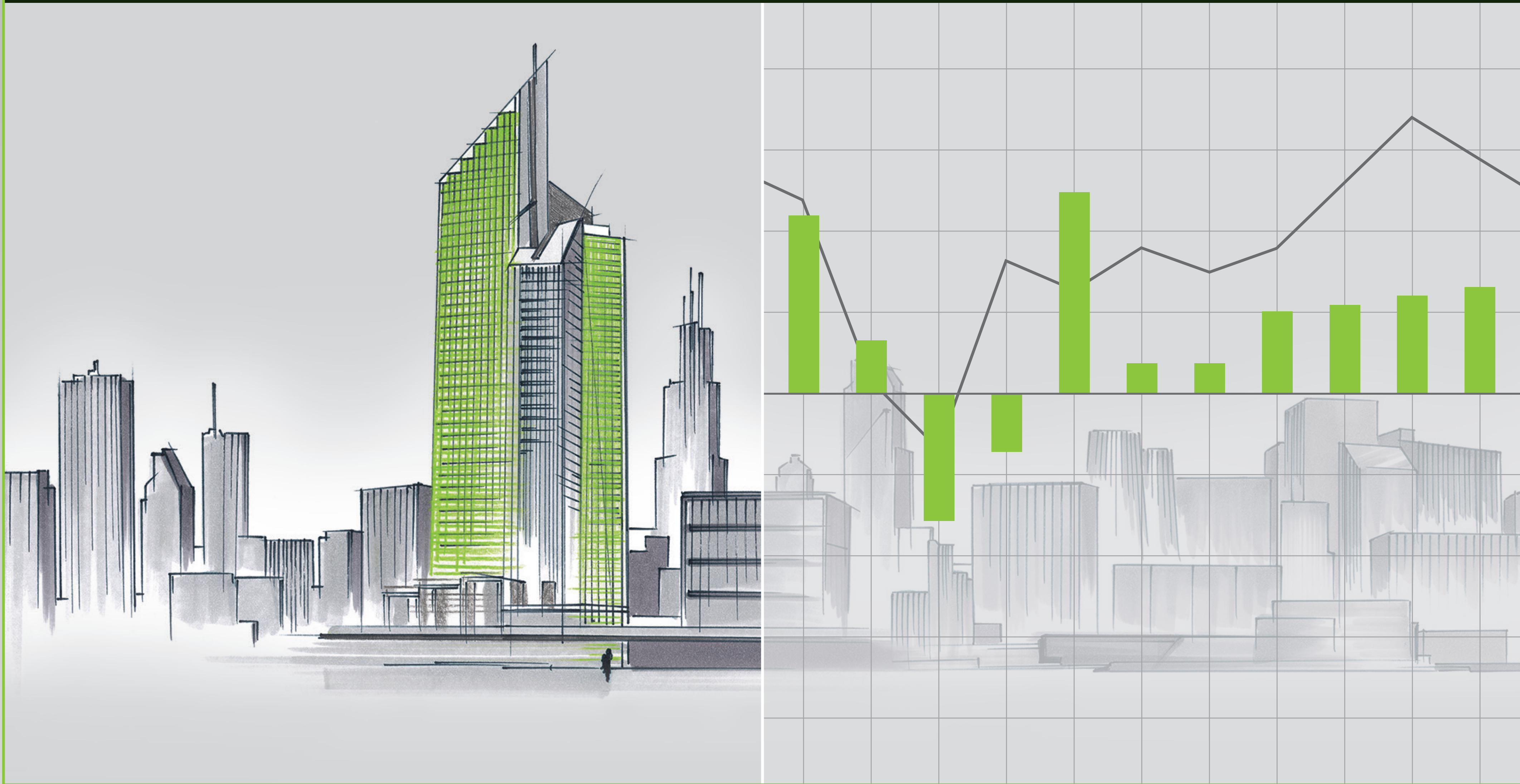
pbbIX
Office Property Market Germany
2020 | Q3

