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MAIN REGIONAL REAL ESTATE MARKETS IN GERMANY 2024

Demand for modern offices remains high as decline in retail rents subsides

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PREFACE

Dear readers,

The situation on German real estate markets remains challenging due to the sluggish economic environment and uncertainty on the geopolitical and domestic fronts. The office and retail segments in Germany are particularly dependent on strong economic growth. The present study covers the performance of these asset classes in twelve regional markets: Augsburg, Bremen, Darmstadt, Dresden, Essen, Hanover, Karlsruhe, Leipzig, Mannheim, Mainz, Munster and Nuremberg. The analysis also includes a comparison with seven major German cities.

Demand for space is declining in the office segment as a whole. In spite of this, rents remain dynamic and prime rents continue to rise. This is particularly true for modern buildings that meet the new demand for sustainable, open spaces that facilitate communication. However, existing properties often fail to meet these new requirements, resulting in fewer leases being concluded and pushing up vacancy rates. A fundamental structural shift is underway in the retail segment. Vacancies have been rising for years in inner cities owing to store closures. Weaker regional centres in particular have registered an ongoing decrease in prime rents, although this has slowed down. While less attractive inner-city locations are in need of fresh impetus, retailers in major cities have benefited from population growth and flourishing tourism.

As one of the leading real estate banks in Germany, we regularly analyse the markets we actively cover. "Regional Real Estate Markets 2024" is intended as a supplement to "The German Real Estate Market", our series of specialist publications released every autumn. We also analyse the commercial real estate markets in individual German federal states – a report on Baden-Württemberg will be published in May, followed by a report on Hesse, Rhineland-Palatinate and Saarland in November.

For more information on our market research, please visit our website at https://www.dzhyp.de/en/about-us/market-research/.

Yours sincerely,

DZ HYP

March 2024

OFFICE AND RETAIL: DIVERGING RENT TRENDS

Commercial real estate suffers as yields rise and demand for space falls

The sharp rise in interest rates and bond yields is not the only problem facing the commercial real estate sector. The situation is being aggravated by a phase of economic weakness and, above all, by falling demand for space. The trend for working from home and shopping online was accelerated by the Covid pandemic. More than 40 per cent of the core range of city centre retail, such as fashion, footwear and electronics, is purchased online. A pattern has become established whereby office workers are present in the office for around three days, and work from home for the other two. This has led to a steady decline in demand for office space, and higher vacancy rates for both retail and office properties.

Diverging trends in office and retail rents

However, the impact on rents has varied. Sales space in good city centre locations has expanded despite growth in e-commerce, resulting in overcapacity. Together with a decline in demand for space, this has caused prime high street rents to fall sharply. The situation is different for offices. As a result of employment growth and low levels of office construction, offices were in short supply before the pandemic. Many office buildings are also outdated, unsuitable for hybrid working concepts, and fall short of the required high sustainability standards. Despite growing vacancy rates, and weak economic growth, prime office rents have therefore risen rapidly.

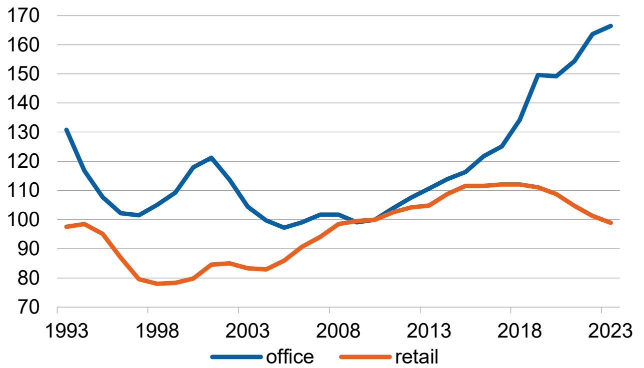
Increasing rental yields depress property valuations

Higher capital market yields have also driven up initial rental yields for commercial premises. Compounded by low starting levels after many years of falling yields, higher yields have had a very negative impact on valuations of office and retail properties. As a consequence of rent growth in the past, valuations of office properties have however shown a much more positive trend than those of retail buildings. While, on average, values of solid office properties in central locations have fallen to their 2018 levels, retail properties are now in line with 2014.

Investors lose interest in commercial real estate

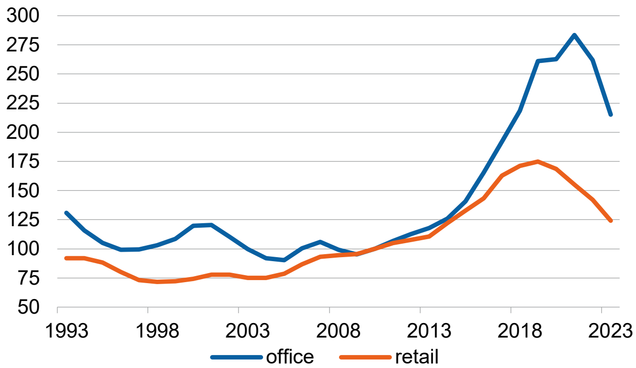
Higher bond yields and downbeat conditions in the property market have already acted as a significant drag on investor interest, which was high until recently. Compounding factors are uncertainty surrounding the interest rate trend, future office usage and energy-related renovation measures. Transactions in the triple-digit millions, which were commonplace for a long time, are now a rarity.

DIVERGING TRENDS: OFFICE RENTS CONTINUE TO RISE AS RETAIL RENTS FALL
AVERAGE RENTS IN PRIME/CITY CENTRE LOCATIONS (2010 = 100)



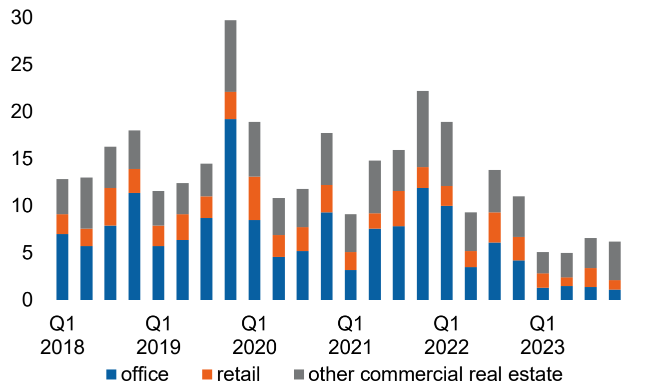
Source: bulwiengesa, DZ BANK

OFFICE VALUATIONS BENEFIT FROM PREVIOUS INCREASE
THEORETICAL TREND IN INITIAL RENTAL YIELD AND AVERAGE RENTS IN PRIME/CITY CENTRE LOCATIONS (2010 = 100)



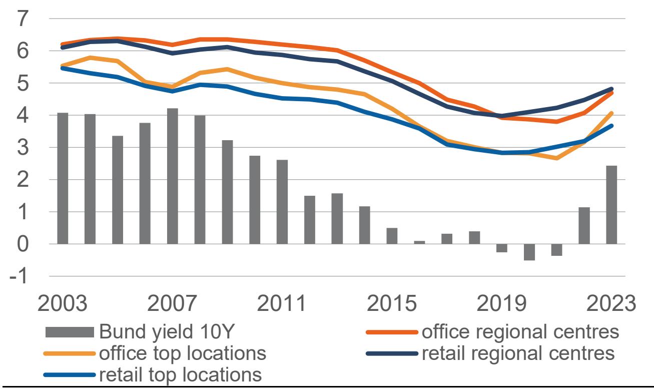
Source: bulwiengesa, DZ BANK

OFFICES MUCH LESS POPULAR WITH INVESTORS
INVESTMENT VOLUME PER QUARTER IN EUR BN



Source: CBRE

YIELD ADVANTAGE OF COMMERCIAL REAL ESTATE CONTRACTS
BOND YIELD AND INITIAL RENTAL YIELD IN %



Source: bulwiengesa, OECD

Prospects for commercial real estate are not so bad

However, on closer consideration, the prospects for real estate are better than they initially appear. Demand for office and retail space is being supported by high footfall in shopping streets and an upturn in office usage. Even if offices and warehouses are no longer in demand for their original purposes, the prospects for future utilisation are good, partly because demolition is increasingly frowned upon for sustainability reasons. Apartments, libraries and schools are some examples of repurposing. However, the realisation of such projects poses a major challenge given the associated high construction and financing costs.

15th edition of our "Regional real estate centres" report examines the office and retail market segments in 12 regional centres and 7 top locations

Our market report examines trends in the office and retail markets in 19 locations. We focus on **twelve regional centres throughout Germany**; although these are important real estate locations, the information available on the commercial market segments there is limited. Conversely, significantly more information is available for the **seven largest German cities, the top locations**, which are also included in the market report. This facilitates a comparison of the two types of location.

OVERVIEW OF LOCATIONS

12 Regional Centres (Index: Regional 12)				7 Top Locations (Index: Top 7)	
City	**Federal state**	**City**	**Federal state**	**City**	**Federal state**
Augsburg	Bavaria	**Leipzig**	Saxony	**Berlin**	Berlin
Bremen	Bremen	**Dresden**	Saxony	**Düsseldorf**	North Rhine-Westphalia
Darmstadt	Hesse	**Mainz**	Rhineland-Palatinate	**Frankfurt**	Hesse
Essen	North Rhine-Westphalia	**Mannheim**	Baden-Württemb.	**Hamburg**	Hamburg
Hannover	Lower Saxony	**Münster**	North Rhine-Westphalia	**Cologne**	North Rhine-Westphalia
Karlsruhe	Baden-Württemb.	**Nuremberg**	Bavaria	**Munich**	Bavaria
				Stuttgart	Baden-Württemb.

In the following chapter we analyse the office market. A market overview of the retail sector then begins on page 13. A review of the individual locations in alphabetical order follows from page 23. The most important market data is summarised in tables on pages 73 to 74.

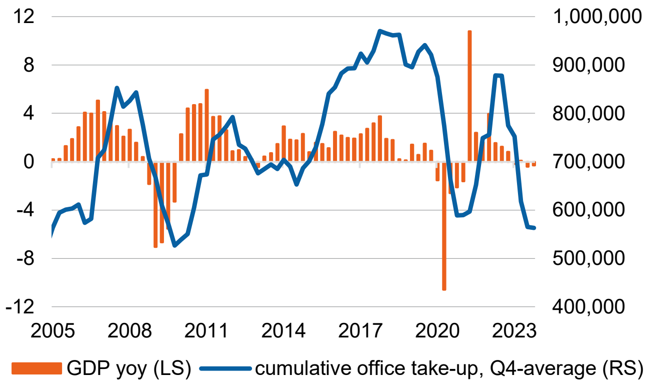
OFFICE PROPERTY

Weak economy not the only braking factor for the market

Germany's weak economy weighs on the office market

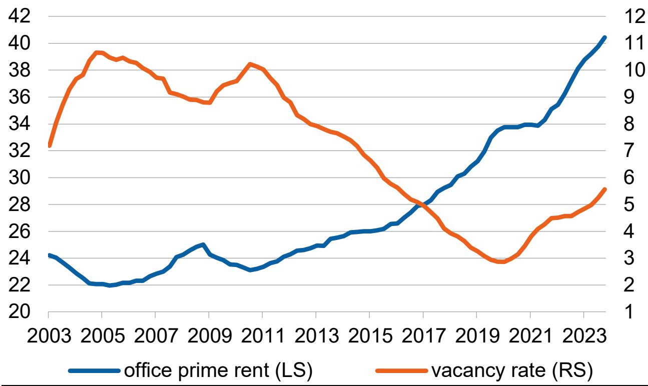
Economic growth has a major impact on office market activity, which was correspondingly weak in the recessionary year of 2023. In addition to consumer restraint, and a decline in construction investment, economic momentum is being slowed by geopolitical crises, high energy prices, bureaucracy, and weak Chinese export business. Although Germany is certainly not the "sick man of Europe", some weaknesses - for example in relation to infrastructure and digitalisation - cannot be ignored. Germany lags behind as a competitive international location.

RECESSION IN GERMAN CONSTRUCTION SECTOR CLEARLY BRAKES OFFICE RENTAL ACTIVITY
LHS: GDP IN %, RHS: TAKE-UP IN TSD. M²



Source: bulwiengesa, DZ BANK top locations only

ALTERED DEMAND PROFILE DRIVES UP PRIME RENTS, WHILE VACANCY RATE INCREASES DUE TO HOME WORKING
LHS: RENT IN EUR/M², RHS: VACANCY RATE IN %



Source: bulwiengesa, DZ BANK top locations only

Rental activity clearly hampered by gloomy economic climate

Take-up clearly reflects the weak economy. While, on average, around 800,000 m^2 of space was let per quarter in the seven top locations in the last ten years, the figure was only around 550,000 m^2 in 2023 - a decline of more than 30 per cent. The 2.2 million m^2 of office space let over the full year is the lowest level since 2009, when the office market was paralysed by the international financial market crisis. In the record year of 2017, take-up reached nearly 3.9 million m^2. The office market is likely to revive again when economic growth resumes. However, there are no signs of a strong economic tailwind.

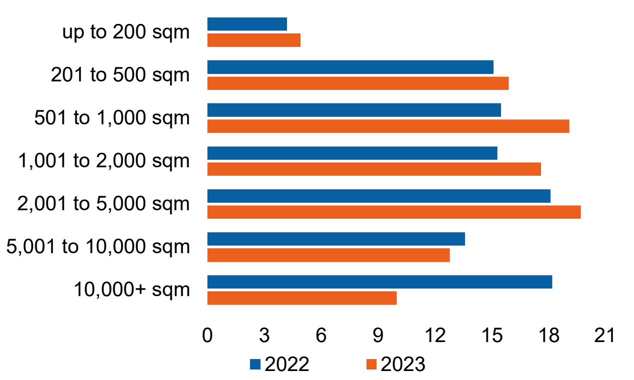
Climate change and remote working lead to permanent shift in office market search profile

However, the office market is also being hampered by the disparity between available space and customer requirements. Demand is mainly focused on space which lends itself to hybrid office working concepts, meets high sustainability criteria, and is preferably in a central location. Attractive office space should also improve onsite office presence and thus communications. It can also act as an incentive to recruit skilled workers. Although this type of modern space commands high rents, the supply is insufficient in most locations. The availability of a larger volume of office space as vacancy rates increase does not help because most of these properties are outdated.

Prime rents and vacancy rates increase in parallel, large premises less important

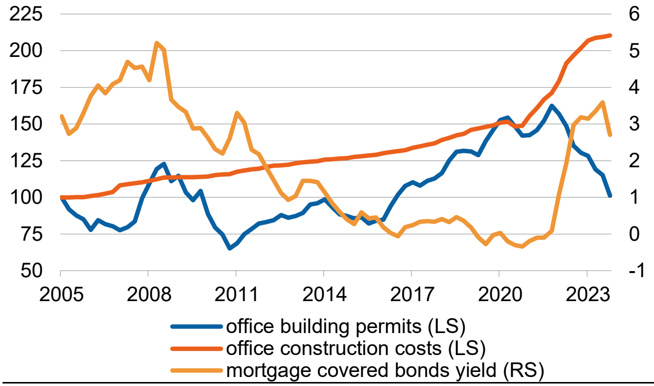
Office market data reflects the trend for modern, medium-sized space. Whereas in the past, increasing vacancy rates were associated with falling office rents, the opposite has been true since 2020. Vacancy rates and prime rents both continued to grow in 2023. Fewer large office buildings are also being let. The importance of

MEDIUM-SIZED PREMISES TOP THE OFFICE MARKET LEAGUE IN 2023, WHILE LARGE SPACE IS NOW LESS IMPORTANT
RENTED OFFICE SPACE BY SIZE, PROPORTION IN %



Source: BNP Paribas Real Estate

RISING BUILDING AND FINANCING COSTS HALT THE UPTURN IN OFFICE CONSTRUCTION
LS: INDICES 2005 = 100, RS: YIELD IN %



Source: Bundesbank, Destatis

large rental agreements in excess of 10,000 m^2 has declined visibly, whereas the number of medium-sized transactions for space of 500 to 5,000 m^2 has grown.

Upturn in office building halted by high construction and financing costs

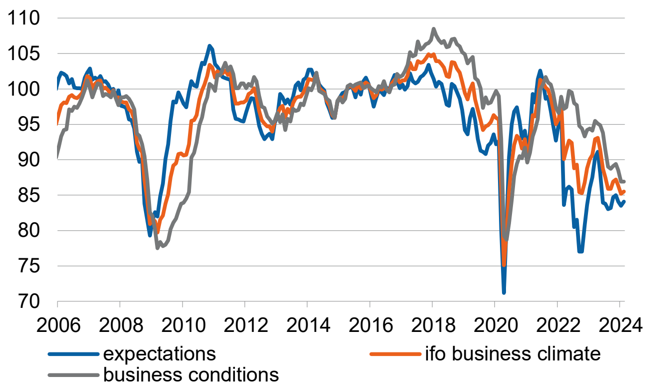
Office construction - which had been weak for a prolonged period – gained impetus from low vacancy rates and a sharp hike in prime rents. The volume of new build approvals doubled to 4.8 million m^2 from 2011 to 2021, whereas completed office space grew by only half to 3.2 million m^2 in the same period. However, a sharp hike in building and financing costs called a halt to the upturn in office construction, leading to a sharp decline in new project approvals. The downward trend in completed space to 2.9 million m^2 in 2022 is therefore likely to accelerate in the years ahead, further compounding the shortage of sought-after modern office space.

Market conditions for the office sector

Business climate and economic conditions regarded as weak

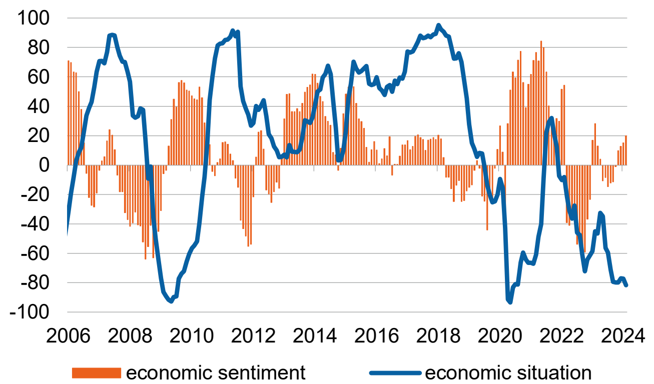
The reasons for the downbeat economic sentiment are easy to spot. They include the recession, the war in Ukraine which has already been under way for two years, destabilisation in the Middle East, and the prospect of Trump winning a second term as US President. The results of the ZEW financial market survey and the Ifo Busi-

BUSINESS CLIMATE REMAINS GENERALLY WEAK – ASSESSMENTS OF CURRENT CONDITIONS DECLINE FOR MORE THAN TWO YEARS
IFO BUSINESS CLIMATE INDEX IN POINTS (FEB. 2024)



Source: ifo Institut

EXPECTATIONS OF ECONOMIC EXPERTS SLIGHTLY POSITIVE, WHILE CURRENT CONDITIONS REGARDED AS WEAK
ZEW FINANCIAL MARKET SURVEY INDICES IN POINTS (FEB. 2024)



Source: ZEW

ness Climate Index reflect the negative factors for the future economic trend. Assessments of the retail business climate, and the construction industry in particular, are much more negative.

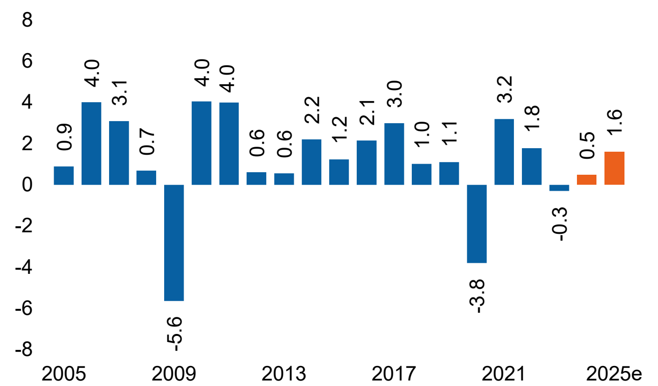
Economic output unlikely to pick up again slightly before 2025

Economic output is likely to largely stagnate in 2024. Moderate growth of around 1.5 per cent is not expected until next year. Key interest rates could decline from mid-2024, and financing costs could therefore fall gradually after rising sharply. Given the fragile economic environment, companies are nevertheless likely to continue to monitor costs closely and will therefore be reluctant to rent office space.

Employment remains at a very high level as labour market weakens due to economic conditions

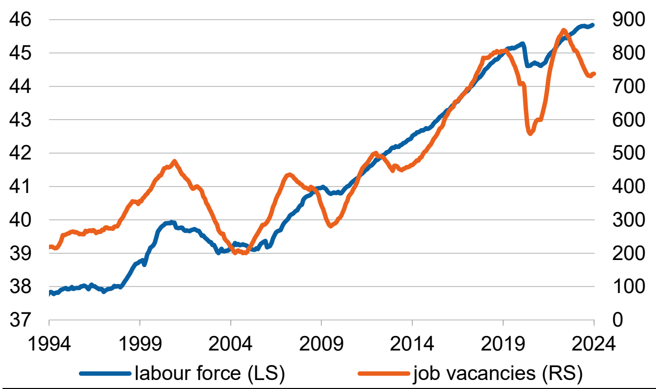
At first glance, the labour market has remained virtually unscathed by the economic slowdown. The increase in the unemployment rate from 5 per cent to more than 6 per cent since 2002 is mainly attributable to immigration. Conversely, the record number of people in work - now nearly 46 million - has remained stable. However, closer inspection reveals weaknesses such as a rise in long-term unemployment and a decline in the number of job vacancies. Industrial companies in particular are also announcing job cuts. But at the same time, the skills shortage is also continuing to grow.

AFTER A TWO-YEAR ECONOMIC SLOWDOWN, THE GERMAN ECONOMY IS UNLIKELY TO REVIVE AGAIN SLIGHTLY UNTIL 2025
GDP IN % VS. PREV. YR.



Source: Eurostat, DZ BANK

EMPLOYMENT AT RECORD LEVEL, BUT PACE HAS CLEARLY SLOWED IN THE LABOUR MARKET
LHS: IN MILLION PEOPLE, RHS: IN TSD. JOB VACANCIES (NOV. 2023)



Source: Bundesbank, Federal Employment Agency

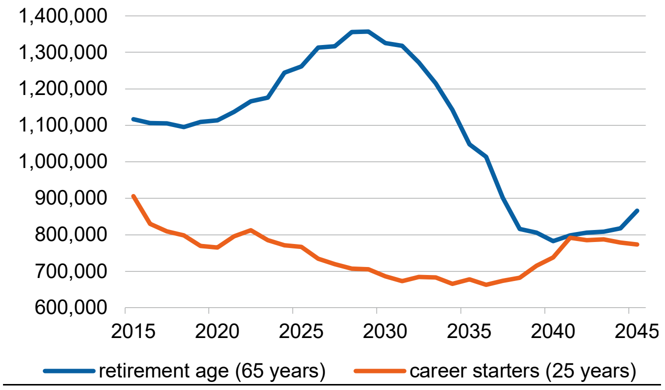
Demographic shift reduces labour supply and dampens office demand

The proportion of retired people will increase sharply in the coming years, while the number of younger “replacement” workers will be low. This unfavourable trend is shown in the graph on the left on the following page. The full impact of the 1960s baby boom will be felt at the end of this decade when only one younger worker will be available to replace every two prospective retirees. This gap will close over time, with the replacement rate set to balance out again from 2040. However, in the interim, the large numbers of workers entering retirement will lead to a contraction of the potential labour force, and consequently of demand for office space.

AI alters working environment: Algorithms could carry out office tasks

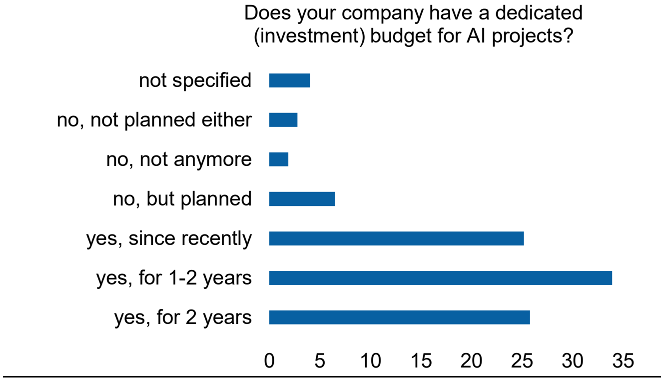
The impact of Artificial Intelligence (AI), which is likely to have major consequences for the working environment in the years ahead, is less clear-cut. Many companies already use algorithms for speech, image or text recognition, as well as generative AI applications such as ChatGPT to produce text or image content and to support programming tasks. Chatbots can be used to answer simple customer queries instead of call centres. A whole series of administrative and customer service jobs could therefore disappear in future. This will ease the skills shortage as employees are freed up from routine tasks. The opportunities provided by AI may also lead to the creation of new jobs. It is virtually impossible to predict the extent of the net effect on demand for office jobs.

GREAT RETIREMENT WAVE STILL TO COME, AND SKILLS SHORTAGE THEREFORE LIKELY TO INTENSIFY FURTHER
BIRTH YEAR PLUS 65 OR 25 YEARS, NO. OF PEOPLE



Source: Destatis, DZ BANK

MANY COMPANIES ALREADY INVESTING IN AI
PROPORTION OF COMPANIES SURVEYED IN %



Source: Applied AI 2023 report
Survey of heads of IT in companies in the DACH countries

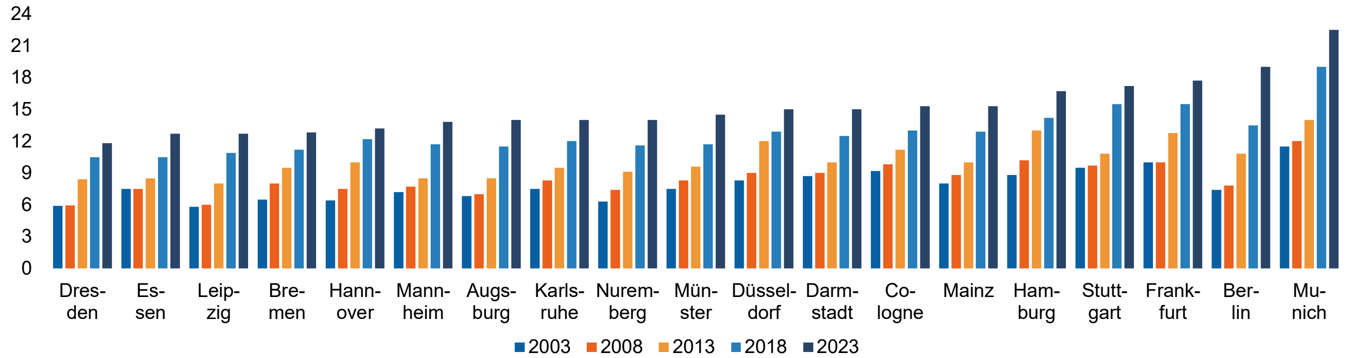
Will company flats make a comeback? Pressure on housing markets could make it difficult to hire staff

Attractive offices are regarded as an incentive when hiring new staff. However, the impact diminishes as the pressure on housing markets increases. Finding an apartment in a large city is becoming increasingly challenging due to high levels of immigration and insufficient new building. Rents are also rising fast. Companies which can offer apartments to new employees would therefore have a significant advantage. However, this is unlikely to happen very often. Mobile working solves the problem because employees do not need to relocate to a city where housing is in short supply.

Many companies want their employees to be “onsite” more often

However, many companies would prefer their employees to spend more time in the office to foster good communications. More than 60 per cent of 1,300 international business leaders (125 of which from Germany) surveyed by KPMG for its “CEO Outlook 2023” regard remote working as a temporary phenomenon and expect onsite working to become the norm again within a few years. A third of the business leaders expect hybrid working to prevail, while only a few are focused on mobile working.

TWELVE EURO AND MORE PER M² – HIGH RENTS AND A HOUSING SHORTAGE MAKE IT DIFFICULT TO MOVE TO LARGE CITIES
INITIAL RESIDENTIAL RENTS IN EUR PER M²



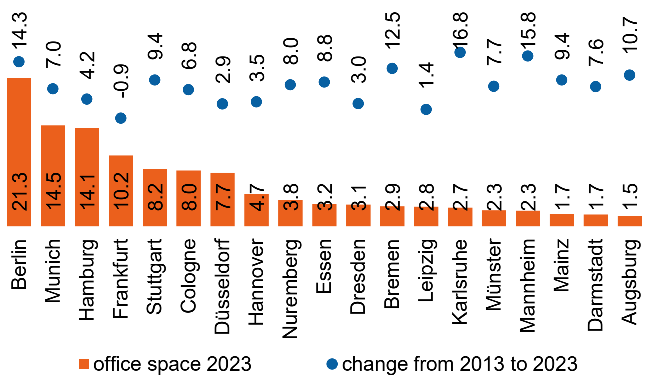
Source: bulwiengesa

Office: Market trends in the locations reviewed

This market report covers a large proportion of the most important office locations in Germany. With the exception of Bonn and Duisburg, we have included all office markets of more than 2 million m². In total, the 19 locations reviewed account for more than 117 million m² of office space. This corresponds to 60 per cent of nearly 130 German office locations analysed by bulwiengesa. The seven top locations alone account for 84 million m², underlining their importance to the market as a whole. The 12 regional centres contribute a further 33 million m². Hannover is the largest office market among the top locations, with nearly 5 million m².

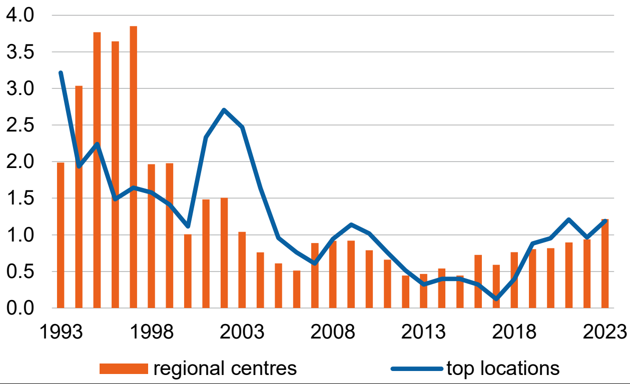
Market report covers the most important office locations in Germany

FROM SMALL TO LARGE – OUR MARKET REPORT COVERS THE RANGE OF KEY GERMAN OFFICE LOCATIONS
OFFICE SPACE IN MILLION M², CHANGE IN %



Source: bulwiengesa
Depending on the source, Leipzig has up to 4 million m² of space

OFFICE CONSTRUCTION ACCELERATES SHARPLY AGAIN SINCE 2019 AFTER A LONG PERIOD IN THE DOLDRUMS
OFFICE STOCK VS. PREV. YR. IN %

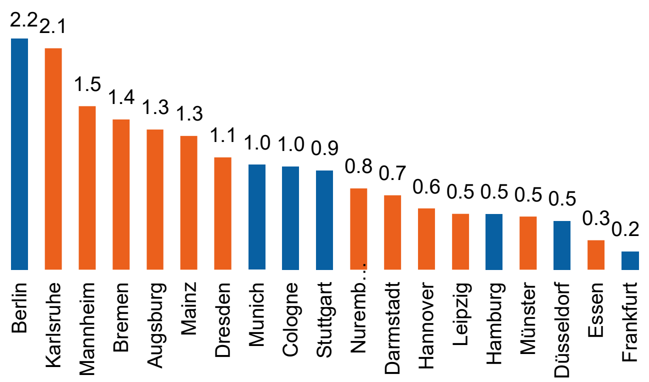


Source: bulwiengesa

The acceleration in office construction mentioned earlier is evident in the locations covered. While available space in the 19 locations increased by only about 0.4 per cent each year from 2013 to 2018, office space grew by approximately 1 per cent annually in the following five years up to 2023. Differences in space growth between the regional centres and the top locations are small at an aggregated level. However, trends in the volume of office space in the individual locations diverge widely. Berlin

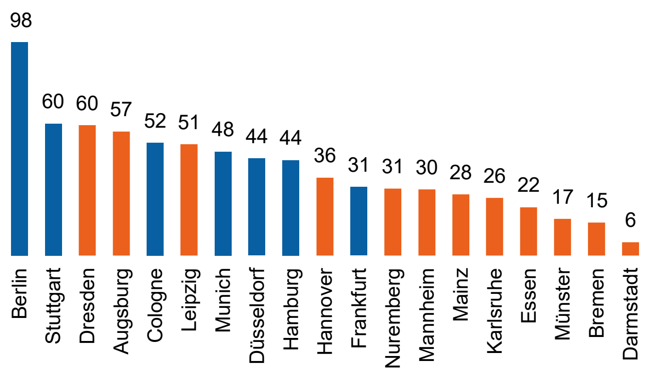
Growth in office space accelerates, but likely to slow again from this year

WIDE DIVERGENCE IN VOLUME OF NEW OFFICE SPACE IN THE VARIOUS LOCATIONS
ANNUAL NEW SPACE IN % (AVERAGE 2018-2023)



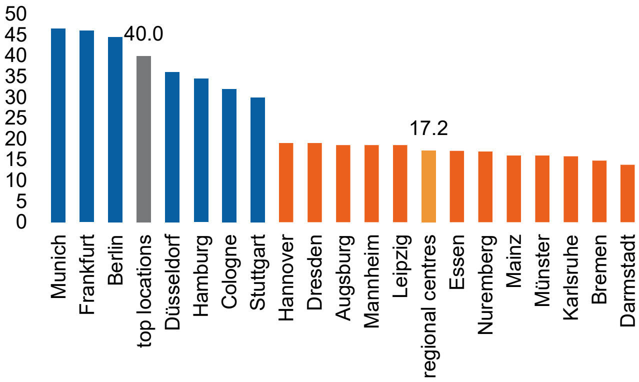
Source: bulwiengesa

PRIME OFFICE RENTS RISING SHARPLY, BUT PACE DIFFERS DEPENDING ON LOCATION
INCREASE IN PRIME RENTS FROM 2013 TO 2023 IN %



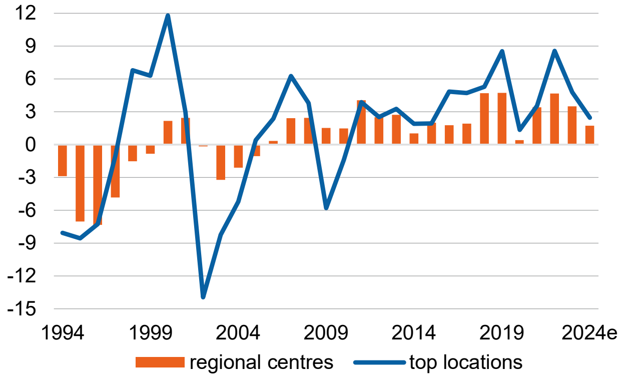
Source: bulwiengesa

PRIME RENTS IN TOP LOCATIONS MORE THAN DOUBLE THOSE OF REGIONAL CENTRES
PRIME RENTS IN EUR PER M² (2023)



Source: bulwiengesa

PRIME RENTS CONTINUE TO RISE IN 2023, BUT FAIL TO MATCH THE STRONG GROWTH OF 2022
PRIME RENTS IN % VS. PREV. YR.



Source: bulwiengesa

shows the strongest space growth in both absolute and relative terms. However, the growth rate is already likely to slow again this year as construction projects are delayed or deferred.

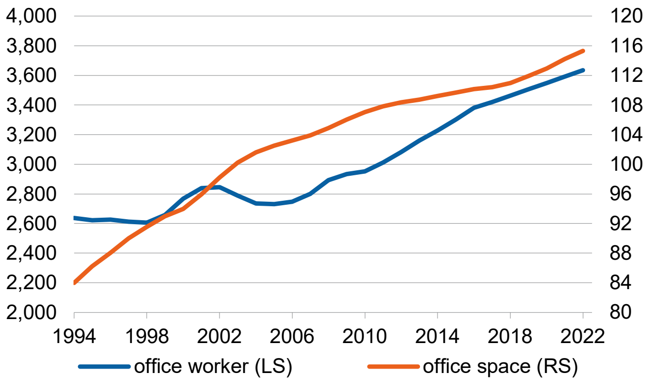
Prime rents rising again

The high level of interest in modern office space is associated with a sharp hike in average prime rents. However, depending on the location, clear differences are evident here too. Berlin tops the league again in terms of its rent trend, with prime rents having almost doubled within ten years. Conversely, rents in some locations such as Bremen, Darmstadt and Münster have remained largely unchanged in recent years. On the whole, prime rents have risen faster in the top locations than in the regional centres.

Prime rents rising continuously since 2011

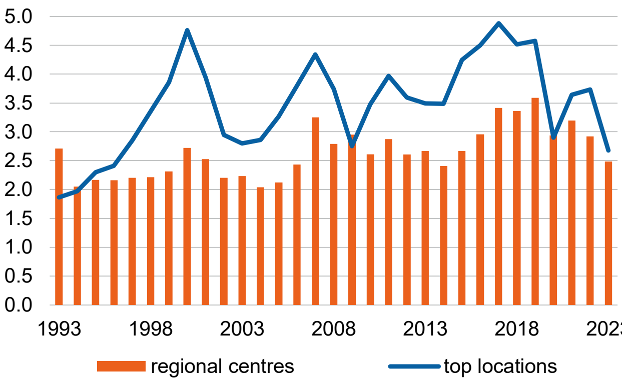
In absolute terms, prime rents are significantly higher in the top locations, and the range is wider - from EUR 30 m^2 in Stuttgart to EUR 46.50 m^2 in Munich. Prime rents in the regional centres range from just shy of EUR 14 m^2 in Darmstadt to EUR 19 m^2 in Hannover and Leipzig. Since 2011, prime rents in both types of location have shown a continuously positive trend, although the percentage rent growth in the top locations has usually been higher.

VACANCY RATES ARE ALSO INCREASING BECAUSE OFFICE SPACE IS GROWING SLIGHTLY FASTER THAN OFFICE EMPLOYMENT
LHS: OFFICE EMPLOYEES* IN TSD, RHS: SPACE* IN MILLION M²



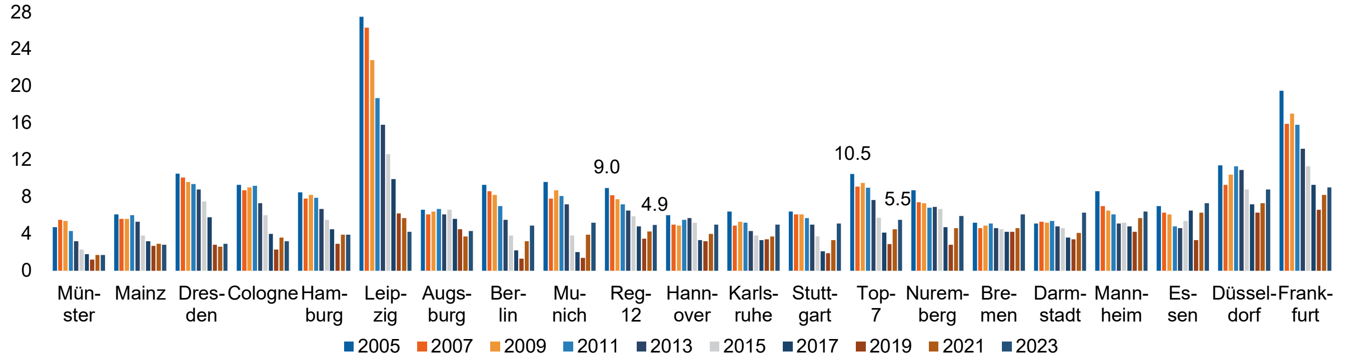
Source: bulwiengesa, Scope
*cumulative over top locations and regional centres

TAKE-UP HAS CLEARLY WEAKENED AND FALLEN TO A COMPARATIVELY LOW LEVEL
TAKE-UP AS % OF AVAILABLE SPACE



Source: bulwiengesa

VACANCY RATES INCREASING, BUT NOT IN ALL LOCATIONS – LEVEL ALSO REMAINS MODERATE
VACANCY RATE IN % FROM 2005 TO 2023



Source: bulwiengesa

Higher prime rents are accompanied by an increase in vacancy rates; contributory factors are the downsizing, merging or closure of locations. Space expansion is also accelerating slightly on the back of slower growth in office employment. Generally weaker demand for office space and fewer large contracts are also having an impact.

Increase in prime rents accompanied by higher vacancy rates

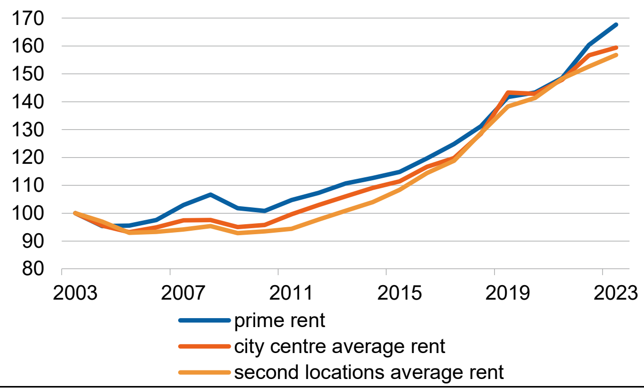
Vacancy rates over all the locations analysed have risen from 3 per cent in 2019 to currently 5.3 per cent. Levels in the top locations are marginally higher at 5.5 per cent, while the regional centres are slightly lower at close to 5 per cent. The range extends from 1.7 per cent in Münster to 9 per cent in Frankfurt. But vacancy rates are not increasing in all the locations. Seven of the 19 cities - Augsburg, Cologne, Dresden, Hamburg, Leipzig, Mainz and Münster - show low or even declining rates. However, despite the uptick, vacancy rates remain moderate for the most part, and are also lower than in previous years. Exceptions are Bremen and Darmstadt.

