bulwiengesa

THE 5% STUDY 2024

WHERE IT STILL PAYS OFF TO INVEST

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THE 5% STUDY 2024

WHERE IT STILL PAYS OFF TO INVEST

A Study by bulwiengesa AG

With the friendly support of

ADVANT Beiten

Forewords

10 years of the 5 % study! In 2015, we came up with the idea of presenting the German property market to interested investors from a different perspective to that of conventional market reports. We were looking for an approach that could be applied across all industries and found it in an IRR analysis.

There were a lot of question marks and dubious frowns due to the unusual name of the study. 5 % – that used to be! – at least for core properties – that was the unanimous tenor at the time. And the studies in the first few years confirmed it – in 2015, 3.5 % was the market standard for a core property (office) in A cities – in 2021, it was only 2.1 %!

Times have changed radically. The geopolitical environment has changed dramatically – Russia's war against Ukraine, practically on our doorstep, is shaking up stability in Europe and Germany. The German property market, once known as a 'safe haven', is losing this reputation. At the same time, escalating inflation has heralded the end of the low-interest phase, leading to a sudden slump in transaction activity. In addition, the issue of the ecological transformation of property, which was neglected for a long time, is now coming to the fore with full force due to pressure from European regulations.

The turnaround in interest rates has brought about a fundamental change in yield requirements – and 5 % no longer seems illusory, even for core products. Even if one or two players have suffered significant wounds as a result of this paradigm shift, the fact that a sustainable cash flow perspective is once again taking centre stage for real estate is very positive. And the market is more exciting than ever! Some are standing on the sidelines waiting for the right time to get in, others are reorganising themselves and have to do their homework on their own portfolios, and still others are sounding out the offers and trying to take advantage of the opportunities that will undoubtedly present themselves.

Whichever group you belong to, I hope you gain maximum insight when reading this 2024 study.

Sven Carstensen, Member of the board of bulwiengesa AG

In the second quarter of 2024, German property prices were up again across the board for the first time in around two years. All residential segments – owner-occupied flats, detached houses and apartment blocks – have risen in value compared to the previous quarter and are also outperforming current inflation rates. Is this recent news from the Kiel Institute for the World Economy (IfW) just a snapshot or the beginning of the anticipated turnaround?

It appears that the great uncertainty of recent years is receding and the prospect of falling interest rates is stabilising the market. Investors appear to be regaining confidence in the long-term appreciation of property values. If this trend consolidates, the broad correction on the German residential property market – triggered by sometimes dramatic changes in construction costs and interest rates, on the energy market and in supply chains, as well as by political crises and armed conflicts – has ended after two years.

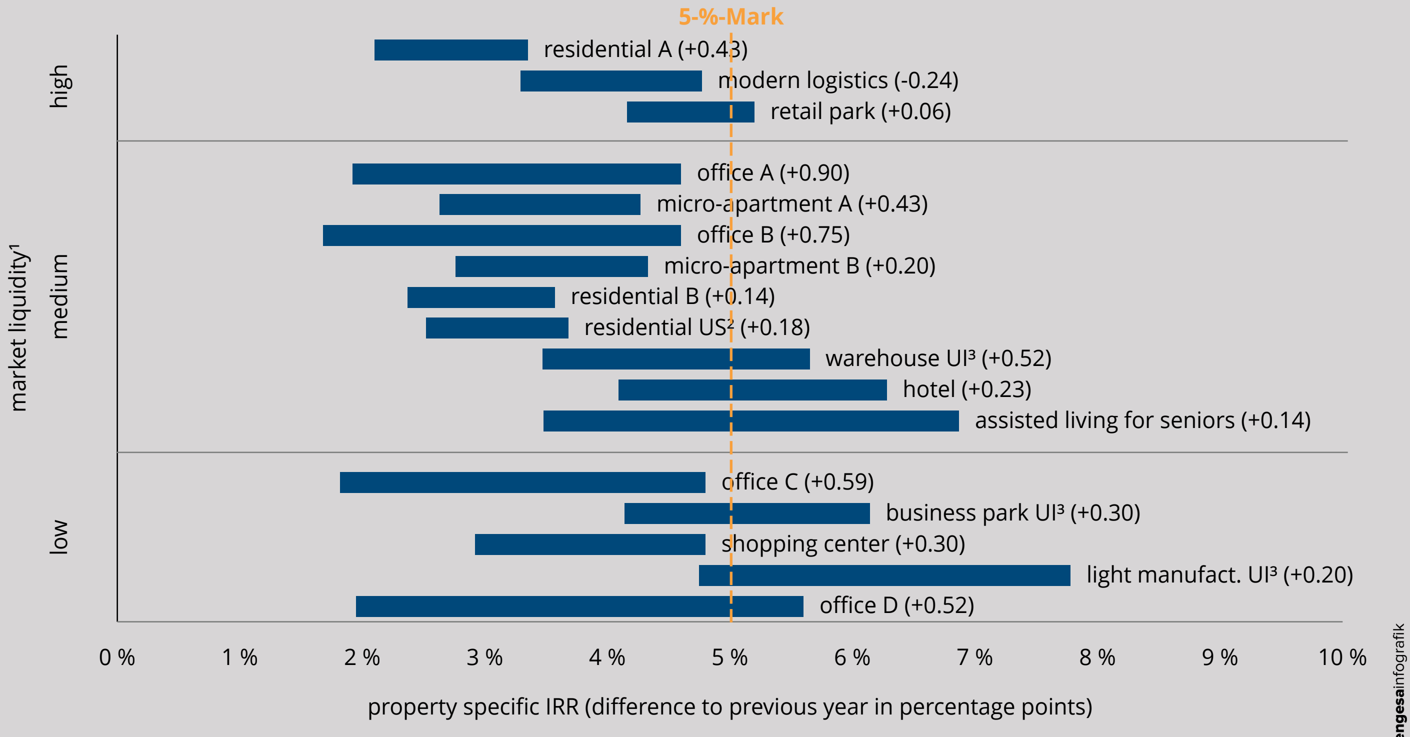
Nevertheless, the profitability of an investment must be continuously reassessed in the future. Investors continue to face the challenge of more difficult closing and follow-up financing. When investing in commercial property, the factors that have recently shaped the market – home office, e-commerce, vacancies, stranded assets – must continue to be taken into account and will continue to play a major role in the market. Market rents as a basis for valuations will not lose their significance, on the contrary.

And it is not just for aging buildings, such as a recent high-rise in Frankfurt am Main that characterises the skyline, that the concept of sustainability is firmly anchored among investors and has become the dominant criterion for investment decisions. Incidentally, this applies to all asset classes.

Klaus Beine, ADVANT Beiten

With its many years of experience, ADVANT Beiten provides advice on all phases of property management: from financing to the land purchase and project development through to letting or selling the property. We implement innovative forms of property sales and trading, as well designing German and foreign real estate funds.

Summary
Core-Matrix[1]



1 Liquidity of asset classes regardless of investment cycles. Within the categories of low, medium and high market liquidity shown in the diagram, there is no further assessment of the liquidity of the individual types of use. 2 US = University Cities. 3 UI = Unternehmensimmobilien.
Source: bulwiengesa AG

» Yields on residential property continue to rise

The rise in yields for residential property has continued. An IRR of around 2.9 % is achievable for good properties in A markets, which represents an increase of 43 basis points on the previous year. The range for core properties extends from 2.1 to 3.4 %. In the B markets and university cities, the yield level is around 10 and 20 basis points higher respectively – the purchase yields are generally lower here, but any energy refurbishments have a more significant impact due to the lower rent level. With current inflation of 2 to 2.5 %, residential property is increasingly becoming a profitable investment alternative.

» Yield levels of the city categories are levelling out

Investors are currently tending to avoid offices – the question marks regarding future demand for office space and the CapEx requirements for existing properties due to the increased need for energy-efficient refurbishment remain. They are therefore slipping further down the ranking of market liquidity. Yields have risen significantly compared to the previous year – in the A markets by around 90 basis points to 4.1 %, with up to 4.7 % achievable in the core segment. The B and D markets follow with 4.6 to 5.6 % (base values in each case). The yield gap between the city categories has therefore narrowed. CapEx costs for existing buildings continue to play a relevant role here, as they have a greater impact on yields in smaller markets with low rent levels.

» Microliving is establishing itself as a core class

Furnished flats continue to be in high demand, particularly in large cities. The ongoing housing shortage is increasing demand for these flexible living solutions, as there are often hardly any alternatives for those looking for accommodation at short notice. Occupancy rates here are also relatively high. Yields for residential units in the core segment are between 2.6 or 2.7 % and 4.3 % in A and B markets respectively.

» Food retail as a stabiliser

Shopping centres in existing properties (i.e. not for conversion) are still virtually absent from the investment market. The situation is different for food retail centres, which generate high demand as (often small-scale) investments.

Retail parks with a distinctive range of periodic requirements are also valued more positively. The base value of the achievable IRR here is 4.3 % – up to 5.2 % is achievable in the core segment.

» Hotel properties still on the upswing

The positive picture of the earnings prospects for hotel properties already presented in the last study is continuing this year. Occupancy rates and room prices have continued to rise. With base values of 4.6 to 5.0 % (2 to 4-star hotels), it can be assumed that hotels will regain importance as alternatives to conventional commercial asset classes as the investment market picks up again..

» Slight correction in achievable yields for logistics properties

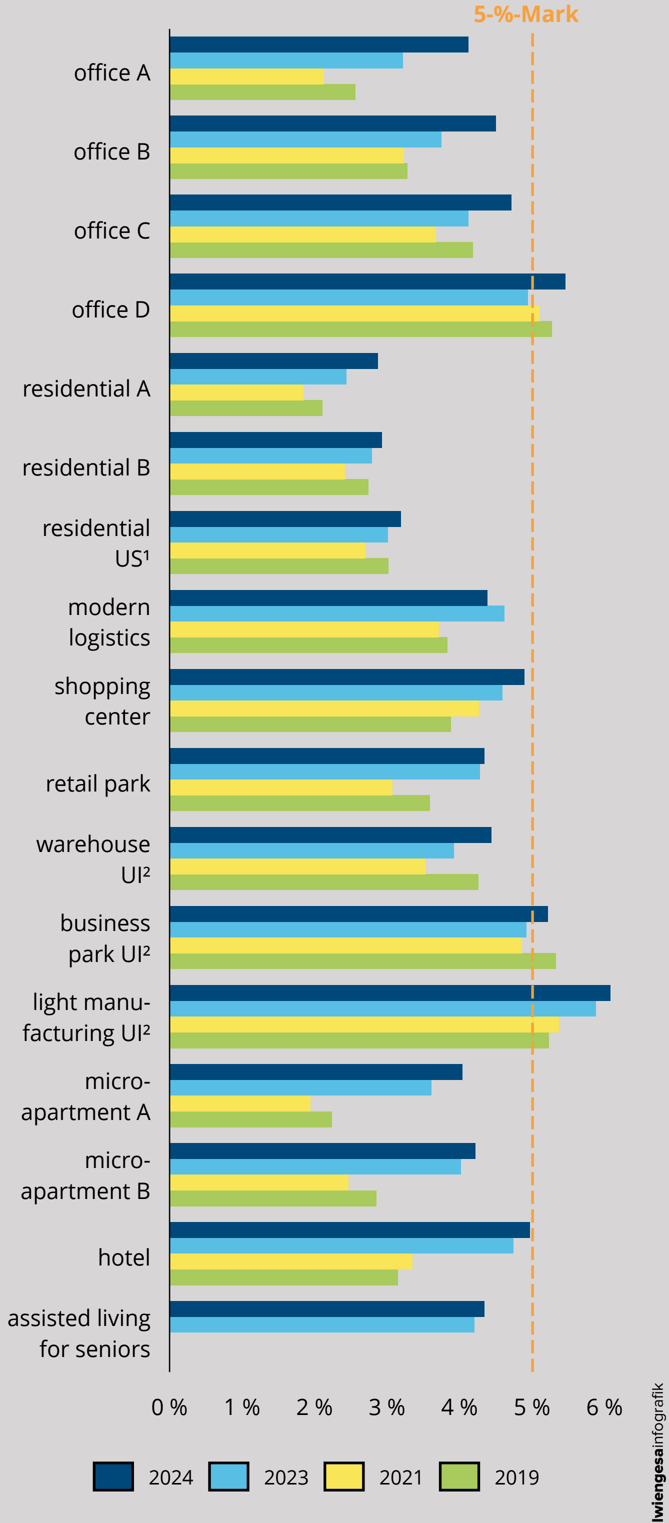
According to bulwiengesa's latest forecasts, rental expectations for logistics properties remain very positive – albeit with less momentum than assumed last year. These lower growth rates are also reflected in the calculation of the IRR (10-year focus), which is slightly lower than in the previous year. The base value is 4.4 %, the achievable range in the core area is 3.3 to 4.8 % and thus roughly at the previous year's level.

» Unternehmensimmobilien remain a niche with potential

The term Unternehmensimmobilien covers business parks, light manufacturing and small-scale warehouse space. These property types are characterised by stable cash flows. As management-intensive asset classes, they represent a sustainable alternative to conventional types of use, particularly for rents with low quality requirements. Their particular suitability results from the combination of stable income streams and the need for intensive operational management, which makes them an attractive investment opportunity in the property market.

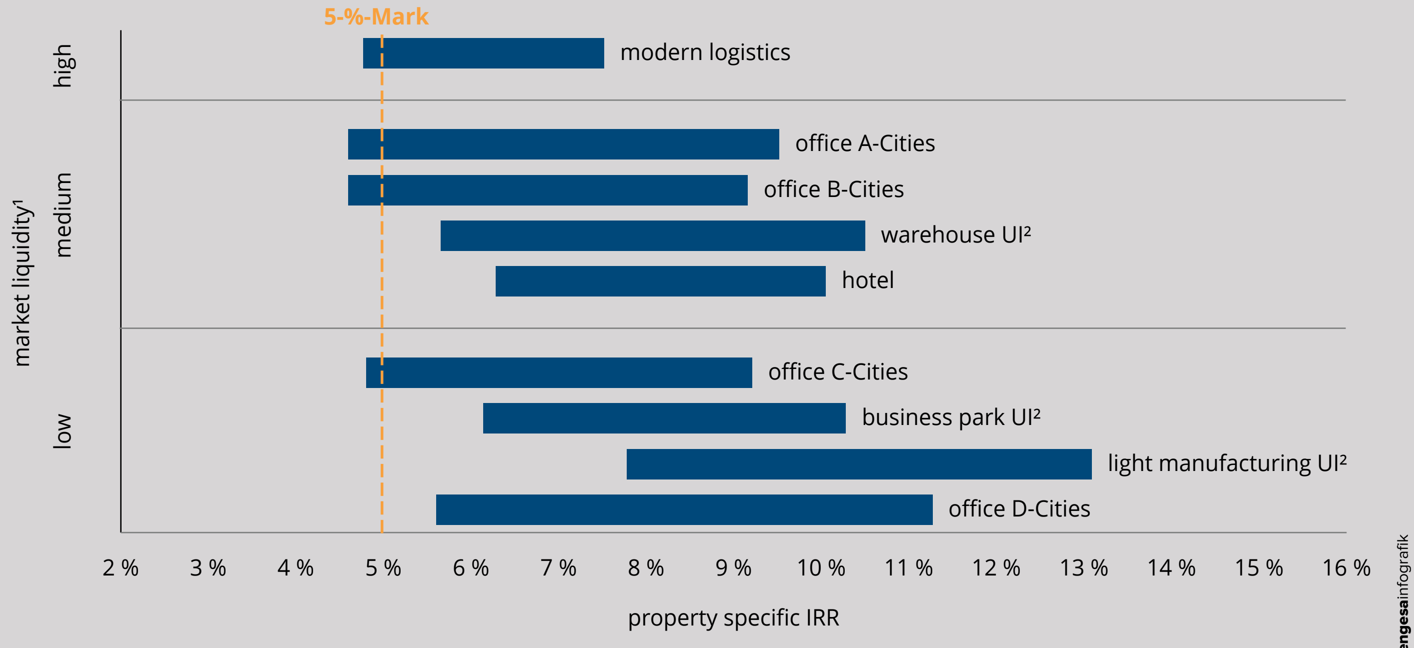
Business parks and light manufacturing in particular represent very interesting alternatives for specialised investors with potential yields for stabilised assets of 4.1 to 6.1 % and 4.8 to 7.8 % respectively.

Overview Core Properties
IRR, 2019 to 2024



1 US = University Cities. 2 UI = Unternehmensimmobilien.
Source: bulwiengesa AG

Summary
Non-Core-Matrix[1]



1 Liquidity of asset classes regardless of investment cycles. Within the categories of low, medium and high market liquidity shown in the diagram, there is no further assessment of the liquidity of the individual types of use. 2 UI = Unternehmensimmobilien.
Source: bulwiengesa AG

In this study, non-core properties are properties with a higher risk profile and therefore higher performance opportunities. They have management deficits such as vacancies, are generally located away from central locations and have unstable letting structures. These buildings also only fulfil minimum energy requirements.

Only their market potential is shown in the above matrix; restructuring or refurbishments are not considered here – nor are outliers included. In individual cases, the returns and risks can therefore be significantly higher than in the model calculation. Residential investments are not currently included in the non-core analysis, as they offer too little yield potential for non-core investors in established markets. Modern shopping centres, retail parks and assisted living facilities are also excluded.

Non-core investors are currently devoting themselves to an intensive analysis of the property market in order to identify opportunities arising in particular from financial bottlenecks. However, this often reveals a considerable discrepancy between the price expectations of buyers and sellers. At the same time, investors are adapting their strategic approaches, as simply speculating on a rising market and acquiring properties with vacancies is no longer sufficient in the current market situation. Instead, successfully overcoming these challenges requires additional management expertise.

