

# BNP PARIBAS REAL ESTATE GUIDE TO INVESTING IN GERMANY 2018



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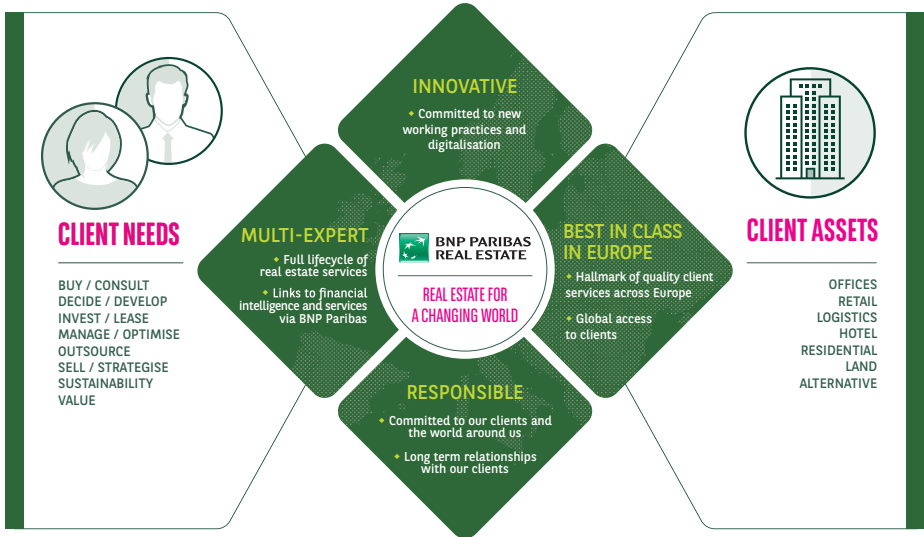


**BNP PARIBAS  
REAL ESTATE**

**Real Estate  
for a changing world**

# ABOUT BNP PARIBAS REAL ESTATE

BNP Paribas Real Estate is the market leader in commercial real estate services across Europe with **€ 811 million** of revenues, **€ 187 million** of net profit before tax, and **5,100 employees**.



## 2017 KEY FIGURES

### Developing

- **137,600 m<sup>2</sup>** under construction in Europe (on January 1<sup>st</sup> 2018)

### Buying, Selling, Renting

- Close to **3,458** transactions in commercial real estate
- One transaction every **18** minutes
- **€22.5 billion** of investment volume transacted in commercial real estate
- **6 million m<sup>2</sup>** of commercial real estate taken up by occupiers in 2017

### Valuing

- Close to **€329 billion** of assets valued
- More than **124 million m<sup>2</sup>** valued

### Managing, Optimising

- **40.5 million m<sup>2</sup>** managed in commercial real estate across Europe

### Investing, Valuing

- **€27.4 billion** of assets under management across Europe
- **+ €3.3 billion** in one year



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**BNP PARIBAS  
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# GERMANY BY NUMBERS 2017

Gross domestic product (GDP)

**3.26 tn €**

Share of EU's GDP around 30%

Harmonised consumer price index

**1.7%**

Eurozone average: 1.5%

Population

**82.8 m**

Another increase

GDP growth

**2.2%**

EU average: 2.5%

Unemployment rate

**5.7%**

Only 2.53 million unemployed

Investment turnover

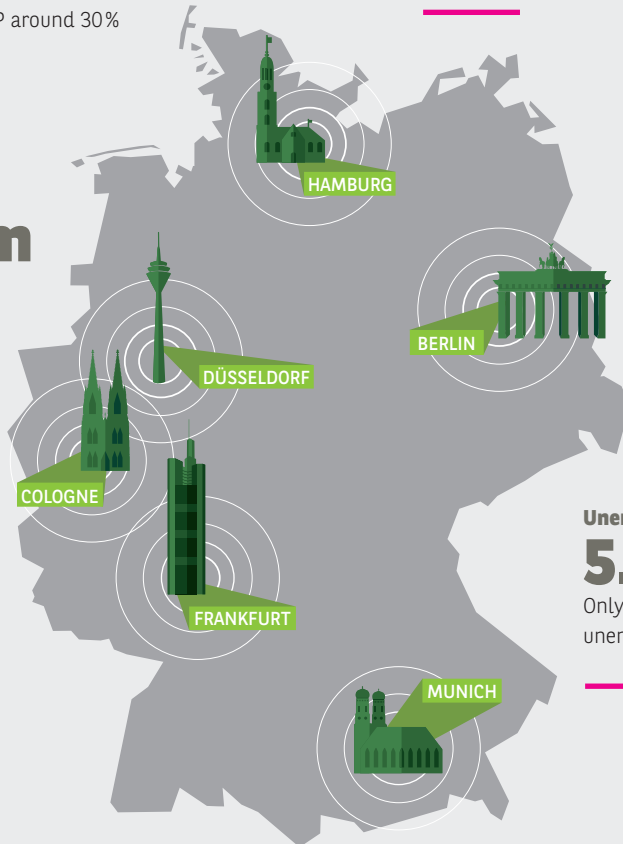
**58.2 bn €**

Third-best result ever

People in employment

**44.3 m**

Highest figure since reunification





# GERMANY – THE SUCCESS STORY OF THE INVESTMENT MARKETS CONTINUES

**With a transaction volume of 58.2 bn € in 2017, the commercial investment market fell just short of the record set in 2007. There are many reasons for this continuing success story. On the one hand, there are the hard facts: The further rise in GDP of 2.2% with an even better forecast for 2018, the lowest level of unemployment since reunification as well as rising population and employment figures. On the other hand, Germany has proved over many years that its reputation as a “safe haven” is justified.**

All of these developments depend on the user markets, where new records are also being set, and provide significant potential for rent increases and successful long-term investments. It is therefore not surprising that all asset classes have contributed to the extraordinary investment turnover. With a share of just over 41% (23.94 bn €) of total turnover, the office segment has, as expected, regained its position of number one type of use. In particular, the record take-up on the user markets make this asset class even more interesting than it is anyway. Logistics properties set a new record, contributing around 16% (9.18 bn €) and almost doubling the previous best result, achieved in 2015. Hotel sales also exceeded the 4 bn € mark for the third year in a row with just under 4.19 bn € (just over 7%) and again achieved an extraordinary result. The Big Six locations, as they are called (Berlin, Cologne, Düsseldorf, Frankfurt, Hamburg and Munich), accounted for around 51% of the transaction volume in Germany. These cities not only feature different levels of returns but also diverse economic structures with specific regional highlights. From a risk-spreading point of view, this situation is unique in Europe.

However, the great interest shown by investors has resulted in a fall in supply and has triggered increasing competition for attractive assets. Only with detailed market information, a relationship with vendors that is forged out of trust and a comprehensive understanding of the market mechanisms is it possible to establish the right pricing and bring deals to a successful conclusion. BNP Paribas Real Estate, as one of Germany's leading property consultants with the highest brokerage volume in any long-term comparison, has the expertise needed to support investors fully throughout the purchasing process. We would be delighted to talk to you about the opportunities offered for investing in this safe haven and to help you take advantage of these.

After giving the top 10 reasons for investing in Germany and profiling the country's Big Six locations, this guide takes a closer look at the various asset classes – both in the form of detailed descriptions and also by means of market assessments by clients. An investor toolkit addresses the most pressing questions investors may raise in connection with real estate investments in Germany. The international law firm CMS outlines key legal and technical facts investors need to know about German property, including tax aspects.

We hope this brochure offers you some initial guidance in your endeavours to manoeuvre in the German real estate market and we would be pleased to welcome you in Germany in the near future.

## **Piotr Bienkowski**

Chief Executive Officer  
BNP Paribas Real Estate Germany

# TOP 10 REASONS TO INVEST

## 01

### Leading economy in Europe

With GDP of nearly 3.3 tn € in 2017, Germany is the strongest economy in Europe and ranks fourth worldwide. It is also the most important market in Europe, with a population of 82.8 million, and a leading investment location. Germany experienced price-adjusted GDP growth of 2.2 % in 2017, the eighth year in a row that it has realised economic growth. Economic growth of around 2.2 % is also forecast for 2018. So Germany remains the economic powerhouse of the eurozone. In 2017, the country's labour market also continued to develop positively. The average unemployment rate is at the historically low level of 5.7 %, with the number of jobless at its lowest point since reunification. Towards the end of 2017, the Ifo Business Climate Index, the most important barometer of sentiment in Germany, climbed appreciably and in December registered just over 117 points. The assessment of the current business situation improved to its second-highest level ever.



## 02

### Market diversity unique in Western Europe helps spread risk

Apart from well-built quality assets, Germany also has a uniquely diverse investment environment spread across the principal investment markets, with each of the Big Six cities making a significant contribution to aggregate investment. Studies over the long term show that they account for around 50 % of the nationwide transaction volume, and thus only moderately more than London does in the UK and considerably less than Paris does in France. But every market has its own distinctive flavour. Berlin is known as the seat of government ministries and lobbying groups, and is also increasingly becoming a centre for German start-ups. Hamburg is famous for its print and media industry, but also has a flourishing industrial sector thanks to its harbour. Düsseldorf has a lively fashion scene. Cologne is home to many insurance companies, while Munich is strong in the technology and electronics sector. And then there is Frankfurt as the financial centre in continental Europe. In the Big Six, the transaction volume in 2017 was 29.5 bn € (+7 % vs. 2016), representing 51 % of the country's total annual investment volume.

## 03

### Product diversity to meet everyone's investment criteria

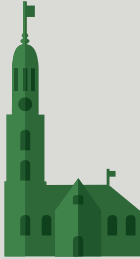
Whilst office and retail investments dominate, Germany has a varied investment environment across the whole range of property types, from commercial to residential real estate. Total investment turnover in 2017 was headed by office properties, with a volume of 23.9 bn € and a share of 41 % of commercial real estate investments. Retail properties accounted for 13.8 bn €, constituting 24 % of the total volume. Investments in logistics properties accounted for 9.2 bn € and nearly doubled the existing record set in 2015. At 4.2 bn €, investment in hotels decreased by 19 % to generate a 7 % share of turnover. Nevertheless, this is still the third-best result ever. At the same time, interest in residential properties remains very high, with investment in this sector in 2017 reaching 14 bn €, which exceeded the ten-year average by an impressive 27 %.

## 04

### Lower volatility offers investors stability

A look at the 10-year historic prime office yield level shows that Germany offers much more stability, remaining within a narrow 210 basis point band of 3.20 % to 5.30 %. This contrasts with London or Paris, which exhibit far greater yield variance, with at least a 250 basis point band between peaks and troughs, ranging from 3.25 % to 5.75 % (London) and 3.00 % to 5.65 % (Paris). So the German real estate market offers investors price stability and, thanks to its diversified and strong economy (as evidenced by the most recent economic developments), is perceived as more likely to weather a recession.

## 05



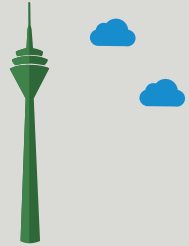
### Still relatively low rental price level leaves room for future upside

In 2017, prime rents rose by an average of 5 %, mainly driven by the significant increase of 16 % in Berlin, but modest growth was also evident in all of the other Big Six cities. Prime rents lie between 21.80 €/m<sup>2</sup> per month (261.60 €/m<sup>2</sup> p. a.) in Cologne and 41 €/m<sup>2</sup> per month (492 €/m<sup>2</sup> p. a.) in Frankfurt. Prime office rents in Germany are still significantly lower than those in central London (1,556 €/m<sup>2</sup>) or central Paris (850 €/m<sup>2</sup>), leaving room for future rent increases in the long term for investors entering the German market.

## 06

### Asset liquidity facilitates smooth entry and exit

Over the last 10 years, the average annual investment volume in German real estate has been around 34 bn €. Among single investments, which account for around two thirds of the total volume, there is a relatively even distribution between size categories, with deals in each of the size brackets. The range of investor groups active in Germany is also broad and includes special-purpose funds, closed-end funds, developers, open-ended funds, pension funds and listed real estate companies. This testifies to the high level of liquidity available for German property as an asset class and facilitates smooth entry and exit for investors.



