compared to 2017, the rate fell by an additional 10 basis points to 3.40 %.

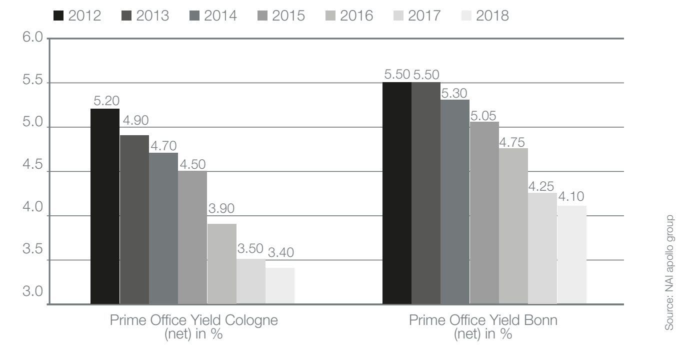
Investor type and origin

"Open-ended funds / special funds" represented the most active investor group in Cologne, followed by "project developers / contractors" and "private equity funds". At the same time, "open-ended funds / special funds" were also ranked on top on the seller side. "Asset / fund managers" and "private equity funds" were next in line.
International investors displayed a keen interest in Cologne commercial property, and the majority of the invested capital originated from abroad. On the seller side, there was a greater prevalence of domestic rather than foreign players. As a result, the proportion of foreign owners has increased in Cologne.
The level of returns and rising rents will also encourage an increasing number of international investors to focus on property in Cologne. The high number of "project developers / contractors" on the buyer side promises some exciting new developments in the coming years. Whether such projects will be placed on the market as early as 2019 remains to be seen. The investment volume is thus expected to be in line with the five-year average for the Cologne investment market.

Transaction Volume



Prime Yield



Top 3 Transactions

1. Former HQ Lufthansa by Hyundai Asset Management for approx. €115,000,000
2. Fernmeldeamt Telekom by Tristan Capital Partners and Finch Properties for approx. €95,000,000
3. Oppenheim Stammhaus by Momeni and Hanse Merkur for approx. €50,000,000

OFFICE LETTINGS & OWNER-OCCUPIERS COLOGNE

Space take-up

The Cologne office property market recorded a fairly average performance in 2018. Following a subdued start in the first half of the year, a more positive second half ensured that take-up by tenants and owner-occupiers was almost in line with the average value for the past ten years, at 283,000 sqm. The figure was also only fractionally below the previous year's level.

Lease contracts signed by the public sector as well as co-working providers contributed strongly to the overall result. These groups were responsible for two of the three lettings above 10,000 sqm. For example, Design Offices GmbH rented approx. 13.000 sqm on the I/D Cologne development in Cologne-Mülheim and the regional tax office for North Rhine Westphalia signed a lease for approx. 10,600 sqm in the northern area of the old town. Overall, the number of other large deals for units between 5,000 sqm and 10,000 sqm is also rated as positive.

As expected, the "public institutions" occupied first place in the industry rankings, ousting the "construction & property industry" with an almost 4.0 %-points lead, accounting for 41,300 sqm of rented space and a 14.6 % market share. In terms of office market locations in Cologne, the city centre ranked in first place with a 46.0 % market share and was well ahead of other areas. Mülheim/ Schanzenstraße was in second place with a 10.2 % share, followed by the Ehrenfeld/Braunsfeld sub-market with an 8.3 % share.

Supply and demand

The vacancy rate on the Cologne office market fell by a further 0.7 %-points year-on-year to reach an all-time low of 3.2 % by the end of 2018. The general trend towards falling vacancies has persisted since 2010, and will not be stopped by current building activity because space absorption is currently much higher, especially in the city centres and surrounding districts. As a consequence, it is highly probable that the vacancy rate will fall below 3 % in 2019, even though 229,000 sqm of building space is currently under construction.

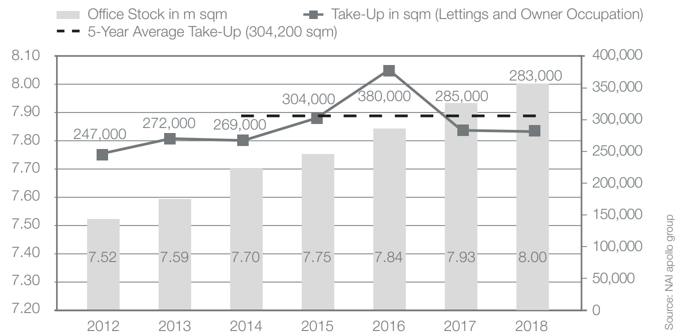
Rents

Office rental prices increased significantly in Cologne during 2018. The average rent rose by 3.9 % to €13.21/sqm, while the prime rent increased by as much as 7.1 % to €23.10/sqm. A further increase in rents can be expected as vacancies continue to fall.

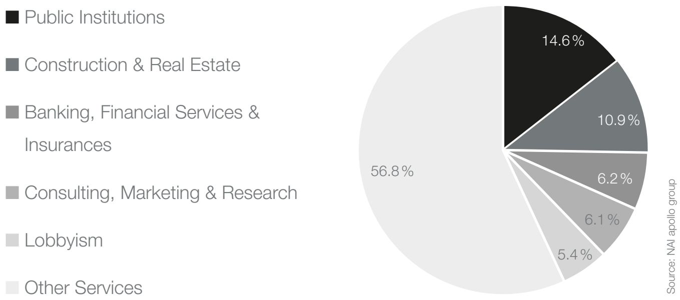
Outlook

Considering the current market situation, space take-up in 2019 is again expected to be in line with the ten-year average at around 290,000 sqm. In addition, new project developments will account for the biggest share of space take-up. Accordingly, vacancies will continue to decrease and the vacancy rate will fall below the 3 % mark in 2019.

