APRIL 2024
Finalized: 30th April 2024

PRIMONIAL REIM GERMANY STANDPUNKT

Investors' view on the German Real Estate Market

Florian Wenner, Head of Research & ESG, Primonial REIM Germany

The Research & ESG 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 Standpunkt.

FIGURES 2024

FORECAST ECONOMIC GROWTH (GDP)

-0.1%

FORECAST INFLATION

+1.4%

10-YEAR GOVERNMENT BOND YIELDS (March 2024)

+2.3%

Source: Oxford Economics, Bundesbank

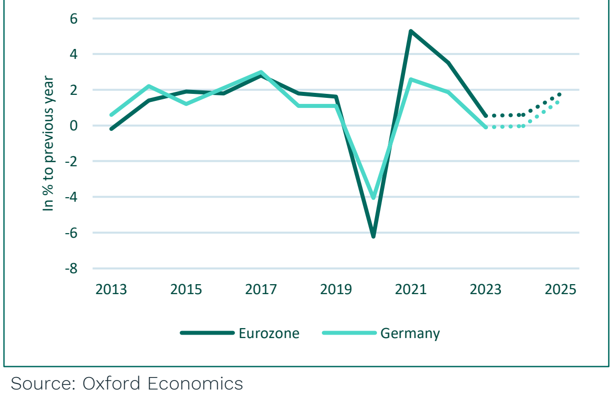
ECONOMY

The German economy remains the European Union's problem child. According to Oxford Economics, forecasts for economic growth until 2024 are now slightly negative. Although interest rates have stabilised and inflation has returned to the 2% target, the economy is only slowly gaining momentum. Bureaucracy and the high tax burden, as well as the sometimes crumbling infrastructure, are of particular concern to industrial companies. Added to this are high energy costs. As a result, some companies are relocating abroad and cutting jobs. Many companies are hoping for government investment programmes that send a real signal and provide planning certainty. Cyclical real estate asset classes in particular are directly affected by economic uncertainty and would benefit from a sense of optimism.

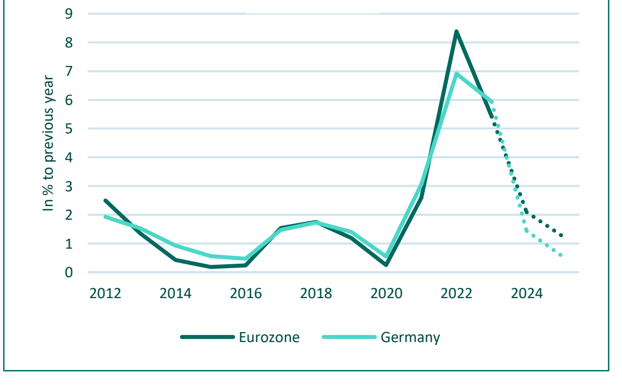
INFLATION

The inflation rate in Germany was 2.2% in March 2024. For the year as a whole, inflation is expected to be 1.4%. The worst seems to be over and the hope of the first interest rate cuts in the summer is leading to a slight improvement in sentiment in the real estate sector. It should be noted, however, that interest rate cuts in the near future have already been priced into the markets, and therefore - beyond the psychological effect - a noticeable improvement in financing conditions as a result of the first interest rate cuts is unlikely. Instead, the real estate sector will have to pull itself out of the crisis on its own. In any case, the general conditions for this are improving again: stable construction interest rates, inflation rates close to 2% and slightly falling yields on German government bonds and thus the return of the risk premium. What is lacking above all is the courage of investors to commit capital to real estate investments again after two difficult years. In any case, there are attractive buying opportunities in all asset classes.

