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FIG WORKING WEEK 2023

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Protecting
Our World,
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New Frontiers

Taxonomy of Commercial Real Estate

Structuring the Substantive Submarket of Commercially Used Real Estate in Germany for the Purpose of Market Observation and Valuation

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1. Intro: Thoughts on „relevant information“



- What data is entitled to be „*information*“?
- When is information „*relevant*“?
- Are these data justified to make generalized statements about "my market"?
- Do they differentiate sufficiently between submarkets? Or do they sell apples & oranges together as fruit?
... or as “data-mush”?



1. Intro: German CRE Markets & the Question of Transparency



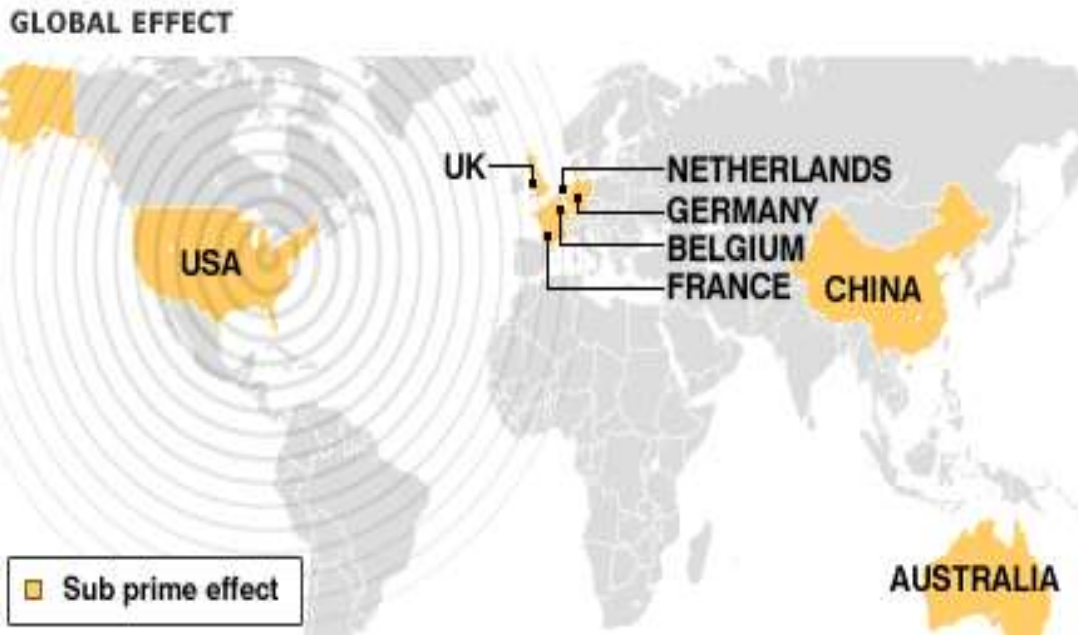
Image: Andreas Gücklhorn on Unsplash

- Available data? „Yes, but...”
- Information deficits:
 - hardly any official statistics on CRE
 - databases methodologically not comparable
 - not comprehensive for the whole of Germany
 - no agreement on the types of CRE

Hypothesis 1:

There can be no market transparency without uniform understanding of the market and its submarkets.

1. Intro - Why are CRE Markets so important?



Graphic: BBC News

<< *Effects of market intransparency*

- Great importance for financial stability
- Germany: [2021]
10.4 trillion € fixed assets in buildings= 3 x GDP! →
38% are CRE
- EU: Basic need for harmonization of data & definition of standards