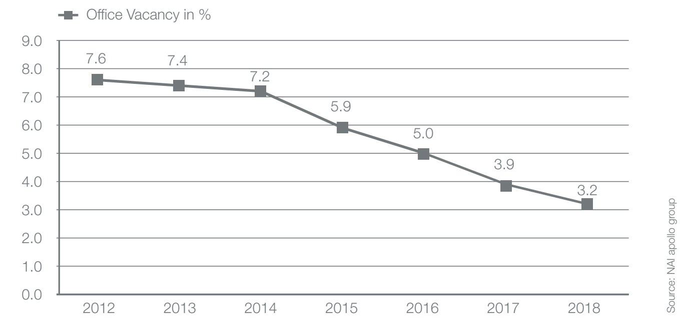
Office Stock & Take-Up



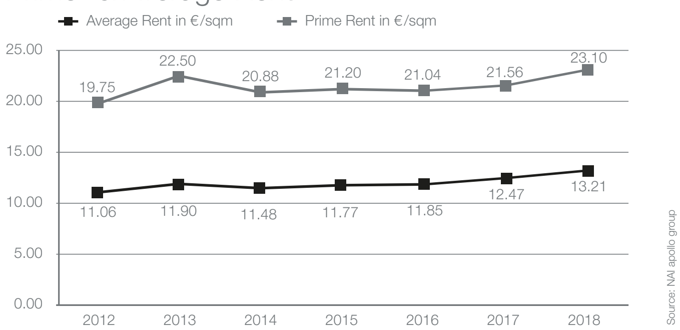
Take-Up by Industry



Vacancy Rate



Prime- & Average Rent



Top 3 Take-Up

1. 5-29, Schanzenstraße by Design Offices GmbH for 13,000 sqm
2. 19-21, Tunisstraße by Oberfinanzdirektion Nordrhein-Westfalen for 10,600 sqm
3. 5-29, Schanzenstraße by Siemens AG for 10,500 sqm

OFFICE LETTINGS BONN

Space take-up

The Bonn market for office space was in top form in 2018. Total space take-up by tenants and owner-occupiers reached a new record level of 124,300 sqm, which was not only 26.2 % above the previous year's result but also 38.1 % higher than the average for the past five years.

This result was primarily owing to the lease contract signed by Postbank at the start of 2018. The bank has about 40,000 sqm of office space in the "Neuer Bundeskanzlerplatz" project. Furthermore, in mid-2018 the German Aerospace Center (DLR) secured around 4,630 sqm of new, modern space in the "Haus der Höfe" project and also rented a new development on Godesberger Allee with 10,800 sqm of office space as a single tenant.

Although the record-breaking lease signed by Postbank had an effect on the industry ranking, boosting the market share of "banking & financial services" to 32.2 %, the "public institutions" remained the dominant industry. This sector accounted for take-up of about 50,300 sqm and a 40.4 % share of the market. On the Bonn office market, the majority of take-up is realised in the "Bundesviertel" sub-market, where a total of 89,800 sqm was rented during 2018. This represents a share of 72.2 %, which was primarily owing to space availability, the signing of large deals and the attractive infrastructure of the sub-market.

Supply and demand

The vacancy rate remained in free fall during 2018. By the end of the year, only 1.6 % of office space was available to the market. Compared to the previous year, the rate has fallen by 0.9 %-points. In absolute terms, this means that vacancies have shrunk by a further 33,200 sqm. Building activity has increased compared to the previous year with space under construction amounting to about 82,700 sqm, which is the highest volume of the past five years. However, only a fraction of this space is still available for letting and space will therefore remain in short supply.

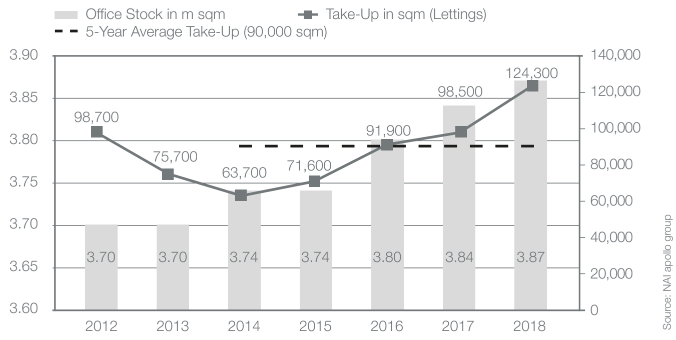
Rents

The positive lettings figures and shrinking supply of space had a noticeable impact on the prime rent. In the past 12 months, the rate increased by 14.8 % to €23.33/sqm, which represents a new all-time high. In contrast, the average rent rose by a more subdued 1.5 % to €12.40/sqm. The tense market situation is also set to have a positive impact on rental prices in 2019.

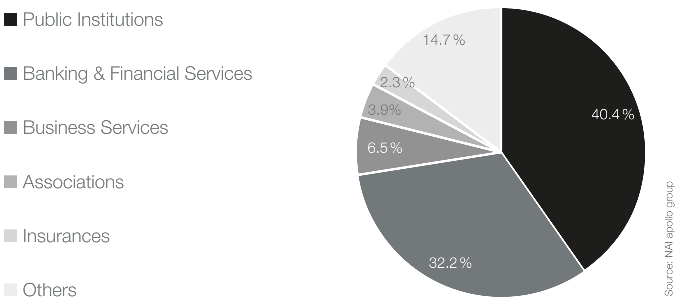
Outlook

The situation in terms of demand remains positive on the Bonn office market, and various searches for large spaces are in progress. The only limiting factor is the shortage of space, including empty new spaces. Thus, space take-up of up to 90,000 sqm is expected for 2019.

