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With an article by
Sparkasse Nürnberg

Market Report Nuremberg 2018

Investment

EDITORIAL

It is tempting to compare Nuremberg's commercial real estate investment market in 2017 to a Formula 1 race given the surprising parallels.

Generally, the most exciting part of an F1 race is the start, before the tension subsides again. The cars slot into position and starting notching up the laps, with a few pit stops thrown in. Truth be told, that's often about as exciting as a grand prix gets, becoming little more than a procession with the winner leading from the start. The interesting bit, if any, is the first ten minutes of the race.

In a similar vein, only considering the first quarter of 2017 would certainly be tempting. Sales got off to such a good start that hitting the billion mark seemed like a nailed-on certainty. One third of our sales for the year were recorded during the first three months. Yet activity then began to tail off, and with it the excitement, only to pick up and get interesting again as we neared the finish line.

We will of course be looking back over the full year to give you, our readers, a complete overview of 2017 and not just selected highlights. Like every year, we will be taking a look back and considering our local commercial property investment market through different eyes - yours.

What inspires you? What issues do you think about as an investor? If you are a project developer, what are the pressing issues? Which asset classes are you looking to acquire and which do you want to sell? Do your ideas create strategies and do your strategies build portfolios? Or, to go back to our Formula 1 analogy, what are your race tactics?

Our aim in this brochure is to provide answers to interest you and help you and perhaps provide you with a different perspective of the real estate market in Nuremberg.

In other words, we are publishing these figures so that **you** can stand on top of the podium!

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NUREMBERG BREAKS THROUGH THE BILLION EURO MARK

Basically, we are writing the next chapter in a success story that began three years ago. There will be another sales record set this year, with no end in sight to the highs in the commercial real estate sector. Similarly, the interest rate situation has remained unchanged, with rates as low as ever. Meanwhile, the socio-economic data for the city of Nuremberg also present a convincing argument.

The number of employees paying social insurance contributions is rising while the number of men and women who are out of work has been falling continuously since 2012 and is now 5.8% (Source: City of Nuremberg Office for Economic Development. Nuremberg continues to occupy fourth place among Germany's 16 largest cities, which is all the more remarkable given that it has successfully come through a major structural change to become a services-based society.

Last year we focused here on the issue of yield compression, in other words the imbalance between rising purchase prices and the slower increase in rent levels.
While this imbalance still exists, it is no longer as marked as in previous years. During the second half of 2017, for example, we witnessed a significant upturn in demand for office rental space. As demand increases, we are seeing a growing willingness on the part of tenants to pay higher rents. The fact that the economy is running at top speed in any case means that demand for commercial properties is disproportionately high. Consequently, we tend to think that properties will be in short supply, which will, however, drive up prices and rents to an equal extent.

MOST IMPORTANT ASSET CLASS

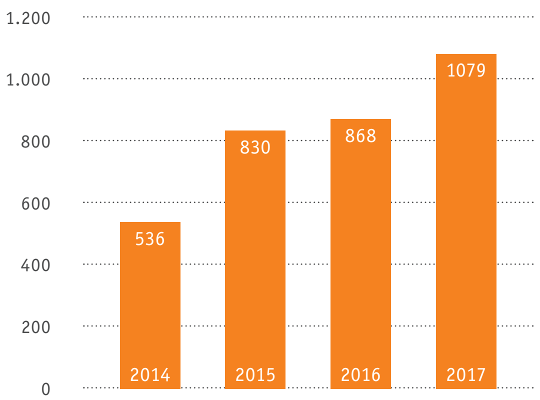
The top performer from last year held on to its lead in 2017. Office real estate was as strong as ever, and the most popular asset class, with sales of EUR 375 million consolidating its lead and also slightly improving on the record figures recorded in 2015. This is further evidence of potential investors' increasingly keen interest in the market here.

In contrast to the previous year, retail properties occupied second place in 2017, pushing residential real estate down into third place. We are reluctant to talk about a changing trend in this regard. Actually, the biggest individual deal of the year was responsible for this surprising outcome.

Back in the first quarter of the year, Union Investment made a purchase from a Credit Suisse real estate fund, CS EURO-REAL, comprising the "Mercado" shopping centre together with two further properties located outside of Nuremberg. If this deal had not been included in the annual accounts, residential real estate would easily have made second place, rather than the third place recorded in practice. The next most important real estate categories were land and industry & logistics.

