

GREEN BUILDING INVESTMENT MARKET

MARKET FOCUS 2024

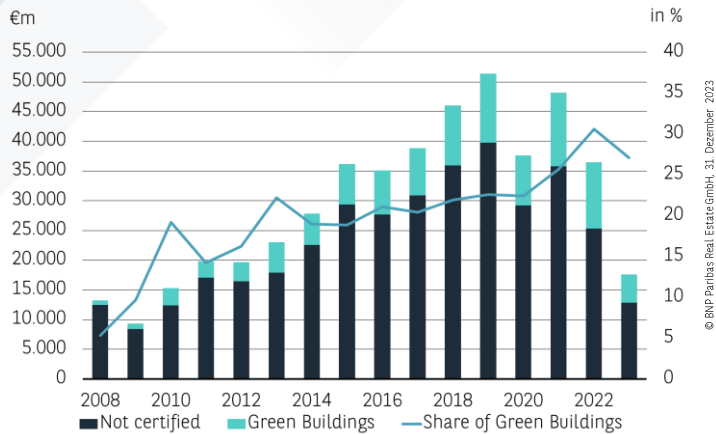


GREEN BUILDING INVESTMENTS CONTINUE STRONG PERFORMANCE

- The share of certified green buildings in Germany's commercial real estate investment market (excl. portfolios) remains quite high, even in a challenging market environment. The segment accounted for around 27% in 2023 after posting an outstanding 31% in 2022. This is the second-best result in the past 10 years and highlights the significance of green investments.
- Although the green building investment market was unable to escape the general downward trend with €4.7bn in transaction volume (-57% vs. 2022), it did prove relatively stable compared to the overall market. Given the extensive slowdown, particularly in the high-volume office segment (-87% for deals of €100m or more), which has always played a key role in green investment, a sharper decline would not have come as a surprise.
- Sustainability and ESG continue to be regarded as a moving target in parts of the real estate industry. For example, the taxonomy requirements and the PAI (principal adverse impact) criteria set forth in the EU Disclosure Regulation are ambiguous, and the latest CRREM update has turned many buildings that were making good progress along the path to decarbonisation into candidates for stranded assets. There are still not enough clear criteria that define what sustainable investment means.
- Green building certificates are among the few criteria that provide orientation. Investors appreciate the certainty and reliability that green investments offer, and their market share is correspondingly high.

INVESTORS FOCUS ON SUSTAINABILITY

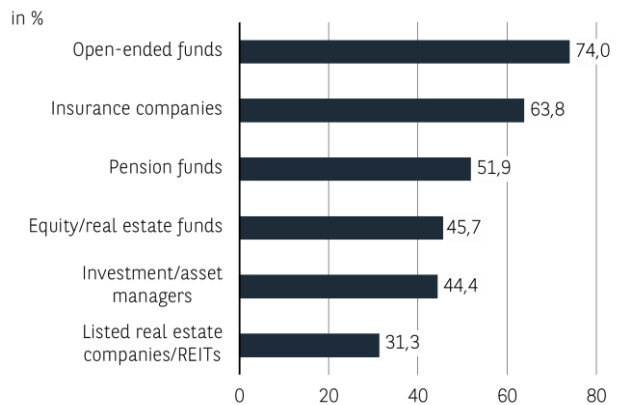
Transaction volume from single-asset deals and share of green buildings



- The transaction volume of properties with green building certification has dropped considerably over the past two years in the wake of the general downturn on the commercial real estate investment market.
- However, the market share of green investment in single-asset deals remained quite high at 27.1% after reaching a temporary peak of 30.6% in 2022.

