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MAIN REGIONAL REAL ESTATE MARKETS IN GERMANY 2021

**Attractive office space
still much in demand**

dzhyp.de

TABLE OF CONTENTS

02 Preface

03 Office and retail: post-covid reset

04 Office property: Will working from home turn a space shortage into an oversupply?

13 Retail property: City centre retail fights for survival

21 Augsburg

24 Berlin

26 Bremen

29 Cologne

31 Darmstadt

34 Dresden

37 Düsseldorf

39 Essen

42 Frankfurt

44 Hamburg

46 Hannover

49 Karlsruhe

52 Leipzig

55 Mainz

58 Mannheim

61 Munich

63 Münster

66 Nuremberg

69 Stuttgart

71 Locations at a glance

74 Glossary

75 Imprint

79 DZ HYP addresses

PREFACE

Dear readers,

In a challenging market environment such as that we are currently faced with, detailed information on real estate market developments is of great importance. As a leading real estate bank in Germany, DZ HYP contributes to higher transparency by publishing regular analyses of the markets on which we are active. These not only include Germany's largest cities but also regional locations, which are shifting more and more into investors' focus due to their attractive yields. Each spring we publish a report, to better assess trends and risks in these markets. For this purpose, we investigate developments in the office and retail property segments for the twelve regional centres of Germany – Augsburg, Bremen, Darmstadt, Dresden, Essen, Hanover, Karlsruhe, Leipzig, Mannheim, Mainz, Munster and Nuremberg, comparing them to Germany's top seven locations.

The COVID-19 pandemic has also left its mark on the real estate market. In the office property segment, the take-up of space declined by a third compared to the previous year, with the top locations harder hit (-37 per cent) than the regional centres (-27 per cent). In contrast, top rents and rental yields remained stable. The vacancy rate increased only a little, remaining at a low 3.5 per cent. What was severely affected, however, was of course the retail sector – except for supermarkets, bicycle dealers and DIY stores, all of which benefited from the crisis. The year-long trend of falling retail property rents has accelerated even further due to the pandemic and, after hitting the regional centres, has now also arrived at the top locations.

This report on "Regional Real Estate Markets 2021" – the twelfth in this series – supplements "The German Real Estate Market" – our series of specialist publications published in the autumn of each year. In addition, we analyse the commercial real estate markets in individual German federal states: a report on Baden-Württemberg will be published in July, followed by a report on Hesse, Rhineland-Palatinate and Saarland in November. An overview of DZ HYP's real estate market reports to date is available on our website <https://www.dzhyp.de/en/about-us/market-research/>.

Yours sincerely,

DZ HYP

March 2021

OFFICE AND RETAIL: POST-COVID RESET

The first reports about coronavirus emerged in January 2020. At that time no one had any idea of how far-reaching the consequences would be. The lockdown of public life and economic activity to contain the high risk of infection is unprecedented. As a result, German economic output fell by around 5 per cent in 2020, nearly as steeply as in 2009 after the financial market crisis.

There have also been severe implications for the property market. Activity has virtually ceased in hotels and restaurants in the absence of any customers, and offices are empty because most employees are working from home. Months of lockdown have also led to a wave of bankruptcies among city centre retailers, including high profile fashion chains. However, despite the heightened risks associated with commercial real estate, investors have not shunned the property market. In 2020, 56.4 billion euros were invested in German commercial property, hardly less than in previous years. Together with residential investments, real estate investments reached almost 82 billion euros.

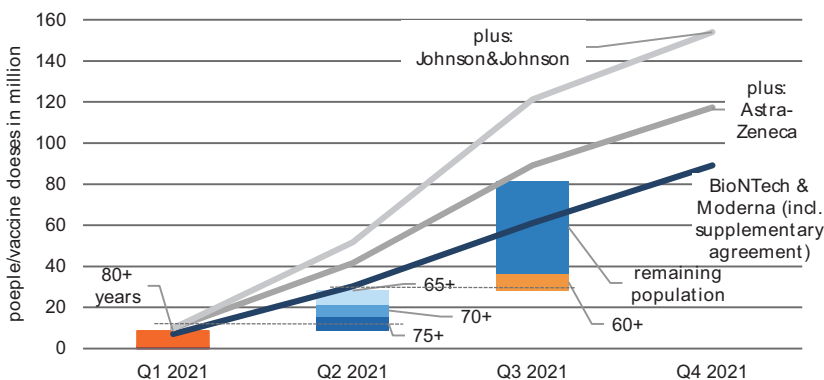
There is a mixed outlook for commercial real estate. Generally speaking, the hotel and restaurant sector should recover fairly quickly once the pandemic has been contained as more and more people are immunised. Conversely, a recalibration will be needed in the office and retail markets. Based on the experience of a year of working from home, a combination of flexible working and days spent in the office seems likely in future. This means that the office will remain an essential part of the working world, while the overall demand for office space is likely to gradually weaken. This trend is already further advanced in city centre retail. Demand for sales space will contract sharply, but a structural shift had already started before the pandemic.

**Unprecedented:
Global lockdown of public life in
fight against coronavirus**

**Offices empty, shops closed:
coronavirus takes a heavy toll on
commercial real estate**

**Hotels and restaurants will generally
recover, but offices and retail will
have to recalibrate**

BY THE BEGINNING OF AUTUMN EVERYONE (WHO WANTS) COULD BE VACCINATED – BUT COVID-RELATED RESTRICTIONS ARE LIKELY TO REMAIN IN PLACE FOR LONGER



Source: Federal Ministry of Health (BMG), Standing Committee on Vaccination (StIKo), DZ BANK

In this report we analyse the market trend in these important segments of the property market: Prime rents in the **office market** remained stable in 2020 with low vacancy rates. Conversely, the downward rent trend in the **retail sector** which had already started has accelerated. In this twelfth edition of our market report, we focus once again on trends in **twelve regional centres throughout Germany**. Conditions in these locations have remained fairly stable in recent years, and they have been conspicuous by their comparatively high rental yields. Our report supplements the fairly fragmentary information available on these locations. We also review the **seven top locations in Germany** and compare the two categories.

**12th edition of our “Regional
property centres” market report
provides an update on the office
and retail segments of 12 regional
centres and 7 top locations**

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	Cologne	North Rhine-Westphalia
Darmstadt	Hesse	Mainz	Rhineland-Palatinate	Düsseldorf	North Rhine-Westphalia
Essen	North Rhine-Westphalia	Mannheim	Baden-Württemb.	Frankfurt	Hesse
Hannover	Lower Saxony	Münster	North Rhine-Westphalia	Hamburg	Hamburg
Karlsruhe	Baden-Württemb.	Nuremberg	Bavaria	Munich	Bavaria
				Stuttgart	Baden-Württemb.

In the next chapter we analyse the office markets of the 19 locations covered. Starting on page 13 we then provide a market overview of the retail sector. From page 21 the individual locations are considered in alphabetical order. Pages 71 to 73 contain tables summarising the most important market data.

Office property: Will working from home turn a space shortage into an oversupply?

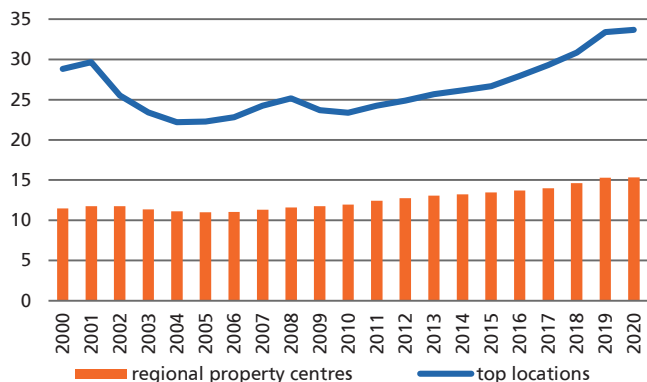
While the housing shortage in many large cities attracts considerable media interest, a shortage of office space generally only features in specialist publications. Most people are likely to be unaware that virtually no office space is now available in many German cities. The prevailing view might instead be that working from home will soon make offices irrelevant. The relative advantages and disadvantages have been the subject of vigorous debate in recent months. A right to work from home has even been mentioned.

Office workers and employers have gained extensive experience of working from home in recent months. We do not intend to re-examine the pros and cons here. We expect a hybrid “office/working from home” model to become established, and this is already currently being developed by many companies and institutions. Working from home could be used to focus on concentrated tasks, while office workplaces would have advantages in terms of communication and teamwork. On balance, this should

Working from home is a hot topic, not only in the office market

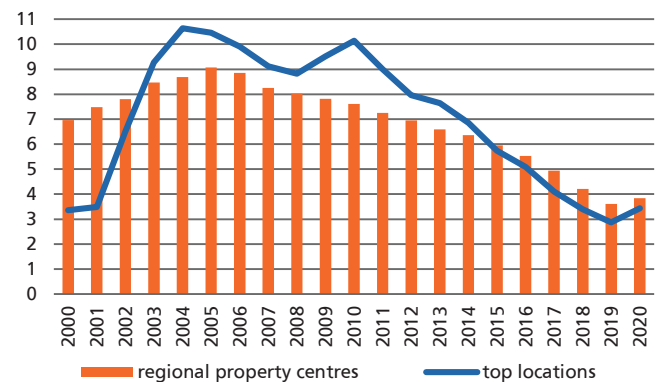
Hybrid world of work: Offices and working from home will complement each other in future

CORONAVIRUS CRISIS AND WORKING FROM HOME END RENT GROWTH ...
PRIME OFFICE RENTS IN EUR PER SQM



Source: bulwiengesa

... AND DRIVE VACANCY RATES UP FOR THE FIRST TIME IN A LONG PERIOD
VACANCY RATE IN PER CENT



Source: bulwiengesa

gradually dampen office demand, while the demand for attractive space will continue. The layout of offices – fewer small offices, more space for communication – could also change.

In our view, it is not possible to quantify with any degree of accuracy at the moment the extent to which working from home will reduce demand for office space. However, as experience of hybrid office working grows, specific office demand will level out over time. There has been little sign of this happening in the office market so far. Office rents stopped rising in 2020, but have maintained their levels. Vacancy rates have increased only moderately and remain remarkably low in the locations we review, at an average of around 3.5 per cent. It is difficult to gauge how much of the slight increase in vacancy rates is attributable to the decline in employment during the recession or to the impact of working from home.

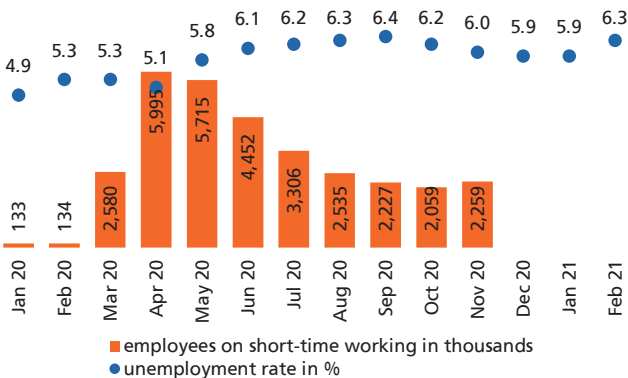
Market conditions in the office market

The economic basis for the office markets had already deteriorated in 2019 as the economic engine slowed. However, instead of the moderate macroeconomic growth of around one percent which we were still forecasting for 2020 at the end of 2019, the coronavirus pandemic triggered a deep recession. In the second quarter of 2020 large areas of the German economy came to a standstill, and the five per cent full-year decline in GDP can therefore be regarded as mild.

Office rents stable in 2020 despite working from home and covid crisis

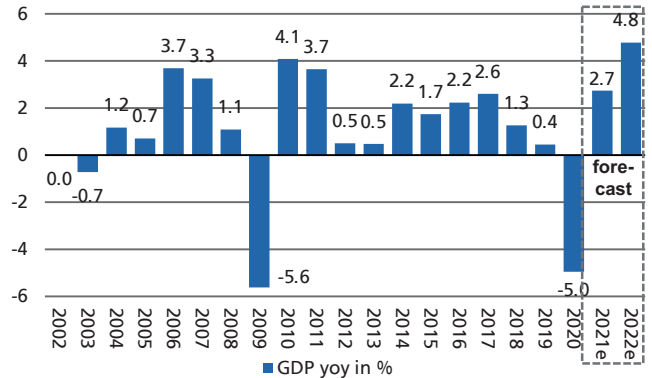
Instead of moderate growth, covid has plunged the German economy into a deep recession

SHORT-TIME WORKING PREVENTS STEEPER RISE IN UNEMPLOYMENT



Source: Federal Employment Agency

FULL IMPACT OF ECONOMIC RECOVERY WILL ONLY BE FELT AS VACCINATIONS INCREASE



Source: Eurostat, DZ BANK forecast

as of February 2021

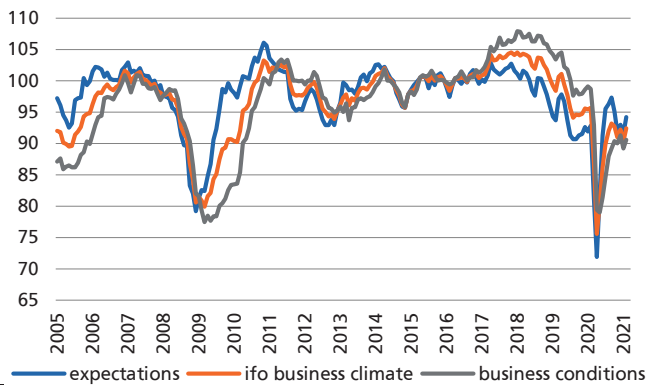
The same applies to the labour market. In January 2021, the number of people in work was down only slightly year-on-year from 45.2m to 44.5m. The unemployment rate rose from 5.3 per cent to 6.3 per cent, which is still relatively low. From 1992 to the beginning of 2016, this figure was consistently, and usually significantly higher. However, short-time working has prevented a steeper increase in unemployment. In April 2020, nearly 6 million people were in short-time work, compared to around 2.3 million in November 2020.

Unemployment rate rose by about half a percentage point in 2020

The economic recovery in 2021 will depend on the future course of the pandemic. Will highly infectious variants of the virus or progressive vaccination gain the upper hand? While momentum for industry has picked up again, service providers such as retailers and the hospitality sector are bearing the brunt of the restrictions imposed to suppress virus transmission. Overall, we expect macroeconomic growth of just under 3 per cent in 2021. However, the economy might not regain its 2019 level until 2022 when growth is forecast to reach 5 per cent. Unemployment will only fall slowly.

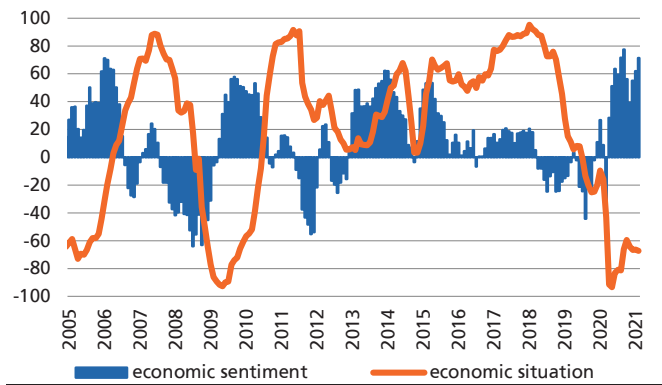
Economy unlikely to accelerate again strongly until 2022

IFO INSTITUTE'S BUSINESS CLIMATE IMPROVES AGAIN SLIGHTLY



Source: ifo Institute as of February 2021

ECONOMIC EXPERTS SURVEYED BY ZEW SLIGHTLY MORE OPTIMISTIC ABOUT ECONOMIC OUTLOOK



Source: ZEW as of February 2021

While the second wave of the pandemic had Europe firmly in its grip at the end of 2020/beginning of 2021, there were positive developments in terms of international relations. In the final days of last year an agreement was reached between the UK and the European Union, thus averting major disruption to bilateral trade. And the election of Joseph Robinette Biden Jr. as 46th president of the United States has made constructive transatlantic cooperation possible again.

Brexit deal and election of Biden as 46th US president provided a glimmer of hope at the turn of the year

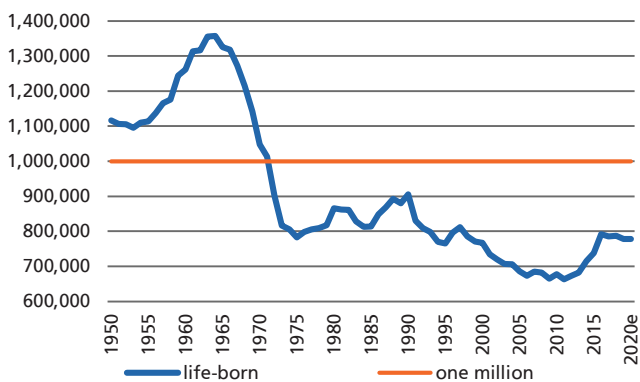
Below the line, companies surveyed each month by the ifo Institute took a fairly subdued view of both current conditions and economic prospects at the beginning of 2021. The lockdown over the turn of the year had a visibly negative impact on sentiment, causing the ifo business climate index to fall. In February, however, the index was able to increase slightly again. Conversely, the views of the economic experts surveyed by the ZEW clearly diverge in relation to current economic conditions (clearly negative) and expectations (clearly positive).

Turn of the year lockdown depressed economic sentiment

Economic recovery is likely to lead to a marked increase in labour demand. However, low birth rates will cause the labour supply to contract sharply in the coming years, since the number of children being born is now significantly lower than during the era of the economic miracle in Germany. The last year when the number of live

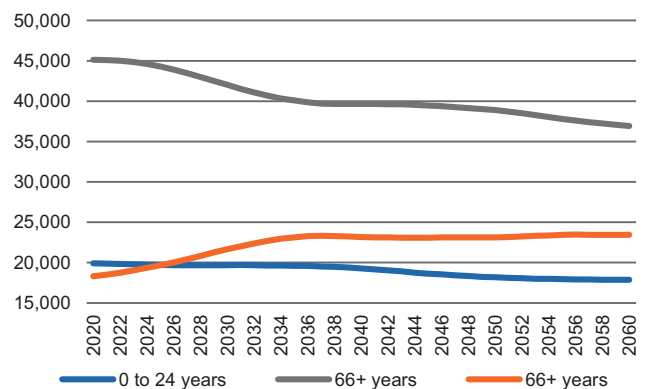
Employment growth slowed by demographics

GERMAN BIRTH RATE LAST EXCEEDED 1 MILLION IN 1971



Source: German Federal Statistical Office

POTENTIAL WORKFORCE WILL CONTRACT SHARPLY BY 2035
NUMBER OF PEOPLE IN '000



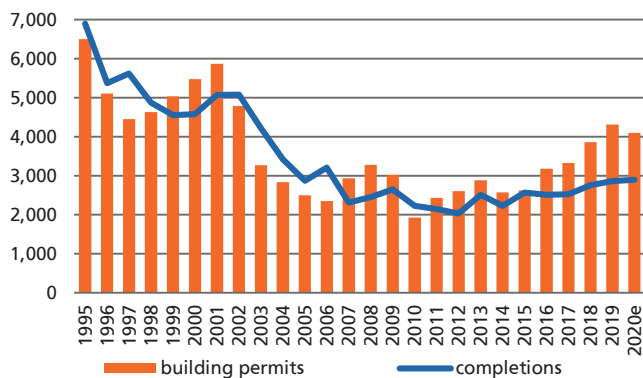
Source: German Federal Statistical Office (14th coordinated population projection up to 2060, "moderate" scenario)

births exceeded 1 million was 1971. Widespread use of the contraceptive pill has reduced the number of births to well below this level. After reunification, on average approximately 750,000 children were born each year. Conversely, between 1950 and 1970 the annual total was close to 1.2 million.

This will lead to a continuous “retirement wave” lasting into the middle of the next decade. Since subsequent age cohorts were much smaller, the labour force is likely to contract sharply. In the graph above right, the “economically active” population is defined as those aged 25 to 65 – currently around 45 million people. According to a demographic forecast from the German Federal Statistical Office, by 2035 this number will have declined by 5 million. This includes an estimated around 4 million economically active people, about a third of which – 1.3 million – are office workers. True, retirement can be deferred. However, in real terms, the demographic trend is likely to significantly reduce the current figure of around 15 million office employees and correspondingly, demand for office space.

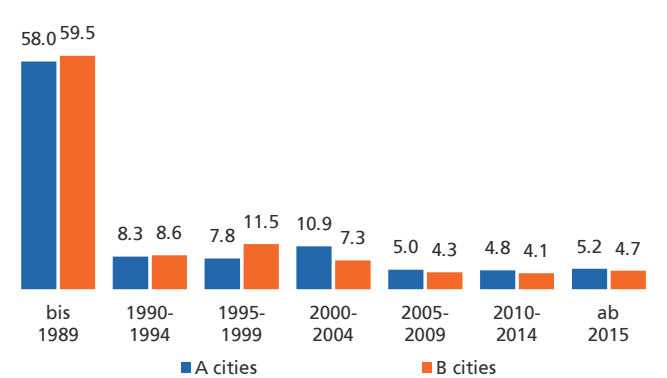
Economically active population set to contract sharply by 2035, reducing office demand

OFFICE BUILDING PERMITS EXCEED COMPLETIONS
FLOOR SPACE IN 1,000 SQM (THROUGHOUT GERMANY)



Source: German Federal Statistical Office, DZ BANK forecast

MORE THAN HALF OF OFFICES ALREADY MORE THAN 30 YEARS OLD
OFFICE STOCK BASED ON YEAR OF CONSTRUCTION IN PER CENT



Source: bulwiengesa

Is there now a risk of oversupply in the office market due to the decline in demand triggered by working from home and compounded by demographics? This is fairly unlikely. Although demand for office space is likely to fall, this should happen gradually rather than suddenly. Capacity utilisation for existing office space is also currently high, while new office construction has been fairly weak for some time. Construction volume could nevertheless increase given the growth in the number of building permits. However, the age of the office stock means that it is in need of regeneration. Around 60 per cent of office buildings are more than 30 years old, while only 10 per cent have been built since 2010.

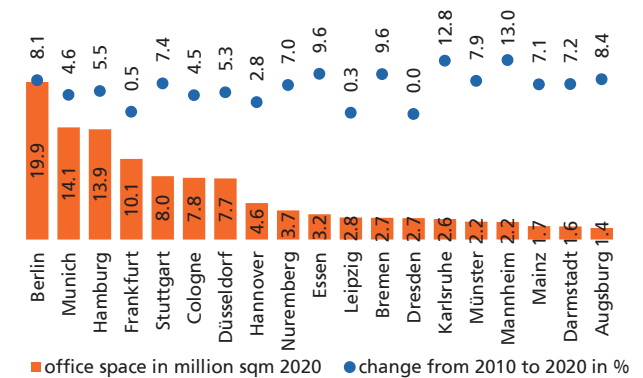
Large oversupply in office market fairly unlikely

Office: Market trend in the locations covered

The 19 locations reviewed in this market report have total office space of 113 million m², nearly a third of the total office space available for rent in Germany. The lion’s share (82 million m²) is in the seven top locations, ranging from almost 8 million m² in Düsseldorf to nearly 20 million m² in Berlin. The regional centres account for 31 million m². The size of locations extends from 1.4 million m² in Augsburg to 4.6 million m² in Hannover.

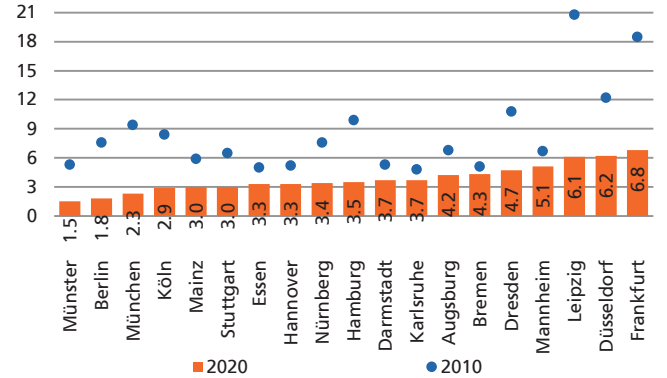
Market report covers almost a third of German office space

FROM SMALL TO LARGE – OUR MARKET REPORT COVERS THE FULL RANGE OF GERMAN OFFICE LOCATIONS



Source: bulwiengesa

DESPITE AN INCREASE, VACANCY RATES IN THE OFFICE MARKET ARE LOW
VACANCY RATE IN PER CENT



Source: bulwiengesa

Despite the steady decline in vacancy rates, growth in space has remained within limits in all 19 locations since 2010 at around 6 per cent. Conversely, in the ten previous years, growth was visibly stronger at 14 per cent, despite much higher vacancy rates. At the end of 2020, 96.5 per cent of total office space was let. In 2010, only about 90 per cent of office was occupied. As a result of the ongoing shortage of available office space since 2010, prime office rents increased significantly – by more than 40 per cent between 2010 and 2020.

Prime office rents up by more than 40 per cent since 2010

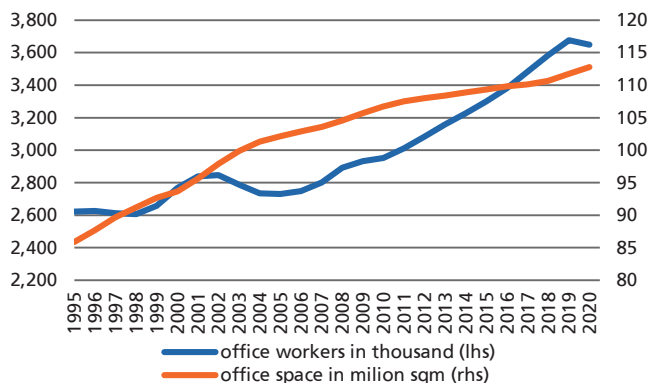
The main reason for the shortage of office space is the strong growth in office employment from 2005 to 2019. The coronavirus crisis brought this growth to an end, causing a minor setback. The space shortage can also be illustrated by the theoretical volume of office space per office employee. Based on the total office stock, in 2019 around 30 m² was available for each office worker – the lowest figure since the beginning of the 1990s. In 2020 the figure was a good 31 m². However, this ratio is of only limited significance given the growing importance of working from home.

Office employment grew strongly up to 2019

The shortage of available space has increased the need for new office construction. Given the steady increase in rents, the speculative development of office space has also become more important. The volume of new space has increased again since 2018. From 2009 to 2018, annual new space in all the locations accounted for 1 per cent of existing space. Conversely, the figure was 1.4 per cent in 2019 and 2020.

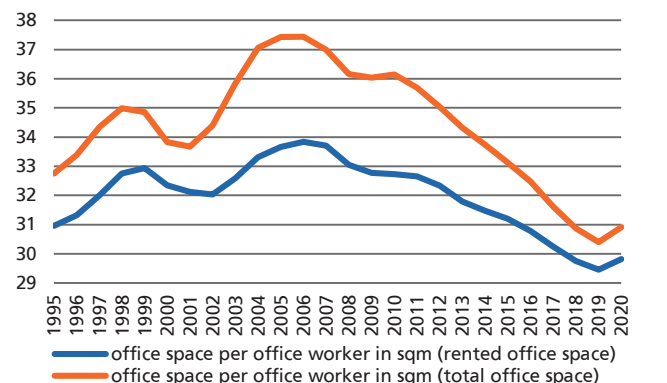
More office space built again since 2019

BY 2019 THE NUMBER OF OFFICE JOBS HAD LONG BEEN GROWING FASTER THAN OFFICE SPACE



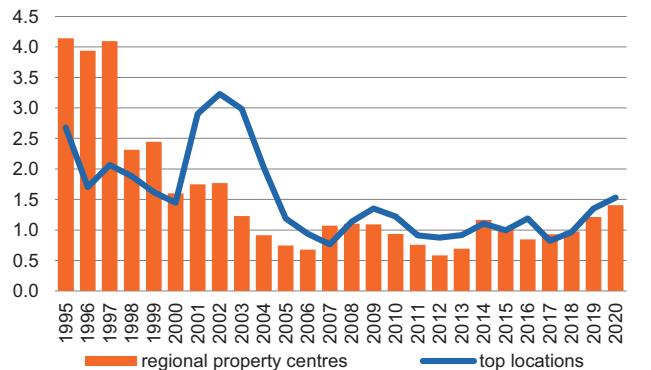
Source: bulwiengesa, Scope

THEORETICAL OFFICE SPACE PER OFFICE EMPLOYEE HAS FALLEN TO A COMPARATIVELY LOW LEVEL



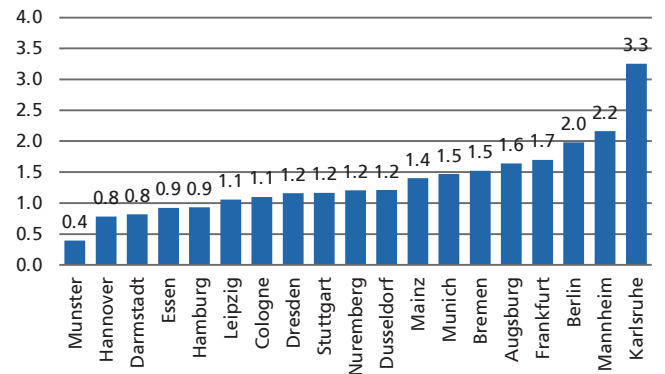
Source: bulwiengesa, DZ BANK

ON AVERAGE, LITTLE DIVERGENCE BETWEEN NEW OFFICE SPACE IN REGIONAL CENTRES AND TOP LOCATIONS
NEW OFFICE SPACE AS PERCENTAGE OF OFFICE STOCK



Source: bulwiengesa

LARGE DIFFERENCES IN RELATIVE NEW SPACE
NEW OFFICE SPACE AS PERCENTAGE OF OFFICE STOCK
(ANNUAL AVERAGE FROM 2018 TO 2020)



Source: bulwiengesa

The range is wide depending on the location. Interestingly, the lowest volume of new space was in the location with the lowest vacancy rate (Münster). The highest growth in office space relative to the office stock – more than two per cent – was in the office markets of Berlin, Mannheim and Karlsruhe.

However, the modest growth in new space in the last two years has had little impact on the total office stock in the locations as a whole and the usually low availability of office space. It will not be possible to compensate for the generally low level of office construction since the middle of the last decade in the short term. For this to happen, a high volume of construction activity would be needed over several years; however, this is unlikely to be realised in the wake of the coronavirus crisis and the shift to working from home. There is no sign of the unfortunate combination of weak demand and a simultaneous sharp increase in supply – as happened after the millennium.

In contrast to office rents and vacancy rates, the coronavirus crisis has had a major impact on take-up. Cumulative annual take-up in the 19 locations reviewed, including new lets in particular, fell by about a third on the previous year to 3.1 million m². Conversely, between 2016 and 2019, cumulative annual take-up was in the region of 4.5 to 5.0 million m². The percentage decline in office take-up compared to 2019 ranges from 4 per cent in Leipzig to 56 per cent in Darmstadt. The pandemic has had a greater overall impact on office markets in the top locations – which have seen an average decline of 37 per cent – than on the regional centres – where levels are down by 27 per cent.

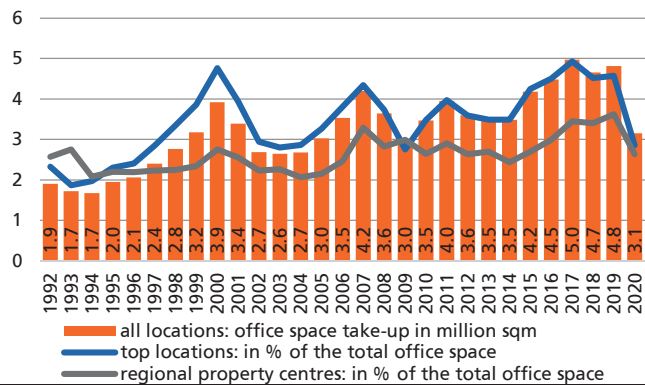
The generally much higher take-up in the top locations relative to total office space was similar to levels in the regional centres in 2020. In both market segments almost 3 per cent of the office stock was newly let in 2020. This is a historically low figure for the top locations. On average from 2000 to 2020, annual relative take-up was around 3.8 per cent. In contrast, the long-standing average of 2.8 per cent in the regional centres barely exceeded the 2020 figure.

No sign of oversupply of office space

Take-up down by about a third on the previous year in 2020

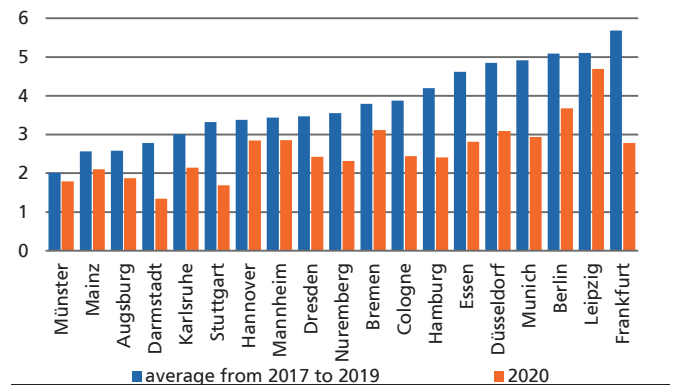
Take-up in regional centres broadly in line with long-term average in 2020

TAKE-UP FELL SHARPLY DUE TO CORONAVIRUS CRISIS
TAKE-UP FROM 1995 TO 2020



Source: bulwiengesa

WIDE DIVERGENCE IN DECLINE IN TAKE-UP
TAKE-UP AS PERCENTAGE OF OFFICE STOCK



Source: bulwiengesa

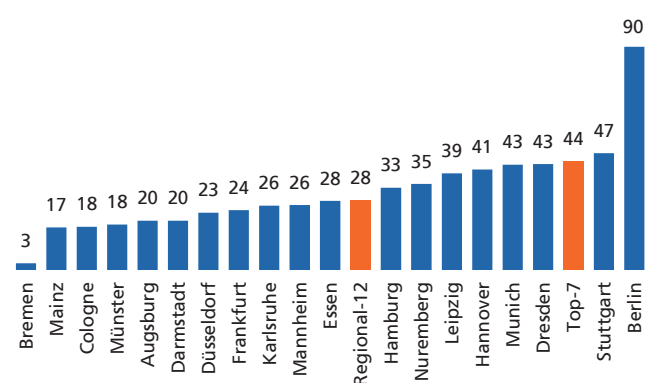
Despite the steep fall in take-up, prime office rents have remained stable compared to 2019. The steep fall in rents which was a feature of earlier economic crises has failed to materialise. This is probably because of the low volume of available space despite the decline in demand compared to 2020. As in previous years, virtually the only option open to companies and institutions interested in large-scale contemporary office space has been expensive space from project developments which are either under construction or at the planning stage. Nearly all the large rental contracts concluded in 2020 were in this category.

Prime office rents did not weaken in 2020 despite economic crisis

The coronavirus crisis has halted the upward trend in office rents which had been ongoing for many years. The last time prime office rents declined in the top locations was in 2010. In the regional centres, rents last fell as long ago as 2005. The steady upward trend drove rents up sharply, although with wide divergences between the various locations. The 44 per cent increase in rents in the top locations between 2010 and 2020 - which was considerably higher than the figure of 28 per cent in the regional centres - is mainly attributable to the massive 90 per cent hike in the Berlin office market. However, the top locations of Stuttgart and Munich have also reported strong rent growth in excess of 40 per cent. Among the regional centres, Dresden, Hannover and Leipzig reached this level. Bremen is the only office location where rents have not risen appreciably in the last ten years.

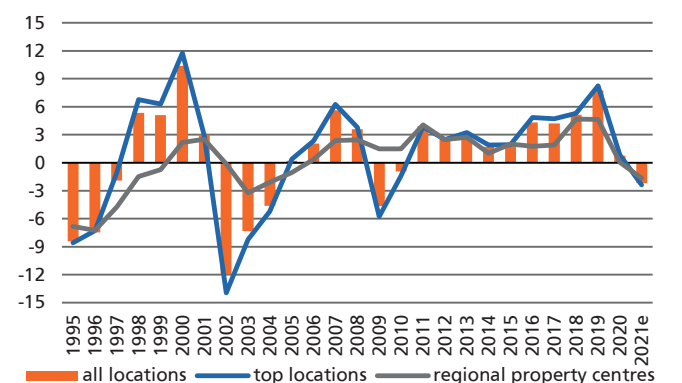
Prime rents in regional centres up by nearly 30 per cent since 2010

BERLIN STANDS OUT WITH 10-YEAR RENT RISE
PRIME OFFICE RENTS: INCREASE FROM 2010 TO 2020 IN PER CENT



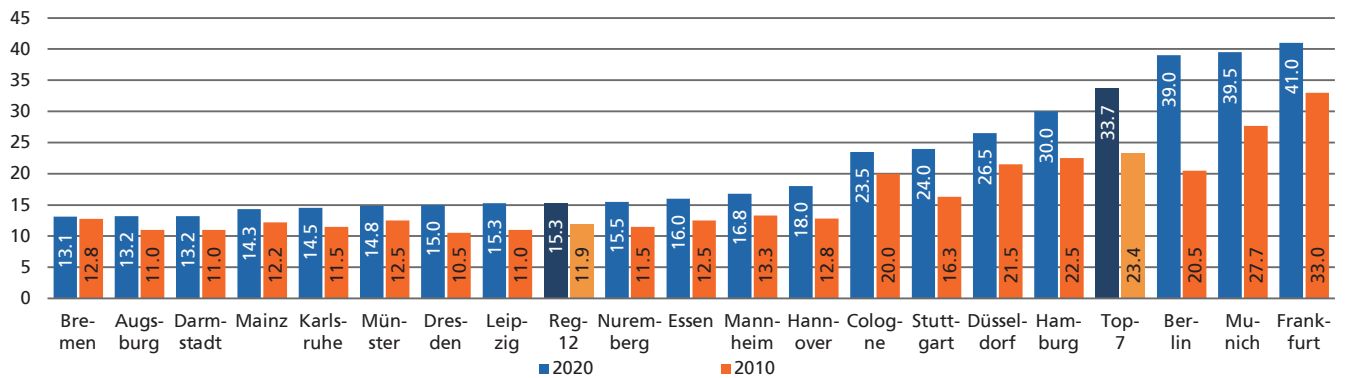
Source: bulwiengesa

LOW VACANCY RATE SLOWS RENT DECLINE
PRIME OFFICE RENTS COMPARED TO PREVIOUS YEAR IN PER CENT



Source: bulwiengesa, DZ BANK forecast

RANGE OF OFFICE RENTS HAS WIDENED SIGNIFICANTLY SINCE 2010
PRIME OFFICE RENTS IN EUR PER SQM (CITY CENTRE LOCATIONS)



Source: bulwiengesa

Prime office rents currently range from EUR 13 to 41 per m². Augsburg, Bremen and Darmstadt are at the lower end. The most expensive regional centres are Essen, Mannheim and Hannover where prime rents range from EUR 16 to 18 per m². The range of rents in the top locations starts at around EUR 24 per m² in Cologne and Stuttgart. Berlin, Frankfurt and Munich are at the top end with EUR 40 per m².

Prime rents in regional centres range from EUR 13 to 18 per m²

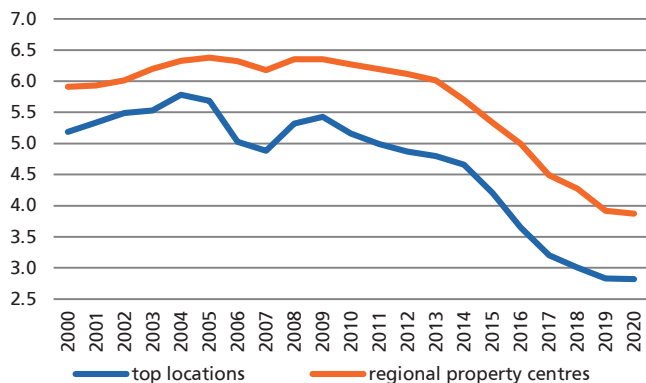
In some regional centres, slightly higher rents are achieved in “office-only” peripheral locations compared to the prime city centre rents depicted here. Of the locations we have reviewed, this is true of Augsburg, Bremen, Darmstadt, Mainz and Münster. However, with the exception of Augsburg, rents in office centres show an upward divergence of considerably less than EUR 1 per m². Conversely, rents for new, office-only locations in Augsburg are nearly EUR 3 per m² more expensive than high-value city centre office space.

Rents higher than in the city centre in some peripheral office locations

Similar to prime rents, initial rental yields for office buildings in central locations remained unchanged last year. However, although rental yields have not fallen any further, the growing uncertainty associated with office property has also prevented them from increasing. Two arguments in particular apply here. With bond yields remaining low, the massive pressure on investors to invest is preventing rental yields

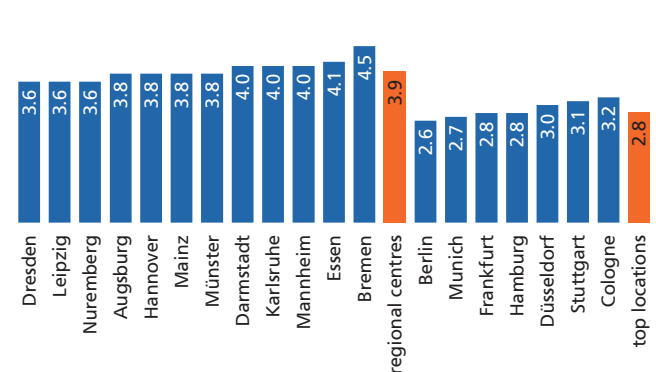
Rental yield for office space remained stable in 2020

OFFICE YIELDS STOPPED FALLING IN 2020
OFFICES IN CENTRAL LOCATIONS: INITIAL RENTAL YIELD IN %



Source: bulwiengesa

MEAGRE RETURNS: YIELDS OF AROUND 4 PER A THING OF THE PAST
OFFICES IN CENTRAL LOCATIONS: INITIAL RENTAL YIELD IN % (2020)



Source: bulwiengesa

from increasing. And it should still be fairly easy to let the office properties in central locations considered here if overall demand for office space weakens, for example as a result of working from home.

