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52.6 bn € turnover: Explosive final spurt

The 2016 investment year ended with an explosive final quarter. By themselves, the last three months of the year accounted for close to 19.6 bn € – the second-best quarterly result ever. The transaction volume for the year as a whole was just under 52.6 bn €, the third-best performance of all time.

Office properties generate biggest share of turnover

▸ With a volume just over 23 bn €, office buildings headed the asset-class ranking, with single deals accounting for around 75 % of the turnover total.

▸ Retail properties took second place with 12.96 m €. That represented a decline of 30 %, but in view of the major portfolio deals registered in 2015 this was hardly surprising.

▸ The impressive surge in hotel investments has continued, triggering a new record with a transaction volume of 5.18 bn €.

▸ Completing the leading quartet were logistics complexes with turnover of close to 4.44 bn €; that fell just 5 % short of the prior-year record.

Size structure unchanged

▸ Altogether, around 1,700 transactions with single assets and just over 120 portfolio sales were registered.

▸ The distribution of the investment volume across the different size classes was similar to that seen the year before: Sales upwards of 100 m € again headed the list quite clearly, with 46 %, but in absolute terms generated 16 % less turnover. The three classes from 10 to 100 m € produced a relatively balanced spread, with shares of between around 14 % and 18 %.

▸ In the course of the year, foreign investors steadily increased their contribution to the total, giving them a final share of 43 %.

Yield compression has continued

▸ In the office segment, the buoyant scale of investor interest coupled with restricted asset availability led to an average fall in yields of nearly 55 basis points.

▸ The yields for retail/office buildings in the highest-footfall stretches of the major shopping streets have also eased, by an average of almost 25 basis points.

▸ After really plummeting in 2015, yields for logistics complexes in 2016 exhibited a somewhat slower development.
The transactions covered by BNP Paribas Real Estate in this survey and the resultant total transaction volume do not represent the entire commercial investment market. The survey takes into account only those investments on which BNP Paribas Real Estate has assured information and which involve "professional players", in the widest sense of this term. Since the investment market is highly sensitive, with deals often being kept confidential, the possibility cannot be excluded that some transactions were not revealed and are therefore not included in this survey. In view of all this, the transaction volumes depicted here generally deviate from those shown in the data of the relevant officially appointed expert committees. The differences vary between individual cities. There are several reasons for this:

- The committees differ widely in the way they assign transactions to market segments and also in the depth of their analyses. Some operate only with catch-all terms such as “commercial property”, others go into far more detail. In individual cases, the surveys are of a quite general nature.
- The data compiled by these committees cover all transactions. These include “internal transactions”, for instance between companies belonging to the same business group. And these surveys also contain many small deals between private persons, such as people with adjacent sites.
- Even the use of professional research methods cannot prevent the proportion of transactions surveyed by BNP Paribas Real Estate from varying between cities or between one year and the next. Whether or not the necessary information is available always depends on the market players involved and on the wider general situation. Often, confidentiality is a contractual condition for a sale.
52.6 bn € TURNOVER: EXPLOSIVE FINAL SPURT

The 2016 investment year ended with an explosive final quarter. By themselves, the last three months accounted for turnover of close to 19.6 bn € – the second-best quarterly result ever. That took the transaction volume for the year as a whole to just under 52.6 bn €, corresponding to the third-best performance of all time. Passing the 50 bn € mark once again, the result was only just 6.5 % below the exceptional prior-year figure. The strong interest shown by market players – which has actually tended to increase – is also impressively underlined by the fact that many investors were held back by a sometimes inadequate level of supply. The perceptible fall in yields during 2016 was also unable to impact on the scale of demand. German investors continued to account for the lion’s share of the transaction volume, with 57 %. But in the course of the year, market participants from abroad steadily increased their contribution to the result, giving them a final 43 %.

OFFICE BUILDINGS GENERATE BIGGEST SHARE OF TURNOVER

With just over 23 bn €, office buildings again headed the asset-class ranking in 2016, contributing 44 % to aggregate commercial real estate turnover. The volume was only just over 2 % down on the year before, something due entirely to an insufficient scale of supply. Single deals accounted for around 75 % of all investment, equivalent to 17.23 bn € – just 5 % less than in the previous year. The number of major deals in the triple-digit million range fell from 37 (2015) to 26. Nevertheless, there were numerous out-of-the-ordinary transactions. Package deals generated slightly over 5.79 bn €, an increase of 5 %.

In second place came retail properties with 25 %. At 12.96 m €, turnover in this field was 30 % lower than before, but in view of the huge portfolio deals registered in 2015, such as Kaufhof and Corio, that was hardly surprising. It was still a very good performance, highlighted by the fact that it was the second-best result of the past five years.
and exceeded the ten-year average by 30 %. The decline in single-deal turnover was relatively moderate, at 7 %, while the package-deal contribution fell by close to 53 %.

The hotel investment market has continued its impressive upward trajectory. For the first time ever, the transaction volume passed the 5 bn € threshold and set a new record with 5.18 bn €; this was also the seventh turnover increase in succession. Single deals generated almost 3.1 bn €, another new high, while market activity in the field of portfolios was also distinctly dynamic, with a total for the year as a whole of over 2.1 bn €, more than ever before.

Completing the leading asset-class quartet were logistics complexes, which contributed slightly more than 8 % to turnover. At just under 4.44 bn €, this was the second-best result ever, and only just 5 % below the record set the year before. It exceeded the long-term average by two-thirds. Single deals actually generated a new high, with 2.61 bn €, equivalent to a year-on-year increase of nearly 6 %. The volume of package sales, on the other hand, fell by around 16 %, due primarily to inadequate supply.

OVERVIEW OF INVESTMENTS IN COMMERCIAL PROPERTIES

<table>
<thead>
<tr>
<th>Type of property</th>
<th>Single investments</th>
<th>Portfolios</th>
<th>Total</th>
<th>Proportion</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2015 (million €)</td>
<td>2016 (million €)</td>
<td>2015 (million €)</td>
<td>2016 (million €)</td>
</tr>
<tr>
<td>Office</td>
<td>18,090</td>
<td>17,233</td>
<td>5,515</td>
<td>5,794</td>
</tr>
<tr>
<td>Retail</td>
<td>9,112</td>
<td>8,500</td>
<td>9,420</td>
<td>4,460</td>
</tr>
<tr>
<td>Logistics</td>
<td>2,473</td>
<td>2,611</td>
<td>2,176</td>
<td>1,825</td>
</tr>
<tr>
<td>Hotel</td>
<td>2,604</td>
<td>3,050</td>
<td>1,781</td>
<td>2,131</td>
</tr>
<tr>
<td>Others</td>
<td>3,931</td>
<td>3,682</td>
<td>1,162</td>
<td>3,298</td>
</tr>
<tr>
<td>Total</td>
<td>36,210</td>
<td>35,075</td>
<td>20,054</td>
<td>17,508</td>
</tr>
</tbody>
</table>

