



MARKET REPORT

FIRST HALF-YEAR OF 2015

TRANSPARENCY ON GERMANY'S
INDUSTRIAL REAL ESTATE MARKET

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Historic Warehouse in Mainz



THE INITIATIVE

MARKET REPORT NO. 3 OF THE INITIATIVE UNTERNEHMENSIMMOBILIEN

With investors and other market players becoming increasingly aware of it, the new asset class of industrial real estate – referred to by the German term Unternehmensimmobilien because of its specificities – has continued to establish itself on the real estate investment market.

That being said, the upshot of the Market Report before you is that the investment volume in Unternehmensimmobilien actually experienced a year-on-year decline during the first six months of 2015. Does this mean the new asset class lacks in appeal? We believe that quite the opposite is true. According to the stakeholders represented in the INITIATIVE UNTERNEHMENSIMMOBILIEN (also known by its acronym IUI), the demand for Unternehmensimmobilien has simply outpaced supply. In the present low-interest cycle, property owners in trading estates, mixed-use areas and industrial zones cling firmly to their real assets.

This makes the dialogue between corporates and Unternehmensimmobilien specialists all the more important. And it is here that growing market transparency has prompted a lively exchange. We assume that this year will see representatives of the owner side of Germany's big industry join the INITIATIVE UNTERNEHMENSIMMOBILIEN for the first time. Germany's mid-market companies are also more than welcome to compare notes with us.

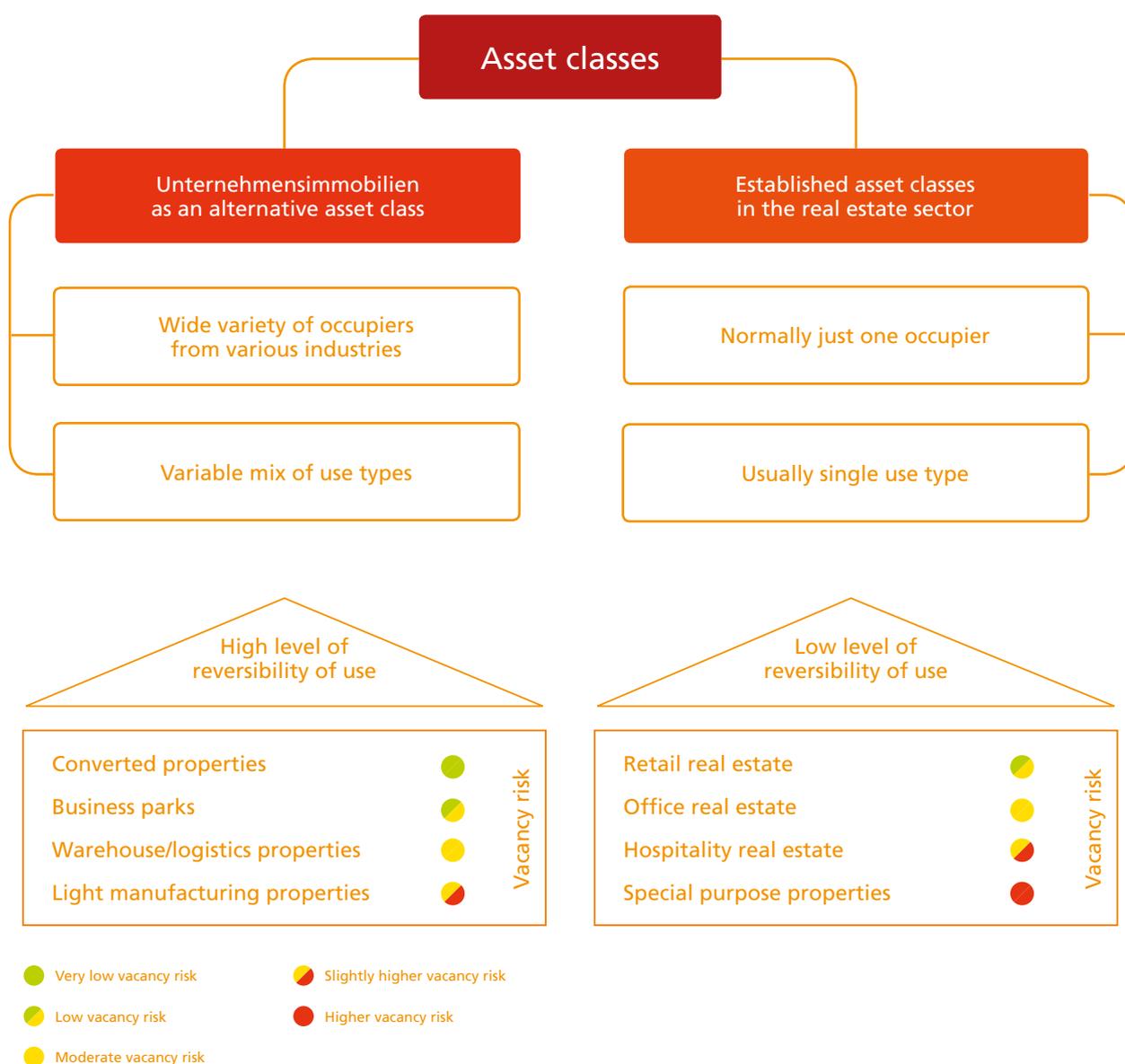
Meanwhile, the INITIATIVE UNTERNEHMENSIMMOBILIEN keeps evolving. Visit us on the internet at unternehmensimmobilien.net to stay up to date.

The INITIATIVE UNTERNEHMENSIMMOBILIEN is a joint project by:



DIFFERENT CATEGORIES OF UNTERNEHMENSIMMOBILIEN

Fig. 01: Different Categories of Unternehmensimmobilien



Source: bulwiengesa AG/
INITIATIVE UNTERNEHMENSIMMOBILIEN

WHAT ARE UNTERNEHMENSIMMOBILIEN?

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

The term “Unternehmensimmobilien” covers four different real estate categories

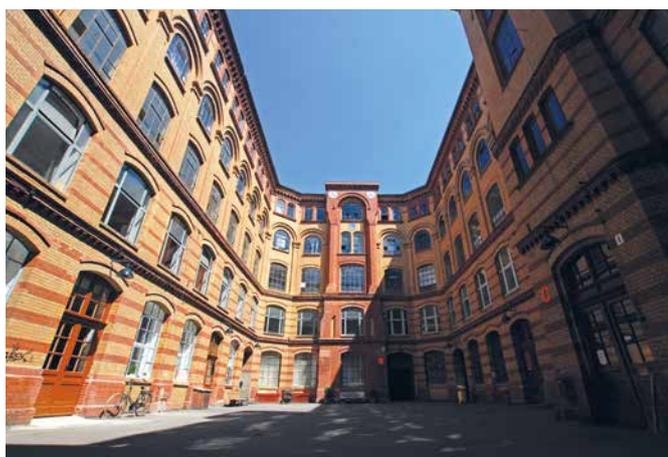
- Converted properties
- Business parks
- Warehouse/logistics properties
- Light manufacturing properties

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

CONVERTED PROPERTIES

Converted properties are usually transformed and revitalised commercial properties. More often than not, they previously housed production plants or were part of industrial areas with potential

for further densification. Whenever they date back to the industrial age, they often have the nostalgic charm of red-brick factory buildings. For historical reasons, they are often found in locations close to town centres and are conveniently accessible by private and public transportation. Most of the ensembles comprise a mix of revitalised period buildings and newly constructed buildings. Multi-tenant properties may include any of various floor space types and sizes, and thus have a high degree of flexibility.



GSG-HOF LOBECKSTRASSE

Address: Lobeckstr. 36, 10969 Berlin

Owner: GSG Berlin

Size: 9,144 m²

Types of floor space: office, manufacturing, studio, and storage space

Target group: start-ups, SMEs, software/IT, information and communication companies, creative industries



CAMPUS OBERHAFEN

Address: Weismüllerstr. 37-47/Daimlerstr. 40-42, 60314 Frankfurt

Owner: BEOS Corporate Real Estate Fund Germany II

Size: 41,324 m²

Types of floor space: office, lab, storage, gastronomy and whole trade space

Target group: manufacturing industry, technology, data centres, services, wholesale trade



BUSINESS PARKS

Most business parks were developed and raised to be let. Many of them consist of an ensemble of separate buildings or connected rental units. They have a centrally organised management and a shared infrastructure in place. While Business parks generally accommodate any type of floor space, their office share can be anywhere from 20 % to 50 %. Like other trading estates, business parks are defined by a multi-tenant structure. Unlike converted properties, business parks tend to be located in suburban locations that are easily accessible for motorised transport. On top of that, they usually have a lower share of tenant groups from the service sector and the creative industries. Inversely, the sectors of light manufacturing and warehousing/logistics often claim a higher share of occupiers.



