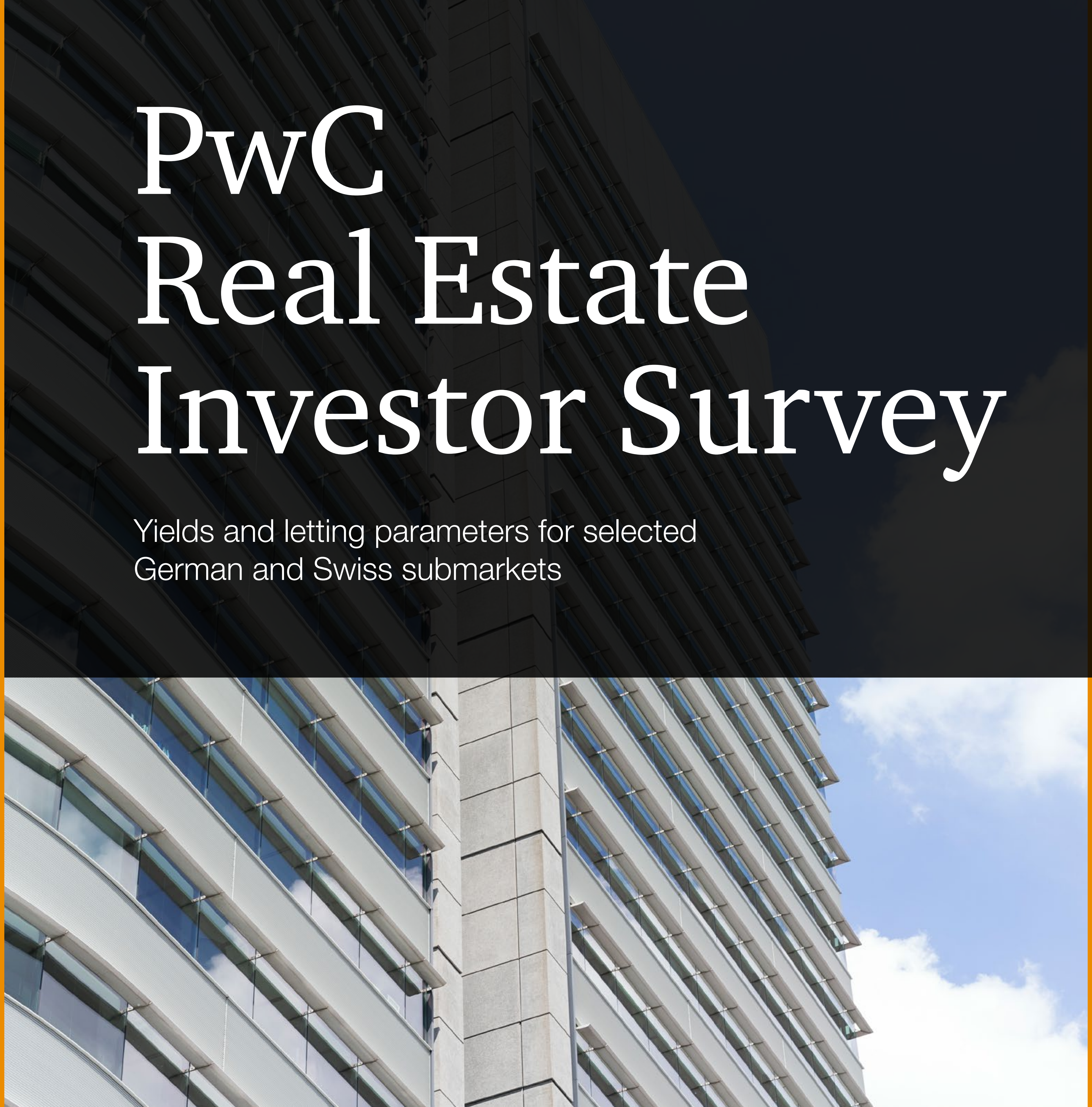

PwC Real Estate Investor Survey

Yields and letting parameters for selected German and Swiss submarkets

Germany and Switzerland

pwc.de/investor-survey
pwc.ch/realestate

Spotlight

Go Green or Go Home? - How green is real estate investment and asset management?

Volume 10
October 2019

This document is interactive

✕

This cross symbol is a button that allows the possibility of resetting interactive actions back to the default view.

Top 7 Cities

These buttons with coloured background are clickable, showing further information.

Introduction

Text that changes colour on mouse over is clickable, directing to another page.

PwC Real Estate Investor Survey Germany & Switzerland | Volume 10

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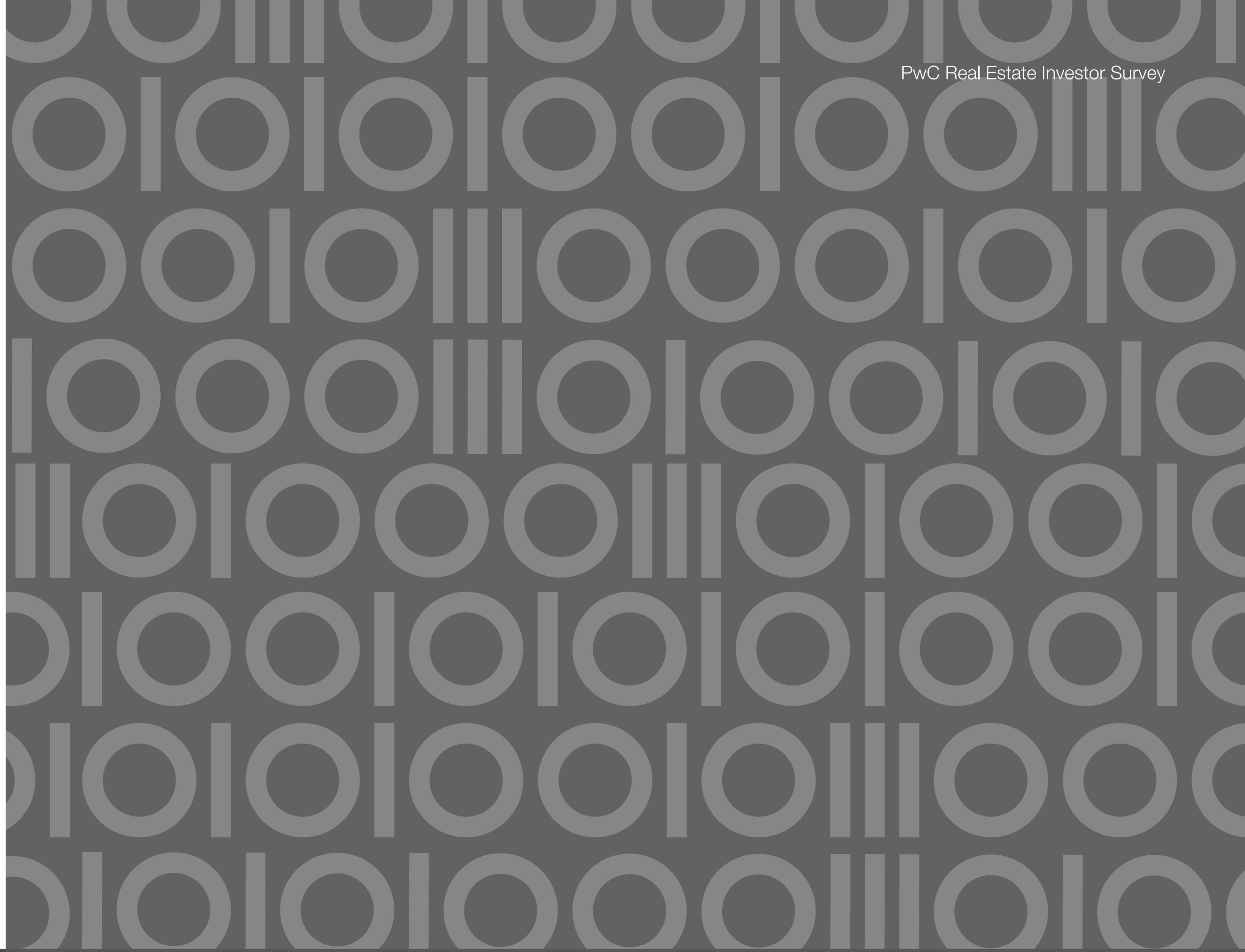
Wirtschaftsprüfungsgesellschaft

October 2019
48 pages, **56 figures**. All rights reserved.

Contents

Introduction



Introduction

The data we retrieved for this issue of the PwC Real Estate Investor Survey on the German and Swiss submarkets supports further positive development of the real estate market despite investors' concerns. These trends are reflected in the "all-risk-yields" ("Yields") which represent the relationship between the stabilised net operating income (NOI) and net purchase price.

In addition, we discussed with investors how they approach sustainability in their investment and asset management process.

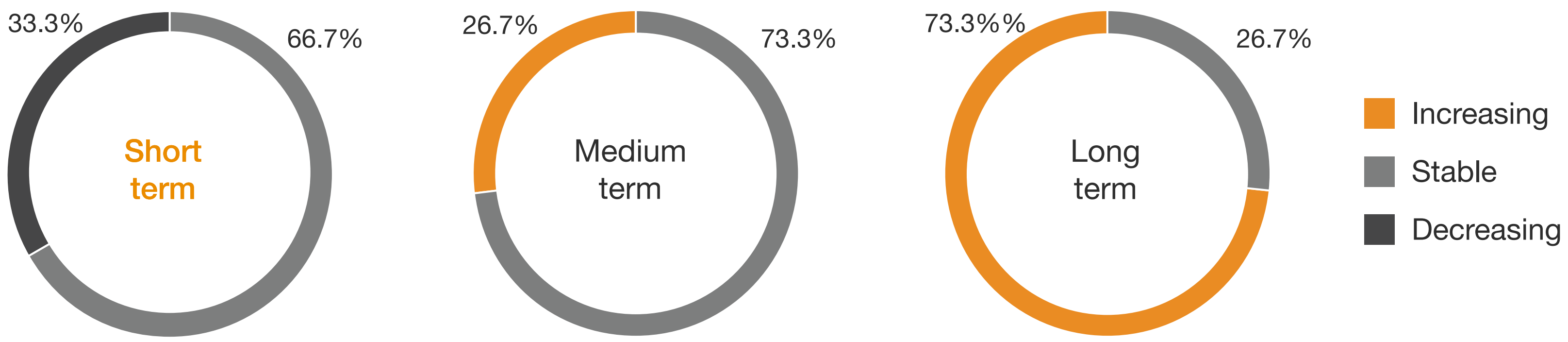
We gather our data by interviewing various types of market participants. For an overview of the results and for our approach and definitions, please refer to respective section.

Germany

In German markets, investors are reluctant to invest in secondary locations. Generally, there is still yield compression in Top 7 Cities, but yields have increased in B and C locations. Office and logistics continue to be the most attractive markets while retail remains as a question mark.

Germany | Switzerland

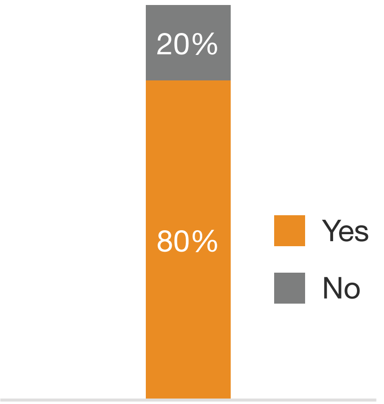
Interest rate expectation



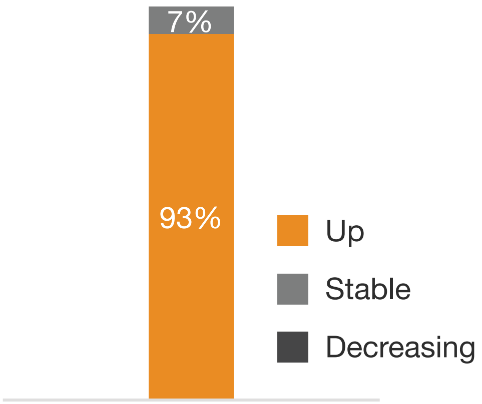
Short term

In line with the survey results six months ago, majority of the investors still believe that the short-term interest rates will remain stable over the next 12 months.

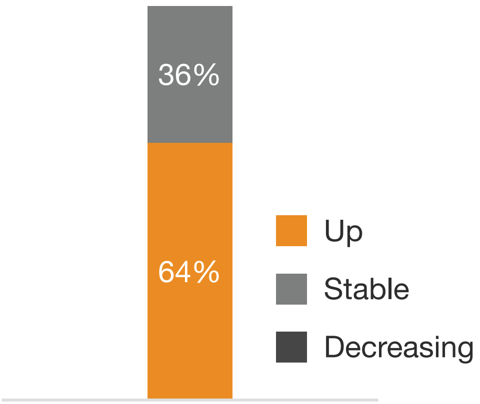
Investors' expectations regarding yields and rent



Will property yields increase in line with general trend in interest rates?



How will rents develop in primary locations?



How will rents develop in secondary locations?

The majority of investors anticipate that yields will increase in line with the expected increase in the interest rates.

Almost all investors expect rents to go up in primary locations. In secondary locations, over a quarter of the investors believe that rents will remain stable while most investors expect rents to increase.

Spotlight

Spotlight

Go Green or Go Home - How green is real estate investment and asset management?

Real Estate concerns all aspects of our lives. We use buildings for production of goods and services, working, living and leisure. As modern society becomes increasingly aware and concerned about sustainability, real estate should meet these new requirements too. Technology developments currently provide vast impetus for buildings including their operation and management.

In this spotlight, we would like to uncover sustainability in asset management and investment processes. In the first part of the article we present the results of our discussions with the survey participant. In the second part you will find an interview with two representatives of Union Investment Real Estate, Mr. Martin J. Brühl, CIO and former President of the RICS (Royal Institution of Chartered Surveyors), and Ms. Elena Winter, Senior Manager, Sustainability.

Key takeaways from our German and Swiss respondents

Around 40% of survey participants have established reporting on sustainability. The urge comes mostly from larger and/or international investors.

The most popular reports include Global Real Estate Sustainability Benchmark (GRESB), Economic Sustainability Indicator (ESI) and Global Reporting Initiative (GRI). Especially GRESB seems to have already established a high market penetration as it is used as a benchmark for the real estate industry to measure sustainability performance (holistic analysis of all ESG categories).

German and Swiss investors aspire to hold some of the most renowned certificates such as the Leadership in Energy and Environmental Design (LEED), the Deutsche Gesellschaft für Nachhaltiges Bauen (e.V.) (DGNB) and the Building Research Establishment Environmental Assessment Method (BREEAM). Labels of Green Property, such as, Standard für Komfort, Effizienz und Werterhalt (Minergie) or Standard Nachhaltiges Bauen Schweiz (SNBS) are relevant in Switzerland. In the German market alone there were 1,800 Green Buildings certified by the end of last year – with a rising tendency.

In certain cases, some of the investors interviewed are signatories of the United Nations' Principles for Responsible Investment (UNPRI), which is the world's leading proponent of responsible investment.

Sustainability becomes integral part of the asset management

Almost unanimously, German and Swiss investors confirmed that improving sustainability is on the agenda of their asset management teams. Teams focused on improving (meaning reducing) the operating costs are being set up. Their tasks are getting more clarity on the level of recoverability of the expenses, reduction of energy consumption and application of new technologies such as installation of solar systems.

Environmental aspects are the main area of focus

We could conclude from the answers to the survey, that both German and Swiss real estate companies are mostly focused on the "E"-component. Clearly, this is easier to influence through refurbishment and easier to measure and report.

On the other hand, the "S" and "G" are still considered as "soft" components and are not the primary focus in asset management. Around 26% of the total respondents consider all three components in their asset management but in the absence of market standards and benchmarks, criteria may vary from case to case. Some German investors mentioned that larger tenants show more awareness and require landlords to change lease terms to make them suitable to their own social and governance standards.

Sustainability plays only insignificant role in the acquisition process

The gap between investors actively managing existing portfolios to higher ESG standards and investors actively considering to acquire only properties with high ESG standards is vast. Out of the German and Swiss participants:

- 32% "actively" include ESG criteria, meaning that a property would not be bought if it does not meet the criteria or a budget would be allocated to manage the property to the ESG standard;
- 6% will join the "active" group next year;
- 26% perform some kind of pro forma checks in the acquisition process, but do not actively follow a strategy where properties are not bought or managed afterwards to any ESG standards;
- 18% do not observe the sustainability during the acquisition stage.

These results are not surprising given that

- In the current market situation, there are not many products that would match ESG criteria. Therefore, unless an investor has a fund with a predefined sustainability criteria, acquisition will be approved if the economic component (IRR and cash on cash return) meet the requirements;

Spotlight

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- Lack of information from the sellers or the previous owners who did not invest in ESG standards;
- Last but not the least, there are no clear definitions for ESG standards. There are attempts to define in general terms how the standards could look, however even for more easier measurable environmental aspects there are no market standards (except for energy certificates). Thus, each investor individually defines which criteria to apply and how strict they are.

