

TRENDS IN THE GERMAN RETAIL MARKET 2014

FOCUS ON FOOD RETAIL



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RISING SIGNIFICANCE OF GERMAN FOOD RETAIL MARKET

- Low unemployment rates, rising incomes and a new lifestyle consciousness resulting in greater consumer enthusiasm in Germany thus positively influencing retail spend
- Food retail generates one third of German retail trade, thus making it the most important retail segment
- Impact of e-commerce on food retail market differs from impact on general retail trade; multi-channelling is considered to be a key factor of success for the food retail market of the future whereas at the moment its influence is negligible
- Consolidation process of Germany's food retail market; big 5 dominate and continue to take over small and unprofitable companies
- In contrast to European peers there is no noteworthy market presence of international food retailers
- Strong commercial transaction volume of c. €35bn in 2014 expected with a significant share of retail transactions of c. €10bn
- Due to the constant lack of supply in the core segment, a greater willingness of investors to invest beyond the core segment is noticed

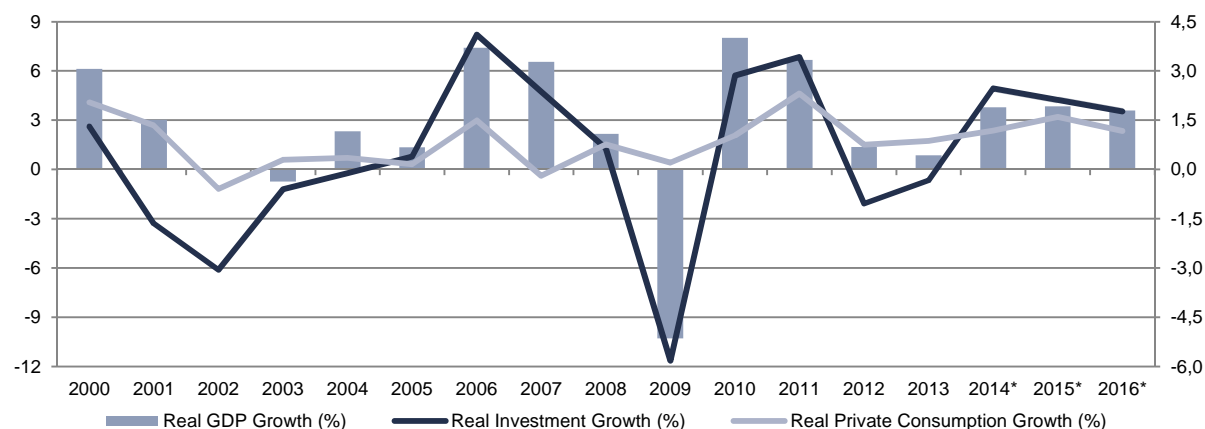
POSITIVE CONSUMER BEHAVIOUR DUE TO HEALTHY GERMAN ECONOMY

- Germany's economy continues to outperform Europe
- Low unemployment rate of c. 5.0%
- Inflation forecast of 1.4% in 2015 remaining at moderate level
- Lowest saving rate since 2001 amounting to 10%
- Rising demand for consumer goods due to increasing number of single households (>40% until 2025)
- Increasing annual private consumption by c. 1.3% until 2017

German retail market with promising outlook due to healthy economic development

Stable Economic Growth and Private Consumption

Key Economic / Retail Figures (2000-2016)



Source: Experian, CORPUS SIREO 2014

*Forecast

Germany outperforming its European Peers

Key Facts of the European and German Economy

Germany	2010	2011	2012	2013	2014*	2015*
GDP Europe (%)	2.0	1.6	-0.7	-0.4	1.2	1.5
GDP Germany (%)	4.0	3.3	0.7	0.4	1.9	1.9
Private consumption Europe (%)	1.0	0.3	-1.3	-0.7	0.8	1.2
Private consumption Germany (%)	1.0	2.3	0.8	0.9	1.2	1.6
Unemployment rate Germany (%)	7.1	6.0	5.5	5.3	5.0	5.1

