



CLIFFORD
CHANCE

Investing in German real estate

Accelerating success.

KEY FACTS

€2.3 BILLION
IN ANNUAL REVENUE

€95 BILLION
IN OVER 72,000 TRANSACTIONS

15,000
EMPLOYEES

1.70 BILLION
SQM MANAGED

404 OFFICES
IN 68 COUNTRIES

2016 figures

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MATTHIAS LEUBE, MRICS
CHIEF EXECUTIVE
OFFICER
HEAD OF CAPITAL
MARKETS | GERMANY

The German investment market has been experiencing an extraordinarily strong and sustainable upward trend since 2007. The latest in a series of all-time highs can be attributed to Germany claiming the title of Europe's largest investment market over the UK in 2016.

This shift is due only to a minor extent to the pending risks involved in Brexit following the referendum in June 2016. Even more relevant is the fact that investors still view Germany as a safe haven amidst current global geopolitical and economic risk. Market size and the variety of assets available continue to draw investors to the German real estate market.

Robust macro-economic fundamentals are another driving force behind this strong boom phase. Four years of continuous economic growth and GDP growth forecasts of roughly 2% for another two years are reason enough for investors and tenants alike to look to Germany for stable business investments. Other market-shaping factors persist as well, particularly the current low-interest environment.

With H1 2017 recording the strongest result we have seen in the past ten years, a transaction volume of clearly above €50bn for the third year in a row is highly likely. A considerable number of large-scale, cross-border deals signed in recent years significantly boosted investment activity. The scope of these deals clearly reflects current pressure to invest, which has been on a steep incline over the past several years, and the amount of capital currently in circulation on a global scale.

The impact of Germany's currently strong landlord/seller markets can be felt in the growing scarcity of assets as well as price hikes. With general conditions on the leasing markets still favorable, investors have generally been accepting steeper prices. Investor willingness to participate in extensive bidding processes, however, has begun to dwindle, with investors increasingly looking for reasonable opportunities to purchase real estate.

Our job at Colliers International Deutschland is to effectively clarify each investment opportunity in terms of location, property quality, tenant covenant and upside potential so that we can position assets on the market at the prices owners are looking to achieve. With this market overview, we hope to provide you with a valuable tool.

1. INTRODUCING GERMANY

1.1 FEDERAL STRUCTURE

The Federal Republic of Germany is a federation with approximately 82.2 million residents. The capital city is Berlin with a population of roughly 3.7 million.



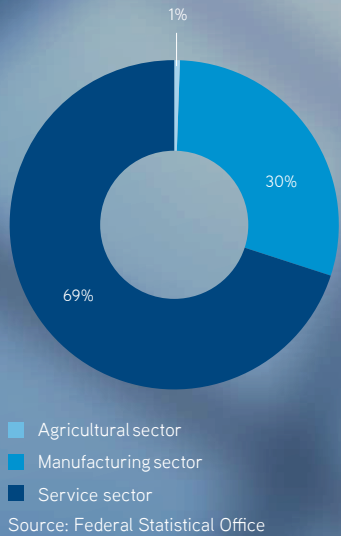
7 TOP CITIES FOR REAL ESTATE INVESTMENT

- > Germany strongly differs from other major European real estate markets. Unlike the UK (London) and France (Paris), Germany does not have one particularly dominant local market.
- > Germany's most important economic centers and real estate markets are Berlin, Duesseldorf, Frankfurt am Main, Hamburg, Cologne, Munich and Stuttgart together with their metropolitan areas.
- > It is in these seven cities that the majority of office space is leased, with 50% to 60% of commercial transaction volume being generated in the Big 7 each year.

1.2 ECONOMIC FACTS:

- > With the largest population and the highest gross domestic product (GDP), Germany has the biggest economy in the European Union and the fourth largest in the world. The country's GDP came to €3.134bn in 2016.
- > The world's 500 largest companies and a total of approximately 45,000 companies from abroad have operations in Germany.
- > Germany has one of the lowest unemployment rates in the European Union. Unemployment has been declining since 2005 and even the financial crisis did not have a negative impact on the German labor market.
- > Although the service sector is a dominant force in Germany's economic structure, the country still has a very strong manufacturing basis.

ECONOMIC STRUCTURE
(SHARE OF GDP 2016)



BRANCHES, BRANDS

- > According to US consulting firm Interbrand, four of the ten most valuable German brands are active in the automotive industry.
- > Well-known companies like Mercedes Benz, VW, BMW, Audi, SAP, Deutsche Telekom, Siemens, BASF, Adidas and Bayer comprise the top ten.

GDP GROWTH AND UNEMPLOYMENT RATE (IN %)



GERMANY'S TOP 25 MOST VALUABLE BRANDS

(IN BN €)

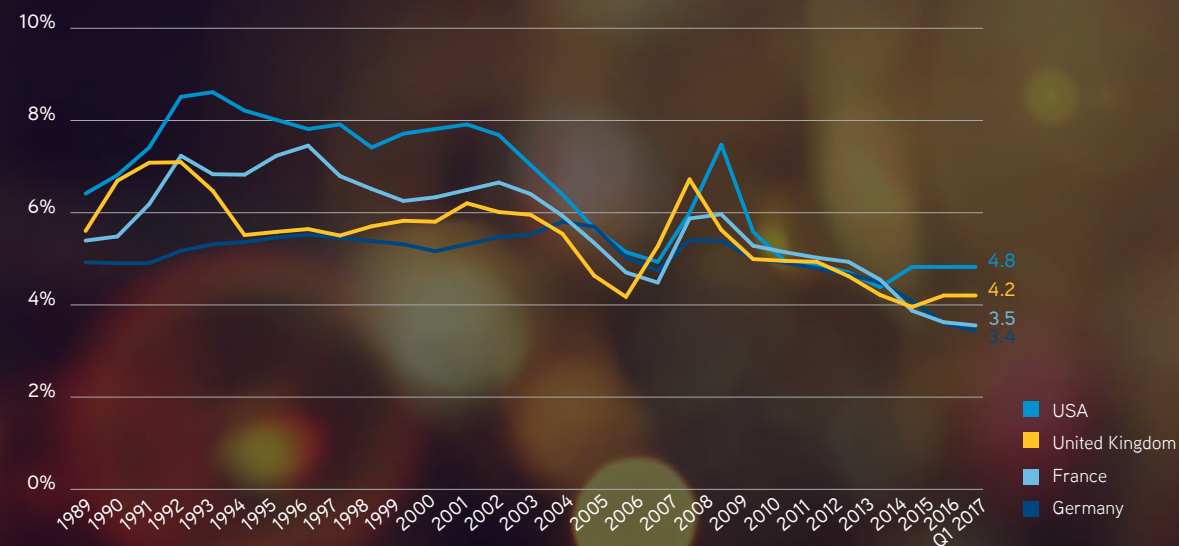
25,438	25,195	12,923	
MERCEDES-BENZ	BMW	DEUTSCHE TELEKOM	
12,846	10,161	7,283	7,011
SAP	VOLKSWAGEN	AUDI	BASF
6,424	6,276	5,706	5,466
SIEMENS	BAYER	ALLIANZ	ADIDAS
5,312	3,069	3,051	
PORSCHE	HUGO BOSS	BOSCH	
2,913	2,708	2,692	
DEUTSCHE BANK	CONTINENTAL	NIVEA	
2,409	1,650	1,634	1,548
ALDI	MAN	LINDE	SCHWARZKOPF
1,519	1,439	1,383	1,346
EVONIK	LIDL	TUI	COMMERZBANK

Source: Interbrand 2015

2. WHY GERMANY

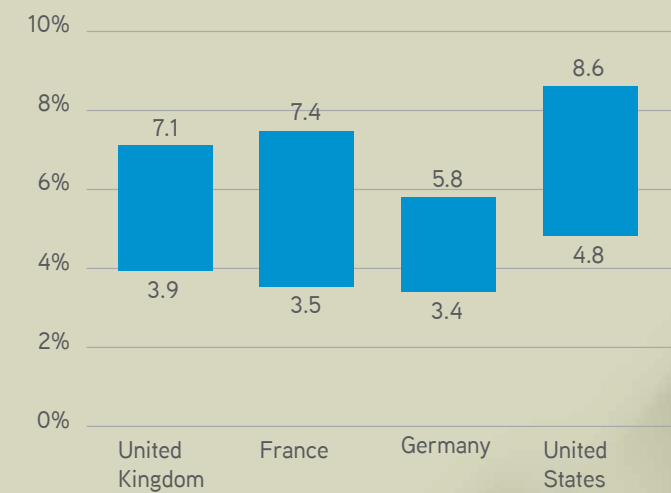
- › Germany is one of the world's leading economies, the economic center of Europe and a globally connected export country.
- › Market liquidity of the real estate market means easy entry and exit.
- › The German real estate market is highly decentralized with at least 7 top locations and a few liquid secondary cities.
- › Product is highly diversified (office, retail, industrial, residential, hotel, etc.) with availability throughout the country.
- › Germany has a history of price stability and low yield volatility, especially in the real estate hubs.
- › High economic, social and political stability mean low external risk.
- › The occupier market is characterized by ongoing high demand for office, logistics and retail space from a wide range of sectors and businesses.

COMPARISON OF NET INITIAL YIELDS FOR PRIME OFFICES (IN %)



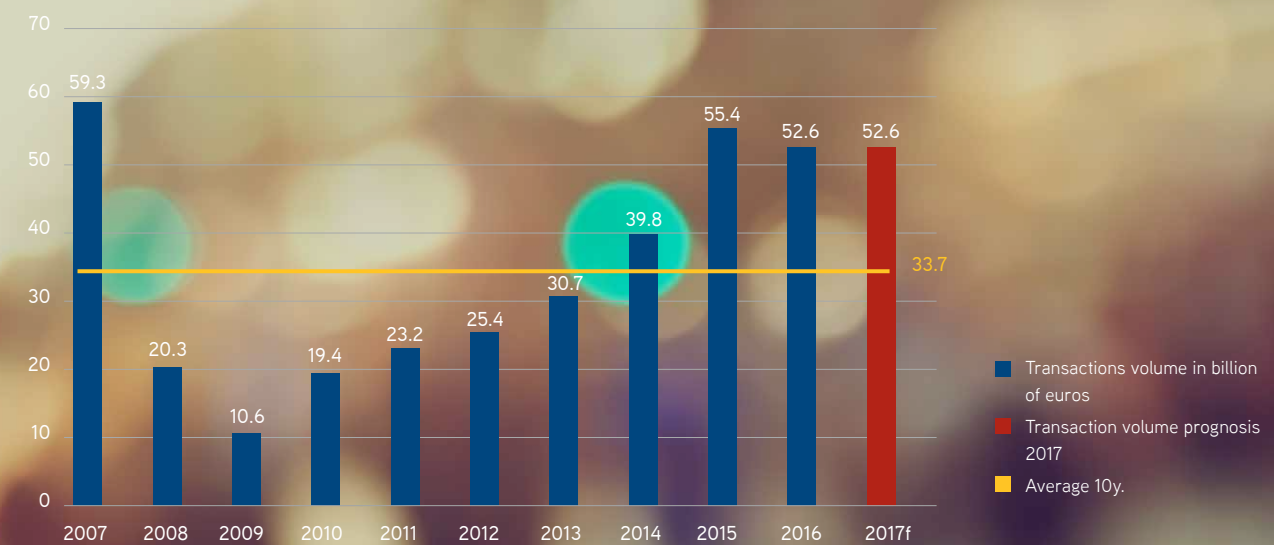
Source: PMA Yield volatility of prime offices

YIELD VOLATILITY OF PRIME OFFICES (IN %)

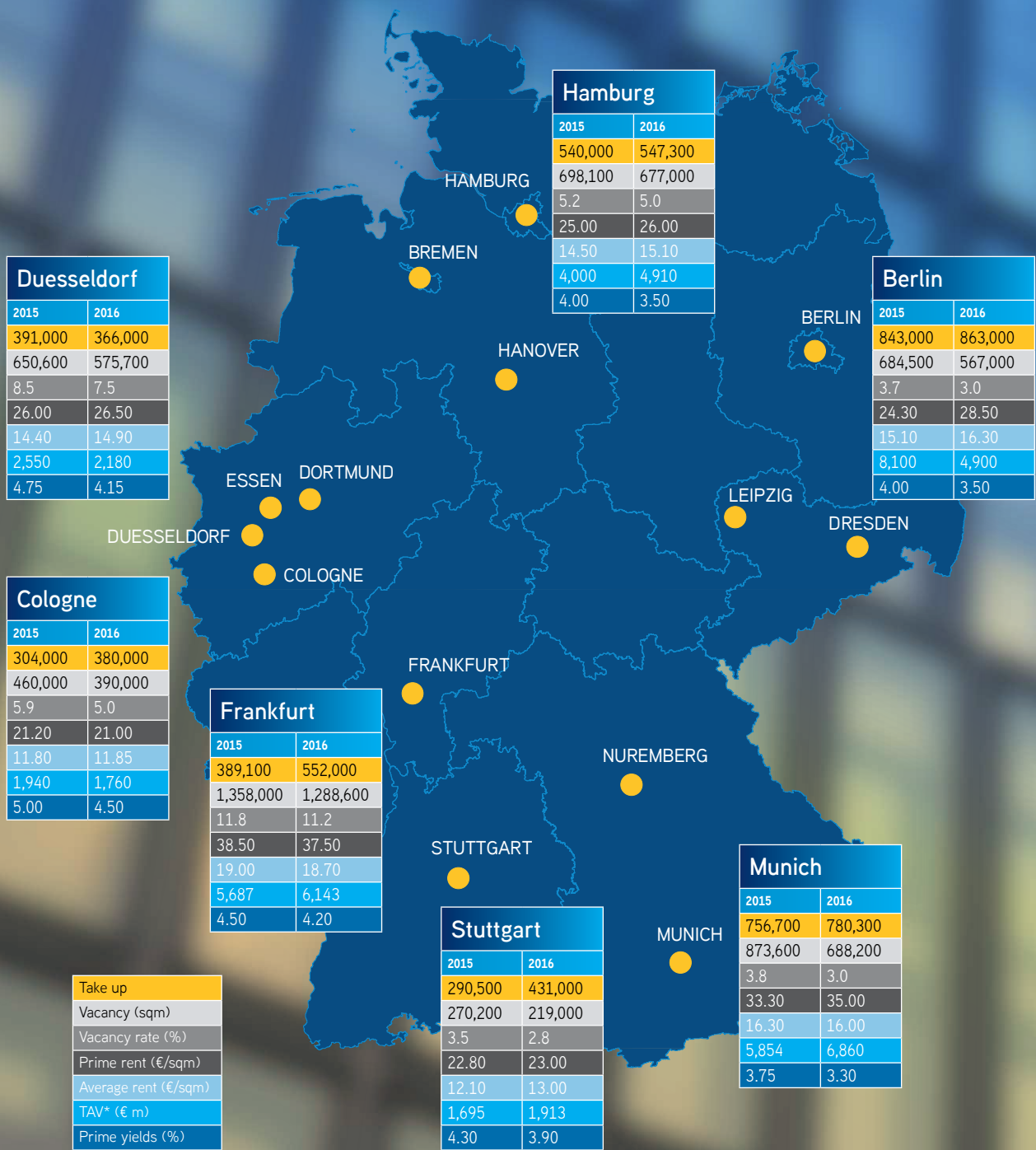


Source: PMA, 1989 - Q1 2017

COMMERCIAL TRANSACTION VOLUME IN GERMANY (IN BN €)



Backed by a strong mid-year commercial transaction volume of €26bn, 2017 is expected to be the third consecutive year with a result clearly exceeding the €50bn benchmark. Shorter holding periods will likely compensate, at least in part, for the growing scarcity of supply. In order to benefit from current high prices, investors who have purchased portfolios with upside potential are likely to soon sell those portfolios in view of current excess liquidity and low interest rates.

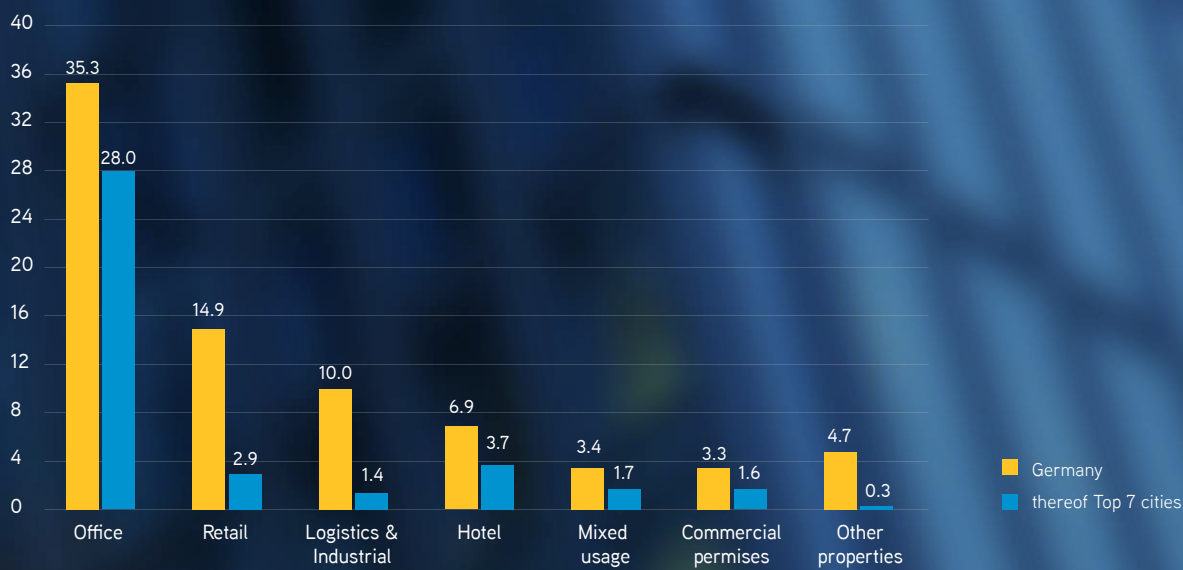


	TAV* 2012-2016	AVERAGE 5Y	
Berlin	€ 24,752 m	€ 4,950 m	A
Cologne	€ 6,039 m	€ 1,208 m	A
Duesseldorf	€ 9,300 m	€ 1,860 m	A
Frankfurt	€ 22,409 m	€ 4,482 m	A
Hamburg	€ 16,300 m	€ 3,260 m	A
Munich	€ 20,887 m	€ 4,177 m	A
Stuttgart	€ 6,589 m	€ 1,318 m	A
	€ 106,276 m	€ 21,255 m	A

