



BARKOW
C o n s u l t i n g



“GERMAN LISTED REAL ESTATE: ANOTHER YEAR OF RECORDS - CAN THE TREND CONTINUE

A publication of ZIA Zentraler Immobilien Ausschuss e.V.



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1. Executive Summary

1.1. Over 10 “All-Time Highs” this Year...and Counting

The past 12 to 14 months have been a period of strong growth for the listed German property sector as numerous new records were set. Total property assets (German and foreign) held by German listed real estate companies have increased by EUR7.9bn or 13% since June 2013. The residential sector alone added EUR6.6bn of assets, accounting for over 80% of Germany's listed property sector. Total German property holdings, excluding German listed companies' investments in foreign assets, have increased by EUR5.8bn or 9.6% to EUR65.5bn.

Growth of overall sector market capitalization has been even more impressive. DIMAX, the broadest index of German listed property companies, has surpassed the EUR30bn market cap mark in recent months for the first time. Combined market cap for the 16 largest German property companies grew almost 50% to EUR25.7bn between June 2013 and August 2014 and now represents ca. 80% of the DIMAX. Growth in free float for the Top-16 is even steeper, up 115% to EUR21.8bn over the same period. Though individual German companies have grown substantially, most still remain small by international comparison. The largest German company by market cap, Deutsche Annington, still only represents 28% of European market leader Unibail-Rodamco (ca. EUR20bn market cap) - and just over 10% of US REIT Simon Property.

Interestingly, the German sector achieved this growth without a single real IPO, benefiting largely from private equity exits from stub-holdings in listed residential companies and share price gains.

Future growth will have to rely more heavily on new company flotations and growth in the commercial sector, which remains significantly underrepresented.

To aggregate relevant sector statistics, ZIA and Barkow Consulting collaborated with 14 leading German property companies, who provided comprehensive portfolio and financial data¹⁾. This 2nd edition of the ZIA and Barkow Consulting research project aims to fill an existing data gap in the German market and improve transparency for the listed real estate sector.

1.) For two additional companies, Barkow Consulting estimated the relevant data, insofar as possible based on public disclosure.

1.2. A Very Specific Investor Base

Germany's listed real estate investor base is relatively concentrated among the Top15 investors, who account for almost 31% of the German sector's free float. This compares to the Top15 DAX30 investors, who contribute only 20%.

The share of domestic/German investors in listed property is 10% even lower than German investors' participation in DAX30 companies (measured on Top 15 accounts). US and French investors share in German listed property companies is similarly insignificant. By contrast, ownership by Asian, Dutch and UK investors is substantially higher.

Analysing investment styles we find that the investor base is almost exclusively made up of Value Investors (63%) and Real Estate Specialists (27%). A third pocket of investors is Index Funds (10%), which are, however, heavily underweight compared to DAX30 (49%).

2. State of Affairs – How Has the Asset Class Performed?

2.1. Anatomy of Our Research

2.1.1. Why More Data Was Needed

Historically, market capitalisation has been used to compare the size of the listed real estate sector with other indirect German property vehicles. This was problematic however, because the size of open-end and closed-end funds has typically been measured on the basis of real estate gross asset value. The main reason for frequent use of market capitalisation is the measure's ready availability. Index values from the European Public Real Estate Association (EPRA) or from Bankhaus Ellwanger & Geiger are universally available on a daily basis. The effect was a severe underestimation of the listed sector's significance for the German property market.

Last year's debut ZIA|Barkow Consulting research²⁾ procured aggregated portfolio data for the sector for the first time and removed opacity in existing statistics. And indeed we found that listed real estate is the most significant indirect investment vehicle in the German property market. This came as a surprise to many.

