

Q2 2010 Compared to...

	Q1 10	Q2 09
Volume of transactions	↓	↑
Number of transactions	↓	↑
Prime yield Office (weighted average)	↓	↓
Capital value index Office	↑	↑
Prime yield High Street Retail	→	→
Prime yield Shopping Centres	→	↓
Prime yield Retail Parks	→	↓
Prime yield Logistics	→	→

OVERVIEW

Developments in the investment market for commercial properties in Germany remain very dynamic. With a transaction volume of over €8.65bn in the first six months of this year, around 162% more was invested in commercial properties throughout Germany than in the same period last year.

Germany enjoys a reputation as a safe investment haven in the national and international investment community. Similar to the bond market, we are seeing continued strong demand for first class, low-risk properties in the real estate investment market. As the security aspect continues to dominate the investment strategies of property investors, mainly fully let core properties with long lease terms, very good tenant covenant strength and structures are demanded. The supply side is currently the only limiting factor and hampered a more dynamic investment activity during the first six months of 2010.

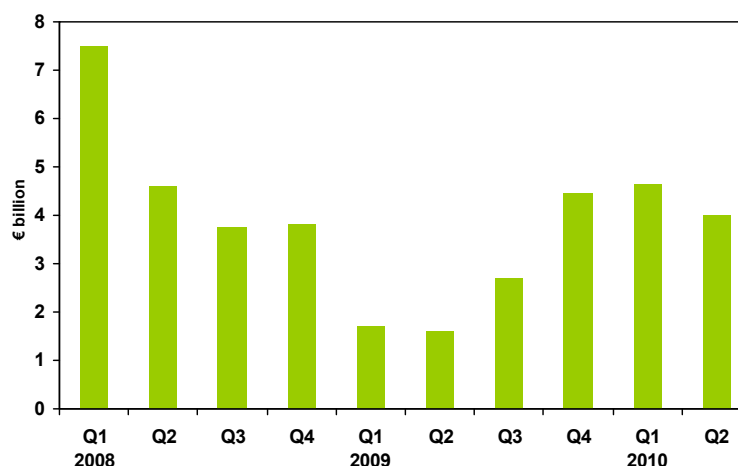
Due to a number of extraordinarily large volume shopping centre investments, the focus of investments in terms of asset class in the first half of the year, with around 48% of the transaction volume, was retail properties, followed by office properties (31%) and logistics/industrial properties, which accounted for 8% of the transaction volume.

A growing number of selective portfolio transactions were also observed. Of the total of around €8.65bn, more than €2.4bn or around 28% were portfolio transactions, whereby almost half was accounted for by the sale of the shopping centre portfolio to the Dutch listed property company, Corio N.V., in the first quarter. Single asset investments made up 72% or around €6.23bn. In comparison: in the first half of the previous year only 15% of the total transaction volume was accounted for by portfolio deals and 85% by single asset transactions.

A clearly more dynamic investment market has also been registered in the four major German investment centres (Berlin, Frankfurt, Hamburg and Munich), which are currently registering almost double the volume of transactions than were registered during the same period last year, at almost €3.1bn. In total, almost 36% of the total investment turnover registered in Germany was accounted for by these investment centres. Thanks to the sale of the Sony Center and a number of shopping centre deals, Berlin assumes with around €1.55bn (+270% compared to the same period last year) first place ahead of Munich and Hamburg (which registered €746m and €505m (+53% and +65%) respectively). At €301m (-5%) the transaction volume in the financial centre Frankfurt lay slightly below the result of the previous quarter. Here the very limited supply of high-quality investment opportunities is also the main reason for the low volume.

Currently, prime yields (net initial yields) for office properties in Munich stand at 4.9%, in Hamburg 5.0%, Dusseldorf 5.2% and Frankfurt 5.3%. In view of the high investor demand for prime properties in Berlin, the prime yield here fell by 10 basis points to 5.4%. Still stable are prime yields for core properties in the logistic and retail park segment, as well as for first class commercial properties in top city centre locations. The prime yield for shopping centres decreased by 25 basis points to 5.5% due to the high investor interest in this type of property compared to the year before.

