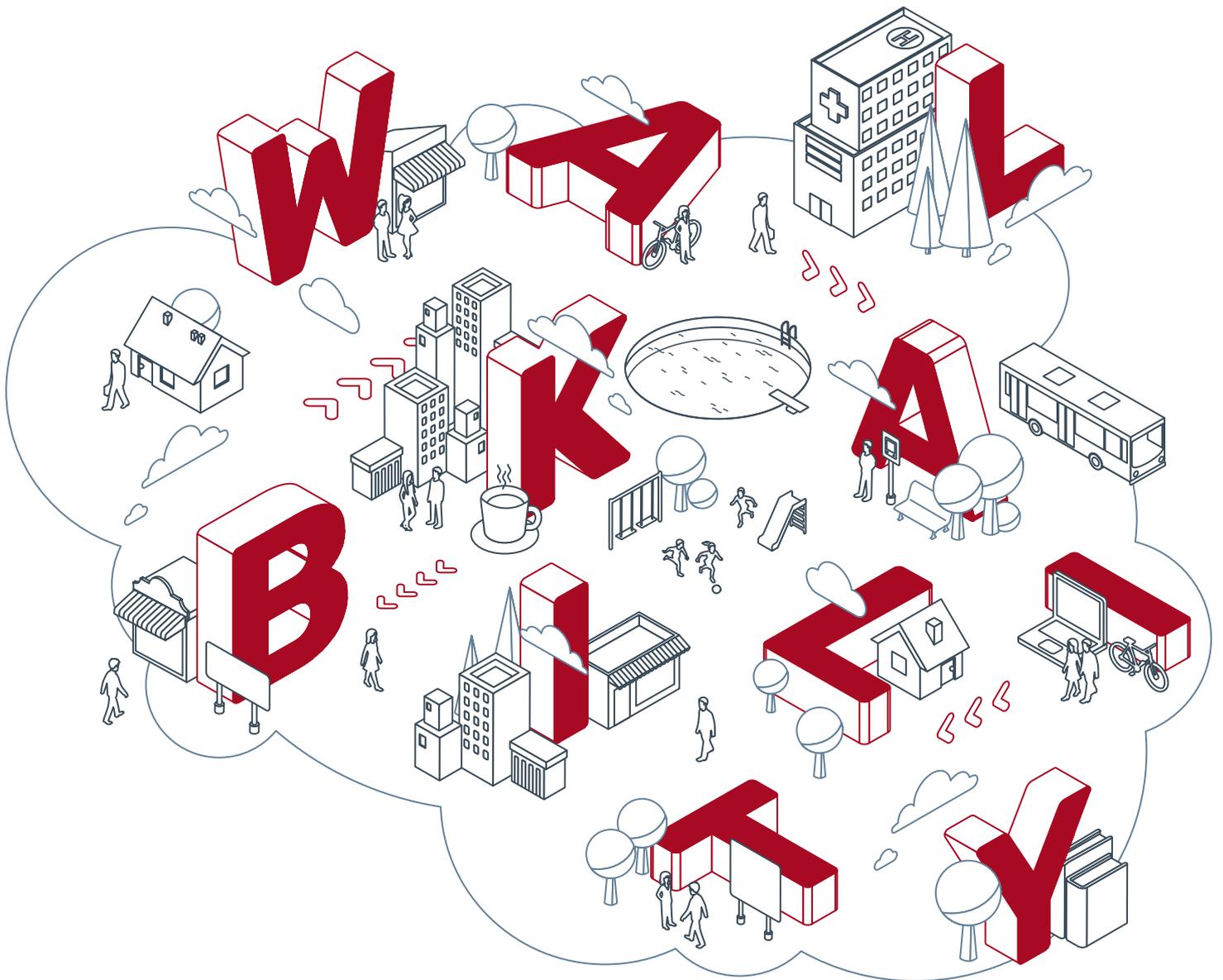


NO 01/2019

PERSPECTIVE REAL ESTATE



ANDRÉ ZÜCKER
REAL ESTATE MANAGING DIRECTOR
KGAL INVESTMENT MANAGEMENT

PEOPLE BEAT LOCATION!





