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SKJERVEN GROUP - *Monthly Newsletter*

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EUR 10 Billion Transaction Volume on the German Residential Investment Market in the First Half of 2021

According to a report by Savills, residential real estate in Germany changed hands for around EUR 10.0 billion in the first half of 2021 (transactions of 50 apartments or more). This was the third-highest turnover in the first half of a year to date and the fourth-highest volume ever measured in one half of the year. If all acquisitions and mergers of real estate corporations are excluded, the first half of 2021 was the strongest half-year ever in terms of turnover on the German residential investment market.

"We are currently experiencing strong demand for residential real estate in Germany. This is especially true for international investors, which underlines the high attractiveness of the German residential real estate market,"

comments Einar Skjerven
Managing Director of Skjerven Group,
on the Savills figures.

Compared to the first half of 2020, which showed a record result due to Ado's acquisition of Adler Real Estate, the transaction volume decreased by around 22%. In total, around 55,500 apartments were sold.

Portfolios accounted for almost half of the volume

In the first six months of the current year, portfolio transactions accounted for around half of the transaction volume. This is well above the average figure of 29% for the past five years.

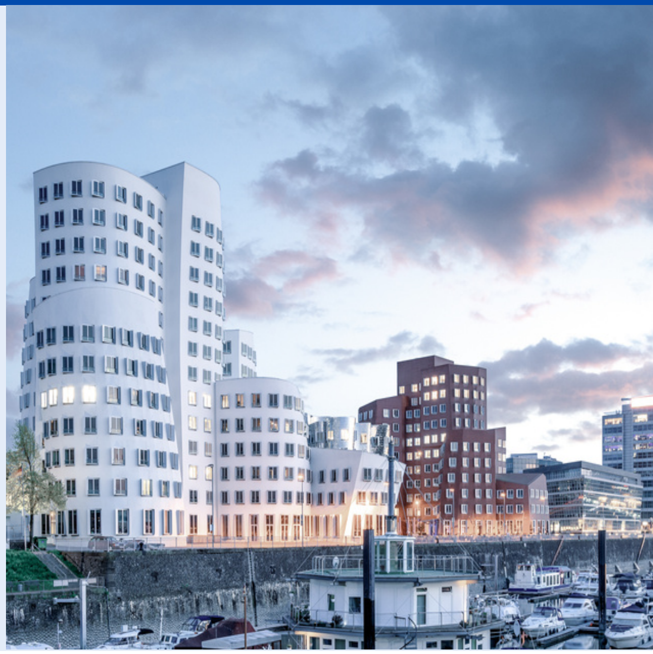
The largest package sales in the first half of the year included AEW's purchase of 7,500 apartments from SOKA-BAU for around EUR 1.25 billion. A further portfolio of around 2,500 apartments from the SOKA-BAU portfolio was sold to GWH Immobilien Holding for around EUR 600 million. Other major portfolio purchases included the acquisition of around 4,300 apartments by the Peach Property Group, the acquisition of two student and micro-apartment complexes by International Campus, and the acquisition of around 2,200 residential units in Rhineland-Palatinate by LEG from Deutsche Wohnen.

Despite the above-average portfolio share, the investment market was smaller in a long-term comparison. In the first half of the year, for example, transactions involving at least 1,000 apartments accounted for around 39% of the transaction volume. On average over the past five years, this share was 48%. By contrast, around 45% of the volume in the past six months was accounted for by purchases of fewer than 500 residential units (five-year average: 40%).

Share of project developments at record high

The fact that so much capital flowed into transactions with a low three-digit number of apartments is also due to the continuously high investment activity in project development purchases. In the first half of the year, residential project developments changed hands for almost EUR 3.1 billion (+30% compared with H1-2020). At 31%, the share of the total volume was noticeably above the five-year average of 25%.

