Colliers

CLIFFORD CHANCE

Buyer’s Guide 2024

German Real Estate Markets

Investing in
German Real Estate

Colliers in cooperation with Clifford Chance
www.colliers.de www.cliffordchance.com

Guidance Note

As all of you are aware, living in an ever-evolving world bears consequences in the good and in the bad – be it the fact that due to our growing environmental awareness you are reading this in a purely digital form, be it the struggles that all of us witnessed in our whole métier recently, induced by far worse struggles all over the world. It is while navigating unprecedented times like these that assurance can be found reflecting the fundamentals of prospering markets.

Germany has a well-functioning regulatory framework that has proven and maintained its reliability over many years, decades and crises. Encompassing many important legal fundaments, one of its most integral components is the time-honored institution of the German Land Register. With the legal certitude it provides, it is a classic example of the outstanding fundamentals that the German real estate market offers – even if, like any other, it is not immune to cyclical volatility. Such volatility makes it necessary to have confidence in the existing systems while at the same time being able to adapt to new challenges in a dynamic manner.

An observable example of this is the trend towards Joint Ventures between capital providers and asset managers. This is a creative approach to assure aligned interests regarding the performance of the projects as a whole even in weaker market conditions.

Another good example are measures in the context to environmentally friendly communication, that try to match our responsibilities in an ESG context, something that has not only shaped the market in recent years but is here to stay – not only as an answer to one of the most urging systemic risks of the 21st century but also as a strategic advantage for those who prioritize a sustainable long-term approach for their investments. Another player finally reacting to recent developments, thus hopefully boosting the market situation, is the Federal Government – be it the target of 400,000 new homes p.a. strengthening demand for investments, or the adherence to tax incentives for investors.

Interest rates that are starting to stabilize might be the final sign that the time has come again when it pays to invest while others are still hesitating, and one possible strategic choice for investors seeking both short-term returns and long-term growth is making use of Germany's robust framework and its strong commitment to infrastructure development.

In case of any question please do not hesitate to contact us. Enjoy reading!

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Head of Portfolio Investment | Germany
Colliers

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Agenda

Chapter 1

Germany at a Glance – Key Facts and Figures

Macroeconomic environment

GERMANY AT A GLANCE – KEY FACTS AND FIGURES

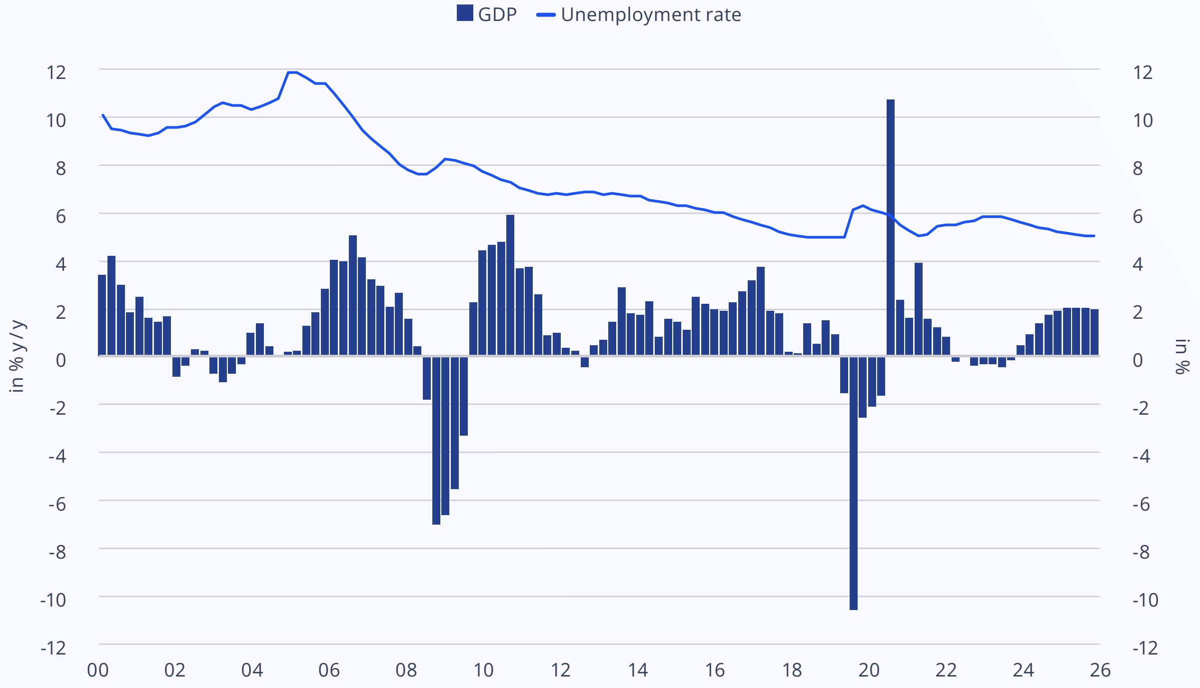
After a year as the "taillight of growth" among the major industrial nations, the recovery process of the German economy in 2024 will depend above all on the dynamics with which inflation rates ease and the domestic economy recovers. At the company level and among financial market participants, the economic outlook is still cautiously pessimistic and does not suggest that the situation will improve before Q1 2024. Due to China's weak growth and its importance for the global economy, the outlook for the export-oriented industry is also cautious. The IMF expects global growth of 2.9 % in 2024, driven primarily by emerging economies. In Germany, a slight increase in exports is likely, but foreign trade will weigh on GDP due to the same increase in imports. The service sector, which has been resilient for a long time, is showing a slowdown at the turn of the year, while the ifo forecast for 2024 predicts slight growth in all service sectors overall. Consensus Economics expects moderate GDP growth of 0.3 % for Germany in 2024 (Eurozone 0.5 %), with private consumption expected to make a significant contribution to the recovery.

The negative economic development will therefore slow down the demand for space on the commercial markets in the coming months. On the positive side, the labour market remains very stable. The unemployment rate is expected to rise only marginally in 2024. With falling inflation rates, the current wage settlements are leading to a positive development in real wages, which will support private consumption and also have positive effects on the housing market.

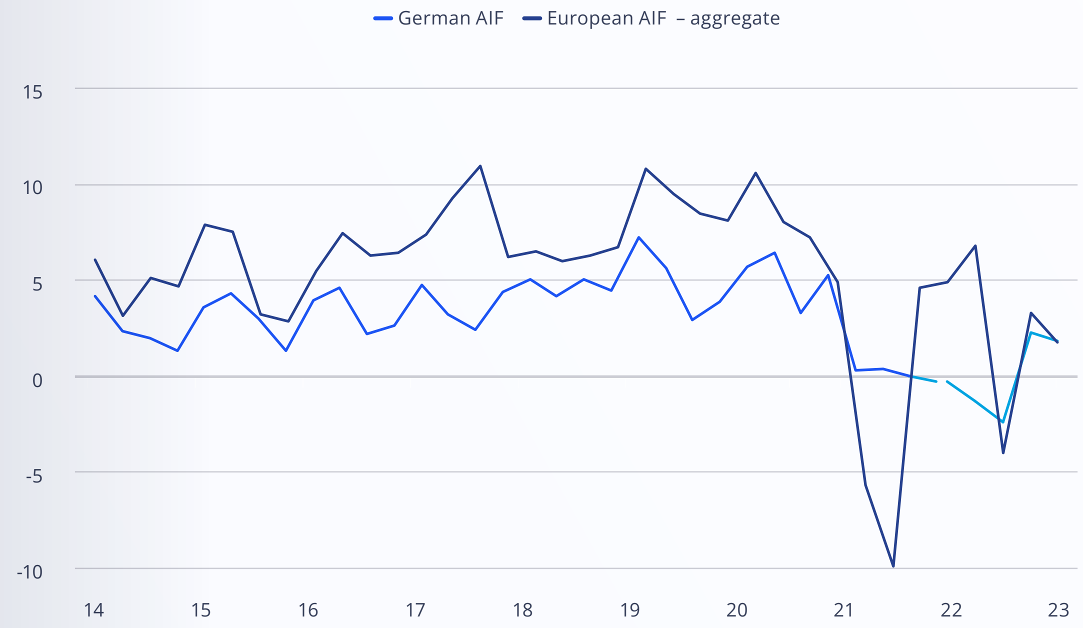
After six quarters of low or even negative balances of inflows and outflows of funds into German property AIFs, inflows predominated in the second and third quarters of 2023. Although the levels achieved are below the long-term averages from before the end of 2021, they are in some ways an encouraging sign that real estate investments are slowly becoming more attractive again for institutional investors.

It should be noted, however, that open-ended real estate funds suffered a net outflow for the fourth time in a row in November 2023. These totalled € 276 million, almost double the figure for the previous month.

ECONOMIC ENVIRONMENT



REAL ESTATE AIF:
BALANCE OF INFLOWS / OUTFLOWS

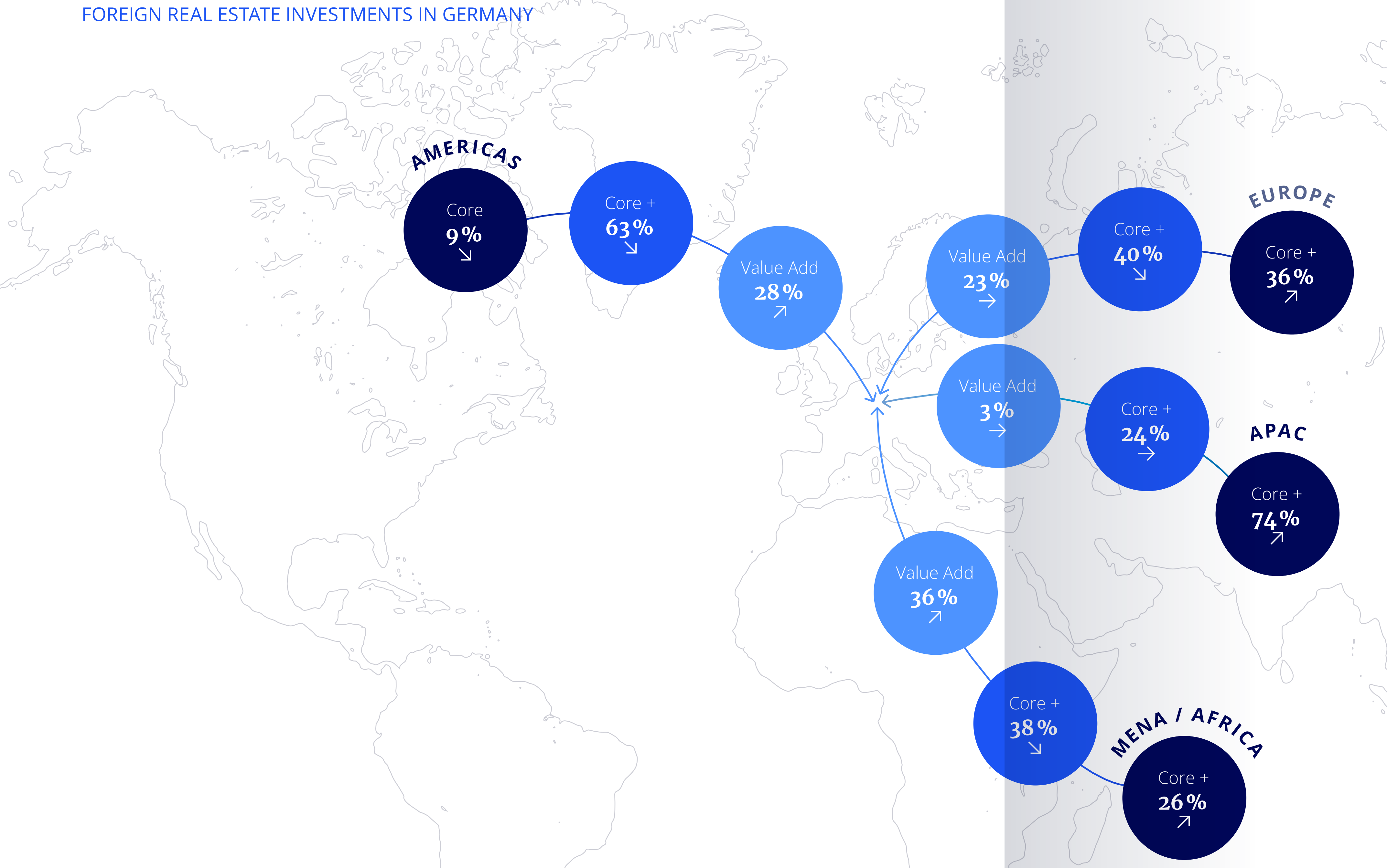


Chapter 2

German Real Estate Markets

Foreign Capital Flow into Germany

FOREIGN REAL ESTATE INVESTMENTS IN GERMANY

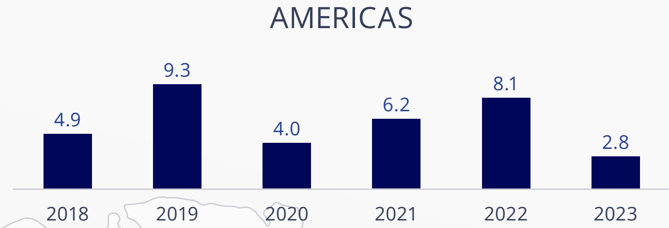


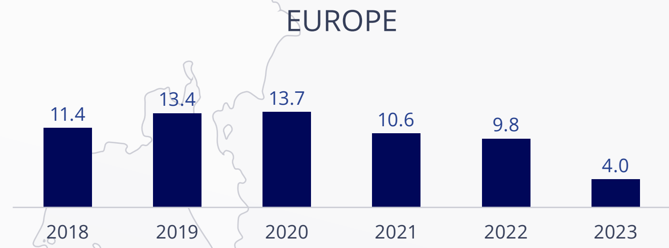
↗ Increase to last year

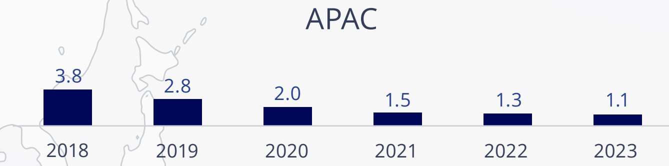
→ Minimal change to last year

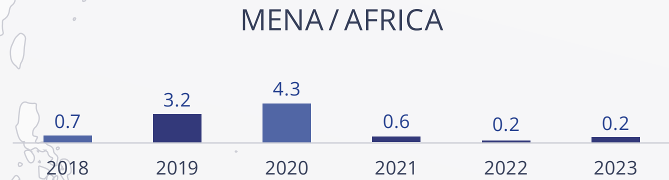
↘ Decrease to last year

TAV allocation based on origin of capital, if end investor not known origin of investment manager. Value-Add class includes value add, opportunistic and development properties (risk allocation excludes owner-occupied properties)









TAV Commercial Real Estate Germany
(% foreign investors)

2018	€ 60.6 bn	40 %
2019	€ 71.6 bn	42 %
2020	€ 59.2 bn	43 %
2021	€ 60.1 bn	34 %
2022	€ 52.6 bn	41 %
2023	€ 24.1 bn	37 %

Office A Cities

REAL ESTATE SECTORS

In Germany's seven largest office leasing markets, around 2.4 million m² of office space were taken up in 2024. This was the weakest result in the last 10 years and was around 28 % below the previous year's result.