Experts interview with Union Investment Real Estate

Mr. Martin J. Brühl

Chief Investment Officer (CIO)

Ms. Elena Winter

Senior Manager Sustainability

What role does sustainability plays in your processes (underwriting, asset management etc.)?

MB: A sustainability check is performed annually as part of the asset management as well as during the underwriting process. For that past 10 years, we have been applying an in-house tool, Sustainable Investment Check (SI-Check) that comprises seven criteria: building automation, resources, energy, economy, user comfort, location and operations. The aim is to assess not only the "as is" situation but also building potential. If a property does not achieve a minimum required score during the underwriting process, we allow for a lump sum for future asset management measures to manage the property to that level.

EW: Sustainability is an integral part of our whole value chain. To support and improve this process we have recently implemented new software – ImmoSustain and Goby. Nevertheless, the quality of the output is as good as the quality of the input data. Unfortunately, many tenants do not give us access to their consumption data. Though, we see a positive trend here.

We would like to discuss in further details the criteria you apply in your process. Can you elaborate more on the criteria used and how you quantify them?

MB: Compared to the "S" and "G", the "E" criteria is more sizable. As for the "G" we, for instance, verify every tenant from the tenancy schedule if it is part of our internal list of firms we are not allowed to invest in as per our internal policies. This list is currently limited only to listed companies and covers around 20% only of all our tenants. So, admittedly, we have a gap here that we intend to narrow as we go along.

Martin, is it right to say that properties with higher sustainability standards get a better financing or insurance terms?

MB: The short answer is "yes", but the question is whether this is due to causality or correlation. Let me explain: We do not acquire buildings that do not satisfy our sustainability criteria. These would be older assets of lower quality which are generally penalized with a risk premium upon financing. Sustainable properties tend to be modern buildings in better locations because they can sustain higher land values. In other words, we are buying core assets that banks are happy to finance at better terms compared to core-plus or value-add that tend to be less "green".

Elena, how important is green certification when it comes to location decisions? What is your label preference? Are you in favor of a single green certification scheme, rather than numerous options?

EW: Tenants pay attention to property certificates. However, experienced tenant and real estate investors understand that a certificate does not necessarily imply that the property is sustainable. For instance, there are significant differences between certificates for new and existing buildings. In addition, Green Building Certificates do not reflect climate neutrality and its achievement as it is meant to do. As we are dealing with sustainability for our buildings for the past

Spotlight

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10 years, we have learned that some of our certified buildings have the highest energy consumption.

We understand that you are going to implement your own label. Can you please tell us more about it; what are the criteria? Do you have regular assessments? Do you consider user behavior? Do you recognise green building management services? How do you ensure comparability with other labels?

MB: We believe that certification will not replace our in-house sustainability management due to little comparability and high certification costs. With our "Manage to Green" strategy we aim for climate neutrality of our whole real estate portfolio by 2050. With our own label "Atmosphere", we can track our success not only at a property level but also at a portfolio level.

EW: The SI-Check is the underlying basis for the label. The emphasis is on energy consumption or CO2 emission data, inclusive of that energy being consumed by tenants. However, other aspects, such as, governance for instance are also part of the label.

With the help of sensors, we can permanently measure energy and water consumption. Data of current weather conditions are also used as inputs. Based on the gathered data, the systems can be set in accordance to the consumption patterns of individual tenants. Within a very short time, significant savings can be achieved.

MB: Our label allows for dynamic measurements. This is the most significant difference compared to the common labels that reflect sustainability at a given point of time. We plan that every property in the portfolio will get an annual update of the "atmosphere" label. This way we can provide transparency in the development of energy consumption and the other ESG criteria. We have set targets until 2030 which will later be adjusted in accordance with the knowledge gained.

Can you please tell us more about your ESG standards and the major takeaways/fields for improvements? What are your targets/future projects?

MB: We collaborate with major industry associations such as ZIA and BVI in various working groups that cover sustainability. As for the green leases, we would welcome it if market professionals would work on common standards for the industry. We believe that our own label "atmosphere" could be a basis for such discussions.

We also would like to see more acceptance of "exclusion" criteria. For years now, we apply such criteria for our publicly offered real estate funds and some special funds. For example, we have excluded some companies involved in weapons production from our business partners.

EW: We also work very hard to improve the data quality from the tenants. We understand that the aims could be achieved only when tenants are part of the process. Last but not least, we monitor very closely the technological developments because without further improvements, the goal of climate neutrality of our whole real estate portfolio by 2050 cannot be achieved.

Which ESG developments (market, regulatory etc.) do you expect in the short-term and in the long-term? Which trends are worth monitoring?

MB: "E" aspects clearly have a short and mid-term priority. They are in the focus of EU Action Plan development. Within this Action Plan, the social and organisational topics come second.

The public discussion on CO2 emissions has intensified. Moreover, there are regulations in place in some real estate markets, for instance, minimum requirements on energy efficiency levels for the lettings in Netherlands and the UK.

We think that in the mid-term the social responsibility of businesses will also increase. The questions on social engagements already appear in the certification surveys, such as UN PRI and GRESB.

Our last question, if companies becomes more and more aware of sustainability and try to implement the criteria for their real estate portfolio, would you expect all properties to become sustainable? What will happen to the tenants that are involved in weapon production?

MB: I think there will be a segmentation of the market that depends on the investor type. Properties will be acquired and managed in accordance with the different strategies.

Germany

Office

Retail

Logistics

NOI Analysis

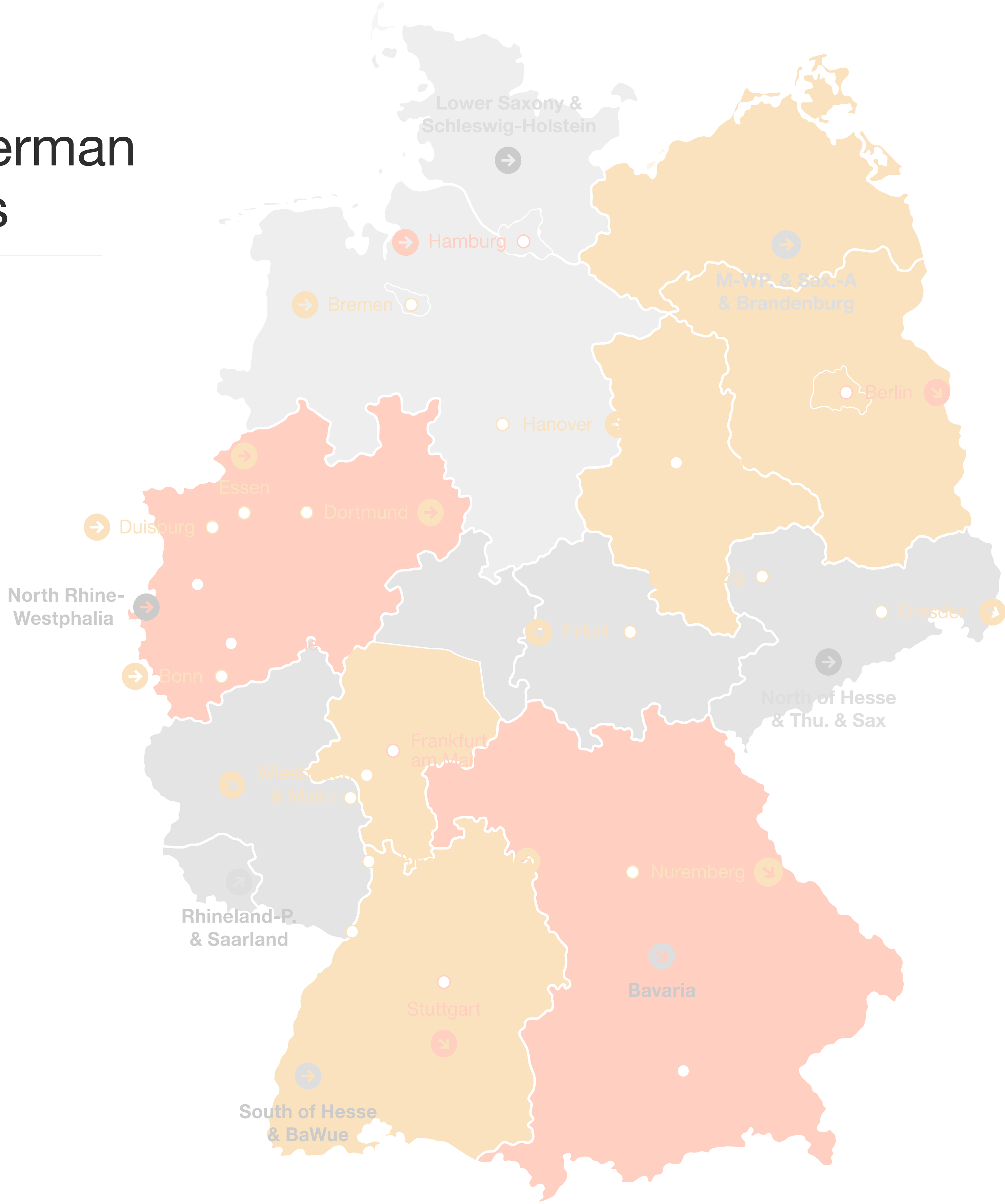
Office

Yields in German submarkets

Top 7 Cities

Regional Cities

Regions



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Minimum yields movement compared to last six months

Min. % | Average % | Max. %

Expected 5-year yield development

Top 7 Cities

→ Munich

→ Hamburg

→ Berlin

→ Stuttgart

→ Frankfurt am Main

→ Dusseldorf

→ Cologne

Letting parameters

Top 7 Cities

	Prime rent (in EUR/m²/month)	Granted rentfree period (Med. in months)		Duration until reletting (Med. in months)		Extension probability		Annual market rent growth rate	
Top 7 Cities	**Med.**	**Med.**	**Dev.**	**Med.**	**Dev.**	**Med.**	**Dev.**	**Med.**	**Dev.**
Berlin	37	2	↗	3	↘	77%	↑	3.4%	→
Dusseldorf	28	4	↘	5	→	74%	↑	1.9%	→
Frankfurt am Main	43	4	↘	5	↘	72%	↑	2.1%	→
Hamburg	31	3	↘	4	→	74%	↑	1.6%	→
Cologne	25	3	→	5	↘	70%	↑	1.7%	→
Munich	38	2	→	3	↘	78%	↑	2.5%	→
Stuttgart	26	3	↗	4	↘	73%	↑	2.0%	→

↓ <-1% ↘ -1.0% to -0.25% → -0.25% to 0.25% ↗ 0.25% to 1.0% ↑ >1.0%

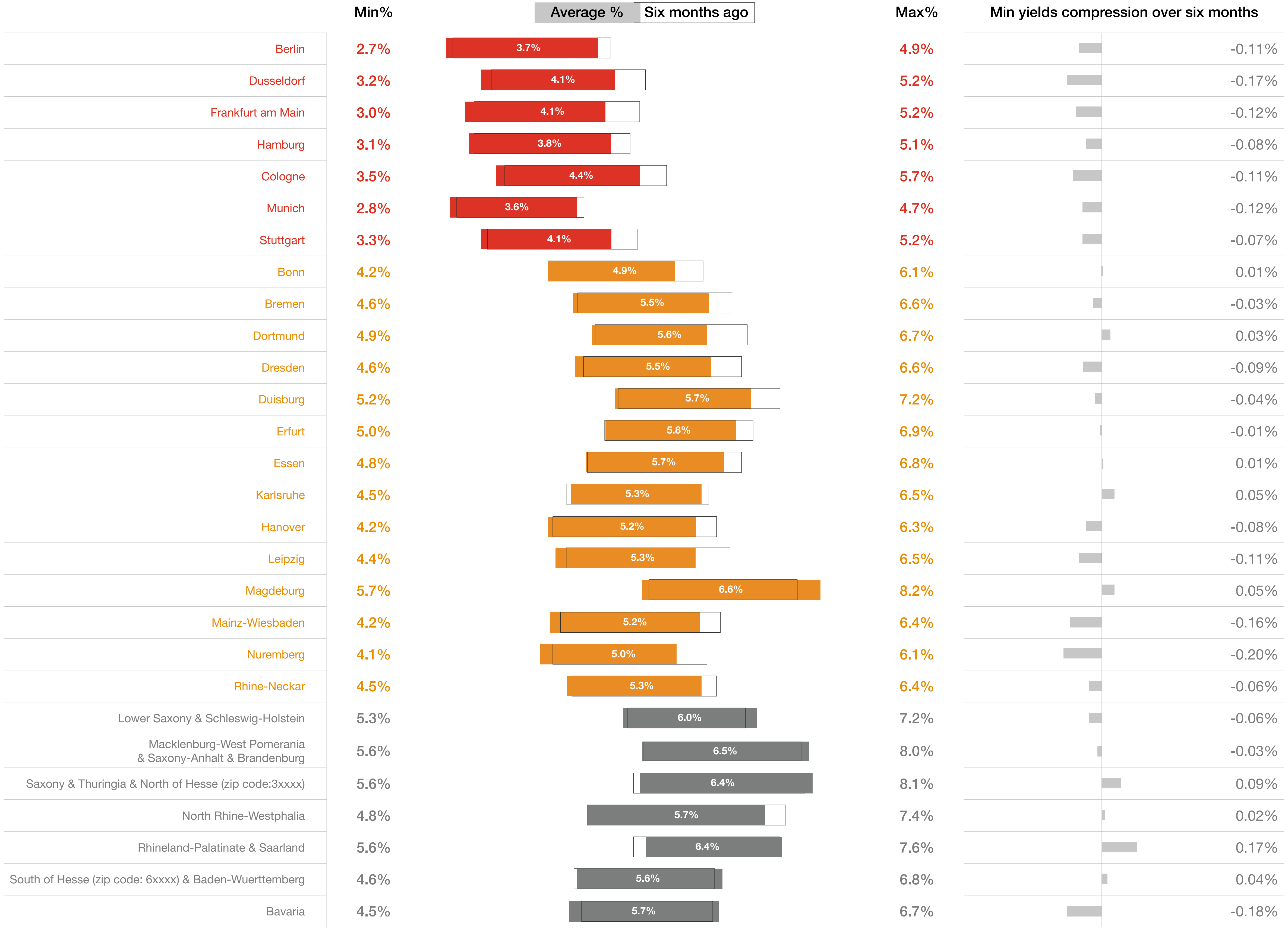
Compared to six months ago (majority of responses)

Yields ranges and compression

Top 7 Cities

Regional Cities

Regions



	Min%	Average %	Max%	Min yields compression over six months
Berlin	2.7%	3.7%	4.9%	-0.11%
Dusseldorf	3.2%	4.1%	5.2%	-0.17%
Frankfurt am Main	3.0%	4.1%	5.2%	-0.12%
Hamburg	3.1%	3.8%	5.1%	-0.08%
Cologne	3.5%	4.4%	5.7%	-0.11%
Munich	2.8%	3.6%	4.7%	-0.12%
Stuttgart	3.3%	4.1%	5.2%	-0.07%
Bonn	4.2%	4.9%	6.1%	0.01%
Bremen	4.6%	5.5%	6.6%	-0.03%
Dortmund	4.9%	5.6%	6.7%	0.03%
Dresden	4.6%	5.5%	6.6%	-0.09%
Duisburg	5.2%	5.7%	7.2%	-0.04%
Erfurt	5.0%	5.8%	6.9%	-0.01%
Essen	4.8%	5.7%	6.8%	0.01%
Karlsruhe	4.5%	5.3%	6.5%	0.05%
Hanover	4.2%	5.2%	6.3%	-0.08%
Leipzig	4.4%	5.3%	6.5%	-0.11%
Magdeburg	5.7%	6.6%	8.2%	0.05%
Mainz-Wiesbaden	4.2%	5.2%	6.4%	-0.16%
Nuremberg	4.1%	5.0%	6.1%	-0.20%
Rhine-Neckar	4.5%	5.3%	6.4%	-0.06%
Lower Saxony & Schleswig-Holstein	5.3%	6.0%	7.2%	-0.06%
Macklenburg-West Pomerania & Saxony-Anhalt & Brandenburg	5.6%	6.5%	8.0%	-0.03%
Saxony & Thuringia & North of Hesse (zip code:3xxxx)	5.6%	6.4%	8.1%	0.09%
North Rhine-Westphalia	4.8%	5.7%	7.4%	0.02%
Rhineland-Palatinate & Saarland	5.6%	6.4%	7.6%	0.17%
South of Hesse (zip code: 6xxxx) & Baden-Wuerttemberg	4.6%	5.6%	6.8%	0.04%
Bavaria	4.5%	5.7%	6.7%	-0.18%

