praemia REIM GERMANY

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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

+2.1%

10-YEAR GOVERNMENT BOND YIELDS (October 2024)

+2.3%

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.

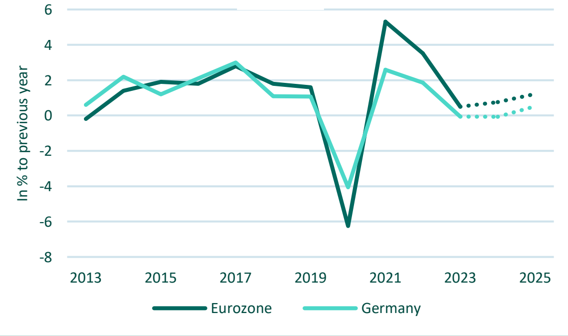
ECONOMY

Germany is not emerging from recession. Not only the economic research institutes but also the German government now expect the German economy to continue to shrink slightly until 2024. Oxford Economics is forecasting slight growth of 0.5% for Germany next year, although this has been revised downwards recently. Germany therefore remains a problem child compared to the rest of Europe, especially as the conflict-ridden situation within the German government means that little political impetus is expected until the general election in the fall of 2025. Germany and the EU could face additional geopolitical uncertainties as a result of the US presidential election, although no significant economic impact is expected in the short term.

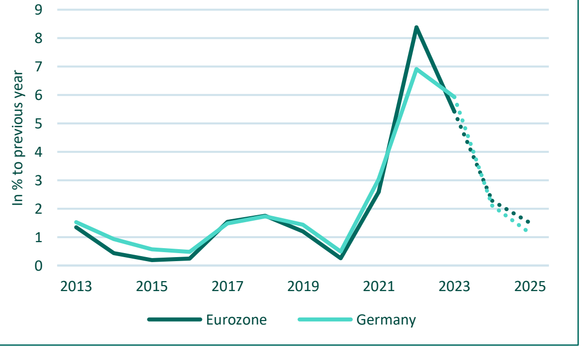
INFLATION

The spectre of inflation seems to have been banished. In October, the monthly inflation rate was 2.0%, slightly higher than in the previous two months but, apart from those months, the lowest since the beginning of 2021. For the year as a whole, inflation in Germany is expected to be at 2.1%. As expected, the ECB responded to the low inflation rates a few weeks ago with a further interest rate cut to 3.25%. Another rate cut could follow in December. This is good news for the real estate sector. Even though the economy is weakening, the other economic conditions for real estate investment have improved significantly. In addition to low inflation rates and lower construction interest rates, these include the current level of German government bond yields, which means that many real estate investments once again have an attractive risk premium. Given the economic uncertainties, it is likely that the real estate market will continue to polarise over the coming months, with increasing demand for less cyclical asset classes such as residential and healthcare properties.

