A partnership built on trust

Berlin Hyp

Editorial

Dear Reader,

Last summer, we launched our first newsletter for our international real estate customers. Now the second issue follows and we hope to keep you updated on the latest market information and on news about our range of services. The real estate industry is in good shape – despite all the doomsday prophecies. Around € 38 billion were invested in the German market for commercial real estate during the first three quarters of 2015. The record mark from 2007 is in danger of being broken. Capital is nearly overflowing; the market is booming despite decreasing yields. And, as long as alternative investments cannot offer higher yields than real estate, this will not be changing any time soon. Three “big Ds” played a major role in shaping the real estate market in 2015: digitalisation, demographics and Draghi. Over time, we have all learned to deal with the continuously low interest rates. And this is a good thing, as this situation is only likely to change marginally in the foreseeable future. Digitalisation brings with it further uncertainties that are of increasing importance for every asset class. The Internet of Things is going to revolutionise the logistics industry, and logistics real estate along with it: why not build a logistics centre over a motorway or up into the sky? Additionally, we have prepared a few interesting results from our trend indicator for you. Take a look – you might just be surprised! Also, Assem El Alami reports on the office market in Brussels and why this rather small segment could offer appealing investment alternatives.

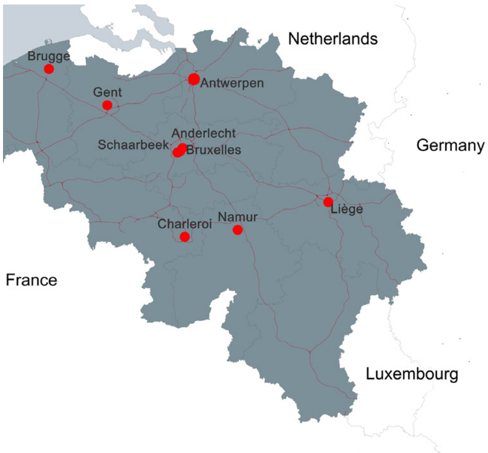
Change and adaptability are in many respects not only challenges that the European Union is facing, but also current topics in our company as well. We all know about the challenging economic environment and the intense competition. This is why we have decided to continue to expand our range of products. Read about this in the interview with Bodo Winkler. With that in mind, I wish all of us good luck and good business for this year.

Yours faithfully,

Gero Bergmann
Member of the Board of Management of Berlin Hyp AG

The following is an update about the Belgian office market by Berlin Hyp. Assem El Alami, Head of Real Estate Finance – International Key Accounts and Syndication, explains why the Belgian office market is appealing and why a good risk-return profile is expected.

The office market in Belgium, and Brussels in particular, stands out due to the tenants.



Source: Berlin Hyp Research, Regiograph

Assem El Alami Right. Many European institutions and lobby groups have their headquarters there. These are generally crisis-resistant and long-term tenants that attract other industries. Some institutions, such as the European Parliament, prefer to purchase real estate, while others prefer to rent – such as the European Commission. Another distinct characteristic is that these institutions prefer to rent or purchase large office spaces.

How has the office market in Brussels developed and what should be expected?

Assem El Alami Both the supply and the demand for office space are growing at the same rate. Vacancy was around 10 % in 2014 and is only expected to decrease slightly. This high percentage is more due to the decentralised markets rather than the city centre markets. Existing office space vacancies are, in part, being transformed for use as residential space, housing for the elderly or for schools.

Unlike other cities, the public sector in Brussels is responsible on average for over one-third of the total rental turnover. For comparison: those figures are under 10 % in both Paris and London. In 2014 only 36 % of rental turnover was generated by A-grade assets. Due to their scarcity, tenants are often forced to settle for B- and C-grade assets.

Is there evidence of any particular trends in rates of return? And what is the status of Brussels as an office location from an international perspective?

