AUGUST 2024

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PRAEMIA REIM GERMANY STANDPUNKT

Investors' view on the German Real Estate Market

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FIGURES 2024

FORECAST ECONOMIC GROWTH (GDP)

0.1%

FORECAST INFLATION

+1.8%

10-YEAR GOVERNMENT BOND YIELDS (March 2024)

+2.6%

Source: Oxford Economics, Bundesbank

The Research & ESG Department's role is to formalize Praemia 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.

Praemia 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.

ECONOMY

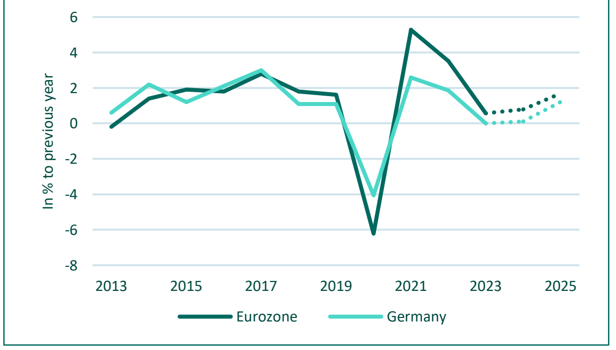
The German economy shrank by 0.1% in the second quarter. The figures, published by the Federal Statistical Office, are a significant setback at a time when the economy was thought to be on the rise. It is worth noting that the eurozone grew by 0.3% in the same period. This raises questions about Germany's competitiveness as a business location, which were already raised last year when Germany was the only major European country to record a decline in economic activity.

INFLATION

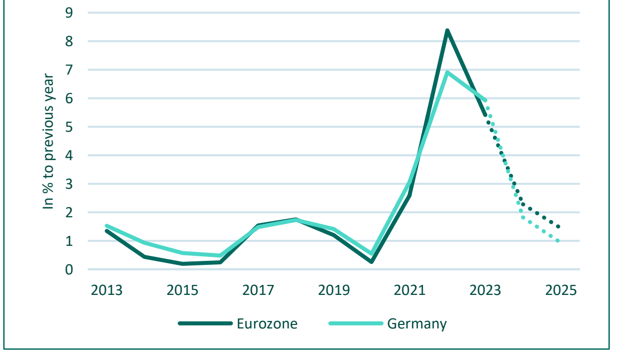
The inflation rate in Germany was 2.3% in July, still slightly above the target of 2%. Higher prices for services led to a slight increase in the inflation rate compared with June. Oxford Economics forecasts an inflation rate of 1.8% for the whole year. The ECB responded to the more stable inflation trend in June with a first interest rate cut. Further steps could follow in the fall. Signs of an economic turnaround are particularly welcome in Germany.

Despite the slight economic slowdown, the overall economic situation therefore offers good, stable conditions for the real estate sector. In addition, the real estate sector is unlikely to face any political restrictions in the next 1.5 years until the next general election. The fear of a political shitstorm such as last year's much-discussed amendment to the Building Energy Act (GEG) is too great.

GDP



Inflation



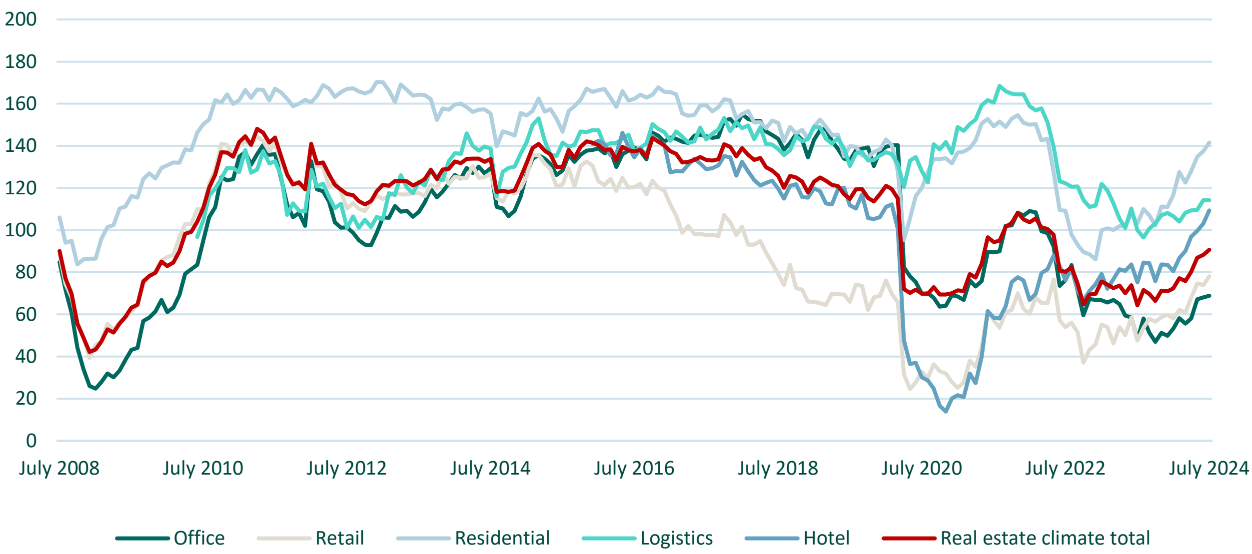
Source: Oxford Economics

GERMAN REAL ESTATE CLIMATE

In Germany it is often said that the situation is better than the mood. The opposite seems to be true of the real estate climate at the moment. The sentiment barometer is clearly pointing upwards, not only for the overall climate, but also for all asset classes. At the same time, there are still hardly any transactions taking place. Even if it is too early for exuberant optimism, a little confidence is certainly good for the sector and could even have a self-fulfilling prophecy effect. The fact that prime yields have stabilized over the past six months suggests that the much-vaunted pick-up in transaction activity is indeed taking place. This could make pricing easier for buyers and sellers as the fear of selling too cheaply or buying too expensively in the current market environment diminishes.