In the fourth quarter of the year, the office market continues to face headwinds from the gloomy economic situation, the ongoing realignment of office concepts in the wake of 'new work' and a high number of geopolitical conflicts. Large companies, in particular, continue to be noticeably reluctant to make strategic decisions in this environment.

The vacancy rate rose during the course of the year and stands at 6.1 % in the top 7 (+ 40 basis points compared to the previous quarter). Compared to the previous year, this represents an increase of 100 basis points, or almost 1 million square meters. At around 220,000 m², sublet space has made a disproportionate contribution to this increase. Their share of total vacancies rose from 10 % in the previous year to over 12 % today. Overall, the vacancy rate in the top 7 locations has risen by around 3 million m² since the low point in 2019.

Despite some halted construction projects as a result of insolvencies, around 1.9 million m² of new office space were brought onto the market in 2023. For 2024, more than 2 million m² are expected. From 2025 onwards, there are signs of a slump in new construction activity as a result of the changed framework conditions. According to current forecasts, less than 1.5 million m² of new office space will come onto the market in 2025, with a further decline in volume in 2026. Unimpressed by the increase in vacancies, prime rents continued their upward trend in all top 7 locations.

Construction activity in the top 7 continues to be at a high level. These state-of-the-art spaces are in high demand among occupiers with high requirements for ESG standards and property quality and can thus achieve new prime rents in many markets. On the other hand, obsolescence and rental risks are becoming increasingly important for older existing properties as a result of increasing investment requirements. From 2025 onwards, we expect an increasing shortage of modern office space in central locations due to the slump in new construction, and in 2026 a peak in the vacancy trend in the overall market.

	Berlin	Düsseldorf	Frankfurt	Hamburg	Cologne	Munich	Stuttgart
Take-up Q1 – Q4 2023	530,000 m²	245,000 m²	366,800 m²	452,500 m²	201,000 m²	474,850 m²	156,500 m²
Take-up Q1 – Q4 2022	760,000 m²	280,000 m²	376,800 m²	592,200 m²	316,000 m²	754,500 m²	302,200 m²
Change	-30.3 %	-12.5 %	-2.7 %	-23.6 %	-36.4 %	-37.1 %	-48.2 %
Prime rent Q4 2023	€ 44.50 / m²	€ 40.00 / m²	€ 47.00 / m²	€ 34.50 / m²	€ 34.00 / m²	€ 48.00 / m²	€ 35.00 / m²
Prime rent Q4 2022	€ 43.30 / m²	€ 34.50 / m²	€ 46.00 / m²	€ 32.50 / m²	€ 29.50 / m²	€ 43.50 / m²	€ 33.00 / m²
Change	2.8 %	15.9 %	2.2 %	6.2 %	15.3 %	10.3 %	6.1 %
Average rent Q4 2023	€ 29.00 / m²	€ 21.20 / m²	€ 22.80 / m²	€ 20.90 / m²	€ 19.30 / m²	€ 23.85 / m²	€ 17.30 / m²
Average rent Q4 2022	€ 29.30 / m²	€ 19.50 / m²	€ 23.50 / m²	€ 20.90 / m²	€ 16.70 / m²	€ 24.20 / m²	€ 18.10 / m²
Change	-2.4 %	8.7 %	-3.0 %	–	15.6 %	-1.5 %	-4.4 %
Vacant space Q4 2023	1,288,700 m²	647,000 m²	1,109,600 m²	523,300 m²	239,800 m²	1,594,700 m²	432,200 m²
Vacant space Q4 2022	803,500 m²	624,400 m²	1,040,900 m²	551,100 m²	215,000 m²	1,231,100 m²	364,200 m²
Vacancy rate Q4 2023	5.7 %	8.1 %	9.6 %	3.7 %	2.9 %	6.9 %	5.1 %

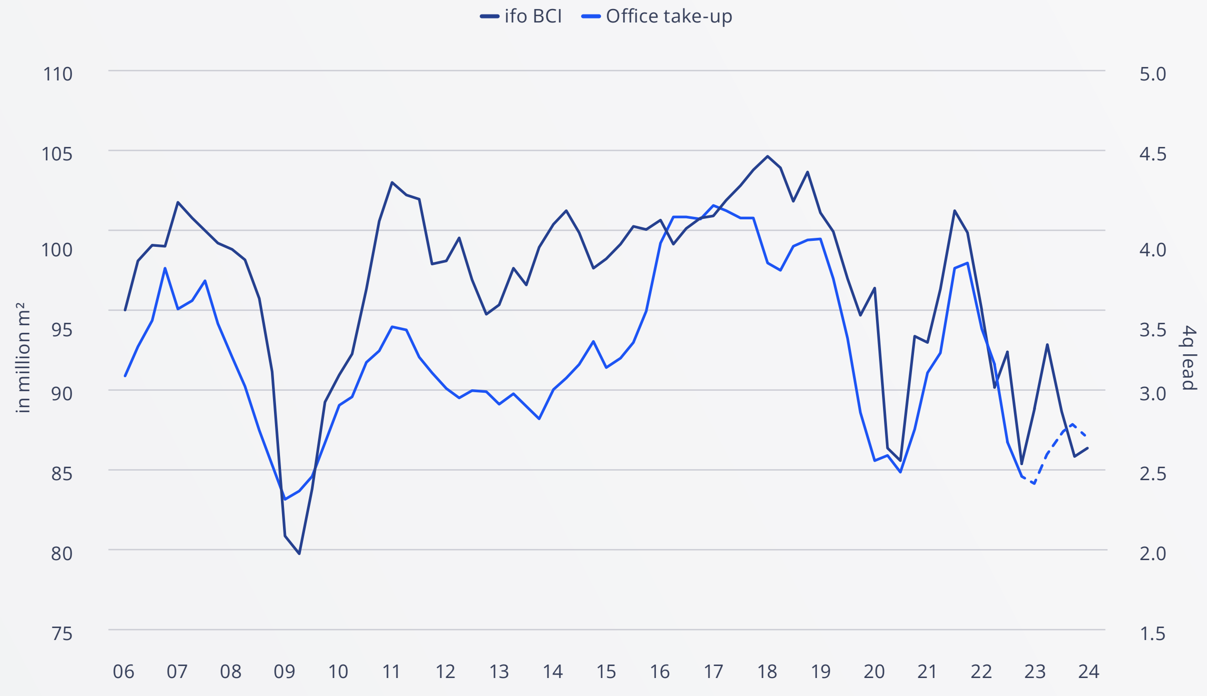
Office A Cities

REAL ESTATE SECTORS

The German economy is expected to have contracted by 0.3 % in 2023 as a whole, and the leading indicators do not suggest a short-term recovery. After three consecutive increases, the ifo Business Climate Index fell slightly again in December and, at 86.4 points, still does not signal an upswing. The consensus forecast currently expects slight economic growth of 0.3 % for 2024.

The gloomy economic environment is also slowing down the office leasing market in Germany at the beginning of 2024. In view of the relevant leading indicators and forecasts, we do not expect positive impetus for the rental market until mid-2024 at the earliest. The realignment of office concepts in the context of home office ratios that have now stabilised will continue to create a structural headwind for the office leasing market in the medium term. A return to take-up from the pre-coronavirus years is therefore not to be expected in the short term, even if the economic environment brightens. For 2024, we believe that take-up of up to 2.7 million m² is possible, an increase of 12 % compared to 2023.

TAKE-UP TOP 7 AND IFO BUSINESS CLIMATE INDEX



Investment markets

REAL ESTATE SECTORS

In Germany, institutional real estate was traded for € 32.9 billion in 2023. Of this amount, € 8.8 billion was attributable to the institutional residential segment (Minimum 50 residential units) and € 24.1 billion to commercial real estate. The latter recorded an 11 % decline in transaction volume in the year-end quarter, which is traditionally the strongest in terms of volume in the long-term trend, compared to the previous quarter. In terms of volume, the fourth quarter of € 6.4 billion is ahead of the two very quiet first quarters of 2023. The number of deals reached the highest quarterly figure of the year at 269, which indicates an overall increase in market activity from a low level.
In a long-term comparison, the full-year result falls back to the level of 2011, but is still above the low point of the financial crisis years 2008 to 2010, which in some cases was well below € 20 billion. Compared to the average of the interest-rate-driven supercycle from 2013 to 2022, the transaction volume has more than halved to minus 52 %.

In the past year, the brake marks of the interest rate turnaround from 2022 arrived on the market with a time lag. Investors' conviction that the peak of the rate hike cycle is likely to have been reached and that the financing environment has improved again compared to the previous year will only have an impact in the coming months. The macroeconomic outlook deteriorated again at the end of the year. In addition to weak global economic stimulus, the wars in Ukraine and Gaza, structural deficits and the uncertain budget situation since the November ruling of the Bundesverfassungsgericht are weighing on the economic and consumer climate in Germany. An economic recovery, at least moderate, is not expected until the second half of 2024.

Low transaction activity in the office segment slows down market recovery
In the office segment, the most important and historically most liquid type of use, the consolidation of hybrid working is another stress factor. According to our analyses, obsolescence risks, which are caused by increasing location and quality requirements of new working environments, but also by increasing ESG requirements, affect up to 69 % of the office stock in the TOP 7. Such obsolescence triggers high capex and, in addition to the continuing high borrowing costs, flows into the purchase price calculations of potential buyers. On the other hand, there are existing investors who, under the influence of low financing costs and high liquidity pressure, bought mainly large-volume landmark properties at record prices during the long boom phase. There continues to be a high level of interest in first-class products from investors with strong equity capital, especially from family offices. Although prices are no longer being paid as they were 24 months ago, the current prime yields are being exceeded in some cases.

Landmark deals, which in previous years mainly shaped transaction activity in the seven office centres, were almost completely absent in 2023. The share of investment centres in the total German investment volume shrank drastically to around one third and amounted to € 7.9 billion. The last time the transaction volume of the top 7 fell below the € 10 billion mark, we were at the height of the financial crisis.

	Germany	Berlin	Cologne	Düsseldorf	Frankfurt	Hamburg	Munich	Stuttgart
Commercial transaction volume 2023	€ 24,054 m	€ 3,153 m	€ 625 m	€ 610 m	€ 580 m	€ 1,261 m	€ 1,235 m	€ 449 m
Commercial transaction volume 2022	€ 52,601 m	€ 8,836 m	€ 1,090 m	€ 2,600 m	€ 4,217 m	€ 4,028 m	€ 4,164 m	€ 1,014 m
Change compared to the previous year	-54 %	-64 %	-43 %	-77 %	-86 %	-69 %	-70 %	-56 %
Largest group of buyers	Asset / Fund Managers 23%	Asset / Fund Managers 36 %	Asset / Fund Managers 26 %	Asset / Fund Managers 30 %	Open-ended real estate funds / special funds 21 %	Public sector 39 %	Corporates / Owner-occupiers 29 %	Insurances 33 %
Largest group of sellers	Project Developer / Property Developer 23 %	Project Developer / Property Developer 39 %	Project Developer / Property Developer 25 %	Corporates / Owner-occupiers 47 %	Asset / Fund Managers 26 %	Asset / Fund Managers 34 %	Private Investors / Family Offices 24 %	Private Investors / Family Offices 43 %
Main property type	I&L 28 %	Retail 42 %	Office 45 %	I&L 27 %	Office 35 %	Office 56 %	Office 37 %	Mixed use 40 %
Prime Yield Office		4.90 %	5.00 %	5.00 %	4.95 %	4.80 %	4.50 %	4.80 %
Prime Yield Retail		4.90 %	5.00 %	5.00 %	4.85 %	4.70 %	4.50 %	4.80 %
Prime Yield I&L				4.70 %				

Due to the scepticism of many investors with regard to future user demand and thus the security of cash flows, the office sector collapsed by around 82 % compared to the ten-year average and lost its dominant position as the type of use with the highest transaction volume for many years. At the end of the year, it was in 3rd place with a market share of 20 %. In second place, with 23 %, are retail properties. For the first time, industrial and logistics properties topped the list of all segments with 28 %. Thanks to numerous portfolio transactions in the second half of the year, the sector was able to match its long-term average in terms of transaction volume.

High rental growth potential due to the increased relevance of logistics properties in recent years in the face of scarce supply is boosting the attractiveness of the segment and ensuring a persistently high willingness to invest on the buyer side. At 20 basis points in the past three months, the yield decompression in the prime yield for logistics properties, which currently stands at 4.70 %, has been slightly lower than in other segments. Prime yields for prime offices in the top 7 markets are in a range of 4.50 % in Munich and 5.00 % in Düsseldorf and Cologne after an increase of 20 to 30 basis points. Even though a large part of the corrections is likely to have already been completed, we expect yields to rise to around 5.25 % on average in the top 7 by the second half of 2024, based on medium risk premiums on ten-year German government bonds.

2024 will remain challenging, despite expected low economic growth and increased predictability of the financing environment. The wave of insolvencies is unlikely to be over yet. According to our calculations, the persistently high financing costs for follow-up financing this year will lead to a debt financing gap of around € 5 billion, which is not available to the transaction market. In both cases, however, the increased need to raise capital also leads to increasing selling pressure and thus more transaction activity. The insolvency cases of project developers that became known in 2023 alone have a project volume of more than € 5 billion in the commercial sector in the top 7. Against this backdrop, we believe that a transaction volume of around € 30 billion is achievable for 2024.

OFFICE YIELD FORECAST

Office B + C Cities

REAL ESTATE SECTORS

According to Colliers, around € 2.6 billion were invested in office and commercial buildings outside the top 7 in 2023 – a significant decline of 62 % compared to the previous year. In the top 7, the decline in transaction volume was 84 %. The number of transactions in B, C and D cities has fallen by more than half compared to 2022. Portfolio transactions accounted for only a very small share of less than 10 % of the investment volume. Furthermore, the absence of international investors, who are traditionally represented in B & C cities, is not as strong as in the top 7 anyway. Only 11 % of the investment volume was accounted for by investors based outside Germany. In recent years, their market share has regularly been between 20 and 35 %.

Notably, the gap between the top 7 and B, C, and D cities has historically never been as small as it is in 2023. In the top 7, just over € 500 million more were invested in office and commercial buildings than outside. Normally, the top 7 achieve at least 3 times higher volumes than B, C and D cities.

Analogous to the top 7 cities, prime yields in B&C cities have continued to move upwards. In the unweighted average of the 14 B cities examined, the prime yield for first-class office and commercial buildings in central locations was 5.20 % at the end of 2023 (+60 basis points compared to the previous year), the first time since 2017 that it was below 20 times the annual net rent. In C-cities, very good office and commercial buildings were available for an average of just over 17 times or around 5.85 % (+80 basis points compared to 2022) prime yields.