Source: Experian, IMF, CORPUS SIREO 2014

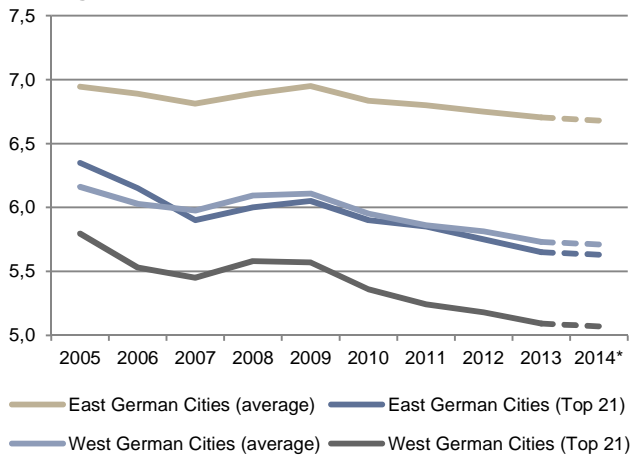
*Forecast

GERMAN INVESTMENT MARKET ATTRACTS INTERNATIONAL INVESTORS

Key Market Indicators - Commercial Properties		
	Q2 2014	Q o Q
Investment Turnover (€ bn)	6.98	↓
Number of Transactions	420	↑
Prime Yield		
Office (Top 5 average)	4.6%	→
Retail (Top 5 average)	4.1%	↓
Shopping-Centre	4.5%	→
Retail Park	5.9%	→
Logistics	6.3%	→

Source: CBRE, CORPUS SIREO 2014

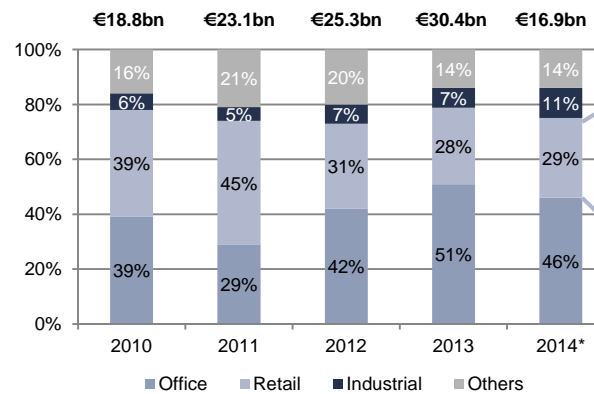
Average Retail Yields (%) – Central Locations



Source: RIWIS, CORPUS SIREO 2014

* Forecast

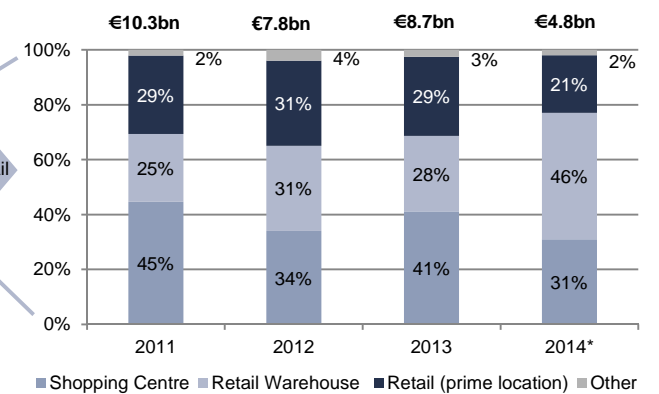
Transaction Volume by Sector



Source: CBRE, CORPUS SIREO 2014

* H1/2014

Transaction Volume by Retail Format



Source: CBRE, CORPUS SIREO 2014

* H1/2014

- Second highest half-year transaction volume since 2007, further rise to €35bn expected for 2014
- Share of international investors in overall transaction volume rose strongly to c. 50% in the first half of 2014
- Only about a quarter of the retail transaction volume invested in the Big 5, investors are increasingly expanding their focus to regional markets, e.g. East German cities
- Investors are increasingly willing to invest in the retail warehouse/supermarket segment, on account of higher achievable yields
- Investor focus shifts from prime location to non-core investments, hence limited yield compression is expected beyond 2014

INVESTOR DEMAND FOR CORE PROPERTIES KEEPS PRIME RENTS AT HIGH LEVEL

Falling Lease Volume in Top 7 Locations; Increasing Focus on Key Regional Cities

Letting Volume (in sqm)

