PRIMONIAL REIM GERMANY

JULY 2022

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PRIMONIAL REIM GERMANY CONVICTIONS

An investor´s view on the German Real Estate Market

Florian Wenner, Senior Researcher, Primonial REIM Germany

FIGURES 2022

FORECAST ECONOMIC GROWTH (GDP)

+1.3%

FORECAST INFLATION

+6.7%

10-YEAR GOVERNMENT BOND YIELDS

+1.0%

Source: Oxford Economics

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), demographic 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 Convictions Germany* publication.

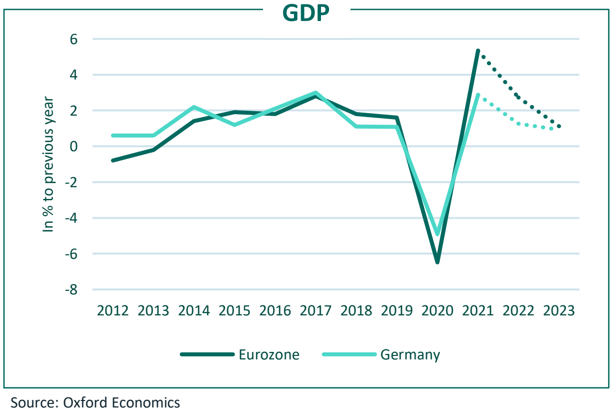
ECONOMY

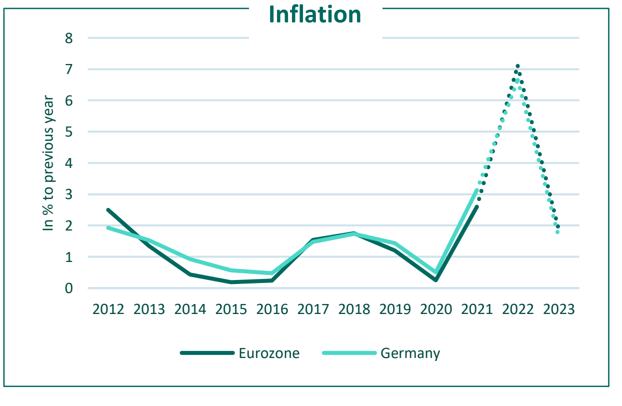
The war in Ukraine has now been going on for five months and there is no end in sight in the near future. In the rest of Europe, the impact of embargos for countries dependent on Russian gas is a clear threat. In Germany in particular, there is increasing concern about a "cold" winter if there is not enough gas available to guarantee the heat supply. Industry also fears a complete standstill in the event that Russian gas pipelines are turned off. The forecasts regarding economic growth are accordingly associated with many political uncertainties. At present, GDP is still expected to increase moderately by 1.3% in 2022.

INFLATION

The monthly inflation rate in June 2022 was 7.6%, slightly lower than in the same month a year earlier. This can be seen as the first sign of a possible peak in purchase price increases. For the year as a whole, an inflation rate of 6.7% is expected for Germany Current forecasts see inflation leveling off significantly in 2023. This is due to the base effect, but also based on the assumption that the energy crisis in Germany with possible gas shortages does not worsen.

In addition to high inflation, significantly higher interest rates are changing the general conditions for real estate investors. Yields on ten-year German government bonds, considered a "risk-free" interest rate, have now climbed to around 1%. Accordingly, the risk premium for real estate investments has recently shrunk significantly. Nevertheless it remains positive and makes real estate relatively attractive, especially if rent indexation compensates for higher cap rates.





