PRIMONIAL REIM

AUGUST 2021

Finalised on 2 August 2021

REAL ESTATE CONVICTIONS

Asset Manager's view of the European real estate markets

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FIGURES

GROWTH FORECASTS

+4,9 %

EUROZONE 2021

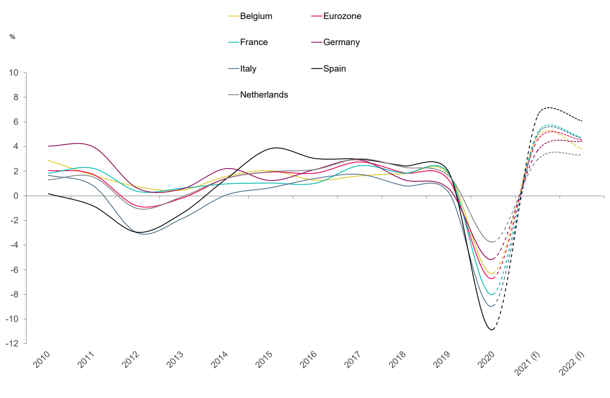
2,2 %

10-YEAR GOVERNMENT BOND YIELDS

0,2 %

Source : Oxford Economics

ECONOMIC ENVIRONMENT: GDP IN EUROPE



Sources: Primonial REIM Research & Strategy according to Oxford Economics.

ECONOMIC AND REAL ESTATE ENVIRONMENT

The pandemic has killed over 4 million people in the last 18 months, but the Delta variant has made great strides across the planet, since it is highly contagious. Countries or regions with too low vaccination provision may be quickly forced to introduce further restrictive measures that pose significant risks to their recovery. The upturn in activity (+6.2% in 2021 and +4.6% in 2022) will be possible as long as vaccination campaigns are intensified on a global scale in order to eliminate the health risks that the variants may generate. After a difficult start due to delivery delays and national vaccination campaigns deemed too slow, the European Commission will finally have succeeded in ensuring that 380 million doses of vaccines (first and/or second doses) are administered in the European Union.

Progress with vaccination and the reopening of Eurozone economies point to a sharp rise in GDP in the second and third quarters. Although there is still a high degree of uncertainty over the size of the rebound, the outlook is still positive for 2021 (+4.9%) and 2022 (+4.6%). In the different countries, the path is the same, but the amplitude varies. Needless to say, the harder the recession was in 2020, the stronger the rebound. Thus, in Germany, GDP is expected to grow in 2021 (+3.7%) and in 2022 (+4.4%), a movement quite similar to that of the Netherlands (+2.9% in 2021, +3.3% in 2022). In France and Belgium, activity should bounce back well in 2021 (+5.1% and +5.0% respectively) and in 2022 (+4.7% and +3.8%). The two major south European economies, Italy and Spain, should also experience a notable economic rebound with respective growth of +5.0% and +6.5% in 2021 and +4.7 % and +6.0% in 2022.

The ECB is changing its «forward guidance» to clarify the future directions of its monetary policy while continuing to provide a significant monetary stimulus. The ECB is now posting «a symmetrical inflation target of 2% in the medium term». The inflation target wording «less than but close to» has thus been discarded so as to remove any ambiguity. The term «symmetrical» means that «the Governing Council considers that negative and positive deviations from that target are equally undesirable». This is the context in which Eurozone inflation is expected to be +2.2% in 2021. However, it should be noted that this increase is the result of temporary phenomena and should not be such as to push bond yields up in 2021 (+0,2%). Given this accommodating policy, no significant rise in interest rates is expected before mid-2024, allowing real estate to maintain an attractive risk premium.

More than a year after the start of the Covid-19 crisis, some 115 billion euros were invested in the first half of 2021 (-7% over a year), which demonstrates the resilience of the European commercial real-estate market[1] in times of severe turbulence. While investor visibility has increased in recent months, the «flight to quality» strategy is still in favour, involving the strong appeal of well-located assets and established tenants. Investment in the various countries reached 28 billion euros in Germany (-14% over a year), in France 13 billion euros (-21%), in the Netherlands and Belgium 6 billion euros (-52%), in Spain 5 billion euros (+11%) and in Italy 4 billion euros (+14%). After a corrective phase at the start of the crisis and then a period of stabilisation that still continues, the second quarter of 2021 saw a fall in the returns of the supremely prime assets.

[1] Commercial real estate refers to office, retail, logistics, service and residential real estate for institutional investors.

Sources for figures: CBRE, FMI, RCA, Oxford Economics.

