



Market Report Nuremberg 2021
Investment



Editorial

Dear reader

2020 was a momentous and challenging year. The global pandemic not only impacted on our society and the economy but also affected the real estate market.

Nevertheless, the Nuremberg real estate market has held up well during this difficult time. Investment levels were down compared with the record year that was 2019. However, the total figure of EUR 1.56 billion is still the second-highest total recorded in the city's history.

Broken down by asset class, there were more nuanced developments. The residential market is booming more than ever, and the logistics sector also performed well in 2020. In contrast, bricks-and-mortar retailers, with the exception of neighbourhood stores, and the hospitality sector continued to struggle. As far as the office sector is concerned, the question is which concepts have a viable future. Will the future of work involve open-plan offices or flexible hot desking?

Currently, the residential investment market has a clear advantage over the commercial property investment segment. For investors, including those from further afield, German real estate continues to be viewed as a reliable and sustainable investment.

From our perspective, the following factors will be critical in how the markets develop this year: progress in tackling Covid-19 and the development of the wider economy, and the continuation of low interest rates.

With a volume of EUR 2.2 billion, Sparkasse Nürnberg was once again the market leader in the commercial real estate segment in 2020. We will celebrate our 200th anniversary in 2021, looking back on two centuries as a stable finance partner, in relationships based on mutual trust and partnership. Together, we will work with our clients to overcome the current challenges facing us all, while remaining optimistic about 2021, our anniversary year. We hope that we will be able to meet in person again soon, including in "1821", our company restaurant.

The information in this market report has been compiled, evaluated and provided to us by Küspert & Küspert Immobilienberatung GmbH & Co. KG.

We hope you enjoy these fascinating insights into Nuremberg's real estate market.

Kind regards

Roland Burgis
Deputy Chairman of the Board

Miguel Soto Palma
Head of Real Estate Finance

TRANSACTION VOLUMES

Office properties as a constant – Residential in strong demand – Slump in hotels and retail

In 2020, the Nuremberg investment market was again able to realise a ten-digit transaction volume of 1.56 billion euros, which is above the average of the five preceding years. Compared to the record year of 2019, the transaction volume thus declined by around 26%.

The office asset class again drove the high investment volume on the Nuremberg market. Around 739 million euros were invested in local office properties in 2020. Just in the previous year, the segment had set a transaction record of 1.12 billion euros, which was attributable to a number of one-off and particularly large-volume tickets. The largest single transaction in 2020 was the sale of the office share in “The Q” quarter development, which the City of Nuremberg leased for over 300 million euros. A very long-term lease agreement with a creditworthy user resulted in a correspondingly high volume. With a plot in the west of Nuremberg, a second individual office transaction beyond the 100 million euro mark was also recorded.

With around 493 million euros, the residential segment took a strong second place, which corresponds to an increase of 74% compared to the previous year and a record volume. Almost every third euro of the transaction volume thus flowed into commercial residential portfolios or major multiple-family dwellings and housing estates. The deals also included two substantial off-market deals worth around 150 million euros. The strong interest in residential investments in Nuremberg continued.

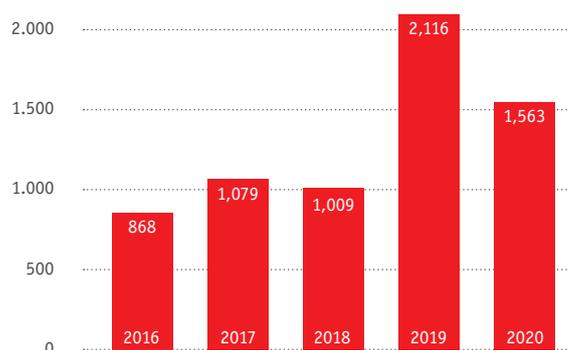
Project development properties generated a constant volume of around 161 million euros (previous year: 166 million) – albeit with considerably fewer square metres due to the price increases in the property market. The largest transactions in this area came from the sale of the former GFK headquarters, where a sustainable mixed-use quarter will be developed, as well as various properties with building rights from the Lichtenreuth city development project.

In 2020, a surprise in the transaction ranking came from the industry & logistics segment, where a far above-average volume of 129 million euros was realised (previous year: 79 million euros). A good part of this is attributable to the sale of a large production site in the north of Nuremberg.

