INITIATIVE
UNTERNEHMENS
IMMOBILIEN

MARKET REPORT

Second half-year of 2016

Transparency on Germany's Industrial Real Estate Market

bulwiengesa

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Market Report No. 6 of the INITIATIVE UNTERNEHMENS-IMMOBILIEN

The performance of real estate markets never represents a linear development. So it came as no surprise that 2016 turned out to be a transition year. 2015 had set new standards on the transaction market for commercial real estate in Germany. No other year since 2007 had generated a similarly high transaction total. In 2016, the boom was checked as the volume dropped by 4.7 % to 52.9 billion euros. The main reason for the decline was not, however, slackening interest on the part of investors or a liquidity bottleneck, but simply a lack of investment opportunities.

Unternehmensimmobilien Assets Fully Occupied on Longer Lease Terms

The Unternehmensimmobilien market evolves almost in perfect sync with the general market trend. The banner year of 2015 was not matched in 2016, as the volume dropped by 22 % to 1.84 billion euros. This made it nonetheless the third-highest year-end volume recorded since the Initiative was formed. Meanwhile, business parks emerged as the fastest-selling property category of the year. Nearly 530 million euros were invested in assets of this type.

It is safe to say without any caveat that the demand for, and interest in, Unternehmensimmobilien assets remains as keen as it has been at any time over the past three years. But, as with Germany's commercial real estate market in general, there is simply a lack of investment opportunities. This is true, by the way, not just for the transaction market, but also for the letting market. While property buyers continue to prowl the market and wait for opportunities, tenants prefer to play it safe. In the current market environment, they gravitate toward longer lease terms. It is a market cycle of declining letting take-up and transaction revenues — whereas rents are going up. So the development arguably confirms the robust state of the market.

Data Pool Well-Informed as Never Before

Unternehmensimmobilien are not a new market phenomenon but an essential real estate component of Germany's economic structure. In terms of floor space and value, this asset type represents one of the largest groups in the commercial real estate sector. The ongoing yield compression confirms: As asset class in its own right, the Unternehmensimmobilien segment has ceased to be a niche. The alleged "Sleeping Beauty" has long woken from its slumber. Yields continued to compress in 2016, in some places substantially so. In certain property categories, they dropped as low as 4.5 %. Indeed,

in individual premium locations they command "core yields" that are more or less on a level with regular office or retail properties. The average yield for 2016, though, moved in a comparatively reasonable bracket of 8 % to just short of 9 %. The wide margin reflects the highly differentiated Unternehmensimmobilien stock as well as the great bandwidth of quality and price that provides options for any kind of investment strategy.

Especially against this background, having access to accurate markets stats is of the utmost importance. So it is not least for this reason that Initiative Unternehmensimmobilien revisited the market reports submitted over the past five years of research in the field of Unternehmensimmobilien, and subjected them to a critical review: Fresh data was added, while existing data was scrutinised again and verified. That is why the latest figures may show deviations here and there when compared to previous market reports.

Accordingly, this Market Report #6 contains the latest benchmark figures for the Unternehmensimmobilien asset class. The outcome of the revision is in any case quite impressive — never before was the data pool so complete and so well-informed.

Source: bulwiengesa

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Investment volume in million euros by property type H2 2016

Publisher and editing: bulwiengesa

Right image:
Self-storage boxes in
a Sirius Business Park

Flexibility and Stability are King

Then as now, tenants highly appreciate the flexibility of Unternehmensimmobilien, both in regard to footprint and as far as length of tenancy goes. On the one hand, roughly 26 % of the occupiers seek to rent units larger than 5,000 m². The medium size band ranging from 2,500 to 5,000 m² is favoured by another 20 %. On the other hand, half of all tenant leads rent units smaller than 2,500 m².

The spectrum of lease terms presents a similarly differentiated picture. Well over 43 % of all units were let for terms of five years or more, while another 15 % of the leases terms ranged from three to five years. Nearly a third of all units rent out for terms of less than three years.

The breakdown illustrates how different tenant needs can be. It is actually their flexibility that makes Unternehmensimmobilien assets so attractive for them. The rising demand for flex spaces (see glossary) suggests as much, with prime rents now up to 13.70 euros/m². The rate thus exceeds the prime rents of office and social areas, whose performance is rather stable. In addition to the rising popularity of flex space units, the fact is primarily explained by limited supply. To cover demand on a sustainable level in the future, the building activity would have to be stepped up.

Another essential aspect for the asset class of Unternehmensimmobilien, in addition to flexibility, is stability. Long-term leases are not the exception in this segment, but are steadily gaining in significance, not least because they help to stabilise the regular rental income.

INITIATIVE UNTERNEHMENSIMMOBILIEN now counts 13 members. Their joint goal is to enhance the transparency in the market segment in order to facilitate access to the asset class. For this purpose, a reporting system was set up in collaboration with the independent research and consultancy firm of bulwiengesa, which evaluated all of the transaction and letting data that was made available by the members. While the initiative was originally set up by non-corporates (real estate companies), corporates (industrial companies) have lately begun to join up. Together, they cover two different aspects of the Unternehmensimmobilien sector. Please visit us on the internet at *unternehmensimmobilien.net* to stay up to date.

Source: Sirius Facilities

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, service, and/or wholesale trade and clearance space.

The term “Unternehmensimmobilien” covers four different real estate categories:

Converted properties

Business parks

Light manufacturing properties

Warehouse/logistics properties

All four of these categories are characterised by alternative use potential, reversibility of use, and a general suitability for multi-tenant structures. The strength of Unternehmensimmobilien assets is their flexibility not just in terms of use but also in regard to their occupiers.

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Fig. 01: right page: Different Categories of Unternehmensimmobilien

- Very low vacancy risk
- Low vacancy risk
- Moderate vacancy risk
- Slightly elevated vacancy risk
- Elevated vacancy risk

Asset classes

Unternehmensimmobilien as an alternative asset class

Wide variety of occupiers from various industries

Variable mix of use types

Established asset classes in the real estate sector

Normally just one occupier

Usually single use type

High reversibility of use

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

Low reversibility of use

- Retail properties
- Office properties
- Hotel properties
- Special purpose properties

Converted Properties

Converted properties usually represent transformed and revitalised commercial real estate. More often than not, they previously housed production plants or were part of industrial areas with potential for further densification. Whenever they are historic buildings or have a background in the industrial age, they often have the special charm of vintage factory buildings ("red brick character"). They are frequently found in locations close to town centres, which makes them conveniently accessible by private and public transportation. Most of the ensembles comprise a mix of revitalised period buildings and new-build schemes. Multi-tenant properties may include any of various floor space types and sizes, and thus show a high degree of flexibility.

Kontrastwerk Cologne

Address:	Oskar-Jäger-Straße 173, 50825 Cologne
Owner:	Aurelis Real Estate GmbH & Co. KG
Size:	6,000 m²
Types of floor space:	Office, warehouse and manufacturing space
Target group:	Retail and wholesale trade, services

Sirius Business Park Düsseldorf-Heerdt

Address:	Wiesenstraße 51, 40549 Düsseldorf
Owner:	Sirius Facilities GmbH on behalf of Sirius Beech B.V.
Size:	16,000 m²
Types of floor space:	Office, warehouse and manufacturing space
Target group:	Manufacturing industry, warehousing and logistics sector, retail and wholesale trade

Business parks

Most business parks were developed and raised to be let. Many of them consist of an ensemble of separate buildings or connected rental units. They have a centrally organised management and a shared infrastructure in place. Business parks generally accommodate any type of floor space, and their office share can range from 20 % to 50 %. Like other trading estates, business parks are characterised by multi-tenancy. Unlike converted properties, business parks tend to be located in suburban locations that are easily accessible for motorised transport. On top of that, they tend to have only a negligible share of tenant groups from the service sector and the creative industries. More often than not, they have a higher share of occupiers from the light manufacturing and warehousing/logistics sectors.

SEGRO CityPark Düsseldorf

Address:	Fichtenstraße 75, 40233 Düsseldorf
Owner:	Segro Germany GmbH
Size:	14,221 m²
Types of floor space:	Office, warehouse, manufacturing and service space
Target group:	Industrial, manufacturing industry, retail and wholesale trade

Lilienthalcenter Hanover

Address:	Kugelfangtrift 4 – 10/ Lilienthalstraße 17,19, 30179 Hanover
Owner:	CREFG Beos Corporate Real Estate Fund Germany II
Size:	6,997 m²
Types of floor space:	Office, warehouse, manufacturing and service space
Target group:	Industrial, manufacturing industry, services

Warehouse/logistics properties

Warehouse/logistics properties in the context of Unternehmensimmobilien are chiefly understood as existing schemes with predominantly simple storage facilities. Occasionally, they may feature service spaces as well as a moderate or sizeable share of office spaces. Their distinct difference from modern logistics warehouses is a matter of scale, as the latter usually have far more than 10,000 m² in usable area. Unlike new schemes, they also tend to be located in historically evolved trading estates with convenient transport links. As the age of these buildings varies considerably, so do their fit-out and quality standards. Yet this degree of diversity is precisely what makes them a source of flexible and affordable types of floor space. Warehouse/logistics properties are normally characterised by reversibility of use, and therefore suitable for higher-spec use types — e. g. by retrofitting them with ramps and gates.

ReBuy logistics property

Address: Kanalstraße 131 – 139, 12357 Berlin
Owner: Garbe Group through Garbe Unternehmensimmobilien Fonds 1
Size: 8,210 m² Warehouse/logistics space, 2,130 m² office/service and other areas
Types of floor space: Warehousing/logistics space, office/service areas
Target group: Warehousing and logistics sector

Logistics property Lohfelden

Address: Otto-Hahn-Straße 36, 34253 Lohfelden
Owner: M7 Real Estate on behalf of M7 EREIP IV Lux German Propco 1 S.a.r.
Size: 4,363 m² warehouse space, 1,493 m² office space and other areas
Types of floor space: Warehouse/logistics space, office/service areas
Target group: Warehousing and logistics sector

Light Manufacturing Properties

Light manufacturing properties consist essentially not of building ensembles but of individual warehouse structures. They tend to have a moderate share of office space, and are principally suitable for diverse manufacturing types. However, they are principally suitable for alternative use types, such as storage, research, and services, as well as for wholesale and retail trading, in a flexible and reversible manner. Accordingly, the alternative use potential depends primarily on the location. Unlike multi-user assets, light manufacturing properties are often situated in remoter districts and historically grown trading estates and industrial zones with convenient access to arterial roads.

Light manufacturing property Dormagen

Address:	Hamburger Straße 12, 41540 Dormagen
Owner:	Hansteen Holdings PLC
Size:	6,169 m²
Types of floor space:	Manufacturing, warehouse and office space
Target group:	Manufacturing Industry

Dynamowerk Berlin

Address:	Nonnendammallee 72, 13629 Berlin
Owner:	Siemens AG/Siemens Real Estate
Size:	113,006 m²
Types of floor space:	Manufacturing, warehouse and office space
Target group:	Manufacturing Industry

The Investment Market for Unternehmensimmobilien in H2 2016

Another Banner Year for the Investment Market

Unternehmensimmobilien have become increasingly established as an asset class. Due to the ultra-swift yield compression in the asset classes office and retail, investors are shopping around for attractive investment alternatives, and keep diversifying their portfolios. It is a perfectly plausible response, and the findings of the reports of Initiative Unternehmensimmobilien suggest as much. During the first years analysed, 2011 and 2012, only about 600 million euros worth of Unternehmensimmobilien changed hands, but by 2013, the transaction volume had already more than doubled at 1.3 billion euros. The growth in sales continued to gather momentum in subsequent years, causing the total investments in Unternehmensimmobilien to remain upward of 2 billion euros per year. The year with the strongest demand to date was 2015, when the total value traded set a new record at 2.3 billion euros. As suggested earlier, the trend evolved in sync with the performance of Germany's commercial real estate investment market in general.

Transactions in 2016, while voluminous, barely cleared the mark of 1.8 billion euros. That being said, the year-on-year decline is explained not by any slack in demand, but by short supply. Business parks, for instance, had driven up the transaction volume in the years 2014 and 2015, but failed to contribute to the total volume on the same scale in 2016. The main reason for the drop, in addition to a comparatively small total stock, is the fact that many assets that changed hands in the recent past are not on the market but were earmarked for medium- or long-term ownership. One thing that 2016 had in common with the two prior years was that the bulk of the transaction volume was traded in the second half-year. The first six months had already been successful, returning a mid-year result of over 800 million euros, yet H2 saw a brisk increase by another 28 % and ended with a total of more than 1 billion euros.

