

on *point*



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LASALLE®

Retail Report Germany
Spring 2008



Introduction

The retail investment market in Germany has grown rapidly over the last few years, following major changes in German retail recently seen and the across all sectors negative turnover trends. In order to identify current trends, which are increasingly important in times of turbulent financial markets, the first part of our report highlights the current situation of the retail market and its future prospectives. We have based these findings on an extensive poll of German retail experts.

Not the creativity of “Financing Engineers”, but the innovative concepts and economic fundamentals will determine future investment decisions. Therefore the second part of our report shows the conclusions of our considerations of the retail market and combines these with the conditions on the retail investment market.

Our intention is not only to provide you with valuable market information but also to deliver a clear future outlook as a basis for investment decisions in the retail investment market.

In producing this report, we have not only relied on our own data, but worked with partners whose results have formed the basis of this report. We thank the Hahn Real Estate Group and Dr. Lademann and Partner for their dedicated participation.

Most of all we would like to thank our fantastic colleagues Carolin Baentsch, Simon Heppekaussen and Anna Hippler for all their endeavours in producing this report.

We also thank our business partners who contributed to this report by answering the questionnaire.

Best Regards



Uwe Wegner



Jörg Krechky

PART ONE

The German Retail Market 2007 and 2008

1. German retail turnover in 2007 below expectations

As expected, 2007 was a difficult year for retail, despite overall economic growth reaching the same level as in previous years. According to statistics published by the Federal Statistics Office in December, retail's hopes for the second half of the year were not fulfilled. In comparison to the same month in the previous year, turnover fell nominally by 4.9% and in real terms by around 6.9%.

In non-food retail, the increase in VAT (+3%) had a strong impact. Overall turnover in 2007 fell nominally by around 1.2% from the previous year and, adjusted for inflation, by 2.2%. It is therefore not surprising that the economic upswing has not yet reached the retail sector, because consumer confidence cannot easily be regained following the many years in which Germany was at the bottom of the table of growth in Europe, particularly considering that current economic growth is only mid-range in European terms. Private consumption was consequently lower than expected in 2007 (in real terms -0.3%).

2. Retail Sector hopes for 2008

For 2008 however, economic research institutes and economic experts for the leading banks (including DIW: 2.1%; ifo Institute: 1.5%¹) expect a noticeable resumption in private consumption. The question for retail remains how high its share of this will be, as rises in costs, principally health, energy and fuel, cannot be ruled out. In addition, increases in the price of agricultural commodities impact on manufacturer's costs and will result in a delayed increase in product prices, which will probably be passed on to the consumer. As an increase in consumer prices of 1.9% is expected, difficult conditions for retail can be anticipated.

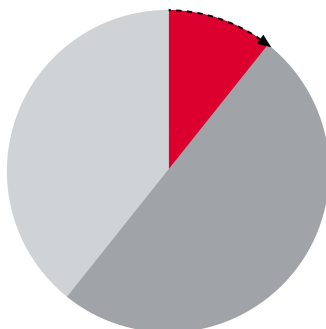
However positive effects should come from further tax relief, an expected fall in unemployment and upcoming wage negotiations. After a year in which the majority of policymakers in retail (expansion leaders) questioned were still battling with stagnating or falling turnovers, retail experts anticipate a better environment in 2008: half of those questioned forecast stable and almost a third increasing turnovers for the current year. Taking all external factors and the result of polls into account, the research team of Dr. Lademann & Partner expect a nominal growth in retail turnover in 2008 of between 0.8% and 1.3%.

¹ Source: Deutsches Institut für Wirtschaftsforschung (DIW), ifo Institut für Wirtschaftsforschung.

Retail Sales Growth Expectations

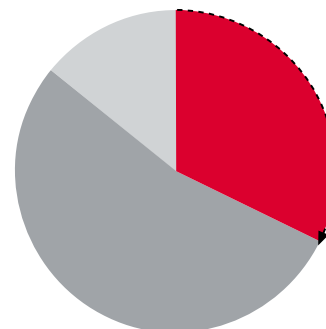
Source: Retailer Survey, January 2008

Last Year
Retail Sales in 2007 have ...



■ ... increased ■ ... been stable ■ ... decreased

Forecast 2008
Retail Sales in 2008 will ...



■ ... increase ■ ... be stable ■ ... decrease

3. Productivity still lags behind expansion

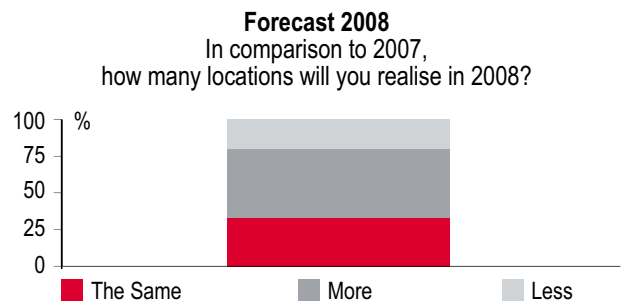
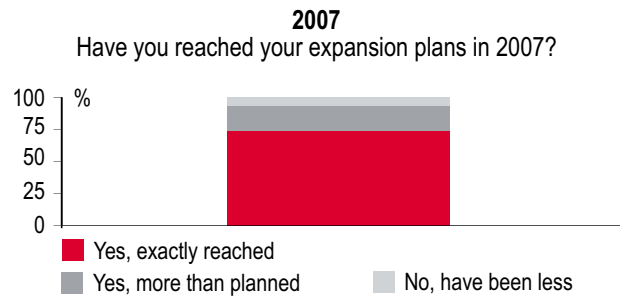
For the coming year a stable, nominal turnover growth around the 1% mark is expected. Price-adjusted however, a stable or slightly falling turnover can be assumed. It would appear difficult for retail to grow based on the same space and store network structure. Therefore space expansion and corporate mergers will continue in the future.

In 2007, retail space increased by almost 1.5 million m². This means that the retail sector currently offers around 118 million m² of sales area or a density of approximately 1.43 m² per capita. According to the poll results, expansion objectives of retail companies matched or exceeded planning strategies over the past year. In 2008, a third of companies questioned intend to maintain the rate of expansion, while 47% are looking for more new locations than they did in 2007. As a result, space expansion should begin to increase again after a short pause.

Space productivity was under further pressure in 2007 in view of the trends in turnover and space; nonetheless nominal stabilization of turnover growth is expected.

Retailer Expansion Plans

Source: Retailer Survey, January 2008



Productivity versus Retail Space Development

Source: Dr. Lademann & Partner



4. Concentration trend continues

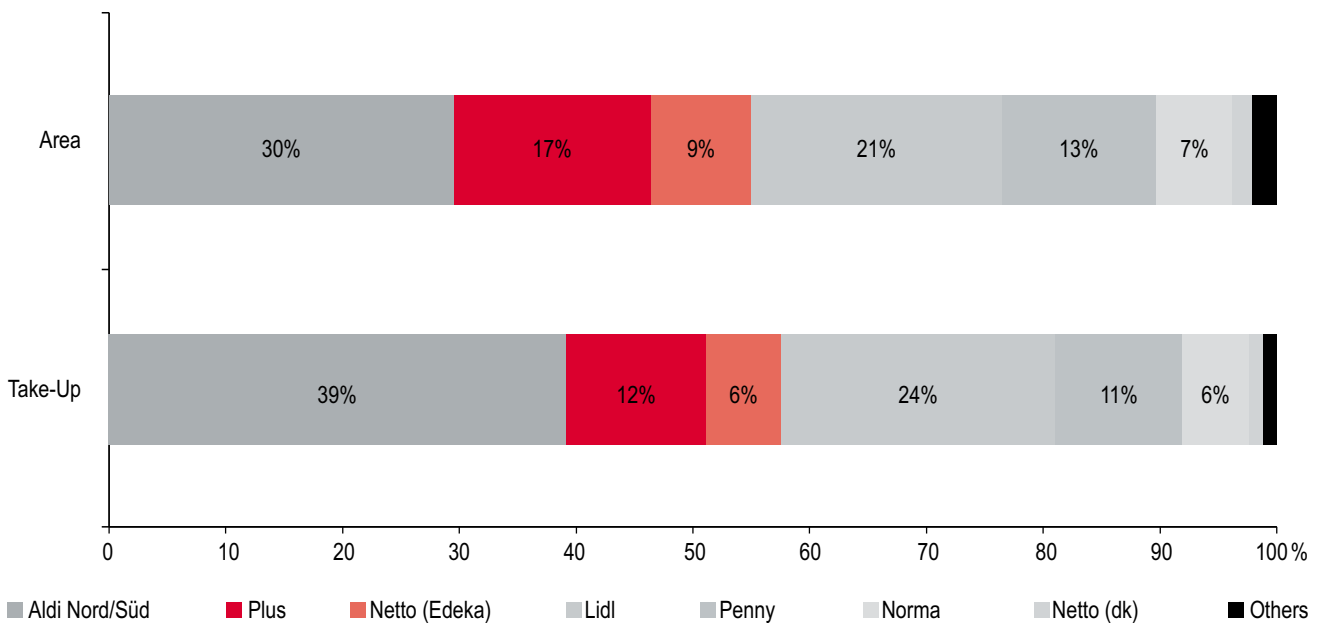
There was also considerable change in the second half of 2007 due to further corporate mergers, particularly in the food retailing sector.

