Market Focus 2018

INVESTMENT MARKET GREEN BUILDINGS

NEW RECORD TURNOVER WITH GREEN BUILDINGS

Among the single deals included in the analysis, the transaction volume accounted for by certified green buildings was just under 7.92 bn € in 2017. This not only beat the previous year's result by 7 %, it also set another new record. The dynamic growth in sustainable properties over the long term is highlighted by the fact that the average for the last ten years was bettered by just over 80 %. With almost 38.9 bn € invested in single properties nationwide, the share of certified buildings is just over 20 %, which is around the previous year's level. Over the last five years, one in every five euros invested in single transactions has been invested in sustainable properties.

LARGE-VOLUME PURCHASES EVEN MORE DOMINANT

The trend seen in recent years towards large-volume and often prominent properties continued in 2017. While sales above 100 m € contributed 56 % to turnover in 2014, this share has increased steadily to just over 73 % in 2017. If properties between 50 and 100 m € are included, the share is close to 92 %. Against this background, it is no surprise that most of the action is in the major German A locations (Berlin, Cologne, Düsseldorf, Frankfurt, Hamburg, Munich, Stuttgart). Just over 88 % of the turnover with certified buildings was registered here. Frankfurt (2.56 bn €), Berlin (2.40 bn €) and Düsseldorf (7.10 m €) attracted the greatest levels of investment. Well-known examples are the Zalando head office (DGNB [German Sustainable Building Council]) in Berlin and the Vodafone Campus (LEED) in Düsseldorf.

EQUITY-STRONG CORE INVESTORS PARTICULARLY ACTIVE

The investor groups most actively investing in green buildings have hardly changed over the years. It is still primarily equity-strong core investors who account for the biggest shares. In particular these investors often focus on other goals besides generating reasonable returns. These include for example long-term stability or responsible and sustainable investments. The investor groups with the biggest shares of their own investments in relative terms in green buildings are sovereign funds (96 %), open-ended funds (60 %), pension funds (54 %) and non-profit institutions (34 %). The ranking based on the absolute transaction volume is led by pension funds (21 %), followed by open-ended funds (17 %), investment managers (17 %) and insurance companies (13 %).

Green Buildings' share by buyer group

<table>
<thead>
<tr>
<th>Buyer group</th>
<th>Share (in %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sovereign funds</td>
<td>95.8</td>
</tr>
<tr>
<td>Open-ended funds</td>
<td>60.1</td>
</tr>
<tr>
<td>Pension funds</td>
<td>54.4</td>
</tr>
<tr>
<td>Non-profit institutions</td>
<td>60.9</td>
</tr>
<tr>
<td>Insurances</td>
<td>47.4</td>
</tr>
<tr>
<td>Investment/asset managers</td>
<td>22.3</td>
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</tbody>
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Certified buildings by type of property

- **JUST UNDER 1,600 CERTIFIED PROPERTIES**
  The number of certified buildings has risen steadily in recent years. This trend not only continued in 2017, but accelerated once again. At the end of 2017 almost 1,600 green buildings were registered nationwide. Compared to the previous year, this equates to an increase of almost 40%, triggered above all by the growing share of certified properties in the new-build segment. Besides the office buildings (+27%), which dominated in the past, in particular the other asset classes are noticeably catching up. Accordingly, the growth rates for retail properties (+68%), hotels (+60%) and logistics (+38%) are still much higher. With this, the share of certified office buildings in all properties has fallen for the first time below the 50% mark to 45%.

Certified buildings by existing and new buildings

- **EXISTING AND NEW-BUILD PROPERTIES CERTIFIED**
  It is pleasing to note that both new-builds and existing properties contribute to the increase in sustainable properties. New-build projects again play the most important role with a share of around 69% of the total stock. It is notable that certified existing properties, despite an increase in absolute terms, only account for 31% of all registered buildings, after achieving their highest share to date in 2015 with 34%. This can be seen as a sign that the potential of older existing buildings for which subsequent certification is economically viable is not unlimited.

- **DGNB STABLE, BREEAM STILL AHEAD OF LEED**
  Although the DGNB, the traditional number one label in Germany, has lost some market share in recent years, a slight upward trend was noticed again in 2017. Particularly in the new-build segment, the dominant market position was not only consolidated, but increased once again to a share of 83%. The second most important brand remains BREEAM, ahead of the US label LEED, which follows in third place. It is notable that BREEAM leads the way with the certification of existing buildings with an impressive 58%.

Market shares of certification systems 2017

- **OUTLOOK**
  The turnover growth with a new investment record for green buildings shows that certified buildings have established themselves as an important part of the portfolio for some investor groups. For new-build properties in good locations, in particular the core properties in the A cities, a sustainability certificate has now become a requirement. This is also seen as the key reason for the significant increase in applications for the certification of projects. The market leader in Germany, the now international DGNB, has also benefited from this. The trend of a growing share of certified properties, in particular in the new-build segment, will therefore continue in the next few years.