Vacancy rates increasing, but not in every location

Given the preference for modern office space and with a general increase in vacancy rates, rent trends can be expected to show location-specific differences. In fact, as a result of the shift in demand for office space, prime rents have outpaced average rents in city centre and peripheral office locations. However, this is particularly true in the top locations (see graph below right). In the regional centres, the location-

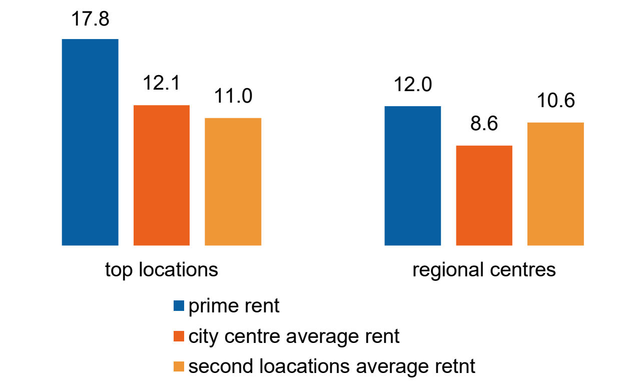
Above-average trend in prime rents since 2020

PRIME RENTS OUTPACE OFFICE RENTS IN OTHER LOCATIONS SINCE 2020
OFFICE RENTS BY LOCATION 2003 = 100



Source: bulwiengesa

ONLY PRIME RENTS IN REGIONAL CENTRES ARE RISING FASTER DUE TO INTEREST IN MODERN OFFICE SPACE
OFFICE RENTS BY LOCATION IN % FROM 2020 TO 2023



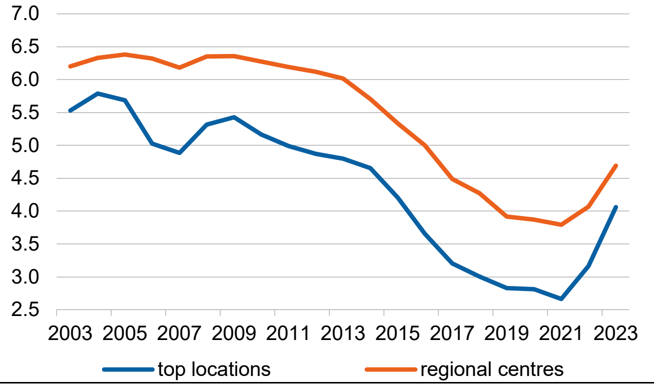
Source: bulwiengesa

dependent differences in office rents are much smaller. Interestingly, office rents in peripheral locations have increased despite higher vacancy rates.

Initial rental yields increase again sharply in 2023

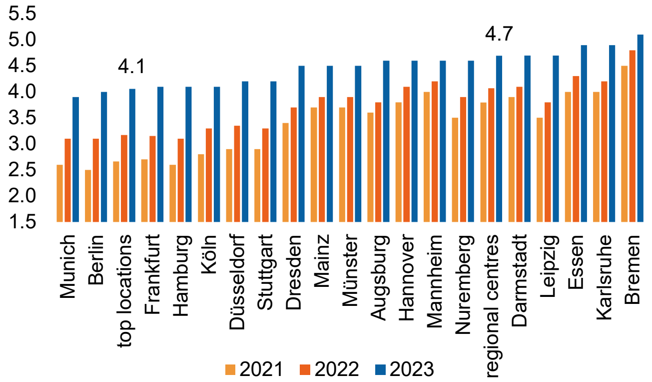
For many years, initial rental yields for office properties fell in line with the downward trend in bond yields. However, since 2022, rental yields have followed the sharp rise in bond yields again. By 2023, the initial rental yield for offices in central locations in regional centres had increased to 4.7 per cent from 3.8 per cent (2021). Although the average yield in the top locations is lower at 4.1 per cent, the rate of increase has been much stronger, up by 125 basis points from 2.7 per cent since 2021. Yields in the regional centres increased by a more moderate 80 basis points, and the yield divergence has therefore narrowed.

UPWARD TREND IN OFFICE YIELDS CONTINUED IN 2023
INITIAL OFFICE RENTAL YIELD IN % FOR CENTRAL LOCATIONS



Source: bulwiengesa

OFFICE RENTAL YIELDS NOW RANGE FROM 4 TO 5%
INITIAL OFFICE RENTAL YIELD IN % FOR CENTRAL LOCATIONS



Source: bulwiengesa

Office yields ranged from 3.9 to 5.1 per cent in 2023

The yield range in the various locations has narrowed. In 2021, the two locations with the lowest and highest yields were separated by only 200 basis points. By 2023 the divergence had narrowed to 120 basis points. In absolute terms, yields ranged from 3.9 per cent in Munich to 5.1 per cent in Bremen in 2023. However, the significance of the rental yields could be distorted in 2023 by very low investment volume in office properties. The market share - usually more than 40 per cent - fell to a quarter in a weak investment climate. While an average of around EUR 30bn was invested in office property from 2018 to 2022, below the line the figure only edged above EUR 5bn in 2023.

Office market conclusion: No significant upturn expected in 2024

Demographics, economic growth, AI and home working: Many factors will impact future office demand

What does the future hold for the office market? The number of office workers is likely to contract in the coming years for demographic reasons, thus curbing demand for office space. The effects of economic growth and Artificial Intelligence are less clear-cut. If economic growth remains weak, demand for space will presumably remain subdued for longer. It remains to be seen whether the advance of AI will lead to a reduction in the number of office jobs in future, or whether the opposite will be the case as new types of work emerge. We do not expect mobile working to disappear again. Although many companies would prefer employees to be present in the office more often, or all the time, flexible working models are unlikely to be shelved given the shortage of skilled workers and housing in many cities.

Prime rents could increase by 2 to 3 per cent in 2024

Below the line, no marked upturn in the office market is expected this year. However, take-up could increase again slightly, and tenants may become less reluctant to rent large-scale office space. Rents for sought-after modern office space in central locations with good sustainability ratings are likely to increase again, but more slowly than in 2022 and 2023. Cost discipline triggered by economic weakness is also likely to play a part. Top locations outperformed regional centres in 2023. In addition to a steeper rise in prime rents, rental yields also rose faster, partly eroding the yield advantage enjoyed by the regional centres. However, very low investment in office properties in the regional centres may have had had a distorting effect.

Vacancy rate increases again, but only slowly

Vacancy rates could also increase more slowly. One contributory factor here may be the desire to increase onsite working, for which more space will be required. However, obstacles to the realisation of new office projects will also slow the upward trend in vacant properties, because less new space is being created. The repurposing of office space, for example for housing or educational purposes, is also hampering growth in the supply of space. Irrespective of this, the renovation of office properties for energy-related reasons remains challenging, particularly if the higher rents needed to make these projects viable cannot be achieved because of the location of the building.

OFFICE – FORECAST FOR PRIME RENTS AND VACANCY RATES

	2022	2023	2024e
12 regional centres			
Prime rents in EUR/m² (vs. previous year in %)	16.6 (4.7)	17.2 (3.5)	17.5 (1.7)
Vacancy rate in % (vs. previous year in % points)	4.5 (+0.3)	4.9 (0.4)	5.4 (0.5)
7 top locations			
Prime rents in EUR/m² (vs. previous year in %)	38.1 (8.6)	40.0 (4.8)	40.9 (2.5)
Vacancy rate in % (vs. previous year in % points)	4.7 (0.2)	5.5 (0.8)	6.0 (0.5)

Source: bulwiengesa, DZ BANK forecast all averages are space-weighted

Prime rents represent the average of the top 3 to 5 per cent of market rentals, and the stated figure does not therefore correspond to the absolute maximum rent.

RETAIL PROPERTY

Problems remain, but interest in sales space is also picking up

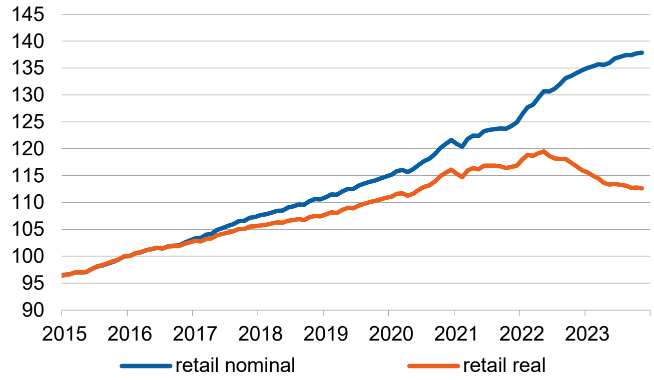
Gloomy retail climate in 2023 unlikely to improve much in 2024

The problems facing the retail sector seem never-ending. High inflation applied the brakes in 2022 after two years of the pandemic, followed by a recession in 2023. However, the news flow on wars, climate change, natural disasters, trade disputes, a housing shortage and conflict within the German government are also depressing sentiment in Germany. It is therefore unsurprising that households are tightening their belts. Private consumption fell by nearly 1 per cent in real terms in 2023, after growing by almost 4 per cent in the previous year. The situation was compounded at year-end by disappointing Christmas business. The prospects for this year are not much better. The economy is likely to emerge from recession, but there are growing concerns about job security in industry.

Retail sales growth solely attributable to inflation-driven higher prices

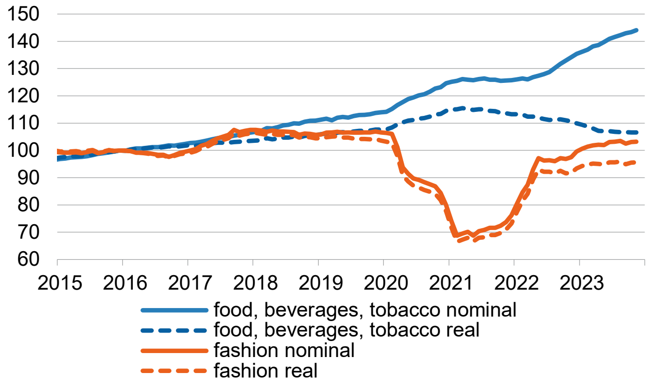
Retail sales continued to grow in 2023, as in the previous year, however this was again attributable to inflation-driven higher prices. In nominal terms, retail sales grew by 2.3 per cent, but in real terms they declined by 3.3 per cent. These opposing trends caused a wide divergence between nominal and real retail sales again at year-end 2023.

HIGH INFLATION LEADS TO WIDE DIVERGENCE BETWEEN NOMINAL AND REAL RETAIL SALES
RETAIL SALES 2015 = 100 (PER NOVEMBER 2023)



Source: Destatis

LARGE SEGMENT-SPECIFIC DIFFERENCES: HIGH INFLATION MAINLY IMPACTS FOOD, FASHION ABLE TO RECOVER
RETAIL SALES 2015 = 100 (PER NOVEMBER 2023)



Source: Destatis

Food retail hit particularly hard by high inflation; fashion retail has recovered somewhat

Significant segment-specific differences are evident here. The intrinsically crisis-resistant local supply sector has clearly suffered from particularly high growth in food prices as private households increasingly seek to make economies. Conversely, fashion retail - which collapsed during the pandemic - has recovered to some degree. Sales here have even increased again slightly in real terms since the beginning of 2022. However, they still fall short of pre-pandemic levels in nominal terms. Higher energy prices and wage growth are also exerting pressure on costs. The serious problems faced by companies are reflected in the continuing number of insolvencies among fashion retailers. The situation is better in the luxury segment thanks to its affluent customers.

E-commerce continues to grow despite intermittent decline

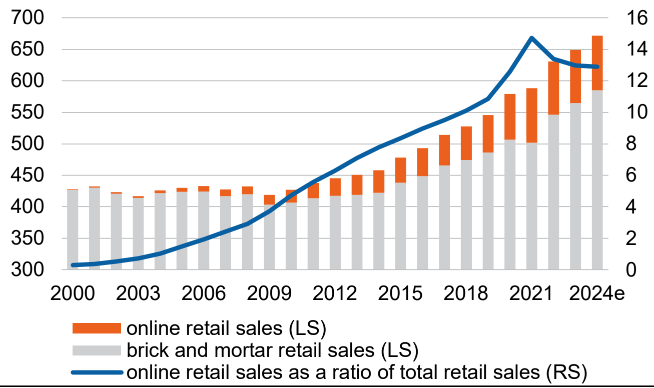
The structural change in the retail sector driven by e-commerce is having a particularly negative impact on city centre retail. The upturn which started around the millennium has increased the total market share of online retail to 13 per cent. The slight decline in this proportion which was evident in 2022 and 2023 is not however a sign of crisis. It is more of a “technical countermovement”, after the surge in online sales as a result of the pandemic lockdown. In addition, online retail has already achieved a high market share in some areas, which is slowing down further growth. Market shares of 40 per cent and more are now being achieved in the core product range of city retailers. The online share is in single figures in the DIY and gardening sectors as well as in local supply. Both are of little significance for the city centre.

Despite the success of e-commerce, new shopping centres are still being developed

Despite the e-commerce boom, city-centre retail has continued to expand. Demand for more, and larger sales space has been accompanied by strong rent growth and the construction of a large number of city centre shopping centres. Nor has the crisis in city centre retail halted the building of shopping centres. In 2024, another very large centre will be completed – the Westfield Hamburg-Überseequartier. However, this could represent the last of these developments for the time being. The potential to realise large retail developments has declined significantly as building and financing costs have risen sharply, leading to insolvency for project developers, including the well-known names of Signa, Centrum and the Gerchgroup. There is now a risk that a whole series of construction projects in prominent city centre locations will remain uncompleted, with a potentially negative impact on the surrounding area. Overall, city centre sales space is likely to shrink gradually in the coming years as retail properties such as department stores are repurposed.

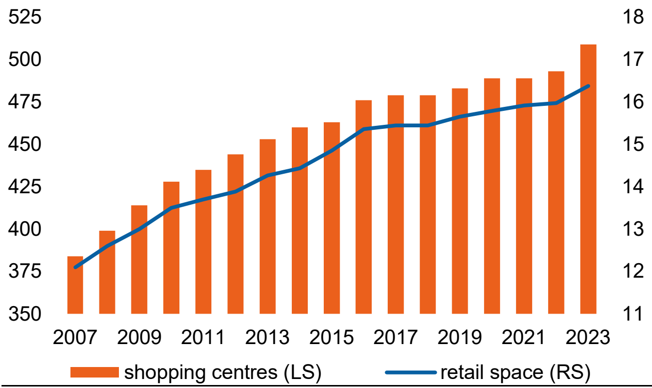
Potentially negative impact on city centres of long-term building sites as project developers go bankrupt

IMPORTANCE OF ONLINE RETAIL HAS INCREASED SHARPLY
LHS: SALES IN EUR BN, RHS: SHARE IN %



Source: HDE

NUMBER OF SHOPPING CENTRES STILL GROWING UNTIL RECENTLY
LHS: NO., RHS: SPACE IN SHOPPING CENTRES IN MILLION M²



Source: EHI Retail Institute

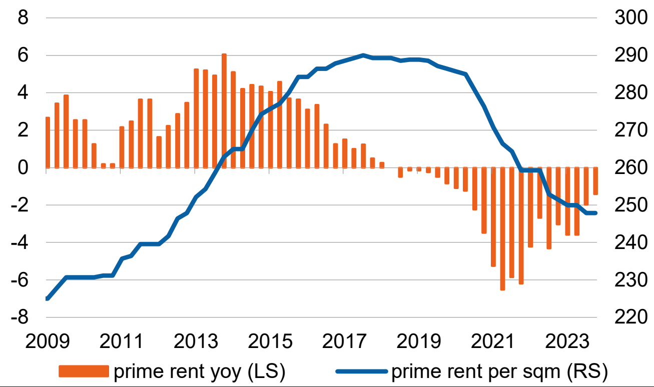
Rents already falling pre-Covid: Expensive, dense branch networks forced to make savings

The optimistic expectations which drove growth in sales space can be partly traced back to previously favourable general conditions. These included falling unemployment, higher real wages thanks to low inflation, population growth and last but not least, a boom in city tourism. These factors explain the growth in prime retail rents up to 2016 despite a larger volume of space and booming e-commerce. However, the parallel operation of online shops and dense branch networks drove up costs, rather than sales. The retail sector had to apply the brakes. Rents stagnated briefly at a high level, before starting to decline from 2018. The downward trend accelerated as a result of the pandemic and inflation.

City centre retail continues to contract, partly due to insolvencies and branch closures

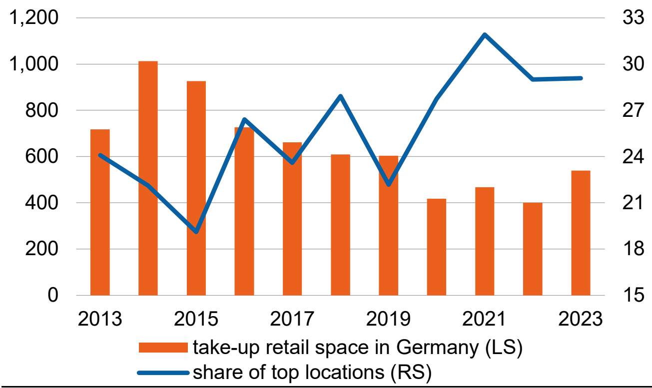
Although branch networks were already being thinned out before Covid, the sharp fall in city centre retail sales as a result of lockdowns forced chain stores to accelerate this process. HDE figures show 46,000 fewer shops at the end of 2024 than 2020. Many chains closed 30 per cent of their outlets. Around 300,000 shops now remain as the downward trend continues. In addition to branch closures, the insolvency of many well-known chain stores is also having an impact here. The Galeria department store group declared insolvency in 2023 for the third time within a few years. It remains to be seen whether this now marks a definitive end or a new opportunity – decoupled from the insolvent Signa Group.

AFTER PROLONGED GROWTH, STAGNATION AND A STEEP DECLINE, PRIME RENTS SEEM TO BE STABILISING
LHS: CHANGE IN %, RHS: RENTS IN EUR PER M²



Source: bulwiengesa top locations only

INTEREST IN CITY CENTRE SPACE IS PICKING UP – MAIN DEMAND IS FOR TOP LOCATIONS
LHS: SPACE IN TSD M², RHS: SHARE IN %



Source: BNP Paribas Real Estate

Vacancy rates not the only problem for landlords

There are vacant properties in virtually all city centres and shopping malls. However, the extent varies. In many places, retail space occupancy is so low that properties are being partially or wholly repurposed. With car parking and easy accessibility, they are well suited for use as office space, and for leisure and educational purposes. In addition to vacant properties, landlords are also being negatively affected by insolvencies, which also lead to a decline in rental income even if businesses continue to operate. Generally, the renegotiation of rental contracts leads to significant concessions to avoid the risk of a property falling vacant. Instead of the ten-year terms which were previously the norm, the duration of rental contracts in the fashion retail segment has also been shortened to three to five years.

City centre trend supported by space repurposing and diversity of offer

However, in addition to the repurposing of retail properties as mixed use premises in many locations, demand for retail space has stabilised again. Contributory factors include the improved availability of attractive space due to vacant properties and noticeably lower shop rents. As well as chain stores which have not previously had a high street presence, suppliers – such as manufacturers of electric vehicles – are also showcasing their products there for the first time. This is improving the diversity of supply, with positive impetus for city centres.

Property owners reliant on rental income and cannot therefore be too selective when picking tenants

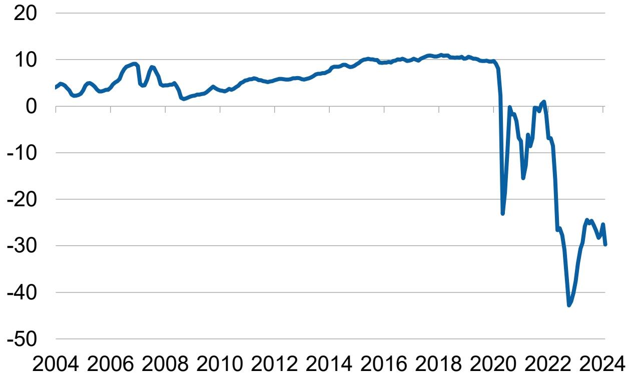
However, not every property which is leased enhances the attractions of a city centre. For example, the number of discount stores, nail bars, mobile phone and barber shops has increased. Customers are also unlikely to travel into a city centre merely to shop in a discounter or a drugstore. Property owners therefore face a dilemma. Although a city centre benefits from a broad product mix of commerce and culture, landlords are reliant on rental income, which is guaranteed, for example, by signing up a well-known drugstore chain. If a city centre becomes less attractive as a result of vacant properties or an uninspiring offer, there is a risk of a downward spiral. Many cities are taking action to prevent this from happening, by developing new city centre concepts or letting space temporarily for cultural uses. In some cases, cities are also purchasing retail properties in order to avoid long-term vacancies.

Market conditions for retail

Consumer sentiment suffers a setback in February

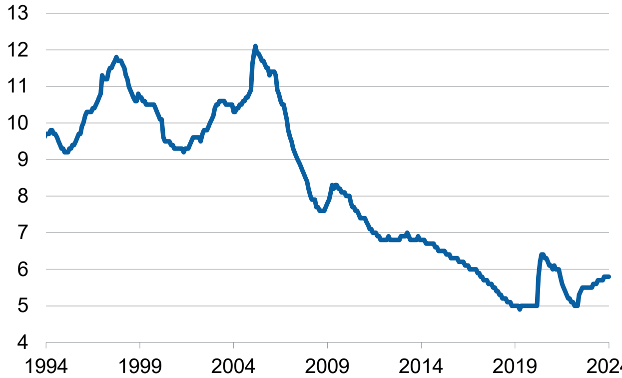
Gloomy consumer sentiment is bad news for the retail sector. Although the GfK consumer climate survey has moved up from its lowest point, it remains low and has suffered a clear setback in February. Possible causes are ongoing complaints from the business sector about Germany as a location, the lengthy rail strike in January, and weaker signals from the labour market. Private consumption has supported the

NO DECISIVE RECOVERY IN CONSUMER SENTIMENT
CONSUMER CLIMATE IN POINTS (PER JANUARY 2024)



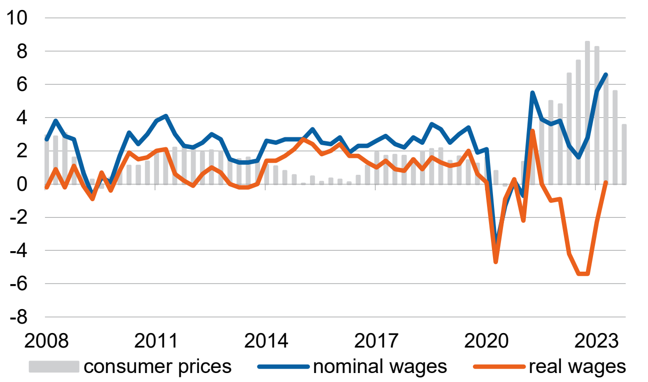
Source: GfK

UNEMPLOYMENT RATE RISES AT A LOW LEVEL
UNEMPLOYMENT RATE IN % (PER JANUARY 2024)



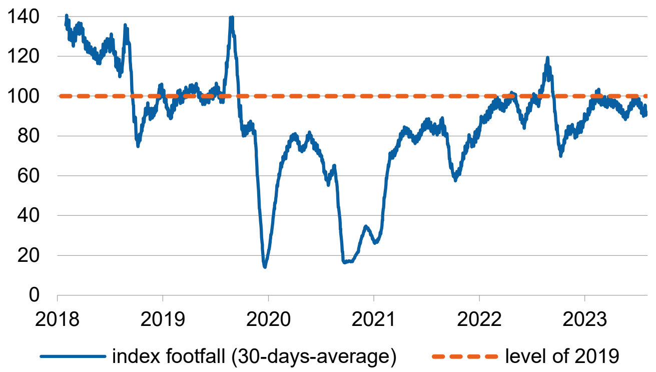
Source: Bundesbank

REAL WAGES MOVE OUT OF NEGATIVE TERRITORY AGAIN
IN % VS. PREV. YR.



Source: Destatis

SHOPPING STREETS NOW AS FULL AGAIN AS BEFORE COVID
FOOTFALL INDEX (2019 = 100)



Source: Destatis

labour market in recent years with high employment and low unemployment. Both factors are likely to persist, although more long-term unemployed people and fewer job vacancies, as well as the job cuts announced by a number of companies and resulting concerns about job security are acting as a drag on consumption.

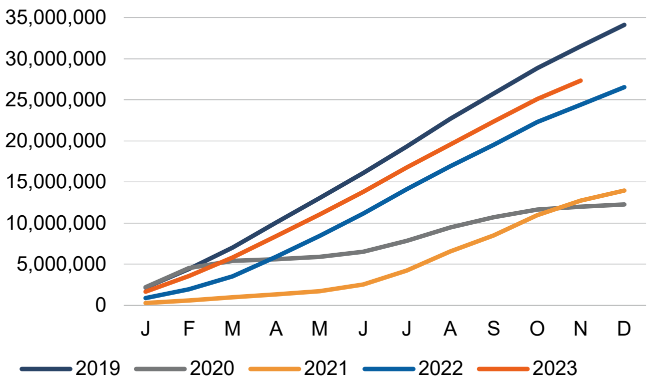
Real wages positive again

One positive factor is that inflation has now fallen back below 4 per cent again, after accelerating temporarily to 9 per cent. In conjunction with strong wage growth, real wages – which were intermittently very negative – have moved back into positive territory.

Good for retail: Unemployment low, population growing, tourism recovering

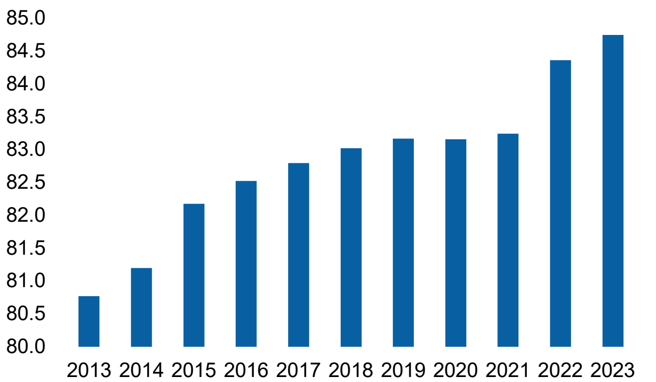
The fact that city centre footfall has now virtually returned to pre-Covid levels is also good news. Although sales have not recovered to the same extent, busy city centre streets are better than empty ones. The population is also growing, as is customer potential. The war in Ukraine is a tragedy for many people, but the retail sector benefited from an influx of 1.1 million people in 2022 and more than 300,000 in 2023. Population numbers had previously been stagnating for several years. Tourism business has also recovered quickly from the pandemic, with overnight stay figures almost back at their high 2019 levels.

EXAMPLE OF BERLIN: TOURISM CONTINUED TO RECOVER IN 2023
NO. OF OVERNIGHT STAYS



Source: Berlin-Brandenburg Statistics Office

RETAIL BENEFITS SINCE 2021 FROM 1.5 MILLION MORE CUSTOMERS
POPULATION OF GERMANY IN MILLIONS



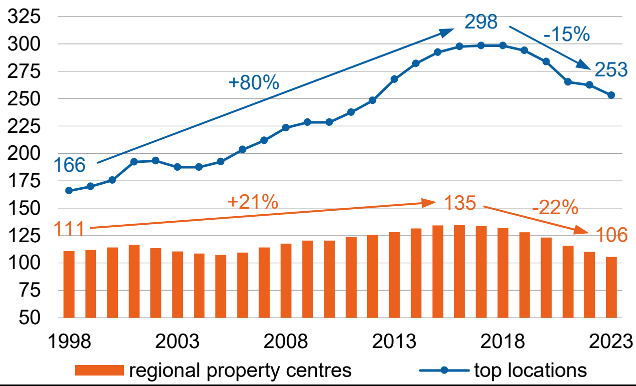
Source: Destatis

Retail: Market trends in the locations reviewed

Prime rents fell by another 4 per cent in 2023

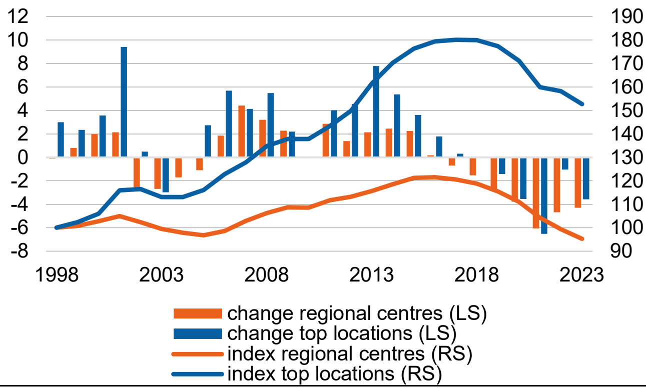
In city centres, continuing branch closures and insolvencies are being accompanied by a revival of interest in sales space. Contributory factors are the availability of more space as a result of vacancies and significantly lower rents. The uptick in demand was reflected in a slowing of the downward trend in prime rents in 2023. This is evident from quarterly rent figures for the top locations. Annual rent figures show a less pronounced flattening of the downward trend – no quarterly data are available for the regional centres. The decline in prime rents – calculated for all the 19 locations reviewed – did at least slow to 4 per cent in 2023. The decrease was much more marked in 2021 at 6 per cent.

DECLINE IN PRIME RENTS MORE MODERATE IN TOP LOCATIONS DESPITE A PREVIOUSLY MUCH STEEPER RISE
PRIME RENTS IN EUR PER M²



Source: bulwiengesa

RENT TRENDS DIVERGE WIDELY BETWEEN TOP LOCATIONS AND REGIONAL CENTRES
PRIME RETAIL RENTS VS. PREV. YR. IN %



Source: bulwiengesa

Prime rents in Top 7 have risen sharply in the long term, but have fallen slightly in regional centres

Rents in top locations have increased faster than those in the regional centres - not only during the pandemic but also over the longer term. During the post-millennium city centre upturn, rents in the top locations grew much more strongly, and the decline caused by the crisis in city centre retail was also less severe. The decline in rents in the regional centres also started earlier. Below the line, prime rents in the top locations increased by more than 50 per cent within 25 years, whereas those in the regional centres weakened by 5 per cent in the same period.

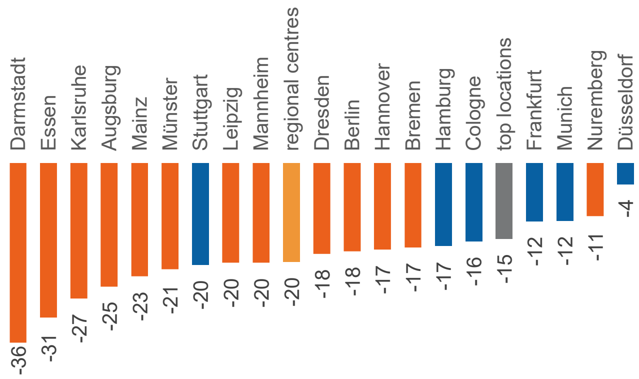
Locational factors generally more favourable in top locations

The top locations benefit from more favourable locational factors, making them more interesting for retailers. Criteria are market size, internationality, better purchasing power and higher visitor numbers. The regional centres we have reviewed are also often strong retail locations, but based on a combination of locational factors, they lag behind the seven top locations, and because they are more numerous, they are also more interchangeable.

Depending on location, rent decline diverges widely

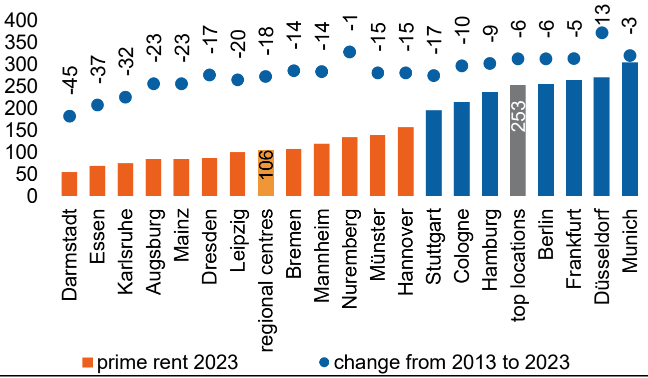
The negative factors weighing on all the locations, such as e-commerce, the pandemic or the recession, are to a large extent overshadowed by location-specific influences. This is reflected in widely ranging rates of decline in rents in the various cities. For example, prime rents in Darmstadt have fallen by more than a third since 2018, while the decrease in Düsseldorf remains in the low single digits. In most locations, prime rents have fallen by between 15 and 25 per cent.

RENT DECLINE CAUSED BY CITY CENTRE RETAIL CRISIS VARIES WIDELY DEPENDING ON LOCATION
CHANGE IN PRIME RENTS IN % FROM 2018 TO 2023



Source: bulwiengesa

PRIME RENTS NO LONGER REACH EUR 100/M² IN A THIRD OF LOCATIONS
PRIME RENTS IN EUR PER M², RENT TREND IN %



Source: bulwiengesa

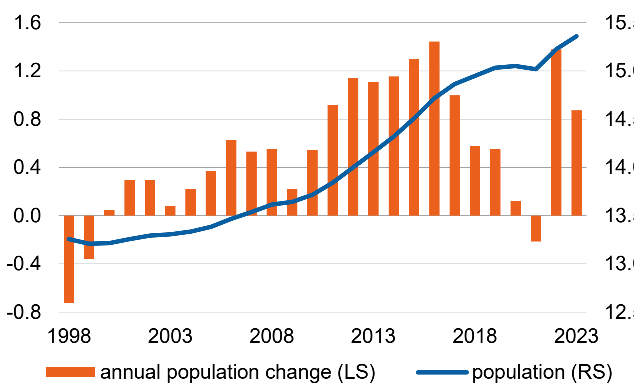
Up to 2015, prime rents in all the 19 locations covered were in triple digits. Today, this is true of only 13 cities. In 2023, the range per m² extended from EUR 55 in Darmstadt to EUR 305 in Munich. On average, prime rents of EUR 106 per m² are paid in the regional centres. Among top locations the figure is EUR 253 per m². The figure for Hannover, the most expensive regional centre, is just below EUR 160 per m². Stuttgart is the cheapest of the top locations. Prime rents here fell slightly below EUR 200 per m². Between 2013 and 2023, prime rents fell everywhere, with the exception of Düsseldorf. In Berlin, Frankfurt, Munich und Nuremberg, the percentage decline remained within limits, while rents fell sharply in Darmstadt (-45 per cent), Essen (-37 per cent) and Augsburg (-32 per cent).

Darmstadt is the cheapest, and Hannover the most expensive retail location among regional centres

Migration to the large cities has led to steady population growth in many locations. Since the end of the 1990s, the cumulative populations of the 19 locations have grown by 2 million people, or 15 per cent, to a total of 15.4 million inhabitants. The number of potential retail customers is also increasing correspondingly. However, growth rates differ in the various cities. High levels of immigration also often lead to pressure on housing markets and strong rent growth. Purchasing power may therefore suffer as housing costs increase.

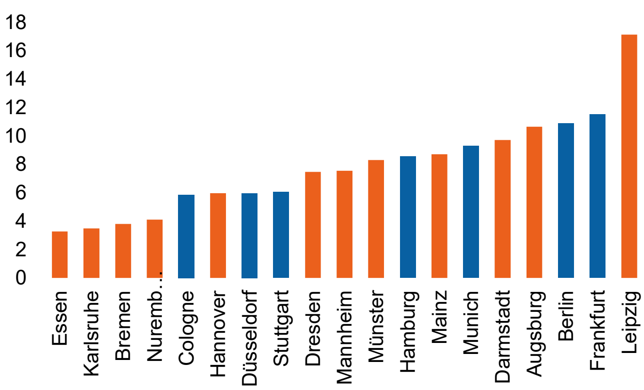
Populations of 19 cities covered grow by 2 million within 25 years

MIGRATION TO LARGE CITIES ALSO INCREASES CUSTOMER POTENTIAL AS POPULATIONS GROW
LHS: IN %, RHS: IN MILLION



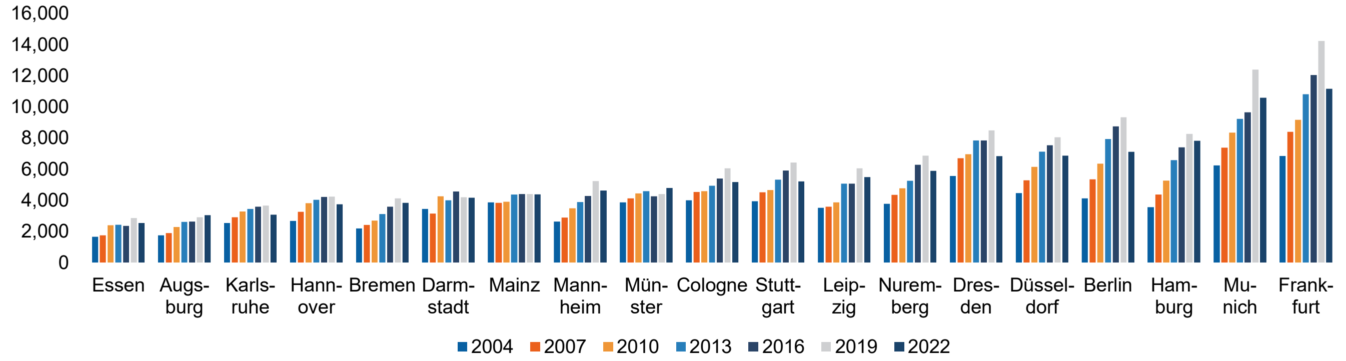
Source: Scope

POPULATION GROWTH RATES DIVERGE WIDELY
DEMOGRAPHIC TRENDS FROM 2013 TO 2023 IN %



Source: Scope

**2019 WAS A RECORD YEAR FOR TOURISM, FOLLOWED BY A SUDDEN, STEEP, COVID-RELATED DECLINE
NO. OF OVERNIGHT STAYS SUBSEQUENTLY RECOVERED QUICKLY**
OVERNIGHT STAYS PER 1,000 INHABITANTS



Source: bulwiengesa, Scope

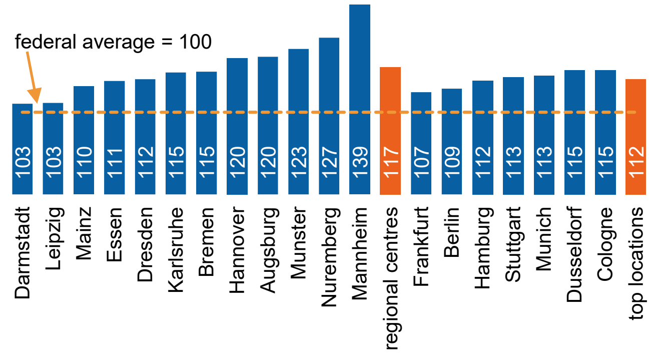
Locations with strong tourism business at an advantage

In addition to population growth, the boom in city tourism has also supported city centre retail. For 20 years, the annual number of overnight stays has increased more or less steadily. The pandemic led to a sharp fall in visitor numbers followed by a strong recovery, although in most cases levels have not yet returned to their record levels of 2019. However, not all cities are benefiting from visitors' purchasing power, because visitor numbers diverge widely depending on the location. Only a few cities are achieving high levels. Apart from Dresden, Leipzig and Nuremberg, most of these are top locations. In most cities, visitor numbers are fairly moderate.

A number of locations show conspicuously weak purchasing power

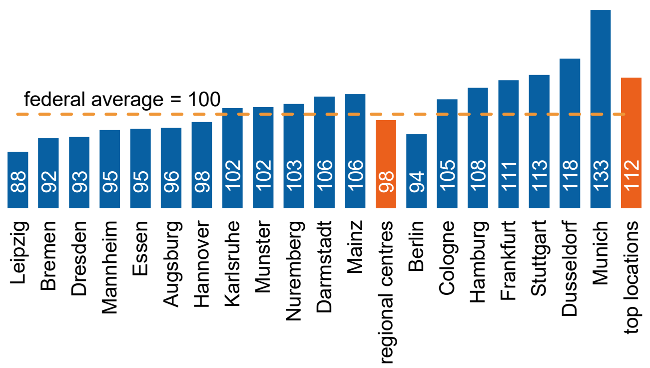
All the locations are able to attract purchasing power from the surrounding area. Apart from individual upward and downward outliers, the differences between the locations are however fairly small. Only Nuremberg and Mannheim show high centrality scores in their respective regions. The range of purchasing power among the cities is wider. The east German regional centres bring up the rear, but some west German regional centres also lag well behind the German average. Purchasing power in five regional centres is moderately above-average. The top locations show significantly better levels. Purchasing power in Munich is more than 30 per cent higher than the German average.

MOST REGIONAL CENTRES ACHIEVE SLIGHTLY HIGHER CENTRALITY FIGURES
2023 CENTRALITY FIGURES IN POINTS



Source: bulwiengesa

APART FROM BERLIN, TOP LOCATIONS SHOW HIGH TO VERY HIGH PURCHASING POWER
2023 PURCHASING POWER FIGURES IN POINTS



Source: bulwiengesa

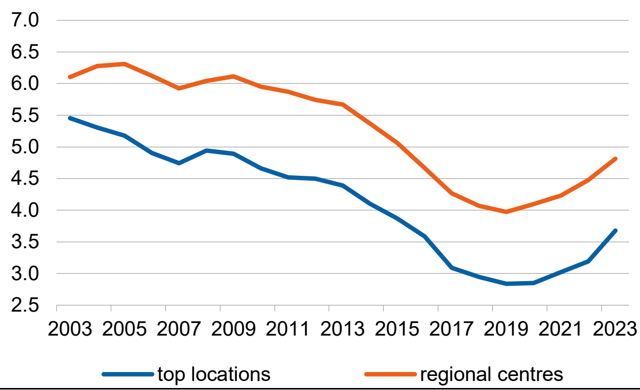
Retail investment dominated by local suppliers and specialist stores

The yield trend for city centre retail properties has declined in importance. Demand is mainly focused on peripheral local supply properties and specialist stores, which are attracting the biggest share of retail investment. Large transactions - such as the partial sale of the Berlin department store KaDeWe - were the exception in 2023. Most transactions were small-scale, with an average volume in the lower double-digit millions.

Yields increase similarly strong in regional centres and top locations

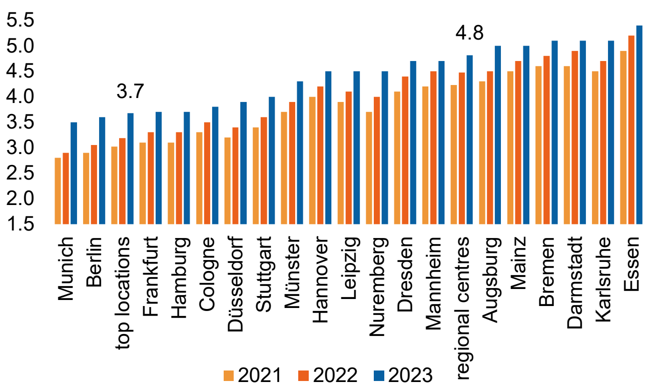
The initial rental yield for centrally located retail properties in 2023 ranged from 3.5 per cent in Munich to just under 5.5 per cent in Essen. On average, the initial rental yield in the top locations was 3.7 per cent. A figure of 4.8 per cent was achieved in the regional centres. In contrast to the office sector, yield growth since 2020 has been almost identical for retail properties in regional centres (70 basis points) and top locations (80 basis points). The yield divergence has remained virtually constant over time.