City	H1/2012	H1/2013	H1/2014	Ø 2009-2013
Berlin	35,400	17,400	36,200	50,000
Munich	13,200	6,900	10,100	22,000
Stuttgart	12,900	7,100	11,700	10,500
Düsseldorf	8,900	7,200	2,800	18,500
Hamburg	9,000	5,300	21,900	15,500
Hanover	8,200	2,800	5,300	11,000
Cologne	7,400	13,500	6,400	19,000
Frankfurt am Main	6,500	12,700	16,800	18,500
Leipzig	1,900	3,500	1,700	10,000
Nuremberg	1,900	1,100	1,000	3,000

Source: JLL, CORPUS SIREO 2014

Stable Prime Rents in Top 10 Cities

Prime Rent (EUR/sqm/month)

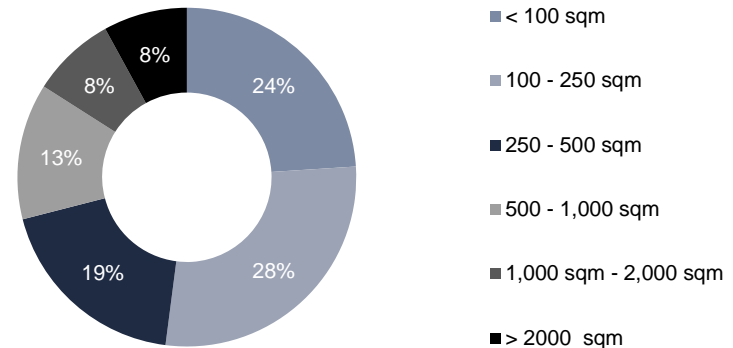
City	H1/2012	H1/2013	H1/2014	Forecast*
Munich	330	350	360	360
Frankfurt am Main	290	290	300	300
Düsseldorf	255	265	285	285
Hamburg	250	255	255	275
Berlin	240	280	280	300
Cologne	240	250	250	250
Stuttgart	235	240	245	250
Hanover	185	185	190	195
Nuremberg	160	165	165	160
Leipzig	115	120	120	120

Source: JLL, CORPUS SIREO 2014

*Forecast H2/2014

Focus on Small Retail Units

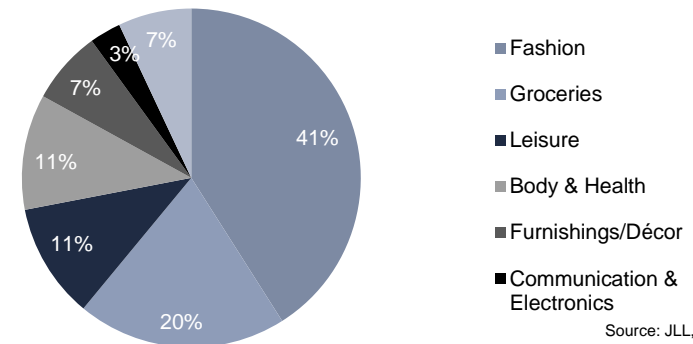
Leased Retail Space by Size (%)



Source: JLL, CORPUS SIREO 2014

Fashion and Groceries Dominating

Share of Segments to Total Retail Turnover (%)