GDP



Inflation

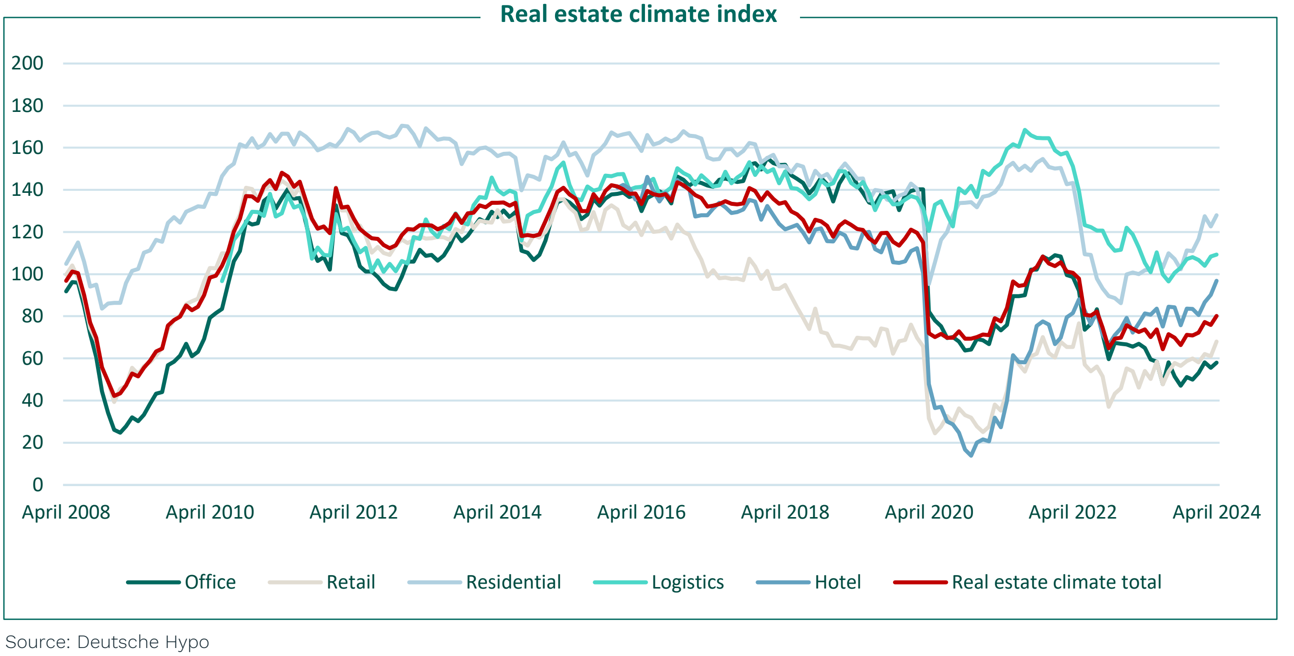


Source: Oxford Economics

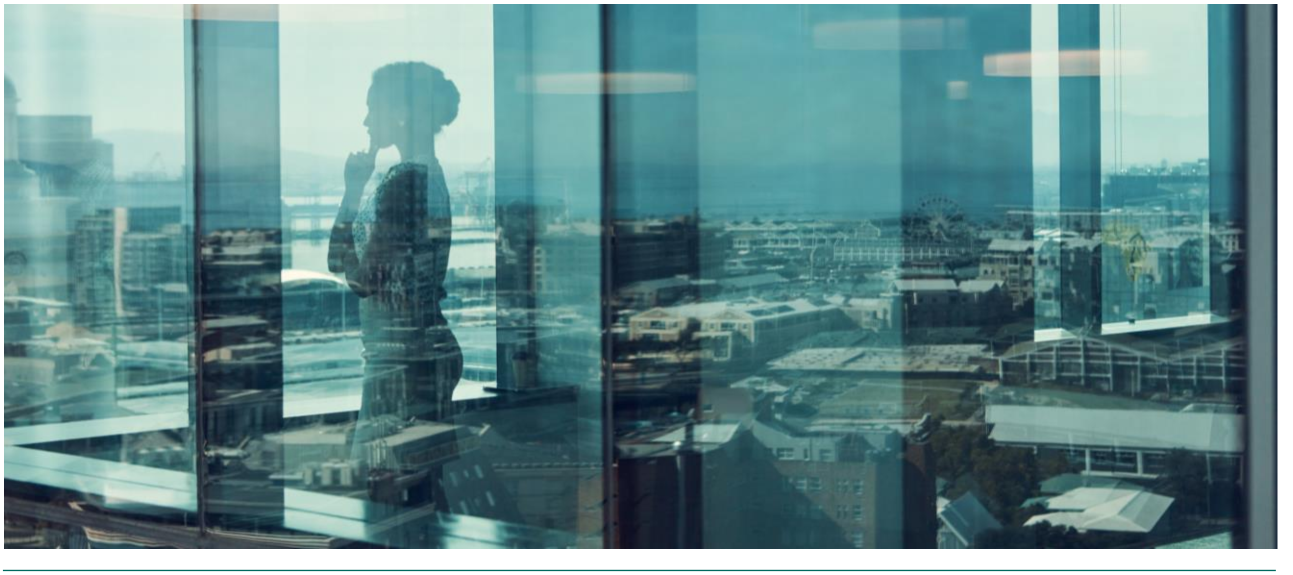
GERMAN REAL ESTATE CLIMATE

The mood is improving! There is no other way to interpret the current situation when looking at the real estate climate. It is not surprising that the brighter mood is still in contrast to the current situation on the transaction markets. Real estate transactions take time and, if the numerous voices from the sector are to be believed, more and more transaction preparations are currently taking place in the background. Even if some of the optimistic statements can still be categorized as "encouraging oneself", there are increasing signs that the transaction markets will pick up over the course of the year. For sellers operating under liquidity pressure, this would often involve having to accept losses.

Compared to the start of the year, the order of the asset classes in the real estate climate has not changed, although all segments were able to improve on the sentiment barometer. In the slipstream of investor favourites residential and logistics, hotels are now almost approaching the neutral 100-point line with a value of 96.6. The retail segment is also on the upswing, albeit still at a low level (68.0). The office segment continues to bring up the rear with a score of 58.0.



Source: Deutsche Hypo

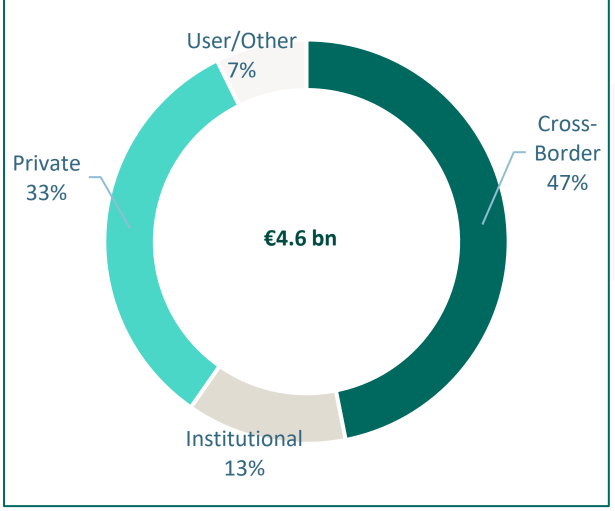


TRANSACTION VOLUME

It is known from economic psychology that people find losses more painful than gains of the same amount. This phenomenon, known as loss aversion, can currently also be observed on the real estate markets. Although the book values of almost all properties have been devalued in the last two years, only a few properties have actually been sold at the lower values. Investors are still trying to avoid selling at a loss, and asset managers also have little incentive to downsize their portfolios and reduce their management fees. However, the greatest leverage on the seller side is the increasingly tight liquidity situation of many real estate players. This applies equally to traditional portfolio holders, project developers and real estate funds. According to the latest figures, outflows from German open-ended real estate funds reached new highs at the beginning of the year. If this trend continues, there will not be enough liquidity to pay investors everywhere, and property sales may become necessary.

