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# MARKET REPORT NO.2

## SECOND HALF-YEAR OF 2014

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TRANSPARENCY ON GERMANY'S  
INDUSTRIAL REAL ESTATE MARKET





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# MARKET REPORT NO. 2 FROM THE INITIATIVE UNTERNEHMENSIMMOBILIEN

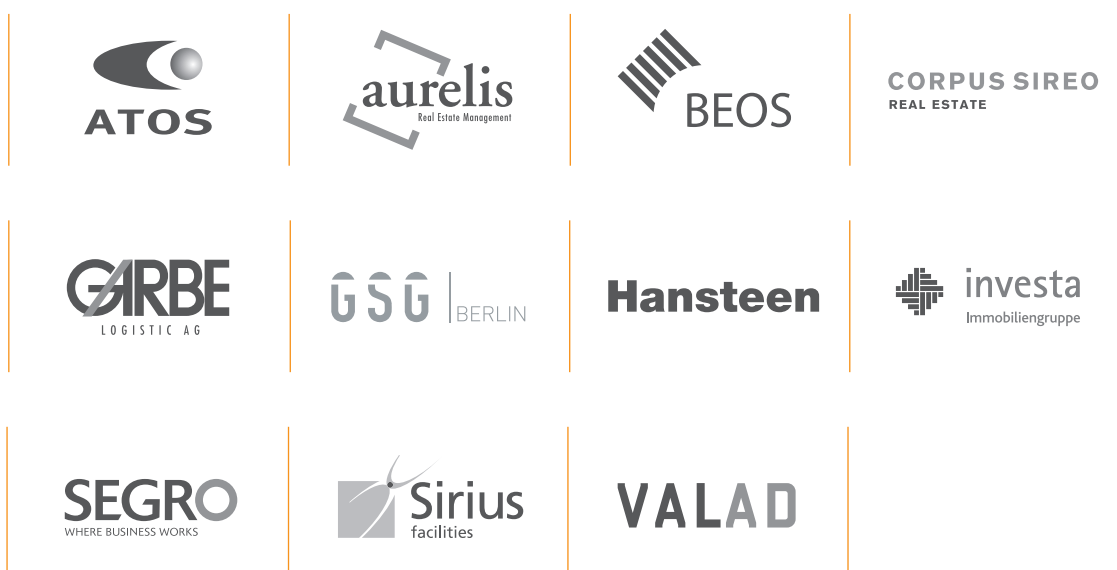
The publication of the first market report from the INITIATIVE UNTERNEHMENSIMMOBILIEN contributed significantly to the enhancement of transparency in this market segment. The report set out to present, for the first time, this heterogeneous property type to a broad audience. At the same time it provided key performance indicators for this segment. The new approach, to centrally collect data on transactions and lettings directly from companies and to process and analyse the data in an unbiased way attracted wide interest.

The first market report addressed the rapidly changing work environment and its impact on floor space demand and on the demand for flexibility, suitability for alternative use and multi-functionality. Important keywords in this context are industry 4.0, the Internet of Things and changing consumption and distribution patterns. Also the current Spring Report 2015 of the

“Rat der Immobilienweisen“ (Council of Real Estate Experts) identified these questions as essential for the future of commercial property. Accordingly the “Immobilienweisen“ (Real Estate Experts) decided that Unternehmensimmobilien will now be an integral part of future spring surveys.

The INITIATIVE UNTERNEHMENSIMMOBILIEN is well under way. It currently consists of eleven major market players and Germany’s leading independent market research company for industrial real estate. Three significant companies from the commercial real estate sector, Corpus Sireo, Garbe Logistics and Investa have joined the initiative. Their data will contribute further to an even more detailed presentation of the market for Unternehmensimmobilien. The launch was a success – now you find before you Report No. 2 comprising the market trends of the second half of 2014.

These are the companies collaborating in the INITIATIVE UNTERNEHMENSIMMOBILIEN:





# WHAT ARE UNTERNEHMENS- IMMOBILIEN?

The term Unternehmensimmobilien refers to mixed-use commercial properties, typically with a tenant structure comprising medium-sized companies. Types of use normally include offices, warehouses, manufacturing, research, services and/or wholesale trade and clearance space.

## Unternehmensimmobilien covers four different real estate categories:

- Converted properties
- Business parks
- Light manufacturing properties
- Warehouses / logistics properties

All four of these categories are characterised by alternative use potential, reversibility of use and a general suitability for multi-tenant structures. This means that the strength of industrial real estate is its flexibility, not just in terms of use but also occupiers.

### Converted properties:

- converted and renovated commercial properties
- mostly former production plants or brownfield sites with potential for further densification
- often benefiting from the special charm of an historic industrial space (red-brick character)
- often located relatively close to city centres
- often conveniently accessible by private and public transportation
- often a mix of renovated period buildings and newly constructed buildings
- all types of floor space available

### Business parks:

- usually specifically planned and built to be let to companies
- composed of several distinct buildings forming a cluster
- uniformly organised management and facilities
- providing any floor space type (office share generally between 20 and 50 %)
- usually fringe locations with good accessibility

### Light manufacturing properties:

- mainly production halls with minor office share
- suitable for a variety of manufacturing processes
- halls principally suitable for other types of use such as storage, research and services, as well as for wholesale and retail purposes
- alternative use potential depends essentially on the location

### Warehouses/Logistics properties:

- mainly existing buildings with predominantly simple storage space and some general purpose accommodation
- in the context of Unternehmensimmobilien, distinguished from modern logistics warehouses by a size limit of 10,000 m<sup>2</sup> maximum
- various fit-outs and quality standards
- flexible and inexpensive types of floor space
- usually reversible and suitable for higher-spec use (e.g. by retrofitting ramps and gates)

Storage space in an Unternehmensimmobilie



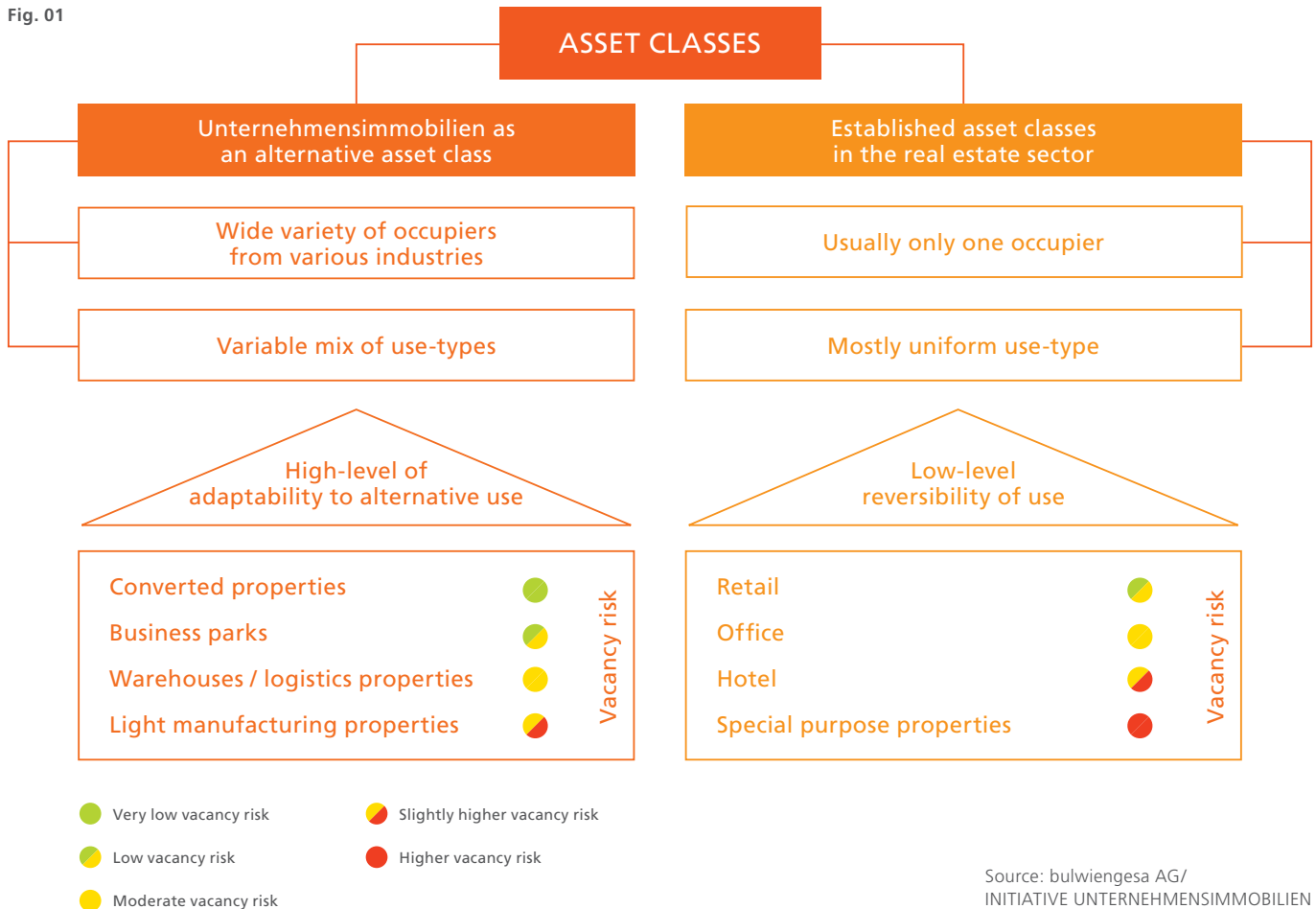
Pantry in a converted property Carlswerk Köln