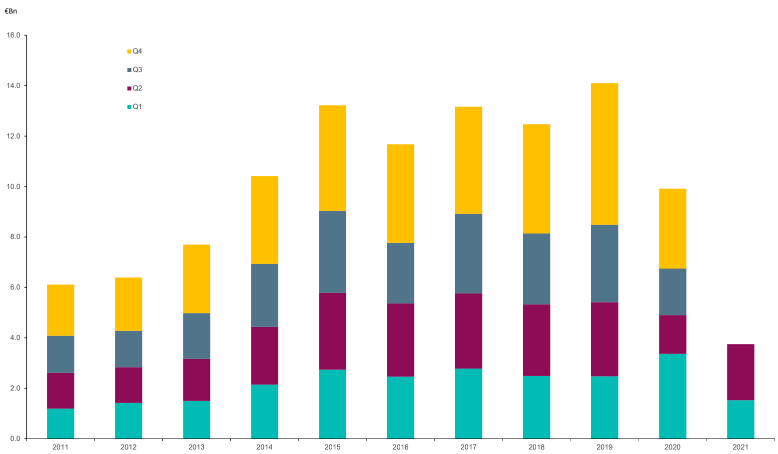
OFFICES

INVESTMENT IN OFFICE PROPERTY IN EUROPE – 2021 Q2 (6 MONTHS)	€38bn
TREND IN PRIME YIELDS IN EUROPE – 2021 Q2/Q-1	→
TAKE-UP TREND IN EUROPE – 2021 Q2 (6 MONTHS)/Q-N-1	→
VACANCY TREND IN EUROPE - 2021 Q2/Q-N-1	↗
RENT TREND IN EUROPE – 2021 Q2/Q-N-1	→
TREND IN JOB CREATION – 2021 Q2/Q-1	↗

Offices that can deliver lasting rental performance and have an attractive location are preferred by investors. In the Eurozone, three major cities have monopolised the flow of capital: Paris, Munich and Berlin. Office property investment in Europe was 38 billion euros in the first half of 2021 (-23% over a year). Investors favoured markets with an international dimension, good services and a large employment base. Paris leads the Eurozone with just over 5 billion euros in investments, followed by Munich (2.8 billion euros) and Berlin (2.5 billion euros). The other major European capitals – Amsterdam, Brussels, Madrid and Milan – have yet to go beyond one billion euros in commitments.

While the yields for prime offices remained largely stable during the first quarter of 2021, the stepping up of vaccination campaigns and the gradual return of employees to office fostered investors' appetite for the best-oriented markets, contributing to a reduction in yields in the second quarter. Most markets have remained stable over 6 months, but the downward trend recorded in the second quarter of 2021 should be noted, since it characterises a third of the hundred or so markets analysed. Yields thus recorded further cuts in the most attractive major European capitals (those with a good location, good connections with the public transport network, and a pool of sound tenants). Cutbacks of between 10 and 50bp have been identified, proof that the markets adapt quickly when a recovery is in place. The supremely core markets, such as Paris, Munich or Berlin, have a yields of less than 3.00%.

OFFICE PROPERTY INVESTMENT IN EUROPE



Sources : Primonial REIM Research & Strategy according to RCA and CBRE.

The reopening of European economies helped boost take-up in the second quarter of 2021 after a first quarter at a standstill. Total office take-up will have reached around 5 million m² in the first half of 2021, i.e. almost identical to the same period in 2020. In terms of volume, the Greater Paris market is leading the way with transactions involving 764,000 m² in the first half of 2021 (+14% over a year). Berlin and Munich follow with over 300,000 m². Some markets (Milan, Madrid, Brussels and Amsterdam) caught up in the second quarter after a difficult start to the year.

Vacancies have continued to grow in Europe, but significant disparities have appeared between markets. Paris, Berlin, Munich and Vienna have a vacancy rate of under 5%, while other large capitals, such as Helsinki, Madrid and Milan, now report a rate exceeding 10%.

Rents remained stable on the best-oriented prime markets, while corrections were made in some other markets. Prime areas, such as Paris CBD with rents above €900/m², are up over the year, whereas some European cities or secondary markets (such as Dublin or Barcelona) recorded corrections at the end of the second quarter of 2021 (over the year).

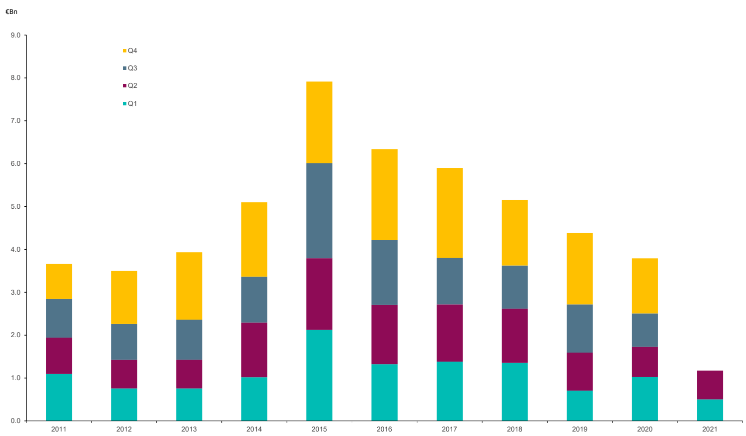
Sources for figures: CBRE, IMMOSTAT, BNP PRE, RCA.