Assem El Alami The yields are slightly regressive and, assuming that the ECB's monetary policies remain the same, will continue to be so. Initial net yields, however, are not very volatile. In 2014, they decreased by ten basis points to approximately 5.5 %. This is based on the standard nine-year rental agreements with break option – so-called 3/6/9 rental agreements. In contrast, yields on real estate for international institutions with long-term rental agreements are around 5–5.25 %. The yields for Brussels in 2014 remained relatively attractive at 5.5 % when compared to other office locations in Europe. Thanks to long-term, international tenants, the city of Brussels is seen as a "safe haven".

How are rents in Brussels behaving?

Assem El Alami According to the most recent estimates, the nominal rents are stable and have a positive outlook. The nominal top rents have remained stable at approximately € 225/m²/year over the past three years. The effective top rents in Leopold rose slightly in 2014 to € 192/m²/year and are therefore around 15 % below the nominal rents. It is interesting that significantly higher rents are paid for smaller spaces, since tenants are willing to pay more for proximity to political hubs. For office spaces more on the outskirts, however, the rents are significantly lower.

What expectation do you have for the office market in Brussels regarding total return? And how would you characterise the risk–return profile?

Assem El Alami For 2015, the total returns estimates for Brussels are around 7.3 %. When compared with the rest of Europe, Brussels has less risk in terms of fluctuations. From an investor perspective, this makes Brussels an attractive market compared to the rest of Europe.

Being flexible can add stability

Make real estate financing predictable with interest rate hedging instruments from Berlin Hyp

Berlin Hyp has expanded its product portfolio to include interest rate hedging instruments. Customers can now benefit from the low interest rate environment while hedging the risk of rising interest rates at the same time. Bodo Winkler, Head of Investor Relations / Credit Treasury, has answered the five key questions on the subject.

Mr Winkler, since when has Berlin Hyp been offering derivatives for customers and what is the purpose?

Berlin Hyp has been offering its customers direct derivative contracts since the beginning of the year. We have thereby further expanded our product offering in commercial real estate financing.

Which type of customers should conclude derivative contracts with Berlin Hyp and what derivatives do you offer?

We regard customer derivatives solely as interest rate hedging transactions. They offer customers who conclude a floating rate loan with us the option of hedging the interest rate risk. Customers can generally choose between interest swaps and interest caps. With a swap, the customer exchanges the floating interest rate agreed for the loan with a fixed rate for the entire duration of the underlying transaction. With a cap, the customer agrees on a maximum limit with Berlin Hyp, a strike, which the floating rate agreed in the underlying transaction may not exceed. The bank charges a premium for this. If interest rates on the market rise to such an extent that the floating interest rate exceeds the strike, Berlin Hyp covers the difference. The type of interest hedge customers select depends on their own preferences and expectations in terms of future interest rates. At any rate, they secure two advantages: establishing a stable calculation basis while preserving the flexibility to repay the loan whenever they want. In some cases a swaption is possible, but only if the transaction actually suits the customer's needs and the underlying transaction.

Could you briefly describe the process a customer must go through to conclude a derivative contract?

Our processes are extremely lean. The basis for concluding a derivative is a framework agreement for a futures contract between the customer and the bank. In order to guarantee maximum protection for the investor, the conditions of the securities trading act must be complied with. Various information brochures must be provided and a consultation should be conducted if necessary. Our employees in Treasury are especially trained for this and offer support to customers not just during the consultation, but throughout the whole preparatory process up to conclusion. This includes passing on price indications. The derivative contract itself is concluded over the telephone.

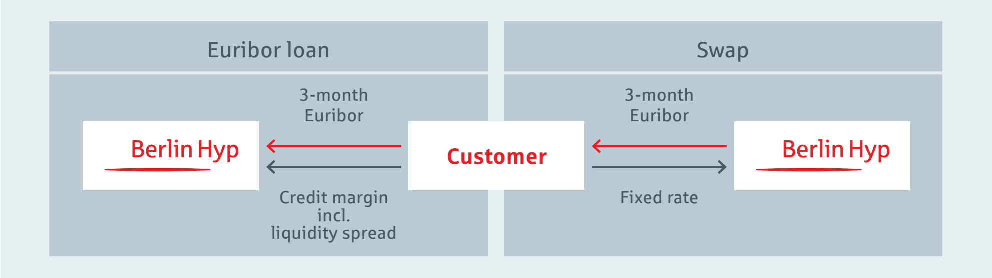
How about derivate transactions for speculative purposes?