In the bidding war between REWE and EDEKA over the Tengelmann subsidiary Plus, EDEKA submitted the winning bid. The newly founded business, in which Tengelmann (30%) and EDEKA (70%) share ownership, will incorporate Plus (with around 2,900 stores) and EDEKA's discounter subsidiary Netto (with around 1,200 stores). Around 2,100 of the Plus stores will be transformed into the previously regional brand Netto by spring 2008.



Market Shares of Food Discounter in Germany

Source: Dr. Lademann & Partner, EHI 2007; planetretail 2007



As a result of this takeover, EDEKA has shifted its discount stores into a position ahead of Lidl and Penny (in terms of sales space) and comes close to the market leader ALDI NORD/SÜD with over 26% share of the market. The already existing 30% share of OHG Netto Supermarkt Stavenhagen by the Danish Moller Maersk must not be forgotten. The price war, predominantly between ALDI and Lidl, is becoming more of a three way battle.

On the other hand, REWE was able to win the competition for the takeover of the Extra stores from Metro Group. Metro saw the opportunity to dispose of its weaker-margined business segment and to concentrate, in its own words, more on food retail in the hypermarket business with Real. In turn, REWE reduced the gap with EDEKA by integrating the Extra supermarkets, which generated a turnover of around €1.6 billion in 2007, to improve their position in the purchasing market and thereby to widen the race for market leadership in the German food retail sector. In the second half of 2008, 245 Extra stores will be converted into the REWE brand.

There have also been structural shifts in the drugstore sector with the acquisition of Ihr Platz by Schlecker and the majority acquisition of Kloppenburg by Rossmann. Following competition law approval, 700 Ihr Platz stores were taken over at the turn of the year by the market leader Schlecker; however, Ihr Platz's different design strategy will probably be retained by Schlecker. Rossmann is strengthening its position in Northern Germany by its majority shareholding in Kloppenburg and is thereby reducing the gap between the second player, dm-drogeriemarkt.

The department store sector continued to develop at a below average and inconsistent rate. In the case of Hertie, sustained difficulties can be seen. The success of Karstadt's operative refurbishment cannot be determined yet. Arcandor (Karstadt Warenhaus GmbH) and Metro AG (Kaufhof Warenhaus AG) continue to try to consolidate their department store marketing lines. This puts a merger of Karstadt and Kaufhof back onto

the table; however, whether it is time for such a merger must be critically examined because the refurbishment of the department store business by Karstadt is proving more difficult than expected and large parts of the branch networks of both retailers are overlapping.

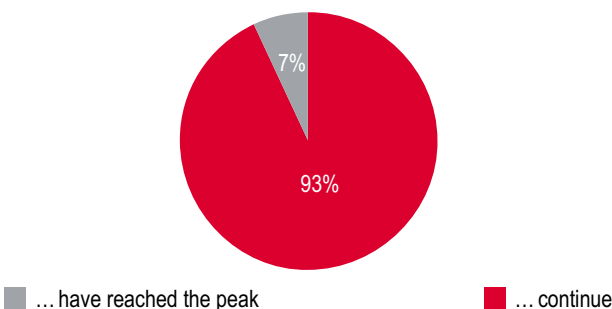
Only around 100 of the two companies' 204 stores are suitable for successful continued operation in the long term. It is still unclear which of the two department store businesses will retain dominance: in fact the greater operative success of Kaufhof contrasts with the ambitious takeover plans of Karstadt. Irrespective of whether and when the merger will happen, and of which of the two will dominate, the real estate economy must face a further fall in this type of business and adapt itself to a reduced range of letting in this segment; nevertheless, vacated department stores can offer new opportunities for the development of attractive, mainly town centre locations.

Current concentration trends should also continue in 2008. A recently conducted poll concluded that almost all policymakers in retail (90%) expect further corporate mergers in the future. Food retailing is particularly affected by this development, in the view of those polled, though further consolidation is expected in other sectors. For real estate division this means a reduction in the number of potential tenants, who in turn will benefit from a strengthened negotiating position: however, at the same time the consolidation process is also increasing the credit ratings of the remaining players and thereby improving the security of contractual rental income.

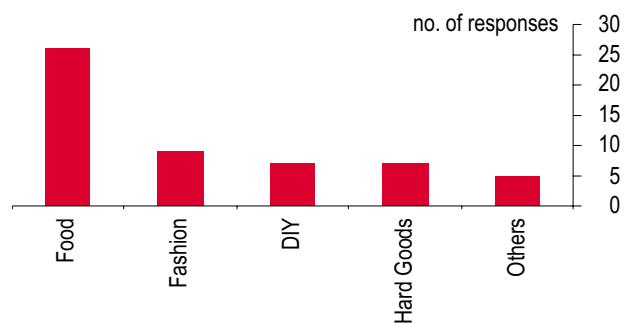
Concentration Trends Throughout Germany

Source: Retailer Survey, January 2008

Concentration processes in 2008 in Germany will...



Impacts on retail branches:



5. Organic products are becoming established in food retailing

In 2007 there was double-digit growth (15%) in the demand for organic food products. This sector concentrated mainly on regional organic supermarkets and independent chains such as Alnatura, Basic, Erdkorn or Denn's Bio, and on traditional health food shops and organic food shops.

Most of the organic ranges are now marketed by the traditional retail sector, whose market share of organic food products is around 50%. Overall the proportion of organic products in terms of the total food turnover is still relatively low at 3.5-4.0%. According to HDE, turnover in 2007 in absolute figures was €4.6 billion².

Despite rising prices due to scarcity of supply, a further increase in demand for organic products is also expected in the future³. This is also evident in expansions, which reached a new level in 2007 with 81 new organic food stores from a total of 450 at the beginning of 2008. This trend will continue in the coming year when between 60 to 80 new organic food stores and supermarkets are expected⁴. This generates additional letting options for real estate owners and developers and extended negotiating options for sustainable branch mix concepts.

6. In large-scale food retailing, the saying goes: Proximity beats size

The resizing process of hypermarkets, which began in the 1990s, continues. This has led to the substantial reduction in sales space from traditional sizes up to 15,000 m² or more. Retail companies prefer more compact formats of 3,000 to 6,000 m².

The sustained resizing process is a result of the fact that hypermarkets must continue to give up their traditional USPs, such as the wide range of products, one stop Shopping and price benefits. Size alone is no longer important; rather it is proximity to the consumer. This favours medium-sized formats, which suit locations closer to residential locations, such as supermarkets or discounters.

In addition, hypermarkets have lost their price advantage and their former advantages in the non-food segment have been

taken over steadily by retail warehouses, and this is now to their detriment. The non-food segment is not sufficiently diversified, is too expensive and requires a high proportion of sales space. Resizing has often only led to a strong dilution of the non-food product range. Such a (compact) business type concept has been successfully implemented by Kaufland with standard sales space of up to 5,000 m² and a lesser non-food segment.

The sustained competitive pressure from discounters, increasing mobility costs as well as demographic trends (willingness to travel reduces increasingly with age) is leading to narrower coverage and thus reduces the servicing potential of supply locations, in that locations close to settlements are strategically favoured.

7. Differentiation of the DIY format continues

Last year was worse than expected for the DIY store sector in Germany. Although the "VAT shock" was not as severe as expected and there was a welcome growth in turnover in spring compared with the year before, turnover fell considerably, chiefly from August/September. The poor third quarter results could not be supported by improved fourth quarter results; nevertheless, comparisons with the same month the year before are not valid, as this was mainly characterised by purchases brought forward at the end of the year due to the impending VAT increase.

According to current estimates, by the end of the year the sector registered a turnover fall of almost 2%, which impacted differently on the individual players in the sector. With a slight space adjusted turnover surplus of over 1%, Hornbach mastered the situation the best. In addition to the VAT increase and its impact on consumer sentiment, the fall in turnover was due to the transformation of individual formats, and this continues. For example, the toom-DIY stores have been converted into the new "WOW" concept from mid-2006, which is supposed to be more service-orientated to attract special target groups (e.g. women, occasional DIY'ers).

While the Federal Association of German DIY Store and Garden Centres [Bundesverband Deutscher Heimwerker-, Bau- und Gartenfachmärkte e.V.] expect significant recovery

² HDE 16.01.2008: Hat die Bio-Branche eine Zukunft?

³ Planet Retail 21.01.2008: Perspectives – German retail: new year, new challenges.

⁴ Bio-Markt-Info 05.02.2008: Rekordzahl von Bio-Supermarkt-Neueröffnungen 2007.

in consumption for 2008 and is of the opinion that retail is the “late bloomer” of an economic boom phase, we feel that a recovery in the DIY store sector will not automatically follow. Rather, it will be materially dependent on future financial burdens on private households and the confidence of the public in the stability of the economic upswing in Germany.