Source: JLL, CORPUS SIREO 2014

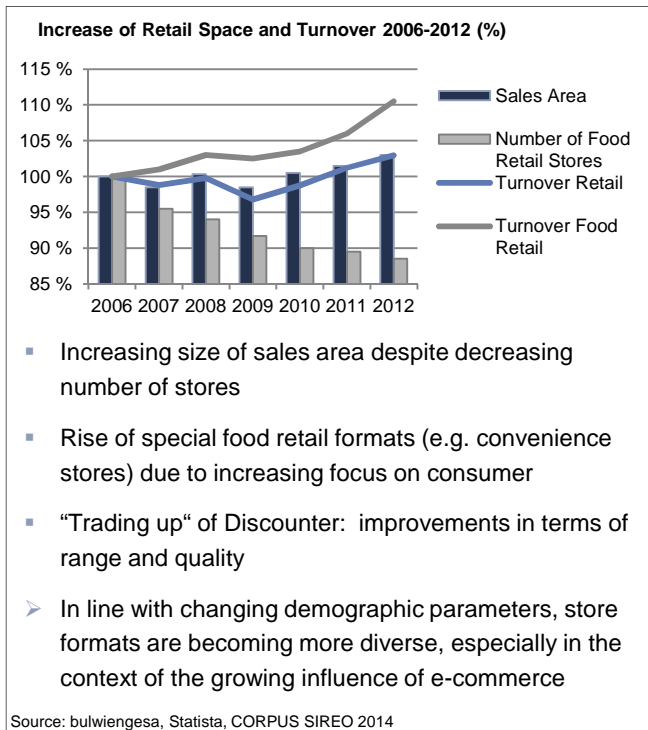
FOOD RETAILING BECOMING INCREASINGLY DIVERSE

Retail Formats											
	Property Size [sqm]	Sales Area					Price Segment	Typical Tenants	Reachability by foot	Reachability by car	
		very small	small	medium	large	very large					
Food	Rental Area	-	< 500 sqm	500 - 1,500 sqm	1,500 -2,500 sqm	2,500 - 5,000 sqm	> 5,000 sqm				
	SB-Warehouse	>15,000	X					medium-high	Kaufland, Toom	Important	Very Important
	Large Supermarket	>3,000	X					medium	REWE, Famila	Important	Very Important
	Supermarket	1,000 - 3,000	X					medium	EDEKA, REWE	Very Important	Important
	Small Supermarket	Mostly shared site with other tenants	X					medium	REWE City/to go, Tegut City, SPAR Express	Very Important	Not Important
	Discounter	>5,000	X					low	Aldi, Lidl, Netto, Penny	Important	Very Important
	Organic Supermarket	300-800	X					high	Alnatura, Denn´s	Very Important	Not Important
Non-Food	Retail Warehouse	Depending on concept; >1,000	X	X [toys; electronics]	X [electronics; furniture]	X [furniture]	low – medium	Saturn, Deichmann	Important	Important	
	Warehouse	Depending on concept	X					medium	Karstadt, Galerie Kaufhof	Very important	Important
	Department Store	Depending on concept	X	X	X	X	X	medium – high	C&A, H&M, Zara	Very Important	Important
	Boutique, Specialist Shop	Depending on concept	X	X	X	X	X	very high	Benetton	Important	Important
	DIY- Market	>1,000	X					low - medium	Obi, Bauhaus	Not Important	Very Important
	Drugstore	>500	X					low – medium	DM, Rossmann	Important	Important

