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**UPDATED 2020
ANNUAL DATA**

February 2021 issue

PROPERTY MARKET REPORT 2020/21

BUSINESS PROMOTION



Region Hannover

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HANNOVER AS A
PROPERTY LOCATION
HAS THE POTENTIAL
TO OVERCOME THIS
UNPRECEDENTED CRISIS
FOR THE LONG TERM.

me an all hotel hannover, Aegidientorplatz/AZI Architekten, interior design Kitzig Interior Design

THE PROPERTY MARKET IN THE HANNOVER REGION



Dear Reader,

As we enter 2021, the real estate market is still reeling from the corona pandemic which has affected the different property submarkets to varying degrees. It was already apparent in 2020 that the retail, hotel and restaurant sectors in Hannover would suffer the most from the effects of the pandemic restrictions, but other submarkets have also been affected. The medium to long-term effects are still difficult to assess.



The decline in all submarkets in Hannover in 2020 has however been particularly high due to the exceptionally good previous year. The industry was looking extremely confident about 2020 before the corona virus shook up market activity.

What can we expect in 2021? Market data, which we usually use for valuation purposes, seem to be of limited value or can only be interpreted with caution in view of the past year and the start of the new year. It is therefore particularly important that assessing and categorising current developments in the Hannover property market is made on sound data and opinions from regional players.

For this reason, we are already presenting an updated edition of the market report at the beginning of 2021 with the most important market data and trends for the entire year 2020.

Traditionally, property markets experience a delayed response to crisis situations. For investors, Germany has always been considered a safe investment location in uncertain times. In the past, Hannover has often shown itself to be more resilient than other regions in Germany.

At the beginning of the new year, local market players are therefore convinced that Hannover as a property location has the potential to overcome this crisis for the long term, even after ten months of corona and economic crisis.

Particularly in these uncertain times, the Property Market Report is a testament to the committed and trusting cooperation of Hannover's property industry. The report's reliable partners remain the 25 property businesses that have been working on this study for 18 years, together with the state capital and the Hannover Region and with the support of bulwiengesa AG.

A shared commitment, trust and confidence will help us all to successfully meet the challenges ahead.

Ulf-Birger Franz

Head of Business, Transport and Education Department
Hannover Region

Sabine Tegtmeier-Dette

First Town Councillor, Head of Business and Environment Department
State Capital Hannover



INVEST- MENT MARKET



AFTER THE RECORD YEAR OF 2019, INVESTMENT VOLUME IN THE HANNOVER REGION HAS DROPPED SIGNIFICANTLY TO €710 MILLION, STABILISING AT A MEDIUM LEVEL.

HY_live EXPO Campus (formerly Dutch Expo Pavilion), I live EXPO Campus GmbH/Architects MVRDV

› The Hannover Region is an innovative industrial location, a service metropolis and a logistics hub for national and international markets. The regional economy has developed positively in recent years prior to the crisis, leading to a sustained demand for property in all submarkets. This has

consolidated and expanded Hannover's position as the most important location after Germany's seven major A-locations. At the same time, Hannover has been offering ever more appealing investment opportunities and attracting investors wanting to invest in locations that retain value.

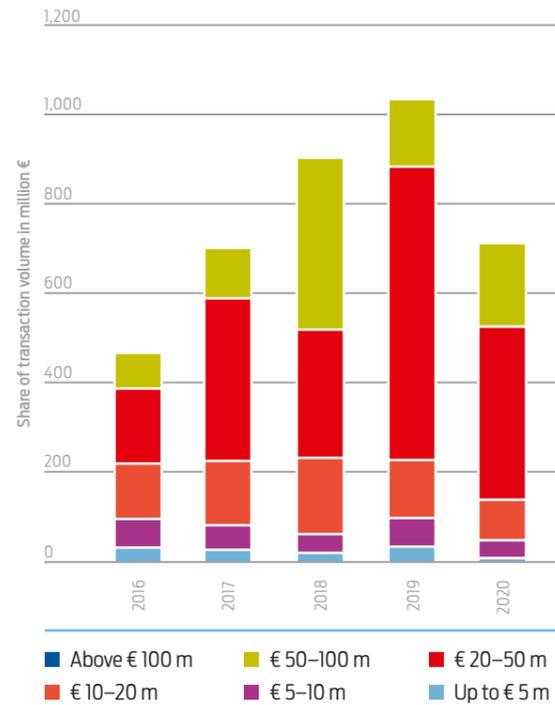
MARKET MOOD AND TRENDS

The first quarter of 2020 got off to a promising start. However, the second and third quarters witnessed a collapse in activity and hence in the Hannover Region's property investment market. At around €710 million, the investment volume this year is below a long-term average of around €765 million/year, which has, however, been determined significantly by the very strong years of 2018 and 2019.

Considering the crisis is having a particularly strong impact on three of the four main commercial asset classes – retail, hotel and, most recently, office markets – the result can nevertheless be regarded as comparatively good and underlines the fundamental stability of the Hannover property market. A strong fourth quarter contributed to what is still satisfactory overall result.

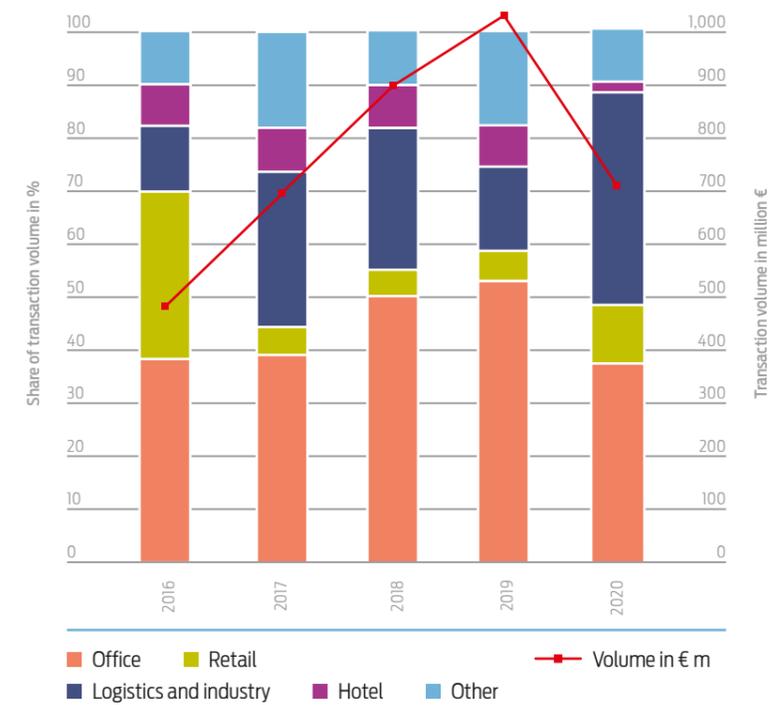
Properties for logistics and industry in particular were able to significantly increase their share of the total volume last year, rising by around €115 million to €285 million. With a share of around 40% of total take-up this year, this asset class is just ahead of the office market (37%), traditionally the strongest commercial asset class, which in 2020 recorded significant losses in absolute terms (minus €280 million). While transaction activity in the hotel market came almost to a complete standstill (from €80 to €15 million), several sales of retail parks and shops for essential goods helped the retail submarket to a share of 11% of the total volume (plus €20 million to around €75 million). Transactions here focus on properties with occupancy relevant to the provision of essential goods.

