PRIMONIAL
REIM GERMANY

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PRIMONIAL REIM GERMANY CONVICTIONS

Investor´s view on the German Real Estate Market

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FIGURES 2021

ECONOMIC GROWTH (GDP)

+2.8%

INFLATION

+3.1%

10-YEAR GOVERNMENT BOND YIELDS

-0.3%

Source : Oxford Economics

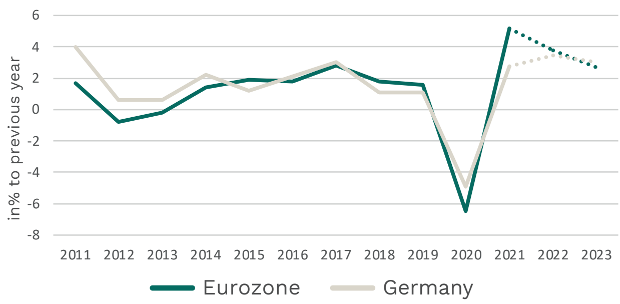
The Research & Strategy Department's role is to formalize Primonial REIM's real estate investment strategies, based on continuous monitoring of the European markets. By nature, real estate is at the crossroads of financial (interest rates), economic (tenants), demographic and social factors. This is 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

After the noticeable recession in the wake of the Corona pandemic in 2020, Germany looks back on economic growth of around 2.5% in 2021. This is significantly lower than the growth rate expected at the beginning of the year. Economic growth of around 3.9% is expected for 2022, although uncertainties due to the Ukraine conflict, the Corona pandemic and persistently high inflation increased significantly at the start of the year.

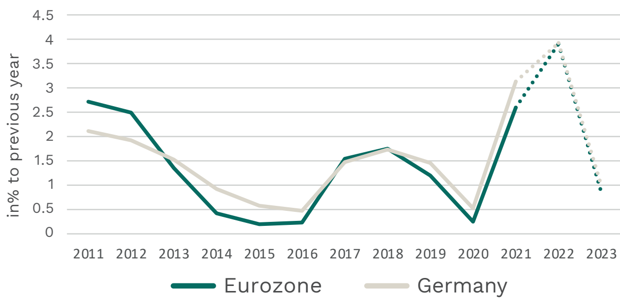
GDP DEVELOPMENT



Source: Oxford Economics

It was not until 2021 that the topic of inflation, fueled by persistently low interest rates, supply bottlenecks, high energy prices and special effects from the Corona pandemic, gained new momentum. For example, the inflation rate in 2021 was around 3.1% (euro zone approx. 2.6%). The ECB's position to date has been to classify the high inflation rates as a temporary phenomenon and accordingly not to raise key interest rates. The total inflation (incl. energy) published for January 2022 was around 5% year-on-year. The Ukraine conflict raises the possibility of massive cost-driven inflation (through gas and oil), but forecasts remain very uncertain. The pressure on the ECB is therefore increasing. It is safe to say that the issue of inflation will continue to dominate the public debate this year.