At first glance, the asset class comparison shows the usual picture: Residential at the top, followed by logistics. However, the gap between residential and logistics has widened considerably. Sentiment scores for residential are now almost back to where they were in early 2022. However, the new "hidden champion" seems to be the hotel segment. Driven by good occupancy rates, the score is back above 100 for the first time since the start of the covid-19 pandemic in March 2020. The office and retail segments also recorded a slight upturn, with scores of 68.8 and 78.1 respectively, albeit still at a low level.

Real estate climate index

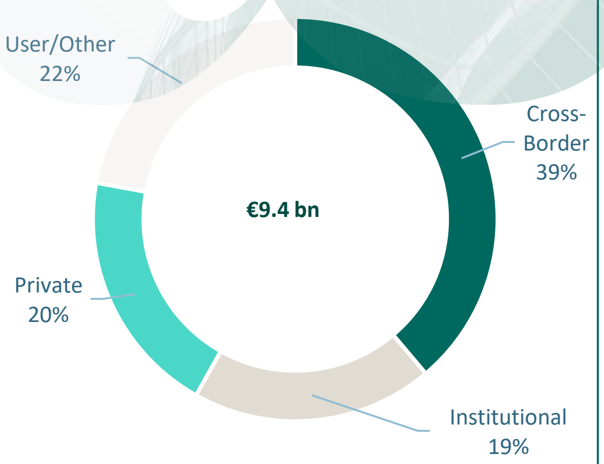


Source: Deutsche Hypo

TRANSACTION VOLUME

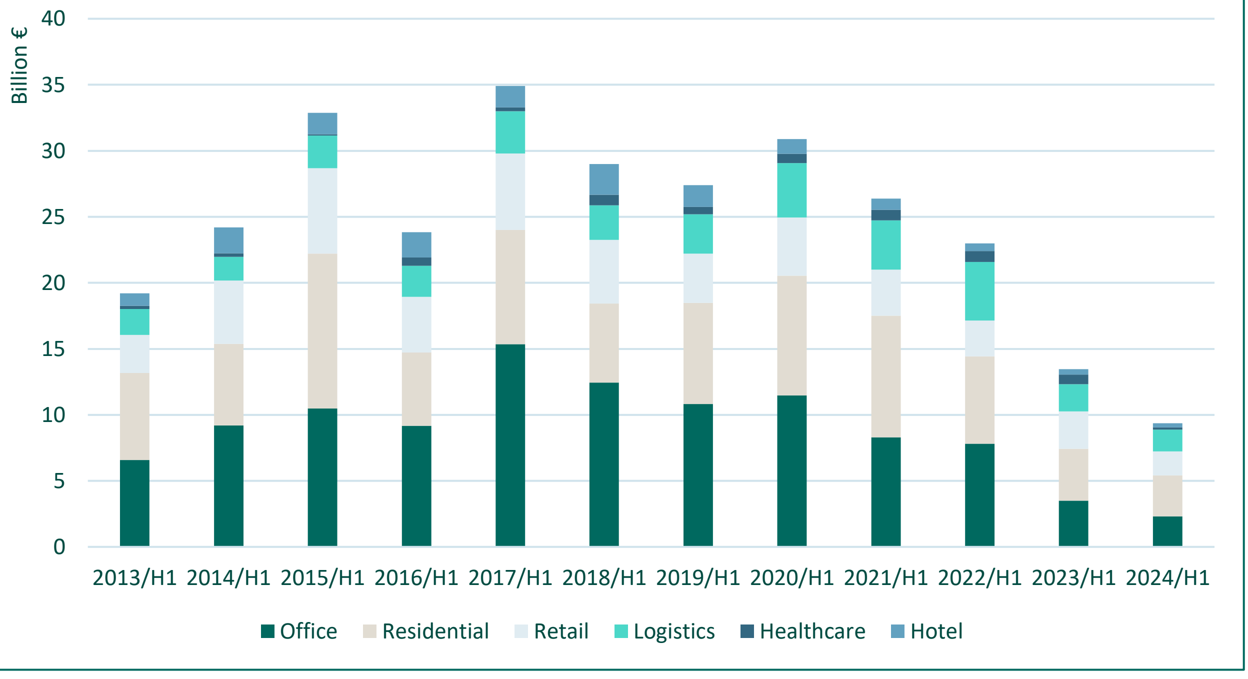
Less than €10 billion were invested in the main real estate asset classes in the first half of the year. Even if the mood is brightening noticeably (see Real Estate Climate), there is still little evidence of this in the transaction market. This begs the question: What are the players waiting for? Prime yields have stabilized, many book values have been written down and key interest rates were cut slightly in June. The reasons for the sluggish start to the investment market are complex and can be broadly divided into two categories:
a) Systemic and rational reasons: Real estate markets react to changes in market conditions with a time lag. The fact that transaction activity has not yet picked up may therefore simply be due to the inertia of the real estate markets. In addition, "risk-free" investment alternatives (top-rated government bonds) still offer comparatively attractive interest rates. As a result, the risk premium for real estate investments across all types of use and building and location qualities does not appear attractive enough to many investors. This is all the truer as there is still uncertainty about the extent to which the costs of environmental retrofitting in the building sector need to be taken into account.
b) Emotional reasons: Many investors have suffered devaluations or even losses over the past two years. In particular, investors who were late to the real estate cycle or who relied on higher-risk investments such as project development or mezzanine financing have lost money on their investments and are therefore particularly negative about real estate investments. This form of irrationality does not only affect private investors but can also be observed in the decision-making bodies of institutional investors.