# DIFFERENT CATEGORIES OF UNTERNEHMENSIMMOBILIEN

Fig. 01



Corridor in Carlswerk Köln, converted property



Reception area at Werkstatt Sendlingen, converted property





# EXAMPLES OF UNTERNEHMENSIMMOBILIEN

## CONVERTED PROPERTY



### WERKSTADT SENDLING

**Address:** Flößergasse 2-6, 81369 Munich

**Owner:** investment consortium led by Investa

**Total floor space:** 30,970 m<sup>2</sup>

**Types of floor space:** office, laboratory and production space

**Target group:** tech, communication, marketing, design, sports & entertainment industry

## CONVERTED PROPERTY



### CARLSWERK KÖLN

**Address:** Schanzenstraße 6-20, 51063 Cologne

**Owner:** BEOS Corporate Real Estate Fund Germany II

**Total floor space:** 113,000 m<sup>2</sup>

**Types of space:** Flex space, office, production, storage space

**Target group:** creative, media/IT industry, small and medium sized enterprises, manufacturing industry

## CONVERTED PROPERTY



### TECHNOPARK BERLIN

**Address:** Max-Dohrn-Straße 8-10, 10589 Berlin

**Owner:** Atos

**Total floor space:** 63,113 m<sup>2</sup>

**Types of space:** office, laboratory, storage and production space

**Target group:** High-tech, manufacturing industry, research and development

## BUSINESS PARK



### BUSINESS TRIANGLE

**Address:** Sperberweg 29-43, 41468 Neuss-Uedesheim

**Owner:** Hansteen

**Total floor space:** 11,244 m<sup>2</sup>

**Types of space:** manufacturing, storage, office

**Target group:** medium sized enterprises, manufacturing industry, trade and transport companies



## BUSINESS PARK



### BUSINESS PARK DÜSSELDORF-HELLERHOF

**Address:** Eichsfelder Straße, 40595 Düsseldorf

**Owner:** Hansteen

**Total floor space:** 10,027 m<sup>2</sup>

**Types of space:** manufacturing, storage, office

**Target group:** small and medium sized enterprises, start-ups, manufacturing, distribution

## LIGHT MANUFACTURING PROPERTY



### LIGHT MANUFACTURING PROPERTY GEWERBEPARK BILLBROOK

**Address:** Moorfleeter Straße 27, Liebigstraße 67-71, 22113 Hamburg

**Owner:** Valad

**Total floor space:** 7,600 m<sup>2</sup>

**Types of space:** production, storage, office space

**Target group:** manufacturing industry, transport and distribution companies

## LIGHT MANUFACTURING PROPERTIES



### LIGHT MANUFACTURING PROPERTY IN KAISERSLAUTERN

**Address:** Kaiserslautern

**Owner:** owner represented by CORPUS SIREO Asset Management Commercial GmbH

**Total floor space:** 15,510 m<sup>2</sup>

**Types of space:** office, production and technical space

**Target group:** manufacturing industry, transport and distribution companies

## WAREHOUSES/LOGISTICS PROPERTIES



### STORAGE- AND E-FULFILLMENT-CENTER HANNOVER-LEHRTE

**Address:** Industriestraße 29, 31275 Lehrte

**Owner:** BEOS Corporate Real Estate Fonds Germany I

**Total floor space:** 35,000 m<sup>2</sup>

**Types of space:** office, storage, service and manufacturing

**Target group:** transport and distribution companies, e-commerce





# THE INVESTMENT MARKET FOR UNTERNEHMENSIMMOBILIEN H1 AND H2 2014

Last year the German commercial real estate market recorded the highest transaction volume since the financial crisis in 2008. The transaction market for Unternehmensimmobilien also benefited from this high level of activity. As there is usually a gap between closing and conveyancing, many transactions have not been taken into account in the the first half-year analysis of 2014. Thus, not only the second half of 2014 was analysed, but also repeatedly the first half. The analysis shows that in both periods Unternehmensimmobilien performed extremely well.<sup>1</sup>

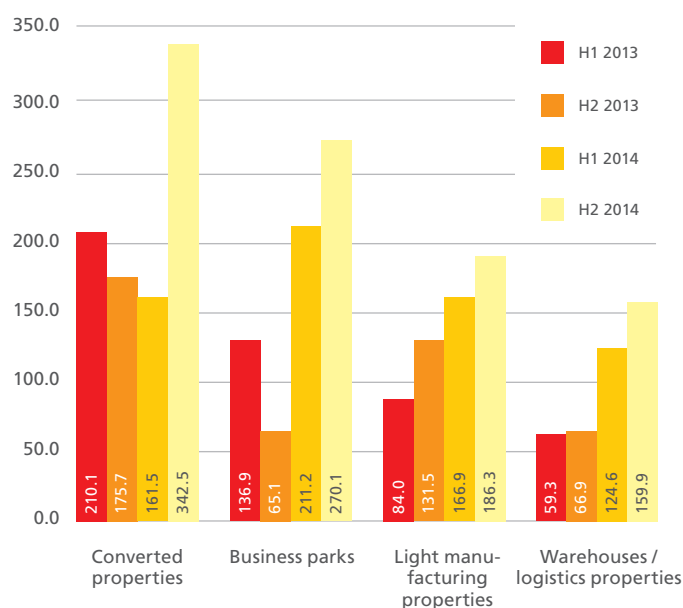
## 2014 TRANSACTION VOLUME UP 75% ON THE PREVIOUS YEAR

Demand for Unternehmensimmobilien in Germany increased immensely. With 1.62 billion euros the transaction volume was up almost 75% on the previous year. In 2014 a total volume of approx. 40.5 billion euros was transacted on the German commercial real estate transaction market. Unternehmensimmo-

bilien accounted for approx. 4% of the total investment volume for commercial real estate. In 2013 the percentage was only at around 3.5%. This illustrates that real estate investors increasingly perceive Unternehmensimmobilien as an investment alternative.

Amongst the different property categories, converted properties accounted, with a total investment in excess of 500 million euros, for the highest transaction volume. This represents an increase of well over 30% year on year. Business parks showed a significantly higher transaction volume in H1 and H2 2014 than in 2013 and totalled 480 million euros, thus not running far behind. Year on year transaction volume increased by almost 140%. These classic multi-tenant properties were very popular among investors. Generally, however, a significant increase in demand could also be seen for each category. The transaction volume of light manufacturing properties and warehouses /logistics properties increased by almost 64% and well over 125% respectively.

Fig. 02: Investment volume in million euro by property type



<sup>1</sup> Due to the retrospective adjustment of the evaluation of H1 2014 figures have in part changed significantly compared to Market Report No.1.



### ASSET MANAGERS DOMINATE TRANSACTIONS

In H1 2014, asset managers were the most active group on the transaction market for Unternehmensimmobilien. With a transaction volume of well over 520 million euros, asset managers accounted for well over 39% of the transactions, whilst sales and purchase volumes were relatively balanced. The same applies to the property developers and owner-occupiers categories who were the second and third most active groups with approx. 197 and 145 million euros. Also here purchases and sales are evenly balanced. The situation regarding the special funds, private and other investor categories however, is different. Whilst the other

investor category was mainly active in sales, special funds and private investors were especially active on the buy-side.

In H2 2014 asset managers also were the most active group on the transaction market. However, they were not as dominant as in H1. Though, with a total transaction volume of approx. 419 million euros, they still represent the largest seller and buyer group, before special funds (302 million euros), property developers (296 million euros) and owner-occupiers (244 million euros). Asset managers and special funds acted predominantly on the buy-side, whilst the property developers and closed funds were active primarily as sellers.

Fig. 03: Buyers/sellers by investor type H1 2014 in million euro, ranked by transaction volume

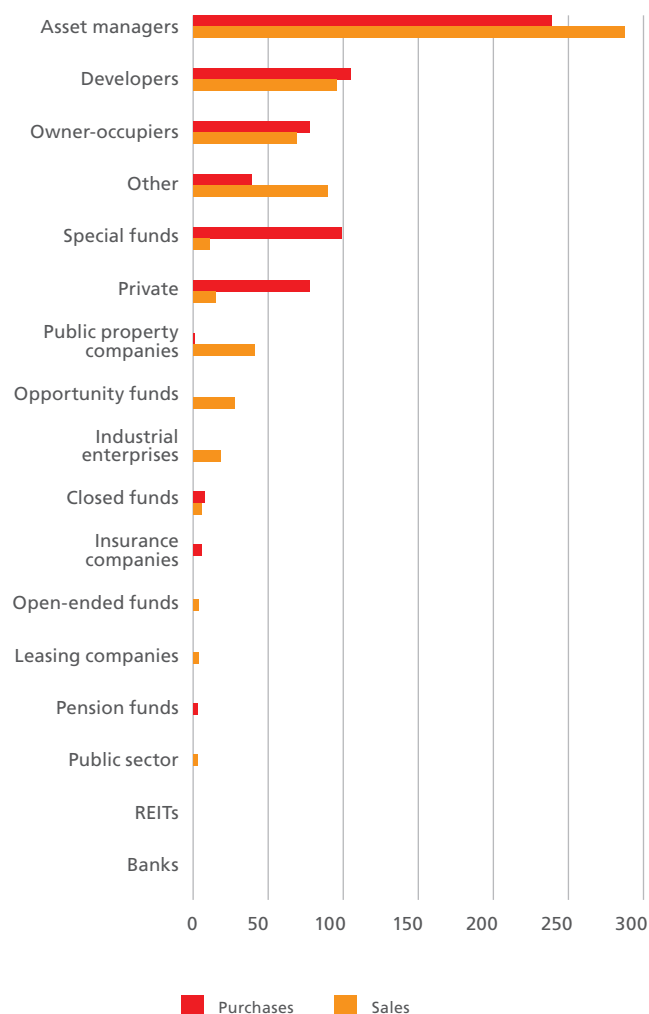
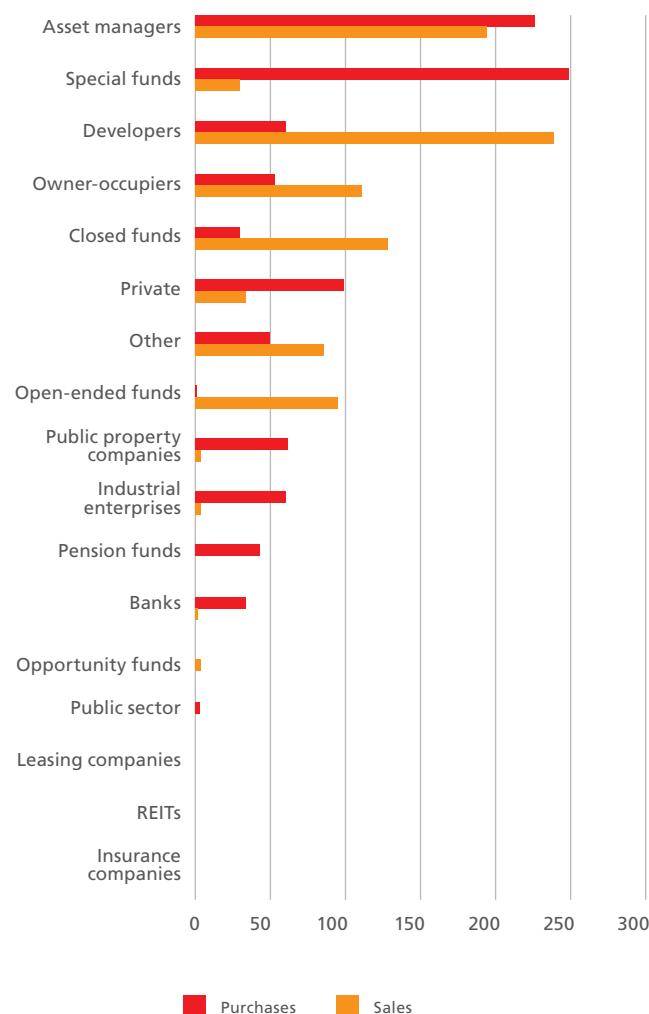