Source: Oxford Economics

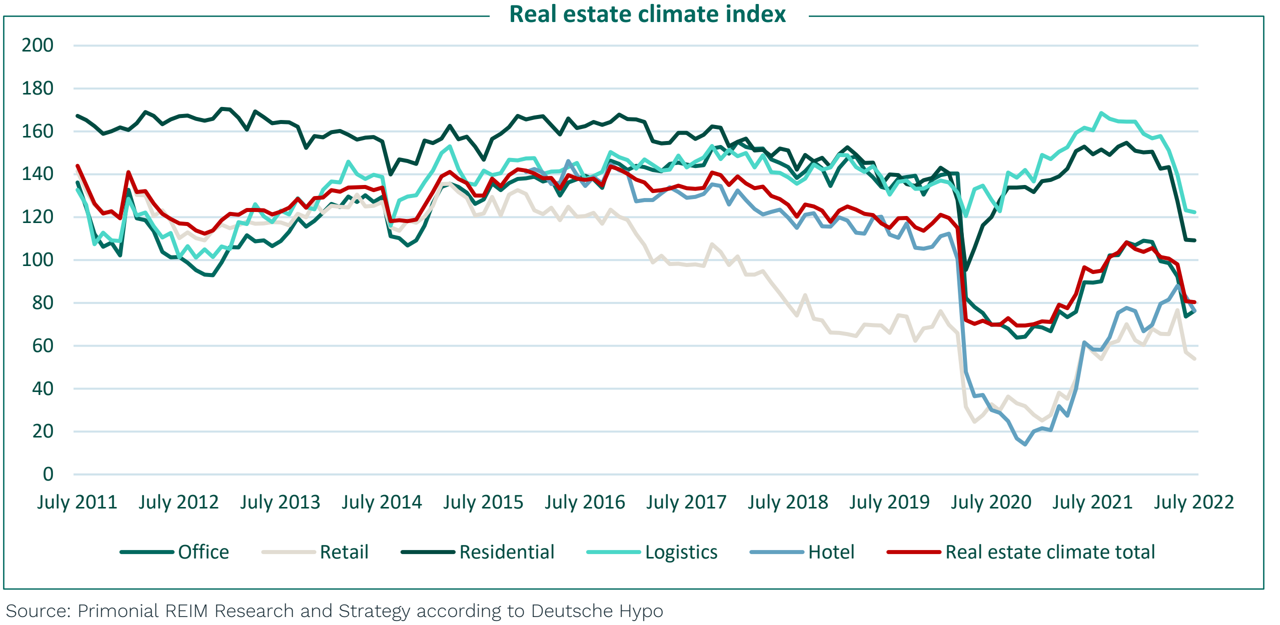
GERMAN REAL ESTATE CLIMATE

The real estate climate plummeted dramatically in the second quarter of the year. While uncertainty still prevailed at the outbreak of the Ukraine war, this has now given way to an extremely pessimistic underlying mood. In addition to the ongoing war in Ukraine and the associated concerns about energy shortages, the reasons include inflation, recession risks and higher interest rates. This multitude of factors has led to a significant decline in the willingness to invest. In many cases, prices are expected to fall, resulting in only a few transactions. Sellers, in turn, are having to adjust their purchase price expectations in some cases in order to find a buyer for their properties at all at present.

A look at the different asset classes reveals a comparatively homogeneous picture, especially when looking at the changes from May 2022 to July 2022.

All types of use have seen a significant slump in this period. Even for the asset classes logistics and residential, which have been viewed very positively since the outbreak of the Corona pandemic, the mood has clouded over somewhat. The great uncertainty of market players against the backdrop of the challenging macroeconomic environment is clearly noticeable. The development of the office and hotel climate is worth mentioning. The office climate has fallen behind the hotel climate in June 2022. The prospect of Covid-free vacations, and the return of trade shows and major events played a role in the comparatively mild assessment of the hotel sector.

As soon as real estate investors have adjusted to the changed framework conditions with higher interest rates and lower sales prices, a recovery of the markets and higher transaction volumes can be expected..



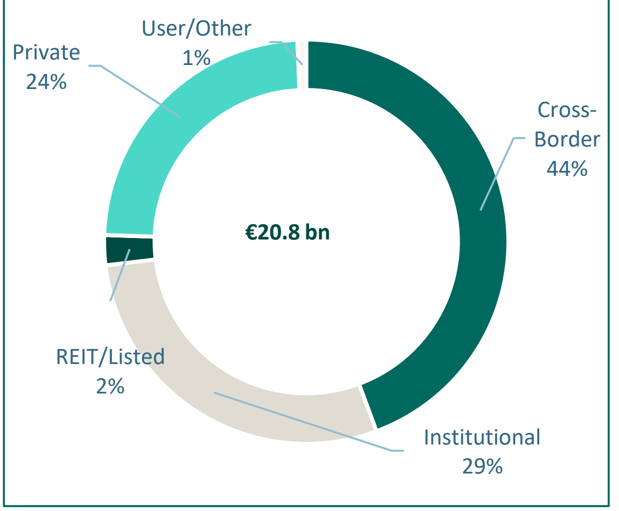
Source: Primonial REIM Research and Strategy according to Deutsche Hypo

TRANSACTION VOLUME

In the preliminary data on the second quarter of 2022, there were clear signs of restraint on the investment market. The usually longer lead times for real estate transactions mean that changes in the underlying conditions are generally reflected in the key real estate figures with a delay of several months. The Ukraine war, which began in February, and all the indirectly related consequences are therefore not apparent until the second quarter. Investors are exercising great restraint in view of the challenging situation with high inflation rates, significantly higher interest rates, the explosion in construction costs and energy prices, and concerns about an economic downturn. This is reflected in lower transaction volumes year-on-year in all asset classes. The only exception is the healthcare market, where transaction volumes remain stable. In particular, investments in retirement homes with long-term and indexed leases are considered to be relatively independent of the economic cycle, meaning that investors were less cautious here.

Overall, around EUR 21 bn was invested in the largest asset classes in Germany in the first half of 2022. Foreign investors accounted for a share of 44%.

