



MARKET REPORT

FIRST HALF-YEAR OF 2016

Transparency on Germany's
Industrial Real Estate Market





Contents

The Initiative

Market Report No. 5 of the INITIATIVE UNTERNEHMENSIMMOBILIEN **4**

What are Unternehmensimmobilien? **6**

The Markets

The Investment Market for Unternehmensimmobilien in H1 2016 **12**

The Letting Market for Unternehmensimmobilien in H1 2016 **20**

The Market for Unternehmensimmobilien in Germany in H1 2016 **30**

Postscript

Notes on the Analysis **32**

List of Figures **32**

Glossary **33**

Contact, Copyright and Legal Notice **34**

Market Report No.5 of the INITIATIVE UNTER- NEHMENSIMMOBILIEN

Which way forward after the banner year of 2015? Matching the performance of 2015 will be a major feat: With a year-end volume of over 1.9 billion euros, it was the highest-selling year for Unternehmensimmobilien transactions since the INITIATIVE UNTERNEHMENSIMMOBILIEN was formed.

Interesting to note, the bulk of the investment activity was transacted during the second half of 2015 after a mid-year total of approximately 610 million euros only.

As it so happens, transactions during H1 2016 already topped this figure. Indeed, this year's mid-year transaction total of nearly 775 million euros implies a year-on-year increase by roughly 27%. So if the long-term pattern of investor commitments intensifying during the second half of the year repeats itself, there is every reason to be optimistic.

Light Manufacturing Properties Account

33.5%
*for of the
Transaction Total in 2016 to Date*

Demand for light manufacturing properties remains particularly strong. Nearly 260 million euros were invested in this category during H1 2016, the equivalent of around 33.5% of the transaction total this year to date. It is a clear sign that Unternehmensimmobilien, a very heterogeneous real estate category, is growing in popularity. Demand in this seg-

ment is matched by a vast supply. However, many such assets are not actually on the market, e.g. because they are owner-occupied. The latest analysis has found, however, that owner-occupiers in particular are beginning to realise the advantages of renting.

85%

*of the Players in the Investment Market
for Unternehmensimmobilien Hail
from Germany*

Like last year, property developers and principals have been the group with the largest volume of disposals this year. Between them, they sold 331 million euros worth of Unternehmensimmobilien assets. The bulk of them were passed on directly to institutional funds, the dominant buyer group which spent nearly the same amount (approximately 319 million euros) on Unternehmensimmobilien earmarked for their investment funds. The buying pattern of the funds reflects the growing confidence investors have in this segment due to its increased transparency.

The INITIATIVE UNTERNEHMENSIMMOBILIEN is a joint project by:

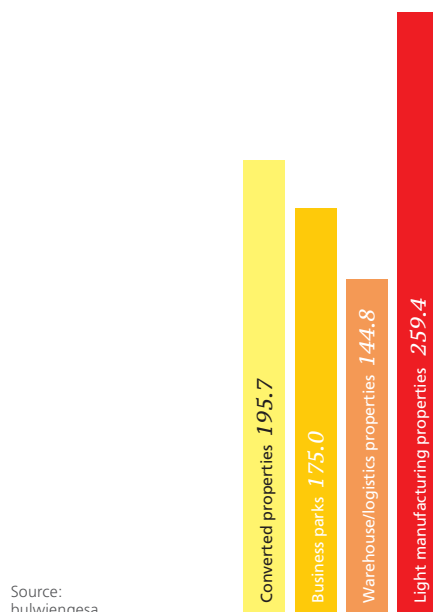


The acceptance of Unternehmensimmobilien in Germany as an asset class is highlighted by the continued increase of domestic players on this investment market (now accounting for a share of 85%). The improved transparency on this markets as well as the low rates of return that the more established asset classes pay have prompted German investors to shift their focus increasingly to Unternehmensimmobilien. That said, Unternehmensimmobilien take no exception to the uncertainty on the markets and the low level of interest.

Average yields have hardened across categories. The drop was particularly steep for converted properties. While the average yield rate still stood at 8.4% in 2015, disposals in 2016 returned a yield of 6.2% on average. Many industries appreciate the generally central location of these and their industrial-age charm. The lowest yield compression was registered for light manufacturing properties. During the first six months of 2016, the average yield was 8.4%. The decline in demand was particularly conspicuous for very large units, e.g. in the manufacturing sector. By contrast, small rental units are growing in popularity, as the survey revealed.

The INITIATIVE UNTERNEHMENSIMMOBILIEN transparency initiative now counts 13 members. Their joint goal is to enhance the transparency in the market segment in order to facilitate access to this asset class. For this purpose, a reporting system was set up in collaboration with the independent research and consultancy firm of bulwiengesa, which evaluated all of the transaction and letting data made available by the members.

Please visit us on the internet at our website unternehmensimmobilien.net to stay up to date. Alternatively, feel free to contact us in any other way.



Source:
bulwiengesa

Investment volume in million euros by
property type H1 2016



Publisher and editing: bulwiengesa

What are Unternehmensimmobilien?

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

The term “Unternehmensimmobilien” covers four different real estate categories:



Converted properties



Business parks



Warehouse/logistics properties



Light manufacturing properties

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

Fig. 01, right page: Different Categories of Unternehmensimmobilien



ASSET CLASSES



Unternehmensimmobilien as an alternative asset class

Wide variety of occupiers
from various industries

Variable mix of use types

Established asset classes in the real estate sector

Normally just one occupier

Usually single use type



High reversibility of use

Converted properties



Business parks



Warehouse/logistics
properties



Light manufacturing
properties



Low reversibility of use

Retail properties



Office properties



Hotel properties



Special purpose properties



Converted Properties



Converted properties usually represent transformed and revitalised commercial real estate (CRE). More often than not, they previously housed production plants or were part of industrial areas with potential for further densification. Whenever they date back to the industrial age, they tend to have the nostalgic charm of red-brick factory buildings. For historical reasons, they are often found in locations close to town centres, which makes them conveniently accessible by private and public transportation. Most of the ensembles comprise a mix of revitalised period buildings and new-build schemes. Multi-tenant properties may include any of various floor space types and sizes, and thus show a high degree of flexibility.



Sirius Business Park

Address: Carl-Reuther-Strasse 1/
Waldstrasse,
68305 Mannheim

Owner: Sirius Facilities GmbH
on behalf of
Sirius Mannheim B.V.

Size: 163,350 m²

**Types of
floor space:** Office, warehouse,
manufacturing and
workshop space

Target group: Manufacturing industry,
warehousing and logistics
sector, retail and wholesale
trade

Gewerbepark Alte Manufaktur

Address: Clörather Strasse 1–3,
Sittarder Strasse 61–63,
Vorster Strasse 48–50,
41748 Viersen

Owner: Hansteen Holdings PLC

Size: 25,451 m²

**Types of
floor space:** Warehouse, office,
wholesale

Target group: Manufacturing industry,
retail and wholesale trade,
warehousing and logistics
sector



Business parks



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



SEGRO Park Düsseldorf Süd (Rheinpark)

Address: Bonner Strasse 317–412/
Kappeler Strasse,
40599 Düsseldorf

Owner: Segro Germany GmbH
Size: 33,944 m² plus 21.019 m²
development pipeline

Types of floor space: Office, commercial and service space
Target group: manufacturing industry, small and medium-sized enterprises, warehousing and logistics sector, services



Siemens Industriepark Karlsruhe

Address: Siemensallee 84,
76187 Karlsruhe
Owner: Siemens AG/Siemens Real Estate
Size: 83,500 m²

Types of floor space: Manufacturing, office, warehouse space
Target group: Industrial, manufacturing industry

Warehouse/logistics properties



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



Logistics property at the Gewerbe- und Logistikpark München-Kirchheim West

Address: Parsdorfer Weg 10,
85551 Kirchheim b. München
Owner: Valad Germany GmbH
Size: 26,343 m²
Types of floor space: Logistics and office space
Target group: E-commerce, warehouse/logistics sector, manufacturing industry

Unternehmer PARK Ratingen-Tiefenbroich

Address: Zapp-Platz 1/Robert-Zapp-Strasse 5,
40880 Ratingen
Owner: Aurelis Real Estate GmbH & Co. KG
Size: 26,102 m²
Types of floor space: Warehouse/logistics space, office/service areas
Target group: warehousing and logistics sector



Light Manufacturing Properties



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

Constellium light manufacturing property

Address: Industriepark 309/315,
78244 Gottmadingen
Owner: Geneva Properties N.V.
through Geneva RE 10
B.V. and SMR2
Verwaltungs GmbH
Size: 51,507 m²
Types of floor space: Manufacturing, warehouse,
and office space
Target group: Manufacturing industry,
industrial



CompAir light manufacturing property

Address: Argenthaler Strasse 11/Im Boorstück 9,
55469 Simmern/Hunsrück
Owner: M7 Real Estate on behalf of
TEIF Germany Simmern S.a.r.l.
Size: 20,098 m²
Types of floor space: Manufacturing, office, storage and logistics space
Target group: Manufacturing sector

The Investment Market for Unternehmensimmobilien in H1 2016

Transaction Volume in H1 2016 already Exceeds the Prior-Year Figure

In Germany, 2015 was a banner year for commercial real estate investments. The same was true for Unternehmensimmobilien. With a year-end volume of over 1.9 billion euros, it was the highest-selling year for Unternehmensimmobilien transactions since the initiative was formed. Interesting to note, the investment activity was mainly concentrated in the second semester—as more than 1.3 billion euros were committed in Unternehmensimmobilien during H2 2015 alone. The transaction total of the first six months had only amounted to 610 million euros.

This first semester of 2016 already surpassed this figure. Specifically, its transaction volume of nearly 775 million euros tops the prior-year reference figure by roughly 27%. Since this distribution matches the pattern observed in 2014, investors generally seem to prefer investing in the second part of a given year.

Demand in 2016 Focused on Light Manufacturing Properties

A breakdown by Unternehmensimmobilien category reveals: Demand is particularly strong for light manufacturing properties. Nearly 260 million euros were invested in this category during H1 2016. It is the equivalent of around 33.5% of the transaction total this year to date. Compared to the second half-year of 2015, the volume has admittedly declined, but it has declined by only 3%. Serious dips affected mainly converted properties and business parks: The amounts invested in business parks plunged by nearly 67%, while investments in converted properties dropped by over 50%. Yet the investment volume of the first half-year topped the mid-year total 2015 by almost 40% in the category of converted properties and around 1.5% in the business park category. At c. 196 million euros, converted properties were the category that attracted the second-highest demand in H1 2016. This group accounted for over 25% of

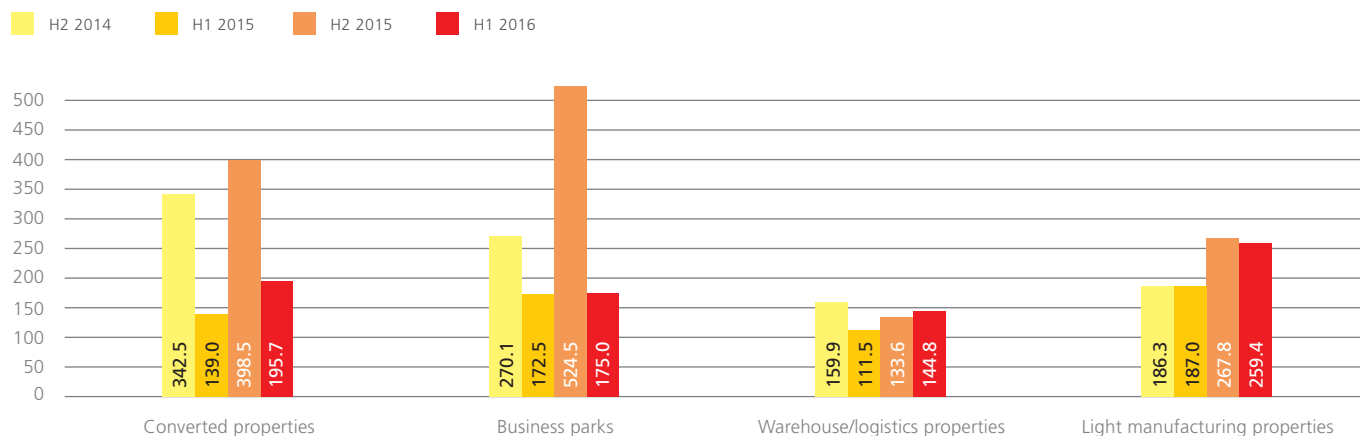
the investment total. Trailing just behind with a volume of 175 million euros and a share of nearly 23% were business parks.

