AT A GLANCE
COWORKING SPACES IN GERMANY

DEVELOPMENT AND OUTLOOK

- In 2018, coworking spaces in the Big Six office markets generated a take-up of over 250,000 m². A tenfold increase compared to the average from 2009 to 2016.
- In the future, coworking spaces will most likely continue to gain in importance.

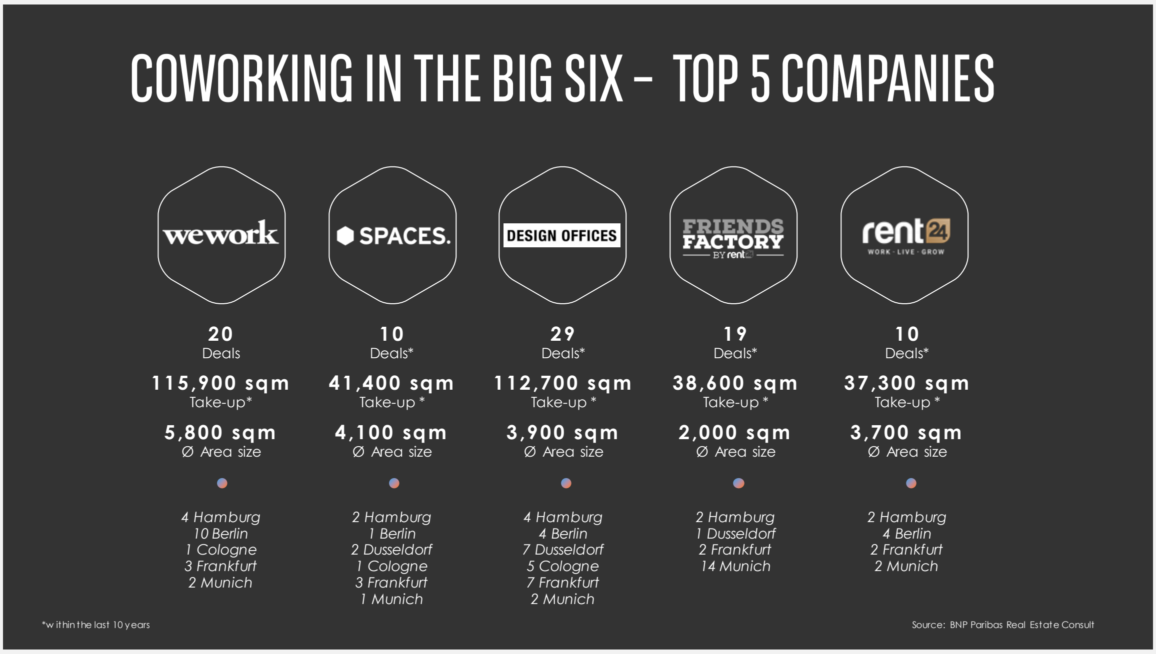
Changes in the world of work

The Sharing Economy has set a splitting process to work in many sectors: Airbnb in the hotel industry, Uber in the taxi companies, Zipcar in car rental business and Wework in the office space market. The coworking space operators are on the rise worldwide.

What first appeared in Denmark in 2002 under the name "LYNfabrikken" and still had the character of a coffee shop was continued in Berlin in 2009 and was called "Betahouse". Both office concepts can now be characterised as coworking spaces and have been on a steep development path in recent years.

The reason for the unprecedented growth of the sector, which has developed almost exponentially in Germany over the past three years, is above all the comprehensive change in the world of work and the significant growth of the start-up sectors.

The possible future of this sharing concept can already be observed now. WeWork has launched WeLive and WeGrow in the USA. A housing project with concierge and housekeeping as well as a project for the care and training of adolescents. However, it remains to be seen to what extent this idea of sharing, which spans private life, will gain a foothold in Germany as well.



Growth in the Big Six through strong coworkers

Germany has proven to be an attractive market for coworking providers alongside France and the UK. This market survey focuses on the Big Six in Germany, which consists of Berlin, Cologne, Dusseldorf, Frankfurt, Hamburg and Munich. Due to the federal structures in Germany, these six cities represent the largest office markets in Germany.

The largest Coworking supplier in these markets is the young company WeWork based in the USA. Almost 120,000 m² of office space have been leased most of it in Berlin. Design Offices, with over 110,000 m² of rented space, is represented throughout Germany, with Frankfurt and Dusseldorf forming the focal points.

