

Market Report Nuremberg 2022

Investment

 Sparkasse
Nürnberg



Market research and analysis by



KÜSPERT&KÜSPERT



Editorial

Dear Reader

Looking back, 2021 was a dynamic year with a mood of hopefulness, not just in terms of the future course of the ongoing pandemic but also on the real estate market. This market remained stable in Nuremberg despite the uncertainty, although the figures have been moving slightly downwards since the record year of 2019. Investment last year was around the 1.4 billion euro mark.

There was a similar picture in some asset classes, with non-food retail and the hotel sector almost in a state of shock. There were no significant transactions to report but fears that property owners would start panic selling also failed to materialise. Demand for office properties was muted, not least due to the uncertainty surrounding clients' layout and space requirements in the future.

In the logistics sector, a persistently high level of buying interest contrasts with a shortage of products – the last mile in particular is growing increasingly significant. Meanwhile, the residential market has hit a new record high, in part due to bigger one-off transactions. Property prices are maintaining a consistently high level due to hefty construction and land costs. From our perspective, the following factors will be crucial to how the real

estate market performs in the coming year: the supply of available land and existing properties, tourism and the attractiveness of city centres, and the impact of Covid-19 and whether people continue to work from home.

Over the long term, demographic change drives demand for real estates, which means we can expect growing demand for care homes and retirement properties. Meanwhile, demand for office space is also likely to fall as the baby boomer generation retire and the resulting vacancies on the labour market go unfilled. The shortage of personnel in the construction sector is unfortunately expected to continue, with the result that building services will remain scarce and expensive.

With a total volume of 2.6 billion euro, we are once again the market leader in commercial real estate, achieving this accolade in our 200th anniversary year. But because it's always about more than just money, we support our customers as part of a long-term relationship, working alongside them as their financing partner to find the right solutions in an ever-changing environment.

We would like to thank our partner Küssert & Küssert Immobilienberatung GmbH & Co. KG for compiling and evaluating the data used in this market report, which we are now presenting together.

We hope you enjoy reading our insights into the Nuremberg real estate market.

Roland Burgis

Deputy Chair of the Board

Miguel Soto Palma

Director Real Estate Customers

Transaction volumes

Residential investments as the mainstay – lack of offers in the office segment

2021 saw a transaction volume of 1.39 billion euros on the Nuremberg investment market – a value once again beyond the billion euro mark and slightly above the average of the five previous years. Compared to 2020, this represents a decline of around 11% across all asset classes.

The institutional housing segment continued to flourish, taking over the top position in terms of transaction volume in 2021 and generating a volume of around 525 million euros. Almost 38% of the total transaction volume in Nuremberg was realised with residential investments such as commercial flat portfolios, residential complexes and large apartment buildings. This exceeded the record volume of the previous year by a good 6%, which at the time was even boosted by a one-time effect of almost 140 million euros. Larger-scale individual transactions in 2021 included the global sale of a project development south of the main station (approx. 70 million euros) and the forward deal on a main eastern arterial road at around 40 million euros. In general, the strong interest in residential investments in Nuremberg continued.

In the two previous years, office properties – often driven by very large individual deals – accounted for the lion’s share of the Nuremberg investment market. The office segment performed quite differently in 2021, where only around 286 million euros were realised due to a lack of opportunities, around 61% less than in the previous year (2020: 739 million euros). There were no large-volume individual sales (beyond 100 million euros) in 2021; the largest office transaction amounted to almost 70 million euros for a forward deal in the Central Business District (CBD), followed by an existing medical centre in the north of the city at around 43 million euros.

