

STUDY FROM BULWIENGESA AG AND DREES & SOMMER SE

The 5% study – WHERE IT STILL PAYS OFF TO INVEST

For the third time, bulwiengesa together with Drees & Sommer SE and with the valued support of the BEITEN BURKHARDT law firm, examined the yield potential on the German real estate market. The 5% study, which is being released on 27 September, examines markets in terms of yield.

The results in brief

- **Major office markets with stagnating IRR for the first time**
- **Use category still offering high yields is office properties in smaller markets**
- **Ongoing high yield potential for corporate properties**

The results for core properties

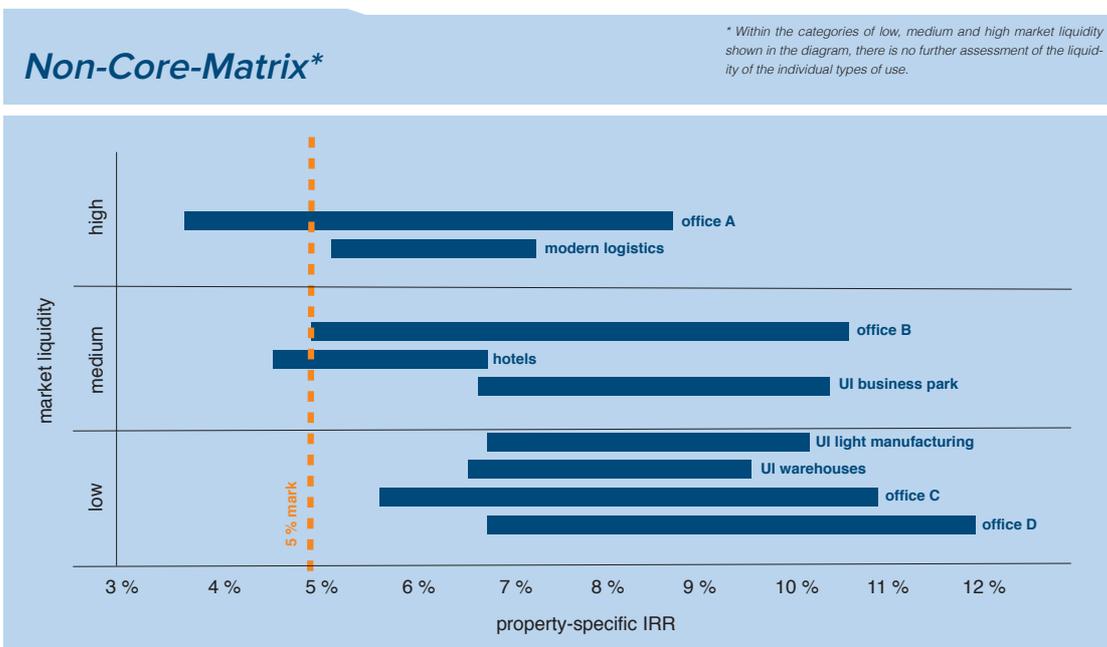
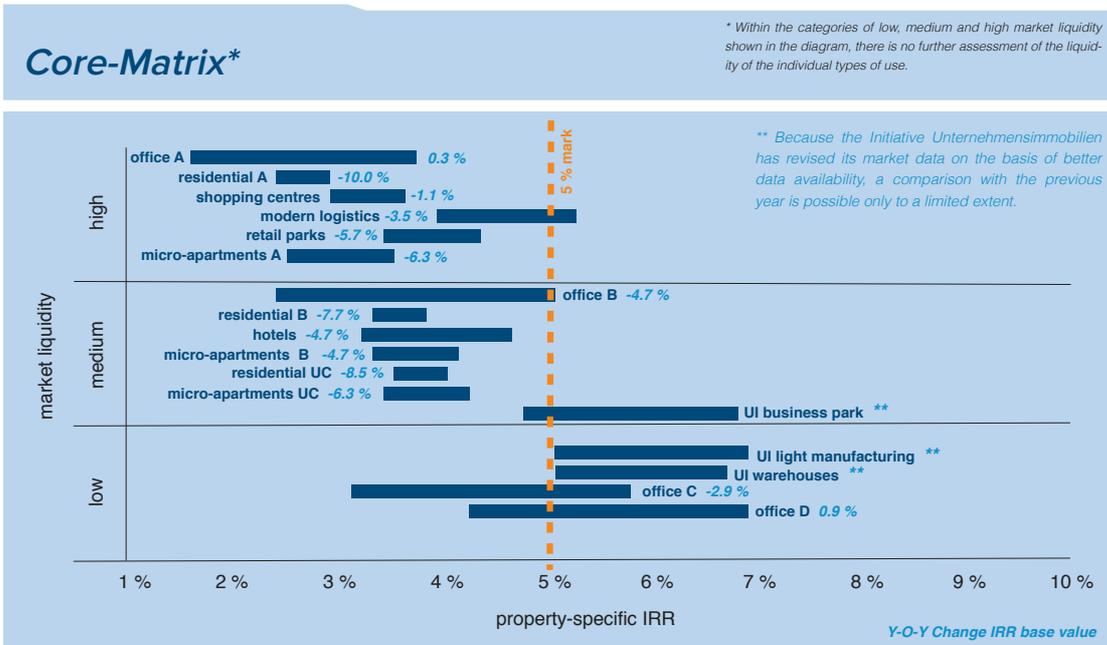
Due to positive rental expectations on the one hand and only slightly declining net initial yields on the other, the modelled IRR in the large office markets stagnated for the first time. The price spiral seems to have stopped here. The yield potential has decreased year-on-year in almost all other asset classes. Currently there are no indications that it will be possible to generate higher yields again in the medium term. Thus in the conventional asset classes reaching the 5% mark with secured investments remains improbable. Yield-focussed investors must therefore continue to fall back on niche markets.