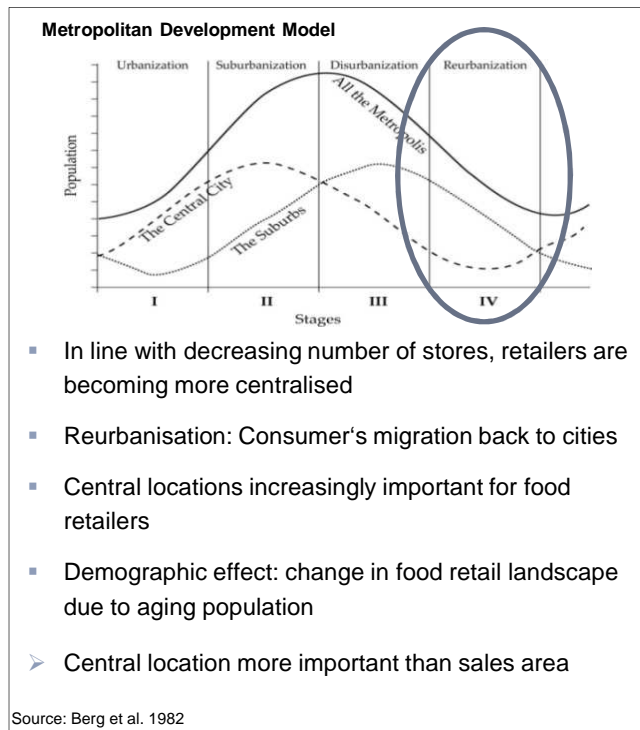
Source: KPMG, CORPUS SIREO 2014

MOST INFLUENTIAL TRENDS ON FOOD RETAIL

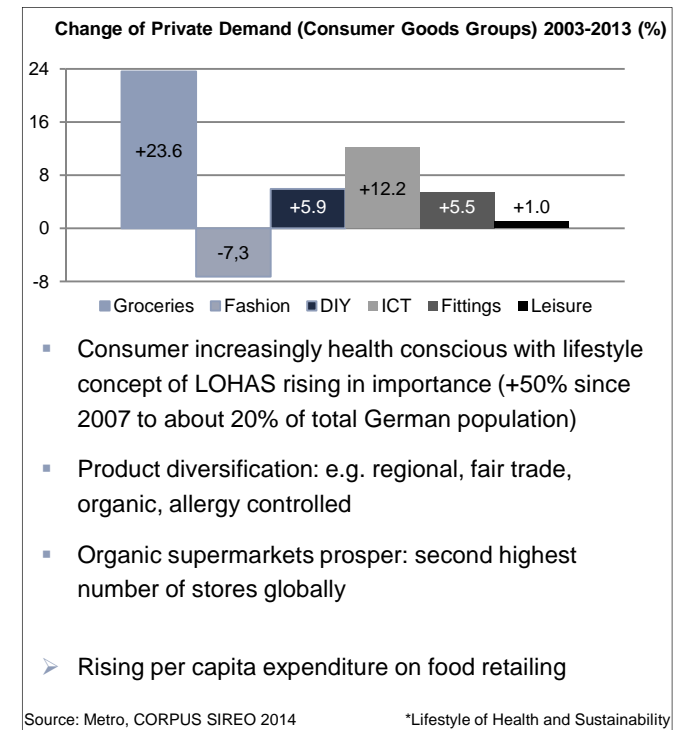
1. Store Formats: More Heterogeneous



2. Location: Back to the Roots



3. Consumer Groups: Trendsetter LOHAS*



- Stronger diversification of customer needs and demand
- Sustainable energy and building technology of increasing importance
- Retail formats of Supermarkets and Discounters are converging
- Stronger centralisation of food retailers expected

ATTRACTIVE RETAIL FORMATS GAINING GROUND

Discounter – Top 5 Operators

Operators	Turnover 2013	Number of Stores 2013	Ø Sales Area [sqm]
1. Lidl	€18.5bn	3,257	818
2. Aldi-Süd	€15.6bn	1,810	812
3. Aldi-Nord	€11.3bn	2,424	819
4. Netto	€12.9bn	4,070	766
5. Penny	€7.4bn	2,247	692

Market Situation

- Discounters still dominating grocery market with a market share of c. 45%
- Discounters with sales area of c. 35% of overall food retailers; highest retail space productivity amongst all food retail formats
- Aldi and Lidl are offering an extended product range of up to 1,700 products
- Higher consumer requirements regarding range of products and diversity resulting in increasing sales area (>1,000 sqm)
- Value of properties with limited sales area of < 1,000 sqm will decrease strongly

Source: Lebensmittelzeitung, EHI Retail Institute, CORPUS SIREO 2014

Supermarket – Top 5 Operators

Operators*	Turnover 2013	Number of Stores 2013
1. EDEKA	€31.2bn	7,435
2. REWE	€16.4bn	1,762
3. Kaufland	€13.4bn	636
4. Real	€9.1bn	312
5. Kaiser's Tengelmann	€1.9bn	501

* Incl. SB-Warehouse

Market Situation

- Individual shop concepts are becoming increasingly important (e.g. REWE more than 10)
- Owner-operated stores outperform company-run retailers
- Privatisation of stores (e.g. EDEKA / REWE) is being facilitated
- Surface area productivity lower than those of Discounters
- Expansion often takes place by takeover of already existing areas or smaller shop concepts

Source: Annual Reports 2013, Lebensmittelzeitung, CORPUS SIREO 2014

Organic Supermarket – Top 5 Operators

Operators	Turnover 2013	Number of Stores 2014*	Ø Sales Area [sqm]
1. Denn's Biomarkt	€676m	140	474
2. Alnatura	€663m	90	580
3. Basic	€133m	28	764
4. Bio Company	€110m	37	498
5. Ebl-Naturkost	€50m	23	509

* Effective: 08/2014

Market Situation

- Rising importance; 15% increase in turnover in 2013 to €7.6bn (quadrupled since 2000)
- Germany with highest turnover in the European Union
- Increasing demand from customers for organic supermarkets
- Number of chains and branches increases, but no national operator
- High significance of micro location due to customer needs and organisation
- Sales area considerably smaller than that of other retail formats

