



Market research and analysis by

KÜSPERT & KÜSPERT
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Market Report Nuremberg 2019

Investment



Editorial

The Nuremberg real estate market was both exciting and challenging in 2018. Nuremberg is increasingly attracting investors and project developers with interests across several regions. Compared with other major cities, Nuremberg offers them more attractive yields and a persistently stable market, combined with what they consider to be reasonable land prices. A shortage of attractive properties remains a challenge to investors in the regional real estate market. Planning costs for project developers and building contractors are being impacted by the construction sector's high level of capacity utilisation.

As a reliable partner with a proven track record in financing, Sparkasse Nürnberg maintains a constant presence on the Nuremberg real estate market. We are the market leader in commercial real estate, involved in almost half of all private residential construction. Choosing a financing partner is all about trust. Establishing long-term relationships based on partnership with our clients is our priority. We will continue to do all we can to support this in 2019. Together, we can help visibly grow the region as a location for real estate. This is our patch, and we know it inside out.

Nuremberg remains a dynamic and attractive city, both as a base for business and as somewhere to live. Although the volume of transactions fell in 2018 compared with the exceptionally strong previous year, the metropolitan region retains great kerb appeal. This will be further strengthened by the foundation of Nuremberg's new Technical University in the Lichtenreuth district. There will be an urgent need for more living space for the city and its inhabitants over the coming years.

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 interesting insights into Nuremberg's real estate market.

Kind regards

Roland Burgis
Deputy Chairman of the Board

Miguel Soto Palma
Head of Real Estate Finance



Most important asset class

Almost half of all transactions in office segment

Transactions in the office segment featured heavily in market activity, even more than in previous years. This class of assets maintained its clear leading position and set a new transaction record at some €464 million. Many investors spotted the favourable winds and realised previous years' gains. Among the largest transactions were "Innovum 212" in Fürther Straße, sold by UBS to Dream Global, the Adcom-Center located close to the central railway station, and an Officefirst package in Nordostpark.

The performance of the retail property asset class was the diametric opposite. While the excellent result in 2017 (€313 million) was exaggerated by three exceptional one-off transactions, the segment disappointed in 2018, with the €63.4 million generated by the few listed sales coming in below the multi-year average. Certainly, the low level of supply is one reason, but the risks facing bricks and mortar retailers are also a potential factor.

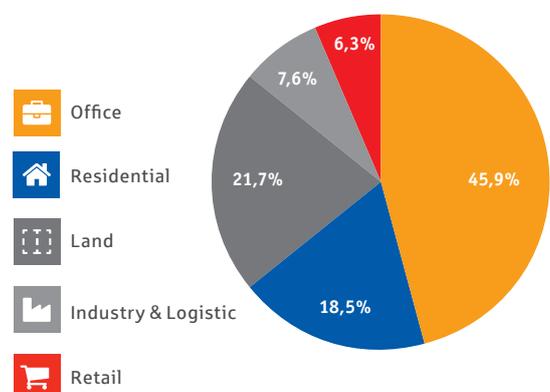
Demand for residential property for investment is unabated in Nuremberg. Low supply resulted in a 20% drop in volumes compared with the previous year. Nevertheless, the market does not seem to have been swept clean, after all sales in this segment totalled €186 million, exceeding the 2014 and 2015 figures by some 40% and matching the volume achieved in 2016.

The small number of opportunities in the industry and logistics asset class ensured good volumes thanks to higher prices. This was similar to what we observed in the undeveloped plots market. Plots of land represented the second largest group in terms of transaction volume, at €218 million, beating the previous record set in 2016 by around 20%.

Transaction volumes (Euro in millions)



Transaction volumes according to classes of asset (2018 Euro in percent)





