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MAIN REGIONAL REAL ESTATE MARKETS IN GERMANY 2023

New user needs reshape demand for office and retail space

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PREFACE

Dear readers,

As one of the leading real estate banks in Germany, we regularly analyse the markets we actively cover. Given that market data is not readily available, especially in regional locations outside the seven largest cities, our reports – published each spring – are intended to create more transparency to better assess trends and risks in these markets. They cover developments in the office and retail property segments for the twelve regional markets of Germany – Augsburg, Bremen, Darmstadt, Dresden, Essen, Hanover, Karlsruhe, Leipzig, Mannheim, Mainz, Munster and Nuremberg, comparing them to Germany's top seven locations.

Germany's real estate markets are currently facing multiple challenges: as the war in Ukraine caused the economy to slow down, materials and staff shortages persisted as did supply chain bottlenecks. These issues have hampered development of the segments under review in this report. Looking at how rents have developed, a mixed picture emerges across asset classes, cities and specific locations. In the office market, prime rents are being driven up in all cities as long-term demand for high-quality space exceeds supply. Yields are picking up again for the first time in many years, especially in metropolitan prime locations. Retailers expect declining purchasing power to further push revenues down. In particular, weaker regional markets have seen a marked decrease in prime rents. Retailers in the seven metropolitan areas, however, benefited from a growing population and resurgence of urban tourism.

"Regional Real Estate Markets 2023" is the fourteenth report in this series, which 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 Northern Germany is due in May, with another one on North Rhine-Westphalia to follow in November.

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

Yours sincerely,

DZ HYP

March 2023

OFFICE AND RETAIL CONTINUE TO DIVERGE WIDELY

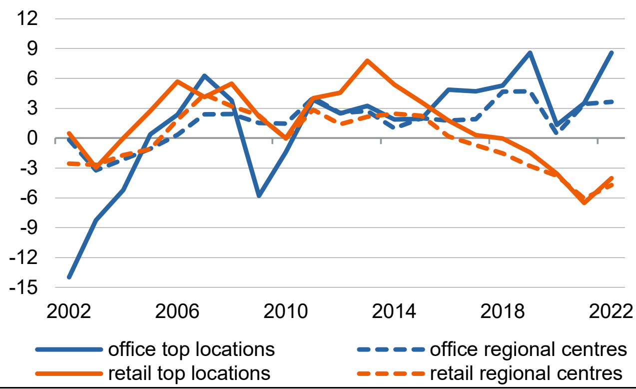
Diverging trends in office and retail rents

The sharp hike in interest rates and bond yields since the beginning of 2022 has impacted the real estate market as a whole. This has led to a decline in purchase prices and rising rental yields. Conversely, rent trends in individual market segments diverge widely. This is highlighted by the office and retail heavyweights of the commercial real estate market in the 19 locations analysed in this market report. However, market trends clearly diverge based on the location type, the location, and the relevant city. In short, it is becoming increasingly difficult to generalise about the trend in the property market.

Shift in requirements for office premises and sales space

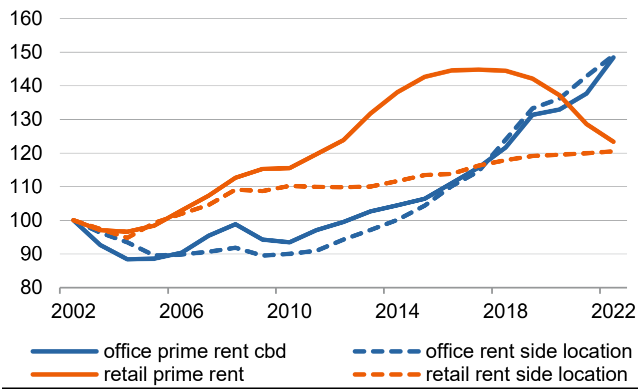
The climate of economic crisis as a result of the war in Ukraine and diminishing household purchasing power are contributory factors here. However, the real causes go back further. Until only a few years ago, large sales space was still required for the retail sector, while a large number of small offices, connected by long corridors, were required for office occupations. A fundamental shift has nevertheless taken place in purchasing patterns and office work because of advancing digitalisation, accelerated by the pandemic. Today, shopping and office work can also be largely carried out at home. Therefore, sales rooms and offices require less space, but are by no means superfluous. However, space requirements are changing.

OFFICE AND RETAIL RENTS BY LOCATION
PRIME RENTS YOY %



Source: bulwiengesa

OFFICE AND RETAIL RENTS BY LOCATION
RENTS 2002 = 100 (TOP LOCATIONS AND REGIONAL CENTRES)



Source: bulwiengesa

Modern office space in demand and correspondingly more expensive

Good communications, attractive space, favourable locations and sustainability are on the office space “wish list”. These are the necessary prerequisites to encourage employees to come into the office more often and engage with their colleagues, rather than work from home. However, weak office construction over a prolonged period has led to a shortage of this type of space. Rents are rising correspondingly strongly, not only in city centres, but also in peripheral office locations. The reasons for this are likely to be good employment conditions and the period of time taken to realise new office concepts. Space demand is nevertheless generally declining, as reflected in the increase in vacant office properties in many locations.

Contrast between very negative conditions for city centre retail and more buoyant trend in out of-town areas

Demand for city centre retail space has already declined sharply, and prime rents – which had been increasing sharply until only a few years ago – are falling visibly. The level at which city centre rents will subsequently settle remains unclear. However, the supply of sales space is contracting, for example as a result of the conversion of former department stores, and is likely to slow the downward rent trend. Conversely, retail rents in secondary and outlying locations have gradually increased. The pandemic and home working have clearly increased the importance of local retail on a sustained basis.

Classic city centre retail contracts

The withdrawal of classic retail activity from city centres cannot be overlooked and has resulted in some high vacancy rates. The greatest impact has been felt by fashion and footwear retailers and department stores. Many shopping centres also now include many tenants who were previously more often to be found in peripheral locations. City centres may become depopulated if not counteracted with suitable concepts and district developments. High demand for apartments and modern offices also offers good potential to repurpose former retail space.

High building and financing costs hamper city centre development

The shift in the property market is reflected in restructuring and repurposing as well as in the growth of new construction. The massive hike in building and financing costs is however an obstacle to all types of construction projects. At current rent levels, it is often no longer possible to realise a real estate project cost-effectively. The result could be that existing supply gaps in the housing and office markets not only persist, but also widen. On the other hand, the conversion of retail properties could come to a halt, potentially increasing vacancy rates or encouraging less attractive usage in city centres. The challenges of realising “new city centres” have thus intensified.

14th edition of our “Regional property markets” report analyses the office and retail market segments in 12 regional centres and 7 top locations

How have the office and retail market segments developed in various property locations? In this report we analyse the general climate and review market trends in a total of 19 locations. Vacancy rates in the **office market** increased further in 2022, while prime rents rose sharply. The downward rent trend in the **retail sector** which had already started pre-Covid continued, albeit at a slightly slower pace. In this 14th edition of our market report, we once again focus on the trends in **twelve regional centres throughout Germany**. This amplifies the often sparse information available on the cities which rank below the top locations. We also examine these locations, the **seven largest cities in Germany**, and compare the two categories.

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 following chapter we analyse the office market in the 19 locations covered. A market overview of the retail sector then begins on page 12. Starting on page 21, the individual locations are reviewed in alphabetical order. The most important market data is summarised in tables on pages 70 to 72.

Office property: Modern offices a success factor

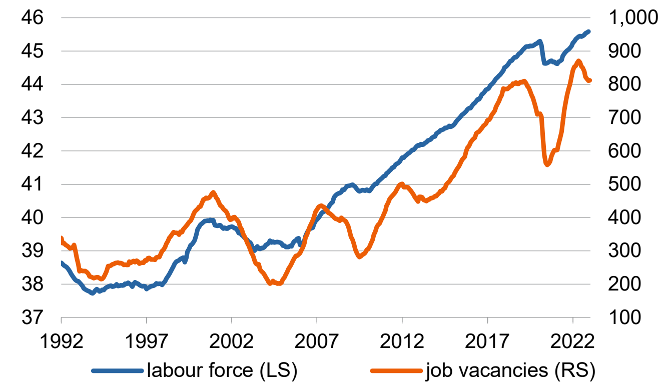
Economic consequences of war in Ukraine less serious than feared

Companies now face an increasing number of challenges due to the war in Ukraine. This situation has remained more or less unchanged at the beginning of 2023, and has been compounded by the risk of recession, ongoing supply chain problems, and hikes in commodity and energy prices. The increasing labour shortage is being aggravated by high sickness absence rates in winter. However, the fact that most order books are well-filled and that any recession is likely to be mild provides a glimmer of hope. Thanks to energy-saving measures and the mild winter, gas storage facilities were at high levels in January, and the risk of a “gas shortage” has clearly been averted. Forecasts for the German economy, some of which were still gloomy in autumn 2022, have proved inaccurate.

Stable labour market, employment continued to increase in 2022

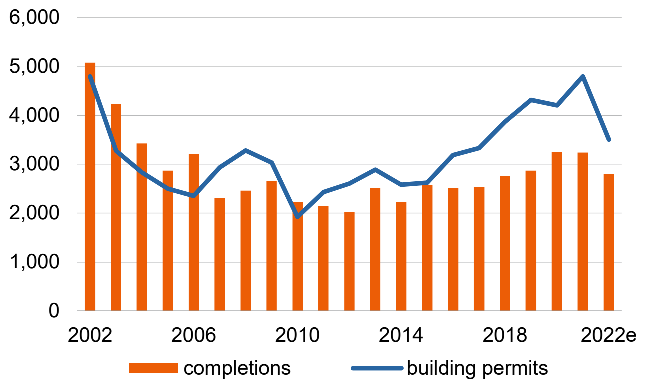
The trend in the labour market was even more positive, and was virtually unaffected by the crises and economic uncertainty. Probably as a result of the already growing shortage of skilled workers, and in contrast to previous economic crises, many companies continued to hire staff. The number of job vacancies is therefore extremely high, based not only on the weak economic climate, but also compared to previous years. The number of people in work also continued to grow, reaching a new record level of 45.5 million at year-end 2022.

LABOUR MARKET DEFIES ECONOMIC HEADWIND AND EMPLOYMENT REACHES A NEW MAXIMUM
LHS: WORKING POPULATION IN M, RHS: JOB VACANCIES IN TSD.



Source: Destatis Per January 2023

OFFICE CONSTRUCTION: DECLINE IN BOTH APPROVED AND COMPLETED SPACE IN 2022
AVAILABLE OFFICE BUILDINGS IN TSD. M²



Source: Destatis, DZ BANK forecast

No. of office jobs continues to grow, but demographic trend likely to slow the pace in the longer term

This is good news for the office market. With the proportion of office jobs remaining stable over time at 37 per cent – based on around 34 million employees paying mandatory social security contributions – this trend is also having a positive impact on demand for office space. However, employment growth is unlikely to continue for long and is likely to slow as baby boomers approach retirement age. According to the latest population forecast, the number of people of pensionable age (67 and above) will grow by 4 million to at least 20 million by the middle of the next decade. The German Federal Statistical Office expects the number of economically active people to decline by 1.6 to 4.8 million in the next 15 years – depending on the extent of immigration.

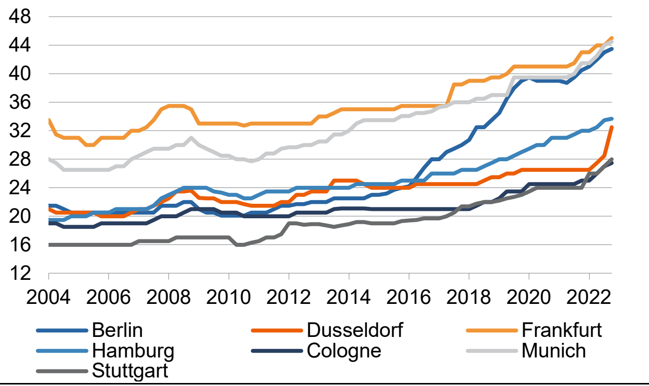
Fundamental shift in office property requirements

In addition to this purely quantitative view, the main shift in office demand is however essentially qualitative. Current office demand already clearly reflects this trend. The transformation of office work on the one hand, and the fact that it is increasingly difficult to hire new employees on the other, have led to a permanent shift in office requirements. Modern and conveniently situated office space can help to motivate employees to travel to the office where they can connect more closely with colleagues. Attractive office space can also give prospective employers an advantage compared to competitors when trying to hire staff. Sustainable office premises can also underpin a tenant's climate-friendly image. Conversely, based on the now widespread concept of the home office, offices which merely provide desk space, with no "additional functions", are still at best second choice.

Demand for modern office space exceeds supply and continues to drive prime rents

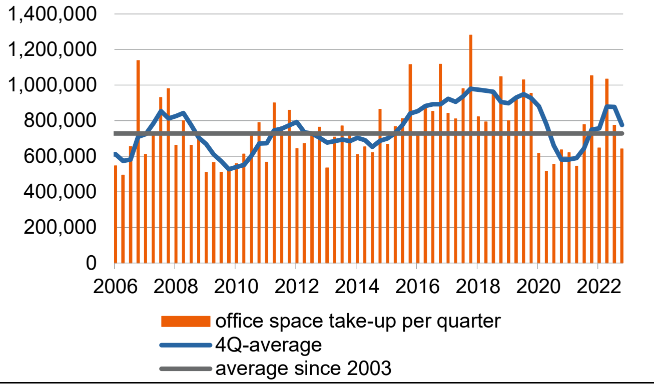
The economic climate and the radical shift in patterns of office work both had a major impact on developments in the office market last year. Measured by take-up, rental activity weakened towards year-end. Vacancy rates also continued to increase gradually in 2022. In contrast, rents for modern, climate-friendly and sustainable office space increased massively. Demand from companies was focused on this type of space, but supply remained limited. The shortage of available modern office space will not be resolved quickly, although approvals of new space have accelerated sharply. In 2021, nearly 5 million m² of office space was approved, twice the annual average from 2020 to 2015. Although the number of completions increased, they lagged well behind the volume of approvals.

AFTER SLOWER COVID-RELATED GROWTH, RENTS PICKED UP SHARPLY IN THE TOP LOCATIONS IN 2022
PRIME OFFICE RENTS IN EUR PER M²



Source: bulwiengesa

IS THE RISK OF RECESSION ACTING AS A BRAKE? IN THE SECOND HALF OF 2022 OFFICE MARKET ACTIVITY DECLINED VISIBLY
TAKE-UP IN M² (CUMULATIVE OVER TOP LOCATIONS)



Source: bulwiengesa

Office construction also hampered by high building and finance costs

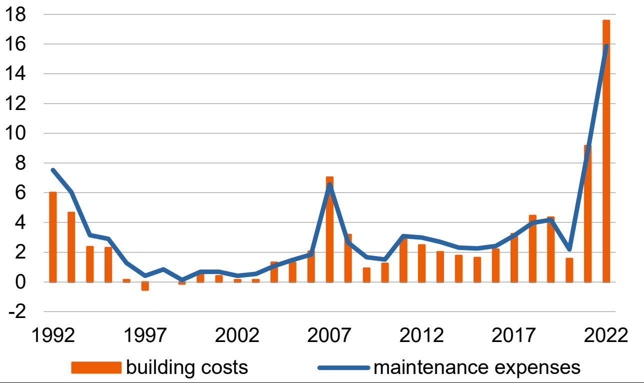
Given the steep rise in building and financing costs, this gap is now likely to widen further, because rents need to be significantly higher than previously for a project to be realised cost-effectively. This is already reflected in the steep increase in rents in previous quarters. In 2022, building costs increased twice as sharply as the already massively high inflation rate. Where this is still possible, construction projects are often therefore being halted or deferred. The number of completed office buildings is therefore likely to decline sharply, similar to the housing market. Growing demand for modern office space is still therefore unlikely to be met in the coming years.

Economic climate for the office market

Economy in mild recession, but price pressure will remain high in 2023

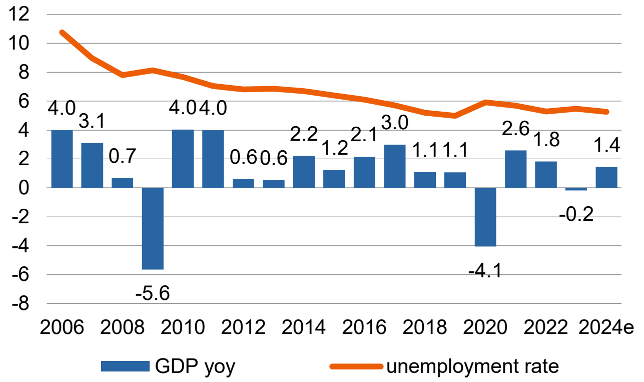
Given the continuing war in Ukraine, weak global economic growth and numerous geopolitical risks, the economic outlook at the beginning of 2023 is gloomy. Conversely, price pressure remains high, although inflation is likely to fall below the figure of 8.7 per cent (HICP) calculated for 2022. The upward trend in consumer prices is not expected to slow visibly until 2024. Demand for skilled workers in all areas of the economy and public administration will probably remain high, as will the labour shortage. Given the ageing population, this situation is expected to escalate rather than de-escalate. The labour shortage could increasingly act as a growth brake.

COSTS FOR OFFICE CONSTRUCTION AND RENOVATION RISING AT AN UNPRECEDENTED RATE
COSTS IN % YOY



Source: Destatis

OUTLOOK: WEAK ECONOMIC GROWTH, BUT LABOUR MARKET REMAINS ROBUST AND UNEMPLOYMENT IS LOW
IN %

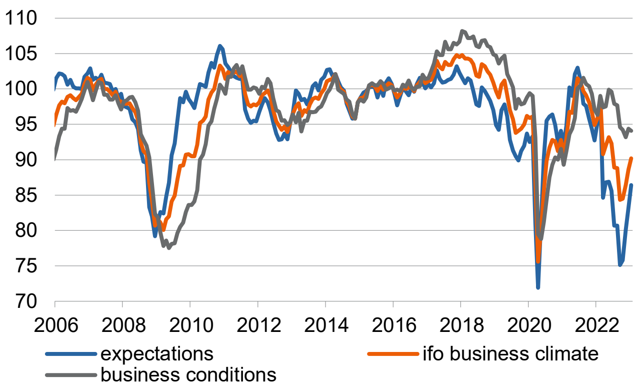


Source: DZ BANK — Per February 2023

The challenging economic environment is reflected in the results of monthly surveys carried out by economic experts and companies on current conditions and expectations. Thanks to a probably fairly mild economic slowdown due to a stable gas supply and lower energy prices, expectations in the ifo business climate index and the ZEW financial market test have visibly decoupled from their lows of September 2022. However, while economists regard current conditions as clearly more negative than expectations in the ZEW economic survey, the opposite applies to the companies surveyed by the ifo Institute who take a more favourable view of current conditions than of expectations. Overall, the business climate nevertheless remains weak. Current conditions and expectations continue to diverge widely.

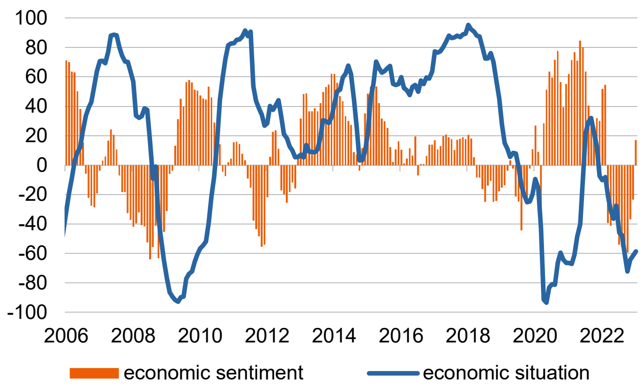
Gloomy, but no longer bleak: Expectations for business trend and economic growth

DESPITE IMPROVED EXPECTATIONS, COMPANIES STILL FAIRLY NEGATIVE ABOUT THE BUSINESS CLIMATE
IFO BUSINESS CLIMATE INDEX IN POINTS



Source: ifo Institute — Per January 2023

ECONOMIC EXPERTS REGARD EXPECTATIONS AS CLEARLY MORE POSITIVE THAN CURRENT ECONOMIC CONDITIONS
ZEW FINANCIAL MARKET TEST INDICES IN POINTS



Source: ZEW — Per January 2023

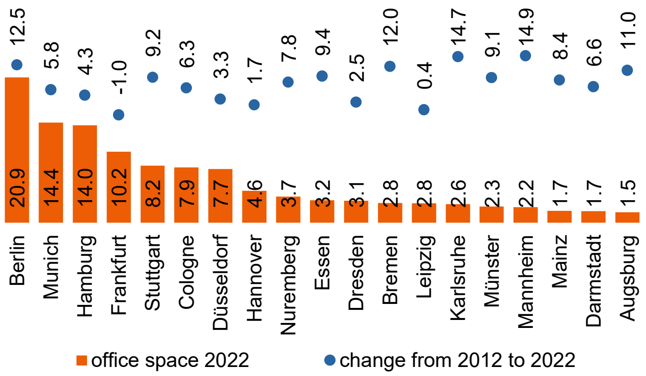
Office: Market trends in the locations reviewed

The 19 locations analysed in the market report have cumulative office stock of around 115 million m², more than a third of the available office space in Germany. The lion's share - around 83 million m² – relates to the seven top locations. The volume of office stock in these cities ranges from around 8 million m² in Düsseldorf to almost 21 million m² in Berlin. The 12 regional centres account for a total of 32 million m² of office space. The size of location ranges from 1.5 million m² in Augsburg to

Market report covers a good third of German office space

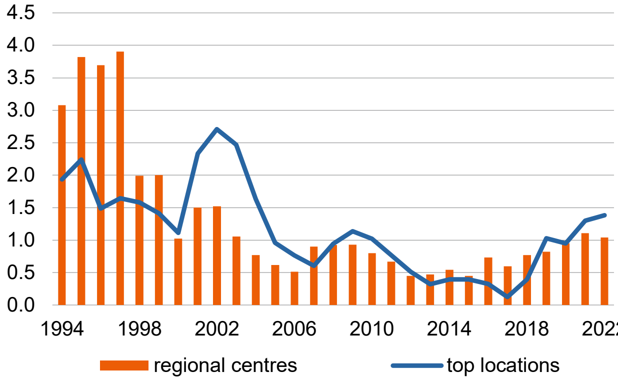
4.6 million m² in Hannover. The capital of Lower Saxony is also the largest German office market among the seven top locations.

FROM SMALL TO LARGE – MARKET REPORT PROVIDES COMPREHENSIVE COVERAGE OF RANGE OF GERMAN OFFICE LOCATIONS
OFFICE SPACE IN MILLION M², CHANGE IN %



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

OFFICE CONSTRUCTION PICKED UP AGAIN VISIBLY IN 2022 AFTER A LONG PERIOD OF WEAKNESS
OFFICE STOCK IN % YOY

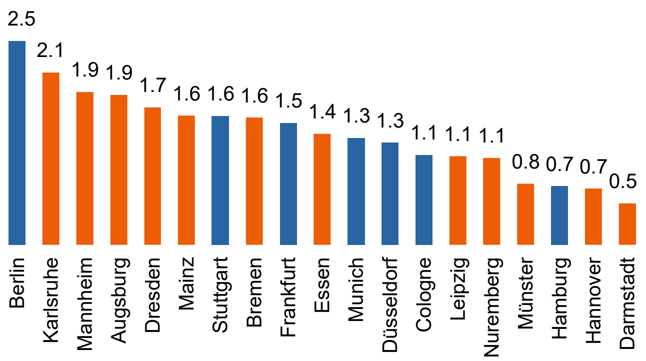


Source: bulwiengesa

Growth in office space has tripled

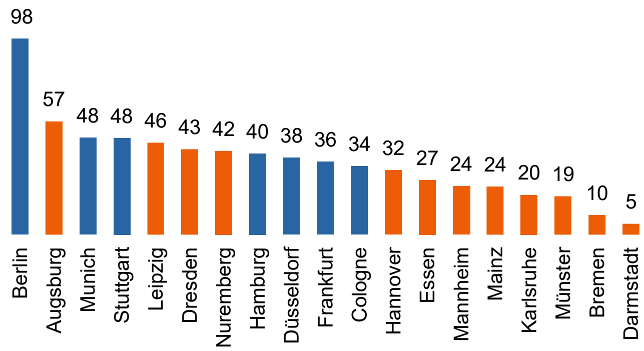
The acceleration in office construction mentioned at the beginning is also evident in the locations we analyse. While available space in the 19 locations increased by only about 0.4 per cent annually between 2012 and 2017, annual growth in the supply of space had tripled to 1.3 per cent by 2022. Overall, office space in the 19 locations has grown by just shy of 7 per cent since 2012. Growth rates were similar in the regional centres and top locations. However, office space increased at very different rates in the individual locations. Office space in Berlin grew particularly strongly. On average, in the years from 2020 to 2022, new space increased by 2.5 per cent each year, five times as high as in Darmstadt at the lower end of the growth range.

GROWTH IN OFFICE SPACE VARIES WIDELY IN THE LOCATIONS
ANNUAL NEW SPACE IN % (AVERAGE 2020-2022)



Source: bulwiengesa

GROWING SUPPLY SHORTAGE LEADS TO SURGE IN PRIME OFFICE RENTS
INCREASE IN PRIME RENTS FROM 2012 TO 2022 IN %



Source: bulwiengesa

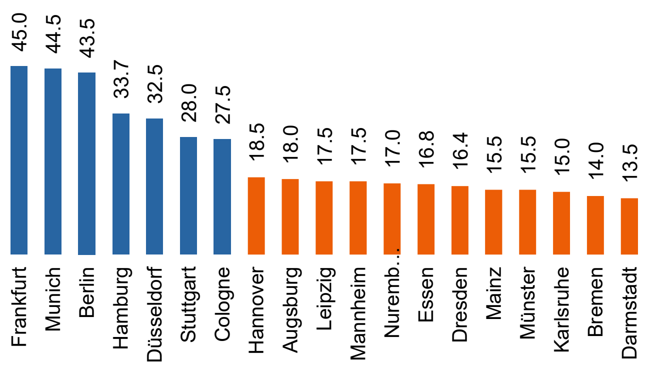
Higher office rents make office construction more attractive

The reasons for the expansion of construction activity are obvious. Strong employment growth and associated demand for office space have long been accompanied by only minimal office construction, thus heightening the tensions in the office market. As a consequence, some office rents have increased rapidly. This is particularly true of Berlin, where prime rents have doubled within ten years. However, rent growth in other cities has also often reached 40 per cent or more. Office projects have consequently become more attractive, leading to an acceleration in both speculative and demand-driven office construction again.

Shortage of high value office space drives up prime rents despite crisis conditions

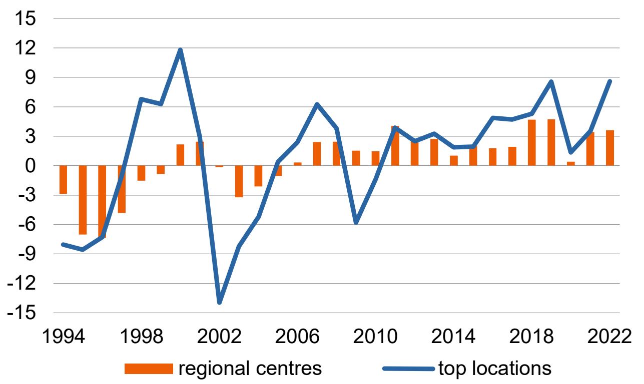
The upward rent trend has been under way for many years despite the various crises. Prime rents in the regional centres have risen consistently since 2007, but have only shown an unbroken upward trend in the top locations since 2011. In some areas, rents are also showing high annual growth rates. Conversely, rents in the office market have not fallen sharply for a long time. Significant market corrections occurred in the mid-1990s and from 2002 to 2004. Because of the international financial market crisis, prime rents in top locations also fell in 2009 and 2010. However, despite even higher vacancy rates at that time, the decline was already much weaker than in previous phases of market crisis. The fact that office rents did not fall during the pandemic is likely to be mainly attributable to predominantly low vacancy rates.

PRIME RENTS IN TOP LOCATIONS PROVIDE A MAJOR ADVANTAGE FOR THE OFFICE MARKET
PRIME RENTS 2022 IN EUR PER M²



Source: bulwiengesa

ONGOING IMPETUS IN GERMAN OFFICE MARKET: PRIME RENTS HAVE BEEN RISING CONSISTENTLY FOR MORE THAN TEN YEARS
PRIME RENTS IN % YOY



Source: bulwiengesa

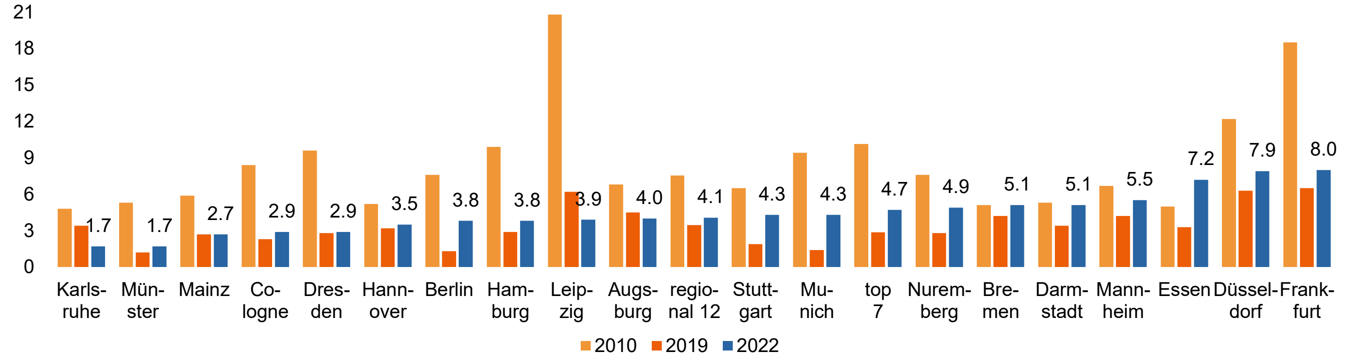
No correlation between growth in vacancy rates and falling rents during pandemic

During the pandemic another particular feature was evident in the office market: while in previous market phases, growing vacancy rates were accompanied by falling office rents, this time the opposite was true. The main contributory factor was a shift in office usage; demand for high-value office space was high, but market supply was virtually non-existent because office properties were often very outdated. Stronger office construction has therefore driven up vacancy rates, but rent growth has not slowed. Two main factors are responsible for the growth in vacant properties. The economic climate, which has been plagued by crises since 2020, has led to a slowing of office rentals. Remote working is also resulting in an incremental contraction in the volume of office space needed. However, the impact of home working is only being felt gradually. On the one hand, most rental contracts are for lengthy periods. On the other hand, it takes time to realise new office concepts. Finally, suitable space must be provided in the form of new buildings or conversions.

Impact of home working: Vacancy rates up despite growth in office jobs

The development of office employment, on the other hand, did not contribute to the rising vacancy rates. For despite the pandemic, the number of office employees did not fall, but rather still increased slightly. Despite the increased vacancies, the vacancy level is still moderate in most locations.

PANDEMIC, REMOTE WORKING AND STRONGER OFFICE CONSTRUCTION HAVE CONSISTENTLY DRIVEN UP OFFICE VACANCY RATES
VACANCY RATE IN %

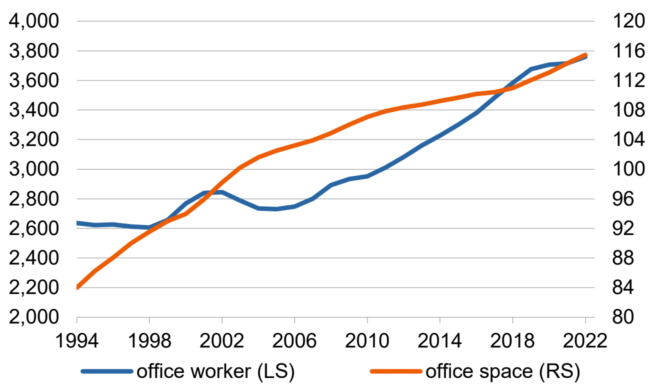


Source: bulwiengesa

Take-up well below previous peak levels

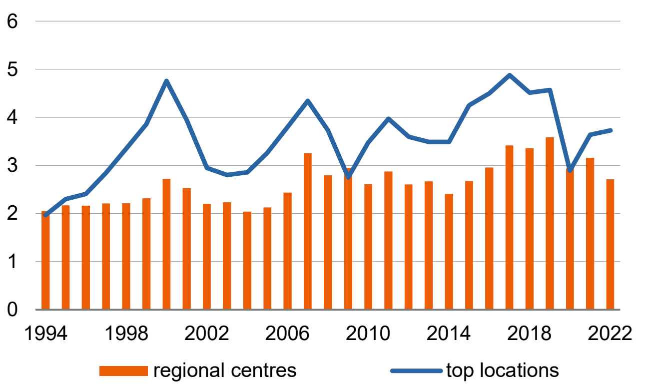
As well as driving up office vacancy rates, the pandemic also led to a steep decline in take-up – particularly in the top locations. However, annual take-up in the top locations has now picked up again, while levels in the regional centres continued to fall in 2022. Overall, take-up of almost 4 million m² in all 19 locations in 2022 was more or less in line with 2021. In contrast, the 2020 figure was 3.3 million m². However, the market is still far removed from pre-pandemic levels, which were in some cases significantly higher – the maximum to date was nearly 5 million m² in 2017.

GROWTH IN OFFICE STOCK NOW ACCELERATING SLIGHTLY, OFFICE EMPLOYMENT IS ALSO PICKING UP
LS: IN M PEOPLE, RS: SPACE IN M M²



Source: bulwiengesa, Scope

TAKE-UP IN TOP LOCATIONS RECOVERS AGAIN AFTER COVID SLUMP
TAKE-UP IN % OF AVAILABLE SPACE

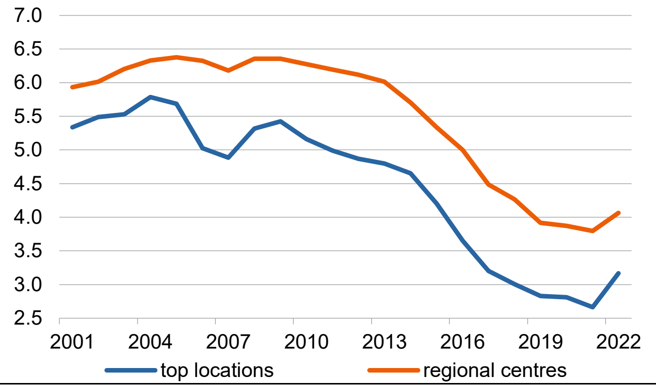


Source: bulwiengesa

Rental yields rising, but only moderately

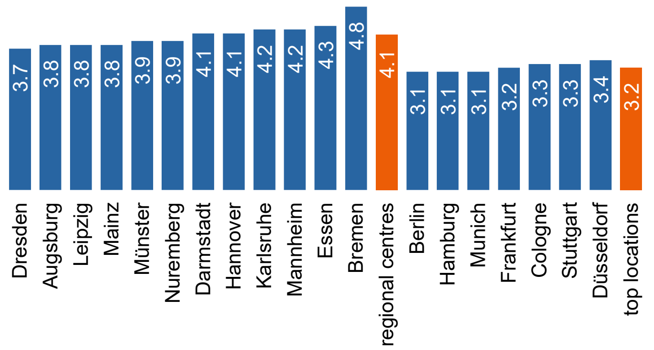
The shift in office market conditions is being accompanied by the first increases in rental yields for many years. The interest rate turnaround instigated in response to high inflation rates is associated with a steep upward trend in bond yields which has also caused rental yields in the property market to decouple from their previous lows. However, the yield growth here has considerably weaker so far than for bonds, and the yield divergence compared to ten-year Bunds for example has contracted significantly. Compared to the increase of more than 2 percentage points in bond yields from the end of 2021 to the end of 2022, yields for office properties in central locations widened by only half a percentage point.

RISING TREND IN OFFICE YIELDS CONTINUES IN 2022
INITIAL OFFICE RENTAL YIELDS IN % FOR CENTRAL LOCATIONS



Source: bulwiengesa

OFFICE RENTAL YIELDS NOW RANGE FROM 3 TO ALMOST 5%
INITIAL OFFICE RENTAL YIELDS IN % FOR CENTRAL LOCATIONS



Source: bulwiengesa

Office yields ranged from 3 to 5 per cent in 2022

At the end of 2022, the yield spectrum extended from just over 3 per cent in Berlin, Hamburg and Munich to nearly 5 per cent in Bremen. The yield increase was slightly more marked overall in the top locations than in regional centres. Yields in regional centres have presumably been squeezed less because they were already at a higher level.

Conclusion and forecast for office market

High-quality offices more important for better communications and to attract talent

A radical shift is taking place in the office market. Many employers and office workers prefer to work at home for a much greater proportion of their time than before the pandemic. Older style, low-specification office space therefore faces strong competition from the home office. Conversely, interest in high-value and sustainable office space has clearly increased. This space category is very important to companies. In economic terms, it is virtually impossible to quantify this type of usage in figures, However, if communications suffer over a prolonged period because employees are reluctant to come into the office and rarely do so, this could also have a negative impact on the business itself in the long run. The same applies if companies find it difficult to attract young talent because workplaces are not very attractive. Sustainability is also playing an increasingly important role.

Undersupply of modern offices, but oversupply of outdated space

Given the often advanced age of the office stock, demand for high-value and modern office space could exceed supply for some years, particularly since office and housing construction are likely to slow significantly as a result of rapidly rising building and financing costs. Despite the risk of recession, this indicates a continuing high willingness to rent upscale offices despite the associated high rents. However, office rents are not the key cost-driver for companies, for example compared to much higher personnel costs. Savings on office rents can also be made elsewhere, if space usage generally declines. These favourable rental prospects are also likely to increase the attractions of high-value office properties for investors in future. The indexed rents which are usual here are also leading to higher rental income because of inflation.

Outlook for letting old offices deteriorating, potential for alternative usage increasing

Conversely, it is likely to become increasingly difficult to let office properties which do not meet the relevant criteria for office space or sustainability. It will also be very difficult to sell these properties in future, and they face a growing risk of becoming “stranded assets”. However, demand for property is high in Germany, new construction has become more expensive, and demolition has become unacceptable for environmental reasons. Tensions in the housing market as a result of high levels of immigration from Ukraine and other countries have led to a housing shortage throughout

Germany. This is at least creating fairly good potential to convert office space which is no longer needed.

OFFICE – FORECAST FOR PRIME RENTS AND VACANCY RATES

	2021	2022	2023e
12 regional centres			
Prime rents in EUR/m² (vs. previous year in %)	15.9 (3.4)	16.5 (3.6)	16.8 (2.2)
Vacancy rate in % (vs. previous year in % points)	4.2 (0.5)	4.1 (-0.1)	4.4 (0.3)
7 top locations			
Prime rents in EUR/m² (vs. previous year in %)	35.1 (3.5)	38.4 (8.6)	39.5 (3.7)
Vacancy rate in % (vs. previous year in % points)	4.5 (1.0)	4.7 (0.2)	5.0 (0.3)

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.

Retail property: Contraction tightens the screws on city centres

First Covid, now inflation: City centre retail remains crisis-stricken

The problems afflicting the retail sector show no sign of ending. After two years of the pandemic, high inflation has been hampering recovery since 2022. The loss of purchasing power is forcing households to tighten their belts, by opting for cheaper products, and doing without or at least deferring purchases. Fairly lacklustre sales are also coming up against considerably higher operating costs for heating, air conditioning and lighting.

Inflation has a negative impact on city centre retail, as well as supermarkets and e-commerce

In contrast to the trend during the pandemic when there was strong growth in food retail and e-commerce, high inflation is now weighing on every segment. Even booming organic supermarkets have suffered a decline, as their customers also become more price-conscious. Only the luxury segment has remained unscathed. No-one who can afford to spend four-digit sums on shoes, jackets or handbags needs to economise very much due to high energy and food prices.

Shift in consumer behaviour towards e-commerce – but growth has been overestimated

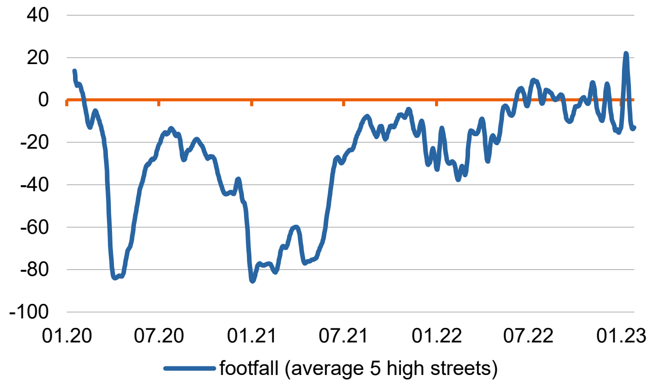
However, one positive factor is that despite their loss of purchasing power, consumers are still keen to go for a city stroll. The weakening of the link between footfall and sales has however intensified, as an increasing number of purchases are made online. The strong growth in e-commerce during the pandemic has nevertheless weakened subsequently, although consumer behaviour has undoubtedly undergone a permanent shift towards online shopping. The online retail sector – which has become accustomed to success and strong growth – is nevertheless being forced to make cost-savings, for example by renting out logistics space or shedding jobs. Despite the convenience of e-commerce, people still attach importance to making a purchase in an actual shop and visiting a city centre.