> ONLY SLIGHT SHIFTS IN INVESTOR STRUCTURE

The pattern presented by the investors active in Germany reveals only slight shifts. There is an ongoing broad spectrum of buyers exhibiting great interest in Germany as a business location and deploying substantial amounts of capital. Especially notable is the fact that these market participants represent risk profiles and investment strategies that in some cases differ widely from one another. This is an indication of the high regard shown by investors for Germany’s fundamentals. For many players, particularly those from abroad, having assets in this country is currently considered almost an obligation. In all, three investor categories produced double-digit percentage shares of turnover. In first place, just like last year, came special-purpose funds, contributing nearly 20 % to the result. Such funds are frequently used as vehicles by institutional investors deploying capital indirectly in order to raise the property proportion of their portfolios. Something similar applies to investment managers, who secured second place in 2016 with 15 %, thus relegating the prior-year No. 2, equity/real estate funds, into third place, just marginally behind with 14.5 %. They are traditionally especially active in the portfolio segment. Other sizeable shares were generated by listed real estate companies / REITs (10 %), pension funds (9 %) and property developers (7 %).
SIZE STRUCTURE UNCHANGED

The distribution of the transaction volume across the different size classes was virtually identical to that seen the year before. Sales upwards of 100 m € once again headed the list quite easily, but at 46 %, their share was 5 percentage points down on the prior-year figure, while their absolute volume shrunk by 16 %. The three size brackets between 10 and 100 m € exhibited a comparatively even spread of investment, with shares ranging from just under 14 % (10-25 m €) to almost 18 % (50-100 m €). But even smaller assets of up to 10 m € made a substantial contribution to the total, with 7 % – an indication of the generally very buoyant scale of activity in all market segments.

FOREIGN INVESTORS GAIN SLIGHTLY LOWER SHARE

After the exceptional performance by buyers from abroad in 2015, when they lifted their share of turnover to 50 %, their contribution in 2016 was back closer to the long-term standard. With a share of 43 %, they were more or less on a par with the average level of the past five years. Altogether, they invested around 22.6 bn €. Bearing in mind the fact that the equity proportion is now appreciably higher than in the years immediately before the financial crisis, the great interest which foreign investors are still exhibiting in German real estate becomes strikingly evident. The biggest slice was contributed by European buyers, with 23 % of the total and thus in line with their customary level. The most active players were those from France (4.1 bn €), the United Kingdom (2.9 bn €) and Switzerland (1.2 bn €). Together, participants from these three countries were responsible for nearly 69 % of the relevant investment volume. In second place, as was to be expected, came North American investors, who accounted for...
Investment in the major German cities (Berlin, Cologne, Düsseldorf, Frankfurt, Hamburg, Munich) totalled 27.48 bn €, equivalent to a modest decline of 7 %. In the inter-city ranking, Frankfurt moved back into first place, with 6.69 bn € (+11 %). Just narrowly behind in second place came Munich, with 6.37 bn € (+6 %), corresponding to this city’s second-best turnover of all time. A substantial increase in investment was also registered by Hamburg, which posted a transaction volume of 4.74 bn € (+19 %) to gain fourth place nationwide. Due to a shortage of supply, investment in Berlin fell by more than one third on the 2015 total, to 5.44 bn €. Düsseldorf once again passed the 2 bn € threshold, with 2.35 bn € (-26 %). Cologne just failed to break through the magical 2 bn € mark again, but exceeded its ten-year average by a handsome 52 % with 1.9 bn € (-13 %).

Office buildings once again made the biggest contribution to aggregate turnover, with 64 % of the total; that was well above their long-term average. As usual, nearly three-quarters of the capital they deployed went into portfolio transactions. Asian buyers generated 3 % of the total, with the biggest turnover figures being registered by South Korea and Singapore. The capital injected by investors from the Middle East came to just under 1.2 bn €, equivalent to a share of around 2 %.

### OVERVIEW AND MARKET DATA OF THE BIG SIX
Investment in the major German cities (Berlin, Cologne, Düsseldorf, Frankfurt, Hamburg, Munich) totalled 27.48 bn €, equivalent to a modest decline of 7 %. In the inter-city ranking, Frankfurt moved back into first place, with 6.69 bn € (+11 %). Just narrowly behind in second place came Munich, with 6.37 bn € (+6 %), corresponding to this city’s second-best turnover of all time. A substantial increase in investment was also registered by Hamburg, which posted a transaction volume of 4.74 bn € (+19 %) to gain fourth place nationwide. Due to a shortage of supply, investment in Berlin fell by more than one third on the 2015 total, to 5.44 bn €. Düsseldorf once again passed the 2 bn € threshold, with 2.35 bn € (-26 %). Cologne just failed to break through the magical 2 bn € mark again, but exceeded its ten-year average by a handsome 52 % with 1.9 bn € (-13 %).

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retail properties, with a share of close to 14 %, this, though, represented a year-on-year fall of about 4 percentage points – something due primarily to a shortage of supply. Hotels defended their bronze ranking of the year before, accounting for 10 % of the result and thus impressively confirming the upward trend they have exhibited in the past few years. In view of the robust scale of user demand, it is hardly surprising that property developers should become more active again – and accordingly, development sites generated 4.5 % of aggregate turnover. These thus finished in front of logistics complexes, whose share, at just under 4 %, was more or less in line with the prior-year figure.

With a combined volume of just on 10.3 bn €, deals in the triple-digit million range generated somewhat less than in 2015, but all the same they gained a clear-cut first place with over 37 %. Then, almost equal, came the size classes 25-50 m € (21 %) and 50-100 m € (20 %). Smaller transactions of up to 25 m € together also accounted for around 21 %. Overall, therefore – just as in the previous year – it is appropriate to speak of very balanced market activity, impressively highlighting the broad and stable basis of demand.
The two investor groupings which had led the field in 2015 were able to defend their positions. Equity/real estate funds secured the top slot with nearly 18% of turnover. The silver medal went once again to special-purpose funds, which stepped up their contribution slightly year-on-year, to 15.5%. Investment managers moved up into third place, very close behind with just over 14%. A double-digit slice was also generated by pension funds (just under 13%). Other substantial roles were played by property developers (8%), and private investors, listed real estate companies/REITs and insurances, each with around 5%. All the remaining categories made smaller contributions to the total.

**YIELD COMPRESSION HAS CONTINUED**

After already falling appreciably in the course of the year, prime yields continued to ease somewhat in some cases in the final quarter. Developments were as follows:

In the office segment, the strong scale of investor interest coupled with restricted asset availability has prompted a further fall in yields. In the past twelve months, prime yields in the major cities have eased by an average of nearly 55 basis points. The dynamic development was particularly evident in Berlin, with the result that the German capital and Munich now both exhibit the lowest prime yield, with 3.30%. Close behind comes Hamburg, with 3.40%. Then, after a slightly bigger gap, comes Frankfurt in fourth place with 3.80%. Yields in the two Rhineland metropolises of Cologne and Düsseldorf have now also slipped below the 4% mark, falling in each city to 3.85%.

Berlin has also moved further towards the top of the list in regard to the yield for retail/office buildings in the highest-foothold parts of the major shopping streets. With a prime yield of 3.30%, the country's capital is now just marginally
behind Munich, which remains the most expensive location with 3.25 %. In third place comes Hamburg with 3.40 %. Then, all equal, come the other key cities – Frankfurt, Düsseldorf and Cologne – where the prime yield noted at the end of 2016 stood at 3.60 %. It should be borne in mind, though, that particularly in this asset class, prices can in certain circumstances go even higher than those indicated by the stated net prime yields. The prime yields for shopping centres have also eased slightly, by a further 10 basis points year-on-year, to reach the 4.00 % mark. The prime yield for specialist retail centres is now 5.00 %. Stand-alone discount stores and supermarkets are traded at a top yield of up to 5.50 %.

