pbbIX
Office Property Market Germany
2025 | Q 1

DEUTSCHE PFANDBRIEFBANK

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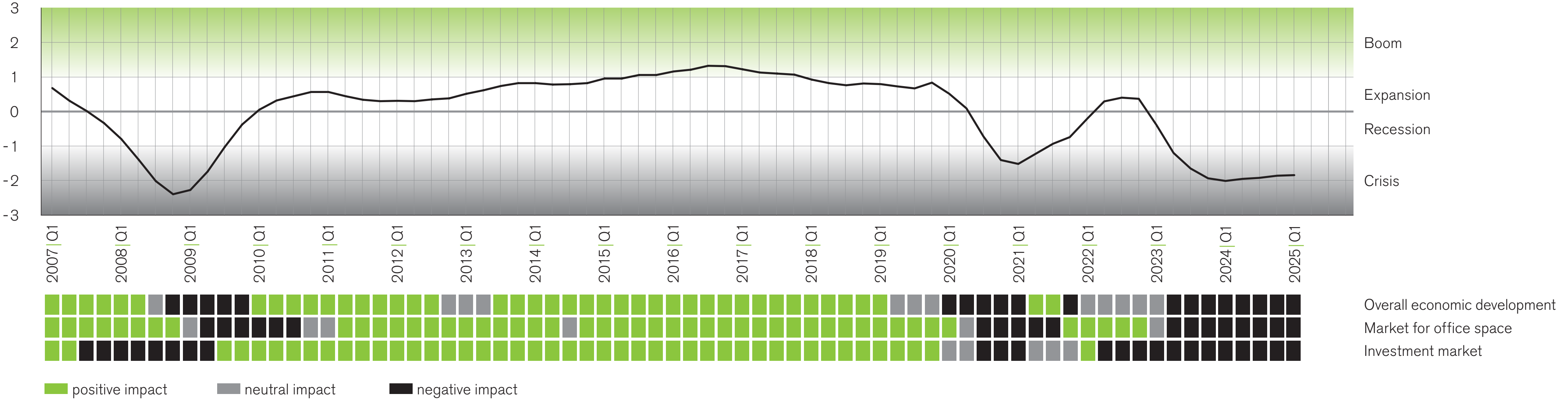
Overview

The **upward trend** observed since Q2/2024 is also **intact** at the start of 2025. However, the pbbIX barely increased in the 1st quarter of 2025 and reached a value of -1.85 (Q4/2024: -1.86). Apart from the continued **positive office rental trend**, there was no clear growth momentum from any sub-segment of the index in the first quarter of the year.

2025 began with **hesitant economic growth**. Demand for office space nevertheless held up well against the backdrop of economic weakness, but remained below average. Take-up on the investment markets remained low at the start of the year. In the prime segment, initial yields have remained constant for a year now and capital values are only increasing due to the continuous growth in rents.

After two consecutive years of recession, the **German economy recorded a slight increase of 0.2%** in the first quarter of 2025. Despite declines in key interest rates since mid-2024, the recessionary economic trend combined with geopolitical and economic risks continue to hamper the office real estate markets. The latest sentiment surveys in the German economy initially point to a **further sideways movement** in sentiment. According to the ifo Business Climate Index, companies assessed the current situation in April 2025 as slightly better than in the previous month, but business expectations continued to deteriorate due to geopolitical uncertainties. **Skepticism** increased, **particularly in the manufacturing and retail sectors**. The construction industry is hoping for a recovery in the medium term thanks to the **infrastructure package** that has been agreed.