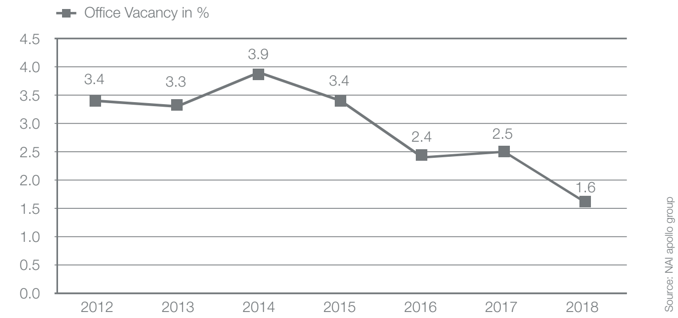
Office Stock & Take-Up



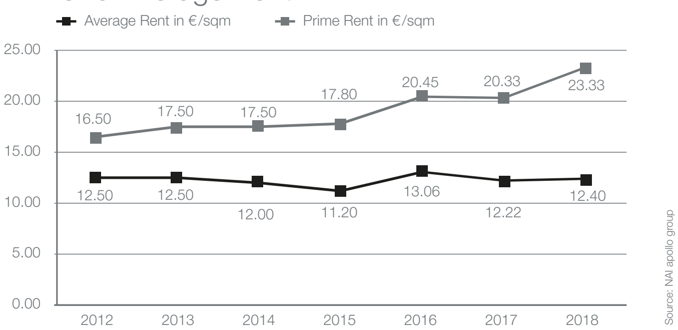
Take-Up by Industry



Vacancy Rate



Prime- & Average Rent



Top 3 Take-Up

1. Neuer Kanzlerplatz by Postbank Finanzberatung AG for 40,000 sqm
2. 138, Godesberger Allee by Deutsches Zentrum für Luft- und Raumfahrt e. V. for 10,800 sqm
3. 43, Langer Grabenweg by Public Institution for 6,400 sqm

OFFICE LETTINGS & OWNER-OCCUPIERS ULM

Space take-up, Property Stock & Space Availability

Take-up by tenants and owner-occupiers on the Ulm market for office space reached 14,700 sqm in 2018. Contrary to expectations, this was slightly below the previous year's level. The market was again largely influenced by regional demand. There were hardly any contract signings for spaces larger than 1,000 sqm, and those that did materialise took place in the public sector. For example, Ulm citizen services leased about 3,300 sqm, but such deals remained the exception.

Office stock increased slightly year-on-year in 2018, but only by a moderate level compared to the comparably high completion rates that are planned for 2019 and 2020. The vacancy rate has remained stable but at a low level of 3.9 %, and is therefore expected to increase by mid-2020. Around two thirds of current vacancies are of below-average quality and located in buildings with a lack of flexibility in peripheral areas.

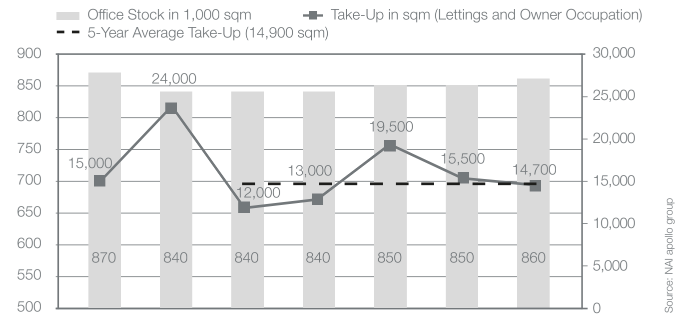
Rents

The average and prime rents reached new record levels in 2018. Lettings in new buildings in the city centre helped push up the prime rent to €18.00/sqm, which is 16.1 % higher than the previous year's level. This was brought about by the huge rise in building costs as well as the shortage of building sites in the city centre. The average rent increased to €10.80/sqm.

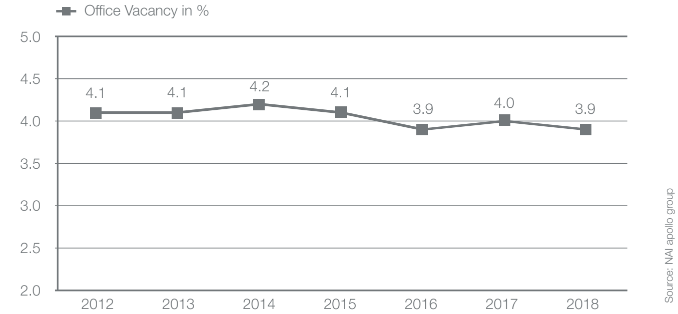
Outlook

Demand for space is expected to increase in 2019, and should be met by the new space that comes onto the market. As completions rise, vacancies are also expected to increase slightly. Rents are expected to remain at their current high level.

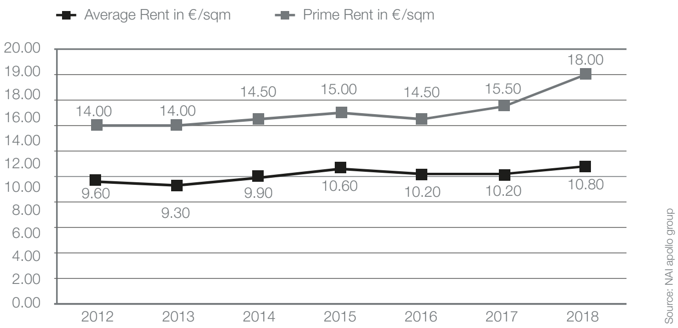
Office Stock & Take-Up



Vacancy Rate



Prime- & Average Rent



OFFICE INVESTMENT RUHR AREA

Transaction volume & yield

The relentless demand for office property in the Ruhr region continued throughout 2018 and was met with a higher supply of investment opportunities. Therefore, a new record was achieved on the office investment market. The volume reached €1.36 billion, which exceeded the year-ago level by 17.2 % and the five-year average by 36.4 %. This development was partly fuelled by two large deals in the three-digit-million range, which accounted for almost a fifth of the market activity. These were the sales of RellingHaus in Essen for approx. €145 million and the adjacent RWE Turm for €135 million. Owing to the large deals, the average size of transactions increased from just over €15 million in the previous year to almost €23 million.