2.1.2. 14 Leading German Property Companies Contributing

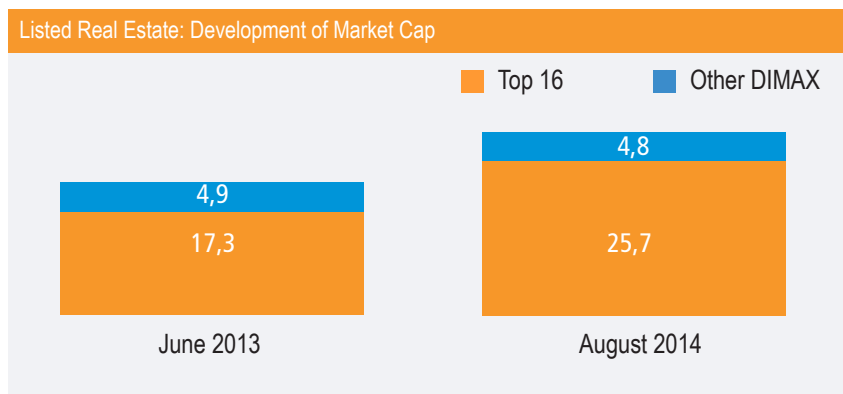
Given the importance of aggregated portfolio data for the listed sector, ZIA and Barkow Consulting decided to repeat last year's exercise. The list of contributing companies is shown below.

Scope of Data Procurement		
Company	2013	2014
1 Alstria	Provided	Provided
2 Buwog	n/a	Researched
3 Dt. Annington	Provided	Provided
4 Dt. Euroshop	Provided	Provided
5 Dt. Office	Researched	Provided
6 Dt. Wohnen	Provided	Provided
7 DIC Asset	Provided	Provided
8 Fair Value	Provided	Provided
9 GAGFAH	Provided	Provided
10 Grand City Properties	n/a	Researched
11 GSW	Provided	n/m
12 Hamborner	Provided	Provided
13 LEG	Provided	Provided
14 Patrizia	Provided	Provided
15 Polis	Provided	Provided
16 TAG	Researched	Provided
17 VIB	Researched	Provided
Total Provided	12	14
Total Researched	3	2

2.) "The Significance of Publicly Listed Property Companies for German Real Estate Markets" - Date

2.1.3. Our Research Sample: 2014 vs. 2013

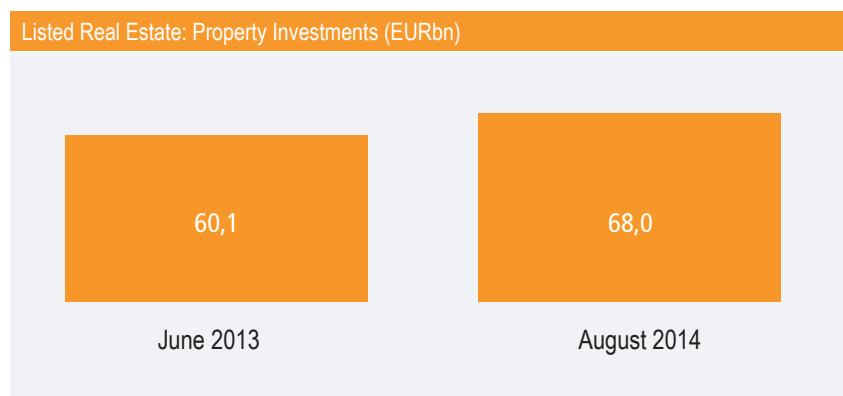
Compared to 2013, our research sample has grown by one company to 16. GSW was removed following the merger with Deutsche Wohnen. Grand City Properties and Buwog were added. Our sample's market cap increased from EUR17.3bn to EUR25.7bn now representing ca. 80% of DIMAX market cap.



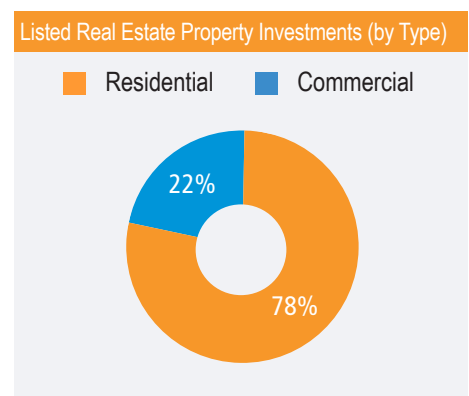
Source: Company data, Ellwanger & Geiger, ZIA/Barkow Consulting

2.2. Development of Invested Assets

As of June 2014 total property investments of the German listed sector increased by EUR 7.9bn or 13% to EUR68bn over the year ago period. The residential sector alone contributed EUR6.6bn to this increase and has further strengthened its position as most important sub-sector. Residential real estate currently represents 78% of the listed sector's property investments, slightly up from 77% a year ago.