Warehouse/logistics properties claim the smallest share in the transaction volume. As mentioned in the opening section above, the assets studied by INITIATIVE UNTERNEHMENSIMMOBILIEN are clearly distinguishable from modern logistics warehouses, which tend to have far more than 10,000 m² in usable area. During the first six months of 2016, almost 145 million euros were invested in this category. This translates into share of nearly 19%. However, warehouse/logistics properties represent the only category that reported a higher investment total than it had in the second half-year of 2015—as the revenue here increased by over 8%, and by almost 30% year on year.

Purchasing Volume of Investment Funds Roughly Matched Property Developers' Volume of Disposals

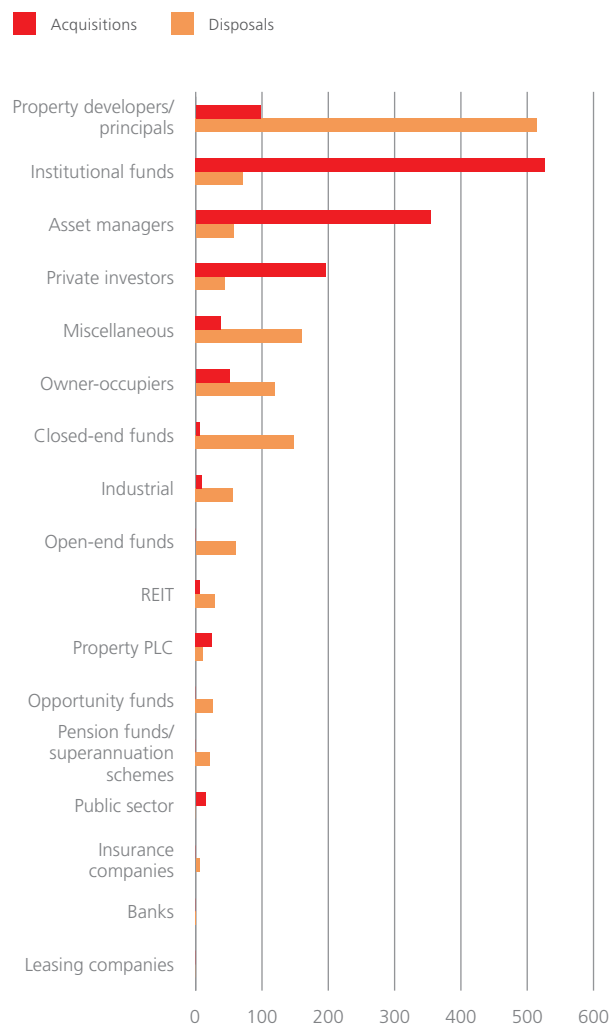
Property developers and principals were particularly active on the investment market during H2 2015, mainly on the seller side. This group divested itself of properties and revitalisations worth over 515 million euros during that time. Inversely, the institutional funds were just about as prominent on the buyer side. They bought Unternehmensimmobilien worth nearly 527 million euros. This suggests that Unternehmensimmobilien are increasingly held in fund structures, and that they are well on their way to become an established asset class. Other heavyweights in trading have traditionally included asset managers. This group purchased 354 million euros worth of Unternehmensimmobilien during the second half of 2015. Private investors were also quite active on the buyer side. This group, which includes family offices and high-net-worth individuals, spent nearly 197 million euros on Unternehmensimmobi-

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



lien, demonstrating that even investors other than the usual suspects have shifted their focus to this up-and-coming asset class. Among the very active sellers, the “miscellaneous” group with 160 million euros in sold assets was complemented by closed-end funds and owner-occupiers. One group sold nearly 150 million euros worth of Unternehmensimmobilien, the other nearly 119 million euros’ worth—suggesting inter alia that more and more owner-occupiers are divesting themselves of their property holdings.

Fig. 03: Acquisitions/disposals by investor type in H2 2015, in million euros, sorted by largest transaction volume



Office loft at the Alte Manufaktur business park

This trend persisted throughout the first six months of 2016. Like last year, property developers and principals represent the group with the largest volume of disposals this year to date. Between them, they sold 331 million euros worth of Unternehmensimmobilien assets. Once again, institutional funds were the dominant buyer group. They acquired approximately 319 million euros worth of Unternehmensimmobilien and integrated them in their fund structures. Asset managers, the second-strongest buyer group, manifested a more balanced ratio between acquisitions and disposals than they had as recently as the second half-year of 2015. Purchases of nearly 135 million euros were matched by 87 million euros in sales. Owner-occupiers were another group that remained active on the seller side. They divested themselves of proprietary assets worth c. 84 million euros. Then again, they also spent well over 46 million euros on new properties. The problem of owner-occupiers is that they often lack adequate rental options, leaving them no choice but to buy and own property outright.

German Operators Successively Expand their Market Share on the Transaction Market for Unternehmensimmobilien

In the course of 2015, German players began to visibly expand their stake in the investment market for Unternehmensimmobilien. They raised their share on the buyer side from 72% in H1 2015 to 82% by the end of H2 2015. Carrying the trend over

Fig. 04: Acquisitions/disposals by investor type in H1 2016, in million euros, sorted by largest transaction volume

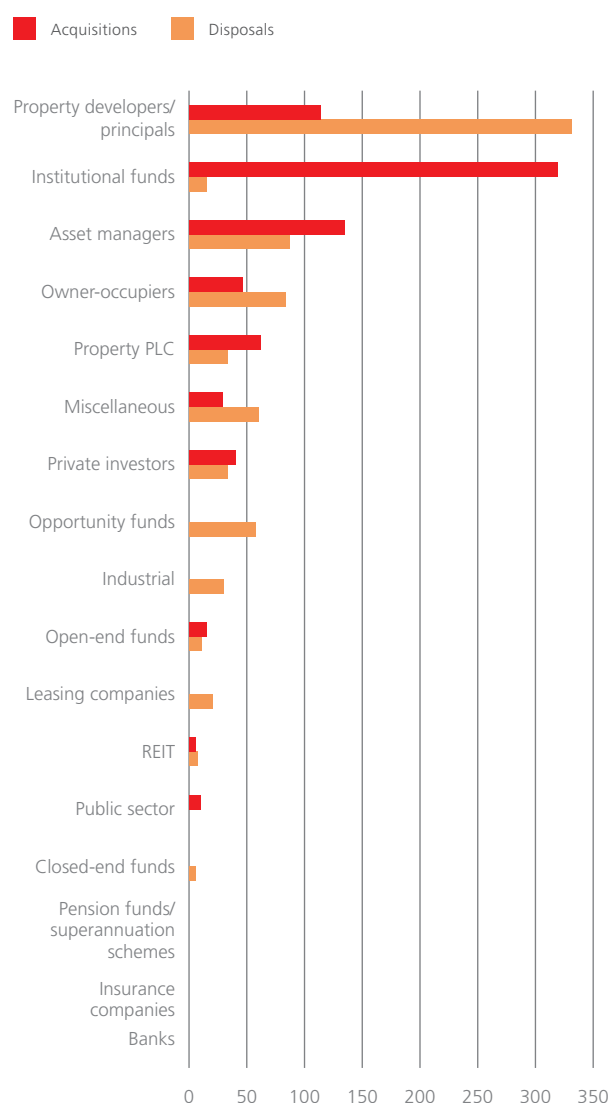
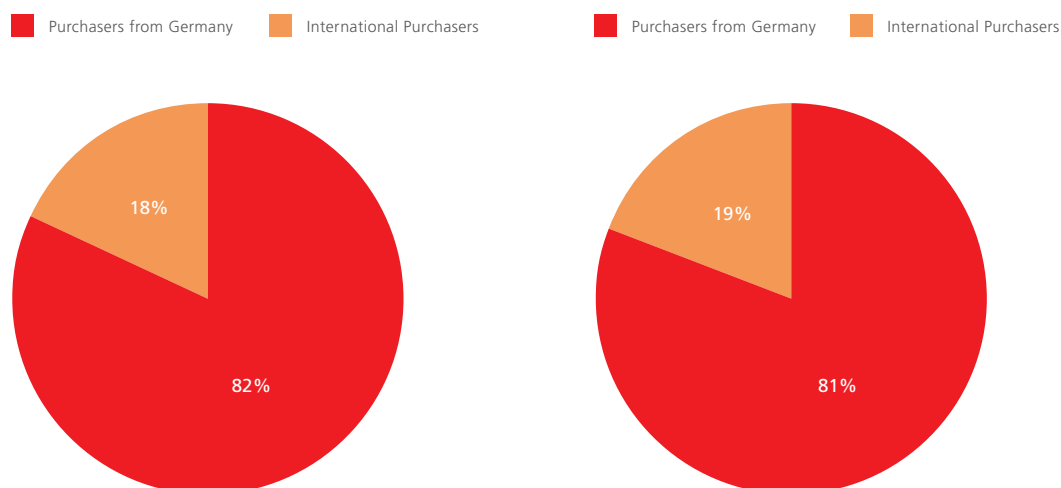


Fig. 05/06: Acquisitions and sales by origin of investors, in %, H2 2015



into 2016, German investors continued to expand and claimed 85% of all acquisitions by the end of the first six months. It is testimony to the growing acceptance of the asset class of Unternehmensimmobilien in Germany. The increased information density in the Unternehmensimmobilien market as well as the low rates of return in established asset classes have prompted more and more German investors to shift their focus to Unternehmensimmobilien.

All in, German investors spent 685 million euros on Unternehmensimmobilien during the first half-year of 2016. Cross-border and foreign investors were much less active, weighing in with a combined total of barely 120 million euros. The obvious factor making it easier for German market players to access this asset class is the elevated rate of interaction among German companies with their local and regional interdependencies. Especially when it comes to the interaction with the often small and medium-sized enterprises, German asset managers and investors tend to have the better networks. Exceptions include foreign companies like Hansteen or Valad, for example, that have set up branch offices in Germany and employed German staff to build up domestic know-how and client relationships.

