

PwC Real Estate Investor Survey Germany

*A survey on current real
estate submarket
differences to provide more
transparency for investors.*

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PwC Real Estate Investor Survey Germany

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1 Introduction

With this first issue of PwC's Real Estate Investor Survey, we start a series of research for cap rates for German submarkets. The idea to perform this survey was triggered by feedback we had from market participants as well as us experiencing lack of transparency with respect to investment indicators for the German market.

The aim of our survey was to uncover submarket differences and provide an indication of the investor sentiment for cap rates of 27 different submarkets. Although Germany is usually judged as a very integrated and homogenous market, comparing the Top 7 Cities, 13 Regional Cities and 7 Regions, shows that individual submarkets have essential differences.

We invited 250+ investors to take part and fill out a questionnaire. Our results are thus based on current investor sentiment. The results of the survey are presented below. We will greatly appreciate your feedback.

2 *Our approach*

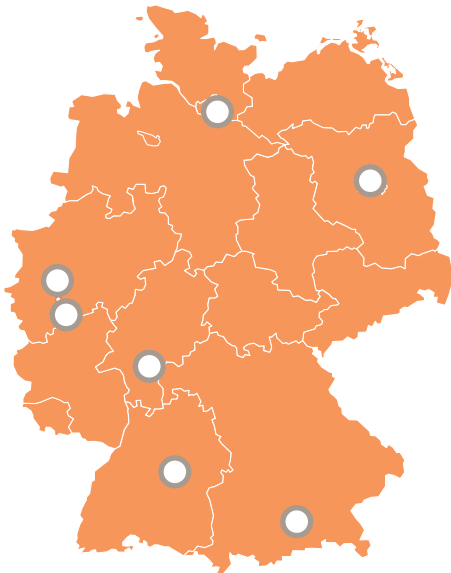
In order to capture a long-term investment perspective and account for the expectations of investors on future price development, we chose to use **all-risk-yields** based on net operating income (NOI) instead of prime yields for our survey. The major disadvantage of prime yields is the assumption of a static environment. Putting the current rent level in perspective with the purchase price neglects expectations on future market trends as well as developments in rent levels. Contrary to this approach, all-risk-yields are calculated by dividing the NOI of a fully let property at the day of purchasing by the purchase price. This allows accounting for re-letting potential and therefore represents all opportunities and risks contained in a real estate transaction.

To account for a broader market including Core, Core+, Value-Add and Opportunistic properties, all-risk-yields are stated in three categories (minimum, maximum, average). The minimum value reflects a property at the best micro location with a sustainable rental situation for this submarket. The maximum value reflects a property in a bad micro location with a sustainable rental situation specific for this submarket.

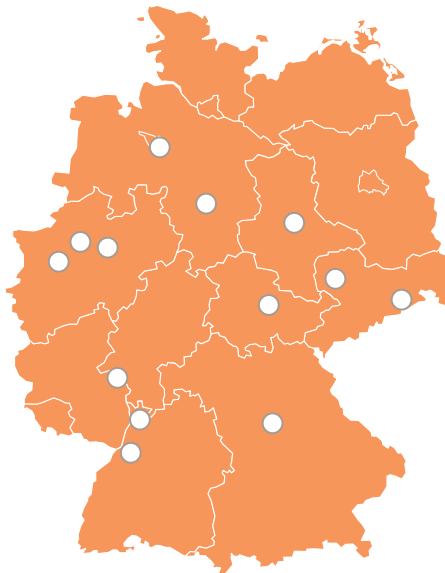
We received data covering three categories, namely **Top 7 Cities**, **Regional Cities** and **Regions**. The Top 7 Cities category reflects all-risk-yields of the seven biggest cities by inhabitants in Germany. Regional Cities represents a selection of 13 cities with a population ranging from 200,000 to 600,000. The Regions category provides a high level overview of all-risk-yields in the respective area excluding Top 7 Cities and Regional Cities.