EUROPARC KERPEN

Address: Heinrich-Hertz-Str. 6-12, 50170 Kerpen

Owner: aurelis Asset GmbH

Total floor space: 9,406 m²

Types of floor space: Office, commercial and service space

Target group: e-commerce, wholesale trade, light manufacturing, transshipment logistics



AIRCOM PARC

Address: Halskestr. 22, 24, 26/Harkortstr. 2, 6, 40880 Ratingen

Owner: M7 Real Estate

Size: 25,916 m²

Types of floor space: storage and office space

Target group: small and medium-sized enterprises, trade, warehousing and logistics sector



WAREHOUSE/ LOGISTICS PROPERTIES

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



HANSTEEN WAREHOUSE/LOGISTICS PROPERTY

Address: Burgweinting Str. 31/Junkersstr. 16, 18, 20,
93055 Regensburg

Owner: Hansteen

Total floor space: 9,672 m²

Types of floor space: office and logistics space

Target group: warehousing and logistics sector



WAREHOUSE/LOGISTICS PROPERTY IN NEUSS

Address: Fuggerstr. 2-6, 41468 Neuss

Owner: M7 Real Estate

Total floor space: 16,082 m²

Types of floor space: office and logistics space

Target group: manufacturing industry, warehousing and logistics sector



LIGHT MANUFACTURING PROPERTIES

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



MANUFACTURING PLANT SCHENCK

Address: Pallaswiesenstr. 100/Rösslerstr. 87,
64293 Darmstadt

Owner: VALAD Europe

Size: c. 17,600 m²

Types of floor space: office, manufacturing,
storage and logistics space

Target group: manufacturing industry, warehousing
and logistics sector



LIGHT MANUFACTURING PROPERTY BÖBLINGEN

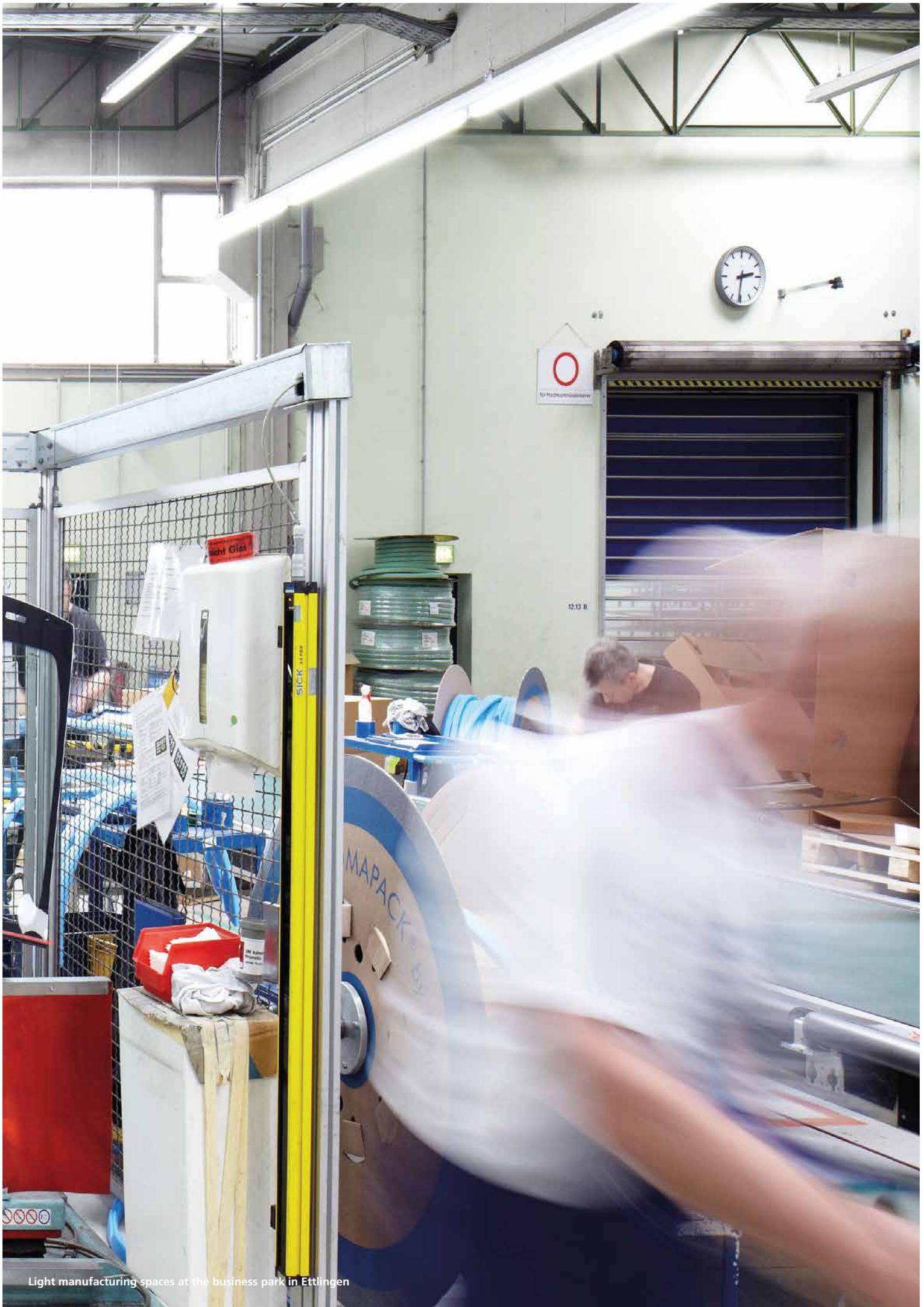
Address: Hewlett-Packard-Str. 2, 71034 Böblingen

Owner: aurelis Asset GmbH

Size: c. 52,000 m²

Types of floor space: logistics, light manufacturing, lab and
office spaces

Target group: medical technology, automotive and logistics



Light manufacturing spaces at the business park in Ettlingen

THE MARKETS



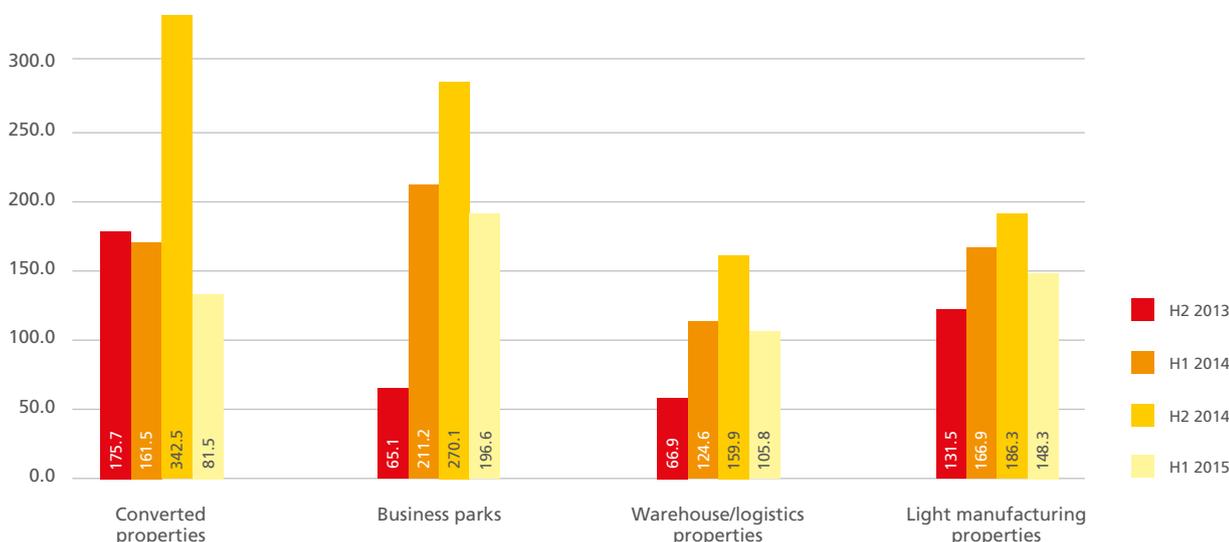
THE INVESTMENT MARKET FOR UNTERNEHMENSIMMOBILIEN IN H1 2015

Year on year, the investment volume plummeted by 19.9 % during the first half-year of 2015. Yet demand for Unternehmensimmobilien has remained as lively as ever, with no less than 72 properties of this type having changed hands by mid-year 2015. For the sake of comparison: The 2014 year-end total for the same type was only 92 assets sold. Accordingly, the regressive transaction volume must be blamed on the comparatively small size and/or inferior quality of the properties traded rather than on any lack of interest. Many valuable and pricey properties were already sold off in the recent past. Most of the latest transactions represent real estate in the investment category “value add” and “opportunistic.” Taken together, investments in Unternehmensimmobilien during the first half of 2015 add up to an approximate volume of 532.2 million euros. Out of a total of 24 billion euros invested in commercial real estate this year to date, Unternehmensimmobilien account for roughly 2.2 %. This implies a year-on-year decline by 2.5 %.

»DURING THE FIRST HALF OF 2015, NO LESS THAN 72 UNTERNEHMENSIMMOBILIEN CHANGED HANDS IN GERMANY.«

With a total turnover of c. 196.6 million euros, business parks accounted for the biggest transaction volume. Year on year, this equals a decline by just 6.9 %. The second fastest selling asset class during the period under review were light manufacturing properties in a volume of c. 148.3 million euros. This mid-year result implies a year-on-year decline in take-up by 11.1 %. The market for warehouse and logistics properties showed a similar performance. With a total volume of c. 105.8 million euros, the transaction volume shrank by 15.1 % year on year. The drop in investment volume is particularly conspicuous for converted properties. More than other categories, properties of this type had achieved the outstanding result of more than 342 million euros by the end of H2 2014, the highest figure on record in any category since the start of this market documentation. However, high-priced assets in the converted properties category that have been revitalised to meet modern standards are exactly the kind of real estate that is in short supply. One of the reasons they are rarely put on the market is their sound rental yield, encouraging long-term ownership. So there is nothing surprising about the fact that the investment volume dropped by well over 76 % during H2 2014. Year on year, this equals a decline by just 49.5 %. The dramatic growth rates seen the previous year have thus levelled out. It would be premature, though, to speak of a lull. The number of traded assets shows the persistently high interest in this asset class. The difference is that the number of development schemes with value-add potential increased year on year.