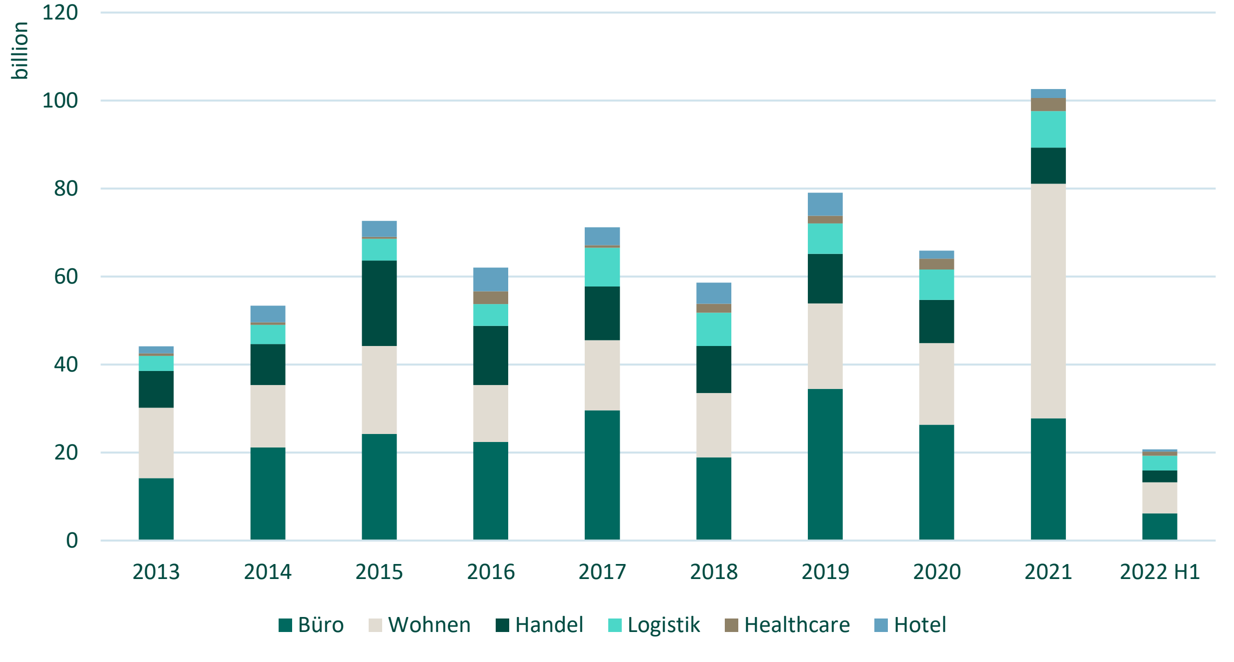
Investors composition H1/2022*



OUTLOOK

Provided the gas supply is secured in the second half of the year, it can be assumed that investors will increasingly adjust to the changed conditions with higher interest rates and increased initial yields and invest more heavily again. In the case of project developments, investor restraint is still to be expected due to the difficulty in calculating construction costs.

Transaction volume per asset class *



Source: Primonial REIM Research and Strategy according to RCA
*Preliminary data

SUMMARY ASSET CLASSES

Asset Class	Transaction Volume H1/2022*	Transaction Volume 5-year-average second quarter	Cross-Border Volume H1/2022	Prime Yields Q2/2022	Trend Transaction Volume H1/2022
Office	€6.2 bn	€10.7 bn	€1.8 bn (29 %)	2.7 %	↘
Residential	€7.0 bn	€8.4 bn	€3.7 bn (53 %)	2.2 %	↘
Retail	€2.7 bn	€3.8 bn	€0.9 bn (34 %)	2.8 % (High-Street-Shops)	↘
Healthcare	€0.9 bn	€0.7 bn	€0.4 bn (47 %)	3.9 %	↗
Hotel	€0.5 bn	€1.4 bn	€0.1 bn (16 %)	4.3 %	↘
Logistics	€3.4 bn	€3.4 bn	€2.2 bn (64 %)	3.2 %	↘

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

OFFICE

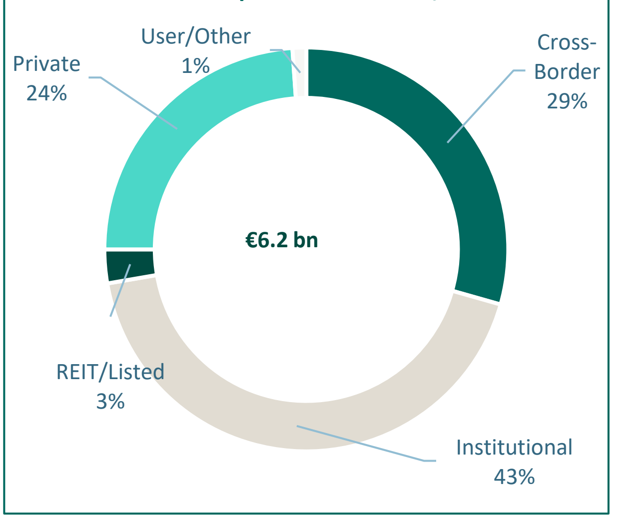
OFFICE TRANSACTION VOLUME H1/2022	€6.2 bn
THEREOF CROSS-BORDER TRANSACTION VOLUME H1/2022	€1.8 bn
PRIME YIELDS OFFICE A-CITIES Q2/2022	2.7 %
PRIME YIELDS OFFICE SECONDARY-CITIES Q2/2022	3.3 %
TRANSACTION VOLUME TREND COMPARED TO H1/2021	↘

The office market is divided in the second quarter of 2022. On the one hand, there has been great restraint on the investment market since the outbreak of the Ukraine war and the recessionary concerns indirectly associated with it. In the second quarter of 2022, for example, the preliminary data shows the lowest level of investment in German office property in ten years was recorded. In addition to recession fears, the significant rise in borrowing rates and construction costs is playing a decisive role. This is reflected in a moderately higher prime office yield (+15 bp) in both A-cities and secondary markets. However, an exact assessment of the current price level remains difficult due to the low number of transactions.

On the other hand, the rental markets are dynamic. In the top 7 cities in particular, high office take-up and, in some cases, increased office rents were recorded.

Energy costs and energy efficiency are an increasingly important issue. The literally exploding costs for electricity and heating energy increase the pressure for owners to deal with the energetic condition of the building and for tenants to deal with their consumption. This constellation offers the opportunity to develop targeted solutions for reducing energy consumption through active asset management, from which both tenants and landlords benefit.