The operators 'Spaces' from the Netherlands, 'Friends Factory' and 'rent24', both from Germany, must also be regarded as significant players on the market. All three have each leased approx. 40,000 m² of office space in the Big Six.

In 2018, coworking spaces in the Big Six office markets generated a take-up of over 250,000 m². A clear growth, taking into account the year 2009, in which less than 15,000 m² of office space in this category were transacted.

Between 2009 and 2016, the take-up with coworking spaces remained relatively stable and averaged just under 24,000 m². Only recently in the years 2017 and 2018 a significant rise in the take-up was notified an increase tenfold.

The same applies to the number of coworking spaces that were signed. While an average of 17 contracts were concluded each year between 2009 and 2016, this number rose sharply to over 80 in 2018.

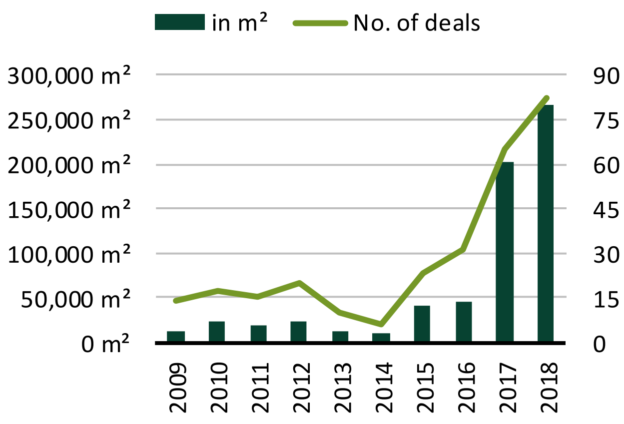
This growth is additionally flanked by the size of the office space per contract, which is also increasing. While the average for 2009 to 2016 was just under 1,400 m², in 2018 an amount of almost 3,300 m² were realised per contract.

Differentiated according to the individual office markets, Cologne and Hamburg were the front-runners in 2018 in terms of large-scale contracts. In both cities, the average contract signed by coworking providers, was as high as 6,000 m² of office space.

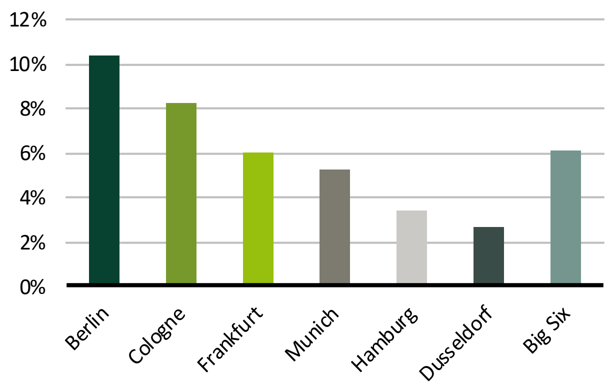
In terms of total office space take-up, an average of 6% of all lettings in the Big Six are attributable to coworking spaces in 2018. Berlin stands out relatively clearly as the national leader with more than 10%. Dusseldorf and Hamburg, on the other hand, are well behind with shares of about 3% each.

Within the Big Six, the operators focus is clearly on the cities of Berlin, Munich and Frankfurt. These three markets accounted for four fifths of all coworking space deals in 2018. In comparison with the development in the years 2013 to 2017, this is a significant increase, even though the average share of these three cities was already just under two thirds.

Take-up with coworking spaces in the Big Six



Share of coworking spaces of total office space take-up in the Big Six 2018



Is it all a bubble? What happens after the boom?

That **coworking providers in recent years have gained enormous influence on the German office property markets,** has been established as a fact.

This positive development was mainly driven by some global trends, such as the need for flexibility in day-to-day work and business development opportunities. Shorter rental periods, the service concept and networking are the key drivers here.

Coworking has also benefited considerably from the very scarce available office space in the central or traffic-friendly office locations. In competition with established companies, it has become increasingly difficult for individual entrepreneurs and start-ups to access high-quality office space without taking a high economic risk. Short lease terms and high-quality spaces are most likely to be found in coworking spaces. For companies that have already achieved a certain amount of employee growth, access to attractive office space represents an important milestone in the War for Talents and thus promotes coworking providers as well.

Nevertheless, an assessment of the development potential of this sector can only be made with caution, since the unprecedented growth of coworking spaces is not only due to the operators' concept, but also to exogenous factors. These include above all the economic boom in Germany, which has been continuing for several years now, and the simultaneous shortage of office space reserves in the major markets.

