

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.

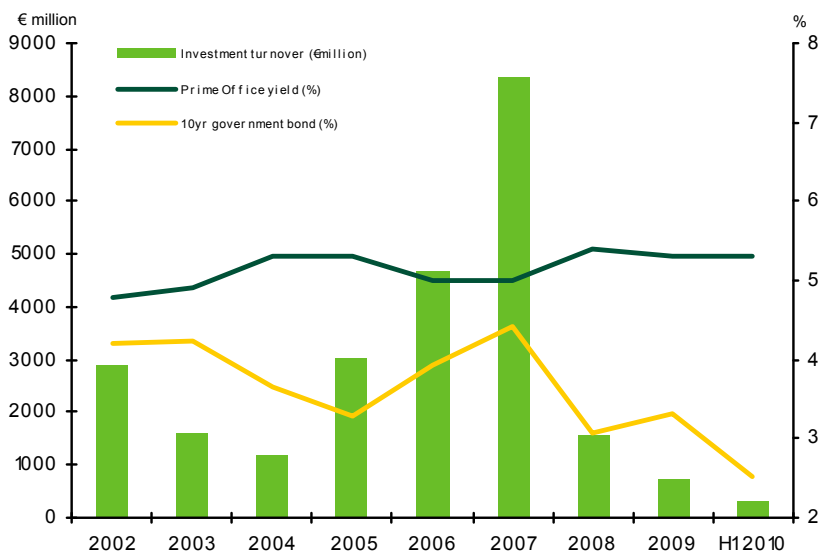
Germany has established itself among domestic and international investors as a safe haven for investments. With regard to the bond markets, we have registered continued, high demand for first class properties with low risk potential. Since secure long term rental income remains a concern, it is primarily 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%.

The cumulative transaction volume on the Frankfurt investment market in the first half of the year stood at around € 301 million, of which 85% was accounted for by the office sector. Whilst there are large-scale transactions in the pipeline, in the second quarter of 2010 only one transaction in over € 50 million was concluded. In contrast to last year, foreign investors are also represented again in increased numbers on Frankfurt's investment market. Apart from this, institutional investors such as insurance companies and pension funds remain active on the purchasing side, investing around a quarter of the volume of transactions on the Frankfurt market. The main focus of investors remains almost exclusively on core and core plus properties. Compared to last quarter, the prime yield in Frankfurt remains unchanged at 5.3%. Compared to the corresponding figure last year this represents a fall of 10 basis points.

Investment turnover Frankfurt



Investment market Frankfurt

The cumulative transaction volume for the Frankfurt investment market in the first half year 2010 was around € 301million. This is a slightly lower level than the previous year (- 5%). In view of the latent demand for core product, this is more the result of a lack of suitable investment opportunities. On account of the deals currently under negotiation, we would expect a significantly higher transaction volume for the full year compared to the previous year; we have already observed an increased demand for high volume investments. The current excess demand for core and core plus product means that, in future, an inevitable widening of demand to include value add product cannot be ruled out.

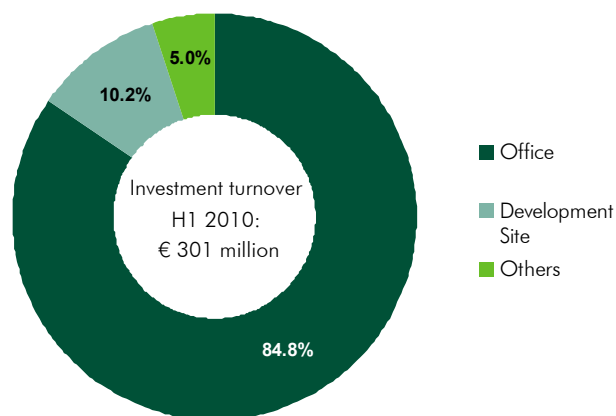
Compared to the previous year, the spread of investment transactions by type of use has changed significantly. Office properties comprised the largest investment segment with € 255 million (85% of total volume). In the first half of 2009, this proportion was 37% so this is an increase year-on-year. Around € 31 million (10.2% of total volume) was invested in development sites. Other commercial properties with a value of € 15 million (5% of total volume) were also transacted. Whilst a number of large-scale transactions are currently at the preparation stage, there was only one deal with a volume above € 50 million in the second quarter of 2010.

