PRIMONIAL
REIM GERMANY

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PRIMONIAL REIM GERMANY PERSPECTIVES

Investor´s view on the German Real Estate Market

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FIGURES 2023

FORECAST ECONOMIC GROWTH (GDP)

+0.3%

FORECAST INFLATION

+5.3%

10-YEAR GOVERNMENT BOND YIELDS

+2.4%

Source: Oxford Economics, Bundesbank

The Research & Strategy Department´s role is to formalize Primonial REIM´s real estate investment strategies, based on continuous monitoring of the European markets. By nature, real estate is at the crossroads of financial (interest rates), economics (tenants), demographics and social factors. This is why a broad analysis is needed, which is also long term and therefore matches the horizon of most real estate investors.

Primonial REIM relies on its local teams to provide on-the-ground research on the German markets. As Germany is a polycentric market, with specific real estate features, standards of valuation, demographic challenges and industrial forces, we want to provide a regular analysis of Germany´s real estate markets, from the investor´s viewpoint. This is the purpose of our quarterly Real Estate Perspectives Germany study.

ECONOMY

The issue of energy shortages has (for the time being) disappeared from the public debate, and the bottlenecks in global supply chains, especially between China and Europe, have largely been resolved. This is reflected in a significant increase in imports and exports between Germany and China at the beginning of the year. Nevertheless, only weak economic growth of 0.3% is expected for Germany for 2023. The main reasons for this are high energy prices and continued dependence on gas supplies.

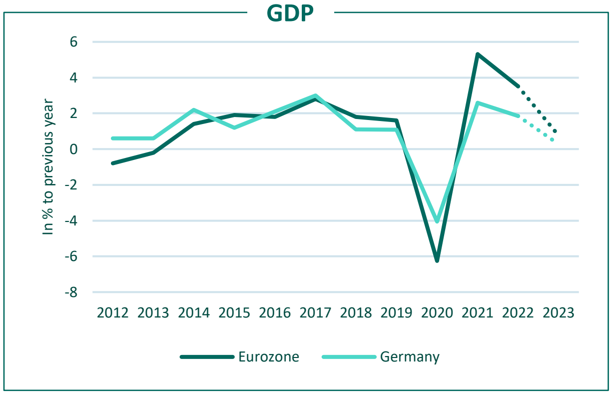
Yields on 10-year government bonds are currently around 2.4%. Despite the rise in yields, the risk premium for real estate is therefore not yet at the level seen before the key interest rate increases at the beginning of 2022.

INFLATION

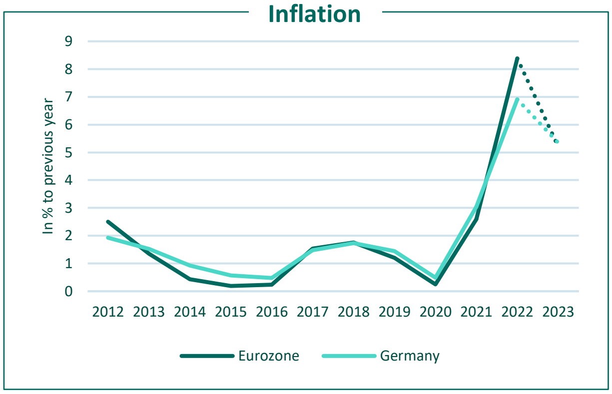
The days of double-digit monthly inflation rates from last year are now over. Nevertheless, the widely hoped-for base effect has not yet been observed to the same extent. Although energy prices have returned to normal, the inflation rate remains at a high level of 7.4% in March 2023.

With regard to key interest rate developments, further moderate increases are expected by the end of the year to push the inflation rate to a lower level. Food prices in particular continue to show high inflation rates. The risk of wage-price spirals is also present against the background of high wage adjustments demanded by unions. Overall, a rapid normalization of inflation rates to the 2% targeted by the central bank is not expected in the short term. An annual inflation rate of 5.3% is therefore forecast for the year as a whole. In the euro zone, a comparable level of 5.2% is expected.