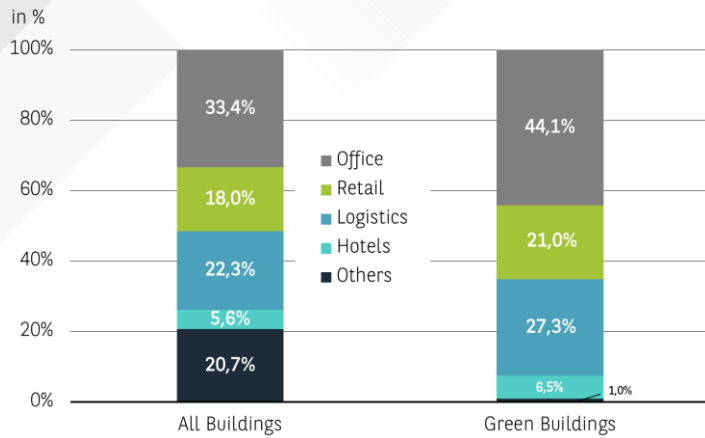
- In 2023, it was again institutional core investors who put most of their real estate investment capital in green buildings.
- The share in green investments generated by open-ended funds, insurance companies and pension funds came to well over 50% in some cases.
- In absolute terms, investment/asset managers poured roughly €930m into green buildings, followed by corporates (around €750m) and special funds (around €660m).

Share of green buildings in transaction volume by buyer group



OFFICE REMAINS DOMINANT ASSET CLASS

Commercial transaction volume by use: all buildings vs. green buildings (single-asset deals only)

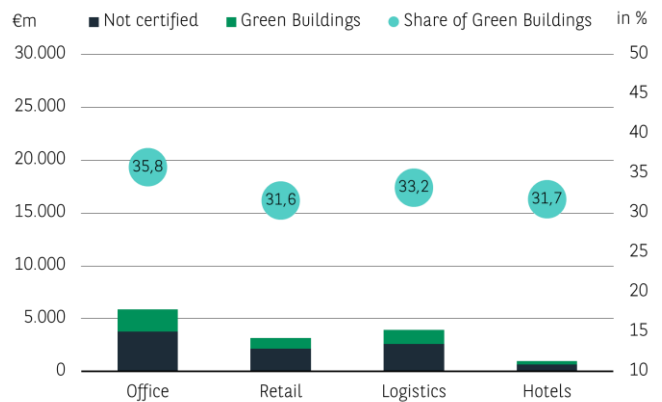


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- The ongoing dominance of office assets in Germany's investment market came to a halt in 2023. In terms of portfolio and single-asset deals, logistics, office and retail were almost on par, with market shares between 24% and 26%. Office (33.4%) only manages to heavily outperform logistics (22.3%) when it came to single-asset deals.
- Office (44%) continued to lead the pack around green investments, although logistics (27%) and retail (21%) did post new record highs in 2023.

- The importance of certification is growing across all asset classes. Green buildings accounted for more than 30% of transaction volume across all four main usage types for the first time in 2023.
- The office segment proved a temporary exception to this trend, with the share of green investment down from 46% to 36% in 2023 due to the lack of large core deals in the CBDs of tier-1 cities.