The great fear of loss felt by many investors is reflected in the transaction market. At the beginning of the year, the previous year's ten-year low of €4.6bn was once again undercut. 47% of investments were made by foreign investors, a relatively high proportion compared to the long-term average. Due to the sale of the Fünf Höfe in Munich, most of the money flowed into the retail sector, followed by residential and office. The asset class with the lowest transaction volume was healthcare, where the operator crisis is increasingly affecting the investment market.

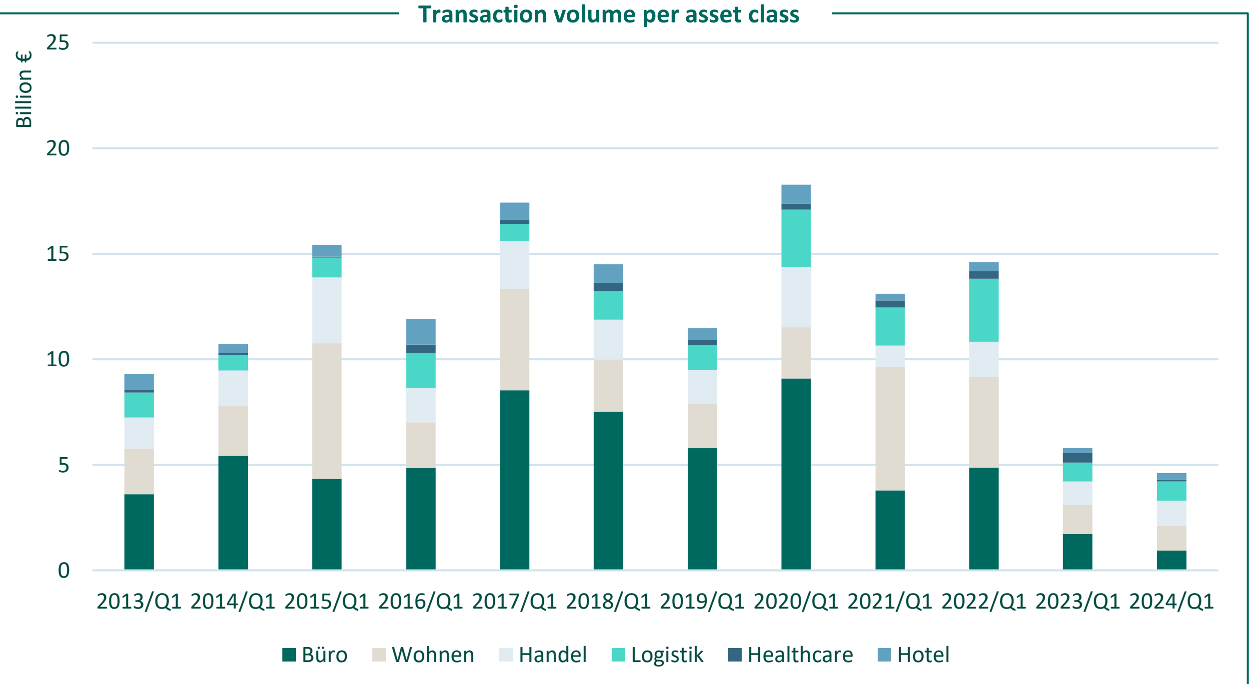
Investors composition Q1/ 2024



OUTLOOK

Even if interest rate cuts in the summer are not a certainty, stable interest rates and a gradual decline in inflation provide the planning security that many are hoping for. So far, many players are still reluctant to sell property below the purchase price. With liquidity becoming increasingly tight, transactions are expected to pick up as the year progresses, even if this may mean painful losses for sellers in some cases.

Transaction volume per asset class



Source: RCA

SUMMARY ASSET CLASSES

Asset Class	Transaction Volume Q1/2024	Transaction Volume 5-year-average Q1	Cross-Border Volume Q1/2024	Prime Yields Q1/2024	Trend Transaction Volume Previous Year's Quarter
Office	€1.0 bn	€5.1 bn	€0.2 bn (22 %)	4.8 % (A-Cities)	➘
Residential	€1.2 bn	€3.6 bn	€0.4 bn (31 %)	3.4 %	➘
Retail	€1.2 bn	€1.9 bn	€0.6 bn (54%)	4.8 % (High-Street-Shops)	➘
Healthcare	€0.1 bn	€0.4 bn	€0 bn (0 %)	5.2 % (Nursing homes)	➘
Hotel	€0.3 bn	€0.6 bn	€0.19 bn (63 %)	5.3 %	➘
Logistics	€0.9 bn	€2.1 bn	€0.6 bn (65 %)	4.3 %	➘

Source: RCA. CBRE

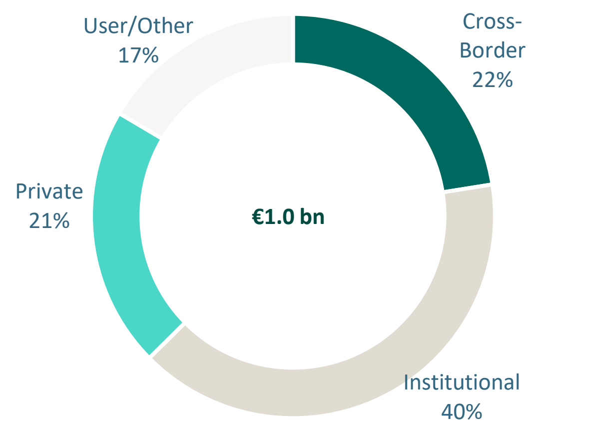
OFFICE

OFFICE TRANSACTION VOLUME Q1/2024	€1.0 bn
THEREOF CROSS-BORDER TRANSACTION VOLUME Q1/2024	€0.2 bn
PRIME YIELDS OFFICE A-CITIES Q1/2024	4.8 %
PRIME YIELDS OFFICE SECONDARY-CITIES Q1/2024	5.4 %
TREND TRANSACTION VOLUME COMPARED TO THE PREVIOUS YEAR QUARTER	↘