## 07

### Attractive risk-adjusted returns higher than government bonds

The spread between ten-year German government bonds, whose rate of return was quoted at around 0.7 % at the start of the year, and the prime yields for premium German real estate remains around 230 basis points. This continuing big difference represents a major factor for investors to carry on investing heavily.



# 08

## Strong investor appetite proves attractiveness of German property

In 2017, investment activity remained dynamic and Germany established itself as the dominant investment market with the second-best market share in Western Europe after the UK. Of the 14 primary investment markets in Western Europe, four are located in Germany (Frankfurt, Munich, Hamburg and Berlin), and Germany is the only country represented by more than one city. Interest in German commercial real estate remains high among both domestic and international investors. In 2017, international investors, led by European, American and Asian money managers, accounted for around 48 % of aggregate turnover in Germany, spending a total of 27.8 bn €. Germany continued its strong progress, with an aggregate investment volume of 58.2 bn € (+11 % vs. 2016). That was almost six times as much as the volume generated in 2009 (10.6 bn €).



# 09

## Structural stability minimises external risks

As a country, Germany offers a high degree of economic and political stability, a transparent and independent judiciary, and a moderate climate and geography usually spared from natural disasters. So overall it is an ideal place for investors seeking to minimise uncertainties and external risks beyond their direct control.

# 10

## Highly-qualified workforce provides services at every stage of real estate life cycle

Besides a highly-qualified workforce in general, Germany profits from many skilled real estate professionals, including over 1,400 chartered surveyors, offering the full range of expertise across the whole real estate spectrum. From property development, valuation, transaction, property management and investment management through to consulting, countless experts from a dozen accredited real estate business schools are available to provide domestic and foreign investors with services at every stage of the life cycle in accordance with the highest professional and ethical standards. And: most professionals actually speak English, if you discount our odd accent.

# GERMANY'S BIG SIX

Whatever your investment strategy, Germany has something to offer, as our overview shows

## BERLIN: GERMANY'S HOTSPOT

### INVESTMENT VOLUME OVERALL

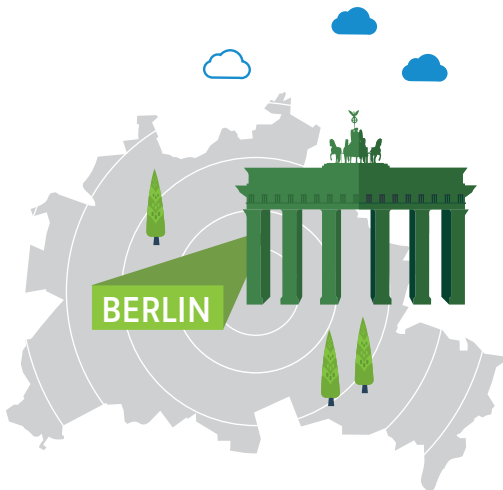
5,072 m € Office

995 m € Retail

180 m € Logistics

790 m € Hotel

7,920 m € Total



In recent years, Berlin, Germany's capital, has evolved extremely dynamically. Following a structural transformation into a modern services centre, it is now an international trendsetter for lifestyle, the arts, night life and tourism. And it has a fresh look, for instance with new centrally located urban quarters. Berlin exudes enthusiasm. Its historical sights, cultural monuments and major events attract countless visitors. With nearly 3.7 million inhabitants, Berlin is Germany's largest city and also its undisputed leader in everything to do with modern living.

### Services, R&D, centre for start-ups

In the past 15 years, the proportion of Berlin's business that comprises firms in the service industry has increased significantly and made a strong contribution to the city's cosmopolitan character. This is reflected, for instance, in a very lively start-up scene, which not only produces a host of creative new ideas but also an abundance of new firms, making the city home to around one third of all digital start-ups. As the seat of government, Berlin houses ministries and many lobby groups. It is also an outstanding centre of science and R&D, with 11 state universities and numerous scientific institutes.

### Higher, faster, further: record in take-up

The Berlin office market has not only established itself firmly in the top group of German locations, since 2014 it has taken over first place among these major cities three times. In the last 3 years it has exceeded the 800,000 m<sup>2</sup> mark, and in 2017 it set a new record with take-up of 913,000 m<sup>2</sup>.

Alongside the ICT sector, public administration – just as in other European capitals – is one of the strongest sources of demand. But Berlin's growth in importance is also underlined by the fact that national and international consultancies and advertising firms as well as online retailers are regularly among the leading contributors to office space take-up.

## Potential still far from fully tapped

Berlin – together with Munich and Frankfurt – is one of Germany's three chief investment locations, and in 2015 it set a new record in this field with turnover of 8.3 bn €. The past few years have brought a steady increase in demand on the part of both German and international investors. However, the available supply, especially of large premium assets, is not sufficient to be fully able to meet investor interest. One indication of this has been

the appreciable fall in yields here, making Berlin the most expensive city in the country. Especially in view of the scope it offers for rents to go higher, it is evident that the capital is still far from having tapped its full potential.

## The right spot for every taste

Berlin offers a wide spectrum of attractive locations, each with its own distinctive character. These include the world-famous Kurfürstendamm, with its fascinating side-streets, and tradition-rich Top City East, completely refurbished after the Fall of the Wall, with the Gendarmenmarkt and Friedrichstrasse. There is the revitalised Potsdamer Platz with the landmark Sony Center. There are the trendy, creative districts, especially Hackescher Markt, with its many lofts, or the dynamically developing Mediaspree precinct. And each has its special target group.

## KEY FACTS

	OFFICE	RETAIL	LOGISTICS	HOTEL	TOTAL
Take-up (m <sup>2</sup> )	913,000	29,900	435,000		
Top rents (€/m <sup>2</sup> /month)	33.00	320.00	5.25		
Prime yield (%)	2.90	2.90	4.50		
Share of foreign investors (%)	77	40	86	55	66

## SELECTED DEALS

### TAKE-UP OFFICE

TENANT	m <sup>2</sup>
BImA (Institute for Federal Real Estate)	47,300
BImA (Institute for Federal Real Estate)	15,200
Factory Berlin	14,000

### INVESTMENT DEALS

NAME	FORM OF USE	BUYER	PRICE (M €)
Sony Center	Office	Madison International Realty / Oxford Properties	1,110
Axel Springer Headquarters	Office	Norges Bank Real Estate Management	425
Axel-Springer-Passage	Office	Blackstone / Quincap Investment	330

## TREND (OFFICE)



- Prime yield
- Top rent
- Average rent

# COLOGNE: DYNAMIC METROPOLIS ON THE RHINE

## INVESTMENT VOLUME OVERALL

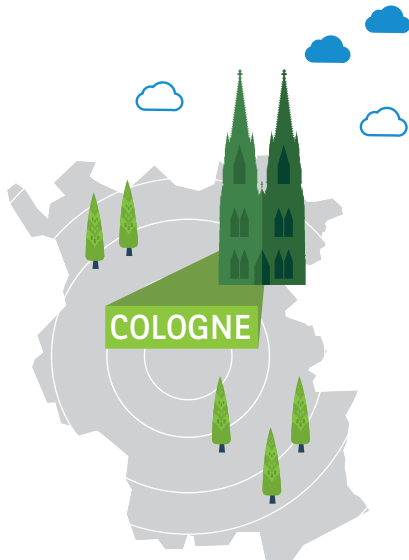
800 m € Office

570 m € Retail

272 m € Logistics

119 m € Hotel

2,118 m € Total



Cologne, Germany's oldest large city, bears the stamp of many different traditions. With around 1.1 million inhabitants, it is the fourth-biggest centre of population in Germany and plays an important role in the country's business life. Here, tradition and progress merge. With its emblem and chief landmark, the Cathedral, and a very colourful history stretching back more than two thousand years, this metropolis on the Rhine occupies an outstanding position among the great cities of Europe. A very tolerant place, it is well-known for its hospitality, its humour and its zest for life – all of which come together in Cologne Carnival, the biggest street festivity in Europe.

## Germany's top insurance and broadcasting location

Cologne – together with Munich – is one of the most important German bases for insurance companies. It houses major groups such as Zurich, Axa, Gothaer and DEVK. More than 24,000 people here work in this sector. In addition, the city is increasingly developing into a media centre. Europe's biggest public-sector broadcaster, WDR, is based in Cologne, and so are Germany's largest private television station, RTL, and NTV, the country's most important news channel. Another aspect of this city is commerce: many major German wholesale/retail companies, like Rewe Zentral AG and Kaufhof AG, run their German and worldwide business activities from here.

## Steady upward trend

With an average annual office space take-up of close to 300,000 m<sup>2</sup>, Cologne is one of the country's six most important office centres. The mix of business sectors here is broad; the chief sources of demand for office premises are insurances, consultancies, and firms in advertising and the media. Cologne has now definitely established itself firmly among the top locations in Germany.

## Impressive development as investment location

Even more impressive is the way real estate investment in this city has developed. In recent years, the transaction volume regularly exceeded 1 bn € by a considerable margin. The best result up to now was the turnover of 2.2 bn € which set a new record in 2015; the total registered in 2017, 2.1 bn €, fell only just short of that. Demand is strong for both office buildings and retail assets, with both making extensive contributions to the investment total. Cologne's increased attractiveness is also underlined by the steadily growing proportion of capital deployed by investors from abroad. In some years this has already formed more than 50 % of the total investment volume.

## City Centre and Deutz as key downtown districts

With its striking structures and outward-radiating arterial roads, Cologne's city centre, situated on the left bank of the Rhine, comprises distinctive areas with their own specific character. These include the banking and insurance district, and also the peninsula of Rheinauhafen, where a modern urban quarter with high-grade waterfront apartments and office buildings has been created. On the other side of the river lies Deutz, whose status has been upgraded in the past few years by many interesting projects, such as the Rheinpark-Metropole, the maxCologne and the KölnTriangle.

## KEY FACTS

	OFFICE	RETAIL	LOGISTICS	HOTEL	TOTAL
Take-up (m <sup>2</sup> )	316,000	30,200	250,000		
Top rents (€/m <sup>2</sup> /month)	21.80	265.00	5.00		
Prime yield (%)	3.55	3.20	4.50		
Share of foreign investors (%)	23	41	62	12	29

## SELECTED DEALS

### TAKE-UP OFFICE

TENANT	m <sup>2</sup>
BImA (Institute for Federal Real Estate)	18,800
Strabag	17,300
Design Offices	9,000

### INVESTMENT DEALS

NAME	FORM OF USE	BUYER	PRICE (M €)
DuMont Carré	Shopping Centre	Episo	> 100
Deutsche Bank Campus	Office / Retail	Momeni	130
TechnologiePark Köln 17 assets	Office	Apollo Global Management / Silverton Group	> 100

### TREND (OFFICE)



- Prime yield
- Top rent
- Average rent

# DÜSSELDORF: BUOYANT CENTRE IN NORTH RHINE-WESTPHALIA

## INVESTMENT VOLUME OVERALL

2,259 m € Office

163 m € Retail

266 m € Logistics

157 m € Hotel

3,233 m € Total



Düsseldorf, capital city of North Rhine-Westphalia (NRW), Germany's most densely populated federal state, has more than 630,000 inhabitants. It is the administrative centre of the federal state and the base for many NRW companies. Its international status is underlined by the fact that it also houses many companies from other parts of Europe and from Asia. Thanks to its central location in Germany, with short distances to such key European cities as Brussels, Paris and London, Düsseldorf will be a major beneficiary of increasing European integration.

## Wide range of important business sectors

Growth-oriented B2B service-providers in Düsseldorf include ICT firms, the media and advertising, law firms and business consultancies. This Rhineland metropolis is a major centre of telecommunications and houses the head offices of most of Germany's network providers. It is also Germany's fashion capital and the scene of important trade fairs and exhibitions. From the international angle it is especially worth mentioning that Düsseldorf is the most important base for Japanese companies in Germany.

