PRIMONIAL
REIM GERMANY

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PRIMONIAL REIM GERMANY PERSPECTIVES

Investors' view on the German Real Estate Market

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FAKTEN 2023

FORECAST ECONOMIC GROWTH (GDP)

-0.5%

FORECAST INFLATION

+5.9%

10-YEAR GOVERNMENT BOND YIELDS

+2.9%

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, economic, demographic and social factors. This is why a broad analysis is needed, which therefore matches the horizon of most real estate investors.

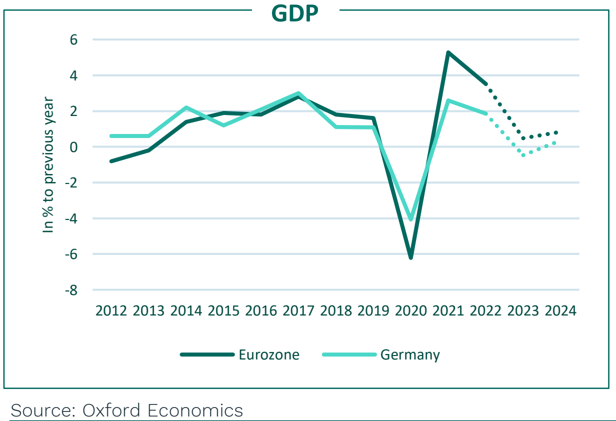
Primonial REIM relies on its local teams to provide on-the-ground research on the German markets. As Germany is a polycentric market, with specific real estate features, standards of valuation, demographic challenges and industrial forces, we want to provide a regular analysis of Germany´s real estate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

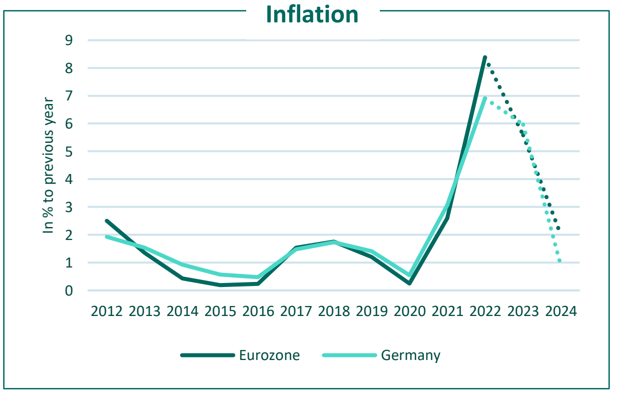
ECONOMY

Global geopolitical tensions have reached a new peak as a result of the war in the Middle East. So far, however, it appears that a spillover of the conflict into neighboring countries and direct involvement of the major international powers can be avoided, so that the economic impact in Europe is also low. Completely independent of the potential impact of the Middle East conflict, economic output in Germany is expected to decline by -0.5% in 2023. By contrast, forecasts for the coming year see a slight economic recovery in Germany, on a par with the euro zone as a whole. The rehashed narrative of Europe's "sick man" thus does not appear to be coming true (for the time being).

INFLATION

The inflation rate forecast by the Federal Statistical Office for October is 3.8%. Even though the central banks had hoped for a faster decline in inflation, the trend has been pointing in the desired direction for months. Energy prices have barely risen recently. In addition, producer prices, which are regarded as an early indicator of consumer prices, fell by almost 15% in September. Some forecasts therefore already predict inflation rates of below 1% for the coming year. In addition, at the end of October the ECB refrained from raising its key interest rate further for the first time in ten consecutive hikes. For real estate investors, this means a cautiously optimistic outlook, as under the premise of further declining inflation rates, key interest rate cuts are conceivable next year in order to stimulate the euro area economy.





Source: Oxford Economics

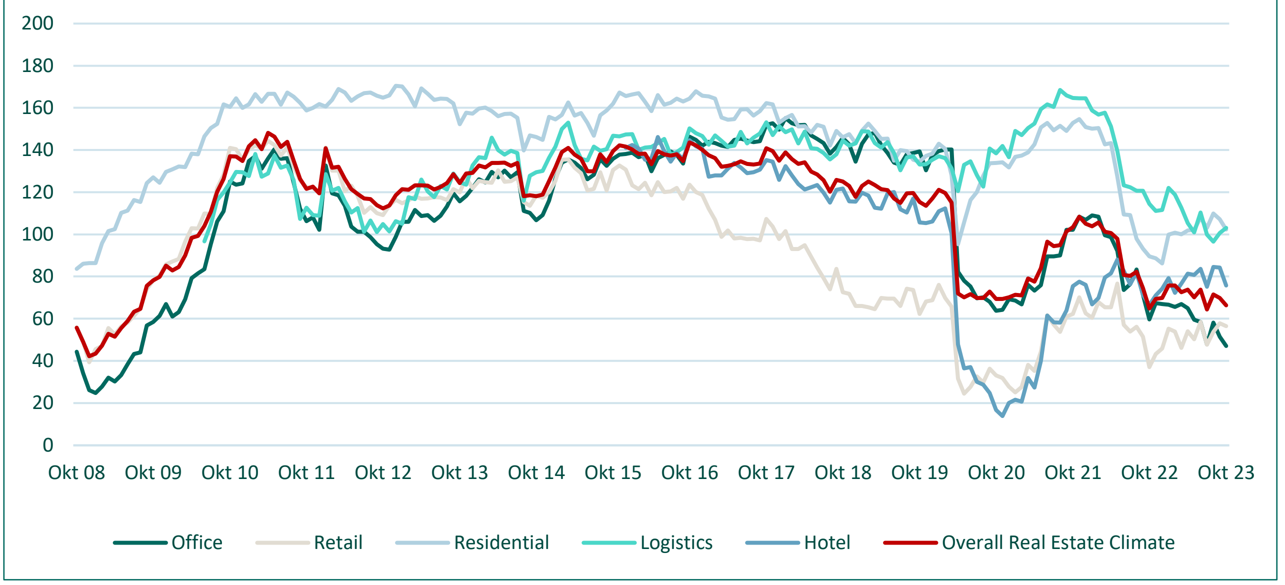
GERMAN REAL ESTATE CLIMATE

The real estate industry is winding down the year in comfort. This is how one could interpret the current sentiment barometer and the transaction figures, although there is in fact no trace of "coziness" for most real estate companies in the crisis-ridden environment. Therefore, a year-end rally also seems very unlikely in the current environment, so that the focus of most players is on the years 2024 and 2025.