8. Changes in planning law influence location decisions

Recently implemented changes in planning law, its respective, in part highly disputed, case law and recent amendments to state planning law in some federal states will have a sustained impact on large-scale retail.

It remains to be seen, particularly in North Rhine-Westphalia, how very restrictive amendments to the state development programme will be implemented in the future. Here the planning of special use zones for large-scale retail, particularly those offering so-called central relevant product ranges, will be subjected to very specific urban planning requirements on the respective macro and micro locations.

Subsequently, the location of large-scale retail businesses outside tightly designated central supply areas is therefore subject to appreciably higher restrictions. In addition to the city-specific retail warehouses, furniture stores with mainly very large sales space and a significant proportion of centre-relevant secondary products (such as household goods and home textiles) will be significantly restricted in their location development or expansion opportunities.

The expansion of the food retail sector will also be more difficult in North Rhine-Westphalia in the future, as this will also be restricted to central supply areas.

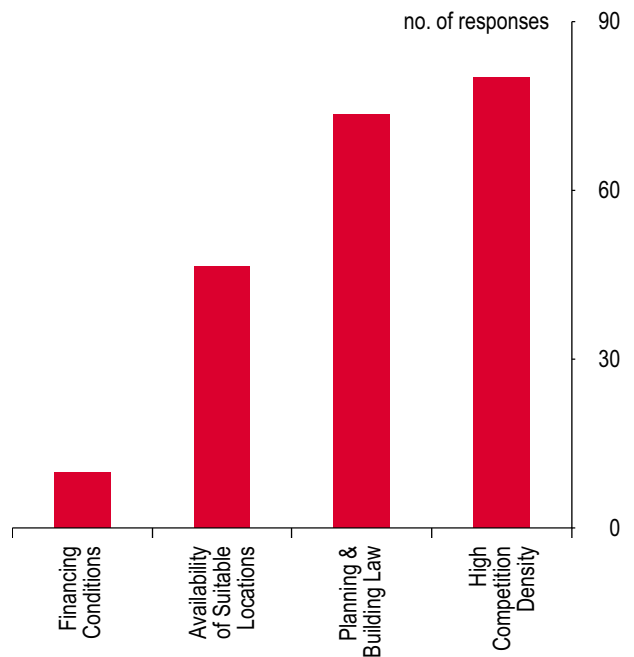
The restrictive application of planning law in North Rhine-Westphalia is already illustrated in the results of the poll in which nine of the 17 expansion leaders mentioned North Rhine-Westphalia as the most restrictive federal state in the granting of consent for new stores. In addition, the results of the poll emphasize that planning law outline conditions have the most restricted effects on expansion, second only to the high intensity of competition. It is not surprising that the expansion leaders of large-scale food businesses (hypermarkets and supermarkets) addressed this issue in particular.



On the other hand, the restrictive approach of the authorities might be beneficial for already existing store locations. As a matter of fact planning law can serve as a protection against new competitors.

General Expansion Restrictions in Germany

Source: Retailer Survey, January 2008



9. Digression: Climate protection and sustainability

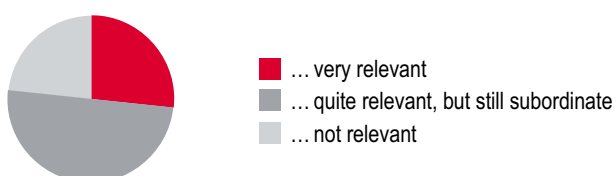
For the first time, the recent poll also addressed the issues of climate protection and sustainability. At least more than three quarters of retail expansion leaders which responded to the poll placed importance on this issue. More than a quarter of these policymakers emphasized that the issues of climate protection and sustainability would be of great importance to location and real estate development. What was particularly evident here was that only one of 14 hypermarket and supermarket operators and only one in seven DIY store operators responded that this issue had little relevance to them.

The main response to the question of the effects of this on own sectors was that the costs for location development and maintenance would increase. At the same time, a third of those questioned emphasized that the climate protection measures would be profitable over the medium to long term, also in business terms. It can therefore be concluded that climate protection and sustainability issues have also increased in importance for the real estate industry in the large-scale retail segment.

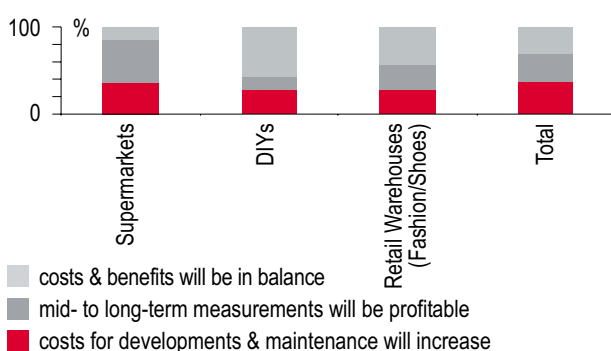
Future Trends

Source: Retailer Survey, January 2008

Regarding retail real estate the topics climatic change and sustainability are ...



Impacts on retail formats



10. Expansion favours lease of new properties

The Hahn Retail Real Estate Report 2007 concluded that retail tends to assume that rents will increase. When rents are differentiated between new and existing properties, the opinions of the policymakers questioned, in respect of rental developments, are diverse:

- In the case of new buildings, over half of those questioned estimate that rents will remain stable and over a third expect an increase. Only 10% of those questioned expect falling rents.
- There is a contrasting picture in the case of existing buildings: 46.7% assume stable rents, 43% falling rents and only 10% increasing rents.

This contrasting trend is uniform over all sectors; nevertheless, there are differences: the DIY store sector anticipates rental trends much more negatively than, for instance, the textile and shoe retail sector. This different assessment can be justified partly by the consolidation process within the DIY store sector and the resulting surplus in supply.

It remains to be seen whether these estimates by retail and therefore potential tenants will become reality, because, as experience shows, nominal average rental price ranges have remained stable over several years. It must also be noted that there are really clear exceptions (both upwards and downwards), depending on the location and sector. For the real estate industry this means that the quality of locations and properties remain crucial in terms of achievable rental incomes. Rental increases are therefore only achievable in good locations with modern properties.

Retail will be willing to pay higher rents if these are reasonable in terms of the quality of the respective locations and properties and the resulting market opportunities. Irrespective of whether the rent is payable for a new or existing property, the burdens on the cost side must always be in an economic ratio to the turnover. If a location is unprofitable, then it will inevitably be closed if there is no improvement potential in terms of the chain network adjustment or optimization. It is therefore not surprising that a significant proportion of newly developed stores will replace old, obsolete locations. This is a further feature of ongoing structural transformation.

At the same time there will also be modern existing properties in sustainable locations which will meet continued high demand for the operators. As these locations are finite,

due mainly to increasingly restrictive outline planning law conditions, rental growth potential and positive developments in the values of such properties can be assumed now and in the future.

The fact that retail is now more strongly focused on rented properties in the case of expansion is confirmed by the recent Retail Real Estate Report (56.7%). The current results of the poll underscore this trend and show a clear tendency towards leasing and away from owner-occupied properties (72.4%).

Corresponding to this, 85.7% of those questioned assume that the trend towards the sale of real estate assets by retail companies will continue. The catalysts include the need for liquidity and creation of capital for strategic new directions, for the operative business or for the financing of the expansion as well as profit-based considerations (including current high sales prices). In addition to this, sustained concentration and consolidation processes are allowing retail to equip itself for the intensity of competition by the sale of real estate assets. Around a third (31.0%) of the retailers questioned admitted

that there were only rented locations in their store portfolio. These companies have been able to reduce their capital commitment risk, are more flexible and can also acquire new financial means, which are necessary in times of significant adjustment and positioning pressure.

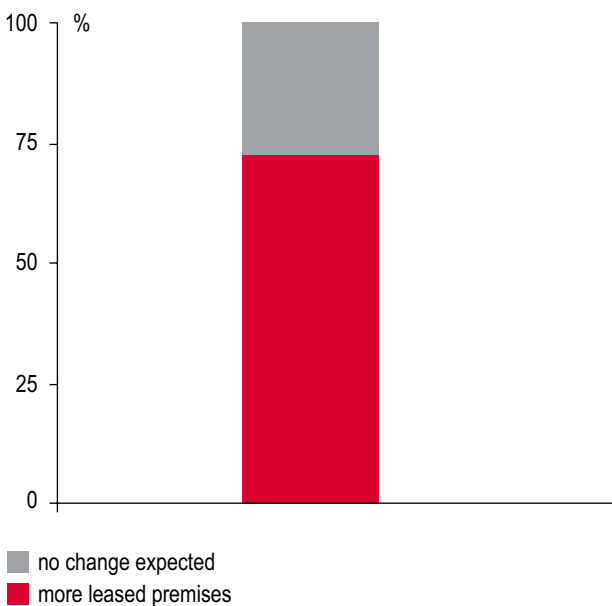
This trend to lease and to sell real estate assets appears to continue almost unhindered in the case of retail - if one follows the estimates of those questioned - also despite corporate tax reform, according to which rents are proportionally added to the trade tax.