GDP



Inflation



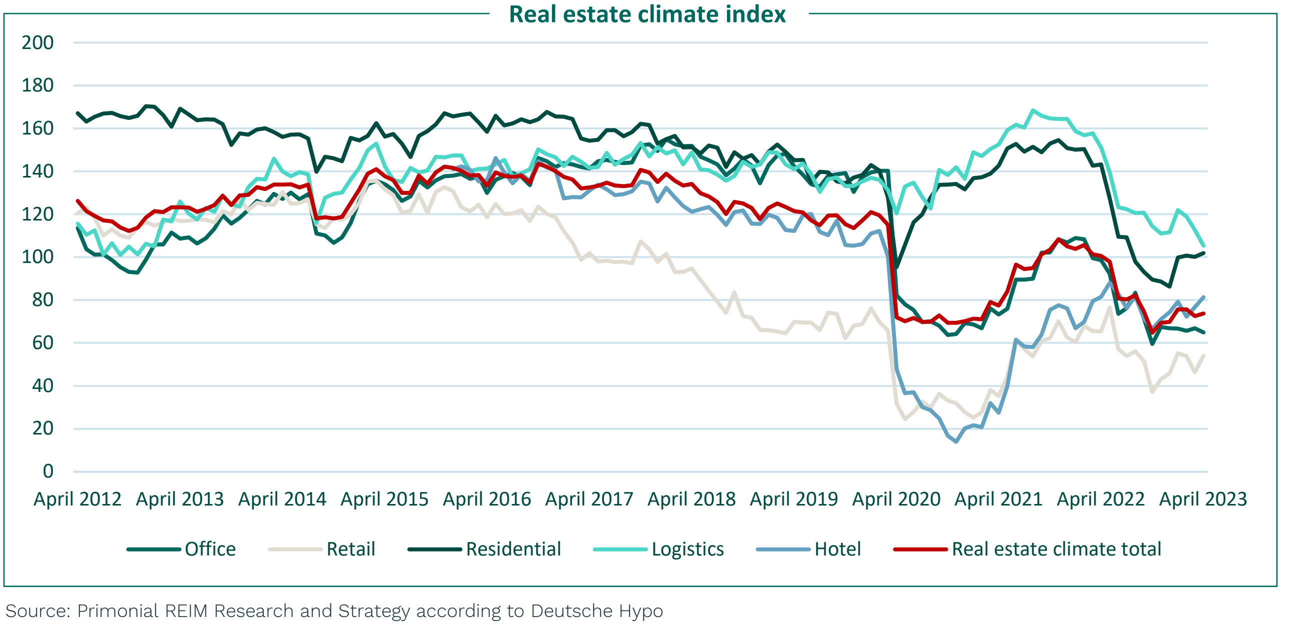
Source: Oxford Economics

GERMAN REAL ESTATE CLIMATE

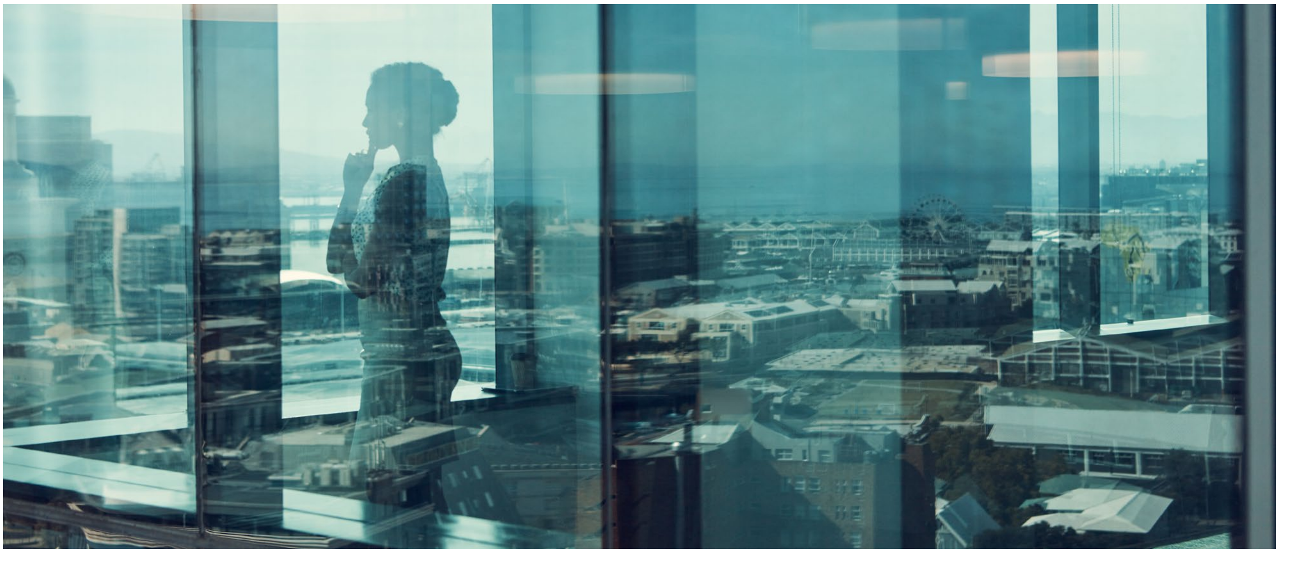
The real estate market is not picking up speed. This can be seen not only in the transaction figures, but also in the sentiment barometer. The value for the overall real estate climate is currently 73.7. Even the asset classes logistics and residential, which have been very crisis-resistant in recent years, are currently experiencing a visible slump in sentiment; this can be clearly seen from index values close to the 100 mark, which is regarded as the "neutral line".

The currently very gloomy mood can be interpreted as a harbinger of price corrections and market adjustments still to come.

In the case of listed real estate companies, the depreciation in the value of real estate can already be seen in the sharp fall in share prices. Non-listed real estate valuations are valued differently, through a market-to-model approach. Volatility of direct real estate is therefore much lower than that of the stock market. Even though the pressure to sell is real for some investors- not least due to higher capital requirements of the financing banks and the denominator effect. Greater momentum on the German real estate market in the coming months is therefore entirely likely. For investors with the appropriate capital, there could therefore be attractive opportunities to buy in the course of the year.



Source: Primonial REIM Research and Strategy according to Deutsche Hypo

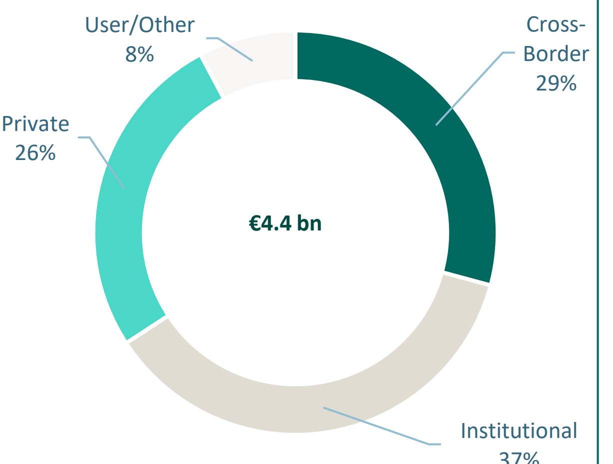


TRANSACTION VOLUME

The real estate market is at a standstill. Of course, this statement is not true in absolute terms, and the best evidence to the contrary is the roughly EUR 4.4 billion in transaction volume recorded in the first quarter of 2023. Nevertheless, in many asset classes, less money was invested in real estate at the beginning of the year than at any time in more than a decade. For office properties in particular, buyers and sellers were rarely able to agree on a price in the first quarter. The highest transaction volume was recorded for residential properties (EUR 1.2 billion), followed by office buildings (EUR 1.0 billion) and retail properties (EUR 0.9 billion). The figures for the above-mentioned frontrunners are all well below the ten-year average for the prior-year quarters. All other asset classes were also affected by significant declines. This also applies to logistics properties, which have established themselves as an investor favorite in recent years. The only exception is healthcare, although here, too, some uncertainties have risen due to a number of operator insolvencies.

Foreign investors' interest in the German real estate market has also cooled significantly. In the first quarter of 2023, only around EUR 1.3 billion was invested in German real estate by foreign investors.