The strong demand for assets in cities within the Ruhr region was not only limited to core properties, but was evident in all asset classes. Accordingly, the prime yields in Essen and Dortmund again increased significantly. Essen was still the most expensive location in the Ruhr region with a prime yield of 4.45 % (-0.25 %-points). In Dortmund, the prime yield currently stands at 4.50 % (-0.20 %-points).

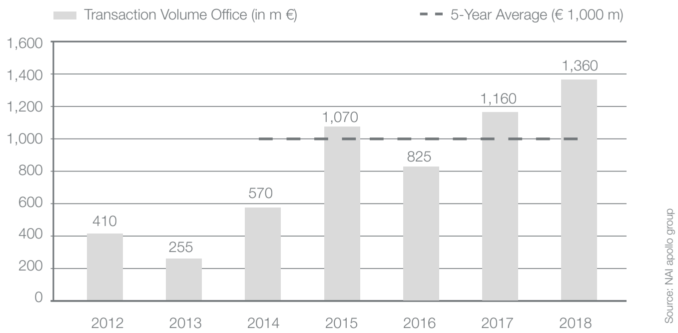
Investor type and origin

The office investment market in the Ruhr region was again largely dominated by German investors in 2018. Compared to the previous year, domestic players increased their investments by more than €70 million to about €1.01 billion (74.3 %). The UK, Switzerland, the United States and France also accounted for sizeable shares.

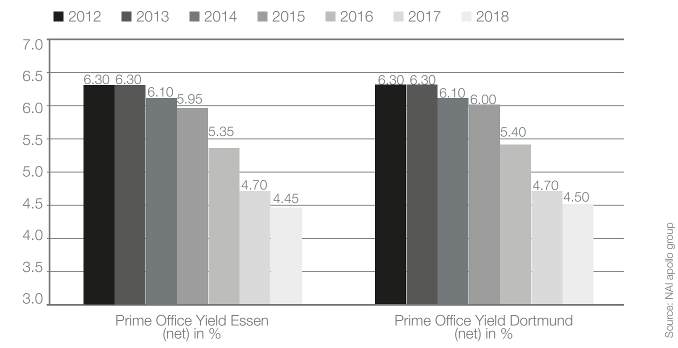
The Ruhr region appeared to attract stronger interest from professional investors in terms of the different types of market players. The previous year's market leaders, “asset / fund managers”, further strengthened their position and now account for 42.0 % of the office investment volume.

The extremely positive performance of the office market will in all likelihood ensure that investor interest remains at a high level. It is therefore currently possibly to forecast an office transaction volume of above €1.0 billion for 2019.

Transaction Volume



Prime Yield



Top 3 Transactions

1. RellingHaus, Essen by Aegila Capital Management for approx. €145,000,000
2. RWE-Turm, Essen by an investor for approx. €135,000,000
3. Five Boats, Duisburg by SDK for approx. €65,000,000

OFFICE LETTINGS & OWNER-OCCUPIERS ESSEN

Space take-up

The Essen market for office space achieved its second highest annual result ever in 2018, with take-up by tenants and owner-occupiers reaching 155,500 sqm. Compared to the previous year, this represents a significant increase of more than 25 %. The 2018 volume also exceeded the mid-term average of 123,200 sqm by as much as 26 %. Lettings contributed a total of 142,500 sqm to the overall volume, marking a new record for Essen. Only around 13,000 sqm was acquired or built by companies for their own use. The owner-occupier ratio amounted to just 8 % as a result, highlighting the strength of the lettings market in Essen. The state of North Rhine Westphalia was responsible for by far the largest deal, leasing around 26,800 sqm for Essen police in the former Karstadt administration centre at 2, Theodor-Althoff-Straße. An internationally active retail group leased the entire property at 307-309, Ruhrallee, which comprises a total office area of about 11,500 sqm. In terms of industry rankings, “trade-, traffic- and transport companies” were in the lead with a 35 % share followed by the “public institutions”.

Supply and vacancies

The vacancy rate fell sharply during the year, dropping from 7.0 % to just 4.2 %. This corresponds to short-term available reserves of only around 134,000 sqm, which is below the current lettings performance. In 2018, 29,000 sqm of new office space was completed, and is now essentially fully let. A completions volume of about 22,500 sqm is expected in 2019, although a large proportion of the space has also already been let. That means only 8,500 sqm of the 2019 completions volume is available on the open market. Consequently, available space will become increasingly scarce in the overall market.

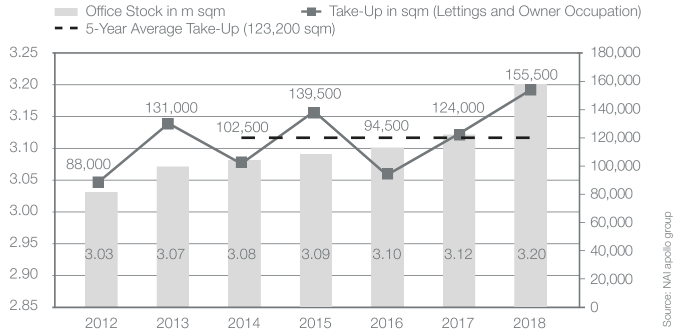
Rents

The prime rent on the Essen office market stood at €15.00/sqm by the end of 2018, following an increase of 3.4 % over the last 12 months. The average rent also rose from €11.15/sqm to €11.32/sqm. Looking ahead, the prime rent in Essen is expected to increase to €16.00/sqm. Owing to rising construction costs, it will be almost impossible to find rents below this level in the premium segment in future.

