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PRIMONIAL REIM GERMANY PERSPECTIVES

Investors' view on the German Real Estate Market

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

FACTS 2023

ECONOMIC GROWTH (GDP)

-0.2%

INFLATION

+5.9%

10-YEAR GOVERNMENT BOND YIELDS
(End of 2023)

+2.0%

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

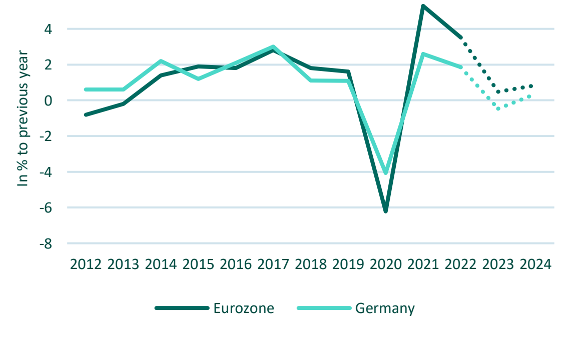
Although key interest rates have not been adjusted since September 2023, interest rate cut expectations are currently fuelling the markets. Loan interest rates are back below 4% and yields on German government bonds have also fallen significantly. At the end of 2023, the current yield on 10-year German government bonds was only 2%, meaning that the risk premium for real estate has risen again. Nevertheless, the property sector cannot fall into a state of great euphoria, as the interest rate cuts currently priced into the stock market are by no means guaranteed and investors continue to view property investments with a certain degree of scepticism. This reticence is fuelled by project developer insolvencies and cash outflows from real estate funds, which reinforce the impression that the real estate crisis has not yet been fully overcome.

INFLATION

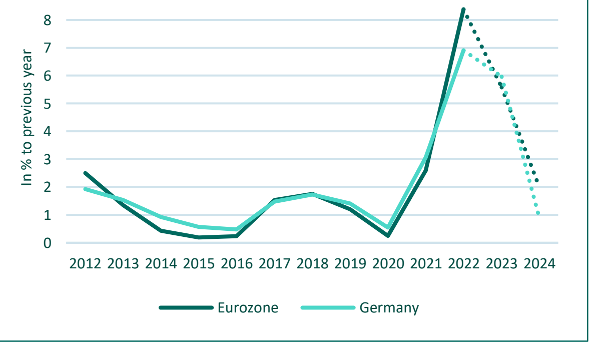
For many months, there was hardly a more important topic on the capital markets than the current inflation trend and the ECB's associated reactions. Inflation rates in the eurozone have now fallen to below 3%. Even though slightly higher inflation rates were recorded again in December, particularly in Germany, the prevailing view on the market is that the fight against inflation is almost complete. The ECB's monetary watchdogs logically warn against too much certainty. Nevertheless, inflation forecasts according to Oxford Economics predict low annual inflation of around 1% in Germany and around 2% in the eurozone for 2024.

For the real estate industry, the stable key interest rate trend and low inflation rates initially mean the long-awaited planning security. Nevertheless, there are some indications that 2024 will still be a crisis-ridden year for the sector, as many business models have emerged in the real estate industry in recent years that were too dependent on the availability of cheap capital.

