PRIMONIAL
REIM GERMANY

MAY 2022

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PRIMONIAL REIM GERMANY CONVICTIONS

Investor´s view on the German Real Estate Market

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FIGURES 2022

FORECAST ECONOMIC GROWTH (GDP)

+2.0%

FORECAST INFLATION

+5.9%

10-YEAR GOVERNMENT BOND YIELDS

+0.6%

Source : Oxford Economics

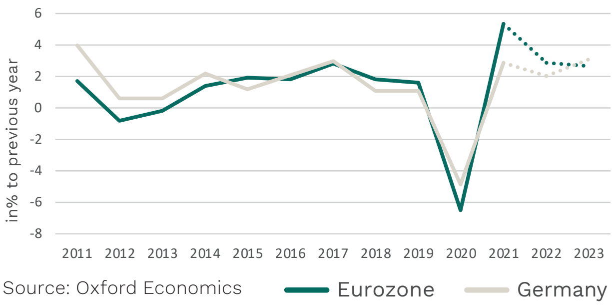
The Research & Strategy Department's role is to formalize Primonial REIM's real estate investment strategies, based on continuous monitoring of the European markets. By nature, real estate is at the crossroads of financial (interest rates), economic (tenants), demographic and social factors. This is why a broad analysis is needed, which is also long term and therefore matches the horizon of most real estate investors.

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

ECONOMY

With the start of the Ukraine war, the view on many aspects has radically changed, especially in Europe. The issue of security, both military and energy, has moved to the forefront of public debates. At the same time, the recovery of the German economy from the consequences of the Corona pandemic is far from complete, so that concerns about a renewed recession after 2020 are increasing significantly. Current forecasts nevertheless continue to see slightly positive economic growth for Germany, although the projections are fraught with great uncertainty in context of the Ukraine war and all its consequences.

GDP

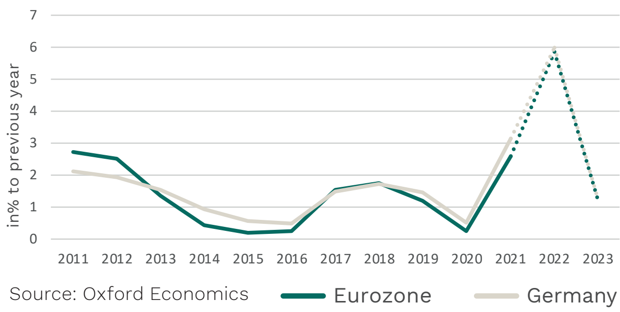


Source: Oxford Economics

INFLATION

The monthly inflation rate in March 2022 has now climbed to over 7%. For the whole year, an inflation rate of around 6% is expected, even though no one can currently reliably estimate the course of the Ukraine war and the associated impact on energy and commodity prices. The German government has already adopted initial support measures to ease the burden on citizens against the background of the rapid rise in energy prices, such as a flat-rate energy price allowance and a temporary reduction in the energy tax on fuels. A reaction from the ECB in the form of an increase in key interest rates appears much more likely against the backdrop of historically high inflation rates throughout the euro zone. At the same time, the risk of a recession is growing, so increasing pressure can be expected from both the political and economic sides.

INFLATION



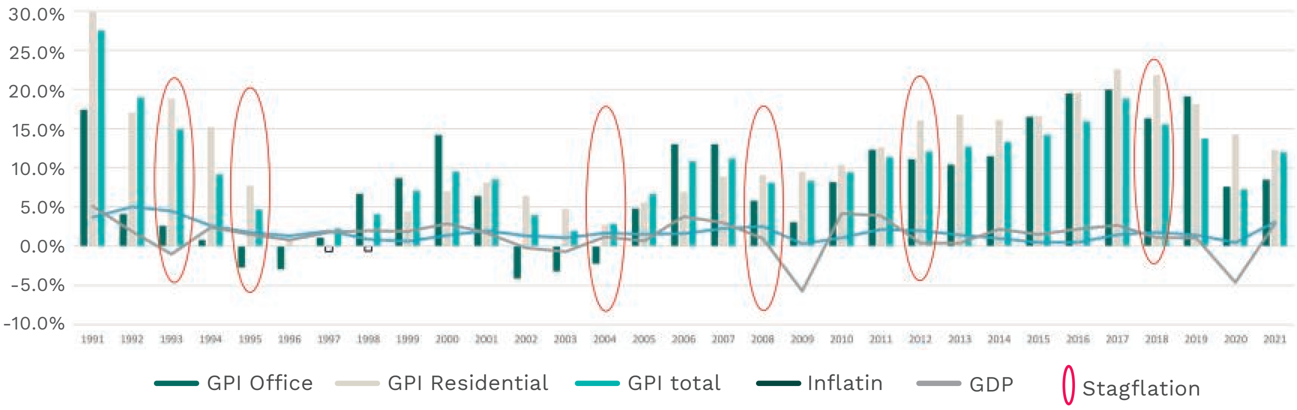
Source: Oxford Economics

EXCURSUS: STAGFLATION AND REAL ESTATE, FROM A HISTORICAL PERSPECTIVE

In the light of the highest monthly inflation in around 40 years and the simultaneous increasing risk of recession for the German economy, the risks of stagflation are increasing. This refers to a phase characterized by above-average inflation and below-average economic growth. In addition, unemployment rises in stagflation years. Particularly with regard to employment figures, there have been no negative signs of increased unemployment to date. Nevertheless, the question naturally arises for investors as to which asset classes have historically performed best through a phase of stagflation. If we look at the performance of the German real estate market since reunification, we can see that real estate, especially residential real estate, has come through stagflation years well. Compared to the best-known German stock market index (DAX), the performance of real estate has been better with much lower volatility.