Source: ZIA/Barkow Consulting

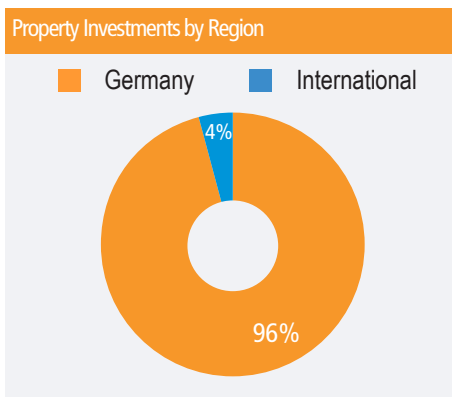


Source: Company data, ZIA, Akselrod Consulting/Barkow Consulting

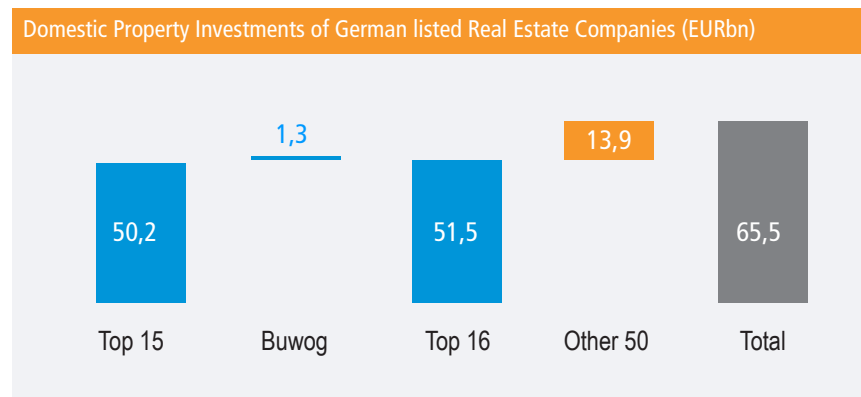
2. State of Affairs – How Has the Asset Class Performed?

The sector continues to be almost exclusively invested in German property assets at 96% (down from 98% a year ago). The slight decrease of the German share is due to the inclusion of Buwog, which owns a sizable portfolio in Austria.

German listed real estate companies' domestic property investments (excluding investments in foreign assets) increased by 10% y-o-y or EUR5.8bn to EUR65.5bn.



Source: Company data, Akseirod Consulting/Barkow Consulting



Source: Company data, Akseirod Consulting/Barkow Consulting

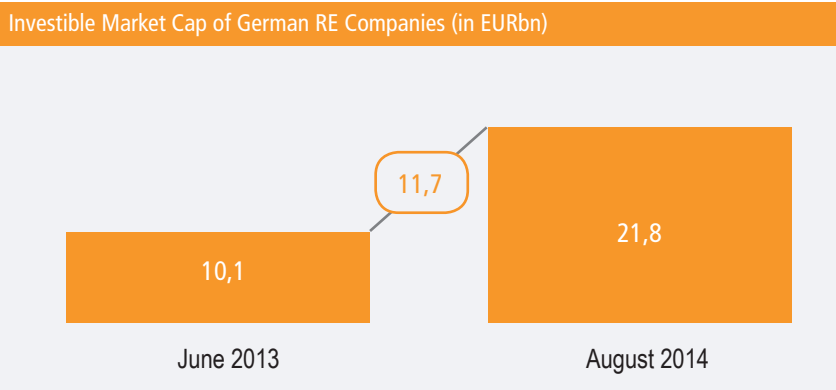
2.3. Market Cap & Free Float on Strong Growth Trajectory