Investment turnover (commercial real estate) Germany



Investment market Germany

Investors were especially focused on retail properties. These accounted for almost 48% of the transaction volume (€4.11bn), which is a rise of 222% compared to the first six months of 2009. This very high growth was mainly driven by the sale of a portfolio of seven retail properties to the Dutch Corio N.V.; the portfolio had a total purchase price of around €1.17bn and was responsible for the lion's share of retail investment in the first quarter. The three largest single asset sales were the sales of the Berlin shopping centre Alexa to Union Investment, Ruhr-Park in Bochum to a joint venture by Perella Weinberg and mfi (both sales were around the €300m mark) as well as the A10-Center in Wildau to Deutsche Euroshop (approx. €200m).

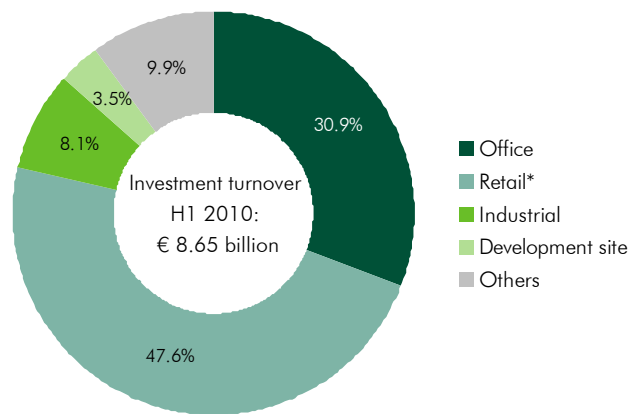
Properties with office use were also in much greater demand than in the same period last year: here, the rise in investment volume was 110%. In total, around €2.67bn (31% of the transaction volume) was invested in properties of this use type during the first half of 2010. By far the largest single asset deal and main contributor to the strong increase was the office complex Sony Center in Berlin, which was purchased by the South Korean national pension fund NPS for around €572m. Other large single asset deals were the Siemens Campus in Munich-Neuperlach, which was sold by Siemens pensions fund for around €330m to HIH, as well as the Spherion in Dusseldorf, which was sold by Signa Property Funds to Allianz Real Estate.

A much lower transaction volume was invested in industrial/logistic properties. At almost €705m, only 8% of the transaction volume was accounted for by this segment; nevertheless, the increase over the same period last year was a remarkable 989%. It should, however, be noted that the Hansteen-portfolio, with a value of €330m, already makes up almost half of investments in this type of use.

During the same period last year, around 44% of the investment volume by German institutional investors was generated by insurance companies, pension funds, open-ended real estate public and special funds as well as private investors or family offices; however, their share has fallen back to 29% during the course of this year.

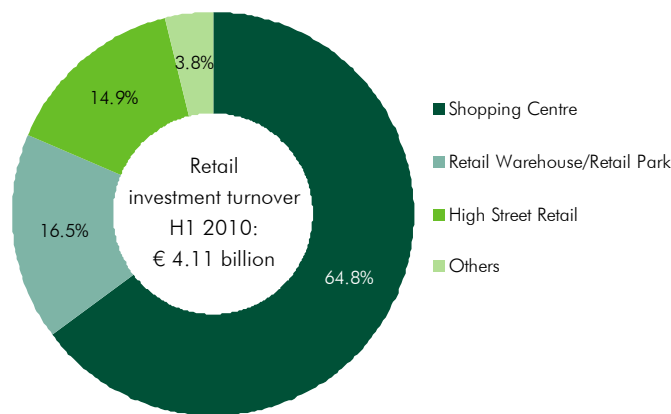
In terms of the individual investor types, the respective relative share has shifted as a result of the large volume investments (inter alia Sony Center and the Corio Portfolio). As a result, the category asset/fund manager, which includes the South Korean National Pension Service (NPS) amongst others, with 19% (around €1.7bn) represents the strongest purchaser group. Listed property companies and REITs, which were significantly weaker investors the year before, follow at 18% (approx. €1.6bn); this figure includes the major investment by Corio N.V. At 16% and 17% respectively, open-ended property funds/special funds, as well as closed-ended funds, continued to invest strongly in the German commercial property market.