This necessity applies in particular to properties that do not meet current property standards and where comprehensive energy refurbishment is only economically feasible to a limited extent. Although such properties can potentially generate a stable cash flow over a longer period of time, they are only tradable to a limited extent for institutional investors due to their deviation from current ESG standards. Nevertheless, they could represent an attractive alternative for yield-orientated investors.

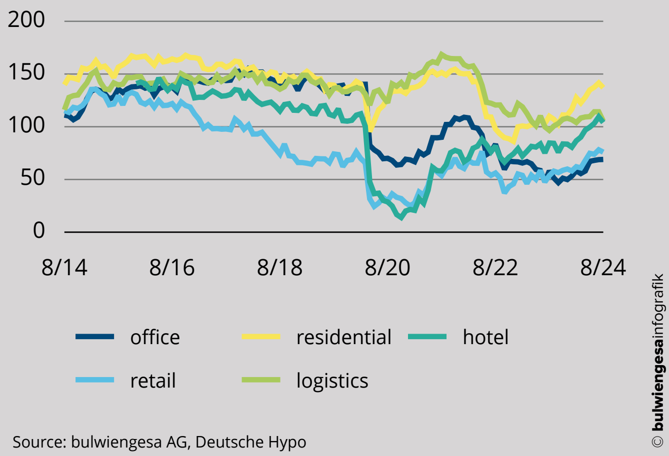
Against this backdrop, the question increasingly arises as to which assets in the distressed segment described above can still be stabilised and made accessible to the institutional investment market. Although yields of up to 12 % can be realised on office properties in particular, the risk of a total loss must always be taken into account. Similarly, highly profitable opportunities can also arise in the area of corporate and logistics properties, whereby strong technical management expertise often forms the basis for investment success.

The Market Environment

The global trouble spots intensified once again last year. In addition to the war in Ukraine with its considerable financial burdens for Europe, there was the Gaza conflict, which is causing great uncertainty in the Arab world. The upcoming US election harbours high risks, particularly for established structures from NATO to cooperation with European partners. Increased financing costs and high demands on the property industry will continue to keep the construction industry in check in 2024.

After a weak transaction year in 2023, investment volume in the first two quarters of 2024 also fell below the long-term average, at just 12 billion euros. 30 to 35 billion euros is expected for the year as a whole. Despite the somewhat disappointing result, the investment market is showing a slight upturn again, which is reflected in particular in an increase in pitches. After reaching the peak and followed by an initial interest rate cut in June, further interest rate moves are expected in the market. The current yield level has largely priced these in – but the corrections do not yet appear to be complete. This applies in particular to the office segment. The scepticism towards this asset class is still due to the issue of remote working and uncertainty about companies' future space requirements. The question marks surrounding the future energy requirements for existing buildings also continue to cause scepticism, particularly in smaller, less profitable markets.
In addition, there is no end to the headlines about the numerous insolvencies of well-known project developers – the combination of higher interest rates and the persistently weak economy has recently led to a significant increase in this area.

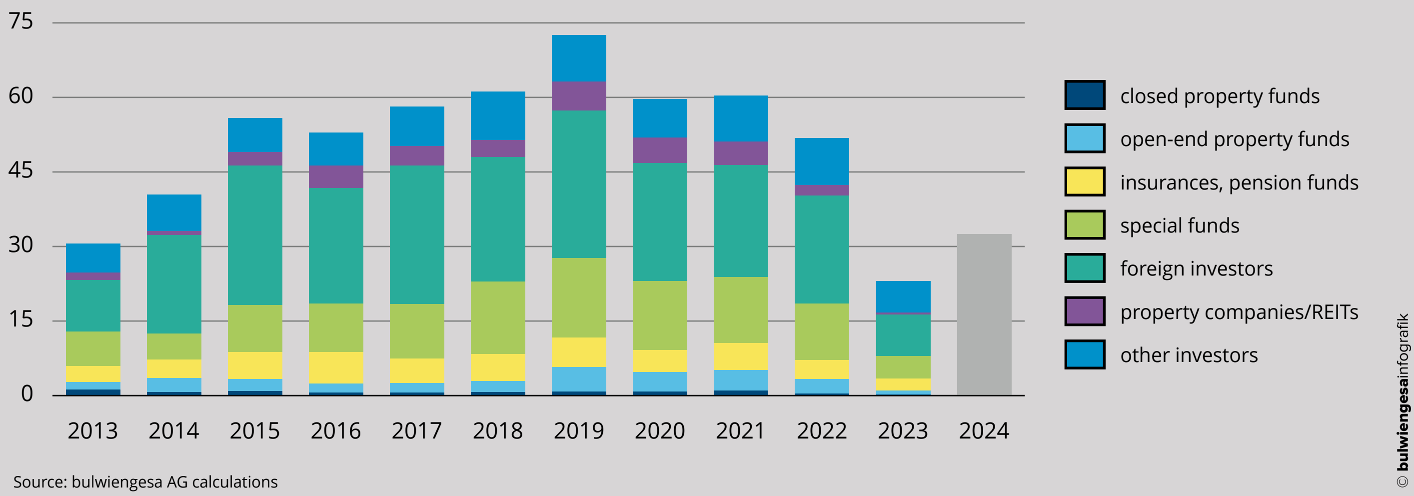
Deutsche Hypo Real Estate Economic Index
by Segments, August 2014 to August 2024



Source: bulwiengesa AG, Deutsche Hypo

The challenges for the sector therefore remain immense. Nevertheless, the mood in all property segments has brightened – also in comparison to the previous year. The Deutsche Hypo Real Estate Climate stood at 90 points in July 2024, significantly above the previous year's figure of 64 points. The hotel climate, which exceeded the 100 mark for the first time since the start of the COVID-19 pandemic in June, is particularly noteworthy. However, it is questionable whether this positive trend will continue. In August 2024, there was a small setback again for the first time – the score fell to 104 points.

New Investments by Institutional Investors in Commercial Real Estate
in Germany, billion euros, 2013 to 2024, 2024 estimation



Source: bulwiengesa AG calculations

The Market for Residential Properties

The residential property market continues to paint a very ambivalent picture from an investor's perspective.

The fundamental situation on the residential property market in Germany did not change much in the first half of 2024. The latest construction completion figures show that the government's target of around 400,000 completions has not been achieved. A maximum of 250,000 flats are expected to be completed in 2024. The new construction market continues to be characterised by past and new insolvencies in combination with project postponements. The shift of a large proportion of demand from the purchase market to the rental market is further exacerbating the situation.

Transaction activity on the residential property market has come to a virtual standstill in recent years due to the development of interest rates. The high factors of the past belonged to this full stop. At the end of 2023, purchase price factors were significantly lower than in the previous year: On average, eight annual rents less were paid in the A cities. In the B and C cities, the decline was around four to five factors from an originally significantly lower starting level.

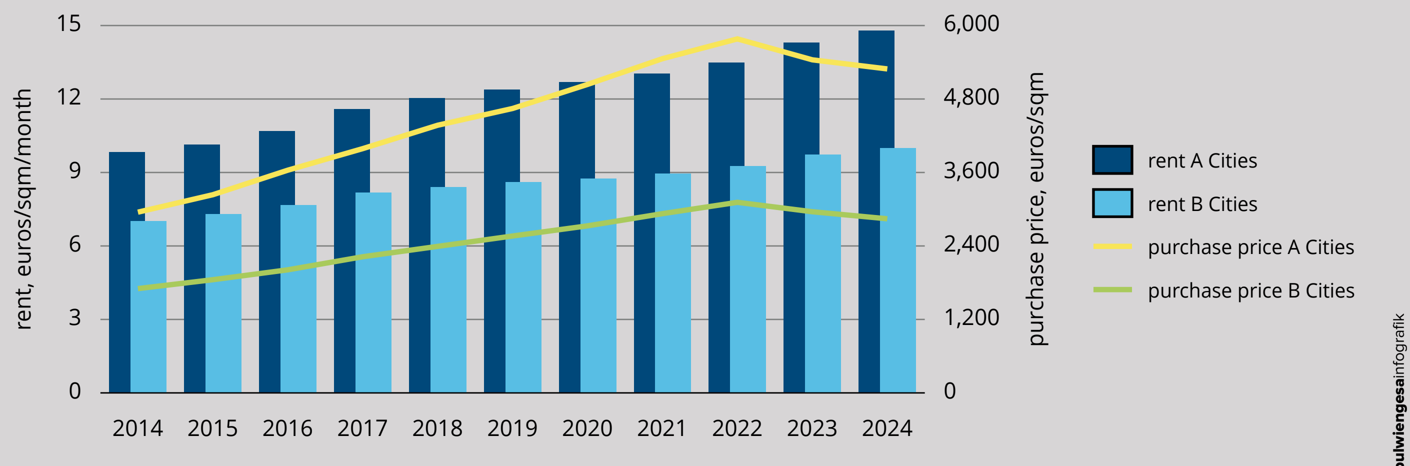
Further slight downward corrections can also be seen in 2024. However, the jumps are no longer quite as large, which gives hope that the bottom will be reached.

The assumptions in the forecasts also speak in favour of reaching the bottom. Stable inflation and a further fall in interest rates should breathe new life into the market, especially if this leads to an improvement in financing conditions, which has been the biggest obstacle to many investors' decisions to date. However, the housing market will continue to face the challenge of adapting the energy efficiency of existing properties, meaning that prices will continue to differentiate.

The advantage of the residential segment in the form of stable cash flows that are independent of economic fluctuations should continue to be a fundamental attraction for investors in the future – a major advantage over commercial asset classes.

Residential Market in A and B Cities

stock, Ø, 2014 to 2024, 2024 forecast



Source: bulwiengesa AG, RIWIS

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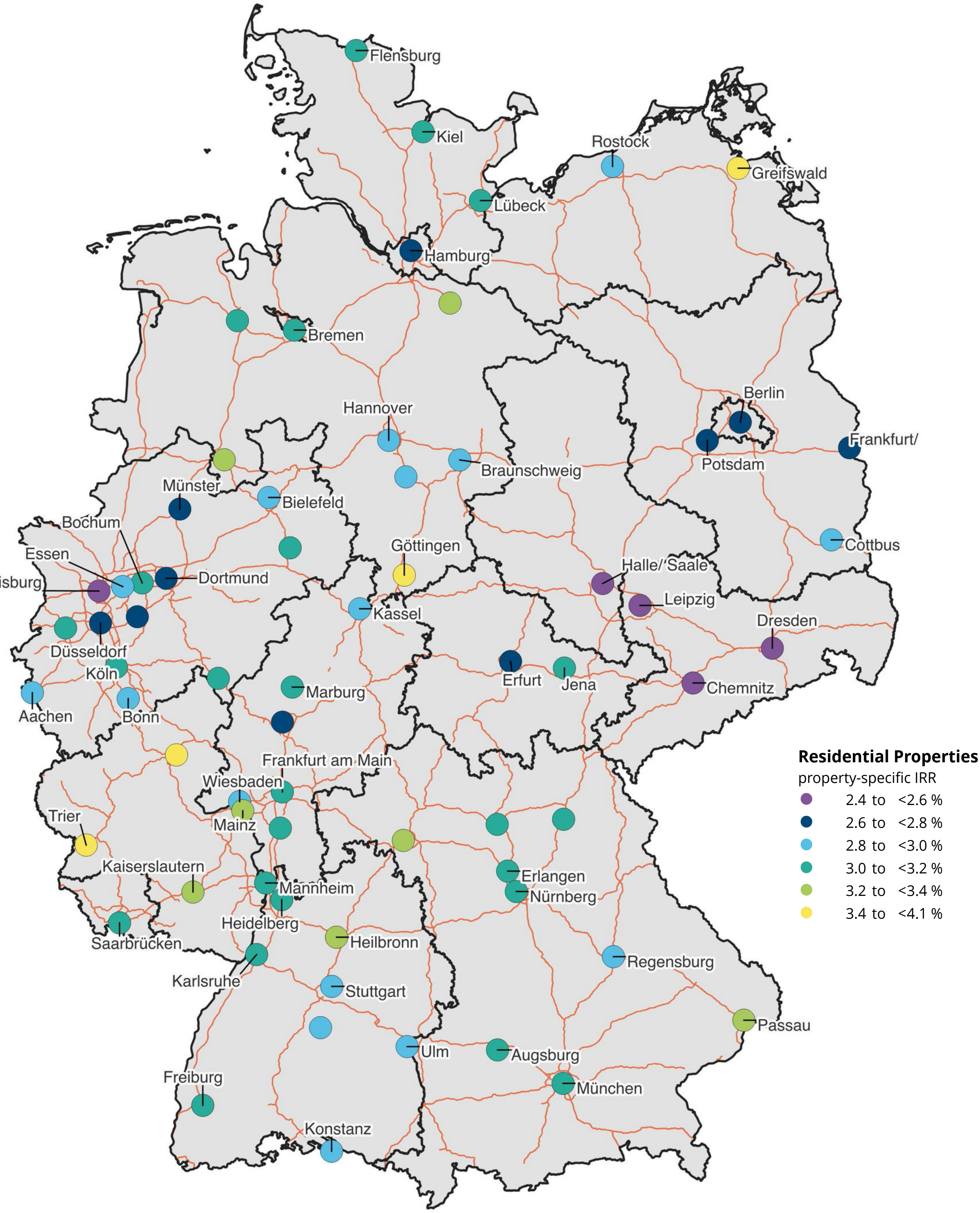
The Residential Market – Overview

Maximal Obtainable Property-Specific IRR for Core-Investors



Excursus: Beware, a purchase is a purchase?! The BGH makes sellers more accountable

The number of transactions on the property market should and will increase again. This new 5 % study also contains corresponding signals for the recovery of the market.

This makes it all the more important, especially for large-volume transactions, to observe the new supreme court rulings on property sellers' duties of disclosure when setting up a virtual data room. In a significant decision for the property market, the Federal Court of Justice (BGH) recently tightened the seller's duty of disclosure and made sellers more accountable. (15 September 2023, ref. V ZR 77/22).

In practice, documents are usually made available to the potential buyer via a virtual data room, often a large number of documents. In the often hectic transaction phases, documents that may be important for the purchase decision are sometimes made available shortly before the contract is concluded. Until now, the seller was entitled to assume that the buyer was aware of these documents and that it was the buyer's responsibility to check them independently. The BGH has now clarified that the mere posting of documents in the virtual data room is not sufficient, especially in the case of essential information such as upcoming refurbishment costs.

In a specific case, the seller of several commercial property units posted a protocol in the data room shortly before the notary appointment in which a high special levy for refurbishments was announced. The buyer, who was unaware of these costs of the community of owners or had not checked or taken note of the relevant document, contested the contract and claimed damages. While the lower courts held that the buyer was responsible, the BGH ruled in favour of the buyer. The seller should have actively pointed out this information, as simply posting the documents in the data room was not sufficient.

The Higher Regional Court of Celle initially held that the buyer was responsible for obtaining all relevant information from the data room itself. However, the BGH overturned this judgement. Key information that is important for the purchase decision must be explicitly highlighted and communicated to the buyer, especially if this information is only provided shortly before notarisation.

The BGH clarified that sellers remain responsible for hidden defects that only emerge from the documents provided. An exception can only be made if the buyer carries out comprehensive due diligence and has sufficient time to check the documents thoroughly. Sellers should therefore take care in future to communicate key information in a clear, organised and timely manner – even in cases of smaller transactions – in order to minimise legal risks. Particular attention should be paid to transparency in the case of information provided shortly before notarisation.

The judgement of the BGH should be included in the procedure for future property sales. Sellers should be aware of the stricter requirements and ensure that the buyer is comprehensively informed about all material circumstances of the property being purchased; in individual cases, a separate notice may be required. Otherwise, sellers could find themselves exposed to claims for damages.

Florian Bauman, ADVANT Beiten

ADVANT Beiten is the german member firm of ADVANT, a strong european alliance of independent commercial law firms. Established in 1990 ADVANT Beiten advises with around 250 professionals at six German offices, as well as in Belgium, Russia and China.

The Market for Micro-Apartments

The Micro-Living initiative was launched by bulwiengesa AG in 2020 and stands for a new innovative association of companies that are active in the 'flats' property segment as owners, operators and/or managers.
The aim of the initiative is to improve market transparency on the basis of a reporting system in which the property and letting data of the participants are analysed. In this way, investors and market observers are regularly informed about current market trends. Members of the initiative also receive a benchmark report that analyses their respective portfolio in relation to all other members. In addition to general information on the location of the property and the number of flats, the report asks for furnishing features and letting data such as target rents, occupancy rates and management costs. Due to the heterogeneity of the participants, the apartment buildings were clustered by property and fit-out quality for the first time in spring 2023.

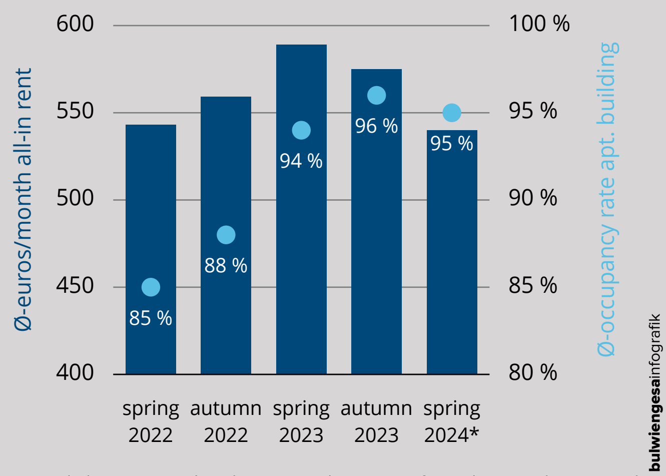
The new market report from the Micro-Living Initiative analysed around 26,700 residential units in 123 flat projects across Germany. These comprise a total of around 667,800 square metres of living space. The apartment buildings analysed are predominantly located in German A-cities, accounting for 58 % of the total.

