

STUDY BY BULWIENGESA

The 5% study – WHERE IT STILL PAYS OFF TO INVEST

Is the traditional 5% target yield for investors a thing of the past? bulwiengesa examined the yield potential on the German real estate market on behalf of Aurelis Real Estate and Beiten Burkhardt Rechtsanwalts-gesellschaft. The second 5% study, which is being released on 22 September 2016, for the first time clusters markets not only by region and use. The focus is on their income opportunities.

The results in brief

- **Yield potential for core properties decreased in all asset classes**
- **Particularly marked decline for office properties in B and C markets**
- **High yield potential for production properties, among others**

The results for core properties

The yield potential for core properties has decreased year on year in all asset classes.

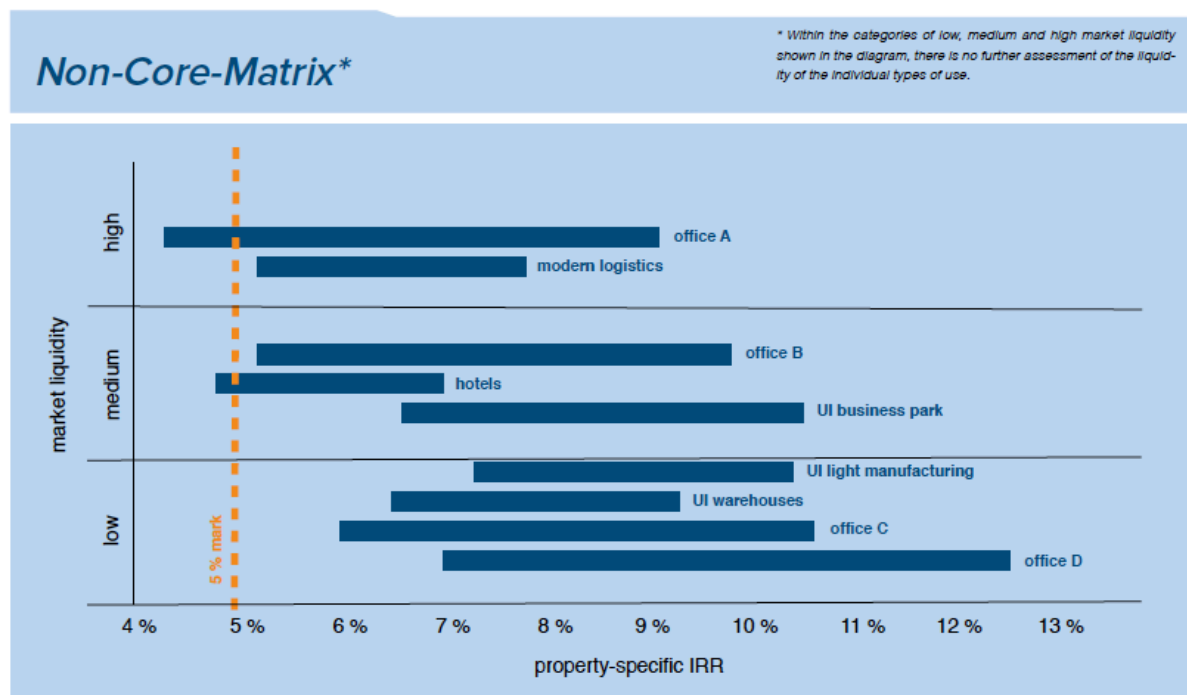
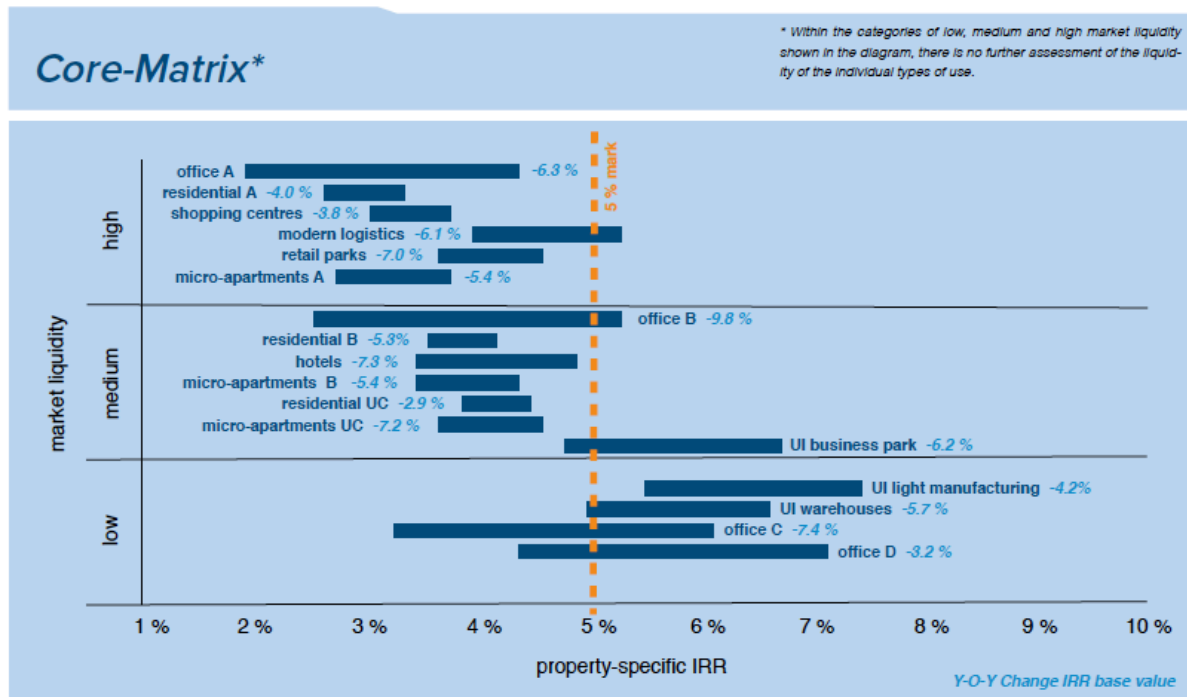
Overall, the probability of reaching the 5% mark with secured investments in the conventional asset classes is becoming ever smaller. Such yields can usually be achieved only in smaller markets or in management-intensive property classes. In these cases, however, there is the fundamental problem of selling the properties again if necessary at an appropriate price even in declining investment markets.