2. Taxonomy of CRE – What is the approach about?

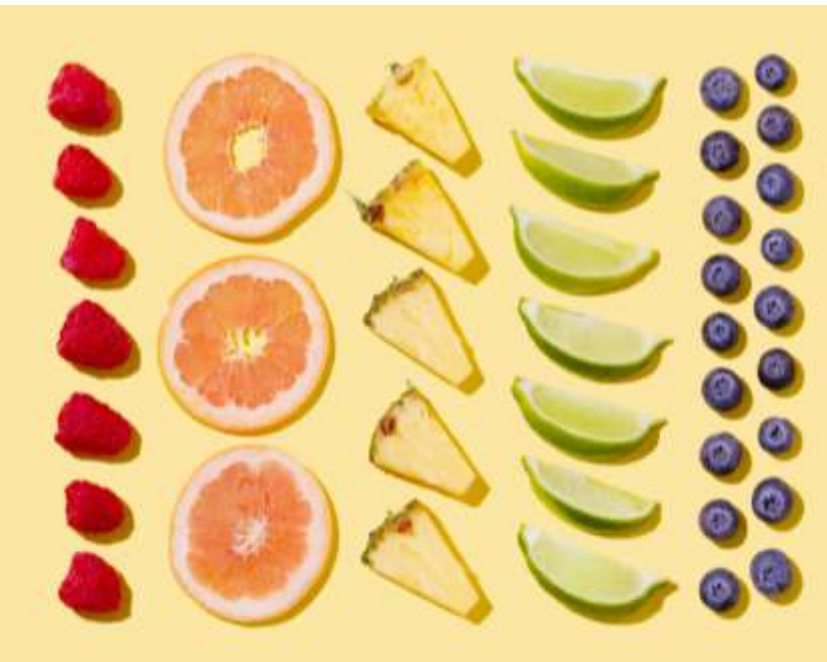


Image: Amy Shamblen on Unsplash

Implement structures to enable market transparency:

1. common understanding of CRE types
2. define, differentiate, merge/aggregate, categorize

Hypothesis 2:

Market transparency has to be demanded - it needs a FOR WHOM ? and a FOR WHAT?

>> recognized deficits bring more disadvantages & assigned value weights higher

3. Taxonomy of CRE – How we proceeded



Image: Karl Ostroski on Unsplash

- Formation of an expert group
- Consistency matching with national & EU classifications
- Guiding ideas in advance:
 1. Existing use determines the property type
 2. 3 different dimensions of submarkets
 3. Clear demarcation CRE vs. residential properties