The majority of market participants are optimistic about the future of the micro-living segment and see potential in both the student and non-student segments. The average occupancy rate of 95 % shows a sustained high demand for micro-apartments among a broad target group. The analysis of tenant structures shows that micro-living concepts are no longer aimed solely at students: only 30 % of the flats were let to students on the reporting date. This shift towards other target groups is partly due to the high quality of fixtures and fittings and the associated higher rental costs. For example, a flat in the 'very good quality' category costs an average of around 740 euros/month all-in.

The average all-in rent for flat blocks in new builds is just under 630 euros/month. This special analysis was carried out in order to better reflect the general increase in rents on the market. Due to the loss of two major players in the micro-living initiative, the average rent has fallen significantly compared to the last autumn report.

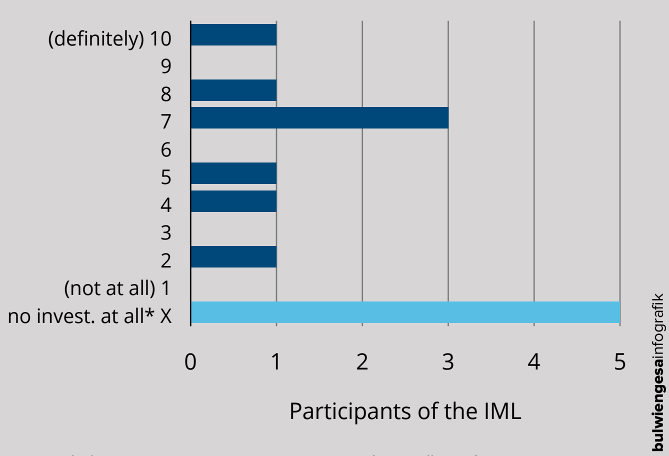
In the 2023 academic year, the number of first-year students in Germany rose by 1.6 % year-on-year to 481,500. In addition to the increase in international students, this rise is also due to an increase in German students for the first time. However, while the latter are still below the level before the COVID-19 pandemic, the number of international first-year students, at 130,500, exceeded the 2019 level of around 125,400 students for the first time. Overall, however, the number of students in the winter semester 2023/2024 fell by 1.7 % to 2,871,500, which did not fully compensate for the increase in first-year students.

Rents & occupancy rate of apartment buildings
Germany, spring 2022 to spring 2024*



Source: bulwiengesa AG; * Decline in rents due to a significant change in the IML panel ©

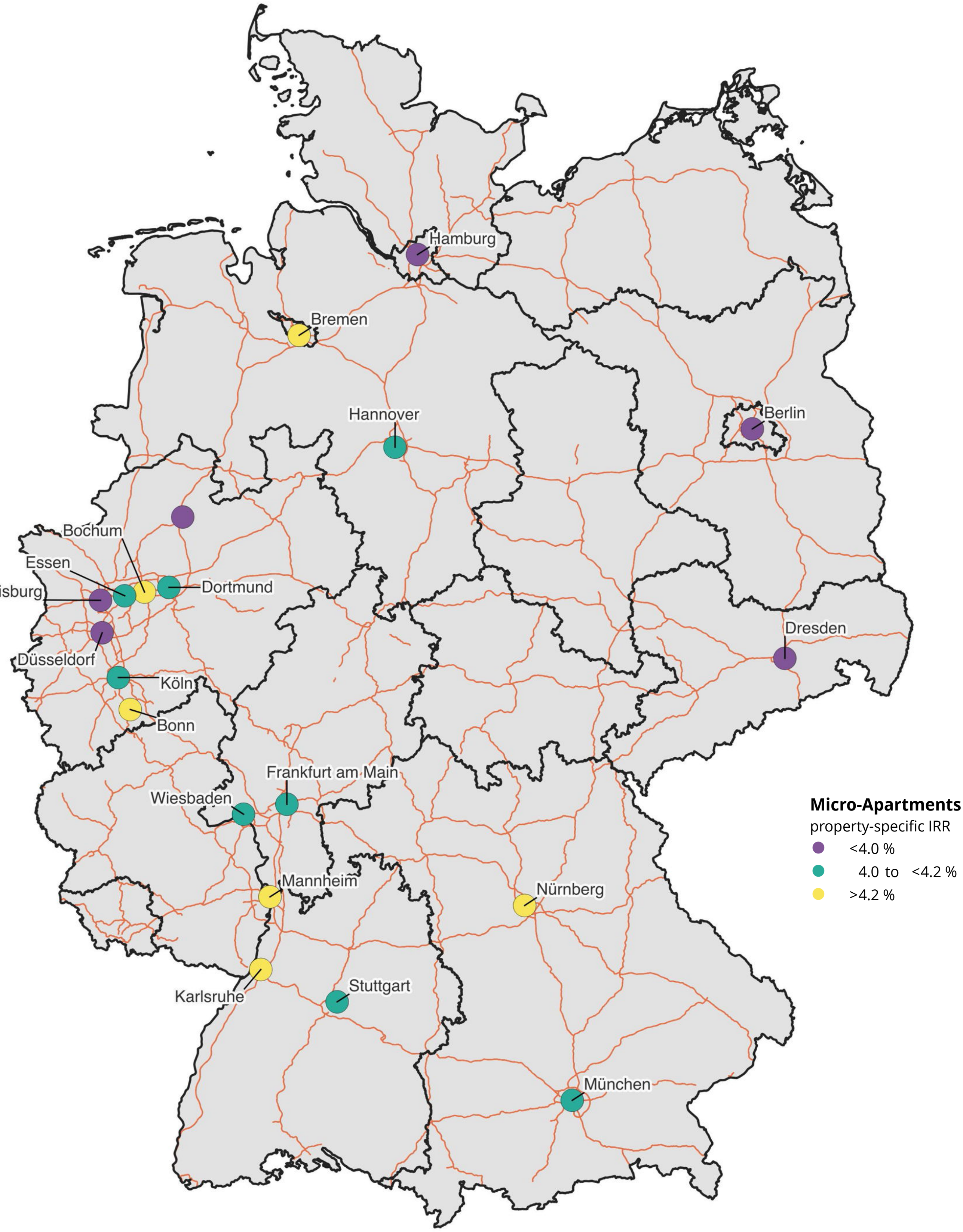
Given the current high interest rates, are you still willing to make investments in the Micro-Living segment?



Source: bulwiengesa AG; Survey participants: 13; * regardless of interest environment ©

The Market for Micro-Apartments – Overview

Maximal Obtainable Property-Specific IRR for Core-Investors



The Market for Office Properties

The German office markets continue to operate in a very challenging market environment. The economic recovery has so far failed to materialise, with many companies continuing to postpone their growth and investment decisions. Uncertainty about future price trends and the general conditions on the capital markets was reflected in the continued rise in net initial yields, which currently average 4.5 % in A cities.

Even though the European Central Bank's reduction of the key interest rate by 0.25 percentage points in June 2024 sent a slightly positive signal in terms of confidence in the markets, the investment market remained at a low level in the first half of the year. However, property prices are likely to bottom out soon. It can be assumed that net initial yields in A cities will rise by another 25 basis points over the course of the year until the end of 2024.

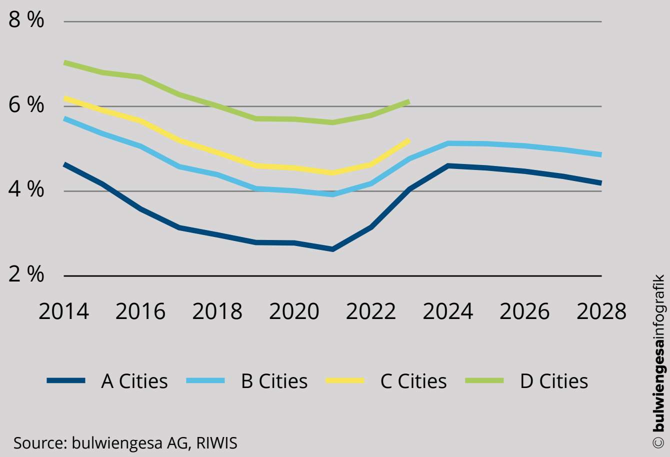
Demand will increasingly focus on modern, high-quality space in city centres or away from them in locations with good accessibility and service infrastructure. Marketing will become much more difficult for locations and properties without the corresponding qualities, which will result in increased vacancy risks and significant discounts on the achievable rent level. This development increases the risk of stranded assets in the portfolio, especially as local price levels, particularly in smaller locations, make extensive investments impossible.

Regardless of all the uncertainties, above-average completion figures are once again on the horizon for 2024, which are likely to lead to further increases in vacancy rates in the short term if demand does not pick up significantly. This will have a significant impact on vacancy rates, particularly in the A cities, which are currently still facing a major wave of projects under construction.

The market environment has changed dramatically for project developments in the planning stage. In addition to the very high construction and financing costs, the lack of exit prospects or those that are difficult to anticipate are also making property developers more cautious when it comes to new construction projects. Accordingly, a noticeable decline in new construction is expected in the medium term, which will have a stabilising effect on the vacancy situation.

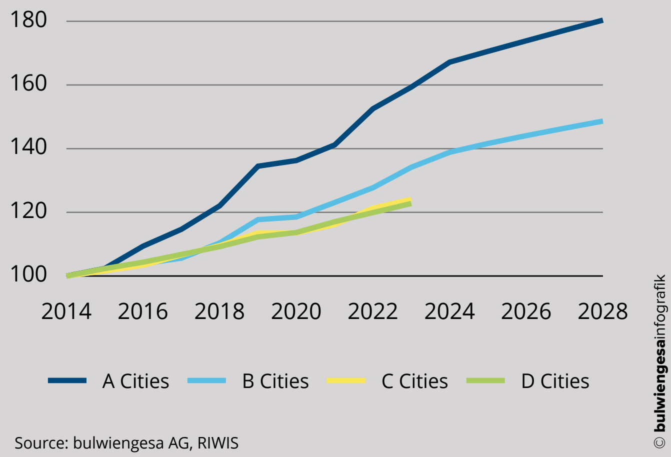
The trend towards well-positioned locations and properties, in conjunction with the continuing high construction costs and increasing ESG requirements, will continue to drive rental price growth in the prime segment. Depending on the market structure, the greatest momentum will be seen primarily in city centres, locations close to city centres or established office centres with a good mix. Peripheral office locations with location deficits, on the other hand, will struggle with price pressure, which will be particularly evident in average rents. Price corrections are likely in the short term, especially in markets with high vacancy rates.

Net Initial Yield
central locations, 2014 to 2028, forecast from 2024



Source: bulwiengesa AG, RIWIS

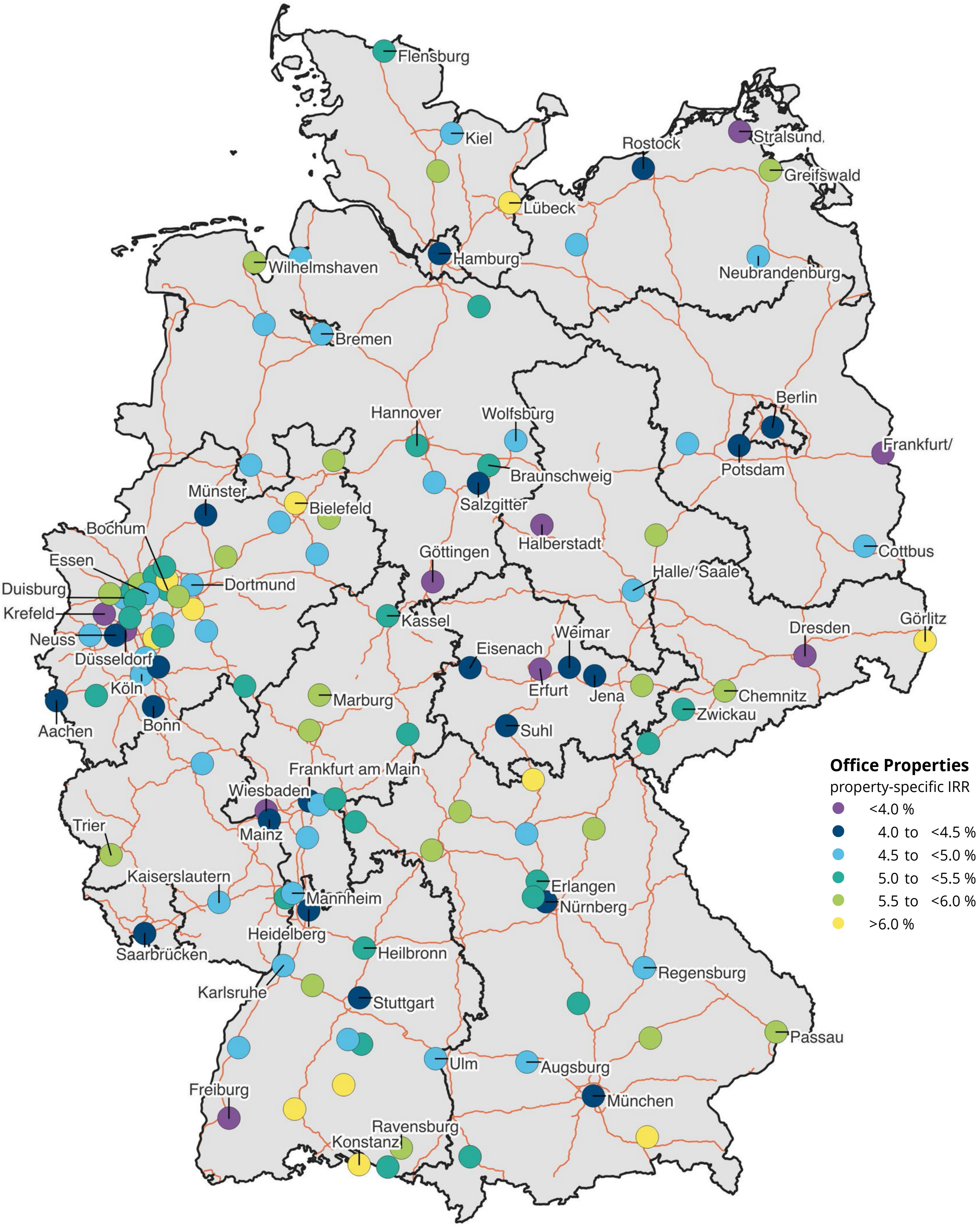
Prime Office Rents
index 2014 = 100, 2014 to 2028, forecast from 2024



Source: bulwiengesa AG, RIWIS

The Market for Office Properties – Overview

Maximal Obtainable Property-Specific IRR for Core-Investors



The Market for Logistics Properties

Global crises, delivery and supply bottlenecks, high energy prices and inflation, as well as the resulting consumer reluctance to spend, are also impacting the logistics segment. The list of stress factors can be extended to include the changed interest rate environment and the weak economy.

In trade, some sectors such as sanitary and interior design are reaching saturation point, while the export outlook for industry is being adversely affected by a decline in demand from abroad. The automotive industry is striving for stability despite the challenges associated with the transition to electromobility, but this will require adjustments in the supply chain, particularly with regard to battery storage, which will only be fully reflected in demand in the coming years.

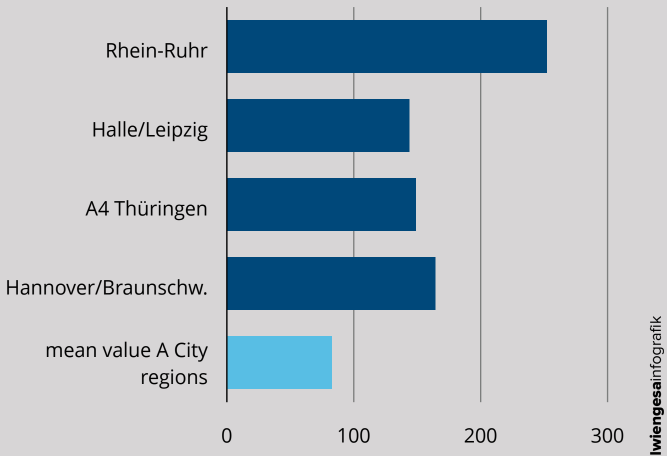
So is it all bad? Not at all. Attractive space is still desperately sought by both users and developers, especially in and around metropolises. Due to their infrastructural and socio-economic conditions, the top logistics regions continue to experience a considerable surplus in demand, which is why demand is increasingly shifting to regions outside of the top locations.

The average value of take-up in the logistics regions of the A cities in 2023 was around 82,900 sqm, with a wide spread in take-up volumes between regions such as Stuttgart and Munich at the lower end of the range and Berlin, for example. At around 252,000 sqm, the Rhine-Ruhr logistics region with the highest take-up was well above the level of the A cities. The logistics regions with the strongest demand also include secondary locations such as the A4 Thuringia and Halle/Leipzig logistics regions. Own developments are also easier and quicker to realise there due to the better availability of space.

The increasing demand for logistics space, coupled with ever higher demands on the properties themselves (especially in terms of energy efficiency), has led to a further, in some cases significant, increase in rents. The prime rent for logistics space in A cities will average around 8.70 euros/sqm at the end of 2023, an increase of around 12 % compared to the previous year. In the other city categories, the rent trend is also positive, albeit at a slightly slower pace than in the A cities.