YIELDS FOR RETAIL PROPERTIES PICKING UP GRADUALLY
CENTRAL RETAIL LOCATIONS: INITIAL RENTAL YIELD IN %



Source: bulwiengesa

RETAIL RENTAL YIELDS RANGE FROM 3.5 TO A GOOD 5.5 PER CENT
CENTRAL RETAIL LOCATIONS: INITIAL RENTAL YIELD IN %



Source: bulwiengesa

Retail market conclusion: Downward rent trend coming to an end

Good prospects for retail in top locations

City centre retailers face competition from out-of-town locations - which have benefited partly as a result of home working -, peripheral shopping centres and outlet centres, as well as e-commerce. However, the level of interest in city centre sales space demonstrates that showcasing products online alone is not sufficient to attract potential customers. This is especially true of the top locations, where particularly large numbers of potential customers can be reached based on high footfall and the volume of tourists. In-store retail therefore has future prospects here, even if demand for sales space remains consistently lower.

Prime rents likely to stabilise gradually

Lower rents and the currently good availability of sales space are making it easier to conclude new rental agreements; the shortening of contract terms by more than a half reduces the risk for tenants. Prime rents seem to be gradually stabilising, although further declines cannot be ruled out. Improved demand for sales space is breaking the downward trend in rents which are unlikely to pick up again quickly based on good space availability. The structural change in the retail sector and in city centres is also continuing. Large-scale leases are now increasingly rare.

High building and financing costs could hamper city centre projects

For city centre retail to remain buoyant it is important for city centres to remain attractive. High vacancy rates, branch closures and e-commerce have made citizens, politicians, and property owners aware of the need for this. The challenges are particularly marked in locations where conditions are unfavourable, for example where the population is stagnating, purchasing power is low and tourism provides very little impetus. The activities initiated range from reworked concepts and investment plans for city centres, including the development of quarters, where sales space is being scaled down and repurposed. Demand for new offices and apartments, and the steep increase in rents here support the implementation of these measures. Conversely, higher building and financing costs can pose a risk for new city centre projects.

RETAIL – FORECAST FOR PRIME RATES

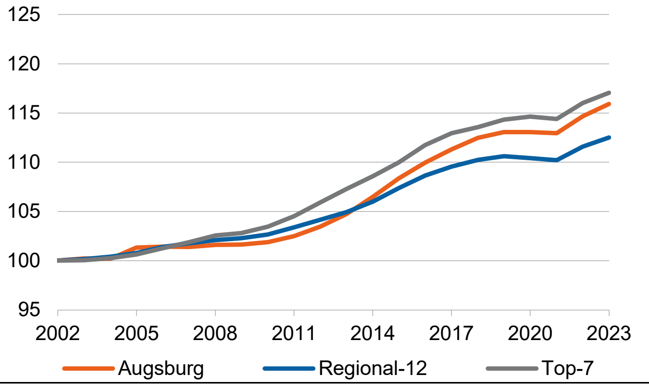
	2022	2023	2024e
12 regional centres			
Prime rents in EUR/m² (vs. previous year in %)	110.3 (-4.7)	105.6 (-4.3)	104.0 (-1.4)
7 Top locations			
Prime rents in EUR/m² (vs. previous year in %)	262.4 (-1.0)	252.9 (-3.6)	251.6 (-0.5)

Source: bulwiengesa, Prognose DZ BANK — all averages are space-weighted

Prime rents represent the average of the top 3 to 5 per cent of market rentals, and the stated figure does not therefore correspond to the absolute maximum rent.

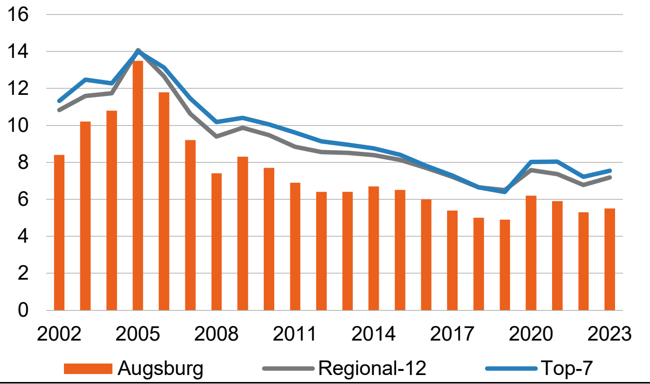
AUGSBURG

POPULATION GROWTH
2002 = 100



Source: Scope

UNEMPLOYMENT RATE
IN %

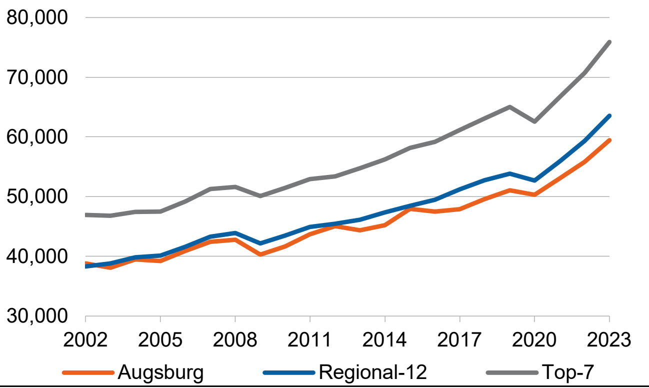


Source: bulwiengesa

Augsburg benefits from proximity to Munich and is also an important business and education location

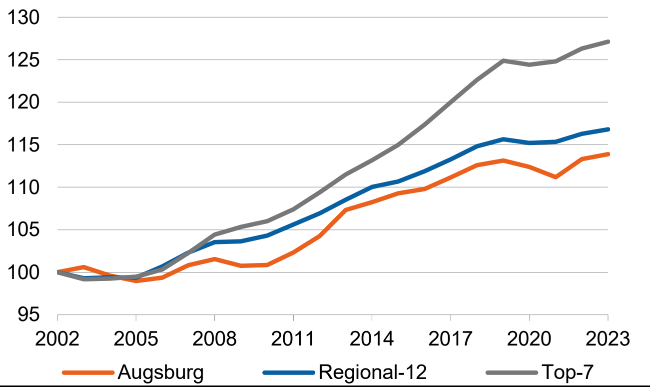
Augsburg, which was founded by the Romans, and is famous for its Town Hall, Goldener Saal, and Fuggerei alms houses, is the third largest city in Bavaria in terms of population. Its population stagnated for a long time, before starting to increase sharply from 2010, and within ten years it has grown by 11 per cent to just over 300,000 people. It benefits from its proximity to Munich, combined with a much cheaper housing market. Commuters have easy access to the state capital 60 kilometres away via the Autobahn A8 or the Intercity Express (ICE) train. Augsburg also benefits from the space freed up by the previously important textile industry and by the withdrawal of US forces. Successful structural change is reflected in employment growth and a low unemployment rate of 5.5 per cent (December 2023) for a large city. Important economic sectors are fibre composites, environmental technology, IT, mechatronics, aerospace, and the cultural and creative industries. The manufacturing sector still plays an important role. The establishment of the university in 1970 had a positive impact on the city's development. With 27,000 students, Augsburg is an important centre of education, and is continuing to grow with the rebuilding of the University Hospital. The "Augsburg city project" involving the upgrading of the main railway station and an underground tramline has for many years been the largest urban development project in the city.

GDP
IN EUR PER CAPITA



Source: Scope

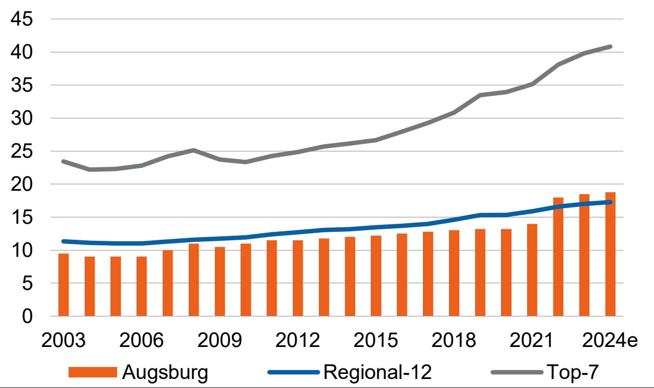
WORKING POPULATION
2002 = 100



e: Scope

Office space in Augsburg

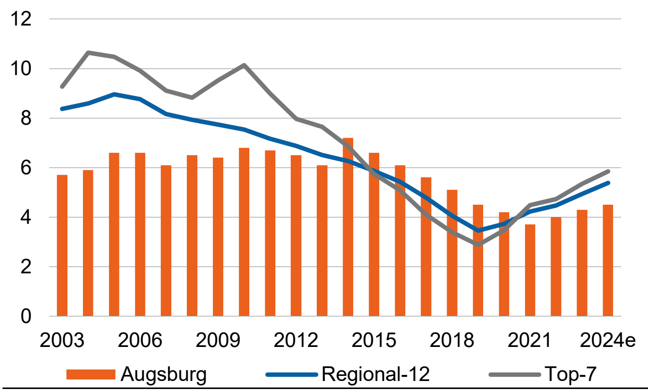
PRIME OFFICE RENTS
IN EUR PER M²



Source: bulwiengesa, DZ BANK forecast

Figures for city locations

VACANCY RATE
IN %

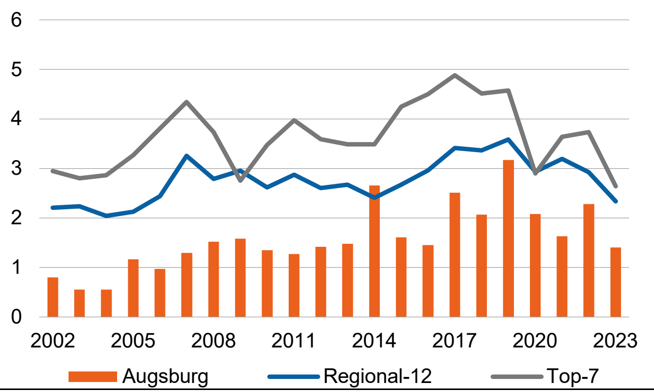


Source: bulwiengesa, DZ BANK forecast

Office: Strong growth in prime rents in 2022

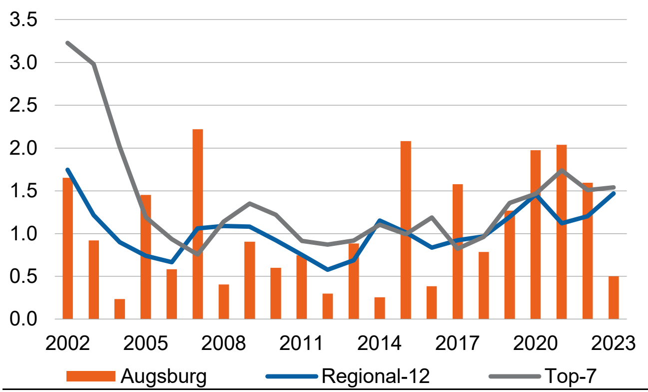
Compared to the Munich office market which is around ten times as large, Augsburg has office space of more than 1.5 million m^2. Demand is mainly regional. In 2023, take-up - which was already moderate on a long-term average at 2 per cent of available space - declined to 21,000 m^2. Apart from a slightly larger rental contract of 5,000 m^2 for Patrizia, transactions have been mainly small. Despite fairly strong growth of 11 per cent in the office stock within ten years, by 2021 the vacancy rate had fallen to less than 4 per cent. Since then, it has increased only marginally to 4.3 per cent. Office projects are generally for owner occupation. New development has gained pace here in recent years. Office space is usually created in converted space or the Innovation Park. This development space of 66 hectares will be mainly used to support the networking of research facilities and companies. Important customers are the high tech sector and public administration. Prime rents grew significantly in 2022 thanks to newly developed office space. Moderate growth continued in 2023 to EUR 18.50 per m^2. Overall, prime rents have increased by more than 50 per cent within ten years. The higher rent level should keep prime rents largely stable this year. The vacancy rate could also increase slightly.

TAKE-UP
AS % OF OFFICE STOCK



Source: bulwiengesa

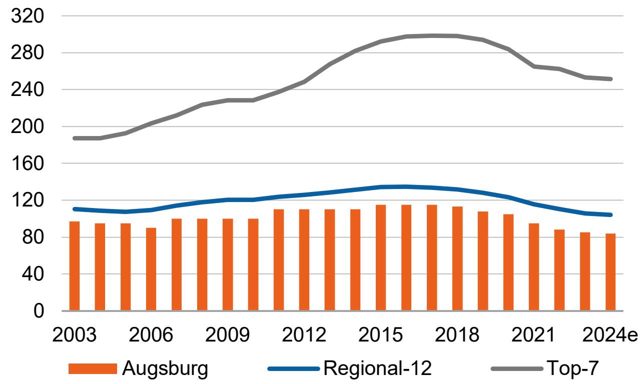
NEW OFFICE SPACE
AS % OF OFFICE STOCK



Source: bulwiengesa

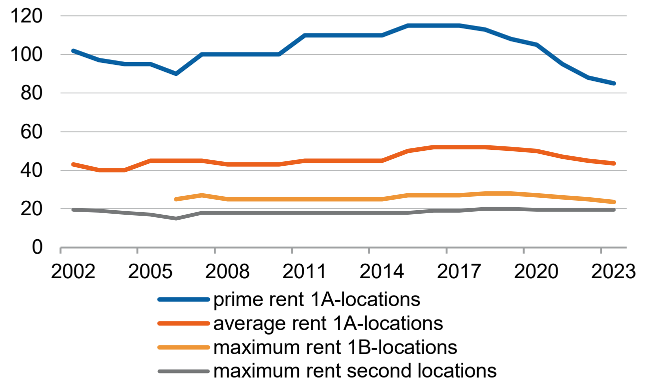
Retail space in Augsburg

PRIME RETAIL RENTS
IN EUR PER M²



Source: bulwiengesa, DZ BANK forecast

RETAIL RENTS BY LOCATION
IN EUR PER M²

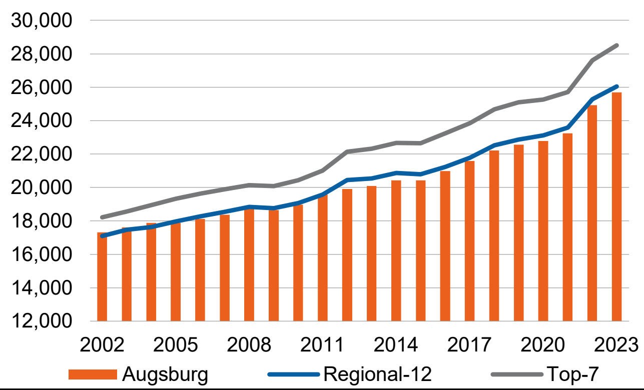


Source: bulwiengesa

Retail: Attractive shopping location has not prevented prime rents from falling by a quarter

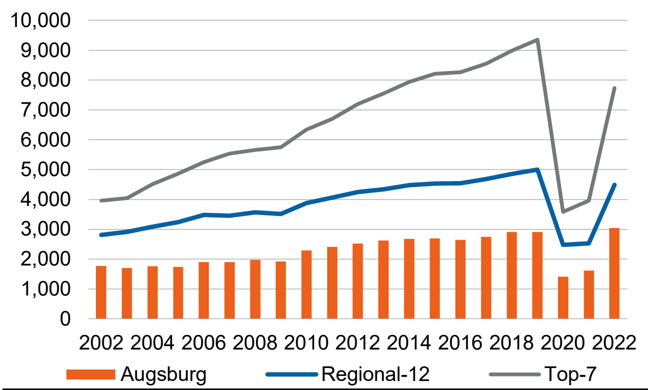
Based on its supply function for a catchment area of 600,000 people, Augsburg has a relatively large volume of sales space. As an attractive shopping destination, the centrality of this city halfway between Munich and Ulm is good at around 120 points. Conversely, purchasing power is slightly below-average at 96 points. One plus point for the retail sector is increased customer potential as a result of demographic growth in recent years. In contrast, tourism does not play a very important role. The city centre, which has around 300 shops, was upgraded in 2018 when the former Fuggerstadt Centre close to the main railway station reopened as Helio, and the former K&L building in Bürgermeister-Fischer-Straße was converted. Quality of stay also benefits from the city’s many restaurants. However, the ongoing problems facing the retail sector have also left their mark on the attractive and recently modernised city centre of Augsburg in the form of vacant properties, some of which have found temporary use as pop-up stores. Another setback was the insolvency in autumn 2023 of the traditional fashion retailer Rübsamen. In general, prime rents have fallen by slightly more than a quarter to recently EUR 85 per m^2. Despite the significantly lower rent level, a further decline cannot be ruled out.

PURCHASING POWER
IN EUR PER CAPITA



Source: bulwiengesa

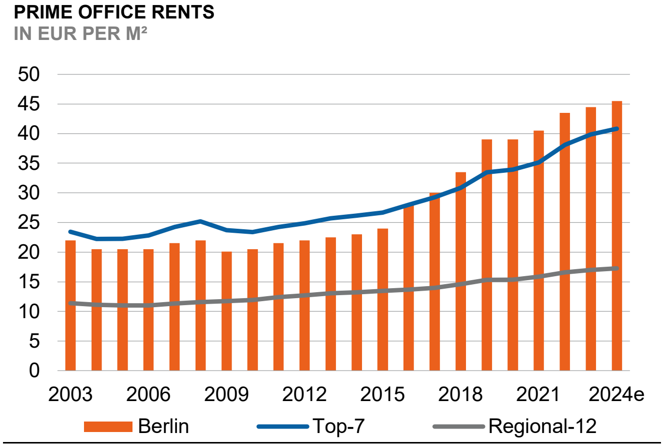
TOURISM - NO. OF OVERNIGHT STAYS
PER 1,000 INHABITANTS



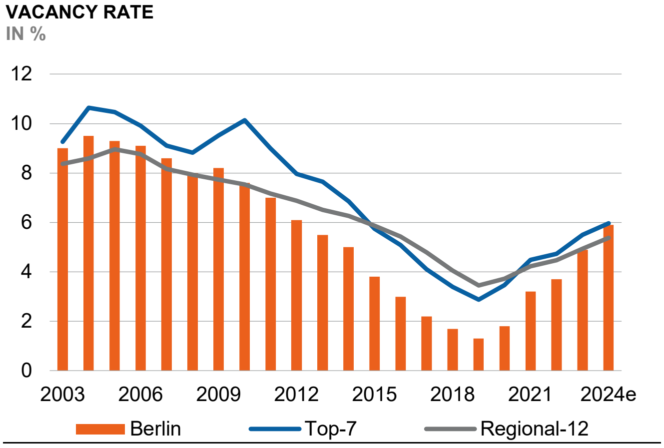
Source: bulwiengesa, Scope

BERLIN

Office space in Berlin



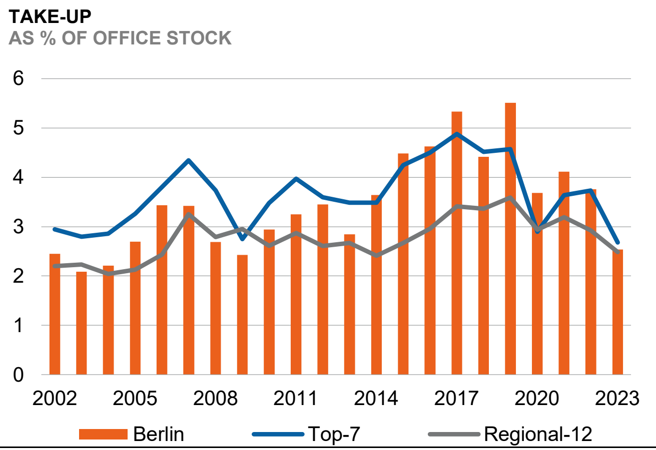
Source: bulwiengesa, DZ BANK forecast Figures for city locations



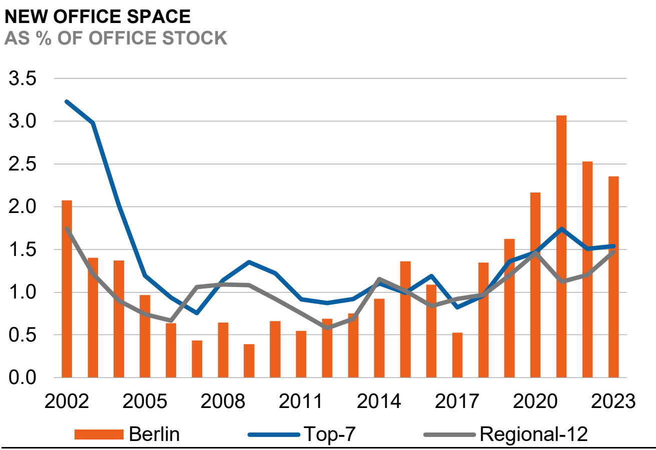
Source: bulwiengesa, DZ BANK forecast

Office: Steep rent growth provided strong impetus for new construction

The upturn in Berlin has clearly revitalised the largest office market in Germany of more than 21 million m². Take-up even exceeded 1 million m² in 2017 and 2019. As a result of the prolonged period of weak office construction, the vacancy rate fell to just over 1 per cent by 2019, while prime rents rose sharply, and the previously affordable office market almost reached levels in Frankfurt and Munich. This led to a large number of project developments, boosting the annual volume of new space to more than 500,000 m². The availability of more modern space slowed growth in rents and increased the number of vacant properties. Prime rents reached EUR 44.50 per m² in 2023, almost double the 2013 level. The vacancy rate climbed to 4.9 per cent. Take-up declined to 540,000 m² in 2023, its lowest level for ten years. While there were seven large-scale transactions in the previous year, the 2023 figure included only three of more than 10,000 m² each – BCG, Jobcenter and berlinovo. With new space likely to grow further in 2024, the vacancy rate could increase to 6 per cent. Further strong growth in rents is unlikely. Against the background of weak economic growth, rents can be expected to increase slightly at best.



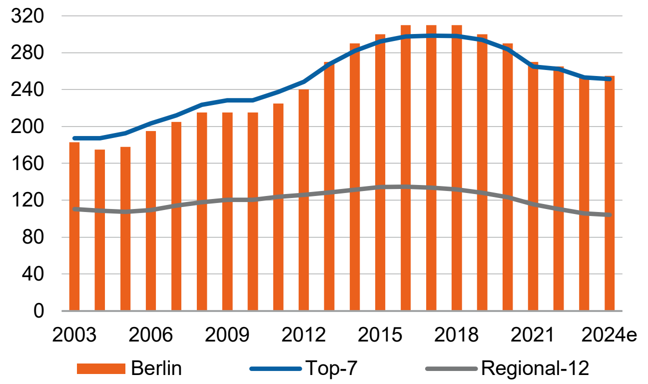
Source: bulwiengesa



Source: bulwiengesa

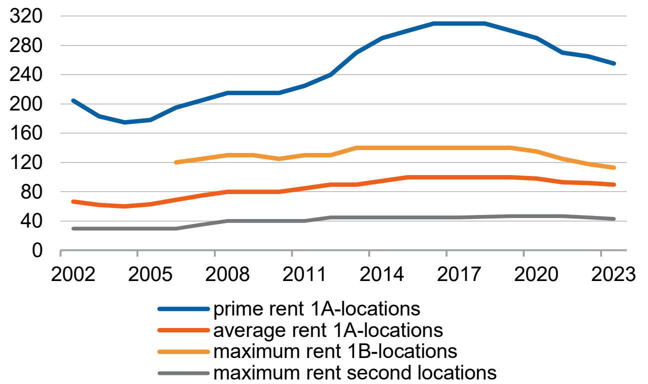
Retail space in Berlin

PRIME RETAIL RENTS
IN EUR PER M²



Source: bulwiengesa, DZ BANK forecast

RETAIL RENTS BY LOCATION
IN EUR PER M²

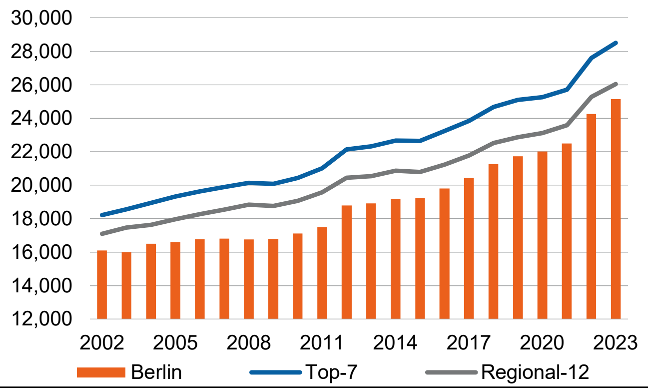


Source: bulwiengesa

Retail: Germany's leading shopping location also has an excess of sales space

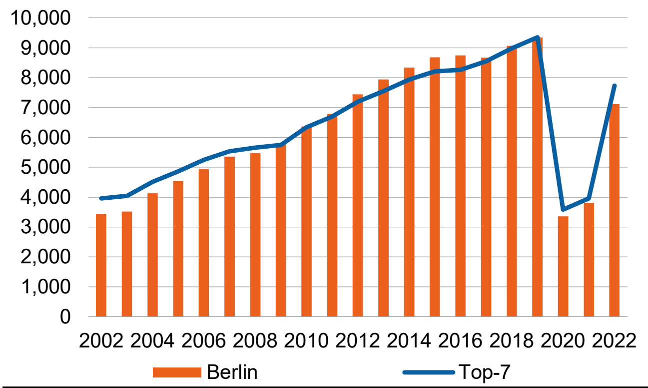
Retail benefited greatly from the upturn in Berlin. Unemployment fell sharply, while customer potential increased significantly due to continuing migration to Greater Berlin. Overall, the retail sector has the largest catchment area among German cities at well above 5 million people. Flourishing tourism is also very important, with 34 million overnight stays in 2019. The large number of visitors is also a key factor for Berlin given its low regional purchasing power. Apart from its size, the Berlin retail sector is characterised by several geographically separate prime locations. These include Tauentzienstraße which has the highest prime rents, Ku'damm, Alexanderplatz with its high footfall, Friedrichstraße, and the trendy Hackescher Markt. The city also has approximately 70 shopping centres, of which the large Mall of Berlin is a prime example. Prime rents stagnated at EUR 310 per m^2 from 2016 to 2019, before falling by 18 per cent to EUR 255 per m^2 by 2022. Rent levels have since remained stable. Although the prospects for retail in the attractive capital city are generally fairly good, the problems facing the retail sector have not gone away. This is borne out, for example, by the announced closure in 2024 of the Berlin branch of the French luxury department store Galeries Lafayette. The large supply of sales space and many shopping centres also pose a challenge. An increasing number of centres are likely to be repurposed in future.

PURCHASING POWER
IN EUR PER CAPITA



Source: bulwiengesa

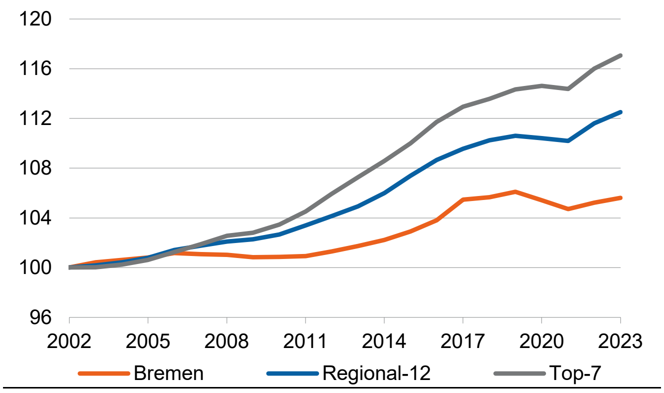
TOURISM - NO. OF OVERNIGHT STAYS
PER 1,000 INHABITANTS



Source: bulwiengesa, Scope

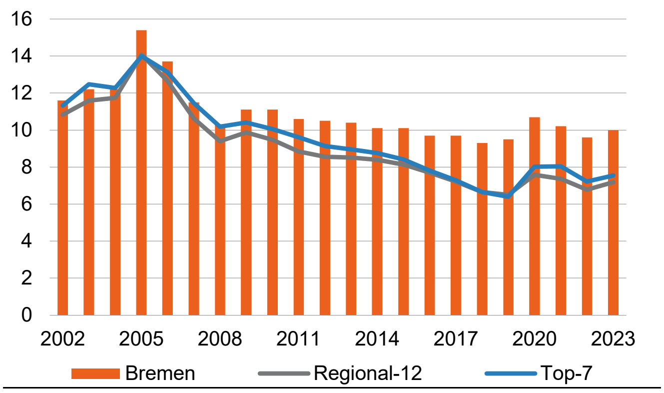
BREMEN

POPULATION GROWTH
2002 = 100



Source: Scope

UNEMPLOYMENT RATE
IN %

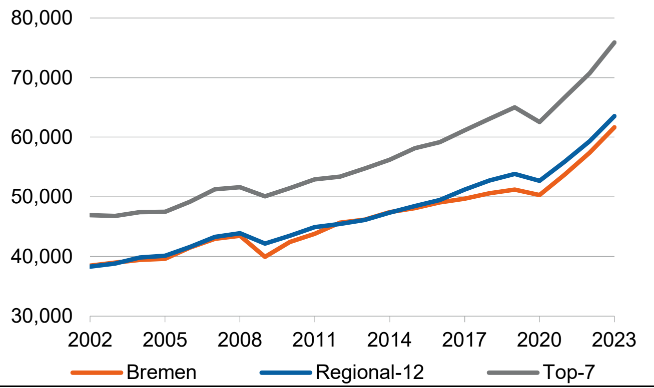


Source: bulwiengesa

Unemployment remains high despite economic success

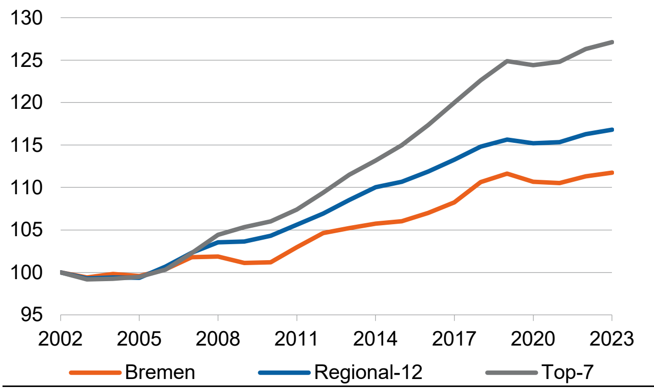
As the capital of the smallest federal state, Bremen is the eleventh most densely populated city in Germany. Its population has grown by more than 4 per cent to nearly 570,000 people since 2013. The comparatively low population growth is likely to be partly attributable to the weaker trend in the labour market. Despite a successful structural shift triggered by the crisis-stricken shipbuilding and heavy industry sectors, the unemployment rate remains high at 10 per cent (November 2023). As a result of slower employment growth, unemployment has not fallen as in many other cities. The city's main economic success has been achieved in the vehicle construction, aerospace, food and drink, and biotechnology sectors. The maritime sector and logistics are also important. The establishment of the university in 1971 supported Bremen's transition into a services and technology location. More than 35,000 students attend Bremen's higher education institutions. Good road, rail, sea, and air links are advantageous. The largest companies in Bremen include Airbus, Arcelor-Mittal, BLG Logistics and Daimler. Numerous large projects have provided impetus for the property location. These include the Überseeinsel peninsula, the Hulsberg Quarter, the Tobacco Quarter, the Hachez Quarter, the Am Brill Savings Bank site and the Gartenstadt Werdersee. The city centre's attractions will also be enhanced by project developments and a university campus.

GDP
IN EUR PER CAPITA



Source: Scope

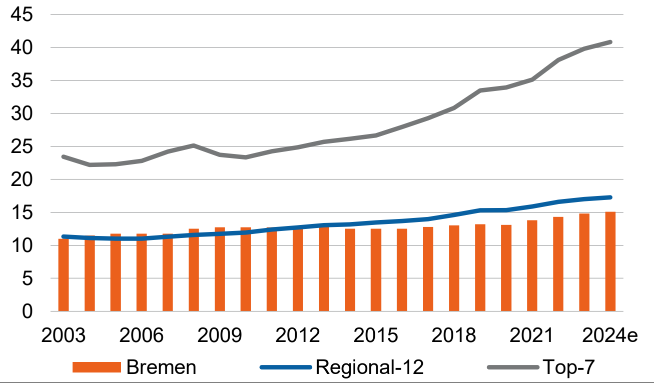
WORKING POPULATION
2002 = 100



Source: Scope

Office space in Bremen

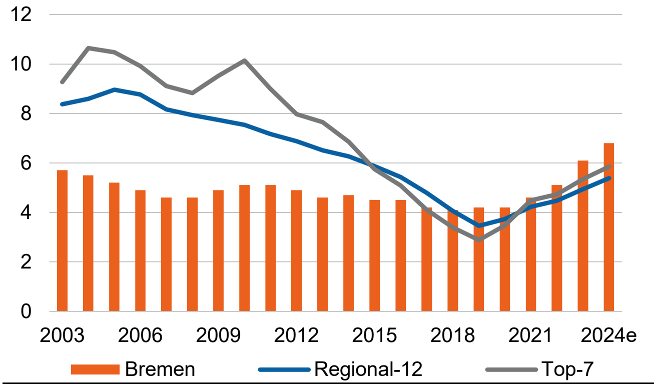
PRIME OFFICE RENTS
IN EUR PER M²



Source: bulwiengesa, DZ BANK forecast

Figures for city locations

VACANCY RATE
IN %

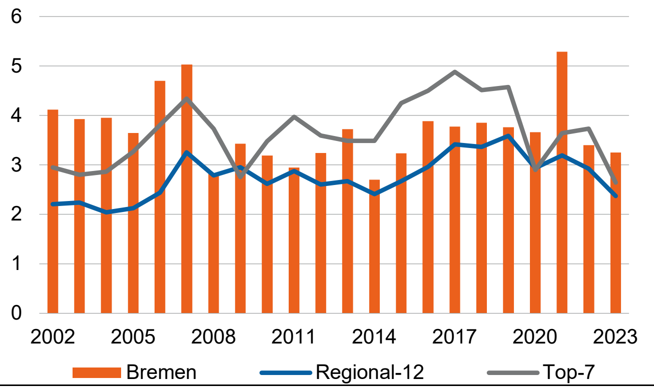


Source: bulwiengesa, DZ BANK forecast

Office: High volume of new space leads to increase in vacancy rate

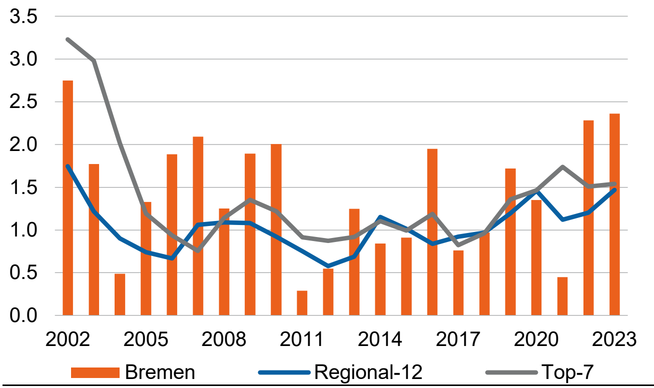
Bremen's office market consists of almost 2.9 million m^2 of space, and it has grown by a slightly above-average rate of around 13 per cent since 2013. Space growth has been accompanied by a stable vacancy rate of between 4 and 5 per cent. The larger volume of new space in 2022 and 2023 intensified the upward trend in vacant properties, taking the vacancy rate up to almost 6 per cent. In the last ten years, prime rents have risen by 15 per cent, only half the rate recorded for the regional centres as a whole. They reached EUR 14.80 per m^2 in the city centre in 2023, and were minimally higher in office centres. Darmstadt is the only city in our report where prime rents are lower. Conversely, annual rental activity is slightly above-average at nearly 4 per cent of the office stock. Take-up usually edges into six digits. However, levels fell slightly below 100,000 m^2 in 2022 und 2023. Rental business is generally driven by small and medium-sized transactions. This was also the case in 2023, with the exception of the large rental agreement of 18,000 m^2 for the university in the former Bremer Landesbank building. Market activity is concentrated on peripheral locations such as the Airport City, the Technology Park and the Überseestadt, where many office projects have been realised. In contrast, the city centre office stock is outdated. Space growth will slow from 2024, but the vacancy rate will probably continue to rise, as will prime rents.

TAKE-UP
AS % OF OFFICE STOCK



Source: bulwiengesa

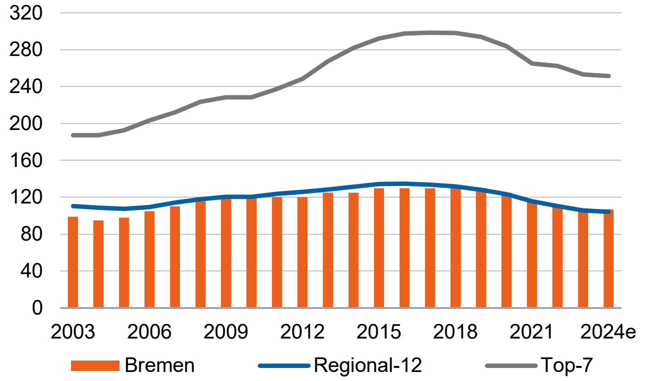
NEW OFFICE SPACE
AS % OF OFFICE STOCK



Source: bulwiengesa

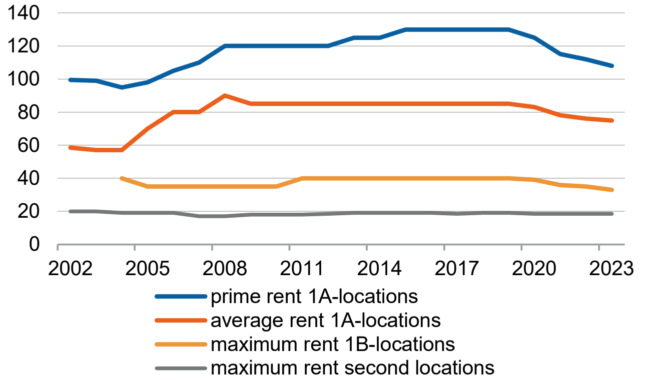
Retail space in Bremen

PRIME RETAIL RENTS
IN EUR PER M²



Source: bulwiengesa, DZ BANK forecast

RETAIL RENTS BY LOCATION
IN EUR PER M²

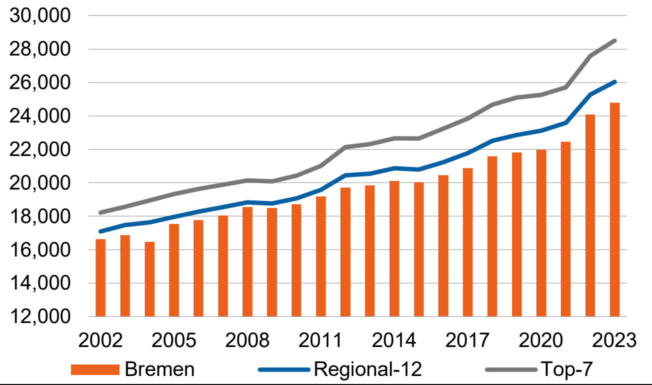


Source: bulwiengesa

Retail: Bremen city centre will be redeveloped in the coming years

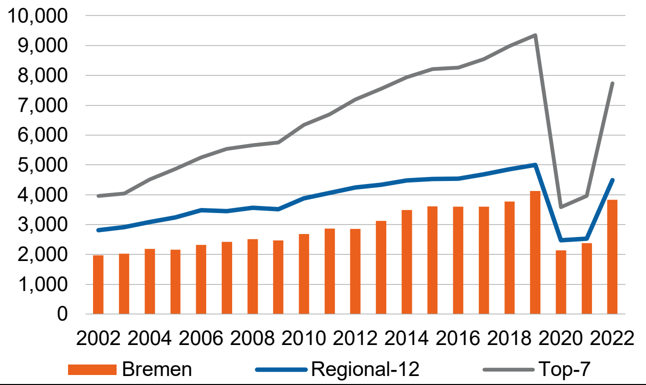
Based on its potential as a location, retail development in Bremen has not been optimal. Although the large shopping location in Northwest Germany benefits from a catchment area of 1 million people, it has a fairly moderate centrality rating of 114 points. Low purchasing power of only 92 points is also unfavourable. Tourism has developed positively, but the number of overnight stays has not reached a high level. City centre retail is being hampered by large peripheral shopping complexes such as the Waterfront, the Roland-Center and the Weserpark. Prime rents of EUR 108 per m² in the top locations of Sögestraße, Obernstraße and Hutfilterstraße are therefore fairly moderate. However, the 17 per cent decline in rents since 2018 is also lower than average for the regional centres reviewed. The attractive city centre with its weather-proof covered arcades also adds value. The former Galeria store here was also quickly re-let to Opti-Wohnwelt for use as a city centre furniture store. Bremen also plans to future-proof the city centre with several large developments. These include the renovated Domshof square, and the demolition of the Mitte carpark – whose future use remains unclear. Another project is the Balge Quarter, to be created from the Johann Jacobs Haus and neighbouring buildings such as the Essighaus (“vinegar house”) and the Kontorhaus. However, the associated building works could depress prime rents in future.

