

Trends in German Real Estate Market

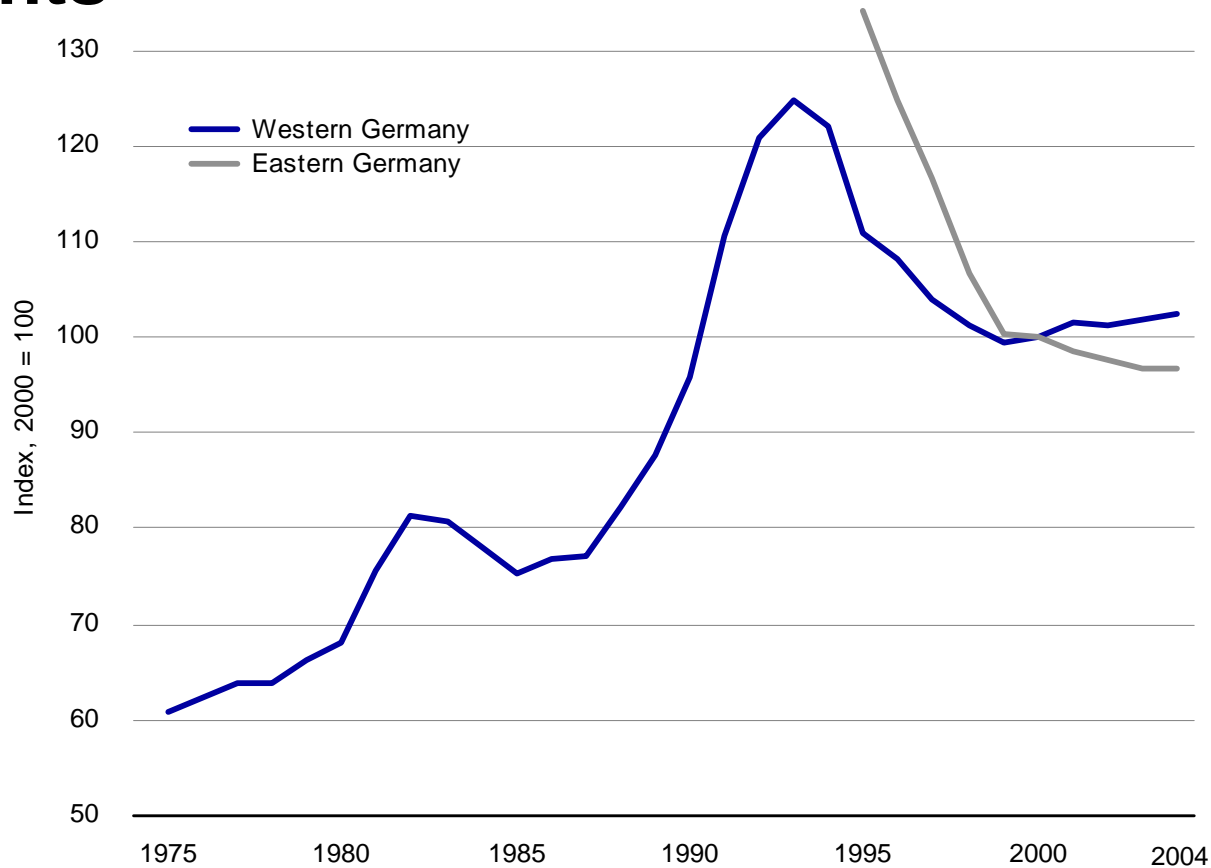
... in search of a new balance

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