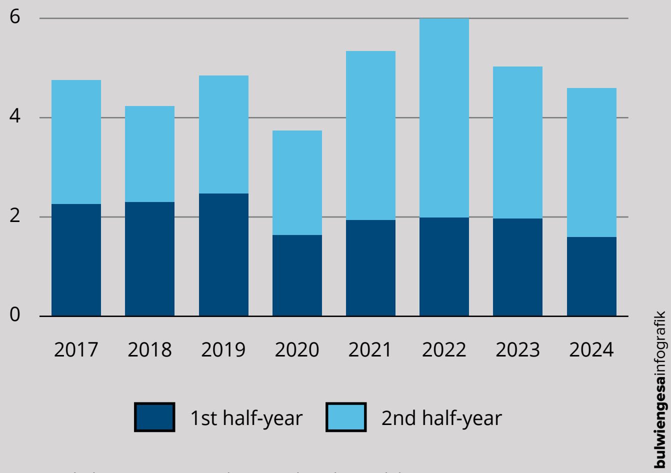
A further increase in rents is expected for the current year due to the tight supply situation, although not at the high rates of change seen in the recent past. On the market side, it can certainly be observed that marketing periods are lengthening and subletting is increasing, which is taking some pressure off the tight rental market.

Space turnover in logistics properties
selected logistics regions, thousands sqm, 2023



Source: bulwiengesa AG, Study „Logistik und Immobilien 2024“

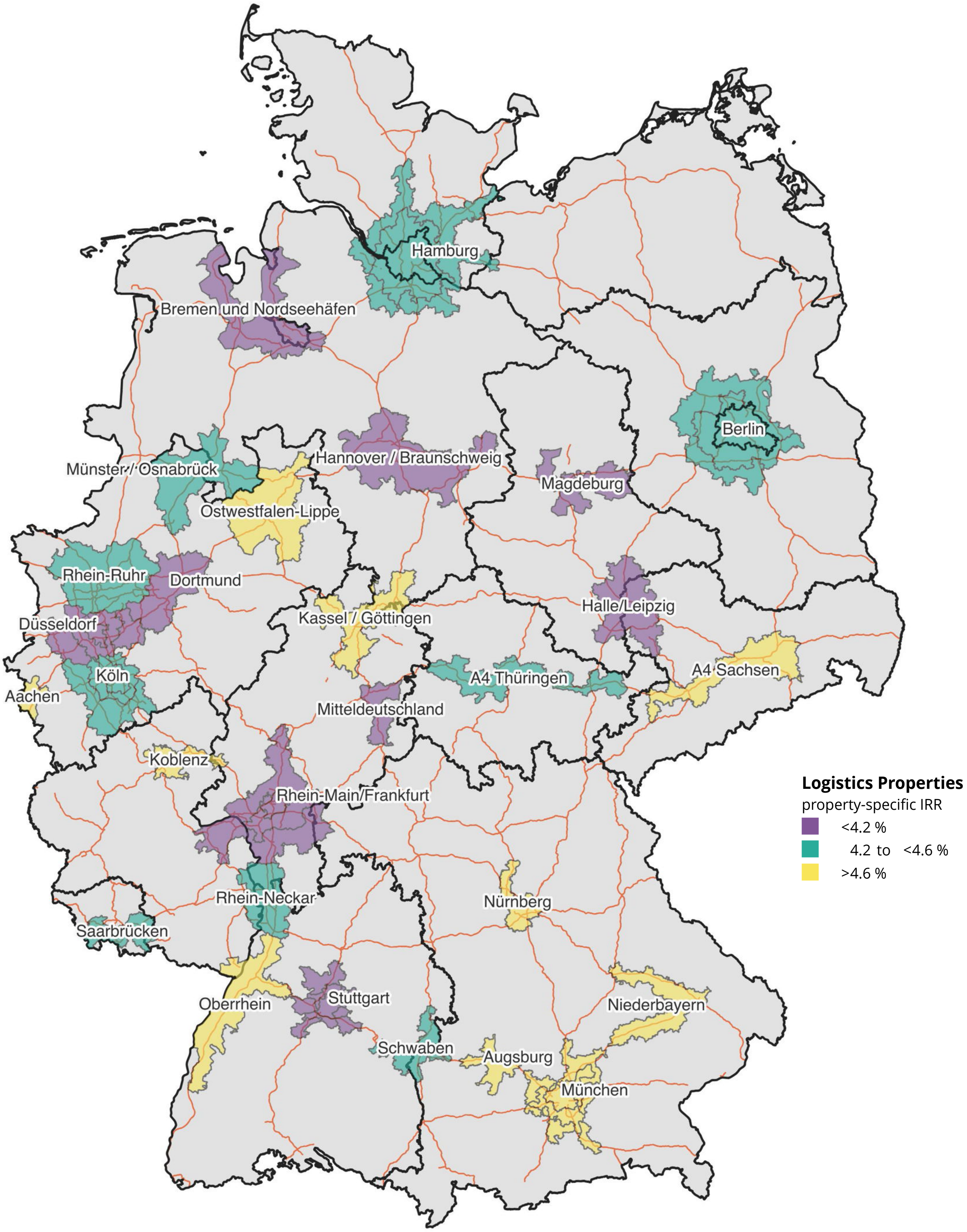
Completed logistics space
Germany, millions sqm, 2017 to 2024, 2024 forecast



Source: bulwiengesa AG, Study „Logistik und Immobilien 2024“

The Market for Logistics Properties – Overview

Maximal Obtainable Property-Specific IRR for Core-Investors



The Market for Large-Scale Retail Properties

The bricks-and-mortar retail sector has faced numerous challenges in recent years. After consumer sentiment slowly emerged from its low in 2022 following the COVID-19 pandemic, the past year and the first half of 2024 were characterised by numerous insolvencies. At the beginning of the year, Galeria Karstadt Kaufhof's third wave of insolvencies hit the headlines, and insolvency proceedings were opened in April 2024. The takeover of the insolvent department stores' chain by the American investment company NRDC Equity Partners and BB Kapital SA has now been finalised.

In 2023, retail sales in Germany reached a record level of 649 billion euros, which corresponds to nominal growth of 2.9 %. Nevertheless, the high inflation rate of 6 % led to a real decline in sales of 3.4 %, the largest since the turn of the millennium. Despite a nominal increase of 5.4 %, food retail recorded a real decline of 3.9 % due to the sharp rise in food prices. Brick-and-mortar retail with textiles, clothing, shoes and leather goods bucked the general trend, but was 4.6 % below the 2019 level in real terms.

Online retail fell short of forecasts in 2023 with an increase of just 0.9 billion euros. The HDE is forecasting growth of 3.4 % for 2024, which would mean an increase to 88.3 billion euros. The relative online share of total sales fell slightly to 13.2 % in 2023, mainly due to declines in the non-food segment.

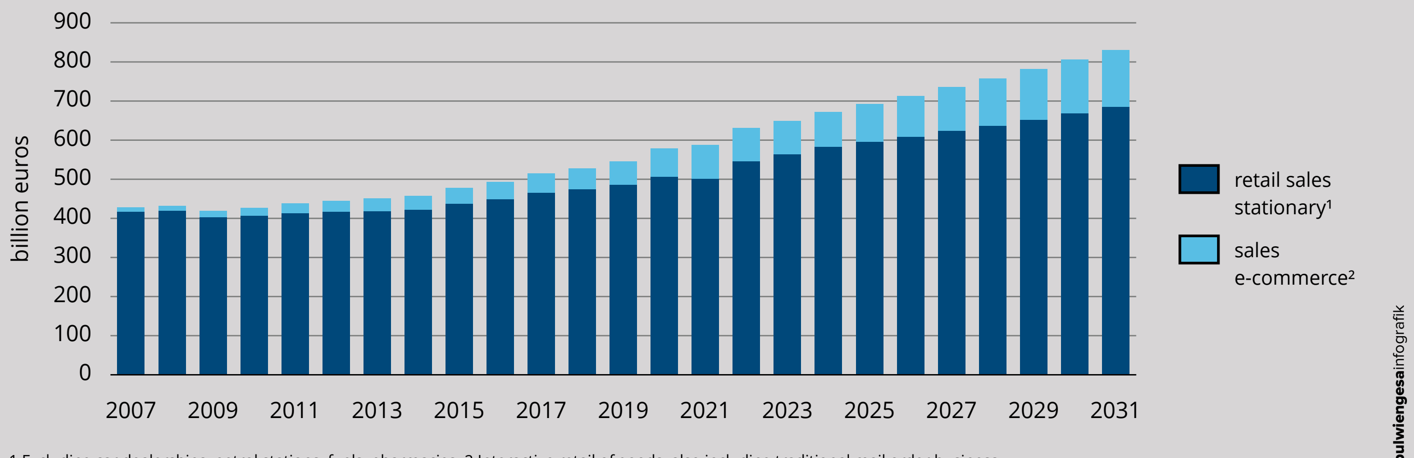
The development of city centers will remain exciting in the coming years. Cities are losing a massive number of retail outlets, entire shopping locations are shifting or being abandoned. The large chain stores are optimising their store network and concentrating on good locations. At the same time, space requirements are being reconsidered. Large chain stores have had to file for insolvency or are in insolvency proceedings. Owner-managed shops are going out of business, partly because there is no succession plan. Overall, demand for retail space is falling, which is increasing the pressure on rent levels.

One thing is clear, the situation will probably never be the same again as it was with retail-led urban development. Something else must now follow. Residential and gastronomy-based development components will become more important, but it will be a slow and difficult path that will require a great deal of patience from all stakeholders.

While retail parks with a focus on periodic demand continue to be the focus of investors, demand for shopping centers remains at a very low level.

Retail Sales

dynamic scenario, billion euros, 2007 to 2031, from 2024 forecast



1 Excluding car dealerships, petrol stations, fuels, pharmacies. 2 Interactive retail of goods, also including traditional mail order business.
Source: HDE, bevh, calculations bulwiengesa AG

The Market for Hotel Properties

After the difficult years of the COVID-19 pandemic, the accommodation market in Germany will see a significant recovery in 2023. At the end of 2023, the number of overnight stays was almost on a par with 2019, totalling around 485 million overnight stays. Hotels and bed-and-breakfast hotels account for 53 % of overnight stays. There are a total of 4.06 million beds in around 49,000 accommodation establishments in Germany, with hotels and bed-and-breakfast hotels accounting for 43 % of beds. Hotel properties are therefore essential for tourism and have been considered attractive investment properties for years, particularly due to the expansion of the chain hotel industry, which accounts for around 55 % of the market.

City tourism, which suffered particularly badly during the pandemic, is also showing signs of recovery. In popular cities such as Berlin, Hamburg and Heidelberg, hotels are already achieving room occupancy rates of over 70 % again. However, occupancy rates in many other cities are still below the 2019 level, which is due to the continued restraint in business tourism.

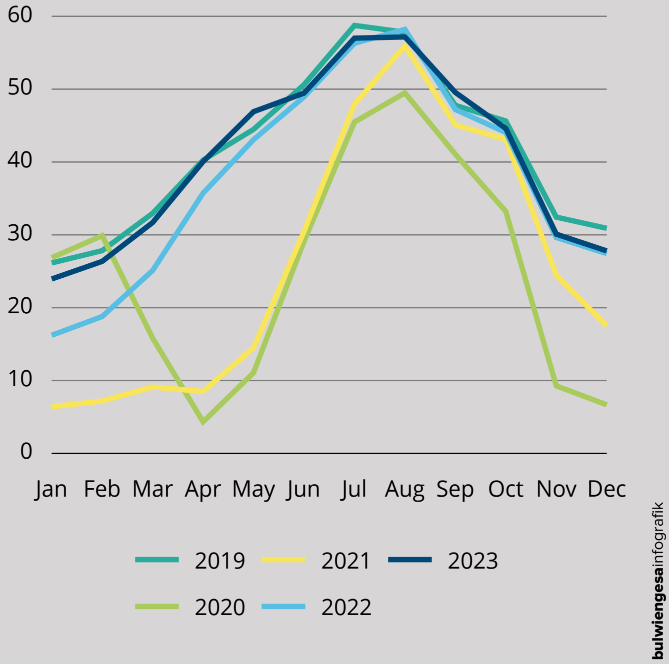
Despite the positive developments, hotels are facing considerable challenges. Rising operating costs, staff shortages and increasing competition are putting pressure on the industry. The cancellation of the VAT reduction on meals could lead to further declines in sales, while higher construction costs and the pressure for sustainability are increasing the financial burden on operators.

In order to counter rising cost pressure, hotels have increased room and catering prices in recent years, which has led to revenue growth. Nevertheless, revenue per available room is still around 14 % below the 2019 level. This situation has changed the hotel property market, with sustainable and cost-efficient concepts such as budget and boutique hotels gaining in importance. The serviced flat and boarding house segment, which is aimed at commuters and temporary workers, is also becoming increasingly popular.

The hotel investment market is showing signs of recovery, particularly due to a strong deal in the fourth quarter of 2023, which led to a transaction volume of around 1.4 billion euros. The market is expected to recover further in 2024, supported by major events such as the European Football Championship and the revival of trade fair business. Hotels that invest in sustainability and innovative concepts could gain a competitive edge in this environment. However, the economic situation remains tense, which could lead to a decline in the volume of new construction and a shift towards a tenants' market.

Overnight Stays Development in Germany

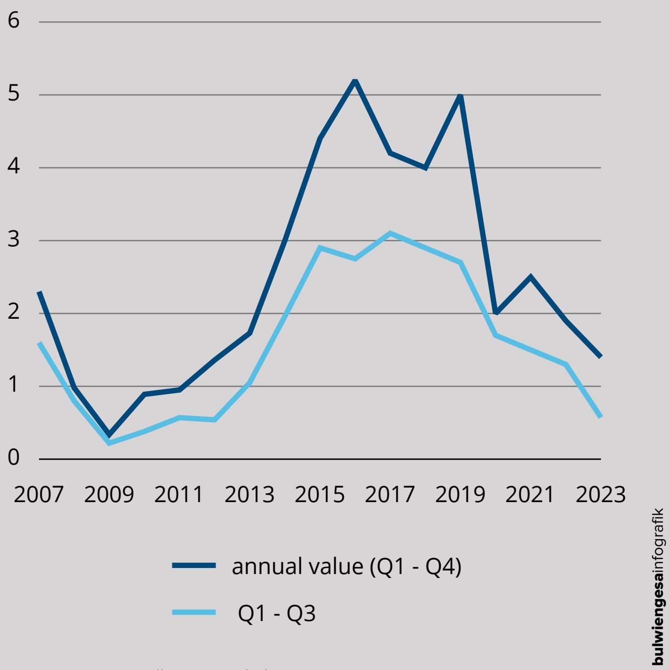
millions, 2019 to 2023, Nov/Dec 2023 estimate bulwiengesa



Source: Federal Statistical Office, bulwiengesa AG

Hotel transaction volume in Germany

billion euros, 2007 to 2023



Source: JLL, BNP, Colliers, CBRE, bulwiengesa AG

The Market for Assisted Living for Seniors

Demographic change and the existing supply determinants make a needs analysis for senior living urgently necessary. Senior living includes the three areas of serviced living, assisted living and assisted living plus, which differ primarily in terms of the level of care they provide. There are currently around 8,570 senior housing complexes in Germany with around 366,000 residential units. Around 280 projects with 11,880 new units are under construction, with the average project size comprising 43 residential units.

Around 1,200 new construction projects have been realised since 2019, comprising almost 51,600 new residential units. The number of new builds rose significantly in 2023 in particular. Senior living is gaining in importance for both senior citizens and investors, particularly through combined concepts that integrate care facilities in addition to housing. Around 65 % of new builds follow this concept.

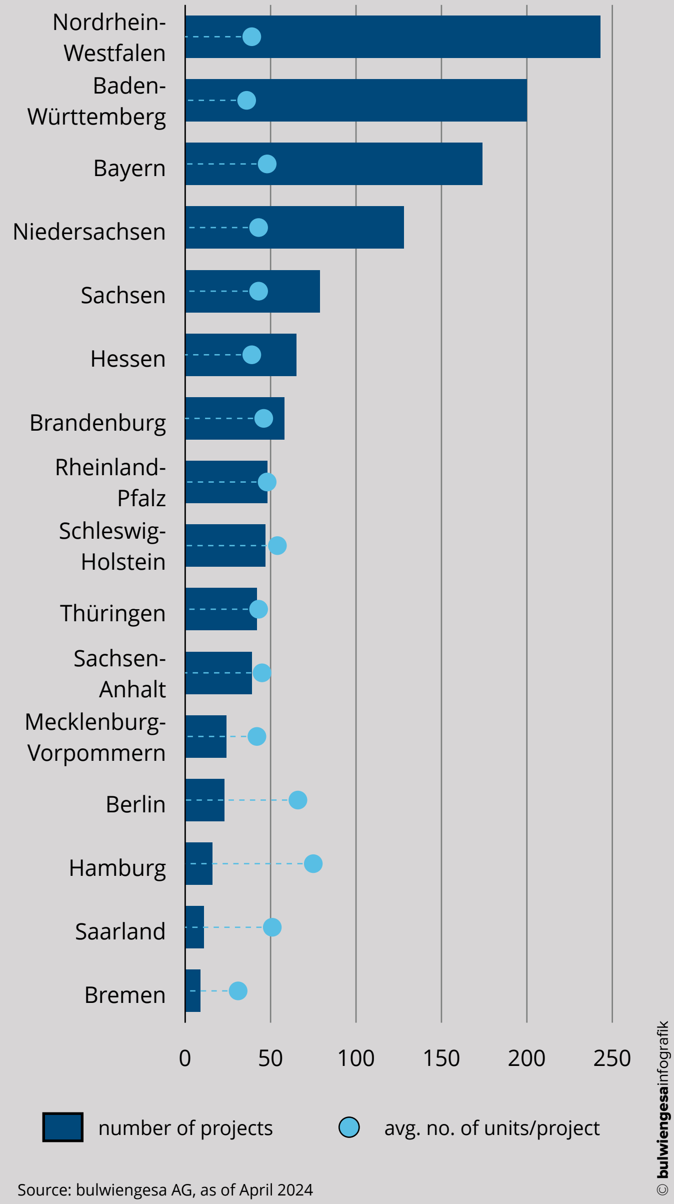
Strong regional disparities can be seen in construction activity in senior living throughout Germany. The highest levels of new construction activity can be seen in the large territorial states such as Lower Saxony, North Rhine-Westphalia, Baden-Württemberg and Bavaria. In the period under review, North Rhine-Westphalia saw the highest construction activity of around 240 projects (approx. 9,350 residential units), accounting for almost 20 % of all projects completed across Germany. Many projects are being realised in regions with high purchasing power and good infrastructure, while rural areas and regions with low population density receive less attention. The average size of the projects realised varies greatly depending on the region.