In view of the low number of transactions, especially for premium properties, it is difficult to make statements about pricing. We expect to see the strongest increase in returns outside of the top 7 as well. However, we believe that the adaptation process is not yet complete. In the medium term, we expect a further slight increase in prime yields in central locations of B cities to around 5.35 % and in C cities to around 6.00 %. In recent months, the 5- and 10-year swap rates relevant to real estate financing have fallen sharply. However, they will be at a higher level this year than they were in mid to late 2021, so investors who rely on debt capital will no longer be able to pay the prices they did 24 months ago. However, from the middle of the current year and depending on further interest rate developments, prime yields could fall again somewhat.

Especially in the last two months of 2023, we were able to observe the first tender plants of a market recovery. Investor interest in office and commercial buildings outside the top 7 has increased again in view of the price adjustments that have already taken place and the stable user markets. Basically, the latter are characterized by a healthy ratio of demand and supply in most cities. Although the number of completions has risen recently, it is coming from a low level and at the same time with predominantly low vacancy rates. Furthermore, the topic of working from home is less pronounced outside the top 7 with the mostly medium-sized tenant landscape than in the top 7 with numerous large companies.

TRANSACTION VOLUME OFFICE-RETAIL MIX BUILDINGS OUTSIDE THE TOP 7 MARKETS AND IN TIER 2 & 3 CITIES

	Outside Top 7	Tier 2 & 3 cities
2018	€ 7.0 bn	€ 4.3 bn
2019	€ 9.9 bn	€ 6.3 bn
2020	€ 8.0 bn	€ 5.6 bn
2021	€ 6.6 bn	€ 4.4 bn
2022	€ 6.8 bn	€ 4.5 bn
2023	€ 2.6 bn	€ 1.3 bn

PRIME YIELD OFFICE

	Outside Top 7	Tier 2 cities	Tier 3 cities
2018	3.24 %	4.82 %	5.33 %
2019	2.98 %	4.46 %	5.00 %
2020	2.94 %	4.41 %	4.95 %
2021	2.76 %	4.31 %	4.83 %
2022	3.80 %	4.59 %	5.05 %
2023	4.85 %	5.20 %	5.95 %

Residential

REAL ESTATE SECTORS

The full year 2023 was more subdued than expected in the institutional residential investment segment with a transaction volume of € 8.8 billion. After a weak third quarter, however, the noticeable revival in the fourth quarter (strongest quarter with € 2.9 billion) points to a gradual pick-up in market activity. Net income for the year was 39 % lower than in the previous year (€14.4 billion) and missed the ten-year average by 57 %. At € 5.4 billion, portfolio transactions accounted for around 61 % of investment revenue (previous year: 45 %). In particular, the portfolios sales of VONOVIA SE to Apollo and CBRE Investment Management had a significant impact on the market. Of the total transaction volume, 41 % or € 3.7 billion was accounted for by the A-cities (prior-year period: 42 %), with a strong concentration on Berlin (around € 2.0 billion) and Munich (around € 800 million).

The increased market activity in the fourth quarter shows that the price expectations of buyers and sellers have continued to converge and thus more transactions are crossing the finish line again. We also see a convergence of price expectations in initial yields, with a stable level of prime yield in the fourth quarter of 3.85 % for existing properties in A-cities and 4.50 % in other locations.

On the product side, demand continues to be directed towards existing properties, while there is little transaction activity in forward deals and new construction projects. The yield for the latter was stable in the final quarter of the year at 3.80 % in A-cities and 4.30 % in other locations. In 2024, buyer interest is also expected to be directed towards distressed projects, insolvencies and new construction projects that are in the process of being halted, so that increased investment activity seems possible in the course of 2024 if interest rates fall.

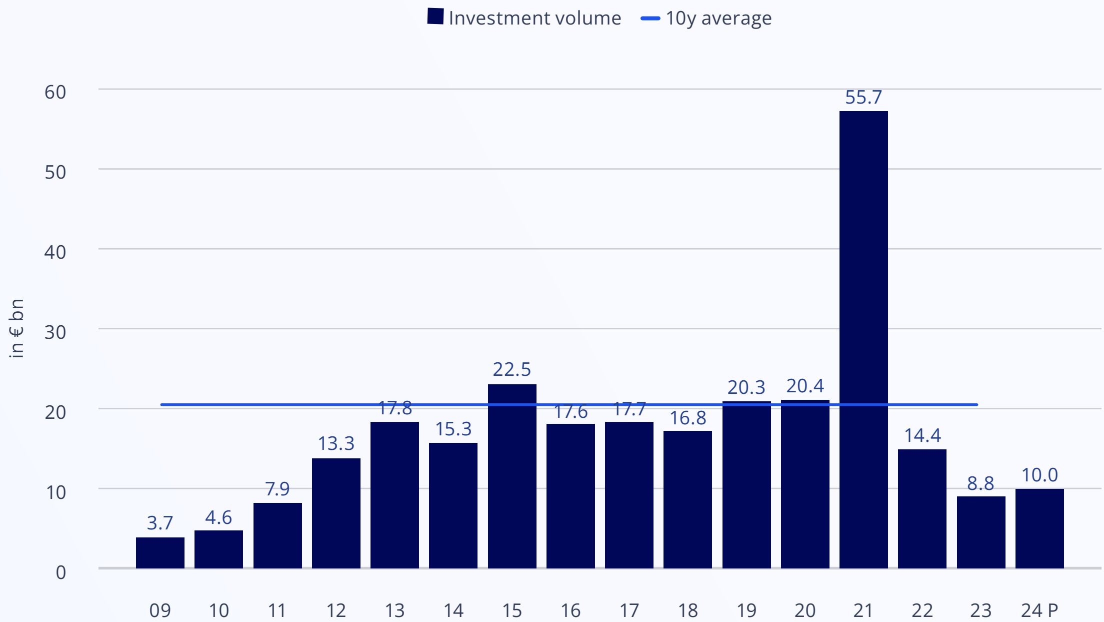
The micro-living segment continued to be subdued at the end of 2023. The discussion that arose in the middle of the year about potential rent regulations for furnished apartments increased uncertainty on the investor side, despite good framework conditions and increased occupancy rates. At the end of the year, this resulted in a further slight increase in the prime yield by 15 basis points to currently 4.15 % in the A-cities.

The strong rental growth of recent years accelerated again in 2023. In the A-cities, asking rents rose by around 8 % in the existing segment and by around 9 % in the new-build segment. In the existing segment, rents in all A-cities at the end of 2023 were higher than at the end of the previous year, with Berlin showing the largest increase of almost 13 %. In the new-build segment, the largest increase of 11 % was observed in Frankfurt. However, rent growth is not a big-city phenomenon – if you look at Germany as a whole, the new rental rents for existing apartments rose by 5 %, while rents for new buildings rose by 7 %. Due to the expected massive decline in new residential construction and the resulting shortage of supply, rents are expected to rise significantly in all segments in 2024 as well.

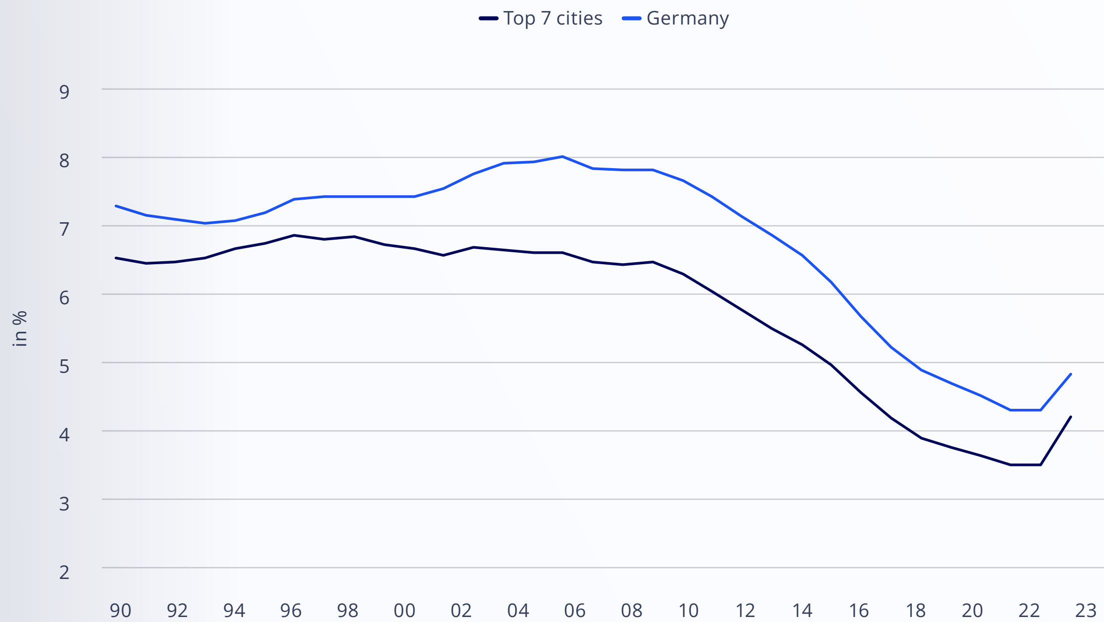
A sustained increase in demand for housing combined with a massive decline in new residential construction will mean that the housing market will be tighter in 2024 than it has been for decades. Moreover, the political stimulus from the 14-point plan for more housing construction will only have an effect in the medium term. Although supply in the rental segment has now stabilised at a historically low level, no trend reversal is expected here due to the expected slump in new construction. The high demand for housing with too little supply is the basis for further rent increases. For 2024, we expect growth rates of at least 3 to 4 % on average in A-cities.

Overall, investor interest in residential real estate remains high. With financing conditions expected to stabilize in the first half of the year and financing costs to fall slightly in the second half of the year, Colliers expects higher investment activity over the course of the year. Young ESG-compliant portfolio properties will once again be the focus of investors. On the buyer side, both institutional capital and equity-rich players such as family offices will provide significant demand impulses. On the sell-side, project developers, distressed sellers (insolvencies) as well as institutional investors and portfolio holders in particular will be more active than in 2023 due to liquidity pressure. The full-year result will depend in particular on how the sales and portfolio streamlining processes of large portfolio holders develop over the course of the year and whether the Projects and Forward Deals segments pick up. Against this backdrop, a full-year result of more than € 10 billion is possible in an improved overall environment for residential real estate.

TRANSACTION VOLUME (MORE THAN 50 UNITS)



GROSS INITIAL YIELD OF EXISTING RESIDENTIAL PROPERTIES



Retail

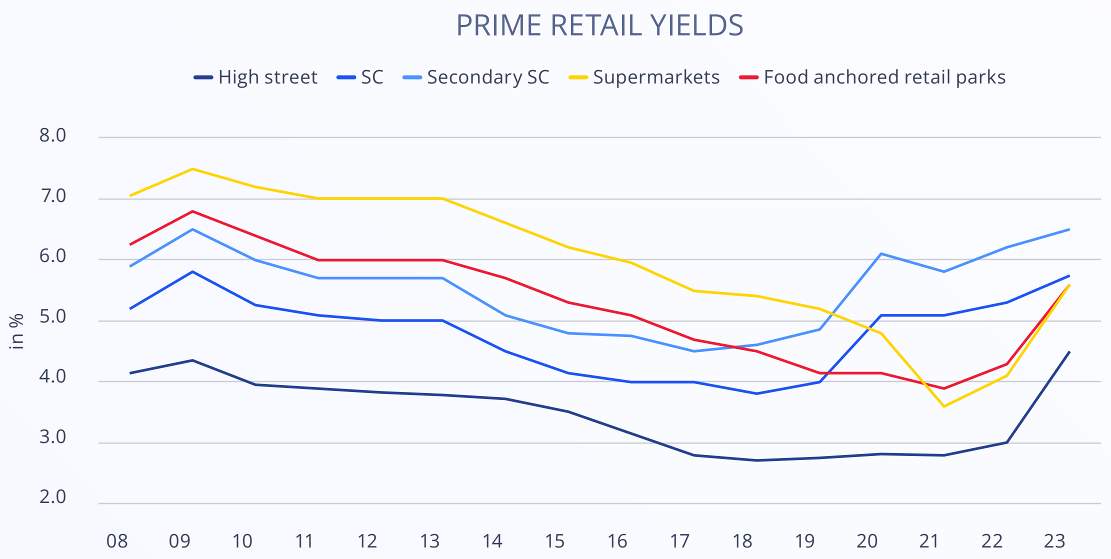
REAL ESTATE SECTORS

In 2023, retail real estate was traded for € 5.5 billion in Germany. This is the lowest transaction volume since the height of the financial market crisis and corresponds to just under half of the ten-year average. However, compared to the general transaction weakness in the investment market, the retail segment suffered less and landed in second place with a market share of 23 %, behind industrial and logistics properties with 28 %, but still ahead of office properties with 20 %.

Transaction activity in retail real estate remains focused on a few sub-areas, which makes it very susceptible to fluctuations. For the time being, the small-volume retail park segment with local suppliers represents calculable investment needs with crisis- and online-resilient sales and thus fits into the current investment strategy of many investors. Mostly long-term and indexed leases represent predictable cash flows for core investors, even if significantly less capital is placed than 48 months ago. The food retail sector is also being strengthened by the trend towards supply close to home and place of work, driven by the home office, in expanding its close-knit network of locations. According to the EHI's dealer survey, food products are once again one of the most expansive sectors.

Specialist markets and retail parks continue to lead all retail property types traded with a volume share of 55 %, of which 89 % is attributable to the food-anchored retail park segment alone. High-street properties, whose dominant market share in the first half of the year was mainly characterised by large-volume acquisitions in the department store segment, are currently in second place with a volume share of 33 %, followed by shopping centres in third place with 11 %. Around 44 % of the transaction volume is accounted for by portfolios, the majority by individual deals.

Taking into account the continuing high interest and financing costs, the high prices of the past are no longer being paid in the retail segment either. Currently, the gross prime initial yields for local supply properties range between 5.60 and 6.25 %. In response to the sluggish market activity, we are observing that portfolios that have been on the market for a longer period of time are being divided into smaller sub-portfolios or offered individually. In addition, we see value-add investors who focus on the restructuring of properties with short remaining maturity in good locations. In this respect, inner-city commercial buildings and shopping centers in high-frequency locations currently offer good entry points for repositioning. The character of a purely retail property is broken up and replaced by mixed use. With the insolvency of major project developers such as Centrum or the Signa Group, products in the absolute top locations of the shopping metropolises will enter the market from this year onwards. Despite the generally high level of interest from potential buyers, we expect significant price corrections as a prerequisite for transactions that actually take place. Locations and centers that are not very sustainable will remain untradable for the time being. Overall, we expect an increase in transaction volume for 2024, although this will still be well below the long-term volume of € 10 billion.



