

GPI FORECAST SIGNALS MARKET SLOWDOWN

bulwiengesa predicts:

Total returns from German real estate to drop to 6% by 2018

- **Industrial and logistics real estate will remain the only asset class to bring above-average returns in the long-term.**
- **A stable « distribution yield» generated from real estate rental income will be the focus for many market participants in the medium- and long-term.**

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Total returns from German real estate investments will initially remain high but will drop in the future in all segments owing to the prevailing high price levels. In 2018, average returns of only 6% are expected. A peak in the market cycle has already been seen with returns of 12.6% in 2013. This is the conclusion of bulwiengesa's latest German Property Index (GPI) forecast. The risks for the stability of the German financial system which could develop from the current low interest rate environment and ample provision of liquidity by the major banks is put into perspective by these latest GPI findings for the respective segments of the German property market. Martin Steiniger, chief economist at bulwiengesa, explains: « In view of the excellent economic position Germany has achieved over the last few years, the institutional property market is likely to react largely in a rational way. There will of course always be extreme individual cases in a 50-billion-euro market, but these will remain insignificant. »

Information on price movements, of commercial real estate in particular, is relevant for analyses of the overall economy and financial stability. It also highlights the importance of the balance between supply and demand in the reporting on standing investments and construction activities in the property market. In the absence of official data, price monitoring by the Deutsche Bundesbank also has to rely on data from private information services. Here, the GPI provides the appropriate data for determining a price index for commercial real estate¹. For this purpose, residential real estate is also included; Germany's market being the largest in Europe. Institutional investors are currently focusing on this area, with special regard being paid to rental income and investment security as well as potential net asset value enhancement.

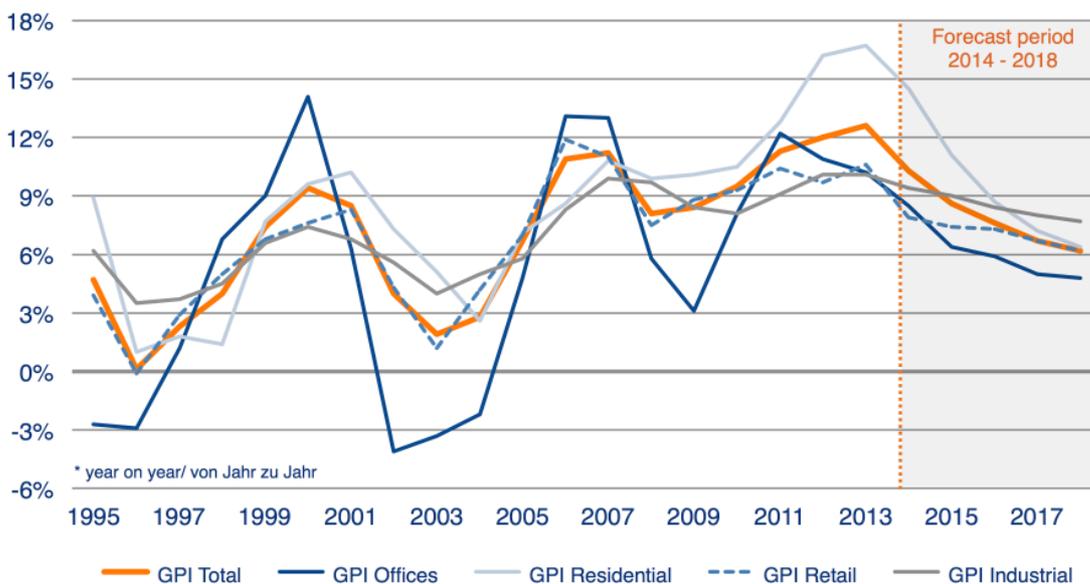
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http://www.bundesbank.de/Navigation/DE/Statistiken/Unternehmen_und_private_Haushalte/Preise/preise.html?view=render%5BDruckversion%5D

« The German property market has in the past few years shown significant price and value developments in the area of institutional real estate », emphasises Steiniger. In the last year, the national total return showed a moderate increase from 12% in the previous year to 12.6%, reaching the peak in a cycle which has continuously risen since the survey started in 1995, and, according to the latest forecast, this will lose momentum in the current year and drop to a value of 10.3%. In 2013, a peak in the cycle of total returns was reached for nearly all segments of the property market. The average total return on institutionally-traded German residential real estate, recorded at 16.2% in 2012, reached a peak of 16.7% in 2013; for 2014, with a market slowdown, 14.5% is forecast. Retail properties rose from 9.7% in 2012 to a peak of 10.6% in 2013, while logistics properties stagnated at a peak of 10.1%. Offices was the only segment to confirm their role as a lead indicator: after a peak of 12.2% in 2011, the market slowed during the following two years (10.9%, 10.2%) and a further drop to 8.5% is forecast for 2014.

