



Market Report
Nuremberg
2019/2020

Investment



WHO WOULD HAVE THOUGHT IT?

Dear Reader,

How interesting is Nuremberg for investors?
How strong is the economic appeal of our city?

For three years now, the investment market for commercial properties has been at an unprecedented high: In 2017, the volume of transactions exceeded the billion mark for the first time. In 2018, it happened for the second time. In 2019, the figures made the biggest leap imaginable: The investment volume amounted to over two billion euros! Nobody expected this.

Did we underestimate Nuremberg?

This strong development is mainly attributable to investments in the asset classes of offices and hotels. The office segment was able to double its 2018 performance easily. The hotel segment yielded a surprising transaction volume of around 333 million euros. For us, this is reason enough to include this asset class in the "Investment Market Report" for the first time.

Many things are going the right way in Nuremberg: The economy is robust and always ready to face new challenges. The exhibition centre alone attracts up to 1.5 million visitors a year. Nuremberg is underscoring its claim to be a renowned business location. This message has been well received by investors in the real estate segment.

In this market report, we'll show you what the astonishing figures for 2019 are based on and how we assess the market opportunities for 2020.

We hope you find it a stimulating read!

Best regards

Wolfgang P. Küspert



TRANSACTION VOLUMES

Office and hotel investments surpass themselves

In 2019, the transaction volume for the Nuremberg real estate investment market increased unexpectedly by 110% in comparison to the previous year – in figures, this means from €1,009 million to €2,116 million.

The office segment not only immediately repeated its transaction record from the previous year, it also more than doubled it to approximately €1.12 billion (previous year: €464 million). The two largest single office transactions alone, the Orange Campus with anchor tenant GfK and the multi-tenant Air Campus property in Nordostpark, together generated around a quarter of a billion euros. All large-volume tickets (of €50 million or more per deal) even added up to over three-quarters of a billion euros. More than half of this volume was generated in the form of forward deals or prior to completion, and about one third in the form of a large nationwide share deal involving holdings in Nuremberg.

The hotel asset class also had an absolutely outstanding transaction year. As a destination for tourists and business travellers, Nuremberg has been developing superbly for years, and further hotel projects are in the pipeline – already enabling many property owners to now realise growth in earnings and value. The hotels sold include various international brands. With €333 million, the hotel segment has had an exceptional year, managing to jump from almost a standing start to the second largest position in Nuremberg's transaction volume.

Professional and semi-professional investors have invested around €284 million in the residential segment of the Nuremberg market. Almost every eighth euro of the transaction volume thus flowed into commercial residential portfolios and large-scale apartment buildings, which highlights the sustained interest in Nuremberg's housing market.

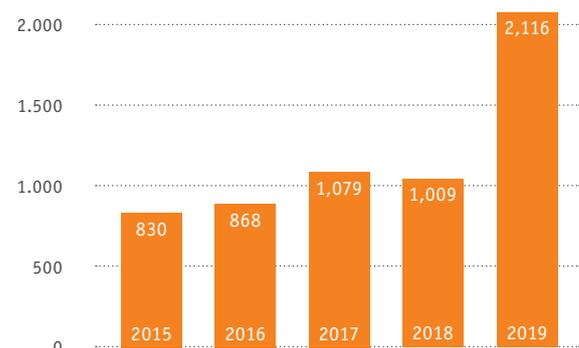
The retail segment, indicative of Nuremberg as a central metropolis, recovered somewhat in 2019 after a previous year of low transaction volumes (€63.4 million) and, at €134 million, more than doubled its turnover. Three high-street transactions in prime locations on Königstrasse, Karolinenstrasse and Breite Gasse, which together generated proceeds of around €100 million, played a key role in this.

The transaction volume for project development properties was around €166 million, representing a decrease of around €50 million compared with the previous year. However, the previous year included a one-time transaction with the State of Bavaria, meaning that the transaction volume increased on a comparable basis.

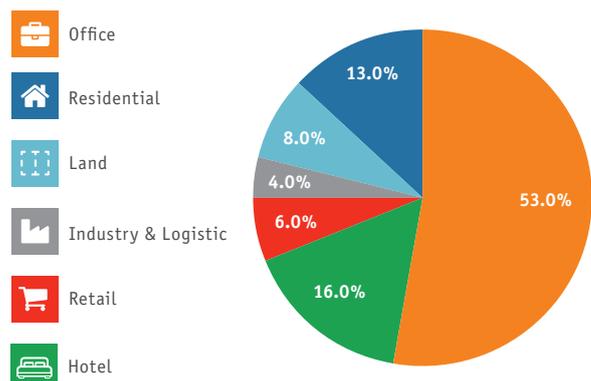
The largest properties were located in the south of Nuremberg at Aufseßplatz and in the Lichtenreuth project area as well as in Antalyastraße in the north. A share deal with reserve properties of around €33 million also contributed to the increased volume.

There were also a few more opportunities in the industry & logistics segment, which recorded a total volume of €79 million in 2019. Just under half of this volume was generated in the form of two major deals in the south of Nuremberg, around €20 million of which resulted from a share deal in an industrial business park and a similarly high volume from a sale-and-leaseback transaction by a DAX company.

