

TRENDS IN THE GERMAN RETAIL MARKET 2013



September 2013

CORPUS SIREO

ASSET MANAGEMENT RETAIL

THE REAL ESTATE PEOPLE





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EXECUTIVE SUMMARY

- The German economy has solid fundamentals, with increasing private consumption, a low unemployment rate and rising GDP, thus maintaining the attractive position of the German real estate market for investors having a focus on security and a long-term investment strategy
- Retail share of consumer spending is stabilising at around 27%, highlighting the important role of the retail market in the German economy
- Grocery operators dominate the retail food market; whereas pharmacies account for the highest expected retail turnover increase in 2013
- Presence of international retailers has significantly risen over the past years; large-scale retailers see the German market as their top retail growth destination
- Falling letting volumes in Top 7 locations underline the limited availability of highly desirable core and core-plus retail properties. Demand for high-end retail space in inner-city areas keeps prime rents at high levels
- Highest half year commercial transaction volume since 2007; €27bn transaction volume forecasted for 2013; investors expect a lateral movement and constant prime yields
- Due to scarcity of core-products investors are extending their interest across the whole retail spectrum, moving to attractive regional city locations as an option for placing their safety-oriented investments

CORPUS SIREO ASSET MANAGEMENT RETAIL RETAIL EXPERTISE AND TRACK RECORD

RETAIL EXPERTISE & TRACK RECORD

- Since 2009, CORPUS SIREO has continually enhanced its retail expertise by acquiring retail mandates and increasing the skill- and knowledgebase
- In total CORPUS SIREO manages more than 330 retail assets with an NLA in excess of 500,000 sqm
- In addition c. €250m retail sales volume were generated to date
- Proven track record in cost analysis, optimisation and service charge reconciliation for retail assets
- Latest success: acquisition of the AM mandates for the Treveria Silo E with 149 retail assets and Silo F / K with 78 retail assets

Based on this proven success, CORPUS SIREO established a new division in July 2013, solely focused on providing retail real estate asset management services

CORPUS SIREO

ASSET MANAGEMENT RETAIL

- Foundation in July 2013
- Expansion and consolidation of retail capabilities through acquisition of retail team (mfi)
- Further enhancement and reinforcement of existing retail skill set and knowledgebase
- Retail services focus on Acquisition & Sales, Asset Management, Centre Management, Structuring & Financing
- International mind-set
- Reliable network of retail investors, tenants, developers, financiers and service providers
- Excellent reputation in retail market
- In-depth knowledge of retail markets as well as retail trends

CORPUS SIREO ASSET MANAGEMENT RETAIL

CORPUS SIREO'S ENHANCED RETAIL TEAM

TEAM RECORD

- Development of a portfolio with a value of c. €1.7bn including 6 large-volume shopping centres
- Transaction volume worth c. €1.2bn
- Acquisition of service contracts and joint venture contracts with an investment volume of €0.8bn
- Fund raising Institutional Investors / Family Offices: €500m equity
- Retail-specific external financing > €1.2bn
- On-site Management of five shopping centres
- International development and redevelopment of large shopping centres on behalf of third parties

CORPUS SIREO ASSET MANAGEMENT RETAIL

Thorsten Prior Executive Director

- Client Management
- Acquisition of new mandates
- Asset and Portfolio Management
- Supervision of retail investors
- Transaction and structuring



Dirk Wollweber Director

- Acquisition of institutional investors
- Supervision / key account investors
- Retail specific consulting & valuation
- Transaction & structuring



Georg Orlich Senior Executive Manager

- Asset and Portfolio Management
- Centre Management
- Letting
- Real estate marketing and positioning
- Development of projects and concepts



Guido Niesler Senior Executive Manager

- Acquisition of Family Offices and private retail investors
- Key account Family Offices and Private Wealth
- Conception and structuring of finance and investment models



Christoph Jauck Senior Executive Manager

- Asset and Portfolio Management
- Letting
- Project- and concept development
- (Re-) Developments
- Site analysis and feasibility studies