Investors composition H1 2024



OUTLOOK
The transaction market remains in stagnation. Although spirits are rising and there are more deals in some asset classes, many investors are still sceptical about real estate investments. For asset managers, this means that they have to be even more convincing. After all, it is not just timing and asset selection that determine the performance of real estate investments. In contrast to other asset classes, active asset management during the holding period can positively influence the total return of real estate.

Transaction volume per asset class



Source: RCA

SUMMARY ASSET CLASSES

Asset Class	Transaction Volume H1/2024	Transaction Volume 5-year-average H1	Cross-Border Volume H1/2024	Prime Yields Q2/2024	Trend Transaction Volume Previous Year's Quarter
Office	€2.3 bn	€8.4 bn	€0.4 bn (19 %)	4.8 % (A-Cities)	↗
Residential	€3.1 bn	€6.4 bn	€0.8 bn (28 %)	3.4 %	↗
Retail	€1.8 bn	€3.0 bn	€0.7 bn (38 %)	4.4 % (High-Street-Shops)	↗
Healthcare	€0.2 bn	€0.6 bn	€0.1 bn (54 %)	5.4 % (Nursing home)	↘
Hotel	€0.3 bn	€0.6 bn	€0.2 bn (67 %)	5.3 %	↘
Logistics	€1.6 bn	€3.2 bn	€1.1 bn (68 %)	4.4 %	↗

Source: RCA. CBRE

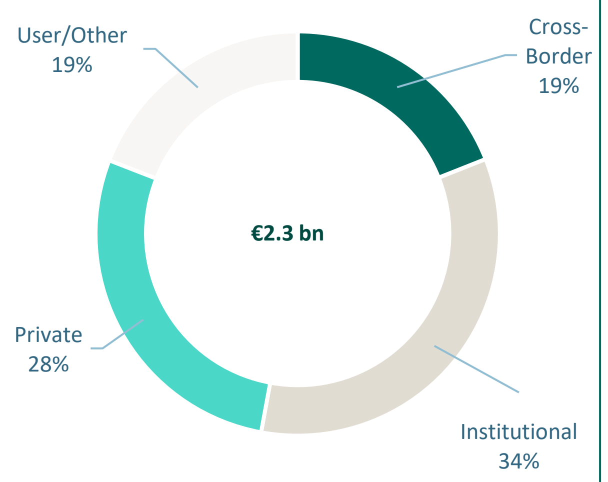
OFFICE

OFFICE TRANSACTION VOLUME H1/2024	€2.3 bn
THEREOF CROSS-BORDER TRANSACTION VOLUME H1/2024	€0.4 bn
PRIME YIELDS OFFICE A-CITIES Q2/2024	4.8 %
PRIME YIELDS OFFICE SECONDARY-CITIES Q2/2024	5.4 %
TREND TRANSACTION VOLUME COMPARED TO THE PREVIOUS YEAR QUARTER	↗

In the first six months of the year, investors' interest in office real estate investments has decreased rather than increased. With a transaction volume of around €2.3 billion, the already very low level of the first half of last year was undercut once again. The high level of scepticism is also reflected in the very low interest shown by foreign investors, who accounted for only 19% of the investment volume. There is much to suggest that, as was the case last year, office real estate sector will lose the leading position that this asset class has held almost uninterruptedly for the past 20 years to the residential segment. Uncertainty about the future demand for office space, which is already high, is being exacerbated by shrinking economic output, so there is little prospect of a quick end to the crisis mode. A look at prime yields offers some hope. The rise in yields seems to have come to an end (for the time being).

In addition, the office rental markets in the top cities remain stable. Take-up in the first half of the year was roughly in line with the previous year. Many office users are looking for modern and centrally located space. At the same time, however, vacancy rates are rising significantly, especially for older space and in peripheral locations.