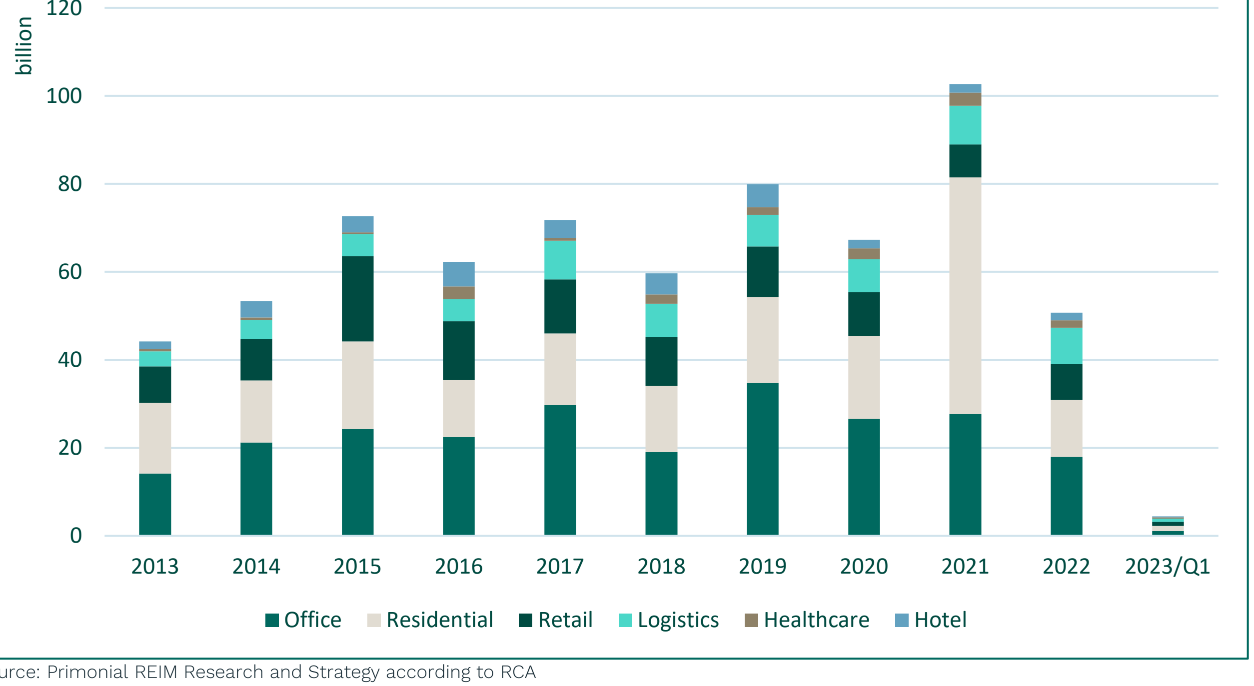
Investors composition Q1/ 2023



OUTLOOK

Rising interest rates and increased yields on investment alternatives, especially government bonds, continue to make it difficult for institutional investmentmanagers to find capital for real estate investments. However, it is to be expected that the pressure to sell will increase for some real estate players in order to be able to maintain higher liquidity for the increased (re)financing and refurbishment costs. Attractive purchasing opportunities may therefore arise increasingly over the year.

Transaction volume per asset class



Source: Primonial REIM Research and Strategy according to RCA

SUMMARY ASSET CLASSES

Asset Class	Transaction Volume Q1/2023	Transaction Volume 5-year-average Q1	Cross-Border Volume Q1/2023	Prime Yields Q1/2023	Trend Transaction Volume Previous Year's Quarter
Office	€1.0 bn	€4.8 bn	€0.1 bn (10 %)	3.8 %	↘
Residential	€1.2 bn	€3.9 bn	€0.1 bn (8 %)	2.5 %	↘
Retail	€0.9 bn	€1.8 bn	€0.5 bn (55%)	3.7 % (High-Street-Shops)	↘
Healthcare	€0.3 bn	€0.3 bn	€0.02 bn (7 %)	4.6 %	↘
Hotel	€0.2 bn	€0.6 bn	€0.1 bn (50 %)	4.7 %	↘
Logistics	€0.7 bn	€2.1 bn	€0.3 bn (43 %)	4.0 %	↘

Source: Primonial REIM Research and Strategy according to CBRE, RCA

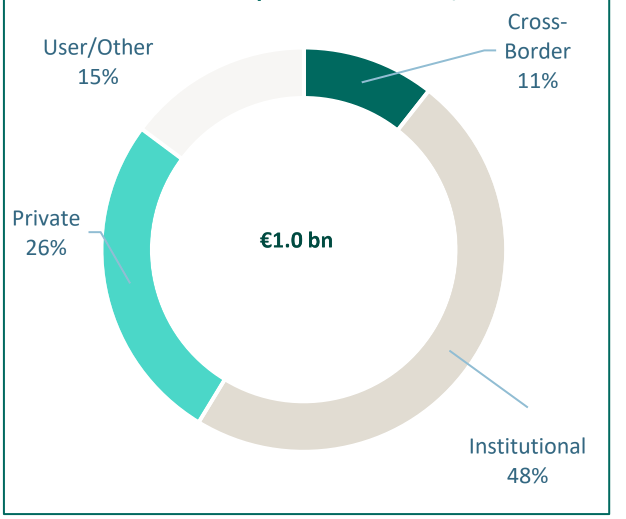
OFFICE

OFFICE TRANSACTION VOLUME Q1/2023	€1.0 bn
THEREOF CROSS-BORDER TRANSACTION VOLUME Q1/2023	€0.1 bn
PRIME YIELDS OFFICE A-CITIES Q1/2023	3.8 %
PRIME YIELDS OFFICE SECONDARY-CITIES Q1/2023	4.3 %
TREND TRANSACTION VOLUME COMPARED TO THE PREVIOUS YEAR QUARTER	↘

With a transaction volume of just one billion, the German office real estate market is experiencing its weakest start in more than a decade. Concerns about a recession continue to play a major role. More than in other asset classes, a wait-and-see attitude prevails on the part of both sellers and buyers. Concerns that purchases may be too expensive on the one hand and hopes that prices will rise again on the other are making pricing difficult in many cases. Foreign buyers are also holding back noticeably and invested just over EUR 100 million in German office properties in the first three months of the year. Prime yields have risen further and currently stand at 3.8% in A-cities and 4.3% in secondary cities.