INFLATION



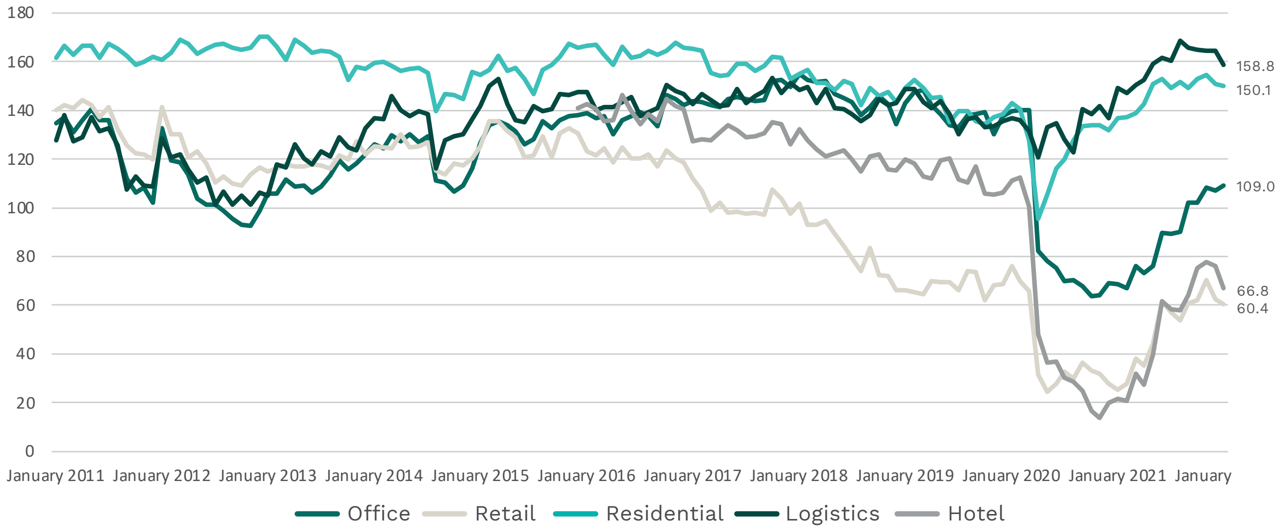
Source: Oxford Economics

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 serves as 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 scepticism[1].

At the beginning of 2022, sentiment in all asset classes except office is slightly more negative than at the end of last year. In absolute terms, residential and logistics properties continue to be viewed very positively. The sentiment trend for office properties has improved continuously since the beginning of 2021 and is also above 100 points. By contrast, there is still considerable scepticism in the retail and office asset classes, which are most affected by the pandemic-related uncertainties.

REAL ESTATE CLIMATE INDEX



Source: Primonial Reim Research and Strategy according to Deutsche Hypo

1/ deutsche-hypo-immobilienklima.de

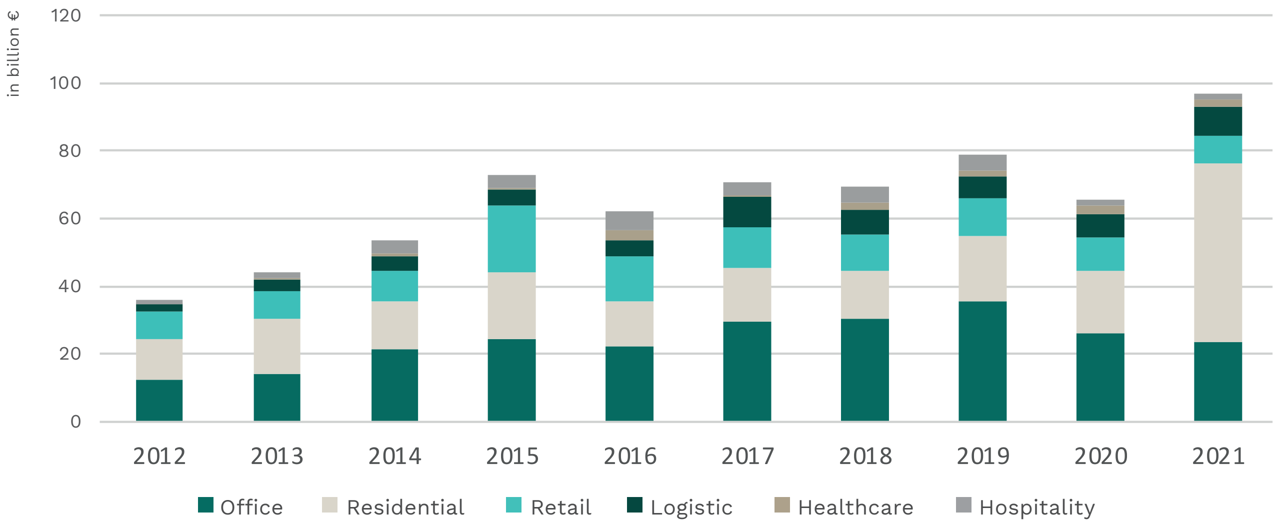
INVESTMENT VOLUME

As a result of persistently low interest rates, high rates of migration to urban areas and the resulting high demand, the investment volume in the German real estate market has increased significantly since 2011. The latest peak in transaction volume is the past year 2021, in which around €98 billion flowed into real estate, although this figure can also be explained by special effects due to the takeover of Deutsche Wohnen by Vonovia. Despite the ongoing Corona pandemic, real estate remains very popular with investors. Office properties have traditionally been the focus of investors. In recent years, however, investors have also shown a noticeable increase in interest in residential real estate.

In 2021, residential investments accounted for 57% of the total transaction volume due to the takeover of Deutsche Wohnen by Vonovia. Adjusted for this effect, office remains the most popular asset class together with residential. Smaller asset classes such as logistics and healthcare have recently gained in importance, while interest in hotel and retail properties has cooled considerably due to the uncertainties surrounding the pandemic and certain structural problems.