Relatively Balanced Demand across Categories

The distribution of transaction volumes across the different Unternehmensimmobilien categories was relatively balanced in 2016. Although business parks retained the lead with a total of 528 million euros, their head start was no longer as conspicuous as it had been in previous years. They were closely trailed by transformation and light manufacturing properties with total volumes of 469 and 462 million euros, respectively. Warehouse/logistics properties lagged behind the other three categories, ending the year with a sales total of 379 million euros. This did not come as much of a surprise: It is, after all, the category that always made the record with the lowest transaction volume. A main reason to explain the fact is the breakdown of warehouse/logistics properties by size, some assets being grouped with Unternehmensimmobilien, other with large-scale logistics. In fact, the warehouse/logistics properties classified as Unternehmensimmobilien never exceed a usable area of 11,000 m², a dimension that disqualifies them for modern large-scale logistics purposes. Accordingly, the warehouse and logistics property stock within the Unternehmensimmobilien segment is characterised mainly by small-scale schemes like transshipment warehouses or logistics assets in integrated locations rather than big-ticket units next to motorway interchanges.

The second half-year of 2016 substantially exceeded the mid-year result, primarily due to strong sales in the business park segment. The business park transactions total climbed by more than 105 % during H2, with investments adding up to 356 million euros (H1: 173 million euros). Next in line were converted properties with a total of 273 million euros. This implies an increase by nearly 40 % compared to the first half-year. Transaction revenues in the segment of warehouse/logistics and light manufacturing properties evolved at a much slower pace. While warehouse/logistics properties saw sales increase by more than 10 % to a volume of nearly

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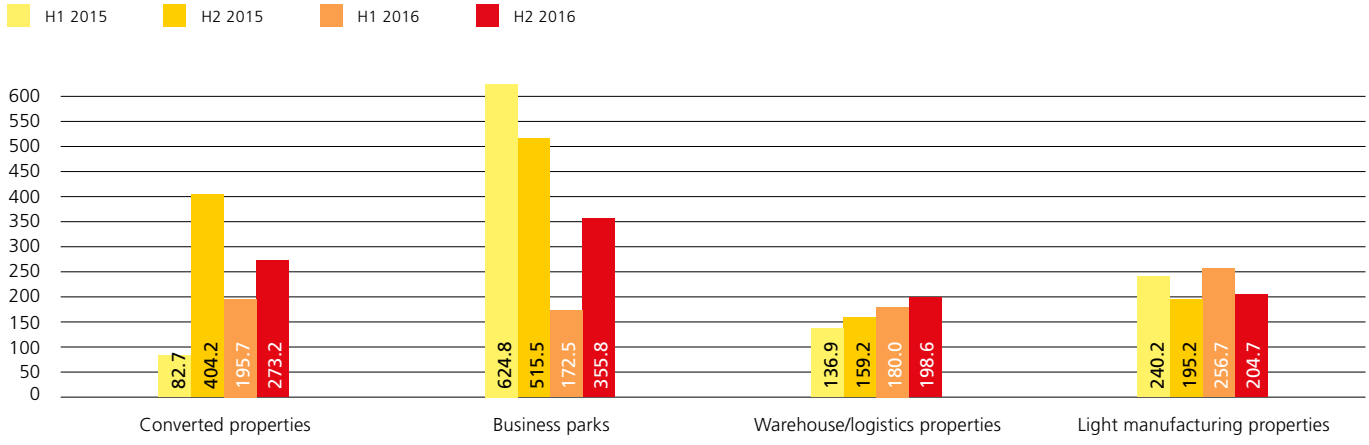
Fig. 02: Transaction volume in million euros by property category



199 million euros, the transaction volume for light manufacturing properties dropped by roughly 20 % compared to H1, totalling 205 million euros.

Relative to the entire year, the one-year drop in transaction revenue must be blamed on declining business park sales above all. In this as in other segments, the root cause was the limited number of assets on the market, more so than slow demand. Business parks are highly suitable for investments; having been traded in large-scale portfolio transactions in 2015, there were simply not as many assets available on the market in 2016. New schemes are still under development at the moment, and not yet available for trading.

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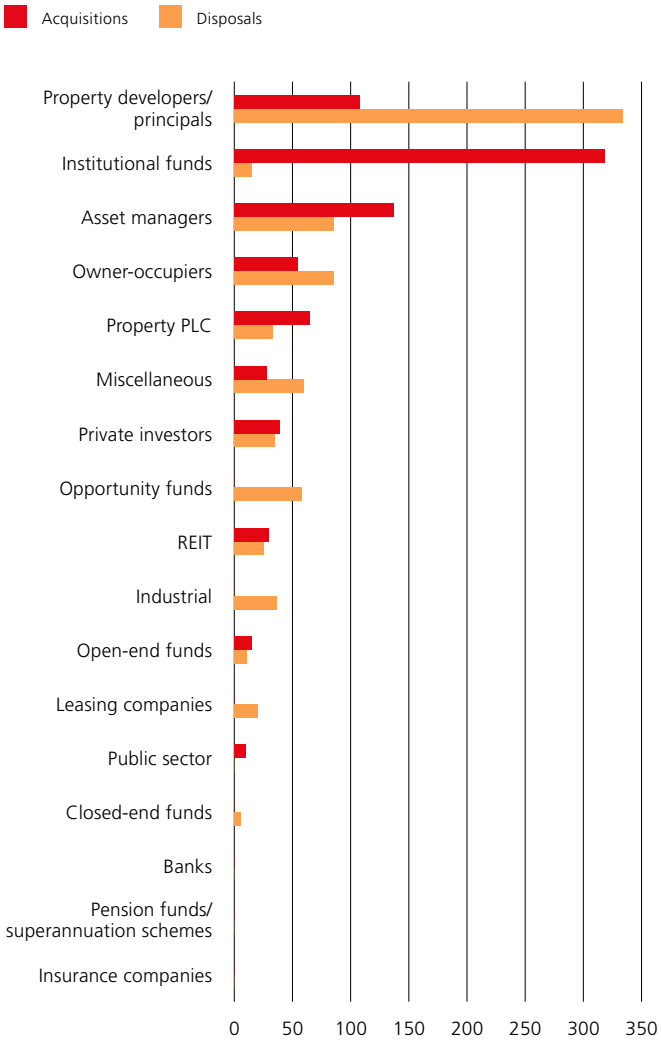
Fig. 03: Acquisitions/disposals by investor type in H1 2016, in million euros, sorted by largest transaction volume



Lounge area in a converted property owned by GSG

Clearly the strongest buyer group in 2016: institutional funds

Collectively, institutional funds invested roughly 760 million euros in Unternehmensimmobilien. It makes them the strongest buyer group by far. Asset managers and public property companies lag far behind at 251 and 228 million euros, respectively. The Unternehmensimmobilien segment is becoming increasingly popular among investors. However, the high management costs associable with it and the specialised know-high it requires makes the performance of this property type hard to predict for market newcomers. Conversely, institutional funds, public property companies, and asset managers specialised in Unternehmensimmobilien are clearly at advantage. Insurance companies, pension funds and opportunity funds, by contrast, remain rather reticent when it comes to direct commitments in Unternehmensimmobilien. But even they show increasing interest because of the attractive yield outlook. Private players, including family offices, ended 2016 with a combined acquisition volume of 125 million euros, which put them in fifth place. Property developers/principals topped them slightly with a total of nearly 140 million euros.

If you combine acquisitions and disposals, however, property developers come out on top as the fastest-selling group during the first half-year of 2016. They bought and sold Unternehmensimmobilien in a total value of 442 million euros. In line with their core competence, they sold considerably more (334 million euros) than they bought (108 million euros). Sold properties are normally fully developed and marketable, whereas most of the acquired properties need to be revitalised before putting them back on the market. Meanwhile, institutional funds made up the second-fastest trading group. The gap between acquisition and disposal volumes is particularly wide for this group. Its total trading volume of 334 million euros breaks down into 319 million euros in properties bought and just 15 million euros in proper-

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Fig. 04: Acquisitions/disposals by investor type in H2 2016, in million euros, sorted by largest transaction volume

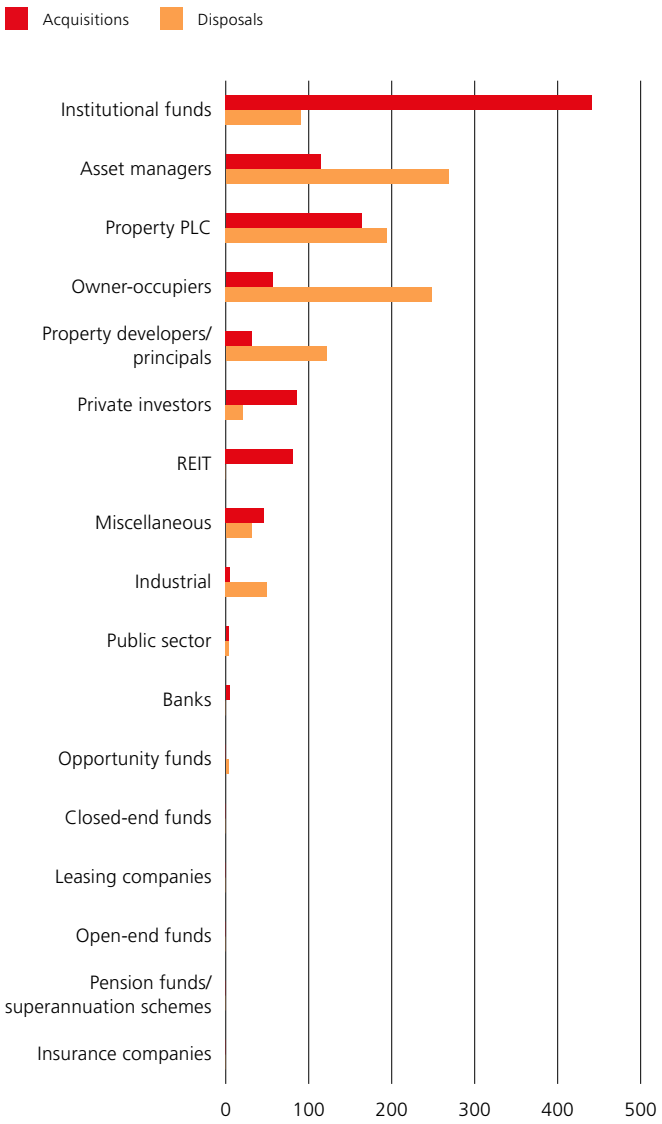

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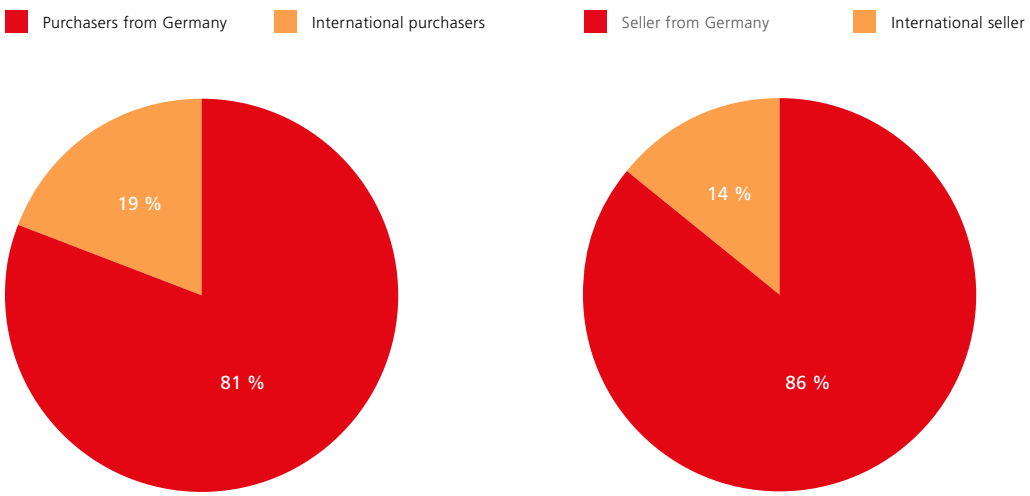
Fig. 05/06: Acquisitions and disposals by origin of actors, in %, H1 2016



ties sold. The ratio is more balanced in the case of asset managers: Here, the trading total of 223 million euros divides into 137 million euros in acquisitions and 85 million euros in sales.