Office real estate is particularly affected by the weakening economy in Germany. Due to the uncertain economic situation, companies are postponing major investments. Renting new office space is also affected by this, as many companies are finding it difficult to calculate their future space requirements. The new hybrid working world with a mixture of on-site work and working from home is making this more challenging. Accordingly, office space take-up in the top 7 markets will remain at a comparatively low level in the first quarter of 2024. Nevertheless, estate agents expect demand for office space to rise again in the medium term, as many leases that were extended during the pandemic are due to expire soon and owners are trying to attract new tenants with attractive rental incentives.

While the rental markets are cautiously optimistic about the coming months, the office investment market remains at a historically low level. Just under EUR 1 billion was invested in German office property in the first quarter. Only around a fifth of the investments came from abroad. In the past ten years, the average transaction volume at the beginning of the year was five times higher than at present, at around 5 billion euros. Prime yields in A cities currently stand at 4.8%, while 5.4% net initial yields are being achieved for top properties in secondary cities.

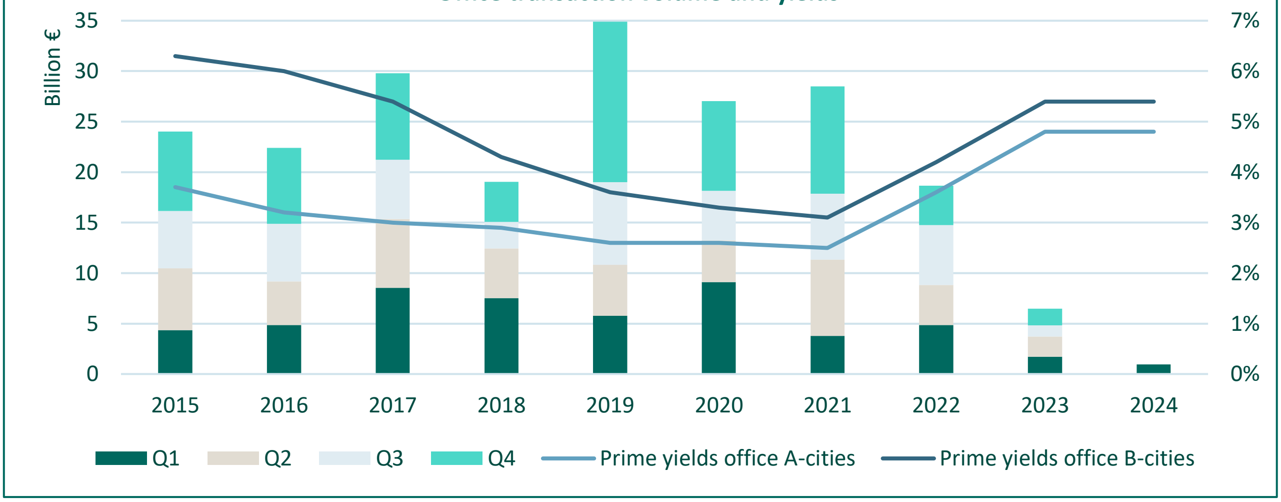
Investors composition office Q1/2024



OUTLOOK

The office markets remain in crisis mode. In particular, the investment market is not picking up. The investment market could be stimulated by larger transactions, as was recently the case in the retail sector with the sale of the Fünf Höfe in Munich.

Office transaction volume and yields



Source: RCA. CBRE

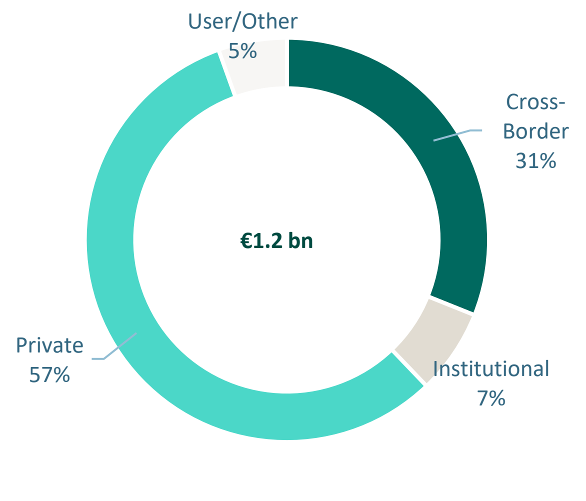
RESIDENTIAL

TRANSACTION VOLUME RESIDENTIAL Q1/2024	€1.2 bn
THEREOF CROSS-BORDER TRANSACTION VOLUME Q1/2024	€0.4 bn
PRIME YIELDS RESIDENTIAL Q1/2024	3.4 %
TREND TRANSACTION VOLUME COMPARED TO THE PREVIOUS YEAR	↘

Residential property is still very popular with investors, at least according to the sentiment barometers (German Real Estate Climate Index), other surveys and discussions at Mipim. However, transaction figures do not yet reflect investor interest. In the first quarter of this year, only around €1.2 billion was invested in German residential real estate. This was again below the figure for the same quarter last year. One reason for this is the relatively high multiples still being demanded by sellers. In addition, investment costs for energy-efficient renovations are high, especially in older residential portfolios, while rents are low.