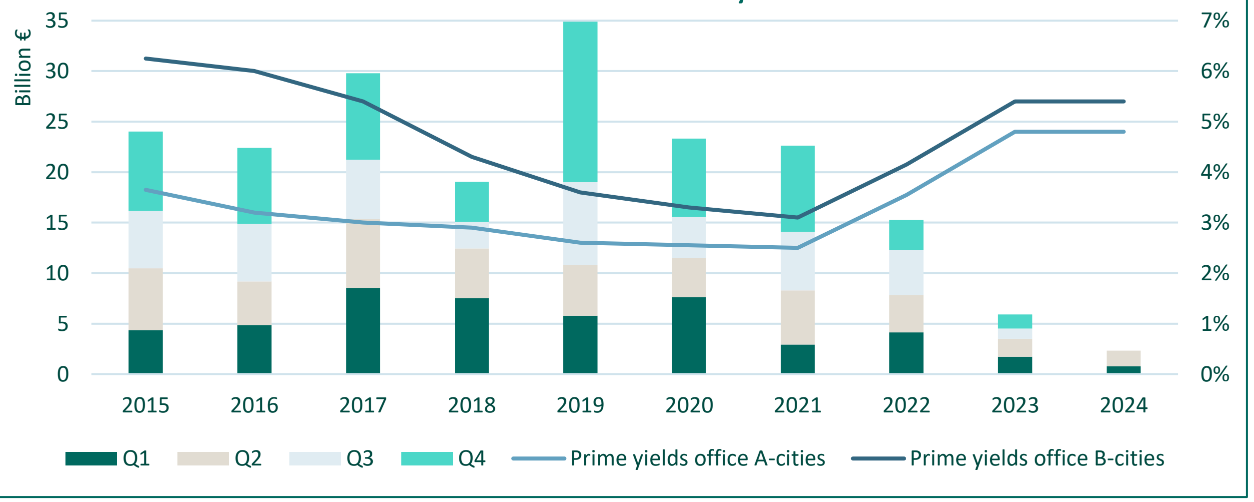
Investors composition office H1/2024



OUTLOOK

A quick exit from the crisis is not in sight for the office investment market. Many players are expecting further devaluations and are therefore not yet prepared to buy at current price levels. Portfolio owners and asset managers could therefore face further value adjustments at the end of the year. Nevertheless, it is worth remaining open to opportunities even in the current market phase, especially when absolute core properties come onto the market at attractive conditions.

Office transaction volume and yields



Source: RCA. CBRE

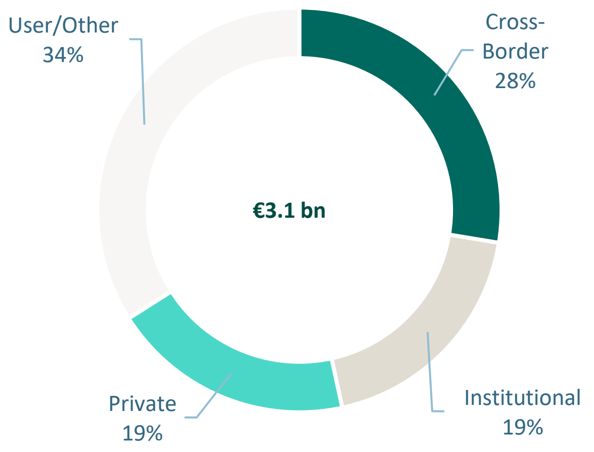
RESIDENTIAL

TRANSACTION VOLUME RESIDENTIAL H1/2024	€3.1 bn
THEREOF CROSS-BORDER TRANSACTION VOLUME H1/2024	€0.8 bn
PRIME YIELDS RESIDENTIAL Q2/2024	3.4 %
TREND TRANSACTION VOLUME COMPARED TO THE PREVIOUS YEAR	↗

Residential real estate remains by far the most popular asset class among investors. Around €3.1 billion was invested in residential real estate in the first half of 2024, around 20% less than in the same period last year. However, this is the smallest decline compared to the other asset classes, illustrating the relative strength of investor interest. Demand is particularly strong for modern residential properties in growth regions, which are already energy-efficient and require minimal investment in environmental retrofitting. Going forward, a significant decline in the number of residential construction completions will put additional pressure on demand. Although around 294,000 apartments were completed last year, almost as many as in 2022, the number of building permits has fallen sharply. As a result, the number of completions is expected to be much lower in the coming years, which means that the political target of 400,000 apartments per year, set about three years ago, is receding into the distance.

Prime yields for residential real estate remain at a very low level of 3.4%. Significantly higher initial yields are being achieved in B locations and for older, non-refurbished residential properties.