The market action during the second half of 2016 was dominated by institutional funds. Having generated a trading volume of 532 million euros, they were by far the most active market players. Interesting to note, the ratio of acquisitions to sales shows a massive imbalance in favour of acquisitions. During the H2 2016 alone, this group of investors spent 441 million euros on Unternehmensimmobilien. But it only sold 91 million euros worth of properties during the same period. Asset managers and public property companies ended H2 2016 more or less on a level in terms of transaction volume, having traded 383 and 358 million euros worth of Unternehmensimmobilien, respectively. Either group sold more than it bought during the second half of the year. Public property companies spent 163 million euros on properties, but sold 194 million euros' worth at the same time. The 114 million euros worth of acquisitions transacted by asset managers were matched by 269 million euros in disposals.

Striking to note not just about the second half-year of 2016 but actually about the entire year is the ratio of acquisitions to disposals among owner-occupiers. The latter bought 111 million euros worth of Unternehmensimmobilien in 2016, but divested themselves of properties worth 335 million euros during the same period. The persistent trend among corporates to sell off their property holdings and to switch to lease solutions instead is conspicuously in evidence here. But it is also quite obvious that not all of them feel that the rental market will accommodate their spatial needs or their security requirements, as many owner-occupiers prefer the status quo. Especially in peripheral regions with slow demand, the number of rental property available on the market is rather limited and may be inadequate for local corporates.

Foreign Players Reclaim Larger Shares in the Transaction Volume

In the course of 2015, the number of German companies active on the investment market for Unternehmensimmobilien expanded steadily. This trend continued to hold during the first six months of 2016. Claiming roughly 81 % of the acquisition volume by mid-year 2016, German players had visibly gained ground since H2 2015 (73 %). But the outcome of the Brexit vote and of the presidential elections in the United States have moved the German real estate market, which is considered particularly safe, back into focus among foreign players — a fact reflected in the market action of the second half-year of 2016. Foreign investors raised their share of the acquisition volumes significantly, ending H2 2016 at 26 % and thus more or less reclaiming the market share they had at the end of 2015.

During the second half-year of 2016, foreign players both on the buyer and on the seller side noticeably expanded their market shares. Claiming 26 % of the acquisitions volume and 25 % of volume of disposals, international investors accounted for a quarter of the transaction activity on the Unternehmensimmobilien market. This equals an acquisition volume of 268 million euros and a sales volumes of 261 million euros. German players spent 765 million euros on Unternehmensimmobilien, and sold 772 million euros' worth.

Relative to the year as a whole, the foreign share on the buyer side equals 23 % and include acquisitions in a total value of 418 million euros. German market participants claimed a 77 % share, which translates into c. 1.42 billion euros in acquisitions. As far as sales went, international sellers weighed in with a share of over 20 %, which implies a volume of 376 million euros. Here, German businesses claimed an 80 % share of the market, the equivalent of 1.46 billion euros.

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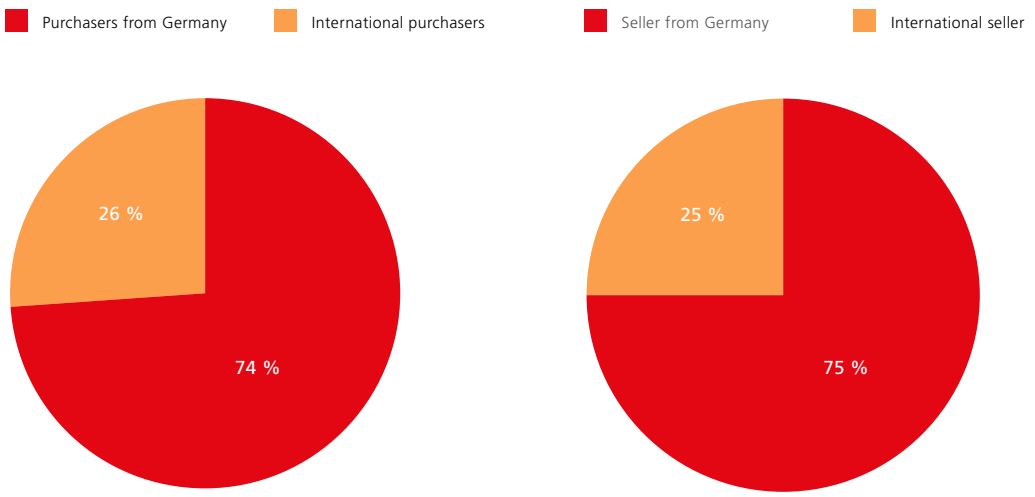
Fig. 07/08: Acquisitions and sales by origin of actors, in %, H2 2016



Regional Distribution: South on Top, Berlin Falling Behind

For the purposes of this analysis, the market for Unternehmensimmobilien is split up (see map) into the conurbations Hamburg, Berlin, Munich and Stuttgart (each with their great metro area), into the two conurbations Rhine-Ruhr and Rhine-Main-Neckar, and into the other regions of Germany (subdivided into North, East, South and West). Their specific economic strength of the metro areas makes it sensible to study them separately rather than including their data in the analysis of the respective region.

The Southern Region (not including Munich and Stuttgart) topped the list with the strongest demand in H2 2016, registering transaction revenues of nearly 270 million euros or more than a quarter of the total revenues of over 1 billion euros. If you include Munich and Stuttgart complete with the greater areas, southern Germany accounted for roughly 43 % of the transaction revenues during this half-year with a total of almost 441 million euros. The high score is explained not least by greater supply. As one of the economically strong areas in Germany, home to a plethora of global players (Siemens, BMW, Audi, among others) and SMEs with global market leadership (Katz Group, Klafs, ASB-Grünland, Ensinger, among others), the Southern Region (Bavaria and Baden-Württemberg) has the country's largest stock of Unternehmensimmobilien. These states claim a higher pro-rata share of the investment total than most of the other German states. The fact reflects the faith that investors have in the security of investment assets located in Germany's southern states. A case in point, one of the single largest transactions during the second half-year took place in the south of Germany, specifically the Munich metro area, as the airfield and business park Oberpfaffenhofen in Wessling changed hands. The ensemble of buildings with more than 100,000 m² of usable area was sold by Airbus to a member of the Initiative Unternehmensimmobilien during Q4 2016.

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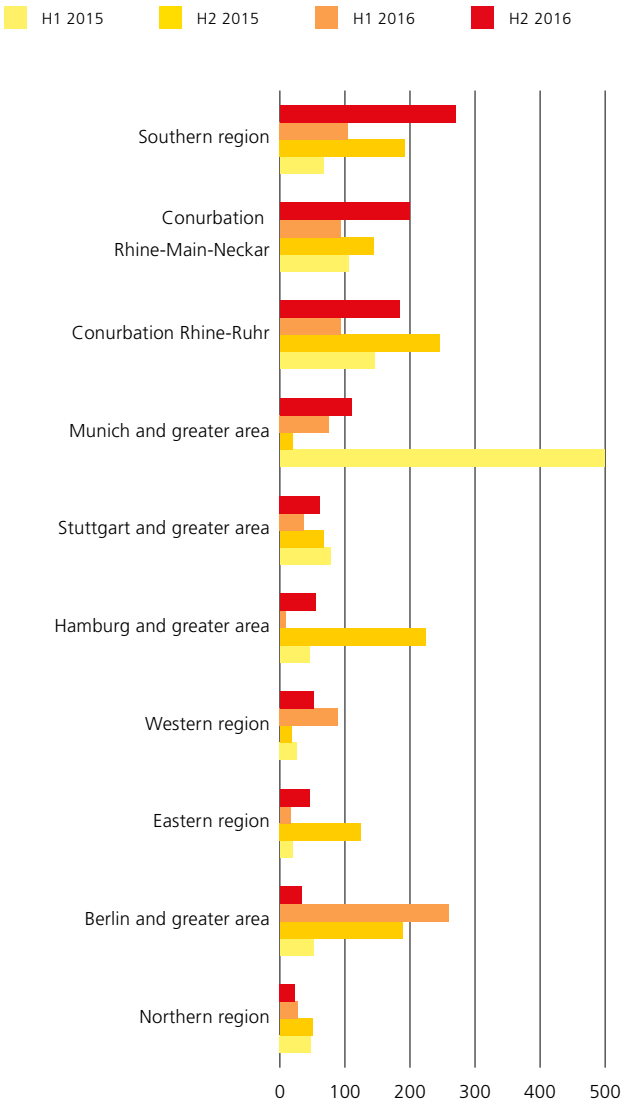
Fig. 09: Distribution of transaction volumes in a rolling period ranking by region, in million euros, descending order by transaction volume, H2 2016



With the exception of the conurbations Rhine-Ruhr and Rhine-Main-Neckar, which claimed a revenue total of 180 and 200 million euros, respectively, during the second half-year of 2016, the other regions trail far behind, comparatively speaking. While the periphery beyond the metropolises in the south are superbly positioned, there is currently very little trading activity outside the urban agglomerations elsewhere in the country. That being said, there are generally fewer assets on the investment market, while the market liquidity is lower, too. Also surprising is that the Berlin metro region, which had always generated the strongest demand in past survey periods or at least ranked close to the top, played only a negligible role during H2 2016, although it should be added that H1 had seen a very high turnover. Barely 34 million euros worth of Unternehmensimmobilien were traded here. But again, the survey ignored larger logistics investments because they belong in the dedicated survey for the logistics market.[1] In analogy to other asset types, the phenomenon could also be explained by short supply: Many market participants are still integrating their recent investments in their portfolios, while other have no intention to sell their Unternehmensimmobilien assets, but see themselves as long-term property asset holders.

[1] For more details, see also the syndicated survey "Logistics and Real Estate 2016" that bulwiengesa AG compiled in collaboration with Berlin Hyp, Goodman, Savills and Bremer AG. Download at: http://www.bulwiengesa.de/de/publikationen/studien/logistik-und-immobilien-2016

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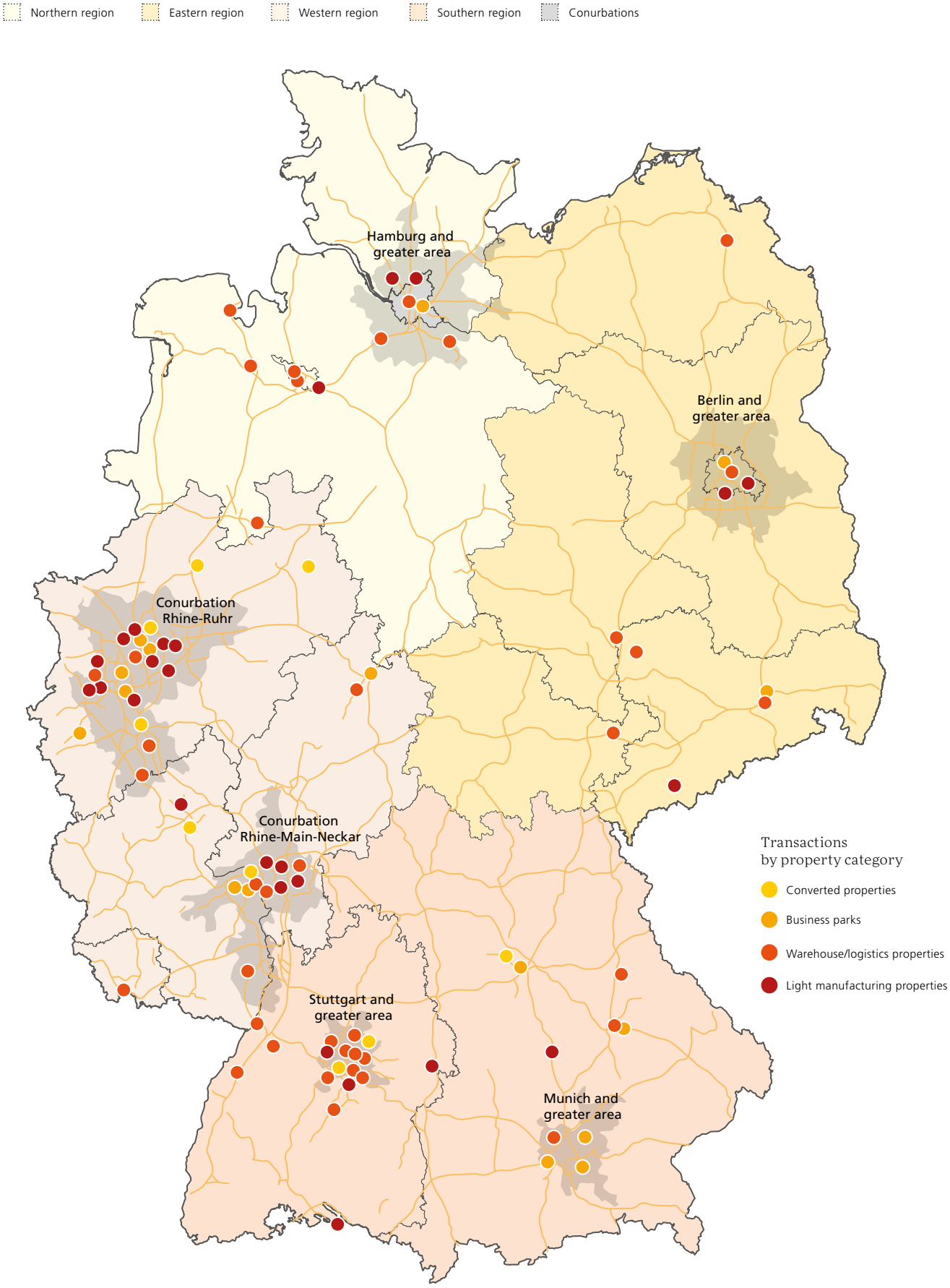
Fig. 10: Geographic distribution of transactions in Germany, H2 2016, by property category