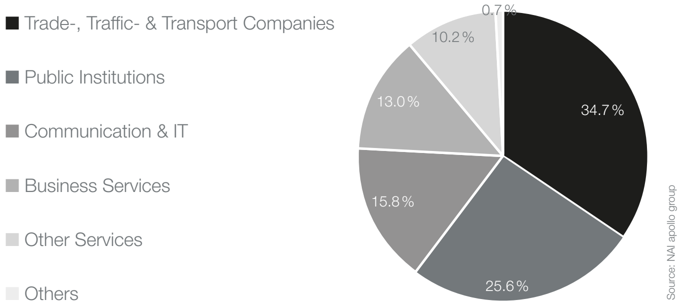
Outlook

The continuing high demand would have been an encouraging sign for the office market this year if it were not for the insufficient reserves in some areas and the fact that the Essen office market as a whole is heading towards full occupancy. Thus space take-up is expected to decline to around 80,000 sqm in 2019, which would then be well below the long-term average.

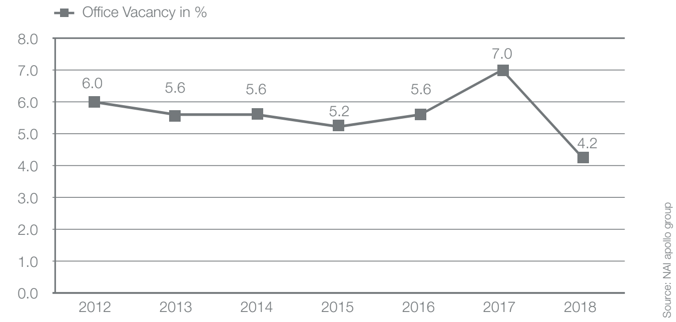
Office Stock & Take-Up



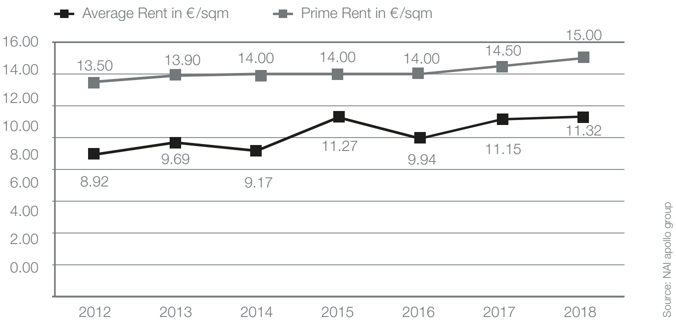
Take-Up by Industry



Vacancy Rate



Prime- & Average Rent



Top 3 Take-Up

1. 2, Theodor-Althoff-Straße by federal state of North Rhine Westphalia (Police Essen) for 26,800 sqm
2. 307-309, Ruhrallee by a trade company for 11,500 sqm
3. 24, Hohenzollernstraße by 11880 Solutions for 5,500 sqm

CUBION

OFFICE LETTINGS & OWNER-OCCUPIERS DORTMUND

Space take-up

Take-up of office space in Dortmund (including the airport office zone in Holzwickede) by tenants and owner-occupiers reached 79,500 sqm in 2018, which reflects a decline of about 9 % compared to the previous year. The result is also well below average from a long-term perspective, primarily owing to a 21 % decrease in lettings to 66,000 sqm compared to the previous year. Owner-occupiers accounted for 13,500 sqm, and the owner-occupier share of 17 % was slightly above the Dortmund average of 14 %. The lettings volume was boosted by local government activity on the office market. Dortmund City was responsible for the two largest lease contracts. The biggest contract concerned a 12,300-sqm space at 47, Kampstraße, where the adult education centre (VHS) leased a new central location with support from CUBION. Additional departments will also move into the building. Dortmund City also signed a lease for about 4,000 sqm at 29, Südwall. As a result of the new signings, the public institutions tops the industry ranking for 2018 with a share of 30 %. In terms of location, the "Citykern" sub-market is the most popular office market with a 39 % share of the lettings volume.

Supply and vacancies

As expected, the vacancy rate continued to plummet, falling from the already critical level of 3.3 % in the previous year to 2.2 % by the end of 2018. At the same time, around a third of the space that is still available is only of a sub-standard quality that barely meets user requirements. Current supply reserves in new buildings or in buildings of an equivalent standard account for only a quarter of net space absorption from 2018. All properties completed in 2018 are now let. Furthermore, around 70 % of the expected completions volume of 41,500 sqm for 2019 is no longer available and in large part already reserved. This will further exacerbate the already tense situation in terms of space availability.

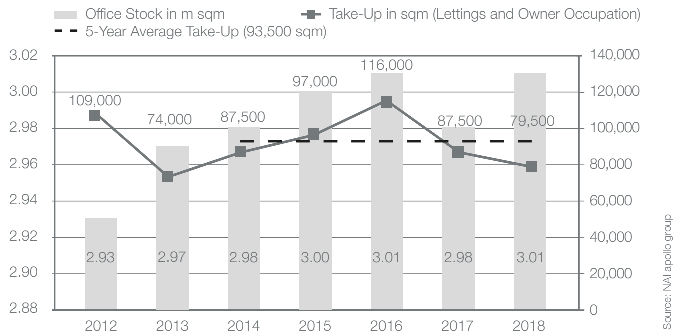
Rents

The prime rent increased by a further 3.6 % year-on-year in 2018 and now stands at €14.50/sqm. Rents for premium spaces have even reached up to €17.00/sqm. Owing to further significant increases in building costs, rents are generally expected to reach up to €16.00/sqm in the new-building segment in future. The average rent for the overall market stood at €10.06/sqm, rising 5.5 % compared to the previous year as a logical consequence of the other market parameters.