PURCHASING POWER
IN EUR PER CAPITA



Source: bulwiengesa, Scope

TOURISM - NO. OF OVERNIGHT STAYS
PER 1,000 INHABITANTS

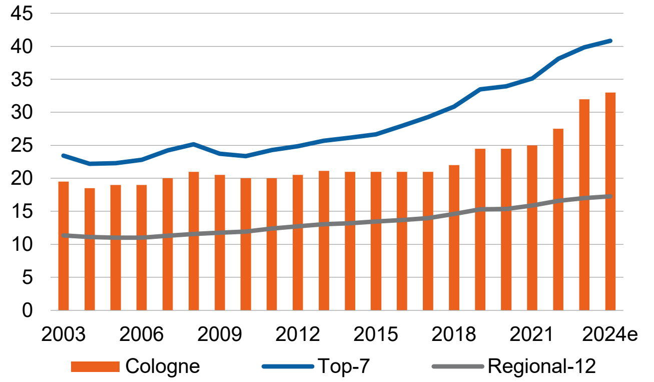


Source: bulwiengesa, Scope

COLOGNE

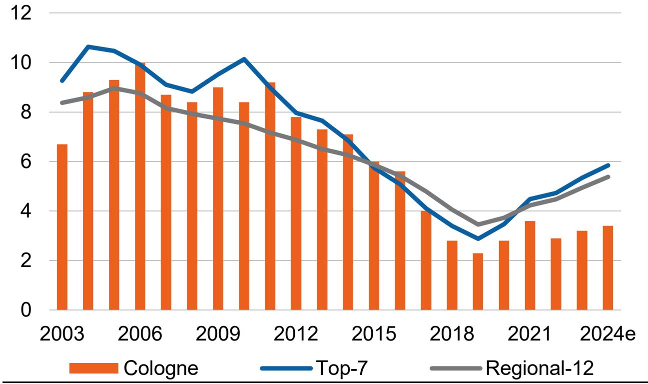
Office space in Cologne

PRIME OFFICE RENTS
IN EUR PER M²



Source: bulwiengesa, DZ BANK forecast Figures for city locations

VACANCY RATE
IN %

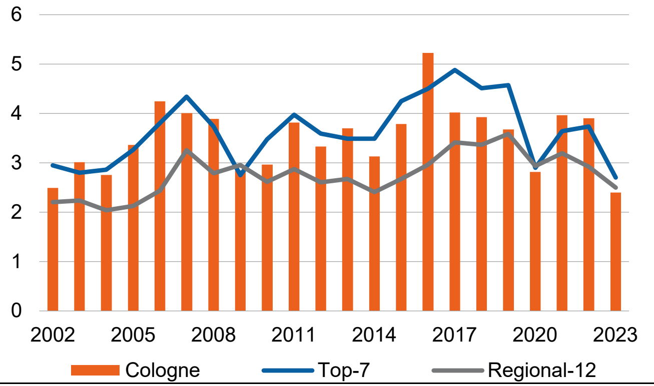


Source: bulwiengesa, DZ BANK forecast

Sharp rise in rents as supply of offices virtually dries up

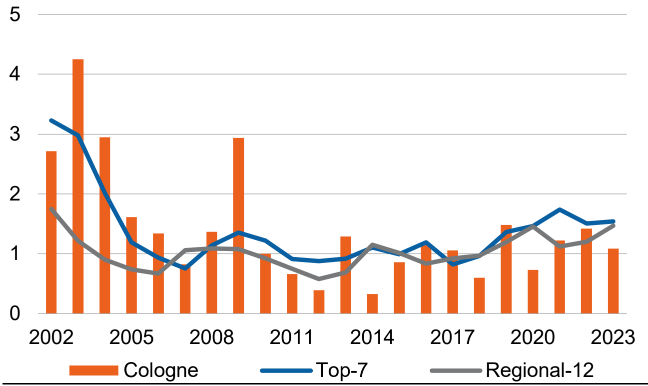
Although Cologne is the fourth largest city in Germany in terms of population, its office market only ranks in sixth place with a stock of just over 8 million m^2. The performance of the Cologne's office market in the past few years can nevertheless be described as solid as demonstrated by a sharp increase in prime rents to EUR 32 per m^2 after 2017 whereas they had remained stable over many years up until that point at around EUR 20 per m^2. As such, Cologne, along with Stuttgart, is at the lower end of the rent level for the top locations. The picture is quite different when it comes to the trend in the vacancy rate where Cologne is number one among the seven biggest office locations with the lowest figure at just 3.2 per cent. Whereas on average, the rate for the top locations has lifted by a total of 2.5 percentage points since the beginning of the pandemic, in Cologne it has not even increased by one percentage point. The small rise also reflects only moderate new office construction, a fact which goes hand-in-hand with a limited supply of contemporary space. A lack of suitable space may have given additional impetus to letting activity last year. In spite of an upturn in the second half, take-up was at its lowest in 20 years at 194,000 m^2. This included two major deals involving DEVK and IHK respectively. The vacancy rate is hardly likely to increase in 2024 in view of limited new building. In contrast, the tight supply of modern office space could lead to a further uptick in rents.

TAKE-UP
AS % OF OFFICE STOCK



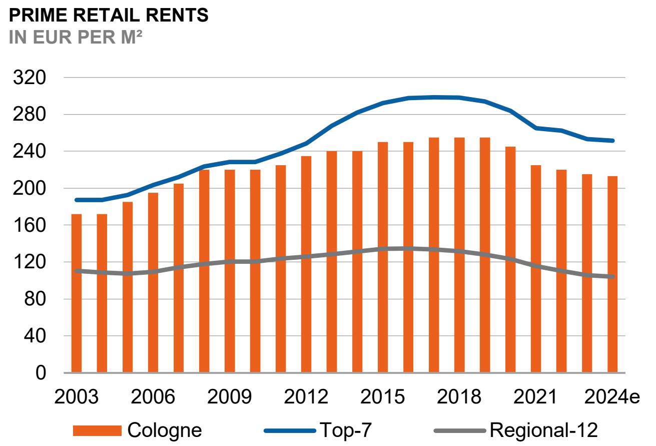
Source: bulwiengesa

NEW OFFICE SPACE
AS % OF OFFICE STOCK

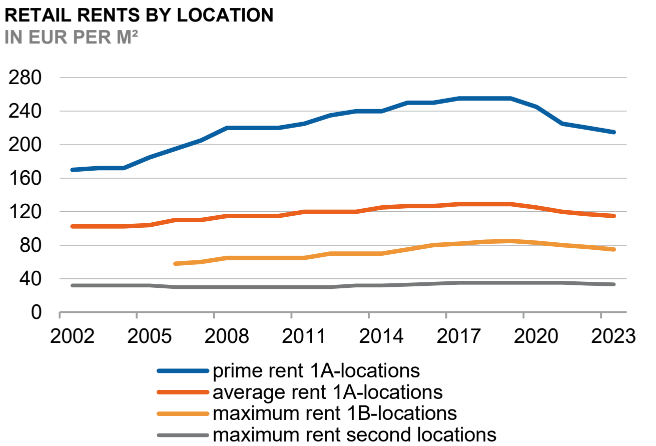


Source: bulwiengesa

Retail space in Cologne



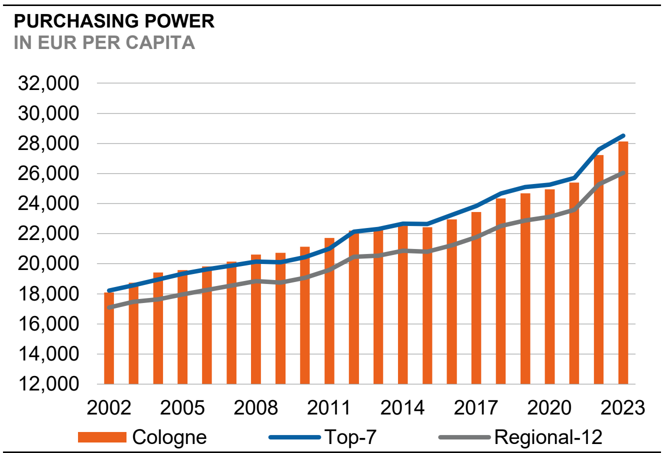
Source: bulwiengesa, DZ BANK forecast



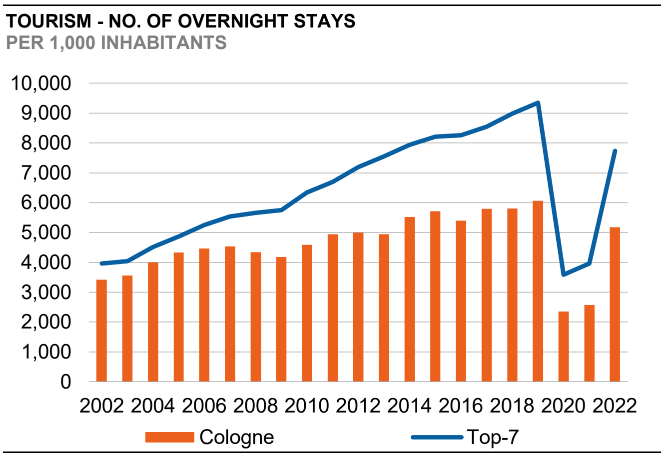
Source: bulwiengesa

Limited fall in prime rents in spite of ample supply of retail space

The million-strong city of Cologne is one of two top retail locations in western Germany along with Düsseldorf – a fact which generates a certain amount of competition. Cologne is attractive for retailers in view of potential from a catchment area of 2.4 million people along with many day trippers from the Benelux countries, even though tourism does not have quite the same importance as it does in other top locations. Purchasing power is also rather moderate for a top location at 105 points. Unlike the state capital, Düsseldorf, which has a significant luxury segment, Cologne caters more to the mass market. Although the city centre is not especially attractive visually, it has a three kilometre long shopping circuit which encourages visitors to stroll around the prime locations. This is especially true of the Schildergasse which is mostly given over to high-street chains. The Hohe Straße also enjoys a high footfall, although not quite on a par with the Schildergasse. The Ehrenstraße is trendier, while the Domkloster/Wallraffplatz has a fairly small high-end segment. Prime rents have fallen by 16 per cent to EUR 215 per m^2 from their peak, but remained stable in 2023. There are more obvious vacant stores in the Hohe Straße, although these are mostly the result of refurbishment. The fact that the Ehrenstraße became pedestrianised in April 2022 has had a positive impact on footfall. However, in the wake of the bankruptcy of project developer Gerchgroup, a question mark now hangs over the city centre upgrade through the Laurenz Carré which is under construction. The site is near the cathedral. Prime rents could stabilise at their current level.



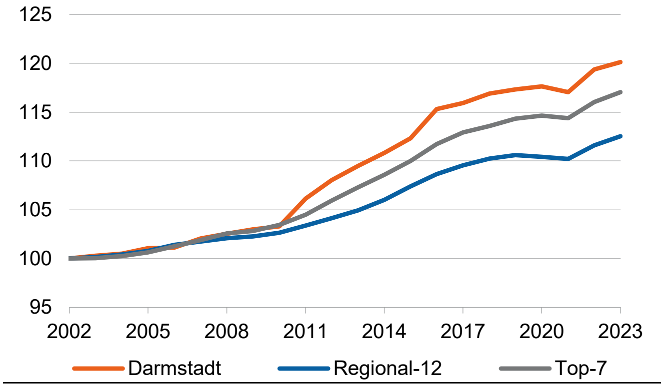
Source: bulwiengesa



Source: bulwiengesa, Scope

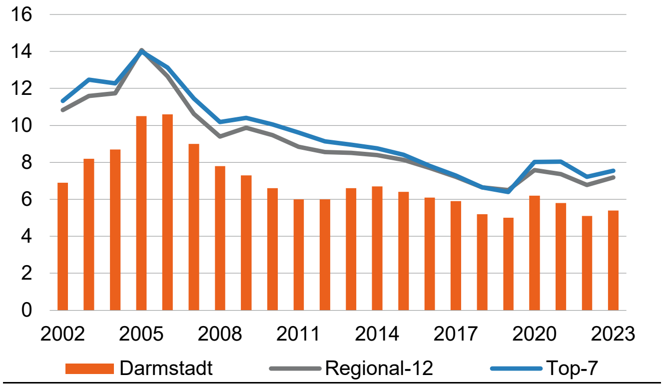
DARMSTADT

POPULATION GROWTH
2002 = 100



Source: Scope

UNEMPLOYMENT RATE
IN %

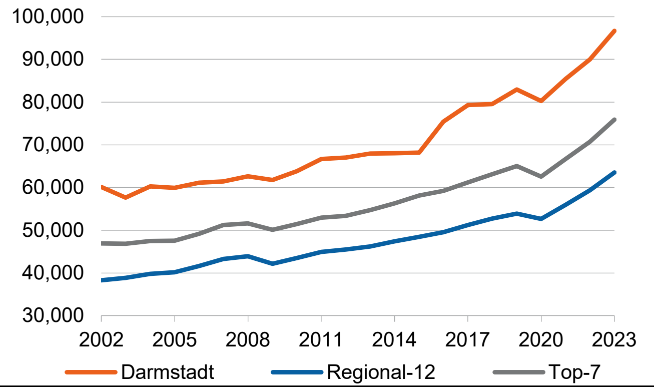


Source: bulwiengesa

"City of Science" an important business and research location

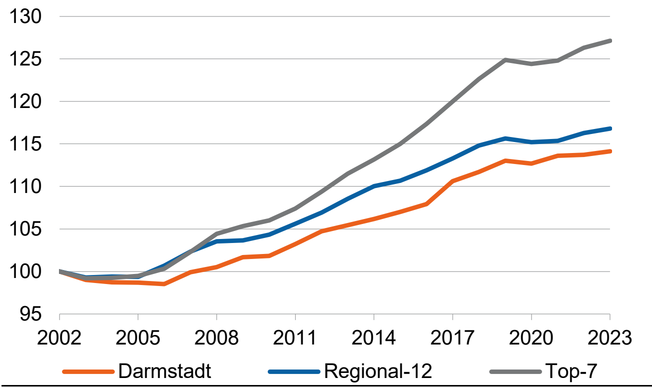
Darmstadt is one of the cities which has experienced particularly strong growth. After a pandemic-related pause, rapid population growth has resumed. More than 165,000 people now live in Darmstadt, 30,000 more than at the millennium. Key factors are education and science, with a total of 45,000 students. Prominent research facilities are the European Space Operations Centre (ESOC) and the FAIR particle accelerator facility which is under construction. The city's favourable location on the southern edge of the Rhine-Main area and its strength as a business centre with a tax-paying working population of more than 110,000 are positive factors. Core sectors are IT, chemicals, pharmaceuticals, biotech, mechanical engineering, space technology and cosmetics. Important companies include Deutsche Telekom, Merck, Software AG, Schenck mechanical engineering, the specialty chemicals company Evonik/Röhm, the cosmetics companies Goldwell/Kao and Wella, and food additives producer Döhler. New quarters are being developed on converted former military sites such as the Lincoln residential scheme and the Ludwigshöhviertel on the site of the Cambrai Fritsch Barracks/Jefferson Village. However, housing is in short supply and rents are nearly as high as in the top locations. The unemployment rate is low at 5.4 per cent (December 2023). The awarding of UNESCO World Heritage Site status to the Mathildenhöhe artists' colony should provide a boost for tourism.

GDP
IN EUR PER CAPITA



Source: Scope

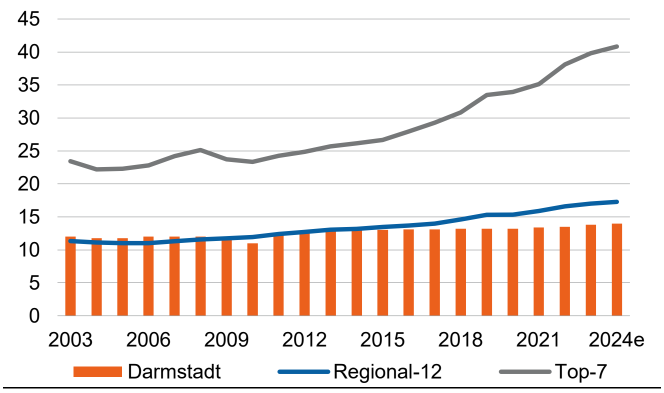
WORKING POPULATION
2002 = 100



Source: Scope

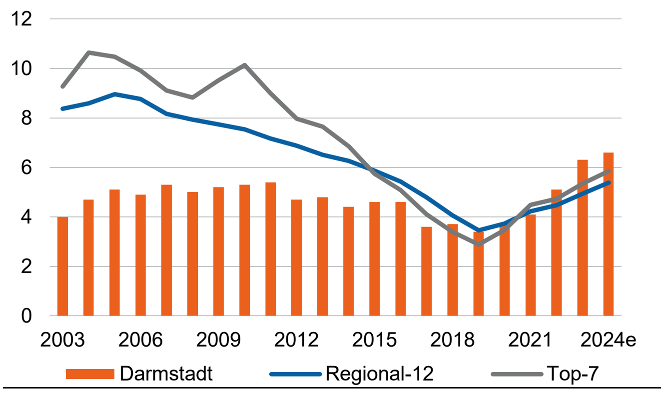
Office space in Darmstadt

PRIME OFFICE RENTS
IN EUR PER M²



Source: bulwiengesa, DZ BANK forecast
Figures for city locations

VACANCY RATE
IN %

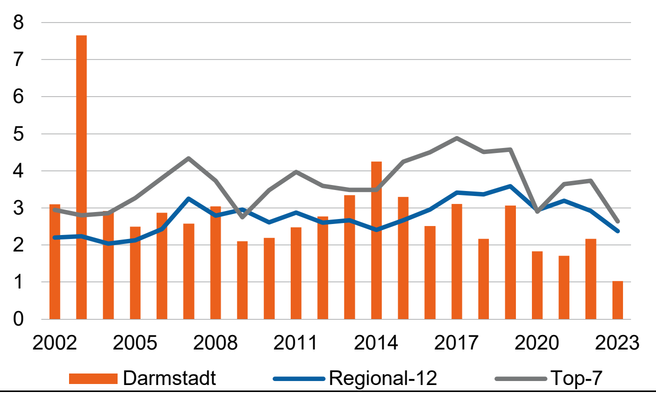


Source: bulwiengesa, DZ BANK forecast

Office: Increasing vacancy rate and low rent growth

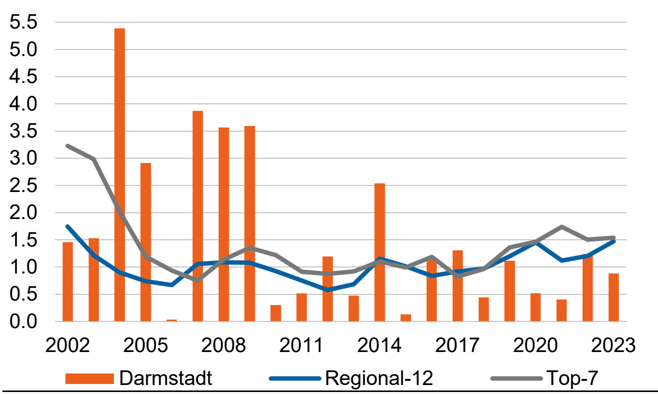
High employment in Darmstadt requires a correspondingly large office market. The low vacancy rate until recently showed that available space of a good 1.7 million m^2 is not excessive. However, new space and weaker rental activity have led to a clear increase in the vacancy rate from 3.4 per cent (2019) to 6.3 per cent (2023). Take-up was historically low last year at only 17,000 m^2. Conversely, the average annual figure in the last ten years has been 40,000 m^2. In contrast to previous years, there have been virtually no large-scale transactions, the largest being around 6,000 m^2 for the regional Health and Care authority. Prime rents increased again slightly to EUR 13.80 m^2 under weak market conditions. They were marginally higher in pure office locations. However, the trend in prime rents in Darmstadt is subdued, increasing by only 6 per cent within ten years. The city therefore has the lowest prime rents in our market report and the lowest rent growth. Darmstadt has been unable to keep pace with the much stronger rent growth achieved in other locations in the Rhine-Main area such as Frankfurt and Mainz. Given the significantly higher vacancy rate we expect the rent trend to remain subdued this year.

TAKE-UP
AS % OF OFFICE STOCK



Source: bulwiengesa

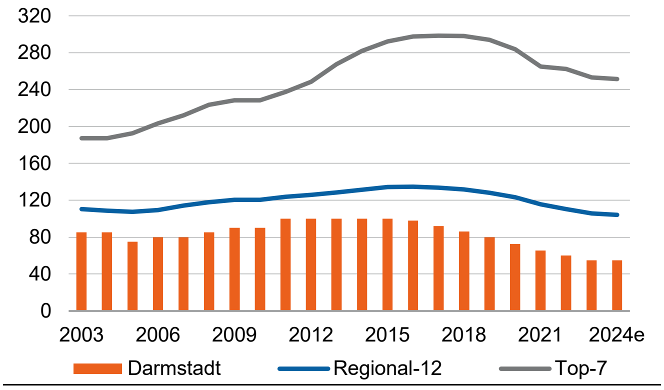
NEW OFFICE SPACE
AS % OF OFFICE STOCK



Source: bulwiengesa

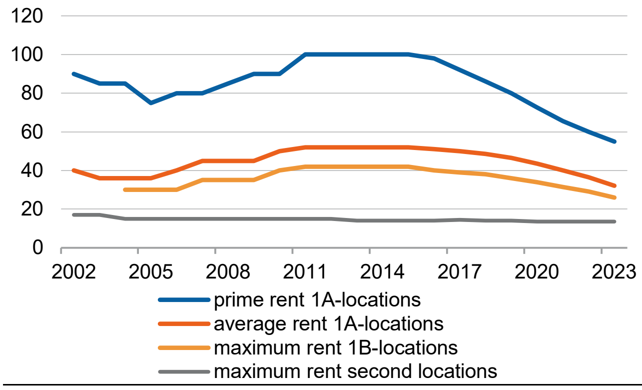
Retail space in Darmstadt

PRIME RETAIL RENTS
IN EUR PER M²



Source: bulwiengesa, DZ BANK forecast

RETAIL RENTS BY LOCATION
IN EUR PER M²

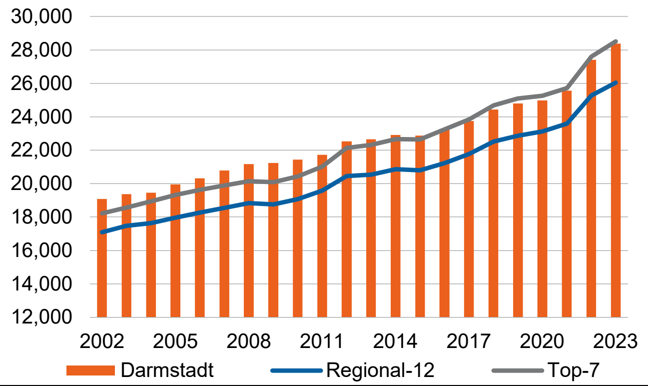


Source: bulwiengesa

Retail: Economic strength fails to halt steep decline in prime rents

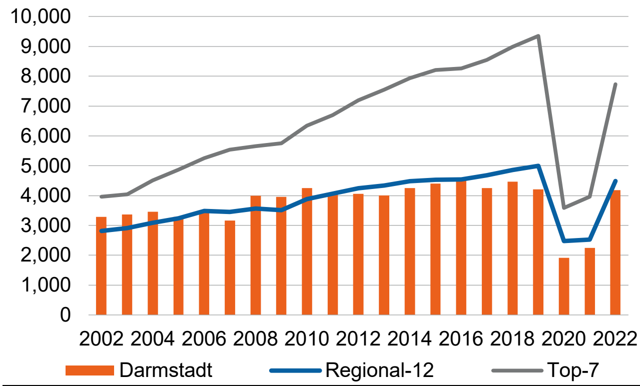
Generally favourable conditions with a rapidly growing population, moderate unemployment and good purchasing power of 106 points for a “student city” have been unable to prevent a sharp fall in prime retail rents in Darmstadt. Levels have almost halved since 2013 to only EUR 55. The positive impact of the inclusion of the Mathildenhöhe in the list of UNESCO World Heritage Sites may revive tourism, but will at best ease Darmstadt city centre’s main weakness – strong competition with locations in the surrounding area. The main competition is from Frankfurt, 30 kilometres away, as well as the extensive retail offer in neighbouring Weiterstadt with its various specialist stores, the large Segmüller furniture store, and the Loop 5 centre which has been repurposed from a shopping centre to an events venue. The city centre, with its prime locations of Schuchard Straβe and Ernst-Ludwig-Straße, and two shopping centres – Luisencenter and Carree Darmstadt – provides a wide-ranging retail offer. A large number of restaurants also support a high quality of stay. The two department stores of the stricken Galeria group could also have a negative impact on the city centre. The city administration plans to counteract vacant properties and the risk of decline in the city centre with its “DA mittendrin” urban development concept and by actively managing space in the various quarters and in retail premises. The federal state of Hesse has guaranteed financial assistance for the city centre. Conditions are likely to remain difficult for city centre retail. However, Darmstadt’s economic strength as a location could help to stabilise the situation.

PURCHASING POWER
IN EUR PER CAPITA



Source: bulwiengesa, Scope

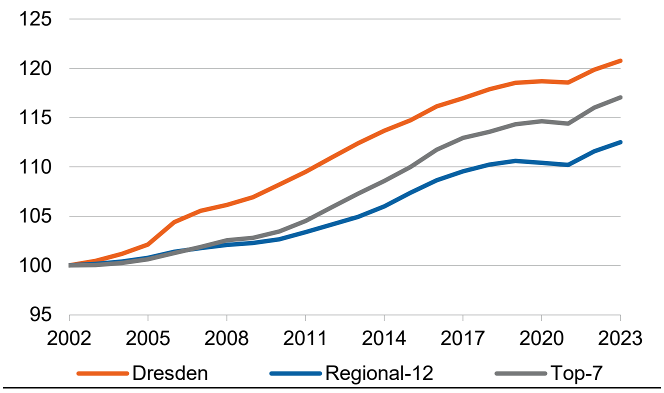
TOURISM - NO. OF OVERNIGHT STAYS
PER 1,000 INHABITANTS



Source: bulwiengesa, Scope

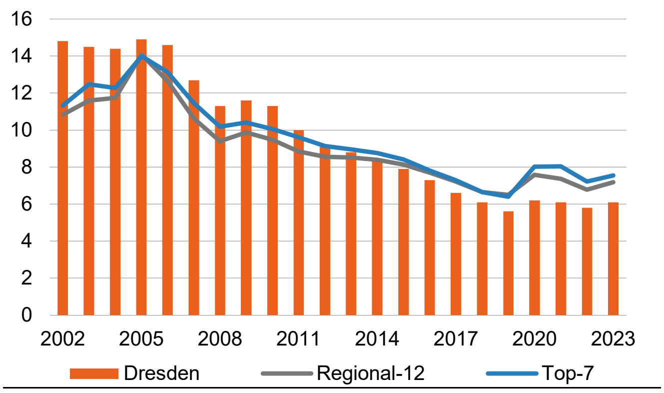
DRESDEN

POPULATION GROWTH
2002 = 100



Source: Scope

UNEMPLOYMENT RATE
IN %

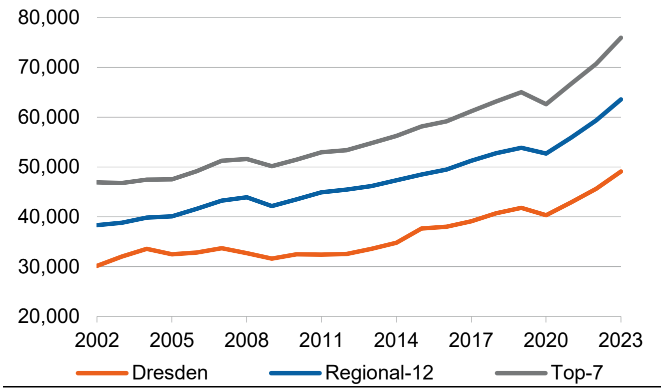


Source: bulwiengesa

Capital of Saxony now an important microelectronics location

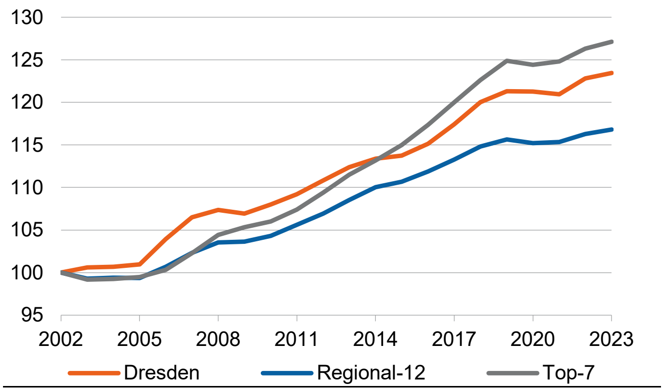
Dresden's successful development is associated with strong population growth of 8 per cent to 570,000 people within ten years. Contributory factors are a high quality of life in this attractive city, and its economic success. Its formerly high unemployment rate has now fallen to a fairly moderate level for a major city of 6 per cent (December 2023). However, the upturn has also clearly removed the previous advantage of an affordable cost of living based on low residential rents. With many administrative functions based in Dresden, the public sector is an important employer. Education and research play an extremely important role. Higher education institutions, with 38,000 students and numerous research facilities, not only create many jobs, but also form the basis of the high tech location. More than 75,000 people are already employed in the microelectronics and ICT sectors. Dresden's high tech sector is also becoming more important, and advertises itself with the self-confident slogan "Tomorrow's Home". Infineon is already building a new semiconductor factory with investment volume of EUR 5bn. The giant Taiwanese chipmaker TSMC plans to invest twice this amount in semiconductor production. Vehicle construction, aviation, life sciences, nanotechnology/new materials, mechanical engineering and plant construction also play a part in the city's dynamic economic development. The cultural and creative industries are also important. The baroque city is also a very popular destination for city breaks in Germany.

GDP
IN EUR PER CAPITA



Source: Scope

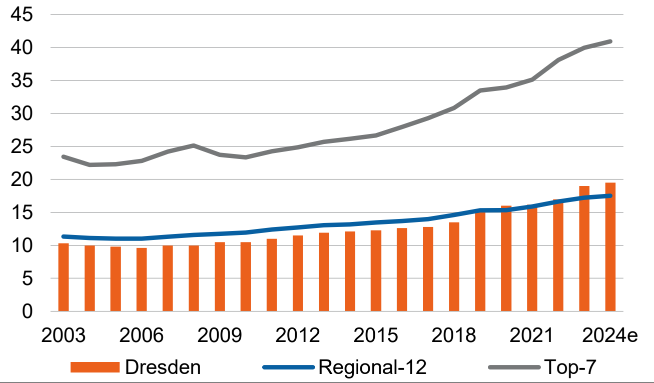
WORKING POPULATION
2002 = 100



Source: Scope

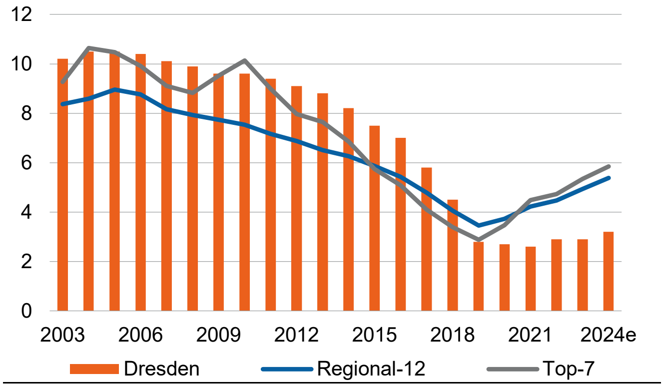
Office space in Dresden

PRIME OFFICE RENTS
IN EUR PER M²



Source: bulwiengesa, DZ BANK forecast   Figures for city locations

VACANCY RATE
IN %

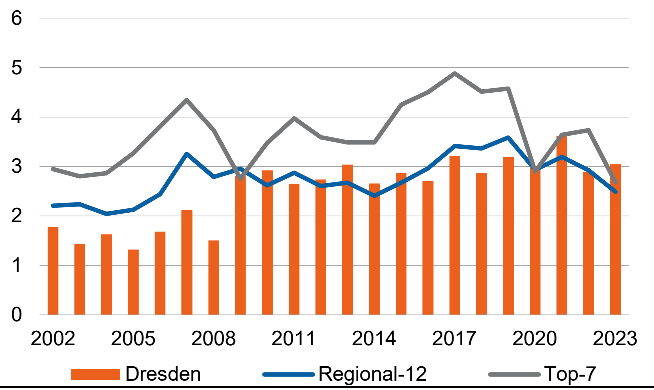


Source: bulwiengesa, DZ BANK forecast

Office: Insufficient space available for growing high tech location

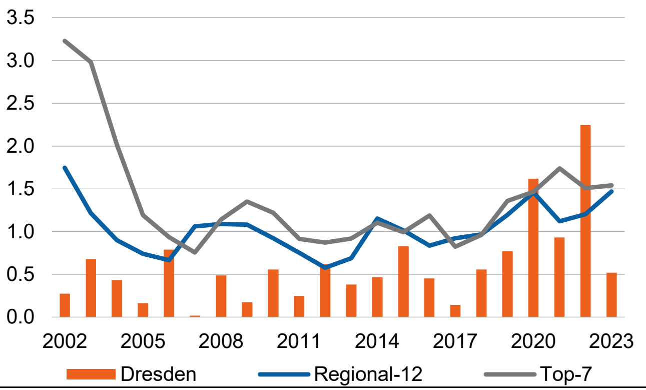
The 3.1 million m^2 of office space in Dresden is relatively small given the city's economic success. The vacancy rate has remained consistently low for some years at levels around 3 per cent. In contrast to many other office locations, it has not increased as a result of the pandemic, home working or the weak economy. A large proportion of the office stock was built in the 1990s, and is associated with a sharp rise in vacancy rates and only modest levels of office construction. Available space has not therefore grown significantly in the last 20 years and is now outdated. Modern office space is therefore in short supply. Although office construction has picked up somewhat, it cannot offset the shortfall which has built up over many years. Office building is also likely to weaken given high financing and construction costs. Annual take-up is generally around 90,000 m^2. In 2023, the figure was even 5,000 square metres higher. In contrast to other locations, take-up benefited from a major deal. The tenant of the almost 22,000 square metres of space was the City of Dresden. Prime rents have risen further to EUR 19 per m^2 in response to the shortage of modern space. Ten-year rent growth of about 40 per cent is well above-average for the regional centres. Rents are likely to increase further as a result of ongoing demand for modern – but scarce – space.

TAKE-UP
AS % OF OFFICE STOCK



Source: bulwiengesa

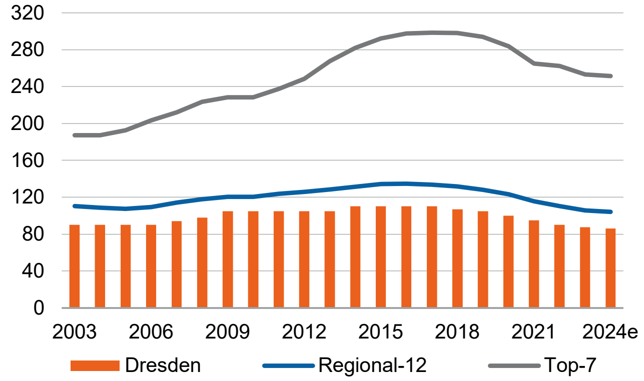
NEW OFFICE SPACE
AS % OF OFFICE STOCK



Source: bulwiengesa

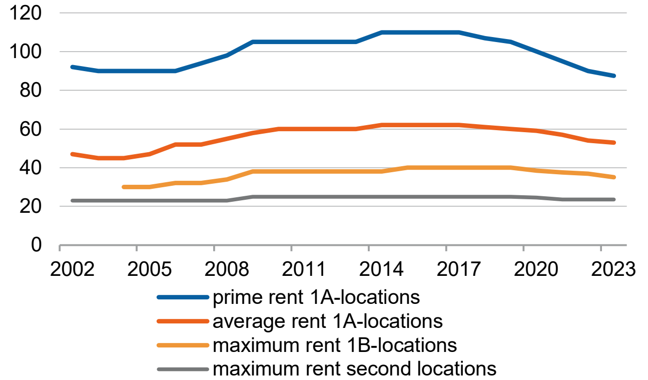
Retail space in Dresden

PRIME RETAIL RENTS
IN EUR PER M²



Source: bulwiengesa, DZ BANK forecast

RETAIL RENTS BY LOCATION
IN EUR PER M²

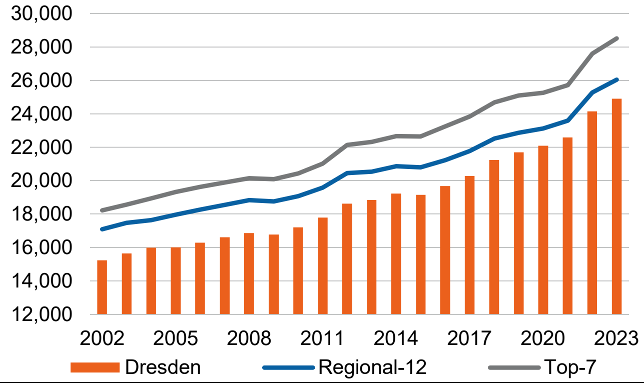


Source: bulwiengesa

Retail: Dresden city centre comparatively well placed thanks to flourishing tourism

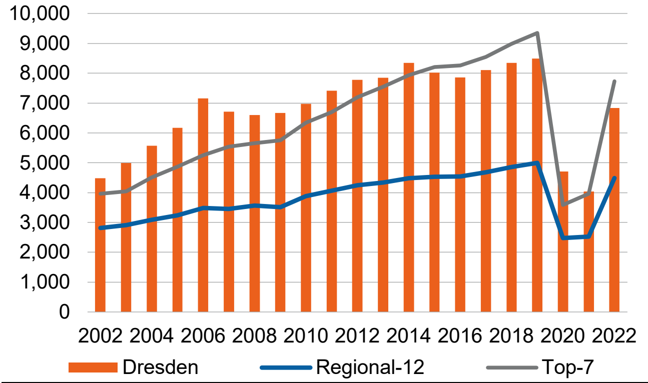
Dresden, Berlin and Leipzig are the three leading east German shopping destinations. All three cities have benefited strongly from economic recovery, population growth, and flourishing tourism before the pandemic. However, purchasing power is weak. A catchment area of 1.3 million people is an advantage for Dresden, although the centrality figure is fairly low at 112 points. The main competition is from out-of-town shopping centres. In general, the baroque city is however an attractive retail location, with a high quality of stay and a broad retail and gastronomic offer. In addition to three prime locations – Prager Straße, Seestraße/Altmarkt, and Neumarkt – two large shopping centres have combined sales space of 100,000 m^2. Because tourism is important, city centre retail in Dresden was hit hard when visitors stayed away due to Covid; conversely, it has better future prospects than locations which do not have this advantage. The 20 per cent decline in prime rents from their maximum level to currently EUR 87.50 m^2 has remained within limits. The “Future of the city centre” project and initiatives such as “We’re developing Dresden” will enhance the city centre and counteract vacancies. We expect prime rents to stabilise more or less at their current levels.

PURCHASING POWER
IN EUR PER CAPITA



Source: bulwiengesa, Scope

TOURISM - NO. OF OVERNIGHT STAYS
PER 1,000 INHABITANTS

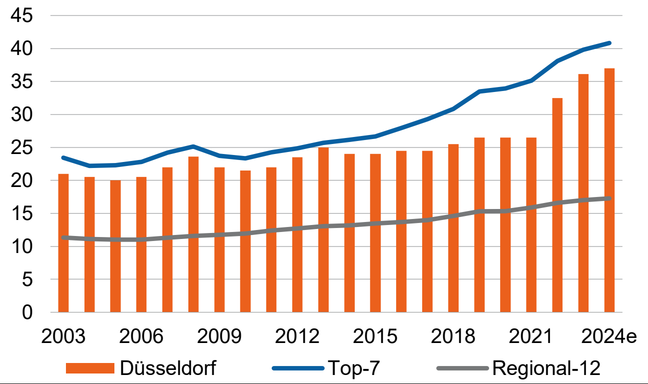


Source: bulwiengesa, Scope

DÜSSELDORF

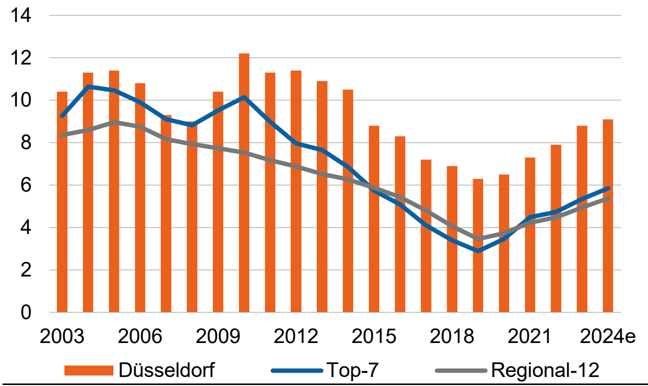
Office space in Düsseldorf

PRIME OFFICE RENTS
IN EUR PER M²



Source: bulwiengesa, DZ BANK forecast
Figures for city locations

VACANCY RATE
IN %

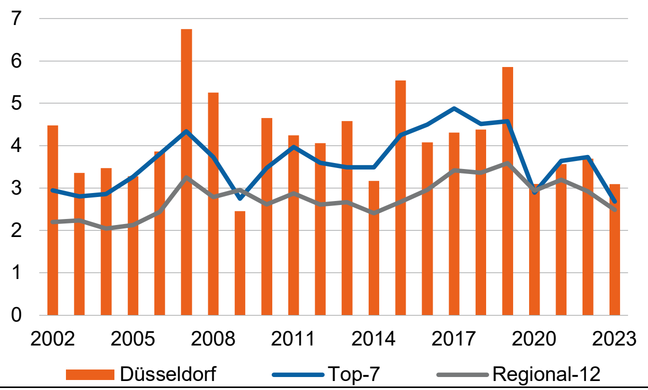


Source: bulwiengesa, DZ BANK forecast

Office: Prime rents increased sharply in 2022 and 2023

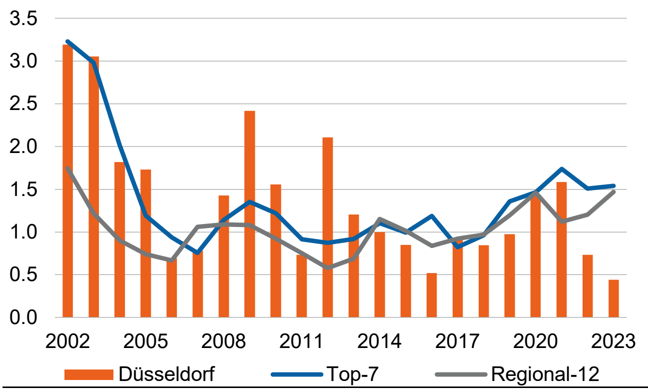
Düsseldorf is the smallest office market among the top locations, with office space of around 7.8 million m^2, although the divergence from Cologne and Stuttgart is small. While prime rents in the top locations have risen steadily in recent years, the upward trend in Düsseldorf has been slow. However, due to a high level of interest in modern office space, prime rents in the city increased strongly in both 2022 and 2023 to reach EUR 36.10p per m^2. The divergence from average levels in the top locations has therefore narrowed. High rent growth in 2023 was accompanied by moderate take-up of 239,000 m^2. Two transactions (Deutsche Rück and Freshfields Bruckhaus Deringer) accounted for space in the five-digit square metre range, and one (Hengeler Müller) came in slightly lower. Overall, the very important role played by consultancy firms in the Düsseldorf office market has been evident again. The volume of vacant office space has increased to nearly 9 per cent as a result of new construction, vacated buildings, and weak rental activity. Only in Frankfurt is the vacancy rate minimally higher; the figure could increase slightly in 2024, while rents seem unlikely to increase again strongly based on the gloomy economic climate and previously strong rent growth.