*Transaction volume

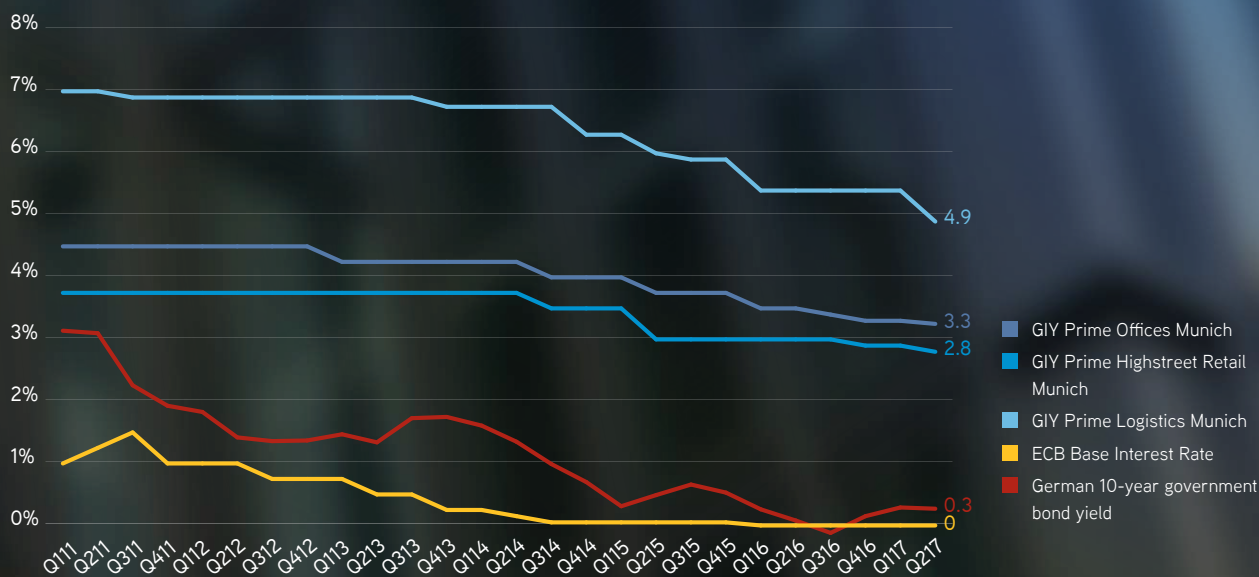
	TAV* 2012-2016	AVERAGE 5Y	
Bochum	€ 674 m	€ 135 m	B
Bonn	€ 1,157 m	€ 231 m	B
Bremen	€ 1,331 m	€ 266 m	B
Dortmund	€ 762 m	€ 152 m	B
Dresden	€ 1,757 m	€ 351 m	B
Duisburg	€ 924 m	€ 185 m	B
Essen	€ 978 m	€ 196 m	B
Hanover	€ 1,956 m	€ 391 m	B
Karlsruhe	€ 493 m	€ 99 m	B
Leipzig	€ 1,950 m	€ 390 m	B
Mannheim	€ 1,079 m	€ 216 m	B
Münster	€ 585 m	€ 117 m	B
Nuremberg	€ 1,786 m	€ 357 m	B
Wiesbaden	€ 1,172 m	€ 234 m	B
	€ 16,603 m	€ 3,321 m	B

COMMERCIAL TRANSACTION VOLUME BY PROPERTY TYPE (IN BN €) 2016 + H1 2017



Reinforced by positive signals from the leasing market, office properties remain the most popular asset class, pulling in a market share of around 40% each year. We are seeing ongoing structural shifts among other asset classes, however, in particular due to limited supply and the quest for higher yields. Retail investment activity is second only to office assets at the moment and is currently being driven by warehouse store portfolio deals (discounters, supermarkets and DIY stores) located outside of Germany's major investment hubs instead of high-volume transactions, particularly shopping centers. Due to promising general conditions on the German tourism market, hotel assets brought in a double-digit share in 2016 and are currently neck-and-neck with logistics assets. The latter have become even more popular with investors due to attractive prime yields and excellent growth perspectives in the sector.

YIELDS AND INTEREST RATES (IN %)



In light of rising rents and a lack of low-risk investment alternatives, investors continue to see increasingly higher purchase prices as justified. This is reflected in ongoing yield compression across the Germany's Big 7, with yields falling below the 5% threshold over the course of 2016. As a result of steep rent hikes, buyers in Berlin and Munich are accepting new record-low yields of 3.25%. Yield compression in recent years has been even more dramatic in other real estate segments such as logistics where the 5% threshold has been breached as well for prime assets.

3. LOCAL EXPERTISE WORLDWIDE

Global statistics 2016

68
COUNTRIES

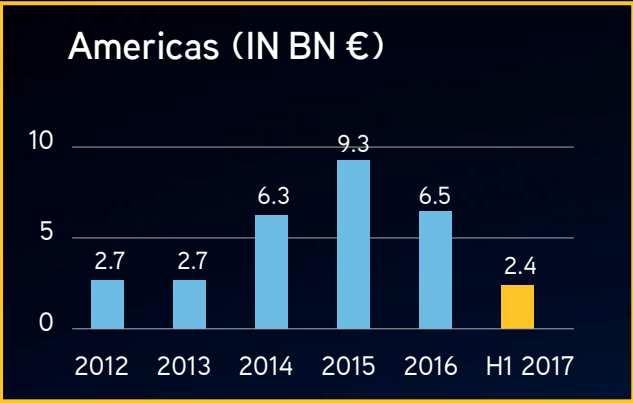
15,000
PROFESSIONALS

72,000
DEALS

2.3 €
TOTAL REVENUE (IN BN)

170
MANAGED (MILLIONS OF SQM)

95 €
TRANSACTION VOLUME (IN BN)

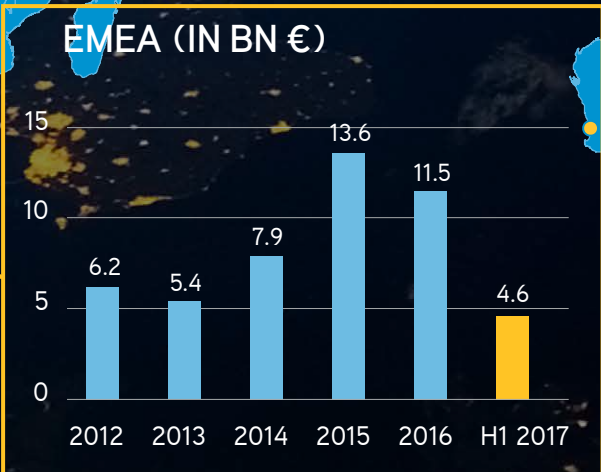


4. FOREIGN CAPITAL FLOW INTO GERMANY

Total Investment Volume (IN BN €) 2016 + H1 2017

TAV International Buyers

2012	€ 9.6 bn
2013	€ 9.2 bn
2014	€ 17.1 bn
2015	€ 26.2 bn
2016	€ 20.9 bn
H1 2017	€ 12.0 bn



5. OFFICE MARKET IN 7 TOP CITIES

International investor capital has been propelling transaction volume on the German commercial investment markets over the past few years to a substantial extent with shares in total transaction volume alternating between 40% and 50%. Although supply bottlenecks caused a temporarily passive phase in 2016, the rebound of cross-border investment gained pace again in late 2016 and throughout H1 2017. Landmark buildings and portfolios particularly offer opportunities for investors to get their foot in the door on investments in the 9-digit-euro range. We are also seeing increasing demand diversification when it comes to location and asset class.



LOCATION INFORMATION

	Berlin	Cologne	Duesseldorf	Frankfurt	Hamburg	Munich	Stuttgart
Population in thousands	3,670	1,082	636	730	1,861	1,545	610
Geographic area in sq km	893	405	218	249	753	311	208
Employed and paying into social security in thousands	1,397	549	408	560	948	839	403
Unemployment rate 2016 in %	8.8	8.5	7.2	5.7	6.7	4.1	4.5
Per capita disposable income in €	20,802	24,370	27,137	25,553	24,241	28,757	25,634

Sources: Federal Statistical Office, Land Statistical Offices, Federal Employment Agency, Nexiga GmbH

6. MAJOR ACQUISITIONS FROM INTERNATIONAL INVESTORS

2016 & H1 2017

In line with the investment market, office assets, the most popular asset class, are currently in the midst of a very dynamic, sustainable leasing cycle. Following an extraordinarily strong 2016 with 3.9 million sqm in take-up, the upward trend we are seeing in Germany’s Big 7 of Berlin, Duesseldorf, Frankfurt, Hamburg, Cologne, Munich and Stuttgart again picked up speed in H1 2017. Thanks to a strong start to the year, we expect year-end take-up results of at least 3.5 million sqm, particularly in light of ongoing high demand. Employment rates will remain the driving force behind future leasing activity.

With demand continuing to increase and just under 3 million sqm of new-build space scheduled for completion in the Big 7 within the next three years, supply is dwindling rapidly. Only 4.1 million sqm are currently available for immediate tenancy, reflecting a vacancy rate of 4.5%. Similar to top locations Berlin, Munich and Stuttgart is currently posting vacancy rates of far below 3%. The Munich market is currently under the most strain with vacancy rates at 2.5%. The situation in Germany’s other major cities is slightly less tight despite a considerable drop in vacancy. The vacancy rate is either just below (Hamburg, Cologne) or well above the 5% mark (Duesseldorf 6.9%, Frankfurt 10.8%).

All in all, owners of modern office space currently find themselves in a very strong negotiating position with the perspective of further rent hikes to come.

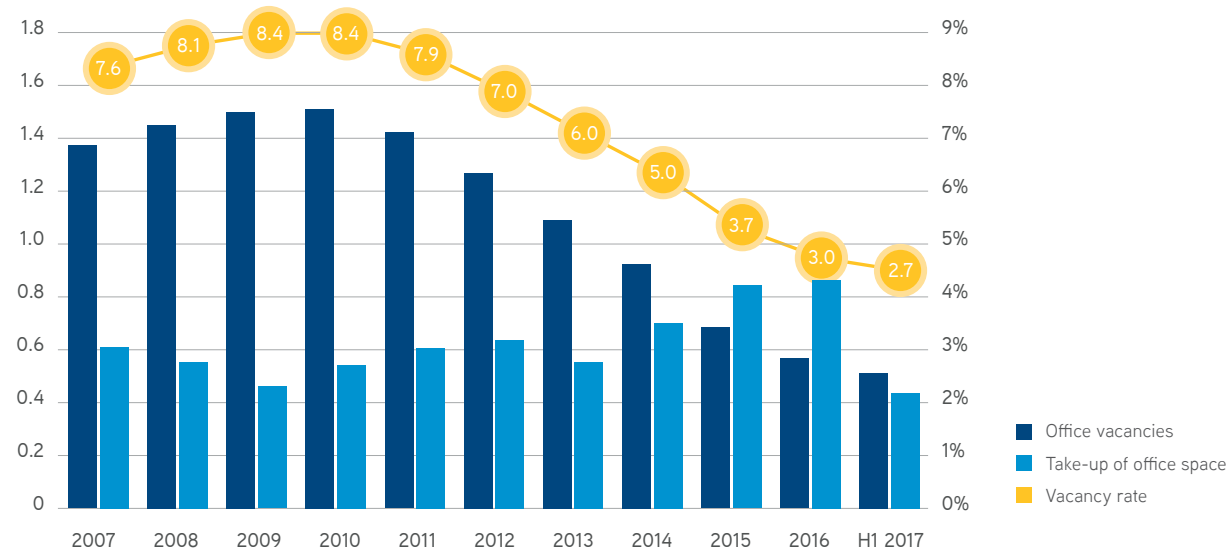
Name	City	Purchaser	Date	Purchase Prize m €	Main usage
OfficeFirst	all over Germany, predominantly TOP 7	Blackstone, USA	2016 / Q4	> 3,300	Office
Take-Over Logikor (German part)	all over Germany	China Investment Corporation (CIC)	2017 / Q2	> 2,000	Logistics
68 Health Care Properties	all over Germany	Primonial Real Estate Investment Management, France	2016 / Q3	> 950	Health Care
Hansteen Porfolio (German part 100 properties)	all over Germany	Joint Venture Blackstone/ M7 Real Estate, USA	2017 / Q1	> 950	Logistics
40 Metro Cash & Carry Markets	all over Germany	Aorund Town, Cyprus	2016 / Q4	> 750	Retail / Whole-Sale
FDM Portfolio / 9 Interhotels	Eastern Germany	FDM Management, USA	2016 / Q2	> 650	Hotels
Commerzbank Tower	Frankfurt / Main	Samsung Life Insurance, South-Korea	2016 / Q3	> 650	Office
Sunrise Portfolio 100 High Street Properties		Private Investors, Switzerland	2017 / Q1	> 300	Retail / High Street
Take-Over P3 Logistics Parks	all over Germany	Government of Singapore Investment Corporation	2016 / Q4	> 250	Logistics
City Carré	Magdeburg	Revcap, Great Britain	2017 / Q2	> 250	Office / Other Uses

BERLIN

OFFICE FAST FACTS:

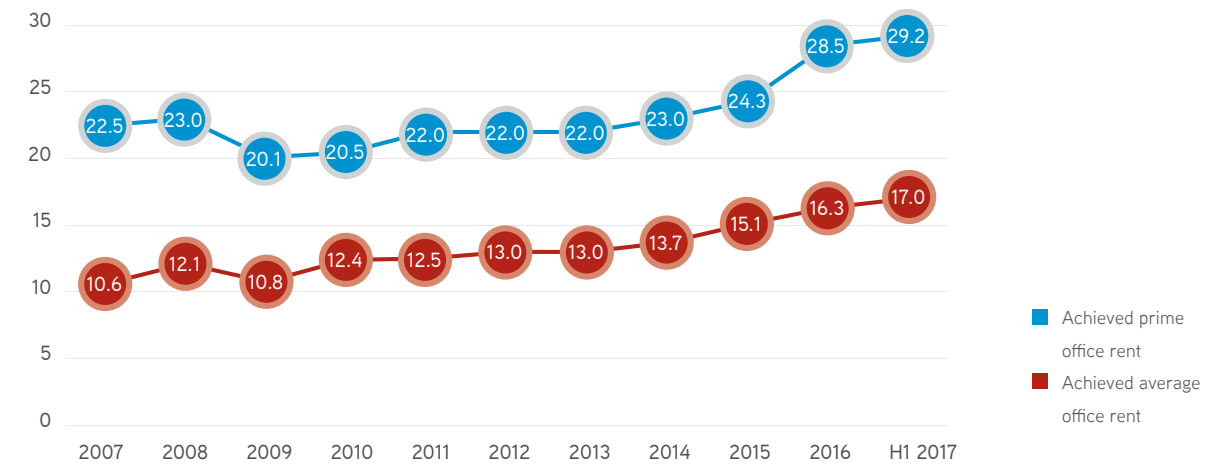
- > Office stock: 19.0 million sqm
- > Office take-up (10-year average): 628,000 sqm p.a.
- > Prime office rent (H1 2017): €29.20/sqm
- > Average office rent (H1 2017): €17.00/sqm
- > Vacancy rate (H1 2017): 2.7%

OFFICE TAKE-UP, OFFICE VACANCY (IN M SQM) AND VACANCY RATE (IN %)



Based on current activity on the Berlin office leasing market, we can expect a new record year in 2017. Despite limited supply, new leases were signed for 437,000 sqm of office space in H1, up 26% yoy, a result that again puts Berlin ahead of the rest of Germany's office markets. This record result can be attributed to the large number of new leases signed by the public sector, retail and gastronomy, which accounted for more than 40% of total take-up. Office vacancy dropped again by mid-year 2017 due to the comparatively low number of new-build completions in combination with a high preleasing rate. Vacancy in the German capital currently comes to around 551,000 sqm, reflecting a vacancy rate of 2.7%.

PRIME AND AVERAGE OFFICE RENT (IN €/SQM)

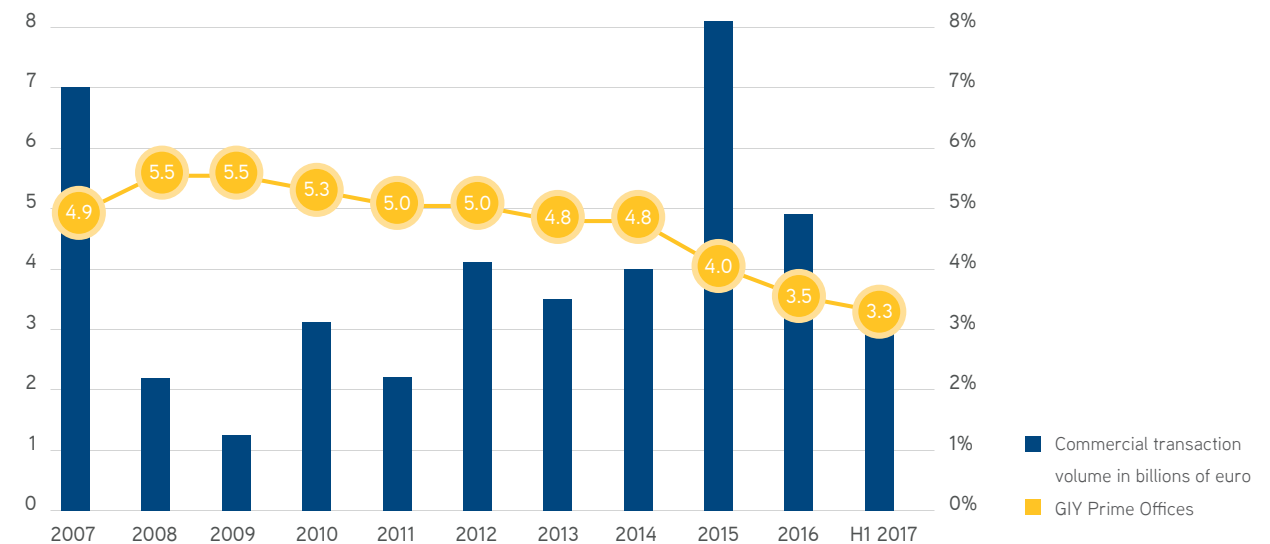


Rents have been soaring over the past 12 months due to ongoing high demand for space. Prime rent increased by more than 15% to a current €29.20 per sqm. This development can be attributed to a number of high-volume transactions in prime locations in City East as well as at Potsdamer Platz.

