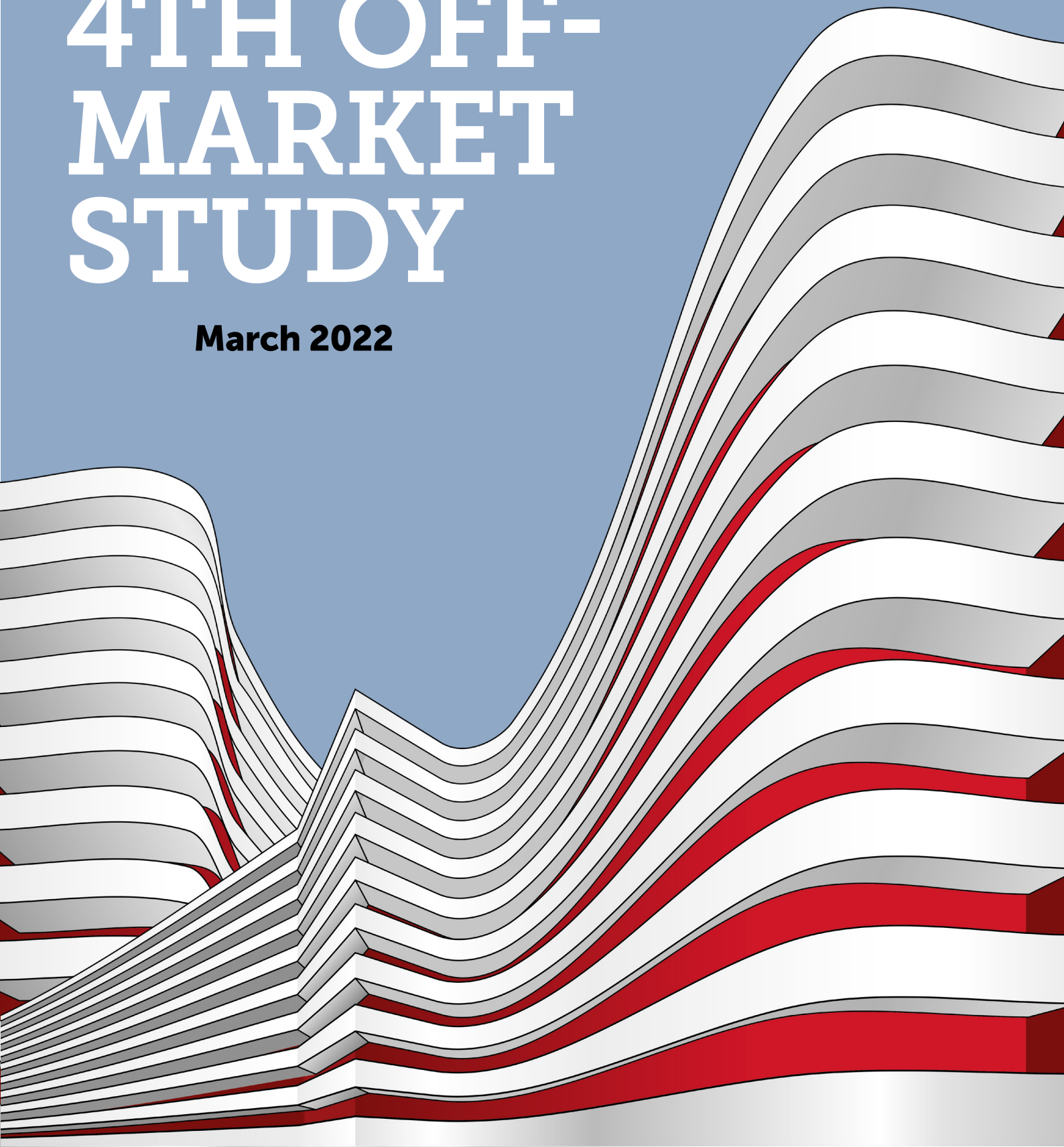


4TH OFF- MARKET STUDY

March 2022



LIST OF CONTENTS

3	FOREWORD BY JOHN AMRAM
4	THE FUNDAMENTAL RESULTS AT A GLANCE
6	SUMMARY
7	INTRODUCTION
8	COOPERATION HPBA & BULWIENGESA
10	RESULTS OF THE 4TH OFF-MARKET STUDY
11	THE OFF-MARKET SEGMENT IN THE CONTEXT OF THE INSTITUTIONAL MARKET
13	OFF-MARKET EXPERT DISCUSSION with Marcus Bartenstein, EMPIRA AG
15	OFF-MARKET TRANSACTIONS in the current strategies of the real estate market actors
18	OFF-MARKET EXPERT DISCUSSION with Gert Waltenbauer and Rainer Pohl, KGAL GmbH & Co. KG
21	THE TRENDS WITH OFF-MARKET TRANSACTIONS – 2020/2021
24	OFF-MARKET EXPERT DISCUSSION with Sascha Hettrich, Frics
27	THE SHARE DEAL TOPIC
28	THE OFF-MARKET SEGMENT IN THE DACH REGION
39	TOTAL REAL ESTATE INVESTMENT VOLUME and the off-market share in Germany, Austria and Switzerland 2020
33	GLOSSARY
34	IMPRINT

FOREWORD BY JOHN AMRAM

In 2018 HPBA and bulwiengesa set themselves an ambitious goal: the first-ever scientific analysis of what was then totally uncharted territory in Germany. Ever since the HPBA Off-Market Study and the off-market segment as an element in real estate investment practice have met with considerable acceptance on the part of German and international representatives of the industry. Numerous actors have also clearly positioned themselves vis-à-vis off-market transactions – be it by pursuing off-market-models to a greater degree, or by distancing themselves from off-market purchases and sales, and in some cases not being able to participate in them at all.

With what is now our 4th HPBA Off-Market Study we intend to provide an update on how the off-market segment has developed against the background of the coronavirus pandemic. But we have done more than just this. As with every new issue we have once again set ourselves the goal of breaking new ground and examining aspects that have not been discussed to date. For the first time ever, therefore, we are crossing the borders of the investment location Germany and also providing an evaluation for Austria and Switzerland. Although some research work remains to be conducted in the coming years due to the differing datasets, the volume of the off-market segment in the DACH region in 2020 may be put at a rough figure of 50 to 80 billion euros. This underlines the fact that the off-market segment has continued to grow despite the tangible coronavirus shock at the beginning of the pandemic – and thus in this respect the assessment put forward by the participants in the 3rd HPBA Off-Market Study has proved to be true.

Another further innovation is that for the first time ever we have supplemented the empirical, quantitative survey with in-depth expert interviews with renowned actors on the investment markets in the DACH region. These interviews provide detailed outlines of approaches and strategies on how investors incorporate off-market transactions into their respective strategies and implement these in practice. I would particularly like to thank Marcus Bartenstein from EMPIRA, Gert Waltenbauer and Rainer Pohl from KGAL, as well as Sascha Hettrich, who is not only familiar with the market from his

investment experience but also as a RICS valuer. At the same time we were also able to further improve the quality of the panels this year. Our survey participants represent a total volume of nearly 490 billion euros in assets under management (AuM). Without the active participation of the panellists – whom I would also like to thank most sincerely – we would not have been able to continue the HPBA Off-Market Study and present this fourth issue.

A result which is characteristic of both the qualitative and the quantitative sections of the survey is the differing success rates: while classical bidding processes during the coronavirus pandemic have frequently been less successful than before, off-market transactions have actually become more secure. This deal security was also repeatedly mentioned in the interviews. This is why I associate one wish with the current study results above all: let us join together and find ways and means while sharing our respective experiences so as to ensure we enhance the deal security of transactions even further – regardless of whether these are off-market or on-market. Ultimately it can only be of interest to buyers and sellers alike that a generally higher level of transaction success contributes to Germany's role as a "safe haven" for real estate investments.



JOHN AMRAM

Founder & Managing Director
HPBA Off-Market-Solutions
March 2022

THE FUNDAMENTAL RESULTS AT A GLANCE

1

The Swiss and Austrian markets are not as open as the German real estate market and, at the same time, they are also less transparent – and in particular when it comes to commercial properties and plots of land.

The entire DACH region had a volume of about 450 billion euros in 2020 on the basis of the data analysis by the leading national market analysts. In this respect the above-average high transaction volume of 123 billion euros in Switzerland – high in relation to its population – is particularly striking. Following careful examinations it indicates under-reporting in Germany. Presumably for share deals.

2

The professional German market players expect a growing number of off-market transactions in the future. This is confirmation of the trend seen in the 3rd HPBA Off-Market Study, which was conducted after the first few months of the coronavirus pandemic.

Compared with the previous study, a high level of consistency is displayed by the current HPBA Off-Market Study: more than half of the market players (56 per cent) still assume that the off-market segment is growing or is growing strongly. In contrast, the proportion of respondents who assume the segment will decline has decreased from 11.3 to 8.4 per cent.