GDP



Inflation

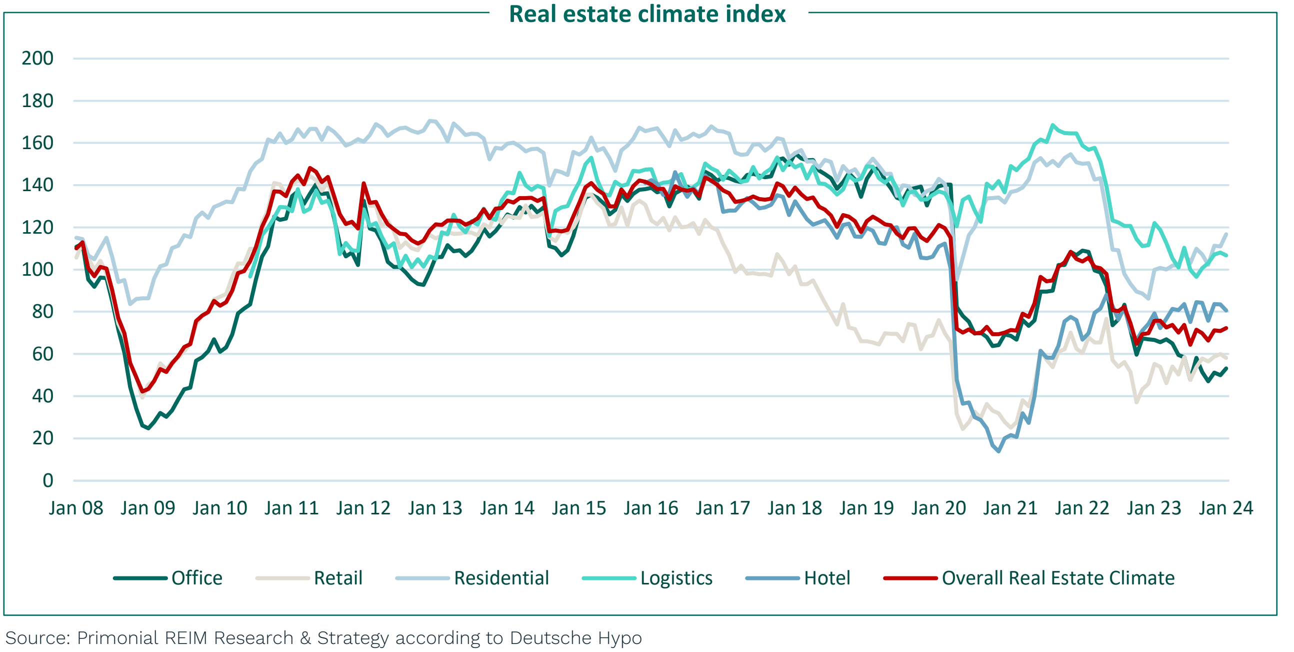


Source: Oxford Economics

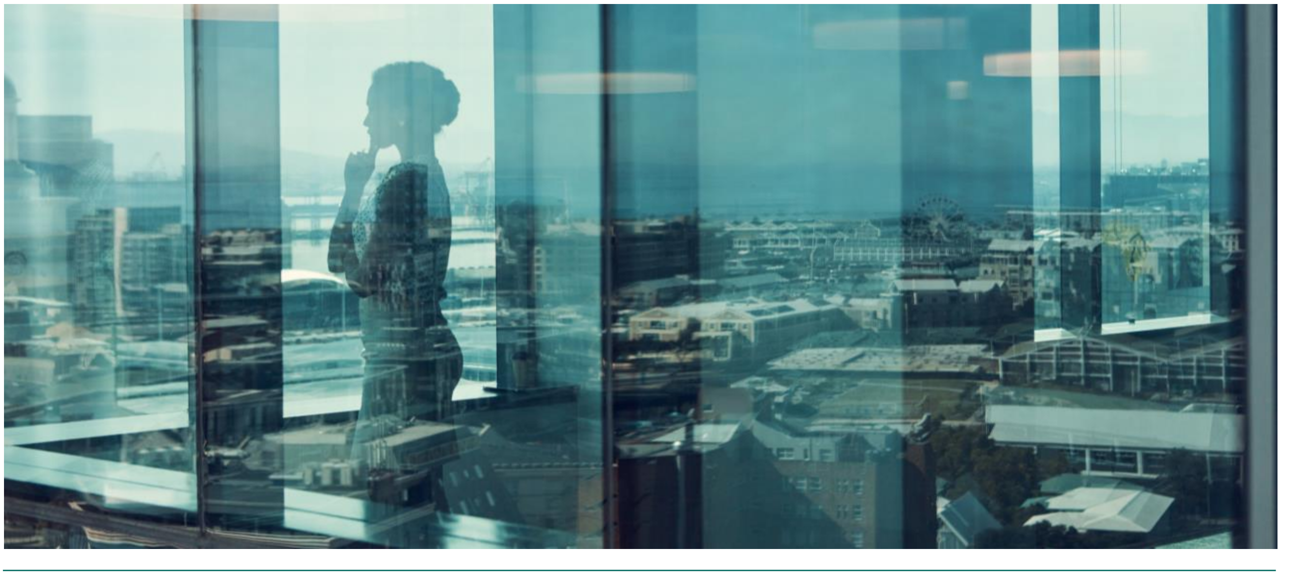
GERMAN REAL ESTATE CLIMATE

A glance at the sentiment barometer could give the impression that the worst is already over for the real estate sector. The annual lows were reached just in time for Exporeal in October. Since then, there has been a restrained but nevertheless recognisable upturn in sentiment. Residential property has returned to the top of the asset class comparison, followed by the logistics sector. Hotel (80.6), retail (58.1) and office (53.2) follow at a considerable distance and far from the "neutral" 100-point mark. Opportunistic investors could now read these values in reverse order and consequently identify the greatest “upside potential" in the office and retail asset classes.

However, it is also true that the current mood is similar to that at the beginning of 2023. Here, too, there was cautious optimism in the industry and hope for better times as the year progressed. The outcome is known. Many hopes are currently pinned on possible interest rate cuts over the course of the year. Further (interest rate-related) devaluations are therefore unlikely. Nevertheless, even lower interest rates cannot solve all problems in one fell swoop. The construction industry and the project development business will take several years to pick up again. Investor scepticism and the associated outflow of funds into real estate funds will also keep the sector busy for the next one to two years.



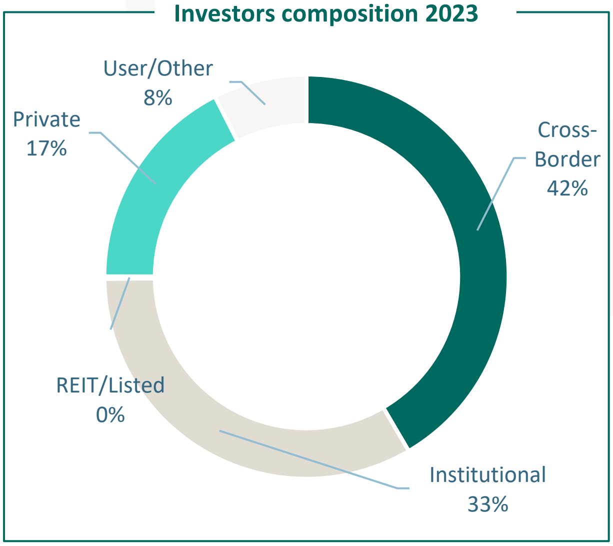
Source: Primonial REIM Research & Strategy according to Deutsche Hypo