Fig. 1 Identified Submarkets

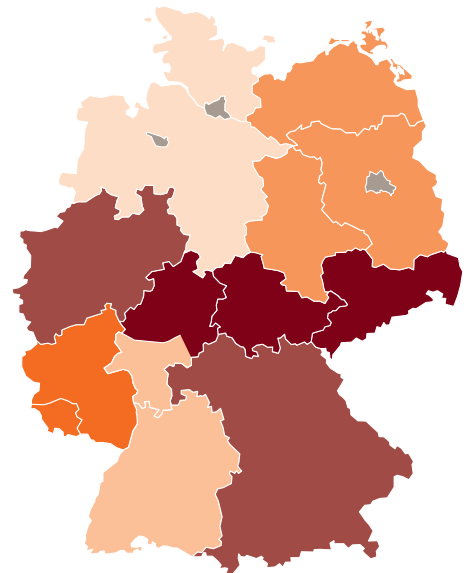
Top 7 Cities



13 Regional Cities

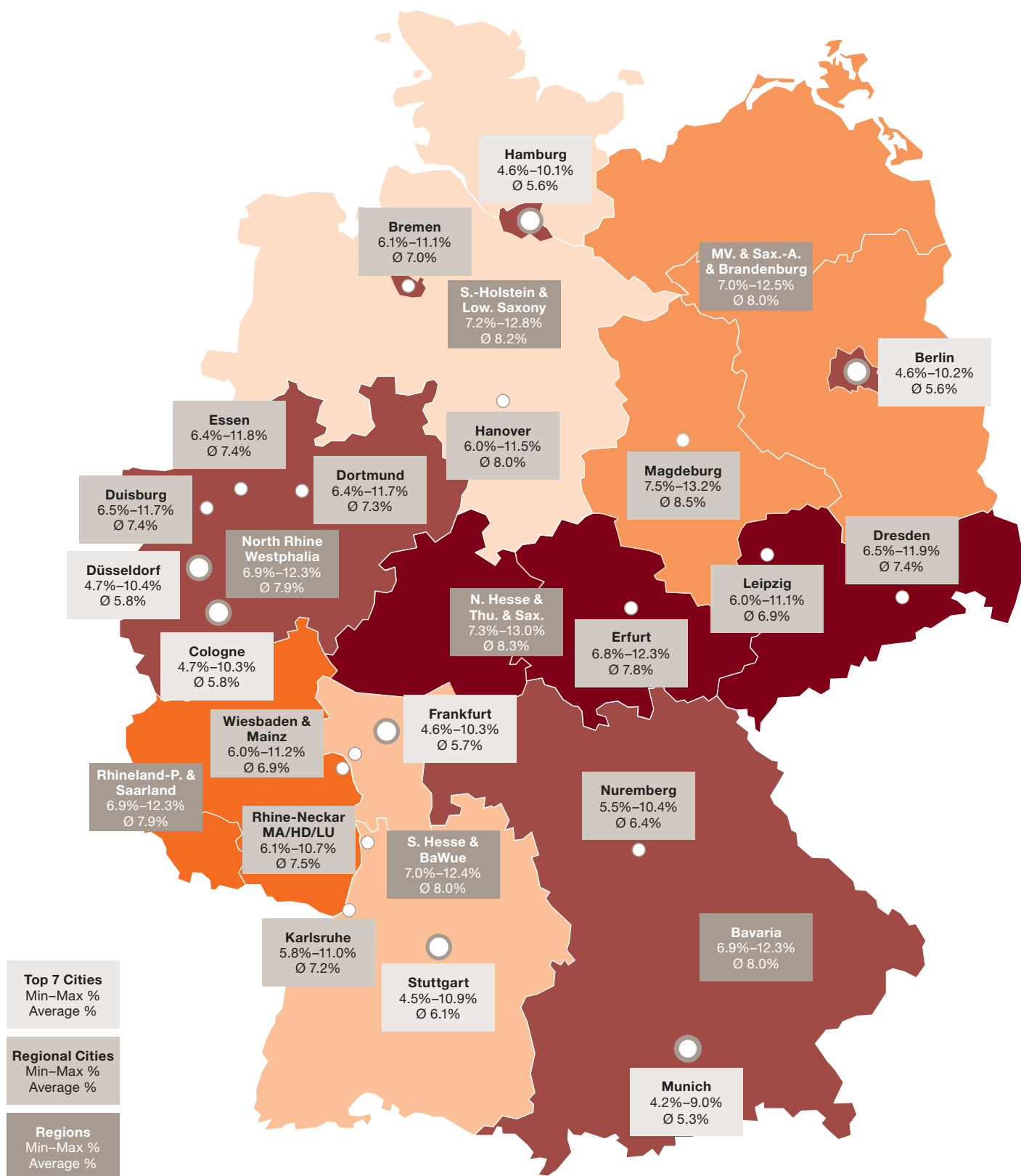


7 Regions



3 All-risk-yields offices

Fig. 2 All-risk-yields for offices in German submarkets by geography



Within each category results are fairly homogeneous. However, among the different categories, the results confirm that the individual submarkets have material differences across Germany.