Western Region gains 220 %

Striking to note when comparing 2015 and 2016 is that the Western Region registered the biggest gains. It equalled a 220 % increase year on year. This is put in perspective by the fact that annual sales in 2015 totalled only 44 million euros. Then again, the conurbations Rhine-Ruhr and Rhine-Main-Neckar include virtually all major cities in the Western Region, which has no analogy in the other three regions. The 2016 year-end investment volume for the Western Region is 141 million euros. Runner up is predictably the fast-selling Southern Region. Here, the transaction volume increased by another 45 % year on year. This means that the Southern Region accounted for 375 million euros by the end of 2016, not including the greater Munich and Stuttgart areas.

Surprisingly, Berlin and greater area also registered a year-on-year increase in trading volume, as revenues grew by 22 % between 2015 and 2016. This is mainly explained by the region's brisk market action during the first half-year of 2016, which totalled c. 260 million euros. All things considered, Berlin and greater area accounted for 292 million euros of the annual sales. Another region that reported an increased transaction volume was the Rhine-Main-Neckar conurbation. But at just 18 %, it was the slowest positive growth rate among the regions. Year over year, the trading total rose from 250 million euros in 2015 to 293 million euros in 2016. All other regions saw their transaction volumes decline year on year. The greatest dips were registered in Hamburg (-77 %) and Munich (-64 %, both figures including the greater metro area).

Yield Compression Marks the End of the "Niche Product" Status for Unternehmensimmobilien Segment

Germany's commercial real estate investment market registered comparatively high transaction revenues in recent years, both in general and specifically for Unternehmensimmobilien. While the latter category was fraught until recently with a high degree of uncertainty due to a lack in market transparency, it is safe to say that it has emerged from its niche for good. The shift has obvious consequences for the yields to be expected. Risk premiums are no longer what they used to be. Rather, top assets now offer yield rates that are more or less on a part with those quoted in the asset classes office, retail or logistics. This is true particularly for the easy-to-trade multi-tenant categories of converted properties and business parks. One reason for this, in addition to the investment pressure and the corresponding increase in demand for real estate in general, is the deepened understanding of Unternehmensimmobilien management. There is a growing appreciation of the "core" qualities of Unternehmensimmobilien in the industry, and even private and risk-averse investors are warming successively to the new asset class. The image gain is confirmed by the trend in prime yields.

Converted Properties and Business Parks Command Premium Prices

The latest figures show that all Unternehmensimmobilien property categories have experienced yield compression since 2015, meaning both average and prime yields. The compression is most conspicuous for prime yields of converted properties. Here, yields hardened by around 1.4 percentage points between year-end 2015 and the end of 2016, dropping from 5.9 % to 4.5 %. Most affected are top assets in prospering metro regions that were already converted from a brownfield structure into an attractive multi-tenant property through extensive redevelopment and alterations. Office rents in some of these properties were on a level with rents in regular office schemes with the same quality of location. In certain cases, up to 16.00 euros/m² were quoted in Munich, up to 18.00 euros/m² in Berlin, and indeed up to 30.00 euros/m² in Frankfurt. These rates reflect the firming demand for this property category — aspirational office occupiers are perfectly willing to pay good money for the red-brick charm of a vintage industrial ambience.

Yields have also compressed for the other multi-tenant property type, that of business parks. While prime yields of 6.3 % used to be standard as recently as year-end 2015, the going rate is 5.2 % now. The reason for this, aside from the generally increased interest, is that attractive new-build properties of this category have come onstream lately that do not have an oversized office share as previous generations sometimes did. Accordingly, they are much easier to market. Another reason is that some of the new schemes are raised in inner-city conversion areas, and therefore boast great location criteria. Occupiers are by all means prepared to pay elevated rents in these centrally located new buildings, and this translates of course into higher selling prices. Prominent cases in point include the City Parks that SEGRO developed in Düsseldorf and Cologne. That being said, there are obviously many less marketable assets on the market as a whole. It is, in fact, the reason why the average yield compression for business parks is considerably lower at 17 basis points (bps).

While even warehouse/logistics properties and light manufacturing properties experienced yield compression, the momentum was much slower for them. Both prime and average yields for warehouse and logistics properties hardened by about 40 bps. Prime assets of this Unternehmensimmobilien category thus currently trade at 6.1 %. Interestingly, a look at large-scale logistics real estate reveals that the current yield rates are slightly higher. As mentioned above, Initiative Unternehmensimmobilien differentiated between these large-scale modern logistics schemes close to motorway interchanges, for instance, and smaller or sometimes older warehouse assets in urban built-up areas.

The performance of light manufacturing properties shows clearly that they, too, are traded with increasing frequency. Selling prices are already climbing, and yields are hardening rapidly at an average of 80 bps. The prime segment has not been unaffected by this development either, although the level is more stable. As a result of a marginal decline by 10 bps, it approached the 6 % threshold, but has not yet crossed it.

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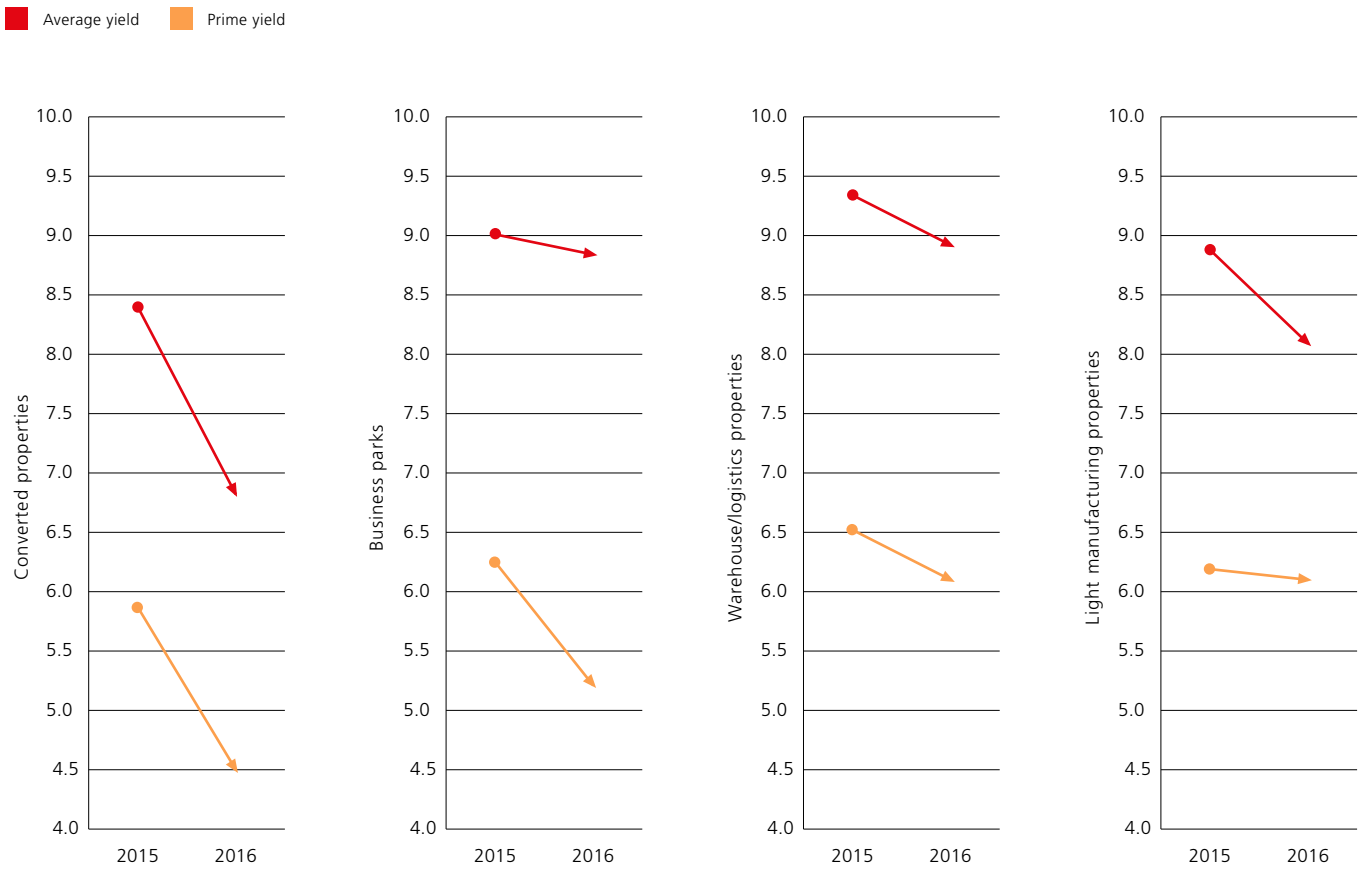
Fig. 11: Gross initial yield[2] over time, by property category, in %



[2] The achievable yields are posted in gross initial yields (GIY). It represents the ratio of the net rental income and the net purchase price at the time of the transaction. Accordingly, it reflects both the profitability and the value of a given property, which sets the ratio apart from long-term performance indicators such as the GPI. For a definition of the gross initial yield (GIY) and the GPI, please see the glossary.

The Letting Market for Unternehmensimmobilien in H2 2016

Short Supply Hampers Lettings

Despite steady economic growth, demand for lettable space in Unternehmensimmobilien assets remains strong, while the take-up dropped to its lowest level since 2013. Totalling 388,000 m², the figure plummeted by over 30 % half-year-over-half-year, and it undercuts the medium take-up of the past three years by 31 %. The fact is explained by the supply shortage and the low volume of new construction, among other reasons.

With a Take-up of over 100,000 m², Berlin Outperforms the Conurbation Rhine-Ruhr

The highest rental demand for Unternehmensimmobilien premises during H2 2016 was registered in Berlin and its greater area. In fact, demand here topped the record mid-year figure reported from the Rhine-Ruhr conurbation by almost 6 %. Berlin accounted for roughly 27 % of all Unternehmensimmobilien lettings during the second half of 2016, which gave the city a lead of almost 50 % over the Rhine-Ruhr conurbation, the region with the second strongest demand. The outperformance is attributable primarily to the persistently keen demand in the service sector, the small and medium-sized enterprises in the manufacturing industry, and the busy start-up scene in the German capital. Unlike the transaction market, which was swept clean of product during the second half-year of 2016, the rental markets continued to list a small number of available accommodations. But supply has dried up more or less the same way it has in the office rental market. The best place to hunt for available space is now on the periphery of Berlin's inner city, outside the rapid-transit circle line. And even here, demand is growing.