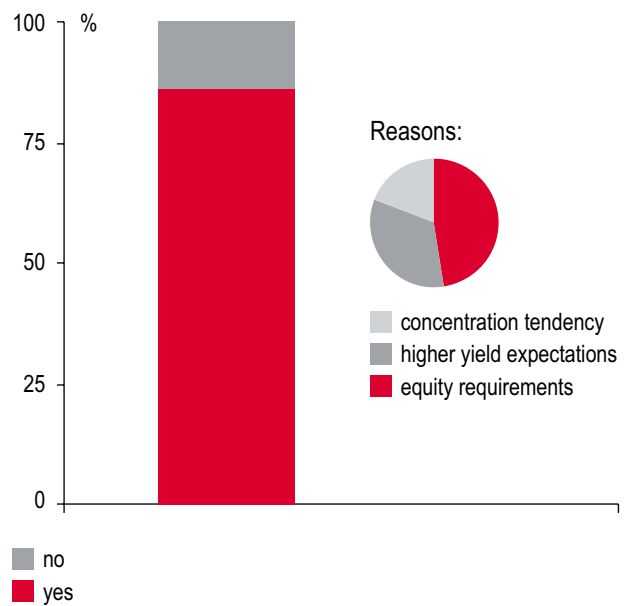
Retailer Property Requirements

Source: Retailer Survey, January 2008

Do you prefer leased premises or company owned properties for expansion?



Do you think trading companies will continue to sell their owned properties?



PART TWO

The German Retail Investment Market

The current situation and changes in the German retail market are also influencing developments and decisions in the investment market. Rising consumer confidence leads to increased turnovers which in turn cause increases in retail rents and consequently higher income for property owners. The effects on investment behaviour of the development of the German retail investment market over the last few years, consequences of the subprime crisis and current disquiet in the stock and financial markets are discussed in the second part of this report.



Development of the German Retail Investment Market

While retail has been dominated by a low turnover growth over the last few years, the volume of turnover in retail transactions has increased rapidly. When German investors, such as open-ended funds, disappeared from the German market due to liquidity shortfalls, it has come more into the focus of foreign capital.

Motor of this development was the transformation of the international pension system towards a capital driven system as well as falling interest rates. This resulted in an extremely high level of liquidity on the global real estate market and investment was driven by increased allocations to the asset class, an increase in investible stock and by the increased attention of opportunistic private equity players. This strong investor demand caused a global average of \$5 of investment targeting every \$1 of available product. By the end of 2006 Europe was the world's most active real estate investment market with Germany as the country with the highest increase of cross-border investment within one year. In total it was the second largest market in Europe after the UK. Germany's attractiveness has increased significantly due to a unique combination of willing domestic sellers (sale & leaseback transactions from retail corporates), underweight cross-border investors, positive yield spreads and a recovering economy with inter-regional investment rocketing by over 300%.

Increasing investor demand for retail properties was the main reason for the retail warehouse phenomenon in Germany. The liquidity generated by transacted retail warehouse properties was the basis for extensive expansion plans towards Central and Eastern Europe. Single retail warehouses have been bundled within large portfolios which have been brought on the market. Amongst the largest ones were the Lidl Portfolio (€1 Mrd.), which was sold to Babcock & Brown, and the Max

Bahr Portfolio, which was sold for €800 million to Moor Park. Driven by these developments the retail warehouse sector could establish itself as a sub-sector within the retail sector. The globalisation of the investment market caused a historic all-time investment volume record in Germany, with a total transaction volume of € 18.6 billion – three times that of 2005.

The record year 2006 fuelled high expectations in the retail investment market in 2007. The main question was whether the transaction volume of 2006 could be surpassed and whether retail real estate would again be the highest turnover-generating asset class in the German commercial real estate market. The sustained rise in employment (for two years) reinforced the German economy, which became competitive once again and was seen as highly resistant and robust; nevertheless, exports continue to dominate the German economy and it cannot therefore be immune to global market developments.

By the end of the first half of 2007, it seemed possible that the 2006 record would be surpassed. Investment activities regained strength from constantly high demand from foreign, and also increasingly from German, investors during the first two quarters. The global credit market offered almost unlimited financing and refinancing opportunities, pushing the transaction volume to a level never seen before. High leverage-motivated investors dominated the market and outbid each other in bidding processes for portfolios offered on the market. The fact that retail real estate was not the strongest asset class in terms of turnover by the end of the year, as in 2006, became evident by the start of the second half of the year. Office transactions dominated the German investment market: of a total transaction volume of € 28 billion in the first six months, € 17 billion concerned office real estate and € 5 billion retail real estate.

The second half of 2007 was marked by the subprime crisis in July, which created a clear break in investment activities, meaning that the investment year could be seen as two different time periods. The credit crunch caused by the securitization of poor quality US mortgages significantly changed market conditions under which investors could act. This means that the main characteristics of the “new” market conditions in the post-subprime period are identified, but it is not clear how individual market indicators such as financing costs or price levels will balance and how long this process will last.

The main global effects of the subprime crisis on the banking sector and provision of loans were:

- Collapse of the market for credit securitization
- Financial difficulties of affected institutions (IKB, Sachsen LB)
- Large volume depreciation by the leading banks (Citigroup, Merrill Lynch)
- Shifting of decisions regarding provision of loans
- Banks once again incorporated loan provision in their balance sheets, which led to an increase in the margins

The following changes in outline conditions can be identified as consequences of the credit crunch:

- Omission / postponement in portfolio transactions
- Delay in the development of transactions
- Generally rising net initial yields with prime yields stagnating at a high level
- Withdrawal of high leverage investors

In contrast equity capital based investors, such as open-ended funds, appeared to increase their market activities.

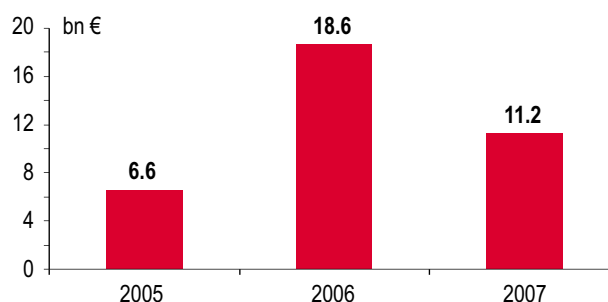
Despite changing market conditions the total volume of transactions achieved in German commercial real estate totalled € 54.7 billion, an all-time record (€ 49,5 billion in 2006). A total of € 11.2 billion of this was generated in retail, a 21% share. By the end of the year, discussions were dominated by the envisaged resale of the Karstadt real estate package to RREEF and Pirelli. This meant that the sale was not concluded in 2007 and that the investment volume in retail real estate did not reach the level of the record year 2006.

The sluggish sales negotiations of this mega-deal are an example of the state of the retail investment market in the second half of 2007. Most of the investors we questioned confirmed that the higher the financing share of the investment, the slower the pace of sales and purchase processes since the start of the credit crunch. Due to the changed outline conditions in the capital markets, renegotiations are required for the financing of ongoing deals and it was consequently not possible to bring a number of transactions to a conclusion by the end of the year. Q4 2007 therefore showed the lowest volume of transactions since the end of 2005.

The financing of real estate transactions has become more expensive due to increases in risk premiums by up to 80 basis points, which was confirmed by more than 76% of the questioned investors. Banks are also more hesitant in the provision of large loans, which is one reason for the low number of very large deals in 2007. Parallel to this is the fall in the share of portfolio transactions in the case of retail investment from 70% in 2006 to its current level of 55%.