The Top 7 Cities show low all-risk-yields compared to the other categories, accounting for larger markets and lower risk. Munich provides the lowest yields in prime locations with roughly 4.18% and clearly stands out within the Top 7 Cities.

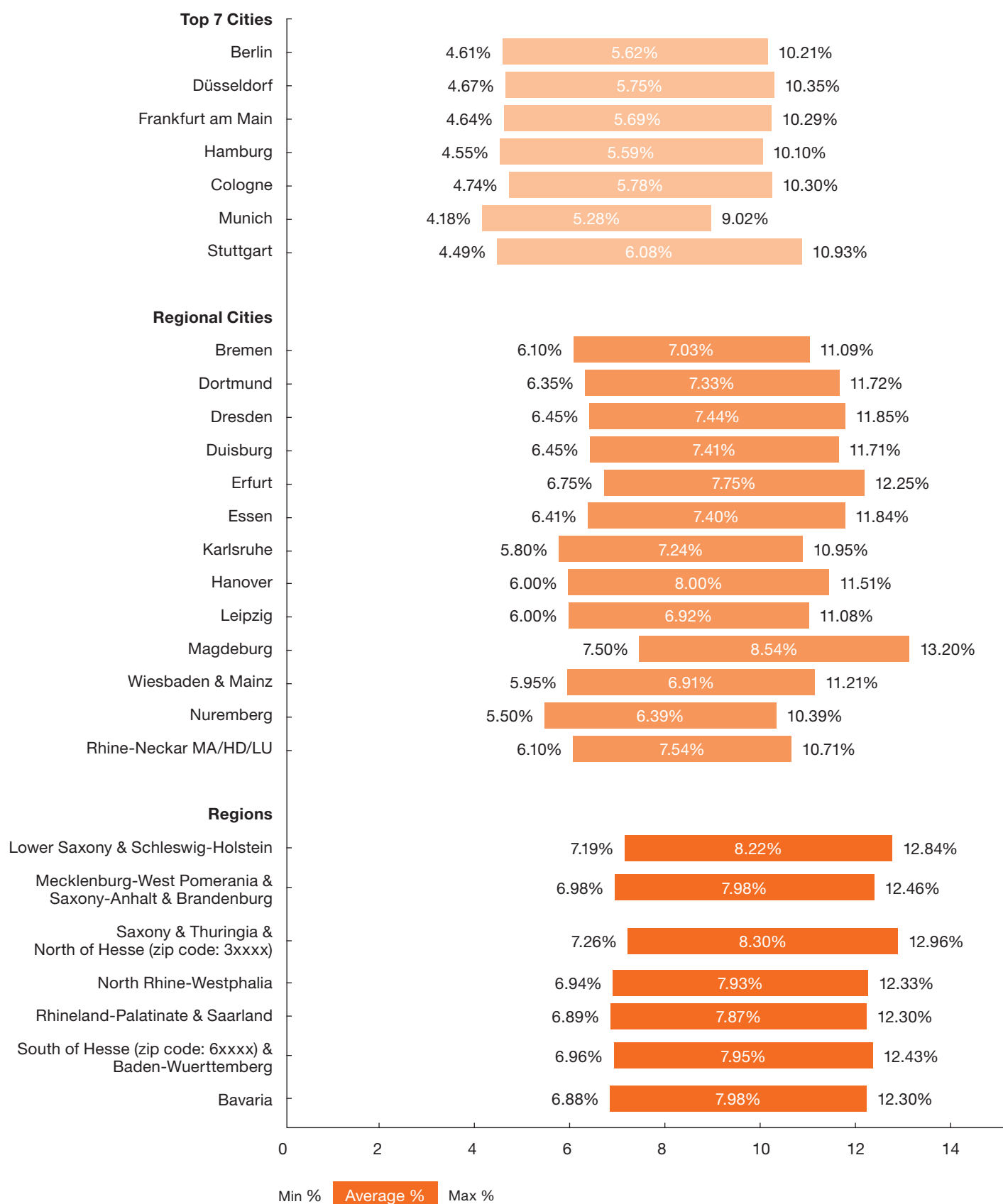
Contrary to the metropolises, investments in Regional Cities and the German periphery provide minimum all-risk-yields ranging from 5.8% to 7.3% to account for the higher risk and smaller markets for office space.