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



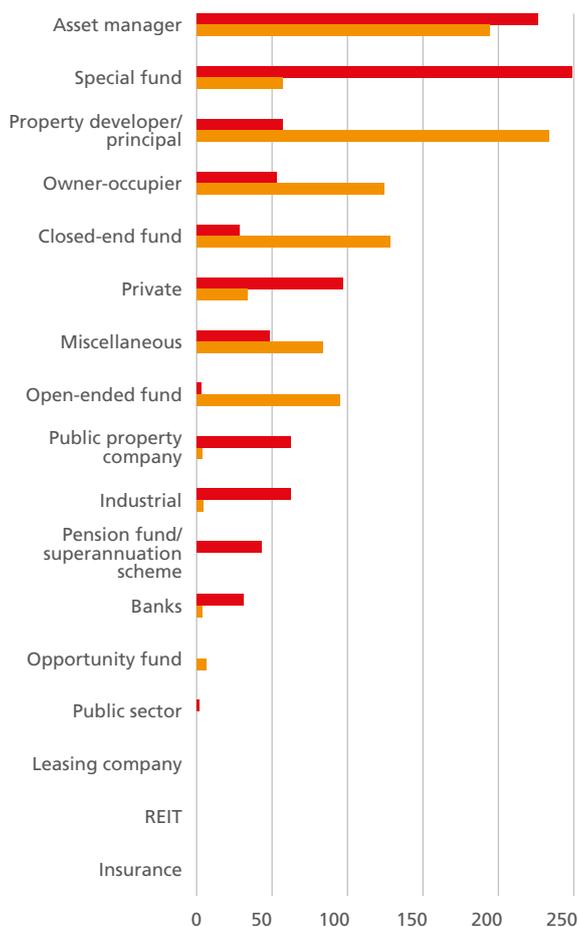
»ASSET MANAGERS REMAIN THE MOST ACTIVE GROUP«

In a repeat of their performance during the two semesters of 2014, asset managers remained the most active players on Germany's investment market during the first six months of 2015. That said, their lead position is no longer as formidable as it was a year ago, with the total trading volume (acquisitions and sales) adding up to just over 228 million euros. Asset managers have focused their activities mainly on the buyer side lately – spending well over 169 million euros on properties. Owner-occupiers have also been highly active in 2015. Their ratio of acquisitions and sales is more or less balanced – with 111 million euros worth of real estate bought, and 95 million euros worth of it sold. Players in the “Miscellaneous” category account for a trading volume of well over 109 million euros, followed closely by property developers with c. 106 million euros. The high share of this group is explained above all by the persistent lack of transparency in this

asset class. The bulk of these properties are not owned by members of the INITIATIVE UNTERNEHMENSIMMOBILIEN.

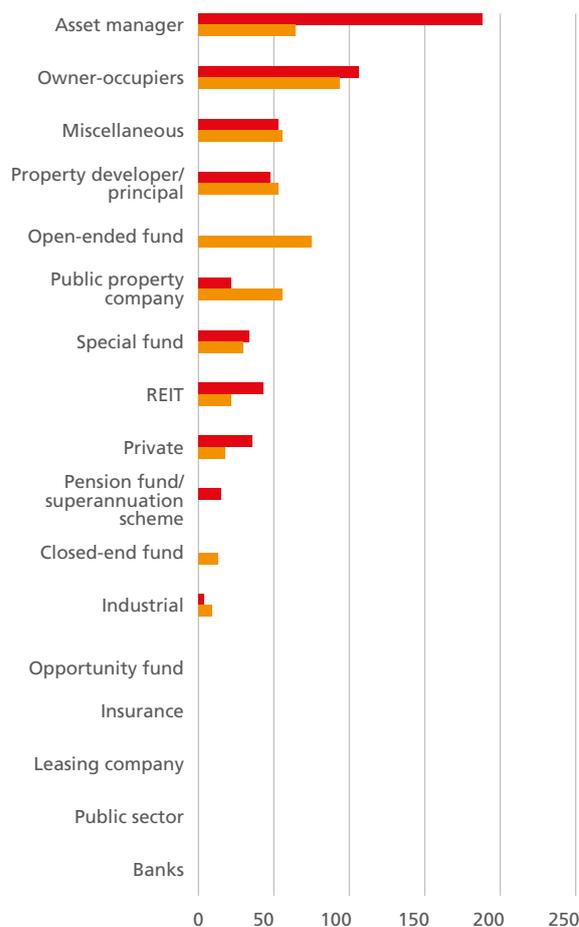
Fifth place in terms of total volume traded goes to the open-ended property funds. At the moment, however, their activities are limited to the selling side. All things considered, they divested themselves of well over 96 million euros worth of properties. They are closely trailed by public property companies with a trading volume of c. 81 million euros. Compared to the previous two years, the high share that REITs had in the market action is striking to note. Having gradually become aware of the Unternehmensimmobilien asset class in Germany, investors of this type generated a total transaction volume of 64 million euros. With well over 40 million euros out of this total, the acquisitions clearly outweighed sales of c. 23 million euros. Conversely, the drop in private transactions is equally conspicuous. Having ranked sixth in each of the previous two semesters, private players slid down to rank nine in the course of H1 2015.

Fig. 03: Acquisitions/sales by investor type in H2 2014, in million euro



sorted by largest transaction volume ■ Acquisitions ■ Sales

Fig. 04: Acquisitions/sales by investor type in H1 2015, in million euro



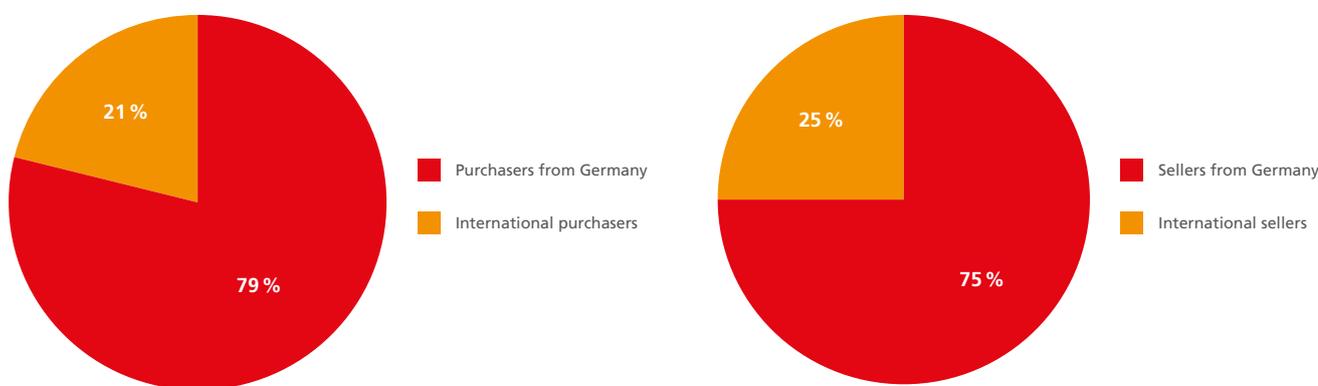
sorted by largest transaction volume ■ Acquisitions ■ Sales

»THE PERCENTAGE OF FOREIGN PLAYERS ON GERMANY'S INVESTMENT MARKET IS RELATIVELY STABLE.«

As far as the origin of the traders goes, H1 2014 presented a relatively balanced picture. Foreign market players accounted for around 42 % of the investment volume. During the second half

of 2014, their share plunged to 21 % before recovering some of the lost ground in the first half of 2015 with 23 % of the market. Abroad, however, Germany is still considered a safe haven for real estate investments. This is suggested by an investment volume of well over 125 million euros in foreign funds that were committed in Unternehmensimmobilien. The one thing impacting demand for this sort of corporate real estate was the pronounced focus on retail and hotel properties this year. Other than that, the country's sound base of strong mid-market companies will continue to boost the appeal of Unternehmensimmobilien in Germany.

Fig. 05/06: Acquisitions and sales, by origin of investors, in %, H2 2014



German players were clearly more active during the first six months of 2015 with a market share of around 76 % or well over 407 million euros. For obvious reasons, they often take advantage of their easier access to the market and their superior networks in German locations. On the seller side, their market share

was slightly smaller at 72 %. They sold Unternehmensimmobilien worth c. 218 million euros. Foreign market operator sold c. 150 million euros worth of properties, and accounted for well over 28 % of the sales total. This more or less matches the level they achieved during the prior-year period.

Fig. 07/08: Acquisitions and sales by origin of investors, in %, H1 2015



»THE TRANSACTION VOLUME IS HIGHEST BY FAR IN THE RHINE-RUHR CONURBATION.«

A drilldown of the regional investment activity reveals that the Rhine-Ruhr conurbation, being the country's most populous submarket, predictably generated the largest investment volume. With a turnover of c. 134 million euros, the region claimed well over 25 % of the transaction volume. Lagging behind at considerable distance is the Rhine-Main-Neckar conurbation with an investment volume of c. 98 million euros. It is in turn closely trailed by the southern region with well over 90 million euros. Another two populous German states, namely Bavaria and Baden-Württemberg, are also highly popular among inves-

tors, even outside the Munich and Stuttgart metro regions. Here, a prospering business environment is home to countless small and medium-sized enterprises that qualify as potential occupiers of Unternehmensimmobilien.

Berlin and its metro area, which had taken the lead last year, only registered an investment volume of c. 49 million euros during H1 2015. Meanwhile, the Munich metro area made massive market gains. Nearly 53 million euros were committed here during H1 2015, as investors focus on the Bavarian state capital regardless of its already comparatively high price level. What makes this market so attractive is its stability and liquidity. The region with the lowest investment volume was East Germany. Unternehmensimmobilien here attracted only 15.9 million euros during the first half of 2015.