TRANSACTION VOLUME

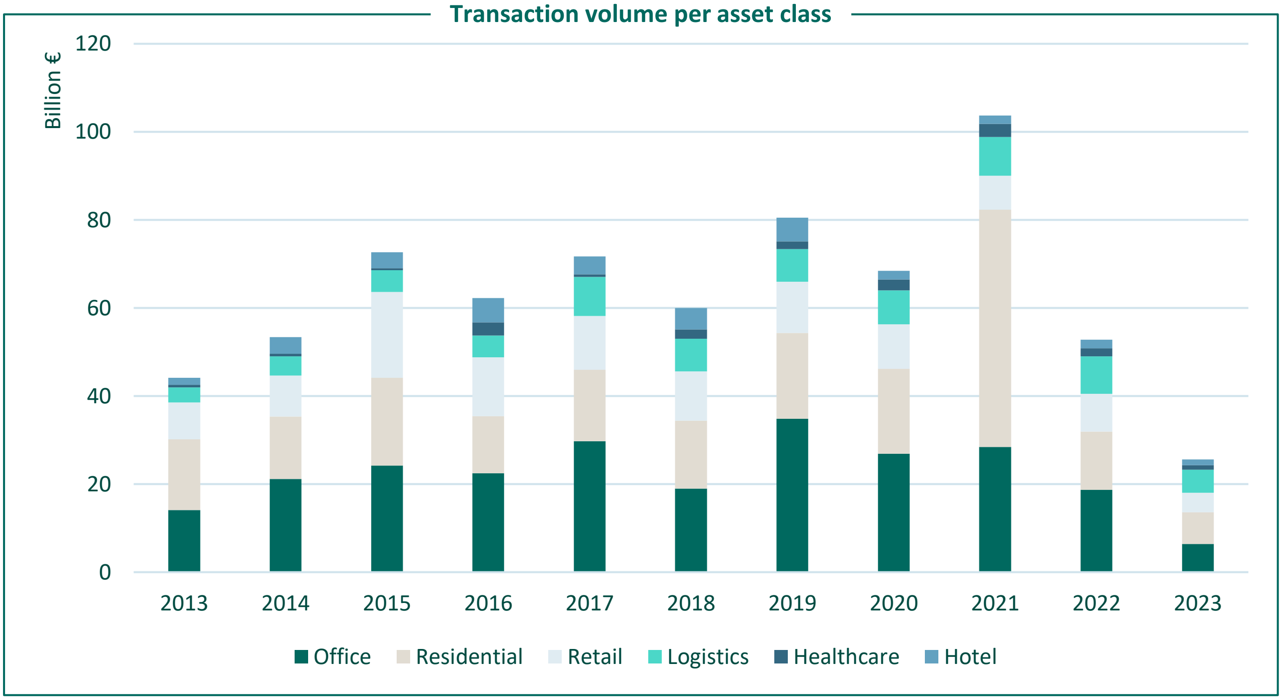
A real property crisis year lies behind us. Historically low transaction volumes, rapidly rising interest rates and insolvencies, particularly among project developers, characterised the past year. The recovery hoped for at the beginning of the year failed to materialise and hardly any player, whether investor, project developer, bank or service provider, was not affected by the standstill on the transaction market. The ECB's turnaround on interest rates in summer 2022 to combat inflation not only presented many companies with financing problems, but also heralded the definitive end of the previous real estate cycle. A look at the figures confirms this. Only around 26 billion euros were invested in the largest asset classes last year. This is less than half as much as in 2022 and a figure that is around 60 % below the ten-year average. Foreign investors accounted for a share of around 42 %, which is a comparatively normal figure. German investors were therefore the most cautious.

The highest transaction volume was recorded in the residential sector, followed by office and logistics. The last place in 2023 was taken by healthcare properties, where the nursing home operator crisis has clearly left its mark.



OUTLOOK

Inflation and interest rate trends give cause for cautious optimism. On the other hand, Germany is still in a recession and many property companies continue to face structural challenges in maintaining sufficient liquidity. In particular, pending refinancing, cash outflows in the fund sector and falling income due to real estate devaluations continue to cause concern for some players. It is to be expected that there will be significantly more activity on the transaction market in the second half of the year at the latest.



Source: Primonial REIM Research & Strategy according to RCA

SUMMARY ASSET CLASSES

Asset Class	Transaction Volume 2023	Transaction Volume 5-year-average	Cross-Border Volume	Prime Yields Q4/2023	Trend Transaction Volume Previous Year
Office	€6.4 bn	€25.6 bn	€2.0 bn (32 %)	4.8 %	↘
Residential	€7.2 bn	€24.3 bn	€2.8 bn (39 %)	3.1 %	↘
Retail	€4.4 bn	€8.6 bn	€2.2 bn (51%)	4.8 % (High-Street-Shops)	↘
Healthcare	€1.0 bn	€2.2 bn	€0.4 bn (41 %)	5.2 %	↘
Hotel	€1.3 bn	€3.2 bn	€0.5 bn (41 %)	5.3 %	↘
Logistics	€5.2 bn	€8.0 bn	€2.5 bn (45 %)	4.3 %	↘

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

OFFICE

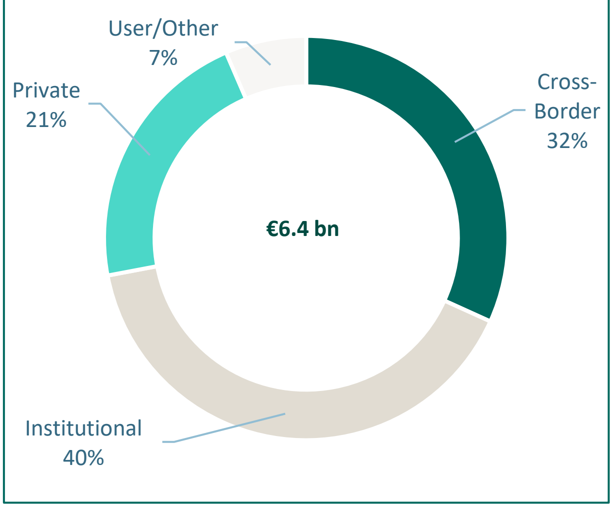
OFFICE TRANSACTION VOLUME 2023	€6.4 bn
THEREOF CROSS-BORDER TRANSACTION VOLUME 2023	€2.0 bn
PRIME YIELDS OFFICE A-CITIES Q4/2023	4.8 %
PRIME YIELDS OFFICE SECONDARY-CITIES Q4/2023	5.4 %
TREND TRANSACTION VOLUME COMPARED TO THE PREVIOUS YEAR	↘