Transaction volume for commercial property market
Distribution according to size classes 2016 to 2020



Source: bulwiengesa AG; data for the Hannover Region

Transaction volume for commercial property market
Distribution according to submarkets 2016 to 2020

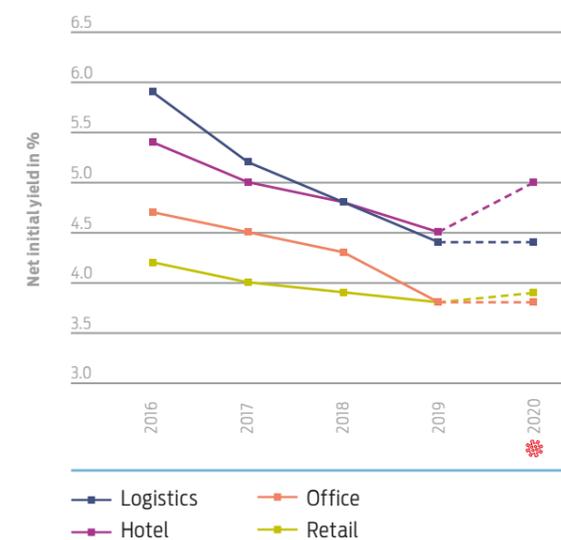


Source: bulwiengesa AG; data for the Hannover Region



LAPP Logistics Centre, Industrieweg Hannover,
bauwo Grundstücksgesellschaft mbH

Net initial yield in prime locations 2016 to 2020



Source: bulwiengesa AG

For yield spreads, the lower end points are always given.

Data situation uncertain due to corona effects,
Estimate based on information from market participants



THE HANNOVER PROPERTY MARKET IS POSITIONING ITSELF TO AGAIN BE ABLE TO QUICKLY OFFER CORE-QUALITY PROPERTIES POST-CRISIS.

Office and commercial building,
Philipsbornstraße (view from Vahrenwalder Straße),
LIST Group/Architects Léonwohlhage



New building IHK Hannover,
bauwo Grundstücksgesellschaft mbH/Martienssen Architects + Engineers

Project and property developers remain the most important players in the Hannover investment market, on both the buyer and seller sides. In the view of market participants, the transaction market has become increasingly characterised by off-market transactions. The situation is and remains tense in submarkets such as retail and hotels, but also in the traditionally strong asset class of office when considering the current and future course of the pandemic.

When the markets do pick up after the crisis, it is vital that Hannover as a property location can then quickly satisfy demand for core properties with the aforementioned characteristics. There are already initial indications of movement in the market: rates for pre-renting of new projects are falling, project pipelines are being replenished with new developments. Market players in Hannover are optimistically preparing for the post-pandemic period.

Although, according to market participants, rates of pre-rentals are currently declining significantly, there are no concerns that opportunistic investors will begin entering the market with speculative intentions. Instead, opportunities are being seen. The assumption is that new developments will focus much more on sustainable uses and sectors than on high short-term returns. Flexibility, digitalisation and the ability to deal with crisis situations (e.g. pandemics and climate change) will be the key issues of the future. Locations such as Hannover can compete nationally only when they are strong in these areas and can build on such strengths.

Even without corona as the dominant issue, there has still been a lot of pressure on national and international investors due to the lack of investment alternatives, ensuring therefore opportunities for investing in the Hannover Region. In the wake of the Brexit, an increasing number of British companies and funds have been observed on the seller side, with holdings in Germany, and thus also in the Hannover Region, being sold due to the unclear political situation.

Construction and development in Hannover has so far been demand-driven. This is currently mitigating against vacancies and the risk of price falls, and has shown itself to be a competitive advantage in this crisis over recent months.



FLEXIBILITY,
DIGITALISATION AND
CRISIS RESILIENCE
ARE KEY ISSUES FOR
THE FUTURE OF THE
HANNOVER INVESTMENT
MARKET.



Office

Office rental space 2020 in m² MF-G*	5.06 m
Hannover city	4.57 m
Surrounding towns of Garbsen, Laatzen and Langenhagen	0.49 m
Office space turnover 2020 in m² MF-G	145,000
Hannover city	139,000
Surrounding towns of Garbsen, Laatzen and Langenhagen	6,000
Vacancy rate 2020 in m² MF-G	185,000
Hannover city	150,000
Surrounding towns of Garbsen, Laatzen and Langenhagen	35,000
Vacancy rate 2020	3.7%
Hannover city	3.3%
Surrounding towns of Garbsen, Laatzen and Langenhagen	7.2%
Peak rent 2020 in m² MF-G	
City	17.00
city periphery	15.40
Average rent 2020 in m² MF-G	
City	13.00
city periphery	11.70
Net initial yield in prime city locations 2020	3.8%

Source: bulwiengesa AG; Hannover Region surveys; information from market participants; data as at Q4/2020

* Commercial rental space calculation according to the guidelines of the gif Gesellschaft für Immobilienwirtschaftliche Forschung e.V.

In 2020, office space turnover was around 145,000 m², on balance a good year for the Hannover office market, despite corona. There continued to be no shortage of attractive projects. In the past five years (2016 to 2020), around 180,000 m² of new office space has been built and a further 80,000 m² has undergone complete renovation. The list of project developments is very long. By 2023, a further 385,000 m² is to be added (of which 70,000 m² will be redevelopments).



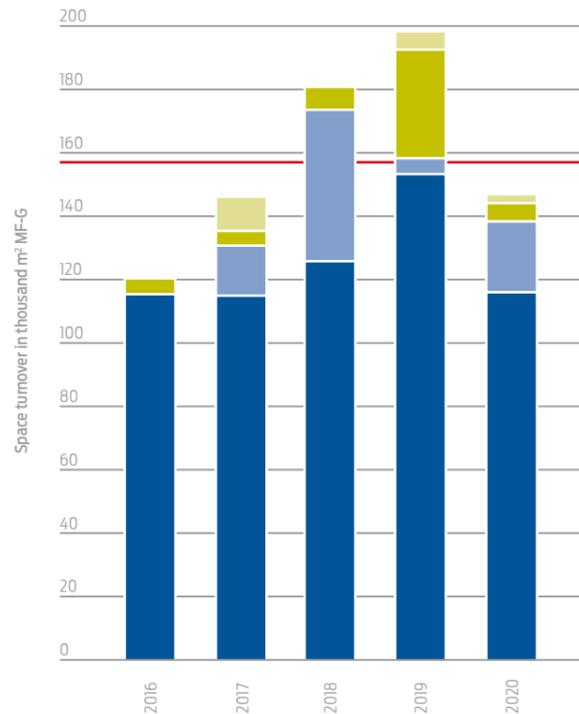
MARKET MOOD:
STABLE DEVELOPMENT,
CAUTIOUSLY OPTIMISTIC.

OFFICE PROPERTY MARKET



THE OFFICE PROPERTY MARKET IN 2020 HAS BEEN GENERALLY STABLE.