We only conclude derivative contracts with customers with an underlying transaction, on a 1:1 basis. The derivative has maximum the same volume, term and repayment structure as the underlying loan.

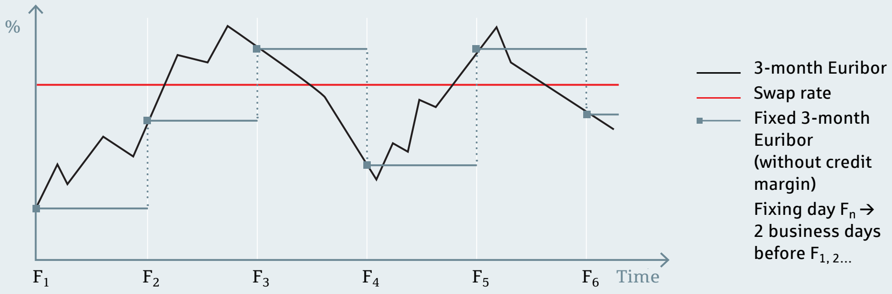
Why should customers conclude derivative contracts directly with Berlin Hyp?

Customers receive everything from a single source and do not need to look for another provider for their hedging instruments. This offers them the benefit of a complete product portfolio. Not only do we have a high degree of expertise in derivative transactions, we also have sophisticated pricing systems which allows us to provide customers with competitive market rates
at all times.

Bodo Winkler
Head Investor Relations / Credit Treasury
T +49 30 2599 9550
bodo.winkler@berlinhyp.de



Payment structure of interest swap



Is the boom over?

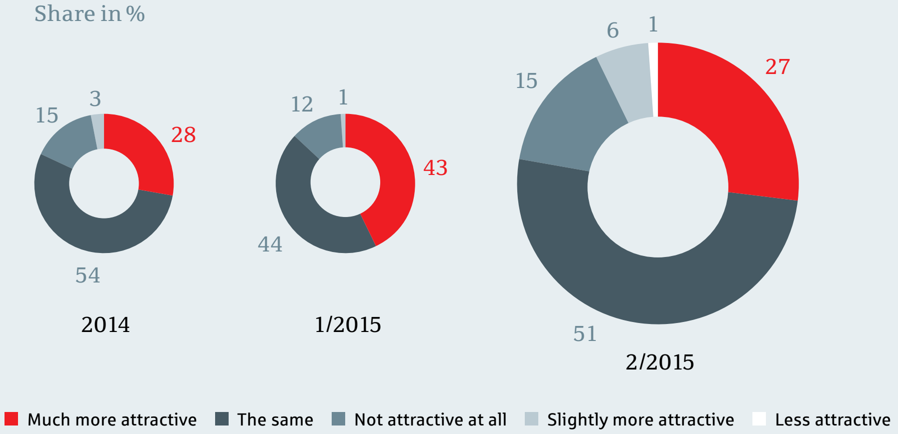
Signs of overheating continue on the German commercial real estate market

The euphoria appears to have subsided slightly. The German commercial real estate market is losing some of its lustre for the first time since the financial crisis. While 87 % of those surveyed rated the German commercial real estate market as “much more” or “slightly more attractive” in the first half of 2015, the figure was just 78 % in the second half of the year.
However, the German real estate market seems relatively unperturbed by the global crises – the terrorist attacks in France were a long way off at the time of the survey – and investment strategies continue unabatedly. Just 35 % of those surveyed said they had changed their investment strategy and if so, then primarily to a risk-adverse strategy. This is the result of a trend barometer survey by Berlin Hyp which focuses on experts in the real estate sector and has been published for the third time. Some 250 experts from Germany and abroad participated, sharing their assessment of the trends and opportunities in the German real estate market. For the first time since the survey was initiated, a majority said there was a real estate bubble in Germany. This amounts to an increase from 18 % to 51 % compared to 2014. The controversial rent cap law has subsequently been unable to contain the current overheating trend.