Fig. 04: Buyers/sellers by investor type H2 2014 in million euro, ranked by transaction volume



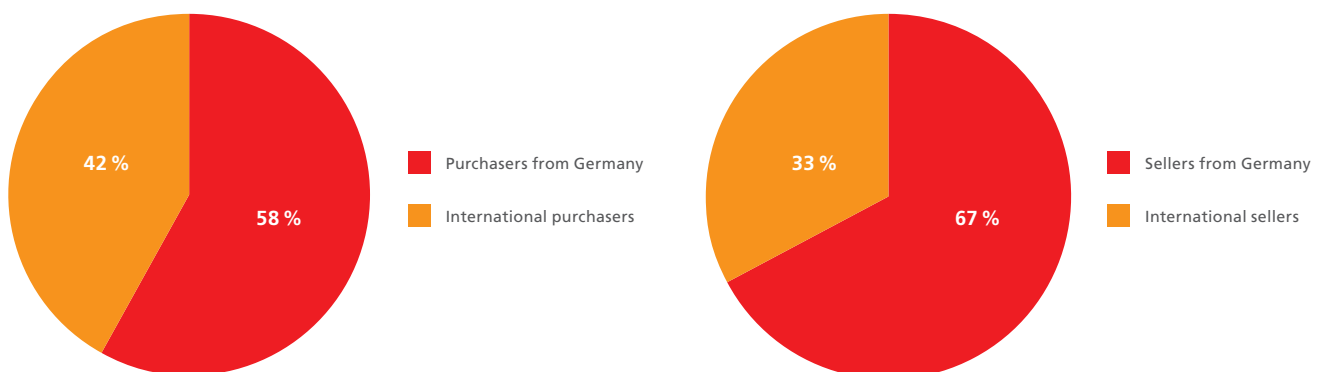


### GERMAN UNTERNEHMENSIMMOBILIEN HIGHLY SOUGHT-AFTER INTERNATIONALLY

In H1 2014, international investors accounted for approx. 42% (280 million euros) of the investment volume in Unternehmensimmobilien. Thus they increased their presence on the market significantly year on year. Throughout 2013 only a figure well over 121 million euros (13%) was invested on the German Un-

ternehmensimmobilien market by international investors. Also this market segment benefits, just like the entire German commercial real estate market, from its reputation as a safe haven. In addition, the asset class is already much more strongly established on the Anglo-Saxon market than on the German market. The strong performance of the German mid-sized sector promises a steady demand for space and thus confirms the interest of investors.

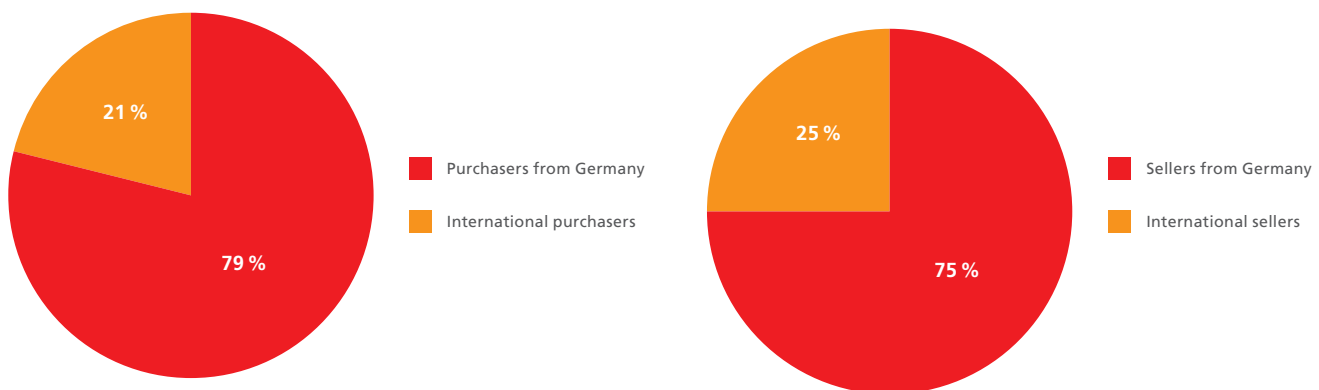
Fig. 05/06: Sellers and purchasers by geographical distribution in % H1 2014



In H2 2014, though, the share of international investors decreased to 21%. The investment volume, however, remained with 200 million euros still significantly higher than the total investment vol-

ume in 2013. Given the sometimes very high prices for traditional asset classes such as office or retail, domestic investors achieved higher yield potential in this segment.

Fig. 07/08: Sellers and purchasers by geographical distribution in % H2 2014



### HIGHEST TRANSACTION VOLUME AROUND BERLIN, FRANKFURT AND IN THE CONURBATION RHINE-RUHR

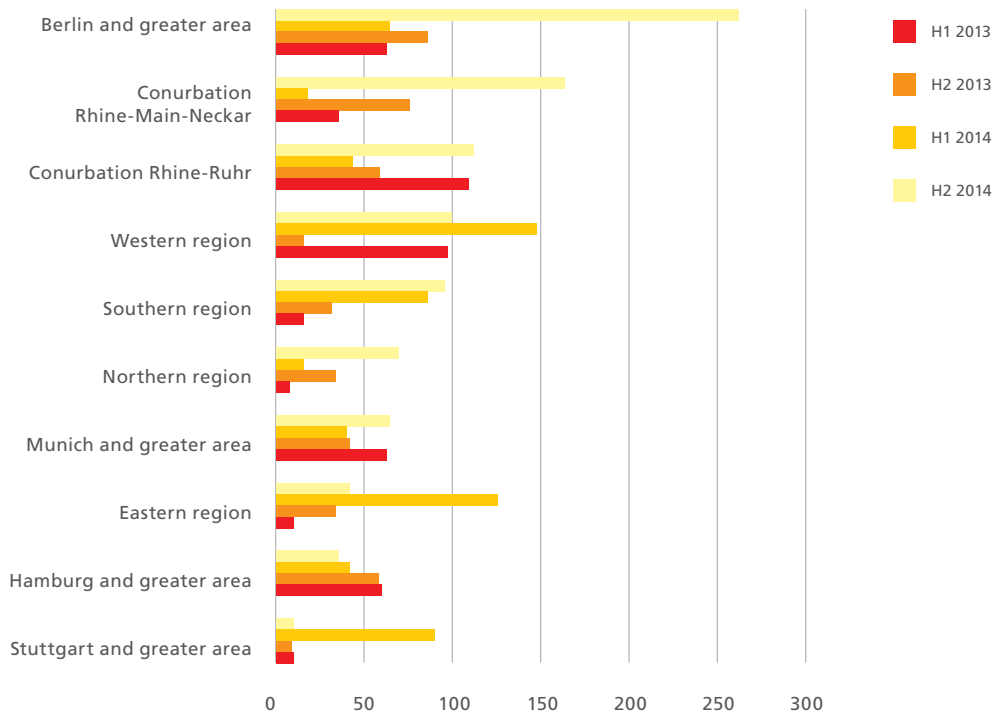
Regionally, the largest Unternehmensimmobilien investments were recorded in Berlin and its greater area in 2014. In the Berlin region, a total of just under 325 million euros was invested in Unternehmensimmobilien, followed by a clear margin by the western region with a transaction volume of well over 248 million euros. In the conurbation Rhine-Main-Neckar around Frankfurt approx. 190 million euros were transacted. The clear dominance of the Berlin area was result of the wide range of

Unternehmensimmobilien in the capital and the still relatively low prices.

The dominance of the Berlin market was particularly visible in H2 2014. During this period, almost 260 million euros were invested in Unternehmensimmobilien on the Berlin market. However, only four major transactions (business parks and converted properties) accounted for almost half of the transaction volume. In the conurbation Rhine-Main-Neckar only just under 166 million euros were transacted in the same period. In H1, though, the western region and eastern region recorded the highest transaction volumes (147 and 124 million euros).