INVESTMENT TURNOVER BY TYPE OF USE

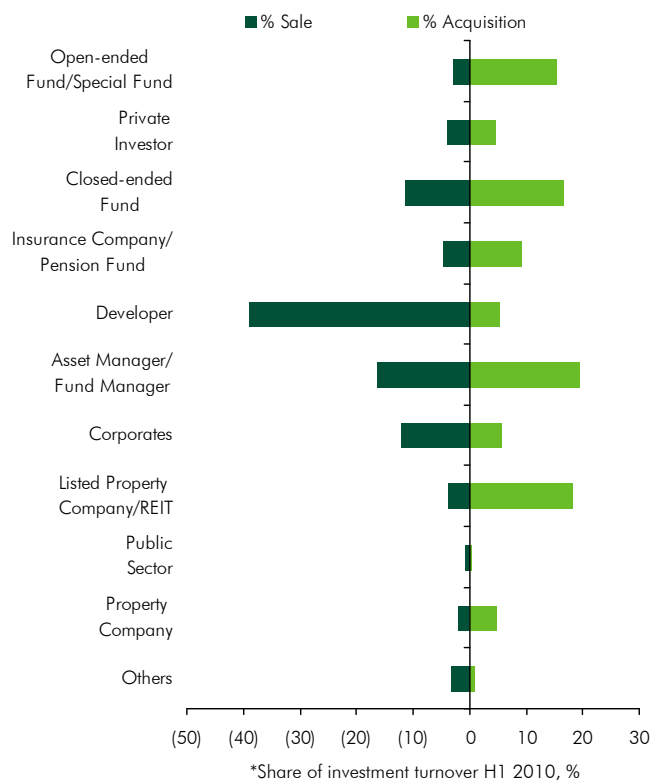


* High street retail, shopping centres, retail warehouses and retail parks

INVESTMENT TURNOVER RETAIL BY TYPE OF USE

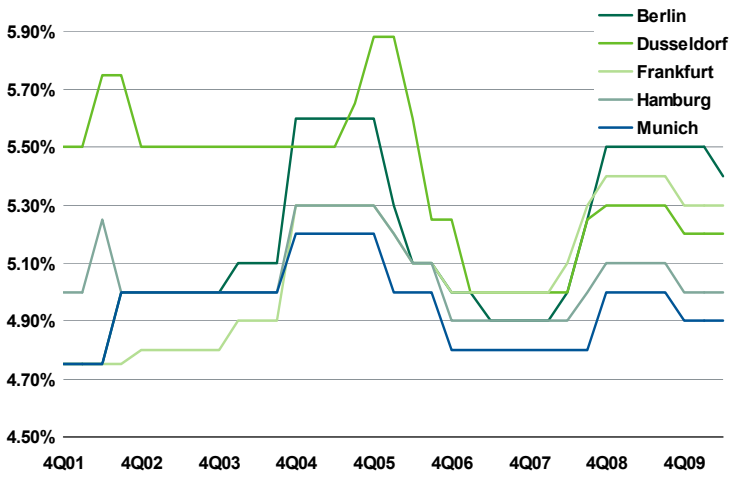


INVESTMENT TURNOVER BY TYPE OF INVESTOR*

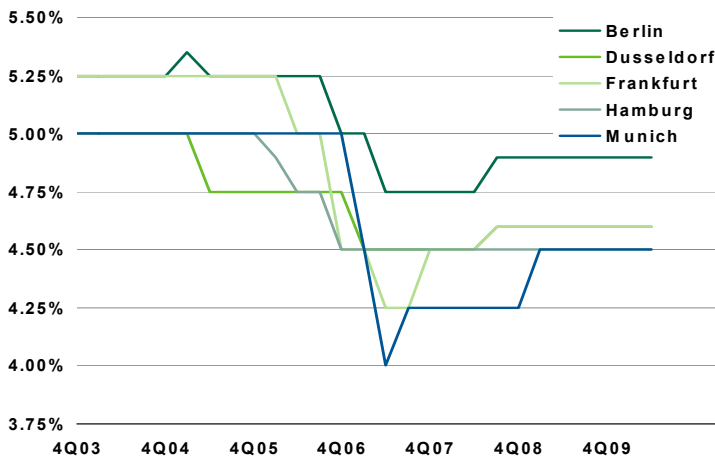


*Share of investment turnover H1 2010, %

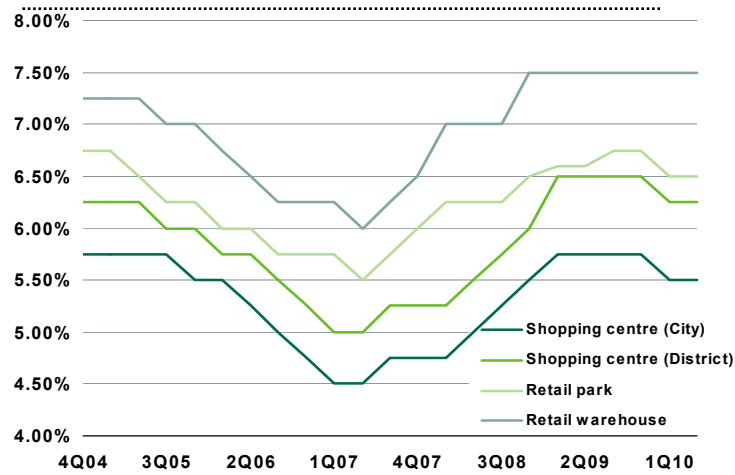
OFFICE



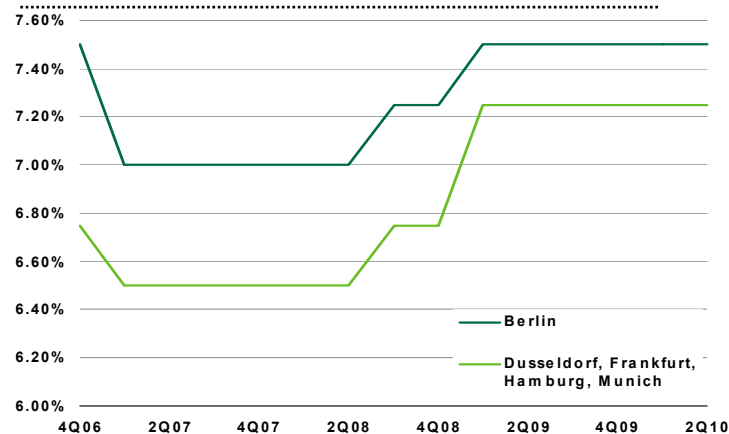
RETAIL HIGH STREET



SHOPPING CENTRE/RETAIL WAREHOUSE/RETAIL PARK



INDUSTRIAL/LOGISTICS



The transaction volume of private investors remained almost constant in absolute terms. However, due to the overall higher investment volume, their share decreased by more than a half; whereas the volume of investments last year of €398m corresponded to a 12% share, its current level of €401m represents only 5%.

On the vendor side, the focus, even more than during the same period last year, was on the group of project and property developers, who disposed of properties to a volume of almost €3.4bn, which equates to 39% of the total transaction volume. Among the properties sold, it was the large, mainly retail properties which changed hands – these include, for example, the shopping centre portfolio sold by Multi Development to Corio N.V., Alexa in Berlin and Domkarree in Cologne. The share of closed-ended funds also grew to more than 11% (H1 2009: 1%) as a result of one major retail property transaction: the sale of the Ruhr-Park in Bochum (approx. €300m).

Development of prime yields

The shortage in core products, coupled with sustained latent surplus demand for these properties will ensure that prime yields will 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 the levels registered during the same period last year. In Frankfurt, Hamburg, Dusseldorf and Munich yields had already began to fall in the final quarter of 2009, whilst the fall in Berlin was registered during the second quarter of 2010. If pressure from investment demand 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 risk-spread of 237 to 287 basis points in the case of investments in prime office properties in the four main German investment centres.

In the case of retail parks and shopping centres there is a clear fall in yields of 10 to 25 basis points in all top markets as a result of increased investor demand for these types of properties. In contrast, in the case of commercial properties in prime city centre locations and retail parks, prime yields remain stable, a similar trend observed for logistics and warehouse properties.

Over the next few years, a further reduction in the availability of product in the core segment is foreseeable as the outline conditions for project developments in the current lettings market remain difficult. On the basis of increasing investor demand, it can be assumed that yield levels will remain stable; in some segments we expect a tendency towards slightly falling prime yields.

In contrast, price trends in the non-prime segment remain under downward pressure. Here, yields for all types of commercial uses are considerably higher and will remain at this level at best, or more likely increase.

