GERMAN ECONOMIC OVERVIEW

"Germany continues to present a compelling case for investment in commercial property despite the severe global downturn of recent times."

Youngfields OCP

- Ralph Atkins. Economist (BBC. 20th May 08) "**Germany did not have a housing boom** – so there is no risk of an economically damaging correction" Thus long term stability.
- World's 3rd largest economy & World's largest exporter.
- Germany accounts for 22% of the total EU 27 member states GDP.
- 2007 saw EUR 439 Billion invested in Germany.
- From Jan – June 2008 German rail freight increased by 5.4% over the previous year to 190 million tones which is an indication of significant economic activity.
- Germany has a **Trade Surplus** standing at 8.1% of GDP. (Q1 08.)
- Federal Corporation **Tax cut from 25% to 15%** at the beginning of 08.
- German Economy **grew by 1.5%** in the first ¼ of **08.** (Increased by 14% over the last 4 years)
- The Bundesbank revised upwards their 08 growth forecast from 1.9% to 2.25% in Q 08.
- German Economy grew by 2.5% in 07. (Berlin grew at 1.9%)
- German retail spend is resilient and there is a high propensity for saving.
- Average German Unemployment rate: 7.5%, (lowest since building boom of 1992) Berlin 13.6%. (Colliers July 08)
- German Unemployment has dropped by circa 245,000 from Jan 08 to June 08.
- German Job Vacancies climbed from 579,180 in May 08 to 596,269 in June 08.
- Commercial Vacancy rate low & falling & rents increasing. (Strong demand vs. lack of supply). Germany is at a different stage in the property cycle than other leading economies.

- Ernst & Young (2008) rates Germany as the most attractive business location in Europe.

- OECD in June 08 quoted as saying, “So far the**re is little evidence of significant adverse effects** on the real (German) economy coming **from the financial turmoil, the strong euro or** high commodity prices.”

- Recent growth figures across the EU showed that the Euro zone including Germany had stagnated in Q2 08 i.e. the global problems had eventually impacted on Germany. However German performance should improve again in the latter half of 08 with the improvement in the US$ (back to 1.43 from 1.61 previously) expected to impact positively on key German exports.

- What differentiates German commercial property are the **strong fundamentals** that insulate investors from the type of volatility in the global economy that we are experiencing at present and that may continue for a further 1-2 years.

- Germany is at a **different stage in the property cycle** than other leading economy i.e. it suffered the hangover from re-unification in the early years of the current decade, and has been on a slow recovery path since then, which is forecast to continue. By contrast other markets such as our own went through a property boom in the same period, but this has lead to a property bubble and a consequent severe downward correction within property values. Ironically the German slump fuelled our boom through low ECB interest rates but the strong German recovery is now part of our problem as it has driven interest rates upwards.

- High quality German commercial property can be purchased at **less than “ bricks & mortar” value**, due to the slump in property prices earlier in this decade which set a low baseline and from which prices have being recovering steadily but slowly, i.e. there is significant scope for medium term capital growth.

- German **commercial rents are significantly lower** than their Irish or UK equivalents, in many cases by as much as 50%. This makes rents affordable to all businesses and means that rent burden is not a significant issue for businesses, which is not the case in Ireland or UK at present. This combined with a “rental culture” in Germany means that quality tenants are available, as evidenced by very low vacancy rates in strong locations. Furthermore there is significant scope for medium term rent increases from a relatively low base.

- **Yields have remained high** despite the attraction of German property due to strict credit policies by German banks following the slump in the early 2000’s, which restricts the availability of finance within the domestic German market. This presents opportunities to foreign investors, provided they can secure finance in Germany or bring funding from abroad.

Stuttgart

- Stuttgart, Dusseldorf & Munich are the top performing economic regions in Germany.
- 160,000m2 of office was transacted in 2007 in Stuttgart. (Atis Real & DB.)
- Stuttgart has an unemployment figure of circa 3.9% the lowest regional level in Germany(Colliers July 08)
- Atis Real Q1 08 report on office space in Stuttgart stated: "*Demand will remain high in 08 and probably produce a higher turnover figure well up on the long term average*." They also stated that over 2007 to 2008, the volume of vacant space fell considerably by almost 9%. The vacancy rate in Stuttgart is now only 5% (prior year 5.5%) Atis Real Also forecast that vacant space will reduce further in 08.

Table comparing prime office Space in the main German cities

	Total Office Space in m2	Office Vacancy %	Trend	Vacancy in m2	Trend	Letting in m2	Trend	Top Rents	Trend	Prime Office Yield %	Trend
Stuttgart	7,400,000	5%	↓	370,000	↓	170,000	↑	19.5	↑	5.5 - 6.0	→
Berlin	18,200,000	8.35%	→	1,520,000	↓	510,000	↑	22	→	5.5 - 6.0	→
Dusseldorf	8,500,000	10.53%	↓	895,000	↓	480,000	→	22	→	4.75 - 5.5	→
Essen	3,450,400	5%	↓	171,000	↓	117,500	↑	12.5	↑	5.5 - 6.0	→
Frankfurt	11,600,000	15.41%	↓	1,787,500	↓	547,300	↑	40	↑	4.75 - 5.1	→
Hamburg	13,710,000	7.40%	→	1,014,000	→	580,000	↑	23.5	↑	4.75 - 5.25	↓
Munich	19,015,000	7.89%	↓	1,500,000	↓	828,700	↑	30.5	↑	4.1 - 5.5	↓