The large-volume office space lettings by WeWork, for example, are offset by substantial losses. In the 2018 financial year, these even slightly exceeded the company's turnover. It remains to be seen whether this trough will be overcome, as is the case with many companies that are in the process of growth.

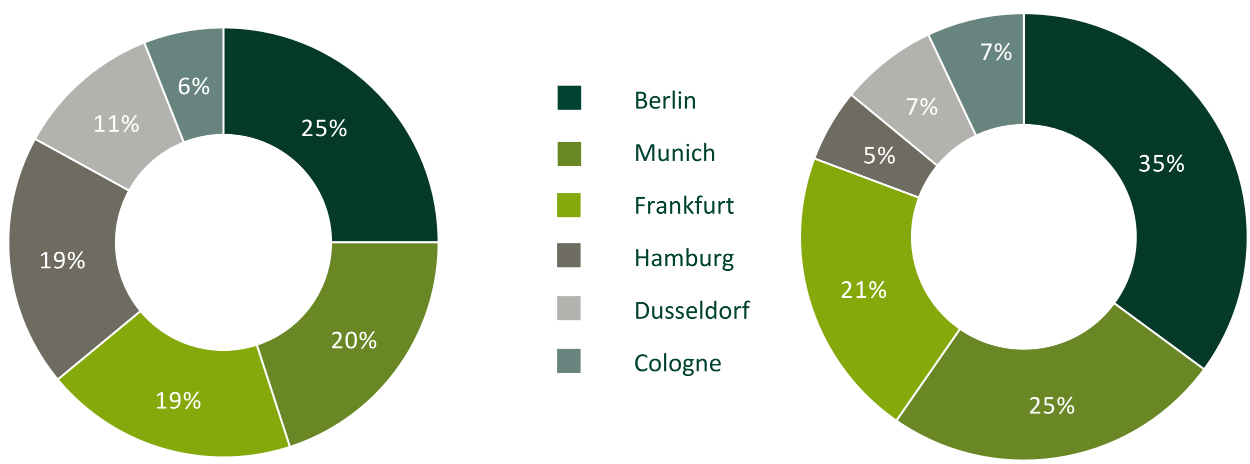
Similarly, only the future will show how sustainable the coworking concept is in the context of an economic downturn. If the number of start-ups decreases and larger companies concentrate on their own core spaces, both the coworking operators and their landlords could stumble.

Conversely, coworking suppliers could also be the winners of a downturn. Companies with previously fixed leases and rented space could see coworking spaces as an attractive alternative due to their greater flexibility.

Finally, the benefits such as the service concept and flexibility are very likely to ensure the preservation of this sector. **BNP Paribas Real Estate** therefore **assumes that the share of coworking spaces in the total take-up in Germany's office metropolitan will continue to rise noticeably.**

Share of deals with coworking spaces in the Big Six 2013 - 2017

Share of deals with coworking spaces in the Big Six 2018



GLOSSARY

BNP Paribas Real Estate is working on producing indicators which are as comparable as possible. This is a complex issue, due to cultural differences from market to market. Nevertheless, as we aim to actively contribute to the transparency of the markets, we have highlighted those definitions and indicators which are strictly comparable, so that our readers can understand what the indicators mean.

Furthermore we have decided to adopt the PEPCIG1 definitions, on which most of the following indicators published by BNP Paribas Real Estate are based. Other indicators are from INREV2 and from BNP Paribas Real Estate .

Central Business District average rent is the average of each of the last four quarters' average headline rent in the CBD. Each quarterly average rent is weighted by the surface of each lease signed during the quarter, in either new or second-hand premises. The definition of CBD corresponds to local conventions.

Completions represent the total amount of floor space that has reached practical completion and is occupied, ready for occupation or an occupancy permit where required has been issued during the survey period.

Central London includes the following districts: West End, Midtown, City, Docklands, Southbank, Western Fringe and Northern Fringe.

Central Paris includes the following districts: CBD, Paris out of CBD, La Défense, Western Crescent and Inner Rim.

Core Investment Vehicles target returns at 11.5% and lower, with gearing level up to 60% of Gross Asset Value.

Closed Ended Fund is a vehicle that has a targeted range of investor capital and a finite life.

Development Pipeline represents the total amount of floor space for all developments under construction and/or schemes (including major refurbishments) that have the potential to be built in the future through having a secured level of planning permission but remain unimplemented at the survey date. It includes all proposed new buildings, those constructed behind retained facades and buildings (or parts of buildings) undergoing a change of use to offices.