The cooling of the markets has now also reached the rental market. Office take-up in the first quarter in the top 7 markets is significantly lower than in previous years. At the same time, vacancy rates have risen only moderately, which can be explained by a lower volume of new construction and by the fact that unemployment remains low. The rental trend remains positive, particularly in the prime segment. Top rents in almost all major office markets have risen compared with the previous year. It therefore remains to be said that the wait-and-see attitude is now also influencing the leasing markets in some areas. Companies are looking to the future with greater uncertainty and are therefore reluctant to move or lease new space.

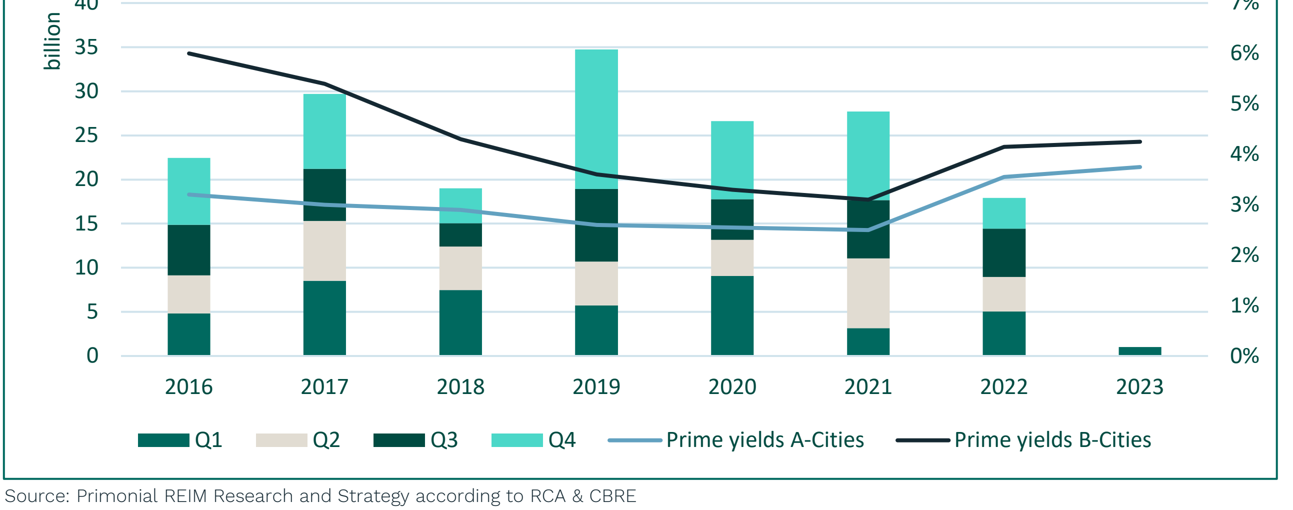
Investors composition office Q1/2023



OUTLOOK

The pressure to sell on the part of some portfolio holders in the office sector will increase in the coming months. This may be in order to increase liquidity against the backdrop of upcoming refinancing or to avoid major investment measures, such as upcoming (energy) refurbishment in sub-portfolios. It can therefore be expected that attractive opportunities will arise during the year for players who have capital and tailor-made ESG concepts.

Office transaction volume and yields



Source: Primonial REIM Research and Strategy according to RCA & CBRE

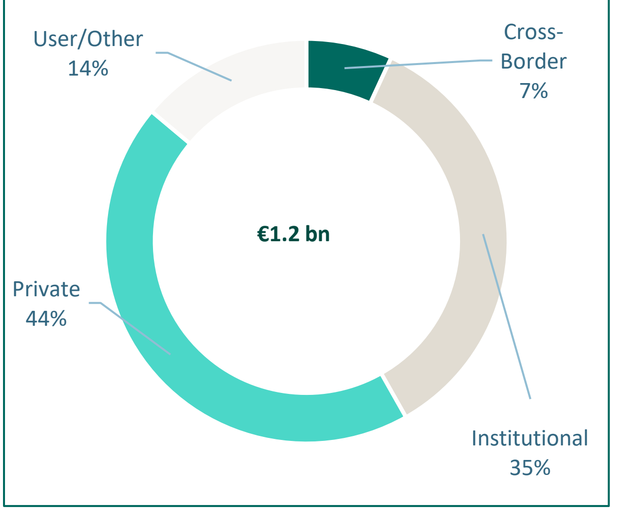
RESIDENTIAL

TRANSACTION VOLUME RESIDENTIAL Q1/2023	**€1.2 bn**
THEREOF CROSS-BORDER TRANSACTION VOLUME Q1/2023	**€0.1 bn**
PRIME YIELDS RESIDENTIAL Q1/2023	**2.5 %**
TREND TRANSACTION VOLUME COMPARED TO THE PREVIOUS YEAR QUARTER	↘

Residential investments took the top spot in terms of transaction volume in the first quarter. Nevertheless, residential real estate is also clearly affected by investor restraint. This is illustrated by a comparatively low investment volume of EUR 1.2 billion, which is well below the 10-year average for residential investments.

The slump in the number of permits and completions combined with already high demand for housing in the major conurbations has led in some cases to significant rent increases on the housing markets. In many broadly diversified portfolios, residential real estate is therefore currently the anchor of stability. Nevertheless, portfolio holders are also facing major challenges in the residential market. On the one hand, regulatory requirements relating to energy-efficient building refurbishment and the switch to fossil fuels are becoming ever more stringent. On the other hand, it is becoming increasingly difficult to pass on CapEx to tenants via the modernization levy. In this area of tension, larger housing stock owners will be faced with the choice in the coming years of either making major investments or selling off part of their portfolios. Germany's largest housing company, Vonovia, is already in the process of selling larger sub-portfolios in order to maintain sufficient financial resources for the extensive refurbishment measures of the remaining portfolio and for upcoming refinancing.