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Fig. 12: Absolute take-up in a rolling comparison in m², H1 2015 through H2 2016, by regions, sorted in descending order, H2 2016

Region	H1 2015	H2 2015	H1 2016	H2 2016	Total
Conurbation Rhine-Ruhr	68,500	163,000	96,500	104,000	432,000
Berlin and greater area	113,500	81,000	98,500	69,500	362,500
Southern region	24,000	74,000	20,500	50,500	169,000
Hamburg and greater area	42,500	109,000	72,000	44,500	268,000
Western region	122,500	72,000	48,500	37,500	280,500
Munich and greater area	38,500	49,000	58,500	25,000	171,000
Conurbation Rhine-Main-Neckar	24,500	61,500	49,500	20,500	156,000
Stuttgart and greater area	21,500	10,000	28,000	16,000	75,500
Eastern region	137,000	24,000	29,000	15,500	205,500
Northern region	66,000	36,000	53,000	5,000	160,000
Total	658,500	679,500	554,000	388,000	2,280,000

Take-up Growing only in the Northern Region and Greater Berlin

While the take-up declined in virtually all regions during H2 2016 when compared to the first half-year, the Northern Region as well as Berlin and its greater area reported positive growth. The fastest growth was registered in the Northern Region after a 147 % surge compared to H1 2016. That being said, its increase to a total take-up of around 50,600 m² equalled barely 49 % of the floor space lettings in Berlin. Germany's Western and Southern Regions present a radically different picture. The steepest drop in demand was registered in the Western Region, where the take-up fell by about 91 % since the first half-year. In concrete terms, the take-up decreased from 53,000 m² to now 5,000 m², which is roughly one seventh of the three-year average in the Western Region. Demand was also down in Stuttgart as well as in Munich and its greater area, ranging in the bottom third with around 15,500 m² and 20,500 m², respectively.

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Fig. 13: Take-ups in a rolling comparison, in '000 m², by regions and semesters, sorted in descending order by take-up, H2 2016

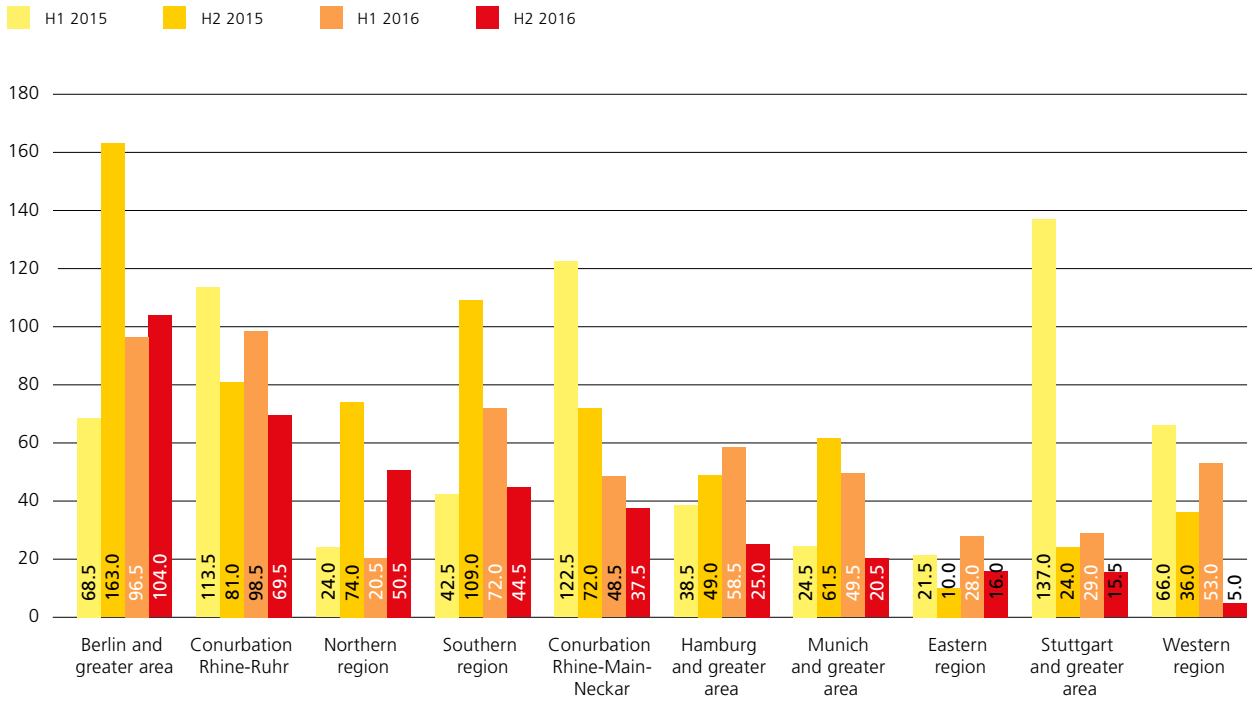

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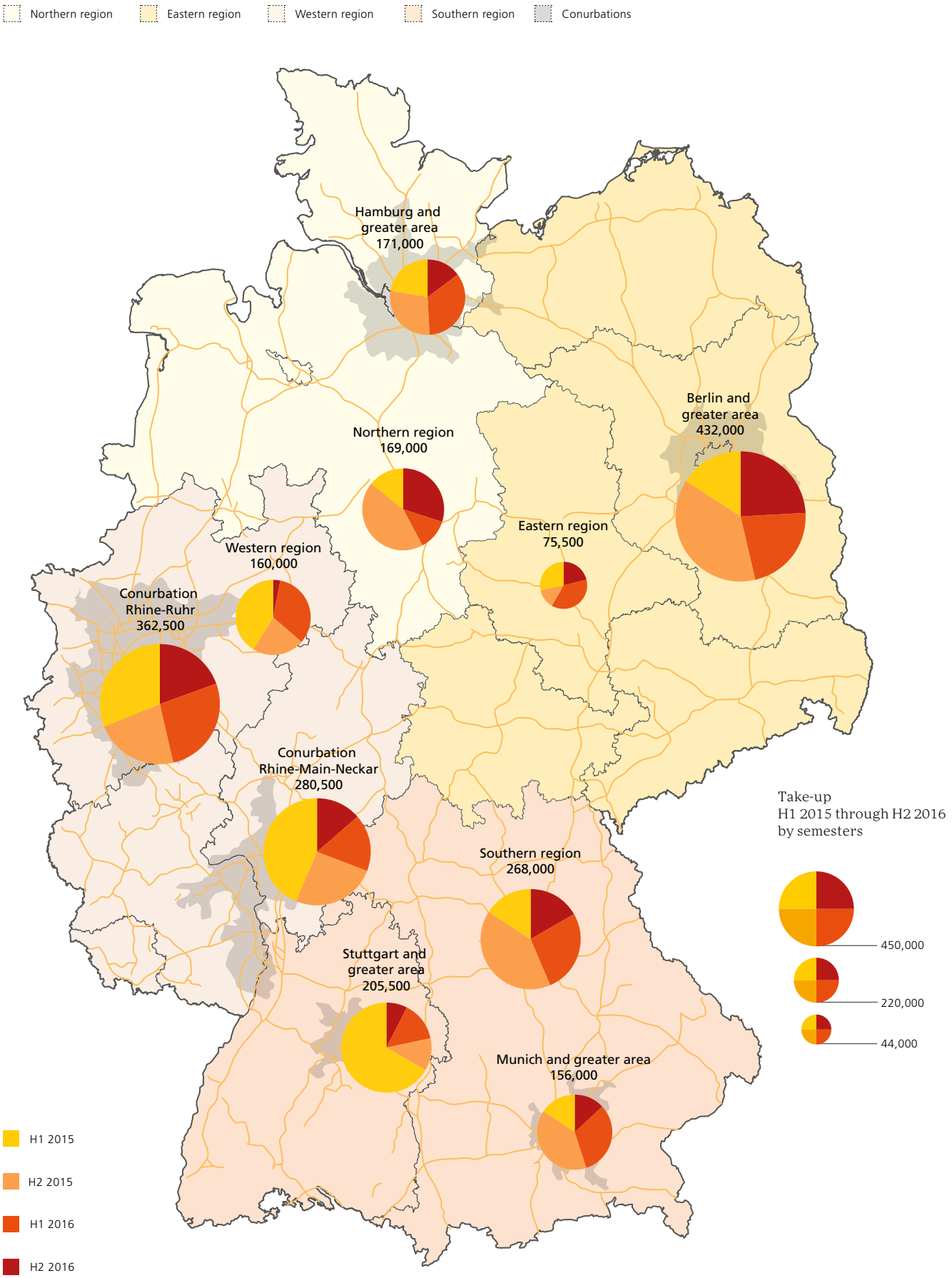
Fig. 14: Absolute take-up in a rolling comparison, by region, in m²



Right image:
M7 manufacturing plant


Source: M7

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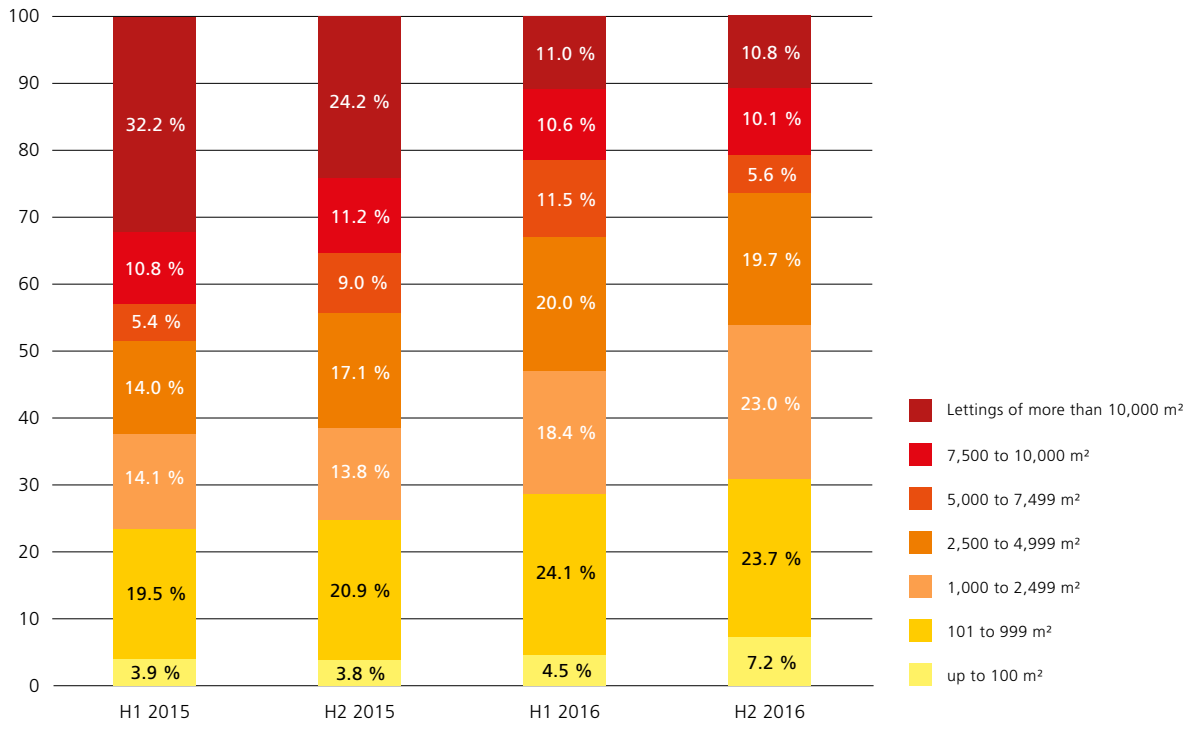
Fig. 15: Net absorption by area size categories in a rolling period ranking



Trend toward Smaller Rental Units Continues

Then as now, it is safe to say: Demand for Unternehmensimmobilien floor space is strongest for smaller units. One of the key qualities of this asset class is the provision of a large bandwidth of unit sizes. Tenant leads and incumbent owner-occupiers are aware of the fact and appreciate it. Smaller and mid-sized premises of up to 2,500 m² collectively account for more than half of the transacted take-up. But market evidence also shows that unit sizes between 2,500 and 5,000 m² have attracted successively growing demand. The size band now accounts for roughly one fifth of the overall demand. Market action in the midsize segment between 5,000 and 7,500 m² is rather volatile. During the second half-year of 2016, it generated much less demand than it did in the first six months of the year. It also falls short of the long-term demand average. The same is true for the two largest area size categories, even though the take-up of units larger than 10,000 m² did account for about 11 % of the total. It is a size band typical of light manufacturing properties[3] and subject to much lower demand because they are largely owner-occupied.