ECONOMIC BACKGROUND

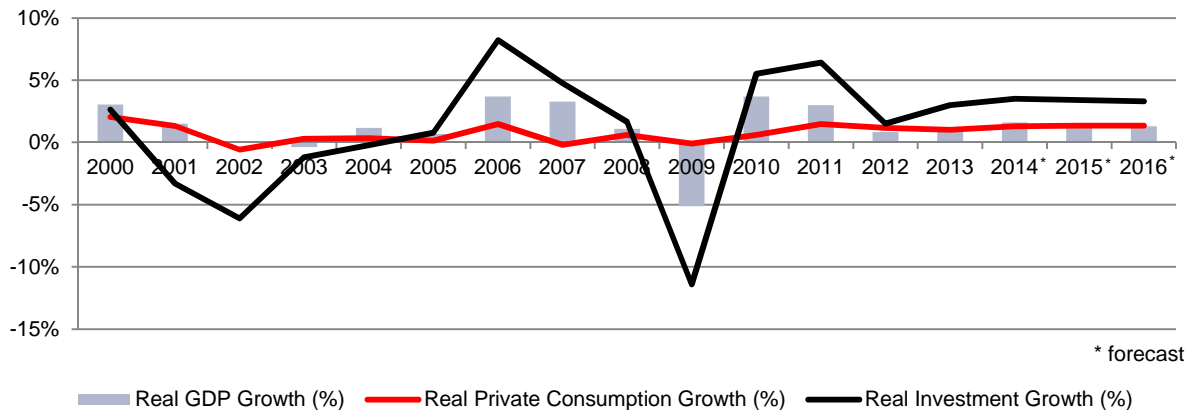
MODERATE ECONOMIC GROWTH, OPTIMISTIC CONSUMER BEHAVIOUR

- Germany's economy still increasing; outperforming in Europe
- Increasing annual private consumption by c. 3% to €1.7tn until 2016
- Forecast inflation of 1.6% in 2013
- Saving ratio stable at c. 11% since 2011
- Low unemployment rate of c. 5.4%
- Increasing share of one-person households from 30% to 40% till 2050

Solid economic fundamentals underline attractiveness of German retail market

Positive Economic Growth and Private Consumption

Key Economic / Retail Figures (2000-2016)



Source: Experian 2013

Positive Economic Growth compared to European Pears

Key Facts of the European and German Economy

Germany	2009	2010	2011	2012	2013*	2014*
GDP Europe (%)	-4.4	2.0	1.5	-0.6	-0.6	1.0
GDP Germany (%)	-4.7	3.6	3.3	0.7	0.4	1.7
Private consumption Europe (%)	-1.0	1.0	0.2	-1.3	-0.6	0.5
Private consumption Germany (%)	0.1	0.9	1.7	0.6	1.3	1.2
Unemployment rate Germany (%)	7.8	7.1	6.0	5.5	5.4	5.4

Source: Experian, Hahn Gruppe, Corpus Sireo 2013

* forecast

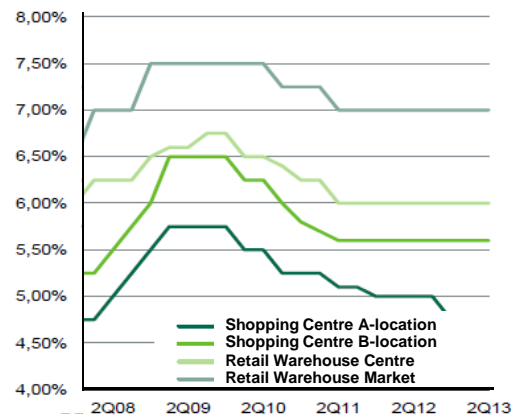
GERMAN RETAIL INVESTMENT MARKET HIGHEST HALF YEAR TRANSACTION VOLUME SINCE 2007

Quick Stats - Commercial Properties

	Q2 2013	Q-o-Q
Investment Turnover (€ billion)	5.9	↓
Number of Transactions	388	↑
Prime Yield		
Office (Top 5 locations)	4.80%	↓
Retail (A-location)	4.38%	→
Shopping-Centre	4.75%	→
Retail Warehouse	6.00%	→
Logistic	6.50%	→