Fig. 09: Distribution of transaction volumes by period and region in million euro, listed by transaction volume in H2 2014 in descending order



UnternehmerPark in Ratingen-Lintorf



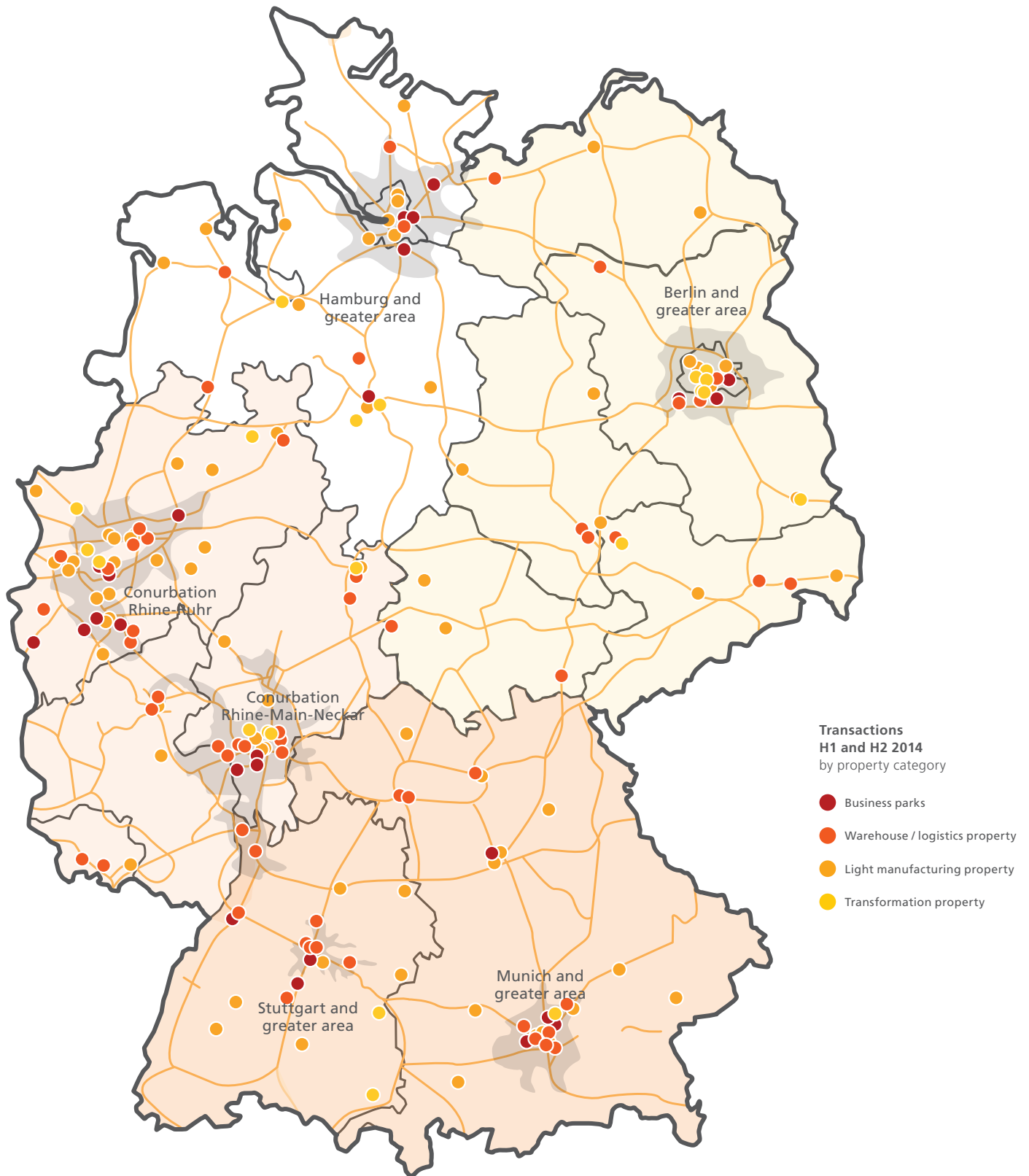
Source: Aurelis Real Estate; krischerfotografie, Duisburg

Technikum 1 at Uferstadt Fürth





Fig. 10: Geographical distribution of transactions in Germany by property category in H1 and H2 2014





## HIGH DEMAND COMPRESSES YIELDS

The achievable yield spread is quoted in terms of gross initial yield (GIY). The GIY represents the ratio of gross income to net purchase price at the time of the transaction. Accordingly, it simultaneously reflects the profitability and the value of a given property. This sets the ratio apart from a long-term performance ratio like the GPI<sup>2</sup>. The GIY for the period under review suggests that the various property categories of Unternehmensimmobilien are rather similar, and that they generate an average GIY of 9.6% across all categories. Warehouses / logistics properties achieve, with on average 8.9%, the lowest yield and business parks, with 10.6%, the highest. A closer look at the range of prime yields for properties reveals a different picture. Here business parks, one of the most actively transacted category, achieved, with 5.7%, the lowest yields, followed closely by the also strongly transacted category, converted properties, with a GIY of 5.7%. Light manu-

facturing properties as well as warehouses / logistics properties showed, with 6.5% and 6.7%, a relatively similar performance on a comparatively higher level. This yield, however, only reflects a small market segment.

Yields of all property categories, with the exception of converted properties, are declining over time. This is partly due to the yield compression observed on the transaction market. On the other hand, this trend could also be interpreted as a sign of the greater fungibility of the asset class Unternehmensimmobilien. This also applies to the converted properties, even though there was no change in the average yield year on year. Converted properties are increasingly being bought in the period before a re-development and modernisation, triggering a greater need for asset management and renovation. For this reason yields are even higher. Currently, fully developed converted properties are increasingly held in a portfolio, so that the now achievable lower yields may not yet be reflected in the period reviewed.

Fig. 11: Gross initial yields in 2013 and 2014 by property types in %



<sup>2</sup>For a detailed definition of GPI and Gross Initial Yield see glossary.



# LETTING MARKET FOR UNTERNEHMENSIMMOBILIEN H2 2014

## INCREASE OF DEMAND BY JUST UNDER 10%

In H2 2014 the demand for floor space has increased noticeably on the letting market for Unternehmensimmobilien. With nearly 481,000 m<sup>2</sup>, roughly 10% more floor space was rented than in

H1. Thus a total take-up of well over 920,000 m<sup>2</sup> was reached in 2014. Accordingly for 2014, a slightly weaker demand was recorded than for the overall, very dynamic year 2013. This is mainly due to the mixed results of H1 2014, in which comparatively little floor space was marketed.

Fig. 12: Total take-up in 2013 and 2014 by region and half-year period, listed by total take-up volume in descending order

Region	H1 2013	H2 2013	Total 2013	% 2013	H1 2014	H2 2014	Total 2014	% 2014
Berlin and greater area	89,000	128,000	217,000	20.5%	71,500	123,500	195,000	21.2%
Conurbation Rhine-Main-Neckar	106,500	37,000	143,500	13.5%	33,500	90,500	124,000	13.5%
Southern region	121,000	175,500	297,000	28.0%	45,500	61,500	107,000	11.6%
Northern region	56,500	77,000	133,500	12.6%	46,500	60,000	106,500	11.6%
Conurbation Rhine-Ruhr	50,500	37,500	88,000	8.3%	61,000	48,500	109,500	11.9%
Stuttgart and greater area	4,000	16,500	20,500	1.9%	121,000	47,500	168,500	18.3%
Munich and greater area	14,000	66,000	80,000	7.5%	22,500	26,500	49,000	5.3%
Western region	16,000	30,000	46,000	4.3%	16,500	13,000	29,500	3.2%
Hamburg and greater area	16,500	11,000	27,000	2.5%	11,000	6,000	17,000	1.8%
Eastern region	5,000	3,500	8,500	0.8%	11,000	3,500	14,500	1.6%
Total	479,000	582,000	1,061,000	100.0%	440,000	480,500	920,500	100.0%

## PRONOUNCED DEMAND IN BERLIN AND ITS GREATER AREA

Looking at the individual regions, Berlin presently not only enjoys a particularly strong demand on the transaction market, but also on the letting market for Unternehmensimmobilien. With nearly 124,000 m<sup>2</sup> of floor space marketed in the capital and its greater area, it is well ahead of the region performing second strongest, the conurbation Rhine-Main-Neckar, which

still showed a take-up of 90,000 m<sup>2</sup> in H2 2014. The significant recovery of the letting market in Berlin is partially due to the very active entrepreneurial scene, which is gradually establishing itself and growing dynamically. This trend affects the various available floor areas in the city.

At the same time it is noteworthy that the southern region, which was still highly sought-after in 2013, has clearly lost momentum.

Fig. 13: Take-up comparison in 2013 and 2014 in m<sup>2</sup> by region and half-year period, listed by total take-up in descending order