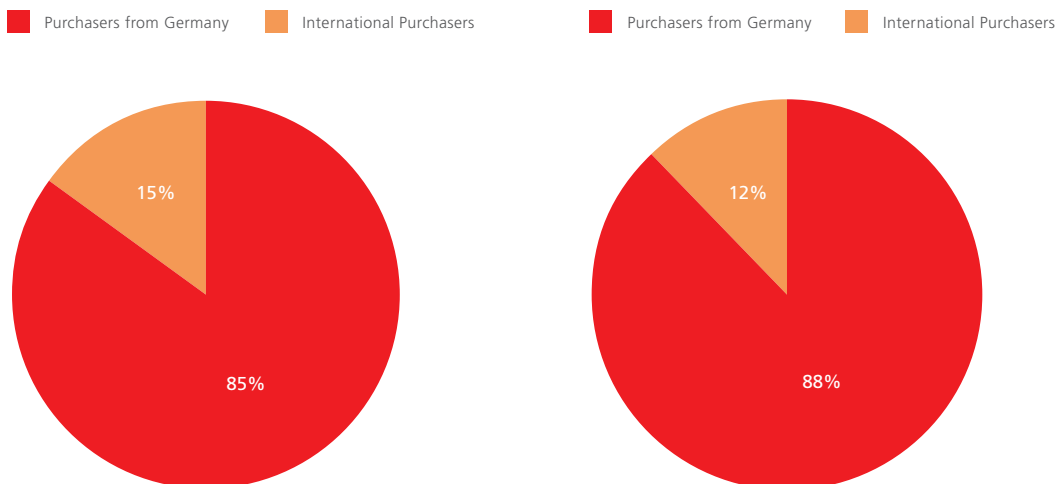
The transparency and networking effect is also apparent, for the same reasons, on the seller side, where the dominance of domestic players is growing as well. Their share rose from 81% in H2 2015 to 88% by the

end of H1 2016. On the whole, German sellers divested themselves of 708 million euros in Unternehmensimmobilien, compared to just 96.6 million euros worth of assets sold by foreign market players.

Berlin Remains the Region with the Highest Transaction Revenue in the Unternehmensimmobilien Asset Class

Having ended the second half-year of 2015 as by far the fastest-selling region in Germany, Berlin and its greater area maintained this position during H1 2016. With the exception of the first half-year of 2015, Berlin has generally proven to be investors' darling and achieved the highest investment volumes in all the other half-year rankings. That said, the total volume did decline slightly during the first half-year of 2016. While the sum invested in the greater Berlin area in the second semester of 2015 had been 272 million euros, it dropped to c. 269 million euros during the first half of 2016. Then again, this equals a dip of merely 1.2%. It is also put in perspective when you remember that the total volume of Unternehmensimmobilien transactions in Germany dropped by nearly 42% compared to the second half-year of 2015, highlighting the striking consistency of the high demand in Berlin. Reasons to explain this include the city's large supply in such assets and its vibrant scene of entrepreneurs and start-ups for whom Unternehmensimmobilien rentals tend to be the accommodation of choice. The sustained incoming migra-

Fig. 07/08: Acquisitions and disposals by origin of investors, in %, H1 2016



tion in Berlin, and the increase in entrepreneurial activity it brings to the city in the form of start-ups, small and mid-sized businesses, generates a growing demand for floor space. Unternehmensimmobilien offer these start-up companies exactly the conditions they need to work and expand. Investors have become aware of the trend and are buying up Unternehmensimmobilien on a massive scale in Berlin.

The Southern Region claimed the ranks 2 through 4, trailed by the conurbations Rhine-Ruhr and Rhine-Main-Neckar. These three regions have also seen their transaction volumes decline since the second half of 2015, and their drops in volume have been much heftier than that experienced by the Berlin region. Specifically, the Southern Region reported an investment volume of nearly 108 million euros by mid-year 2016. This translates into a drop by nearly 32%. In the Rhine-Ruhr conurbation, the first-semester total of just over 91 million euros implies a 56% drop, whereas the decline in the Rhine-Main-Neckar conurbation equalled only 24.5% after more than 85 million euros were invested in Unternehmensimmobilien during H1 2016.

Western Region Makes Massive Gains, while Hamburg Suffers Biggest Setback

Places 5 and 6 presented the most conspicuous changes. The Western Region and greater Munich are the only two regions that were able to report increases in transaction volumes in 2016, compared to the second half-year of 2015. But while the investment volume in Munich topped the prior semester by barely 3.5% as it rose to 73 million euros, the volume in the Western Region jumped up by a remarkable 75%. Here, more than 75 million euros were spent on Unternehmensimmobilien. But the biggest six-month difference was reported from the Hamburg region. This is a region that used to be close to the bottom of the list in terms of transaction revenue, but made the record with the biggest increase of any region in H2 2015 by reporting a transaction volume of 225 million euros. It appears to have been just a one-off spike, because the investment activity during the first six months of 2016 presented the low level familiar from previous semesters. With a volume of barely 9 million euros, Hamburg is ahead only of the Northern Region in the overall ranking, implying a 96% nosedive compared to the investment volume of H2 2015.

Fig. 09: Distribution of transaction volumes in a rolling period ranking by region, in million euros, in descending order by transaction volume, H1 2016

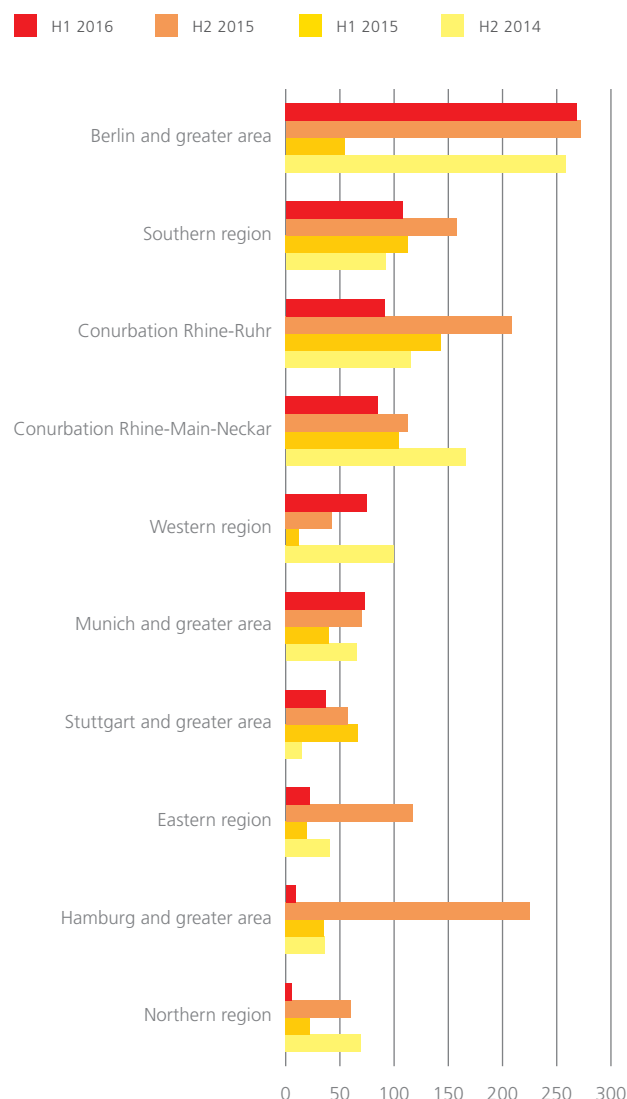
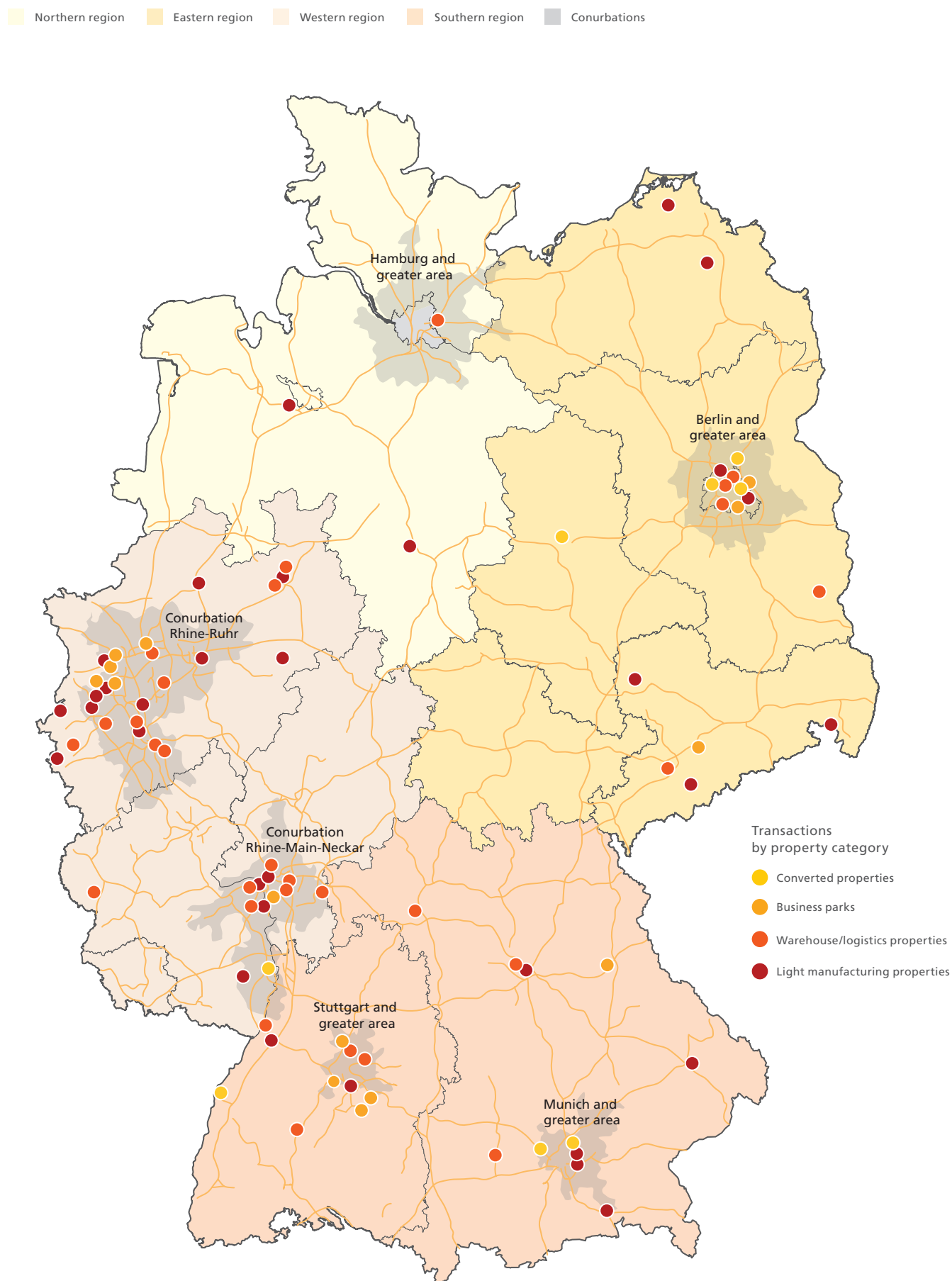


Fig. 10: Geographic distribution of transactions in Germany, H1 2016, by property category



Market Unease and Low Interest Cause Yields of Unternehmensimmobilien to Keep Hardening.

