

Q2 2010 Compared to...

	Q1 10	Q2 09
Investment turnover	↑	↑
Number of transactions	↑	→
Prime yield Office	↓	↓
Capital value index Office	↑	↑
Prime yield High Street Retail	→	→
Prime yield Shopping Centres	→	↓
Prime yield Retail Parks	→	↓
Prime yield Logistics	→	→

Developments on the investment market for commercial real estate in Germany continue to be very buoyant. The transaction volume of more than € 8.65 billion, registered in the first half of 2010, shows an increase of 162% above that of the same period in the year before in terms of investments in commercial properties in Germany.

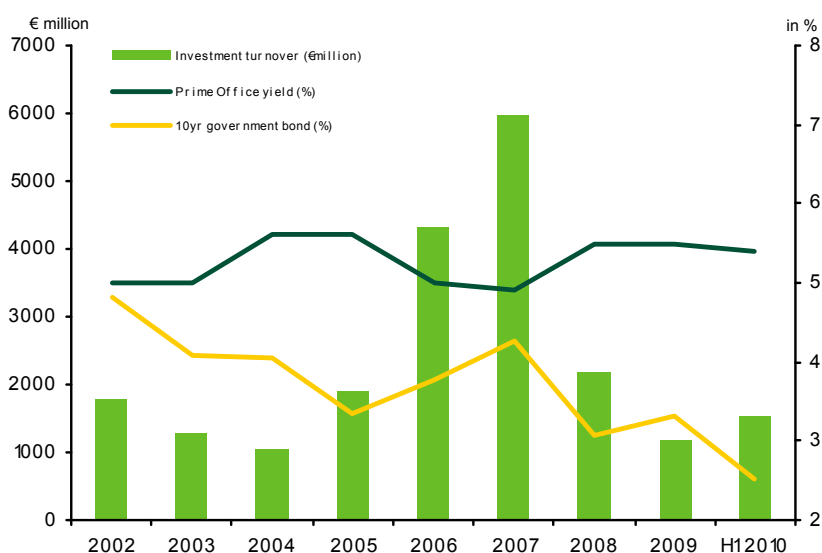
Germany has established itself among domestic and international investors as a safe haven for investments. With regard to the bond markets, we have registered continued, high demand for first class properties with low risk potential. Since secure long term rental income remains a concern, it is primarily fully-let core properties with long leases, very good covenant and very good tenant structures which investors are focusing on. It is solely the currently limited level of supply which is rather limiting and which hindered the potential for even greater investment activity in the first six months of 2010.

Due to a number of extraordinarily large-format shopping centre investments it was retail properties (in terms of the asset classes) which were the focus of investment activity in the first six months of 2010, accounting for 48% of the transaction volume. This was followed by office properties (31%) and then by logistics/industrial properties, accounting for approximately 8% of the transaction volume.

The market for portfolio transactions is once again picking up momentum. Of the total € 8.65 billion, more than € 2.4 billion i.e. approximately 28% is attributable to portfolio transactions, whereby just under half of this was generated through the sale of the shopping centre portfolio to Corio N.V. in Q1 2010. Single investments constituted 72% or approximately € 6.23 billion. By comparison, in H1 2009 portfolio transactions were only 15% of the total transaction volume, with single asset transactions accounting for 85%.

In Berlin in the first half of 2010, commercial transactions amounting to € 1.55 billion were completed. The spectacular increase in the volume of transactions, at 270%, can be explained above all by three large-volume investment transactions. The prime yield for office properties fell year-on-year by 10 basis points to 5.4%. Therefore capital values for office properties recorded an increase for the first time in three years. Compared to last year, the capital value index rose by 2% and stood at 165 points at the end of the second quarter.