The range of initial rental yields for central office locations extends from 2.6 per cent in Berlin to 4.5 per cent in Bremen. The average rental yield for top locations is 2.8 per cent, while the corresponding figure for the regional centres is about 1 percentage point higher at 3.9 per cent. The lowest office rental yields of 3.6 per cent for regional centres are in Dresden, Leipzig and Nuremberg. Given their peak positions in the yield rankings, the three east German locations covered in this market report – Berlin, Dresden and Leipzig – are of particular interest to investors.

Office: Conclusion and forecast

The office market is undergoing radical change. Many employers and office workers prefer to work from home for a much larger proportion of their time than before the coronavirus crisis. But office buildings – which have advantages for communications and teamwork – are by no means superfluous. However, the number of desks and thus the volume of office space can nevertheless be significantly reduced. We believe that the hybrid office approach described at the beginning – with tasks which require a high degree of focus being carried out in the home office, and teamwork in the office – will prevail, and that overall demand for office space is gradually weakening. The situation will be compounded by demographics. An ageing population will lead to a reduction in future employment potential, and will also therefore dampen demand for office space.

Many offices have lain empty since March 2020 as a result of working from home. However, this trend is not reflected in office market data. Prime rents and rental yields remained stable in 2020, while vacancy rates increased only slightly. After all, offices will remain an essential part of the working world. The importance of attractive office properties as representative company headquarters and objects of identification for employees could even increase in the flexible working world. In addition, contemporary office space functions as a platform for good communication. A moderate increase in vacancy rates will have only a marginally negative impact on prime rents here. We therefore expect prime rents to decline by around 2 per cent this year, which is a fairly low rate for an economic crisis. The gradual economic recovery should have a stabilising effect. However, falling office demand could have a disproportionately large impact on weaker office locations.

OFFICE – FORECASTS FOR PRIME RENTS AND VACANCY RATES

	2019	2020	2021e
12 regional centres			
Prime rents in EUR/m ² (vs. previous year in %)	15.3 (4.7)	15.3 (0.0)	15.1 (-1.7)
Vacancy rate in % (vs. previous year in % points)	3.6 (-0.6)	3.8 (+0.2)	4.4 (+0.6)
7 top locations			
Prime rents in EUR/m ² (vs. previous year in %)	33.4 (+8.3)	33.7 (+0.9)	32.9 (-2.4)
Vacancy rate in % (vs. previous year in % points)	2.9 (-0.5)	3.4 (+0.5)	4.1 (+0.7)

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 top rent.

East German locations top of the league for office yields

Working from home and demographics dampen demand for office space

2021 forecast: Attractive office space virtually unaffected by falling prime rents

Retail property: City centre retail fights for survival

A perfect storm has been brewing for city centre retail. Months of lockdown, the absence of tourists and Christmas business have led to sales losses in billions for retailers in shopping streets and shopping centres. While the income needed to buy new goods is missing, warehouses are piled high with unsold winter products which can at best be sold off at heavy discounts. However, after a bumpy start to the vaccination programme, there is now light at the end of the covid tunnel. If all goes well, customers might be able to embark on a shopping spree from the fourth quarter of this year when restrictions are eased.

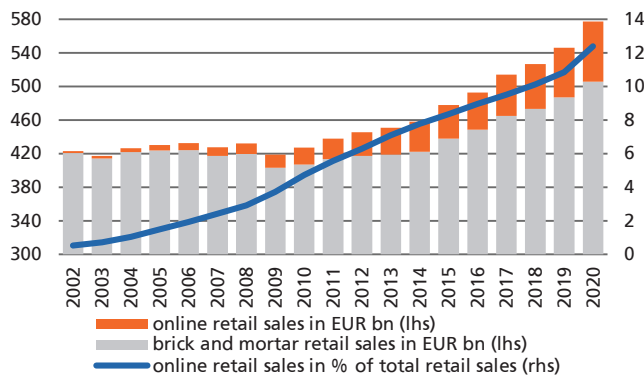
However, this will not solve the problems facing city centre retailers. The current crisis is associated with a radical structural shift for in-store retail which started pre-covid and will continue thereafter. Digitalisation has led to a fundamental shift in shopping behaviour. Products such as fashion, footwear and electronics in particular, which represent the core range of goods sold in city centres, are now frequently bought online. Online retail has accelerated further as a result of the pandemic, partly because many households have added to their household equipment, including desks and printers for working from home, and exercise bikes and games consoles for leisure. By October 2020, the US online retail giant Amazon had hired more than 400,000 employees worldwide to cope with high demand.

City centre retail still in crisis mode, but light at the end of the tunnel

Structural change in retail started pre-coronavirus – and will continue afterwards

MARKET SHARE OF IN-STORE RETAIL FALLING STEADILY FOR YEARS

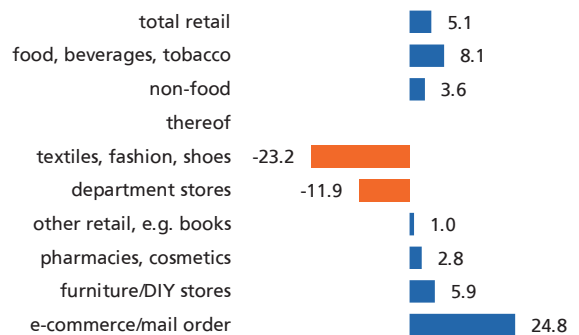
RETAIL MARKET SHARES IN PER CENT



Source: HDE

SALES IN DEPARTMENT STORES AND FASHION CHAINS FELL SHARPLY IN 2020

NOMINAL RETAIL SALES 2020 VS. PREVIOUS YEAR IN %



Source: German Federal Statistical Office

As a result of lost sales, many retailers are fighting to survive. Recent months have seen well-known fashion chains such as Adler, Bonita, Dielmann, Esprit, Hallhuber, Sinn and Tally Weijl, as well as restaurant chains, filing for insolvency. Survival often entails the radical pruning of branch networks. After insolvency and the closure of a quarter of its branches, the Galeria Karstadt Kaufhof store chain had recourse to government assistance of EUR 460m.

Many retailers fighting for survival

Owners of business premises and shopping centres have felt the full impact of the crisis. As a consequence of lost sales, rents are not being paid in full, if at all. Property owners will also have to adjust to permanently lower rental income. In addition to falling market rents, renegotiated rental agreements and increasing vacancy rates are also contributory factors here. However, retail is not the only sector beating a retreat. As a result of digitalisation, banks and savings banks are also thinning out their branch networks.

Property owners will have to adjust to permanently lower rental income

Conversely, property owners in the local supply sector have no serious concerns. Supermarkets and drugstores reported solid sales growth in 2020. As a result of working from home, the closure of restaurants and no holiday travel, people have been cooking at home more often and have correspondingly bought more. Business has also been good for DIY stores and bicycle shops.

Market conditions in the retail sector

However, instead of a sales trend depressed by the coronavirus crisis, recession and rising unemployment, the retail sector achieved record growth in 2020. According to figures from the German Federal Statistical Office, retail sales were up by 5.1 per cent on 2019. In the five previous years the annual average was only 3.5 per cent, despite a much more positive economic climate. The reasons for this have already been indicated: Cooking at home instead of using canteens and restaurants, the purchase of leisure and home office products, and investment in homes and gardens. Households have made savings on travel, restaurants and cinema and theatre.

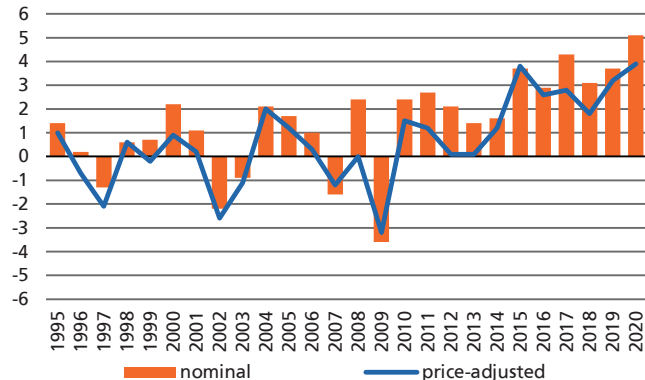
According to statistics from the German Retail Federation (HDE), high street stores and online shops generated bottom line sales of EUR 577bn in 2020, an increase of EUR 31bn on 2019. Online retail benefited particularly, with sales up from EUR 59bn to around 72bn. This represents a market share of a good 12.5 per cent, an increase of 1.5 percentage points compared to 2019.

2020 a successful year for supermarkets, bike shops and DIY stores

Retail sales up by more than 5 per cent in 2020

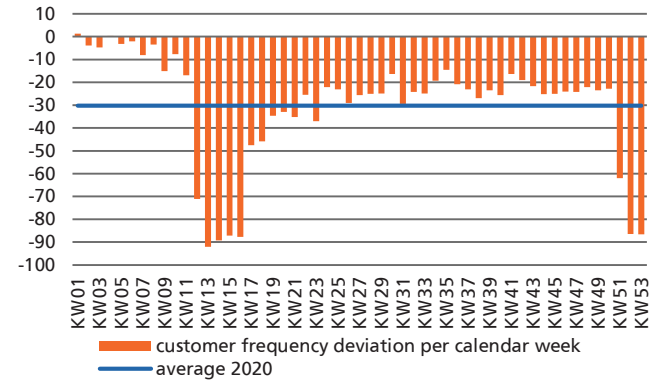
E-commerce market share increases to a good 12.5 per cent

RECORD GROWTH IN RETAIL SALES IN 2020
RETAIL SALES VS. PREVIOUS YEAR IN PER CENT



Source: German Federal Statistical Office

RETAIL FOOTFALL ALSO LOW OUTSIDE LOCKDOWN PHASES
DECLINE IN FOOTFALL 2020 COMPARED TO 2019 IN PER CENT



Source: Crosscan

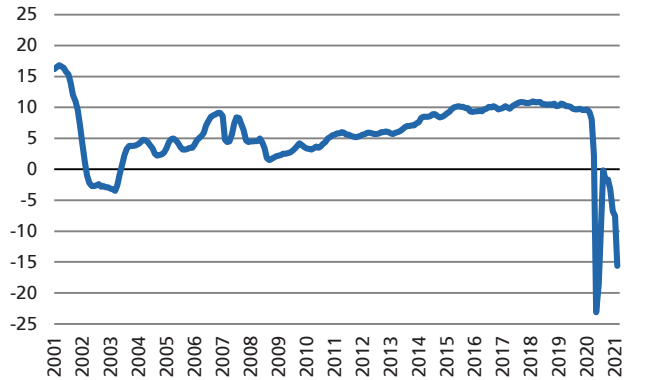
The high level of retail spending is not only surprising in view of the weaker labour market conditions. Consumer sentiment has fallen to its lowest point for 20 years. The GfK consumer climate slipped into negative territory again in May 2020 for the first time since 2003. It then recovered from the steep downturn of May/June 2020, before turning very negative again as a result of the turn-of-the-year lockdown.

The uncertainty felt by consumers has been accompanied by a phenomenal increase in the propensity to save. The savings ratio, which on average exceeded 10 per cent between 2010 and 2019, has now increased to 20 per cent. The annual average in 2020 was 16.3 per cent. This translates into an increase of more than EUR 100bn in savings compared to 2019, although most funds have been placed in short-term deposit accounts, rather than invested long term.

Consumer confidence plummeted in 2020, ...

... while uncertainty led to a surge in the savings ratio

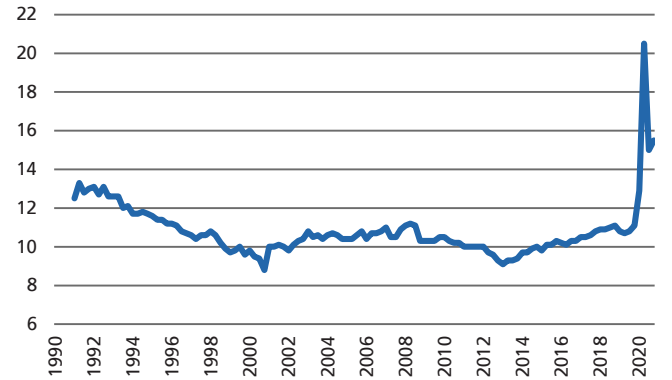
**CONSUMER SPENDING HIGH IN 2020 DESPITE VISIBLE
DETERIORATION IN CONSUMER CLIMATE**
GfK CONSUMER CLIMATE IN POINTS



Source: GfK

as of February 2021

**SAVINGS RATIO HAS NOW DOUBLED DUE TO HIGH LEVEL
OF UNCERTAINTY**
SAVINGS RATIO IN PER CENT, SEASONALLY ADJUSTED



Source: German Federal Statistical Office

The coronavirus crisis and specifically the phases of lockdown have taken a heavy toll on city centre fashion retail. This important retail segment has suffered additionally because many of the special occasions for which customers typically buy new outfits, such as holidays, family celebrations and visits to the theatre and opera, have been cancelled. Leisurewear rather than formal business attire also tends to be worn when working from home. However, the problems afflicting the in-store fashion segment – hitherto the most important user of city centre retail space – had already started pre-covid.

Fashion retail suffering from coronavirus and...

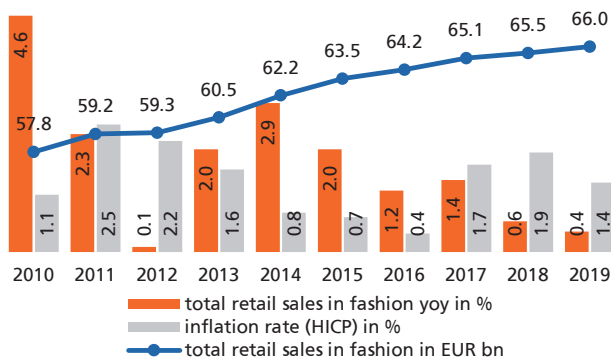
Fashion sales - which reached a combined total of EUR 66bn from in-store and online retail in 2019 - are virtually stagnating. Between 2015 and 2019, annual nominal sales growth reached almost 1 per cent, while total retail sales increased by more than three times this rate. From 2017 to 2019, inflation was higher than the nominal growth in fashion sales, and fashion retail had therefore already contracted in real terms before the coronavirus crisis. Thanks to economic growth, low unemployment, demographic growth and booming tourism in cities, conditions were better than at almost any time previously.

... persistently weak growth

Low sales growth and a simultaneous increase in the proportion of online sales are also leading to a nominal decline in the volume of sales generated from in-store

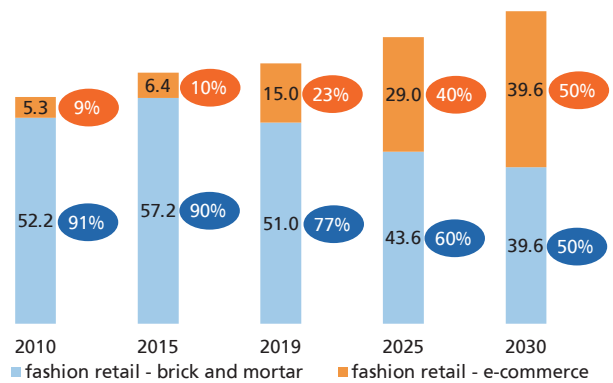
In-store fashion sales could decline again sharply

FASHION SALES GROW SLOWER THAN INFLATION SINCE 2017
SALES TREND FASHION RETAIL



Source: KPMG/EHI (Fashion 2030 report), Eurostat

ONLINE PROPORTION OF FASHION RETAIL COULD GROW FURTHER
SALES FASHION RETAIL IN EUR BN



Source: KPMG/EHI (Fashion 2030 report)

fashion retail. Data from the “Fashion 2030” report published by KPMG/EHI and the German textile industry association (BTE) show that in-store fashion sales declined from around EUR 57bn in 2015 to EUR 51bn in 2019, while the online proportion grew from 10 to 23 per cent. The report expects this trend to continue and the proportion of online fashion sales to increase to 50 per cent by 2030. This means that in-store fashion sales would decline to around EUR 40bn.

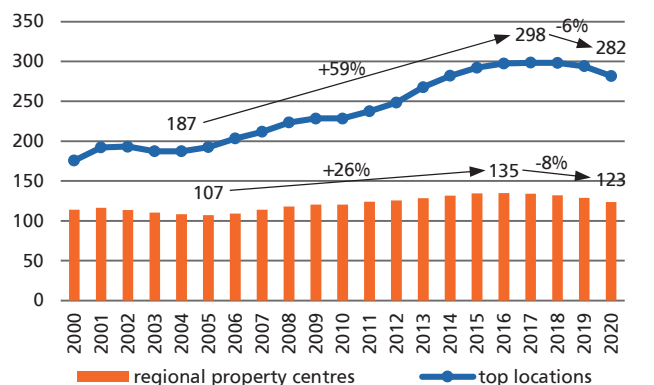
Only a few years ago around 40 per cent of rented sales space in prime locations and shopping centres was taken up by the fashion segment. The forecast decline in sales and the associated downsizing of sales space is particularly painful given the major importance of fashion retail for retail property. However, the proportion of online retail is also likely to increase in other important retail segments such as footwear/leather goods, cosmetics, and electronics. It is nevertheless virtually impossible to predict the extent to which city centre retail sales space will contract in real terms.

The situation is being compounded further by the expansion of city centre sales space in recent years. Until only a few years ago, demand for prime retail space usually exceeded supply, driving prime rents up sharply. The “golden years” for landlords of city centre retail properties were based on the strategy adopted by many fashion chains of expanding both their online offer and their city centre presence with dense branch networks. Economic growth, an increasing population, and flourishing tourism raised hopes of positive sales. The property market reacted with a whole series of city centre project developments.

City centre retail needs less space, but extent of decline still unclear

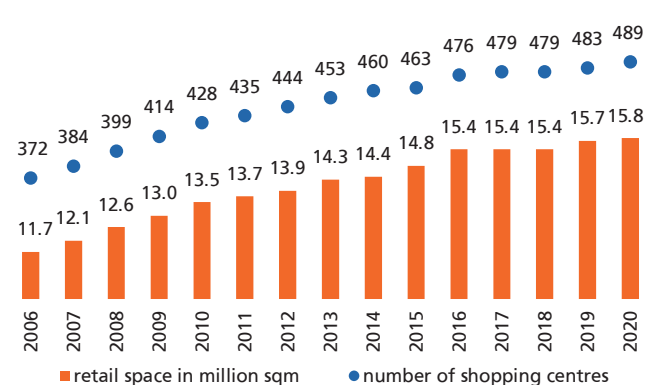
Situation compounded by expansion of city centre sales space

SPACE DEMAND DROVE UP RETAIL RENTS BEFORE BRANCH CLOSURES REDUCED THEM AGAIN
PRIME RENTS IN EUR PER SQM



Source: bulwiengesa

DEFYING THE ONLINE SHOPPING TREND: SALES SPACE HAS CONTINUED TO GROW
NUMBER AND SALES SPACE OF GERMAN SHOPPING CENTRES



Source: HDE

The advantage of the “hybrid” sales strategy we have described is that products are easily accessible both online, and on a shopping trip – when they can also be tried out and taken home immediately. Where the sales are ultimately generated is less crucial. The disadvantage of parallel sales channels is high rents and staffing costs for branches, and the costs of a professional online shop which should not be underestimated.

High costs a disadvantage of hybrid sales strategy

High sales costs compared to the costs of a purely online retail presence are forcing chain stores to change course. Retailers had already started to thin out their branch networks pre-coronavirus. Prime rents in top locations and regional centres have therefore been stagnating or falling since 2016. The gradual decline in fashion retail has been mitigated by restaurant chains and local suppliers such as drugstores taking over vacant shops. The pandemic perpetuated the downward rent trend in 2020.

Strategic shift towards streamlined branch network already started pre-covid

However, given the difficulties of the city centre retail environment, the rate at which rents have fallen remains moderate. Overall, prime rents have declined by less than 10 per cent.

The contraction process in city centre locations would probably have continued even without covid given the growing proportion of online sales of fashion, jewellery and electronics. The monotony of the high street retail offer as a result of the proliferation of branches has also had a negative impact on the sector. In some prime locations retail chains account for more than 90 per cent of shops. Conversely, local retail with specialist shops run by the owners plays virtually no role.

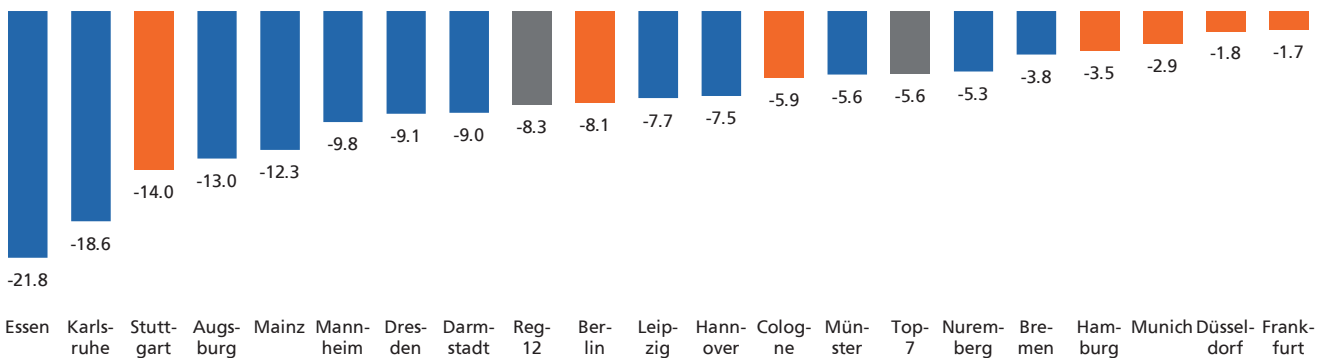
Even without the pandemic, the retail sector would probably have continued to contract gradually

Retail: Market trend in the locations covered

After prolonged rent growth, prime city centre retail rents are now falling across the whole market. In all the locations we have reviewed, prime rents were below the maximum levels achieved in the period from 2010 to 2019 last year. Prime rents in regional centres generally fell more sharply. Prime rents in Essen showed the steepest decline, down by 22 per cent from peak levels. Conversely, the corresponding figure in Frankfurt was only about 2 per cent.

Prime retail rents falling everywhere

PRIME RENTS FALLING EVERYWHERE – BUT TO A LESSER EXTENT SO FAR IN TOP LOCATIONS
DIVERGENCE OF PRIME RENTS IN 2020 FROM MAXIMUM ACHIEVED FROM 2010 TO 2019 IN PER CENT



Source: bulwiengesa

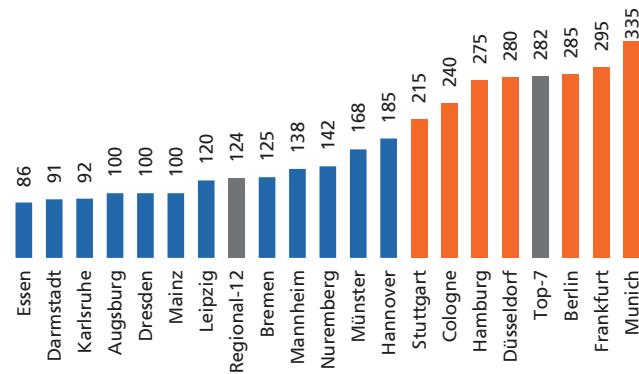
Prime rents range from just shy of EUR 90 per m² in Essen to a maximum of EUR 335 per m² in Munich. The decline in rents has accelerated since 2018. On average over all locations, prime rents fell by 4 per cent last year, the steepest fall in city centre retail rents since 1996. The rate at which rents fall this year is likely to be similar to last year.

Retail rents fell faster in 2020 than at any time since 1996

In contrast to the previous decade, per capita sales space has remained virtually unchanged since 2010 relative to population size in the locations analysed. Per capita sales space across the whole retail sector is just below 2 m² across all locations. The range of locations extends from 1.3 m² to 3.2 m² per capita. Growth in relative sales space has been braked by demographic growth in recent years. Between 2010 and 2020 the populations of the 19 locations as a whole increased by 1.4 million, or around 10 per cent, to just over 15 million people.

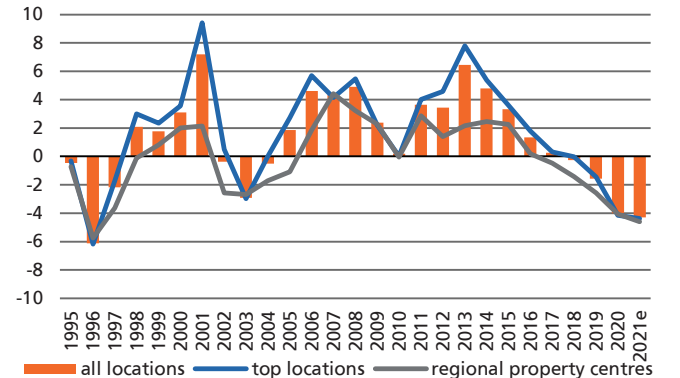
Around 2 sqm of per capita sales space

PRIME RENTS IN TOP LOCATIONS MORE THAN TWICE AS HIGH AS IN REGIONAL CENTRES
PRIME RENTS IN EUR PER SQM (2020)



Source: bulwiengesa

RENT DECLINE COULD ACCELERATE AGAIN IN 2021
PRIME RENTS COMPARED TO PREVIOUS YEAR IN PER CENT



Source: bulwiengesa, DZ BANK forecast

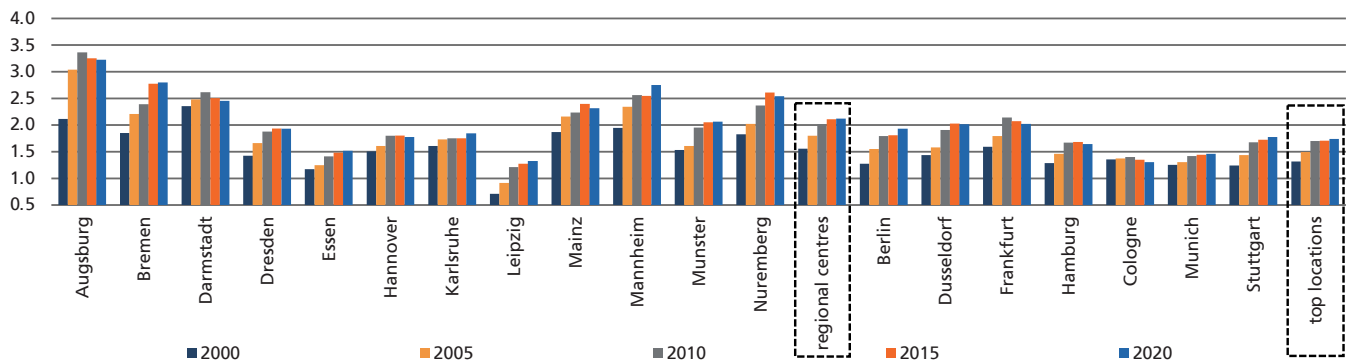
Only a fraction of the total retail space of 28 million m² in the 19 locations is in city centres although they have long been the main focus of interest. Intensified by the coronavirus crisis, this focus has however shifted towards specialist stores, local suppliers and secondary locations. The excess sales space we have described as a result of the growth in online retail is not yet reflected here. But this could change in future. The proportion of online sales in the grocery segment is very small so far at about 2 per cent, but is growing fairly rapidly.

Local suppliers unaffected by internet so far

City centres will have to recalibrate their retail offer. The continuing loss of sales due to e-commerce is the main factor here, but not the only one. The attractions of city centres have so far been based on their appeal in large catchment areas, with large numbers of commuters, frequently high purchasing power, demographic growth, and often booming tourism. Growing customer potential has cushioned the impact of online shopping. The opposite could now be the case: e-commerce is likely to accelerate further, while customer potential is declining.

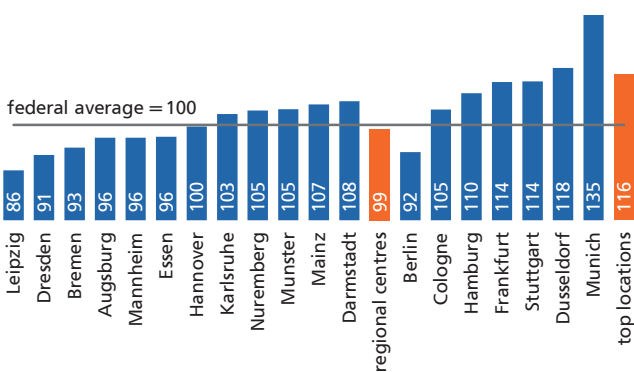
City centre retail will have to be repurposed

RELATIVE SALES SPACE (ALL LOCATIONS) HAS LARGELY STAGNATED SINCE 2010
SALES SPACE PER CAPITA IN SQM



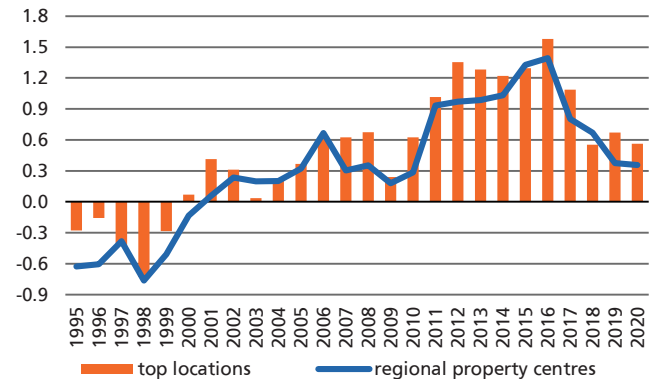
Source: Scope

HIGHEST PURCHASING POWER IN TOP LOCATIONS
PURCHASING POWER IN POINTS



Source: bulwiengesha

POPULATION GROWTH HAS SLOWED CONSIDERABLY
SIZE OF POPULATION COMPARED TO PREVIOUS YEAR IN PER CENT



Source: bulwiengesha

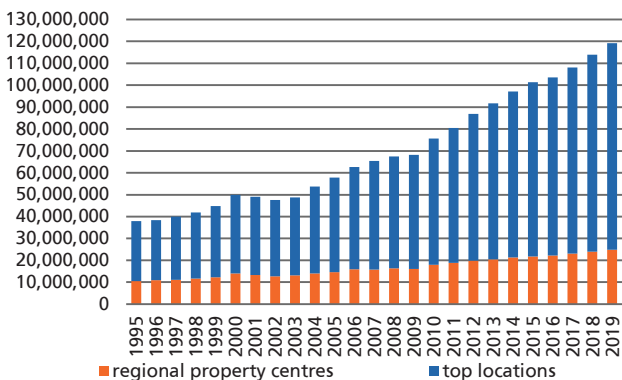
True, many people will continue to enjoy visiting city centres, but possibly no longer in such large numbers. A growing online offer and the many businesses which have closed during the coronavirus crisis could discourage people from a city Centre stroll. Working from home could reduce the number of commuters shopping in city centres in their lunch hour or after work. Strong demographic growth in cities, particularly in the years from 2011 to 2017, has also slowed. Lower rates of migration to Germany, a housing shortage, and high rents are contributory factors here. Tourism – which has become a major sales factor – is likely to recover. However, the number of business travellers could fall compared to the pre-covid era if trade fairs and meetings increasingly move online.

Will city centre footfall decline permanently?

Despite all the negative factors, initial rental yields in the retail sector have increased slightly. In contrast, yields for shopping centres have risen more sharply. In the regional centres, the average initial rental yield for retail properties in central locations was 4.1 per cent last year (2019: 4.0 per cent). Rental yields in the top locations were around 130 basis points lower at an unchanged 2.8 per cent.

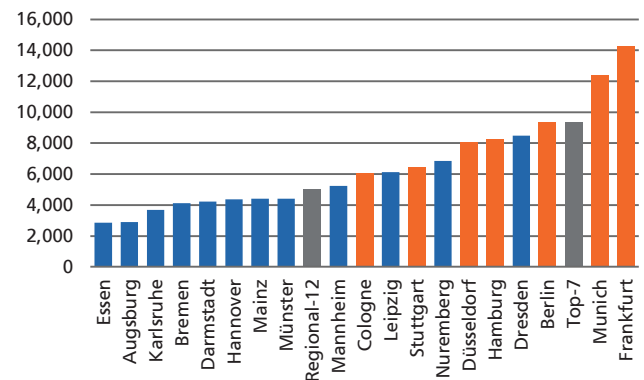
Increasingly difficult environment for city centre retail not reflected in rental yields

TOURISTS NOW AN IMPORTANT CUSTOMER GROUP
NUMBER OF OVERNIGHT STAYS



Source: bulwiengesha

IN ADDITION TO THE TOP LOCATIONS, LEIPZIG, NUREMBERG AND DRESDEN BENEFIT PARTICULARLY FROM HIGH VISITOR NUMBERS
NUMBER OF OVERNIGHT STAYS PER 1,000 INHABITANTS (2019)



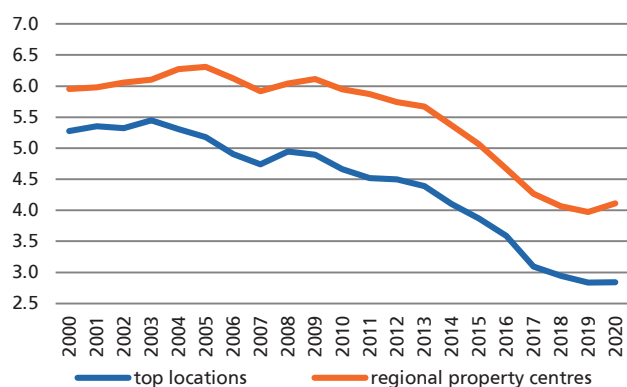
Source: bulwiengesha, Scope

Retail: Conclusion and forecast

Even after vaccinations have begun, coronavirus-related restrictions remain in force. A gradual easing for the retail sector will depend on the future course of the pandemic. A broad return to normality in public life is only likely to be possible when the greater availability of vaccines leads to the successful containment of the pandemic on a sustained basis. Against this background, conditions for city centre retail will remain strained for some time yet. However, the year could end with a pent-up shopping boom and strong Christmas business. The challenges for city centre retail will nevertheless outlast the pandemic.

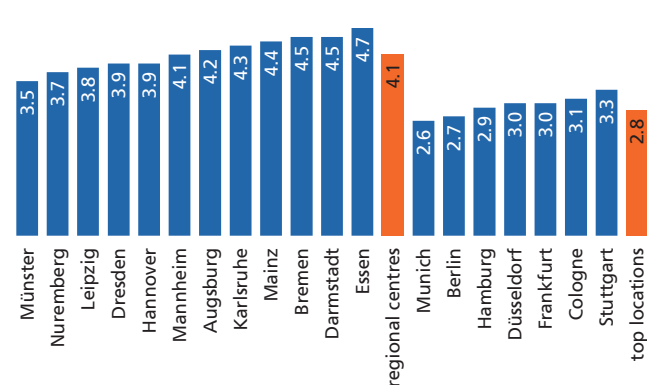
2021 could end on a positive note with a shopping boom

RETAIL RENTAL YIELDS UP SLIGHTLY IN 2020 AFTER A LONG DECLINE
CENTRAL RETAIL LOCATIONS: INITIAL RENTAL YIELD IN %



Source: bulwiengesa

THE MOST EXPENSIVE RETAIL PROPERTIES AMONG THE REGIONAL CENTRES ARE IN MÜNSTER AND NÜRNBERG
CENTRAL RETAIL LOCATIONS: INITIAL RENTAL YIELD IN % (2020)



Source: bulwiengesa

If the partial withdrawal by retailers as a result of e-commerce is not to lead to permanently vacant properties and deserted city centres, municipal authorities, property owners and retailers will have to agree concepts to create vibrant and more attractive city centres with less traffic and no retail monocultures. There are many potential uses for city centre locations – housing, culture, education, offices or logistics. However, only time will tell which city centre concepts are ultimately successful.

What does the future hold for city centre retail?

This year a virtually unchanged supply of sales space is coming up against a decline in demand for space, although there is continuing interest in city centre locations. Online retailers could expand their presence here. However, a growing number of vacant properties and another visible decline in rents in prime locations are likely. Shorter rental contracts and turnover-based rents are set to become the norm. However, the downward rent trend could be slowed as lower rents create the potential for a wider range of retail concepts in city centres.

Forecast: Downward rent trend likely to continue unchecked in 2021

RETAIL – FORECASTS FOR PRIME RENTS

	2019	2020	2021e
12 regional centres			
Prime rents in EUR/m ² (vs. prev. yr. in %)	129 (-2.6)	123 (-4.1)	118 (-4.6)
7 top locations			
Prime rents in EUR/m ² (vs. prev. yr. in %)	294 (-1.4)	282 (-4.2)	269 (-4.4)

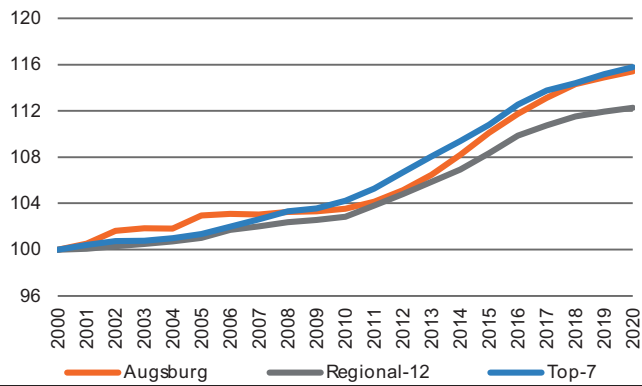
Source: bulwiengesa, DZ BANK forecast

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 top rent.

AUGSBURG

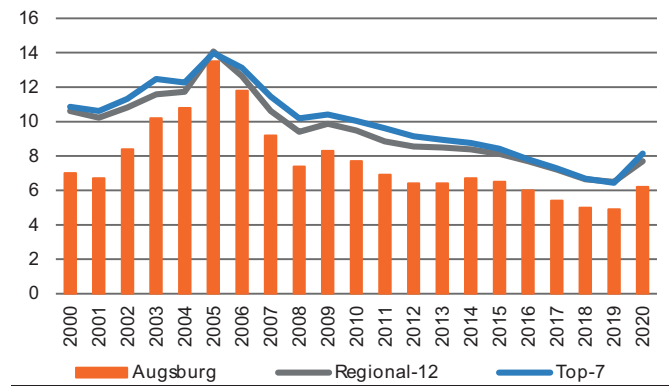
POPULATION GROWTH



Source: Scope

Index 2000 = 100

UNEMPLOYMENT RATE (%)

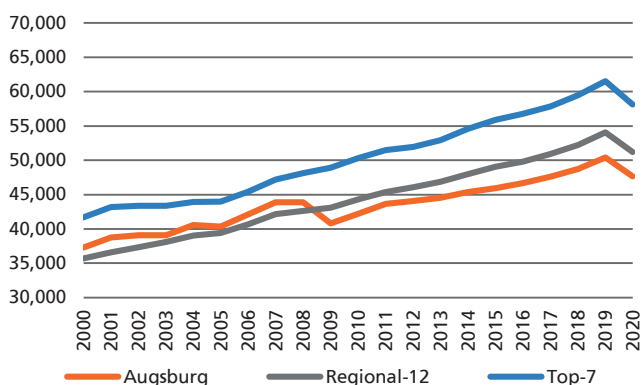


Source: bulwiengesa, BA, DZ BANK

Augsburg, which was established by the Romans, and is famous for its City Hall, Goldener Saal, and the Fuggerei alms houses, is the third most densely populated city in Bavaria. After virtually stagnating for a long time, its population started to grow strongly ten years ago and has increased by about 12 per cent to nearly 300,000 since 2010. In addition to a widespread influx into major cities, Augsburg benefits from its proximity to Munich and a much cheaper housing market. Commuters can reach the state capital at a distance of 60 kilometres quickly via Autobahn A8 or by rail on the Intercity Express (ICE). While the Bavarian state capital is “bursting at the seams”, Augsburg has extensive space reserves on former industrial and military sites. Working from home could make Augsburg even more attractive if commuters no longer have to travel into the office every day. The economy of Augsburg has also recovered. The structural shift which occurred after the decline of the textile industry, the withdrawal of American forces, and large-scale insolvencies has been largely concluded. Unemployment nevertheless remains comparatively high for Bavaria. In addition to the coronavirus crisis, the labour market is also being depressed by the closure of the Fujitsu and Ledvance factories and job losses at Kuka, MT Aerospace and MAN. Important economic sectors are fibre composite technology, environmental technology, IT, mechatronics, aerospace, and the cultural and creative industries. The establishment of the university in 1970 with more than 26,000 students has had a positive impact on the city’s development. The construction of a new university clinic is generating growth in the scientific sector.