TAKE-UP
AS % OF OFFICE STOCK



Source: bulwiengesa

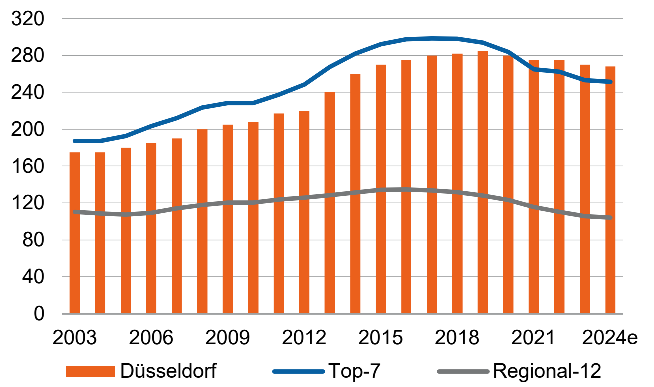
NEW OFFICE SPACE
AS % OF OFFICE STOCK



Source: bulwiengesa

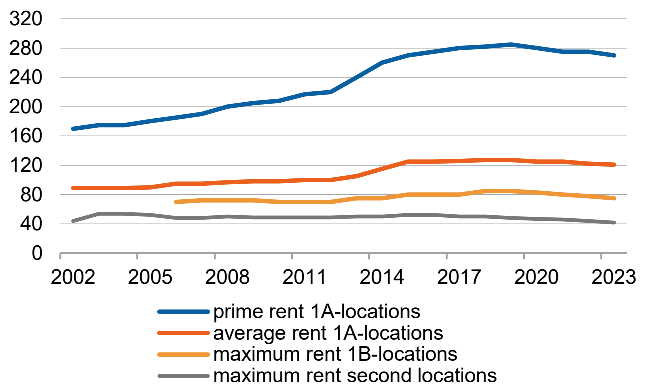
Retail space in Düsseldorf

PRIME RETAIL RENTS
IN EUR PER M²



Source: bulwiengesa, DZ BANK forecast

RETAIL RENTS BY LOCATION
IN EUR PER M²

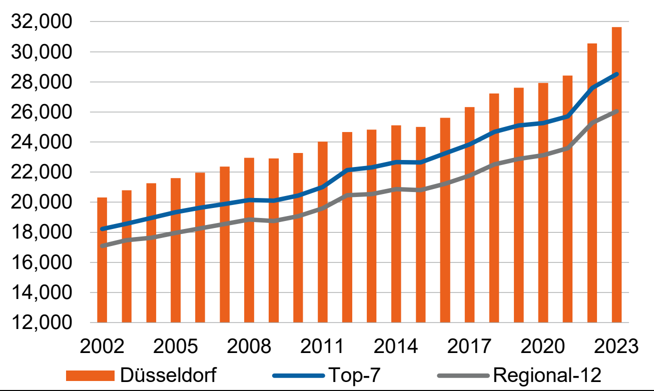


Source: bulwiengesa

Retail: City centre absorbs negative retail factors better than many other locations

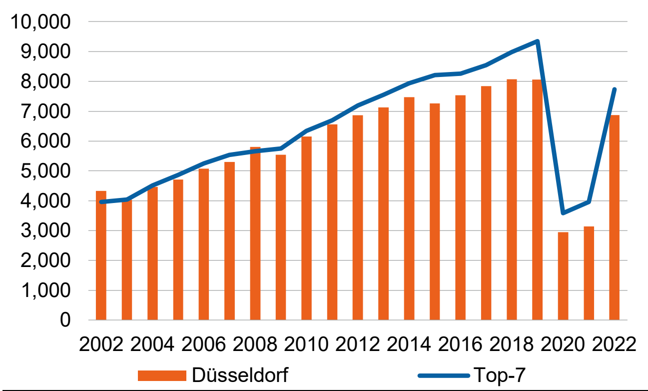
Düsseldorf has clearly developed successfully as a shopping location. The city centre has become visibly more attractive due to a number of urban development measures, large infrastructure projects and substantial investment in existing and new retail properties. Although the Düsseldorf retail sector suffered - like everywhere else - from the Covid restrictions, the negative effects for rental business were less severe than in other top locations. Prime rents have fallen by only 5 per cent from their maximum level to recently EUR 270 per m^2. Plus points are a catchment area of 2 million people and high purchasing power which is 20 per cent above the average for Germany. A focus on the stable luxury segment, mainly represented by the well-known Kö shopping boulevard, has also helped. Central prime locations include Königsallee, as well as Flinger Straße and the redeveloped consumer location of Schadowstraße. Additions in recent years have been iconic retail developments such as the Kö-Bogen and the KII and the renovation of the Kö-Galerie. Other construction projects are the Sevens, whose upper floors have been converted into offices, and the KaDeWe Group's fourth department store in Germany in the Carsch-Haus, although this could suffer due to the insolvency of Signa. According to press reports, the realisation of the spectacular Calatrava-Boulevard will go ahead despite the insolvency of the Centrum Group.

PURCHASING POWER
IN EUR PER CAPITA



Source: bulwiengesa

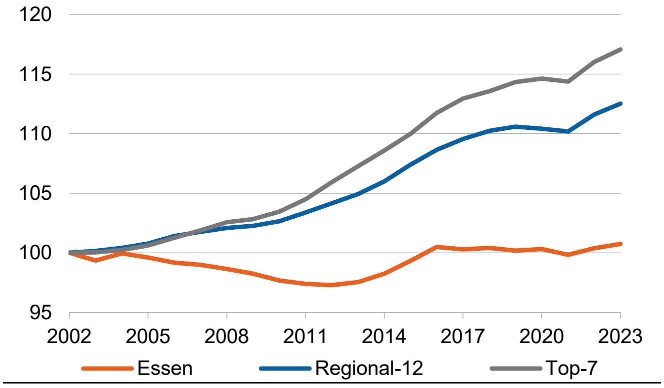
TOURISM - NO. OF OVERNIGHT STAYS
PER 1,000 INHABITANTS



Source: bulwiengesa, Scope

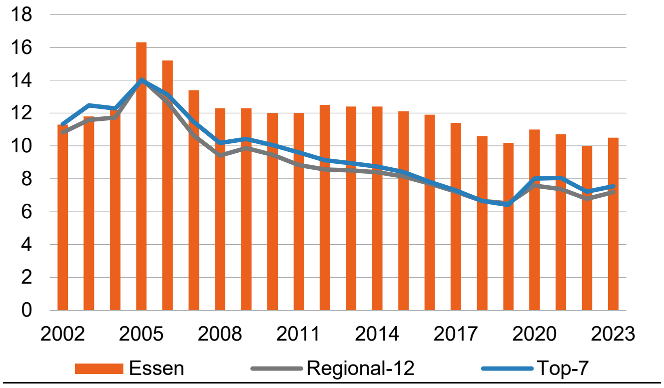
ESSEN

POPULATION GROWTH
2002 = 100



Source: Scope

UNEMPLOYMENT RATE
IN %

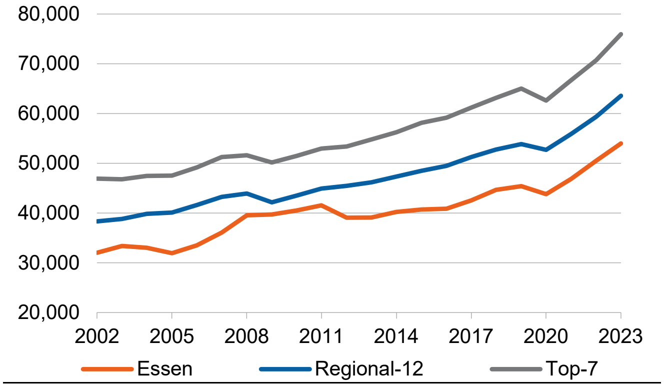


Source: bulwiengesa

Unemployment remains stubbornly high in spite of economic successes

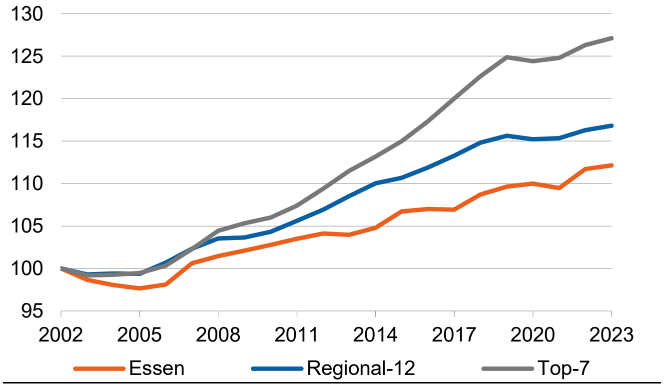
Essen is a major business centre in the Ruhr region. However, the city's transformation after the crisis in the coal and steel industry has had a noticeable impact on population figures. Whereas Essen was once the fourth largest city in Germany, it now trails down in tenth place. After a loss of around 150,000 inhabitants, though, the exodus has now come to an end and population numbers have been stable for some years at around 580,000. Although the city's transformation into a service centre has had a positive impact, the labour market has not benefited as much from this as has been the case in other cities. The number of people in work in Essen has risen more slowly, and consequently, unemployment remains high at 10.4 per cent (December 2023). The city's main economic focus has shifted from industrial production towards administration. Many prominent companies have their head office in Essen, including three DAX companies (Brenntag, E.ON and RWE) and three MDAX groups (ThyssenKrupp, Evonik and Hochtief). Other big names are Aldi-Nord, Deichmann, E.ON-Ruhrgas, Funke Mediengruppe, Innogy, Medion, Schenker and STEAG. The trade fairs which take place in Essen are another major earner for the local economy. The University of Duisburg-Essen which replaces the former Gesamthochschule founded in 1972 has also had a positive impact. Over 33,000 students are enrolled at Essen's higher education institutions. The city has good transport links in view of its central location in the Ruhr region.

GDP
IN EUR PER CAPITA



Source: Scope

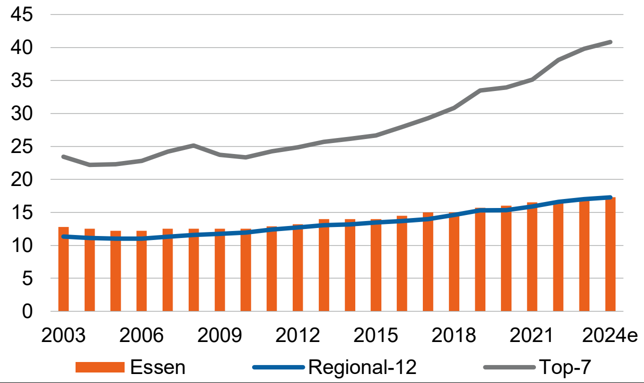
WORKING POPULATION
2002 = 100



Source: Scope

Office space in Essen

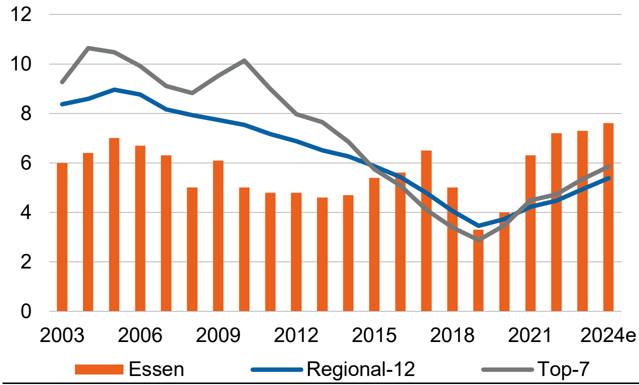
PRIME OFFICE RENTS
IN EUR PER M²



Source: bulwiengesa, DZ BANK forecast

Figures for city locations

VACANCY RATE
IN %

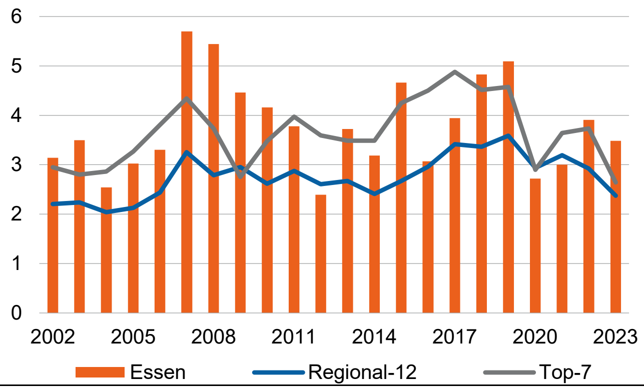


Source: bulwiengesa, DZ BANK forecast

Essen has an office stock of 3.2 million m², outstripped only by Hannover, Nuremberg and Bonn (apart from the top locations). High demand for office space is driven among other things by the large number of major companies which have their headquarters in the city. The market was buoyant prior to the pandemic, with average annual take-up of over 150,000 m². The vacancy rate had fallen to slightly over 3 per cent by 2019, while prime rents rose sharply. However, activity in the Essen market tailed off during the pandemic and annual office take-up fell to below 100,000 m². Business in the market started to pick up again in 2022, however, with an increase in take-up to 125.000 m². The upbeat trend continued in 2023: Although take-up dipped slightly to 112,000 m², the decline was less pronounced than in the office market in general. As was the case in other locations, there was a dearth of major transactions in 2023. Whereas there were still three deals were above the 10,000 m² mark in 2022, there was just one on that scale in 2023. The city of Essen leased 17,000 m². In spite of an increase in the vacancy rate to 7.3 per cent, prime rents have continued to rise and now stand at EUR 17.10 per m². The upward trend in the vacancy rate has reflected not least a fairly steep rise in new office supply since 2020, although it should be lower in 2024, as it was in 2023. The rental growth should be slower this year in view of the improvement in supply.

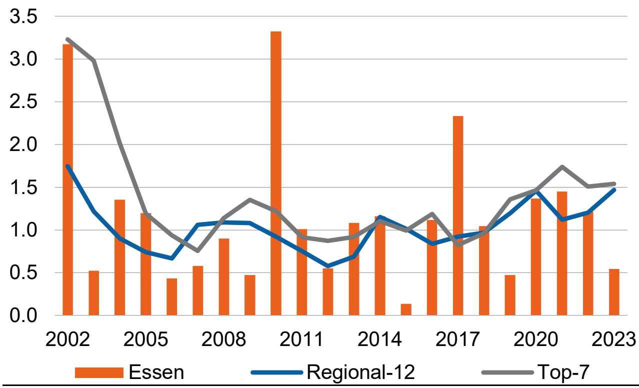
Essen's office market did well in 2023 even with just a single larger transaction

TAKE-UP
AS % OF OFFICE STOCK



Source: bulwiengesa

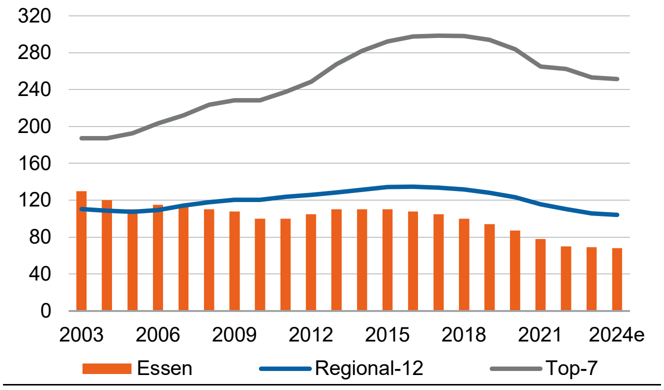
NEW OFFICE SPACE
AS % OF OFFICE STOCK



Source: bulwiengesa

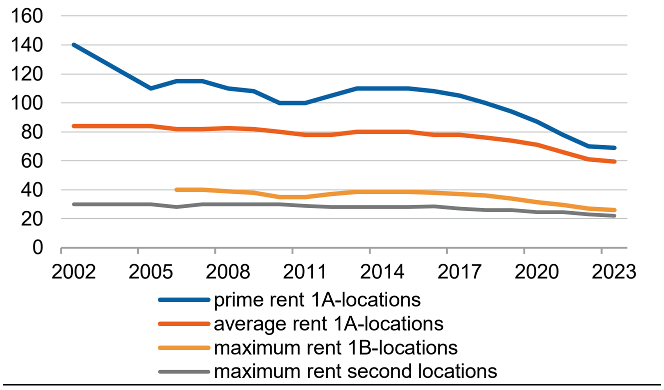
Retail space in Essen

PRIME RETAIL RENTS
IN EUR PER M²



Source: bulwiengesa, DZ BANK forecast

RETAIL RENTS BY LOCATION
IN EUR PER M²

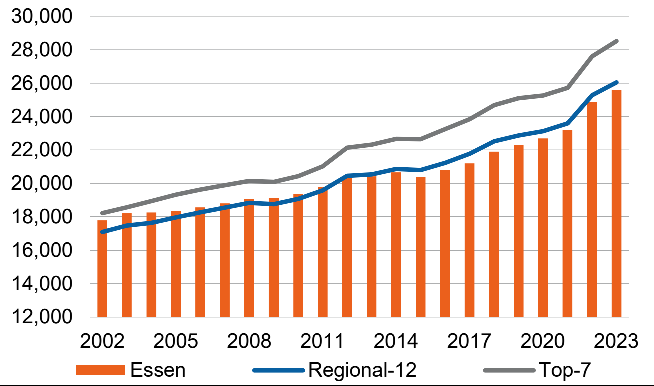


Source: bulwiengesa

Ongoing fall in rents highlights the problems facing Essen's retail sector

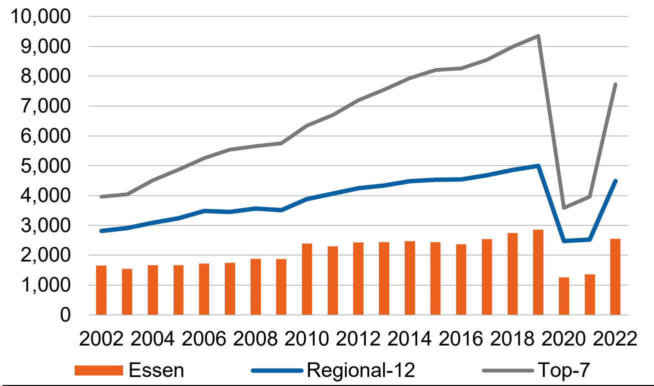
Essen is losing its sparkle as a go-to shopping destination, so much so that the city authorities are looking for an alternative for the famous "City of Shopping" neon sign on the roof of the landmark Handelshof Hotel. The problems in the retail sector are illustrated above all by a weak trend in prime rents which have more than halved since the turn of the millennium to just EUR 69 per m^2 most recently. One dampening factor apart from e-commerce is competition from neighbouring shopping destinations such as Düsseldorf and Dortmund, or from the Centro Oberhausen, which depletes some of the potential from a catchment area of around 1.5 million inhabitants, leading to a rather poor centrality score of 111 points. The problems are compounded by limited population growth and high unemployment. A weak economy is reflected in a low purchasing power score of 95 points. Even the various projects to make the city centre more attractive have failed to halt the decline. Looking back, it is clear that too much new retail space was created. In addition to the prime shopping streets − the Limbecker and Kettwiger Straße – the city centre now has three modern shopping malls. The city authorities have responded to changes in the retail sector by with an update of their retail master plan which was published in the autumn of 2022. We welcome the fact that the Kaufhof store which closed in 2020 is being transformed into a mixed-use facility - the Königshof - which should be completed by this year. We assume that prime rents can stabilise at a shade under EUR 70 per m^2 after their sharp fall.

PURCHASING POWER
IN EUR PER CAPITA



Source: bulwiengesa, Scope

TOURISM - NO. OF OVERNIGHT STAYS
PER 1,000 INHABITANTS

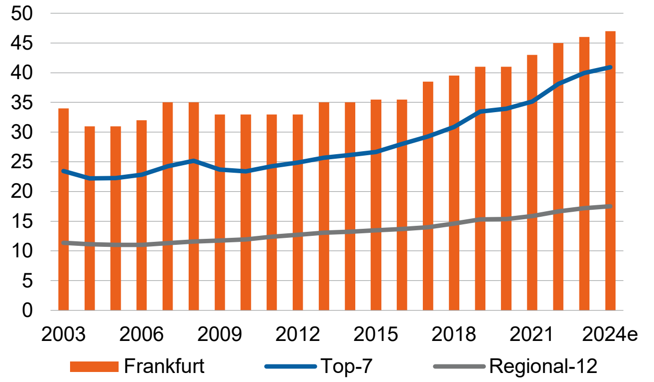


Source: bulwiengesa, Scope

FRANKFURT

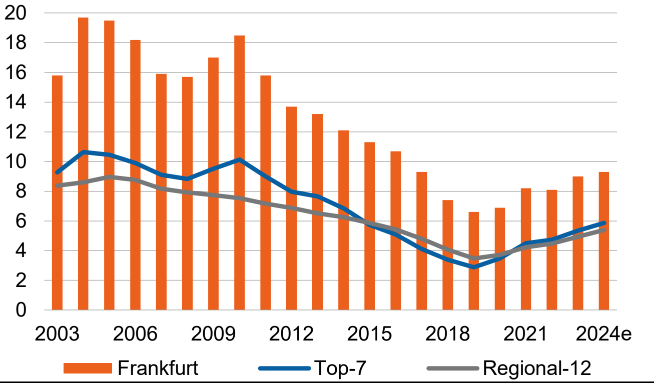
Office space in Frankfurt

PRIME OFFICE RENTS
IN EUR PER M²



Source: bulwiengesa, DZ BANK forecast Figures for city locations

VACANCY RATE
IN %

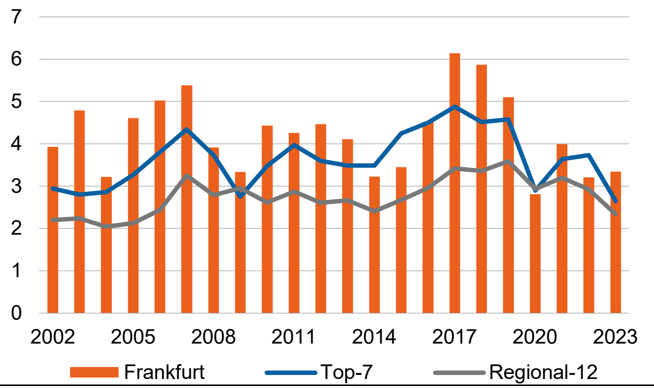


Source: bulwiengesa, DZ BANK forecast

Sound performance for Frankfurt's office market in the first half of 2023

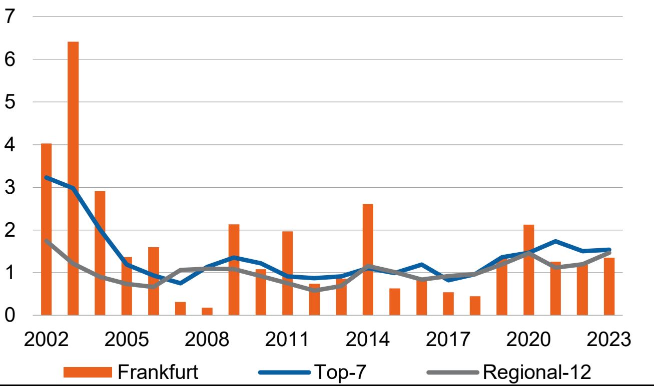
Frankfurt's office market outshone its rivals over many years with the highest prime rents in Germany. In 2023, however, Germany's financial centre was overtaken by Munich. Despite a moderate take-up of 340,000 square metres, as in the previous year – in 2017 it was more than 600,000 square metres – the prime rent in Frankfurt could rise to EUR 46 per square metre in 2023. It might even have fallen below 300,000 m² had it not been for a major transaction of almost 50,000 m² involving the City of Frankfurt in the Lateral Towers, formerly the "Neue Börse". However, the space is not destined to become offices for civil servants; instead, it is being earmarked to house two secondary schools, thus underlining possible alternative uses for empty office space. Apart from that, there was only one "proper", i.e. five-figure m2, rental transaction for office space. Weak conditions in the market have led to a rise in the vacancy rate to 9 per cent. This year, however, declining construction activity suggests that the rental upward trend should ease up. Existing vacancies of almost 1 million m², dwindling demand for office space and difficult financing conditions are also likely to slow down new construction projects beyond 2024. Prime rents though could benefit from the decline in new supply; we expect them to show moderate growth in 2024.

TAKE-UP
AS % OF OFFICE STOCK



Source: bulwiengesa

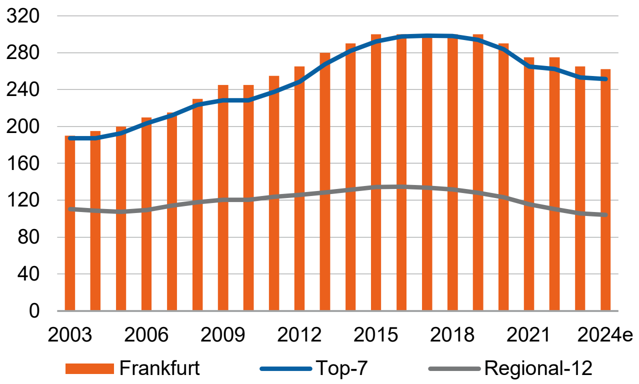
NEW OFFICE SPACE
AS % OF OFFICE STOCK



Source: bulwiengesa

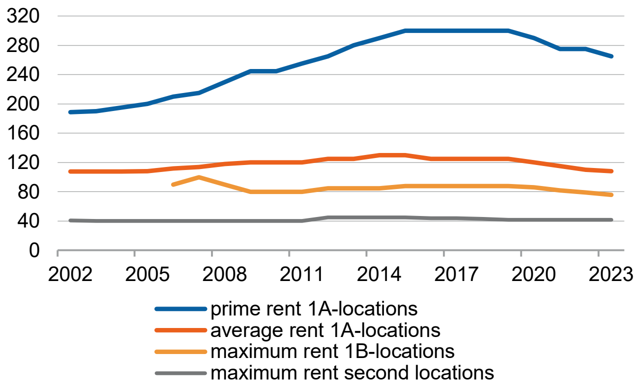
Retail space in Frankfurt

PRIME RETAIL RENTS
IN EUR PER M²



Source: bulwiengesa, DZ BANK forecast

RETAIL RENTS BY LOCATION
IN EUR PER M²

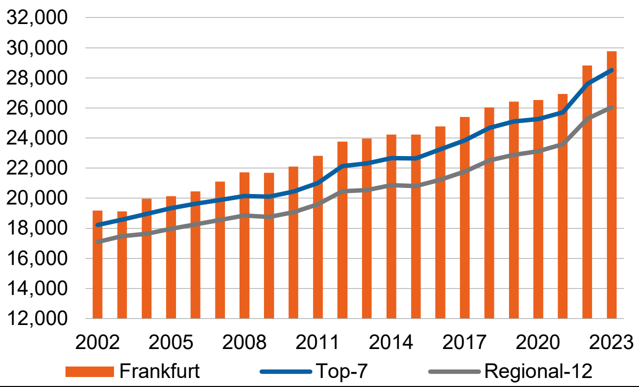


Source: bulwiengesa

Many empty stores in the Zeil mall, but interest in inner-city retail space remains lively

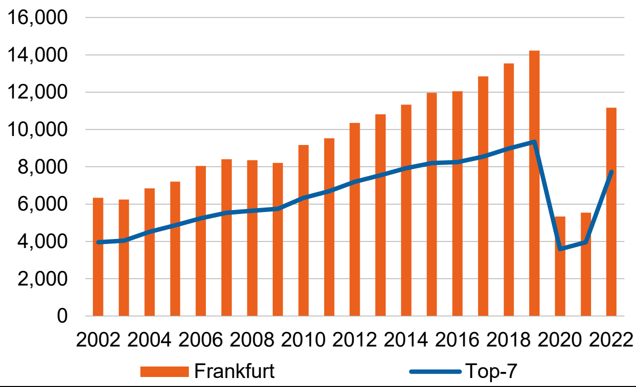
The Frankfurt conurbation has experienced strong growth in the last few years and the affluent catchment area has now increased to around 2.5 million inhabitants. A rising number of visitors are another plus point for the city as a retail location. Frankfurt boasts a high level of visitors among the top locations with 14,000 overnight stays per 1,000 inhabitants. The figure for 2023 is likely to be back to close to its former high. One especially gratifying factor is that wealthy Asian guests who are such an important group of shoppers for Frankfurt's retail sector are coming back to the city. Frankfurt has a broad mix of shops on offer with its two prime shopping streets, the Zeil and Goethestraße, as well as several large shopping centres. The Goethestraße, which focuses more on the luxury goods segment, has done far better than the less attractive and more mass-market Zeil, which is being hit by its many vacant stores. At present, only the ground floor of the former Karstadt department store is in use; there are plans to replace it with a new, mixed-use building in the medium term. In contrast, the outlook for the elegant Galeria store at the other end of the Zeil should be better, in spite of the insolvency of Signa. The shopping street is also being hit by building works for renovations and new building. Interest in Frankfurt's city centre is clear from the fact that many empty stores have now found new tenants. This is probably one of the reasons for which prime rents have only fallen by 12 per cent from their high to EUR 265 per m^2 most recently, a level at which they could also stabilise this year.

PURCHASING POWER
IN EUR PER CAPITA



Source: bulwiengesa

TOURISM - NO. OF OVERNIGHT STAYS
PER 1,000 INHABITANTS

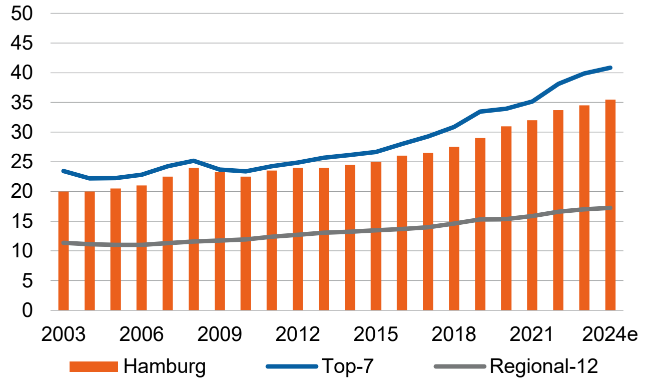


Source: bulwiengesa, Scope

HAMBURG

Office space in Hamburg

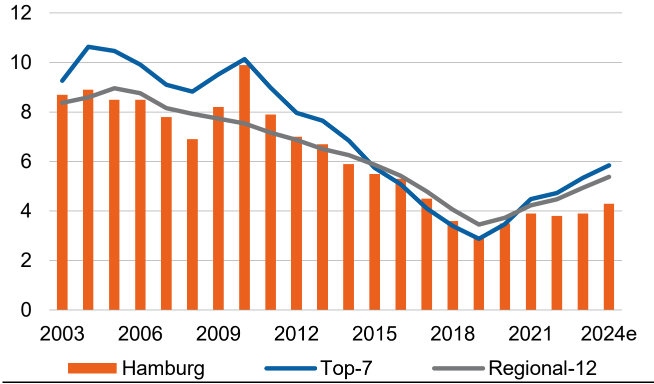
PRIME OFFICE RENTS
IN EUR PER M²



Source: bulwiengesa, DZ BANK forecast

Figures for city locations

VACANCY RATE
IN %

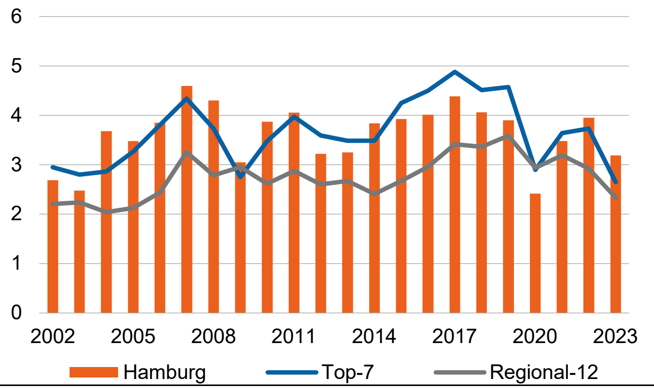


Source: bulwiengesa, DZ BANK forecast

Hamburg office market stands out with low vacancy rate

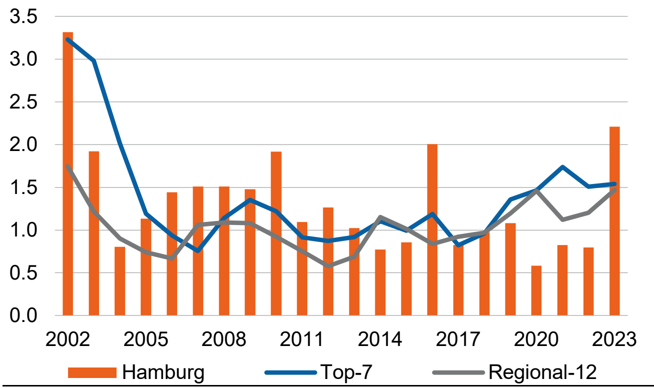
Hamburg is the third largest office market in Germany after Berlin, and almost neck-and-neck with Munich, with a stock of 14 million m^2, although its rental trend lags behind. Lately, Düsseldorf's prime rents also overtook those in Hamburg with a rise to EUR 34.50 per m^2 in 2023. The ten-year increase stands at 44 per cent. Apart from a slightly weaker rental growth, however, the office market has done well, bolstered by Hamburg's broadly based economy. A fairly large number of office projects have been going up in the HafenCity. In 2023, the office market reported an acceptable performance with take-up of 450,000 m^2, which was just 12 per cent short of the average of the last ten years. This was helped by five large rental transactions of 10,000 m^2 and over. The biggest signings in terms of space involved the Hamburg Port Authority, Gruner+Jahr and Fielmann. In spite of quite a large addition of new space in 2023, there was only a small increase in the low vacancy rate to just under 4 per cent. The vacancy rate is low, above all in the HafenCity. An above-average volume of new space is expected once again in 2024 and the vacancy rate can therefore be expected to increase slightly, although it should stay low. It remains to be seen what happens next with the 64-storey high Elbtower. At present, the building site for the Signa project is at a standstill. The new Grasbrook quarter opposite the HafenCity offers room for further expansion. A moderate increase in prime rents is on the cards in view of the tight supply of modern office space.

TAKE-UP
AS % OF OFFICE STOCK



Source: bulwiengesa

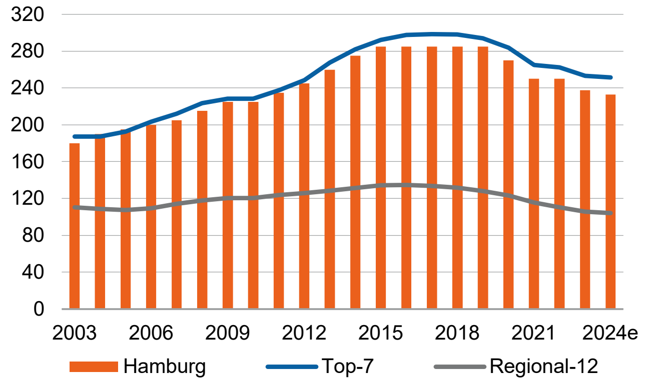
NEW OFFICE SPACE
AS % OF OFFICE STOCK



Source: bulwiengesa

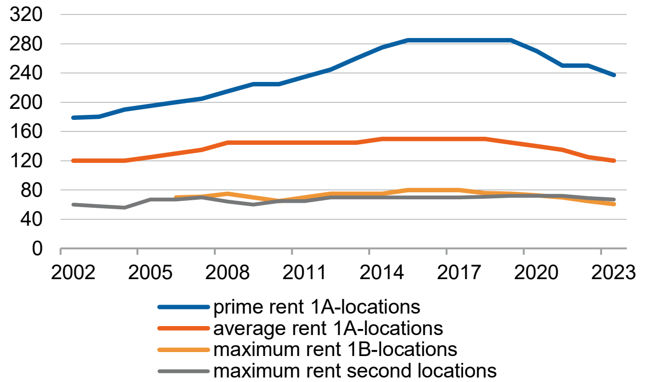
Retail space in Hamburg

PRIME RETAIL RENTS
IN EUR PER M²



Source: bulwiengesa, DZ BANK forecast

RETAIL RENTS BY LOCATION
IN EUR PER M²

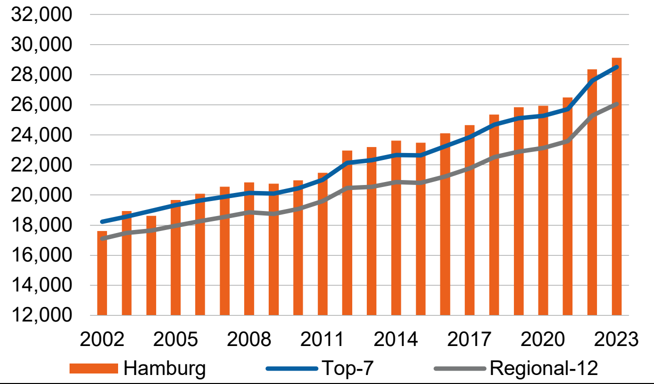


Source: bulwiengesa

Hamburg scores as the leading shopping destination in northern Germany with a 3.5 million-strong catchment area and high purchasing power. Tourists and cruise ship passengers are usually an important consumer group. What makes Hamburg attractive for shoppers is the broad spectrum of shops on offer, from conventional high-street locations such as the Spitalerstraße and Mönckebergstraße all the way up to the luxury end of the market in the Neuer Wall. The city centre also has a large shopping mall with the Europa-Passage. The pandemic hit Hamburg's city-centre retail sector hard, leading to noticeable vacancies. However, interest from new players in retail space in Hamburg's city centre means that space can often be let again. In order to reduce the number of empty premises, the Senate has extended its "Free_Space" promotional programme to encourage temporary use for creative and cultural purposes. Residents of Hamburg will therefore still be able to enjoy the cultural events on offer in the former Karstadt Sport building under the "Jupiter" project label this year. The future of the former Kaufhof store has now been decided: it is to be brought back to life after redevelopment with a mix of offices, retail and flats. Prime rents have fallen by 17 per cent from their high to EUR 238 per m². This figure is being generated mainly on the Neuer Wall. Tail wind for the city centre is set to increase even further from the spring of 2024 with the opening an 80,000 m² shopping mall in the HafenCity. After all, the 200 or stores projected for the new venue are likely to take away substantial sales from the inner city.

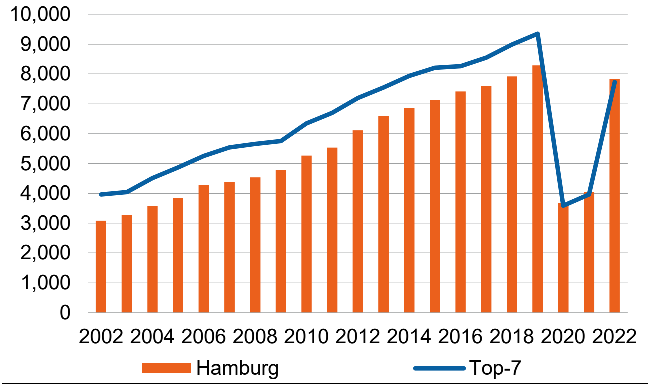
Mönckebergstraße, Hamburg's main shopping street, faces major changes, as the new shopping centre in the HafenCity will mean serious competition

PURCHASING POWER
IN EUR PER CAPITA



Source: bulwiengesa

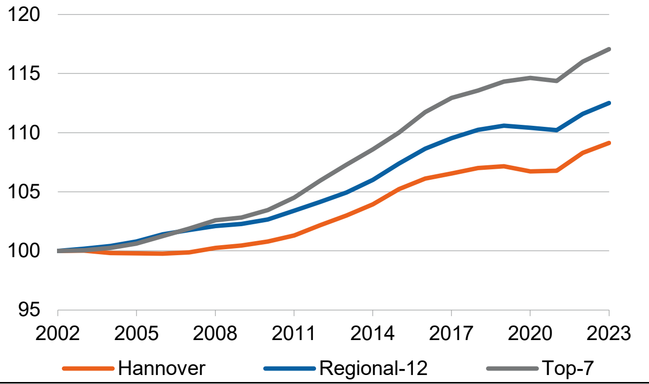
TOURISM - NO. OF OVERNIGHT STAYS
PER 1,000 INHABITANTS



Source: bulwiengesa, Scope

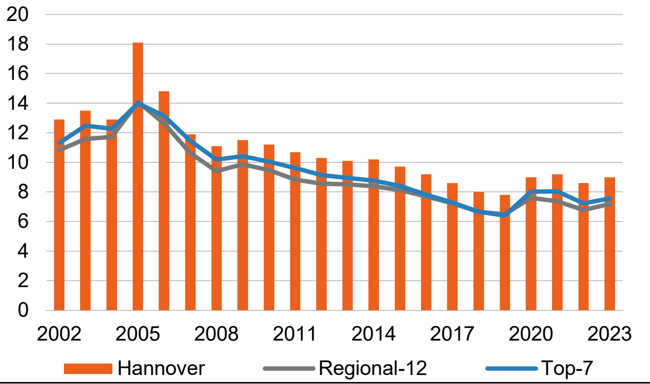
HANNOVER

POPULATION GROWTH
2002 = 100



Source: Scope

UNEMPLOYMENT RATE
IN %

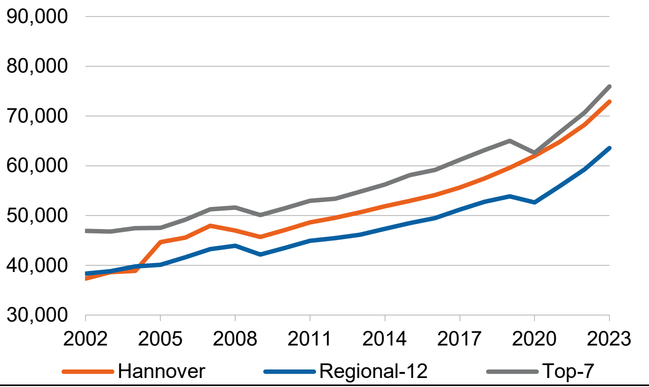


Source: bulwiengesa

Hannover is by far the largest city in Lower Saxony with a population of over 545,000; it ranks in 13th place in Germany. Ten-year population growth is in line with the average at 6 per cent. Outside of the top 7, Hannover is among the most important property markets in Germany with high commercial rents and a large office market. This reflects several contributory factors: Hannover is the regional capital, administrative hub and a major business location in Lower Saxony with many major industrial and service companies. The city is at the heart of the Hannover-Braunschweig-Göttingen-Wolfsburg metropolitan area and a major trade fair centre. There is a strong industrial presence, notably mechanical engineering and automotive firms along with their respective suppliers. Moreover, Hannover is an important financial services centre, with the headquarters of NORD/LB and Talanx. Automotive supplier Continental and the travel group TUI also have their head office in the city. Hannover is an important centre for science and research with various research and higher education institutions and a student population of over 50,000. However, unemployment is relatively high in spite of job opportunities in business and administration. As a location, Hannover benefits from excellent transport links in an East-West and North-South direction - a fact which has had a positive impact on the development of the logistics sector.