Development of capital values in the top 5 office locations

By mid 2010 the weighted average prime yield for modern, city centre office properties of 5.15% remained 10 basis points below the comparable figure for the previous year. This is a result of the sustained strong demand for core products and a recognised shortage of adequate product. Accordingly, the weighted index for yield development in the top five centres fell year-on-year by 1.9%, lying at 105 index points at the end of June 2010 and therefore roughly at the level of the first quarter of 2006. In view of continued upwards investment pressure and simultaneous focus on the German investment centres and a limited supply in the core segment, a partial fall in prime yields is to be expected.

At 206 points in mid-2010, the rental index has weakened by 1.8% since one year before. Whilst the achievable prime rents in Berlin and Frankfurt reached a stable level, they fell in Hamburg and Munich to 4.2% and 4.8% respectively, as a result of regressive letting results and the high volume of, partially speculative, completions.

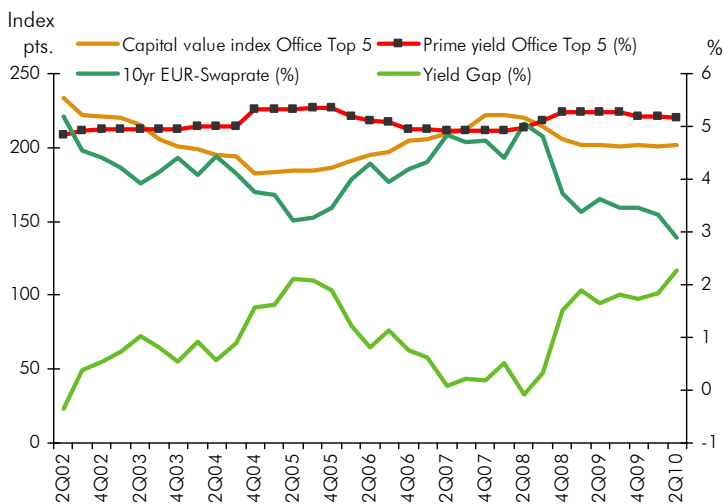
In terms of the weighted aggregated capital value index for first class office properties in the five major German investment centres, slight growth was registered at the end of the second quarter of 2010 for the first time in one and a half years, at 202 index points. As a consequence of the rise in the prime rent, we were able to register the highest growth rate of 4.2% in Dusseldorf compared to last year's figure.

Financial market environment

The deepening of the debt and confidence crisis in Greece has caused substantial tension in international financial markets over the past few months, the result of which has been dramatic falls in value in the case of government bonds in various countries within the Euro-Zone and for the first time ever, a unique spread of yields. Coupled with the slow economic recovery, the monetary policy alignment in the Euro-System will remain very expansive, with a cooling of macro economic development already forecast for the second half of the year. Consequently, interest rates remain favourable for the fund-raising of companies.

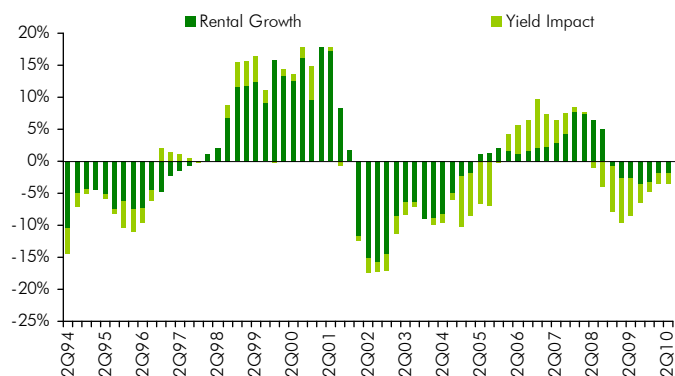
Furthermore, according to the Bank Lending Survey, lending conditions have not tightened further over the last six months and the Ifo Credit Constraint Indicator in June suggested that banks are beginning to successively slacken the reins on the provision of credit. In view of the more demanding equity capital requirements of banks, we assume that the margins – mainly in the case of LTVs (loan-to-value ratios) above the 60% mark – could spread slightly which could mean that new business remains limited. In contrast, the extension of current lending commitments with the existing loan providers at very low current interest rates could be possible.