## Healthy blend of cutting-edge and traditional sources of demand

With office space take-up of nearly 400,000 m<sup>2</sup> a year, Düsseldorf is one of the five chief cities in Germany. One particular feature of this market is the buoyant demand generated by companies in the information and communications technology sector, which are strongly represented here. And in no other German office premises market do firms in the wholesale/retail business play such an important role. But other services, especially B2B services, also make an important contribution to take-up.

## No. 1 location in North Rhine-Westphalia

In North Rhine-Westphalia, Düsseldorf is the No. 1 investment location; nationwide it takes fifth place in the ranking of the cities with the biggest turnovers. With an average transaction volume of around 2.6 bn € p. a. in the last five years, Düsseldorf performs better than many other cities in Europe of comparable size. Office buildings, which over the years have accounted for around 65 % of all the capital injected in the city, are the chief focus of investor interest. The great activity exhibited by investors from outside Germany also underlines this city's attractiveness.

## Centrally located areas with their own specific profile

Düsseldorf's prime address is the Central Business District (CBD), along Berliner Allee and Kasernenstrasse. The sophisticated architectural mix of spectacular new structures and historic buildings creates an exclusive ambience. Then there are the traditional office areas, such as Kennedydamm, which offer good locational quality at favourable prices. Rounding off the varied range is the newly developed Medienhafen (Media Harbour) district directly by the Rhine, while such architectural highlights as the Stadttor (City Gate), the Rhine Tower and the Frank O. Gehry office highrises help to shape this city's creative character.

### KEY FACTS

	OFFICE	RETAIL	LOGISTICS	HOTEL	TOTAL
Take-up (m <sup>2</sup> )	379,000	29,400	452,000		
Top rents (€/m <sup>2</sup> /month)	27.00	275.00	5.40		
Prime yield (%)	3.50	3.20	4.50		
Share of foreign investors (%)	56	59	85	78	58

### SELECTED DEALS

#### TAKE-UP OFFICE

TENANT	m <sup>2</sup>
HSBC Trinkaus & Burkhardt	20,100
Creditreform	14,000
Bankhaus Lampe	13,000

#### INVESTMENT DEALS

NAME	FORM OF USE	BUYER	PRICE (M €)
Vodafone Campus	Office	Mirae Asset Global Investments	280
MIK	Office	Quantum for Korean institutional investors (Capstone Asset Management)	240
New Office	Office	Triuva	200

#### TREND (OFFICE)



- Prime yield
- Top rent
- Average rent

# FRANKFURT: FINANCIAL CENTRE AND GLOBAL CITY

## INVESTMENT VOLUME OVERALL

5,612 m € Office

533 m € Retail

395 m € Logistics

452 m € Hotel

7,502 m € Total



Frankfurt is one of the world's most attractive business locations and a truly Global City, a key hub in an increasingly internationalised world. This is due to Frankfurt's role as a centre of European finance and the home of both the European Central Bank and the Bundesbank. It is the second most important banking centre in Europe and a leader in many other respects as well. For example, it houses Germany's chief stock exchange, the second-largest international airport in continental Europe and the world's second-biggest trade fair.

## Banks and international business consultancies

Frankfurt's positive economic development is fuelled above all by a high-grade services sector. This includes banks and financial services, advertising agencies, market research institutes, international business and management consultancies, insurances, and trade and industrial associations. More than 250 German and foreign banks have a base in Frankfurt and in no other German city are so many of the 100 top-performing German business companies represented. By nationwide standards, Frankfurt is an exceptionally cosmopolitan metropolis.

## Sustained stable demand

As a banking centre of global significance, Frankfurt traditionally exhibits strong demand for office space. In terms of take-up, it is one of Germany's Top 3 locations. Even though banks and international business consultancies are the most important sources of demand, companies of many other kinds are interested in this city. And no other German city has such an international tenant clientele.



## Skyline with international flair

For years, Frankfurt has been engaged in a neck-and-neck contest with Berlin and Munich as Germany's No. 1 investment centre. Its international flair and the iconic skyline often attract first-time investors in Germany. One distinguishing feature of the market here is the large number of major investments in core office properties; the city has a concentrated assemblage of attractive office towers that is unique in Germany. So it is hardly surprising that foreign investors exhibit such a strong interest. On average, they contribute around 50 % to total turnover. That makes Frankfurt co-leader with Berlin in this respect.

## Blend of the modern and the traditional

Frankfurt's Banking District is the premium address for national and international financial service providers. Many of them are based in this exclusive location, which extends along Mainzer Landstrasse, Taunusanlage / Gallusanlage, Neue Mainzer Strasse and Jungghofstrasse. This is a part of Frankfurt characterised by high-rises in diverse architectural styles. No less exclusive, but with a different kind of charm, is the Westend district. It features attractive older buildings, often with opulent facades dating back to the late 19th century, which together with modern project developments form a fascinating and stimulating urban planning mix.

## KEY FACTS

	OFFICE	RETAIL	LOGISTICS	HOTEL	TOTAL
Take-up (m <sup>2</sup> )	810,000	13,600	673,000		
Top rents (€/m <sup>2</sup> /month)	41.00	300.00	6.30		
Prime yield (%)	3.15	3.10	4.50		
Share of foreign investors (%)	50	75	56	93	50

## SELECTED DEALS

### TAKE-UP OFFICE

TENANT	m <sup>2</sup>
DB AG (two contracts over 29,700 m <sup>2</sup> and 22,900 m <sup>2</sup> )	52,600
Deutsche Bundesbank	51,400
Helaba Landesbank Hessen-Thüringen	27,500

### INVESTMENT DEALS

NAME	FORM OF USE	BUYER	PRICE (M €)
Tower 185	Office	Deka	775
Grand Central Frankfurt	Office	Amundi	> 300
Japan Center	Office	GEG German Estate Group	280

## TREND (OFFICE)



- Prime yield
- Top rent
- Average rent

# HAMBURG: GATEWAY TO THE WORLD

## INVESTMENT VOLUME OVERALL

1,627 m € Office

874 m € Retail

270 m € Logistics

515 m € Hotel

3,558 m € Total



Hamburg, Germany's second-largest centre of population and the biggest city in the country's north, combines a cosmopolitan character with almost British understatement. As the most important seaport in Germany and the third-largest in Europe, it has long since been known as this country's Gateway to the World. In addition, it is the main bridgehead to Scandinavia and the Baltic states. With nearly 1.9 million inhabitants within the municipal borders and around 5.3 million people living in the metropolitan region, Hamburg is one of the strongest economic areas in Germany. Moreover, it regularly gains a foremost place in European rankings on the quality of life.

### Harbour, aviation and the media

Hamburg boasts a wide spectrum of business sectors, but with a focus on especially innovative and promising fields of activity. These include aviation, IT and the media, the docks and logistics, life sciences, nanotechnology and renewable energy. International trade is a dynamo of the economy and the city has particular competence in business dealings with China, which is Hamburg harbour's most important business partner. Over 500 Chinese companies are represented in this Hanseatic city, making it foremost in continental Europe in this respect. More generally, it is a hub of trade between Europe and the Far East, and it is Germany's chief centre of logistics.

### Innovative sectors form main sources of demand

With average annual office space take-up of 500,000 m<sup>2</sup> in the last ten years, Hamburg occupies fourth place among the major German office locations, behind Munich, Berlin and Frankfurt. The strongest sources of demand typically include

the innovative and creative business sectors, such as the media and advertising, consultancies, information and communications technology firms, B2B service-providers and firms from the transport and traffic sector.

### Traditionally stable investment market

Hamburg is one of the most important and most highly favoured investment locations in Germany, and in recent years has gained a firm place for itself in the country's top ranks in this field, alongside Berlin, Frankfurt and Munich. Investors appreciate the stable market conditions and the many attractive areas – often close to the waterfront – which the city has to offer. While sales of office buildings remain the key market segment, there is also significant investment in retail assets. In all, the city can lay claim to a balanced investment structure in the field of real estate.

### Water as a major locational factor

The city centre, with its blend of modern and historical buildings, is what really shapes the picture of Hamburg and conveys Hanseatic exclusivity; impressive structures such as the Hotel Vier Jahreszeiten on the Inner Alster create a highly distinctive waterfront skyline. And closeness to water is an essential feature of other particularly favoured areas as well. First and foremost in this connection comes HafenCity, Europe's largest downtown development project. Its geographical position, by the harbour basin and along the river Elbe, makes for a location that is truly unique in Europe. But the eastern harbour fringe, located directly on the river, also radiates typical Hamburg maritime flair.

## KEY FACTS

	OFFICE	RETAIL	LOGISTICS	HOTEL	TOTAL
Take-up (m <sup>2</sup> )	613,000	19,000	461,000		
Top rents (€/m <sup>2</sup> /month)	26.50	275.00	5.80		
Prime yield (%)	3.15	3.00	4.50		
Share of foreign investors (%)	31	85	34	55	46

## SELECTED DEALS

### TAKE-UP OFFICE

TENANT	m <sup>2</sup>
Olympus Germany	34,500
Gruner + Jahr	34,000
University of Hamburg	19,700

### INVESTMENT DEALS

NAME	FORM OF USE	BUYER	PRICE (M €)
Radisson Blu	Hotel	Wenaasgruppen	> 170
HafenCity Gate	Office	Patrizia	> 160
Kaisergalerie	Office / Retail	AFIAA	170

### TREND (OFFICE)



- Prime yield
- Top rent
- Average rent

# MUNICH: STAR OF THE SOUTH

## INVESTMENT VOLUME OVERALL

2,613 m € Office

837 m € Retail

401 m € Logistics

934 m € Hotel

5,200 m € Total

Munich, capital of the federal state of Bavaria, is one of the most attractive locations anywhere in Europe. With its healthy, future-oriented economic structure, it offers a business environment that is the envy of many other regions. With a population of more than 1.5 million, Munich is the third-largest city in Germany, while as a centre for leisure activities it definitely takes first place. Both the Alps and the Mediterranean are within easy reach. And then, of course, there is the Oktoberfest, the world's biggest popular festivity and well worth a visit.

## New technologies and traditional industries

Munich is distinguished by its mix of sunrise industries and traditional business sectors. In Germany, it is the most important location for the electronic media. In particular, television stations and international IT companies like Microsoft, Apple and Oracle have their administrative headquarters in Bavaria. Munich is the country's second main industrial city, housing world-leading companies such as Siemens, BMW and MAN. Rounding off the diverse spectrum are many research establishments, e. g. Max-Planck and Fraunhofer Institutes.

## Well out in front in terms of take-up

The average take-up of office premises in Munich in the past ten years has been above 720,000 m<sup>2</sup>. This means that Munich still heads the long-term nationwide ranking by a clear margin, even though Berlin has moved up several times into first place in the past years. A stable turnover is assured especially by the wide range of sources of demand. These are headed by ICT firms, consultancies and the administrative units of important industrial companies.



## The favourite of private investors and family offices

With investment turnover at a long-term annual level of around 4 bn €, Munich is one of the very top locations in Germany in the field of real estate investment. The city is distinguished above all by great stability and is renowned as a safe haven. In terms of real estate prices, it is the country's most expensive location, together with Berlin. Traditionally, it attracts in particular private investors and family offices, which invest more capital here than they do anywhere else. But the city is also held in high regard by investors from abroad, and they account for an average share of around 40 % of aggregate turnover.

## Fascinating mix of established precincts and new locations

The city centre, Munich's most attractive office market zone, comprises the area within the Altstadttring and is where many business consultancies, international and local law offices, banks and financial service-providers are located. Renowned addresses include Maximilianstrasse, Promenadeplatz and Maximiliansplatz, Ludwigstrasse and the pedestrian zone, with Theatinerstrasse, Weinstrasse and Residenzstrasse. Almost all the Bavarian state government ministries are situated here. In Munich's newest district, modern architecture meets distinctive former industrial buildings: the Werksviertel combines all important aspects of life – home, leisure, work and travel – and brings dynamism and modernity to the east of the city.