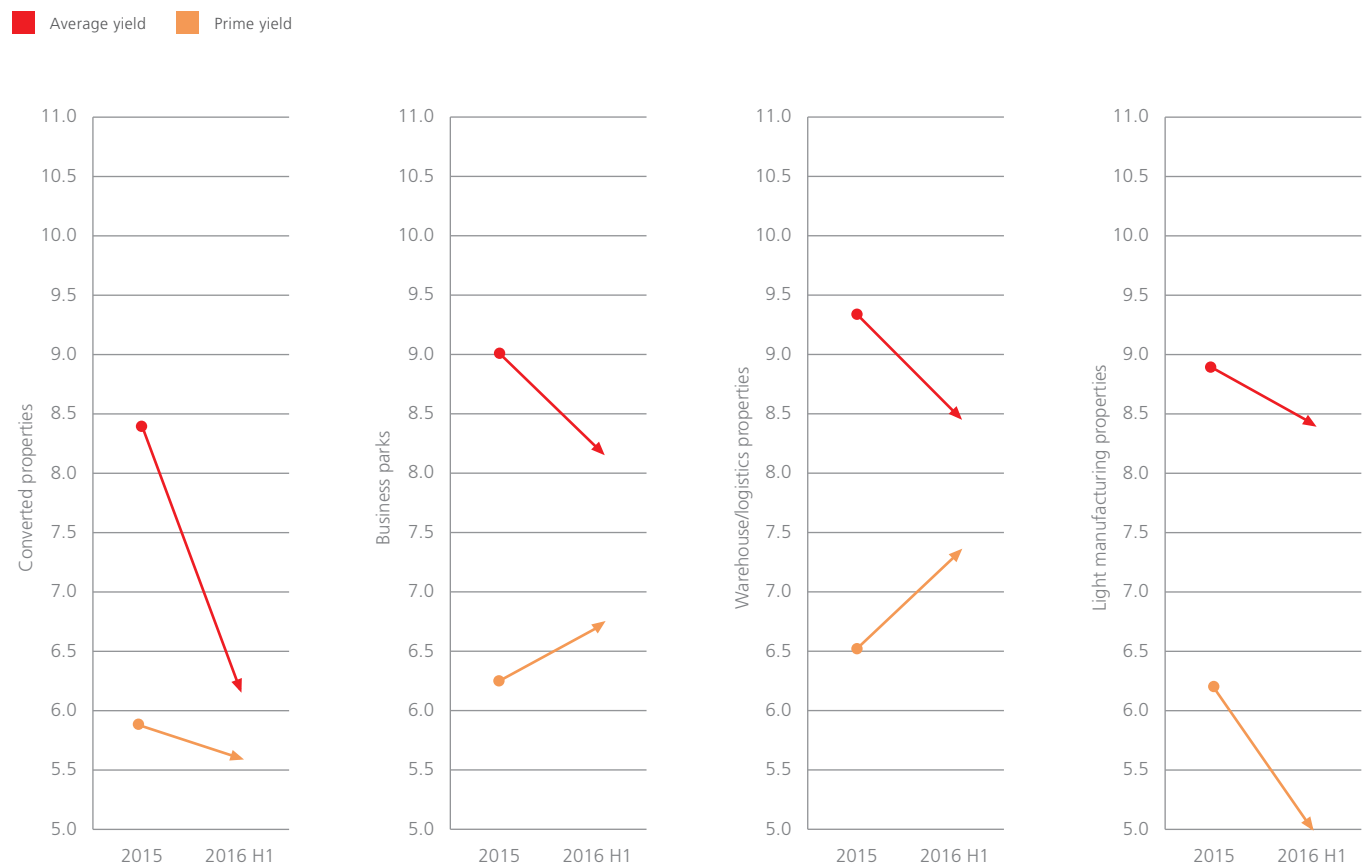
The incipient but noticeable yield¹ compression that Unternehmensimmobilien experienced during the second half-year of 2015 continued during the first half of 2016. Especially the yield average declined, in some areas considerably so. Most strongly affected by the yield compression was the converted properties segment. While the average yield rate still stood at 8.4% in 2015, disposals in 2016 returned a yield of 6.2% on average. This translates into a drop by nearly 220 basis points. However, the yields of converted properties are particularly volatile because upgrade and revitalisation works for this type of property can result in dramatic increases in value and proportionate rent hikes. As often as not, the appreciation is attributable to the central location and the industrial-age charm of these structures, which several business sectors have come to favour as work environment. Moreover, they tend to have a higher share in office accommodation than warehouse and logistics

properties or light manufacturing properties, for instance. Unternehmensimmobilien of this type generally yield higher rent revenues, and many investors are tempted by their centrality and office share to downplay the risk associable with such investments.

But the average yields have hardened in all categories. Warehouse and logistics properties experienced the second-steepest drop in average yield, which declined by 83 basis points since 2015 and stood at 8.5% by mid-year 2016. The segment is closely trailed by business parks, whose yields declined by 80 basis points and are now at 8.2%. The lowest yield compression was registered for light manufacturing properties. During the first six months of 2016, the average yield declined by 40 basis points to 8.4%. Across all Unternehmensimmobilien categories, the average yield declined by 70 basis points and now equals 8.2% (2016).

Light Manufacturing Properties the Priciest Unternehmensimmobilien Category in H1 2016

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



¹The achievable yields are posted in gross initial yields (GIY). It represents the ratio of the net rental income and the net purchase price at the time of the transaction. Accordingly, it reflects both the profitability and the value of a given property, which sets the ratio apart from long-term performance indicators such as the GPI. For a definition of the gross initial yield (GIY) and the GPI, please see the glossary.



The performance of the prime yields was not quite as homogeneous as the average yields. Somewhat surprisingly, single light manufacturing properties proved to be the most expensive assets during the first half-year of 2016. The prime yield rate for light manufacturing properties hardened by 120 basis points, and are down to 5%. The implication is that this highly heterogeneous and probably most opaque category of Unternehmensimmobilien has obviously been subject to rising demand. And what caused investors to shift their focus to this asset type was not least the dedicated effort by the INITIATIVE UNTERNEHMENSIMMOBILIEN. Prime yields also hardened for converted properties, dropping by nearly 30 basis points between 2015 and 2016. At the moment (2016), the prime yield equals 5.6%.

The other two categories—business parks and warehouse and logistics properties—did not register a further compression of prime yields. Going against the trend, prime yields for business parks rose by 45 basis points to now 6.7%, which is primarily explained by the short supply in such assets in Germany. The fact that they account for the smallest share among the Unternehmensimmobilien categories suggests as much. Many business parks already changed hands in recent years, and the corresponding price growth is reflected in the compression of the average yield. The rise in the prime yield rate is explained by the slowing trade in premium assets, as many market players prefer to hang on to them to exploit their lucrative rental yield. Warehouse and logistics properties, by contrast, gained by nearly 80 basis points. The prime yield rate in this category went up to 7.3% since 2015. Here, we need to differentiate between large, modern logistics assets with flexible floor plans and older stock that tends to be smaller in scale. In the context of Unternehmensimmobilien, we only considered the small and/or older assets. While demand has perked up even for property of this type, most of the premium assets in business parks changed hands recently and are not available for sale. Rather, properties now on the market are often of the kind that requires capital expenditures and revitalisation work before it has a chance to be relet successfully.

Siemens
manufacturing plant

The Letting Market for Unternehmensimmobilien in H1 2016

Take-up for Unternehmensimmobilien is Robust but Falls Short of Record Level

The currently strong business cycles keeps driving the dynamic demand for lettable area in Unternehmensimmobilien. But the record level of the past two semesters was not maintained as demand dropped by over 18% since the previous semester. However, the take-up of around 554,000 m² is only marginally below the average of the past three years, meaning the entire period reviewed by INITIATIVE UNTERNEHMENSIMMOBILIEN to date.

Rhine-Ruhr Conurbation Positions itself ahead of Berlin with a Take-up of Nearly 100,000 m²

The strongest demand for rental Unternehmensimmobilien was generated in the Rhine-Ruhr conurbation during the first six months of 2016. As a result, it has taken the place of the Berlin metro region as the top performer on the demand side. While demand in the Rhine-Ruhr region is up by 20% over the prior semester, Berlin reported a decrease by more than 40%. To put this in perspective, it should be added that the Berlin metro region developed an enormous momentum during the second part of 2015. It was driven above all by the keen demand that the service sector, small and medium-sized enterprises of the manufacturing industry, as well as start-ups and creative minds keep generating.

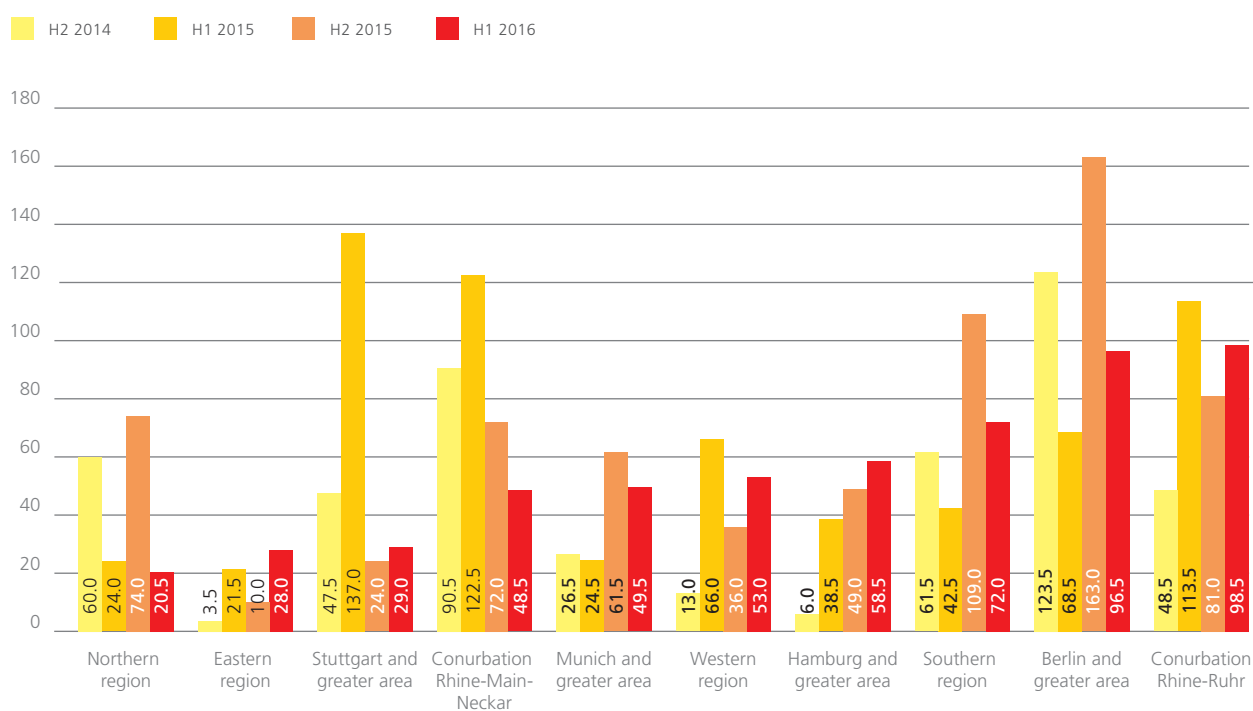
Demand Surge for Unternehmensimmobilien in East and West German Regions