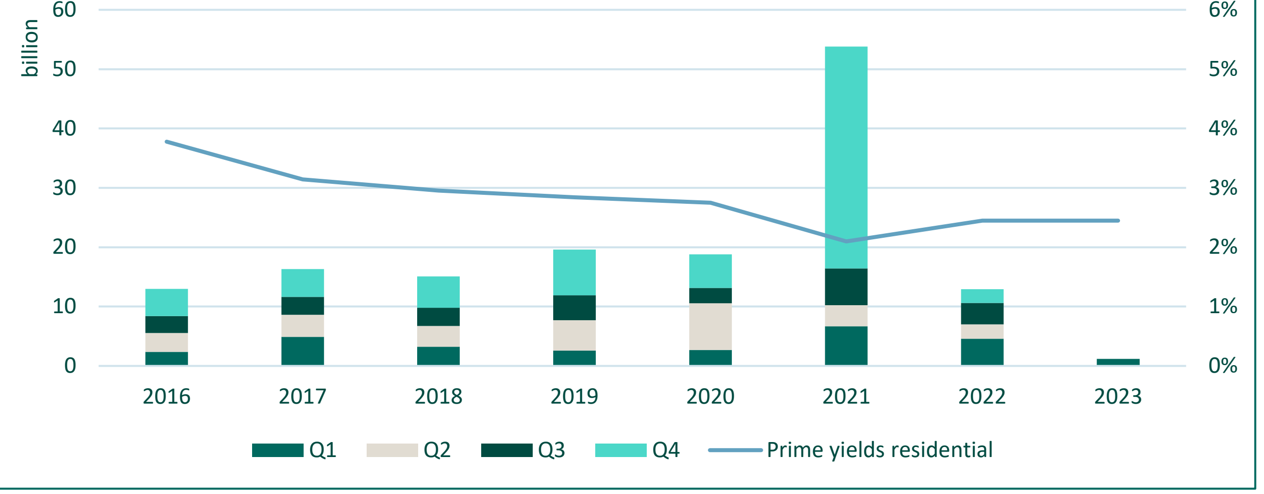
Investors composition residential 2023/Q1



OUTLOOK

The housing market is currently seen as an anchor of stability in a complicated investment environment. Rents are expected to rise due to lower new construction activity and sustained high demand for housing. However, investors in the German housing market have to reckon with increasingly stringent regulatory requirements in terms of both tenant protection and energy-efficiency upgrades.

Residential transaction volume and yields



Source: Primonial REIM Research and Strategy according to RCA & CBRE

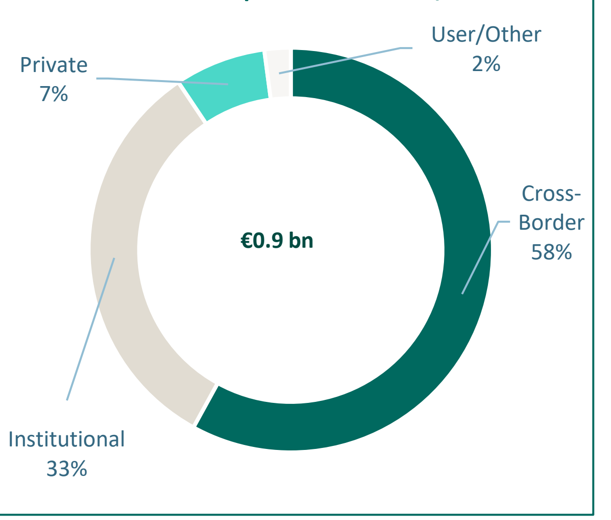
RETAIL

TRANSACTION VOLUME RETAIL Q1/2023	**€0.9 bn**
THEREOF CROSS-BORDER TRANSACTION VOLUME Q1/2023	**€0.5 bn**
PRIME YIELDS HIGH-STREET-SHOPS Q1/2023	**3.7 %**
PRIME YIELDS SUPERMARKETS Q1/2023	**4.4 %**
PRIME YIELDS SHOPPING-CENTER Q1/2023	**5.1 %**
TREND TRANSACTION VOLUME COMPARED TO THE PREVIOUS YEAR QUARTER	↘

With a transaction volume of almost EUR 1 billion, the retail property market also got off to a modest start to the year. However, the volume is close to the level of office properties, so that in an asset class comparison, retail properties can be counted among the winners at the start of the year. Foreign investors accounted for the majority of the capital invested, with a share of 58%.

Prime yields have risen moderately compared with year-end 2022 and currently stand at 3.7% for high-street stores, 4.4% for supermarkets and 5.1% for shopping centers. By contrast, the consumer mood of Germans has developed positively according to the HDE consumer barometer. Consumer sentiment has improved significantly since October of last year, even if the index in April 2023 remains at the previous month's level and the upturn has therefore recently weakened somewhat. For retail investors, it is still important to take a close look at the tenant mix and the future viability of the respective user's business model when selecting properties.

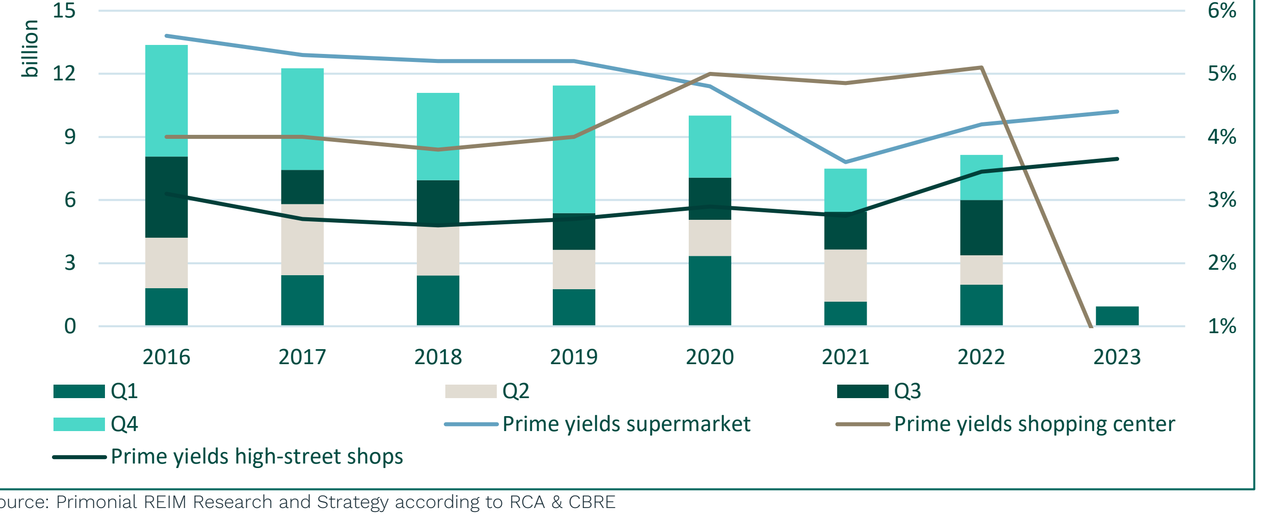
Investors composition retail Q1/2023



OUTLOOK

Retail investments are still something for specialists. A precise analysis of tenant creditworthiness plays an important role alongside location quality. Selling pressure for some retail investors could increase due to higher financing costs, so that purchase opportunities will arise for more opportunistic investors..