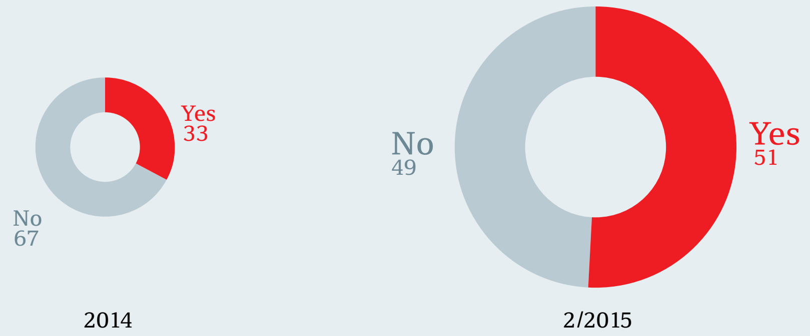
Rent cap law has moderate effect

Of those surveyed, 76 % saw no or a limited impact of the rent cap on the rental market. This confirms that the law has so far failed to produce the expected results. Other measures will need to be introduced to cool down the overheating trend and achieve affordable accommodation on a permanent basis. According to experts, this requires an array of measures: quick and inexpensive issuing of building land, easing building regulations and the repurposing of commercial property are just a few of them.

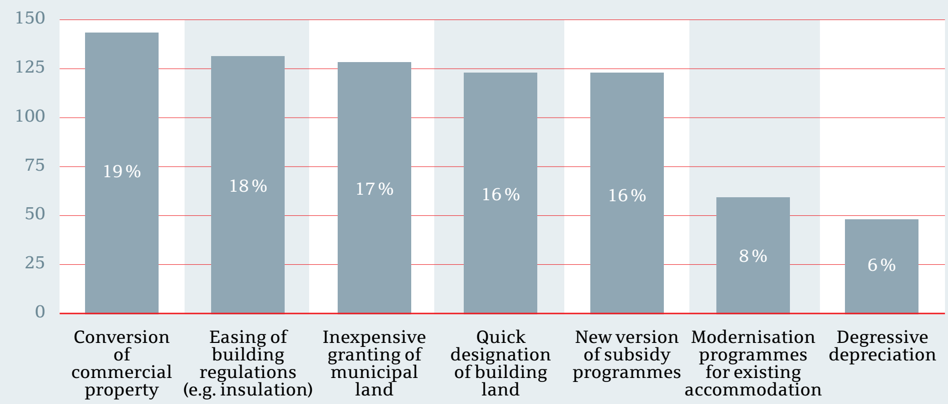
How do you currently rate the attractiveness of the German commercial real estate market by European comparison?
Share in %



Words of warning from experts who think there is an imminent threat of the real estate bubble bursting have not subsided in the last 12 years. Do you think these warnings should be taken seriously and that there is a real estate bubble?
Share in %



Affordable accommodation is more in demand than ever as a result of the refugee crisis. What measures do you think are appropriate to create affordable living space as quickly as possible? Maximum of three options permitted.



Working in the city

Berlin Hyp is financing Jacobsweerd in Utrecht

Berlin Hyp has granted CPA 18 Global, a non-traded REIT from W.P. Carey Inc., a credit of € 27.5 million for the acquisition of the office building in Jacobsweerd, Sint Jacobsstraat, in Utrecht's city centre.
The office building complex was built in 1987 and was recently renovated. The main tenants are the Dutch building authorities (Rijksgebouwendienst) and the chamber of commerce (Kamer von Koophandel).

Convincingly sustainable

Berlin Hyp finances reconstruction of Forum Schwanthalerhöhe for € 150 million

Berlin Hyp has granted HBB Hanseatische Betreuungs- und Beteiligungsgesellschaft mbH € 150 million as interim financing for the reconstruction of the Forum Schwanthalerhöhe.
A restructuring and an entirely new concept is planned for the former XXL furniture store to turn it into a modern shopping facility with around 90 retail units and a total rental space of some 25,000 square metres.
"The combination of the project concept, financing location and HBB as the project's initiator has convinced us completely. We are particularly glad to be a partner because HBB is committed to sustainability", commented Gero Bergmann, member of the Board of Management of Berlin Hyp AG.
The mortgaged property is located to the west of Munich's city centre in the Schwanthalerhöhe district and is scheduled for completion in the fourth quarter of 2017.