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

Figures from the German Retail Federation (HDE) reveal the extent to which in-store retail has suffered. By the end of 2022 the number of physical shops had declined by more than 40,000 compared to the pre-pandemic era. Chain stores closed up to 30 per cent of their outlets. Following these drastic measures, there are still around 310,000 shops – with a downward tendency. This trend is reflected in the renewed insolvency of the Galeria department store group, which is again likely to lead to the closure of a large number of branches. However, the crisis is not only affecting department stores. Footwear retailers who, together with fashion and department stores, were a longstanding core element of city centre retail, have recently suffered a number of setbacks. Well-known shoe chains such as Görtz, or Salamander and Schuh Klauser, both of which are part of the Ara Group, have also been forced to commence insolvency proceedings.

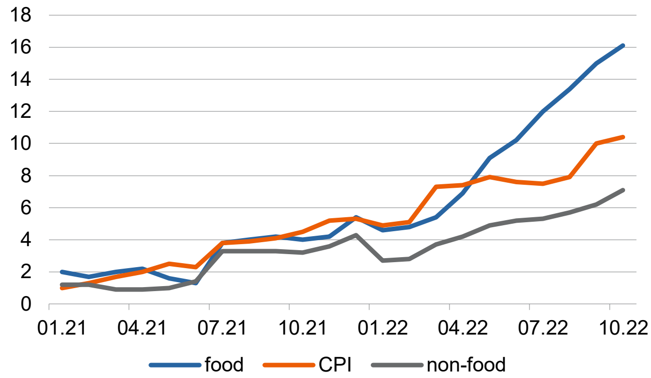
Branch closures by C&A and Primark show that fashion retail is not yet “out of the woods” either. In addition to the abovementioned chains, traditional businesses - which are an important part of the product mix in city centres dominated by the chain stores - are also going under.

FOOTFALL IN SHOPPING STREETS NOW BACK AT PRE-COVID LEVELS
DIVERGENCE IN % VS. 2019, 10-DAY AVERAGE



Source: hystreet.com / Destatis Per January 2023
Berlin (Kurfürstendamm North side), Frankfurt (Große Bockenheimer Str.), Hamburg (Spitalerstr.), Cologne (Schildergasse), Munich (Neuhauser Str.)

PRICE TREND IMPACTING RETAIL SINCE 2022
PRICES IN % YOY



Source: HDE, based on Destatis data

City centres supported by repurposing of space and product diversity

Space which is no longer needed for retail can be repurposed. However, time is short if city centres are to be repurposed before the incipient decline takes root permanently. Repurposing also includes the conversion of retail properties; for example, vacant department stores can be transformed into mixed use properties. In addition to retail space, the main elements of the mix are offices, apartments, hotels and fitness and leisure facilities. This will reduce the supply of sales space and help to stabilise rent levels.

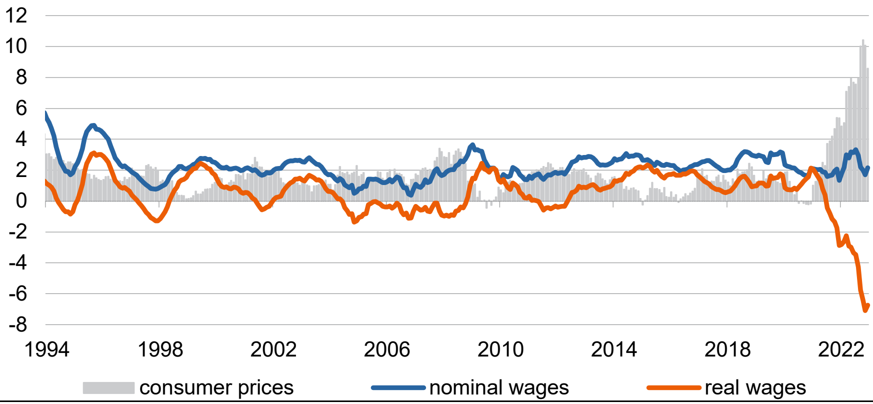
Some new tenants improve city centre offer

Conversely, the short-term rental of pop-up stores, often with a cultural element, can cover temporary vacancies. However, it is also often possible to find new long-term tenants. Classic city centre retail includes chains such as Norrona, Sinn, Uniqlo and Woolworth. Formats which have rarely had a presence in city centres in the past, for example the furniture store IKEA, car producers such as Polestar and Genesis, and sellers of upmarket bicycles, can also play a part. Broadening the range of products on offer can therefore help to provide positive impetus for city centres.

Property owners reliant on rental income cannot be overly selective when picking tenants

However, space is often let to retailers and service providers who either do not help to make city centres more attractive or who have an adverse impact. One such trend is the steady stream of food discounters now following drugstores into city centres. For some time, we have already seen the proliferation of “pound” shops, mobile phone outlets, barber shops and the nail bars often found in shopping centres. Falling rents and the adverse impact on property owners of high vacancy rates are paving the way for the abovementioned outlets to occupy good city centre locations. This is the dilemma facing city centres: they benefit in the long run from an interesting and widely diversified product mix of commerce and culture. Property owners are however reliant on adequate rental income and cannot not afford to be too selective when picking tenants. “Mistakes” can however deter other more attractive tenants from renting space in the relevant property.

HIGH INFLATION LEADS TO VISIBLE CONTRACTION OF REAL PURCHASING POWER
IN % YOY



Source: Destatis, Refinitv
Per November 2022

While letting is more time-consuming, contract terms are shortening

The situation was different a few years ago when it was usually possible to let sales space quickly to solvent chain stores with ten-year rental contracts. However, the letting process has lengthened considerably, while the terms of rental agreements are becoming shorter. During the pandemic they fell to around seven years. Currently, most rental agreements relating to fashion retail are for three to - a maximum of - five years. However, even shorter terms are unlikely to be economically viable given the necessary investment in shop fittings and the length of the fiscal depreciation period. Conversely, contract terms of ten to twenty years are normal in the grocery sector.

Indexed rents weigh on retail

Indexed rents (indexation clauses) are usual in commercial rental agreements. And - as shown in the graph on the next page - these were also unproblematic in the past when inflation was generally moderate. However, high inflation is driving up agreed rents, while customers feeling the chill of a loss of purchasing power are buying less. Retailers have also depleted their reserves during three years of crisis. Many are therefore seeking a dialogue with landlords. Potential solutions are a partial or delayed adjustment of indexing.

Market conditions for retail

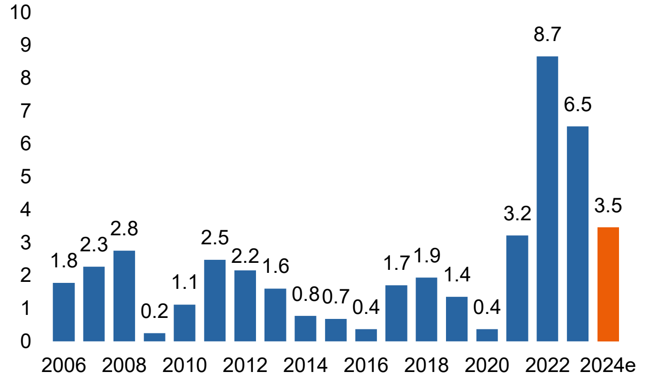
In-store sales still below their 2019 levels

Low inflation rates up to 2020 led to strong growth in real wages, which supported retail activity. The opposite is now the case, with households obliged to rein in spending. Based on December figures from the German trade association of textile, shoes and leather goods, sales were still down by 8 per cent on their 2019 levels in 2022. Although high-quality ranges are performing well, many retailers are experiencing double-digit declines in sales.

Loss of purchasing power mitigated by wage growth and falling inflation

However, there are signs that prices are rising more slowly in 2023, although inflation is likely to remain well above the ECB’s target figure of 2 per cent for some time. The loss of purchasing power is being mitigated by anticipated higher wage agreements. Measures implemented by the German government, such as the gas and electricity price brake, are also cushioning the impact of the price growth. In contrast, housing costs are likely to continue to increase. Rents could increase sharply as a result of tensions in the housing markets and high renovation demand for the building stock.

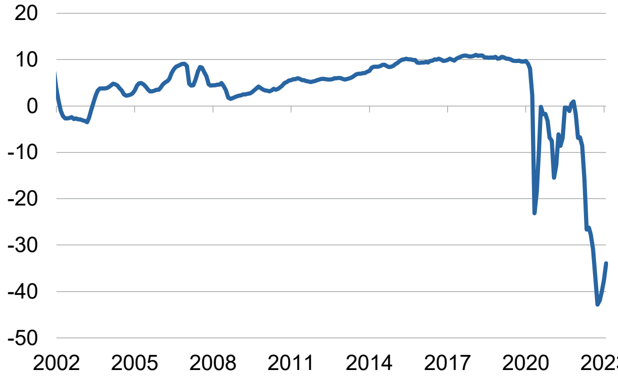
INFLATION ONLY LIKELY TO FALL SLOWLY
IN % YOY



Source: DZ BANK

Per February 2023

CONSUMER SENTIMENT REMAINS NEGATIVE
CONSUMER CLIMATE IN POINTS



Source: GfK

Per February 2023

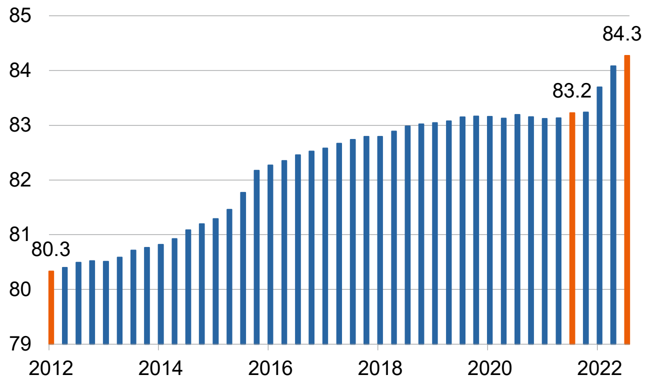
Robust labour market boosts retail

The buoyant job market and low unemployment compared to previous economic crises – see page 7 – are supporting retail. This is also why the unions have good prospects of achieving high wage settlements. High demand for skilled workers on the back of an increasing labour shortage is likely to lead to a favourable outlook for incomes. However, retailers themselves are suffering from a shortage of employees, and in some cases are being forced to reduce their opening hours.

Good for retail: Population growing, tourism recovering

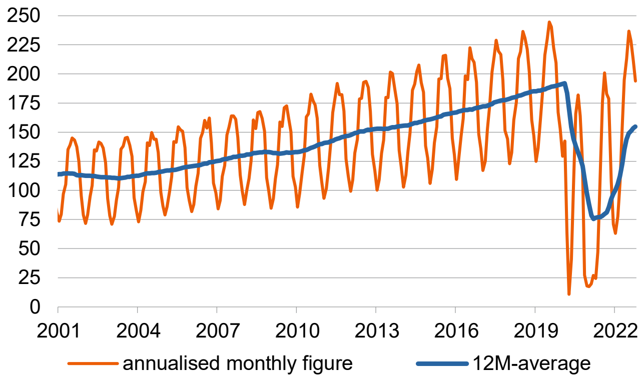
There are other positive developments for retail, one being demographic growth. Although the main reason for this – the war in Ukraine – is extremely tragic, the retail sector is benefiting from the additional 1.1 million people who have arrived, boosting the population by 1.3 per cent to 84.3 million within a year. Whereas the population largely stagnated at around 83 million from 2018 to 2021, customer potential is now growing again. Tourism business is also recovering, with monthly overnight stay figures now almost back at their high levels of 2019. This is particularly good news for retail locations where tourism is strong, such as Dresden and Nuremberg.

POPULATION GREW BY 1.1 MILLION WITHIN A YEAR
IN MILLION PEOPLE



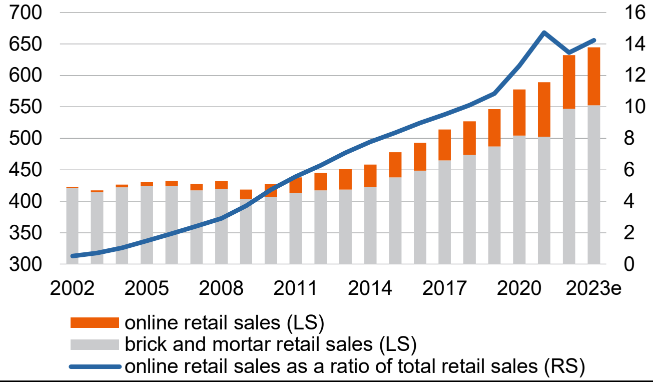
Source: Destatis

TOURISM IN GERMANY RECOVERING STRONGLY
OVERNIGHT STAYS IN MILLION



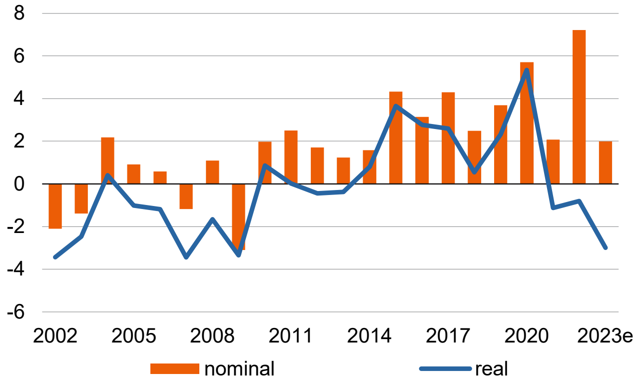
Source: Destatis

E-COMMERCE FACED A SETBACK IN 2022, PROPORTION FELL FOR FIRST TIME IN MANY YEARS
LS: IN EUR BN, RS: IN %



Source: HDE Sales excl. VAT

PRICE INCREASES DRIVE UP NOMINAL SALES, BUT INFLATION LEADS TO DECLINE SINCE 2021
TOTAL RETAIL SALES IN % YOY



Source: HDE, Oxford Economics

In a market climate characterised by crises and inflation, retail sales have increased, mainly because of higher prices. According to HDE data, strong nominal sales growth of 7 per cent to EUR 632bn is coming up against a real decline of just over 1 per cent. In terms of the growing population and the recovery in tourism, the annual results are even gloomier. The trend is also negative in e-commerce, which has otherwise been accustomed to success; the reasons for this are generally difficult market conditions and strong growth during the pandemic. HDE does not expect to see a recovery in 2023. The Federation anticipates nominal sales growth of 2 per cent and a real decline of 3 per cent. Online shopping is likely to increase again visibly, while in-store retail faces a weak year with nominal sales growth of +1 per cent and -4 per cent in real terms.

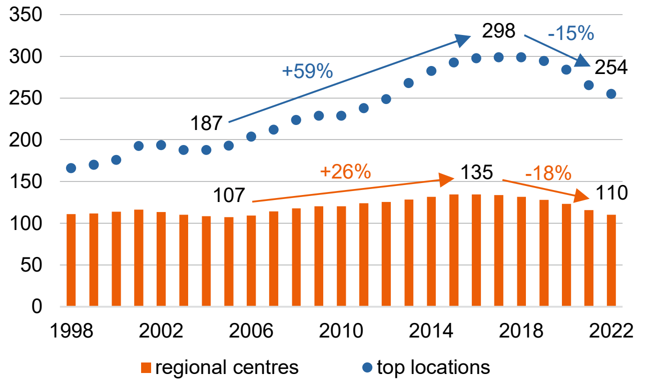
Inflation drives down retail sales as in previous year

Retail: Market trends in the locations reviewed

The already disproportionate supply of space before Covid has grown even further as a large number of store closures lead to higher vacancy rates. In contrast, space demand has weakened, because fewer suppliers are now expanding. The top locations have withstood this trend more successfully despite their higher rents. They experienced much steeper rent growth before the pandemic than the regional centres, but the subsequent relative decline has also been slightly weaker.

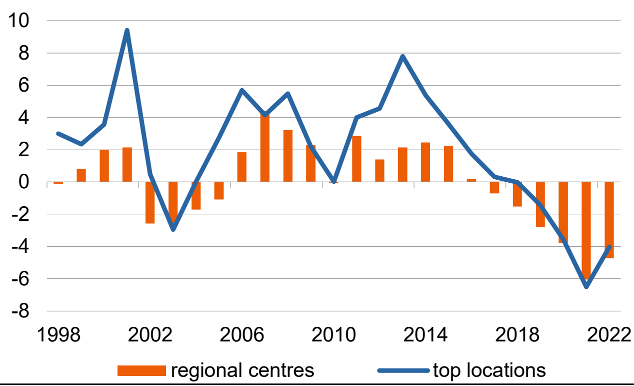
Top locations withstand retail crisis better than regional centres

PRIME RENTS IN TOP LOCATIONS WEAKEN DESPITE STEEPER RISE
PRIME RETAIL RENTS IN EUR PER M²



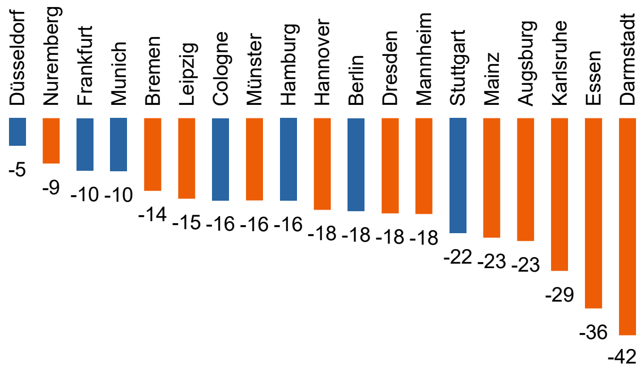
Source: bulwiengesa, DZ BANK

RETAIL RENTS FELL AGAIN IN 2022, BUT THE DOWNTREND HAS SLOWED
PRIME RETAIL RENTS IN % YOY



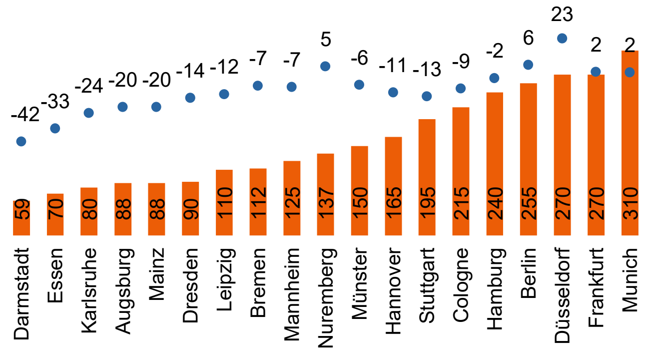
Source: bulwiengesa

RENT DECLINE VARIES WIDELY DEPENDING ON LOCATION
DECLINE IN PRIME RENTS VS. MAXIMUM (SINCE 2010) IN %



Source: bulwiengesa

IN A THIRD OF LOCATIONS, PRIME RENTS ARE NOW BELOW EUR 100/M²
PRIME RENTS IN EUR PER M², RENT CHANGE IN %



Source: bulwiengesa

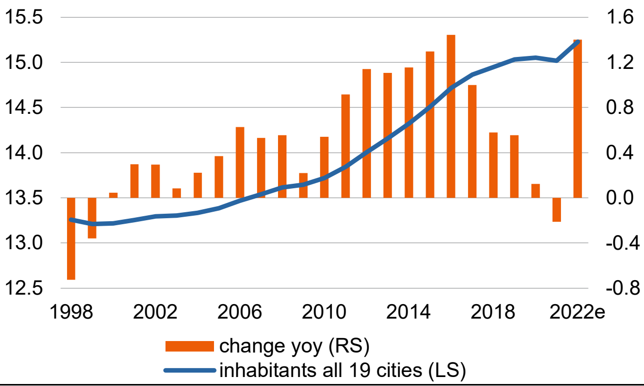
On average, prime rents in the top locations still reached EUR 254 per m² in 2022. This was more than 40 per cent above their level at the new millennium. Prime rents in the regional centres have recently reached EUR 110 per m², which is slightly lower than in 2000. The top locations benefit from their excellent position, which makes them particularly interesting to retailers. Criteria are market size, internationality, high purchasing power and a high volume of visitors. Although the regional centres analysed are often strong retail locations, from a retailer's point of view they are more interchangeable.

Top locations benefit from locational advantages in crisis

The slowing in 2022 of the downward trend in prime rents which had been under way for some years in both the top locations and the regional centres was good news. In 2022, prime rents in the top locations were around 15 per cent lower than their previous maximum levels, and 3 percentage points higher in the regional centres. However, the extent of the decline in rents diverges widely depending on the location. While prime rents in Darmstadt and Essen weakened by around 40 per cent in previous years, the corresponding figures in Düsseldorf, Nuremberg, Frankfurt and Munich were more moderate, falling by a maximum of 10 per cent. This highlights the major importance of sector-specific factors. The negative effects of the pandemic, e-commerce and inflation have been felt equally in all locations.

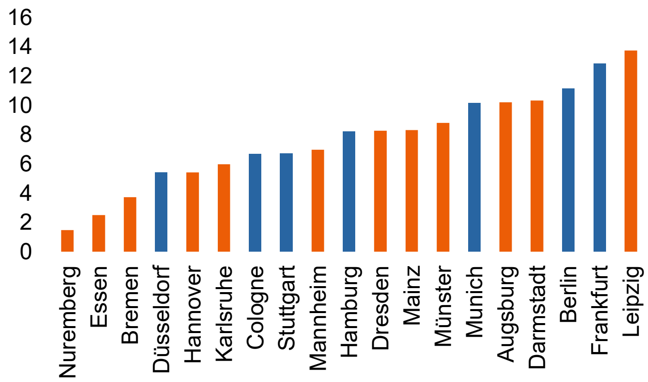
Rent decline diverges widely depending on location

POPULATIONS OF THE 19 CITIES GREW STRONGLY IN 2022
LS: IN MILLION PEOPLE, RS: IN %



Source: Scope, DZ BANK

WIDE DIVERGENCE IN POPULATION GROWTH
DEMOGRAPHIC TRENDS FROM 2011 TO 2021 IN %



Source: Scope

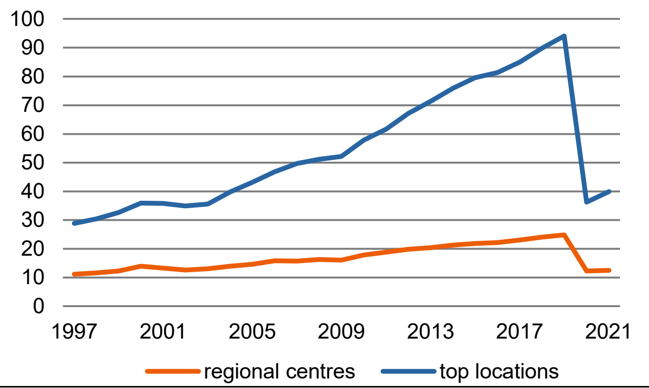
Broad range: Prime rents range from EUR 59 to 310 per m²

Less than ten years ago, prime rents in all the locations reviewed were in triple digits. In one third of the locations this is no longer the case today. Rents in the regional centres range from EUR 59 (Darmstadt) to EUR 165 (Hannover) per m². Among the top locations, prime rents in Stuttgart slipped below EUR 200 per m² again for the first time since 2007. At the other end of the scale, Munich was the only location to exceed EUR 300 per m², at EUR 310 per m².

Populations of the 19 cities grow by nearly 2 million within 20 years

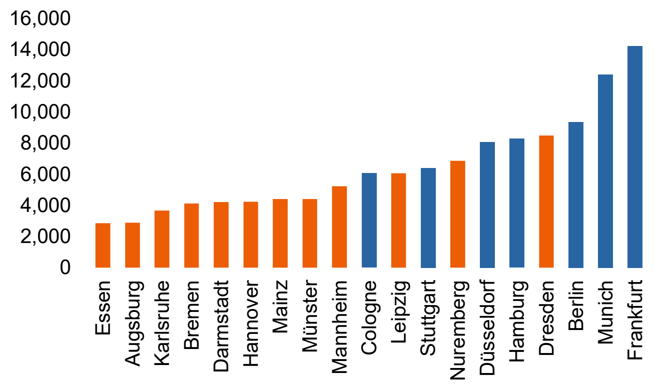
Customer potential is also increasing as populations grow. The 19 locations reviewed here have already benefited significantly from this in the past. Since the millennium, the cumulative population has increased by around 2 million people to more than 15 million. This corresponds to population growth of around 15 per cent. However, the range of population growth is large. For example, the populations of Berlin, Frankfurt and Leipzig have grown considerably in the last ten years, whereas growth in Nuremberg, Essen and Bremen has been low. However, all the major cities are likely to have recorded strong population growth in 2022 due to high levels of immigration.

BOOM IN CITY TOURISM PROVIDED STRONG SUPPORT FOR CITY CENTRE RETAIL UP TO 2019
OVERNIGHT STAYS IN MILLION



Source: bulwiengesa

AS WELL AS THE TOP LOCATIONS, LEIPZIG, NUREMBERG AND DRESDEN BENEFITED PARTICULARLY FROM HIGH VISITOR NUMBERS
OVERNIGHT STAYS PER 1,000 INHABITANTS (2019)



Source: bulwiengesa, Scope

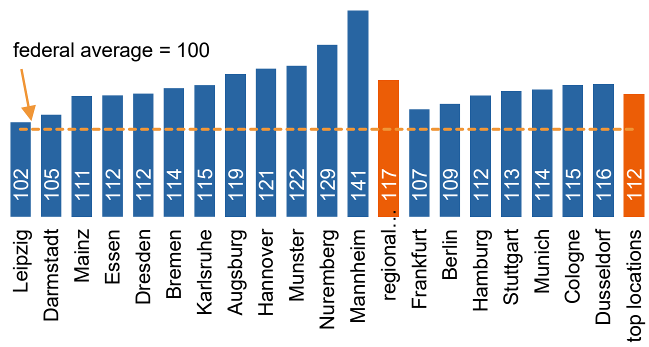
Locations with high visitor numbers benefit particularly as tourism recovers

In addition to population growth, city centre retail has also been supported by the boom in city tourism. For more than 20 years the number of overnight stays each year has increased almost continuously, more than tripling to around 120 million from 1999 to 2019. From the summer of last year, the number of overnight stays came close to high pre-pandemic levels, with particular benefits for retail activity in those cities where tourism is strong. Finally, visitor volumes differ very widely. Only a few locations report high levels. Apart from Dresden and Nuremberg, most are top locations. Conversely, visitor numbers in most cities are fairly moderate.

Purchasing power weak in a whole series of locations

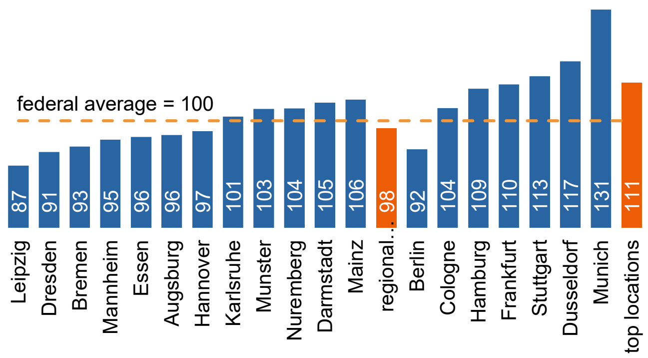
All the locations have succeeded in attracting purchasing power from the surrounding area. Apart from individual upward and downward outliers, the differences between the various locations are however fairly small. Only Nuremberg and Mannheim achieve high levels in their region. In terms of purchasing power, the range in the cities is broader. East German locations bring up the rear, but some west German regional centres also lag well behind the national average. Five regional centres achieve moderately above-average levels of purchasing power. The top locations show significantly higher levels. Purchasing power in Munich is even 30 per cent higher than the national average.

MOST REGIONAL CENTRES ACHIEVE SLIGHTLY HIGHER CENTRALITY LEVELS
2022 CENTRALITY FIGURES IN POINTS



Source: bulwiengesa

APART FROM BERLIN, TOP LOCATIONS SHOW HIGH TO VERY HIGH PURCHASING POWER
2022 PURCHASING POWER FIGURES IN POINTS



Source: bulwiengesa

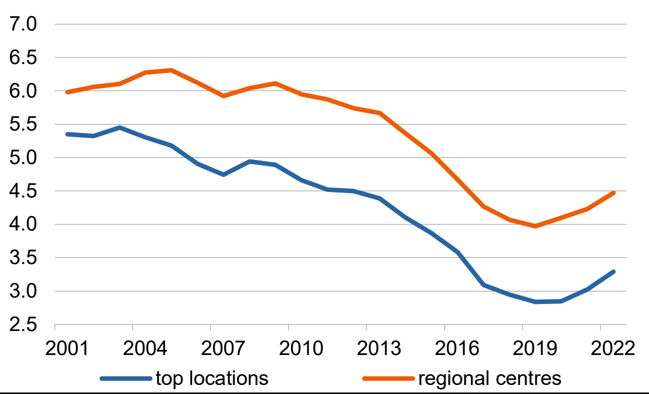
While premises are still in demand for local suppliers, investors are now much more critical of shopping centres in particular. In terms of investment volume, specialist stores, which accounted for two thirds of retail investment in 2021, remain the front-runners. However, their proportion fell to below 50 per cent in 2022. Conversely, shopping centres gained ground, partly thanks to the takeover of Deutsche Euroshop with a volume of around EUR 1.5bn. Initial rental yields continued their upward trend of the last two years and are more than half a percentage point above their 2019 low. The increase in rental yields is fairly moderate given the sharp rise in bond yields and the crisis afflicting the retail sector.

Retail rental yields rise for a third successive year, but at a moderate pace

The initial rental yield for prime retail properties in the top locations averaged 3.3 per cent in 2022 and 4.5 per cent in the regional centres. The yield divergence between the two market segments has remained largely stable for many years. The initial rental yield in the regional centres ranges from 3.9 per cent in Münster to 5.2 per cent in Essen. The range for the top locations extends from 3 per cent in Munich to 3.7 per cent in Stuttgart.

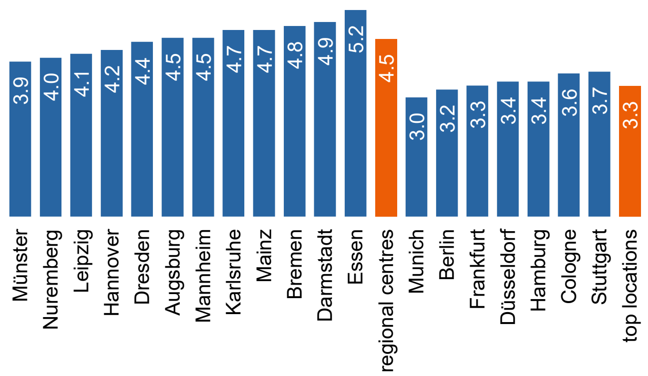
Depending on location, yields for prime retail properties range from 3 to 5 per cent

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



Source: bulwiengesa

RETAIL RENTAL YIELDS RANGE FROM 3 TO 5 PER CENT
RETAIL CENTRAL LOCATIONS: INITIAL RENTAL YIELD IN % 2022



Source: bulwiengesa

Conclusion and forecast for retail market

City centre retail crisis triggers many “rescue” measures

City centre retail was already facing problems before the onset of Covid. However, the pandemic has aggravated and exposed the crisis there. Growing vacancy rates due to branch closures and the success of online shopping made citizens, politicians and property owners aware of the risk of the permanent depopulation of city centres if robust countermeasures are not put in place. The measures initiated range from reworking city concepts and city centre investment plans to district developments, with former sales space in converted retail properties scaled back for alternative uses.

High construction and financing costs could hamper city centre developments

This “new beginning” could nevertheless falter. The sharp rise in construction and financing costs may make it even more difficult to realise new city centre projects than in the office and housing market for example. On the one hand, rents for alternative space uses often fall far short of previous retail rents. On the other hand, it is virtually impossible to implement higher rents for space designated for retail use. However, the high demand for offices and apartments and the associated strong rent growth is positive, and will at minimum boost the economic viability and the implementation of mixed used city centre developments.

New suppliers upgrade city centre offer

However, there are also positive developments. For example, footfall has returned to high levels again in shopping locations. Although sales have not recovered uniformly, city centres with large numbers of potential consumers are better than those which are empty. Other positive factors are the strong recovery in city tourism and the resumption of demographic growth, which is indicative of sales growth. Another positive factor is that some of the now available space is being rented by suppliers who enhance the product range on offer in city centres. Other suppliers who attach importance to a physical high street presence to interest potential customers in their products are likely to follow suit. Rents for prime sites in top locations, which have already fallen and are likely to continue to do so in 2023, should make the decision to rent city centre space easier. The more than halving of rental contract terms has also reduced the risk for tenants.

Trends in 2023 and thereafter: Digitalisation, sustainability and price sensitivity

In-store city centre retail does have a future, but will continue to face tough competition from other city districts and e-commerce – whose success is only partly due to home working. Digitalisation and integrated sales channels are becoming increasingly important. The same applies to sustainability. This is true of the demand patterns of both consumers and investors in the property market. Inflation has made customers more price-conscious. It makes sense for discounters to show interest in city centre locations. The inherent potential from linking “affordable” and “sustainable” should support the trend for recycled and second hand products. Self-service concepts are also gaining ground. Staff shortages are adding further weight to digitalisation and price-sensitivity. Headwinds from weak economic growth and high inflation are likely to drive prime rents down further.

RETAIL – FORECAST FOR PRIME RENTS

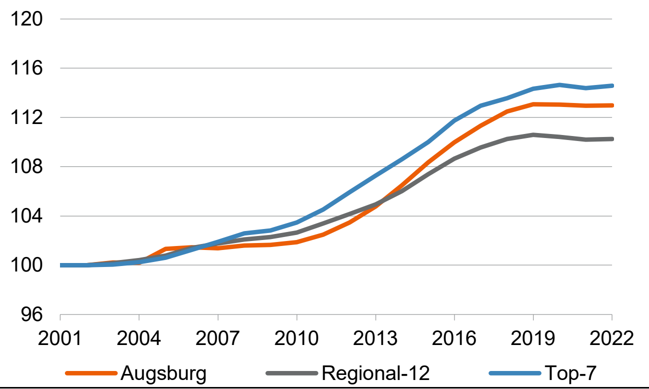
	2021	2022	2023e
12 regional centres			
Prime rents in EUR/m² (vs. previous year in %)	115.7 (-6.1)	110.2 (-4.7)	105.9 (-3.9)
7 Top locations			
Prime rents in EUR/m² (vs. previous year in %)	265.1 (-6.5)	254.4 (-4.0)	245.0 (-3.7)

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.

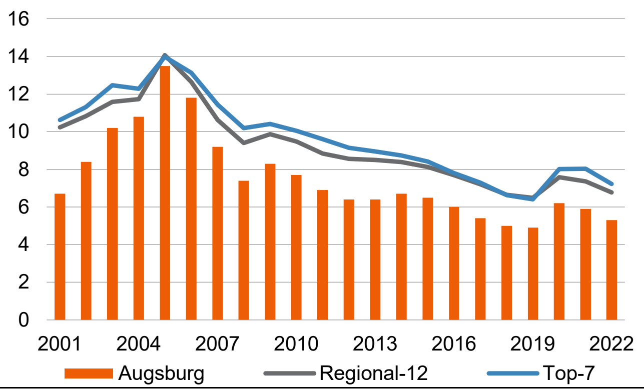
AUGSBURG

POPULATION GROWTH
2001 = 100



Source: Scope

UNEMPLOYMENT RATE
IN %

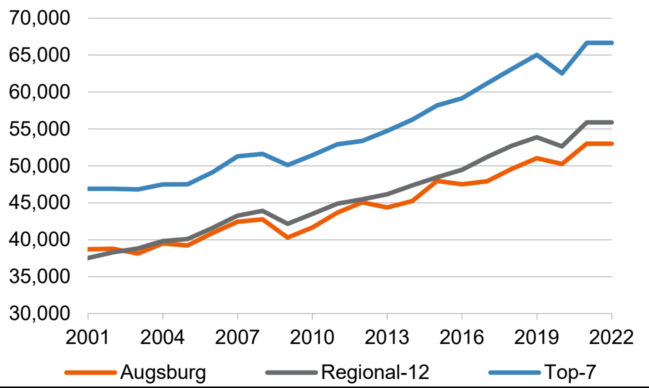


Source: bulwiengesa

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

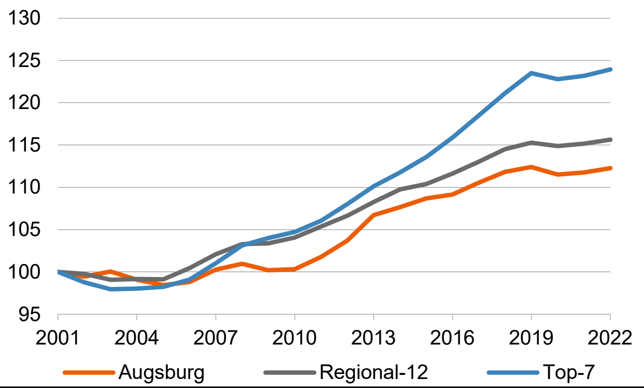
Augsburg, founded by the Romans, and famous for its City Hall, Goldener Saal, and Fuggerei alms houses, is the third most densely populated city in Bavaria. Demographic growth stagnated for a long time. However, ten years ago the population began to increase significantly, before the trend came to a halt in 2019. Overall, the population has grown by about 9 per cent since 2012 to around 295,000 people. One plus point is the city's proximity to Munich combined with its considerably cheaper housing market. The state capital at a distance of 60 kilometres is easily accessible for commuters via the Autobahn A8 or by rail on the Intercity Express (ICE). Space no longer needed by the previously important textile industry and made available by the withdrawal of US forces has provided scope for the development of residential and commercial districts. The successful structural shift is reflected in continuing employment growth and a low unemployment rate which stood at 5.3 per cent in 2022. Important economic sectors are fibre composite technology, environmental technology, IT, mechatronics, aerospace, and the cultural and creative industries. A high value is still placed on the manufacturing sector. The establishment of the university in 1970 had a positive impact on the city's development. With more than 26,000 students, Augsburg is an important centre of education, which is continuing to grow as a result of the rebuilding of the university hospital. The "Augsburg city project" which involves upgrading the main station and an underground tram has for many years been the largest urban development project in the city.