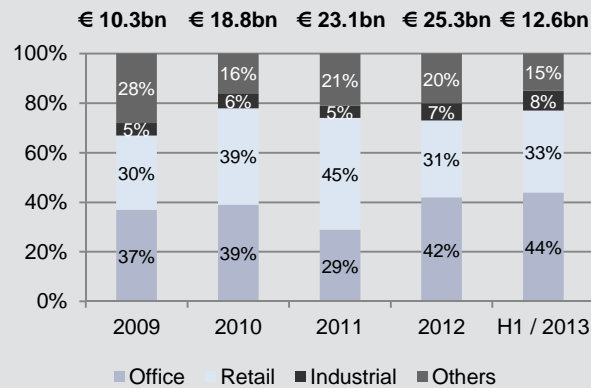
Source: CBRE 2013

Prime Yield



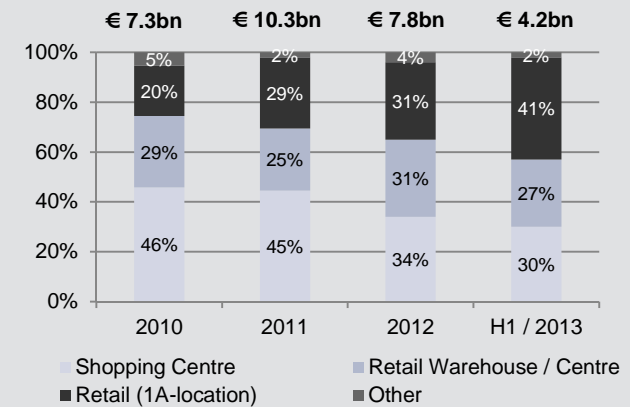
Source: CBRE 2013

Transaction Volume by Sector



Source: CRBE, Corpus Sireo 2013

Transaction Volume by Type of Use

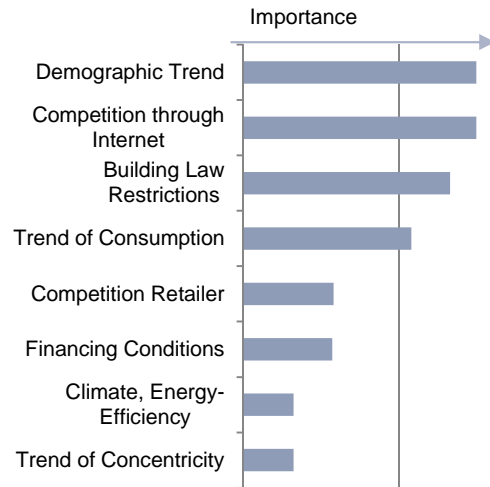


Source: CBRE, Corpus Sireo 2013

- Germany's solid economic fundamentals, diversified structure and increasing domestic consumption make Germany an attractive investment market for real estate investors
- Investor's still focus on core and core-plus products; a lateral market movement and constant prime yields are expected
- A commercial transaction volume of €12.6bn in H1/2013 indicate a 34% increase to the previous year. €27bn commercial transaction volume are forecasted for 2013
- Scarcity of core products in 1A locations hinder further transactions. Increasing demand for "broken core products" and regional markets
- Disproportionately high growth of portfolio deals comparing to previous year. Packet-Deals have a transaction volume of €3.4bn in H1 / 2013. Increase of 85% compared to previous year. Single property deals still dominate the investment market

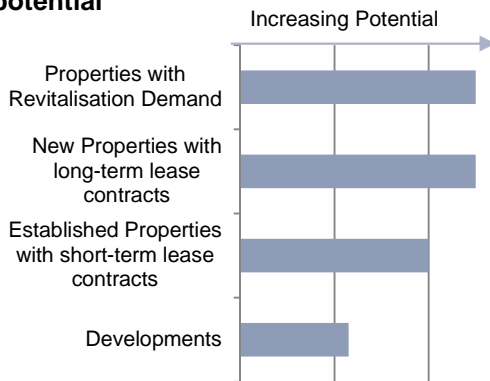
GERMAN RETAIL INVESTMENT MARKET INCREASING FOCUS ON RETAIL WAREHOUSE CENTRES

Factors for Investment Decision



Source: Hahn Gruppe, Corpus Sireo 2013

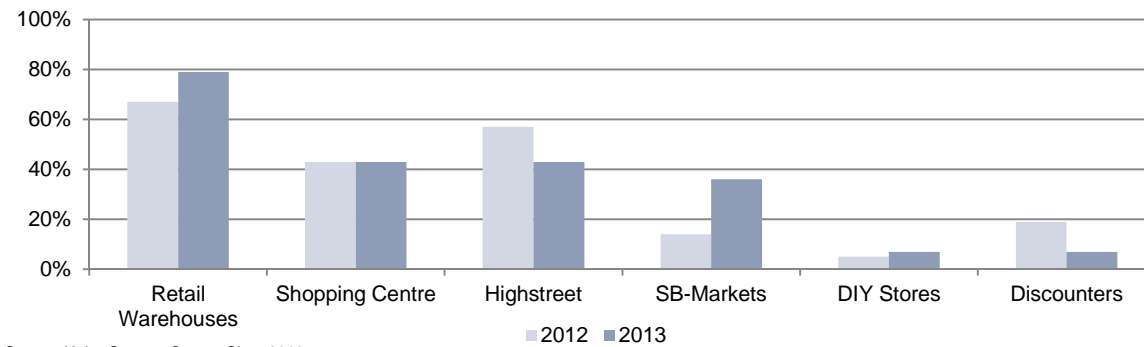
Properties with high Investment-potential



Source: Hahn Gruppe, Corpus Sireo 2013

Investors turn Interest to Retail Warehouses

Future Retail Acquisition Focus



Source: Hahn Gruppe, Corpus Sireo 2013

€38bn & €14bn Investment Market Potential in Shopping and Retail Warehouse Centres

