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# German Real Estate Market Outlook 2011

Results of a KPMG survey of  
100 real estate experts in Germany  
19 January 2011

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# 1. Basis of the Survey

## Focus of the survey

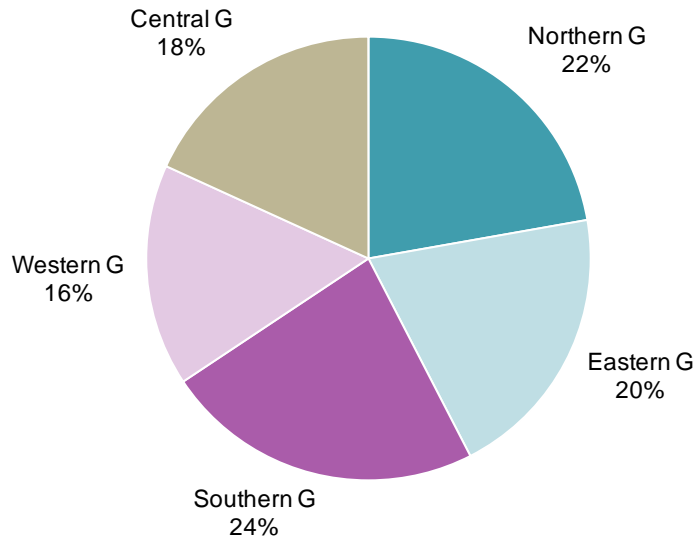
- Survey in the framework of five KPMG real estate evenings in Hamburg, Düsseldorf, Munich, Berlin and Frankfurt
- Survey period: November to December 2010
- Scope of the survey: Development of the real estate market in Germany in 2011
- Relevant market segments:
  - Commercial real estate transaction market,
  - Real estate rental market (office, retail and residential space),
  - Commercial real estate financing market

# 1. Basis of the Survey

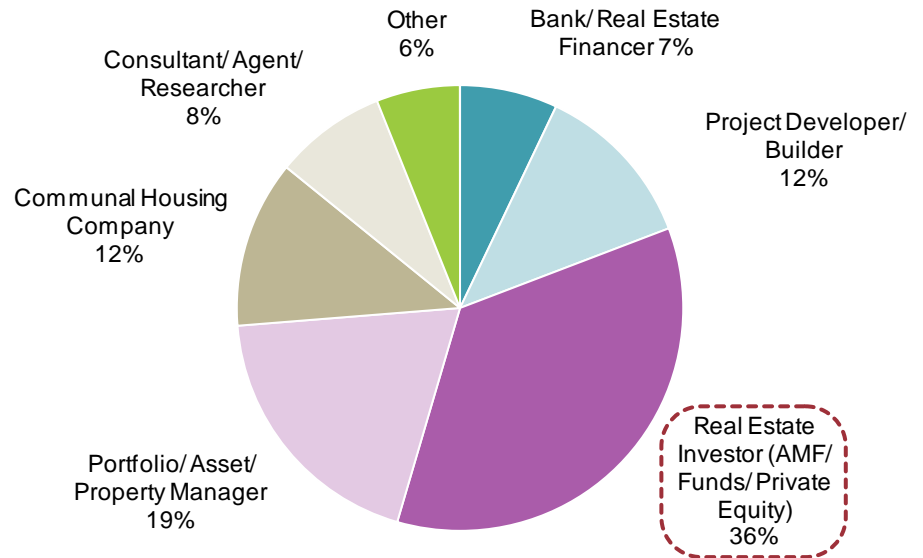
## 100 German Real Estate top managers participate in the KPMG survey

- 100 experts took part in the survey
- The regional background of the persons surveyed was distributed homogeneously
- With regard to the segment the largest group was the real estate investors, with more than one-third of the random samples