After really plummeting in 2015, the yields for logistics complexes in 2016 exhibited a somewhat slower development. On average across the major locations, top yields fell year-on-year by about 15 basis points. Munich remains the most expensive logistics centre, with 5.05 %. Then, all equal with 5.10 %, come four of the other chief markets, Cologne, Düsseldorf, Frankfurt and Hamburg. Only Berlin, with 5.20 %, is somewhat more favourably priced.

**OUTLOOK FOR THE INVESTMENT MARKETS**

From today’s angle – in spite of some geopolitical factors whose possible impact is difficult to assess – all the signs point to another very strong investment year. Investor interest is undiminished, and in view of the considerable number of deals already close to conclusion, the first quarter is likely to be one of the best in the past ten years. The possibility of a rise in bank interest rates in the USA is unlikely to have perceptible repercussions in 2017. This applies in particular to the core segment, in which leverage effects play only a relatively small role. In this especially favoured submarket, investors place their emphasis chiefly on asset security. The many uncertainties in the global context will actually tend to reinforce this tendency, because international players above all appreciate Germany as a safe haven. So in the most probable scenario, we are assuming that yields will continue to ease in some cases. Where the transaction volume is concerned, the 50 bn € level will remain the target – one which it should actually prove possible to meet and exceed despite the ongoing shortage in the availability of large-unit assets. One reason for this estimation is that the strong demand and current price levels will increasingly also prompt portfolio-holders to consider selling. Another factor is that the very positive environment has led to growth in the volume of planned projects, and this – together with the increasing readiness of investors to accept forward deals – should also trigger a rise in the volume of sales.
## KEY INVESTMENT MARKET INDICATORS IN THE BIG SIX

<table>
<thead>
<tr>
<th></th>
<th>Berlin</th>
<th>Cologne</th>
<th>Düsseldorf</th>
<th>Frankfurt</th>
<th>Hamburg</th>
<th>Munich</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2015</td>
<td>2016</td>
<td>15/16</td>
<td>2015</td>
<td>2016</td>
<td>15/16</td>
</tr>
<tr>
<td>Total (million €)</td>
<td>8,283</td>
<td>5,436</td>
<td>-34.4</td>
<td>2,180</td>
<td>1,897</td>
<td>-13.0</td>
</tr>
<tr>
<td>Proportion over 50 million € (%)</td>
<td>69.1</td>
<td>53.1</td>
<td>-23.1</td>
<td>64.7</td>
<td>63.2</td>
<td>-2.2</td>
</tr>
<tr>
<td>Office proportion (%)</td>
<td>53.7</td>
<td>43.7</td>
<td>-18.6</td>
<td>50.9</td>
<td>74.1</td>
<td>45.7</td>
</tr>
<tr>
<td>Proportion City Centre (%)</td>
<td>35.1</td>
<td>18.5</td>
<td>-47.2</td>
<td>59.0</td>
<td>63.1</td>
<td>6.9</td>
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<tr>
<td>Proportion foreign sellers (%)</td>
<td>36.8</td>
<td>41.0</td>
<td>11.4</td>
<td>35.9</td>
<td>15.0</td>
<td>-58.2</td>
</tr>
<tr>
<td>Proportion foreign buyers (%)</td>
<td>51.2</td>
<td>51.9</td>
<td>1.4</td>
<td>48.7</td>
<td>30.8</td>
<td>-36.9</td>
</tr>
<tr>
<td>Net prime yield office (%)</td>
<td>4.00</td>
<td>3.30</td>
<td>-17.5</td>
<td>4.45</td>
<td>3.85</td>
<td>-13.5</td>
</tr>
<tr>
<td>Office multiplier*</td>
<td>21.0–28.0</td>
<td>19.0–23.5</td>
<td>19.5–23.5</td>
<td>20.5–25.0</td>
<td>20.5–25.5</td>
<td>24.5–30.0</td>
</tr>
<tr>
<td>Centre Fringe</td>
<td>17.5–21.5</td>
<td>16.0–19.0</td>
<td>16.0–20.5</td>
<td>17.0–21.5</td>
<td>16.5–23.0</td>
<td>22.5–26.5</td>
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<tr>
<td>Periphery</td>
<td>14.5–18.5</td>
<td>14.0–16.0</td>
<td>14.0–17.0</td>
<td>14.0–18.5</td>
<td>14.0–18.5</td>
<td>17.5–20.5</td>
</tr>
<tr>
<td>Retail/office multiplier*</td>
<td>23.0–30.0</td>
<td>23.0–28.0</td>
<td>23.0–28.0</td>
<td>23.0–29.0</td>
<td>23.0–29.5</td>
<td>24.0–31.0</td>
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<tr>
<td>City Centre**</td>
<td>16.0–19.0</td>
<td>15.0–18.0</td>
<td>15.0–18.0</td>
<td>15.0–18.0</td>
<td>16.0–19.0</td>
<td>16.5–20.5</td>
</tr>
<tr>
<td>District Centre</td>
<td>13.0–18.5</td>
<td>14.0–19.0</td>
<td>14.0–19.0</td>
<td>14.0–19.0</td>
<td>14.0–19.0</td>
<td>14.0–19.0</td>
</tr>
<tr>
<td>Logistics multiplier*</td>
<td>13.0–18.5</td>
<td>14.0–19.0</td>
<td>14.0–19.0</td>
<td>14.0–19.0</td>
<td>14.0–19.0</td>
<td>14.0–19.0</td>
</tr>
</tbody>
</table>

* Gross multiplier = Selling price (without incidental costs) divided by the annual net rent

** In individual cases, these multipliers can sometimes be considerably higher as the result of special circumstances.
SUPPLY RESTRICTS INVESTMENT TURNOVER

With a volume of just over 5.4 bn €, the Berlin investment market admittedly fell short of its prior-year record by around one third but still registered the third-best result in its history. One indication of the quality of this performance is that it exceeded the ten-year average by nearly one third. So the year-on-year decline in volume is definitely not a sign of any slackening of investor interest; instead it is because the availability of assets – especially in the large-unit core segment – is so limited that it is far from being able to meet the still exceptionally buoyant demand. This development is reflected in the nationwide inter-city ranking: whereas last year the German capital took top place by a large margin, this year it has not only had to cede the lead to Frankfurt but has also fallen behind Munich.

DEALS ON AVERAGE SMALLER THAN IN 2015

Overall, investment activity in 2016 comprised somewhat smaller deals than the previous year, something reflected in the average volume per sale. Whereas in 2015 – fuelled by the sale of the Potsdamer Platz ensemble – the average figure was 40 m €, in 2016 it was around 29 m € and thus closer to the level familiar from the years before. And a look at the size-class distribution shows that the two largest categories, between 50 and 100 m € and upwards of 100 m €, each attracted only about one half of the prior-year investment volume, thus confirming the tight supply situation. These two size brackets gained shares of 19 % (-5 percentage points) and 34 % (-11 percentage points) respectively. But the volume posted by the third-biggest size class, of between 25 and 50 m €, was also around one quarter lower than in 2015 (share: 19 %). On the other hand, the 10-25 m € category registered considerably more investment (+44 %) and thus gained a share of 23 %.