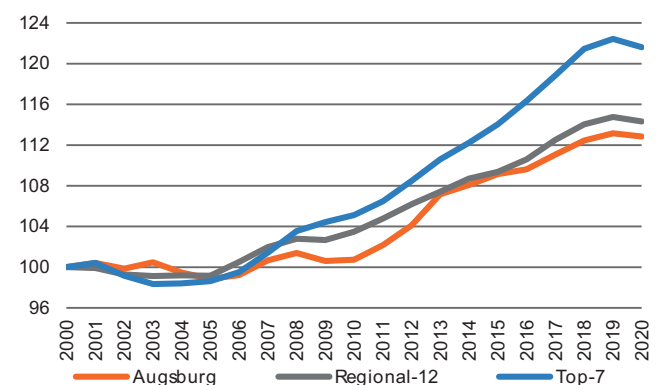
Augsburg benefits from proximity to Munich, but is also growing in its own right

PER CAPITA GDP IN EUR



Source: Scope

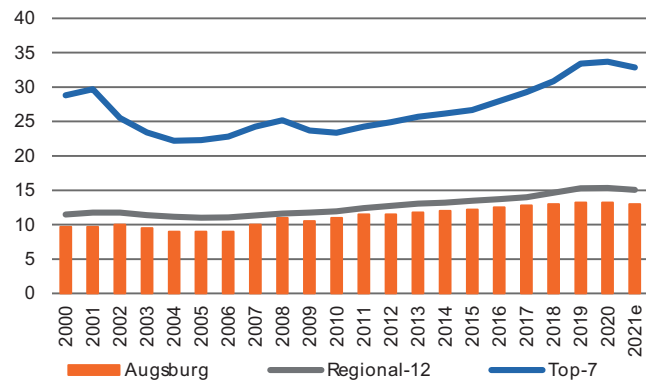
WORKING POPULATION (YEAR 2000 = 100)



Source: Scope

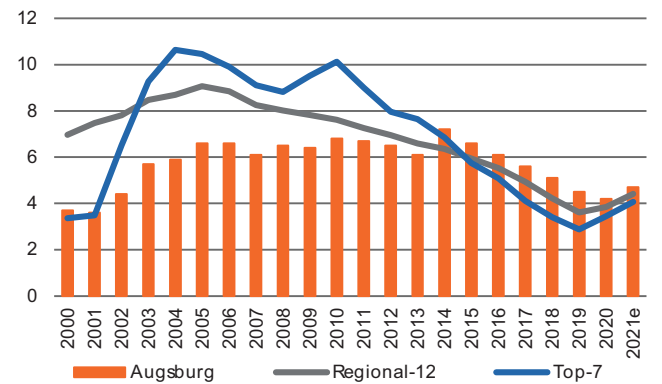
Office space in Augsburg

PRIME OFFICE RENTS IN EUR PER SQM



Source: bulwiengesa, DZ BANK forecast Data for city centre locations

VACANCY RATE (%)

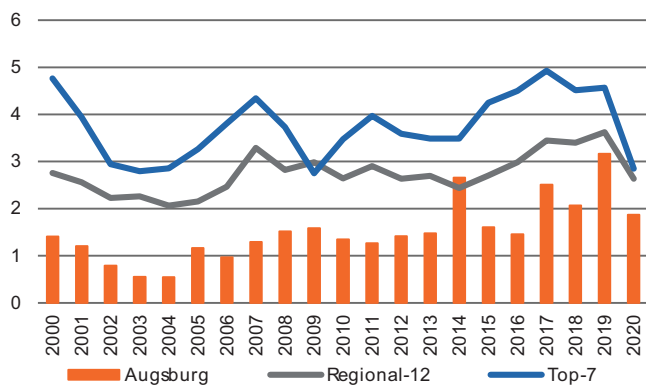


Source: bulwiengesa, DZ BANK forecast

In contrast to the dynamic office market of Munich which is ten times as large, the pace is slower in Augsburg. Activity in what is the smallest office market covered in our report, with office space of 1.5 million m², has a regional focus. Annual take-up is also fairly low at 2 per cent of the office stock. Take-up was similar in 2020 at 27,000 m². Market data shows no sign of any covid-related decline. The vacancy rate even fell slightly to 4.2 per cent in 2020, while prime office rents remained stable at EUR 13.20 per m². The much lower office take-up compared to the previous year was mainly attributable to a very high volume in 2019. In 2020, the largest rental agreement of nearly 7,000 m² was for baramunde software AG's own new building. In any case, around half of the ten largest rental contracts were for new build projects, often developed in office-only locations such as the 66 hectare Augsburg Innovation Park. This is also the site of the state-of-the-art Weitblick 1.7 building, whose biometric sensors facilitate touch-free access. In office locations outside the city centre, prime rents sometimes reach EUR 16 per m². Another high tech location is to be created on the former Fujitsu site. With its economy geared to modern technologies, the prospects for Augsburg as an office location are generally good. However, the vacancy rate could increase slightly and prime rents could decline moderately this year as a result of the coronavirus crisis.

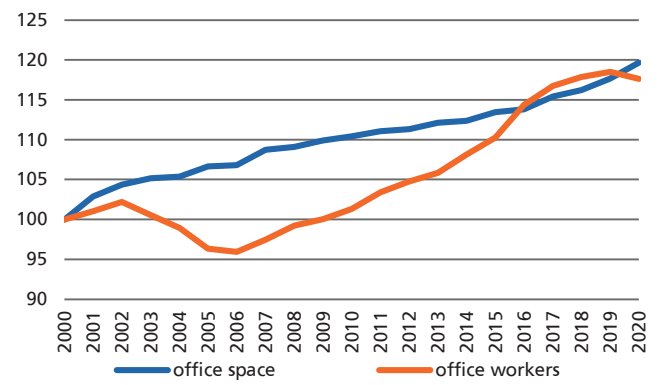
Relatively small office market, stable during coronavirus crisis

TAKE-UP AS PERCENTAGE OF OFFICE SPACE



Source: bulwiengesa

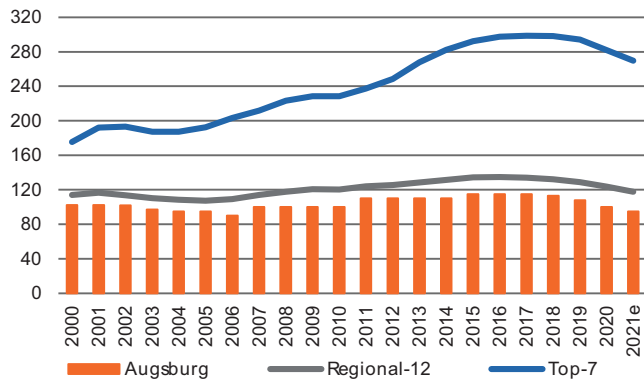
TREND IN OFFICE SPACE AND EMPLOYMENT



Source: Scope, bulwiengesa, DZ BANK Index 2000 = 100

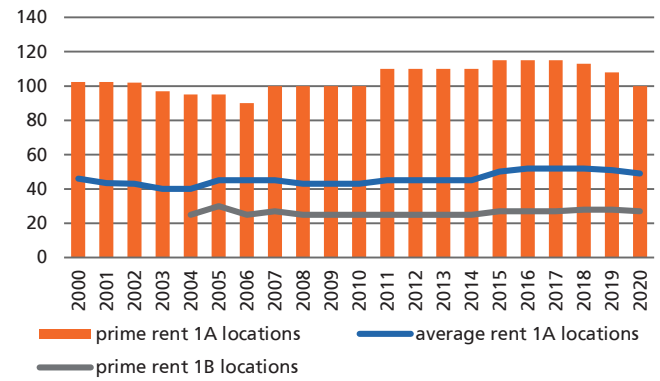
Retail space in Augsburg

PRIME RETAIL RENTS IN EUR PER SQM



Source: bulwiengesa, DZ BANK forecast

RETAIL RENTS PRIME/SECONDARY LOCATIONS IN EUR PER SQM

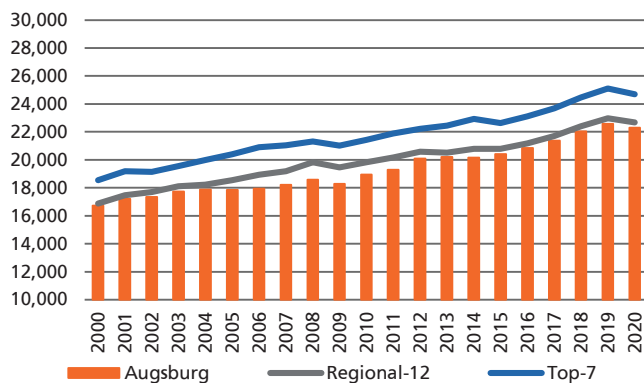


Source: bulwiengesa

Thanks to its supply function for a catchment area of around 600,000 people, Augsburg has high sales space per capita of more than 3m². With no shopping location of similar importance close to the city halfway between Munich and Ulm, Augsburg's centrality value is fairly good at 123 points. However, purchasing power is below-average at 96 points, partly due to the large number of students. One positive factor for the retail sector is strong demographic growth. The city centre was upgraded in 2018 when the former Fuggerstadt Centre near the station reopened as "Helio" and the former K&L building in Bürgermeister-Fischer-Straße was renovated. However, retail activity in the attractive and recently renovated city centre of Augsburg was already facing problems before the pandemic. This was evident from the vacant properties in the prime location of Annastraße and the decline in prime rents since 2018. The downward trend accelerated further in 2020 as a result of the negative effects of the pandemic. Prime rents fell by another 7 per cent and are now at their 2014 level of EUR 100 per m². Stores which have closed in Annastraße include Bonita, H&M and Reno. The lockdown at the turn of the year is likely to lead to the closure of other businesses and rents are expected to decline further. It could now be even more difficult to find a solution for the vacant Woolworths building which has lain empty for years. The post-crisis economic recovery could be supported by tourism, which could benefit from the granting of UNESCO World Heritage status in 2019 for Augsburg's historical water system.

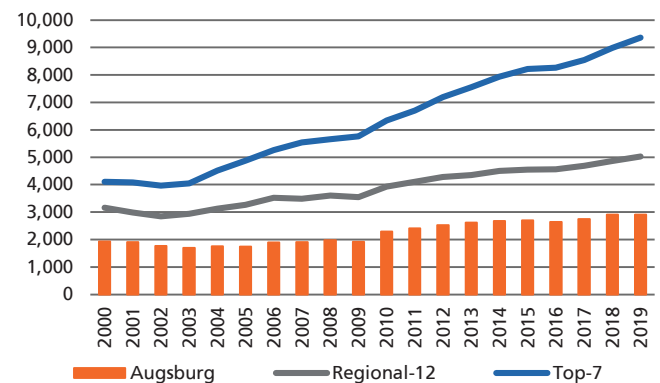
Despite the recent city centre renovation, Augsburg retail sector already faced problems before the pandemic

PER CAPITA PURCHASING POWER IN EUR



Source: bulwiengesa

NUMBER OF OVERNIGHT STAYS PER 1,000 INHABITANTS

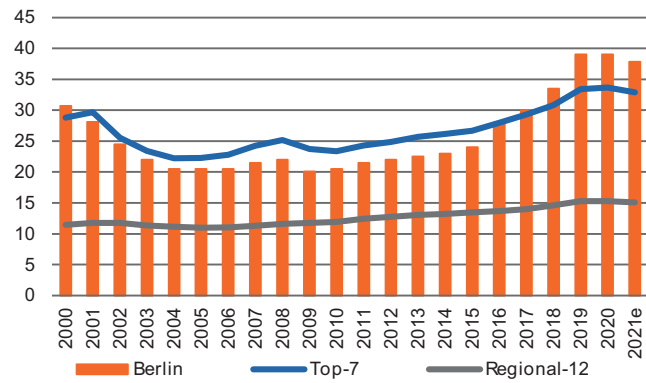


Source: bulwiengesa

BERLIN

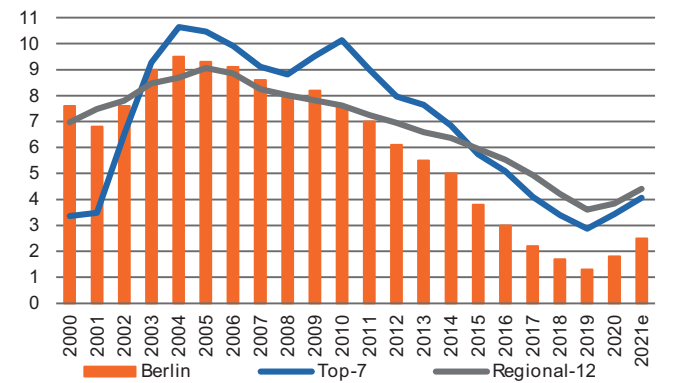
Office space in Berlin

PRIME OFFICE RENTS IN EUR PER SQM



Source: bulwiengesa, DZ BANK forecast Data for city centre locations

VACANCY RATE (%)

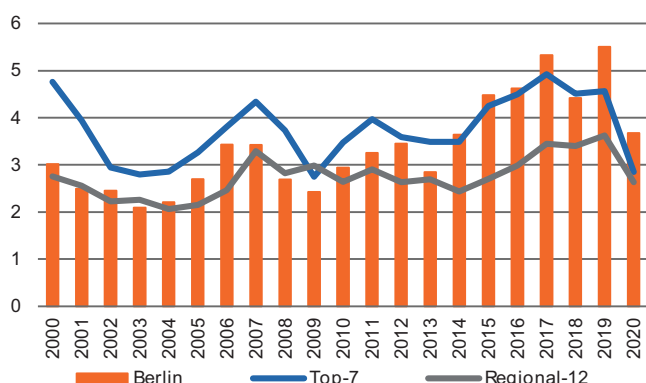


Source: bulwiengesa, DZ BANK forecast

The upturn in Berlin has created strong impetus for the office market of the capital city. True, office rents have risen nearly everywhere, but nowhere near as dynamically as in Berlin. In 2020, prime rents still stood at around EUR 20 per m². Ten years later they had almost doubled, while prime rents in the top locations showed much weaker average growth of around 45 per cent. Rent growth was driven by high demand for office space as a result of an increase in the number of office jobs with a concurrent thinning out of available space. As a result of the previously weak market trend and rents which are low for a large European capital, virtually no new office space has been developed in Berlin. Consequently, the vacancy rate had fallen to just over 1 per cent by the beginning of 2020. High office demand is reflected in take-up, which has reached almost 1.1 million m². After Berlin initially became the location of choice for many IT and e-commerce start-ups, a growing number of established companies have also now based their operations there. One of these is Siemens which plans to invest EUR 600m in "Siemensstadt 2.0". As a result of the coronavirus crisis, take-up has fallen by more than a third, while prime rents have remained stable. The pandemic, working from home and a large volume of new space could exert downward pressure on prime rents this year. However, a steeper decline in rents is unlikely, since office space in the capital city ultimately remains in short supply. Berlin will also remain a sought-after location for companies.

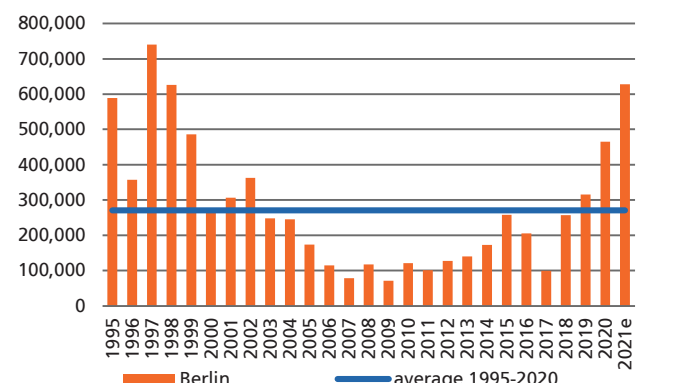
Coronavirus crisis eases pressure on Berlin office market

TAKE-UP AS PERCENTAGE OF OFFICE SPACE



Source: bulwiengesa, DZ BANK forecast

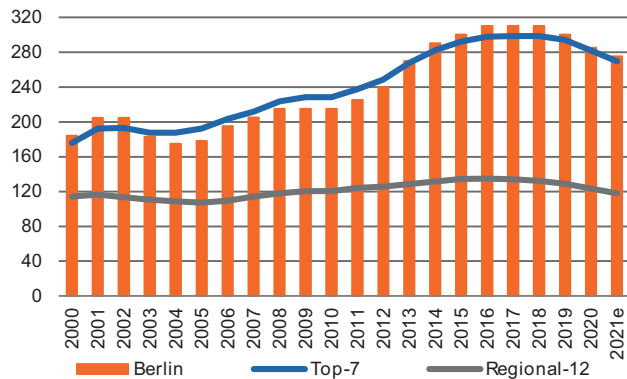
NEW OFFICE SPACE IN SQM



Source: bulwiengesa

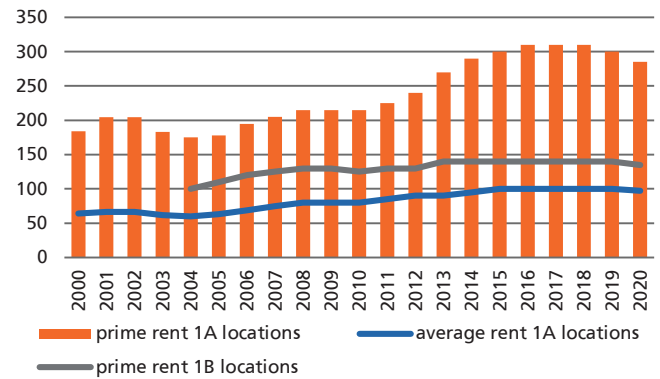
Retail space in Berlin

PRIME RETAIL RENTS IN EUR PER SQM



Source: bulwiengesa, Scope, DZ BANK forecast

RETAIL RENTS IN PRIME/SECONDARY LOCATIONS IN EUR PER SQM

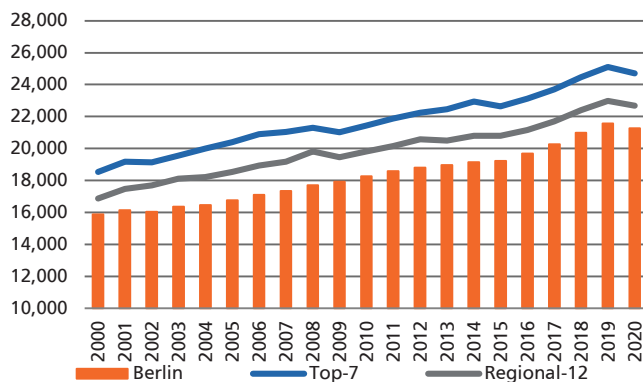


Source: bulwiengesa

The retail sector has benefited considerably from the upturn in Berlin. The unemployment rate - which was still extremely high around 15 years ago at nearly 20 per cent - had halved by 2019. Customer potential has also increased significantly. The capital's population has increased by more than 400,000 within ten years. Its suburbs have also grown. This gives the city by far the largest catchment area in Germany of nearly 5.5 million people. Tourism was also flourishing until the outbreak of coronavirus. In 2019 there were around 34 million overnight stays. Visitors play an even more important role here than in other top locations because Berliners have relatively low purchasing power. Apart from its size, the Berlin retail sector is notable for several geographically distinct prime locations. These include Ku'damm and Tauentzischenstraße which have the highest prime rents, Alexanderplatz with its high footfall, and Friedrichstraße. The trendy Hackescher Markt is also well positioned. The city also has around 70 shopping centres, of which the large Mall of Berlin is a prominent example. Recent additions in 2018 were the Schultheiss Quartier – the first shopping centre in the Moabit district – and the East Side Mall. Prime rents, which increased to EUR 310 per m² in 2016, have been falling since mid-2019. The steepest decline in rents was in Friedrichstraße. At the end of 2020, prime rents in Berlin were still EUR 285 per m². There are signs of rents falling further this year. However, this will not detract from Berlin's leading role in the German retail sector, partly because the capital city will remain a magnet for international visitors.

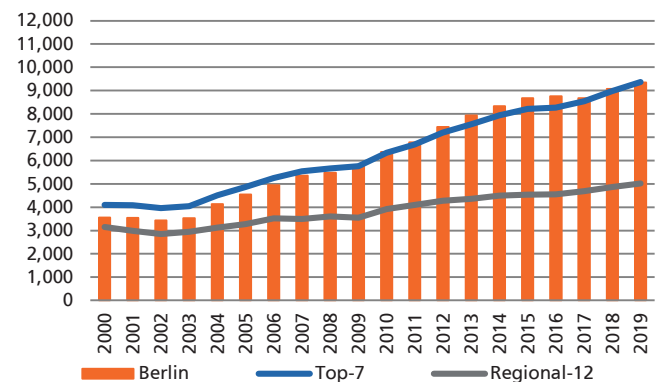
Berlin one of the leading shopping destinations in Europe

PER CAPITA PURCHASING POWER IN EUR '000



Source: bulwiengesa

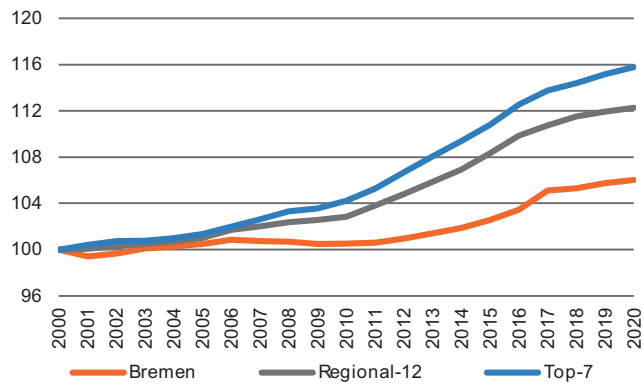
NUMBER OF OVERNIGHT STAYS PER 1,000 INHABITANTS



Source: bulwiengesa, Scope

BREMEN

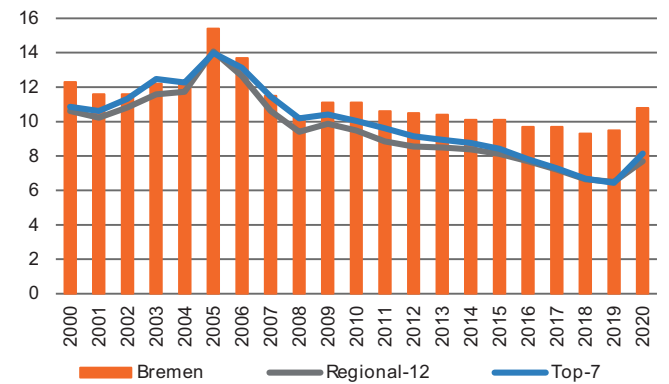
POPULATION GROWTH



Source: Scope

Index 2000 = 100

UNEMPLOYMENT RATE (%)

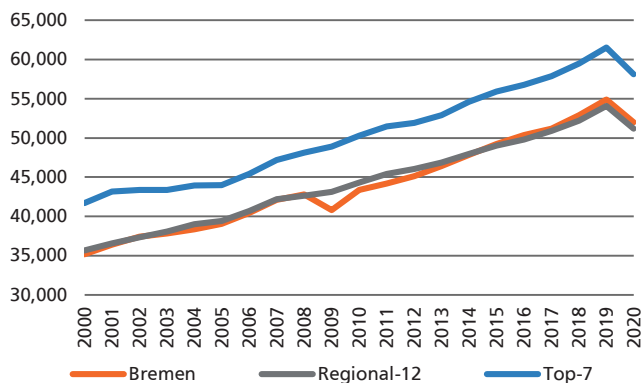


Source: bulwiengesa, BA, DZ BANK

Bremen, the capital of the smallest federal state, has a population of 570,000 and is the eleventh most densely populated city in Germany. However, population growth is fairly moderate at around 6 per cent in ten years. Weaker labour market conditions are likely to be acting as a brake in the aftermath of structural change in shipbuilding and heavy industry. Despite a solid industrial base and the port, unemployment remains high. As a result of the coronavirus crisis, the unemployment rate is back in double digits. The main areas of economic success are vehicle construction, aerospace, food and drink, and biotechnology. The maritime economy and logistics are of major importance. The transformation into a services and technology location has been supported by the university which was founded in 1971. The Hanse campus – formerly Jacobs University – is to become established as a centre for artificial intelligence, with SAP one of the sponsors. A total of 37,500 students attend higher education colleges in Bremen. Good transport links by road, rail, sea, and air have a positive impact. The property location has gained momentum thanks to many large-volume projects, including those in Bremen city centre. Another project involves the former savings bank site Am Brill where, instead of high-rise buildings designed by Libeskind, existing properties will now be revitalised. Urban districts will now be created on sites formerly occupied by Kellogg and Reemtsma. The future use of the Hachez site is still under discussion.

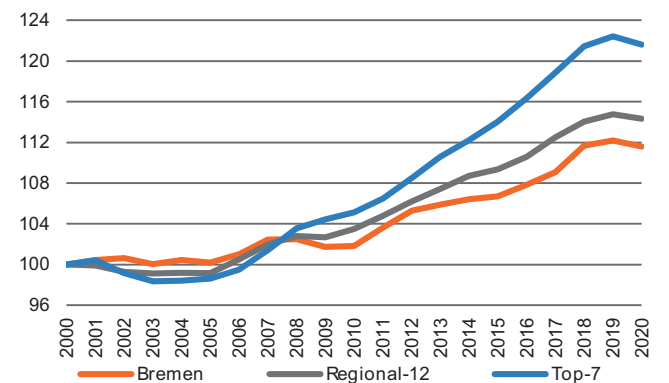
Successful business location with a solid industrial base, a large port and state-of-the-art technology

PER CAPITA GDP IN EUR



Source: Scope

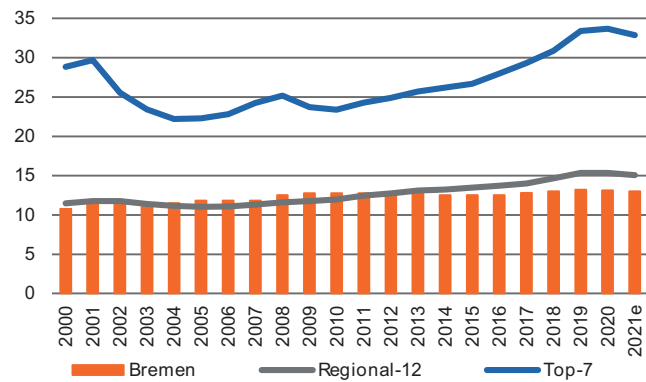
WORKING POPULATION (YEAR 2000 = 100)



Source: Scope

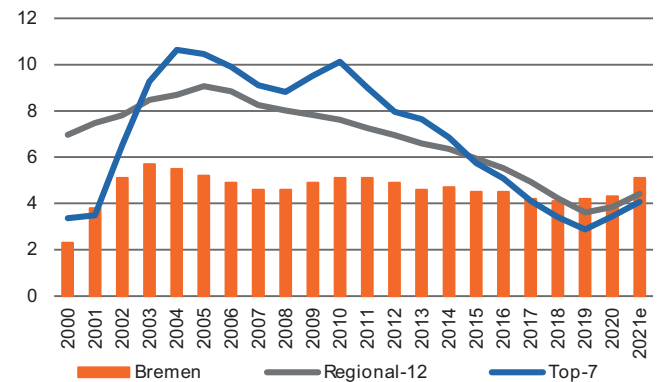
Office space in Bremen

PRIME OFFICE RENTS IN EUR PER SQM



Source: bulwiengesa, DZ BANK forecast Data for city centre locations

VACANCY RATE (%)

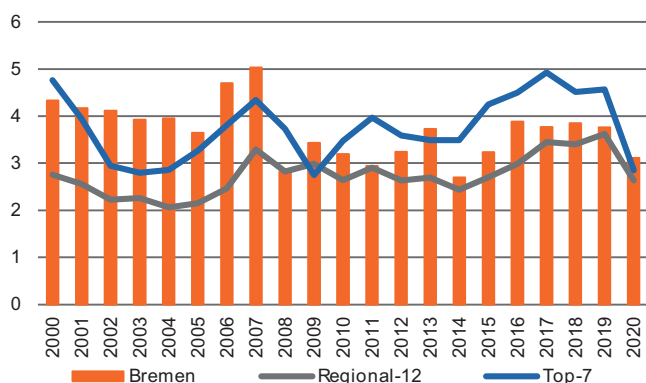


Source: bulwiengesa, DZ BANK forecast

Bremen’s office market has just over 2.7 million m² of space. Ten-year growth is comparatively strong at 10 per cent, although office employment has grown slightly faster. Various office properties have been created, mainly in peripheral locations such as the Airport City, the Technology Park and the Überseestadt. Modernisation has benefited the office market, because many city centre office buildings are now outdated. The highest office rents are not therefore achieved in the city centre, but in the Überseestadt where prime rents recently reached EUR 13.70 per m². Prime city centre rents are slightly lower at EUR 13.10 m². Because of Bremen’s location, its office market is the most important in the North West, and this is reflected in high levels of market activity. In recent years, nearly 4 per cent of office space has changed hands each year. In 2020, this corresponded to annual take-up of around 100,000 m². Even in the pandemic year of 2020, a large volume of 85,000 m² was transacted without any large-volume contracts – the largest single contract was for 4,500 m². The vacancy rate has fallen more slowly than in most regional centres in recent years due to a low starting level and stronger office construction. However, the vacancy rate could increase to more than 5 per cent in the year ahead. In addition to the consequences of the economic crisis and working from home, an above-average volume of completions will come onto the market in 2021. Office rents could therefore weaken slightly.

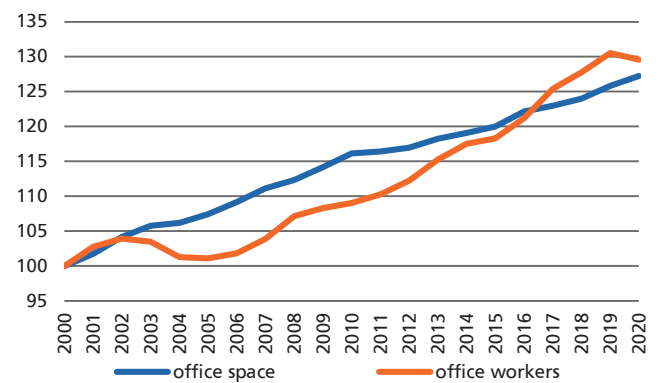
Important office market in North West with high level of market activity

TAKE-UP AS PERCENTAGE OF OFFICE SPACE



Source: bulwiengesa

TREND IN OFFICE SPACE AND EMPLOYMENT

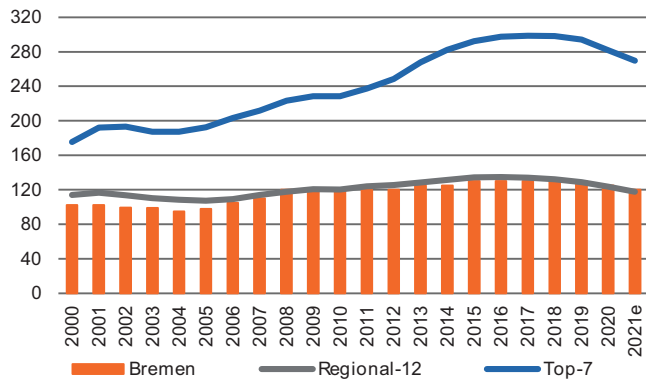


Source: Scope, bulwiengesa

Index 2000 = 100

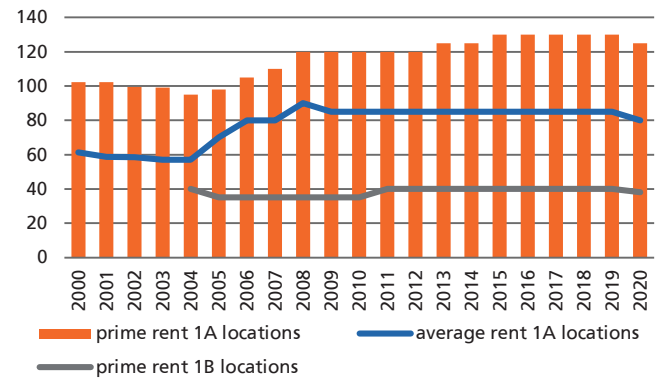
Retail space in Bremen

PRIME RETAIL RENTS IN EUR PER SQM



Source: bulwiengesa, DZ BANK forecast

RETAIL RENTS PRIME/SECONDARY LOCATIONS IN EUR PER SQM

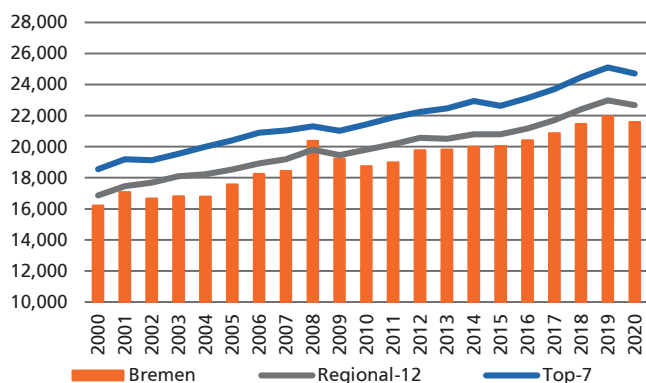


Source: bulwiengesa

Given the importance of its location, retail activity in Bremen has been slow to develop. The shopping destination benefits from a large catchment area of more than 1 million people. Purchasing power is however below-average at 93 per cent. Tourism in the attractive city centre still has growth potential. However, the factors which are hampering retail are essentially “home-made”, for example competition from large, out-of-town retail parks such as the Waterfront, the Roland-Center and the Weserpark. Bremen city centre should not nevertheless be underestimated as a retail location. In contrast to the downward rent trend which started in many regional centres in 2017, rent levels in Bremen remained stable until 2019. Prime rents only declined by around 4 per cent to EUR 125 per m² in 2020 as a result of the pandemic. The closure of the Kaufhof store could also have had a negative impact. Consequently, the planned shutdown of Karstadt Sports was averted, although the name over the door could soon be Sportscheck. C&A will relocate to Obernstraße in 2021, which will reduce sales space by a fifth. The large 16,500 m² store on Hanseatenhof will then be empty. The Kaufhof store situated opposite has been let to the Opti furniture chain. Downsizing and business closures could make it more difficult to provide the urgently needed boost to the city centre’s attractions. The uncertain future of city centre retail is hampering projects such as the redevelopment of the Lloydhof, and particularly the “City Galerie” to be built on the site of the Mitte car park and which will also incorporate the Karstadt/Kaufhof building. The gloomy retail outlook is likely to dampen space demand and to act as a drag on rents this year.

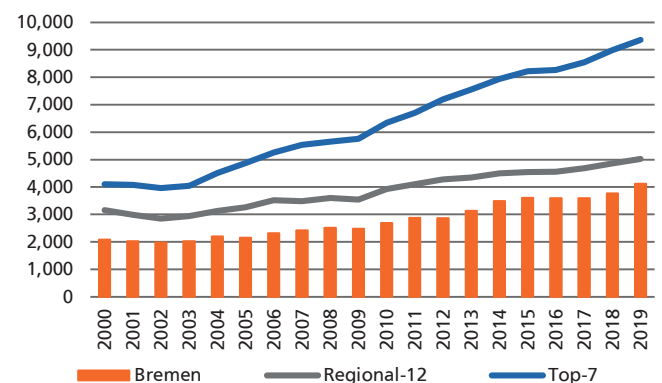
What’s happening with the redevelopment of Bremen city centre?

PER CAPITA PURCHASING POWER IN EUR



Source: bulwiengesa

NUMBER OF OVERNIGHT STAYS PER 1,000 INHABITANTS

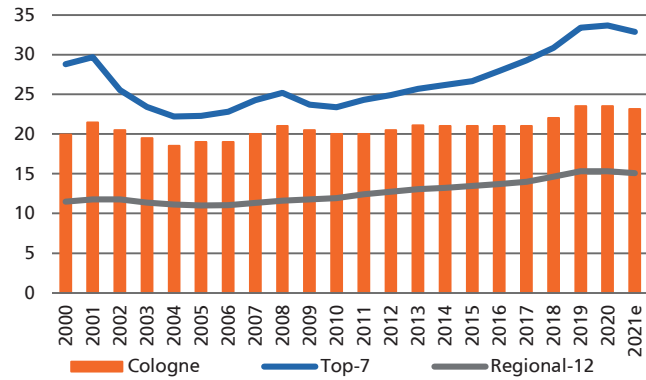


Source: bulwiengesa

COLOGNE

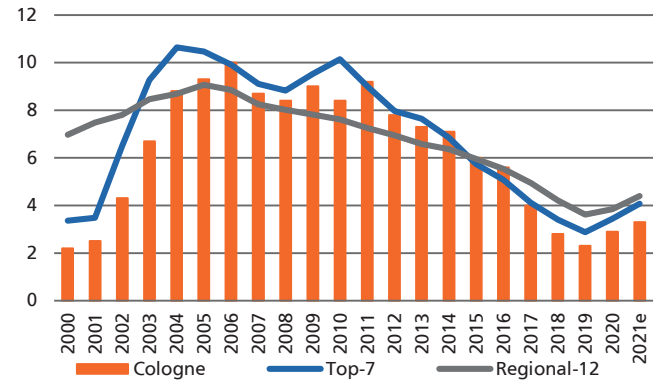
Office space in Cologne

PRIME OFFICE RENTS IN EUR PER SQM



Source: bulwiengesa, DZ BANK forecast Figures for city locations

VACANCY RATE (%)

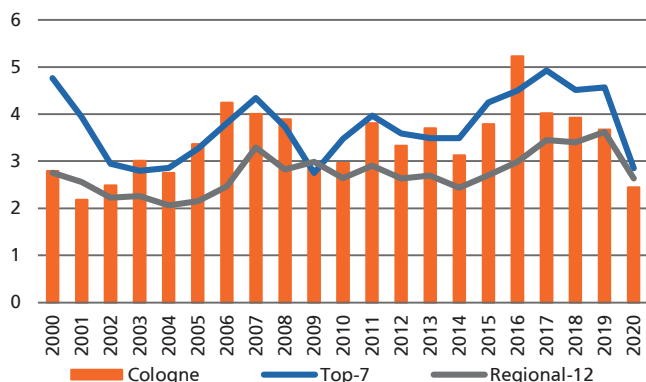


Source: bulwiengesa, DZ BANK forecast

For some time now, the Cologne office market has been largely stable. Annual take-up is mostly around 300,000 m². The only exception was in 2016 when the Zurich Insurance head office led to a noticeably higher level. The prime office rent has increased moderately over time, but there have been recurrent sideways phases. Consequently, the level of rents in the Cologne office market has fallen a good way below the level in top locations in the last few years. At EUR 23.50 per m², the office market in the cathedral city is currently the cheapest among the top locations. The prime rent has hardly benefited from tight supply in the last few years. The vacancy rate had fallen to 2.3 per cent by 2019 on the back of an often only modest amount of new space. As in other top locations, larger lettings have mostly involved project developments. In 2020, take-up fell by a good third to just under 200,000 m² because of the covid crisis. However, the decline does not reflect the absence of major transactions, but rather the smaller deals segment. Whereas in 2019, there was only one five-figure letting, there were three in 2020 – the tenants are KPMG, AOK and the customs office. After a slight increase in the availability of new space in 2019, the volume fell back sharply again in 2020 and the same is expected in 2021. The vacancy rate increased to 2.9 per cent in 2020. The prime rent should remain largely stable in view of a persistent tight supply. However, the vacancy rate will probably increase slightly further.

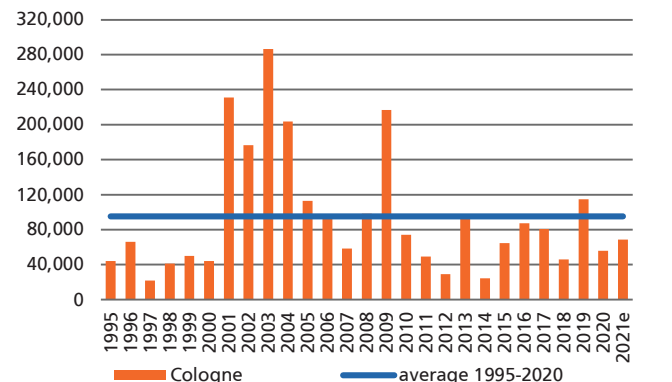
Stable office market with tight supply and relatively low rents

TAKE-UP AS PERCENTAGE OF OFFICE SPACE



Source: bulwiengesa, DZ BANK forecast

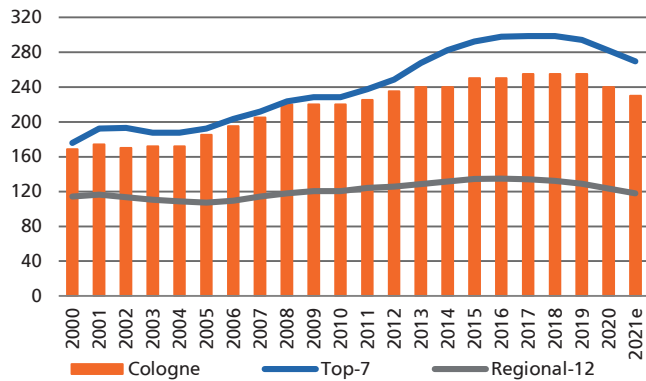
NEW OFFICE SPACE IN SQM



Source: bulwiengesa

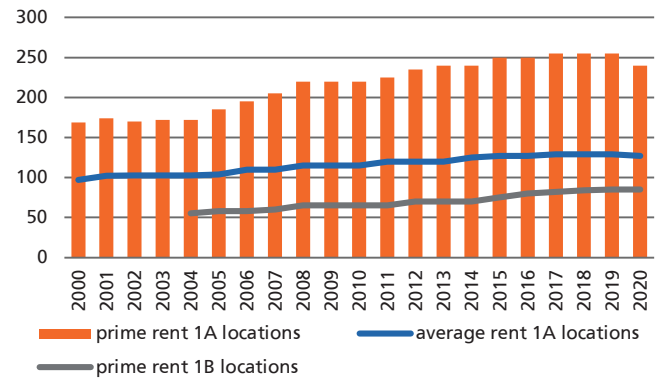
Retail space in Cologne

PRIME RETAIL RENTS IN EUR PER SQM



Source: bulwiengesa, Scope, DZ BANK forecast

RETAIL RENTS PRIME/SECONDARY LOCATIONS IN EUR PER SQM

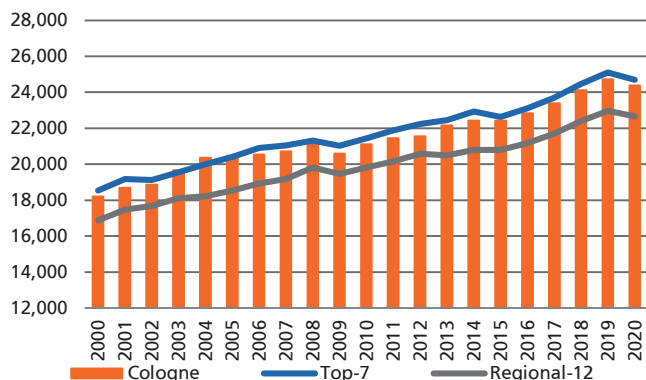


Source: bulwiengesa

The million-strong city of Cologne is one of two top shopping destinations in western Germany along with Düsseldorf, which accounts for a degree of competition between the two cities. Cologne is attractive for retailers in view of potential from a 2.4 million-strong catchment area and many day-trippers from the Benelux countries. Prior to the coronavirus pandemic, tourism was not quite as important as it is in the other top locations with 6,000 overnight stays per 1,000 inhabitants per annum. Purchasing power was also slightly on the low side for a top location at 105 points. Unlike Düsseldorf with its extensive luxury segment, Cologne's city centre focuses on the mass market. It has a three-kilometre long shopping circuit, inviting shoppers to stroll through the city's prime shopping locations and promoting a high footfall. This is especially true of the Schildergasse which is 95 per cent high-street chains. The Hohe Straße also enjoys a high footfall, although not quite on a par with Schildergasse figures. In contrast, the Ehrenstraße is a more trendy location. A smaller luxury segment has gained a footing around the Domkloster/ Wallraffplatz. Cologne has hardly seen any major development. One more recent project involved the revamp of what was previously the long-established Jacobi store on Hohe Straße. The former DuMont-Carré has been renamed Quincy and now targets a young shopper. Fairly ample availability of retail space in Cologne's city centre has slowed down the rise in prime rent. In addition, even in the past, vacant stores have been a recurrent feature. Now, the trend is likely to be compounded by the impact of the pandemic and structural change in retail. The prime rent fell to EUR 240 per m² in 2020; this year, it could fall by a smaller amount.