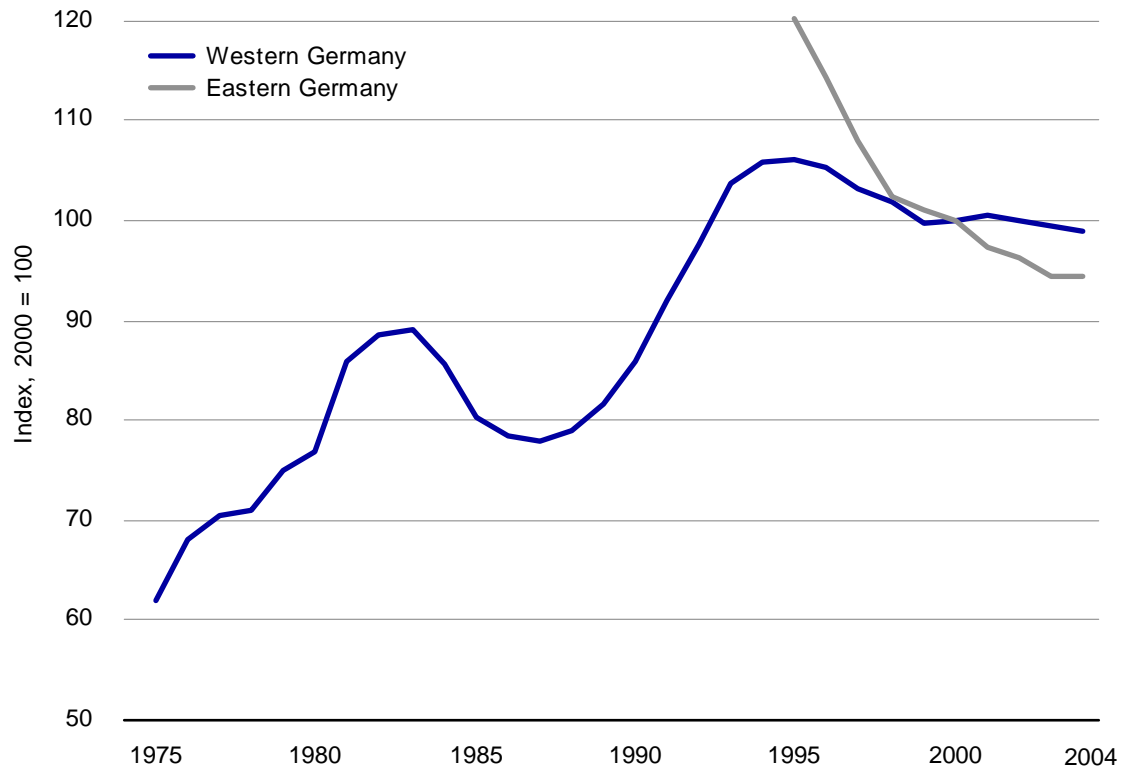
Housing Market: Development Of New Rental Payments 1)



1) In Western Germany, the figures relate to 62 cities, in Eastern Germany to 13 cities.