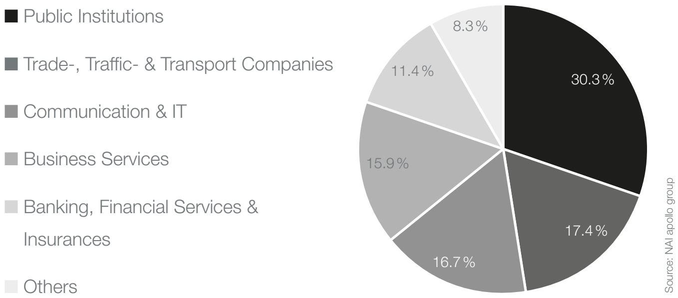
Outlook

Take-up is expected to remain extremely low in 2019 because of the shortage of space. In principle, owner-occupiers are the only source of growth. Lettings will barely reach 50,000 sqm. Moreover, the vacancy rate will fall below 2 % for the first time, and Dortmund can then be described as fully occupied.

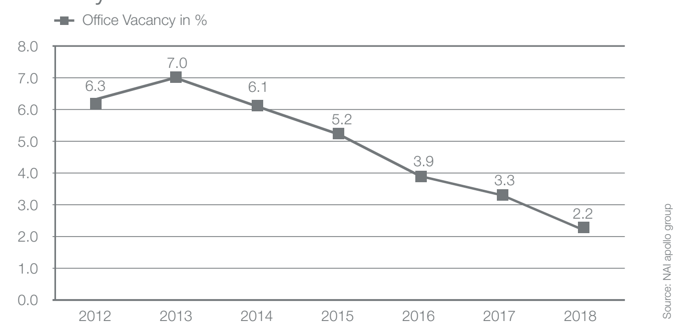
Office Stock & Take-Up



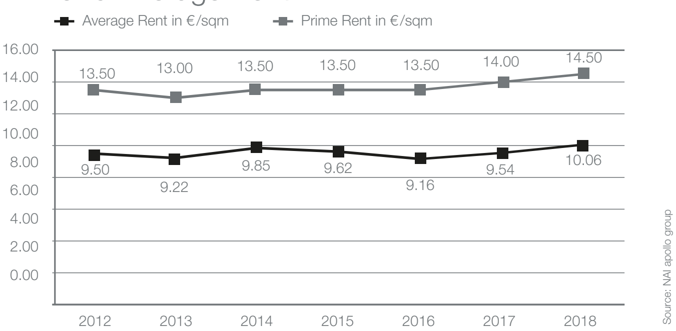
Take-Up by Industry



Vacancy Rate



Prime- & Average Rent



Top 3 Take-Up

1. 47, Kampstraße by City of Dortmund for 12,300 sqm
2. 29, Südwall by City of Dortmund for 4,000 sqm
3. 8-10, Rheinlanddamm by Dt. Serviceges. für Finanzdienstleister for 2,750 sqm

STRATEGPRO REAL ESTATE

RHINE-NECKAR

OFFICE INVESTMENT RHINE-NECKAR

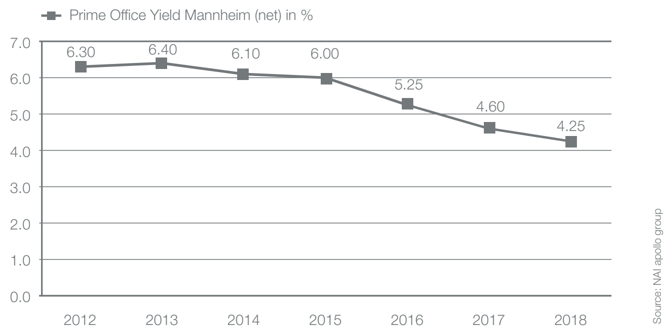
Transaction volume & yield

The strong interest of professional property investors in secondary and tertiary (so-called B and C locations) cities ensures that Mannheim und Heidelberg in the Rhine-Neckar region continue to attract attention from investors. As a result, yields have again fallen significantly in both cities. The prime yields in Mannheim and Heidelberg fell by 35 and 20 basis points respectively. Mannheim has thus become the most expensive location in the Rhine-Neckar region with a prime yield of 4.25 %, compared to 4.50 % in Heidelberg. The prime rents in both regional centres are currently still aprox. 0.95 to 1.45 %-points above the comparable values in the top-7-cities, although the gap has significantly narrowed.

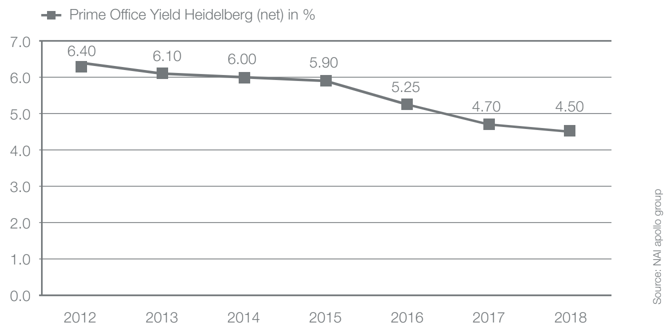
Investor type and origin

In the past 12 months, it was not only property in the top locations of Mannheim and Heidelberg that proved to be attractive to buyers. Stock in the more peripheral areas of the cities also changed hands more frequently than usual. Alongside local investors, which primarily focused on purchases in developments and refurbishment projects, “insurances / pension funds”, “listed property companies / REITs” and “property companies” dominated market activity in the core, core plus and value-added segments.
Owing to factors such as the relentlessly strong demand in a low interest rate environment, the consistent economic development and the supply shortage in the established German office locations, the transaction volume is expected to remain at a high level in the Rhine-Neckar cities in 2019. Rising rental prices, low vacancy rates, increased building costs and the region’s stable socioeconomic key data will also ensure prices will remain stable or increase slightly.