Even if the short phases of mild stagflation are not comparable in scale with the situation in 2022, it can still be stated that real estate is less vulnerable than financial assets in the light of impending stagflation.

AVERAGE TOTAL RETURN PER YEAR GERMAN REAL ESTATE



Source: Primonial REIM Research and Strategy according to bulwiengesa

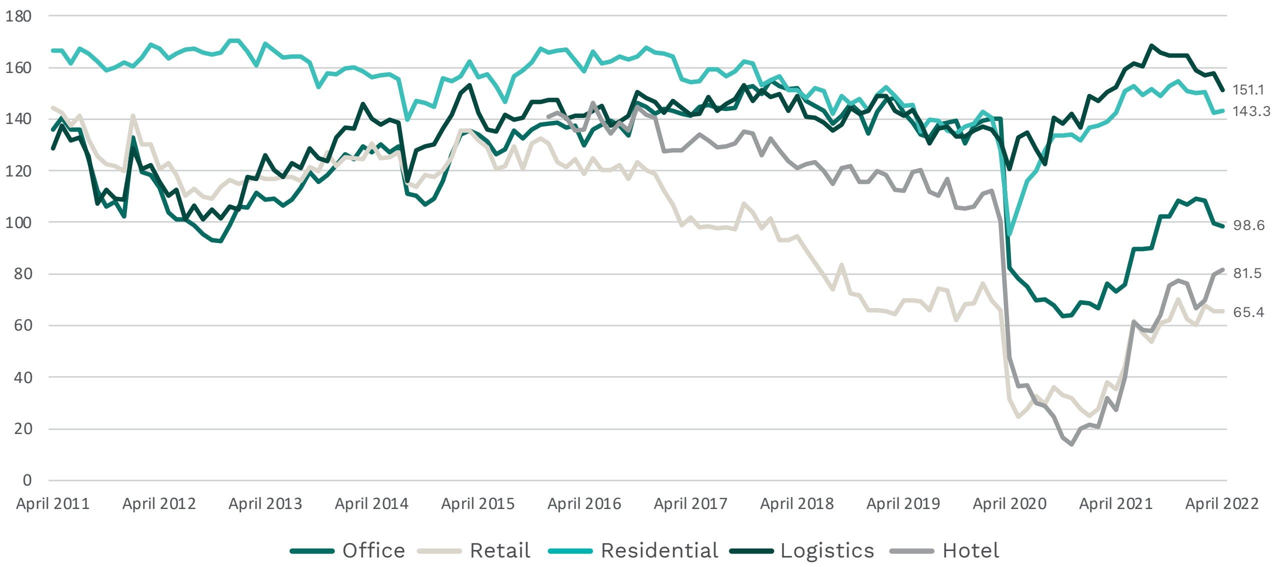
GERMAN REAL ESTATE CLIMATE

The Real Estate Climate Index serves as a barometer of sentiment in the individual asset classes. For this purpose, 1,200 decision-makers from the real estate sector are surveyed monthly using an online questionnaire. The Real Estate Climate is considered an early indicator to identify trends and possible turning points. The scale ranges from 0 to 200 counter points. Values below 100 indicate increasing uncertainty or skepticism.

Following the outbreak of the Ukraine war, sentiment has deteriorated slightly in all asset classes. The only exception is the hotel segment, where the prospect of an almost corona-free vacation season has slightly improved sentiment, although the level of 81.5 points is still low and uncertainties regarding the hotel sector continue to be felt, especially in the institutional sector. Logistics and housing continue to top the sentiment barometer. Office remains in the middle with a value slightly below the 100-point mark.

Even though the overall mood for real estate investments is positive, the pressure on real estate is increasing from three sides at once. On the one hand, the challenges posed by energy requirements to reduce CO_2 consumption in the building sector are increasing. At the same time, construction interest rates have jumped in recent months. For a real estate financing with a 10-year term, around 2% is now due. High inflation rates combined with expectations of rising key interest rates in the near future have also led to an increase in yields on German government bonds. With yields on real estate remaining unchanged or even falling, this means that the risk premium for real estate and thus the relative advantageousness of real estate investments is falling. Nevertheless, the current real estate price trend shows no signs of declining demand (see investment volume).