Retail Transaction Volume Germany

Source: Jones Lang LaSalle, Status: 31. December 2007



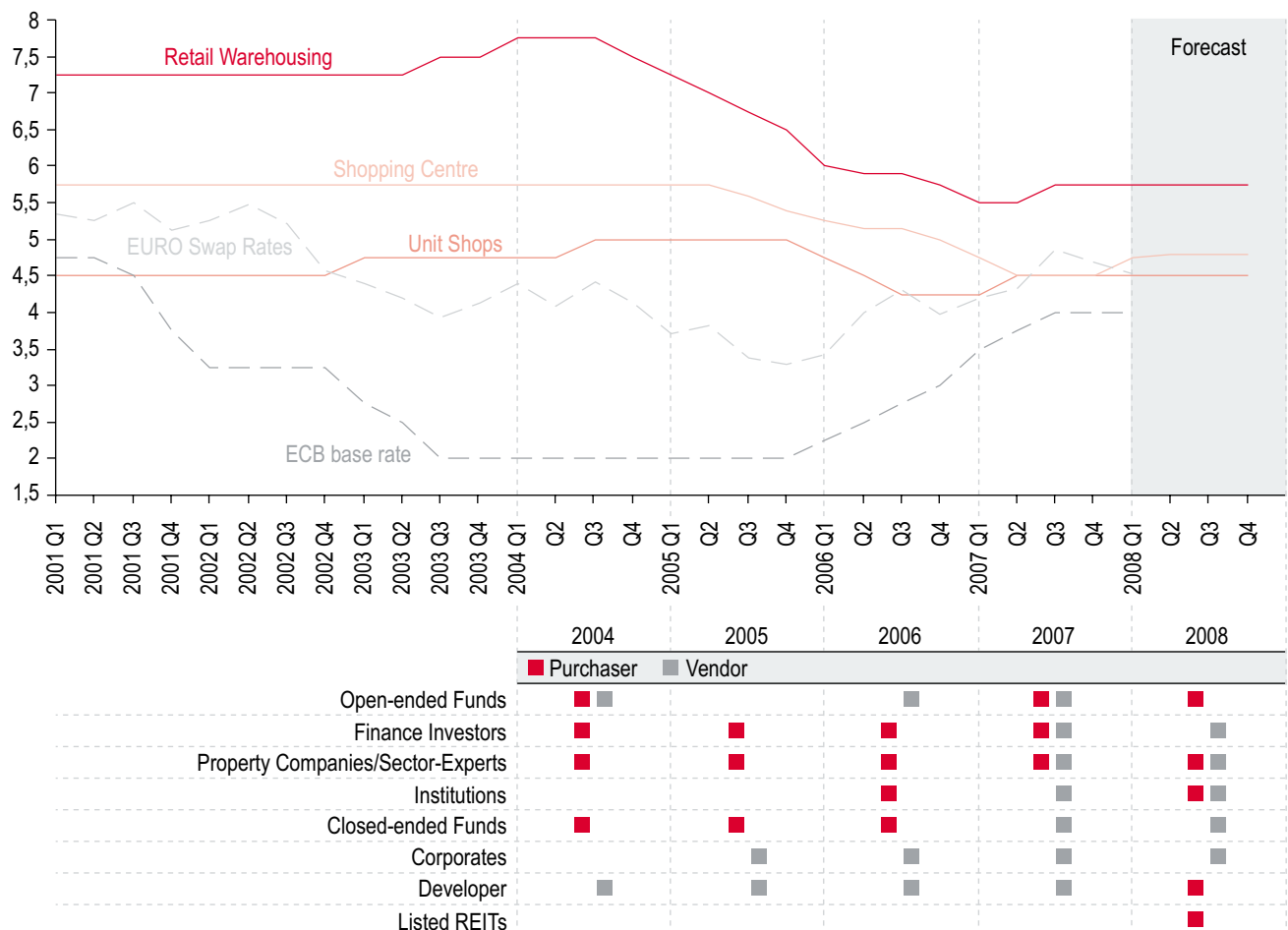
Yields / Price Development

In general, the start of the credit crunch marked the peak of the price trends for retail property. The adjustment in prices affected non-prime real estate which have associated higher risks. In contrast, top properties continued to achieve almost unchanged high prices in the second half of the year. A change in pricing was also evident in the case of portfolios: here it was no longer possible to achieve the previously standard portfolio

premiums after the start of the credit crunch. Prime yields for Shopping Centres fell by 25 basis points in Q2 2007 and then remained stable at 4.5% until the end of the year. For Retail Parks, prime yields increased slightly in Q3 by 25 basis points to 5.75%, which was the first increase in yields registered since 2003. By Q4 prime yields for Retail Parks had stabilised at 5.75%.

Prime Retail Yields and Investors' Strategies in Germany

Source: Jones Lang LaSalle, Status: 31. December 2007



Purchasers & Vendors

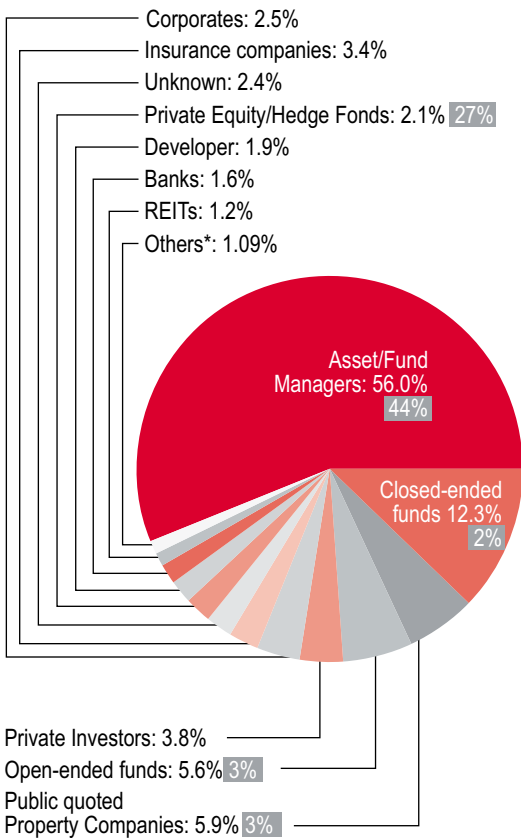
Looking at the composition of investor types in the retail investment segment, two overall trends become apparent: 2007 was the year of equity capital-strong investors and it was the year in which German investors became more strongly active as purchasers. Equity capital-strong investors were essentially able to profit from the changing conditions at the start of the credit crunch, as they had previously failed to succeed in bidding processes against investors paying higher prices using loan capital. The withdrawal from the market of many active investors dependent on high loan capital leverage in the second half of the year opened up new opportunities for equity capital-orientated investors to obtain products at an acceptable price.

The share of German investors rose to 20% in 2007, whereas the figure was only 12% in 2006. In the case of foreign investors, the market shares of purchasers and vendors are more balanced. The 88% share held by foreign investors as purchasers in 2006 contrasted with a share of only 6% as vendors, although foreign investors remained responsible for 34% of all disposals in 2007.

The increased share on the vendor side clarifies the fact, that foreign investors of the first generation are now starting to sell their properties within the retail segment. These investors invested over-proportionally in the retail warehouse segment, driven by the attractive differences in interest rates. However, it should be noted that first generation investors continued to invest heavily despite the significantly changing financing conditions in 2007.