Prime Yield Mannheim



Prime Yield Heidelberg



Top 3 Transactions

1. No. 1 Mannheim (mix-used office / hotel) by a capital management company for approx. €100,000,000
2. Elements Mannheim by Union Investment and Investa Capital Management
3. FEZ Heidelberger Druckmaschinen Heidelberg by Gesellschaft für Grund- und Hausbesitz mbH (GGH)

STRATEGPRO REAL ESTATE

OFFICE LETTINGS & OWNER-OCCUPIERS MANNHEIM

Space take-up

The Mannheim market for office space recorded a fairly average performance in 2018. Space take-up by tenants and owner-occupiers reached 68,000 sqm and was almost in line with the five-year average. However, take-up was 11,000 sqm lower compared to the previous year. Owner-occupiers also accounted for a higher proportion of space in 2018, at 24,000 sqm. This was primarily owing to the start of construction work on the new technical town hall in Glücksteinquartier. Office lettings accounted for 44,000 sqm, which is slightly below average on an annual basis. The main reason for the weak lettings performance was the short supply of marketable space available at short notice. Consequently, it was not possible to meet the demand for space in all segments, and this ultimately brought about the somewhat weak annual result. The construction work on the town hall represents the largest deal, with 20,000 sqm. Thus, the "public institutions" also generated the largest amount of take-up with a total volume of 25,200 sqm. Next in line are "trade" and "health care".

Supply and demand

The vacancy rate fell continuously during 2018 and now stands at the relatively low level of 3.9 % or 80,000 sqm of office space. This equates to a reduction of 1.2 %-points or 24,000 sqm. Considering the current demand for office space, supplies will shrink further in 2019. The supply situation is not expected to ease up until the second half of 2020 at the earliest, when some notable completions and large regeneration projects should be ready for occupancy.

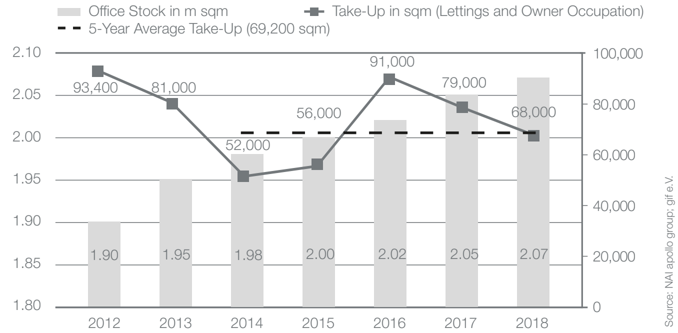
Rents

Both the average and prime rents increased significantly in 2018. The average rent rose by 9.3 % to €12.90/sqm (2017: €11.80/sqm) and the prime rent by 8.4 % to €18.00/sqm (2017: €16.60/sqm). The two rates each represent all-time highs for the Mannheim market, primarily owing to the signing of large leases in new developments around Mannheim central station (formerly the postal service area und Glücksteinquartier) and in office projects in the Eastsite area. The shortage of space also had an effect on rents.

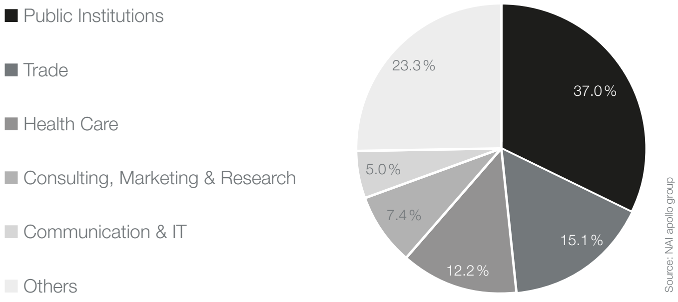
Outlook

The strong demand for modern office space in good locations of the city continues apace. The shortage of suitable space in existing stock is likely to prevent a significant increase in lettings. However, a repeat of the 2018 lettings volume is expected because of a few notable lease contract signings in office projects in the vicinity of Mannheim central station.

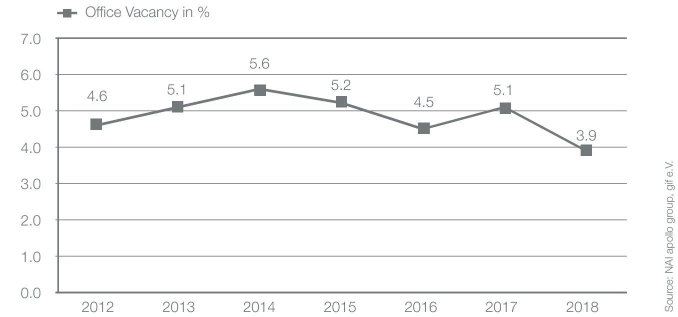
Office Stock & Take-Up



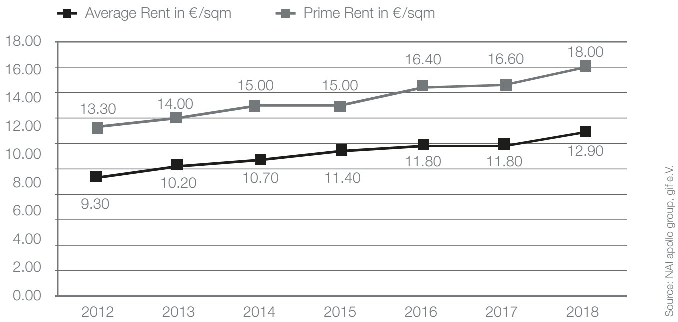
Take-Up by Industry



Vacancy Rate



Prime- & Average Rent



Top 3 Take-Up

1. 9, Glücksteinallee by City of Mannheim (Technisches Rathaus) for 20,000 sqm
2. 11, Harrlachweg by Ashfield Healthcare GmbH for 4,000 sqm
3. 17, Salzachstraße by PHOENIX Pharma SE for 4,000 sqm

OFFICE LETTINGS & OWNER-OCCUPIERS HEIDELBERG

Space take-up

The Heidelberg office market was in somewhat subdued form in 2018. Space take-up by tenants and owner-occupiers amounted to 35,000 sqm, which was below both the five-year average of 47,200 sqm and the previous year's result of 54,000 sqm. This was largely owing to the absence of owner-occupier activity in 2018; this group had contributed a considerable share of the take-up volume in previous years. However, lettings accounted for all take-up activity last year. The overall lettings performance was also somewhat average for the Heidelberg office market. The short supply of office space in central locations that was available at short notice also prevented a higher take-up volume from being realised, with supply currently outstripping demand in this area. The lease contracts signed for 3,700 sqm by Heidelberg Engineering GmbH and for almost 1,700 sqm by Regus represented the biggest deals of 2018. The strongest demand came from the "health care" industry as well as "communications & IT".