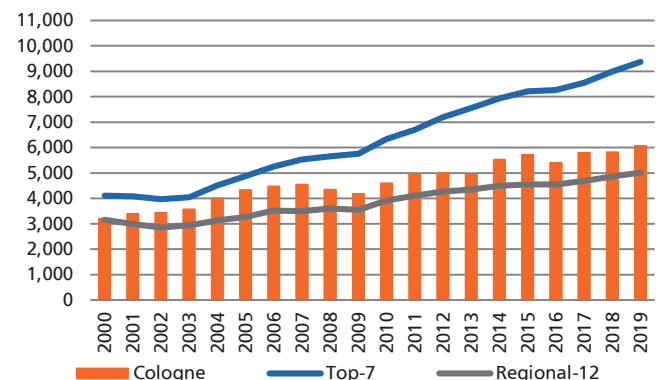
Mass market shopping destination with high footfall

PER CAPITA PURCHASING POWER IN EUR



Source: bulwiengesa

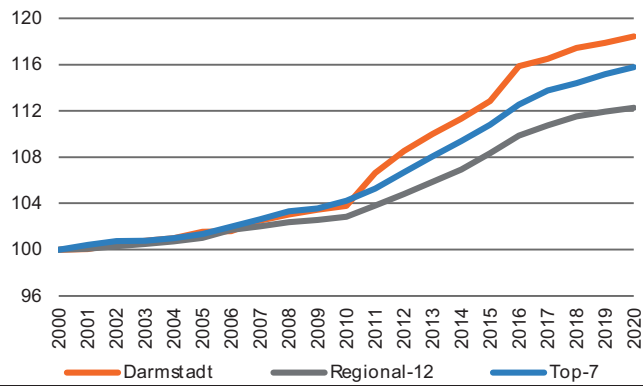
NUMBER OF OVERNIGHT STAYS PER 1,000 INHABITANTS



Source: bulwiengesa, Scope

DARMSTADT

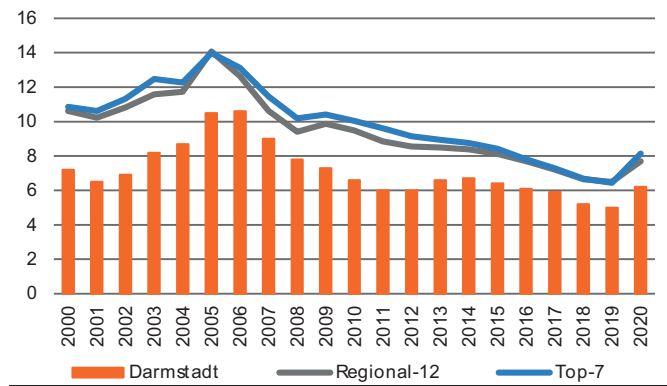
POPULATION GROWTH



Source: Scope

Index 2000 = 100

UNEMPLOYMENT RATE (%)

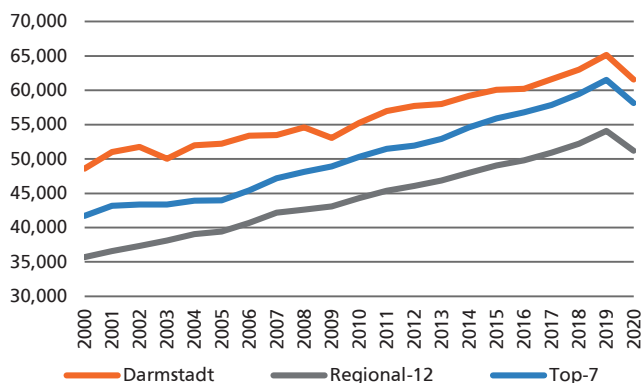


Source: bulwiengesa, BA, DZ BANK forecast

Darmstadt is the smallest city in this market report with a population of 160,000; however, it is also one of the most rapidly expanding German cities with ten-year demographic growth of 14 per cent. Teaching and research play a very important role in the “City of Science” with a total of around 46,000 students attending several higher education institutions. Prominent research institutions are the European Space Operations Centre (ESOC) and the “FAIR” particle accelerator facility currently under construction. Darmstadt also benefits from its location on the southern edge of the economically strong Rhine-Main region, with a working population of more than 130,000. Core sectors are IT, chemicals/pharmaceuticals/biotech, mechanical engineering, space technology and cosmetics. Important companies include Deutsche Telekom, the Merck chemicals and pharmaceuticals group, the mechanical engineering company Schenck, the specialty chemicals company Evonik/Röhm, and the cosmetics companies Goldwell/Kao and Wella. Many start-ups are based at the Technology and Innovation Centre of the Technical University. High demand for housing and commercial space make Darmstadt a sought-after property location. Extensive converted space freed up by the withdrawal of the American forces provides scope to develop new urban areas 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. Residential rents are therefore almost as high as in the top locations. Although it has increased as a result of the coronavirus crisis, the unemployment rate is moderate at around 6 per cent.

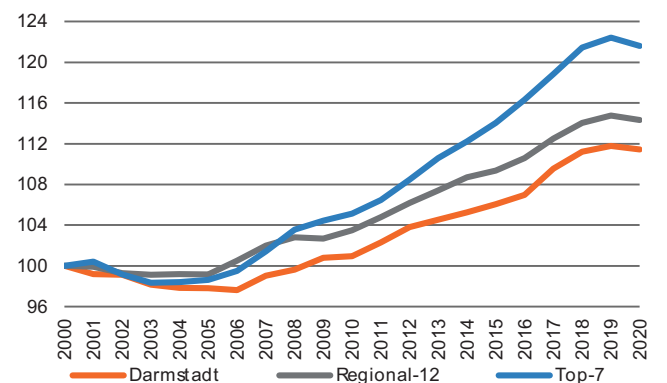
“City of Science” a rapidly growing business and research location

PER CAPITA GDP IN EUR



Source: Scope

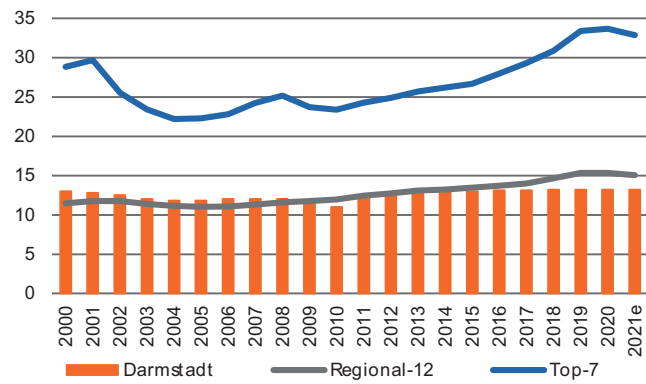
WORKING POPULATION (YEAR 2000 = 100)



Source: Scope

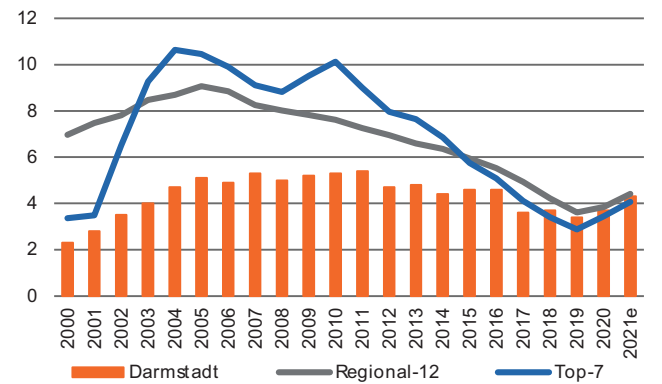
Office space in Darmstadt

PRIME OFFICE RENTS IN EUR PER SQM



Source: bulwiengesa, DZ BANK forecast Data for city centre locations

VACANCY RATE (%)

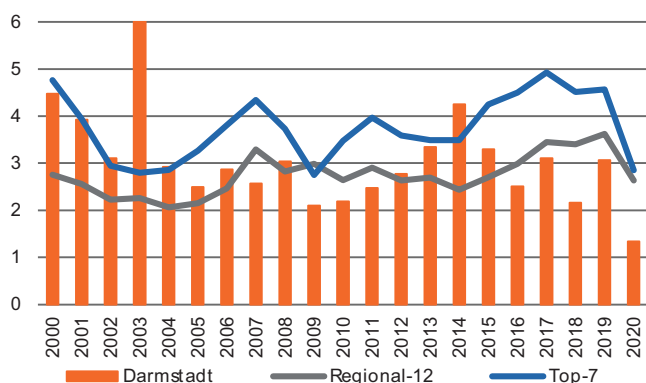


Source: bulwiengesa, DZ BANK forecast

High employment in Darmstadt requires a correspondingly large office market. The office stock of 1.6 million m² – broadly similar to Augsburg and Mainz with their much larger populations – is not therefore disproportionate. The vacancy rate has fallen despite growth in space, and at less than 4 per cent is moderate, since the number of office jobs has increased faster than the volume of office space. However, prime office rents have not benefited from this, remaining largely stable and thus lagging the market trend somewhat. Prime rents of EUR 13.20 m² in city centre locations are exceeded slightly in office locations such as the Europaviertel and TZ Rhein-Main with EUR 13.60 per m². Rent levels are a third of those in Frankfurt at a distance of 30 kilometres. Office rents have remained stable during the coronavirus crisis, and the vacancy rate has increased only slightly. However, market activity has fallen sharply. Previously typical annual take-up of around 50,000 m² fell to 22,000 m² in 2020. Half of this related to two large rental contracts - of around 5,000 m² each - for Sparkasse Darmstadt and the City of Darmstadt. The stable Darmstadt office market should survive the coronavirus pandemic largely unscathed, although the vacancy rate is likely to increase again this year. Prime rents could fall slightly. Given the expensive housing market, working from home is an attractive prospect for Darmstadt's workers. This could dampen future office demand, although the office market should be able to absorb this if the city continues to grow strongly.

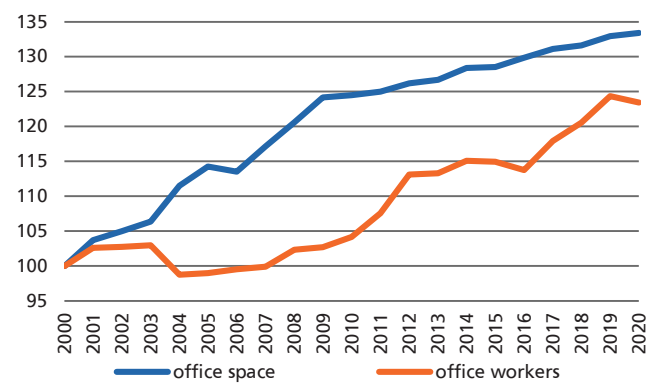
Relatively large office market with moderate vacancy rate and stable rents

TAKE-UP AS PERCENTAGE OF OFFICE SPACE



Source: bulwiengesa

TREND IN OFFICE SPACE AND EMPLOYMENT

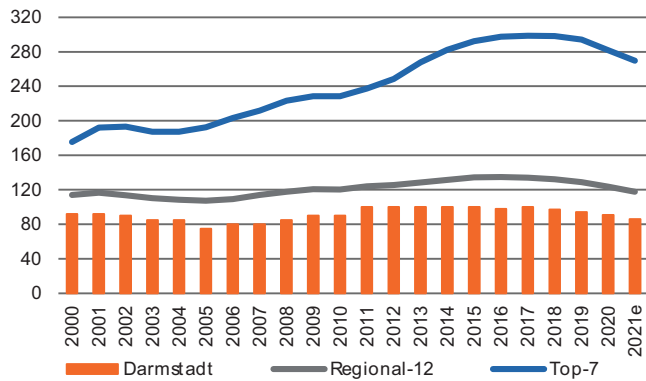


Source: Scope, bulwiengesa

Index 2000 = 100

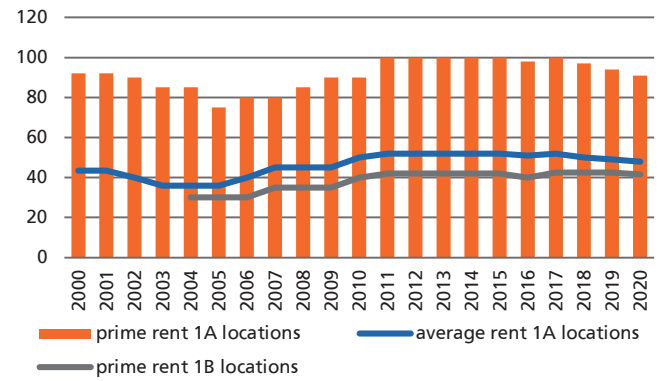
Retail space in Darmstadt

PRIME RETAIL RENTS IN EUR PER SQM



Source: bulwiengesa, DZ BANK forecast

RETAIL RENTS PRIME/SECONDARY LOCATIONS IN EUR PER SQM

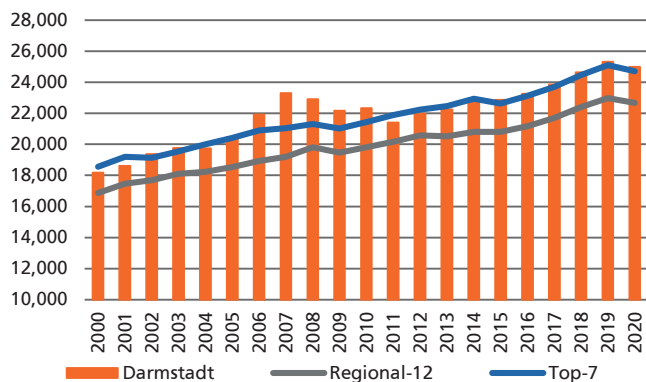


Source: bulwiengesa

The retail climate in Darmstadt is generally good. Positive aspects are strong demographic growth, good employment levels and high purchasing power of 108 points for a university city. Pre-pandemic, visitor numbers were also solid. Despite a large catchment area of around 650,000 people to the south of Darmstadt, the centrality figure is fairly low at 111 points. Negative factors are competition from other shopping destinations. These include Frankfurt, which is 30 kilometres away, and neighbouring Weiterstadt with its various specialist stores – in November 2020 the largest branch of Decathlon in Germany opened here – and the Loop 5 shopping centre. Retail rents have consequently decoupled from the upward trend evident up to 2016. Prime rents have stagnated at EUR 100 per m². Conversely, the subsequent decline in rents has also impacted on Darmstadt. During the coronavirus crisis rents have fallen further, but the decline has been moderate, recently reaching EUR 91 per m². However, Darmstadt city centre should be better placed to absorb the structural shift in the retail sector and the pandemic than the Loop 5 centre, where a major renovation and repositioning as a mini leisure park was required only ten years after it opened. The city centre benefits from the prime locations of Schuchardstraße and Ernst-Ludwig-Straße, two shopping centres – Luisen-Center and Carree Darmstadt – and a wide range of cafes and restaurants. However, the decline in demand for sales space caused by online shopping is likely to drive rents down further.

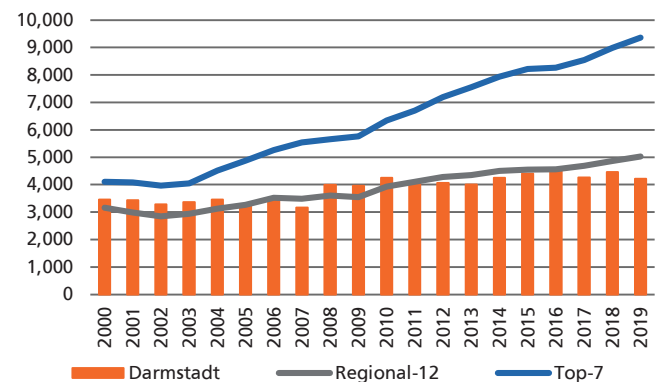
Darmstadt retail rents falling since 2018

PER CAPITA PURCHASING POWER IN EUR



Source: bulwiengesa

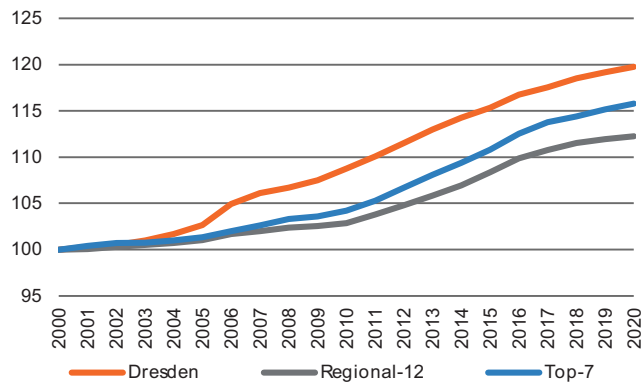
NUMBER OF OVERNIGHT STAYS PER 1,000 INHABITANTS



Source: bulwiengesa

DRESDEN

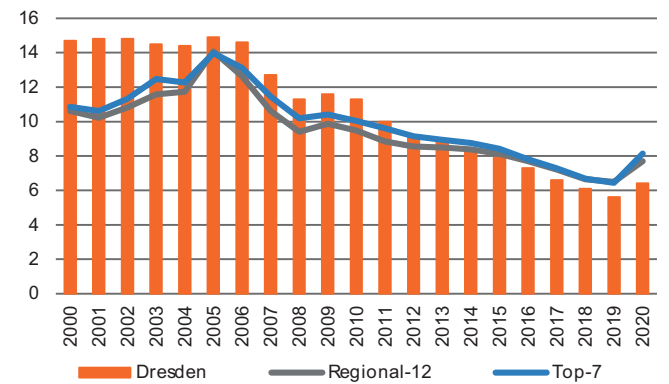
POPULATION GROWTH



Source: Scope

Index 2000 = 100

UNEMPLOYMENT RATE (%)

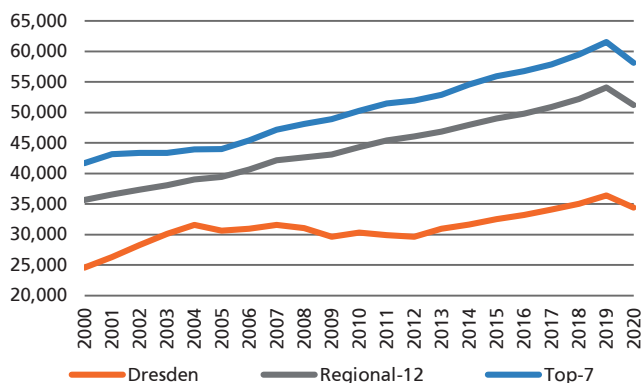


Source: bulwiengesa, BA, DZ BANK forecast

Dresden is the third largest city in eastern Germany with a population of around 560,000. The capital of Saxony, with its rapidly growing population – which has increased by 10 per cent within ten years – is the 12th most populous city in Germany. Ongoing migration is supported by the high quality of life and sustained economic success of this attractive city. The city’s previously high unemployment is a thing of the past. Despite the coronavirus crisis, the unemployment rate has only increased to just over six per cent. However, the continuing upturn has also considerably eroded the advantage of a favourable cost of living due to relatively low residential rents. Given the many administrative functions which are based there, the public sector is an important employer. The education and research sectors play a very prominent role. As well as creating many jobs, higher education institutions with a total of around 45,000 students and a large number of research facilities also form the backbone of “Silicon Saxony”, the high tech location of Dresden. Around 50,000 people are employed in the microelectronics cluster. Vehicle construction, aviation, life sciences, nanotechnology/new materials, mechanical engineering and plant construction also contribute to the city’s dynamic economic development. The cultural and creative sectors are also significant. The baroque city with its art treasures has also become a tourism hotspot, with nearly 5 million overnight stays each year before the pandemic. This corresponds to 8,500 overnight stays per 1,000 inhabitants and is the highest level among the regional centres reviewed.

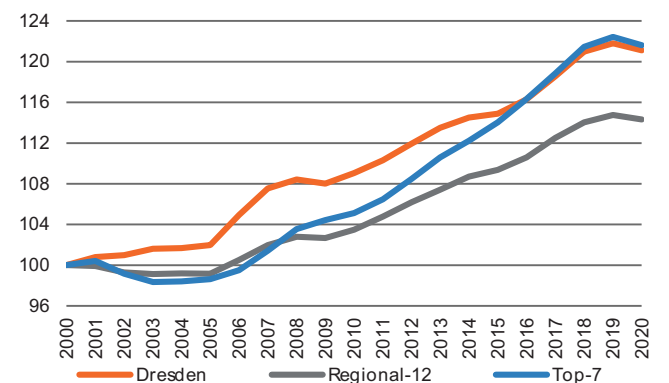
Capital of Saxony growing strongly and economically successful

PER CAPITA GDP IN EUR



Source: Scope

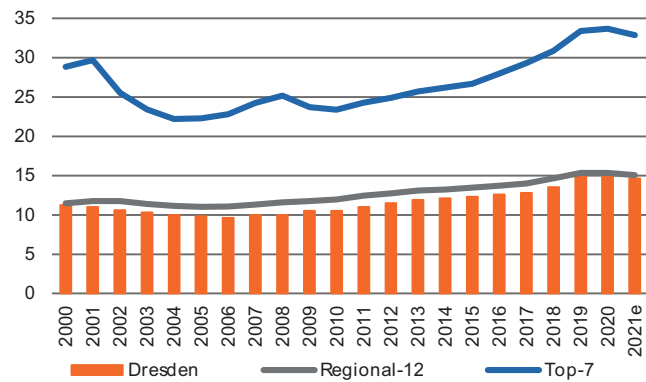
WORKING POPULATION (2000 = 100)



Source: Scope

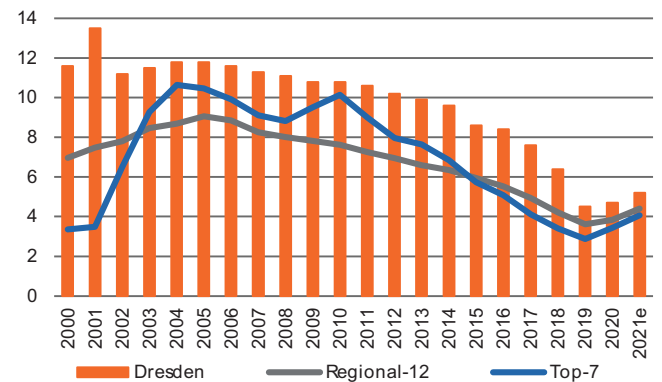
Office space in Dresden

PRIME OFFICE RENTS IN EUR PER SQM



Source: bulwiengesa, DZ BANK forecast Data for city centre locations

VACANCY RATE (%)

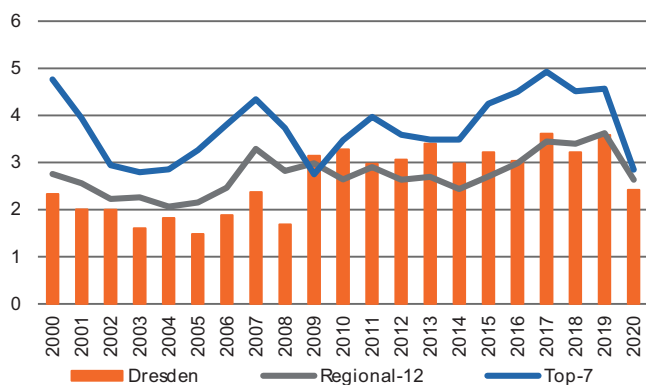


Source: bulwiengesa, DZ BANK forecast

Dresden is the third largest east German office market with office space of 2.7 million m². Since the volume of office space grew beyond actual demand in the construction boom of the 1990s, the office stock has remained more or less constant in the last 20 years. The economic recovery has created nearly 30,000 new office jobs in the last two decades, and the vacancy rate of nearly 20 per cent in 1998 has therefore been reduced by three quarters to less than 5 per cent. The vacancy rate is thus only slightly higher than average for German regional centres. As a result of the ongoing space shortage and the lack of attractive offices, prime rents have risen sharply. They have increased by more than 40 per cent within ten years and, at EUR 15 per m², are broadly in line with the average for the regional centres we review. The shortage of office space has also been reflected in the fact that most large rental agreements have been for new build properties. The office market has been generally stable during the coronavirus crisis. Prime rents have remained constant and the vacancy rate has increased only marginally. However, take-up has fallen sharply to 65,000 m² – despite being boosted by an individual agreement for 23,000 m² for SachsenEnergie. In previous years, figures were significantly higher at 80,000 to 95,000 m². The vacancy rate is likely to increase again slightly this year. With new office space in short supply, prime rents are likely to remain stable or to fall slightly.

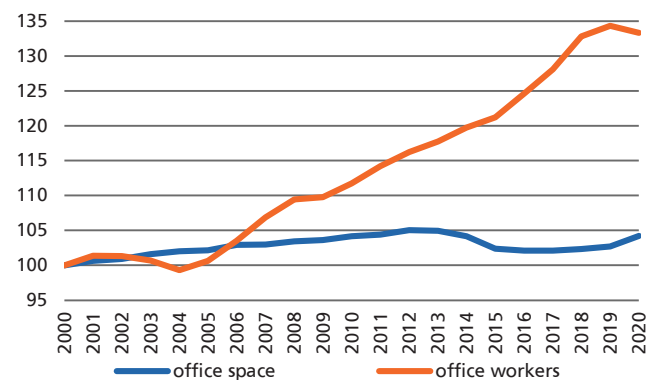
After a prolonged upturn, office surplus now a shortage

TAKE-UP AS PERCENTAGE OF OFFICE SPACE



Source: bulwiengesa

TREND IN OFFICE SPACE AND EMPLOYMENT

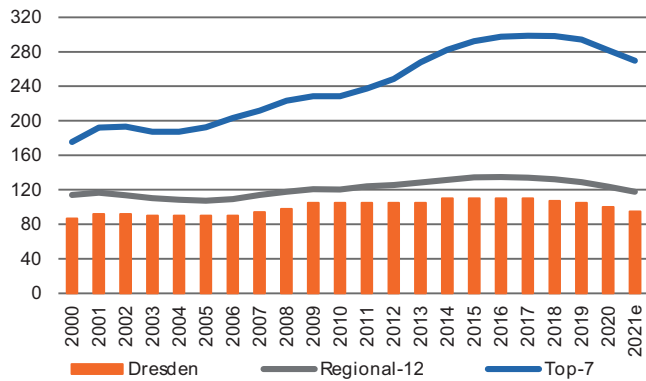


Source: Scope, bulwiengesa

Index 2000 = 100

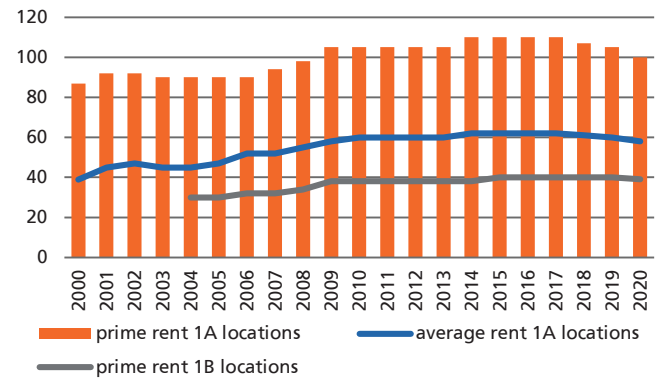
Retail space in Dresden

PRIME RETAIL RENTS IN EUR PER SQM



Source: bulwiengesa, DZ BANK forecast

RETAIL RENTS PRIME/SECONDARY LOCATIONS IN EUR PER SQM

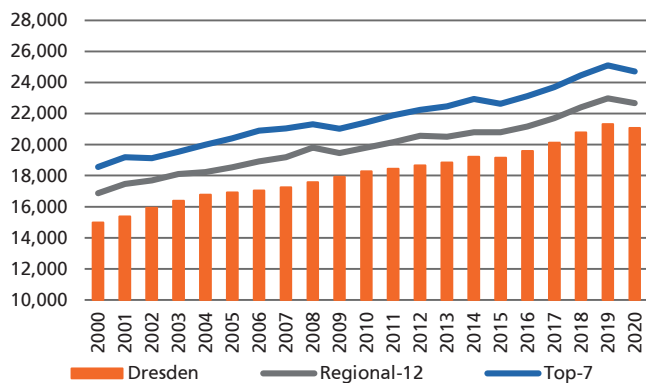


Source: bulwiengesa

Together with Berlin and Leipzig, Dresden is one of the three leading east German shopping destinations. The general retail climate in all three locations has shown a sustained improvement as a result of the economic recovery, demographic growth and tourism which was flourishing before the pandemic. However, all these locations also have low purchasing power. One advantage of Dresden as a retail location is its large catchment area of 1.3 million people, although the centrality figure of 111 points is not high. The main competition comes from a number of out-of-town retail parks. The baroque city is nevertheless an attractive retail location with a high quality of stay and a broad retail and food offer. In addition to three prime locations in the city centre – Prager Straße, Seestraße/Altmarkt and Neumarkt – there are two large shopping centres with joint sales space of 100.000 m². Sales space has also been created in smaller project developments such as the PRAGER CARRÉE which opened in 2016. What will the future hold for retail in Dresden? Tourism should recover, but will be weaker this year and probably also in 2022, than in 2019. The population is also likely to continue to grow. This will at least cushion the structural shift caused by e-commerce for the Dresden retail sector. Weaker demand for sales space and business closures as a result of the pandemic will nevertheless have a negative impact on city centre rental business, and the downward trend in prime rents which started in 2018 is therefore likely to continue this year.

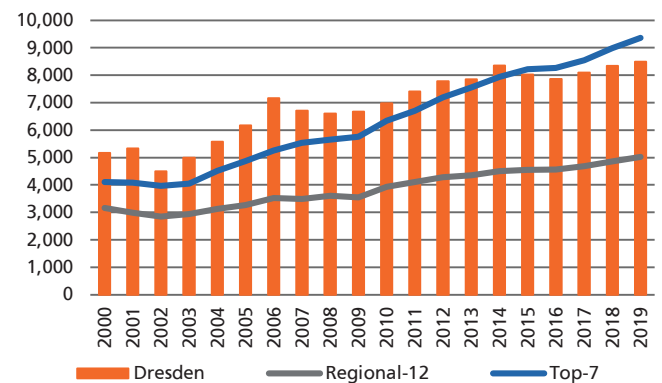
Recovery in tourism and demographic growth in this attractive shopping location could ease negative impact of e-commerce

PER CAPITA PURCHASING POWER IN EUR



Source: bulwiengesa

NUMBER OF OVERNIGHT STAYS PER 1,000 INHABITANTS

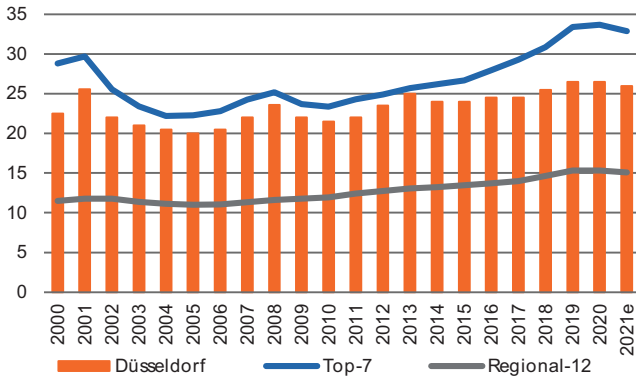


Source: bulwiengesa

DÜSSELDORF

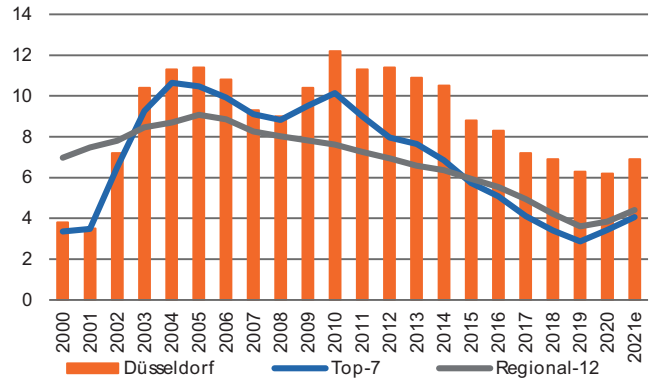
Office space in Düsseldorf

PRIME OFFICE RENTS IN EUR PER SQM



Source: bulwiengesa, DZ BANK forecast Data for city centre locations

VACANCY RATE (%)

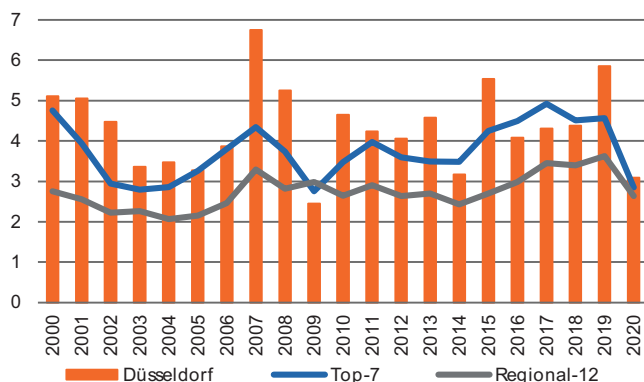


Source: bulwiengesa, DZ BANK forecast

With 7.7 million m² of office space, Düsseldorf is the smallest office market among the top locations. However, it lags only slightly behind Stuttgart and Cologne which rank fifth and sixth. On the other hand, prime rents of EUR 26.50 per m² are significantly higher than in Stuttgart and Cologne. Take-up is also usually higher. However, the same applies to the vacancy rate. Although it has fallen in recent years, at more than 6 per cent it is still nearly twice the average level for the top locations. As in most office locations, the pandemic has significantly braked activity in the office market. However, in addition to the pandemic, the steep decline in take-up compared to 2019 is also attributable to the massively high rental income of the previous year. Eight rental agreements alone – each of which was for more than 10,000 m² – contributed rented space of more than 150,000 m² in 2019. Conversely, there were only two large contracts in 2020 – for tenants Alltours and the Regional Finance Office – with a total of 40,000 m². The public sector is in any case an important customer in the office market of the North Rhine-Westphalia state capital. In the pandemic year of 2020, the vacancy rate in Düsseldorf increased only marginally to 6.2 per cent. However, office construction has gained momentum slightly, and the vacancy rate should therefore pick up somewhat this year. Prime rents could weaken slightly.

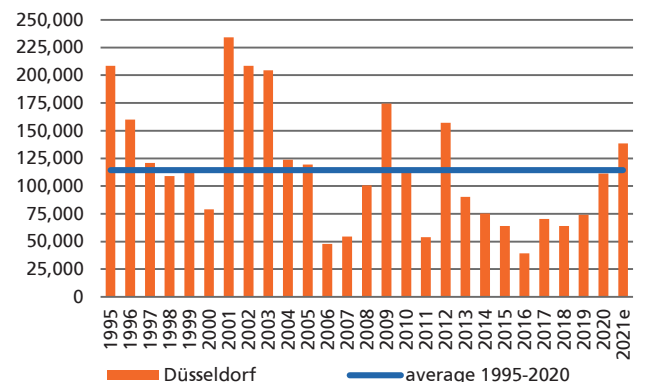
Pandemic leads to only marginal increase in vacant properties in Düsseldorf office market

TAKE-UP AS PERCENTAGE OF OFFICE SPACE



Source: bulwiengesa, DZ BANK forecast

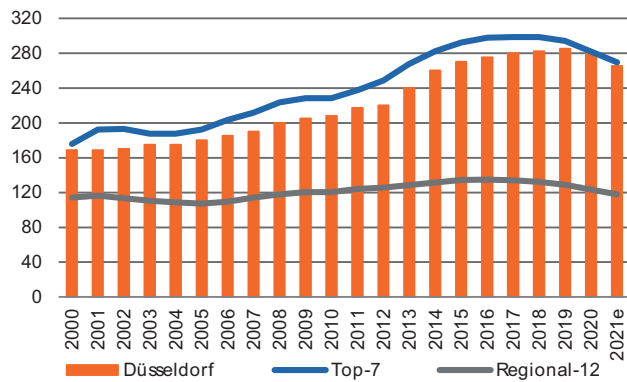
NEW OFFICE SPACE IN SQM



Source: bulwiengesa

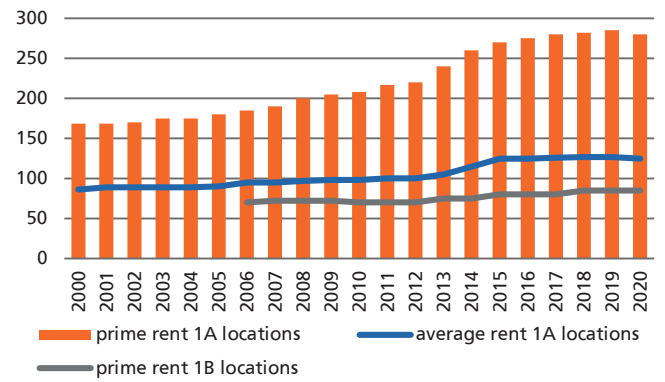
Retail space in Düsseldorf

PRIME RETAIL RENTS IN EUR PER SQM



Source: bulwiengesa, Scope, DZ BANK forecast

RETAIL RENTS PRIME/SECONDARY LOCATIONS IN EUR PER SQM

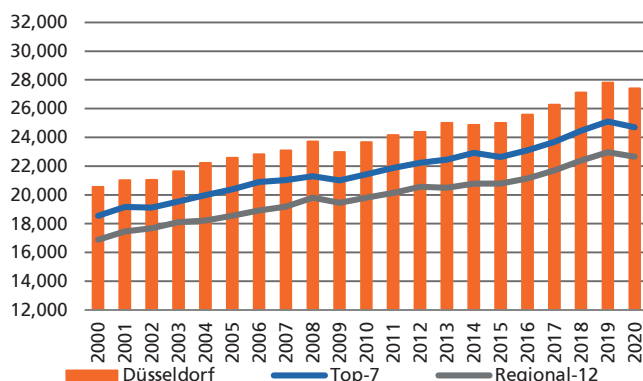


Source: bulwiengesa

Düsseldorf has clearly developed successfully as a shopping location. The basis for this is a catchment area of 2 million people and high purchasing power, which is nearly 20 per cent higher than average for Germany. Düsseldorf city centre with its famous “Kö” shopping boulevard is also synonymous with fashion and luxury. Thanks to extensive urban development and iconic retail developments such as the Kö-Bogen I and II and the renovated Kö-Galerie, the city centre now provides an appropriate backdrop. Large infrastructure building projects such as the demolition of a flyover, a road tunnel and the new underground line have been completed. However, even after the completion of Kö-Bogen II, some city centre building projects are still ongoing. The final element will be the extension of the pedestrian zone in the prime shopping location of Schadowstraße. Another highlight could be a branch of KaDeWe in Carschhaus in 2022. Düsseldorf city centre in all its new splendour should be comparatively well prepared for the continuing structural change in the retail sector. The good quality of stay, which benefits from the extensive range of cafes and restaurants in the Kö, successfully paves the way for continuing high city centre footfall. The same applies to tourism, which should continue to provide strong support for retail sales in the city centre after the recovery. The level of interest from retailers clearly remains more or less unchanged. Prime rents fell only slightly in 2020 to EUR 280 per m². While there was a positive trend in the Kö, rents in Schadowstraße and Flingerstraße clearly weakened. The economic consequences of the pandemic could lead to a slightly sharper decline in prime rents which have remained largely stable so far this year.