REAL ESTATE CLIMATE INDEX



Source: Primonial Reim Research and Strategy according to Deutsche Hypo

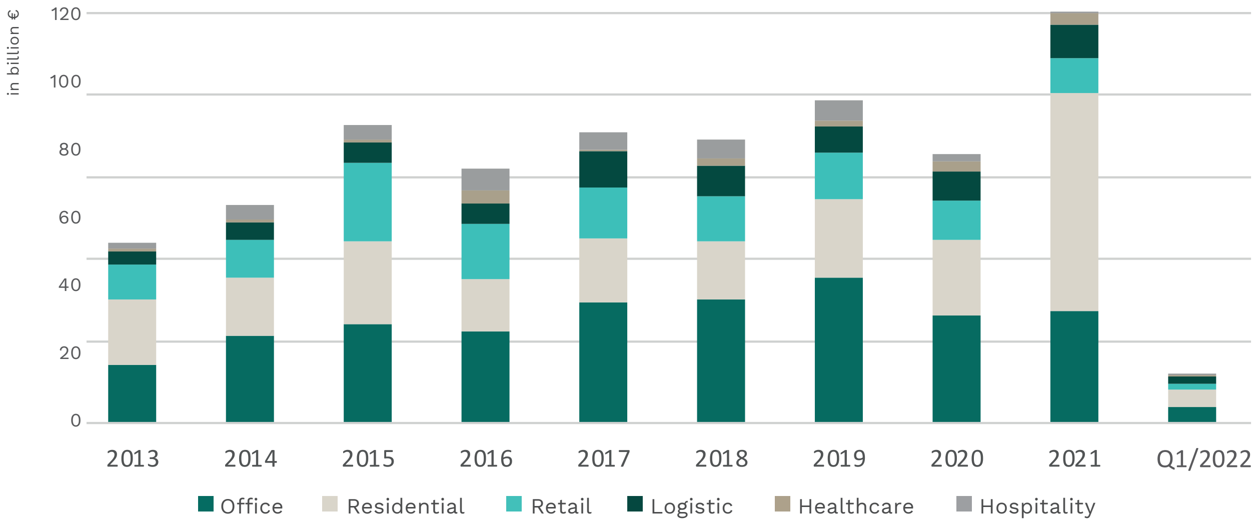
INVESTMENT VOLUME

The first quarter of 2022 is characterized by high investment volumes. Possible effects of the Ukraine war have hardly played a role so far, also because the majority of transactions were already completed or prepared before the outbreak of the war. The second quarter of 2022 will show how strongly the effects of the Ukraine conflict will be felt on the German real estate market.

The overall transaction volume in Q1/2022 was around EUR 12.1 billion. The highest transaction volumes in the first quarter were achieved with office and residential properties. Logistics properties continue to enjoy high popularity, even though the increasing supply shortage is becoming more noticeable. Accordingly, the transaction volume for logistics properties is slightly below the level of the last two quarters of the previous year.

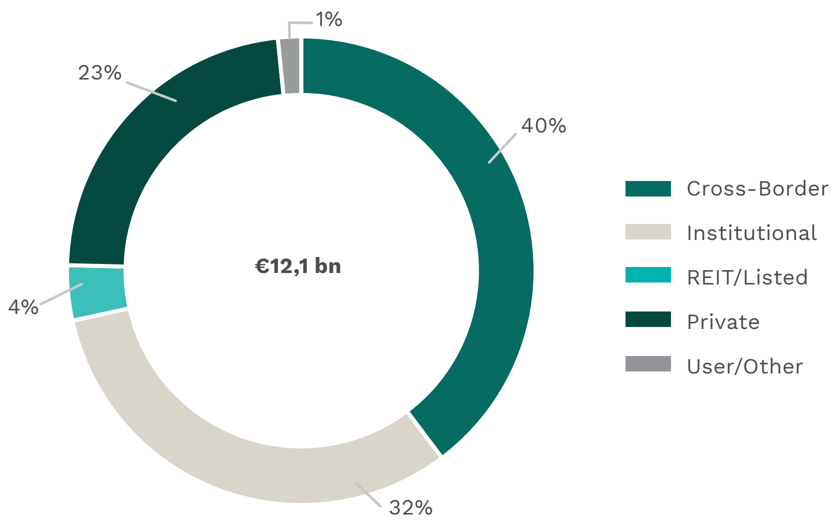
The share of foreign buyers was around 40% in the first quarter of 2022. There were hardly any purchases by listed real estate companies.

TRANSACTION VOLUME PER ASSET CLASS



Source: Primonial Reim Research and Strategy according to RCA

BUYERS COMPOSITION Q1/2022



Source: Primonial Reim Research and Strategy according to RCA

SUMMARY PER ASSET CLASS

Asset Class	Transaction Volume Q1/2022	Transaction Volume 5-year-average first quarter	Cross-Border Volume Q1/2022 or latest	Prime yields Q1/2022	Trend transaction volume Q1/2022
Office	€3.9 bn	€5.7 bn	€0.8 bn (20%)	2.5%	↗
Residential	€4.2 bn	€3.8 bn	€2.0 bn (49%)	2.1%	↘
Retail	€1.6 bn	€2.0 bn	€0.5 bn (30%)	2.75% (shops)	↗
Healthcare	€0.3 bn	€0.3 bn	€0.1 bn (37%)	3.9%	↘
Hotel	€0.3 bn	€0.6 bn	€0.03 bn (11%)	4.3%	↘
Logistics	€1.7 bn	€1.8 bn	€1.2 bn (72%)	3.0%	↘