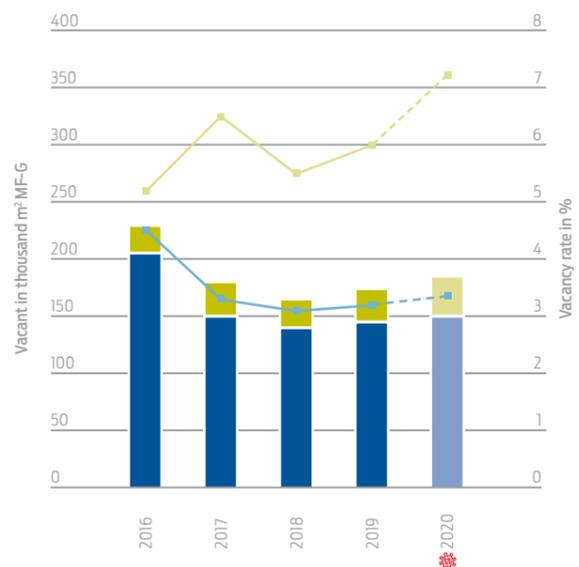
Office space turnover 2016 to 2020



■ Rental surrounding area* ■ Owner-occupier surrounding area
■ Rental Hannover ■ Owner-occupier Hannover
— Average 2016 to 2020

* Value for the surrounding area (Garbsen, Laatzen, Langenhagen)
Source: Hannover Region surveys; information from market participants Q4/2020

Office space vacancy 2016 to 2020

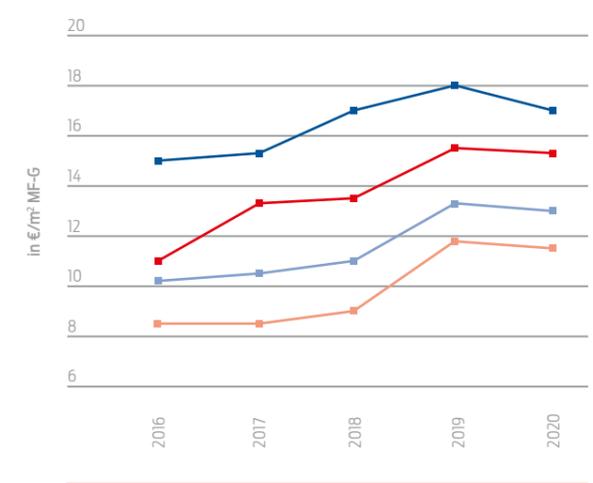


■ Vacancy Hannover — Vacancy rate Hannover
■ Vacancy in surrounding area* — Vacancy rate in surrounding area

* The vacancy rate was calculated and updated on the basis of the 2019 office space survey for the Hannover market area. On the basis of the current survey, the vacancy figures updated since the 2015 survey using estimates were retroactively adjusted to the 2019 survey results.

Source: bulwiengesa AG; Hannover Region surveys; information from market participants
✿ Data situation uncertain due to corona effects
 Estimate based on information from market participants Q4/ 2020

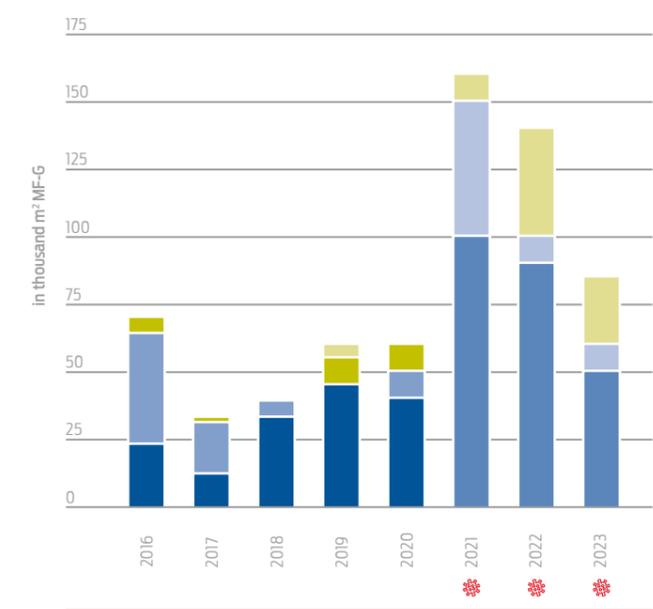
Office rents 2016 to 2020



— Peak rent, city — Average rent, city
— Peak rent, city periphery — Average rent, city periphery

Source: bulwiengesa AG; Hannover Region surveys; information from market participants

Completions 2016 to 2023



■ Newbuild-completions Hannover ■ Renovations Hannover
■ Newbuild-completions surrounding area ■ Renovations surrounding area

Source: Based on the bulwiengesa AG autumn forecast; Hannover Region surveys
✿ Data situation uncertain due to corona effects
 Estimate based on information from market participants Q4/ 2020



Office building Anna-Zammert-Strasse,
Aurelis/Architects ahrens & grabenhorst

MARKET MOOD AND TRENDS

The latest annual figures for the office property market show a significant decline. Office space turnover at the end of 2020 was around 145,000 m² (down 53,000 m² or -27%), with peak rents falling (down €1 to €17/m² or -5.5%).

In 2020, the fall in the office property market was however particularly steep after record years in 2018 and 2019. Economic slowdown before corona meant there were already initial signs of a cooling down at the end of 2019/beginning of 2020. The increasing rise seen in inner city rents over recent years would probably have at least levelled off in 2020 even without the impact of the corona crisis. On a five-year average, space turnover is slightly below 160,000 m². The current circumstances are accelerating and consolidating these trends, with space turnover and rents likely to stabilise initially at a still high, but now slightly adjusted level.

The continued positive impression of the previous year was supported by an exceptionally strong first quarter. With the onset of corona restrictions, however, market activity on the local office property market came to a standstill. However, the initial phase of uncertainty seemed to have been overcome by the middle of the year. Generally, strategic projects continued and negotiations that had already begun were generally brought to a conclusion without any changes. In the investment sector, despite a decline of 50%, attractive contracts were concluded with a total volume of around €265 million. This allowed the market to at least match the levels of the record years prior to 2018.

It remains to be seen how office space turnover and rents in 2021 will actually develop. It is still unclear what effect the crisis-related intensification of digital working and increased working from home (or remote working) will have in the long term and whether the trend towards flexible office space rentals and co-working, which had also been observed in Hannover, will again gather momentum post-crisis.

The fact that there are plenty of projects in the development pipeline justifies optimism. Over the next three years, office space totalling around 385,000 m² will be completed. The number of office employees in Hannover is expected to continue to rise in the coming years, so working from home and digitalisation are likely to have only a minor dampening effect in the short term on office rentals and project development volumes. Whether "pre-corona" growth rates for project developments, turnover and rents will again be achieved in the near future is not yet foreseeable. How the office property market develops is closely linked to overall economic developments in the Hannover Region and in Germany. Market players are currently cautiously optimistic about the future of the office property market.



IN 2020, THE FALL HAS BEEN PARTICULARLY STEEP AFTER TWO RECORD-BREAKING YEARS.



HANNOVER REMAINS A SOUGHT-AFTER AND APPEALING OFFICE LOCATION DESPITE THE CORONA DOWNTURN.

LOGISTICS PROPERTY MARKET

Logistics

Logistics space available in 2020 in m ²	3.71 m
of which constructed after 2009	145 m
Logistics space turnover in 2020 in m ²	410,000
of which rentals	345,000
of which owner-occupied	65,000
Rents in prime locations 2020	
Peak rent in €/m ²	5.20
Average rent in €/m ²	4.30
Net initial yield of logistics centres in prime locations 2020	4.4%

All figures refer to the Hannover Region.

Source: bulwiengesa AG; Hannover Region surveys; current space is an update based on existing space surveys from Q4/2019

Information from market participants

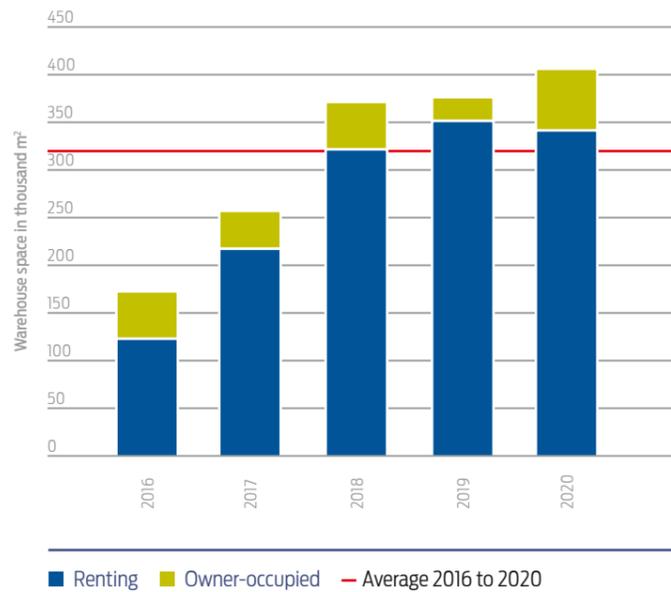
The Hannover Region is a European logistics hub and important hinterland port location for seaports in northern Germany. Commercial and industrial companies are the main drivers of demand in the regional logistics industry. In recent years, many contract logistics companies have established themselves at the location, carrying out logistics tasks for other companies and thus creating a high level of added value for themselves. Warehouse space turnover at the end of 2020 was at a high of 410,000 m².