Industrial and Logistics

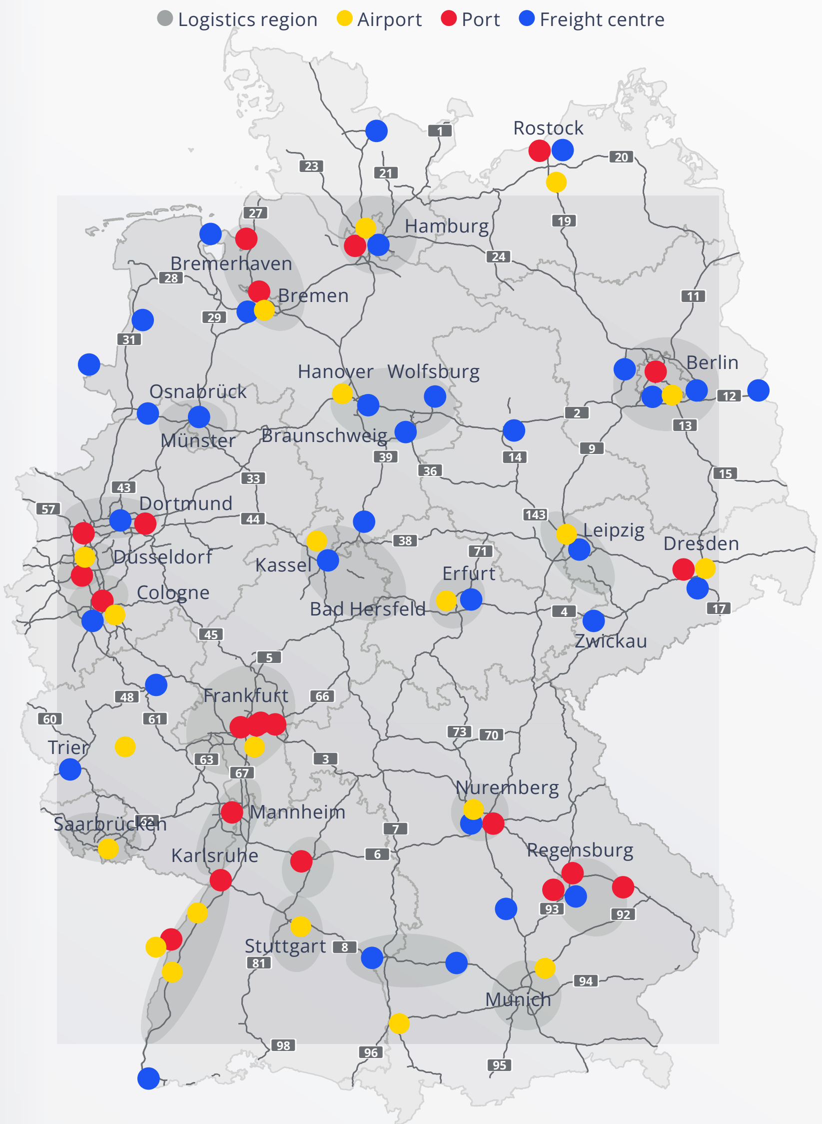
REAL ESTATE SECTORS

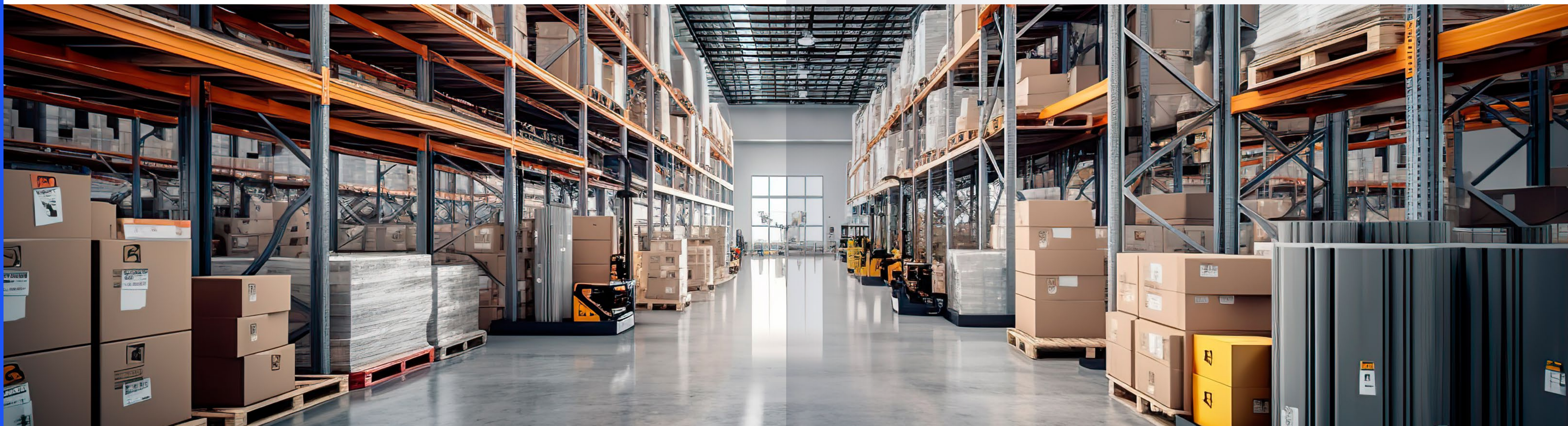
Despite the difficult market environment, the German industrial and logistics real estate market ended 2023 with a solid transaction volume totalling around € 6.7 billion. Compared to the previous year, the annual result was missed by 28 %. In a long-term comparison, the transaction volume in 2024 was at the level of the ten-year average (€ 6.3 billion). In the first half of the year, transaction activity was significantly influenced by interest rate developments and financing costs. The end of the interest rate rally was not heralded until autumn 2023.

It was not until the third quarter that we registered a noticeable recovery in transaction activity. As a result, around 70 % of the total transaction volume was generated in the second half of the year. In addition, we note that the investor sweet spot has narrowed in 2023 and is currently in the range of € 40 million to € 70 million.

Portfolio transactions were the main driver of transactions in the third and fourth quarters. Overall, they accounted for around 35 % of the transaction volume, which is in line with 2020 levels. The record value from the previous year (40 %) was narrowly missed. Overall, a solid result was achieved with just under 25 portfolio deals. Both national and international buyers were equally active in portfolio purchases. In terms of total transaction activity, national buyers were the most active group, accounting for around 53 % of the transaction volume. This is in line with the figure from 2021 (52 %). In the previous year, the share of domestic buyers was around 48 %. Most of the foreign capital comes from European countries.
Overall, we find that the buyer and seller sides have quickly found each other in terms of pricing. In addition, the large number of transactions that took place in the second half of the year provided more evidence and certainty in pricing.

At the end of the year, Colliers recorded a gross prime yield of 4.70 % for core logistics properties with an area of more than 3,000 square meters. While the first half of the year was marked by uncertainties and the low number of transactions made it difficult to determine returns in line with the market, general market conditions were noticeably more favourable in the second half of the year thanks to the stabilisation of the interest rate environment and financing conditions, resulting in a large number of core and core-plus transactions.





Industrial and Logistics

REAL ESTATE SECTORS

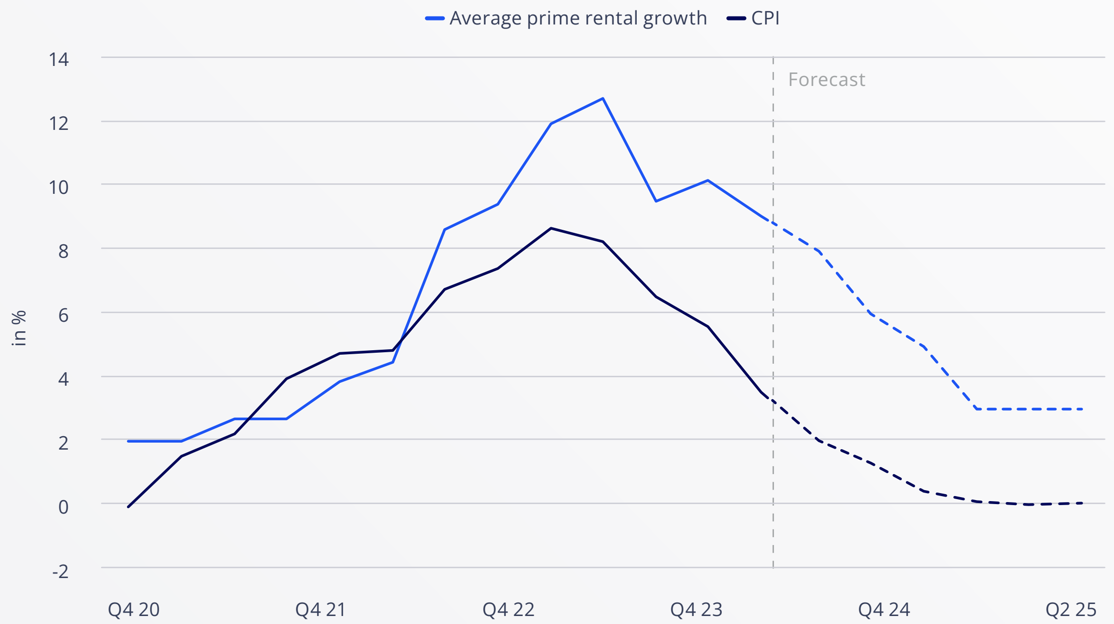
At the end of 2023, Germany's TOP 8 industrial and logistics real estate markets generated take-up of around 2.2 million square metres. This represents a decrease of 33 % compared to the previous year. The five-year average was missed by around 29 %.

The upturn in demand in the industrial and logistics real estate market, which we already observed in the third quarter, continued in the fourth quarter. In the second half of the year, an increase in deals in the large-volume segment was observed. The economic situation, coupled with a change in consumer behaviour, led to a large number of sublet spaces coming onto the market in the first half of the year. E-commerce companies, in particular, had to adjust their expansion plans and give up space, which was quickly absorbed by the market. Due to the slight recession, it is also difficult for industrial companies and contract logistics companies to correctly assess their space requirements. On the other hand, however, there are still very low vacancy rates and an undersupply of space in many areas. These factors have a negative impact on take-up.

The year 2023 was marked by a shift in demand. Retail companies have been hesitant and in some cases have even returned space to the market. While their share was 38 % in the first quarter, it was only 26 % at the end of 2023. Overall, however, we see a healthy mix of demand in the market as well as unbroken demand for logistics properties. In particular, users from the energy and automotive sectors are increasingly demanding space for the storage of batteries.

Compared to the previous year, the TOP 8 logistics regions recorded an average rental growth of 9 % for prime rents and 12 % for average rents. This shows that existing rents in particular continue to be under upward pressure due to the prevailing shortage of space in the TOP 8 regions.
We expect low vacancy rates, a still manageable supply and an overall decline in the number of new construction projects to continue to support the upward pressure on rents. However, we expect rental growth to slow in the second half of the year. In addition, we see that more and more users are moving to the surrounding areas due to the shortage of space, which is leading to new rental growth potential in peripheral locations. We have a positive outlook for the new year and expect the market recovery to continue.

PRIME RENT DEVELOPMENT IN THE TOP 8



Land and Forestry

REAL ESTATE SECTORS

Despite fluctuating timber prices and severe climate-related forest damage, the average price for forest land in 2020 was recorded at € 12,880 per hectare, which is in line with previous years. Prices fluctuate steeply, however, based on location and quality, ranging from an average of € 7,400 per hectare in Thuringia to € 25,000 per hectare in Bavaria, with buyers paying a significant premium in some cases because of emotional attachment to the land.

Forestry offers a long-term, inflation-proof investment opportunity with stable returns and consistent, moderate appreciation. The fact that forestry valuations currently only take timber production and, in some cases, hunting stock into account is worth noting. The other (environmental) benefits that forest land holds for society and the economy have yet to be priced in.

The pricing of forest land does not yet take into account the significant benefits of forests in terms of carbon storage, water and biodiversity. Forest land is undervalued. The certification programs that are currently being developed can be used to prove and monetize these benefits. Other countries in which we are also active, like New Zealand and the UK, incorporated certification programs like these in their government climate targets years ago.

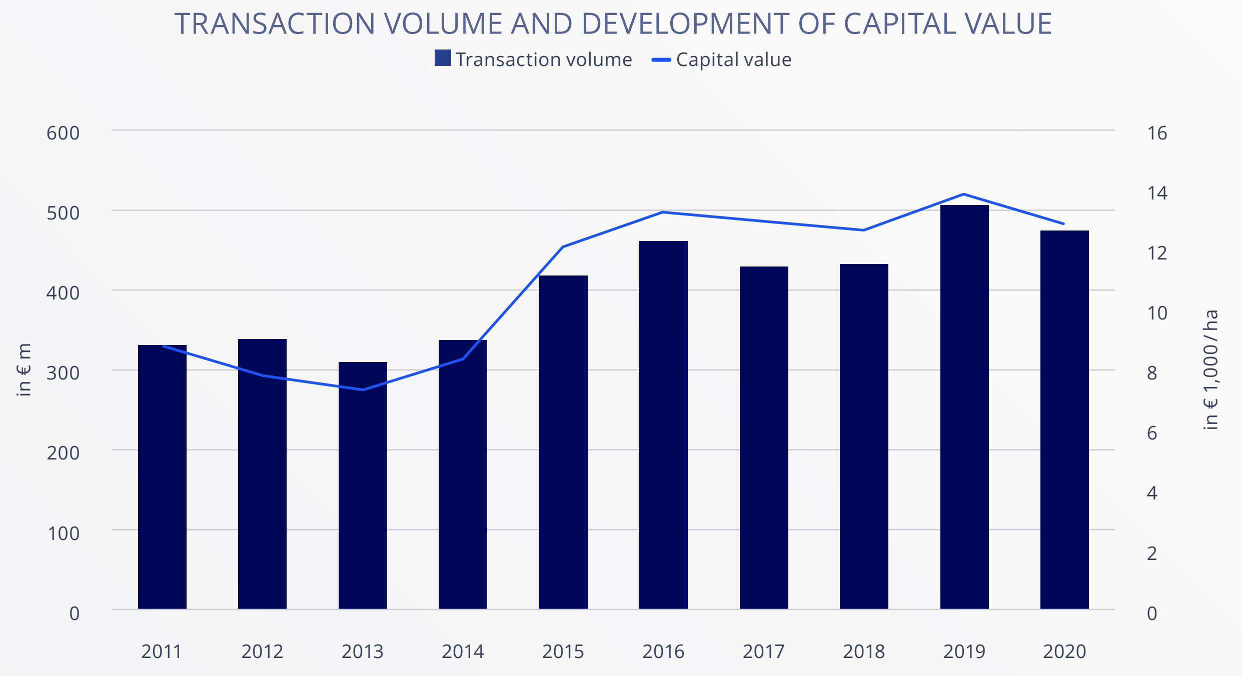
Storms, drought and the proliferation of the bark beetle due to climate change triggered the clear-cutting of 500,000 hectares in Germany, an area that now needs to be reforested. That is twice the size of the German state of Saarland. The cost of reforestation is estimated at roughly € 5bn. An additional 5 million hectares of forest land also needs to be made climate resilient. German forestry enterprises are unable to cover these costs as their average return is 1.5 % per year, lower than that of agricultural operations.

This billion-dollar funding gap cannot be closed without additional government funding. Without this step, Germany will almost certainly not be able to achieve its climate targets, to which forests contribute significantly. German forests and timber currently store around 90 million tons of carbon emissions per year, offsetting almost 11 % of Germany's greenhouse gas emissions. Potential for carbon storage is currently significantly lower due to severe forest damage.