3

A successful transaction process is reported to a significantly greater degree by market players for off-market deals than is the case with on-market processes. Namely on the basis of the transactions completed in the past twelve months.

61 per cent of all the respondents are able to report a positive success rate, more than half of all transactions are successfully concluded. On-market this figure is merely approx. 29 per cent. For the proportion of investors with a one hundred per cent success rate the ratio is as high as 31 to 7 per cent in favour of off-market models.

4

In the representative universal set of professional market players in Germany real estate funds and project developers have predominated of late in terms of participation in off-market transactions.

Real estate funds are represented to 33 per cent and project developers to 21 per cent in the group of off-market actors. They thus make up more than 50 per cent of the actors. Insurers and private equity taken together, in contrast, merely account for a share of just 17 per cent.

THE FUNDAMENTAL RESULTS AT A GLANCE

5

Despite the change in legislation, the proportion of share deals has recently increased sharply according to the actors.

In the period covered by the survey, the proportion of share deals in acquisitions and sales was 57 per cent compared to merely 35 per cent in the third issue of the study. Absolute figures on the volume of share deals are still only available to a limited degree.



"Off-market transactions are still more common than assumed in the past studies. This is my personal finding from the 4th HPBA Off-Market Study. In Switzerland we received very high transaction values for 2020 from a reliable source for the first time ever, thus allowing conclusions to be drawn regarding the German market; namely that there is probably a very high proportion of share deals – despite all the legislative changes. But just as important are the findings on the industry as expressed in statements by representatives of the German real estate market: accordingly off-market models are something for 'experts'. And this is why they never come to light? We are convinced that we will have greater degrees of transparency in the future – also regarding off-market models."

Andreas Schulten, chief representative, bulwiengesa AG

SUMMARY

The 4th HPBA Off-Market Study is devoted to the real estate market transactions in Germany, Austria and Switzerland and their off-market segments, as well as to the development of trends compared to the prior studies from 2018, 2019 and 2020. In this respect it becomes clear in the opinion of the actors that off-market transactions gain in relevance – due to the better success rate – when a period of crisis is ongoing.

The annual volume of the off-market segment in Germany is 40 to 70 billion euros. Thus the total volume is clearly greater than the reported on-market segment.

The calculation by HPBA and bulwiengesa indicates that the real estate transaction volume of 80 billion euros reported by brokers in Germany in 2020, the first year of the coronavirus pandemic, has clearly been surpassed. While the on-market segment has shrunk in the coronavirus pandemic, the off-market segment has grown.

In Austria and Switzerland the off-market shares, in contrast, are somewhat lacking in transparency. In total the off-market volume in the DACH region is probably between 50 and 80 billion euros per year.

A high return ratio for the questionnaires again underlines the interest with which the professional institutional actors in all asset classes endeavour to find orientation in this market segment. This year the respondents represent nearly 490 billion euros in assets under management.

In this year's issue there is scientific proof of the further sharp rise in the proportion of share deals in the off-market segment. This proportion has again increased, to 57 per cent of all purchases and sales. In addition to evidence of the high level of support for off-market transactions, which was at similar levels in previous years, there is once again differentiation by investor groups: above all real estate funds and project developers utilise this segment, with listed corporations and private equity, in contrast, being more hesitant as a rule.

The Swiss and Austrian markets are not as open as the German real estate market, and, at the same time, they are less transparent.

Das Off-Market-Segment wird von Wohnimmobilien dominiert, doch auch die Assetklasse Logistik zieht stark an. Insgesamt ergibt sich ein repräsentativer Marktquerschnitt.

The entire DACH region had a volume of about 450 billion euros in 2020 on the basis of the data analysis by the leading national market analysts. In this respect the above-average high transaction volume – in relation to its population – of 123 billion euros in Switzerland is particularly striking. Following careful examinations it indicates under-reporting in Germany. Presumably for share deals.

The off-market segment is dominated by residential real estate, but the logistics asset class is also seeing strong growth. All in all there is a representative cross-section of the market.

In the field of acquisitions 45.9 per cent of all off-market transactions were in the residential segment in the past twelve months. 29.6 per cent were accounted for by the office segment, 11.2 per cent by logistics. Whereas residential and logistics have seen strong growth, the office and retail asset classes have shrunk compared to the 3rd Off-Market Study. Thus the shifts on the investment markets are also reflected in the off-market figures. The off-market segment thus provides a representative cross-section of the market. With sales the difference between residential (37.8 per cent) and office (30.0 per cent) is not as great as it is with acquisitions.

INTRODUCTION

Research into the German landscape for real estate transactions using off-market processes, with the exclusion of a public audience and ignoring the customary bidding processes to a large extent, therefore, is entering its fourth round with this survey, adding greater depth to the results from the three previous surveys. This issue of the study focuses not only on the German real estate market, but also on those in Switzerland and in Austria. At the same time, a number of aspects of off-market transactions – such as the benefits and drawbacks which had already been determined in prior years – were again broken down to consider differing groups of actors. Recent events have once again led to the share deal issue being highlighted.

COOPERATION HPBA & BULWIENGESA

The following fourth study was also made possible thanks to the intensive support provided by HPBA Off-Market Solutions in Berlin and the academic work of bulwiengesa. The questionnaire that was utilised in a slightly expanded form for this fourth study, was compiled jointly by both companies. The expansion to take in the DACH region – for the first time ever Austria and Switzerland were also observed – profited from both networks.

The market becomes more transparent thanks to the survey. In the medium to long term this may possibly mean that even better transaction conditions can be attained. The respondents are the most important actors on the professional real estate transaction markets. The panel is a broad cross-section of the professional market actors, including managers of classical institutional investor groups such as real estate funds, insurers, pension funds and pension schemes, as well as managers from family offices, private equity investors and other institutional investor groups.

The selection of the surveyed companies was conducted by bulwiengesa in consultation with HPBA. In total some 1,000 persons were selected for the survey. The panel focused on quality to a greater degree compared to previous years. In particu-

lar, both companies specifically addressed market players to ensure there was a representative spread with respect to assets under management. The most recent survey, for which 100 experts provided comprehensive answers, saw an overall response rate of ten per cent – an excellent result for such surveys. Thanks to this large number in absolute terms, partial results from (a low level of) cross tabulation are also representative.

It was a matter of key importance for both companies that the following results be presented in order to initiate a debate on this topic amongst experts and specialists. It is important to conduct similar calculations and surveys in other projects so as to improve the validity of the results in the future. In this respect international comparisons will also be helpful and necessary for future studies.



COOPERATION HPBA & BULWIENGESA

For whom are the results interesting?

In the past four years the HPBA studies on the topic have already initiated greater discussion, which has set new benchmarks in academic research and real estate research by the industry itself. Likewise it may be seen that financiers and credit institutions are paying greater attention to these figures.

Not least of all, the information is important for the present nationwide discussion of real estate share deals, the sale of companies with a significant proportion of their assets in the form of buildings and properties, therefore. In this regard, a further key module for the specialist discussion and political argumentation has been surveyed in this study.

Current survey in 2021

The 4th HPBA Off-Market Study also illuminates and analyses the German market for off-market transactions, as well as the DACH region. To this end a survey was conducted in August and September 2021, following up the surveys from previous years and it is thus intended to serve as a basis for the "measurement of the off-market segments".

Prior to the survey a questionnaire was prepared, which this year exclusively comprises closed-end questions. In part respondents had the possibility

to quantify their answers more precisely with the aid of a scaling system.

As discretion is of extraordinarily great significance with the surveyed topic the survey was conducted anonymously.

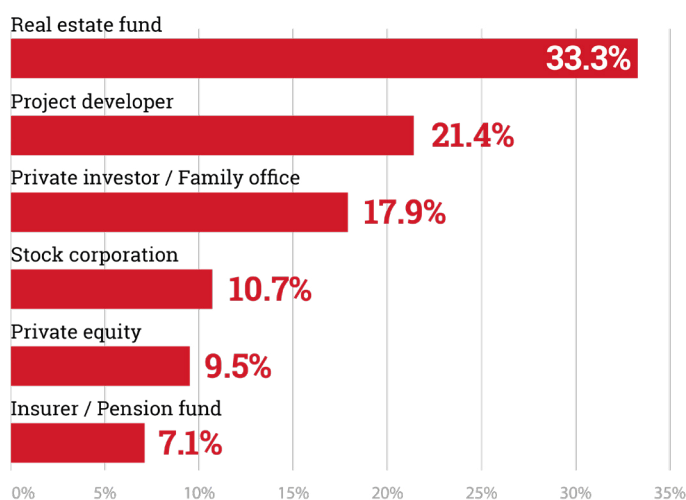
The questionnaire was drawn up with the aid of "Survey Desk", an online survey tool developed by bulwiengesa. Following the initial invitation two reminders were sent to the selected companies and various companies were contacted directly so as to ensure a representative panel (AuM, asset classes, investor type etc.). The survey was conducted over a period of 30 days, with the questions looking at issues relating to the 2020 business year and current appraisals of the market development following the coronavirus recession.