The examined asset classes in detail:

- The decline is particularly significant for **residential properties** – and this is the case in all of the markets examined: A cities, B cities and university cities. The low level of supply on the A markets is prompting institutional investors in particular to shift to B markets, and this trend increased significantly again during the period under review. The consequences are an increasingly scarce supply and relevant price increases in these markets, too. The base value for the attainable IRR has therefore declined year-on-year by 10.0% in the A cities, by 7.7% in the B cities and by 8.5% in the university cities. The base value in A markets is thus well below the 3% mark.
- One use category that still offers high yields is office properties in smaller markets. However, investments here are recommended in small area sizes and in line with the market.
- The yield potential for larger-volume investment opportunities such as **shopping centres** and **specialist retail centres** has also decreased again. With ranges of between 2.9% and 3.6% (shopping centres) and between 3.4% and 4.3% (specialist retail centres), the expected performance is increasingly limited, as in the previous year.
- Yields for **logistics properties** saw a less pronounced decline than other asset classes of 3.5%. The secured yield range for business properties (in this study production properties, industrial parks and warehouse properties) is between 4.7% and 6.8% depending on the type.

Terminology

For the purposes of this study, core properties are defined as properties with a stable letting situation and sustainable location parameters. Properties outside the core range are classified here as non-core properties. They are characterised by vacancies and are usually situated outside the central locations.



The study also provides detailed information on properties in specific yield ranges such as “6-percenters” (e.g. market for production properties) or “4-percenters” (e.g. market for logistics properties in C cities) and extensive lists of individual A, B, C and D cities in different segments, each with property-specific IRRs.

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Initiators of the study

bulwiengesa AG

bulwiengesa is one of the major, independent real estate industry analysis companies in continental Europe. For over 30 years, bulwiengesa has supported its partners and clients in questions of real estate and location and market analysis, including with sound data services, strategic advice and bespoke surveys, analyses and valuations. Meaningful individual data, time series, forecasts and transaction data are supplied by the information system RIWIS online. Users of the data from bulwiengesa include the Deutsche Bundesbank for the ECB, BIS and OECD.

Drees & Sommer SE

Drees & Sommer is the innovative partner for consulting, planning, construction and operation. The company which is managed by partners with its headquarters in Stuttgart accompanies private and public contracts as well as investors in all questions relating to property and infrastructure. Drees & Sommer provides its services at a total of 41 locations on the premise of integrating economy, quality and ecology. At Drees & Sommer this holistic and sustainable approach is called "the blue way". The objective of the construction and property experts is to create quantifiable added value for its clients. The Processing a construction project become more efficient, operation of the property more economical or energy costs lower as a result of innovative concepts.

With valued support from

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