A new owner for The Q

Berlin Hyp is financing Quartier 205 for Tishman Speyer

Berlin Hyp is financing the acquisition of Quartier 205 in the heart of Berlin by Tishman Speyer, an internationally leading real estate company.
The property, also called "The Q", has a robust tenant mix with long-term rental agreements and comprises office, retail and living space spanning a total area of some 52,000 square metres.

With compliments

Berlin Hyp is financing three apartment complexes in Berlin

Berlin Hyp is financing three apartment complexes in Berlin-Buckow for € 53.7 million. The financing sum has been granted for a term of 15 years and is mortgage backed.
The borrower is Wohnbauten-AG Buckow & Co. Verwaltungs KG, a closed-end real estate fund established in 1974 that has been successfully managed by the DIM Group for many years.
The three residential complexes comprise 811 units with a total living space of around 59,000 square metres. "We particularly like financing residential properties in Berlin and this step represents the beginning of a new partnership," commented Gero Bergmann, member of the Board of Management of Berlin Hyp AG.
Dietmar Bielor, managing director of Wohnbauten-AG Buckow & Co. Verwaltungs KG, added: "Our cooperation with Berlin Hyp was highly constructive. We have a positive feeling and would immediately recommend Berlin Hyp."

Logistics real estate: an attractive choice

Berlin Hyp supports the report “Logistics and real estate 2015 – plenty of opportunities”

The asset class logistics real estate has never been so popular. “Logistics and real estate 2015” is the first independent report of the bulwiengesa consulting company. It sheds light on and evaluates different aspects of logistics real estate. Berlin Hyp supported the report and helped to finance it. With a roughly 7 % share of the total investment volume in Germany, logistics is now fully entrenched in the commercial real estate segment. But hardly anyone has an overview of the complex market and its players.

The trends and standards which characterise the German market today are only visible when looking at them in a long-term perspective from 2010 to 2015. After all, around 19 million square metres of commercial space was developed during this period – and the figure is set to rise. The four key issues are financing, investment, project development and construction.