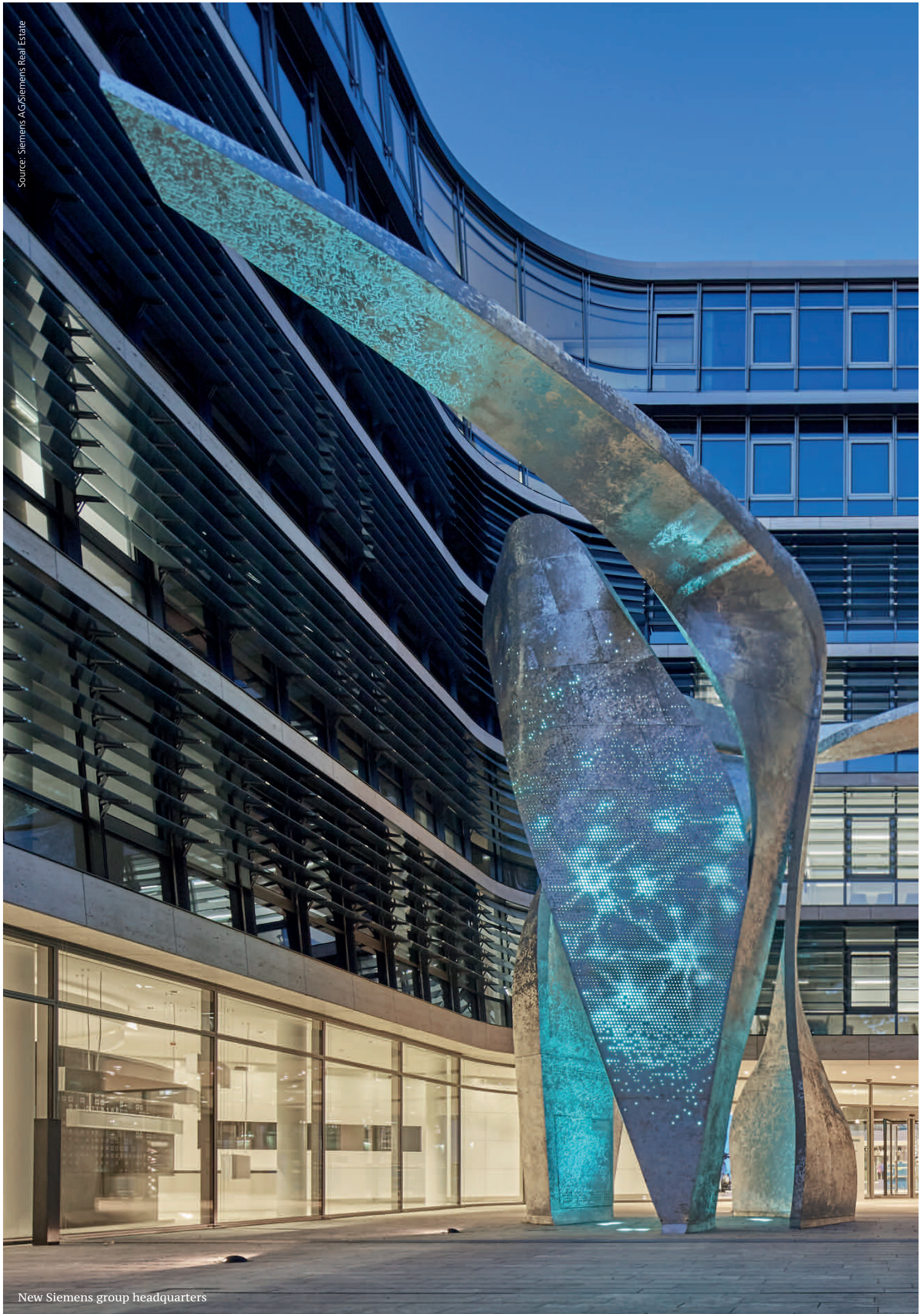
Unlike Berlin with its lull in take-up, the Eastern Region outside the Berlin metro area experienced a regular surge in demand, even if the absolute volume remains comparatively modest. The take-up rose by no less than 180%, from 10,000 m² the previous semester to almost 30,000 m² in H1 2016. Similarly, the Western Region outside the major metro regions of Rhine-Ruhr and Rhine-Neckar registered a surge in demand during the second semester of 2015. The regions outside the urban agglomerations in northern and southern Germany present an entirely different picture. After an extremely successful second semester of 2015, business in the Southern Region levelled out while remaining within reach of the three-year average. The Northern Region, which has failed to generate serious demand at any point during the period covered by INITIATIVE UNTERNEHMENSIMMOBILIEN so far, lapsed back to a very low demand level of 20,000 m² after a rather dynamic performance during H2 2015.

Fig. 12: Absolute take-up in a rolling comparison, H2 2014 through H1 2016
by regions and take-up, sorted in descending order, H1 2016

Region	H2 2014	H1 2015	H2 2015	H1 2016	Total
Conurbation Rhine-Ruhr	48,500	113,500	81,000	98,500	341,500
Berlin and greater area	123,500	68,500	163,000	96,500	451,500
Southern region	61,500	42,500	109,000	72,000	285,000
Hamburg and greater area	6,000	38,500	49,000	58,500	152,000
Western region	13,000	66,000	36,000	53,000	168,000
Munich and greater area	26,500	24,500	61,500	49,500	162,000
Conurbation Rhine-Main-Neckar	90,500	122,500	72,000	48,500	333,500
Stuttgart and greater area	47,500	137,000	24,000	29,000	237,500
Eastern region	3,500	21,500	10,000	28,000	63,000
Northern region	60,000	24,000	74,000	20,500	178,500
Total	480,500	658,500	679,500	554,000	2,372,500

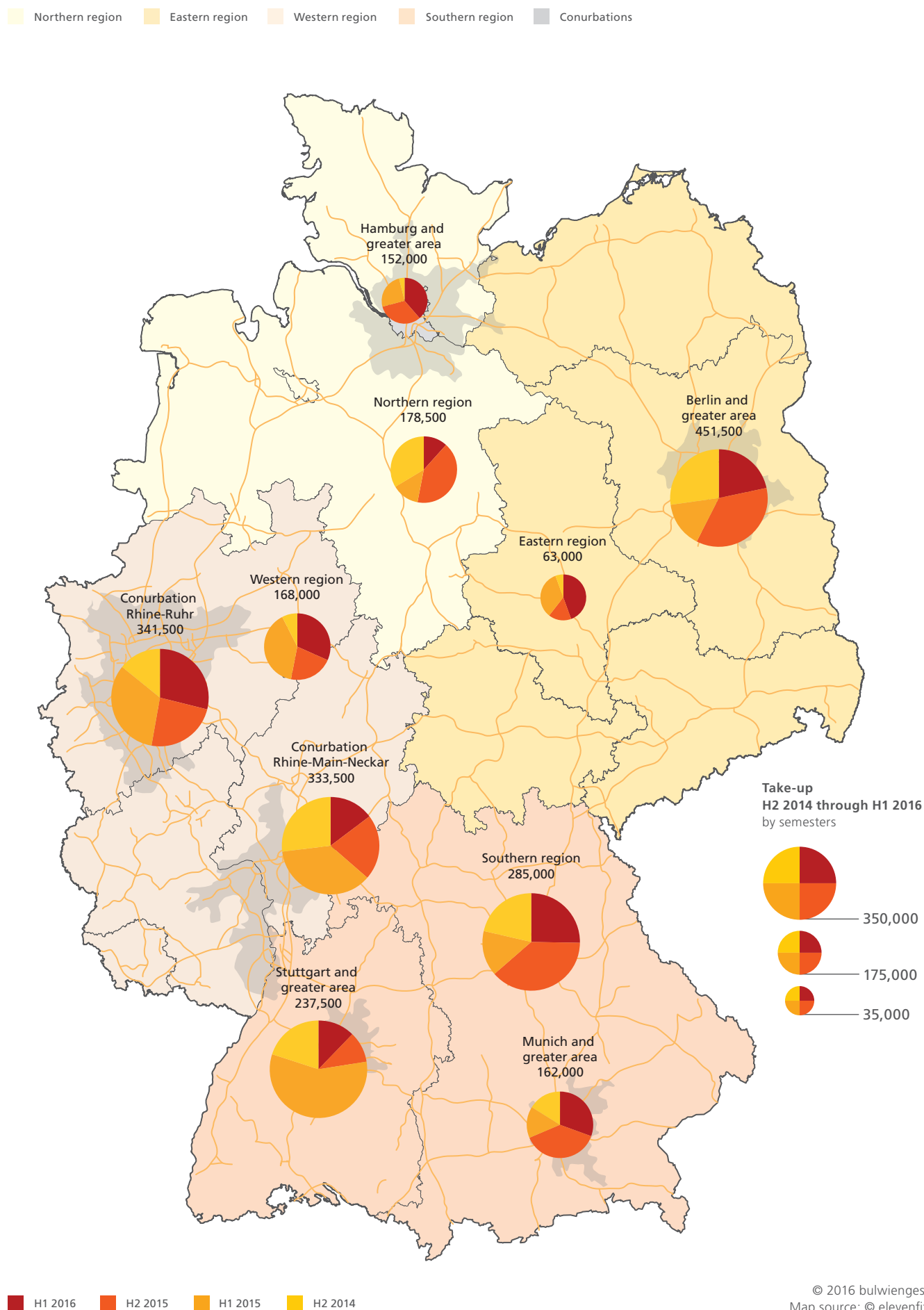
Fig. 13: Take-ups in a rolling comparison, in '000 m², by regions and semesters,
sorted in descending order, H1 2016





New Siemens group headquarters

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



Smaller Rental Units in Unternehmensimmobilien are Gaining in Popularity

The following insight has gradually emerged in the course of the market coverage: The major strength of Unternehmensimmobilien is that they offer a broad spectrum of unit sizes. Tenant leads and outgoing owner-occupiers are increasingly aware of the fact. The distribution of the net absorption by unit sizes during the first half-year of 2016 demonstrates that the small and medium size categories keep gaining in significance. More than two thirds of the take-up was generated by size bands of 5,000 m² or less. The larger size bands each claimed a share of around 10%.

The biggest growth was generated by the size band of 1,000 m² to around 2,500 m² (+33%), but the bracket of 7,500 m² to 10,000 m² also registered a substantial year-on-year demand increase by almost 28%. The very large categories, by contrast, are showing a clear down-trend. The decline in demand was particularly conspicuous for very large units, e.g. in the manufacturing sector. In the previous semester, this category still generated one quarter of the take-up, whereas demand during the first half-year of 2016 was down to 11%.

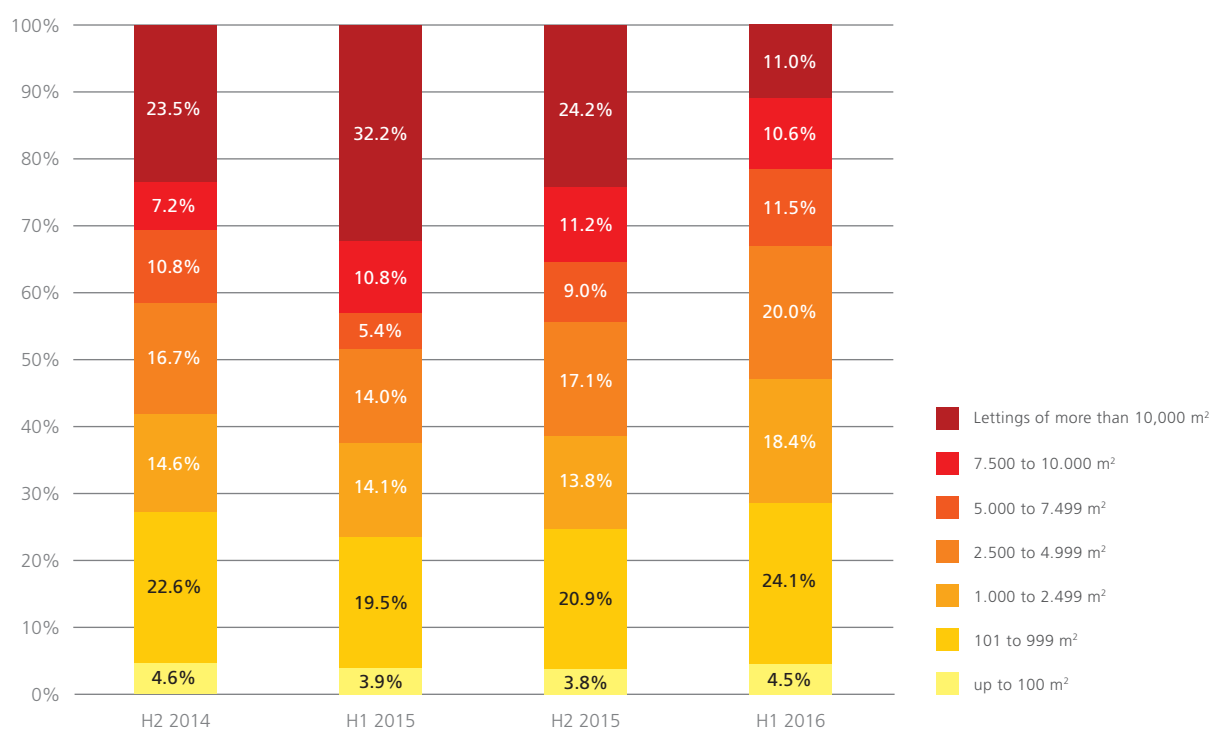
Flexible Lease Structures Becoming More Important Again

The past year or two have seen a slightly upward trend in the average lease term. At 2.6 years, the lease term average registered during the second semester of 2015 was the longest of the entire period covered by the INITIATIVE UNTERNEHMENSIMMOBILIEN.