GDP



Inflation



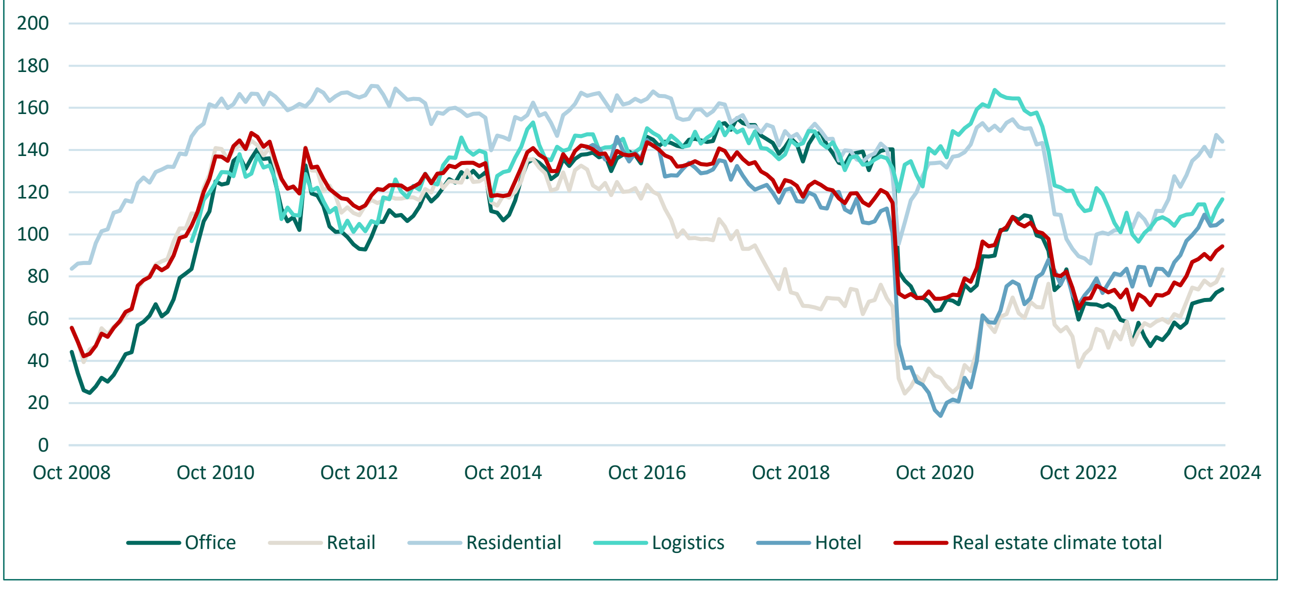
Source: Oxford Economics

GERMAN REAL ESTATE CLIMATE

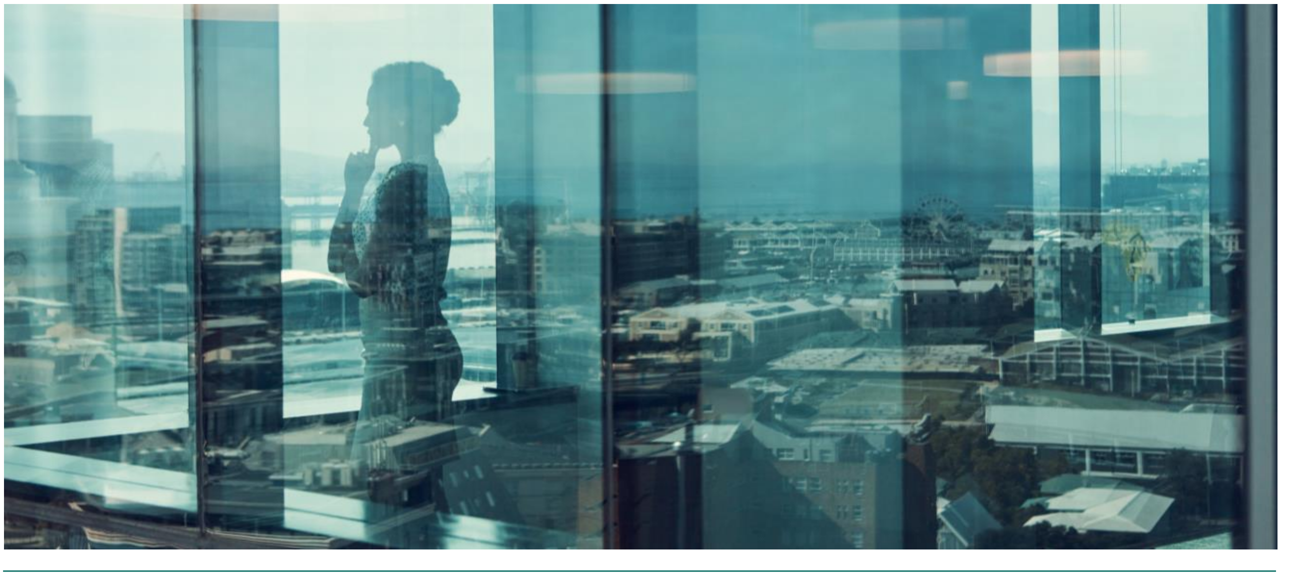
The real estate industry is in a cautious mood of optimism. At least that was the impression gained at this year's Expo Real. The period of deep depression seems to be over. At the same time, most players are not yet euphoric in order to avoid exaggerated expectations. The improvement in sentiment is also reflected in the Real Estate Climate Index. With a value of around 95, the general real estate climate is at its highest level since May 2022. This purely survey-based value is supported by rising transaction activity. In particular, the residential investment market has recently picked up speed, as low new construction activity is expected to lead to high rental growth potential in the coming years.

A comparison of asset classes now shows a clear polarisation. While residential is the clear leader, followed by logistics and hotels, which are also viewed positively, the office and retail segments are still far from the neutral 100-point mark. Uncertainty in the office sector is exacerbated by economic weakness. Along with the residential sector, the hotel sector has been the biggest winner since the beginning of the year. This is now being reflected in the hotel investment market, where more transactions have taken place in the first three quarters of the year.