Investors focus on Berlin, North Rhine-Westphalia and Hesse



In terms of traded residential units, most sales in the first half of the year took place in Berlin as well as in North Rhine-Westphalia and Hesse. Overall, around 79% of all traded residential units, or 84% of the volume, were attributable to cities with an above-average positive household forecast compared with the national average (forecast to 2030).

International investors gaining in importance

Investors from Germany continue to dominate the German residential investment market. In the first half of the year, they were responsible for around 61% of the transaction volume. However, their share was well below the average of 79% for the past five years.

Investors from other European countries in particular appeared as purchasers, but investments from North American capital collection agencies are also emerging. Open-ended special funds were by far the most active group of buyers of German residential real estate in the past six months. They accounted for around 42% of the transaction volume. The public sector and its housing associations also continued to be active buyers and ranked second among the most active investor groups in terms of purchase volume (around 14% of the transaction volume). Listed real estate companies came third with a share of around 13% of the transaction volume.

Outlook for 2021: Record volumes in sight

According to Savills, the rest of the year on the residential investment market will be characterized by continued high investment activity.

Compared with the previous quarter, there has been little change in the general market environment: As a non-substitutable asset and due to favorable fundamental data in many places, residential real estate is more in demand than ever before

JLL: BERLIN with largest increase in the premium rental segment

A study by JLL shows that median asking rents in the major cities of Berlin, Düsseldorf, Frankfurt, Hamburg, Cologne, Munich, Leipzig and Stuttgart rose by an average of 2.4% year-on-year in the first half of 2021. *This is a rather muted increase compared with the five-year average of 5%.*

In this context, even Berlin pulls up the current figure overall: There, after the end of the rent cap (Mietendeckel), there was the largest increase over the year at 7.7%, in Cologne and Hamburg the increases were 5.6% and 3.5% respectively. In Düsseldorf, asking rents stagnated, while in Stuttgart there was a slight decline (-1.6%), according to JLL.

BERLIN leads with +15% in Prime Rents

So while mid-range asking rents are still predominantly showing growth, JLL says that a degree of saturation has now been reached in the premium rental segment in the major cities. According to the report, top level prices fell in Munich (-4.6%), Frankfurt (-5.3%), Stuttgart (-11.2%) and Düsseldorf (-1.2%) compared with the previous year, in some cases significantly.

However, with exceptions:

Berlin recorded an increase of 15%

Leipzig, which does not yet have a rent cap (Mietpreisbremse), of 7.9%. And: housing companies could - in the medium term, i.e. between the first half of 2016 and the first half of 2021 - still profit well in all eight metropolitan areas with average annual growth rates of between 3.4% and 8.8%.

In the view of JLL, the high starting levels, in some cases close to the zenith, are responsible for the declines in the prime rental segment. On the other hand, various effects of the Corona pandemic became apparent.

Sharp Rise in Purchase Prices for German Residential Real Estate

At present, the purchase prices offered for residential real estate are apparently once again breaking all previous limits. According to evaluations by the analysis companies Empirica, Europace and Value, the upward trend has not stopped at the end of the first half of 2021. This applies to the annual comparison (June 2020) as well as the quarterly comparison from the first to the second quarter of 2021.

New peak values for purchase prices

In Munich, the figure is 10,429 euros/m². This is followed by Frankfurt (7,898 euros/m²), Stuttgart (7,711 euros/m²), Düsseldorf (6,965 euros/m²), Hamburg (6,897 euros/m²), Freiburg (6,813 euros/m²) and Berlin (6,399 euros/m²). In the case of owner-occupied homes in particular, the price increases per quarter in the districts (+4%) are even stronger than those in the cities (3.4%).

Rising purchase price factors

For the purchase of a new apartment in Munich, 47 annual net rents must now be paid. In Stuttgart, the multiplier is a factor of 44, while in Berlin it is around 38, Empirica's data show.