The prime yield for residential property is currently 3.4%. Higher yields can be achieved by entering into project developments. Many developers are particularly affected by the change in financing conditions and are unable to realise their project pipeline as planned without additional capital. This may affect projects that are already underway or in the planning stage. Investors can fill the financing gap through joint ventures, mezzanine financing or outright acquisition of projects. If successful, double-digit returns can be achieved.

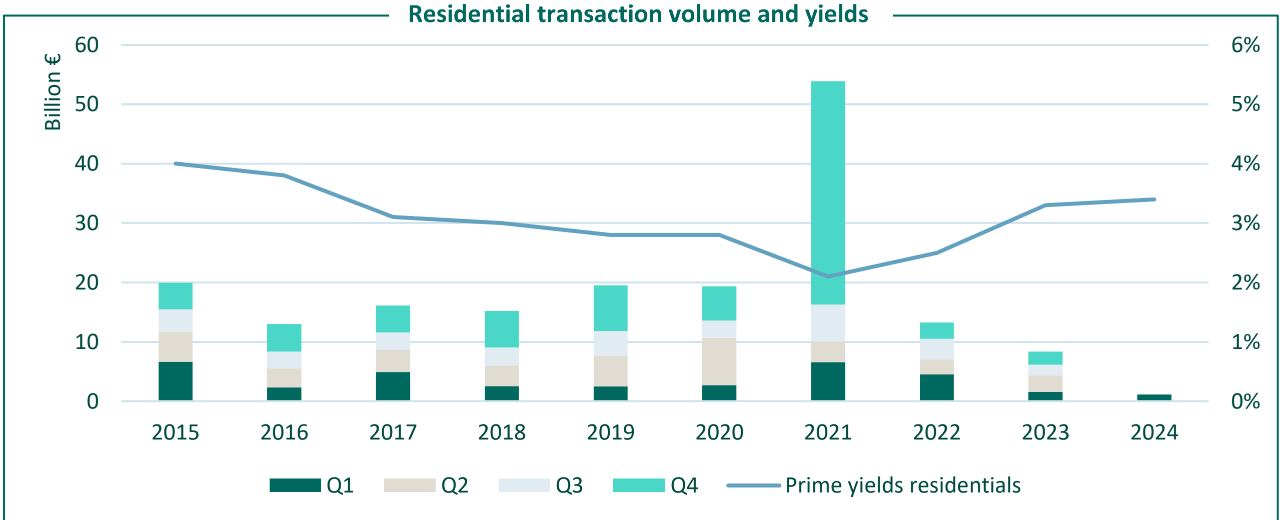
Investors composition residential Q1/2024



OUTLOOK

Even though demand is favourable due to a lack of new construction activity and investors' appetite for residential property is high, investment in residential property is not self-supporting. Persistently high price levels and high regulatory requirements are leading to lower profitability, both in terms of tenant protection and energy-efficient refurbishment. This is not deterring the public sector in Berlin, which announced a few days ago that it would acquire apartments and development sites from Vonovia for around EUR 700 million.

Residential transaction volume and yields



Source: RCA. CBRE

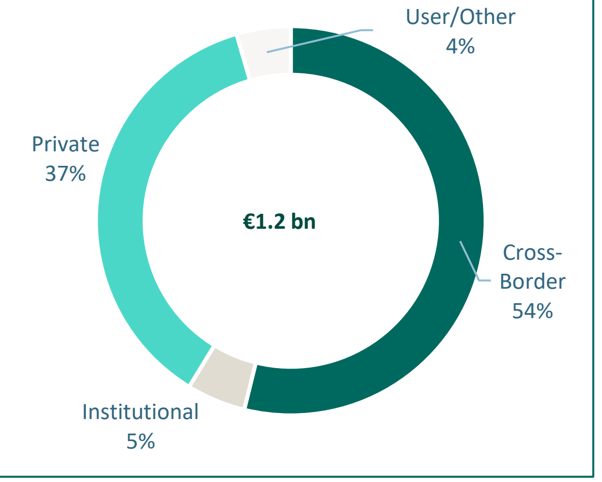
RETAIL

TRANSACTION VOLUME RETAIL Q1/2024	€1.2 bn
THEREOF CROSS-BORDER TRANSACTION VOLUME Q1/2024	€0.6 bn
PRIME YIELDS HIGH-STREET-SHOPS Q1/2024	4.8 %
PRIME YIELDS SUPERMARKETS Q1/2024	4.8 %
PRIME YIELDS SHOPPING-CENTER Q1/2024	5.9 %
TREND TRANSACTION VOLUME COMPARED TO THE PREVIOUS YEAR QUARTER	↘

In terms of transaction volume, retail property was the leading asset class in the first quarter. However, at EUR 1.2 billion, the investment volume is below the average of the last five years. The main reason for the comparatively high volume is the sale of the Fünf Höfe in Munich for around EUR 700 million. If this major transaction is excluded, the picture is more modest and probably more in line with the actual situation on the retail real estate market. Shopping centres are still rarely traded, with food supermarkets remaining the most popular.

Prime yields for high-street shops and supermarkets are currently at 4.8 %, for shopping centres at 5.9 %, although pricing is difficult in many cases and only further transactions will clarify the actual price level.