The additional work steps and the questions on the topic in Austria and in Switzerland are documented in detail below. It is worth emphasising that there has not been any research on the transaction market in general and on the significance of the off-market segment there. Against this background, these initial rough datasets undoubtedly provide the impetus to conduct more in-depth analyses.

RESULTS OF THE 4TH OFF-MARKET STUDY

THE OFF-MARKET SEGMENT IN THE CONTEXT OF THE INSTITUTIONAL MARKET

In the survey at the end of August and the beginning of September 2021 the structure of the companies which participated in the survey as shown below is again a representative sample of the universal set.

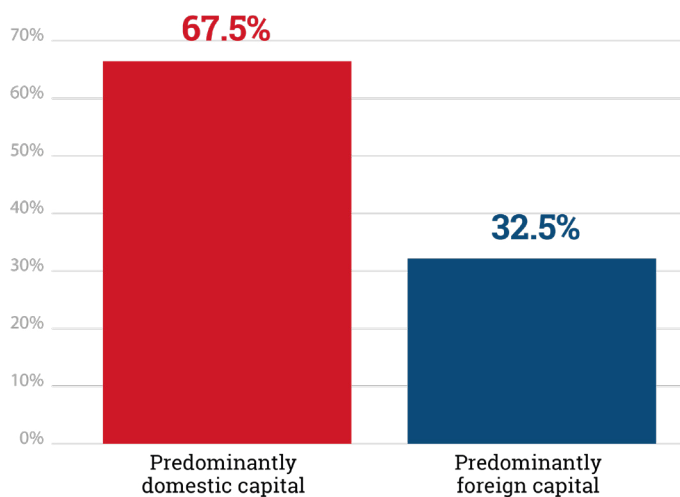


Were you involved in off-market transactions in the past 12 months?

Yes responses in per cent

Source: Bulwiengesa · 4th HPBA Off-Market-Study.

The current study again shows that the off-market segment is a fixed element in the transaction strategies of professional market players. On the whole more than 60 per cent of the market share is accounted for by real estate funds, listed corporations, private equity investors and insurers, and not by the more exotic players on the investment market, therefore.



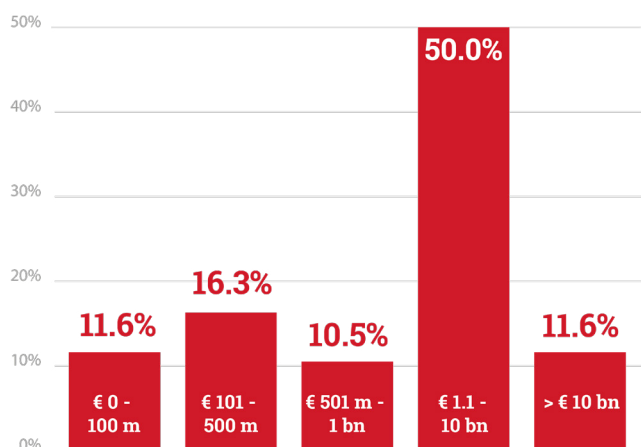
Where do you primarily source your capital?

■ Domestic capital ■ Foreign capital

Source: Bulwiengesa · 4th HPBA Off-Market-Study.

THE OFF-MARKET SEGMENT IN THE CONTEXT OF THE INSTITUTIONAL MARKET

The capital of the respondents continues to predominantly originate from domestic sources (whereby market players from Germany, Austria and Switzerland were surveyed). The proportion of actors with international capital sources has risen slightly compared to the previous year, however.



How high – using broad categories – is the value of your assets under management?

Source: Bulwiengesa - 4th HPBA Off-Market-Study.

The participants in the 4th HPBA Off-Market Study again correspond to a representative cross-section of investor types and the respective assets under management (AuM). With a share of 50 per cent the majority of survey participants fall into the category of 1.0 to 10.0 billion euros AuM, whereby these are probably larger project developers and fund managers above all. In total the surveyed sample in this study covers AuM of nearly 490 billion euros.



OFF-MARKET EXPERT DISCUSSION WITH MARCUS BARTENSTEIN, EMPIRA AG

The Empira Group with its headquarters in Zug, Switzerland, covers the entire value chain of the residential and office usage classes. With an investment volume of approx. 5.8 billion euros, Empira is the market leader in the German-speaking region in the development of innovative investment approaches in the fields of equity and debt. CEO Marcus Bartenstein looks back on more than 20 years' experience in leading positions in the real estate industry and on the professional transaction markets.

In your experience are there differences between the off-market cultures in Germany, Austria and Switzerland?

In our discussion I would prefer to restrict myself to the German real estate market. Switzerland is a limited and highly developed market, with capital strong institutional investors. As a company with an international orientation it is difficult to enter the existing network of market players in Austria without a strong local partner. Professional business and above all the uniform deal-flow we require are scarcely possible there. For this reason Empira has recruited a local employee with an excellent network of contacts as head of its Austrian business.

In past studies we have estimated the total volume of the off-market segment in Germany to be at least 40 billion euros. Can you confirm this volume on the basis of your experience?

I would estimate that brokers already cover the bulk of the market in their market reports. The market reports do not reflect the transactions which are conducted by the large brokers in classical on-market transactions, however. On the basis of my observations I would guess that the volume in the off-market segment is about 20 to 30 per cent higher (With a transaction sum of 80 billion euros in 2019 this would mean an additional volume of approximately 20 billion euros in the off-market segment.)

Are there prominent examples of major off-market transactions that were relevant and defined the market in 2021?

Quite a few! The Deutsche Wohnen deal at VO-NOVIA was not on-market for instance. These are highly complex capital market structures, in which the real estate portfolio is just one factor, alongside the strategic components and management benefits. This again concerns the residential segment, which has a particular affinity for off-market transactions.

Sales of operator-run real estate are also often off-market transactions. Here too there are many other aspects regarding the management of the properties and the associated market which have to be taken into account in addition to the property in the narrower sense.

Buying in the off-market segment is customary according to our previous studies and people happily publicly proclaim such transactions. Would you also buy off-market?

Definitely! Naturally it presupposes a specialised network and good market knowledge. But only recently we addressed four potential buyers with an offer. Four days later we had a done deal. Here it is a question of an overall package comprising the price, the inclusion of tax and financing aspects, and deal security. This presupposes true expertise



OFF-MARKET EXPERT DISCUSSION

WITH MARCUS BARTENSTEIN, EMPIRA AG

and a high degree of reliability. I am convinced that a bidding process which revolves entirely around the selling price does not lead to the best result for both transaction partners.

The most important benefit is a win-win transaction for both partners?

Yes, transaction structures can be put in place to suit both partners. A typical off-market transaction then comes about when the tax requirements for both parties are known from the very outset and with the optimisation of the financing conditions the entire economic parameters of the transaction are optimised.

This sounds like you are aiming for both security combined with a low workload and costs. What is more important?

Security and the workload and costs are relevant! All the issues are laid down in a preliminary contract, which also encompasses the timing of the cash flow, guarantees and advance payments. With these processes we have deal security of 70 to 80 per cent in the off-market segment.

With a view to the real estate market as a whole with all its asset classes – where is the off-market segment strong and where is it not so strong?

With office: 10 to 20 per cent, here the portfolios and individual properties tend to be offered on the universal market rather than on-market.

With residential: 50 per cent, here there is the biggest potential for off-market transactions by far, especially also due to the large number of market players.

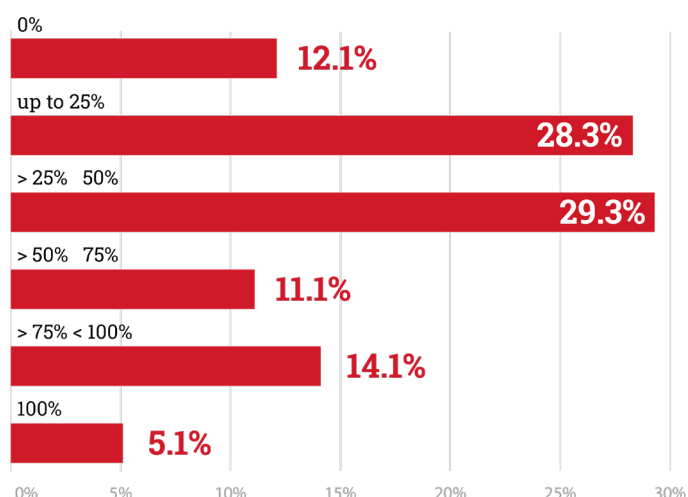
With industry: 30 to 40 per cent, whereby a generally greater lack of transparency is apparent on the market, but this can scarcely be stated with certainty.

With developments: 50 per cent, here the uncomplicated market entry with the plot of land means that these are often predestined to be conducted off-market.