"Anyone who wants to invest in Germany should not wait too long. The persistently low interest rates lead to little supply available on the market. If inflation rises on top of this, current owners will be less willing to sell. Prices will continue to rise because high demand meets little supply,"

warns Einar Skjerven, managing director of the Skjerven Group.

Real Estate Ratio of German Insurance Companies at Record Level

The real estate ratio of the 30 largest German insurance companies and pension funds is now 11.5%, higher than ever before. This was the result of EY's annual study „Trend Barometer Assekuranz“.

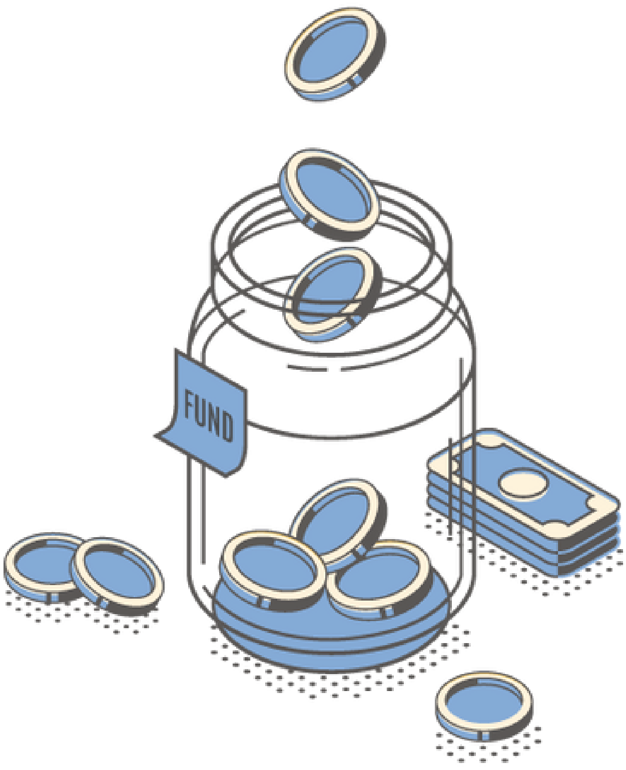
For the 14th time, the team led by EY partner Dietmar Fischer surveyed the same group of insurance companies and pension funds about their real estate strategies. 63% of the companies surveyed want to further increase their real estate ratio. More than half of the participants want to expand the real estate share the most among all asset classes.

Increased Return Expectations Despite High Prices

Insurers/pension funds set a return expectation of 4.7% for direct investments, which is 1.5 points more than in 2020, and they even hope for 5.6% for indirect real estate investments.

At the same time, 86% say they have problems with the high real estate price level. However, this does not motivate most companies to change their investment radius.

The residential and logistics segments, which are currently most in demand anyway, are "strongly" in focus for 67%, while 38% show little or no interest in office properties. Regional favorites are Western and Northern Europe (especially Germany).



Closed-end funds particularly popular

Among the vehicles for real estate investments, closed-end special funds are the most popular among respondents (82% fully or somewhat agree). Real estate equity funds have the lowest acceptance (10%). Interest in real estate loan funds has leveled off at 40% this year and, according to EY, will not increase further now.

11% more multi-story apartments approved

In May of this year, significantly more residential units were approved than in the same period last year. The Federal Statistical Office reports an increase of a good 11% for multi-story residential construction.

The building authorities approved 28,199 units in new residential buildings. That was 10.2% more than in May of last year. An even larger increase was recorded for multi-story residential construction. In this segment, 17,141 apartments were approved, 11.4% more than in the same period last year. For single-family houses, the statisticians show a slight increase of 0.4% to 7,070 houses, but for two-family houses they record a minus of 2.2% (2,472 units).

After a slump in the number of permits in April by almost 58%, the segment of residential homes has also increased significantly again: The offices gave the go-ahead for 1,516 units (+130.4%) in May.

Taking all construction measures into account, i.e. including those planned in existing buildings, 32,384 units were approved in May (+8.7%).