Real estate climate index



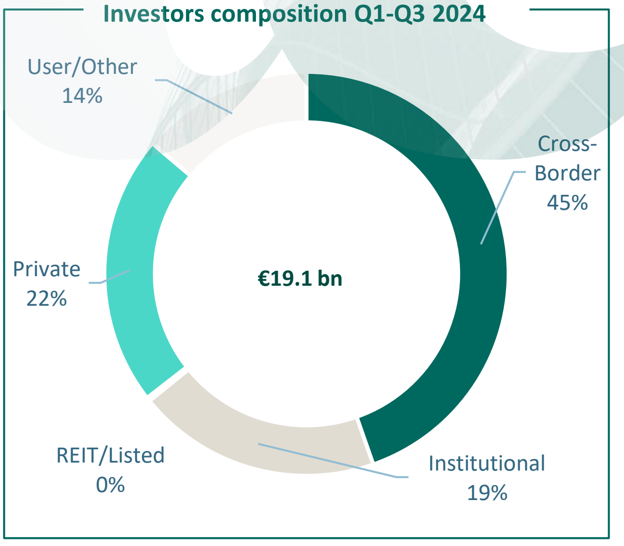
Source: Deutsche Hypo



TRANSACTION VOLUME

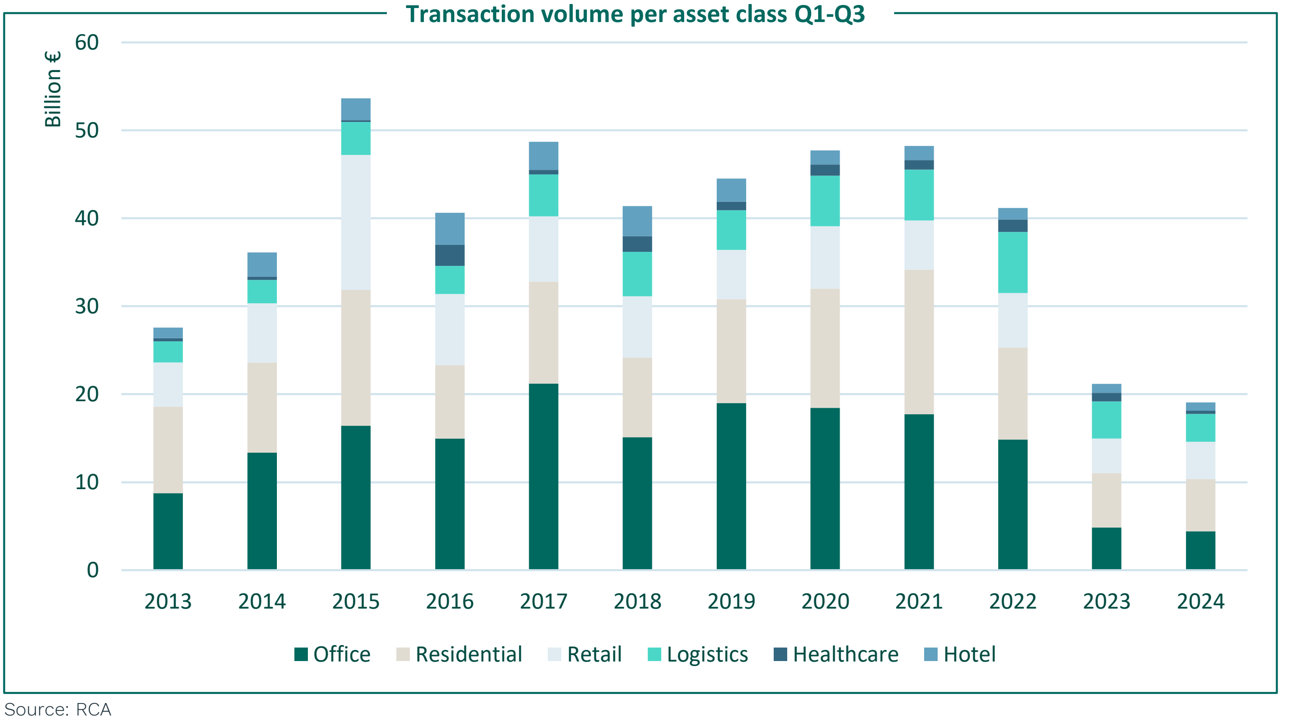
There was a marked improvement in sentiment in the real estate sector around the Expo. However, this is not yet reflected in transaction figures. The investment volume of around EUR 19 billion in the first three quarters is still the lowest in the last ten years. Nevertheless, there are good reasons to believe that transaction activity will pick up and the overall market will stabilize in the coming months. The reasons for this are as follows:

1) Debt costs have fallen significantly since the beginning of the year and have recently stabilized at a lower level. Combined with the rise in real estate yields, this means that investors can once again look forward to positive leverage.
2) The high volume of foreign investment speaks for the relative attractiveness of the German market, as foreign capital in particular is invested globally or at least continentally, and investment in Germany can therefore be seen as an indicator of the competitiveness and attractiveness of the German market. With a share of foreign capital inflows of 45%, Germany is even above the average of the last ten years (42%).
3) A number of successful deals were announced around Expo Real, which are not yet included in the Q3 figures.
4) Looking at Germany's largest real estate companies, the recovery of the real estate markets is reflected in the share price performance, especially for the institutional housing companies.



OUTLOOK

Since the first interest rate increases in mid-2022, the real estate market has been plagued by uncertainty and pricing difficulties. Since the beginning of the year, prime yields have been relatively stable across most asset classes. Buyers and sellers are coming together more frequently, which is reflected in an increasing number of transactions. Transaction activity is expected to pick up further in the coming months, although there will be significant differences between asset classes.



Source: RCA

SUMMARY ASSET CLASSES

Asset Class	Transaction Volume Q1-Q3/2024	Transaction Volume 5-year-average Q1-Q3	Cross-Border Volume Q1-Q3/2024	Prime Yields Q3/2024	Trend Transaction Volume Q1-Q3 2024
Office	€4.4 bn	€14.9 bn	€0.8 bn (18 %)	4.8 % (A-Cities)	↘
Residential	€5.9 bn	€10.5 bn	€2.2 bn (38 %)	3.4 %	↘
Retail	€4.2 bn	€5.4 bn	€2.2 bn (53 %)	4.8 % (High-Street-Shops)	↗
Healthcare	€0.3 bn	€1.0 bn	€0.22 bn (74 %)	5.4 % (Pflegeheime)	↘
Hotel	€1.0 bn	€1.3 bn	€0.5 bn (51 %)	5.3 %	↘
Logistics	€3.2 bn	€5.1 bn	€2.2 bn (70 %)	4.5 %	↘