Supply and demand

As expected, the vacancy rate fell further in 2018 and now stands at 2.8 % or approx. 27,000 sqm (vacancy rate in 2017: 3.1 %). The supply of good quality, mid-priced office space in existing stock and located in the city centre is much lower. Space available at short notice is still mostly concentrated in the industrial areas of the city (Rohrbach-South, Wieblingen, Pfaffengrund). The completions volume is due to increase to 30,000 sqm in 2019, but is not expected to bring about a significant increase in the vacancy rate because demand is still at a stable level.

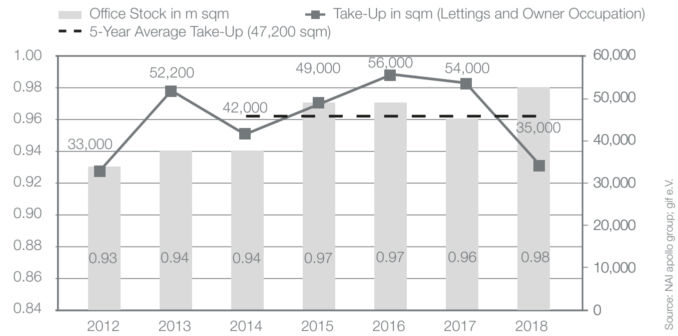
Rents

The average rent increased significantly by 5.0 % to €12.60/sqm in 2018 (2017: €12.00/sqm). This was primarily owing to rising rents in old stock as a result of the short supply and several large contract signings in the prime segment. The prime rent, on the other hand, was slightly lower at €15.50/sqm, and was achieved in new buildings in the Bahnstadt district of Heidelberg.

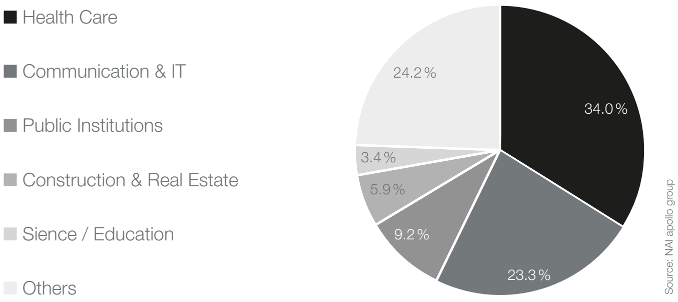
Outlook

The lettings performance in 2019 should at least be in line with the previous year's level. However, the shortage of space in the mid-price segment is likely to prevent a significant increase from taking place. The prime rent will probably be in the range of €15.00/sqm to €17.00/sqm following the signing of leases in office developments in the Bahnstadt district. Owing to the advanced letting of spaces in office projects that are due to be completed in 2019, as well as the continuing demand for office space, office vacancies will probably remain at a low level or decrease slightly.

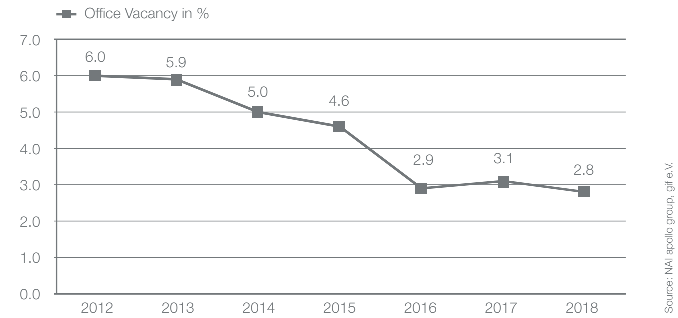
Office Stock & Take-Up



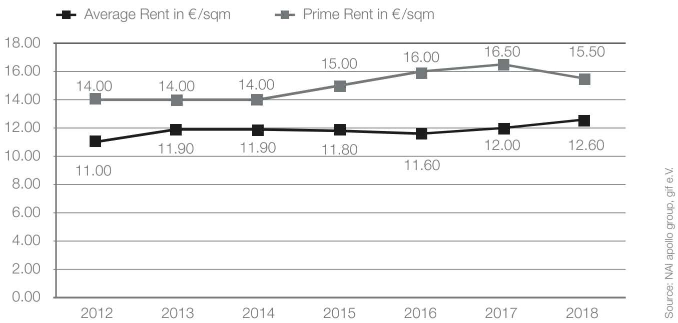
Take-Up by Industry



Vacancy Rate



Prime- & Average Rent



Top 3 Take-Up

1. 21, Max-Jarecki-Straße by Heidelberg Engineering GmbH for 3,700 sqm
2. 7, Rudolf-Diesel-Straße by Regus Management GmbH for 1,680 sqm
3. 155, Bergheimer Straße by HMS Analytical Software GmbH for 1,580 sqm

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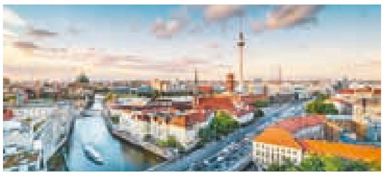

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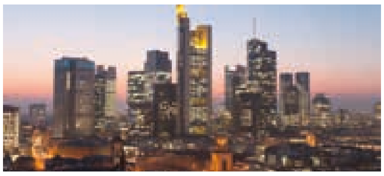

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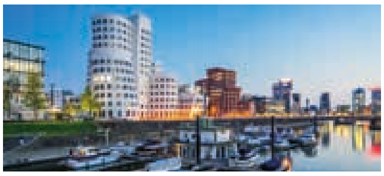

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