

---

# Table of Contents

Foreword .....	13
Foreword from the Editors .....	15
<b>I. Fundamentals – Basics of the German Real Estate Market .....</b>	<b>17</b>
<b>1 Macroeconomic Structure of the German Real Estate Market .....</b>	<b>19</b>
1.1 German Macroeconomic Key Indicators .....	19
1.2 Geographic Structure of the German Real Estate Market .....	22
1.3 German Real Estate Indicators .....	25
1.4 German Real Estate Investment Structure .....	28
1.5 Conclusion: Attractiveness and Complexity .....	31
Bibliography .....	31
<b>2 Real Estate Investment Trends and Strategy .....</b>	<b>33</b>
2.1 Introduction .....	33
2.1.1 Germany's stable investment framework .....	33
2.1.2 Polycentric real estate markets .....	34
2.1.3 Foreign investment .....	36
2.1.4 Demand shift towards niche markets .....	36
2.2 Real Estate Investment Strategies .....	40
2.2.1 Risk profiles with current yield expectations .....	40
2.2.2 Strategies for existing estates .....	41
2.2.3 Earlier entry into the real estate value chain .....	43
2.2.4 Countercyclical investment strategy .....	44
2.3 Deal Sourcing .....	45
2.3.1 Major buyers and sellers .....	45
2.3.2 Acquisition strategies .....	47
2.3.3 Local partners: investment managers .....	50
2.3.4 Collaboration: joint ventures and club deals .....	51
2.4 Conclusion .....	52
Bibliography .....	52

<b>II.</b>	<b>Markets – German Real Estate Market Sectors</b>	57
<b>3</b>	<b>The Housing Market in Germany</b>	59
3.1	The Provider Structure in the German Housing Market	59
3.2	Rental Accommodation in Germany – The Most Common Form of Housing, High Quality and Stable Demand	61
3.3	Housing Construction in Germany and Demand for New Housing	67
3.4	German Rent Control	69
3.4.1	German capping limit ordinance (Section 558 (3) of the German Civil Code (BGB))	69
3.4.2	Rental price brake ( <i>Mietpreisbremse</i> )	69
3.4.3	Berlin rent price cap	70
3.5	Price Developments in the Sale of Residential Real Estate	71
3.6	Conclusion	76
	Bibliography	77
<b>4</b>	<b>Investing in German Offices</b>	79
4.1	Introduction	79
4.2	Germany Is Not Paris	79
4.3	Smaller Is Liquid	80
4.4	GDP Growth Is Not Alone	83
4.5	Low Yields: Small Margins of Error	85
4.6	Co-working Revisited	87
4.7	Sustainability Matters	88
4.8	The World According to Covid	91
4.9	Summary	93
	Bibliography	94
<b>5</b>	<b>Retail Property Investment Market</b>	95
5.1	Introduction	95
5.2	Definition and Types of Retail	95
5.2.1	Large-scale retail	96
5.2.2	Small-scale retail	98
5.2.3	Commercial buildings	98
5.2.4	Retail area definition	98
5.2.5	Structure and aspects of rental contracts	99
5.3	Retail Property Market Structure	102
5.3.1	Economic framework and consumer markets	102
5.3.2	Purchasing power index	103
5.3.3	Retail locations and location factors	105

---

5.4	Development of the Retail Property Investment Market .....	106
5.4.1	Development of retail rents .....	107
5.4.2	Development of prime yields .....	108
5.4.3	Transaction volumes .....	109
5.5	Challenges for the Retail Sector and Changing Shopping Behaviour .....	110
5.6	Summary and Outlook .....	112
	Bibliography .....	112
<b>6</b>	<b>The Logistics and Industrial Property Investment Market .....</b>	<b>115</b>
6.1	Introduction .....	115
6.2	Definition and Types of Logistic and Industrial Properties .....	116
6.2.1	Transshipment centres .....	118
6.2.2	Distribution properties .....	119
6.2.3	Fulfilment centres .....	120
6.2.4	Corporate real estate warehouse and production .....	121
6.3	The German Logistics Investment Market .....	123
6.3.1	The logistics market .....	123
6.3.2	Structure of the German logistics market .....	124
6.3.3	Investment market .....	127
6.3.4	Development of logistics rents .....	129
6.3.5	Rent contract conditions and durations .....	131
6.4	Trends in the Logistics Real Estate Sector .....	132
6.5	Summary and Outlook .....	133
	Bibliography .....	133
<b>7</b>	<b>Hotel Investment Market .....</b>	<b>137</b>
7.1	Introduction .....	137
7.2	Supply and Demand in the German Hotel Market .....	137
7.3	German Hotel Investment Market .....	141
7.4	Types of Hotels .....	145
7.5	Definitions of the Most Important KPIs for Investors in Hotels .....	147
7.6	Hotel-specific KPIs and German Market Characteristics .....	149
7.7	Operator Models .....	152
7.8	Summary and Outlook .....	158
	Hotel Data and Addresses .....	159
	Bibliography .....	159