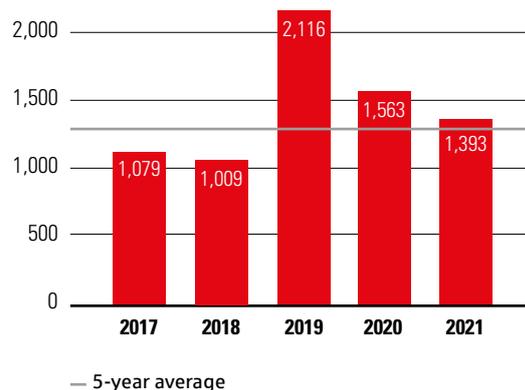
Properties for project developments were one of the most extensively traded products on the transaction market in 2021. These achieved an extraordinary investment volume of around 441 million euros, more than doubling the previous year’s result (previous year: 161 million euros, +174%). Large property sales were observed in Fürther Strasse, Moorenbrunn and in the port area.

Industrial and logistics properties have not lost any of their popularity among investors, but were still only able to realise a transaction volume of around 35 million euros in 2021. This was due to a severe lack of available

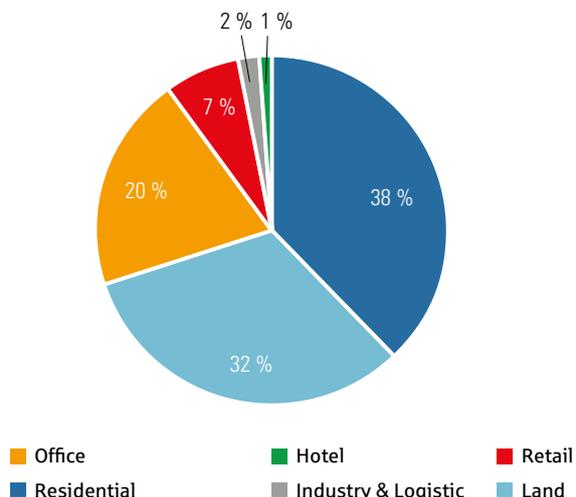
product in the Nuremberg city area. The volume was realised through only three tickets.

After the de facto “freeze” of the previous year, the retail real estate segment also reported only a few deals in 2021. Of the total volume of 98 million euros (previous year: 29 million euros), almost two thirds were attributable to corporate law changes in the ownership of a larger high-street property in Breite Gasse. There were virtually no deals in the hotel segment in 2021, where the volume was less than 10 million euros, as in the previous year.

Transaction volumes
(Euro in millions)



Transaction volumes according to classes of asset (in percent, in 2021)





Supply and demand

Exceptional transaction in the office segment – Purchase yields generally continue to decline

In 2021, sales of core office properties were realised at a peak yield of approx. 3.1%. However, this represents a moderate yield compression (minus 20 basis points) compared to the previous year. At this purchase price level, the property in question was sold not only in a top location in Nuremberg's CBD, but also with a long-term lease agreement with a first-class credit rating from the public sector.

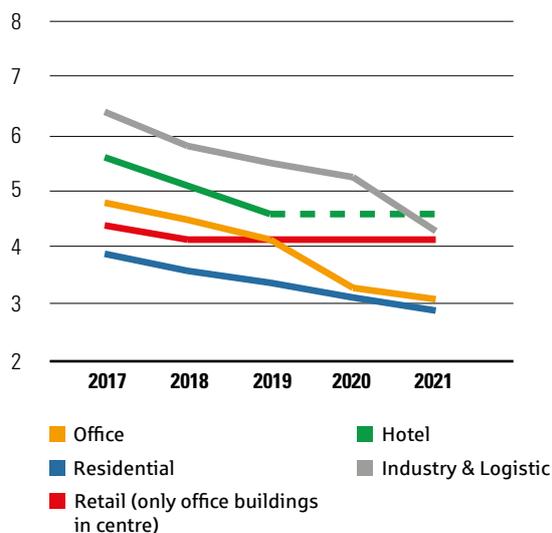
The residential investment segment saw a clear convergence of initial yields for new and existing properties, with the peak yield in projected new construction at around 2.9%, similar to the previous year's level (minus 20 basis points), and in existing residential complexes at around 3.1%. Existing properties in particular saw a further, significant decline in initial yields (minus 50 basis points).