In the last five years (2016 to 2020), around 620,000 m² of warehouse space for logistics and production has been completed in the Hannover Region. Planned and known projects for 2021 to 2023 add up to around 350,000 m² of warehouse space.



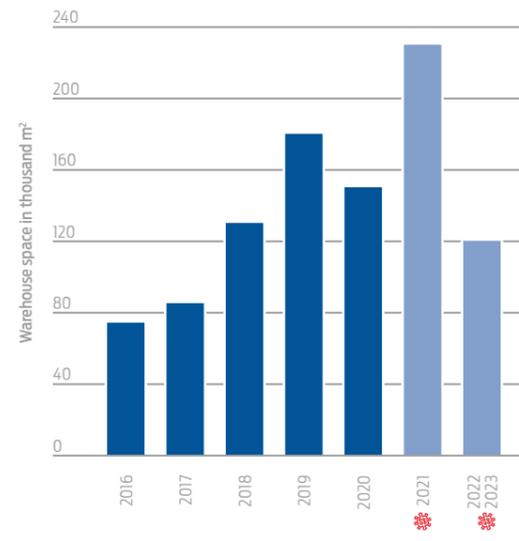
MARKET MOOD:
OPTIMISTIC, SUSTAINED
HIGH MARKET
ACTIVITY EXPECTED.

Logistics/production space turnover in the Hannover Region 2016 to 2020



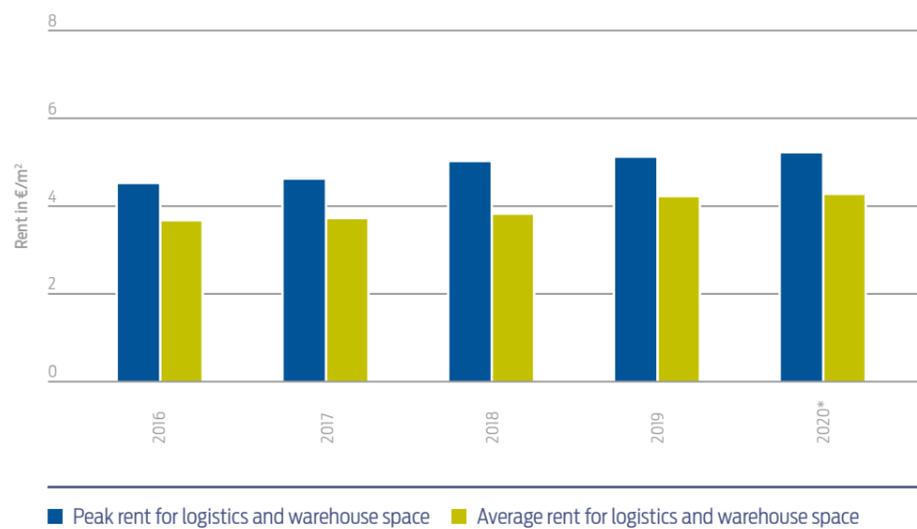
Source: Surveys and own calculations by Hannover Region
Data from market participants Q4/2020

Logistics/production completions in the Hannover Region 2016 to 2023



Source: Surveys and own calculations by the Hannover Region
* Data situation uncertain due to corona effects, Forecast based on currently known projections

Rents for logistics and warehouse space 2016 to 2020



Source: bulwiengesa AG
* Realisable peak rents based on information from market participants Q4/2020

MARKET MOOD AND TRENDS

Already in the first weeks of the corona crisis, the logistics industry proved itself to be a key sector, indispensable for supplying essential goods. The shutdown of the brick-and-mortar retailers led to a short-term sharp increase in demand for storage solutions for goods that could not be delivered. At the same time, online retailers recorded a strong increase in orders. This development not only resulted in an increased demand for warehouse space, but also increased the strain on infrastructures in the courier, express and parcel services sector.

These impacts and demand drivers were also clearly felt in the Hannover Region. However, the supply of available space has been restricted by a consistently high rate of turnover. For logistics and industrial property, a record turnover of around 410,000 m² of warehouse space was recorded in 2020 (up 30,000 m² or 8%), and rents remained largely stable (peak rent of 5.20 €/m²). Ongoing negotiations and strategic projects already planned are generally being concluded or continued unchanged.

The growth in online trade as a result of the crisis has strengthened upstream and downstream logistics. The situation is tense for those property and logistics infrastructures which were designed

primarily for industrial logistics. This has hit the automotive sector particularly hard. Nevertheless, project developers and businesses have also been active in this area.

Regional market players can foresee that in the medium to long term, an increased demand for logistics and production space (for light industries) will arise by production being brought back to Europe. To improve supply chain security in retail and industry as a whole and make it more crisis-proof, the need for logistics space in Hannover Region is also likely to increase. Also clearly reflected in the demand for space has been the huge increased importance of e-commerce during the corona crisis and the associated effects "on the last mile" in courier, express and parcel services.

Market participants are urging for the designation of new commercial sites and for approval processes be accelerated to prepare for the foreseeable increased needs and continuing high level of demand.

The increasing importance of logistics and industry property as an asset class is evident from the investment market. In the Hannover Region in 2020, investments in this class were highest, even

ahead of those for office properties. Furthermore, they increased significantly despite the corona crisis (to around €285 million, +68%).

Market players are optimistic about 2021. The vacancy rate is lower than it has been for years and rental prospects are, without exception, rated as good to very good.

The logistics industry is not only proving to be strong and stable in the property market during the corona crisis, but is also showing its cross-sectoral importance for the regional economy, especially for the retail and industry sectors.



SPECIAL FOCUS ON LOGISTICAL INFRASTRUCTURES SINCE THE PANDEMIC OUTBREAK.

RESIDENTIAL PROPERTY MARKET



Residential

Rents 2020	
Newbuild, peak rent in €/m ²	15.80
Newbuild, average rent in €/m ²	12.50
Re-let, peak rent in €/m ²	13.10
Re-let, average rent in €/m ²	9.20
Home buying 2020	
Owner-occupied apartment, newbuild, prime group in €/m ²	6,100
Owner-occupied apartment, newbuild, average in €/m ²	4,700
Multipliers 2020	
Apartment blocks/investment properties, newbuild, prime group	32.0
Apartment blocks/investment properties, newbuild, average	29.0
Apartment blocks/investment properties, stock, prime group	29.0
Apartment blocks/investment properties, stock, average	25.0

All figures refer to the State Capital Hannover.

Source: bulwiengesa AG; data from market participants Q4/2020

The residential property market in the Hannover Region is characterised by regional providers and demand from private households. Population growth in the state capital and neighbouring municipalities has led to rising demand in the residential property market in recent years. At the same time, housing completions in the city and surrounding area has been insufficient, so a considerable need for new housing exists at present and will continue in the future.

The corona crisis has not yet led to a dampening of demand and a decline in prices on the residential property market, but instead to increased interest in residential property.

MARKET MOOD:
OPTIMISTIC AND NO
NOTICEABLE IMPACT FROM THE
CORONA CRISIS.