We've done everything right: the market's booming and the value of high-quality real estate is increasing by up to 10% every year. Using "location, location, location" as our guiding principle has been successful for the brand, and will continue to inform our approach. In boom times, willingness to change is low in every branch of the economy, though in fact these are the very phases during which we must take the time to open our eyes to the world around us – to observe developments and follow the trends arising in growing cities and vibrant metropolises.

As investors, we tend to think in intervals of several decades, as approval periods, construction times and high capital expenditure inevitably turn any real estate into a long-term asset. So the location will always be the cornerstone on which the value of the property is built. From that context though, the attractiveness of a property may fluctuate depending on how people's lifestyles and habits change. Buzzwords in this regard include urbanisation, the digital revolution, and work-life balance. The real estate sector responds to developments like these and is offering new forms that consider the entire live-work-play triad – for instance, co-living concepts, smart offices and logistical solutions.

The decisive factor in developing these designs is whether behaviour has really changed, or if trends will be short-lived. Sociologist William H. Whyte formulated a putative constant when he said: "What attracts people most, it would appear, is other people." One example of where this can be seen is the fact that department stores – even those in prime locations – have become considerably less attractive to customers in recent years. In residential areas, older properties have become popular with renters – their layout is flexible and rooms can be used as a home office, a child's room or a bedroom.

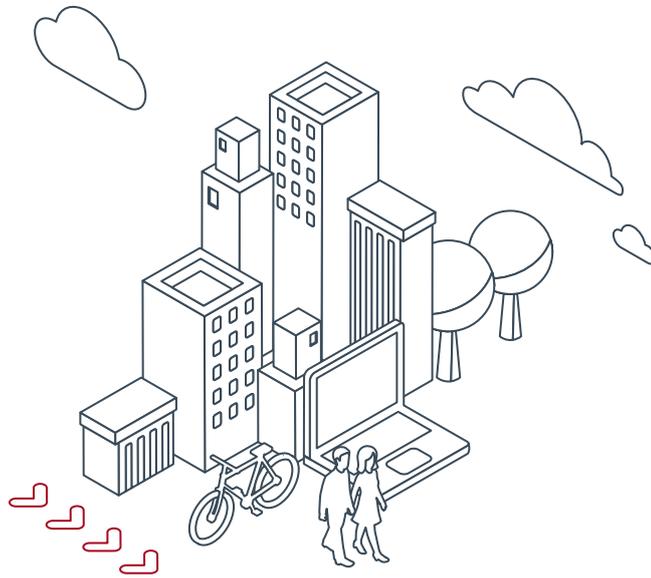
Investment in real estate is investment in people. Fund strategies collate users' needs and create the solution to these needs; outcomes are successful where needs are precisely derived and clearly defined. That means that a walkability concept can exist beside a retail strategy, beside a hotel fund. We have to do our homework, particularly during phases of higher pricing – after all, anyone investing in real estate is making a long-term commitment.



» *INVESTMENT IN REAL ESTATE IS INVESTMENT IN PEOPLE*

» *FOLLOW TRENDS IN VIBRANT METROPOLISES*

» *CLEARLY DEFINE STRATEGIES*



THE FUTURE PRIME LOCATION IS WALKABLE

It's important that anyone purchasing real estate for a fund today understands what will be needed tomorrow. Helge Vahlenkamp and his colleagues analyse social trends and devise portfolio strategies for commercial real estate.



**HELGE VAHLENKAMP
PORTFOLIO MANAGER
KGAL INVESTMENT
MANAGEMENT**

KGAL is investing in pedestrian-friendly real estate. How would you explain the walkability concept?