The biggest increase was recorded in the size band of 100 m² of lettable area or less (+63 %). However, it is also the size band with the second-smallest share of the total. And the size band of 1,000 to 2,500 m² also gained another 25 % over the previous half-year. A negative trend was in evidence particularly in the larger-scale categories. Letting volumes declined especially in the light manufacturing properties segment, where larger spaces tend to be required. In fact, the drop in take-up since the first six months of 2016 amounts to roughly 52 %. Yet the two largest area size categories have continued register take-up, and consolidated their market share between 10 % and 11 %. Since premises of this size are typically required in manufacturing, the bulk of relevant units is either owner-occupied or tied up in long-term leases, which makes it safe to assume that short supply in available units rather than sluggish demand is to blame for the slow take-up.

All things considered, however, it is the significance of smaller units that is gaining in the Unternehmensimmobilien sector. The trend is obviously driven by the growing need for flexibility among businesses.

[3] Note: Take-up of warehouse/logistics facilities larger than 10,000 m² are ignored because they belong with logistics real estate. Within the framework of the Initiative Unternehmensimmobilien, only storage facilities smaller than that are taken into account.

Long- and Short-Term Leases Generate more Demand

What makes Unternehmensimmobilien assets great for tenants is the flexibility of the rental units, whereas the good thing for landlords is the long-term cash flow they generate. The second half-year of 2016 clearly demonstrated that both aspects harbour dynamic growth upside.

It is evident in the terms for which leases were signed when you look at their pro-rata share of the take-up. Almost one third of all lease signings during H2 2016 were for terms of less than two years, and the bulk of these were negotiated for less than one year. The figures includes not least storage boxes for private and ever smaller businesses. The elevated organisational effort this requires is offset by the higher rental yield, the rise in demand, and the reduced fit-out and maintenance costs. While demand for very short leases (terms of 1 year or less) grew noticeably by 9.5 % since the previous half year, demand in the next higher category (terms between 1 and 2 years) dropped by 11 percentage points.

At the same time, longer-term leases are also highly significant in the Unternehmensimmobilien segment. As far as the long-term average goes, most units are let on leases over five to ten years. The same goes for the second half-year of 2016, when leases for this length of time accounted for roughly one quarter of the take-up. At the same time, the past semester registered a lively demand for very long leases over more than ten years. More than 19 % of the demand belonged in this segment where leases over terms of up to 20 years were signed. This goes to show that there is quite a number of tenants who favour long-term leases and the security of tenure it brings. For businesses taking a longer view, it has a stabilising effect on their corporate action — an important arguments in times of sluggish building activity and limited land availability. It is particularly relevant in the manufacturing industry.

The flexibility and consistency of Unternehmensimmobilien real estate ensures a stable cash flow in the sense that long-term leases ensure greater tenant loyalty from the perspective of property asset holders and investors. Short lease terms, by contrast, stimulate demand, increase the space utilisation, and generate higher cash flows.

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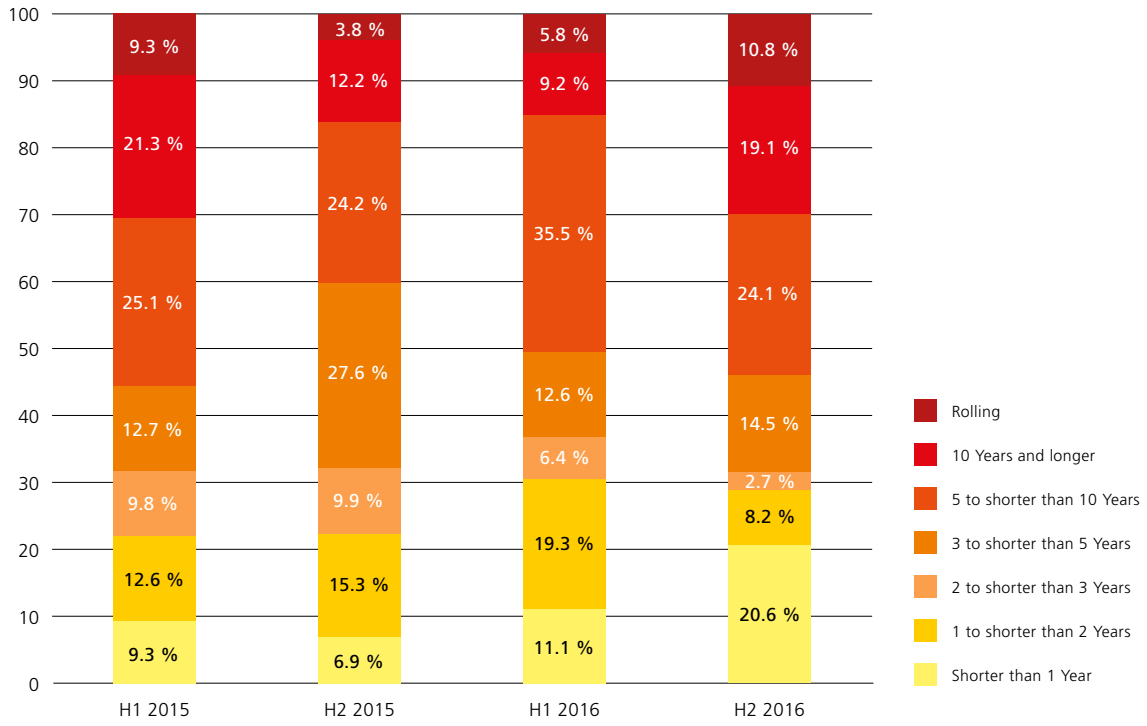
Fig. 16: Breakdown of take-up by lease term, in years, H2 2016



High Capacity Utilisation Levels Causes Take-up to Decline

The second half-year 2016 registered a lower take-up in all Unternehmensimmobilien categories compared to the first six months. The obvious reason is the high capacity utilisation level in the properties as a result of the long-term real estate cycle, and the low volume of new construction.

The trend is most conspicuous for warehouse/logistics properties, the segment with the steepest drop in take-up. As the take-up of H2 2016 declined by more than 59 % half year-over-half year, the total floor space lettings dropped to 71,000 m²— over 60,000 m² less than the long-term mean. At the moment, there are virtually no listings for smaller storage properties in integrated locations. Since new developments are concentrated mainly on large-scale logistics assets in transport hubs or transshipment warehouses, the market for small warehouses/logistics properties is drying up steadily. The assets owned by members of the Initiative Unternehmensimmobilien have now achieved excellent occupancy rates, too, and void rates are low. While this is good for owners, it also implies a slow letting market.

More or less the same is true for the other property categories, albeit less drastically so. Even converted properties show a slight decline in take-up. As recently as the first half-year of 2016, the market picked up 128,000 m². During the second half-year, the take-up declined by 15 % to 110,000 m². This 26,000 m² less than the long-term average established by Initiative Unternehmensimmobilien. Converted properties represent another property type that is subject to very little building activity and therefore facing a supply shortage.

In the past, especially older business parks used to be hard to let, but today the situation has reversed itself. Business parks also experienced a drop in take-up half year-over-half year (-19 %), but achieved their highest level during H2 2016. If you study them together with converted properties, which achieved the second-highest take-up, there is reason to assume that floor areas in multi-tenant properties generate virtually the most stable and highest revenues.

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Fig. 17: Pro-rata rolling take-up, in m2, by property type

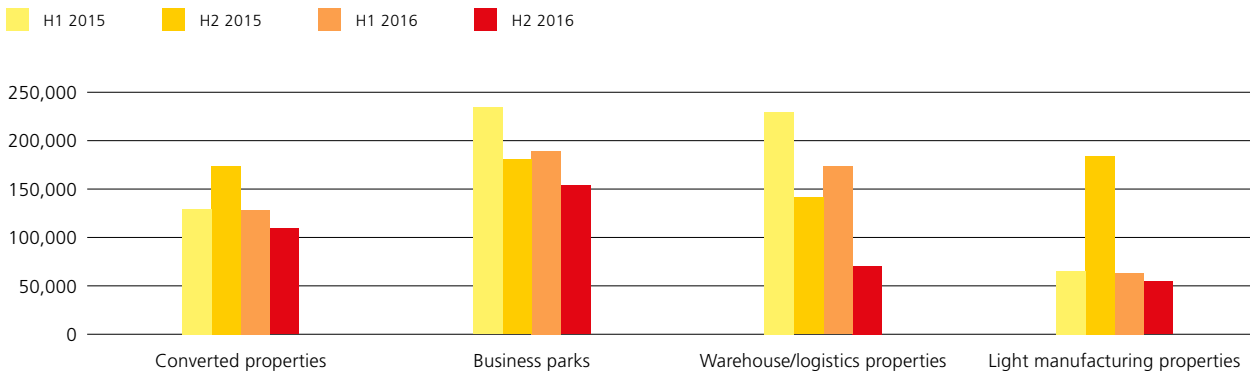

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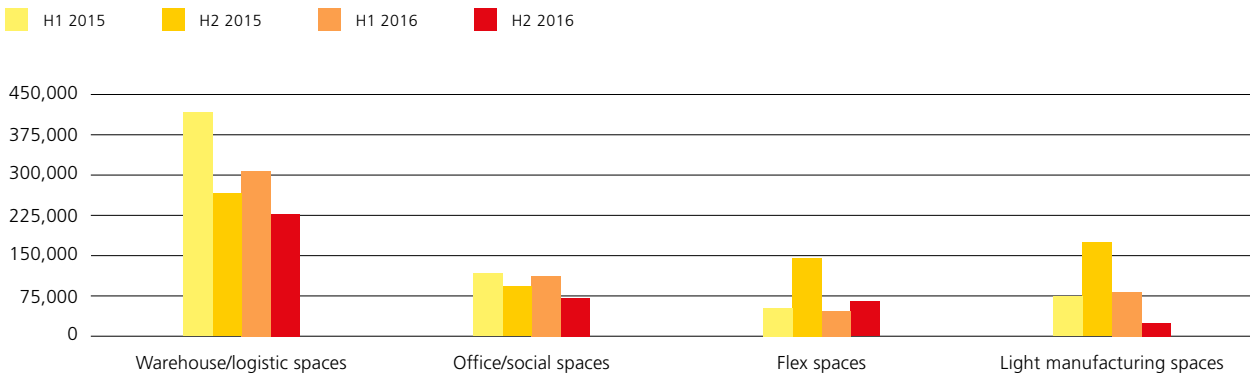
Fig. 18: Pro-rata rolling take-up, in m², by floor space type



Lettings of Light Manufacturing Units Take Nosedive, while Flex Space[4] Take-up Expands

With the exception of flex spaces, all of the property types analysed saw lettings decline during the second half-year of 2016. Here as in other segments, the downturn was motivated by short supply. Light manufacturing units suffered the most conspicuous decrease. Specifically, the take-up decreased by 70 % (or 57,000 m²), from 82,000 m² in the first half-year to around 25,000 m² in H2. The high owner-occupier ratio in combination with the sluggish development activity for rental property results in a scanty supply of lettable area. Over the course of the long real estate cycle, this has lately brought about a high degree of capacity utilisation. At the same time, the long lease terms in this sector cause the units to be tied up for long periods of time and to become rarely available on the market. Light manufacturing properties are currently in short supply, and record level take-up is not to be expected.

The situation is essentially the same for flex spaces. On the one hand, the second half-year 2016 showed that the take-up in this segment increased by around 38 % or by 18,000 m² half-year-over-half-year to a total of around 65,000 m² although barely any new spaces were put on the market. But a closer look reveals, on the other hand, that the supply contraction is having an impact: The take-up is 36 % below the three-year average of over 100,000 m². Demand in Berlin, for one, is driven by start-ups. This type of business requires floor space that will accommodate swift growth and the flexibility to vacate the premises just as quickly in the face of adversity. Moreover, they have vastly different floor area requirements — necessitating advanced reversibility of use.