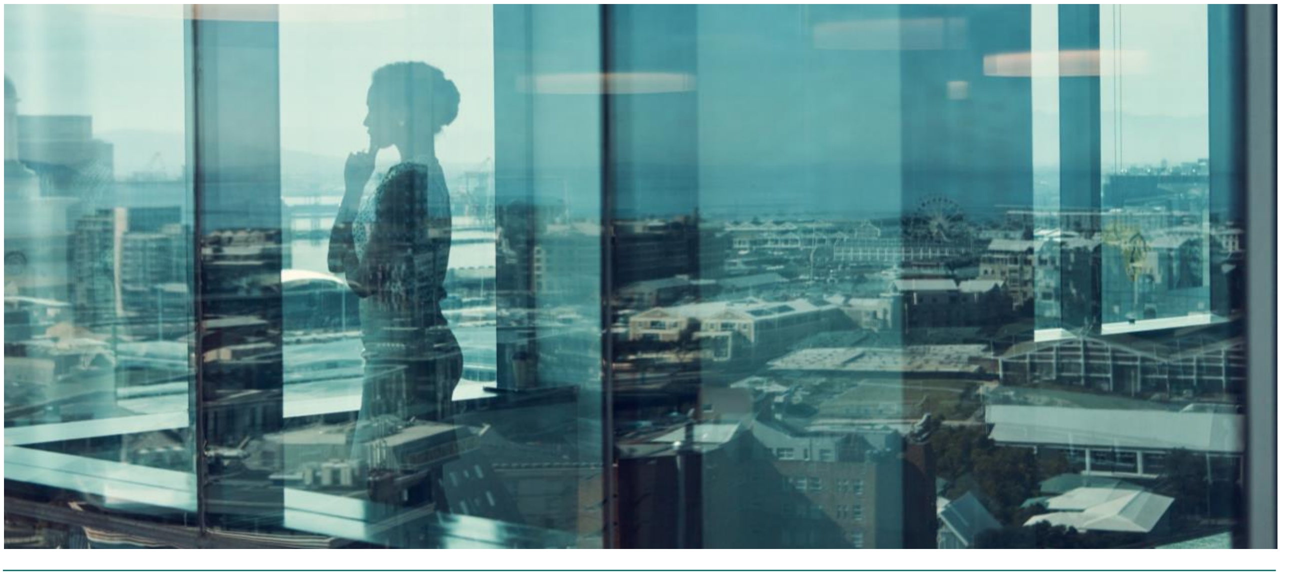
The current sentiment picture shows only marginal changes compared with the survey in the summer. The residential and logistics segments continue to be rated positively. The last segment is office with a value of 47.0. Retail and hotel are in the midfield, albeit also with low values.

It cannot be ruled out that the market recovery will come faster than some players currently want to believe. The inflation trend and, in particular, the calming of energy prices could significantly reduce interest rate pressure in the coming months. The decision taken by the ECB a few days ago not to raise key interest rates a further time in October can be seen as a positive indication for real estate investors.

Real estate climate index



Source: Primonial REIM Research & Strategy according to Deutsche Hypo

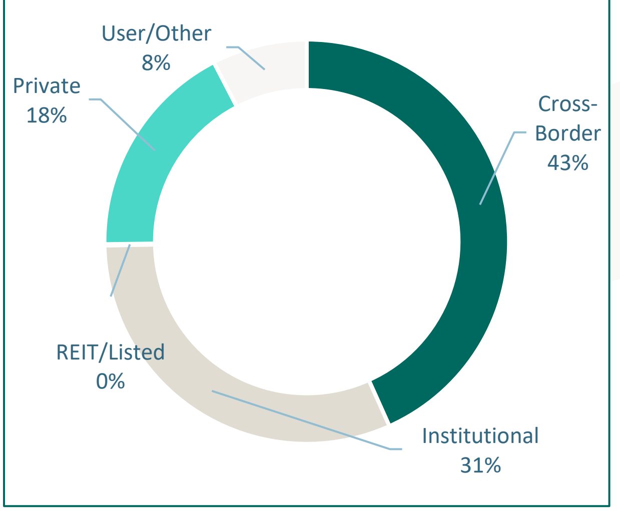


TRANSACTION VOLUME

There hasn't been so little going on for a long time! However, this statement does not refer to Expo Real, the industry trade fair held every year in October, where the usual hustle and bustle took place, but to the transaction activity in 2023. In the first three quarters, just around €19 billion was invested in the largest asset classes on the German real estate market. This figure is well below the lowest transaction volume of the last ten years. At Expo Real, therefore, there were many different variations on the slogans of perseverance. It is clear to all participants that without a real revival of new business, many players will not be able to hold out until 2025.

All asset classes are affected by declining transaction volumes. The sharpest declines are in office followed by residential and retail. Many institutional buyers have currently withdrawn from the real estate business and are adopting a wait-and-see approach. The best prospects are currently seen in asset classes which, despite investor restraint, have fundamentally high demand and are less strongly correlated with the overall economic situation. These include, in particular, residential, healthcare and hotels.