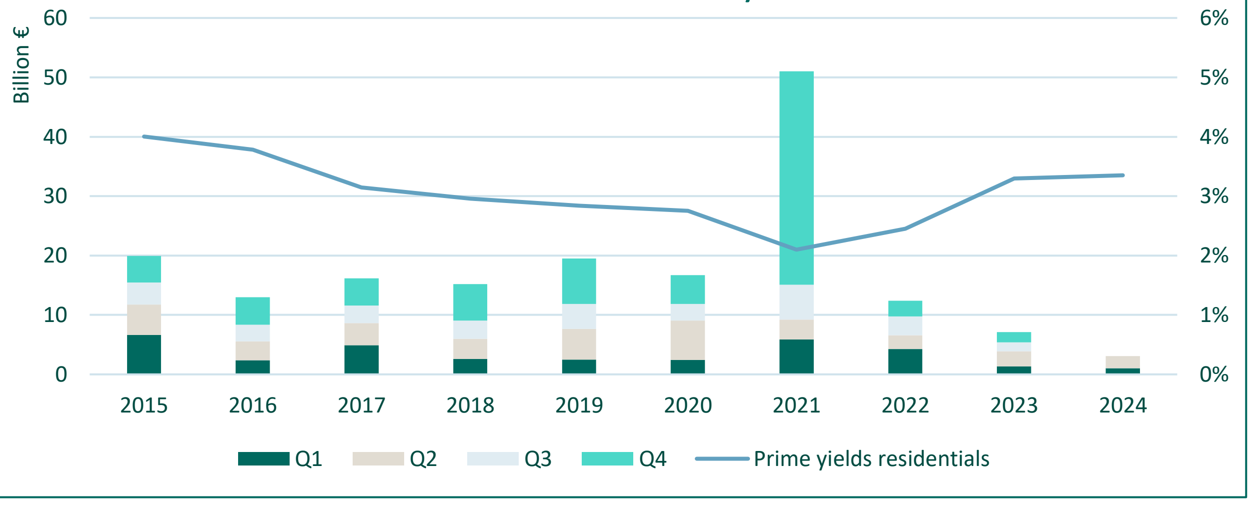
Investors composition residential H1/2024



OUTLOOK

Demand for modern and energy-efficient housing is high, both from tenants and investors. As the supply of such housing is limited and fewer new builds are expected in the future, there is little alternative for residential investors but to look at existing portfolios. The big question will be what sales prices these will command in the coming years, and how high buyers' discounts will be for the necessary energy upgrades.

Residential transaction volume and yields



Source: RCA. CBRE

RETAIL

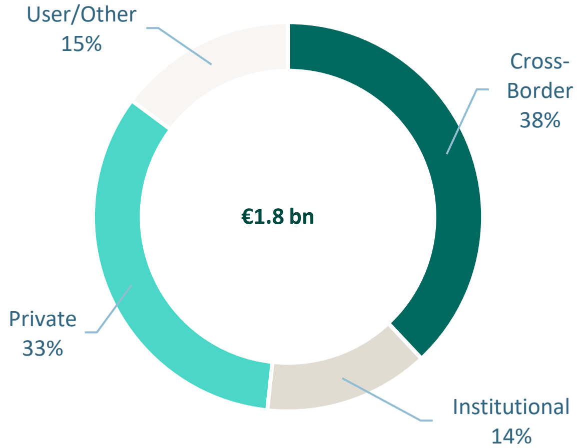
TRANSACTION VOLUME RETAIL H1/2024	**€1.8 bn**
THEREOF CROSS-BORDER TRANSACTION VOLUME H1/2024	**€0.7 bn**
PRIME YIELDS HIGH-STREET-SHOPS Q2/2024	**4.4 %**
PRIME YIELDS SUPERMARKETS Q2/2024	**4.7 %**
PRIME YIELDS SHOPPING-CENTER Q2/2024	**5.9 %**
TREND TRANSACTION VOLUME COMPARED TO THE PREVIOUS YEAR QUARTER	↗

Around €1.8 billion was invested in German retail property in the second quarter of 2024. This means that the investment volume remains below the average of the last five years, although the decline was more pronounced in other asset classes than in retail property. The main reason for this is three large high-street transactions with a total volume of around €1.5 billion. The purchase of KaDeWe alone accounted for around €1 billion. This continues the trend of individual large transactions distorting the current situation on the German retail market to some extent and painting a more dynamic picture of the market situation than is perceived by most players.

In addition to the above-mentioned high street transactions, supermarkets were the second largest retail segment with around 31%. Demand for shopping centers remains subdued.

The prime yield for high street shops is currently stable at 4.4%. Prime yields for supermarkets and shopping centers are also virtually unchanged at 4.7% and 5.9% respectively.