EQUITY/REAL ESTATE FUNDS AGAIN HEAD FIELD

On the demand side, first place was taken by equity/real estate funds with 23 % of the total. Next, more or less equal with about 14 % each, came listed real estate companies/REITs and investment managers, which act on behalf of various investor groupings like pension funds and insurances. The remaining 49 % of the capital deployed came from a diverse spectrum of buyers, such as private investors, developers and special-purpose funds, something that underlines the breadth of demand. Foreign investors accounted for about half of the aggregate volume.
EQUITY / REAL ESTATE FUNDS ALSO NO. 1 VENDOR

In 2016, equity/real estate funds also headed the ranking on the selling side, securing more than one quarter of total investment. This was derived less from single sales than from Berlin assets changing hands within the framework of extensive portfolio transactions. Other groupings responsible for substantial shares of sales included private individuals (14 %), investment managers (13 %), listed real estate companies/REITs (10 %) and property developers (9 %). The proportion of foreign vendors rose slightly compared with the prior year, to 41 %, but the absolute volume involved was actually lower than the year before.

OFFICES ARE INVESTORS’ DARLINGS

Office properties again formed the focus of interest, with around 44 %, but overall actually attracted only about half of the prior-year volume of investment. That was a more marked decline than in any other asset class, but as mentioned earlier, it was due to a shortage of supply rather than to any fall in demand. In the field of retail properties, too, a lack of available assets curbed the chance of a higher turnover. Here, the decline was around one third (share: 26 %). In contrast, hotel properties are currently enjoying a real boom and they accounted for some 13 % of the aggregate volume. Together with logistics complexes (3 %), they represented the only category securing somewhat more investment than the year before. Development sites attracted about 5 % of the total, while the remaining types of assets, including mixed-use real estate and nursing homes, together accounted for just over 9 %.

TURNOVER LOWER IN TOPCITY PRECINCT

In contrast to 2015, when the Topcity location accounted for around 35 % of aggregate investment – fuelled by the sale of the Potsdamer Platz ensemble – in 2016, it was responsible only around for 19 %. By long-term standards, too, that is a very low proportion and highlights the shortage of available assets particularly in the best parts of Berlin. The biggest slice of investment, around 37 %, went into the traditionally strong City Centre areas. Then came the Centre Fringe, with 24 %. But activity was also extremely buoyant in the subcentres, too, and they attracted an investment volume of well over 1 bn €, producing a share of around 21 % and thus a result that can also stand up well in any multi-year comparison. The subcentres also registered more deals than any other location.
OFFICE YIELDS PLUMMET

The way that net prime yields have developed clearly reflects the strong scale of demand coupled with an inadequate supply. The net initial yield for office properties, for instance, really took a nosedive in the course of the past twelve months, finishing the year at 3.30 %, all of 70 basis points down on the prior-year figure. So the yield in the German capital has fallen to the same level as that in Munich, with which it now shares the role of the country’s most expensive investment location – previously it had for years been considered as fairly favourably priced. This, too, is the result of the exceptional future that is forecast for Berlin, something much appreciated by investors. Prices for other types of property have also continued to rise. For example retail/office buildings in the best locations now achieve a net prime yield of 3.30 % (-35 basis points), but prices for such properties can in fact go higher in specific circumstances. In the field of logistics complexes, the yield has admittedly fallen by 20 basis points, but at 5.20 % it is still quite favourable when compared with the other major markets nationwide.

DEMAND IN 2017 SET TO REMAIN STRONG

In view of the positive forecasts regarding the economic development, the lively user markets and the anticipated course of rental prices, the Berlin investment market looks set to remain at the focus of investor demand in 2017. But since the investment volume depends significantly on the available supply, especially in the large-unit segment, it is impossible from today’s angle to make any reliable predictions. It can be taken for granted, though, that 2017 will be another very good investment year, with the 5-year average (over 5 bn €) likely to be exceeded. But whether the result can get back closer to the prior-year record (over 8 bn €) will be substantially determined by the scale of asset availability and of major transactions. The ongoing surplus of demand over supply means that a further slight decline in net prime yields cannot be excluded.
ANOTHER STRONG INVESTMENT TURNOVER

Even though it was not quite able to match the record set in 2015, the Cologne investment market turned in another extremely strong performance by achieving a transaction volume of 1.9 bn €, its second-best result of all time. The average volume per deal, at close to 26 m €, was slightly below the prior-year level but more than 7 m € above the long-term average. The momentum of investment picked up remarkably in the second half of the year, which by itself accounted for around 77 % of aggregate turnover. Compared with the year before, the single-deal proportion of investment rose by 6 percentage points to nearly 84 % – the highest figure among the Big Six cities. Among other things, the exceptionally good result was due to a number of large-volume investments of over 50 m €; together, these generated more than 63 % of the total.

MAJOR DEALS DOMINATE THE MARKET

Just like the previous year, the biggest proportion of the investment volume consisted of very large deals upwards of 100 m €, including above all the Zurich headquarters and the Cologne Technology Park. All the same, with just over 41 %, such deals generated a lower slice of the total than in 2015 (-12 percentage points). In contrast, the 50-100 m € bracket increased its share significantly (+11 percentage points) to take second place with nearly 22 %, fuelled, for instance, by the purchase of the Elmühle (a former mill) by the City of Cologne. A notable factor in 2016 was the balanced and stable distribution of investment between the other size classes, which together generated more than one third of all turnover, obtaining shares that remained more or less unchanged.

PENSION FUNDS TAKE OVER LEAD

The Cologne market attracts a wide spectrum of investor categories, but in 2016 three groupings stood out from the rest, together accounting for more than 51 % of the aggregate volume. The top slot was taken over by pension funds with 21 %, corresponding to an increase of more than 14 percentage points. The other members of the leading trio were investment/asset managers (just under 16 %) and insurances (close to 15 %). Four other types of buyers, each with slices of between 7 and 8 %, formed a solid midfield, underlining the healthy and diverse basis of demand. Only 31 % of all the capital deployed came from abroad – the lowest figure for any of the Big Six cities.
In the distribution of turnover among the different types of sellers in the Cologne investment market, property developers finished well ahead of the rest, generating almost one third of the total. That included the Strabag/ECE sale of the Zurich headquarters. Closed-end funds (over 17%) and corporates (about 15%) also took advantage of the favourable market situation. So together, these three categories accounted for nearly two-thirds of the sales volume. All the other groupings obtained just single-digit shares, with midfield positions being taken by special-purpose funds and private investors (each about 7%) and insurances (slightly over 6%). Foreign sellers gained just a very low proportion of the total (15%).