The process of creating mixed forests was initiated in Germany decades ago but takes time. In most cases, it involves increasing the amount of deciduous trees and the diversity of tree species. Species with potential for long-term climate resilience such as Douglas fir and red oak are being planted to combat the impact climate change.

The changes in tree species has an impact on the timber market as well, because building and construction timber is produced from coniferous trees while hardwood is mainly used for energy. Demand for timber products is on the rise as timber is a particularly sustainable material and potential uses are becoming increasingly diverse thanks to recent research, especially that being conducted in Europe. Nevertheless, firewood sales remain an important source of income for forestry enterprises.

Annual (forestry) land deals remain stable at roughly 36,000 hectares per year based on figures recorded up to 2020. The average transaction size is less than two hectares with significant regional differences between the former East German (larger transactions) and West German states.



Life Sciences

REAL ESTATE SECTORS

Take-up in life sciences & tech real estate in 2023 was just under 135,000 m², around 51 % below the previous year's result. Most of the degrees were concluded in the Rhine-Main and Rhine-Neckar regions, in the Munich metropolitan region, in the Ruhr area, as well as in Berlin and Hamburg.
One of the reasons for the weak demand is declining investment in life sciences and tech companies, especially by private equity. In addition, there was a dip in demand following the boom triggered by the pandemic, especially in the medical and biotechnology sectors.

Furthermore, the low supply of adequate space limited take-up. In 2023, just over 58,000 m² of new life sciences and tech space was completed in Germany. However, the completion pipeline is well filled. By the end of 2026, a further almost 704,000 m² will be added.

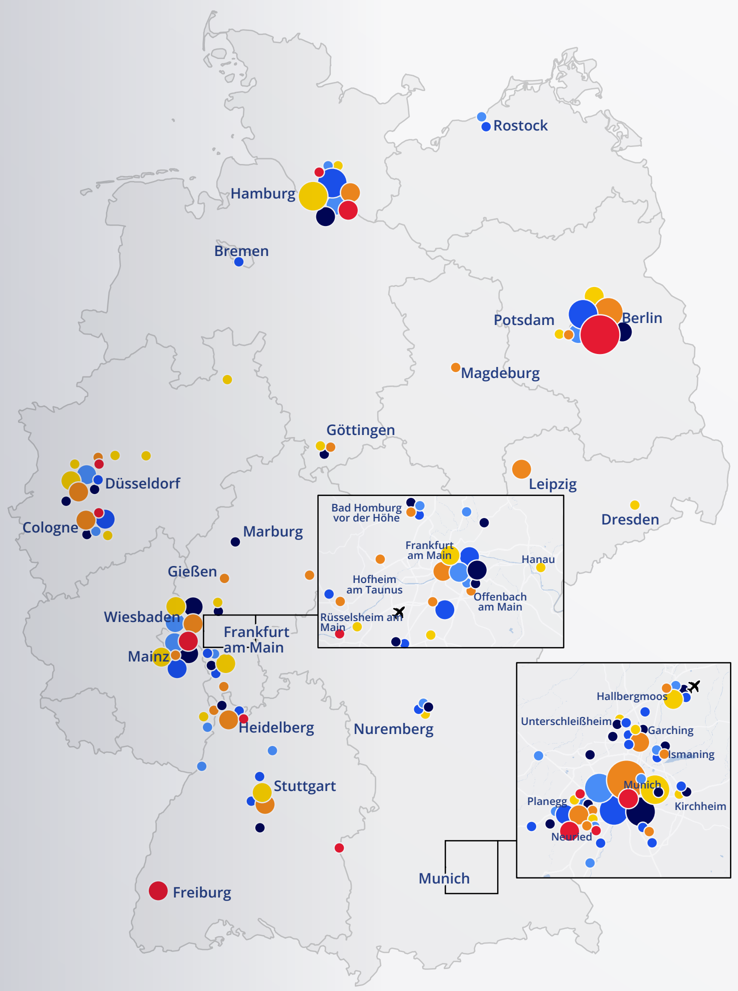
We expect that the location decisions of chip manufacturers Intel in Magdeburg and TSMC in Dresden, those of the pharmaceutical company Eli Lilly in Alzey near Mainz or the location of Northvolt's battery factory near Heide will have a positive effect on the life sciences and tech market.
In perspective, the life sciences and tech real estate market in its small niche is performing better than the market as a whole, where transaction volumes have declined much more sharply by more than 50 %.

In 2023, a total of 13 transactions were recorded in the life sciences & tech real estate sector, two more than in 2022. Overall, the transaction volume amounted to around €420 million, a decline of 18 % compared to the previous year. The regions of Munich with five and Berlin with three transactions were able to generate the most deals in 2023 following the pattern of existing and growing clusters. For the reason of the usual choice of location, the purchase of a property in Warstein by Garbe Institutional Capital and BC Partners Real Estate for the development of a research and development building in timber hybrid construction for Infineon Technologies is noteworthy.

On average, the volume of transactions has decreased compared to the previous year. Most of these are project plots and new buildings. The nature of the investments is therefore clearly geared towards future growth.

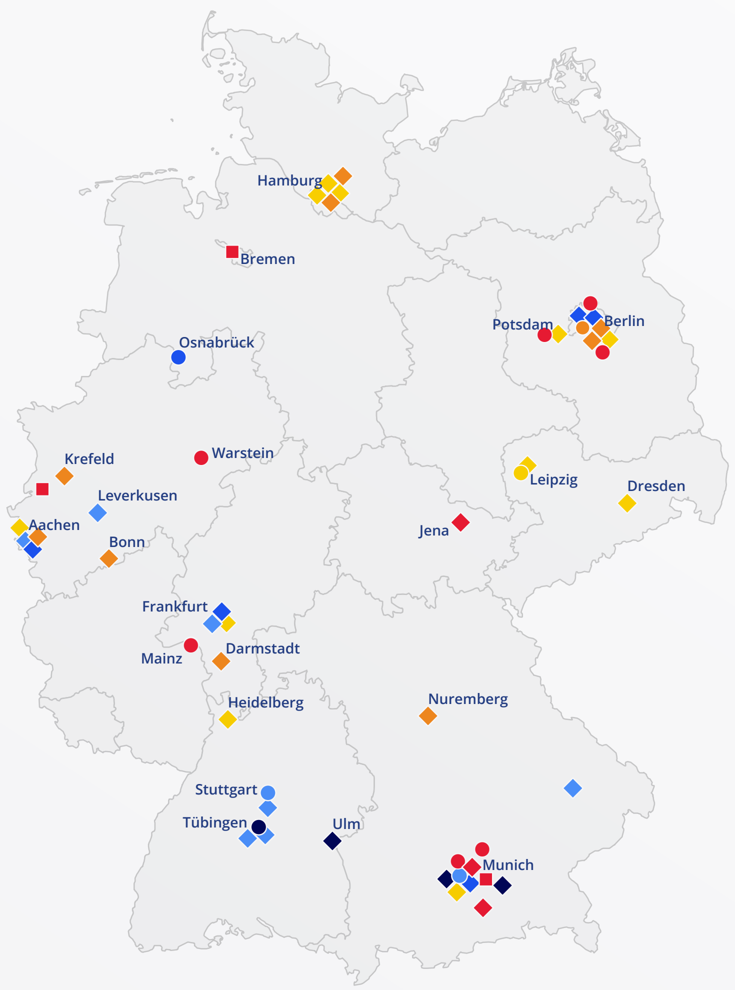
LIFE SCIENCE LETTING TRANSACTIONS 2018 – 2022

Year: 2018 2019 2020 2021 2022 2022
Number of transactions: 1 – 2 3 – 10 11 – 20 > 20



TRANSACTIONS OF LIFE SCIENCE ASSETS AND SELECTED PLOT TRANSCATIONS 2018 – 2022

Year: 2018 2019 2020 2021 2022 2023
Existing property Development Plot



Financing Environment

IN THE CURRENT MARKET ENVIRONMENT, FINANCING COSTS DIFFER SIGNIFICANTLY DEPENDING ON THE TYPE OF PROPERTY AND THE CREDIT-WORTHINESS AND SECURITY SITUATION OF THE POTENTIAL BUYER.

Despite the current challenges being faced by lenders on existing loan books the market for lending remains strong. The positive of rising interest rates is that the traditional lenders, banks, have seen profit margins rise. When couple with the general synopsis that Tier 1 ratios are strong against historical standards, it has resulted in margins starting to tighten as lenders compete to meet lending targets.

Sponsor track record, Business Plan, ESG compliance and debt yield continue to be the main areas of focus for lenders with those at the forefront commanding the best terms.

Offices are undoubtedly a challenge, but those in prime locations that offer modern facilities, multi tenanted with WAULTS in excess of 10 years remain attractive to the majority of lenders.

Industrial and Logistics is recognised as having seen the quickest price adjust but lenders recognise the demand and fundamentals of the asset class and remain keen to support. This is a sector that has also perhaps been the quickest to respond to the ESG challenges and we have seen some of strongest discounts in green loans. Discounts to loan terms come both in the form of fees and margin.

Retail is the sector with the greatest variances in demand and pricing. The prime assets that are typically buildings with great alternative use, in the best locations, remain attractive, however shopping centres in secondary locations are exceptionally difficult with only specialist lenders providing meaningful terms.

Grocery is typically a class outside of retail where lenders are more accepting of the single tenant nature of the leases but focus very much on footfall and local competition.

Life Sciences as an asset class is still evolving with the majority of loans being written for development and very few loans written for stabilised assets.

Value add and development are very much becoming the focus of the debt funds and alternative lenders seeking higher returns and willing to take a longer term view.

MARKET STANDARD FINANCING CONDITIONS ACCOUNTING FOR LTV AND TYPE OF USE

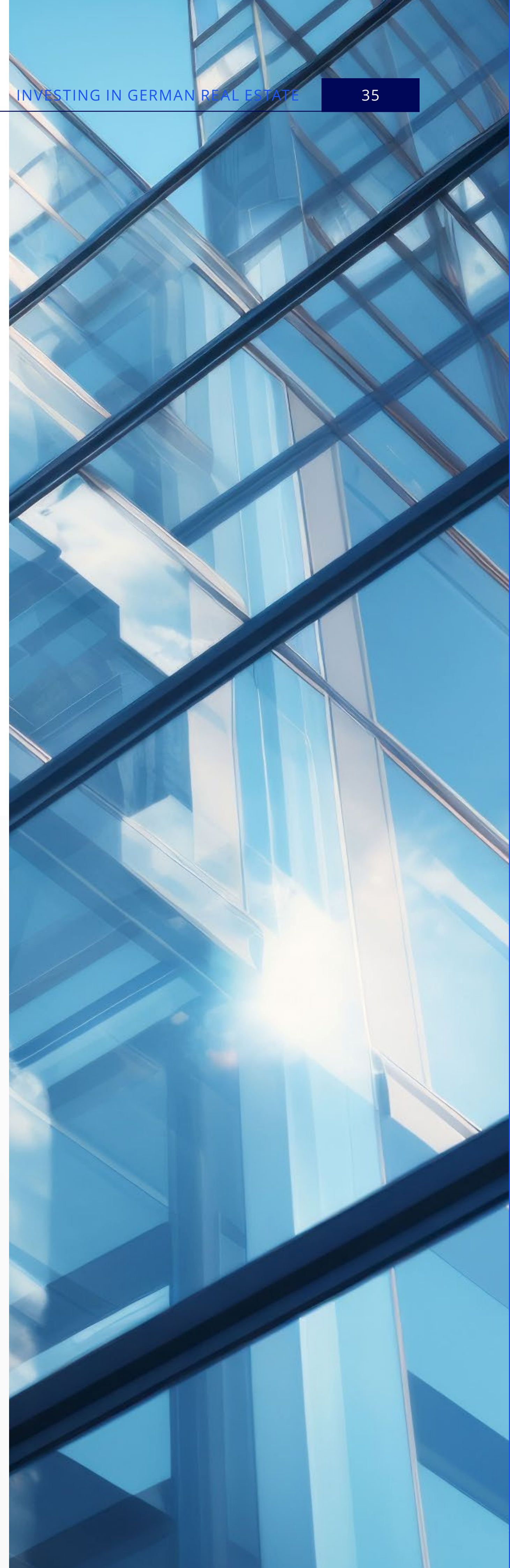
3 month
EURIBOR

approx. 3.9 %
(March 2024)

+

Loan to Value (LTV)

	40 %	50 %	60 %
OFFICES A CITIES	150 – 180 bps	170 – 210 bps	210 – 250 bps
OFFICES B + C CITIES	180 – 230 bps	210 – 280 bps	280 + bps
RESIDENTIAL	90 – 140 bps	120 – 180 bps	180 – 250 bps
RETAIL	200 – 250 bps	250 – 300 bps	300 – 400 bps
INDUSTRIAL & LOGISTICS	150 – 200 bps	140 – 180 bps	180 – 220 bps
LIFE SCIENCES	150 – 200 bps	180 – 250 bps	250 + bps



ESG Considerations

LEVERAGING SUSTAINABILITY FOR LONG-TERM SUCCESS IN GERMAN REAL ESTATE

In the German real estate market, as in all other EU markets, the issue of sustainability can no longer be ignored. Both European and national regulations (SFDR, taxonomy, EPBD, GEG, etc.) are forcing players to adapt their business models and business cases accordingly. At the same time, this creates interesting and lucrative opportunities in the market.

The transitory risks can turn out to be very cost-intensive in the future, especially for existing properties. CO_2 taxes, modernization costs, sustainability requirements on the part of tenants (CSRD), banks and investors, which can usually only be allocated, increase the obsolescence risk of the property. When financing modernization and post-densification measures, as well as in refinancing, banks will increasingly take sustainability criteria from this regulatory context into account as part of the determination of the mortgage lending value and risk analysis. Owners of properties with a below-average ESG performance will have to calculate with higher interest rates or a higher equity ratio when financing.

The investment to increase the energy performance and reduce the greenhouse gas emissions of the property, in line with the Paris Climate Agreement and the associated "Green Deal" initiative of the European Union, can not only prevent obsolescence, but also pays off economically for the owner. This means that the necessary capital expenditures (CapEx) can be generated by a correspondingly higher rent. However, the location of a property is absolutely crucial for this, because while CapEx are independent of location, the potential for rent increases naturally varies depending on the location.

Due to the dovetailing of taxonomy, SFDR and the new CSRD, a large number of companies in the EU and thus also in Germany will be obliged to report on sustainability risks and impacts in line with the taxonomy in the next few years. These reports will be more closely integrated with the companies' financial reports in the coming years.