Only €6.4 billion was invested in German office property in 2023 as a whole. This is the lowest figure since the height of the financial crisis almost 15 years ago. Prime yields have also risen significantly and, at 4.8%, are back at the 2011 level.It is interesting to compare this with prime yields in secondary cities, which remain below the level of ten years ago, when prime yields of over 6 % were common. This could indicate that the valuations in the top 7 markets have already reached their lowest point, while prices for office real estate in the smaller markets could fall even further.

The office tenant markets remained relatively robust for a long time. Looking at 2023 as a whole, there has now been a significant decline in office space take-up. Office space take-up has fallen by 27 % in A cities and by around 18 % in B cities. Vacancy rates have also increased significantly. The vacancy rate in the area-weighted average of the largest German office markets is 5.6% (previous year: 4.7%). The rental trend continues to be a positive ray of hope. Both prime and average rents rose last year.*

Due to the uncertain economic situation, many companies are reluctant to relocate or rent new space. In addition, against the backdrop of an increasingly hybrid working environment, some office users are finding it difficult to determine their space requirements, meaning that the decision is often made in favour of extending the lease.

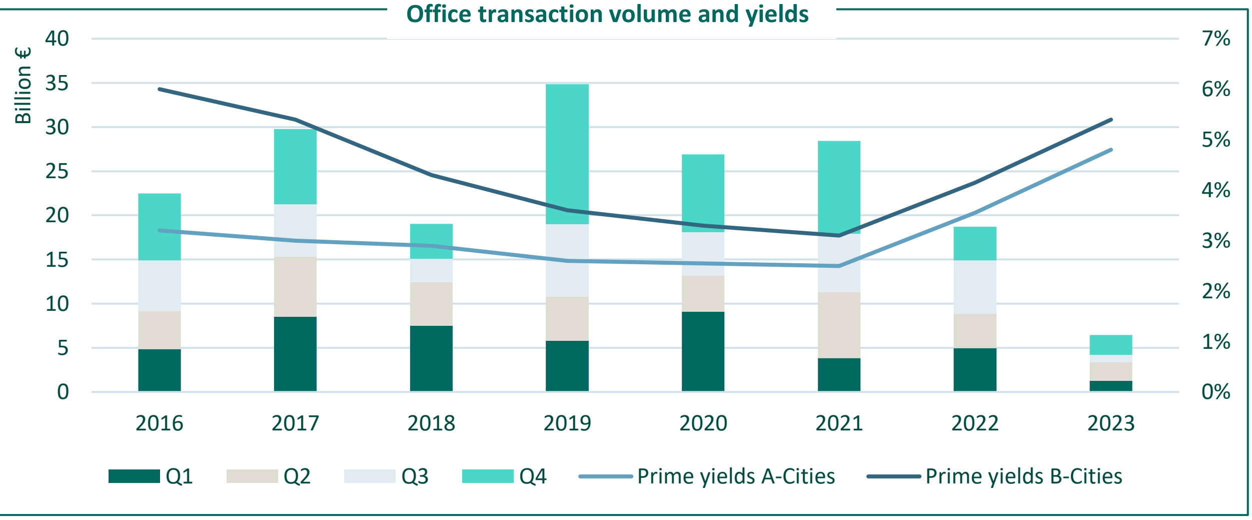
Investors composition office 2023



OUTLOOK

2023 was a real crisis year for the office markets. Not only the investment market but also the letting markets were characterised by a standstill or decline. This was offset by rising prime and average rents. It is to be expected that demand pressure for central and modern space will continue to increase due to a lack of new supply and that a new price level for office properties - accepted by buyers and sellers - will be found over the course of the year.

Office transaction volume and yields



Source: Primonial REIM Research & Strategy according to RCA & CBRE; *Riwis

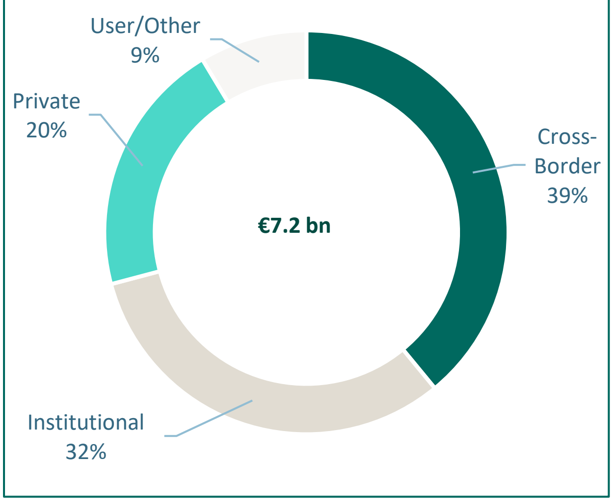
RESIDENTIAL

TRANSACTION VOLUME RESIDENTIAL 2023	€7.2 bn
THEREOF CROSS-BORDER TRANSACTION VOLUME 2023	€2.8 bn
PRIME YIELDS RESIDENTIAL Q4/2023	3.3 %
TREND TRANSACTION VOLUME COMPARED TO THE PREVIOUS YEAR	↘

A total of €7.2 billion was invested in residential property, almost 40% of which was by foreign investors. Residential investments are therefore not only at the top of the sentiment barometer, but also in terms of transaction volume in a comparison of asset classes. Even though residential real estate prices have still fallen comparatively little, many investors are keeping an eye on residential investments. The sharp decline in new construction activity combined with persistently high demand for housing in urban centres promises rising rents in the coming years. Regulatory risks and the need to carry out energy-efficient refurbishments, particularly in building stock that is more than 30 years old, are having a restrictive effect.

