Landes-
hauptstadt Kiel

/ Office Market Report 2009/2010

for the Capital City of Kiel

Dear Reader

Peter Todeskino, Mayor

The Office Market Report 2009/2010 in your hands provides information about the development and prospects for the commercial property market in Kiel. Six brokerage offices in Kiel along with KiWi, the Kieler Wirtschaftsförderungs- und Strukturentwicklungs GmbH, and the assessor, Professor Jürgen Aring, of the Büro für angewandte Geographie have updated this report for you on the basis of the last report from 2006. In this brochure, we have collected the most important facts for you.

For me, the Office Market Report is not simply a reliable marketing instrument for the City Council. It also ensures transparency in Kiel's office market. All of the players in Kiel's economic development benefit from it.

I would like to thank all those who participated in the project for their expertise and prolific cooperation, and I am convinced that many interested parties will find this work useful.

I wish you the best of success in your business dealings,
Yours,

Peter Todeskino
Mayor

The Office Market in Kiel: Core Facts

- With 1.4 million m² of rental space, the office market in Kiel is developing well and is staying on course.
- Its seven primary districts are typical for the regulated and non-speculative market.
- In the period between 2006 and 2008, an increase of 12,900 m² of high quality office rental space has been added on average each year.
- The strongest new construction activities occurred in Kiel's Förde/Hörn and Universität/Westring districts (Wissenschaftspark, Science Park).
- The new rental capacity amounted to roughly 35,000 m² of rental space annually in the years 2006–2008 on average.
- The effective rental fees have increased in the mid-quality segment by 1–2 €/m² since 2006.
- The price range of the rents in the mid-quality segment are between 5 €/m² (basic utility) and 8–9 €/m² (good utility).
- In the premium segment, the highest values were achieved with rental fees around 12–12.50 €/m² in 2008.
- The future demand for office spaces will arise primarily from the modernization, expansion, optimization and growth demands of the locally- and regionally-based companies as it has until now.
- The growth trend on the supply side will continue, whereby new construction and fundamental reconstruction will serve the high-quality segment, while office displacement will lead to growth in the mid-quality and basic segments as a consequence of reorganization.

/ The Capital City of Kiel

Kiel is growing:
/ Population: 234,000
/ Growth since 2005: 3,370

Kiel is an economically developing area:
/ Gainfully employed: 153,000
/ Service industry: 87%
/ Manufacturing companies: 13 %
/ Corporations: approx. 20,000

Kiel is a scientific research area:
/ Three colleges, one Wirtschaftsakademie (Business and Administration Academy), one postgraduate university and two clusters of excellence
/ Institute for global economics
/ Leibniz Institute of Marine Sciences (IFM-GEOMAR) and for Science Education (IPN)
/ Wissenschaftspark (Science Park) Kiel

Kiel provides:
/ Huge workforce capacity
/ Highly qualified employees from colleges and universities
/ Economically friendly management
/ Low development and real estate prices