Investment turnover Berlin



Investment market Berlin

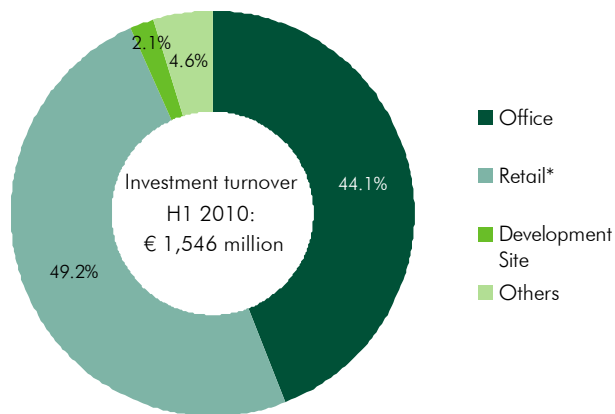
In Berlin in the first half of 2010, commercial property up to a total value of € 1.55 billion was transacted. Three large volume investments resulted in an accelerated rise in the volume of transactions, 270% compared to the year before; nonetheless, these phenomenal transactions cannot hide the fact that last year's stagnation continued into the first six months of this year. Typical investments in office and retail properties in established Berlin locations have been the only exception to date. One reason for this could be that existing demand for high-quality office properties in Berlin's top locations cannot be sufficiently satisfied due to a limited supply of assets.

In terms of invested volume, office and retail properties dominated investment activity in the first half of 2010. Approx. € 680 million (47%) of investment turnover was accounted for by office properties. The € 761 million transaction volume for retail properties mainly resulted from investments in shopping centres. By comparison, the volume of transactions of prime retail properties in the major shopping streets in Berlin was significantly lower.

In the first two quarters of 2010, investors with a strong equity capital base were the principal market players. For instance, the South Korean national pension fund NPS acquired the Sony Center on Potsdamer Platz for around € 572 million – the largest single transaction in the German investment market so far in 2010. High net cash inflow into the open-ended property fund Unilmmo:Deutschland facilitated the purchase of the majority share in the Alexa shopping centre. Also, the acquisition of the shopping centre Boulevard Berlin, by the Dutch listed property company Corio N.V. can be labelled as 'equity led'. In order to finance the € 1.3 billion pan-European portfolio deal, the company successfully raised capital of € 600 million. At € 66 million and a share of 4% of the total volume, private investors were the fourth largest purchaser group.

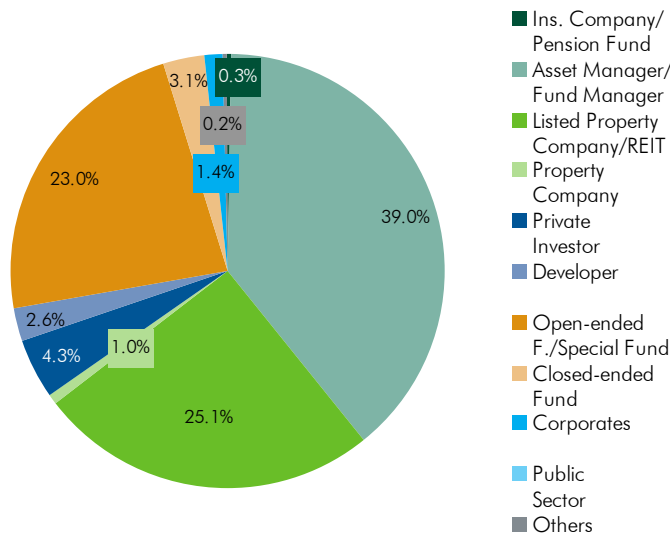
In the first half of 2010, project developers disposed of commercial properties with a value of around € 730 million, of which € 316 million are attributable to the Alexa Shopping Centre. The popular shopping centre opened in 2007 and has become successfully established in Berlin's retail landscape. Project developers also disposed of several sites and properties in need of redevelopment, which could not be successfully placed in the previous property cycle. With a share of 37% in the first six months, asset and fund managers were the second largest vendor group. This was the reason why the investor group surrounding MSREF considered it to be the best time to sell the Sony Center, once vacancy in the property had been reduced and leases with high covenant strength anchor tenants had been successfully extended. The volume of sales generated by the public sector has fallen by around 90% since last year. Here, the generally limited variety of supply and low quality is evident.