CAPITAL VALUE INDEX OFFICE, BENCHMARK YIELD & YIELD GAP

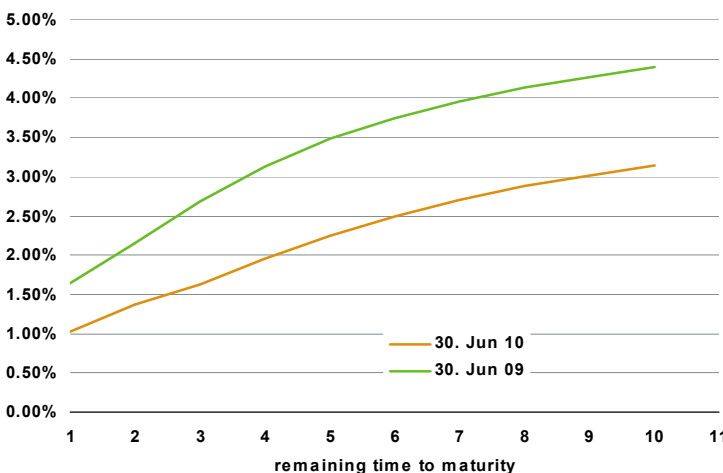


Yield Gap = difference between the weighted prime yield in the top five office locations and 10-years-Euribor-swap

ANNUAL PERFORMANCE, TOP 5 OFFICE MARKETS



PFANDBRIEF-SPREADS



Source: Bloomberg

Overview prime yields Q2 2010

	Q2 2010 (%)	Δ Q2 2009 BP		Q2 2010 (%)	Δ Q2 2009 BP
Office: Berlin	5.40	-10	High Street Retail: Berlin	4.90	0
Office: Dusseldorf	5.20	-10	High Street Retail: Dusseldorf	4.60	0
Office: Frankfurt	5.30	-10	High Street Retail: Frankfurt	4.60	0
Office: Hamburg	5.00	-10	High Street Retail: Hamburg	4.50	0
Office: Munich	4.90	-10	High Street Retail: Munich	4.50	0
Logistics: Berlin	7.50	0	Shopping Centre (City)	5.50	-25
Logistics: Dusseldorf	7.25	0	Shopping Centre (District)	6.25	-25
Logistics: Frankfurt	7.25	0	Retail Park	6.50	-10
Logistics: Hamburg	7.25	0	Retail Warehouse	7.50	0
Logistics: Munich	7.25	0			

BP = basis points

CB Richard Ellis Quarterly Index Office* Q2 2010

	Index Q1 1986 = 100	Δ % Q1 2010	Δ % Q2 2009
Prime yield	105.2	-0.3	-1.9
Prime rent	206.3	-0.1	-1.8
Capital value	202.2	0.4	0.1

* Top 5 (Berlin, Dusseldorf, Frankfurt, Hamburg, Munich)

Macroeconomic data and forecast*

	2008	2009	2010f	2011f
Gross domestic product (real) Germany	1.3	-4.9	1.8	1.7
Eurozone	0.6	-4.1	0.1	1.4
Great Britain	0.6	-4.9	1.3	2.3
USA (annualized)	0.4	-2.4	3.3	3.1
Private consumption	0.4	-0.1	-0.8	0.8
Machinery and equipment investment	3.3	-20.5	3.0	4.6
Industrial production	0.0	-16.2	4.5	3.2
Unemployment rate (FLA), %	7.8	7.8	8.2	8.0
Consumer prices, %	2.6	2.6	0.4	1.0
Producer prices, %	5.5	5.5	-4.2	0.8

* % change on previous year – unless otherwise noted; f = forecast

Sources: Federal Labour Agency (FLA), Consensus Economics, Destatis, Federal Bank (as of June 2010)

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 €15bn mark.

Disclaimer 2010 CB Richard Ellis

Information herein has been obtained from sources believed reliable. While we do not doubt its accuracy, we have not verified it and make no guarantee, warranty or representation about it. It is your responsibility to independently confirm its accuracy and completeness. Any projections, opinions, assumptions or estimates used are for example only and do not represent the current or future performance of the market. This information is designed exclusively for use by CB Richard Ellis GmbH clients, and cannot be reproduced without prior written permission of CB Richard Ellis GmbH.

For further information:

CBRE Research Germany

Dr. Jan Linsin

Associate Director,
Head of Research Germany

t: +49 69 170077 663

e: jan.linsin@cbre.com

Anja Scholz

Analyst

t: +49 211 86066 149

e: anja.scholz@cbre.com

CBRE Capital Markets

Fabian Klein

Managing Director,
Head of Investment Germany

t: +49 69 170077 0

e: fabian.klein@cbre.com