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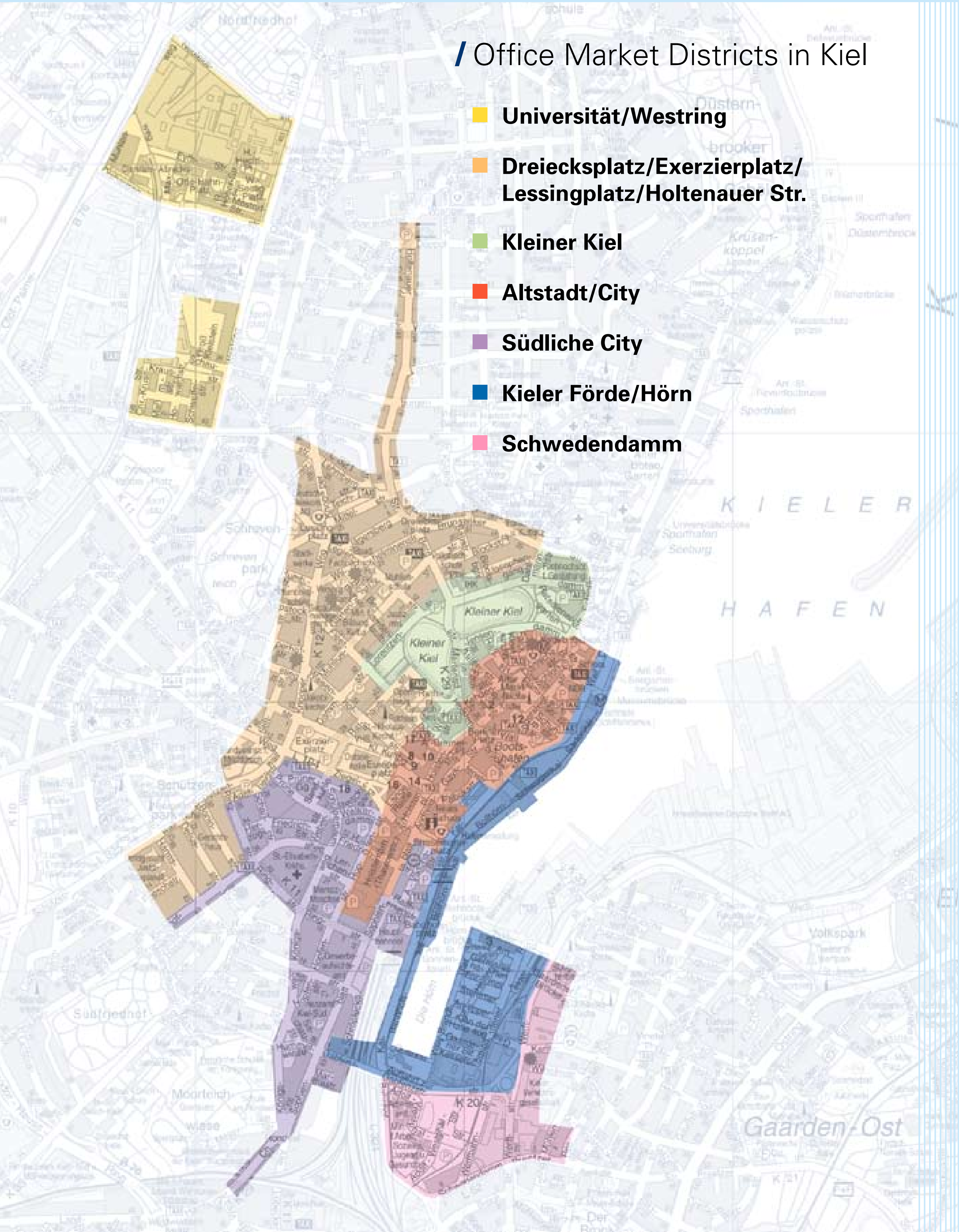
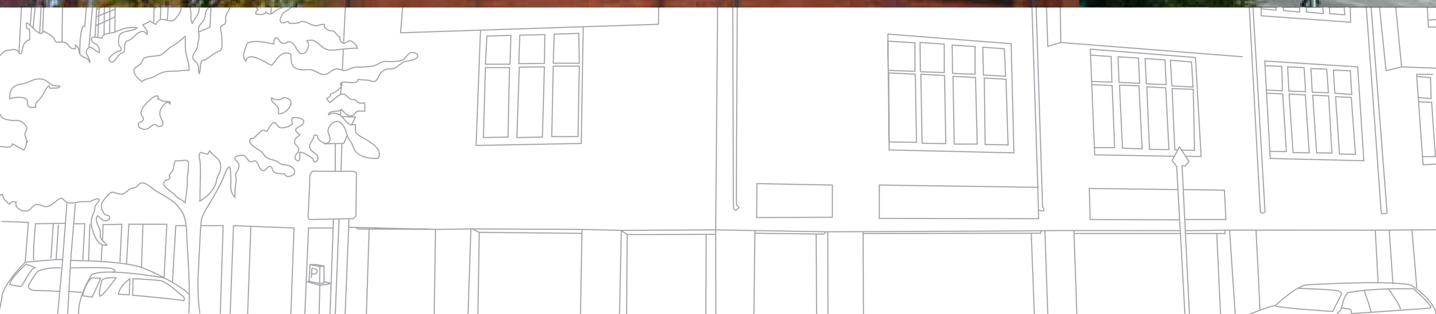
/ Office Market Districts in Kiel

- **Universität/Westring**
- **Dreiecksplatz/Exerzierplatz/ Lessingplatz/Holtenauer Str.**
- **Kleiner Kiel**
- **Altstadt/City**
- **Südliche City**
- **Kieler Förde/Hörn**
- **Schwedendamm**







Investments

Between 2006 and 2008, at least 34,700 m² of rental space became available in new larger, or principally renovated, office buildings. 5,500 m² of rental space disappeared from the market due to demolition or conversion. 9,500 m² of rental space has appreciated in value, or been revitalized. The accumulated growth in high-quality, new or reconditioned office space is roughly 38,700 m² of rental space. This represents 12,900 m² of annual growth in high-quality offices. It means that the office market in Kiel has followed the "optimistic growth plan" from the Office Market Report 2006.