2.3.1. Development of DIMAX

DIMAX market cap surpassed the EUR30bn mark in recent months for the first time. DIMAX market cap totaled EUR30.5bn at the end of August up from EUR22.2bn at mid year 2013. Despite this remarkable growth in market cap, the absolute number of DIMAX companies has decreased by 5 to 67 currently, since mid-2013. We read this as a signal of an overall consolidation trend in the sector. Examples in the listed sector include the takeovers of GSW and Estavis by Deutsche Wohnen and Adler Real Estate, respectively.

2.3.2. Development of Top 16

The aggregate market cap of our sample of Top 16 companies has increased by ca 50% to 25.7bn since June 2013. Even more impressive is the free float development of our sample, which has more than doubled to EUR21.8bn over the same period.



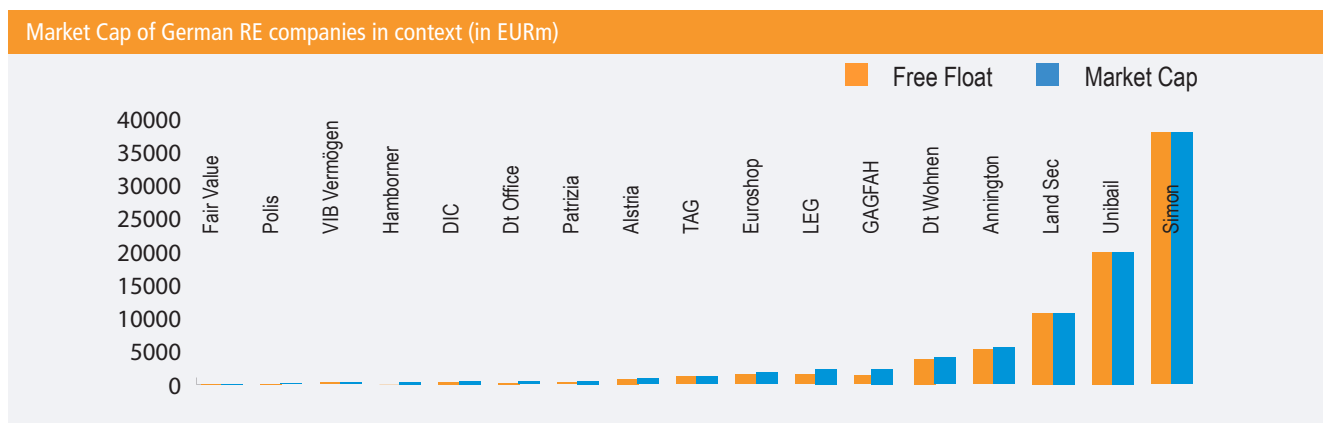
Source: Company data, ZIA, Akseirod Consulting/Barkow Consulting

2.3.3. German Market Cap in Context: Still Room to Grow

Though individual German companies have grown substantially, most still remain relatively small by international comparison. The largest German company by market cap, Deutsche Annington, still only represents 28% of European market leader Unibail-Rodamco (ca. EUR20bn market cap) and just over 10% of US REIT Simon Property.

