INITIATIVE
UNTERNEHMENS
IMMOBILIEN

bulwiengesa

MARKET REPORT

SECOND HALF-YEAR OF 2015

TRANSPARENCY ON GERMANY'S
INDUSTRIAL REAL ESTATE MARKET

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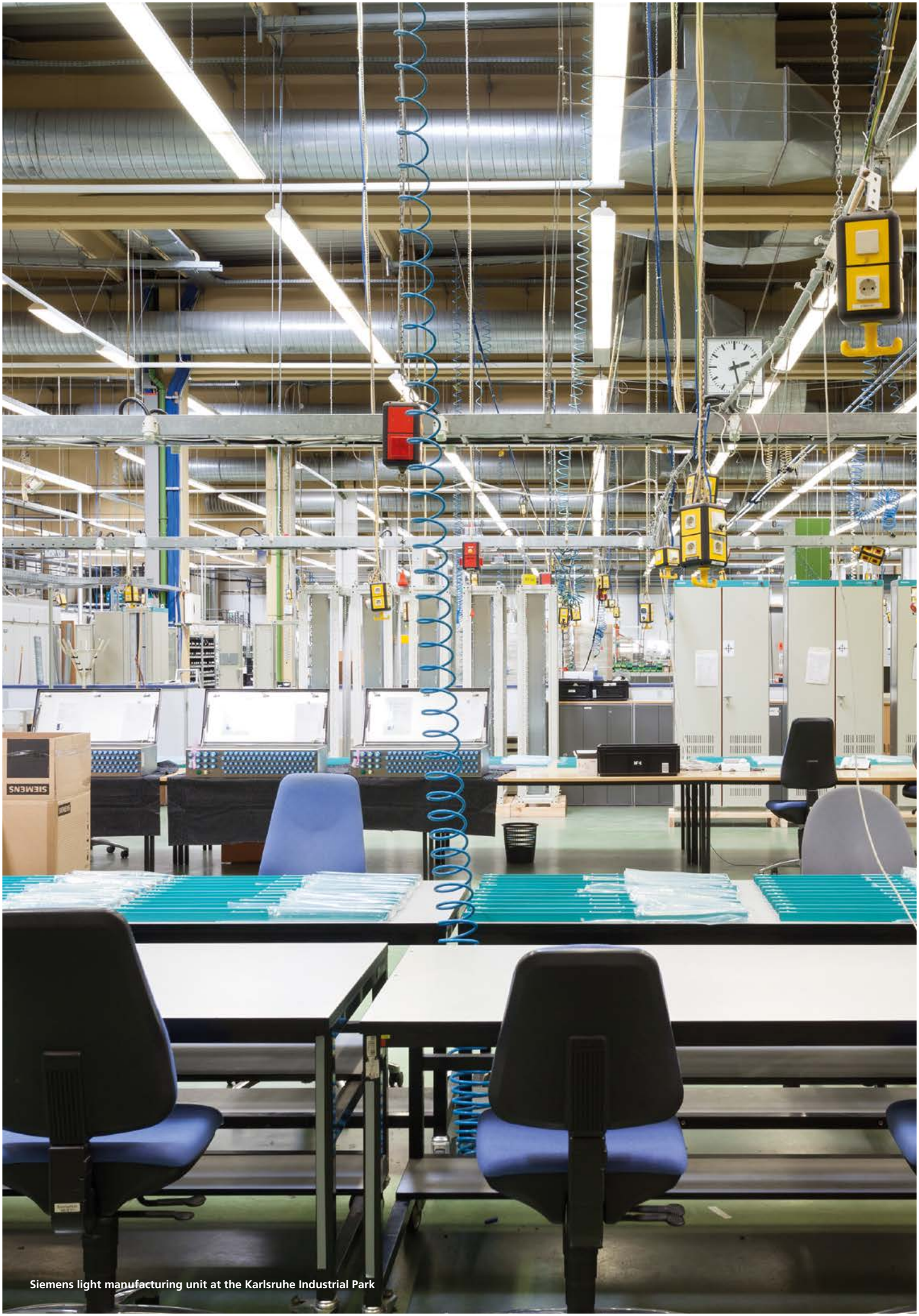

Siemens light manufacturing unit at the Karlsruhe Industrial Park

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THE INITIATIVE

MARKET REPORT NO. 4 OF THE INITIATIVE UNTERNEHMENSIMMOBILIEN

Following a subdued first semester, the market for "Unternehmensimmobilien," i.e. multi-use and multi-let commercial real estate (CRE), made up for lost time with a brisk dynamic in H2 2015. This means that the Initiative Unternehmensimmobilien is making serious progress in its effort to establish Unternehmensimmobilien as an asset class in its own right on the German real estate market. The ample liquidity of this market segment was impressively demonstrated once again.

The second half-year of 2015 saw by far the highest investment turnover on record since the Initiative Unternehmensimmobilien was set up three years ago. In fact, the investment volume of 1.32 billion euros exceeds the high-water mark set during the same period of the previous year by almost 40 %. Aside from the general market situation, the trend was facilitated by the improved transparency in the Unternehmensimmobilien sector. Worth emphasizing is the increased investor interest in light manufacturing properties. During the survey periods covered to date, this heterogeneous category experienced steady growth at an average rate of nearly 12.6 % per semester.

The dynamic investment activity on the German real estate market in general has resulted in a palpable yield compression for Unternehmensimmobilien, too. It is in dynamic market cycles of this kind that the Initiative has helped Unternehmensimmobilien to make visible progress toward the core investment market, as its rising fungibility, its manageable risk, and its sustainably secure rental income add to the competitive edge of this CRE type as it competes with classic core asset classes like office or retail.

Among Germany's regions, the focus of investors and occupiers was particularly on greater Berlin in H2 2015. The German capital and its metro area emerged as the country's fastest-selling region not just in terms of transactions but also in regard to letting take-up. Demand for investment-grade Unternehmensimmobilien and lettable area in Berlin substantially exceeded demand levels elsewhere in the country. Investments in Unternehmensimmobilien in the Berlin metro region totalled 272 million euros – 20 % more than the runner-up, which is Hamburg and its greater area. Take-up in Berlin added up to 163,000 m² of usable area, roughly 50 % more than the second-ranking region, Southern Germany.

Take-up in the Unternehmensimmobilien category rose apace with the steady increase in transactions. Every six months, the take-up went up by an average rate of 84 % compared to the respective prior survey period. The Unternehmensimmobilien accommodation type with the second highest take-up was light manufacturing, accounting for well over 174,000 m² let. While light manufacturing floor plate used to be an almost exclusive domain of owner-occupiers, this figure reflects the rising demand for lettable area that is both flexible and suitable for a wide variety of uses. Unternehmensimmobilien give manufacturing business a chance to intensify their focus on their core competencies.

Meanwhile, the transparency drive of the Initiative Unternehmensimmobilien has been reinforced by brothers-in-arms from the real estate industry, as Siemens Real Estate and Geneba became the latest members to join the Initiative. Siemens will be the first company from the CRE segment to contribute to the Initiative. Geneba, a Dutch property PLC specialised in light manufacturing and commercial real estate, will expand the database underlying this market report with input from its large pool of properties under management. Please visit us on the internet at unternehmensimmobilien.net to stay up to date.

The Initiative Unternehmensimmobilien is a joint project by:

DIFFERENT CATEGORIES OF UNTERNEHMENSIMMOBILIEN

Fig. 01: Different Categories of Unternehmensimmobilien

Source: bulwiengesa AG/
Initiative Unternehmensimmobilien

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. While Business parks generally accommodate any type of floor space, their office share can be anywhere from 20 % to 50 %. Like other trading estates, business parks are defined by multi-tenancy. Unlike converted properties, business park tend to be located in suburban locations that are easily accessible for motorised transport. On top of that, they usually have a lower share of tenant groups from the service sector and the creative industries. Inversely, the sectors of light manufacturing and warehousing/logistics often make up a higher share of occupiers.

SIRIUS BUSINESS PARK MAINTAL
Address: Am Technologiepark 1 – 5, 63477 Maintal
Owner: Marba Catalpa B.V. (Sirius Facilities GmbH)
Total floor space: 32,200 m²
Types of floor space: Office, commercial and service areas
Target group: Business centres, warehousing and logistics sector, self storage

BUSINESS PARK BARBING-ROSENHOF
Address: Gutenbergstrasse 2 – 16/Borsigstrasse 3 – 13, 93092 Barbing
Owner: VALAD Europe
Total floor space: 17,480 m²
Types of floor space: Office, warehouse, showroom, service and retail areas
Target group: Service providers, small and medium-sized enterprises, warehousing and logistics sector

WHAT ARE "UNTERNEHMENSIMMOBILIEN"?

The term "Unternehmensimmobilien" refers to mixed-use industrial 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
- Warehouse/logistics properties
- Light manufacturing 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 Unternehmensimmobilien assets is their flexibility, not just in terms of use but also in regard to occupiers.

CONVERTED PROPERTIES

Converted properties usually represent transformed and revitalised commercial real estate (CRE). More often than not, they previously housed production plants or were part of industrial areas with potential for further densification. Whenever they date back to the industrial age, they often have the nostalgic charm of red-brick factory buildings. For historical reasons, they are often found in locations close to town centres and are conveniently accessible by private and public transportation. Most of the ensembles comprise a mix of revitalised period buildings and newly constructed buildings. Multi-tenant properties may include any of various floor space types and sizes, and thus show a high degree of flexibility.

CONVERTED PROPERTY EICHBORNDAMM
Address: Eichborndamm 167 – 175/179, 13403 Berlin
Owner: Garbe Unternehmensimmobilien Fonds 1 (GUNIF 1)
Total floor space: 44,133 m²
Types of floor space: Office, logistics, light manufacturing, and mixed-use areas
Target group: manufacturing industry, warehouse and logistics sector, retail and wholesale

HOLZHAUSER QUARTIER
Address: Holzhauser Strasse 139/153/155, 13509 Berlin
Owner: BEBAU Holzhauser LLC (BEOS)
Total floor space: 25,187 m²
Types of floor space: Warehouse, office, wholesale, light manufacturing
Target group: Service providers, manufacturing industry, retail and wholesale trade, warehousing and logistics sector

LIGHT MANUFACTURING PROPERTIES

Light manufacturing properties consist essentially not of building ensembles but individual hall structures. They tend to have a moderate share of office space. They 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 BAD NEUSTADT
Address: Industriestrasse 1, 97616 Bad Neustadt
Owner: Siemens AG/Siemens Real Estate
Total floor space: c. 50.200 m²
Types of floor space: Light manufacturing and office space
Target group: Manufacturing industry

LIGHT MANUFACTURING PROPERTY AT THE BRUCHWEIDE BUSINESS PARK
Address: An der Bruchweide 3, 28307 Bremen
Owner: aurelis Asset GmbH
Total floor space: c. 17.750 m²
Types of floor space: Light manufacturing office, warehouse and logistics areas
Target group: Automotive and logistics firms

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 tend to have far more than 10,000 m² in usable area. Unlike new schemes, they also tend to be located in historically grown 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 ramps and gates.