Share of green buildings in transaction volume by use



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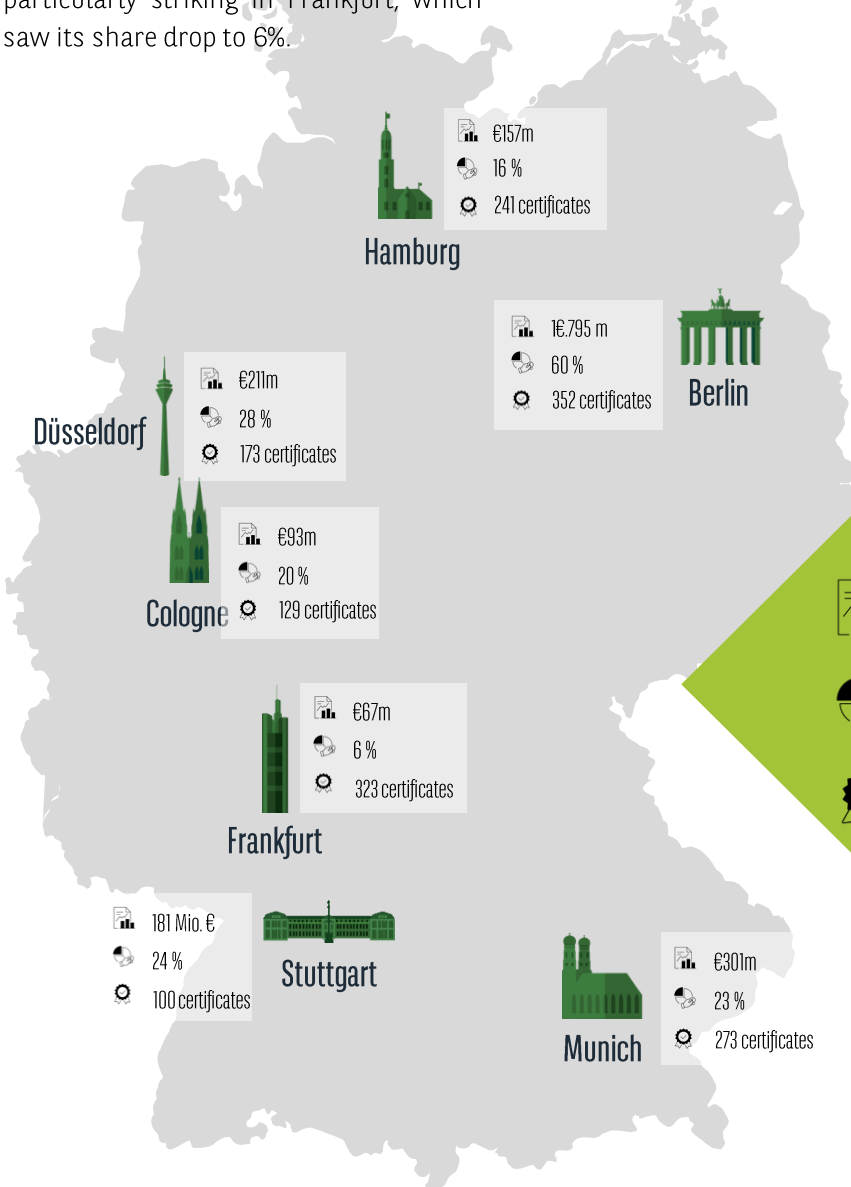
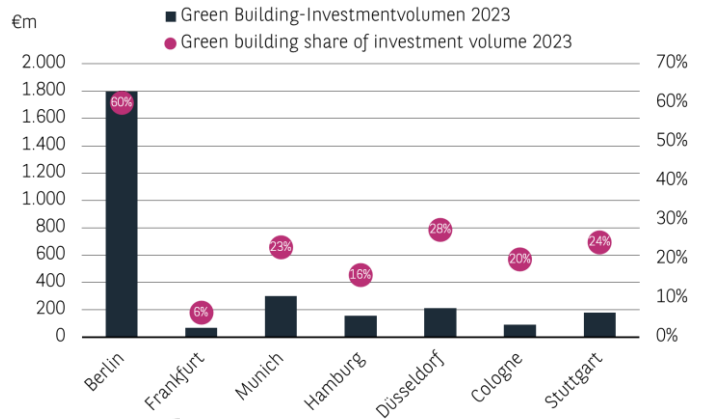


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TIER-2 LOCATIONS CATCH UP IN GREEN BUILDINGS MARKET

- While roughly 80% of capital poured into certified green buildings targeted assets in tier-1 cities in 2022, this number only came to 59% in 2023.
- Driven by high-volume deals (e.g. Beam and Mynd), the share of green buildings in total transaction volume in Berlin came to a strong 60%. Germany's other tier-1 cities posted a share far below their long-term average. The lack of high-volume (office) transactions was the key driver here. This trend was particularly striking in Frankfurt, which saw its share drop to 6%.