On the purchaser side, the most active group in the first half of 2010 has been asset and fund managers, with 43% of total volume. The bulk of the investment volume was represented by two transactions of € 40 million and a little above € 50 million respectively. Whilst in the previous year almost 48% of total investment volume was attributable to German institutional investors such as insurance companies, pension funds, open-ended funds and special funds and private investors/family offices, this group accounts for only 31% in 2010. It is noticeable that in the first half of 2010, open-ended and special funds have not been active in the Frankfurt market.

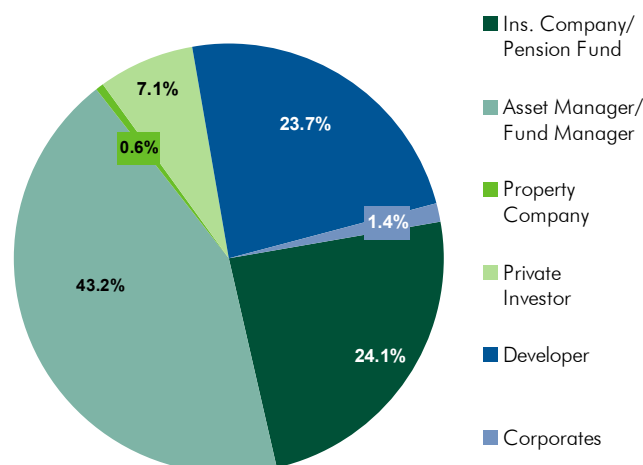
Contrary to the previous year, international investors are more in evidence in the Frankfurt investment market. By way of example, a foreign asset manager purchased the MainPark property in Offenbach-Kaiserlei (according to the CB Richard Ellis definition, this is classed as a Frankfurt submarket). Whilst in the first half of 2009, only German purchasers were active in the Frankfurt market, in the same period in 2010, international investors accounted for 47% of total investment volume. We expect that demand from international investors will continue to increase in the second half year.

The sales side has been dominated by project developers accounting for 27 % of total volume. The second most active vendor group was property companies with 20%. Investing a total of € 50 million were insurance companies and pension funds, which were not active on the sales side at all in the first half of 2009.