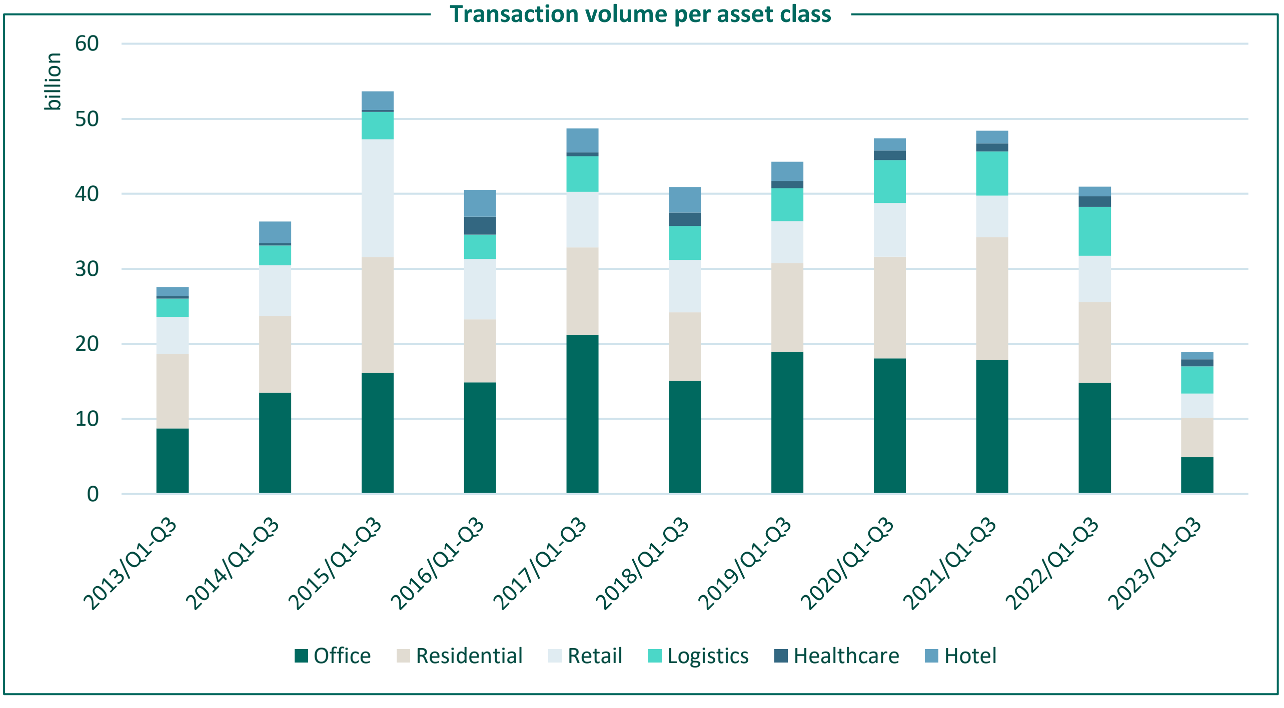
Inverstors composition Q1-Q3 2023



OUTLOOK

A key question will be whether a major crash with more insolvencies and genuine distress sales will be needed to boost transaction activity or whether the situation will stabilize again in the coming year. Inflation and interest rate developments will play an important role. If inflation rates really are at a low level at the beginning of the new year and the first interest rate cuts are imminent, investors will also become enthusiastic about real estate again and thus most players will come through the crisis with a black eye.

Transaction volume per asset class



Source: Primonial REIM Research & Strategy according to RCA

SUMMARY ASSETKLASSEN

Asset Class	Transaction Volume Q1-Q3/2023	Transaction Volume 5-year-average Q1-Q3	Cross-Border Volume Q1-Q3/2023	Prime Yields Q3/2023	Trend Transaction Volume Previous Half Year
Office	€4.9 bn	€17.0 bn	€1.9 bn (40 %)	4.4 %	➘
Residential	€5.2 bn	€12.3 bn	€2.0 bn (38 %)	3.1 %	➘
Retail	€3.2 bn	€6.2 bn	€1.6 bn (51%)	4.5 % (High-Street-Shops)	➘
Healthcare	€1.0 bn	€1.3 bn	€0.4 bn (40 %)	5.1 %	➘
Hotel	€1.0 bn	€2.1 bn	€0.4 bn (44 %)	5.0 %	➘
Logistics	€3.6 bn	€5.4 bn	€1.6 bn (45 %)	4.0 %	➘

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

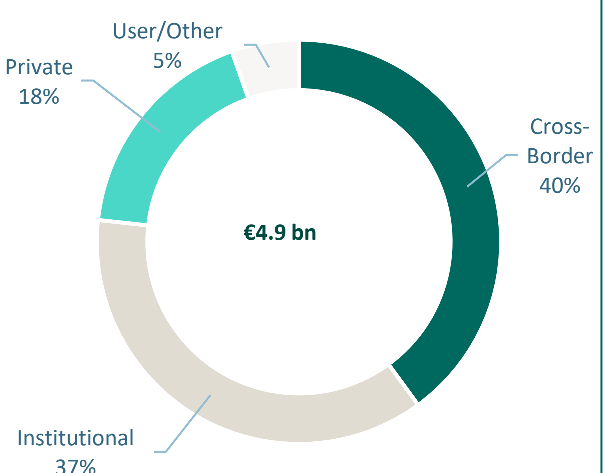
OFFICE

OFFICE TRANSACTION VOLUME Q1-Q3/2023	**€4.9 bn**
THEREOF CROSS-BORDER TRANSACTION VOLUME Q1-Q3/2023	**€1.9 bn**
PRIME YIELDS OFFICE A-CITIES A-STÄDTE Q3/2023	**4.4 %**
PRIME YIELDS OFFICE SECONDARY-CITIES Q3/2023	**4.9 %**
TREND TRANSACTION VOLUME COMPARED TO THE PREVIOUS HALF YEAR	↘

Rarely has the industry been so united as in its current skeptical attitude toward office investments. This is reflected not least in the last place in the asset class comparison in the latest Real Estate Sentiment Barometer. It is often in these phases that it is worth taking a closer look at an asset class. The pure data points are almost unchanged. With a transaction volume of around EUR 4.9 billion in the first nine months, the popularity measured by the investment volume in office properties remains at the level seen shortly after the financial crisis. At least there was a slight increase in the third quarter compared with the first half of this year. At the same time, prime yields have risen further and now stand at 4.4% in A-cities and 4.9% in B-cities.