Investment Market Potential of Shopping and Retail Warehouse Centres



Source: Hahn Gruppe, Corpus Sireo 2013

COMPARISON OF RETAIL FORMATS

ATTRACTIVE RETAIL FORMATS GAINING GROUND

Discounter				Shopping Centre				Retail Warehouse			
Discounter - Top 5 Operators				Shopping-Centre - Top 5 Performing Centres				Retail Warehouses - Operators (Selection)			
Operators	Turnover 2011	Number of Stores 2011	Ø Sales Area [sqm]	Operators	City	Operator	Grade	Operators	Turnover 2011	Number of Shops 2011	Ø Sales Area [sqm]
1. Lidl	€ 14.4 bn	3,305	813	1. Lago	Konstanz	Prelios Dtl.	1.62	1. Obi	€ 3.7bn	342	7600
2. Aldi-Sued	€ 11.4 bn	1,800	796	2. Centro	Oberhausen	Centro Mgnt.	1.67	2. Bauhaus	-	128	10080
3. Netto	€ 10.7 bn	4,090	740	3. Breuningerland	Sindelfingen	ECE	1.71	3. Euronics	€ 2.4bn	1,915	249
4. Aldi-Nord	€ 9.8 bn	2,530	804	4. Alexa	Berlin	Sierra Mgnt.	1.74	4. Media Markt	€ 5.8bn	246	3224
5. Penny	€ 6.7 bn	2,400	691	5. Brücken-Center	Ansbach	Brücken-Center	1.80	5. Saturn	€ 3.2bn	149	3631
Market Situation				Market Situation				Market Situation			
<ul style="list-style-type: none"> Discounters still dominating grocery market with 43% of market share Declining differences between retailers due to increasing range of product and diversity increasing competition Netto has biggest store network, Lidl and Aldi-North biggest sales area Due to high density of stores, Lidl and Aldi focus on rationalising their store network On turnover basis Lidl is No. 1 due to Aldis legally and financially independent Aldi North and Aldi South corporate groups Net prime yield of c. 8.0% 				<ul style="list-style-type: none"> Majority of retail investments continue to be in shopping-centres; investors continue to focus on high-street prime assets Due to scarcity of core products international investor turn their focus on broken core units and regional city locations Share of shopping centre investment declined to 30%, constant to declining prime yield Dominant market leader for centre-management is still ECE; best performing shopping centre is Lago in Konstanz Net prime yield: c. 4.7 - 5.6% 				<ul style="list-style-type: none"> Increasing investor demand for retail warehouses due to low availability of shopping-centre investment opportunities Share of retail warehouse investments declined to 27%; upcoming scarcity of retail warehouse investment opportunities 41 retail warehouse centres in Top 7 A-cities Energy-efficient and high quality buildings with long-term tenant-contracts Retail warehouse agglomerations have an average gross lettable area of 27,900 sqm and centres an average GLA of 22,400 sqm Net prime yield: c. 6.0 - 7.0% 			
Source: EHI Retail Institute, CBRE, Hahn Gruppe, Corpus Sireo 2013				Source: Ecostra/IZ 2012, CBRE, BNP, Deka Bank, Corpus Sireo 2013				Source: EHI Retail Institute, CBRE, MEC 2013			

REGIONAL OVERVIEW

DEMAND FOR INNER-CITY AREA KEEPS PRIME RENTS AT HIGH LEVEL

Falling Lease Volume in Top 7 locations, Increasing focus on Key Regional Cities

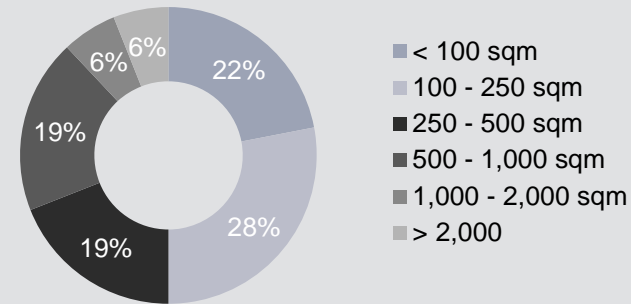
Letting Volume (in sqm)

City	H1 / 2013	H1 / 2012	Change	Ø 2008-2012
Berlin	17,900	35,400	-49%	46,000
Munich	6,700	13,200	-49%	19,800
Stuttgart	7,100	12,900	-45%	8,700
Düsseldorf	6,300	8,900	-29%	15,800
Hamburg	5,200	9,000	-42%	14,100
Hanover	2,800	8,200	-66%	10,800
Cologne	13,700	7,400	85%	17,400
Frankfurt am Main	12,700	6,500	95%	14,400
Leipzig	3,500	1,900	84%	8,200
Nuremberg	1,100	1,900	-42%	3,000

Source: JLL, Corpus Sireo 2013

Strong Demand for Smaller Retail Assets

Leased Retail Space by Size (%)



Source: JLL, Corpus Sireo 2013

Stable Prime Rents in Top 10 Cities

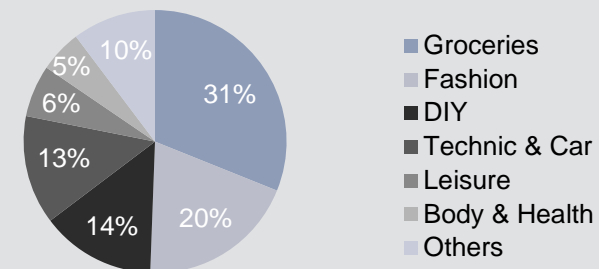
Prime Rent (EUR/sqm/month)

City	H1 / 2013	H1 / 2012	Change	Forecast
Munich	350	330	6%	350
Frankfurt am Main	290	290	0%	290
Düsseldorf	265	255	4%	275
Hamburg	255	250	2%	255
Berlin	280	240	17%	280
Cologne	250	240	4%	250
Stuttgart	240	235	2%	240
Hanover	185	185	0%	185
Nuremberg	165	160	3%	165
Leipzig	120	115	4%	120

Source: JLL, Corpus Sireo 2013

Groceries and Fashion in Focus

Share of Segments to Total Retail Turnover (%)