MARKET MOOD AND TRENDS

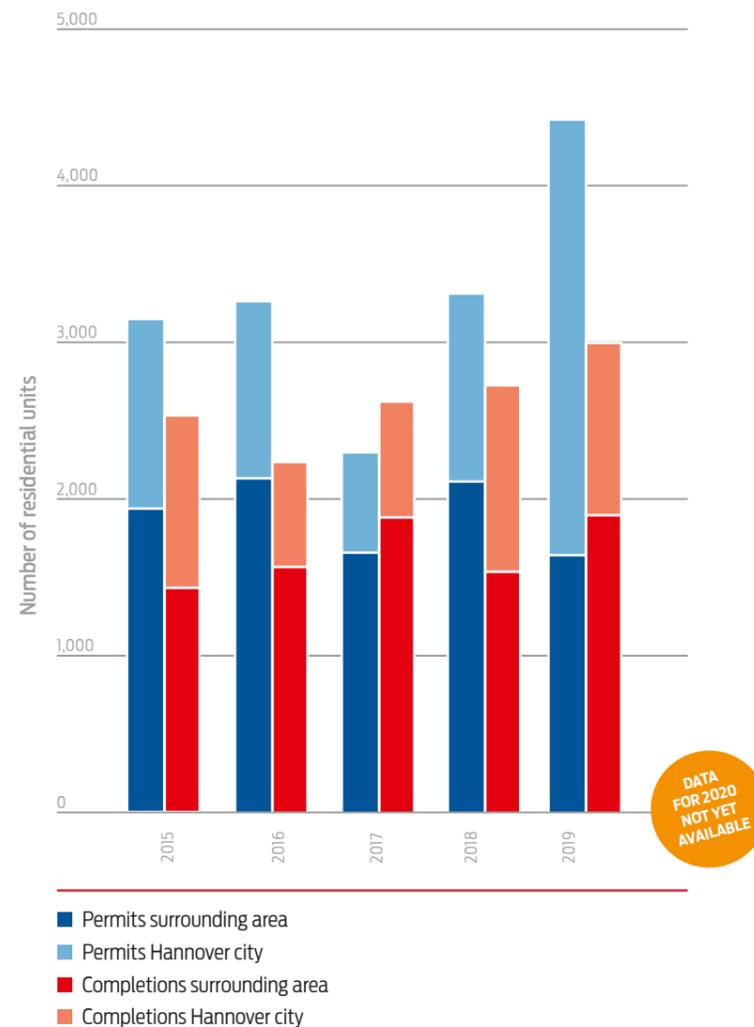
After a brief corona lull, which was probably due more to uncertainty and a general wait-and-see attitude at the beginning of the lockdown, the residential property market has shown itself to be crisis-proof and unfazed by the impact of the corona pandemic.

Supply and demand for residential property has remained undiminished. Purchase prices, rents and yield multipliers have been stable to rising. The biggest challenge in the coming years remains meeting the demand for housing across all supply segments and price classes.

While pre-crisis purchase/rental prices were actually stabilising, especially in the high-priced supply, this has not been confirmed as at the end of 2020 according to market players. At the moment, the overwhelming majority of regional market players see no negative impacts of the pandemic on ongoing and planned projects.

Nevertheless, the residential property market in the Hannover Region is closely linked to regional demand from private households. In the medium to long term, noticeable negative effects with a "hotspot" character could emerge as a result of the current economic crisis – especially where sectors or large companies have been hit particularly hard. It remains to be seen in the Hannover Region to what extent the macroeconomic crisis will impact on major, sector-leading companies, e.g. in the automotive and tourism sectors, which could possibly lead to sustained job losses and widespread drops in income.

**Building permits and completions
City and Hannover Region 2015 to 2019
(based on residential units)**



Source: State Office for Statistics of Lower Saxony (Landesamt für Statistik Niedersachsen), 2020 (Construction of new residential and non-residential buildings; excluding construction measures on existing buildings and excluding residential homes; time series M8100116 and M8090116)



**SUPPLY AND DEMAND
FOR RESIDENTIAL
PROPERTY HAS
REMAINED
UNDIMINISHED.**

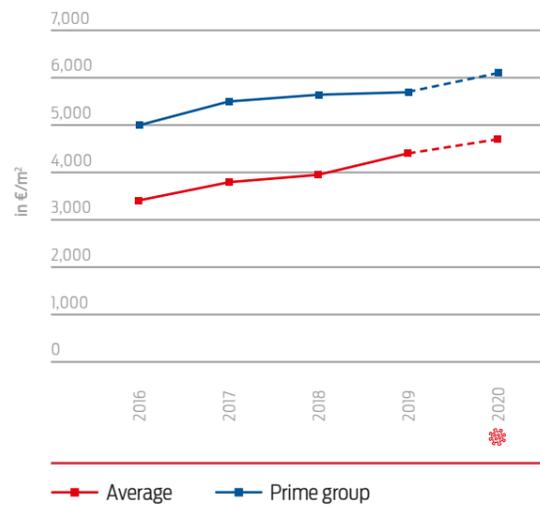


mitteNgrün owner-occupied apartments, Nikolaiviertel Hannover, Gundlach Bau und Immobilien GmbH & Co. KG/Sabo architects; Courtyard: Lohaus + Carl



ConstantinQuartier, DIE WOHNKOMPANIE Nord GmbH/Architects gruppeomp

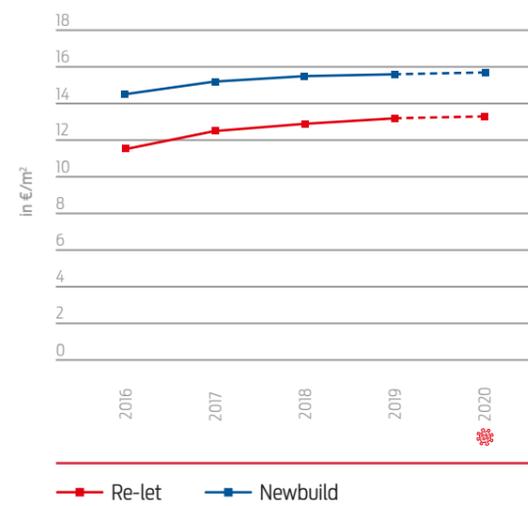
Purchase prices of owner-occupied apartments (newbuilds) in Hannover 2016 to 2020



Source: bulwiengesa AG

* Data situation uncertain due to corona effects
Estimate based on information from market participants Q4/ 2020