pbbIX BIG 7 | Index



Overall economic outlook

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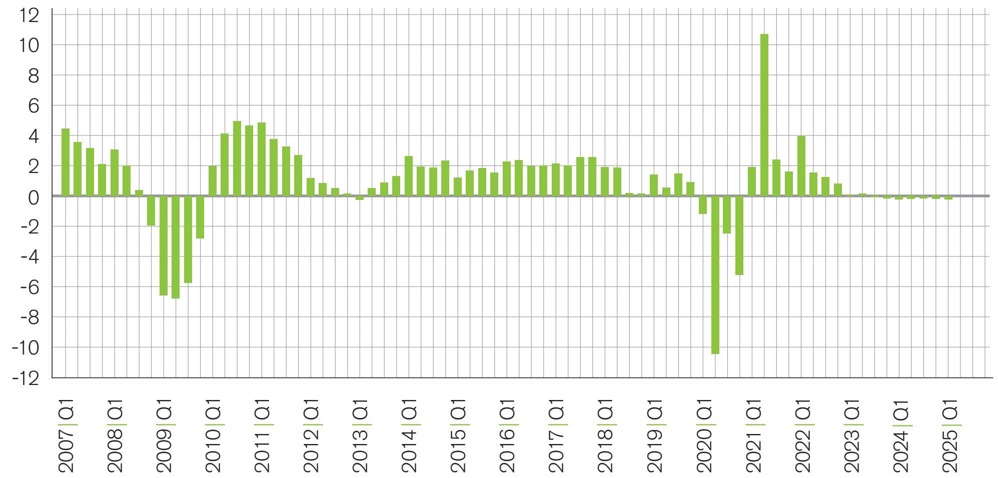
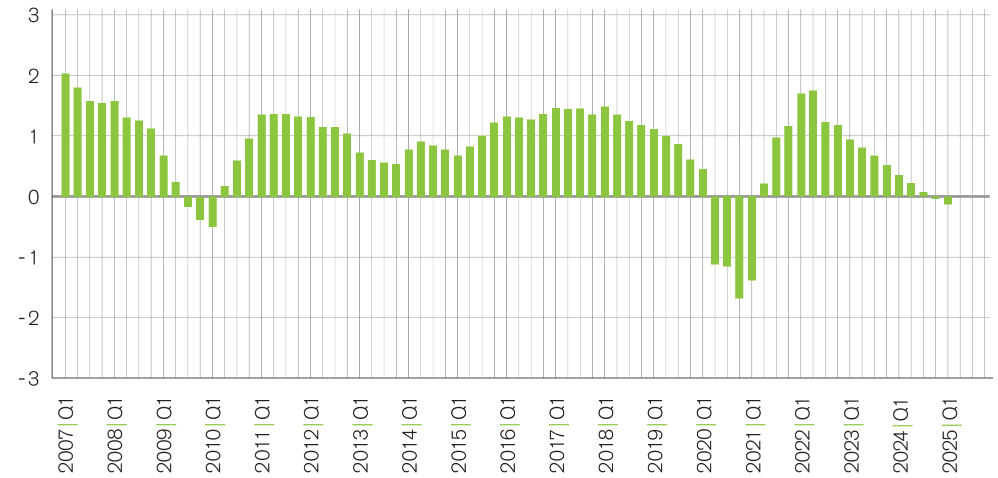
After two years of recessionary growth, the **German economy remains in crisis mode**. After GDP shrank by 0.2 % at the end of the year, real growth of 0.2 % was recorded in the first quarter of 2025. According to preliminary figures from the Federal Statistical Office, both private consumer spending and investments were higher than in the previous quarter. Nevertheless, the economy is expected to stagnate for the year as a whole. Factors weighing on the economy this year include weakening German exports in key sales markets, high energy costs, persistently high interest rates and an uncertain economic outlook due to geopolitical risks and the global trade crisis.

The **inflation rate** was above the 2 % mark in each of the first three months of the year. In March 2025, a consumer price inflation rate of **2.2 %** was recorded **compared to the same month of the previous year**. The expected stagnating economic development until the end of the year and the sluggish labor market mean that no significant improvement in the economic situation can be expected for the current year. From 2026, the planned public investments could contribute to greater economic growth, which could also be accompanied by a higher inflation rate. Compared to the same quarter of the previous year, the number of people in employment fell by around 62,000 in the first quarter of 2025. This was the largest decline in employment since Q1/2021 in the context of the Covid crisis. The labor market remains weak in the spring, with the unemployment rate standing at 6.4 % in March 2025, its highest level since 2016.