## KEY FACTS

	OFFICE	RETAIL	LOGISTICS	HOTEL	TOTAL
Take-up (m <sup>2</sup> )	995,000	23,000	287,000		
Top rents (€/m <sup>2</sup> /month)	37.00	370.00	6.85		
Prime yield (%)	3.00	2.90	4.50		
Share of foreign investors (%)	24	22	61	42	30

## SELECTED DEALS

### TAKE-UP OFFICE

TENANT	m <sup>2</sup>
M-net Telekommunikation	10,000
Amazon	8,000
WeWork	8,000

### INVESTMENT DEALS

NAME	FORM OF USE	BUYER	PRICE (M €)
Hofmann Höfe	Office	Rock Capital	250
Kap West	Office	Allianz Real Estate	240
Kustermann Park	Office	BlackRock	> 200

### TREND (OFFICE)



- Prime yield
- Top rent
- Average rent

# INVESTMENT ASSET CLASSES

Find out more about the current situation and future trends for the five asset classes office, retail, logistics, hotel and residential of the German real estate investment market



## OFFICE

## OFFICE INVESTMENTS BENEFIT FROM THE LETTING MARKETS

Office investments in Germany have picked up again strongly in the past few years and gained appreciably in importance. In addition to the generally positive development of the investment markets, the very pleasing overall economic conditions have also played an important role.

New record employment figures, unemployment at its lowest level since reunification and GDP growth rates well above 2 % have resulted in growth in the office markets. In 2017 the take-up of office space exceeded 4 million m<sup>2</sup> in the Big Six locations (Berlin, Cologne, Düsseldorf, Frankfurt, Hamburg and Munich), the best result ever recorded. The dynamic demand is of course also reflected by the way supply has developed. At the end of 2017, the average vacancy rate in the Big Six cities was

5 %, which was lower than at any point in the last 15 years. This makes it even more likely that rents, which already rose in 2017, will increase considerably in the period ahead. For investors, these are ideal conditions for securing upside potential in good time and benefiting from the foreseeable upswing in the medium and long term.

### Second-best result of all time

Offices remain the darling of investors. With a transaction volume of 23.94 bn €, they were by far the strongest asset class again in 2017 and contributed 41 % to the commercial investment volume. The previous year's figure was thereby exceeded by 4 % and the ten-year average by around three-quarters. At the same time, the





**Sven Stricker**  
Managing Director  
Co-Head Investment  
BNP Paribas Real Estate Germany

“ *The structure of the German markets opens up opportunities for virtually the entire spectrum of investors.* ”

second-best result of all time was achieved – only in 2007 was the volume higher, however this also included a greater proportion of portfolios. A new record was only set for single deals in 2017, at 20.19 bn €: the result is almost 12 % up on the previous high in 2015. Overall, single deals account for 84 % of turnover, with 36 contracts worth over 100 m €. The Sony Center and the Axel Springer headquarters in Berlin, as well as Tower 185 and the Grand Central in Frankfurt, were among the most significant sales. At 3.75 bn €, however, around 35 % less was invested in portfolios than in 2016, which is primarily down to a lack of product. At 47 %, the share of foreign investors is on a par with the previous year’s figure.

### Top locations also contributing to turnover growth

The Big Six locations also grew by 3 % to 17.98 bn €, thereby achieving the third-best result of all time. There were, however, considerable differences between the cities. Out in front was Frankfurt with 5.61 bn € (+10 %), closely followed by Berlin with 5.07 bn €, where the biggest rise was recorded (+114 %). Düsseldorf also showed a positive development, with turnover totalling 2.26 bn €. In Munich (2.61 bn €), Hamburg (1.63 bn €) and Cologne (800 m €), on the other hand, falls in turnover of between 42 % and 43 % were reported, which are largely attributable to an inadequate supply, primarily of large-unit properties, and not to a lack of interest on the part of investors. The ▶

transaction volume of single deals outside of the Big Six totals 4.4 bn €, thereby contributing a good one fifth of the overall result. At 19 %, the rise in the investment volume is somewhat stronger here than in the top locations. The turnover ratio between the Big Six cities and the other locations has remained roughly the same, however, meaning that it would be premature to speak of a significant shift of investments towards B-locations.

### Very broad spread of investors

The spread of investors participating in the market has rarely been as wide. Only two groups of investors account for double-digit shares in turnover. These are investment managers, who occupy the top spot with 19.5 %, and special-purpose funds with 14 %. All of the other types of buyers account for shares of between 4 % (e.g. private investors and property firms) and 9 % (e.g. pension funds). This very even spread suggests that all investors, irrespective of the investment risk profile, currently have great confidence in the future development of the German office markets.

### Outlook

The economic conditions provide a stable environment for office investments in 2018, which is boosted by the foreseeable financing environment. In addition to this, there is also strong user demand with only limited supply, giving rise to considerable potential for rent increases, which many buyers want to participate in. In light of this, the signs for 2018 again point towards a very high investment turnover that will be significantly above the long-term average. In the core-plus and value-add segments, in particular, a further slight reduction in yields cannot be ruled out, as investors see opportunities here in connection with the strong demand in the user markets.

24 bn €

transaction volume 2017  
second-best result ever

47 %

foreign buyer share of  
transaction volume



## REAL-LIFE INSIGHTS



**Philipp Schaper**  
Managing Director  
Group Head of Transactions  
Patrizia Immobilien AG

### › What do you see as the biggest strengths of the German office markets and where do you see any weaknesses?

The historic stability of the German office markets coupled with this country's ongoing economic robustness can definitely be regarded as one of the major strengths. At the same time, though, there is still a not inconsiderable deficiency compared with other European markets where transparency is concerned. This holds the German locations back from fully tapping their potential vis-à-vis international investors.

### › How would you describe your investment strategy and to what extent has this changed in recent years?

When we talk about investment strategy, we primarily mean the investment strategy of our clients. Our purchasing activities are always the result of discussions with our clients and derive from identifying investment opportunities thanks to our closely knit European market coverage. In this respect, nothing has basically changed much in the past few years.

### › Are there locations which in your view offer particular advantages?

The Top 7 locations in Germany always represent a safe choice, of course, above all offering high liquidity, but interesting opportunities are also to be found in smaller cities with lower investment volumes. As an investor, what matters here is keeping

an eye on developments on the user side. Ultimately, this means that the topics of infrastructure, reachability and an increasingly flexible work environment for office objects are becoming more important. More and more people – particularly younger people – no longer have a car of their own, so easy reachability with public transport is of great significance. At the same time, it certainly also has to be borne in mind that many employees come to work by bike, just like they do in many other European countries (e.g. the Netherlands and Denmark). So in the case of inner-city office buildings, flexible space utilisation concepts geared to the modern work environment are likely to be an important issue for tenants in the future.

### › How do you assess the medium-term prospects for the German office markets?

Germany is and remains the largest real estate market in continental Europe. In view of the economic situation in Europe, this means that no institutional investor with a European strategy can ignore the German office market. In turn, though, this means that in the years ahead the demand for top products will stay high, thus sustaining the pressure on prime yields. At the same time, however, it seems unlikely that there will be any surplus in supply as the result of strong construction activity. So over the next few years the performance of the German office market should continue to exhibit solidity.



## RETAIL

# RETAIL ENVIRONMENT REMAINS POSITIVE

Sales of the German retail sector developed very positively in 2017. According to the first figures published by the Federal Statistical Office, they increased nominally by 4.2 % and adjusted for prices by 2.3 %. German retailers have therefore managed to increase their sales year on year for the eighth time in a row. Not least the continuing economic growth is responsible for this. According to provisional figures released by the Federal Statistical Office, gross domestic product (GDP) grew by 2.2 % (adjusted for prices) in 2017. The German economy therefore grew not only by more than in the previous year, but for the eighth year in succession. This growth was stimulated in particular by foreign trade. Private consumer spending rose in real terms by 2 %. The GfK consumer confidence index climbed sharply around the turn of the year and was at 10.8 points much higher than one year before. In particular economic expectations are a lot better. In other words: Consumers are very confident that the momentum of the economic upswing

will continue. All known fundamental economic data and forecasts, as well as the key sentiment indicators, suggest that the conditions for the German retail industry will again be very positive in 2018.

### Strong year for retail investments: third-best turnover of all time

With a transaction volume of 13.81 bn €, retail investments recorded a very successful year in 2017. In doing so, the previous year's result was not just topped by almost 7 %, but the third-best result of all time was registered. Only in 2015 and 2006, years that were both characterised by package sales running into the billions, was even more invested in retail properties. Despite structural changes in the retail landscape, investors are remaining true to this asset class, which, in light of strong consumer spending as well as rising employment figures and a pleasing development in real wages, is entirely understandable. Sales of single properties account



**Christoph Scheuermann MRICS**  
Director National Retail Investment  
BNP Paribas Real Estate Germany

for just under 7.77 bn € (56 %), which is 9 % down on the previous year but is still 22 % up on the long-term average. A different situation can be seen among portfolios, which account for 6.04 bn € (44 %) of the volume and are 35.5 % up on 2016. The biggest deals include the sale of a retail/office building portfolio by Corestate to BVK as well as the purchase of a Karstadt portfolio by RFR.

small cities with a population of less than 100,000, which each contribute just under 24 %. Cities with a population of between 100,000 and 250,000 are also represented, with a share of 20 %, and here, too, a slight rise in investment volume could be seen. >

### Discount stores and supermarkets remain in demand

As in the previous years, discount stores, supermarkets and specialist retail centres were in particularly strong demand among investors. With a turnover of 6.29 bn €, they remained roughly on a par with the previous year and account for nearly 46 % of the overall result. Inner-city retail/office buildings, which total 4.04 bn € and occupy second place with a good 29 % share of turnover, have increased significantly by more than 30 %. Here, too, it can be seen that the right properties in the right locations remain of great interest to investors. Third place is occupied by shopping centres, with 2.43 bn € (a little under 18 %). They also posted slight growth in absolute turnover.

### B-locations and smaller cities with turnover growth

The fact that retail investments, in contrast to other asset classes, also offer attractive investment opportunities outside of the major cities can also be seen in the relatively even spread across the different sizes of city. With regard to single deals, although the Big Six locations top the rankings with a share of turnover of just over 32 %, their turnover is down on the previous year. Following shortly behind and almost neck and neck are the other large cities with more than 250,000 inhabitants, as well as



**“ Investor interest still strong despite structural changes in the retail sector. ”**



## Outlook

As the very good investment volume shows, the dynamic development of e-commerce has not resulted in general scepticism among investors with regard to retail properties, although some may be carrying out more intensive checks than in the past. Generally speaking, the diverse retail market offers enough attractive investment opportunities. This is particularly the case when considering the favourable underlying economic data, such as the positive trend in employment figures and unemployment rates, which boost purchasing power. In view of this, turnover in 2018 is also expected to exceed the long-term average, with it very likely to top 10 bn €.

# 13.81 bn €

transaction volume  
38% above 10-year average

# 6.29 bn €

volume generated by  
discount stores and  
supermarkets

# 35 %

foreign investors' share of  
transaction volume

## REAL-LIFE INSIGHTS

### ► How do you judge the German retail sector in comparison to Europe as a whole?

Germany has the largest population in Europe. Given the country's polycentric structure, even small- and medium-sized towns outside of the main cities are of interest to international chains and investors. Investors are also vying for high street properties in prime city centre locations in Germany's top cities. These assets provide opportunities for income security, are highly fungible and are resistant to economic fluctuations. The economic hubs of Munich, Berlin, Frankfurt am Main, Hamburg and Düsseldorf landed the top five spots in the Savills IM German High Street Index.

### ► Which market segments do you consider to offer the best prospects for investors?

Our market expertise helps identify 'safe' locations and assets such as, for example, retail parks in integrated, very well-connected areas, or high street shops in prime inner-city locations. We are well aware of the tight competition for such products, demonstrated in the significant yield compression that we have seen over past years. We strive to counteract this dilemma by looking further afield without compromising our investment criteria. In a smaller city, we would only seek to acquire the best asset in a prime location. In general, we would strive to overcome





### Gerhard Lehner

Head of Investment & Fund Management, Germany  
Savills Investment Management

weak market periods with long rental agreements. Assets with shorter lease terms or that are in need of refurbishment are mainly to be found in large cities.

