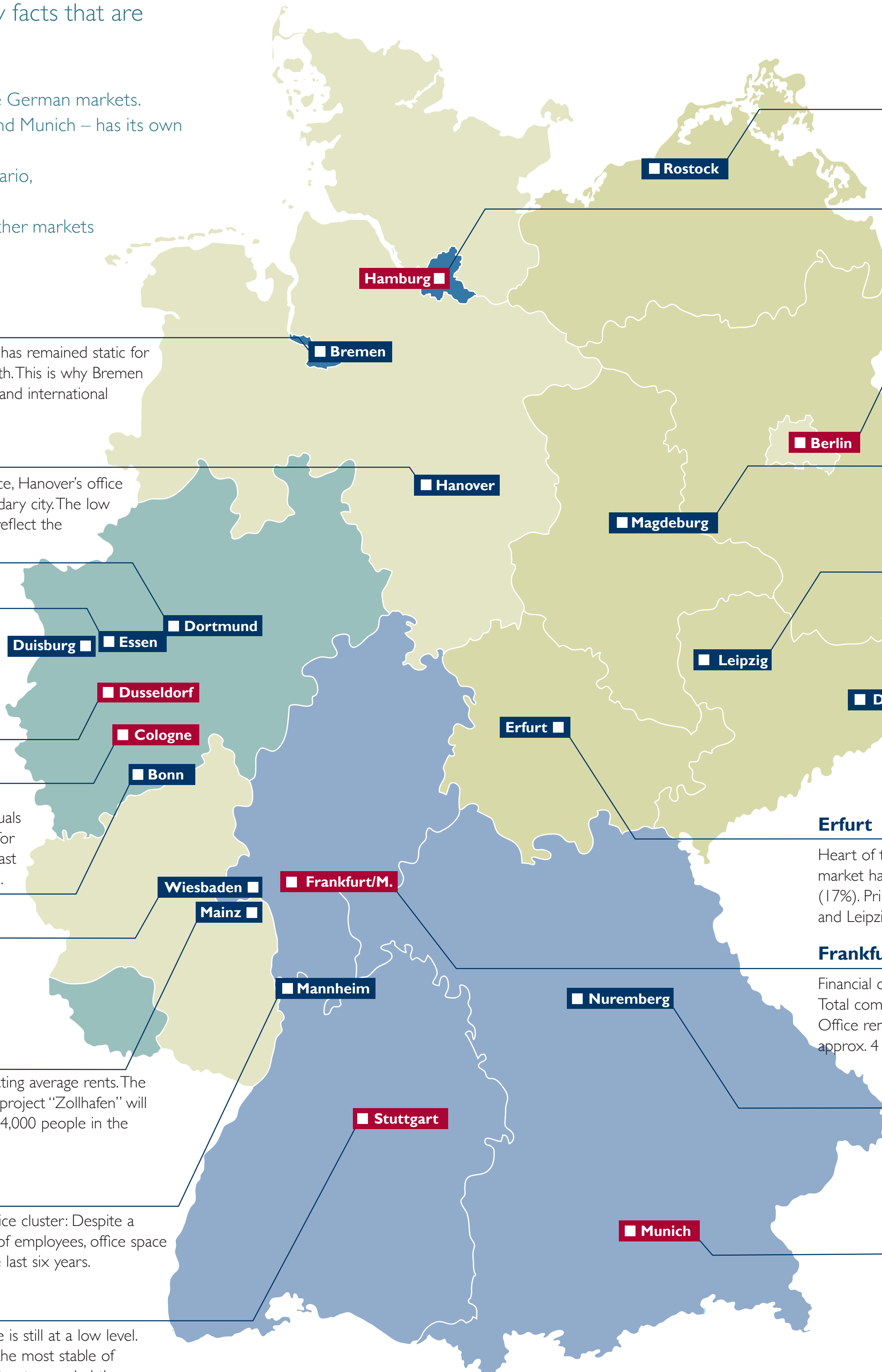
Explaining Germany - Investment Opportunities in the Office Sector

CATELLA

Explaining Germany means presenting a multitude of extraordinary facts that are characteristic of the country, compared to the rest of Europe:

- There is neither a dominant investment center nor a strong cyclical movement in the German markets.
- Each city of the Big 7 – Berlin, Hamburg, Dusseldorf, Frankfurt, Cologne, Stuttgart and Munich – has its own economic structure, and this results in individual market profiles.
- The office rents in the CBD's in total show for the next two years an increasing scenario, while vacancy rates will decline.
- Berlin as the German capital offers a huge demand for new office space, while the other markets try to find a way of how to deal with the stock of the early Nineties.
- Don't forget the other 15 2nd tier cities – labeled as "B-Locations" and, of course, the 54 3rd tier cities.
- Each of them shows interesting investment opportunities for the next quarters, nevertheless keep an eye on the exit in a phase of decline and look at the risk premium these days.



Rostock

Office stock is nearly 1 mn sqm with a relatively low vacancy rate (although quite intransparent).

Hamburg

Maritime trading spot. Transaction volume has risen in 2014 and produced the best result since 2007. Due to the high demand for office properties, falling vacancy rates and prime yields are expected until 2016.