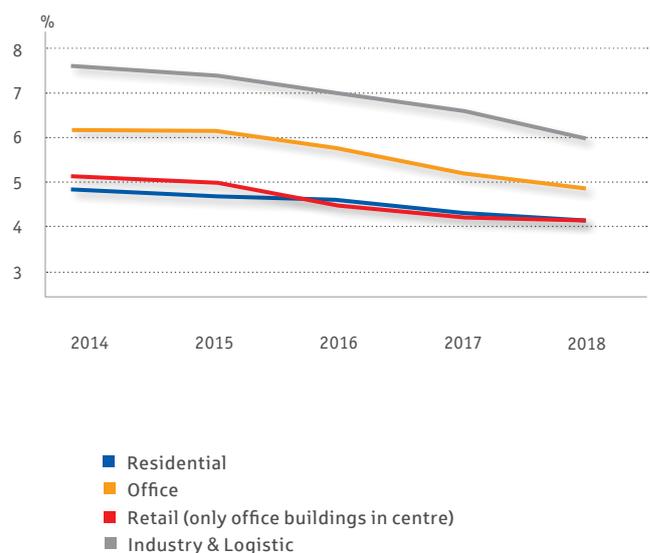
Supply and demand

The strong economic environment continues to lend positive impetus to the development of Nuremberg's real estate sector. And while prices in the Big 7 rose at a significantly greater rate than the achievable rent incomes, the resulting compression in yields can also be observed in most of the usage segments of the Nuremberg market. The average yield on the purchase of office properties fell just below the 5% level for the first time.

However, the complete picture shows that while many institutional investors focus on finding investment opportunities in Nuremberg as a B city, thus pushing up demand, the supply side's price expectations in 2018 were a long way from all being met. In B cities like Nuremberg in particular, investors are looking beyond the pressure to invest and critically assessing risk-return profiles and value retention.

Therefore, while the general development in terms of rising prices owing to a significant excess demand can be generally confirmed, the specific options available depend greatly on location and quality criteria, as well as the risk associated with the corresponding usage. The figure below provides an overview of the development in average yields.

Average yields* according to classes of asset



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

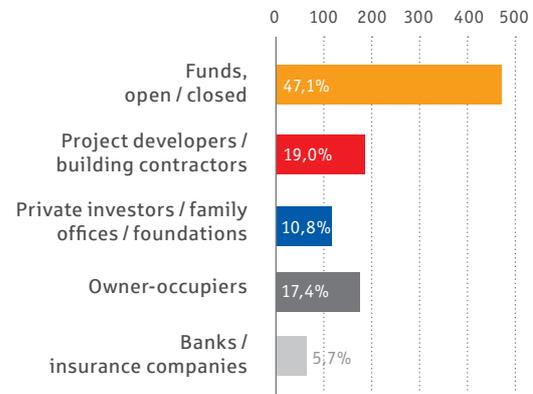
Buyer Groups

In terms of the structure of purchasers, for the second time in succession there has been a significant rise in providers of open-end and closed-end real estate funds. We think it is too early to say that the structure is shifting away from project developers and construction customers, even though this group's share of the market fell once again. This drop was rather down to the relatively low supply in relation to project development, which meant that the institutional customers investing in existing properties could realise significantly higher volumes again. A sale to the Bavarian government this year will seal an impressive owner-occupier deal.

Two further trends persisted in 2018. First, the proportion of the market attributable to private investors or primarily family offices continued to grow. Two years ago, just 5.2% of total volume was generated by these customers, while last year this rose to almost 11%. Second, value add investors are continuing to increase their purchasing activity, in part in the acquisition of difficult objects that present corresponding potential for adding value and enhancement with comprehensive renovation projects.

Buyer Groups

(Euro in millions / proportion in percent)



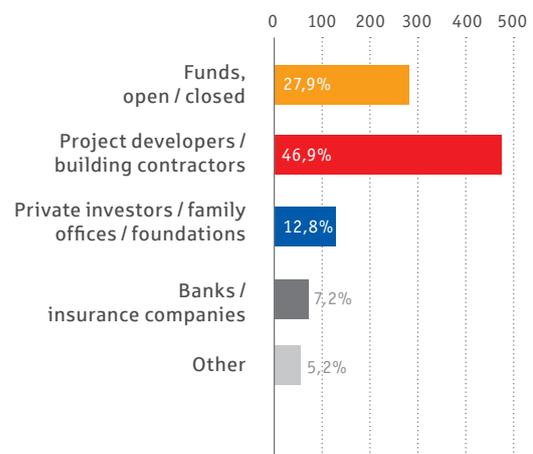
Seller Groups

All the same, 2018 was a very good selling year for project developers and building contractors. Commercial success in the sale of upgraded plots and completed projects was a major factor in the high 47% share of sales volume that is attributable to project developers, and places this group at the top of the leader board.