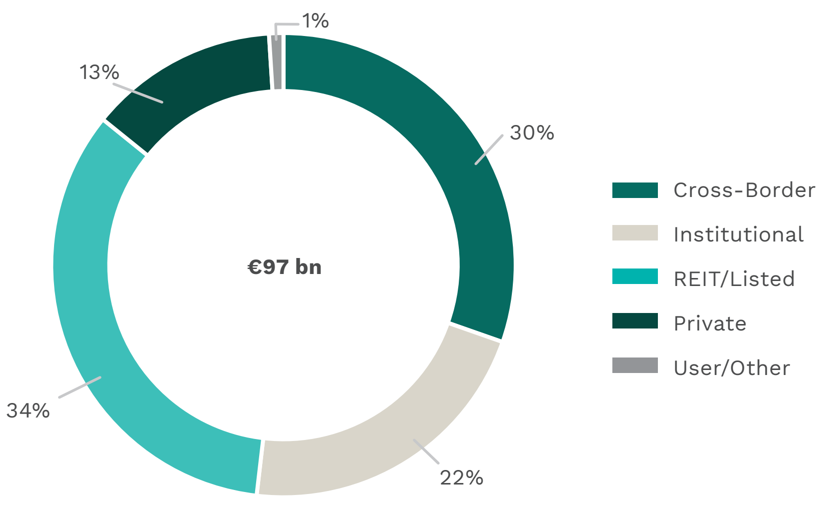
Foreign investors have played an important role on the investment market for many years. On average over many years, their market share is around 40%. The market share of REITs, on the other hand, has tended to decline, as their focus on commercial real estate has recently been affected by greater uncertainty.

TRANSACTION VOLUME PER ASSET CLASS



Source: Primonial Reim Research and Strategy according to Deutsche Hypo

BUYERS COMPOSITION 2021



Quelle: Primonial Reim Research and Strategy according to RCA

SUMMARY PER ASSET CLASS

Asset Class	Transaction Volume 2021	Transaction Volume 5-year-average	Cross-Border Volume 2021	Prime yields 2021	Trend transaction volume over one year
Office	€23.3 bn	€27.5 bn	€8.8 bn (38%)	2.5%	↘
Residential	€52.7 bn	€12.1 bn	€11.4 bn (22%)	2.1%	↗
Retail	€7.3 bn	€10.2 bn	€2.5 bn (35%)	3.6%	↘
Healthcare	€2.2 bn	€1.7 bn	€0.9 bn (40%)	3.9%	↗
Hotel	€2.0 bn	€3.5 bn	€0.8 bn (39%)	4.3%	↗
Logistics	€7.5 bn	€7.4 bn	€4.4 bn (58%)	3.1%	↗

OFFICE

OFFICE TRANSACTION VOLUME 2021	**€23.4 bn**
CROSS-BORDER INVESTMENT VOLUME 2021	**€8.8 bn**
PRIME YIELDS OFFICE A-CITIES	**2.5%**
PRIME YIELDS OFFICE SECONDARY-CITIES	**3.1%**
TRANSACTION VOLUME TREND OVER ONE YEAR	↘

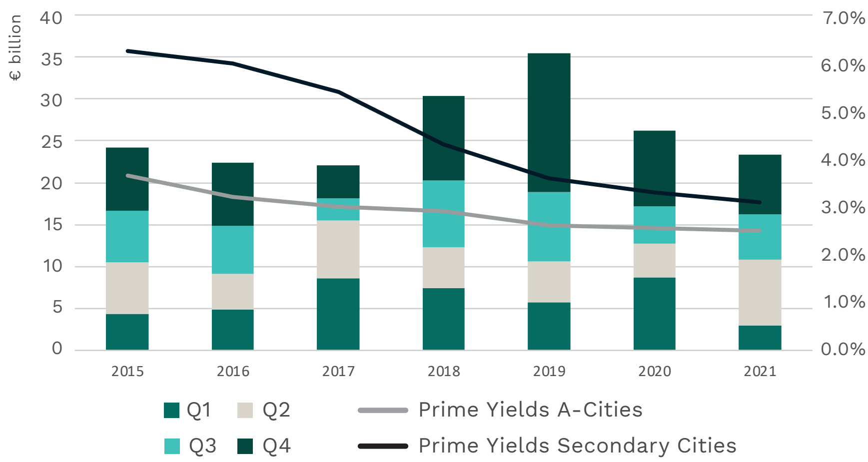
Although Germany's polycentric structure means that office market activity is not dominated by a single city, as is the case in other European cities (e.g. Paris, London), market momentum is nevertheless concentrated in the seven largest German cities. Thus, around 80% of the office transaction volume is attributable to the A-cities in Germany[2]. Prime yields in the A-cities are now around 2.5%. In secondary cities (B, C, D cities), there are significantly wider spreads in yields, with noticeable yield compression also evident in the smaller markets.