GDP
IN EUR PER CAPITA



Source: Scope

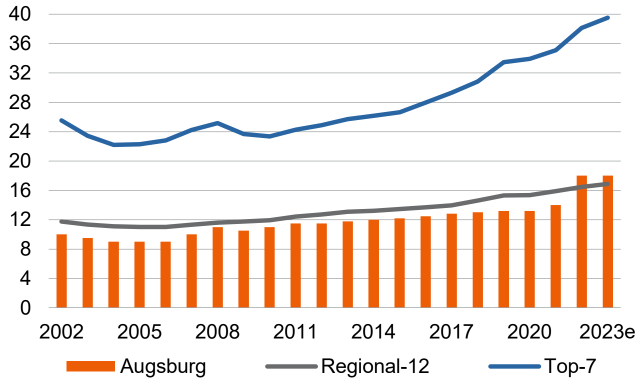
WORKING POPULATION
2001 = 100



Source: Scope

Office space in Augsburg

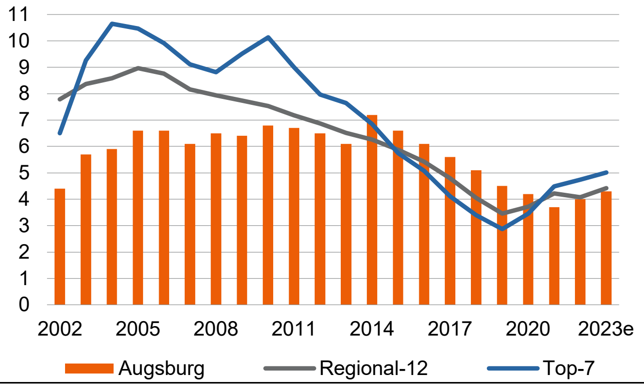
PRIME OFFICE RENTS
IN EUR PER M²



Source: bulwiengesa, DZ BANK forecast

Figures for city locations

VACANCY RATE
IN %

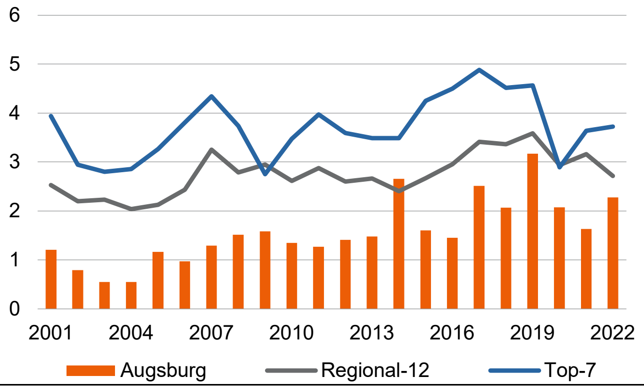


Source: bulwiengesa, DZ BANK forecast

Office: Prime rents may increase sharply in 2022

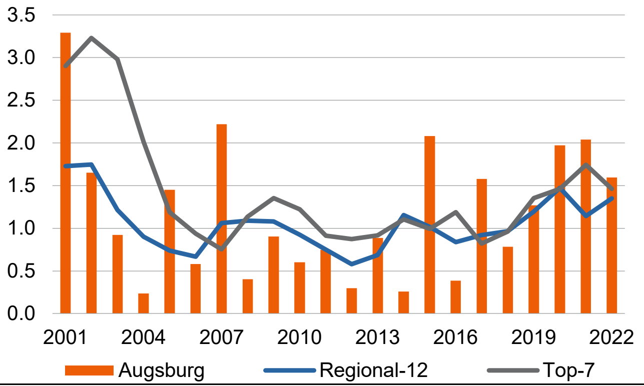
In contrast to the Munich office market, which is around ten times as large, the scale is much smaller in Augsburg, with a space stock of a good 1.5 million m². Demand is mainly of a regional nature. Annual take-up is comparatively moderate at a good 2 per cent of available space. Take-up of 34,000 m² in 2022 was broadly in keeping with the five-year average. Several large transactions of between 2,000 and 5,000 m² accounted for a substantial proportion. Significant space demand came from the high-tech sector and public administration. Thanks to stable office demand, the office vacancies have fallen gradually in recent years. In 2022, the figure was just under 4 per cent. Prime rents increased significantly to EUR 18 per m² recently. High rents are being achieved for new office projects in particular. Demand-driven office construction has gained pace in recent years and is primarily focused on converted space or the Innovation Park. This development space of 66 hectares will mainly facilitate the networking of research facilities and companies. Negative factors such as the risk of recession this year, economic uncertainty and high construction and financing costs are also likely to hamper office projects in Augsburg. This could inhibit both take-up and growth in prime rents.

TAKE-UP
AS % OF OFFICE STOCK



Source: bulwiengesa

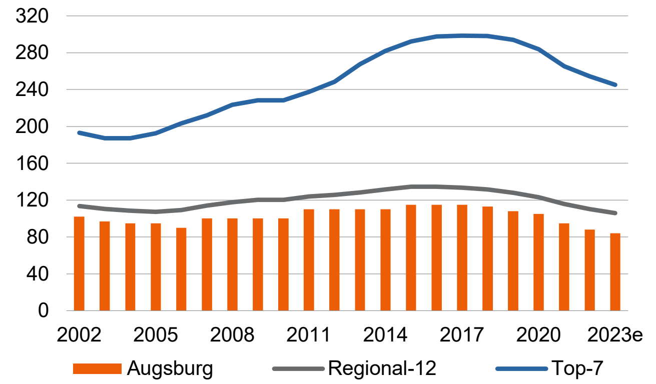
NEW OFFICE SPACE
AS % OF OFFICE STOCK



Source: bulwiengesa

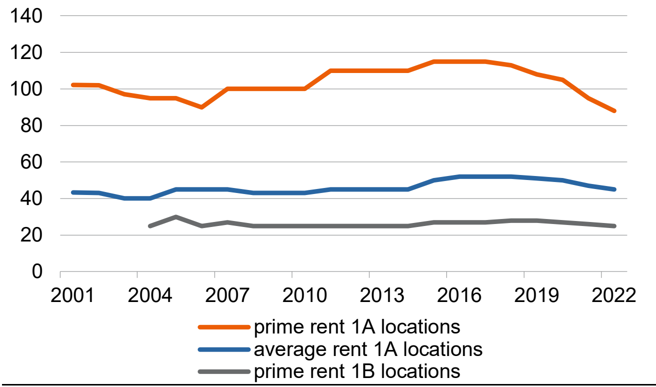
Retail space in Augsburg

PRIME RETAIL RENTS
IN EUR PER M²



Source: bulwiengesa, DZ BANK forecast

RETAIL RENTS PRIME/SECONDARY LOCATIONS
IN EUR PER M²

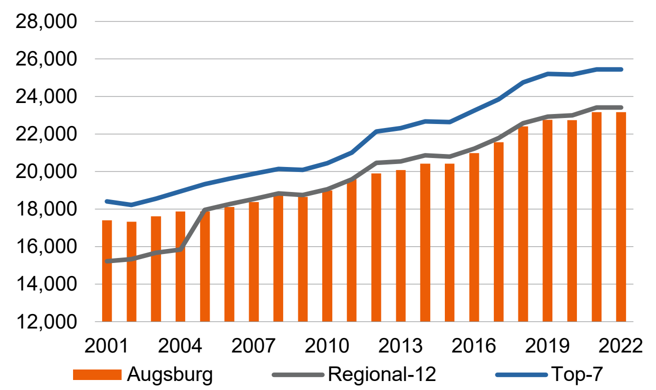


Source: bulwiengesa

Retail: Attractive shopping location fails to stop prime rents falling by nearly a quarter

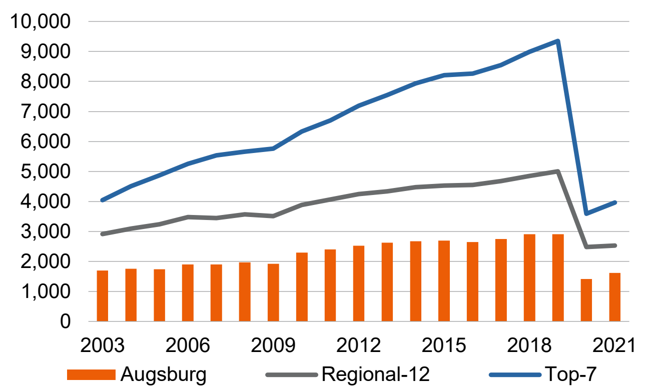
As a result of its supply function for a catchment area of 600,000 people, Augsburg has a relatively large stock of sales space. As an attractive shopping destination, the centrality of this city situated halfway between Munich and Ulm is positive at around 120 points. Conversely, purchasing power is slightly below-average at 96 points. Increased customer potential due to the demographic growth in recent years is a plus point. In contrast, tourism plays only a minor role. The city centre was upgraded in 2018 with the reopening of the former Fuggerstadt Centre close to the main station as the Helio mall and the conversion of the former K&L building in Bürgermeister-Fischer-Straße. The city centre retail offer comprises around 300 shops. Quality of stay also benefits from more than 100 food outlets. However, the ongoing problems afflicting the retail sector have also left their mark on the attractive and only recently modernised city centre of Augsburg, although vacancy rates have remained moderate. Temporary vacancies have also been overcome to some extent by pop-up stores. Overall, prime rents have fallen by nearly a quarter from their previous maximum level to recently EUR 88 per m². They may well fall further. The renovation of the vacant former Attingerhaus and the reopening of a Globetrotter branch in the city centre are also positive factors.

PURCHASING POWER
IN EUR PER CAPITA



Source: bulwiengesa

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

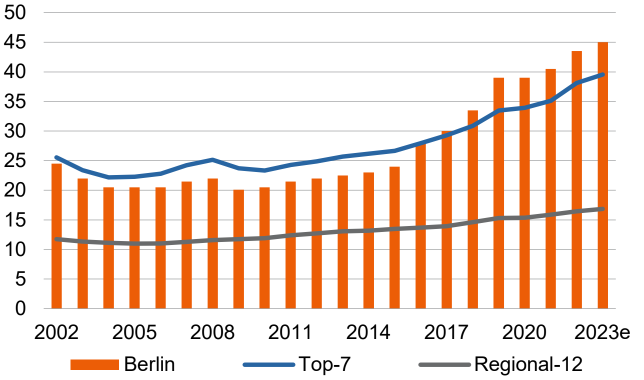


Source: bulwiengesa, Scope

BERLIN

Office space in Berlin

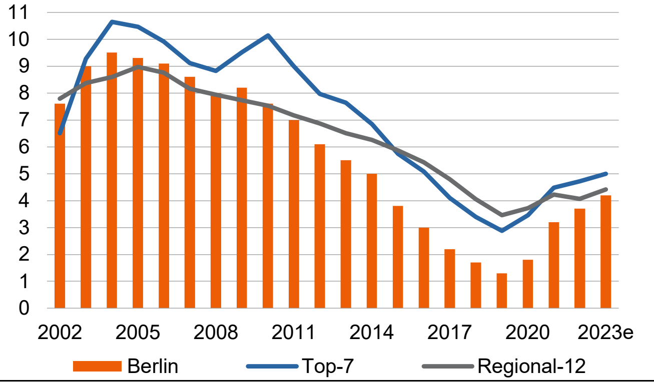
PRIME OFFICE RENTS
IN EUR PER M²



Source: bulwiengesa, DZ BANK forecast

Figures for city locations

VACANCY RATE
IN %

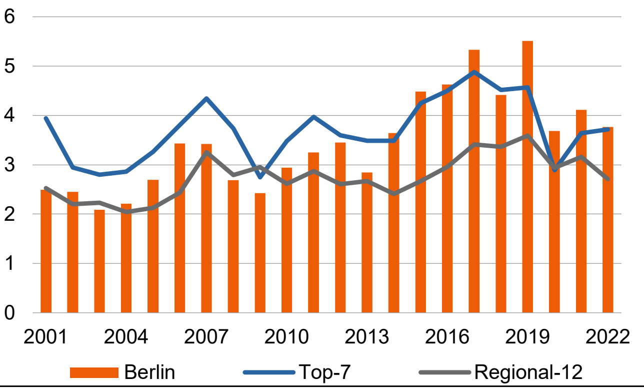


Source: bulwiengesa, DZ BANK forecast

Office: Prime rents up sharply in 2022 despite large volume of new space

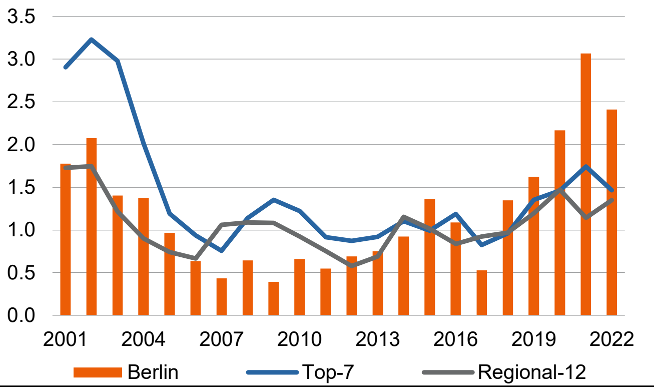
The upturn in Berlin has provided strong impetus for the office market. As a result of strong demand for space, the office market stands alone in achieving annual take-up of more than 1 million m² (2017 and 2019) with total office stock of more than 20 million m². Although in 2022 the city achieved a figure of nearly 800,000 m² - the highest in absolute terms among the top locations and almost 4 per cent of total space stock - in relative terms revenues were average. The longstanding low prime rent in Berlin picked up rapidly to EUR 43.50 per m² from 2016 thanks to strong demand for office space. With office construction at a low level, the vacancy rate had fallen to just over 1 per cent by the beginning of 2020. Numerous office projects were initiated in response to the high demand for office space, as reflected in the large volume of new space since 2020. From 2020 to 2022 more than EUR 1.5m m² of office space came onto the market, more than the cumulative figure from 2005 to 2015. The vacancy rate consequently climbed to nearly 4 per cent. However, this did not slow the growth in rents, underpinning continuing buoyant demand for modern office premises. In terms of the pipeline, the volume of space coming onto the market in 2023 and 2024 should also be well above-average, notwithstanding delays caused by difficult market conditions. We therefore expect vacancy rates to increase further. Prime rents should pick up again as a result of high demand for upscale office space.

TAKE-UP
AS % OF OFFICE STOCK



Source: bulwiengesa

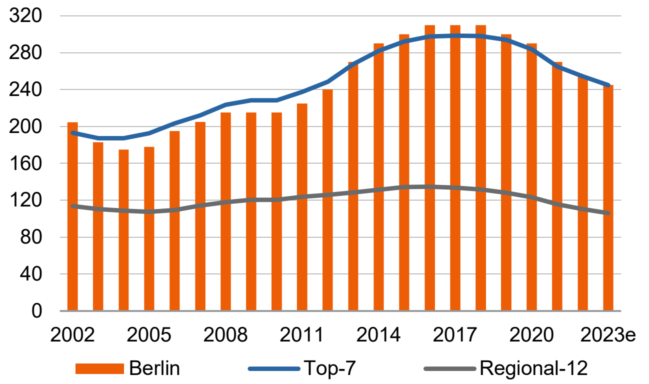
NEW OFFICE SPACE
AS % OF OFFICE STOCK



Source: bulwiengesa

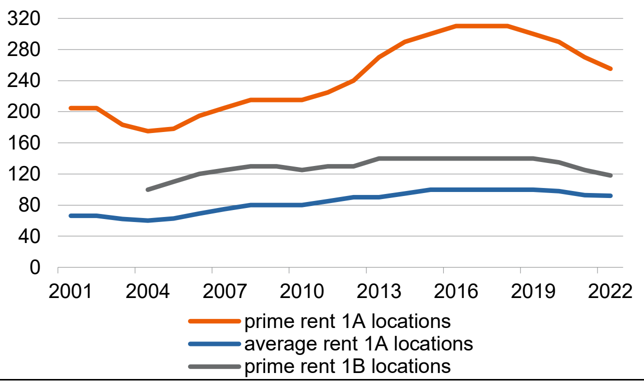
Retail space in Berlin

PRIME RETAIL RENTS
IN EUR PER M²



Source: bulwiengesa, DZ BANK forecast

RETAIL RENTS PRIME/SECONDARY LOCATIONS
IN EUR PER M²

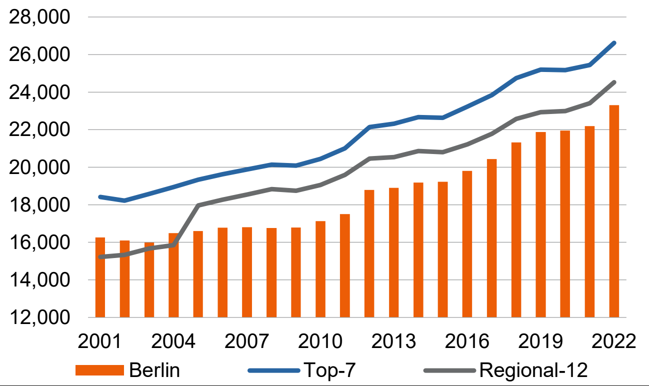


Source: bulwiengesa

Retail: Tourism should provide further impetus for tourism, but will not solve all the problems

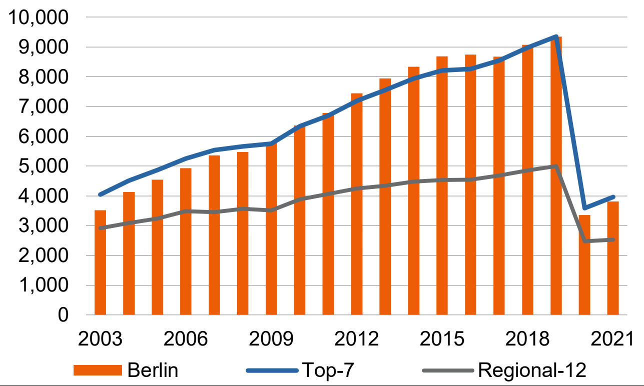
Retail benefited greatly from the upturn in Berlin. On the one hand, unemployment fell sharply, and on the other hand customer potential increased significantly. Since 2011 the population has grown by a good 350,000. With the hinterland also growing, the retail sector has access to the largest catchment area in Germany of around 5.4 million people. Tourism was also flourishing before Covid, with 34 million overnight stays in 2019. Although tourism business collapsed in 2020, it has recovered visibly this year. Visitors play a more important role than in other top locations because purchasing power is fairly low in Berlin. Apart from its size, the Berlin retail market is characterised by several geographically separate prime locations. These include Tauentzienstraße which has the highest prime rents, Ku'damm, Alexanderplatz with its high footfall, Friedrichstraße, and the trendy Hackescher Markt. The city also has approximately 70 shopping centres, with the large Mall of Berlin particularly prominent. Prime rents stagnated at EUR 310 per m² from 2016 to 2019, before falling by 18 per cent to EUR 255 per m² by 2022. Although retail prospects in the attractive capital city are generally good, the large supply of space and numerous shopping centres pose a challenge. An increasing number of centres are likely to be repurposed in future.

PURCHASING POWER
IN EUR PER CAPITA



Source: bulwiengesa

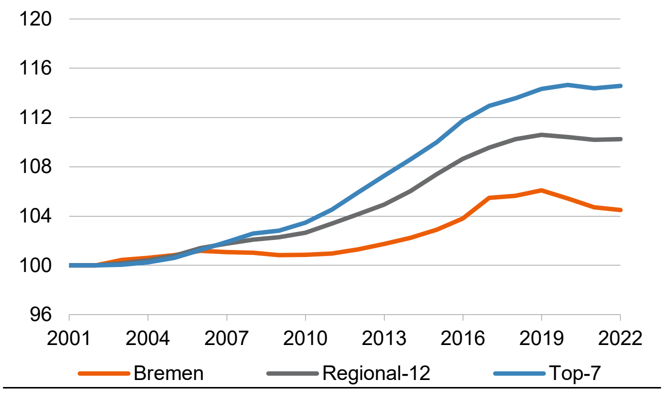
TOURISM - NO. OF OVERNIGHT STAYS
PER 1,000 INHABITANTS



Source: bulwiengesa, Scope

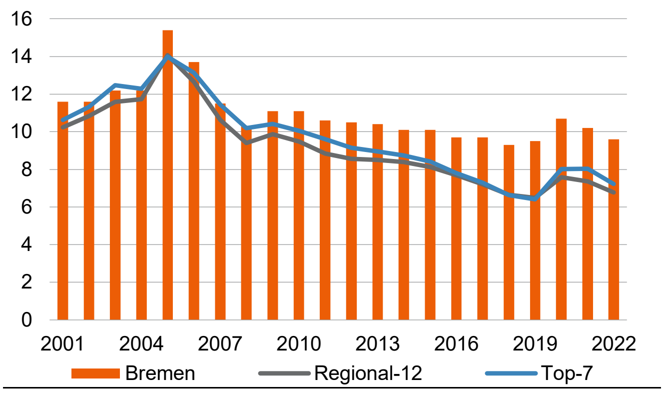
BREMEN

POPULATION GROWTH
2001 = 100



Source: Scope

UNEMPLOYMENT RATE
IN %

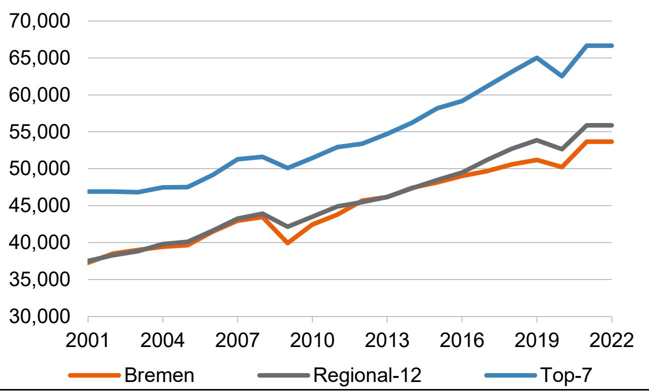


Source: bulwiengesa

Unemployment remains high despite economic success

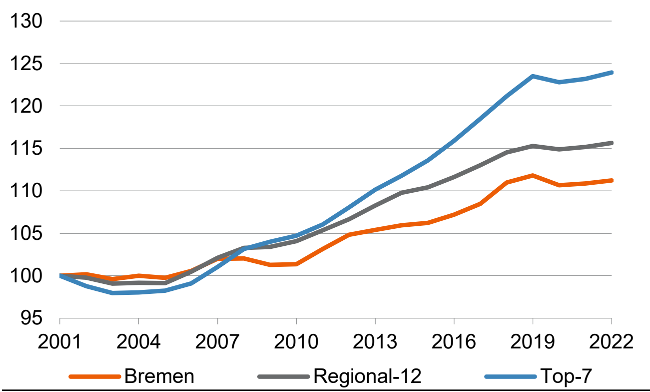
Bremen, the capital of the smallest federal state, is the eleventh most densely populated city in Germany. Demographic growth has been moderate since 2012, increasing by around 3 per cent to just over 560,000 inhabitants. The weaker labour market has probably had a braking effect. Despite the success of the structural shift away from the crisis-stricken shipbuilding and heavy industry sectors, unemployment remains high at nearly 10 per cent. As a result of slower employment growth, unemployment has not fallen as significantly as in many other cities. The main economic success has been achieved in the vehicle construction, aerospace, food and drink, and biotechnology sectors. Maritime industries and logistics are also important. The founding of the university in 1971 has supported the city’s transition to a services and technology location. The student population at Bremen’s higher education colleges totals 35,000. Good road, rail, sea, and air links are advantageous. The largest companies in Bremen include Airbus, Arcelor-Mittal, BLG Logistics and Daimler. The property location has gained momentum from a number of large-scale projects. One of these is the Überseeinsel peninsula, where 1,200 apartments are to be built and 3,000 jobs created on the former Kellogg site. Other projects are the Hulsberg, Tobacco, and Hachez quarters, and the development of the Könecke/Coca Cola site. Project developments will also significantly upgrade the attractions of the city centre.

GDP
IN EUR PER CAPITA



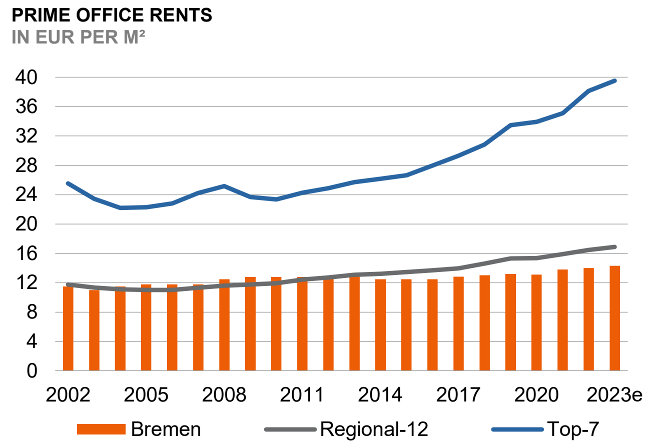
Source: Scope

WORKING POPULATION
2001 = 100

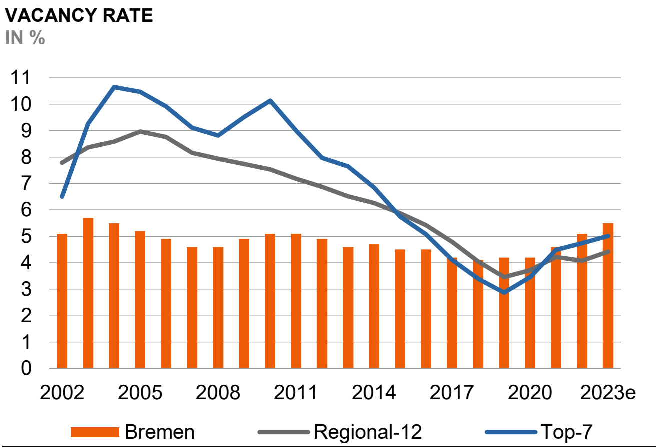


Source: Scope

Office space in Bremen



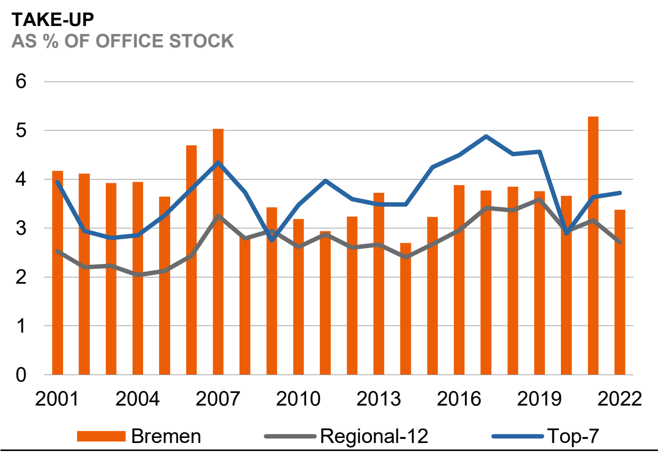
Source: bulwiengesa, DZ BANK forecast Figures for city locations



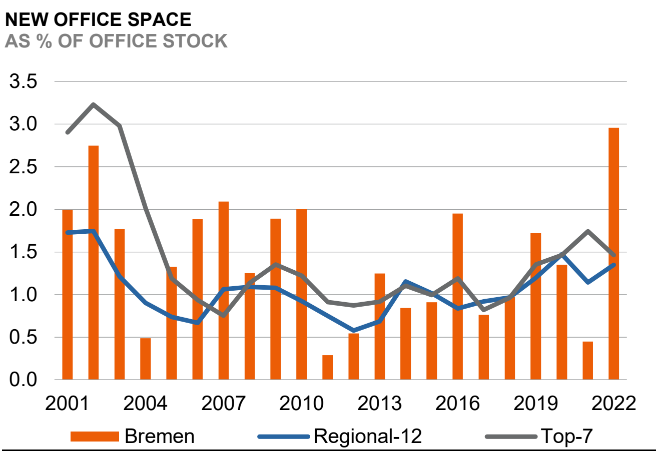
Source: bulwiengesa, DZ BANK forecast

Office: High volume of new space drives up vacancy rate

Bremen's office market has around 2.8 million m² of space, which has expanded by around 12 per cent since 2012. Space growth has been demand-driven, as reflected in a longstanding stable vacancy rate of between 4 and 5 per cent. The large volume of new space in 2022 raised this figure to just over 5 per cent. However, rent growth is below-average. Prime rents have only increased by 10 per cent in the last ten years, while rent growth in the regional centres has reached nearly 30 per cent overall. At EUR 14 per m² – and slightly higher in the office centres – prime rents are clearly below-average for a regional centre. Rental activity is strong at around 4 per cent of the space stock each year. Since 2016, take-up has consistently reached around 100,000 m². 2021 was an outlier with almost 150,000 m², supported by large individual transactions. However, 2022 was a "normal year" again with 95,000 m². The lion's share of rental activity relates to small and medium-sized transactions. Office market activity is focused on peripheral locations such as Airport City, the Technology Park and the Überseestadt, where many office developments have been realised. Conversely, the city centre office stock is outdated. The volume of new space looks set to increase sharply this year, and the vacancy rate is therefore likely to grow again. Prime rents could pick up slightly.



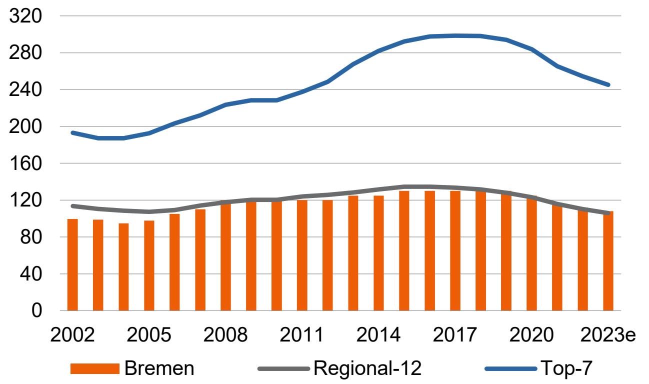
Source: bulwiengesa



Source: bulwiengesa

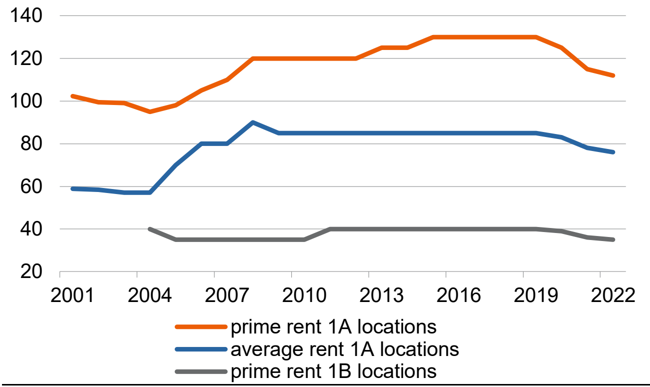
Retail space in Bremen

PRIME RETAIL RENTS
IN EUR PER M²



Source: bulwiengesa, DZ BANK forecast

RETAIL RENTS PRIME/SECONDARY LOCATIONS
IN EUR PER M²

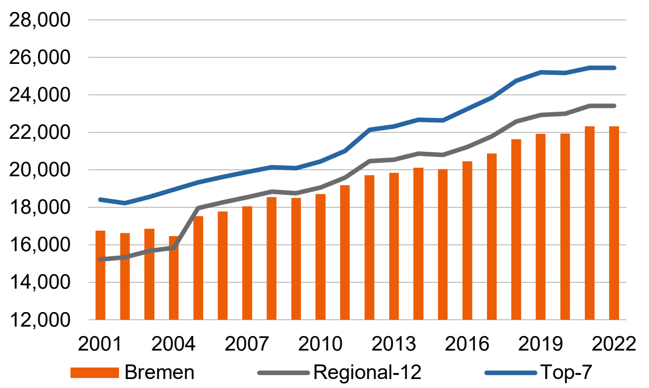


Source: bulwiengesa

Retail: Transformation of city centre, but key project falters

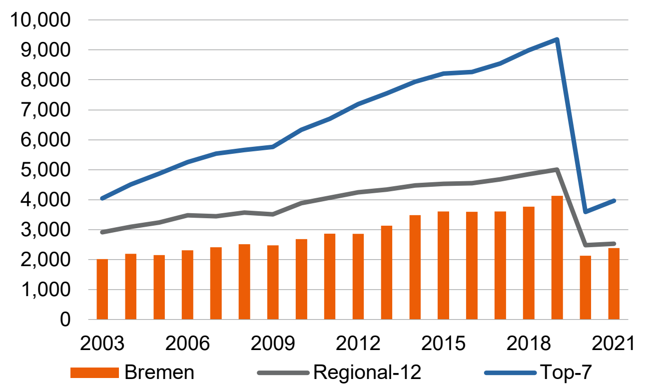
Based on its locational potential, retail development in Bremen has not been optimal. Although the large shopping location in the Northwest benefits from a catchment area of 1 million people, its centrality rating is fairly moderate at 114 points. Low purchasing power of only 93 points is also unfavourable. Tourism was developing successfully before Covid, although overnight stay figures did not reach high levels. City centre retail is being hampered by large peripheral shopping complexes such as Waterfront, Roland-Center and Weserpark. Although prime rents in the top locations of Sögestraße, Obernstraße and Hutfilterstraße are not overly high, Bremen City, with its weather-proof covered arcades, should not be underestimated either. The decline in prime rents from their maximum levels has remained moderate at 15 per cent. The closed Galeria store was also quickly relet, albeit with consequences for the central City project; it will now no longer be possible to quickly realise a planned mall near the Lloyd Passage – replacing the Mitte car park and including the former Karstadt and Galeria buildings. In contrast, the repurposing of retail space is proceeding apace. Apartments will replace the former C&A building in the Hanseatenhof, and the Lloydhof is being converted into a mixed-use new build, a “Lebendiges Haus” (living house). Another project is the “Balge district”, which will be created from the Johann Jacobs Haus and neighbouring buildings such as the Essighaus (“vinegar house”) and the Kontorhaus.

PURCHASING POWER
IN EUR PER CAPITA



Source: bulwiengesa, Scope

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

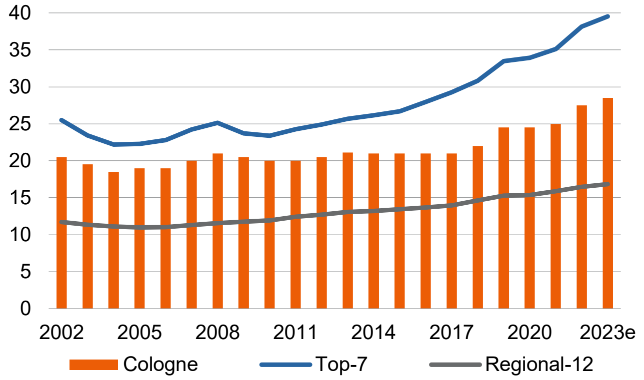


Source: bulwiengesa, Scope

COLOGNE

Office space in Cologne

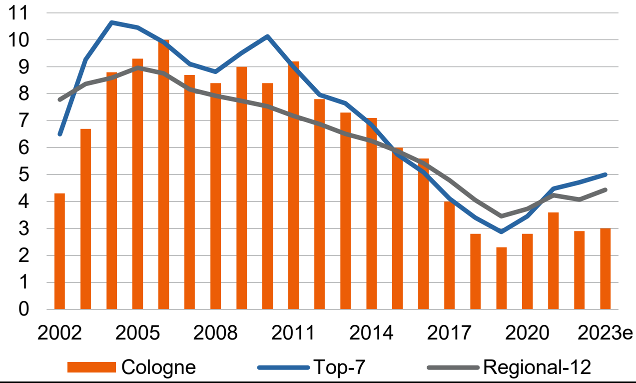
PRIME OFFICE RENTS
IN EUR PER M²



Source: bulwiengesa, DZ BANK forecast

Figures for city locations

VACANCY RATE
IN %

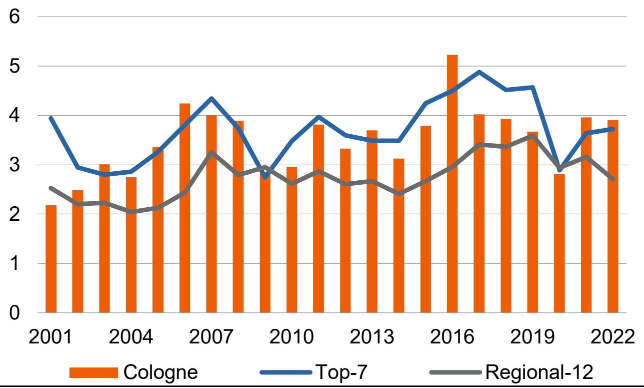


Source: bulwiengesa, DZ BANK forecast

Cologne's office market had a very successful year in 2022

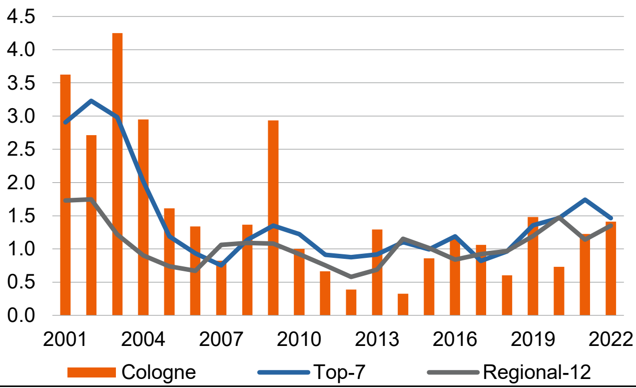
Although Cologne is the fourth largest city in Germany in terms of population, its office market only ranks in sixth place with a stock of just over 8 million m². Likewise, prime rents are at the lower end of the league table for top locations. However, after stagnating for many years, they have been surging since 2018 to reach the latest figure of EUR 27.50 per m². Prime rents have therefore risen by over 30 per cent within the space of just five years and even the remaining market data for Cologne is perfectly respectable in view of outstanding conditions. Office take-up in 2022 was solid at 310,000 m², helped by two very large contracts of around 40,000 m² each. The new tenants are the Cologne city authorities and the Institute for Federal Real Estate, underlining the major importance of public sector bodies for Cologne's office market. High demand for rental space led to a fall in the vacancy rate to just under 3 per cent in 2022 - the lowest level among top locations. Consequently, the increase in vacancies brought about by the pandemic witnessed in most office locations did not happen in Cologne. In 2022, there was a slight increase in new space becoming available, but much less is expected this year and supply is therefore likely to remain tight. The market will have to wait until 2024 for a better filled pipeline. The limited availability of space is likely to push up prime rents further despite weak economic conditions.

TAKE-UP
AS % OF OFFICE STOCK



Source: bulwiengesa

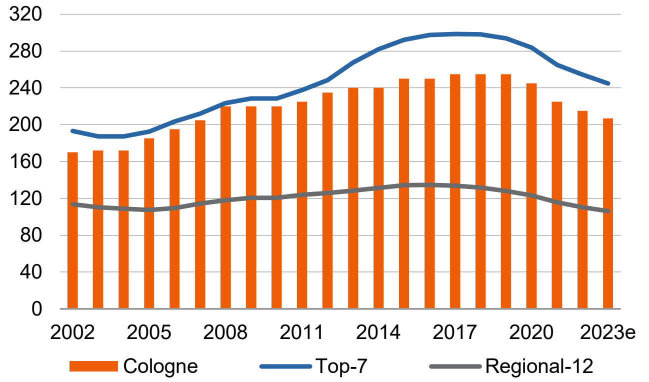
NEW OFFICE SPACE
AS % OF OFFICE STOCK



Source: bulwiengesa

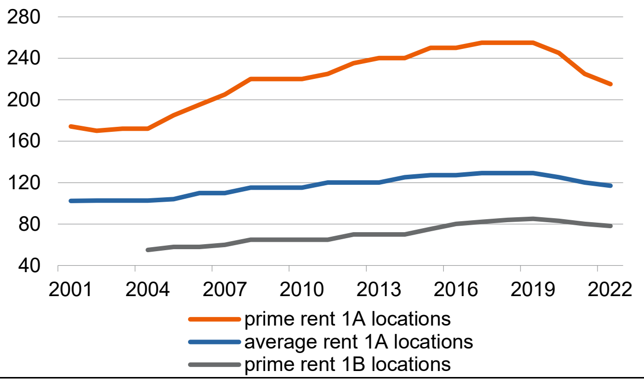
Retail space in Cologne

PRIME RETAIL RENTS
IN EUR PER M²



Source: bulwiengesa, DZ BANK forecast

RETAIL RENTS PRIME/SECONDARY LOCATIONS
IN EUR PER M²

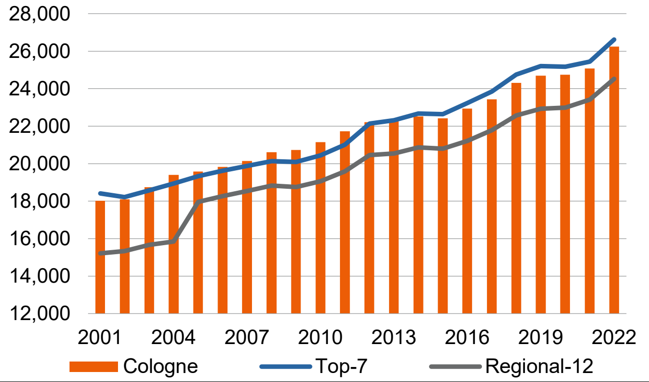


Source: bulwiengesa

Fall in prime rents remains contained despite ample supply of retail space

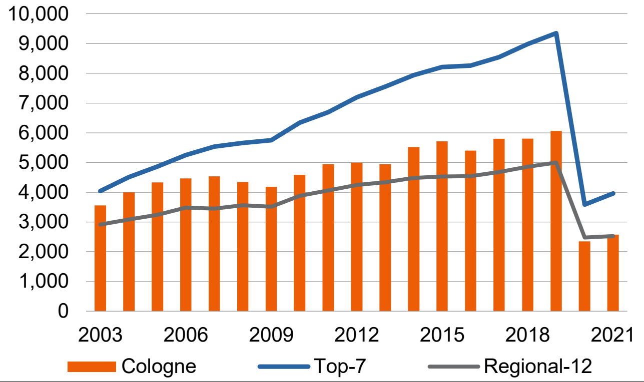
The million-strong city of Cologne is one of two top retail locations in western Germany along with Düsseldorf – a fact which generates a certain amount of competition. Cologne is attractive for retailers in view of potential from a catchment area of 2.4 million people along with many day trippers from the Benelux countries, even though tourism does not have quite the same importance as it does in other top locations. Purchasing power is also rather moderate for a top location at 104 points. In contrast, Düsseldorf scores 117 points. Unlike the latter with its extensive luxury goods segment, Cologne focuses more on the mass market. The city has a three-kilometre-long shopping circuit which invites visitors to stroll around the prime shopping locations and encourages a high footfall. This is especially true of the Schildergasse which is mostly given over to high-street chains. The Hohe Straße also enjoys a high footfall, although not quite on a par with the Schildergasse. The Ehrenstraße is trendier, while the Domkloster/Wallraffplatz offers a smaller high-end segment. The pandemic has had a noticeable impact on Cologne's city centre. A fall in prime rents of 16 per cent to EUR 215 per m² from their peak was still relatively moderate though. Prime rents are likely to continue to dwindle, however, in light of a large supply of retail space in Cologne. Vacant stores are mostly in evidence in the Hohe Straße. The Ehrenstraße's change to a pedestrian zone in April 2022 has had a positive impact with a marked increase in footfall since.