The hotel and retail segments, which were particularly affected by the pandemic, did not demonstrate any particular activity on the market, either on the supply or demand side. The few deals that could be observed consistently showed a stagnation of initial yields. In particular, the peak yield for commercial properties in prime locations remained unchanged. Local retail in city district locations outside the centre traded at around 5% initial yield.

On the other hand, the market for industrial and logistics properties saw a sharp decline in initial yields to 4.3% (previous year: 5.25%, minus 95 basis points). In contrast to the previous year, some higher-quality

and younger properties were also for sale here in 2021. Sustained high demand in this segment ensured rising purchase prices across all age classes.

Top yields* according to classes of asset (in percent)



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

--- Top yield for hotels cannot be reported for 2021 due to lack of transactions.

Buyer groups

Project developers on a shopping spree – Family offices continue to invest heavily

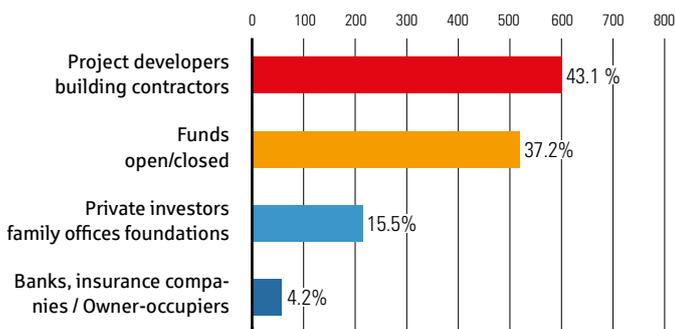
With an investment volume of around 519 million euros, capital collection agencies such as open-ended and closed-end real estate funds were not the strongest buyer group for the first time in a long while – they accounted for around 37% of the transaction volume on the market (previous year: 58%). In 2021, project developers and property owners outperformed them with a market share of 43% and investments of around 601 million euros (previous year: 332 million euros, 21%). Besides classic project development properties, existing properties with existing rental income and long-term redevelopment potential were increasingly in demand.

Family offices and professional private investors also continued to participate in the market in 2021 and realised a purchase volume of around 215 million euros. Their market share fell marginally to 15% (previous year: 18%) and was thus of comparable strength to 2019.

At the same time, direct investments by banks and insurance companies as well as purchases by owner-occupiers remained at a low level. Taken together, these buyer groups invested around 58 million euros in the market, which corresponds to a market share of just under 4% and thus roughly the same as in the previous year.

Buyer groups

(Euro in millions / proportion in percent, in 2021)



Seller groups

A good year for project developers – Owner-occupiers sell off more intensively

In view of the slight decline in total volume, it may not have been quite enough for a billion euro result for project developers in 2021 – and yet: at 832 million euros or 60%, developers accounted for only a slightly smaller share of sales than in the previous year (previous year: 66%).

Owner-occupiers were conspicuously active and even ranked second among the seller groups in 2021 with a realised volume of around 188 million euros, which corresponds to around 13% of the transaction volume (previous year: 93 million euros, 6%).

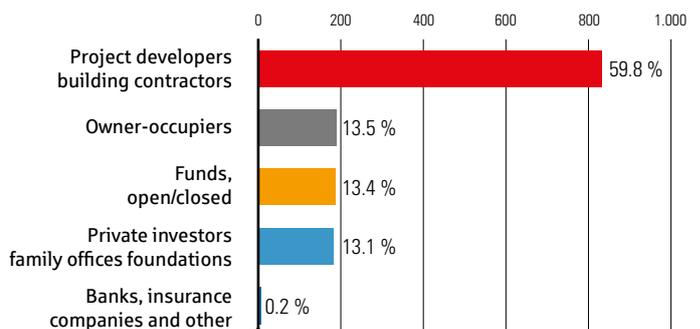
Sales activities by family offices and professional private investors followed closely behind. This declined significantly for the second year in a row and comprised a transaction volume of a good 187 million euros (previous year: 266 million euros). Around 13% of the total volume thus flowed to private asset management companies.

