



CMS European Real Estate Deal Point Study 2021

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The results of the study and/or this report and the conclusions presented therein do not necessarily reflect the views of the lawyers or employees of CMS Hasche Sigle involved in preparing the study and/or this report. A total of 1,936 real estate transactions were evaluated for the study and/or this report. There are inevitably many differences between the individual agreements and the clauses they contain. Individual provisions were categorised in order to allow the results to be compared, a process that required a degree of subjective discretion. Although certain trends can be identified in the study and/or this report, each transaction exhibits individual features that have not been included or referred to in the study and/or this report. As a result, the conclusions of the study and/or this report are subject to a number of important reservations that are not expressly disclosed in the study and/or this report.

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Real Estate Investment Market

2020 / 2021

The COVID-19 pandemic has left its mark on the European investment market, although the impact was less severe than initially expected. The investment volume was around 23% lower than in the previous year, 2019, which had set a record. Significant differences emerge when one compares the individual markets over the year as a whole. In 2020, the German real estate market for example posted a year-on-year decline of 19%. This investment volume means that Germany was the second-largest real estate market after the US last year, making it the largest in Europe. France and Italy, on the other hand, saw falls in investment volume of 35% and 28%, respectively, while the Czech Republic slumped by 56%.

The proportion of foreign investors also declined noticeably in the markets. The office asset class remained the front-runner, but with a significant decline as more and more people are working from home. The continued growth in logistics is unsurprising. However, the pandemic also had an impact on purchase agreements and the average time taken to complete a transaction. For example, the trend towards more buyer-friendly arrangements was a notable feature, as reflected in decreasing *de minimis* and basket thresholds and caps, and longer limitation periods. Significantly longer contract negotiations were also seen on average, with a rising number of transactions being abandoned.

European investment volumes are still at a high level, despite the decline recorded. This is chiefly due to continuing favourable credit terms and the lack of alternative investment options. The trend in real estate investments in 2021 will largely depend on the course the pandemic takes. We are delighted that Frank Leukhardt, CEO and Regional Manager at Colliers, has provided an initial assessment in an interview that can be found on page 13 of the study.

The new CMS European Real Estate Deal Point Study 2021 now includes more than 1,900 transactions. Compiling the study involved comparing the transactions on which we advised in the period 2010 to 2020, enabling us to highlight developments and trends.

The market response to our study indicates that it can be a valuable tool when preparing for contract negotiations. Any feedback you may have is very welcome.



A handwritten signature in blue ink that reads "Volker Zerr".

Dr Volker Zerr, FRICS
Partner

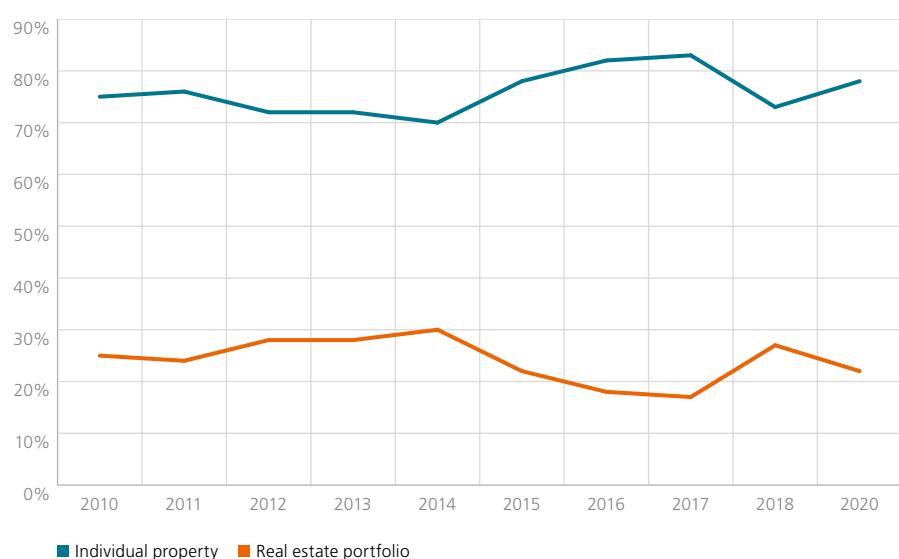


A handwritten signature in blue ink that reads "Marie Scott".

