

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.

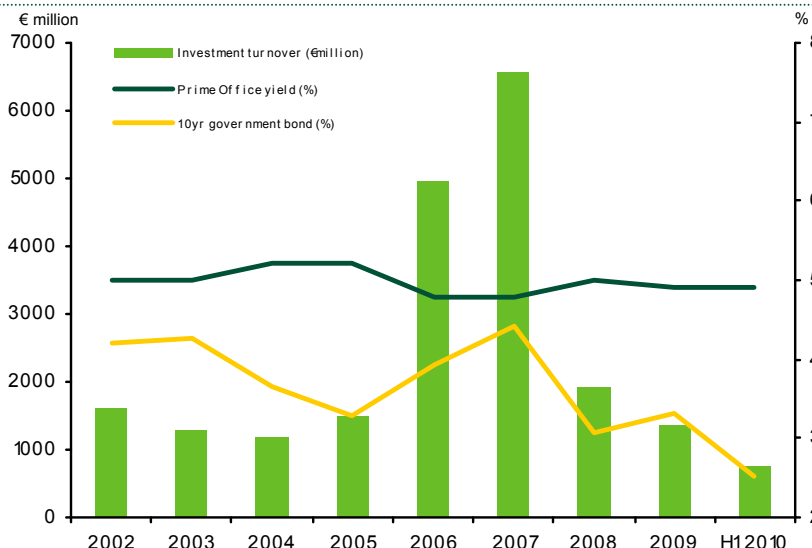
Germany has established itself among domestic and international investors as a safe haven for investments. With regard to the bond markets, we have registered continued, high demand for first class properties with low risk potential. Since secure long term rental income remains a concern, it is primarily 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 center 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 the first half year the volume of turnover for commercial properties on Munich's investment market stood at around € 746 million, around 53% above last year's figure. Strongly influenced by the sale of the Siemens site by Siemens Pension Trust e.V. to Hamburgische Immobilien-Handlung/RFR Holding GmbH at around € 330 million, almost 72% (€ 537 million) was accounted for in the first quarter. In the second quarter, at € 209 million (28% of the half-year's turnover), significantly less was invested again in Munich. Core properties remain by far the most sought after asset class and their restricted availability is currently acting as a limited factor on the volume of transactions. Investors with a more opportunistic investment strategy are again increasingly sounding out the Munich investment market but to date have not appeared as purchasers. In view of the strong focus on first class office buildings the prime yield fell compared to last year by 0.1 percentage points to a current level of 4.9%.

Investment turnover Munich



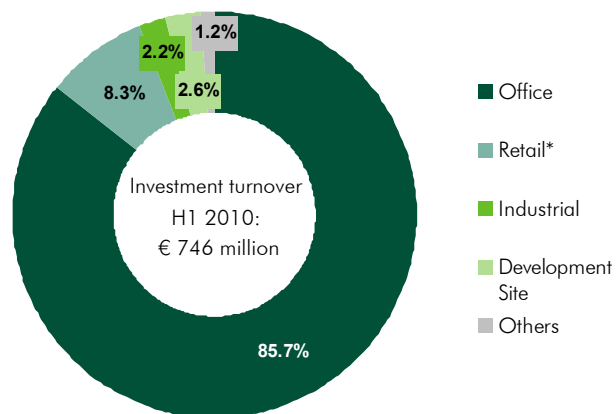
Investment market Munich

During the first half of 2010 the investment volume in the Munich commercial property market (incl. development sites with planned commercial use) was around € 746 million. Compared with the first half of 2009, this result was a considerable rise of 53%. The majority of this volume (86%) was invested in properties with a focus on office use, which equates to approx. € 639 million. Only 8% (€ 62 million) and therefore approx. 20% less than the year before (€ 137 million) related to retail properties. Demand for first class retail properties in the prime shopping streets in Munich remains strong, although there is a distinct lack of supply. The investment turnover was primarily influenced by the mentioned March sale of the Siemens site in Munich-Neuperlach. This made a significant contribution to the first quarter result of almost € 537 million, which was much higher than that of the second quarter (€ 209 million). In addition to the commercial investments, around € 218 million was invested in residential properties in the Bavarian state capital.

Considering the Siemens deal, closed-ended funds dominated the purchaser side in the first half year with around € 330 million. This was followed by investments by developers of around € 103 million, whereby the investment volume here was distributed between ten single transactions. In addition to an office and commercial property in 'Leopoldstraße', acquired by Development Partner AG, the sale of the 'Schrannenhalle' on 'Viktualienmarkt' to Hammer AG was also a major contributor to the volume of transactions. Overall, investors with a strong equity capital base continued to dominate the investment market, their investment strategies continue to be directed at risk-averse core properties with a very good tenant mix and the best possible covenant strengths, long-term lease contracts and top class properties in terms of space efficiency, fit out quality and transport infrastructure.