DEUTSCHE PFANDBRIEFBANK



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Overview

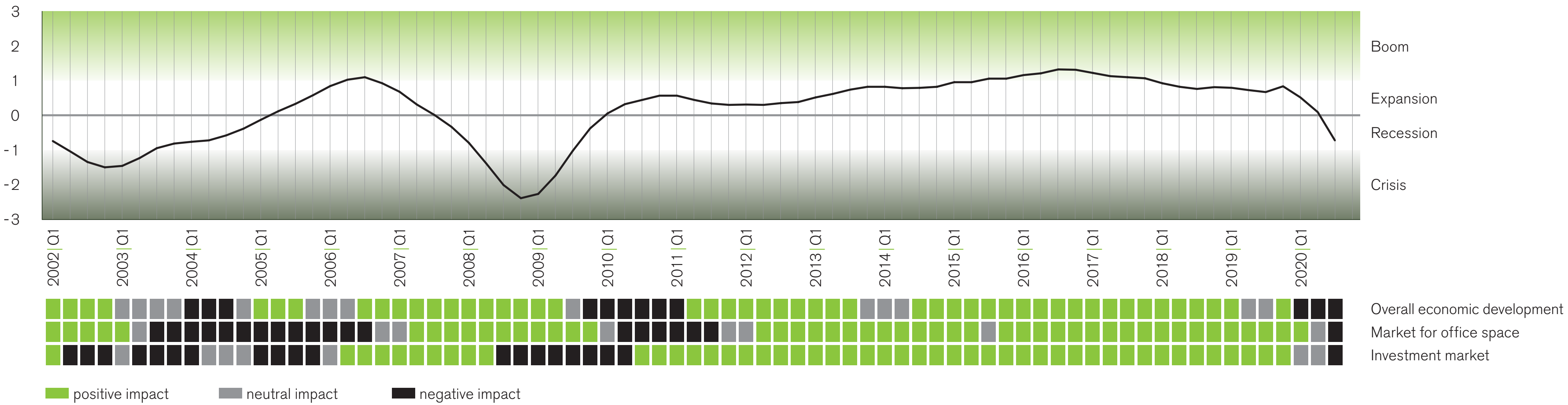
During the third quarter the pbbIX index saw a further significant fall, and is now at -0.7 index points, i.e. the l**owest level since the end of the financial crisis**. The pandemic is throwing an increasingly dark shadow on the development of the 'big 7' office markets in Germany. The significant slowdown in demand for space and a significantly lower investment volume were the main drivers for this development.

In the third quarter, **let space fell significantly** behind the results regularly achieved in previous years, showing that economic uncertainty and potential structural shifts are proving to be major challenges for businesses in the service sector. As a result, the dominant issue is not expanding and relocating, but simply adjusting to existing operations.

In line with rentals, **inflows on the investment markets have also plummeted during the course of the year**. Once again, COVID-19 has been an influencing factor. Hitherto, the contraction in demand has had no negative impact on pricing. Prices for office properties remained on a high level.

At least not everything was – and is – bad. **Economic output soared in the third quarter**, regaining more than half of the slump from the first six months of the year. This positive development was mainly down to the normalisation of macroeconomic activities following the first lockdown. Whether the recovery will continue in the fourth quarter will depend very much on the further course of the pandemic and the measures taken to contain the recent sharp rise in the number of infections.

pbbIX BIG 7 | Index



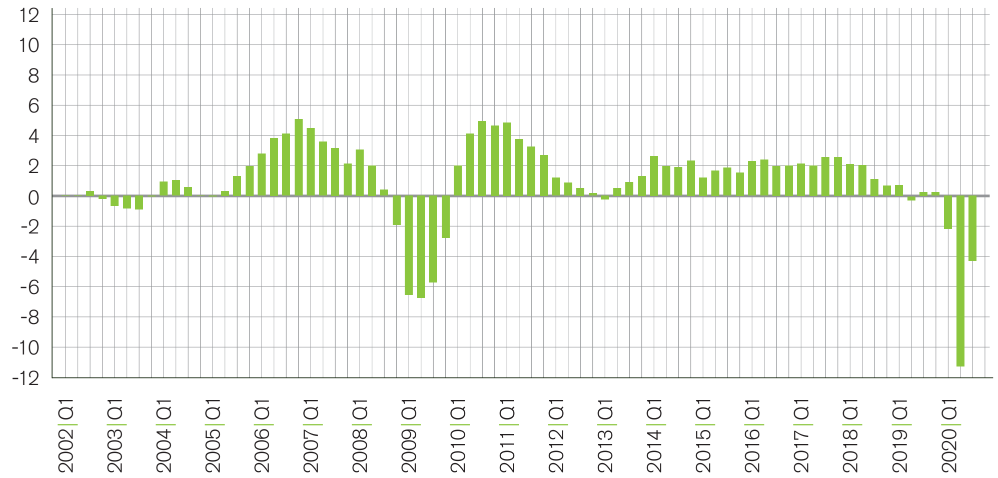
Overall economic outlook

Economic activity in Germany brightened significantly in the third quarter. Real gross domestic product rose by 8.2 % quarter-on-quarter, thanks to a relaxation of COVID-19 containment measures and driven by an expansive monetary and fiscal policy, higher private consumption, more investments, and a strong increase in exports.