LOGISTICS PROPERTY INNTRALOG
Address: Lise-Meitner-Strasse 2, 40721 Hilden
Owner: aurelis Asset GmbH
Total floor space: 14,942 m²
Types of floor space: Logistics and office space
Target group: Warehousing and logistics sector

SIEMENS DISTRIBUTION CENTRE NUREMBERG
Address: Winter-Günther-Strasse 11, 90441 Nuremberg
Eigentümer: Siemens AG/Siemens Real Estate
Total floor space: 24,777 m²
Types of floor space: Logistics and office space
Target group: Manufacturing industry, light manufacturing

Self-storage units in a Sirius Businesspark

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THE MARKETS

INVESTMENT MARKET FOR UNTERNEHMENSIMMOBILIEN IN H2 2015

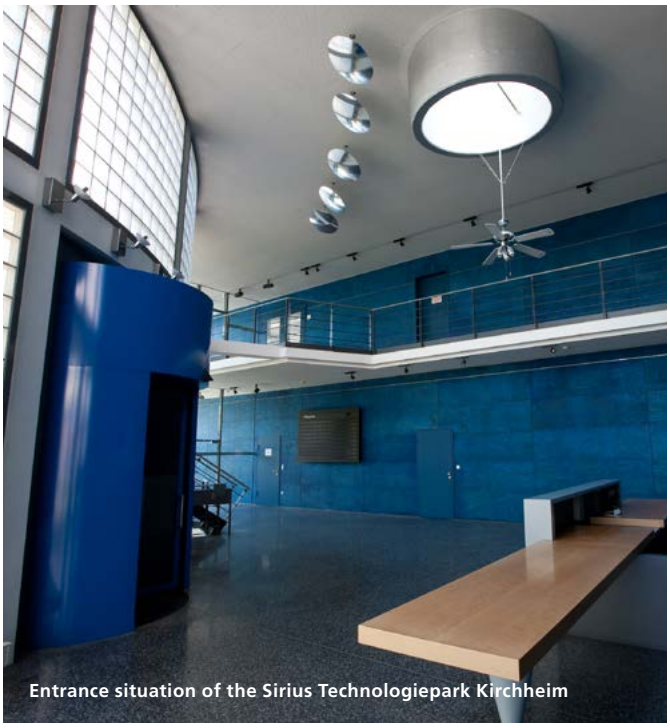
»FASTEST-SELLING HALF-YEAR SINCE THE FORMATION OF INITIATIVE UNTERNEHMENSIMMOBILIEN«

In Germany, 2015 was a banner year for CRE investments. At 55.5 billion euros, the transaction volume marked a year-on-year increase of 27 % in the CRE sector. The increased investor demand has spilled over into the Unternehmensimmobilien market, too. After all, the asset class accounted for 3.4 % of the CRE investment total. Demand for Unternehmensimmobilien was particularly keen in the second half-year. During H2 2015, the transaction volume increased by 53 % compared H1, rising to a total of 1.3 billion euros. All in, 1.9 billion euros were invested in German Unternehmensimmobilien in 2015. This implies a year-on-year increase by 19 %. Accordingly, the growth in the volume of Unternehmensimmobilien transactions performed similar to CRE investments as a whole. The general supply contraction in the segments office, retail and logistics as well as the increased average yield prospects make Unternehmensimmobilien increasingly attractive to investors. In addition, the clearly enhanced market transparency and generally increased awareness for this asset class have made it easier to appraise the associable risks and opportunities. Investors and other market players take a more open approach to this property type.

»BUSINESS PARKS AND CONVERTED PROPERTIES ARE PARTICULARLY SOUGHT«

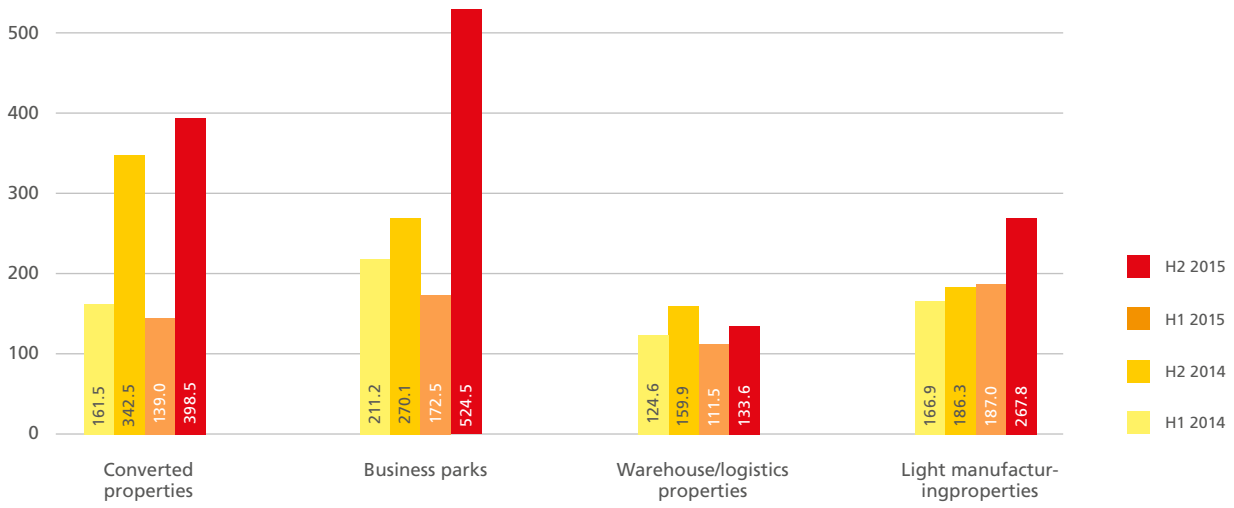
A drilldown of the various Unternehmensimmobilien categories shows that business parks generated sales worth 524.5 million euros. This equals nearly 40 % of the total. With 400 million euros in investments, and a share of 30 %, converted properties emerged as the second strongest asset class. What the two property categories have in common is that they tend to occupy spots generally well integrated into the urban fabric, and that they generate higher rental income because of their high share in office and service areas. Moreover, the sites they occupy, the vintage charm many of them have, and their often high-end office accommodation, can cause converted properties and business parks to appeal to other and more diversified tenant constituencies than the other two categories. As a result, their market liquidity is higher than that of light manufacturing and warehouse properties. Smaller warehouse and logistics units as well as light manufacturing properties are usually much more heterogeneous in terms of location quality, and have also proved less fungible so far. That said, light manufacturing properties generated 268 million euros in sales, claiming over 20 % of the investment total. Warehouse/logistics properties were responsible for well over 10 % of the total revenue with sales worth 134 million euros. It needs to be remembered at this point that the market reports of the Initiative Unternehmensimmobilien limit themselves to warehouse/logistics properties with a usable area of 10,000 m² or less. Modern big-ticket logistics assets, which also experienced a brisk increase in investor demand, are therefore not included in this figure.

A synopsis of the past four quarters reveals that light manufacturing properties were the only category that registered an uninterrupted growth in investment volume. Every six months, on average, the investment volume went up by nearly 12.6 %. The steady growth of the German macro-economy with its relatively high manufacturing industry share has favoured the trend – not least because light manufacturing properties are not quite as reversible and therefore harder to replicate than properties of the other categories. Consequences include a high degree of tenant loyalty and a secure long-term cash flow. When combined with a relatively high rate of return, light manufacturing property is becoming increasingly attractive to investors.



Entrance situation of the Sirius Technologiepark Kirchheim

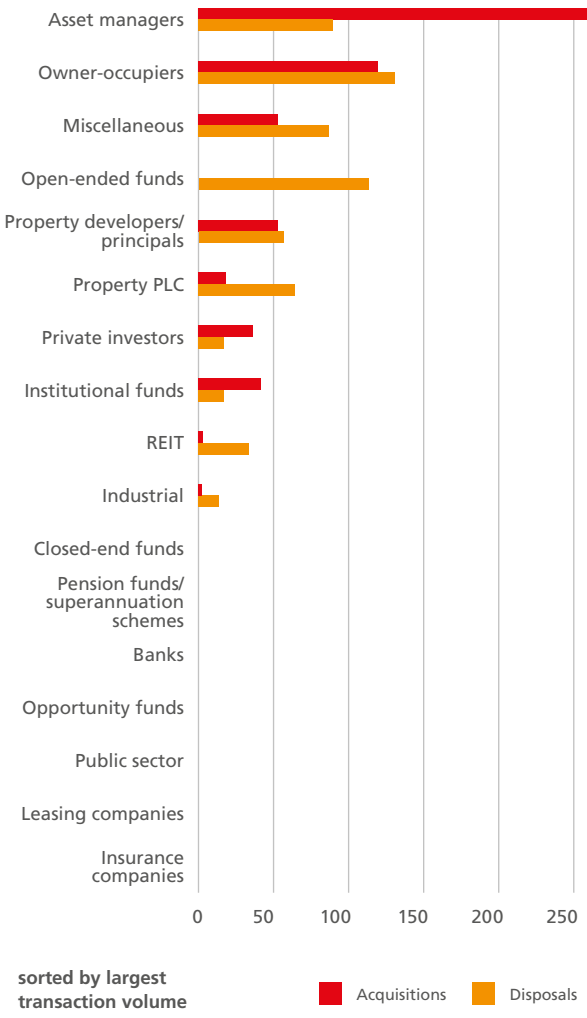
Fig. 02: Investment volume in million euros by property type