Fig. 09: Distribution of transaction volumes in a rolling period comparison by region in million euro in H1 2015

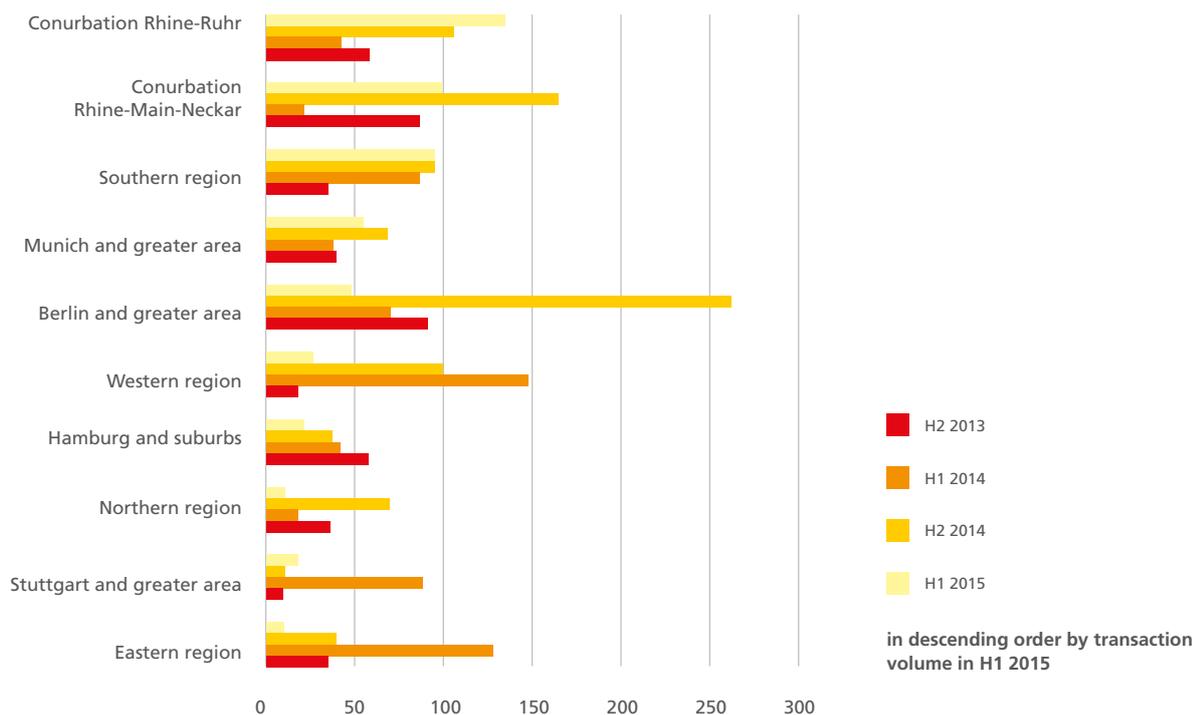


Fig. 10: Geographic distribution of transactions in Germany, H1 2015, by property category



□ Northern region □ Eastern region □ Western region □ Southern region □ Conurbations

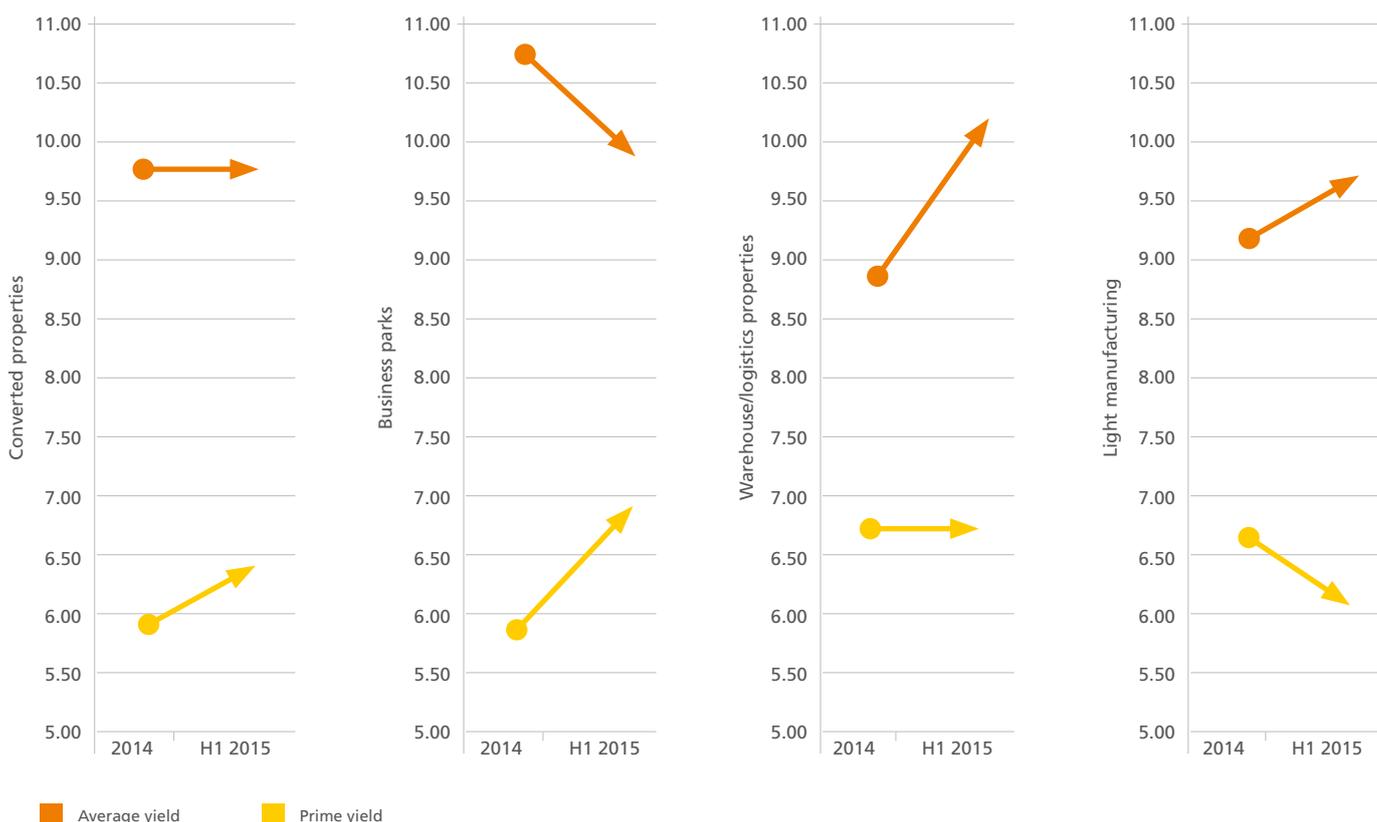
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Map source: © elevenfifteen

»THE FEW MARKET REPORTS PUBLISHED TO DATE HAVE ALREADY ENABLED MARKET PLAYERS TO CORRECTLY APPRAISE PURCHASE PRICES.«

The achievable yield spreads are posted in gross initial yields (GIY). It represents the ratio of the net rental income and the net purchase price at the time of the transaction. Accordingly, it reflects both the profitability and the value of a given property. This sets the ratio apart from long-term performance indicators such as the GPI¹. The average GIY equalled 9.9 % during the period under review. This marks a modest increase for the GIY compared to 2014 (9.6 %). Similar to the investment volume, the growth is explained mainly in the fact that many premium assets already exchanged hands in the recent past, and that, as a result, high-end and revitalised assets have experienced proportionate price hikes lately. Demand for and interest in properties remains as high as ever. But the rise in purchase prices and the short supply has limited the scale of transactions. As the interest in Unternehmensimmobilien as an asset class grows in general, the increasing transparency achieved by the publication of the first few Market Reports of the INITIATIVE UNTERNEHMENSIMMOBILIEN has already enabled market players to appraise inflated purchase prices correctly. As long as some market players seek to sell individual assets at inflated prices, however, niche properties in this asset class will keep gaining in appeal for investors.

A break-down by property categories confirms these assumptions. There have been no sales of expensive properties with yields below 6 % in 2015 yet. As a result, yields in nearly all property categories have rebounded slightly with the exception of light manufacturing and warehouse/logistics properties. During the first six months of 2015, prime yields for light manufacturing properties dropped by 38 basis points from 6.5 % to 6.12 %, whereas the average yield climbed by 40 basis points from 9.2 % to 9.6 %. Especially the segment of converted properties, which had seen brisk trade in 2014, registered only selected transactions during H1 2015. The notable exception were premium properties. This pushed the prime yield back up by 40 basis points from 5.9 % to 6.3 %. The fact that trade, especially of premium assets, in this segment slowed was confirmed by the stagnation of the average yield, which remains unchanged at 9.7 %. The category of warehouse/logistics properties also registered a marginal improvement in prime yield by 6 basis points, rising from 6.7 % to 6.64 %. Then again, the noticeable increase in average yield suggests that many of the traded properties belongs rather in the segments "value add" and "opportunistic." The average yield for warehouse/logistics properties went up by 130 basis points during H1 2015, and currently equals 10.2 %. Business parks showed a similar performance as converted properties. Here, too, the rise in prime yields was matched by a decline in average yield. While the prime yield ascended by 120 basis points to 6.9 %, the average yield dropped by 63 basis points during the same period, and now equals 9.87 %.

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



¹ For a definition of the gross initial yield (GIY) and the GPI, please see the glossary.

LETTING MARKET FOR UNTERNEHMENSIMMOBILIEN IN H1 2015

»THE DEMAND FOR FLOOR SPACE IN UNTERNEHMENSIMMOBILIEN ROSE BY 37 %«

The development of the Unternehmensimmobilien take-up during the first half of 2015 has been very dynamic. A growth by

more than 37 % compared to H2 2014 clearly demonstrates that the demand for floor space in Unternehmensimmobilien remains high. By mid-year, user demand had risen to nearly 660,000 m², that is, an increase by roughly 180,000 m². This increase is not attributable to the expanded circle of members in the INITIATIVE UNTERNEHMENSIMMOBILIEN but actually explained by increased demand.

Fig. 12: Absolute take-up in a rolling comparison, H2 2013 through H1 2015

Region	H2 2013	H1 2014	H2 2014	H1 2015	Total
Stuttgart and greater area	128,000	121,000	47,500	137,000	433,500
Conurbation Rhine-Main-Neckar	37,000	33,500	90,500	122,500	283,500
Conurbation Rhine-Ruhr	175,500	61,000	48,500	113,500	398,500
Berlin and greater area	77,000	71,500	123,500	68,500	340,500
Western region	37,500	16,500	13,000	66,000	133,000
Southern region	16,500	45,500	61,500	42,500	166,000
Hamburg and greater area	66,000	11,000	6,000	38,500	121,500
Munich and greater area	30,000	22,500	26,500	24,500	103,500
Northern region	11,000	46,500	60,000	24,000	141,500
Eastern region	3,500	11,000	3,500	21,500	39,500
Total	582,000	440,000	480,500	658,500	2,161,000

by regions and take-up, sorted in descending order, H1 2015



»STUTTGART AND THE WESTERN CONURBATIONS WITH THE GREATEST DEMAND«

Demand for floor space during the first half-year of 2015 concentrated specifically on the greater Stuttgart region as well as the

conurbations Rhine-Main-Neckar and Rhine-Ruhr. While Stuttgart manifests a cyclic performance with demand peaks during the first half of the ongoing year, the conurbations experienced a continuous increase in significance, with the Rhine-Main-Neckar conurbation taking the lead. Demand in the other metro regions, by contrast, has slowed. Although Hamburg seems to take exception, it should be remembered that demand in previous semesters was sluggish here. The demand trend outside the metro regions was characterised by growth in western Germany, whereas demand elsewhere in the South and North flagged.