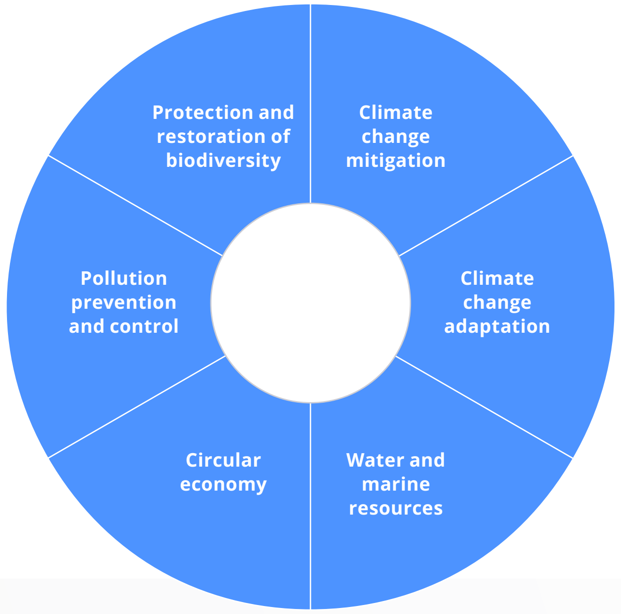
Rating agencies already take into account corresponding sustainability parameters in their risk analysis, which in turn have an influence on the creditworthiness of companies.

At the same time, the sustainability objectives of such companies are becoming increasingly important when selecting a new commercial property and when deciding on a possible extension of current leases. The sustainability performance of the property with regard to all facets of ESG must be in line with the sustainability goals of the company. For example, a not insignificant share of greenhouse gas emissions in the operating business arises from the use of real estate. Market participants should therefore pay more attention to the ESG-relevant obsolescence risks of a property. In particular, ESG due diligence (ESG DD) is indispensable when considering a purchase. A first impression is given to the buyer during a pre-screening ESG check on a desktop basis. The Carbon Risk Real Estate Model (CRREM) has asserted itself as an important analysis tool in this context. Here, the first step is to benchmark asset performance in terms of energy consumption as well as greenhouse gas emissions against European Union targets (Paris Climate Agreement). Attention, many of the ESG analyses presented by vendors have to be examined closely, because there is still too much room for interpretation regarding ESG (Environmental – Social – Governance) in parts as well as regarding the data to be applied.

Based on an ESG DD, a good ESG consultation then includes a recommendation for action with an initial cost estimate and a renovation roadmap, an impact analysis (influence of the measures on rent, market value and yield) and a presentation of government subsidy programs relevant to the modernization / renovation. Surprises in a rapidly changing regulatory market environment can be avoided by looking ahead and taking advantage of existing, lucrative investment opportunities.

ESG Considerations

FOUR PILLARS OF ESG REGULATION AND THEIR INFLUENCE ON THE REAL ESTATE INDUSTRY



I. PARIS CLIMATE-AGREEMENT (2016)

Goal to:
- Limit temperature increase to **1.5°** degrees (compared to pre-industrial times)
- Enhance **resilience** and **adaptation** to climate impacts certain to occur
- Align **financial** flows with these objectives

Signed by countries responsible for 55 % of global emissions (incl. Germany)

Impact

The EU and Germany developed laws and regulations for all economical sectors (incl. real estate) to reduce their emissions and negative environmental impact.

II. EU TAXONOMY

The definition of Sustainability for different sectors, including the construction, renovation and ownership of real estate.

Six environmental goals were defined by the EU (see graphic). The technical standards for each goal need to be fulfilled to classify the real estate as "taxonomy conform". For climate change mitigation and adaptation (first two goals) the technical standards are defined. The other four are drafted and currently discussed at the EU commission.

Impact

Real estate aspects, which need to be analysed and on the short- to midterm invested in:
- Fossil fuel energy sources (e.g. oil/gas heating)
- Use of renewable energy sources (e.g. Photovoltaic)
- Use of water-saving appliances (e.g. limited flushing)
- Waste management (e.g. construction waste)
- Building life cycle (e.g. reuse, recycle)
- Real estate's overall environmental impact (e.g. ground sealing)
- Smart building system (e.g. analysis of energy consumption)

III. REPORTING (SFDR / CSRD)

Sustainable Finance Disclosure Regulation (SFDR)
- Financial market participants required to report their sustainable investment and need justification for non-sustainable investments
- Principle Adverse Impact (PAI) deliver the definition of "sustainable", linked to the EU Taxonomy

Corporate Sustainability Reporting Directive (CSRD)
- Sustainable reporting standards which need to be translated in national law

Impact

The EU and Germany developed laws and regulations for all economical sectors (incl. real estate) to reduce their emissions and negative environmental impact.

IV. ENERGY (EPBD / GEG)

Energy Performance of Building Directive *(EPBD)*
- Defines the energy performance necessary for any asset type

Gebäudeenergiegesetz *(GEG, building energy law)*
- German translation of the EPBD

Impact

Real estate aspects, which need to be analysed and on the short- to midterm invested in:
- Fossil fuel energy sources (e.g. oil / gas heating)
- Use of renewable energy sources (e.g. Photovoltaic)

Chapter 3

Legal and Regulatory Environment

Real Estate Ownership

LEGAL AND REGULATORY ENVIRONMENT

There are three different kinds of real estate ownership in Germany that are registered in a public register, the land register, and that provide comprehensive rights in favour of the respective owner. The title of ownership to real estate assets is always registered in the land register as are the most important encumbrances that can be placed on real property (such as easements and mortgages).

- Full freehold ownership, which is ownership of a plot of land and all buildings located on it (the most common form of real estate ownership in Germany);
- Condominium ownership, which is owner- ship of separate individual units in a building, e. g. a flat; and
- Hereditary building rights, which is ownership of a building on a plot of land without including ownership of the respective plot of land (hereditary building rights are often granted by corporations under public law).

Full Freehold Ownership
Full freehold ownership is ownership of a plot of land and all buildings and other immovable fixtures located on it in perpetuity. These fixtures are seen as integral parts of the plot of land, which means that, in the event of disposal of the plot of land, they are automatically transferred along with the plot of land to the purchaser.

The owner of this type of asset has complete control of the entire plot of land and the buildings located on it. Their property rights cover the surface of the plot as well as the space above and ground and soil below it. The owner has comprehensive rights, including the right to use the asset, dispose of it, rent it to third parties and encumber it with rights in rem (e.g. rights of way in favour of neighbours and mortgages in favour of financing banks).

Condominium Ownership
Condominium ownership is the result of a separation of individual units in a building and, as such, typically occurs in connection with residential properties. Condominium ownership consists of an owner's/co-owner's share in the ownership of the entire plot of land and the built structure on it combined with an individual part of the building (such as an apartment). Independence and exclusiveness are crucial aspects for the existence of condominium ownership. This means that only those parts of a building that are clearly isolated (abgesondert) from the other units and communal areas may form an individual flat.

As a freehold owner of land, the owner of a condominium unit has comprehensive rights. However, their comprehensive rights are limited to their individual part of the building. The relationship among the condominium owners is governed by co-ownership rules, i. e. a contract which contains provisions on maintenance and repairs, the decision-making process and sharing costs and public charges. Regularly, a condominium administrator is in charge of managing the affairs of all condominium owners. This arrangement can also be applied to commercial buildings.

Hereditary Building Right
Hereditary building rights are a type of quasi-ownership rights to real estate. They grant the transferable and inheritable right to have a structure above or below the surface of the land without being the registered owner of that plot of land. Hereditary building rights are similar to freehold ownership in that the beneficiary has comprehensive rights to use them. However, selling the hereditary building right and encumbering it with land charges and mortgages in favour of financing banks typically requires the consent of the owner of the plot of land. In contrast to freehold ownership, a hereditary building right is only of temporary nature. After the term of the hereditary building right has expired, the right ceases to exist and the usage rights are conferred back to the freehold owner of the plot of land along with all other rights. A hereditary ownership right typically lasts for 99 years, but it is possible to extend that term.

In return for the possibility of ownership-like usage of the building on a plot of land, the owner of the plot usually receives an annual rent for the term of the hereditary building right. As is the case with freehold ownership and condominium ownership, hereditary building rights are also entered in the land register. For this purpose, in addition to the land register folio pertaining to freehold ownership of the land, a further land register folio is created to register the hereditary building right and its encumbrances. Hereditary building rights are used by entities which, while wishing to allow third parties to use and redevelop a plot of land on a very long-term basis, hesitate to sell their full freehold ownership.

The most prominent examples are German municipalities and Christian churches, both of which regularly make use

Condominium Ownership

Transfer of Title of Ownership

LEGAL AND REGULATORY ENVIRONMENT

The transfer of real estate ownership (full freehold ownership, condominium ownership as well as hereditary building rights) is typically structured as:

- "Asset deals" by way of which the purchaser directly acquires the real estate and is registered as new owner in the land register;
- "Share deals" by way of which the purchaser acquires the shares in the entity that owns the real estate (usually a special purpose vehicle) and that is registered as the owner in the land register or
- "Unit deals" by way of which the purchaser acquires the units in an investment fund structured in contractual type whereas the capital management company (Kapitalverwaltungsgesellschaft, KVG) formally owns the real estate and therefore is registered as the owner in the land register, but the real estate is "commercially owned" by the investors. Since middle of 2021, such contractual fund type (Sondervermögen) can also be structured as a closed-ended investment fund, i.e. also as a single asset fund.

Asset Deals
In the course of a real estate asset deal, freehold ownership, condominium ownership or hereditary building rights are transferred in rem from the seller as current owner to the buyer as future owner, resulting in the buyer being entered in the land register. Such transfer of title requires a notarised asset purchase agreement between the seller and the buyer. The terms of the agreement, such as conditions precedent, representations and warranties, payment mechanism and liability, are at the discretion of the parties. The parties generally agree on a certain date for handover of the asset, which means that the beneficial transfer of possession, use and risks from the seller to the buyer takes place on that date. The registration of the buyer as owner in the land register takes place only following handover and not before the real estate transfer tax has been duly paid.

Share Deal
In the course of a real estate share deal, the buyer does not acquire the asset itself but rather the shares in the entity which owns the asset. This means that there is no entry of a new owner in the land register, but the buyer does become a shareholder/ partner in that company and therefore also the indirect but commercially comprehensive owner of the real estate and any connected rights and obligations.

Unit Deal
In the course of a real estate unit deal, the buyer does not acquire the asset(s) itself but the units in the investment fund that is set-up and managed by the KVG in a contractual fund type (Sondervermögen) whereas the KVG owns the asset(s) in its own name, but for the account of the respective investment fund. Therefore, the buyer becomes an investor in such investment fund, but the assets will be held by the KVG that also stays registered in the land register.

Both parties can benefit from share deals instead of asset deals since, depending on the structure, these may not trigger real estate transfer tax of between 3.5 % and 6.5 % of the purchase price (see item 5 below). In order to invest in the German real estate market, investors often make use of special purpose vehicles. These special-purpose vehicles are companies that are formed exclusively for the purpose of transferring and financing real estate, being legally independent and bankruptcyremote.

Costs
Certain costs may arise as a result of the transfer of real estate under both asset deals and share deals, and these may include notary costs, land register charges, broker fees and advisory fees. While broker and advisor fees have to be negotiated between the par- ties, the amount of any notary costs and land register charges is, similar to taxes, stipulated by statutory law and depends on the value of the respective transaction or act. The buyer is generally required to bear all costs other than the seller's advisory fees. Otherwise, the seller would raise the purchase price and this would lead to an increase in the incurring statutory fees.

Lease Contracts – Commercial

LEGAL AND REGULATORY ENVIRONMENT

The German Civil Code contains various provisions governing the contents of leases if the parties do not choose to deviate from the general rules of the law. In many ways, the law does not differentiate between leases for real property and those for chattels exempt from special provisions protecting residential tenants. The statutory provisions therefore leave many important aspects of commercial leases partially or completely unregulated. In cases where there is adequate regulation, most matters are left to the discretion of the parties to the lease. If this is the case, it is important to note that for leases containing general terms and conditions of trade pertaining to one party (generally the landlord), the contract will be subject to the provisions of such general terms and conditions of trade (sec. 305 et seq. German Civil Code). If the contract includes general terms and conditions of trade which place an unreasonable disadvantage on the other party, these provisions are deemed void. In general, German tenancy law can be said to be slightly biased towards the tenant, more than in the United Kingdom for example, but less so than in France. A German lease will regularly contain provisions on the following items:

- term and termination;
- written form;
- rent and rent adjustment;
- rent deposit;
- ancillary costs;
- maintenance and repair;
- operating obligation;
- protection against competition and assortment restriction; and
- change of control.

(A) Term and Termination
Under German law, the parties are free to specify a fixed term or to leave the duration of a lease unspecified. In the latter case, a commercial lease may generally be terminated with six to nine months' notice. If a fixed term is agreed, the term is subject to established market practice. Retail properties tend to be let for ten to fifteen or twenty years, whereas office buildings are usually let for an initial term of five to ten years with shorter terms thereafter. Other types of use may have different standard terms. When specifying a fixed lease term, it is important to remember that the statutory provisions of extraordinary termination for cause cannot be excluded. Although contractual renewal options that must be agreed upon by both parties are not a matter of statutory law, they are possible and common. However, the term of a commercial lease may not exceed thirty years under law; after that time, both parties can terminate the lease, even if the contract stipulates a longer period.

(B) Written form
In general, leases with a duration of more than one year must be concluded in writing. In order to meet any written form requirements in the context of leases, it is not sufficient for all the material parts of the agreement which constitute the lease to simply be in writing. Pursuant to the requirement of written form, all agreements between the parties including any subsidiary agreements/ addenda and appendices, such as any building descriptions, lists of ancillary charges, etc., must be attached to each other in a way evidencing the parties' intent that they should be permanently connected (such as by sealing or stapling). Any objective reader, in particular a buyer as future landlord, must be able to determine with certainty if one of the elements of the contract is missing or has been removed. Alternatively, it may be sufficient if the completeness and unity of the agreements can be deducted from serial numbering of pages, pagination, uniform graphic designs and the continuous content of the text.

Even if a lease or an addendum does not comply with the legal requirements of written form it remains valid and in force. However, the entire lease may be terminated by either party after one year in the same way as if the lease had an unspecified term, i.e. six to nine months' notice. From our experience, a lack of written form is an argument also often used by both tenant and landlord to at least gain some leverage for negotiations on rent reductions and the like, sometimes even for purposes of early termination. Therefore, a lack of written form requirements may unexpectedly impact the rental cash flow. Since the requirements of written form are easily violated and jurisdiction on this issue is constantly developing, commercial lease agreements in the past mostly provided a so-called "written form curing clause". Generally under such clause, each party to the lease was entitled to file a claim against the other party to "re-enter" into the lease according to the requirements of written form.

As a consequence, termination based on lack of written form was considered a violation of the principle of good faith. According to the recent jurisdiction of the Federal Supreme Court, written form curing clauses are void and can therefore not be considered a remedy for written form defects. As a consequence, it might not be possible to prevent termination by a tenant with reference to written form defects. It is therefore of utmost importance to comply with written form requirements for the entire term of the lease in order to avoid any written form defects and hence termination rights arising from them.