View the map for *Yields for German submarkets*

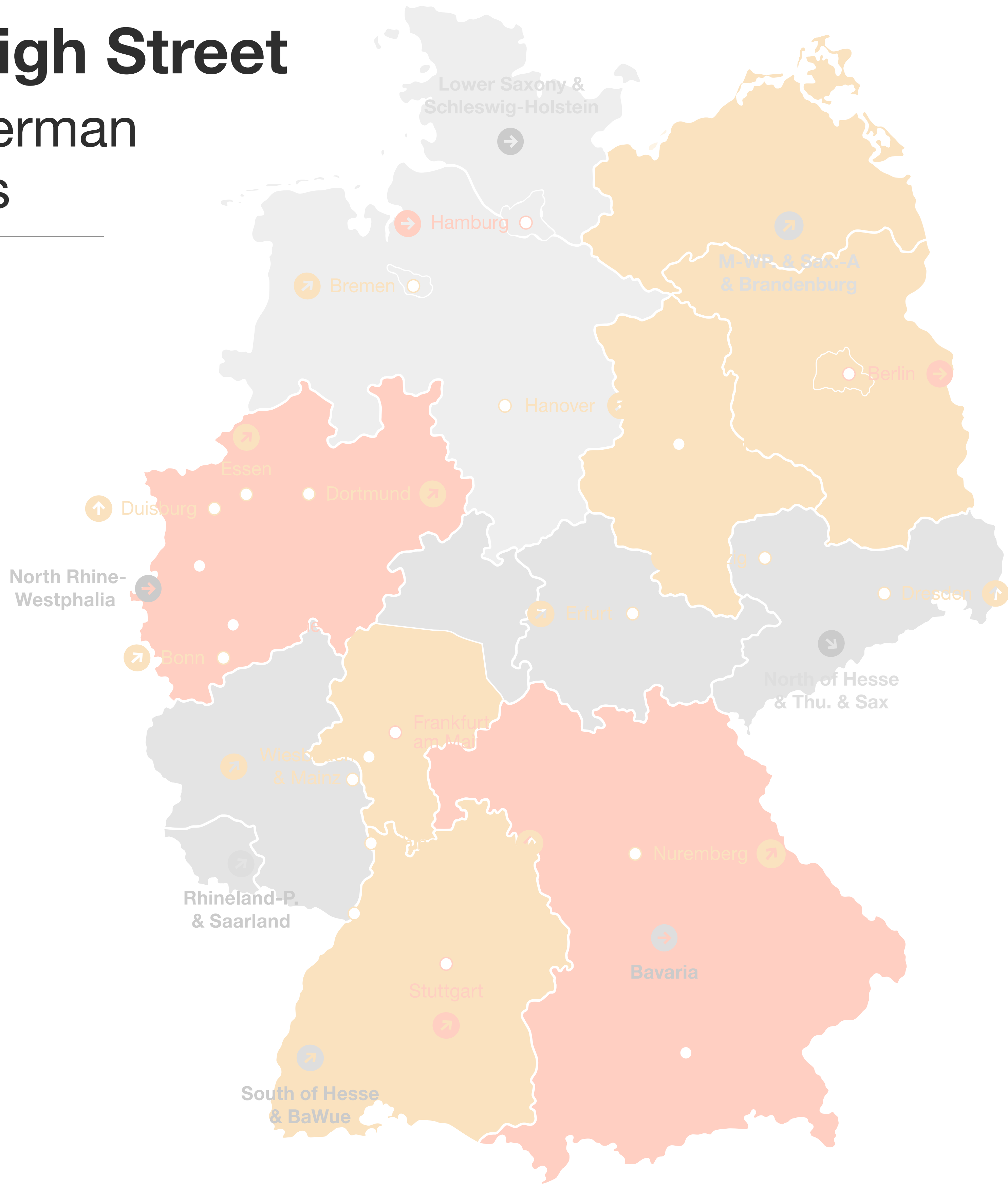
Retail | High Street

Yields in German submarkets

Top 7 Cities

Regional Cities

Regions



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Minimum yields movement compared to last six months

Min. % | Average % | Max. %

Expected 5-year yield development

Top 7 Cities

Munich

Hamburg

Berlin

Stuttgart

Frankfurt am Main

Dusseldorf

Cologne

Letting parameters

Top 7 Cities

	Prime rent (in EUR/m²/month)	Granted rentfree period (Med. in months)		Duration until reletting (Med. in months)		Extension probability		Annual market rent growth rate	
Top 7 Cities	**Med.**	**Med.**	**Dev.**	**Med.**	**Dev.**	**Med.**	**Dev.**	**Med.**	**Dev.**
Berlin	339	3	↗	5	↑	66%	↘	1.2%	→
Dusseldorf	288	4	↗	7	↑	67%	↑	0.3%	↘
Frankfurt am Main	304	4	→	6	↑	68%	↑	0.4%	↘
Hamburg	293	4	↗	6	↑	68%	↑	0.3%	↘
Cologne	263	4	↗	7	↗	63%	↑	0.4%	↘
Munich	361	3	↗	5	↑	69%	↑	0.6%	↘
Stuttgart	244	4	↗	6	↑	66%	→	0.3%	↘

↓ <-1% ↘ -1.0% to -0.25% → -0.25% to 0.25% ↗ 0.25% to 1.0% ↑ >1.0%

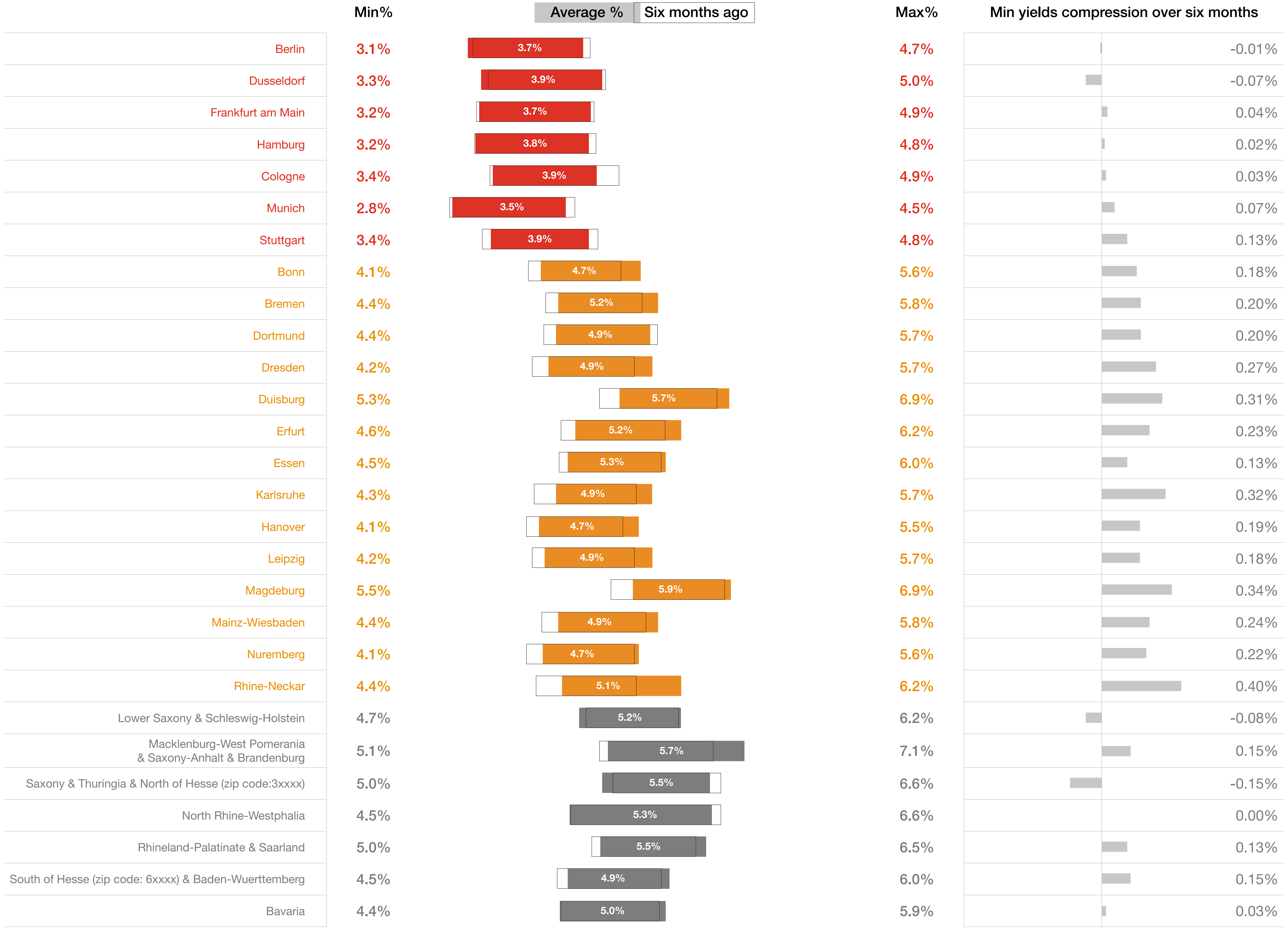
Compared to six months ago (majority of responses)

Yields ranges and compression

Top 7 Cities

Regional Cities

Regions



	Min%	Average %	Max%	Min yields compression over six months
Berlin	3.1%	3.7%	4.7%	-0.01%
Dusseldorf	3.3%	3.9%	5.0%	-0.07%
Frankfurt am Main	3.2%	3.7%	4.9%	0.04%
Hamburg	3.2%	3.8%	4.8%	0.02%
Cologne	3.4%	3.9%	4.9%	0.03%
Munich	2.8%	3.5%	4.5%	0.07%
Stuttgart	3.4%	3.9%	4.8%	0.13%
Bonn	4.1%	4.7%	5.6%	0.18%
Bremen	4.4%	5.2%	5.8%	0.20%
Dortmund	4.4%	4.9%	5.7%	0.20%
Dresden	4.2%	4.9%	5.7%	0.27%
Duisburg	5.3%	5.7%	6.9%	0.31%
Erfurt	4.6%	5.2%	6.2%	0.23%
Essen	4.5%	5.3%	6.0%	0.13%
Karlsruhe	4.3%	4.9%	5.7%	0.32%
Hanover	4.1%	4.7%	5.5%	0.19%
Leipzig	4.2%	4.9%	5.7%	0.18%
Magdeburg	5.5%	5.9%	6.9%	0.34%
Mainz-Wiesbaden	4.4%	4.9%	5.8%	0.24%
Nuremberg	4.1%	4.7%	5.6%	0.22%
Rhine-Neckar	4.4%	5.1%	6.2%	0.40%
Lower Saxony & Schleswig-Holstein	4.7%	5.2%	6.2%	-0.08%
Macklenburg-West Pomerania & Saxony-Anhalt & Brandenburg	5.1%	5.7%	7.1%	0.15%
Saxony & Thuringia & North of Hesse (zip code:3xxxx)	5.0%	5.5%	6.6%	-0.15%
North Rhine-Westphalia	4.5%	5.3%	6.6%	0.00%
Rhineland-Palatinate & Saarland	5.0%	5.5%	6.5%	0.13%
South of Hesse (zip code: 6xxxx) & Baden-Wuerttemberg	4.5%	4.9%	6.0%	0.15%
Bavaria	4.4%	5.0%	5.9%	0.03%

View the map for *Yields for German submarkets*

Retail | Non-High Street

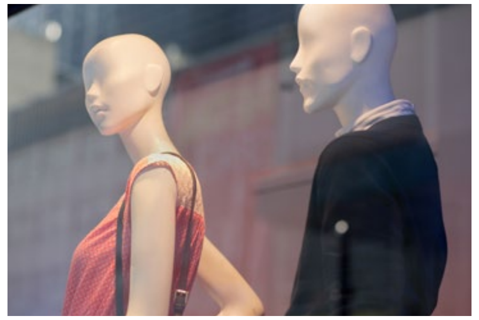
Apart from core Supermarkets, all the other core non-high street retail asset classes have experienced decompression.

For value-add properties the DIY stores and out-of-town shopping centers show the highest compression of 56 bps and 20 bps.

Investors expect negative growth in annual rent for out-of-town shopping centers and almost no rental growth in DIY stores.

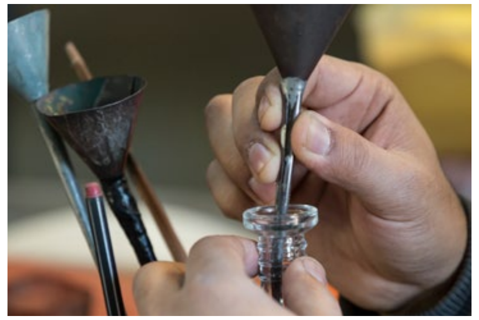
Expected 5-year yield development

→ Retail Park



→ Out-of-town Shopping Center

→ Supermarket



→ DIY-Store

Yields and letting parameters

	All-risk-yield			Prime rent (in EUR/m^2/month)	Granted rentfree period (Med. in months)		Duration until reletting (Med. in months)		Extension probability		Annual market rent growth rate	
Top 7 Cities	**Min.**	**Med.**	**Max.**	**Med.**	**Med.**	**Dev.**	**Med.**	**Dev.**	**Med.**	**Dev.**	**Med.**	**Dev.**
Out-of-town Shopping Center	4.9%	5.9%	7.1%	75	5	↗	8	→	43%	↘	-1.0%	→
Retail Park	4.4%	5.2%	6.6%	34	3	↑	5	↘	73%	↘	0.8%	↗
Supermarket	4.6%	5.6%	6.7%	38	4	↑	5	↘	75%	↑	1.0%	↗
DIY-Store	5.5%	6.4%	7.7%	50	5	→	5	→	58%	↓	0.1%	→

↓ <-1% ↘ -1.0% to -0.25% → -0.25% to 0.25% ↗ 0.25% to 1.0% ↑ >1.0%

Compared to six months ago (majority of responses)

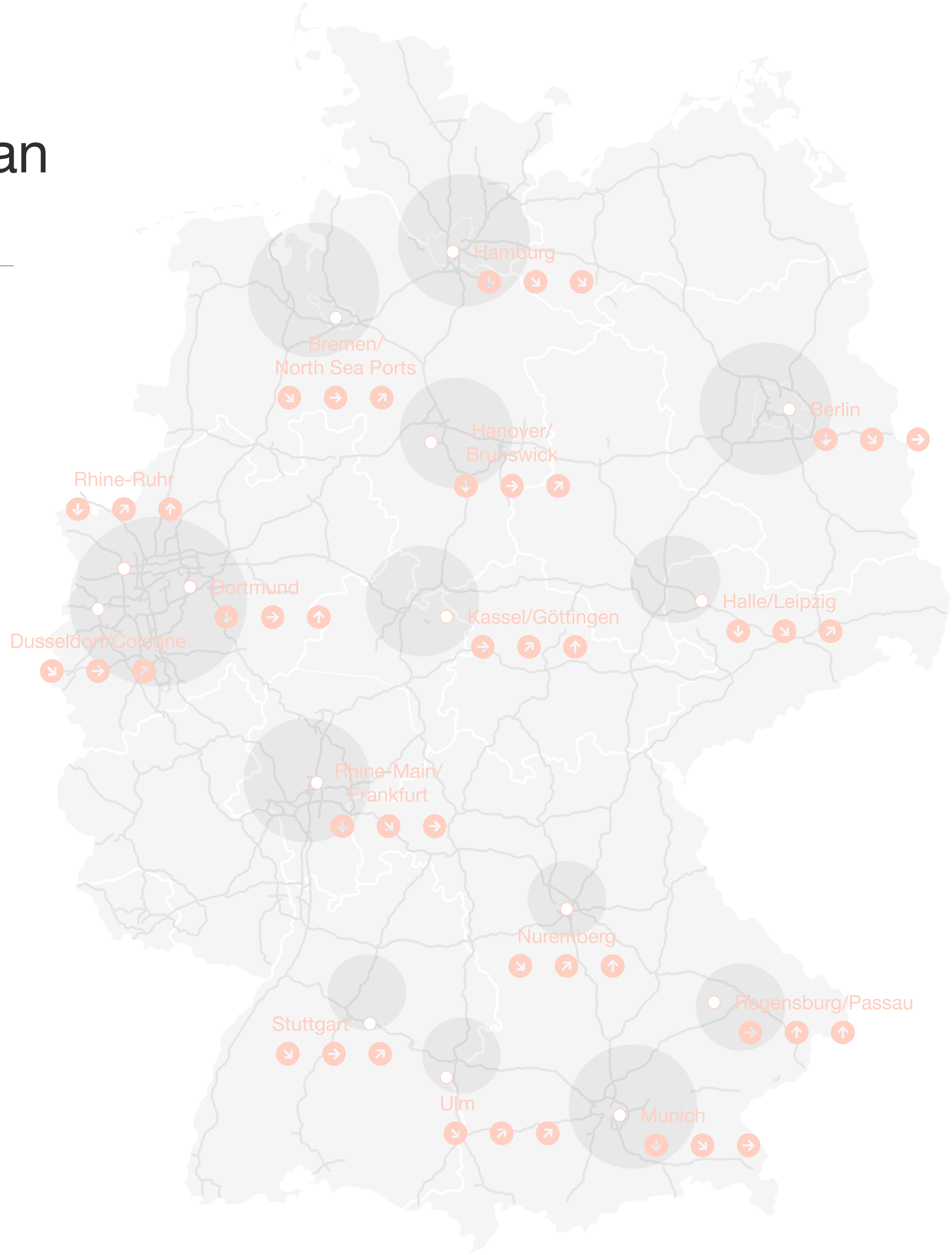
Logistics

Yields in German submarkets

Top 15 Locations

Small Locations

Rest of Germany



Small Locations
5.2% | 6.1% | 7.3%
↗ ↑ ↗

Rest of Germany
5.4% | 6.2% | 8.3%
↑ ↑ ↑

↑ ↗ → ↘ ↓

Minimum yields movement compared to last six months

Min. % | Average % | Max. %

Expected 5-year yield development

↗ Top 15 Locations

↗ Small Locations

↗ Rest Germany

Letting parameters

	Prime rent (in EUR/m^2/month)	Granted rentfree period (Med. in months)		Duration until reletting (Med. in months)		Extension probability		Annual market rent growth rate	
	Med.	Med.	Dev.	Med.	Dev.	Med.	Dev.	Med.	Dev.
Top 15 Locations	7.1	3	↗	4	↘	79%	↑	1.6%	↘
Small Locations	4.0	5	→	7	↑	57%	↓	1.3%	→
Rest Germany	3.5	5	↗	9	↑	57%	↓	1.2%	↗