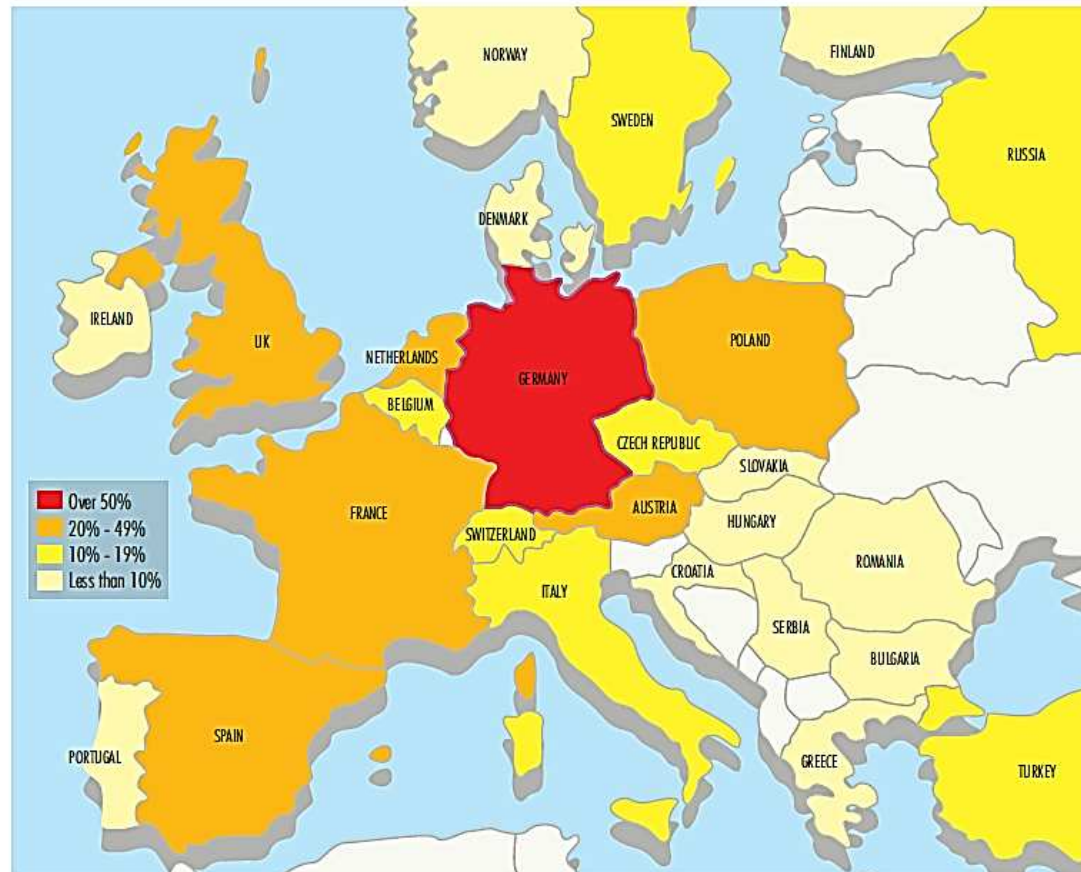
Source: EHI Retail Institute 2012

SEGMENT OVERVIEW: RETAIL COMPANIES INTERNATIONAL DISTRIBUTION CHANNELS FOCUS ON GERMANY

- Germany's high streets and shopping centres are becoming increasingly international
- Presence of international retailers has significantly risen over the past years
- Germany's stable / growing economy attracts international chains
- Groceries have 40% share of total purchasing power, DIY products 11% and fashion 9%
- 2/3 of new retail concepts since 2007 are with international background
- Large-scale retailers such as Abercrombie & Fitch, Primark, and Forever21 have improved their presence in Germany

Germans retail market seen as new top retail destination in Europe

Germany as Hot Spot for Retail Companies in 2013/14



Source: CBRE 2013

SEGMENT OVERVIEW: RETAIL COMPANIES

GERMANY'S RETAIL COMPANIES STILL DOMINATING

Top 10 retailers in Germany

Turnover in Germany for 2012 in Billion €

Operators	Turnover	Number of Stores
1. Edeka	€ 47.2 bn	11,900
2. Rewe	€ 35.5 bn	10,840
3. Lidl	€ 35.0 bn	3,900
4. Aldi	€ 25.5 bn	4,300
5. Metro C&C	€ 13.6 bn	420
6. Tengelmann	€ 11.0 bn	4,500
7. Mediamarkt/Saturn	€ 9.6 bn	400
8. Lekkerland	€ 7.0 bn	59,000
9. Obi	€ 6.5bn	348
10. Otto	€ 5.9 bn	-