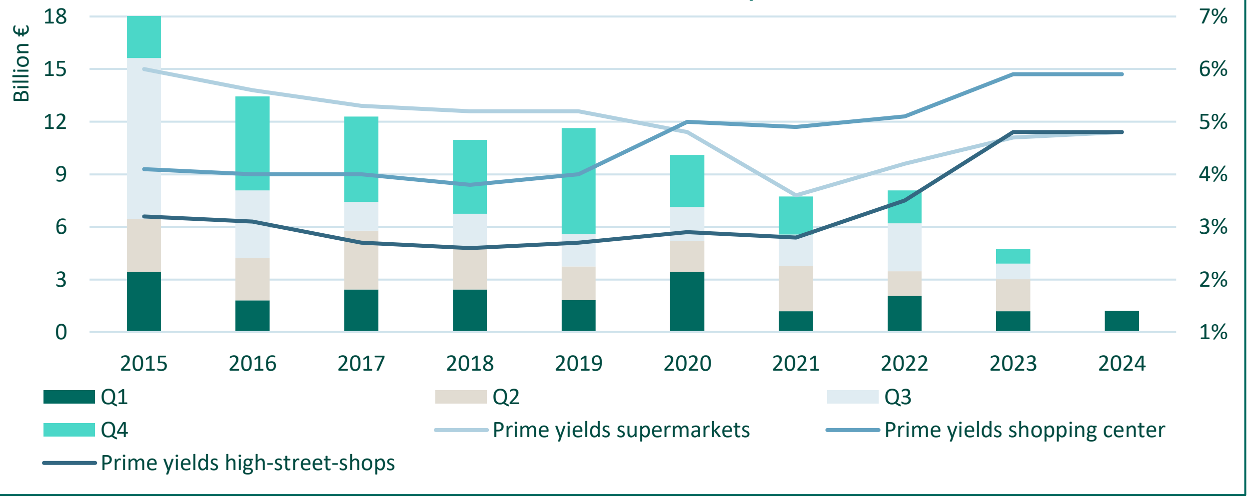
Investors composition retail Q1/2024



OUTLOOK

Food retail will remain the driver of supply and demand. Beyond supermarkets, retail real estate investment in 2024 will remain the preserve of opportunistic investors, trophy asset hunters and true asset class experts with sufficient experience to manage these specialist properties.

Retail transaction volume and yields



Source: RCA. CBRE

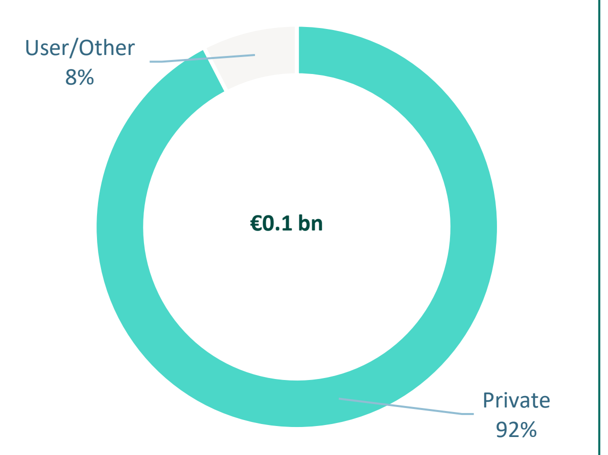
HEALTHCARE

HEALTHCARE TRANSACTION VOLUME Q1/2024	**€0.1 bn**
THEREOF CROSS-BORDER INVESTMENT VOLUME Q1/2024	**€0 bn**
PRIME YIELDS HEALTHCARE Q1/2024	**5.2 %**
TREND TRANSACTION VOLUME COMPARED TO THE PREVIOUS YEAR	➘

The healthcare real estate asset class could serve as a perfect illustration of the inertia of real estate markets. At the beginning of 2023, the insolvencies of care home operators in Germany became public knowledge. There had already been growing signs in the previous year that care home operators would be particularly affected by the mix of inflation, exploding energy costs, a shortage of skilled labour, the interest rate turnaround and systemic financing problems. Nevertheless, transactions in care real estate continued to be reported. The effects of the operator crisis were not fully reflected in the investment volume until the end of 2023 and now continued in the first quarter of 2024. At less than €100 million, less money was invested in the German healthcare market in the first quarter than at any time in almost ten years. Investments in assisted living were also hit by a lack of investor interest in the last six months. Foreign investors did not appear at all.

The prime yields for nursing homes remain at 5.2%, for assisted living between 70 and 100 basis points lower.

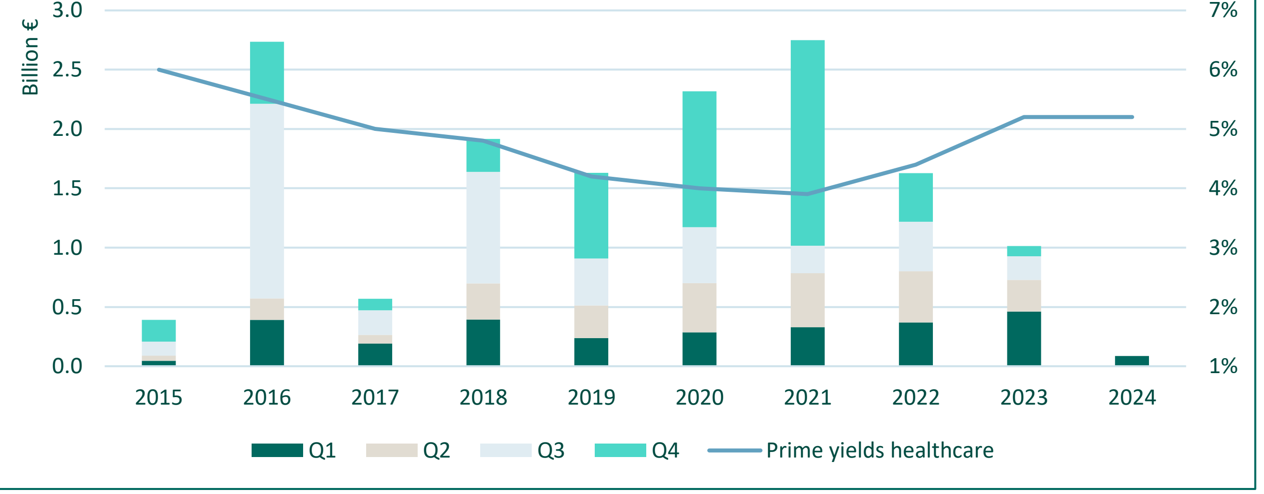
Investors composition healthcare Q1/2024