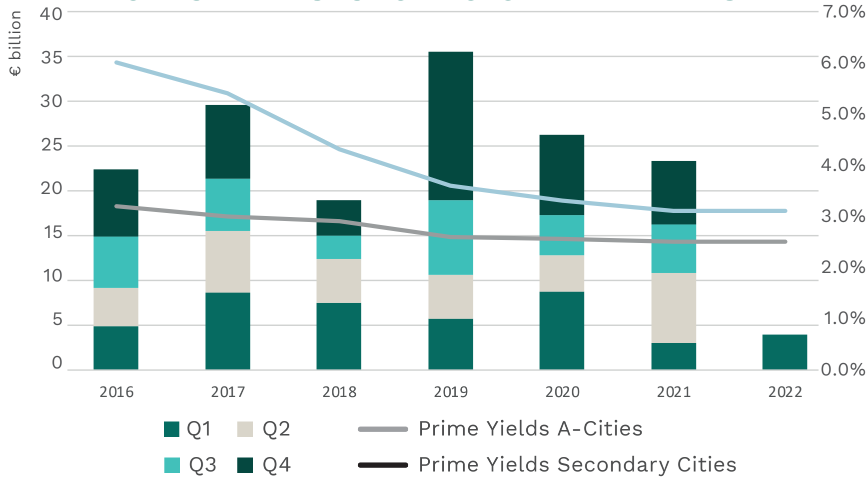
OFFICE

OFFICE TRANSACTION VOLUME Q1/2022	**€3.9 bn**
THEREOF CROSS-BORDER INVESTMENT VOLUME Q1/2022	**€0.8 bn**
PRIME YIELDS OFFICE A-CITIES	**2.5%**
PRIME YIELDS OFFICE SECONDARY-CITIES	**3.1%**
TRANSACTION VOLUME TREND COMPARED TO Q1/2021	↗

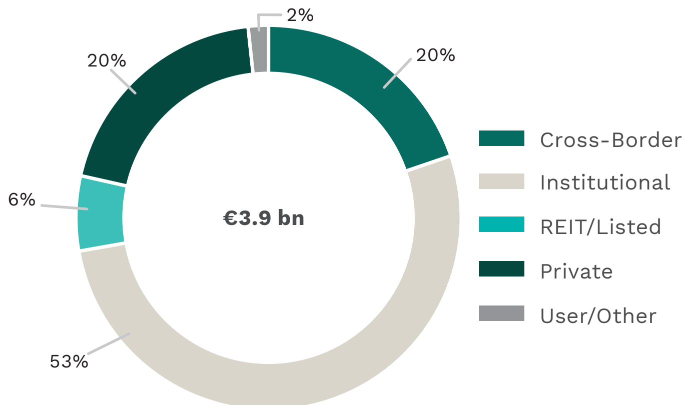
The investment volume for office properties in the first quarter was around €3.9 billion. This represents a higher figure compared with the prior-year quarter. However, compared to last five years, the start to the year for office real estate was rather subdued. The figures do not include the acquisition of alstria by Brookfield. The largest single transaction was the purchase of the Marienturm by DWS for over EUR 800 million. Foreign investors played a minor role in the first quarter of 2022, accounting for around 20%. Nevertheless, office property remains the most important asset class among institutional investors. This can be seen not least in several recently launched German office funds.

Prime yields have remained stable both in the top 7 and in secondary locations. So far, there are no signs of a decline in demand for office space as a result of increased home office offerings. On the contrary, it can be assumed that modern and attractive office space, in which flexible working concepts can be implemented well, higher demand can be expected in the future. Especially when employers want to create incentives to return to the office, the location of the office plays a major role. In particular, downtown locations offer commuting employees the opportunity to combine their office presence days with shopping activities or restaurant visits. Current figures from brokerage houses, which see slightly rising office vacancies in more peripheral locations and at the same time high office space turnover and falling vacancies in central locations (e.g. in Munich), confirm this assumption.

OFFICE TRANSACTION VOLUME AND YIELDS



BUYERS COMPOSITION OFFICE Q1/2022



Source: Primonial Reim Research and Strategy according to RCA & CBRE

RESIDENTIAL

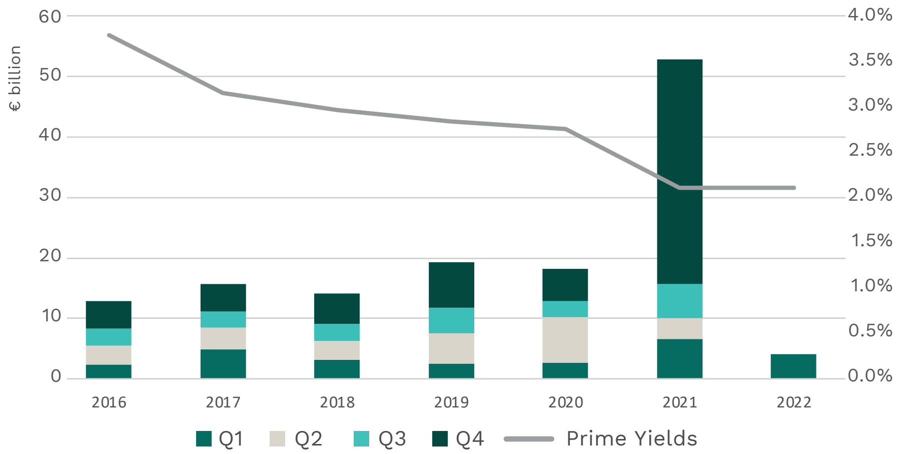
RESIDENTIAL TRANSACTION VOLUME Q1/2022	€4.2 bn
THEREOF CROSS-BORDER INVESTMENT VOLUME Q1/2022	€2.0 bn
PRIME YIELDS RESIDENTIAL	2.1%
TRANSACTION VOLUME TREND COMPARED TO Q1/2021	↘

Residential real estate continues to enjoy great popularity at the start of 2022. With a transaction volume of €4.2 billion, the record result of the previous year's quarter was not matched, but nevertheless a remarkable result was achieved. The largest share was attributable to foreign investors, for whom German residential real estate continues to be regarded as a safe haven. The already low prime yield remained constant in the first three months of the year.