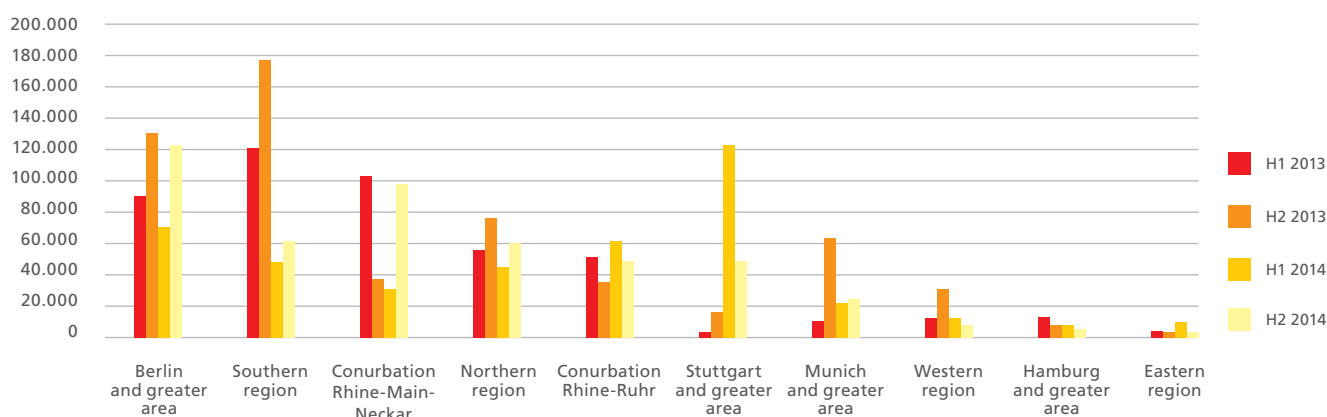
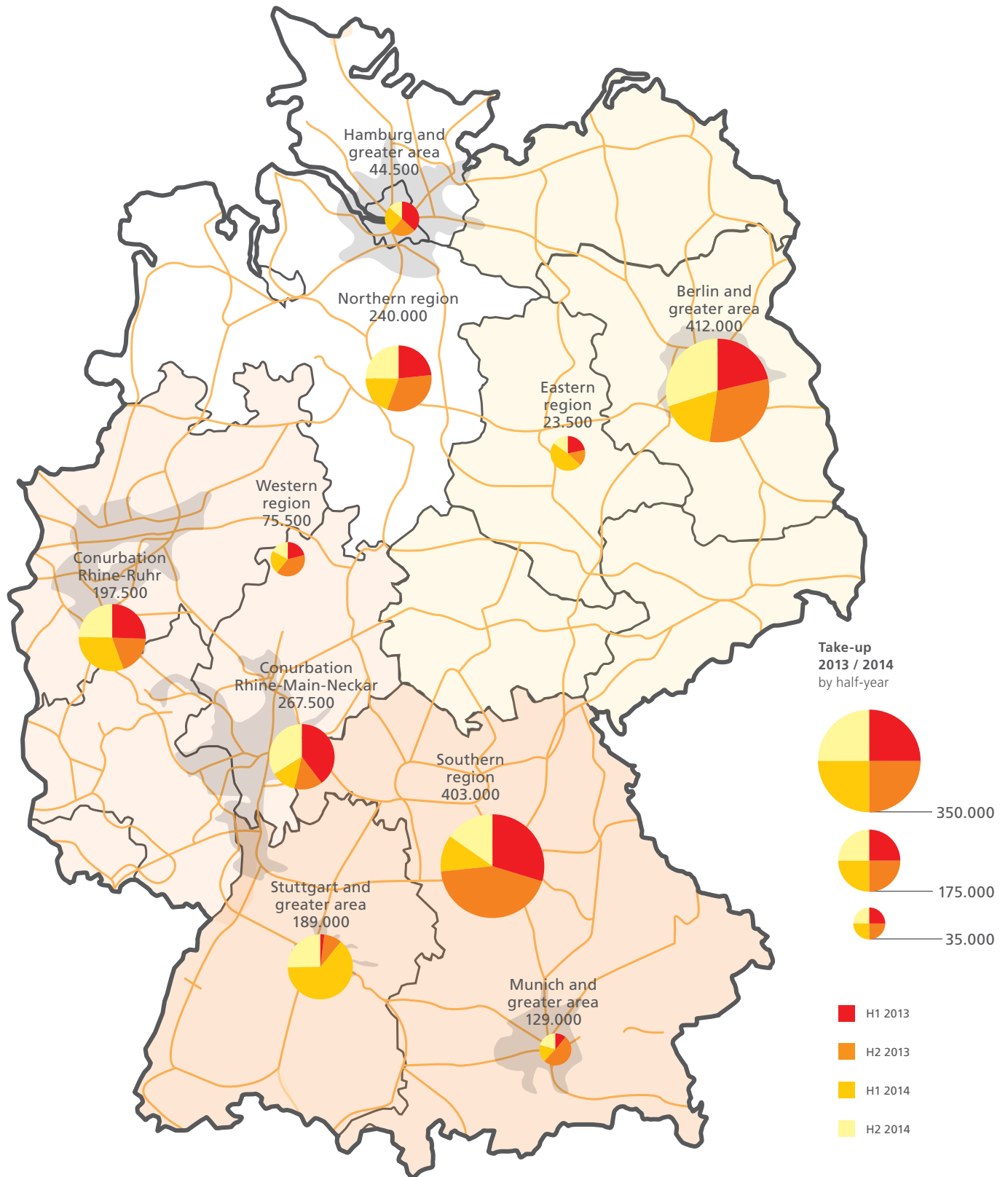




Fig. 14: Total take-up 2013 and 2014 by region and half-year period





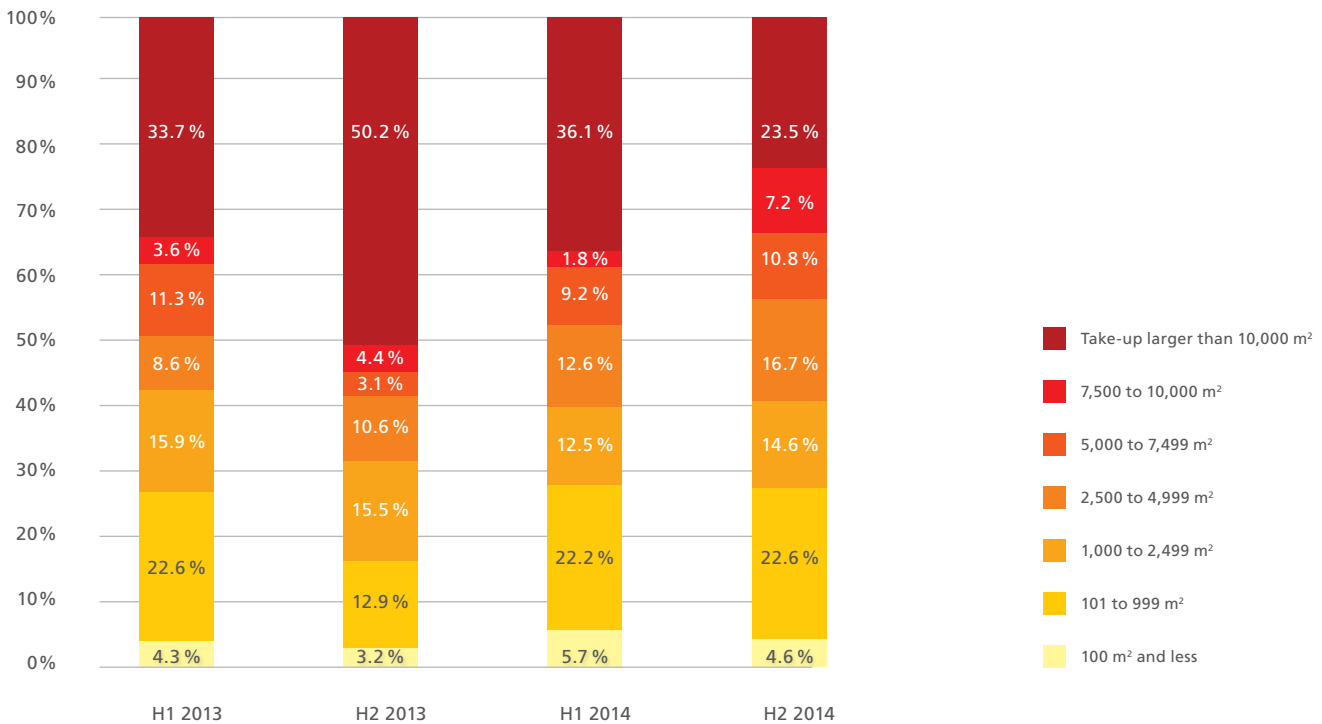


### TENANTS APPRECIATE THE WIDE RANGE OF LOT SIZES OF UNTERNEHMENSIMMOBILIEN

Unternehmensimmobilien is characterised by the wide range of floor space standards available, but above all its lot sizes. This

became very clear in H2 2014 through the demand for different lot sizes. The demand is now more balanced than in H1 2014 and in H2 2013. In particular, very large units of space were let to a much lesser degree. Instead, a trend can be observed towards smaller space units.

Fig. 15: Take-up by lot sizes in 2013 and 2014



### AVERAGE LEASE TERM FOR NEW LETTINGS INCREASES SLIGHTLY

The tenant mix of Unternehmensimmobilien is very heterogeneous. This also has an impact on lease terms. Currently, companies are increasingly committing themselves to a location for longer. Accordingly, the average term of new leases has increased in H2 2014 to 1.8 years after a temporary drop to only 1.5 years in H2 2013 and H1 2014.

In parallel, an increase in indefinite lease-length agreements was observed. This highlights the flexible nature of Unternehmensimmobilien. Occupiers appreciate the option to relocate on short term only taking into account compliance with the statutory notice period of three months. The higher management effort created for asset managers by this situation is compensated for by a minimal vacancy risk. Due to the high demand for flexible floor space, units are quickly re-let and rents are adjusted to the current market level.

Fig. 16: Average length of new leases in 2013 and 2014

Average length of new leases in 2013 and 2014	H1 2013	H2 2013	H1 2014	H2 2014
Average lease term	2.5	1.5	1.5	1.8
Max. lease term	20.0	10.2	20.0	20.0

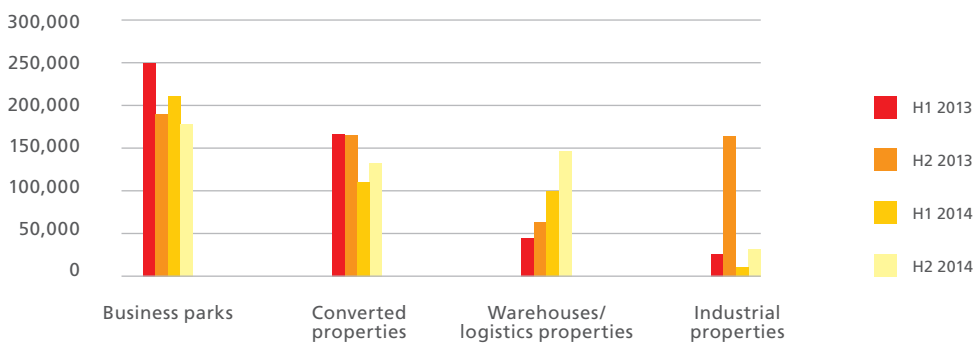


### STORAGE SPACE SHOWS INCREASING DEMAND

Within the category of warehouses/logistics properties, not only large distribution centres presently show high momentum due to the growing importance of e-commerce and changing consumption and distribution patterns. Also storage space within comparatively small-scale Unternehmensimmobilien is increas-

ingly in demand. Over the past four half-year periods take-up of small lot sizes of warehouses/logistics properties rose gradually by just under 50% to over 60% in each period. Business parks and converted properties recorded the highest take-up in H2 2014. With nearly 177,000 m<sup>2</sup>, business parks accounted for almost 42% of take-up, whilst converted properties accounted for 30%, or approximately 129,000 m<sup>2</sup>.

