

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.

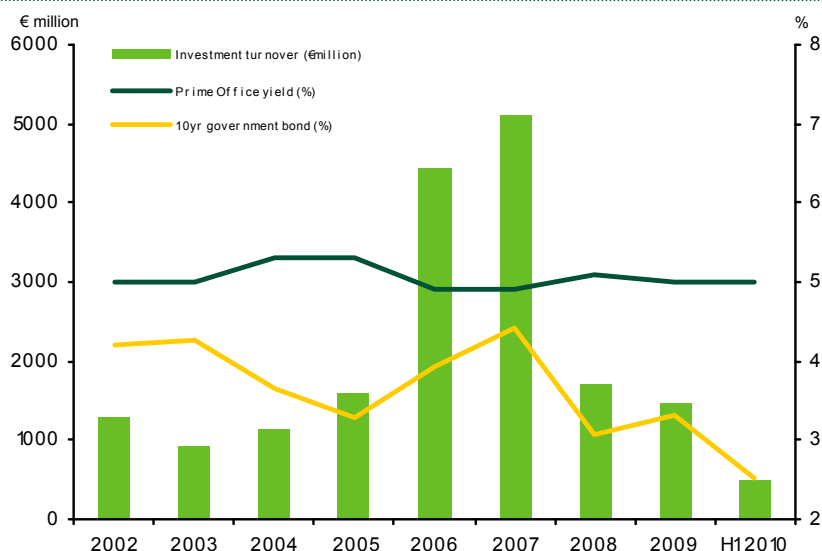
Germany has established itself among domestic and international investors as a safe haven for investments. With regard to the bond markets, we have registered continued, high demand for first class properties with low risk potential. Since secure long term rental income remains a concern, it is primarily 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 improved investment climate in Hamburg's market is reflected in the volume of transactions compared to last year. This has risen significantly by 65% to around € 505 million (Germany overall: € 8.65 billion). The focus of demand on fully let core properties and the very limited supply in this sector have resulted in a fall in the net initial yield in the past twelve months by 10 basis points to 5.0%. Compared to the benchmark yield for ten year government bonds, this represents a premium of 247 basis points at the midpoint of the year.

Investment turnover Hamburg



Investment market Hamburg

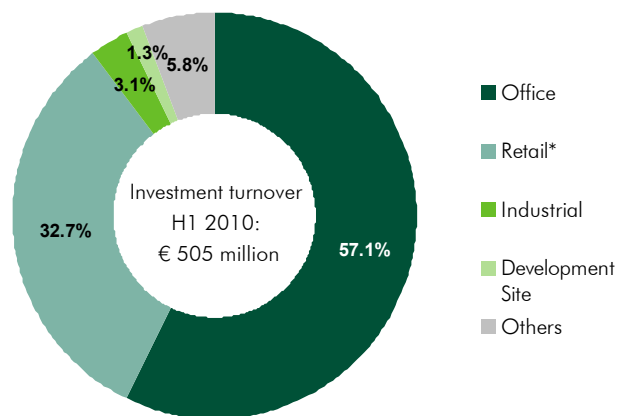
At € 505 million, the volume of transactions on the Hamburg market in the first half of 2010 exceeded the previous year's result by 65%. Several large transactions are close to conclusion. We therefore anticipate further positive progress in the third quarter. With a 57% share of Hamburg's transaction volume, investor focus was on office investments with long leases, despite the present weakness of the office market environment. The most remarkable rates of increase are being recorded in retail investments, which made up 33% of investment volume in the first half year. However, investors' demand, which is generally risk-averse, is concentrated on the city's prime locations. One reason for this is comparatively stable private consumer retail spending, as well as the conspicuously landlord-friendly rental market, with its continuing potential to increase rents in absolute prime locations. In the international commercial centre of Hamburg, even last year, there was virtually no market for the asset class Warehouse/Logistics/Production. Yet around € 16 million was invested in this segment in the first half of 2010, which corresponds to a share of around 3% of the local investment volume. However, this figure is based only on some small volume owner-occupier transactions. It does not consider the purchase of the first building phase of 'LogPark' in Neu Wulmstorf by Union Investment, as this lies outside the city limits. In Greater Hamburg this transaction, however, is the first major investment in a logistics property since the onset of the financial crisis.

The sustained high demand registered from insurance companies and pension funds for direct property investments in the first half of the year in Hamburg accounted for a remarkable share of the transaction volume of 35%. Insurance companies in particular are strongly considering direct investment in property to satisfy the growing requirements for risk prevention by increasing their insurance funds. The interaction between a strong demand for shares and, in the case of long-term let and therefore low risk properties, attractive interest rates on the debt capital side, have led to growth in demand from closed-ended fund initiators.