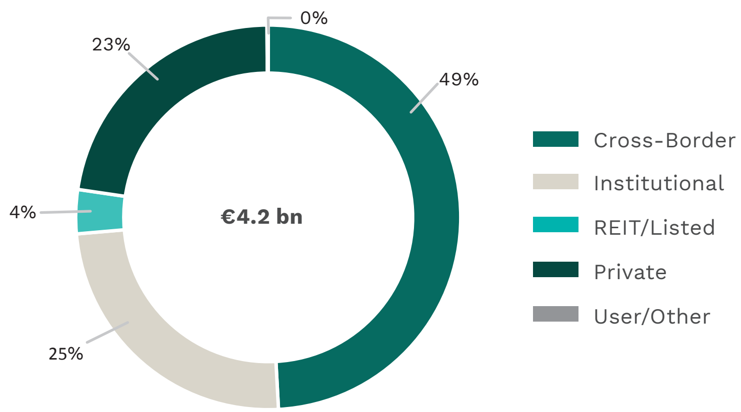
In principle, the Ukraine war is not expected to have any direct impact on the German housing market, apart from a temporary increase in housing demand due to Ukrainian refugees. The situation is different with regard to the increased energy costs - indirectly linked to the Ukraine conflict. These will lead to a significantly higher housing cost burden (warm rent) for tenants in Germany, so it remains uncertain whether the high expectations of future rent increases will be met in the coming years.

In addition, a CO_2 levy will be due from January 2023. The governing parties have now agreed on a CO_2 levy to be distributed among tenants and landlords on a sliding scale according to energy efficiency. This is intended to create incentives for landlords to invest in the energy efficiency of their buildings. Future investor demand is therefore expected to be high for energy-efficient buildings. For older housing stock, it is even more important than before to take a realistic look at the required refurbishment measures so as not to be surprised by escalating investment costs (capex).

RESIDENTIAL TRANSACTION VOLUME AND YIELDS



BUYERS COMPOSITION RESIDENTIAL Q1/2022



Source: Primonial Reim Research and Strategy according to RCA & CBRE

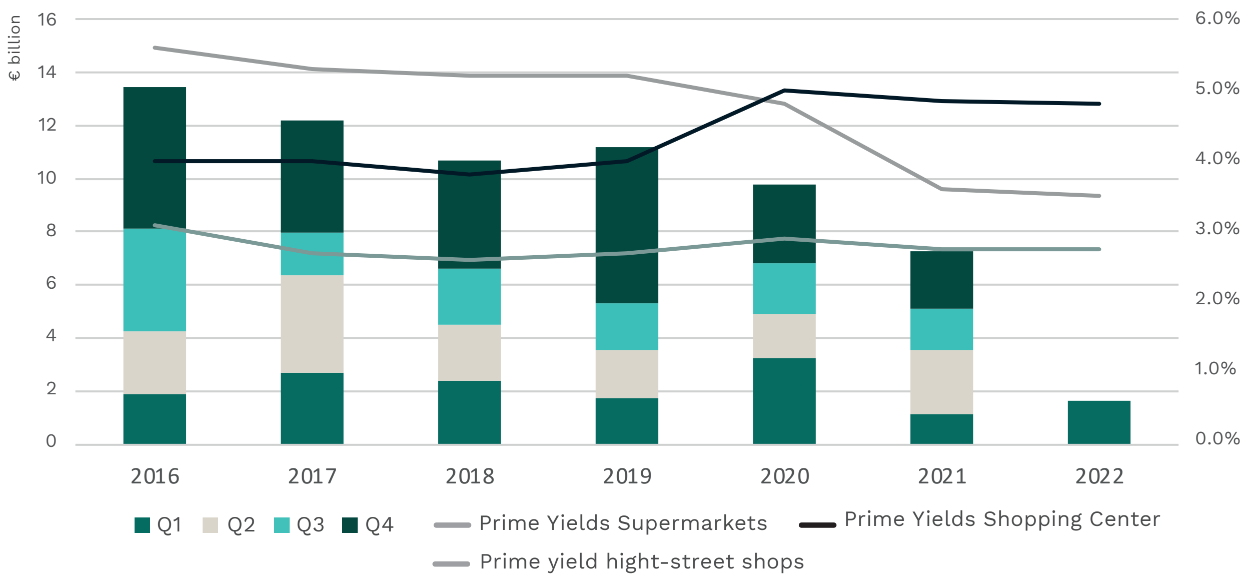
RETAIL

RETAIL TRANSACTION VOLUME Q1/2022	€1.6 bn
THEREOF CROSS-BORDER INVESTMENT VOLUME Q1/2022	€0.5 bn
PRIME YIELDS HIGH STREET SHOPS	2.8%
PRIME YIELDS SUPERMARKETS	3.5%
PRIME YIELDS SHOPPING CENTER	4.8%
TRANSACTION VOLUME TREND COMPARED TO Q1/2021	↗