Source: HVB Expertise

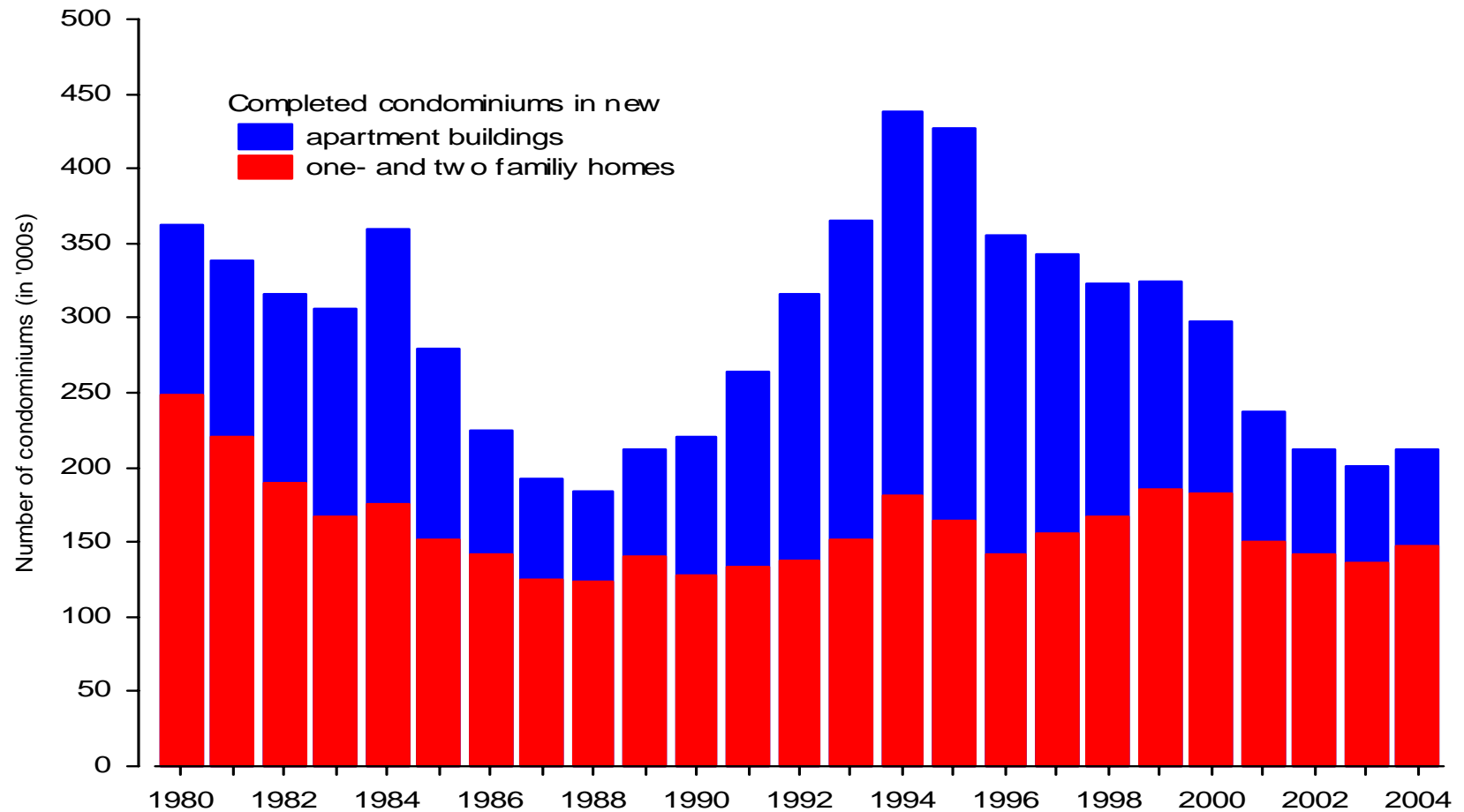
Housing Market: Development Of Prices For Condominiums ¹⁾



1) In Western Germany, the figures relate to 62 cities, in Eastern Germany to 13 cities.