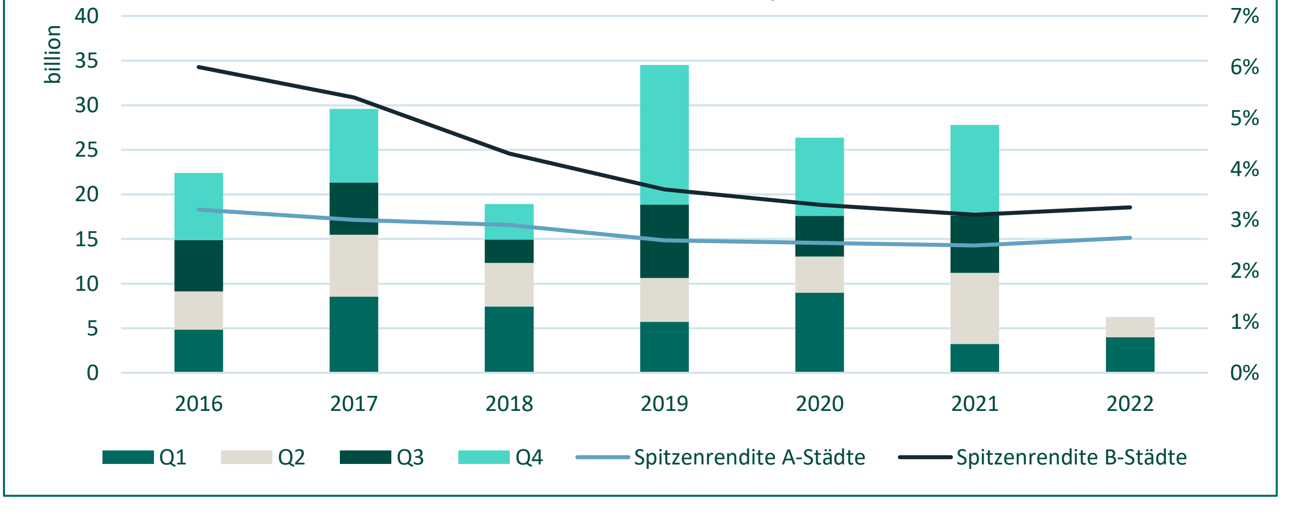
Investors composition office H1/2022 *



OUTLOOK

Unless the macroeconomic environment eases in the near future (e.g. end of the war in Ukraine), investors are likely to remain somewhat cautious. Increasing polarization is to be expected in the rental markets: High demand for central, flexible and energy-efficient space on the one hand and rising vacancy rates for buildings in peripheral locations with outdated space design on the other.

Office transaction volume and yields *



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

RESIDENTIAL

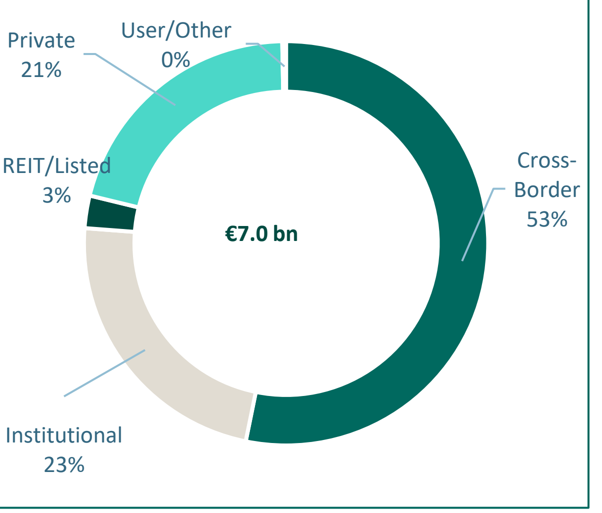
TRANSACTION VOLUME RESIDENTIAL H1/2022	7,0 bn Euro
- OF WHICH FOREIGN INVESTMENT H1/2022	3,7 bn Euro
PRIME YIELD	2,2 %
TRANSACTION VOLUME TREND COMPARED TO H1/2021	↘

Residential real estate continues to be very popular with investors, although significantly less institutional capital flowed into the residential market in the second quarter than at the beginning of the year. At around EUR 7 billion, the residential asset class nevertheless occupies the top position in terms of transaction volume. More than half of the capital invested came from foreign investors.

Prime yields rose moderately by 10 basis points due to the jump in interest rates. A further increase in yields is to be expected provided that borrowing rates remain at current levels or even rise further.

The housing market is traditionally subject to high political pressure. In the coming months - at the latest with the utility bill at the beginning of 2023 - exploding energy costs will lead to a significant increase in housing costs for private households. Threshold households in particular will have to rely on state assistance in order to be able to cope with the additional payments for heating and electricity. In addition, this could make future rent increases even more difficult in a market that is already highly regulated.