↓ <-1% ↘ -1.0% to -0.25% → -0.25% to 0.25% ↗ 0.25% to 1.0% ↑ >1.0%

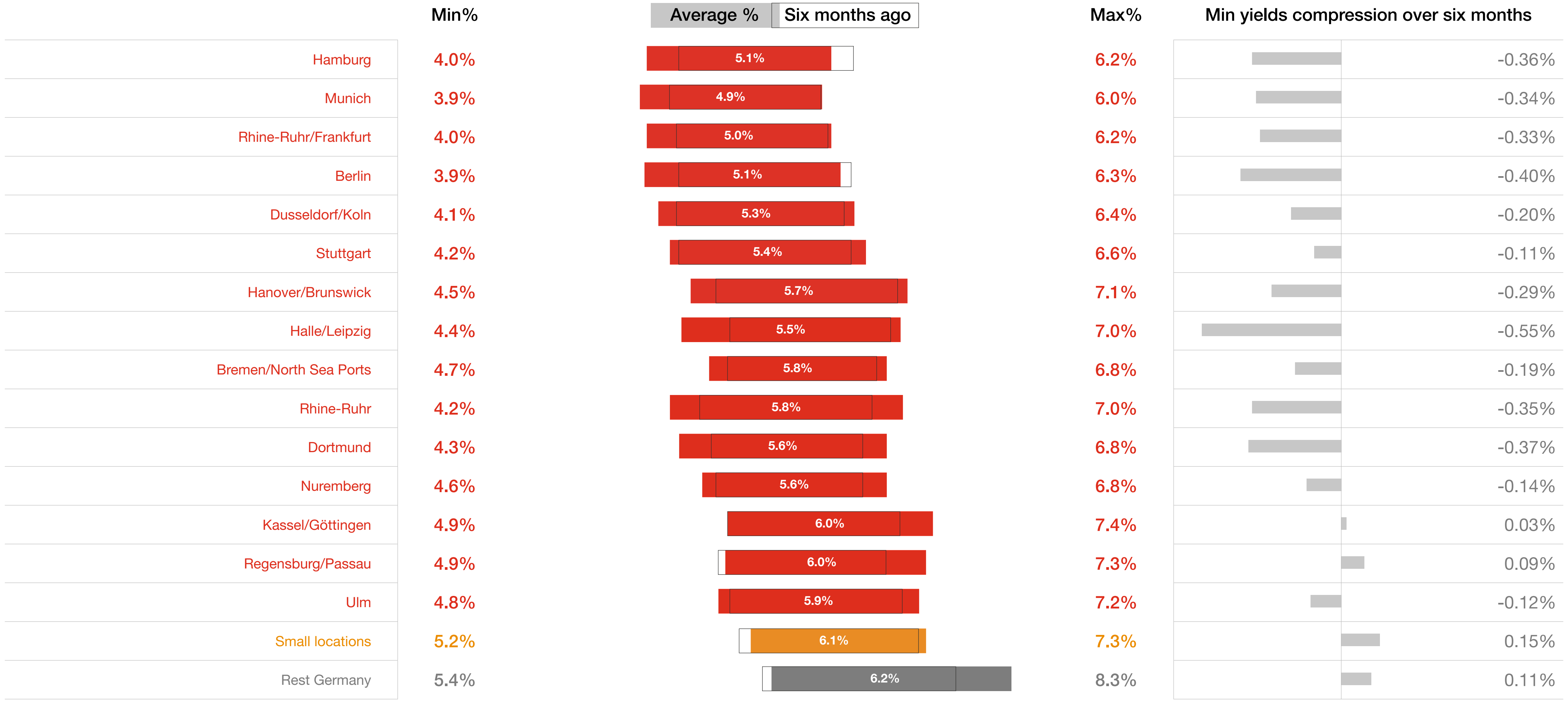
Compared to six months ago (majority of responses)

Yields ranges and compression

Top 15 Locations

Small Locations

Rest Germany

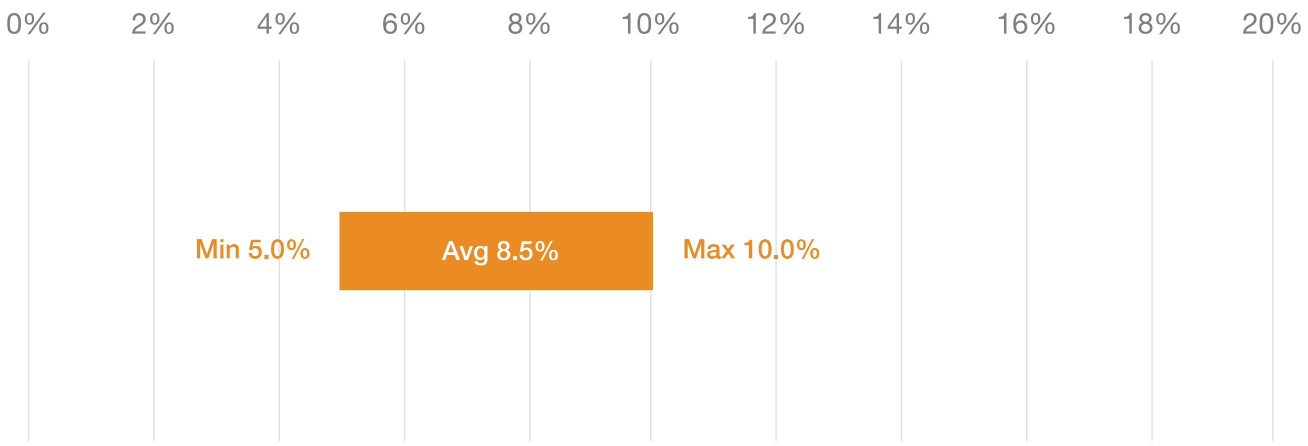


	Min%	Average %	Max%	Min yields compression over six months
Hamburg	4.0%	5.1%	6.2%	-0.36%
Munich	3.9%	4.9%	6.0%	-0.34%
Rhine-Ruhr/Frankfurt	4.0%	5.0%	6.2%	-0.33%
Berlin	3.9%	5.1%	6.3%	-0.40%
Dusseldorf/Koln	4.1%	5.3%	6.4%	-0.20%
Stuttgart	4.2%	5.4%	6.6%	-0.11%
Hanover/Brunswick	4.5%	5.7%	7.1%	-0.29%
Halle/Leipzig	4.4%	5.5%	7.0%	-0.55%
Bremen/North Sea Ports	4.7%	5.8%	6.8%	-0.19%
Rhine-Ruhr	4.2%	5.8%	7.0%	-0.35%
Dortmund	4.3%	5.6%	6.8%	-0.37%
Nuremberg	4.6%	5.6%	6.8%	-0.14%
Kassel/Göttingen	4.9%	6.0%	7.4%	0.03%
Regensburg/Passau	4.9%	6.0%	7.3%	0.09%
Ulm	4.8%	5.9%	7.2%	-0.12%
Small locations	5.2%	6.1%	7.3%	0.15%
Rest Germany	5.4%	6.2%	8.3%	0.11%

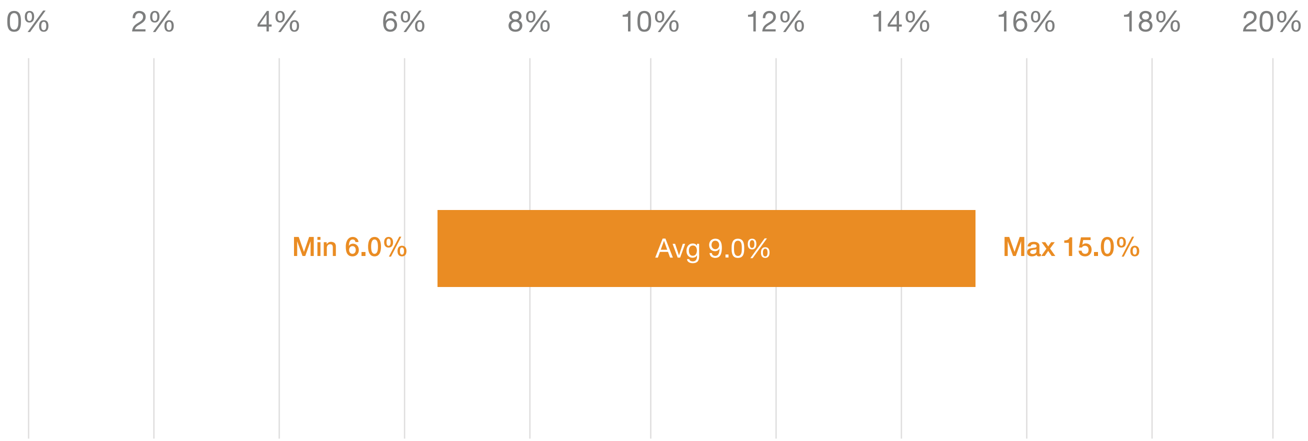
View the map for *Yields for German submarkets*