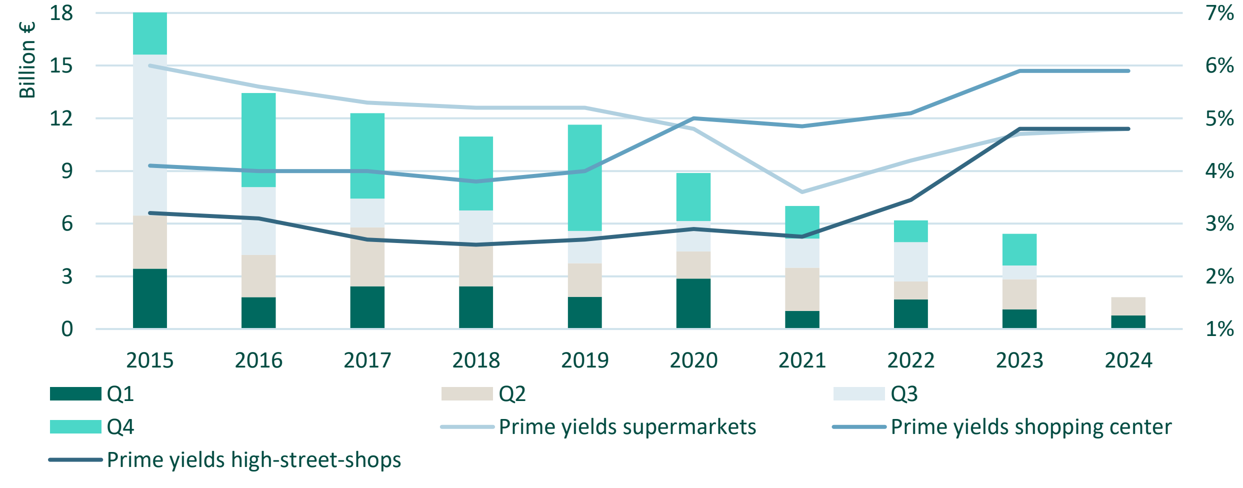
Investors composition retail H1/2024



OUTLOOK

The German retail market is still a market for bold and financially strong players who have the confidence to acquire portfolios or large stand-alone properties. Given the large-volume products available on the market, it would not be surprising to see a continuation of the market's lively momentum, driven by large individual transactions.

Retail transaction volume and yields



Source: RCA. CBRE

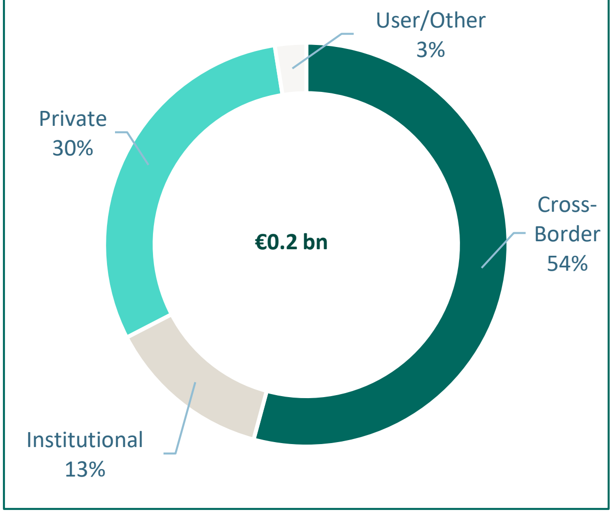
HEALTHCARE

HEALTHCARE TRANSACTION VOLUME H1/2024	**€0.2 bn**
THEREOF CROSS-BORDER INVESTMENT VOLUME H1/2024	**€0.1 bn**
PRIME YIELDS HEALTHCARE Q2/2024	**5.4 %**
TREND TRANSACTION VOLUME COMPARED TO THE PREVIOUS YEAR	➘

Many investors continue to refrain from investing in German healthcare real estate. At least that is what the transaction volume of around €0.2 billion in the first half of 2024 suggests. In fact, market activity is increasing slightly and more players are planning transactions. How many concrete transactions will materialize during the year remains to be seen. The prime yield for nursing homes has continued to rise and now stands at 5.4%. Prime yields for assisted living facilities are currently around 4.5%.

In addition to the core nursing home segment, other sub-asset classes such as clinics have recently become more prominent in market discussions. Neither hospitals nor rehabilitation clinics are included in the transaction data published by RCA, as only a small number of properties generally come onto the market. Nevertheless, it is generally worthwhile for investors to take a closer look at such opportunities. This is even more the case here than in other (sub-)asset classes: Niche investments in hospitals and rehabilitation facilities require in-depth knowledge of the market, the operator's concept and specialized asset management expertise.

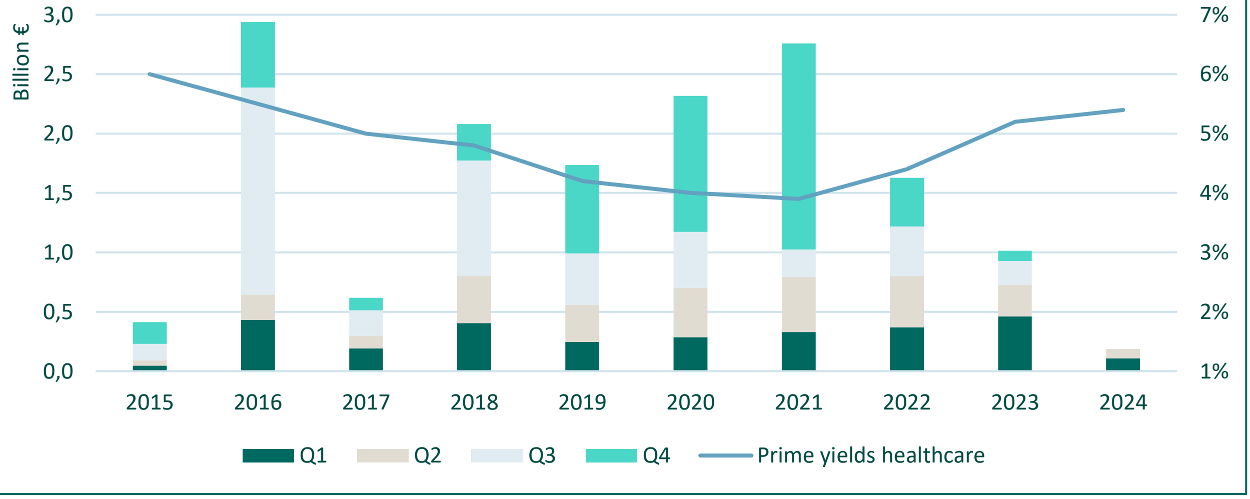
Investors composition healthcare H1/2024



OUTLOOK

The nursing home market came to a virtual standstill in the first half of the year. However, preparations for transactions are increasing, raising hopes of a slight upturn towards the end of the year. Investors can currently take advantage of lower prices. It is also worth taking a look at the niche of niches - for the very brave. These include rehabilitation centers, private clinics and hospitals.