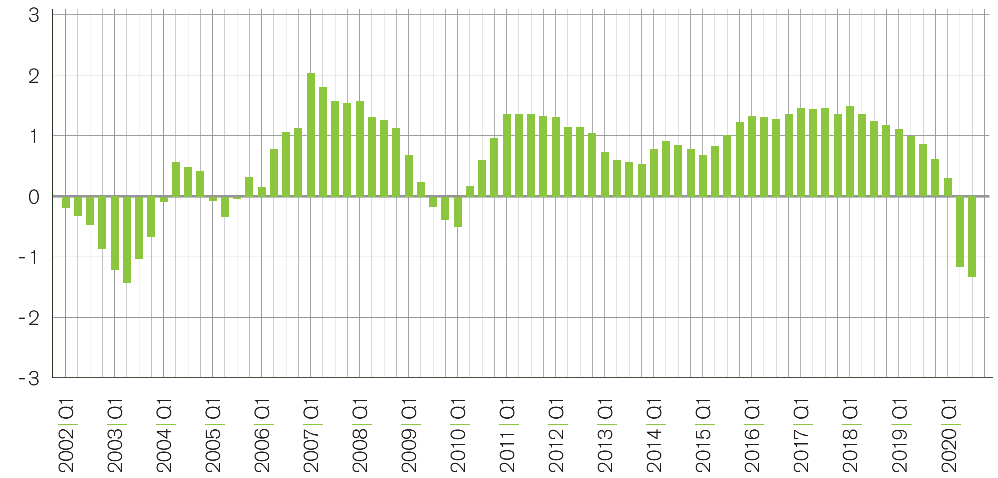
In fact, a substantial share of the economic slump recorded in the first half of the year was compensated in the third quarter. Nevertheless, economic output is **still materially below pre-crisis levels**. Furthermore, in light of the strong resurgence of infections and the new restrictions imposed for November to avoid further spreading, the recovery will continue at reduced speed at best. Production capacity will thus remain under-utilised for the foreseeable future, with continued pressure on employment. The coronavirus crisis has not been overcome.

Consequently, **sentiment among companies deteriorated slightly**. Following five consecutive increases, the monthly ifo Business Climate Index fell for the first time in October. Whilst executives have a more positive view of the current situation than in previous months, they are more sceptical as regards the development in the upcoming months. For the economy as a whole, it will be crucial whether containment is sufficiently successful to loosen the pandemic's grasp in the next quarters on the behaviour of entrepreneurs and private households.

Real gross domestic product | year-on-year change in %



Working population | year-on-year change in %



Market for office space

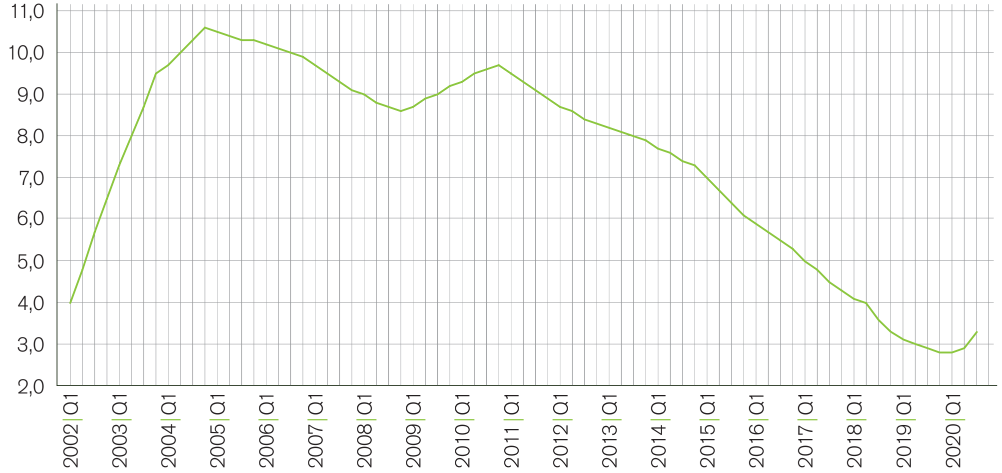
The market evidently showed **little motivation to rent new office space in the third quarter**. The reasons are obvious: high rents and, in particular, the challenging economic situation. In addition, it is unclear how the fact that companies are renouncing mandatory presence at the office due to the pandemic will influence space requirements in the medium term. Current topics are not expanding space and relocating, but the survival of operations in unfavourable conditions.

The data shows that approximately 610,000 sqm of office space was newly let on the big 7 markets during the course of the third quarter, i.e. **43 % less than in the third quarter of 2019**. Over the first nine months of 2020, letting performance fell short of the previous year's result by 38 %.