Green building investment market in tier-1 cities



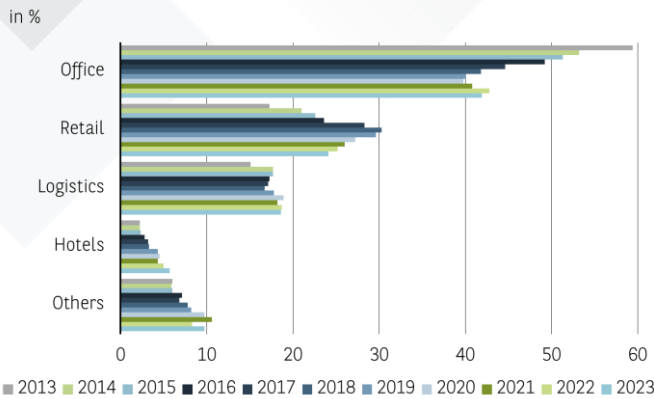
- Green building transaction volume 2023
- Share of green buildings in transaction volume 2023
- Total certificates (including certified in 2023)

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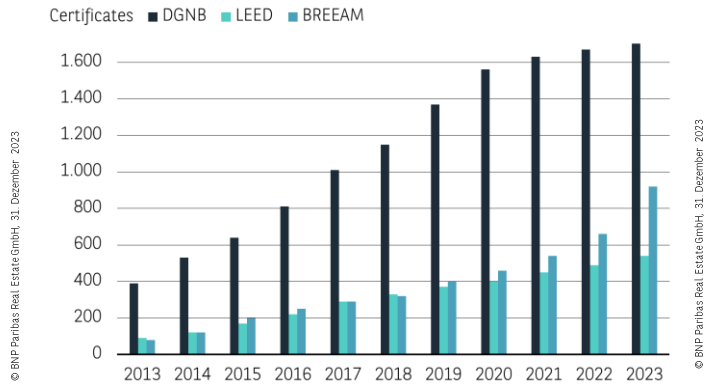
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TREND ONGOING: GREEN BUILDING CERTIFICATION ON THE RISE

Certificates: Green buildings by asset type as at year-end



Market share of certification systems



- The number of certifications continued to rise in 2023, with the number of certified buildings up almost 15% yoy to more than 3,200.
- There have been hardly any recent shifts in the distribution of certification among the most important usage types, with office (42%) coming in ahead of retail (24%) and logistics (19%). Worth noting is the sharp 29% increase in hotel certification with the current market share at 6%.
- DGNB (1,760) remains the market leader in green building certification, followed by BREEAM (920) and LEED (540). BREEAM has been able to further distinguish itself from LEED by offering certification for stock properties.

New Work Harbour (former Unilever building)

- The New Work Harbour landmark building in Hamburg's HafenCity received numerous architecture and sustainability awards upon completion in 2009.
- In addition to featuring many details of modern sustainable architecture, such as the absence of complex technical solutions, the New Work Harbour is an impressive building that houses a number of open (and public) communal areas such as the atrium and workspaces



Fotoquelle: BNPPRE



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OUTLOOK

While the EU taxonomy and similar regulations originally primarily affected companies in the real estate sector looking to launch funds on the capital markets, they are now affecting more and more market participants, which are being confronted with taxonomy requirements from different areas. Banks, for example, are increasingly taking taxonomy criteria into account, which makes these criteria relevant to (re-)financing deals. The CSRD (Corporate Sustainability Reporting Directive) has made taxonomy-based sustainability reporting mandatory for an increasing number of companies. Accordingly, compliance with sustainability and taxonomy requirements is becoming more and more important across the board, and the companies that use real estate (tenants and leaseholders) now also need to take taxonomy criteria into account in their corporate strategies. Large international corporates in particular are currently in the process of defining lease criteria that exceed the energy and climate targets of some asset managers. Portfolio owners are likely to be confronted with more than just growing tenant ESG requirements, however, as embodied carbon (grey energy) and biodiversity will also play a role in sustainable finance regulation in the foreseeable future. The EU emissions certificate trading system will also replace the German carbon tax. In addition, the EPBD (EU Energy Performance of Buildings Directive) now specifies that the primary energy consumption of buildings must be reduced by 16% by 2030 and by 20% to 22% by 2035. Actively addressing these issues will remain a key strategy going forward.

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