[4] For a definition of the term "flex space" see the Glossary.

Logistics Companies and Freight Carriers Generate Strong Demand — but Not for Warehouse Properties

While the previous market report of Initiative Unternehmensimmobilien had still identified the manufacturing industry as the biggest driver of take-up, the sector of logistics operators and transport operators emerged as the main drivers during the second half-year of 2016 with a 30 % share of the market. By contrast, the low take-up generated by light manufacturing units drastically reduced the contribution of the associated industrial sector compared to previous half-years. At merely 50,000 m², the total was barely 50 % of the three-year average.

The relative growth of the other segments presents a somewhat misleading picture — because a look at the absolute figures shows that the half-year-over-half-year take-up was down 20 % to 30 % as well. Only the industrial sector of logistics and transport benefited even in absolute terms from the persistently strong demand for logistics services which is driven by the changed consumption patterns and the steady growth in e-commerce. These trends also generate a constantly growing need for storage and transshipment areas in intra- and peri-urban locations. Interesting to note, the demand is to a large extent generated not by warehouse properties but mainly by business parks. However, the potential even of this property type is limited because not every business park offers warehouse space.

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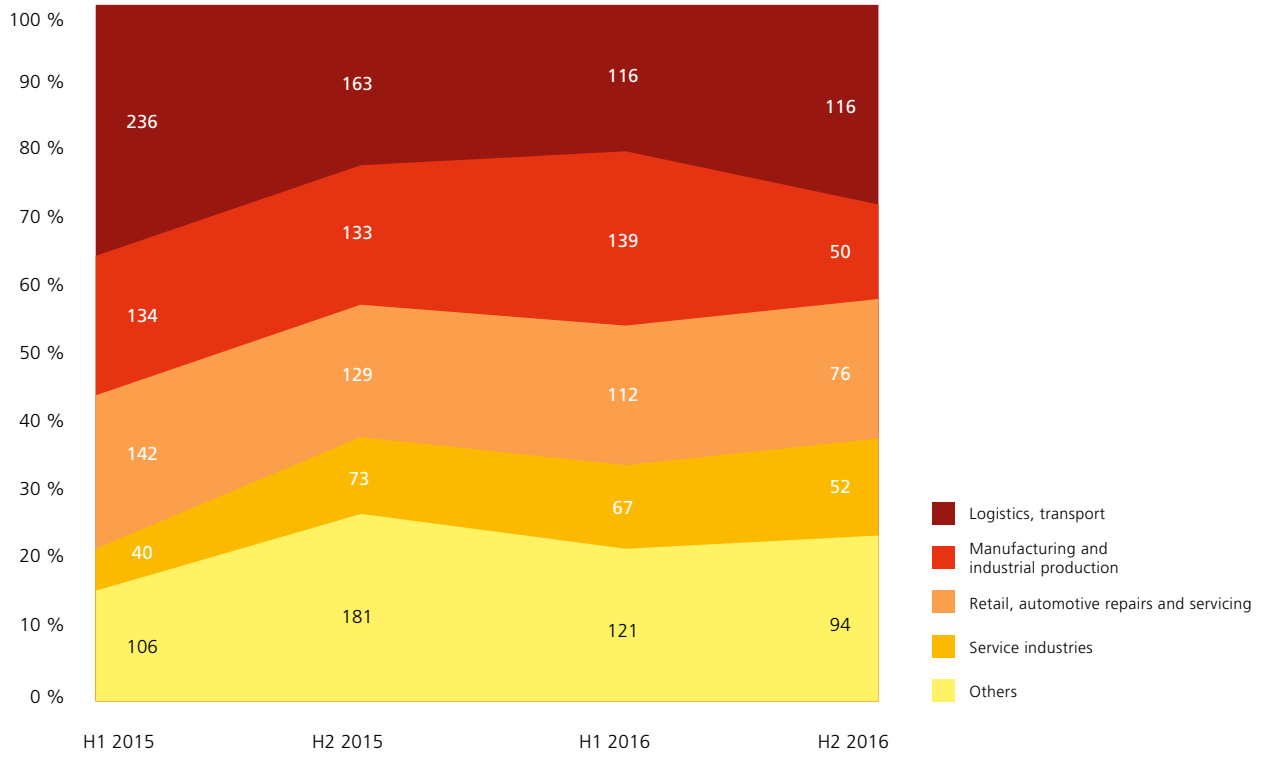
Fig. 19: Take-up in a rolling comparison by aggregated economic sectors, pro-rata (in %) and in '000 m²



Demand and Limited Supply Drive up Prime Rents for Flex Space Properties

Of course, the example of the flex space also shows that short supply in combination with keen demand will drive up rents. Prime rents in this segment have been going up steadily for several semesters now, gaining by more than 1.20 euros/m² or nearly 10 % since H1 2013. The growth registered for light manufacturing units is even faster at over 16 %, although it should be added that the price has levelled out at a stable rate of c. 6.20 euros/m² rather than following a consistently upward trend. Rents for office/staff areas presented a very stable performance by maintaining an unchanged level of 13.00 euros/m². Rents for office units available in business parks, warehouse properties or similar therefore do not compete (yet) with accommodation that is offered in pure office schemes and that has experienced substantial upward growth in many markets. But they do match the rack rent of offices in peripheral locations.

Source: GSG Berlin

Meeting room in a converted property owned by GSG

The strained market situation has also continued to drive up average rents. Unlike prime rents, however, the average rates for flex spaces are currently subject to a price correction. But this should not be understood as a market downturn. Between the end of 2015 and mid-year 2016, rents soared by 2.50 euros/m². This was followed by a market adjustment during the second half-year of 2016 that resembled a regular growth trajectory. Medium-standard flex space units are currently quoted at c. 7.00 euros/m². Light manufacturing areas, by contrasts, are subject to a robust rent hike that started as early as the second half of 2015. During the current period, the average rent for light manufacturing area gained almost 25 % or 1.35 euros and is now at 6.80 euros/m². As a result, the gap between prime and average rents is relatively narrow. The average rent for office/staff areas could gain slightly, being currently quoted at 8.70 euros/m².

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Fig. 20: Performance of prime rents by types of floor space and rolling half-year period, in euros/m²/month

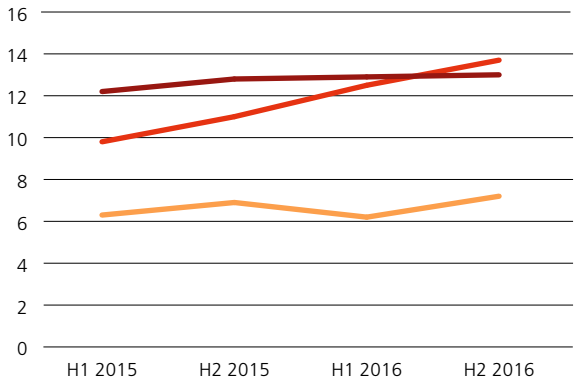

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Fig. 21: Performance of average rents by types of floor space and rolling half-year period, in euros/m²/month

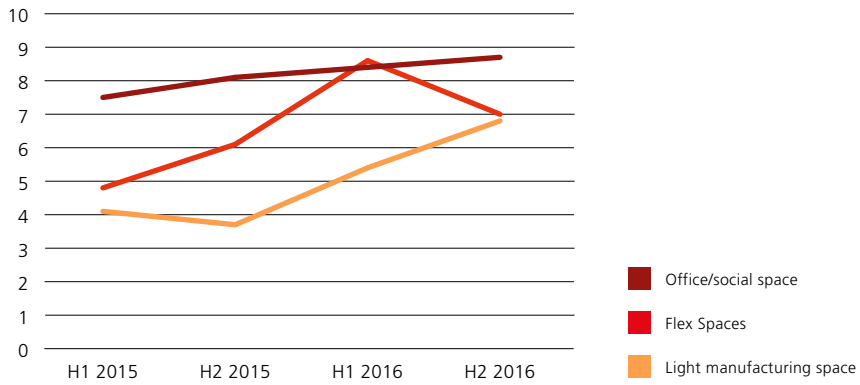

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Fig. 22: Growth in prime rents of warehouse/logistics facilities in various size bands, H2 2016, in euros/m²/month

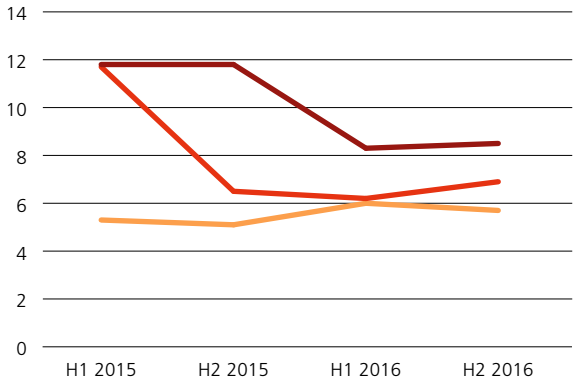

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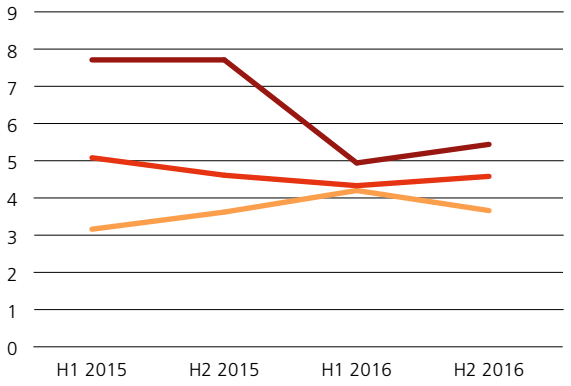
Fig. 23: Growth in average rents of warehouse/logistics facilities in various size bands, H2 2016, in euros/m²/month



Source: Cromwell Property Group

Rents for Warehouse/Logistics Facilities are Approaching a Common Level across Different Size Bands

Rents for warehouse/logistics facilities used to be evaluated together with the other floor area types. But since the various size categories included very different levels and dynamics, they were calculated separately in three different size bands for the Market Report now before you. One of the separately analysed sizes represents very small units of 100 m² or less, which are often available in business parks or converted properties, among other places. Also included in this category are self-storage units, many of which are let at comparatively high rates. On top of that, the survey evaluated size bands of 100 to 500 m², and 500 to 10,000 m².

As it turns out, the comparatively small units used to rent out at rather high rates in previous semesters. Prime rents went as high as 12.00 euros/m², while the average rate was closer to 8.00 euros/m². Both for prime and average rents it is safe to say that they have experienced a gradual price correction that started in the second half-year of 2015. In the time since, rents have levelled out at 8.50 euros/m² (prime) and 5.00 euros/m² (average).

The price trend for larger rental units of more than 500 m² — some of them substantially larger — has been much more stable. The prime rent quoted for them has been rather stable over time at 5.50 euros/m² and the average rent at 3.60 euros/m². Both measurements continue to be valid, and more or less match the rent level often quoted for very large and centrally located logistics centres.

- 0 to 99 m²
- 100 to 499 m²
- 500 to 9,999 m²

Interior shot of a production hall in Kirchheim (Cromwell Property Group)

The Market for Unternehmensimmobilien in Germany in H2 2016

Given the dimensions of Unternehmensimmobilien, the changes in their market values[5] and floor space volumes have been minor. That is why they are not elaborated although they are represented here.