Office buildings regularly head the asset-class ranking of investment in Cologne, but the share they achieved in 2016 was quite exceptional, with 74%, while their volume was 27% above the prior-year result. This category accounted for seven of the ten biggest deals, all in the range upwards of 50 m €. Just like the year before, second place was taken by retail properties, but their share shrank by 22 percentage points and at 158 m €, their volume was only about one quarter of the prior-year figure – which put it only just ahead of the volume of investment in hotels. That rose year-on-year by about 30% to 147 m €, fuelled among other things by the Radisson Blu transaction within the framework of a sizeable portfolio deal, and by the sale of the Holiday Inn Express. Turnover in the field of development sites also increased, to 6% of the total, while logistics complexes played a somewhat subordinate role, with just over 2%.

Investor interest in assets in top locations is undiminished. Just as in previous years, City Centre areas formed the clear-cut focus of demand and their share of investment actually rose slightly compared with 2015, to 63%. The Centre Fringe was able to defend its prior-year second place by generating about one quarter of all turnover. The subcentres, on the other hand, registered a year-on-year decline, with a 45% fall in volume to 225 m €. As customary, the periphery made hardly any contribution to the result, with a share of only around 1%.
FURTHER FALL IN YIELDS
Something evident nationwide was also very obvious in Cologne: the strong demand for office buildings in top locations coupled with limited availability leads inevitably to higher prices. Accordingly, the yields for premium assets have fallen by 60 basis points in the past twelve months to 3.85 %, which for Cologne represents a new record low. The prime yield for retail/office properties in the best parts of the main shopping streets also continued to decline in 2016; it now stands at 3.60 %, on a par with the figures posted in Düsseldorf and Frankfurt. After falling very appreciably the year before, the decline in the prime yield for logistics complexes has now slowed down. At 5.10 %, it is just 15 basis points below the 2015 level and matches the average of the Big Six.

ONGOING STRONG DEMAND EXPECTED IN 2017
After extraordinarily successful performances in both 2015 and 2016, the overall business environment raises the expectation that 2017 will be another very good year. At the moment, there are no signs of any significant reduction in the lively scale of interest exhibited by domestic or international investors, especially in view of the fact that the German real estate market continues to represent a comparatively secure and interesting investment target. Under the assumption that the market will offer an adequate supply of assets, making some further large deals a feasible proposition, a very healthy aggregate result can be anticipated, with the possibility of a volume well above the long-term average. Whether this again gets close to the 2 bn € threshold is impossible to predict at present. The intense competition for favoured properties in the top locations could well trigger a renewed modest decline in prime yields in the various asset classes.
THIRD-BEST RESULT EVER

Even though the Düsseldorf investment market was unable to match its outstanding prior-year performance, it remains a strong focus of demand, with turnover of close to 2.35 bn €. The only times when commercial real estate in this city – capital of the federal state of Northrhine-Westphalia – attracted greater volumes of capital were the record year of 2015 and the boom year of 2006. The fact that the total fell more than one quarter short of the prior-year figure was not due to any significant decline in the number of registered deals but rather to the volume of portfolio sales included on a pro rata basis: whereas single deals accounted for a result similar to that noted in 2015, the portfolio volume was 58 % lower. There was also a marked fall in the average value of the registered transactions; this slipped to around 21 m €.

MANY DEALS IN THE DOUBLE-DIGIT MILLION RANGE

Unlike in previous years, when the category of major deals upwards of 100 m € was responsible for the biggest proportion of turnover, in 2016 it was the two mid-range size brackets between 10 and 50 m € which made the highest contribution to the total – together they accounted for nearly 57 %. This result was driven primarily by the 25-50 m € bracket, which generated more than one third of all investment, an increase of over 11 %, while deals of between 10 and 25 m € produced just under 23 %. Major transactions in the three-figure million range attracted more than one euro in every five, but that still represented a year-on-year turnover decline of 55 %. The second-largest category, 50-100 m €, also registered a smaller share than before, with just over 12 %, caused by a shortage of supply. Deals of up to 10 m € accounted for the remaining slice of about 9 %.

SPECIAL-PURPOSE FUNDS TAKE OVER LEAD

Special-purpose funds gained a clear-cut lead in the ranking of buyers’ groupings with one third of the aggregate transaction volume; this was fuelled by two of the four deals in the triple-digit million range. Other substantial contributions were made by equity/real estate funds (over 17 %) and investment/asset managers (16 %), which came second and third in the list. Also notable was the share of nearly 11 % generated by pension funds. All the remaining categories accounted only for single-digit slices, with property developers, private investors and insurances finishing close together with between 5 and 6 % each. The proportion of foreign investors fell to just under 39 %.
On the selling side, the ranking was headed by property developers; they finished well out in front with more than one fifth of all turnover. They benefited from the strong demand, selling their projects immediately after completion, or sometimes even beforehand. Some way behind, equal in second place with around 13 % each, came private investors and family offices. Other double-digit slices of the sales volume were secured by equity/real estate funds and listed real estate companies/REITs, each with 11 %. The other categories of market participants obtained far lower shares, with less than 10 %. Compared with the year before, the proportion of foreign vendors has shrunk considerably; it is now just under 24 %, which is around the average in the Big Six.

Office buildings attracted 53 % of all the capital invested, thus heading the asset-class ranking quite clearly; altogether, they accounted for over 1.2 bn €, which is a very good result well above the ten-year average. Hotels turned in a notable performance: they generated a total of 398 m €, their best result of all time; this meant that, with 17 %, of the total, they finished just ahead of the traditionally strong class of retail properties. These secured just over 16 %, with a turnover considerably lower than in 2015, when the result had, however, been boosted by several large-unit transactions such the Düsseldorf Arcades and the Sevens. Logistics complexes, on the other hand, were able to lift their turnover modestly, to give them a share of just over 6 %. Development sites were responsible for slightly less than 5 %.

With an average share of 42 %, the Centre Fringe zones have traditionally been the best-performing location in the Düsseldorf market area in the past ten years. And that is what they were once again in 2016, this time with 38 % of aggregate investment. The City Centre has also remained a favoured focus of investment, though, and it accounted for just under 31 % of all turnover. In a pleasing development, the subcentres were able to step up their volume by around 87 % to obtain a share of just over 19 % and they were also the scene of the biggest number of transactions. Peripheral districts generated slightly more than 12 %.
YIELDS AT NEW LOW
As was to be expected, the buoyant and broadly based extent of demand and the resultant competition for the premium assets available on the market led to a further decline in yields in all the asset classes in 2016. Yield compression was especially evident in the field of first-class office buildings: there, net prime yields have eased by 50 basis points to 3.85 % at present. In the already expensive segment of retail/office properties situated in the best parts of the pedestrian zones, prices have moved slightly higher, with the prime yield declining by 20 basis points in the course of the past year to 3.60 %.

It should be noted, though, that particularly in this asset class, distinctly higher prices can be obtained in specific circumstances. The prime yields for high-quality logistics complexes have fallen by 15 basis points to 5.10 %.