During the current survey period of 2016, there have been signs for a modest down-trend. At the moment, leases for units in Unternehmensimmobilien are signed for an average term of 2.2 years. The renting companies do not seem to be interested in committing themselves for longer terms, but prefer to remain flexible. In doing so, they lay claim to one of the major fortes of Unternehmensimmobilien—the flexible, need-driven availability of rental units.

At the same time, Unternehmensimmobilien offer reliable long-term accommodation as basis for the business activities of their occupiers. This is important insofar as tenants seem to prioritise the long-term security of their rental spaces over their flexibility. As a result, the maximum lease term recorded during the first half-year of 2016 remains very high at around 20 years.

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



Unternehmensimmobilien therefore offer an equal measure of flexibility and consistency. The tenant-side perks are simultaneously a key performance indicator for property asset holders and investors: stable cash flows through long-term tenant retention, on the one hand, and an active demand that is stimulated by attractive, flexible lease terms, on the other hand. While ensuring high cash flow rates, this also makes it easy to keep vacancy rates low.

This observation is borne out by an analysis of the lease terms remaining as of H1 2016. Nearly one third (31%) of the leases showed a remaining lifetime between one and two years only. Among the rest, more than a quarter consisted of short rentals with lease terms of less than one year. This category includes primarily small-scale storage boxes for private clients, although they are increasingly rented by commercial clients, too. These units come with an elevated administrative overhead. Yet their fit-out and maintenance costs are low, and so they play an increasingly prominent role in terms of cash flow because of their high rental yield. They have also gained in prominence simply because of the growing demand for them.

Mean lease terms of 2 to 5 years accounted for 17% of the leases signed, and longer-term leases of 5 to 10 years or longer for 15%. This category included particularly units rented by small and medium-sized enterprises.

Demand for Light Manufacturing Space is Sated for the Time Being

The second half-year of 2015 was defined above all by the enormous demand for light manufacturing properties. As lease terms for properties in this category tend to be longer, the demand appears to be sated for the time being, because it is returning to a normal level. This is the main reason why the overall take-up was lower during the first half-year of 2016.

Demand for converted properties also dropped back slightly to its normal level as a consequence of the brisk dynamic of the second half of 2015. The take-up of roughly 130,000 m² during the current pe-

riod under review is more or less identical to the floor space total let during either of the two semesters of 2014.

Meanwhile, demand for space in business park or warehouse/logistics properties perked up compared to the second half of 2015. In the business park segment, the take-up increased by merely +5% or about 9,000 m². Read together with the take-up figures for converted properties, this could be interpreted to mean that the segment of multi-tenant properties benefits from a rather stable demand. Demand for small-scale warehouse/logistics facilities grew at a faster pace, climbing by nearly 23% to over 174,000 m².

Fig. 16: Average length of leases in a rolling period ranking

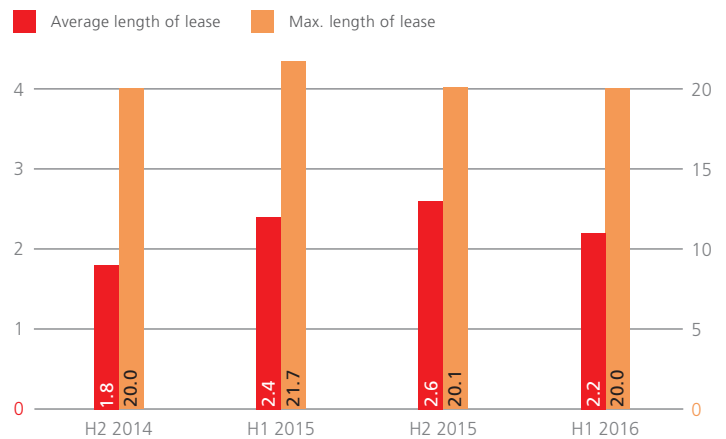


Fig. 17: Breakdown of leases by length of lease term, H1 2016

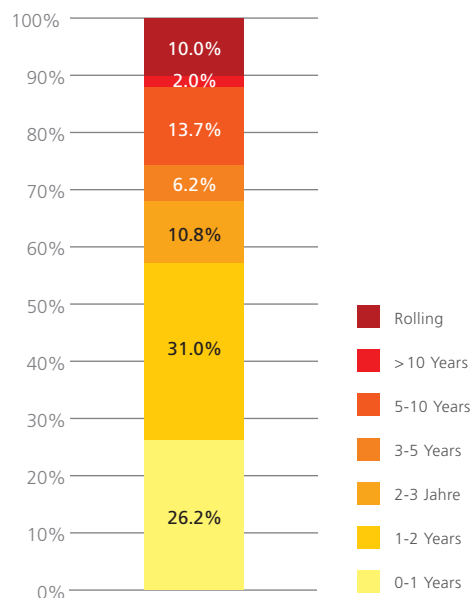
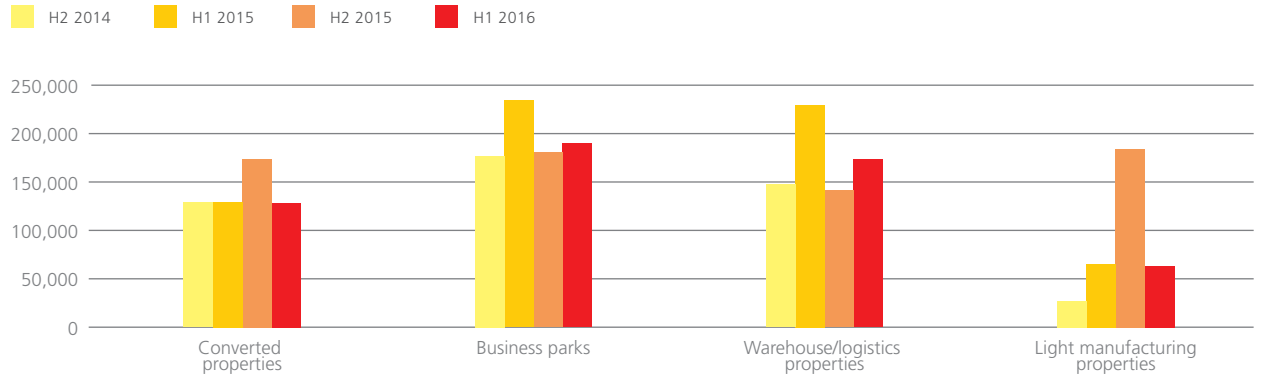


Fig. 18: Take-up by property size categories in a rolling period comparison



Scant Supply in Flex Space Units

The growing need for flexibility does not automatically imply that demand for flex space units is rising in proportion. In fact, the number of leases signed for units of this category actually declined since the previous semester. While the decline was admittedly substantial, it only marked a return to the normal volume of around 50,000m², whereas the take-up of nearly 150,000m² in H2 2015 reflected a spike in demand. Here is why: The supply in flex space units is limited because construction activity in this segment is comparatively slow. Whenever larger floor-area volumes come on-stream, as happened during the second half-year of 2015, they are quickly absorbed by the market and cease to be available for the time being. The main target groups for this type of property include

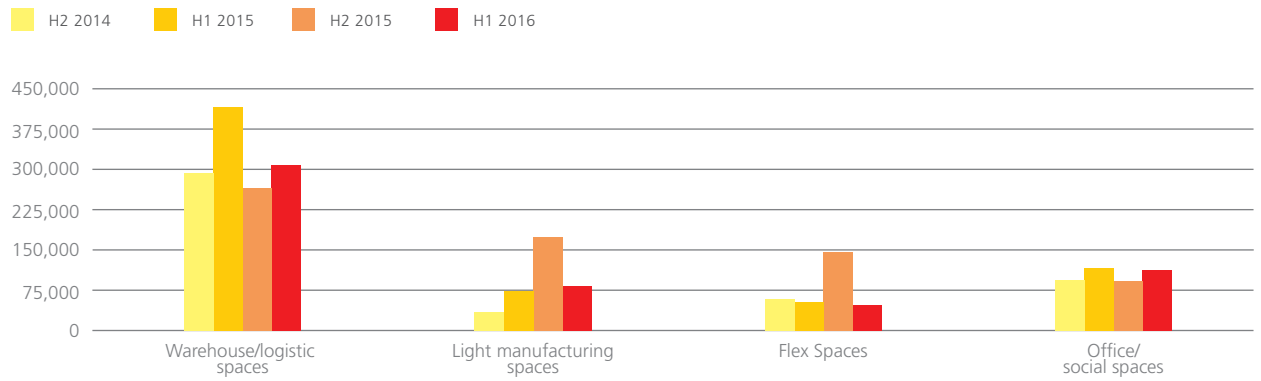
retailers and business services. But they are also rented by creative-media professionals, manufacturing industry, and software/IT companies. Take-up is limited by the facts that premises of this type are almost exclusively available in business parks or converted properties, and that the supply of these property categories is limited.

Analogously, demand for light manufacturing areas has dropped considerably since the previous semester. Still, it is higher than it was in historic reporting periods further back. The only segments that experienced a growth in demand were warehouse/logistics and office/staff units. Here, the demand hikes were quite impressive at over 15% and 20%, respectively.



² For a definition of the term “flex space”, see the Glossary.