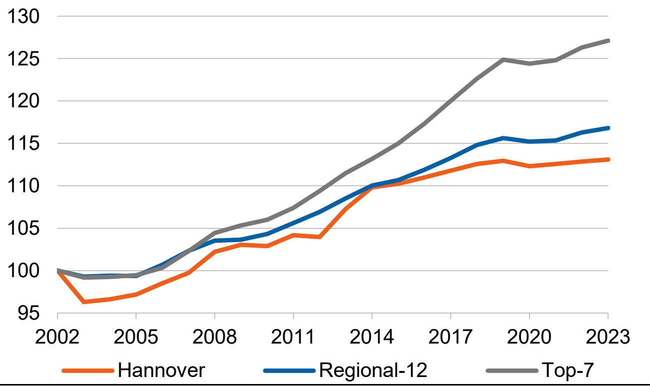
Hannover one of the foremost German property markets outside the top locations

GDP
IN EUR PER CAPITA



Source: Scope

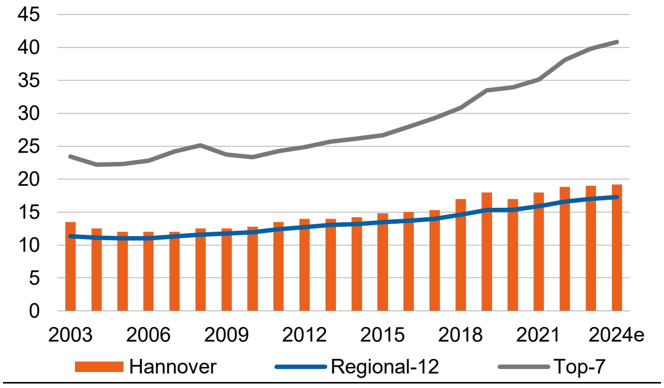
WORKING POPULATION
2002 = 100



Source: Scope

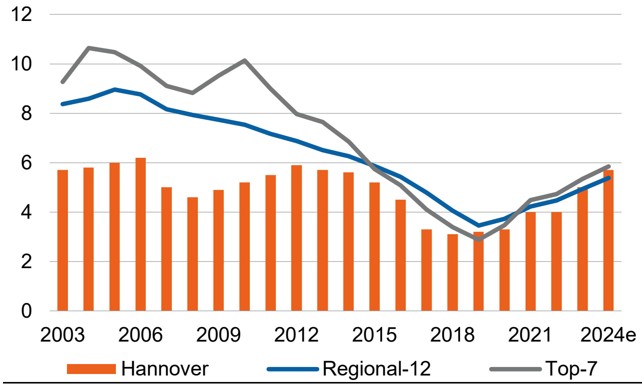
Office space in Hannover

PRIME OFFICE RENTS
IN EUR PER M²



Source: bulwiengesa, DZ BANK forecast   Figures for city locations

VACANCY RATE
IN %

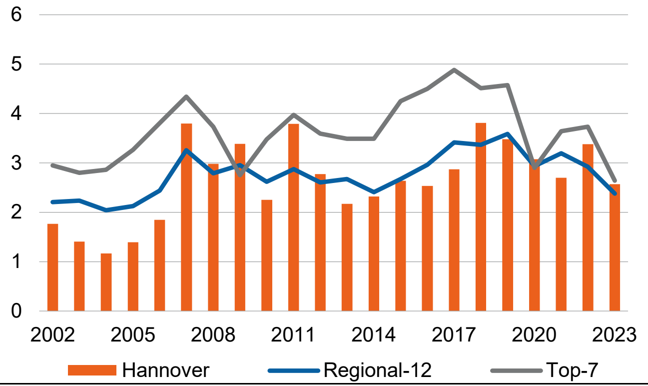


Source: bulwiengesa, DZ BANK forecast

Hannover by far the biggest office location in Germany outside the top 7

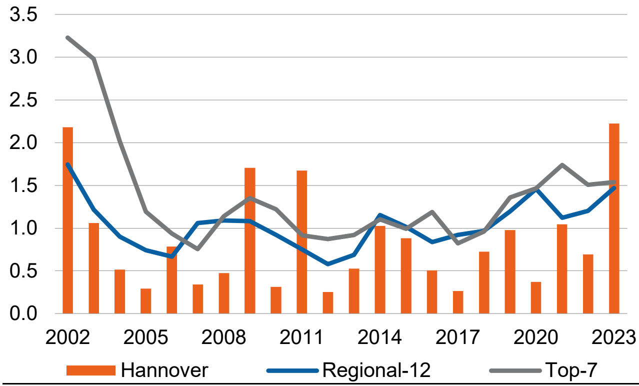
Hannover is the leading office market outside the top 7 with a stock of 4.6 million m², followed a long way behind by Nuremberg with 3.7 m². For a long time, however, the office stock hardly grew any further because of fairly moderate office construction. This led to the vacancy rate falling to just over 3 per cent prior to the pandemic. Demand for office space went hand-in-hand with a sharp rise in prime rents which surged by around 35 per cent to EUR 19 per m² within a ten-year period, in other words a high level for a regional centre. For over 20 years now, take-up has reached almost consistently six figures. However, as in the market as a whole, activity in the Hannover office market fell in 2023, although the take-up figure of 120,000 m² was still a solid result. This included three major transactions of just under 10,000 m² respectively, involving the power generator Tennet, LKA and the Forensic Science Institute. A substantial volume of new space of over 100,000 m² in 2023 led to an increase in the vacancy rate to 5 per cent. We can expect another substantial increase in stock in 2024, and the supply of available space will therefore be accompanied by a further uptick in the vacancy rate which could even go as high as 6 per cent. The rise in prime rents which has already slowed down in 2023 can be expected to continue this year.

TAKE-UP
AS % OF OFFICE STOCK



Source: bulwiengesa

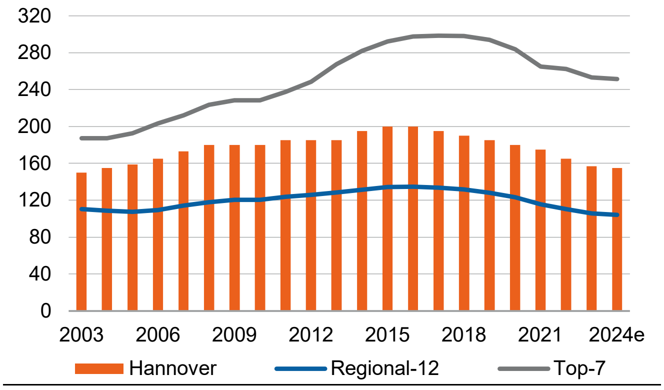
NEW OFFICE SPACE
AS % OF OFFICE STOCK



Source: bulwiengesa

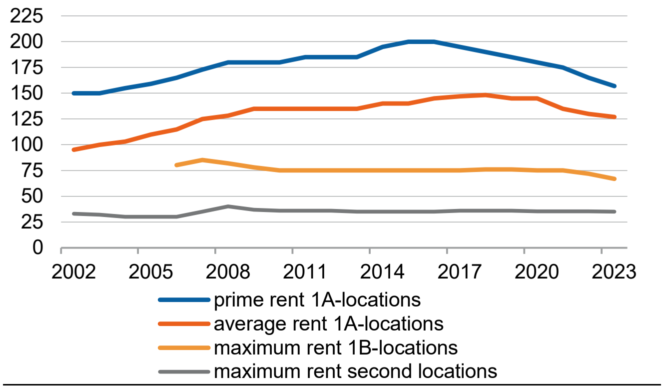
Retail space in Hannover

PRIME RETAIL RENTS
IN EUR PER M²



Source: bulwiengesa, DZ BANK forecast

RETAIL RENTS BY LOCATION
IN EUR PER M²

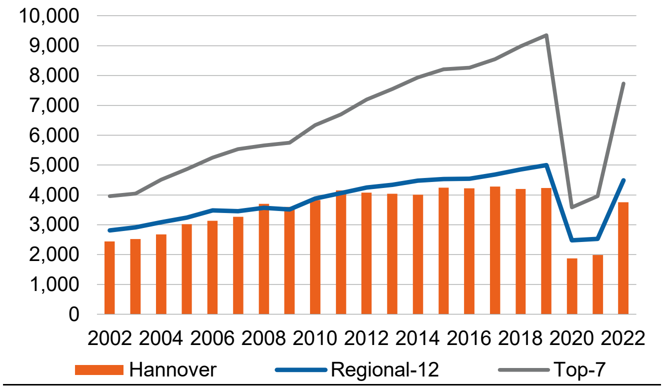


Source: bulwiengesa

Hannover still one of the most expensive retail locations in Germany

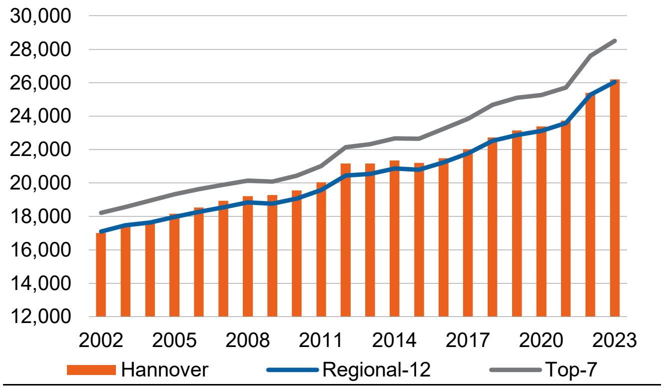
Hannover is one of the retail locations in Germany with the highest prime rents. However, even in Hannover, the problems affecting city-centre retail have pushed prime rents down to well below their earlier high of EUR 200 per m^2. In all, rents have slumped by slightly over one fifth to EUR 157 per m^2. High rents are based on generally favourable conditions. One plus point is a catchment area of around 1.8 million inhabitants. In addition, there is little competition from surrounding cities and the city centre is well able to hold its own against out-of-town retail parks in view of large amounts of sales space. Hannover scores 120 points for centrality, but purchasing power is slightly below the German average at 98 points. The city's attraction as a shopping destination is based on a good range of shops in the city centre with its prime shopping streets, the Bahnhofstraße/Niki-de-Saint-Phalle-Promenade, Georgstraße, Große Packhofstraße and Karmarschstraße. These prime locations are enhanced by the city centre's Ernst-August-Galerie. Demand in the retail sector is also boosted by visitors to the Hannover trade fair. Hannover is planning to develop new concepts for the city with its "city-centre dialogue" in an effort to tackle vacant stores. In addition to branches of fashion chains, two closed Galeria department stores have also contributed to the vacancy. The old Kaufhof will be used as an experiment for this purpose and renamed "aufhof". We expect prime rents to stabilise at around EUR 155 per m^2.

PURCHASING POWER
IN EUR PER CAPITA



Source: bulwiengesa, Scope

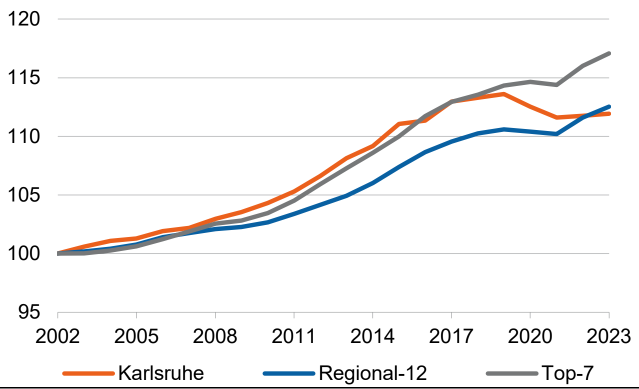
TOURISM - NO. OF OVERNIGHT STAYS
PER 1,000 INHABITANTS



Source: bulwiengesa, Scope

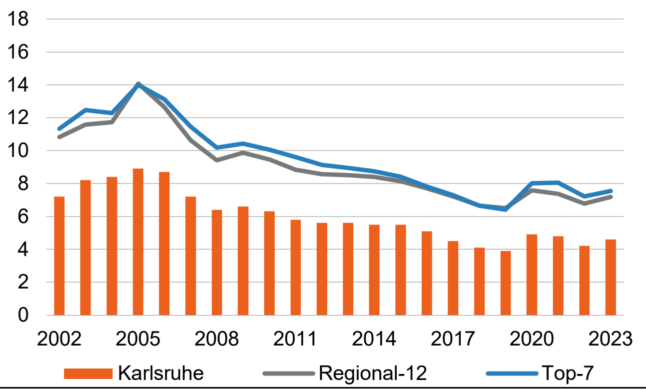
KARLSRUHE

POPULATION GROWTH
2002 = 100



Source: Scope

UNEMPLOYMENT RATE
IN %

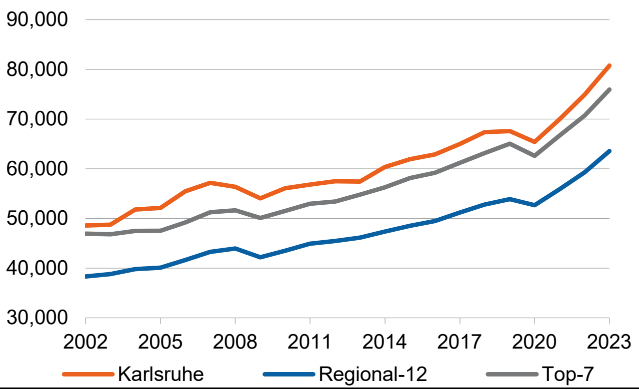


Source: bulwiengesa

Karlsruhe is a major business, administration and research centre

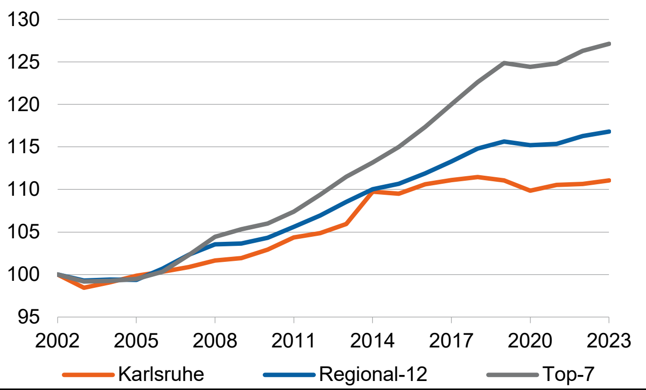
Mannheim and Karlsruhe are, after Stuttgart, the most populous cities in Baden-Württemberg, almost neck-and-neck in second and third place respectively. Unlike in Mannheim, the population in Karlsruhe has not grown any further since 2018; in fact, it has dipped to just below 310,000. This has meant a ten-year population growth of only 3.5 per cent. The two cities differ above all considering their economic structure. Unlike the more industrial Mannheim, Karlsruhe is primarily an administrative and services hub as well as a centre for science and technology. Karlsruhe is located on the Upper Rhine and home to important bodies such as the Federal Constitutional Court, the Federal Court of Justice, the regional government and the Federal and State Government Employee Retirement. As a centre for science and technology, Karlsruhe has a number of higher education institutions with around 38,000 students. Foremost among these are the Technical University and the Karlsruhe Institute of Technology (KIT). Karlsruhe's importance in the field of science and technology is bolstered by many research institutions. The city's economy benefits from good transport links via the A5 and A8 motorways, the ICE high-speed train connection, along with an airport and river port. The main sectors are IT, chemicals and machinery. Well-known companies based in Karlsruhe include dm-Drogeriemärkte, EnBW, the co-operative IT service provider Atruvia and pharmaceutical company Schwabe. Tourism does not play a big part in the baroque city and former royal residence. Unemployment was a low 4.7 per cent in December 2023.

GDP
IN EUR PER CAPITA



Source: Scope

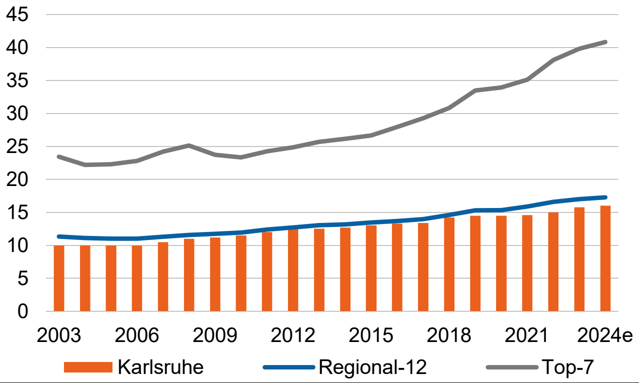
WORKING POPULATION
2002 = 100



Source: Scope

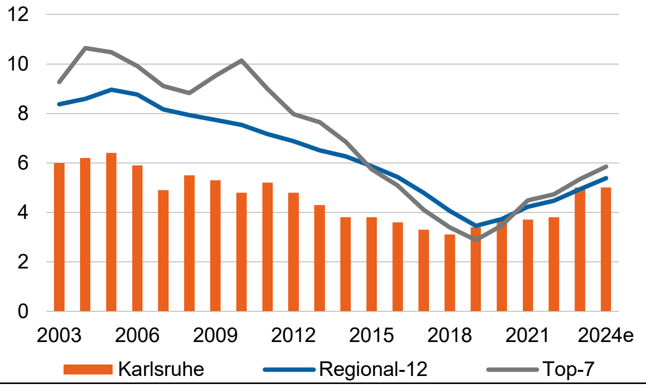
Office space in Karlsruhe

PRIME OFFICE RENTS
IN EUR PER M²



Source: bulwiengesa, DZ BANK forecast
Figures for city locations

VACANCY RATE
IN %

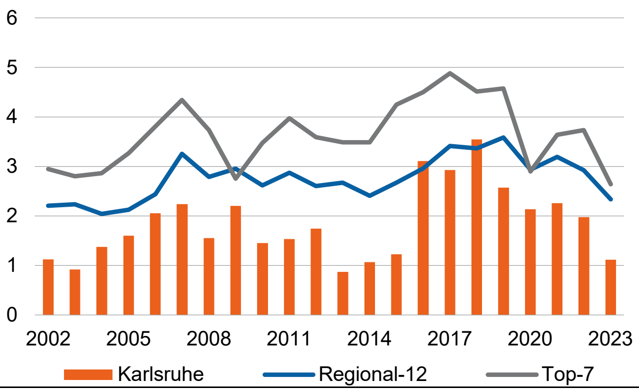


Source: bulwiengesa, DZ BANK forecast

Major developments went hand-in-hand with rising rents but also higher vacancies

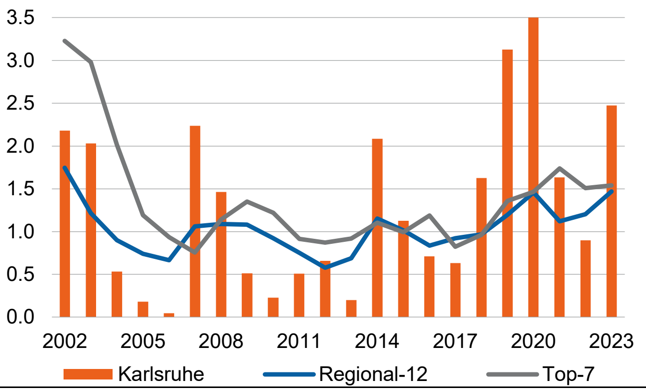
As an administrative and services hub and a centre for science and research, Karlsruhe has quite a large office market of almost 2.7 million m^2. From 2018 onwards, the stock grew fairly substantially through big developments, foremost among which the 1&1/Dommermuth office complex by the main railway station which has around 50,000 m^2 of space. The ten-year increase in office stock of 17 per cent is the highest among the locations under consideration. This has meant that the vacancy rate, which had fallen to just over 3 per cent by 2018, lifted to 5 per cent more recently. It is likely to remain at this level since far less new space will be coming onto the market from 2024 onwards than in previous years. Higher rents for newly built space have also led to a slightly sharper upward trend in prime rents; in 2023, they rose to EUR 15.80 per m^2. Overall, prime rents have surged by around 25 per cent over ten years. New developments also led to noticeably higher take-up from 2016 onwards. Whereas annual take-up from 2010 to 2015 was only 30,000 m^2, the average figure from 2016 onwards had doubled. In 2023, take-up of 30,000 m^2 was achieved with just a few larger deals. The biggest space (6,500 m^2) was leased by the State of Baden-Württemberg. This year, we expect at best a moderate rise in prime rents and stable or even slightly lower vacancy rate.

TAKE-UP
AS % OF OFFICE STOCK



Source: bulwiengesa

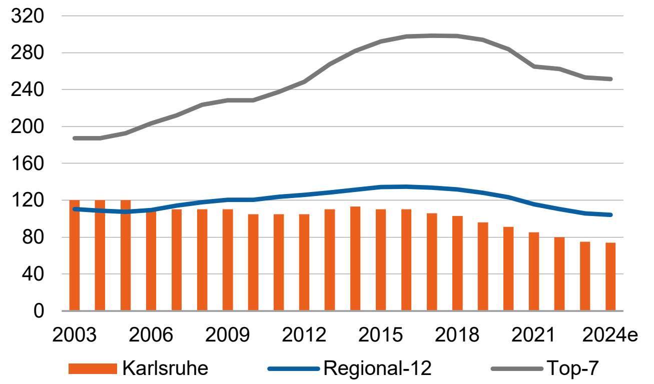
NEW OFFICE SPACE
AS % OF OFFICE STOCK



Source: bulwiengesa

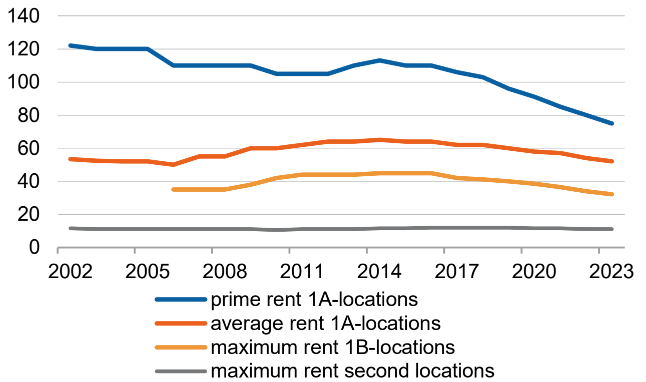
Retail space in Karlsruhe

PRIME RETAIL RENTS
IN EUR PER M²



Source: bulwiengesa, DZ BANK forecast

RETAIL RENTS BY LOCATION
IN EUR PER M²

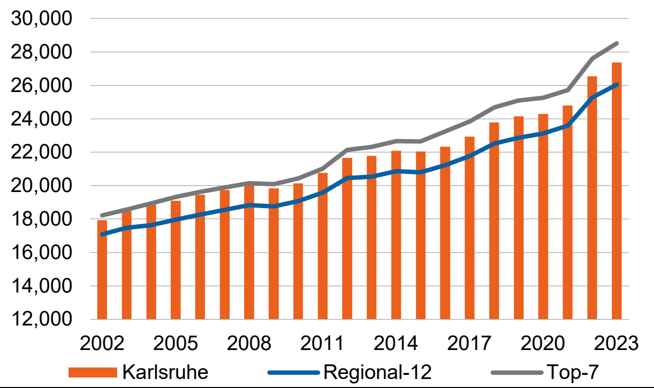


Source: bulwiengesa

Retail in the city centre depressed by major building works, pandemic and online shopping

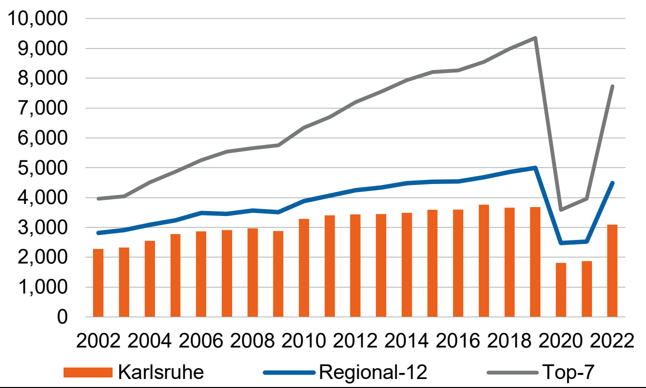
Karlsruhe is an important shopping destination in Baden-Württemberg. Plus points for retailers have included population growth so far, a catchment area of over 1 million people and solid economic base with low unemployment. Weak purchasing power of 102, which is only just above average, reflects a large student population. Tourism is not a major contributor. The retail offer in the prime shopping street (Kaiserstraße) is bolstered by two well-integrated shopping malls (the Postgalerie and Ettlinger Tor). However, the city centre's attraction has dwindled somewhat; the centrality figure has recently fallen from over 130 to 115 most recently, leading to a noticeable increase in the number of vacant stores. Apart from the ubiquitous problems affecting inner-city retailing, Karlsruhe has also been suffering the impact of major infrastructure works in the city - the "combined solution" - to move the tram underground the length of the shopping mile. The redevelopment of the Kaiserstraße means further major works. At the end of all this inconvenience, the city should have a modern pedestrian area and much more attractive city centre, which could improve letting prospects. Their deterioration has gone hand-in-hand with a drop in prime rents which have fallen by one third from EUR 113 to EUR 75 per m^2 since 2014. Twenty years ago, the figure was still slightly above EUR 120 per m^2. We do not rule out a further moderate dip in prime rents this year in view of the ongoing building site in the city centre.

PURCHASING POWER
IN EUR PER CAPITA



Source: bulwiengesa, Scope

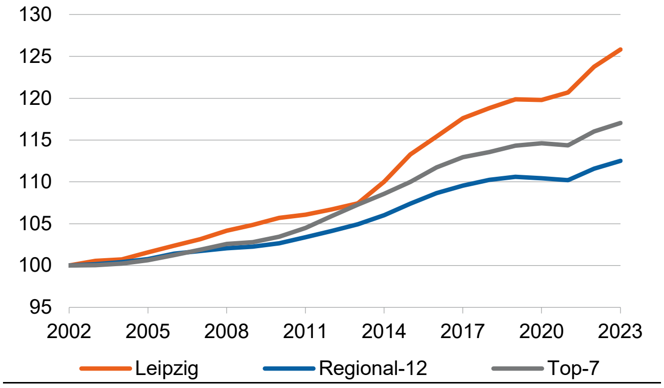
TOURISM - NO. OF OVERNIGHT STAYS
PER 1,000 INHABITANTS



Source: bulwiengesa, Scope

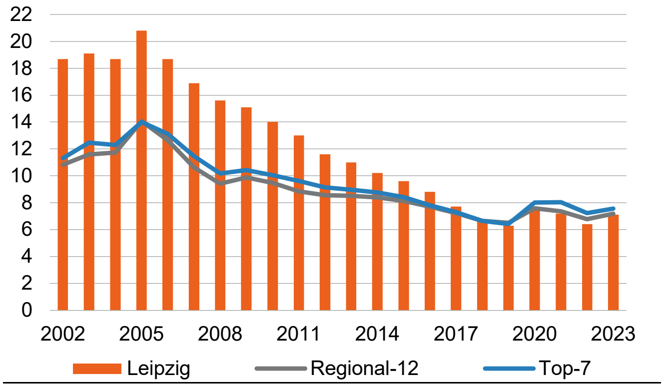
LEIPZIG

POPULATION GROWTH
2002 = 100



Source: Scope

UNEMPLOYMENT RATE
IN %

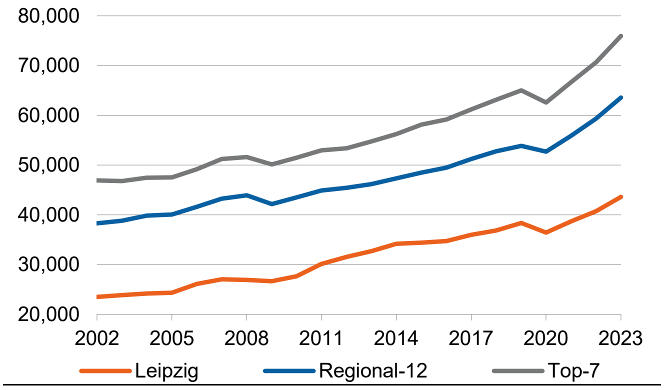


Source: bulwiengesa

Flourishing economic centre with strong population growth

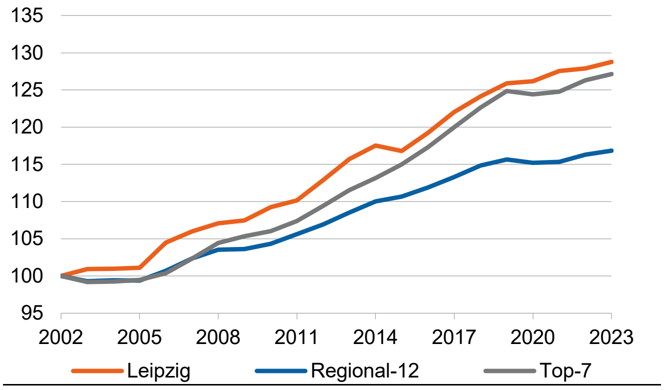
Leipzig is Germany's eighth largest city with over 620,000 inhabitants and is steadily moving up the leader board on the back of strong growth. The population has grown by almost 100,000 in the space of ten years through an ongoing influx driven by a high quality of life in a city rich in historical buildings, and driven by an economic upturn which has led to an attractive labour market. In spite of strong growth, unemployment has fallen by two thirds from its high; it still stood at 7 per cent in December 2023. The large population influx is unfortunately not without its downside, especially reflected in a tight housing market at present. A large number of vacant properties and cheap rents are now a thing of the past. The city's strong tradition as a centre for trade fairs, commerce and industry has attracted cutting-edge sectors and major companies such as BMW, DHL, Porsche and Siemens. Moreover, Leipzig is a major centre for science, technology and research. Almost 40,000 students are enrolled at the city's dozen higher education institutions, around which a prosperous start-up scene has developed. Leipzig enjoys favourable transport links, including an international airport. Key economic clusters are the automotive sector, life science/biotechnology, energy, logistics and IT/media/creative industries. Tourism has also become a major earner for the city.

GDP
IN EUR PER CAPITA



Source: Scope

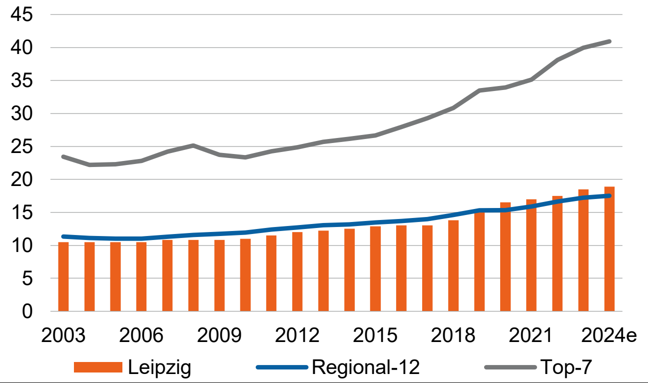
WORKING POPULATION
2002 = 100



Source: Scope

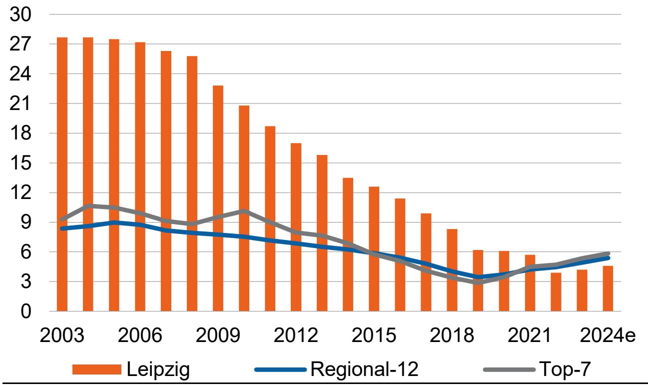
Office space in Leipzig

PRIME OFFICE RENTS
IN EUR PER M²



Source: bulwiengesa, DZ BANK forecast Figures for city locations

VACANCY RATE
IN %

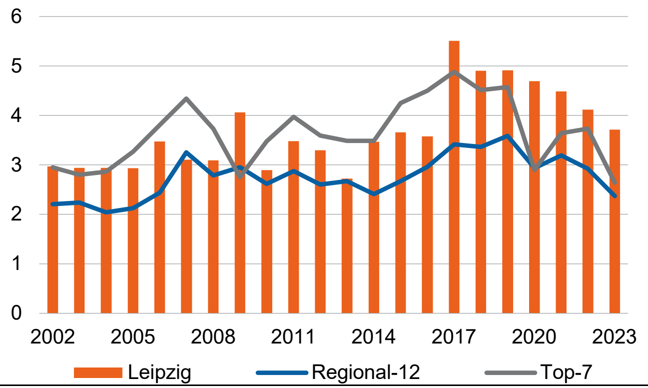


Source: bulwiengesa, DZ BANK forecast

Booming office market with sharp rise in prime rents

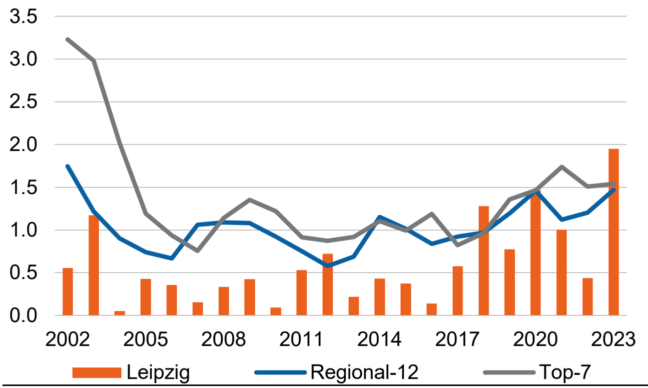
The size of the Leipzig office market ranges from around 3 million to almost 4 million m², depending on sources. A large part of the stock was built in the 1990s after which there were hardly any new office developments. The trend in Leipzig has only picked up again in the last few years. There is substantial demand for office space on the back of the economic recovery and a sharp increase in office employment. For a long time, it was possible to meet this demand from vacant stock, but as this space has dwindled ever more and, given its outdated state, the gap in demand has mostly increased for contemporary office space. This has led to a sharp rise in prime rents to almost EUR 18.50 per m² in 2023 with a ten-year plus of more than 50 per cent. In spite of a higher volume of new space coming onto the market, the vacancy rate fell even further to a low of just under 4 per cent. Leipzig was largely spared the obvious weakness suffered by many office markets in 2023. Although take-up did not quite match the highs of previous years, it was still in six figures at 105,000 m² against 115,000 m² a year earlier. A fairly substantial amount of new space is expected again in 2024 and the vacancy rate could therefore pick up again slightly. Even though modern office space is still in short supply, after the sharp rent rise and high level now reached, we expect prime rents to remain stable or at most a slight rise.

TAKE-UP
AS % OF OFFICE STOCK



Source: bulwiengesa

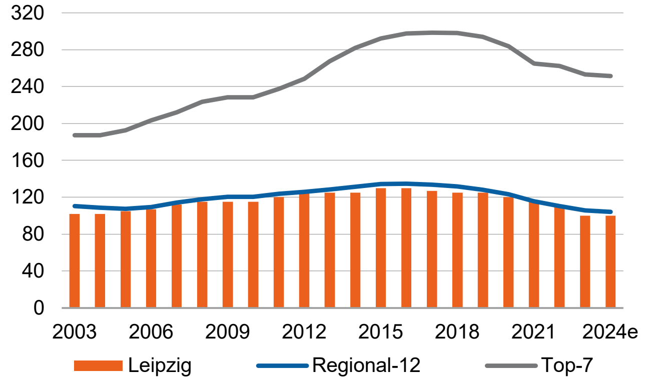
NEW OFFICE SPACE
AS % OF OFFICE STOCK



Source: bulwiengesa

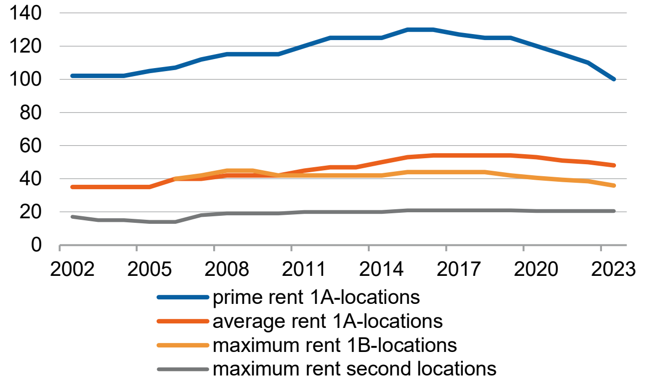
Retail space in Leipzig

PRIME RETAIL RENTS
IN EUR PER M²



Source: bulwiengesa, DZ BANK forecast

RETAIL RENTS BY LOCATION
IN EUR PER M²

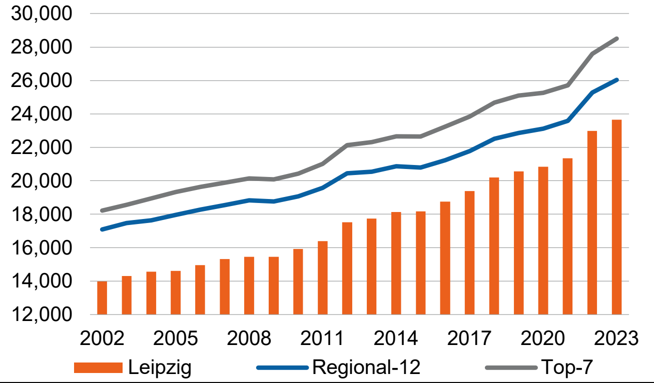


Source: bulwiengesa

City centre doing quite well on the back of favourable conditions

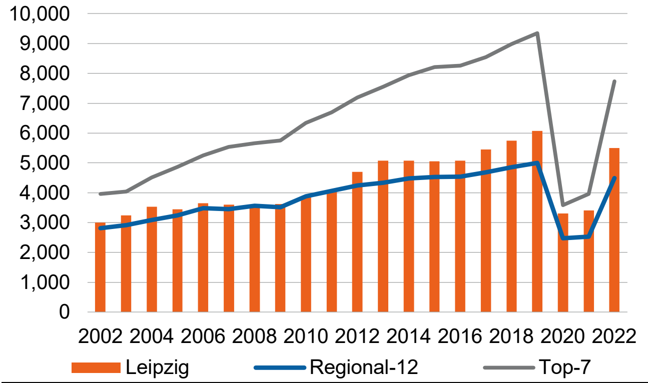
An attractive city centre makes Leipzig the third go-to shopping destination in eastern Germany along with Berlin and Dresden. Apart from low purchasing power of just 88 points, conditions for the retail sector are positive, helped by a catchment area of 1.2 million people, strong population growth, the economic upturn and solid tourism business. In addition, access to the city centre from neighbouring areas has improved significantly since the completion in 2013 of the Citytunnel and overground (S-Bahn) link-up. Visitors to the city centre have a choice between several prime shopping locations such as the Petersstraße and Grimmaische Straße as well as the two shopping centres – the Höfe am Brühl and Promenaden Hauptbahnhof. Although there is little competition from neighbouring towns, Leipzig scores a low 103 points for centrality. This is mainly because of out-of-town retail parks. These include two shopping centres − NOVA, west of the city, and Paunsdorf on the eastern edge of the city, offering a total of almost 150,000 m^2 of retail space and a number of specialist stores. By 2023, the downtrend in rents in the retail sector had led to a decline in prime rents in the city centre of just over one quarter to EUR 100 per m^2. Although there are obvious empty stores in the city centre, they are mostly easy to let on to new businesses. The historical building that was once home to Karstadt has now been redeveloped; itreopened at the end of 2023 as N30/NEO. We expect prime rents in 2024 to remain largely stable.