»MORE AND MORE FUND STRUCTURES INCLUDE UN-TERNEHMENSIMMOBILIEN«

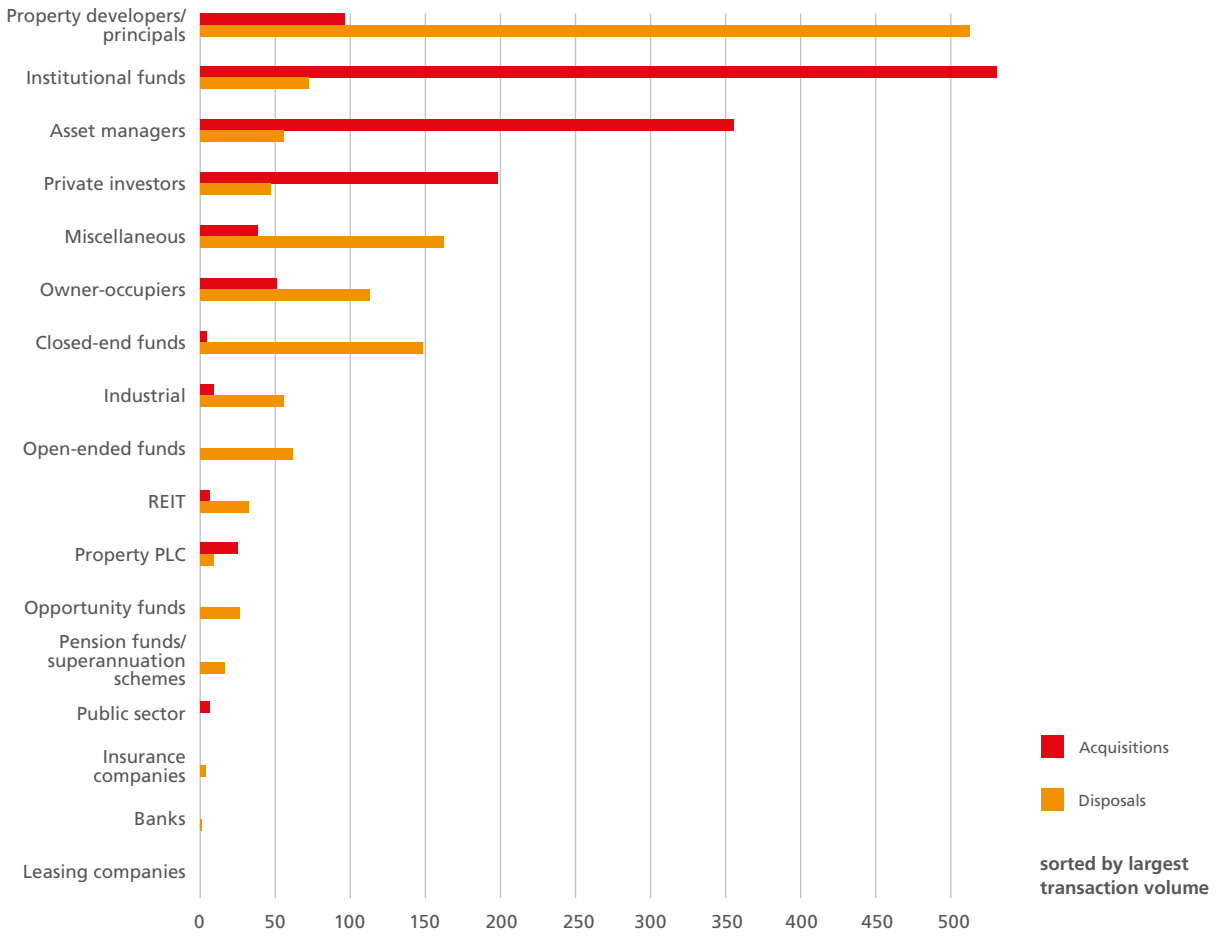
Among the market operators, institutional funds were particularly active on the buyer side in H2 2015. Generating an acquisition volume of 526 million euros, they accounted for almost 40 % of the investment total, up from a market share of barely 6 % by mid-year. A nascent increase in commitments by institutional funds was already apparent in the second semester of 2014. Year on year, however, the total investment volume soared by almost 34 %. It relegated asset managers, traditionally the strongest buyer group, to second place with a volume of 354 million euros during the second half-year. Asset managers still took the top spot by year-end, concluding 2015 ahead of the institutions with an investment volume of 622 million euros or 32 % of the total. Year on year, they increased their investment volume by over 25 %, up from 465 million euros.

Fig. 03: Acquisitions/disposals by investor type in H1 2015, in million euros



By far the most active market players on the seller side were once again the property developers. During the second half of 2015, they sold more than 515 million euros worth of Unternehmensimmobilien assets, claiming nearly 39 % of the investment total. Although they had accounted for barely 9 % of the sales in H1 at just over 55 million euros, their share of the sales market climbed to nearly 29.5 % by the end of the year with a volume of 570 million euros. The second-fastest selling group in H2 2015 is lumped together under the term "Miscellaneous." Between them, these other players sold well over 160 million euros worth of real estate. Next came the closed-end funds with 148 million euros in disposals. This contrasts with the first half-year, when closed-end funds were virtually inactive, matching a pattern already observed in 2014. Also on record with another strong year in 2015 were owner-occupiers. A sales total of more than 118 million euros put them in fourth place by year-end, which is down from a mid-year total of 132 million euros that had put owner-occupiers in the lead. By the end of the year, they had sold 251 million euros worth of Unternehmensimmobilien. The sum equals around 13 % of all sales in 2015, compared to just 8.7 % of all acquisitions the previous year. It confirms the observed tendency among corporates to scale back their owner-occupied CRE holdings.

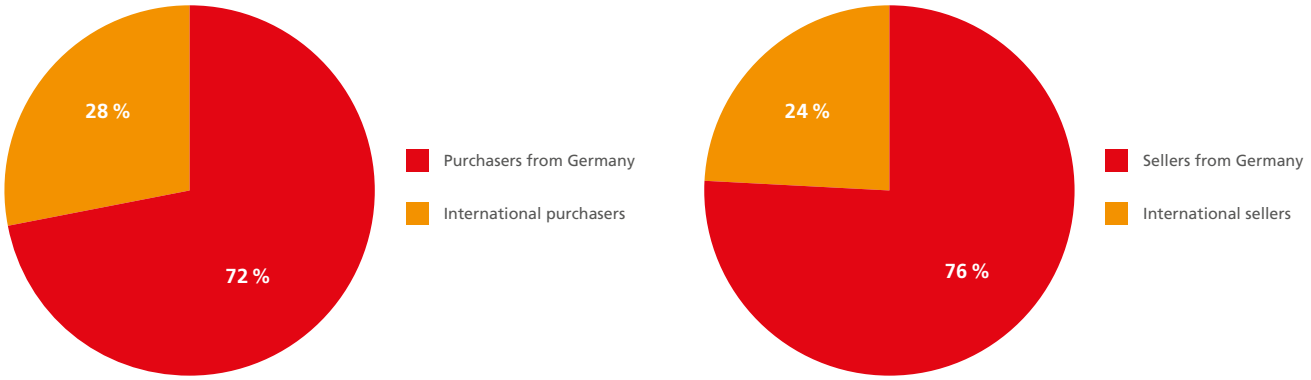
Fig. 04: Acquisitions/disposals by investor type in H2 2015, in million euros



»GERMAN INVESTORS SET THE PACE ON THE TRANSACTIONS MARKET IN 2015«

German Unternehmensimmobilien were a coveted investment commodity in 2015. The exceptionally large investment total suggests as much. Striking to note is the steadily growing market share of domestic investors. During the first half-year of 2015, German investors accounted for 442 million euros or 72 % of the transaction volume. During the corresponding prior-year period, their ratio had barely equalled 58 %. Inversely, the foreign share of the investment volume represented around 28 % or 168 million euros worth of German Unternehmensimmobilien assets in H2 2015, which implies a one-year drop by around 40 %. With the year now concluded, it is safe to say that the market dynamic for Unternehmensimmobilien remained generally sluggish during the year's opening months. It was not until the second half that the market saw a shift in trend.

Fig. 05/06: Acquisitions and disposals by origin of investors, in %, H1 2015



Compared to the first half-year of 2015, German investors stepped up their commitments by almost 60 % to well over one billion euros. Foreign investors, too, increased their investment volume in the second half of the year, but only by 28 % to just over 234 million euros. This brought the share of German investors in the total volume up to 82 % On the seller side, they were responsible for the bulk of Unternehmensimmobilien sales as well, boasting a 81 % share. The enhanced market transparency and a deeper understanding of Unternehmensimmobilien has helped to open up German portfolios for this CRE asset class. The various new investment funds launched for Unternehmensimmobilien reflect the trend.

Fig. 07/08: Acquisitions and disposals by origin of investors, in %, H2 2015

»WHILE BERLIN CONTINUES TO ATTRACT THE HIGHEST NUMBER OF INVESTORS, HAMBURG REPORTS THE STEEPEST GROWTH«

Berlin and the greater area proved by far the fastest-selling region in Germany during the second semester of 2015. Here, investments in Unternehmensimmobilien during this time totalled 272 million euros. This equals a share of well over 20 % of the entire transaction volume. The sustained incoming migration in Berlin, and the flurry of entrepreneurial activity it brings to the city in the form of start-ups, small and mid-sized businesses, generates a constant demand for floor space. Unternehmensimmobilien offer these start-up companies exactly the conditions they need to work and expand. Investors have become aware of the trend and are buying up CRE assets of this type on a massive scale in Berlin. Other areas in Germany currently favoured by investors are Hamburg and the Rhine-Ruhr conurbation including the Ruhr metro region, Düsseldorf and Cologne. Hamburg made the record with the second highest result with 226 million euros, but lagged nearly 20 % behind Berlin. With an investment total of 206 million euros, the Rhine-Ruhr conurbation ranked third.

The development in Berlin is actually a repeat of the city's prior-year performance. During the first six months of 2014, Berlin was conspicuously underrepresented on the investor side, but went on to become the top-ranking investment region during the second half of the year. A year hence, the investment volume of the second half-year exceeded the mid-year total by 80 %. The biggest surprise, however, was the large volume in Unternehmensimmobilien transactions in the Hamburg region. The average transaction volume of the previous three semesters had barely cleared the mark of 38 million euros. Yet during H2 2015, transactions total topped the average value by over 83 % and the previous semester by 84 %. In the Rhine-Ruhr conurbation, the investment volume grew by over 31 % between H1 and H2 2015. Here, the investment pace accelerated steadily over the past four semesters. The relatively large urban agglomeration benefits from its high population density and its central position within the European economic corridor colloquially referred to as "Blue Banana." With the major North Sea ports of Rotterdam and Antwerp well within reach, they offer perfect transport conditions and sales markets for goods and commodities.

There was also considerable investor demand for the Eastern and Southern German regions during H2 2015. The southern region placed fourth in the investment ranking with a transaction volume of 158 million euros. The focus was on the secondary cities Heilbronn and Nuremberg, which together accounted for nearly 95 million euros and thus for 60 % of the transaction total of the Southern Germany region. The Eastern Germany region made notable gains during H2 2015 after a very sluggish first semester. The investment volume grew by 83 %. Primarily responsible for the fine result was the Halle/Leipzig region. Here, a total of 70 billion euros was invested in Unternehmensimmobilien. This equals a 60 % share in the total revenue, which in turn was generated by just 20 % of the transacted deals.