In 2021, the total transaction volume was more than €23 billion and thus below the volumes of previous years and this even though two single transactions exceeded the magic threshold of € 1billion last year («FOUR T1» office tower in Frankfurt & «Fürst» property in Berlin). The main reason for the slight decline in volume is the low level of supply. Last year, foreign investors accounted for a share of around 38%, significantly less than the ten-year average (47%).

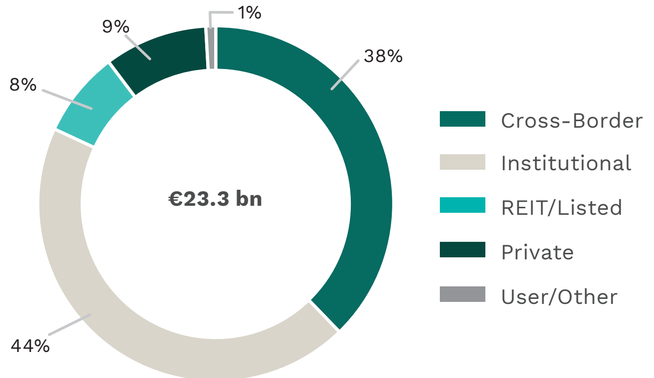
Overall, the office markets developed positively last year despite the difficulties caused by the Corona pandemic. This is reflected in slightly higher prime rents and significantly higher office take-up compared with the previous year.

Even though German office properties continue to enjoy great popularity, the figures show that it is becoming increasingly difficult to find suitable properties for the capital raised. In addition, a certain reluctance on the part of investors against the backdrop of the Corona pandemic, ESG issues as well as home office debates about the future viability of the office asset class also plays role.

OFFICE TRANSACTION VOLUME AND YIELDS



BUYERS COMPOSITION OFFICE INVESTMENTS 2021



Source: Primonial Reim Research and Strategy according to Deutsche Hypo & CBRE

2/ Bulwiengesa (2021): Office Market: Investment Opportunities in German Secondary Cities

RESIDENTIAL

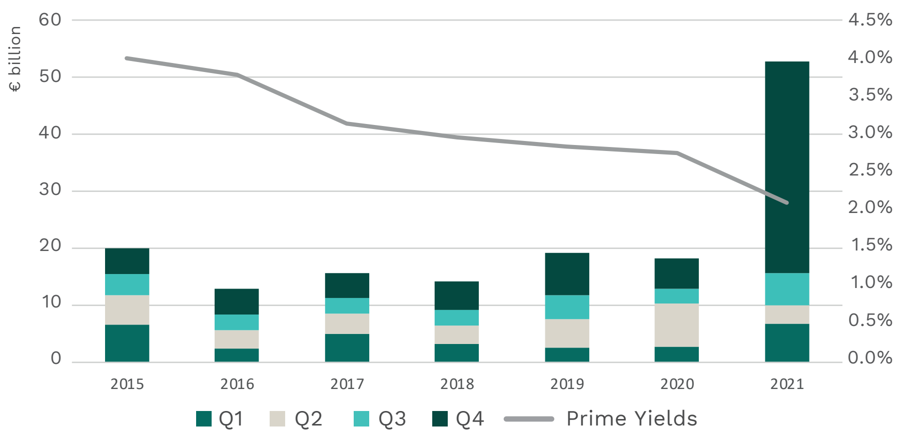
RESIDENTIAL TRANSACTION VOLUME 2021	**€52.7 bn**
THEREOF CROSS-BORDER INVESTMENT VOLUME	**€11.4 bn**
PRIME YIELDS RESIDENTIAL	**2.1%**
TRANSACTION VOLUME TREND OVER ONE YEAR	↗

The German housing market has experienced a real boom in the last decade. This is reflected not only in higher rents and purchase prices but also in a significant increase in construction activity. The high demand for housing has also led to a surge in investor interest in the residential asset class. As in the office market, the focus is particularly on the top 7 cities. A-cities account for around 70% of residential transactions. Last year, the takeover of Deutsche Wohnen by Vonovia for €27 billion (the two largest housing companies in Germany) led to a new record transaction volume of over €50 billion. Foreign investors play a smaller role than in other asset classes. For example, the share of foreign investors in the total transaction volume in residential real estate has been between 15% and 34% in the last five years.

