

PRESS RELEASE

Experts Predict Stable Office Real Estate Markets – Despite Massive Economic Consequences of COVID 19 Pandemic

- bulwiengesa forecast: Germany's economic output to drop by 5.8 percent in 2020, but residential and office real estate markets to respond with modest adjustments only
- Market setbacks prompted mainly by negative sentiment
- Prime office rents in A- and B-Class cities barely affected by coronavirus crisis, yet forecasts see no signs of further price hikes; office vacancies to perk up slightly

Essen/Hamburg, 30 June 2020 – In its economic forecast for 2020, consultancy firm bulwiengesa AG predicts that Germany's economic output will decrease by 5.8 percent. Nevertheless, the office real estate markets in the German A- and B-Class cities will remain largely stable, according to the experts of bulwiengesa and Warburg-HIH Invest Real Estate. Prime office rents in A- and B-Class cities are virtually unaffected by the coronavirus crisis because of the persistently strong demand for floor space and the short supply of the same. However, it is the first time that the forecasts project no further price hikes, unlike in previous years. Even the office vacancy rate will only see a modest increase over the coming 24 months. These are some of the takeaways from the online press conference headlined "How will Real Estate Markets Evolve?"

Generally speaking, the bulwiengesa consultancy firm anticipates massive economic ramifications in the wake of the COVID-19 pandemic. Andreas Schulten, Generally Authorised Agent of bulwiengesa, elaborated: "The coronavirus pandemic will deal a blow to Germany's economic cycle. In order to check the progress of the COVID-19 pandemic, the government has severely restricted economic activities in Germany since March. According to our calculations, this will probably cause the gross domestic product to contract by 5.8 percent this year." Schulten went on to say: "The recession will leave its mark on the labour market, too, and on the national budget above all. The unemployment rate will climb to an average of 5.6 percent by year-end. This translates into 296,000 more job cuts than 2019." Then again, the economic stimulus package and instruments like short-time work arrangements will cushion the consequences in Germany, he added.

Office Real Estate Markets: Strong Demand and Low-Level Supply Ensure Stability

Accordingly, bulwiengesa does not expect a bust cycle and only negligible effects for the office markets in Germany's A- and B-Class cities. Schulten commented: "The German office markets are defined by the fact that strong demand for space coincides with short supply. The recession as it presents itself at the moment poses no serious threat to the office real estate market, as far as we can see." To back his hypothesis, Schulten quoted yet another figure: "During the years between 2005 and 2020, roughly two million new office jobs were created in Germany. These require around 50 million square metres in office space. But only three million square metres were completed over the same period of time. It is a factor that bolsters the office real estate market." With this in mind, bulwiengesa assumes that prime office rents will remain stable, yet it is the first time that forecasts project no further price hikes, unlike in previous years. Analogously, office vacancies will barely increase in the coming months.

Hans-Joachim Lehmann, Managing Director at Warburg-HIH Invest Real Estate, reaches a similar conclusion: "In the office real estate sector, the coronavirus crisis represents an atypical factor caused by other than economic reasons. Sentiment is currently dragging down markets. But sentiment will brighten again. We need to remember that the crisis hit a robust office real estate market with historically low vacancy rates and few property developments in the pipeline." Lehmann added. "The sudden onset of the crisis poses the true challenge, not its long-term consequences. In the medium term, the trends currently seen on the office market will level out again in favour of the office market."

That being said, Lehmann is aware of other ramifications of the crisis. In the logistics and retail sectors, COVID 19 acts as driver of e-commerce. In the office sector, it is the shift in the way floor space is being used that could be accelerated by COVID 19. "We developed large-scale headquarters lately, and will keep these in our portfolios. A case in point would be the Zurich insurance company at Messe City in Cologne. Here, the way the premises are used by the employees is subject to an increasingly dynamic change. The number of conference facilities, quiet zones and break rooms of modern design is growing. The accommodation now created in office buildings is very much in touch with real life. This shift in floor space utilisation will continue and probably speed up further in response to Corona," said Lehmann, an office expert.

He pointed out that the pandemic has made many office workers mobile enough to work from anywhere. This, he argued, has loosened the ties to the workplace in general and has caused employees to prefer the use of quiet zones. Lehmann commented: "This is the case with Zalando, for instance, whose head office expansion we are currently developing. Here, the

structure is open and focuses on ‘mobile devices,’ which is new. Corona will boost the digitisation drive in this unit. As a result, in-house office accommodation is subject to change. But it’s not going out of style.”

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About Warburg-HIH Invest

Warburg-HIH Invest Real Estate (Warburg-HIH Invest) is one of the leading investment managers for real estate in Germany and elsewhere in Europe. We find, develop and control real estate and investments under a forward-looking approach in the best interest of our clients. Decades of experience, the proximity to real estate markets and tight networking enables us to identify real estate opportunities and to act on them quickly in the right market cycle. Around 150 institutional clients entrust their investments to Warburg-HIH Invest. They benefit from the structuring, product development, property management and market development specialists we make available for the purpose of developing just the right investment solutions for them. At the moment, we have 11.3 billion euros worth of assets under administration in 71 investment funds.

About bulwiengesa

bulwiengesa is one of the major independent analytics firms for the real estate industry in Continental Europe. For more than 30 years, bulwiengesa has supported its partners and clients in real estate industry issues as well as location and market analyses, providing detailed data services, strategic consultancy and bespoke expert opinions, among other deliverables. The data of bulwiengesa are used by Deutsche Bundesbank for the European Central Bank (ECB), the Bank for International Settlements (BIS) and the OECD, among other clients.