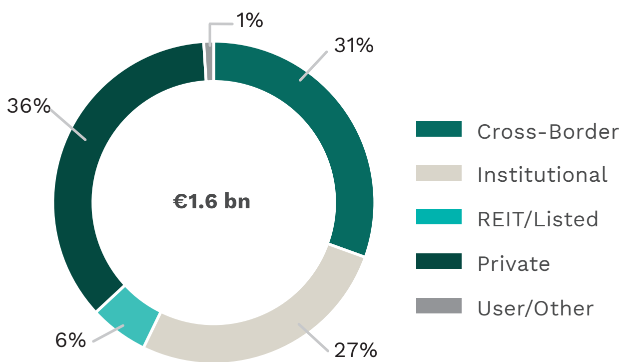
Retail real estate has experienced a comparatively good start to the investment year 2022. At around €1.6 billion, the previous year's figure was exceeded. Nevertheless, structural uncertainties remain, particularly regarding shopping centers, but also with regard to the future viability of some city center locations. Pressure from increasing online retail remains high. Accordingly, prime yields have remained at the previous year's level. For high-street stores, these are 2.8%, for supermarkets 3.5% and for shopping centers 4.8%.

Foreign investors invested around EUR 500 million in retail properties in Germany in the first three quarters. This corresponds to around one third of the total investment volume in this asset class

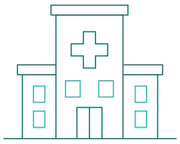
TRETAIL TRANSACTION VOLUME AND YIELDS



BUYERS COMPOSITION RETAIL Q1/2022



Source: Primonial Reim Research and Strategy according to RCA & CBRE



HEALTHCARE

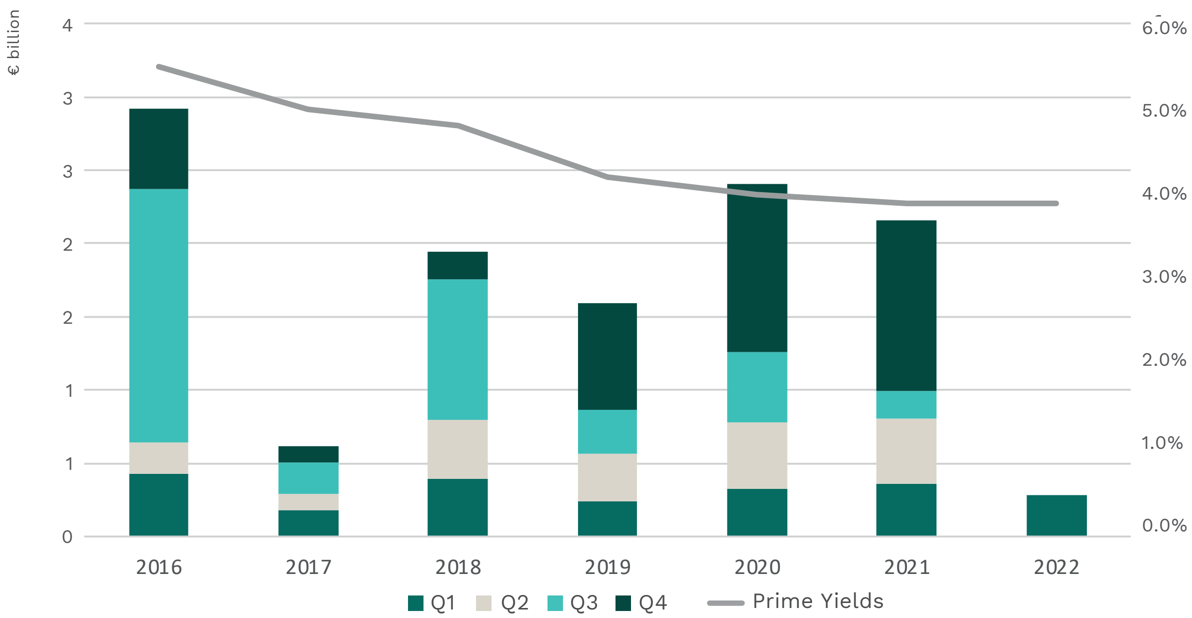
HEALTHCARE TRANSACTION VOLUME Q1/2022	**€0.3 bn**
THEREOF CROSS-BORDER INVESTMENT VOLUME Q1/2022	**€0.1 bn**
PRIME YIELDS HEALTHCARE 2021 (GROSS)	**3.9%**
TRANSACTION VOLUME TREND COMPARED TO Q1/2021	↘

Demand for healthcare real estate will remain high in 2022. However, the shortage of supply is becoming increasingly noticeable. The transaction volume in the first three months was around €0.3 billion, slightly below the level of the previous two years. The market continues to be dominated by very specialized players. Certain competitive advantages arise for companies that act both as investors and project developers and, in some cases via subsidiaries, also as operators. Particularly attractive properties and newly built nursing homes are not available to the market in these cases, as the project developer holds these in its own portfolio. At the same time, project developers are particularly affected by rising interest rates due to their low equity coverage.

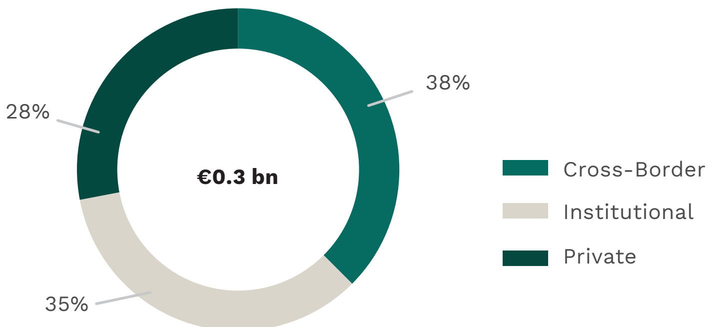
It remains to be said that the future demand for healthcare real estate is high due to demographic developments and that higher construction activity is required to meet the demand in the medium term.