- > Commercial transaction volume (10-year average): €4.0bn p.a.
- > Gross initial yields (H1 2017)
 - Office: 3.25%
 - High Street retail: 3.4%
 - Logistics: 4.9%
- > Share of international investors (2014-2016): 39%

INVESTMENT FAST FACTS:

COMMERCIAL TRANSACTION VOLUME (IN BN €) AND OFFICE PRIME YIELDS (IN %)

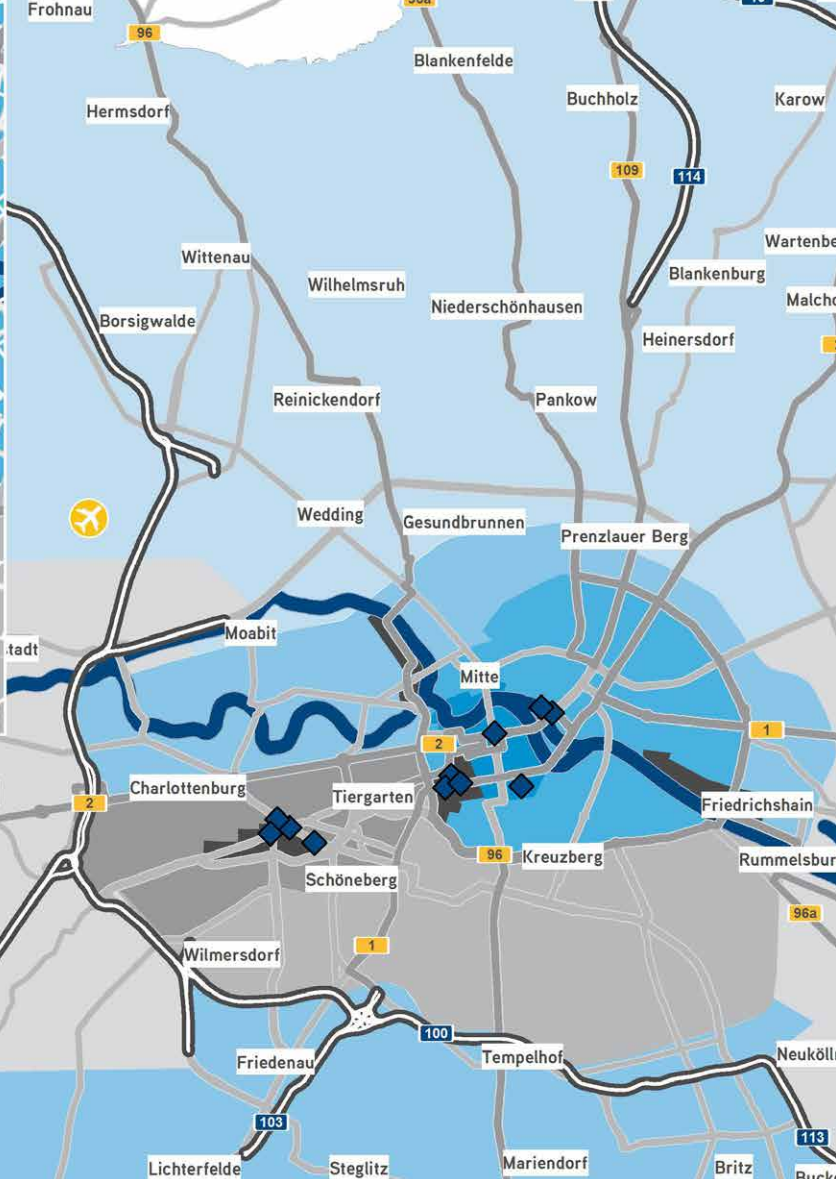


The Berlin commercial investment market continues to enjoy above-average results. A mix of investments in stock properties and high-volume developments boosted 2017's excellent mid-year result of €3.0bn. Office assets continue to dominate investment activity, accounting for 60% of TAV, with retail (16%) and hotels (10%) coming in second and third. Due to ongoing high demand and continued economic growth, we expect 2017 to pull in an excellent annual result of around €6.5bn TAV. Yields are currently at an all-time low and could be poised to experience further compression.

Foreign investors are expanding their market share as a result, accounting for 60% buy side (e.g. sovereign wealth funds) and 50% sell side (e.g. equity funds). With stock supply levels still low, assets in less central submarkets are meeting with high interest.

BERLIN MAP AND
PROMINENT BUILDINGS

1 Sony Center



2 Upper West



3 Potsdamer Platz



5 Kranzler-Eck

6 KaDeWe



9 Mosse Zentrum

10 DomAquaree



4 Zoofenster



7 Mall of Berlin

8 Upper Eastside

11 Spreepalais am Dom

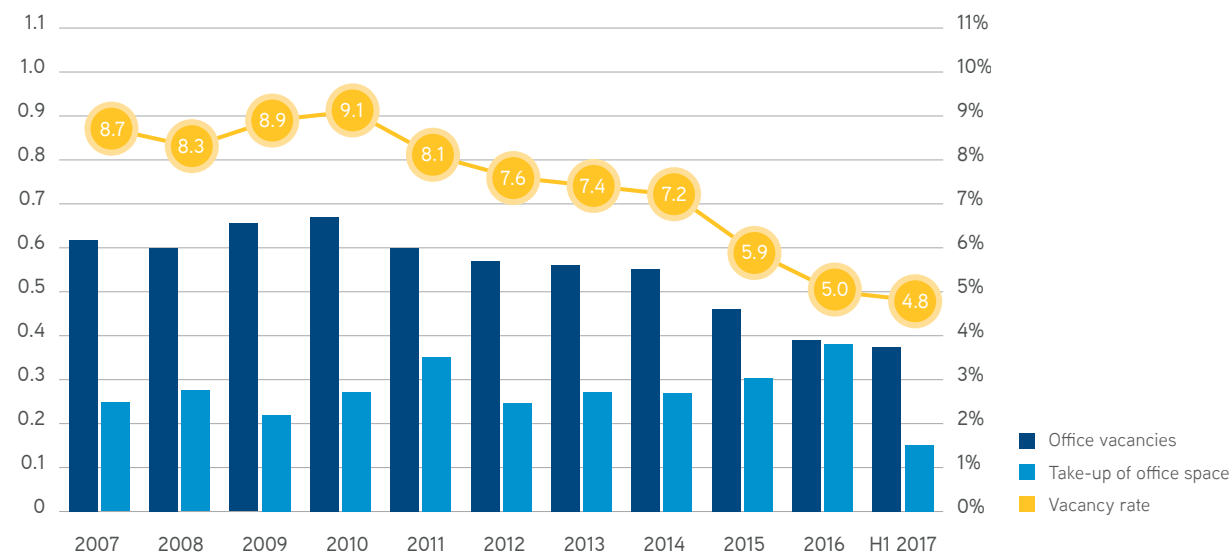


COLOGNE

OFFICE FAST FACTS:

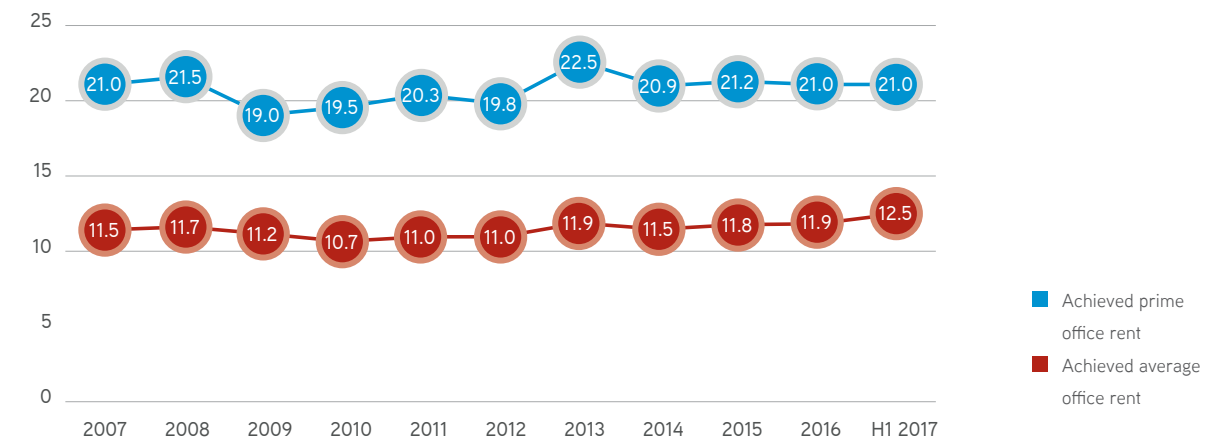
- > Office stock: 7.8 million sqm
- > Office take-up (10-year average): 261,000 sqm p.a.
- > Prime office rent (H1 2017): €21.00/sqm
- > Average office rent (H1 2017): €12.50/sqm
- > Vacancy rate (H1 2017): 4.8 %

OFFICE TAKE-UP, OFFICE VACANCY (IN M SQM) AND VACANCY RATE (IN %)



The Cologne office leasing market has posted solid take-up results in recent years. 2016's result was particularly high due to an extraordinarily large-scale lease signed for 60,000 sqm at the Zurich Insurance new-build in MesseCity. 2017, however, did manage to beat the five-year average. Lively leasing activity led to a slight drop in vacancy in Cologne with roughly 375,000 sqm available for immediate tenancy, reflecting a vacancy rate of 4.8%. Vacancy has been declining steadily since 2010 and has dropped even further in past quarters. Although supply of potential rental properties in the segment of below 1,000 sqm remains sufficient, space in the segment above 1,000 sqm can be hard to come by, particularly for tenants looking for high-end accommodation. The submarkets located along the right banks of the Rhine River continue to offer the highest development potential, e.g. Deutzer Hafen.

PRIME AND AVERAGE OFFICE RENT (IN €/SQM)

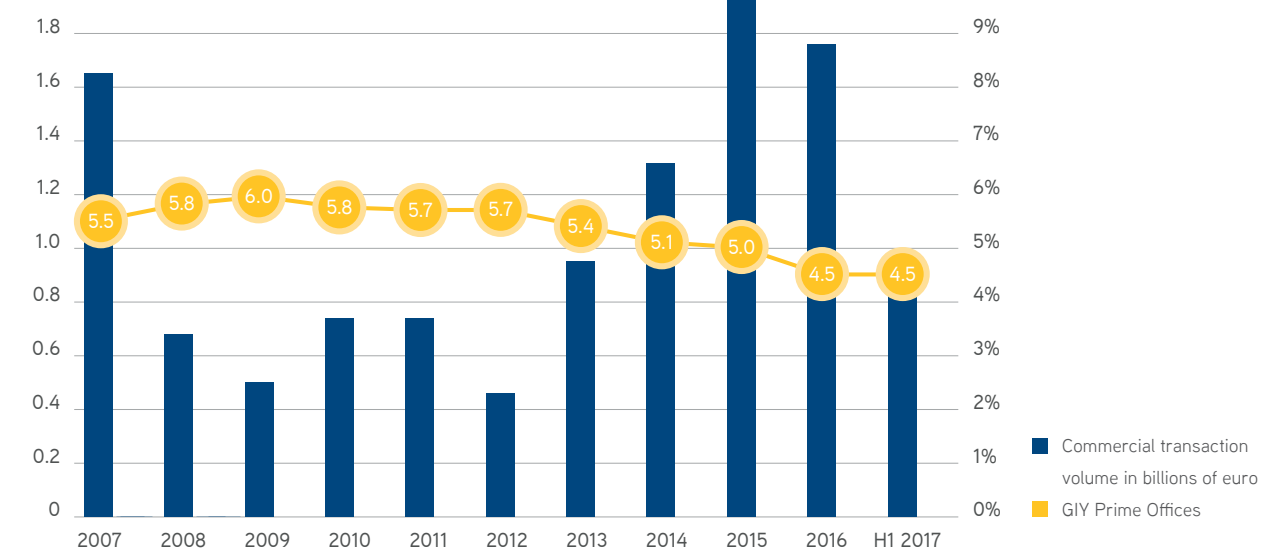


Due to limited supply of new, high-end properties in premium locations, prime rents are currently unable to match 2013's results of €22.50 per sqm. Nevertheless, prime rent still settled in at €21.00 per sqm in the first half of 2017. After experiencing a slight decline in 2016 following five consecutive years of upward movement, average rents posted a noticeable increase in 2017, putting weighted average rent at €12.50 per sqm. Both weighted average and prime rents are poised to generally remain stable, although ongoing absorption will further intensify competition for available space.

- > Commercial transaction volume (10-year average): €1.11bn p.a.
- > Gross initial yields (H1 2017)
 - Office: 4.50%
 - High Street retail: 4.20%
 - Logistics: 4.90%
- > Share of international investors (2014-2016): 46%

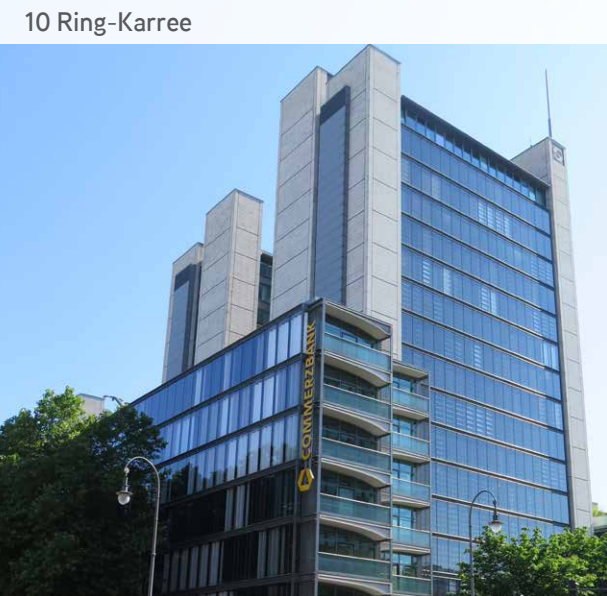
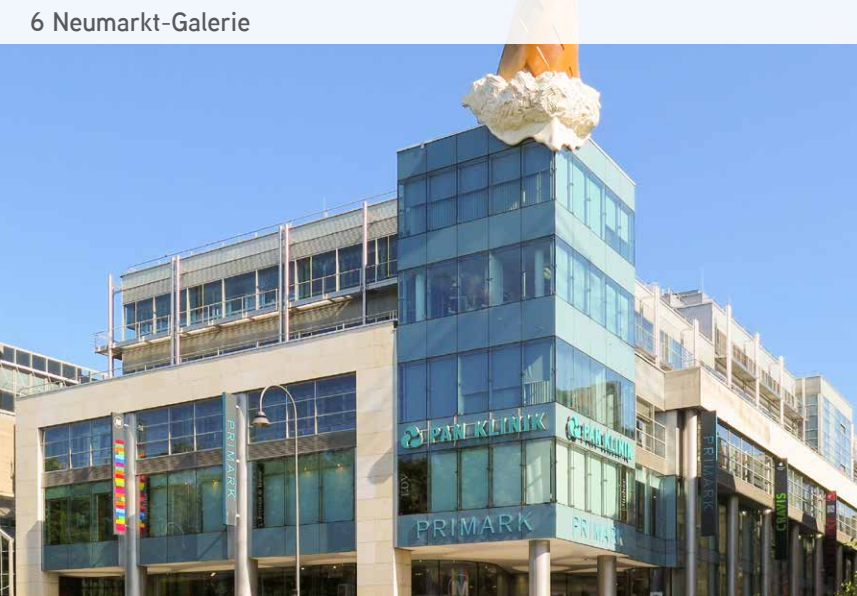
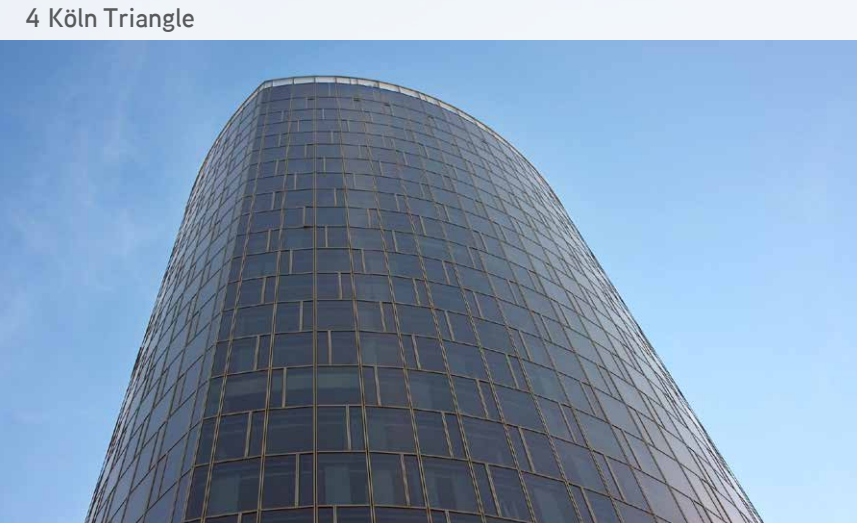
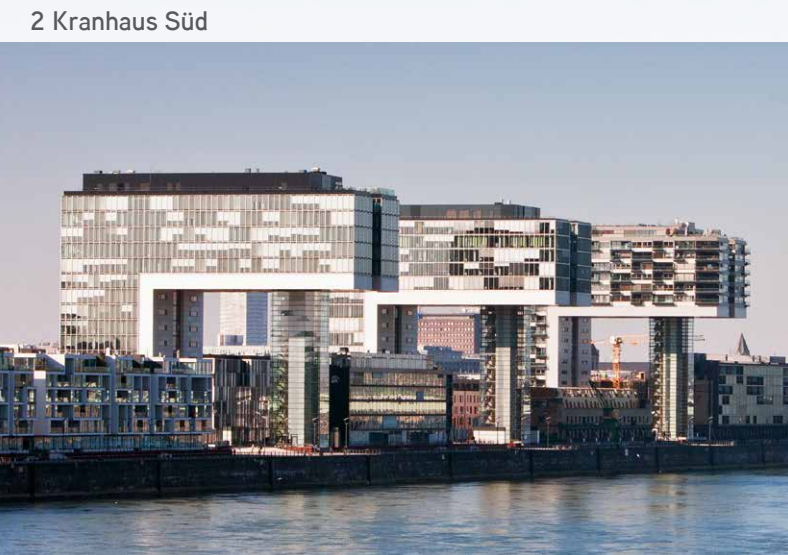
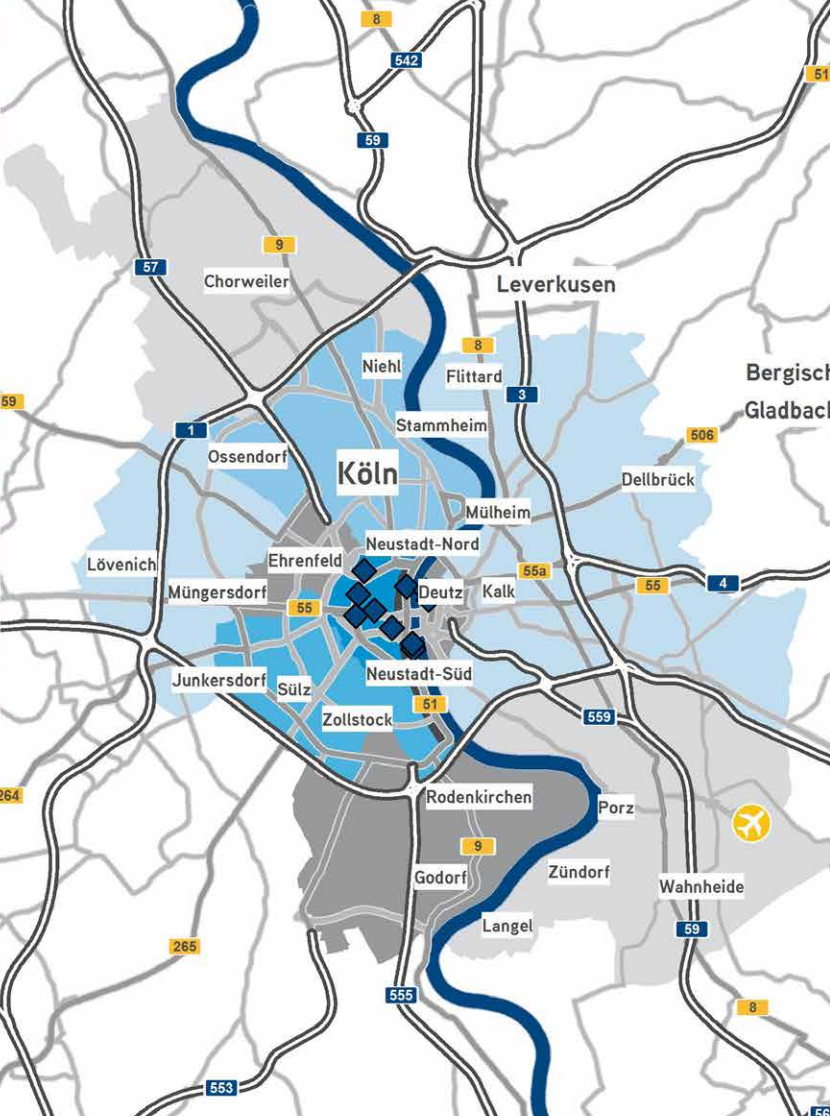
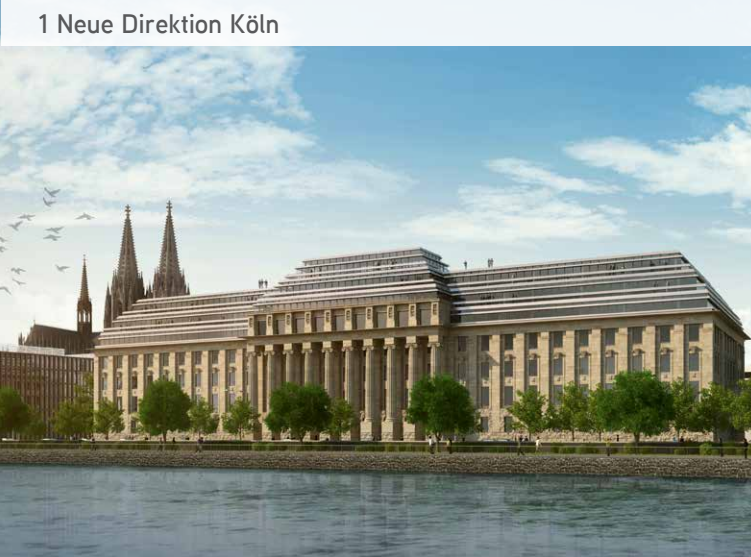
INVESTMENT FAST FACTS:

COMMERCIAL TRANSACTION VOLUME (IN BN €) AND OFFICE PRIME YIELDS (IN %)



The Cologne investment market is currently experiencing a remarkable trend with a noticeable increase in transaction volume. Although transaction volume is currently dominated by high-volume transactions, we are also seeing lively activity in the smaller segments. Demand for real estate investment in Cologne continues to be strong but supply, particularly in prime downtown locations, remains extremely limited with investors increasingly turning to suburban locations. Core and core+ investments account for around two thirds of transaction volume under current market conditions. Family offices and private investors in particular tend to traditionally play a major role in the market. Just as in previous years, foreign investors remain very active. We expect 2017 to be the third year in a row to top the €1.5bn mark.