Walkability is a benchmark that can help to describe the quality of a location. It's about whether pedestrians actively want to spend time in an area: are there any cafés and supermarkets around? Is it accessible by bus or underground? When looking at office property, this kind of infrastructure should be readily available. Taking a statistical approach, we can measure footfall or use the walk score®. It's not just the city centre that interests us, but surrounding city quarters as well. However, a high walk score® is essential.

There's a lot of talk about "walkability" today – but could this be just a hype?

No, it's certainly much more than that. At present, worldwide half of us live in urban areas; by 2050, that proportion will rise to two thirds. This demographic change has clear implications for city planning and our private life. We are currently experiencing a profound societal change which Walkability is a central part of.

Tell us more about that change?

The line between work and life is becoming increasingly blurred. One reason for this is that we all have too little time. Workers just don't want to spend precious hours of every day commuting – this is particularly true of the millennial generation, those aged between approximately twenty and forty. Millennials prefer to meet friends, get some exercise or, for instance visit the local shops in the evening after work.

But millennials do their shopping online, why would they care about a supermarket near the office?

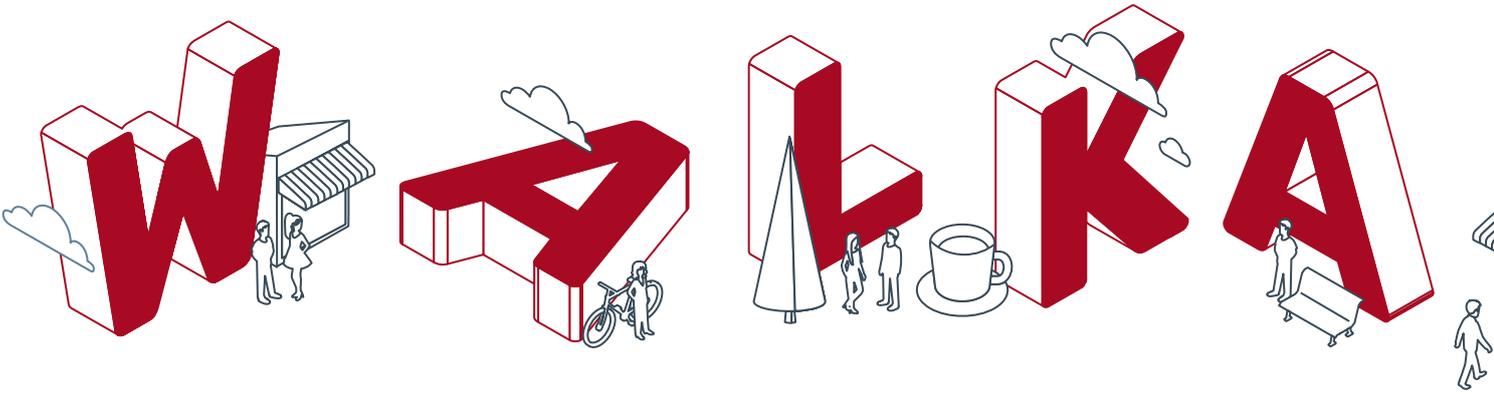
Though it's true that, generally speaking e-commerce is growing fast, this shift is least evident in supermarkets – their share of online trade is 1–2%. And near offices the focus is on impulse purchases such as medicine from the pharmacy or a fresh salad from a mini supermarket. Additionally, when we talk about "walkability", retail is not the only relevant factor in determining a location's attractiveness; restaurants, cafés, museums, attractive public spaces, childcare, sports facilities and many other amenities have a part to play.

Is this move connected to a change in values? What about the bungalow in the suburbs or a nice car?

Many millennials are thinking differently these days: car usage by younger generations has fallen dramatically over recent decades. Younger generations are increasingly likely to sign up for a carsharing service, and instead spend more money on leisure activities.

The Walkability concept was originated in the USA. Has the same idea really reached Europe already?

Of course there are differences in terms of the urban development context: American cities have often been planned with cars in mind, whereas European cities are more likely to have grown over time and are often intrinsically more pedestrian-friendly to start with. So although this approach has had a more noticeable impact in the USA, city planners and building authorities in Europe have also recognised the underlying issue and are developing new concepts.