New construction activities have moved to Wissenschaftspark due to development in this district. The attractiveness of the Kieler Förde district has remained the same, given its proximity to the waterfront.

Currently, the following projects are in the building phase:

- **Germania-Arkaden:** Seven stories totaling 6,580 m² are under construction in Kai-City-Kiel (Kieler Förde). The primary floors each provide approximately 950 m² of rental space. The three penthouse floors offer smaller units with 170 m².
- **Schwedenkai Terminal Building:** In addition to the Norwegenkai and Ostseekai buildings, a third highly modernized terminal building with 12,000 m² of gross building area will be built (Kieler Förde/Hörn). Port-related usage will be combined with 7,000 m² of office space (approx. 650 m² per floor).
- **Hermann-Kobold-Haus:** The Hermann-Kobold-Haus is under construction with 6,300 m² on four levels in Wissenschaftspark Kiel (Universität/Westring). This offering is oriented towards innovative companies looking for proximity to the University.

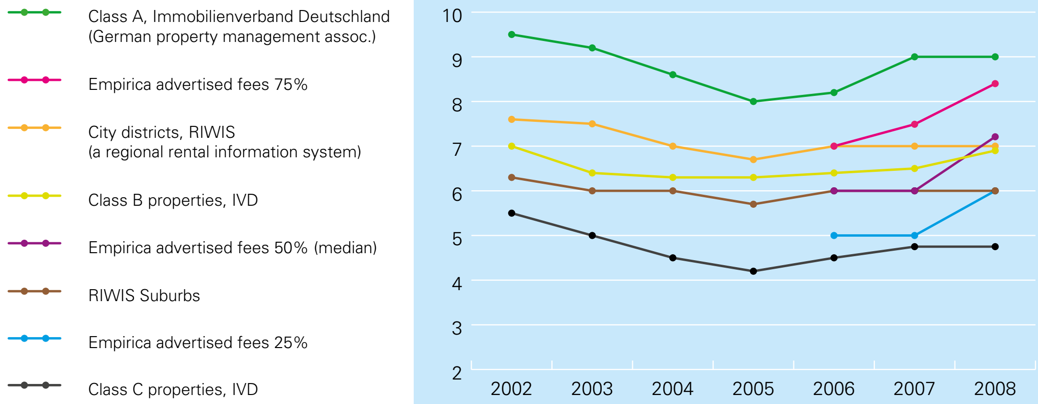
Rental Market

The rental market capacity is estimated to be 560,000 m², which represents approximately 40% of the office market. Since 2006, the total capacity of the rental market has risen slightly.

- The established new buildings were completely rented.
- Portfolio development (modernization, revitalization) is gaining importance. This, in turn, affects the reassessment procedures, which allow the qualitatively higher-quality market segment to grow.
- As a consequence of the company reorganizations, the spaces owned and used by the companies themselves are being released and offered on the rental market. Doing so will tend to serve the mid- and lower-level price segments.

The office market in Kiel should be classified overall as a demand-driven market. With a relaxed market situation, a limited and price-sensitive demand is encountering a sophisticated choice of options. Primarily, optimization needs are driving the demand for rental space. In particular, it is oriented towards new buildings and modernized properties in attractive districts. The good economic situation and continued structural shifts between the service industries have even allowed new small businesses to emerge, and the existing ones have grown. A proportionally small demand has arisen from this development, whose focus is on special newcomer properties and on relatively inexpensive offerings in general.

Average rental fee in €/m² with a broad middle



Sources: Empirica price database (IDN ImmoDaten GmbH), RIWIS, IVD commercial price level, Calculations by BFAG

/ Rental Space Revenue

A total of 106,000 m² of office space was newly rented in the years 2006–2008. The tenancy was cyclic in this: after the good rental results in 2005, the capacity of new rentals sank initially by a good third, only to increase considerably again as a consequence of the good economic situation. Significantly above average rental capacities were achieved in 2008 with 47,200 m².

Thus, 35,000 m² of rental space were newly rented annually on average.

/ Office Rents

A strongly differentiated pricing structure is typical for the office market in Kiel. Foremost, the distribution of the rents represents the differentiation of the quality of the properties, while the distribution of the districts has less of an effect on the prices due to the close proximity of the individual districts.