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Fig. 24: Commercial real estate floor space volumes in Germany, excl. hotels, in million m², in H2 2016

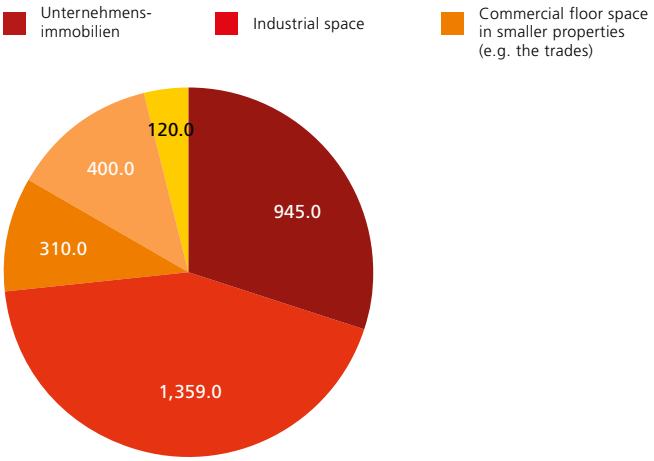

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Fig. 25: Market values of commercial real estate in Germany, excl. hotels, in billion euros, H2 2016

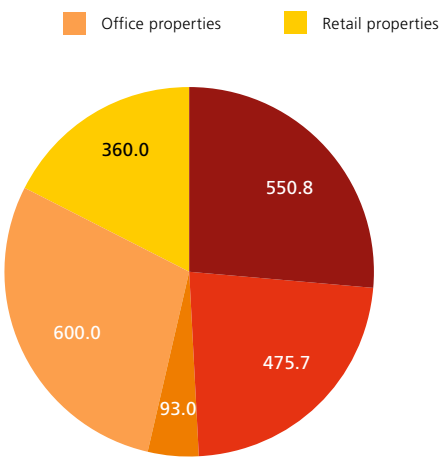

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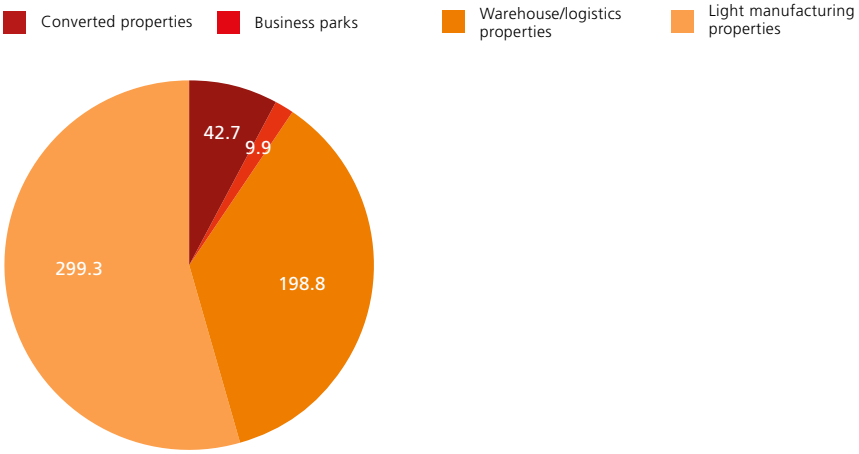
Fig. 26: Market values of the Unternehmensimmobilien property categories, in billion euros, H2 2016



[5] The figures are based on disclosures by the IW Economic Institute in Cologne, the publication "Wirtschaftsfaktor Immobilien – Die Immobilienmärkte aus gesamtwirtschaftlicher Sicht (2010/2013)" on the macro-economic aspect of Germany's real estate markets, and updates of the property databases bulwiengesa AG maintains on selected property type. Figures quoted for real estate of the Unternehmensimmobilien type are based on calculations done by bulwiengesa AG.

Fig. 27: Overview of floor space and values of German Unternehmensimmobilien in H2 2016

Property categories within the Unternehmensimmobilien segment	Floor area		Total value		thereof investment-grade	
	in million m²	in %	in billion euros	in %	in billion euros	in %
Converted properties	61.0	6.5%	42.7	7.8%	21.4	50.0%
Business parks	7.4	0.8%	9.9	1.8%	9.0	90.0%
Warehouse/logistics properties	332.4	35.2%	198.8	36.1%	119.3	60.0%
Light manufacturing properties	544.2	57.6%	299.3	54.3%	119.7	40.0%
Unternehmensimmobilien total	**945.0**	**100.0%**	**550.8**	**100.0%**	**269.3**	**48.9%**

Fig. 28: German Property Index (GPI), total return (in %) by segments year on year, 1995 – 2020[6]

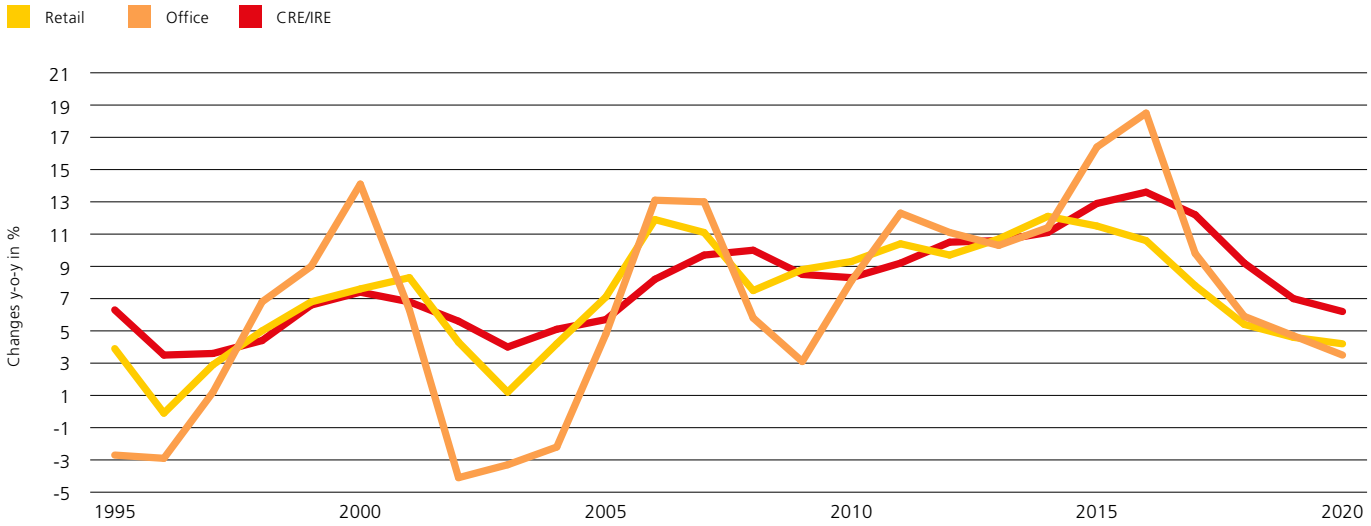
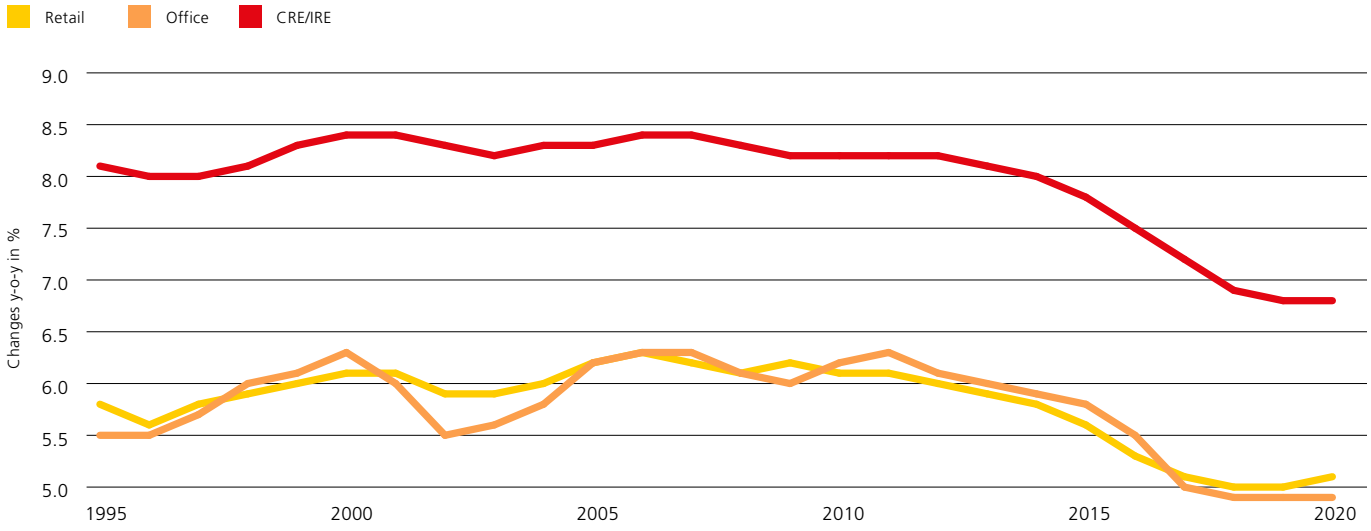


Fig. 29: German Property Index (GPI), cashflow return by property segment in Germany year on year, 1995 – 2020, in %



2017 through 2020 provisional forecast values

[6] For a definition both of the German Property Index (GPI) and of the initial yield (GIY–gross initial yield), see the Glossary.

Notes on the Analysis

The Market Reports published by Initiative Unternehmensimmobilien cover market events involving the Unternehmensimmobilien segment on a semi-annually basis. The contents of the Market Reports are successively expanded and improved for more drilldown depth. The Initiative welcomes inquiries and analysis requests for the purpose of engaging in open dialogue. If you are an active player in this market environment, we encourage you to get in touch with us.

The investment market analysis was conducted and compiled on the basis of transaction reports by Initiative members, supplemented by transactions aggregated in the in-house RIWIS database of bulwiengesa, and that qualify for the Unternehmensimmobilien classification. The analysis did not consider transactions in large-scale logistics or other market segments.

The data evaluated for the purpose of the rental market analysis were provided by participating operators. The analysis for the second half-year of 2016 drew on 1,500 data records. These represented almost exclusively primary data, sourced from the actual property owners. The evaluation only took pure letting activities into account while ignoring owner-occupier transactions. Neither were sub-lettings by companies active in business sectors other than real estate take into account, for instance. We assume that the report covers at least an estimated third of all lettings transacted on the market as discussed in this Market Report. The posted figures should therefore not be understood as global trend statements but as a random sample. That said, they are highly meaningful when read as indicators.

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Glossary

Gross Initial Yield (GIY):

As a transaction-based ratio, the gross initial yield (GIY) reflects the rate of return actually realised through a property transaction. The gross initial yield is determined as the reciprocal value of the gross income multiplier, i. e. the ratio of pre-tax net rental income to net purchasing price. Compared to the net initial yield, the GIY still includes service charges not recoverable through the rent. The net purchasing price does not include the incidental acquisition costs accepted as market standard. The Market Report uses the GIY ratio because these variables are not always available, and because its use makes it easier to compare transaction data.

Flex Space:

The floor area type called flex space in the context of Unternehmensimmobilien, rather than being limited to a single type of use (office, storage, industrial, among others), is suitable for a variety of usage requirements. Premises of this type are customised by landlords to meet the occupier's requirements or else are converted by the tenant for the same purpose. A tenant with a current lease for flex space seeking to convert office space into light manufacturing space, or vice versa, may do so without requiring a change of the unexpired lease or becoming subject to a rent review. Unlike in the first Market Report, service and workshop areas were grouped with this category because floor space of these types may principally be converted into flex space. For reasons of consistency, the Market Report no longer differentiates between these types.

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 segments office, retail, and industrial/logistics. Depending on availability, diverse real estate economic market and planning data enter into its calculation. 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. In this context, the index and its components are defined as follows:

Total Return:

The total return is derived from the weighted sum of the capital growth and the weighted sum of the cash flow returns of the 127 cities. It describes 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 signifies the rate of return generated from the current operational use of a given property, set in relation to the cash employed over time. The cash flow itself represents the net income remaining of the periodic rental income after deducting the periodic current operating expenditures.

Capital Growth:

Capital growth captures the change in value of a given property in terms of its fair market value over the period of time elapsed since the valuation date of the prior period. It considers work done at the property that influences its value (modernisations, lettings of vacant premises or lease renewals) as well as general changes in property market values.

As a benchmark indicator, the GPI is used mainly by long-term property asset holders to gauge the performance of their portfolio. Accordingly, it contrasts with the gross initial yield benchmark, which represents the purchase yield more than anything else.

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The findings and calculations presented in this Market Report, as well as the underlying research, are based on evaluations of participant portfolios or letting and investment transactions executed by members of the Initiative. They are supplemented by other sources either available or accessible during the processing time, and analysed to the best of our knowledge and using due diligence. No warranty is offered regarding the accuracy of the information and data, except for those researched and compiled by ourselves, this guarantee being limited to the standard duty of care. No warranty whatsoever is assumed for the technical accuracy of data or facts adopted from third parties.

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.

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