It is clear that many - including large - residential property developers have had to significantly reduce their new construction activities due to the unpredictable construction costs and higher interest rates. For investors who are prepared to bear higher (project development) risks, there could be an opportunity to work more closely with developers in the coming years and cover some of the risks. In return, investors can hope for double-digit returns, which are currently often demanded by investors for property investments. The prospect of high returns goes hand in hand with a different risk profile. If successful, investors are rewarded with ultra-modern, low-emission new-build properties with the prospect of high and secure rental income for decades to come.

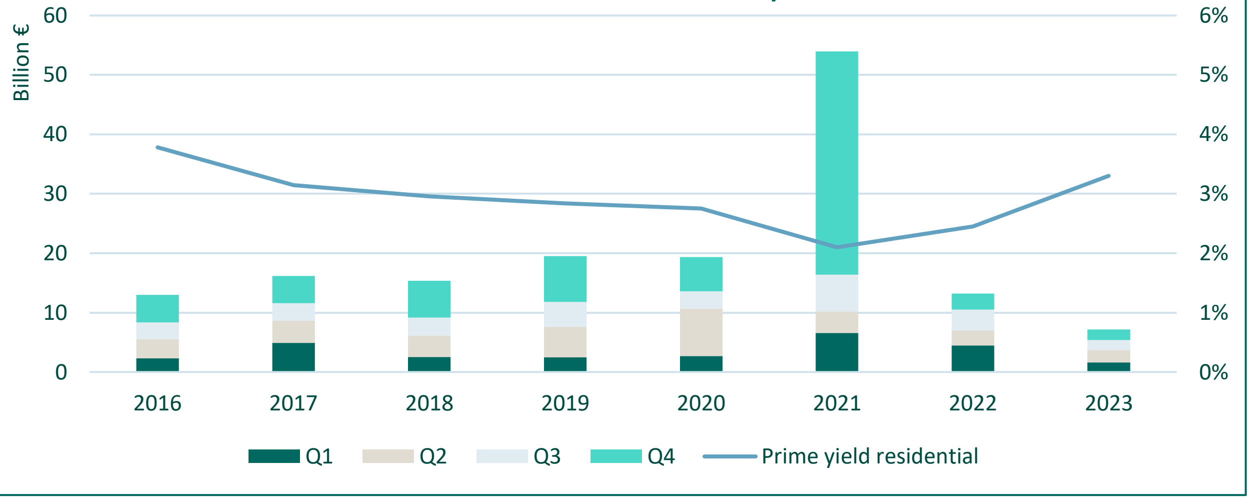
Investors composition residential 2023



OUTLOOK

Demand for attractive, energy-efficient residential real estate will remain high in 2024. Prime yields remain at a comparatively low level, meaning that it is not a foregone conclusion for investors to achieve adequate returns with residential investments. Opportunistic investors who are prepared to take on project developer risks will find attractive entry opportunities in the current market environment.

Residential transaction volume and yields



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

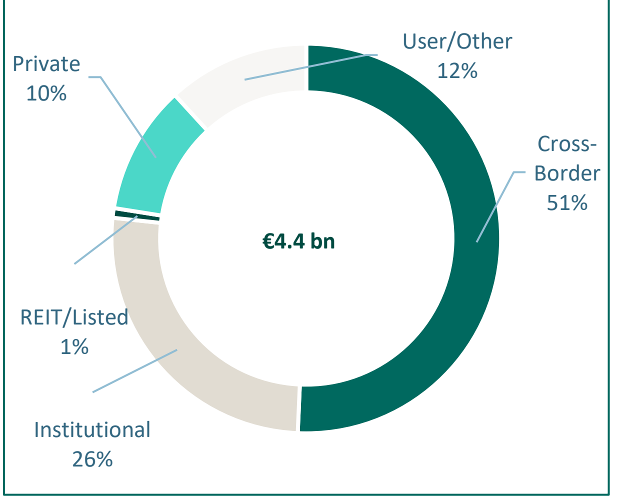
RETAIL

TRANSACTION VOLUME RETAIL 2023	€4.4 bn
THEREOF CROSS-BORDER TRANSACTION VOLUME 2023	€2.2 bn
PRIME YIELDS HIGH-STREET-SHOPS Q4/2023	4.8 %
PRIME YIELDS SUPERMARKETS Q4/2023	4.7 %
PRIME YIELDS SHOPPING-CENTER Q4/2023	5.5 %
TREND TRANSACTION VOLUME COMPARED TO THE PREVIOUS YEAR	↘

The crisis-tested retail sector turned into a secret winner last year. Although retail property was also affected by interest rate-related devaluations and the transaction volume of EUR 4.4 billion is no cause for excessive celebration, the mood is less negative than in other sectors. The effects of the pandemic have been overcome and consumer sentiment was also significantly better at the end of the year, according to HDE.

The transaction volume was largely driven by a high number of sales in the food retail sector. The high demand for supermarkets is also reflected in a less sharp rise in prime yields. Prime yields for supermarkets currently stand at 4.7%, for high-street shops at 4.8% and for shopping centres at 5.5%.