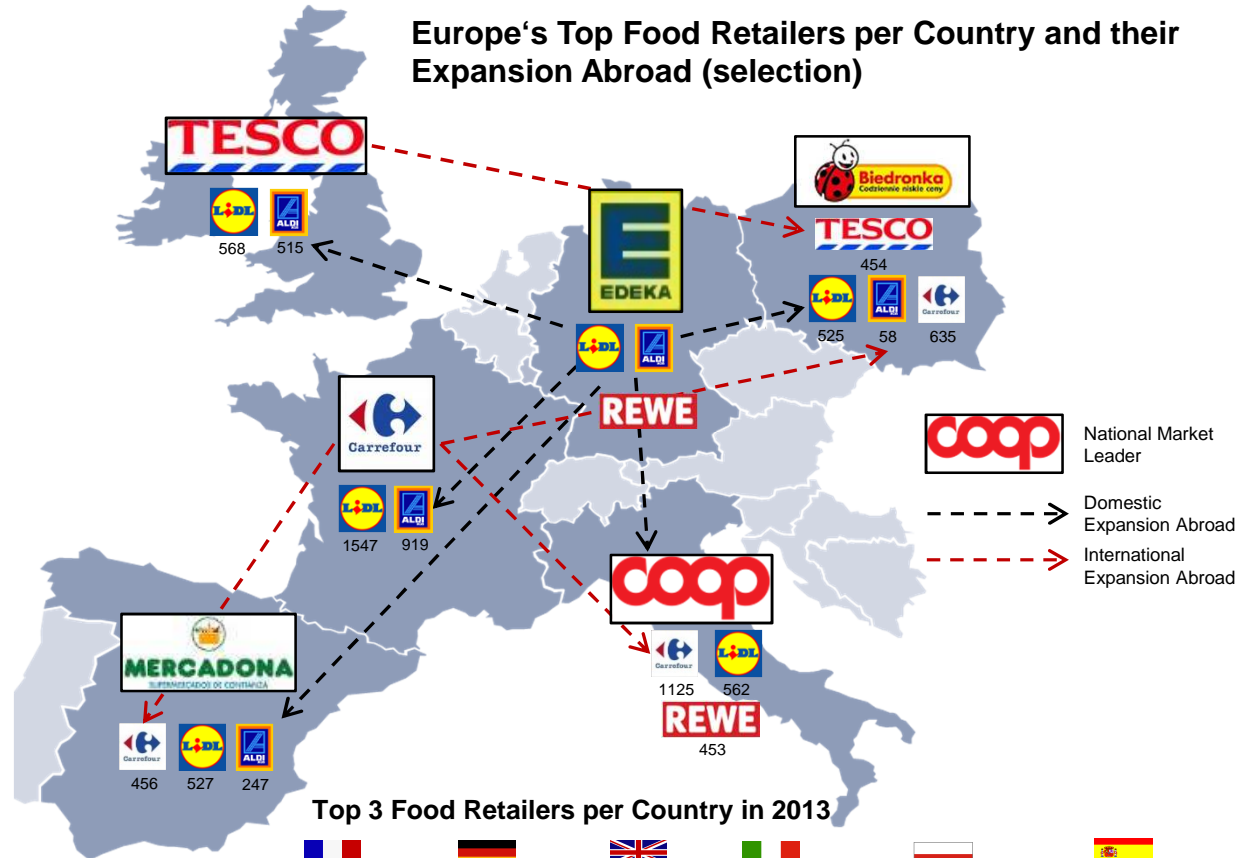
Source: Annual Reports 2013, bulwiengesa, CORPUS SIREO 2014

GERMAN FOOD RETAIL MARKET CONTESTED BY NATIONAL CHAINS ONLY

- 4 out of 5 of Europe's top food retailers are from Germany (2013, by turnover)
- German food retailers expand their presence across Europe
- In Europe's largest food retail markets at least one German food retailer is amongst top10 market players
- Germany with strong competition in low price segment due to Discounter
- Hence, international food retailers hardly manage entry into the German market
- No international food retailer in Germany's top10



Expansion of German food retailers abroad, but national market with high entry barrier for international companies



Source: Lebensmittelzeitung, Annual Reports 2013

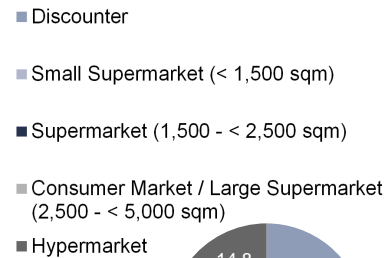
*Kaufland & Lidl; **Biedronka

DIVERSE DEMOGRAPHIC DEVELOPMENT WILL LEAD TO VARIED REGIONAL DEVELOPMENTS IN FOOD RETAIL

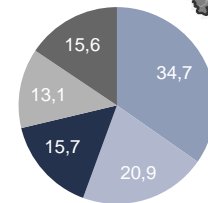
- Shrinking population especially in East Germany expected
- Despite diminishing demand, a declining number of inhabitants is not necessarily accompanied by a decline in the number of food retail stores
- Discounters are the dominating store types in Germany with a disproportionately high importance in Eastern Germany
- Location and commuting area are most important factors for operators, rather than sheer size of agglomeration