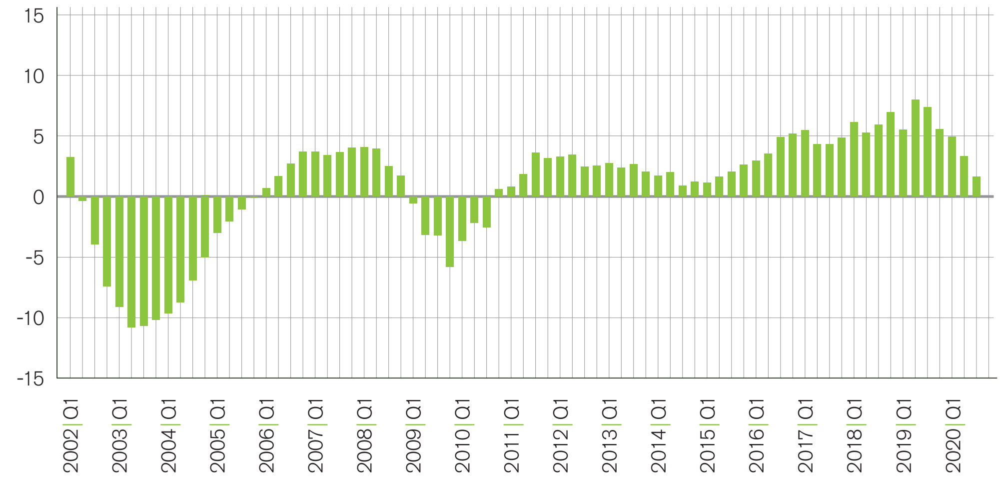
In combination with restrained new construction activity, this slowdown resulted in **higher vacancy rates**. Across all markets, around 3.3 % of office space was not let. This rate will continue to rise in the next few months. In addition, the supply of space for sub-leasing is increasing; however, a significant oversupply is currently not to be expected.

So far, **rents are stable**. Top rents remained unchanged compared to the previous quarter, and were thus still slightly higher than in the third quarter of 2019, whilst average rents showed no significant change quarter-on-quarter. However, according to the information provided by real estate agents, incentives such as rent-free periods and contributions towards fit-outs are increasingly gaining importance.

Office space vacancies (BIG 7) | in % of the portfolio



Top rents (BIG 7) | year-on-year change in %



Investment market

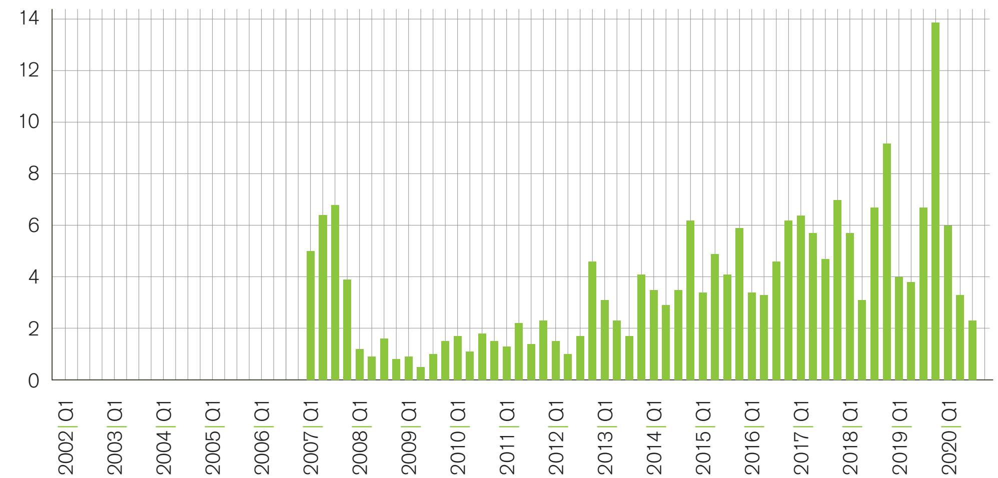
In the first three quarters of 2020, a total of € 11.6 billion was spent on the purchase of office properties on the big 7 markets; domestic investors accounted for 58 %. **Investment activity was 22 % slower** than in the previous year. This was mainly attributable to less activity in the third quarter, when inflows of € 2.5 billion were recorded, following € 3.3 billion in the second quarter and around € 6 billion in the first quarter.

Unaffected by falling inflows, **initial yields for first-class properties in top locations remained unchanged**. The same applied to average properties overall, with no significant changes being determined. All in all, office property prices thus have been extremely stable so far.

Against the background of economic weakness and a weakening market for office space, this development can only be explained by the **exceptionally low level of interest rates**. Long-term interest rates decreased once more in the third quarter, as a result of which the yield pickup for office properties over government bonds rose again. In addition, we note an aspect related to financial valuation: the lower the discounting interest rates are, the more the future net rental income determines the property value. In light of the extremely low interest rates, potential loss of rent in the next quarters is thus losing relative relevance compared to the long-term rental development.