Bremen

Development of new office space has remained static for many years and causes price growth. This is why Bremen will be in the focus of institutional and international investors.

Berlin

Capital and tourist spot. Insufficient supply of office space in the city center is the reason for rising prices. Nevertheless, take-up volume in the office segment concluded at a record level at the end of 2014.

Hanover

With 4.9 million sqm of office space, Hanover's office market is relatively big for a secondary city. The low vacancy rate and moderate rents reflect the popularity of the city.

Magdeburg

Office stock is about 1.4 mn sqm with a low demand for office properties. Increasing dynamics in this segment is expected.

Dortmund

High dynamics of development and slight volatility enforce supraregional demand of institutional investors. Office vacancy rate increased slightly to 6%.

Essen

A steadily increasing number of office jobs causes consistent surplus demand despite high rate of construction. In Essen there is a containable risk and rising prices are expected.

Leipzig

Most dynamic city in East-Germany, classified as "undervalued". Reverse vacancy development: Ongoing reduction in the city center and increasing vacancy in the outer city.

Dresden

The capital of the federal state of Saxony, Dresden is a growing city with a good return potential at a simultaneous slight risk. In all asset classes in the city center there is a surplus demand with rising prices.

Dusseldorf

Fashionable, chic and dynamic: A lack of big deals in 2014 caused a decrease of take-up in the office market. Take-up in 2014 was the worst result since 2009. Nevertheless, ongoing demand remained positive due to small leasing units.

Cologne

Although Cologne is the biggest city in North Rhine-Westphalia, its office market equals that of Dusseldorf or Stuttgart. The demand for office space has been relatively stable in the last years and and slight rent increase is expected.

Erfurt

Heart of the Biotech-IT corridor in Thuringia. The Erfurt office market has the highest vacancy rate of eastern German cities (17%). Prime rents are approximately on the level of Dresden and Leipzig.

Bonn

From the German capital to No.1 at 2nd tier locations: Due to large enterprises, international organizations and the university there is an ongoing high demand for office space. Forecast additional demand of office space adds up to 360,000 sqm until 2030.

Wiesbaden

The high demand for modern prime office space can't be satisfied by supply. During the last years the vacancy rate has continuously dropped.

Frankfurt

Financial center: Significant increase of investment volume. Total commercial investment volume was above 5 bn EUR. Office remains most popular segment with a volume of approx. 4 bn EUR.

Mainz

Small office market with stagnating average rents. The mixed-use urban restructuring project "Zollhafen" will provide prime office space for 4,000 people in the next decade.

Nuremberg

The office market of Bavaria's second largest city shows a stable development. Vacancy rates are predicted to continue to decrease.

Mannheim

On the way to become a service cluster: Despite a continuously growing number of employees, office space has barely increased during the last six years.

Munich

Modern and historic at once: Munich is the fastest growing German metropolis, and has – apart from Berlin – the second largest office market. Munich has registered rising rents for the last seven years, due to the strong demand.

Stuttgart

DNA: stability. The vacancy rate is still at a low level. The Stuttgart office market is the most stable of Germany's Big 7 locations. Stuttgart recorded the highest prime yield increase of all European office locations.

Source: Catella Research 2015
As of February 2015

City type

- Big 7
- Regional Centers

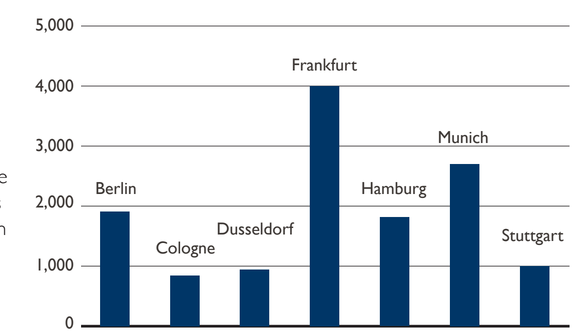
GDP per capita per federal state

- Well above average
- Above average
- Average
- Below average
- Well below average

German average GDP per capita: 33,355 EUR

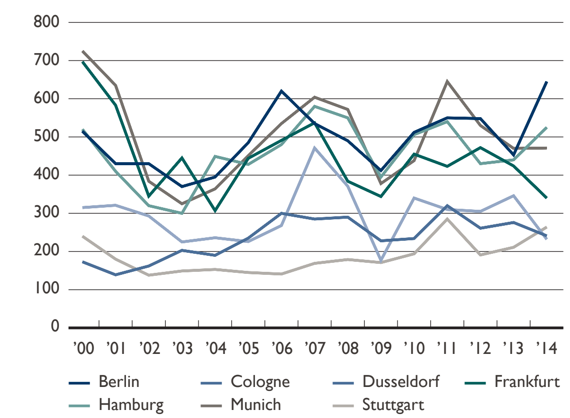
Source:
Statistical Office of Baden-Württemberg 2014

BIG 7: OFFICE TRANSACTION VOLUME 2014
in mnEUR



Source: Catella Research, RCA

BIG 7: OFFICE TAKE-UP VOLUME
in mnEUR



BIG 7: GROWTH RATE OF PRIME OFFICE RENTS
in %