COLOGNE MAP AND
PROMINENT BUILDINGS

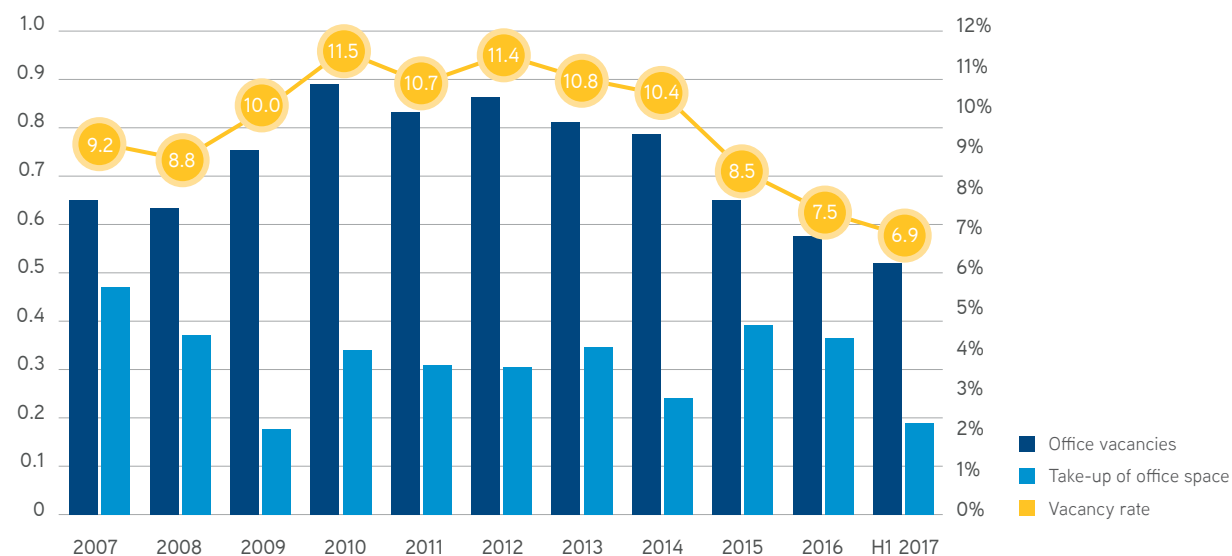


DUESSELDORF

OFFICE FAST FACTS:

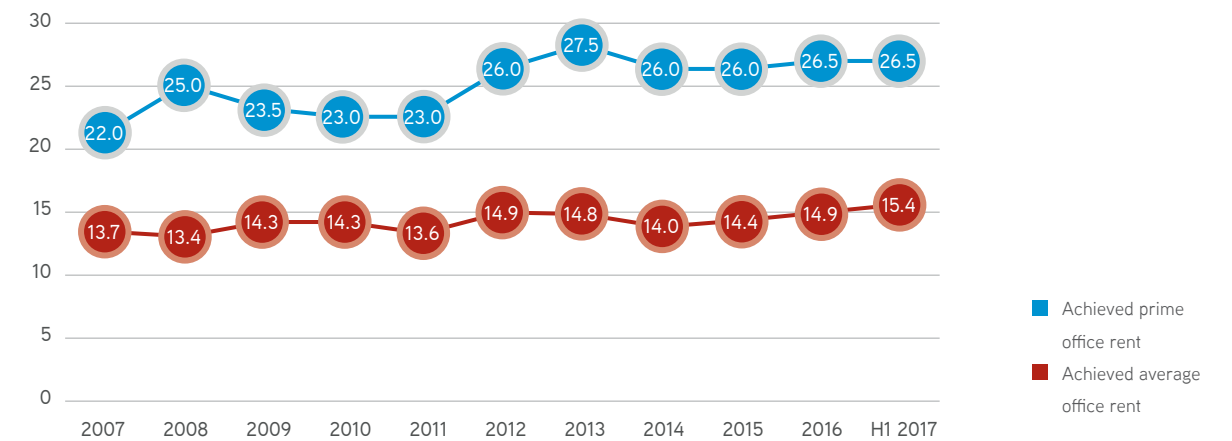
- > Office stock: 7.6 million sqm
- > Office take-up (10-year average): 331,800 sqm p.a.
- > Prime office rent (H1 2017): €26.50/sqm
- > Average office rent (H1 2017): €15.40/sqm
- > Vacancy rate (H1 2017): 6.9%

OFFICE TAKE-UP, OFFICE VACANCY (IN M SQM) AND VACANCY RATE (IN %)



Take-up on the office leasing market in the Duesseldorf municipal area in 2017 maintained its momentum from 2016's exceptionally strong results even though occupiers proved less interested in taking up mid-sized units. The result of the first half of 2017 is the second-best H1 result we have seen in the last 5 years. Vacancy on the Duesseldorf office leasing market has been experiencing a favorable trend over the past few years, a trend that has further accelerated in the past 12 months. That puts the city's vacancy rate at an all-time low of 6.9%. With pre-leasing rates at property developments still high (around 80%), vacancy could dip below the 500,000-sqm mark for the first time. Subletting is currently not a factor on the Duesseldorf market.

PRIME AND AVERAGE OFFICE RENT (IN €/SQM)

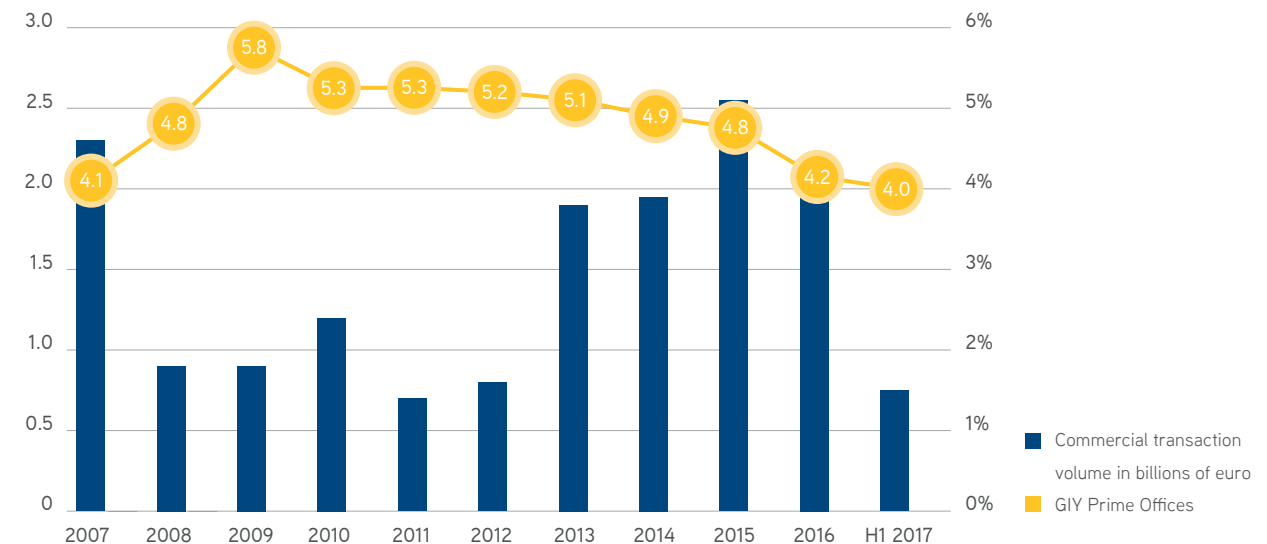


Prime rent in the CBD remains stable at €26.50 per sqm thanks to leases signed over the past several months at the Kö Quartier development. Average rent within city limits increased slightly to €15.40 per sqm, spurred on by several large-scale leases signed for space in property developments. It also remains to be seen whether weighted average rents will be able to maintain their upward trajectory throughout the remainder of the year.

- > Commercial transaction volume (10-year average): €1.54bn p.a.
- > Gross initial yields (H1 2017)
 - Office: 4.00%
 - High Street retail: 4.00%
 - Logistics: 4.90%
- > Share of international investors (2014-2016): 46%

INVESTMENT FAST FACTS:

COMMERCIAL TRANSACTION VOLUME (IN BN €) AND OFFICE PRIME YIELDS (IN %)



The trend on the Duesseldorf investment market has remained favorable over the past few months. Shortage of supply continues to be a limiting factor and is inspiring investors to increasingly look to value-add assets as well as properties in the Duesseldorf outskirts. A total of around €750m was poured into the market in H1 2017, matching the five-year average. If we were to include the deals signed in the neighboring cities of Ratingen and Neuss, transaction volume would already come to over €1bn in H1 2017. Prime yields for office assets were recorded at 4.0% at mid-year 2017, down 35 base points yoy and we expect this downward trajectory to continue. Prime yields are no longer confined to the CBD, however, and can currently be found in prime locations in the Kennedydamm and Hafen submarkets as well. We can once again expect transaction volume within Duesseldorf city limits to hit the €2bn mark by the end of 2017.

DUESSELDORF MAP AND PROMINENT BUILDINGS

1 Kö-Bogen



2 Deutsche Bank Karree



3 Wilhelm-Marx-Haus



4 GAP15



5 Hafenspitze



6 Kö-Galerie



7 O. Gehry buildings



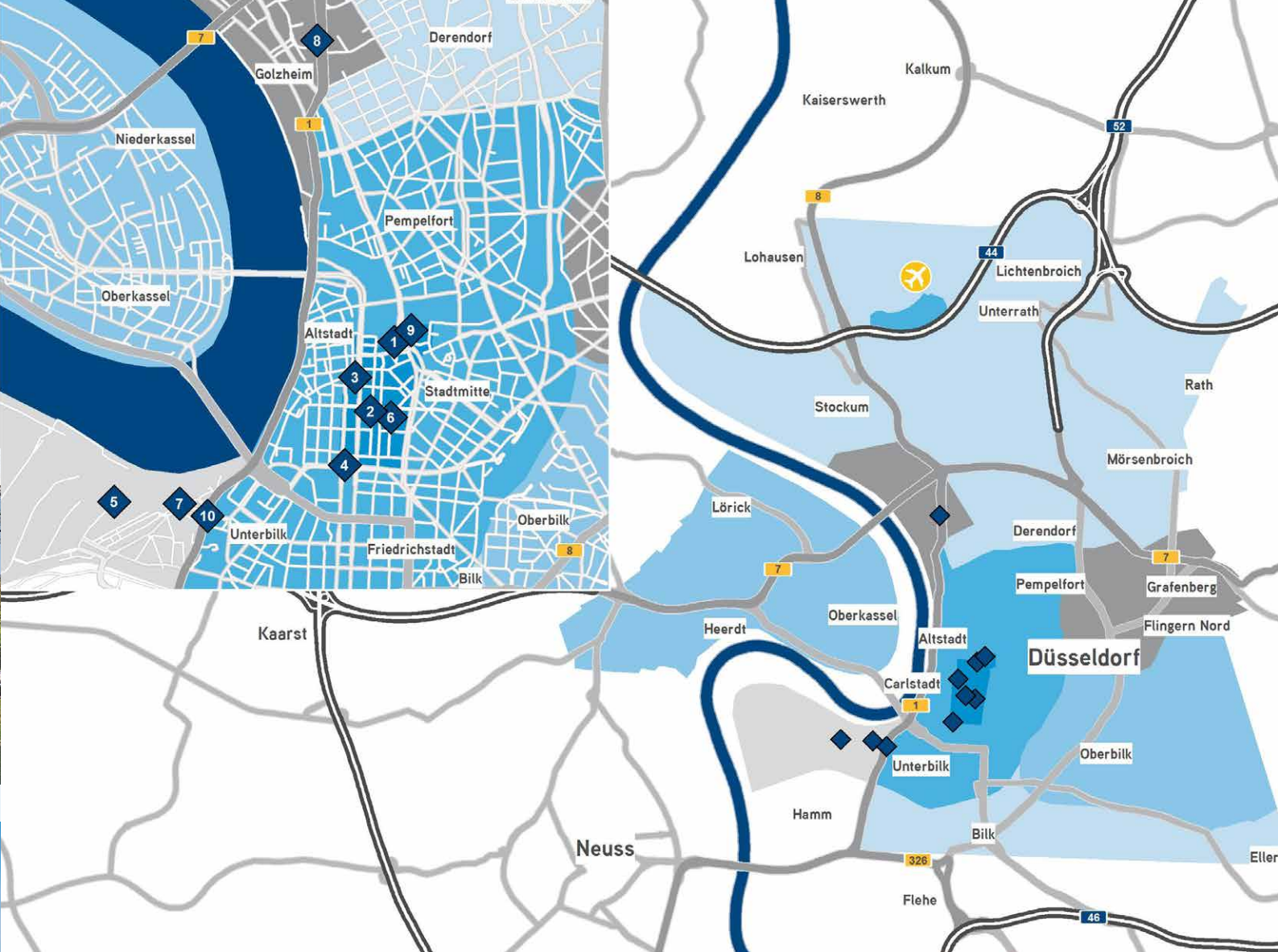
8 Sky Office



9 Dreischeibenhaus



10 Stadttor

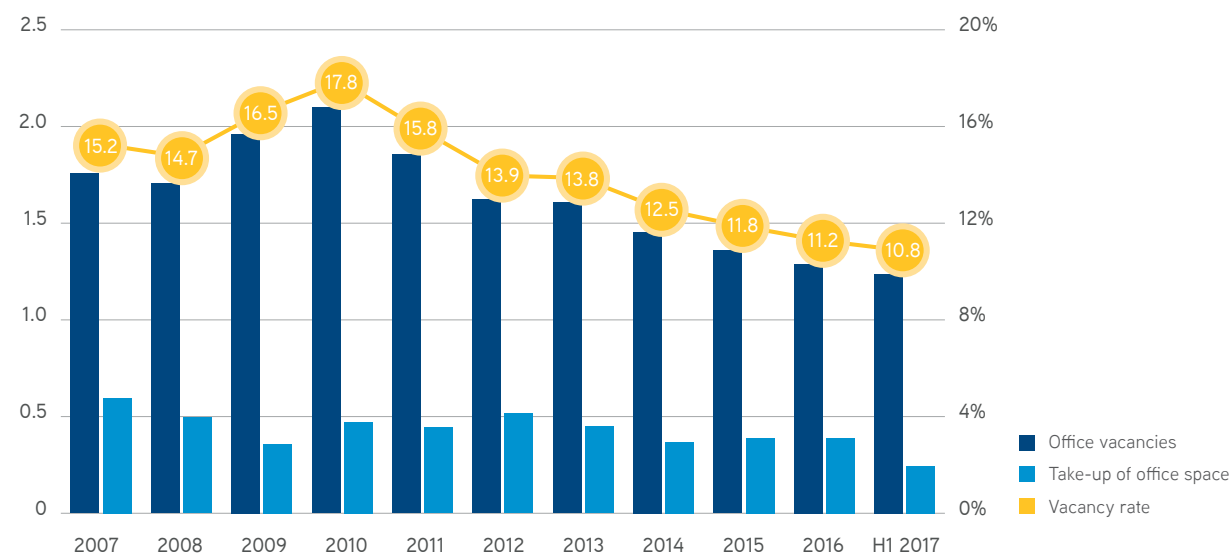


FRANKFURT

OFFICE FAST FACTS:

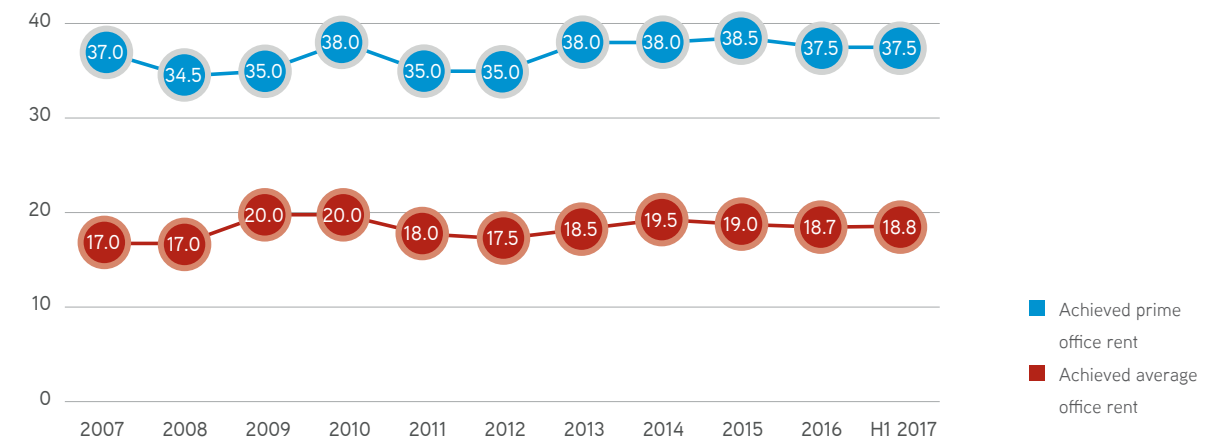
- > Office stock: 11.5 million sqm
- > Office take-up (10-year average): 462,700 sqm p.a.
- > Prime office rent (H1 2017): €37.50/sqm
- > Average office rent (H1 2017): €18.80/sqm
- > Vacancy rate (H1 2017): 10.8%

OFFICE TAKE-UP, OFFICE VACANCY (IN M SQM) AND VACANCY RATE (IN %)



The Frankfurt office leasing market has been benefiting from high demand stemming from a wide range of sectors over the past several years. As an European financial hub, Frankfurt is an attractive location for banks as well as consulting firms, making these sectors traditionally the most important tenant groups on the market. Demand for office space was accompanied by moderate building activity with a trend towards conversion of office properties to residential. The vacancy rate has declined considerably over the past few years as a result. Looking to the future, we can soon expect to see the effects of Brexit on the market as well. In light of the fact that many banks will have to relocate parts of their business from London to the European Union, Frankfurt will be a forerunner in terms of alternative locations.