Net initial yield (BIG 7) | in %

Investment volume (BIG 7) | in € billion

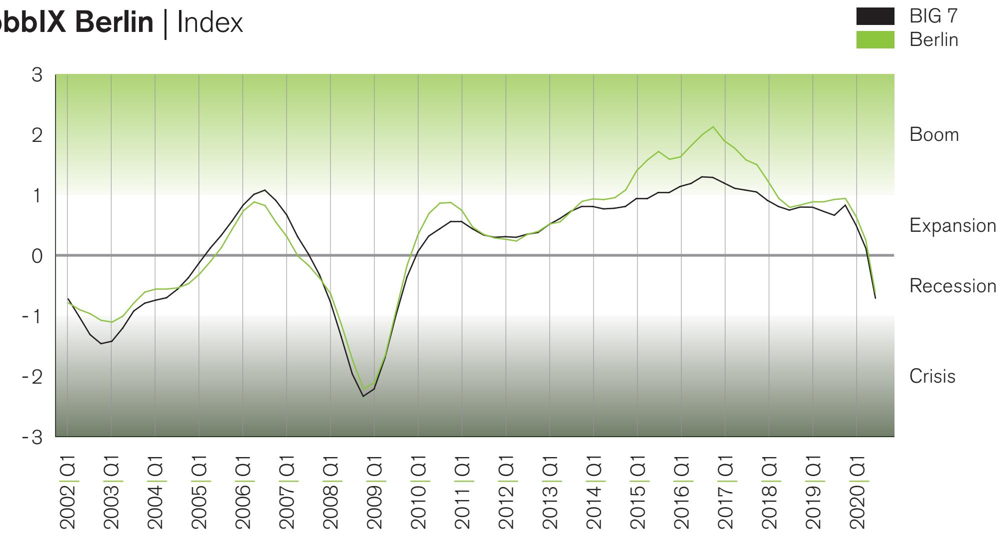


BIG 7

BERLIN

In the first three quarters of 2020, some 500,000 sqm of office space was newly let, i.e. around one-third less than in first nine months of the previous year. As is typical for the capital, public administration accounted for the majority of rentals (44 %). Due to speculative completions and maturing contracts, the vacancy rate increased for the first time since the end of the financial crisis. However, at 2.5 % it was still very low and below the fluctuation reserve. Top rents remained stable quarter-on-quarter. Inflows on the investment market were once again significantly below the long-term average. During the third quarter, approximately € 350 million was spent on office property acquisitions. Initial yields remained unchanged.

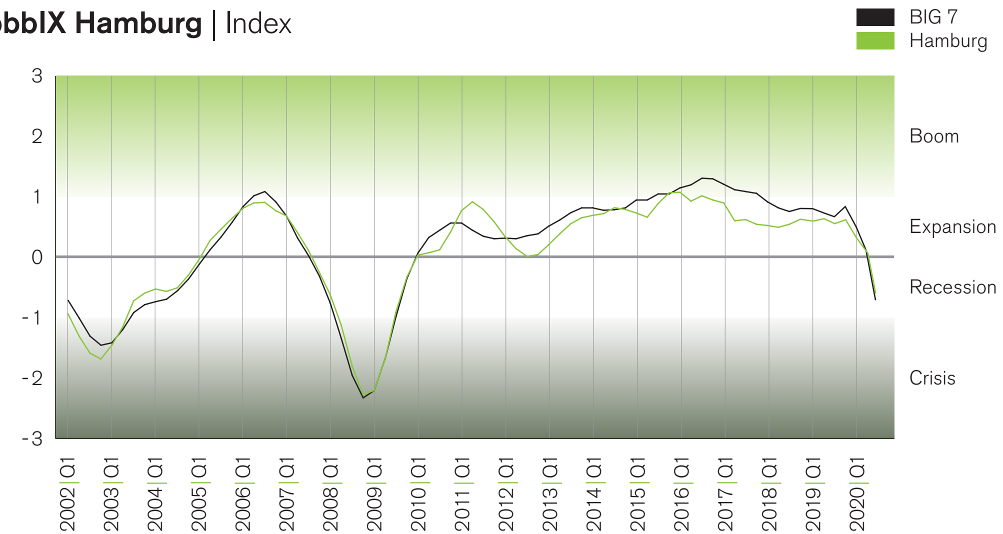
pbbIX Berlin | Index



HAMBURG

In Hamburg, 232,000 sqm of space was taken up by new tenants or owner-occupiers in the first nine months of 2020, equivalent to only 1.5 % of all office assets. As a result, take-up of space was 40 % lower than in the previous year. According to the large real estate agents, this was mainly due to a lack of large-scale lettings. The vacancy rate for office properties amounted to slightly less than 3 %. Rents keept up with the previous year's level remaining at an average € 30 per sqm. From the beginning of January to the end of September, office property acquisitions and disposals totalled around € 1.6 billion, with domestic and foreign investors each involved to the same extent. Yields for first-class properties remained at the previous quarter's level.