Fig. 09: Distribution of transaction volumes in a rolling period comparison by region in million euro

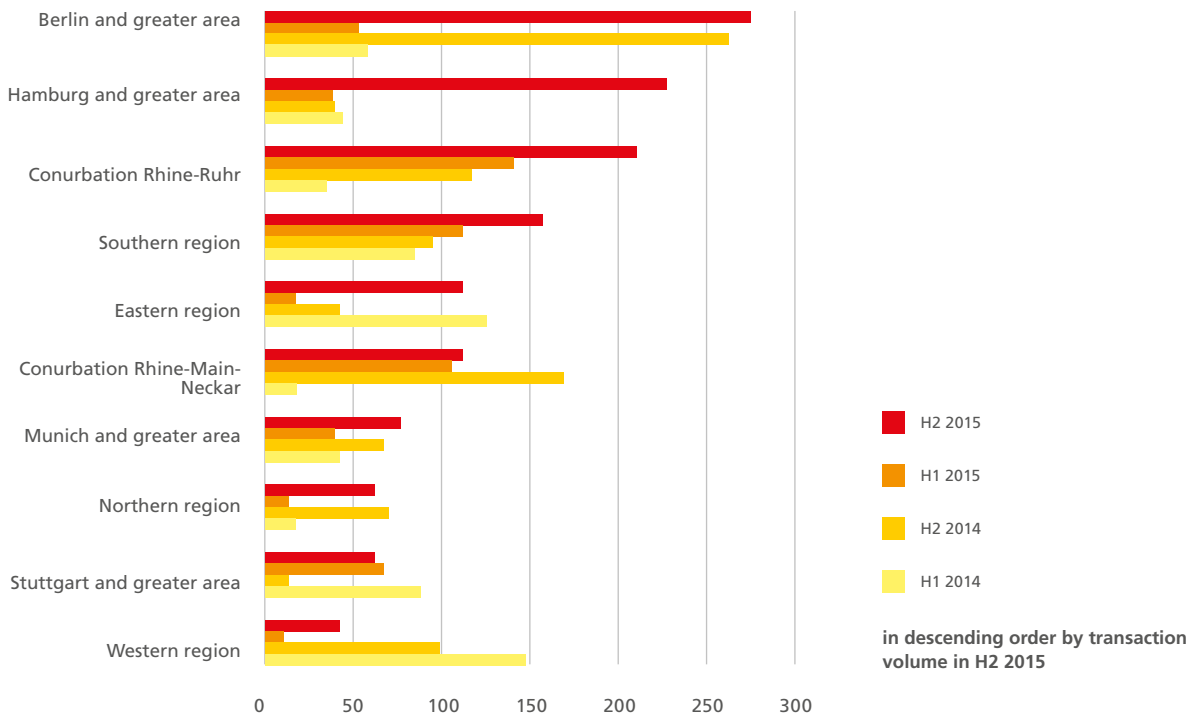
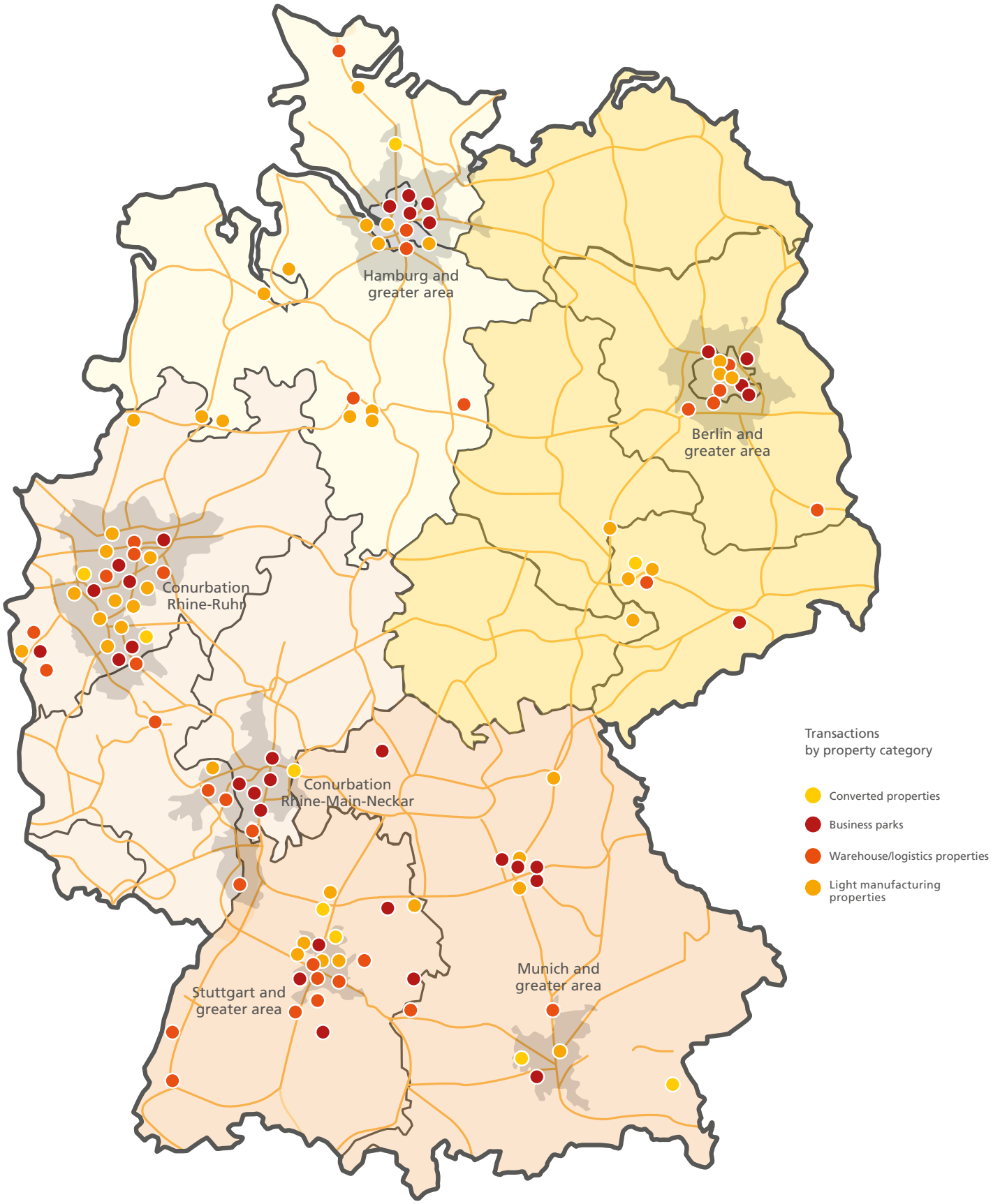


Fig. 10: Geographic distribution of transactions in Germany, H2 2015, by property category

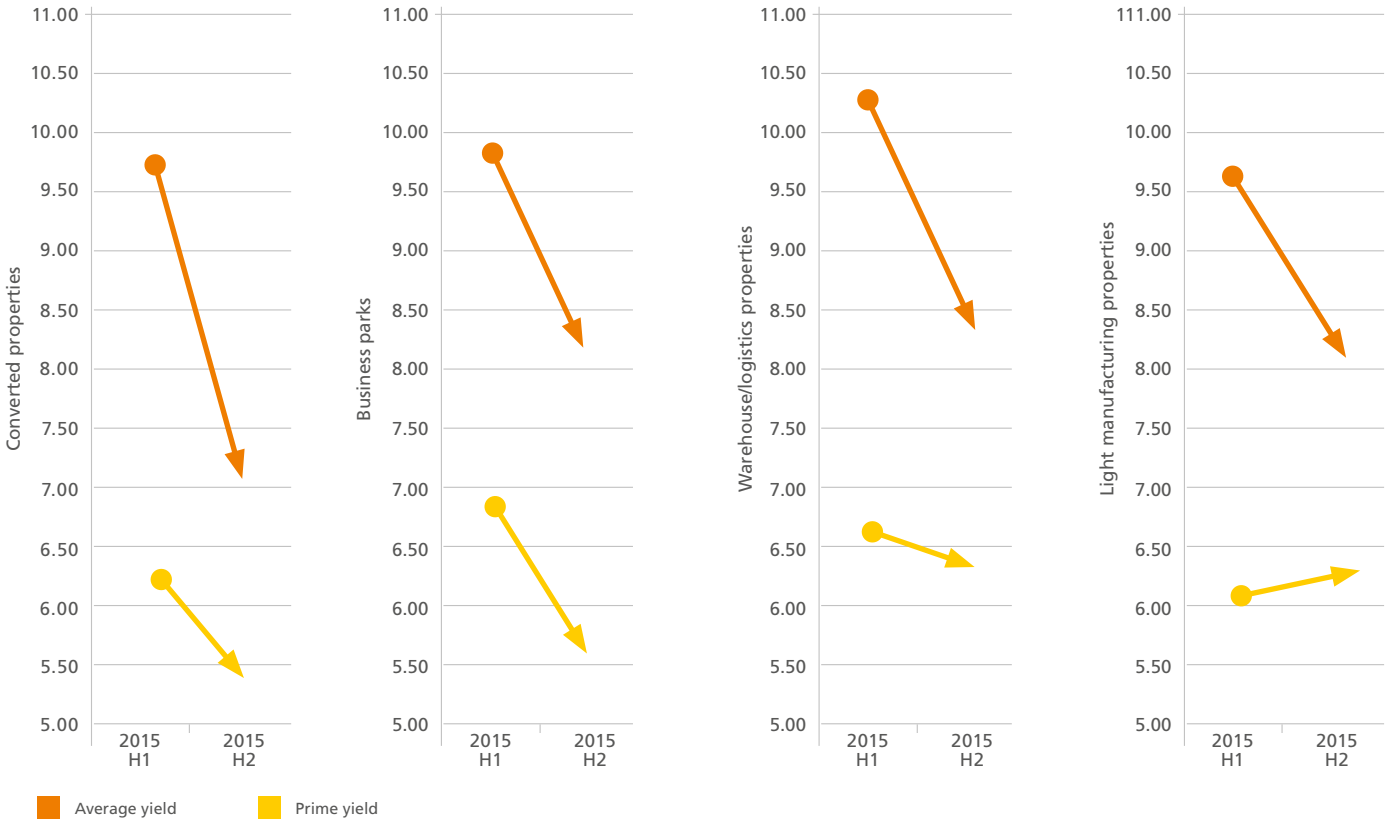


»THE PRICE SPIRAL KEEPS TURNING, WHILE THE YIELD COMPRESSION IS ACCELERATING«

As a result of relatively low transaction volumes, which to a large extent were made up of redevelopment property, yields actually went up in some places. During the second half-year, yield rates[2] seemed to have nowhere to go but down. The prime yield rate for light manufacturing properties was the only one that softened by a marginal 20 basis points, rising from 6.1 % to 6.3 %. All other yields hardened. The average yield for converted properties experienced the most dynamic performance: Between first and second semester 2015, it dropped by 260 basis points, from 9.7 % down to 7.1 %. The average yield for warehouse/logistics properties declined by 190 basis points, from 10.3 % down to 8.4 %. Business parks registered a drop by 171 basis points down to 8.16 %, whereas light manufacturing properties experienced the slowest, but still dynamic, yield compression by 150 basis points, and now stand at 8.1 % As in other asset classes, the market is responding to a situation where enormous demand coincides with stagnant supply.