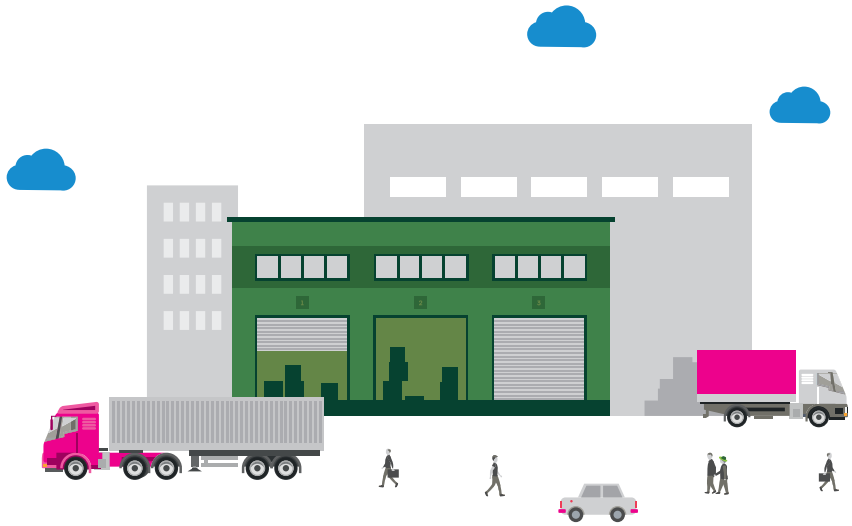
#### › In your view, does e-commerce pose a genuine threat to city centres?

Germany has the second-highest share of online retail sales in Europe after the UK. The food sector in particular, which currently sells very little over the internet, should benefit from very strong growth rates in the coming years. Amazon's online grocery arm, AmazonFresh, launched in Germany in May 2017. According to the Centre for Retail Research, Germany's e-tail market share has grown to about 15 % in 2017. This is why the timeframe for lease extensions or new lettings has increased, and in many cities – including large cities – rental growth on high streets has come to a standstill. Furthermore, a number of retail chains have cut back on their retail space in response to plummeting brick-and-mortar sales volumes. German and international retailers, however, continue to focus on prime locations in major cities. A point of growing importance with respect to the competition between high street or mall-based retail and e-commerce is the quality of shopping experience, which increases customer dwell time. Consequently, when looking at investing in high street retail assets, investors must consider

the mix of traditional retail, restaurants, entertainment and other services available in the relevant location.

#### › How do you see the German retail sector developing in future?

We continue to like German high street shops, mainly because they provide security via stable cash flows, liquidity due to a wide investor spectrum, low re-letting risk for high-end shops, stable demand from domestic and international chains, and rising demand from food concept companies. Houses such as GfK, BBE and Oliver Wyman estimate that grocery e-commerce shares in Germany will grow to about 5 % by 2025, and overall e-tail sales will total at least 6-8 bn €. As a result, between 1,200 and 1,700 full-range traders (supermarkets) could become obsolete. DHL even expects an online market share of 10 % in Germany by 2022. This would amount to total retail sales of 12-15 bn €. However, we think that dominant food-anchored retail parks remain a good investment opportunity, as they are benefitting from increasing tenant and consumer price sensitivity. Retail parks benefit most from an integrated and established location that has limited competing development opportunities in the wider area. The number of parking spaces is likewise important and investors must consider local competition and tenant covenants even more today.



## LOGISTICS

# LOGISTICS INVESTMENTS HAVE REACHED NEW LEVELS

Logistics investments have grown markedly in importance in recent years. Whereas they frequently used to be regarded merely as a high-yield addition to a portfolio, they have now – in Germany as elsewhere – evolved into an independent asset class that attracts the interest of investors. With transaction volumes constantly over 4 bn € p. a., logistics investments have taken on a new scale in the past few years. What is behind this distinctly dynamic development?

### Structural changes in the logistics sector

One key factor has to do with the deep-seated structural changes that have been taking place in the logistics sector for some years now. Technological innovations, growing division of labour, changing consumer behaviour and the increasing globalisation of business have placed fresh requirements on range of services offered by this sector and its flexibility. Of particular importance are the high growth rates in e-commerce, which result directly in additional

demand for space. A trend of growing importance is that e-commerce companies are increasingly seeking central locations for the so-called last mile to be able to deliver goods within short time. Then there is the fact that manufacturers have been stepping up their outsourcing processes, with many industrial companies seeking to further streamline their production by broadening the activities they pass on to logistics firms. The entire automotive sector provides a fine example of this. And this greater need for space has led to the construction of many new and modern logistics complexes which are of considerable interest to investors. In addition, Germany also benefits as the EU's biggest economy from its central location within Europe.

### Logistics investments rocket

The sharp rise in logistics investments seen in the last 5 years reached its highest point to date in 2017. With a nationwide transaction volume of 9.18 bn €, not only was a new record set, but the previous best of 2015 was almost doubled.





► **Christopher Raabe**  
Managing Director  
Head of Industrial Services & Investment  
BNP Paribas Real Estate Germany

“ *Logistics investments have evolved into an independent asset class that attracts the interest of investors.* ”

Just under one third of turnover (2.96 bn €) is accounted for by single deals, which have increased by 13 % and in so doing have also achieved a new all-time high. Portfolio sales account for the lion's share with just over two thirds and have more than tripled the previous year's result. Partly responsible for this are a few major transactions involving pan-European logistics platforms, e.g. the sale of the Blackstone logistics platform Logikor and the acquisition of Geneva Properties by Frasers Centrepoint (FCL) of Singapore.

### **Metropolitan areas also benefit from upward trend**

The eight most important German logistics hubs have contributed to the rise in turnover and increased their transaction volume by 60 % to 2.06 bn €. With the exception of Stuttgart, all of the metropolitan areas saw an increase in turnover. First place is taken by Munich with a volume of 401 m €, followed closely by Frankfurt with 395 m €. There was a very close head-to-head

race for third place, which was won by Cologne (272 m €) just ahead of Hamburg (270 m €) and Düsseldorf (266 m €). In Stuttgart, despite the decrease, a slightly better result (188 m €) was recorded than for example in Berlin (180 m €). With 84 m €, Leipzig had one of the highest growth rates (+109 %).

### **Further significant increase in prices**

The yield compression which has been seen for some time continued in 2017. Among the eight locations included, net prime yields have fallen on average by 63 basis points over the past twelve months and are currently quoted at 4.55 %. In each of the metropolitan areas of Berlin, Cologne, Düsseldorf, Frankfurt, Hamburg, Munich and Stuttgart, the prime yields are 4.50 %. Only in Leipzig is an even higher figure of 4.90 % recorded, whereby a significant fall has been recorded here as well and the downward trend is set to continue.

### **Outlook**

Will the trend continue? As things currently stand, ►

there is much to suggest that 2018 will again be a very successful investment year. As many restructuring processes which are triggering additional user demand have not yet been completed, this overall trend will continue in the next few years. Logistics properties will therefore remain a very interesting investment option for many investors, including not least foreign buyers. Against this background, strong demand and a well-above-average transaction volume are again expected in 2018, the final amount of which will be influenced significantly by the properties available. Even if a result such as the one achieved in 2017 is unlikely to be repeated, there is much to suggest that the 4 bn € mark can be exceeded again in the current year.

**9.2 bn €**  
aggregate turnover

.....

**185 %**  
higher than ten-year average

.....

## REAL-LIFE INSIGHTS

### ► When you look at the German logistics markets today, what do you see as the main trends for the next five years?

The logistics real estate market continues to be a favoured asset class and logistics has developed into a sought-after institutional product. Nowadays, most institutional investors consider logistics facilities a key part of a well-diversified real estate portfolio. One thing that has changed is that capital has become much more international. Last year a substantial number of Asian investors entered the market, driven by the attractiveness of the asset class and also by the good economic prospects in Europe. Market conditions have improved substantially in the past five years. This is reflected for instance by historically low vacancy, strong demand, and climbing rents despite further compressed cap rates. The low vacancy is partly due to the generally positive economic climate but mainly induced by new demand drivers, such as e-commerce. So the growing scarcity of space in core markets is triggering a further rise in rents there, too. There is also an ever increasing focus on the sustainability and environmental compatibility of major project developments.

### ► In your view, what are the strengths and advantages of the logistics markets compared with other asset classes?

The growth in logistics real estate in Europe







**Thomas Karmann**  
 Managing Director  
 Regional Head Northern Europe  
 Prologis

is driven by structural shifts in the direction of global trade, with changes in consumer behaviour, the expansion of e-commerce, and the restructuring of supply chains. Increasing interest in this asset class is boosting growth. That is one of the strengths – because Germany and the entire European market are basically still underdeveloped where high-quality logistics premises are concerned, particularly in comparison with the USA or the UK. One of the most appealing features of the logistics real estate sector as an asset class is that it produces high yields in comparison with other asset classes although the spread to offices and retail has further narrowed in the last year. This will continue to make it attractive for a varied spectrum of investors, especially those with liability-matching mandates.

➤ **What do you consider the most important criteria for a good logistics investment?**

One decisive factor is to opt for one of the chief logistics hubs, where users of logistics properties find a concentration of trade and final customers. That will become even more important with the ongoing increase in e-commerce demand. In this connection, one factor of considerable importance is the availability of personnel who are in a position to get to their workplace via public transport. After all, the growing proportion of e-commerce activities is drastically boosting the numbers of

employees required in logistics complexes. In densely occupied infill markets, a particular attention must be given to the efficiency of transport infrastructure in the immediate surrounding of the asset. A good accessibility of the logistics facilities without traffic jams is crucial for future re-letting. If the market exhibits a shortage of space and there are good chances for third-party utilisation and fast re-letting, these locations offer a long-term and sustainable investment. Shortage of space leads to stable and climbing rents and ensures consistently high occupancy rates.

➤ **From your point of view, what are the most important impacts of e-commerce on the logistics market?**

E-commerce is the most important net demand driver and increases drastically the need for modern and efficient logistics space. Approximately a quarter of the newly signed leases in the last year were somehow related to e-commerce activities. With requests for same day delivery and an ever larger product range, this trend increases the pressure for finding and offering available space in densely populated areas where goods need to be delivered in record time. Also demand for cross dock parcel delivery units increased dramatically. All this leads to continuously high occupancy rates in the existing portfolios and the increases of rents well above inflation levels.



## HOTEL

## HOTELS – SUCCESS STORY CONTINUES

The highly dynamic development of the German investment markets has very definitely extended to hotels. For several years now, they have been registering strong increases in transaction volumes. There are various reasons for this pleasing trend.

### Long-established positive environment for hotel business

First and foremost is the positive progress made by the hotel sector in Germany. For around ten years, overnight stay figures have been climbing steadily. Even in 2009, at the height of the financial crisis, the number of guest arrivals and overnight stays only fell marginally compared with the year before, and as early as 2010 the upward trend had resumed. 2017 brought a new record with around 460 million overnight stays, which exceeded the previous year's figure by 3%. In particular the number of guests from abroad has increased significantly in recent years, and they now represent nearly one fifth of the total volume. This is due in part to the fact that, according to the ICCA (International Congress

and Convention Association), Germany is the most popular country in Europe for conferences of all kinds. Worldwide, the only country where more conventions are staged is the USA. At the same time, the business performance of hotels has largely improved. The average RevPar, for instance, has risen continuously in the past few years. So both the general economic climate and conditions specific to the hotel sector are boosting the hotel business and helping to form a solid foundation for hotel investments. This is all the more so since the undiminished trend towards city visits and short breaks suggests that the development outlined above is set to continue in the years ahead.