What nevertheless speaks in favor of office real estate? There are signs that the German labor market is moving from a pure applicant market to a balanced relative strength between employers and employees. Even though there is still a shortage of skilled workers in many areas, the service sector in particular, which is important for the office sector, could see employers once again asserting their ideas regarding presence and home office days to a greater extent. A slight decline in the number of vacancies recorded by the employment agency serves as an indication of this. Against this backdrop, at least the issue of space downsizing due to home offices could lose some momentum. In addition, office rents continue to rise in almost all of the top 7 markets, even though office take-up has continued to decline over the past 12 months.

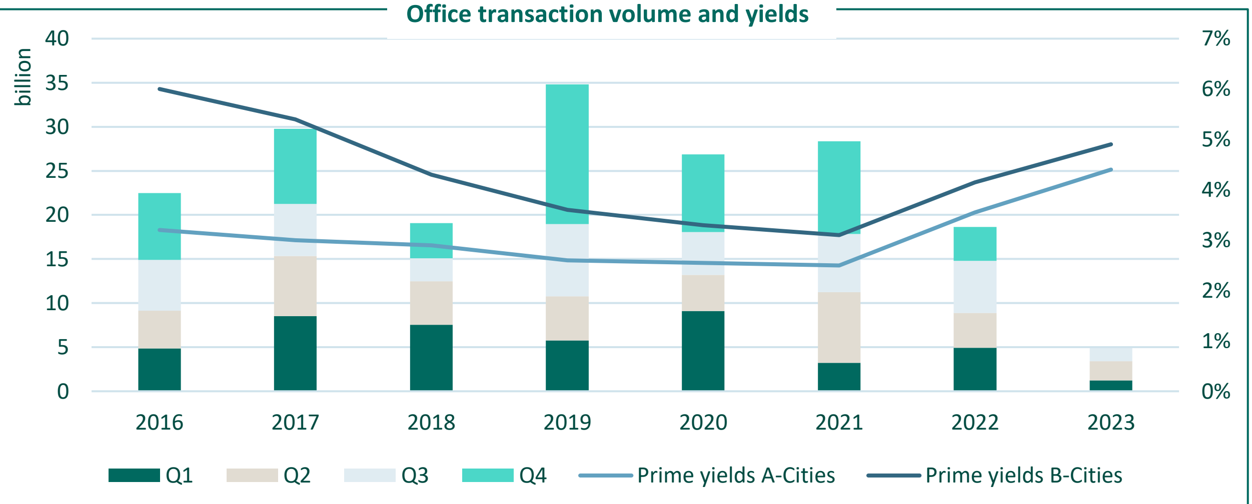
Investors composition office Q1-Q3 2023



OUTLOOK

The "lemming effect" is currently prevailing in the office investment market. Office properties are viewed so critically that hardly any transactions are being recorded. Nevertheless, attractive purchase opportunities may arise for courageous investors. This is particularly the case if existing owners are concerned about prices falling further and pending refinancing and are looking to sell their properties in the near future.

Office transaction volume and yields



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

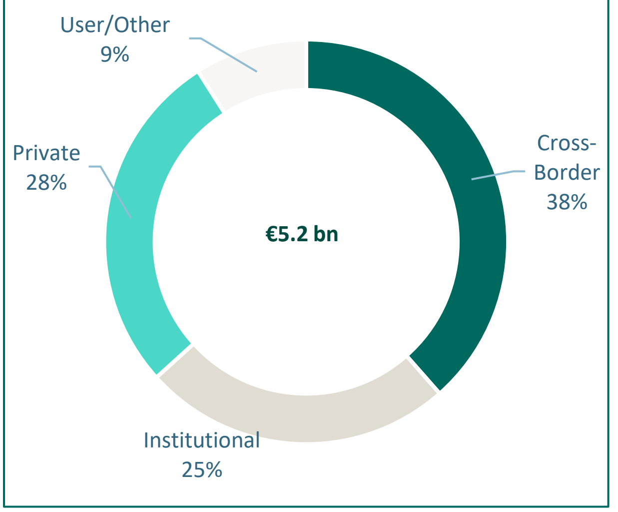
RESIDENTIAL

TRANSACTION VOLUME RESIDENTIAL Q1-Q3/2023	**€5.2 bn**
THEREOF CROSS-BORDER TRANSACTION VOLUME Q1-Q3/2023	**€2.0 bn**
PRIME YIELDS RESIDENTIAL Q3/2023	**3.1 %**
TREND TRANSACTION VOLUME COMPARED TO THE PREVIOUS HALF YEAR	↘

Despite the mood of crisis, residential real estate is viewed relatively positively by many investors. In the year to date, EUR 5.2 billion has been invested in residential real estate. This figure puts residential real estate at the top of the asset class rankings. Nevertheless, the transaction volume of around EUR 5 billion is by far the lowest figure in the last ten years. German residential real estate is therefore also affected by the crisis mood triggered by the interest rate shock.