Marie Scott
Partner, Co-Head of the
CMS Real Estate Group

Asset classes

Portfolio – Individual property – Change over time in Europe



Individual property 78%

Real estate portfolio 22%

CMS trend index for Europe: Individual property

A horizontal bar chart comparing the percentage of respondents feeling safe walking alone at night across four years: 2016, 2017, 2018, and 2020. The x-axis represents the percentage from 0% to 100%, and the y-axis lists the years. Each bar is composed of vertical teal segments.

Year	Percentage (%)
2016	82%
2017	83%
2018	73%
2020	78%

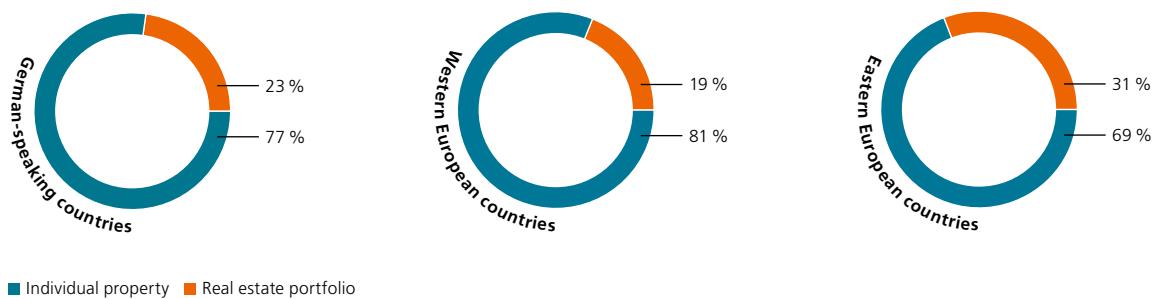


After a short-lived decline, transactions involving individual properties are rising again

The period from 2010 to 2014 saw growth in portfolio transactions throughout Europe. While they accounted for 25% of the transactions evaluated in 2010, they reached the 30% mark in 2014. In 2015, however, the trend reversed in favour of transactions involving individual properties. The peak here climbed from 70% to 83% over the period from 2015 to 2017.

A rise in portfolio deals was observed again starting from 2017, with their share up from 17% to 27% (2018). This was due to an increase in substantial retail property portfolios and industrial and logistics portfolios during these years. A slight decline to 22% was observed in 2020. The trend towards transactions involving individual properties thus continues at 78%.

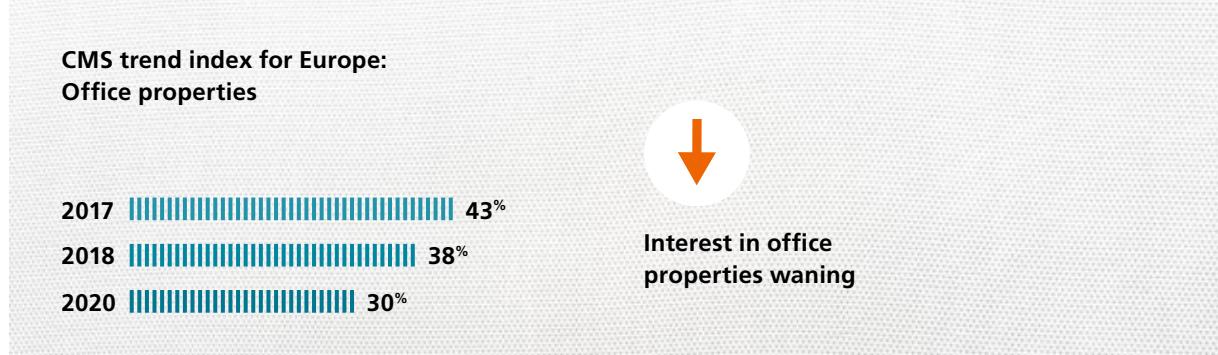
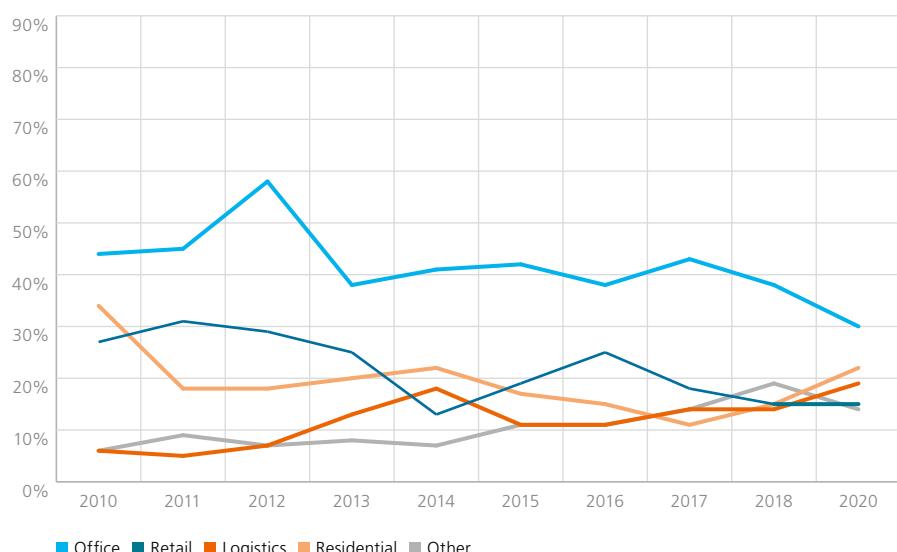
Portfolio – Individual property – Five-year period (2016 to 2020)