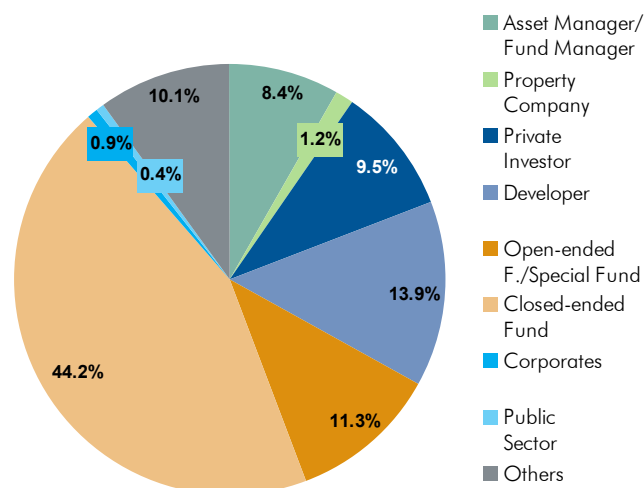
The vendor side was also strongly influenced by the large volume transaction of the Siemens site. This meant that the first half year was dominated by insurance companies/pension funds as market players with the highest amount of capital invested in commercial properties. The total volume of transactions of around € 343 million was generated by the Siemens deal and the sale of a hotel in 'Hohenzollernstraße'. The group with the second highest investment turnover on the vendor side was private investors, who sold properties to a total value of € 166 million, spread over 14 transactions. These included the sale of an office and retail property on 'Promenadeplatz'. Developers were responsible for € 78 million of sales. Properties sold within this category included the 'Eisbach Offices' in 'Brabanter Straße' and a commercial property in Munich-Pasing.