The ongoing demographic changes are manifested in changing consumer needs and behaviour, thus requiring different retail locations and formats

Share of Overall Retail Space by Type of Operation and Region (%)

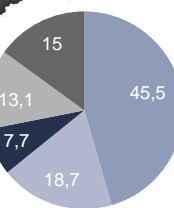
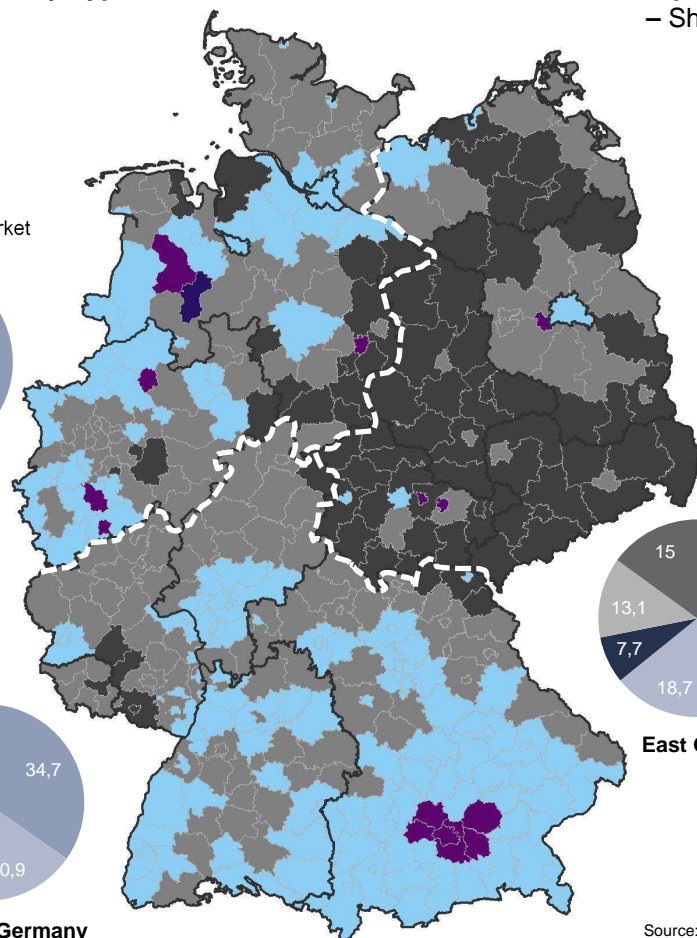
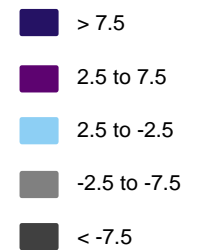


Northwest Germany



Southwest Germany

Population Projection – Shift 2020-2030 (%)



East Germany

Source: bulwiengesa, CORPUS SIREO 2014

CHANGING CUSTOMER BEHAVIOR AS DRIVER FOR NEW RETAIL CONCEPTS

Demand for Sophisticated Asset Management Solutions and Multi-Segment Knowledge still Increasing

Investor

- Open-ended real estate and specialty funds are the most active investment group followed by private investors in H1/2014
- International investors above all from the US, UK and France
- Rising risk-appetite and tendency for investments in large and asset management intensive portfolios
- Regional markets increasingly popular for investors, also from abroad

Bank

- Increasing equity requirements due to Basel III regulations
- Investment opportunities are scrutinised even more closely for potential risks
- Increasing competition in portfolio financing, especially for core properties
- Favourable credit conditions and competition for prime properties due to monetary policy of the ECB

Tenant

- Food retail tenants are generally regarded as creditworthy
- Tenants prefer long-term lease contracts
- Store concepts must incorporate changing customer needs and demand
- Increasing competition for smaller retail areas in general