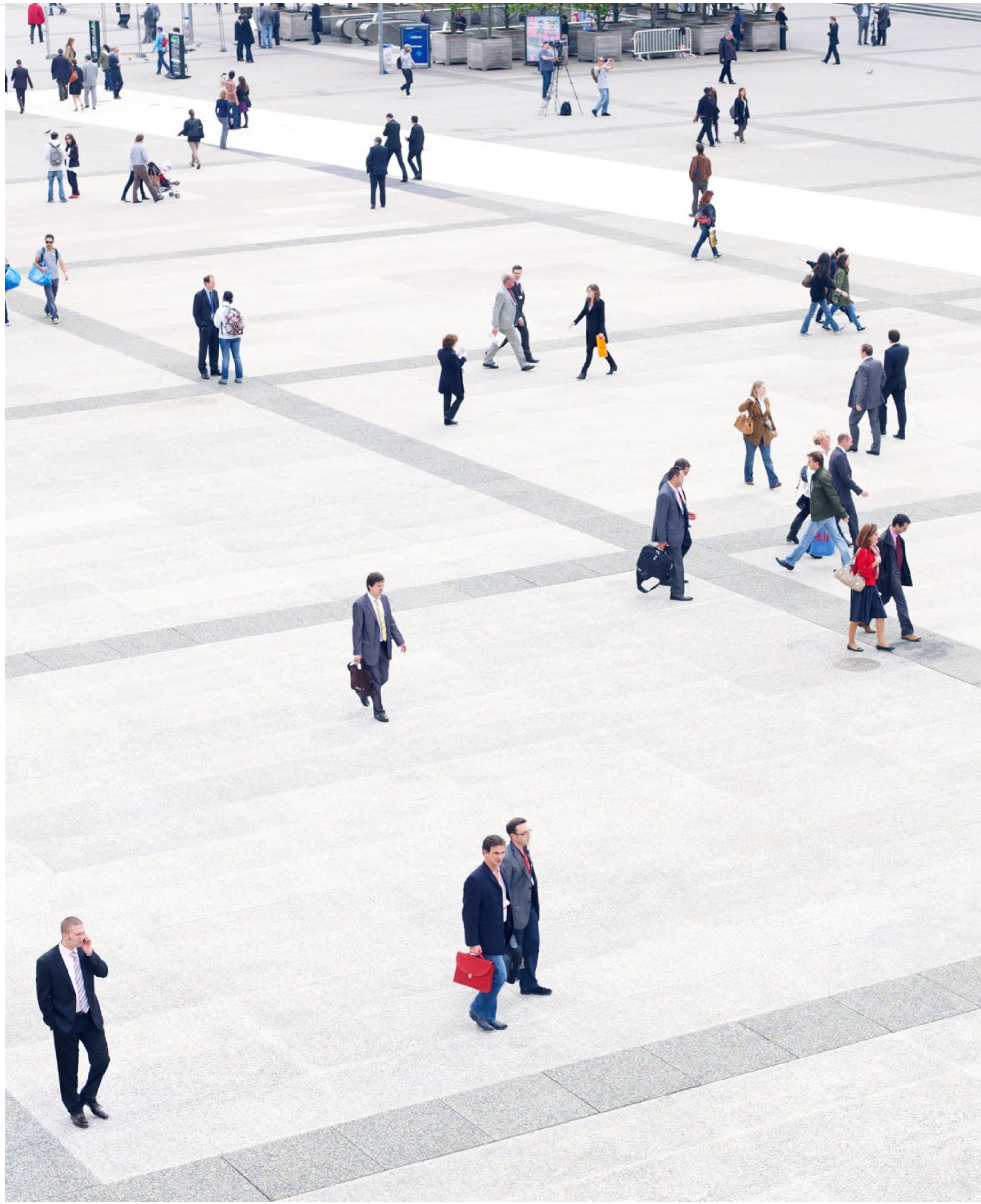
NOI leakage

Office



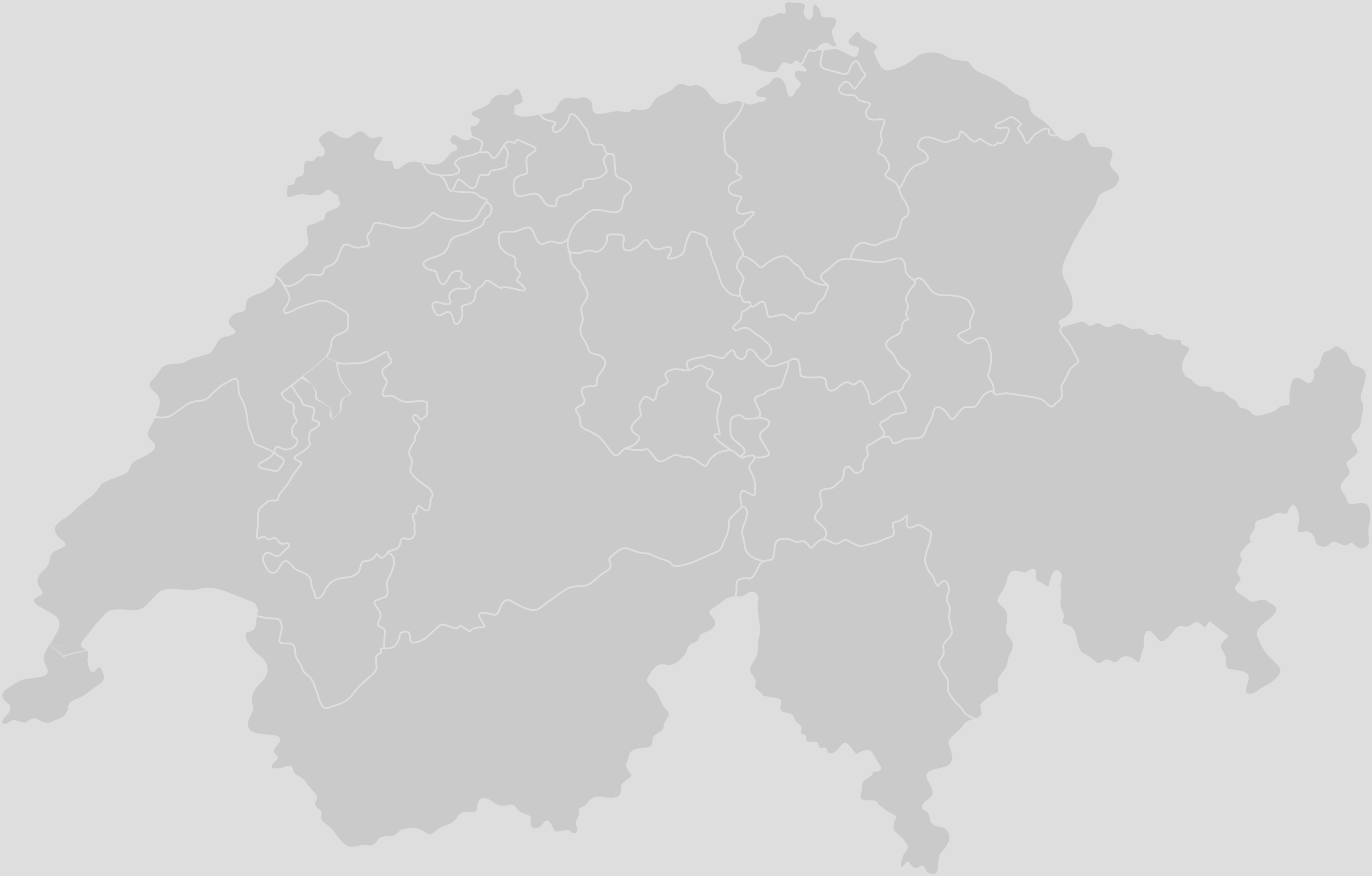
Retail





Switzerland

Residential Office Retail NOI Analysis

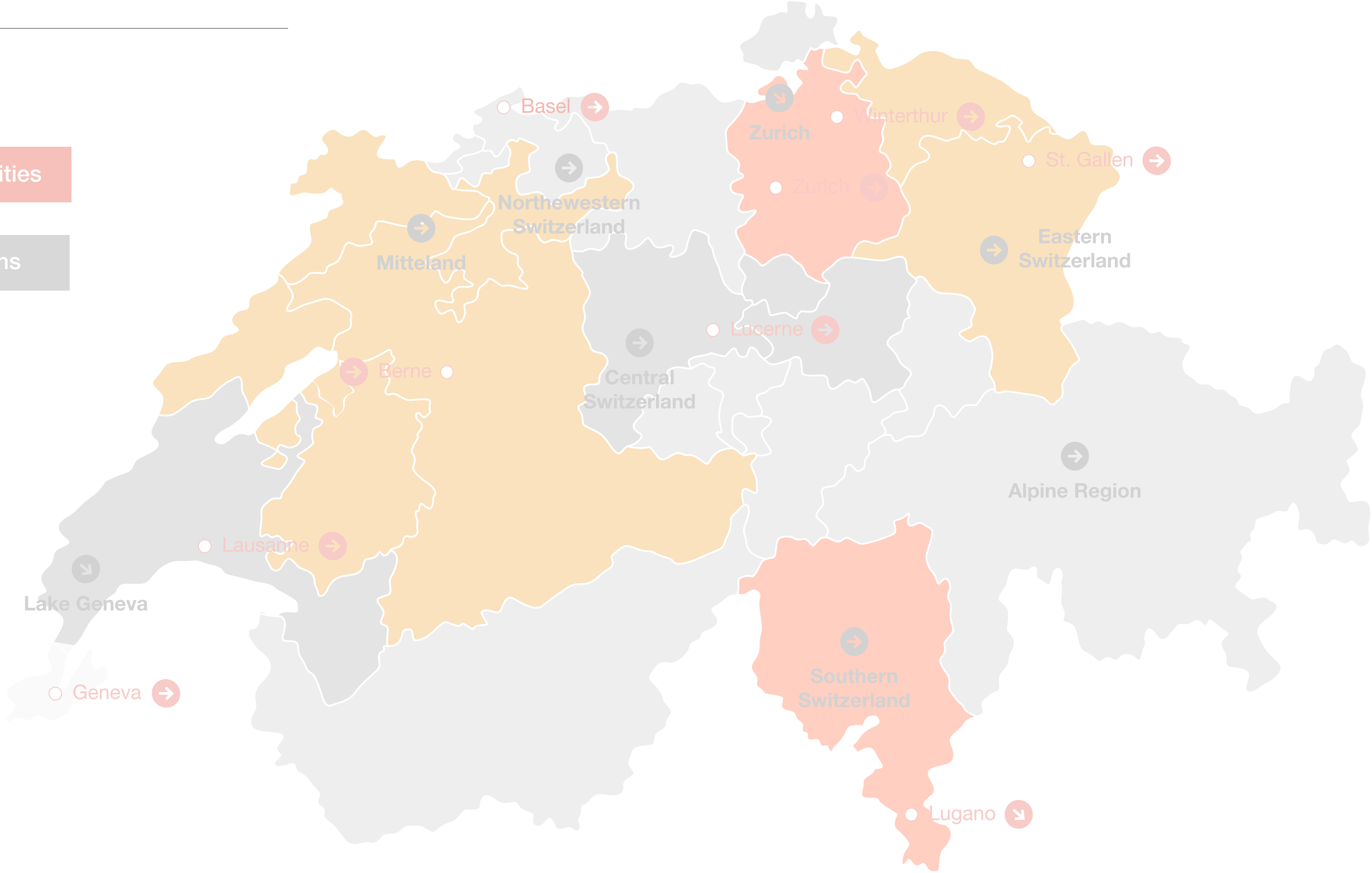


Residential

Yields in Swiss submarkets

Top 9 Cities

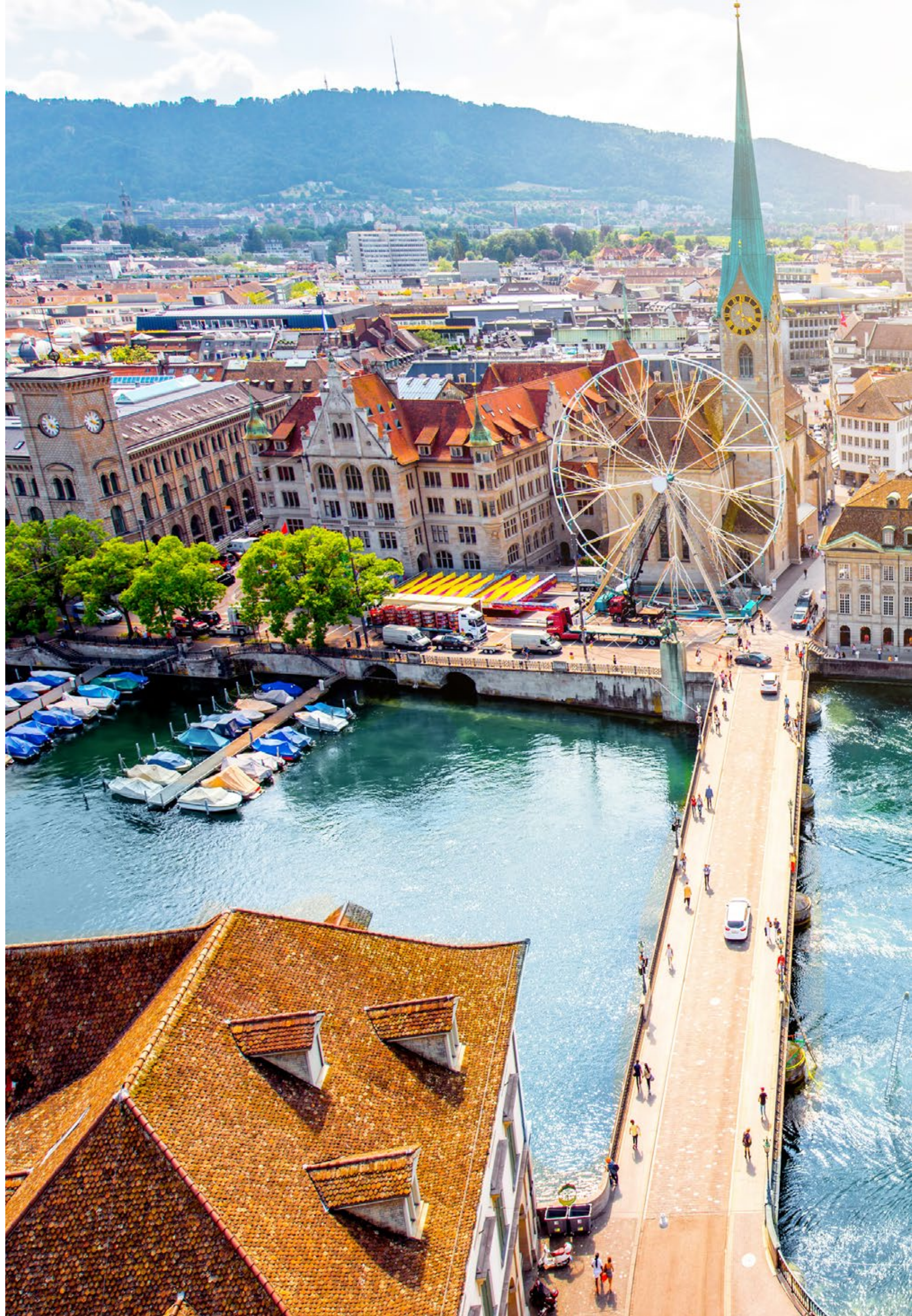
Regions



↑ ↗ → ↘ ↓

Minimum yields movement compared to last six months

Min. % | Average % | Max. %



Expected 5-year yield development

Top 9 Cities

→ Zurich

→ Geneva

→ Basel

→ Berne

→ Lausanne

→ Winterthur

→ Lucerne

↗ St. Gallen

↗ Lugano

↓ <-1% ↘ -1.0% to -0.25% → -0.25% to 0.25% ↗ 0.25% to 1.0% ↑ >1.0%

Compared to six months ago (majority of responses)

Letting parameters

Top 9 Cities

	Granted rentfree period (Med. in months)		Duration until reletting (Med. in months)		Annual market rent growth rate	
	Med.	**Dev.**	**Med.**	**Dev.**	**Med.**	**Dev.**
Zurich	0	→	1	→	0.0%	→
Geneva	0	→	1	→	0.0%	→
Basel	0	→	1	↘	0.0%	→
Berne	0	→	2	↘	0.0%	→
Lausanne	0	→	1	↘	0.0%	→
Winterthur	0	→	2	↘	0.0%	→
Lucerne	0	→	2	↘	0.0%	→
St.Gallen	0	→	2	↘	0.0%	→
Lugano	0	↘	3	↘	0.0%	→

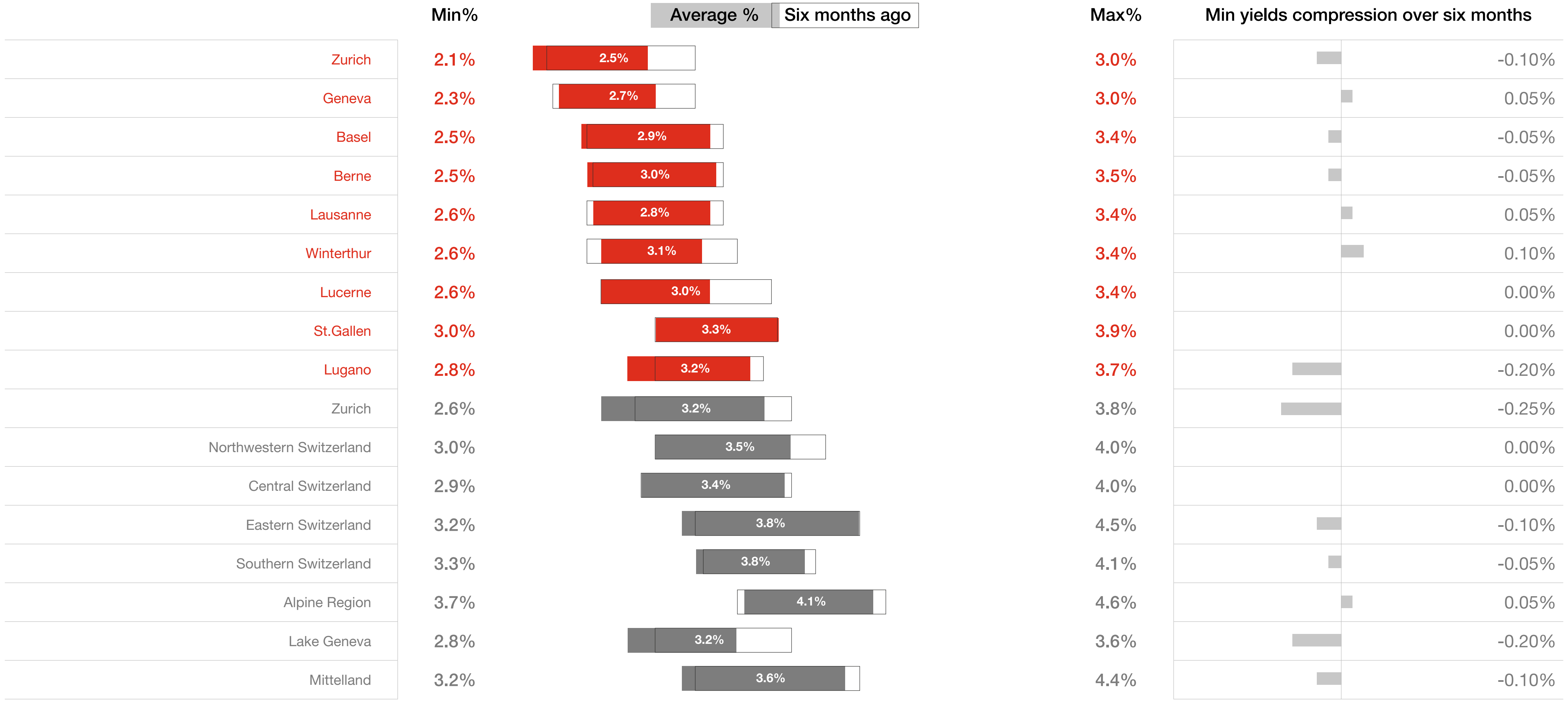
↓ <-1% ↘ -1.0% to -0.25% → -0.25% to 0.25% ↗ 0.25% to 1.0% ↑ >1.0%

Compared to six months ago (majority of responses)

Yields ranges and compression

Top 9 Cities

Regions



Average % | Six months ago

	Min%	Average %	Max%	Min yields compression over six months
Zurich	2.1%	2.5%	3.0%	-0.10%
Geneva	2.3%	2.7%	3.0%	0.05%
Basel	2.5%	2.9%	3.4%	-0.05%
Berne	2.5%	3.0%	3.5%	-0.05%
Lausanne	2.6%	2.8%	3.4%	0.05%
Winterthur	2.6%	3.1%	3.4%	0.10%
Lucerne	2.6%	3.0%	3.4%	0.00%
St.Gallen	3.0%	3.3%	3.9%	0.00%
Lugano	2.8%	3.2%	3.7%	-0.20%
Zurich	2.6%	3.2%	3.8%	-0.25%
Northwestern Switzerland	3.0%	3.5%	4.0%	0.00%
Central Switzerland	2.9%	3.4%	4.0%	0.00%
Eastern Switzerland	3.2%	3.8%	4.5%	-0.10%
Southern Switzerland	3.3%	3.8%	4.1%	-0.05%
Alpine Region	3.7%	4.1%	4.6%	0.05%
Lake Geneva	2.8%	3.2%	3.6%	-0.20%
Mittelland	3.2%	3.6%	4.4%	-0.10%

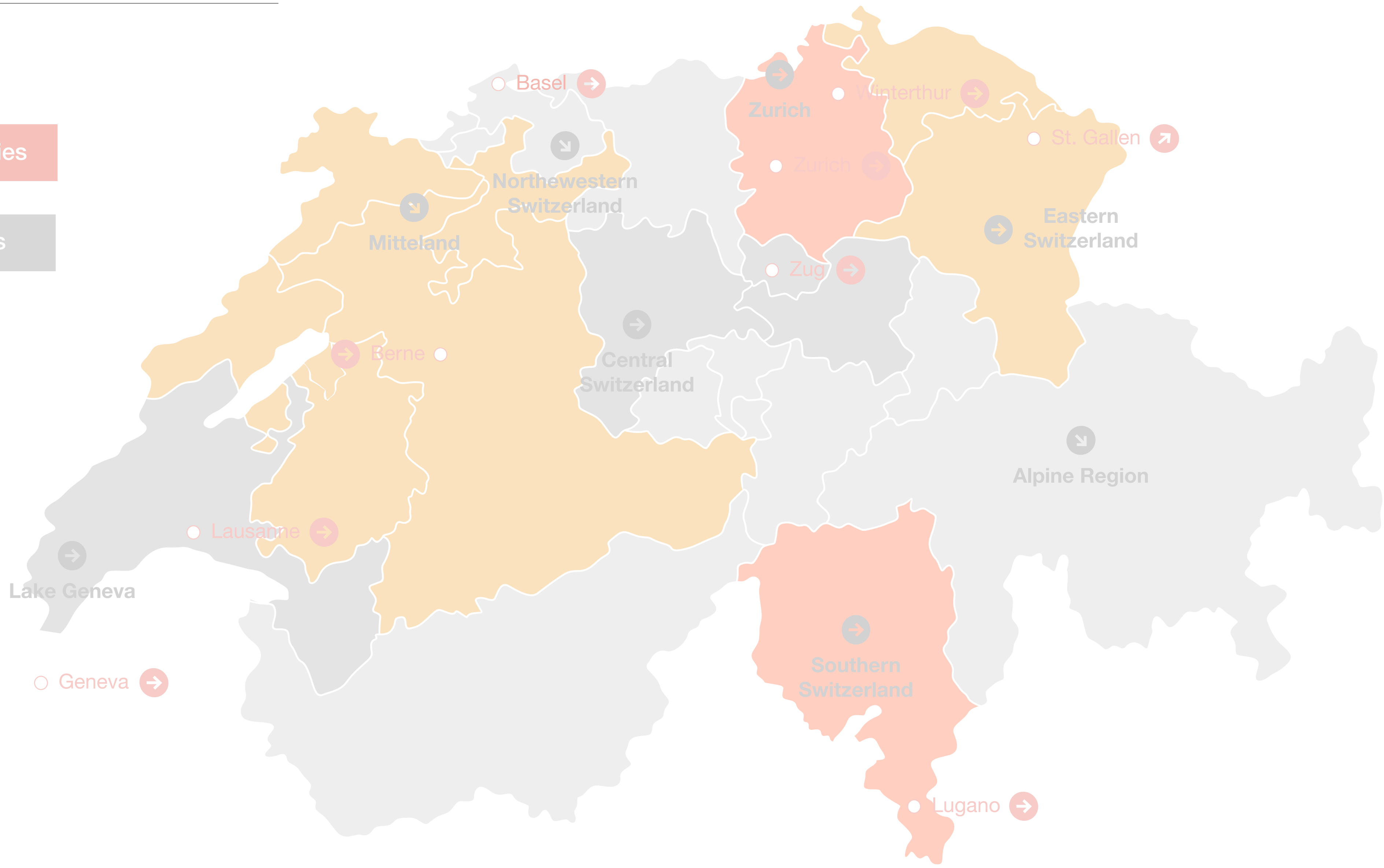
View the map for *Yields for Swiss submarkets*