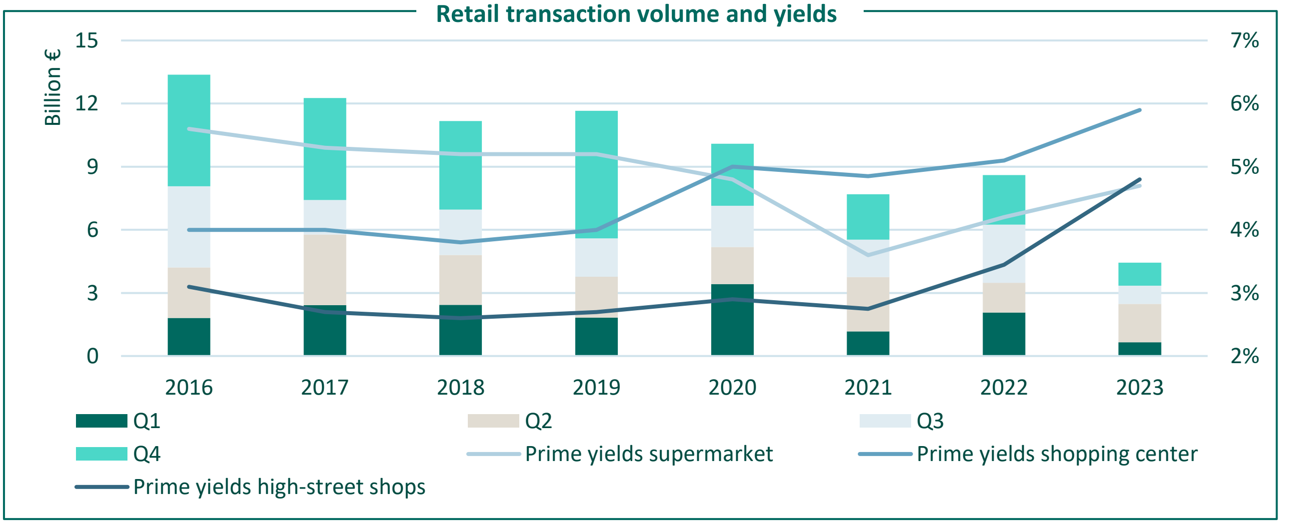
Investors composition retail 2023



OUTLOOK

Food retail will remain the driver of supply and demand in 2024. In addition, it could be worthwhile for investors to look at shopping centres and retail parks with well-functioning concepts, as these have already proven their crisis resilience (e-commerce, pandemic) in recent years and can be acquired at attractive yields.

Retail transaction volume and yields



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

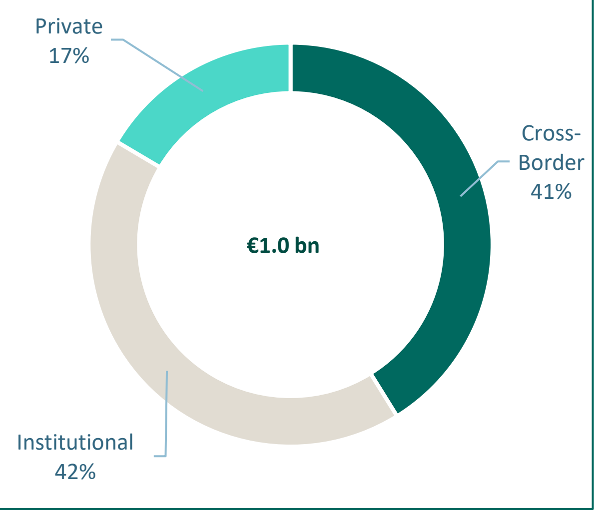
HEALTHCARE

HEALTHCARE TRANSACTION VOLUME 2023	**€1.0 bn**
THEREOF CROSS-BORDER INVESTMENT VOLUME 2023	**€0.4 bn**
PRIME YIELDS HEALTHCARE Q4/2023	**5.1 %**
TREND TRANSACTION VOLUME COMPARED TO THE PREVIOUS YEAR	↘

The investment year for healthcare real estate is coming to an extremely modest end. While transaction activity at the beginning of the year was still driven by deals prepared in the previous year and without the knowledge of the extent of the operator crisis, new transactions have become increasingly rare over the course of the past year. Great hopes are pinned on 2024, not only because of the prospect of a turnaround in interest rates, but also because operators hope to have overcome the greatest difficulties. The biggest structural challenges remain the availability of qualified nursing staff and the swift renegotiation of care rates. It remains to be seen whether enough potential buyers can actually be found for the large number of sales that were postponed last year.

The outlook for segments outside of inpatient care is much more positive. In addition to assisted living, facilities that offer outpatient medical care are particularly popular with investors. There is already a clear gap in supply in the assisted living sector in particular, which will increase further in the coming years due to demographic trends. In the coming years, medical centres will benefit from the increasing - and politically desired - trend towards outpatient medical care.