PRIME AND AVERAGE OFFICE RENT (IN €/SQM)

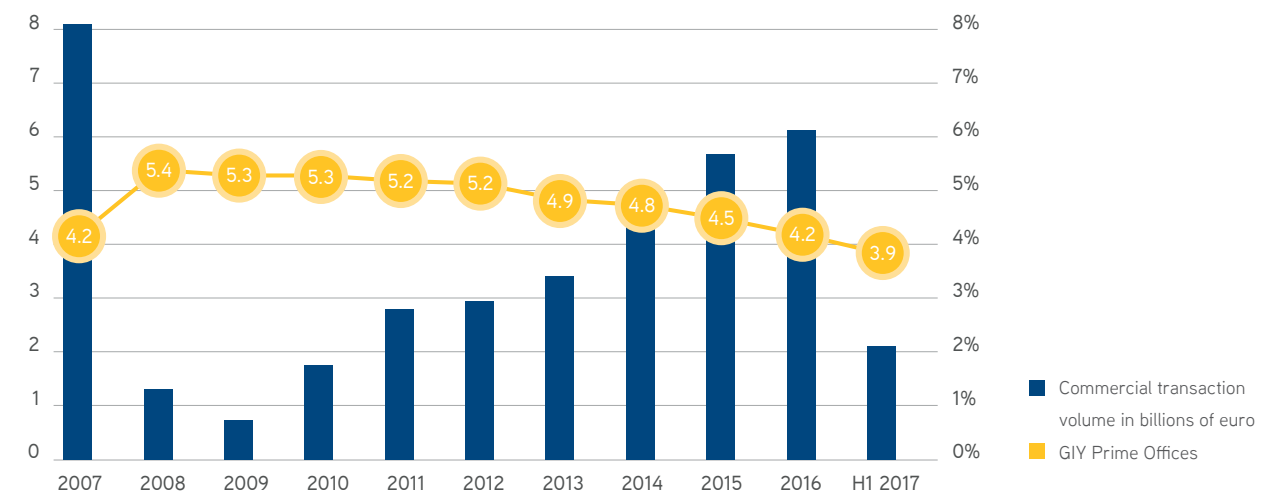


Rents have remained high over the past few years with Frankfurt claiming the title of top location in Germany both in terms of prime and average rent. Tenants are currently paying prime rents at €37.50 per sqm for space on the top floors of modern high-rise buildings in the CBD. Future increases in both prime and average rent appear realistic in light of the ongoing shortage of vacant space.

- > Commercial transaction volume (10-year average): €3.79bn p.a.
- > Gross initial yields (H1 2017)
 - Office: 3.85%
 - High Street retail: 2.8%
 - Logistics: 4.9%
- > Share of international investors (2014-2016): 59%

INVESTMENT FAST FACTS:

COMMERCIAL TRANSACTION VOLUME (IN BN €) AND OFFICE PRIME YIELDS (IN %)



In view of the ongoing low-interest rate environment, investing in German real estate remains a popular investment strategy among many buyer groups. The commercial investment market in Frankfurt has been moving from one record to the next over the past few years as a result, with transaction volumes increasing each year. As Frankfurt offers the opportunity to invest in high-rise properties, the city is also highly popular among foreign investors, who tend to invest in high-volume deals. Ongoing high demand continues to put pressure on yields in all market segments with High Street assets currently the most expensive asset type on the market.

FRANKFURT MAP AND PROMINENT BUILDINGS

1 Commerzbank Tower



2 MesseTurm



3 DZ Hochhaus



4 MainTower



5 Tower 185



6 Trianon



7 EZB



8 OpernTurm



9 Taunusturm



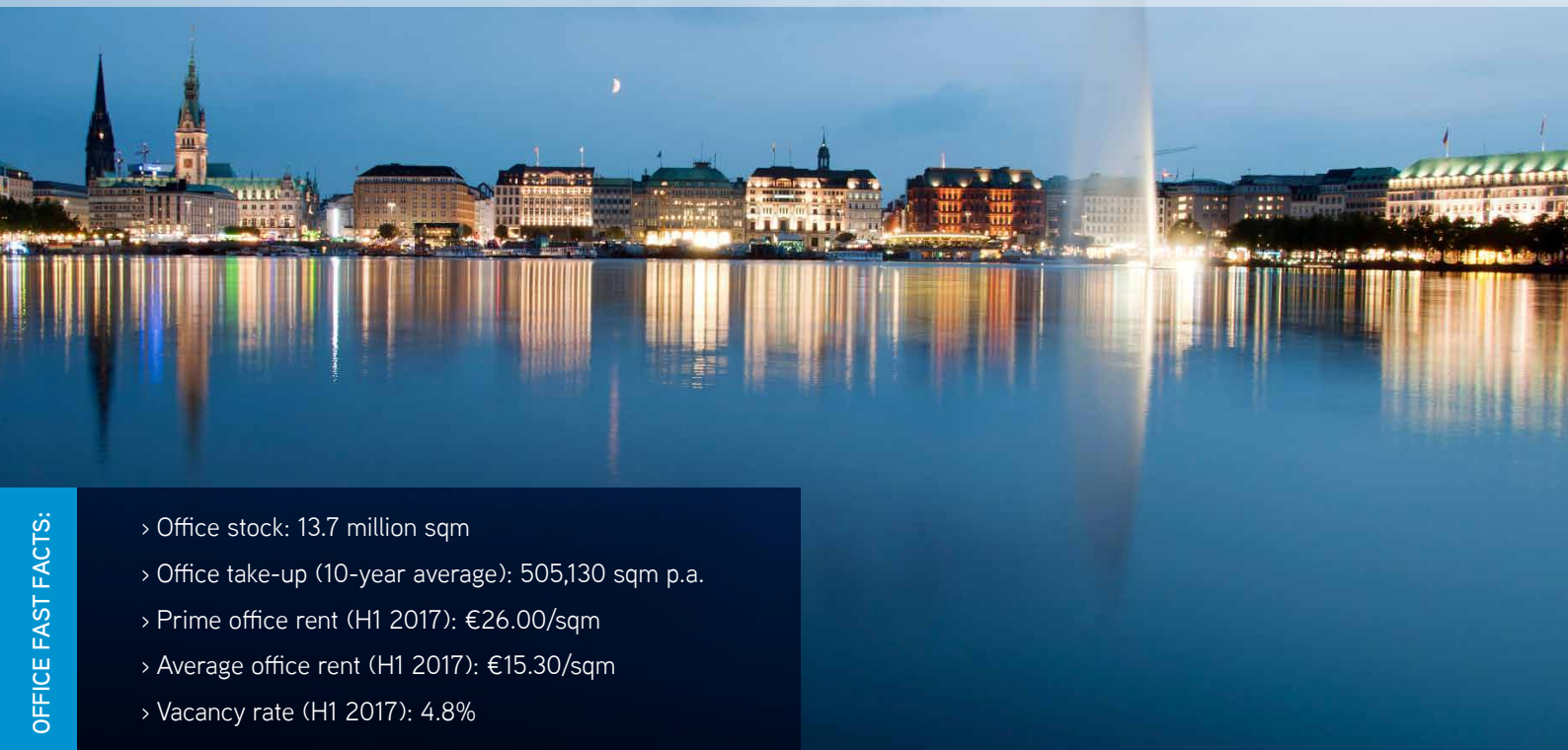
10 Silberturm



11 Zwillingstürme Deutsche Bank



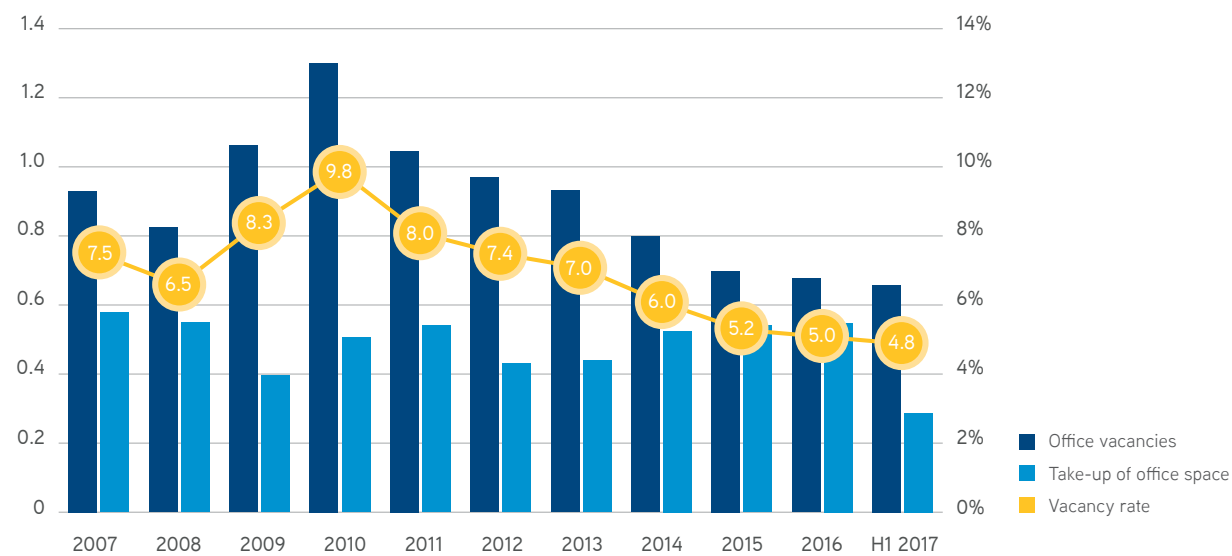
HAMBURG



OFFICE FAST FACTS:

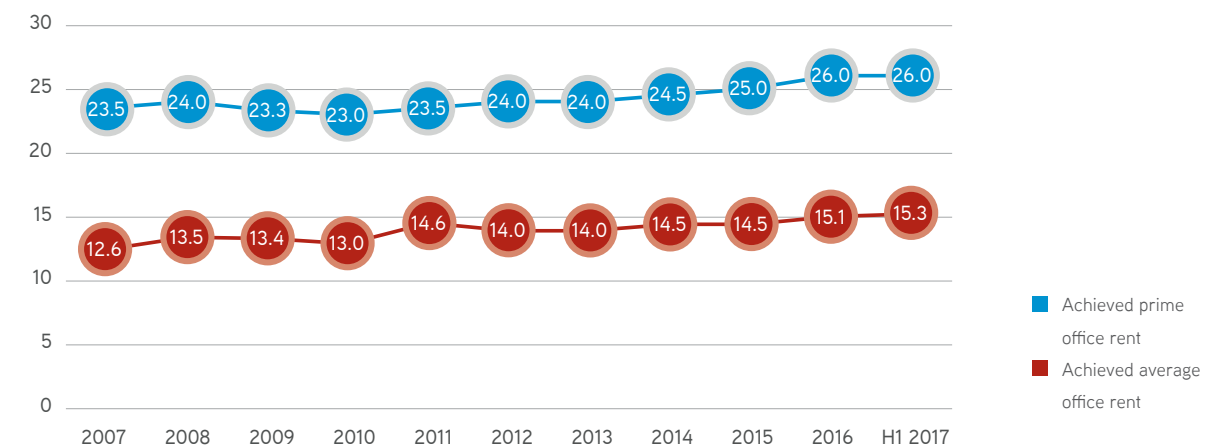
- > Office stock: 13.7 million sqm
- > Office take-up (10-year average): 505,130 sqm p.a.
- > Prime office rent (H1 2017): €26.00/sqm
- > Average office rent (H1 2017): €15.30/sqm
- > Vacancy rate (H1 2017): 4.8%

OFFICE TAKE-UP, OFFICE VACANCY (IN M SQM) AND VACANCY RATE (IN %)



With office vacancy at below 5.0% for the first time, Hamburg is clearly a sought-after location among companies, both local and international. Office take-up remains high at levels above the 10-year average. The social fabric, infrastructure, economy and general quality of life in the Hanseatic City of Hamburg continues to attract new tenants. The market has transitioned from tenant to landlord-friendly. Attractive incentives have become rare and competition among potential tenants has increased noticeably.

PRIME AND AVERAGE OFFICE RENT (IN €/SQM)

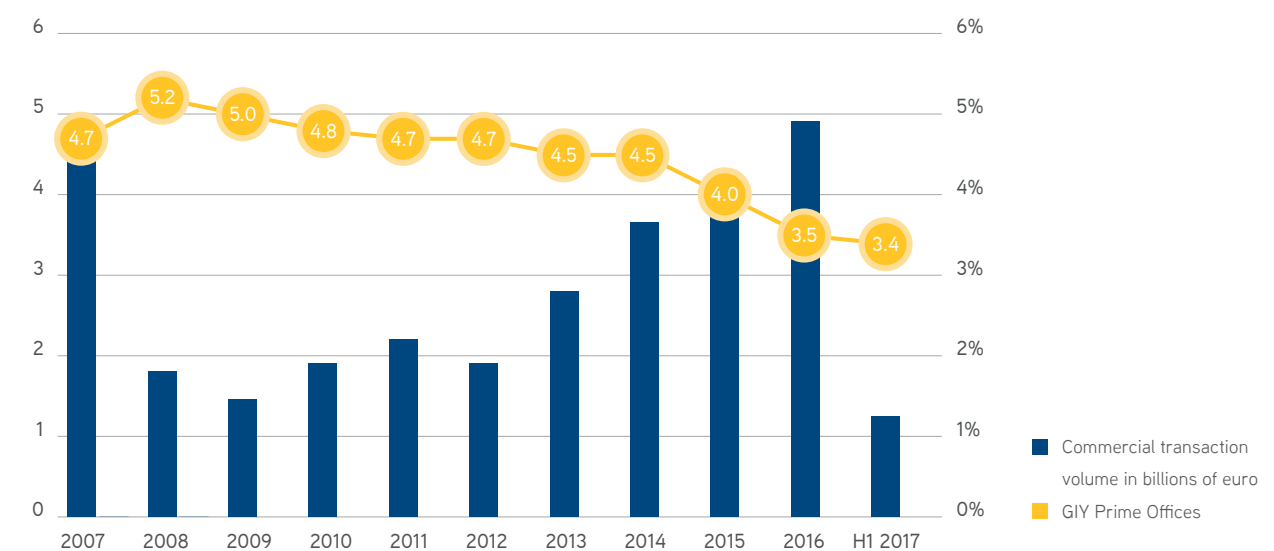


Prime rents increased to €26.00 per sqm with average rents continuing their upward trajectory to land at €15.30 per sqm at mid-year 2017. Scarcity of office space will cause rents to climb even higher over the few next years. Demand for attractive, modern space of 1,000 sqm and up is strong as well, which will boost average rent even further.

- > Commercial transaction volume (10-year average): €2.8bn p.a.
- > Gross initial yields (H1 2017)
 - Office: 3.40%
 - High Street retail: 3.30%
 - Logistics: 4.90%
- > Share of international investors (2014-2016): 46%

INVESTMENT FAST FACTS:

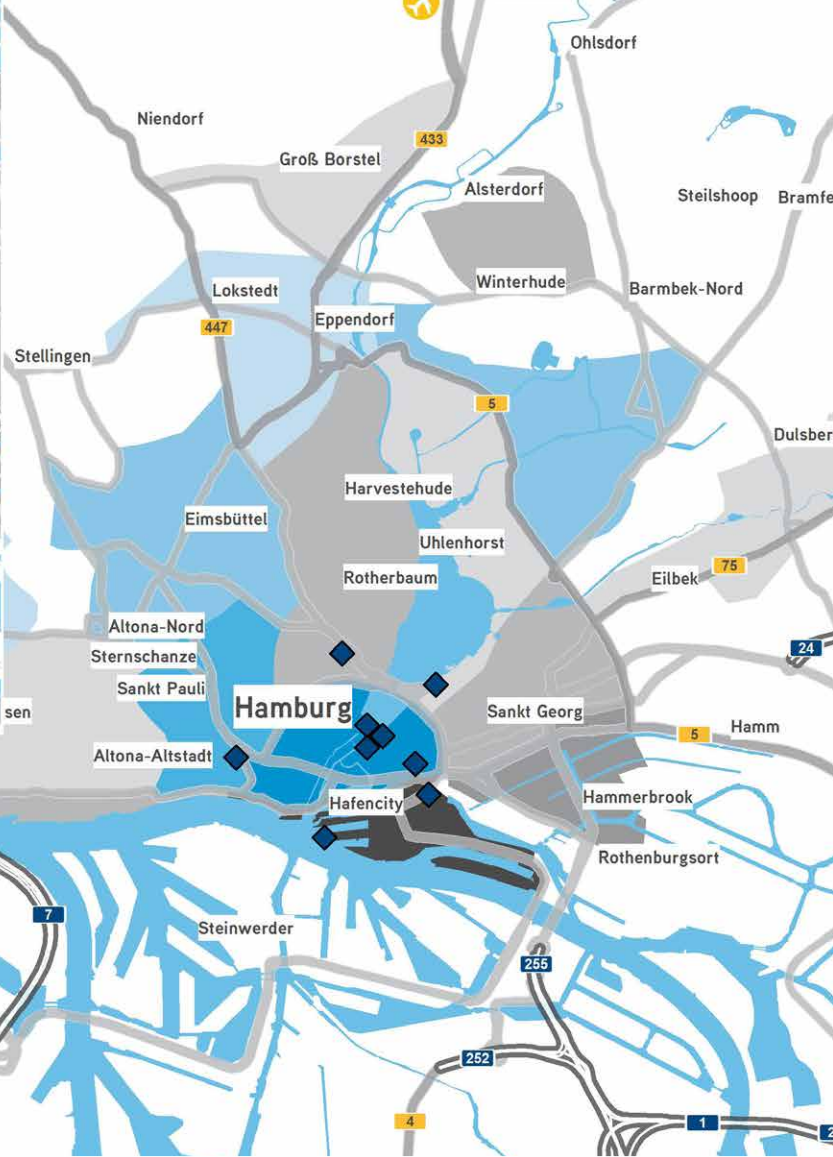
COMMERCIAL TRANSACTION VOLUME (IN BN €) AND OFFICE PRIME YIELDS (IN %)



The lively new-build activity that we are currently seeing in Hamburg has not been sufficient to relieve tensions on the market. The scarcity of available assets could affect annual transaction volume, causing the city to perform below levels seen in other major German cities. Nevertheless, investor demand remains strong and is not expected to diminish any time soon. Investors are responding to current market conditions, factoring in asset potential and therefore forcing higher purchase prices. We have particularly seen investors shift their focus to peripheral submarkets and expand their investments to include new asset classes. This willingness to take risks and to invest in properties early in the planning phase reflects the popularity of Hamburg among both German and foreign investors.