With around 366,000 residential units, only just under 3 % of households aged 65 or over have a segment-specific flat available for senior living, the distribution of which also varies greatly from region to region. Based on socio-demographic and property industry parameters, it is calculated that the demand potential of senior citizens living in Germany is by no means covered. Taking into account the current stock of senior housing, a supply ratio of 5.5 % of households over the age of 65 results in a difference in demand of around 313,700 residential units in 2022. Under the same assumptions, a market potential of around 457,000 residential units in senior housing is derived by 2040.

The rising demand is also reflected in the investment market. Despite a dominant share of transactions in the area of inpatient care facilities, interest in senior living is growing and accounted for 28 % of the transaction volume in 2023. The main investors are open-ended property funds and special funds.

Realised Residences in Assisted Living

construction year 2019 to 2024 or new buildings under construction



Source: bulwiengesa AG, as of April 2024

In the future, it will be necessary to expand the supply both quantitatively and qualitatively in order to meet the high demand. The key challenge will be to create a needs-orientated and affordable offering for all income groups in order to meet rising demand and offer a differentiated product range that appeals to a broad target group. Senior living will therefore continue to be the focus of institutional investors.

The Market for Unternehmensimmobilien (UI)

The difficult conditions on the property markets are also leaving their mark on Unternehmensimmobilien. As in the first half of the year, the second half of 2023 was characterised by relatively subdued transaction activity. There were still no major portfolio transactions registered. The investment volume in 2023 was around 1.8 billion euros, 36 % lower than in the previous year.

Together with logistics properties, Unternehmensimmobilien were nevertheless able to distinguish themselves during the crisis as one of the asset classes in which the most was and is being invested among all commercial property types. Commercial and industrial space is scarce and therefore still in demand. On the other hand, market participants have reservations about investing in older business parks with a high proportion of office space, as well as fears of recession, which is leading to restraint in the light manufacturing sector in particular.

The economic uncertainties and the fact that the pricing phase was still ongoing in some cases in mid-2024 continued to have a negative impact on transaction activity.

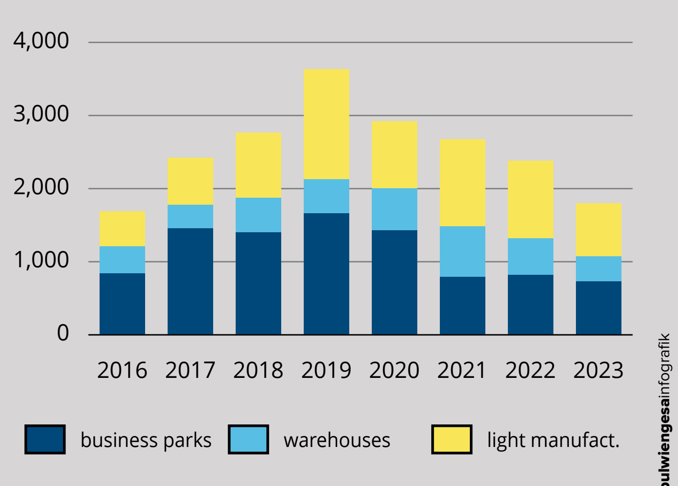
Yields continued to rise in the past year, albeit at a slowly slowing pace. As in the logistics property sector, it is expected that the peak in yield growth will be reached in 2024. For absolute prime properties among the business parks, the gross initial yield was recently between 5 and 6 %.

Take-up in 2023 was at a very high level. The year as a whole saw the highest take-up performance since 2019, largely due to a strong result for light manufacturing, which had the highest take-up of all property types. As a rule, the proportion of owner-occupiers is particularly high here. At around 42 %, the proportion of lettings (excluding owner-occupiers) shows that demand for space in the Unternehmensimmobilien segment remains strong and robust, despite the economic downturn.

A shortage of available Unternehmensimmobilien space and increasing energy requirements are leading to a further rise in rents. This was the case for all types of space, although the increases have recently lost some of their momentum. Despite economic uncertainties, demand for commercial space in well-developed locations remains high.

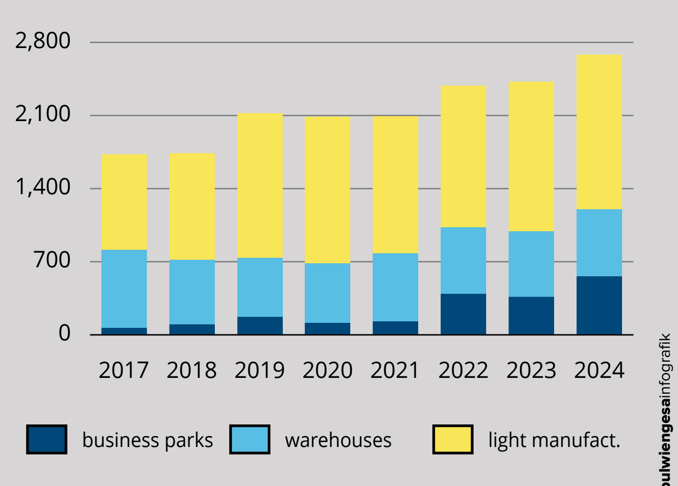
Rising energy costs have significantly increased the operating costs of commercial property. Older properties therefore have clear disadvantages compared to energy-efficient new buildings – at least at the lower end of the rental price range, hardly any further price increases are expected despite the continuing shortage of offers. In contrast, modern properties with a higher standard of furnishings are still in demand and are contributing to rental growth. Increased construction costs are leading to higher prices, particularly for new builds. Top rents of 13.60 euros/sqm were demanded for new-build production space last year.

Investment volume
by property category, million euros, 2016 to 2023



Source: bulwiengesa AG, Initiative Unternehmensimmobilien

Completions and floor space in pipeline
by property category, thousand sqm, 2017 to 2024



Source: bulwiengesa AG, Initiative Unternehmensimmobilien

The 6-Percenters

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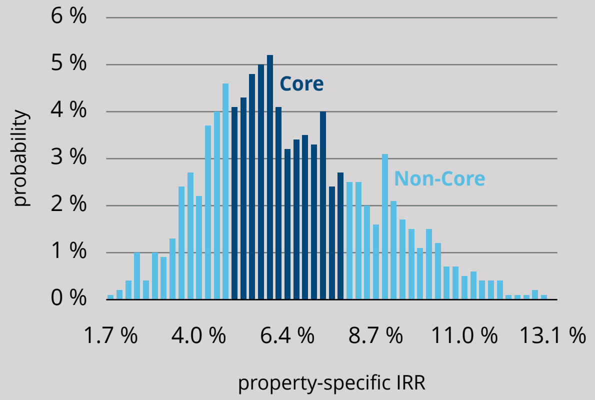
bulwiengesa

The 5.50- to 6.49-Percenters

Property-Specific IRR

The Market for Light Manufacturing (UI)

IRR Range UI Light Manufacturing



Results Range

IRR base value	6.08 %
performace expectation	**Who should invest?**
4.8 - 7.8 %	**Core-Investors**
4.8 - 7.5 %	previous year
up to 13.1 %	**Non-Core-Investors**
up to 13.4 %	previous year

Conclusion

Light manufacturing continues to offer attractive yield opportunities compared to traditional property investments. The often limited third-party usability requires a thorough examination of the contractual conditions and the financial stability of the production company.

Market Environment

investment demand	national to international
demand for space	regional to national
liquidity	low
volatility	medium
marketable size	from 5 million euros upwards

6

The 5-Percenters

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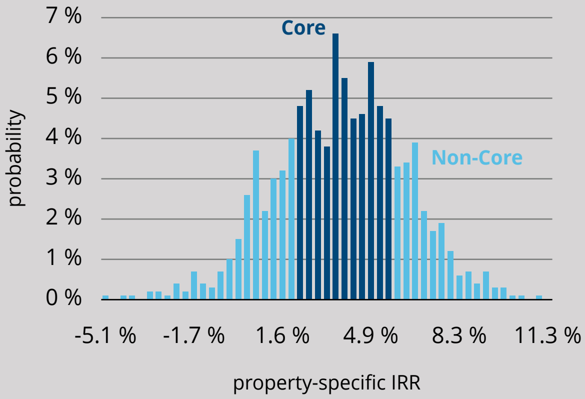
3

The 4.50- to 5.49-Percenters

Property-Specific IRR

The Market for Office Properties in D Cities

IRR Range Office D Cities



Results Range

IRR base value	5.46 %
performace expectation	Who should invest?
2.0 - 5.6 %	**Core-Investors**
1.3 - 5.0 %	previous year
up to 11.3 %	**Non-Core-Investors**
up to 12.0 %	previous year

Conclusion

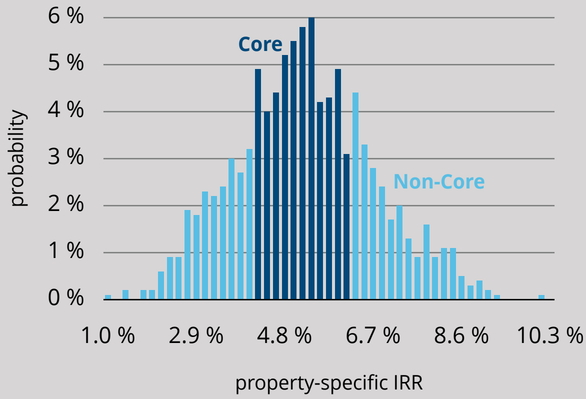
Regional and local players determine investor interest in the small office markets. Due to the generally very low rent levels, manage-to-green strategies can only be implemented to a limited extent.

Market Environment

investment demand	regional to international
demand for space	regional to national
liquidity	low
volatility	low
marketable size	approx. 3 to 18 million euros

The Market for Business Parks (UI)

IRR Range UI Business Park



Results Range

IRR base value	5.22 %
performace expectation	Who should invest?
4.1 - 6.1 %	**Core-Investors**
3.9 - 5.8 %	previous year
up to 10.3 %	**Non-Core-Investors**
up to 9.6 %	previous year

Conclusion

Due to the different utilisation segments in business parks – usually with office, warehouse, service or laboratory space – there is a broader diversification of risk than in other commercial asset classes.

Market Environment

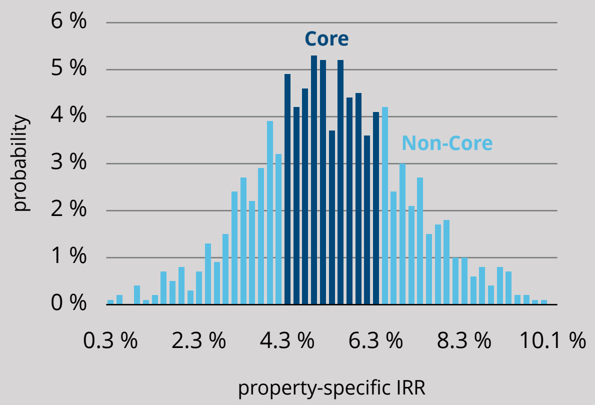
investment demand	regional to international
demand for space	local to national
liquidity	low
volatility	medium
marketable size	approx. 2 to 70 million euros

The 4.50- to 5.49-Percenters

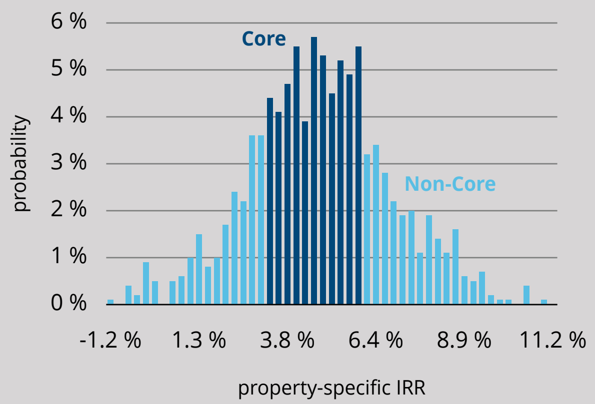
Property-Specific IRR

The Market for Hotel Properties

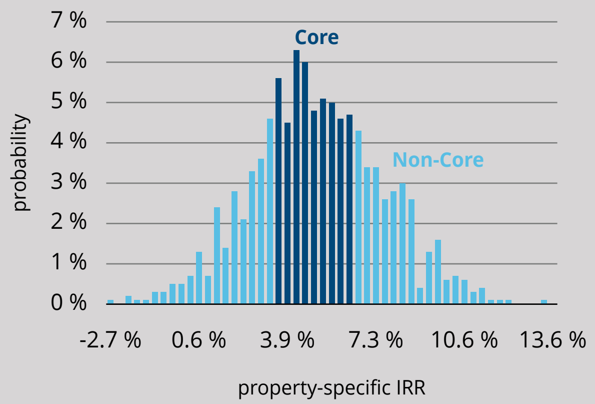
IRR Range Economy Hotel



IRR Range Midscale Hotel



IRR Range Upscale Hotel



Results Range

IRR base value	4.59 - 4.97 %
performace expectation	**Who should invest?**
3.3 - 6.5 % 3.4 - 6.8 %	**Core-Investors** previous year
up to 13.6 % up to 13.2 %	**Non-Core-Investors** previous year

Conclusion

Room rates and occupancy rates continue to show a fundamentally positive trend. It can therefore be assumed that hotels will represent an interesting alternative for investors when the transaction market picks up again.

Market Environment

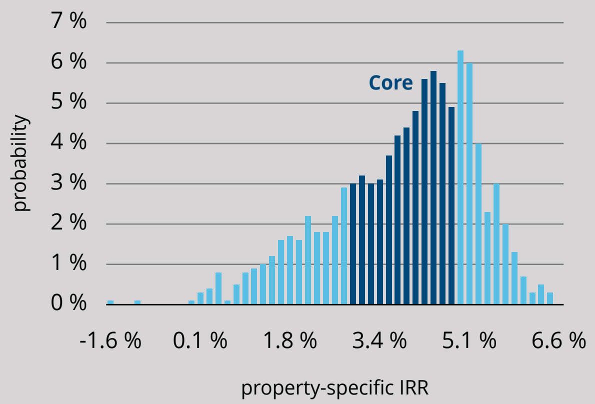
type of market	hotels in former „magic cities“
investment demand	national to international
demand for space	national to international
liquidity	medium
volatility	high
marketable size	approx. 5 to 100 million euros

The 4.50- to 5.49-Percenters

Property-Specific IRR

The Market for Shopping Centers

IRR Range Shopping Center



Results Range

IRR base value	4.89 %

performace expectation	Who should invest?
2.9 - 4.9 %	Core-Investors
3.1 - 4.9 %	previous year
up to 6.6 %	
up to 6.9 %	previous year

Conclusion

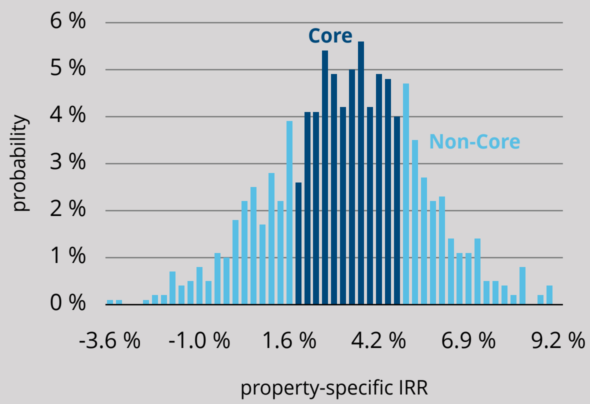
Shopping centers continue to be traded only as repositioning projects, often with a multi-use perspective. Purely existing properties are virtually absent from the transaction market.

Market Environment

investment demand	national to international
demand for space	national to international
liquidity	low
volatility	high
marketable size	approx. 80 to 500 mill. euros

The Market for Office Properties in C Cities

IRR Range Office C Cities



Results Range

IRR base value	4.71 %

performace expectation	Who should invest?
1.8 - 4.8 %	Core-Investors
1.4 - 4.0 %	previous year
up to 9.2 %	Non-Core-Investors
up to 9.1 %	previous year

Conclusion

The future need for energy-efficient refurbishment remains a major challenge for many office property owners. The range of products for institutional investors is correspondingly limited.

Market Environment

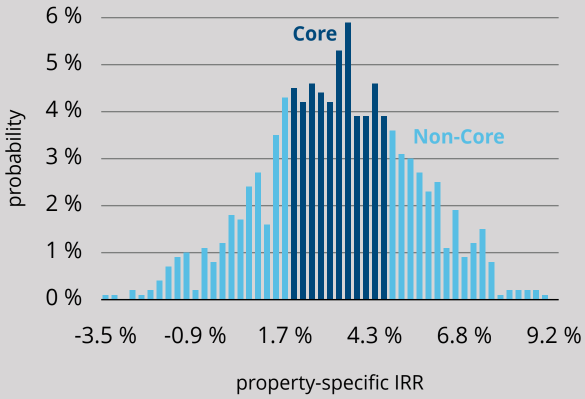
investment demand	regional to international
demand for space	regional to national
liquidity	low
volatility	low
marketable size	approx. 10 to 40 million euros

The 4.50- to 5.49-Percenters

Property-Specific IRR

The Market for Office Properties in B Cities

IRR Range Office B Cities



Results Range

IRR base value	4.50 %
performace expectation	**Who should invest?**
1.7 - 4.6 %	**Core-Investors**
1.3 - 4.1 %	previous year
up to 9.2 %	**Non-Core-Investors**
up to 9.4 %	previous year

Conclusion

As in the A markets, investor interest remains very selective and fragmented and remains at a low level. The price adjustment continued in 2024.