Office

Yields in Swiss submarkets

Top 9 Cities

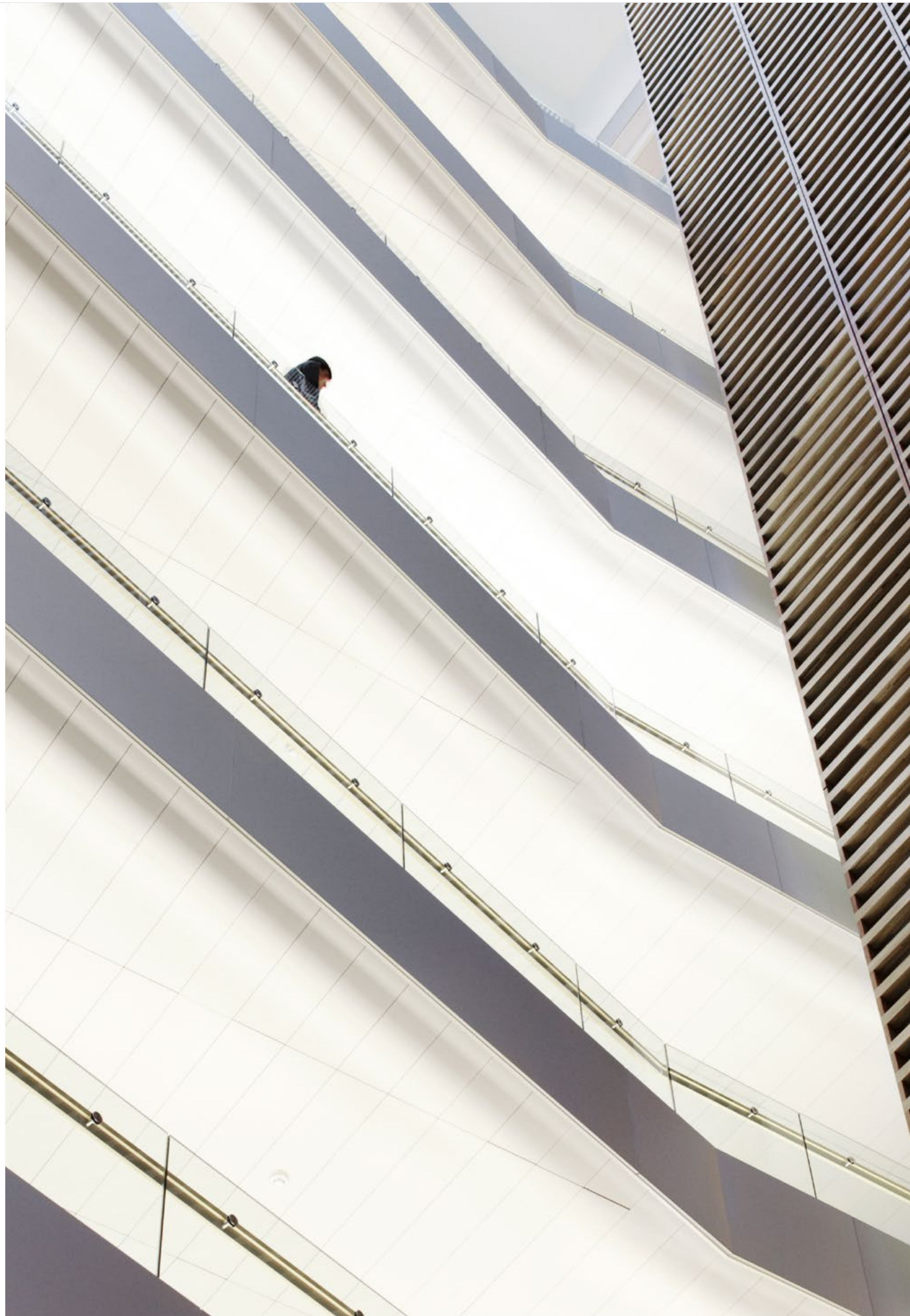
Regions



↑ ↗ → ↘ ↓

Minimum yields movement compared to last six months

Min. % | Average % | Max. %



Expected 5-year yield development

Top 9 Cities

→ Zurich

→ Geneva

→ Basel

→ Berne

→ Lausanne

→ Winterthur

→ Zug

↗ St. Gallen

↗ Lugano

↓ <-1% ↘ -1.0% to -0.25% → -0.25% to 0.25% ↗ 0.25% to 1.0% ↑ >1.0%

Compared to six months ago (majority of responses)

Letting parameters

Top 9 Cities

	Prime rent (CHF/m^2 p.a.)	Granted rentfree period (Med. in months)		Duration until reletting (Med. in months)		Extension probability		Annual market rent growth rate	
	Med.	**Med.**	**Dev.**	**Med.**	**Dev.**	**Med.**	**Dev.**	**Med.**	**Dev.**
Zurich	700	3	→	6	→	73%	→	0.0%	→
Geneva	700	4	→	6	→	68%	→	-0.5%	→
Basel	420	3	→	6	↘	70%	→	0.0%	→
Berne	385	4	→	7	→	70%	→	0.0%	→
Lausanne	400	3	→	6	→	68%	→	0.0%	→
Winterthur	360	4	→	7	→	70%	→	0.0%	→
Zug	450	3	→	6	→	75%	→	0.0%	→
St.Gallen	320	6	→	9	→	63%	→	-0.5%	→
Lugano	335	6	↗	9	→	50%	↓	-0.5%	→

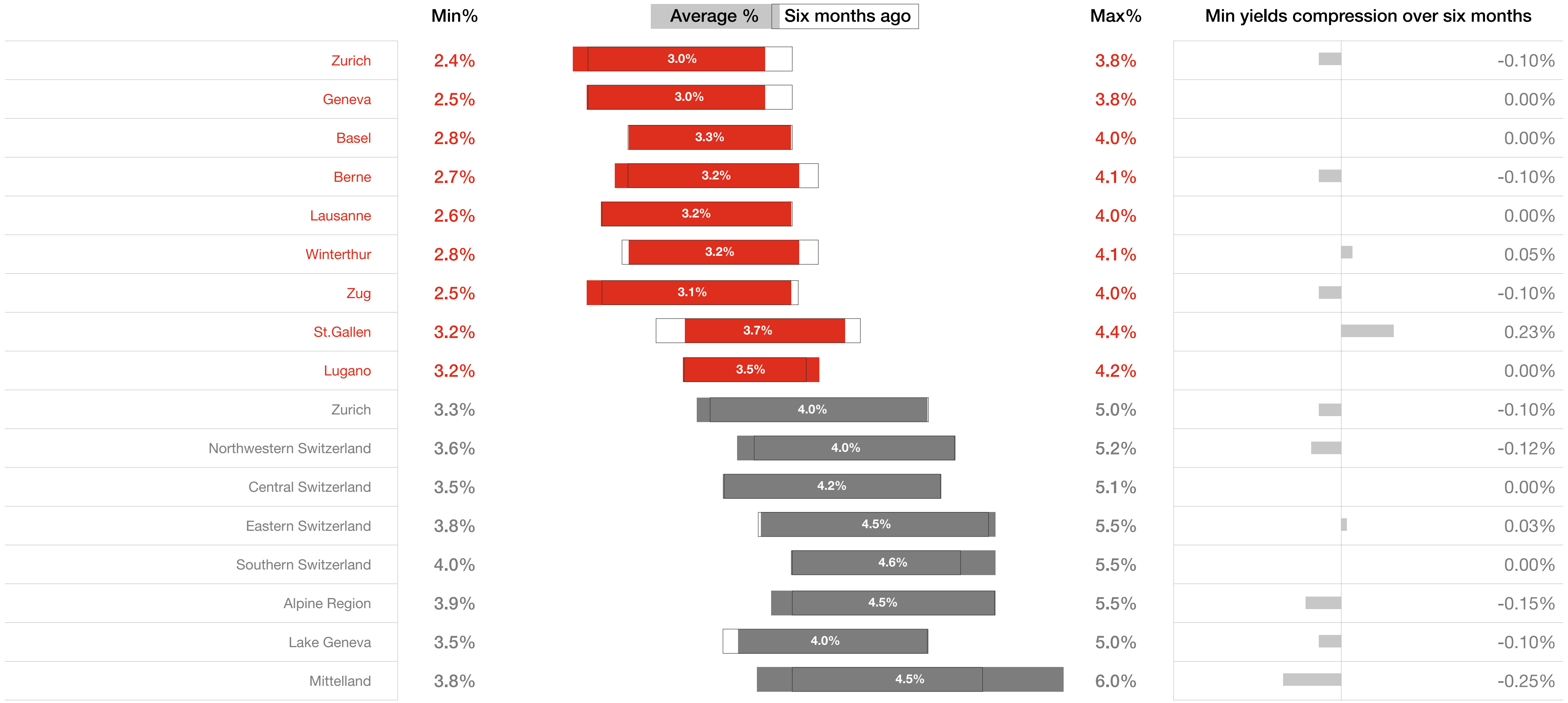
↓ <-1%   ↘ -1.0% to -0.25%   → -0.25% to 0.25%   ↗ 0.25% to 1.0%   ↑ >1.0%

Compared to six months ago (majority of responses)

Yields ranges and compression

Top 9 Cities

Regions



	Min%	Average %	Max%	Min yields compression over six months
Zurich	2.4%	3.0%	3.8%	-0.10%
Geneva	2.5%	3.0%	3.8%	0.00%
Basel	2.8%	3.3%	4.0%	0.00%
Berne	2.7%	3.2%	4.1%	-0.10%
Lausanne	2.6%	3.2%	4.0%	0.00%
Winterthur	2.8%	3.2%	4.1%	0.05%
Zug	2.5%	3.1%	4.0%	-0.10%
St.Gallen	3.2%	3.7%	4.4%	0.23%
Lugano	3.2%	3.5%	4.2%	0.00%
Zurich	3.3%	4.0%	5.0%	-0.10%
Northwestern Switzerland	3.6%	4.0%	5.2%	-0.12%
Central Switzerland	3.5%	4.2%	5.1%	0.00%
Eastern Switzerland	3.8%	4.5%	5.5%	0.03%
Southern Switzerland	4.0%	4.6%	5.5%	0.00%
Alpine Region	3.9%	4.5%	5.5%	-0.15%
Lake Geneva	3.5%	4.0%	5.0%	-0.10%
Mittelland	3.8%	4.5%	6.0%	-0.25%

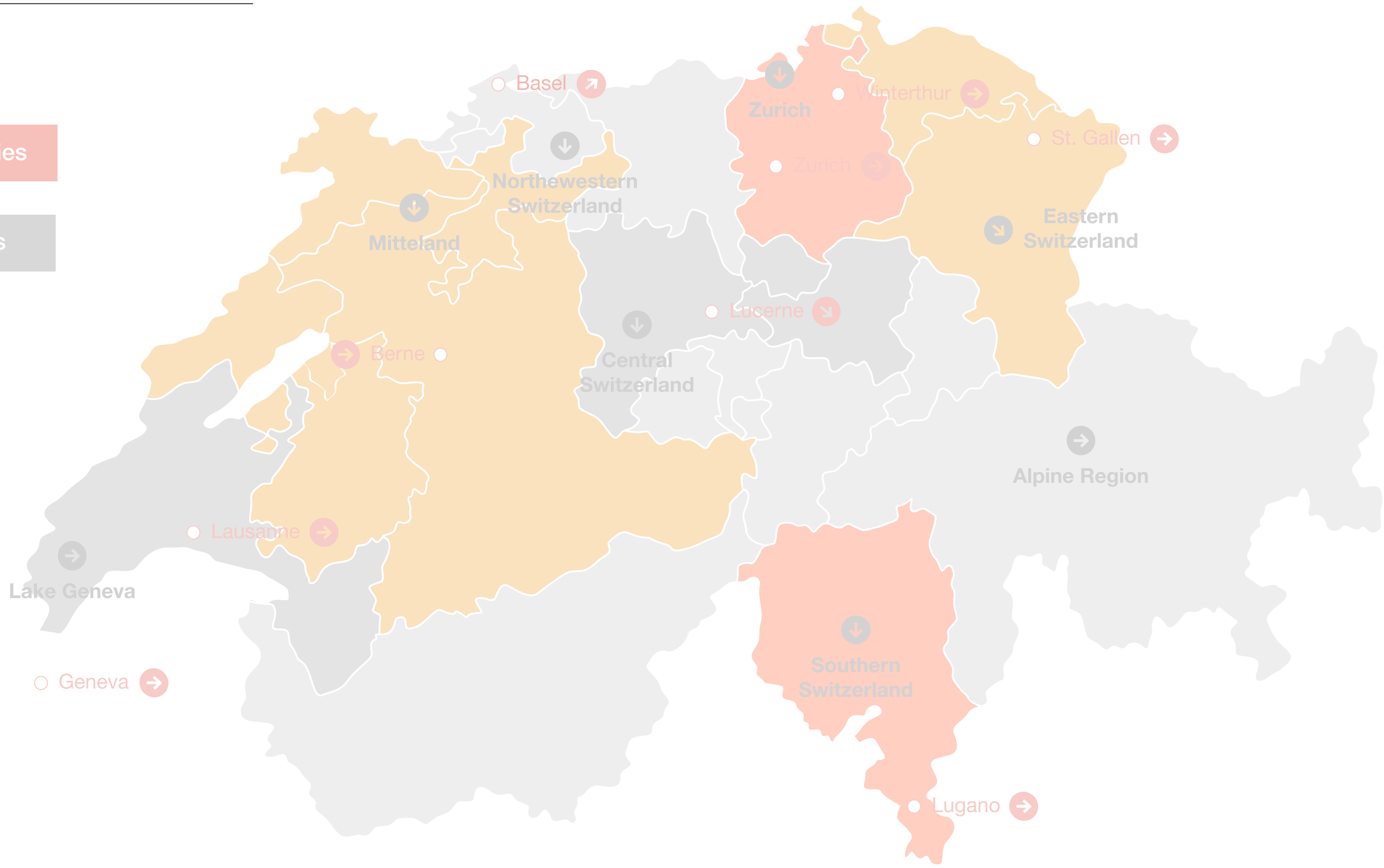
View the map for *Yields for Swiss submarkets*

Retail | High Street

Yields in Swiss submarkets

Top 9 Cities

Regions



↑ ↗ → ↘ ↓

Minimum yields movement
compared to last six months

Min. % | Average % | Max. %

Expected 5-year yield development

Top 9 Cities

→ Zurich

→ Geneva

→ Basel

→ Berne

→ Lausanne

→ Winterthur

→ Lucerne

↗ St. Gallen

↗ Lugano

↓ <-1% ↘ -1.0% to -0.25% → -0.25% to 0.25% ↗ 0.25% to 1.0% ↑ >1.0%

Compared to six months ago (majority of responses)

Letting parameters

Top 9 Cities

	Granted rentfree period (Med. in months)		Duration until reletting (Med. in months)		Extension probability		Annual market rent growth rate	
	Med.	**Dev.**	**Med.**	**Dev.**	**Med.**	**Dev.**	**Med.**	**Dev.**
Zurich	4	↗	6	↘	50%	→	-1.5%	→
Geneva	4	↗	6	↘	50%	→	-2.0%	↘
Basel	4	→	6	↘	50%	→	-1.8%	→
Berne	4	↗	6	↘	60%	→	-1.5%	→
Lausanne	4	↗	6	↘	55%	→	-2.0%	↘
Winterthur	4	→	6	↘	60%	→	-1.5%	→
Lucerne	4	↗	6	↘	60%	→	-1.5%	→
St.Gallen	6	→	8	↘	50%	→	-2.3%	↗
Lugano	6	→	8	↗	50%	→	-1.5%	→