Source: RCA. CBRE

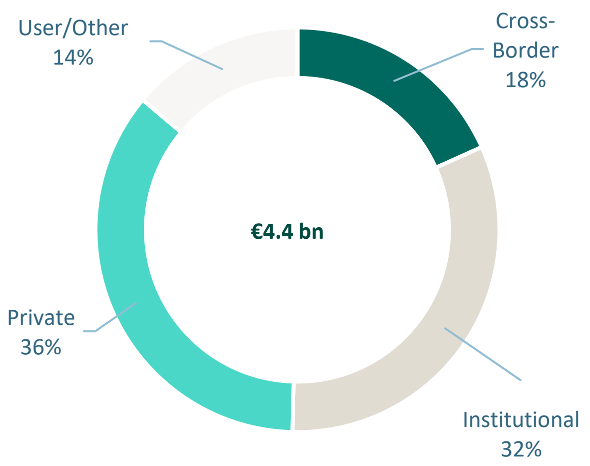
OFFICE

OFFICE TRANSACTION VOLUME Q1-Q3/2024	**€4.4 bn**
THEREOF CROSS-BORDER TRANSACTION VOLUME Q1-Q3/2024	**€0.8 bn**
PRIME YIELDS OFFICE A-CITIES Q3/2024	**4.8 %**
PRIME YIELDS OFFICE SECONDARY-CITIES Q3/2024	**5.4 %**
TRANSACTION VOLUME TREND COMPARED TO Q1-Q3/2024	↘

Investor scepticism towards office real estate investments continued in the third quarter. This is reflected in a transaction volume of EUR 4.4 billion, the lowest in the last ten years. A look at the participation of foreign investors (18%) confirms the general impression that there is a reluctance to invest in the German office market beyond the country's borders. Transactions tended to be single deals. In total, only three deals with a volume of more than EUR 100 million were registered. The continued reluctance to invest contrasts with stable demand on the rental market, where take-up of office space actually increased in the third quarter compared with the first half of the year. Although the ongoing economic weakness is exacerbating the already tight situation in the office market, rents for modern offices in prime locations continue to rise. Given the shortage of central and modern office space, this trend is likely to continue in the coming years.

Looking at the development of prime yields, there was no increase for the second quarter in a row. This can be seen as an indicator of easing difficulties in pricing between sellers and buyers.

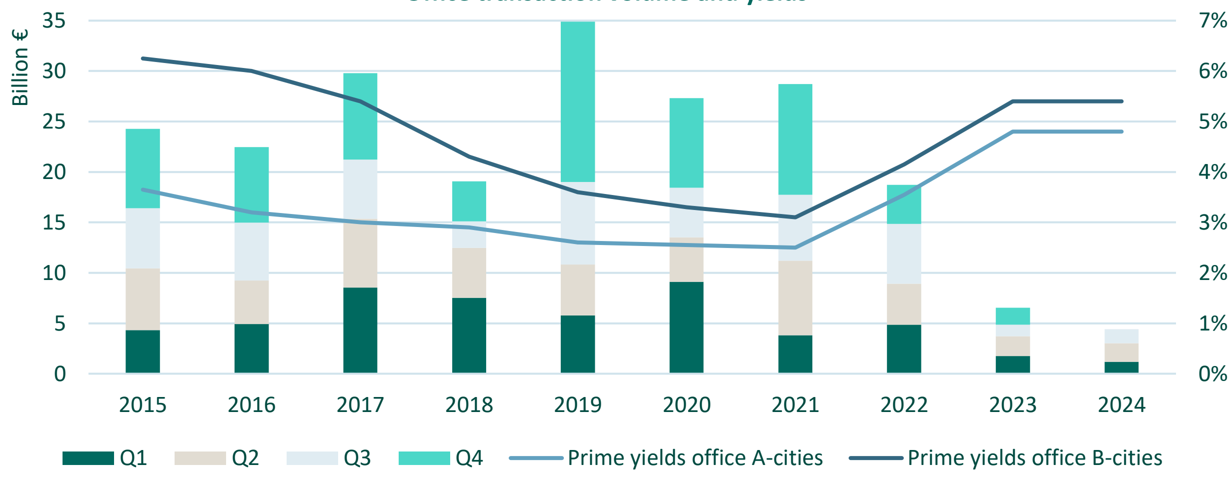
Investors composition office Q1-Q3 2024



OUTLOOK

The stagnating transaction volume and gloomy mood in the office real estate market are still noticeable. In addition, many investors are sceptical about future demand for office space. Both domestic and foreign investors remain very cautious in the investment market. Despite the turnaround in interest rates and the stabilization of prime yields, there are few signs of a dynamic year-end in the office market.