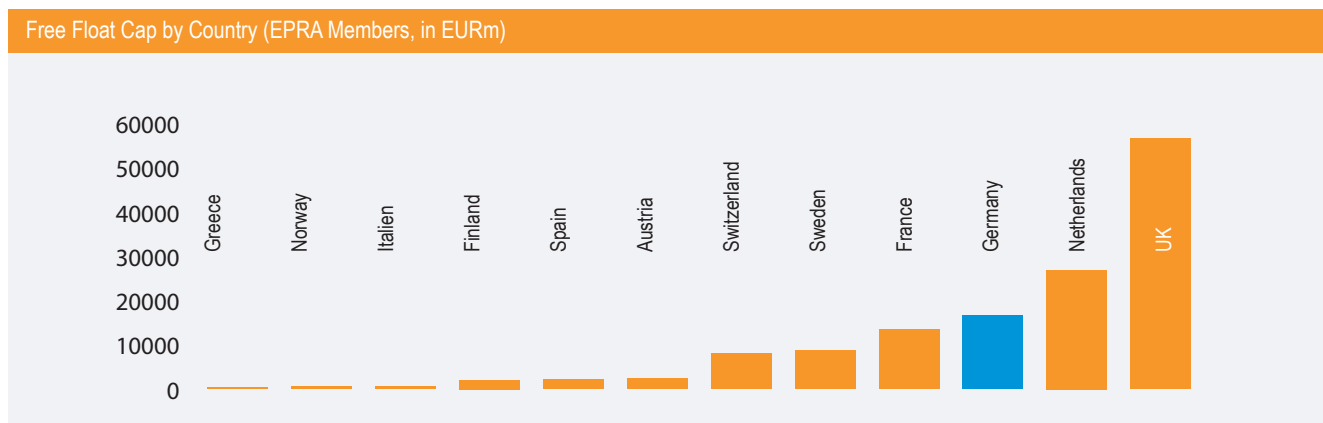
Nonetheless, the combined free float of our sample of 16 companies has now surpassed the free float of Unibail-Rodamco by 16%. A year ago, our sample represented just 60% of the Franco-Dutch shopping centre giant's free float market cap.

The combined free float market cap of the German EPRA constituents' remains in third place behind the Netherlands (including Unibail-Rodamco) and the UK.



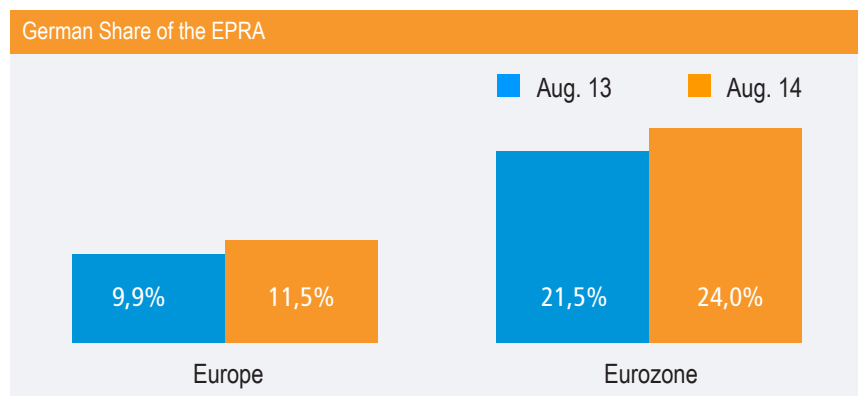
Source: Company data, EPRA, NAREIT, ZIA, Akseirod Consulting/Barkow Consulting

2. State of Affairs – How Has the Asset Class Performed?



Source: Company data, EPRA, ZIA, Akselrod Consulting/Barkow Consulting

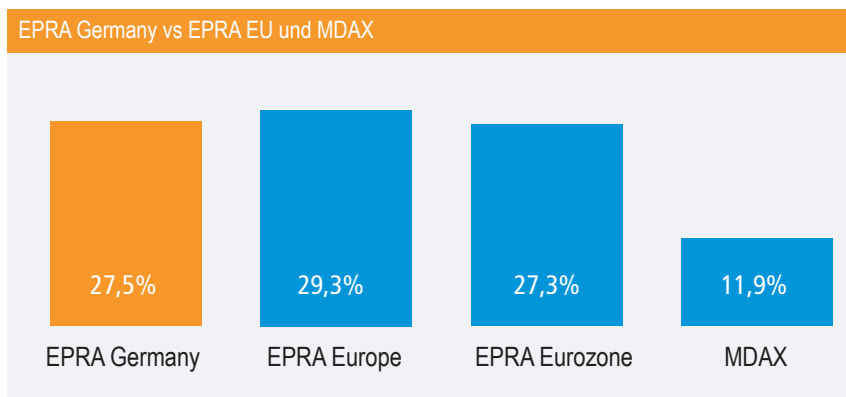
Due to strong growth in free float capitalisation Germany was able to increase its weight within the EPRA Developed Europe indices. E.g., Germany currently represents 24% of the EPRA Developed Europe Eurozone index, up from 21.5% a year ago.