A Europe-wide comparison of all evaluated transactions in the period 2016 to 2020 reveals that single-asset deals were the norm in all regions. Portfolio transactions were of secondary importance. The proportion of portfolio transactions was highest in Eastern European countries, at almost a third (31%). In the German-speaking countries, by contrast, the share of portfolio transactions

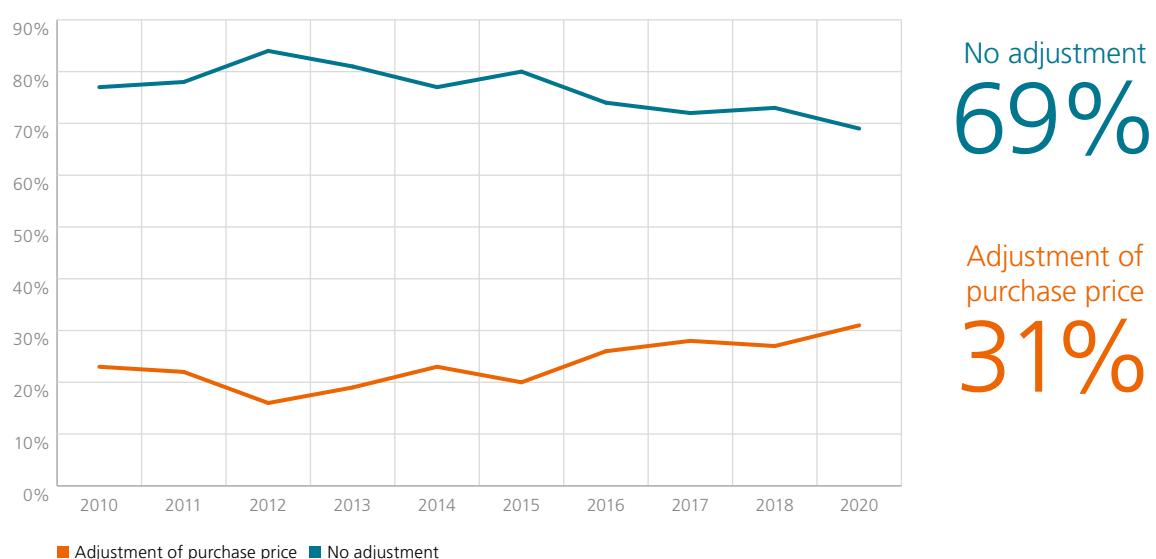
was only 23%. It was lowest in the Western European countries, at 19%. The lower proportion of portfolio transactions is attributable to strong demand for single assets in the core/core plus segment. This ongoing high demand makes marketing of individual properties at high prices particularly attractive.

Asset classes – Change over time in Europe



Purchase price

Purchase price adjustment – Change over time in Europe



The contracting parties may agree either a fixed price or a variable price, i.e. one linked to specific economic developments. In development projects, the purchase price is usually determined by rental income, which is an unknown quantity when the contract is signed. Other methods of agreeing a variable purchase price include linking the price to completion accounts, area measurements or the granting of planning permission. In some cases, these methods are also agreed in addition to linking the price to rental income.