Office transaction volume and yields



Source: RCA. CBRE

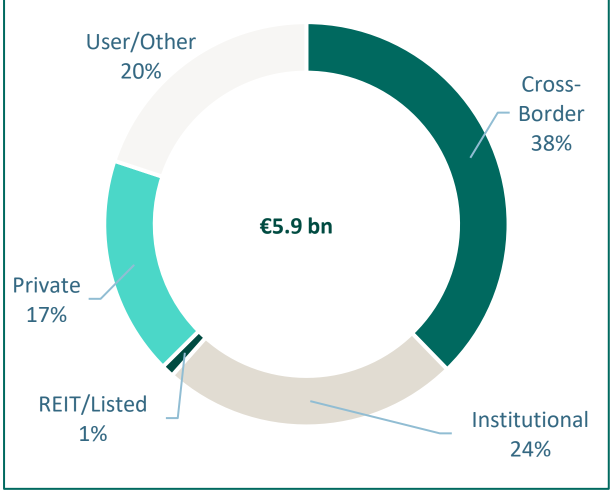
RESIDENTIAL

TRANSACTION VOLUME RESIDENTIAL Q1-Q3/2024	€5.9 bn
THEREOF CROSS-BORDER TRANSACTION VOLUME Q1-Q3/2024	€2.2 bn
PRIME YIELDS RESIDENTIAL Q3/2024	3.4 %
TRANSACTION VOLUME TREND COMPARED TO Q1-Q3 2024	➘

German residential real estate is booming. Even if the transaction volume of EUR 5.9 billion is still a long way from the low-interest rate years, residential real estate is not only at the top of the sentiment barometer, but also at the top of the investment market. Almost a third of the total investment volume in 2024 to date has been in residential real estate. Prime yields for high-quality residential properties in prime locations remain unchanged at 3.4% and are also evidence of strong investor demand.

Despite high demand for apartments from both investors and users, the number of completions and approvals continues to fall. A study by the Institute for Macroeconomics and Economic Research (IMK) predicts that completions will fall to 177,000 in 2024 and thus to the historic low of 2009. This means that the political target of 400,000 new apartments per year will be missed by a wide margin. Investors therefore see high potential for rent increases due to the lack of new construction, especially in urban centres. The biggest risks in the residential segment remain regulatory intervention in rent levels and high energy-related renovation requirements.

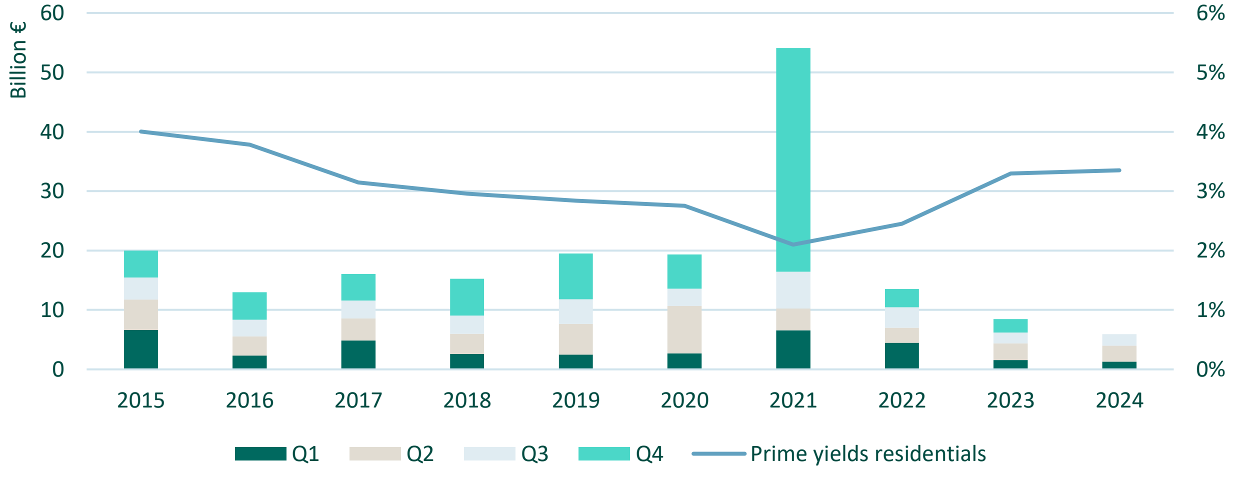
Investors composition residential Q1-Q3 2024



OUTLOOK

No other asset class has proved as crisis-resistant as residential real estate in recent years. Living space in metropolitan areas will remain a scarce commodity in the future, so there is little reason to believe that residential real estate will become less popular with investors. However, despite the high demand for housing, when investing in residential property it is important to pay close attention to the location, local rental levels and the energy efficiency of the building. Particularly in the case of older housing stock, a high need for renovation can be a real yield killer.