Regional background of persons surveyed



Real estate segment of persons surveyed



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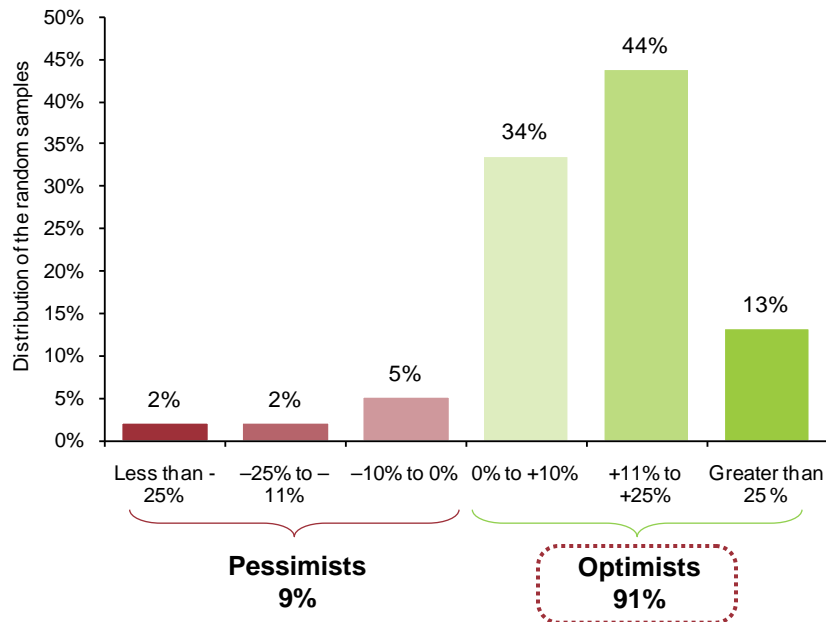
## 2. Results of the Survey – Commercial Real Estate Transaction Market

# Real estate experts expect that transaction volumes will continue to increase in 2011

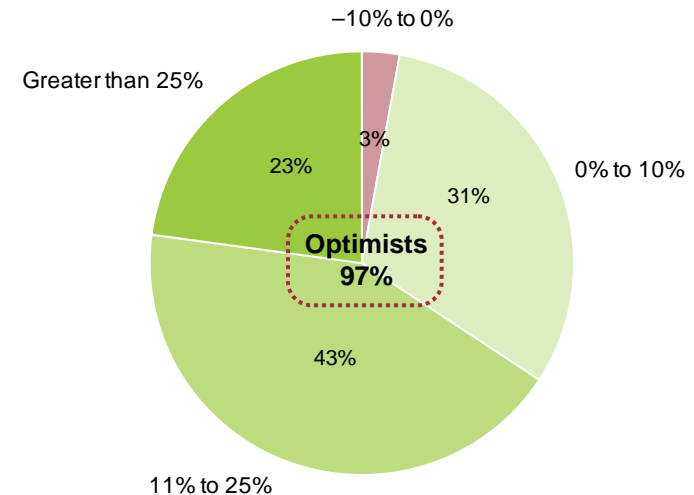
### How will commercial real estate transaction volumes develop in 2011?

- 91 percent of those surveyed assume that transaction volumes in the commercial real estate segment will increase significantly in 2011
- Investors such as asset management firms, funds and private equity companies are especially optimistic (97 percent)
- 13 percent of the participants predict an increase of the M&A volume in the commercial real estate segment of at least 25 percent

Development of the commercial real estate transaction volume in 2011 compared to previous year (ca. €20 bn)



Real estate investors (AMF/Funds/Private Equity) are more optimistic than the average of those surveyed



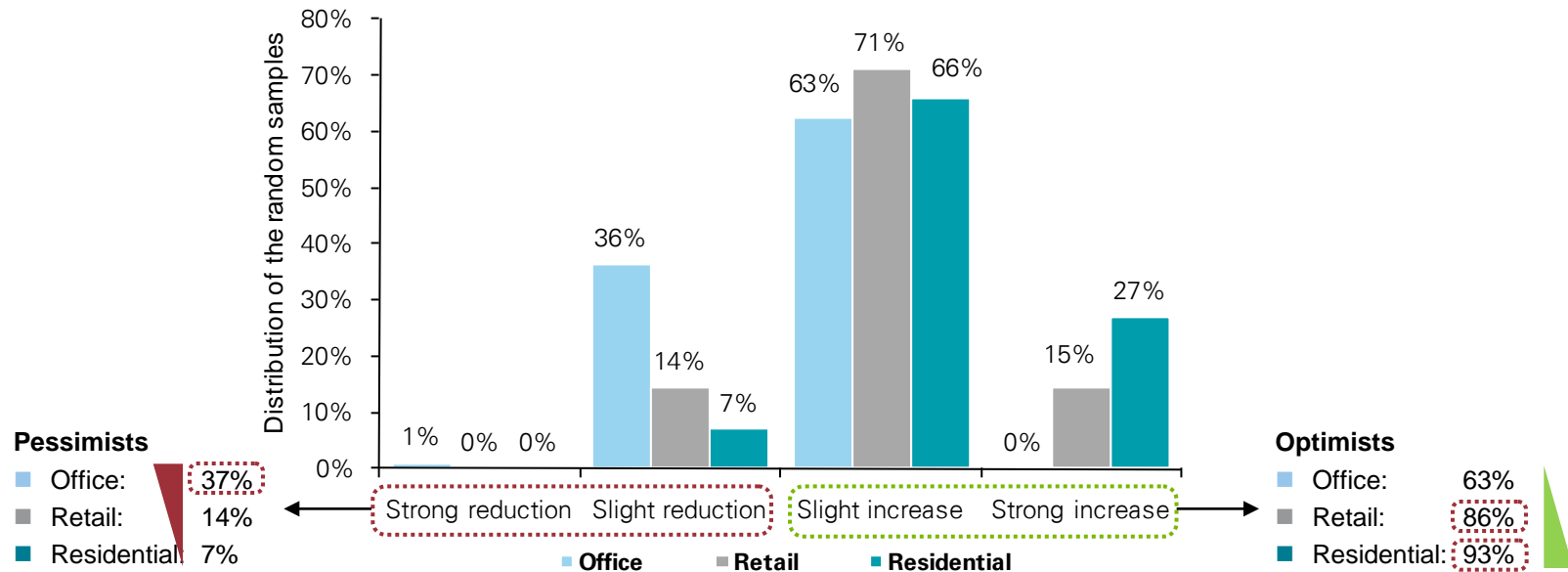
## 2. Results of the Survey – Rental Markets (Office, Retail, Residential)