The proportion of transactions featuring variability fluctuated only slightly in the period from 2010 to 2015, ranging between 23% in 2010 and 2014 and a low of 16% in 2012. Since 2016, however, the proportion of transactions with variability has remained above 25%. This trend continued in 2020 (31%). One driver in this respect is the elevated proportion of forward deals (development project transactions) over the past three years, in which sellers benefited from positive market trends through purchase price adjustments and earn-out clauses.

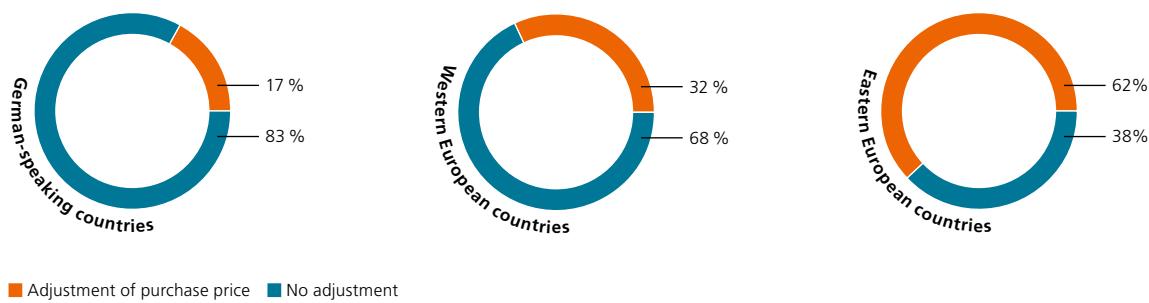
CMS trend index for Europe: Agreements with variable purchase price

2017	██████████	28%
2018	██████████	27%
2020	██████████	31%



Percentage of transactions with purchase price adjustment clauses has remained above 25% in recent years

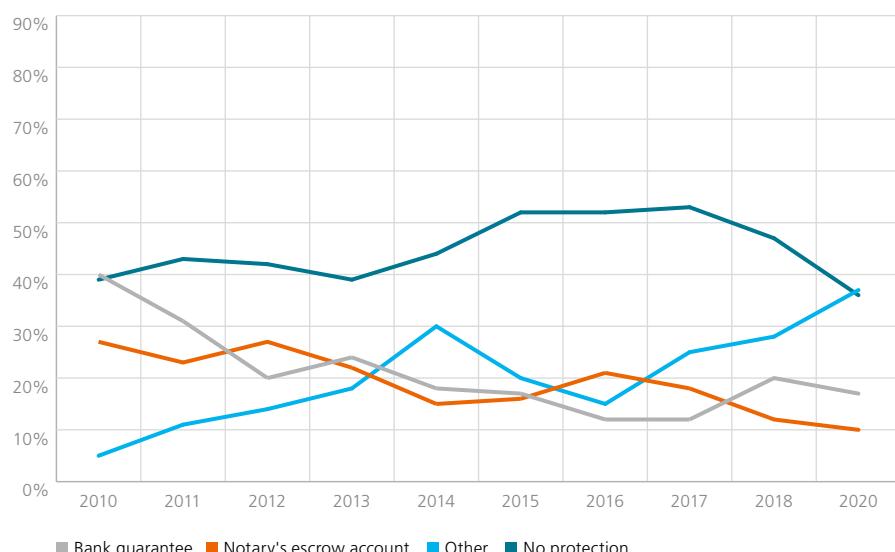
Purchase price adjustment – Five-year period (2016 to 2020)



In the German-speaking countries, contractual purchase price adjustment provisions were included in only 17% of cases in the five-year period shown. However, it should be noted here that fixed purchase prices were agreed in almost all deals in Switzerland. The proportion of transactions with purchase price adjustment was accordingly lower for the German-speaking countries. In the Eastern Europe countries, on the other hand, more than half of all agreements concluded during this period provided for a variable purchase price (62%). This is due to the fact that well over half of transactions (59%)

in these countries were share deals. In share deals, agreement of a fixed purchase price is a rare exception. In the Western European countries, a purchase price adjustment was agreed in almost a third of transactions over the past five years (32%). This is due partly to the likewise relatively high percentage of share deals (31%) compared to the German-speaking countries. A further factor here is that 12% of all transactions in these countries were development projects (forward deals), for which a variable purchase price is the rule.

Payment protection – Change over time in Europe³



³ Since different protection methods were combined in some cases, the figures shown do not always add up to 100%.