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



Working population | year-on-year change in %



Market for office space

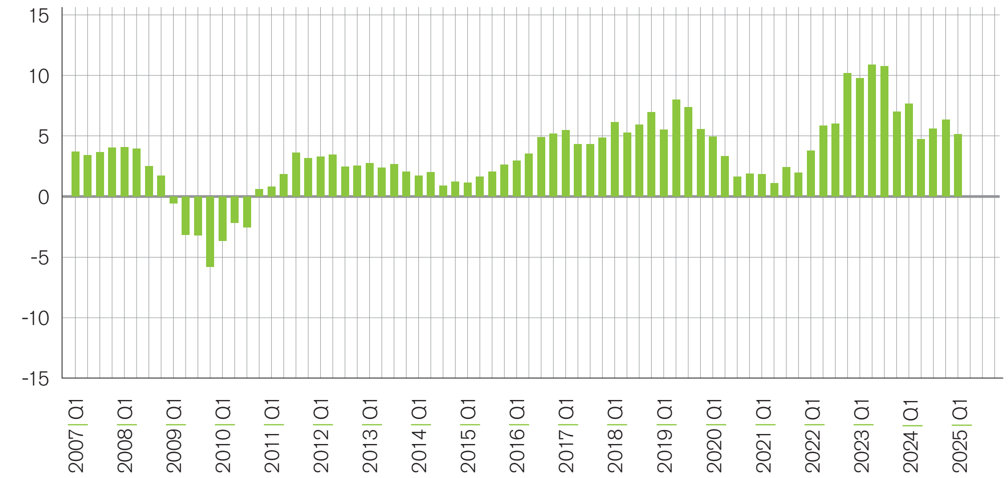
The office space markets of the BIG 7 **started the new year with more momentum** in the first quarter of 2025 than in the two previous years. At 730,000 sqm, take-up increased by 16 % compared to the same quarter of the previous year (630,000 sqm). In the context of economic stagnation, however, this take-up result remains around 12 % below the long-term average. Developments varied greatly in the individual cities. While Berlin, Düsseldorf and Stuttgart recorded declines in take-up of up to 30 %, the letting volume in Frankfurt and Cologne doubled.

With a completion volume of 160,000 sqm, **new construction activity** was around **60 % lower than in the same quarter of the previous year.** There was also a decline of the same magnitude compared to the previous quarter. The **vacancy rate increased noticeably** and amounted to a weighted average of 7.4 % across all BIG 7 markets in March 2025, 140 basis points higher than twelve months previously. This is also the highest vacancy rate since the first quarter of 2015. The cities of Frankfurt and Düsseldorf have a high oversupply of office space at almost 11 % each, while the vacancy rates in Cologne, Hamburg and Stuttgart are lower at between 4.4 % and 5.5 %, depending on the source.

In line with the **demand for high-quality space, prime rents continued to trend upwards**. In the 1st quarter of 2025, they were 5 % higher than a year earlier. Average rents rose at the same rate year-on-year. Competition for prime space in central and well-connected locations continues and will also ensure rental growth in the prime segment in 2025.

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

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



Investment market

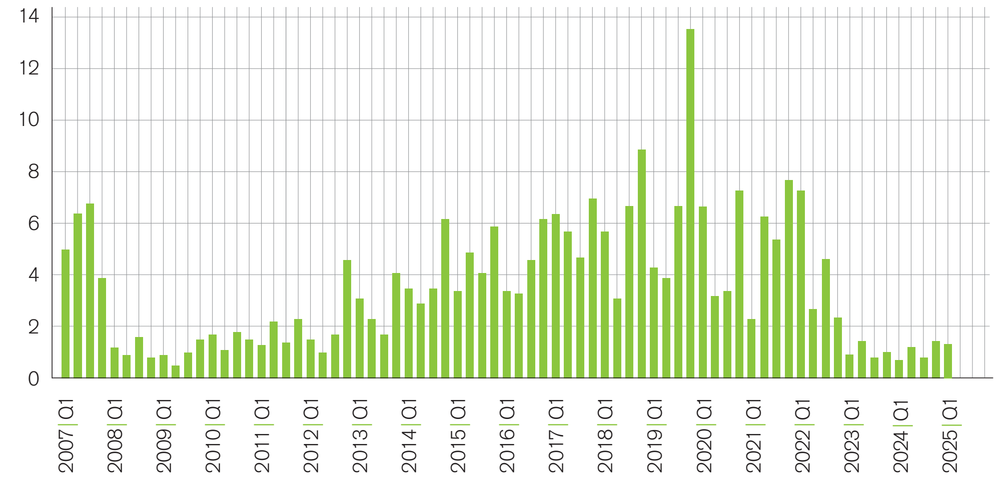
With a volume of around € 1.25 billion, the **inflow of funds** on the BIG 7 office investment markets **decreased** in the first quarter of 2025 compared to the end of the year (Q4 2024: € 1.4 billion). Nevertheless, 2025 got off to a pleasing start compared to the 1st quarter of 2024, in which only around € 700 million was invested. The recessionary economic trend continues to influence the investment volume: an average of € 4.1 billion was invested in office properties over the last ten years (1st quarter of each year). The current result is therefore around 70 % below this average level.