Fig. 13: Absolute take-up in a rolling comparison, H2 2013 through H1 2015, in '000 m²

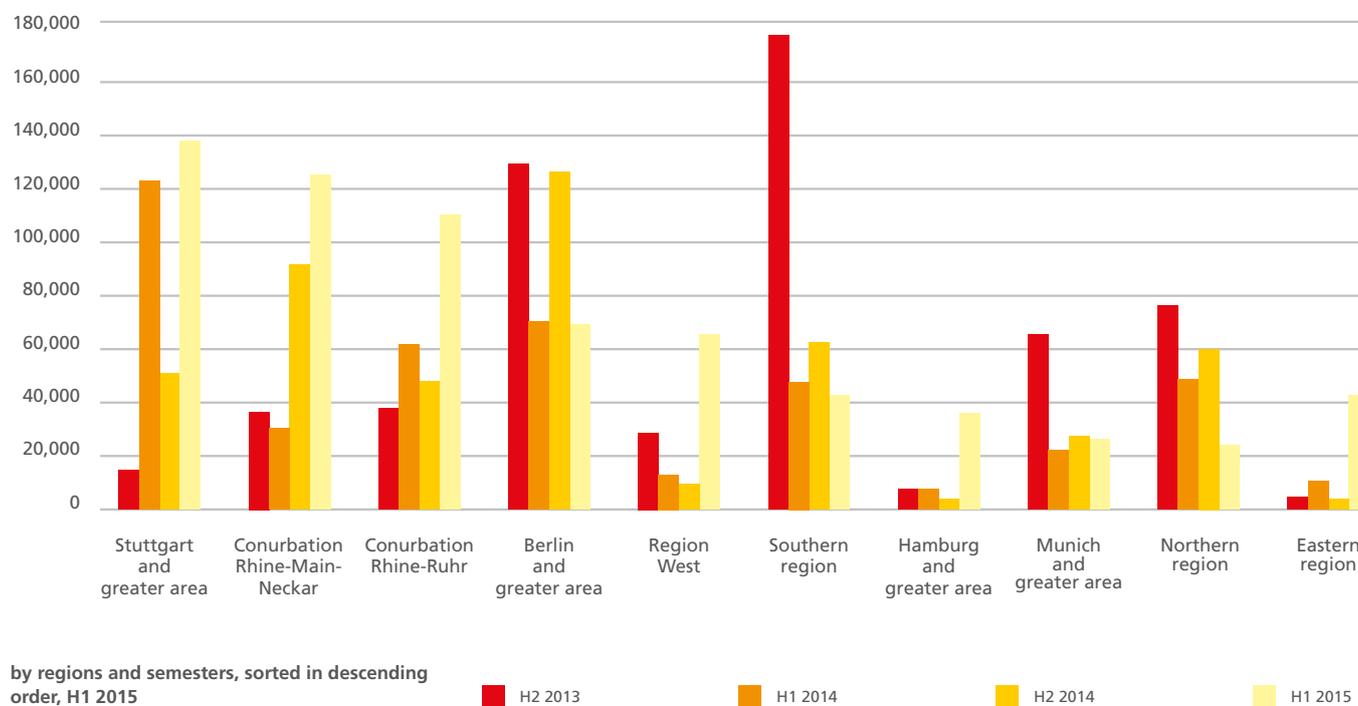
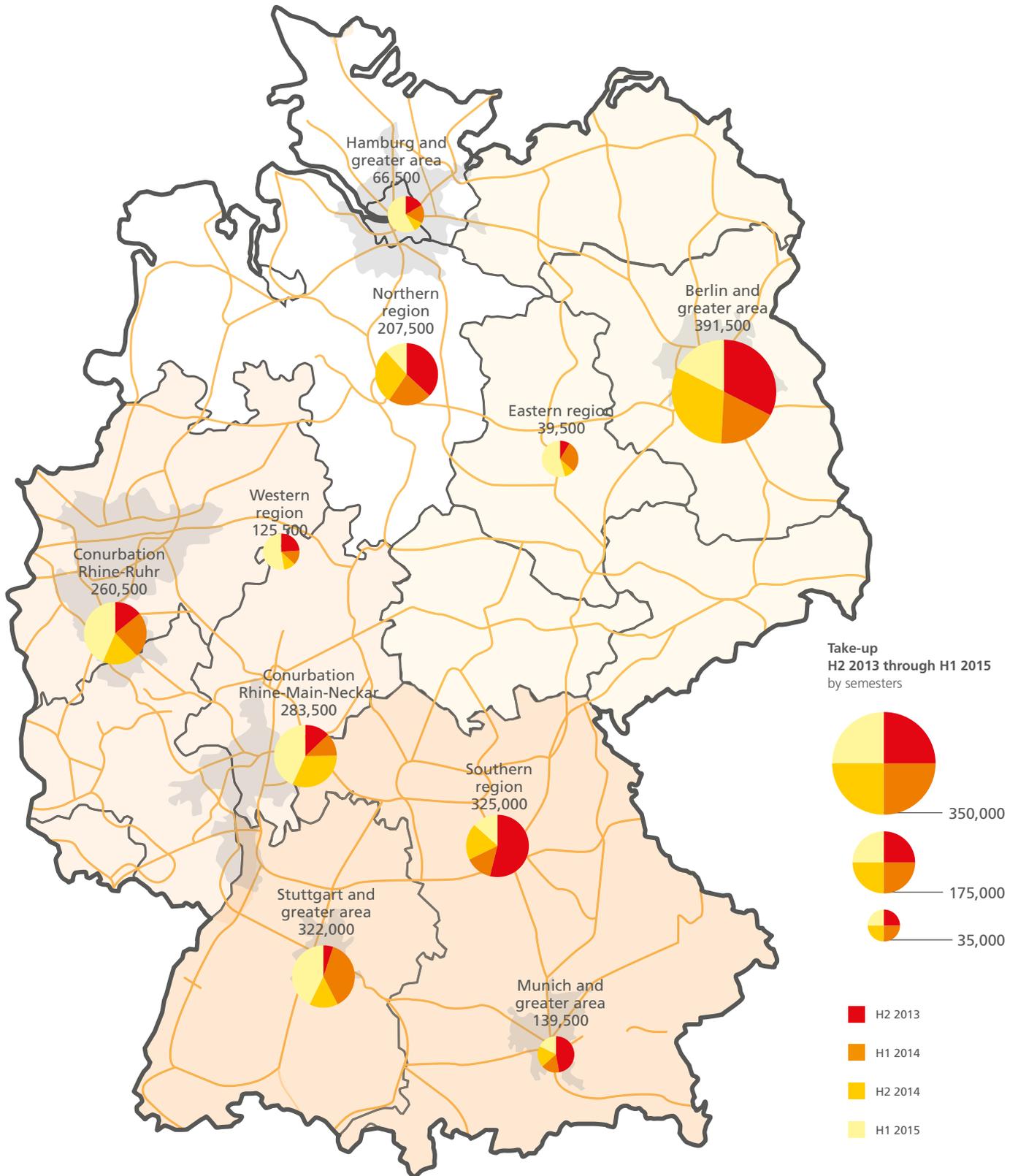


Fig. 14: Absolute take-up in rolling comparison, by region, in m²

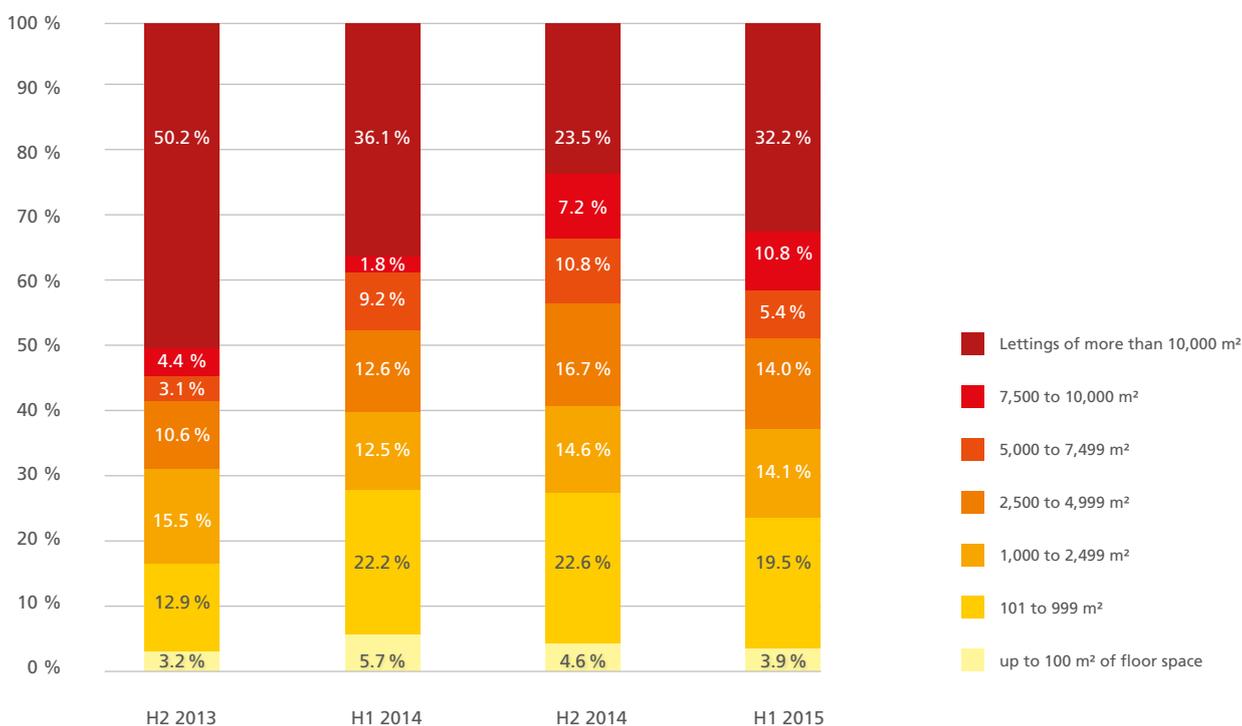


»DEMAND GRAVITATES TOWARD LARGE-SCALE RENTAL UNITS.«

A quality criterion for Unternehmensimmobilien assets is the diver-

sity of units of different sizes that are available to tenants. While the past semester was characterised by a balanced mix of unit sizes, current demand suggests that the focus has shifted to larger floor space contingents. Units larger than 10,000 m² are particularly easy to let at the moment. Defining for Unternehmensimmobilien, however, are the small and very small units that, when taken together, are also subject to stable demand.