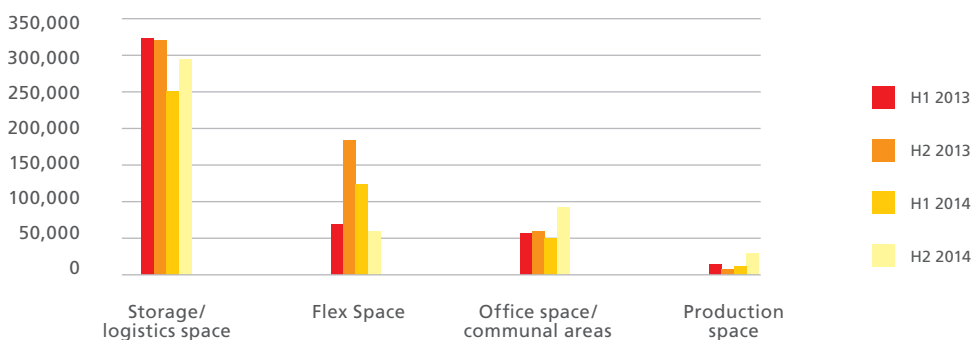
Fig. 17: Take-up by property type in 2013 and 2014, listed by total take-up in descending order



The average size, per lease transaction, of storage/logistics space in H2 2014 was 465 m<sup>2</sup>. Flex space units<sup>3</sup>, flexible floor space swiftly adaptable to alternative use, recorded even smaller-scale lease transactions i.e. with on average slightly over

350 m<sup>2</sup> per letting. Office and communal areas recorded on average just under 260 m<sup>2</sup>. With an average of 1,150 m<sup>2</sup> the share of production space let is significantly larger.

Fig. 18: Take-up across property types in m<sup>2</sup>, pro rata by types of floor space and half-year period, listed by total take-up in descending order



<sup>3</sup>For a detailed definition of Flex Space see glossary.

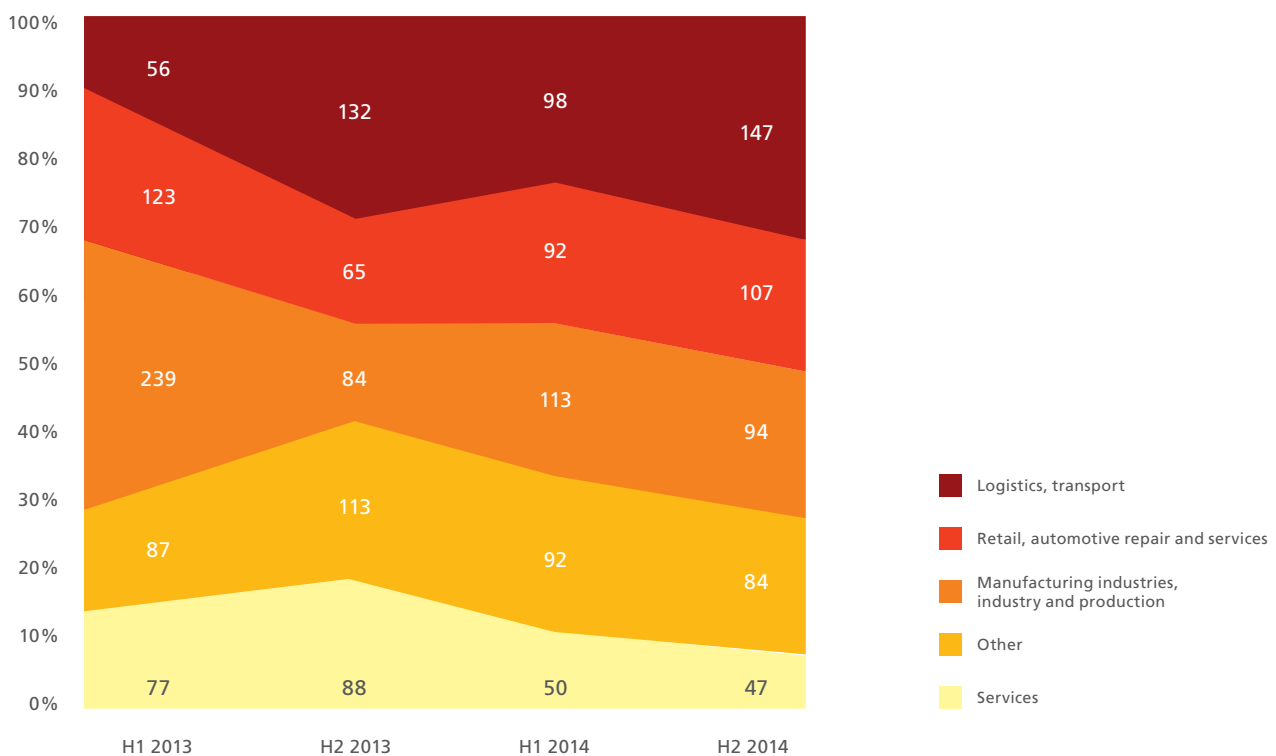


### TRANSPORT INDUSTRY REPLACED MANUFACTURING INDUSTRY AS MOST IMPORTANT DEMAND GROUP

On an occupier level, in H2 2014 the transport and logistics industry dominated new lettings. With over 147,000 m<sup>2</sup>, more floor space was taken up by this sector than by any other industry within the period. The take-up of the previously dominant manufacturing

sector, however, decreased slightly from 113,000 to 94,000 m<sup>2</sup>. This is primarily due to the adaptation currently under way with courier, express and parcels service providers and other stakeholders who adapt to changing distribution patterns and networks, and increasingly rent storage/logistics space during the course of the process. In the manufacturing sector, however, a more cautious take-up policy was pursued.

Fig. 19: Take-up by aggregated economic sector per half-year period in ,000 m<sup>2</sup>, listed by highest take-up in H2 2014 in descending order



### PRIME RENTS INCREASE SIGNIFICANTLY AND FOR ALL CATEGORIES AT NEARLY ALL LOCATIONS

The high demand on the lettings market already has led to a shortage of available space in some segments and regions. This pressure is also reflected in the movement of prime rents in the floor-area weighted analysis which, in part, increased significantly.

The highest rise in rents was recorded for production space. Here, the upward trend continued with a current prime rent of € 7.10/m<sup>2</sup>. This is increasingly achieved for comparatively high standard and specialized areas that are consequently more expensive than areas used for simple production processes. Simi-

larly large increases were seen in prime rents for storage and small-scale logistics space. Here, up to € 12.50/m<sup>2</sup> is obtained, especially when offered in business parks or converted properties in combination with other floor space types (e.g. office). Prime rents of flex space also increased slightly and currently a prime rent of € 10.60/m<sup>2</sup> is paid. Prime rents for office space, however, grew only marginally to € 12.40/m<sup>2</sup>.

An analysis of area-weighted average rents shows, in part, a different pattern. Here, rents for office space and flex space increased for the two floor space types, which showed only slight rental growth in the prime segment. Average rents though, for storage and in particular for production space fell. However, they generally remained on the level of the previous six half-year periods.



Fig. 20: Growth in prime rents of Unternehmensimmobilien by types of floor space and half-year period in euro/m<sup>2</sup>/month

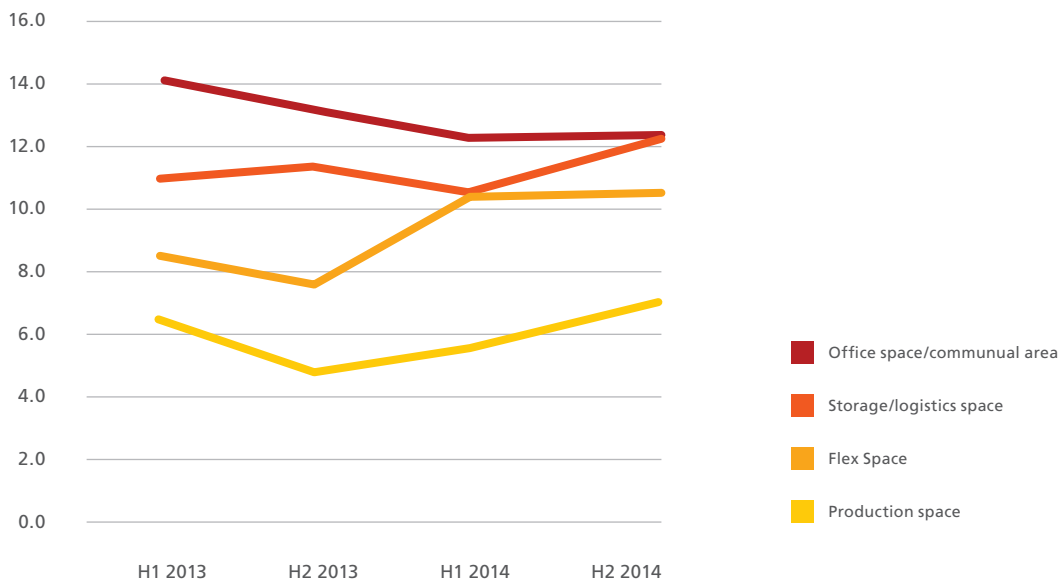
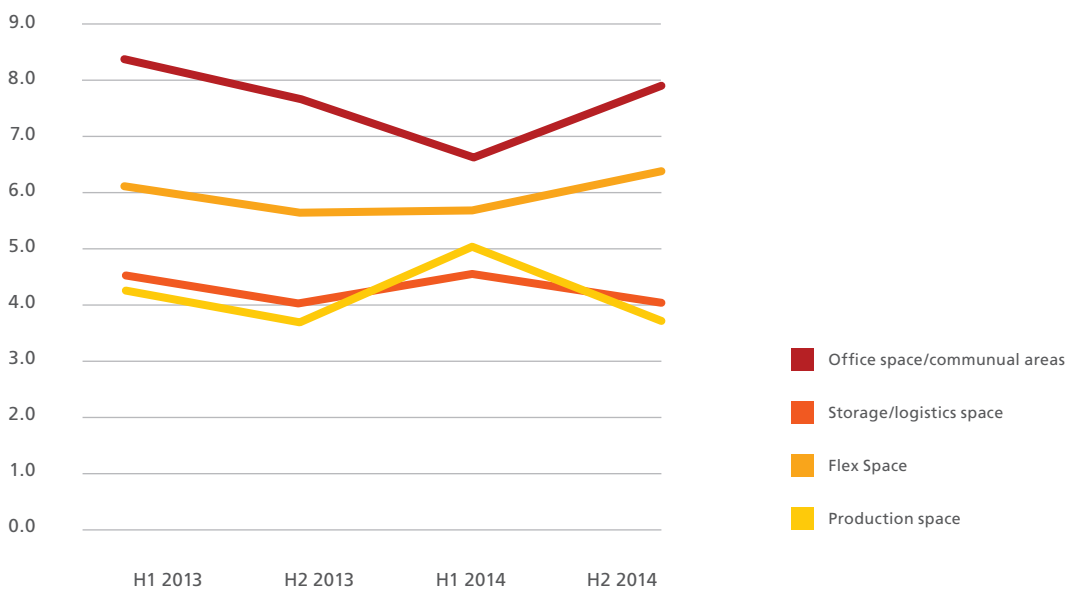