The prime yield for residential real estate is currently 3.1%. For investors to receive an adequate risk premium for residential real estate again, yields would have to rise further or federal bond yields would have to fall significantly. The comparatively low initial yields for residential real estate are currently justified by sellers on the basis of the prospect of high future rent increases. However, the low volume of transactions compared with the past decade suggests that many investors are waiting for further price reductions. On the other hand, demand pressure in the metropolitan areas will remain high. It can be assumed that completion figures have not yet bottomed out and that next year the political target of 400,000 new homes per year will be further away than any time in the last ten years. For example, the Ifo Institute is forecasting completion figures of 215,000 apartments in 2024 and as low as 175,000 in 2025.

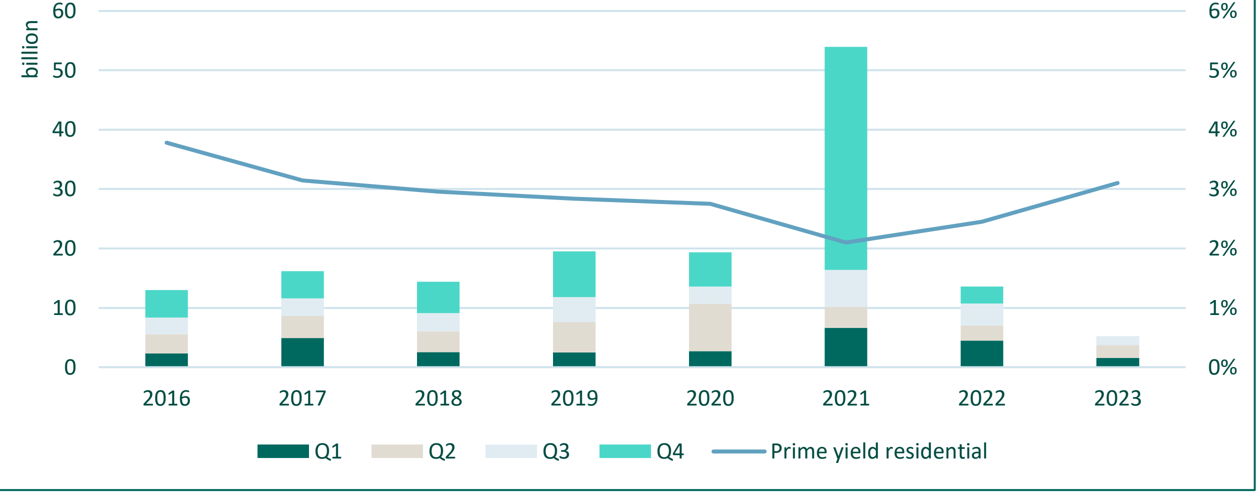
Investors composition residential Q1-Q3 2023



OUTLOOK

The positive perception of residential real estate and the investments actually made are currently at odds with each other. It is therefore expected that many investors will also wait for further devaluations in the residential sector. In addition, it is to be expected that the possibility of apportioning the necessary investments in the energy upgrading of properties will be more restricted politically in the coming years and that owners will therefore have to calculate with higher non-apportionable investment costs.

Residential transaction volume and yields



Source: Primonial REIM Research & Strategy according to RCA & CBRE;
* Ifo Institut 2023: https://www.ifo.de/pressemitteilung/2023-06-16/deutlich-weniger-neue-wohnungen-bis-2025

RETAIL

TRANSACTION VOLUME RETAIL Q1-Q3/2023	**€3.2 bn**
THEREOF CROSS-BORDER TRANSACTION VOLUME Q1-Q3/2023	**€1.6 bn**
PRIME YIELDS HIGH-STREET-SHOPS Q3/2023	**4.5 %**
PRIME YIELDS SUPERMARKETS Q3/2023	**4.7 %**
PRIME YIELDS SHOPPING-CENTER Q3/2023	**5.5 %**
TREND TRANSACTION VOLUME COMPARED TO THE PREVIOUS HALF YEAR	↘

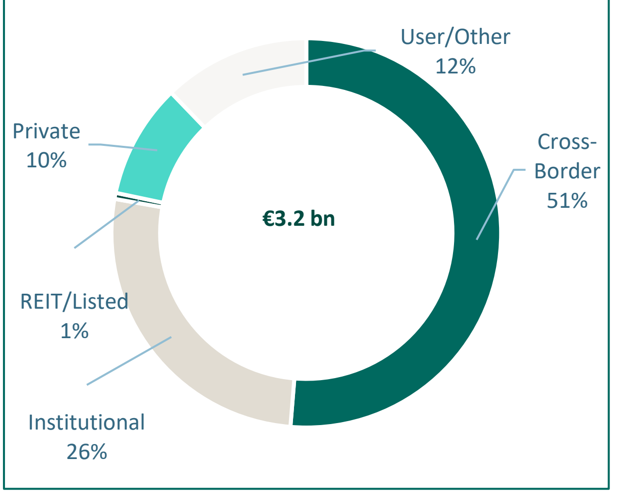
There has been a slight, but nevertheless perceptible change in sentiment for retail properties in recent months. This was driven by two assumptions in particular:

1) Retail real estate is considered to be crisis-proven and has been affected by downfalls for more than a decade, especially in the shopping center and downtown locations.
2) Retail real estate, apart from the food sector, was already exposed to significant devaluations due to the pandemic. Retail property prices were therefore somewhat less affected by the interest rate shock last year.

Nevertheless, at around EUR 3.2 billion, the transaction volume for retail properties in the first three quarters of 2023 is also significantly below the prior-year figures. Prime yields rose further in the last quarter and currently stand at 4.5% for high-street stores, 4.7% for supermarkets and 5.5% for shopping centers.

The HDE consumer barometer has been moving steadily upwards since its low point exactly one year ago, although German consumers' propensity to spend remains subdued. The propensity to save continues to outweigh the propensity to buy, which makes a sudden economic upturn seem unlikely.