PURCHASING POWER
IN EUR PER CAPITA



Source: bulwiengesa

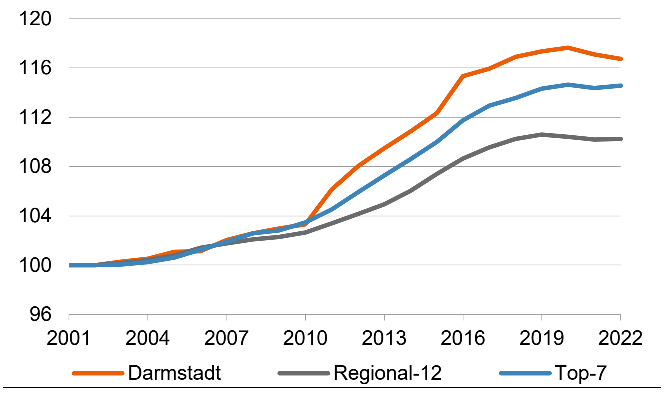
TOURISM - NO. OF OVERNIGHT STAYS
PER 1,000 INHABITANTS



Source: bulwiengesa, Scope

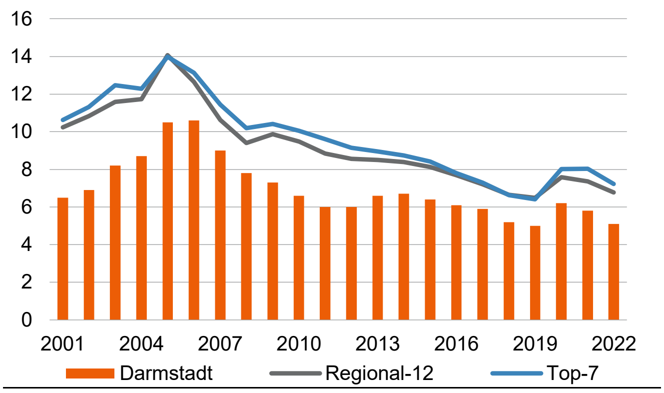
DARMSTADT

POPULATION GROWTH
2001 = 100



Source: Scope

UNEMPLOYMENT RATE
IN %

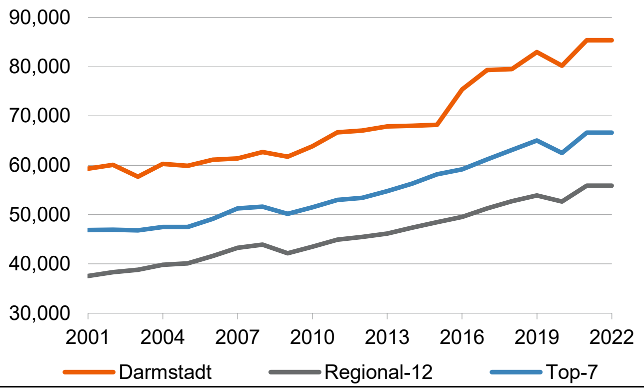


Source: bulwiengesa

"City of Science" an important business and research location

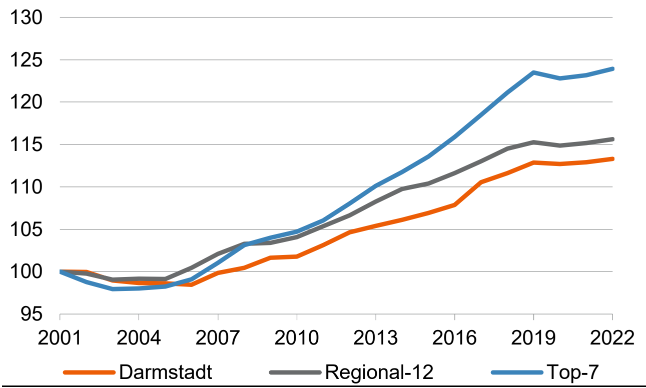
In recent years, Darmstadt has been one of the fastest growing cities in Germany. However, its population has been stagnating at just under 160,000 since 2017. Its student population – now stable at around 45,000 but which was previously growing strongly – has also played a part in the city's development. Based on Darmstadt's size, the number of students is very high and underlines the importance of research and science here. Frontrunners among the research facilities are the European Space Operations Centre (ESOC) and the FAIR particle accelerator facility which is under construction. Advantageously located on the southern edge of the Rhine-Main region, a strong business location with a working population of nearly 140,000 has also developed in Darmstadt. Core sectors are IT, chemicals, pharmaceuticals, biotech, mechanical engineering, space technology and cosmetics. Important companies include Deutsche Telekom, the Merck chemicals and pharma group, Software AG, Schenck mechanical engineering, the specialty chemicals company Evonik/Röhm, and the cosmetics companies Goldwell/Kao and Wella. High demand for housing and commercial space makes Darmstadt a sought-after real estate location. New quarters are being developed on converted former military sites, for example the Lincoln residential scheme and the Ludwigshöhviertel on the site of the Cambrai Fritsch Barracks/Jefferson Village. However, housing is in short supply and rents are consequently almost as high as in top locations. The unemployment rate is low at around 5 per cent. Tourism is benefiting from the designation of the Mathildenhöhe artists' colony as a UNESCO World Heritage Site.

GDP
IN EUR PER CAPITA



Source: Scope

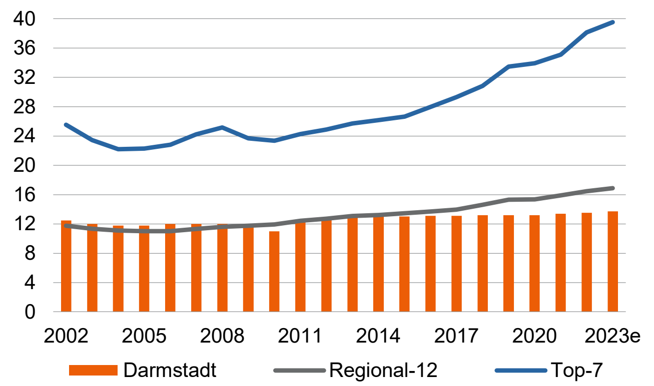
WORKING POPULATION
2001 = 100



Source: Scope

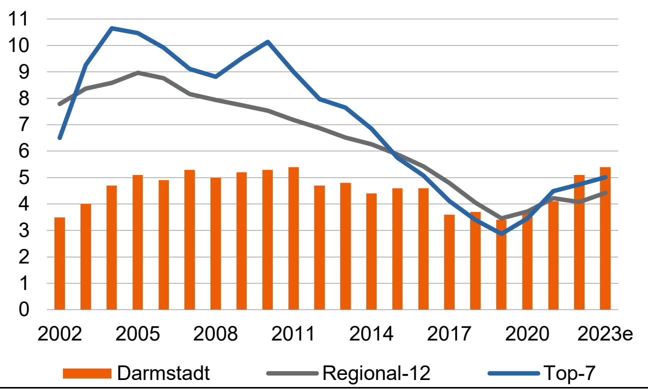
Office space in Darmstadt

PRIME OFFICE RENTS
IN EUR PER M²



Source: bulwiengesa, DZ BANK forecast Figures for city locations

VACANCY RATE
IN %

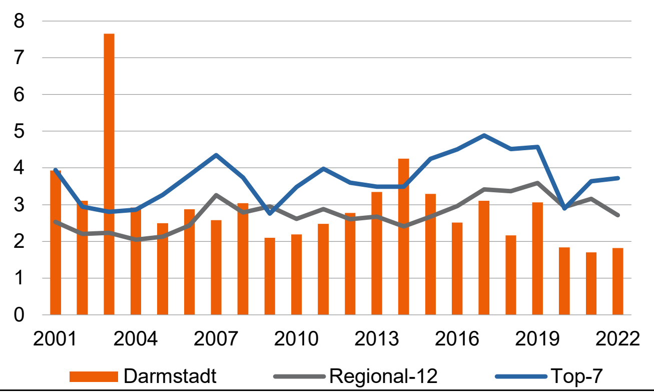


Source: bulwiengesa, DZ BANK forecast

Office: Growing vacancy rate, stable rents, and shortage of contemporary office space

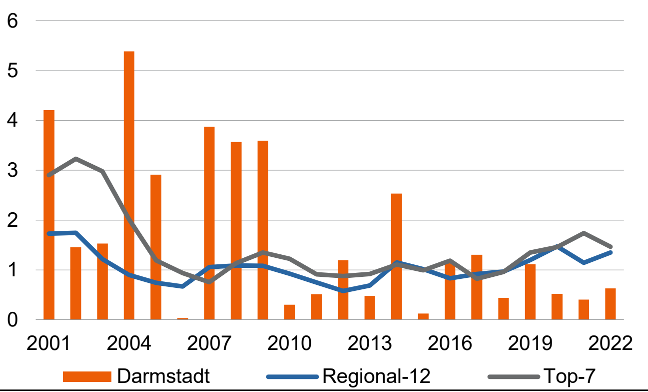
High employment in Darmstadt requires a correspondingly large office market with space of more than 1.7 million m². The number of office jobs has increased faster than office space, and the vacancy rate had therefore fallen to 3.4 per cent by 2019 despite space growth of more than 5 per cent. However, the figure has increased visibly since then, recently reaching 5.1 per cent. The supply shortage has nevertheless had virtually no impact on prime rents. The increased vacancy rate is also restricting the potential for rent growth. Below the line, prime rents have increased by less 6 per cent to EUR 13.50 per m² within ten years. This is the lowest level among the locations reviewed. In pure office locations, the figure is slightly higher at a good EUR 14 per m². The Darmstadt office market has failed to keep pace with the much stronger rent growth in other locations in the Rhine-Main region such as Frankfurt and Mainz. However, in recent years virtually no new contemporary space has come onto the market in Darmstadt, which would have raised the rent level. Take-up of a good 2 per cent of the space stock indicates fairly quiet market activity. On average, around 45,000 m² of space is let each year in Darmstadt, but take-up has been much lower since 2020. In 2022, a substantial proportion of take-up related to two large transactions for COUNT+Care and alstria office. Larger deals usually involve project developments, underlining the shortage of contemporary office space.

TAKE-UP
AS % OF OFFICE STOCK



Source: bulwiengesa

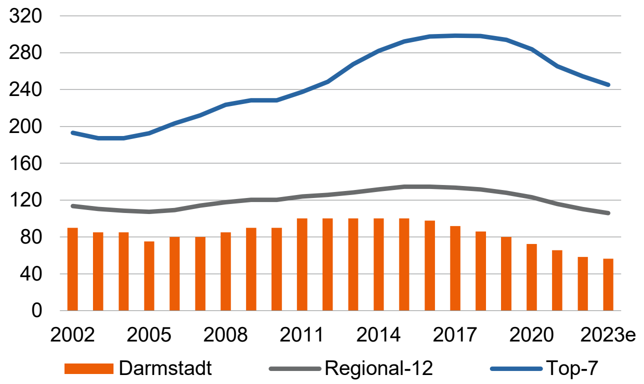
NEW OFFICE SPACE
AS % OF OFFICE STOCK



Source: bulwiengesa

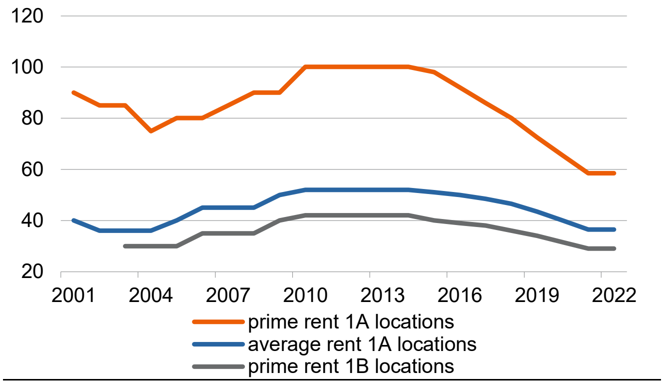
Retail space in Darmstadt

PRIME RETAIL RENTS
IN EUR PER M²



Source: bulwiengesa, DZ BANK forecast

RETAIL RENTS PRIME/SECONDARY LOCATIONS
IN EUR PER M²

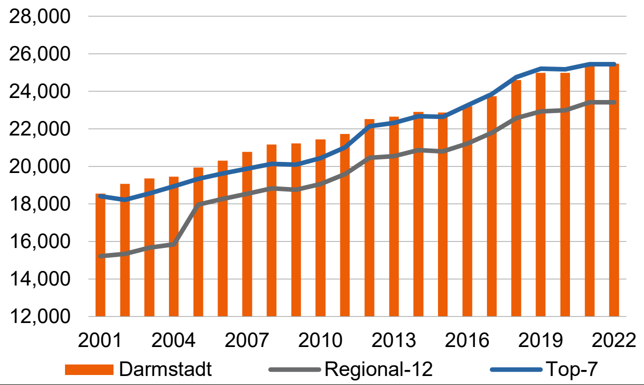


Source: bulwiengesa

Retail: Economic strength cannot brake the steep decline in prime rents

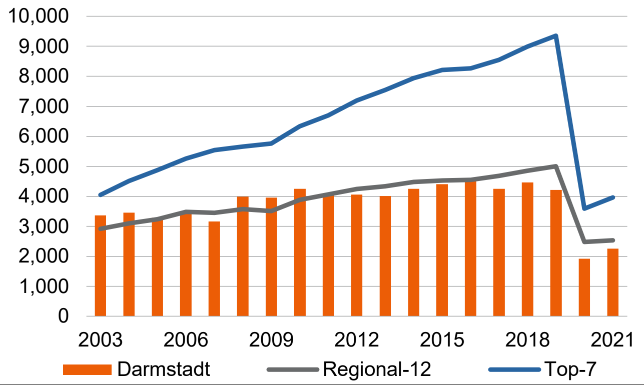
Conditions in the Darmstadt retail sector are generally good. Positive aspects are high economic power, low unemployment and fairly high purchasing power of 105 points for a student city. Pre-pandemic visitor volume was also strong, and should recover again quickly. However, demographic growth is not currently as strong as in the past. While the population grew by around 20,000 between 2007 and 2017, immigration has not led to an increase in customer potential recently. One negative factor is competition with the location of Frankfurt 30 kilometres away, and also with the retail offer in neighbouring Weiterstadt with its various specialist stores and the Loop 5 centre. This prevents Darmstadt from deriving full benefit, particularly from the potential of a catchment area of 650,000 people mainly to the south, as reflected by its low centrality figure of 105 points. The city centre, with its prime locations of Schuchard Straβe and Ernst-Ludwig-Straße, and two shopping centres – Luisencenter and Carree Darmstadt – offers a wide variety of shops. A high quality of stay is also supported by a large number of restaurants. However, below the line, various negative factors for retail are reflected in a steady decline in prime rents over several years. These have fallen by more than 40 per cent from their maximum levels – the steepest decline among the locations reviewed – to recently EUR 58.50. The likelihood of one of currently two sites of the stricken Galeria-Karstadt-Kaufhof facing closure has at least increased.

PURCHASING POWER
IN EUR PER CAPITA



Source: bulwiengesa, Scope

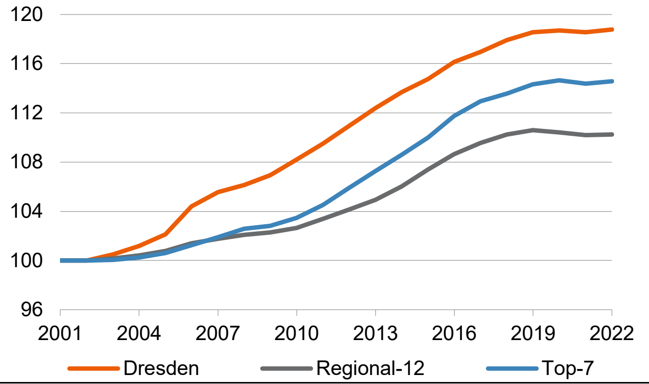
TOURISM - NO. OF OVERNIGHT STAYS
PER 1,000 INHABITANTS



Source: bulwiengesa, Scope

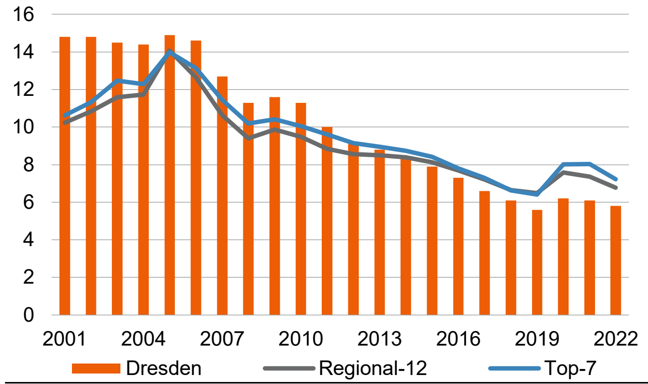
DRESDEN

POPULATION GROWTH
2001 = 100



Source: Scope

UNEMPLOYMENT RATE
IN %

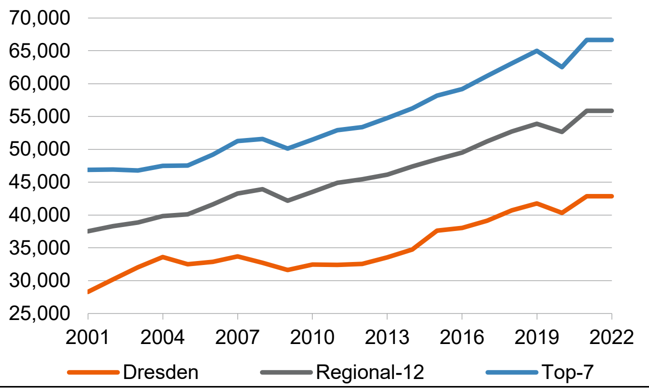


Source: bulwiengesa

Capital of Saxony now an important microelectronics location

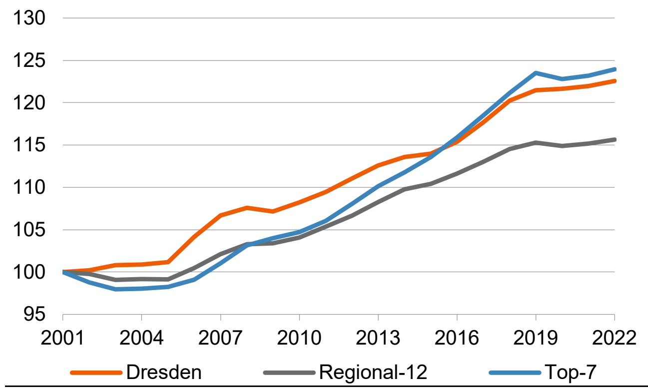
With a population of nearly 560,000, Dresden is the third largest city in eastern Germany. The regional capital of Saxony ranks 12th in Germany as a whole. Demographic growth is strong, up by 7 per cent over ten years. Migration is supported by the high quality of life in this attractive city and its sustained economic success. High unemployment is now a thing of the past. In 2022, the rate was low for a major city at 5.8 per cent. However, the ongoing upturn has also largely eroded the earlier advantage of an affordable cost of living due to fairly low residential rents. Given the many administrative functions based in Dresden, the public sector is an important employer. Education and research play an extremely important role. Higher education institutions, with a total of nearly 40,000 students and a wide range of research facilities, not only create many jobs, but also form the bedrock of “Silicon Saxony” – the high-tech location of Dresden. Approximately 50,000 people are employed in the microelectronics cluster. A third of the microchips produced in the EU originate in this city in Saxony. Infineon is currently planning to invest EUR 5bn in a new semiconductor factory. Vehicle construction, aviation, life sciences, nanotechnology/new materials, mechanical engineering and plant construction are also playing their part in the city’s dynamic economic development. The cultural and creative industries are also important. The baroque city is also a very popular destination for city breaks.

GDP
IN EUR PER CAPITA



Source: Scope

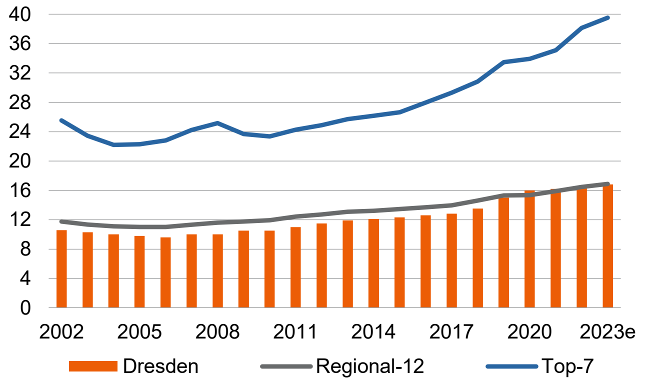
WORKING POPULATION
2001 = 100



Source: Scope

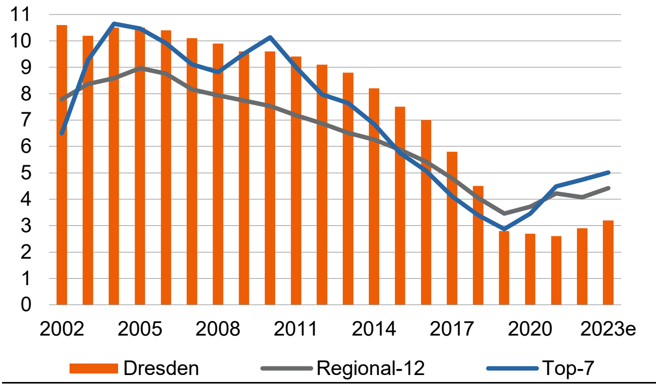
Office space in Dresden

PRIME OFFICE RENTS
IN EUR PER M²



Source: bulwiengesa, DZ BANK forecast Figures for city locations

VACANCY RATE
IN %

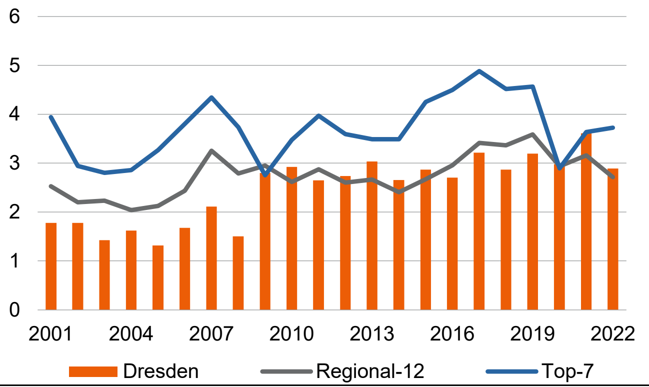


Source: bulwiengesa, DZ BANK forecast

Office: Increasing shortage of office space due to strong demand

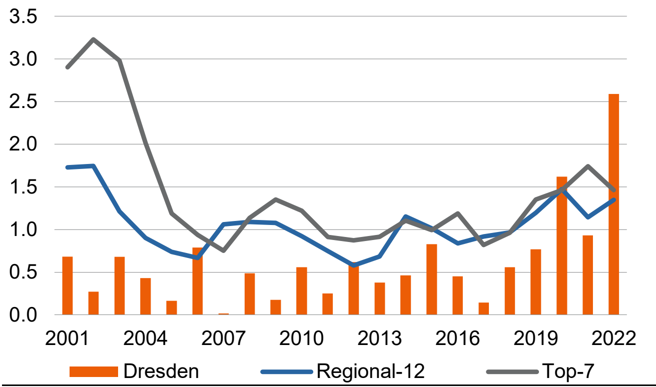
Dresden has around 3 million m² of office space. A large proportion was built in the 1990s, but the space stock has remained largely constant in the last 20 years. Thanks to the growth in office jobs as a result of the economic recovery, previous vacancy rates have been steadily reduced to a recently low 3 per cent. Construction activity has picked up again, but even the above-average volume of new space this year will be insufficient to close the demand gap. As a result of the current construction crisis, contemporary office space is however likely to remain in short supply. The sparse supply of space ensured that prime rents continued to rise during the pandemic. In 2022 the average figure was EUR 160.40 per m². Ten-year rent growth was above-average at more than 40 per cent. Take-up has consistently reached around 80,000 to 95,000 m² annually since 2009. Nor did the office market show any weakness after the pandemic started. This was particularly true in 2021 when take-up reached a new record level of 110,000 m². Demand for office space remained essentially robust in 2022, although take-up was down slightly on the previous year at 90,000 m². Given the economic uncertainty caused by the energy crisis and inflation, activity in the office market could weaken slightly this year. However, virtually no new office space will come onto the market either in 2023. The upward trend in prime rents is likely to continue.

TAKE-UP
AS % OF OFFICE STOCK



Source: bulwiengesa

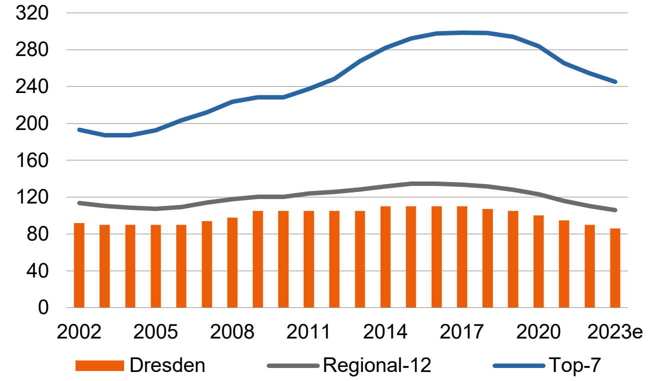
NEW OFFICE SPACE
AS % OF OFFICE STOCK



Source: bulwiengesa

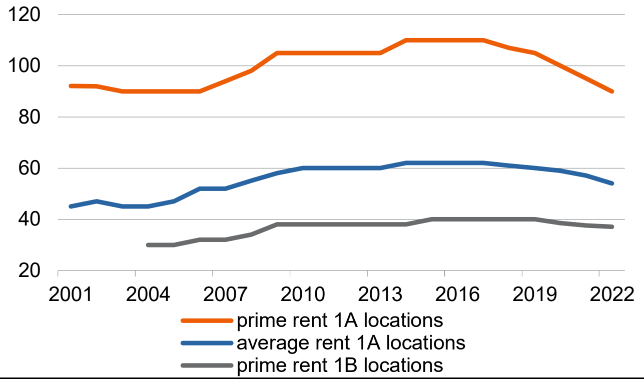
Retail space in Dresden

PRIME RETAIL RENTS
IN EUR PER M²



Source: bulwiengesa, DZ BANK forecast

RETAIL RENTS PRIME/SECONDARY LOCATIONS
IN EUR PER M²

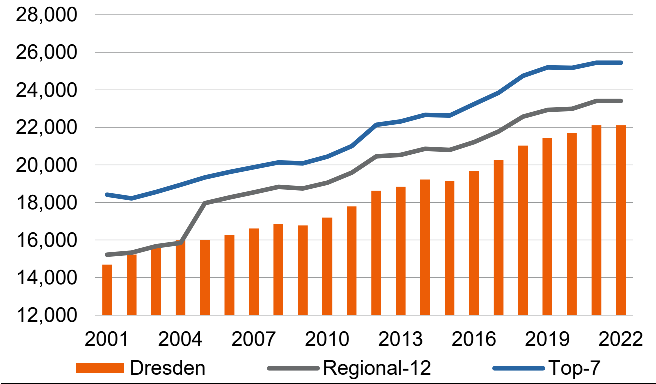


Source: bulwiengesa

Retail: Absence of tourists hit city centre retail in 2020 and 2021

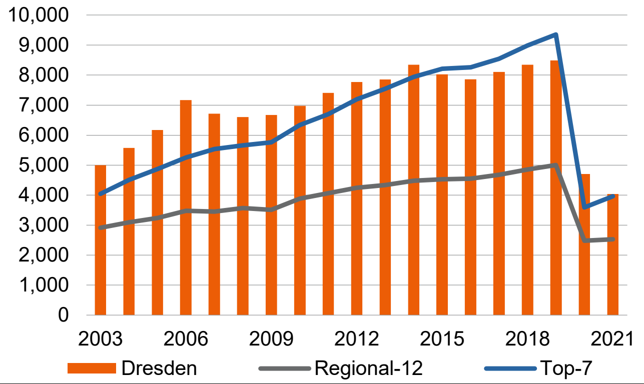
Dresden, Berlin and Leipzig form the trio of leading shopping destinations in eastern Germany. All three have benefited significantly from economic recovery, demographic growth, and flourishing tourism before the pandemic. However, purchasing power is weak. Dresden benefits from a catchment area of 1.3 million people, although its centrality figure is only moderate at 112 points. The main competition is from out-of-town shopping centres. Overall, the baroque city is however an attractive retail location with a high quality of stay and a broad range of retail offer, cafes and restaurants. In addition to three prime locations – Prager Straße, Seestraße/Altmarkt and Neumarkt – there are two large shopping centres with combined sales space of 100,000 m². Because tourism is very important, city centre retail in Dresden has suffered comparatively severely from the absence of visitors due to Covid. The decline in prime rents to EUR 90 per m² has nevertheless remained moderate, down by 18 per cent from maximum levels. The problems facing city centre retail extend beyond the negative impact of e-commerce and the pandemic. Obstacles are an outdated retail concept and the difficult parking situation. Retailers' concerns are therefore unlikely to be allayed when the level of support which retail activity provides for tourism returns to previous levels. Despite signs of tourism recovering, vacancy rates and an inflation-related loss of purchasing power could trigger a further decline in rents.

PURCHASING POWER
IN EUR PER CAPITA



Source: bulwiengesa, Scope

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

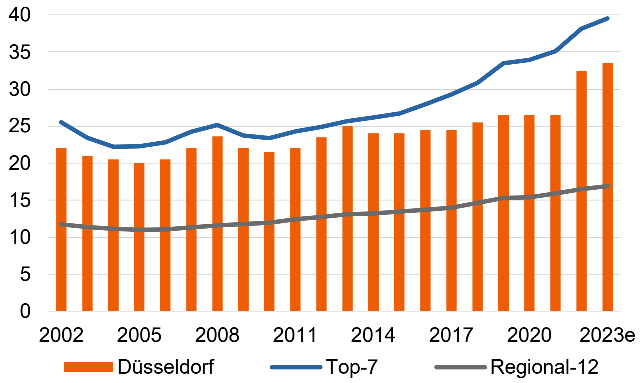


Source: bulwiengesa, Scope

DÜSSELDORF

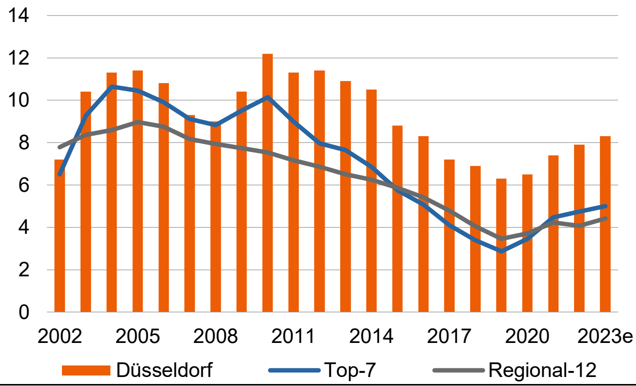
Office space in Düsseldorf

PRIME OFFICE RENTS
IN EUR PER M²



Source: bulwiengesa, DZ BANK forecast   Figures for city locations

VACANCY RATE
IN %

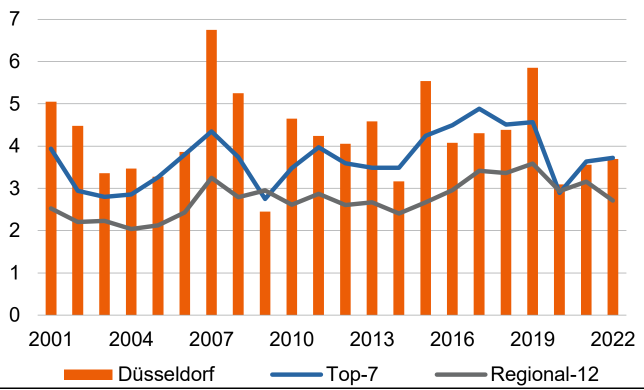


Source: bulwiengesa, DZ BANK forecast

Office: High vacancy rate could slow rent growth

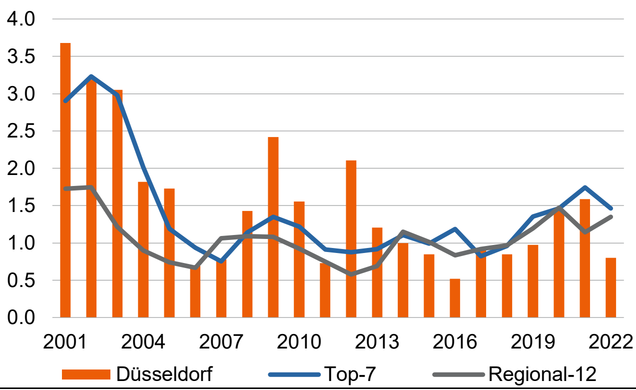
Düsseldorf is the smallest office market among the top locations, with office space of just under 7.8 million m², although the divergence from Cologne and Stuttgart is small. As in the other top locations, prime office rents did not fall during the pandemic. By the end of 2022 the figure had continued to rise sharply to EUR 32.50 per m². Prime rents have increased by nearly 40 per cent overall since 2012. About half of the growth was achieved last year based on the high demand for upscale office space which conforms to ESG. The high vacancy rate of nearly 8 per cent similar to Frankfurt has not have a negative impact, since it has been virtually impossible to meet space demand from the stock of vacant properties. Take-up amounted to 3.7 per cent of available space in 2022 (285,000 m²), in line with the average for the top locations. This included three large transactions – 17,500 m² for VHS, 15,000 m² for EY and 10,000 m² for Hogan Lovell. These transactions, together with consultancy and public administration activities, clearly reflect the type of customers which accounted for core space demand in Düsseldorf in 2022. After a larger volume of new space in 2020 and 2021 (more than 100,000 m² respectively) the figure fell to 62,000 m² in 2022. This year is likely to see only a slight improvement, and growth in the vacancy rate will therefore slow. After the strong growth in prime rents last year, rent growth is likely to weaken again in 2023.

TAKE-UP
AS % OF OFFICE STOCK



Source: bulwiengesa

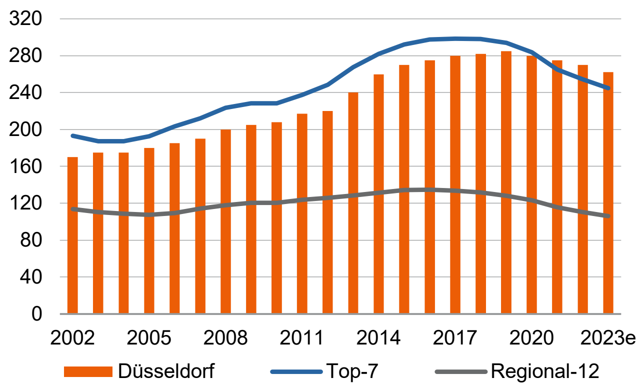
NEW OFFICE SPACE
AS % OF OFFICE STOCK



Source: bulwiengesa

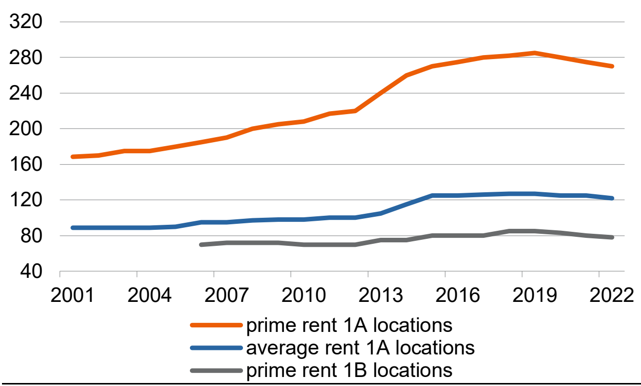
Retail space in Düsseldorf

PRIME RETAIL RENTS
IN EUR PER M²



Source: bulwiengesa, DZ BANK forecast

RETAIL RENTS PRIME/SECONDARY LOCATIONS
IN EUR PER M²

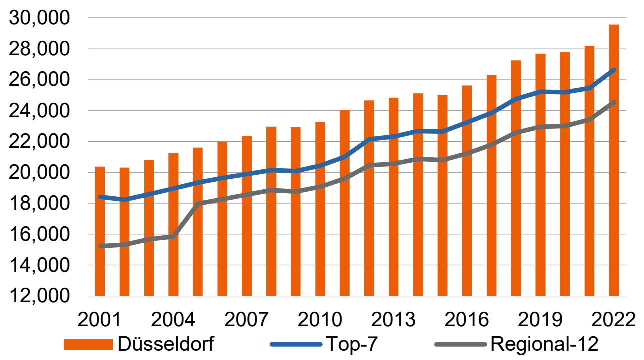


Source: bulwiengesa

Retail: Düsseldorf city centre showed resilience in the pandemic

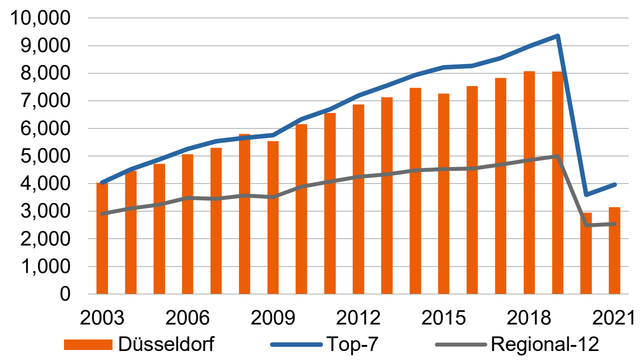
Düsseldorf has clearly developed successfully as a shopping location. The city centre has become significantly more attractive due to a large number of urban development measures, large infrastructure projects and substantial investment in new and existing retail properties. Although the retail sector in Düsseldorf suffered like everywhere else from the Covid restrictions, the negative impact on rental business has been less severe than in other top locations. Prime rents have only fallen by 5 per cent from their maximum to recently EUR 270 per m². Düsseldorf as a retail location is supported by a catchment area of 2 million people and high purchasing power, which is almost 20 per cent above-average for Germany. Thanks to the Kö shopping boulevard, which is synonymous with fashion and luxury, Düsseldorf city centre enjoys a high profile far beyond the borders of North Rhine-Westphalia. Prime central shopping locations include the Königsallee, Flingerstraße and the area around Schadowstraße. Iconic retail developments such as the Kö-Bogen and the KII and the renovated Kö Galerie shopping mall have also been added in previous years. Another highlight will be the opening in 2024 of a branch of the Berlin department store KaDeWe in Carschhaus. A whole series of construction projects will also be realised in the vicinity of the Kö in the years ahead. Examples are the spectacular Calatrava Boulevard with office, retail and gastronomy or the conversion of the Seven, whose upper floors will be converted into offices by 2025 because the main tenant Saturn wants to use less space.