OFF-MARKET TRANSACTIONS IN THE CURRENT STRATEGIES OF THE REAL ESTATE MARKET ACTORS

As with the past studies, one of the main points of interest in this the fourth study 2021/22 lies in the empirical data and their significance for and as an aid to an assessment of off-market transactions compared to bidding processes and on-market transactions. In this respect the main question is that regarding purchases and sales in the off-market segment, whereby it is often presumed that any accompanying lack of transparency could lead to more hesitation and especially with sales.

The results have once again shifted further in favour of off-market transactions when compared with the previous issue of the study, however:

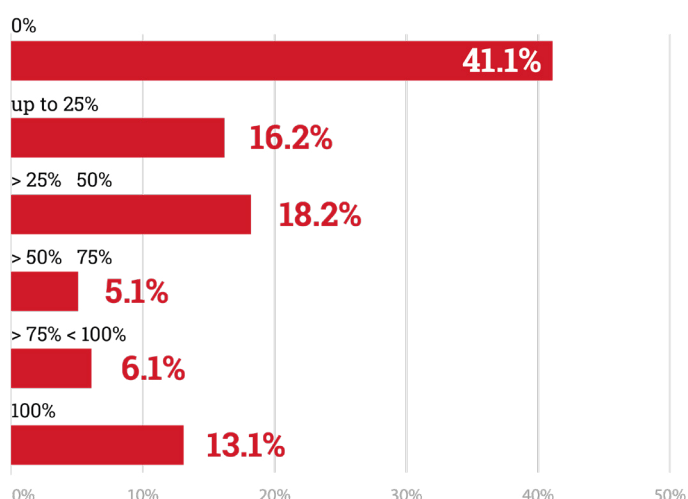


How high was your proportion of off-market purchases in the past 12 months (in per cent)?

Proportion of participants in per cent

Source: Bulwiengesa · 4th HPBA Off-Market-Study.

Both the proportion of those who exclusively purchase off-market and those who are not involved as an investor in off-market transactions have increased strongly. The majority of respondents had an off-market share – with purchases – of between 25 and 50 per cent.



Wie hoch war Ihr prozentualer Anteil an Off-Market-Verkäufen in den vergangenen 12 Monaten?

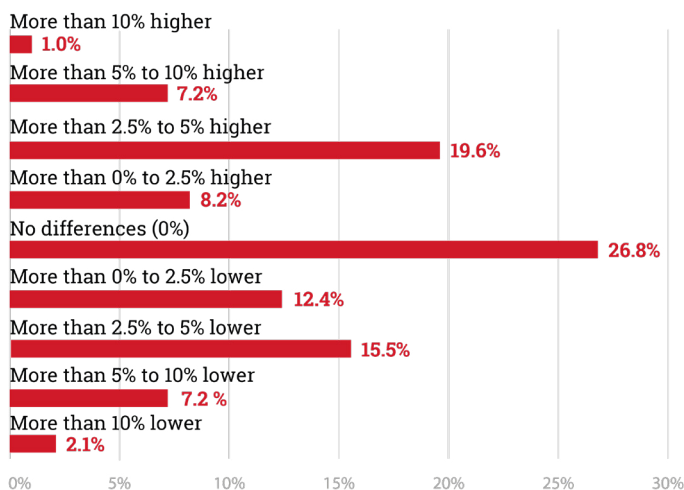
Anteil der Teilnehmer in Prozent

Source: Bulwiengesa · 4th HPBA Off-Market-Study.

OFF-MARKET TRANSACTIONS IN THE CURRENT STRATEGIES OF THE REAL ESTATE MARKET ACTORS

A strong polarisation is to be seen with off-market sales: 13 per cent of all the survey respondents exclusively sell using off-market models, whereby more than one third of all the respondents exclusively utilise on-market models, however. In total it may be seen quite clearly that bidding processes and other open-market structures do not cover the entire market.

Naturally the question of a suitable price delta between both transaction forms is of great interest. Here there were very few changes over previous years:



Was ist Ihrer Meinung nach in den nächsten 12 Monaten ein angemessenes Preis-delta bei Off-Market-Transaktionen?

Source: Bulwiengesa · 4th HPBA Off-Market-Study.

The 4th HPBA Off-Market Study confirms the fully differentiated result of the previous survey. It shows that off-market transactions in general are not primarily motivated by the purchase price, but rather by other factors such as deal security.



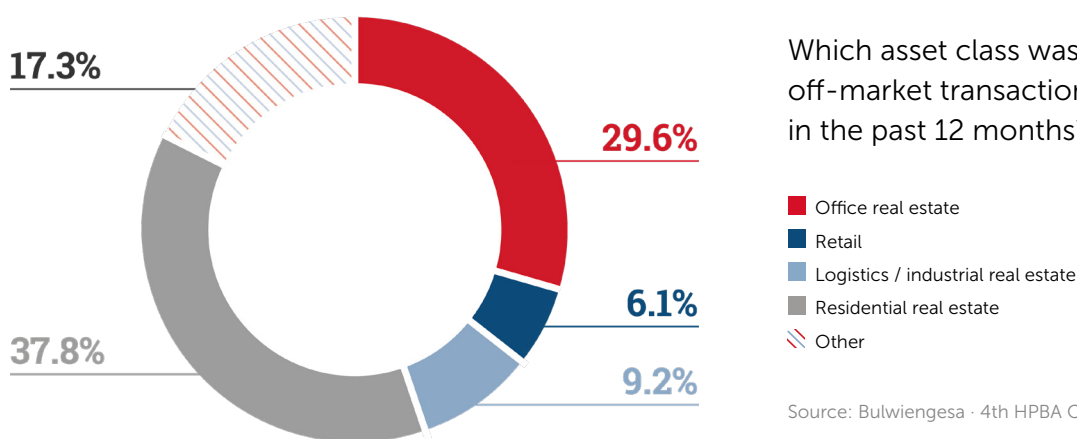
Which asset class was at the focus of your off-market transactions when making purchases in the past 12 months?

- Office real estate
- Retail
- Logistics / industrial real estate
- Residential real estate
- Other

Source: Bulwiengesa · 4th HPBA Off-Market-Study.

OFF-MARKET TRANSACTIONS IN THE CURRENT STRATEGIES OF THE REAL ESTATE MARKET ACTORS

With a share of nearly 46 per cent residential real estate has most recently characterised the off-market segment. The share of office properties has decreased slightly, in contrast. It is remarkable that the strong growth on the logistics real estate markets has also been observed in the off-market segment, with its share virtually doubling since the last study period.



Source: Bulwiengesa · 4th HPBA Off-Market-Study.

With sales the spread between residential and office real estate is lower than that seen with purchases. It is also noteworthy that the category "Other real estate" is more than seven percentage points higher for sales than it is for purchases. The reason for this could be that numerous survey participants have sold plots of land that fall into this category.



OFF-MARKET EXPERT DISCUSSION

WITH GERT WALTENBAUER AND RAINER POHL, KGAL GMBH & CO. KG

The KGAL Group is one of the largest alternative investment fund managers in the German-speaking region with more than 15 billion euros in assets under management. It is present on the real estate markets with its numerous purchases and sales. Among those responsible for the transactions are CEO Gert Waltenbauer and the Head of Transaction Management Team 2, Rainer Pohl.

How has the off-market segment changed in recent years in your opinion?

Waltenbauer: Many years ago the majority of transactions were initiated through direct contacts, whereby several bids were only rarely requested. These were off-market deals, therefore. With the increasing professionalisation of the German real estate and investment sectors, sellers initiated processes that were increasingly more broadly-based, however, such as bidding processes for instance. In the meantime it has become clear to many market actors that there are many losers with such a process. Ultimately only one out of 15 bidders can submit a winning offer. Accordingly, the trend is increasingly moving back towards off-market processes, in which a small number of potential buyers are exclusively addressed via brokers in order to avoid a bidding process.

Pohl: Our definition of off-market is very similar to the definition used by bulwiengesa. It is often the case that in a managed process a small number of bidders submit their offers. In contrast to more or less open bidding processes, soft factors such as trust or the possibility of follow-up business play

an important role: players like to conclude transactions off-market so as to facilitate future transactions with the trading partner.

In which asset classes are a particularly large number of properties traded in off-market processes in your opinion?

Pohl: Off-market structures are very common in the residential segment above all. This is due to the fact that even professional, leading residential project developers tend not to sell through brokers, but market their projects themselves. Companies which adopt this approach automatically address only a very small circle of bidders, which is also typical of the off-market segment. As KGAL we buy about eight out of ten residential properties using off-market structures. In this respect it has to be noted that the individual transaction sizes are smaller than in the office segment for example. In the latter segment the off-market share is about 50 per cent of all transactions, also because a larger number of attractive properties are openly put out to tender through brokers to a greater extent.

Would you claim that you cultivate an off-market culture at KGAL?