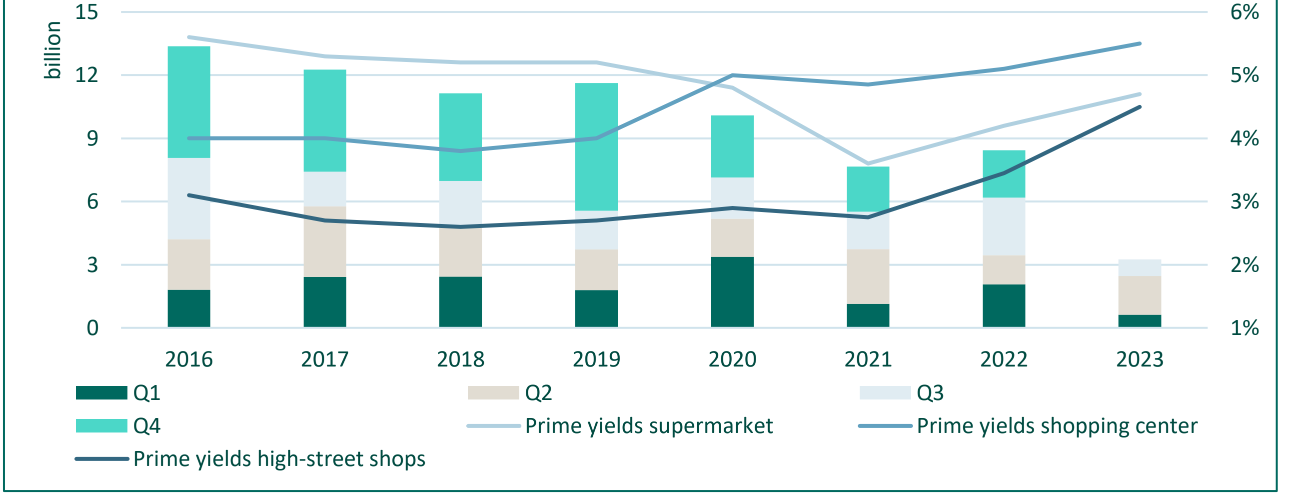
Investors composition retail Q1-Q3 2023



OUTLOOK

Some investors believe that the asset managers of retail properties, who have been crisis-tested for years, will be able to cope better with the current situation than in other types of use. On the other hand, there are persistent structural problems, especially outside the food sector. It remains to be seen whether the small upturn in sentiment in the retail sector will last the next six to twelve months.

Retail transaction volume and yields



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

HEALTHCARE

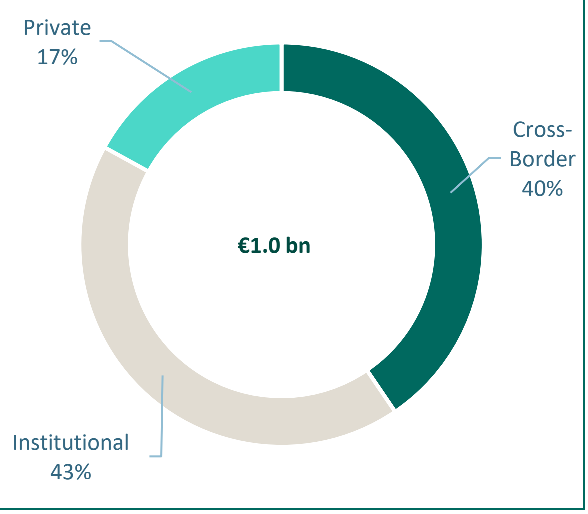
HEALTHCARE TRANSACTION VOLUME Q1-Q3/2023	€1.0 bn
THEREOF CROSS-BORDER INVESTMENT VOLUME Q1-Q3/2023	€0.4 bn
PRIME YIELDS HEALTHCARE Q3/2023	5.1 %
TREND TRANSACTION VOLUME COMPARED TO THE PREVIOUS HALF YEAR	↘

The healthcare real estate market is currently showing astonishing signs: Despite the operator crisis and structural financing problems in the care sector, stable investor interest in healthcare real estate is evident. This is reflected in a transaction volume of around EUR 1 billion in the first three quarters of 2023. As always, it is worth taking a closer look at the figures recorded:

1) Particularly in the first two quarters, transactions were recorded that were predominantly already prepared or even signed in the previous year at more favorable financing conditions and before the first reports of operator insolvencies.
2) Many of the recently reported transactions from the traditional nursing home sector involve new-build properties where the opening of operations is still imminent or has recently taken place and there are therefore no "historical legacies" and energy costs in operation are low.
3) For some years now, the assisted living sub-segment has been seen as a pillar of the transaction market in the healthcare sector. Unlike traditional nursing homes, rents can be freely negotiated here. According to CBRE, assisted living accounted for around 30% of the transaction volume.

It should be noted that the investment market for healthcare properties is coming through the crisis in a comparatively stable manner. At the same time, the current figures show a distorted picture in places. Particularly in the care sector, a precise analysis of the operator market remains the key to success.