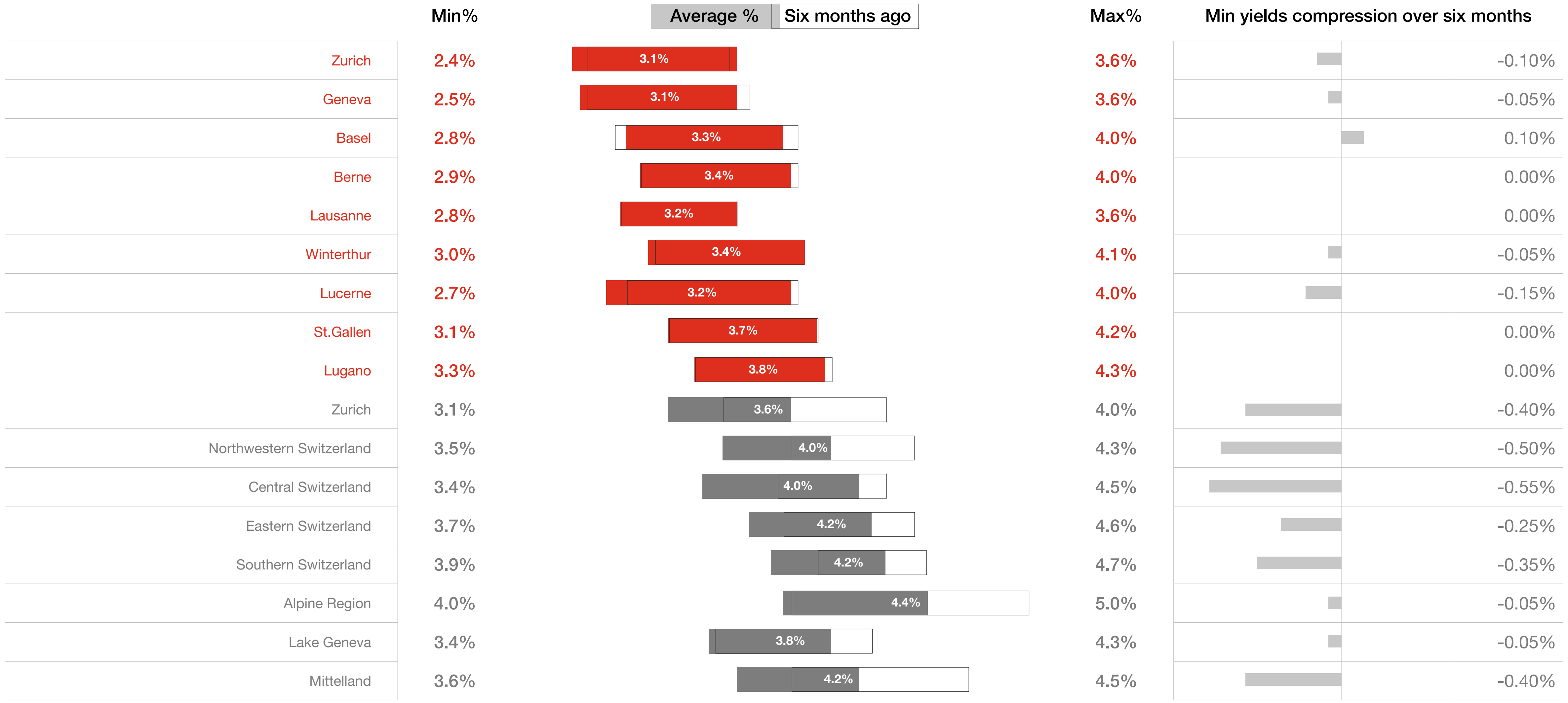
↓ <-1% ↘ -1.0% to -0.25% → -0.25% to 0.25% ↗ 0.25% to 1.0% ↑ >1.0%

Compared to six months ago (majority of responses)

Yields ranges and compression

Top 9 Cities

Regions



	Min%	Average %	Max%	Min yields compression over six months
Zurich	2.4%	3.1%	3.6%	-0.10%
Geneva	2.5%	3.1%	3.6%	-0.05%
Basel	2.8%	3.3%	4.0%	0.10%
Berne	2.9%	3.4%	4.0%	0.00%
Lausanne	2.8%	3.2%	3.6%	0.00%
Winterthur	3.0%	3.4%	4.1%	-0.05%
Lucerne	2.7%	3.2%	4.0%	-0.15%
St.Gallen	3.1%	3.7%	4.2%	0.00%
Lugano	3.3%	3.8%	4.3%	0.00%
Zurich	3.1%	3.6%	4.0%	-0.40%
Northwestern Switzerland	3.5%	4.0%	4.3%	-0.50%
Central Switzerland	3.4%	4.0%	4.5%	-0.55%
Eastern Switzerland	3.7%	4.2%	4.6%	-0.25%
Southern Switzerland	3.9%	4.2%	4.7%	-0.35%
Alpine Region	4.0%	4.4%	5.0%	-0.05%
Lake Geneva	3.4%	3.8%	4.3%	-0.05%
Mittelland	3.6%	4.2%	4.5%	-0.40%

View the map for *Yields for Swiss submarkets*

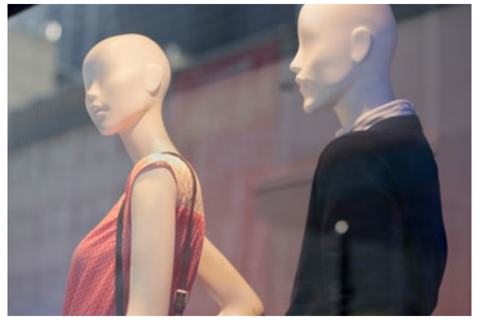
Retail | Non-High Street

For out-of-town shopping centers, retail parks and supermarkets, the maximum yields showed further compressions over the last six months, whereby yield spreads between core and value-add properties tightened.

Data shows the greatest compression for core properties of supermarkets (- 25 bps).

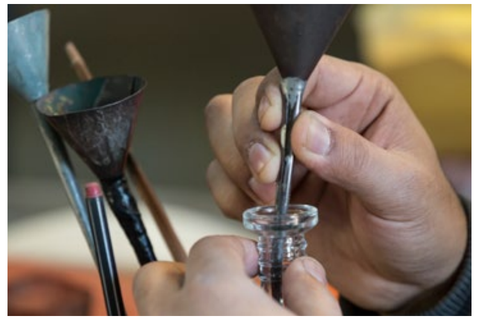
Expected 5-year yield development

↗ Retail Park



↗ Out-of-town Shopping Center

→ Supermarket



↗ DIY-Store

Letting parameters

	Granted rentfree period (Med. in months)		Duration until reletting (Med. in months)		Extension probability		Annual market rent growth rate	
Top 7 Cities	**Med.**	**Dev.**	**Med.**	**Dev.**	**Med.**	**Dev.**	**Med.**	**Dev.**
Out-of-town Shopping Center	6	→	9	→	50.0%	→	-1.0%	→
Retail Park	6	→	9	→	60.0%	→	-1.0%	→
Supermarket	5	→	7	↘	66.0%	→	0.0%	→
DIY-Store	6	→	8	↘	50.0%	↓	-0.3%	→

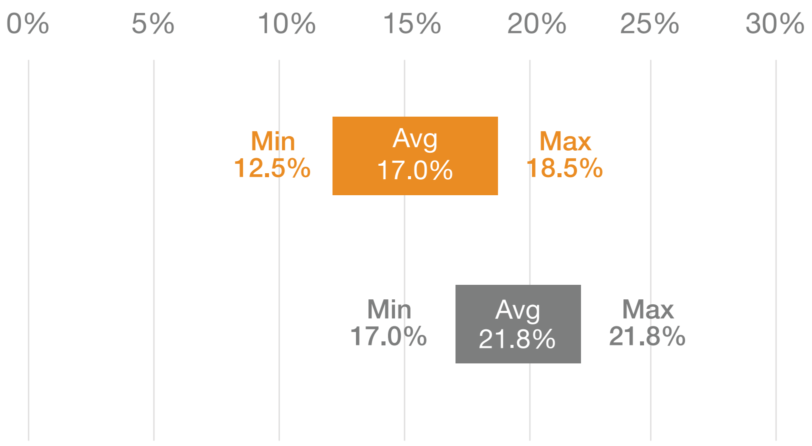
↓ <-1% ↘ -1.0% to -0.25% → -0.25% to 0.25% ↗ 0.25% to 1.0% ↑ >1.0%

Compared to six months ago (majority of responses)

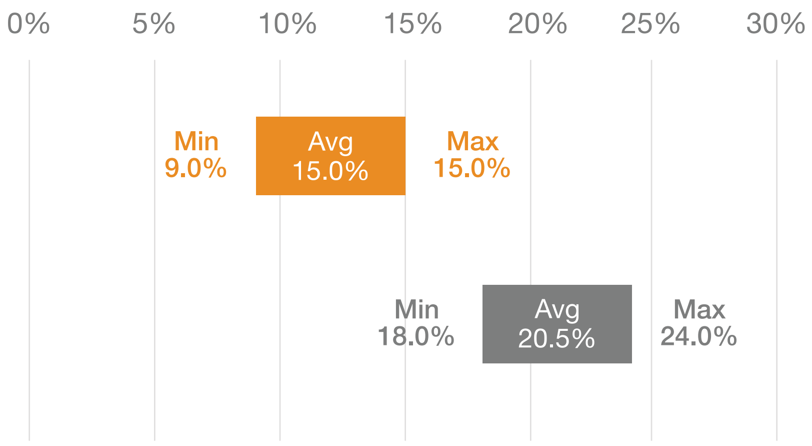
NOI Analysis

NOI leakage for core assets

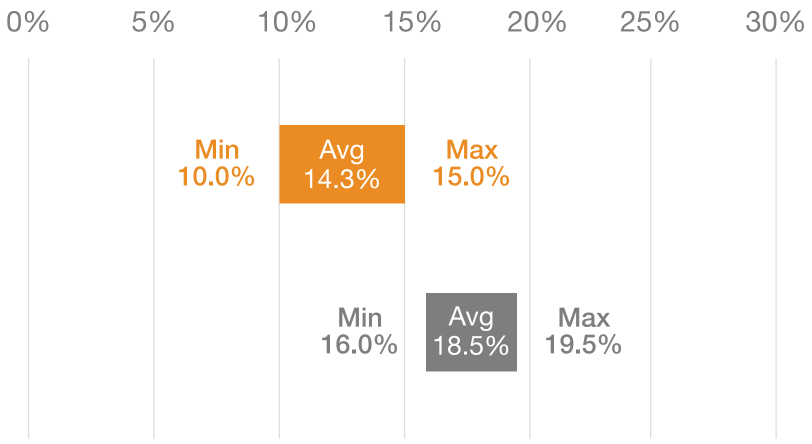
Residential



Retail



Office

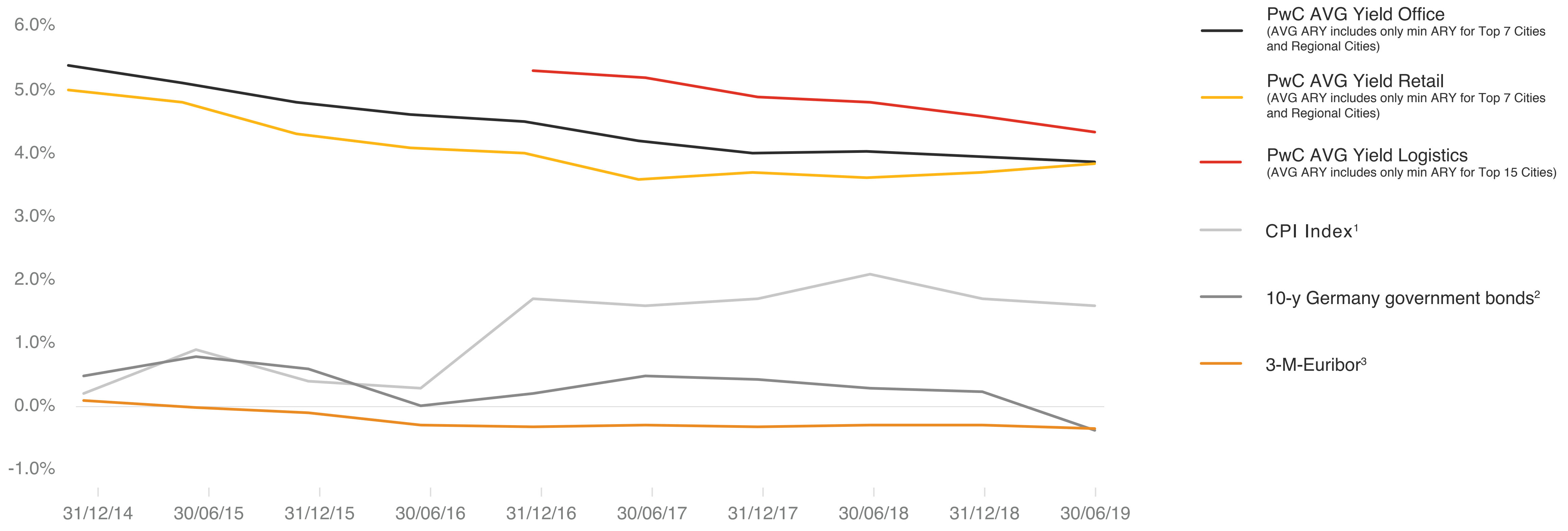


🟧 Excluding Capex ⬛ Including Capex

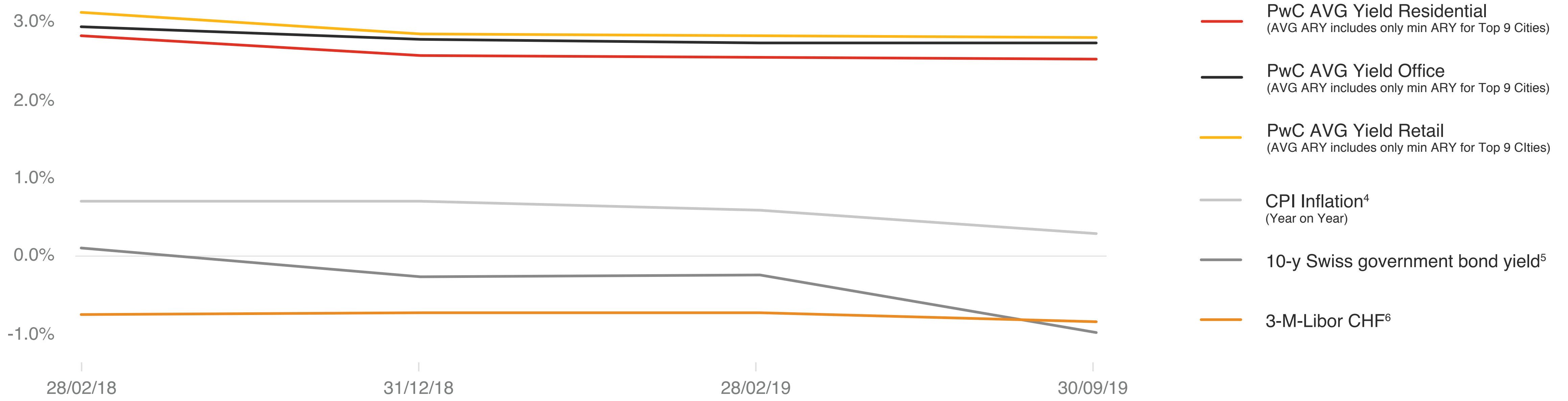
Overview of results

Yields comparison

Germany



Switzerland



1. Statistisches Bundesamt (Germany)
2. Bloomberg
3. ECB: Historical close, average of observations through period
4. Bundesamt für Statistik (Switzerland)
5. Swiss National Bank
6. Swiss National Bank *Since June 2019 the SNB benchmark rate replaced the 3-M Libor