INVESTMENT TURNOVER BY TYPE OF USE

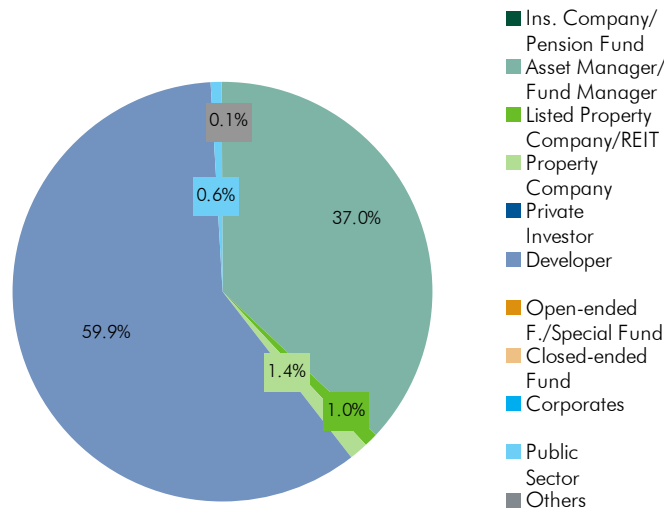


* High street retail, shopping centres, retail warehouses and retail parks

INVESTMENT TURNOVER BY TYPE OF INVESTOR

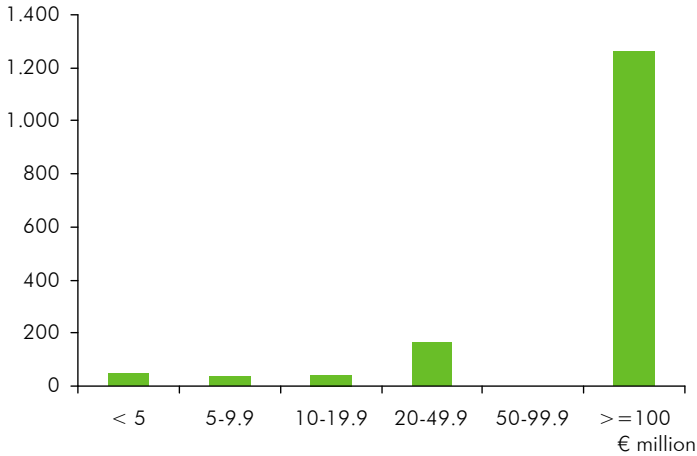


INVESTMENT TURNOVER BY TYPE OF VENDOR



INVESTMENT TURNOVER BY SIZE

€ million; cumulated



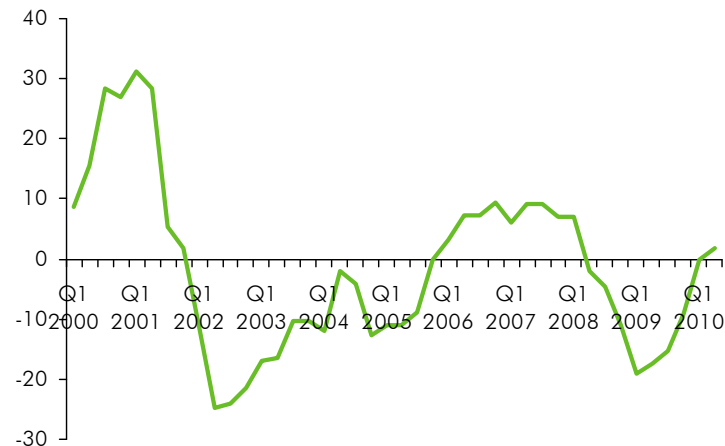
PRIME YIELDS COMMERCIAL REAL ESTATE

in %



CAPITAL VALUES OFFICE

annual change; %



In the first half of 2010, the investment pressure from equity capital strong investors facilitated three transactions above the € 100 million mark. During the same period last year, investments were restricted to smaller volume sales of less than € 100 million. At the beginning of the year, investors focused on the highly competitive Berlin shopping centre market and the appeal of retail space. Taking the A10 Center in Brandenburg into consideration, three of the four largest shopping centres in the federal capital region have changed hands over the last six months. As part of a portfolio acquisition, Corio N.V. purchased Boulevard Berlin for € 370 million. The shopping centre, with around 60,000 sq m of retail space, is currently under construction in Berlin's Schloßstrasse – with four shopping centres, this is the undisputed shopping centre strip in Germany. Investments in sites and properties in need of redevelopment defined transaction activity where the volume was less than € 10 million. Considering the economic trends and a much reduced office space pipeline in Berlin's top locations, the interest of project developers is reasonable.