HAMBURG MAP AND PROMINENT BUILDINGS

1 Elbphilharmonie



2 Europa Passage



3 Alsterhaus



4 Hotel Atlantic Kempinski



5 Eriskusspitze – Spiegel buildings



6 Mohlenhof im Kontorenviertel



9 Rathaus



10 Tanzende Türme



7 Radisson Blu Hotel



8 Veritaskai

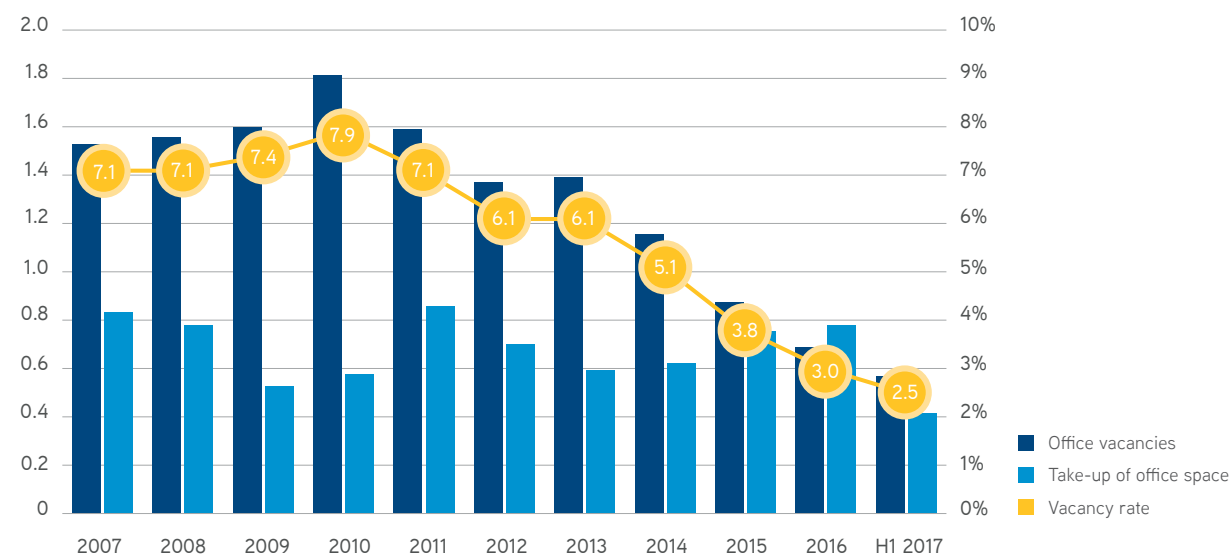


MUNICH

OFFICE FAST FACTS:

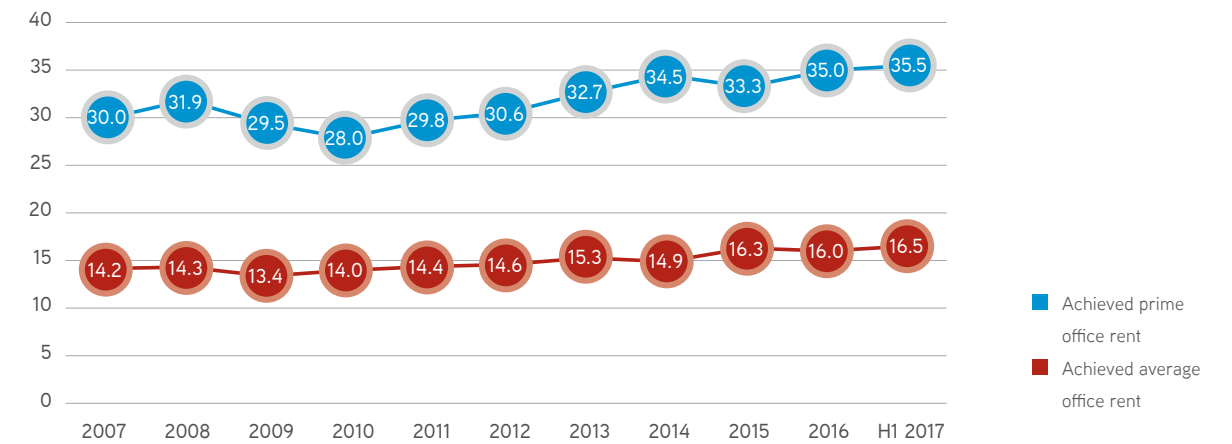
- > Office stock: 22.8 million sqm
- > Office take-up (10-year average): 640,000 sqm p.a.
- > Prime office rent (H1 2017): €35.50/sqm
- > Average office rent (H1 2017): €16.50/sqm
- > Vacancy rate (H1 2017): 2.5%

OFFICE TAKE-UP, OFFICE VACANCY (IN M SQM) AND VACANCY RATE (IN %)



Total take-up came to 416,500 sqm at mid-year 2017, and it is highly likely that take-up on the Munich office market will hit the 750,000-sqm mark this year, exceeding the 10-year average of 640,000 sqm. The vacancy rate continues to drop, currently posting 2.5%. Vacancy within city limits is even lower at 1.7%, making it increasingly difficult for businesses to find suitable space.

PRIME AND AVERAGE OFFICE RENT (IN €/SQM)

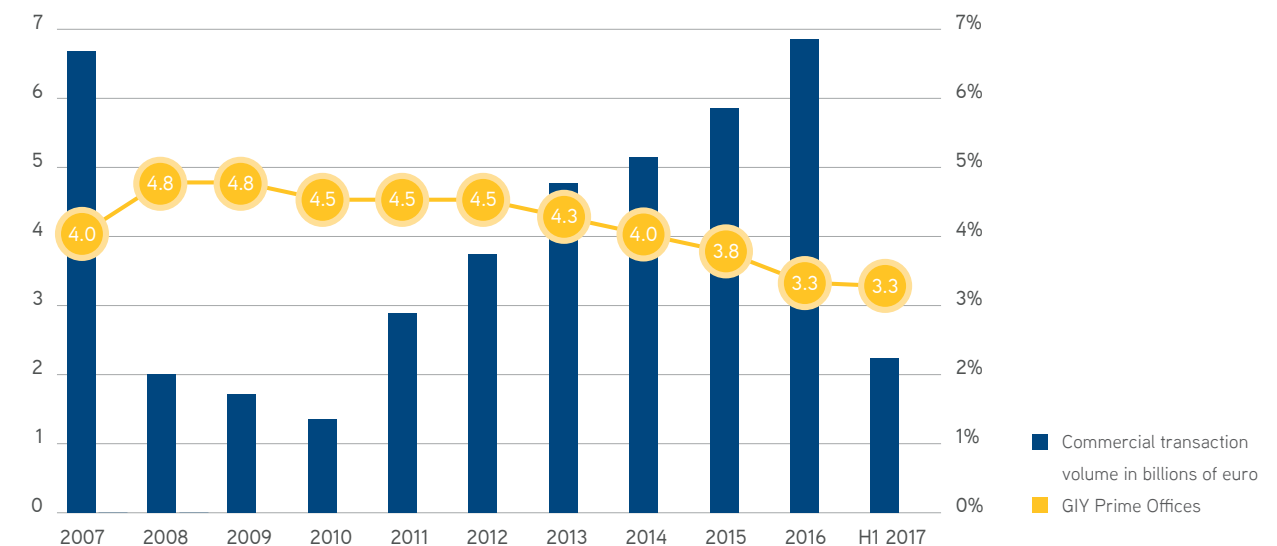


Despite a very low vacancy rate and high demand, average rents only posted a slight increase to a current €16.50 per sqm. This moderate increase is deceptive, however, as the shortage of supply in city locations and a shift to the more affordable surrounding areas have a considerable impact. Average rent within city limits currently comes to €18.80 per sqm and to €11.10 per sqm in the surrounding areas. Prime rent was recorded at €35.50 per sqm, with the majority of premium space within the city's Altstadt ring (inner ring road) going for more than €30.00 per sqm.

- > Commercial transaction volume (10-year average): €4.1bn p.a.
- > Gross initial yields (H1 2017)
 - Office: 3.25%
 - High Street retail: 2.8%
 - Logistics: 4.9%
- > Share of international investors (2014-2016): 32%

INVESTMENT FAST FACTS:

COMMERCIAL TRANSACTION VOLUME (IN BN €) AND OFFICE PRIME YIELDS (IN %)



Munich's favorable overall economic conditions and strong growth prospects once again led to lively activity on the city's commercial real estate market in 2017. Around €2.24bn were invested in commercial real estate in the first six months of the year. The Munich investment market has outperformed each previous year six years in a row now, with a transaction volume of around €7bn realistic for 2017. About 47% of invested capital was poured into office assets, once again making them the most popular asset class.

MUNICH MAP AND PROMINENT BUILDINGS

1 Palais an der Oper



2 Maximilianhöfe



3 Hofstatt



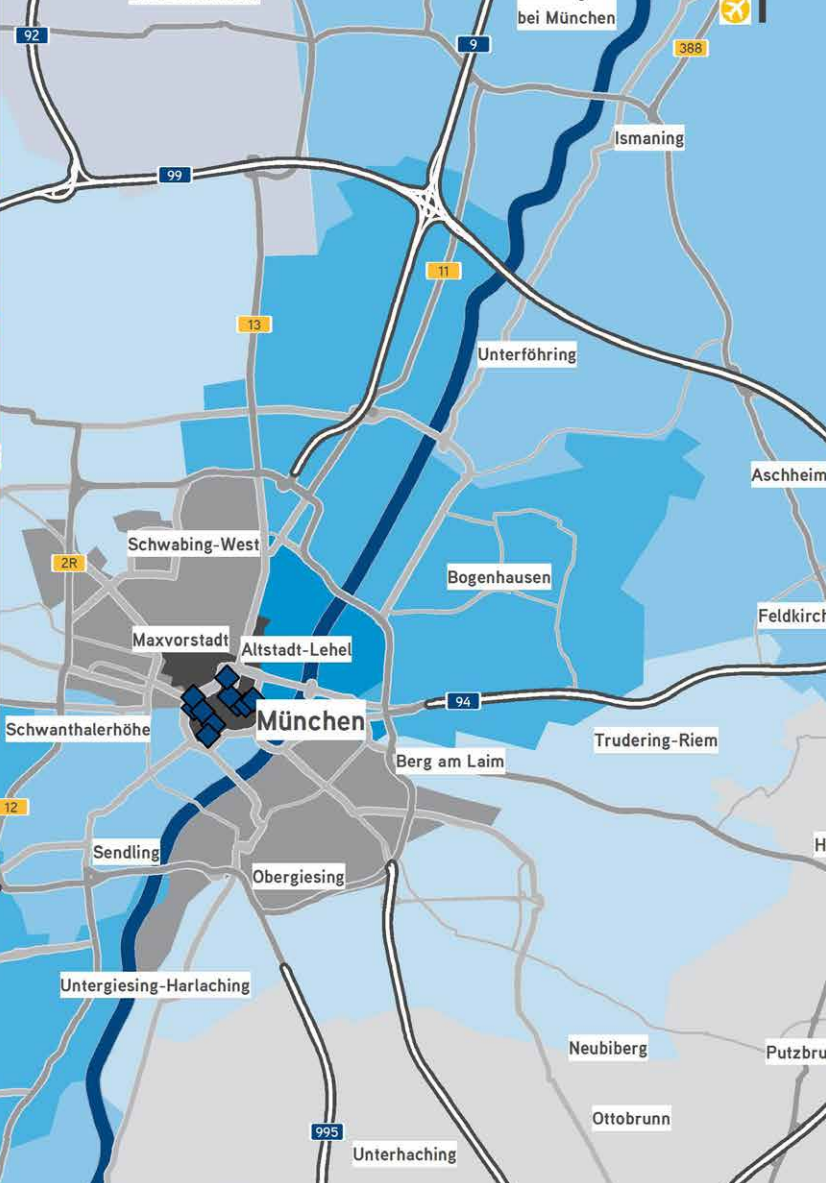
4 Oberpollinger



5 Angerhof



6 Fünf Höfe



7 Alte Börse



9 Siemens Headquarters



8 Hofgarten Palais



10 Joseph-Pschorr-Haus

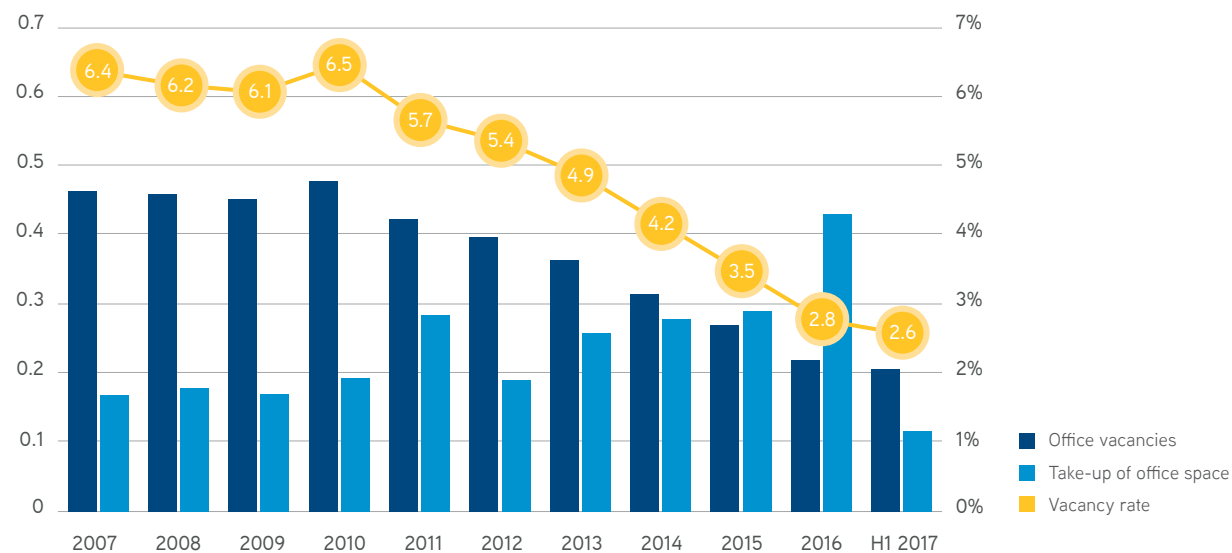


STUTT GART



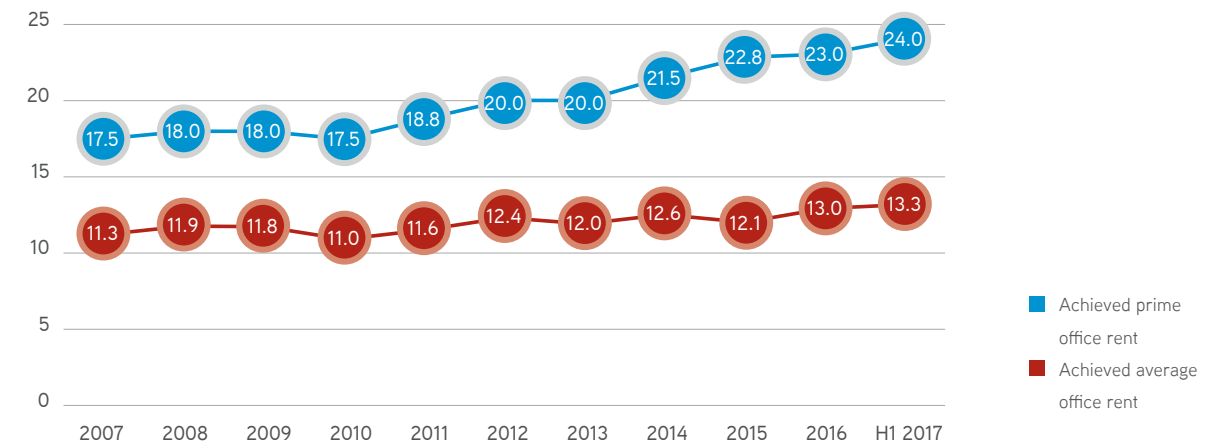
- OFFICE FAST FACTS:
- > Office stock: 7.8 million sqm
 - > Office take-up (10-year average): 244,700 sqm p.a.
 - > Prime office rent (H1 2017): €24.00/sqm
 - > Average office rent (H1 2017): €13.30/sqm
 - > Vacancy rate (H1 2017): 2.6%

OFFICE TAKE-UP, OFFICE VACANCY (IN M SQM) AND VACANCY RATE (IN %)



The Stuttgart office leasing market continues to be in good shape. The fact that take-up has continued to increase over the past few years and was well above average in 2016 can be primarily attributed to high demand for space on the Stuttgart office leasing market. The vacancy rate has been decreasing since 2010, a trend that continued in 2017 with vacancy dropping to 206,100 sqm. With around 7.8 million sqm currently available, the vacancy rate came to around 2.6% at the end of the year – the lowest it has ever been.

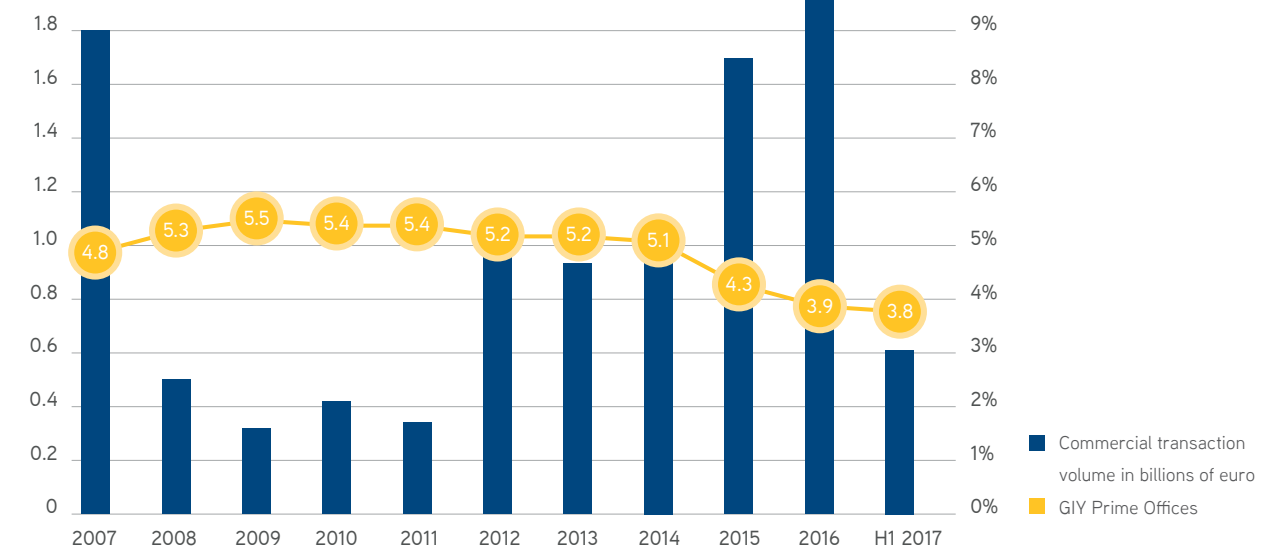
PRIME AND AVERAGE OFFICE RENT (IN €/SQM)



In view of ongoing high demand and extremely limited supply, particularly in the new-build segment, rents have been rising on the Stuttgart office leasing market. Average rent recorded a yoy increase of €1.00 per sqm to €13.30 per sqm. Tenants continue to pay the highest rents for space in the Stuttgart City submarket. Prime rent continued to rise to a current €24.00 per sqm, the highest ever recorded on the Stuttgart office leasing market.

- > Commercial transaction volume (10-year average): €1.00bn p.a.
- > Gross initial yields (H1 2017)
 - Office: 3.80%
 - High Street retail: 3.30%
 - Logistics: 4.90%
- > Share of international investors (2014-2016): 49%

COMMERCIAL TRANSACTION VOLUME (IN BN €) AND OFFICE PRIME YIELDS (IN %)



Investment activity on the commercial real estate market proved well above average in H1 2017 with high-volume office investments dominating the deal landscape. In light of the fact that investment activity remains strong, yields retained the low levels we have seen in recent years and continued to fall in some areas. The core segment, which is preferred by risk-averse investors primarily investing their own equity, also experienced ongoing yield compression. Prime office yields were most recently recorded at 3.8%. Investors took advantage of current yield compression in the core segment to list properties after only a brief holding period. The slight increase in interest rates on the financial markets failed to impact the value add segment, where investors usually use higher leverage ratios, with yields remaining stable. We expect 2017 to be the third year in a row to top the €1.5bn mark in transaction volume.