(C) Rent and Rent Adjustment
In the absence of statutory provisions, the rent price is freely agreed between parties to commercial leases. All the standard methods of rent calculation are used in Germany (fixed rent, turnover rent, market rent and hybrids thereof, etc.), including all the common methods of incentivising tenants (e.g. rent-free periods or building cost subsidies). Because of inflation, it is of interest to the landlord to agree on stable value clauses providing for automatic rent adjustments linked to inflation, e.g. the German consumer price index. Such adjustments are generally triggered annually or by the attainment of a hurdle rate. Once triggered, the current rent is adjusted to reflect the change in the index. Frequently, however, the change in the index is not fully incorporated into the new rent, perhaps only at a rate of 80% to 90%. It should be noted that rental adjustments, while possible in principle, must allow for both increases and reductions in the rent due in line with the current market situation, and must not change by more than the percentage change in the relevant price index in order to be valid. Furthermore, these index clauses can only be used if the term is at least 10 years (fixed rental period plus tenant's option periods) - calculated from the start of the rental period. Another kind of rent review is a "step-up plan" which is explicitly agreed upon in advance. The step-up plan requires disclosure of the respective amount of rent or percentage rent increase.

(D) Rent Deposit
It is up to the parties to specify a rent deposit, something that is typically required under German leases. The amount of the deposit is limited under the principle of morality; typical amounts in commercial leases are between three and six months' net rent. Rent security is usually provided in the form of a deposit, a bank guarantee or a parent guarantee. In the case of guarantees, consideration should be given to the fact that their validity might be affected if the parties to the lease subsequently agree on substantial changes in a given lease without the consent of the guarantor.

(E) Ancillary Costs
Rent usually consists not only of an actual compensation for the use of the leased property, but also of a compensation for the landlord's costs arising in connection with the operation of the property (e.g. waste disposal, heating, utilities, water supply, ground rent, maintenance and repair of communal areas, administration). According to statutory law, the landlord has to bear these ancillary costs, but the landlord can transfer them to the tenant to a certain extent. Such costs may be charged to the tenant either according tousage (e.g. for water) or pro rata according to the size of the leased premises in comparison to the size of the total lettable space of the building (e. g. for cleaning communal areas).

Ancillary costs may only be charged to the tenant if and to the extent expressly agreed in the lease; the amount of ancillary charges has to be clear to the tenant. It is therefore common practice in leases to refer to certain legal provisions listing the most important kinds of ancillary costs, such as the operational costs ordinance. In this context, various decisions handed down by the Federal Court of Justice should be noted according to which the allocation of costs needs to be defined precisely in the contract.

(F) Maintenance and Repair
Although the landlord is responsible for maintenance and repair by law, it is common for the tenant to take over the execution and costs of maintenance and repair work up to a certain extent, whereas the landlord remains responsible only for structural work. However, such transfer of obligations from the landlord to the tenant generally has to comply with statutory provisions of general terms and conditions. It is therefore not unusual to specify cost caps at a certain percentage p. a. or only allocate minor repairs up to a certain amount in each individual case. A landlord might also reach an agreement according to which the tenant is responsible for the entire property and building and even for any structural work (e.g. in case of single-tenant leasing). Those leases are called "triple-net leases" (see below). However, this is less common and subject to certain restrictions (see below).

Excursion: Double-Net and Triple-Net Lease
In the commercial real estate industry, there are standard names for different sets of costs passed on to the tenant in a net lease. One of these is the "double-net lease". In a double-net lease agreement, the tenant is typically responsible for (i) real estate tax, (ii) building insurance, (iii) ancillary costs and (iv) costs for maintenance and repair to a certain extent and exempt for costs which occur in connection with maintenance and repair of structural elements and the roof of the building.

A triple-net lease, on the other hand, is a lease that designates the tenant as being solely responsible for all costs pertaining to the asset under lease. Going beyond a

double-net lease, this in particular includes uncapped costs for maintenance and repair of (i) the property under lease, (ii) communal areas and (iii) structural elements and the roof of the building. This means that the tenant has to bear all costs that accrue in addition to the rent due under the lease without any exemptions or agreements on caps or flat charges. Therefore, the net rent is generally lower than the rent charged under a standard lease. It is important to keep in mind that such triple-net leases have to be carefully monitored and intensively negotiated to avoid clauses allocating costs and risks to the tenant under the regime of general terms and conditions of trade being declared void.

German courts will closely scrutinise such agreements and are not afraid to hold such provisions invalid if they are the result of the overwhelming market power of the landlord. Therefore, triple-net leases can be considered exceptional cases and can be found sometimes in connection with single-tenant assets (especially if the current tenant is the former owner of the property, which is referred to as a sale-and-leaseback transaction).

(G) Operating Obligation

In terms of leasing retail space, it may be of interest to the landlord that the tenant's business is conducted continuously to preserve the attractiveness of the location (e.g. a shopping centre) or because the parties have agreed to a turnover-based rent. Against this background, the parties may agree, that the tenant is required to operate its business on the leased premises continuously and to open its business in accordance with the opening hours determined by the landlord. Temporary closing of the tenant's shop is, to the extent permitted by law, not allowed.

(H) Protection against Competition and Assortment Restrictions

It is also common in shopping centre leases to require the landlord to grant protection against competition and to require the tenant to only sell certain products. The landlord thereby places itself under the obligation not to lease rentable space to a competing company within the shopping centre or within close proximity to the tenant. The tenant, on the other hand, commits to a specific use of the premises and to refrain from selling certain products so that the landlord can keep its competition protection commitment to other tenants. Sometimes leases contain "radius clauses", which provide protection against competition in favour of the landlord as the owner of an outlet shopping centre, for example. In such cases, the tenant is not allowed to open any further shops or a similar business within a certain radius around the shopping centre. Due to decisions of the Federal Cartel Office, such clauses are not in line with competition law requirements and therefore in principle unlawful. Therefore, in any case special attention should be paid to whether or not such clauses can still be agreed in a lawful and exceptional manner.

(I) Change of Control

Change of control clauses are clauses that make a structural reorganisation of an entity (either the tenant or the landlord) or disposal of a property subject to the consent of the respective counterparty. Such clauses are beneficial to the landlord to the extent they require its consent to a structural reorganisation of the tenant and its affiliates since such clauses assure certain continuity with regard to the entity of the tenant and its solvency. However, change of control clauses can also be a hurdle for a transaction if they require the tenant's consent before selling shares in the landlord.

(J) Covid-19 and its effect on rent

The Covid-19 pandemic caused various businesses to close or slow down operations for a specific period of time. However, the tenant's duty to pay the specified rent remained basically unaffected. This basic rule also applies should official orders limit or prohibit business operations as a consequence of the Covid-19 pandemic. In contrast to the tenant's obligation to pay rent, the landlord's termination rights did not remain unaffected. According to statutory law, the landlord has the right to terminate the lease for cause if the tenant is in arrears with payment of rent (or a significant part thereof) for at least two successive months or an amount equal to two months' rent. This right to terminate the lease was suspended with regards to arrears incurred between 1 April and 30 June 2020 if the tenant made plausible that its inability to pay the rent was caused by the Covid-19 pandemic. Such arrears cannot justify termination of the lease provided that the corresponding default rent is paid until 30 June 2022 at the interest rate of arrears, which is currently 8.12 % p.a.

Lease Contracts – Residential

LEGAL AND REGULATORY ENVIRONMENT

There is a chapter in the German Civil Code which pertains solely to residential leases. The standard regulations are generally applicable but, unlike commercial leases, there are some restrictions to the freedom of contract in place to protect the tenant. This stems from the fact that residential tenants are under more pressure because of their essential need to find a place to live and because they are often less experienced than commercial tenants.

Statutory restrictions are in place particularly in relation to determining rent and rent increase, which is to be linked to the local market or altered economic circumstances. In addition, the landlord's rent security requirement is capped at three months' rent. The landlord is also restricted regarding its options to terminate a lease, which requires a particular legitimate interest on the part of the landlord, and, if termination of the tenancy would cause the tenant unjustifiable hardship, the tenant has the right to request an extension of the lease despite any notice of termination.

Public Law

LEGAL AND REGULATORY ENVIRONMENT

The construction of buildings on land and the use of such land is often governed by local zoning plans, namely the land use plan (Flächennutzungsplan) and the detailed local development plan (Bebauungsplan). The local development plan is binding and forms the basis for building permits to be granted to the owner or user of a property that approve a structure on a property or a particular use of a property. Therefore, any permits for current or future uses must comply with the local development plan.

In addition, there may be public zoning peculiarities concerning the area where a property is located that stipulate certain provisions for use of that area as well as requirements for disposals and lettings (such as (re-) development zones, relocation zones, protected monument zones). Since such public zoning peculiarities may also have financial consequences and implications for the purchaser's freedom to acquire and use a property, they should be considered legally and commercially in the course of the acquisition process.

Another important consideration regularly relevant in real estate transactions is potential site contamination. Under public law, both the disturber in fact (the respective owner and/or the occupier) and the disturber by conduct (party causing the contamination) bear responsibility for soil and groundwater contamination and are obliged to remedy such contamination. Additionally, the German Federal Soil Protection Act provides for perpetual liability of former owners. Essentially, the relevant public authority can decide which party is responsible for sealing off and/or removing any residual contamination; its decision can be based on considerations as to what will be most effective, regardless of any consideration of fault.

Real Estate Taxation – Acquisition

LEGAL AND REGULATORY ENVIRONMENT

TAXATION UPON ACQUISITION

(A) Real estate transfer tax
In an asset deal, German real estate transfer tax ("RETT") is levied on the purchase price. Although both parties are liable for RETT vis-à-vis the German tax authorities, RETT is typically contractually borne by the purchaser.

Based on German RETT law applicable as of today, RETT in a share deal is levied on the property value (as determined under tax rules) if 90 % or more of the interests in a property-owning partnership are directly or indirectly transferred to new partners ("partnership movement rule") or if 90 % or more of the shares in a property-owning corporation are directly or indirectly transferred to new shareholders ("corporation movement rule"). This applies in each case at the level of the property-owning company. If neither the partnership nor the corporation movement rule applies, RETT will nevertheless be levied if 90 % or more of the capital in a property-owning company is acquired or unified directly and / or indirectly by the same person or entity (and / or entities related to each other or being part of a tax group). In such case, RETT is levied at the level of the acquiror or acquirors. The RETT rate is determined by the German federal state in which the property is located and currently ranges from 3.5 % to 6.5 %. RETT is generally not triggered in a unit deal provided that the investment fund is based on a solution involving a trust rather than a solution involving co-ownership. There exists a discussion draft for a RETT reform, which shall come into force as of 1 January 2024. However, it remains unclear whether and, if so, in what form such RETT reform will actually be implemented.

(B) Value added tax
The sale of German real estate is generally exempt from German VAT. However, the seller can opt to pay VAT on transfer of real estate provided it is an entrepreneur within the meaning of the German VAT Act and the property is sold to another entrepreneur who uses the property for business purposes. If the seller has exercised the VAT option and VAT is triggered, the quota of space leased out subject to VAT will determine the extent to which the respective purchasers will be able to recover related input VAT. In contrast, the acquisition of real estate is not subject to VAT if the requirements for the transfer of going concern are met. Any such transfer requires substantially all business assets to be transferred to the acquirer and the acquirer to continue operating the business. If and to the extent the sale and transfer of a property is considered a regular delivery (benefiting from VAT exemption under German VAT law) and no VAT option is exercised, the seller may have to repay VAT to the tax authorities in the amount that was deducted as input VAT by the seller if existing VAT clawback periods have not expired when the sale occurs. If the sale and transfer of the property qualifies as a transfer of going concern, no input VAT correction is triggered. Instead, the respective purchaser steps into the remaining part of the VAT clawback periods in place for that property. The transfer of fund units is also generally exempt from German VAT.

Real Estate Taxation – Ongoing

LEGAL AND REGULATORY ENVIRONMENT

ONGOING TAXATION

(A) (Corporate) income tax
Foreign or domestic corporations owning German real estate are subject to German corporate income tax on their income from letting and leasing real estate at a rate of 15.825 % (including solidarity surcharge). If an individual owns the property, German income tax at an individual marginal rate up to 47.475 % (including solidarity surcharge) on rental income from the property is triggered. As of 2021, the solidarity surcharge no longer applies for some taxpayers. Acquisition costs and expenses borne by the purchaser should be recognized for German tax purposes to the extent they qualify as ancillary acquisition costs or operating expenses pertaining to the property. Interest expenses incurred under arm's length conditions and actually accrued in the respective business year should generally be tax-deductible against profits derived if such expenses directly relate to "German source" income (i.e. to the extent these pertain to the acquisition of property) and do not fall within the scope of interest barrier rules or anti-hybrid mismatch rules.

(B) German interest barrier rule

(i) General rule
Pursuant to the interest barrier rule, interest expenses of a German business) are, subject to certain exceptions, only tax-deductible up to an amount equal to the sum of (a) the interest income of such business in the same fiscal year and (b) the amount of EBITDA of such business that can be offset. The amount of EBITDA that can be offset is defined as 30 % of the EBITDA calculated for tax purposes.

The interest barrier rule applies to all kinds of debt, irrespective of whether such debt is provided by a third party, a shareholder or a party affiliated with a shareholder. The distinction between shareholder and third-party debt is only of relevance with regard to the exceptions set out below. As a rule, each legal entity constitutes a business for purposes of the interest barrier rule; members of a fiscal unity, however, are accounted for as one single business. Interest expenses and interest income are defined broadly to include all kinds of interest taken into account when determining taxable income, i.e. including income or expenses from compounding or discounting receivables or loans.

(ii) Escape clauses
There are three general exceptions to the interest barrier rule, whereby the second and third exception are subject to counter-exceptions if the business is a corporation.

Accordingly, the interest barrier rule does not apply if:

(a) the annual negative interest balance ("**ANIB**"), which is defined as the sum of all interest expenses less the sum of all interest income in one fiscal year increased by any interest carry forward, of the taxpayer is less than € 3,000,000 in one fiscal year;

(b) the taxpayer is not a related party within the meaning of section 1 para 2 (where applicable in conjunction with section 1 para 1 sentence 2) of the German Foreign Tax Act and does not have a permanent establishment outside the state in which his domicile, habitual residence, registered office or place of management is located; or

(c) the taxpayer belongs to a group but is able to demonstrate that, at the last preceding balance sheet date, its equity ratio is equal to or higher than the equity ratio of the group of which it is a member ("group escape clause"). A shortfall of two percentage points of the business in the equity ratio is harmless. The equity ratio is defined as the equity in relation to the total assets, whereby certain adjustments have to be made to the equity and the total assets.

(iii) Exceptions in the case of corporations
In the case of corporations, the group escape clause is applicable only if the payments for debt capital of the corporation or of any other legal entity belonging to such group that are made to (i) a shareholder directly or indirectly holding more than one fourth of the share capital in a group company or (ii) a person related to such

shareholder or (iii) a third party with a right of recourse against a shareholder holding more than one fourth of the share capital do not exceed 10 % of the net interest expenses of such company.

(C) Withholding tax
In principle, no German withholding tax („WHT") should apply to (non-profit-linked) interest payments and rental revenues paid by a German entity. However, in certain circumstances, the German tax authorities may decide to apply WHT at a rate of 26.375 % or 15.825 %, respectively (including solidarity surcharge). Dividends paid by a German corporation are generally subject to German WHT at a rate of 26.375 % (including solidarity surcharge). The rate may be reduced if a double taxation treaty applies and may even be reduced to 0 % under the European Parent-Subsidiary Directive, if applicable. However, such reductions of WHT are subject to substantial substance requirements.