Healthcare transaction volume and yields



Source: RCA. CBRE

HOTEL

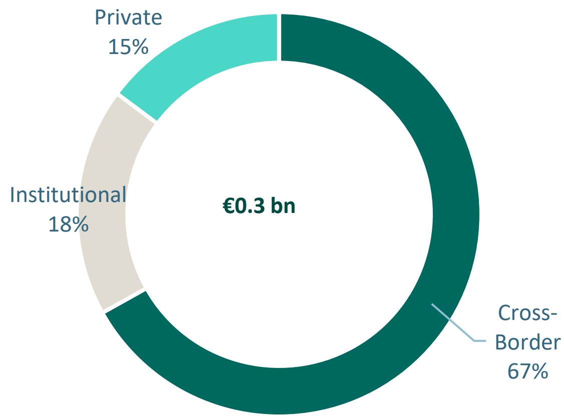
HOTEL TRANSACTION VOLUME H1/2024	€0.3 bn
THEREOF CROSS-BORDER INVESTMENT VOLUME H1/2024	€0.2 bn
PRIME YIELDS HOTEL Q2/2024	5.3 %
TREND TRANSACTION VOLUME COMPARED TO THE PREVIOUS YEAR	➘

The mood in the hotel industry is good. For the first time since the start of the coronavirus pandemic in March, the sentiment barometer has exceeded the 100-point mark, i.e. the neutral line. The stabilization of inflation in Germany and the population's increased willingness to spend are being reflected in the hotel industry. Despite rising transaction numbers, the transaction volume remains at a low level of €0.3 billion in the first half of 2024. Hotel transactions accounted for 3% of the total volume. This is partly due to the recent decline in completions in the new construction segment. The market share of project developments is also below average, in the low single-digit percentage range. As a result, investors are primarily interested in existing properties, which often require substantial investment to modernize the buildings in terms of energy efficiency.

The upturn is driven by two large transactions of over EUR 100 million, continuing the positive trend of large transactions since Q4 2023.

The share of foreign investment is very high at 67%, although individual large transactions dominate the market and it is therefore difficult to draw conclusions about the general level of interest from foreign investors. Prime yields for hotel real estate remain unchanged at 5.3%.

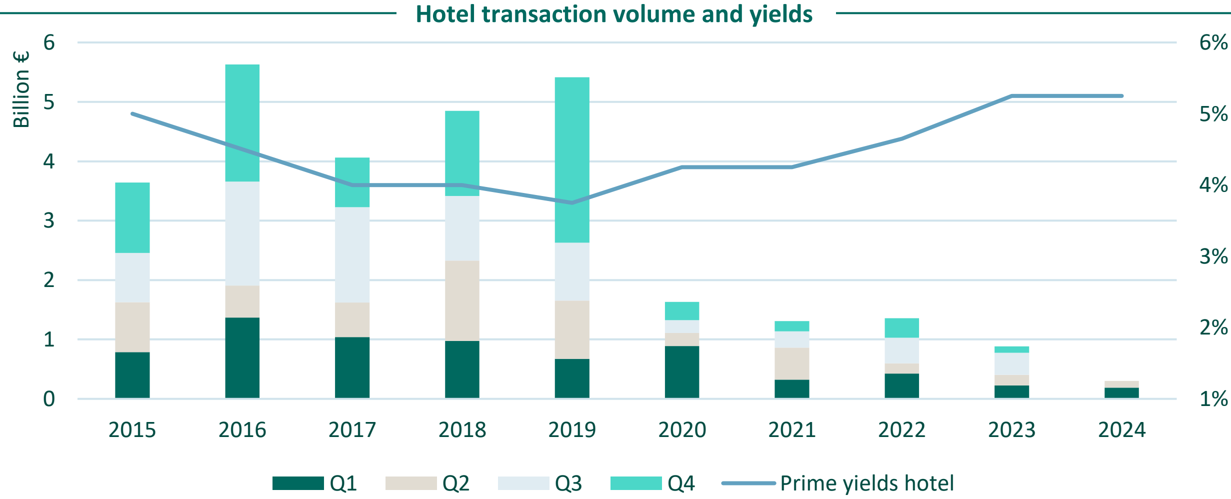
Investors composition hotel Q1/2024



OUTLOOK

Strong operator and tourism figures are keeping the mood in the hotel industry on a positive note. However, the hotel investment market remains subdued, with few quality new developments coming onto the market and scepticism about the industry, which has been hit hard by the coronavirus pandemic. This could therefore be a good time for investors to enter the market before the upturn in operator activity is reflected in higher hotel asset prices.