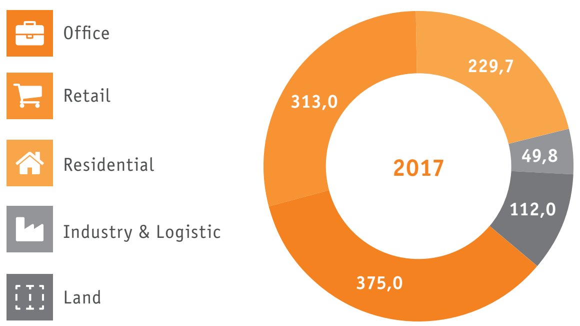
The total transaction volume on this basis was EUR 1.079 million.

Transaction volumes
(per year - EUR in millions)



Transaction volumes according to classes of asset
(2017 EUR in millions)

Total: EUR 1.079 millions



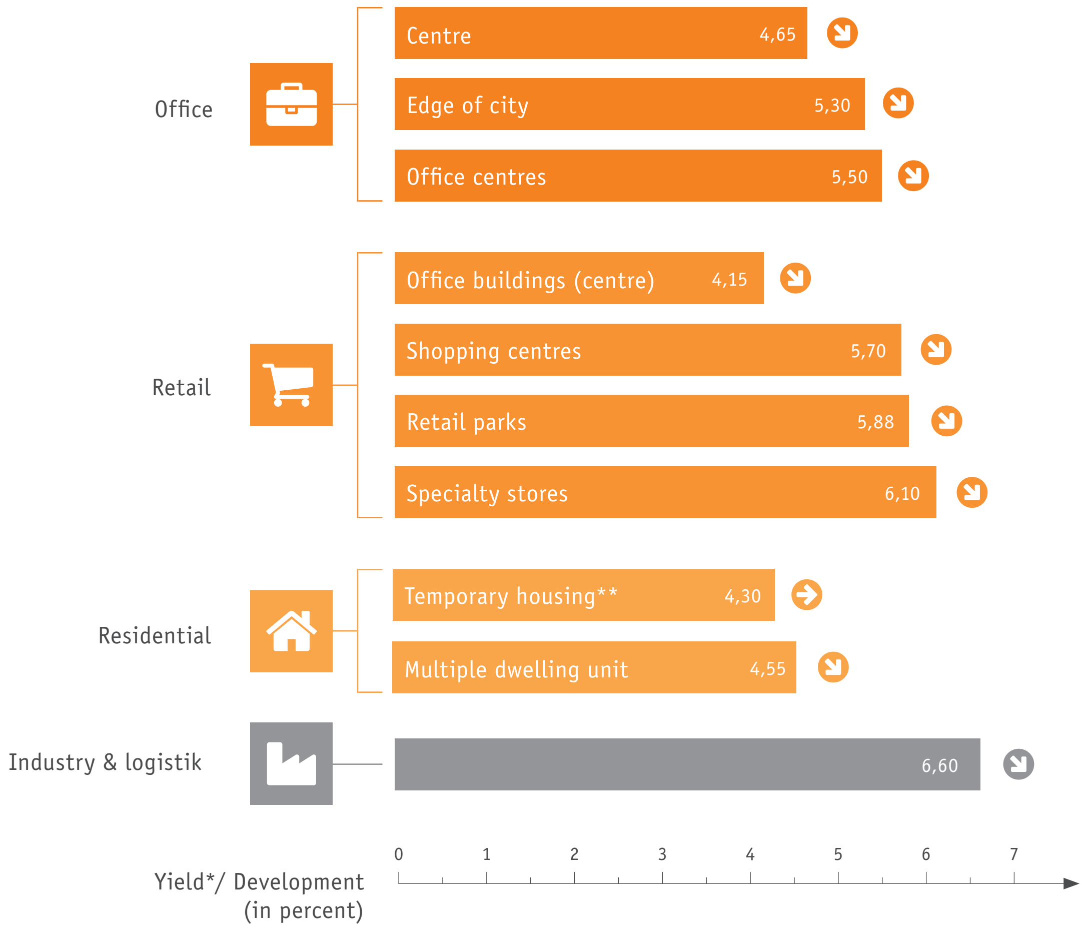
SUPPLY AND DEMAND

The situation on the Nuremberg investment market is dominated by an every greater shortage of supply and growing demand for tradable properties. We are also witnessing an increase in portfolio sales and/or a growing willingness on the part of property owners to part with large volumes. A similar scenario was also in evidence back in 2006 and 2007, the consequences of which are well known. We would not, however, assess the current market situation as being on the same scale, as the boom continues to be fuelled by a lack of alternatives on the financial market.