At around 187 million euros, the sales volume of open-ended and closed-end real estate funds was just as high (previous year: 148 million euros). In times of persistently low interest rates, yield protection is likely to have continued to take precedence over potential portfolio adjustments.

Banks, insurance companies and other seller groups only account for a minor share of under 1%.

Seller groups

(Euro in millions / proportion in percent, in 2021)



Outcome and prognosis

High demand for investments in Nuremberg – Project developers particularly active in 2021

Uncertainty regarding the further development of the market dragged on along with the Corona pandemic. In the end, the Nuremberg investment market was surprisingly strong in 2021, driven by persistently high demand and, at times, still insufficient supply of adequate, investable products.

After a number of extraordinary years in the office segment, project development properties, and project developers with them, came more to the fore on the buyer side in 2021, creating potential for new space in the future. These players are increasingly thinking beyond the city limits and have announced larger projects in neighbouring municipalities or have begun realising such projects. Meanwhile, many segments failed to provide opportunities for existing investors, which contributed to the low transaction volume in the office segment as well as in industrial and logistics properties. Only residential investments continued to enjoy growing popularity among demanders as well as supply, allowing the segment to achieve a record year in terms of volume as well as purchase price factors.

We spoke to several market participants about developments in the market and their expectations for the future direction in the process of collecting data. The main findings were:

- The respondents were much more unanimous than in the previous year in their view that the pandemic is unlikely to lead to a decline in demand or even Covid-induced price reductions for real estate investments. Interestingly, this optimism was observed across all asset classes.
- With regard to the future development of initial yields, the majority opinions in office investment were for stagnating initial yields (approx. 65%) and in residential investment and in the industrial and logistics segment for further declining initial yields (residential: approx. 78%, I&L: approx. 74%). A majority of those surveyed expect rising returns in hotel acquisitions (approx. 66% of respondents), although not everyone answered this question due to the special characteristics of the segment.
- Ultimately, only the retail sector revealed a mixed picture – here, both rising and falling initial yields were expected. At this point, the market is likely to be differentiated into local and standard retail.
- Asked about their propensity to invest given the experience of the pandemic, not a single market participant stated that they deliberately wanted to reduce their investment volume in Nuremberg. The vast majority (approx. 74%) would like to continue to make the same level of new investments, while the remaining respondents (approx. 26%) would even like to increase the volume of new investments.

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Project team: Carolin Beirodt (Project Lead), Franziska Geyer

Scientific consultant: Prof. Dr. Jonas Hahn

Picture credits: Cover photo: „from dawn till dusk“ by Christian Höhn. This image forms part of a series of photographs taken in 2021 to mark the 200th anniversary of Sparkasse Nürnberg. The photographs were taken on the roof terrace of the Sparkasse building at am Marientorgraben in Nuremberg and depict the changing cityscape during an entire day from sunrise to sunset. The sequence of images symbolises the changing city- our city that connects so much and so many.

page 2: Sparkasse Nürnberg

page 4: KIB Projekt GmbH

page 7: Sparkasse Nürnberg employees

Dates “Nuremberg in Figures”: Stadt Nürnberg, Wirtschaftsreferat
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Miguel Soto Palma
Head of Real Estate Finance
Tel: +49 911 230 4802
miguel.soto-palma@sparkasse-nuernberg.de

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My team and I look forward to hearing from you.



**Sparkasse
Nürnberg**

THE INVESTMENTMARKET IN FIGURES 2021



Transaction volume
in € million

1,393



Largest asset class
in € million

RETAIL

525



Top yield
in %

OFFICE

3.1

NUREMBERG IN FIGURES



Inhabitants

530,222



Employees paying social insurance
contributions

312,129



Unemployment rate
in %

5.3



Disposable income per capita
in €

23,429