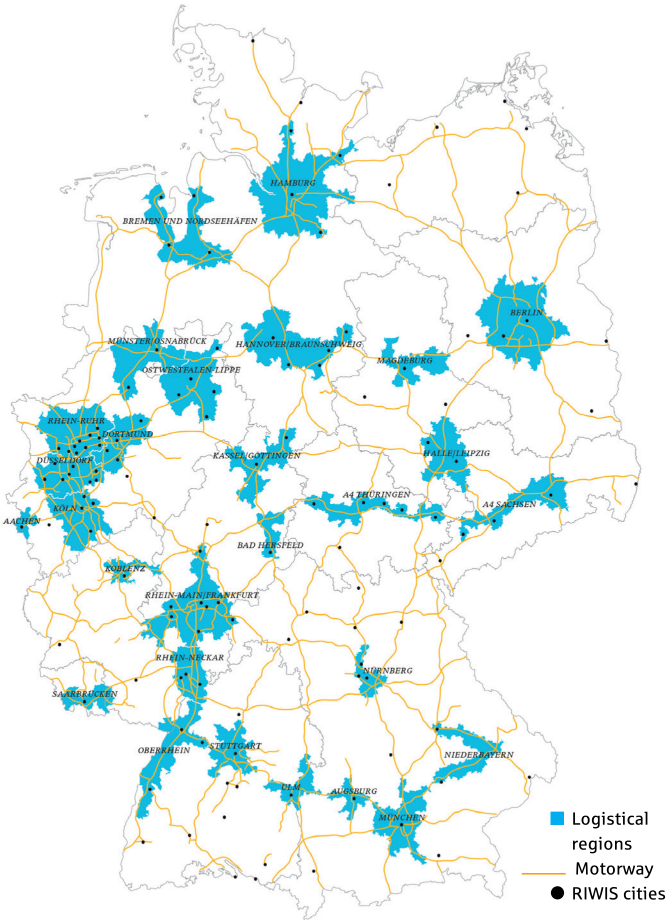
Financing

Logistics assets in Germany are leveraged with an average facility of € 9.8 million per property. Real estate experts estimate total borrowings for investments at € 11.6 billion between 2010 and 2015. Mortgage banks and Landesbanks are the main players in this context. The report gives an insight into the investment volume and capital requirements in 28 German regions. The Rhine-Main/Frankfurt region has the highest bank financing needs of all regions with a share of 11 %. Hamburg and Hanover/Brunswick follow far behind at roughly 5.7 % each.

Investment

In the period from 2010 to 2014, market players invested more than € 7.7 billion in German logistics assets. The investment ranking shows, among other things, that the share of international investors has risen significantly from 27 % in 2010 to some 70 % in 2014. This and other trends such as the growing concentration of portfolio transactions continued in 2015.

Germany’s 28 logistical regions



Project development

Specialised project developers completed around four out of every ten square metres of logistics space between 2010 and 2014. They account for the largest group in the ranking of developers and are driving the trend in rental solutions. Analysis of the data also shows that individual sectors primarily build for their own purposes. This is especially true of logistics companies in retail, which account for roughly one quarter of newly constructed space. Three retail groups rank among the TOP 5 largest project developers.

Construction

The current building trends in logistics real estate give an impression of the substantial changes the market has undergone in recent years. The warehouses are twelve metres tall on average and the standard floor load capacity is now six tones per square metre. Calculations also show that property management generates 80 % of the total costs of a logistics site.

Actual construction only accounts for 20 %. On this basis, the analysis reveals possibilities of a sustainable investment structure.

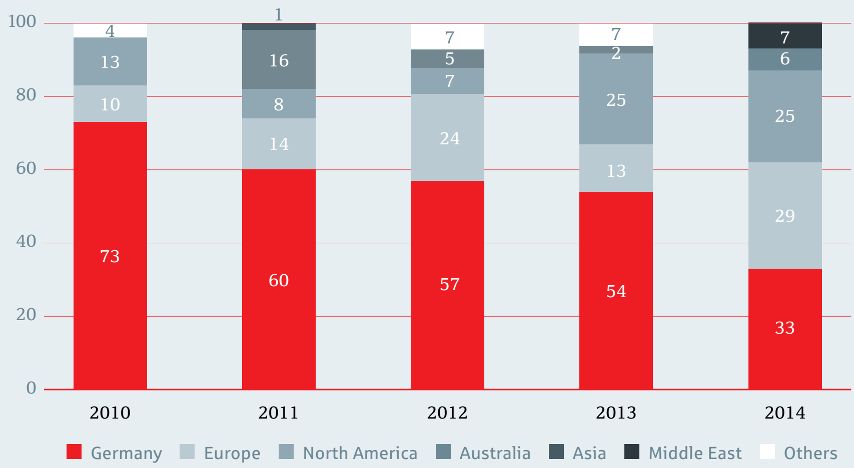
The top 3: Hamburg, Berlin and Leipzig

In a final ranking, the report evaluates the market attractiveness of the 28 logistical regions defined for investors, developers and users based on real estate criteria. Hamburg, Berlin and Leipzig rank first, second and third, followed by Frankfurt/Rhine/Main, Düsseldorf, Munich and Cologne.

The report marks the beginning of an annual series and can be downloaded from our website: www.berlinhyp.de/en/for-real-estate-customers/commercial-real-estate-finance/publications-for-real-estate-customers/logistics-and-real-estate-germany-2015.html.

We are also happy to send you a printed copy. Please send us an e-mail with the code word "logistics" to: publikationen@berlinhyp.de.

Investments by region of origin 2010–2014
Share in %



International investors already account for 67 % of the transaction volume in the logistics asset class.