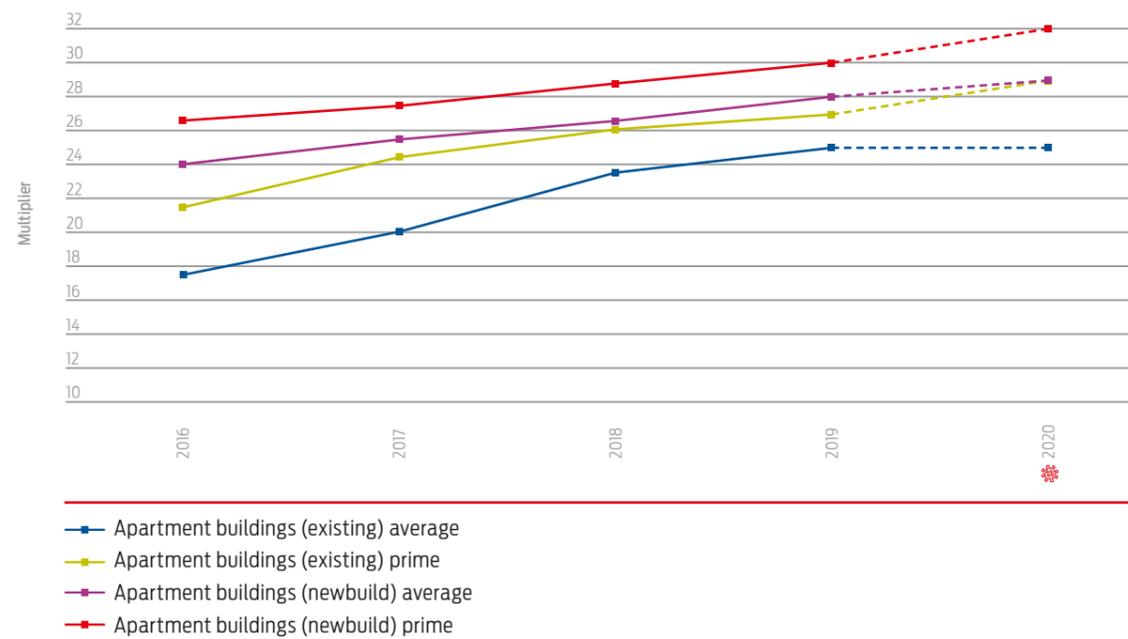
Residential rents in the prime price segment in Hannover 2016 to 2020



Source: bulwiengesa AG

* Data situation uncertain due to corona effects
Estimate based on information from market participants Q4/ 2020

Residential properties – Multipliers 2016 to 2020



Source: bulwiengesa AG

* Data situation uncertain due to corona effects, estimate based on information from market participants Q4/ 2020

If the need for affordable or subsidised housing were to increase even more than previously, regional actors would see a future need for action. Project developers and housing construction companies believe that any scope for increasing prices for privately financed apartments has been almost exhausted. This is posing increasing problems for companies due to residential construction developments in the past having usually been possible through publicly and privately cross-financed projects.

In terms of the quality of supply, housing developers note above all an increased focus on optimal digital infrastructures and good accessibility to residential areas, also for pedestrians

and cyclists. The increased space requirements for working from home is also playing a stronger role in house purchasing decisions. In contrast, market players believe that living close to the workplace is becoming less important.

»» DIGITAL INFRASTRUCTURE AND SPACE FOR WORKING FROM HOME ARE INCREASINGLY IMPORTANT FOR HOME BUYERS.



Kronsrode-Mitte, construction site 11 and 12, project company Delta Bau AG, meravis Immobiliengruppe/architects BKSP and Gössler Kinz Kerber Kreienbaum



RETAIL PROPERTY MARKET

Retail

Sales area Hannover Region in m²	2.1 m
Surrounding area	1.15 m
Hannover city	0.84 m
of which inner city Hannover (Mitte district)	285,000
Retail centrality 2020 🌸 (Germany = 100)	
Hannover city	120.9
Surrounding area	106.3
Purchasing power 2020 in € 🌸	8.21 b
Hannover city	3.77 b
Surrounding area	4.44 b
Retail sales 2020 in € 🌸	7.56 b
Hannover city	3.95 b
Region (incl. Hannover city)	3.61 b
Rents 2020 🌸	
Peak rent, prime city location in €/m ² *	185
Average rent, prime city location in €/m ² *	145
Yields 2020 🌸	
Net initial yield in prime locations*	3.9%
Net initial yield in specialist retail centres	4.7%

* Bahnhofstrasse, Grosse Packhofstrasse, Georgstrasse

Source: Retail portfolio surveys commissioned by the Hannover Region (data at end of 2016); MB-Research 2020; estimates from market participants Q4/2020

🌸 Data uncertain due to corona effects

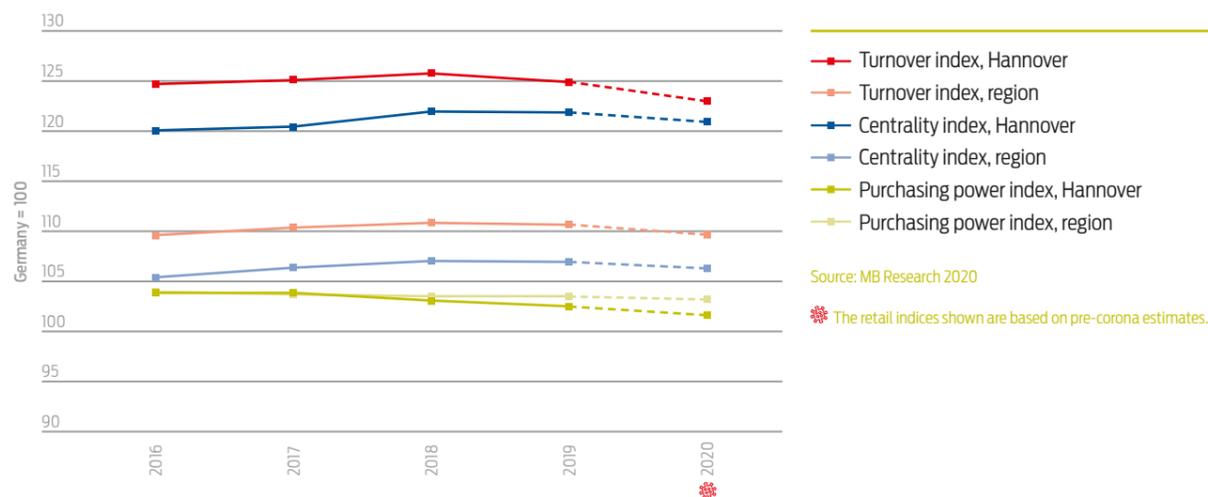
In terms of turnover, the Hannover Region is one of the strongest retail locations in Germany. For 2020, pre-corona forecasts for the region were still around €7.6 billion in retail sales. In addition to Hannover city centre with its prime locations in Georgstraße, Große Packhofstraße and Karmarschstraße, Hannover's retail location is characterised throughout the region by specialist retail centres, shopping centres, city district locations and attractive town centres in the surrounding area.

During the Corona crisis, it was primarily locations providing essential goods that gained in customer popularity. The second lockdown in November significantly worsened the situation for the city centre retail sector by the end of 2020. With the former Karstadt department store in Georgstraße standing empty, drastic structural and strategic changes are imminent in the city centre.

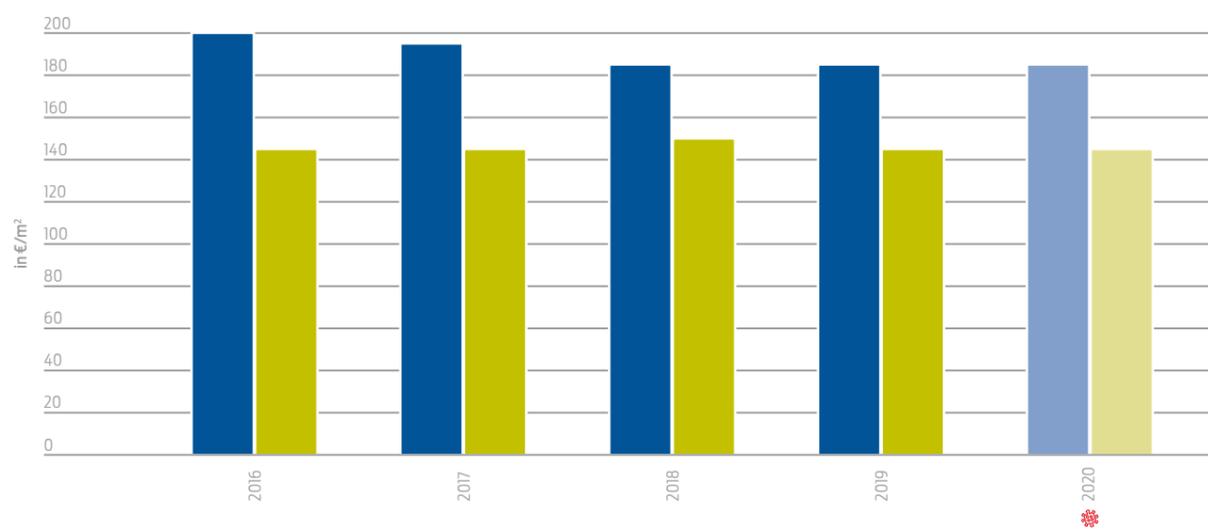


MARKET MOOD:
MASSIVE DOWNTURNS
IN SOME AREAS. EASING
NOT EXPECTED UNTIL
LATER IN THE YEAR.