Retail transaction volume and yields



Source: Primonial REIM Research and Strategy according to RCA & CBRE

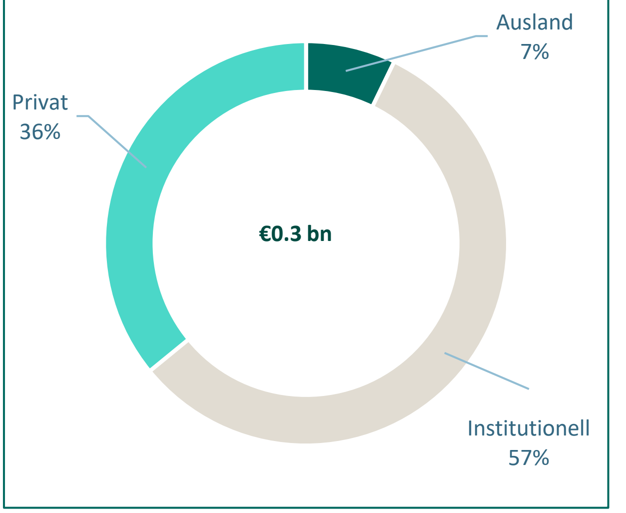
HEALTHCARE

HEALTHCARE TRANSACTION VOLUME Q1/2023	€0.3 bn
THEREOF CROSS-BORDER INVESTMENT VOLUME Q1/2023	€0.02 bn
PRIME YIELDS HEALTHCARE Q1/2023 (GROSS)	4.6 %
TREND TRANSACTION VOLUME COMPARED TO THE PREVIOUS YEAR QUARTER	↘

The still relatively young healthcare asset class has been experiencing its first real difficulties since the beginning of the year. The reason is a series of operator insolvencies that reveal certain structural problems in the financing of the healthcare sector in Germany. Overly bureaucratic and time-delayed care rate negotiations, unrealistically high occupancy rates as a basis for calculation and, of course, above all a lack of nursing staff are some of the structural problems operators have to contend with. Nevertheless, there are players in this complicated market environment who are managing to operate soundly and even to expand. One example is the successful re-letting of nursing homes for which the predecessor operating company recently had to file for insolvency.

Some investors also continue to believe in the future viability of the healthcare asset class. This is reflected in a transaction volume of around EUR 0.3 billion in the first quarter, which is roughly on a par with the prior-year quarters. Despite a number of operator insolvencies, the market therefore remains buoyant. Gross prime yields have risen significantly compared with last year and currently stand at 4.6%. Nevertheless, the rise in yields has so far been in line with the increase in other asset classes, which is mainly due to interest rates.

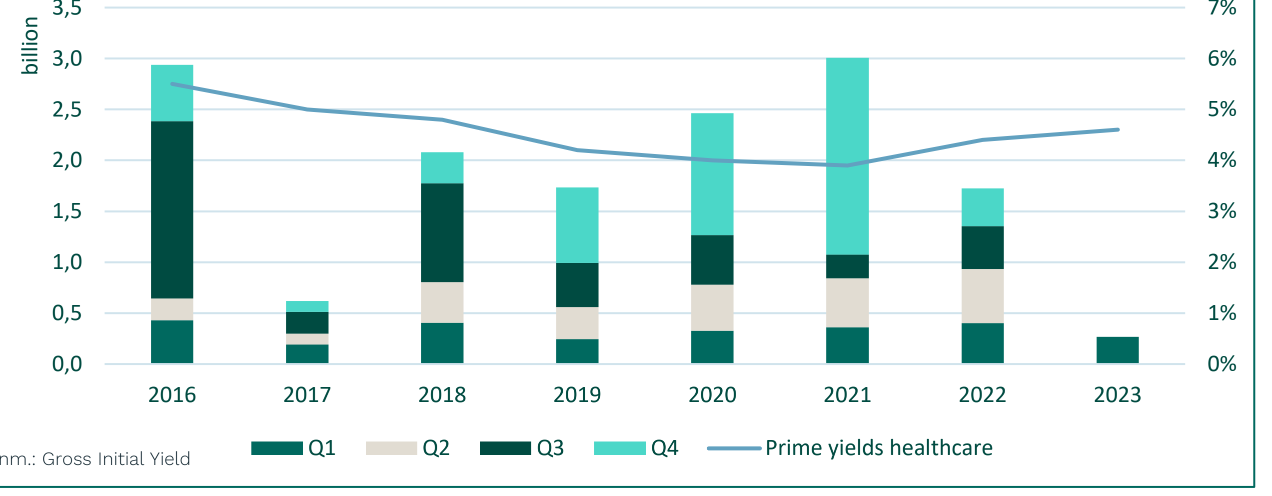
Investors composition healthcare Q1/2023



OUTLOOK

Operator insolvencies are currently dominating the news in the healthcare market. It cannot be ruled out that further individual operators will run into financial difficulties. Certain reductions in the value of nursing homes can therefore be expected over the year. As soon as the market has stabilized again - possibly also as a result of government support measures - high demand can be expected again both from investors and on the operator market against the backdrop of demographic developments.