Market Environment

investment demand	national to international
demand for space	national to international
liquidity	medium
volatility	medium
marketable size	up to approx. 70 million euros

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The 4-Percenters

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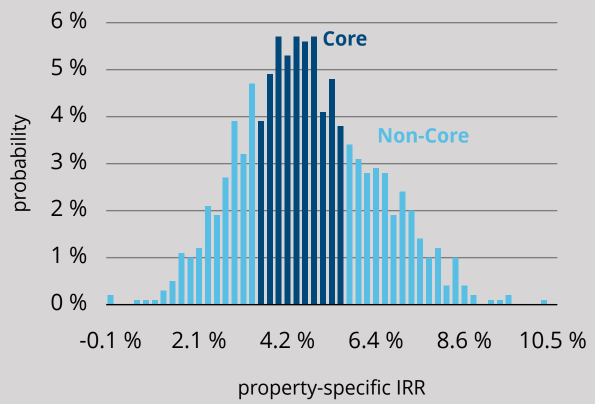
The 3.50- to 4.49-Percenters

Property-Specific IRR

The Market for Warehouse Properties (UI)

IRR Range UI Warehouse



Results Range

IRR base value	4.44 %
performace expectation	**Who should invest?**
3.5 - 5.7 %	**Core-Investors**
2.9 - 5.3 %	previous year
up to 10.5 %	**Non-Core-Investors**
up to 9.2 %	previous year

Conclusion

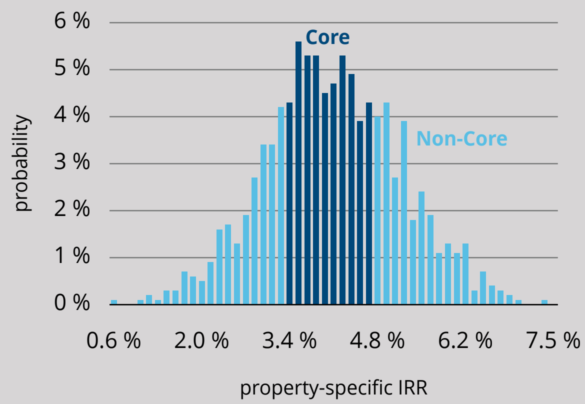
Warehouse properties are still in demand – especially on the user side. However, the very limited supply of investable products limits the market.

Market Environment

investment demand	regional to international
demand for space	local to national
liquidity	medium
volatility	medium
marketable size	approx. 1 to 10 million euros

The Market for Modern Logistics Properties

IRR Range Modern Logistics



Results Range

IRR base value	4.38 %
performace expectation	**Who should invest?**
3.3 - 4.8 %	**Core-Investors**
3.1 - 4.8 %	previous year
up to 7.5 %	**Non-Core-Investors**
up to 7.7 %	previous year

Conclusion

Demand for very good properties remains at a high level, which means that rental prices are continuing to rise. Property quality, including from an ESG perspective, is increasingly becoming a driving factor.

Market Environment

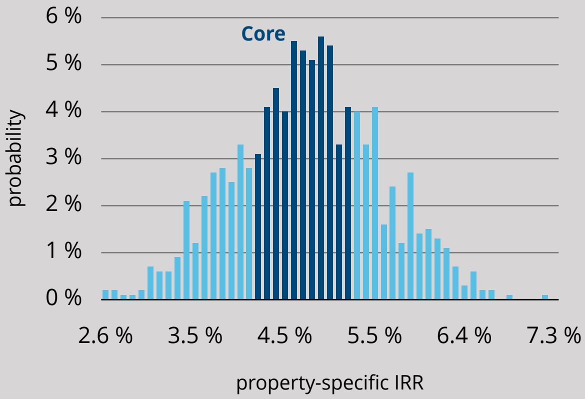
investment demand	national to international
demand for space	regional to international
liquidity	medium to high
volatility	low
marketable size	from approx. 10 million euros

The 3.50- to 4.49-Percenters

Property-Specific IRR

The Market for Specialist Retail Parks

IRR Range Specialist Retail Parks



Results Range

IRR base value	4.34 %
performace expectation	Who should invest?
4.2 - 5.2 %	**Core-Investors**
4.4 - 5.5 %	previous year
up to 7.3 %	
up to 7.6 %	previous year

Conclusion

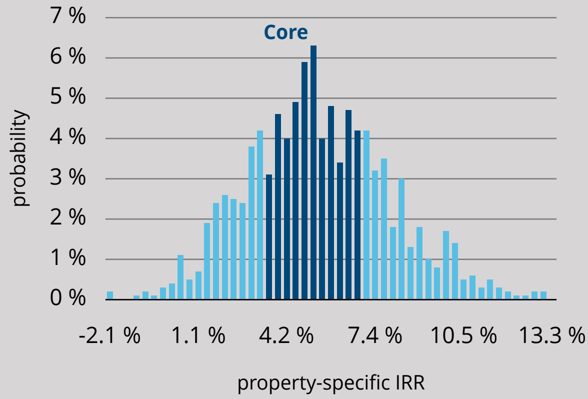
Retail warehouses and retail parks with a strong focus on food remain in demand on the investment market. There may be a need for repositioning, particularly for larger properties with a broad tenant structure.

Market Environment

investment demand	international
demand for space	regional to national
liquidity	medium to high
volatility	medium
marketable size	approx. 5 to 50 million euros

The Market for Assisted Living for Seniors

IRR Range Assisted Living for Seniors



Results Range

IRR base value	4.34 %
performace expectation	Who should invest?
3.5 - 6.9 %	**Core-Investors**
3.7 - 7.2 %	previous year
up to 13.3 %	
up to 13.0 %	previous year

Conclusion

Assisted living addresses the megatrend of demographic change. It is to be expected that offers with a low care component in particular will meet with broad investor interest. It is essential to ensure the solvency and expertise of the operator.

Market Environment

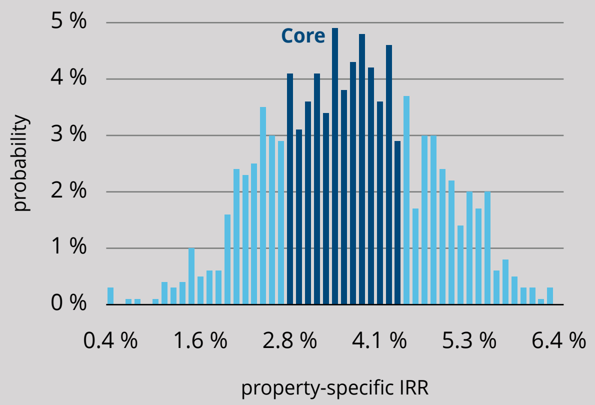
investment demand	national
demand for space	regional to national
liquidity	medium to low
volatility	medium to low
marketable size	from 10 million euros

The 3.50- to 4.49-Percenters

Property-Specific IRR

The Market for Micro-Apartments in B Cities

IRR Range Micro-Apartments B Cities



Results Range

IRR base value	**4.22 %**

performace expectation	Who should invest?
2.8 - 4.3 %	**Core-Investors**
2.6 - 4.0 %	previous year
up to 6.4 %	
up to 6.2 %	previous year

Conclusion

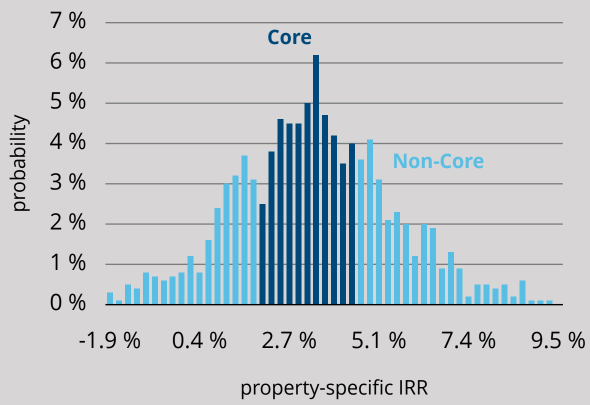
A differentiated view of the urban structure and demand flows for furnished flats is recommended for smaller markets and B cities. Residential products with an international target group, both in the business and student sectors, generally show higher earnings potential.

Market Environment

investment demand	regional to international
demand for space	national
liquidity	medium
volatility	medium
marketable size	up to approx. 20 million euros

The Market for Office Properties in A Cities

IRR Range Office A Cities



Results Range

IRR base value	**4.12 %**

performace expectation	Who should invest?
1.9 - 4.6 %	**Core-Investors**
1.2 - 3.9 %	previous year
up to 9.5 %	**Non-Core-Investors**
up to 8.7 %	previous year

Conclusion

The trend of properties with very good property and location qualities drifting apart from those with corresponding deficits, which has been apparent since the COVID-19 pandemic, has continued. Investor interest is currently very low.

Market Environment

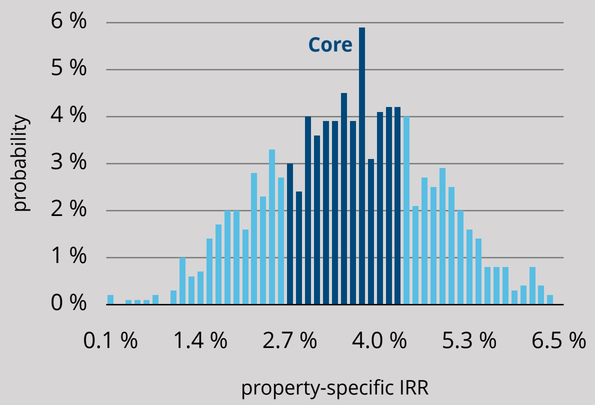
investment demand	national to international
demand for space	regional to international
liquidity	medium to high
volatility	high
marketable size	approx. 3 to 500 million euros

The 3.50- to 4.49-Percenters

Property-Specific IRR

The Market for Micro-Apartments in A Cities

IRR Range Micro-Apartments A Cities



Results Range

IRR base value	4.04 %
performace expectation	**Who should invest?**
2.6 - 4.3 %	**Core-Investors**
2.4 - 3.8 %	previous year

up to 6.5 %	
up to 5.8 %	previous year

Conclusion

The situation for furnished flats in major cities remains positive from an investor's perspective: the shortage of living space and the attractiveness of large metropolises have increased demand.

Market Environment

investment demand	national to international
demand for space	national to international
liquidity	medium
volatility	medium
marketable size	up to approx. 60 million euros

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4

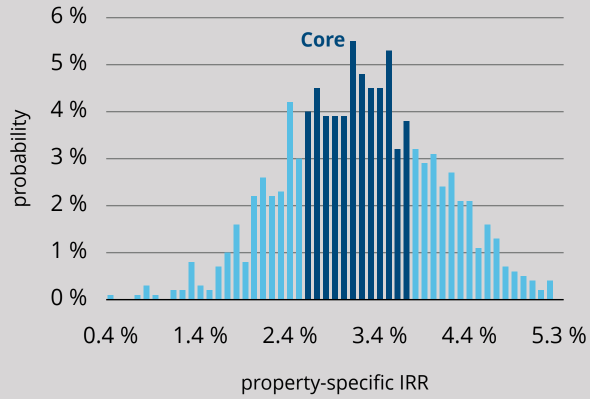
The 3-Percenters

The 2.50- to 3.49-Percenters

Property-Specific IRR

The Market for Residential Properties (US) in University Cities

IRR Range Residential University Cities



Results Range

IRR base value	3.19 %

performace expectation	Who should invest?
2.5 - 3.7 %	**Core-Investors**
2.5 - 3.6 %	previous year

up to 5.3 %

up to 5.3 %	previous year

Conclusion

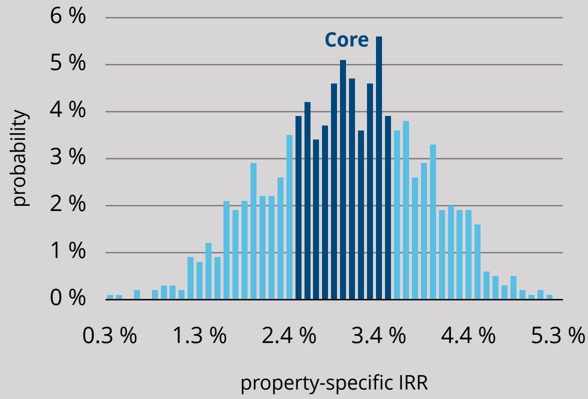
Not only the large metropolises, but also some university cities are characterised by high demand pressure with a short supply.

Market Environment

investment demand	regional to international
demand for space	regional to national
liquidity	medium
volatility	low
marketable size	up to approx. 50 million euros

The Market for Residential Properties in B Cities

IRR Range Residential B Cities



Results Range

IRR base value	2.93 %

performace expectation	Who should invest?
2.4 - 3.6 %	**Core-Investors**
2.2 - 3.5 %	previous year

up to 5.3 %

up to 5.3 %	previous year

Conclusion

Following the recent very restrained investment market, including for residential property, sentiment has developed positively and investor interest has increased noticeably. Challenges lie in the energy-efficient refurbishment of existing buildings.

Market Environment

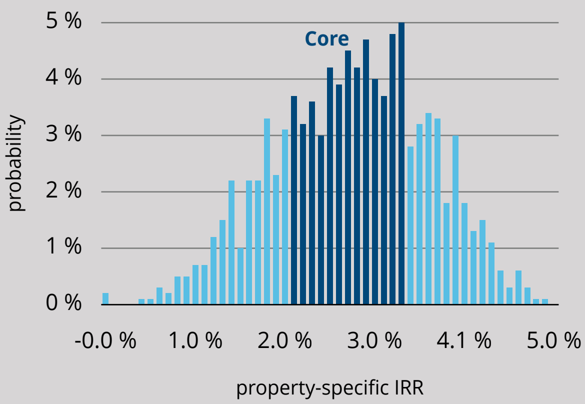
investment demand	national to international
demand for space	regional
liquidity	medium
volatility	medium
marketable size	approx. 3 to 50 million euros

The 2.50- to 3.49-Percenters

Property-Specific IRR

The Market for Residential Properties in A Cities

IRR Range Residential A Cities



Results Range

IRR base value	2.87 %

performace expectation	Who should invest?
2.1 - 3.4 %	**Core-Investors**
1.9 - 3.0 %	previous year

up to 5.0 %

up to 4.6 %	previous year

Conclusion

Demand for residential property remains very high, particularly in metropolitan areas. As hardly any new supply is being created, this pressure will continue.

Market Environment

investment demand	regional to international
demand for space	regional to international
liquidity	medium to high
volatility	low
marketable size	up to approx. 150 mill. euros