# Top rents will rise across the board in 2011 – especially for residential and retail space

### How will prime rents develop in 2011 in Germany's best locations?

- All predictions are for increasing rents in Germany's top locations for offices, retail and residential space
- Almost every expert predicts a slight (66 percent) or even a strong increase (27 percent) for the residential market
- For the prime retail locations, 86 percent of the experts are convinced that rental prices will increase, for office space almost two-thirds (63 percent)

Development of top rents in Germany's prime locations in 2011 compared to previous year



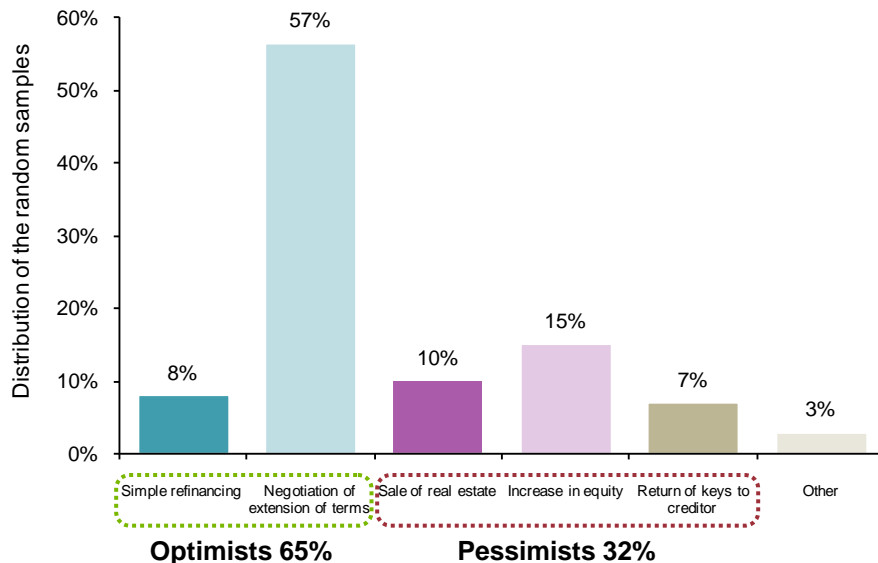
## 2. Results of the Survey – Financing Markets

# Negotiations for upcoming refinancing of mortgages will focus on extension of terms

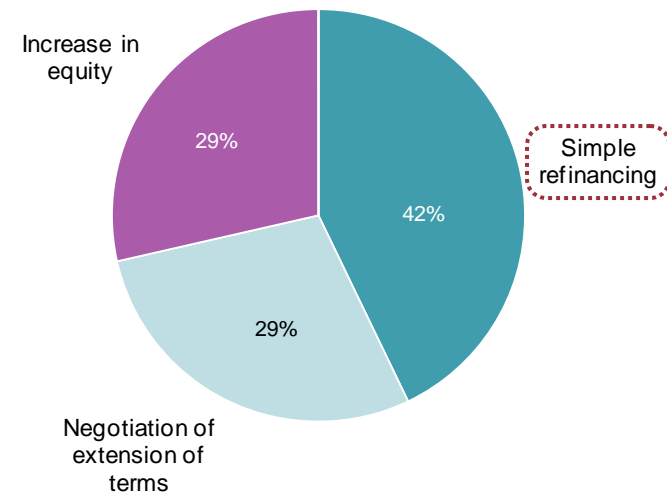
The first refinancing negotiations for commercial mortgages from the boom years are coming up. How will the borrowers mostly react in the coming year?