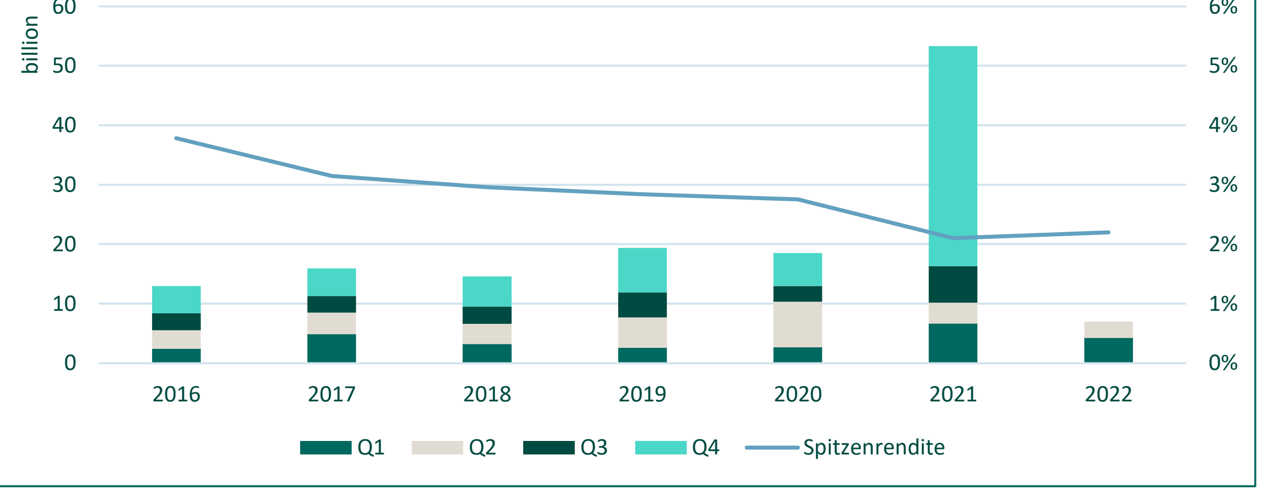
Investors composition residential H1/2022 *



OUTLOOK

The housing market has been very stable so far. Demand for energy-efficient existing buildings in particular is expected to be high. In the future, it will be more difficult to find investors for project developments, especially with forward funding structures.

Residential transaction volume and yields *



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

RETAIL

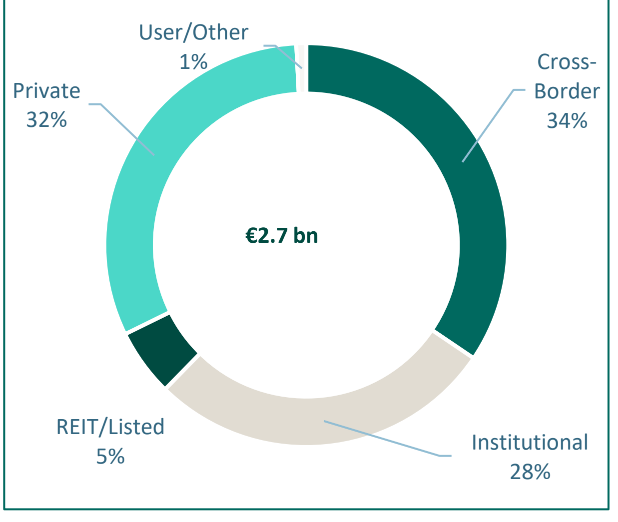
TRANSACTION VOLUME RETAIL H1/2022	**2,7 bn Euro**
- OF WHICH FOREIGN INVESTMENT H1/2022	**0,9 bn Euro**
PRIME YIELDS HIGH-STREET-SHOPS Q2/2022	**2,8 %**
PRIME YIELDS SUPERMARKETS Q2/2022	**3,5 %**
PRIME YIELDS SHOPPING-CENTERS Q2/2022	**4,8 %**
TRANSACTION VOLUME TREND COMPARED TO H1/2021	↘

Following a comparatively good first quarter of 2022, the second quarter saw lower transaction volumes for retail properties. At €2.7 bn in the first half of 2022, less money was invested in German retail real estate than in the same period in recent years. Around one-third of this came from foreign investors.

Prime yields for retail properties were stable in the second quarter of 2022. They are 2.8% for high-street stores, 3.5% for supermarkets and 4.8% for shopping centers.

In addition to structural problems for some retail sectors, high inflation rates are clouding private consumption, so the catch-up effects expected after two pandemic years are less pronounced than hoped. In addition, some sectors, particularly the food service industry, are having difficulty finding enough staff.

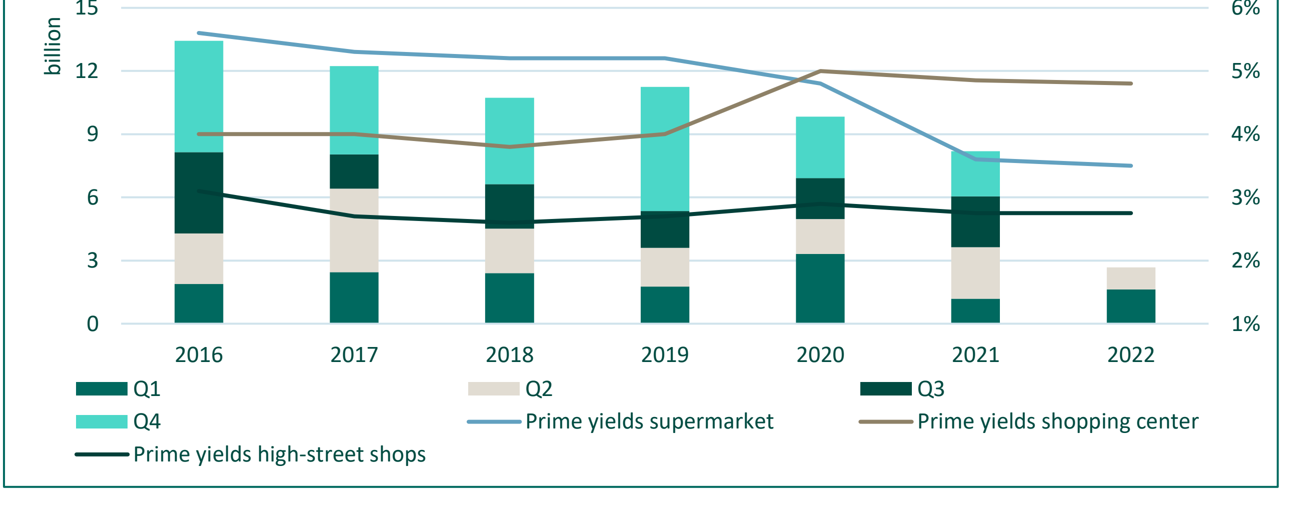
Investors composition retail H1/2022 *



OUTLOOK

In the coming months, retail real estate will remain more for opportunistically oriented investors. Mixed-use buildings with attractive retail space on the lower floors are gaining in importance.