pbbIX Hamburg | Index

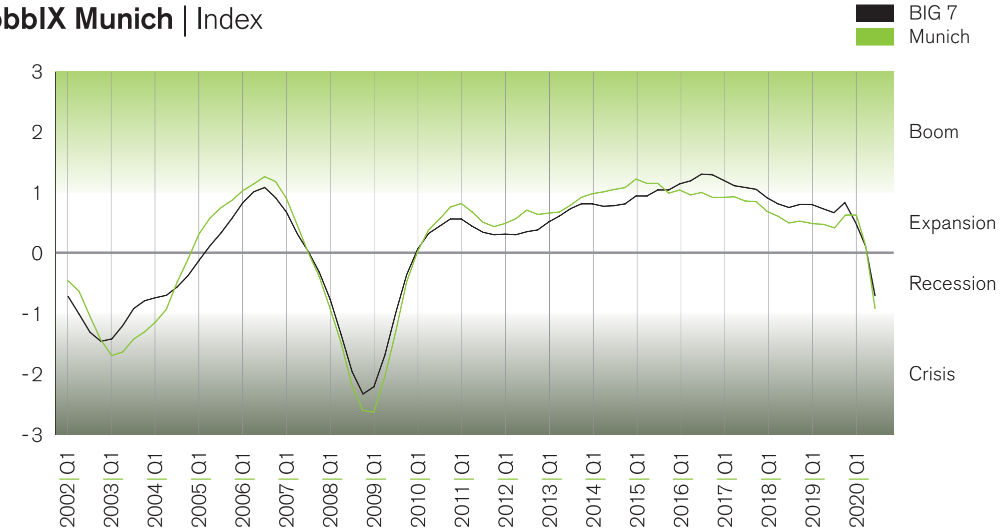


BIG 7

MUNICH

On the market for office space in Munich, the COVID-19 pandemic also impacted the letting performance. In the first three quarters, take-up of space was 25 % lower year-on-year, at 470,000 sqm. The other variables show a high level of resilience. Whilst the vacancy rate rose slightly during the period, it was still low with a share in total volume of just above 2.5 %. Both top and average rents were stable. The nominal volume of property transactions on the Munich investment market amounted to approximately € 2.2 billion in the first nine months, of which € 700 million was generated in the third quarter. Domestic and foreign investors each contributed about half to this development. Net initial yields for first-class properties remained unchanged at around 2.8 %.

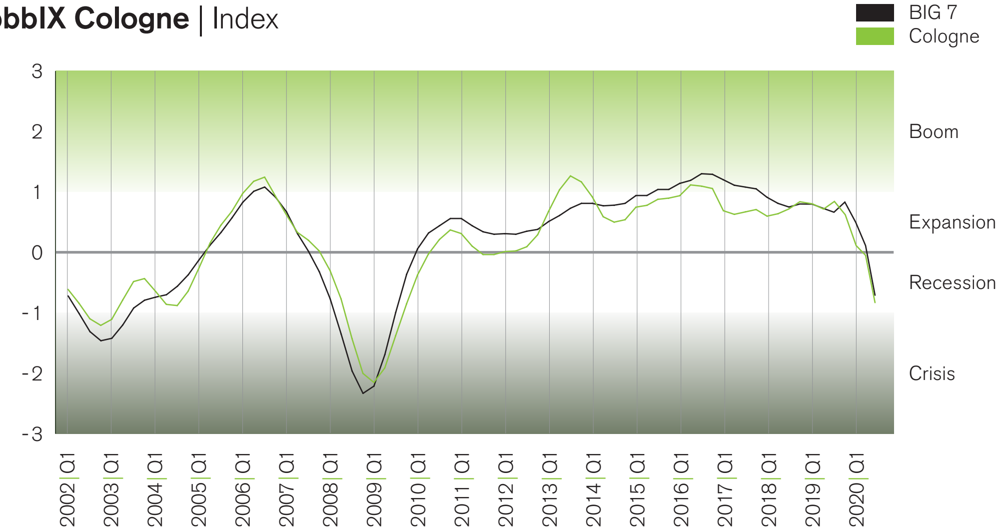
pbbIX Munich | Index



COLOGNE

Take-up of space in the first nine months was at approximately 150,000 sqm and thus 30 % lower than a year ago. Due to economic uncertainties and empty offices, searches for space were delayed and expansions postponed. In this environment, the vacancy rate rose to 2.5 %, however with no impact on the rent levels so far. As in the previous quarter, office property transactions amounted to approximately € 135 million during the third quarter. In total, the previous year's figure was undercut by 40 % in the first nine months. Net initial yields for first-class properties remained stable quarter-on-quarter, at 3.2 %. However, real estate agents note that investors are increasingly paying more attention to location and property quality.