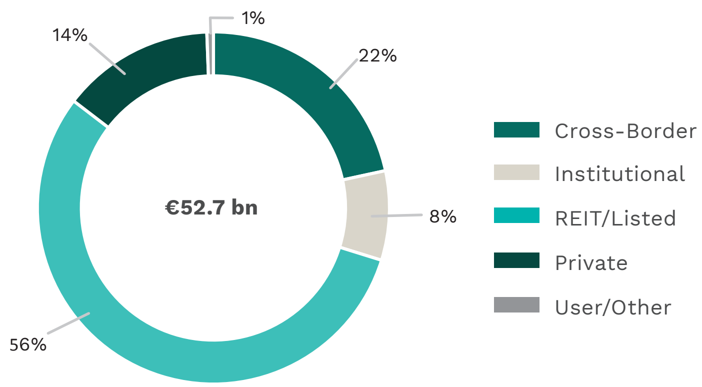
High demand for housing in Germany is also expected in the future. On the investor side, the residential asset class will also remain in focus, as German residential real estate has been able to maintain its image as a safe haven - even in the Corona pandemic. For this reason, further declines in yields are to be expected as long as there continues to be a clear yield advantage for residential real estate compared with federal bonds and negative interest rates have to be paid for bank deposits.

Even though the public debate on affordable housing and government intervention in the housing market has receded somewhat into the background in recent months against the backdrop of the Corona pandemic and major geopolitical conflicts, there are still certain risks for the German housing market with regard to strong regulatory intervention.

RESIDENTIAL TRANSACTION VOLUME AND YIELDS



BUYERS COMPOSITION RESIDENTIAL INVESTMENTS 2021



Source: Primonial Reim Research and Strategy according to Deutsche Hypo & CBRE

RETAIL

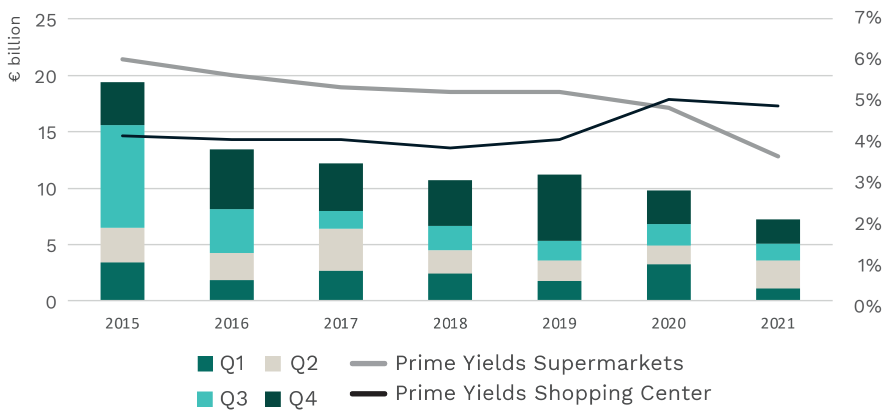
RETAIL TRANSACTION VOLUME 2021	€7.2 bn
THEREOF CROSS-BORDER INVESTMENT VOLUME	€2.5 bn
PRIME YIELDS HIGH STREET SHOPS	2.8%
PRIME YIELDS SUPERMARKETS	3.6%
PRIME YIELDS SHOPPING CENTER	4.9%
TRANSACTION VOLUME TREND OVER ONE YEAR	↘

Retail real estate has already been exposed to enormous competitive pressure for many years due to online retailing and partly outdated business concepts. The Corona pandemic has now intensified this pressure once again. On the one hand, online mail order was able to profit from the pandemic and, on the other hand, retail was affected by numerous forced closures due to measures to combat the pandemic. Inner-city-relevant retail in particular was characterized by significant sales losses. Nevertheless, there were also clear crisis winners in the stationary food retail sector, which were able to increase their sales over the past two years. These opposing developments are reflected, among other things, in the development of returns for supermarkets and shopping centers. While shopping centers, which were already struggling with vacancies and declining customer numbers in some locations before the pandemic, have seen yields rise slightly or move sideways, prime yields in the food retail sector have significantly compressed over the past two years. Currently, prime yields are 2.8% for high street shops, 3.6% for supermarkets and 4.9% for shopping centers.