Prime yields performed similarly, though not quite as briskly. The yield compression of prime assets was most pronounced for business parks, with yields dropping 130 basis points to 5.6 %. Prime yields for converted properties declined by 90 basis points to 5.4 %. This made converted properties the most expensive Unternehmensimmobilien category in terms of both peak prices and price average. Among the reasons to explain this is the fact that office and service areas of converted properties well integrated into the urban structure simply command higher rents. Small warehouse/logistics properties are on record with prime yields of 6.4 %. In this category, prime yields went down 20 basis points. This does not include modern big-ticket logistics centres, whose yield rates are much lower. These are not the subject of this market report. Light manufacturing properties are the only category whose prime yields softened, if minimally so. Generally speaking, though, strong compression has defined the yield performance of Unternehmensimmobilien across categories. The average yield for Unternehmensimmobilien declined by 180 basis points, down to 8.1 %. Prime yields dropped by 70 basis points across categories and currently stands at 5.4 %.

Fig. 11: Gross initial yield 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.

LETTING MARKET FOR UNTERNEHMENSIMMOBILIEN IN H2 2015

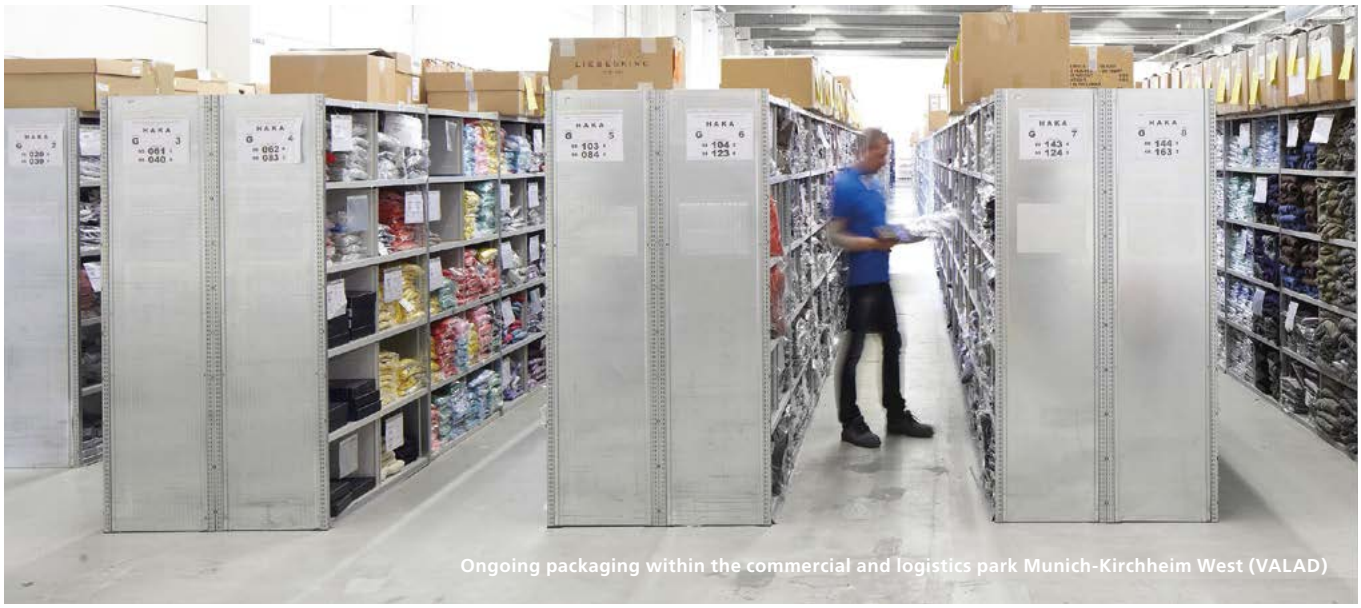
»DEMAND FOR FLOOR PLATE IN UNTERNEHMEN-SIMMOBILIEN INCREASES FOR THE FOURTH CONSE-CUTIVE TIME«

Demand for lettable area in Unternehmensimmobilien remains persistently high. Across the four different categories subsumed under this CRE asset class, roughly 680,000 m² were let overall. Since year-end 2011, the figure has risen by 3 %. This demonstrates that corporate demand for lettable space in Unternehmensimmobilien remains stable on a high level.

Fig. 12: Absolute take-up in a rolling comparison, H1 2014 through H2 2015

Region	H1 2014	H2 2014	H1 2015	H2 2015	Total
Berlin and greater area	71,500	123,500	68,500	163,000	426,500
Southern region	45,500	61,500	42,500	109,000	258,500
Conurbation Rhine-Ruhr	61,000	48,500	113,500	81,000	304,000
Northern region	46,500	60,000	24,000	74,000	204,500
Conurbation Rhine-Main-Neckar	33,500	90,500	122,500	72,000	318,500
Munich and greater area	22,500	26,500	24,500	61,500	135,000
Hamburg and greater area	11,000	6,000	38,500	49,000	104,500
Western region	16,500	13,000	66,000	36,000	131,500
Stuttgart and greater area	121,000	47,500	137,000	24,000	329,500
Eastern region	11,000	3,500	21,500	10,000	46,000
Total	440,000	480,500	658,500	679,500	2,258,500

by region, sorted in descending order by take-up, H2 2015



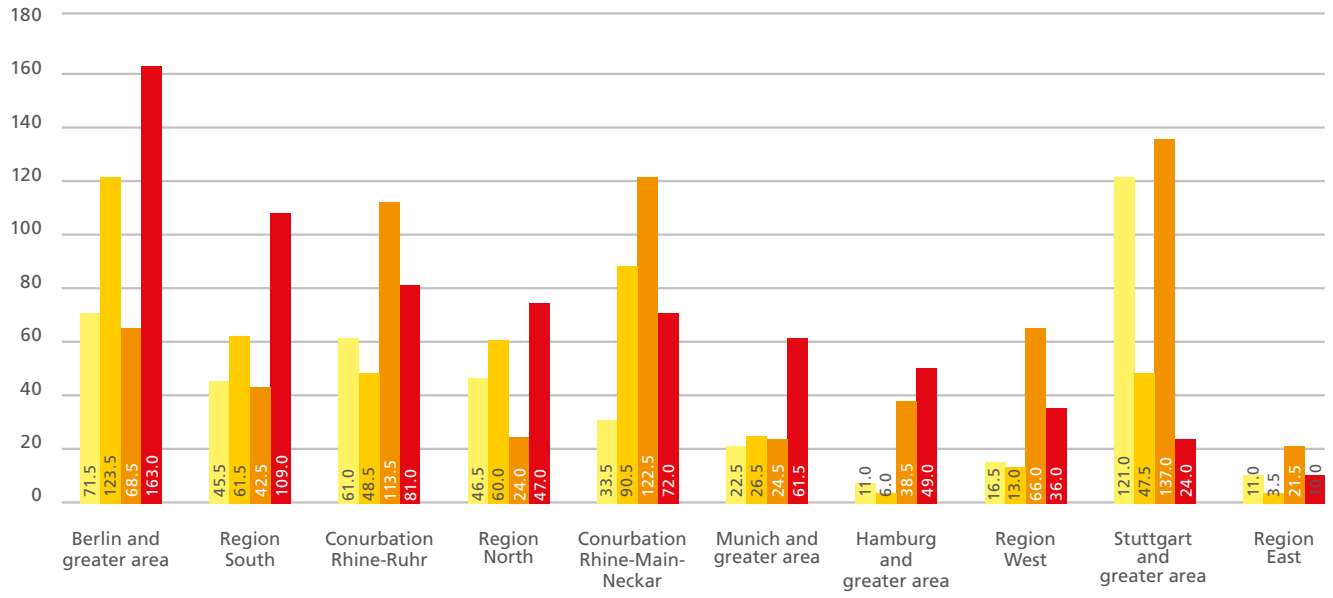
Ongoing packaging within the commercial and logistics park Munich-Kirchheim West (VALAD)

»DEMAND IS 50 % HIGHER IN BERLIN THAN IN THE REGION WITH THE SECOND-HIGHEST DEMAND«

At the moment, the bulk of the demand for Unternehmensimmobilien space is registered in the Berlin metro region. Demand here exceeds that of Southern Germany, the runner-up, by roughly 50 %. Remarkable about the keen demand in the southern region is that it was not driven by the letting take-up in the Munich and Stuttgart conurbations. It shows that serious demand is also generated outside the major metro regions. The phenomenon is matched by the high-ranking Northern Germany region. Here, areas beyond the Hamburg metro region claimed a comparatively high share of the demand, most notably Bremen and Hanover along with the suburban communities around them.

Even in a rolling comparison across the four available reference periods Berlin also tops the list as the region with the greatest floor space demand. The high turnover is driven, in addition to the boom in the warehouse/logistics sector, by the lively demand that the small-scale automotive sector and the manufacturing industry generate. Not least, the very dynamic start-up scene in Berlin accounts for a sizeable take-up, specifically in "Gewerbehöfe," i.e. inner-city trading estates.

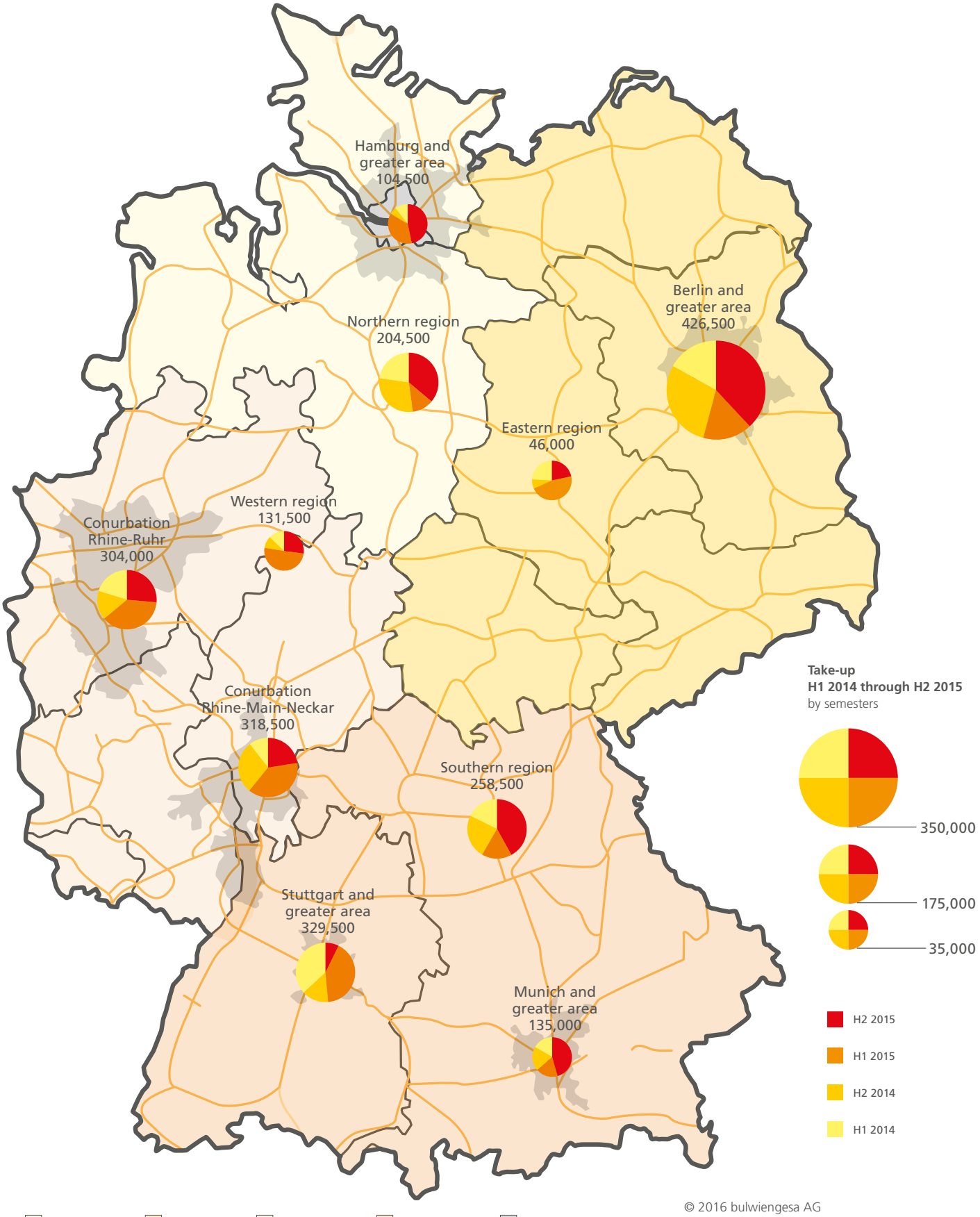
Fig. 13: Take-ups in a rolling comparison, in '000 m²