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



»THE SIGNIFICANCE OF LONG-TERM LEASES IS RISING.«

One of the advantages of Unternehmensimmobilien is that tenants have the option to flexibly rent extra space as necessary. This gives incumbent companies the breathing space they need, but

without requiring them to enter into long-term lease contracts. This kind of flexibility results in sometimes very short lease terms. At the same time, there is a sufficient number of long-term leases that generate sustained and stable rental income.

Leases signed during the first six months of 2015 were characterised by lengthening lifetimes. The average lifetime is 2.4 years, up from a 1.8-year average during the previous semester. The longest lease term recorded during the period under review was 21.7 years.

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

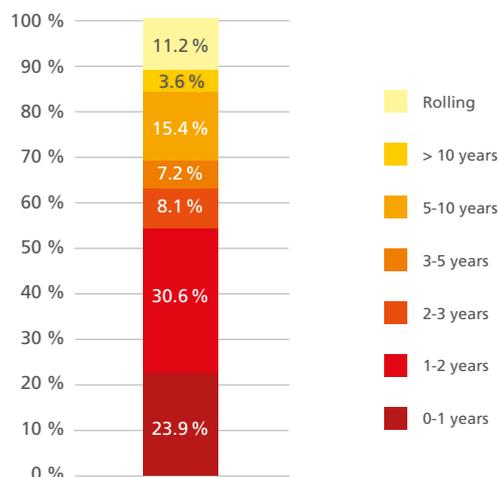
	H2 2013	H1 2014	H2 2014	H1 2015
Avg. length of lease	1.5	1.5	1.8	2.4
Max. length of lease	10.2	20.0	20.0	21.7

Nonetheless, ultra-short leases are of great significance for Unternehmensimmobilien. Nearly one in four leases has a lifetime of one year or less. This share of short-term leases defines the flexibility of the asset class. Together with the agreements signed for periods between one and two years, the short-term leases actually account for more than 50 % of the rent roll. Another large contingent of more than 11 % is made up of leases without fixed contract terms whose premises may be vacated subject to a statutory notice period of three months – or alternatively may remain occupied for long periods of time. The share of medium- to long-term contracts accounts for well over one third of the leases.

»ANOTHER HIKE IN DEMAND FOR WAREHOUSE/LOGISTICS PROPERTIES«

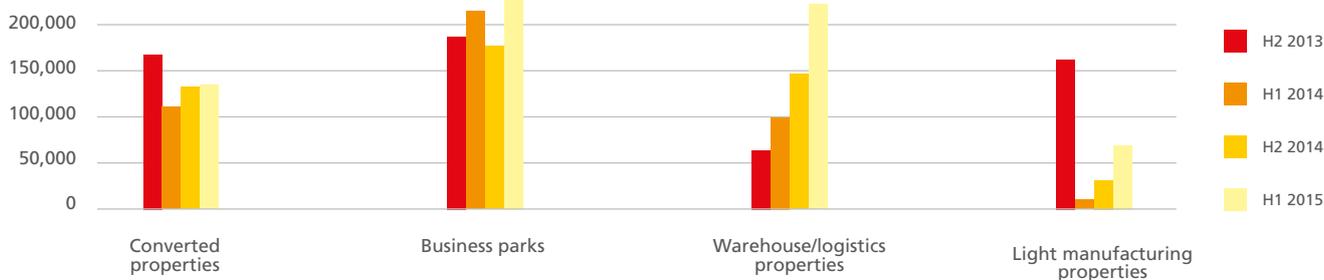
The logistics sector is booming. While this does not affect the investment market for Unternehmensimmobilien, the demand for warehouse/logistics spaces in this type of corporate real estate remains as high as ever. Predictably, the property category warehouse/logistics properties registered the steepest growth rate. The trend has continued into the ongoing semester. Demand in this segment has grown by another 56 % since the prior semes-

Fig. 17: Breakdown of leases by length, H1 2015



ter. But the single-biggest increase was recorded in the category of light manufacturing property, which experienced a demand surge by 140 %. Demand for converted properties has remained more or less stable.

Fig. 18: Take-up by area size categories in rolling period comparison

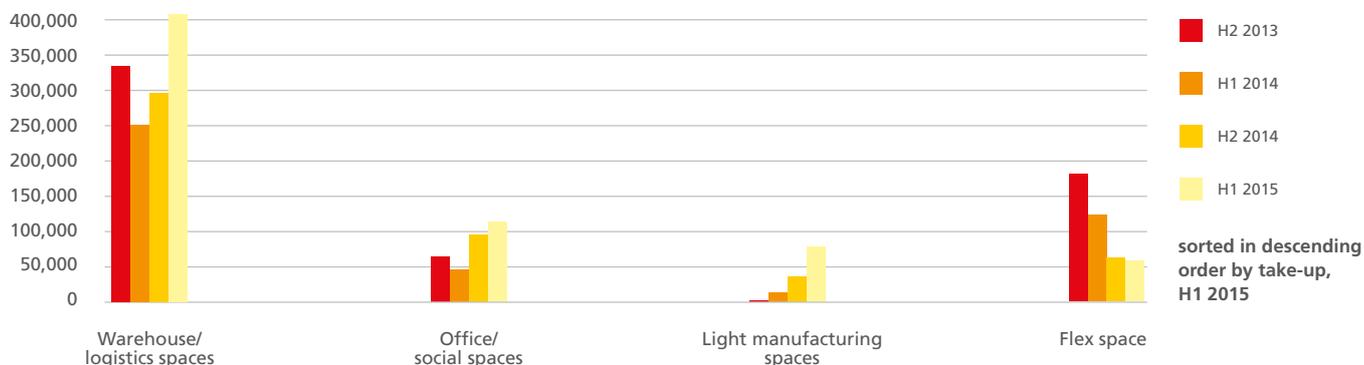


Demand in each floor space typology correlates with the property categories. The biggest increase at more than 113 % was registered for the light manufacturing properties, followed by warehouse/logistics properties with an increase by nearly 42 %.

Another floor space category that gained was office/social space, where turnover rose by 25 %. The flex space² type, by contrast, is losing ground. Compared to the previous semester, demand for space was down 11 %.

² For a definition of the term "flex space", see the glossary.

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

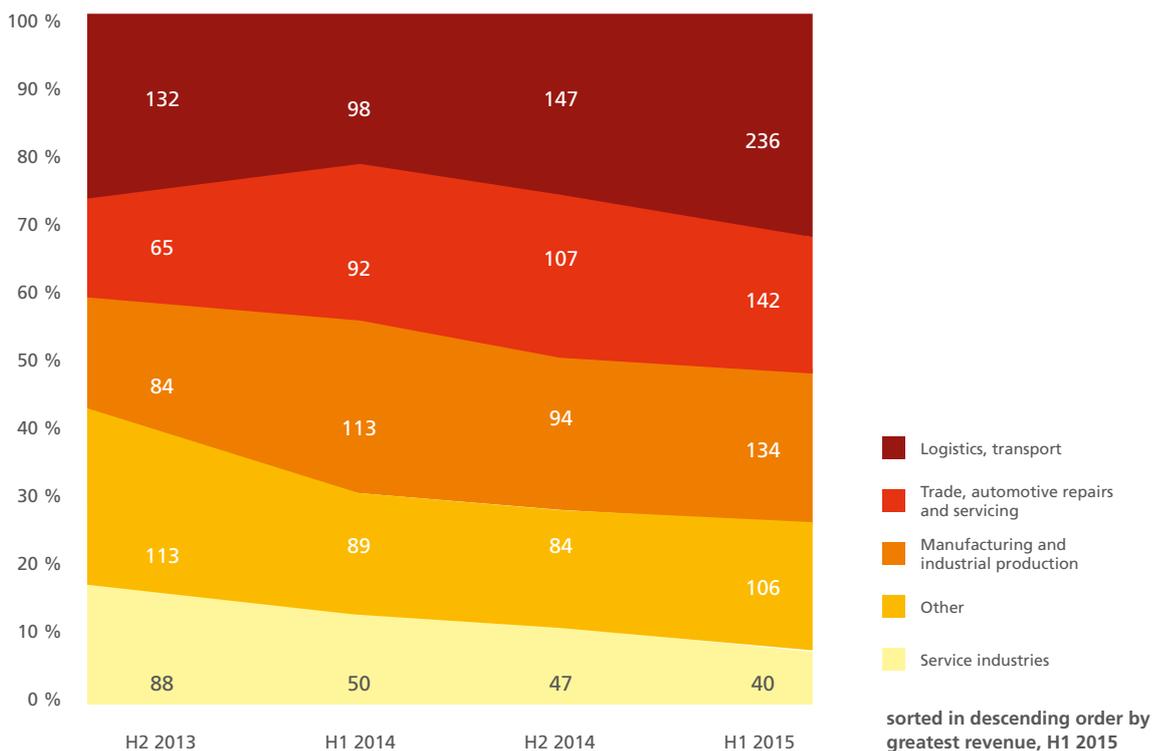


»DEMAND FOCUS CONTINUES TO SHIFT.«

As early as the first semester, a virtually synchronous shift of the demand focus began to manifest itself. The logistics and transport business segment jointly absorbs a growing share of the demand. The trend is explained by the generally pent-up demand in the segment, and by the shortage of available

space in large-scale logistics. Target groups respond by accepting smaller-scale units in Unternehmensimmobilien as alternative. All things considered, this means that some of the other business sectors, while also making gains (manufacturing and industrial production and others), lost in importance relatively speaking. The service industry, traditionally a major target group for office accommodation in multi-tenant properties, has generated less demand for floor space in Unternehmensimmobilien both in absolute and relative terms.