Hotel transaction volume and yields



Source: RCA. CBRE

LOGISTICS

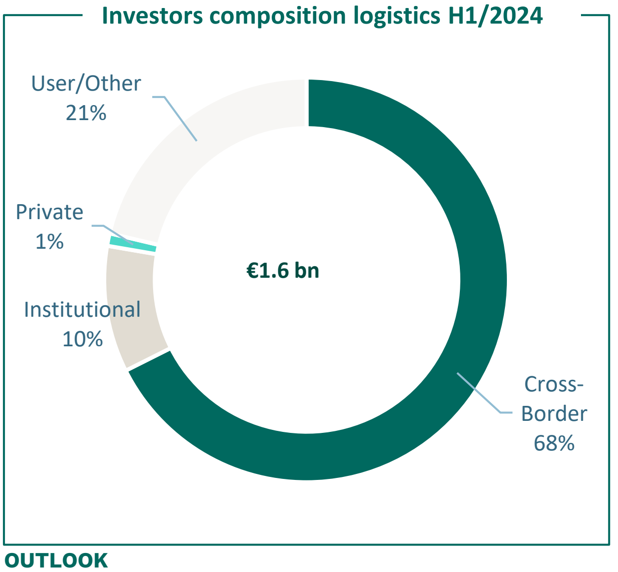
LOGISTICS TRANSACTION VOLUME H1/2024	€1.6 bn
THEREOF CROSS-BORDER INVESTMENT VOLUME H1/2024	€1.1 bn
PRIME YIELDS LOGISTICS Q2/2024	4.4 %
TREND TRANSACTION VOLUME COMPARED TO THE PREVIOUS YEAR QUARTER	↗

The German logistics market is experiencing stable demand, although transaction volumes are still a long way from the boom years. A total of around €1.6 billion was invested in German logistics real estate in the first half of the year. This corresponds to a share of around 17% of the total investment volume. Due to the large individual transactions in the retail sector, logistics is only in fourth place among the asset classes.

Foreign investors, mainly from Asia and North America, continue to account for the majority of invested capital (68%). Compared with the first half of the last five years, the volume of transactions has fallen by 53%.

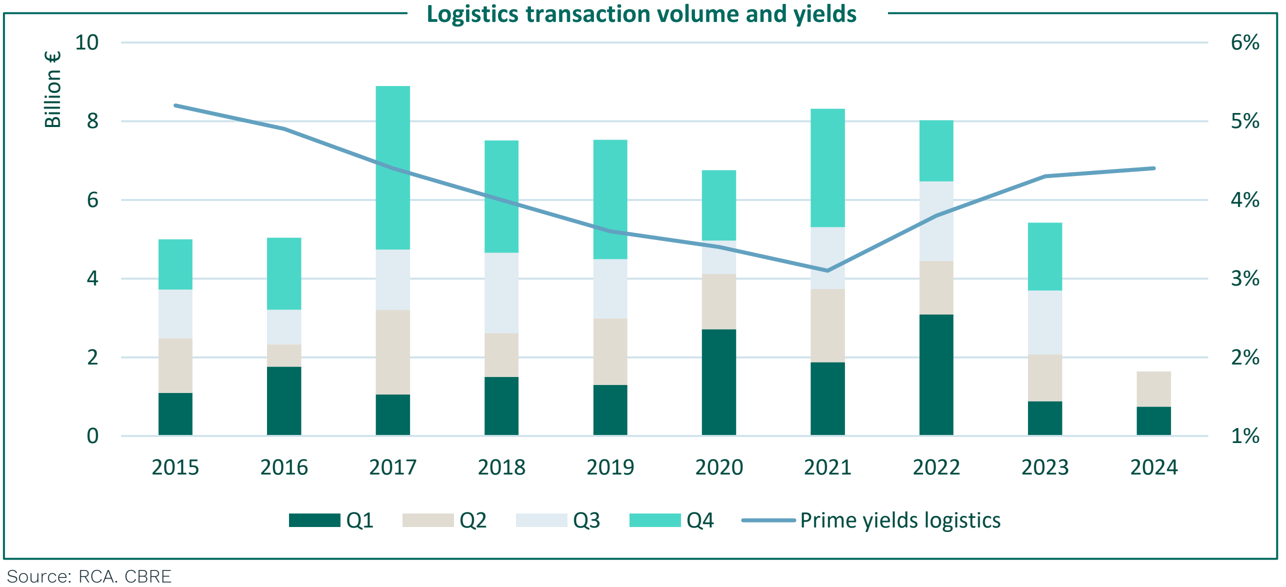
According to CBRE, take-up in new buildings increased by 9% and accounted for 60% of total take-up. Furthermore, new buildings accounted for 90% of major transactions. This illustrates the dependence of the logistics market on a sufficient supply of new-build space for both the rental and investment markets.

Prime yields for logistics have risen slightly to 4.4%, but still remain well below the prime yields for German core office properties.



OUTLOOK

Logistics properties continue to be very popular with investors. The high demand for new construction, coupled with the difficulty of finding new logistics space, is likely to remain the main challenge in the future and will have a significant impact on market activity. This, combined with a slight slowdown in the economy, means that transaction volumes in the logistics sector are expected to remain moderate until the end of the year.



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 Praemia REIM

Praemia 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.
Praemia 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.

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The Research & ESG Department's role is to formalize Praemia 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 metropolization 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 Praemia REIM's quarterly view of the most important asset classes: offices, retail, residential, healthcare, hotel and logistics.

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