- 57 percent of the experts predict that negotiations will be made about the extension of the terms of the loans
- Of the persons surveyed, 15 percent consider the increase of the borrower's equity and 10 percent the sale of the real estate as alternatives to refinancing. Of the experts surveyed, 7 percent suppose that in most cases the borrower will hand over the keys to the creditor; only 8 percent believe that there will be a simple refinancing of commercial real estate loans
- Amongst the creditors, however, almost every second bank or real estate financier assumes there will be a simple refinancing (42 percent)

Dealing with the upcoming refinancing of commercial real estate loans in 2011



Banks' and real estate financiers' (creditors') perspective is more positive than the borrowers' and deviates from the average of the persons surveyed



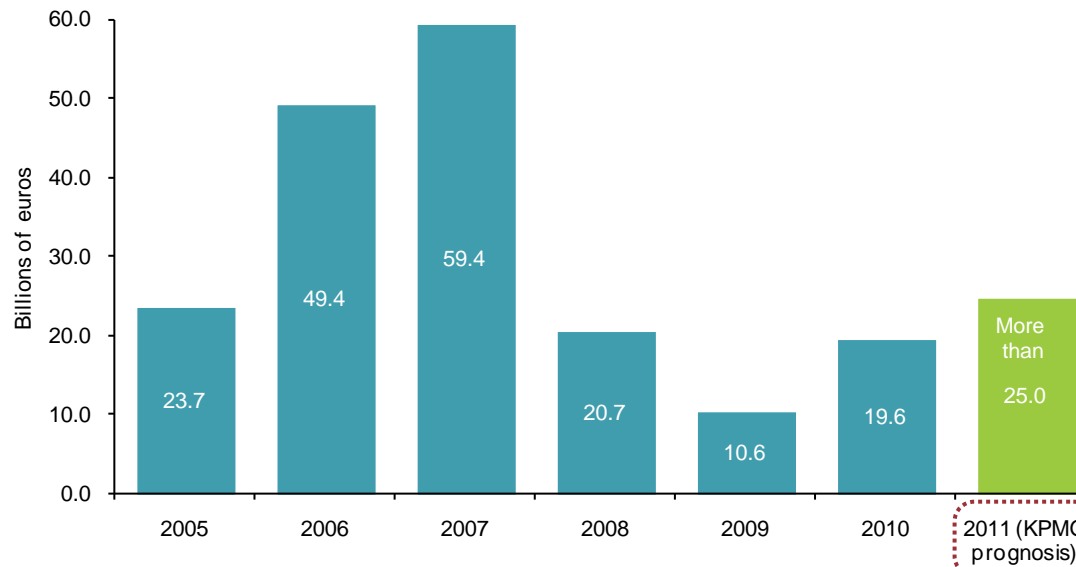
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### 3. Outlook

## Development of the commercial transaction market

- In 2008, the commercial real estate transaction volume was about 21 billion euros, in 2009 about 11 billion euros and in 2010 up to 20 billion euros were attained
- On the basis of the improved economic situation in Germany, and the associated positive effects for the rental markets and on the basis of our survey, we predict a transaction volume of over 25 billion euros in the commercial real estate segment (after about 20 billion euros in 2010). The size and prices of transactions will probably increase
- We assume that the number and size of the portfolio transactions in the residential real estate segment will continue to rise

Development of the commercial real estate transaction volume in Germany




Source: Development of the transaction volume 2005 to 2010: BNP Paribas Real Estate, CB Richard Ellis, Jones Lang LaSalle; 2011: own calculations (KPMG)

### 3. Outlook

## Four hypotheses for the German real estate market in 2011

#### For the year 2011 we assume that ...

- As a result of increased portfolio transaction, the commercial real estate transaction volumes will increase to over 25 billion euros compared with 2010 and therefore by more than 25 percent. We also expect increases in the price, number and average size of transactions in the residential real estate segment
  - The rental markets in Germany's prime locations – above all in residential and retail space – will continue to recover and therefore that the annual gross earnings will continue to increase
  - The commercial real estate financing markets will continue to recover compared to the previous year, because in particular the banks and real estate financiers we interviewed assume that the refinancing of commercial real estate will be no problem (42 percent) or negotiations will center on an extension of the terms (29 percent)
- 
- As a result of the recovery of the German real estate market in 2011, more frequent IPOs for German real estate companies are to be expected. The reason for this is, amongst other things, the increased equity requirements – be it for further growth or the refinancing of existing loans – as well as, compared internationally, the relatively underdeveloped capital market orientation of German real estate companies. One possible obstacle in this regard is the still significant value discounts to the net asset value

Please do not hesitate to contact us should you have any questions



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