RETAIL

COMMERCIAL REAL-ESTATE INVESTMENT IN EUROPE – 2021 Q2 (6 MONTHS)	€12bn
TREND IN PRIME YIELDS ON THE GROUND FLOOR OF A BUILDING IN EUROPE – 2021 Q2/Q-1	→
TREND IN PRIME YIELDS IN SHOPPING CENTRES IN EUROPE – 2021 Q2/Q-1	→
TREND IN THE E-COMMERCE PENETRATION RATE IN THE EUROZONE – 2021	↗
TREND IN BUSINESS TURNOVER IN THE EUROZONE – 2021 Q2/Q-1	↗

After a drop in private consumption in the first quarter due to the third wave of infection, spending recovered in the second quarter thanks to the gradual unlocking of the economy. While consumer confidence is rising again due to the improving general economic situation, investors remain selective. Commercial property investment in Europe will have totalled 12 billion euros in the first half of 2021 (-32% over the year). In the Eurozone, Germany confirmed its top position with 3 billion euros in commitments in the first half of 2021, followed by France (650 million), Spain (630 million) and the Netherlands (370 million).

RETAIL INVESTMENT IN EUROPE



Sources : Primonial REIM Research & Strategy according to CBRE and RSA.

After making significant corrections to the different typologies analysed in Europe, a new dynamic pattern seems to be gradually emerging. Thus, between the first and the second quarters of 2021, the yields of the best-located stores were marked by a tendency to stabilise. Finally, cuts were also recorded, and a few markets still experienced a correction, although this was not a major concern. The yields on ground-level assets remained mostly stable between the first and second quarters of 2021 on the «*prime*» and secondary markets in Europe. A rise (between 5 and 25bp) was seen in some markets, such as Germany. While shopping centres enjoyed a phase of stability between the first and second quarters of 2021, secondary locations again underwent readjustments (Austria, the Netherlands, Ireland, Spain, Denmark). Most retail parks were stable, but, interestingly enough, falls were still recorded from one quarter to the next (between -5 and -75bp) for this type of asset. Finally, supermarkets recorded a squeeze in almost half the markets analysed between the first and second quarters.

Private consumption improved in the second quarter of 2021. This return to growth proves that Europeans are ready to consume once the restrictions are lifted (+11.8% in the second quarter of 2021). The situation enabled the revenue growth of brands in value terms to accelerate in the Eurozone in the second quarter of 2021. The reopening of economies has allowed some countries (Germany, Ireland, Italy, Spain and Portugal) to outperform the bounce-back in the Eurozone as a whole.

The phenomenon of shop rent correction is gradually giving way to a transition towards stability. The downward trend was quite closely shared between stores on the ground floor of buildings and shopping centres from one quarter to the next (between 0% and -10%). On the other hand, it is noteworthy that more and more markets have already experienced rental stability for several quarters.

Sources for figures: Oxford Economics, CBRE, RCA.

RESIDENTIAL

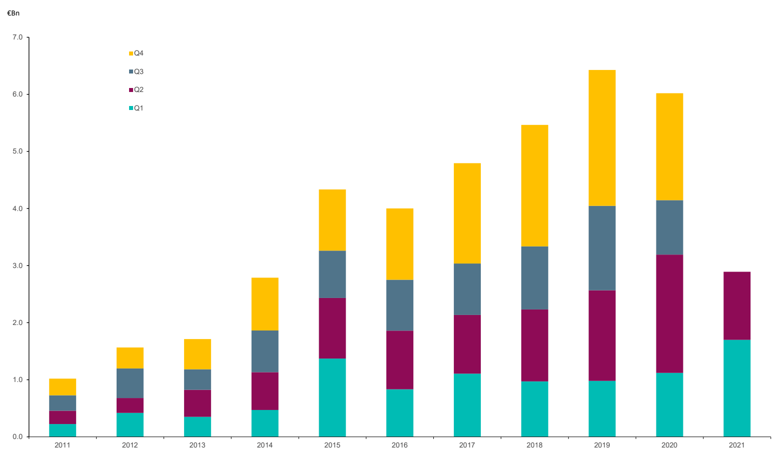
RESIDENTIAL REAL-ESTATE INVESTMENT IN EUROPE – 2021 Q2 (6 MONTHS)	**€29bn**
TREND IN PRIME YIELDS IN EUROPE – 2021 Q2/Q-1	→
PRICE GROWTH TREND IN EUROPE – 2021 Q2/Q-N-1	↗
TREND IN HOUSEHOLD EARNINGS IN THE EUROZONE – 2021 Q2/Q-N-1	↗

Block residential investment has attracted capital flows as a safe haven and long-term prospect. Residential real estate attracted total investment of 29 billion euros during the first half of 2021 (-10% over the year). The figure dipped during the second quarter to 12 billion euros after a particularly dynamic first quarter in 2021, during which nearly 17 billion euros had been invested. In the Eurozone, the markets that have concentrated capital are: Germany (10 billion euros), France (3 billion euros) and the Netherlands (2 billion euros).