Source: EPRA, ZIA, Akselrod Consulting/Barkow Consulting

2.4. Share Price Development

Over the last 12 months the EPRA Germany index surged by 27.5%, roughly in line with the EPRA Developed Europe indices. Moreover, compared to the German MDAX (+11.9%) the German real estate sector was able to outperform substantially.



Source: Deutsche Börse, EPRA, ZIA, Akselrod Consulting/Barkow Consulting

2.5. Development of New Issues (IPOs)

2.5.1. Europe up For a Record Vintage

As recent research by the EPRA has shown, Europe's property IPO market is on fire. Since the start of 2014, the European listed real estate market has been enhanced by 15 Initial Public Offerings (IPOs). IPO proceeds in 2014 have so far exceeded EUR 6 billion. With further new issues in the pipeline, 2014 is likely to become a new record IPO vintage for European real estate.

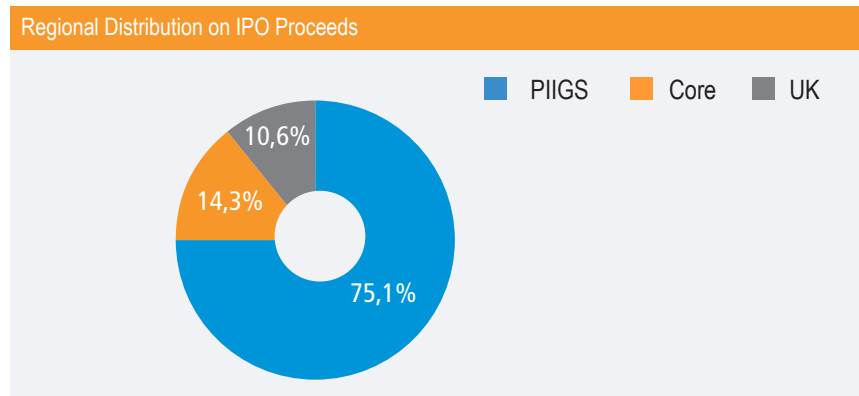
2.5.2. German Contribution Still to Come

Regionally, European IPOs have been focused on the so called PIIGS countries (Portugal, Ireland, Italy, Greece, Spain), with a share of more than 75%. Funds allocated for investment in European Core countries and the UK make up the remaining 25%. The Buwog spin-off is excluded from this analysis, as it was effectively a cash (and market cap) neutral transaction.

Notably, Germany has been entirely absent from the European real estate IPO landscape during 2014. We are hopeful that this will change, however. For example, TLG Immobilien has recently announced IPO plans for the fourth quarter of 2014.

Interestingly, two companies with German property portfolios have gone public in 2014 already (Summit Germany, Global I REIT). Listings were executed on AIM in the UK and the Singapore stock exchange, however. Total proceeds of the two transactions were ca. EUR257m on our calculations.

2. State of Affairs – How Has the Asset Class Performed?



2.6. Future Growth Drivers likely to Change

The past 12 to 14 months have been another period of records and growth for the German listed real estate sector. The sector's growth has been achieved with only one spin off and in the absence of IPOs so far. The sector benefited from three major trends:

- Low and further declining interest rates, leading to rising demand for real assets. The listed real estate sector was thus able to outperform the broader equity market.
- Large scale residential portfolio acquisitions.
- A record volume of equity placements from existing share holders/financial sponsors.

It is hard to see how these three trends could continue as strongly as in recent history. Interest rates are already close to zero. Financial sponsor holdings have been substantially sold down. The pipeline of large residential portfolios appears significantly reduced. Future growth will therefore have to rely to a larger degree on:

- The commercial sector, which is still significantly under-represented in the German market.
- New companies going public and rights issues.