Within the Regional Cities, Magdeburg attracts particular attention with a high all-risk-yields range from 7.5% to 13.2%, implying a considerable degree of risk associated with investments in Magdeburg.

The homogeneity within each category of all-risk-yields becomes most obvious by analysing the different Regions, where investments in prime locations yield a return of approximately 7%, while properties in weaker locations are traded at approximately 12.5%.

All in all, it can be stated that Top 7 Cities in particular currently experience low margins accompanied by high transaction volumes, while secondary locations show higher risk profiles which are compensated by higher all-risk-yields.

Fig. 3 All-risk-yields for offices in German submarkets by category



4 All-risk-yields retail

Fig. 4 All-risk-yields for retail in German submarkets by geography

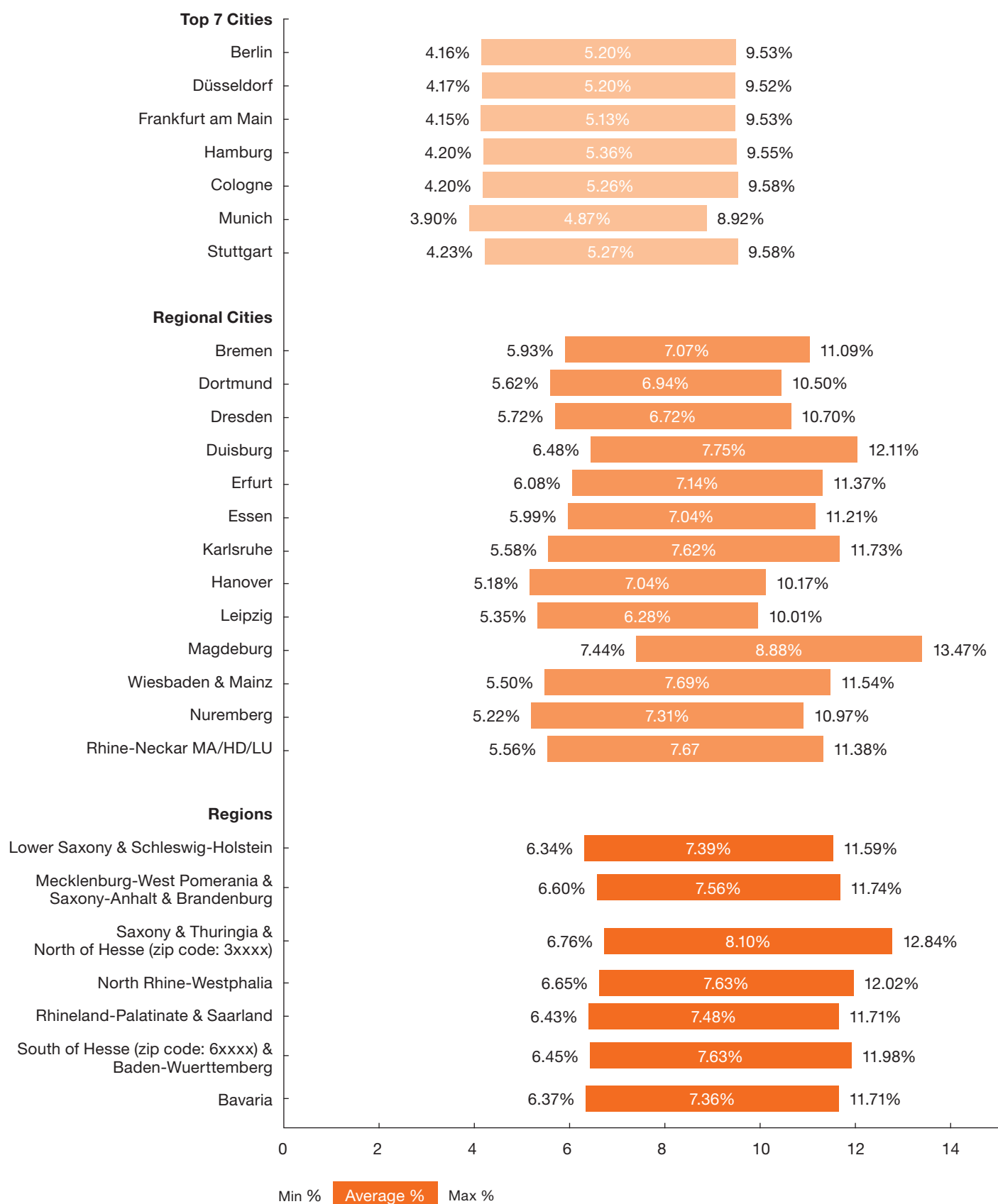


The results for the retail investment market are somewhat similar to the investment market for offices as significant differences between individual categories are found.

However, spreads between the categories are lower compared to the office market. In addition, it has to be considered that the type of retail property has an impact on the risk-return profile, as high street retail units usually imply lower yields compared to food retailers or DIY stores.

Munich again displays the lowest minimum all-risk-yields in prime locations with 3.90%, whereas Magdeburg has the highest yields in prime locations with 7.44%. Furthermore, it can be stated that the ranges among the single Regional Cities deviate higher compared to the Top 7 Cities and the Regions, where the ranges are more homogeneous.