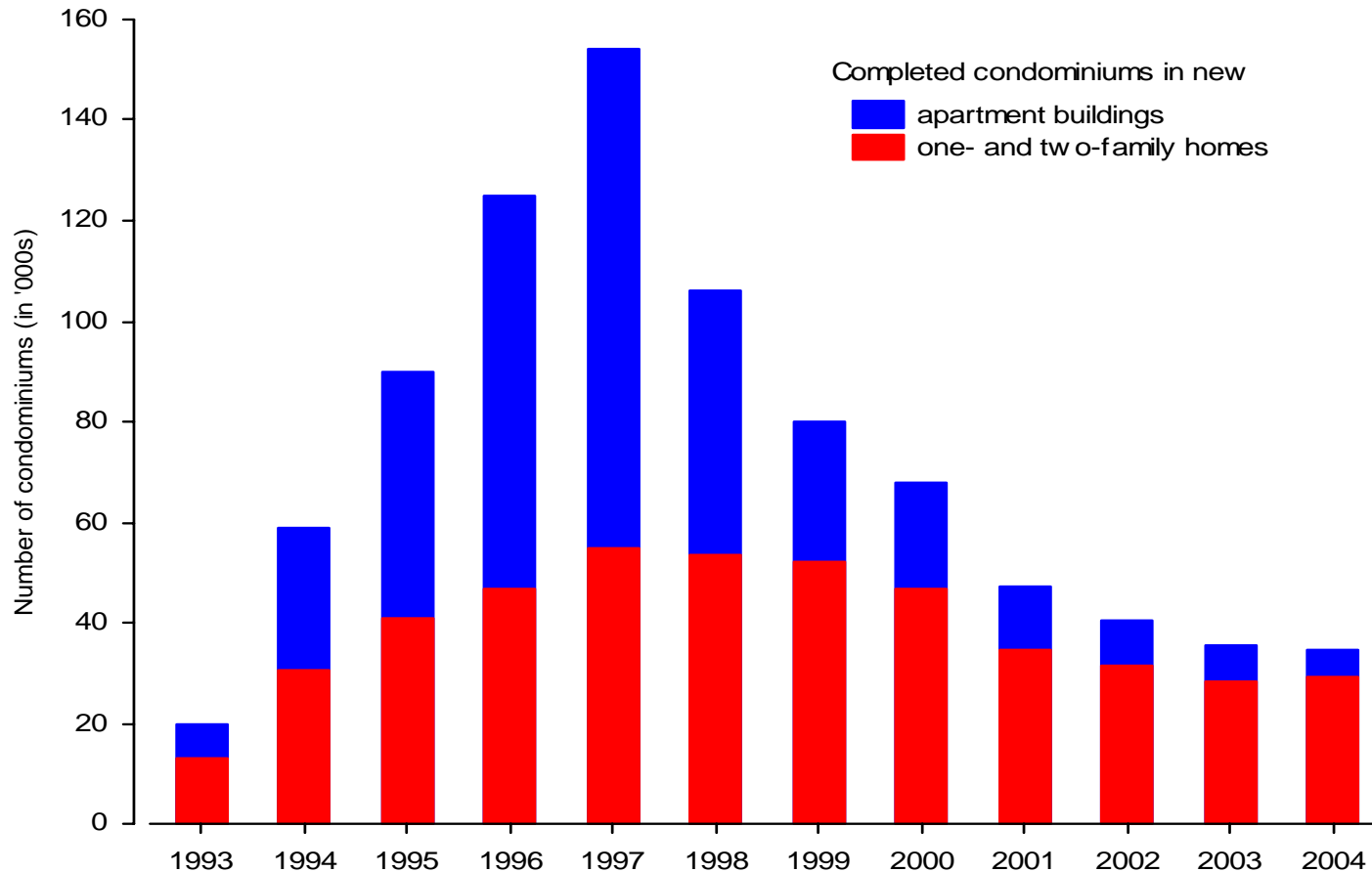
Source: HVB Expertise

Housing Market: Construction Activity in Western Germany



Source: Statistisches Bundesamt

Housing Market: Construction Activity in Eastern Germany



Source: Statistisches Bundesamt

Housing Market: Increased Investment Activity

Some Examples

2004

- Gagfah real estate stock (owner BfA) with 82,000 apartment units bought by Fortress;
- GSW real estate stock (owner state of Berlin) with 65,000 apartment units bought by Cerberus/Goldman Sachs
- ...