GOOD TURNOVER PROSPECTS FOR 2017
In 2016, the Düsseldorf investment market produced a highly satisfactory result, although this failed to match the record total of the year before. Fundamentally, the Northrhine-Westphalian capital, with its very smoothly functioning user markets, continues to be one of the most interesting German markets. What is especially notable is that the 2016 result was due primarily to broadly based investment activity in the mid-range segment. This highlights the sustained lively demand in the marketplace, which encountered an appropriate supply. Against this background, 2017 can also be expected to feature a very good investment market performance. Whether last year’s result can be achieved again, though, will depend in particular on adequate asset availability.
FRANKFURT: BACK IN THE TOP SLOT

With a transaction volume of over 6.69 bn €, Frankfurt not only exceeded its very good prior-year performance by 11 % but also regained the top slot in the inter-city ranking for the first time since 2011. Moreover, it registered its second-best result ever and bettered its ten-year average by two-thirds. Turnover was fuelled by several large deals, such as the sales of the Commerzbank Tower, the TaunusTurm, the IBC, the Adlerwerke, and Junghof Plaza. Overall, though, the result was boosted especially by buoyant investment activity in all segments of the market. Evidence of that is the fact that over 160 deals were registered, more than 10 % above the 2015 figure. On the other hand, the number of transactions in the triple-digit million range fell from 15 (2015) to 8. This shows quite clearly that banking centre Frankfurt is not just a favoured location for high-rise deals but that investors exhibit great confidence quite generally in the city and the market structures.

DEMAND IN ALL MARKET SEGMENTS

Although the number of sales in the three-figure million euro realm has fallen significantly, there were two deals with a volume of over half a billion euros, and these helped to give the category upwards of 100 m € first place in the size-class ranking once again, with a share of close to 48 %. But substantial contributions to aggregate investment were also made by the brackets 50-100 m € (22.5 %) and 25-50 m € (15 %). Both these classes also lifted their absolute turnover quite appreciably. The same is true of the class of smaller assets up to 10 m €, which accounted for just over 4 % and which in absolute terms attracted 77 % more investment than the year before.

THREE INVESTOR GROUPINGS ESPECIALLY ACTIVE

The spectrum of different types of investors was wide, but three groupings nevertheless stood out as major participants. The list was headed by insurance funds, which generated a 23 % share of all turnover. This reflects in particular the huge Commerzbank Tower and TaunusTurm sales. Close behind came equity/real estate funds (21 %). This was due above all to the sale to Blackstone of the Office-first portfolio, which comprised the Squaire and some other large properties in Frankfurt. In third place in the ranking came investment managers (16 %). With a share of just under 10 %, property developers were also very active market players. The proportion of foreign investors was 57 %, that matched the prior-year level and is well above the nationwide average.
**DIVERSITY OF VENDORS**

On the selling side, four categories took the foreground. In first place, with just over 19%, came property developers, profiting from the current market situation and the strong demand. Second place was secured by listed real estate companies/REITs, with over 17%, a result fuelled substantially by the sale of the Officefirst portfolio. In third place came equity/real estate funds, with a share of just under 15%. The leading quartet was completed by banks, whose performance was shaped primarily by the Commerzbank Tower deal. All the other categories of sellers achieved just single-digit percentage shares. At around 28%, the proportion of foreign players was considerably lower here than on the buying side.

**OFFICES GENERATE THREE-QUARTERS OF TOTAL**

In 2016, office properties once again emphasized their outstanding significance for the Frankfurt investment market. They were by far the most important asset class, with a turnover share of 76.5%, which is actually slightly higher than their long-term average (73%). Sharp growth was registered by hotels; these have continued undiminished their success story of the past few years to take second place with more than 10%, which puts them well ahead of the remaining forms of occupancy. Retail properties, a category that includes downtown retail/office buildings, had still been strongly represented in 2015, but in 2016 they only contributed just under 3% to the transaction volume. This was due mainly to a distinctly insufficient scale of supply. The share generated by logistics complexes was on a similar level, but they were able to expand their absolute volume somewhat. Next, in fifth place, came development sites, which attracted slightly less capital than the year before, with a share of just over 2%.

**SUBCENTRES WITH SLIGHT LEAD**

Unlike most other years, the biggest proportion of turnover in 2016 was generated by the subcentres (38%). They also registered by far the most deals. Office properties accounted for well over half of the result, thus indicating that investors anticipate an ongoing positive development for the Frankfurt market. The City Centre, which is usually the clear-cut geographical leader, had to be content with second place, finishing just marginally behind with slightly less than 35%. Locations in the Centre Fringe areas were responsible for a further 19.5% of the transaction volume, while the periphery, with just under 8%, was represented to its customary, expected extent.
YIELDS EASE FURTHER

Against the background of the very good market situation, yields have gone on easing considerably in the past twelve months. That was the case in all segments of the market. The sharpest example of yield compression was presented by office properties: these now have a prime yield of 3.80%, which is 50 basis points below the comparable prior-year figure. It means that Frankfurt continues to occupy a mid-field position among the major German cities. The prime yield for extremely well located inner-city retail/office buildings has slipped by a further 20 basis points to 3.60%. Following the very marked fall noted in 2015, the development in the logistics segment has slowed down somewhat: the prime yield here, at 5.10%, is now just 15 basis points lower than it was a year ago.

DEMAND SET TO BE SUSTAINED IN 2017

Although it is at present difficult to estimate the influence that may be exerted by some broader international factors, there are many reasons for expecting 2017 to be another very dynamic investment year. The two most important reasons are the ongoing favourable development of the economy and the labour market, and the sustained pressure of demand on the part of investors. An important role in this connection is played by the good take-up figures and lower vacancy rates for office premises. Especially in times when the global situation tends to look somewhat uncertain, Germany’s stability gains in significance, above all in the eyes of investors from abroad. This is something from which Frankfurt, as the most cosmopolitan German city, will benefit particularly. So the most probable scenario is another high transaction volume, which should be appreciably above the five-year average. In view of the restricted scale of supply, especially in the large-unit core segment, it remains to be seen whether the 6 bn € threshold can be passed once again.
OUTSTANDING RESULT
In 2016, the Hamburg investment market generated a transaction volume of 4.74 bn €, thus improving on its prior-year total by the significant margin of 19 %. Overall, it was Hamburg’s second-best performance ever – only in the boom year of 2007 did the city attract more capital (5.09 bn €). So the 10-year average was also exceeded quite clearly, by all of 60 %. In particular the fourth quarter stood out, with a volume of 1.65 bn €, benefiting substantially from portfolio sales. Generally speaking, though, the extraordinary aggregate result was fuelled above all (78 %) by single deals; these set a new record with 3.70 bn €. The biggest transactions in this field were the new-build project Alter Wall and the Saturn store in Mönckebergstrasse, both of which were already sold in the first half. At 24.8 m €, the average volume per deal matched the high level achieved the year before.

TURNOVER GROWTH IN THE SMALL SIZE CLASSES
The way investment was spread across the different size classes shows that the strong overall result was due to lively activity in all segments of the market rather than to just a few major deals. Sales between 25 and 50 m € finished well out in front (nearly 33 %) and increased their prior-year volume by over half a billion euros. It is especially pleasing to note that the two smallest size brackets, of up to 10 m €, and from 10 to 25 m €, were also able to generate year-on-year turnover growth. Together they were responsible for nearly 26 % of total investment. The class of large-unit transactions of between 50 and 100 m € once again passed the 1 bn € threshold, contributing just over 23 % to turnover. Deals in the triple-digit million range accounted for around 18 %.