Fig. 21: Growth in average rents of Unternehmensimmobilien by types of floor space and half-year period in euro/m<sup>2</sup>/month





# STOCK OF GERMAN UNTERNEHMENSIMMOBILIEN 2014

Market values and total floor space of Unternehmensimmobilien are relatively stable due to low capital growth. Accordingly this section will be presented in the second issue after the sections on market trends on the investment and letting market.

Ongoing market surveys<sup>4</sup> by bulwiengesa have currently determined a total of commercial floor space (excl. hotels) of well over 3.1 billion m<sup>2</sup> in Germany. At 935.5 million m<sup>2</sup>, or nearly 30%,

Unternehmensimmobilien represent the second largest sector, after industrial space.

The market value of Unternehmensimmobilien equals 543 billion euros or well over 26%, barely less than offices, which accounts for 600 billion euros or approx. 29%. This highlights the high net asset value of this asset class, and thus its potential.

Fig. 22: Total floor space of commercial properties in Germany (excl. hotels) in million m<sup>2</sup> in H2 2014

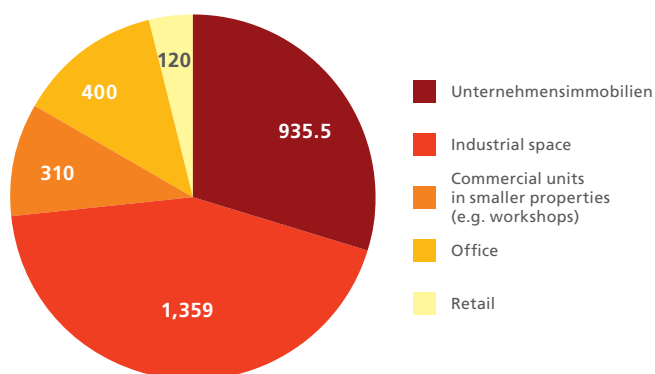


Fig. 23: Market value of commercial properties in Germany (excl. hotels) in billion euro in H2 2014

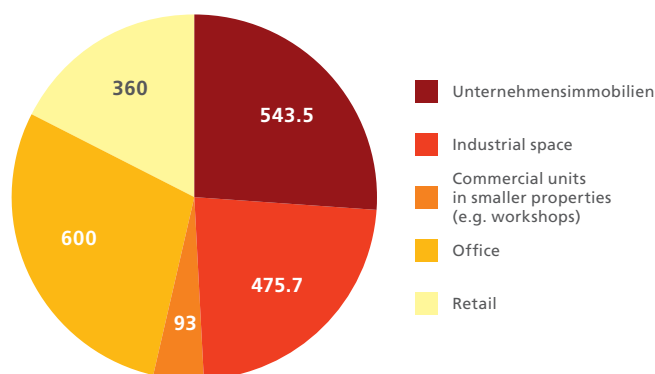
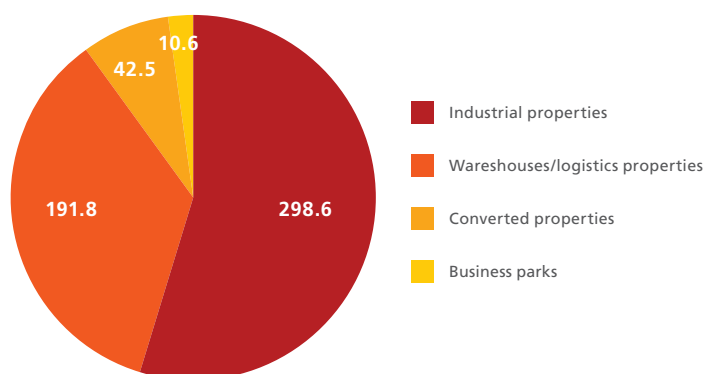


Fig. 24: Market values by property type of Unternehmensimmobilien in billion euro H2 2014



<sup>4</sup>Figures based on the research report "Wirtschaftsfaktor Immobilien – Die Immobilienmärkte aus gesamtwirtschaftlicher Sicht (2010/2013)" by the Cologne Institute for Economic Research and updates of individual property types in the property data banks of bulwiengesa AG. Data on Unternehmensimmobilien is based on calculations by bulwiengesa AG.



A breakdown of the different property categories within the Unternehmensimmobilien segment reveals a striking dominance of industrial properties. They account for 58% of total floor space and 55% of the total market value of Unternehmensimmobilien. Approximately 40% of the light manufacturing property stock qualifies as an investment asset i.e. is in line

with market requirements and is adaptable for alternative use. The remainder was often built to a specification to accommodate a certain manufacturing process and is only to a limited extent suitable for alternative use. The category is also defined by owner-occupiers. This explains why such property is rarely put on the market.

Fig. 25: Overview of floor space and values of German Unternehmensimmobilien in H2 2014

Property types within Unternehmensimmobilien	Floor space		Total value		Investment quality	
	in million m <sup>2</sup>	in %	in billion euro	in %	in billion euro	in %
Light manufacturing	542.9	58.0 %	298.6	54.9 %	119.4	40.0 %
Warehouses/logistics properties	324.0	34.6 %	191.8	35.3 %	115.1	60.0 %
Converted properties	60.7	6.5 %	42.5	7.8 %	21.2	50.0 %
Business parks	7.8	0.8 %	10.6	1.9 %	9.5	90.0 %
Unternehmensimmobilien	935.5	100.0 %	543.5	100.0 %	266.2	49.0 %

At nearly 35%, in terms of both floor area and market value, warehouses/logistics properties represent the second largest sub-segment of Unternehmensimmobilien. Market reports by the INITIATIVE UNTERNEHMENSIMMOBILIEN exclude large-scale new schemes for contract logistics operators as a high level of market transparency already exists. Unternehmensimmobilien is understood in this context as comprising standing investments with a maximum floor area of 10,000 m<sup>2</sup>, designed mainly to meet the needs of regional logistics operators or small and medium-sized enterprises.

Business parks and converted properties are similar in structure because they include diverse floor space types of various sizes within a given grouping. Yet while business parks tend to take the form of, more or less, standardised building clusters on landscaped, park-like sites, converted properties have a decidedly one-off character due to their historic building fabric – in many cases supplemented by more recent additions. Business parks admittedly represent a niche category within Unternehmensimmobilien with their share of just 0.8% of the lettable floor space and of just 2% of the market value. However, they show the highest investment potential among the sub-segments as they are developed almost exclusively for letting, and thus have a low share of owner-occupation. At 6.5%, converted properties have a higher share of the floor space and 7.8% of the market value. However, their investment potential is lower as, due to their previous use and one-off character, their options for redevelopment and life cycle is limited to some extent.

## UNTERNEHMENSIMMOBILIEN SHOW HIGHEST CAPITAL GROWTH

The performance of real estate investments may be measured on the basis of the total return of the German Property Index (GPI), which measures the commercial/industrial sector along with offices and retail. This sector largely also reflects the performance of Unternehmensimmobilien. The GPI measures the annual change in total returns on the basis of capital growth and rental income. As a long-term performance ratio, the GPI is particularly meaningful for property investors, though it must not be confused with the initial yields<sup>5</sup>. Recently it has clearly shown a trend towards a flattening and shortening of real estate cycles.

Since total return growth will keep slowing, the differences between the various commercial real estate sectors are likely to level out. This will also affect the commercial/industrial sector which however, already outperformed in 2015 and will further outperform other sectors like retail or offices. The key driver here is the rental income, which has been stable year after year on a high level (7.9% p.a. with an increasing trend). This is mainly triggered by the growth potential of commercial rents in comparison to office and retail rents where growth potential seemed to have been exhausted.

<sup>5</sup> For a detailed definition of both GPI and initial yields (GIY - Gross Initial Yield) see glossary.