Healthcare transaction volume and yields



Source: Primonial REIM Research and Strategy according to RCA & CBRE

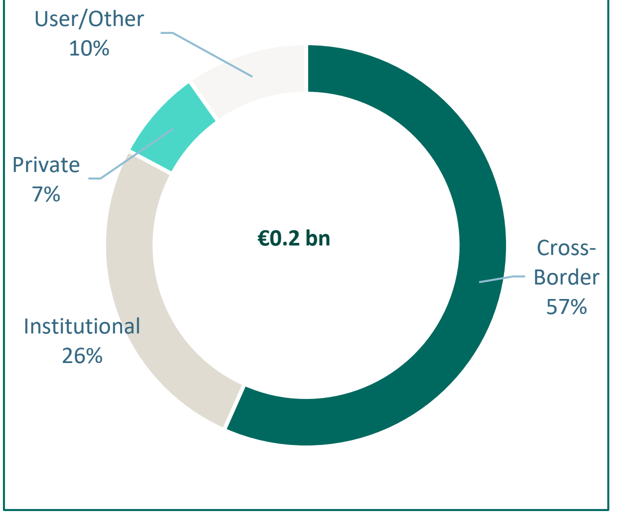
HOTEL

HOTEL TRANSACTION VOLUME Q1/2023	**€0.2 bn**
THEREOF CROSS-BORDER INVESTMENT VOLUME Q1/2023	**€0.1 bn**
PRIME YIELDS HOTEL Q1/2023	**4.7 %**
TREND TRANSACTION VOLUME COMPARED TO THE PREVIOUS YEAR QUARTER	↘

With a transaction volume of only EUR 0.2 billion, hotel investments rank last in a comparison of the six largest asset classes. The volume is thus at its lowest level for more than 10 years. A period that was still noticeably affected by the impact of the financial crisis. The already low level of investor interest is currently focused primarily on core properties. Prime yields for hotels are 4.7% in Q1/2023.

Overnight stays rose significantly at the beginning of the year compared with the previous year. Especially in the winter holiday regions, the number of guest arrivals was only just 13% below the figures for winter 2019/20, which was not yet affected by the pandemic restrictions. However, especially for foreign overnight guests, the numbers are still far from the pre-Corona years. Major challenges also exist on the personnel side, both in the accommodation establishments themselves and in the catering sector, which is so important for tourism.

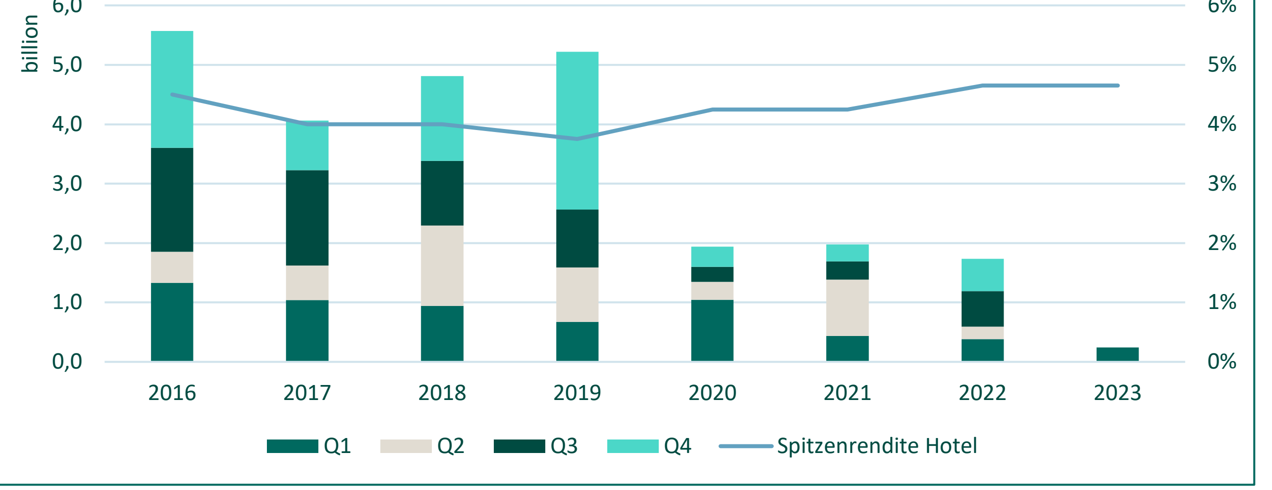
Investors composition hotel Q1/2023



OUTLOOK

Investors continue to give hotel investments a wide berth. Pre-Corona levels appear almost unattainable in all areas, both in terms of new construction volumes, occupancy rates and investment volumes. Hotel operators remain on a consolidation course. The hotel investment market is therefore not expected to develop much momentum over the year.

Hotel transaction volume and yields



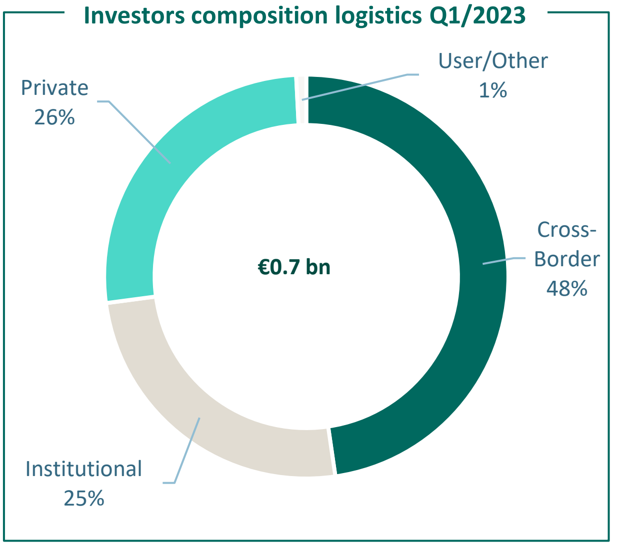
Source: Primonial REIM Research and Strategy according to RCA & CBRE

LOGISTICS

LOGISTICS TRANSACTION VOLUME Q1/2023	**€0.7 bn**
THEREOF CROSS-BORDER INVESTMENT VOLUME Q1/2023	**€0.3 bn**
PRIME YIELDS LOGISTICS Q1/2023	**4.0 %**
TREND TRANSACTION VOLUME COMPARED TO THE PREVIOUS YEAR QUARTER	↘