### Another excellent result

With an investment volume of almost 4.2 bn €, hotel investments have exceeded 4 bn € for the third year in a row and achieved an extraordinarily strong result which was 84% above the ten-year average. The result was, as expected, one fifth short of the previous year's record. In fact, the reduction was confined to the portfolio segment,





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Head of Hotel Services  
BNP Paribas Real Estate Germany

in which the volume of less than 1.1 bn € was just about half of the previous year's figure. Besides a lower number of transactions, this also reflects the fact that a particularly large portfolio in the form of the Interhotel portfolio changed owners in 2016. By far the biggest portfolio deal in 2017 was the sale of 11 hotels owned by the Intercontinental Hotel Group (IHG) from the former SITQ portfolio with a volume of approx. 450 m €. All of the other portfolios were sold for eight-figure or low nine-figure sums. The picture was very different for the sale of individual hotels though: Despite a slight drop in the number of sales, they were up by 2 % and set a new record with 3.1 bn €. In the eight big investment locations (Berlin, Cologne, Düsseldorf, Frankfurt, Hamburg, Leipzig, Munich and Stuttgart), hotel investments total around 3.14 bn € and are therefore virtually stable compared to the previous year. The biggest amount was invested in Munich assets with around 934 m €, which recorded at the same time by far the biggest increase (+122 %). The biggest sale was the Holiday Inn Munich City Center, which went to the Danish pension fund ATP and an institutional investor from the Netherlands for almost 190 m €. Berlin also recorded with 790 m € more investments than in the previous year (+14 %), including some prominent transactions such as Motel One Berlin-Upper West, which went as part of a portfolio from RFR to Signa Prime Selection. Hamburg is in third place with 515 m € and is the only other location which recorded an increase in turnover (+36 %). This is largely due to the sale of Radisson Blu am Dammtor, one of the biggest deals in 2017.

## Outlook

Is the trend stable? As things currently stand, there is every reason to expect the growth in hotel investments that began some years ago

to continue for some time to come. The good economic data, the positive development in employment and the continuing trend of short trips will continue to provide a stable environment for hotel investments. These remain among the most popular property investments, particularly due to the higher yield compared to "more traditional" forms such as office investments. There remains a shortage on the supply side though: The high demand is already being ►

“Hotel investments still offer higher yields than those in other asset classes such as offices and retail properties.”

“

covered largely by property developments and forward deals with around one quarter of the volume accounted for by projects and hotels under construction. Added to this is a significant number of hotels which have recently been completed. Without the good level of construction activity, the result would therefore be much lower. For 2018 the target should nevertheless be to reach the 4 bn € mark again.

**4.19 bn €**  
third-best result ever

.....

**48 %**  
foreign investor share

.....

## REAL-LIFE INSIGHTS

### ► What do you see as the main reasons for the current development of the German hotel investment market?

Many European investors are searching intensively for yield in real estate in the face of ongoing low interest rates. At the same time supply of high quality, institutional assets remains limited. Therefore yields have continued to be under pressure and as a consequence we have seen more transactions in Germany's secondary and tertiary cities in 2017.

### ► Which market segments do you think offer the best opportunities for investors?


Hotels cover a broad risk spectrum. The institutional products with the lowest volatility are definitely those in the 3-4 stars segment in inner-city locations, especially in cities with a balanced mix of business travel and tourism. For products of this kind there is a liquid investment market in all the major cities of Europe, and so that is where our focus lies. In this segment, the German hotel investment market currently demands historically low yields and supply is limited so that real opportunities are limited. In the luxury segment, and with resort hotels, revenues – and thus returns – are much more volatile, while the liquidity situation





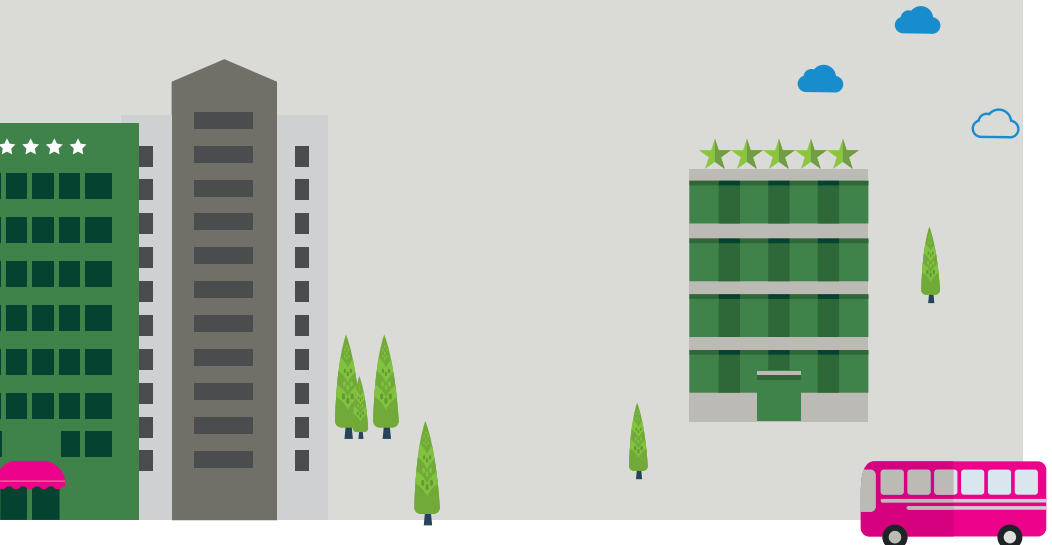

**Jochen Schaefer-Suren**  
 Partner  
 Head of Hotel & Leisure Division  
 INTERNOS

is also very uncertain. Luxury hotels are frequently traded among trophy buyers at prices that do not reflect their income. In the resort hotel segment it is often difficult to identify a buyer at all. Thus in the present-day, pretty crowded German hotel property market, we operate only on a highly selective basis and focus more across Europe where we concentrate on strategically located high-grade 3-4 star hotel properties – which can have quite different risk profiles – in large cities with attractive hotel and real estate markets.


**What are the key differences between hotel properties and other asset classes?**

Hotels are operating assets and in comparison with other forms of real estate provide an attractive example of a sharing

of interests between investor and operator. This is reflected by the duration of operating agreements (usually 20 or more years). But operating assets require an understanding of the underlying business. It is essential to understand a hotel's earnings potential before assessing a rental structure, its risk profile and finding an appropriate purchase price. This calls for detailed knowledge of the market and a lot of experience. Our recommendation to investors is to seek the advice of experts, because asset class differences are often ignored at investors own peril. One attractive aspect of hotels is that they have only one major tenant who in its own interest, commits to running the property in its entirety and thus substantially reduces the complexity and costs of property management.





## RESIDENTIAL INVESTMENT

# RESIDENTIAL – STILL A VERY INTERESTING ASSET CLASS

The German residential property market remains highly popular with investors. 2017 again bore witness to the notable increase in turnover that has been seen in the last few years. In particular new-build projects in the major German cities are increasingly sought after by many market participants.

### Many positive factors boost demand

The great interest exhibited in investing in German residential portfolios is due to a wide range of factors which together form a very favourable environment. One is the long-evident “back-to-the-city” trend, which has contributed to population growth in almost all the key German metropolises. The volume of new housing has not been able to cope adequately with this growth, and as a result, rents and purchase prices have risen significantly in recent years. This has primarily been due to a catch-up effect after the previous 20 years or so had seen a moderate increase. Since the forecasts for population growth in the next few years remain largely positive, this promises further scope for higher rents. Another factor is

that the strong demand for housing coupled with a relatively limited supply has led to a decline in vacancy rates in almost all of the bigger cities. This means that for owners and investors, the risk of extensive vacancies is very low. So in no other asset class are cash flows as stable and assured as in the German residential segment. More recent developments such as student housing and micro-apartments are having a positive impact and helping to establish new and very dynamic market segments. Residential real estate markets have naturally also benefited from the historically favourable financing terms available in recent years and the fact that alternative assets which offer investors both stable yields and a very high level of security are few and far between.

### High transaction volume again

The transaction volume for larger residential portfolios (from 30 residential units) totalled around 14 bn € in 2017 and therefore exceeded the previous year’s result by 4 %. At the same time this is the third-best result in the past decade. What is especially pleasing is the fact that this is not



► **Udo Cordts-Sanzenbacher**  
Managing Director  
Co-Head Residential Investment  
BNP Paribas Real Estate Germany

down to a few major transactions, but is based on a large number of sales. In total almost 360 deals were registered, which is the highest number in the last ten years, with around 114,000 residential units changing owner. The biggest transaction in the market remains the Helvetica portfolio, which Deutsche Wohnen acquired at the start of the year for 655 m €. All other sales were below 500 m €. Across all homes sold, on average almost 123,000 € per residential unit or a tidy 1,900 € per m<sup>2</sup> was achieved. Purchase prices across all market segments have therefore once again risen significantly compared to the previous year. A major reason for the increase is the continued growth in importance of project developments. After portfolios of existing properties, which still account for the lion's share of the volume with almost 48 %, new-build developments occupy second place with 29 %. Compared to the previous year their share has increased significantly: In total almost 4.1 bn € was invested in this property type, 44 % more than in the previous year.

### Outlook

Will the positive development in the German residential property markets continue in the years ahead? As things currently stand, all the signs suggest that it will. Population growth, especially in the big cities, looks likely to continue and that, combined with a stable economic development featuring a record level of people in gainful employment, helps to create a very pleasing business environment for housing markets. Demand for residential units is set to be sustained while vacancy rates will remain at a very low level. Against the background of increasing numbers of households in the metropolises and in many other cities, residential investments offer not only the prospect of being stable investments, but also

potential rent increases. For many investors they are therefore not only a secure, but also a long-term investment. In addition, there is an increasing trend to new forms of residential accommodation, like student housing, retirement homes or ►

“ *In the future, too, the German residential property markets will continue to offer upside potential and very stable cash flows combined with low risk.* ”

micro-apartments, which offer investors an opportunity to deploy their capital in dynamic market sectors with great upside potential. In 2018 residential investments will again be one of the most popular asset classes for many investors. Due to the limited supply, project developments and forward deals will continue to grow in importance. So even without possible mega-deals, a transaction volume above 15 bn € looks probable, with a final result around the five-year average.

**14 bn €**  
investment volume

.....

**27 %**  
higher than ten-year average

.....

## REAL-LIFE INSIGHTS

### ► Work environments – and thus living and housing forms, too – are evolving faster than ever before. How must – and can – the residential property sector adapt to this?

In the years and decades ahead, the forms of living and housing are set to shift and change, chiefly due to demographic development. At TERRAGON, this is a matter that we are paying close attention to. Demographic change is an enormous challenge, not least for the residential property sector. Take, for example, the immense shortage of accessible housing. In Germany today, we have around 800,000 residential units completely or relatively accessible – an appropriate number, in line with the needs of the market, would be 4.2 million. As the proportion of elderly grows, and with it the proportion of people with limited mobility, demand will increase significantly. If housing companies fail to boost the development of accessible housing, they will be losing sight of an important target group. We have conducted a study which shows that – given good design and planning – building accessible homes increases construction costs only by about one percent. There is actually no reason not to build in barrier-free fashion. Alongside accessible residential units, there is also a massive demand in the field of sheltered accommodation. And there is also a lack of care home places.





▶ **Jonas Rabe**  
 Managing Director  
 TERRAGON PROJEKT GmbH

▶ **What role do regional population forecasts, particularly in relation to future age-structures, play in selecting locations for senior housing and nursing homes?**

For investors, forecasts naturally play a considerable role. But something that also requires serious attention are the regional differences in the availability of housing for senior citizens. In some cases, these differences are already quite substantial. Where sheltered accommodation is concerned, that is something we have highlighted very precisely in another study. Among the Top 30 cities in Germany, Frankfurt am Main for example has a fairly good offering, with 10.5 sheltered accommodation units for every 100 citizens over the age of 70. In Mönchengladbach, however, the figure is only 0.6. And where the availability of home care places is concerned, there are already glaring bottlenecks, especially in major metropolises. So as well as regional demographic forecasts, investors should also note the differences in availability that already exist today.

▶ **People are not just getting older and older, they are also increasingly “youthful” in their old age. Will senior housing have to adapt to this – and if so, how?**

Overall, it is very difficult to judge how the real estate sector can adapt to the “youthful elderly”. They do not form a homogeneous group: they exhibit different attitudes and outlooks and also have different income

levels. So in the future, a differentiated offering will be necessary – one which also takes the threat of age-related poverty into consideration. In the field of care homes, the trend towards professionalisation will continue. Generally speaking, I believe that to enable us to go on successfully developing senior housing, we will need more market research to be conducted.