Retail Transaction Volume by Purchaser Type

Source: Jones Lang LaSalle, Status: 31. December 2007

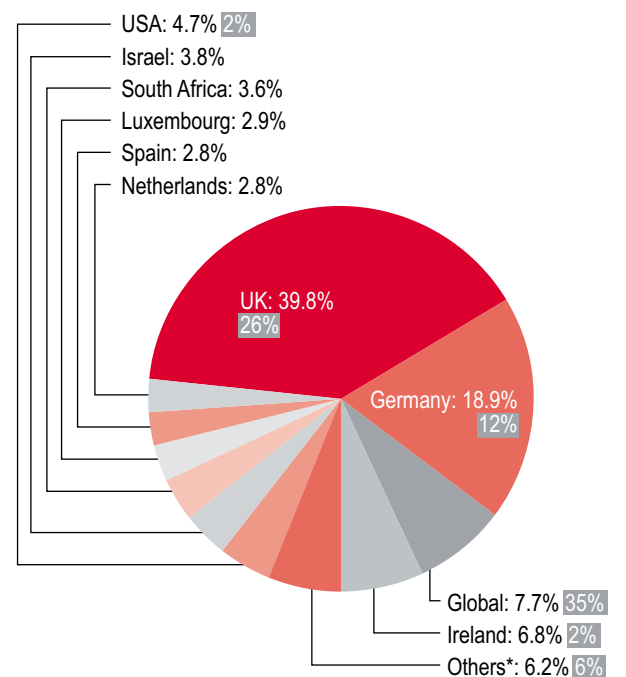


Basis 2006: € 18.6 bn

Basis 2007: € 11.2 bn

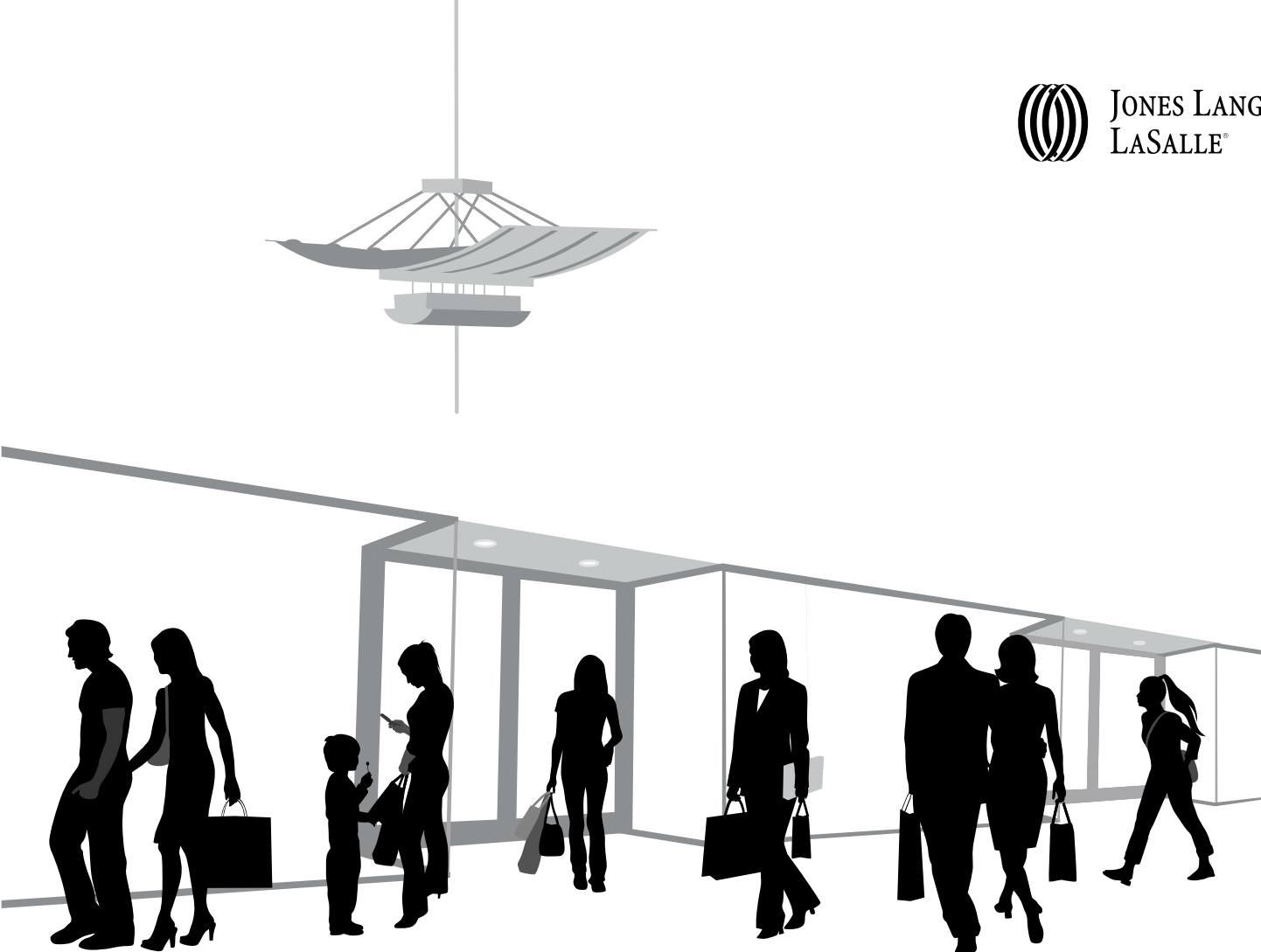
Retail Transaction Volume by Source of Capital

Source: Jones Lang LaSalle, Status: 31. December 2007



Basis 2006: € 18.6 bn

Basis 2007: € 11.2 bn

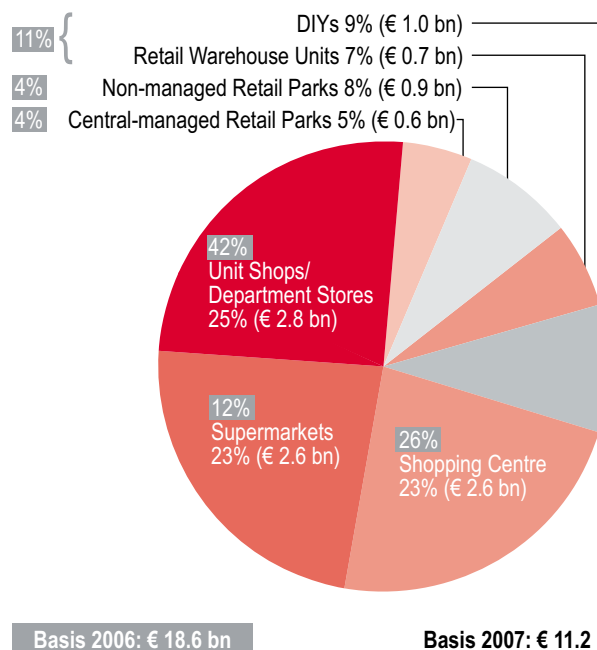


As last year, asset and fund managers recorded the highest volume of purchases in 2007: their share of the total volumes increased once again compared with 2006 (56% in contrast to 44%). However, the strongest and most significant growth in 2007 was registered by closed-ended funds. Their share of retail volume in 2007 was around 12%, compared with only 2% in the year before; they thus increased their invested capital by almost 320%. In addition, open-ended funds were able to expand on their share of retail investment volume (7% compared to 3% in 2006) and therefore reached a comparable level of importance in 2007 as they did before the crisis in 2005. Following the closure of the DB Real Estate and KanAm funds the focus of investment by open-ended funds shifted decisively to outside Germany. Real estate corporations in 2007 had to battle with falling exchange rates but they were also able to deal in the market more actively, due to their high proportion of equity capital, and to expand their investment share from 3% to 6%. An example of the reduced importance of loan capital-orientated investors was the performance of private equity/hedge funds, whose share of total investment volume of 27% in 2006 fell to only 2% in 2007.

Asset and fund managers were not only the largest group of purchasers in 2007, they also took over from Corporates as the largest group of vendors. While asset and fund managers achieved a share of 23% of the volume of disposals in 2007 (2006: 14%), the Corporates' share fell to 14% (from 46% in 2006). This smaller Corporates' share is due to the fact that the stock brought onto the market by the retail chains had a much lower average volume.

Retail Transaction Volume by Type of Products

Source: Jones Lang LaSalle, Status: 31. December 2007



Retail Warehousing

The most popular retail category in 2007 was the retail warehouse segment which, in addition to solus retail warehouses, DIY stores and supermarkets, also includes non-managed Retail Parks. With a total volume of €5.2 billion, the retail warehouse phenomenon continued with a further rise of 4% in 2006. With a total volume of €2.6 billion, supermarkets generated significantly more than in the year before (€2.2 billion). DIY stores were also strongly represented in the investment market, achieving more popularity than non-managed Retail Parks, with a turnover volume of €1 billion; the latter achieved € 0.9 billion.

The largest transaction in the retail warehouse segment in 2007 was the sale by Curzon/AEW Europe of the Gemini portfolio for € 700 million to the aAIM Group, a portfolio comprising Praktiker DIY stores and Sinn Leffers fashion houses. In the second largest transaction of the year, "Project David", Numisma acquired the retail warehouse portfolio of Hela DIY stores and Accord/Kaufland supermarkets for a total volume of € 500 million. The third largest transaction in this segment with a volume of € 345 million was the sale and leaseback transaction of Hellweg DIY stores by W.P.Carey, which demonstrated that first generation investors continued to purchase properties in 2007. In 2005 W.P.Carey also entered the German market through a sale and leaseback transaction with Hellweg.

As a result, the retail warehouse segment registered the greatest change in the investor spectrum. This was evident in the increased share of foreign investors in disposals. In 2006 the share held by German investors in disposals was still 90%; in contrast, foreign investors were responsible for 42% of all disposals in 2007.

On the acquisition side, asset and fund managers expanded their market share from 50% in 2006 to its current level of 68%. Closed-ended funds were significantly more active in the retail warehouse segment than in the previous year with a market share of 17% and were the second strongest investor category (2006: 2%). On the disposal side, the exit strategies of foreign investors were reflected in a larger market share by asset and funds managers (19% in contrast to 8% in 2006). Corporates remained the strongest group of investors on the disposal side with a share of 31%, albeit with a reduced volume (2006: 41%). Individual retailers had already brought extensive portfolios onto the market the year before (e.g. Schwarz Group with disposals of almost € 1.5 billion) and consequently product availability on the part of Corporates was lower. The high market share of private investors on the sale side, driven by concentration processes, is still striking, even if a decrease is evident from the previous year (12% in contrast to 20% in 2006).

Top 3 Retail Warehouse Deals in 2007

Source: Jones Lang LaSalle

Description	Investment Type	Volume (in €)	Vendor	Purchaser
Project Gemini	DIY	700,000,000*	Curzon Global	aAIM Group Plc.
Project David	Supermarkets/Discounter	500,000,000	Numisma	Naviede Family Trust
37 Hellweg DIYs	DIY	345,000,000	Hellweg Baumärkte GmbH	W.P. Carey & Co. LLC

*includes 45% highstreet units.



Shopping Centre

Shopping Centres have had to accept falls in negotiated volumes, including centrally managed Retail Parks with over 10,000 m² of sales space in Germany. The total volume was €3.2 billion, which represents a fall of 42% from the previous year. This fall was a result of reductions and postponements in portfolio transactions during the second half of 2007. Also in 2007, most of the Shopping Centres sold were located in medium-sized towns and of a smaller transaction volume due to size.