OFF-MARKET EXPERT DISCUSSION

WITH GERT WALTENBAUER AND RAINER POHL, KGAL GMBH & CO. KG

Waltenbauer: We do not regard off-market transactions dogmatically. Rather we are always on the look-out for new investment opportunities – ultimately this is the very reason our investors entrust us with their capital. This is why we utilise all the possible models to acquire attractive properties, and why we regularly avail of off-market purchases. The more efficiently we can use our network to avoid major bidding battles, the better this is for us at the end of the day: it is our aspiration to learn of important transactions at an early stage and to react accordingly. There is a very good reason why we realise the majority of our large-scale transactions and club deals in southern Germany, where we have a particularly good network. Wherever we can make best use of our network we succeed in concluding more off-market acquisitions. If you have already been able to realise a number of transactions in a region, the chances are great that at some point in the future you will be offered a property at this location off-market. It is no secret, but: the question of off-market success is a question of cultivating networks.

Pohl: This could once again be seen very clearly at EXPO REAL 2021, where there was a resumption of discussions and negotiations that had been interrupted by the pandemic. After the trade fair we received offers which we would otherwise have missed out on. Incidentally, this is why I only be-

lieve in the benefits offered by digital investment platforms to a limited extent. Those with a good network of contacts can reach for the telephone and set up new acquisitions without any need for arduous cold calling.

Which qualities of off-market transactions are particularly important to you?

Waltenbauer: As the agent for a fund it is in our very nature to conclude a purchase as quickly as possible and with the greatest-possible deal security. At the end of the day we receive the same compensation for a transaction that takes nine months to set up as we do for a transaction that takes six weeks to prepare. This is also an important aspect for our investors, ultimately there are opportunity costs with long assessment processes and superfluous due diligence costs if a purchase falls through. The deal security is the most important aspect, therefore. In terms of price there is no fundamental difference between off-market transactions and on-market transactions, however. On the one hand, the sellers know exactly what prices they can demand. On the other hand, we can afford some additional costs to secure exclusivity – but only as long as the price of the property does not rise.

Pohl: I would like to add that the aspect of flexibility with the timing is also important when it comes to



OFF-MARKET EXPERT DISCUSSION

WITH GERT WALTENBAUER AND RAINER POHL, KGAL GMBH & CO. KG

deal security. With bidding processes the timetables are often very tight, but with off-market models with transaction partners who trust one another there is often greater leeway. This does not mean that the workload and costs are reduced, but the due diligence processes can be conducted in a more predictable manner. On the whole, however, I regard the aspect of deal security as being significantly more important than the workload and costs, especially so as these are fundamentally dependent on the respective project and not just on the transaction model.

Do you at KGAL also conduct sales using off-market structures?

Waltenbauer: This is a general challenge for us as a fund manager. Ultimately we have to prove with a sale that we first sounded out the market and subsequently realised the best-possible price. This is proved most easily by addressing a large section of the market and by commissioning a broker to draw up a longlist and a shortlist. Sometimes we find investors very actively urging us to use bidding processes. These processes do not always correspond with what we personally consider to be the best alternative. Just the savings in terms of opportunity costs and sometimes also the broker costs are an argument in favour of off-market sales. With our special funds we are able to realise off-market sales in individual cases following close consultation with the investors. With our mutual funds this is not the case, however.

Pohl: Another possibility for the realisation of off-market "sales" is offered by compensation deals, in which we acquire another piece of real estate in return. But this is a niche segment and we have never concluded such a deal.

You also operate in Austria. Do you also conclude off-market transactions there?

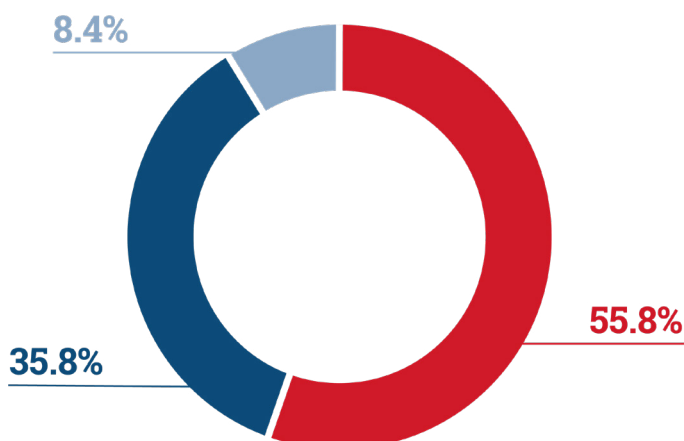
Pohl: Absolutely, this year we have purchased a property for one of our funds for example. In this respect we benefit from the fact that we are represented with a branch office in Vienna which is staffed by local experts. Only so do we have the possibility to conclude off-market transactions in Austria.

Waltenbauer: On the whole I regard the Austrian market as less transparent and more local in a direct comparison with Germany. A lower level of liquidity meets with fewer market players. We profit there from our size as above all our oldest funds have numerous office properties in Vienna in their portfolios and at least in the office segment we are the biggest foreign investor in Vienna. Without this status and our local personnel, off-market transactions would be difficult as the market players are even more strongly networked amongst one another than in Germany.

THE TRENDS WITH OFF-MARKET TRANSACTIONS – 2020/2021

How do German, Austrian and Swiss real estate investors generally regard market transactions? How do they as participants believe distress sales and joint ventures could possibly develop after the coronavirus recession? These were among some of the questions regarding current trends which we put to respondents for the second time in the current issue of the HPBA Off-Market Study.

In view of the coronavirus recession in 2020 the companies surveyed for the previous issue of the study assumed that market transactions would develop more strongly in favour of the off-market style rather than on-market models in the future. This trend was now to be reviewed – and it has been confirmed. In response to the question of the future share of the transaction volume, 55.8 per cent said an increase in the off-market segment was a likely scenario.



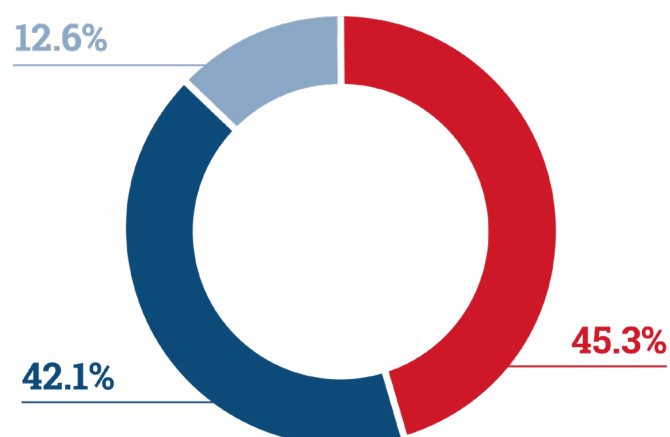
Off-market transactions

Will the volume of real estate transactions change in the coming 12 months in your opinion?



Source: Bulwiengesa · 4th HPBA Off-Market-Study.

Compared with the third study a high degree of consistency may be seen in the latest HPBA Off-Market Study: more than half of the market players still assume that the off-market segment will post strong to very strong growth. In contrast, the proportion of respondents who assume the volume will decrease has declined, from 11.3 to 8.4 per cent.



On-Market-Transaktionen

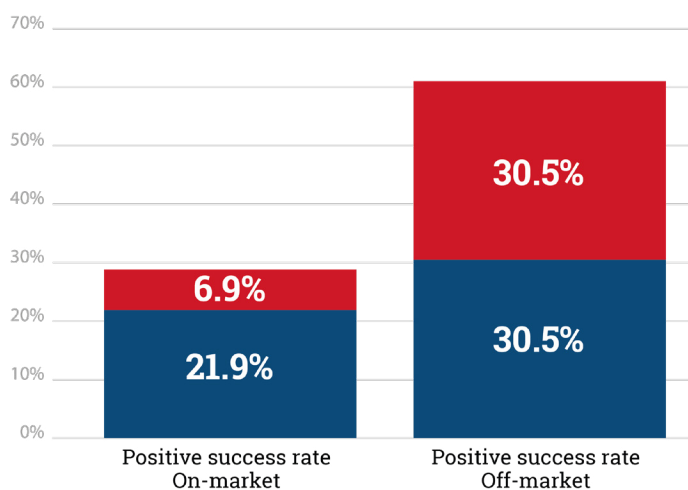
Ändert sich das Volumen von Immobilien-transaktionen Ihrer Einschätzung nach in den kommenden 12 Monaten?



Source: Bulwiengesa · 4th HPBA Off-Market-Study.

THE TRENDS WITH OFF-MARKET TRANSACTIONS – 2020/2021

The on-market segment is regarded as stable. At present 45.3 per cent of the respondents believe there will be growth in the classic on-market segment, while 42.1 per cent assume the market volume will remain stable. This represents a clear difference to the previous issue of the HPBA Off-Market Study, in which on-market processes were viewed more sceptically. This allows us to draw the conclusion that a broad cross-section of the market believes that the "coronavirus shock" has been more or less overcome.