<b>8</b>	<b>Nursing Home Investment Market</b> .....	161
8.1	Introduction .....	161
8.2	Types of Care Provision and Properties in the Senior Housing Segment .....	161
8.2.1	Inpatient care/nursing homes .....	162
8.2.2	Assisted living .....	166
8.2.3	Selected aspects of rental contracts .....	167
8.3	Demographics .....	168
8.4	Market and Location Analysis for Nursing Homes .....	169
8.5	Structural Requirements for Nursing Homes .....	171
8.6	Regulatory Framework .....	172
8.7	Consolidation and Concentration in the Nursing Home Operator Market .....	173
8.8	Transaction Market and Prime Yield Development .....	173
8.9	Opportunities and Risks of this Asset Class .....	174
8.10	Summary and Outlook .....	175
	Organizations .....	176
	Market Reports Databases .....	176
	Bibliography .....	176
<b>III.</b>	<b>Framework – German Regulatory Real Estate Framework</b> .....	179
<b>9</b>	<b>Legal Real Estate Investment Framework</b> .....	181
9.1	Introduction .....	181
9.2	Accessibility .....	181
9.3	Acquisition Structure .....	181
9.4	Relevant Legal Aspects for Risk Assessment .....	182
9.4.1	Property .....	182
9.4.2	Public law .....	187
9.4.3	Leases .....	190
9.5	Acquisition Process .....	195
<b>10</b>	<b>Tax Aspects of Real Estate Investments in Germany</b> .....	199
10.1	Overview .....	199
10.2	Income Tax ( <i>Einkommensteuer</i> ) and Corporate Income Tax ( <i>Körperschaftsteuer</i> ) .....	200
10.2.1	Resident companies and individuals .....	200
10.2.2	Non-resident companies and individuals .....	205
10.3	Withholding Tax Regime .....	205
10.4	Trade Tax ( <i>Gewerbesteuer</i> ) .....	207
10.4.1	Extended trade tax deduction ( <i>Erweiterte Gewerbesteuerkürzung</i> ) .....	208
10.5	Real Estate Transfer Tax ( <i>Grunderwerbsteuer</i> ) .....	208
10.6	Value-added Tax ( <i>Umsatzsteuer</i> ) .....	212
10.7	Land Tax ( <i>Grundsteuer</i> ) .....	213

---

10.8	German Anti-hybrid Considerations .....	215
10.9	Mandatory Reporting of Cross-border Tax Arrangements .....	216
10.9.1	General remarks .....	216
10.9.2	Reportable arrangements .....	217
10.9.3	Reportable persons .....	217
10.9.4	Procedures and deadlines for reporting .....	218
10.9.5	Sanctions for breaches of the reporting obligation .....	218
10.10	Tax Summary .....	219
<b>11</b>	<b>Real Estate Accounting</b> .....	<b>221</b>
11.1	Introduction .....	221
11.2	Components of Accounting and their Functions .....	221
11.3	Accounting and Valuation Principles .....	224
11.3.1	Allocation to fixed assets or current assets .....	224
11.3.2	Acquisition or production costs .....	226
11.3.3	Depreciation and appreciation .....	229
11.4	Conclusion and Meaningfulness of the Valuations .....	231
	Bibliography .....	232
<b>12</b>	<b>Real Estate Investment Trust (REITs) in Germany from the Perspective of Investors</b> .....	<b>233</b>
12.1	Introduction .....	233
12.2	Two Major Types of REIT Investor .....	233
12.2.1	Specialists' (dedicated real estate investors') view .....	234
12.2.2	Generalists' (equity funds managers') view .....	237
12.3	Investors' View on the German REIT .....	237
12.3.1	Qualifying activities .....	238
12.3.2	Residential real estate constructed before 2007 does not qualify for REIT status .....	238
12.3.3	Trading of properties: Disposals limited to 50 % of the average investment portfolio within five years .....	238
12.3.4	Gearing: Limited to 45% of the immovable property (valued at IAS 40 Fair Value Method) .....	239
12.3.5	Payout ratio .....	239
12.3.6	Taxation of profit at REIT level .....	239
12.3.7	Taxation at shareholder level .....	240
12.3.8	Possible double taxation for investors paying corporation tax .....	240
12.4	The German REIT Sector .....	241
12.5	Case Study: Hamborner REIT AG .....	244
12.5.1	Abstract and outlook .....	247
	Bibliography .....	248