Real estate investors can expect above-average returns from walkable locations. Why is that?

Not only do people enjoy spending time in these places, but companies have also recognised that it is much easier to find skilled employees in walkable areas. Choosing these sites gives companies a decisive competitive advantage, particularly during times of low unemployment, and as such there is increased demand for renting in walkable areas, meaning that the occupancy rate is higher in those submarkets – even in periods of market weakness.

Can you put any figures on that?

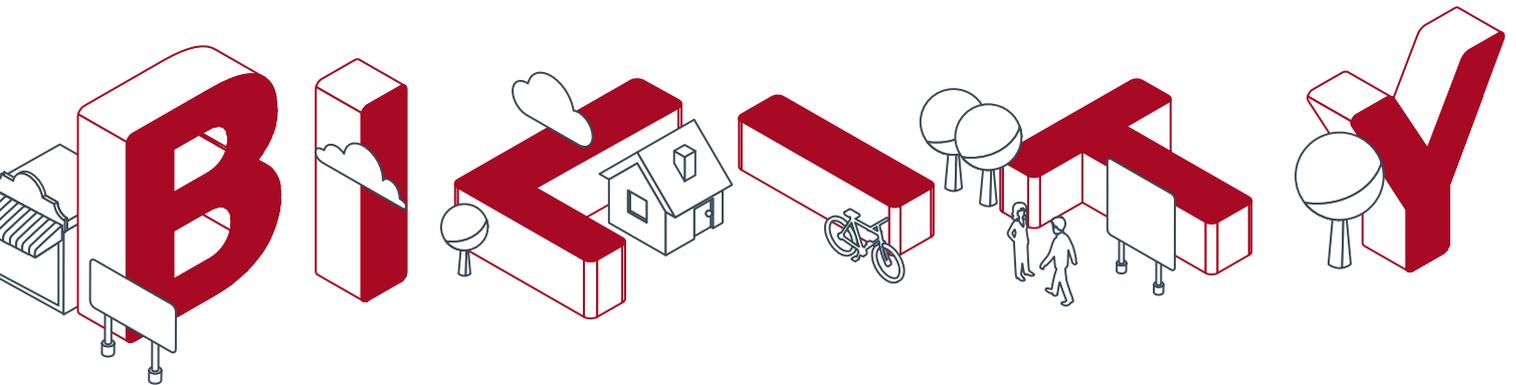
In the USA it has been calculated that the value of real estate with high walkability has grown more than 50% since 2006 – despite the intervening financial crises. Meanwhile, during the same time period, the value of car dependent locations only increased in value by 25%. We see a similar pattern spreading in Europe including in Germany, including across our own real estate portfolio.

Is this movement also connected to sustainability – an increasingly important factor for investors?

Most of the time when we talk about the sustainability of a property, we are mainly referring to energy consumption. With the walkability concept, sustainability takes on a community dimension. The impact of increased adoption of Walkable cities could save up to nine gigatonnes of carbon dioxide emissions worldwide by 2050, and according to the Urban Land Institute, making cities more pedestrian-friendly and more dense could lead to a 20% - 40% reduction in car use. These changes would also impact positively on health, as doing more walking can reduce and alleviate common diseases such as diabetes, stroke and depression.

Many renters would welcome shorter journeys, but are often unable to afford city-centre apartments.

Yes, in Germany rental prices have increased significantly in recent years and we need more housing to be developed so that the market can return to normal. This will require politicians and building authorities to take action. In the context of the residential construction that is needed, urban density is also an important topic: to illustrate this, consider that if an extra floor were added to all the Munich buildings where that is possible, we could create the living space we need relatively quickly.



And would it be close to work?

Yes and no – that situation is likely to still be the exception rather than norm in future. But the walkability concept is really much more about offices being in attractive areas that are well-connected by public transport. People will certainly continue to live in diverse neighbourhoods, however the preference will continue to be for good public transport links to allow them to commute quickly and easily.