Retail transaction volume and yields *



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

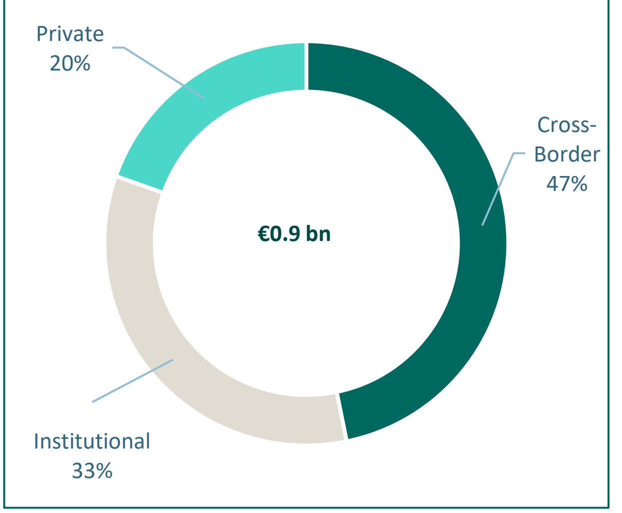
HEALTHCARE

HEALTHCARE TRANSACTION VOLUME H1/2022	€0.9 bn
THEREOF FOREIGN INVESTMENT VOLUME H1/2022	€0.4 bn
PRIME YIELDS HEALTHCARE Q2/2022 (GROSS)	3.9 %
TRANSACTION VOLUME TREND COMPARED TO H1/2021	↗

The healthcare market is a textbook example of the fact that it is a comparatively non-cyclical asset class and is therefore in particularly high demand in times of economic uncertainty. The scarcity of supply limits the scope of acquisitions. The transaction volume for healthcare investments in the first half of 2022 was the only one of the asset classes under review to exceed the prior-year level at €0.9 bn.

Nevertheless, the German healthcare real estate market was not entirely spared bad news. For example, Terragon, a project developer specializing in senior living, had to file for insolvency as no buyers were prepared to commit to forward funding for their projects due to the rise in construction costs, which were difficult to calculate. Overall, it can be expected that the tense situation for project developers will make it more difficult to build homes for the elderly and will therefore intensify the shortage of supply. For the price development of nursing homes, this means that opposing developments will determine the market: On the one hand, higher interest rates on borrowed capital and higher risks for investing in project developments. On the other hand, there is an excess demand - also on the part of investors - for properties for the elderly, which will intensify as construction activity declines. Overall, therefore, a sideways movement in purchase price factors is expected in the coming months.

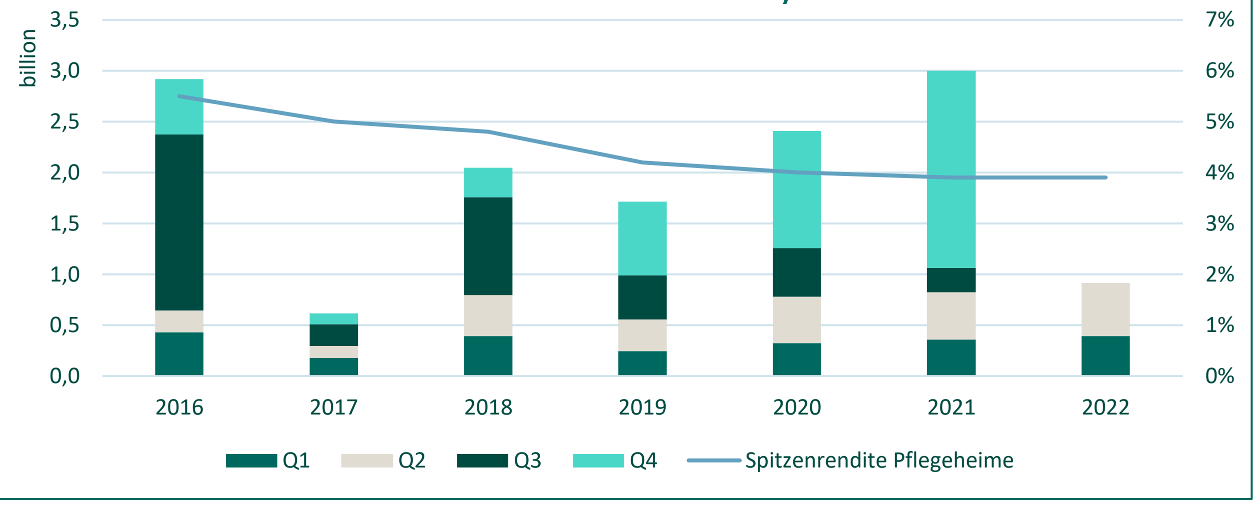
Investors composition healthcare H1/2022 *



OUTLOOK

Demand for healthcare real estate remains high. Healthcare continues to enjoy great popularity as a comparatively non-cyclical asset class. The increasing shortage of supply and possible liquidity bottlenecks on the operator side due to higher costs are having a restrictive effect.