pbbIX Cologne | Index

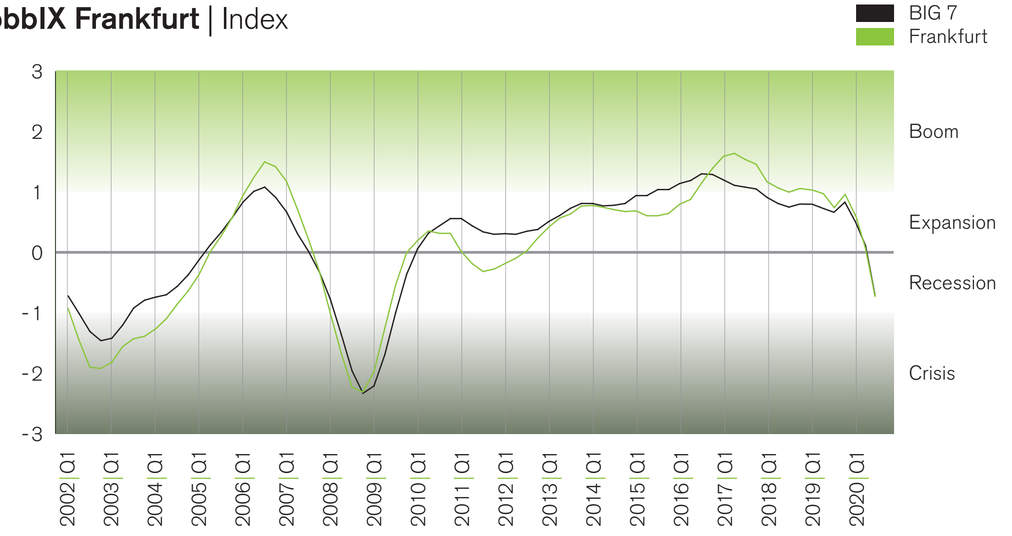


BIG 7

FRANKFURT

Following a very weak second quarter, demand for office space soared in the third quarter. At around 100,000 sqm, the value was doubled quarter-on-quarter and only slightly missed year-on-year. Nevertheless, the vacancy rate continued to climb for the third consecutive quarter, rising to 6.5 %. This seems set to continue in the next quarters, although, thus far, nominal rents have remained stable. In the first nine months of this challenging year, € 2.5 billion was spent on the acquisition of office properties. Compared to other markets, Frankfurt is thus painting quite a good picture, outperforming Berlin and Munich during this period. Most recently, domestic and foreign investors have each been contributing about half to this development. Net initial yields for first-class properties remained at 2.85 %, with this sector therefore remaining firmly in demand.

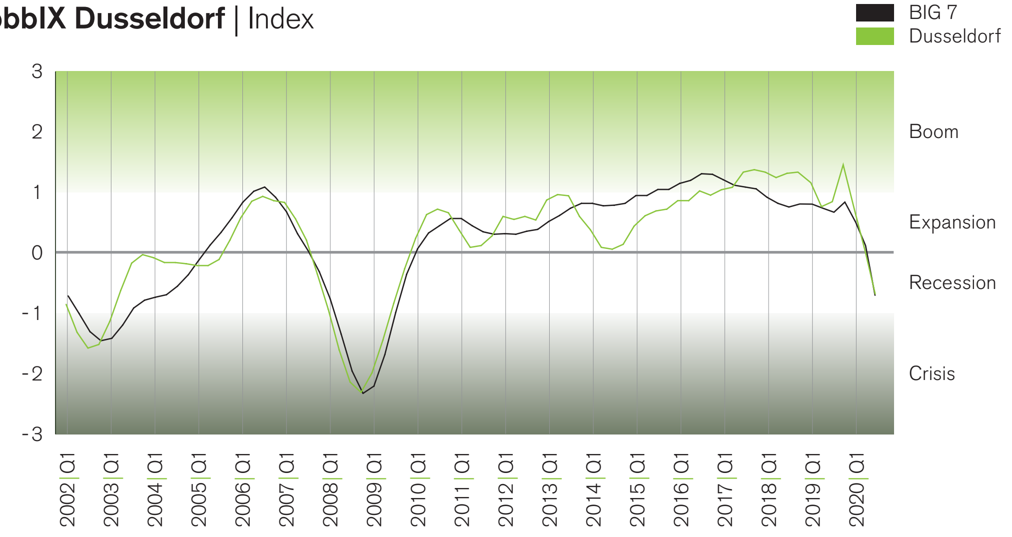
pbbIX Frankfurt | Index



DUSSELDORF

During the third quarter, weak demand for space persisted on the office market in Dusseldorf. Over the first nine months of the year, only around 230,000 sqm was taken up, i.e. approximately 45 % less than in the same period of 2019. To make matters worse, the vacancy rate deteriorated further, rising to 6.4 %. However, this has had no negative impact on top rents so far, which have been at € 28.50 per sqm for several quarters now. Average rents however decreased year-on-year. Unlike the market for office space, the investment market developed surprisingly well. According to RCA, approximately € 1.7 billion was invested in the first nine months, around € 600 million more than during the same period of 2019. Price development was stable. Net initial yields for first-class properties remained at around 3.1 %.