The ECB's key interest rate has been cut by 150 basis points since June 2024. Nevertheless, the **recovery on the investment markets has been very** hesitant due to persistently high lending rates, high construction costs, a stagnating economy and global geopolitical turmoil. **Prime yields** in the office sector of the BIG 7 **have shown a stable sideways trend since the beginning of 2024**. The average net initial yield of the BIG 7 office markets has remained at 4.28 % for 12 months. The yield spread compared to the current yield on 10-year German government bonds was 174 basis points at the end of the first quarter of 2025, after the yield on German government bonds rose by around 30 basis points in the first three months of the year.

In addition to the structural problems on the office markets, there is the uncertainty of economic development. Furthermore, the massive economic stimulus programs and planned investment spending over the next few years will certainly have an inflationary and interest rate-driving effect in the medium term. A **recovery** in the investment markets will **continue to be** only **moderate** in the coming quarters.

Net initial yield (BIG 7) | in %

Investment volume (BIG 7) | in € billion



BIG 7

BERLIN

Around 105,000 sqm of office space was let in the first quarter of 2025, which corresponds to a year-on-year decrease of 29 %. The 10-year average was even missed by 47 %. In the context of a very low completion volume of only 50,000 sqm, the below-average marketing of space caused the vacancy rate to increase significantly. This rose by 230 basis points over the year to currently 7.7 %. The prime rent remained stable compared to the previous quarter at € 46 per sqm. Compared to the same quarter of the previous year, it increased by € 2 per sqm. On the investment market, the inflow of funds in the 1st quarter totaled around € 690 million. This is the highest take-up since the 3rd quarter of 2022. The net initial yield for first-class properties has remained stable at 4.2 % since the end of 2023.

pbbIX Berlin | Index

HAMBURG

The Hamburg office market generated take-up of 127,000 sqm at the beginning of 2025, exceeding the result for the same quarter of the previous year by 37 %. This level was in line with the average of the last ten years. The biggest drivers of take-up included public administration and business-related service providers, each accounting for around 19 % of take-up. The vacancy rate remained almost stable compared to the previous quarter. Year-on-year, however, it rose by 60 basis points to currently 5.4 %. The prime rent increased by around 4 % to € 36 per sqm compared to the start of 2024. On the investment market, office properties worth around € 50 million changed hands in the 1st quarter. This was the weakest result in Hamburg in the last 20 years. The net initial yield remained constant at 4.25 % in the 4th quarter.

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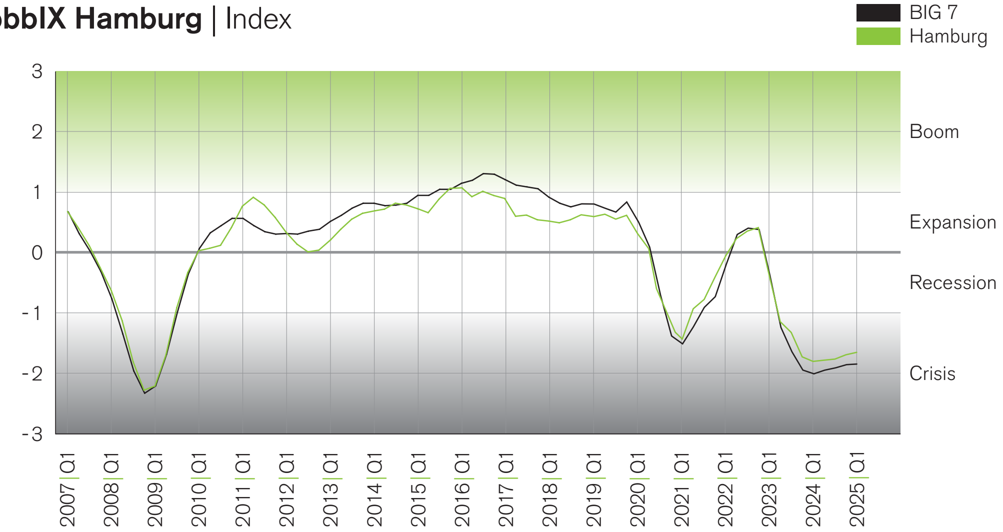
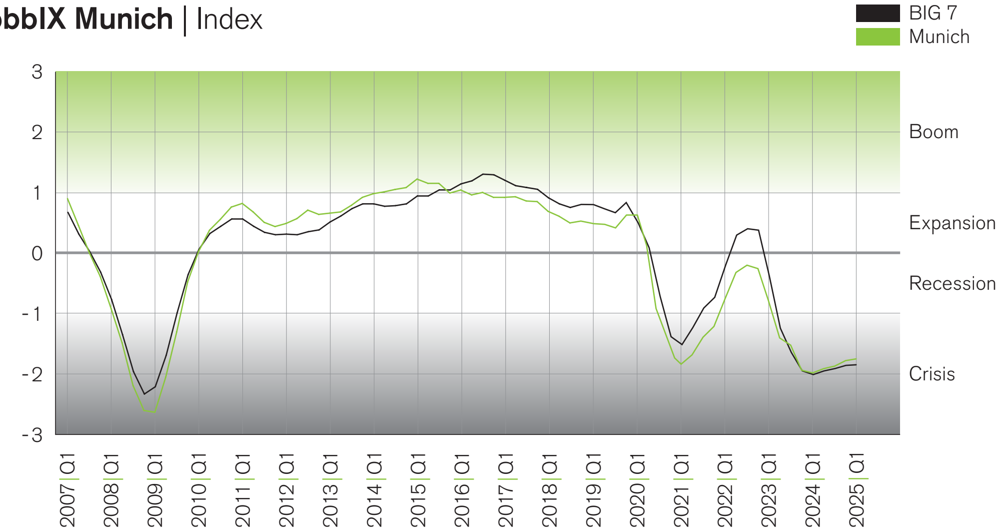