The lack of supply in the prime segment was most evident in the Shopping Centre sector and as a result the high level of demand could not be satisfied. High-quality, town-centre Shopping Centres continued to remain particularly popular as such properties enjoy secure cashflow. This confirms that prime yields remained constant here despite the credit crunch. 2007 was thus dominated more by smaller transactions around the double figure million mark. There was no product comparable to the Brune Portfolio, which sold in the previous year (€720 million).

Within the investor spectrum, in a comparison of the whole of the retail investment market the highest share was taken by institutional investors (16%). Also the largest shopping centre transaction of the year was carried out by an institutional investor: the Irish insurance company Starion acquired the A10 Center Wildau for € 270 mio from Dr. Ebertz, an issuer of closed-ended funds. The second largest transaction was the acquisition of EKZ Hamburger Straße (shopping centre) in Hamburg for € 200 mio by ECE and Hermann Friedrich Bruhn.

As in 2006, the group of investors with the highest investment volume in shopping centres were asset and fund managers, whose share of the total volume fell from 65% to 42%. Second place was shared by institutional investors and open-ended funds with 16% of the market share. These two groups of investors took joint second place the year before, although their market share was significantly lower at 10%. The most significant growth was registered on the investor side by closed-ended funds, whose share increased from 4% in the previous year to its

current level of 15%, parallel to the development of the whole of the retail investment market.

The higher importance of equity capital-strong investors in the Shopping Centre segment is also reflected in a strong share held by German investors in comparison with the whole of the retail sector. German investors were responsible for 30% of the total volume in 2007 (2006: 20%)

A view of the geographic distribution of Shopping Centre transactions shows a clear focus on the new federal states (excl. Berlin). This is also confirmed by the share in the whole of the transaction volume which investors held in Shopping Centres in 2007: 39% of the investment volume in this segment was executed in 2007 in the new federal states (excl. Berlin). The negotiated Centres can be divided into two different categories:

The first, the traditional eastern German Shopping Centres, often took the form of centrally managed Retail Parks, which were constructed in the boom period of the 1990s mainly in green belt locations and with an above average sales area. Examples of this are the portfolio sales of the Alt Chemnitz Centre and Burgapark in Jena and the sale of the A10 Centre in Wildau. These transactions occurred in the first half of 2007, during which time similarly risk-based 1990s Centres were also brought to the market at prime prices for the Shopping Centre segment due to scarcity of supply.

The second category included the two Shopping Centre developments Kröpeliner Tor Centre in Rostock (now open) and Carl-Blechen Carres in Cottbus (opening in 2008), both of which lie in prime (1a) town-centre locations. Transactions in this segment profited from an under-supply of eastern German high-quality inner-city Shopping Centres. The majority of the current eastern Shopping Centre stock was built in the early nineties in out of town locations. Relative to the population a high volume of Shopping Centre space was built within a short timeframe which brought the development of new centres in inner-city areas of eastern Germany almost to a halt.

Top 3 Shopping Centre Deals in 2007

Source: Jones Lang LaSalle

Property Name	Market	Volume (in €)	Vendor	Purchaser
A 10 Centre	Wildenau	270,000,000	Dr. Ebertz	Starion
EKZ Hamburger Straße	Hamburg	200,000,000	Various	ECE/Bruhn
Stadtgalerie Schweinfurt	Schweinfurt	170,000,000	ECE	CGI

Shopping Centre Transactions 2007

Source: Jones Lang LaSalle

- Shopping Centre and City Galleries
- Retail Parks



Unit Shops

The third retail segment is the high street, which showed the largest fall in investment volume in 2007 with 64%. This is primarily due to the distorting effect of the Karstadt transaction from the previous year. If the Karstadt Portfolio is discounted, the high street segment reached the level of the previous year. The attractiveness of retail property in prime locations profited mainly from the above average increase in retail rents in these locations, over 6% in the The Top 10 locations in Germany.

The largest transaction of the year in this segment was the sale of the Woolworth Portfolio for € 400 million to the British investor Argyll Partners in the last quarter. The second largest transaction of the year was Quartier 205 in Berlin for € 275 million to the Chairman of the Spanish textile giant Inditex. This deal also explains the exceptionally high share of private investors (15%) on the acquisition side, who were the second largest group of purchasers of unit shops in 2007 behind asset and fund managers (50%). On the disposal side, asset and fund managers were the most strongly represented (28%), followed by private equity/hedge funds (16%), due to the sale of the Woolworth Portfolio.



Top 3 Unit Shop Deals in 2007

Source: Jones Lang LaSalle

Property Name	Market	Volume (in €)	Vendors	Purchasers
Woolworth Portfolio	Various	400,000,000	Electra Private Equity	Argyll Partners
Gemini Portfolio, Sinn Leffers part	Various	316,000,000	Curzon Global Partners	aAIM Group Plc.
Quartier 205	Berlin	275,000,000	Tishman Speyer	Amancio Ortega

OUTLOOK

What does 2008 hold?

The turmoil in financial markets and its influence on investors' behaviour and market confidence has brought investors' focus back from the capital market to real estate investment fundamentals. These fundamentals will have an increasing influence on investment strategies and decision making. While the full impact of the subprime crisis cannot yet be fully known, positive economic conditions in Germany are backing up an optimistic outlook for 2008.

Retail Market

Although the German economy shows robust fundamentals, the effects of this have not yet been felt by consumers. However, we do not anticipate that last year's VAT increase, the global financial crisis or the fears of a global recession will have a lasting impact on the German consumer in the long run. Therefore, an increase in private consumption is expected this year with increasing retail sales of 0.8-1.3% in 2008, according to the forecasts of Dr. Lademann & Partner.

After a pause in retailers' expansion last year, the growth of sales space in 2008 will begin to rise again. Retail turnover growth should be sufficient to stabilize the space productivity of businesses. The pressure on retail for further corporate mergers will remain, the consequences of this for the real estate industry will be double edged: on one hand, letting options will shrink, the negotiating power of the tenant will increase but on the other hand credit ratings will improve with a reduction in the associated risk of rental loss.

The market will become more constrained and selective on both sides. Successful property management in the retail sector will be based on the most competitive and successful tenants. Basic success factors such as the quality and sustainability of locations and efficient properties will remain. Rental growth and the consequent value enhancement of such properties will also be likely and is already anticipated by Retailers.

Consolidation pressures will continue at all levels of the German retail market. The best example is the change within the operation of department stores, such as Karstadt, which will lead to higher liquidity on the investment market. Its merger with the Kaufhof department store (Metro Group) is about to take place.



Financial Market

The ECB has continuously increased the base rate since the historic low interest rate level in 2005. Borrowing costs in the Eurozone continue to be favourable compared to non-EUR economies. Nevertheless, the yield-gap became significantly narrower and closed in June of last year. This meant that, for the first time, the cost of finance was higher than achievable initial yields in retail investment. Due to the credit crunch, the Federal Reserve in the USA is likely to make further interest rate cuts. This will also put the ECB under pressure; however, many experts assume that interest rates will rise again in the upcoming months, after a drop from 4.25% to 4% on the back of rising inflationary risks such as high oil prices and increasing liquidity in the Eurozone. The first quarter of 2008 will be crucial for financial markets when banks will publish their balance sheets.

Investors' sentiment in 2008 will be crucial for market developments in the German retail investment market. Restricted liquidity has brought risk awareness to the forefront. The poll of investors carried out by Jones Lang LaSalle confirms the major influence of this: almost 80% of investors assess the general market development for 2008 more conservatively. Investors' appetite is not influenced by this, as more than 60% want to increase their engagement in Germany in 2008. Our view of how this will affect the financial market situation in the German retail investment market is discussed below.

Net Initial Yields

Net initial yields were already under significant pressure in 2007 with a rising tendency evident in the second half of the year, as a consequence of the adjustment of margins in the case of borrowing; nevertheless, there are some particular characteristics in the retail sector in comparison to other sectors.

Due to the expected constant strong demand for Shopping Centres in the core segment stabilised prime net initial yields of 4.75% at the end of 2008 are predicted. In categories outside the core segment, yields are showing a clearer range and the Core+/Value Add categories are registering yields of 5.5% to 7.5%. These include in particular Shopping Centres with slight structural weaknesses and/or existing vacancies, as well as Retail Parks.

In the second half of 2007 slightly rising prime yields of 25 basis points to 5.75% have been anticipated within the premium retail warehouse segment. We do not expect a further price decrease for the premium properties, while for non-premium objects, a yield increase by up to 100 basis points is expected.

Rental Levels

Shopping Centre rents are usually tied to turnover, have been at a stable level for several years and are seeing rises. In a European comparison, rents in German Centres are at medium levels, with an average of around. €252 per m² p.a., where the Western European average is about. €288 per m² p.a.. Therefore, Shopping Centres provide investors with secure cash flows and growth potential. Additional income can be generated from turnover rents.

Consistently high levels of demand from national and international fashion retailers for prime locations and a simultaneous scarcity of supply will continue to drive up prime rents in German town and city centres till the end of the year.