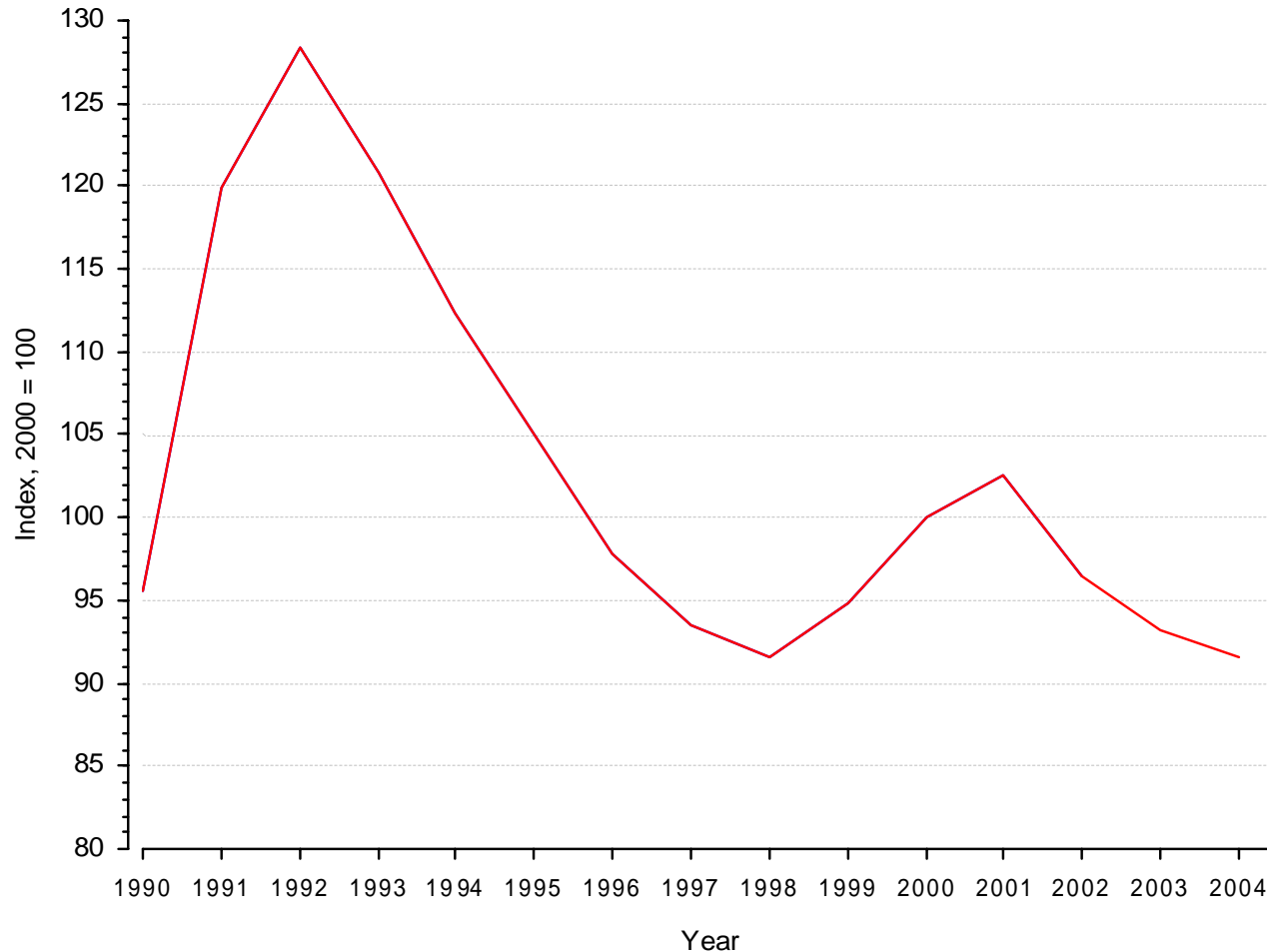
2005

- Viterra real estate stock with over 150,000 apartment units; currently being sold