Together with real estate funds, project developers represent some 75% of sales in 2018. Private investors and family offices formed the third largest group of providers, with 13% of the sales volume, while owner-occupiers in particular recorded hardly any sales. Too much surface area is currently "mission-critical" owing to the current macroeconomic climate, as a consequence of a trend towards securing long-term locations.

Seller Groups

(Euro in millions / proportion in percent)



Outcome and outlook

As two major deals worth a total of some €400 million did not come to fruition, no new transaction record was set for the Nuremberg real estate investment market in 2018. Nevertheless, an above-average transaction volume of just over €1 billion points to a lively market, supported by positive economic conditions with strong demand for attractive investment opportunities from a well-structured pool.

As a B city, Nuremberg benefits from particular strengths with a more advantageous supply and demand structure than the Big 7 locations. However, the pointers for the potential future development of the market are not consistent.

As expected, there was no increase in the base rate in 2018, making finance very cheap. On the other hand, geopolitical risks, the current yield curves and initial interest rate hikes in the USA are sending mixed signals as far as the future of interest rates is concerned. Furthermore, general economic expectations have recently been revised downwards in line with the latest growth forecasts. "Concerns are mounting", summarised Martin Wansleben, Chief Executive of the Association of German Chambers of Commerce and Industry (DIHK). But what is the mood on the Nuremberg real estate market? We have held personal discussions with the players on this market to find out.

1. The people we spoke to expect a slight rise in interest rates in 2019 rather than an extension of the zero interest-rate policy.
2. However, the anticipated impact on the real estate investment market is particularly interesting, as respondents to our survey believe that an end to the boom is only half as likely as an increase in interest rates or change in interest-rate policy. It therefore seems unlikely that any potential policy reversal in 2019 will have a major impact on the real estate sector.
3. Hardly any of the people we spoke to believed that prices would fall before 2020 either, anticipating instead rising rents for apartments and not expecting the market to cool down at all.

With respect to yields, market participants have varied views. Only a small proportion of those interviewed think office yields will continue to fall with the majority expecting them to remain the same. Nobody thought that residential investment property yields would compress further, rather that they would stagnate or possibly even climb.

In our opinion, 2019 will once again be an active year of transactions on a lively and largely balanced Nuremberg real estate market. There are still a number of large properties on the market, and possible completions on these deals in the near future could generate a high transaction volume for 2019. It can also be expected that the general economic development will have a greater impact on the real estate market than any potential change in interest rate policy.

Public Information

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Dates "Nuremberg in Figures 2018": Stadt Nürnberg, Wirtschaftsreferat

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The Sparkasse Nürnberg Perspective

Real estate market continues to soar

A strong, local real-estate partner

Sparkasse Nürnberg is the market leader in commercial real estate in the Nuremberg metropolitan region, with a financing volume of €1.4 billion. We help finance the construction projects of real estate investors, housing companies, investment funds, project developers and building contractors.

A new district emerges

The Nuremberg real estate market is continuing to grow and is set to become even more attractive. We are following the foundation of the new Technical University of Nuremberg and development of the Lichtenreuth district of the city with excited anticipation. "Students and university staff will all need somewhere to live. This is opening up entirely new opportunities for the Nuremberg real estate market. The magnetism of this project will further strengthen the metropolitan region of Nuremberg," explains Miguel Soto Palma, Real Estate Clients Director at Sparkasse Nürnberg.

Outlook

In 2019, Sparkasse Nürnberg expects the real estate market to experience consistently high demand, constrained by a shortage of attractive properties. In addition, construction companies' capacities continue to challenge the sector.

Yields are extremely important to investors when choosing where to put their money. We expect short-term interest rates to remain low given the weakening economic development of some Eurozone countries.

In contrast, we believe that long-term rates will rise slightly, not least due to higher interest rates in the USA and a less expansive ECB monetary policy.



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The investment market in figures 2018



Total transaction volume
in € million

1.009



Largest asset class
in € million

Offices

464



Average yield
Offices

4,9%

Nuremberg in figures 2018



Inhabitants

535.000



Employees paying social insurance contributions

311.000



Unemployment rate

5,1%



Disposable income per capita in €

21.785