Evaluating retail property correctly

Report on viable financing for new constructions and existing real estate portfolios

The retail real estate market poses specific challenges to financing banks. What do banks need to consider when financing retail properties? Which criteria define the stability of value and long-term financeability? To answer these questions in detail, Berlin Hyp, in cooperation with ILG and BBE Handelsberatung, has issued a retail report which focuses on the German retail real estate market and its tenants. Demand for retail property has risen in the last few years and it has become a sought-after investment item for German and international investors. Investment pressure is forcing investors to respond quickly and flexibly, and the growing demand is driven by the ongoing low interest rates and the expansion of international retail chains and their need for attractive, intact and competitive retail locations.

Secure investments independent of the overall economy

Retail real estate is a value-sustaining asset class given the stable framework conditions, long-term value stability and the fact that they are comparatively easy to forecast. They are regarded as secure investments which are independent of the overall economy. The comparatively favourable risk-return profile at good, stable returns and increasing rents compared to other asset classes make them extremely desirable investment and financing properties. Retail properties have special financing requirements due to the nature of the assets and the various usage conditions according to the type of business. The bank first assesses the macro and micro situation using market and location analyses in order to evaluate the turnover potential and competitive situation as well as to calculate an economically viable rent. The analysis focuses on three points: can the rent be sustainably generated? Is there a healthy balance between the rent and turnover? What is the productivity per unit area? Prime inner-city locations and anchor tenants attract and retain customers. A retail property with modern, high-quality space in a highly frequented area will also benefit from growth in the future. The property should also take into account the usage requirements, such as urban development regulations, the floor space concept and a mix of tenants and sectors that suits the location.

Rental contracts and rental situation: the decisive factors

Analysis of the rental contracts and the rental situation are decisive factors for assessing financing risks and underlying value-defining parameters. Operating cost caps, grants for extensions and special termination rights for example can reduce earnings at below-average levels of performance. On the other hand, long-term rental agreements with few special agreements and special termination rights make earnings over the longer term more plannable, more definable on a sustainable basis and more value sustaining. As real estate financing is primarily based on the property due to the lengthy duration of the credit, the bank evaluates the potential rental default risks. Banks increasingly view the quality and expertise of the operator of the retail property to be an essential factor. This means the attractiveness and stability of a retail property in terms of value is determined by the market environment and the successful interaction of tenants, operators and their property management. This requires a conclusive and sustainable management concept and professional marketing.

Evaluating revitalisation costs correctly

In view of the recurring dynamic structural changes in society (trends, habits, demographic developments) and the mounting pressure on retail property to adapt, i.e. in terms of ambience and feel-good character, the bank needs to identify and evaluate these revitalisation risks. Revitalisation not only refers to maintenance and modernisation costs, but also funds for complete redevelopment which must be taken into account when evaluating a financing project.
Revitalisation cycles are becoming ever shorter, pushing the costs that need to be calculated higher each year. The key question here is: how and at what price can existing properties be maintained or made viable for the future?

Manifold requirements for financing

The requirements for evaluating financing projects are as complex and diverse as the retail sector itself. Excellent and up-to-date knowledge of the market, a good grasp of what the property and financing requirements are in relation to the retail property plus a balanced risk outlook make the assets financeable and profitable. Only financers who are able to respond quickly, reliably and with the necessary expertise will prevail on the highly competitive market.
The report marks the beginning of an annual series and can be downloaded from our website. Please note that the study is only available in German:
www.berlinhyp.de/fuer-immobilienkunden/gewerbliche-immobilienfinanzierung/publikationen-fuer-kunden/einzelhandelsstudie-2015.html. We are also happy to send you a printed copy. Please send us an e-mail with the code word “Einzelhandel” to: publikationen@berlinhyp.de.

Publisher
Berlin Hyp AG
Marketing
Budapester Strasse 1
10787 Berlin Germany
T +49 30 2599 9123
F +49 30 2599 5029
nicole.hanke@berlinhyp.de

Design
– endash
Jörg Kammler
Winsstrasse 58
10405 Berlin Germany
T +49 30 4431 7337
M +49 163 373 55 66
www.endash.de