Residential transaction volume and yields



Source: RCA. CBRE

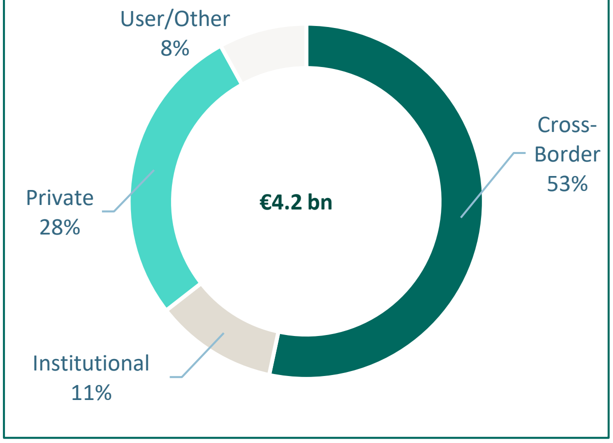
RETAIL

TRANSACTION VOLUME RETAIL Q1-Q3/2024	€4.2 bn
THEREOF CROSS-BORDER TRANSACTION VOLUME Q1-Q3/2024	€2.2 bn
PRIME YIELDS HIGH-STREET-SHOPS Q3/2024	4.8 %
PRIME YIELDS SUPERMARKETS Q3/2024	4.8 %
PRIME YIELDS SHOPPING-CENTER Q3/2024	5.9 %
TRANSACTION VOLUME TREND COMPARED TO Q1-Q3 2024	↗

Around EUR 4.2 billion was invested in German retail properties in the third quarter of 2024. This puts retail real estate in third place with a 22% share of the total transaction volume, an increase of 7% on the previous year. The majority of this is attributable to high street stores. Although the focus continues to be on grocery stores, selected shopping centres are also in demand among investors. One example of this is the large transaction for the Pasing Arcaden in Munich. At 53%, the share of foreign investors is comparatively high. The retail real estate market continues to be dominated by individual large high street transactions. Without these "special effects", transaction activity could lose considerable momentum in the coming months, as there is hardly any significant demand for many shopping centres and some retail parks in particular.

Supermarkets and high street stores have the lowest prime yields at 4.8%. The prime yield for shopping centres was almost unchanged at 5.9%.

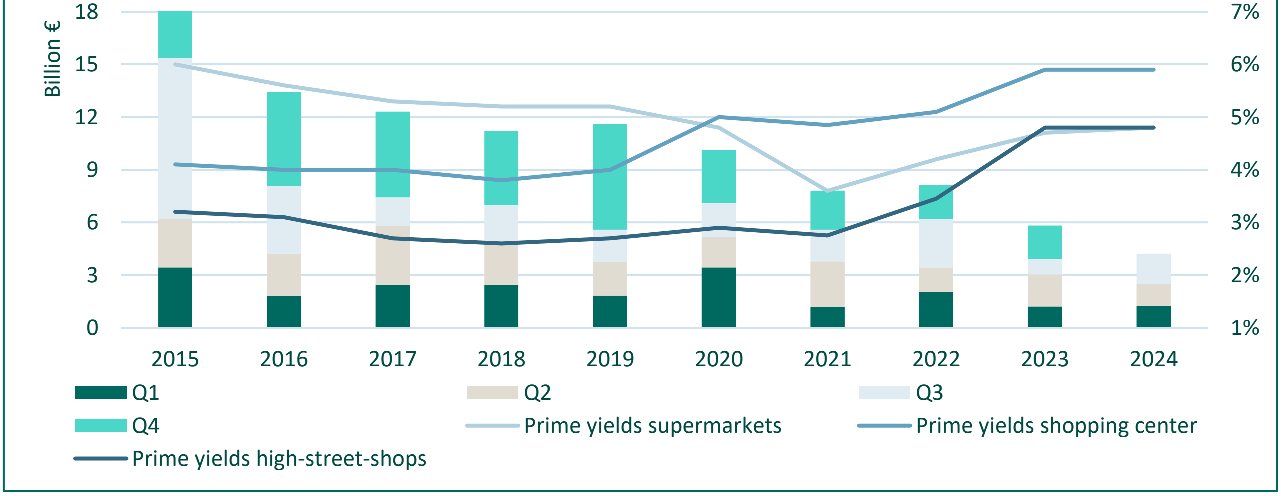
Investors composition retail Q1-Q3 2024



OUTLOOK

Although the improved macroeconomic conditions are having an impact on the German retail market, consumer behaviour among private households remains restrained. Retailers' expectations for the all-important Christmas season are therefore still somewhat subdued. On the investor side, no major revival or even a year-end rally is expected beyond the food retail sector.

Retail transaction volume and yields



Source: RCA. CBRE

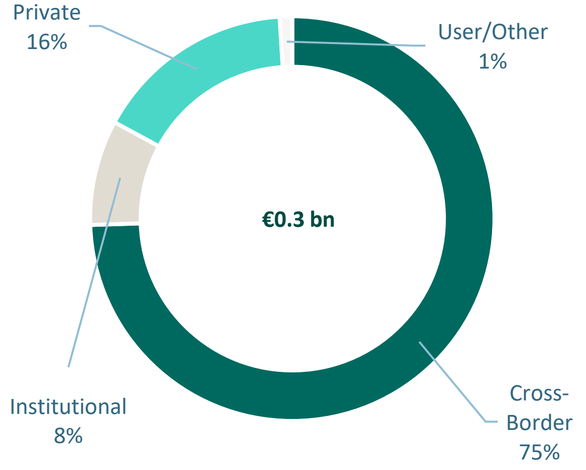
HEALTHCARE

HEALTHCARE TRANSACTION VOLUME Q1-Q3 2024	€0.3 bn
THEREOF CROSS-BORDER INVESTMENT VOLUME Q1-Q3 2024	€0.22 bn
PRIME YIELDS HEALTHCARE Q3/2024	5.4 %
TRANSACTION VOLUME TREND COMPARED TO Q1-Q3 2024	↘

Hardly any other asset class has such good fundamentals as healthcare real estate. The operator crisis in the care sector hasn't changed this. Both inpatient and outpatient care are affected by a demographically driven increase in demand and a simultaneous shortage of supply. Nevertheless, the transaction market for healthcare real estate is struggling to gain momentum. In the first three quarters, only around EUR 300 million was invested in nursing homes and assisted living facilities. The few transactions that have been recorded so far in the first three quarters are largely attributable to foreign investors. The figures compiled by RCA do not include medical centres (which are included in the office sector) and clinics.