The prime yields in the major cities remained stable overall during the first and second quarters of 2021. At the same time, another pendulum-swing phenomenon was seen to favour secondary cities. Described as temporary, this phenomenon is marked by acquisitions by the residents of large cites who have higher purchasing power than local households, contributing to strong price growth in these markets and so to a significant risk of imbalance. In the Eurozone, Paris, Munich, Vienna and Helsinki have the lowest prime yields and are below 3.0%. The rates of return of a third of major European cities recorded a drop from one quarter to the next (between 10 and 20bp), dipping in Antwerp, Barcelona, Brussels, Hamburg, Madrid and even Paris. About 10% of the big cities in our sample, such as Lisbon or Milan, experienced a rise. Finally, the vast majority of cities remained stable during the first two quarters of 2021.

On average, rents have grown steadily in Europe in recent years, allowing investors to guard against the risk of inflation. Aware that around ¼ of European tenants paying rents at market prices devote more than 40% of their income to rent, the various states, as well as regional and/or local authorities, have enacted legal provisions or regulations on rental to facilitate access to housing. The aim of these measures is to ensure transparency of rents and to correct them whenever necessary. At the same time, the measures ensure a regular and secure income, making residential investment a good hedge against the risk of inflation. For 2021, the minimum rent revaluations should thus be between 1% and 2% in the various Eurozone countries.

BLOCK RESIDENTIAL INVESTMENT IN EUROPE



Sources: Primonial REIM Research & Strategy based on national statistics.

Despite a slight deceleration in the Eurozone, the lack of supply in desirable areas and low interest rates helped to keep house prices under pressure during the second quarter of 2021. Residential prices in the Eurozone once again showed positive movement in the second quarter of 2021 (+6.0% q/q-n-1). A plateauing, or even a correction, is noticeable in certain markets. As a result, corrections have been observed whenever price increases have been too high and out of line with the level of household indebtedness in a given market. The Netherlands (+12.4% q/q-n-1), Germany (+10.2%), Austria (+9.1%), Belgium (+5.9%), Portugal (+5.2%), France (+4.8%), Ireland (+4.3%), Finland (+4.1%) and Spain (+1.6%) again experienced positive movement. Only Italy (-2.0%) saw its national residential price index showing a slight readjustment in the second quarter of 2021.

Sources for figures: National statistics, RCA, Oxford Economics.

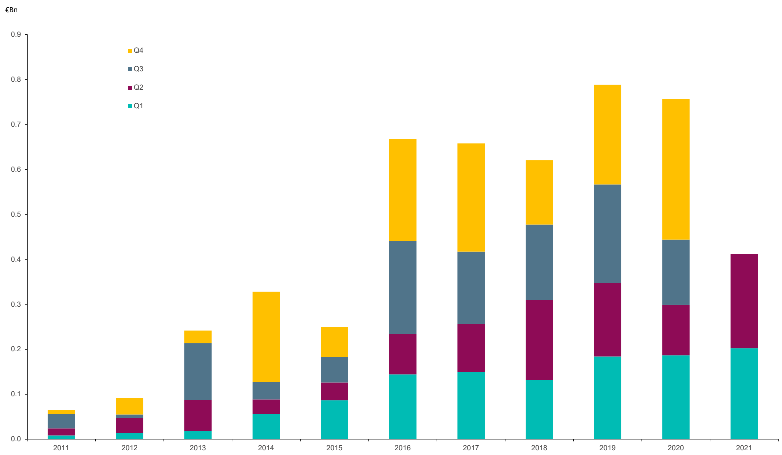
HEALTH

HEALTHCARE REAL-ESTATE INVESTMENT IN EUROPE – 2021 Q2 (6 MONTHS)	€4bn
TREND IN PRIME YIELDS IN EUROPE – 2021 Q2/Q-1	→
OUTLOOK FOR CARE BED REQUIREMENTS BY 2025/2030 IN EUROPE	↗

European healthcare real estate is an alternative asset class that is popular among investors. Investment (retirement homes and nursing homes) totalled 4 billion euros in Europe in the first half of 2021 (+33% over the year), making it the best first half year ever recorded in healthcare real estate in terms of its capital attraction. In the Eurozone, the German market performed very well with around 800 million euros of investment in the first half of 2021, while France invested 300 million euros, the Benelux states nearly 270 million euros and the countries of southern Europe almost 670 million euros.