Office Market

**... Overshadowed by the Weak Overall
Economic Development**

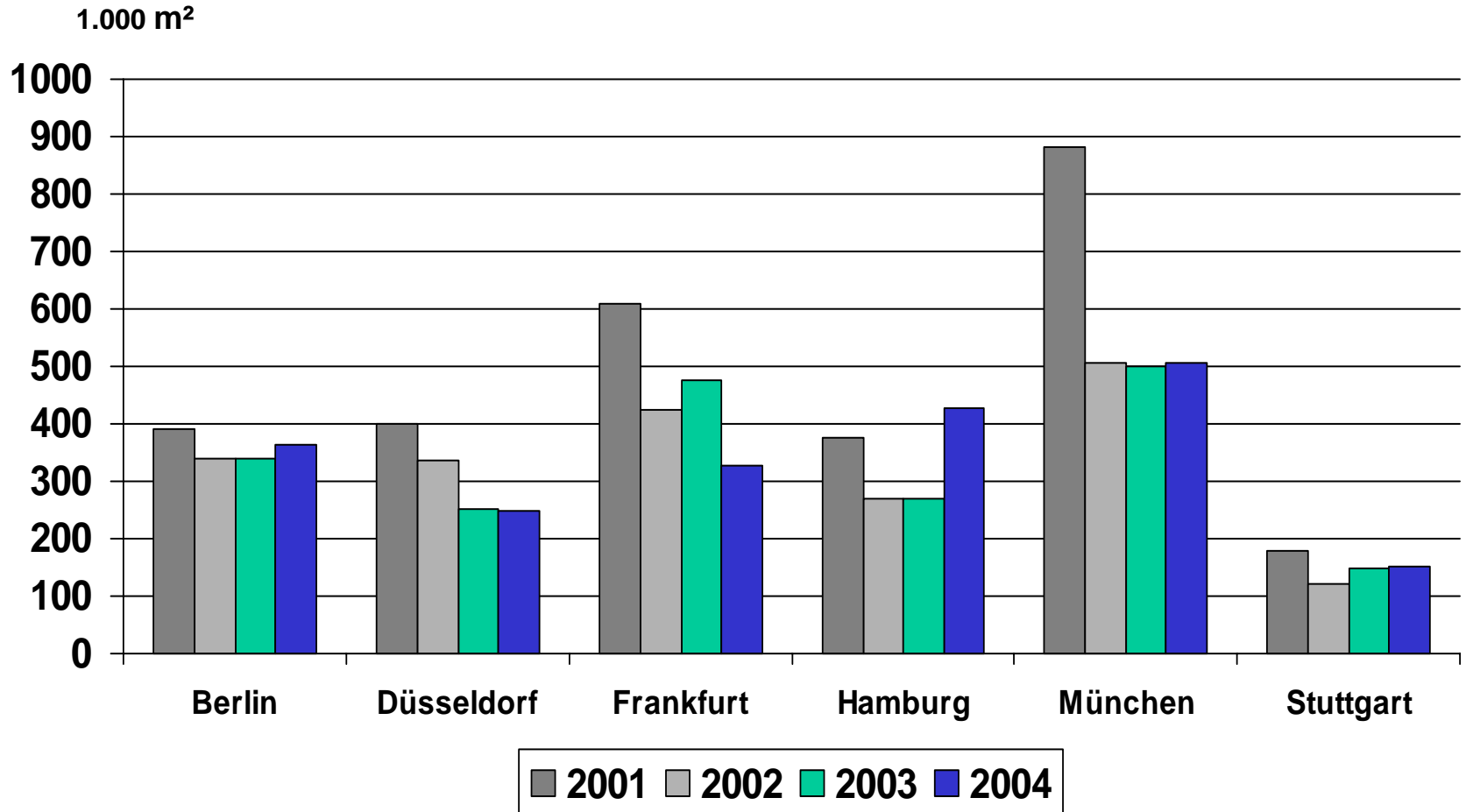
Office Market: Office Rents in Germany 1)