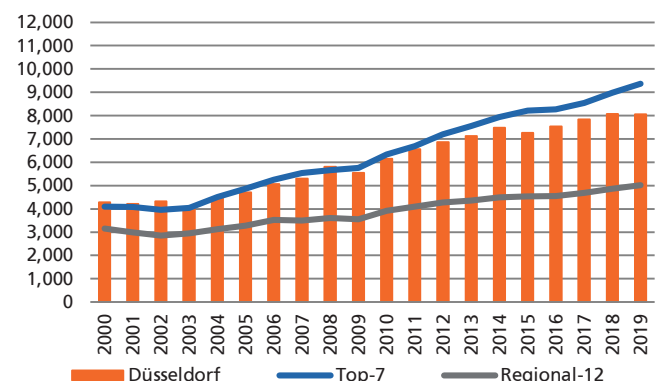
Major “Düsseldorf City construction project nears completion

PER CAPITA PURCHASING POWER IN EUR



Source: bulwiengesa

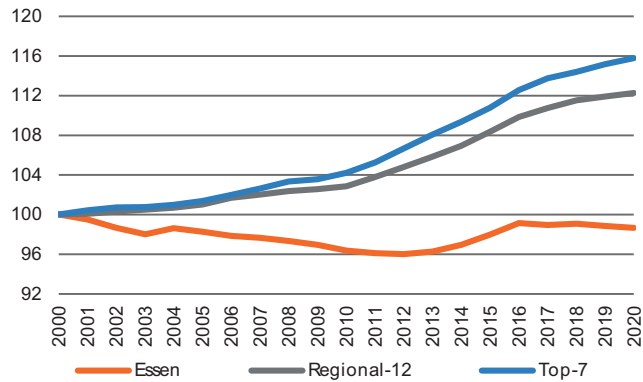
NUMBER OF OVERNIGHT STAYS PER 1,000 INHABITANTS



Source: bulwiengesa, Scope

ESSEN

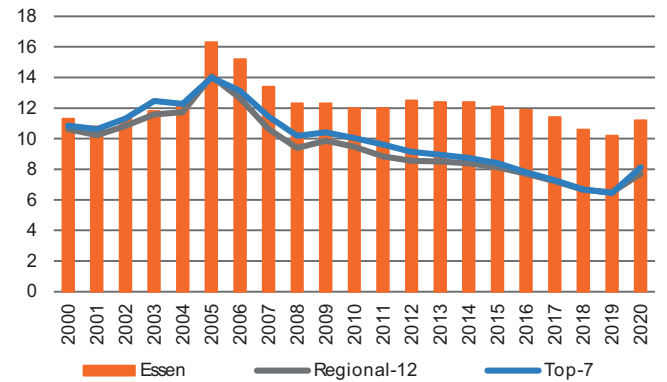
POPULATION GROWTH



Source: Scope

Index 2000 = 100

UNEMPLOYMENT RATE (%)

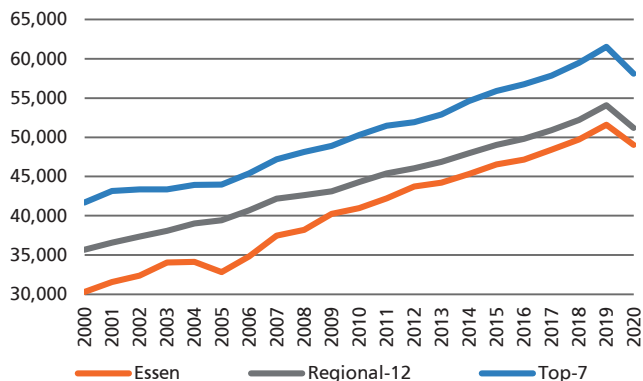


Source: bulwiengesa, BA, DZ BANK forecast

Essen's population has stabilised in the last few years. After a marked exodus in the wake of the coal and steel industry crisis, the city now has not quite 600,000 inhabitants – at the time of Germany's economic miracle, it had a population of 730,000. From an economic point of view, the city's transformation into a service centre has had a positive impact. Employment has increased, albeit slower than in most other German cities. The structural transformation has left its mark on the job market to this day. Contrary to the Germany-wide trend, unemployment hardly fell in Essen. It dipped to a multi-year low in 2019, but remained just in double digits. The coronavirus crisis has led to a moderate increase in unemployment of 1 percentage point. The city's economic focus has shifted from industrial production towards administration. Essen is home to many prominent companies, including two groups in the DAX (E.ON, RWE) and four in the MDAX (Brenntag, Evonik, Hochtief and ThyssenKrupp). Other major companies based in Essen are Aldi-Nord, Deichmann, E.ON-Ruhr gas, Funke Media Group, Innogy, Medion, Schenker and STEAG. Trade fairs are another important earner for the local economy. The University of Duisburg-Essen is also having a positive impact on the city's development; it replaces the former Gesamthochschule which was founded in 1972. Over 30,000 students study at Essen's higher education institutions. Essen has good transport links in view of its central position in the Ruhr region. Düsseldorf Airport is only 30 kilometres away.

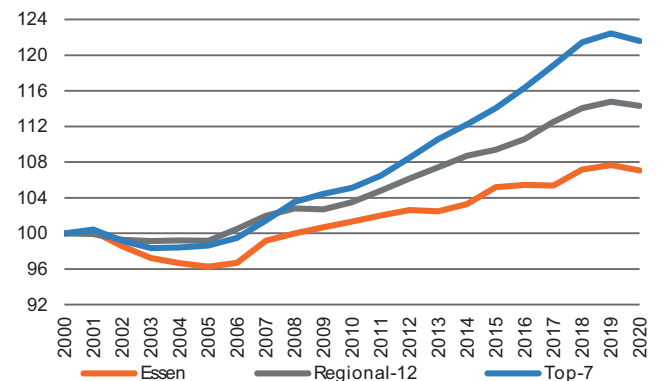
Upturn in Essen: population has stabilised; unemployment remains high

PER CAPITA GDP IN EUR



Source: Scope

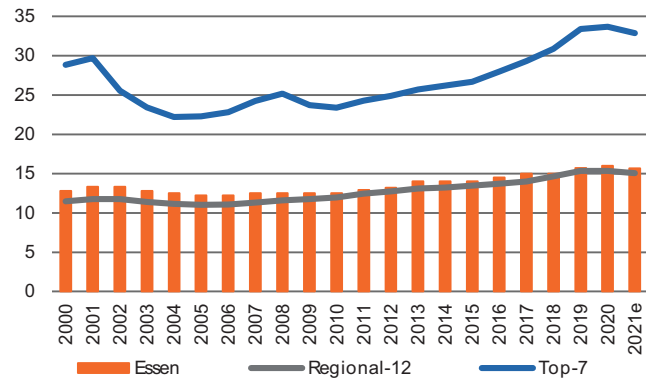
WORKING POPULATION (YEAR 2000 = 100)



Source: Scope

Office space in Essen

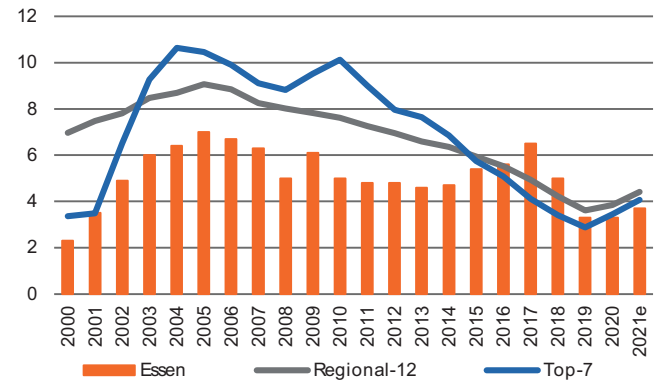
PRIME OFFICE RENTS IN EUR PER SQM



Source: bulwiengesa, DZ BANK forecast

Data for central locations

VACANCY RATE (%)

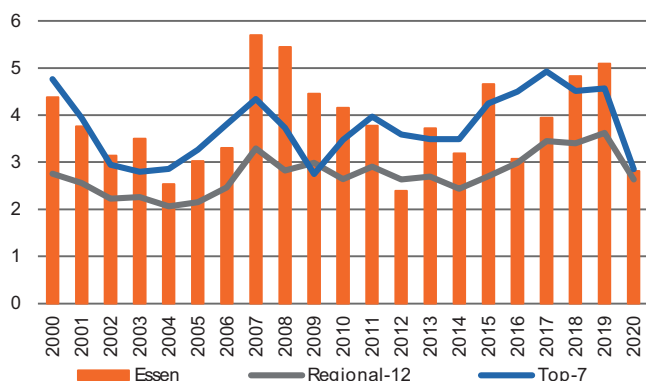


Source: bulwiengesa, DZ BANK forecast

Essen is a major office location in Germany and at the same time the leading office location in the Ruhr on account of the many company head offices based there. It has a surface area of 3.2 million m² and, apart from the top locations, only Hannover, Nuremberg and Bonn have a larger office stock. The Essen office market has done well in difficult economic conditions, achieving its highest take-up to date in 2019 at 162,000 m². Last year, however, because of the coronavirus crisis, take-up fell sharply to just under 90,000 m² – its lowest level since 2006 – reflecting the absence of five-figure lettings. Such transactions alone accounted for around 60,000 m² in 2019. The biggest transaction in 2020 was for 8,000 m²; the new tenant is TÜV Nord. In contrast, the prime rent in 2020 was slightly higher still than it was the previous year at EUR 16 per m², reflecting not least tighter supply at a time of lively demand for office space which has been stagnating since 2017. Strong demand led to a decline in the vacancy rate to just over 3 per cent by 2019; it remained stable in 2020, in spite of the pandemic. Four of the ten biggest lettings – including that of TÜV – involved new offices under construction. The supply of office space is set to remain fairly tight this year as well since there are no signs of any major completions. For this reason, the vacancy rate and prime rent should not be affected too much by the economic consequences of the coronavirus crisis. A larger office development could spring up on the site of the former RWE head office which is currently being pulled down.

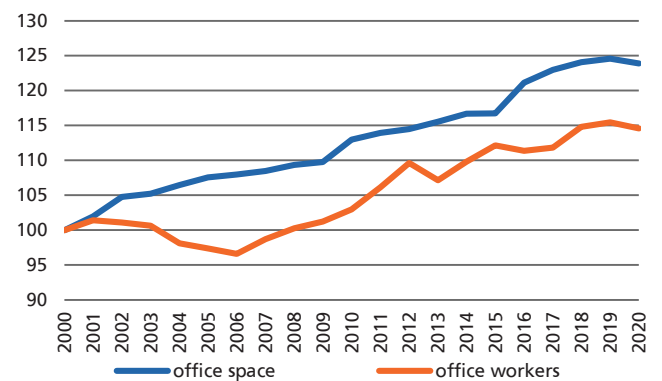
Leading office location in the Ruhr area proving resilient during the coronavirus crisis

TAKE-UP AS PERCENTAGE OF OFFICE SPACE



Source: bulwiengesa

TREND IN OFFICE SPACE AND EMPLOYMENT

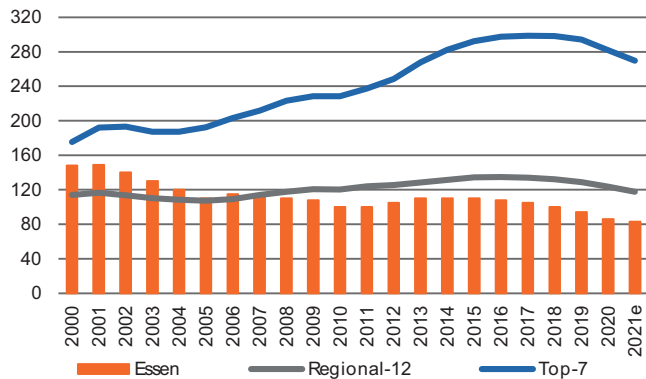


Source: Scope, bulwiengesa

Index 2000 = 100

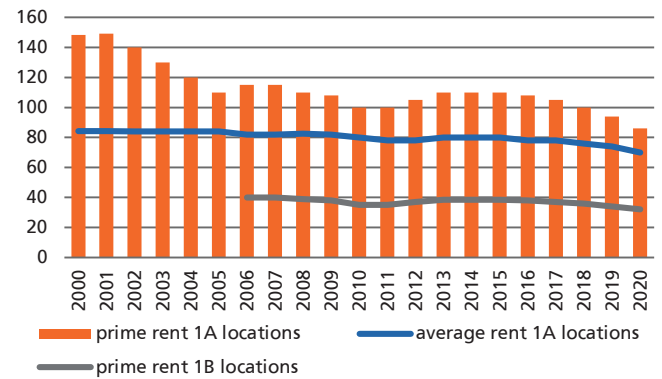
Retail space in Essen

PRIME RETAIL RENTS IN EUR PER SQM



Source: bulwiengesa, DZ BANK forecast

RETAIL RENTS PRIME/SECONDARY LOCATIONS IN EUR PER SQM

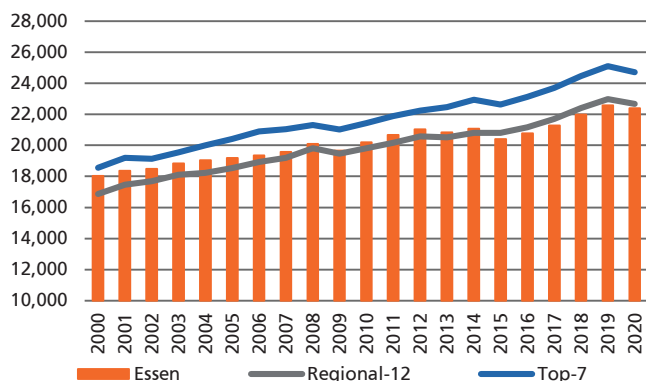


Source: bulwiengesa

Although Essen is a heavyweight among retail locations in western Germany, its glamour as a go-to shopping destination has now faded somewhat, as illustrated by a dwindling prime rent in top locations for many years. Since the turn of the millennium, the prime rent has fallen by over 40 per cent to EUR 86 per m² most recently, in contrast to the general trend in retail. One dampening factor has been major competition from neighbouring shopping destinations, such as the cities of Düsseldorf and Dortmund or the huge CentrO in Oberhausen. Accordingly, the centrality score is on the low side for a regional centre at 112 points. The city's retail sector suffers additionally because of high unemployment and a dwindling population in the past. The economic weakness of cities in the Ruhr area is reflected in below-average purchasing power score of only 96 points. On the plus side, the city has a 1.4 million strong catchment area. Moreover, its attraction as a shopping destination has been enhanced in the last few years, e.g. with the opening in 2009 of a big shopping centre on the Limbecker Platz. Then, there was the revitalisation of the RATHAUS GALERIE in 2010 and the revamp of the Haus am Kettwiger Tor in 2013. Consequently, the city centre now has not only its prime locations, the Limbecker and Kettwiger Straße, but also three modern shopping malls. Even so, the supply of retail space in excessive in view of the boom in online shopping, a stagnating population and few tourists. This also explains why we expect a further fall in prime rent in 2021. The closure of the Kaufhof store on the Willy-Brandt-Platz led to an increase in vacant space at the end of 2020. However, the Karstadt store on Limbecker Platz will remain.

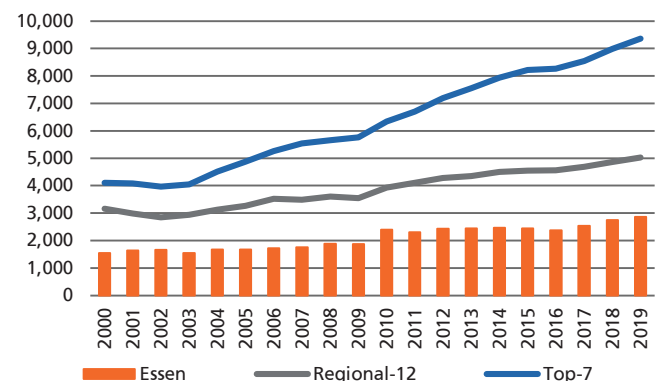
Prime rent falling in view of excessive retail space for today's shopping needs

PER CAPITA PURCHASING POWER IN EUR



Source: bulwiengesa

NUMBER OF OVERNIGHT STAYS PER 1,000 INHABITANTS

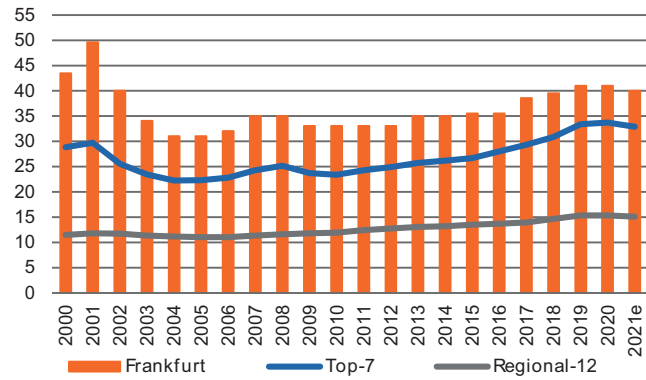


Source: bulwiengesa

FRANKFURT

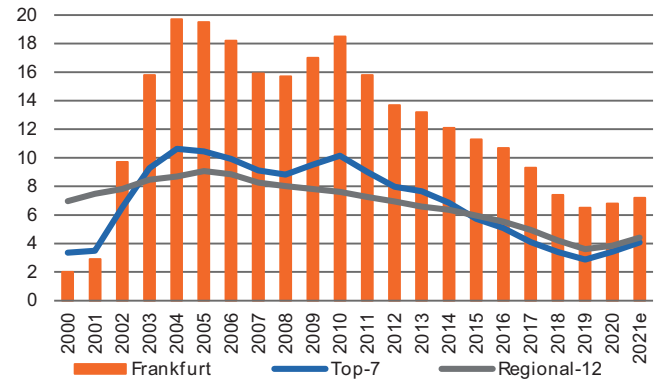
Office space in Frankfurt

PRIME OFFICE RENTS IN EUR PER SQM



Source: bulwiengesa, DZ BANK forecast Data for central locations

VACANCY RATE (%)

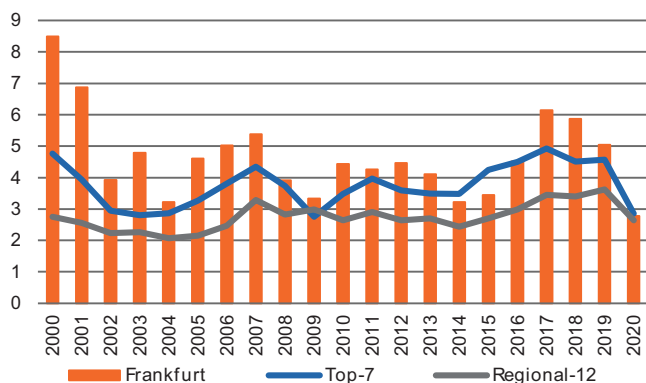


Source: bulwiengesa, DZ BANK forecast

The Frankfurt office market stands out with the highest prime rent among the top 7, but also for the highest vacancy rate. Higher vacancies in less central office locations such as Niederrad or the Merton Quarter are in stark contrast to tight supply in expensive city locations such as the financial district, city centre and Westend. New office locations have sprung up in the Europaviertel and around the airport (Gateway Gardens). Banks and their subcontractors account for a substantial section of demand in the financial district. In view of a general rise in employment figures, the office market was hardly affected by the crisis in the financial sector. The market is benefiting from the relocation of banks from the UK and their staff in the wake of Brexit. Annual take-up in the recent past reached a relatively high level of 500,000 to 600,000 m² per annum (2015 to 2017). However, hardly any new space came onto the market. The situation in 2020 was quite different. Take-up more than halved to around 280,000 m². The biggest single letting involved Deka. Other large spaces were leased by Freshfields and Frankfurt University of Applied Sciences. By contrast, newly built office space increased, although this hardly made a dent on vacant space. This year, vacancies are likely to increase slightly further. A moderate decline in prime rent is also possible. This was most recently 41 euros per m², but was still exceeded in some cases at 45 euros per m². However, a sharp fall in rent is unlikely in view of the shortage of space in inner-city locations. In the next few years, Frankfurt's skyline will be enhanced by new projects such as Tower ONE or the Ensemble FOUR.

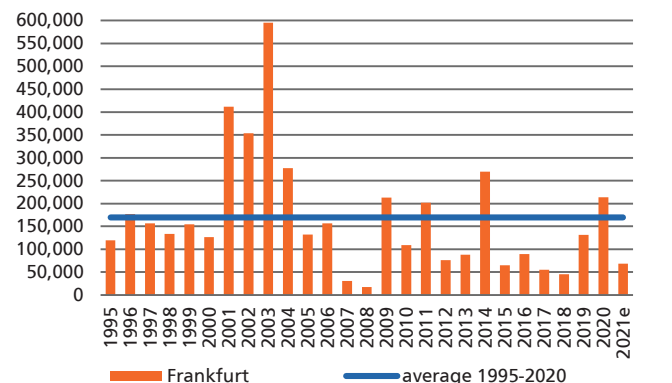
Frankfurt's skyline set to be enhanced by new towers

TAKE-UP AS PERCENTAGE OF OFFICE SPACE



Source: bulwiengesa, DZ BANK forecast

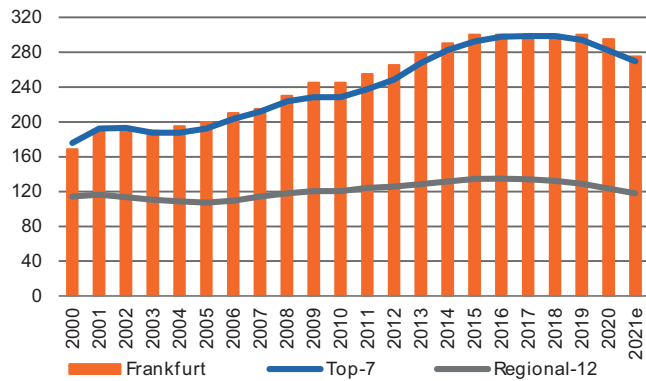
NEW OFFICE SPACE IN SQM



Source: bulwiengesa

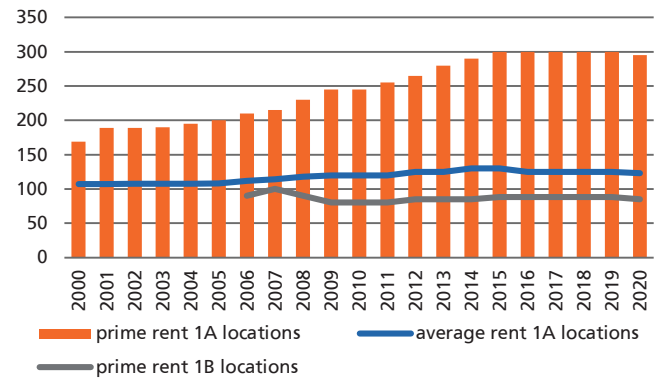
Retail space in Frankfurt

PRIME RETAIL RENTS IN EUR PER SQM



Source: bulwiengesa, Scope, DZ BANK forecast

RETAIL RENTS PRIME/SECONDARY LOCATIONS IN EUR PER SQM

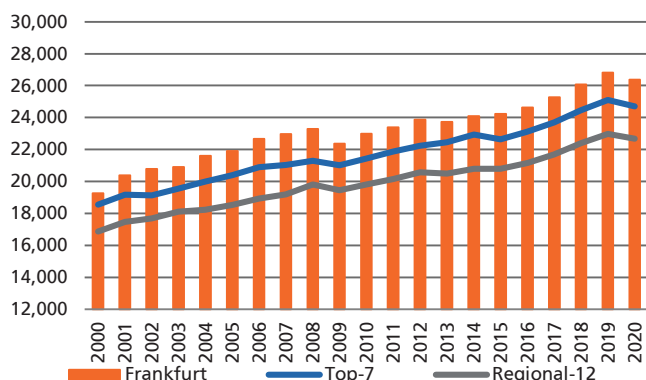


Source: bulwiengesa

The conurbation around Frankfurt has undergone strong growth in the last few years. Along with Frankfurt, there has been strong population growth in the other big cities in the Rhine-Main region and in smaller cities in Frankfurt's surrounding area. Frankfurt's retail sector has a total catchment area of around 2.5 million people. At the same time, there has been a marked increase in employment, supporting high purchasing power in the region. Another important element which underpins Frankfurt as a retail location is a hitherto large number of visitors. The city's retail space has been expanded significantly within the space of just a few years in view of growing buyer potential. Two additional inner-city shopping centres, MyZeil (2009) and Skyline Plaza (2013), the expansion of the Nord-West-Zentrum and smaller project developments contributed to this. Against the backdrop of the expanded space offer, the MyZeil centre required extensive renovation after just a few years. The retail sector would be hit by persistently weaker tourism, e.g. through a reduction in the trade fair business. One downside for Frankfurt's city centre is the rather unattractive area around the Zeil, Konstablerwache and Hauptwache. However, there is a ray of hope in the form of the newly rebuilt Old City. The planned closure of the Karstadt branch on the Zeil has been averted until 2025. However, Karstadt Sports on the Hauptwache has closed down. There was a slight fall in prime rent in 2020 to below the level of EUR 300 per m² which had held since 2015. A generally positive trend in the Goethestraße was offset by falling rents in the Zeil. We can expect a further decline in the prime rent this year.

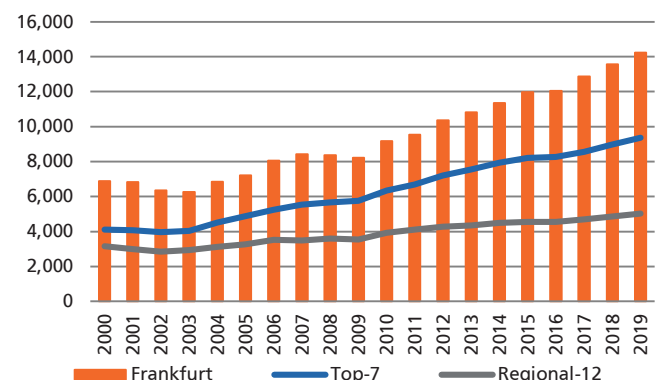
Frankfurt retail sector taking above-average hit from absence of normally large number of visitors

PER CAPITA PURCHASING POWER IN EUR



Source: bulwiengesa

NUMBER OF OVERNIGHT STAYS PER 1,000 INHABITANTS

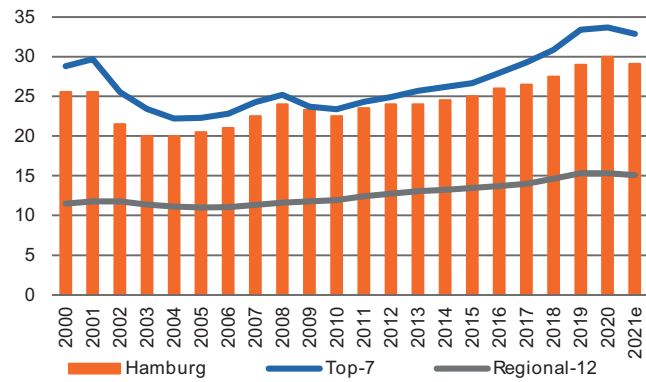


Source: bulwiengesa, Scope

HAMBURG

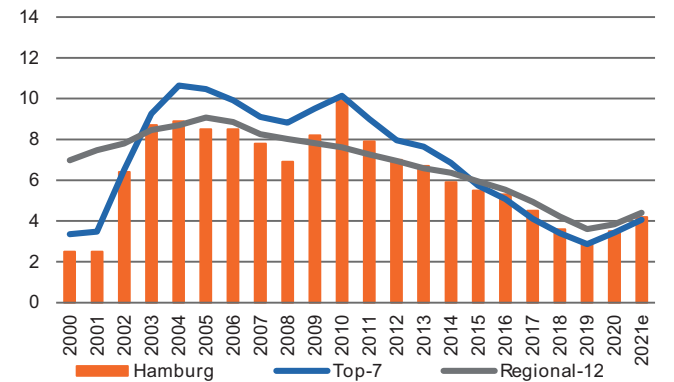
Office space in Hamburg

PRIME OFFICE RENTS IN EUR PER SQM



Source: bulwiengesa, DZ BANK forecast Data for central locations

VACANCY RATE (%)

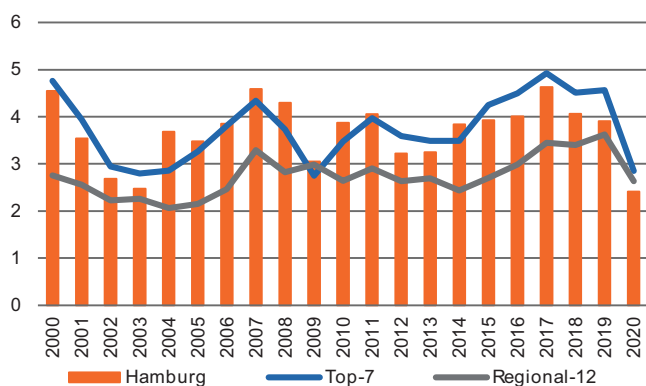


Source: bulwiengesa, DZ BANK forecast

After Berlin, the office markets in Hamburg and Munich are virtually neck and neck at around 14 million m². The uptrend in the Hamburg office market which has been driven by a broadly diversified economy continued in 2019. Take-up from 2014 to 2019 was high at an average of 550,000 m² per annum. The vacancy rate had fallen to under 3 per cent by 2019 from a two-digit figure ten years ago. Because of tight supply – the vacancy rate in the city centre is lower – big lettings often involve offices which are still under construction. The pandemic led to a year-on-year slump of almost 40 per cent in take-up to 335,000 m² in 2020, while the vacancy rate rose to 3.5 per cent. This mainly reflected the absence of major transactions. Whereas there were seven five-digit lettings in 2019, there were only two in 2020. In contrast, there was another hike to EUR 30 per m² in prime rent in spite of an already sharp increase, reflecting unabated interest in attractive and correspondingly expensive office space. After picking up slightly until 2019, take-up fell back to a rather low figure of just over 100,000 m² in 2020. We expect a figure of around 150,000 m² in 2021. The supply of contemporary offices therefore remains manageable. On balance, the vacancy rate is likely to lift slightly above 4 per cent this year. This could very well be accompanied by a slight fall in prime rent. The Elb Tower office and hotel tower will bring a new landmark to Hamburg's skyline by 2025.

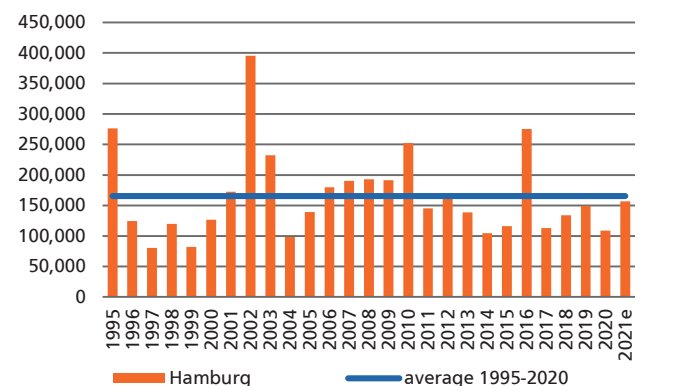
Solid market: prime rent in Hamburg has increased further during the pandemic

TAKE-UP AS PERCENTAGE OF OFFICE SPACE



Source: bulwiengesa, DZ BANK forecast

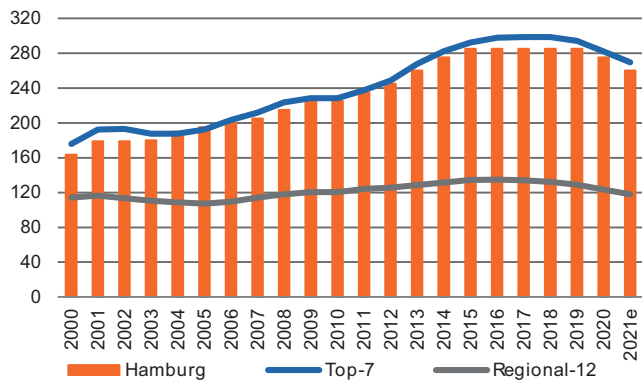
NEW OFFICE SPACE IN SQM



Source: bulwiengesa

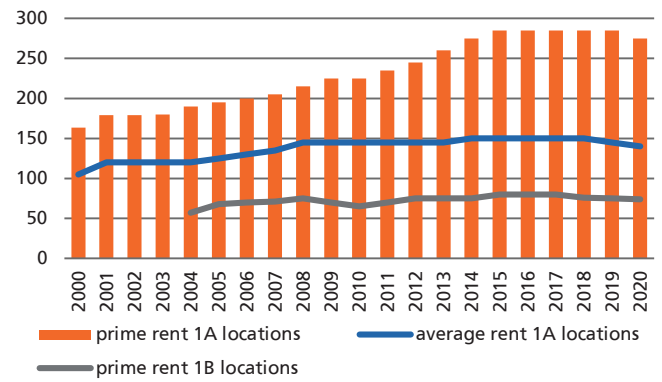
Retail space in Hamburg

PRIME RETAIL RENTS IN EUR PER SQM



Source: bulwiengesa, Scope, DZ BANK forecast

RETAIL RENTS PRIME/SECONDARY LOCATIONS IN EUR PER SQM

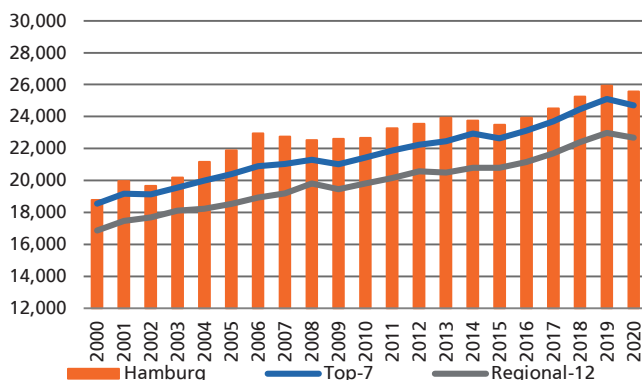


Source: bulwiengesa

Hamburg scores as the leading shopping destination in northern Germany with a catchment area of 3.5 million people, strong population growth and high purchasing power. As a rule, tourists and cruise ship passengers are an important consumer group. What makes Hamburg's city centre attractive from the point of view of customers, is the broad range of shops on offer, ranging from conventional high-street locations such as the Spitalerstraße and Mönckebergstraße all the way to the luxury end of the market in the Neuer Wall. In between the two, there is the Europa Passage, the only large city-centre shopping mall. Overall, though, retail space in the city centre is rather tight for a major city of 1.8 million inhabitants at just 350,000 m². There has been an increase in retail space through various smaller developments, albeit the pace of expansion has been slow. The Mönckebergstraße has been hit by the recent closure of the Kaufhof department store in October. The future of the site is unclear; first of all, the building, which is over 100 years old, will have to be renovated. Hamburg's city centre is set to remain a sought-after shopping destination. Nevertheless, the fall-out from the pandemic and slump in footfall through two lockdowns will have a major dampening impact on retail. The prime rent already fell by EUR 10 to EUR 275 per m² during the course of 2020, and this year, it is likely to dwindle further. The city-centre is set to be hit further by the opening of the 70,000 m² shopping mall being built by Unibail-Rodamco-Westfield in the southern overseas quarter scheduled for 2023. The island solution could bring competition for the city centre with around 200 new shops.

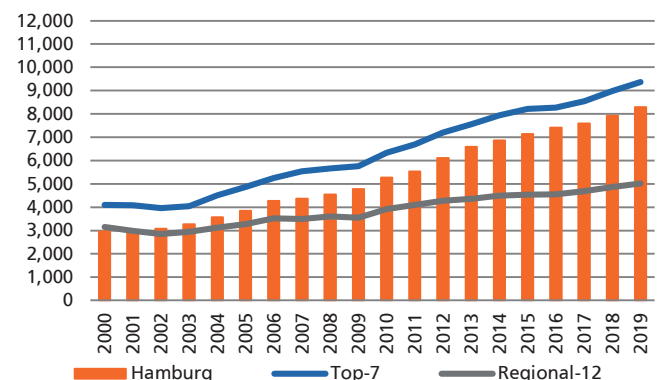
Attractive shopping destination with a broad offer ranging from mass market to luxury goods

PER CAPITA PURCHASING POWER IN EUR



Source: bulwiengesa

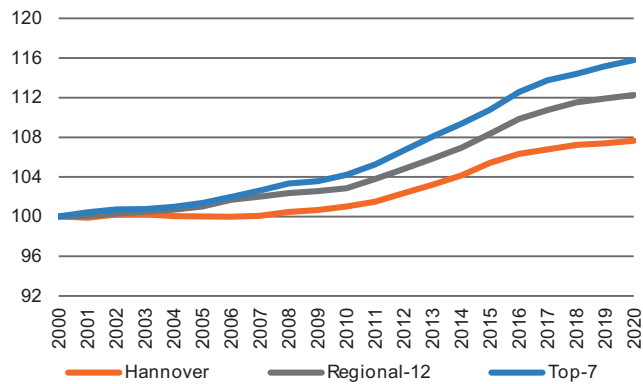
NUMBER OF OVERNIGHT STAYS PER 1,000 INHABITANTS



Source: bulwiengesa, Scope

HANNOVER

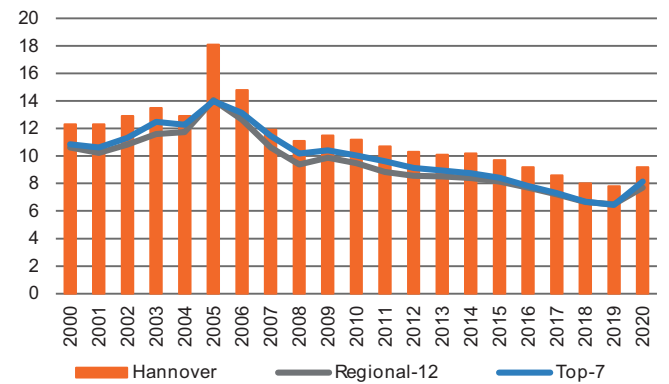
POPULATION GROWTH



Source: Scope

Index 2000 = 100

UNEMPLOYMENT RATE (%)

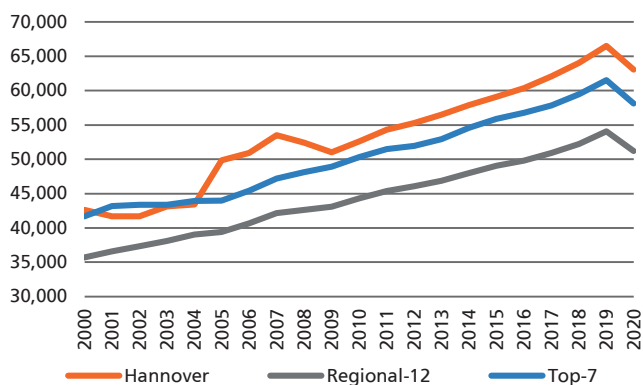


Source: bulwiengesa, BA, DZ BANK forecast

Hannover is by far the largest city in Lower Saxony with a population of almost 540,000; it is the 13th largest city in Germany. At 6 per cent, ten-year population growth is lower than the average for the regional centres under consideration. Hannover's rather lacklustre image may be debatable, but there is no question about its outstanding position in the property market. This reflects many factors. Hannover is the regional capital, administrative hub and pre-eminent business centre in the state. At the same time, the city is at the heart of the metropolitan Hannover-Braunschweig-Göttingen-Wolfsburg region. It is also a major trade fair centre and hosted the World Expo in 2000. As a centre for science and research, Hannover benefits from good transport links in an east-west and north-south direction which has helped the development a strong logistics centre. Industry is represented by mechanical engineering and automotive firms along with related suppliers. Moreover, the city is an important centre for financial services. Insurance companies such as Hannover Re and Talanx which are listed in the MDAX and SDAX respectively have their headquarters in the city. Hannover also has a DAX company, the automotive supplier Continental. The city is an important academic centre with various research and higher education institutions with a total of over 50,000 students. However, unemployment is relatively high in spite of a broadly based labour market.

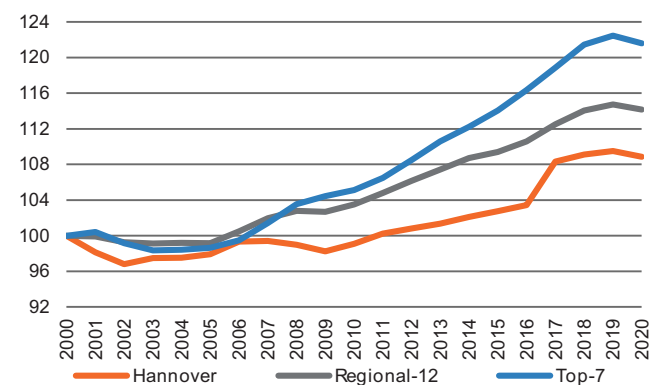
Hannover in a leading position in the property market outside the top locations

PER CAPITA GDP IN EUR



Source: Scope

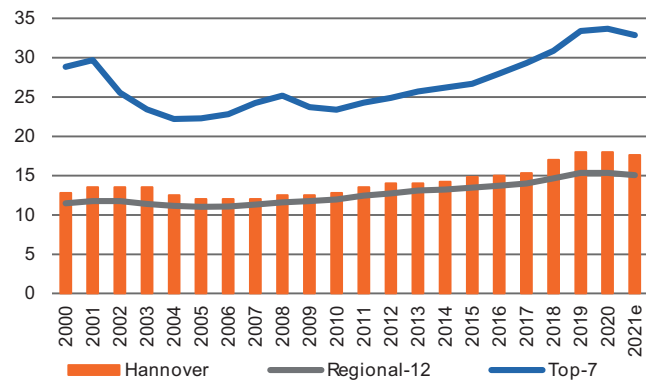
WORKING POPULATION (YEAR 2000 = 100)



Source: Scope

Office space in Hannover

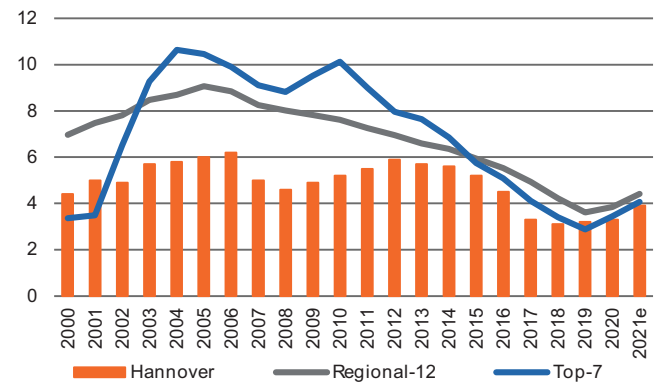
PRIME OFFICE RENTS IN EUR PER SQM



Source: bulwiengesa, DZ BANK forecast

Data for central locations

VACANCY RATE (%)

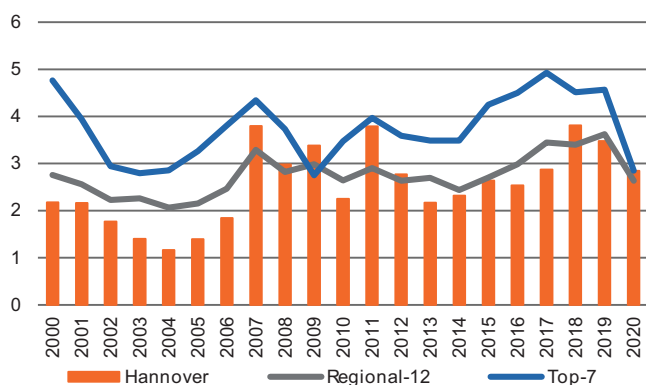


Source: bulwiengesa, DZ BANK forecast

Hannover's leading position in the property market in the group of cities below the top 7 is best illustrated by the scale of its office market. At 4.6 million m², it is well ahead of Nuremberg (3.6 million m²) which ranks in ninth place. In spite of lively demand, Hannover's office stock has hardly grown in the last few years, leading to a significant fall in the volume of vacant space. The fall in the vacancy rate to around 3 per cent shows that, in spite of a substantial stock, there is no surplus in the market. The shortage has led to an increase in prime rent to EUR 18 per m², which is almost EUR 3 per m² higher than the average for the regional centres under consideration. In spite of this high level, the prime rent remained stable in 2020. As in practically all office locations, however, there has been a noticeable decline in take-up because of the coronavirus crisis. The fall was most obvious in relation to the two strong previous years. If we look slightly further back, however, take-up of 130,000 m² in 2020 was in line with the usual level, helped by three big, five-figure m² transactions. A tight supply is also clear from letting contract statistics: the ten biggest lettings in the past year involve projects which have yet to be completed. New space becoming available in 2021 and 2022 is set to rise sharply to probably over 100,000 m² per annum, and therefore, the vacancy rate could increase to around 4 per cent from its low level, given weaker market conditions at present. The prime rent is likely to remain at best stable, although a slight dip is entirely possible.