German Listed Sector: Property Details - 5 New Records

in EURbn @ Period End	Jun 13	Jun 14	Delta 13-14	Delta 13-14	Comment
Total Property on Balance Sheet (total assets)	60,1	68,0	7,9	13,2%	Record No 1
<i>By Sector</i>					
Residential	46,2	52,8	6,6	14,4%	Record No 2
Commercial	13,9	15,1	1,2	8,9%	Record No 3
<i>By Geography</i>					
Germany	59,7	65,5	5,8	9,6%	Record No 4
International	0,4	2,5	2,1	497,8%	Record No 5

German Listed Sector: Capital Markets Details - Again 5 New Records

in EURbn @ Period End	Jun 13	Jun 14	Delta 13-14	Delta 13-14	Comment
DIMAX Market Cap	22,2	30,5	8,4	37,7%	Record No6
Top 16 Market Cap	17,3	25,7	8,5	48,9%	Record No7
Top 16 Free Float	10,1	21,8	11,6	114,8%	Record No 8
EPRA EU German Share	21,5%	24,0%	2,5%	11,6%	Record No 9
EPRA Eurozone German Share	9,9%	11,5%	1,6%	16,2%	Record No 10

Source: Company data, ZIA, Akselrod Consulting/Barkow Consulting

3. Who is investing in Listed Real Estate?

3.1. This Sector is Different, Really!

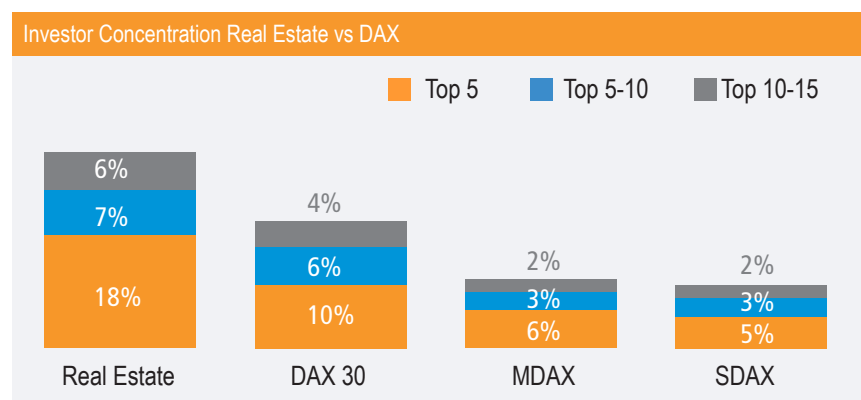
Those of us who have worked in capital markets for a while are aware that listed real estate is very different compared to other sectors. Akselrod Consulting with Barkow Consulting have now collected data from various sources to compare shareholder structure in listed real estate to that of the broader German equity market.

3.2. Much Higher Investor Concentration

We already knew that the listed real estate investor base consists of a few relatively large accounts, with substantial holdings in the sector. What we did not know, was the extent of the concentration: Top15 investors accounted for almost 31% of the German sector's free float.

This is a big number in itself. But the number appears even more significant, when compared to broad-based German equity indices. Top15 investors of the DAX30 combine only 20% of the free float. For MDAX and SDAX the numbers are 12% and 10%, respectively.

We concede that this year's large volume of equity placements in the German sector might have changed the investor landscape to a degree. Nonetheless, there should be little doubt that investor concentration is higher in the listed real estate sector than elsewhere in Germany.