OUTLOOK

The healthcare investment market reached its low point at the beginning of the year. Lower turnover than the transactions registered so far is hardly possible. There is much to suggest that the much-cited bottom has indeed been reached for healthcare real estate. This offers investors attractive opportunities to enter an asset class that still has very good fundamentals (demographic change). In particular, properties in attractive locations with creditworthy operators are rarely available on the market at such favourable prices as at present.

Healthcare transaction volume and yields



Source: RCA. CBRE

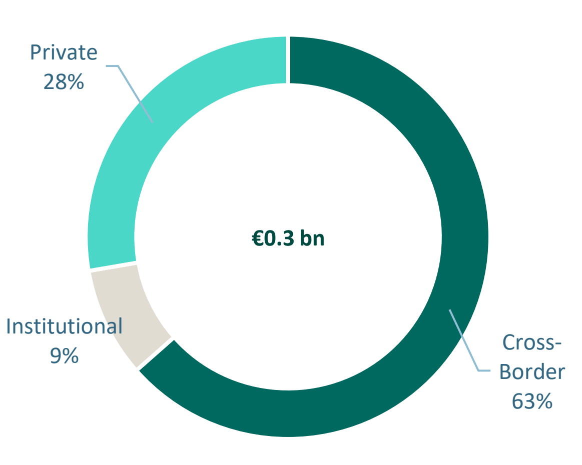
HOTEL

HOTEL TRANSACTION VOLUME Q1/2024	€0.3 bn
THEREOF CROSS-BORDER INVESTMENT VOLUME Q1/2024	€0.19 bn
PRIME YIELDS HOTEL Q1/2024	5.3 %
TREND TRANSACTION VOLUME COMPARED TO THE PREVIOUS YEAR	↘

The hotel industry is experiencing a noticeable upturn. In the Real Estate Economic Barometer, the hotel climate is approaching the 100-point mark, which is considered neutral. The main reason for this is the good sales figures of the major hotel chains. Last year, the hotel industry was finally able to put the effects of the pandemic behind it and, in particular, pass on the increased costs of personnel and energy to guests without any problems.

In contrast to the operator chains, the hotel investment market has not yet been able to return to the successful pre-pandemic period. After the pandemic-related setbacks in 2021 and 2022, the war in Ukraine and the resulting energy crisis, as well as the turnaround in interest rates, prevented a revival in transaction activity. The first quarter of 2024, at around €200 million, was the lowest in a decade. The few transactions that did take place were mainly by foreign investors. Prime yields stand at 5.3%.

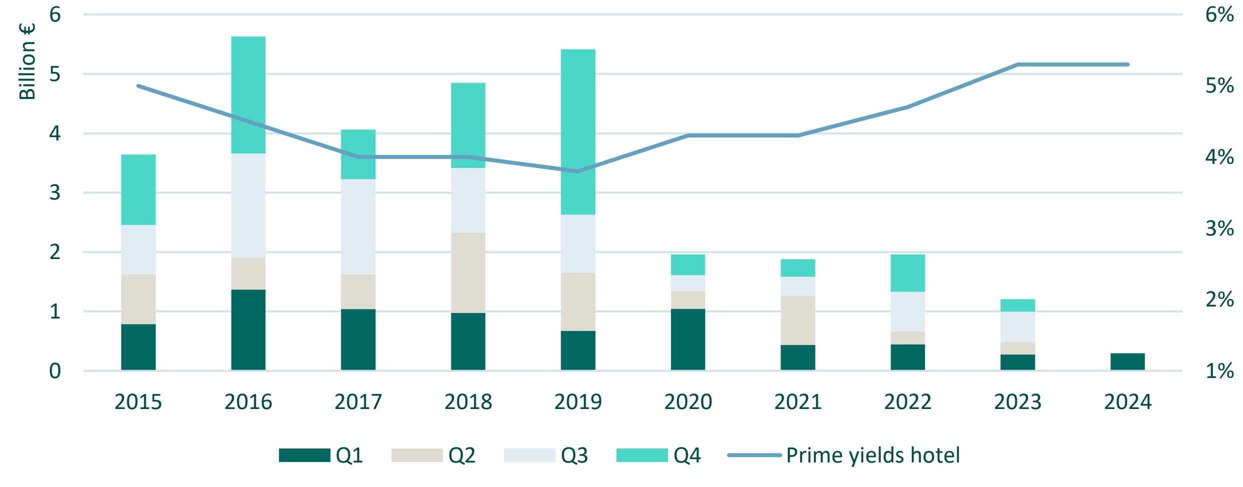
Investors composition hotel Q1/2024



OUTLOOK

The hotel investment market is stagnating. However, in contrast to office property and parts of the retail sector, operator data and tourism figures offer some hope of improvement. In addition, new construction in the hotel sector has almost come to a standstill. Modern hotel properties in good locations could therefore benefit from strong demand in the future and are currently available at attractive prices.