When it comes to building authorities and communities, how open are the authorities to the idea of making existing neighbourhoods more pedestrian-friendly?

On the whole, building authorities recognise the need for action. It does vary from city to city, and the speed of progress also depends on the parties involved. In Hamburg, for example, it was decided a few years ago to connect together a number of public parks – that's a mammoth project, and will take decades.

How do you identify real estate to fit a walkability strategy?

A good and useful starting point is the www.walkscore.com website, which is a scoring with an underlying algorithm to evaluate almost every location in North America and Europe. In addition, we conduct the usual analysis on subjects such as public transport connections and building design. And finally, we treat it like any other purchase: it's important to visit the location several times to see it for yourself and get a sense of whether you feel comfortable there. Is it a lively neighbourhood? Does it meet user needs? These aspects should be taken into consideration when evaluating real estate.

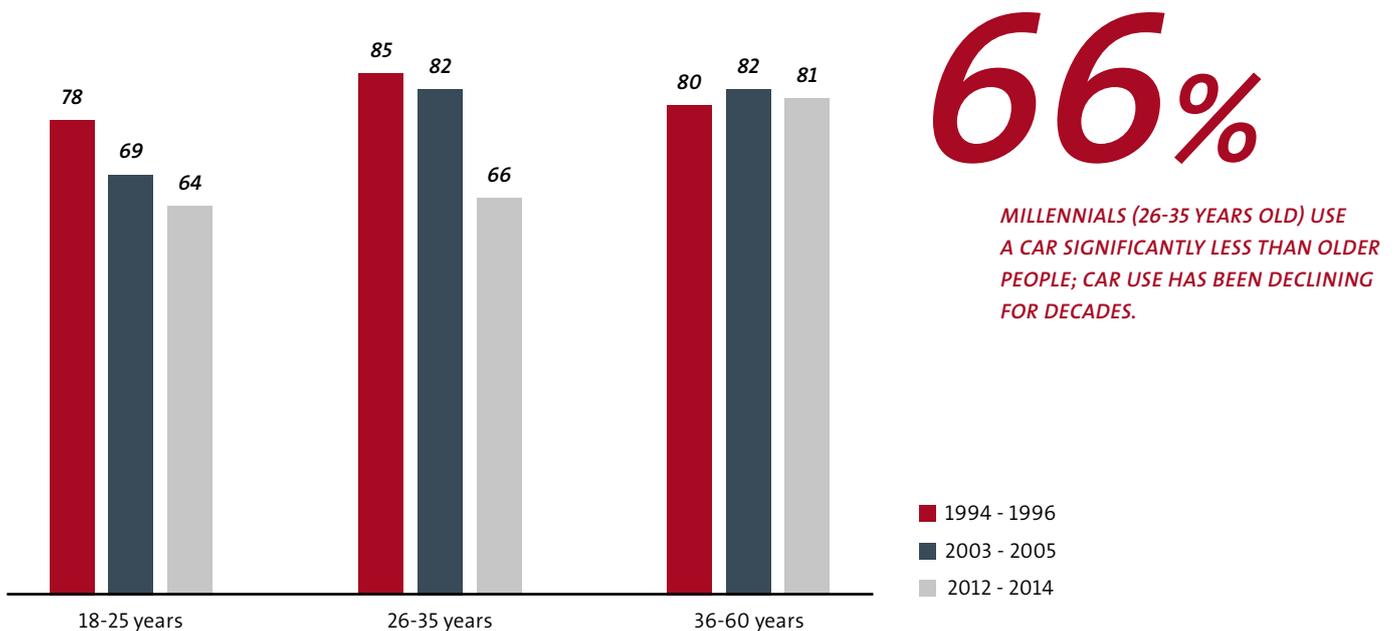
Is there a neighbourhood that you yourself find appealing as somewhere to combine work and private life?