<b>13</b>	<b>ESG in German Real Estate Investments</b>	249
13.1	Political and Regulatory Background	250
13.1.1	Sustainable development goals	250
13.1.2	EU Action Plan on Financing Sustainable Growth	252
13.1.3	The European Green Deal	255
13.1.4	EU Taxonomy Regulation	255
13.1.5	EU Disclosure Regulation	256
13.1.6	German energy regulations	257
13.2	Market Trends and Value Drivers	259
13.2.1	Stakeholders' demands	259
13.2.2	Market tools and industry initiatives (i.e. voluntary requirements)	262
13.3	Overview of ESG Measurement and Key Performance Indicators (»KPI«)	264
13.3.1	Measurement methodology of ESG criteria	266
13.3.2	Environmental, social and governance criteria	266
13.4	Implementation in Investment Processes (ESG due diligence)	273
13.4.1	Transactions and project development	273
13.4.2	Capex investments	274
13.4.3	Challenges	274
13.4.4	Best practice guidance	275
13.5	Implementation in Contracts and Legal Documentation	277
13.5.1	General considerations	277
13.5.2	Common understanding of the parties	278
13.5.3	Clauses on data exchange	278
13.5.4	Adaptation to new regulatory requirements and/or market trends	279
13.5.5	Recommendations for different life-cycle phases	280
13.6	Outlook	282
<b>IV.</b>	<b>Management – Guidelines for Investing in German Real Estate</b>	<b>283</b>
<b>14</b>	<b>Real Estate Mergers &amp; Acquisitions</b>	<b>285</b>
14.1	Real Estate M&A Processes	285
14.1.1	Introduction	285
14.1.2	Auction and off-market process	286
14.2	Best Practices	291
14.2.1	Avoid NDA breaches	291
14.2.2	Understand buy-side transaction costs	291
14.2.3	Pay attention to potential broker fees	292
14.2.4	Understand the transaction and communicate with the sell-side	293
14.2.5	Avoid exiting the process right before submitting indicative offers	293
14.2.6	Stand by your indicative offer	294
14.3	Conclusion	294
	Bibliography	295

---

<b>15</b>	<b>Financing Real Estate in Germany</b>	297
15.1	Sources of Capital	297
15.2	Types of Security	298
15.2.1	Land charge and mortgage	298
15.2.2	Other security	301
15.3	Long-term Debt Financing	301
15.3.1	Characteristics	301
15.3.2	Mortgage loans	303
15.3.3	Linear-payback mortgage loan	311
15.3.4	Interest-only loans	314
15.3.5	Building societies	316
15.4	Conclusion	317
	Bibliography	318
<b>16</b>	<b>Real Estate Valuation in Germany</b>	319
16.1	Introduction	319
16.2	Basis of Valuation	319
16.2.1	Value definition and concept	319
16.2.2	Purpose of valuation	320
16.3	Valuation Framework in Germany	321
16.3.1	Immobilienwertermittlungsverordnung	322
16.3.2	Committee of valuation experts ( <i>Gutachterausschuss für Grundstückswerte, GAA</i> )	324
16.3.3	Standard land value ( <i>Bodenrichtwerte, BRW</i> )	325
16.3.4	Valuation experts and organizations	325
16.3.5	Valuation process	325
16.3.6	Fundamentals for determining the value of land	326
16.4	Valuation Methodologies	327
16.4.1	Market approach	327
16.4.2	Income approach	328
16.4.3	Cost approach	332
16.4.4	Non-standardized valuation methods	333
16.4.5	Derivation of the market value	335
16.5	Fundamentals for Determining the Mortgage Value	335
16.6	Practical Valuation Aspects to Consider in the Investment Process	336
16.6.1	National vs. international valuation methodologies	336
16.6.2	Use of the valuation report and related requirements	337
16.6.3	Clear definition of valuation subject: asset vs equity	337

## Table of Contents

---

16.6.4	Qualifications of the valuer .....	338
16.6.5	Plausibility of the valuation and reasonable valuation assumptions .....	338
16.7	Conclusion .....	339
	Real Estate Data and Addresses .....	339
	Bibliography .....	340
<b>17</b>	<b>Financial Due Diligence in the German Real Estate Market .....</b>	<b>343</b>
17.1	Introduction .....	343
17.2	Definition, Timing and Goals of FDDs in Real Estate .....	343
17.3	Context of FDD Services .....	345
17.3.1	Buy-side financial due diligence .....	345
17.3.2	Vendor financial due diligence .....	346
17.3.3	Vendor assistance .....	347
17.4	Financial Due Diligence in an Asset Deal – Analysis of the Property Net Operating Income .....	348
17.4.1	Subject and goal of asset deal FDD .....	348
17.4.2	Considerations regarding the type of use .....	349
17.4.3	Assessment of data .....	351
17.4.4	Analysis of rental income .....	352
17.4.5	Analysis of service charges and service charge leakage .....	353
17.4.6	Analysis of quality of earnings .....	355
17.4.7	NOI projections .....	356
17.4.8	Obligations in an asset deal .....	357
17.5	Financial Due Diligence in a Share Deal – Supporting the Deal Considerations and SPA .....	358
17.5.1	Considerations for real estate deals .....	358
17.5.2	Assessment of database .....	360
17.5.3	Review of the balance sheet – quality of net assets .....	362
17.5.4	Impact of the FDD on the sale and purchase agreement .....	365
17.6	Conclusion .....	368
	Bibliography .....	369
	The Editors and Authors .....	371