2. Taxonomy of CRE – Definition



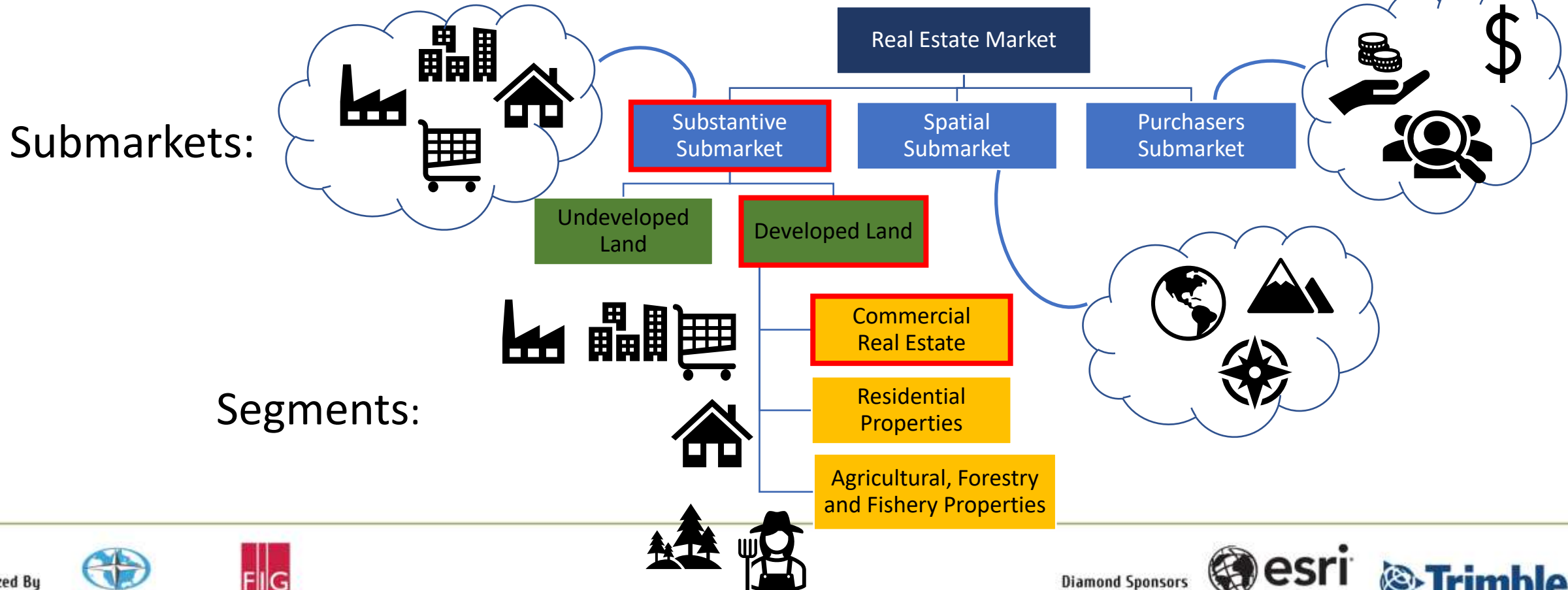
Image: Janko Ferlic on Unsplash

„Commercial real estate is such (walk-in) buildings that the user utilizes as a factor of production to create a product or service.“

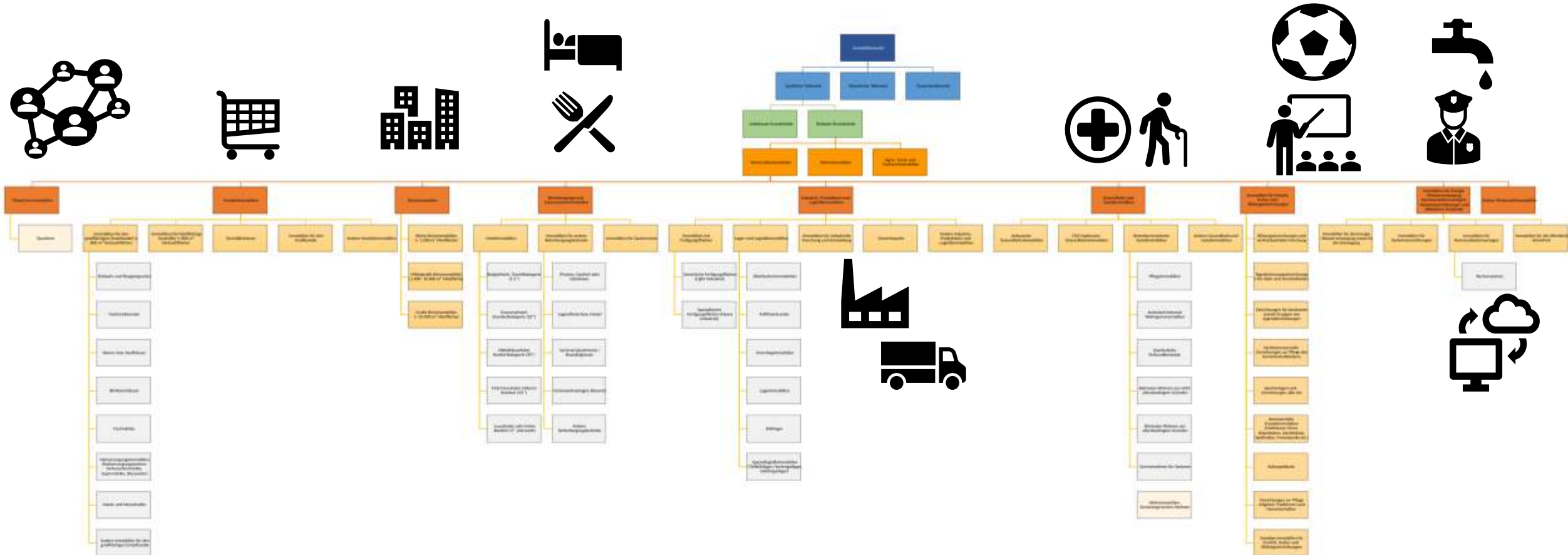


Image: Jonathan Borba on Unsplash

2. Taxonomy of CRE - Transparency through structuring



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[please finde the details in the paper]