BIG 7

MUNICH

In Munich, demand for office space at the start of the year was unable to reach the level of the previous quarter. A total of around 140,000 sqm was taken up in the 1st quarter, 14 % less than at the end of 2024. The sector with the highest take-up was industrial administration with a market share of around 50 %. The vacancy rate rose by 150 basis points year-on-year to currently 7.1 %. Demand for high-quality space in prime locations caused prime rents to rise by almost 8 % and are currently at the highest level in Germany at € 56 per sqm. The investment market was dynamic in the 1st quarter at € 340 million. This represents an increase of 25 % compared to the same quarter of the previous year. Nevertheless, the long-term average (€ 860 million) has not been reached. The net initial yield for first-class properties has remained at 4.15 % since the end of 2024

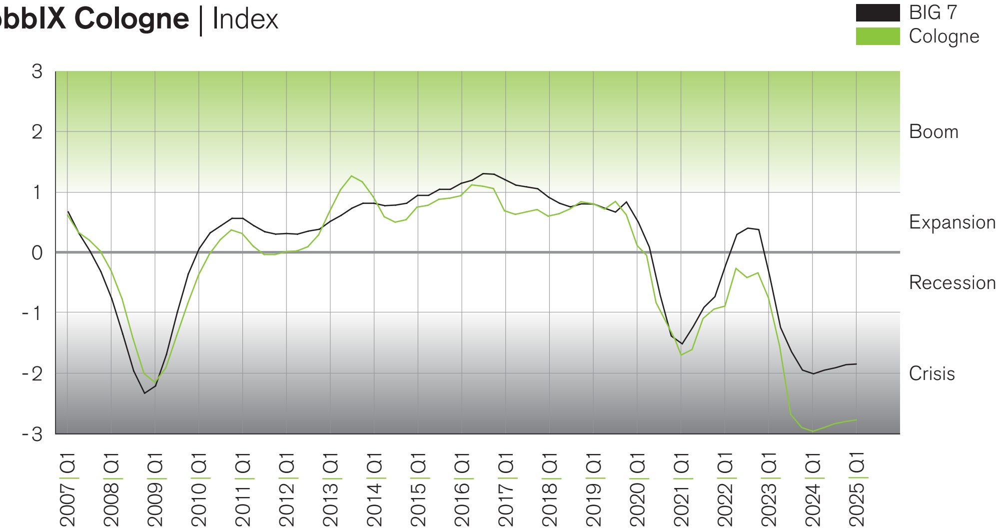
pbbIX Munich | Index



COLOGNE

In terms of demand for space, the Cologne office market got off to a brisker start to the new year than 12 months previously. Overall, take-up doubled year-on-year to 68,000 sqm. From a long-term perspective, this quarterly result was around the average of the last ten years (71,000 sqm). The office vacancy rate of 4.4 % is the lowest of all the BIG 7 cities. The vacancy rate has risen by 100 basis points in the last 12 months. The prime rent remained stable compared to the previous quarter at € 32.50 per sqm. The Cologne office investment market continues to be characterized by low activity. The inflow of funds at the beginning of the year was very low at only around € 20 million, after only € 50 million was invested in the same quarter of the previous year. The net initial yield for first-class properties remained unchanged at 4.55 % in the 1st quarter.