Fig. 5 All-risk-yields for retail in German submarkets by category



5 Overview of the results

Fig. 6 Results overview

	Office			Retail		
	Min.	Max.	Ø	Min.	Max.	Ø
Top 7 Cities						
Berlin	4.61%	10.21%	5.62%	4.16%	9.53%	5.20%
Düsseldorf	4.67%	10.35%	5.75%	4.17%	9.52%	5.20%
Frankfurt am Main	4.64%	10.29%	5.69%	4.15%	9.53%	5.13%
Hamburg	4.55%	10.10%	5.59%	4.20%	9.55%	5.36%
Cologne	4.74%	10.30%	5.78%	4.20%	9.58%	5.26%
Munich	4.18%	9.02%	5.28%	3.90%	8.92%	4.87%
Stuttgart	4.49%	10.93%	6.08%	4.23%	9.58%	5.27%
Regional Cities						
Bremen	6.10%	11.09%	7.03%	5.93%	11.09%	7.07%
Dortmund	6.35%	11.72%	7.33%	5.62%	10.50%	6.94%
Dresden	6.45%	11.85%	7.44%	5.72%	10.70%	6.72%
Duisburg	6.45%	11.71%	7.41%	6.48%	12.11%	7.75%
Erfurt	6.75%	12.25%	7.75%	6.08%	11.37%	7.14%
Essen	6.41%	11.84%	7.40%	5.99%	11.21%	7.04%
Karlsruhe	5.80%	10.95%	7.24%	5.58%	11.73%	7.62%
Hanover	6.00%	11.51%	8.00%	5.18%	10.17%	7.04%
Leipzig	6.00%	11.08%	6.92%	5.35%	10.01%	6.28%
Magdeburg	7.50%	13.20%	8.54%	7.44%	13.47%	8.88%
Wiesbaden & Mainz	5.95%	11.21%	6.91%	5.50%	11.54%	7.69%
Nuremberg	5.50%	10.39%	6.39%	5.22%	10.97%	7.31%
Rhine-Neckar MA/HD/LU	6.10%	10.71%	7.54%	5.56%	11.38%	7.67%
Regions						
Lower Saxony & Schleswig-Holstein	7.19%	12.84%	8.22%	6.34%	11.59%	7.39%
Mecklenburg-West Pomerania & Saxony-Anhalt & Brandenburg	6.98%	12.46%	7.98%	6.60%	11.74%	7.56%
Saxony & Thuringia & North of Hesse (zip code: 3xxxx)	7.26%	12.96%	8.30%	6.76%	12.84%	8.10%
North Rhine-Westphalia	6.94%	12.33%	7.93%	6.65%	12.02%	7.63%
Rhineland-Palatinate & Saarland	6.89%	12.30%	7.87%	6.43%	11.71%	7.48%
South of Hesse (zip code: 6xxxx) & Baden-Wuerttemberg	6.96%	12.43%	7.95%	6.45%	11.98%	7.63%
Bavaria	6.88%	12.30%	7.98%	6.37%	11.71%	7.36%

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