Top 5 food retailers in Europe

Turnover in Europe for 2012 in Billion €

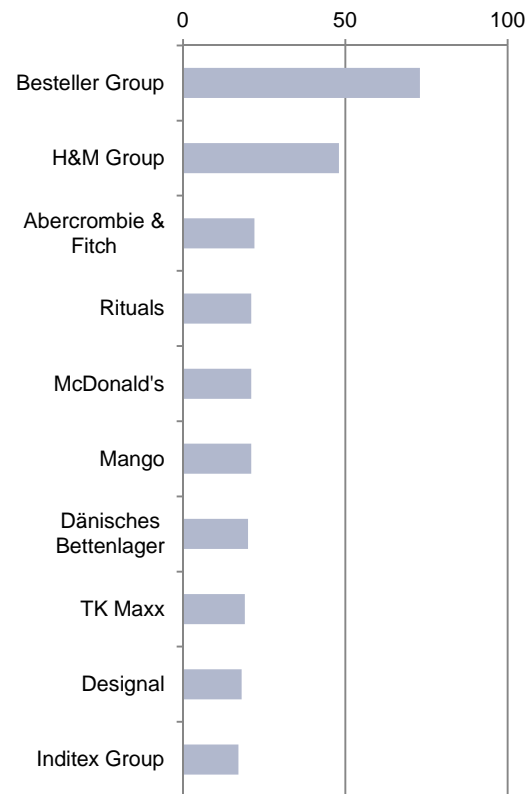
Operators	Turnover Europe	Turnover International
1. Schwarz (DE)	€ 69.5 bn	€ 69.5 bn
2. Tesco (UK)	€ 62.2 bn	€ 89.2 bn
3. Carrefour (FR)	€ 56.2 bn	€ 76.8 bn
4. Aldi (DE)	€ 55.0 bn	€ 66.0bn
5. Rewe (DE)	€ 49.7 bn	€ 49.7 bn

Source: Retail-Index 2013

Groceries such as Edeka and Rewe dominating Retail Market

Top 10 most active International Retailers in Germany

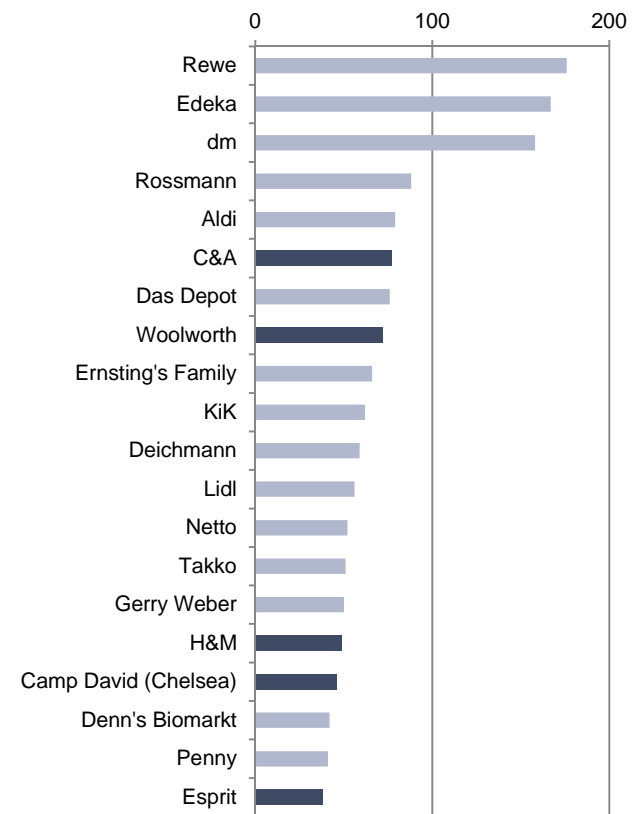
Number of retail transactions (new shops) in 2012



Source: CBRE 2013

Most active Retailers in Germany

Number of retail transactions (new shops) in 2012



■ International Retailers ■ German Retailers

SEGMENT OVERVIEW: RETAIL BUILDINGS

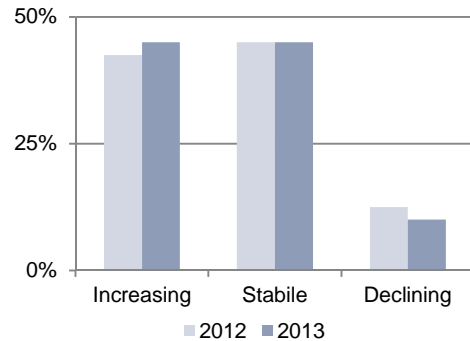
PHARMACIES IN RETAILER'S FOCUS

Success Factors for Retailers



Source: Hahn-Gruppe, Corpus Sireo 2013

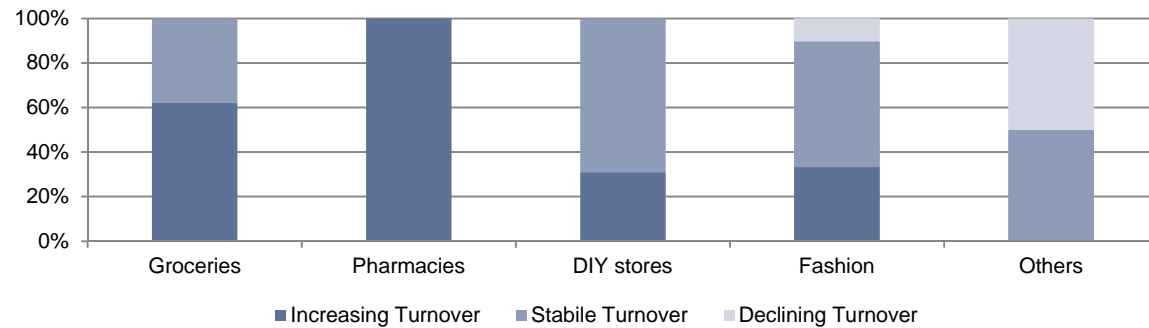
Demand for New Locations / Sales Area



Source: Hahn-Gruppe, Corpus Sireo 2013

Pharmacies with highest expected Turnover Increase in 2013; Groceries following:

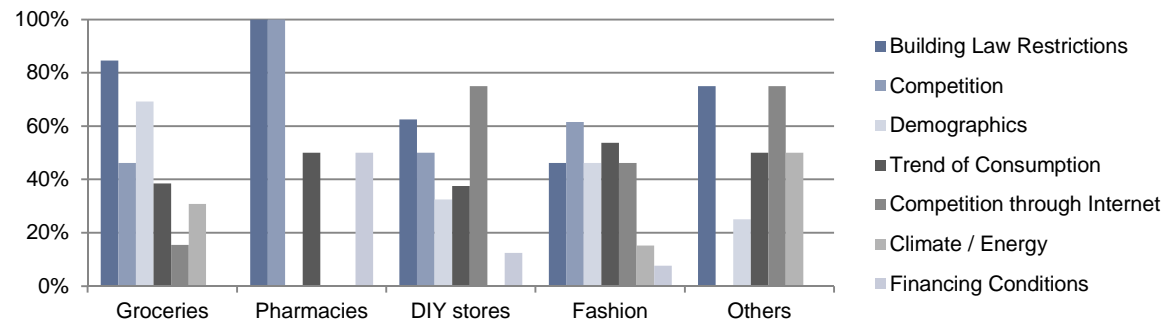
Expectations for Turnover in 2013



Source: Hahn-Gruppe, Corpus Sireo 2013

Building Law Restrictions, Competition and Demographics most important factors for new Store Development

Factors for New Store Development



Source: Hahn-Gruppe, Corpus Sireo 2013

SEGMENT OVERVIEW: RETAIL BUILDING TYPES

DECLINING DIFFERENCES BETWEEN GROCERIES STORES

Specification of different Retail Building Types										
Rental Area	Plot Size [sqm]	Sales Area					Price Segment	Market Importance	Typical Tenants	Share of Food
		very small	small	middle	large	very large				
		< 500 sqm	500 - 1,500 sqm	1,500 -2,500 sqm	2,500 - 5,000 sqm	> 5,000 sqm				
Small Supermarket	Mostly shared site with other tenants	X					middle	low	small retailers	>95%
Convenience Store	Mostly shared site with other tenants	X					high	low	small retailers	>95%
Supermarket	1,000 - 3,000		X				middle	middle - high	Edeka, Rewe	90-95%
Discounter	>5,000		X				very low	high - very high	Aldi, Lidl	80-95%
Large Supermarket	>3,000			X			low	middle - high	Rewe, Familia	70-85%
SB-Warehouse	>15,000				X		low	middle - high	Kaufland, Toom	60-80%
Pharmacies	>1,000		X				low - middle	middle - high	DM, Rossmann	<5%
Boutique, Specialist Shop	Depending on concept	X	X	X	X	X Shopping-zone	very high	high - very high	Benetton	<5%
Retail Warehouse	Depending on concept; >1,000		X [zoo-food; fashion]	X [toys; electrics]	X [electrics; furniture]	X [furniture]	low - middle	high - very high	Saturn, Deichmann	0%
Department Store	Depending on concept						middle - high	-	C&A, H&M	0%
Warehouse	Depending on concept					X		-	Karstadt, Galerie Kaufhof	<5%
DIY- Market	Depending on concept				X	X	low - middle	-	Bauhaus, Toom	0%

Source: KMPG, Corpus Sireo 2013

ASSET MANAGER'S VIEWPOINT

INCREASING MARKET REQUIREMENTS DEMAND DETAILED ANALYSES

Performance of Asset Manager increasingly important

Investor

Core Investors

- Net prime yield potential of >5.0% required, challenge due to return hurdles, including Solvency II
- Scarcity of retail properties which fulfill investors requirements with low risk profile

Distressed Investors

- Distressed cash flow and low availability of equity for stabilising portfolio
- High deferred maintenance in portfolio
- Average all capital WALT per asset <5.0 years
- Properties mostly in B and regional locations

Bank

- Increasing equity requirements due to Basel III regulations
- Banks tend to balance sheet contraction, contra productive to BP's
- Investment opportunities are scrutinised even more closely for potential risks
- Higher reporting requirements lead to a demand of more equity
- Real estate financing becomes more expensive
- Banks tend to sell than invest, especially regarding distressed assets
- Bank's very sensitive as to AM/PM partners