Fig. 20: Take-up in rolling comparison by aggregated economic sectors, in '000 m²



»PRIME RENTS HAVE PEAKED FOR THE TIME BEING.«

Despite rising demand, the increase in prime rents has peaked for the time being. Compared to the previous semester, prime rents softened across all types of floor space. That said, the decline was negligible at 0.20 euros/m² for office/social spaces. The other floor space types saw rents drop by 0.70 to 0.80 euros/m² more or less across the board. Rents for light manufacturing spaces and flex spaces appear to have normalised on a high level after comparatively brisk growth in recent semesters. A rolling comparison of

warehouse/logistics spaces revealed relatively serious fluctuations.

Average rents performed less uniformly during the first six months of 2015. Here, too, rents for office and social spaces dropped by a negligible 0.40 euros/m², and thus maintained their high level. Rents for flex space accommodation deteriorated comparatively swiftly by no less than 1.60 euros/m², which is attributable to the quality differences that characterise this type of floor space. Warehouse/logistics space also continued their downtrend, dropping by a comparatively hefty 0.70 euros/m². Light manufacturing spaces were effectively the only type that registered upward growth in average rents (+0.40 euros/m²)

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

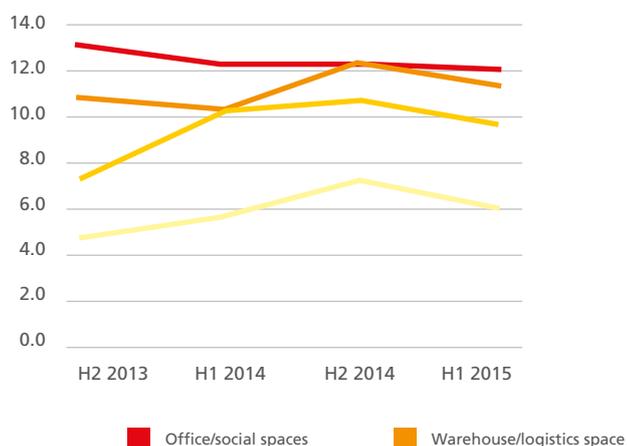
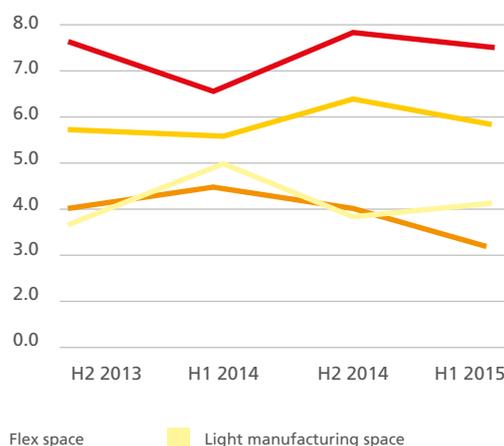


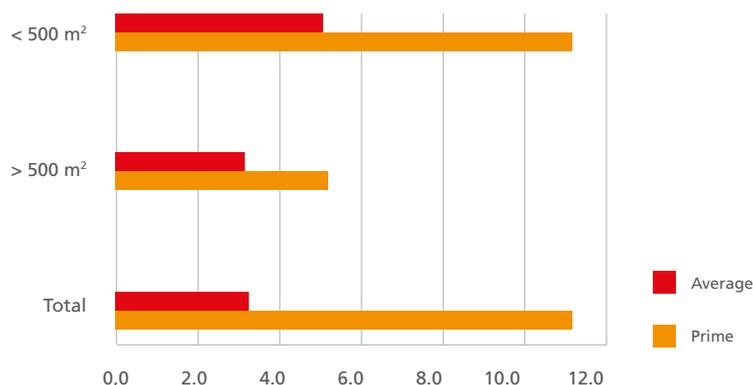
Fig. 22: Performance in average rents by types of floor space and rolling half-year periods, in euros/m²/month



Since the difference in size structure are particularly stark for the warehouse/logistics spaces of Unternehmensimmobilien, it makes sense to analyse them by size bands. The break-down

shows that warehouse rents are substantially higher for smaller units than for larger units. The fact will be analysed in more detail going forward.

Fig. 23: Snapshot of warehouse/logistics rents in various size bands, H1 2015, in euros/m²/month



THE MARKET FOR UNTERNEHMENSIMMOBILIEN IN GERMANY IN H1 2015

Given their dimensions of Unternehmensimmobilien, the changes in their market values and floor space volumes have been small in scale. While being updated in semi-annual reports,³ they are only elaborated in the annual reports.

Fig. 24: Floor space volume of commercial properties in Germany, excl. hotels, in billion euros, in H1 2015

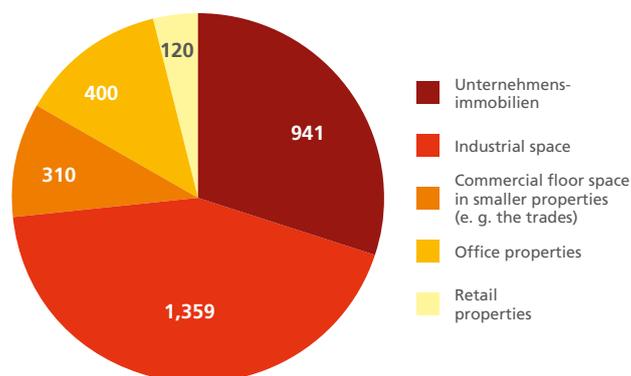


Fig. 25: Market value of commercial properties in Germany (excl. hotels), in billion euros, in H1 2015

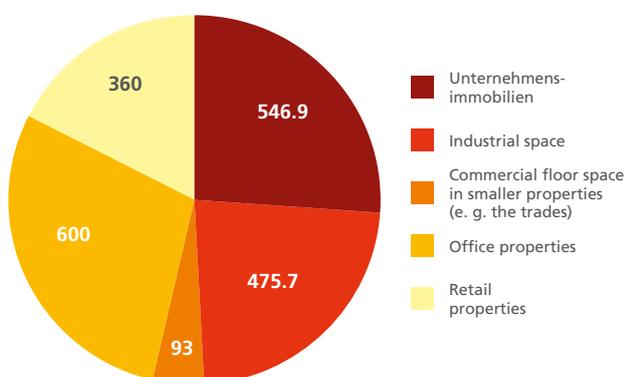


Fig. 26: Market value of the property categories of Unternehmensimmobilien, in billion euros, H1 2015

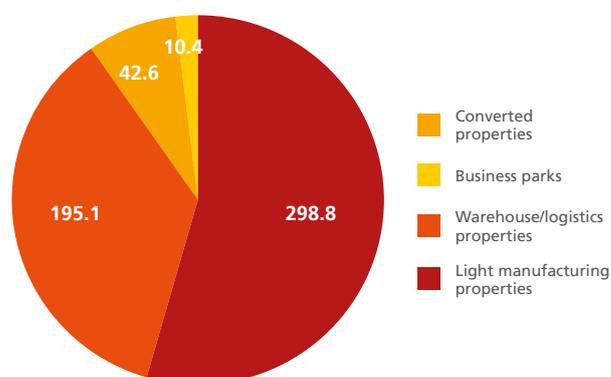


Fig. 27: Overview of floor space and values of German Unternehmensimmobilien in H1 2015

Property categories within the Unternehmensimmobilien segment	Floor space		Total value		Thereof investment-grade	
	in million m ²	in %	in bn euros	in %	in bn euros	in %
Converted properties	60.8	6.5 %	42.6	7.8 %	21.3	50.0 %
Business parks	7.7	0.8 %	10.4	1.9 %	9.3	90.0 %
Warehouse/logistics properties	329.2	35.0 %	195.1	35.7 %	117.1	60.0 %
Light manufacturing	543.2	57.7 %	298.8	54.6 %	119.5	40.0 %
Unternehmensimmobilien total	935.5	100.0 %	543.5	100.0 %	266.2	49.0 %

³The figures are based on disclosures by the IW Economic Institute in Cologne, the publication "Wirtschaftsfaktor Immobilien – Die Immobilienmärkte aus gesamtwirtschaftlicher Sicht (2010/2013)" on the macro-economic aspect of Germany's real estate markets, and updates of the property databases bulwiengesa AG maintains on selected property type. Disclosures on Unternehmensimmobilien are based on calculations by bulwiengesa AG.

Fig. 28: German Property Index (GPI), total return (in %) by segments (y-o-y), 1995-2019⁴