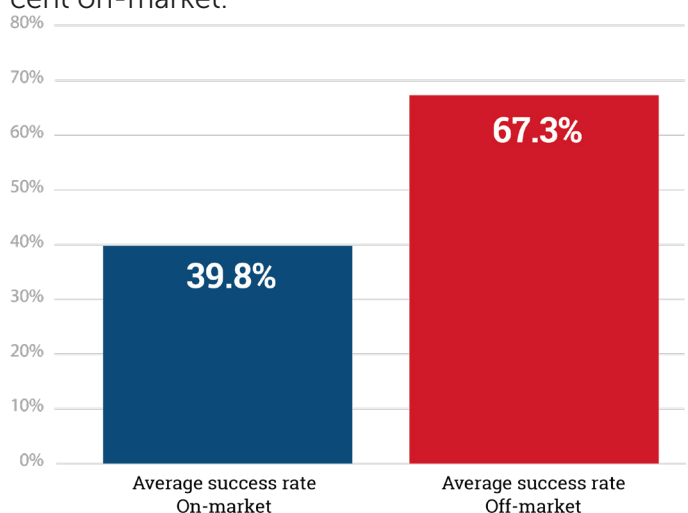


What proportion (in %) of off-market transaction processes came to a successful conclusion in the past 12 months?

■ Transaction success 100%
■ Transaction success between 50 % and 99 %

Source: Bulwiengesa · 4th HPBA Off-Market-Study.

Asked about the success of their transactions in 2020, a positive completion with the signing of an agreement therefore, 61 per cent of all the respondents reported a positive success rate with off-market transactions; more than every second transaction is successfully concluded. With on-market transactions the success rate is only about 29 per cent. If one merely considers the share with a one hundred per cent success rate, there are also clear differences, namely a 31 per cent success rate off-market and 22 per cent on-market.



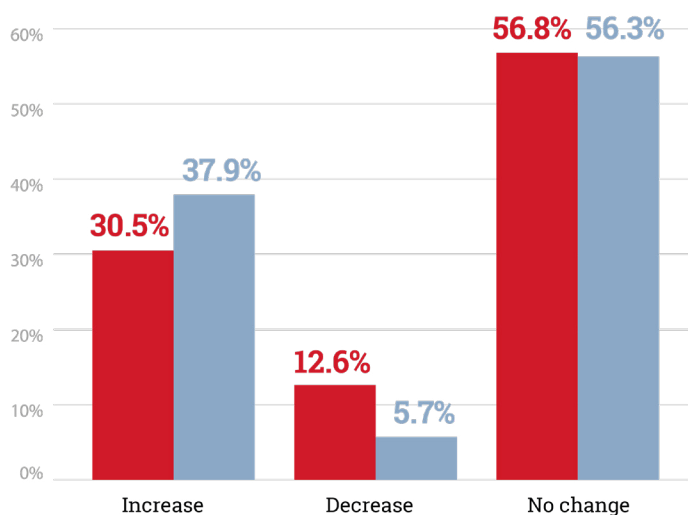
What proportion (in %) of off-market transaction processes came to a successful conclusion in the past 12 months?

■ Off-Market
■ On-Market

Source: Bulwiengesa · 4th HPBA Off-Market-Study.

THE TRENDS WITH OFF-MARKET TRANSACTIONS – 2020/2021

In the consolidated weighted average (which also includes lower success rates) more than two out of three off-market transactions are successful. The direct comparison to the 3rd HPBA Off-Market Study shows that off-market transactions tend to offer greater deal security, whereas on-market models offer less security.



Will in your opinion the volume of real estate transactions change in the coming 12 months?

■ Distress sales
■ Joint ventures

Source: Bulwiengesa - 4th HPBA Off-Market-Study.

With the issue of distress sales it can be seen that there is now greater stability than at the beginning of the coronavirus pandemic. On the other hand, given the ever more complex starting positions on the markets, as well as the increasing internationalisation of the actors, it would seem that joint ventures appear more likely. 38 per cent of the respondents assume there will be an intensification of these close associations.



OFF-MARKET EXPERT DISCUSSION

WITH SASCHA HETTRICH, FRICS

Sascha Hettrich FRICS manages an AuM volume of 5.0 billion euros in the real estate segment office buildings and hotels, of which about half are accounted for by German assets. At the same time he is familiar with market practices for purchases and sales, having worked for many years as a consultant, valuer and investment specialist, while also occupying positions of responsibility as CEO and as chairman of a supervisory board.

What role do off-market transactions play for you as a buyer?

I have an extensive market network that has been developed over many years, as do the companies I work with, and this is true in particular of the senior management in these companies. This means there is always the possibility of a large number of off-market purchases. In some cases we are approached directly by sellers who perhaps do not require a market comparison or who want to sell their property quickly. We are exclusively addressed just as often by brokers or professional groups with close ties to the real estate markets. In my own dealings I have often experienced that from time to time half of all transactions take place on this basis, and are thus off-market transactions in line with the bulwiengesa definition.

What role do off-market transactions play for you with sales?

As we retain the majority of properties in our portfolios in the long term, we rarely take to the market as a seller. What we have seen, however, is that bidding processes do not suit us when it comes to sales. When we do sell, therefore, we have already had contact elsewhere with the buyer.

What are the benefits and drawbacks for you with off-market transactions?

The two most important benefits for us as a buyer are the reduction in the workload and costs coupled with the greater deal security. We do not necessarily expect a lower price, however: as a rule the sellers approach us directly and without a comparative offer because they know precisely what prices they can attain. Although as an investor we also pursue conventional bidding processes and take up the challenge of what is strong competition at times – simply because we also have to assert ourselves in this field in such a tough market situation – but we prefer to buy off-market as this is better suited to our investment culture. A major benefit is that, on the one hand, we can act very quickly because among other things we are able to exclusively use equity capital for our financing and are not affected by any provisos here. On the other hand, we also reach our decisions quickly and move ahead swiftly with our due diligence: we do not always consider some things right down to the last detail, but are prepared to accept a certain amount of residual risk. For the seller this means we often offer a decisive speed advantage. I am of course fully aware that other market actors are bound by rules and regulations to a greater extent and cannot operate as freely as we do.



OFF-MARKET EXPERT DISCUSSION

WITH SASCHA HETTRICH, FRICS

If you wish to develop a new market (e.g. Austria or Switzerland) as an investor, do you do this with the aid of larger brokerage firms?

We almost always have contacts who are familiar with local markets. These are not always the major brokerage firms – whereby we also cooperate with these of course. But we often approach smaller local actors with many years of experience on the respective markets. As a rule we join forces with these actors in structures similar to a joint venture for our initial transactions.

You are a member of the committee of valuation experts for land values in Berlin. How high do you estimate the annual off-market share to be in addition to the market volumes officially reported by brokers in Germany?

Off-market transactions are part of the daily work of professional investors, and so the “off-market volume” determined for all of Germany ought to be correspondingly high. Many of these acquisitions are well-known to the relevant experts and specialists, and they are often included in the official broker statistics, therefore. When it comes to the transaction volume of those deals which actually remain secret, I would find it difficult to put a concrete figure on these.

Do off-market transactions often pose any particular challenges for the committees of valuation experts?

Not necessarily when differentiating between an on-market transaction and an off-market transac-

tion. However the committees of valuation experts do have the problem that share deals, in contrast to asset deals, are not reported. Although these transactions are registered by brokers and market participants, they are not necessarily registered by the committee of valuation experts. As many share deals continue to be concluded in addition to direct asset deals, their proportion could definitely be as much as 50 per cent, to this end one would have to define the off-market deal in very concrete terms. After all, the majority of these transactions are visible on the market, even if they are concluded by two market actors without addressing a large section of the market. In addition, notaries public submit the purchase agreements for asset deals with a certain delay and in particular beyond the end of the year, with the effect that transactions cannot always be recorded in the right time period.

Which asset classes and which types of real estate usage are traded particularly often as off-market models in your view?