The prime yields in healthcare real estate remained mostly stable during the second quarter of 2021 compared to the previous quarter, but Spain was an exception with a fall in its prime yields. France, Germany, Belgium, Finland, Austria and Spain have prime yields for nursing homes of 4.75% or less. Spain experienced a fall in its prime yields at the end of the second quarter of 2021. Italy, the Netherlands and Portugal have prime yields of between 5.00% and 6.00% for nursing homes. In France and Germany, clinics have positioned themselves on a prime yield close to 5% in the second quarter of 2021. This asset class has experienced a regular and general squeeze on its prime yields over the past ten years.

INVESTMENT IN RETIREMENT HOMES AND NURSING HOMES IN EUROPE



Sources: Primonial REIM Research & Strategy, RCA, C&W.

Healthcare players are pursuing a consolidation strategy at a European level, thus demonstrating the importance of established international operators. Accordingly, during the first half of 2020, Orpéa announced that it had become number one in Ireland after acquiring the FirstCare Group and purchasing the remaining 50% of Brindley Healthcare. The French group also acquired the Sensato AG group in Switzerland and strengthened its presence in Spain in 3 businesses with the acquisition of the Hestia Alliance group (7 establishments). This pan-European consolidation strategy allows the largest operators to achieve economies of scale.

The essential features of the healthcare sector are still solidly based, since demographic pressure will continue to grow in the coming years, given that the Eurozone population will increase from 342 million in 2020 to over 347 million in 2040, so that the supply of healthcare real estate will have to meet this strong demand. One of the main demographic changes will be the increase in the number of dependent elderly people. The loss of independence must necessarily involve assistance or support, in particular for the population aged over 80, which will grow from 22 million in the Eurozone in 2020 to 26 million in 2030. The challenges posed by demographic pressure will force healthcare systems to meet a burgeoning demand. Any lack of a future supply of retirement homes and nursing homes therefore remains a crucial issue. Professionals say that some 45,000 new care beds in nursing homes ought to be created each year between 2015 and 2025/2030 in the principal Eurozone countries so as to be able to cope with the demand. Finally, the existing equipment that is obsolete must be modernised.

Sources for figures: RCA, C&W, Operators, Primonial REIM.

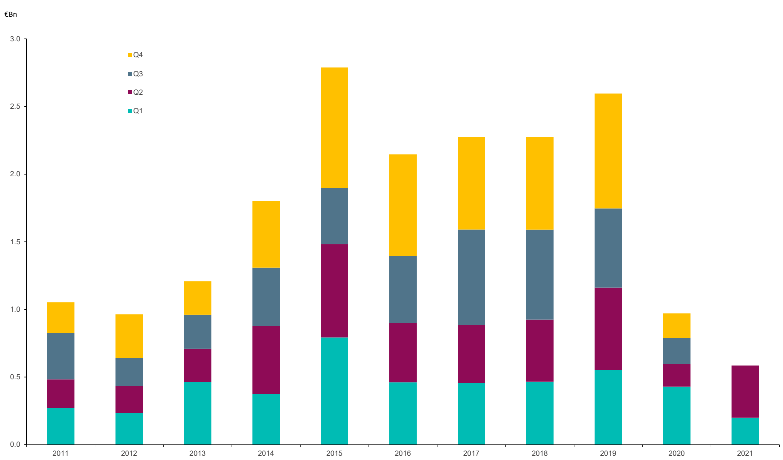
HOTEL INDUSTRY

INVESTMENT IN HOTEL REAL ESTATE IN EUROPE – 2021 Q2 (6 MONTHS)	€6bn
ROOM OCCUPANCY RATE IN EUROPE – 2021 Q2 (6 MONTHS) / Q-N-1	↘
REVPAR IN EUROPE – 2021 Q2 (6MONTHS) / Q-N-1	↘
AVERAGE DAILY RATE IN EUROPE – 2021 Q2 (6 MONTHS) / Q-N-1	↘
TREND IN PRIME YIELDS IN EUROPE – 2021 Q2/Q-1	→
TOURIST ARRIVALS EXPECTED IN EUROPE – 2021/2020	↗

With the acceleration of vaccine campaigns and the gradual lifting of travel restrictions, the hotel sector experienced a significant inflow of capital during the second quarter. In the first half of 2021, the hotel real-estate market duly earned a total of 6 billion euros. A strong acceleration took place during the second quarter, since nearly 4 billion euros were invested. In the Eurozone, capital was concentrated in Germany (1.3 billion euros), Spain & Italy (1.1 billion euros) and France & Benelux (750 million euros).