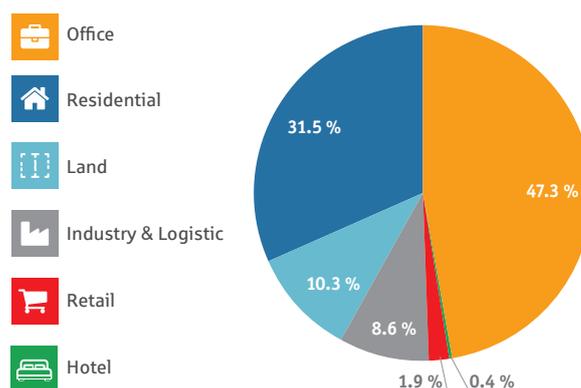
Virtually no deals were recorded in the hotel (previous year: 333 million euros) and retail (134 million euros) segments. With the exception of local retail suppliers,

both segments have recently suffered nationwide from the effects of the Covid lockdown. This was particularly noticeable in the case of Nuremberg hotels, which had just experienced a record year in investments in 2019. All in all, this was not a good time to sell assets in these sectors, which explains the transaction volumes of 29 million euros (retail) and less than 10 million euros (hotel).

Transaction volumes
(Euro in millions)



Transaction volumes according to classes
of asset (2020 Euro in percent)





SUPPLY AND DEMAND

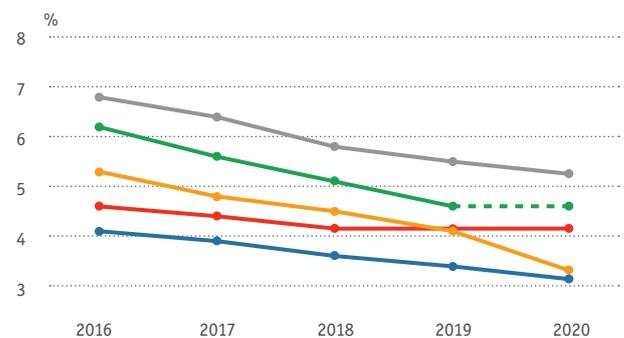
Exceptional transaction in the office segment – Other asset classes largely stable

In 2020, sales of core office properties were realised at the peak yield of 3.3%, which corresponds to a further yield compression of around 80 basis points compared to the previous year. A very long-term lease with absolutely first-class credit standing was sold at this rate with the property in question, which is not something that happens every year on this scale. Whether the purchase price level can be maintained is thus questionable.

The peak yields in the purchase of residential investments continued to fall moderately; they were quoted at close to 3.1% for projected new construction and at around 3.6% for existing housing estates. Initial yields in the retail sector continued to stagnate, with the only market activity being in the local supplier segment. The peak yield for commercial properties in prime locations remained unchanged.

The merely moderate decline in purchase yields for industrial and logistics properties to 5.25% (previous year: 5.50%) is attributable to the characteristics of the properties sold in 2020, only one of which came close to the peak transactions of the previous year. In general, however, properties for industrial and logistics use remain one of the most in-demand asset classes, above all in the Covid year of 2020.

Top yields* according to classes of asset



- Residential
- Office
- Retail (only office buildings in centre)
- Hotel
- Industry & Logistic

* Gross initial yield
(management and acquisition costs not considered)

--- Top yield for hotels cannot be reported for 2020 due to lack of transactions.

BUYER GROUPS

Lively investments by institutional investors – Share of family offices continues to rise

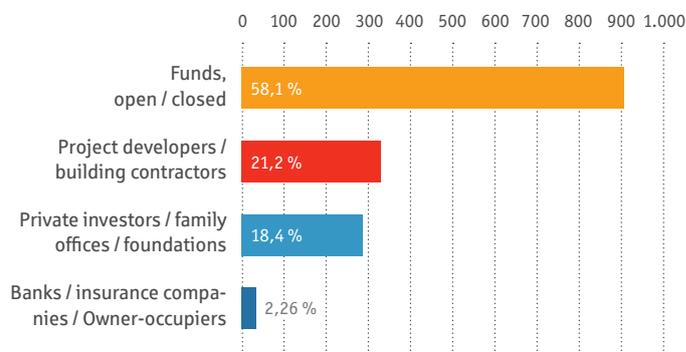
The interest of open-ended and closed-end real estate funds remained consistently high; at around 908 million euros, they invested more than every second euro (58%) on the Nuremberg transaction market. This value is slightly above the market share of the previous year.

Project developers and builders procuring property for their development pipeline invested a consistently high volume: at around 332 million euros, they accounted for a good 21% of investments (previous year: 18%).

In relation to the other market players, family offices and professional private investors also continued to be highly active and further expanded their market share for another year in a row to a current level of around 18% (previous year: around 16%).

In the meantime, direct investments by banks and insurance companies declined sharply compared to the previous year. Investments via external investment vehicles appear to remain popular in this area. Together with owner-occupiers, direct investments by banks and insurance companies made up less than 3% of market activity in 2020.