PURCHASING POWER
IN EUR PER CAPITA



Source: bulwiengesa

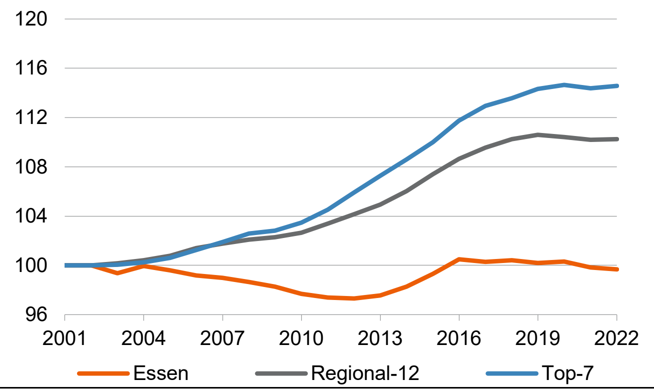
TOURISM - NO. OF OVERNIGHT STAYS
PER 1,000 INHABITANTS



Source: bulwiengesa, Scope

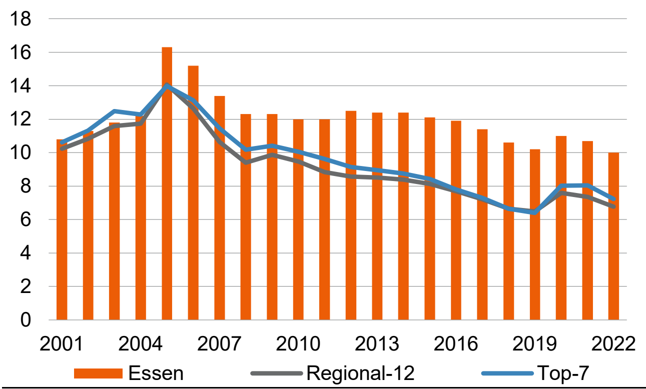
ESSEN

POPULATION GROWTH
2001 = 100



Source: Scope

UNEMPLOYMENT RATE
IN %

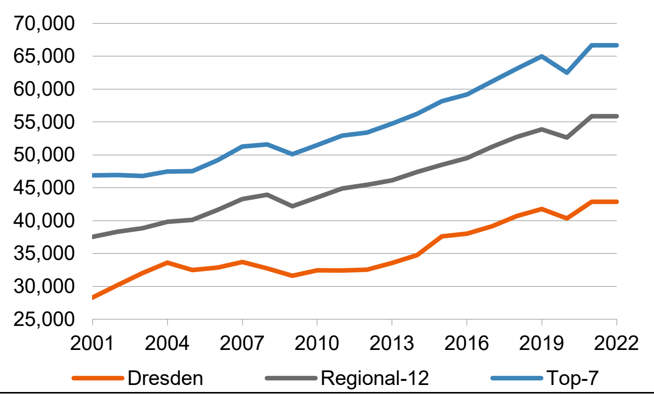


Source: bulwiengesa

Unemployment remains high despite economic successes

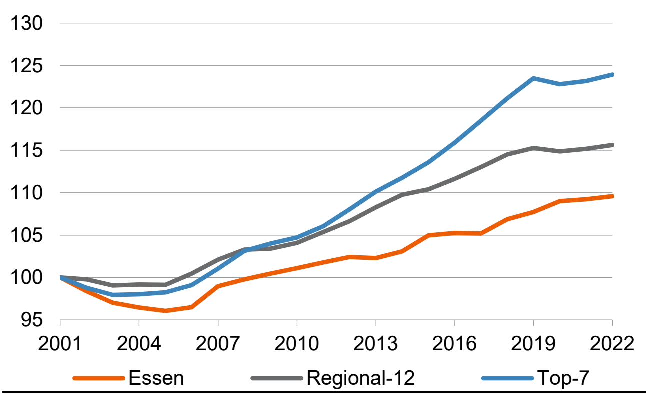
Essen is a major business centre in the Ruhr region. However, the city's transformation after the crisis in the coal and steel industry has left visible traces on population figures. Whereas Essen was once the fourth largest city in Germany, it now trails down in tenth place. After losing around 150,000 inhabitants, however, the exodus has come to an end and population numbers have been stable for some years at around 580,000. Although the city's transformation into a service centre has had a positive impact, the labour market has benefited less from this than has been the case in other cities. Employment in Essen has risen more slowly, while unemployment remains high at around 10 per cent despite some progress. The city's economic focus has shifted from industrial production to administration. Essen is home to many prominent German names, including three DAX-listed companies (Brenntag, E.ON and RWE) along with two MDAX groups (Evonik and ThyssenKrupp). Other big players are Aldi-Nord, Deichmann, E.ON-Ruhrgas, Funke Mediengruppe, Hochtief, Innogy, Medion, Schenker and STEAG. The trade fair is another major factor for the local economy. The University of Duisburg-Essen which replaces the former Gesamthochschule founded in 1972 has also had a positive impact. Over 33,000 students are enrolled at Essen's higher education institutions. The city has good transport links in view of its central location in the Ruhr region.

GDP
IN EUR PER CAPITA



Source: Scope

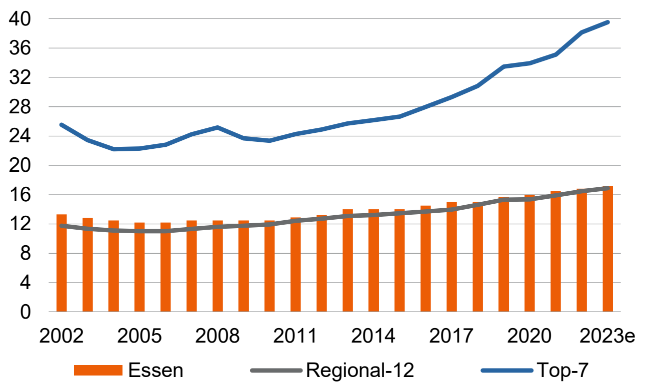
WORKING POPULATION
2001 = 100



Source: Scope

Office space in Essen

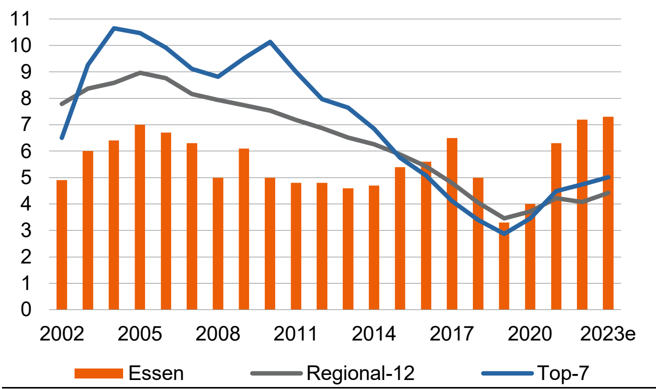
PRIME OFFICE RENTS
IN EUR PER M²



Source: bulwiengesa, DZ BANK forecast

Figures for city locations

VACANCY RATE
IN %

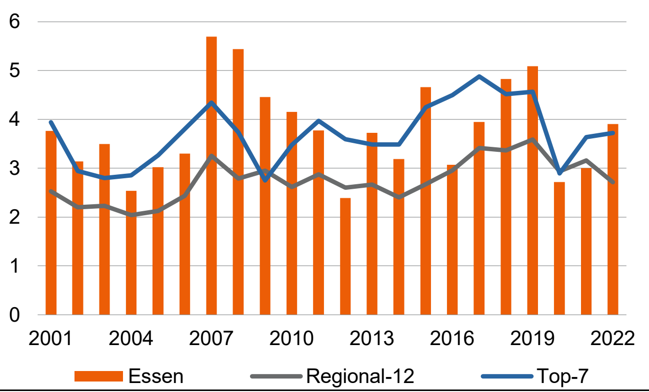


Source: bulwiengesa, DZ BANK forecast

Major deals bump office take-up back into six figures in 2022

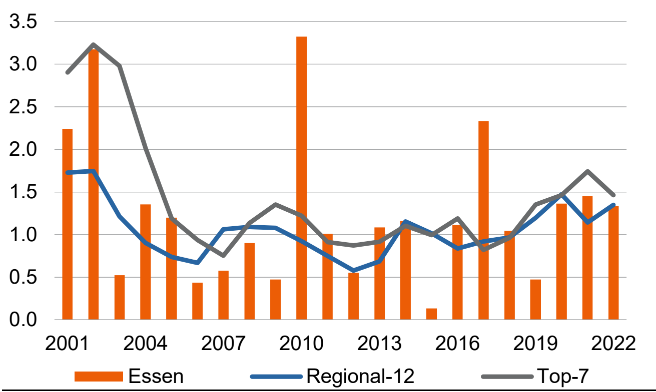
Essen is the leading office location in the Ruhr area on account of the many company head offices based there. The city has an office stock of 3.2 million m², outstripped only by Hannover, Nuremberg and Bonn (apart from the top locations). The market was buoyant prior to the pandemic, with average annual take-up of almost 150,000 m² from 2017 to 2019. During the same period, the vacancy rate had fallen to around 3 per cent by 2019, while prime rents rose sharply. However, activity in the Essen market eased off noticeably on account of the pandemic. Annual take-up in 2020 and 2021 fell to below 100,000 m², above all in the absence of big transactions. Last year, however, there was a marked upturn with take-up rising to 125,000 m² and, as in 2020 and 2021, there was a further increase in prime rents to EUR 16.80 m² most recently. Four major transactions of over 50,000 each contributed to the high letting activity. Overall, prime rents have increased by almost 30 per cent in the space of ten years. On the downside, there has been an obvious rise in the vacancy rate which now stands at over 7 per cent, reflecting among other things a fairly large volume of new office space becoming available since 2020. This year, however, the amount of new space should fall back noticeably again, and therefore, the vacancy rate should stabilise. Prime rents are likely at best to increase slightly in 2023 in view of an improved supply.

TAKE-UP
AS % OF OFFICE STOCK



Source: bulwiengesa

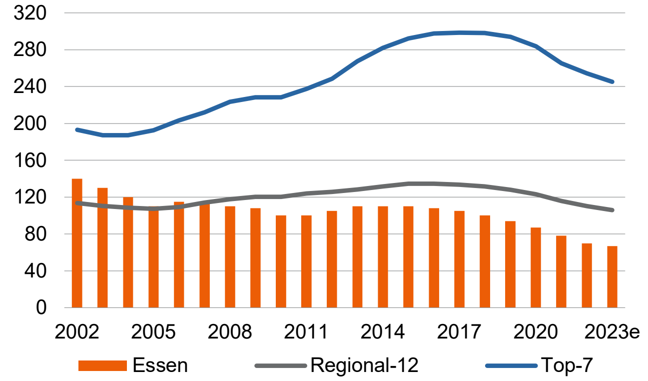
NEW OFFICE SPACE
AS % OF OFFICE STOCK



Source: bulwiengesa

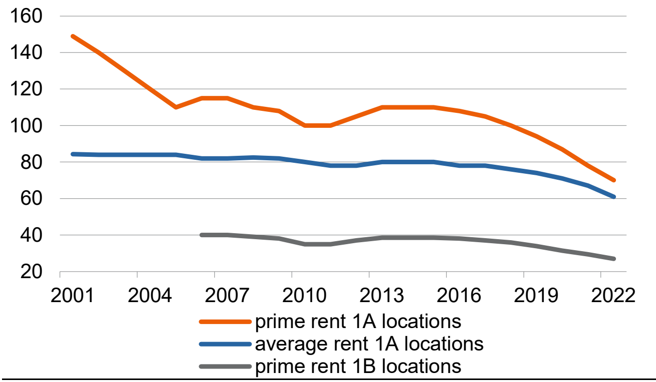
Retail space in Essen

PRIME RETAIL RENTS
IN EUR PER M²



Source: bulwiengesa, DZ BANK forecast

RETAIL RENTS PRIME/SECONDARY LOCATIONS
IN EUR PER M²

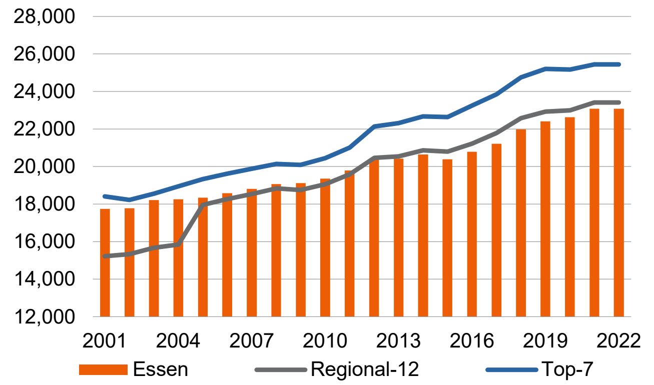


Source: bulwiengesa

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

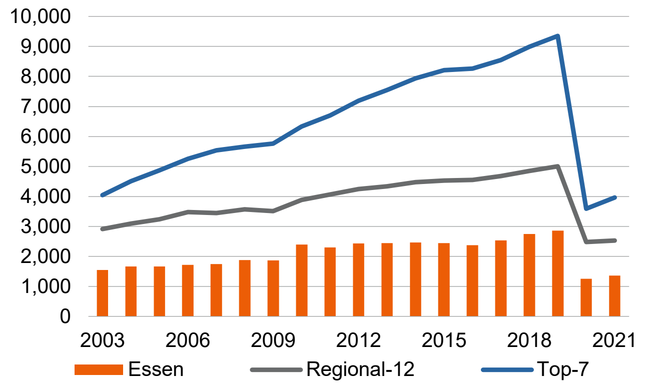
Essen has lost its shine as the go-to shopping destination. The once-famous neon lights on the roof of the landmark Hotel Handelshof department store proclaiming "Essen The Shopping City" have now gone. More recently, they had been replaced by neon lights celebrating 100 years of the Folkwang Museum; what comes next has yet to be decided. The problems facing the city's retail sector are clear above all from a weak trend in prime rents which have more than halved since the turn of the millennium; they were down to just EUR 70 per m² most recently. One dampening factor apart from online shopping is competition from neighbouring shopping destinations such as Düsseldorf and Dortmund or from the huge Westfield-CentrO in Oberhausen which partly deplete customer potential from a 1.5 million-strong catchment area, as illustrated by a relatively low centrality score of 112 points. Essen's problems are compounded by a stagnant population and high unemployment. A weak economy leads to a below-average purchasing power score of 95 points. Even a more attractive city centre has failed to halt the decline. In addition to the prime shopping streets − the Limbecker and Kettwiger Straße – the city centre now has three modern shopping malls. However, considering current demand, there is an excess of retail space. The city authorities have responded to changes in the retail sector by updating their retail master plan which was published in the autumn of 2022. We welcome the fact that the Kaufhof store which closed in 2020 is being transformed into a mixed-use building - the Königshof - which should be completed by this year.

PURCHASING POWER
IN EUR PER CAPITA



Source: bulwiengesa, Scope

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

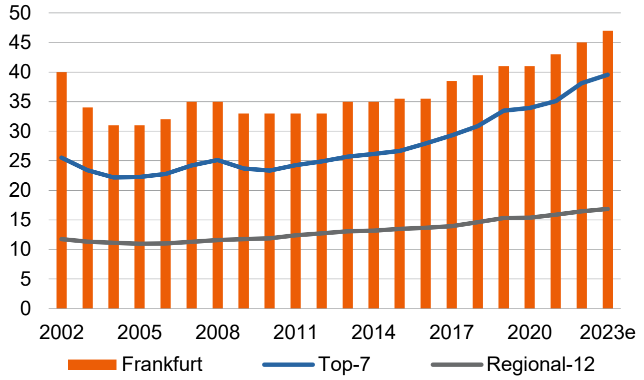


Source: bulwiengesa, Scope

FRANKFURT

Office space in Frankfurt

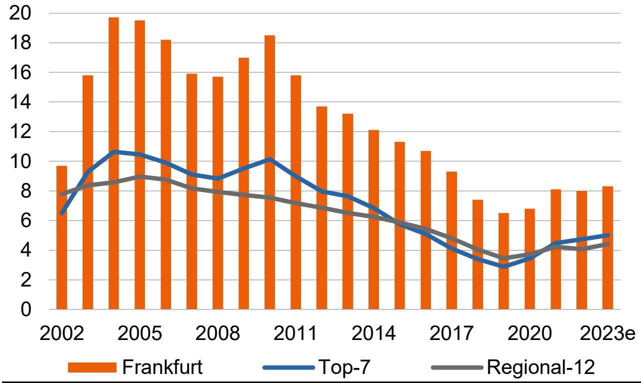
PRIME OFFICE RENTS
IN EUR PER M²



Source: bulwiengesa, DZ BANK forecast

Figures for city locations

VACANCY RATE
IN %

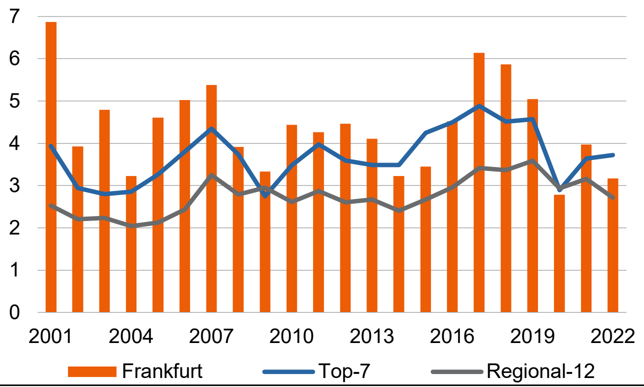


Source: bulwiengesa, DZ BANK forecast

Frankfurt's office market has just held onto its status as the most expensive office location in Germany with an increase in prime rents to now EUR 45 per m². However, Berlin and above all Munich have nearly closed the gap after much stronger rent rises. Whereas prime rents in Frankfurt increased by one third in the space of ten years, they have risen by 50 per cent in Munich and almost doubled in Berlin. Düsseldorf is the only city in which prime office rents rose slower than in Frankfurt. One reason for the slower rate of rent rises in Frankfurt – and Düsseldorf – could be a much higher vacancy rate; at 8 per cent, it is the highest in this market report although it remained stable in 2022. At 3.2 per cent of the office stock (322,000 m²), office take-up in Frankfurt was slightly below the top location average. This is relatively low (the figure would normally be closer to 500,000 m²), reflecting the near total absence of larger transactions; only three rental deals reached the 10,000 m² mark. The four biggest contracts involved banks, highlighting the continued major importance of the financial sector for the city. The vacancy rate remained stable lately on account of only a modest amount of new space becoming available. This is likely to remain the case in 2023 and 2024. However, high demand for modern office space could push up prime rents further.

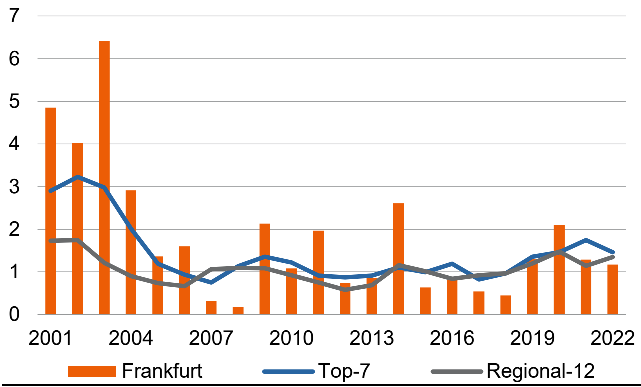
New skyscrapers set to change Frankfurt's skyline

TAKE-UP
AS % OF OFFICE STOCK



Source: bulwiengesa

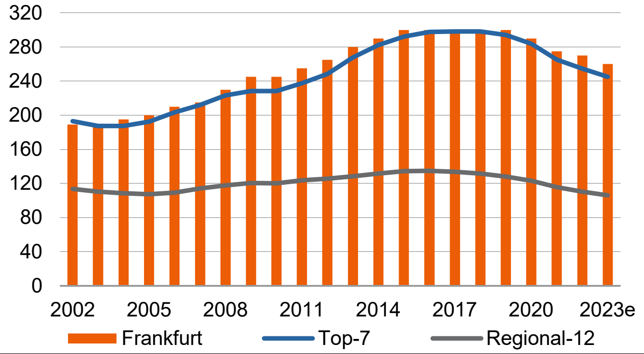
NEW OFFICE SPACE
AS % OF OFFICE STOCK



Source: bulwiengesa

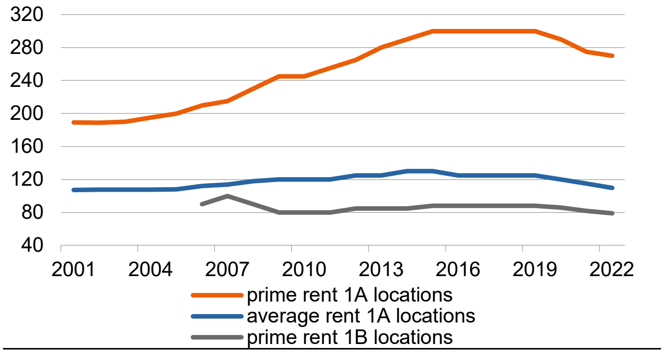
Retail space in Frankfurt

PRIME RETAIL RENTS
IN EUR PER M²



Source: bulwiengesa, DZ BANK forecast

RETAIL RENTS PRIME/SECONDARY LOCATIONS
IN EUR PER M²

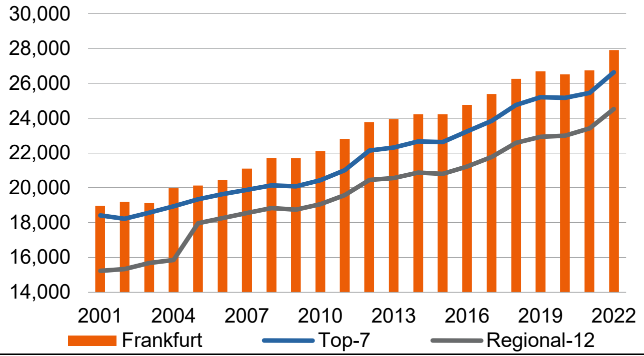


Source: bulwiengesa

Noticeable rebound in tourism in Frankfurt

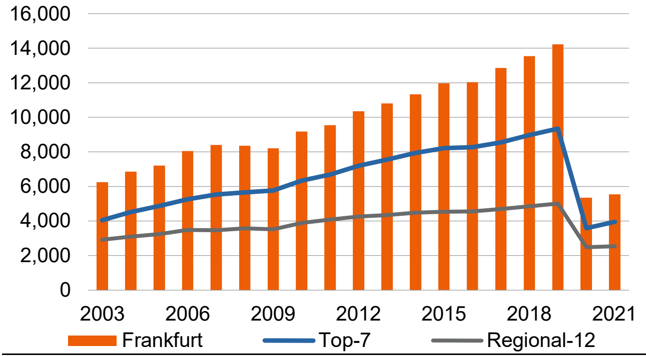
The Frankfurt conurbation has undergone strong growth in the last few years. It has an affluent catchment area of around 2.4 million people. Another plus point for the city as a shopping destination - at least prior to the pandemic - was a very high number of visitors. In 2019, Frankfurt boasted over 14,000 overnight stays per 1,000 inhabitants - 50 per cent more than the average for the top seven. Apart from the many trade fair visitors, the retail sector in Frankfurt benefits from the airport and large numbers of travellers from Asia, although these were absent lately. For this reason, a sharp rebound in overnight figures in 2022 is a welcome trend. However, the trade fair business could be weakened for good, not least after Frankfurt lost the IAA fair to Munich. Frankfurt remains a strong shopping location with two prime shopping miles, the Zeil and Goethestraße, along with several large shopping centres. Despite obvious vacant stores, especially in the shopping malls, prime rents have only eased up moderately, notwithstanding difficult conditions for the retail sector, falling by only 10 per cent from their peak to EUR 270 per m² lately. However, they could dip further, as suggested by significant numbers of vacancies in the Zeil area. It remains to be seen what will happen with the Karstadt building once the rental contract with Galeria comes to an end at the beginning of 2025. On the plus side, the city authorities are taking an active interest in the development of the city centre which includes some less attractive parts. A total of around EUR 35 million is to be invested in projects to improve the experience for shoppers and visitors. The Galeria store which is prominently placed at the entrance of the Zeil and has just been transformed into a "world city store" stands a good chance of surviving the crisis affecting the retail group.

PURCHASING POWER
IN EUR PER CAPITA



Source: bulwiengesa

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

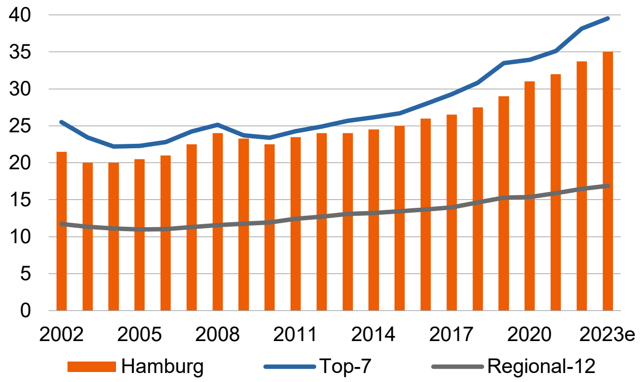


Source: bulwiengesa, Scope

HAMBURG

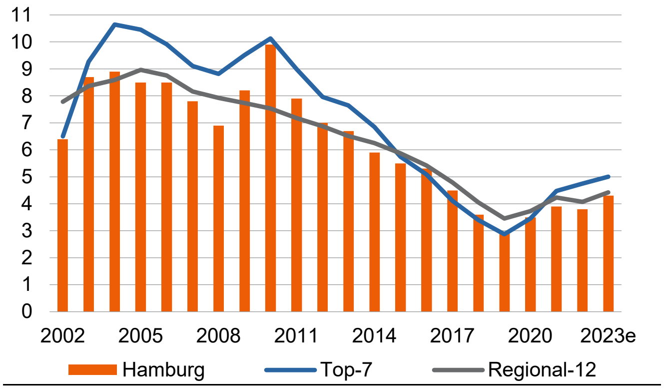
Office space in Hamburg

PRIME OFFICE RENTS
IN EUR PER M²



Source: bulwiengesa, DZ BANK forecast   Figures for city locations

VACANCY RATE
IN %

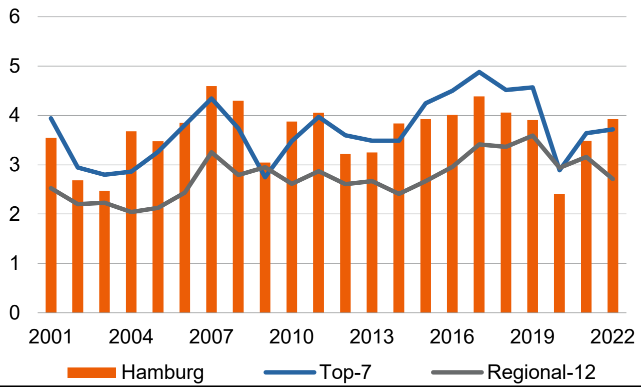


Source: bulwiengesa, DZ BANK forecast

Positive trend in the Hamburg office market continuing

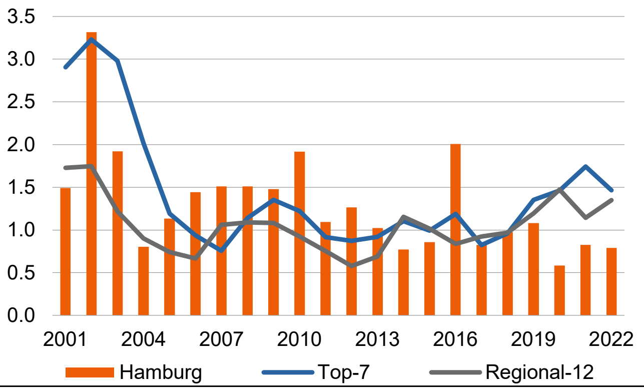
After Berlin, and almost neck-and-neck with Munich, Hamburg is the third largest office market in Germany with a stock of 14 million m². Although prime rents here are much cheaper than in Berlin and Munich, being around EUR 10 per m² lower, Hamburg's office market has nevertheless done well with the support of a broadly based economy. Prime rents have risen by 40 per cent in the last ten years to EUR 33.70 per m² most recently. As such, Hamburg's office stands alone in the mid field with much more expensive prime rents in Berlin, Frankfurt and Munich, and much cheaper rents in Düsseldorf, Cologne and Stuttgart. Hamburg's once high vacancies have fallen on account of mostly moderate amounts of new office space becoming available. At the end of 2022, the vacancy rate was just under 4 per cent. A take-up of just over half a million m² in 2021 was topped by a figure of 550,000 m² in 2022, helped by an imposing number of large transactions, and in two cases – Dataport, Hamburger Sparkasse – even very large transactions. There was still lively letting activity though, even in the middle and smaller segments. If the fairly substantial amount of new office space in the pipeline is completed in 2023 and 2024, this will probably lead to a slight upturn in vacancies. In view of high demand for contemporary space though, prime rents should continue to rise further, especially since it is virtually impossible to find high-end space in amongst the vacancies.

TAKE-UP
AS % OF OFFICE STOCK



Source: bulwiengesa

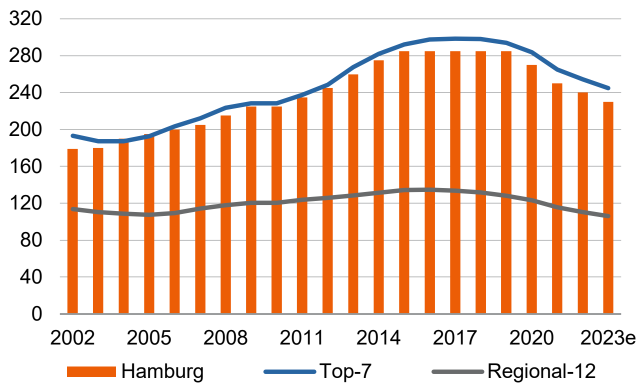
NEW OFFICE SPACE
AS % OF OFFICE STOCK



Source: bulwiengesa

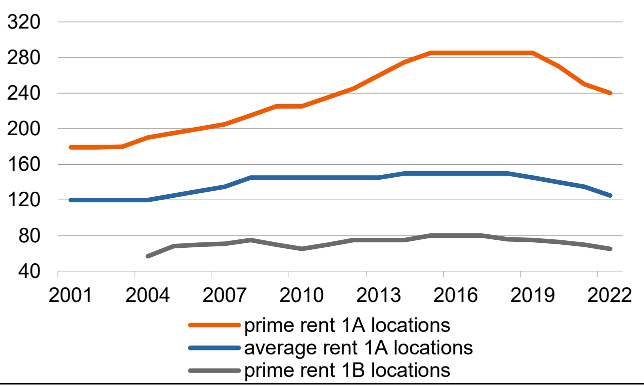
Retail space in Hamburg

PRIME RETAIL RENTS
IN EUR PER M²



Source: bulwiengesa, DZ BANK forecast

RETAIL RENTS PRIME/SECONDARY LOCATIONS
IN EUR PER M²

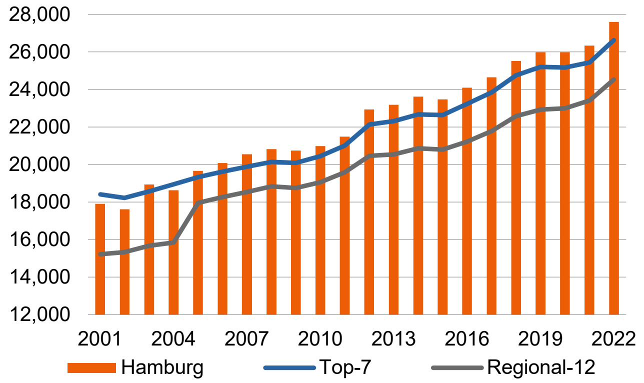


Source: bulwiengesa

Hamburg's main shopping mile, the Mönckebergstraße, must reinvent itself

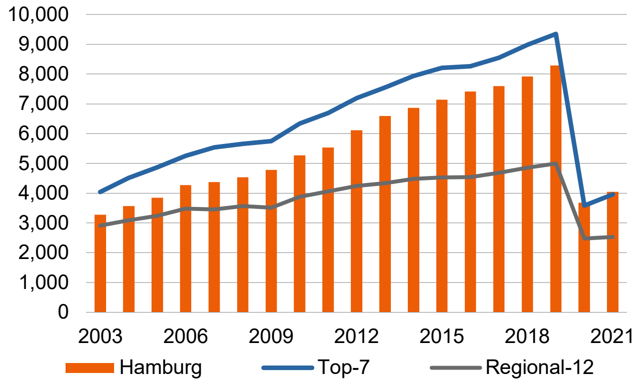
Hamburg scores as the leading shopping destination in northern Germany with a 3.5 million-strong catchment area and high purchasing power. Tourists and cruise ship passengers, usually an important consumer group, have now returned. What makes Hamburg attractive for shoppers is the broad spectrum of shops it offers, from conventional high-street locations such as the Spitalerstraße and Mönckebergstraße all the way to the luxury end of the market such as the Neuer Wall. In addition, the city centre has a large shopping mall with the Europa-Passage. The pandemic hit Hamburg's city-centre retail sector hard, leading to noticeable vacancies. Prime rents have fallen by 16 per cent to EUR 240 per m² since 2019. To reduce the number of empty premises, the Senate has put in place a promotional programme ("Free_Space") to encourage temporary use for creative and cultural purposes. The project was extended to 2023. This also involves space in the former Karstadt Sport building under the heading "Jupiter". In contrast, temporary use involving a Banksy exhibition in the former Kaufhof was wound up at the end of 2022. Concepts for the long-term use of both the former department stores are still pending. Karstadt is the only remaining department store in Hamburg's city centre; plans are to downsize through a partial demolition. Also, in the Mönckebergstraße, the former C&A department store is to be replaced by a mixed-use new build. Head wind for the city centre is likely to pick up strength in 2024 with the opening of an 80,000 m² shopping mall in the HafenCity.

PURCHASING POWER
IN EUR PER CAPITA



Source: bulwiengesa

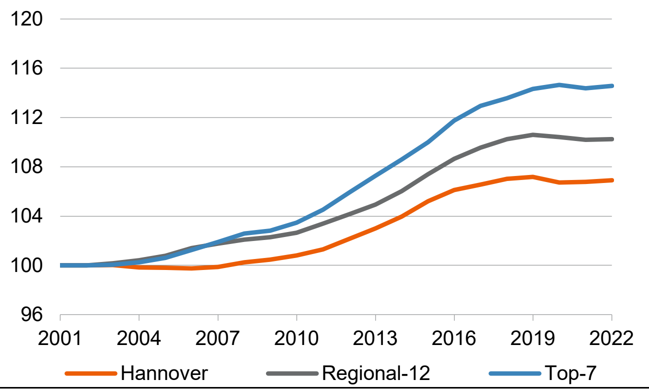
TOURISM - NO. OF OVERNIGHT STAYS
PER 1,000 INHABITANTS



Source: bulwiengesa, Scope

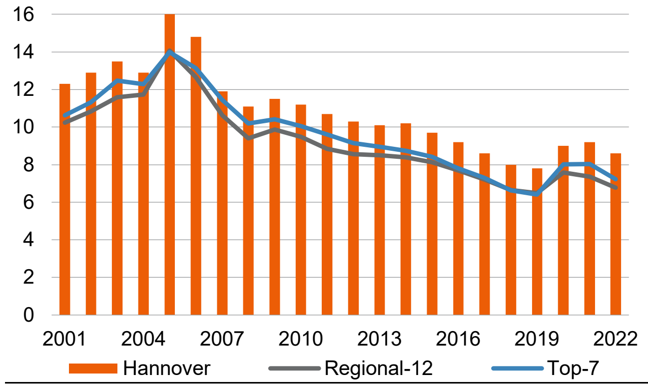
HANNOVER

POPULATION GROWTH
2001 = 100



Source: Scope

UNEMPLOYMENT RATE
IN %

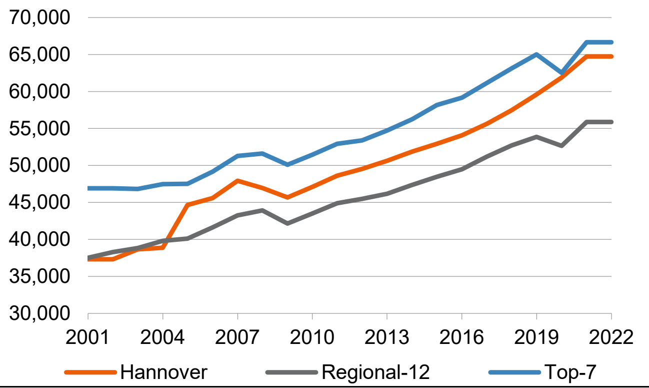


Source: bulwiengesa

Hannover plays a leading role in the property market outside the top locations

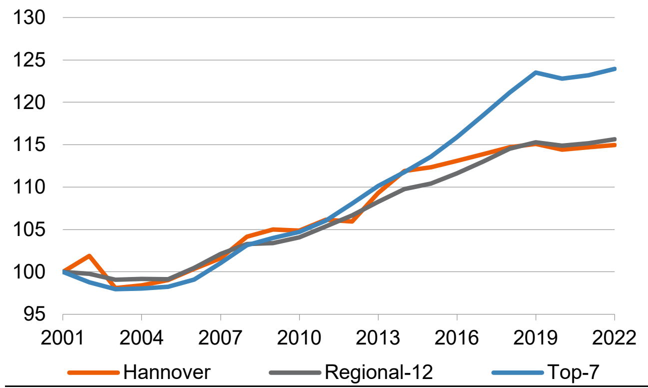
Hannover is by far the largest city in Lower Saxony with a population of around 535,000; it ranks in 13th place in Germany. Ten-year population growth is in line with the average at 5 per cent. As in many large cities, the number of inhabitants has been stagnating for some years. As regards the property market, Hannover is among the most important locations below the top 7 with high commercial rents and a large office market. This reflects several contributory factors: Hannover is the regional capital, administrative hub and a major business location in Lower Saxony with many major industrial and service companies. In addition, the city is at the heart of the Hannover-Braunschweig-Göttingen-Wolfsburg metropolitan area, and also a major trade fair centre. There is a strong industrial presence, notably mechanical engineering and automotive firms along with their respective suppliers. Hannover is also an important financial services centre, with the headquarters of NORD/LB, Hannover Re and Talanx. Automotive supplier Continental and the travel group TUI also have their head office in the city. Moreover, Hannover is an important centre for science and research with various research and higher education institutions and a student population of over 50,000. Unemployment is relatively high despite job opportunities in business and administration. As a location, Hannover benefits from excellent transport links in an East-West and North-South direction - a fact which has had a positive impact on the development of the logistics sector.

GDP
IN EUR PER CAPITA



Source: Scope

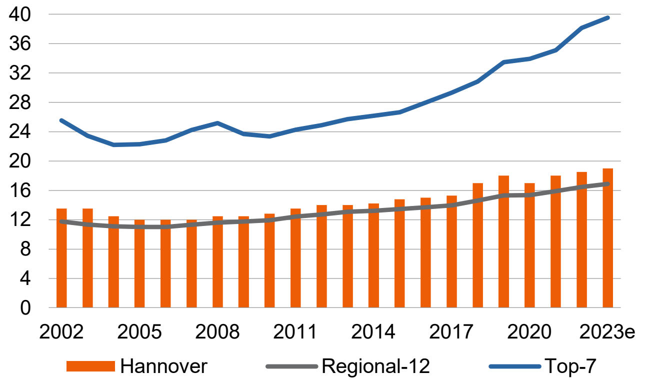
WORKING POPULATION
2001 = 100



Source: Scope

Office space in Hannover

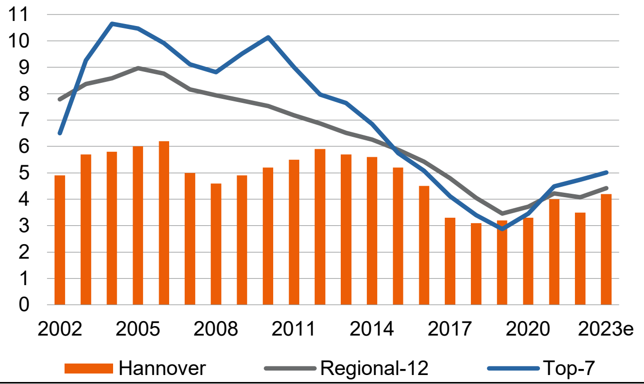
PRIME OFFICE RENTS
IN EUR PER M²



Source: bulwiengesa, DZ BANK forecast

Figures for city locations

VACANCY RATE
IN %

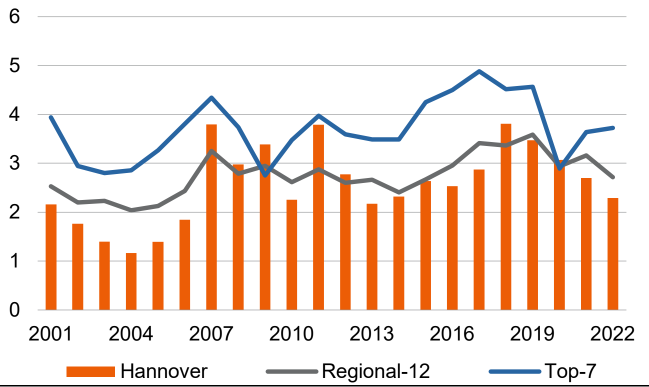


Source: bulwiengesa, DZ BANK forecast

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

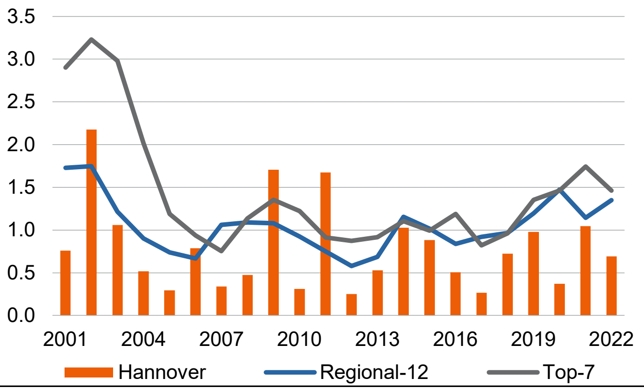
Hannover is the leading office market outside the top 7 with a stock of 4.6 million m², followed a long way behind by Nuremberg with 3.7 m². However, the office stock has hardly expanded any further in recent years in light of moderate new construction. It has only grown by 2.5 per cent since 2012, whereas the amount of office space in regional centres as a whole has expanded three times faster. The vacancy rate is correspondingly modest; it was a low 3.5 per cent lately. Prime rents are high by the standards of a secondary location; they have risen by around 30 per cent to EUR 18.50 per m² in the last ten years, which is in line with the market trend. However, take-up is only fairly average at around 3 per cent of the total stock. At 124,000 and 105,000 m² – i.e., around 2.5 per cent – take-up in 2021 and especially 2022 was in fact even lower than that, reflecting the absence of any of the large transactions of previous years. The maximum transaction size in 2022 was around 10,000 m², and that was only achieved in the case of one contract. Most of the larger rental contracts involved project developments, underlining the scarcity of contemporary office space. Public sector bodies along with education and research institutions dominated last year's signings. This year, the pipeline promises a six-figure addition of space − a level last seen in the 1990s. From 2024 onwards, the amount of new space is set to fall again. To that extent, there could be a temporary increase in the vacancy rate and prime rents could rise slightly further.