German Property Index (GPI) by segment

Average total return y-o-y as a percentage, 1995 – 2018



Over the forecast period 2014 – 2018, residential properties are predicted to have the best performance ahead of corresponding properties in the industrial, retail and office segments. The favourable financing conditions and healthy economy have been and will remain contributing factors for further price increases. With regard to cash flow returns, i.e. returns from regular rental income, the industrial sub-segment is expected to perform best in the next five years, ahead of residential, retail and offices. Likewise, the total return at the end of the forecast period is highest for



German industrial real estate. Currently, and for the next few years, this predominantly includes logistics real estate. For 2018, the total return for this segment lies at 7.7%. Andreas Schulten, from bulwiengesa's Board of Directors, explains: « This growing asset class is likely to have an effect in Germany for longer than the residential boom seen in the cities. » In general, the forecasted movement of returns already corresponds to the investment style of companies seeking sustainable investments. It is « distribution yields » which are being emphasised rather than cyclically fluctuating capital growth returns.

Cities forecast to have particularly good total returns tend to be the medium-sized German cities which, up to now, have not shown such pronounced movements. A corresponding catch-up effect in new housing construction in Bamberg, Ingolstadt and Leipzig is expected by bulwiengesa's analysts. In the office segment, Koblenz, Regensburg and Potsdam show above-average total returns, and in the logistics segment, Gera, Fulda and Erfurt stand out owing to their superior transport links and accessibility. The major A cities, as defined by bulwiengesa, are front runners only in retail, headed by Berlin. Aside from the A cities, bulwiengesa's latest calculations indicate that the D locations of Ravensburg, Ulm and Weimar have good entry opportunities for private and institutional market players. In the forecast these « hidden champions » show higher total returns than other corresponding location types.

More about the German Property Index (GPI):

The German Property Index (GPI) provides bulwiengesa AG with a property performance index, calculated on the basis of market data which is partly obtained specifically for this purpose. The GPI represents total return and is derived from capital growth and cash flow return. Performance indices are provided for a total of 127 towns and cities in the office, retail, residential (new and existing housing stock) and industrial (primarily logistics) segments. This regional and sector differentiation can be used to calculate, for example, benchmarks for German real estate portfolios. Forecasts which take into account market data and correlations can be used to anticipate market movements and facilitate investment decisions.

Included in the calculation is the following real estate market/planning information:

- Office market: existing stock, vacancy rates, completions, prime rents, prime returns
- Retail market: existing stock, vacancy rates, prime rents, returns for central locations
- Residential market: existing housing stock, vacancy rates, average rents for new housing (initial letting) and existing stock (re-letting), multipliers for apartment buildings
- Industrial market: prime rents for storage/ service space, prime returns
- Transactions: property sales in approximately 85 cities

In calculating total returns, comprising capital growth and cash flow returns for the 127 market cities, the influence of external financing on performance is not taken into account. For the calculation, bulwiengesa uses building and property data to estimate management, maintenance and other non-recoverable operating costs within the various market segments. These costs reduce the owner's income and show the net operating income. The uniformity of the market data and consistency of the calculation of total return, capital growth and cash flow return enables comparisons to be made between cities and sectors.

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More about bulwiengesa:

bulwiengesa AG evaluates the prospects of real estate markets and individual properties on the basis of its many years of experience in precise data analysis and consulting. With over 30 years' tradition and almost 80 employees, bulwiengesa is one of the largest independent consulting and analysis companies for regional economies and real estate in continental Europe. It focuses mainly on Germany as well as Central and Eastern Europe. The scope of services includes all real estate markets and types (residential, retail, offices, logistics, industrial, leisure and special-purpose). All relevant microdata, time series, forecasts and transaction data are provided by the reliable RIWIS online information system. bulwiengesa holds a share in BulwienGesa Valuation GmbH, Zivilarena GmbH and IMMO-CHECK GmbH.

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