Buyer Groups (Euro in millions / proportion in percent)



SELLER GROUPS

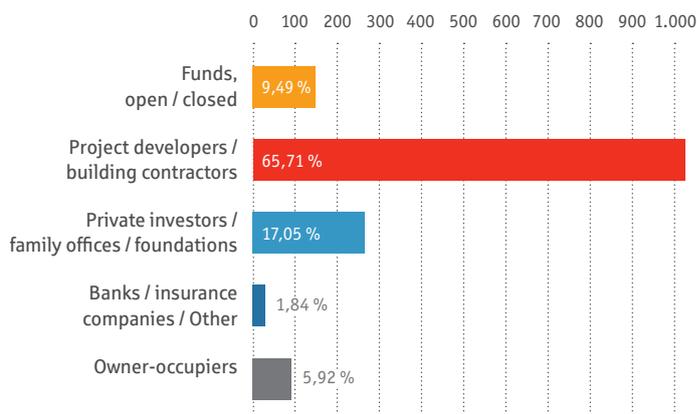
Billions in revenues again for project developers

Project developers recorded a billion euro result for the second time in a row: around 1.027 billion euros (66% of the transaction volume) ensured another strong year for developers. Sales were down sharply on the part of open-ended and closed-end real estate funds, which still realised around 148 million euros. In addition to a nationwide portfolio share deal as a one-time effect in the previous year, safeguarding yields was probably preferred to selling in many cases in 2020.

Family offices and professional private investors were very active not only on the buyer side but also on the seller side, selling properties for around 266 million euros. Yet they did not come close to the record value of the previous year (465 million euros), which was probably still particularly strongly motivated by profit-taking.

Owner-occupiers entered properties into the transaction for around 93 million euros (previous year: 100 million euros), which corresponds to a market share of close to 6%. Banks, insurance companies and other seller groups only account for a minor share of under 2%.

Seller Groups (Euro in millions / proportion in percent)



OUTCOME AND PROGNOSIS

A divided 2020 – but Nuremberg remains on the radar

The past transaction year was eagerly anticipated. A record year in 2019 and a variety of projects and offers still outstanding raised great expectations for 2020. What followed were two half-years that could not have been more different – a brilliant start to the year, a complete halt due to the pandemic and then significant imponderables that the investment market could not ignore.

Nonetheless, with a total transaction volume of around 1.56 billion euros, the Nuremberg investment market once again achieved a ten-digit volume and an above-average result compared to the five preceding years. However, another part of the overall picture, which cannot ignore the Covid pandemic, is that the transaction volume declined by around 26% compared to the record year of 2019.

While there was definitely a slump in the market, especially in the retail and hotel segments, the office and residential asset classes proved to be stable constants in the market situation. These continued to generate great interest among investors of all types – and from all origins. Industry & logistics can also look back on a vital year with above-average transaction results.

The past year has shown how quickly general conditions can change. We spoke to several market participants about these changes and their expectations for future market trends in the process of collecting data.

- There was a wide range of views regarding the future demand for investment in Nuremberg after the end of the Covid crisis. One notable aspect: the optimists are primarily players with their home market in Nuremberg.
- There were also varying opinions regarding the “home office effect”, i.e. the expected lower space requirements on the part of office users due to mobile working: against this background, it is generally not expected that purchase prices for office properties will fall. Exceptions prove the rule, however – in this case mainly due to “off-segment” investors such as residential and logistics properties.
- Assessments of the future price structure are more clear-cut – in this case, purchase price declines represent the minority opinion, while stagnating purchase yields, for example, dominate the market opinion for office properties. Further significant price increases are expected, particularly in the residential and industry & logistics segments as well as among supra-regional investors.
- There was agreement on two other points as well: according to the survey, the Covid-19 pandemic should firstly not be a reason for many to reduce the volume of new investment in Nuremberg; an overwhelming majority of those surveyed expect it to remain the same or even increase. Secondly, 2021 is expected to be a year of opportunities in the retail and hotel segments.

Nuremberg has moved further into the focus of new investors as a B city in the past year, partly due to the continuing shortage of supply in the Big 7 markets. According to current assessments, a further shift to even smaller cities can only come into question for logistics investors, but recently increasingly for regional residential developers as well. Both investor groups are likely to see a continuing trend towards home offices and online shopping influencing their own business prospects.

PUBLIC INFORMATION

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We provide long-term support and stability, even in challenging times!

My team and I look forward to hearing from you.

 **Sparkasse
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THE INVESTMENTMARKET IN FIGURES 2020



Transaction volume
in € million

1,563



Largest asset class
in € million

OFFICE

739



Top yield
in %

OFFICE

3.3

NUREMBERG IN FIGURES



Inhabitants

532,331



Employees paying social insurance
contributions

309,094



Unemployment rate
in %

6.2



Disposable income per capita
in €

22,748