SPECIAL-PURPOSE FUNDS WELL OUT IN FRONT
The investor ranking was headed by special-purpose funds with over 30 %, fuelled by a good many large-volume deals. They were also one of the leaders in terms of the number of concluded transactions, exceeded only by the category of private investors. A long way behind, bunched closely together, came investment/asset managers (almost 13 %), pension funds (12 %) and equity/real estate funds (around 11 %). The only other buyers’ groupings to secure shares of over 5 % were property developers (more than 8 %) and private investors (just under 7 %). The proportion of foreign investors has fallen to slightly below 39 %; in 2015 they had been responsible for around half of all the capital deployed.
PROPERTY DEVELOPERS IN FRONT ON SELLING SIDE
The picture seen on the selling side is very similar – but with different protagonists. Property developers took advantage of the current buoyant scale of demand in the marketplace and sold assets with a total volume of more than 1.4 bn €. This gave them a clear-cut first place in the ranking, with over 30 %; the year before they had had to be content with second place. Other double-digit percentage contributors were listed real estate companies/REITs (just under 12 %), last year’s leaders equity/real estate funds (just over 11 %), and private investors (10.5 %). Then, each with around 8 %, came corporates and insurances. Foreign players were responsible for just over one fifth of the sales volume – a much lower share than in 2015 when their sales had focused more on large-unit assets, which had secured them around 41 % of the total.

OFFICES GENERATE HIGHEST VOLUME
Just as in previous years, the asset-class distribution of investment was headed by office buildings (over 60 %). They generated just under 2.9 bn €, which in absolute terms was the second-best result ever registered; only that in 2007, fuelled by extensive portfolio sales, had been even higher. Retail properties returned to second place with 16 % after being relegated to fourth place the year before because of the shortage of supply. Hotels failed to match their 2015 record performance but still made a very respectable contribution of 8 % to the overall total. After posting an out-of-the-ordinary result the year before, logistics complexes only achieved a share of just under 5 %. So they actually finished behind development sites, which accounted for slightly over 7 %.

SUBCENTRES AHEAD OF CITY CENTRE
In contrast to the previous year, the subcentres were able to slip just in front of the City Centre to take first place in the geographical spread of investment with slightly over 36 % of the total. They benefited from a very high number of deals and also from assets changing hands within the framework of portfolio transactions like Officefirst. With a share of just over 35 %, the City Centre also accounted for a very high volume, which was above the absolute total it achieved the year before. The Centre Fringe precincts registered just under 27 %, which was a few percentage points lower than in 2015. So overall, the distribution of investment across the municipal area was once again fairly even. The only exception was the periphery, which does not play any significant role in this respect, and which contributed only 2 % to the result.
OFFICE YIELDS FALL FURTHER

In view of the strong demand in the real estate markets and the fact that particularly in the premium segment this encounters only very restricted availability, net prime yields continued to ease in the course of the year. By the mid-year point, the yields for first-class office buildings had already fallen below 4.00%, and since then they have declined even more, to 3.40% at present. For the first time, this puts them on the same low level as retail/office properties, where the yield reached the 3.40% point after slipping 35 basis points. In this latter market segment, though, the yield can go even lower in isolated cases. The prime yield for high-grade logistics complexes is now 5.10%, which is 15 basis points below the prior-year figure. So prime yields have now reached a record low in all asset classes.

OUTLOOK

Since 2012, the Hamburg investment market has been able to step up its transaction volume every year, and with its 2016 result it came closer to the record volume of over 5 bn € posted in 2007. There has been broadly based demand in all market segments, something from which all asset classes, size categories and locations have benefited. Assuming that economic conditions remain the same, 2017 can also be expected to produce an excellent performance. Just how high the volume is will depend especially on the supply situation. If it proves possible to sell a number of properties in the triple-digit million euro range once again, another above-average result can be achieved. From today’s angle, however, it seems likely that the total will be below the 2016 figure.
EXEMPLARY PERFORMANCE

In 2016, the Leipzig investment market produced an excep-
tional performance that fell just short of the one-billion-euro
mark. At nearly 919 m €, turnover was admittedly unable to
match the out-of-the-ordinary result of the year before
(1.16 bn €) but it exceeded the ten-year average by all of
75 %. Compared with 2015, when there were two transac-
tions of over 100 m € and portfolio sales made a much bigger
contribution to the total, the market in 2016 benefited
especially from single deals, which accounted for around
81 % of all investment and a higher total than ever before,
with 744 m €. This new record was fuelled in particular by
the sales of the Hainspitze and of the Technical City Hall. In
recent years, Leipzig has been generating the largest trans-
action volume in Germany outside the seven A-cities, and
has now firmly established itself as the country’s most im-
portant B-location for investment in commercial property.

DYNAMIC MARKET FOR ASSETS OF UP TO 25 M €

Where the distribution of investment in terms of size classes
is concerned, deals of up to 25 m € accounted for more than
half of the total. Out in the lead once again were invest-
ments of between 10 and 25 m €, with almost 33 %. All the
same, a smaller number of individual sales meant that this
category’s share was nearly 5 percentage points lower than
in 2015. The size class of large assets priced at over 50 m €
once again registered several deals in 2016, and these
gave it second place in the ranking, with more than 30 % of
turnover. Next came smaller transactions of up to 10 m €,
which accounted for 24 %. That was an increase of over
9 percentage points, although the number of deals was the
same as the year before. Completing the ranking were deals
in the segment 25-50 m € (13 %).

LISTED REAL ESTATE COMPANIES / REITs TAKE LEAD

After finishing third in 2015, listed real estate companies /
REITs ended 2016 in first place by accounting for nearly
22 % of all investment. Insurances gained over 11 percent-
age points by contributing almost 15 % to the total. The
top trio also included investment/asset managers, which
also secured a double-digit share with close to 13 %. Next,
with just under 10 %, came property developers, followed
by equity/real estate funds and property firms, each with
around 7 %. The proportion of foreign investors has fallen
to just over 40 %, but that still is equivalent to a midfield
position in the Big Six.
**PROPERTY DEVELOPERS MOST ACTIVE VENDORS**

The list of sellers’ groupings in 2016 was headed by property developers, with a share of more than 31%. That corresponded to year-on-year growth of 16 percentage points, with a decisive contribution coming from the sale of the Hainspitze. Last year’s leader, equity/real estate funds, registered a much lower share than before, with 19%. In third place, with nearly 12%, came investment/asset managers.

Compared with 2015, banks stepped up their share considerably, by close to 9 percentage points to 10%. Other notable shares were secured by property firms (just under 10%) and private investors (6%). All of the remaining groups obtained shares of under 5%, which together amounted to nearly 13%. The proportion of foreign vendors has fallen, to just over 37%.

**RETAIL PROPERTIES IN STRONG DEMAND**

As customary, the most favoured asset class in 2016 again comprised retail properties, a category which also includes downtown retail/office buildings. Although their share eased by nearly 14 percentage points on the year before, they were still well out in front of the asset-class ranking, with around 35%. Taking the number of individual sales into consideration, though, office assets were in fact ahead – but their average volume per deal, at 10 m €, was lower than in the case of retail properties and so in terms of their relative share of investment, offices took just second place, with 26%. Then came hotels, which generated nearly 204 m € and more than doubled their prior-year share, to 22%, the highest level in recent years. Another sizeable contribution, of 9%, was made by the category of other forms of real estate, which included mixed-use properties. Development sites also registered slight year-on-year growth, with 4%.