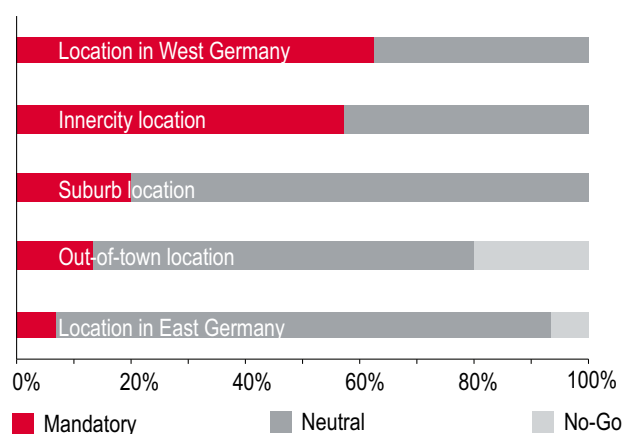
Products and Product Availability

Asset management-intensive products will become the focus for investors. These are primarily Shopping Centres with existing vacancies, redevelopments and refurbishments. In this segment, investors are attracted by rental growth potential. Furthermore, it is expected that these corporate groups will tend to invest in town centre locations for development purposes, due to continued consolidation in the department store segment. In principle, asset and funds managers are registering higher product diversity in their investment profiles and are to be found in all retail segments as investors. Pension funds focus mainly on the core assets, Shopping Centres and mixed-use retail properties.

There will also be rising investor interest for smaller Shopping Centres, town centres, and/or privately managed department stores, which have potential for value-add due to their central locations and development opportunities. This also applies to older Shopping Centres and Retail Parks. These investment strategies are particularly attractive for asset and fund managers, as 46% of the questioned asset and fund managers selected the risk profiles "Value Add" and/or "Opportunistic". However, the majority selected "Core/Core Plus" yield requirements. As confirmed by the investors questioned in the poll, additional respective requirements in investment products in the context of "core/core plus"-orientated risk profiles (57% of all investors questioned) can be filtered out. These investors primarily favour properties in city centre locations in western Germany. In contrast, locations in eastern Germany are generally considered less positive, although products in these locations are more attractive to opportunistic and value-added-orientated investors.

Investors' Criteria for Shopping Centre

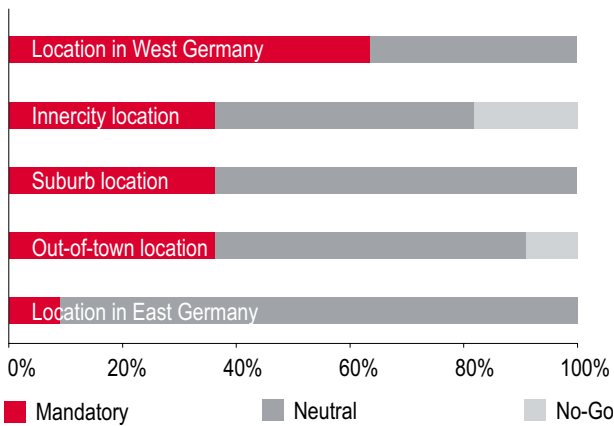
Source: Jones Lang LaSalle, Investor Survey, January 2008



Similarly conservative requirements apply on the side of the mixed-use retail properties/department store segment, while the conditions for the retail warehouse segment differ slightly. Inner-city and suburban locations are mandatory as location criteria for Retail Parks, irrespective of whether these are located in eastern or western Germany. However, more than 30% of the investors in the retail warehouse sector classify investments in eastern Germany as a No-Go, due to stagnant socio-demographic environment.

Investors' Criteria for Retail Parks

Source: Jones Lang LaSalle, Investor Survey, January 2008

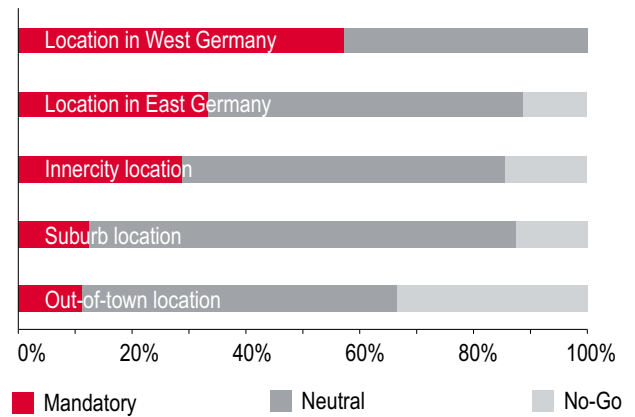


This shows the increasing importance of socio-demographic factors, irrespective of various investment products and their locations. Most important is the respective centrality index of a location. This indicator of the attractiveness of a retail location is an important component of all investor investment decisions, in particular for mixed-use retail properties and Shopping Centres.

A diversified mix of tenants with mainly good or very good creditworthiness helps to minimise income risks in the Shopping Centre segment. The overall supply of Shopping Centres will increase as first generation investors implement their exit strategies. Furthermore, the challenging investment market environment may lead to additional sales as owners fear falling prices. The main focus of investors in 2008 will be in mixed-use retail properties in prime locations and Shopping Centres. More than 60% of the investors questioned are interested in these two asset classes.

Investors' Criteria for Retail Warehouses

Source: Jones Lang LaSalle, Investor Survey, January 2008



The portfolios on the market in the retail warehouse segment could be made more attractive through price adjustments. In the Retail Park sector there is value add potential to be gained from conversions into "Hybrid" centres, for example by making architectural improvements and agreeing lettings of smaller units. With these modifications Retail Parks will gain attractiveness and thus address not only price-orientated but also quality-orientated customers.

Despite the general "back to real estate fundamentals" trend, it is expected that supermarkets, discounters, hypermarkets and DIY stores will see falling prices followed by high price elasticity. Limited indexation, including restrained rental growth prospects, in combination with limited third party usability scenarios as well as increasing pressure from consolidation within the retail sector will cause risk deductions for investors. Therefore the owners of these products might consider holding the properties within their portfolios

After global capital transformed the German retail investment market from a previously domestic-dominated market it is now predominantly driven by international players. The shift to shorter holding periods will cause additional market liquidity.

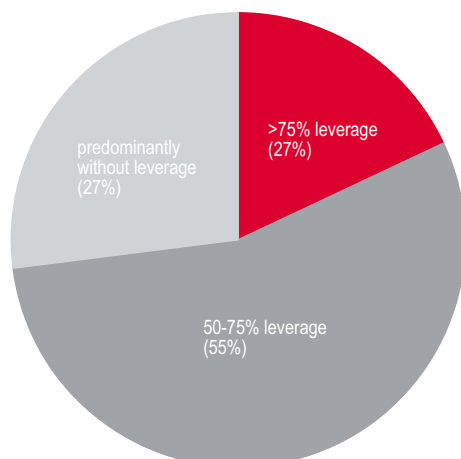
Investors' Universe

In 2008 a multitude of unlisted, sovereign and open-ended funds will lead the flow of money across Europe: We expect € 1.5 of capital to be chasing every € 1 of product, which is still a positive balance. In Germany the so-called third generation of investors will define the market on the demand side. These are the deleveraged investors and strategically operative companies which will concentrate on the previously mentioned products. Apart from German institutional investors, these include open-ended funds, special funds as well as developers with their own investment vehicles.

Increased market activity is also expected from international REITS and real estate corporations. There is a mixed picture in terms of the purchaser nationality, with more and more money from the Middle East and Asia targeting Germany. These international companies will put pressure on the local German players, causing a further consolidation process at all levels. Demand for retail properties will still be high, still influenced by high stakes of offices within their portfolios and good economic conditions in Germany. As a result, fewer but larger investors will integrate German retail properties into their portfolios. These will be traded mainly within smaller portfolio transactions than in 2007, driven by the restricted availability of credit. Nevertheless, the Karstadt Portfolio, which is within the Whitehall Fund, will be one example for large portfolio transactions in 2008, as an example of value add potential through asset management measures.

Investors' Investment Strategy in 2008

Source: Jones Lang LaSalle, Investor Survey, January 2008



The high risk consciousness of investors and the consequent shift in investor behaviour has direct effects on the respective financing modalities. Banks' restricted policies on highly leveraged investments will lead to higher equity driven investments reducing the share of highly leveraged transactions in 2008 significantly. This development is backed up by the results of the survey, in which investors confirmed their need to reduce their share of leveraged capital, with around 30% of those questioned wanting to invest predominantly with private equity.

Vendors

On the vendor side, a general turnaround will take place as investors of the first generation, as already seen in H2 2007, execute their exit strategies in 2008 and put real estate, acquired years ago, onto the market. Closed-ended funds will also be active as vendors in 2008 and will dispose of their long-term held properties. Furthermore, large retail companies are also expected to be on the sale side, influenced by financing aspects (see Concentration Processes in Retail, page 5).

Vendors activity and sustainable demand will drive the retail transaction volume in 2008, which will exceed the 2007 one.



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