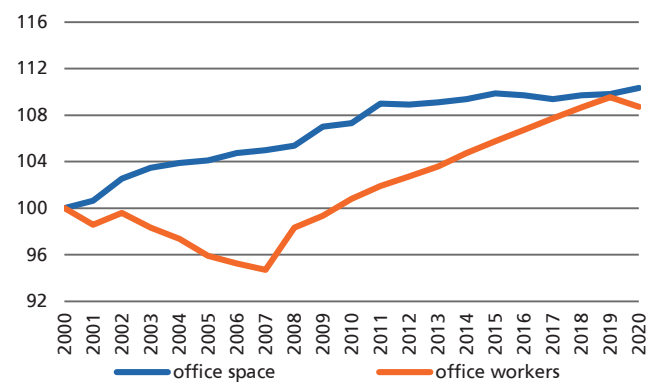
Hannover by far the biggest office market in Germany after top 7 locations

TAKE-UP AS PERCENTAGE OF OFFICE SPACE



Source: bulwiengesa

TREND IN OFFICE SPACE AND EMPLOYMENT

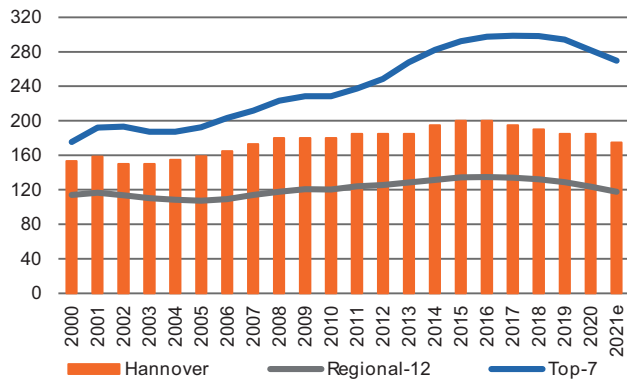


Source: Scope, bulwiengesa

Index 2000 = 100

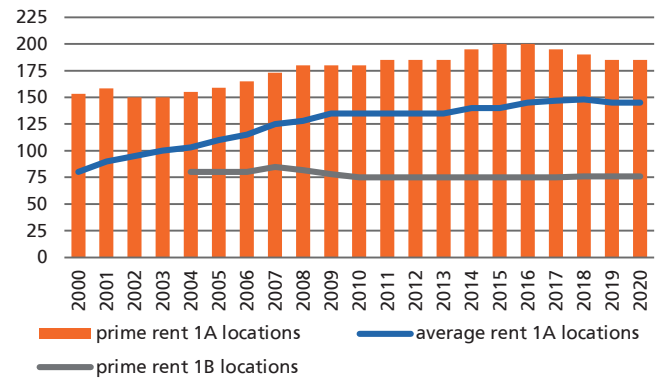
Retail space in Hannover

PRIME RETAIL RENTS IN EUR PER SQM



Source: bulwiengesa, DZ BANK forecast

RETAIL RENTS PRIME/SECONDARY LOCATIONS IN EUR PER SQM

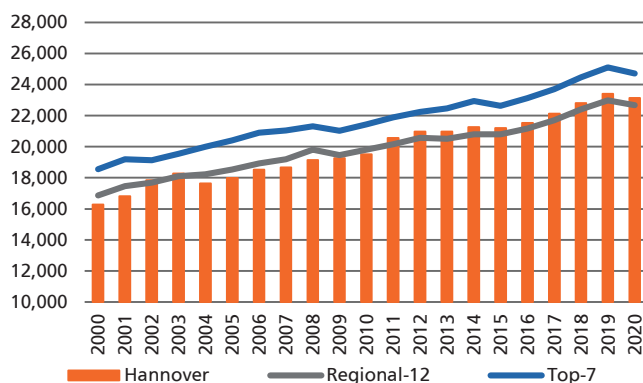


Source: bulwiengesa

Hannover is one of the leading shopping destinations in Germany; only Dortmund is slightly more expensive still below the level of the top locations. One of the success factors is a catchment area of 1.8 million people. In addition, Hannover hardly has any competition from neighbouring cities, and, with a fairly large amount of sales space, the city centre is able to hold up well against out-of-town retail parks. The city scores 121 points for centrality and a purchasing power score of 100 which is in line with the German-wide average. The city's attraction as a shopping location is based on a good range of shops in the city with several central shopping miles, namely the Bahnhofstraße/Niki-de-Saint-Phalle-Promenade, Georgstraße and Karmarschstraße. The latter was given a major lift a few years ago with the opening of the Kröpcke-Center. These shopping miles are enhanced by the inner-city Ernst-August-Galerie with its 35,000 m² of sales space. Tourism to the trade fair city is an important factor since it accounted for around 2.3 million overnight stays in 2019. However, this business was lost almost entirely as a result of the pandemic, compounding the damage inflicted by lockdowns. In spite of covid, though, the prime rent remained stable in 2020. However, it had already fallen from EUR 200 in 2016 to EUR 185 per m² prior to the pandemic. Because of ongoing problems facing the retail sector and the absence of any trade fairs for the moment, we expect a rise in vacant space this year and a marked decline in prime rent. In view of the challenges facing the city centre, Hannover is calling for a city-centre dialogue to help shape the structural change and mobility revolution.

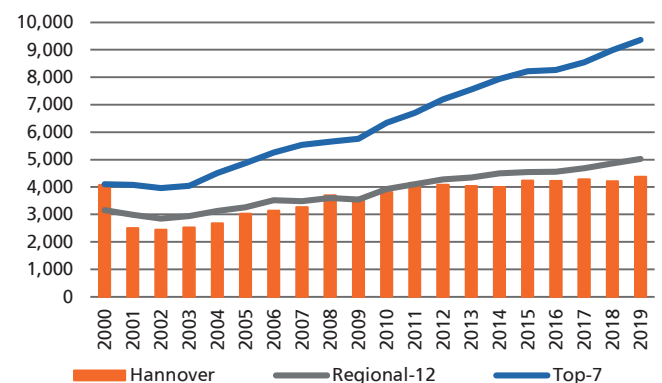
Hannover still one of the most expensive retail locations in Germany

PER CAPITA PURCHASING POWER IN EUR



Source: bulwiengesa

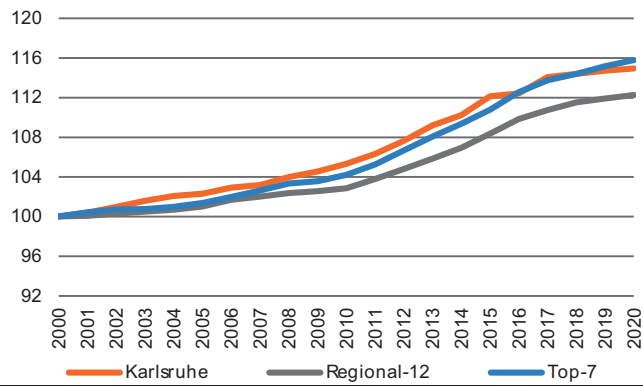
NUMBER OF OVERNIGHT STAYS PER 1,000 INHABITANTS



Source: bulwiengesa

KARLSRUHE

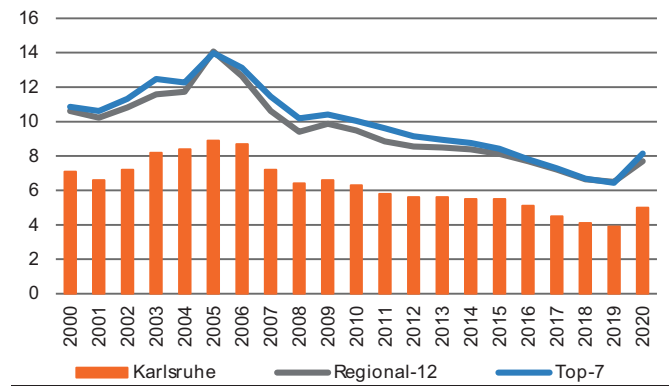
POPULATION GROWTH



Source: Scope

Index 2000 = 100

UNEMPLOYMENT RATE (%)

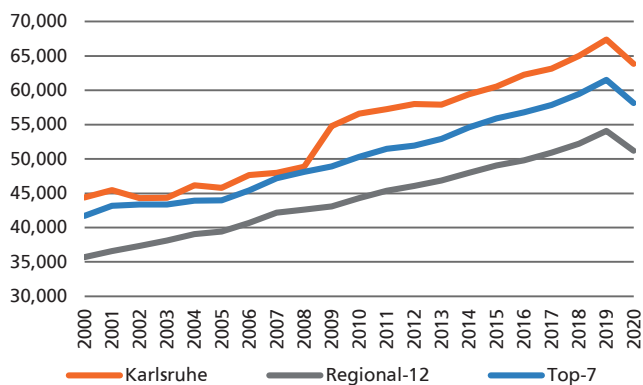


Source: bulwiengesa, BA, DZ BANK forecast

After Stuttgart, Karlsruhe and Mannheim are the largest cities in Baden-Württemberg, each with a population of slightly over 300,000 inhabitants. Another point in common is clear population growth until a few years ago which has recently slowed down however. One major difference, in contrast, is the economic bias of the two cities. Unlike the more industrial Mannheim, Karlsruhe is primarily an administrative hub, services centre as well as a location for science and research. The city on the Upper Rhine is also home to important institutions such as the Federal Constitutional Court, the regional government administration and the Federal and State Government Employee Retirement Fund. As a centre for science and research, Karlsruhe stands out with various higher education institutions in which over 40,000 students are enrolled – first and foremost among which is the Technical University and the Karlsruhe Institute for Technology (KIT). Moreover, Karlsruhe is supported by many research institutions, and also benefits in this respect from good transport links via the A5 and A8 motorways, the ICE high-speed train connection, along with an airport and river port. Key sectors are IT, chemicals and machinery. Well-known firms based in Karlsruhe include the dm drugstore chain, EnBW, the co-operative IT service provider Fiducia/GAD and pharmaceutical company Schwabe. However, tourism is a marginal activity in the baroque city and former royal residence. Unemployment is low and only rose to 5 per cent in 2020 during the coronavirus crisis.

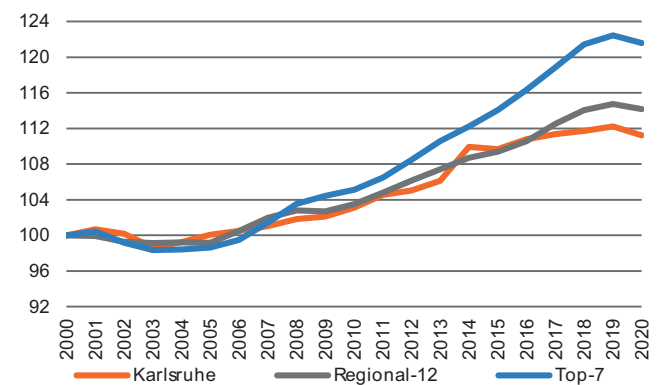
Karlsruhe a major centre for science, research and administration

PER CAPITA GDP IN EUR



Source: Scope

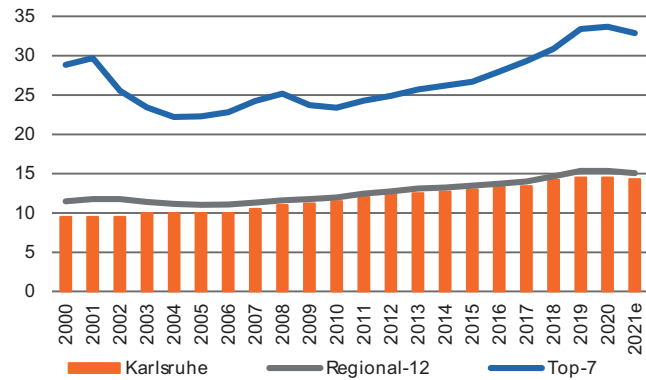
WORKING POPULATION (YEAR 2000 = 100)



Source: Scope

Office space in Karlsruhe

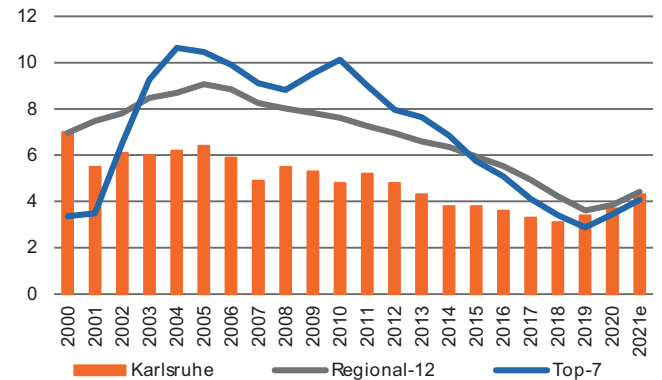
PRIME OFFICE RENTS IN EUR PER SQM



Source: bulwiengesa, DZ BANK forecast

Figures for city locations

VACANCY RATE (%)

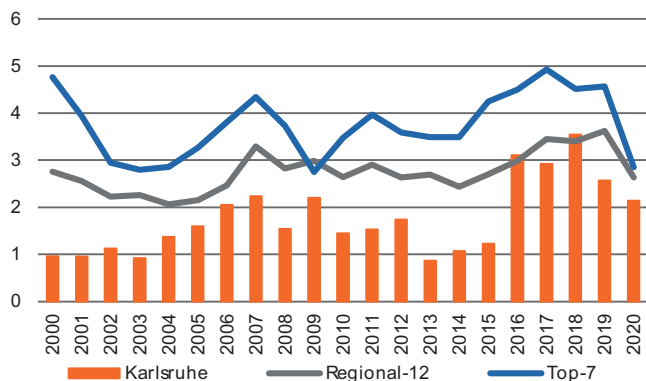


Source: bulwiengesa, DZ BANK forecast

As an administrative centre, service hub and science and research location, Karlsruhe needs a large office market of almost 2.6 million m². A strong rise in the number of office workers has led to a marked increase in office space. Of all the locations under consideration, Karlsruhe shows the highest increase in office space over ten years at 13 per cent. This mostly reflected increases from 2018 to 2020 – the new 1&1/Dommermuth office complex located at the main railway station with space of around 50,000 m² being the stand-out development. However, office-based employment has grown faster than office space, leading to a gradual reduction in vacancy rates. The lowest rate was recorded in 2018 at 3.1 per cent. From 2019, there was a slight increase to not quite 4 per cent as new space became available. The figure in 2021 is set to be higher, not least because of another substantial amount of new space. In addition, the covid crisis and working from home are likely to slow demand. A mostly quiet market up to 2015 was illustrated by take-up of around 30,000 m² per annum. Since then, though, take-up has increased considerably, not least in view of many project developments. A figure of around 75,000 m² per annum was achieved from 2016 to 2019. The covid crisis led to a fall in take-up to 55,000 m² in 2020, but this was still well above earlier figures. The prime office rent rose to EUR 14.50 per m² in 2019, but then stagnated in 2020. This year, it could dip further still as a result of an increase in vacant space. If the number of office workers continues to grow, then the Karlsruhe office should be able to cope with dampened demand caused by working from home.

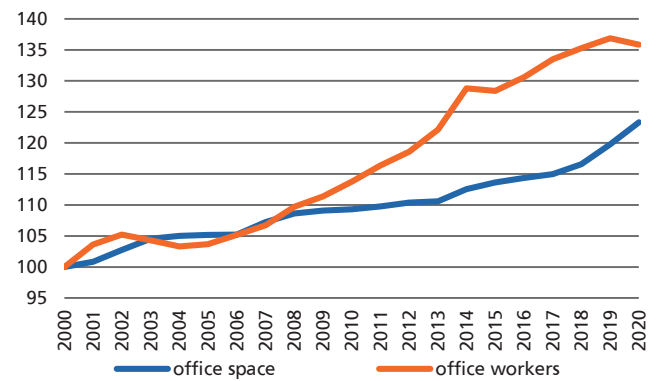
Project developments have brought modern office space to Karlsruhe in the recent past

TAKE-UP AS PERCENTAGE OF OFFICE SPACE



Source: bulwiengesa

TREND IN OFFICE SPACE AND EMPLOYMENT

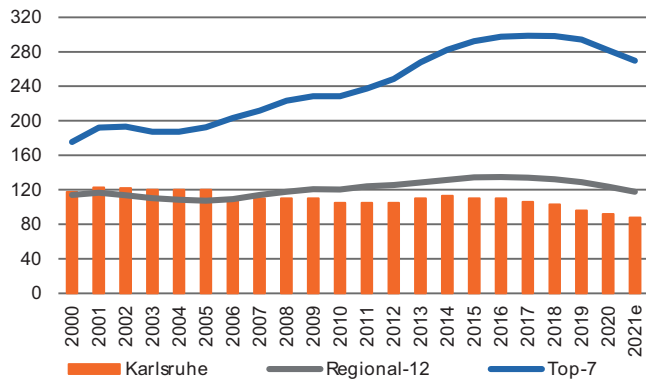


Source: Scope, bulwiengesa

Index 2000 = 100

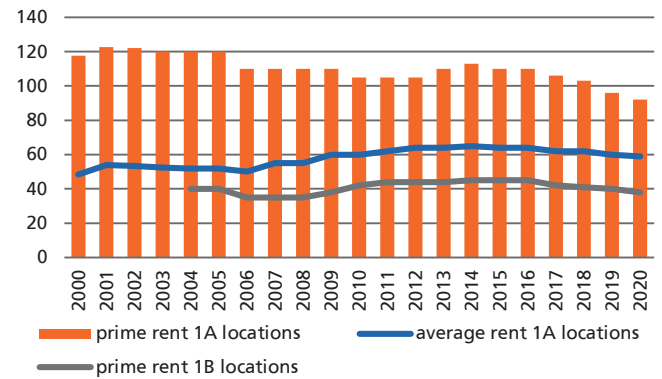
Retail space in Karlsruhe

PRIME RETAIL RENTS IN EUR PER SQM



Source: bulwiengesa, DZ BANK forecast

RETAIL RENTS PRIME/SECONDARY LOCATIONS IN EUR PER SQM

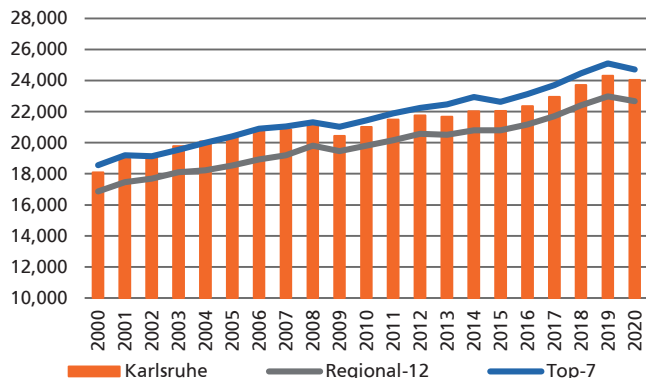


Source: bulwiengesa

Karlsruhe is a major shopping destination in Baden-Württemberg. Retailers have benefited from strong population growth over many years, a catchment area of over 1 million people and solid economic base with low unemployment. Purchasing power is slightly above average at 103 points. The shopping offer in the prime location, the Kaiserstraße, is enhanced by two well integrated shopping centres, the Postgalerie and Ettlinger Tor. Even so, the city centre has lost some of its attraction. The centrality score has fallen steadily of late to now 116 points. The problems are clear from cheap-and-cheerful shops on the edge of the Kaiserstraße. The city centre is being weakened by the "combination solution", a huge town-planning project mainly involving moving road and rail traffic underground along the length of Kaiserstraße. The project will probably be completed this year. Thereafter, work will continue on remodelling the Kaiserstraße. Measures in the "City Action Plan" facelift project are expected to continue until 2030. The city centre will then have a pedestrian area which will boost its attraction as a shopping destination. However, headwind is picking up, e.g. from the expansion of the peripheral Durchlach Centre or from the 54th German Ikea outlet which opened in the autumn of 2020. Greater threats though are the coronavirus crisis and growing e-commerce. The downtrend in prime rent – minus 25 per cent since the turn of millennium – to now EUR 92 per m² is therefore likely to continue, not least also in view of ongoing building work. On the plus side, Karstadt Sports has escaped closure after negotiations with the landlord.

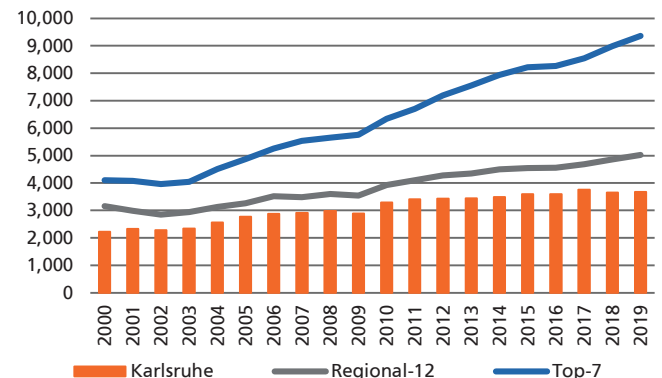
City-centre retail dampened by major building work for remodelling city centre and by e-commerce

PER CAPITA PURCHASING POWER IN EUR



Source: bulwiengesa

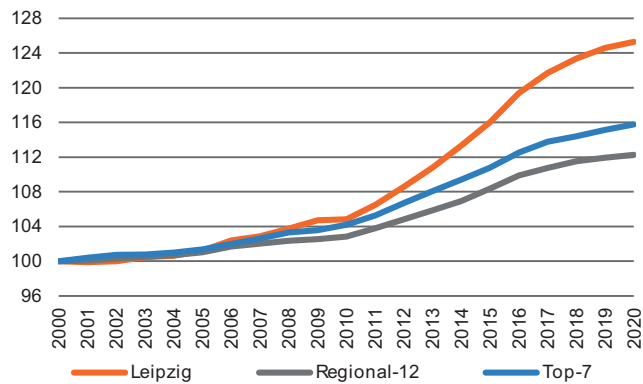
NUMBER OF OVERNIGHT STAYS PER 1,000 INHABITANTS



Source: bulwiengesa

LEIPZIG

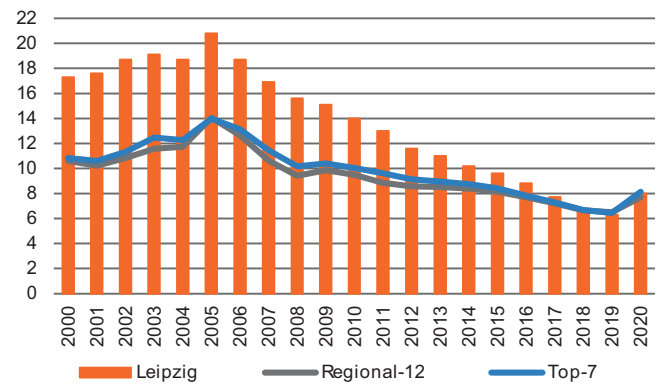
POPULATION GROWTH



Source: Scope

Index 2000 = 100

UNEMPLOYMENT RATE (%)

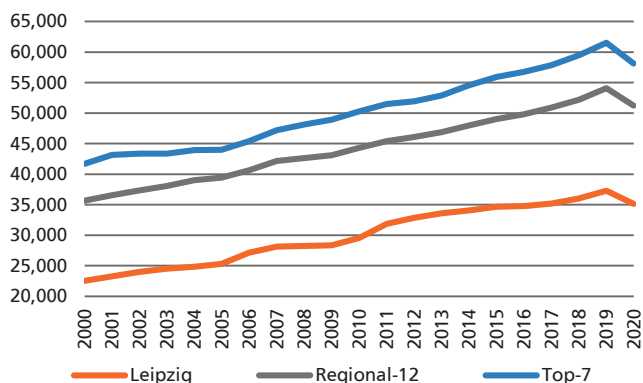


Source: bulwiengesa, BA, DZ BANK forecast

Until just a few years ago, Germany's eighth largest city with around 600,000 inhabitants was synonymous for painful losses in the property market. Today, the boom town is a sought-after location with high demand for commercial real estate and above all housing. There has been a rapid whittling down of former vacant space. The economic upturn in a city rich in historical buildings and high quality of life has led to an increase in the population by over a fifth within the space of ten years – twice the average for the cities under consideration. Consequently, housing is no longer cheap with an initial rent of almost EUR 12 per m². This is having an effect, as it is in other expensive cities, in so far as population growth has slowed down. The economic upturn is most in evidence in a rapid fall in unemployment in spite of a large increase in the number of inhabitants, and even after a covid-led increase, it is not noticeably high. Economic successes have been built on the fact that Leipzig has long been home to trade fairs along with business and industry. After reunification, prominent industrial companies such as BMW and Porsche built large production plants in the city. Growth is likely to continue with key economic clusters such as automotive, healthcare/biotechnology, energy, logistics and IT/media/creative industries. In addition, a thriving start-up scene has sprung up around a dozen higher education institutions with almost 40,000 enrolled students. Until the outbreak of the pandemic, tourism was an important and fast-growing economic factor.

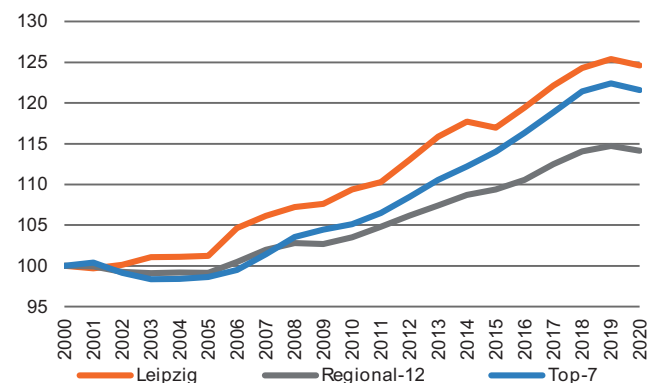
Economic upturn and strong population growth have dried up vacancies in the booming city

PER CAPITA GDP IN EUR



Source: Scope

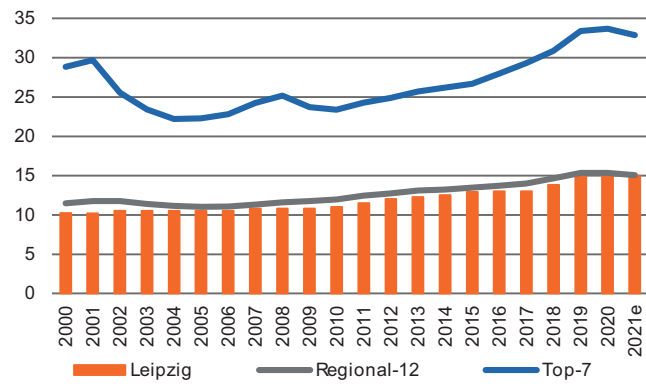
WORKING POPULATION (YEAR 2000 = 100)



Source: Scope

Office space in Leipzig

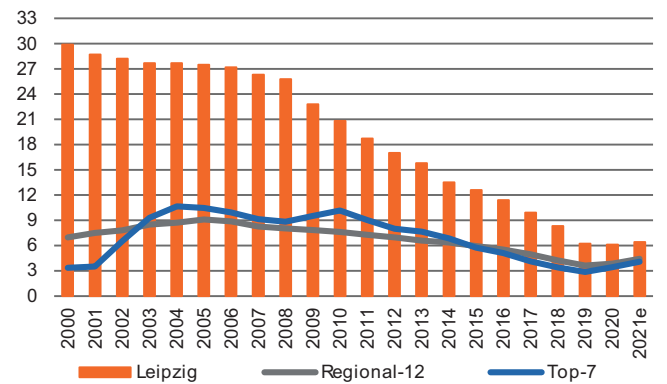
PRIME OFFICE RENTS IN EUR PER SQM



Source: bulwiengesa, DZ BANK forecast

Data for city locations

VACANCY RATE (%)

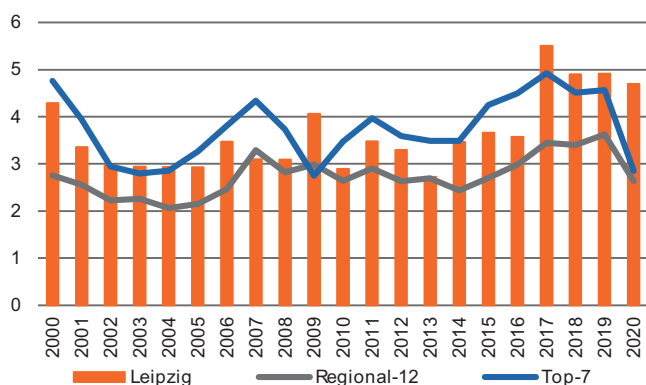


Source: bulwiengesa, DZ BANK forecast

At just under 2.8 million m², the size of the office market in Leipzig is roughly on a par with that of Bremen. However, unlike Bremen, the market has not experienced any strong growth in the last few years, in spite of a marked increase in office-based employment. The main reason for this is that the office stock grew by almost 1 million m² in the post-reunification boom, which in turn led to a huge surplus and a vacancy rate of up to 33 per cent (1997). However, the supply and demand situation has now turned upside down, and the city now lacks up-to-date office space. Although the vacancy rate is still above average at just over 6 per cent, a significant proportion of the space is no longer marketable in view of two decades without any significant development. One indication of the tight supply of attractive office space is a sharp rise in prime rent which has surged by almost 40 per cent in the last ten years to EUR 15.30 per m² most recently. Since 2018, though, the amount of new space coming onto the market has picked up. However, indications are that it will be 2022 before we could see a six-digit increase in office space, which means that the situation in the market is unlikely to change much this year. The covid crisis has hardly had any impact on key figures for the office market. Take-up last year was 130,000 m² which was in line with the figure in the two years before that. The vacancy rate and rent remain stable. We expect another largely stable market trend this year.

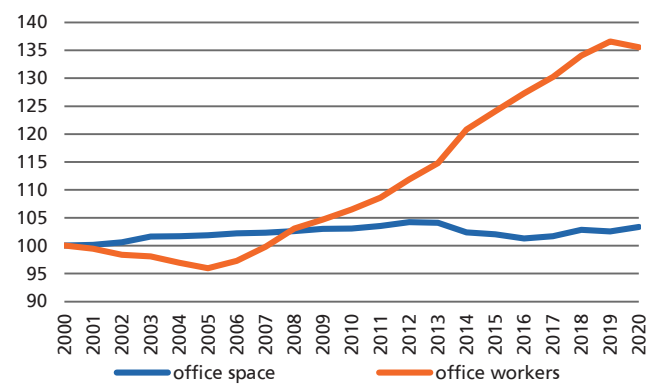
Shortage of contemporary space in Leipzig office market

TAKE-UP AS PERCENTAGE OF OFFICE SPACE



Source: bulwiengesa

TREND IN OFFICE SPACE AND EMPLOYMENT

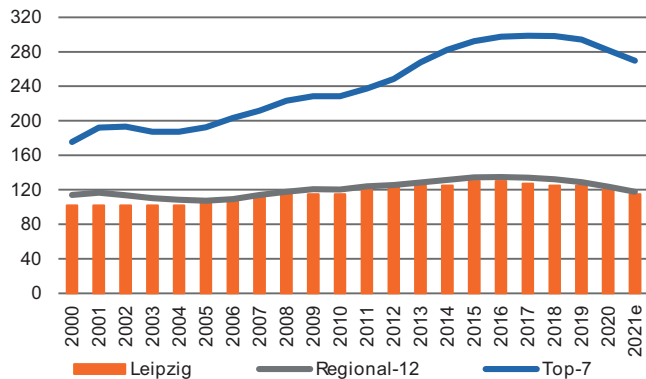


Source: Scope, bulwiengesa

Index 2000 = 100

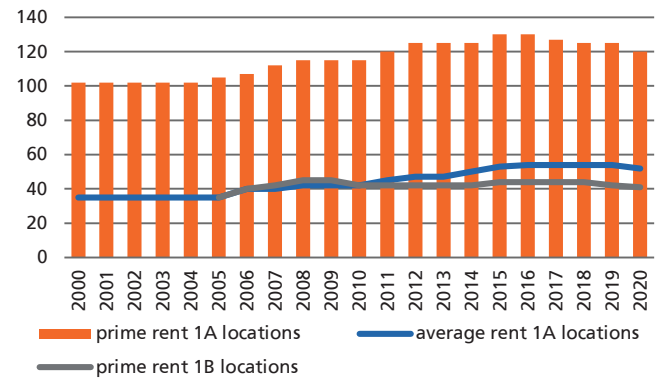
Retail space in Leipzig

PRIME RETAIL RENTS IN EUR PER SQM



Source: bulwiengesa, DZ BANK forecast

RETAIL RENTS PRIME/SECONDARY LOCATIONS IN EUR PER SQM

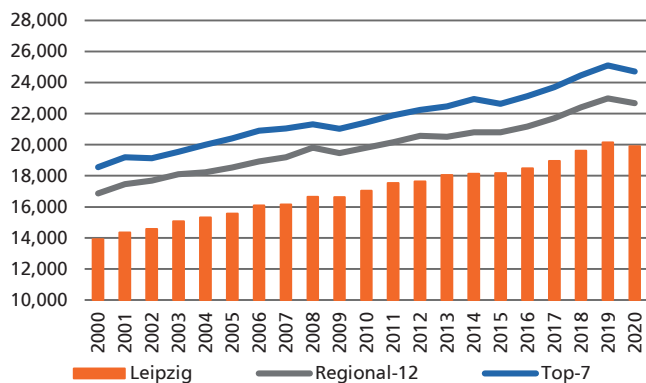


Source: bulwiengesa

With its attractive city centre, Leipzig is the third go-to shopping destination in eastern Germany along with Berlin and Dresden. Conditions for the retail sector have been positive so far, not least in view of a catchment area of 1.2 million people. Although purchasing power is below average, an increase of 100,000 inhabitants since the census of 2011 has led to a marked increase in consumption. Moreover, unemployment has fallen sharply. Up until 2019, demand got a substantial additional boost from a sharp increase in tourism and the many trade fair visitors. Access to the city centre from neighbouring areas has improved considerably with the completion in 2013 of the Citytunnel and link-up to the overground (S-Bahn). Visitors to the city centre have the choice between several prime locations such as the Petersstraße and Grimmaische Straße and the two shopping centres (Höfe am Brühl and Hainspitze). Although Leipzig hardly has any competition from nearby towns, its centrality score is nevertheless rather low at 106 points and, moreover, down slightly. This is likely to reflect the proximity of various out-of-town shopping centres. In spite of favourable conditions, prime rent is down slightly. It had recently fallen to EUR 120 per m² most recently from a peak of EUR 130 per m² in 2015 and 2016. The downtrend will probably continue in 2021 in view of a fairly decent supply of retail space and the impact of the coronavirus crisis and e-commerce 2021. Supply is expected to increase at the end of 2021 with the transformation of the former Karstadt store which will now feature a mix of shops, offices and food and drink outlets, trading under the name of N30. All in all, prospects for Leipzig's city centre are quite good, assuming a recovery in tourism and further population growth.

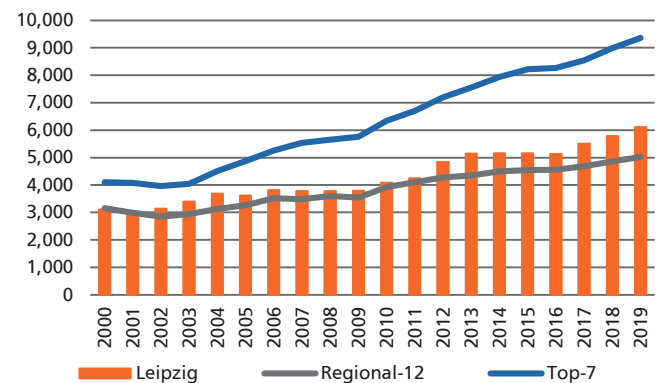
Leipzig city centre has benefited from strong population growth and large visitor numbers

PER CAPITA PURCHASING POWER IN EUR



Source: bulwiengesa

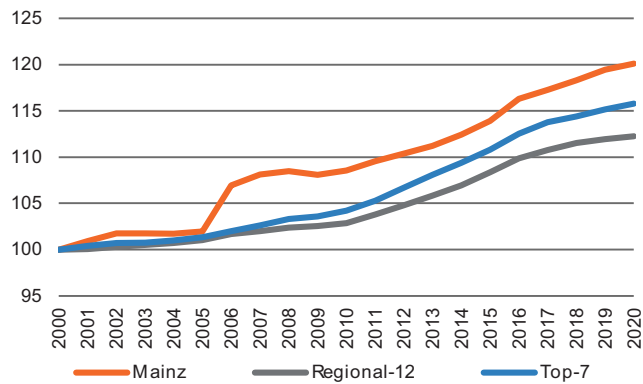
NUMBER OF OVERNIGHT STAYS PER 1,000 INHABITANTS



Source: bulwiengesa

MAINZ

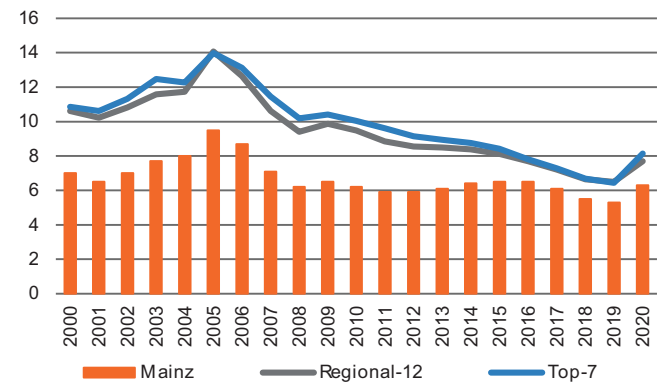
POPULATION GROWTH



Source: Scope

Index 2000 = 100

UNEMPLOYMENT RATE (%)

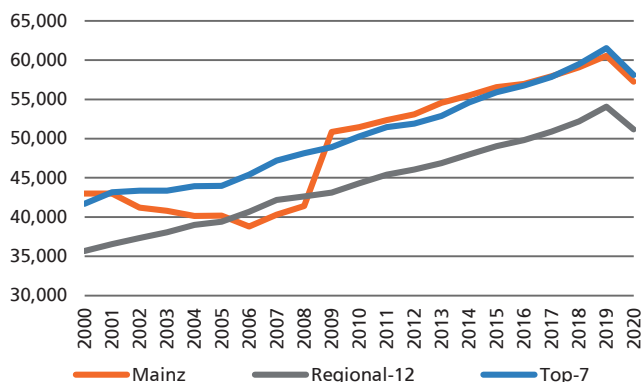


Source: bulwiengesa, BA, DZ BANK forecast

Mainz's advantageous location 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. As a university town offering a high quality of life, Mainz has experienced strong population growth to around 220,000 inhabitants most recently – an increase of more than 10 per cent since 2010. This has led to a housing shortage and high rents with an initial rent of almost EUR 14 per m². 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, focusing mainly on health and social services are also major employers. Mainz's importance as a logistics centre is rather marginal in spite of the city's port on the Rhine because of less than optimum transport links. Manufacturing hardly plays any role at all. However, Mainz is an important base for science and research with several universities of applied sciences with almost 38,000 students and many research institutions. The creation in 2008 of the pharmaceutical company BioNTech, which has developed the first approved covid-19 vaccine, was based on research at Mainz University. Other well-known companies based in Mainz include the glass manufacturer Schott, credit insurer Coface and the chemical company Werner & Mertz (which produces the shoe polish Erdal). Unemployment is moderate and, apart from a covid-led increase, stable. The key property development in Mainz is in the Zollhafen area which is expected to lead to the creation of 4,000 jobs and will feature 1,400 flats by 2025. Two of the last available building plots were sold in December.