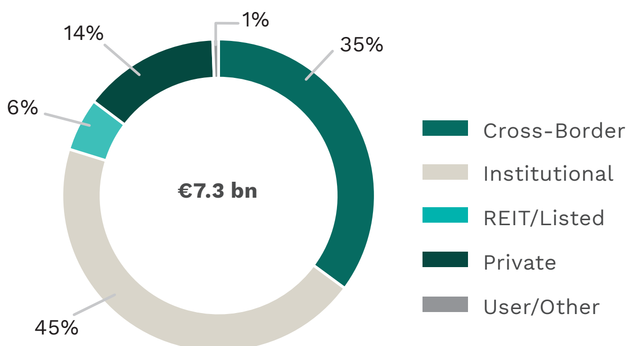
A look at the transaction volumes in recent years reveals a downward trend. Whereas just under €20 billion per year was invested in retail properties in 2015, the volume in 2021 was around €7.2 billion. This represents the lowest figure in recent years and is well below the transaction volume of around €9.8 billion in the first Corona year 2020. The share of foreign investors has also declined significantly since the start of the Corona pandemic. In 2021, for example, foreign investors only accounted for a share of around 35%.

In 2022, investor demand is expected to remain high in the food retail sector and specialist stores in attractive locations. Investments in other retail properties could be of interest to more opportunistic investors, although competition from online retail will remain high and there will also continue to be major uncertainties against the backdrop of the pandemic.

TRETAIL TRANSACTION VOLUME AND YIELDS



BUYERS COMPOSITION RETAIL INVESTMENTS 2021



Source: Primonial Reim Research and Strategy according to Deutsche Hypo & CBRE

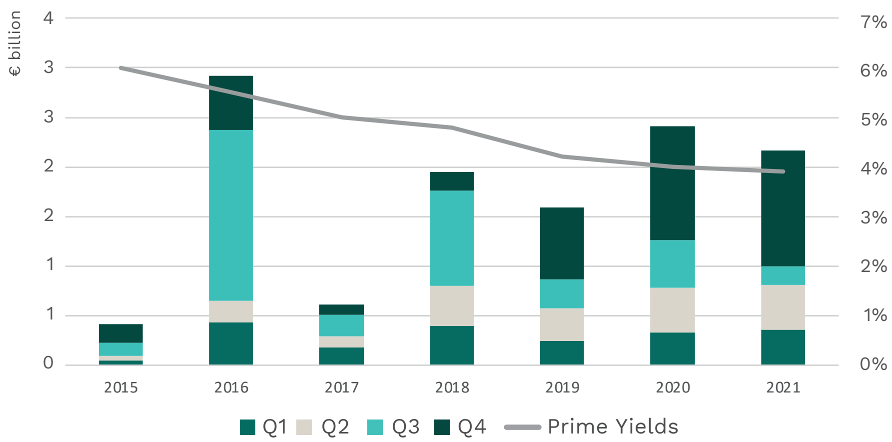
HEALTHCARE

HEALTHCARE TRANSACTION VOLUME 2021	**€2.2 bn**
THEREOF CROSS-BORDER INVESTMENT VOLUME	**€0.9 bn**
PRIME YIELDS HEALTHCARE 2021	**3.9%**
TRANSACTION VOLUME TREND OVER ONE YEAR	↙

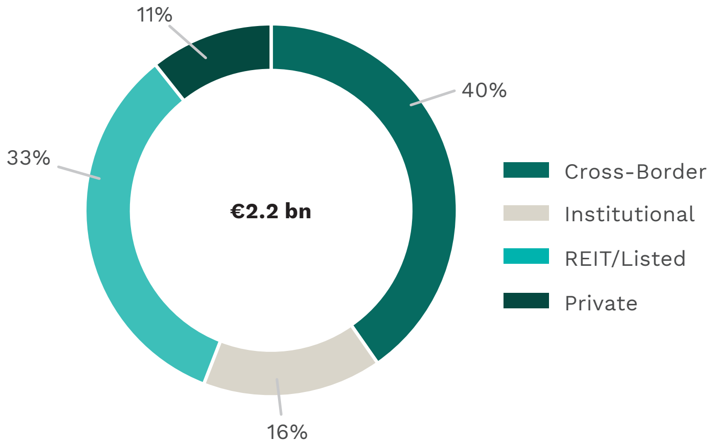
Healthcare real estate has increasingly become the focus of institutional investors in recent years. Driven by demographic change and an aging society, more and more real estate investors now believe in the future viability of the healthcare asset class. Moreover, due to their high degree of regulation, nursing homes in particular promise cash flows that are comparatively independent of economic cycles. The increased investor interest in healthcare real estate is reflected in high transaction volumes and significantly compressing yields in recent years. In 2021, the transaction volume was around €2 billion and the prime yield was below 4%. German healthcare properties are also very popular with foreign investors. On a ten-year average, foreign investors account for around 50% of healthcare investments.