Due to the high level of competition for suitable core investments with high equity capital based investors, closed-ended funds are not currently being presented with any great opportunities to invest. Furthermore, we are also registering individual inquiries from foreign investors for core products; these investors are also prepared to commit themselves to the pricing in the German property market. Since last year, opportunistic investors have also started to sound out the market again; however, the lack of price corrections in this segment means that almost no transactions have yet taken place.

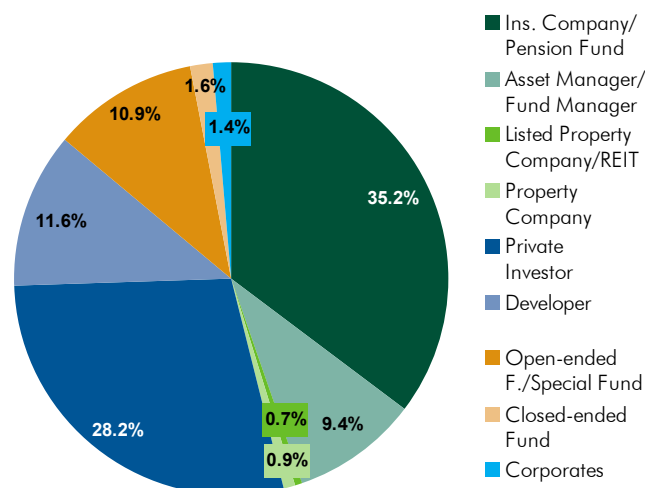
As soon as project developers have almost fully let their properties in top locations, their products become very much sought-after.