The examined asset classes in detail:

- The decline for **office properties** in B markets is particularly marked. Institutional investors in particular are being prompted to shift to these markets by the low level of supply in A markets. The consequences are a scarce supply and relevant price increases. The attainable IRR therefore fell by nearly 10% year on year in the B markets. As a result, investment pressure is also spilling over into the C markets, where the performance of office properties has decreased by 7.4%. One option that still offers high yields is office properties in small markets. However, investments here are recommended in small area sizes and in line with the market.
- **Shopping centres** offer considerably larger-volume investment opportunities. With a yield range for core investors of between 3.0% and 3.7%, the expected performance is increasingly limited.
- The base value for the IRR for **residential properties** in A markets is below the 3% mark. It is becoming increasingly difficult to generate profits here. On the other hand, the cash flows generated are considered very secure.
- The IRR potential of **logistics properties** has also decreased again by around 6.1% year on year. The secured yield range for **business properties** is between 4.7% and 7.3% depending on the type. As this new asset class – represented in the study with three business property types: production properties, industrial parks and warehouse properties – becomes more established, this process is also reflected in falling yields.

Terminology

For the purposes of this study, core properties are defined as properties with a stable letting situation and sustainable location parameters. Properties outside the core range are classified here as non-core properties. They are characterised by vacancies and are usually situated outside the central locations.



The study also provides detailed information on properties in specific yield ranges such as “6-percenters” (e.g. market for production properties) or “5-percenters” (e.g. market for office properties in C cities) and extensive lists of individual A, B, C and D cities in different segments, each with property-specific IRRs.

Press contact and free (electronic) copy of the study:

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Initiators of the study

Aurelis Real Estate GmbH & Co. KG is a real estate company operating throughout Germany with two business areas: In our asset management area, we manage and optimise our real estate portfolio and let space and properties to commercial tenants. In our development area, we turn undeveloped or unutilised sites into building land, with the aim of selling parcels of land that are ready for construction with planning rights. Once demand is secured, we complete the value creation process and realise our own building construction projects. Our special strength lies in identifying opportunities inherent to a property. Expert teams represent our business areas in all four regional offices as well as at our headquarters. They ensure location know-how and work together on an interdisciplinary basis.

BEITEN BURKHARDT Rechtsanwaltsgesellschaft mbH is an independent, international corporate law firm with a focused consulting service and around 280 lawyers at ten locations. With its long-standing presence in Germany, Brussels, China and Russia, the law firm advises SMEs, large companies and corporations in various industries as well as banks and the public sector. The real estate experts advise their clients on all phases of property management and infrastructure projects: from financing to the land purchase and project development through to letting or selling the property. Beiten Burkhardt implements innovative forms of property sales and trading and designs German and foreign real estate funds.

About bulwiengesa AG

bulwiengesa is one of the major, independent real estate industry analysis companies in continental Europe. For over 30 years, bulwiengesa has supported its partners and clients in questions of real estate and location and market analysis, including with sound data services, strategic advice and bespoke surveys, analyses and valuations. Meaningful individual data, time series, forecasts and transaction data are supplied by the information system RIWIS online. Users of the data from bulwiengesa include the Deutsche Bundesbank for the ECB, BIS and OECD.