In the past residential real estate portfolios probably changed hands off-market quite often; in the highly fragmented field of hotel portfolios I believe we often see off-market transactions. In my opinion there is no apparent unwritten law on the market, but one can definitely presume that there is a correlation to the market cycle and the demand for specific market segments: the greater the demand and the transparency, the fewer the number of off-market deals. Thus, in phases of high market demand the seller will usually offer a property for sale to the highest bidder in a competitive process. As for retail properties, it is probably small retail



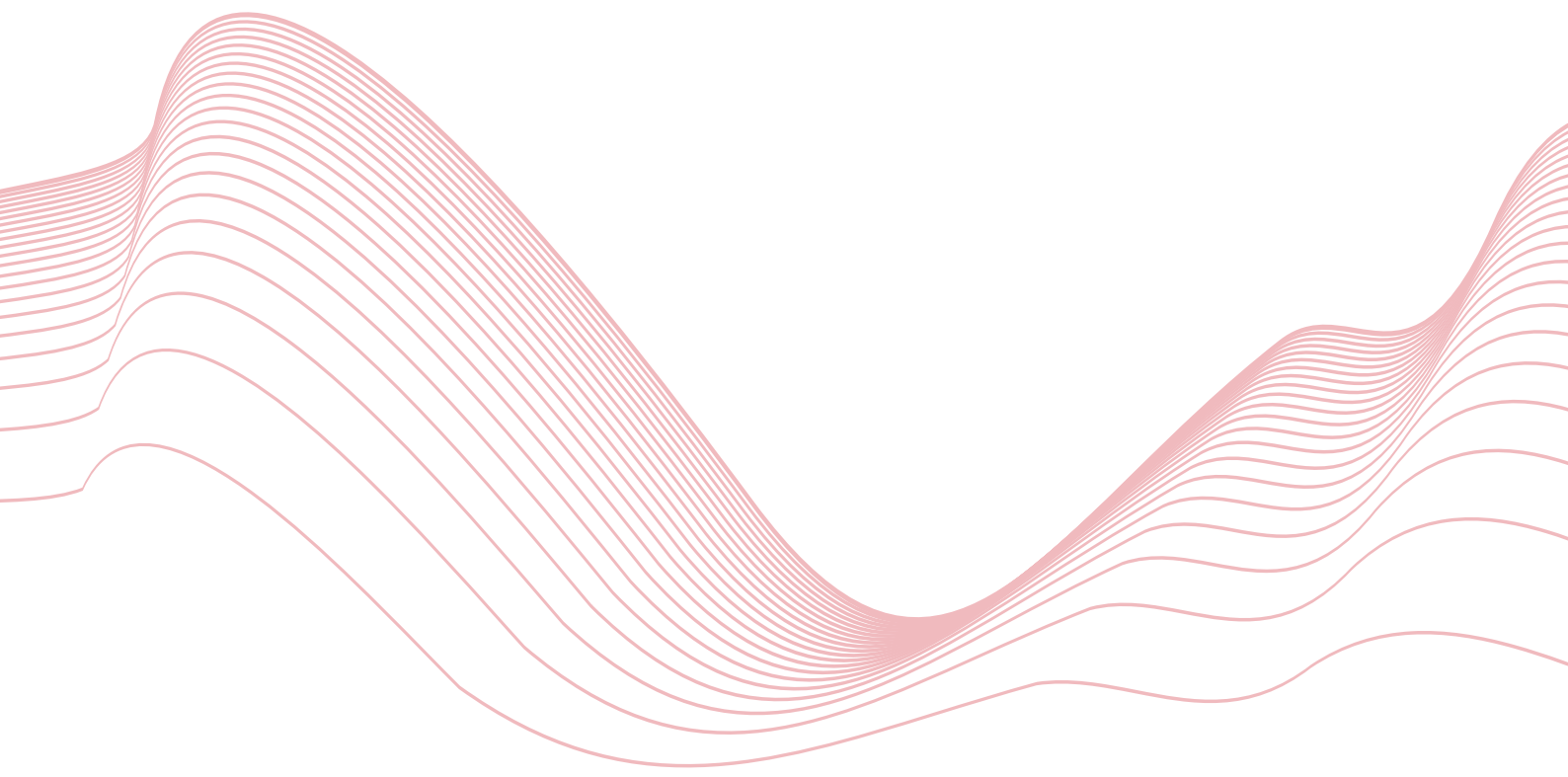
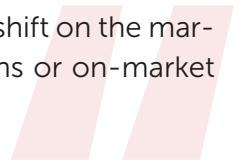
OFF-MARKET EXPERT DISCUSSION

WITH SASCHA HETTRICH, FRICS

trade areas such as supermarkets and space for local shops and specialist trades which are sold to local investors above all, fundamentally to private individuals, therefore; in the case of portfolio sales these are – depending upon the market situation – more likely to take place on a competitive basis. When it comes to office properties, however, I believe that nowadays these tend to be offered on the market or in bidding processes – not least of all due to the high level of competition among potential investors. In this respect many sellers probably first test which market prices can be demanded before they tie themselves exclusively to one potential buyer.

Has the ratio of off-market transactions to on-market transactions changed as a result of the coronavirus pandemic?

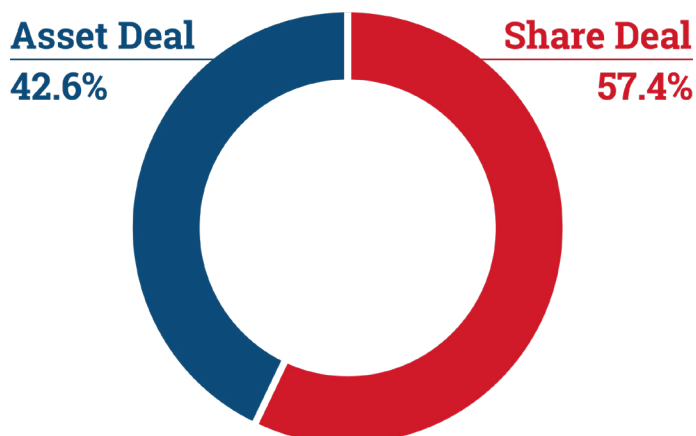
I cannot give a general answer to this question. For us the situation was as follows: in 2019 we made a lot of acquisitions and accordingly there were definitely also many off-market deals among these. In 2020, in contrast, we were more restrained, something which was undoubtedly due to the pandemic, and many of our competitors were also somewhat restrained. In 2021 we were active, but acquired less than we would have wished because we were often confronted with what we felt were excessive asking prices. This does not allow me to deduce the existence of a general shift on the market towards off-market transactions or on-market transactions, however.



THE SHARE DEAL TOPIC

Although share deals are not directly related to off-market transactions, the results of the 2nd and 3rd Off-Market Studies from 2019 and 2021 – namely an average proportion of 31 per cent in 2018 and then 35 per cent in 2019 – should once again be reviewed.

This survey was particularly relevant because as of 01.07.2021 the Act on Changes to the Real Estate Transfer Tax Act came into effect in Germany; this hinders the avoidance of paying real estate transfer tax on share deals. It also led to the 95 per cent threshold (proportion of the asset value) which leads to a transaction being subject to taxation being lowered to 90 per cent and to an extension of the period from which the remaining assets can be transferred – and exempted from tax – from five to ten years.



How high was your proportion of share deals for sales and purchases in the past 12 months?

Figures in per cent

Source: Bulwiengesa · 4th HPBA Off-Market-Study.

The results of this study, which already supposes an unexpectedly high proportion of share deals among the data on the Swiss transactions (see page X), were once again underpinned in the survey: despite the change in legislation, the proportion of share deals have once again seen a major increase of late in the survey of the actors.

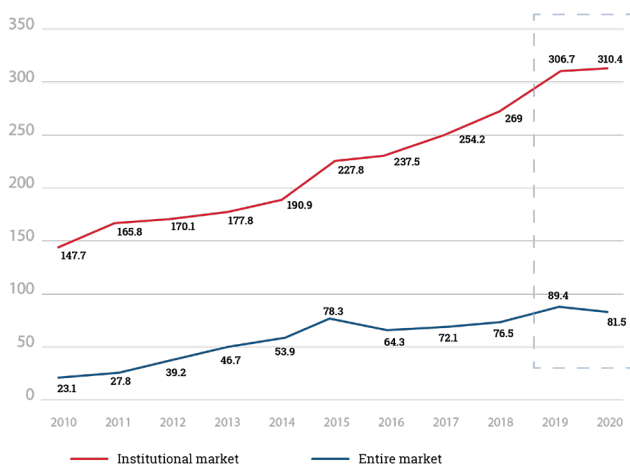
From market practice it is reported that in return for a moderate price reduction buyers often acquire a one hundred per cent stake in the respective company so as to offer the seller tax benefits. In these cases the land transfer tax is paid, whereby the legislation has achieved its objective and the transactions have merely been "priced in" accordingly.

THE OFF-MARKET SEGMENT IN THE DACH REGION

TOTAL REAL ESTATE INVESTMENT VOLUME AND THE OFF-MARKET SHARE IN GERMANY, AUSTRIA AND SWITZERLAND 2020

Real estate investment and off-market in Germany

In 2020, the first year of the coronavirus pandemic, and despite initial fears, the real estate investment market saw slight growth, with a stable to dynamic development; at least this was the case in Germany, where the figures are gathered officially from the local committees of valuation experts. Here there was market growth of about one per cent compared to 2019, and of over 15 per cent compared to 2018. In Austria and Switzerland the developments were more cautious according to expert statements and based on a less secure dataset.



Total real estate market volume and institutional market:

2010 – 2020 in Germany, in €bn

Source: RIWIS, bulwiengesa; Immobilienmarktbericht Deutschland

With regard to the question of the off-market volume on which we are focusing here, alongside the official statistics for the market as a whole the development of the institutional market, the activity of professional actors therefore, is relevant in Germany. In this sector there was a slump of nearly nine per cent in the year-on-year comparison 2020/2021, while at the same time the market as a whole experienced growth. A total volume of just 81.5 billion euros for the institutional market contrasts with a total market value of 310.4 billion euros. Two factors led to particularly considerable divergence between the two volumes for 2019 and the coronavirus year 2020:

- Strong growth on the (private) market for owner-occupied homes and condominiums;
- Slight growth in the off-market segment, which for commercial real estate and multi-family houses results from the difference between the data provided by the committees of valuation experts and the institutional market observers.