Gross prime yields for nursing homes remain at 3.9%. Somewhat lower returns are being achieved for assisted living facilities due to the lower level of regulation.

HEALTHCARE TRANSACTION VOLUME AND YIELDS



BUYERS COMPOSITION HEALTHCARE Q1/2022



Source: Primonial Reim Research and Strategy according to RCA & CBRE

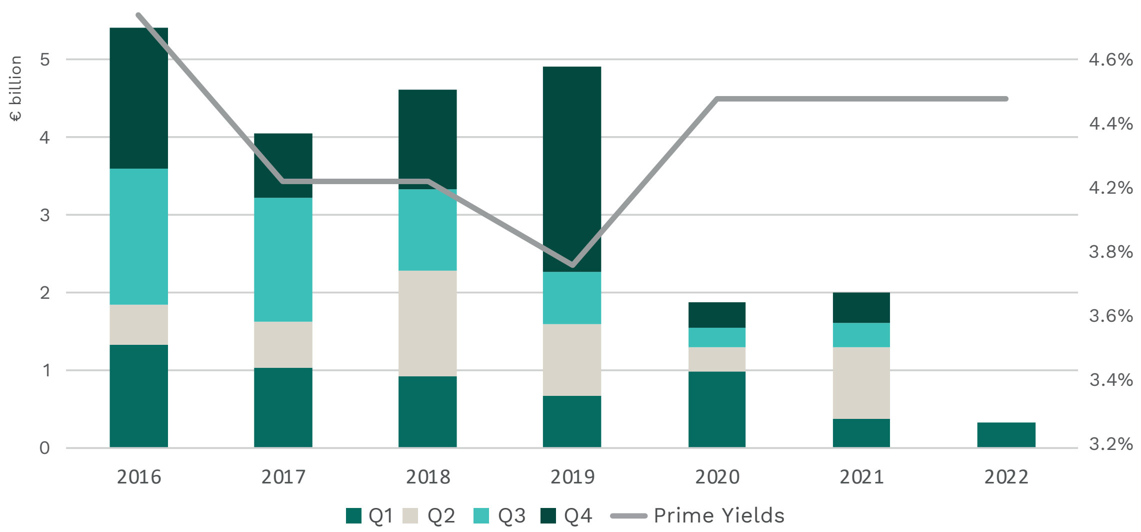
HOTEL

HOTEL TRANSACTION VOLUME Q1/2022	€0.3 bn
THEREOF CROSS-BORDER INVESTMENT VOLUME Q1/2022	€0.03 bn
PRIME YIELDS HOTEL	4.3%
TRANSACTION VOLUME TREND COMPARED TO Q1/2021	↘

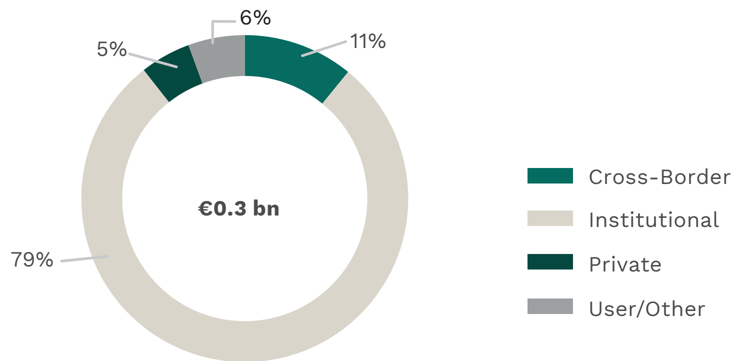
The hotel sector remains the crisis child of the German real estate market at the beginning of 2021. In particular, the lack of interest from foreign investors highlights the uncertainties that still exist in the hotel market. Some hotel companies were saved from insolvency in the last two years by a large number of government support measures. It remains to be seen whether the hotel companies will be able to return to the pre-Corona years now that the aid measures have expired. The biggest question marks continue to be in the city and trade show hotel industry, as well as in cities that saw high construction activity in the pre-Covid years.

Prime yields remained unchanged at 4.3% in the first quarter. It is to be expected that - outside the resort hotel sector - investors will continue to act cautiously with regard to hotel investments in the coming months. In addition to the market-related risks, the hotel segment, as an industry with comparatively high CO_2 emissions, will face particularly great challenges in the future against the backdrop of the necessary decarbonization.