by regions and semesters, sorted in descending order by take-up, H2 2015

H1 2014 H2 2014 H1 2015 H2 2015

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

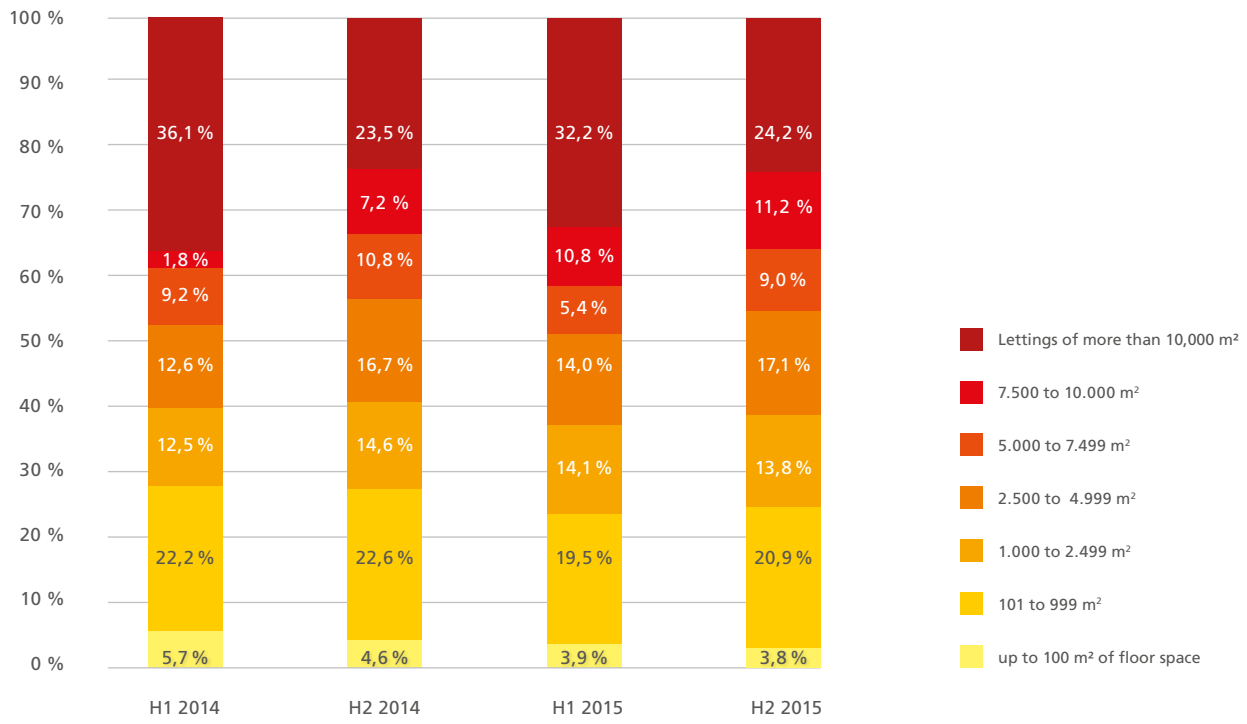


»THE BALANCED FLOOR-SPACE DEMAND DOCUMENTS ITS APPEAL TO DIVERSE TARGET GROUPS«

A breakdown of the H2 take-up by area size categories reveals a rather balanced relationship between the various size bands. Non single category dominates the net absorption. Only very large floor plates of more than 10,000 m², especially in light manufacturing properties, and relatively small units between 100 m² and 1,000 m² are subject to slightly above-average demand.

The breakdown illustrates the high standing accorded to Unternehmensimmobilien by a wide variety of tenant groups. Both the key tenants with their need for large floor-space contingents and smaller start-ups or very small SMEs are likely to find CRE accommodation of the required size in Unternehmensimmobilien. Lettings below 100 m² represents to a certain extent the market for small-scale storage units, including self-storage boxes.

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



»A BALANCED RELATIONSHIP BETWEEN STABLE LONG-TERM CASH FLOW AND SHORT-TERM AVAILABILITY OF FLOOR SPACE«

The average lease term lengthened slightly during the second half-year of 2015, from 2.4 to 2.6 years. Demand for short-term rentals may have generally slackened. That said, the short or flexible lease options are normally considered an important selling proposition for Unternehmensimmobilien assets. The idea being that occupiers with a temporary need for extra space as business is peaking, for instance, may often take advantage of short-term expansion options on the premises. The option, wherever available, will ultimately deepen tenant loyalty in regard to their main lease.

The longest lease term on record for the past period under review was 20.1 years, a modest decline from the prior-year maximum of 21.6 years. Leases with extra-long lifetimes are often signed for light manufacturing areas these days. Occasionally, however, even office and social areas or flex space units are rented for very long periods of time. The obvious benefit of such leases is that they ensure a high cash flow stability for the owner's overall portfolio.

Fig. 16: Average length of leases in a rolling period comparison

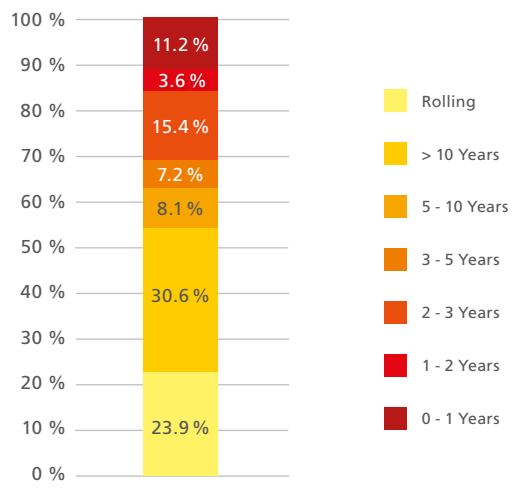
	H1 2014	H2 2014	H1 20145	H2 2015
Avg. length of lease	1.5	1.8	2.4	2.6
Max. length of lease	20.0	20.0	21.7	20.1

The balanced demand structure is also revealed if you study lease terms by size bands. 50 % of the tenants have short lease terms between 1 and 2 years, whereas little more than 15 % of the leases have lifetimes between 2 and 5 years. The rather longer-term leases of 5 to 10 years or more claim a share of 19 %.

The category of lease with a term of one year or less is dominated by very small storage units in the self-storage segment, whose operators have to cope with a high tenant churn rate but are rewarded by a high rental yield on the bottom line.

Another significant aspect of Unternehmensimmobilien lettings is the substantial share of open-ended leases without fixed lifetimes. During the past semester, it exceeded 10 %.

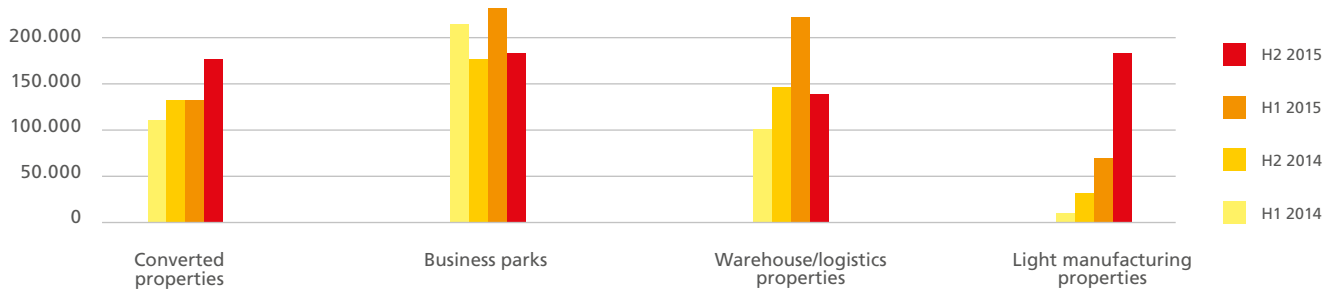
Fig. 17: Breakdown of leases by length, H2 2015



»DEMAND HIKE FOR LIGHT MANUFACTURING PROPERTIES«

The CRE segment of Unternehmensimmobilien is defined by a rich diversity of floor plate types that potentially appeals to target groups just as diverse. Demand during the second half of 2015 was more or less balanced, and approximates 170,000 m² in each of the categories. Particularly notable is the increase in demand for accommodation in light manufacturing properties. Traditionally, this type of floor space used to be mostly owner-occupied in Germany. It is therefore very auspicious for the real estate industry to see a substantial increase in demand for lettable area in this sub-segment. A synopsis of the past four quarters clearly shows successively growing demand. Worth highlighting is the recent growth by 34 % since the first half-year of 2015. At the same time, demand for lettable area in converted properties has gone up. Conversely, demand for lettable area in business parks and warehouse/logistics properties has declined. Floor plate of the latter kind was mainly let in big-ticket logistics centres last year. These, to say it again, are not covered by the analyses conducted on behalf of Initiative Unternehmensimmobilien.