pbbIX Dusseldorf | Index

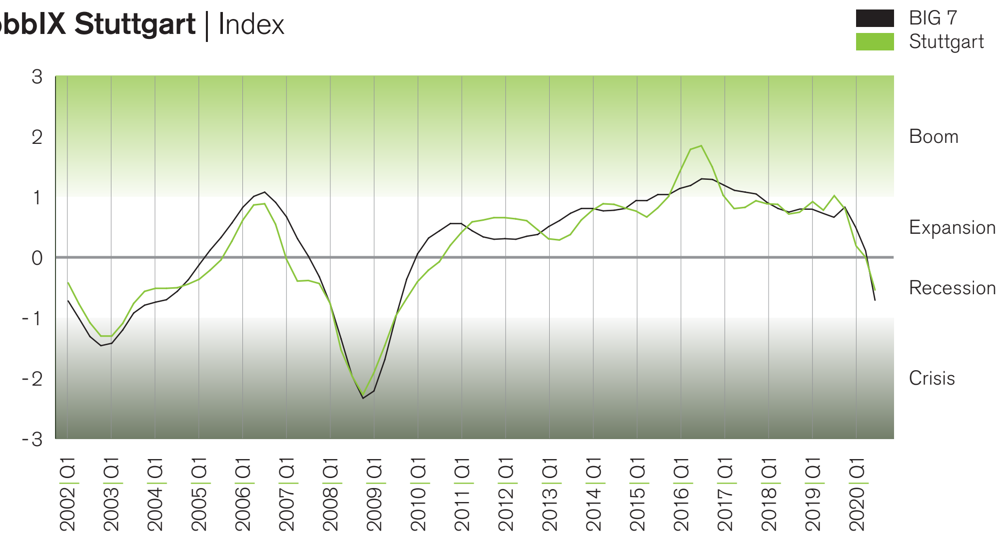


BIG 7

STUTTGART

The weak demand for space seen since the beginning of the year continued throughout the third quarter. Only 20,000 sqm was recently taken up by new tenants or owner-occupiers. Traditionally, demand for space is strongly influenced by the Stuttgart-based companies, where the important automotive industry is currently facing an imminent realignment. Despite weak demand, there was no excess space. At 2%, the vacancy rate remained at an extremely low level, while rents were very stable. In the first three quarters, office property transactions amounted to € 660 million on the investment market, which included two larger transactions in the third quarter – the Look 21 and Gate 9 developments. Initial yields for first-class properties were unchanged at around 3%.

pbbIX Stuttgart | Index



About the pbbIX real estate index

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SCOPE AND METHODOLOGY

As the last two decades have shown very clearly, the development of real estate markets is not a continuous trend that is free of disruption – instead, they are characterised by significant cyclical fluctuations. The pbbIX index family tracks these fluctuations on Germany's key office property markets. The index family comprises a total of eight indices: seven individual indices for the office property markets in Berlin, Cologne, Dusseldorf, Frankfurt, Hamburg, Munich and Stuttgart, plus a composite index which tracks overall economic development of the ‚BIG 7' markets.

The indices are based on the results of a dynamic factor model, which brings together eleven variables, using time series to extract the key driving forces for economic trends of office property markets. Specifically, these variables relate to macroeconomic developments, the rental market, and the investment market across the seven office property markets covered. As a preparatory step for the factor analysis, the various market-related indicators are aggregated to form a market indicator measuring a development overall (for example, vacancies or new construction activity). The data list shown below sets out the indicators which were used for the dynamic factor analysis.

In addition to the office property market indices, the presentation contains assessments regarding the components of ‚macroeconomic developments', ‚market for office space', and ‚market for office investments'. The directional impact of these components on the composite indicator is colour-coded: GREEN indicates a positive, BLACK a negative and GREY a neutral impact.

DATA LIST OF THE DYNAMIC FACTOR MODEL

Macro-economic developments
- Real gross domestic product, (YOY change, in %)
- Workforce in the BIG 7 markets (YOY change, in %)
- Consumer prices, (YOY change, in %)
- Current yield (Umlaufrendite) for public-sector bonds with a minimum remaining term of 10 years (in %)

Rental market
- Completed office and administrative buildings (m^2 of floor space in the BIG 7 markets)
- Marketing volume (m^2 of floor space, in the BIG 7 markets)
- Vacancies (% of gross available area, in the BIG 7 markets)
- Top rent (€ per m^2, for the BIG 7 markets
- Average rent (€ per m^2, for the BIG 7markets.

Investment market
- Net initial yield (in %, for the BIG 7 markets)
- Inflow of funds (€ millions)