Yields are tumbling across all asset classes, with no end in sight. They will remain stubbornly low for some time to come. In the office segment, we are seeing falls of 55 basis points compared with last year. Yields on office real estate in the city centre are dipping below 5% for the first time as a result.

Based on the current market situation, we conclude that yields have dropped as far as they will go but are not yet on their way back up. Consequently, yields will remain stuck at this level for some time yet, and may even fall slightly. Real estate located in the heart of the old town continues to benefit from a disproportionately high level of interest.

Average 2017 yields



* Gross initial yield (management and acquisition costs not considered)
** Furnished apartments, student residences, boarding houses

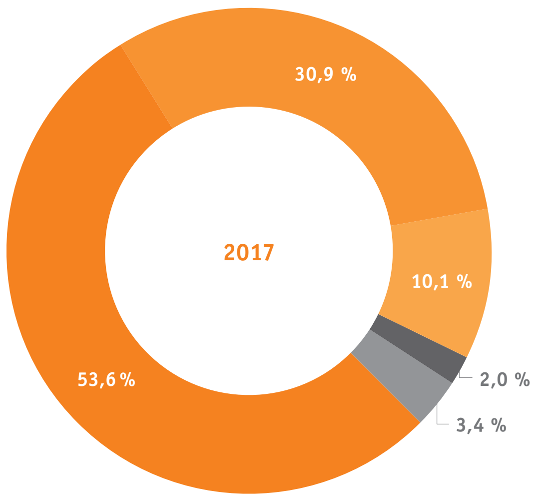
BUYER GROUPS

Real estate fund providers really played to their strengths last year, taking a commanding lead as the number-one group of property buyers. Indeed, last year's leading group, namely project developers, found themselves relegated to second place. More than 1 in every 2 euros invested in real estate was invested by a fund, in what is an unprecedented development.

This may be seen as proof of just how much Nuremberg and the surrounding region has entered the consciousness of major investors but it is also, and this must not be forgotten, a sign of how attractive investments in the B cities continue to be. Of course, this result should also be considered in the context of a low supply situation in the A cities and the fact that the yields are in some cases no longer sufficient.

Buyer groups

- Funds, open / closed .... 53,6 %
- Project developers / building contractors .... 30,9 %
- Private investors / family offices / foundations .... 10,1 %
- Banks / insurance companies .... 2,0 %
- Other .... 3,4 %



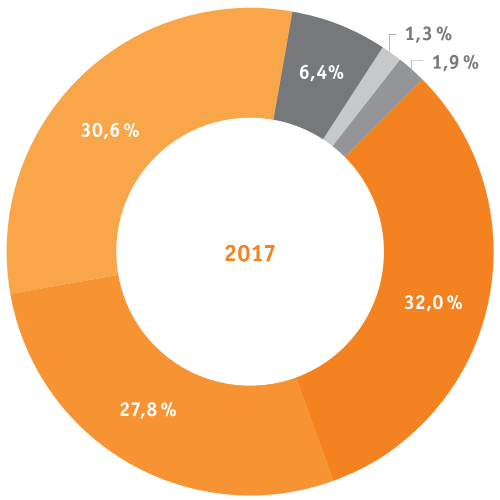
SELLER GROUPS / DEALS AND FACTS

In contrast to the buyer group situation, the figures for seller groups are not so clear-cut. There are essentially three groups that share the market: fund initiators, project developers and private investors / family offices account for around 90% of the total market.

While the first two of these three groups were exceptionally active during the past year, the chart also shows that private investors are increasingly taking advantage of the attractive environment. Based on a "nothing ventured, nothing gained" approach, profits have been made.
With project developers having accounted for more than 50% of sales activity over the past year, it was assumed that this year would see a correction. Yet this might just be while they build up their portfolios again and return to the top next year. This at least is the conclusion that we draw from our observations over recent years.