Transaction volumes
(Euro in millions)



Transaction volumes according to classes
of asset (2019 Euro in percent)





SUPPLY AND DEMAND

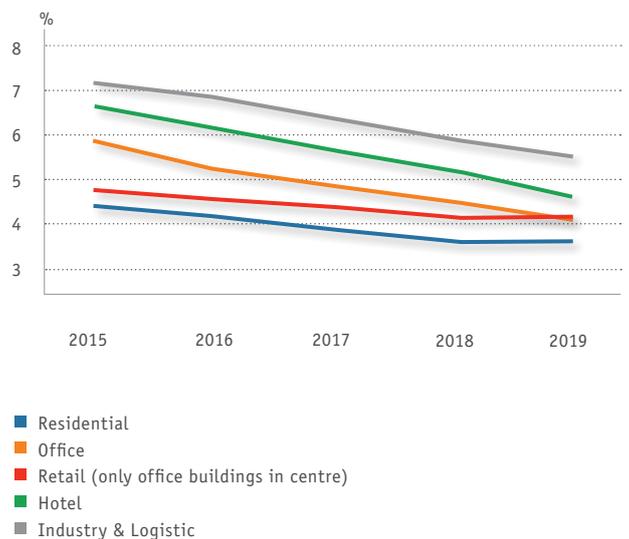
Nuremberg has a diversified economic structure with a diverse range of industries and company sizes – a distinct advantage in times of economic uncertainty and geopolitical risks and a driver of stable real estate demand. So it is not surprising that the underlying conditions posed by the real estate industry on the local market can hardly be described as a “crisis” at present.

The current sales of core office properties have been realised at a factor of a maximum of 24.5 – the gross peak yield is thus quoted at 4.1%, which corresponds to a yield compression of about 40 basis points compared to the previous year.

Slightly less than four million overnight stays testify to Nuremberg’s attractiveness as a travel destination and the correspondingly high demand for hotel rooms. However, only one in four hotel guests is in the city for tourist purposes, while the demand from business travellers in the trade fair city is rising particularly sharply. Against this background, the gross peak yield of 4.6% for top hotels is relatively close to the value for top office properties.

In the retail segment, stagnation in the purchase yield has also been observed in the area of prime locations. Noticeable pressure on yields has recently been felt in residential investments as well as in industrial and logistics properties, as the following figure shows.

Top yields* according to classes of asset



* Gross initial yield (management and acquisition costs not considered)

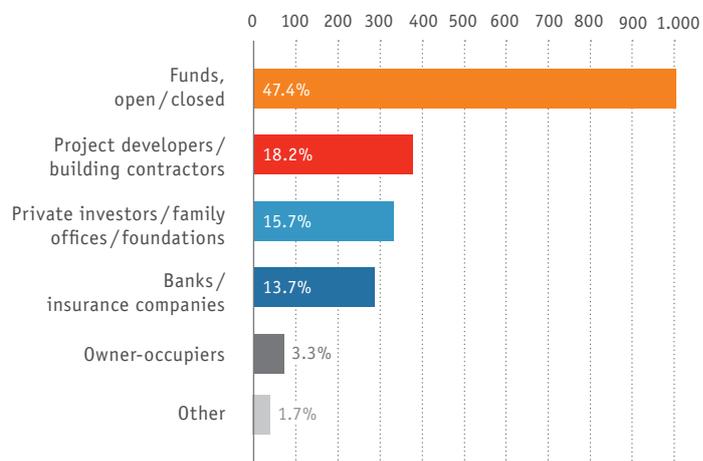
BUYER GROUPS

In the past year, open and closed-end real estate funds allocated around one billion euros in Nuremberg, about twice as much as in the previous year, with the allocation becoming increasingly pronounced in the early project phases. In pure percentage terms, on the other hand, the share of this group of buyers remained relatively constant, as did the distribution among other buyers.

The further increased involvement of family offices and professional private investors was particularly noteworthy. As in the previous year, their share again rose sharply, most recently reaching just under 16% (previous year: 11%). There was also a noticeable increase in activity by banks and insurance companies in their direct search for yield opportunities.

Project developers and real estate developers were able to keep their share essentially constant at around 18% – apart from land speculation, which is certainly included, the project development pipeline again suggests that there is hope for more project developments in the future. Owner-occupiers and other buyer groups reached a market share of a solid 5% at around €107 million.