HOTEL TRANSACTION VOLUME AND YIELDS



BUYERS COMPOSITION HOTEL Q1/2022



Source: Primonial Reim Research and Strategy according to RCA & CBRE

LOGISTICS

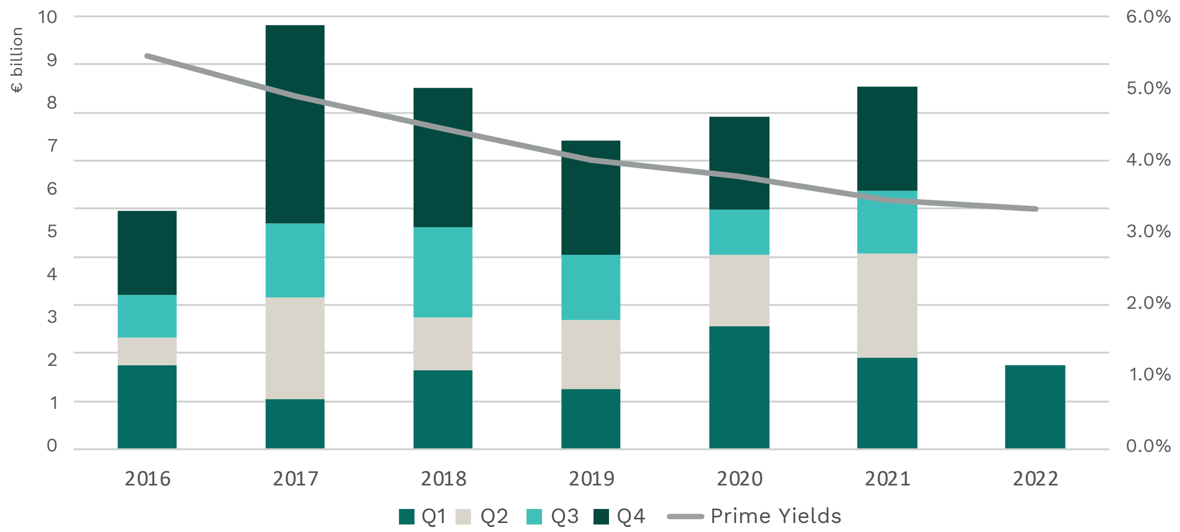
LOGISTICS TRANSACTION VOLUME Q1/2022	**€1.7 bn**
THEREOF CROSS-BORDER INVESTMENT VOLUME Q1/2022	**€1.2 bn**
PRIME YIELDS LOGISTICS	**3.0%**
TRANSACTION VOLUME TREND COMPARED TO Q1/2021	↘

The supply shortage is becoming increasingly noticeable in logistics properties, with a transaction volume of around €1.7 billion in the first quarter of 2022. At the same time, demand pressure remains high and has even been intensified in some cases by recently launched logistics special funds.

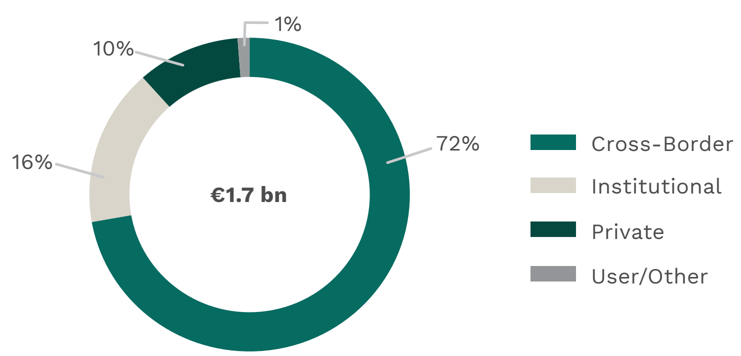
Foreign investors are very active in the logistics segment. More than EUR 1.2 billion of foreign capital was invested in the German logistics real estate market in the first three months.

The high pressure of demand has led to further falls in prime yields. The prime yield currently stands at 3.0%. The gap to office or residential real estate in prime locations as well as to risk-free investment alternatives, such as Bunds, has thus narrowed further. Nevertheless, an end to yield compression does not appear to be in sight at present. Due to the ongoing tension in global supply chains, demand for logistics space is expected to remain high. The limiting factor is a noticeable shortage of space, which is also the subject of (local) political discussions against the backdrop of unsustainable land sealing by logistics halls.

LOGISTICS TRANSACTION VOLUME AND YIELDS



BUYERS COMPOSITION LOGISTIC Q1/2022



Source: Primonial Reim Research and 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 in corporate real estate: total volume of premises acquired in the offices, residential, retail, business premises and warehouses segments by an investor.

Take-up of offices: all leases or sales to the occupant (as opposed to sales to investors) for premises to be used as offices. It is expressed as square meters of usable space.

Yield: ratio between the net revenues from the building and the capital committed by the buyer (acquisition price + fees and transfer taxes). All yields quoted follow this definition unless otherwise stated.

High-Street-Shops: traditional ground-floor retail premises located in town-center high streets.

Shopping center: a building containing at least 20 retail outlets housed in indoor centers around a large food store that drives customer traffic.

RevPAR: abbreviation for Revenue Per Available Room. It corresponds to the turnover on accommodation of an establishment divided by the total number of rooms RevPAR also corresponds to Occupancy Rate multiplied by ADR.

Hotel Occupancy Rate (OR): ratio of the number of occupied rooms to the total number of rooms in a hotel.

About Primonial REIM

Primonial REIM has a workforce of 400 employees in **France, Germany, Luxembourg**, **Italy, the UK** and **Singapore**. Its values of conviction and commitment as well as its expertise on a European scale are used to design and manage real estate funds for its national and international clients, whether they are individuals or institutions.

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

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

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

www.primonialreim.com

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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 Europe offers Primonial REIM's quarterly view of its markets of choice, i.e. offices, retail outlets and healthcare and residential real estate, in the Eurozone.

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