**CENTRE FRINGE OVERTAKES CITY CENTRE**

In the geographical spread of investment, there was a shift in the ranking, due primarily to the available supply of assets. Whereas in recent years the City Centre has been regarded as the most dynamic location, the scene of the biggest number of transactions in 2016 was the Centre Fringe; it also generated the highest volume, with 377 m € (+10 percentage points; 41%). The subcentres matched their prior-year level with a share of just over 32%. In view of the shortage of supply there, the City Centre had to be content with third place, with 19%. Far fewer properties changed hands there, resulting in a volume that was 55% down on the prior-year figure. The periphery produced a share of just under 8%.
OFFICE PRIME YIELDS FIRM UP

Following the fall in the net prime yield for high-quality fully let office properties in outstanding locations that was posted back in the fourth quarter of 2015, in the course of 2016 this yield firmed up at 5.00%. The yields for retail/office buildings have also remained steady, at the end-of-2015 level of 4.50%. In the case of logistics complexes, the net prime yield has fallen in the past twelve months by 20 basis points to 5.70% at present. So yields are now below those noted in 2007, reaching their lowest level in the past ten years. This is due to the very buoyant demand, coupled with low interest rates and a shortage of appropriate alternative investments.

GOOD PROSPECTS FOR 2017

In 2016, the Leipzig market performed extremely well and re-asserted its significance as an investment location. Thanks to its dynamic economic development and steady population growth, this Saxon city will remain a focus of interest on the part of domestic and international investors and offer them a viable alternative to Germany’s Big Six. Against this background, 2017 can be expected to produce a result above the long-term average. Prerequisites for this are that general economic conditions remain healthy and that financing terms continue to be attractive. The overall performance will also depend on the availability of an adequate number of assets. Whether or not the cited market circumstances will prompt a further fall in net prime yields remains to be seen.
INVESTMENT MARKET GAINS MOMENTUM
The dynamic development of the Munich investment market continued undiminished in 2016. At 6.37 bn €, the transaction volume not only exceeded the already very good prior-year result by about 6 % but also represented the seventh turnover increase in succession and bettered the ten-year average by 59 %. Only in 2007 was the final figure slightly higher. The strong performance was due on the one hand to a number of large sales, headed by that of the Highlight Towers for over 500 m €. Altogether, there were 19 transactions in the triple-digit million range, which made a substantial contribution to turnover. In fact, though, investment activity was very lively in all segments of the market, something reflected by a total of over 140 registered deals. Portfolio transactions, included on a pro rata basis, accounted for nearly 20 % of the result, with sizeable contributions being made especially by properties in the Officefirst sale to Blackstone. In the nationwide turnover ranking Munich took second place, just slightly behind Frankfurt but ahead of Berlin.

LARGE DEALS MAKE UP NEARLY HALF OF TURNOVER
Just under half (48 %) of turnover comprised sales in the three-figure million euro range, a category which thus stepped up its share quite significantly. Without this development, the final total could not have been achieved. The other size classes exhibited a fairly even spread of investment, with shares of between 13 and 20 %. This is a further indication of the breadth of demand that has been typical of the Munich market in recent years. Only the smallest category, of deals up to 10 m €, was relatively weakly represented, with 2 %.

DIVERSE RISK PROFILES
Overall, investment was distributed fairly broadly across different groupings, with all of five accounting for double-digit shares. In front, close together at the top of the list came equity/real estate funds (just under 19 %) and special-purpose funds (just over 18 %), fuelled substantially by assets involved in the Officefirst portfolio sale. In third place came investment managers (13.5 %). Then came open-ended funds (just under 11 %), narrowly in front of pension funds (over 10 %). Other substantial contributions were made by private investors (7 %), property developers (6 %) and insurances (5 %). A notable factor is the great interest shown in Munich as an investment location by a wide spectrum of buyers with quite diverse risk profiles. At just over 32 %, the proportion of foreign investors is lower than the nationwide average.
BROAD SPREAD ON SELLING SIDE

The situation on the selling side is similar. Here, too, five groupings headed the field, with shares of between 13.5% and 16%. First place in the ranking was taken by property developers benefiting from the present market situation and frequently able to sell their projects before completion. The top five categories also included private investors, investment managers, listed real estate companies and equity/real estate funds. Sizeable sales volumes were also registered by special-purpose funds (9%) and corporates (just under 9%). With 21.5%, foreign market participants accounted for a considerably lower proportion as vendors than they had as buyers.

OFFICE ASSETS WELL OUT IN FRONT

As in other major locations, offices attracted by far the biggest slice of investment, with more than 71% (4.53 bn €). One key reason is the positive economic and labour market development, which promotes stable demand on the part of users. So it is hardly surprising that investors demonstrate great confidence in this asset class. In second place in the ranking came retail properties; they stepped up their contribution in both relative and absolute terms, accounting for 13% (827 m €). Third place was taken by hotels; although these suffered a decline in significance, their performance still stands up well in any long-term comparison, with close to 7% (421 m €). Transaction volume shares of just under 4% in each case were secured by development sites (245 m €) and logistics complexes (238 m €).

CENTRE FRINGE AND SUBCENTRES POST MOST

Just like the year before, the City Centre failed to achieve the top slot in terms of turnover, contributing just 16% to the total. However, this was due solely to an inadequate scale of supply. Reflecting their confidence in Munich as a whole, investors are increasingly prepared to opt for other precincts. Out in the lead in 2016 were the subcentres, with a share of over 35%. Not far behind came the Centre Fringe, which attracted around one third of all investment. Also narrowly outstripping the City Centre were the peripheral locations, with just over 16% of the transaction volume. Overall, this distribution clearly reflects the fact that Munich’s attractiveness is not confined to just the premium central areas.
PRIME YIELDS HAVE EASED FURTHER
Against the background of buoyant demand coupled with limited availability, it is hardly surprising that yields continued to fall appreciably in the course of 2016. This was true of all market segments and locations, but applied especially to office properties, where prime net initial yields eased by 35 basis points during the year to 3.30%. So – together with Berlin, where the prime yield fell further in the final quarter – Munich remains Germany’s most expensive city. But yield compression has also been sustained in the logistics sector, too. At 5.05%, the prime yield there is now 15 basis points lower than a year ago. A similar fall has been exhibited by retail/office buildings in the best parts of Munich’s pedestrian zones. Here, the prime yield eased in the course of the past year to 3.25%. It must be pointed out, though, that in this market segment considerably higher prices can sometimes be achieved in special, isolated cases.

PROSPECTS REMAIN POSITIVE
The possible impact of some global circumstances is difficult to assess, but nevertheless all the signs from today’s angle point to another very lively investment year. There is an ongoing very strong level of interest on the part of investors, who continue to hold Munich in great regard as an exceptionally stable and safe place to do business. Another factor is that many buyers expect to see further increases on the rental price front. This estimation is prompted by the shortage of new project developments in the face of the strong demand that is fuelled by healthy economic conditions. Against this background, another very high transaction volume seems very probable. This is likely to be well above the five-year average – but in view of the limited availability of large-unit assets it remains to be seen whether it can once again exceed the 6 billion euro threshold. Something that could have a favourable influence on supply is that investors are exhibiting an increasing readiness to accept forward deals.