(D) Trade tax
A foreign investor without a German permanent establishment should not be subject to German trade tax ("TT") on lease income and capital gains. It is generally accepted that the mere leasing and letting of real estate located in Germany to a German domiciled tenant by itself does not constitute a permanent establishment of the respective foreign lessor in Germany. Avoiding a German permanent establishment is essential in order to mitigate German TT. TT rates range, depending on the municipality in which the permanent establishment would be located, from 7 % to more than 17 %. The trade tax base is, in principle, derived from the tax base for German (corporate) income tax purposes (net income) by applying certain add-backs and deductions. Such adjustments pertain particularly to interest payments, 25 % of which would be added back and, thus, would increase the relevant trade tax base. Please note that if the purchaser were to unintentionally have a German permanent establishment, the add-back for financing expenses would trigger an additional tax burden. Leasing income might be fully exempt from trade tax if the German lessor is an SPV that does not conduct any activities other than leasing its own real estate, with the exception of minor non-harmful activities (real estate traders would not qualify for such trade tax exemption).

(E) Value-added tax
Leasing and letting German real estate is generally exempt from VAT. However, it is possible to opt for VAT under certain circumstances. This option is commonly made use of, provided the tenants use the property for business subject to VAT. It is important to note that a VAT option is not feasible for properties used for residential purposes or leased out to tenants rendering VAT-exempt services (such as banks or doctors).

(F) Property tax
In general, German property owners are subject to property tax in Germany. However, it is generally standard practice for property tax to be borne by the tenant as an ancillary cost, provided the respective lease contains a relevant pass-through provision. Property tax rates range between 1% and 2 % of a special property value determined under the German Valuation Tax Act (reflecting values as of the year 1964), which is generally substantially lower than the current fair market value of the property.

After the German Federal Constitutional Court decided that these values did not reflect economic reality, the rules to determine special property value were amended. In principle, the new rules apply for property all over Germany, but the federal states have the option to determine property tax individually. Property tax based on the new values will be assessed for the first time on 1 January 2025.

(G) Taxation of fund investors
Ongoing taxation of fund investors (in the case of a unit deal) needs to be analyzed on a case-by-case basis.

Real Estate Taxation – Disposal/Exit

LEGAL AND REGULATORY ENVIRONMENT

TAXATION UPON DISPOSAL/EXIT

(A) Asset deal
Upon disposal of a property, RETT is triggered at the applicable rate levied on the purchase price, which is generally borne by the purchaser under the respective APA. However, both the seller and purchaser are liable to the German tax authorities.

The capital gains of a non-resident corporate seller is likely to be subject to German corporate income tax (purchase price less acquisition cost less disposal cost) at a rate of 15.825 %, but not to trade tax, provided such corporate seller does not have a German permanent establishment. Corporate income tax is levied via an assessment procedure and Germany is, in principle, also entitled to levy such tax under an applicable double taxation treaty (e. g. with Luxembourg if the seller is a company resident in Luxembourg).

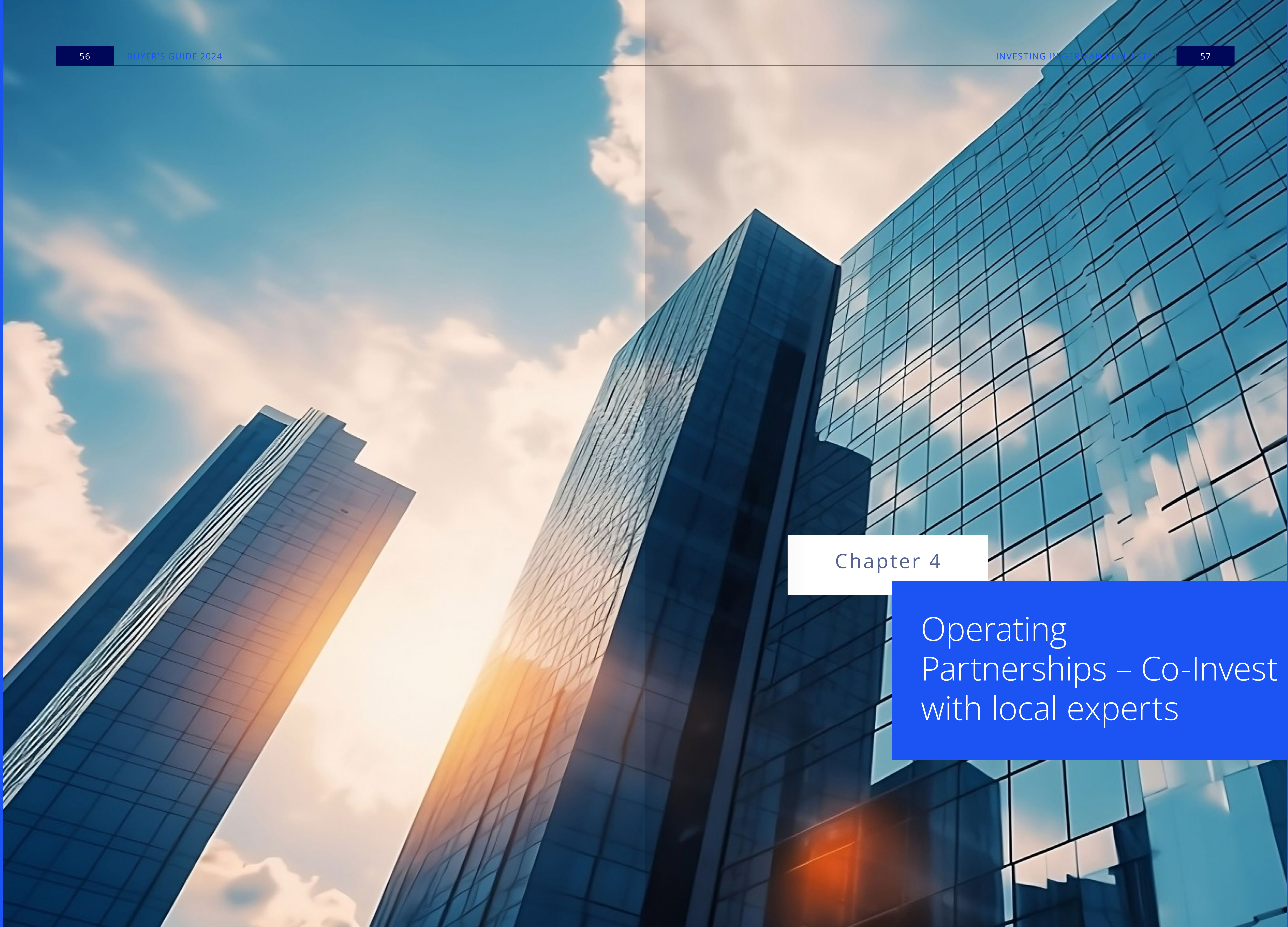
A German resident corporate seller is also subject to German corporate income tax on its capital gains (purchase price less acquisition cost less disposal cost) at a rate of 15.825 %. In addition, trade tax may apply unless the extended trade tax exemption applies. If the seller is a partnership, such partnership is generally transparent for corporate income tax purposes and may be transparent for trade tax purposes.

(B) Share deal
In a share deal exit, the same RETT rules apply as described above with respect to a share deal acquisition.
Capital gains realized by a corporate seller upon the sale of shares in a German corporation owning a German property should be 95 % tax-exempt if the seller is tax resident in Germany and even 100 % if the seller is tax resident outside of Germany and does not maintain a German permanent establishment or a German permanent representative. This, of course, is subject to certain exceptions (e.g. life insurance companies).

There are several possible scenarios if the capital gains are realized by a corporate seller upon the sale of shares in a foreign corporation owning a German property. If the seller is tax resident in Germany, such capital gains are generally 95 % tax-exempt, subject to certain exceptions (e.g. life insurance companies). If the seller is tax resident outside of Germany, such capital gains are, in principle, subject to limited taxation in Germany if the corporation qualifies as property rich but should be 100 % tax-exempt subject to certain exceptions (e. g. life insurance companies); in cases in which an exception applies, a double taxation treaty may provide protection.

The sale of interests in a foreign or German partnership is treated like an asset deal and triggers (corporate) income tax and potentially, in the case of a German permanent establishment, trade tax.

(C) Unit deal
RETT is generally not triggered in a unit deal, provided that the investment fund is based on a solution involving a trust rather than a solution involving co-ownership. However, this may change as of 1 January 2024 as a consequence of the proposed RETT reform. (Corporate) income taxation of fund investors in a unit deal needs to be analyzed on a case-by-case basis.



Chapter 4

Operating Partnerships – Co-Invest with local experts

Operating Partnerships – Co-Invest with local experts

COMBINING OPERATING PARTNERSHIPS WITH JOINT VENTURES REPRESENTS AN OPTION FOR MARKET ENTRY THAT IS GAINING IN IMPORTANCE IN THE LIGHT OF INCREASED EQUITY REQUIREMENTS AND EMERGING REFINANCING GAPS

In the past, German property investors and portfolio holders have often been reluctant to open up their property investments to foreign investors. In some cases, opportunities have only reached foreign capital without a local team on the ground after local investors have already gained a head start. In this way, aggregation strategies in small-scale segments in particular were often challenging to implement and manage from abroad. Overall, there was a discrepancy between return expectations and opportunities in the German market, which was particularly the case in the value-add segment. This situation has certainly changed as a result of the current market environment, so that new ways of successfully entering the German market have opened up.

German property owners, asset/investment managers and project developers are currently facing various challenges that are fuelling a new openness to foreign capital. The interplay between the interest rate environment, stricter equity and collateralisation requirements, increased construction costs, ESG regulations and qualitative and quantitative changes in demand for space is changing the risk profile across asset classes and, not least, the market values of a large number of existing properties and project developments.

The developments therefore regularly culminate in a need to optimise the capital structure, with the focus on both adjusting debt positions and, in particular, repositioning equity. Considerations regarding the optimisation of the equity position of properties and portfolio-holding property companies are currently mostly based on specific reasons arising from operations or due to additional demands from financiers:

(1) In view of the current financing environment, necessary modernisation and refurbishment measures cannot be implemented with existing funds or sources of capital.
(2) Equity is tied up in existing properties or ongoing projects, meaning that attractive investment opportunities cannot be utilised in the current market environment.
(3) Current financing is falling due or financiers are reporting requirements for unscheduled repayments or interest rate adjustments in order to fulfil relevant debt service and creditworthiness criteria and avoid a covenant breach.

German property companies are therefore faced with the question of how to meet these challenges. Simply selling off properties in order to use the freed-up capital for the refurbishment of the remaining portfolio or new investments is usually not the first choice: the portfolio under management or the project volume is reduced, with the corresponding impact on employee utilisation and public image.

STANDARD STRUCTURE OF OPERATING PARTNERSHIPS

Foreign Capital Partner
Acting as "Limited Partner (LP)"

Typical involvement
· Decision on acquisitions/disposals proposed by the operating partner
· Approval of comprehensive capex measures
· Regular assessment and agreement on strategic orientation
·...

Service Agreement

Potential Fee Components
· Acquisition fee
· Project management fee
· Asset management fee
· Property management fee
· Promote via hurdle rate structure

Local Operating Partner
Acting as "General Partner (GP)"

Typical involvement
· Deal sourcing
· Acquisition/disposition process management
· Coordination of due diligence
· Preparation of investment memos for decision-making purposes
· Underwriting
· Implementation of capex measures and management of all third parties involved
· Investor reporting
· ...

80 – 95 % Equity Share

5 – 20 % Equity Share

Joint Venture Vehicle
(e.g. PropCo, Fund structure etc.)

Operating Partnerships – Co-Invest with local experts

A CAREFUL SELECTION OF A SUITABLE OPERATING PARTNER IS AN ESSENTIAL PREREQUISITE FOR SUBSEQUENT SUCCESS; THE FOCUS SHOULD NOT ONLY BE ON THE SPECIFIC OPPORTUNITY, BUT ALSO ON THE PLATFORM

In contrast, taking on additional capital partners as co- or joint venture investors and thus also forming operating partnerships is the more attractive solution for many market participants: The managed portfolio can continue to be managed and, ideally, the company gains a long-term growth partner. For project developers in particular, this offers the opportunity to smooth out their typically highly volatile cash flow profile and stabilise fluctuating project income through stable service fees. At the same time, portfolio holders have the opportunity to gradually transform themselves into asset/investment managers for third parties and to pursue a course of expansion that would not be achievable with their own resources alone.

Operating partnerships between property investors and local asset and investment managers are strategic collaborations that give foreign investors direct access to extensive local market knowledge and operational experience. Ideally, synergies are created between the two parties so that returns and risk management can be optimised. By working together, foreign investors can react quickly to local market dynamics, leading to informed decisions and more efficient utilisation of resources. Local managers, in turn, can benefit from the financial stability and strategic perspectives of the local market.

The agreements in such partnerships can be diverse and often include the joint development, acquisition or management of property projects. Clear communication, transparent agreements and a clear division of responsibilities are crucial to ensure a successful operating partnership. The identification of a suitable operating partner is a critical success factor and an essential prerequisite for the successful implementation of an investment strategy. The following criteria can provide an initial orientation.

OPERATING PARTNER SELECTION CRITERIA

A. PLATFORM

- Relevant track record
- Strong and experienced management team
- High level of integration: all necessary services in-house (with the exception of property/facility management)
- Local presence at all relevant locations
- Strong sourcing team
- Reporting capabilities
- Impeccable reputation and governance
- Financial strength to make co-investments

B. INITIAL INVESTMENT AND PIPELINE

- Directly available initial investment from the operating partner's own portfolio, or exclusively secured
- Minimum investment volume at the start and options for further capital placement
- Pipeline incl. comprehensive business plan for the entire investment period
- Consistency of the pricing of the initial investment and pipeline
- Realistic assumptions in the business plan and comprehensible derivation from market data and comparables

C. STRATEGY

- Clear but sufficiently flexible focus with regard to target markets and locations
- Realistic and marketable target with regard to the ESG profile of refurbished properties
- Awareness of quick wins and medium and long-term value creation potential
- Financing structure in line with the market
- Clear exit strategy ("next buyer analysis") and corresponding assumptions in the business plan
- Defined investment horizon and division into value creation phases where applicable

Chapter 5

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At Colliers, we are enterprising

WE MAXIMIZE THE POTENTIAL OF PROPERTY AND REAL ASSETS TO ACCELERATE THE SUCCESS OF OUR CLIENTS, OUR INVESTORS AND OUR PEOPLE.

Our expert advice to property occupiers, owners and investors leads the industry into the future. We invest in relationships to create enduring value. What sets us apart is not what we do, but how we do it. Our people are passionate, take personal responsibility and always do what's right for our clients, people and communities. We attract and develop industry leaders, empowering them to think and act differently to drive exceptional results. What's more, our global reach maximizes the potential of property, wherever our clients do business.

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