Healthcare transaction volume and yields *



Note: Gross initial yield

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

HOTEL

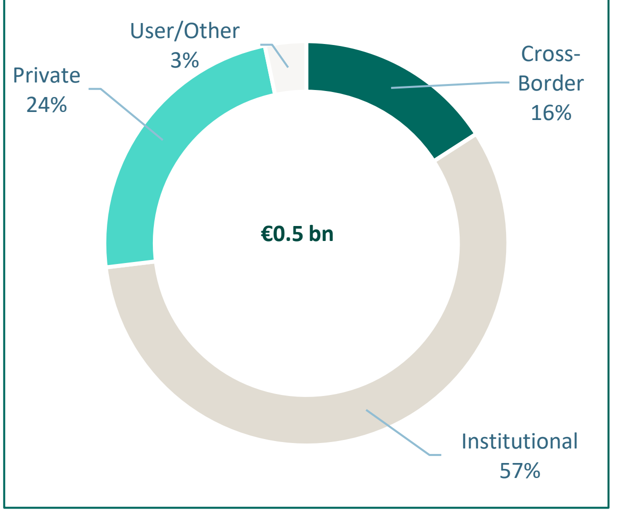
HOTEL TRANSACTION VOLUME H1/2022	**€0.5 bn**
- THEREOF FOREIGN INVESTMENT VOLUME H1/2022	**€0.1 bn**
PRIME YIELDS HOTEL Q2/2022	**4.3 %**
TRANSACTION VOLUME TREND COMPARED TO H1/2021	↘

From a real estate perspective, the hotel sector remains late in the recovery cycle. Even though the Germans' willingness to travel and their desire to go on vacation have increased significantly again, the hotel industry is recovering only sluggishly from the last two pandemic years. Although occupancy rates and booking figures are on the upswing, high inflation rates have led to cuts in vacation budgets in some cases, so that not all of the price increases envisaged by hotel operators will be enforceable. In addition, many Germans are taking advantage of the lifting of Corona travel restrictions for vacation trips abroad.

Investors continue to show a high degree of restraint. This is reflected in a very low transaction volume of around EUR 500 million in the first half of 2022. Foreign investors are also hardly venturing into hotel investments in Germany at present. For example, less than EUR 100 million was invested in German hotels by foreign investors in the first six months of 2022.

At 4.3%, prime yields are currently still at the same level as in 2021, which is also due to the fact that the low transaction figures make it difficult to assess the current price level in line with demand.

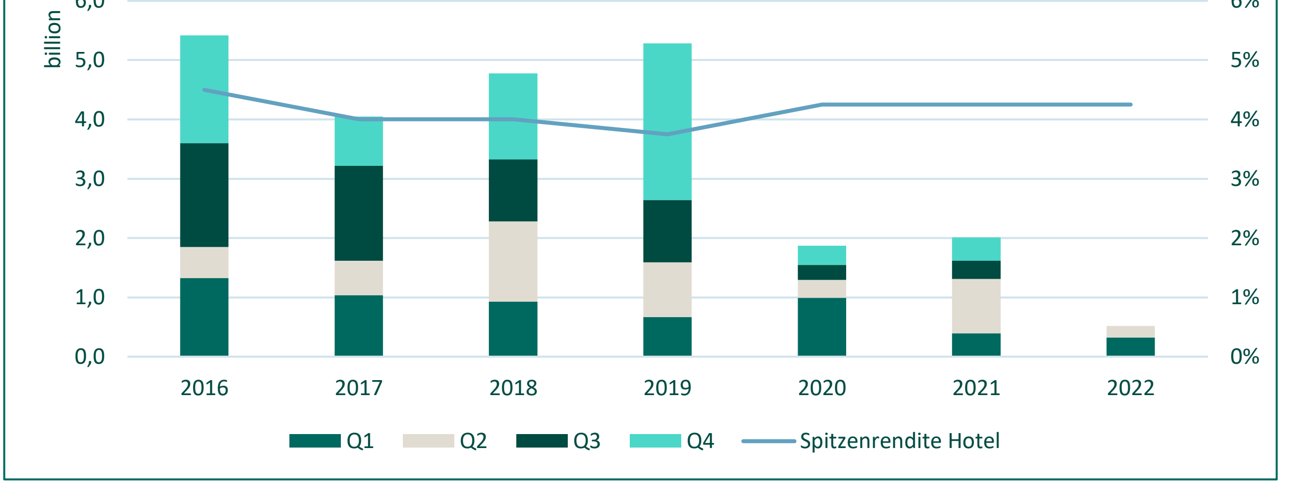
Investors composition hotel H1/2022 *



OUTLOOK

The hotel industry continues to face major challenges. There are attractive investment opportunities for opportunistic investors to acquire properties in central locations at affordable prices. Hotel properties that focus on sustainability issues in addition to good economic data (high credit rating of the operator, long lease) will be in particular demand.