Retail indexes 2016 to 2020

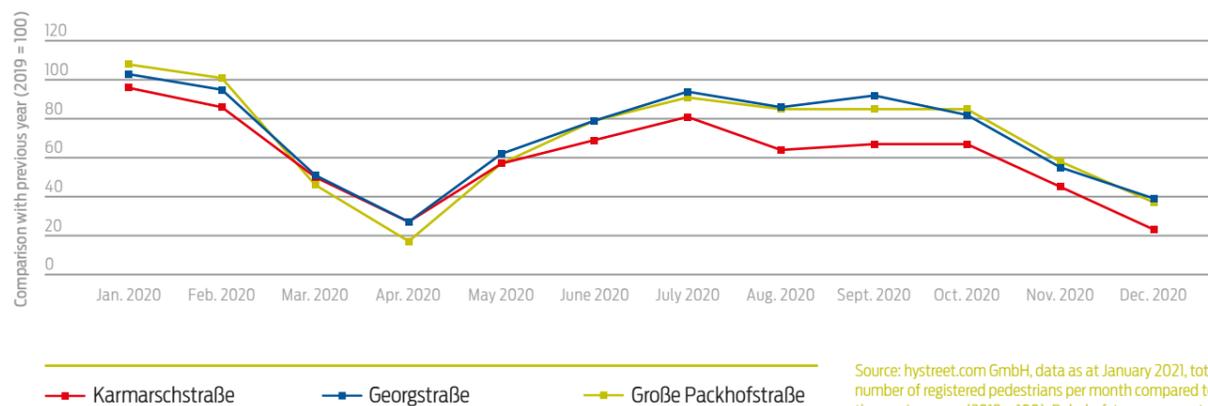


Retail rents 2016 to 2020



■ Peak rent, city (prime location) ■ Average rent, city (prime location)

Comparison of footfall in prime locations in Hannover in 2019 and 2020



MARKET MOOD AND TRENDS

In 2019, rental turnover in the retail sector had stabilised in Hannover's prime locations as well as in the city's individual district locations and in the surrounding town centres and shopping centres. In 2020, the year got off to a positive start and demand was good, largely due to gastronomy concepts in the traditional retail locations. Combating the COVID-19 pandemic with lockdowns in the spring and winter led to an unprecedented deterioration from March 2020 onwards in the economic situation for businesses in traditional retail locations in the city centres of Hannover and the surrounding area. Space turnover in the city centre fell by around 75% year-on-year to just over 2,000 m².

Retailers of food and essential goods were able to escape the corona downward trend in the rest of the retail sector and, in some cases, clearly increased their sales. Crisis-induced demand, especially in the first lockdown, has now returned to normal. In Hannover's inner city, developments fluctuated strongly. In April, the number of people coming into the city centre had fallen by up to 75%, but in July footfall had returned to around 90% of the previous year's figures. At the last count, December 2020 has only around one third of the usual footfall. Overall, Hannover's city centre footfall slumped by around a third in 2020 compared to 2019. According to retailers, sales losses are likely to be much greater.

Even though there might be some easing of the lockdown in the first quarter for brick and mortar retail locations in towns and districts in the Hannover Region, and an overall easing of the retail situation might be possible in the combat against the pandemic, far-reaching normalisation is likely

to take longer. Furthermore, declining income expectations and a lower propensity to consume are likely to have a negative impact on retail sales, both now and in the future. Revenue losses for tenants have also affected retail property owners, resulting in rent losses or demands for rent reductions. In the course of 2021 at the latest, some of the rents, which are still estimated to be stable, are likely to fall significantly and for the long term.

Many retailers are currently adopting a wait-and-see and cautious attitude. The expansion of new retail concepts from Germany and abroad has been largely put on hold for the time being, with demand for larger traditional retail space having collapsed almost completely. This will also have an impact on the demand for and positioning of retail properties on the investment market. The strength and duration of such effects is currently hard to assess and depends on the further course of the infection.

Looking at the investment market for retail properties, estimates for 2020 initially seem to be only partly confirmed. The sale of individual retail centres and local stores has been responsible for an increased investment volume of around €75 million (plus €20 million). However, these sales mainly concerned properties relevant to the provision of essential goods.

Corona should however not be seen as the trigger for an unprecedented crisis in traditional retailing, but rather as an accelerator of existing trends. In Hannover's prime locations, a decline in peak rents had already been observable over recent years. Online retail is the current growth driver in the retail sector and can consolidate its position

while expanding at the expense of brick-and-mortar retailing. Insolvencies, particularly in the case of large department stores, fashion retail and catering, could lead to many concepts (including chain stores) permanently leaving the location. Town districts and integrated retail locations in the surrounding area appear to be benefiting from their proximity to customers and being local providers of essential goods.

To remain attractive and visible, traditional retail must adapt to the competition from online retail, the circumstances of the pandemic and the resulting changes in customer expectations. Regarding Hannover's retail locations, this applies to the large nationally and internationally active companies as well as to local retailers. This will also have a lasting and noticeable impact on property owners.



CORONA CRISIS
ACCELERATING
CHANGES IN RETAIL.

HOTEL PROPERTY MARKET

Hannover's tourism slumped dramatically in 2020 as everywhere else in Germany. With just under 2 million overnight stays by the end of October 2020 in the city and surrounding area, tourism demand in the past year was at 1990s levels. As a trade fair city and hotel location heavily dependent on business travel (approx. 80% of demand), the number of overnight stays in the city of Hannover fell somewhat more sharply than in the surrounding area as a result of corona.

However, when looking at project developments in the hotel real estate market, Hannover's general attractiveness as a destination is still evident. Five hotel projects were completed in 2020 and a further four are under construction in Hannover and the surrounding area. Together, these nine hotels have around 1,250 rooms. A further twelve hotels with at least 1,400 rooms are planned by 2023. However, given the slump in the hotel market due to the corona pandemic, it currently seems doubtful whether all projects will actually be realised within this time frame.