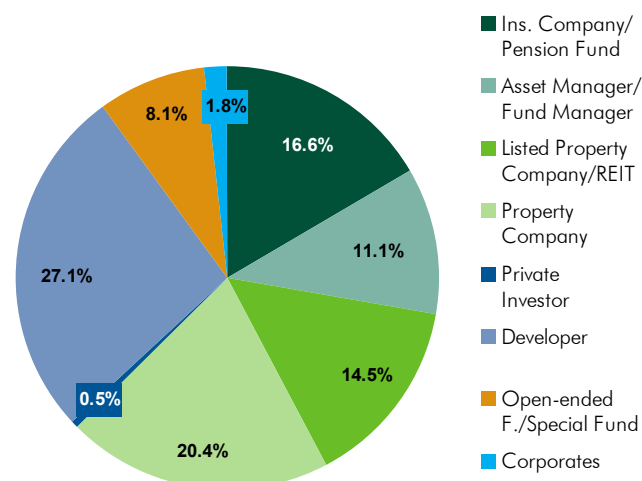
INVESTMENT TURNOVER BY TYPE OF USE



INVESTMENT TURNOVER BY TYPE OF INVESTOR

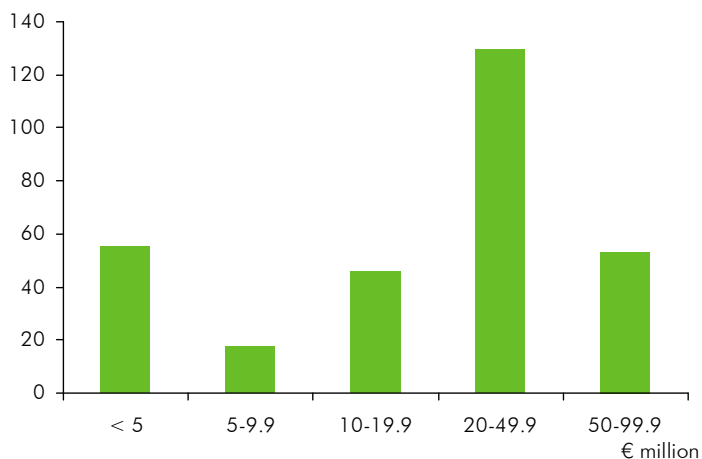


INVESTMENT TURNOVER BY TYPE OF VENDOR

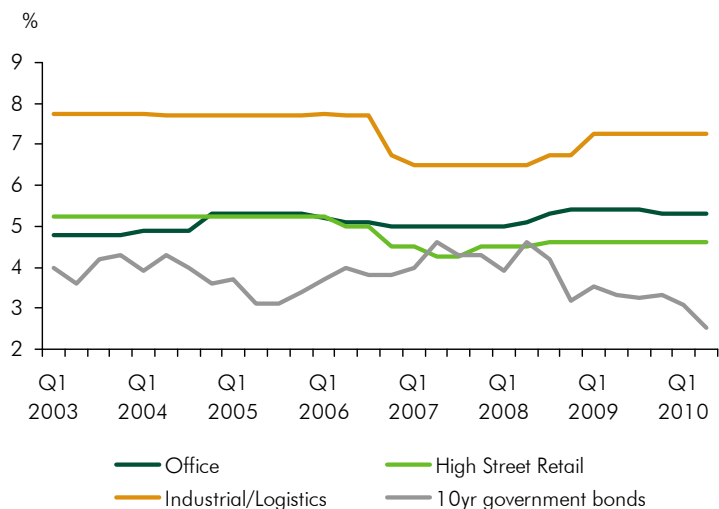


INVESTMENT TURNOVER BY SIZE

€ million ; cumulated



PRIME YIELDS COMMERCIAL REAL ESTATE



CAPITAL VALUES OFFICE

annual change; %



Development of prime yields

Frankfurt's prime yield for first class office properties remained stable at the previous quarter's level of 5.3%. This is 10 basis points lower than the previous year. This development is the result of continued increase in demand for core product, which accounts for the stable/slightly reducing yield trend at a time when little product is available in this market segment. Prime yields in other major German centres have stayed at the same level as the previous quarter (in comparison: Dusseldorf 5.2%, Hamburg 5.0%, Munich 4.9%), after yields had decreased slightly in the fourth quarter of 2009. Berlin now shows a delayed yield shift of 10 basis points to 5.4%.

With a prime office yield of 5.3% in Germany's financial capital Frankfurt, there is currently a spread of 277 basis points compared to the benchmark yield for 10-year government bonds, which were at 2.53% at the end of June.

There has been no year-on-year shift in the yield for prime located retail property in central Frankfurt. The yield is stable at around 4.6% showing a spread of 207 basis points over benchmark yield. Yields for shopping centres across Germany have fallen by 25 basis points to 5.5% on account of the very high demand for large-scale retail property.

The prime yield for logistics and warehouse property also remained stable year-on-year at 7.25%. The figures in Frankfurt, Hamburg, Dusseldorf and Munich also remained stable at 7.25%; 25 basis points higher in Berlin.

In Frankfurt, similarly to other top investment locations, a further reduction in the availability of product in the core segment is foreseeable over the next few years, as the outline conditions for project developments in the current lettings market remain difficult. On the basis of the current increasing investor demand, a continued stable yield level can be assumed; in some segments we expect a tendency towards slightly falling prime yields.

The capital value index for first class office property at the mid-year point is currently at 202 points, 2% above the previous year's level.

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 Frankfurt we expect a transactions volume significantly above the € 735 million registered last year.

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