Some spectacular retail property deals really caused us to sit up and take notice this year. While there were several exceptional sales recorded in Fürth last year (e.g. Neue Mitte Fürth, Phönix Center, Hornbach, City Center Fürth), it was Nuremberg that boasted similarly striking transactions in 2017.

The "Mercado" and "City Point" deals, as well as the "Karstadt" at the Lorenzkirche location at the end of the year, all helped to generate a real buzz around retail property. While understandable from the buyers' perspective, it is generally high-volume tickets that dominate this segment, with these being the category of choice for fund initiators and insurance undertakings in light of the high allocation costs. However, with these tickets being relatively difficult to find outside of the A cities, investors are increasingly setting their sights on retail space.



Seller groups

- Funds, open / closed .... 32,0 %
- Project developers / building contractors .... 27,8 %
- Private investors / family offices / foundations .... 30,6 %
- Owner-occupiers .... 6,4 %
- Banks / insurance companies .... 1,3 %
- Other .... 1,9 %

Nuremberg's dynamic real estate market

Sparkasse Nürnberg is currently looking after more than EUR 1.4 billion of commercial real estate finance, making it the market leader in the Nuremberg metropolitan region. Using their market knowledge and finance expertise, the bank's experts support real estate investors, housing companies, fund companies, project developers and private customers with their construction projects.

"Nuremberg's real estate market has grown markedly more dynamic," explains Miguel Soto Palma, Head of Real Estate Customers, as he describes developments on the local residential and commercial property market in 2017 from the perspective of Sparkasse Nürnberg. As an attractive and profitable B investment location, Nuremberg continues to attract investors from within the region and beyond. Compared with A locations, much higher yields can be earned in the city's commercial real estate sector, which will continue to spark the interest of local, national and international investors in the future too. Nuremberg is also set to benefit from several large-scale projects being launched after several years of almost no activity. In central Nuremberg, real estate developers are planning new districts with residential and/or commercial construction.

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CONSISTENTLY STRONG MOMENTUM IN REAL ESTATE FINANCE

Constant demand enabled Sparkasse Nürnberg to increase its commercial real estate finance business to a very high level in 2017. Persistently low interest rates coupled with a limited supply of profitable investment alternatives meant that investors continued to be keen on real estate. This is particularly clear from fund companies.

The Nuremberg real estate market is currently still dominated by a relative shortage of attractive properties, both residential and commercial. Attractive development sites are also in short supply despite the fact that major projects such as the Augustinerhof, the former Coca-Cola site on Ostendstraße, the telecoms building on Äußere Bayreuther Straße or the former "Auto-Krauss" site in St. Peter give reason for optimism about the future. The region's biggest showpiece and showcase project for the region as a whole would be the relocation of the university in the Lichtenreuth district, a project that has attracted much interest but is still to be confirmed.

At the same time, property developers are also having to deal with construction companies' extremely high capacity utilisation levels. It is becoming increasingly difficult to find suitable construction companies for projects required at short notice or for complex plans.

Wenn's um Geld geht
Sparkasse Nürnberg

NO REAL ESTATE BUBBLES IN THE CONURBATION

"Yes there are some signs of the market overheating in individual cases (e.g. residential properties in prime locations) but no, there is no property bubble" – this is the prediction from Sparkasse Nürnberg.. While purchase prices have risen considerably across practically all asset classes with some properties changing hands for a profit several times in the course of a single year, these increasing prices exist alongside favourable real estate finance options and an excellent liquidity situation among investors, who face a lack of profitable investment alternatives.

Despite everything, investors should pay attention to the sustainability of the property's location when purchasing real estate. Opting instead for supposedly more favourable locations further afield is risky if the market situation then changes.

OUTLOOK FOR 2018

Looking to 2018, Sparkasse Nürnberg expects a similar level of economic momentum with the real estate boom continuing at a high level. In terms of interest rates, no major movements are anticipated over the course of the year. No more significant increases in purchase prices are expected.

LARGEST FINANCE PARTNER ON THE REAL ESTATE MARKET

As the market leader in commercial real estate finance, Sparkasse Nürnberg significantly increased its loan commitments compared with the previous year, up by 32% to around EUR 466 million. With regard to business with property developers, Sparkasse Nürnberg provided EUR 100 million of finance.