Consumer

- Consumers are generally becoming less in number and older in age
- In addition customers are more conscious and well informed
- Customers generally have easier access to information and possibilities to draw a comparison
- The choice of shopping channels is increasing
- Selection of channel mainly depends on consideration of price, availability and comfort

Important Factors for Stakeholders (selection)

- | | | | |
|-----------------------------------|----------------------------------|---------------------------------------|---------------------------|
| ▪ Multiplier | ▪ Credibility of investor | ▪ Location (micro / macro) | ▪ Price level |
| ▪ Location (micro / macro) | ▪ LTV / covenants | ▪ Local market competition | ▪ Quality of goods |
| ▪ Credit rating of tenant | ▪ WALT | ▪ Sales area and property size | ▪ Store format |

Source: CORPUS SIREO 2014

NEW CHALLENGES IN THE RETAIL MARKET



Douglas Edwards
Managing Director
CS Investment Management

INVESTORS' PERSPECTIVE:

The German retail sector continues to be within the focus of national and international investors alike. Investors see the food retail sector in particular of interest due to its stable rents, generally long-term tenancy agreements and independency of economic trends. In contrast to other market segments, food retailing assets' initial yields are also higher. Here, widening interest is being seen in the regional markets, which are coming more into focus due to availability and pricing.



Thorsten Prior
Managing Director
CS Asset Management Retail

MARKET PERSPEKTIVE:

In the first two quarters of 2014, €4.8bn were invested in German retail properties. This is one fifth more than in the first half of 2013 and already close to 60% of last year's total of €8.7bn. Since the availability of suitable core properties in the retail segment is still limited, the rising transaction volume suggests an increasing risk appetite of investors. Especially well-positioned properties in regional markets are coming into focus. Given this trend, we expect a sideways development of prime yields in the coming months.



Hans Stuckart
Executive Director
CS Investment Management

TENANT PERSPECTIVE:

Due to its decentralised structure, large population and wealth, Germany is still an attractive target for the expansion of international retail chains. In the food retailing sector, the market growth of organic supermarkets like Alnatura or Denn's, besides the shifting requirements of (aging) consumers, will have an impact on market players and competition. Especially foreign food retailers are rarely trying to establish a foothold in the German market, despite the general growth of food retail sales and increased per capita expenditure on food.



Sebastian Köbele
Manager
CS Asset Management Commercial

ASSET MANAGEMENT PERSPECTIVE:

Demand for retail units in Germany is still focusing on smaller units with more than 50% of take up concentrated in the size band below 250 sqm. Especially international retailers require small flexible retail units, whereas food retailers require larger sales areas. In this market segment, the requirements for shop sizes are constantly increasing. In addition, the importance for central locations is also growing. Along with this trend, sustainable energy and building technology is increasingly becoming an issue for tenants, too.

FULL ASSET MANAGEMENT SERVICE PLATFORM FOCUSING ON RETAIL ASSETS

CORPUS SIREO Asset Management Retail

- Full Asset Management Service platform (portfolio, letting, construction and transaction management, etc.) for all types of retail properties in Germany from acquisition to exit
- Since 2009, CORPUS SIREO has continually enhanced its retail expertise by acquiring retail mandates and increasing the skill- and knowledgebase
- Expansion and consolidation of retail capabilities through acquisition of retail team (mfi) with experienced experts in July 2013
- CORPUS SIREO's tailored, value-driven asset management, and the bespoke, flexible facilitation of different investor groups and portfolios by specialised client management will sustainably enhance the value of retail real estate. The nationwide network of CORPUS SIREO is one of the main fortes
- International mind-set and in-depth knowledge in retail markets and retail trends as well as proven track record in cost analysis, optimisation and service charge reconciliation for retail assets

CORPUS SIREO Retail Services (selection)

Asset Management

- Support for preparation of portfolio analysis and asset reports
- Identification of properties for sale and coordination of asset transaction
- Development and implementation of asset strategies and business plans

Letting Management & Development

- Identification of potential tenants
- Accompany the tenant improvements and handover of rental space
- Detailed site analysis, identification of potential for value enhancement

Sales Management

- Initiation and organisation of due diligence process (sell-side)
- Investors approach and sight visits
- Conducting contract negotiations and signing

Center Management

- Analysis and optimization of concepts (reconfiguration, refurbishment, reletting)
- Holistic on-site management with pro-active approach (value add focused)
- Establishment of best mix of tenants and branches

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