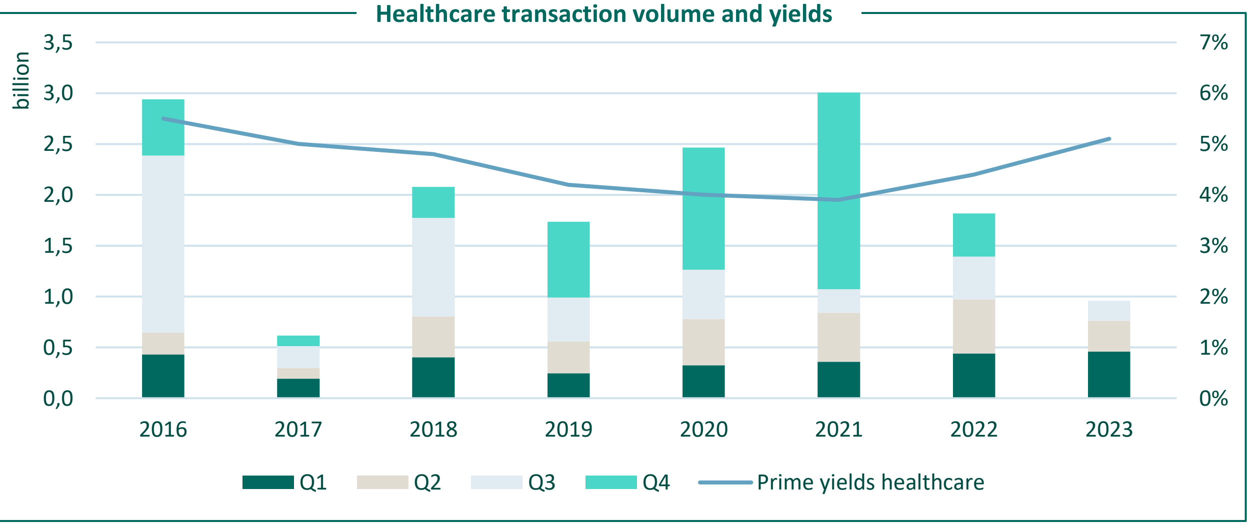
Investors composition healthcare Q1-Q3 2023



OUTLOOK

The consolidation of nursing home operators is largely dependent on internal capacity for regular renegotiation of care rates. Large operator chains in particular have an advantage here and may even be able to consider expansion again next year. Precisely because the returns on healthcare real estate have already risen noticeably and there continues to be high demand for care places, the healthcare asset class could again come increasingly into the focus of investors in the near future.

Healthcare transaction volume and yields



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

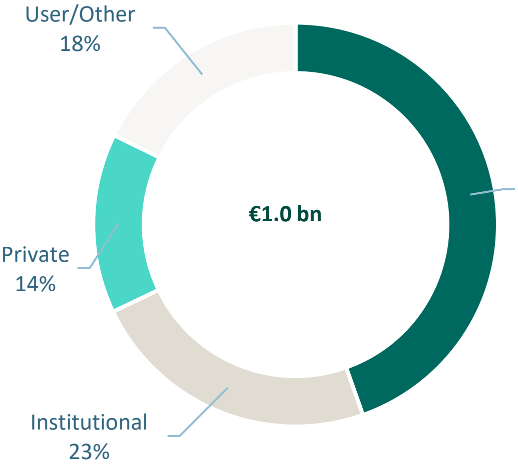
HOTEL

HOTEL TRANSACTION VOLUME Q1-Q3/2023	**€1.0 bn**
THEREOF CROSS-BORDER INVESTMENT VOLUME Q1-Q3/2023	**€0.4 bn**
PRIME YIELDS HOTEL Q3/2023	**5.0 %**
TREND TRANSACTION VOLUME COMPARED TO THE PREVIOUS HALF YEAR	↘

In the first three quarters, around EUR 1 billion was invested in German hotel real estate. The transaction volume is even below the figures for the past three crisis years during the pandemic. By contrast, the figures from the operator side are more encouraging. Thus, 2023 is expected to be the strongest year in terms of sales in the hospitality industry since the beginning of the pandemic. However, hopes that the hotel industry will be able to match the record year of 2019 will not be fully realized. For example, sales for hotels and lodging establishments in the summer were 7.5% below the record level of 2019, but the major operator chains nevertheless report predominantly good sales figures, confirming the noticeable recovery of the hotel industry.

Due to the decline in new construction activity, refurbishments and renovations will play a greater role in the expansion strategy of leading hotel operators in the coming years. In these cases, opportunities could arise for repositioning some locations, provided owners and operators have sufficient capital for the necessary investments. Unlike on the operator and demand side, a potential revival of the hotel investment market was prevented by the interest rate shock last year. This is reflected in further rising yields. Currently, prime yields are at 5%.

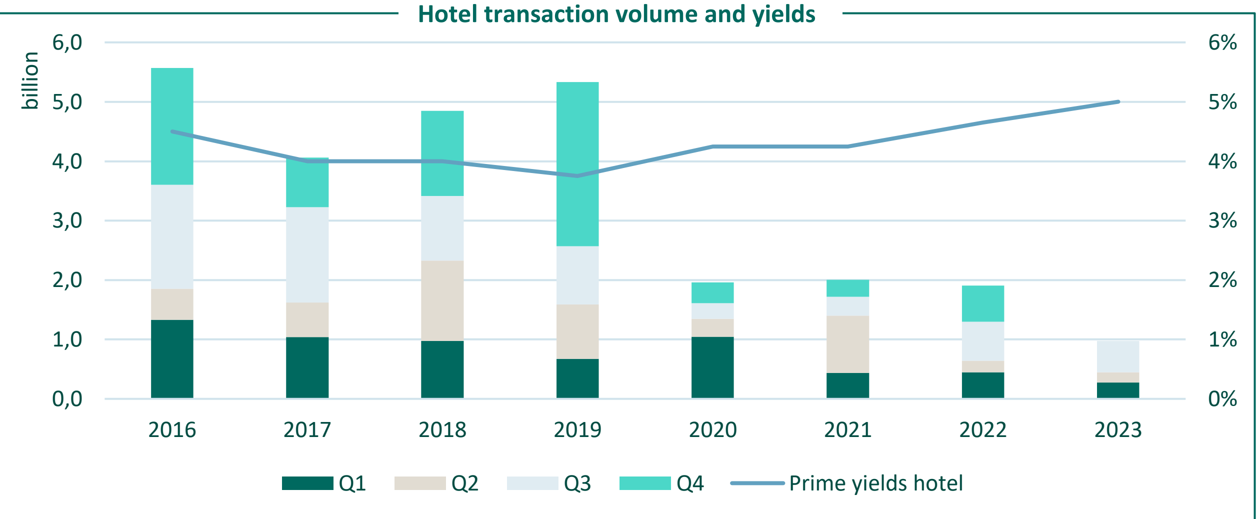
Investors composition hotel Q1-Q3 2023



OUTLOOK

The hotel industry continues to recover after the pandemic crisis years. On the operator side, the worst is probably over for the time being. Nevertheless, investors remain very cautious. The (temporary) end of the cycle of interest rate hikes combined with good sales figures from the major operator chains could make hotels more attractive to investors again next year.