▶ **Will specialised housing concepts, from senior housing and nursing homes to micro-apartments or student hostels, continue in the long term to encounter stable demand on a scale comparable to that for conventional residential units?**

Given good concepts for senior housing and care homes, I am certain that demand will continue. After all, there is no doubt that the number of elderly and really old people in our society is set to grow strongly. And in the fields of senior housing and care homes, we are still some way from any signs of oversupply.

# INVESTORS' QUESTIONS ANSWERED

Entering a new market can be challenging. Javier Gómez, Senior Director International Investment of BNP Paribas Real Estate, answers some common questions



**Javier Gómez**  
Senior Director  
International Investment  
BNP Paribas Real Estate Germany

## Q1

**We want to check out whether Germany is an interesting investment market for us. How do we set about doing that?**

In view of the fact that Germany has several important and interesting locations, the first step should be to get a solidly based overview of the market. A good way to start is to examine detailed regional market reports, of the kind prepared, for instance, by BNP Paribas Real Estate, regarding the development of the individual asset classes. An extensive range of such reports, covering different locations and forms of occupancy, can be directly downloaded via our website.

## Q2

**We have decided to invest in Germany – how do we go about that?**

In Germany, unlike in the UK or France, there is not just one all-dominant capital city, but a number of different investment locations. For institutional and international investors, the so-called Big Six (Berlin, Cologne, Düsseldorf, Frankfurt, Hamburg, Munich) form the chief focus of interest. To understand and experience the different structures of these cities, and the potential they offer, we believe that it is necessary to get to know these markets at first hand. One way of doing this is to take advantage of a purpose-designed property tour of the different cities organised in line with your investment requirements and run by BNP Paribas Real Estate experts.

## Q3

**What fundamental decisions should I as an investor take before my market entry?**

Before entering this market and carrying out a concrete examination of sales offers, you need to be aware of the most appropriate investment structure for your specific purposes. Do you want to conduct a property acquisition by yourself or would it be better to turn to a locally based investment or asset manager? The latter could well offer the advantage of being able to draw on specific market expertise – which could facilitate, and speed up, initial purchases.

## Q5

**What risks and opportunities profiles will I encounter in Germany?**

The possibilities for investing in this country present a very balanced spectrum. It ranges from opportunistic investments to core assets. Whether we're talking about forward deals, for instance within the framework of project developments or revitalisations of existing properties, or low-risk core products offering long-running leases with highly solvent tenants, there really is something for everyone in all segments of the market.

## Q7

**What about disinvestment?**

Germany's sheer size and its heterogeneous structure, with several attractive investment markets, help to ensure liquidity. The cluster risk associated with changing market cycles is much lower than in many other countries where there is a strong focus on just one major city.

## Q4

**How transparent is the German market?**

In the last few years, the transparency of the German real estate market has increased greatly. This has been due – not only but certainly in part – to the very high proportion of international investors who see Germany as a sustainable environment in which to invest and disinvest.

## Q6

**Do individual cities have specific profiles?**

There are various upside potentials to be found. The German capital is increasingly becoming a European metropolis and global city. Compared with London or Paris, though, its property markets exhibit substantial differences, something which definitely opens up long-term chances. The most cosmopolitan city is Frankfurt, the country's financial centre and home of the ECB, and it is often used as a point of entry into the German market. Investors with a risk profile aligned to long-term stability and low volatility should start eyeing especially the rental market in Munich.

# KEY LEGAL AND TAX TERMS

Determining the correct path to take in the highly regulated German real estate market is sometimes regarded as challenging – and justly so. In the following, CMS lawyers Heinz Joachim Kummer and Thomas Link outline some key information about the German legal system and the operating environment here. With regard to the acquisition, financing and structuring of real estate ownership, the German legal system provides a large measure of accessibility, security, and certainty. In contrast, however, the statutory lease regime is rather complex and subject to looming one would not expect.

## A WORD OR TWO ABOUT REAL ESTATE LAW IN GERMANY

On occasion, it is said that we Germans are painstaking, humourless, stiff, and (overly) meticulous. Well, these characteristics may be mere clichés, but admit it: right at this moment, you are smiling and silently nodding to yourself in confirmation. Certainly, not all of the mentioned characteristics invariably work to our benefit. On the other hand, however, some of them may even provide you with some clear advantages:

Germany has a sound, secure legal system. The courts work reliably. The legal situation is clear and unambiguous, creating – for domestic and foreign investors alike – a transparent, binding framework for investments, imbued with trust throughout. Nobody needs to fear being at the mercy of judicial or administrative arbitrariness or – and this is especially vital for foreign investors to know – of any unpleasant, surprising pitfalls that could jeopardise investments. Germany is a safe haven.

This principle is particularly true for real estate investments: For example, Germany has an elaborated land registration system. Each parcel of real property is documented in land registers, together with detailed information as to the current title holders and any and all encumbrances *in rem*, be they in the nature of easements, servitudes, or ground charges running with the land. In comparison to other jurisdictions, however, the primary achievement of the German system is that our land registers enjoy the status of irrefutable presumption. In other words, the entries in the land registers are generally constitutive and hence deemed correct, creating a legal environment for your investments that is not only utmost transparent, but also legally certain. Moreover, in contrast to jurisdictions under the Anglo-Saxon legal system, Germany provides codified law. In most countries around the world, legal systems generally fall into one of two primary categories: common law systems and civil law systems. The essential difference between the

two systems is that in common law countries, case law – in the form of published judicial opinions – assumes primary importance, whereas in civil law systems, codified statutes predominate. Germany is a civil law jurisdiction. Thus, agreements can be drafted in a much shorter form, concentrating mainly on regulating the parties' material economic interests.

However, still, agreements are not free of pitfalls: for example, the underlying codified law is sometimes mandatory. Contractual provisions deviating from mandatory law are undeniably invalid. Provisions deviating from mandatory law can even jeopardise the validity of other provisions – ones which would per se actually be permissible – and in the worst-case scenario, could even render the entire agreement invalid.

Like in other jurisdictions, consumer protection regulations are in place, particularly in order to afford protection against general terms and conditions (*Allgemeine Geschäftsbedingungen*). Provisions in standard contracts, or even those which are supposed to be used several times,

can thus be invalid, should they deviate too significantly from the statutory model. As a consequence, instead of the invalid provision in an agreement, the default statute will apply, potentially causing additional detrimental ramifications for the user than would have been the case had a permissible, individually drafted provision been included in the contract. Classic examples of this include provisions in lease agreements concerning maintenance duties and the allocation of operating and other ancillary costs. The same principles also apply, however, to sale and purchase agreements (frequently affected are provisions concerning representations and warranties and limitations of liability), as well as to turnkey and other construction contracts (frequently in connection with provisions concerning security deposits, contractual penalties or liquidated damages).

Yet if everything were so simple, then you would not need any qualified legal advice for your investments in Germany...

## 1. Types of real estate

In Germany, real estate can be owned in the following ways:

- Freehold: title to the land and the buildings and/or structures on the land;
- Condominium ownership (*Teil- or Wohnungseigentum*): title to separate units of a building combined with joint ownership of common areas in community with other co-owners;
- Ground lease (*Erbbaurecht*): a right to construct and to own buildings on the premises during a long-term leasehold (often with a term of 99 years).

Title to property can be encumbered, both under the *law of obligations* alone, for example, by concluding lease agreements, as well as in rem, for example, by means of

- easements (*Grunddienstbarkeiten or beschränkte persönliche Dienstbarkeiten*), and
- land charges or mortgages (*Grundpfandrechte or Hypotheken*).

The difference is that in rem rights (that are also entered in the land register as such) apply not only with respect to the current owner of the property, but also with respect to each subsequent new owner of the premises.

## 2. Acquisition of real estate

Generally speaking, real estate is acquired by entering into and executing a sale and purchase agreement and subsequently registering the new owner in the land register. For the execution, usually, a number of closing conditions have to be satisfied. One particularly key condition includes clearance of any statutory or contractual rights of first refusal belonging to third parties. As a rule, not only the relevant municipalities, but also sometimes other public-law entities and institutions, enjoy statutory rights of first refusal which can be exercised under certain circumstances. In larger transactions, a merger control clearance by the German antitrust authority (*Kartellamt*) might also be necessary. As a rule, however, the closing conditions can be easily and reliably satisfied. In general, two to three months will elapse between the signing of the sale and purchase agreement and the transfer of ownership in the land register. To protect the purchaser at the earlier stage and to place him in a position equivalent to ownership, a priority notice of conveyance (*Auflassungsvormerkung*) in favour of the purchaser is usually registered in the land register in advance. This step protects the buyer, who can thus – having this in rem securitization in hand – pay the purchase price to the seller even prior to being registered in the land register as the new owner.

Please note that under German law, sale and purchase agreements must generally be certified by a civil-law notary (*Notar*) in order to be valid and thus also legally enforceable. The same applies to ground charges, covenants running with the land, easements, and servitudes. Please note that a German notary (*Notar*) should not be confused with a notary public in some common law jurisdictions. A German *Notar* holds a government appointment and bears extensive responsibilities, far beyond signature authentication. However, a German *Notar* is obligated to remain neutral, and therefore may not advise the transacting

parties with respect to their interests. The latter function belongs to lawyers, who in turn must ensure that any agreement secures and contains provisions safeguarding their clients' objectives and requirements.

In the acquisition of real estate, notary fees and court costs (for the land register) are incurred; typically, these are assumed by the buyer. Both the notaries and the courts (land registers) are subject to uniform and transparent fee schedules; you should be certain to have your lawyers calculate in advance the costs you will have to expect.

### Tax-optimised acquisition models

Real estate transfer tax (*Grunderwerbsteuer*) is usually incurred upon the acquisition of real property. The rate of taxation varies among the various German *Länder* (federal states), e.g., Berlin, North Rhine-Westphalia, Bavaria, Hamburg, Hesse, and so forth. Currently, this rate ranges between 3.5 % and 6.5 % of the relevant purchase price.

In recent years, a number of share deal models for avoiding real estate transfer tax have taken hold in Germany. Real estate investments are thus frequently structured in such a way so that real estate is acquired not through a holding company structure, but instead from a special purpose vehicle (SPV) – usually newly founded for this express purpose. This arrangement facilitates – in the event of an exit – the ability to sell the SPV units (without triggering real estate transfer tax) rather than the real property as such. However, since the German federal government newly formed in 2018 intends to render the established tax shelters more difficult, or at least less attractive, for this reason it is advisable to keep an eye on new developments. And when purchasing real property, please ensure that you make your investment on the basis of an acquisition structure that is optimal for your interests. Subsequent restructuring can trigger substantial costs and taxes, an occurrence which, naturally, should be avoided.

### 3. Financing of real estate

In order to be able to finance the purchase price even before the title has been transferred to the buyer in the land register, specific powers of attorney are usually provided for in sale and purchase agreements; on this basis, it is possible for the real property being to be encumbered by ground charges in favour of the financing banks even at this early stage, in order to enable the buyer to finance the purchase price to be paid (prior to transfer of the title). Reaching agreement on provisions for purposes of securitization ensures that the lender banks cannot foreclose on their ground charges pertaining to the property until the seller has received the full purchase price; hence, the seller of the property is thus protected against any detrimental dispositions.

### 4. Leases

Both, legislation and the courts in Germany, are generally lessee-friendly. This is true not only of residential leases, but also – to a somewhat lesser extent – of commercial leases. The following is to provide you with a brief summary of the most relevant issues:

#### The written-form requirement

One peculiarity of German law that frequently leads to inconvenience is the so-called written-form (*Schriftform*) requirement. In principle, lease agreements do not require any specific form and can even be entered into verbally. This changes, however, if the lease is entered into for a fixed term exceeding one year. In this event, the entire agreement, including any exhibits, appendices, riders, or subsequent addenda, *must* be entered into in writing; moreover, a number of special requirements and specific standards must be satisfied. Otherwise, both parties have the right to terminate the lease agreement at any time, even prior to the end of the fixed term, with a short notice period (*Kündigungsfrist*) of generally only three or six months. Although the written-form requirement, as such, is well known, in this area parties often make mistakes, meaning that the risk of early termination is frequently incurred. This sounds dreadful, but even here, there are ways and means to effectively address these issues in practice.