TAKE-UP
AS % OF OFFICE STOCK



Source: bulwiengesa

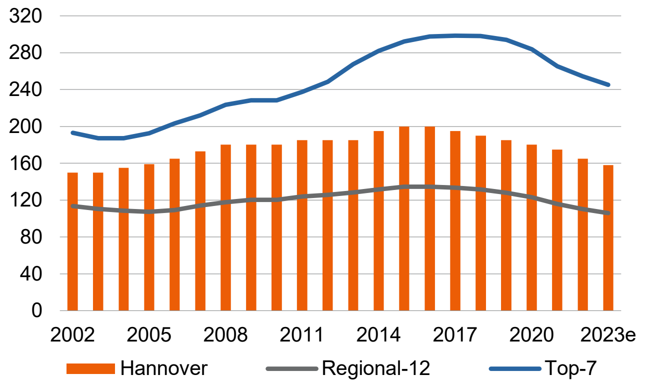
NEW OFFICE SPACE
AS % OF OFFICE STOCK



Source: bulwiengesa

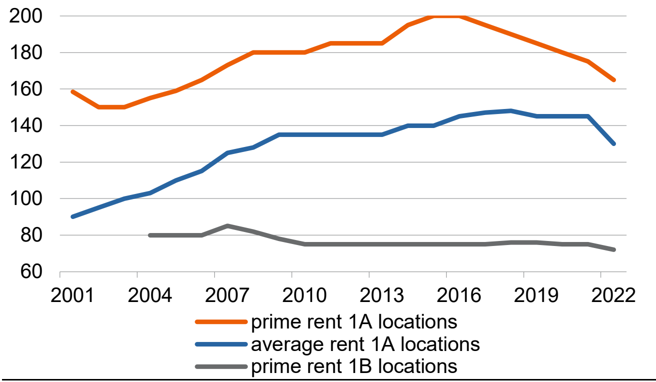
Retail space in Hannover

PRIME RETAIL RENTS
IN EUR PER M²



Source: bulwiengesa, DZ BANK forecast

RETAIL RENTS PRIME/SECONDARY LOCATIONS
IN EUR PER M²

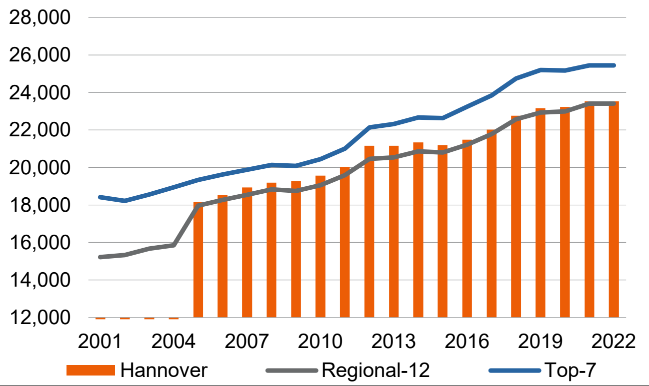


Source: bulwiengesa

Hannover still one of the most expensive retail locations in Germany, but sector having to cope with two empty department stores

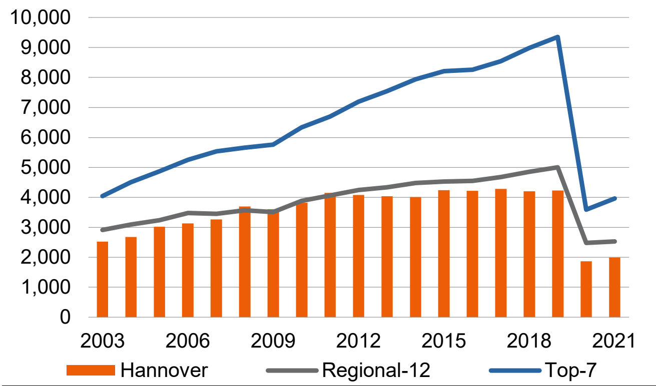
Hannover is among the leading retail locations in Germany. Outside the top locations, only Dortmund matches the rent level in the North Rhine-Westphalia's capital; Münster trails quite a way behind. The fall in rents of over 18 per cent from their peak to EUR 165 per m² most recently is in line with the market trend. One of the factors which explain the success of Hannover's city centre is a 1.8 million-strong catchment area. In addition, as a shopping destination, Hannover hardly has any competition to fear from surrounding cities, and the city centre is well able to stand up to larger retail parks in the neighbouring area in view of large amounts of retail space. Hannover scores 121 points for centrality. However, purchasing power score is slightly below the German average at 97 points. The city's attraction as a shopping destination is based on a good range of shops in the city centre with its prime shopping miles, the Bahnhofstraße/Niki-de-Saint-Phalle-Promenade, Georgstraße, Große Packhofstraße and Karmarschstraße. These prime locations are enhanced by 35,000 m² of retail space in the city centre's Ernst-August-Galerie. Demand in the retail sector is also boosted by visitors to the trade fair city. The department stores' crisis means visible changes for the city centre: in 2020, the Karstadt store on Georgstraße closed, followed by Kaufhof on Marktkirche in early 2023. While the further use for the vacant Karstadt building is still open, the Kaufhof is to be demolished this year and replaced by a new building. This in turn presents opportunities for the further development of Hannover's well-frequented city centre.

PURCHASING POWER
IN EUR PER CAPITA



Source: bulwiengesa, Scope

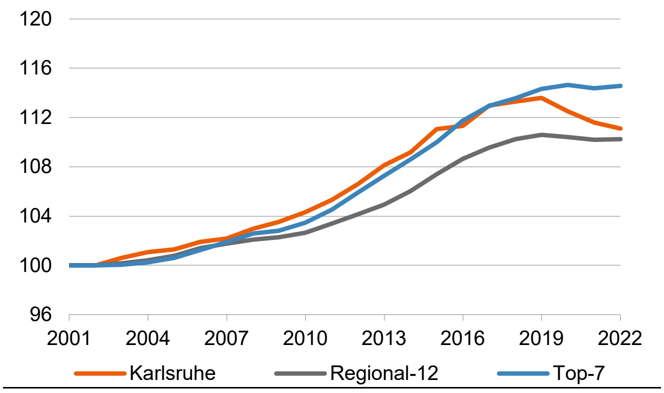
TOURISM - NO. OF OVERNIGHT STAYS
PER 1,000 INHABITANTS



Source: bulwiengesa, Scope

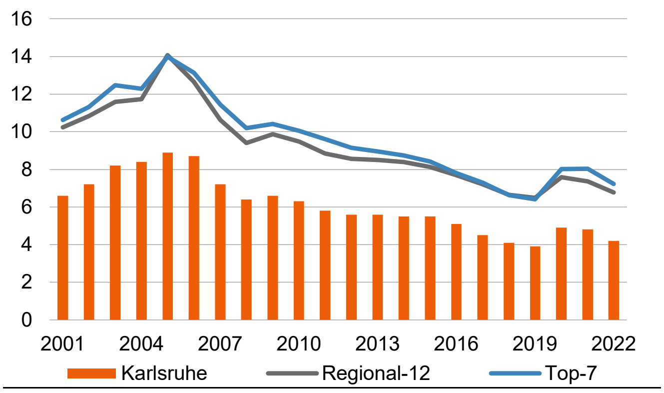
KARLSRUHE

POPULATION GROWTH
2001 = 100



Source: Scope

UNEMPLOYMENT RATE
IN %

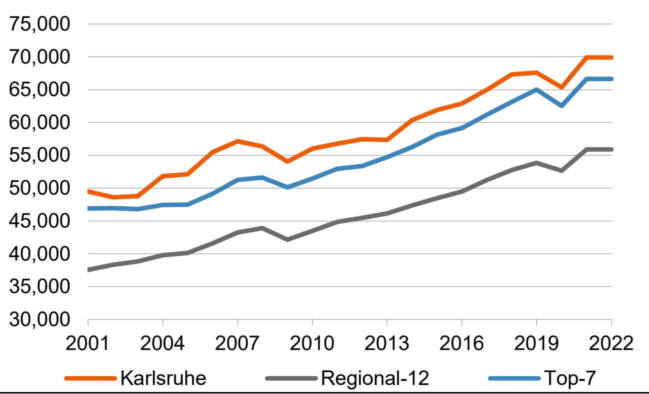


Source: bulwiengesa

Karlsruhe a major business, administration and research centre

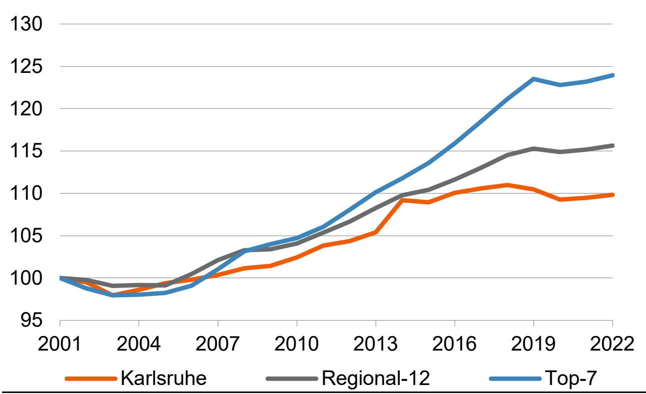
Karlsruhe and Mannheim are the largest cities in Baden-Württemberg after Stuttgart with a population of just over 300,000 inhabitants respectively. Another common feature is strong population growth, although in the case of Karlsruhe it has recently fallen slightly. The local economy in each city, however, is very different. Unlike in the more industrial Mannheim, Karlsruhe is primarily an administrative and services hub as well as a centre for science and technology. Karlsruhe is located on the Upper Rhine and is moreover home to important bodies such as the Federal Constitutional Court, the Federal Court of Justice, the regional government and the Federal and State Government Employee Retirement Fund. As a centre for science and technology, Karlsruhe has several higher education institutions with a total of almost 40,000 students. Foremost among these are the Technical University and the Karlsruhe Institute of Technology (KIT). Karlsruhe's importance as a science and technology centre is bolstered by many research institutions. The city's economy benefits from good transport links via the A5 and A8 motorways, the ICE high-speed train connection, along with an airport and river port. The main sectors are IT, chemicals and machinery. Well-known companies based in Karlsruhe include dm-Drogeriemärkte, EnBW, the co-operative IT service provider Atruvia and pharmaceutical company Schwabe. Tourism, however, does not play a big part in the baroque city and former royal residence. Unemployment was low in 2022 at just over 4 per cent.

GDP
IN EUR PER CAPITA



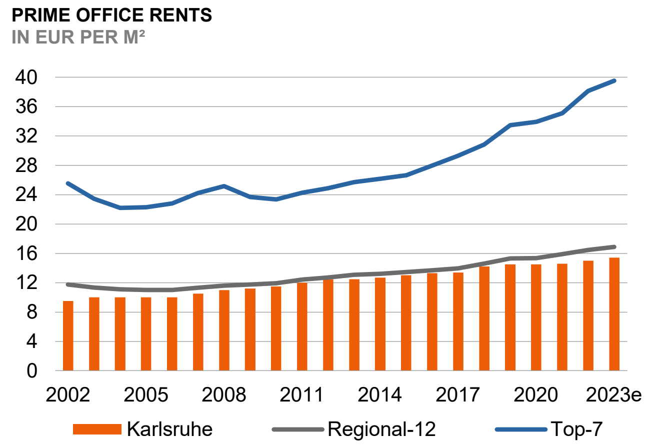
Source: Scope

WORKING POPULATION
2001 = 100

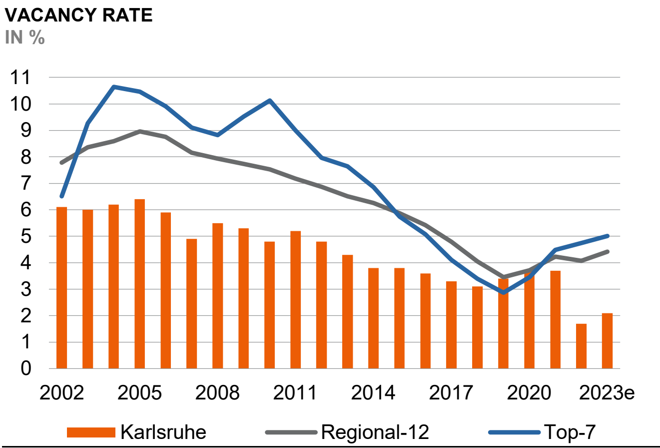


Source: Scope

Office space in Karlsruhe



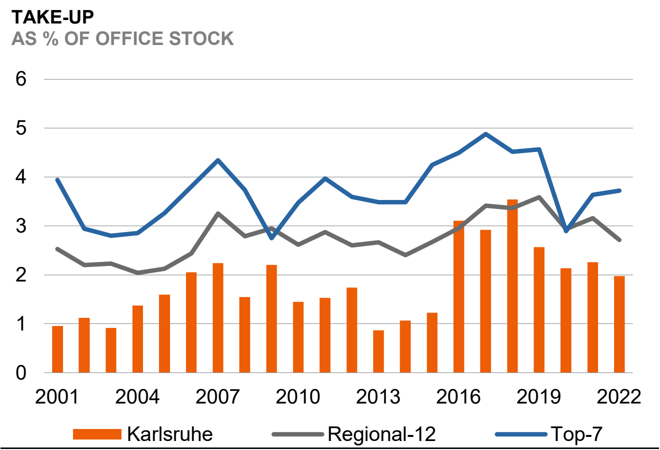
Source: bulwiengesa, DZ BANK forecast Figures for city locations



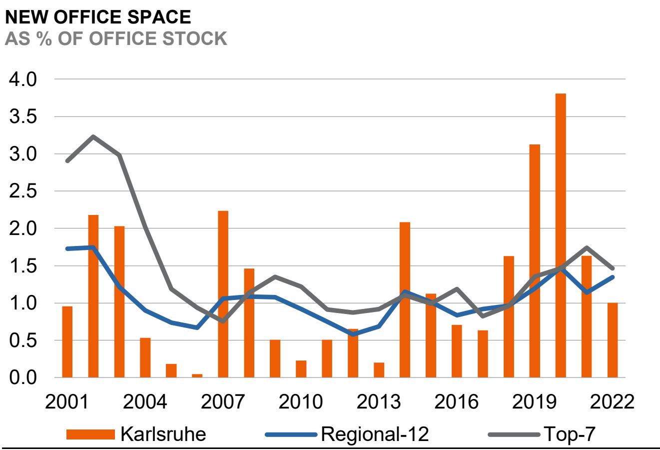
Source: bulwiengesa, DZ BANK forecast

Stable office market with low vacancy rate

As an administrative and services hub and centre for science and research, Karlsruhe has quite a large office market of almost 2.6 million m². The stock was boosted by several larger projects in 2018 and 2020, foremost among which the 1&1/Dommermuth office complex by the main railway station, offering around 50,000 m² of floor space. There has been a steady fall in the vacancy rate with office work rising faster than the amount of available office space. It stood at 2 per cent lately, which means that modern office space is virtually impossible to find despite recent completions. However, the pipeline suggests that a large amount of office space is set to become available in 2023 which should improve the scarce supply. Prime rents are up to EUR 15 per m², although the ten-year increase has only been moderate at 20 per cent. There are major fluctuations in annual take-up, ranging from under 30,000 and over 80,000 m² on account of the letting of larger project developments. Annual figures since 2020 have been roughly in the middle of the range at around 55,000 m² respectively. One transaction in 2022 – for the district administration – was just under the 10,000 m² mark. This year, take-up could rebound significantly in view of imminent larger deals. The gradual uptrend in rents is likely to continue this year in view of high demand for modern office space.



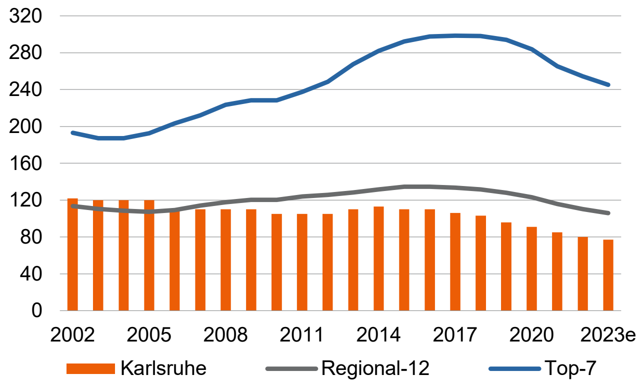
Source: bulwiengesa



Source: bulwiengesa

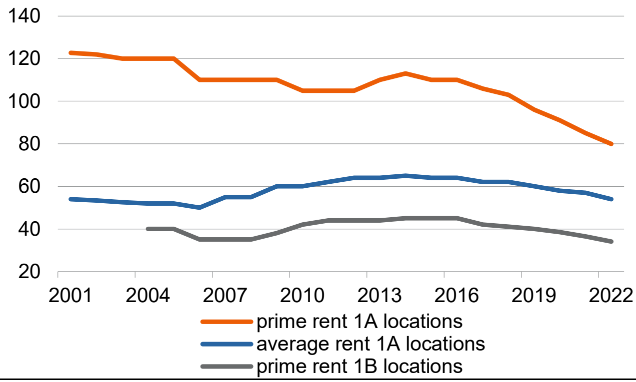
Retail space in Karlsruhe

PRIME RETAIL RENTS
IN EUR PER M²



Source: bulwiengesa, DZ BANK forecast

RETAIL RENTS PRIME/SECONDARY LOCATIONS
IN EUR PER M²

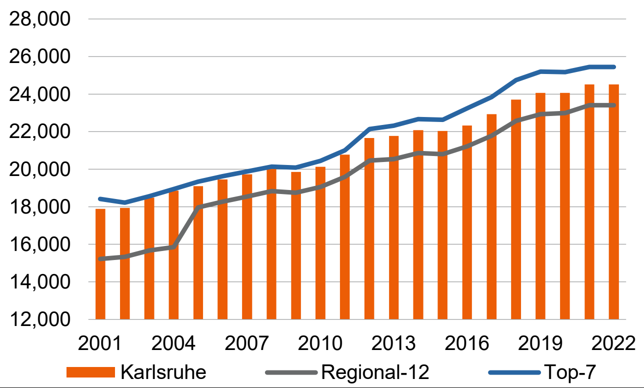


Source: bulwiengesa

Major building works, pandemic and online shopping weakening retailing in the city centre

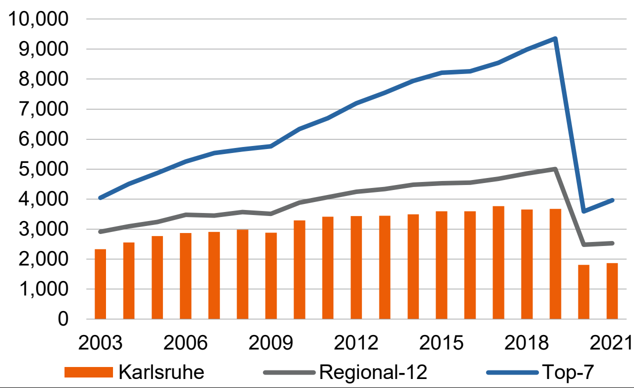
Karlsruhe is a major shopping destination in Baden-Württemberg. Plus points for retailers include population growth so far, a catchment area of over 1 million people and solid economic base with low unemployment. However, at 101 points, the purchasing power score is only moderate, reflecting the city's large student population. The retail offer in the prime shopping street (Kaiserstraße) is bolstered by two well-integrated shopping malls (the Postgalerie and Ettlinger Tor). However, the city centre's attraction has dwindled somewhat; the centrality figure has recently fallen to 115 points. The problem is most in evidence on the fringes of the Kaiserstraße. The city centre has been weakened by major infrastructure works being carried out by the city authorities with its "combined solution" project to move the city's tram underground along the length of the shopping mile. The underground line went into service at the end of 2021. The transformation of the Kaiserstraße from the spring of 2023 to 2025 will mean another major upheaval. Although the city centre will gain a modern pedestrian area which will make it more pleasant in due course, the works will mean more disruption for retailers in the city centre at a time when they are already hit by online shopping and the pandemic as well as by an expansion of out-of-town retail parks such as the Durlach Centre which was enlarged in 2018 or the IKEA store (opened in the autumn of 2020). These factors have contributed to an above-average fall in prime rents, down by over 30 per cent from their peak to just EUR 80 per m². The difficult economic situation at the moment along with ongoing building work could lead to a further slide.

PURCHASING POWER
IN EUR PER CAPITA



Source: bulwiengesa, Scope

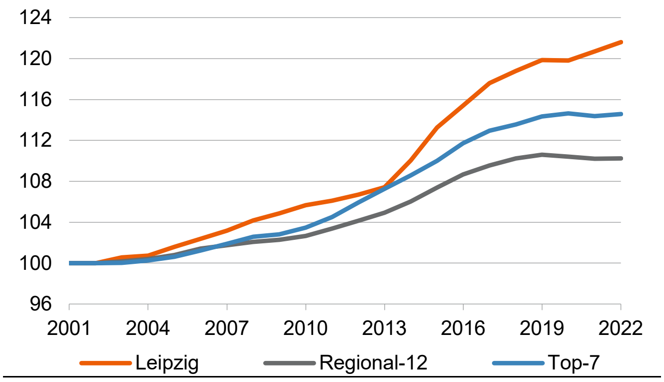
TOURISM - NO. OF OVERNIGHT STAYS
PER 1,000 INHABITANTS



Source: bulwiengesa, Scope

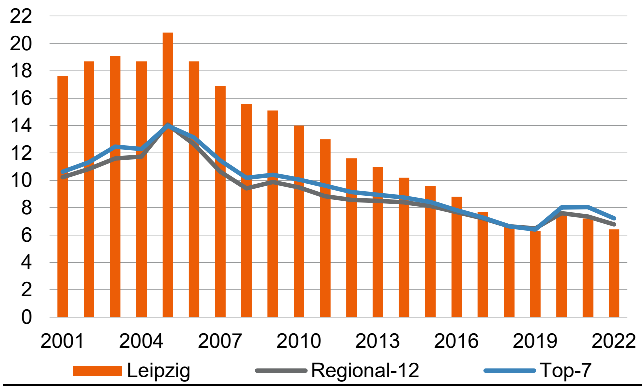
LEIPZIG

POPULATION GROWTH
2001 = 100



Source: Scope

UNEMPLOYMENT RATE
IN %

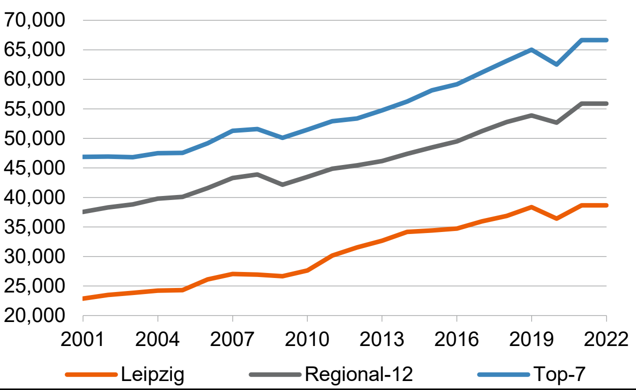


Source: bulwiengesa

Strong population growth has continued throughout the pandemic

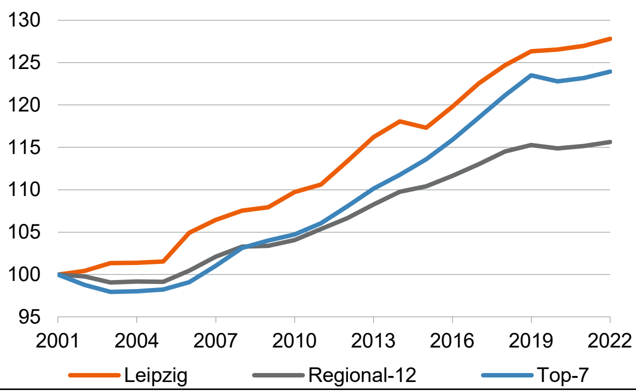
Leipzig is Germany's eighth largest city with over 600,000 inhabitants. The population has grown by over 70,000 since 2012 – a huge increase of 14 per cent. This strong growth has meant that the city's property market, once notorious for high vacancies, is now characterised by tight supply and rising rents. Unfortunately, this has significantly reduced the city's advantage as a cheap place to live. The reasons behind the strong population influx were a high quality of life in a city rich in historical buildings and with an ongoing economic upturn which meant an attractive range of job opportunities and a marked reduction in previously high unemployment. The unemployment rate in 2022 stood at a moderate 6.4 per cent. The city's economic success is built on a strong tradition as a major centre for trade fairs, commerce and industry. The location also benefits from good transport links. After reunification, prominent industrial companies such as BMW and Porsche built large production plants in the city. Key economic clusters are the automotive sector, life science/biotechnology, energy, logistics and IT/media/creative industries. In addition, a thriving start-up scene has developed around a dozen higher education institutions with almost 40,000 students. Tourism has established itself as a further key economic driver.

GDP
IN EUR PER CAPITA



Source: Scope

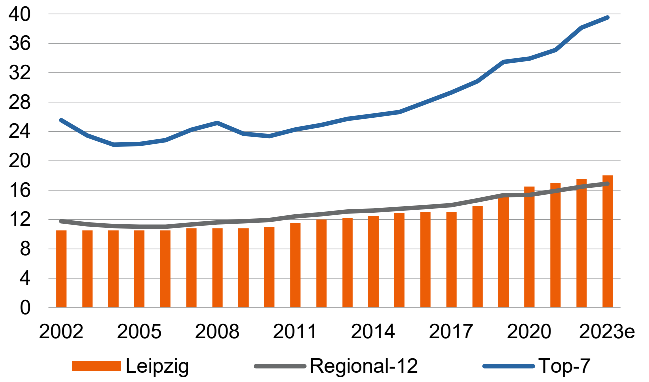
WORKING POPULATION
2001 = 100



Source: Scope

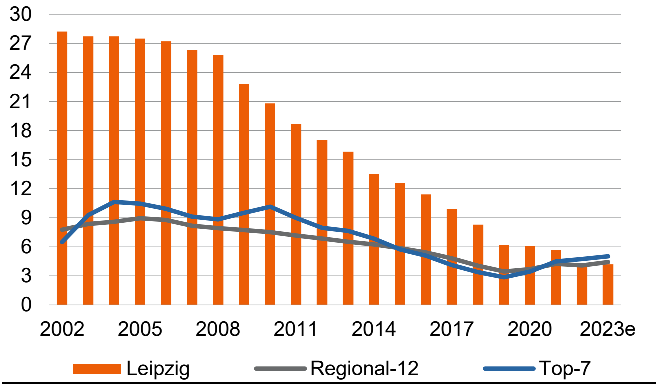
Office space in Leipzig

PRIME OFFICE RENTS
IN EUR PER M²



Source: bulwiengesa, DZ BANK forecast Figures for city locations

VACANCY RATE
IN %

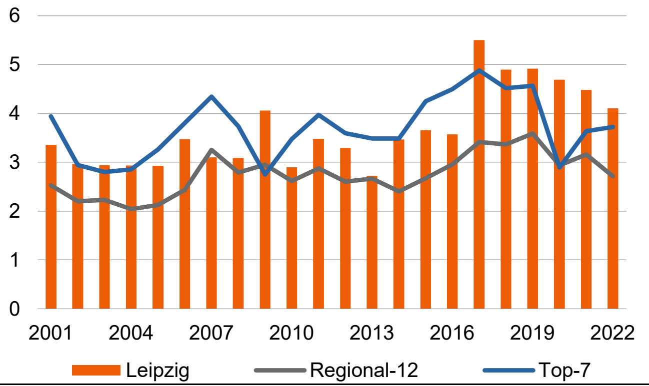


Source: bulwiengesa, DZ BANK forecast

Buoyant office market with six-digit take-up

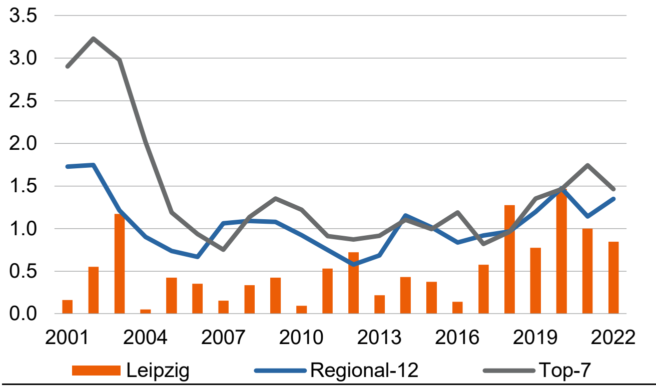
The size of the Leipzig office market ranges from around 3 million to almost 4 million m², depending on sources. A large part of the stock was built in the 1990s after which there were only very few new office-building projects. The economic recovery and concomitant rise in office employment led to a huge surge in demand for office space, largely wiping out the previously very high vacancy rate. By 2022, the figure had fallen to just under 4 per cent. The sharp rise in demand for office space led to a disproportionate increase in prime rents to EUR 17.50 per m² with an increase of almost 50 per cent in the space of ten years and a further uptick likely this year. Activity in the office market has picked up noticeably with annual take-up consistently in six figures since 2017. The figure in 2022 was as much as 115,000 m² and a marked decline through the pandemic failed to materialise. Moreover, high take-up figures are only achieved to a small extent from larger transactions. The market in Leipzig is mostly driven by the SME sector. This year, new office space coming onto the market is likely to be slightly higher than in previous years, but it will still not be enough to satisfy pent-up demand for contemporary space. The pipeline suggests that a larger volume of new space can be expected to resume again from 2024 onwards, which should lead to a gradual improvement in supply.

TAKE-UP
AS % OF OFFICE STOCK



Source: bulwiengesa

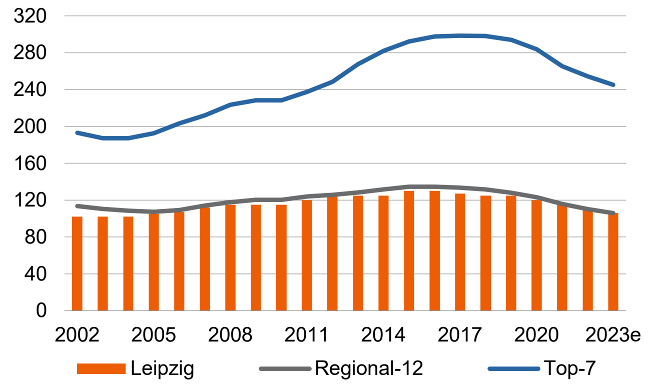
NEW OFFICE SPACE
AS % OF OFFICE STOCK



Source: bulwiengesa

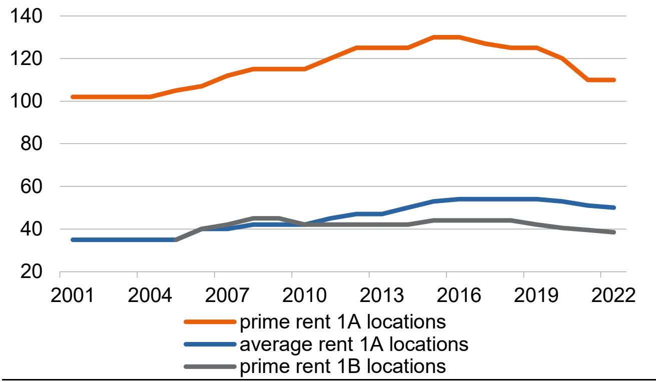
Retail space in Leipzig

PRIME RETAIL RENTS
IN EUR PER M²



Source: bulwiengesa, DZ BANK forecast

RETAIL RENTS PRIME/SECONDARY LOCATIONS
IN EUR PER M²

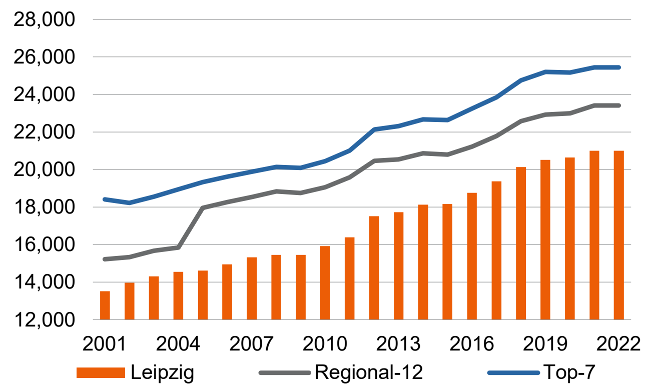


Source: bulwiengesa

Attractive city is not spared the impact of online shopping or the pandemic

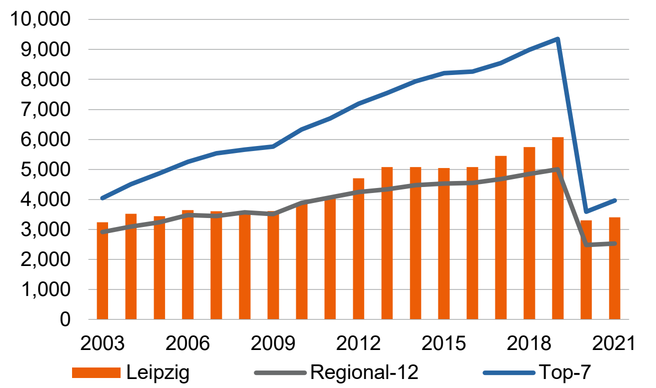
An attractive city centre makes Leipzig the third go-to shopping destination in eastern Germany along with Berlin and Dresden. Apart from low purchasing power of just 87 points, conditions for the retail sector are positive, helped by a catchment area of 1.2 million people, strong population growth, the economic upturn and solid tourism business. In addition, access to the city centre from neighbouring areas has improved significantly since the completion in 2013 of the Citytunnel and overground (S-Bahn) link-up. Visitors to the city centre have a choice between several prime shopping locations such as the Petersstraße and Grimmaische Straße as well as the two shopping centres – the Höfe am Brühl and Promenaden Hauptbahnhof. Although there is little competition from neighbouring towns, Leipzig only scores 102 points for centrality. This is mainly because of out-of-town retail parks. These include two shopping centres − NOVA, west of the city, and Paunsdorf on the eastern edge of the city, offering a total of almost 150,000 m² of retail space and various specialist stores. The downturn in rents in the retail sector has led to a reduction in prime rents in the city centre until 2022 of 15 cent to EUR 110 from their peak. In addition, there are now more vacant stores in the city centre which is why the city authorities are developing concepts to revive the centre. One key element of these efforts is the creation of a new post of city manager. A welcome improvement is that the historical building once home to Karstadt and which stood empty for two years is being redeveloped and will be used for offices and commercial premises on completion in 2023. Even so, rents are likely to continue their downward course.

PURCHASING POWER
IN EUR PER CAPITA



Source: bulwiengesa, Scope

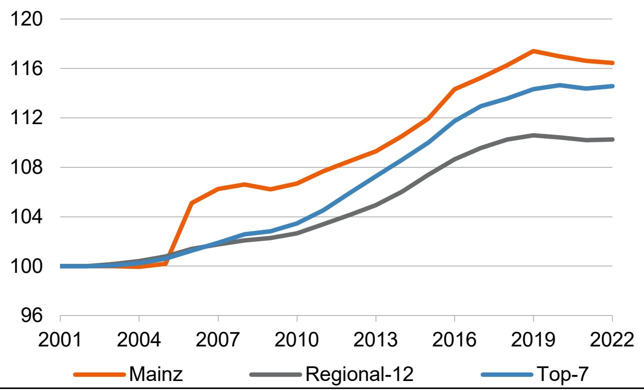
TOURISM - NO. OF OVERNIGHT STAYS
PER 1,000 INHABITANTS



Source: bulwiengesa, Scope

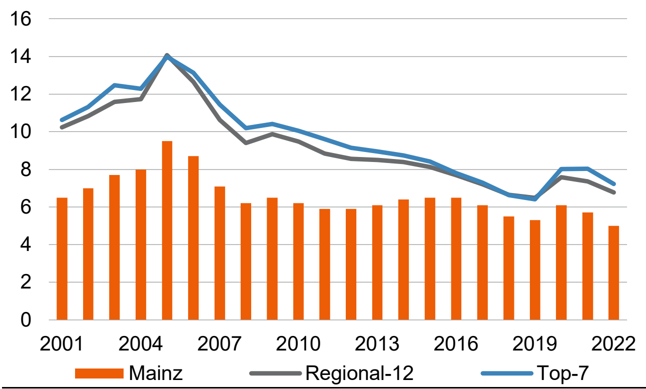
MAINZ

POPULATION GROWTH
2001 = 100



Source: Scope

UNEMPLOYMENT RATE
IN %

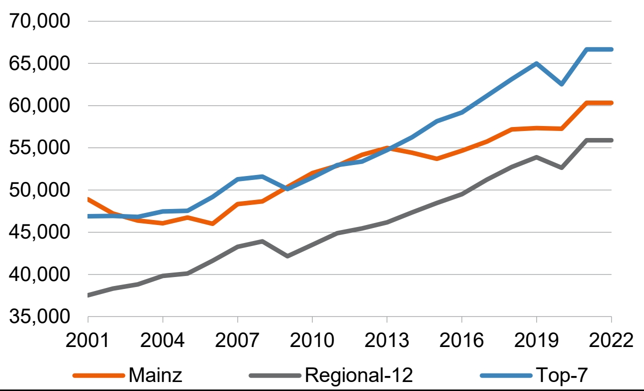


Source: bulwiengesa

Marked expansion in biotech hub underway in Rhineland-Palatinate capital

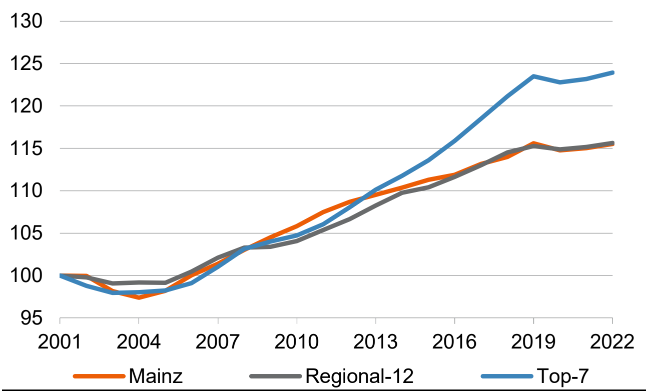
Mainz's advantageous position on the Rhine and Main was already prized in Roman times. Today, the capital of the Rhineland-Palatinate also benefits from its location in the economically strong Rhine-Main area. The university town offers a high quality of life and its population has grown at an above-average rate of around 7 per cent since 2012. Recently, though, it has stagnated at not quite 220,000 inhabitants. One reason for this could be a tight and above all expensive housing market with rents almost in line with those in top locations. Public bodies along with radio and TV, prominently represented by ZDF, SWR and 3sat play a key role for the local economy. The creative sector and services, mainly health and social services, are also major employers. Manufacturing plays a lesser role. On the other hand, Mainz is an important centre for science and technology with over 37,000 studies and many research institutions. This is the environment in which the pharmaceutical company BioNTech – founded in 2008 – created the first approved Covid-19 vaccine. Other well-known Mainz companies are the glass manufacturer Schott, the credit insurer Coface and the chemical company Werner & Mertz (which produces the shoe polish Erdal). Unemployment is low at 5.0 per cent (2022). The huge Zollhafen project is expected to lead to the creation of 4,000 jobs and 1,400 homes by 2025. BioNTech's financial success has led to a huge tax windfall for Mainz which will be used to develop the city. Apart from a reduction in business tax, part of the funds will be used to increase Mainz's biotech footprint with expansion to the west of the city.