pbbIX Cologne | Index

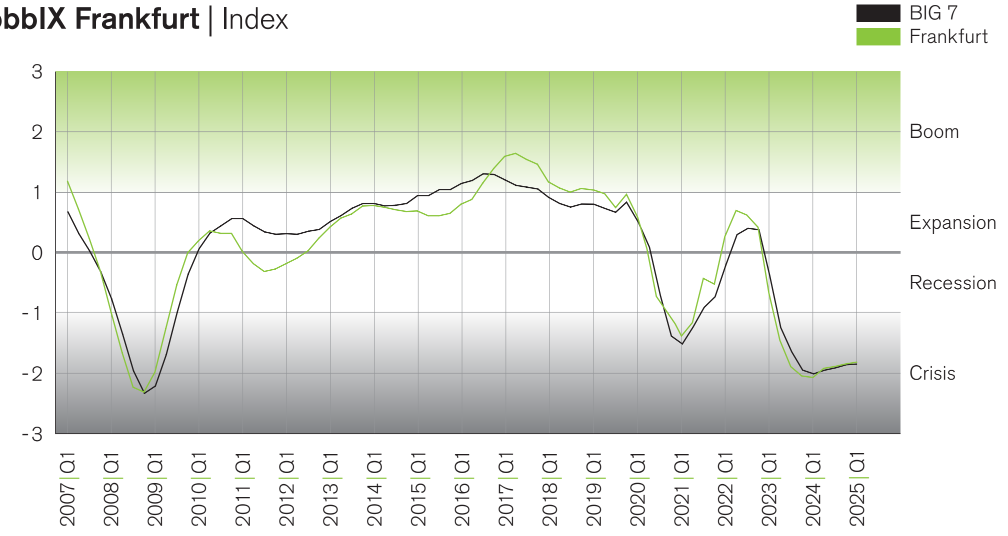


BIG 7

FRANKFURT

The office space market in Frankfurt set a new record in the first quarter of 2025 with take-up of 200,000 sqm. Compared to the same quarter of 2024, this represents a doubling of take-up. Despite higher space absorption in the 1st quarter, the restraint of recent quarters is contributing to the further increase in vacancies. In early 2025 the vacancy rate was 10.6 %, 200 basis points higher than in Q1 of the previous year. The prime rent remained stable compared to the previous quarter at € 50 per sqm. Over the year as a whole, it rose by around 6 %. The inflow of funds on the investment market remained at a very low level of around € 80 million in the 1st quarter. Investments were even 22 % lower than in Q4/2024. The net initial yield for properties in prime locations remained constant at 4.6 % at the beginning of the year.