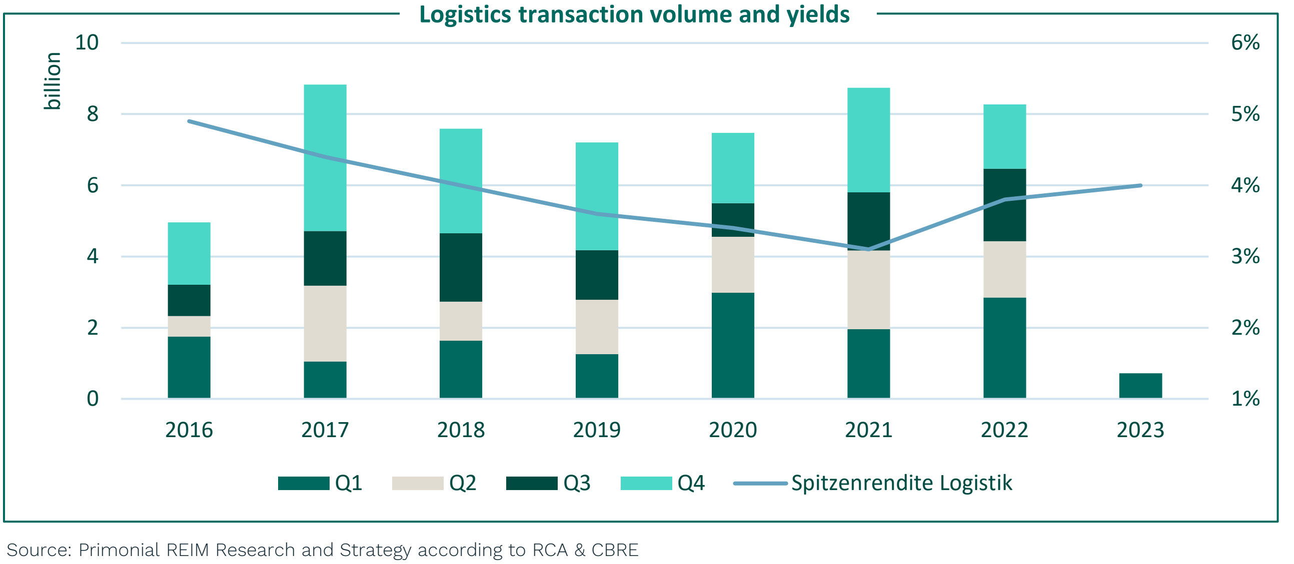
In recent years, logistics has established itself as the third most popular asset class among investors and also enjoyed an exceptional status during the pandemic, which led to high demand and significantly declining returns. At the beginning of the year, it can now be said that the gold-rush mood has also come to an end on the logistics markets. This is reflected in a transaction volume of EUR 0.7 billion at the beginning of the year, which is significantly lower than in the same quarter of the previous year. To the same extent, interest from foreign investors has also cooled significantly. For example, only around 300 million euros were invested in German logistics properties by foreign investors. The yield compression also came to an end in the course of last year due to the general interest rate trend. Currently, the prime yield for logistics properties is 4.0%.

However, logistics buildings continue to be highly sought after by solar companies looking for suitable (roof) space for the installation of large PV systems. By leasing the roof areas or optionally selling the solar power produced, investors can in this way tap attractive additional sources of income and at the same time significantly reduce the building-related carbon footprint.



OUTLOOK

The expected further interest rate steps by the ECB will also slow down the dynamics on the logistics investment market in the coming months. In the future, the focus could increasingly shift to other European logistics markets that offer low location costs but good infrastructure.



Source: Primonial REIM Research and Strategy according to RCA & CBRE

DEFINITIONS

10-year government bonds: debt securities issued by a state for a period of ten years, generally acknowledged to be a risk-free investment.

Investment volume/transaction volume: total volume of premises acquired in the offices, residential, retail, business premises and warehouses segments by an investor.

Take-up offices: all leases or sales to the occupant (as opposed to sales to investors) for premises to be used as offices. It is expressed as square meters of usable space.

Yield: ratio between the net revenues from the building and the capital committed by the buyer (acquisition price + fees and transfer taxes). All yields quoted follow this definition unless otherwise stated

High-Street-Shops: traditional ground-floor retail premises located in town-center high streets.

Shopping center: a building containing at least 20 retail outlets housed in indoor centers around a large food store that drives customer traffic.

RevPAR: abbreviation for Revenue Per Available Room. It corresponds to the turnover on accommodation of an establishment divided by the total number of rooms RevPAR also corresponds to Occupancy Rate multiplied by ADR.

Hotel Occupancy Rate (OR): ratio of the number of occupied rooms to the total number of rooms in a hotel.

About **Primonial REIM**

Primonial REIM has a workforce of 400 employees in France, Germany, Luxembourg, Italy, the UK and Singapore. Its values of conviction and commitment as well as its expertise on a European scale are used to design and manage real estate funds for its national and international clients, whether they are individuals or institutions.
Primonial REIM currently has €34.8 billion of assets under management. Its conviction-based allocation breaks down into:

- 44 % offices,
- 33 % healthcare/education,
- 11 % residential,
- 6 % retaill,
- 5 % hotels
- 1 % logistics.

Its pan-European platform manages 61 funds and has more than 80.000 investor clients, 53% of which are individual investors and 47% institutional. Its real estate portfolio consists of more than 1.400 properties (offices, health/education, retail, residential, hotels) located in eleven European countries.

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The Research & Strategy Department's role is to formalize Primonial REIM's real estate investment strategies, based on continuous monitoring of the French and European markets. Although collective real estate accounts for a growing share of institutional portfolios and household savings, it is at the crossroads of financial (hierarchy of rates), economic (tenants' business models), demographic (the metropolisation phenomenon) and societal (changes in usage) factors. This is why a cross-cutting analysis is needed, which is also long term and therefore in keeping with the horizon of most real estate investors.

Real Estate Convictions Germany offers Primonial REIM's quarterly view of the most important asset classes: offices, retail, residential, healthcare, hotel and logistics.

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Ref.: Real Estate Convictions Germany Brochure – 022022 - Primonial REIM, a simplified joint-stock company with capital of 10,000 euros, registered with the Business and Company Register, Paris, under number 884 030 842, with its head office at 6-8 rue du Général Foy, 75008 Paris, and with the tax identification number FR18 884 030 842.