Development of prime yields

In Berlin, prime yields for office properties have reduced by ten basis points to 5.4% year on year. In the federal capital, the development has therefore reflected that of the other major city markets, although the prime yield level for office properties remains above that of the other cities. In comparison: Frankfurt lies at 5.3%, Düsseldorf at 5.2%, Hamburg at 5.0% and Munich at 4.9%. The turmoil in the international financial markets allowed the gap between yields and the benchmark interest rate (10-year government bonds) to widen to 287 basis points. In Berlin, prime yields for prime retail and logistics properties have shown a high degree of stability during past quarters. The prime yield for prime retail properties still shows no sign of reducing from its level in the previous year, yet. By the middle of the year, the yield has remained at 4.9%. The completion of BBI Airport, planned for spring 2012, has not yet generated special economic conditions for logistics properties. Due to stable investor interest, the prime yield for logistics properties has remained unchanged at 7.5%.

The capital values of office properties have displayed signs of growth for the first time in three years. Compared to last year, the capital value index rose by 2%, reaching 165 index points by the end of the first half year. For the coming quarters, a further increase in capital values can be assumed. The continuing high demand for office properties in the core segment could lead to a moderate increase in prime rents for office space.

Outlook

The first six months of the current investment year were very dynamic, which further underpinned the recovery in the commercial investment markets in Germany. Although the second quarter was slightly weaker than the first, with just over €4bn compared to around €4.65bn, this development was due more to a shortage of suitable products rather than a weakening of investor demand.

Thanks to its stable general conditions, returning positive macro-economic fundamental data, a robust labour market and, most of all, a relatively stable real estate market in the international context, Germany is high on the list of targeted countries for national and international property investors for their global portfolio allocation. The German property market enjoys the reputation as a stabilising factor, particularly among foreign investors, which is illustrated by the major commitment shown by international investors. For instance, of the 13 largest transactions with an investment volume above the €100m mark, which together correspond to over €4bn, almost half were accounted for by foreign property investors from the Netherlands, South Korea, the UK and the USA.

In view of the continued high real rates of return and positive lending leverage, in our opinion, demand for the asset class 'property' will grow further for risk diversification purposes in multi-asset portfolios of globally active institutional investors. The focus in the second half of 2010 will remain on first class core and core plus properties with long-term secure rental incomes and a suitably low downside-risk exposure. At the same time, we expect that investments will focus mainly on properties with office and/or retail use, but that the investment strategies of institutional investors will shift increasingly towards residential properties as well. As a result of the significantly brighter global economic conditions compared to last year, we also anticipate higher investment activity in the case of logistic properties and/or portfolios.

Due to the limited supply in the prime segment, during the remaining course of the year we expect further price rises in some asset classes; as a result of which investors will increase their willingness to consider slightly more risk in their property investments.

Also in the second half of 2010 we assume that, in addition to national insurance companies and pension funds, closed-ended fund vehicles and open-ended property funds (and primarily special property funds) will participate in the national property market.

In addition, we also expect further cross-border investment by foreign investors. For instance, we have recently identified a growing number of opportunistic investors focusing on Germany. In addition to office and retail properties in metropolitan regions, residential properties in locations with sustained population and economic structures are increasingly appearing on their shopping lists.

Overall, for 2010 we anticipate a transaction volume for the whole of the German investment market for commercial properties at around the € 15 billion mark. For Berlin's investment market we expect that the investment turnover in the second half of 2010 will be carried by medium sized transactions. But, the investment activity in this segment likely won't lead to a investment turnover above the ten year annual average of € 2.3 billion.

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