In the coming years, demand in the healthcare real estate sector is expected to increase further - also against the backdrop of ESG investment strategies. The biggest obstacles to investment are the increasing shortage of supply and the lack of skilled nursing staff. Increasing focus is also being placed on age-appropriate forms of living, such as assisted living, which are geared to the growing target group of senior citizens and offer the advantage of lower regulation and greater freedom in rental arrangements compared with traditional nursing homes.

HEALTHCARE TRANSACTION VOLUME AND YIELDS



BUYERS COMPOSITION HEALTHCARE INVESTMENT 2021



Source: Primonial Reim Research and Strategy according to Deutsche Hypo & CBRE

HOTEL

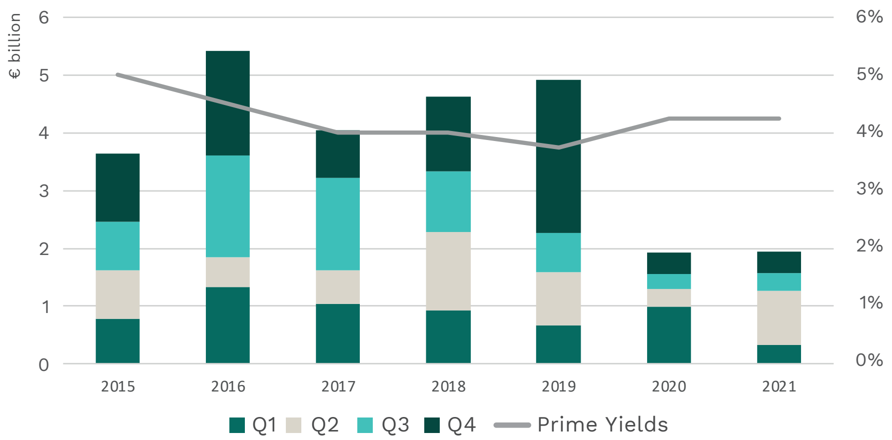
HOTEL TRANSACTION VOLUME 2021	**€2.0 bn**
THEREOF CROSS-BORDER INVESTMENT VOLUME	**€0.8 bn**
PRIME YIELDS HOTEL	**4.3%**
TRANSACTION VOLUME TREND OVER ONE YEAR	↗

The hotel sector is one of the asset classes most affected by the Corona pandemic containment measures. In 2021, the lockdown, which lasted almost half a year, and numerous travel restrictions continued to cause major losses for hotel companies. The city and trade show hotel sectors continued to be the hardest hit. This is reflected by a slightly lower average RevPAR even compared to the first Corona year 2020 and lower occupancy rates than in the previous year.

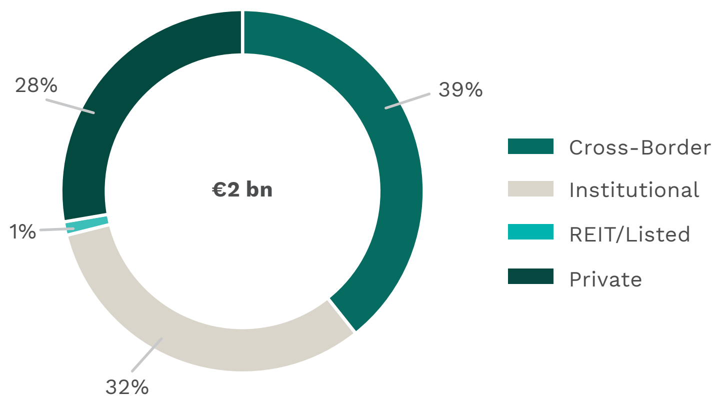
The continuing uncertainty in the hotel segment is reflected in the low transaction volumes in the two Corona years. Both 2020 and 2021 fell just short of the €2 billion threshold. The share of foreign investors was around 39% in 2021, significantly higher than the previous year's figure of 29%. Nevertheless, the high level of interest shown by foreign investors in previous years, with shares of over 50%, has not yet been matched.