PURCHASING POWER
IN EUR PER CAPITA



Source: bulwiengesa, Scope

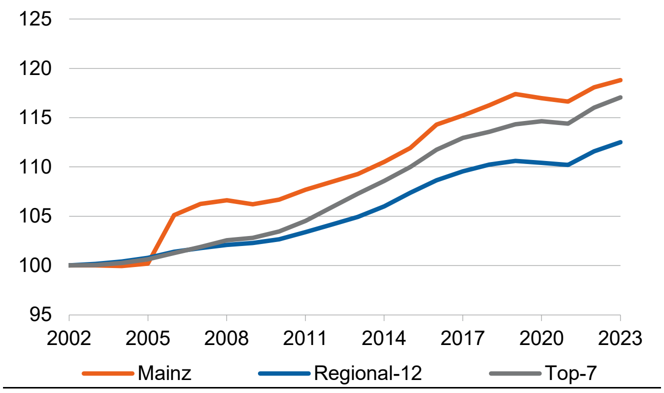
TOURISM - NO. OF OVERNIGHT STAYS
PER 1,000 INHABITANTS



Source: bulwiengesa, Scope

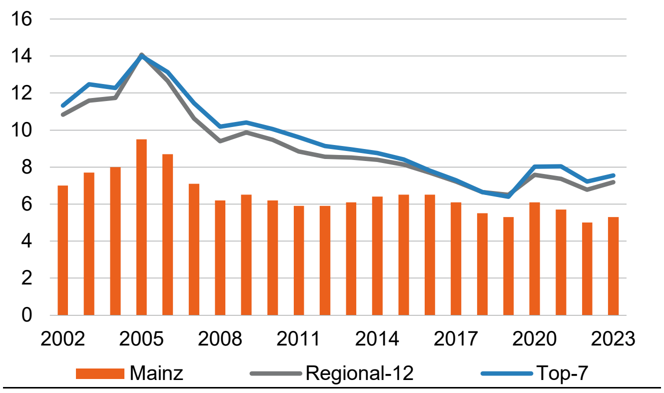
MAINZ

POPULATION GROWTH
2002 = 100



Source: Scope

UNEMPLOYMENT RATE
IN %

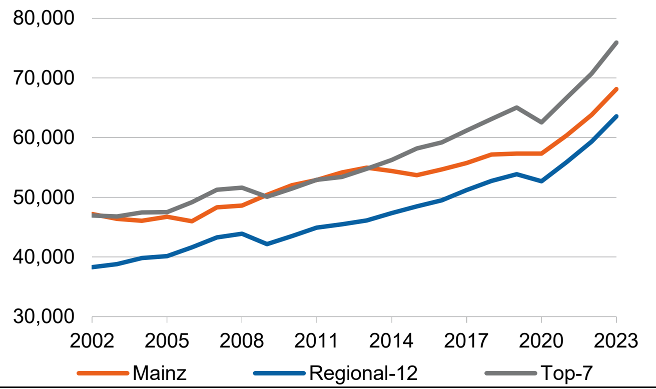


Source: bulwiengesa

Strong growth in the Rhineland-Palatinate capital with plans to expand biotech hub

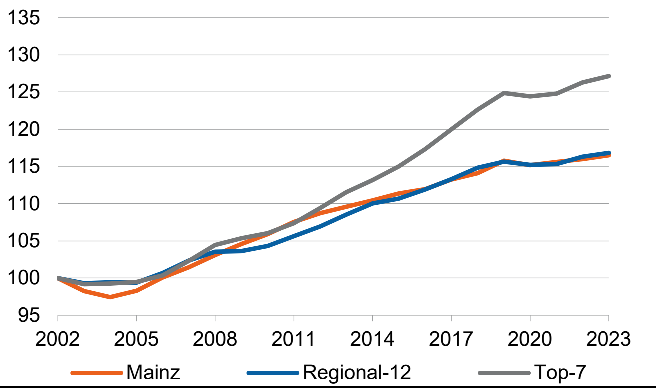
Mainz's advantageous position on the Rhine and Main was already prized in Roman times. Today, the capital of the Rhineland-Palatinate also benefits from its location in the economically strong Rhine-Main area. The university town offers a high quality of life and there has been strong population growth of almost 9 per cent to just over 220,000 since 2013. It might have been even stronger had it not been for a tight housing market with rents reaching those of top locations. Public bodies along with radio and TV, prominently represented by ZDF, SWR and 3sat play a key role for the local economy. The creative sector and services, mainly health and social services, are also major employers. Manufacturing plays a lesser role. On the other hand, Mainz is an important centre for science and technology with over 37,000 students and many research institutions. This is the environment in which the pharmaceutical company BioNTech was founded in 2008; the company has led to huge corporation tax income for the city from the profits generated by the first Covid-19 vaccine . Some of the funds are to be used to expand the biotech hub in the west of Mainz. Other well known companies are the glass manufacturer Schott, credit insurer Coface and chemical company Werner & Mertz (which produces the shoe polish Erdal). Unemployment is low at 5.2 per cent (December 2023). The Zollhafen project is expected to lead to the creation of 4,000 jobs and 1,400 homes by 2025. Another project involves the refurbishment of the University Hospital at a cost of several billion.

GDP
IN EUR PER CAPITA



Source: Scope

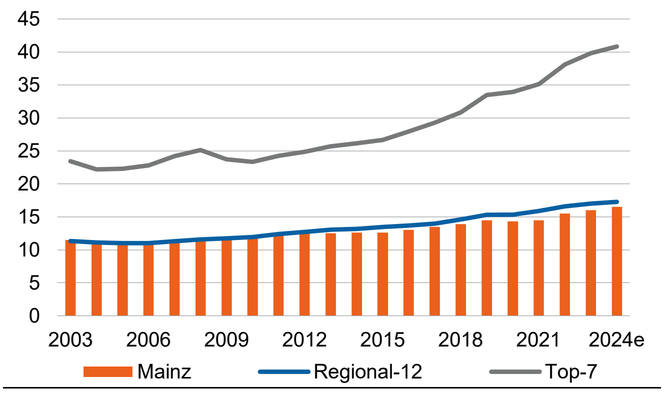
WORKING POPULATION
2002 = 100



Source: Scope

Office space in Mainz

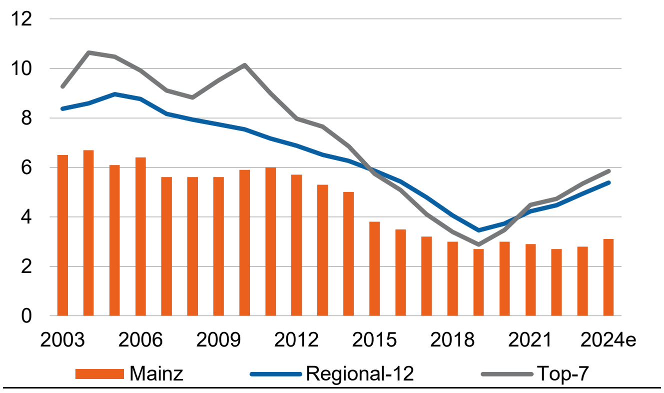
PRIME OFFICE RENTS
IN EUR PER M²



Source: bulwiengesa, DZ BANK forecast

Figures for city locations

VACANCY RATE
IN %

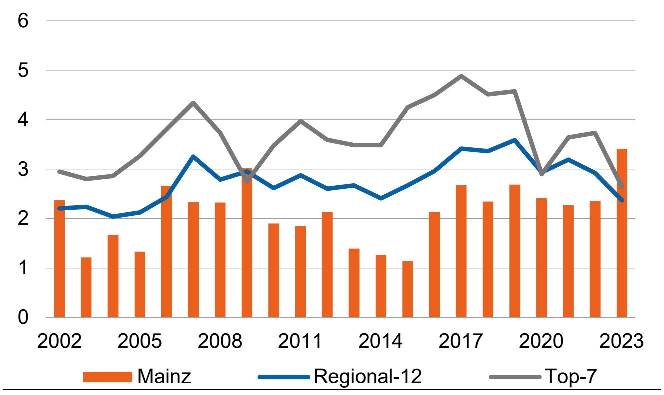


Source: bulwiengesa, DZ BANK forecast

Mainz's solid office market has come through the pandemic unscathed

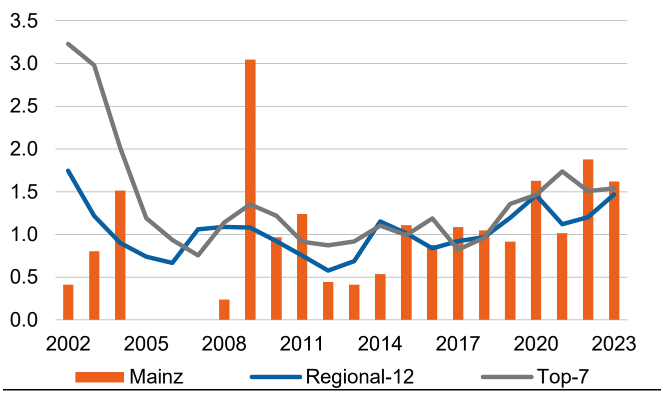
Mainz has an office market with a stock of 1.7 million m2. Although the stock increased by around 9 per cent within a ten-year period on the back of rising office employment, it has not been enough to meet demand, as illustrated by the fact that the vacancy rate has more than halved since 2010 and that it remained stable during the pandemic, bucking the trend in the market as a whole. In 2023, the figure was a low 2.8 per cent. In the wake of tightening supply, there was a sharp rise in prime rents which had remained stable from 2010 to 2015. The increase in prime rents to EUR 16 per m^2 by 2023 reflects not least developments such as the Zollhafen project. Overall, there has been rental growth of 28 per cent over ten years. In view of the major importance of public administration for the state capital, activity in the office market is generally rather quiet. This is clear from a moderate addition of new space, which has remained under 40,000 m^2 per annum on average. As regards take-up, while it was lower in most office markets, 2023 stood out for Mainz when it scored its best ever result at 59,000 m^2. As was already the case in 2022, BioNTech was once again the biggest player in 2023, with a deal to lease the former Landesbank Rheinland-Pfalz head office, accounting for well over half of the year's total take-up. Another major transaction is scheduled for 2024, involving the ZDF new build. This year, we expect a further rise in prime rents in view of a tight supply.

TAKE-UP
AS % OF OFFICE STOCK



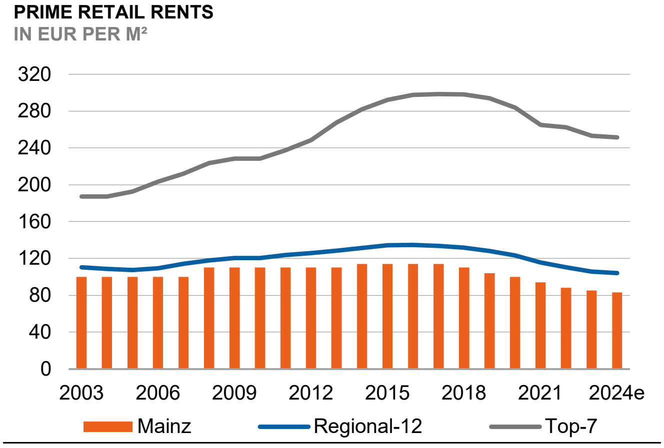
Source: bulwiengesa

NEW OFFICE SPACE
AS % OF OFFICE STOCK

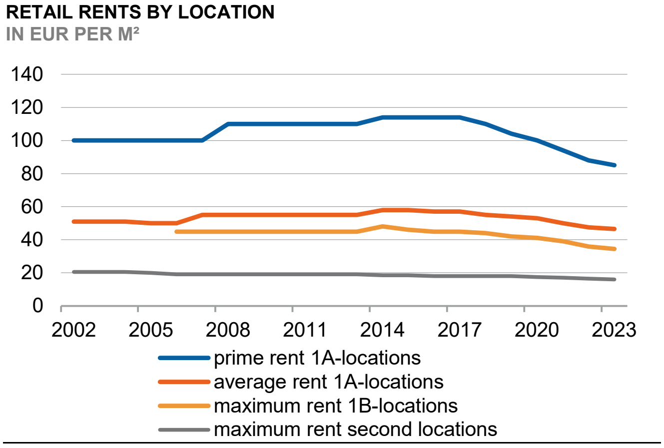


Source: bulwiengesa

Retail space in Mainz



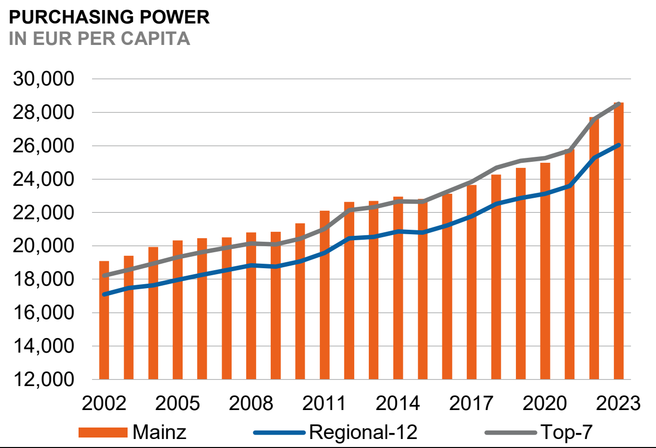
Source: bulwiengesa, DZ BANK forecast



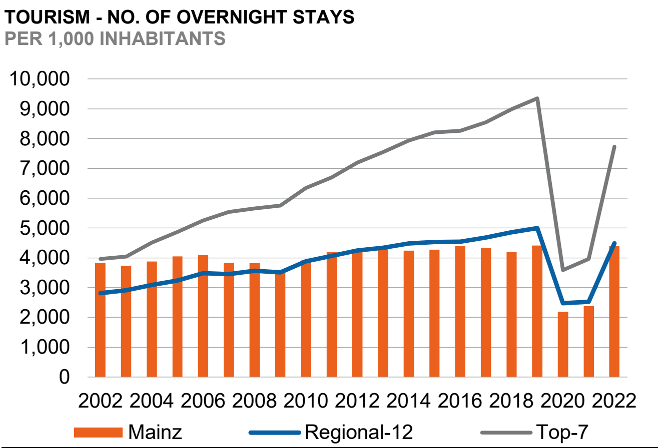
Source: bulwiengesa

Forthcoming redevelopment of the Ludwigstraße should have a positive impact on the city centre in the long-term

As a retail location, Mainz benefits from a catchment area of 1 million people, extending mainly south-west of the city and bordered north and eastwards by the Rhine and shopping locations in the Rhine-Main region. There is intense competition from Wiesbaden across the Rhine and Frankfurt which is only 40 kilometres away. Plus points for Mainz are tourism, solid purchasing power and a growing population. Mainz has no city-centre shopping centre apart from the small Römerpassage. However, it makes up for this weakness through a good mix of shops in the three prime shopping streets – Am Brand, Schuster- and Stadthausstraße. The long planned redevelopment of the Ludwigstraße ("Lu") should enhance the city centre's attraction; work finally started last year, following the closure in October 2020 of the Karstadt store. The new mixed-use concept envisages shops, food and drink outlets, hotel and cultural venues. Mainz has not been spared the problems facing the retail sector in city centres generally, as evident from vacant stores and a slump of almost one quarter in prime rents from their peak to EUR 85 per m^2. We expect rents to remain largely stable now after their drop; at most, there could be a slight further dip.



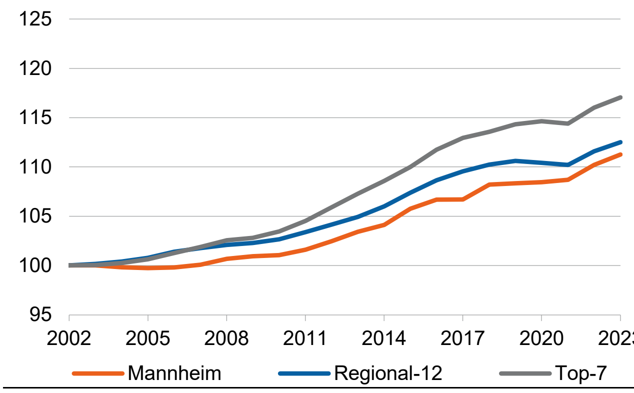
Source: bulwiengesa, Scope



Source: bulwiengesa, Scope

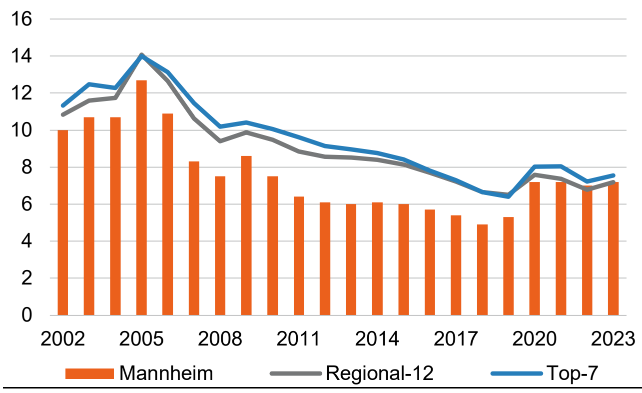
MANNHEIM

POPULATION GROWTH
2002 = 100



Source: Scope

UNEMPLOYMENT RATE
IN %

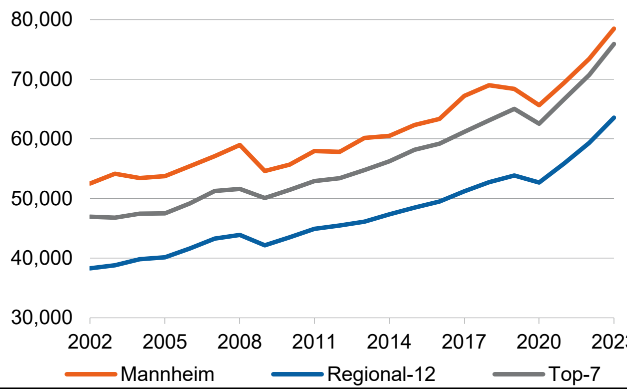


Source: bulwiengesa

Space for housing and commerce: Mannheim benefits from large conversion sites

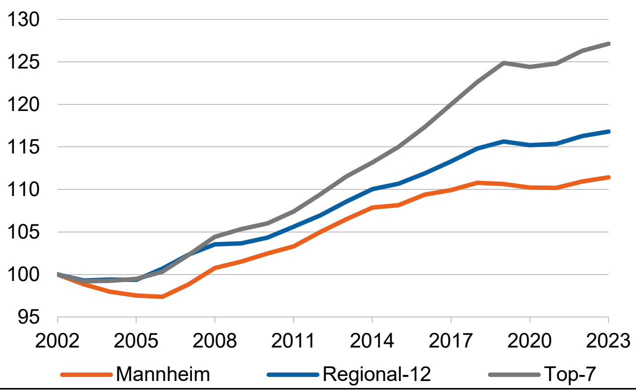
Mannheim is currently the second largest city in Baden-Württemberg with around 315,000 inhabitants, slightly ahead of Karlsruhe. Population growth since 2013 is in line with the regional location average at just under 8 per cent. Mannheim has been transformed from an industrial to a services hub in the wake of its structural change, although the manufacturing sector is still well represented in the city. As an economic centre, the city benefits from its position on the Rhine and Neckar, from a river port and good transport links via the A5/A6 motorways and the ICE network. Core sectors are the electrical/electronics industry, chemicals, pharmaceuticals along with machinery and automotive. The financial services and logistics sectors have also done well and Mannheim has a lively start-up scene in several hubs. Big names based in Mannheim include ABB, Bilfinger, Daimler, Fuchs Petrolub, MVV Energie, Phoenix Pharmahandel and Südzucker. Mannheim is also the economic centre of the Rhine-Neckar region and a renowned centre for science and technology with a large university and several higher education institutions with 28,000 students. Unemployment is in line with the average for the cities under consideration at 7.2 per cent in December 2023. Development in the city is benefiting significantly from the availability of large civilian and military conversion sites on which new districts are rising, such as the Glücksteinquartier. The 2023 Federal Garden Show took place on the site of the former Spinelli Barracks and there are now plans for 1,800 housing units to be built there.

GDP
IN EUR PER CAPITA



Source: Scope

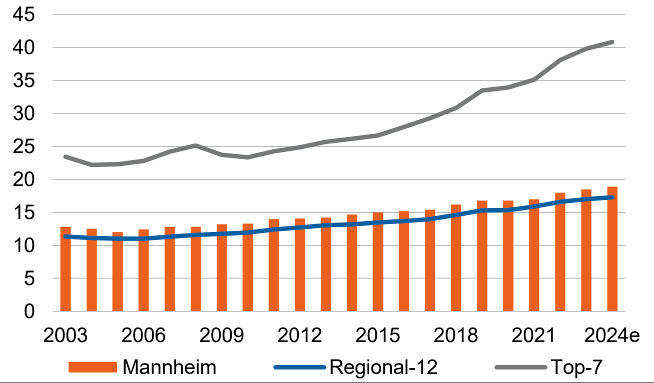
WORKING POPULATION
2002 = 100



Source: Scope

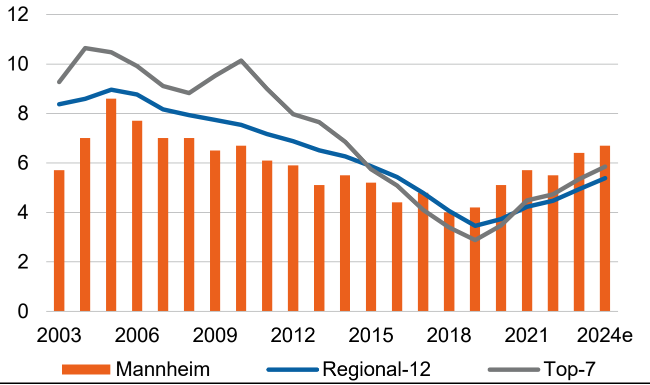
Office space in Mannheim

PRIME OFFICE RENTS
IN EUR PER M²



Source: bulwiengesa, DZ BANK forecast Figures for city locations

VACANCY RATE
IN %

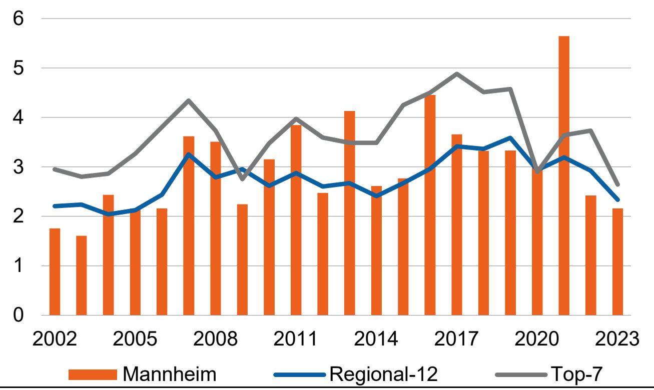


Source: bulwiengesa, DZ BANK forecast

Pandemic has led to marked rise in vacancy rate

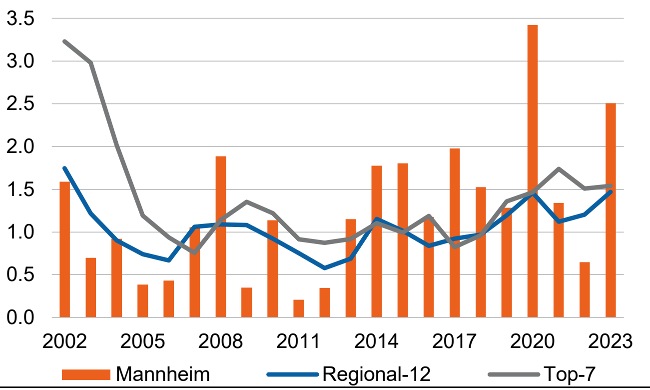
Mannheim is a major office location in the economically strong Rhine-Neckar region with almost 2.3 million m^2 of office space. The stock has increased by 16 per cent since 2013. The rise in demand for office space reflects not only the strength of the local economy but also the city's transformation from an industrial to a services centre. The vacancy rate had fallen to 4 per cent by 2018 in spite of the addition of new space, but the pandemic and a more significant amount of new space coming onto the market went hand-in-hand with a sharp upward trend to 6.4 per cent by 2023. This higher rate failed to slow down the rise in prime rents which went up to EUR 18.50 per m^2 in 2023, driven by demand for modern office space. At 30 per cent, the ten-year growth was in line with the regional centre average. On the basis of the level of prime rents, Mannheim together with Hannover is among the most expensive office markets among the top locations. Take-up in 2023 was fairly low at 49,000 m^2, reflecting the absence of major transactions – as was already the case the previous year. In 2021 above all, large deals (ABB, Bauhaus, Roche) had pushed up take-up with office developments for own use. This year, as next year, the volume of new space coming onto the market is likely to be moderate, and this should slow down the upward movement in the vacancy rate. Prime rents could rise slightly further.

TAKE-UP
AS % OF OFFICE STOCK



Source: bulwiengesa

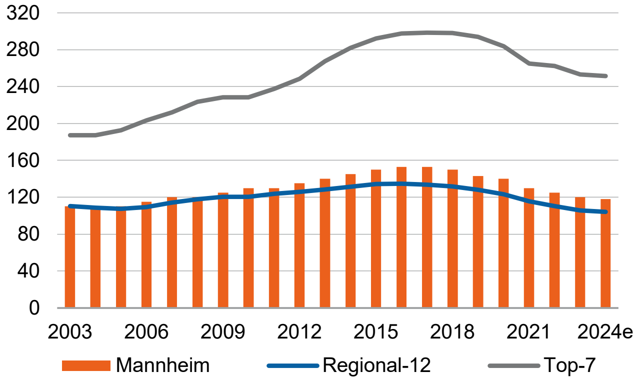
NEW OFFICE SPACE
AS % OF OFFICE STOCK



Source: bulwiengesa

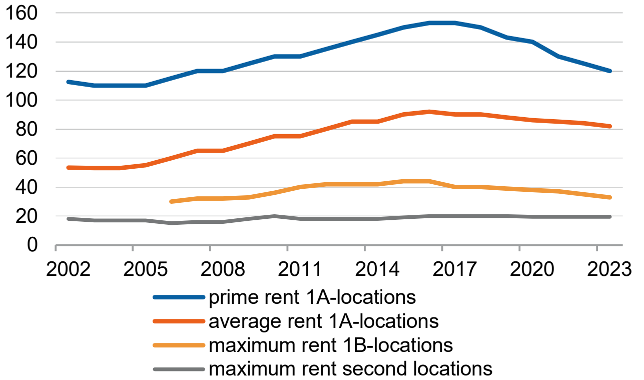
Retail space in Mannheim

PRIME RETAIL RENTS
IN EUR PER M²



Source: bulwiengesa, DZ BANK forecast

RETAIL RENTS BY LOCATION
IN EUR PER M²

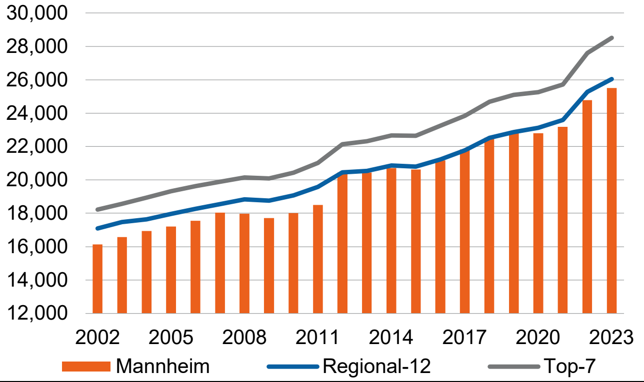


Source: bulwiengesa

Retail sector in Mannheim doing well on the back of newly renovated city centre

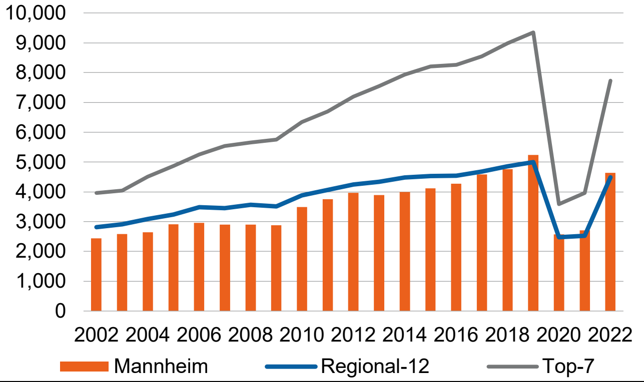
Mannheim is the foremost shopping destination in the Rhine -Neckar region. Its attraction is reflected in a high centrality figure of 140 points. The extra purchasing capacity from a catchment area of 1.3 million people therefore makes up for Mannheim's below-average purchasing power of 95 points. The city's attraction as a retail location led to a surge in prime rents to a peak of over EUR 150 per m^2. By 2023, however, following the many problems facing the retail sector, prime rents had fallen by 22 per cent from their peak to EUR 120 per m^2. Rents are also being dampened by a substantial amount of new space from the Q6Q7 city-centre shopping mall which opened in 2016. Together with the revamped prime location which is the Planken, however, there has been an improvement in the environment and the supply of modern sales space. The former Mömax building – previously Karstadt – reopened in September 2019 as a lifestyle centre (K1 Karree) after a radical redevelopment with a mix of shops, places to eat and drink, fitness space and offices. A general fall in demand for retail space is leading to repurposing. One example of this is the former Kaufhof branch in Square N7 which has been turned into a mixed use new building ("New 7") while retaining the two lower floors. Peek & Cloppenburg has also reduced its sales space in favour of mixed use (Trio Mannheim). Prime rents this year and next should stabilise at their lower level.

PURCHASING POWER
IN EUR PER CAPITA



Source: bulwiengesa, Scope

TOURISM - NO. OF OVERNIGHT STAYS
PER 1,000 INHABITANTS

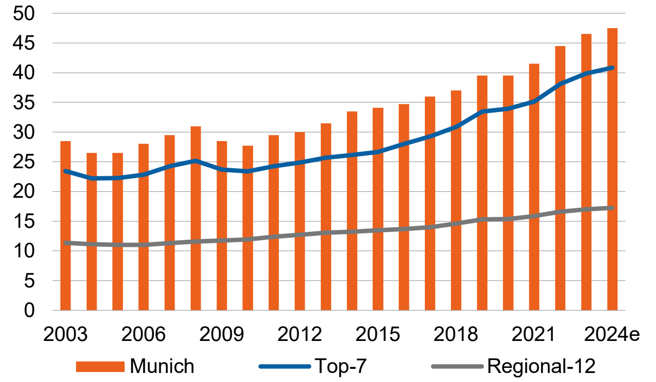


Source: bulwiengesa, Scope

MUNICH

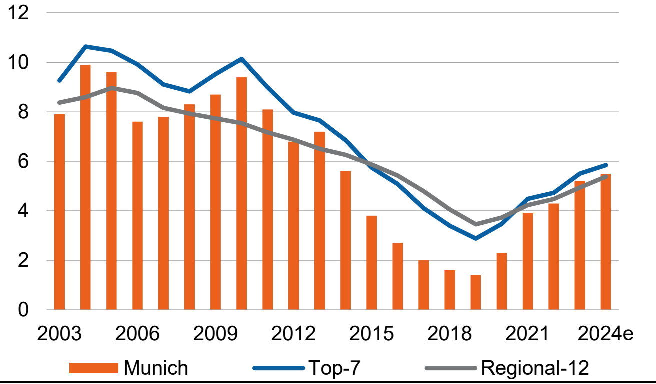
Office space in Munich

PRIME OFFICE RENTS
IN EUR PER M²



Source: bulwiengesa, DZ BANK forecast   Figures for city locations

VACANCY RATE
IN %

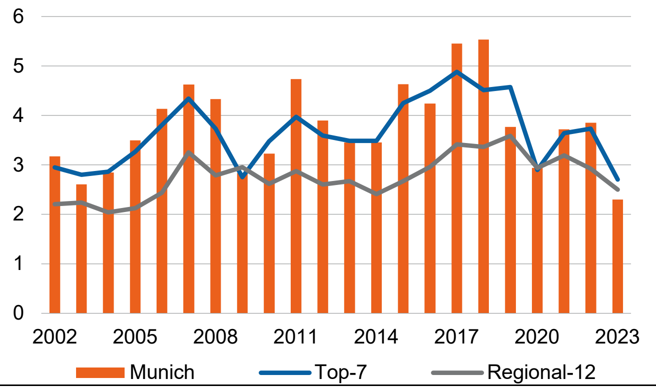


Source: bulwiengesa, DZ BANK forecast

Munich already had the most expensive housing and retail market; now its office market has overtaken even Frankfurt. Munich won the Triple Crown in 2023 with prime office rents of EUR 46.50 per m^2. Munich's office market benefits from its location in Germany's strongest economic region. The location's potential is reflected in the fact that leading US IT giants such as Amazon, Apple, Google and Microsoft have chosen to establish themselves there. Strong growth in office employment almost wiped out any vacant space prior to the pandemic and the vacancy rate had therefore fallen to around 1.5 per cent by 2019. Since then, however, weaker demand and substantial office building have pushed the rate upward noticeably to 5.2 per cent. Modern space in sought-after city locations is nevertheless in short supply, and consequently, the higher vacancy rate has failed to dampen the rise in prime rents. In contrast, leasing activity in 2023 was weak with take-up of just 335,000 m^2. As in other locations, there has been an absence of larger transactions. Only two deals – Cariad and DGB – exceeded the 10,000 m^2 mark; two were just under that level. This year, the volume of new space coming onto the market is likely to be high again, leading in all probability to a further rise in the vacancy rate. Even so, there could be another uptick in prime rents.

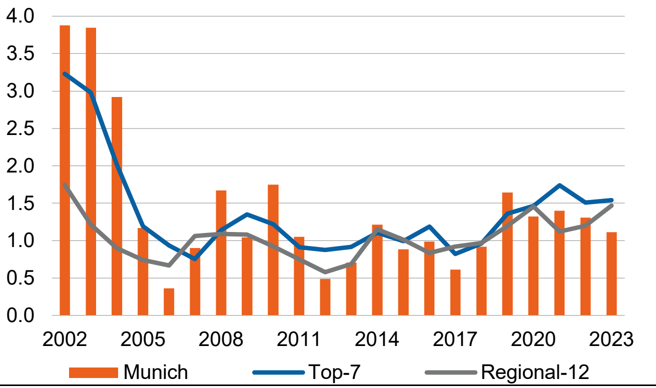
Munich already the most expensive market for housing and retail; since 2023, also the most expensive office market in Germany

TAKE-UP
AS % OF OFFICE STOCK



Source: bulwiengesa

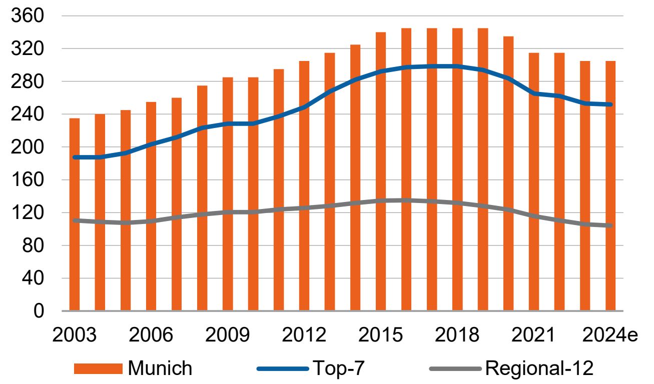
NEW OFFICE SPACE
AS % OF OFFICE STOCK



Source: bulwiengesa

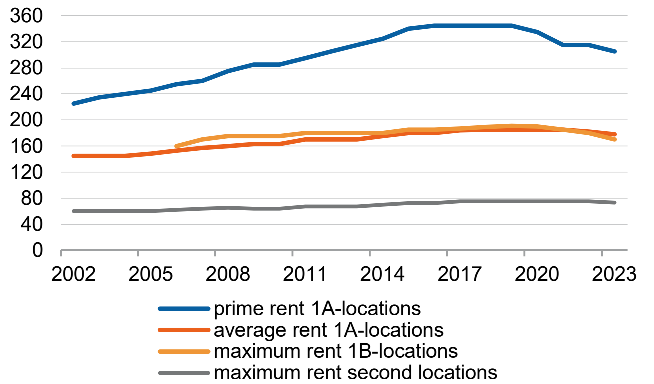
Retail space in Munich

PRIME RETAIL RENTS
IN EUR PER M²



Source: bulwiengesa, DZ BANK forecast

RETAIL RENTS BY LOCATION
IN EUR PER M²

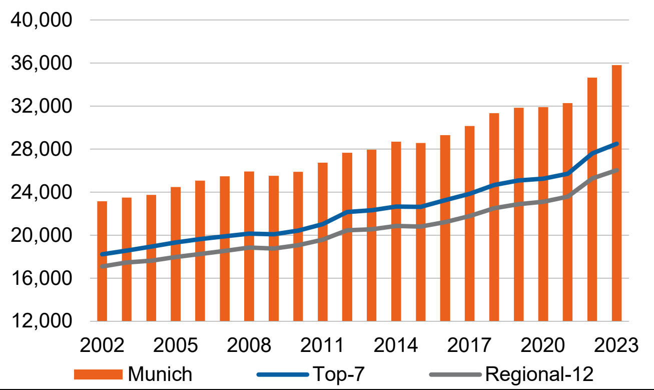


Source: bulwiengesa

Only Munich still boasts prime retail rents of over EUR 300 per m²

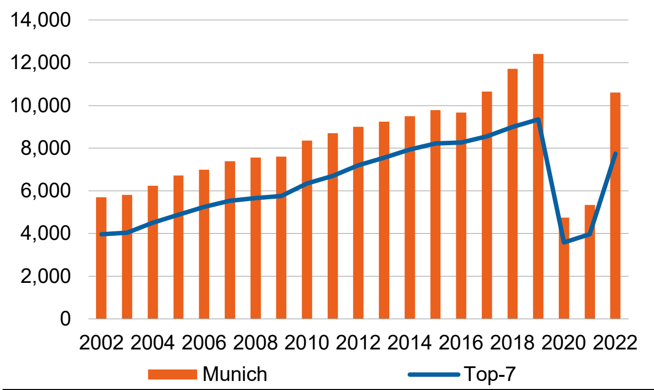
Munich is the number one retail location in Germany for prime rents, purchasing power and retail-space productivity. Contributory factors include favourable conditions such as a financially strong catchment area of over 3 million people. A strong influx to the city means a steady growth in the pool of potential consumers. Another positive factor is the great visitor experience offered by an attractive city centre with its distinctive Bavarian flair and a comprehensive range of shops, from mass-market retail concepts, old, family-run stores to luxury goods shops. The city's flourishing tourism industry is boosted further by the world famous Oktoberfest. Prime rents have risen to the highest level in Germany, even though the city centre has a relatively large stock of retail space of 0.5 million m². The highest rents are in the Kaufingerstraße, Neuhauser Straße and Maximilianstraße. In spite of a high level, they have only fallen by 11.5 per cent to EUR 305 per m² from their peak. Last year, prime rents remained largely stable. Nonetheless, even Munich has not been spared the effects of the crisis in the retail sector with a number of vacant stores, although efforts are being made to find a temporary use for them. However, the Lovecraft cultural project in the former Kaufhof building on Stachus has failed. There has also been a decline in the number of old, family-owned shops in the city centre. The Signa insolvency could hit the city centre in view of the importance of projects such as the Karstadt complex near the railway station and the Alte Akademie.

PURCHASING POWER
IN EUR PER CAPITA



Source: bulwiengesa, Scope

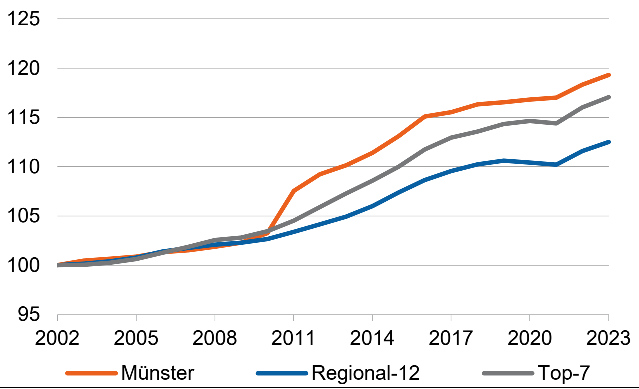
TOURISM - NO. OF OVERNIGHT STAYS
PER 1,000 INHABITANTS



Source: bulwiengesa, Scope

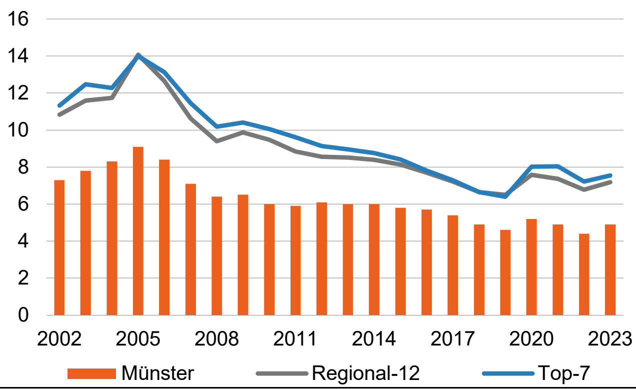
MÜNSTER

POPULATION GROWTH
2002 = 100



Source: Scope

UNEMPLOYMENT RATE
IN %

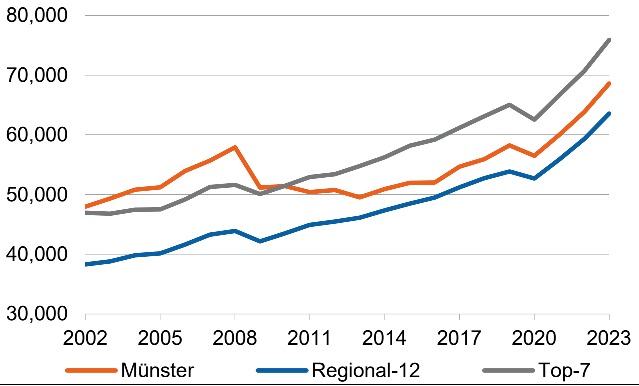


Source: bulwiengesa

Fast-growing centre for science and technology with a flourishing, predominantly SME-driven economy

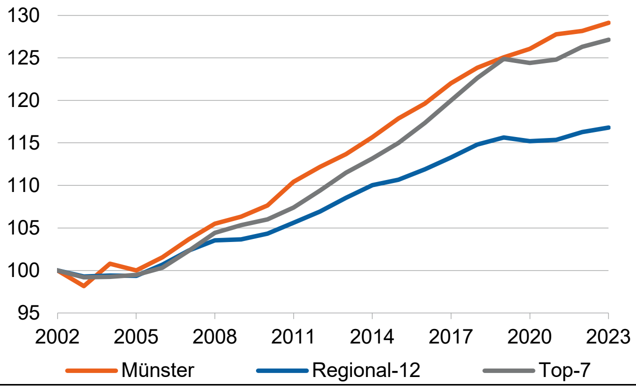
The problems facing the big cities in the Ruhr region, namely high unemployment and population exodus, are quite unknown slightly further north in Westphalia's capital, Münster. At 5.0 per cent (December 2023), the unemployment rate is low for a big city and population growth remains strong. The city's population has grown by over 50,000 to 320,000 since the beginning of the 1990s. Ten-year growth stands at 8 per cent and the increase might have been even stronger had it not been for high rents in a tight housing market. These reflect a high quality of life in this attractive city, a strong labour market and the city's importance as a centre for science and technology. The latter is of major importance for Münster in view of its many research and higher education institutions. Three quarters of the city's 60,000 plus students are enrolled at the University of Münster. In contrast to the Ruhr region, industry and major companies are less significant since the local economy is largely SME driven. The biggest employers include the University Hospital, the university itself and city administration. The most prominent companies are the insulation material manufacturer Armacell, BASF Coatings, the paint manufacturer Brillux, insurer LVM and filter manufacturer Hengst. The city has a flourishing tourism activity, driven not least by the city's medieval charm and renowned Prinzipalmarkt. Münster is also the administrative centre for the Westphalia region which has a population of around 8 million.