The advertised price over the broad front have risen in the period 2006–2008, namely by roughly 1 €/m² at the lower end and by more than 2 €/m² at the upper end of the price scale.

The same applies for the average effective rent in the mid-quality segment. In the reporting period 2006–2008, the prices ranged from roughly 5 €/m² for premium properties up to 8–9 €/m² for basic properties.

The highest rental fees truly only represent a small segment, however, play an important role when used as indicators for market trends. If one defines the top level broadly and reviews the upper 5% of the rental offerings, then the highest rental fees in Kiel were roughly 10 €/m², and this value increased until 2008 to 12.50 €/m². This price level was also realized in the rental transactions.

/ Qualitative Demand-Side Requirements

- The external appearance, the entryway, the elevators and the appearance of the offices are important issues. The building should support the company's image of itself.
- The functionality of the property space plays an important role. Spatial structures with the least possible dead space (max. 14% of the gross building area) are in demand. The traffic areas in the building should be small, but remain prestigious. Aside from this, short distances between the company units (such as through offices on one level or efficiently connected floor plans) are relevant.
- The building must also have functional utility. Natural lighting is important in this. Very deep buildings (max. 14 m.) may be rejected for this reason.
- Cost-efficiency is an important decision-making criterion. In addition to the efficiency to the space, the demand for low operating expenses, at a maximum of 3–4 €/m², is understood to be included in this. Higher operating expenses are self-defeating, bringing demands for price reductions in the basic rental fee. The overall impact from basic rental fees and operating expenses are being reviewed more and more, as well as the cost certainty.
- Sufficient parking spaces should also be made available for the office users (separate leasing).

/ Vacancy

Vacancy is estimated by the Consortium's Office Market Report to be roughly 50,000 m² of rental space. This corresponds to a rate of roughly 3.6%.

In contrast to the year of 2005, the number of vacancies has been reduced between 2006 and 2008. It should be noted that the new and revitalized office spaces provided on the rental market were rented nearly entirely, such that there is no appreciable vacancy in these properties. In comparison with the office markets in other capital cities, the vacancy rate in Kiel is low.

As the overall offerings in the market segment allow themselves to be divided into different levels of quality, the number of vacancies indicates this difference in quality. In the Office Market Report 2006, it was estimated that roughly a third of the vacancies were quite marketable and two-thirds were difficult to market or even unmarketable. This estimation continues to remain valid. Many properties, in particular those from the 50's, 60's and 70's, would have to be made suitable through modernization and renovation in order to make them marketable again.

/ Prospects

New Construction: The Advantages of a Non-Speculative Market
No oversized speculative rental space offerings that might require absorption by the market in Kiel over several years if necessary, were built during the last cyclical boom of 2006–2008. A manageable number of properties were attempted. These corresponded to the market demand and were able to show already existing contracts with key tenants at the start of construction. The future demand for new offices will arise primarily from the modernization, expansion, optimization and growth demands of the locally- and regionally-based companies as it has until now.