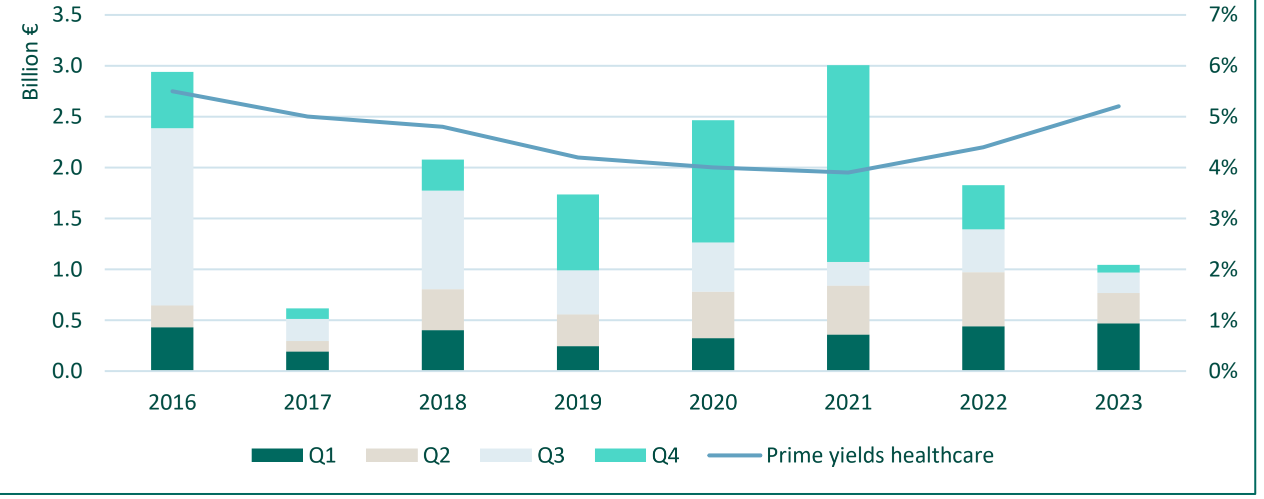
Investors composition healthcare 2023



OUTLOOK

The major structural challenges facing the care sector have not disappeared this year either. For investors, this means that a close look at the management capacities and liquidity of the operating companies will continue to be necessary when analysing acquisitions. Beyond inpatient care facilities, assisted living and medical centres could experience high demand in 2024 and contribute to the stabilisation of the healthcare market.

Healthcare transaction volume and yields



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

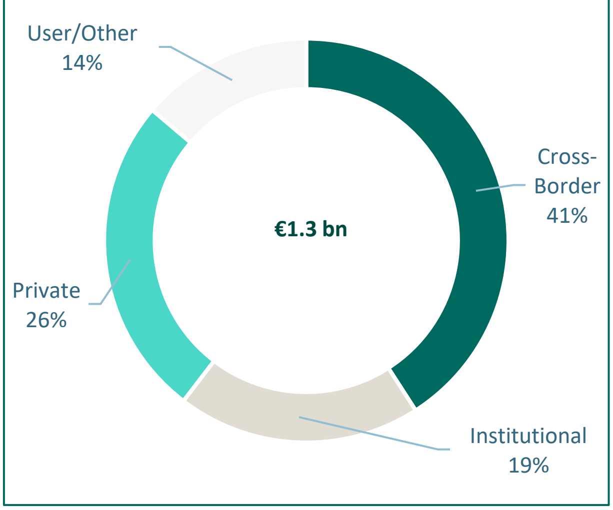
HOTEL

HOTEL TRANSACTION VOLUME 2023	€1.3 bn
THEREOF CROSS-BORDER INVESTMENT VOLUME 2023	€0.5 bn
PRIME YIELDS HOTEL Q4/2023	5.3 %
TREND TRANSACTION VOLUME COMPARED TO THE PREVIOUS YEAR	↘

Hotel properties were able to return the red lantern to healthcare properties in terms of transaction volume in 2023. At around €1.3 billion, the lows from the pandemic years were once again significantly undercut, but the decline was much smaller than in all other asset classes. Hotel properties are therefore stabilising at a low level. Prime yields are currently at 5.3%, the same level as at the end of 2014.

The sales figures and occupancy rates of the major operator chains are predominantly good and confirm the noticeable recovery in the hotel industry. The large listed company MHP-Hotels AG, which includes the Marriott brand, reports an occupancy rate of 76%. This is even higher than in 2019, which was a record year before the pandemic. Since the beginning of the year, hotel companies have managed to pass on the increased staff and energy costs to end customers through higher prices. Investors could therefore focus more on hotel investments again this year.

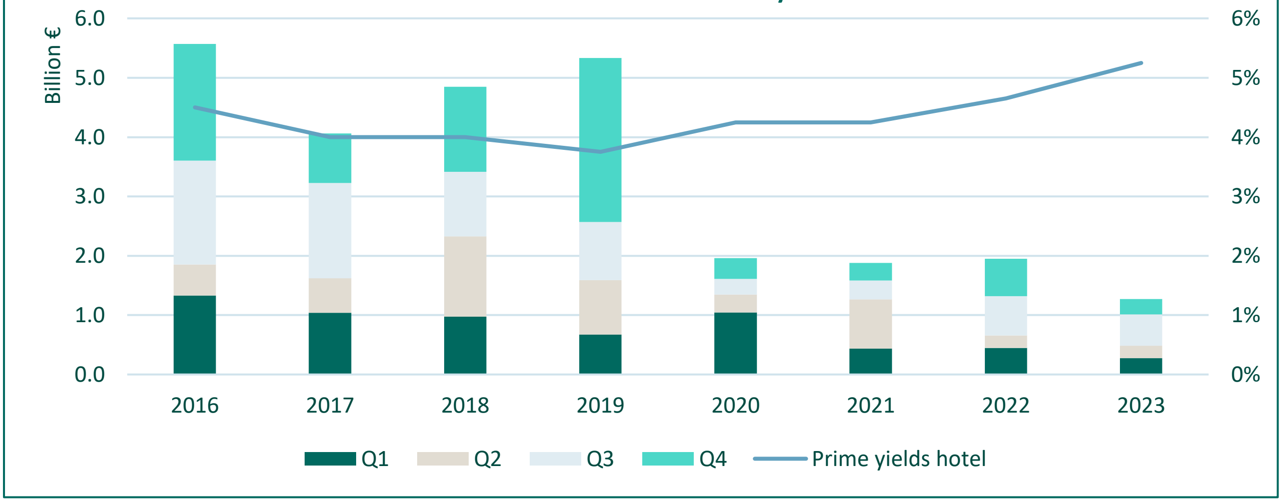
Investors composition hotel 2023



OUTLOOK

The outlook for the hotel industry is positive for 2024. The crisis years of the pandemic have been overcome and cost increases have so far been passed on to end customers. For hotel investments, as with all operator properties, it is essential to take a close look at the operator's creditworthiness and key operating figures. Hotel property could experience an unexpected renaissance on the investment market in 2024.