#### Rent and indexation

With few exceptions, the amount of rent charged can be freely negotiated by the parties. However, there are also some exceptions to the rule: In some cities and regions, for example, rent controls (*Mietpreisbremsen*) must be complied with. If public funds are used for the premises, certain commitments and other restrictions might apply – in some instances, even for long periods of time after the funds have been repaid. These can encompass the establishment of maximum rents or occupancy rights, according to which the owner of the real property will be obligated to lease the premises only to financially disadvantaged persons, etc. However, both of these restrictions generally apply only to residential leases. Obviously, unexpected rental restrictions will have an adverse effect on your cash-flow calculations. Hence, please be very mindful of this consideration when investing in German real estate.

Most commercial leases provide for rent indexing; in general, the rent adjustment is often tied to inflation, using the Consumer Price Index as a benchmark. Please note, however, that such an indexation is generally permissible only for leases having a term of at least 10 years. Unlike other jurisdictions, Germany does not provide for any “rent review”; instead, each rent adjustment must be agreed upon in the lease agreement, in advance.

### Service costs

General expenses for utilities and waste management (electricity, water, sewage, heating, refuse collection/recycling, etc.) and other overhead costs (real property tax, insurance premiums, etc.) can be allocated proportionately to the lessees, at least within certain limits. Here, too, the specific provisions contained in the lease agreement are dispositive. In addition to the generally applicable Heating Costs Allocation Regulation (*Heizkostenverordnung*), leases generally refer to the Operating Costs Regulation (*Betriebskostenverordnung*), in which an exhaustive catalogue meticulously regulates which costs may be allocated to the lessees. Commercial leases, in particular, usually provide that lessees can also be charged other costs. All the same, please be careful: in this area as well, standard forms, etc., can turn out to be invalid.

### Maintenance and repair

The law generally holds the lessor responsible for maintenance and repair at its own expense. It is common, however, for lease agreements to contain provisions concerning maintenance and repairs that deviate from this rule. Double net and even triple net agreements are also known in Germany, but usually only in commercial leases. Please note, however, that here too, certain requirements and restrictions must be taken into account. Should the provisions violate these principles, the provisions in question will be rendered invalid, with the consequence that the lessee-friendly statute will instead apply.

### Term

Generally speaking, the term of leases can also be freely negotiated by the contracting parties, but may not exceed a 30-year period. If a longer term is nevertheless stipulated, then both parties will have the right to prematurely terminate the lease after 30 years have elapsed. Regardless of this rule, both lessor and lessee have the right to terminate the lease for cause at

any time; this particular right cannot be waived. However, this right of termination applies only if truly compelling reasons exist; in the event of doubt, grave breaches of contract must have been committed.

Commercial leases usually provide fixed terms with options for the lessee and specific termination options for both parties. Residential leases, on the other hand, are usually entered into for an indefinite duration; whether and when they can be terminated thus depends on the statutory provisions. Due to the lessee-friendly leanings found in the statutes, such leases can be terminated by the lessor only if certain very strict prerequisites are fulfilled.

### Subletting and transfer of leases

The transfer of a lease agreement to a third party is permissible under German law only if all of the parties agree or such was agreed upon in the lease agreement in question beforehand. Even a simple subletting will generally require the consent of the lessor, but the lessor may refuse to consent only for compelling reasons.

### Rental security deposits

Lessees are usually obligated to provide a rental security deposit, frequently in an amount equalling three months' rent (in the form of surety bonds or cash deposits etc.). In order to protect lessees, once the lease agreement comes to an end the lessee has the right to demand repayment of the rental security deposit not only from the current owner of the property (i.e., the lessee's current lessor), but also from all predecessors, stretching all the way back to the original property owner with whom the lessee had first entered into the relevant lease. As a consequence, even years after the sale of investors' property, claims can still be asserted against them based upon old rental security deposits. The only way to avert such consequences is to ensure that the parties agree upon the requisite provisions with the purchaser of the premises.



## 5. Building permits and green buildings

It does indeed, somehow, embody the “German approach” to be meticulous and perhaps, at times, even to overregulate: in principle, a building permit is required not only for the construction of a new building, but also for each substantial modification, and even for each major change of use. In some cases, even additional permits are required, such as those for operating restaurants, nursing homes and other special real estate assets. On the other hand, however, the prerequisites for the necessary permits are clearly regulated: For example, any party has the right to obtain a building permit as long as (i) no prevailing public interests conflict with the intended project and (ii) the local public infrastructure is suitably ensured. The circumstances in which such is the case are regulated in minute detail; it is particularly decisive whether the project matches the specifications of the underlying zoning plan and meets its resulting requirements.

As in other countries around the world, environmental protection is becoming increasingly important in Germany as well. Among other things, both new buildings and existing structures must meet specific standards for energy efficiency and energy savings. The precise specifications that particular types of buildings must satisfy, and the relevant time frames, can be derived from the provisions of statute. In some instances, far-reaching actions and expensive measures for clean-up or abatement of legacy waste are required for this purpose (insulation for façades and ceilings, replacement of technical equipment and facilities, etc.) that may have a substantial and/or material impact on the amount of the capital expenditure. Hence, such factors must also be taken into account with regard to the overall calculation when purchasing real property.

In Germany, we are also familiar with building certifications based on LEED, BREEAM and DGNB (*Deutsche Gesellschaft für Nachhaltiges Bauen*) standards, etc. As a result of the generally high building standards, such certifications are achievable in Germany – generally, with relative ease and without significant additional expense. Green leases, on the other hand, have not become common in Germany.



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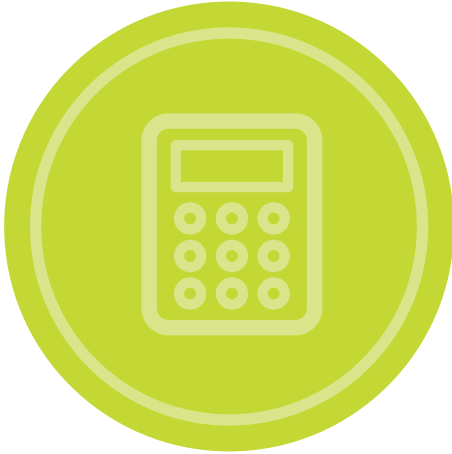
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**C/M/S'**

Law . Tax

# TAXATION OF REAL ESTATE INVESTMENTS IN GERMANY



## 1. Acquisition of real estate

The acquisition of German real estate and, under certain circumstances, the acquisition of corporations or partnerships owning German real estate will trigger real estate transfer tax (RETT). The rates for RETT can be set by the individual German states and range from 3.5 % to 6.5 %, depending on the location of the property. In case of an acquisition of a property the tax base for the calculation of RETT is the consideration paid by the purchaser. In case of

a direct or indirect acquisition of a German or foreign corporate entity or partnership of 95 % or more of the shares or partnership interest by one purchaser or a group of companies qualifying as a so-called RETT-group owning German real estate RETT will be triggered. In addition to that, also the direct or indirect transfer of the interest in a German or foreign partnership of 95 % or more of the partnership interest within a period of five years will trigger RETT. In case RETT is triggered by the transfer of corporate shares or partnership interests RETT is not based on the full or partial consideration for the shares or the partnership interest, but is rather based on a special tax value of the entire real estate owned by the respective legal entity. The German RETT regime for share deals is under scrutiny by the German states and a significant reduction of the 95 % threshold to 75 % or even 50 % is under consideration.

## 2. Income taxation

Rental income from German real estate and capital gains from the sale of German real estate are subject to German income taxation. The taxation rights remain with Germany also in cases of non-resident taxpayers and is not excluded or limited by applicable tax treaties. The tax regime for resident and non-resident taxpayers is identical with the exception that



non-resident individuals will not be granted the basic tax exemption which excludes taxable income up to an amount of 8,652 € from income taxation. The maximum tax rate for individuals can reach 47.475 % and the flat tax rate for corporations is set at 15.825 % (both rates combine individual income tax/corporate income tax and solidarity surcharge). Depending on whether the income from German real estate forms part of a commercial enterprise or of a private investment taxable income is either calculated on an accruals basis or on a cash receipt basis. Expenses related to the generation of income from the property are fully deductible for tax purposes. This also applies to the deduction of financing cost if, however, the net annual interest expense per entity is below 3 m € or a specific equity ratio test is satisfied. If not, the deduction of financing cost is limited to 30 % of the EBITDA. Buildings can be amortised on a straight line basis with percentages ranging from 2 % over 2.5 % to 3 % depending on the age of the building, its characterisation as residential or non-residential building and the fact whether it forms part of a commercial enterprise.

### 3. Taxation of capital gains

A capital gain from the sale of German real estate is subject to individual income tax and corporate income tax. For individuals a capital gain from the sale of German real estate is tax-exempt if the property has been owned for more than 10 years. This also applies in case the individual owns the real estate via a non-commercial partnership or if a partnership interest is sold and the non-commercial partnership owns German real estate. There is no preferred tax rate for capital gains from the sale of real estate. However, for

commercial real estate investors a tax-exempt reinvestment reserve can be created for the capital gain if specific requirements are met.

The sale of shares in a corporation owning German real estate may be 95 % tax-exempt for corporations if specific requirements are met. This also applies to foreign corporations if Germany is entitled to tax the capital gain from the sale of the shares under the applicable tax treaty. In case the applicable tax treaty does not contain a specific provision for real estate companies the taxation right for capital gains from the sale of shares in a corporation by a foreign shareholder is typically assigned to the foreign country.

### 4. Trade tax on rental income and capital gains

Rental income and capital gains from the sale of German real estate can be subject to trade tax. The tax rate is set by the municipality in which a fixed place of business is maintained. Rates range between 7 % and approx. 17 %. No trade tax is levied on individuals and non-commercial partnerships. No trade tax is levied on taxable commercial partnerships and corporations if the so-called extended trade tax relief can be applied. The application of the extended trade tax relief requires i.a. that the entity does not perform any commercial real estate trading activities, does not engage in the performance of detrimental ancillary services to its tenants, and does not rent out fixtures and fittings. Foreign commercial real estate investors can avoid German trade tax without having to fulfil the requirements of the extended trade tax relief if they do not maintain a fixed place of business in Germany. This requires i.a. that the day to day management of the foreign entity is conducted outside Germany.



## 5. Profit repatriation

There is no withholding tax on the profit repatriation of rental income by individuals, partnerships or corporations. Further, profit distributions by partnerships are not subject to German withholding tax. The profit distribution by a German corporation to its foreign and domestic shareholders is in principle subject to German withholding tax on dividend distributions, but may be exempt in case the EU Parent-Subsidiary Directive or specific provisions of applicable tax treaties apply. However, the application of benefits under the EU Parent-Subsidiary Directive and applicable tax treaties requires the fulfilment of certain substance criteria by the recipient of the dividend distribution.

## 6. Value added tax (VAT)

In connection with real estate only the standard tax rate of 19 % is relevant. The reduced VAT rate of 7 % is not applicable in this context. In general, the rental and sale of real estate is VAT-exempt. However, the landlord can opt for VAT if the property is rented out to an entrepreneur who uses the property for VATable output services. No VAT option is possible for the rental of residential properties. Input-VAT deduction is only possible to the extent the property is rented out with VAT. In case of a sale of the property such sale is either a non-VATable transaction if the seller is selling a fully rented property to an entrepreneur who continues such business or, if there is no transfer of a going concern, the seller can opt for VAT if the property is sold to an entrepreneur. Typically, the option will only be exercised if and to the extent the purchaser will use the property to provide VATable services.

## 7. Real estate tax

Real estate tax is levied by the individual municipalities on the owner of German real estate. The real estate tax is an annual tax and is typically far below 1 % of the fair market value of the property. In most cases the real estate tax can be charged by the landlord to the tenant.



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