Results overview for Germany

Office

Retail
High street retail

Retail
Non-high street retail

Logistics

Participants

		Current				6 Months ago			12 Months ago		
		Min.	Avg.	Max.	Exp. Growth*	Min.	Avg.	Max.	Min.	Avg.	Max.
Top 7 Cities	Berlin	2.7%	3.7%	4.9%	3.4%	2.8%	3.6%	5.1%	3.0%	4.2%	5.6%
	Dusseldorf	3.2%	4.1%	5.2%	1.9%	3.4%	4.1%	5.6%	3.6%	4.6%	6.2%
	Frankfurt a. M.	3.0%	4.1%	5.2%	2.1%	3.1%	4.2%	5.5%	3.3%	4.3%	5.7%
	Hamburg	3.1%	3.8%	5.1%	1.6%	3.1%	4.0%	5.4%	3.2%	4.3%	5.4%
	Cologne	3.5%	4.4%	5.7%	1.7%	3.6%	4.7%	5.9%	3.7%	4.7%	6.1%
	Munich	2.8%	3.6%	4.7%	2.5%	2.9%	3.6%	4.7%	2.9%	3.9%	5.2%
	Stuttgart	3.3%	4.1%	5.2%	2.0%	3.3%	4.3%	5.5%	3.5%	4.4%	5.8%
Regional Cities	Bonn	4.2%	4.9%	6.1%	1.3%	4.2%	5.1%	6.5%	4.2%	5.0%	6.2%
	Bremen	4.6%	5.5%	6.6%	0.8%	4.6%	5.6%	6.9%	4.6%	5.6%	6.9%
	Dortmund	4.9%	5.6%	6.7%	0.7%	4.9%	5.8%	7.1%	4.8%	5.8%	6.9%
	Dresden	4.6%	5.5%	6.6%	1.1%	4.7%	5.8%	7.0%	4.7%	5.6%	7.0%
	Duisburg	5.2%	5.7%	7.2%	0.7%	5.2%	6.1%	7.6%	5.2%	6.2%	7.4%
	Erfurt	5.0%	5.8%	6.9%	0.9%	5.0%	5.9%	7.2%	5.2%	6.0%	7.2%
	Essen	4.8%	5.7%	6.8%	0.6%	4.8%	5.8%	7.0%	4.7%	5.5%	6.8%
	Karlsruhe	4.5%	5.3%	6.5%	1.1%	4.5%	5.3%	6.5%	4.6%	5.5%	6.5%
	Hannover	4.2%	5.2%	6.3%	1.2%	4.3%	5.4%	6.7%	4.3%	5.2%	6.5%
	Leipzig	4.4%	5.3%	6.5%	1.1%	4.5%	5.6%	6.9%	4.6%	5.3%	6.8%
	Magdeburg	5.7%	6.6%	8.2%	0.7%	5.7%	6.5%	7.8%	5.7%	6.5%	8.0%
	Mainz-Wiesbaden	4.2%	5.2%	6.4%	1.3%	4.4%	5.2%	6.7%	4.5%	5.4%	6.8%
	Nuremberg	4.1%	5.0%	6.1%	1.4%	4.3%	5.2%	6.5%	4.3%	5.1%	6.4%
	Rhine Neckar MA/HD/LU	4.5%	5.3%	6.4%	1.2%	4.5%	5.4%	6.7%	4.6%	5.7%	6.6%
Regions	Lower Saxony & Schleswig-Holstein	5.3%	6.0%	7.2%	0.9%	5.4%	6.1%	7.1%	5.4%	6.0%	7.2%
	M-WP. & Sax.-A & Brandenburg	5.6%	6.5%	8.0%	0.6%	5.6%	6.7%	7.9%	5.3%	6.6%	7.4%
	North of Hesse & Thu. & Sax	5.6%	6.4%	8.1%	0.6%	5.5%	6.5%	7.9%	5.5%	6.3%	7.4%
	North Rhine-Westphalia	4.8%	5.7%	7.4%	0.7%	4.8%	5.9%	7.7%	4.8%	5.8%	8.1%
	Rhineland-P & Saarland	5.6%	6.4%	7.6%	0.8%	5.5%	6.1%	7.6%	5.5%	6.0%	7.9%
	South of Hesse & BaWue	4.6%	5.6%	6.8%	1.2%	4.6%	5.5%	6.6%	4.7%	5.4%	7.0%
	Bavaria	4.5%	5.7%	6.7%	1.3%	4.7%	5.4%	6.6%	4.6%	5.5%	7.2%

*Annual market rent growth rate

Results overview for Switzerland

Residential

Office

Retail
High street retail

Retail
Non-high street retail

Participants

		Current				6 Months ago			12 Months ago		
		Min.	Avg.	Max.	Exp. Growth*	Min.	Avg.	Max.	Min.	Avg.	Max.
Top 9 Cities	Zurich	2.1%	2.5%	3.0%	0.0%	2.2%	2.8%	3.3%	2.2%	2.8%	3.3%
	Geneva	2.3%	2.7%	3.0%	0.0%	2.3%	2.8%	3.3%	2.3%	2.8%	3.3%
	Basel	2.5%	2.9%	3.4%	0.0%	2.5%	3.0%	3.5%	2.6%	3.1%	3.5%
	Berne	2.5%	3.0%	3.5%	0.0%	2.6%	3.0%	3.5%	2.6%	3.1%	3.6%
	Lausanne	2.6%	2.8%	3.4%	0.0%	2.5%	3.0%	3.5%	2.6%	3.1%	3.6%
	Winterthurt	2.6%	3.1%	3.4%	0.0%	2.5%	3.0%	3.6%	2.6%	3.1%	3.6%
	Lucerne	2.6%	3.0%	3.4%	0.0%	2.6%	3.2%	3.9%	2.8%	3.2%	3.6%
	St Gallen	3.0%	3.3%	3.9%	0.0%	3.0%	3.3%	3.9%	3.0%	3.2%	3.8%
	Lugano	2.8%	3.2%	3.7%	0.0%	3.0%	3.5%	3.8%	2.6%	3.2%	3.6%
Regions	Zurich	2.6%	3.2%	3.8%	0.0%	2.9%	3.2%	4.0%	2.9%	3.2%	4.0%
	Northwestern Switzerland	3.0%	3.5%	4.0%	-0.5%	3.0%	3.5%	4.3%	3.0%	3.5%	4.4%
	Central Swizterland	2.9%	3.4%	4.0%	0.0%	2.9%	3.4%	4.0%	3.0%	3.5%	4.2%
	Eastern Switzerland	3.2%	3.8%	4.5%	-1.0%	3.3%	3.6%	4.5%	3.3%	3.8%	4.7%
	Southern Switzerland	3.3%	3.8%	4.1%	-0.6%	3.4%	3.7%	4.2%	3.3%	3.8%	4.5%
	Alpine Region	3.7%	4.1%	4.6%	-1.0%	3.6%	4.1%	4.7%	3.8%	4.2%	4.8%
	Lake Geneva Region	2.8%	3.2%	3.6%	0.0%	3.0%	3.4%	4.0%	3.0%	3.4%	4.1%
	Mittelland	3.2%	3.6%	4.4%	-1.0%	3.3%	3.7%	4.5%	3.3%	4.0%	4.8%

*Annual market rent growth rate

Approach and definitions

Classification for yields ranges

In our survey, we concentrated on all-risk-yields or ARYs ("Yields"), as these reflect the relationship (capitalisation rate) between stabilised net operating income (NOI) and an expected purchase price. It thus takes into account the individual risk-return relationship and provides an insight into future market trends and developments in rent levels.

The yield is the capitalisation rate that is used in the direct capitalisation method. The yields presented in our results are a simple average of the single data points received for the respective submarkets.

To account for a broader market – comprising Core, Core+, and Value-Add properties – we put the yields into three categories: minimum (Core), maximum (Value-Add) and average (Core+).

The maximum yield does not cover assets that cannot be valued with a direct capitalisation method – that is to say, where there is no sustainable cash flow or opportunistic development assets.

Office

	Location	WAULT	Vacancy	Age
Min	CBD (eg, Frankfurt Financial District)	> 5	~ 5%-10%	< 5 years
Average	Immediate vicinity to CBD (eg, Frankfurt trade fair)	~ 5	~ 10% -15%	~ 5-20 years
Max	Peripheral office locations (eg, Frankfurt-Niederrad)	< 4	>15%-40%	< 25 years

Logistics

	Motorway access	Third party usability	WAULT	Age
Min	< 5 minutes	excellent	~ 10%	< 5 years
Average	~ 5-15 minutes	good	~ 5	~ 5-20 years
Max	< 15 minutes	limited	< 4	< 25 years

Retail High Street

	Location/Retail class	WAULT	Vacancy	Age
Min	City centre high street or 1a shopping centre (Frankfurt Goethestrasse)	> 5	> 5%	< 5 years
Average	Lesser frequented sections of the high street	~ 5	~ 5%	~ 5-15 years
Max	Close proximity to the high street, within 100m distance	< 4	~ 20%	< 15 years

Retail Non-High Street

	Competition	WAULT	Vacancy	Age
Min	Dominant situation	> 5	> 5%	< 5 years
Average	In competition with equal competitors	~ 5	~ 5	~ 5-15 years
Max	Inferior to competitors	< 4	~ 25	< 15 years

Regarding the **retail** sector, we separated in-town high street retail from location-independent retail. Out-of-town shopping centers, retail parks, single grocery stores (supermarkets) and DIY stores represent typical subclasses of the location-independent retail market.

Within non-high street retail, we observe macro-locations to be of less importance, given that individual competition, performance and accessibility are the factors driving the value of such retail properties.

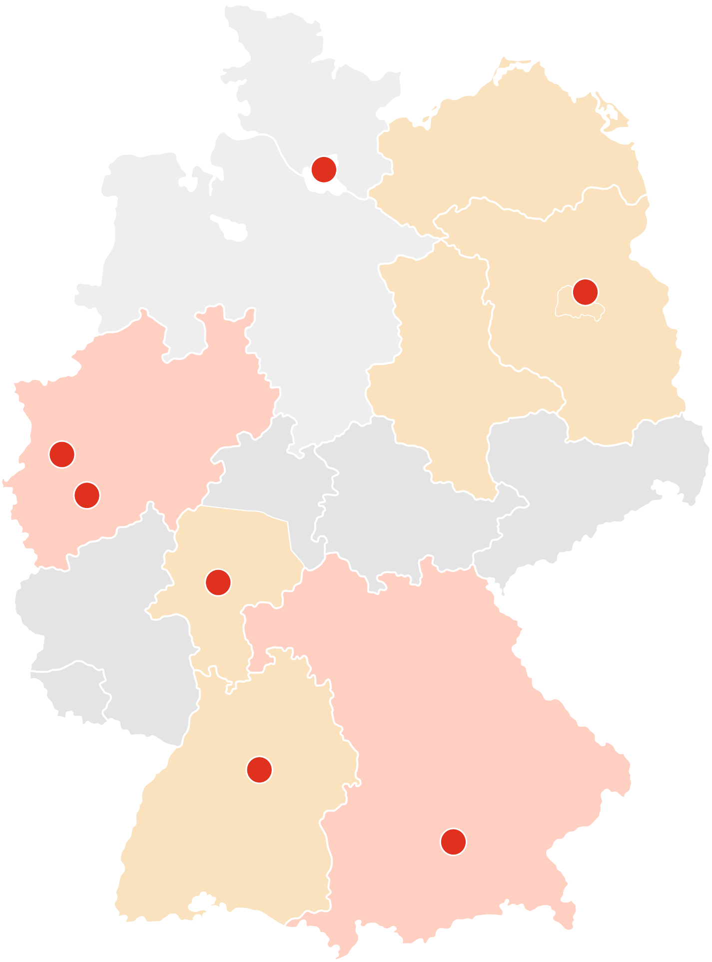
As a result, we have divided the definition of retail as seen above.

Identified submarkets

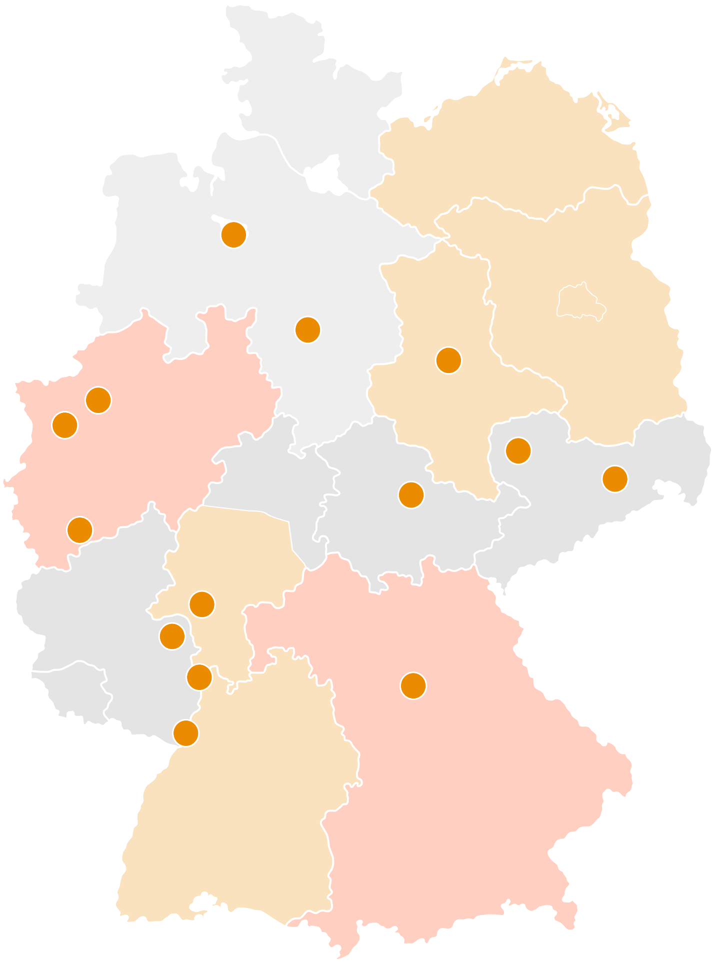
Germany

Switzerland

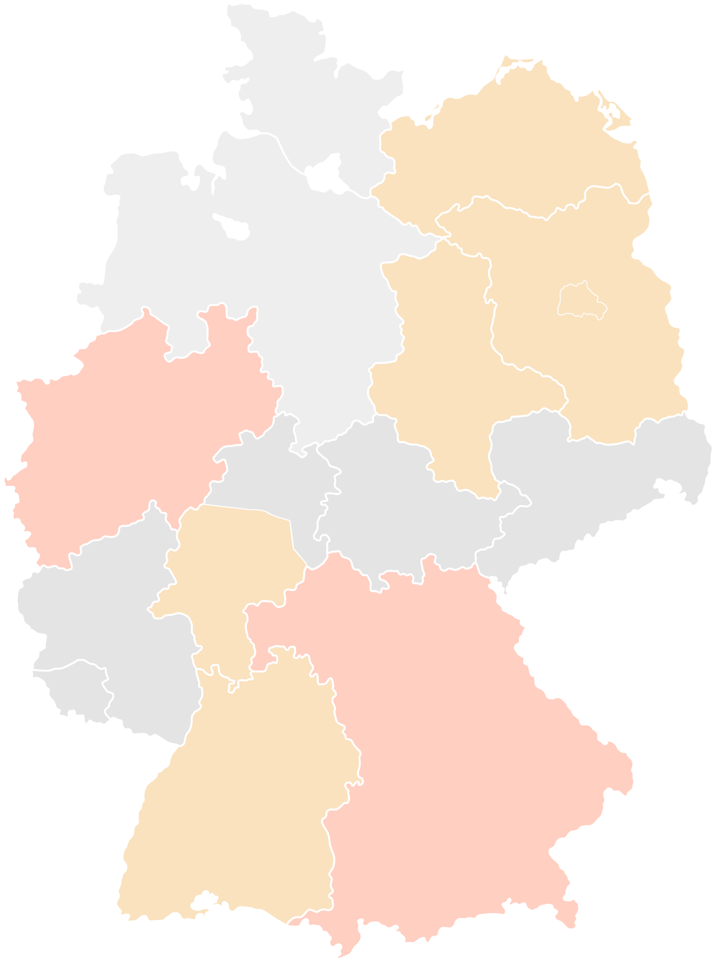
Top 7 Cities



Regional Cities



Regions



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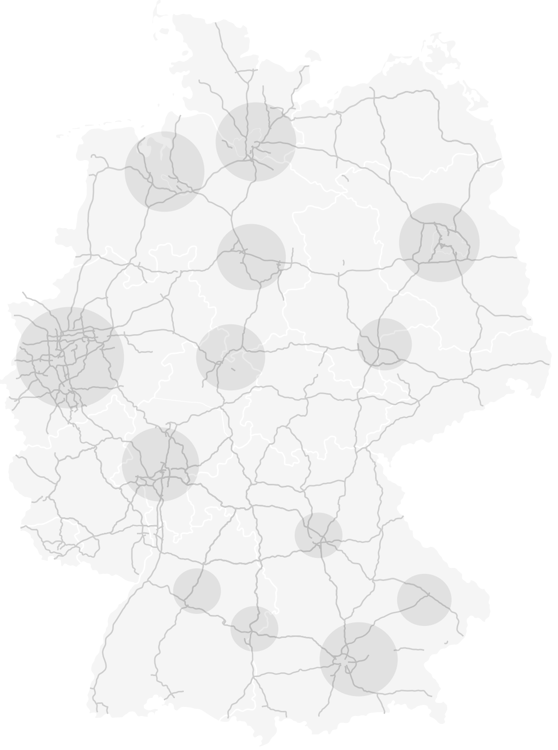

We identified two additional markets for logistics properties which result from varying location requirements: i) Top 15 Locations and ii) Small Locations.

The Top 15 Locations reflect the Yields of the 15 most successful logistics locations in Germany in respect of the investment volume of the last five years and prime yields of the last two years. Small Locations represent the remaining established logistics regions in Germany.

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