Exchange Rate from £ into € for rents is the average value observed over the quarter.

Exchange Rate from £ into € for investment volumes for each quarter is the average value over that period. Full-year investment volumes in both currencies are made up by adding the four quarters of each year.

German Open Ended Fund is a public vehicle that does not have a finite life, continually accepts new investor capital and makes new property investments. The list of German Open Ended Funds is published by the BVI (Bundesverband Investment und Asset Management e.V.).

Gross Asset Value is the sum of the Gross Capital Value of properties, cash and marketable securities and other (non-operating) assets.

Investment volume takes into account all commercial properties BNP Paribas Real Estate is aware of, whose owner has changed during the studied period, whatever the purchasing price. It includes Office buildings, Retail (supermarkets, hypermarkets), Industrial and Logistics Warehousing and Others (Hotels, Cinema, Leisure, Car Parks, Care Homes, parts of portfolio which can not be split up by product, and Development Sites in Germany). Quoted investment volumes are not definitive and are consequently subject to change.

Initial Prime Gross Yield is defined as Gross income (i.e. income before costs of ownership) over purchase price excluding costs of acquisition.

Initial Prime Net Yield is defined as Net income (or NOI) over purchase price plus all other costs of acquisition.

Prime Rent represents the top open-market rent at the survey date for an office unit:

- of standard size commensurate with demand in each location
- of the highest quality and specification
- in the best location in a market

Investment volume by investor/seller type refers to the following categories: Insurance, Private Investors, Public Sector, Corporates, Property Companies & REITS, Consortium, Funds and Other.

Investment volume by investor/seller nationality refers to the following categories: Eurozone, Non-Eurozone, North America, Other America, Asia, Middle East, Australia, International and Other.

Major Refurbishments represents refurbishments, where building work must involve either structural alteration, and/or the substantial replacement of the main services and finishes. The quality of the floor space must have been substantially improved from its previous condition so as to offer accommodation of a modern standard – although not necessarily to the standard of a completely new building.

Opportunistic Investment Vehicles target returns in excess of 17%, with gearing levels above 60% of Gross Asset Value.

Actual transactions are used in France, Germany and Belgium to support the headline prime rental quoted, but one-off deals, which do not represent the market, are disregarded. In the UK & Spain, if there are no prime transactions during the survey period a hypothetical rent is quoted, based on expert opinion of market conditions.

Space calculation differs in Spain, where figures in m² (Take-Up, Vacancy, Pipeline, Completions) as well as Rental values are based on Gross Letting Area space, contrary to the other main European markets, which use Net Letting Area. In order to make the Spanish figures comparable across all monitored markets, they should be multiplied by 0.82 (NLA = 0.82 GLA). This ratio is applied by BNP Paribas Real Estate to produce international indices and benchmarks.

Take-Up represents the total floor space known to have been let or pre-let, sold or pre-sold to tenants or owner-occupiers during the survey period.

It does not include space that is under offer

- A property is deemed to be "taken-up" only when contracts are signed or a binding agreement exists
- Pre-let refers to take-up that was either in the planning or construction stage
- All deals (including pre-lets) are recorded in the period in which they are signed
- Contract renewals are not included
- Sales and leasebacks are not included as there had been no change in occupation
- Quoted take-up volumes are not definitive and are consequently subject to change.

The breakdown of take-up by business sector is compatible with the European NACE code.

Under Construction represents the total amount of floor space in properties where construction has commenced on a new development or a major refurbishment (see separate definition) at the survey date. It includes properties for owner occupation, which are reported separately. It does not include sites being cleared for possible development in the future.

Property that is under construction but pre-let or for owner occupation is recorded separately where appropriate.

Value-added Investment Vehicles target returns of 11.5% to 17%, with gearing levels between 30% and 70% of Gross Asset Value.

Vacancy represents the total floor space in existing properties, which are physically vacant, ready for occupation in the next three months (this period covers fit-out time) and being actively marketed at the survey date. Vacancy includes sublet space (except in Germany), but where possible, vacant sublet space is recorded separately.

In France, vacancy excludes premises which the owner will renovate only once a lease is signed. Spain only counts immediately available space.

Vacancy Rate represents the total vacant floor space including sub-lettings divided by the total stock at the survey date.

1 Pan-European Property Common Interest Group. This group assembles a wide range of European advisors and investors and major agents.

2 European Association for Investors in Non-listed Real Estate Vehicles.

6 BUSINESS LINES in Europe

A 360°vision

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** Coverage in Transaction, Valuation & Consulting

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