INVESTMENT TURNOVER BY TYPE OF USE

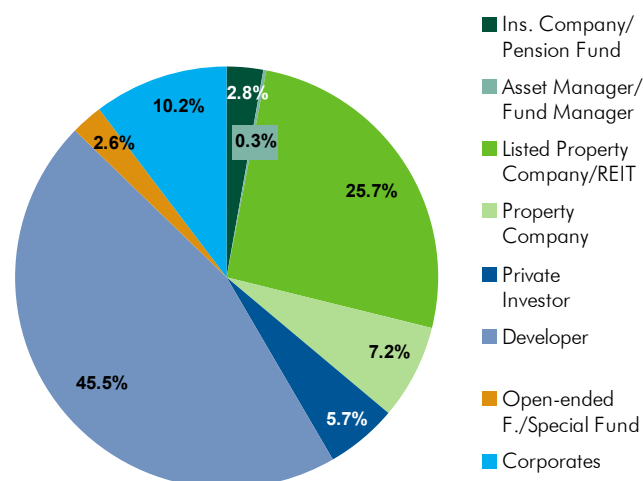


* High street retail, shopping centres, retail warehouses and retail parks

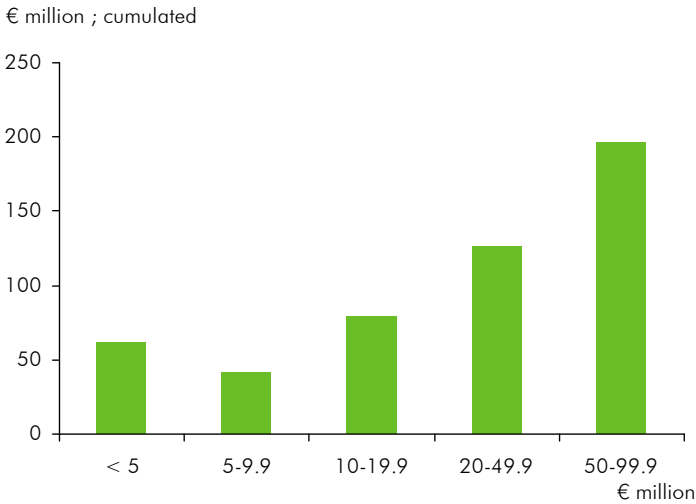
INVESTMENT TURNOVER BY TYPE OF INVESTOR



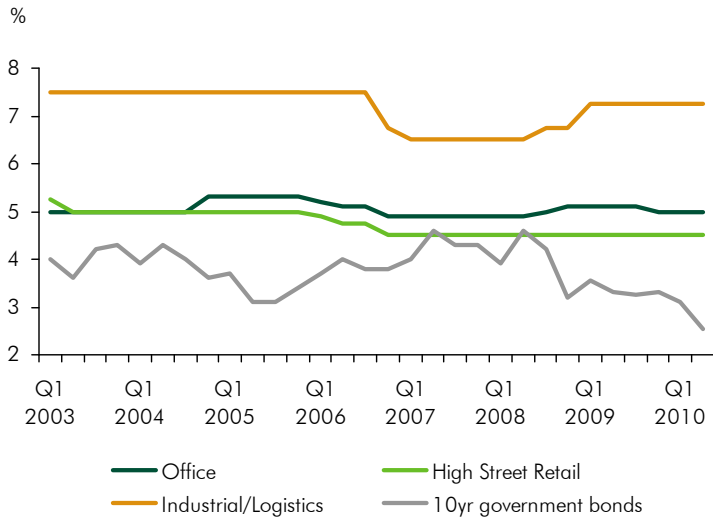
INVESTMENT TURNOVER BY TYPE OF VENDOR



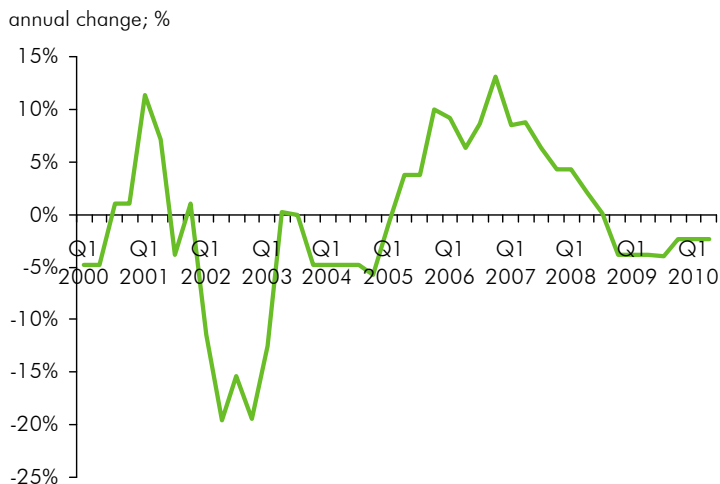
INVESTMENT TURNOVER BY SIZE



PRIME YIELDS COMMERCIAL REAL ESTATE



CAPITAL VALUES OFFICE



This explains their very high share in the volume of sales, at around 46% in the first half of 2010. For example, Quantum was able to sell 'Domkaskaden' in the 'City' submarket to Hines Pan-European Core Fund (HECF). The second strongest seller group with a market share of 26% is listed property companies. In a comparable weak stock market, the potential sale of existing properties is an alternative means for investors to acquire capital in order, inter alia, to be able to reduce their debt quotas.

Since the second half of 2009, transactions with a volume of over € 50 million have once again been registered – also in the first half of 2010, three sales with a volume of between € 50 million and € 99.9 million were brought to a successful conclusion. Sustained high demand means that we expect sales once again to exceed the € 100 million mark in the second half of the year.

Development of prime yields

The shortage in products in this segment coupled with a sustained latent surplus demand for core products will ensure that prime yields remain stable or fall slightly. In the case of office properties, prime yields for first class and fully let properties fell by 10 basis points compared to their levels registered during the same period last year. In Frankfurt, Hamburg, Dusseldorf and Munich yields had already begun to fall in the final quarter of 2009, whilst the fall took longer in Berlin and was registered during the second quarter of 2010. If investment pressure on core products in top locations continues, we anticipate that yields in individual segments will fall further during the course of the year. Comparing these trends with the benchmark yield, 10-year government bonds, there is currently a positive spread of risk of 247 basis points in the case of investments in prime office properties in Hamburg.

Demand for retail properties in prime locations in Hamburg remains very high and, at the same time, this segment is characterised by a shortage of suitable products. Consequently, we are registering a sustained constant level in prime yields for first class retail properties. This remains stable at 4.5% and corresponds to a premium over the benchmark yield of 197 basis points.

A stable prime yield was also registered for high-quality logistics properties year-on-year, of currently 7.25%. The figures in Frankfurt, Hamburg, Dusseldorf and Munich also remained stable at 7.25%; 25 basis points higher in Berlin. In contrast, the prime yield for shopping centres fell by 25 basis points compared to the first half of 2009, lying at 5.5% in June 2010. This trend applies to all top locations. Accordingly, the premium over the benchmark yield stands at 297 basis points.

The capital value index for first class office properties during the first half of 2010 was 158 index points and, at 2 percentage points, therefore lies only slightly below the previous year's value.

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 Hamburg we expect a transaction volume of more than one billion, depending on sufficient product supply as well as changing investment strategies towards less risky opportunities.

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