The largest healthcare deal of the year to date was the sale of the Katharinenhof care portfolio from Vonovia to Civitas for around 300 million euros. This was only announced after the end of the third quarter and will therefore only be considered in the next quarter. In addition to the properties, the operating company Katharinenhof was also acquired from the Alloheim Group. The fact that one of the largest private operators is expanding can be seen as a stabilization of the nursing home operator landscape and a trend shift. The gradual recovery of the nursing home operator market is expected to have a positive impact on the healthcare investment market. Overall, positive year-end business can be expected on the German healthcare market, as further portfolio transactions could be concluded this year.

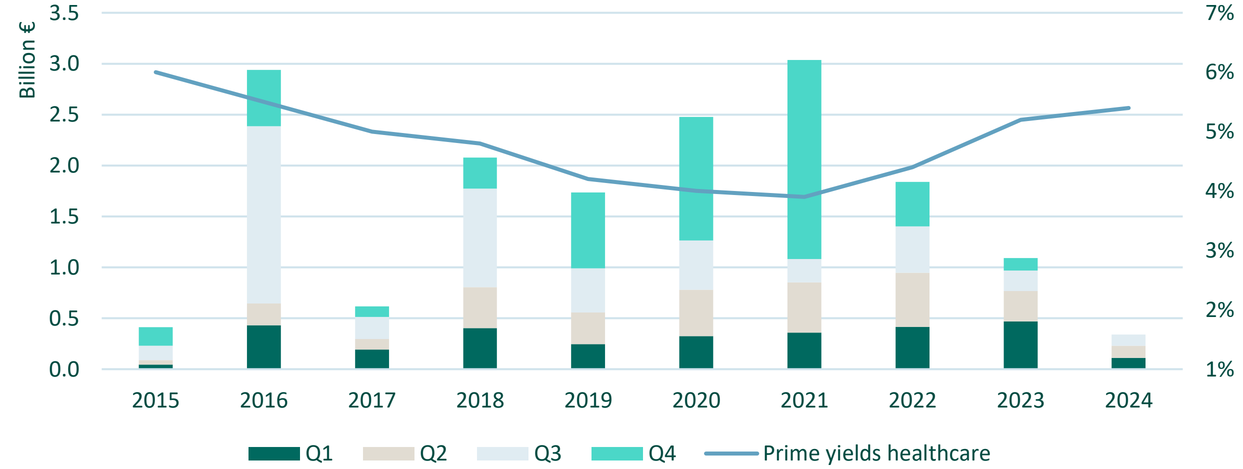
Investors composition Healthcare Q1-Q3 2024



OUTLOOK

Healthcare real estate is and will remain a niche market. Investing in niche segments requires in-depth knowledge of the market. This applies to all sub-asset classes in the healthcare segment, from inpatient care facilities and assisted living to medical centres and clinics. Price levels for healthcare real estate remain attractive, creating interesting acquisition opportunities for specialist investors.

Healthcare transaction volume and yields



Source: RCA. CBRE

HOTEL

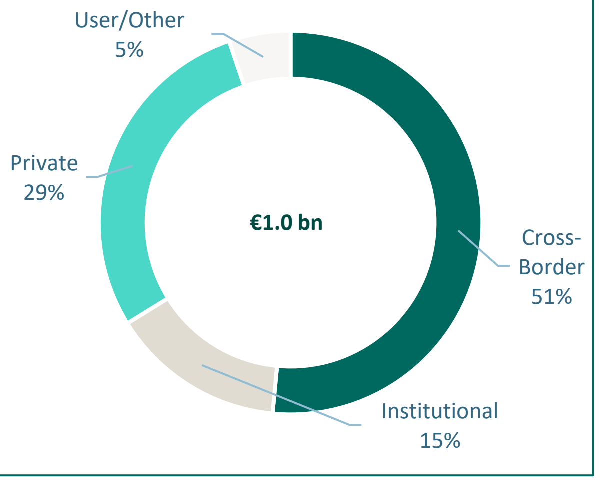
HOTEL TRANSACTION VOLUME Q1-Q3/2024	€1.0 bn
THEREOF CROSS-BORDER INVESTMENT VOLUME Q1-Q3/2024	€0.5 bn
PRIME YIELDS HOTEL Q3/2024	5.3 %
TRANSACTION VOLUME TREND COMPARED TO Q1-Q3 2024	➘

After the challenging COVID-19 years, the hotel industry is back in good spirits. On the operator side, this is underpinned by high occupancy rates, rising RevPars and good overnight stays. As a result, institutional investors are once again increasingly focusing on hotel real estate, and foreign capital is also being invested in German hotels. Around EUR 1 billion was invested in hotel real estate in the first three quarters. Although this figure is roughly on a par with the previous year, it is well below the ten-year average. The mood in the hotel investment market therefore appears to be better than the raw figures would suggest.