STUTTGART MAP AND PROMINENT BUILDINGS

1 Phoenixbau



2 Königsbaupassagen



3 Caleido



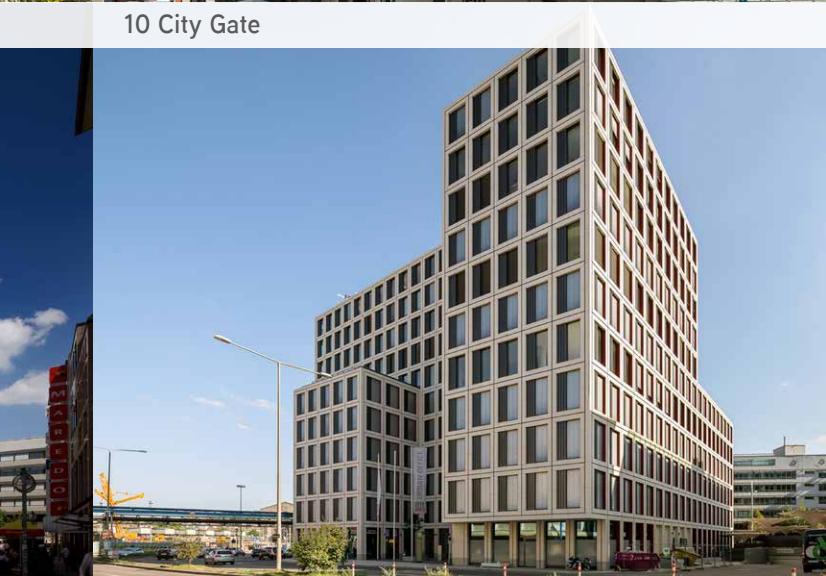
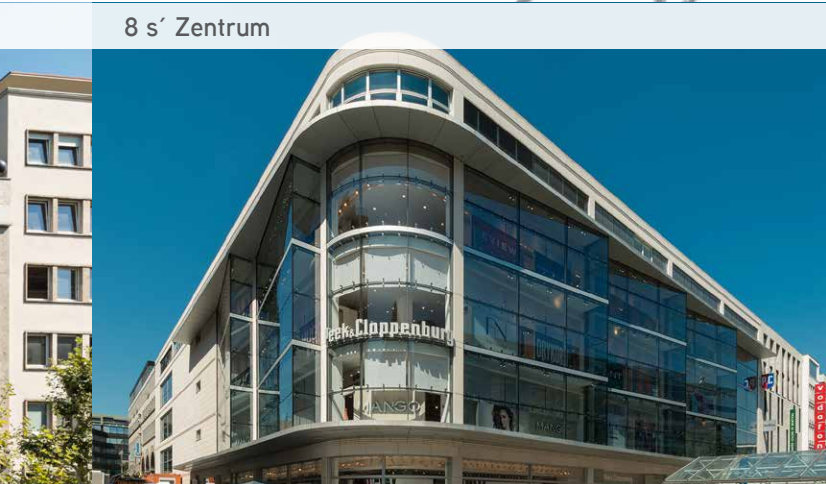
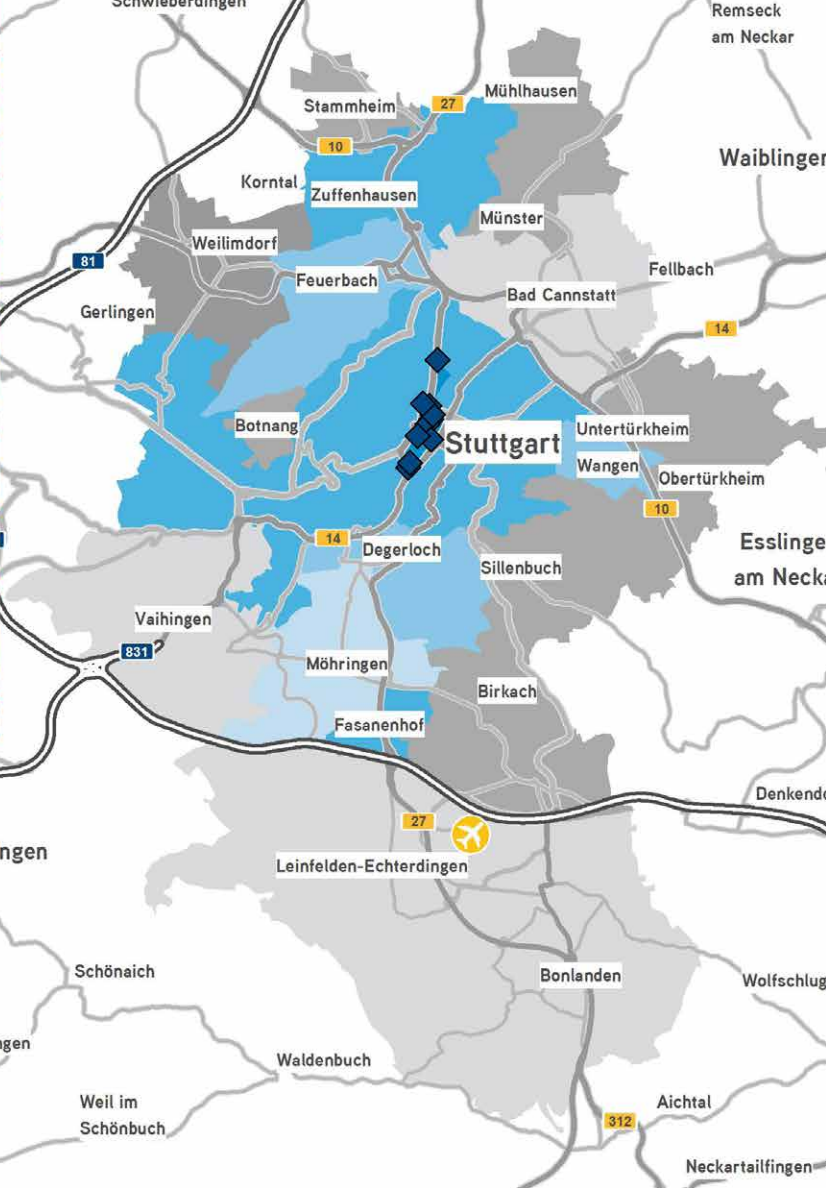
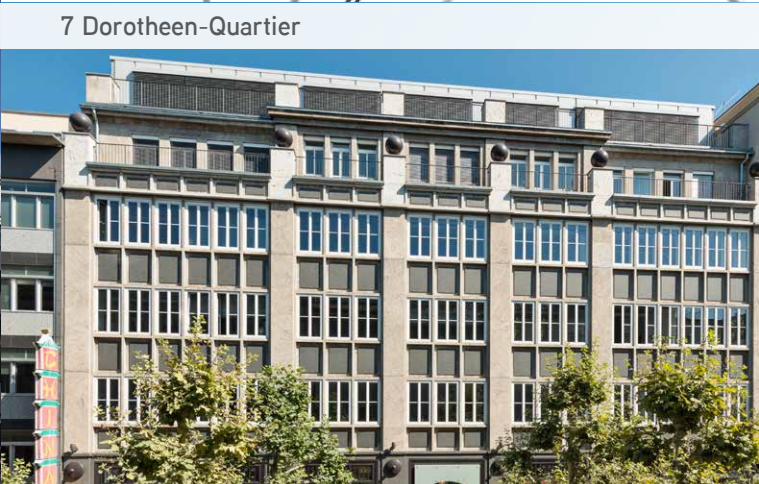
4 Gerber



5 Milaneo

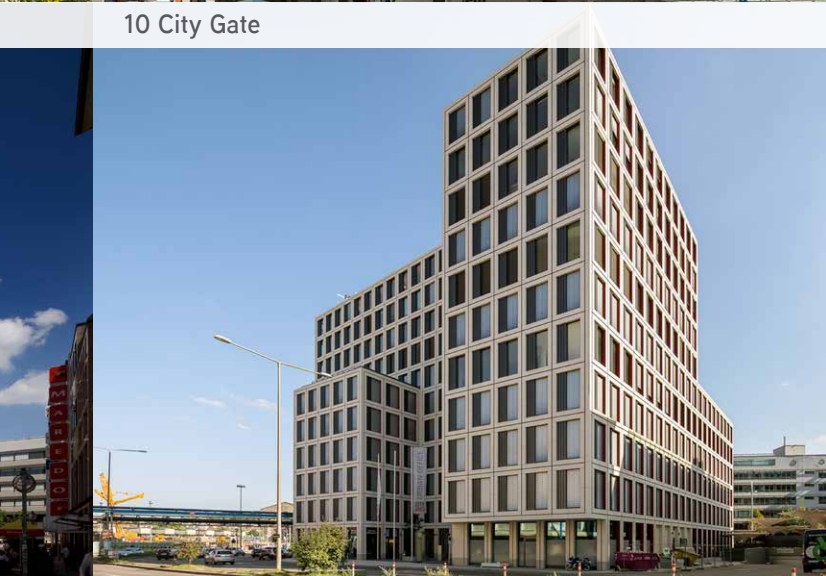


6 Zeppelin-Carré



7 Dorotheen-Quartier

8 s' Zentrum



9 Kronprinzbau

10 City Gate



7. LEGAL ASPECTS FOR REAL ESTATE INVESTMENT IN GERMANY

In the coming chapter you will find the general information about relevant legal framework for investing in German real estate prepared by the international law firm Clifford Chance.

REAL ESTATE OWNERSHIP

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

- › Full freehold ownership, which is the ownership over a plot of land and all buildings located on it (the most common form of real estate ownership in Germany);
- › Condominium ownership, which is the ownership over separate individual units in a building, e.g. a flat; and
- › Hereditary building rights, which is the ownership to a building on a property without being the owner of the respective land.

FULL FREEHOLD OWNERSHIP

Full freehold ownership is the ownership over a plot of land and all buildings or other immovable fixtures located on it in perpetuity. These fixtures are seen as integral parts of the plot of land, so that they are – in the event of a disposal of the plot of land – automatically transferred along with the plot of land.

The owner of this type of asset has complete control of the entire plot of land and the buildings located on it. His property rights cover the surface of the plot and the space above and below it. The owner has comprehensive rights, including the right to use the asset, dispose of it, rent it to third parties and to encumber it with land charges 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 land and the built structure 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 other units and the communal areas may form an individual flat. This allows the real estate developer a certain amount of autonomy to decide that certain parts of the scheme should be designated as communal areas and others as parts of individual apartments.

As a freehold owner of land, the owner of an apartment has comprehensive rights. However, his comprehensive rights are limited to his individual part of the building. The relationship between the condominium owners is governed by a contract, which contains provisions on maintenance and repairs, the decision-making process and sharing costs and public charges. In larger condominiums, there is a condominium administrator in charge of managing the affairs of the condominium owners. This arrangement can also be applied to commercial buildings.

HEREDITARY BUILDING RIGHTS

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 this right and encumbering it with land charges and mortgages in favour of financing banks regularly requires the consent of the owner of the plot of land.

In contrast to freehold ownership, a hereditary building right is only temporary in 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 an 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 registered in the land register. For this purpose, in addition to the land register folio for the freehold ownership of the land, a further land register folio is created to register all changes in title to 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 full freehold ownership. The most prominent examples are German municipalities and Christian churches, both of which regularly make use of hereditary building rights.

TRANSFER OF TITLE OF OWNERSHIP

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

- › "Asset transactions" by way of which the purchaser directly acquires the real estate and is registered as new owner in the land registers; and
- › "Share transactions" by way of which the purchaser acquires the shares in the real estate owning entity (regularly a special purpose vehicle) that is registered as owner in the land register.

ASSET TRANSACTIONS

In the course of a real estate asset transaction, the freehold ownership, condominium ownership or hereditary building right is transferred in rem from the current owner to the future owner, resulting in the new owner being registered 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 representations and warranties, payment mechanism and liability – are at the discretion of the parties. The parties generally agree on a certain date for the 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 often only takes place some weeks or months after the commercial closing and not before the real estate transfer tax has been duly paid, with this having been confirmed to the land registry by the financial authorities.

SHARE TRANSACTION

In the course of a real estate share transaction, the buyer does not acquire the asset itself but rather the shares of 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 in that company and therefore also the indirect but commercially comprehensive owner of the real estate and any connected rights and obligations. Both parties can benefit from share transactions instead of asset transactions since, depending on their structure, they may not trigger real estate transfer tax of between 3.5% and 6.5% of the purchase price.

In order to invest in the German real estate market, investors often make use of special-purpose vehicles. These special-purpose vehicles are companies which are formed exclusively for the purpose of transferring and financing real estate, being legally independent and bankruptcy-remote.

COSTS

Certain costs may arise as a result of the transfer of real estate under both asset deals and share deals, where these may include notary costs, land register charges, broker fees and advisory fees. While the costs for brokers and advisors have to be negotiated between the parties, the amount of any notary costs and land register charges is, in the same way as 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 CONTRACT

(A) COMMERCIAL LEASES

The German Civil Code contains various provisions governing the contents of lease agreements if the parties do not choose to deviate from the general rule 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 and also, if there is adequate regulation, most matters are left to the discretion of the parties to the lease agreement. If this is the case, it should be remembered that leases which contain the general terms and conditions of trade of one party (generally the landlord) the contract will also be reviewed under the provisions of general terms and conditions of trade (section 305 et seq. German Civil Code). If the contract includes general terms and conditions of trade that 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 agreement will regularly contain provisions on the following items:

- › Terms and termination;
- › Written form;
- › Rent and rent adjustment;
- › Rent deposit;
- › Ancillary costs;
- › Maintenance and repair;
- › Operating obligation (Betriebspflicht);
- › Protection against competition and assortment restriction; and
- › Change of control.

TERMS AND TERMINATION

Under German law, the parties are free to agree to a fixed term or to leave the duration of a lease agreement unspecified. In the latter case, a commercial lease may generally be terminated giving 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 years, whereas office buildings are usually let for an initial term of five to ten years, and shorter terms thereafter. Other types of use may have different standard terms. When agreeing a fixed lease term, it has to be considered that the statutory provisions of an extraordinary termination for cause cannot be excluded.

Not a matter of statutory law, but possible and common are contractual renewal options that must be agreed upon by both parties. But, as a matter of law, the term of a commercial lease must not exceed thirty years; after that time, both parties can terminate the lease, even if the contract stipulates a longer period.

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 simply for all the material parts of the agreement which form the lease agreement to be in writing. All parts of the lease together must also form one "deed". There are different ways to comply with these requirements, but the main issue is that there is a clear correlation between all parts of the main contract and its attachments and addendums. Even if a lease does not comply with the legal requirements of written form, it remains valid and in force, but 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. Assuming that all the written form requirements are met, the lease automatically terminates when the term expires. It is, however, of utmost importance to comply with written form requirements for the entire term of the lease to avoid any written form defects and hence termination rights arising.

RENT AND RENT ADJUSTMENT

In the absence of statutory provisions the rent is freely agreed between the 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 existing rent will be 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 reductions in the rent due, reflecting the current market situation, and must not change by more than the percentage change in the relevant price index in order to be valid.

Another kind of rent review is a "step-up plan" which is explicitly agreed upon in advance. The step-up plan has to disclose the respective amount of rent or percentage rent increase.

RENT DEPOSIT

It is up to the parties to agree upon a rent deposit, which is regularly required under German lease agreements. The amounts of the rent deposit are limited in the principle of morality; usual amounts in commercial lease agreements are between three and six monthly 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 agreements subsequently agree on substantial changes in a given lease without the consent of the guarantor.

ANCILLARY COSTS

The rent usually consists not only of the actual compensation for the use of the leased property, but also compensation for the landlord's costs arising in connection 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 he can transfer them onto the tenant to a certain extent. Such costs may be charged to the tenant either according to usage (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 agreement; the amount of the ancillary charges has to be clear to the tenant. It is therefore common practice in lease agreements to refer to certain legal provisions listing the most important kinds of ancillary costs, such as the operational costs ordinance (Betriebskostenverordnung).

In this context, a current decision handed down by the Federal Court of Justice should be noted. According to this decision, the allocation of "centre management costs" is void if these costs are not defined sufficiently in the contract. In the absence of standard local practice, it is almost impossible for the tenant to estimate what costs he has to expect because the measures included in this term are not clear. It might include centre organisation and leasing, but could also embrace advertising, marketing research and decoration for instance. The respective provisions of the lease agreement are therefore considered void.

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 not therefore unusual to agree cost caps at a certain percentage p.a. or the allocation of only minor repairs up to a certain amount in each individual case.

A landlord might also reach an agreement according to which the tenant shall be responsible for the entire property and building and even for the structural work (e.g. in case of single-tenant leasing). Those leases are called "triple net leases" (see below). However, this is less common.

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 them 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 parts and the roof of the building.

A so-called "triple net lease" on the other hand is a lease agreement that designates the tenant as being solely responsible for all of the costs pertaining to the asset being leased. Beyond double-net, this in particular includes uncapped costs for maintenance and repair of (i) the leased object, (ii) communal areas and (iii) structural parts and the roof of the building. Hence, 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 agreement.

It has to be considered that such triple net lease agreements 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 to be invalid if they are agreed due to the overwhelming market power of the landlord. Therefore, triple-net lease agreements can be considered as exceptional cases and can be found sometimes in connection with single tenant asset (especially in case the current tenant is the former owner of the property, so-called sale and lease back-transaction).

OPERATING OBLIGATION (BETRIEBSPFLICHT)

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 agreed on a turnover-based rent. Against this background, the parties may agree to the tenant being 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.

PROTECTION AGAINST COMPETITION AND ASSORTMENT RESTRICTION

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 commits 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 not to sell certain products so that the landlord can keep his competition protection commitment to other tenants.

Sometimes lease agreements contain "radius clauses" (Radiusklauseln) providing protection against competition in favour of the landlord as 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 latest 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 see whether such clauses still can be agreed in a lawful and exceptional manner or not.

CHANGE OF CONTROL

Change of control clauses are clauses which make a structural reorganisation of an entity (either the tenant or the landlord) or a disposal of a property subject to the consent of the respective counterparty. Such clauses are generally beneficial to the landlord because they assure certain continuity with regard to the entity of the tenant and its solvency.

(B) RESIDENTIAL LEASES

There is a chapter in the German Civil Code which relates solely to residential leases. The standard regulations are generally applicable but, in comparison to commercial leases, there are some restrictions to the freedom of contract in place to protect the tenant. This results 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 in particular in relation to the determination of the rent and the rent increase which is to be linked to the local market or altered economic circumstances. In addition, the demand of the landlord for rent security is capped at three monthly rent amounts. The landlord is also restricted in its possibilities to terminate a lease agreement, which requires a legitimate interest on the part of the landlord, and, if the termination of the tenancy would cause the tenant unjustifiable hardship, the tenant has the right to request an extension of the lease in spite of any notice of termination.

PUBLIC LAW

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 approving 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 might be public zoning peculiarities concerning the area where a property is located and stipulating certain provisions for the use of that area, as well as requirements for disposals and lettings (such as (re-)development areas, relocation areas, monument protection areas). 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 in the course of acquisitions.