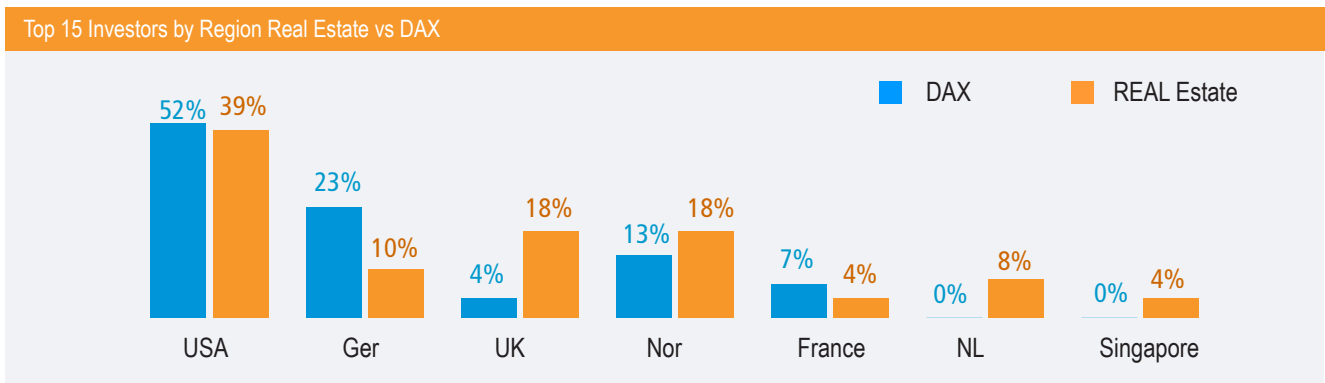
Source: Bankhaus Lampe, DIRK|IPREO, ZIA, Akselrod Consulting/Barkow Consulting

3.3. Higher Share of Benelux and Anglo-Saxon Investors

In a second step we analysed the regional distribution of the 15 largest investors.

We found that:

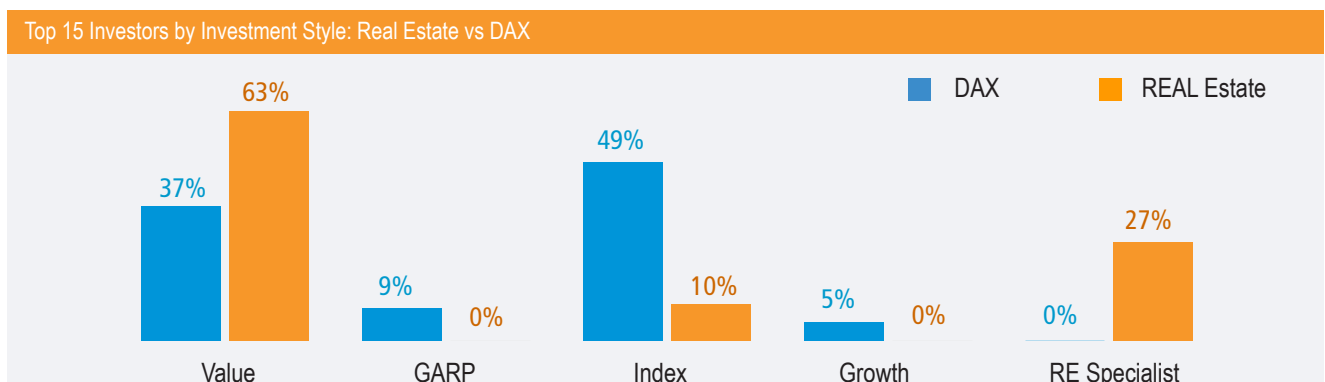
- The share of domestic/German investors in listed property is even lower than in DAX30 companies (10% vs. 23%).
- The share of US and French investors is similarly lower (43% vs 59%).
- The share of Dutch and UK investors is substantially higher (26% vs 4%).
- Higher Norwegian and Singaporean investor representation has been noted; we attribute this fact to active participation of sovereign wealth funds .



Source: Bankhaus Lampe, DIRK|IPREO, ZIA, Akselrod Consulting/Barkow Consulting

3.4. Predominance of Value and Specialist Investors

Analysing Top 15 investor distribution by investment style, we note the strong predominance of Value Investors (63%) and Real Estate Specialists (27%). Index Funds own the remaining 10% and are notably underrepresented by comparison to their ownership in DAX30 companies.



Source: Bankhaus Lampe, DIRK|IPREO, ZIA, Akselrod Consulting/Barkow Consulting



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