On the private real estate market, Sparkasse Nürnberg financed almost every second property purchase in the region. By the end of 2017 the total volume of newly committed loans to private customers was approaching EUR 500 million. Private customers are taking advantage of the low interest rates to make higher redemption payments in the early stages and opting for long fixed-rate periods to achieve interest rate security.

Buyers are also coming to a decision more and more quickly. Potential buyers therefore need to get their own finance arrangements in place in good time and in detail. This improves their changes of being successful when competing with other interested parties for attractive properties.

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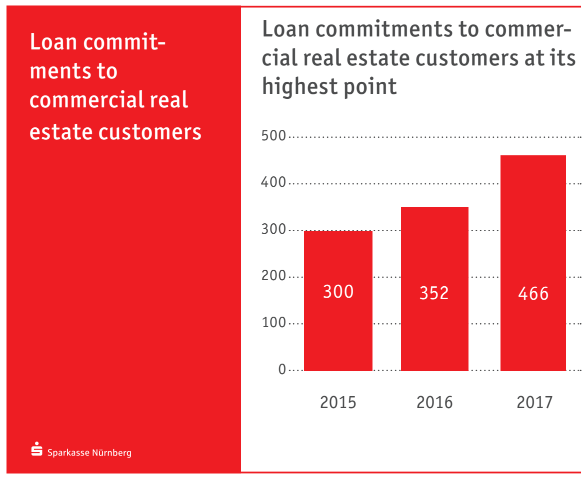

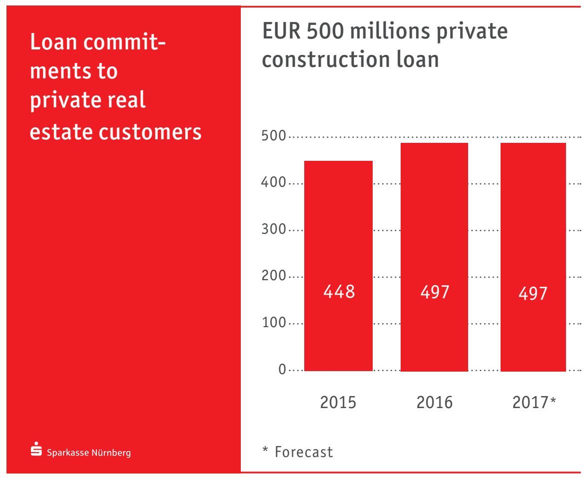

OUTCOME AND OUTLOOK

An interesting investment year - what can we conclude?

Firstly, transactions exceeded one billion euros for the first time. The number of spectacular deals is increasing, leading to the not unjustified question of whether buyers are simply profiteering. At any rate, it cannot be wrong to think carefully about profit too, given the current level that has now been reached and based on the respective investment strategy.

We are not expecting a turnaround yet as far as interest rates, for example, are concerned, with rates being one of the main drivers of the current boom. However, it looks like they have fallen as far as they will go.
This does not automatically mean that everything is about to get worse in the coming year and we all need to expect the market to collapse. The movement will be slow, bubble scenarios only apply in certain sub-markets. And here too we always need to be asking ourselves about possible alternatives. There is currently a lot of money on the market looking for suitable investment opportunities. The threat of penalty interest naturally also increases investors' willingness to accept low yields.

What does this scenario mean for Nuremberg's real estate market in 2018?

1. Interest in investments in Nuremberg will remain high among large institutional investors.
2. Consequently, there will be greater demand for investments in excess of the EUR 20 million mark.
3. Portfolio deals will continue to play a key role.
4. Demand-side pressure will remain high, with yields continuing their descent.
5. Purchase prices will rise again.
6. The number of transactions in 2018 will be on a par with 2017.

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Real estate. Solutions.

Since 1993, Küspert & Küspert have provided highly qualified consulting and mediation services for commercial and investment real estate in the Nuremberg metropolitan area.

We can provide you with comprehensive expert services that meet the latest real estate industry standards for

- **Leasing**
- **Sales**
- **Consulting**
- **Appraisal**
- **and development of real estate.**

For **office rental, retail, industry and logistics and investment**, our specialists are at your side to handle your requests.

Our circle of customers includes individuals, companies, conglomerates and municipalities who value our professional expertise and comprehensive market knowledge.

When you become our customer, we have just one focus:
Your success!

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