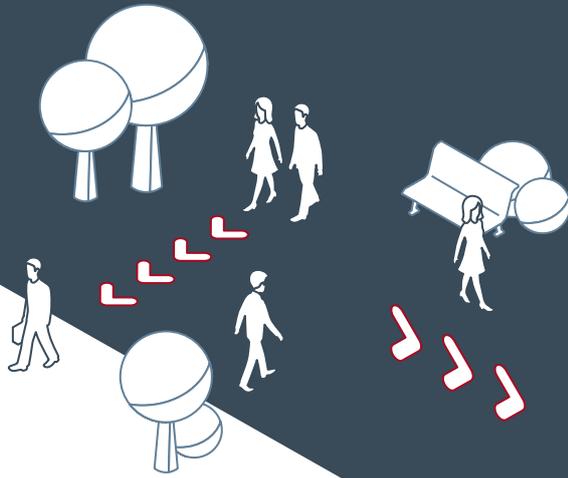
Personally I like the area around the Elisabeth-markt in the Schwabing district of Munich. People there have been living the walkability concept for over 100 years. There's always something going on at the diverse stalls, the playground, and in the restaurants and cafés.

“WALKABILITY IS A WORD THAT DID NOT EXIST JUST 20 YEARS AGO. WE MADE WALKING SO UNNATURAL THAT WE HAD TO INVENT A WORD TO DESCRIBE WHAT WE WERE MISSING.”

DAN BURDEN, DIRECTOR OF INNOVATION AND INSPIRATION AT BLUE ZONES

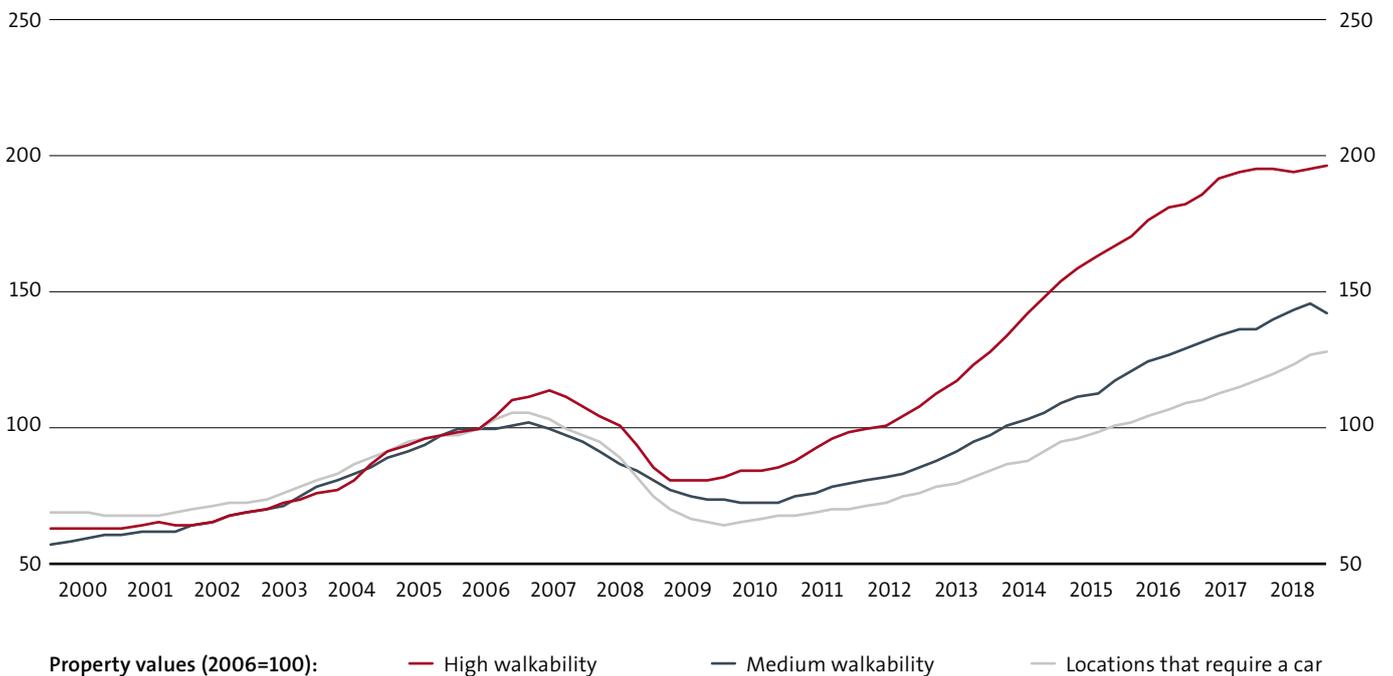
CAR USAGE (CAR USED AT LEAST ONCE PER WEEK IN PERCENT)