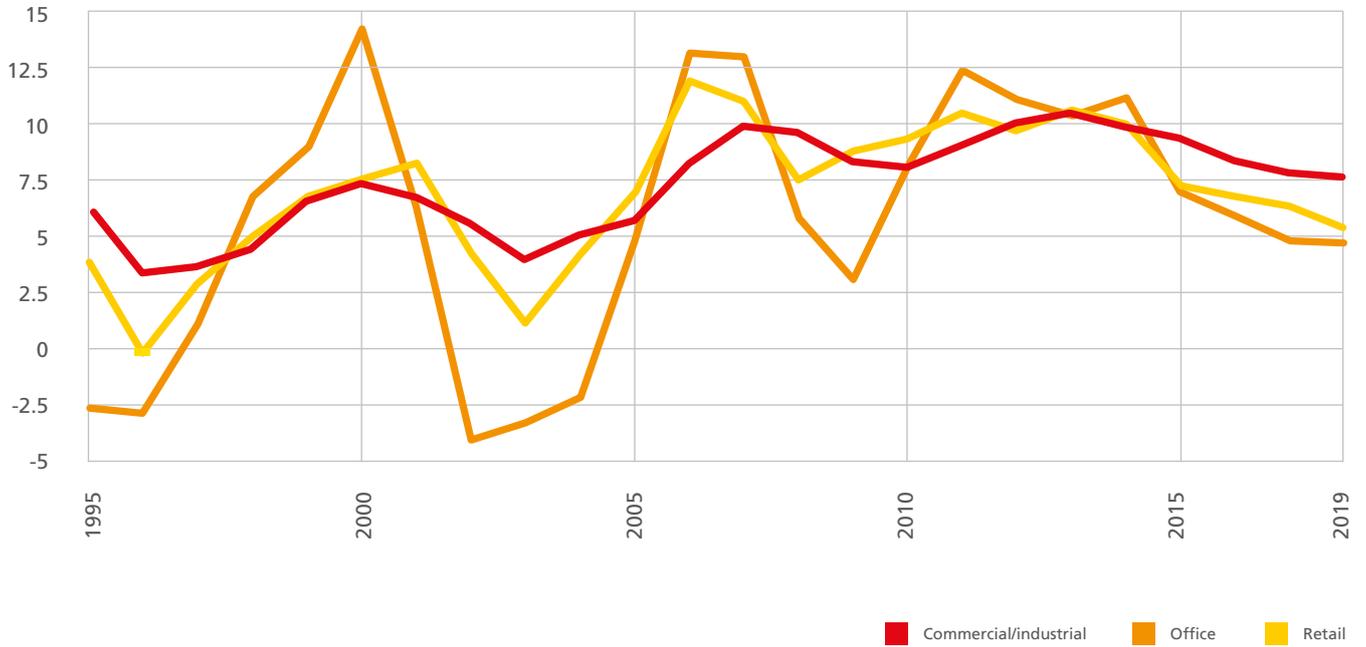
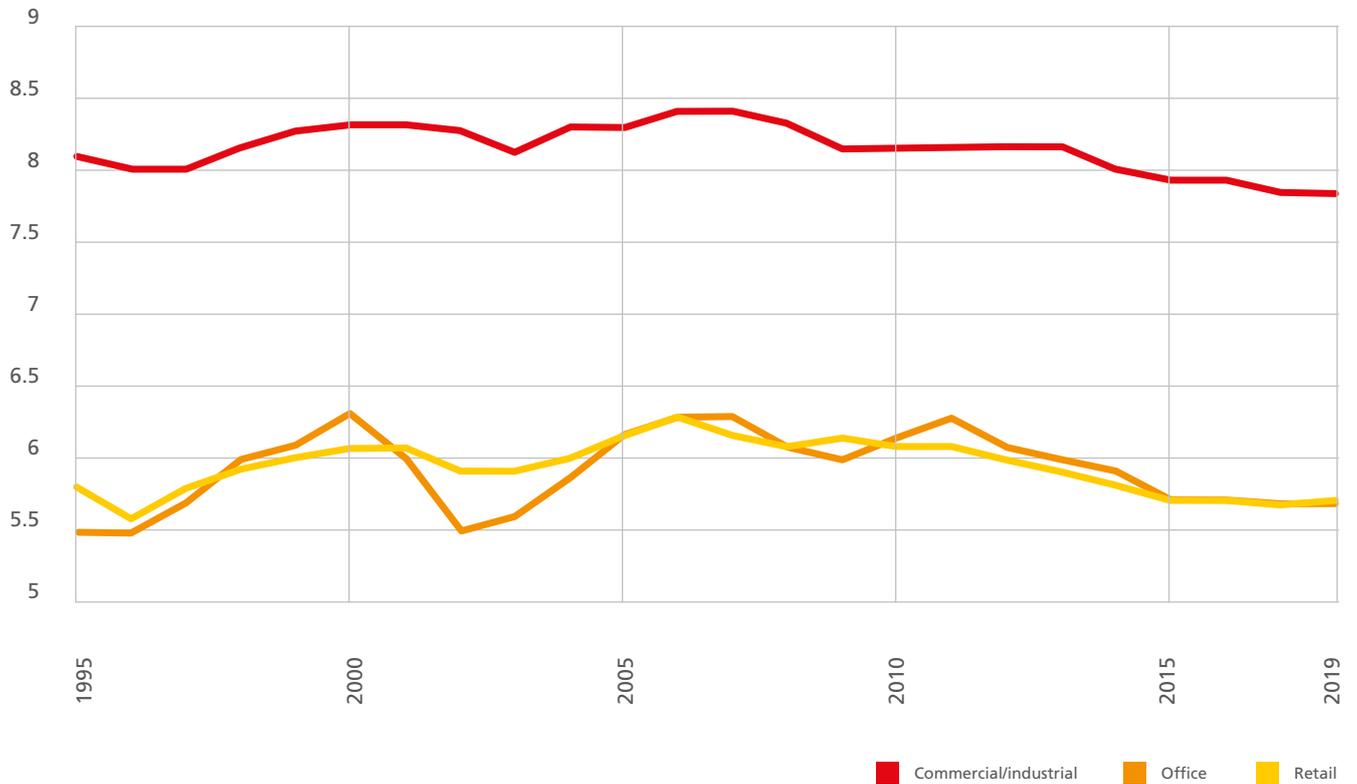


Fig. 29: German Property Index (GPI), cashflow by property segment in Germany (y-o-y), 1995-2019, in %



⁴ For a definition both of the German Property Index (GPI) and of the initial yield (GIY – gross initial yield), see the glossary.



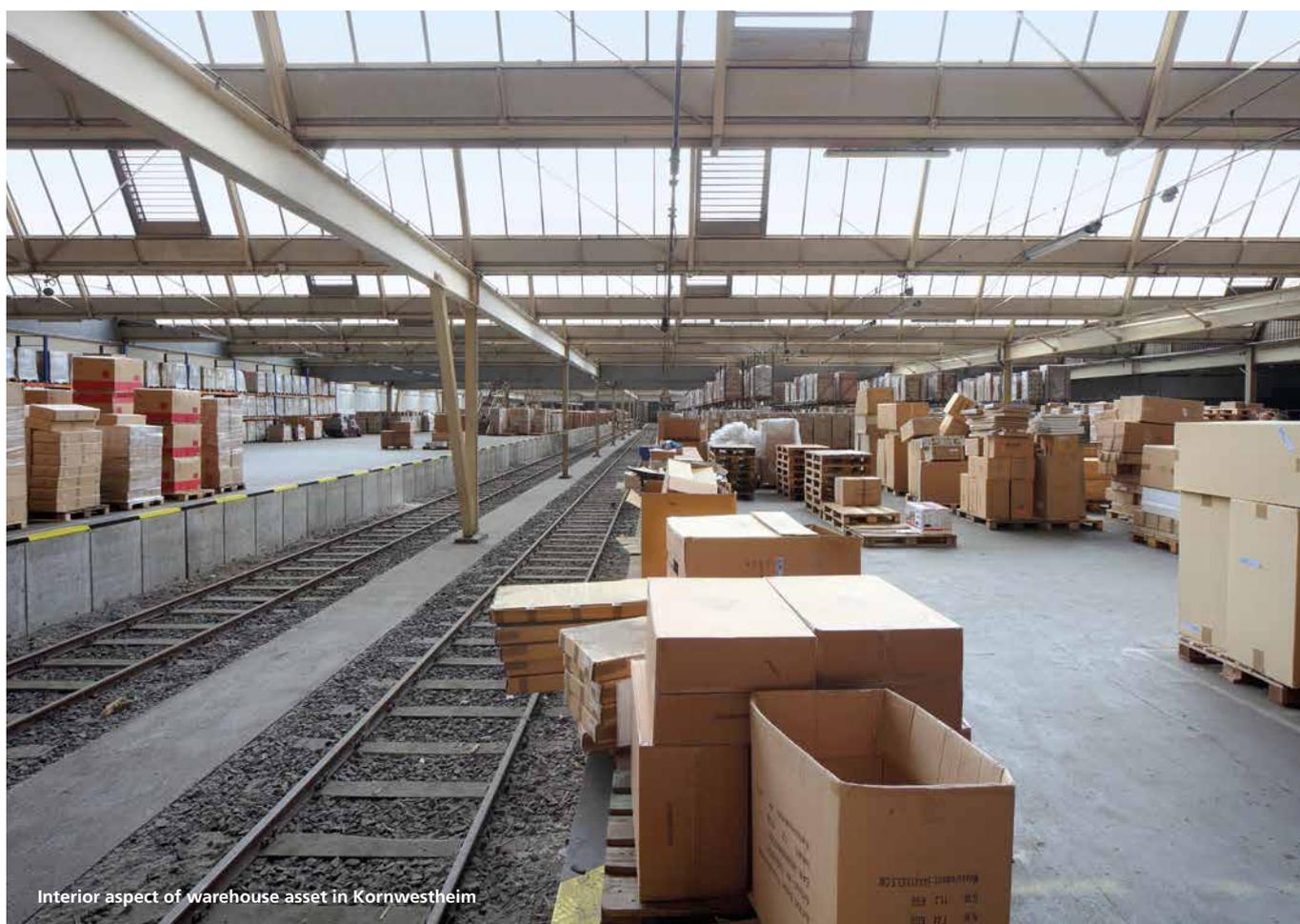
POSTSCRIPT

NOTES ON THE ANALYSIS

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

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

The data evaluated for the purpose of the rental market analysis were provided by participating operators. The analysis for H1 2015 drew on 1,334 data records. These represented almost exclusively primary data, sourced from the actual property owners. The evaluation only took pure letting activities into account while ignoring owner-occupier transactions. Neither were sub-lettings by companies active in business sectors other than real estate take into account. We assume that the report covers at least an estimated third of all lettings transacted on the market as discussed in this Market Report. The posted figures should therefore not be understood as global trend statements but as a random sample. That said, they are highly meaningful as indicator.



Interior aspect of warehouse asset in Kornwestheim

GLOSSARY

GROSS INITIAL YIELD (GIY):

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

FLEX SPACE:

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

GERMAN PROPERTY INDEX (GPI):

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

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

Total Return:

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

Cash Flow Return:

The cash flow return signifies the rate of return generated from the current operational use of a given property, set in relation to the cash employed over time. The cash flow itself represents the net income remaining of the periodic rental income after deducting the periodic current operating expenditures.

Capital Growth:

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

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

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PUBLISHED BY:

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MARKET REPORT NO. 3, H1 2015

Editorial deadline: 28/08/2015

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