GDP
IN EUR PER CAPITA



Source: Scope

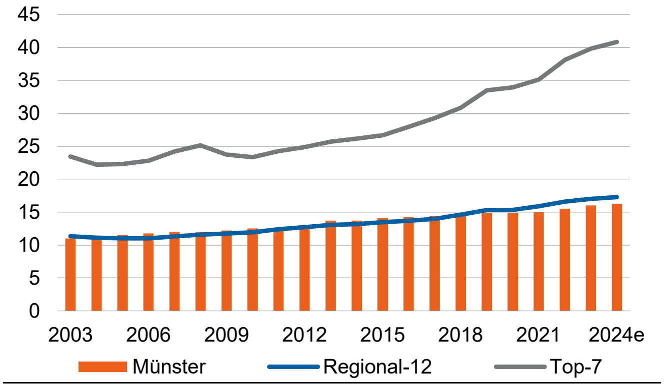
WORKING POPULATION
2002 = 100



Source: Scope

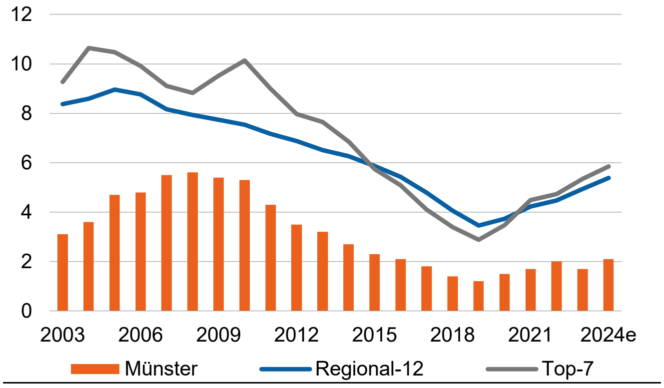
Office space in Münster

PRIME OFFICE RENTS
IN EUR PER M²



Source: bulwiengesa, DZ BANK forecast Figures for city locations

VACANCY RATE
IN %

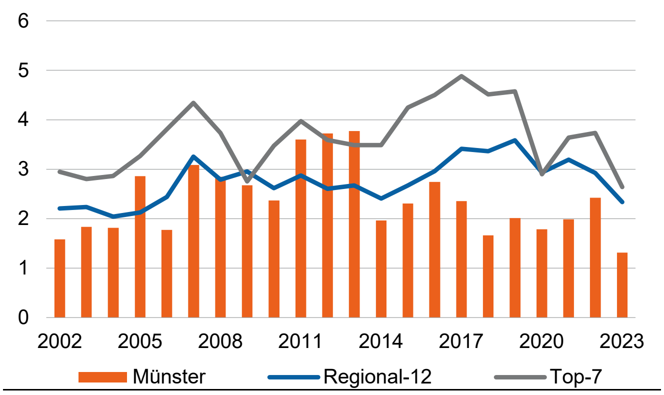


Source: bulwiengesa, DZ BANK forecast

Quiet office market with persistently tight supply and steady rent rises

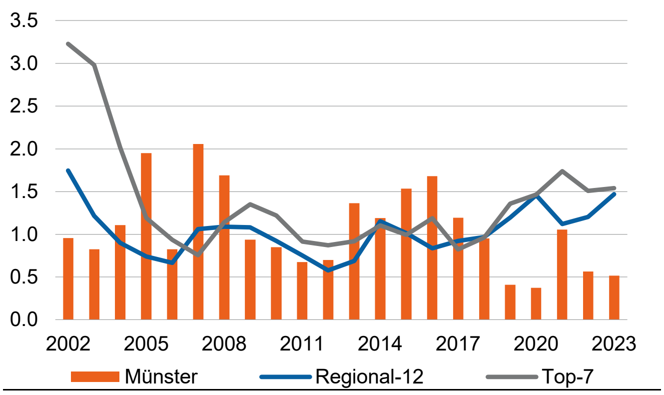
Münster's office market benefits from high demand for space from a large number of educational and administrative bodies. At the same time, activity in the market is largely driven by local demand and mostly for smaller spaces; speculative developments are the exception. Unlike the office stock of around 2.3 million m^2, office employment has risen sharply, and supply is consequently tight. The amount of new office space coming onto the market in 2019 and 2020 was especially low at under 10,000 m^2 respectively, and, to date, the moderate pace of growth has hardly changed. Slightly larger development plans include the Hüffer Campus and York District. The vacancy rate has been consistently below 2 per cent since 2017. Prime rents have risen steadily in view of the shortage of available space; they reached EUR 16 per m^2 in the city centre; rents in the port district are slightly higher. In spite of tight supply, ten-year rental growth is below average at 17 per cent. Letting activity is generally moderate with take-up often not even reaching 2 per cent of the stock. Take-up tends to be between 40,000 and 60,000 m^2 although the figure in 2023 was just 30,000 m^2. The biggest space at 6,500 m^2 was leased by the district government. The ongoing shortage of contemporary space is likely to continue to drive the steady uptrend in prime rents.

TAKE-UP
AS % OF OFFICE STOCK



Source: bulwiengesa

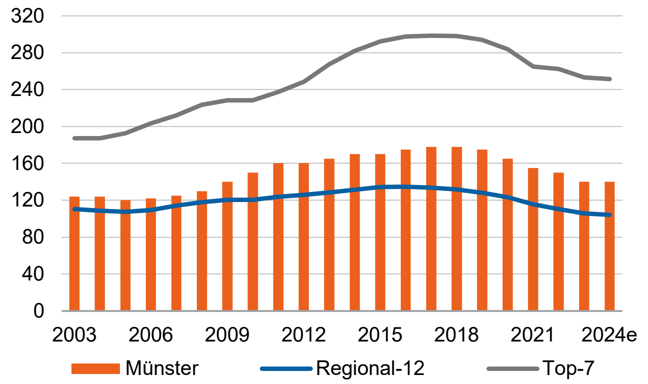
NEW OFFICE SPACE
AS % OF OFFICE STOCK



Source: bulwiengesa

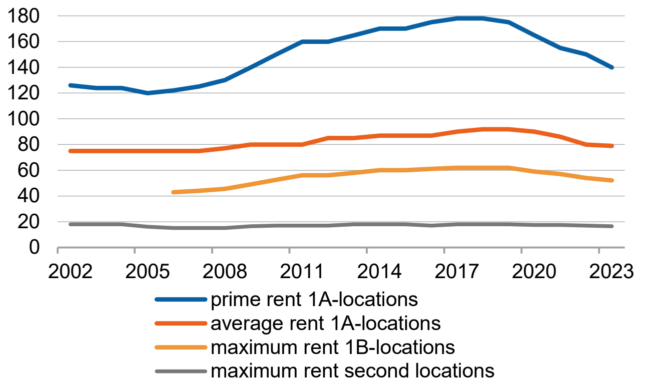
Retail space in Münster

PRIME RETAIL RENTS
IN EUR PER M²



Source: bulwiengesa, DZ BANK forecast

RETAIL RENTS BY LOCATION
IN EUR PER M²

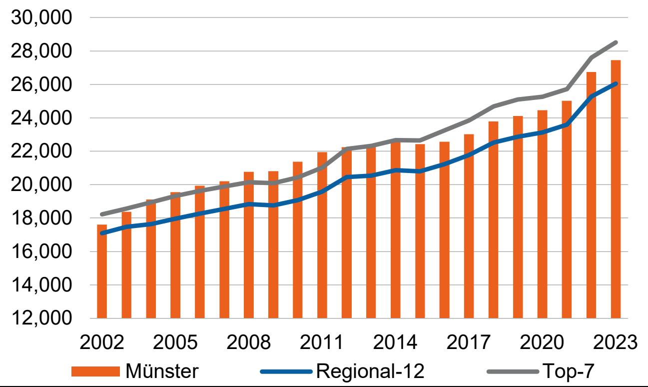


Source: bulwiengesa

Conditions in the city centre are relatively favourable for the retail sector

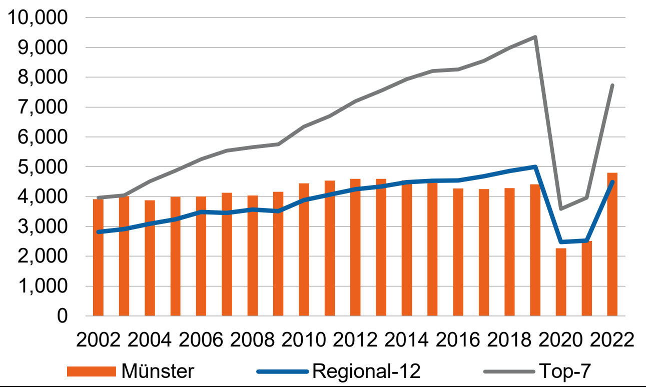
The impact of the pandemic is just as noticeable in Münster as the loss of in-store sales from online shopping. However, Münster is still doing quite well compared with the difficult situation in many other retail locations. It has been spared the many empty stores afflicting other city centres, but an obvious sign of the crisis in retail is nevertheless a fall in the high prime rents. By 2023, these had fallen by 21 per cent to EUR 140 per m^2. On that basis, though, Münster remains one of the most expensive regional centres. The retail sector in the city is supported by a catchment area of 900,000 inhabitants, a fairly high centrality score of 123 points and solid purchasing power for a university town of 102 points. The city benefits from ongoing population growth. Likewise, retail sales in the city centre are bolstered by a large number of tourists, attracted to a city centre which offers a high-quality visitor experience. Customers can enjoy a broad range of shops from the more mass-market prime locations with a high degree of high-street cloning such as the Ludgeristraße, enhanced by family-run and more exclusive stores on the Prinzipalmarkt. The city also has a modern, city-centre shopping mall with the Münster Arkaden. This year, all these plus points could help prime rents stabilise at their present low level. The 2023 INSEK inner-city concept aims to help Mainz adapt to changing requirements in the next few years.

PURCHASING POWER
IN EUR PER CAPITA



Source: bulwiengesa, Scope

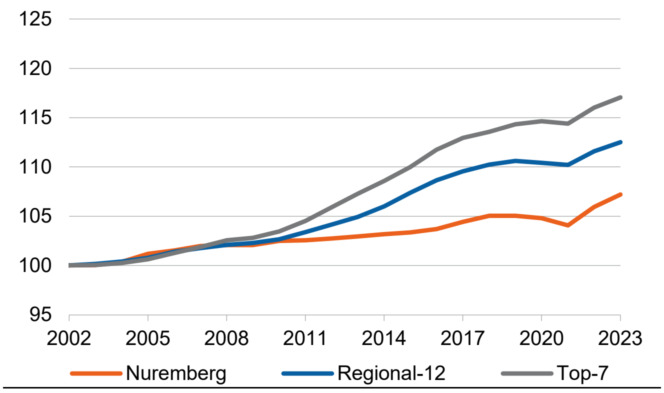
TOURISM - NO. OF OVERNIGHT STAYS
PER 1,000 INHABITANTS



Source: bulwiengesa, Scope

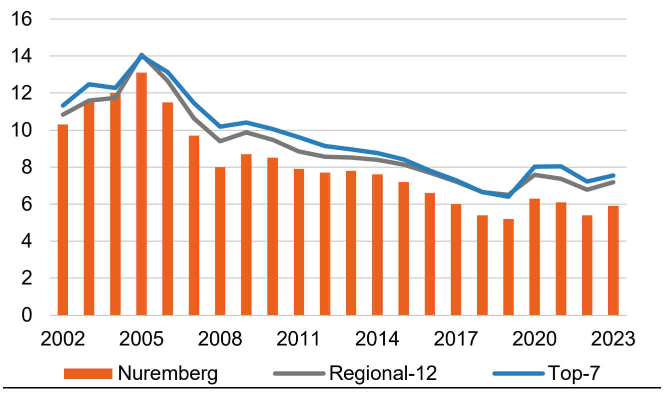
NUREMBERG

POPULATION GROWTH
2002 = 100



Source: Scope

UNEMPLOYMENT RATE
IN %

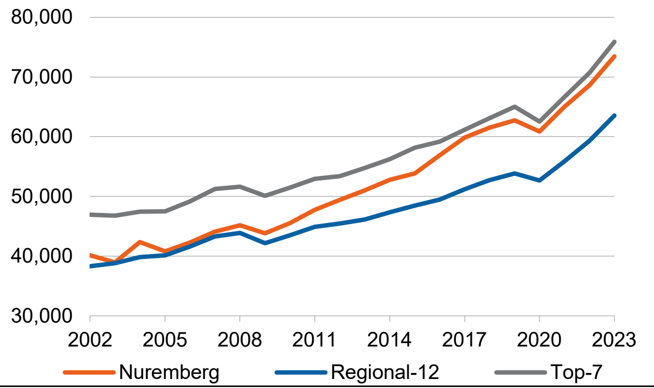


Source: bulwiengesa

Second largest city in Bavaria increasingly evolving from industrial to services centre and a hub for science and technology

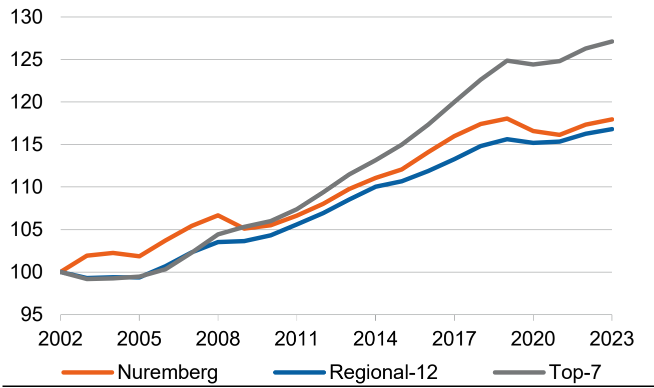
Nuremberg is the second largest city in Bavaria with around 525,000 inhabitants; it is also the economic and cultural centre of Franconia. However, the population has expanded relatively slowly with ten-year growth of 4 per cent. The city is famous the world over for its Kaiserburg, Christmas market and toy trade fair. From the 1970s onwards, the city's economy was hit by its structural transformation away from industry and by company insolvencies and plant closures. However, these challenges have been overcome successfully since the economy and labour market are clearly doing well, as illustrated by a sharp fall in the unemployment rate to now 6.1 per cent (December 2023) – a moderate level for a large city. The city's successful development has been helped not least by the fact that the Friedrich-Alexander University, initially solely based in Erlangen, has also had a presence in Nuremberg since 1961. Today, Nuremberg is home to over a dozen higher education institutions with a student population of around 27,000. Up to a further 6,000 students are expected to enrol at the newly founded Technical University in the next few years. In spite of the structural change, Nuremberg still has a relatively important industrial presence. Major sectors are IT, logistics, high-tech, along with energy and medical technology. Other major earners for the city are trade fairs and congresses along with tourism. Nuremberg has outstanding transport links with the A3, A6 and A9 motorways, ICE high-speed train, along with an airport and river port on the Main-Danube canal.

GDP
IN EUR PER CAPITA



Source: Scope

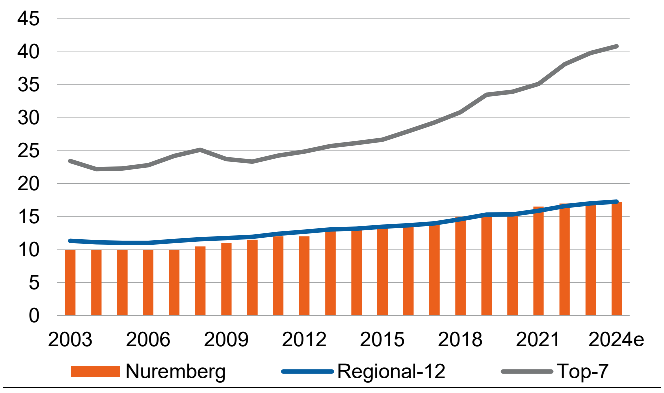
WORKING POPULATION
2002 = 100



Source: Scope

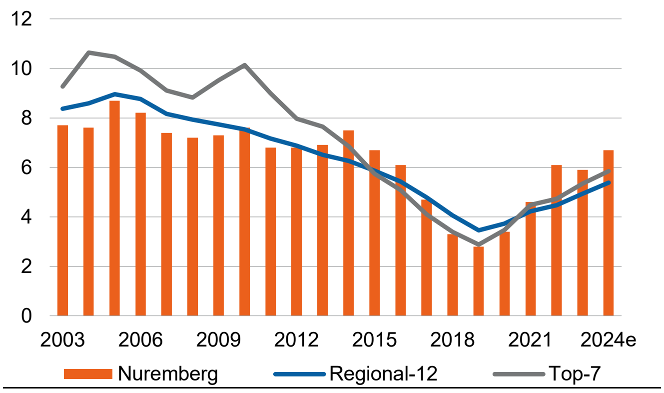
Office space in Nuremberg

PRIME OFFICE RENTS
IN EUR PER M²



Source: bulwiengesa, DZ BANK forecast Figures for city locations

VACANCY RATE
IN %

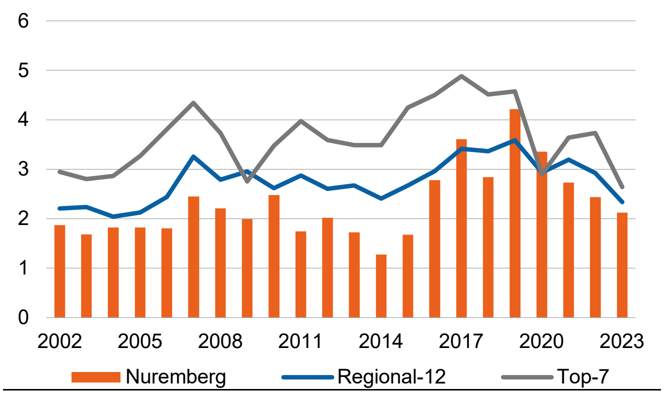


Source: bulwiengesa, DZ BANK forecast

Vacancy rate has more than doubled since 2019

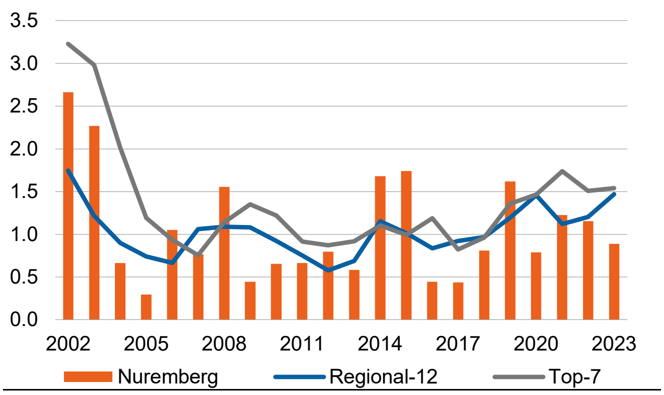
Nuremberg's office market ranks in tenth place in Germany with a stock of 3.8 million m^2. Apart from the top locations, only Hannover has more office space. Moderate growth in new space led to a fall in the vacancy rate to under 3 per cent by 2019. During the pandemic, however, the rate doubled as companies reduced their use by downsizing or even shutting down offices. In spite of a more ample supply, prime rents had risen to EUR 17 per m^2 by 2022. They remained stable in 2023, though, not least in view of relatively weak demand. Take-up in 2023 fell by a further 10,000 m^2 against the previous year to 80,000 m^2. In contrast, in the period from 2016 to 2021, take-up was consistently in six figures. Unlike in other locations, however, the absence of major transactions was not the main factor behind the poor performance in 2023. Two deals – involving the Evangelische Hochschule and Sparkasse – reached the 10,000 m^2 mark or just below. This year, new office supply is likely to be much higher than in previous years, which could push up the vacancy rate towards 7 per cent. Prime rents should therefore remain largely stable.

TAKE-UP
AS % OF OFFICE STOCK



Source: bulwiengesa

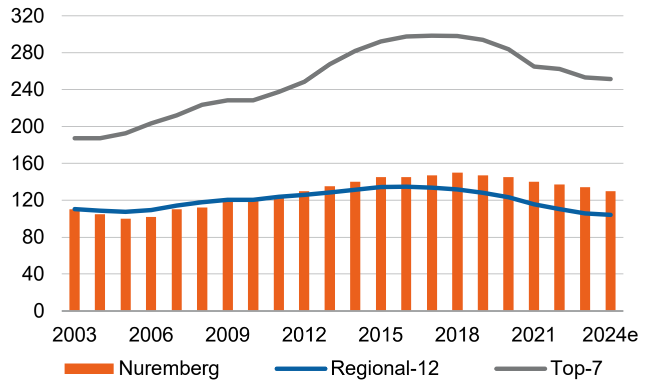
NEW OFFICE SPACE
AS % OF OFFICE STOCK



Source: bulwiengesa

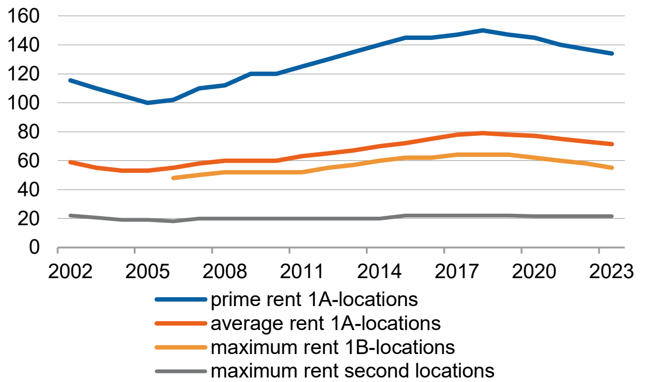
Retail space in Nuremberg

PRIME RETAIL RENTS
IN EUR PER M²



Source: bulwiengesa, DZ BANK forecast

RETAIL RENTS BY LOCATION
IN EUR PER M²

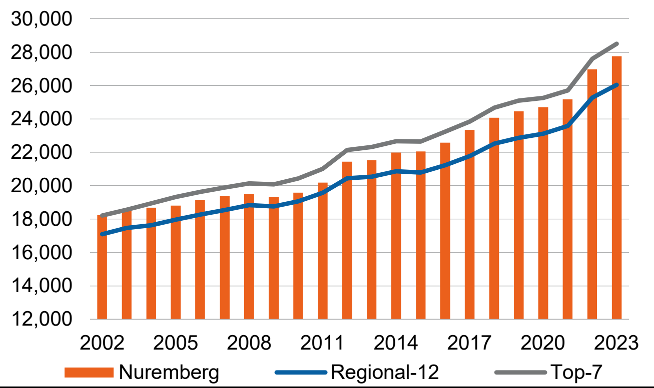


Source: bulwiengesa

Nuremberg is the leading shopping location in northern Bavaria with a catchment area of around 1.5 million inhabitants. Competition from surrounding towns is fairly limited, hence a high centrality score of almost 130 points. However, purchasing power is only slightly above the German average at 103 points. A thriving tourism trade is a major support for demand in the city's retail sector and the old town offers a high-quality visitor experience and a circuit of prime shopping locations. The Karolinenstraße has the highest figures for footfall, level of high-street cloning and prime rents. One plus point for Nuremberg is a wide range or shops, including the trendier Gostenhof. There are also two shopping centres outside the centre – the Mercado and Franken-Center. A relatively moderate fall in prime rents in Nuremberg's city centre is testament to the retail location's resilience; prime rents have only fallen by 11 per cent from this peak to EUR 134 per m2 most recently. However, the crisis affecting city-centre trading has not spared Nuremberg; the effects are most in evidence with empty stores in the Breite Gasse. The closure of the Kaufhof store in the Old Town at the beginning of 2023 has also contributed to the vacancies. So far, a concept for the listed building which dates from the 1950s has yet to be worked out. The future of the Altstadt Karree project to replace the former City Points is also in doubt following the insolvency of property developer, Development Partner. Nuremberg's still fairly high prime rents could dip further this year.

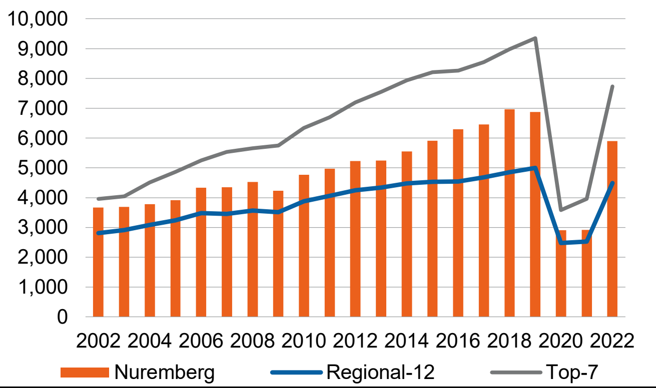
Prime rents in Nuremberg's city centre only down marginally in spite of the retail crisis

PURCHASING POWER
IN EUR PER CAPITA



Source: bulwiengesa, Scope

TOURISM - NO. OF OVERNIGHT STAYS
PER 1,000 INHABITANTS

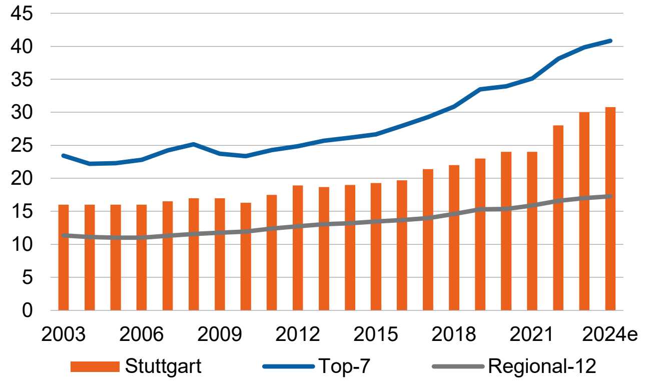


Source: bulwiengesa, Scope

STUTTGART

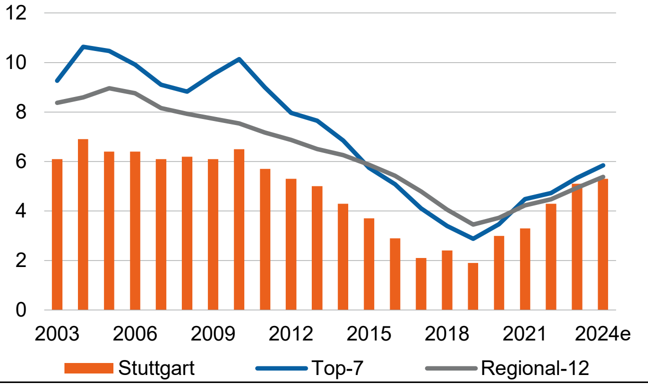
Office space in Stuttgart

PRIME OFFICE RENTS
IN EUR PER M²



Source: bulwiengesa, DZ BANK forecast   Figures for city locations

VACANCY RATE
IN %

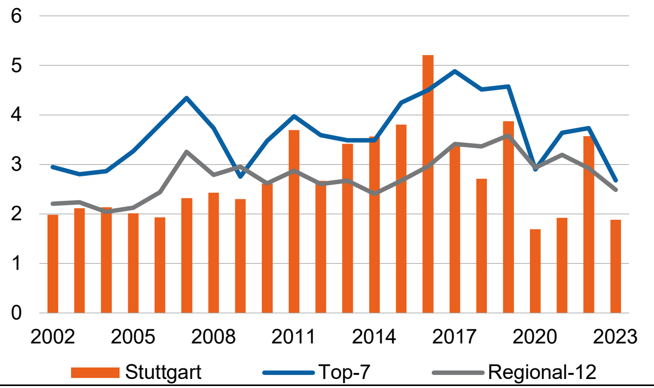


Source: bulwiengesa, DZ BANK forecast

Take-up halved in 2023 on the back of lack of major transactions

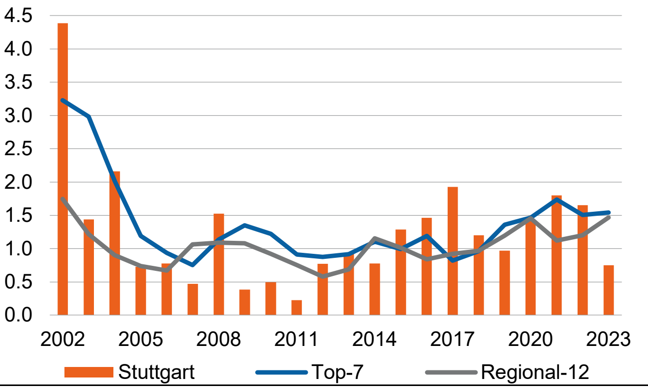
Stuttgart has an office market of 8.2 million m², putting it in fifth place in the market, just ahead of Düsseldorf and Cologne. Unlike the other six top locations, industry is of greater importance for Stuttgart's economy, a fact which, for many years, was reflected in moderate take-up in relation to the top locations which are more services oriented. This changed over ten years ago when more office development went hand-in-hand with a greater addition of new space and with higher take-up. At the same time, prime rents, which were below EUR 20 per m² up until 2016, rose sharply to EUR 30 per m². The upward trend continued in 2023, although new space and take-up were low. At 155,000 m², the level was comparatively low, reflecting the lack of major transactions apart from 20,000 m² for the DSV Group's new build. New space together with a weaker take-up during the pandemic led to a marked rise in the vacancy rate. After remaining stable at 6 per cent up to 2010, the figure had dwindled to just under 2 per cent by 2019; then however, it rose to 5.1 per cent. A more moderate addition of new space in 2024 should lead to only a small rise in the vacancy rate. Prime rents could continue their upward trend on the back of demand for modern office space.

TAKE-UP
AS % OF OFFICE STOCK



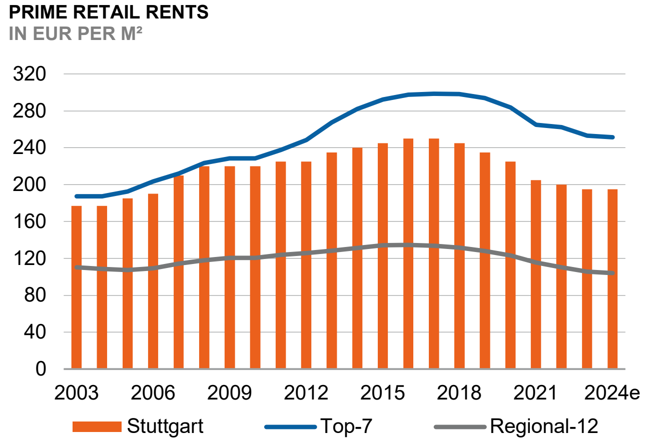
Source: bulwiengesa

NEW OFFICE SPACE
AS % OF OFFICE STOCK

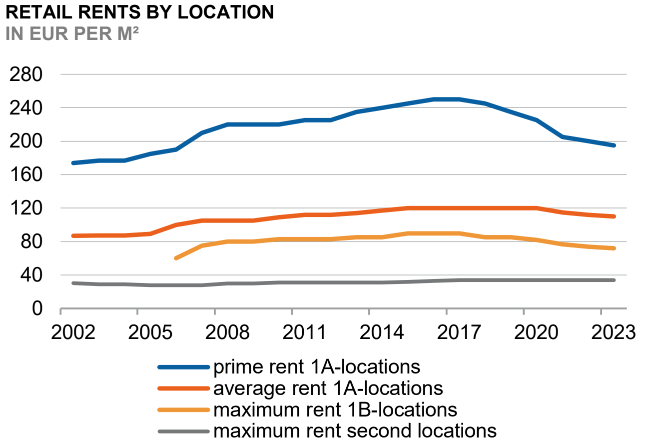


Source: bulwiengesa

Retail space in Stuttgart



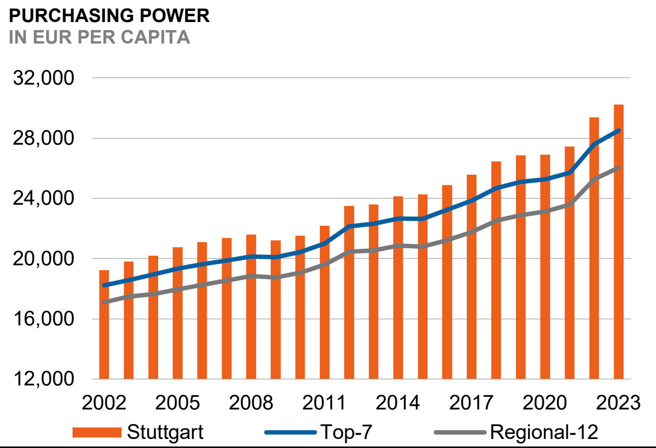
Source: bulwiengesa, DZ BANK forecast



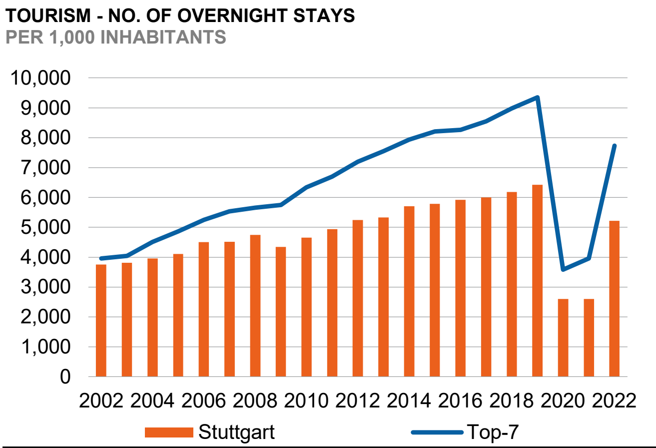
Source: bulwiengesa

Prime rents stabilising after sharp fall

Stuttgart benefits from an affluent catchment area of 2.6 million inhabitants. Tourism, though, is of virtually no help to the retail sector. However, this is not the reason behind the relatively sharp fall in prime rents in the Königstraße – Stuttgart's prime shopping street. Rents have fallen by 22 per cent from their peak to EUR 195 per m^2 lately – the sharpest fall among top locations. Apart from the ubiquitous problems in the retail sector, Stuttgart has been affected by a huge addition of new sales space ten years ago through two new city-centre shopping centres along with a number of major building sites. In response to the fall in demand for retail space, the Gerber mall is being converted into a mixed-use space. It seems that the downturn has come to a halt as illustrated by a return to a high footfall in Stuttgart's prime shopping street, the Königstraße, and stable prime rents since the autumn of 2022. As in other city centres, there are obvious vacant stores and these are also being filled through temporary use. In addition to the Banksy exhibition in the Königsbau Passagen, the shopping arcades are hosting the Body Worlds exhibition until the spring of 2024. There are plans to redevelop the collection of buildings which make up the Schlossgartenquartier at the entrance to the Königstraße by 2025. In contrast, the Signa project to replace the former Sportarena building (König-/ Schulstraße) is currently at a standstill. We expect prime rents in Stuttgart to remain stable this year.



Source: bulwiengesa, Scope



Source: bulwiengesa, Scope

LOCATIONS AT A GLANCE

STRUCTURAL DATA 2023

	Inhabitants '000	Inhabitants 2013-2023 (%)	GDP EUR m	Per Capita GDP EUR	Per Capita Disposable Income EUR	Unemployment Rate (%)
Augsburg	303	10.7	16,737	59,454	25,377	5.5
Bremen	567	3.8	32,434	61,695	27,427	10.3
Darmstadt	163	9.7	14,565	96,642	28,732	5.4
Dresden	565	7.5	25,593	49,106	26,059	6.0
Essen	585	3.3	29,466	53,989	25,837	10.4
Hannover	546	6.0	36,958	72,896	32,215	7.8*
Karlsruhe	308	3.5	23,011	80,754	28,557	4.7
Leipzig	623	17.1	24,947	43,647	23,939	7.0
Mainz	221	8.7	14,005	68,114	27,837	5.2
Mannheim	317	7.6	23,081	78,472	27,010	7.2
Münster	321	8.3	20,364	68,559	28,045	5.0
Nuremberg	529	4.1	35,874	73,443	28,012	6.1
Regional centres		**7.2**		**63,500**	**27,300**	
Berlin	3,764	10.9	173,753	50,048	26,241	9.2
Cologne	1,088	5.9	73,733	73,428	29,001	8.6
Düsseldorf	631	6.0	59,380	102,022	32,112	7.2
Frankfurt	773	11.5	82,527	115,335	29,509	5.9
Hamburg	1,892	8.6	135,223	77,208	29,977	7.6
Munich	1,525	9.3	133,653	95,261	38,642	4.5
Stuttgart	637	6.0	64,177	109,029	31,954	5.3
Top locations		**9.1**		**75,900**	**30,000**	**5.5**

Source: Scope, BA

* Hannover Region

RENTAL TREND

	Retail Space Change in Prime Rent (%)					Office Space Change in Prime Rent (%)				
	10 Years 2012-2023	**5 Years 2018-2023**	**2022 yoy**	**2023e yoy**	**2024e yoy**	**10 Years 2012-2023**	**5 Years 2018-2023**	**2022 yoy**	**2023e yoy**	**2024e yoy**
Augsburg	-22.7	-24.8	-7.4	-3.4	-1.5	56.8	42.3	28.6	2.8	1.4
Bremen	-13.6	-16.9	-2.6	-3.6	-0.9	15.2	13.8	3.6	3.5	2.0
Darmstadt	-45.0	-36.0	-8.4	-8.3	0.0	6.2	4.5	0.7	2.2	1.4
Dresden	-16.7	-18.2	-5.3	-2.8	-1.7	59.7	40.7	4.9	11.8	2.6
Essen	-37.3	-31.0	-10.3	-1.4	-1.4	22.1	14.0	1.8	1.8	1.2
Hannover	-15.1	-17.4	-5.7	-4.8	-1.3	35.7	11.8	4.4	1.1	1.1
Karlsruhe	-31.8	-27.2	-5.9	-6.3	-1.3	26.4	11.3	2.7	5.3	1.3
Leipzig	-20.0	-20.0	-4.3	-9.1	0.0	51.0	34.1	2.9	5.7	2.2
Mainz	-22.7	-22.7	-6.4	-3.4	-2.4	28.0	15.1	6.9	3.2	3.1
Mannheim	-14.3	-20.0	-3.8	-4.0	-1.7	30.3	14.2	5.9	2.8	2.2
Münster	-15.2	-21.3	-3.2	-6.7	0.0	16.8	10.3	3.3	3.2	1.9
Nuremberg	-0.7	-10.7	-2.1	-2.2	-3.0	30.8	13.3	3.0	0.0	1.2
Regional centres	**-17.7**	**-19.8**	**-4.7**	**-4.3**	**-1.4**	**31.8**	**17.8**	**4.7**	**3.5**	**1.7**
Berlin	-5.6	-17.7	-1.9	-3.8	0.0	97.8	32.8	7.4	2.3	2.2
Cologne	-10.4	-15.7	-2.2	-2.3	-0.9	51.7	45.5	10.0	16.4	3.1
Düsseldorf	12.5	-4.3	0.0	-1.8	-0.7	44.4	41.6	22.6	11.1	2.5
Frankfurt	-5.4	-11.7	0.0	-3.6	-1.0	31.4	16.5	4.7	2.2	2.2
Hamburg	-8.7	-16.7	0.0	-5.0	-1.9	43.8	25.5	5.3	2.4	2.9
Munich	-3.2	-11.6	0.0	-3.2	0.0	47.6	25.7	7.2	4.5	2.2
Stuttgart	-17.0	-20.4	-2.4	-2.5	0.0	60.4	36.4	16.7	7.1	2.7
Top locations	**-5.5**	**-15.2**	**-1.0**	**-3.6**	**-0.5**	**55.6**	**29.6**	**8.6**	**4.8**	**2.5**

Source: bulwiengesa, DZ BANK forecast

GLOSSARY

Take-up
Office space in a specific location newly occupied through letting or owner-occupation during a one-year period. This does not include contract extensions. Take-up is counted from the time of signing of the transaction rather than the time the new occupant actually moves in.

Completions
Newly built office space completed in the respective year.

Vacancy rate
Proportion of vacant office space in the respective location in relation to the stock.

Purchasing power index
Purchasing power is relevant for the retail sector since it defines the disposable income of households, i.e. their ability to buy products and services. The purchasing power score measures the financial ability to buy goods and services in a specific location in relation to the German-wide average which is set at 100 points.

Net initial yield
The initial rental yield for office and retail is determined from the annual net rent in the first year after purchase, reduced by non-apportionable operating costs, and the total purchase price, taking into account ancillary acquisition costs. The reported net initial yield refers to central locations (City).

Regional centres (Reg 12/Regional 12)
Space-weighted index made up of the 12 regional centres analysed in this report, namely Augsburg, Bremen, Darmstadt, Dresden, Essen, Hanover, Karlsruhe, Leipzig, Mainz, Mannheim, Münster and Nuremberg.

Prime rent
The prime rent represents a mean of the top 3-5 per cent of all lettings in a market, and
the figure given is therefore not the absolute top rent realised.

Top locations (top-7)
Space-weighted index made up of the top seven locations, namely Berlin, Düsseldorf, Frankfurt, Hamburg, Cologne, Munich and Stuttgart.

Centrality index
Centrality is calculated by dividing retail sales in a location by purchasing power relevant to that location multiplied by 100. A figure of more than 100 points indicates that retail sales are higher than the relevant purchasing power and the location therefore attracts additional purchasing power.

Source: bulwiengesa, DZ BANK

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