GDP
IN EUR PER CAPITA



Source: Scope

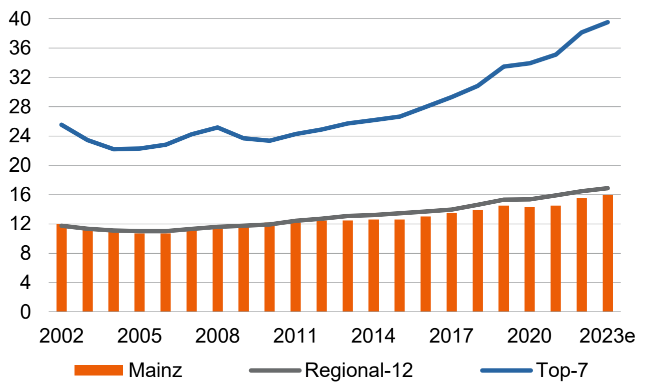
WORKING POPULATION
2001 = 100



Source: Scope

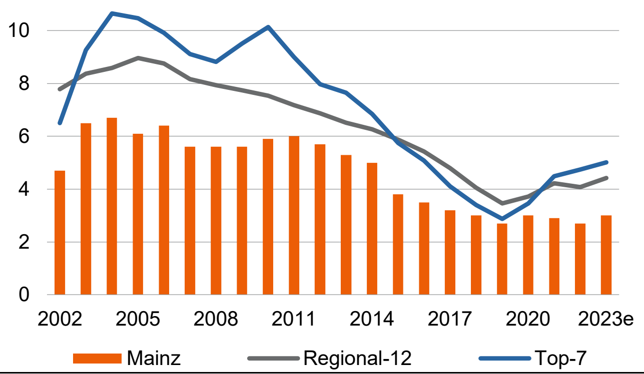
Office space in Mainz

PRIME OFFICE RENTS
IN EUR PER M²



Source: bulwiengesa, DZ BANK forecast   Figures for city locations

VACANCY RATE
IN %

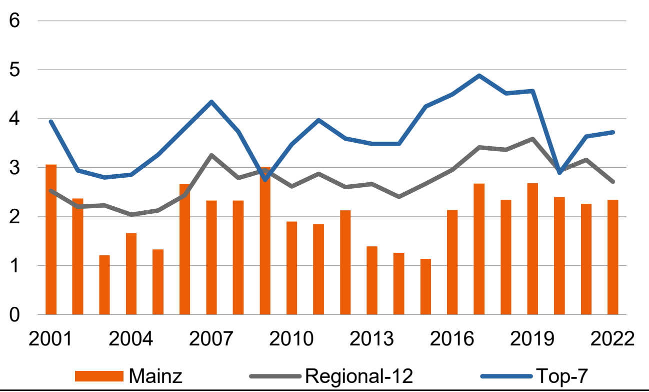


Source: bulwiengesa, DZ BANK forecast

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

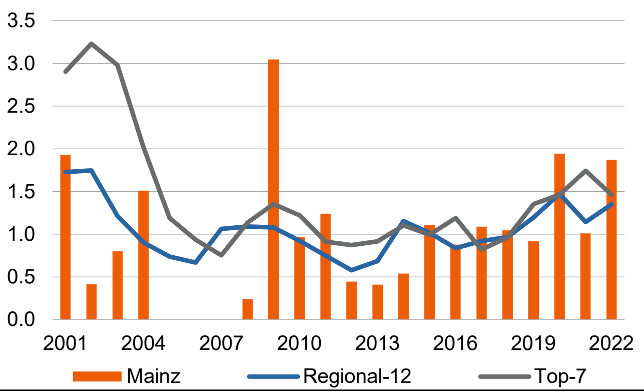
Mainz's office market is one of the smaller ones in our report with a stock of 1.7 million m²; demand is mainly regional. Although the stock has grown by around 8 per cent since 2012, it has not been enough to meet demand, leading to a halving of the vacancy rate within ten years to under 3 per cent most recently. Despite an uptick in office construction, there was no sign of any increase in vacancies in Mainz during the pandemic. Prime rents only started picking up in 2016, which is why the ten-year growth of just 25 per cent is rather moderate. Prime rents stood at EUR 15.50 per m² lately. Activity in the office market tends to be on the quiet side in view of the major importance of the public sector as a local employer. This is illustrated by moderate annual take-up figures of around 30,000 m² up until 2016. Since then, however, newly built offices in the Zollhafen have helped boost take-up to around 40,000 m² per year, or some 2.5 per cent of the office stock. A pandemic-led weakening in market activity driven above all by the SME segment, has failed to materialise. Two major transactions involving BioNTech and ZDF are expected in 2023, which, combined, should exceed the normal annual take-up. In conjunction with an expansion of the biotech cluster in Mainz, demand for office space could increase even more than it has so far. Prime rents are likely to continue to rise.

TAKE-UP
AS % OF OFFICE STOCK



Source: bulwiengesa

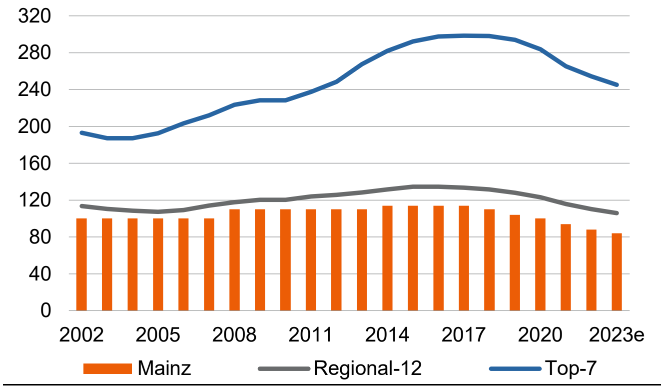
NEW OFFICE SPACE
AS % OF OFFICE STOCK



Source: bulwiengesa

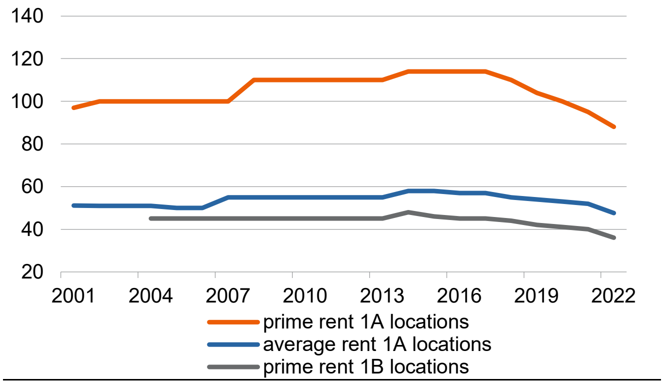
Retail space in Mainz

PRIME RETAIL RENTS
IN EUR PER M²



Source: bulwiengesa, DZ BANK forecast

RETAIL RENTS PRIME/SECONDARY LOCATIONS
IN EUR PER M²

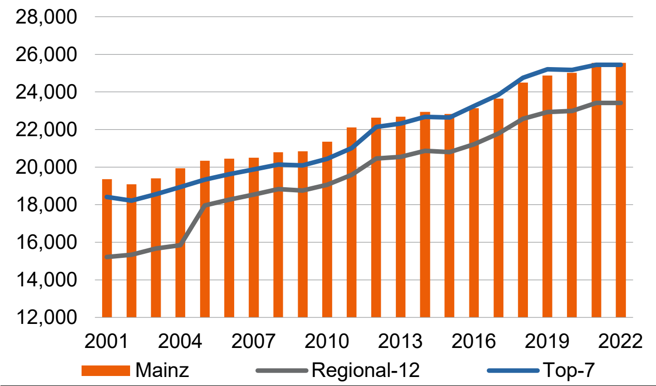


Source: bulwiengesa

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

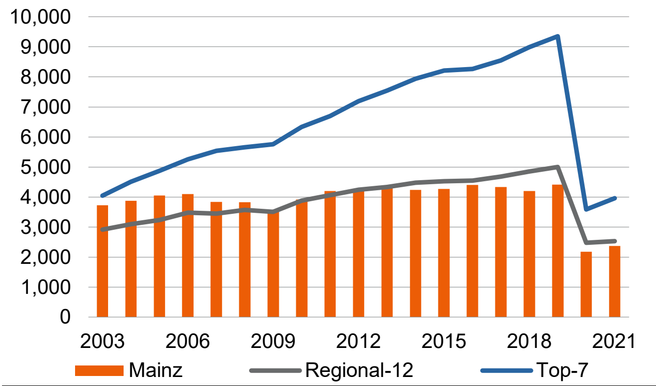
As a retail location, Mainz benefits from a catchment area of 1 million people, extending mainly south-west of Mainz and bordered north and eastwards by the Rhine and shopping locations in the Rhine-Main region. There is intense competition from Wiesbaden across the Rhine and from Frankfurt which is only 40 kilometres away. Plus points for Mainz are tourism and purchasing power. Apart from the small Römerpassage, Mainz has no shopping mall to attract customers. However, the city centre makes up for this weakness through a good mix of shops in the three prime shopping streets – Am Brand, Schuster- and Stadthausstraße. The long-planned refurbishment of the Ludwigstraße ("Lu") should boost the city centre's attraction; work finally started last year, following the closure in October 2020 of the Karstadt store. The new mixed-use concept envisages shops, places to eat and drink, a hotel and a cultural venue with the State Theatre. Mainz still has one department store, Kaufhof. Mainz has not escaped the problems facing the retail sector in city centres, leading to a fall in prime rents. These are down 23 per cent from their high to the latest figure of EUR 88 per m². The city authorities are planning various measures to enhance the centre in order to counter the downtrend. Even so, prime rents are likely to slide further, not least in view of the major building site in the Ludwigstraße .

PURCHASING POWER
IN EUR PER CAPITA



Source: bulwiengesa, Scope

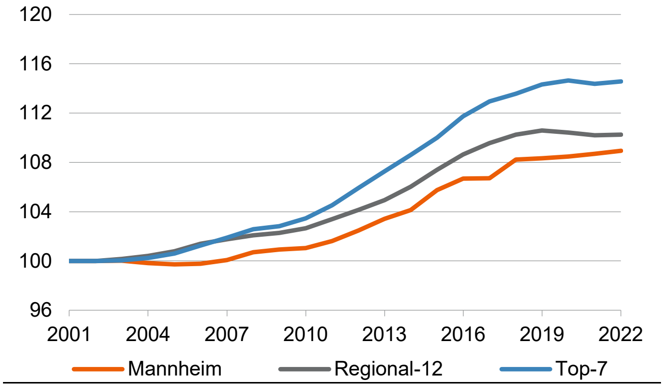
TOURISM - NO. OF OVERNIGHT STAYS
PER 1,000 INHABITANTS



Source: bulwiengesa, Scope

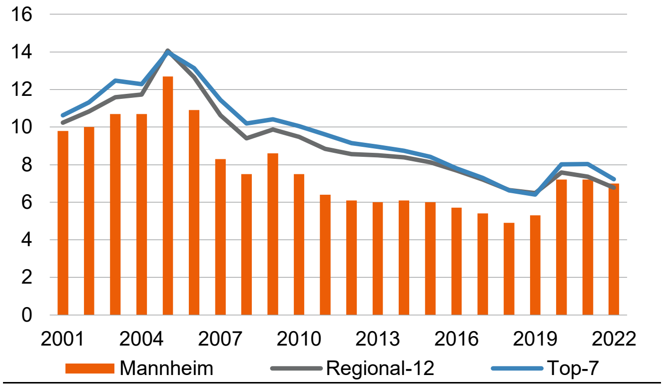
MANNHEIM

POPULATION GROWTH
2001 = 100



Source: Scope

UNEMPLOYMENT RATE
IN %

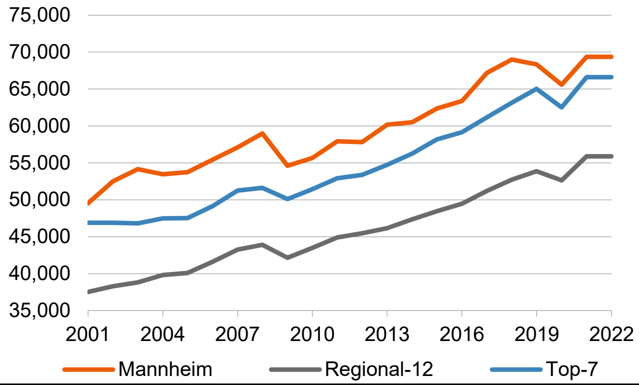


Source: bulwiengesa

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

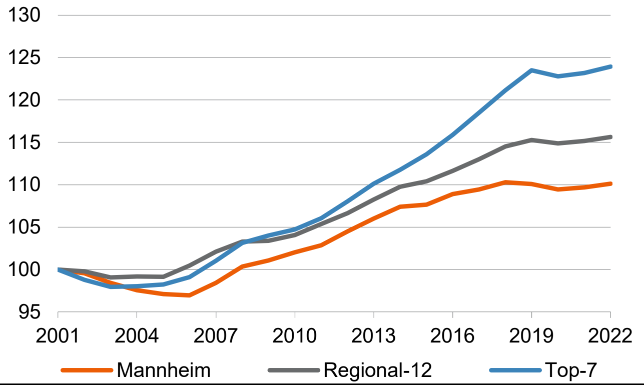
Mannheim is currently the second largest city in Baden-Württemberg with around 310,000 inhabitants, just a hair's breadth ahead of Karlsruhe. Population growth of six per cent since 2012 is in line with the average. It has slowed down from 2018 onwards, not least on the back of a sharp rise in housing rents. The once difficult economic situation has improved significantly and is no longer a limiting factor. Unemployment is in line with the average for the cities under consideration at 7 per cent (2022). Mannheim is the economic centre of the Rhine-Neckar region and a renowned centre for science and technology with a large university and several higher education institutions with over 28,000 students. As an economic centre, the city benefits from its position on the Rhine and Neckar, its river port and good transport links via the A5/A6 motorways and ICE network. Core sectors are the electrical/electronics industry, chemicals, pharmaceuticals along with machinery and automotive. The financial services and logistics sectors have also done well. Mannheim also has a lively start-up scene in several hubs. Big names based in Mannheim include ABB, Bilfinger, Daimler, Fuchs Petrolub, MVV Energie, Phoenix Pharmahandel and Südzucker. Development in the city is benefiting significantly from the presence of large conversion sites; one of these has already been transformed into the Glücksteinquartier and the Federal Garden Show will also take place on reclamation land in 2023. The Spinelli Barracks is the fourth US military site to be redeveloped; plans include the construction of housing for 4,500 people.

GDP
IN EUR PER CAPITA



Source: Scope

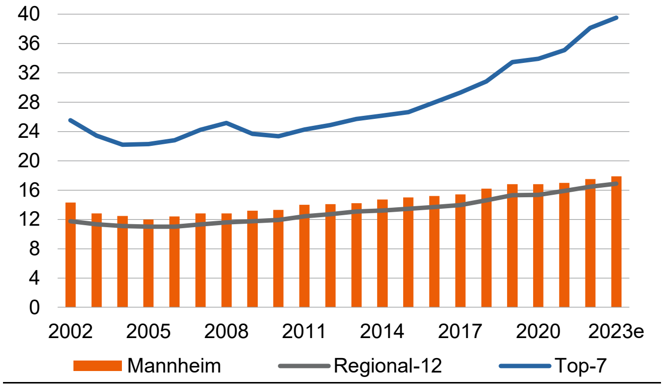
WORKING POPULATION
2001 = 100



Source: Scope

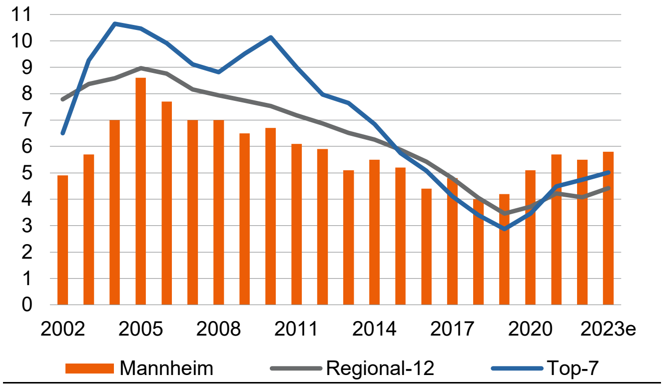
Office space in Mannheim

PRIME OFFICE RENTS
IN EUR PER M²



Source: bulwiengesa, DZ BANK forecast Figures for city locations

VACANCY RATE
IN %

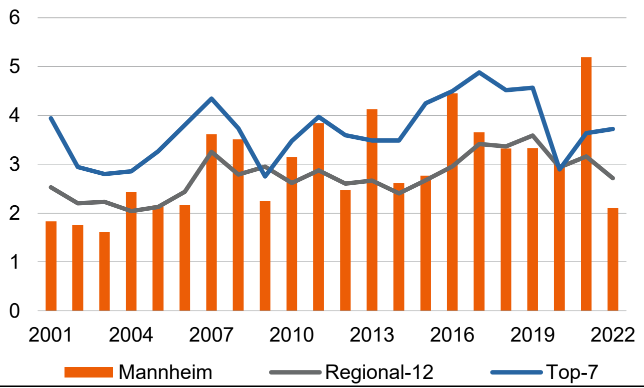


Source: bulwiengesa, DZ BANK forecast

Mannheim a relatively expensive office market in Germany, outside the top 7

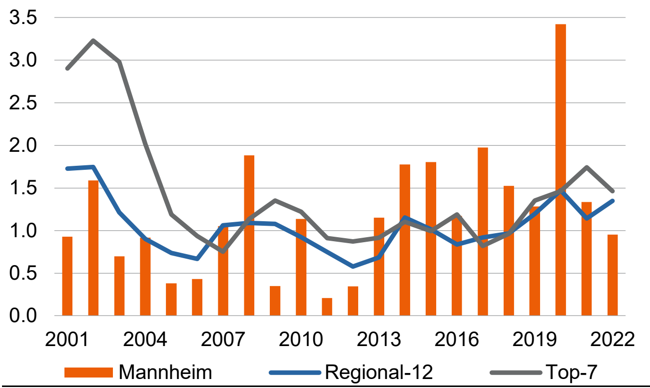
Mannheim is a major office location in the economically strong Rhine-Neckar region with over 2.2 million m² of office space. The stock has increased by 15 per cent since 2012, which was largely in line with office employment. The rise in demand for office space reflects not only a strong economic trend but also the city's transformation from an industrial to a services centre. The vacancy rate had fallen to just over 4 per cent by 2018, but, since the beginning of the pandemic and a high volume of new space coming onto the market in 2020, it has climbed back up to 5.5 per cent most recently. The vacancy rate could rise even further since 2023 is expected to be another bumper year for new space. While take-up surged to a record of 115,000 m² in 2021 on account of several large transactions, it fell back to under 50,000 m² last year − a low level for Mannheim. There were absolutely no five-digit deals. The steady rise in prime rents to now EUR 17.50 per m² which is above the average for the regional centres under consideration. Rents have risen by just under 25 per cent over ten years. Medium and larger transactions mainly involve projects under development, underlining the shortage of contemporary space. We expect prime rents to increase this year, but, in view of higher vacancies, planned new space and crisis conditions, it is likely to be at best moderate.

TAKE-UP
AS % OF OFFICE STOCK



Source: bulwiengesa

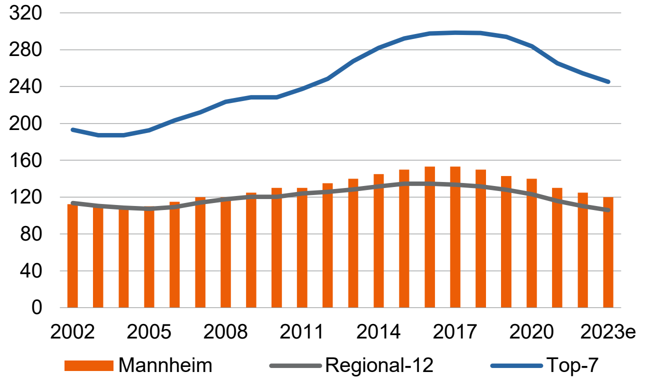
NEW OFFICE SPACE
AS % OF OFFICE STOCK



Source: bulwiengesa

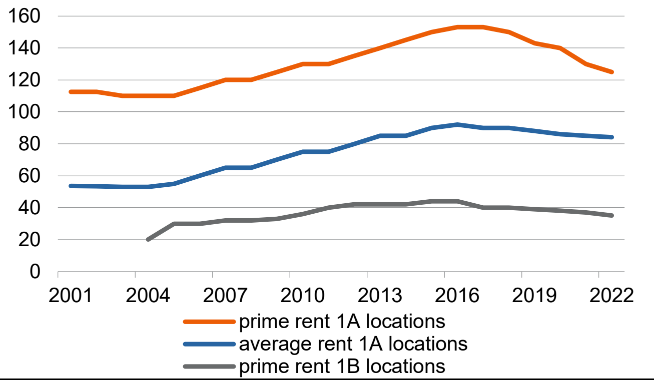
Retail space in Mannheim

PRIME RETAIL RENTS
IN EUR PER M²



Source: bulwiengesa, DZ BANK forecast

RETAIL RENTS PRIME/SECONDARY LOCATIONS
IN EUR PER M²

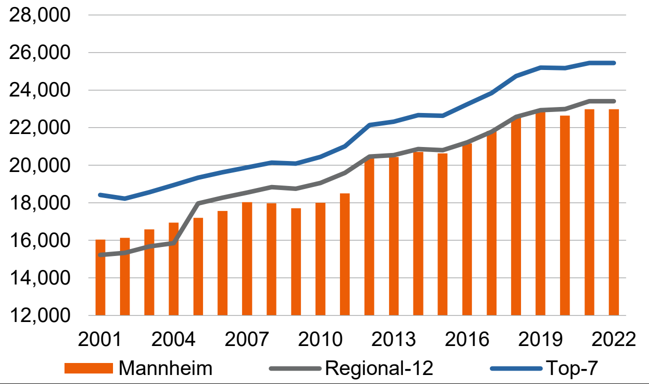


Source: bulwiengesa

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

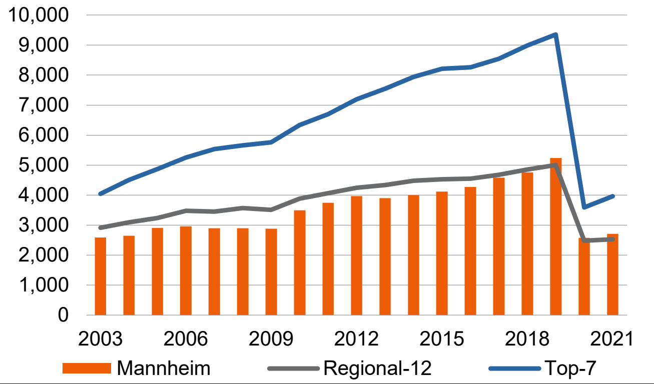
Mannheim is the foremost shopping destination in the Rhine -Neckar region. Its huge attraction lies in a sky-high centrality figure of 140 points. A catchment area of 1.3 million people makes up for Mannheim's below-average purchasing power of 95 points. The city's attraction as a retail location led to a surge in prime rents to a peak of over EUR 150 per m² . However, following the many problems facing the retail sector, prime rents have now fallen by almost 20 per cent to EUR 125 per m² from their peak. Rents are also being dampened by a substantial amount of new space in the city centre with the Q6Q7 shopping mall which opened in 2016. At the same time, a complete revamp of the Planken prime location improved the environment and the supply of attractive sales space. The former Mömax building – previously Karstadt – reopened in September 2019 as a lifestyle centre (K1 Karree) after a radical refurbishment with a mix of shops, places to eat and drink, fitness spaces and offices. The outlook for retail in the city is relatively good in view of a renovated city centre which is moreover free of building works. Nevertheless, demand for retail space is falling and this will mean changes of use. One example of this is the Kaufhof store in Quadrat N7 which has closed. It is now being transformed into an attractive mixed-use new build (New 7), keeping the two lower floors. Peek & Cloppenburg has also downsized its sales floor in favour of mixed use. Prime rents could dip slightly further this year.

PURCHASING POWER
IN EUR PER CAPITA



Source: bulwiengesa, Scope

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

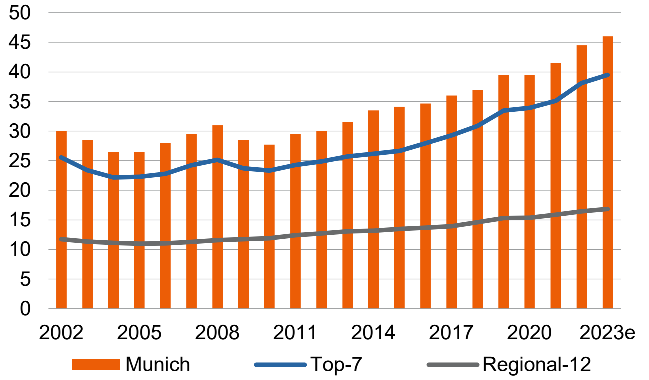


Source: bulwiengesa, Scope

MUNICH

Office space in Munich

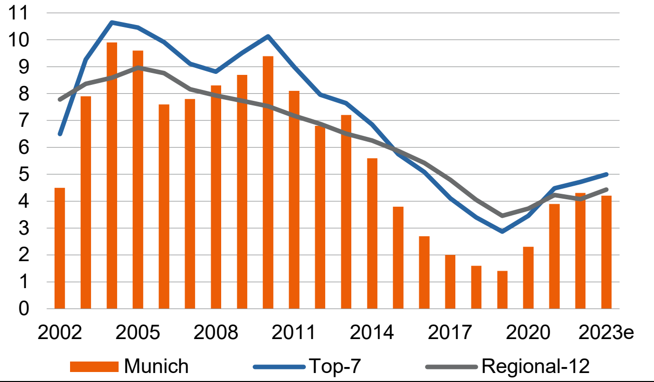
PRIME OFFICE RENTS
IN EUR PER M²



Source: bulwiengesa, DZ BANK forecast

Figures for city locations

VACANCY RATE
IN %

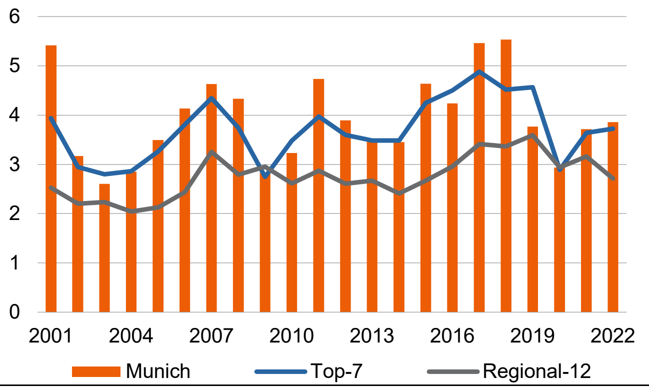


Source: bulwiengesa, DZ BANK forecast

Prime rents overtake Frankfurt after sharp rise

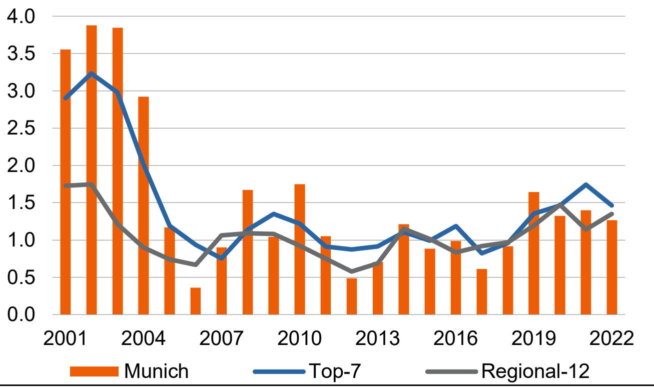
The Munich conurbation is among the strongest economic regions in Germany. The location's potential is reflected in the fact that leading US IT giants such as Amazon, Apple, Google and Microsoft have chosen to establish themselves there. Strong growth in office employment has led to a steady decline in vacancies in the office market. The vacancy rate fell to just over 1 per cent in 2019 and prime rents have risen sharply. Despite a tight supply, annual take-up was still as much as around 750,000 m² at its peak. However, the beginning of the pandemic was accompanied by a marked increase in vacancies and a noticeable fall in take-up which fell to just 555,000 m² in 2022. Last year, the vacancy rate climbed to over 4 per cent. However, the bulk of the increase took place in 2020 and 2021. A rise in office building has also contributed to a rising level in vacancies, although space is urgently needed in view of persistently high demand for contemporary offices. This is underlined by the rise in the top rent to 44.50 euros, which has thus come close to Frankfurt as the most expensive German office location to date. Rents have risen by almost 50 per cent since 2012. The pipeline for new office space should be fairly well filled again this year, as it was in 2022, which could slow down the fast pace of rent rises. We expect the vacancy rate to remain roughly in line with the present level.

TAKE-UP
AS % OF OFFICE STOCK



Source: bulwiengesa

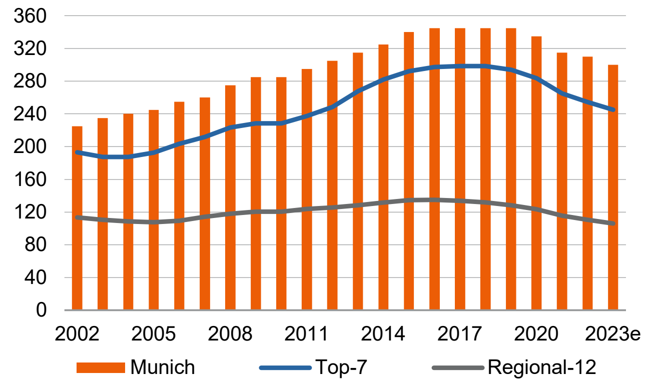
NEW OFFICE SPACE
AS % OF OFFICE STOCK



Source: bulwiengesa

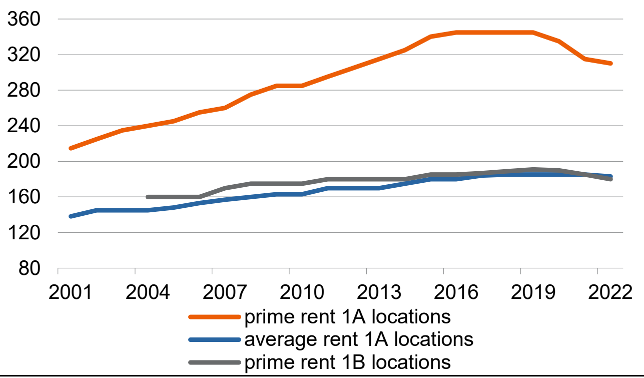
Retail space in Munich

PRIME RETAIL RENTS
IN EUR PER M²



Source: bulwiengesa, DZ BANK forecast

RETAIL RENTS PRIME/SECONDARY LOCATIONS
IN EUR PER M²

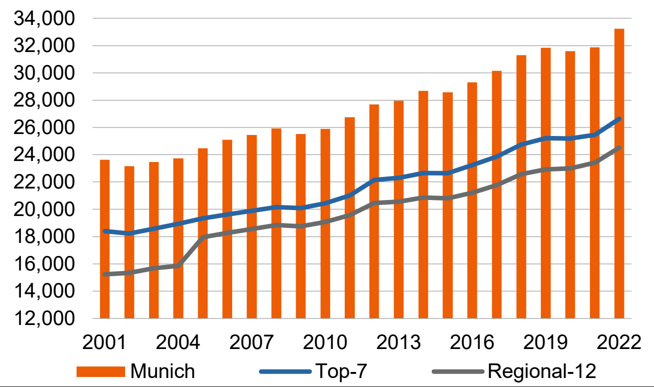


Source: bulwiengesa

Only Munich reaches prime rents of over EUR 300 per m²

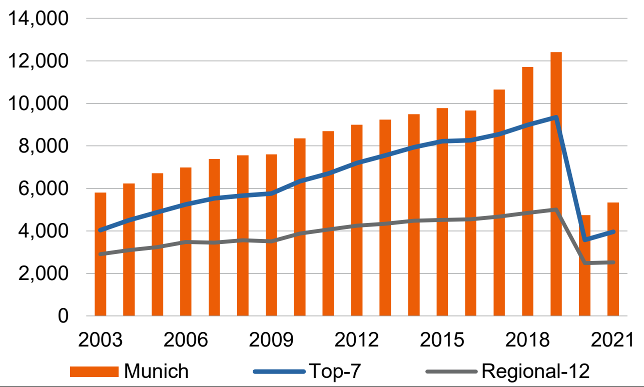
Munich is the number one retail location in Germany based on prime rents, purchasing power and retail-space productivity. Contributory factors include a buoyant economy and the significantly grown catchment area which is home to around 3.2 million people. Another positive factor is the great visitor experience offered by an attractive city centre with its distinctive Bavarian feel and a comprehensive range of shops, from mass-market retail concepts, old, family-run stores to luxury goods shops. Munich also benefits from a flourishing tourism industry, not least in view of the world-renowned Oktoberfest. Prime rents have risen to the highest level in the whole of Germany, even though the city centre has a fairly large stock of retail space of 0.5 million m². The highest rents are in the Kaufingerstraße, Neuhauser Straße and Maximilianstraße. Despite this high level, prime rents have only eased up by a moderate 10 per cent to EUR 310 per m² from their highest point. As such, Munich is still the only German retail location with prime rents of over EUR 300 per m². Nonetheless, the crisis in the retail sector has still left its mark in the form of empty stores, although efforts are being made to find temporary alternative uses. In addition, the number of family-run shops is dwindling. The pedestrian area is to be extended to include the 300-metre-long Tal street. This is likely to go hand-in-hand with rising prime rents there and with a change in the tenant mix. One larger project in Munich involves the remodelling of the Karstadt building near the main station to turn it into a mixed-use facility, to be named "Corbinian".

PURCHASING POWER
IN EUR PER CAPITA



Source: bulwiengesa, Scope

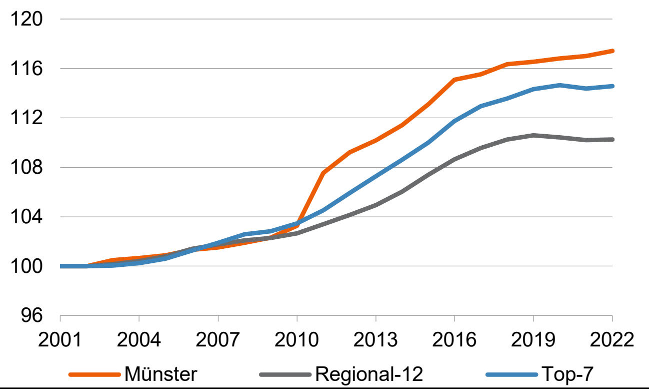
TOURISM - NO. OF OVERNIGHT STAYS
PER 1,000 INHABITANTS



Source: bulwiengesa, Scope

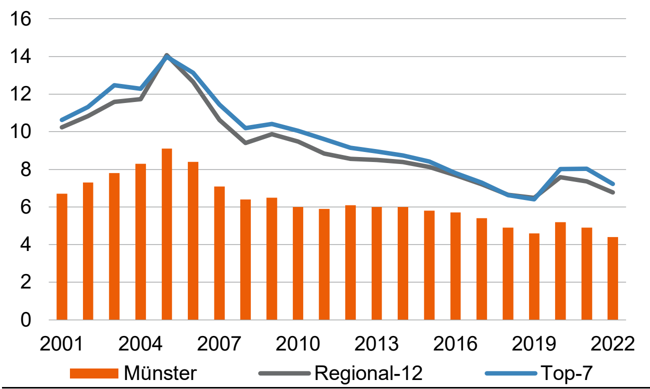
MÜNSTER

POPULATION GROWTH
2001 = 100



Source: Scope

UNEMPLOYMENT RATE
IN %

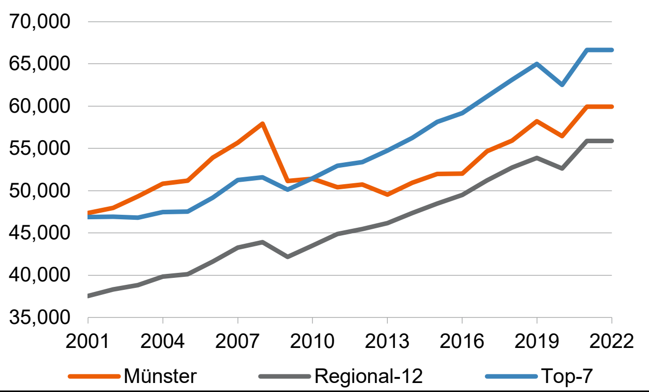


Source: bulwiengesa

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

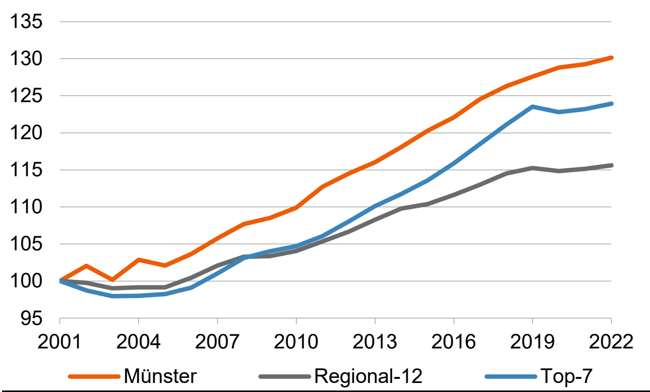
If anything, unlike many cities in North Rhine-Westphalia, population growth has been more of a problem for Westphalian Münster than any dwindling of the population or high unemployment. The latter rate is low by city standards at just 4.4 per cent (2022). Population growth has been even more impressive since Münster now has 50,000 more inhabitants more than 25 years ago. Unlike in many other cities, the population in Münster continued to grow until recently, merely at a slower pace; it has increased by 7.5 per cent since 2012. One reason for the slowdown is undoubtedly a hugely expensive housing market brought about by population growth. People continue to move to Münster on account of the high quality of life which the city offers, a strong labour market and the city's importance as a centre for science and technology. The latter is of huge important for Münster in view of its many research and higher education institutions. Three quarters of some 60,000 students are enrolled at the University of Münster. In contrast to the Ruhr region, industry and major companies are insignificant; the local economy is largely SME driven. The biggest employers include the University Hospital, the university itself and city administration. The most important companies are BASF Coatings, the paint manufacturer Brillux, insurer LVM and filter manufacturer Hengst. The city also has a flourishing tourism activity, driven by the city's quaint medieval charm and renowned Prinzipalmarkt. Münster is also the administrative centre for the Westphalia region which has a population of around 8 million.