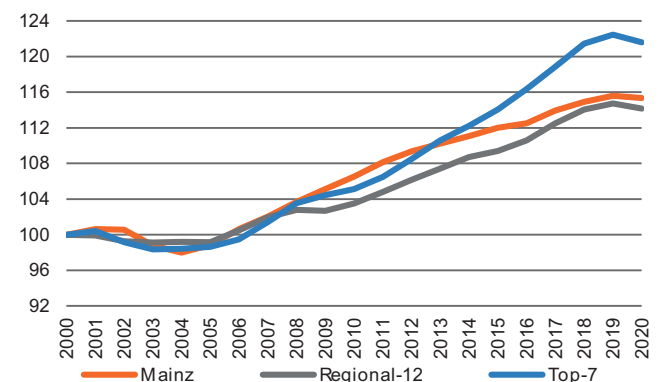
Rhineland-Palatinate capital experiencing strong growth – also a major media centre in the Rhine-Main area

PER CAPITA GDP IN EUR



Source: Scope

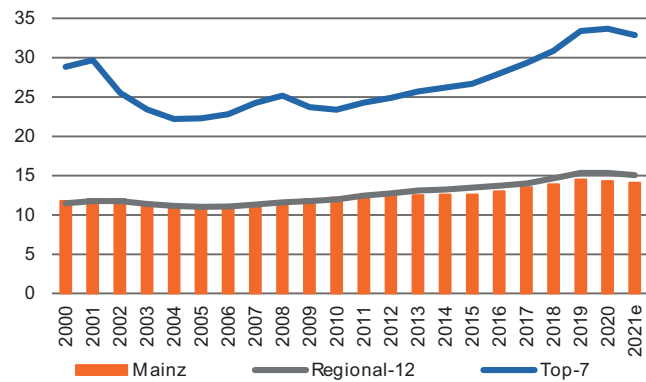
WORKING POPULATION (YEAR 2000 = 100)



Source: Scope

Office space in Mainz

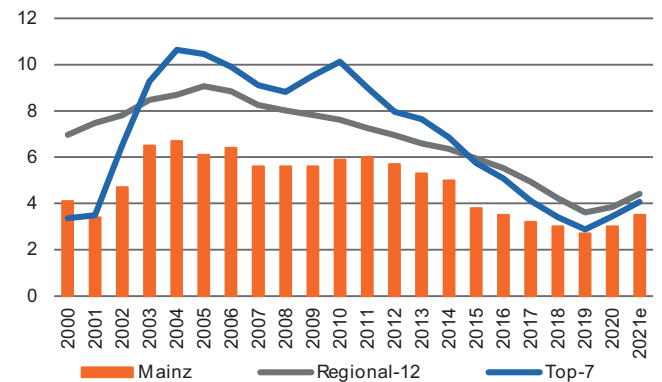
PRIME OFFICE RENTS IN EUR PER SQM



Source: bulwiengesa, DZ BANK forecast

Figures for city locations

VACANCY RATE (%)

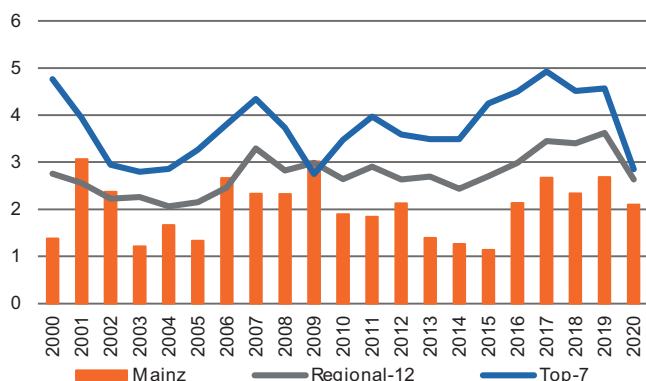


Source: bulwiengesa, DZ BANK forecast

Mainz is a smaller office market with a stock of just under 1.7 million m² and demand is mainly local. The stock has grown in line with the average since 2010 at 7 per annum, roughly in line with the trend in office-based employment. There has been a gradual reduction in what was in the past only a modest vacancy rate. In 2020, the figure stood at a low 3 per cent; in 2019, it had been slightly lower still. The prime rent stagnated at roughly EUR 12.50 Euro per m² from 2010 to 2015. It then rose up to EUR 14.50 Euro per m² by 2019 on the back of tight supply and higher rents for new build projects. The prime rent in City-Lange dipped slightly to EUR 14.30 per m² in 2020, but remained unchanged in the Zollhafen district. Since a large proportion of demand for office space in Mainz comes from public bodies, activity in the Mainz office market tends to be rather sedate. Take-up is mostly below average in relation to the stock, generally standing at between 20,000 and 40,000 m² per annum. In the more recent past, though, take-up has been higher because of new build projects in the Zollhafen. Take-up of 44,000 m² in 2019 was split between various rather small lettings; the biggest tenant was BioNTech. Last year, activity in the office market was mostly marked by large transactions – FH Mainz (12,000 m²) and the Center for Fundamental Physics (7,000 m²). In 2019 and 2020, larger lettings mostly involved new build projects. The high pre-letting level should largely prevent an increase in vacancy. The prime rent could nevertheless decline slightly, at best it is likely to remain stable.

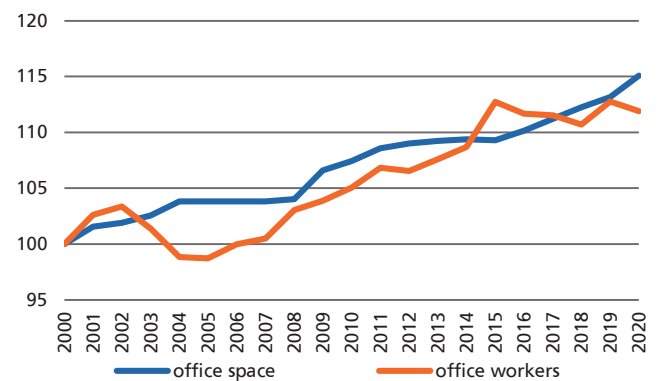
Zollhafen providing Mainz office market with contemporary space

TAKE-UP AS PERCENTAGE OF OFFICE SPACE



Source: bulwiengesa

TREND IN OFFICE SPACE AND EMPLOYMENT

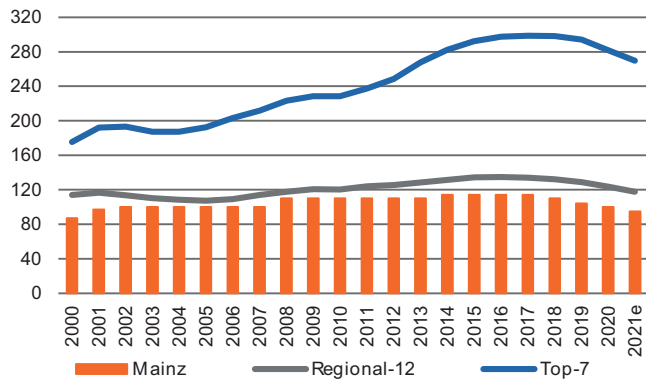


Source: Scope, bulwiengesa

Index 2000 = 100

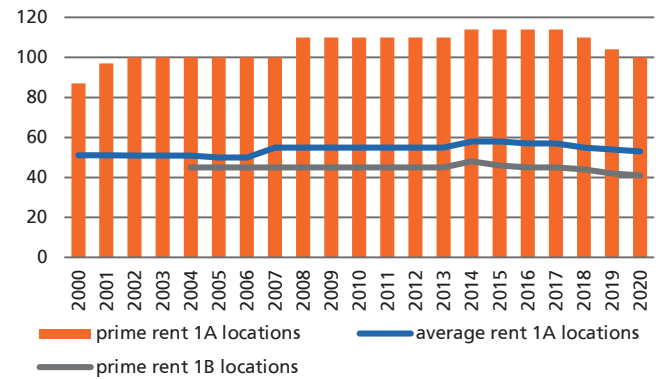
Retail space in Mainz

PRIME RETAIL RENTS IN EUR PER SQM



Source: bulwiengesa, DZ BANK forecast

RETAIL RENTS PRIME/SECONDARY LOCATIONS IN EUR PER SQM

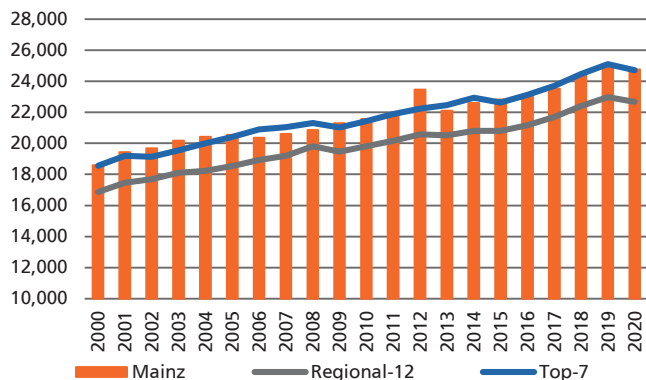


Source: bulwiengesa

As a shopping location, Mainz benefits from a catchment area of 1 million people which mainly extends south-west of the city. North and eastwards, the catchment area is curtailed by the Rhine and shopping locations in the Rhine-Main area. There is strong competition from Wiesbaden across the Rhine and from the top shopping destination Frankfurt which is only 40 kilometres away. Prior to the outbreak of the pandemic, tourism was a major earner for the city with almost 1 million overnight stays in 2019. One downside for Mainz is the absence of any inner-city shopping centre to attract shoppers apart from the fairly small Römerpassage. On the other hand, Mainz's city centre offers a good range of shops in its three main shopping streets, Am Brand, Schuster- und Stadthausstraße. Mainz's retail sector stands on a solid footing, according to a recent analysis carried out by the Gesellschaft für Markt- und Absatzforschung, although as regards product range, the study highlights a poor choice of sports goods. The city could become even more attractive in the next few years. The long planned redevelopment of the Ludwigstraße ("Lu") can now begin after the closure of Karstadt in October 2020 – there is still one department store left with Kaufhof. The concept sounds contemporary; instead of a pure retail space, it will offer a mixture of shops, food and drink outlets/hotel and culture. Contrary to the trend elsewhere, there was only a small increase in the prime rent in Mainz up until 2017, but it did keep pace with the uptrend which followed. The retail sector was already hit prior to the coronavirus outbreak, as illustrated by empty stores. Most recently, the prime rent stood at EUR 100 per m². We expect it to fall further this year.

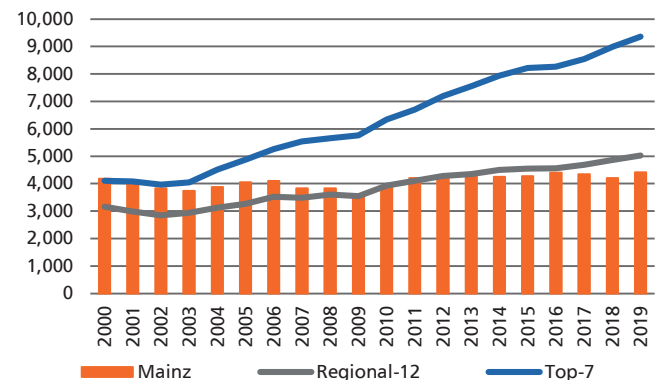
Forthcoming revamp of Ludwigstraße should make city more attractive

PER CAPITA PURCHASING POWER IN EUR



Source: bulwiengesa

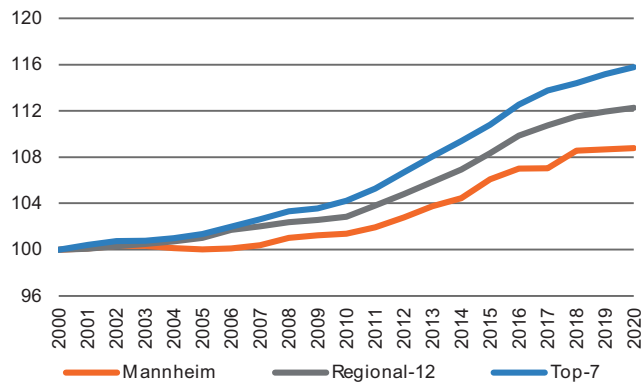
NUMBER OF OVERNIGHT STAYS PER 1,000 INHABITANTS



Source: bulwiengesa

MANNHEIM

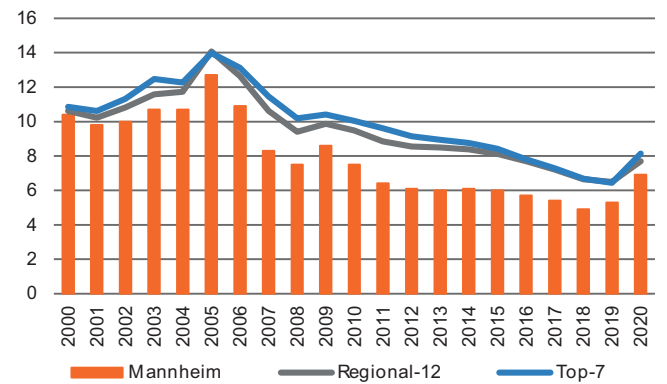
POPULATION GROWTH



Source: Scope

Index 2000 = 100

UNEMPLOYMENT RATE (%)

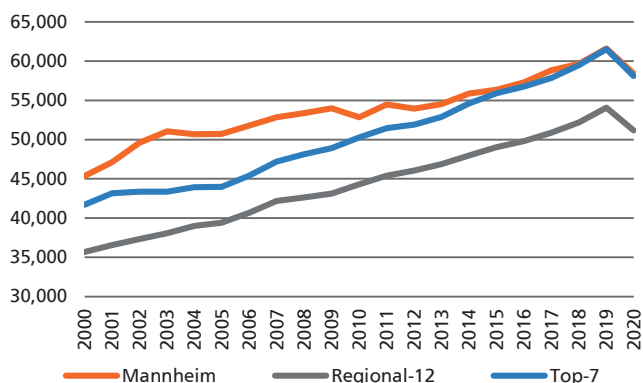


Source: bulwiengesa, BA, DZ BANK forecast

Mannheim is the third largest city in Baden-Württemberg with 310,000 inhabitants. In spite of strong population growth in the last few years, overall, the growth rate was weaker than the average for the regional centres under consideration. The number of inhabitants has recently stagnated. For a long time prior to 2010, there was no sign of any increase in numbers. The industrial city struggled with high unemployment and image problems. However, the economic situation has improved significantly. From a two-digit figure up to 2006, unemployment fell to around 5 per cent, before picking up again as a result of the covid crisis. Mannheim is the economic centre of the Rhine-Neckar region and a renowned city for science and research with a large university and several institutions for applied sciences with a total of 28,000 students. It benefits from its location on the Rhine and Neckar and from good transport links via the A5 and A6 motorways and the high-speed ICE train. Mannheim also has a major river port. Its core sectors are the electrical/electronics industry, chemicals and pharmaceuticals along with the machinery and automotive industries. The insurance and financial sectors as well as logistics have also done well. Mannheim moreover has a lively start-up scene in many start-up hubs. Big names based in Mannheim include Daimler, Bilfinger, MVV Energie, Phoenix Pharmahandel, Südzucker and Fuchs Petrolub. The city is benefiting from large disused military, railway and industrial sites for its expansion. The Glücksteinquartier, for example, has been developed on one such site and the 2023 Federal Garden Show is also due to take place on regeneration land in 2023. Housing for around 4,500 people is also being developed on the former Spinelli Barracks – the fourth conversion of a US base of this kind.

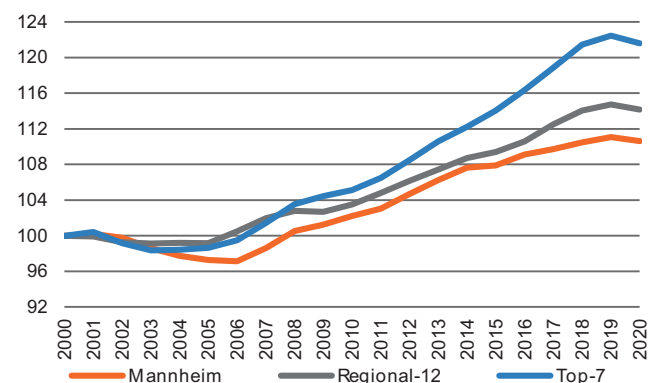
Industrial city of Mannheim generating large stock of attractive housing and commercial space through brownfield regeneration

PER CAPITA GDP IN EUR



Source: Scope

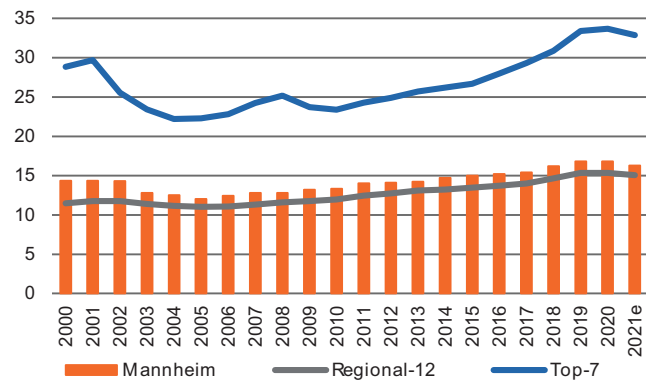
WORKING POPULATION (YEAR 2000 = 100)



Source: Scope

Office space in Mannheim

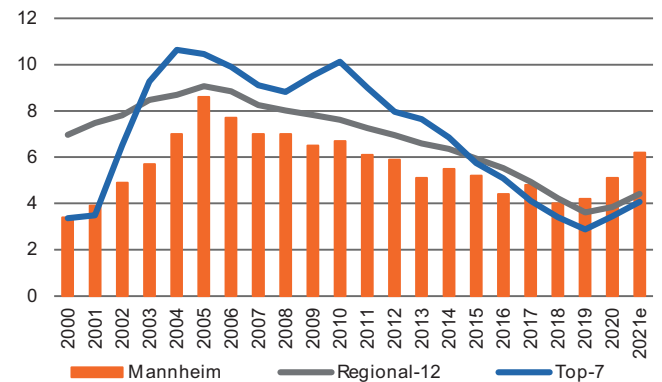
PRIME OFFICE RENTS IN EUR PER SQM



Source: bulwiengesa, DZ BANK forecast

Figures for city locations

VACANCY RATE (%)

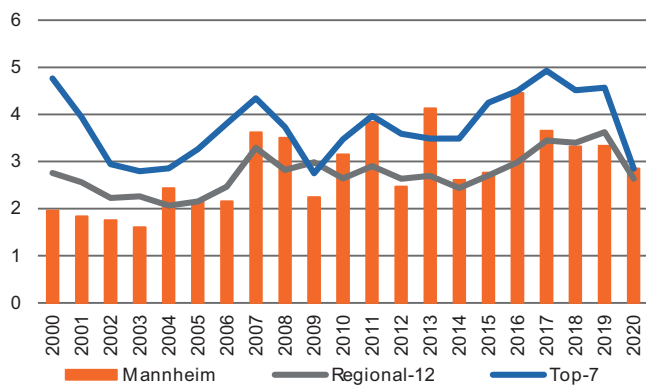


Source: bulwiengesa, DZ BANK forecast

Mannheim is a major office location in the economically strong Rhine-Neckar region with an office stock of almost 2.2 million m². In the last few years, the stock has grown by 12 per cent which is more than twice the average pace for the regional centres under consideration. One driver is likely to have been rising demand for office space through the city's transformation from an industrial base to a service centre. The market has avoided excess supply in view of a gradual reduction in the vacancy rate to 4 per cent. In 2020, the proportion of vacant office space rose to 5 per cent through covid and a substantial amount of new space becoming available. There are signs of another substantial, and for Mannheim, above-average completion volume of 60,000 m² in 2021. A further increase in the vacancy rate is therefore likely. Market performance from 2017 to 2019 was largely in line with the usual take-up of around 70000 m² per annum. In spite of the pandemic, take-up in 2020 only dipped slightly to 62,000 m², buoyed by a few larger transactions. Practically all the larger deals involved projects under development, preferably in the new Glückstein-quartier office district. Higher rents for the new office space led to an increase in prime rent to EUR 16.80 per m² in 2019; in 2020, it then stagnated at the same level. The Mannheim office market therefore ranks fairly high in the group of cities outside the top locations. This year, there could be a fall in prime rent in view of a rise in supply and some restraint on the part of tenants because of working from home.

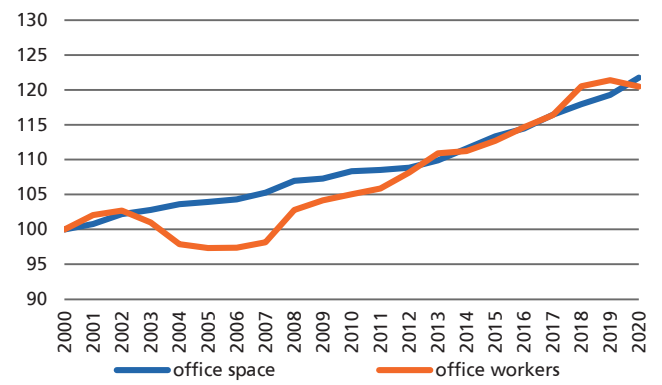
Mannheim one of the most expensive office markets in the whole of Germany outside the top 7

TAKE-UP AS PERCENTAGE OF OFFICE SPACE



Source: bulwiengesa

TREND IN OFFICE SPACE AND EMPLOYMENT

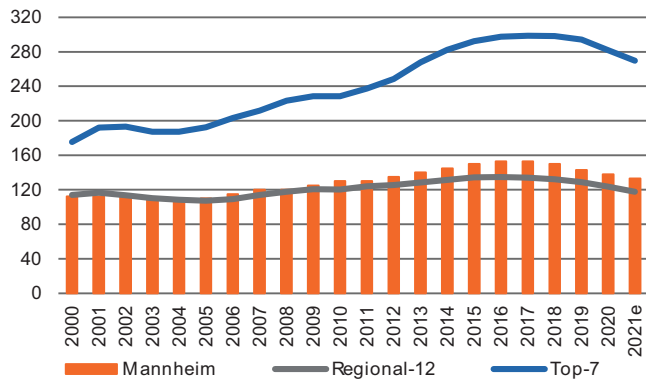


Source: Scope, bulwiengesa

Index 2000 = 100

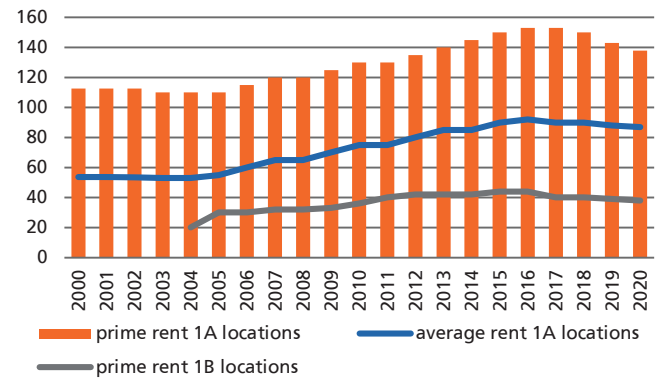
Retail space in Mannheim

PRIME RETAIL RENTS IN EUR PER SQM



Source: bulwiengesa, DZ BANK forecast

RETAIL RENTS PRIME/SECONDARY LOCATIONS IN EUR PER SQM

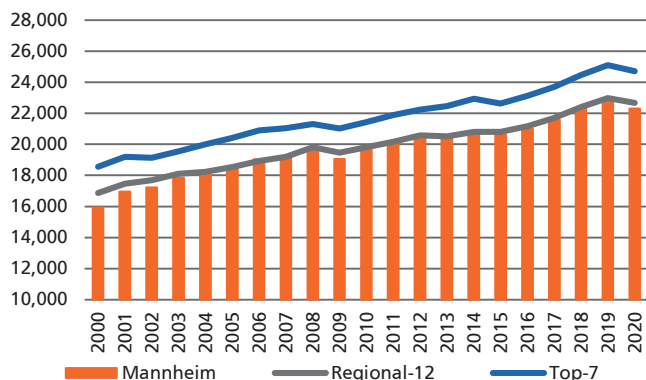


Source: bulwiengesa

Mannheim is the outstanding shopping destination in the Rhine-Neckar region. Its huge attraction translates into a very high centrality score of almost 150 points. The influx of affluent shoppers from the surrounding area makes up for the city's slightly below-average purchasing power of 97 points. Mannheim's attraction as a shopping destination had led to an increase in prime rent to EUR 153 per m² by 2016. Even competition from the Rhein-Galerie which opened on the opposite side of the Rhine in 2010 has not had any negative impact. Nonetheless, since 2018, there has been a fall in prime rent to EUR 138 per m² most recently. An increase in sales space through the Q6Q7 shopping centre which opened in 2016 has proved to be another dampening factor on top of the structural change in retail and the impact of the pandemic. Even so, this addition means that the city centre now has an attractive range of retail outlets in the recently completed and reorganised prime location which is the Planken. The former Mömax building – and Karstadt before that – reopened in September 2019 after a comprehensive refurbishment as Lifestyle Center K1 Karree, offering a mix of shops, food and drink outlets, fitness facilities and offices. Mannheim cannot escape the fall in demand for city-centre retail space. However, prospects for a "new beginning" in high-street retail once the pandemic is over should be pretty good for the renovated city centre which will also be free of building sites. Nevertheless, a further fall in prime rent is likely in 2021. The Kaufhof store in Mannheim N7 closed down in October and the building has been sold off. Its future use is as yet uncertain. However, there is still a Kaufhof store in Mannheim P1.

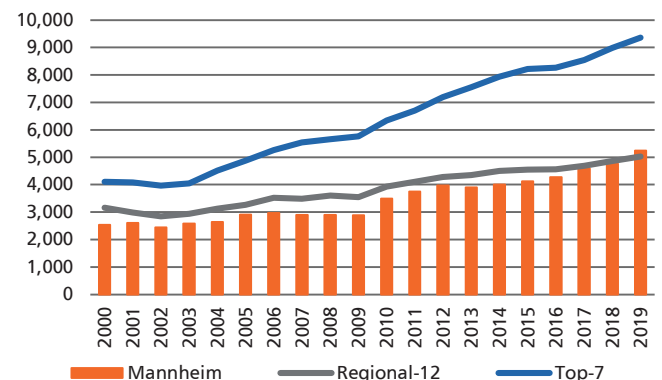
Mannheim looking ahead to new beginning after covid with freshly renovated city centre

PER CAPITA PURCHASING POWER IN EUR



Source: bulwiengesa

NUMBER OF OVERNIGHT STAYS PER 1,000 INHABITANTS

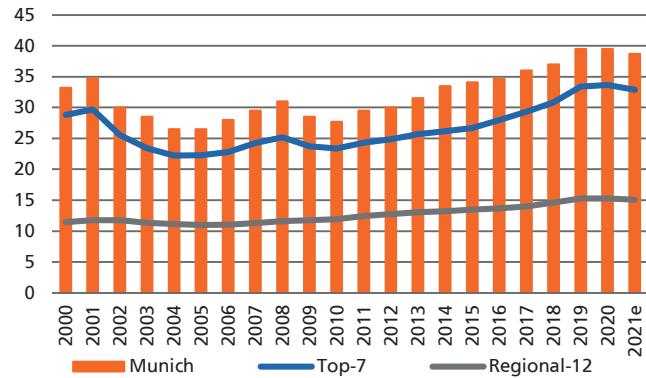


Source: bulwiengesa

MUNICH

Office space in Munich

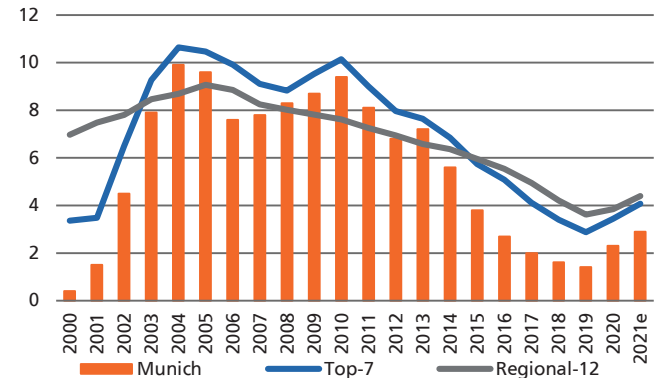
PRIME OFFICE RENTS IN EUR PER SQM



Source: bulwiengesa, DZ BANK forecast

Figures for city locations

VACANCY RATE (%)

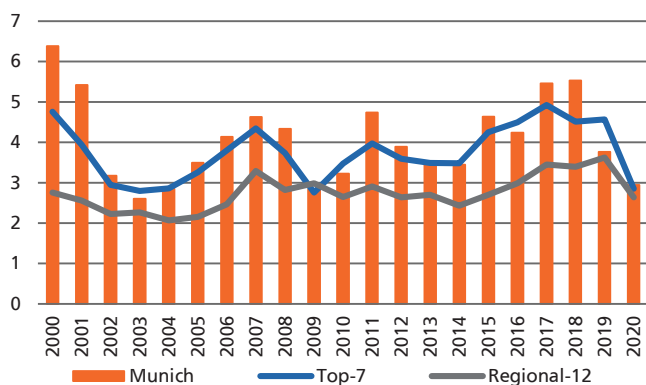


Source: bulwiengesa, DZ BANK forecast

The Munich conurbation is among the strongest regions in Germany in terms of economy and growth. The office market is just as tight as the housing market in view of buoyant demand for space. The vacancy rate fell to 1.4% in 2019, while the prime rent moved close to the EUR 40 per m² mark. Given the almost total absence of available space, the huge take-up is astonishing. In 2017 and 2018, it reached 750,000 m². However, it then fell back sharply to 530,000 m² in 2019 because of the lack of available space. In 2020, the coronavirus-led fall in market activity was less noticeable in light of a weaker previous year; take-up in 2020 was only down by 20 per cent against 2019. Major transactions often involved space which is still under construction. The biggest deal last year was signed by Amazon – the year before that, it was Apple – and Google also has big plans in Munich in the former Arnulfstraße parcel depot. Along with Microsoft's head office in Germany which opened in Schwabing in 2016, this means that all four US IT giants now have a presence in Munich, thus underlining the location's potential as a technology hub. Transactions in second and third place involved KPMG and Noventi. The vacancy rate rose to 2.3 per cent in 2020 through a combination of the covid crisis and a slightly sharper rise in new space. This is likely to remain unchanged in 2021. The vacancy rate could edge up towards 3 per cent, while the prime rent should ease up slightly.

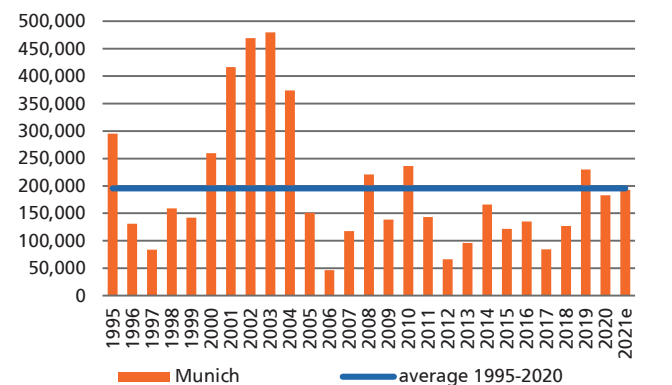
Amazon, Apple, Google, Microsoft: US IT giants concentrating their head offices in Munich

TAKE-UP AS PERCENTAGE OF OFFICE SPACE



Source: bulwiengesa, DZ BANK forecast

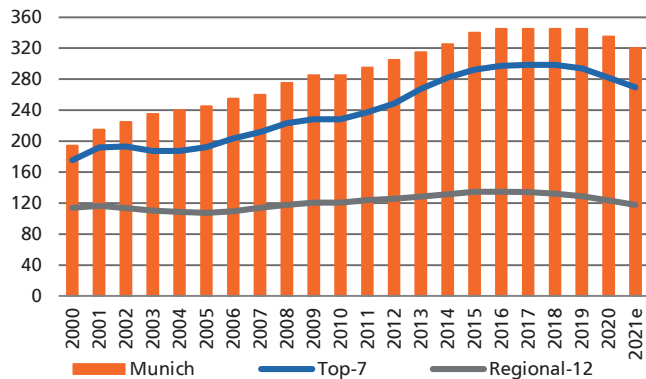
NEW OFFICE SPACE IN SQM



Source: bulwiengesa

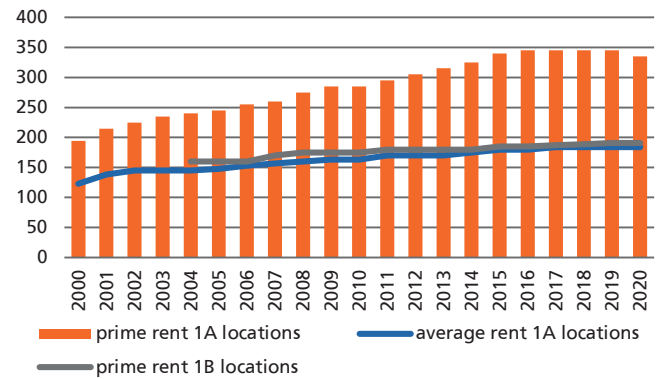
Retail space in Munich

PRIME RETAIL RENTS IN EUR PER SQM



Source: bulwiengesa, Scope, DZ BANK forecast

RETAIL RENTS PRIME/SECONDARY LOCATIONS IN EUR PER SQM

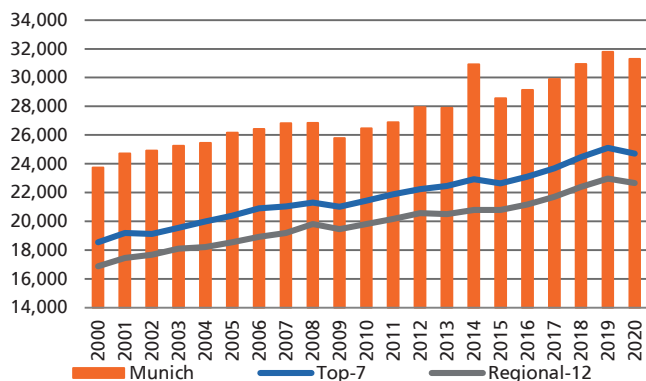


Source: bulwiengesa

Munich is the number one location in the German retail sector based on prime rent, retail-space productivity and purchasing power. This reflects outstanding conditions backed by a strong economy and at the same time a fast-growing catchment area of around 3.2 million people. Another plus point is a great visitor experience in the city centre with its Bavarian atmosphere and good quality food and drink outlets. The city's success also reflects its shopping offer which ranges from mass-market retail concepts, old family-run specialist stores to luxury goods shops. Munich has around half a million m² of retail space, beaten only by Berlin. In the past, there was not enough space to meet demand. In the last few years, attractive new retail space has been added with city-centre developments such as the Palais an der Oper or the Hofstatt, and, outside the city, the FORUM Schwanthalerhöhe in the former XXXLutz. Another project involves the Alte Akademie; completion is scheduled for 2023. The planned closure of the Kaufhof am Stachus has been postponed until 2022. Another major project in the pipeline involves Karstadt between the main railway station and Stachus. Plans for the new complex which will be made up of existing and new buildings envisage an underground shopping arcade over several hundred metres. In view of Munich's strength as a shopping destination, prime rent in the city should remain well above the EUR 300 per m² mark. In 2020, it only dipped moderately to EUR 335 per m².

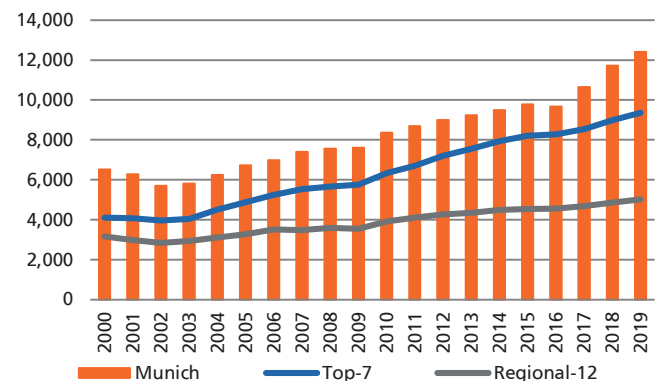
Retail in Munich benefits from large, affluent catchment area

PER CAPITA PURCHASING POWER IN EUR



Source: bulwiengesa

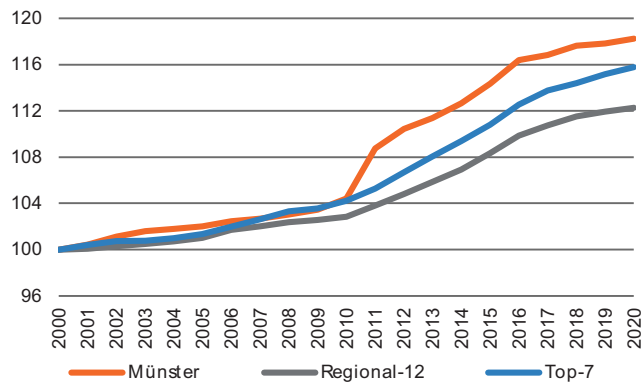
NUMBER OF OVERNIGHT STAYS PER 1,000 INHABITANTS



Source: bulwiengesa, Scope

MÜNSTER

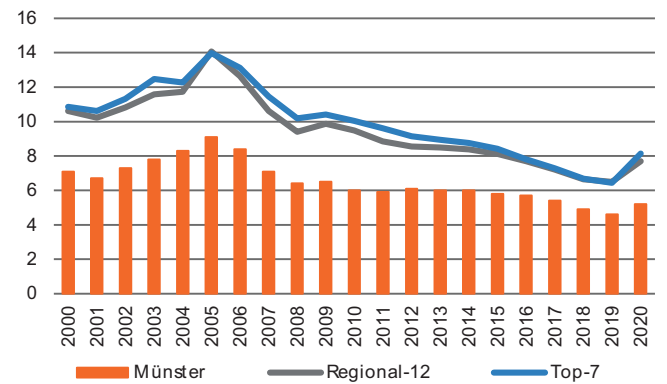
POPULATION GROWTH



Source: Scope

Index 2000 = 100

UNEMPLOYMENT RATE (%)

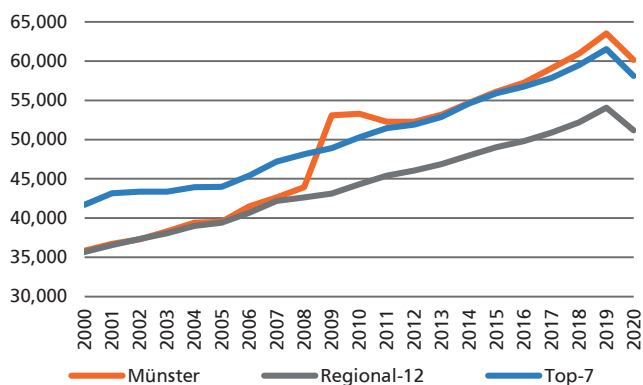


Source: bulwiengesa, BA, DZ BANK forecast

Unlike many towns in North Rhine-Westphalia, Westphalian Münster has neither a dwindling population nor high unemployment. Unemployment has fallen in spite of strong population growth. Even after the beginning of the covid crisis, it only rose to just above 5 per cent in 2020. The number of inhabitants has increased by 50,000 in the space of 25 years. It surged after 2010, jumping from around 280,000 to 315,000 most recently. However, the growth rate has now slowed down in Münster as well. Although quality of life remains high, a growing shortage of housing could have a detrimental impact. Münster has a long tradition as a university town with many research and higher education institutions. Three quarters of a total of over 60,000 of those studying in the city are enrolled at the Westfälische Wilhelms University. In contrast, industry and big companies hardly play a part in the city's economy. The local economy is mainly driven by SMEs. Among the biggest employers are the University Hospital, the university itself and the city administration. Prominent companies are the paint manufacturer Brillux, the insurer LVM and filter manufacturer Hengst. Tourism is an important contributor to the local economy. The city has always attracted many visitors to its charming old town and famous Prinzipalmarkt and should continue to do so once the pandemic is over. Münster is also the administrative centre for the region of Westphalia which is home to around 8 million inhabitants.

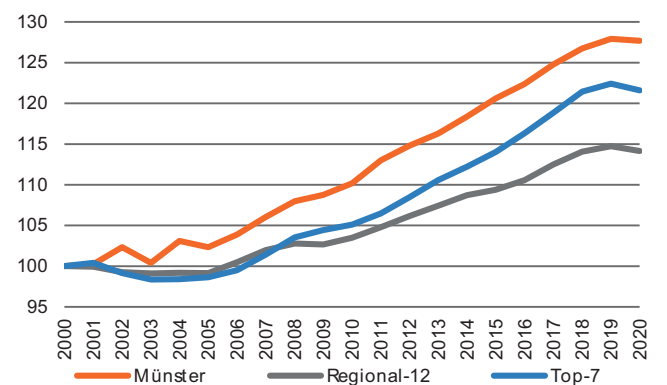
Major centre for science and technology with a flourishing SME biased economy

PER CAPITA GDP IN EUR



Source: Scope

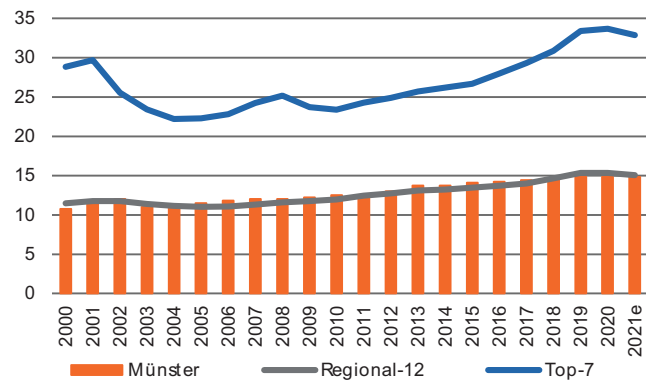
WORKING POPULATION (YEAR 2000 = 100)



Source: Scope

Office space in Münster

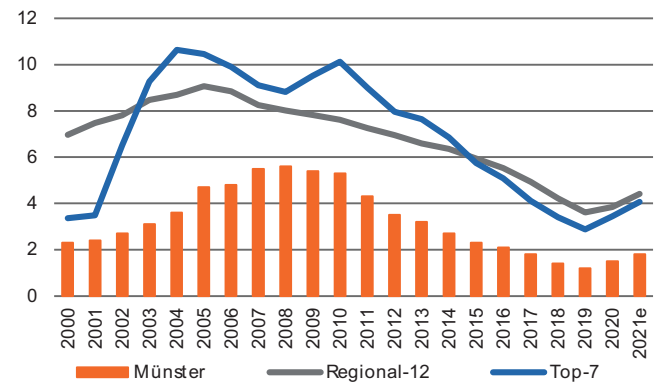
PRIME OFFICE RENTS IN EUR PER SQM



Source: bulwiengesa, DZ BANK forecast

Figures for city locations

VACANCY RATE (%)

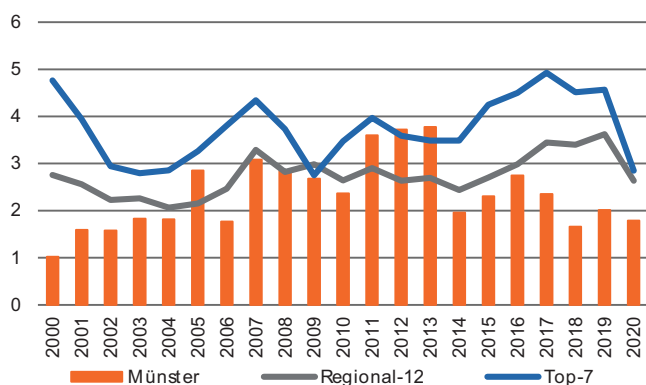


Source: bulwiengesa, DZ BANK forecast

The office market in Münster benefits from high demand for space from the many education institutions and administration bodies in the city. The number of office workers has increased by around 20 per cent since 2010. By comparison, the amount of available office space has only increased at a muted pace of 8 per cent, not least because office projects in Münster are rarely speculative. Completions in 2019 and 2020 fell to an historical low. This has meant that office supply remains tight and this has led to a fall in the vacancy rate to just over 1 per cent by 2019. The figure has increased marginally during the covid crisis, but even with the latest vacancy rate of 1.5 per cent, it is proving difficult to lease larger spaces from the available office stock. Consequently, most larger transactions in 2019 and 2020 involved new office projects – in the technology park, for example. The highest rent level being achieved in pure office locations is currently EUR 15.30 per m², while the prime rent for city locations is slightly lower at EUR 14.80 per m². Since 2018, take-up has been below the typical annual figure for the office market of 50,000 to 60,000 m² per annum – after all, there is hardly any space left to rent. There is no sign of any additional, covid-led decline in take-up in 2020 with a figure of 40,000m². From this year onwards, we can expect a slightly higher completion volume, e.g. through office projects in the port area. However, this should not be interpreted as a fundamental sign of improvement in the tight supply. Rents are likely to stagnate in 2021.