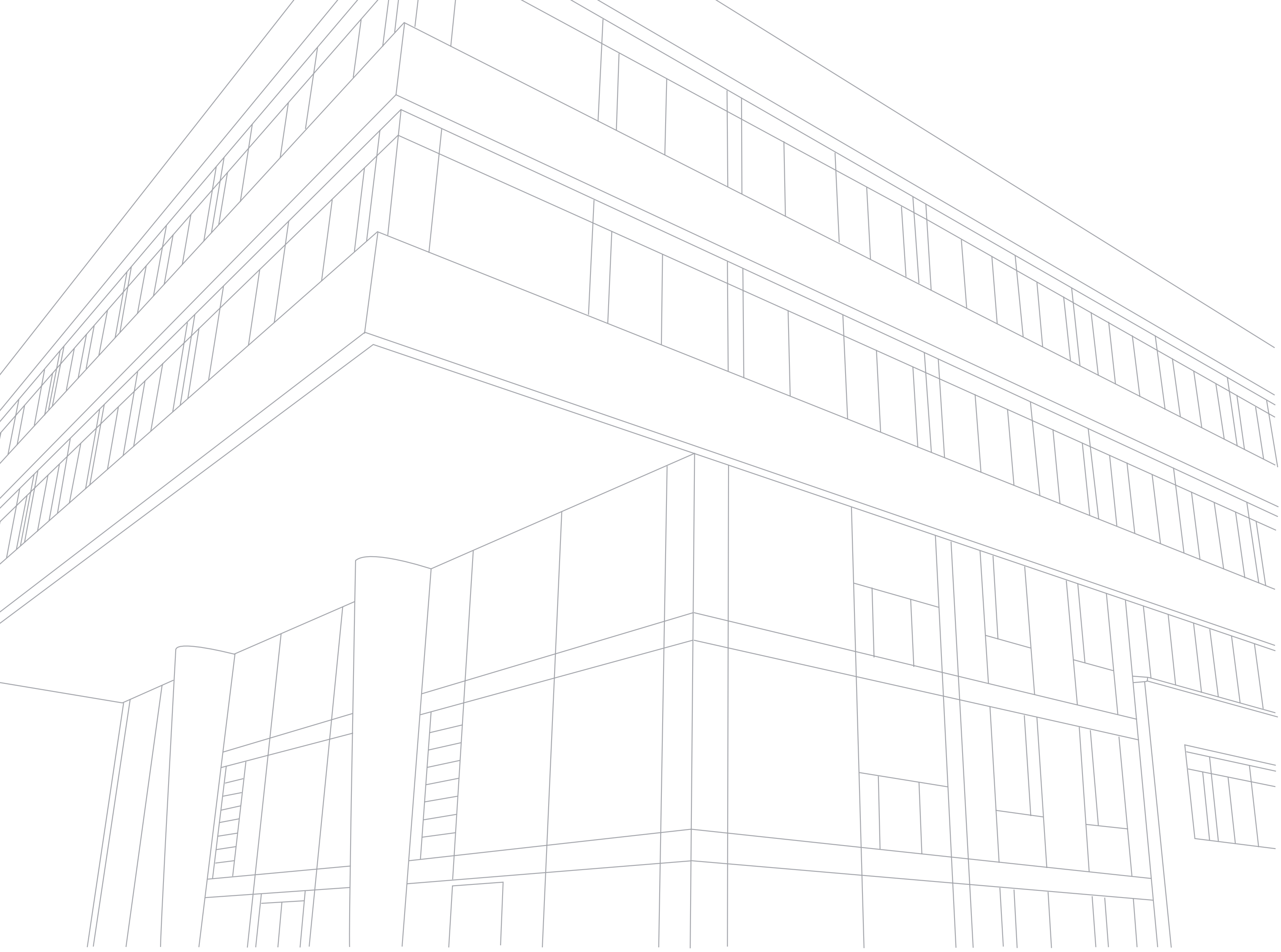
Rental Market
Even viewed over the long term, the rental market is also a generally growing segment that proofs the development of the last few years. Comparable demolition or deconstruction of properties is not found alongside the growth of new construction and portfolio development. Thus, the competitive offerings on the Kiel office market are growing continuously stronger. In the short term, there may be an increase in the rental properties available with a stagnant or declining rental demand qualified by the economic situation.

Vacancy
An increase in vacancy is expected for the year 2009/2010 with slightly increased availability and reduced demand due to current cyclic development.

Rental Fees
The competitive offerings will be intensified in view of the cyclic slump in 2009/2010. The number of high-quality office properties, which would also have to be offered at corresponding prices (7,50–10,00 €/m²), will most likely increase by several thousand square meters of rental space each year through investment in portfolio properties. If the market indicates that it will not yield the economic rental fees then the construction of the new properties would have to be set aside. For this reason, the price level of the upper segment will nominally change very little, however, a capacity adjustment should be expected.

Simultaneously, the pricing competition at the other end of the market may continue to intensify for customers of basic use properties. Therefore the advertised prices may sink again somewhat in this segment. There are a number of relatively inexpensive, good quality and growing offerings in the broad middle (at 5.00–8.00 €/m²) range.

The Consortium's Office Market Report assumes that the growth trend on the supply side will continue, whereby new construction and fundamental reconstruction will serve the premium segment, while office displacement will lead to growth in the mid-quality and basic segments as a consequence of reorganization.



This brochure summarizes all of the significant statements of the office market report.
We would also be happy to provide you with the complete edition upon request.

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The Kiel Office Market Report 2009/2010 Consortium:

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SPIERING seit 1886 ... in Kiel zu Hause

The development of the Office Market Report was technically and organizationally supervised by Prof. Jürgen Aring, Büro für Angewandte Geographie, Meckenheim (www.bfag-aring.de).

Pictures: various picture archives, Neufeldt Haus (p. 6): photographer Birgit Schewe, design and visualization of the Kiel Schwedenkai Terminal Building (p.7): KSP Engel und Zimmermann Architekten, Braunschweig