GDP
IN EUR PER CAPITA



Source: Scope

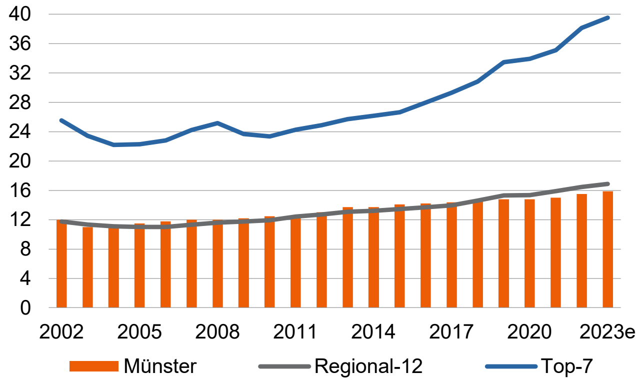
WORKING POPULATION
2001 = 100



Source: Scope

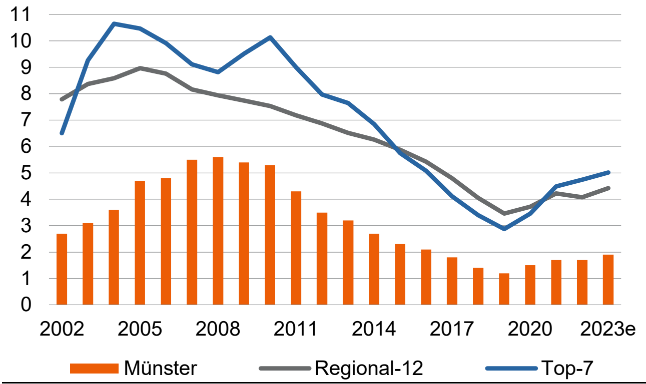
Office space in Münster

PRIME OFFICE RENTS
IN EUR PER M²



Source: bulwiengesa, DZ BANK forecast Figures for city locations

VACANCY RATE
IN %

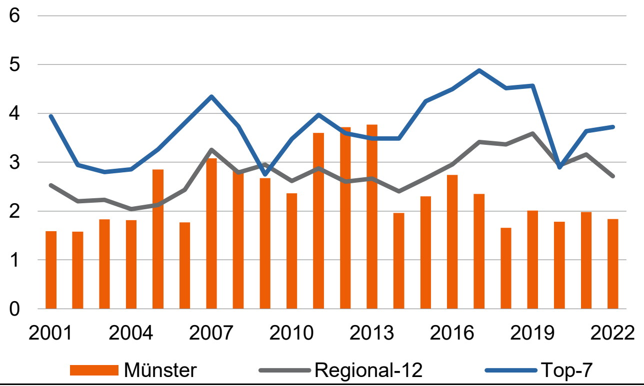


Source: bulwiengesa, DZ BANK forecast

Quiet office market with persistently tight supply and ongoing rent rises

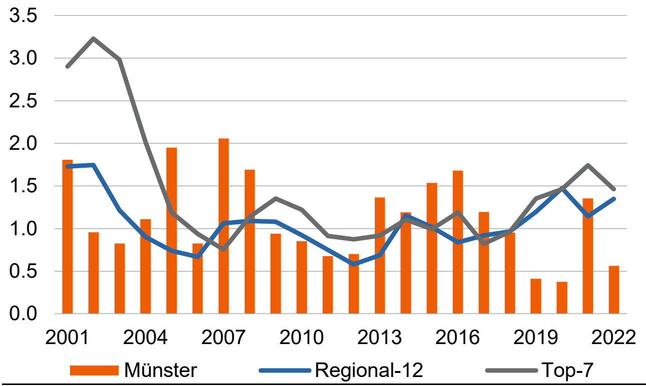
Münster's office market benefits from high demand for space and a large number of education and administrative bodies. Activity in the market is largely driven by local demand and mostly for smaller spaces; speculative developments are the exception. Unlike the office stock of around 2.3 million m², office employment has risen sharply. There was very little new office space coming onto the market from 2019 onwards, leading to persistently low supply. The vacancy rate has been consistently below 2 per cent since 2017, and therefore there are hardly any larger spaces left in the stock. The pipeline suggests that there will not be any more new, large-scale supply until 2024 onwards, assuming the projects in question go ahead as planned. Prime rents have risen steadily in view of a tight market to reach EUR 15.50 per m² in the city centre most recently. Rents are marginally higher in the Hafen business centre. However, growth momentum is below average at just 20 per cent in the last ten years. Letting activity is on the moderate side at 2 per cent of the stock. Annual office take-up is generally between 40,000 and 60,000 m². The figure in 2022 was at the lower end of the range. The trend in the Münster office market is likely to carry on unchanged with a further gradual increase in prime rents on the back of high demand for contemporary office space and further tight supply.

TAKE-UP
AS % OF OFFICE STOCK



Source: bulwiengesa

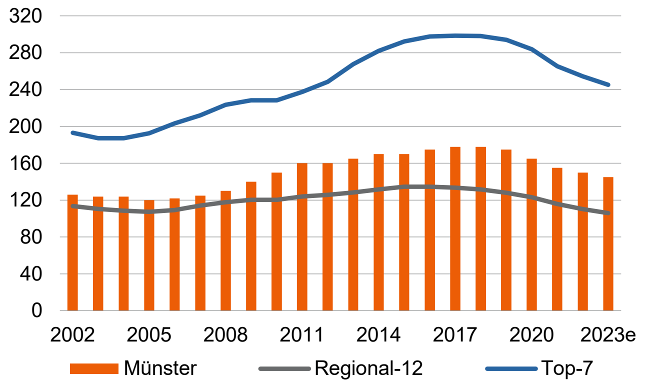
NEW OFFICE SPACE
AS % OF OFFICE STOCK



Source: bulwiengesa

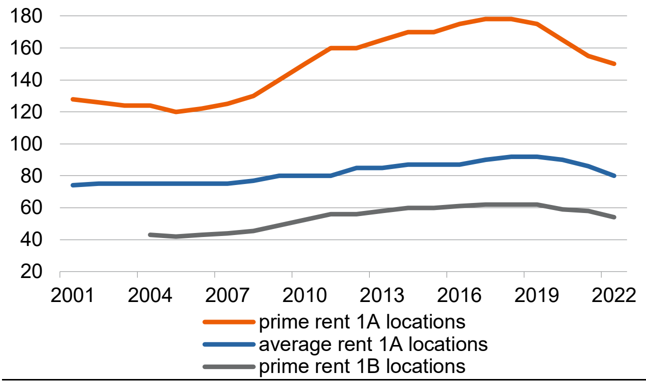
Retail space in Münster

PRIME RETAIL RENTS
IN EUR PER M²



Source: bulwiengesa, DZ BANK forecast

RETAIL RENTS PRIME/SECONDARY LOCATIONS
IN EUR PER M²

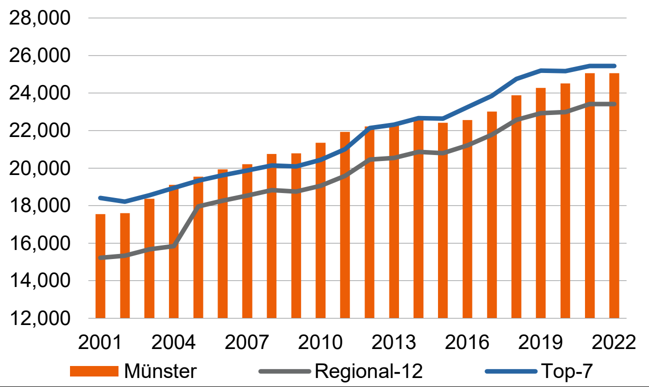


Source: bulwiengesa

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

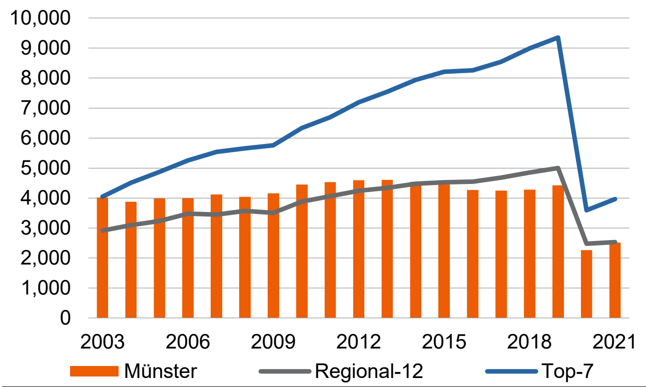
The impact of the pandemic is just as noticeable for the retail sector in Münster as the loss of sales to online shopping. However, Münster is still doing quite well compared with the difficult situation in many other city centres. It has been spared the many empty stores afflicting other city centres. The most obvious sign of the crisis in the retail sector can be seen in the decline in Münster's high retail rents which had fallen 16 per cent from their high to EUR 150 per m² by 2022 (in line with the average). This makes Münster the most expensive retail location among the regional centres under consideration in our study after Hannover. The retail sector in Münster is underpinned by a catchment area of almost 900,000 inhabitants, a fairly high centrality score of 122 points and solid purchasing power by university city standards of 103 points. The retail sector is benefiting from further population growth and hence a greater pool of potential shoppers. High visitor numbers also bolster retail sales in the city. Another plus point is an attractive city centre which offers a high-quality visitor experience. Customers can enjoy a broad range of shops from the more mass-market prime locations with a high degree of high-street cloning such as the Ludgeristraße, enhanced by family-run and more exclusive stores on the Prinzipalmarkt. The city also offers a modern, city-centre shopping mall with the Münster Arkaden. Nevertheless, prime rents are likely to ease up slightly further in view of ongoing difficulties facing the retail sector.

PURCHASING POWER
IN EUR PER CAPITA



Source: bulwiengesa, Scope

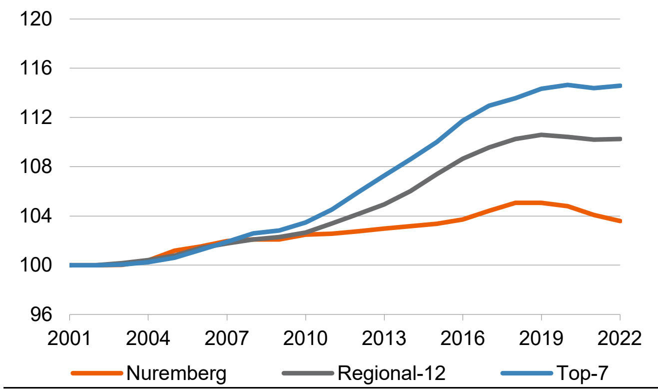
TOURISM - NO. OF OVERNIGHT STAYS
PER 1,000 INHABITANTS



Source: bulwiengesa, Scope

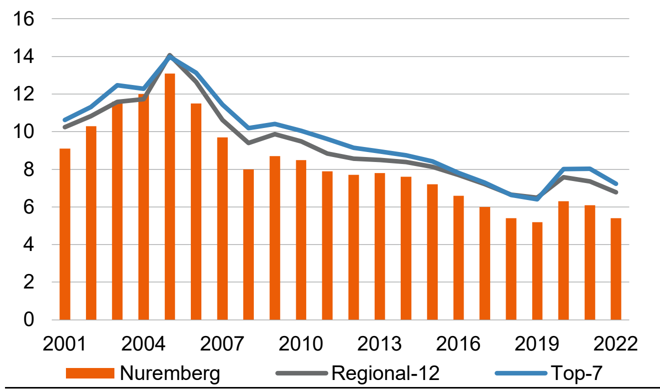
NUREMBERG

POPULATION GROWTH
2001 = 100



Source: Scope

UNEMPLOYMENT RATE
IN %

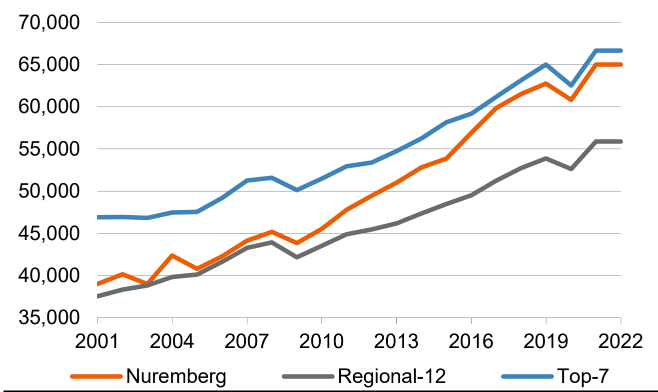


Source: bulwiengesa

Second largest city in Bavaria increasingly changing from industrial to services and science and technology centre

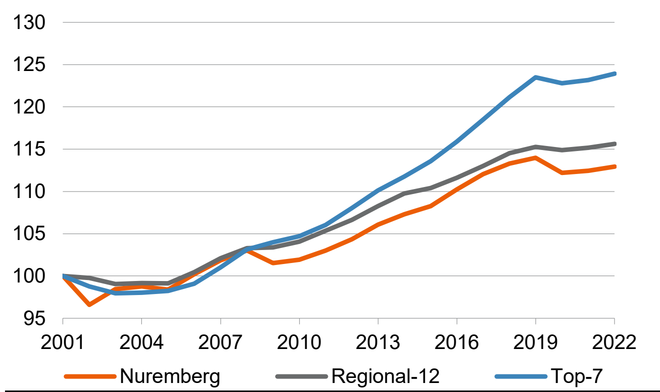
Nuremberg is the second largest city in Bavaria with slightly over 510,000 inhabitants; it is also the economic and cultural centre of Franconia. The city is famous the world over for its Kaiserburg, Christmas market and toy trade fair. From the 1970s onwards, the city's economy was hit by its structural transformation away from industry and by company insolvencies and plant closures. However, these challenges were overcome successfully, and the economy and labour market have therefore done well. Nevertheless, population growth since 2012 has been weak at only 1 per cent, reflecting a slight decline in the recent past following on from a moderate rise. Unemployment has fallen sharply to a low level by large city standards. It stood at 5.4 per cent in 2022. The city's successful development has been helped not least by the fact that the Friedrich-Alexander University, initially solely based in Erlangen, has also had a presence in Nuremberg since 1961. Today, Nuremberg is home to over a dozen higher education institutions with a student population of around 27,000. In addition, the city will have the newly created Technical University which is expected to open its doors in a few years' time. Despite the structural change, Nuremberg still has a relatively important industrial presence. Major sectors are IT, logistics, high-tech, along with energy and medical technology. Trade fairs and congresses along with tourism are also important. Nuremberg has outstanding transport links with the A3, A6 and A9 motorways, ICE high-speed train, along with an airport and river port on the Main-Danube canal.

GDP
IN EUR PER CAPITA



Source: Scope

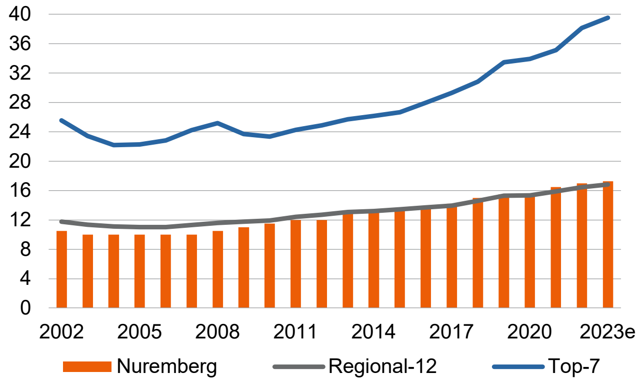
WORKING POPULATION
2001 = 100



Source: Scope

Office space in Nuremberg

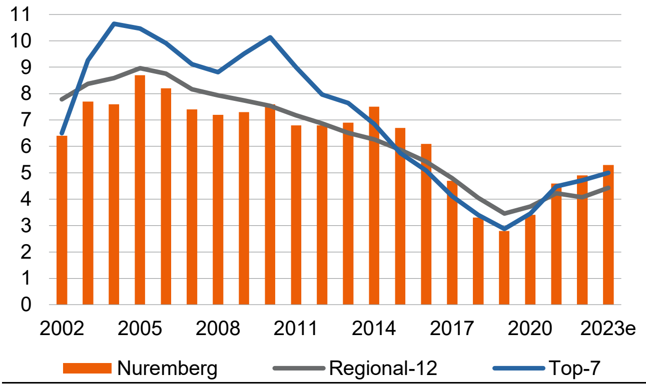
PRIME OFFICE RENTS
IN EUR PER M²



Source: bulwiengesa, DZ BANK forecast

Figures for city locations

VACANCY RATE
IN %

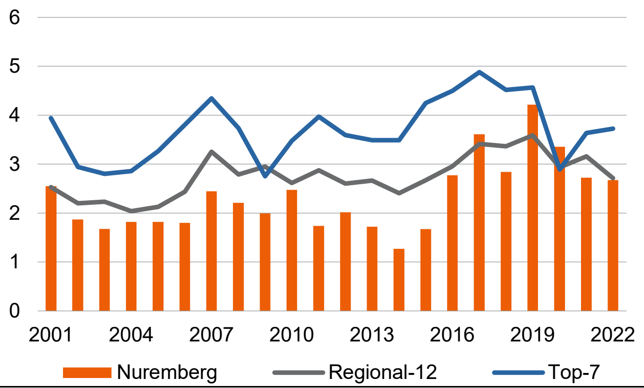


Source: bulwiengesa, DZ BANK forecast

Sharp rise in prime rents in Nuremberg's office market

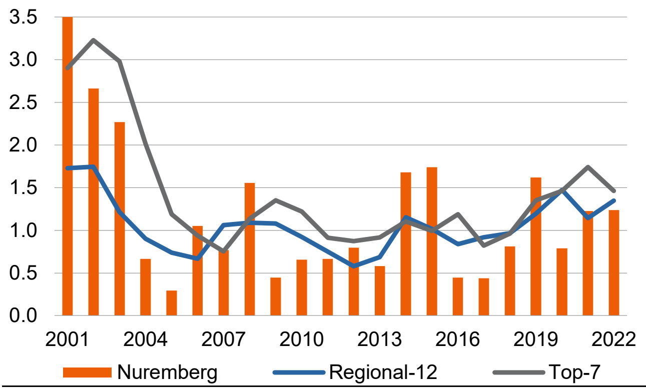
Nuremberg's office market ranks in ninth place in Germany with a stock of over 3.7 million m². Apart from the top locations, only Hannover has a larger stock. However, Nuremberg's office market is not excessively large. While the stock has increased by around 8 per since 2012, office employment has grown even faster. This led to a reduction in the vacancy rate to under 3 per cent although, as in many other office markets, it has increased noticeably again on account of the pandemic. Most recently, the figure was just under 5 per cent. Demand for office space in Nuremberg has picked up significantly in the last few years. Whereas take-up during the period from 2001 to 2015 was in a range of 45,000 to 85,000 m², it has since been consistently in six figures. A figure of 100,000 m² was achieved in 2022, helped above all by the SME market segment. The biggest transaction – involving the World Bank – was for 8,500 m². There has been a marked increase in prime rents to EUR 17 per m² most recently, driven by substantial demand. The ten-year increase in rents was strong at just over 40 per cent. The pipeline suggests a rather moderate amount of new space coming onto the market in 2023 and 2024. In view of the improved supply of modern office space, prime rents are likely to increase slowly at best. The vacancy rate could increase to over 5 per cent.

TAKE-UP
AS % OF OFFICE STOCK



Source: bulwiengesa

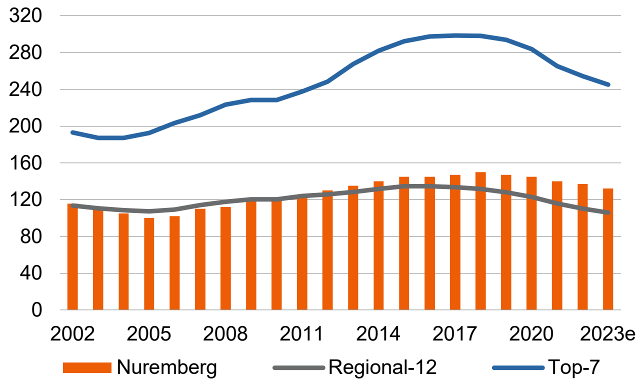
NEW OFFICE SPACE
AS % OF OFFICE STOCK



Source: bulwiengesa

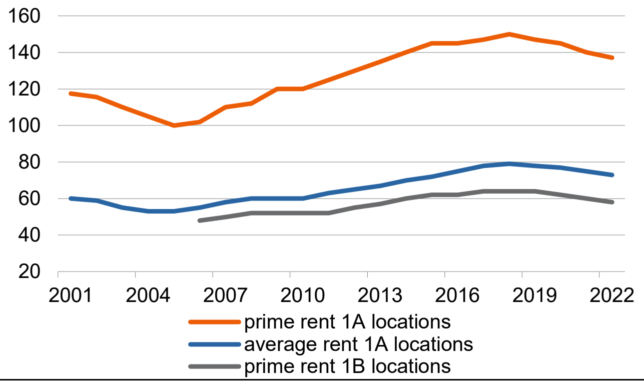
Retail space in Nuremberg

PRIME RETAIL RENTS
IN EUR PER M²



Source: bulwiengesa, DZ BANK forecast

RETAIL RENTS PRIME/SECONDARY LOCATIONS
IN EUR PER M²

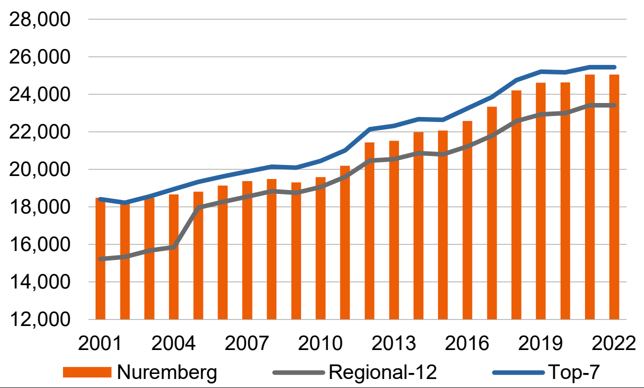


Source: bulwiengesa

Little downward movement in prime rents in Nuremberg despite the crisis in the retail sector

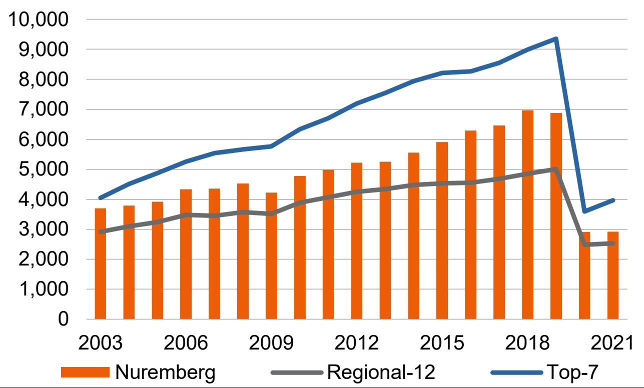
Nuremberg is the leading retail location in northern Bavaria with a catchment area of around 1.5 million inhabitants. Competition from surrounding towns is fairly limited, hence a high centrality score of almost 130 points. However, purchasing power is only slightly above the German average at 104 points. Lively tourism is a major support for demand in the city's retail sector. Moreover, the old town offers a high-quality experience and a circuit of prime shopping locations. The Karolinenstraße has the highest figures for footfall, degree of high-street cloning and prime rents. One plus point for Nuremberg is a wide range or shops, including the more "hip" Gostenhof. The Altstadt Karree should replace the city centre's only shopping mall, the City Point, which dates back to the 1950s. However, the mixed-use project has been revised and, instead of a hotel on the top floors, the plan now envisages offices and flats. Demolition is due to begin in 2023. Outside the city centre, Nuremberg still has the Franken and Mercado shopping malls. Since there are a total of three Galeria outlets, the closure of one of the stores is not unlikely in view of the renewed insolvency of the department store chain. Nuremberg has not been spared the negative impact of the crisis in the retail sector such as empty stores, although the impact as a whole has been relatively moderate. Prime rents have only fallen by 7 per cent from their peak to EUR 137 per m² lately. However, another moderate decline in rents is likely this year.

PURCHASING POWER
IN EUR PER CAPITA



Source: bulwiengesa, Scope

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

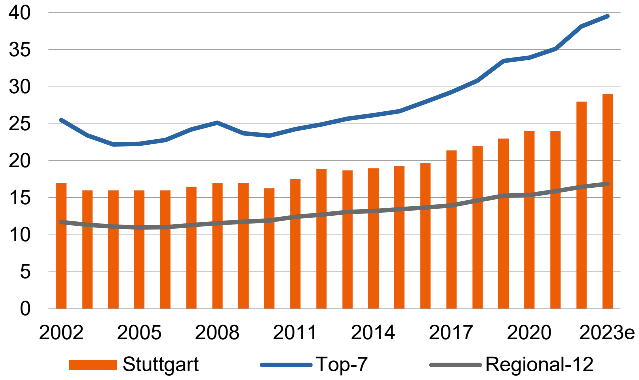


Source: bulwiengesa, Scope

STUTTGART

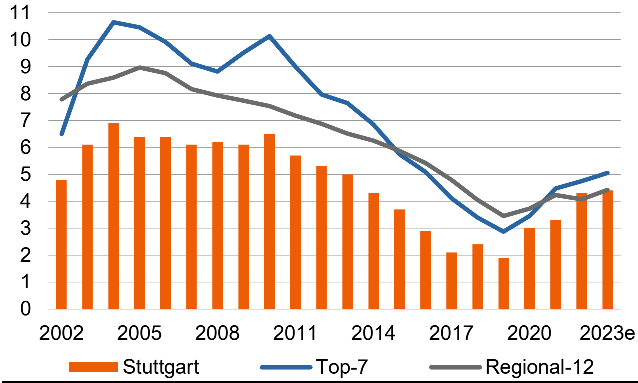
Office space in Stuttgart

PRIME OFFICE RENTS
IN EUR PER M²



Source: bulwiengesa, DZ BANK forecast Figures for city locations

VACANCY RATE
IN %

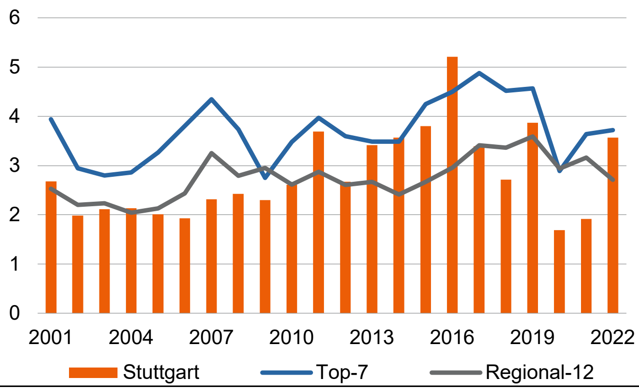


Source: bulwiengesa, DZ BANK forecast

Rents surging in Stuttgart office market despite two weak years for sales take-up and rents

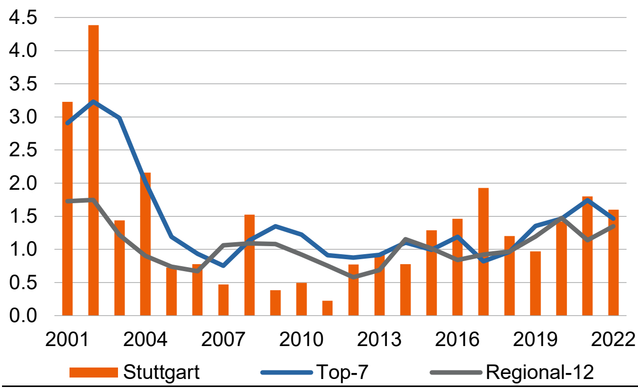
Stuttgart differs from the other top locations in view of the greater importance of industry for the local economy. The somewhat lesser importance of the services sector is evident from a mostly moderate take-up in an office market of 8.2 million m². Annual take-up was often below 200,000 m² up to 2010. Since then, however, activity has picked up, leading to a rise in annual take-up to an average of 275,000 m² in the period from 2011 to 2019. After two years with very low levels of around 150,000 m², the figure nearly doubled to almost 300,000 m² in 2022, driven by a transaction of over 65,000 m² for the Allianz campus and further large rental deals. All in all, transactions for own use are a major factor. After stagnating in 2020 and 2021, prime rents surged 17 per cent to EUR 28 per m² last year; they have risen by around 45 per cent over ten years. The change in demand for office space brought about by WFH along with an upturn in new office building in the last few years has led to a doubling in the vacancy rate to over 4 per cent against 2019. However, the pipeline suggests that the annual volume of new space is set to fall noticeably from 2023 onwards. Bearing in mind high demand for modern office space, prime rents could rise further this year, but much slower than last year.

TAKE-UP
AS % OF OFFICE STOCK



Source: bulwiengesa

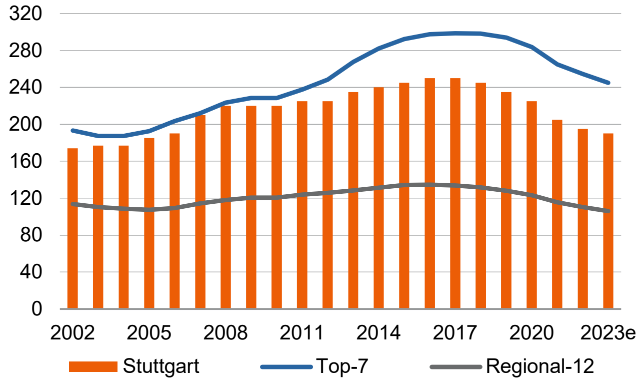
NEW OFFICE SPACE
AS % OF OFFICE STOCK



Source: bulwiengesa

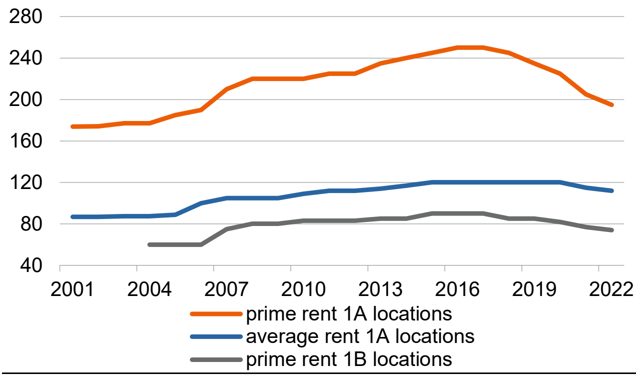
Retail space in Stuttgart

PRIME RETAIL RENTS
IN EUR PER M²



Source: bulwiengesa, DZ BANK forecast

RETAIL RENTS PRIME/SECONDARY LOCATIONS
IN EUR PER M²

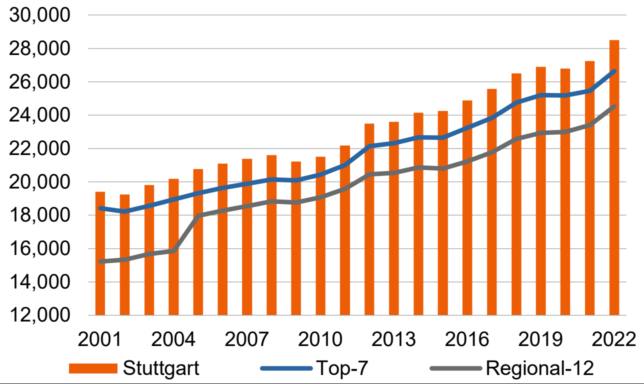


Source: bulwiengesa

Fairly sharp fall in prime rents in Stuttgart

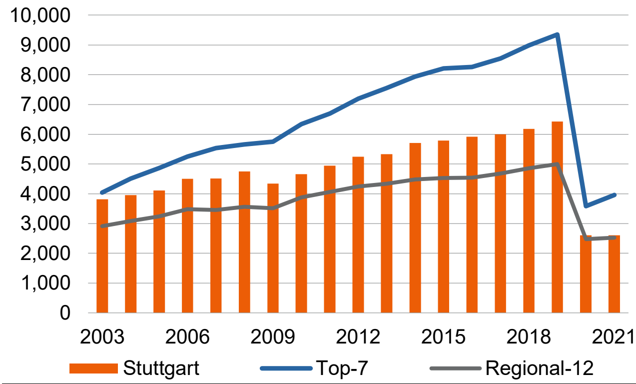
Stuttgart benefits from an affluent catchment area of 2.6 million inhabitants. Tourism though, is of much lesser importance than in the other top locations. However, this is not the reason behind the relatively sharp fall in prime rents in the Königstraße – Stuttgart's prime retail location. Rents have fallen by 22 per cent from their peak to EUR 195 per m² most recently. This is the sharpest fall in the top location segment. Several negative factors are behind the downtrend. These include major building sites such as the once-in-a-lifetime Stuttgart 21 project or the now completed Marktplatz facelift. Another problem is the increase in retail space not quite ten years ago with the development of large city-centre retail projects such as the MILANEO and Gerber shopping malls which led to an increase in retail space in the city centre by a good 20 per in 2014. Considering what is now a decline in demand for retail space, the Gerber mall is to be converted into a mixed-use space by 2023. Other building plans in the city involve the construction of shops and offices to replace the former Sportarena stores (König-/Schulstraße), or the Bundesbank's new building the former Kaufhof (Eberhardstraße). The refurbished Sport-Scheck building reopened with a completely new concept over four floors in September 2022. In addition, the collection of buildings which make up the Schlossgartenquartier at the entrance to the Königstraße is to be revamped by 2025. Nevertheless, a further fall in prime rents is entirely possible.

PURCHASING POWER
IN EUR PER CAPITA



Source: bulwiengesa, Scope

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



Source: bulwiengesa, Scope

LOCATIONS AT A GLANCE

STRUCTURAL DATA 2022

	Inhabitants '000	Inhabitants 2012-2022 (%)	GDP EUR m	Per Capita GDP EUR	Per Capita Dispos-able Income EUR/Year	Unemployment (%)
Augsburg	295	9.2	16,655	56,405	25,093	5.3
Bremen	561	3.1	32,276	57,519	26,893	9.6
Darmstadt	158	8.0	14,494	91,561	28,429	5.1
Dresden	556	7.0	25,468	45,821	25,418	5.8
Essen	579	2.4	29,323	50,640	25,319	10.0
Hannover	535	4.6	36,778	68,778	28,021	8.6
Karlsruhe	305	4.2	22,899	74,968	27,955	4.2
Leipzig	602	14.0	24,825	41,260	23,685	6.4
Mainz	216	7.3	13,937	64,409	27,356	5.0
Mannheim	311	6.3	22,969	73,905	26,721	7.0
Münster	316	7.5	20,265	64,052	27,521	4.4
Nuremberg	511	0.8	35,699	69,843	28,001	5.4
Regional centre mean	**412**	**5.8**	**24,632**	**59,761**	**26,446**	**6.8**
Total	*4,946*		*295,586*			
Berlin	3,672	9.8	172,905	47,088	25,820	8.8
Cologne	1,070	5.1	73,373	68,587	28,457	8.6
Düsseldorf	619	4.7	59,090	95,524	31,647	6.8
Frankfurt	756	10.8	82,124	108,646	29,075	5.8
Hamburg	1,857	7.7	134,563	72,465	29,567	6.8
Munich	1,492	8.5	133,001	89,152	37,971	4.3
Stuttgart	626	5.4	63,864	102,034	31,594	4.5
Top location mean	**1,442**	**8.2**	**102,703**	**71,244**	**29,545**	**7.2**
Total	*10,091*		*718,919*			

Source: Scope, BA

OFFICE SPACE

	Total Stock 2022 Data			Prime Rent EUR/m²			Prime Rent (% yoy)			Vacancy Rate (%)		
	'000/ m²	2012 to 2022 (%)	per Office Worker (m²)	2021	2022	2023e	2021	2022	2023e	2021	2022	2023e
Augsburg	1,492	11.0	26.4	14.0	18.0	18.0	6.1	28.6	0.0	3.7	4.0	4.3
Bremen	2,812	12.0	24.9	13.8	14.0	14.3	5.3	1.4	2.1	4.6	5.1	5.5
Darmstadt	1,652	6.6	29.8	13.4	13.5	13.7	1.5	0.7	1.5	4.1	5.1	5.4
Dresden	3,110	2.5	27.2	16.2	16.4	16.8	1.3	1.2	2.4	2.6	2.9	3.2
Essen	3,202	9.4	30.2	16.5	16.8	17.2	3.1	1.8	2.4	6.3	7.2	7.3
Hannover	4,585	1.7	33.9	18.0	18.5	19.0	5.9	2.8	2.7	4.0	3.5	4.2
Karlsruhe	2,636	14.7	29.2	14.6	15.0	15.4	0.7	2.7	2.7	3.7	1.7	2.1
Leipzig	2,802	0.4	26.6	17.0	17.5	18.0	3.0	2.9	2.9	5.7	3.9	4.2
Mainz	1,709	8.4	31.5	14.5	15.5	16.0	1.4	6.9	3.2	2.9	2.7	3.0
Mannheim	2,234	14.9	28.6	17.0	17.5	17.9	1.2	2.9	2.3	5.7	5.5	5.8
Münster	2,286	9.1	28.7	15.0	15.5	15.9	1.4	3.3	2.5	1.7	1.7	1.9
Nuremberg	3,742	7.8	29.1	16.5	17.0	17.3	6.5	3.0	1.5	4.6	4.9	5.3
Regional centre mean	**2,689**	**7.4**	**28.9**	**15.9**	**16.5**	**16.8**	**3.4**	**3.6**	**2.2**	**4.2**	**4.1**	**4.4**
Total	*32,263*											
Berlin	20,779	12.1	30.9	40.5	43.5	45.0	3.8	7.4	3.4	3.2	3.7	4.2
Cologne	7,942	6.3	29.3	25.0	27.5	28.5	2.0	10.0	3.6	3.6	2.9	3.0
Düsseldorf	7,716	3.3	34.0	26.5	32.5	33.5	0.0	22.6	3.1	7.4	7.9	8.3
Frankfurt	10,182	-1.0	31.3	43.0	45.0	47.0	4.9	4.7	4.4	8.1	8.0	8.3
Hamburg	14,007	4.3	30.1	32.0	33.7	35.0	3.2	5.3	3.9	3.9	3.8	4.3
Munich	14,397	5.8	30.3	41.5	44.5	46.0	5.1	7.2	3.4	3.9	4.3	4.2
Stuttgart	8,180	9.2	39.7	24.0	28.0	29.0	0.0	16.7	3.6	3.3	4.3	4.4
Top location mean	**11,886**	**6.3**	**31.5**	**35.1**	**38.1**	**39.5**	**3.5**	**8.6**	**3.7**	**4.5**	**4.7**	**5.0**
Total	*83,202*											

Source: bulwiengesa, Scope, DZ BANK forecast

Means are space weighted. The **prime** rent indicated by bulwiengesa represents the mean of the 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, higher rent figures for individual locations which may be quoted in alternative market reports, are not fundamentally contradictory.

RETAIL SPACE

	Total Retail Space 2022 Data			Rent in Prime Location EUR/m²			Change in Prime Rent (% yoy)			Retail Rent by Location 2022 EUR/m²		
	'000 m²	2012 to 2022 (%)	per Capita (m²)	2021	2022	2023e	2021	2022	2023e	Prime Rent Prime Loca-tion	Average Rent Prime Loca-tion	Prime Rent Sec-ondary Loca-tion
Augsburg	970	7.1	3.3	95	88	84	-9.5	-7.4	-4.5	88	45	25
Bremen	1,619	13.6	2.9	115	112	108	-8.0	-2.6	-3.6	112	76	35
Darmstadt	394	5.7	2.5	66	59	57	-9.7	-10.7	-3.4	59	36.5	29
Dresden	1,083	7.2	1.9	95	90	86	-5.0	-5.3	-4.4	90	54	37
Essen	893	8.9	1.5	78	70	67	-10.3	-10.3	-4.3	70	61	27
Hannover	954	2.5	1.8	175	165	158	-2.8	-5.7	-4.2	165	130	72
Karlsruhe	590	15.3	1.9	85	80	77	-6.6	-5.9	-3.8	80	54	34
Leipzig	819	25.8	1.4	115	110	106	-4.2	-4.3	-3.6	110	50	38.5
Mainz	527	7.8	2.4	94	88	84	-6.0	-6.4	-4.5	88	47.5	36
Mannheim	853	11.8	2.7	130	125	120	-7.1	-3.8	-4.0	125	84	35
Münster	662	13.1	2.1	155	150	145	-6.1	-3.2	-3.3	150	80	54
Nuremberg	1,328	5.8	2.6	140	137	132	-3.4	-2.1	-3.6	137	73	58
Regional centre mean	**891**	**10.0**	**2.2**	**115.7**	**110.2**	**105.9**	**-6.1**	**-4.7**	**-3.9**			
Total	*10,691*											
Berlin	7,449	24.9	2.0	270	255	245	-6.9	-5.6	-3.9	255	92	118
Cologne	1,427	2.2	1.3	225	215	207	-8.2	-4.4	-3.7	215	117	78
Düsseldorf	1,257	4.8	2.0	275	270	262	-1.8	-1.8	-3.0	270	122	78
Frankfurt	1,542	7.8	2.0	275	270	260	-5.2	-1.8	-3.7	270	110	79
Hamburg	3,101	6.3	1.7	250	240	230	-7.4	-4.0	-4.2	240	125	65
Munich	2,205	12.5	1.5	315	310	300	-6.0	-1.6	-3.2	310	183	180
Stuttgart	1,164	19.6	1.9	205	195	190	-8.9	-4.9	-2.6	195	112	74
Top location mean	**2,592**	**14.6**	**1.8**	**265.1**	**254.4**	**245.0**	**-6.5**	**-4.0**	**-3.7**			
Total	*18,145*											

Source: bulwiengesa, Scope, DZ BANK forecast

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GLOSSARY

Take-up	Office space in a specific location newly occupied through letting or owner-occupation during a one-year period. This does not include contract extensions. Take-up is counted from the time of signing of the transaction rather than the time the new occupant actually moves in.
Completions	Newly built office space completed in the respective year.
Vacancy rate	Proportion of vacant office space in the respective location in relation to the stock.
Purchasing power index	Purchasing power is relevant for the retail sector since it defines the disposable income of households, i.e., their ability to buy products and services. The purchasing power score measures the financial ability to buy goods and services in a specific location in relation to the German-wide average which is set at 100 points.
Net initial yield	The initial rental yield for office and retail is determined from the annual net rent in the first year after purchase, reduced by non-apportionable operating costs, and the total purchase price, considering ancillary acquisition costs. The reported net initial yield refers to central locations (City).
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.

Source: bulwiengesa, DZ BANK

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