Hotel transaction volume and yields



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

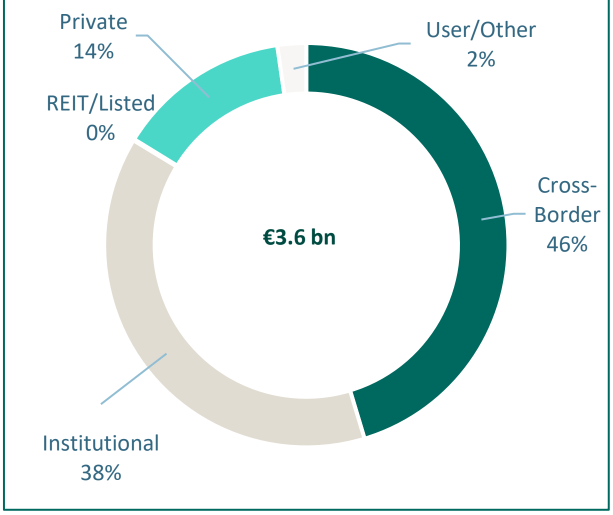
LOGISTICS

LOGISTICS TRANSACTION VOLUME Q1-Q3/2023	**3,6 Mrd. Euro**
THEREOF CROSS-BORDER INVESTMENT VOLUME Q1-Q3/2023	**1,6 Mrd. Euro**
PRIME YIELDS LOGISTICS Q3/2023	**4,0 %**
TREND TRANSACTION VOLUME COMPARED TO THE PREVIOUS HALF YEAR	↘

In the third quarter of 2023, a higher transaction volume for logistics properties than in previous quarters was recorded at around EUR 1.4 billion. Nevertheless, transaction activity remains subdued compared with the boom years, also in the logistics sector, due to the changed interest rate environment. Overall, logistics properties worth EUR 3.6 billion were sold in the first nine months of the year. This corresponds to the lowest volume since 2016. In addition to the general restraint on the investment markets, declining new construction figures for logistics properties play an important role. This is reflected in a slight decline in take-up. As demand for space is stable and the supply of space remains limited, moderate rent increases are still expected.

The prime yield for logistics properties is currently 4%. Further increases in yields are expected in the coming quarters, particularly outside the core area.

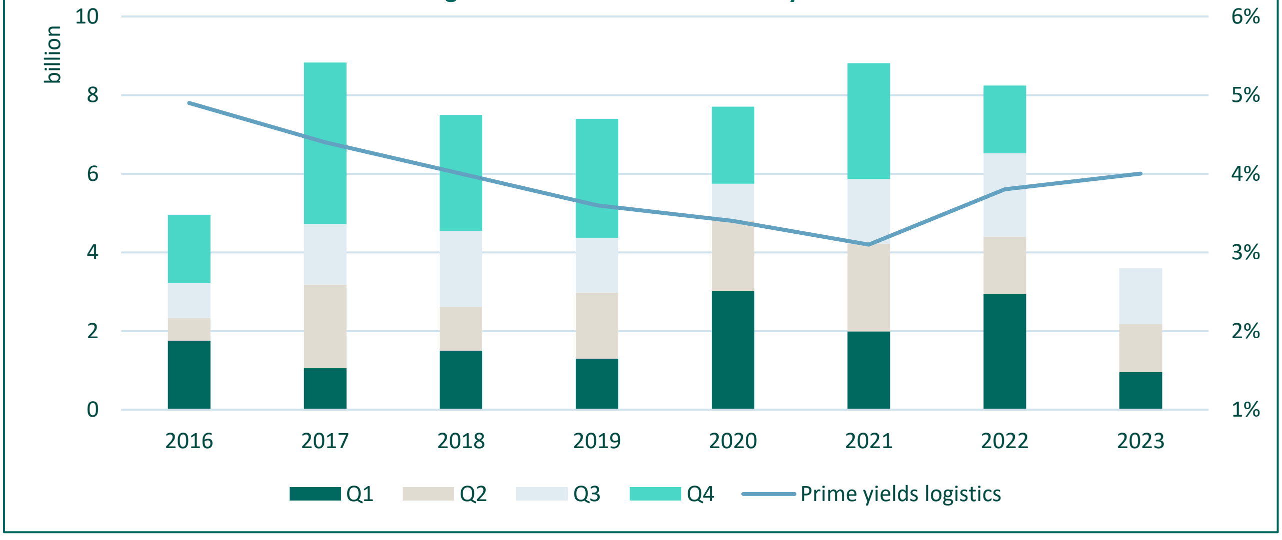
Investors composition logistics Q1-Q3 2023



OUTLOOK

There is widespread agreement that the really fat years in the logistics sector are over for the time being. If new construction activity continues to decline, more companies will look for more favorable and modern space alternatives in neighboring European countries. The medium-term prospects for German logistics real estate will depend primarily on macroeconomic developments and the future of key German industrial production sites..

Logistics transaction volume and yields



Source: Primonial REIM Research & 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.

Über 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 €42 billion of assets under management. Its conviction-based allocation breaks down into:

- 47 % healthcare/education,
- 35 % offices,
- 8 % residential,
- 5 % retail,
- 4 % 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 1.700 properties (offices, health/education, retail, residential, hotels) located in eleven European countries.

www.primonialreim.com

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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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