The yields on hotel assets remained stable in the first and second quarters of 2021. After a relaxation phase (between 25 and 50bp) in 2020, the prime yields remained stable in the first and second quarters of 2021, with the exception of Milan and Helsinki, which experienced a fall of 30bp , meaning that those two cities reverted to their pre-crisis yields. The prime yields of return for hotels under a leasing contract, a contract that ensures a purely rental profitability, in Berlin, Munich, Helsinki, Vienna, Amsterdam, Paris or Milan range from 4.25% to 4.75%. Cities like Madrid, Brussels or Lisbon feature between 5.0% and 6.5%. The prime yields of hotels under a management contract, a contract that allows the hotel owner to tap into both the value of the business capital and the value of the real-estate asset, offer a differential of between +100 and +250bp, depending on the market, over a leasing contract.

HOTEL INVESTMENT IN EUROPE



Sources: Primonial REIM Research & Strategy according to CBRE, RCA.

The number of hotel rooms sold or rented in Europe in the first half of 2021 was down by 12.6% year-on-year. This mixed decline reflects the two trends in the first half of 2021. After fairly stern restrictive measures that led to a drying-up of tourist flows, the gradual reopening of the economy and of European borders has allowed a gradual return of domestic customers and, more recently, of international customers too. Rooms sold or rented in budget hotels are the only category to show an uptick (+9.3% over the year), the mid-range category recorded a decrease of around 13% in line with the average for all categories, while upscale hotels (-22%) and the luxury category (-21%) lagged behind less compared to the first quarter of 2021.

During the first half of 2021 overall, occupancy levels, the average daily rate and the RevPAR (accommodation revenue) were affected by the imposition of the health restrictions at the beginning of the year. However, the second quarter marks a real turning point with upward movement for all indicators. The occupancy rate of the hotel industry in Europe stood at 28.8% in the first half of 2021. The average price was down from €95 in the first half of 2020 to €82 over the first six months of 2021, and the RevPAR, which was €32, dropped to €24. In terms of category, the economy and mid-range hotels were doing well with an occupancy rate of between 30% and 40%, while the upscale and luxury segment did not exceed 30%. This improvement is explained by the easing of the rules to welcome international tourists during the summer season.

Sources for figures: CBRE, RCA, STR, Oxford Economics.

REAL ESTATE OUTLOOK 2021- 2025

OUTLOOK FOR THE MAIN MARKETS IN THE EUROZONE	Short term (less than 12 months)	Medium term (between 1 and 5 years)
OFFICE SPACE (DEPENDING ON MARKETS)	Opportunistic to positive	Positive
RETAIL (DEPENDING ON THE FORMAT)	Wait-and-see to opportunistic	Opportunistic
RESIDENTIAL	Positive	Positive
HEALTHCARE	Positive	Positive
HOTELS	Wait-and-see to opportunistic	Opportunistic

The progress of vaccination campaigns divides the global recovery into two blocks with, on the one hand, the economies that will be able to envisage a normalisation of their activities and, on the other, the countries that will continue to experience an upsurge in infection. However, for as long as the virus is still a danger, economic recovery will not be guaranteed, and many uncertainties will continue to exist. On the other hand, the substantial fiscal stimulus approved by the Biden administration is expected to bolster the recovery in the United States and should also have some positive spinoff globally. This is the context in which the Eurozone economy has reopened with an intensification of vaccination campaigns. The crucial scenario that we have adopted is the one envisaged by the major European and international institutes: it assumes that, after the 2020 nosedive, the Eurozone's GDP should grow in 2021 (+4.9%) and 2022 (+4.6%).

As for the inflationary risks, inflation has accelerated in recent months, due to base effects, transitory factors and an increase in energy prices. Inflation is expected to rise in 2021 (+2.2%) before temporary factors subside (+1.4% in 2022). At the same time, the ECB has decided to confirm its very accommodating monetary policy stance, so as not to threaten economic growth that could be weighed down by an excessively sharp rise in interest rates, which will therefore remain at low levels in 2021 (+0.07%) and 2022 (+0.39%).

Risks persist, however, such as too slow-moving vaccination campaigns that might allow the virus to generate new mutations. If inflationary expectations escalate uncontrollably, financial conditions could tighten due to a revised outlook for monetary policy. The tightening financial conditions would then pose a serious risk to the recovery.

While the economic horizon is clearing up somewhat, institutional investors and property managers are taking advantage of this pivotal period to modify their investment choices, in particular by bringing in non-financial criteria (e.g. the environment, social factors, governance). This is the import of the European regulations that are coming out thick and fast in 2021 (Sustainable Finance Disclosure Regulation, EU Taxonomy, numerous national regulations, etc.). The resilience of assets against climate change, as well as their capacity to support the energy transition and to be part of a more sensible use of resources, are criteria that managers are now learning to take into account, and their influence on asset valuation is starting to be felt.