Prime yields have risen slightly since 2020 and are currently around 4.3%. There are therefore potentially favourable entry points for opportunistic investors, even though there is still great uncertainty as to whether the industry will be able to match the overnight and occupancy figures of the pre-Covid years in the coming years. In particular, the decline in business travel could persist after the end of the pandemic due to the increasing acceptance of video conferencing.

HOSPITALITY TRANSACTION VOLUME AND YIELDS



BUYERS COMPOSITION HOSPITALITY INVESTMENTS 2021



Source: Primonial Reim Research and Strategy according to Deutsche Hypo & CBRE

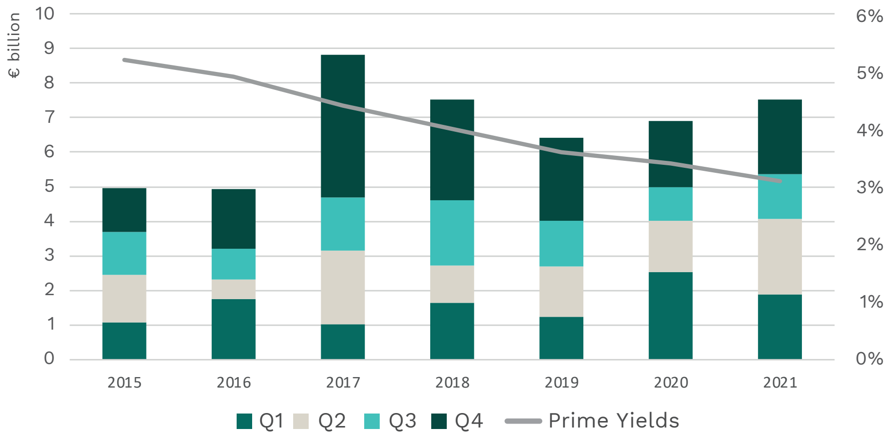
LOGISTICS

LOGISTICS TRANSACTION VOLUME 2021	**€7.5 bn**
THEREOF CROSS-BORDER INVESTMENT VOLUME	**€4.3 bn**
PRIME YIELDS LOGISTICS	**3.1%**
TRANSACTION VOLUME TREND OVER ONE YEAR	↗

Logistics real estate has experienced a real boom in demand in recent years. The main drivers are the increasing e-commerce trend and a pandemic-related loss of confidence in global supply chains and thus an increase in the importance of national and European warehousing and supply infrastructure. The new importance attributed to the logistics industry, which is also felt in society, has further fueled the already high investor interest in the logistics asset class. For example, around €7.5 billion was invested in logistics real estate in 2021. In terms of transaction volume, logistics has thus replaced retail real estate as the third-largest asset class.

The great popularity of the asset class is also reflected in the strong interest shown by foreign investors. In 2021, foreign investors accounted for around 58% of the volume invested.

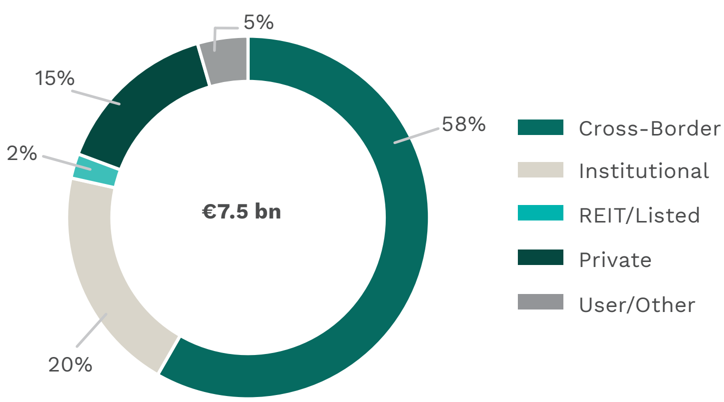
LOGISTICS TRANSACTION VOLUME AND YIELDS



The high investor demand coupled with a lack of supply has led to a significant yield compression in recent years. Prime yields for logistics properties are currently around 3.1%.

An end to the yield compression does not currently appear to be in sight. High demand and further declining yields for modern logistics space are also expected in 2022.

BUYERS COMPOSITION LOGISTIC INVESTMENT 2021



Source: Primonial Reim Research and Strategy according to Deutsche Hypo & 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** 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**.

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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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