Tenant

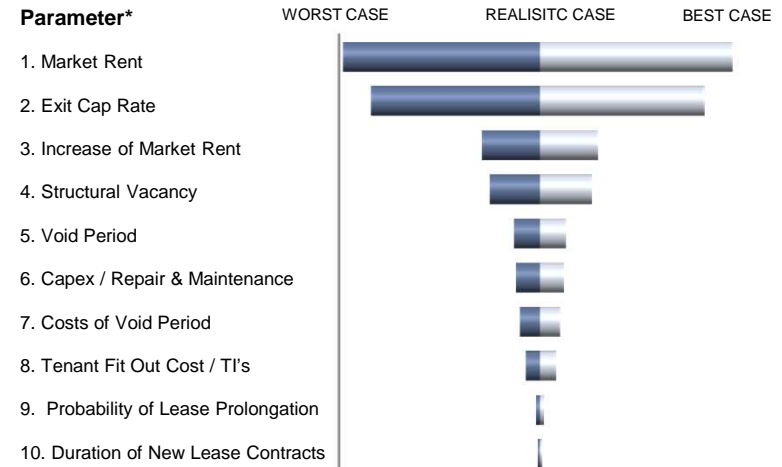
- Increasing competition due to declining differences between retailers leads to lower margins
- Operators need more flexibility in property and locations
- Prolongations of lease contracts are scrutinised more closely
- Low willingness of long-term lease contracts and higher rent
- Long-term lease contracts of >20 years are of rarity and only possible in return for high investments in new concepts of operators

Demand for sophisticated Asset Management Solutions will increase

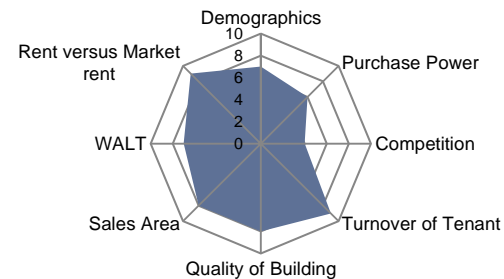
Source: Corpus Sireo 2013

Factors influencing Property Value

Difference of Valuation to Realistic Case



Factors influencing Sales Prices



OPINION FROM OUR RETAIL EXPERTS

NEW CHALLENGES IN THE RETAIL MARKET



Douglas Edwards
Managing Director

INVESTORS PERSPECTIVE:

From an international perspective, the investor appetite in the retail sector is still growing, with core investors, like Sovereign Wealth Funds, becoming active. The investors attention is focussed on large standing investments and homogeneous portfolios, which are increasingly scarce in Germany. Hence international investors recognise the need for experienced local retail asset management partners as property sources, who are also capable of repositioning of different retail property types, thus creating value.



Dirk Wollweber
Director

TENANT PERSPECTIVE:

For a long time, Germany was considered as boring, but today international retail expansion in Germany is proceeding at a feverish pace. Retailers from abroad are prepared to pay prime rents and to sign long-term leases. Strong demand is especially noted for small and medium-sized premises to accommodate monolabel shops. The German retail market is today the biggest in Europe and has fared better than others in the Eurozone. Actually 5 German cities are amongst JLL's European Cross Border retail Index Top 20, which underlines that Germany offers a tremendous variety of top retail destinations.



Thorsten Prior
Executive Director

MARKET PERSPEKTIVE:

The visible first-quarter transaction volume of 2013 for retail properties in Germany is with approx. €1.5bn slightly under the comparable prior-year result. It is unlikely that the outstanding volumes of 2010 and 2011 will be reached in 2013 because of the ongoing shortage of relevant assets, especially in the large-volume core segment. Hence, a shift to smaller lot sizes and "broken-core" or value-add can be predicted, despite new international retailers entering the German market. Simultaneously special-purpose or equity funds will gain more and more importance as well as private investors.



Sven Bernstein
Associate Director

LEASING PERSPECTIVE:

Due to changing consumer requirements, e.g. increasing importance of brands and fresh products, differences between retail types (e.g. discounters, supermarkets and retail warehouses) are declining, thus increasing competition between operators. Property requirements and lease contract conditions are impacted in turn. Accordingly, key success factors for value enhancement, such as long lease terms in excess of ten years and tailor-made sustainable property strategies will be a true asset management challenges.

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APPENDIX

BELL MANAGEMENT CONSULTANTS IMMOBILIEN MANAGER VERLAG CERTIFY: CORPUS SIREO IS GERMANY'S LEADING ASSET MANAGER

No.1 in Bell Asset Management Survey



- Market survey published by Bell Management Consultants – a well-known German-based real estate advisor – in 2011 and 2012
- Survey provides an overview and ranking of companies providing real estate asset management services in Germany
- Study explores business models as well as range of services offered
- CORPUS SIREO is **largest asset manager** based on
 - assets under management
 - space managed
 - number of employees
- CORPUS SIREO is the **most diversified asset manager** with the
 - highest number of regional offices and
 - largest number of asset classes covered
- Peers consider CORPUS SIREO as the **main competitor** in the field of asset management services in Germany

Winner of the Immobilien Award 2012 (category management)

- Every year the real estate manager Award is given to real estate companies and institutions by a jury of top-class real estate professionals
- 2012 winner in the category **MANAGEMENT** is CORPUS SIREO
- The jury especially recognised:
 - **Value added** for CORPUS SIREO clients
 - Outstanding results generated in **secondary cities**
 - Significant reduction in **operating costs**
 - Successful letting and sales of **challenging properties**
- Furthermore the jury outlined that CORPUS SIREO, as opposed to comparable competitors, operates in all relevant asset classes throughout Germany