OFFICES

Office markets with an attractive location are best positioned for the current cycle in terms of value, income and liquidity. The crisis we are living through has led many areas of business activity to adopt remote working on a massive scale. The question then quickly arose as to the adequacy of real-estate portfolios in relation to the future needs for office space. **While the hypothesis of a 100% remote working future has gained traction, it has not held up to the socialisation needs of the individuals actually employed in companies.** This observation has led proponents to move towards a hybrid organisation of work (office, third places, homeworking). With this arrangement, remote working will not exceed one or two days a week. This work pattern should enable employee commitment, innovation and overall staff productivity to be guaranteed. These criteria will in turn determine the future design of workplaces. The diversification of locations and the guarantee of operational efficiency will be key criteria in optimising an office portfolio. The core assets/markets that have adapted to the new characteristics of the future workplace, with established tenants and long leases, should have the best prospects for the valuation and future growth of rents, whereas the least secure or obsolete assets might experience corrections (secondary locations, lengthy vacancies, unsuitability for new uses), which could affect the capacity of these properties/markets to deliver a high level of performance in the medium term. On the other hand, there will be opportunities to be seized in aspiring districts that feature offices adapted to new uses with the gradual recovery in take-up.

RETAIL

Structural changes in the sector and the restrictive measures had a strong impact on the value and rents of all types of businesses in 2020, and a phase of transition towards stabilisation has begun. However, businesses facing an underlying problem will have to be repositioned or restructured to meet the new consumer needs. The easing phenomenon observed in 2020 will give way in 2021, quarter after quarter, to a phase of stabilisation or even reduction in some markets that have experienced a correction that was too severe when seen against their basic features. As for location, we believe that ground-floor assets and shopping centres in the most favoured core European markets that come up to the new consumer expectations should have the best prospects for the valuation and future growth of rents, while assets in a secondary location, with significant vacancies or featuring retailers shunned by consumers, may find their performance impaired. Finally, rigorous selection should make it possible to seize the promising opportunities in markets with a sound basis that may arise with a marked and lasting upturn in European consumption.

RESIDENTIAL

The basic features of the residential markets in the Eurozone are well oriented to enable the overwhelming majority of large European cities to ensure value growth in 2021. We are maintaining our outlook for residential price growth in the Eurozone due to favourable economic aggregates (sustained household purchasing power and low interest rates). In the event of a correction, we believe that the phenomenon will be limited geographically (a territory, a big city) or in time (quarter, half-year) and will be mainly technical (a temporary imbalance between supply and demand that cannot be ignored). The question of the rent cycle does not really arise at the moment due to the intervention of the authorities in many countries, but the question of the price cycle must be posed. Price corrections could indeed stem from excessively big changes, such as a significant rise in interest rates, abnormally high prices per m² or a growth in prices that is not justified by the market fundamentals. However, we believe that, in the present context, the rise that is to follow will compensate quite quickly for the readjustment due to the demographic pressure on many markets and to interest rates that are still at low levels. If there is an economic crisis, without support from the public authorities, or if there is a substantial rise in interest rates, this could have a negative impact on residential prices. Over the 2021-2025 period, most European residential markets share a positive outlook for capital and rental performance, but there are risks.