In particular the high volume of just over 14 billion euros¹ with "Other non-residential buildings" also increased in the first year of the coronavirus pandemic – albeit only slightly.

¹ here in accordance with additional source: GEWOS, IMA 2021.

TOTAL REAL ESTATE INVESTMENT VOLUME AND THE OFF-MARKET SHARE IN GERMANY, AUSTRIA AND SWITZERLAND 2020

As a consequence of the two fundamental perspectives of the data sources, in Germany it may be assumed relatively reliably that there was a trend towards growth in the off-market segment in 2020. Even in Germany with the transparency of its asset deals it is still only possible to state a market volume in a range of 40 to 70 billion euros. The remaining inexactness results from a lack of clarity in the category "Other non-residential buildings" and in the inexact number of share deals, the sales of companies under private law with real estate assets of high value instead of asset deals recorded under land register legislation, therefore.

Real estate investment market and off market in the DACH region

For the first time ever, in this issue of the off-market studies we have endeavoured to provide an initial overall overview of the real estate investment market in the DACH region using data from the leading analysis companies, namely GEWOS from Germany, RE/MAX and IMMOUnited from Austria, and Wüest Partner from Switzerland. Despite the high quality of these data, the structures of the three real estate markets which have been determined in this manner remain rough estimates as the data definitions in the three countries differ from one another. Accordingly, the DACH region saw total real estate transactions with a value of 451.2 billion euros in 2020.

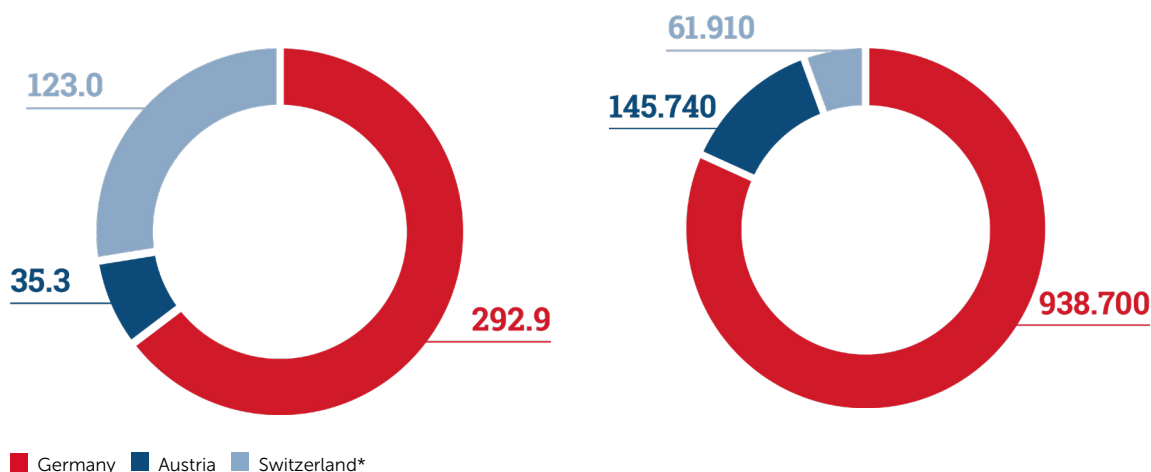
Original data of the analysts	Total transactions 2020 €bn
Germany	292.9
Austria	35.3
Switzerland	123.0
Total DACH	451.2

Source: GEWOS, Wüest Partner, RE/MAX ImmoSpiegel on the basis of IMMOUnited – Switzerland excl. plots of land.

TOTAL REAL ESTATE INVESTMENT VOLUME AND THE OFF-MARKET SHARE IN GERMANY, AUSTRIA AND SWITZERLAND 2020

Real estate investment market DACH 2020 in comparison

in €bn and number of individual transactions



Source: GEWOS, Wüest Partner, RE/MAX ImmoSpiegel on the basis of IMMOUnited – * Switzerland excl. plots of land.

This figure has to be subject to a fundamental, critical examination and qualified with plausible assumptions and then projected for a final and accurate overall view. There are two fundamental differences:

A: Germany and Austria

While the markets in Germany and Austria are merely determined on the basis of land title register evaluations, without share deals therefore, the analysis in Switzerland is conducted using a compilation of known transactions. In this respect one striking aspect is highly relevant, but can only be explained by estimates: the average cash value of Swiss real estate transactions exceeds the average values in Austria and in Germany many times over: a mere total of just less than 62,000 transactions results in an extremely high transaction volume of 123 billion euros. This ratio is significantly more moderate in terms of price in both Germany and Austria.

The only plausible explanation for this set of circumstances is the inclusion of a very high proportion of (presumably institutional) share deals, which in Germany and Austria would have to be added to the transactions laid down in land registers so as to make the data directly comparable. If one follows this hypothesis, then Germany would, at a rough estimate, have to have a total real estate investment volume of some 600 billion euros per annum and thereof some 200 billion euros in share deals to come anywhere near the ratio that results from the differing populations of the three countries.

TOTAL REAL ESTATE INVESTMENT VOLUME AND THE OFF-MARKET SHARE IN GERMANY, AUSTRIA AND SWITZERLAND 2020

B: Germany and Switzerland

All land transactions in Switzerland as well as commercial land transactions in Austria are not included in the original data of the analysis companies, because – in contrast to Germany – they are not counted in this manner. Above all this excludes the project developer market segment, which accounts for a large share of the off-market transactions in Germany.

In addition to these data problems with real estate transactions, there are no annual data on the institutional market – which are generally gathered in Germany. Such data is only available in Austria in some market reports for the market in Vienna. In Switzerland the wide-ranging Wüest Partner panel does not differentiate between the market segments, with the effect that an estimation of the off-market share is not possible in Austria or in Switzerland.

To summarise the attempt to record the real estate transaction markets in the DACH region in their entirety, the following three findings may be noted accordingly with a view to the off-market segment:

1

The basis data for a reliable and finely granulated observation of the entire real estate market in all market segments are not sufficient in all three countries.

2

In Germany the reliable asset deal data show that the off-market segment is tending towards slight, continuous growth. The exact proportion of share deals remains unknown. The Swiss data indicate possibly very high volumes in this segment, which have not yet been recorded in Germany.

3

On the basis of the data utilised for the total investment volume on the three real estate markets, it is not possible to put a more precise figure on the off-market share other than the sum of 40 to 70 billion euros per annum in Germany that had been determined previously. Simply expanding the annual volume to some 50 to 80 billion euros in the entire DACH region on the basis of the distribution of their populations does not appear to go far enough following an evaluation and critical discussion of the utilised data.



GLOSSARY

On-market

In this study the expression on-market transactions is used to describe transactions that are not off-market transactions. They are primarily documented in the institutional and professional market by analysts, brokers and banks.

Institutional investors

Institutional investors is an expression used to describe funds, asset managers and direct investors who invest in real estate with the primary intention on investing monies on behalf of third parties. Above all these include insurers, pension funds and real estate funds.

Professional investors

The expression professional investors is used in this study to set apart actors such as family offices or wealthy private investors from the extremely fragmented private real estate market with privately owned homes and individual condominiums. The expression professional investors also encompasses institutional investors.

Asset deal

An asset deal describes a real estate transaction which is documented directly with a corresponding contract pursuant to land register legislation. As a rule this contract is certified by a notary public and is included in the collection of purchase prices managed by the respective local Expert Committees for Land Valuation.

Share deal

A share deal describes a real estate transaction which involves the sale of shares in a company, which in the context of this study encompasses appreciable real estate assets. In terms of land register legislation this transaction style is not associated with a change of owner. Accordingly, these transactions are included in the actual asset deals in the course of a year.

Since 01.07.2021 the Act on Changes to the Real Estate Transfer Tax Act, which hinders the avoidance of paying real estate transfer tax on share deals, has been in effect. The 95 per cent threshold (proportion of the asset value) has been lowered to 90 per cent and an extension of the period from which the remaining assets can be transferred – and exempted from tax – from five to ten years.



IMPRINT

HPBA

Off-Market-Solutions

HPBA GmbH
Kurfürstendamm 67
10707 Berlin

Contact

Phone: +49 (0) 30 88 71 338-0
Fax: +49 (0) 30 88 71 338-11
E-Mail: info@hpba.com

Register entry

Entry in the commercial register
Register Court: Berlin-Charlottenburg
Registration number: HRB 120987 B

 **bulwiengesa**

bulwiengesa AG
Wallstraße 61
10179 Berlin

Contact

Phone: +49 (0) 30 278768-0
Fax: +49 (0) 30 278768-68
E-Mail: info@bulwiengesa.de

Register entry

Entry in the commercial register
Register Court: Berlin-Charlottenburg
Registration number: HRB 95407 B