“WALKABILITY HAS THE POTENTIAL TO DELIVER SUBSTANTIALLY HIGHER RENTAL AND CAPITAL GROWTH.”

HELGE VAHLENKAMP, PORTFOLIO MANAGER



THE KGAL TEAM IN LONDON TELL US ABOUT THEIR FAVOURITE PLACES NEAR THE OFFICE.

WALK SCORE 99: PARADISE FOR PEDESTRIANS



JONATHAN MAY, SENIOR SALES DIRECTOR

📍 *Borough Market*
8 Southwark Street, London SE1 1TL

On the south bank of the River Thames, just over London Bridge, Borough market is a ten minute walk from the office.

It has an array of shops, stalls, bars and restaurants, serving local and speciality foods and fresh artisan produce. I like to wander round on a Friday lunchtime and pick up a few things for the weekend.





KERSTIN HARTMANN, CONSULTANT MANAGER

📍 *Tate Gallery of Modern Art*
Bankside London SE1 9TG

A nice ten minutes' walk from our London office, along St. Paul's Cathedral and across the Thames via Millenium bridge, leads to Tate Modern – an art

gallery based in the former Bankside Power Station. As with most galleries and museums in London, there is no admission charge, so it is worth going over after work and just enjoying one of the exhibitions.



PETER TSCHÜTSCHER, SENIOR SALES DIRECTOR

📍 *Cannon Green*
27 Bush Lane, London EC4R 0AA

City Pavilion is located in Cannon Green, a brand new serviced office complex in the middle of the city. Cannon Green is

a new modern and professional atrium glass building with several break out spaces, a coffee shop, restaurant, a gym and a roof terrace to enjoy your lunch in the sun with far reaching views. The perfect working space and location.



ELIN ABERG, SENIOR SALES DIRECTOR

📍 *The Oyster Shed*
1 Angel Lane, London EC4R 3AB

After work I very much enjoy taking a walk down to the Oyster Shed restaurant by the Thames. It is a short walk

from our London office and, is a perfect spot to enjoy dinner and a Pimm's in the summer months. The venue quickly fills up with locals happily spilling onto the promenade along the waterfront.

KGAL OFFICE

📍 *City Pavilion, Cannon Green*
27 Bush Lane, London EC4R 0AA

KGAL PROPERTIES

📍 *30 Park Street*
📍 *60 Gracechurch Street*

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KGAL Group

KGAL has been active on the real estate market since the company was founded in 1968. To date, it has acquired real estate in individual or portfolio transactions for more than € 20 billion. In the real estate sector, KGAL focuses on 3 areas: offices, retail and residential. KGAL Group is a leading, independent investment and asset manager with an investment volume of €20.5 billion. The investments focus on long-term capital investments for institutional investors in the real estate, infrastructure and aircraft asset classes.

Source information:

Deutsches Mobilitätspanel 2014/2015: Karlsruher Institut für Technologie (KIT), 2016

Real Capital Analytics & Walk Score US Property Market Indices (Office, Retail, Apartment), Januar 2019

www.walkscore.com

www.bluezones.com

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