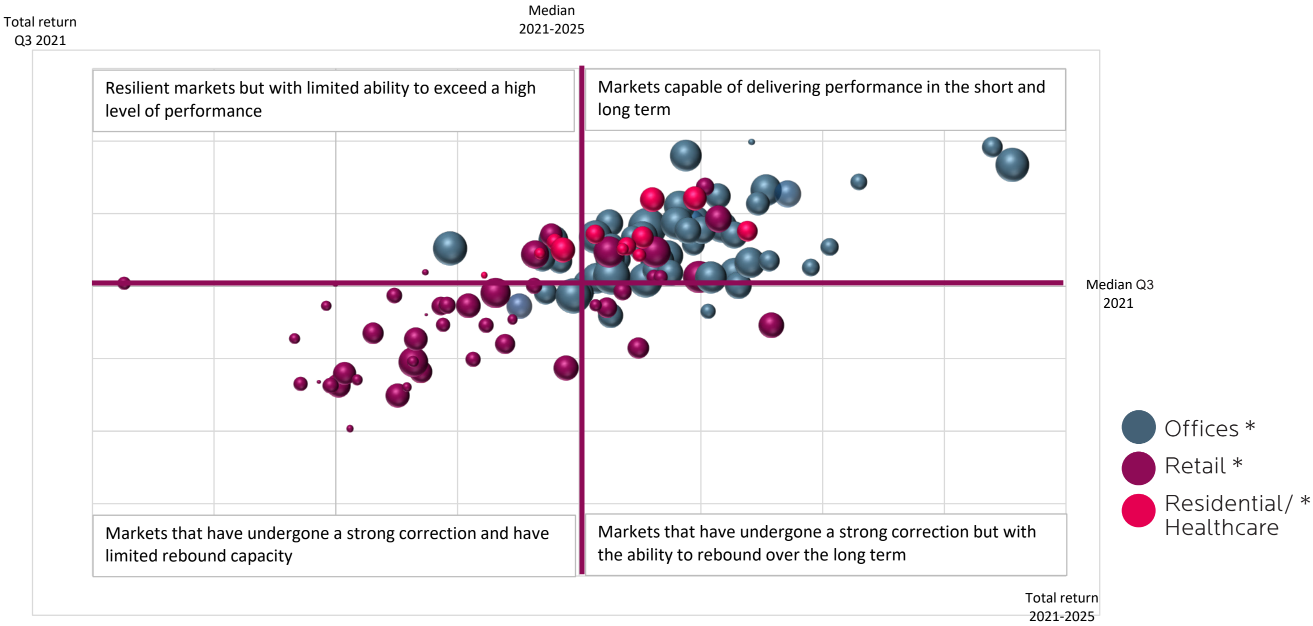
HEALTH

Health infrastructure plays an important role for any population and constitutes a social challenge in Europe for years to come. There is a pressing need to renovate the stock of nursing homes, as is the need to boost the supply (clinics, nursing homes, specialised establishments, etc.) in all Eurozone countries. This will call for very significant investment that will have to be made by the public and private sectors, especially since demographic pressure – regardless of viral threats, which do not modify demographic balances – will remain strong between now and 2025 and will continue to intensify over the following decade. We think that the obsolete part of the nursing home stock and the lack of supply in the market will continue to whet investor appetite for newer, well-localised sites with a sound operator. Consequently, the sector's ability to deliver long-term capital performance and secure income is well oriented at the Eurozone level.

HOTEL INDUSTRY

Since March 2020, tourism has reeled from an exceptional crisis worldwide. With the intensification of vaccine campaigns during the first half of 2021, it is still possible to envisage the recovery of the sector, even if the variants of the virus still give rise to uncertainty and the disruptions continue in 2021. Technology (Health Pass, etc.) will also play a part in the recovery of the hotel industry. After a first quarter in which the hotel sector's performance was disappointing because of the health measures taken to curtail the spread of the virus, the second quarter showed clear signs of improvement due to the unlocking moves, but uncertainties are mounting for the third quarter. In fact, despite the improvement in vaccine coverage, the more virulent or more contagious variants still present a significant threat until the virus has been eradicated. If no measures restricting travel for vaccinated people are adopted in the third and fourth quarters in Europe, it may be assumed that the occupancy rate, the average price and the RevPAR could see a further improvement. As for prime hotel yields, most markets should experience a phase of stability in 2021. On the other hand, the economy and mid-range segments have managed to demonstrate a degree of resilience thanks to domestic customers, while the high-end/luxury segments are still penalised by the low presence of the international clientele. This situation should persist until international tourist flows resume. With the stepping-up of vaccination campaigns and the gradual reopening of borders, opportunistic acquisitions by investors should intensify.

REAL-ESTATE PERFORMANCE OUTLOOK IN EUROPE IN Q3 2021-2025



* Offices, retail, residential/healthcare.
The size of the circles matches the expected performance in 2021.

Sources for figures: CBRE, STR, Oxford Economics, Primonial REIM Research & Strategy

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 in corporate real estate: total volume of premises acquired in the offices, 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.

Sale Before Completion: sale before completion is the contractual method for selling a building before it is built. The investor becomes the owner as it is built.

Free leases: favourable measures granted to tenants (rent cuts, renovation work, etc.).

Yield: ratio between the gross or net revenues from the building and the capital committed by the buyer (acquisition price + fees and transfer taxes).

Store premises: 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.

Retail park: an outdoor shopping center built and managed as a single unit. It comprises at least five buildings linked by lanes and located on city peripheries.

Care homes: a health facility that houses dependent elderly people.

Medical, surgery and obstetric clinics: medical facilities for short-term care, with or without lodging, or for severe conditions during their acute phase.

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

ADR: abbreviation for Average Daily Rate. It is calculated (excluding breakfast) by dividing total revenue by the number of occupied rooms.

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

Primonial Real Estate Investment Management (Primonial REIM) is a portfolio management company approved by the French financial markets authority (AMF) on 16 December, 2011. It received AIFM accreditation on 10 June, 2014. Its business consists in creating, structuring and managing long-term real estate investments by individual and institutional investors.

Primonial REIM has a comprehensive range of expertise:

- **multi-products:** SCPI, OPCI, SCI;
- **multi-sectors:** offices, retail, residential, hotels, healthcare and education property;
- **multi-national:** France, Germany, Spain, Italy, Belgium, Ireland, Netherlands Czech Republic and Hungary.

At 30 June 2021, Primonial REIM had:

- **€ 28,1bn** of assets under management;
- **82 470** associates;
- **51 independent real estate** advisors;
- a portfolio of **4,904,589 m² and 7,000 tenants,** including a high share of large corporate tenants (Samsung, Korian, Crédit Agricole, SNCF, etc.).

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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Ref.: Real Estate Convictions Europe Brochure – **082021**