Buyer Groups (Euro in millions / proportion in percent)



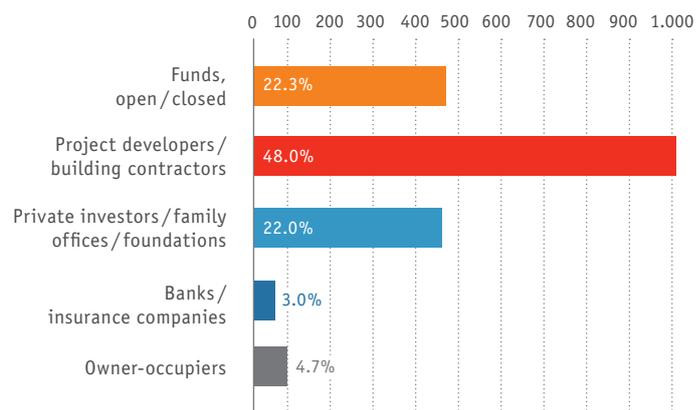
SELLER GROUPS

The project developer group alone had a turnover of more than one billion euros in Nuremberg in 2019 – the strongest sales group, as expected. The open and closed-end real estate funds also contributed around €472 million to the transaction, apparently significantly more than in the previous year (previous year: 27.9% - around €280 million). However, a nationwide share deal in the billion euro range alone was responsible for a volume of around €270 million in Nuremberg, so that, without this sale, a noticeable drop in sales activity on the part of the real estate funds would have been reported.

At around €465 million, professional private investors and family offices took in more than one in five euros of the transaction volume, thus clearly distinguishing themselves – to a similar extent as the real estate funds – on the seller side. One of the primary motives for their increased activities is likely to have been profit taking.

Compared with the previous year, owner-occupiers also sold more from their portfolios for the first time again and, at around €100 million, accounted for around 4.7% of the total market.

Seller Groups (Euro in millions / proportion in percent)



OUTCOME AND OUTLOOK

After two major tickets were still open on the market at the end of 2018, we had predicted a vital year and the realisation of a high transaction volume for 2019. And, as a matter of fact, both project developments, in one case as a forward deal, were sold in 2019.

But this was by no means the end of the story. The office segment outdid itself, realising, with €1.12 billion, a volume that was more than all asset classes in the transaction market of the previous year combined. Of particular note in 2019 was also the hotel segment, last year's second-largest asset class in terms of volume, with numerous hotels changing hands with prominent operators - including Nuremberg's largest hotel by number of rooms.

Can the boom continue at this level?

Although many market participants considered an interest rate hike conceivable, it ultimately failed to materialise in 2019. The domestic economy has recently narrowly escaped recession, most noticeably in the automotive industry and other export sectors. At the same time, there are many good omens for the Nuremberg real estate markets. This makes it difficult to make a clear forecast.

As in the previous year, we held individual talks with many market participants about their personal outlook for the 2020 real estate transaction year. What is the prevailing mood among the players in the Nuremberg real estate market?

The market participants are relatively unanimous when it comes to property investment prices. Only around 6% of those surveyed can imagine falling property prices in the coming year - and only in certain segments:

1. Stalemate in the office and industry & logistics segments: half of those surveyed expect yields to continue falling, half expect them to stagnate. Hardly any market participant expects a price drop in these segments.
2. There appears to be little hope for growth in the retail segment: two-thirds of those surveyed expect yields to stagnate, one-third even anticipate rising yields.
3. Investors continue to regard the housing market as a market with some potential: a quarter of those surveyed expect yields to continue to fall, a good 70% expect stagnating yields. Only a few market participants believe that initial yields will rise - yet this includes a major player from the residential segment.

Due to the scarce supply in many A-markets, evasive reactions in the direction of smaller, less well-known B-markets can be observed. As a diversification market, Nuremberg is also benefiting from this. Only a few market players foresee a further shift to the even smaller C- or D-cities. At best, such peripheral alternatives are only of interest to project developers and value investors, at least in principle.

Otherwise, market participants are generally very much aware of the anti-cyclical nature of real estate markets and the majority of those surveyed assume that a potential economic slowdown would not affect the investment market, at least not in the short term. Not a single respondent clearly anticipates the opposite scenario for the Nuremberg region.

PUBLIC INFORMATION

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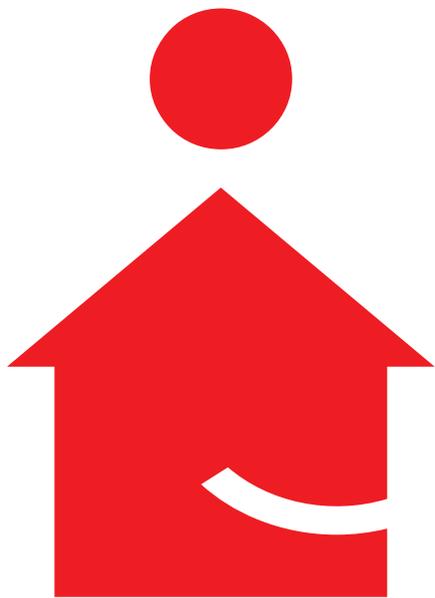
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**My team and I look forward
to hearing from you!**



**Sparkasse
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THE INVESTMENT MARKET IN FIGURES 2019



Transaction volume
in € million

2,116



Largest asset class
in € million

OFFICE

1,120



Top yield
in %

OFFICE

4.1

NUREMBERG IN FIGURES



Inhabitants

536,000



Employees paying social insurance contributions

315,000



Unemployment rate
in %

4.9



Disposable income per capita
in €

22,663