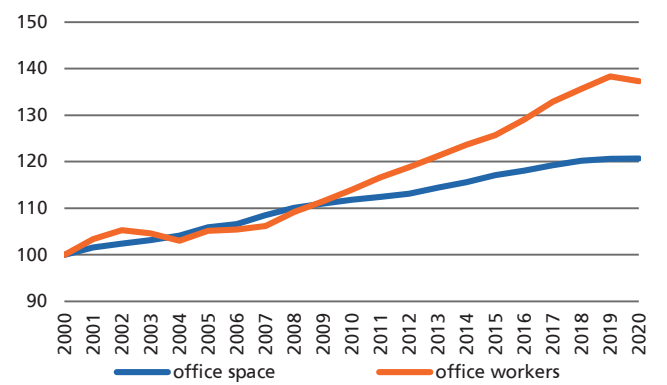
Supply in the office market still tight

TAKE-UP AS PERCENTAGE OF OFFICE SPACE



Source: bulwiengesa

TREND IN OFFICE SPACE AND EMPLOYMENT

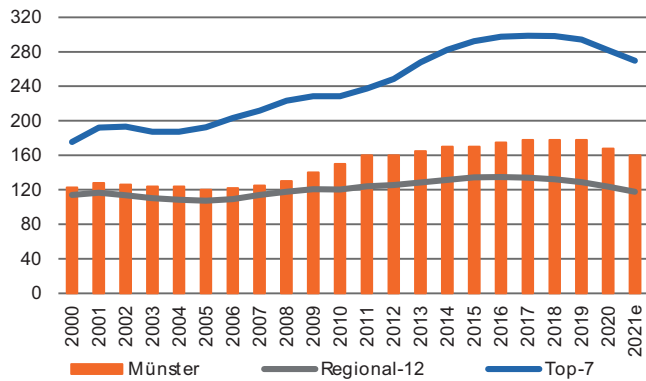


Source: Scope, bulwiengesa

Index 2000 = 100

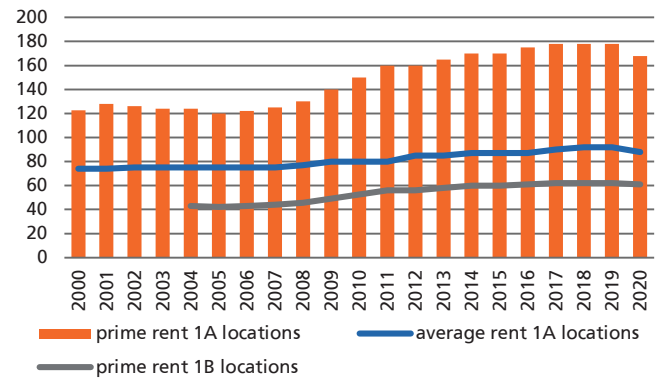
Retail space in Münster

PRIME RETAIL RENTS IN EUR PER SQM



Source: bulwiengesa, DZ BANK forecast

RETAIL RENTS PRIME/SECONDARY LOCATIONS IN EUR PER SQM

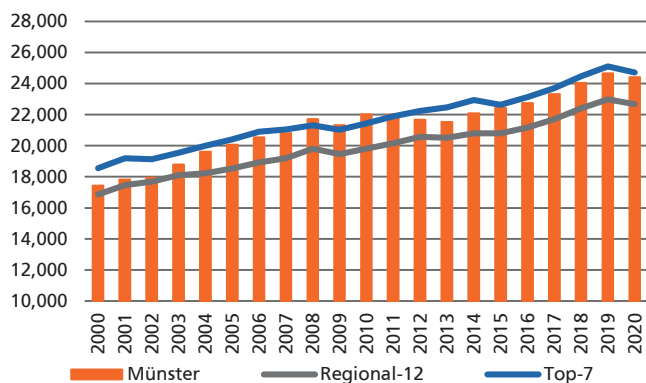


Source: bulwiengesa

The consequences of the pandemic for the retail sector in Münster are just as serious as they are in other city centres, and here also, weaker demand for sales space as a result of the growth in e-commerce is having an impact. However, compared with other shopping destinations, Münster's retail sector benefits from very solid foundations. One plus point is a catchment area of almost 900,000 people. The city also scores well for centrality with a figure of 125 points, reflecting an attractive city centre. Another aspect is population growth, which though it has slowed down has nevertheless led to a growing pool of potential shoppers. In addition, purchasing power is a relatively high 107 points in spite of a large proportion of students. Although the large number of visitors has been hit by the covid pandemic, it should recover afterwards. Probably the biggest advantage for the retail sector is the city centre itself with its attractive Prinzpalmarkt and the fact that it offers a high-quality visitor experience. Shoppers have a broad range of shops on offer, ranging from mass-market prime locations with the usual chain stores such as the Ludgerstraße, enhanced by family-run and more exclusive stores on the Prinzpalmarkt. The city also has a modern, city-centre shopping mall with the Münster Arkaden which opened in 2006. The offer is rounded off with smaller developments such as the Areal Stubengasse/Hanse-Carré. A high prime rent of EUR 168 per m² most recently is testament to the city's attraction as a shopping destination. In spite of being above-average, it has only dipped relatively moderately. However, the prime rent is likely to decline further in 2021.

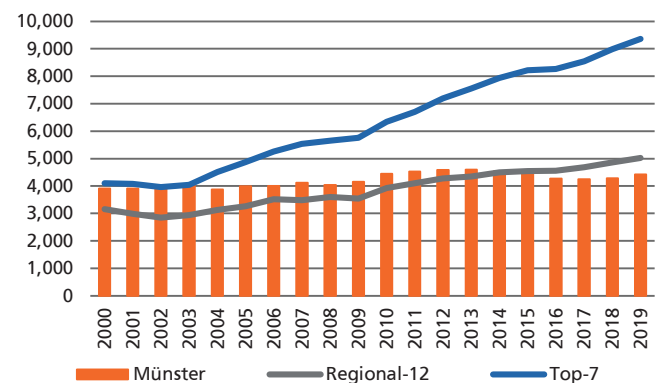
Strong shopping destination in Westphalia with high rents

PER CAPITA PURCHASING POWER IN EUR



Source: bulwiengesa

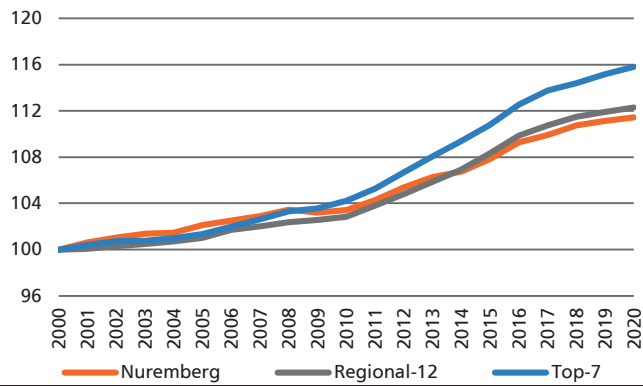
NUMBER OF OVERNIGHT STAYS PER 1,000 INHABITANTS



Source: bulwiengesa

NUREMBERG

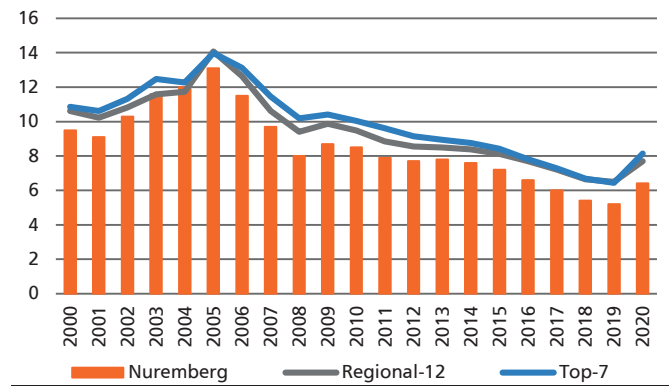
POPULATION GROWTH



Source: Scope

Index 2000 = 100

UNEMPLOYMENT RATE (%)

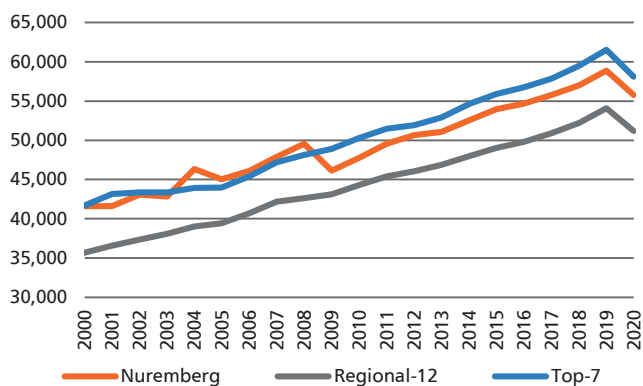


Source: bulwiengesa, BA, DZ BANK forecast

Nuremberg is the second largest city in Bavaria with 520,000 inhabitants and the economic and cultural centre of Franconia, forming an important economic region together with the neighbouring towns of Fürth and Erlangen. Nuremberg is known the world over for its old imperial palace, Christmas market and toy fair. The city's economic reversals over the years have reflected the industrial structural change from the 1970s onwards as well as company insolvencies and plant closures. However, the city has successfully overcome these challenges, leading to a positive trend for the economy, the labour market and population which has grown by over 8 per cent in the last ten years. Unemployment fell sharply up to 2019, only rising again in 2020 as a result of the covid crisis. Nonetheless, it remains moderate at just over 6 per cent. The city's successful transformation has been helped by the fact that the Friedrich-Alexander University Erlangen-Nuremberg has also been based in Nuremberg since 1961. Around 26,000 students are now enrolled at over a dozen higher education institutions based in the city. Bavaria aims to increase the importance of Nuremberg as a university town with the newly founded Technical University Nuremberg in the south of the city which is scheduled to open in 2025. In spite of the structural transformation, the industrial sector is still of fairly major importance. Key sectors are IT, logistics, high-tech along with energy and medical technology. Until the outbreak of the pandemic, trade fairs and conferences along with tourism were a major earner for the economy with 3.6 million overnight stays per annum. The city has outstanding transport links with the A3, A6 and A9 motorways, the ICE hub as well as an airport and river port on the Main-Danube Canal.

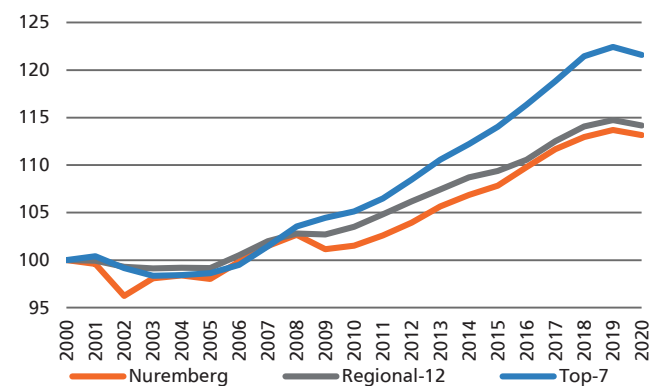
Bavaria's second largest city increasingly changing from industrial city to centre for science and technology

PER CAPITA GDP IN EUR



Source: Scope

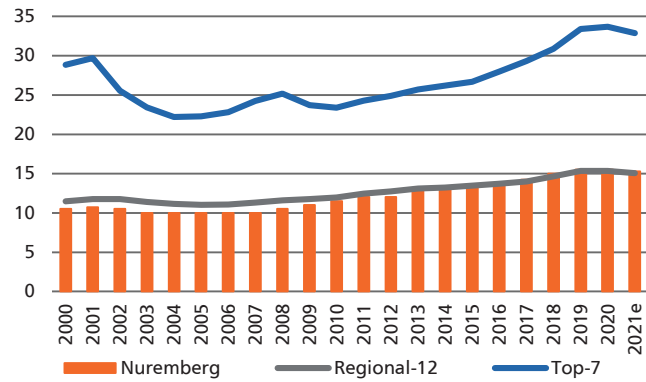
WORKING POPULATION (YEAR 2000 = 100)



Source: Scope

Office space in Nuremberg

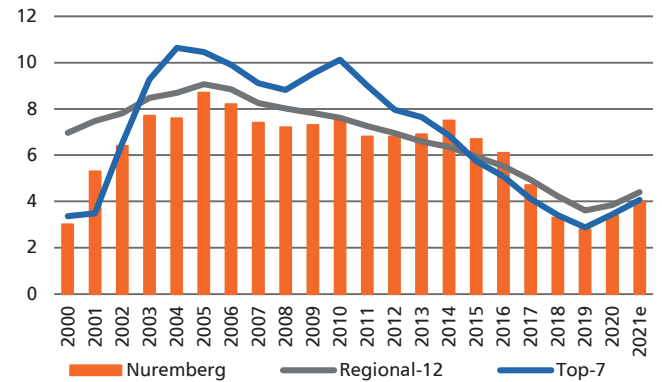
PRIME OFFICE RENTS IN EUR PER SQM



Source: bulwiengesa, DZ BANK forecast

Figures for city locations

VACANCY RATE (%)

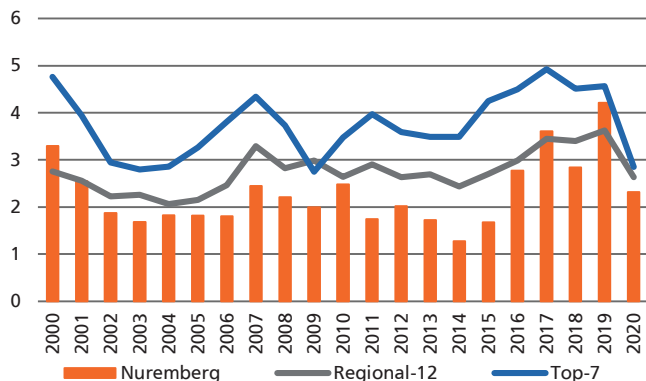


Source: bulwiengesa, DZ BANK forecast

Nuremberg's office market ranks number nine in Germany with almost 3.7 million m² of space. Apart from the top seven locations, only Hannover has a bigger market. However, the office market in Franconia's unofficial capital is by no means oversized. Office space has increased by 7 per cent since 2010, roughly in line with the average for the regional centres under consideration, but as such, it has failed to keep pace with the number of office workers which has grown at more than twice that rate. This has led to a continuous decline in the amount of vacant office space and to a vacancy rate of 2.8 per cent in 2019. During the covid crisis, the figure rose slightly to 3.4 per cent. Lively demand for space in the Nuremberg office market has led to a much higher take-up which was consistently in six figures between 2016 and 2019. The highest take-up so far was in 2019 at 155,000 m², of which a deal involving the City of Nuremberg alone accounted for 42,000 m². There were no transactions of the same magnitude in 2020. The biggest deal amounting to 12,000 m² involved Datev. On top of that, there was the impact of the pandemic. Although it led to a decline in take-up to 85,000 m², that figure is still more or less precisely in line with the ten-year average. The prime rent had climbed to EUR 15.50 per m² by 2019, but remained stable in 2020. This year, the amount of new office space coming onto the market is likely to be below average for Nuremberg at only slightly above 40,000 m². The completion volume in 2022 is expected to dwindle to a quarter of that amount, therefore there should not be any marked increase in the vacancy rate. The prime rent could dip slightly, or at best remain stable.

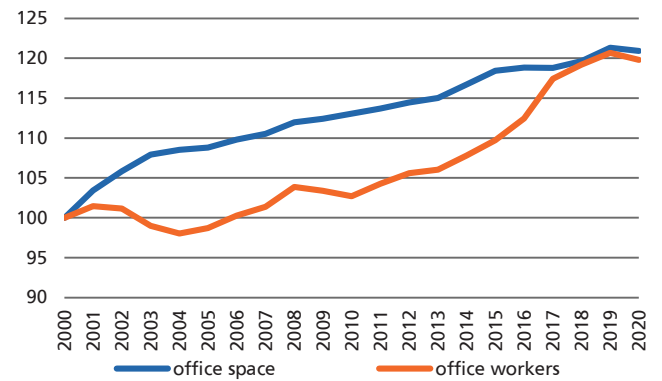
Hardly any vacant space in Nuremberg's large office market

TAKE-UP AS PERCENTAGE OF OFFICE SPACE



Source: bulwiengesa

TREND IN OFFICE SPACE AND EMPLOYMENT

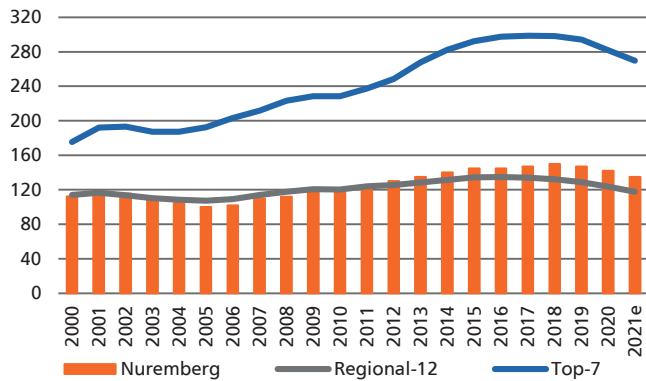


Source: Scope, bulwiengesa

Index 2000 = 100

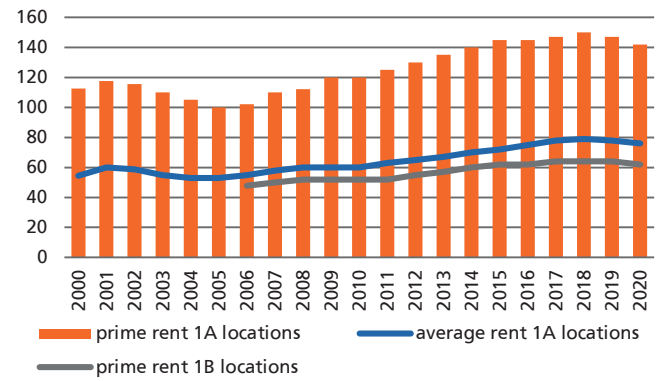
Retail space in Nuremberg

PRIME RETAIL RENTS IN EUR PER SQM



Source: bulwiengesa, DZ BANK forecast

RETAIL RENTS PRIME/SECONDARY LOCATIONS IN EUR PER SQM

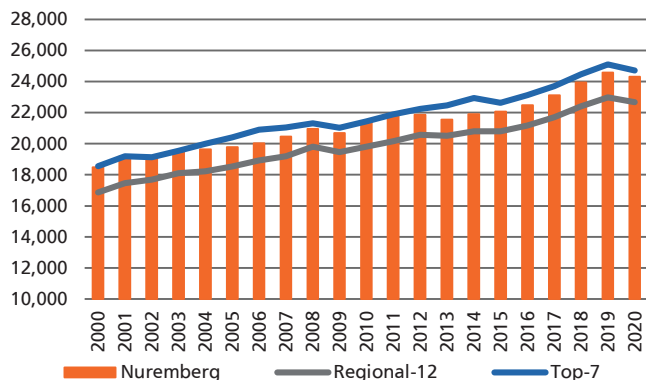


Source: bulwiengesa

Nuremberg is the leading shopping destination in northern Bavaria with a catchment area of around 1.5 million inhabitants. Competition from the surrounding towns is limited, leading to a high centrality figure of almost 130 points. At 105, the purchasing power score is also above the German average. Up until the outbreak of the pandemic, consumption was buoyed by a large number of visitors to the attractive city. The old town offers a high-quality visitor experience and circuit of the prime shopping locations. The Karolinenstraße has the highest footfall, highest degree of high street "cloning" and highest prime rents. One positive factor in Nuremberg is its wide range of shops, including the more hip Gostenhof district. The shopping experience in the inner city will be boosted further by the Altstadt Karree which is due to rise up on the site of the 1950s City-Point shopping centre. Completion of the EUR 200m project is scheduled for 2023. The biggest tenant so far is Zalando with a fashion store. The whole will be enhanced by a hotel and food and drink outlets in the Hallplatz. The city does not have any other shopping mall. Outside the centre, Nuremberg also has the older Franken Center and the revamped Mercado. It seems that the planned closure of the Karstadt branch near the Lorenzkirche has been averted. Nuremberg's prime rent has been declining steadily for a long time after peaking at EUR 150 per m² in 2018. Since then, it has fallen moderately to EUR 142 per m², depressed by e-commerce and the covid crisis, and is likely to dwindle further this year.

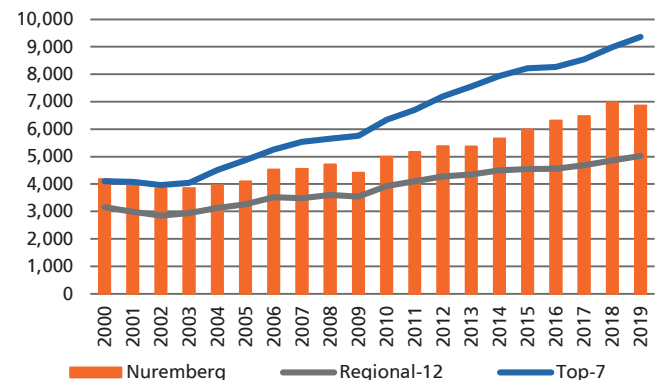
Nuremberg city centre getting a modern shopping mall with the Altstadt Karree

PER CAPITA PURCHASING POWER IN EUR



Source: bulwiengesa

NUMBER OF OVERNIGHT STAYS PER 1,000 INHABITANTS

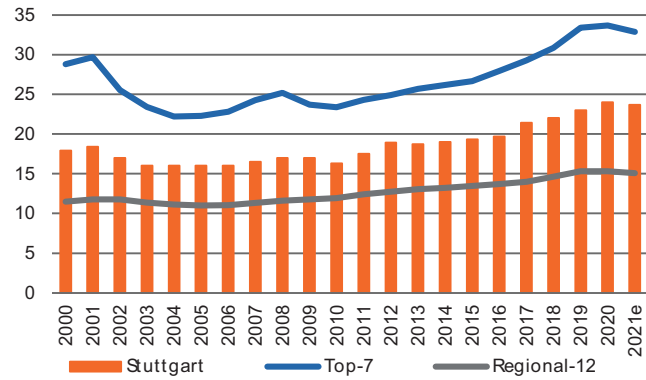


Source: bulwiengesa

STUTTGART

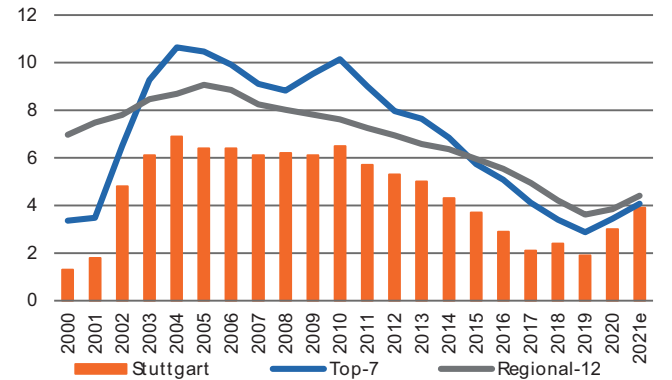
Office space in Stuttgart

PRIME OFFICE RENTS IN EUR PER SQM



Source: bulwiengesa, DZ BANK forecast Figures for city locations

VACANCY RATE (%)

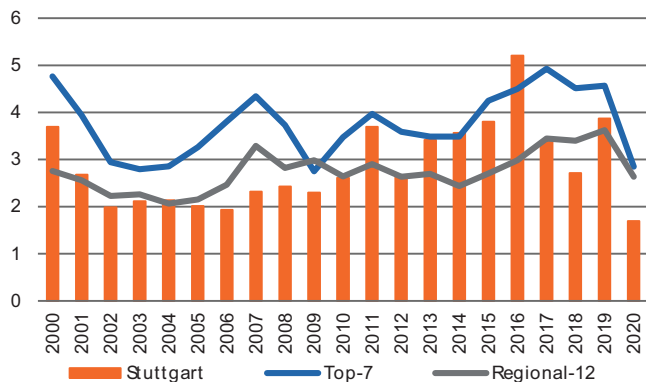


Source: bulwiengesa, DZ BANK forecast

Stuttgart's economy differs from that of the other more service-oriented top locations through a relatively heavy bias towards industry – a fact which is likely to explain its quieter office market. Up until 2010, annual take-up was often below 200,000 m². Since then, however, activity in the market has picked up. Annual take-up is now around 100,000 m² higher. Strong demand for office space in the economically strong conurbation has led to a further reduction in an already low volume of vacant space. In 2019, the vacancy rate fell below 2 per cent. Tight supply has led to a gradual rise in prime rent. Whereas it rose further still in 2020, market activity was much weaker. As a result of the covid crisis, of the scarcity of available space and a high take-up in 2019, take-up fell by over half in 2020. At only 135,000 m², the figure was only marginally above take-up in the regional centres Hannover and Leipzig which have significantly smaller office markets. Market performance was mainly dampened by an absence of major transactions since there was only one five-figure deal. The ten biggest lettings were mostly in the lower four-figure bracket. There was a slightly sharper increase in the vacancy rate to 3 per cent in 2020 and this is likely to be compounded in 2021 by a large amount of new space becoming available. A further increase in prime rent is therefore unlikely; a more probable scenario would be a slight decline. The shake-up in the key automotive industry could prove to be a further burden.

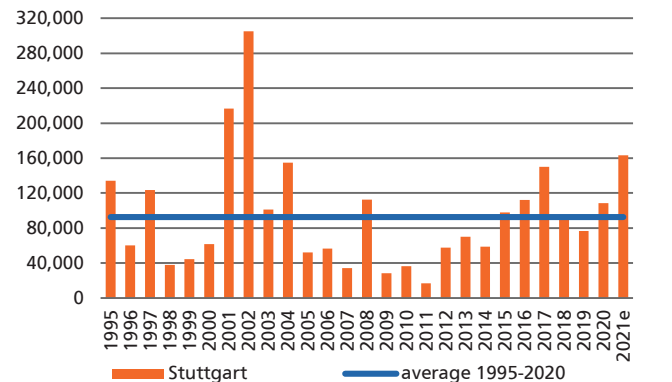
Shake-up in the car industry could dampen Stuttgart as a business location and slow down office market

TAKE-UP AS PERCENTAGE OF OFFICE SPACE



Source: bulwiengesa, DZ BANK forecast

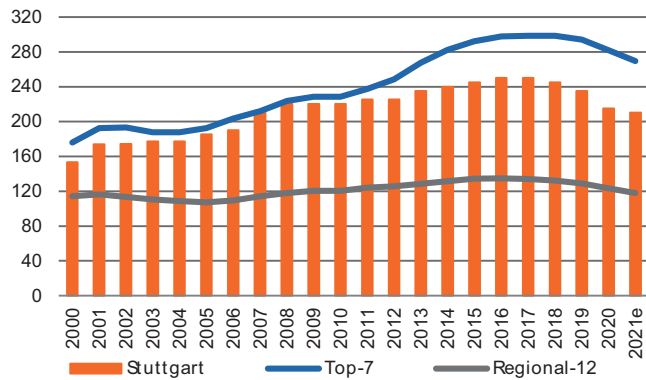
NEW OFFICE SPACE IN SQM



Source: bulwiengesa

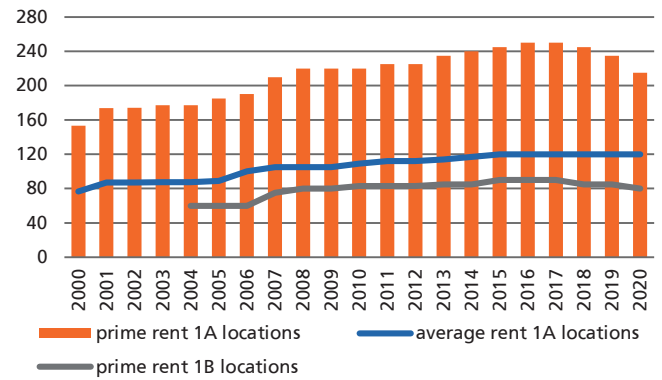
Retail space in Stuttgart

PRIME RETAIL RENTS IN EUR PER SQM



Source: bulwiengesa, Scope, DZ BANK forecast

RETAIL RENTS PRIME/SECONDARY LOCATIONS IN EUR PER SQM

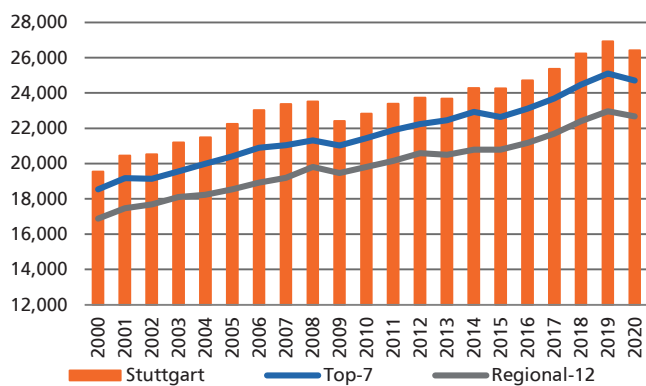


Source: bulwiengesa

The retail sector in the city centre of the more industrial conurbation of Stuttgart has access to a 2.6 million-strong catchment area with high purchasing power. In contrast, tourism is of lesser importance in Stuttgart than in other top locations. This means that the slump in visitor numbers in 2020 has not had such an impact. Even so, prime rents in Stuttgart have fallen relatively sharply. In addition, the decline in rents had already begun back in 2018. This can be attributed to a number of factors. One of these has been major civil engineering works such as the once-in-a-century Stuttgart 21 project or construction works on the Marktplatz. The increase in retail space on offer is having a greater impact. A high footfall and shortage of space in the prime Königstraße location prompted the development of major city-centre retail projects which increased retail space in the centre by a good 20 per cent at a stroke. The two inner-city shopping centres, MILANEO and GERBER, which have combined retail space of around 60,000 m² opened almost simultaneously at opposite ends of the inner city in 2014. It seems that this was too much of a good thing: while the MILANEO has been able to establish a solid footing, the Gerber has been beset with problems, mainly involving its top floor – hence the decision taken in 2019 to remodel the centre. The plan is to convert the top floor for office and hotel use. In view of the covid crisis, the fall in rents already mentioned continued in 2020. Prime rent fell to EUR 215 per Euro per m² – the level of 2007/2008. After this already sharp fall in rents, there could be signs of stabilisation this year. We expect a moderate fall/stable prime rent.

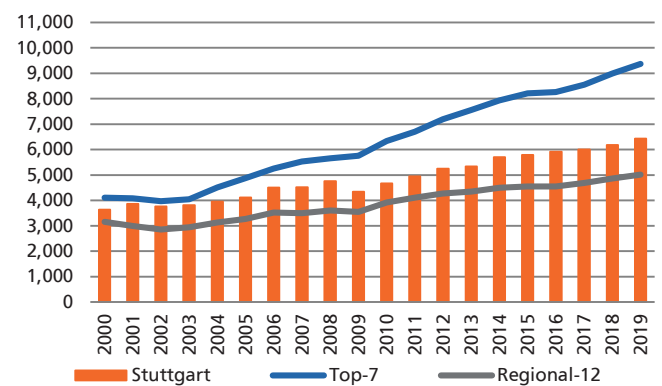
Rent in prime locations in Stuttgart still falling

PER CAPITA PURCHASING POWER IN EUR



Source: bulwiengesa

NUMBER OF OVERNIGHT STAYS PER 1,000 INHABITANTS



Source: bulwiengesa, Scope

LOCATIONS AT A GLANCE

STRUCTURAL DATA 2020

	Inhabitants '000	Inhabitants 2009-2019 (%)	GDP EUR m	Per Capita GDP EUR	Per Capita Dispos- able Income EUR/Month	Unemployment (%)
Augsburg	297	11.5	14,148	47,659	1,947	6.2
Bremen	572	5.6	29,719	51,987	2,146	10.8
Darmstadt	160	14.2	9,851	61,563	2,266	6.2
Dresden	558	10.1	19,179	34,396	1,963	6.4
Essen	582	2.5	28,527	49,035	1,994	11.2
Hannover	536	6.3	33,794	63,039	2,306	9.2
Karlsruhe	313	9.1	19,988	63,860	2,210	5.0
Leipzig	594	19.8	20,866	35,156	1,835	8.0
Mainz	219	10.6	12,548	57,241	2,180	6.3
Mannheim	310	7.4	18,092	58,421	2,142	6.9
Münster	315	13.3	18,953	60,142	2,245	5.2
Nuremberg	521	7.8	29,036	55,782	2,204	6.4
Regional centre mean	415	9.2	21,225	51,196	2,097	7.7
<i>Total</i>	<i>4,975</i>		<i>254,701</i>			
Berlin	3,674	12.5	126,507	34,437	2,044	9.8
Cologne	1,091	9.4	61,565	56,447	2,175	9.5
Düsseldorf	623	6.8	49,441	79,331	2,534	8.0
Frankfurt	764	15.5	71,659	93,796	2,259	7.0
Hamburg	1,852	9.0	121,928	65,843	2,417	7.7
Munich	1,485	11.9	104,088	70,071	3,195	5.0
Stuttgart	638	10.1	53,353	83,624	2,491	5.0
Top location mean	1,447	11.1	84,077	58,117	2,370	8.1
<i>Total</i>	<i>10,127</i>		<i>588,540</i>			

Source: Scope, BA, own calculations

Means are inhabitant and space-weighted

OFFICE SPACE

	Total Office Space 2020 Data			Prime Rent EUR/m ²			Change in Prime Rent (% yoy)			Vacancy Rate (%)		
	'000 m ²	2010 to 2020 (%)	per Office Worker in m ²	2019	2020	2021e	2019	2020	2021e	2019	2020	2021e
Augsburg	1,445	8.4	26.1	13.2	13.2	13.0	1.5	0.0	-1.5	4.5	4.2	4.7
Bremen	2,730	9.6	24.6	13.2	13.1	13.0	1.5	-0.8	-0.8	4.2	4.3	5.1
Darmstadt	1,638	7.2	30.4	13.2	13.2	13.2	0.0	0.0	0.0	3.4	3.7	4.3
Dresden	2,686	0.0	24.1	15.0	15.0	14.6	11.1	0.0	-2.5	4.5	4.7	5.2
Essen	3,166	9.6	31.0	15.7	16.0	15.7	4.7	1.9	-2.0	3.3	3.3	3.7
Hannover	4,569	2.8	34.9	18.0	18.0	17.6	5.9	0.0	-2.0	3.2	3.3	3.9
Karlsruhe	2,568	12.8	29.2	14.5	14.5	14.3	2.1	0.0	-1.5	3.4	3.7	4.3
Leipzig	2,769	0.3	27.0	15.3	15.3	15.0	10.9	0.0	-2.0	6.2	6.1	6.4
Mainz	1,665	7.1	31.9	14.5	14.3	14.1	4.3	-1.4	-1.4	2.7	3.0	3.5
Mannheim	2,175	12.4	28.4	16.8	16.8	16.3	3.7	0.0	-3.0	4.2	5.1	6.2
Münster	2,236	7.9	29.2	14.8	14.8	14.8	2.1	0.0	0.0	1.2	1.5	1.8
Nuremberg	3,667	7.0	29.0	15.5	15.5	15.3	3.3	0.0	-1.5	2.8	3.4	4.0
Regional centre mean	2,609	6.5	28.8	15.3	15.3	15.1	4.7	0.0	-1.7	3.6	3.8	4.4
<i>Total</i>	<i>31,313</i>											
Berlin	19,863	8.1	30.8	39.0	39.0	37.8	16.4	0.0	-3.0	1.3	1.8	2.5
Cologne	7,773	4.5	29.5	23.5	23.5	23.2	6.8	0.0	-1.5	2.3	2.9	3.3
Düsseldorf	7,692	5.3	35.6	26.5	26.5	26.0	3.9	0.0	-2.0	6.3	6.2	6.9
Frankfurt	10,138	0.5	32.1	41.0	41.0	40.0	3.8	0.0	-2.4	6.5	6.8	7.2
Hamburg	13,901	5.5	30.6	29.0	30.0	29.1	5.5	3.4	-3.0	2.9	3.5	4.2
Munich	14,126	4.6	30.8	39.5	39.5	38.7	6.8	0.0	-2.0	1.4	2.3	2.9
Stuttgart	7,983	7.4	38.1	23.0	24.0	23.7	4.5	4.3	-1.5	1.9	3.0	3.9
Top location mean	11,639	5.4	31.8	33.4	33.7	32.9	8.3	0.9	-2.4	2.9	3.4	4.1
<i>Total</i>	<i>81,476</i>											

Source: bulwiengesa, Scope, DZ BANK forecast

Means are space-weighted. The **prime rent** indicated by bulwiengesa represents the mean of the three top three to four per cent of the rental market, which means that the prime rent given is not the same as the absolute top rent. For this reason, the higher rent figures for individual locations, some of which are quoted in alternative market reports, are fundamentally not contradictory.

RETAIL SPACE

	Total Retail Space 2020 Data			Rent in Prime Location in EUR/m ²			Change in Rent (% yoy)			Retail Rent 2020 Data		
	'000 m ²	2010 to 2020 (%)	per Capita in m ²	2019	2020	2021e	2019	2020	2021e	EUR/m ²		
										Prime Rent	Average Rent	Prime Rent
										Prime Loca- tion	Sec- ondary Prime Loca- tion	Sec- ondary Loca- tion
Augsburg	956	6.9	3.2	108	100	95	-4.4	-7.4	-5.0	100	51	28
Bremen	1,597	23.4	2.8	130	125	120	0.0	-3.8	-4.0	125	80	38
Darmstadt	392	7.1	2.5	94	91	86	-3.1	-3.2	-5.5	91	48	42
Dresden	1,077	13.2	1.9	105	100	95	-1.9	-4.8	-5.0	100	58	39
Essen	880	9.8	1.5	94	86	83	-6.0	-8.5	-3.5	86	70	32
Hannover	952	5.0	1.8	185	185	175	-2.6	0.0	-5.4	185	145	76
Karlsruhe	581	15.6	1.9	96	92	88	-6.8	-4.2	-4.3	92	59	38
Leipzig	785	30.7	1.3	125	120	115	0.0	-4.0	-4.2	120	52	41
Mainz	522	17.7	2.4	104	100	95	-5.5	-3.8	-5.0	100	53	41
Mannheim	840	13.9	2.7	143	138	133	-4.7	-3.5	-3.6	138	87	38
Münster	653	20.1	2.1	178	168	160	0.0	-5.6	-4.8	168	88	61
Nuremberg	1,322	15.7	2.5	147	142	135	-2.0	-3.4	-4.9	142	76	62
Regional centre mean	880	15.0	2.1	129	123	118	-2.6	-4.1	-4.6			
<i>Total</i>	<i>10,557</i>											
Berlin	7,083	21.2	1.9	300	285	275	-3.2	-5.0	-3.5	285	97	135
Cologne	1,420	1.6	1.3	255	240	230	0.0	-5.9	-4.2	240	127	85
Düsseldorf	1,253	12.7	2.0	285	280	265	1.1	-1.8	-5.4	280	125	85
Frankfurt	1,543	9.0	2.0	300	295	275	0.0	-1.7	-6.8	295	123	85
Hamburg	3,037	7.1	1.6	285	275	260	0.0	-3.5	-5.5	275	140	74
Munich	2,163	14.7	1.5	345	335	320	0.0	-2.9	-4.5	335	184	191
Stuttgart	1,131	16.2	1.8	235	215	210	-4.1	-8.5	-2.3	215	120	80
Top location mean	2,518	14.0	1.7	294	282	269	-1.4	-4.2	-4.4			
<i>Total</i>	<i>17,629</i>											

Source: bulwiengesa, Scope, DZ BANK forecast

Means are space-weighted. The **prime rent** indicated by BulwienGesa represents the mean of the three top three to four percent of the rental market, which means that the prime rent given is not the same as the absolute top rent. For this reason, the higher rent figures for individual locations, some of which are quoted in alternative market reports, are fundamentally not contradictory.

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.
New space	Newly built office space completed in the respective year.
Vacancy rate	Proportion of vacant office space in the respective location in relation to available space.
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 space is the ratio of net annual rental income and total purchase price, taking into account expenses.
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% of all lettings in a market, and the figure given is therefore not the absolute top rent realised.
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.

I. Imprint

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