2. Taxonomy of CRE - Segment Mixed-Use Properties

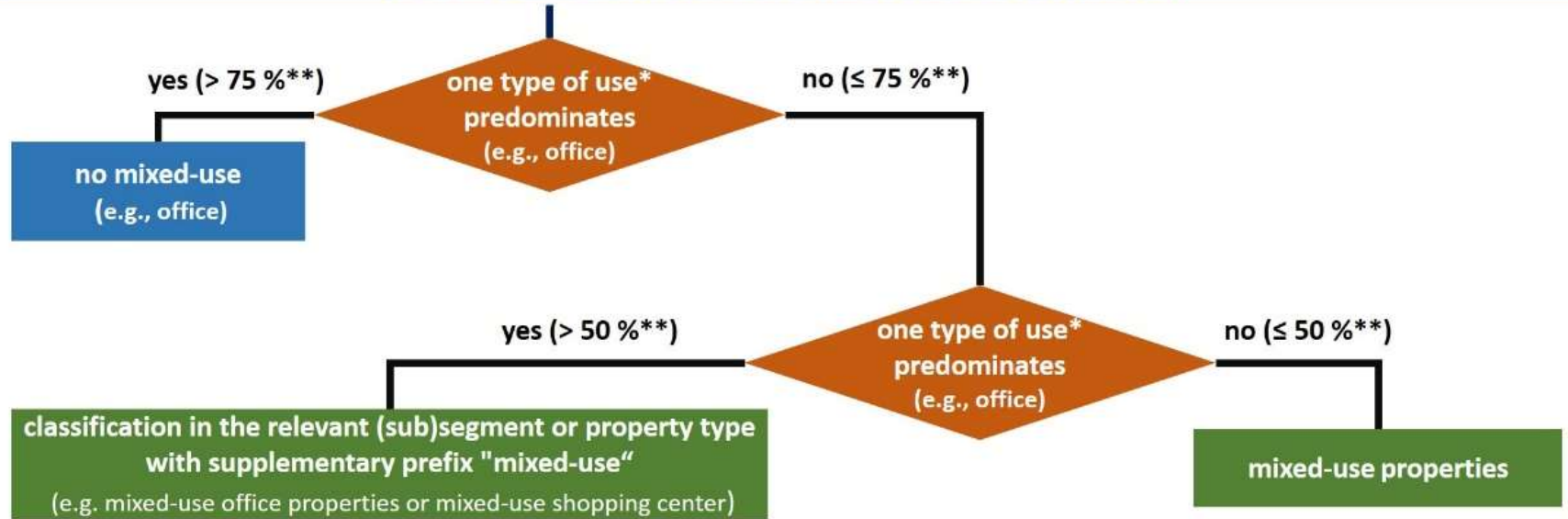


Images: Hamburg © Florian Janssen (left)
Tangerine Newt on Unsplash (right)

Hypothesis 3:

Market transparency is not Top-Down, but needs common agreement processes on WHAT and HOW to do it.

Identification of mixed-use properties (at least 2 different, independent types of use in one property *)



Special case of predominant industrial or logistics use *within a real estate agglomeration*: This is a business park that is to be classified in the *industrial and logistics properties'* segment.

Special case of predominant residential use: This is not the category of commercial real estate but residential properties.

* A type of use is defined by one of the segments of the commercial or residential category as presented in the taxonomy.
** The percentages for the shares of use relate to the gross income or, in the absence of this to the shares of the living space or usable areas

3. What are the 3 key messages?

- Taxonomy of CRE = important tool for all market players in GER
- the more use it the more valid the aggregated information will be
- Benefits: improved data quality through standards; better data exchange and analysis



Image: Sunder Muthukumaran on Unsplash

3. The 3 key hypotheses concerning market transparency:

H (1):

There can be no market transparency without uniform **understanding of the market** and its submarkets.

H (2):

Market transparency has to be **demanded** - it needs a FOR WHOM ? and a FOR WHAT?
(assigned value weights higher)

H (3):

Market transparency is not Top-Down, but needs **common agreement processes** on WHAT and HOW to do it.



Download the report (German):



[https://zia-deutschland.de/wp-content/uploads/2023/05/Taxonomie der Wirtschaftsimmobilien.pdf](https://zia-deutschland.de/wp-content/uploads/2023/05/Taxonomie_der_Wirtschaftsimmobilien.pdf)

...soon coming: English edition!

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