Hotel transaction volume and yields



Source: RCA. CBRE

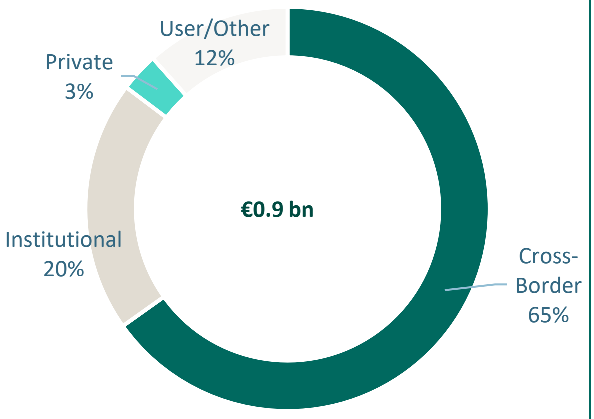
LOGISTICS

LOGISTICS TRANSACTION VOLUME Q1/2024	**€0.9 bn**
THEREOF CROSS-BORDER INVESTMENT VOLUME Q1/2024	**€0.6 bn**
PRIME YIELDS LOGISTICS Q1/2024	**4.3 %**
TREND TRANSACTION VOLUME COMPARED TO THE PREVIOUS YEAR QUARTER	↘

Around EUR 900 million was invested in the German logistics real estate market in the first quarter of 2024. A large proportion of the capital invested (65%) originated from foreign investors. In the past boom years, an average of around €2 billion was invested at the beginning of each year. The interest rate-related reluctance to invest in real estate is also making itself felt in the logistics sector. In addition, the supply of attractive logistics space is increasingly scarce. The general economic uncertainty is also playing a role, which has noticeably dampened demand for logistics space in recent months. According to the latest figures from BNP Paribas Real Estate, the German logistics markets recorded the lowest take-up of space at the beginning of the year since 2010.

Prime yields for logistics properties remain at 4.3%, which is significantly lower than the prime yields for German core office properties.

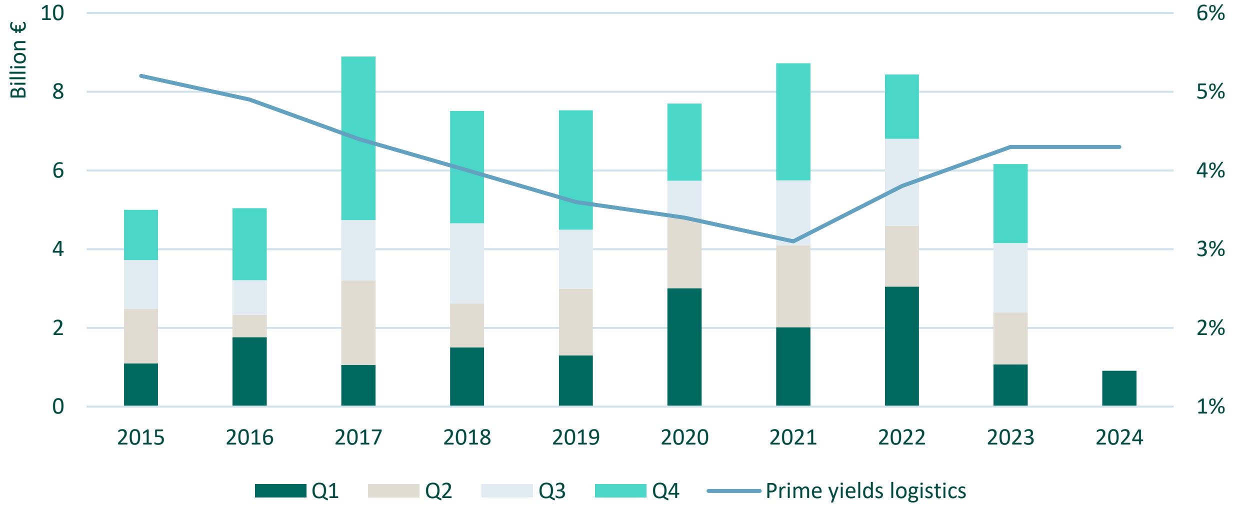
Investors composition logistics Q1/2024



OUTLOOK

Logistics real estate remains very popular with investors. However, demand is currently being dampened by the general economic sentiment and the associated decline in logistics take-up. Moderate transaction volumes and stable yields are expected throughout 2024.

Logistics transaction volume and yields



Source: 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 €38 billion of assets under management. Its conviction-based allocation breaks down into:

- 48 % healthcare/education,
- 33 % offices,
- 8 % residential,
- 5 % retail,
- 5 % hotels,
- 1 % logistics.

Its pan-European platform manages 61 funds and has more than 80.000 investor clients, 55% of which are individual investors and 45% institutional. Its real estate portfolio consists of around 1.600 properties (offices, health/education, retail, residential, hotels) located in eleven European countries.

www.primonialreim.com

CONTACT

RESEARCH & ESG Department Germany

Florian WENNER • Head of Research & ESG Germany
florian.wenner@primonialreim.com

Melisa HAMZIC • ESG Manager
melisa.hamzic@primonialreim.com

The Research & ESG Department's role is to formalize Primonial REIM's real estate investment strategies, based on continuous monitoring of the 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.

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

PRIMONIAL
REIM GERMANY

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.

This document is for informational purposes only and does not constitute an offer by Primonial REIM to buy or sell the investment product or investment service. It should not be considered investment advice, legal advice or tax advice. The investment strategies presented may not be accessible to all types of investors. The opinion, estimates and forecasts contained in it are subjective and may be modified without prior notice. They are made on figures made available by official data providers. There is no guarantee that the forecasts will materialise. There is no guarantee that forecasts are based on precise and exhaustive date. It is up to readers to make their own assessment of this information. This document does not contain sufficient information to serve as the basis for an investment decision.