The Results in Detail

Detailed overview

Property-Specific IRR

Office A, B, C and D Cities in Detail – Property Specific IRR

type	city	Core-I.		Non-Core-I.	type	city	Core-I.		Non-Core-I.	type	city	Core-I.		Non-Core-I.
		from	to	up to			from	to	up to			from	to	up to
A	Berlin	1.9 %	4.9 %	11.0 %	C	Wuppertal	1.7 %	4.7 %	10.1 %	D	Krefeld	2.5 %	5.6 %	11.8 %
A	Düsseldorf	1.8 %	4.2 %	8.6 %						D	Landshut	2.4 %	5.4 %	9.7 %
A	Frankfurt (Main)	2.2 %	4.7 %	9.3 %	D	Albstadt	0.9 %	5.2 %	12.8 %	D	Leverkusen	1.6 %	4.6 %	10.6 %
A	Hamburg	2.1 %	4.8 %	10.2 %	D	Aschaffenburg	2.0 %	4.9 %	10.5 %	D	Lüdenscheid	1.5 %	4.9 %	11.1 %
A	Köln	1.5 %	4.4 %	9.5 %	D	Bamberg	1.4 %	4.8 %	11.0 %	D	Ludwigshafen	3.4 %	6.5 %	13.6 %
A	München	2.0 %	4.8 %	10.2 %	D	Bayreuth	2.1 %	5.1 %	11.3 %	D	Lüneburg (Stadt)	2.5 %	5.3 %	11.5 %
A	Stuttgart	1.7 %	4.4 %	9.8 %	D	Bergisch Gladbach	1.5 %	4.4 %	9.7 %	D	Marburg	2.9 %	5.6 %	10.8 %
					D	Bottrop	2.3 %	5.5 %	12.5 %	D	Minden	1.7 %	5.4 %	10.4 %
B	Bochum	2.0 %	5.0 %	10.0 %	D	Brandenburg (Havel)	-0.7 %	4.1 %	12.0 %	D	Moers	1.9 %	5.3 %	12.2 %
B	Bonn	1.7 %	4.3 %	9.4 %	D	Bremerhaven	-0.7 %	3.5 %	11.3 %	D	Neubrandenburg	1.4 %	5.2 %	11.3 %
B	Bremen	1.8 %	4.8 %	10.4 %	D	Chemnitz	2.3 %	5.5 %	11.2 %	D	Neumünster	2.1 %	5.5 %	12.4 %
B	Dortmund	1.9 %	4.5 %	10.3 %	D	Coburg	2.3 %	5.9 %	13.5 %	D	Neuss (Stadt)	1.2 %	4.0 %	9.8 %
B	Dresden	1.1 %	3.8 %	9.2 %	D	Cottbus	1.0 %	4.7 %	9.6 %	D	Oberhausen	1.6 %	4.8 %	11.0 %
B	Duisburg	2.0 %	4.8 %	10.1 %	D	Dessau	-0.4 %	4.7 %	13.1 %	D	Offenburg	1.9 %	4.9 %	11.1 %
B	Essen	1.8 %	4.7 %	10.2 %	D	Detmold	1.0 %	5.1 %	13.6 %	D	Oldenburg	1.6 %	4.5 %	9.9 %
B	Hannover	2.3 %	5.2 %	12.6 %	D	Düren (Stadt)	0.6 %	4.4 %	10.4 %	D	Paderborn (Stadt)	1.0 %	4.5 %	11.9 %
B	Karlsruhe	1.4 %	4.3 %	10.2 %	D	Eisenach	-0.6 %	4.2 %	10.7 %	D	Passau	2.4 %	5.5 %	11.7 %
B	Leipzig	1.0 %	3.8 %	9.3 %	D	Flensburg	1.8 %	5.2 %	11.2 %	D	Pforzheim	1.7 %	5.1 %	11.4 %
B	Mannheim	2.2 %	4.6 %	9.0 %	D	Frankfurt (Oder)	-0.5 %	3.9 %	10.5 %	D	Plauen	-3.0 %	3.9 %	12.6 %
B	Münster	1.5 %	4.3 %	9.0 %	D	Friedrichshafen	2.9 %	5.5 %	11.8 %	D	Ratingen	2.2 %	4.7 %	9.1 %
B	Nürnberg	1.4 %	4.3 %	9.4 %	D	Fulda (Stadt)	1.4 %	4.8 %	10.3 %	D	Ravensburg (Stadt)	2.5 %	5.4 %	12.9 %
B	Wiesbaden	1.6 %	4.2 %	8.8 %	D	Fürth	2.0 %	5.0 %	12.5 %	D	Recklinghausen (St.)	1.6 %	4.9 %	10.1 %
					D	Gelsenkirchen	0.9 %	4.7 %	11.1 %	D	Remscheid	1.4 %	5.0 %	12.3 %
C	Aachen	1.7 %	4.4 %	9.7 %	D	Gera	0.2 %	4.9 %	10.8 %	D	Reutlingen (Stadt)	2.0 %	4.9 %	9.7 %
C	Augsburg	1.6 %	4.5 %	10.9 %	D	Gießen (Stadt)	2.2 %	5.2 %	11.1 %	D	Rosenheim	2.8 %	5.8 %	12.3 %
C	Bielefeld	2.4 %	6.0 %	12.2 %	D	Görlitz	-3.0 %	2.6 %	12.1 %	D	Salzgitter	-0.2 %	4.0 %	11.1 %
C	Braunschweig	1.8 %	5.3 %	11.6 %	D	Göttingen (Stadt)	2.9 %	5.9 %	12.6 %	D	Schweinfurt	2.3 %	5.6 %	11.8 %
C	Darmstadt	1.6 %	4.4 %	8.8 %	D	Greifswald	2.5 %	6.1 %	11.3 %	D	Schwerin	1.3 %	4.5 %	10.7 %
C	Erfurt	1.3 %	4.2 %	11.0 %	D	Gütersloh (Stadt)	0.7 %	4.2 %	10.5 %	D	Siegen (Stadt)	2.2 %	5.2 %	11.5 %
C	Erlangen	2.0 %	4.8 %	10.7 %	D	Hagen	2.8 %	6.4 %	12.7 %	D	Solingen	2.2 %	6.0 %	15.7 %
C	Freiburg (Breisgau)	1.7 %	4.3 %	8.8 %	D	Halberstadt (Stadt)	-3.9 %	3.1 %	12.7 %	D	Stralsund	-0.1 %	3.9 %	9.4 %
C	Heidelberg	1.8 %	4.3 %	10.1 %	D	Halle (Saale)	1.3 %	4.7 %	10.8 %	D	Suhl	-2.7 %	3.9 %	11.6 %
C	Kiel	1.4 %	4.4 %	9.6 %	D	Hamm	2.0 %	5.3 %	13.1 %	D	Trier	2.4 %	5.5 %	10.4 %
C	Lübeck	1.3 %	4.5 %	9.7 %	D	Hanau	2.0 %	5.0 %	10.4 %	D	Tübingen (Stadt)	2.1 %	5.1 %	11.1 %
C	Magdeburg	1.6 %	4.5 %	9.4 %	D	Heilbronn	2.2 %	4.9 %	9.9 %	D	Ulm	2.1 %	4.6 %	9.5 %
C	Mainz	1.8 %	4.4 %	9.8 %	D	Herne	2.4 %	5.8 %	11.9 %	D	Villingen-Schwenn.	2.7 %	5.7 %	12.2 %
C	Mönchengladbach	2.3 %	5.0 %	9.9 %	D	Hildesheim (Stadt)	1.2 %	4.8 %	11.0 %	D	Weimar	0.3 %	4.1 %	11.4 %
C	Mülheim (Ruhr)	2.1 %	5.1 %	10.0 %	D	Ingolstadt	2.1 %	4.8 %	10.5 %	D	Wilhelmshaven	0.6 %	4.8 %	12.9 %
C	Offenbach (Main)	2.1 %	4.8 %	9.4 %	D	Jena	2.0 %	4.6 %	9.9 %	D	Witten	1.5 %	5.0 %	13.2 %
C	Osnabrück	1.7 %	4.7 %	10.9 %	D	Kaiserslautern	1.2 %	4.6 %	10.3 %	D	Wolfsburg	2.2 %	4.9 %	9.7 %
C	Potsdam	1.7 %	4.6 %	11.0 %	D	Kassel	1.8 %	5.0 %	10.1 %	D	Würzburg	2.7 %	5.8 %	11.9 %
C	Regensburg	1.9 %	4.7 %	9.3 %	D	Kempten (Allgäu)	1.7 %	4.7 %	10.2 %	D	Zwickau	-0.0 %	4.8 %	12.6 %
C	Rostock	1.9 %	4.6 %	10.6 %	D	Koblenz	1.8 %	4.5 %	9.0 %					
C	Saarbrücken (Stadt)	1.1 %	4.3 %	10.8 %	D	Konstanz (Stadt)	2.6 %	5.0 %	10.6 %					

Detailed overview

Property-Specific IRR

Residential A, B and University Cities (US) in Detail – Property-Specific IRR

type	city	Core-I. from	Core-I. to	Non-Core-I. up to
A	Berlin	1.9 %	3.3 %	5.3 %
A	Düsseldorf	2.0 %	3.2 %	5.0 %
A	Frankfurt (Main)	2.3 %	3.6 %	5.3 %
A	Hamburg	2.0 %	3.3 %	5.2 %
A	Köln	2.3 %	3.3 %	5.0 %
A	München	2.1 %	3.4 %	5.2 %
A	Stuttgart	2.2 %	3.4 %	4.8 %
B	Bochum	2.4 %	3.8 %	6.0 %
B	Bonn	2.5 %	3.7 %	5.4 %
B	Bremen	2.5 %	3.7 %	5.7 %
B	Dortmund	2.3 %	3.4 %	5.0 %
B	Dresden	2.0 %	3.0 %	4.7 %
B	Duisburg	2.0 %	3.3 %	5.3 %
B	Essen	2.4 %	3.6 %	5.4 %
B	Hannover	2.2 %	3.4 %	5.4 %
B	Karlsruhe	2.4 %	3.9 %	6.0 %
B	Leipzig	1.9 %	2.9 %	4.4 %
B	Mannheim	2.5 %	3.7 %	5.6 %
B	Münster	2.3 %	3.4 %	4.9 %
B	Nürnberg	2.3 %	3.6 %	5.5 %
B	Wiesbaden	2.4 %	3.5 %	5.2 %
US	Aachen	2.1 %	3.5 %	5.3 %
US	Augsburg	2.1 %	3.6 %	5.6 %
US	Bamberg	2.4 %	3.5 %	4.8 %
US	Bayreuth	2.3 %	3.4 %	4.9 %
US	Bielefeld	2.3 %	3.5 %	5.3 %
US	Braunschweig	2.2 %	3.5 %	5.6 %
US	Chemnitz	1.5 %	3.0 %	4.4 %
US	Cottbus	2.3 %	3.6 %	5.8 %
US	Darmstadt	2.5 %	3.7 %	5.6 %
US	Erfurt	2.1 %	3.4 %	5.1 %
US	Erlangen	2.3 %	3.4 %	4.6 %
US	Flensburg	2.4 %	3.7 %	5.6 %
US	Frankfurt (Oder)	1.9 %	3.4 %	5.3 %
US	Freiburg (Breisgau)	2.4 %	3.7 %	5.6 %
US	Gießen (Stadt)	2.3 %	3.2 %	4.5 %
US	Göttingen (Stadt)	2.9 %	4.0 %	5.5 %
US	Greifswald	3.7 %	4.7 %	6.3 %
US	Halle (Saale)	1.8 %	3.1 %	5.0 %
US	Heidelberg	2.4 %	3.6 %	5.4 %
US	Heilbronn	2.4 %	3.8 %	5.7 %
US	Hildesheim (Stadt)	2.2 %	3.3 %	5.1 %
US	Jena	2.4 %	3.8 %	5.7 %
US	Kaiserslautern	2.5 %	3.9 %	5.9 %
US	Kassel	2.3 %	3.5 %	5.5 %
US	Kiel	2.4 %	3.8 %	5.5 %
US	Koblenz	2.7 %	3.9 %	6.0 %
US	Konstanz (Stadt)	2.3 %	3.5 %	5.1 %
US	Lübeck	2.5 %	3.8 %	5.7 %
US	Lüneburg (Stadt)	2.5 %	3.7 %	5.4 %
US	Magdeburg	1.6 %	2.8 %	4.4 %
US	Mainz	2.6 %	3.8 %	5.4 %
US	Marburg	2.7 %	3.7 %	5.4 %
US	Mönchengladbach	2.4 %	3.7 %	5.6 %
US	Oldenburg	2.3 %	3.6 %	5.5 %
US	Osnabrück	2.6 %	3.9 %	6.1 %
US	Paderborn (Stadt)	2.6 %	3.7 %	5.3 %
US	Passau	2.3 %	3.6 %	5.6 %
US	Potsdam	2.1 %	3.3 %	5.4 %
US	Regensburg	2.2 %	3.2 %	5.0 %
US	Rostock	2.4 %	3.4 %	4.7 %
US	Saarbrücken (Stadt)	2.5 %	3.7 %	5.3 %
US	Siegen (Stadt)	2.6 %	3.9 %	5.7 %
US	Trier	2.8 %	4.1 %	5.8 %
US	Tübingen (Stadt)	2.4 %	3.4 %	5.1 %
US	Ulm	2.1 %	3.4 %	5.2 %
US	Wuppertal	2.1 %	3.4 %	5.1 %
US	Würzburg	2.4 %	3.6 %	6.1 %

Micro-Apartments A and B Cities in Detail – Property-Specific IRR

type	city	Core-I. from	Core-I. to	Non-Core-I. up to
A	Berlin	2.4 %	4.2 %	6.8 %
A	Düsseldorf	2.6 %	4.2 %	6.4 %
A	Frankfurt (Main)	2.9 %	4.7 %	7.4 %
A	Hamburg	2.6 %	4.2 %	7.2 %
A	Köln	2.9 %	4.3 %	6.6 %
A	München	2.7 %	4.4 %	6.5 %
A	Stuttgart	2.8 %	4.4 %	7.2 %
B	Bochum	2.7 %	4.5 %	7.3 %
B	Bonn	3.0 %	4.5 %	6.6 %
B	Bremen	3.0 %	4.4 %	6.4 %
B	Dortmund	2.8 %	4.0 %	6.4 %
B	Dresden	2.4 %	3.7 %	5.7 %
B	Duisburg	2.2 %	3.6 %	5.9 %
B	Essen	2.9 %	4.3 %	6.6 %
B	Hannover	2.6 %	4.3 %	7.0 %
B	Karlsruhe	2.9 %	4.8 %	7.0 %
B	Leipzig	2.4 %	3.7 %	5.8 %
B	Mannheim	3.1 %	4.6 %	6.8 %
B	Münster	2.8 %	4.2 %	6.6 %
B	Nürnberg	2.9 %	4.3 %	6.7 %
B	Wiesbaden	2.9 %	4.4 %	6.8 %

Logistics Regions in Detail – Property-Specific IRR

logistics region	Core-I. from	Core-I. to	Non-Core-I. up to
A 4 Sachsen	3.5 %	5.0 %	7.8 %
A 4 Thüringen	3.3 %	4.9 %	8.0 %
Aachen	3.9 %	5.3 %	7.8 %
Augsburg	3.5 %	5.1 %	7.8 %
Bad Hersfeld	2.8 %	4.4 %	7.6 %
Berlin	3.2 %	4.7 %	7.3 %
Bremen u. Nordseehafen	2.8 %	4.3 %	7.1 %
Dortmund	3.1 %	4.6 %	7.2 %
Düsseldorf	3.0 %	4.5 %	7.1 %
Halle/Leipzig	2.8 %	4.3 %	6.5 %
Hamburg	3.1 %	4.6 %	7.7 %
Hannover/Braunschweig	3.2 %	4.8 %	7.2 %
Kassel/Göttingen	3.4 %	5.1 %	7.7 %
Koblenz	3.4 %	5.0 %	7.9 %
Köln	3.2 %	4.7 %	7.2 %
Magdeburg	2.9 %	4.5 %	7.1 %
München	3.6 %	5.2 %	8.4 %
Münster/Osnabrück	3.3 %	4.9 %	7.6 %
Niederbayern	3.8 %	5.2 %	7.8 %
Nürnberg	3.9 %	5.3 %	8.0 %
Oberrhein	3.8 %	5.4 %	8.0 %
Ostwestfalen-Lippe	4.0 %	5.5 %	8.9 %
Rhein-Main/Frankfurt	3.2 %	4.6 %	6.7 %
Rhein-Neckar	3.4 %	4.9 %	7.4 %
Rhein-Ruhr	3.3 %	4.8 %	7.6 %
Saarbrücken	3.1 %	4.7 %	6.9 %
Stuttgart	3.1 %	4.6 %	7.2 %
Ulm	3.3 %	4.8 %	7.6 %

Content and Methodology

» Content of the Study

Using dynamic performance measurement, the 5 % study provides a new approach for describing property markets. The yield prospects of various asset classes are presented on the basis of an analysis of the internal rate of return on an investment. In light of the recognition that a single data point can reflect the complexity of a market only to a very limited extent, this study also highlights the range of investment profitability. Descriptions of property markets in market reports are usually based on top properties that generate prime rents and are accordingly traded at prime yields. However, this does not take account of the high diversification of the investor landscape, where extremely security-focussed investors increasingly find themselves alongside players seeking to identify and take advantage of market opportunities. This study also offers these players an overview of the market.

The subject matter analysed in this 5 % study is the performance expectations in the asset classes that currently dominate the German investment market. These include:

- office
- residential
- shopping centres and specialist retail centres
- hotels
- modern logistics properties

as well as the newer property types:

- micro-apartments and business properties (Unternehmensimmobilien UI)

» Basic Concept

The study uses a dynamic model to determine the probable internal rate of return (IRR) on an investment, assuming a holding period of ten years. It is assumed that the investment takes place at typical parameters for the market in question. A cash flow approach was applied, describing the anticipated future cash flows (purchase, rental income, property and operating costs, sale). The internal interest rate on these cash flows represents the IRR.

» No Financing Effects

In addition to the success of the properties themselves, successful real estate investments are also dependent on financing strategies (e.g. taking advantage of interest leverage through increased borrowing). There is typically a very wide range of variants on the market in this respect.

To allow for clear statements regarding the property performance, these effects and investor-specific adjustments were not included in the model.

» No Project Developments

This model assumes that the investment is made in buildings that do not require renovation or restructuring. Project developments as part of asset management strategies are therefore not included in the analysis.

» Procedure

It was assumed that the success of the investment may be influenced by various different determinants such as management performance and market fluctuations. Accordingly, a simulation (Monte Carlo) of possible results was performed on the basis of changing parameters. To this end, the relevant characteristics affecting the success of the investment were assigned fluctuation ranges that were derived in advance based on consideration and analysis of the respective market. Using Monte Carlo simulation, the probability of occurrence of the individual results was also calculated on the basis of 1,000 draws.

» Monte Carlo Simulation

Monte Carlo Simulation is a stochastic model for the projection of a forecast or base value. Put simply, this statistical method is a sort of limited random number generator that operates within framework conditions and values defined by the user. To map these parameters realistically and in line with market conditions as far as possible, a base value can also be defined in addition to a value range. After the simulation has been performed, the user receives a large number of results (depending on the number of draws) taking account of the predefined conditions. The modelling calculates probabilities of occurrence for the individual results within this range. The value range itself has a probability of occurrence of 100 %.

For the performance of the simulation, base values and ranges were defined – depending on the asset class under review – for groups of variables including the rent, vacancy rate, property costs and operating costs. The internal rate of return on the investment resulting from the cash flow calculation was set as the forecast value or IRR base value.

» Core Versus Non-Core

Core and Non-Core have become established as terms for investment strategies on the market, but there are no fixed definitions for them (at property level). Instead, there are a wide range of attempts at definitions, most of which are suggested by the respective investors themselves.

This study does not aim to add a further suggestion to these definitions. The division into core and non-core investors is therefore made at a purely statistical level. In the study, the corridor for core and non-core investors was delimited based on the assumption that core investors assume less risk and accept lower yields while non-core investors are less risk-averse but have higher yield targets.