Hotel transaction volume and yields *



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

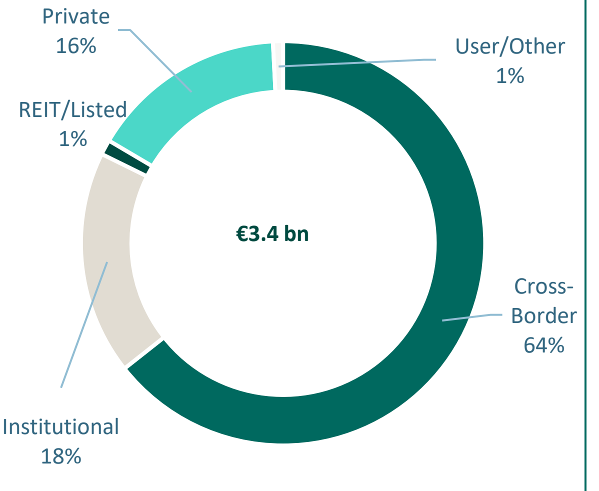
LOGISTICS

LOGISTICS TRANSACTION VOLUME H1/2022	**€3.4 bn**
THEREOF FOREIGN INVESTMENT VOLUME H1/2022	**€2.2 bn**
PRIME YIELDS LOGISTICS Q2/2022	**3.2 %**
TRANSACTION VOLUME TREND COMPARED TO H1/2021	➘

Logistics will remain an asset class in high demand in the second quarter of 2022. In the first half of the year, a total of around EUR 3.4 bn was invested in logistics real estate. This corresponds almost exactly to the five-year average for the first two quarters of each year. Logistics thus defends third place after office and residential real estate in terms of total transaction volume. Compared with the first two Corona years 2020 and 2021, slightly fewer funds flowed into logistics properties. This is attributable to an increasing shortage of supply. On the investor side, demand pressure remains high. Logistics properties continue to enjoy great popularity, particularly among foreign investors. This is reflected in a share of 64% of foreign investors in the first half of 2022.

However, the yield compression in the logistics sector, which has persisted for many years, has come to a halt for the time being. Even though the increase of 10 basis points in the second quarter of 2022 was very moderate, there are nevertheless signs of a trend reversal for logistics properties. The main reason for this is the rise in financing rates, which has forced many investors to recalculate their business plans. In addition, investors are reluctant to invest in project developments, as these are particularly hard hit by bottlenecks in materials and increases in construction costs.

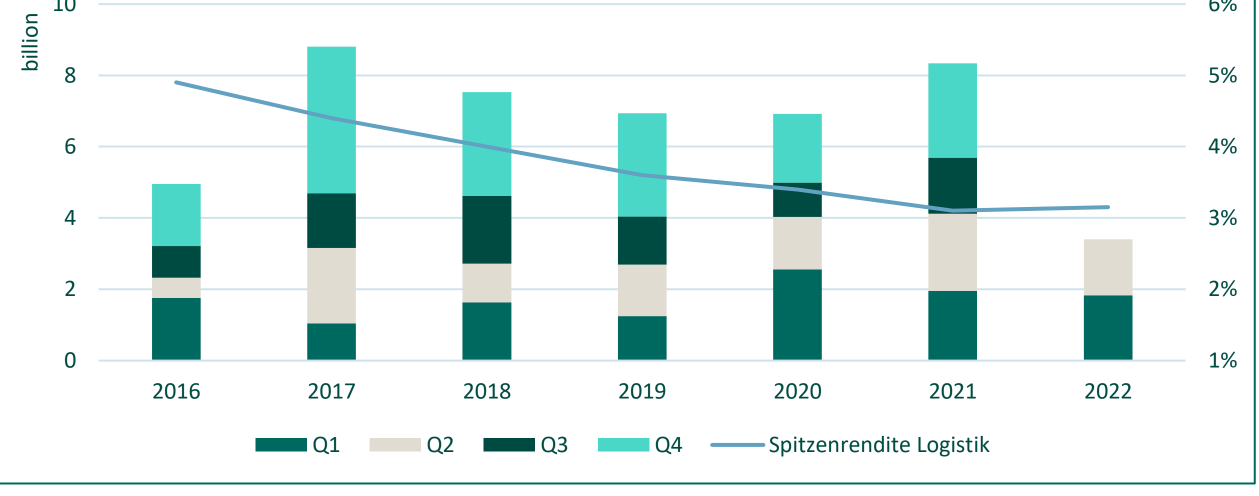
Investors composition logistics H1/2022 *



OUTLOOK

The prospects for the logistics sector remain good. High demand from investors is also expected in the future, which will be offset by insufficient supply. However, a shortage of space, higher interest rates and high construction costs are also dampening the mood somewhat in the logistics market.

Logistics transaction volume and yields *



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

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 €32.4 billion of assets under management. Its conviction-based allocation breaks down into:

- 47 % offices,
- 31 % healthcare/education,
- 9 % residential,
- 8 % retaill,
- 5 % hotels.

Its pan-European platform manages 61 funds and has more than 80.000 investor clients, 54% of which are individual investors and 46% institutional. Its real estate portfolio consists of more than 1.400 properties (offices, health/education, retail, residential, hotels) located in 10 European countries.

www.primonialreim.com

CONTACT

RESEARCH & STRATEGY DEPARTMENT
Daniel WHILE, MRICS • Research, Strategy & Sustainability Director •
daniel.while@primonialreim.com

Henry-Aurélien NATTER, MRICS • Head of Research
henry-aurelien.natter@primonialreim.com

Adrien ISIDORE • Economist Statistician
adrien.isidore@primonialreim.com

Florian WENNER • Senior Researcher
florian.wenner@primonialreim.com

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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