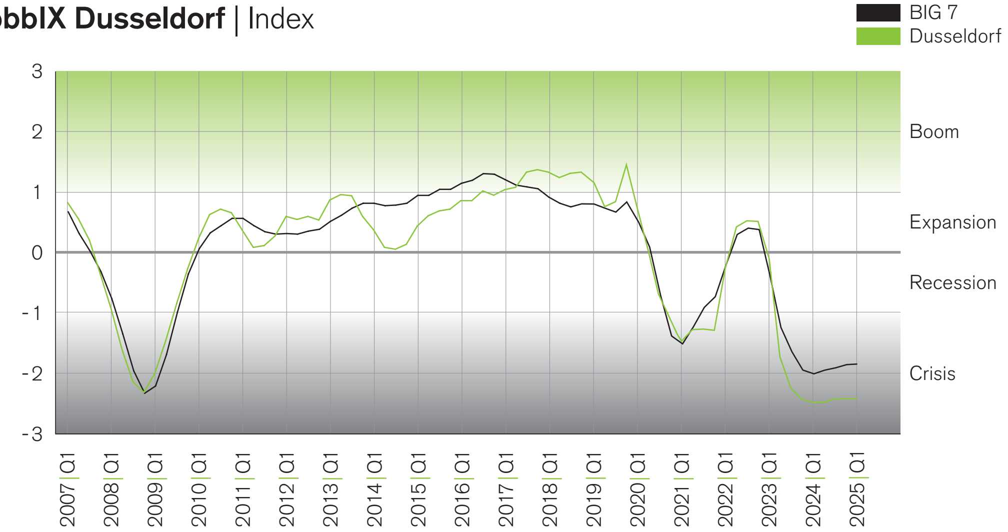
pbbIX Frankfurt | Index



DUSSELDORF

The Düsseldorf office market once again got off to a cautious start to the new year due to a lack of major contract signings. Only 45,000 sqm of new space was taken up in the 1st quarter of 2025, compared to 67,000 sqm a year earlier. The current take-up result corresponds to around half of the 10-year aver-age (89,000 sqm). The vacancy rate increased from 9.9 % to 10.7 % within a year, the highest level since the end of 2014. The prime rent remained constant compared to the previous quarter at € 43.50 per sqm. The Düsseldorf investment market got off to a very weak start in 2025. No more than around € 20 million was invested in office properties. On average over the last ten years, the investment volume in the 1st quarter amounted to around € 390 million. In Düsseldorf, the net initial yield has remained at 4.55 % since the beginning of 2024.

pbbIX Dusseldorf | Index

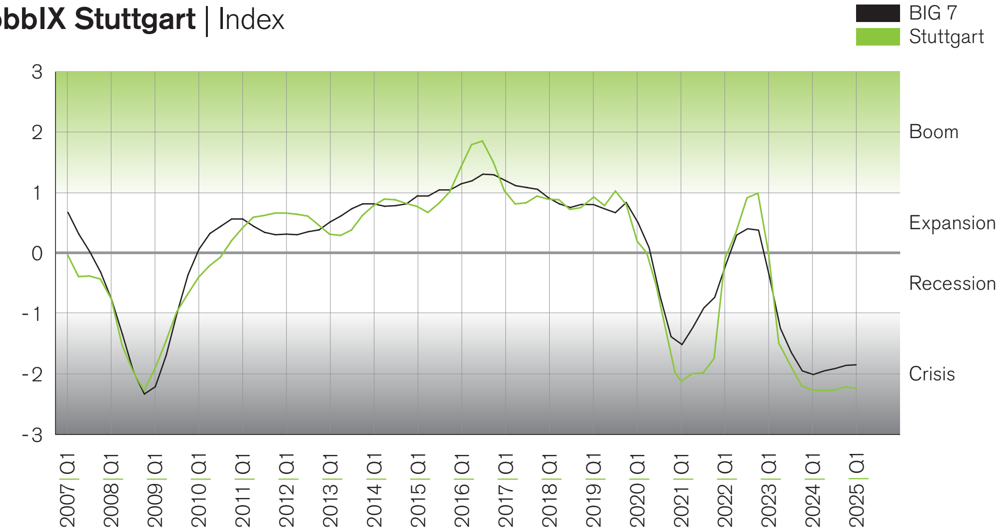


BIG 7

STUTTGART

Office space take-up fell by 25 % in the first quarter of the year compared to the same quarter of the previous year. A total of around 42,000 sqm of new space has currently been taken up. Compared to the 10-year average, this represents a fall of 34 %. The dominant sectors in terms of space let were public administration and business-related service providers, accounting for just under 50 % of total take-up. The vacancy rate rose by 50 basis points within a year and currently stands at 5.5 %. Rents have risen by € 1 in the last 12 months and are currently peaking at € 37 per sqm. On the investment market, the inflow of funds in the 1st quarter amounted to around € 50 million and was therefore far below the average of around € 200 million invested over the last ten years. The net initial yield for first-class properties remained stable at 4.25 %.

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, these markets are characterised by significant cyclical fluctuations. The pbbIX index family tracks economic developments on Germany's key office property markets. The index family comprises a total of eight indices: seven individual indices for the office real estate 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 single market indicator that measures overall development (for example, vacancies or new construction activity). The data list shown below sets out the indicators which were used for the dynamic factor analysis.

Over and above the office real estate market index, 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

Overall economic development

- 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 administration buildings (in sqm of usable space in the BIG 7 markets)
- Marketing volume (in sqm of rental space in the BIG 7 markets)
- Vacancies (in % of gross available area in the BIG 7 markets)
- Top rent (in € per sqm for the BIG 7 markets)
- Average rent (in € per sqm for the BIG 7 markets)

Investment market

- Initial net yield (in % for the BIG 7 markets)
- Inflow of funds (€ million)