Accordingly, the Monte Carlo results/IRRs between the 25 % quantile and the 75 % quantile (corresponding to a 50 % probability) are defined as the range within which core investors operate. The rest of the range – starting from an attainable rate of return of 6.49 % as the IRR base value – is seen as being for non-core investors. Here, there is a probability of 25 % that internal rates of return beyond the core range will be achieved. However, non-core investors may also fall below the attainable rate of return for core investors and in some cases may even generate negative IRRs.

» Parameters and Fluctuation Ranges

bulwiengesa's data system (RIWIS) was generally used as the source for rental, vacancy and yield information. For business properties, information from the Business Properties Initiative was selected as the basis. The data for hotels and retail properties were also checked for plausibility using analyses of investment transactions and other secondary sources (e.g. data from HypZert).

The cost data were calculated using primary analyses (where possible) and on the basis of typical market assumptions.

The fluctuation ranges for costs and income were defined individually for each type of use and are based on typical market parameters. Extreme values were excluded in this context.

» The Internal Rate of Return Method

The internal rate of return method shows the rate of return for which the net cash flows/the net present value is exactly zero. It thus represents the average rate of return on an investment. The internal rate of return method is not to be recommended as the sole basis for an investment decision, since it has a number of methodological shortcomings – the reinvestment assumption is criticised, for example. However, calculating the internal rate of return offers the advantage that this represents the success of a certain investment period (in the case of this study, ten years). This differentiates it from the static yield assessments that are typical on the market. In addition, the internal rate of return method is used by many investors and thus enjoys widespread acceptance.

» The Performance Measurement – Guidance

In view of the complex subject matter, guidance for readers is provided below for better understanding of the results. This guidance relates to the sections on the 5-, 4-, 3- and 2-Percenters.
In general, all calculations in the study are based on property sizes and parameters in line with the market.
The „Selected Model Assumptions" table on page 37 shows the key parameters incorporated in the cash flow calculation and simulation.
The results columns present/summarise the results of the Monte Carlo simulation.
In the diagram, the x-axis shows the projected IRRs based on the Monte Carlo simulation, while the y-axis shows the probability of occurrence for each projected IRR.
The dark blue bars represent the IRR range relevant to core investors as defined by the study. This has a 50 % probability of occurrence and is delimited by the 25 % and 75 % quantiles. In line with this, the top results box shows the core range with values.
The rest of the range – relevant to non-core investors according to the study's definition – is marked in light blue. This is above the core range in 25 % of cases, but may also be below this range. The maximum attainable IRR according to the simulation is specified in the bottom results box below the core range.
The internal rate of return on the investment (IRR), calculated using the base values in line with the cash flow method, also corresponds to the base value of the simulation.

Definitions and Comments

Overview A, B, C, D and University-Cities (US)

city	category	city	category	city	category	city	category
Berlin	A	Lübeck	C/US	Gelsenkirchen	D	Neuss	D
Düsseldorf	A	Magdeburg	C/US	Gera	D	Oberhausen	D
Frankfurt (Main)	A	Mainz	C/US	Gießen	D/US	Offenburg	D
Hamburg	A	Mönchengladbach	C/US	Görlitz	D	Oldenburg	D/US
Köln	A	Mülheim (Ruhr)	C	Göttingen	D/US	Paderborn	D/US
München	A	Offenbach (Main)	C	Greifswald	D/US	Passau	D/US
Stuttgart	A	Osnabrück	C	Gütersloh	D	Pforzheim	D
		Potsdam	C/US	Hagen	D	Plauen	D
Bochum	B	Regensburg	C/US	Halberstadt	D	Ratingen	D
Bonn	B	Rostock	C/US	Halle (Saale)	D/US	Ravensburg	D
Bremen	B	Saarbrücken	C/US	Hamm	D	Recklinghausen	D
Dortmund	B	Wuppertal	C/US	Hanau	D	Remscheid	D
Dresden	B			Heilbronn	D/US	Reutlingen	D
Duisburg	B	Albstadt	D	Herne	D	Rosenheim	D
Essen	B	Aschaffenburg	D	Hildesheim	D/US	Salzgitter	D
Hannover	B	Bamberg	D/US	Ingolstadt	D	Schweinfurt	D
Karlsruhe	B	Bayreuth	D/US	Jena	D/US	Schwerin	D
Leipzig	B	Bergisch Gladbach	D	Kaiserslautern	D/US	Siegen	D/US
Mannheim	B	Bottrop	D	Kassel	D/US	Solingen	D
Münster	B	Brandenburg (Havel)	D	Kempten (Allgäu)	D	Stralsund	D
Nürnberg	B	Bremerhaven	D	Koblenz	D/US	Suhl	D
Wiesbaden	B	Chemnitz	D/US	Konstanz	D/US	Trier	D/US
		Coburg	D/US	Krefeld	D	Tübingen	D/US
Aachen	C/US	Cottbus	D	Landshut	D	Ulm	D/US
Augsburg	C/US	Dessau	D	Leverkusen	D	Villingen-Schwenn.	D
Bielefeld	C/US	Detmold	D	Lüdenscheid	D	Weimar	D
Braunschweig	C/US	Düren	D	Ludwigshafen	D	Wilhelmshaven	D
Darmstadt	C/US	Eisenach	D	Lüneburg	D/US	Witten	D
Erfurt	C/US	Flensburg	D/US	Marburg	D/US	Wolfsburg	D
Erlangen	C/US	Frankfurt (Oder)	D/US	Minden	D	Würzburg	D/US
Freiburg	C/US	Friedrichshafen	D	Moers	D	Zwickau	D
Heidelberg	C/US	Fulda	D	Neubrandenburg	D		
Kiel	C/US	Fürth	D	Neumünster	D		

» General Classification of cities

Classification as A, B, C and D cities was used to categorise the German real estate market. This was based on the functional significance of the cities for the international, national and regional or local real estate market:

A Cities
The most important centres in Germany with national and sometimes international significance. Large, well-functioning markets in all segments.

B Cities
Large cities with national and regional significance.

C Cities
Major German cities with regional and limited national significance and an important impact on the surrounding region.

D Cities
Small, regionally focussed locations with a central role for their direct surroundings; lower market volume and sales.

University cities (US)
47 cities with at least 7,000 students are classified as university cities in this study, not including A- and B-cities since these are analysed separately.

» Yields/Multipliers

(source: gif e. V.)

Gross initial yield
The gross initial yield is a simple comparison of the contractual rent to the purchase price, not including incidental acquisition costs. The gross initial yield is equivalent to the reciprocal of the multiplier that is typically used in the market (e.g. 12.5 times the contractual rent = 8 % p.a. gross initial yield).

Gross initial yield = contractual rent / net purchase price

Net initial yield
The net initial yield represents net rental income in relation to the purchase price plus property-specific incidental acquisition costs. For the sake of clarification, please note that other non-recurring costs and revenue losses/risks are not deducted from the net rental income.
However, calculatory items (e.g. maintenance costs) are also taken into account in the operating costs or in the gross purchase price. The valuations used for this must be in line with the market standard and must be reported separately when stating the net initial yield. They can be disclosed either individually for each item or for the cost block as a whole, in which case they can be referred to „operating costs“ and „incidental acquisition costs“ as a simplification (e.g. „net initial yield x.x % p.a. including y % operating costs and z % incidental acquisition costs“).

Net initial yield = net rental income / gross purchase price

» Short Glossary for Office Property

Vacancy
Vacancy refers to vacant office space at the end of the respective year. It takes account of marketable properties only; structural vacancy therefore is not included.
The vacancy rate shows the ratio of vacancy to total space.

Take-up
Take-up is defined as an annual amount. It describes mostly office space taken up for rent, but also includes project developments focussing on owner-occupiers. The take-up date is the conclusion of the contract in the case of letting and the start of construction in the case of owner-occupiers.

Rents
Office rents are reported in euros per sqm rentable area according to gif e.V. (RA-C) and apply to office space in a marketable (technical/spatial) condition with good fixtures and fittings and small to medium-sized rental units. The reported rents are nominal values. The nominal rent is the initial rent shown in the contract, not including incentives, ancillary costs or local taxes.
The prime rent relates the top price segment – in relation to the respective market area – with a market share of between 3 % and 5 % of rental revenues (not including owner-occupiers) in the past twelve months and represents a median value. At least three concluded contracts should be included. It does not correspond to the absolute top rent (defined as outliers). To calculate the average rent, the individual rents for all new rental agreements concluded in the defined period are weighted according to the space rented in each case and an average is calculated.

» Short Glossary for Residential Properties/ Micro-Apartments

Residential rents
Residential rents for re-letting are reported in euros per sqm of residential space and ideally apply to an apartment with three rooms, around 65 to 95 sqm of residential space and standard fixtures and fittings. Because the fixtures and fittings and the sizes are standardised, the degree of variation shown in the rent range is influenced mainly by the location and the micro-location. The reported rents are nominal values.
The rents are stated without including ancillary costs or taking account of other benefits. Average rents represent the average value across the whole of the defined market.
The stated rents are average values intended to map a typical or usual level. They do not represent the strict arithmetic mean, the mode (most frequent value) or the median (central value) in a mathematical sense

Micro-apartments
Micro-apartments or business apartments are generally found in larger complexes with 100 to 300 units. They are offered as partly or fully furnished one-room apartments measuring between 18 and around 35 sqm, with a small kitchen and a separate bathroom. Optional services often include a concierge service, fitness facilities and laundry service. In terms of tax law, micro-apartments represent private-sector letting rather than operator-managed properties, meaning that rental agreements are concluded directly between the investor and the tenant.

Short Glossary for Retail Property

Specialist retail parks
Specialist retail park are defined as follows: They have:
- gross lettable area (GLA) of 10,000 sqm or more
- locations on the city outskirts with good transport con nections, they are generally easy to reach, including for the wider surroundings
- ground-level floor space and extensive parking space, usually also at ground level
- simple functionality in terms of their appearance
- discount retailers with aggressive price strategies that have a crowd-pulling effect and are supplemented by retailers and service providers with small amounts of space.

Shopping centers
Shopping centers are large-scale facilities that are constructed on the basis central planning and cover short-, medium- and long-term requirements.
They are characterised by:
- a spatial focus on retail, catering and service businesses of different sizes
- a generous supply of parking spaces
- central management/administration
- joint performance of certain functions by all tenants (e.g. advertising)
- and generally have sales space of at least 10,000 sqm.

Short Glossary for Unternehmensimmobilien

(Source: Initiative Unternehmensimmobilien)

The statements on Unternehmensimmobilien (UI) in this study are based on the market data of the Initiative Unternehmensimmobilien published in its Market Reports No. 10. According to these data, UI are mixed-use commercial properties, typically with a SME-dominated tenant structure. The mix includes office, warehouse, production, research, service and/or wholesale space as well as open space.
Unternehmensimmobilien comprise four different property categories:
- Converted properties (not included in the study due to their very high degree of variation)
- Business parks
- Light manufacturing properties
- Warehouse properties

All four categories are characterised by the features of capacity for alternative uses, use reversibility and fundamental suitability for multi-party structures. This means that the strengths of Unternehmensimmobilien lie in their flexibility with regard to not only the use but also the users.

Business parks
- Usually planned and constructed specifically to be let out to companies
- Consist of several individual buildings forming a complex
- Management and infrastructure are organised uniformly
- Have all types of space (share of office space generally between 20 % and 50 %)
- Usually located on the outskirts of cities and easily accessible

Light manufacturing properties
- Predominantly individual hall properties with a moderate office share
- Suitable for a variety of types of production
- In principle, hall space can also be used for other purposes such as storage, research, services, wholesale and retail
- Capacity for alternative uses depends primarily on the location

Warehouse properties
- Predominantly existing properties with mainly basic storage facilities and in some cases service space
- Within Unternehmensimmobilien, distinguished from modern logistics halls by a maximum size of 10,000 sqm
- Varying fit-out and quality standards
- Flexible and inexpensive types of space
- Generally reversible and suitable for higher-value uses (e.g. through retrofitting of ramps and gates)

Short Glossary for Logistics Properties

The study relates to a modern logistics property with hall space of more than 10,000 sqm.
Rents for warehouse/logistics space are reported in euros per sqm of hall space and apply to a heatable hall with standard fixtures and fittings, not including high-bay warehouses or similar, that are located in a conventional industrial area with good connections. The reported rents are nominal values.

The rents are stated without including ancillary costs or taking account of other benefits. Maximum and average values are shown. The maximum rents represent an average value for the top 3 to 5 % of the market. They do not correspond to the absolute top rent (defined as outliers). Average rents represent the average value across the whole of the defined market.

The stated rents are average values intended to map a typical or usual level. They do not represent the strict arithmetic mean, the mode (most frequent value) or the median (central value) in a mathematical sense

» Short Glossary for Hotels

„Magic Cities“
This term refers to the former city alliance Magic Cities e. V., which included the following cities as its members: Berlin, Cologne, Dresden, Düsseldorf, Frankfurt am Main, Hamburg, Hanover, Leipzig, Munich, Nuremberg and Stuttgart. These cities are characterised by above-average tourist demand and a corresponding diverse offering for tourists.

Classification
This study is based on the following breakdown:
Economy: 1 or 2 stars
(Upper) midscale: 3 stars (3+ stars)
(Upper) upscale: 4 stars (4+ stars)
Luxury: 5 stars
The breakdown is based on the hotel classification used by DEHOGA (German Hotel and Restaurant Association), while the number of stars is taken from the online portals expedia.de and booking.com.

» List of abbreviations

Overview of abbreviations used in the study

ECB	European Central Bank
GDP	Gross Domestic Product
gif e. V.	gif Gesellschaft für immobilienwirtschaftliche Forschung e. V.
IRR	Internal Rate of Return
(Non-)Core-I.	(Non-)Core-Investors
RA-C	Rentable Area according to gif e. V.
sqm	square metres
UI	Unternehmensimmobilien
US	University Cities

» Notes on the Model

In general, renovations and project developments are not included. All calculations in the study are based on data, forecasts and analyses by bulwiengesa AG and its knowledge of the market. In addition to rent loss risk, vacancy risk is also taken into account in the cash flow calculation.

Terminology
Market liquidity is defined as investment demand irrespective of economic cycles.
Fluctuation refers to changes in tenants assumed at predefined dates – depending on the asset class.

Office
The study presents 127 office markets, broken down into A, B, C and D cities. A notional existing office property with average-quality space is assumed. The property size varies depending on the volume of the office market and the average take-up over the past ten years. The model also assumes annual fluctuation of 10 % of the property size and a three-year term for newly concluded rental agreements. The office rents are index-linked. The market rent in the year of the respective contract conclusion corresponds to the company's own forecast, while the ageing process of the property is taken into account with a rent discount. The purchase yield (net initial yield) in the model corresponds to the exit yield, so as to avoid distortions.

Residential
The study presents 68 residential markets, broken down into A, B and (other) university cities. The calculation is based on the assumption of an existing apartment building with 4,000 sqm of residential space and 55 residential units and with average fixtures and fittings. Annual fluctuation of 200 sqm is assumed. The fluctuation corresponds to the respective newly let space and a one-month vacancy p.a. For existing rental agreement space, rent adjustments to the market level every three years are assumed. The purchase yield (gross initial yield) in the model corresponds to the exit yield, so as to avoid distortions.

Micro-Apartments
A, B and (other) university cities – a total of 68 cities – are analysed. The calculation is based on the assumption of a property with 4,000 sqm of residential space and 200 fully furnished residential units of 20 sqm each. The base scenario assumes annual fluctuation of two-thirds of the total residential space, but the simulation also includes fluctuation of 0 % and 100 %. The purchase yield (gross initial yield) in the model corresponds to the exit yield, so as to avoid distortions. An operator model is not assumed.

Specialist Retail Parks
The model is based on an ideal specialist retail centre with floor space of around 20,000 sqm. The user structure consists of several retail spaces. Two anchor tenants and a use mix in line with the market are assumed.

Shopping Centres
The model is based on a three-storey shopping centre (including a basement level). It assumes one anchor tenant, a total of 78 retail spaces and sales space of 48,000 sqm.

Modern Logistics Properties
The model assumes an existing modern distribution/handling centre. Good divisibility and capacity for alternative uses are assumed. The hall space totals 20,000 sqm. Office space accounts for less than 10 % of the hall space, meaning that it can be assumed that the amount of space for administration of the logistics hall is in line with demand. For reasons of simplification, office space therefore is not taken into account separately in the model.

Business Parks (UI)
An existing business park with rental space of 12,000 sqm is assumed, with office use accounting for 30 % and warehouse use accounting for 70 %. All assumptions and data are based on information from the Initiative Unternehmensimmobilien and its Market Report No. 10.

Warehouses (UI)
A simple existing warehouse with 10,000 sqm of warehouse space is assumed. In contrast to modern logistics space, there is only limited divisibility and capacity for alternative uses and the property quality is lower (including with regard to hall height, floor load capacity etc.). All assumptions and data are based on information from the Initiative Unternehmensimmobilien and its Market Report No. 10.

Light manufacturing (UI)
A light manufacturing hall with 10,000 sqm of production space is assumed. In view of the high level of user specificity, longer lease terms (five years) are assumed than for the other types of described Unternehmensimmobilien. All assumptions and data are based on information from the Initiative Unternehmensimmobilien and its Market Report No. 10.

Hotels
The calculations in this study relate to chain hotel businesses, defined as businesses with four or more individual hotels.
In addition, the analysis is based on fundamental assumptions that reflect only part of the market. For example, it was assumed that a lease contract is concluded; operator contacts and hybrid forms were not included in the analysis. Another fundamental assumption is that the contract has a long term. The presentation of short-term contracts in the case of yield-focussed investments with additional capex requirements on expiry of the lease contract (generally two to three annual rents) was ensured by means of risk premiums and yield mark-ups. The model is based on city hotels with business customers and city tourists as their target groups. A high level of tourist demand is also assumed.

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