Hotel 🌸	
Number of tourist accommodation establishments in October 2020	333
Hannover city	105
Surrounding area	228
Hotels in October 2020	112
Hannover city	42
Surrounding area	70
Number of beds (all accommodation types) in October 2020	31,721
Hannover city	14,779
Surrounding area	16,942
Overnight stays (all accommodation types) up to October 2020	1.93 m
Hannover city	0.91 m
Surrounding area	1.02 m
Arrivals (all accommodation types) up to October 2020	0.96 m
Hannover city	0.53 m
Surrounding area	0.43 m
Average length of stay in days (all accommodation types) in October 2020	
Hannover city	1.8
Surrounding area	2.2
Key figures for hotel chains, Hannover city (Fairmas) 2020	
Occupancy rate, 2020 average	32.0 %
Room price, 2020 average in €	82.80
RevPAR (revenue per room), 2020 average in €	26.50
Net initial yield hotel in 2020	5.0 %

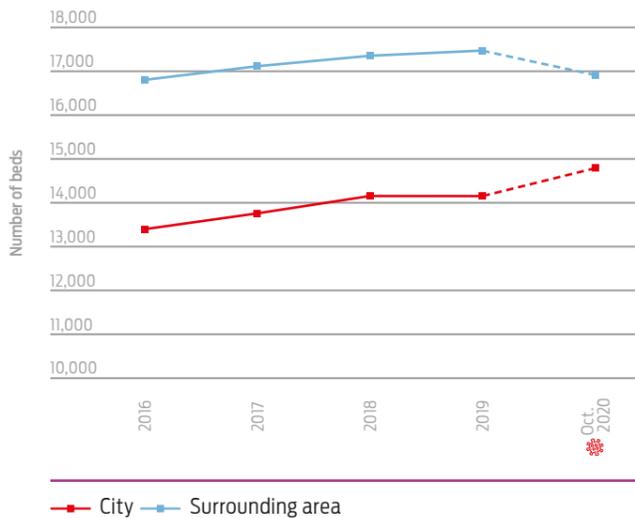
Source: State Office for Statistics of Lower Saxony [Landesamt für Statistik Niedersachsen]; Fairmas, January 2021

🌸 The latest data for the hotel market is currently only available up to and including October 2020.



MARKET MOOD:
THE CRISIS IS HITTING THE ENTIRE SECTOR HARD. IMPROVEMENT ONLY EXPECTED IN THE MEDIUM TERM.

Development of bed numbers (all accommodation types) 2016 to 2020



Source: State Office for Statistics of Lower Saxony, 2021 (annual average 2015 to 2019 and data as at October 2020, based on accommodation establishments open at that time (all accommodation types))

Development of hotel businesses 2016 to October 2020



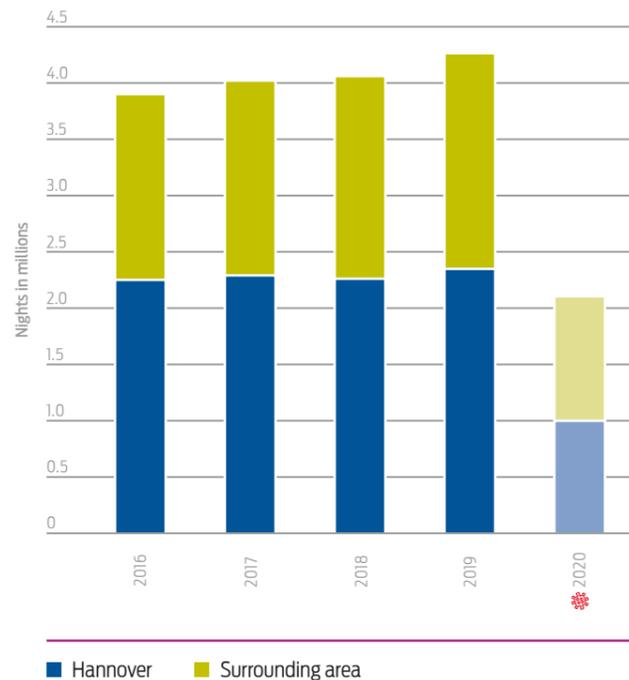
Source: State Office for Statistics of Lower Saxony, 2020 (annual average 2015 to 2019 and data as at October 2020, based on hotels open at that time (excluding Hotel garni))

Key data for the Hannover hotel market 2016 to 2020

	2016	2017	2018	2019	2020
Hotels	40	43	45	45	42
Average occupancy in %	63.3	64.8	63.6	65.7	32.0
Average room price in €	99.30	101.60	104.50	103.40	82.80
RevPAR (revenue per available room) in €	62.80	65.10	66.40	67.90	26.50
Average stay (in days)	1.7	1.7	1.7	1.7	1.8
Beds in hotels	8,357	8,806	9,118	9,154	N/A

Source: Figures for Hannover city; State Office for Statistics of Lower Saxony, Fairmas performance indicators for the hotel chain industry, 2021

Overnight stays in the Hannover Region 2016 to 2020



Source: State Office for Statistics of Lower Saxony, 2020, table K7360001, extrapolation for 2020 by bulwiengesa AG based on data up to October 2020

* Data or estimates for 2020 based on data available by October 2020. More recent data is not yet available.

MARKET MOOD AND TRENDS

Hannover's tourism has grown steadily in recent years. In 2019, overnight stays numbered over 4 million per year in the city and surrounding area. Business travellers coming to Hannover, especially for the major trade fairs, were not the region's only visitors. An increasing number of city tourists were also discovering the Hannover Region.

Last year, numbers fell dramatically to only about 2 million guests, and occupancy also dropped by more than half. The economic situation for many businesses is more than tense, although none of the larger establishments has yet permanently ceased operations.

An absence of business travellers, cancellations of trade fairs and other major events as well as travel restrictions have placed extreme pressure on hotels in 2020. Even the relaxing of restrictions between the two lockdowns only eased the situation to a limited extent. The sharp drop in demand resulted in an average room occupancy of 32% in Hannover thus dropping by 51% compared with the previous year. Due to a lack of events and business guests, the average room rate dropped by almost 20% to €82.80. In April 2020, when the Hannover Messe usually takes place, the room rate fell by €260 to €87 (in April 2019, the figure was €347).

As a result, the average revenue per available room (RevPAR) in 2020 in Hannover was a lowly €26.50. The hotel industry in Hannover is thus far from the level of revenues needed to cover costs let alone make a profit. Many hotel businesses, especially owner-managed small and medium-sized businesses, may not survive the crisis under these conditions. Their place could be taken by projects developed by the brand-name hotels.

Despite all the difficulties, several hotels with new concepts opened in 2020, so that bed numbers remain at a high level for the time being. In the medium term, a rapid recovery of the market is not to be expected: the trade fair business, in normal years a mainstay, is unlikely to see demand in 2021 reverting to normal, and bed numbers will continue to increase if the new hotels being constructed or developed in Hannover are completed as planned.

How far the existence of the regional hotel industry is actually at risk depends to a large extent on the course of the virus and prospects of a market recovery. All major leading trade fairs at the Hannover venue have been postponed until 2021. In what form and with how many participants they will actually take place remains to be seen. The absence of business trips will only be compensated for to a limited extent by city tourists, especially as extra visitor attractions such as sporting and cultural events will probably only contribute to a limited extent to the recovery of the market in 2021.

Property owners and potential property investors will have to deal with these challenges. In recent years, hotels have also been among the increasingly sought-after asset classes in Hannover. Whether the many projects in the pipeline will actually be realised is uncertain. The hotel projects that have already started in Hannover

and the surrounding area, and already financed and guaranteed by their operators, seem however to be on schedule.

Nevertheless, fewer new projects are likely to be initiated in the foreseeable future, since the future is difficult to assess for operators, investors and capital providers. In 2020, hardly any hotel transactions took place in Hannover. Hannover is not alone in this. Throughout Germany, transaction volumes in the hotel market took a more than significant drop (minus 60%). Increasing market momentum that had been anticipated back in 2019 is no longer envisaged, and not only here. Investors will have to price these risk increases into their investment considerations and reflect them in returns.

All regional market players expect the hotel industry and thus the hotel property market in particular will take the longest to overcome the consequences of the corona crisis. However, it is important for all players – including those from the hotel and event industries – that Hannover as a destination is ready as soon as the number of guests and events picks up again.



B&B Hotel Hannover-City, Philipsbornstraße, LIST Develop Commercial/Kleihues + Kleihues Gesellschaft von Architekten mbH

DESPITE ALL THE DIFFICULTIES, SEVERAL HOTELS WITH NEW CONCEPTS OPENED IN 2020.

IMPRINT



Region Hannover

Region president
Business and Employment Promotion Department

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