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



Manufacturing Industry Expanding its Footprint on the Tenant Side

Unternehmensimmobilien are becoming ever more interesting for tenant groups who used to rent office accommodation or else occupied their own premises. The first group includes primarily service providers, but also start-ups, creative media professionals and similar, whereas the second group consists of manufacturers and industrial businesses above all. The latter gravitate strongly toward owner-occupancy. But even these have become increasingly aware of the benefits of renting selected premises to cover certain needs that are not part of a company's core business and need not be safeguarded in a strategic sense. This dual approach has the added advantage that it makes companies more

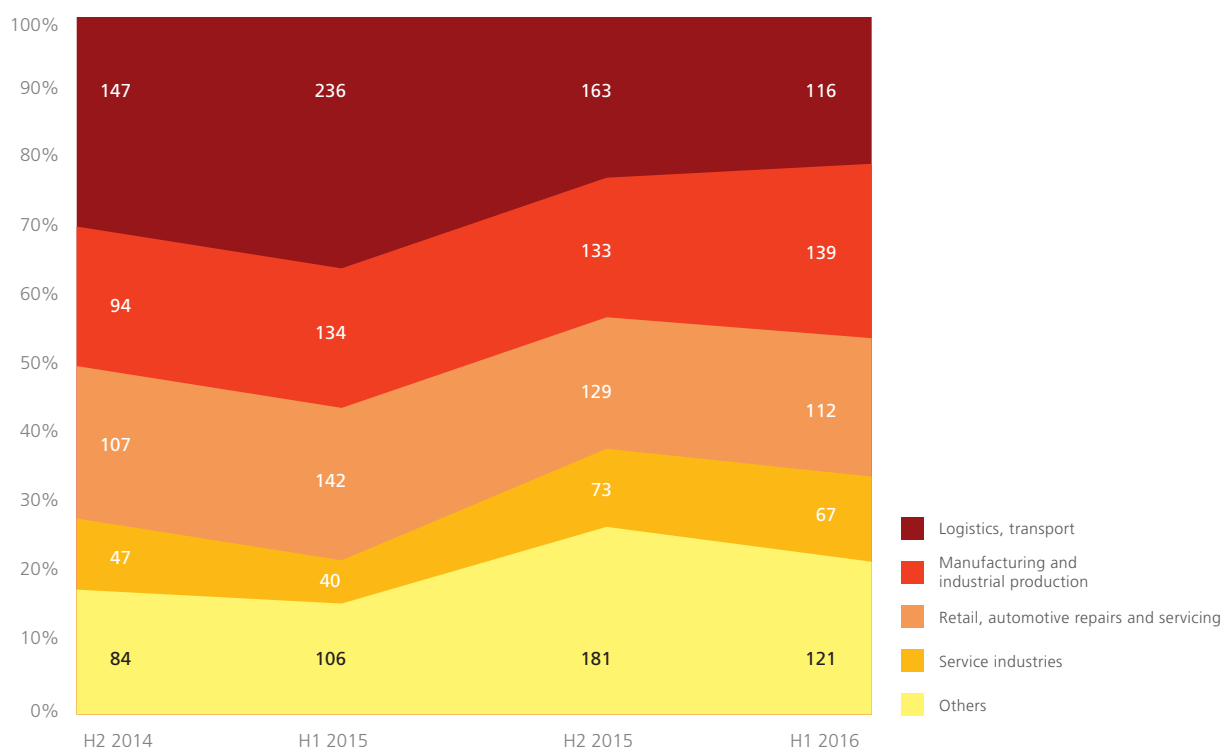
flexible to vacate premises no longer required or inversely to hire extra space in response to sudden demand spikes. Even from a capital market perspective, renting has its advantages, at least for listed companies whose share prices can benefit from having less capital tied up in real estate. The share of the manufacturing industry or industrial players and vendors has gone up to around 25%.



(C) Gabriel Büchelmeier, Interior Design: Architectural Office IAM

Tenant cafeteria at
WerkStadt Sendling

Fig. 20: Take-up in a rolling comparison by aggregated economic sectors, in % (pro rata) and absolute take-up in '000 qm in '000 m²



Fast Growth in Prime Rents for Flex Space Units, Light Manufacturing Units more Affordable

As limited supply coincides with strong demand, flex space properties have been subject to fast rent growth. Prime rents rose by more than 13% or 1.50 euros/m² since the second half-year of 2015. In analogy to flex space assets, the increased demand for pure office/staff areas has been driving up rents, albeit at a very slow pace. Rents for light manufacturing areas, by contrast, have slightly softened. At 0.70 euros or -9.5%, the adjustment remains within the normal long-term margin of fluctuation. In fact, the rent rate remains slightly above the three-year average for the survey time series of INITIATIVE UNTERNEHMENSIMMOBILIEN. The demand for logistics facilities has been on a persistently high level across Germany. Prices for large-scale logistics, which are not included in the survey of INITIATIVE UNTERNEHMENSIMMOBILIEN, have either stagnated or grown at a modest rate.

The average unit size rented in Unternehmensimmobilien is around 2,000m², but the stats also show a high number of very

small rental units of less than 100m², such as self-storage units. Prices in this market segment are quite high, and frequently exceed 10.00 euros/m². However, prices experienced a serious dip in H1 2016, dropping by 19% or 2.20 euros/m².

Risen Demand is Driving up the Rent Average for all Floor Area Types

The market-driven trend of the prime rents for flex space units or office/staff areas is directly reflected in the rent average: At nearly 2.50 euros/m² or 42%, the rent hike for flex space is quite substantial, whereas the rental growth for office/staff areas is once again moderate. While the two remaining property types showed softening prime rents, their rent average actually increased, most notably for light manufacturing spaces with a rent hike by over 46% or 1.70 euros/m² to a going rate of 5.40 euros/m². Here, prime and average rents are fast closing in on each other. Lettings of light manufacturing units across the board show a more or less stable rent level, the going rate ranging from 5.00 to 6.00 euros/m².

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

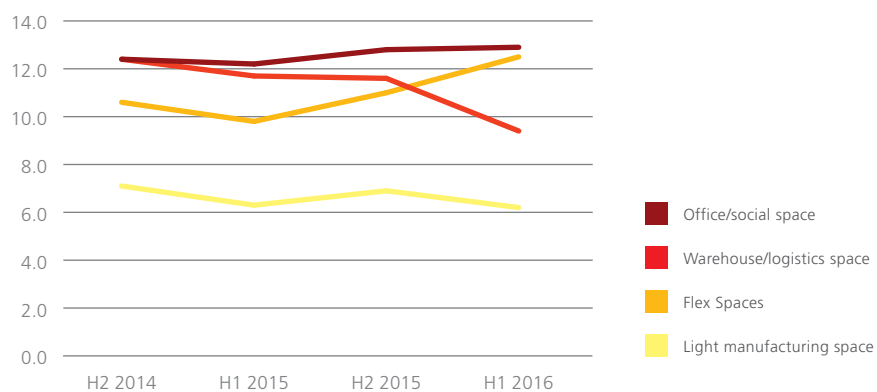


Fig. 22: Performance of average rents by types of floor space and rolling half-year periods, in euros/m²/month

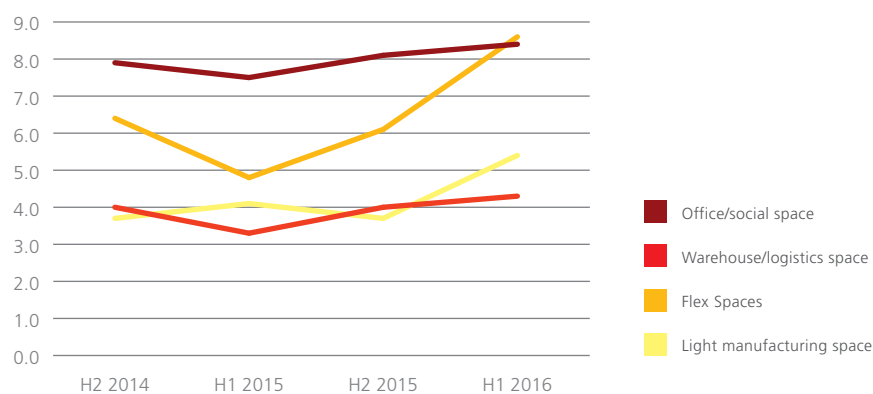
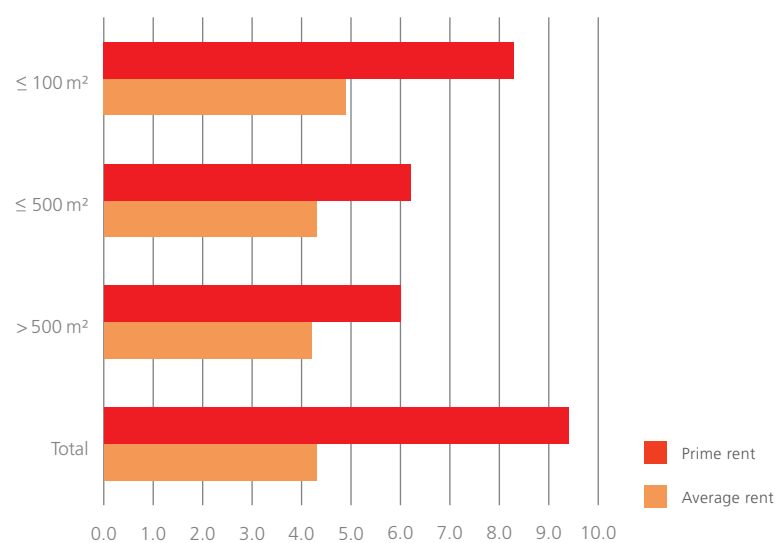


Fig. 23: Growth in warehouse/logistics rents in various size bands, H1 2016, in euros/m²/month



The Market for Unternehmensimmobilien in Germany in H1 2016

Given their dimensions of Unternehmensimmobilien, the changes in their market values³ and floor space volumes have been minor in scale. That is why they are not elaborated although they are represented here.

Fig. 24: Floor space volume of commercial properties in Germany, excl. hotels, in billion euros, in H1 2016

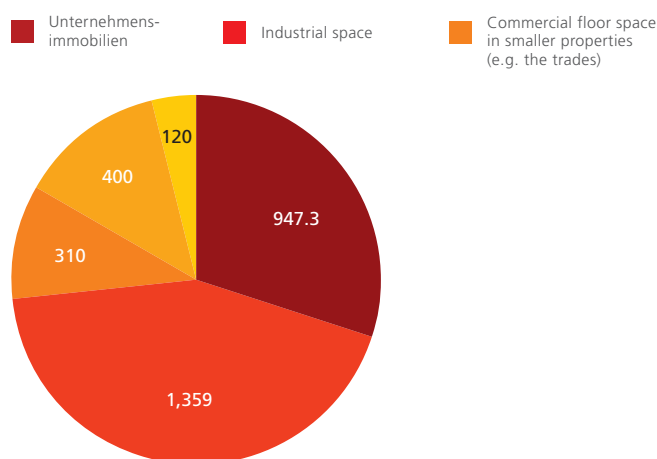


Fig. 25: Market value of commercial properties in Germany (excl. hotels), in billion euros, in H1 2016

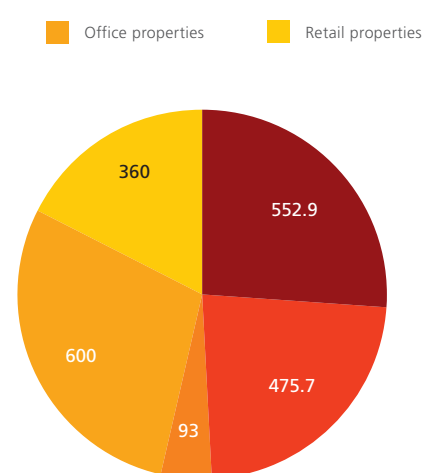
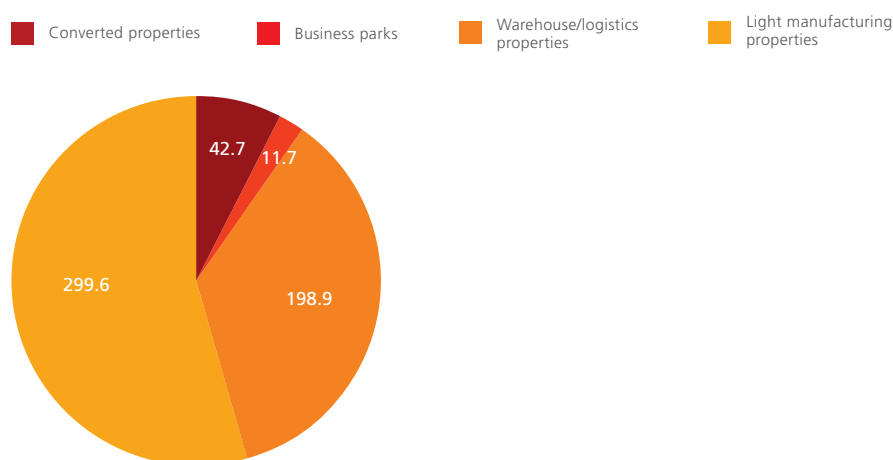