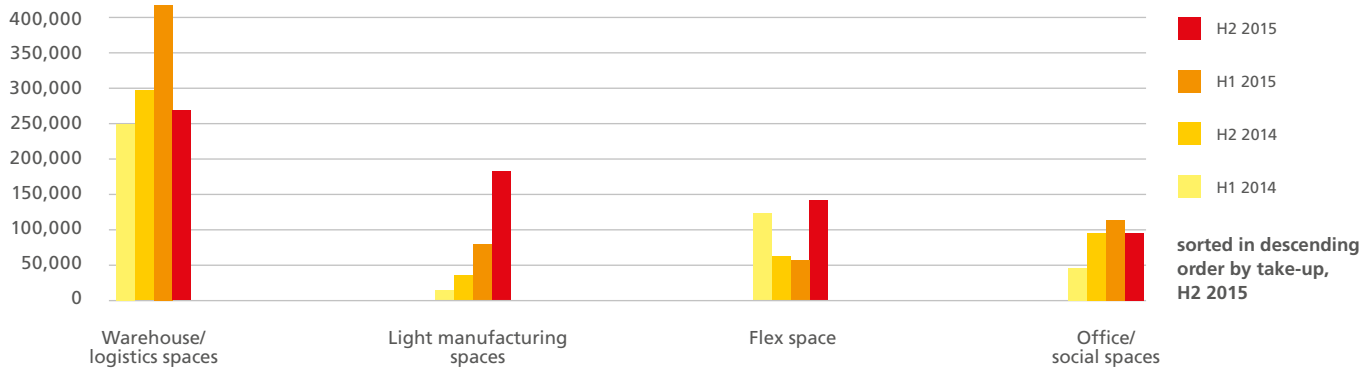
Fig. 18: Take-up by property type in rolling period comparison



»DEMAND IS INCREASINGLY FOCUSING ON LIGHT MANUFACTURING AND FLEX SPACE UNITS«

Demand for light manufacturing floor plate rose by 37 %, which is slightly more dynamic even than the demand for space in light manufacturing properties. The steepest increase in demand, though, was recorded for the "flex space" type of accommodation, meaning Unternehmensimmobilien units suitable for a variety of uses[3]. This floor area type actually experienced a demand hike by nearly 80 %. The demand for office and social areas as well as for storage units showed a reverse trend even though the associable take-up of well over 265,000 m² still dominates the market in absolute terms.

Fig. 19: Pro-rata rolling take-up, in m², by property type



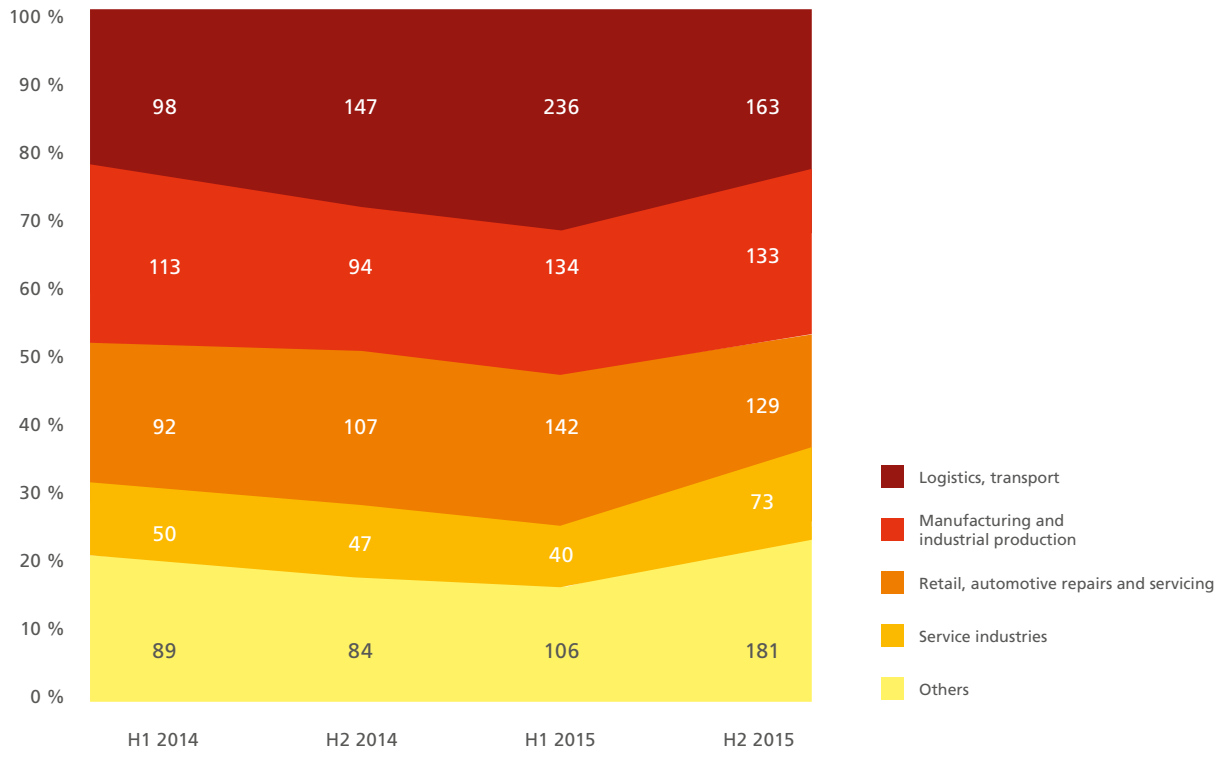
NEW INTERIOR DESIGN OF GOPRO'S KITCHEN © GABRIEL BÜCHELMEIER, INTERIOR DESIGN: ARCHITECTURAL OFFICE IAM

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

»UNTERNEHMENSIMMOBILIEN INCREASINGLY POPULAR AMONG NEW TENANT GROUPS«

The traditional tenant clientèle of Unternehmensimmobilien hails from the sectors logistics, haulage, trade, automotive, and the manufacturing industry. As recently as the first half-year of 2015, these sectors accounted for three quarters of the take-up. Similarly, a long-term analysis across all review periods reveals that these target groups generated more than 70 % of the demand. With new target groups gradually warming to the perks of Unternehmensimmobilien, tenant diversification is enhanced even further. Starting in the second half of 2015, for instance, Unternehmensimmobilien lettings increasingly involved the service industries, among other new tenant groups. They include most notably tenants from the cultural or the public sector.

Fig. 20: Take-up in a rolling comparison by aggregated economic sectors, in % (pro rata) and absolute take-up in '000 m²



»INCREASED DEMAND IS REFLECTED IN RISING PRIME RENTS«

Predictably, the persistently keen demand for Unternehmensimmobilien has boosted rent levels. With the exception of warehouse/logistics rents, which will be discussed in more detail below, all of the property categories registered prime rental growth. The highly versatile accommodation provided in the category of flex space properties, which tend to be found in downtown environments, experienced the strongest growth dynamic at 12 %. The background here is that flex space units often serves as alternative for unavailable office accommodation, which in many metropolises is increasingly hard to come by. It is therefore not unusual for rents of either floor area category to go as high as 13.00 euros/m² and 11.00 euros/m², give or take. The increasing demand for light manufacturing areas has also boosted prime rents. Following rent hikes of over 9 %, top rates now approximate 7.00 euros/m². The level of prime rents for warehouse/logistics units depend on the warehouse type. At the upper end, absolute rates of 11.60 euros/m² are not unusual today. Worth noting in this context is that relatively high rents for storage boxes in the self-storage business ensure an above-average rent level in this segment.

Average rents also showed a very brisk performance during the second half-year of 2015. To some extent, however, the rent hikes merely made up for the setbacks suffered during the first six months, as suggested by the flex space example (trend between H2 2014 and H1 2015).

Members of the Initiative Unternehmensimmobilien offer storage units of very different sizes and qualities. They range from units of just a few square metres, e.g. in self-storage facilities for private individuals, to sprawling warehouses of the size mainly used by contract logistics operators (3PL). Especially small storage units tend to have a comparatively high rent level. This explains why storage rents are separately broken down for each size category. The going rate for very small units of less than 100 m² is c. 7.70 euros/m² on average. Peak rents are as high as c. 12 euros/m². Rents for units smaller than 500 m² average between 4.60 euros/m² and 6.50 euros/m². Units larger than 500 m², some of them being considerably larger, range in a bandwidth of 3.60 euros/m² to 5.10 euros/m².

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

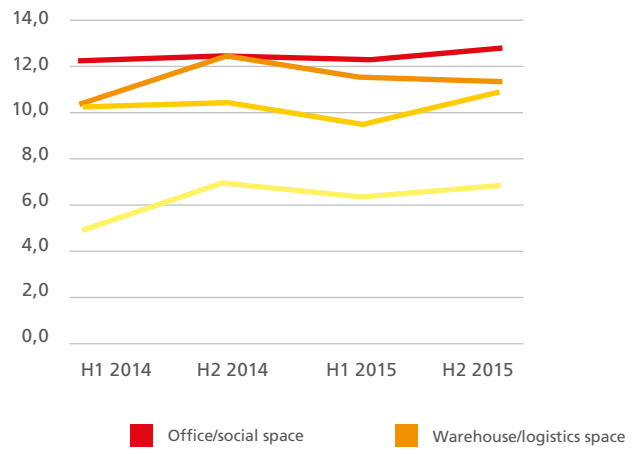


Fig. 22: Performance of average rents by types of floor space and rolling half-year periods, in euros/m²/month

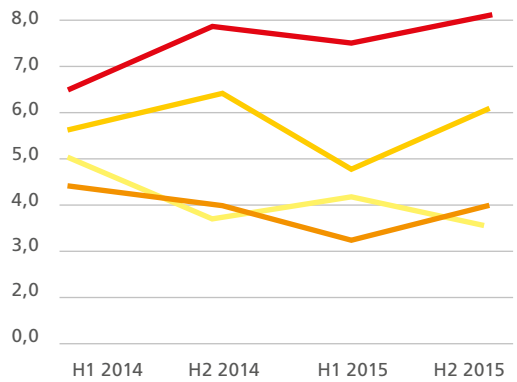
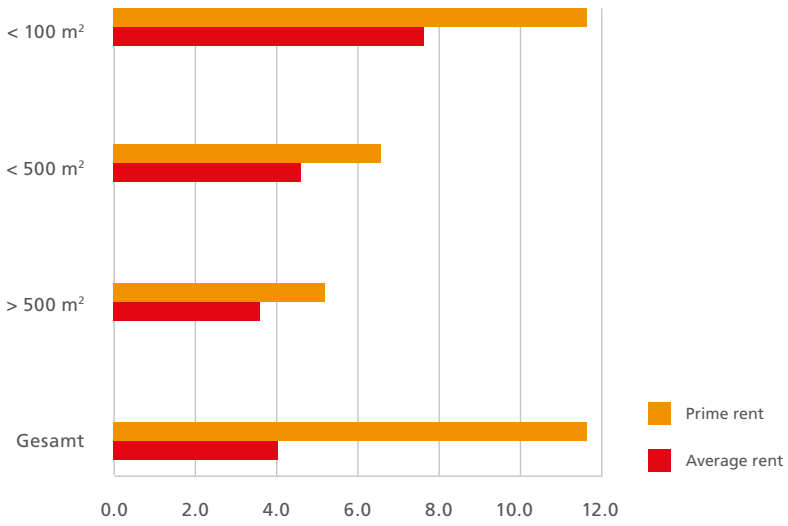


Fig. 23: Warehouse/logistics rental growth trend for various size bands, H2 2015, in euros/m²/month



THE MARKET FOR UNTERNEHMENSIMMOBILIEN IN GERMANY IN H2 2015

Given their dimensions of Unternehmensimmobilien, the changes in their market values[4] and floor space volumes have been small-scale. That is why they, while represented here, are not elaborated.