Fig. 26: German Property Index (GPI), total return (in %) by sector (y-o-y), 1995 - 2018

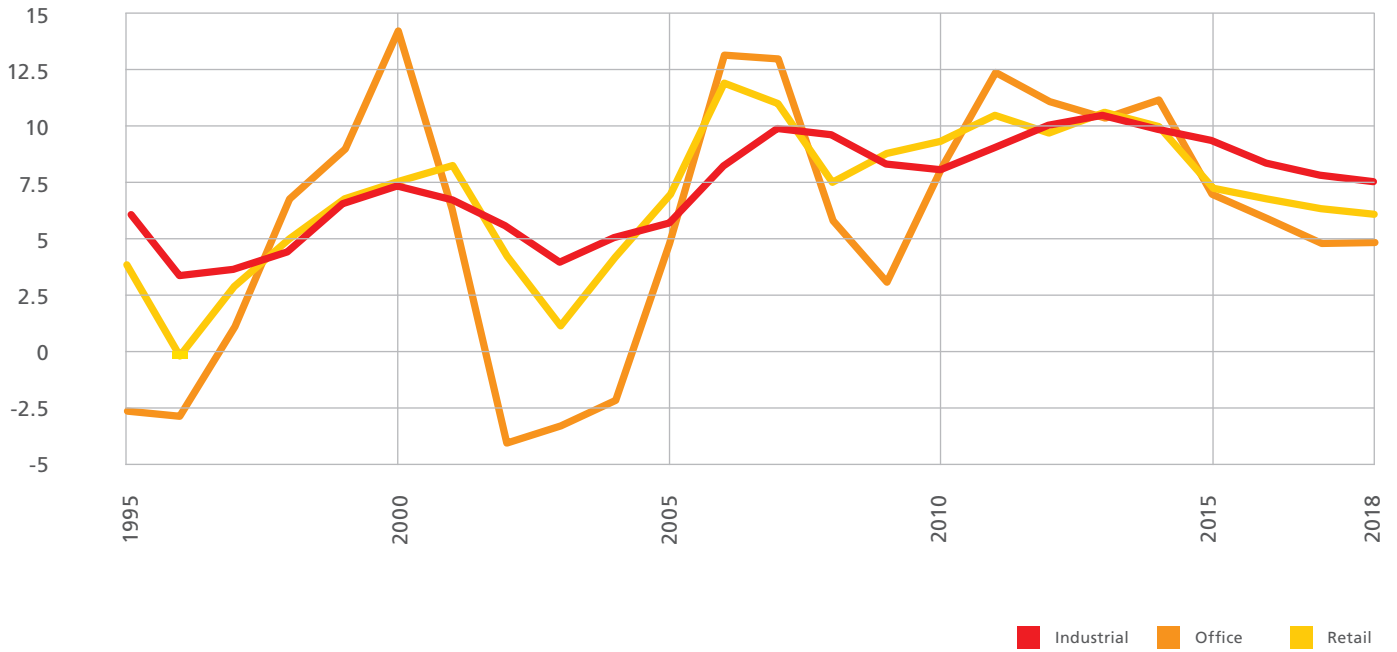
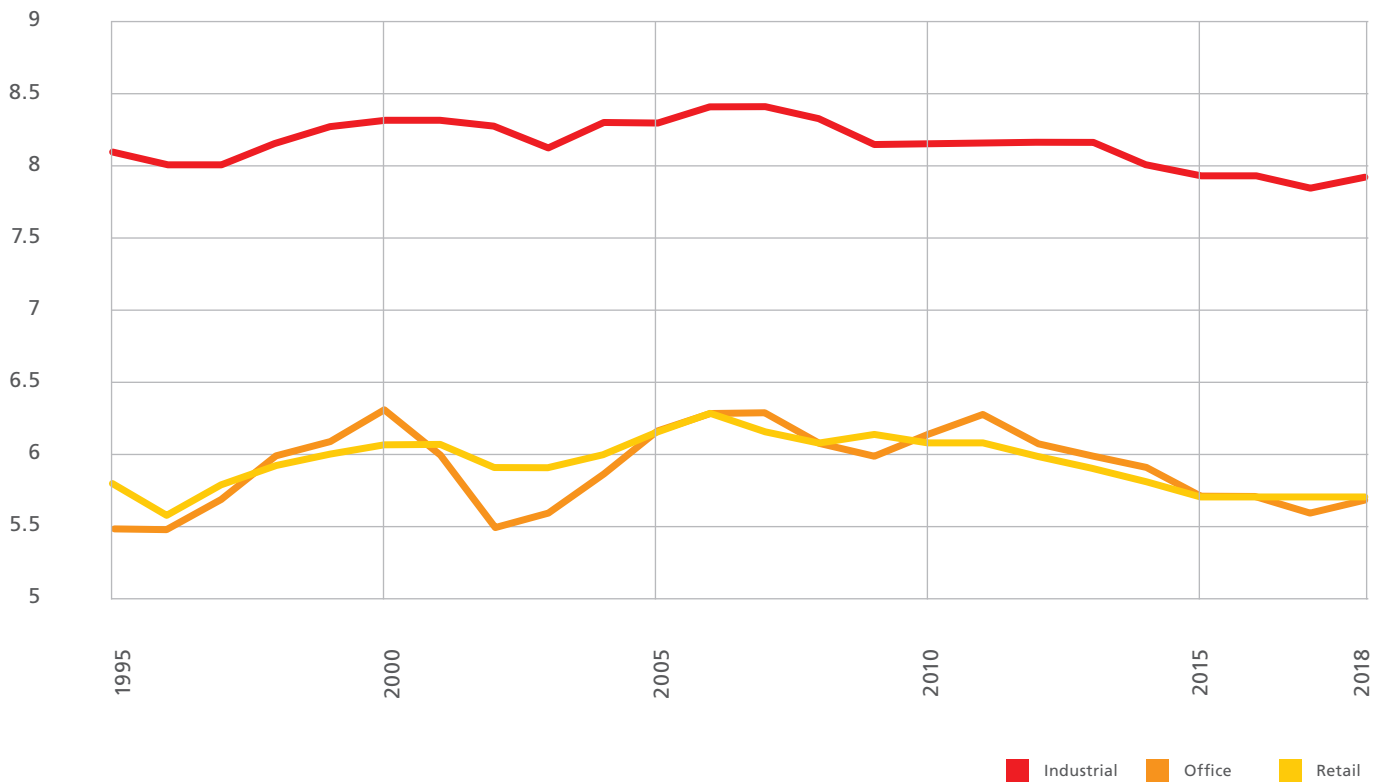


Fig. 27: German Property Index (GPI), cashflow-return by property sector in Germany (y-o-y) 1995 - 2018 in %





## NOTES ON THE ANALYSIS

The INITIATIVE UNTERNEHMENSIMMOBILIEN, delivers, bi-annually, market updates on Unternehmensimmobilien. The contents of the reports will be continuously updated and extended. The initiative is open for dialogue and invites queries or questions on the analysis. Participants in this market are welcome to get in touch with us.

The investment market analysis was conducted on the basis of transaction data provided directly by the participants, augmented by data from bulwiengesa's RIWIS database corresponding to the classification of Unternehmensimmobilien. Transactions of large-scale logistics schemes and other market sectors were not part of the analysis.

A total of 4,317 lease agreements were collected and analysed. In addition for H2 2014 to support the data 1,196 data sets were available. The analysis drew exclusively on primary data sourced from the actual building owners. The evaluation was limited to genuine letting activities and excluded owner-occupier transactions. It also ignored, for example, subletting activities undertaken by non-real-estate companies. Moreover, the analysis does not differentiate between lease renewals and new lettings. We believe that this report covers an estimated third of all lettings transacted on the market. Accordingly, the quoted figures should be read not as a general trend statement but as a random sample.

Entrance area Altes Röhrenwerk Ulm







Production space at Uferstadt Fürth



Service space at Sigma Technopark Augsburg



# GLOSSARY

## GROSS INITIAL YIELD (GIY):

As a transaction-based ratio, gross initial yield reflects the realised return on a property transaction. The gross initial yield is determined as the reciprocal value of the gross income multiplier, i.e. the ratio of gross income to net purchasing price. Compared to the net initial yield, the GIY still includes non-recoverable ancillary costs, as well as the acquisition costs currently accepted as market standard. The GIY is used here, as information on those costs is not always available and in order to make it easier to compare transaction data.

## FLEX-SPACE:

The floor area type, flex space, in the context of Unternehmensimmobilien combines several types of use (office, storage, industrial, among others), and meets a variety of usage requirements. Premises of this type are adapted to the occupier's requirements by landlords or are converted accordingly by the tenant. For instance, a tenant with a current lease for flex space may wish to convert office space into industrial space, or vice versa, without any change to the lease agreement or the rent level. In comparison to the first market report also service and workshop space was classified into this category as these areas can also be converted to flex space. A separate classification does not take place for reasons of consistency.

## GERMAN PROPERTY INDEX (GPI):

The German Property Index (GPI) is a real estate performance index calculated on the basis of available market data. It is compiled for the office, retail, and commercial/logistics sectors. The calculation takes various real estate market and planning data into account, depending on availability. It also factors in additional assumptions concerning management, maintenance and other non-recoverable operating costs for each market segment, developed on the basis of long-term market knowledge.

The national GPI (= total return) of each real estate market sector is derived from the weighted sum of the current (stable) rental income (cash flow return) and the weighted sum of the projected increase in market value (capital growth) of the 127 cities covered by the RIWIS market database. The weightings are differentiated by sector, and are not constant over time. The index and its components are defined as follows in this context:

### **Total Return:**

The total return is derived from the weighted sum of the capital growth (CG) and the weighted sum of the cash flow returns (CF) of the 127 cities. It represents the total return on the capital employed over a certain period of time, i.e. the year-on-year change, quoted in percent.

### **Cash Flow Return:**

The cash flow return measures the income receivable from the current operational use of a property, in relation to the capital employed over time. The cash flow return equals the net income i.e. the rental income after the deduction of current operating expenditure.

### **Capital Growth:**

Capital growth measures the change in asset market value over a period of time, in relation to the market value at the end of the prior period. It takes into account factors which influence value (refurbishments, re-lettings of vacant space or lease renewals) at an asset level as well as changes in values on the property market.

As a benchmark indicator, the GPI enables long-term property investors a measurement of performance of their portfolio. Accordingly, it contrasts with the gross initial yield, which refers solely to the time of a property's acquisition.



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Storage space at World Cargo Center Leipzig



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The findings were interpreted and evaluated against the background of the experience bulwiengesa has gathered through its research and advisory activities in Germany and elsewhere in Europe.