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

GERMANTAX ASPECTS

TAXATION UPON ACQUISITION

(A) REAL ESTATE TRANSFER TAX

In the case of an asset deal, German real estate transfer tax ("RETT") is levied on the purchase price.

In the case of a share deal, real estate transfer tax will be levied on the property value (as determined by the tax rules) if 95% or more of the capital in the property owning company is, directly and/or indirectly, acquired by the same person or entity (and/or entities related to each other, or being part of a tax group).

If the property is held by a partnership, RETT is triggered if, within five years, more than 95% of the interest in such partnership is directly or indirectly transferred to new partners. However, structures to mitigate RETT might be available.

The RETT rate depends on the German Federal State in which the property is located and currently ranges from 3.5% to 6.5%.

Although both parties are liable for RETT vis-à-vis the German tax authorities, RETT is generally contractually borne by the purchaser.

Please note that there is currently a political discussion pending with regard to the RETT treatment of share deals. In particular the 95%-threshold in all relevant RETT rules might be lowered later this year eg to 75% or even to more than 50% through change of the RETT-Act. These discussions are ongoing and this might lead to wide-reaching changes to the current RETT mechanics in respect of share- and interest transfers.

(B) VALUE ADDED TAX

The sale of German real estate is generally exempt from German VAT. The seller can opt to subject a real estate transfer to VAT provided it is an entrepreneur within the meaning of the German VAT Act (Umsatzsteuergesetz) and the sale occurs to another entrepreneur who uses the property for business purposes. If the seller has exercised the VAT option and VAT is triggered at the current rate of 19%, 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 of a transfer of an entire business (Geschäftsveräußerung im Ganzen) are met. Any such transfer requires that substantially all business assets are transferred to the acquirer and that the acquirer is able to continue the operation of the business.

If and to the extent the sale and transfer of the properties is considered a regular supply (Lieferung) benefitting from the VAT exemption under statutory German VAT law and no option for VAT is exercised, the seller might have to repay VAT to the tax authorities which has been deducted as input VAT by the seller if existing VAT claw-back periods have not expired when the sale occurs.

If the sale and transfer of the property qualifies as a transfer of an entire business, no input VAT correction is triggered. Instead, the respective purchaser steps into the (remaining part of) the VAT clawback periods existing in respect of the property.

ONGOING TAXATION

(A) INCOME TAXATION

Foreign or domestic corporations owning German real estate will be subject to German corporate income tax on their income from letting and leasing of the real estate at a rate of 15.825% (including solidarity surcharge). In the case of an individual owning the real estate, German income tax at an individual marginal rate up to 47.475% (including solidarity surcharge) on the rental income will be triggered.

Acquisition costs and expenses borne by the purchaser should be recognised for German tax purposes to the extent that they qualify as ancillary acquisition costs (Anschaffungsnebenkosten) of the real estate or as expenses (Betriebsausgaben) relating to the property.

Interest expenses incurred under arm's lengths 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 relating to the acquisition of the properties) and do not fall within the scope of the interest barrier rules (Zinsschranke).

GERMAN INTEREST BARRIER RULES

GENERAL RULE

Pursuant to the interest barrier rule, interest expenses of a German business (Betrieb) 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 offset-able EBITDA (verrechenbare EBITDA) of such business. The offset-able EBITDA is defined as 30% of the EBITDA calculated for tax purposes. The interest barrier rule applies to all kind of debt, irrespective of whether such debt is provided by a third party, a shareholder or a related party to a shareholder. The distinction between shareholder and third party debt is only of relevance with regard to the exceptions as 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 is defined broadly to include all kind of interest taken into account when determining the taxable income, i.e. also income or expenses from the compounding or discounting of receivables or loans.

ESCAPE CLAUSES

GENERAL RULE

There exist three general exceptions to the interest barrier rule, whereby the second and third exception are subject to counter-exceptions where the business is a corporation. Accordingly, the interest barrier rule shall not apply if:

1. the annual negative interest balance ("ANIB"), defined as the sum of all interest income less the sum of all interest expenses less any interest carry forward, in one fiscal year is less than EUR 3,000,000;
2. the business does not belong to a group of companies, i.e. it is not or only partly consolidated (and cannot be fully consolidated) under IFRS, German GAAP or US GAAP (so-called "stand-alone clause"); or

3. the business 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 (so-called "group escape clause"). A shortfall of 2 percentage points of the business in the equity ratio is acceptable. 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.

EXCEPTIONS IN CASE OF CORPORATIONS

In case of corporations, the exceptions mentioned above are subject to further qualifications:

- (1) The stand alone clause is only applicable to corporations, if the payments for debt capital that are made to
 - > a shareholder holding directly or indirectly more than one fourth of the share capital, or
 - > a person related to such a shareholder, or
 - > a third party with a right of recourse against the shareholder holding more than one fourth of the share capital do not exceed 10 per cent of the net interest expenses of the such company.
- (2) The group escape clause is only applicable to corporations, if the payments for debt capital of the corporation or of any other legal entity belonging to such group that are made to
 - > a shareholder holding directly or indirectly more than one fourth of the share capital in a group company, or
 - > a person related to such a shareholder, or
 - > a third party with a right of recourse against a shareholder holding more than one fourth of the share capital do not exceed 10 per cent of the net interest expenses of the such company.

(B) 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 order the application of 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 might be reduced in the event that a double tax treaty is applicable and might even be reduced to 0% under the European Parent-Subsidiary Directive, if applicable. However, such reductions of WHT are subject to substantial substance requirements.

(C) TRADE TAX

A foreign investor without a German permanent establishment should not be subject to German trade tax ("TT") on its 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 ranges, depending on the municipality in which the permanent establishment would be located, from 7% - approx. 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 relate in particular to interest payments, of which 25% would be added back and, thus, increase the relevant trade tax base. Please note that if the purchaser were to unintentionally have a German permanent establishment, the add-back for the financing expenses in particular would trigger an additional tax burden.

Leasing income might be fully exempt from TT in case of a German lessor SPV which does not conduct any activities other than leasing of own real estate (real estate traders would not qualify for such TT exemption).

(D) VAT

The leasing and letting of German real estate is generally exempt from VAT. However, the possibility to opt for VAT is available under certain circumstances and commonly made use of, provided the tenants use the property for business subject to VAT. Please note that no VAT option is feasible for properties used for residential purposes or leased out to tenants rendering VAT-exempt services (such as banks or doctors).

(E) PROPERTY TAX

In general, German real estate owners are subject to property tax in Germany. However, it is virtually standard practice for property tax to be borne by the tenant as an ancillary cost, provided the respective lease agreement comprises such a pass-through provision.

The 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.

TAXATION UPON DISPOSAL/ EXIT

ASSET DEAL

Upon disposal of the property, RETT will be triggered at the applicable rate levied on the purchase price, which is generally borne by the purchaser under the respective SPA. However, both seller and purchaser are liable towards the German tax authorities.

The corporate seller should be subject to German corporate income tax with its capital gain (purchase price less acquisition cost less disposal cost) at a rate of 15.825%, but not to TT, provided the purchaser has not established a German permanent establishment. The corporate income tax will be 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 was a company resident in Luxembourg).

SHARE DEAL

No RETT should be triggered if shares in a corporation are sold to at least two independent purchasers, one of which purchases at least 5.1% of the respective purchaser's shares. In case of a direct or indirect sale of 95% or more of the interests in a partnership to one or more purchasers, RETT would, however, be triggered.

Please note that there is currently a political discussion pending with regard to the RETT treatment of share deals. In particular the 95%-threshold in all relevant RETT rules might be lowered later this year eg to 75% or even to more than 50% through change of the RETT-Act. These discussions are ongoing and this might lead to wide-reaching changes to the current RETT mechanics in respect of share- and interest transfers.

Capital gains realised upon the sale of the shares in a foreign corporation owning the property by a shareholder which is tax resident outside Germany should not be subject to German taxation.

There has been a proposal by the legislator in 2016 in order to extend German domestic taxation in order to levy tax on disposal gains derived by foreign investors in relation to shares in foreign corporations holding German real estate (a taxation right would for example exist under the German/ Luxembourg double taxation treaty). For foreign corporate investors the rate would have been 15.825% (corporate income tax). In the market the view was that the German domestic participation exemption would have been applied to foreign corporate investors and thereby only 5% of the capital gains would have been subject to 15.825%. However, such proposal has not been implemented into German law.

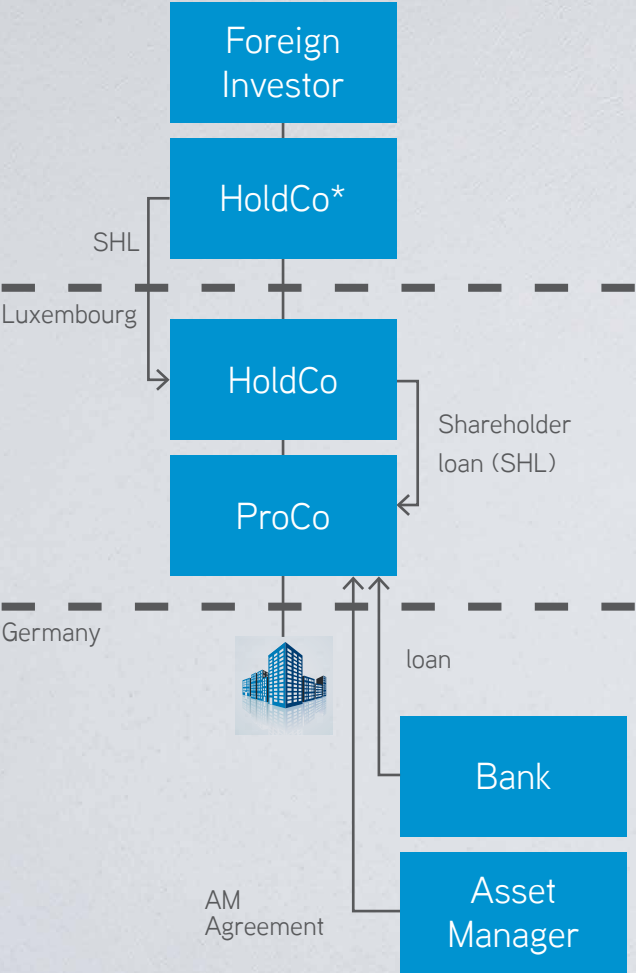
The sale of interests in a foreign or German partnership would be treated like an asset deal and would trigger (corporate) income tax and potentially – in case of a German permanent establishment – trade tax.

TYPICAL SPV STRUCTURE FOR A FOREIGN INVESTOR

Foreign investors usually acquire German real estate through a tax-optimised unregulated structure by using a Luxembourg HoldCo and Luxembourg PropCos. A Dutch holding structure might also be considered.

Please see the following examples below:

ALTERNATIVE 1: TYPICAL STRUCTURE WITH LUXEMBOURG S.À R.L. AS PROPCO



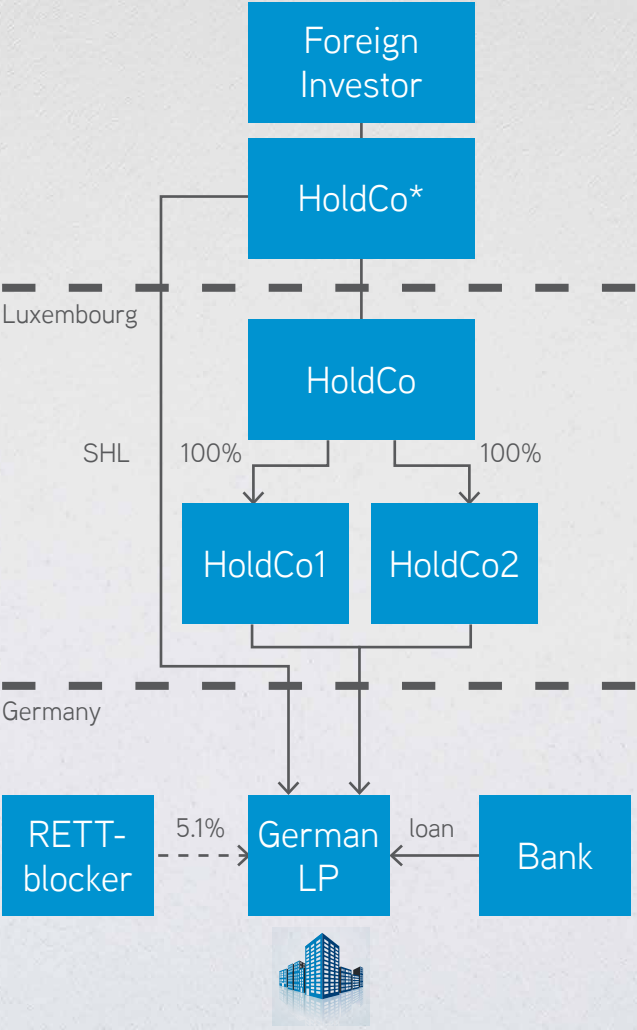
> Assumption: acquisition of property for 100m (70% building and 30% land), bank loan 60m, shareholder loan 15m, annual lease payments 10m, other expenses 2% of annual lease payments.

ONGOING CORPORATE INCOME TAX IN GERMANY P. A.

Lease payments		10m
expenses (incl. asset management)		./ 0.2m
depreciation building: 3%		./ 2.1m
interest on SHL: max. 6%		./ 1.2m
interest on bank loan: approx. 4%		./ 2.4m
=taxable income before interest barrier rules		4.1m
interest deduction limited in principle to €3 million p. a. (exceeding interest only deductible if and to the extent interest is less than 3% of EBITA)		
according to interest barrier rules only 30% of the EBITA for tax purposes is deductible: i.e. 30% of 9.8m	2.94m	
interest amount non-deductible	3.3m ./ 2.94 m =	+ 0.66m
=taxable income		4.76m
corporate income tax (15.825%) on 4.76m		0.753m
effective tax rate		7.53%

* Hong Kong, Singapore

ALTERNATIVE 2: STRUCTURE WITH GERMAN LP AS PROPCO TO MITIGATE LIMITATION OF INTEREST DEDUCTIBILITY IN GERMANY

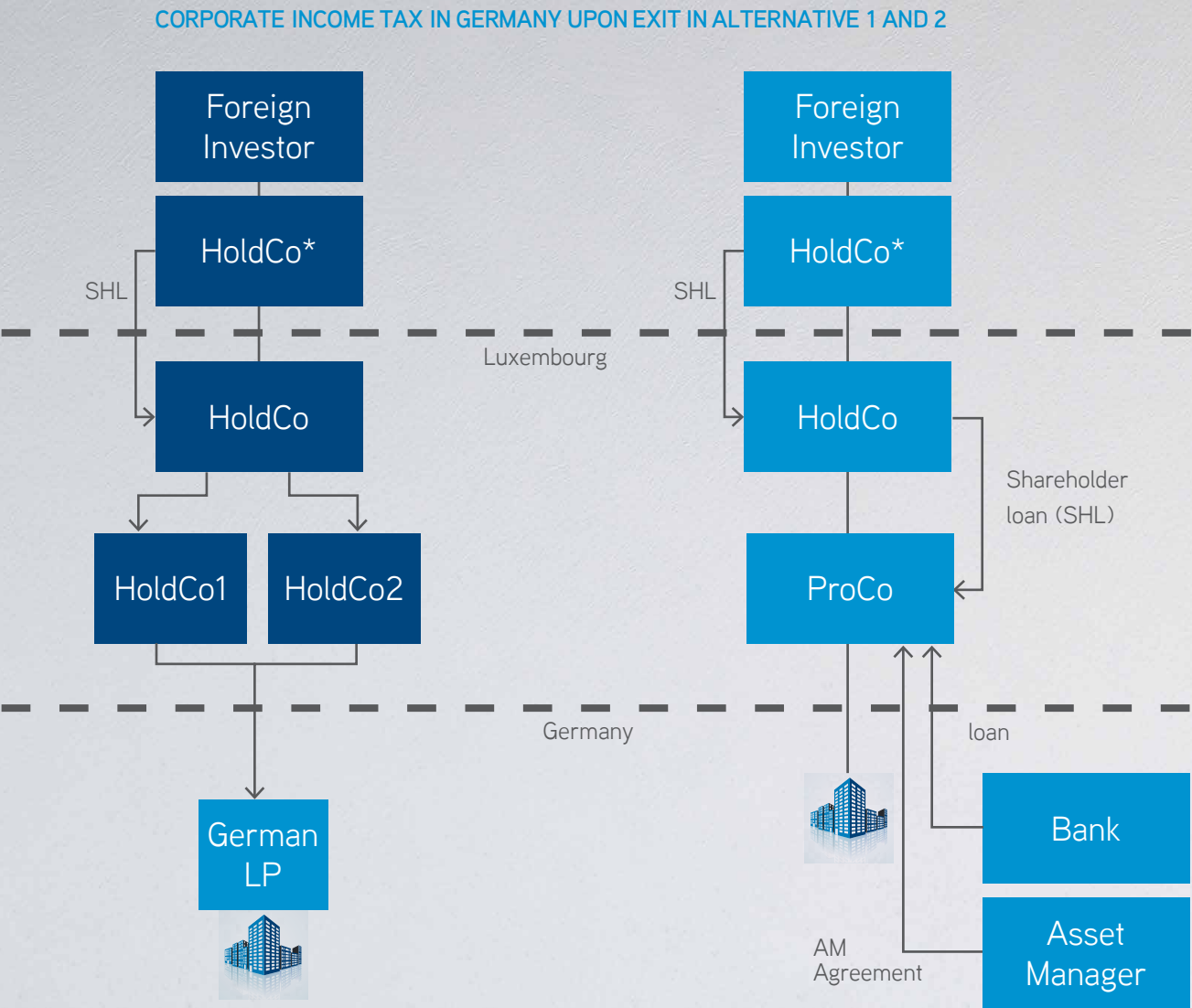


- > Mitigation of €3 million interest threshold e.g. by interposing German tax transparent limited partnership and investment through 2 (or more) intermediate HoldCos.
- > German Partnership disregarded for income tax purposes.
- > Interest payments allocated to HoldCo1 and HoldCo2; €3 million interest threshold applied at each HoldCo level.
- > Interest fully tax deductible if and to the extent arm's length.
- > Potential investment of RETT blocker in order to optimise RETT.

ONGOING CORPORATE INCOME TAX IN GERMANY P. A. FOR HOLDCO1 / HOLDCO2 RESPECTIVELY (ASSUMPTIONS AS IN ALTERNATIVE 1, BUT INCOME AND EXPENSES SPLIT BETWEEN HOLDCO1 AND HOLDCO2).

Lease payments	5m
expenses (incl. asset management)	./ 0.1m
depreciation building: 3%	./ 1.05m
interest on SHL: max. 6%	./ 0.6m
interest on bank loan: approx. 4%	./ 1.2m
=taxable income before interest barrier rules	2.05m
interest barrier rules do not apply at the level of HoldCo1/HoldCo2 since interest expenses are below EUR 3m at each HoldCo level	
=consolidated taxable income HoldCo1 and HoldCo2	4.1m
corporate income tax (15.825%) on 4.1m	0.649m
effective tax rate	6.49%

* Hong Kong, Singapore



Alternative 2

* Hong Kong, Singapore

	Alternative 1	Alternative 2
	PropCo	GermanLP
capital gain	50m	50m
capital gains tax (15.825%) in case of asset deal	7.913m	7.913m
capital gains tax if shares in PropCo are sold	0	/
capital gains tax (15.825%) if shares in German LP are sold	/	7.913m

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What does leadership look like?



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