Fig. 26: Market value of the property categories of Unternehmensimmobilien, in billion euros, H1 2016



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

Fig. 27: Overview of floor space and values of German Unternehmensimmobilien in H1 2016

Property categories within the Unternehmensimmobilien segment	Floor area		Total value		thereof investment-grade	
	in million m ²	in %	in billion euros	in %	in billion euros	in %
Converted properties	61.0	6.4%	42.7	7.7%	21.3	50.0%
Business parks	8.7	0.9%	11.7	2.1%	10.6	90.0%
Warehouse/logistics properties	332.9	35.1%	198.9	36.0%	119.4	60.0%
Light manufacturing properties	544.8	57.5%	299.6	54.2%	119.8	40.0%
Unternehmensimmobilien total	947.3	100.0%	552.9	100.0%	271.1	49.0%

Fig. 28: German Property Index (GPI), total return (in %) by segments year on year, 1995-2020⁴

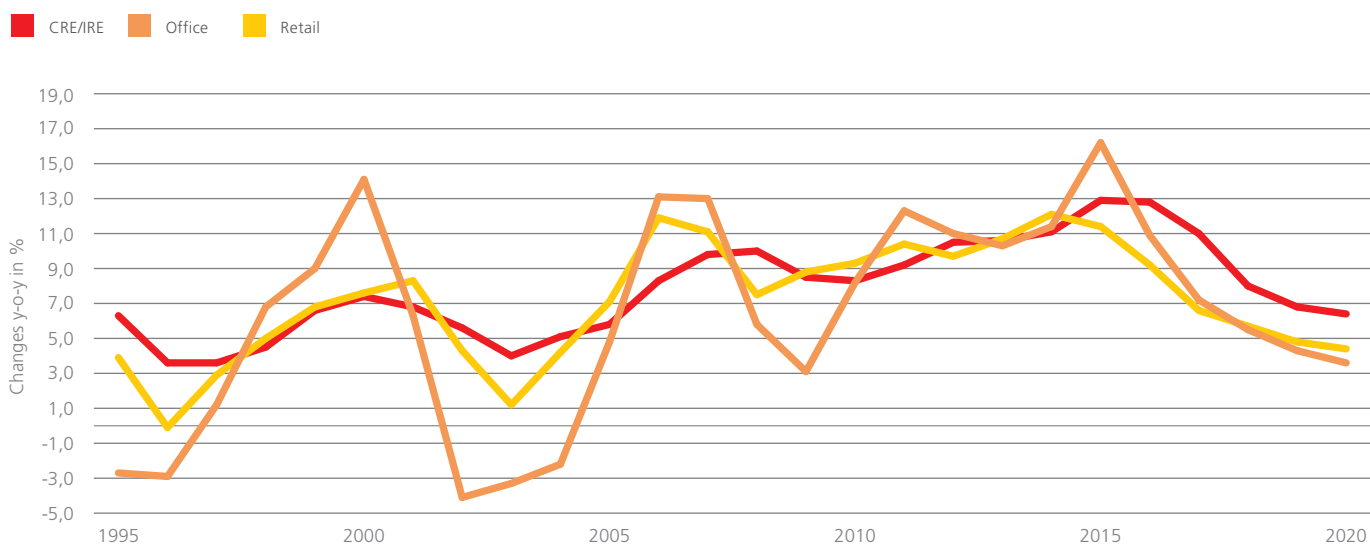
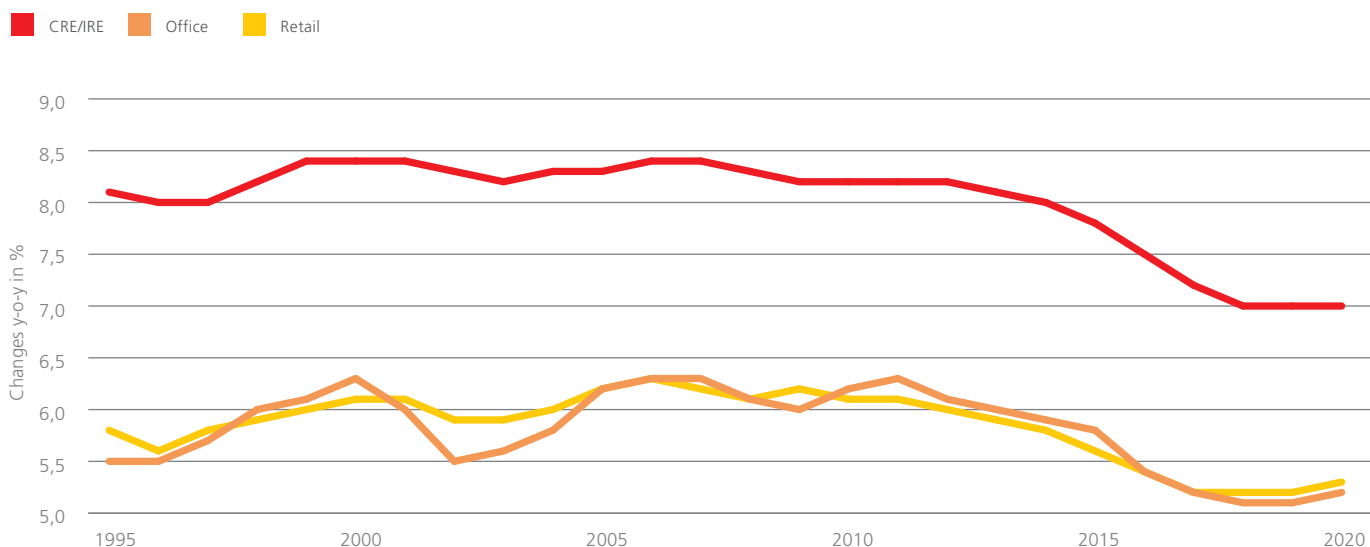


Fig. 29: German Property Index (GPI), cashflow return by property segment in Germany year on year, 1995-2020, in %



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

Notes on the Analysis

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

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

The data evaluated for the purpose of the rental market analysis were provided by participating operators. The analysis for the first half-year of 2016 drew on 1,369 data records. These represented almost exclusively primary data, sourced from the actual property owners. The evaluation only took pure letting activities into account while ignoring owner-occupier transactions. Neither were sub-lettings by companies active in business sectors other than real estate taken into account, for instance. We assume that the report covers at least an estimated third of all lettings transacted on the market as discussed in this Market Report. The posted figures should therefore not be understood as global trend statements but as a random sample. That said, they are highly meaningful when read as indicators.

List of Figures

Fig. 01, p. 7 Different Categories of Unternehmensimmobilien

Fig. 02, p. 13 Investment volume in million euros by property type

Fig. 03, p. 13 Acquisitions/disposals by actor group in H2 2015, in million euros

Fig. 04, p. 14 Acquisitions/disposals by actor group in H1 2016, in million euros

Fig. 05/06, p. 14 Acquisitions and sales by origin of actors, in %, H2 2015

Fig. 07/08, p. 15 Acquisitions and disposals by origin of actors, in %, H1 2016

Fig. 09, p. 16 Distribution of transaction volumes in a rolling period ranking by region, in million euros

Fig. 10, p. 17 Geographic distribution of transactions in Germany, H1 2016, by property category

Fig. 11, p. 18 Gross initial yield over time, by property category, in %

Fig. 12, p. 21 Absolute take-up in a rolling comparison, H2 2014 through H1 2016 by regions and take-up

Fig. 13, p. 21 Take-ups in a rolling comparison, in ,000 m²

Fig. 14, p. 23 Absolute take-up in a rolling comparison, by region, in m²

Fig. 15, p. 24 Net absorption by area size categories in a rolling period ranking

Fig. 16, p. 25 Average length of leases in a rolling period ranking

Fig. 17, p. 25 Breakdown of leases by length of lease term, H1 2016

Fig. 18, p. 26 Take-up by area size categories in a rolling period ranking

Fig. 19, p. 27 Pro-rata rolling take-up, in m², by property type

Fig. 20, p. 28 Take-up in a rolling comparison by aggregated economic sectors, in ,000 m²

Fig. 21, p. 29 Performance of prime rents by types of floor space and rolling half-year period, in euros/m²/month

Fig. 22, p. 29 Performance of average rents by types of floor space and rolling half-year periods, in euros/m²/month

Fig. 23, p. 29 Growth in warehouse/logistics rents in various size bands, H1 2016, in euros/m²/month

Fig. 24, p. 30 Floor space volume of commercial properties in Germany, excl. hotels, in billion euros, in H1 2016

Fig. 25, p. 30 Market value of commercial properties in Germany (excl. hotels), in billion euros, in H1 2016

Fig. 26, p. 30 Market value of the property categories of Unternehmensimmobilien, in billion euros, H1 2016

Fig. 27, p. 31 Overview of floor space and values of German Unternehmensimmobilien in H1 2016

Fig. 28, p. 31 German Property Index (GPI), total return (in %) by segments year on year, 1995-2020

Fig. 29, p. 31 German Property Index (GPI), cashflow return by property segment in Germany year on year, 1995-2020, in %

Glossary

Gross Initial Yield (GIY):

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

Flex Space:

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

German Property Index (GPI):

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

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

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

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

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

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

Contact, Copyright and Legal Notice

Published by

INITIATIVE
UNTERNEHMENSIMMOBILIEN

Office of the INITIATIVE UNTER- NEHMENSIMMOBILIEN

Andreas Schulten
bulwiengesa AG
Wallstrasse 61
D-10179 Berlin
Phone: +49 30 278768-0
Facsimile: +49 30 278768-68

Scientific processing, data handling and editing

Project Management

Tobias Kassner
Phone: +49 30 27 87 68-23
kassner@bulwiengesa.de

Project Assistance

Hauke Prätzel
Marcel Schwerin

Market Report No. 5, H1 2016

Editorial deadline: 29/08/2016

Concept & Design

elevenfifteen GmbH
Magdalenenstrasse 54
D-20148 Hamburg
Phone: +49 40 55 898 11-22
elevenfifteen.de
hallo@elevenfifteen.de

Copyright © 2016

All rights reserved. Excerpts may be used as long as "INITIATIVE UNTERNEHMENSIMMOBILIEN" is cited as their source. Extensive reproduction, publication, and disclosure of contents to third parties in any form whatsoever is principally permitted only subject to prior written authorisation by INITIATIVE UNTERNEHMENSIMMOBILIEN, and any of the above must cite the original source. Exempt is the use of the Market Report or parts thereof for marketing brochures, these being subject without exception to the requirement of prior written consent by INITIATIVE UNTERNEHMENSIMMOBILIEN. The point of contact is the registered office of the Initiative.

Disclaimer (Exclusion of Liability)

The findings and calculations presented in this Market Report, as well as the underlying research, are based on evaluations of participant portfolios or letting and investment transactions executed by members of the Initiative. They are supplemented by other sources either available or accessible during the processing time, and analysed to the best of our knowledge and using due diligence. No warranty is offered regarding the accuracy of the information and data, except for those researched and compiled by ourselves, this guarantee being limited to the standard duty of care. No warranty whatsoever is assumed for the technical accuracy of data or facts adopted from third parties.

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



The INITIATIVE UNTERNEHMENSIMMOBILIEN is a joint project by:



Hansteen



SIEMENS



VALAD