1) Rental payments for new office space with good fitout in 78 cities

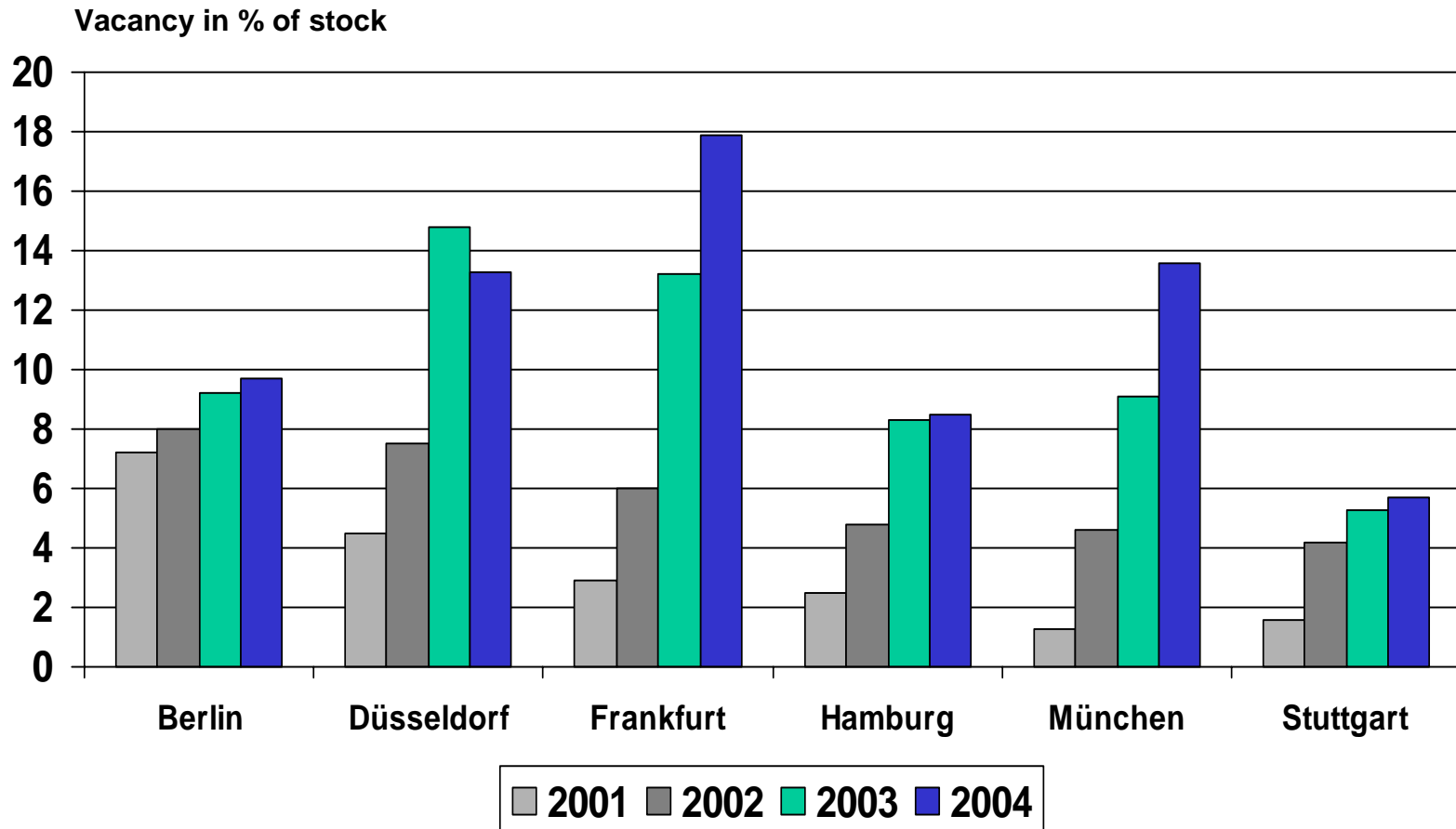
Source: HVB Expertise

Office Market: Letting Take-up in Selected Cities



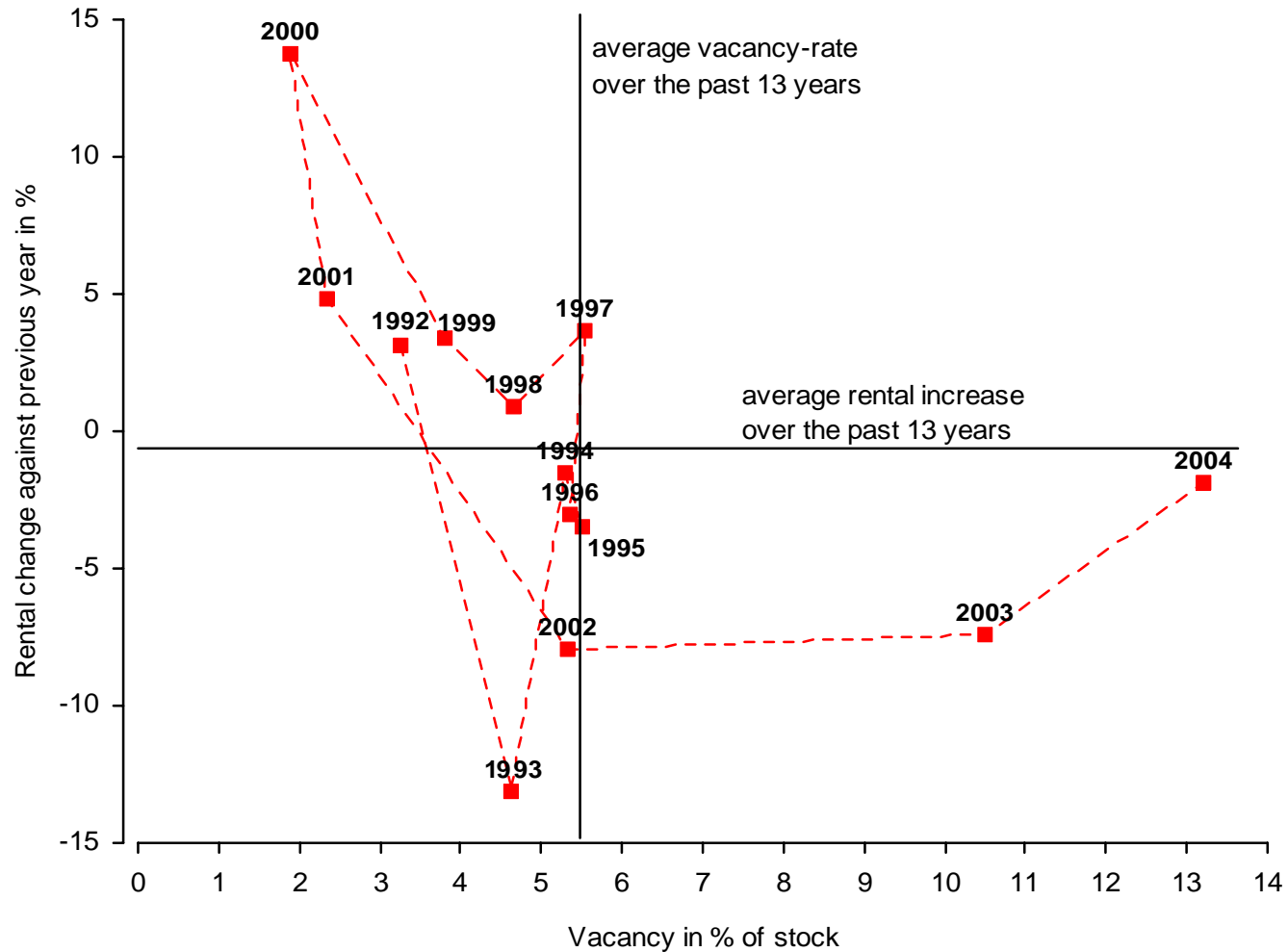
Source: HVB Expertise

Office Market: Vacancy Rate in Selected Cities



Source: HVB Expertise

Office Market: Rental Development and Vacancy in Selected Cities



Source: HVB Expertise

Perspectives

Housing Market

- In 2005, housing prices as well as new rental agreements will remain largely unchanged. Currently, there are no signs of a trend reversal.
- There are regional discrepancies regarding changes to rents and price changes. In economically stronger regions, new rental agreements will increase slightly; house prices might rise as well.
- Due to an unfavourable demographic development in Germany in the long run, expectations regarding the future of the housing market are rather pessimistic. Sometimes such a pessimistic view is self-enforcing. Making everything sound worse, even given the apparent problems, is therefore not appropriate.
- Construction activity is at a very low level and consequently already takes account of the demographic outlook. In view of the future housing demand, construction activity is rather low than too high.

Office Market

- Confronted with a very weak economic development, negative forces have dominated the German office markets.
- As a rapid economic upturn cannot be expected for the next few years, the current constellation will change only marginally. The oversupply of office space which is marketable without delay should therefore continue to increase in 2005; vacancies will decrease gradually not before 2006.
- The high level of office vacancies - for Germany - keeps up pressure on new rental payments. Since the unfavourable supply-demand situation is already largely reflected in the present rents and prices, future rent and price changes will be minimal compared with previous years.

However, rents will continue to differentiate further according to location and quality. Moreover, incentives granted by the owners play a significant role in the negotiation of lease agreements.

Structural Market Changes

- Against the background of the internationalisation of markets and global overheating trends, international investors are increasingly focusing on the German property market. The consequences are:
 - Efficiency gains through more competition (e.g. in the framework of the purchase of entire housing societies)
 - Transparency gains in connection with large corporate and portfolio transactions.
- Institutional changes in the financial market place Germany
 - It can be expected that closed-end and open-end real estate funds as investment vehicles will be supplemented by Real Estate Investment Trusts (REITs). This will equally lead to more transparency and professionalism.
 - Basel II: Over the next few years, financial institutions will more and more turn to Mark-To-Market valuations. Also the application of market and property rating systems will increase.