Fig. 24: CRE floor space volumes in Germany, excl. hotels, in million m², in H2 2015

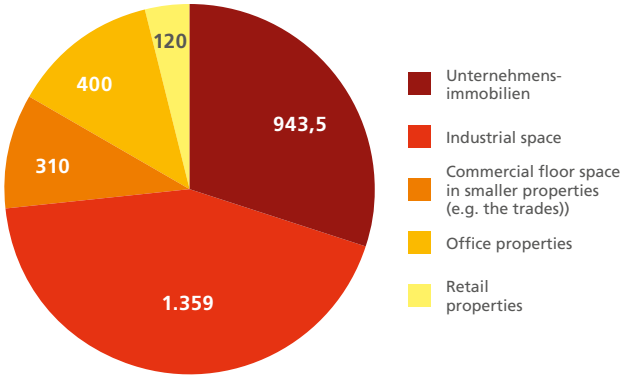


Fig. 25: Market values of German CRE excluding hotels, in billion euros, H2 2015

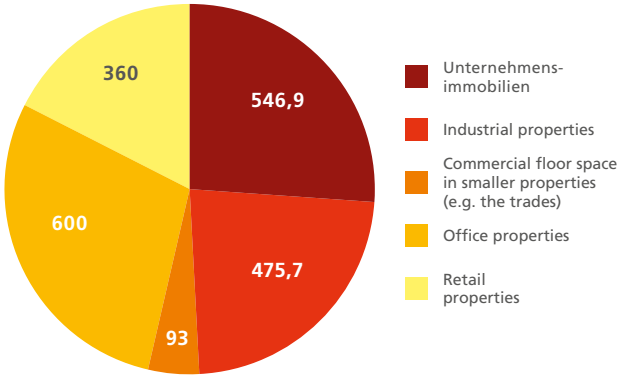


Fig. 26: Market values of the Unternehmensimmobilien property categories, in billion euros, H2 2015

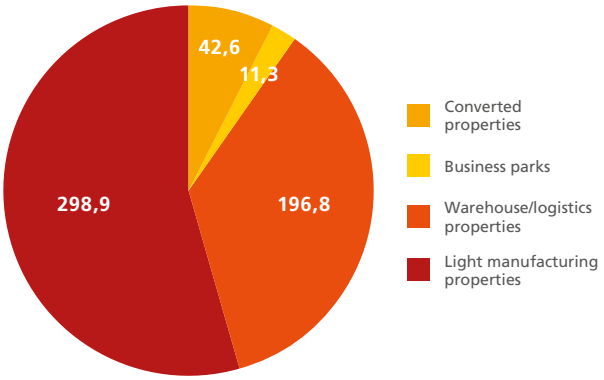


Fig. 27: Overview of floor areas and values of German Unternehmensimmobilien, H2 2015

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	60.9	6.5 %	42.6	7.8 %	21.3	50.0 %
Business parks	8.4	0.9 %	11.3	2.1 %	10.1	90.0 %
Warehouse/logistics properties	330.8	35.1 %	196.8	35.8 %	118.1	60.0 %
Light manufacturing properties	543.5	57.6 %	298.9	54.4 %	119.6	40.0 %
Unternehmensimmobilien total	943.5	100.0 %	549.6	100.0 %	269.1	49.0 %

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

Fig. 28: German Property Index (GPI), total return (in %) by segments (y-o-y), 1995-2019[5]

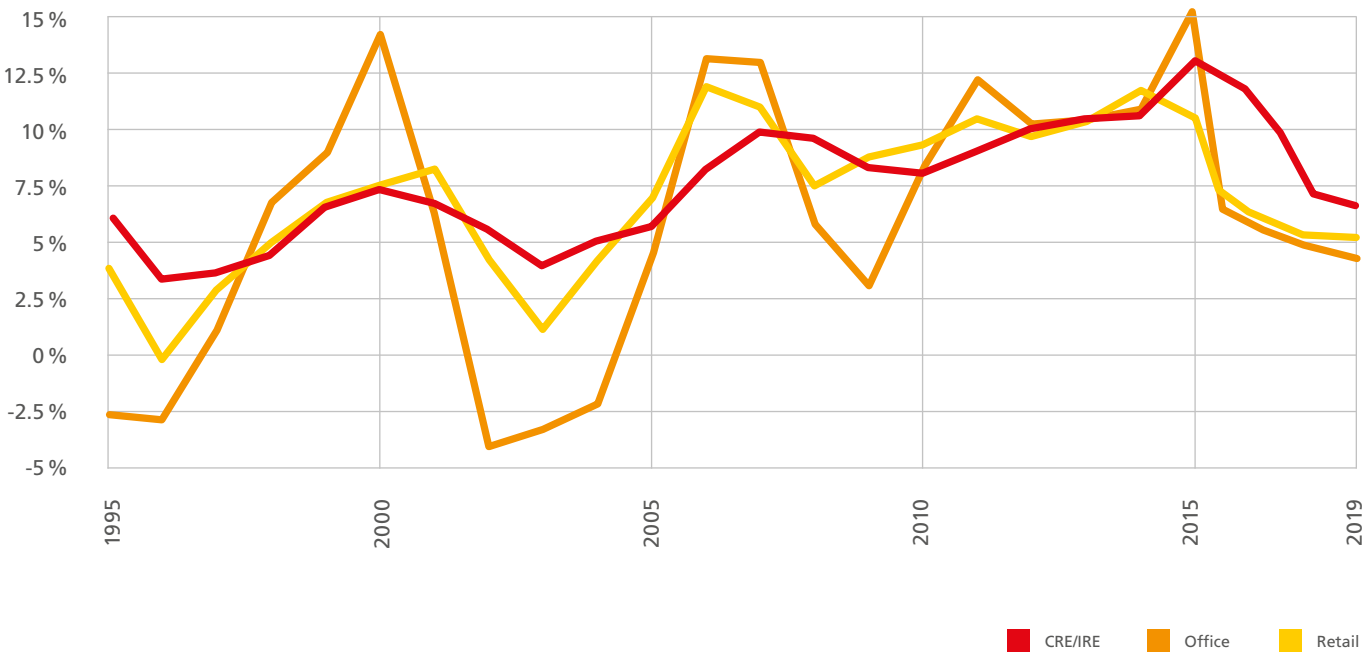
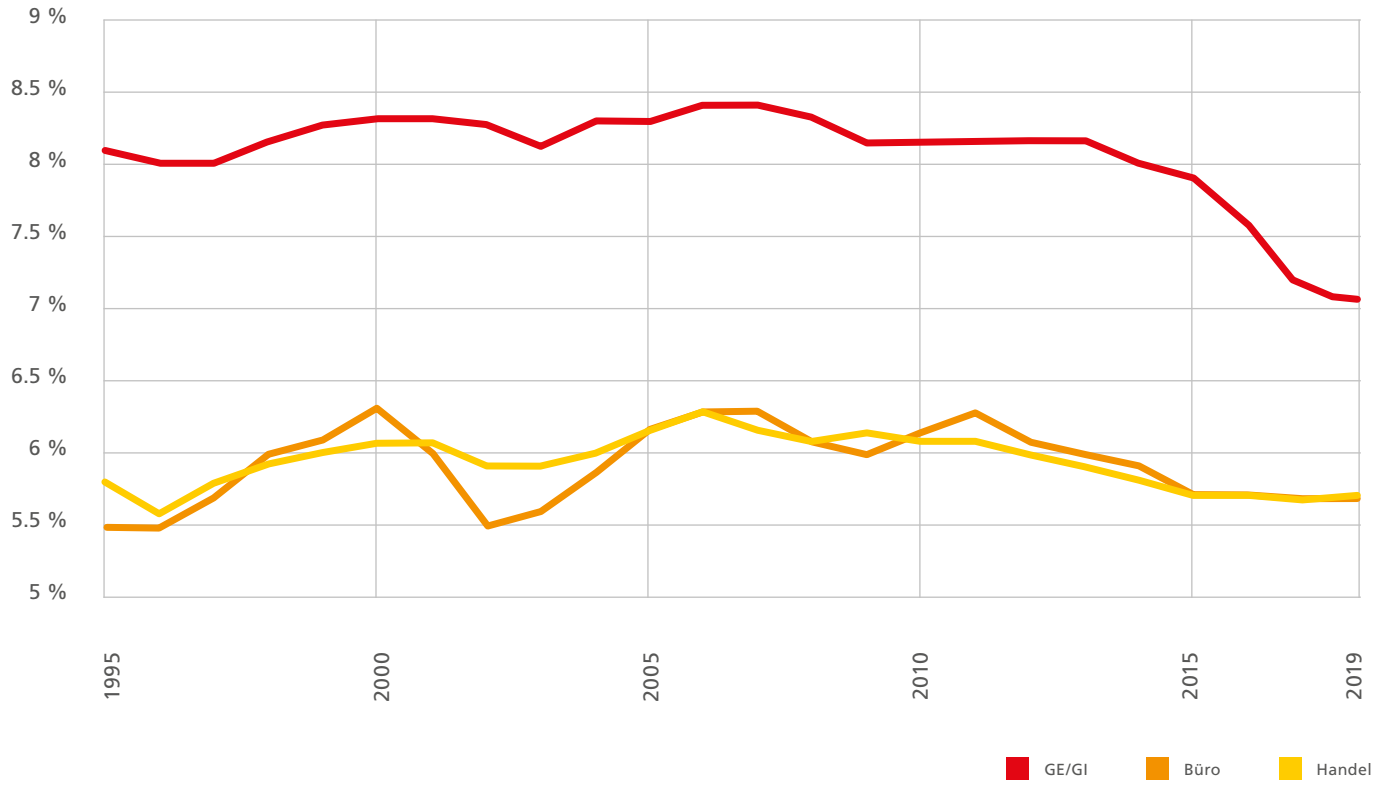


Fig. 29: German Property Index (GPI), cash flow by property segment in Germany (y-o-y), 1995-2019, in %



[5] For a definition of the German Property Index (GPI) see the Glossary.

3

POSTSCRIPT

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 H2 2015 drew on 1,377 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 did it consider sublettings by companies who are active in business sectors other than real estate. 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.

LIST OF FIGURES

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, as well as the incidental acquisition costs currently 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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