INVESTMENT TURNOVER BY TYPE OF USE

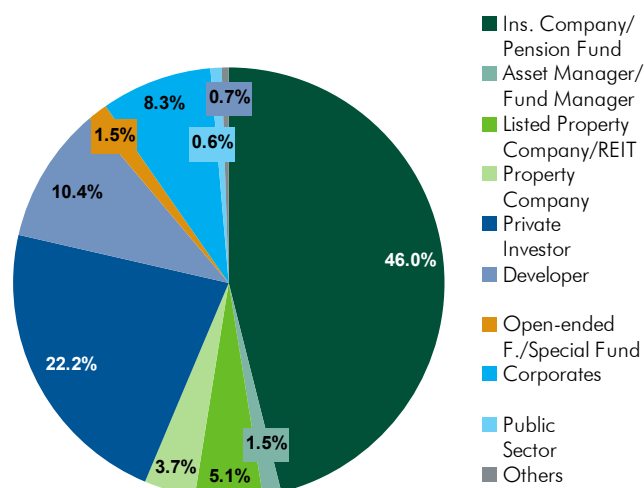


* High street retail, shopping centres, retail warehouses and retail parks

INVESTMENT TURNOVER BY TYPE OF INVESTOR

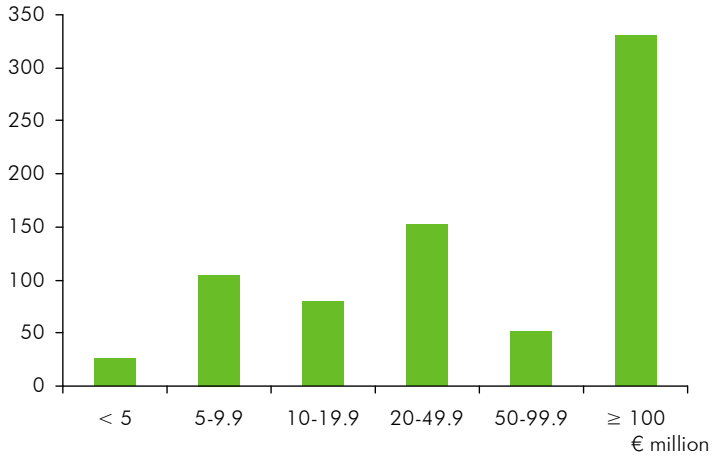


INVESTMENT TURNOVER BY TYPE OF VENDOR

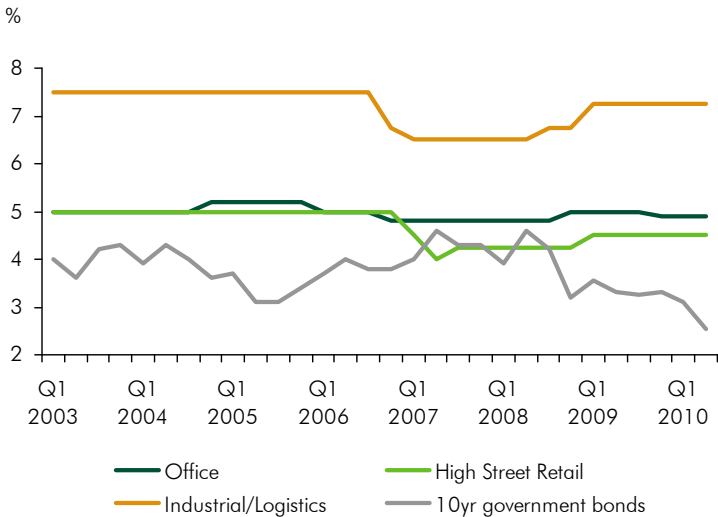


INVESTMENT TURNOVER BY SIZE

€ million; cumulated

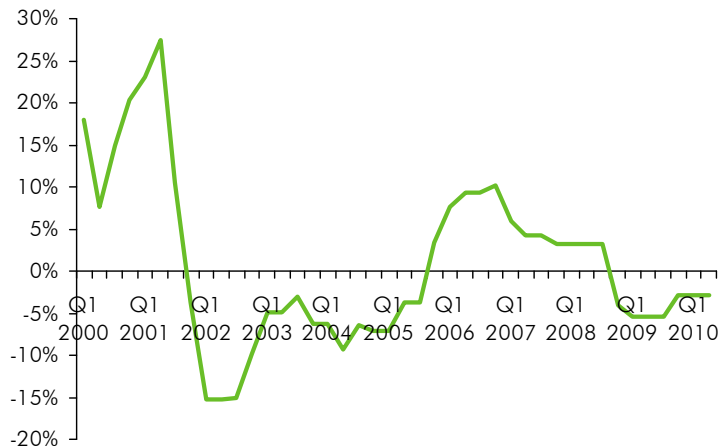


PRIME YIELDS COMMERCIAL REAL ESTATE



CAPITAL VALUES OFFICE

annual change; %



The average purchase price of all commercial investment transactions in the first half year in Munich was € 19.6 million, whereby the purchase price of € 330 million for the Siemens site again was a significant factor. Compared to the first half of 2009, the year on year increase was a considerable 21%. Due to the more difficult financing conditions, the shortage of suitable products and an increase in private investors, which have mainly invested in the smaller volume segment, a higher share of the total volume (of around 28%) was generated by properties with purchase prices below the € 20 million mark. The Siemens deal was the only transaction which took place in the case of investments above the € 100 million mark. The second largest investment deal was the sale of the 'Renaissance-Haus' in 'Arnulfstraße' at a purchase price of around € 50 million.

Development of prime yields

Due to a shortage of core investment product, the continuing excess demand in this segment is resulting in a trend for stable or falling prime yields. In Munich, prime yields for first class, fully let properties close to the city centre reduced by 10 basis points to 4.9% compared to the same period the previous year. In the case of sustained investment pressure with a focus on core products in the top locations, we expect yields in individual segments to fall again slightly during the remainder of the year. Using the 10-year government bond rate as a benchmark yield, there is currently a positive spread in the case of investments in prime office properties in Munich of 237 basis points.

In the case of retail properties in prime city centre locations in Munich, the prime yield remained stable at last year's level of 4.5%. Compared with the benchmark yield, this equates to a premium of 197 basis points. There were also no changes to prime yields in the case of retail warehouses and logistics/warehouse properties. These remain at 7.5% and 7.25% respectively. A fall in yields was noted in the case of retail parks and shopping centres in all major German markets due to the increased demand from investors for these types of properties compared with the position last year. In Munich, yields fell by between 10 and 25 basis points, which equates to current prime yields of 6.5% and 5.5% respectively. For the coming months, a further reduction in the availability of product in the core segment is foreseeable, as the outline conditions for project developments remain difficult in the current letting market. Yields are therefore expected to remain stable here; in some segments, we even expect a tendency towards reducing prime yields.

In the non-prime segment, the development of prices remains unstable; however, there are some signs of stabilisation returning.

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. In the case of Munich, we expect the total investment turnover to reach last year's result of around € 1.35 billion by the end of the year.

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