Hotel transaction volume and yields



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

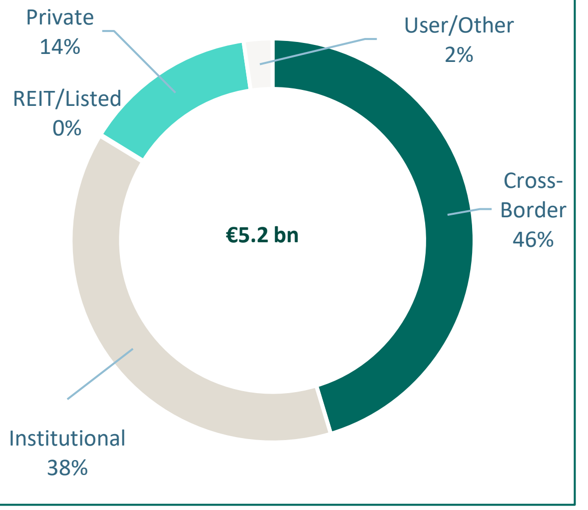
LOGISTICS

LOGISTICS TRANSACTION VOLUME 2023	€5.2 bn
THEREOF CROSS-BORDER INVESTMENT VOLUME 2023	€2.5 bn
PRIME YIELDS LOGISTICS Q4/2023	4.3 %
TREND TRANSACTION VOLUME COMPARED TO THE PREVIOUS YEAR	↘

The logistics market had its weakest year since 2016, with a transaction volume of around €5.2 billion, almost 40% less money was invested in German logistics properties than in the previous year. The proportion of foreign buyers was 46%. The prime yield for logistics properties now stands at 4.3%, 120 basis points above the historic low of two years ago.

The general restraint was not only noticeable on the investment market; logistics space take-up also fell significantly compared to previous years. Nevertheless, as an important industrial centre and the third largest economy in the world, Germany remains an attractive logistics market. This is reflected in the continued low vacancy rates, which are due not least to a decline in new construction activity.

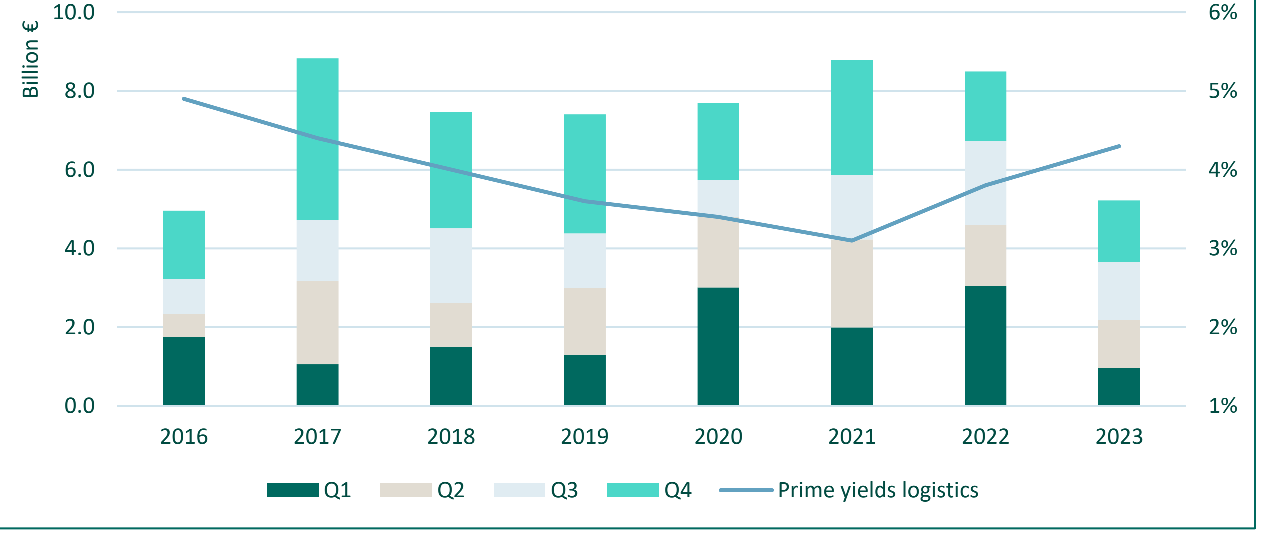
Investors composition logistics 2023



OUTLOOK

Like the office sector, the logistics industry tends to be an asset class that is dependent on economic trends. In the coming years, demand for logistics space will largely depend on the overall economic development in Germany. Increasing global geopolitical uncertainties could reinforce the reshoring trend and stabilise demand for logistics space at a high level - although competition for modern and affordable logistics space within Europe is likely to increase.

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

CONTACT

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

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

Henry-Aurélien NATTER, MRICS • Director Research
henry-aurelien.natter@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.

PRIMONIAL
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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.