One of the largest transactions so far this year was the sale of Accor Invest's hotel portfolio to BC Partners Real Estate. Prime yields for hotel real estate remain unchanged at 5.3%.

As investor interest in hotel real estate grows, there will be a renewed focus on energy-efficient building qualities and modern operator concepts. As new hotel construction has almost come to a standstill after the boom years of low interest rates, the supply of energy-efficient hotel properties that meet higher ESG requirements will be scarce. A polarization with high demand for new or refurbished properties on the one hand and low demand for stranded, unrefurbished old properties on the other is a conceivable scenario.

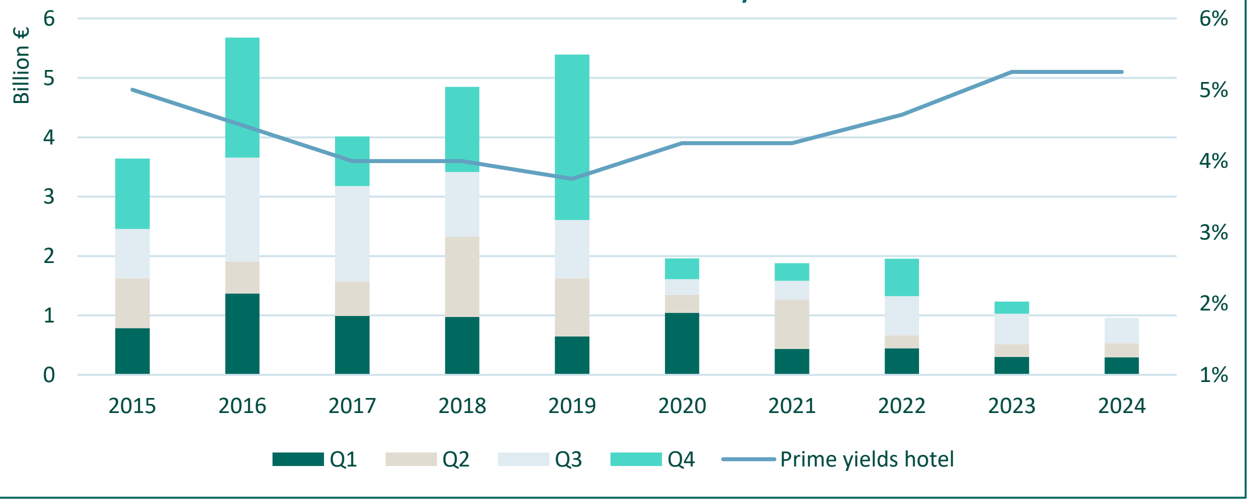
Investors composition hotel Q1-Q3 2024



OUTLOOK

The hotel investment market is expected to continue its recovery, driven by improved financing conditions and continued strong hotel performance. In the future, the focus is likely to be even more on refurbished existing hotels with modern operator concepts, as the low level of construction activity means that hardly any new-build hotels will come onto the market.

Hotel transaction volume and yields



Source: RCA. CBRE

LOGISTICS

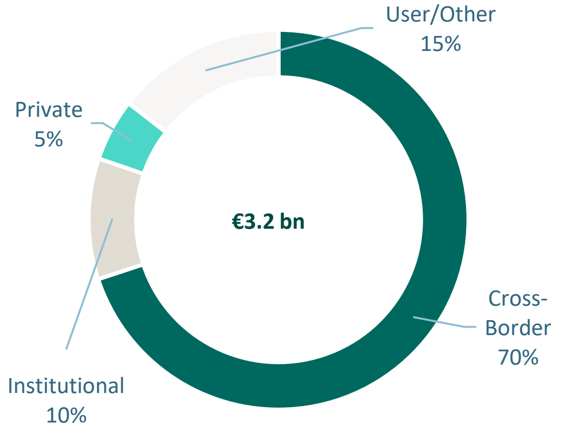
LOGISTICS TRANSACTION VOLUME Q1-Q3/2024	**€3.2 bn**
THEREOF CROSS-BORDER INVESTMENT VOLUME Q1-Q3/2024	**€2.2 bn**
PRIME YIELDS LOGISTICS Q3/2024	**4.5 %**
TRANSACTION VOLUME TREND COMPARED TO Q1-Q3 2024	➘

The German logistics market ranked fourth with a transaction volume of EUR 3.2 billion. Its share of total investment volume remained unchanged at around 17%. Little or no fluctuation in transaction volumes in recent quarters is evidence of the sector's high stability. Prime yields for logistics real estate have risen slightly to 4.5%.

The logistics investment market was also characterised by individual transactions, including Blackstone's 80% share in the Burstone Group's Pan-European Logistics Platform (PEL) and Brookfield's majority share in a Garbe portfolio in Germany and Austria.

After a subdued start to the year, space turnover has picked up again and is now just below last year's level. Significant rent increases are forecast for the coming months, especially for new, user-specific space.

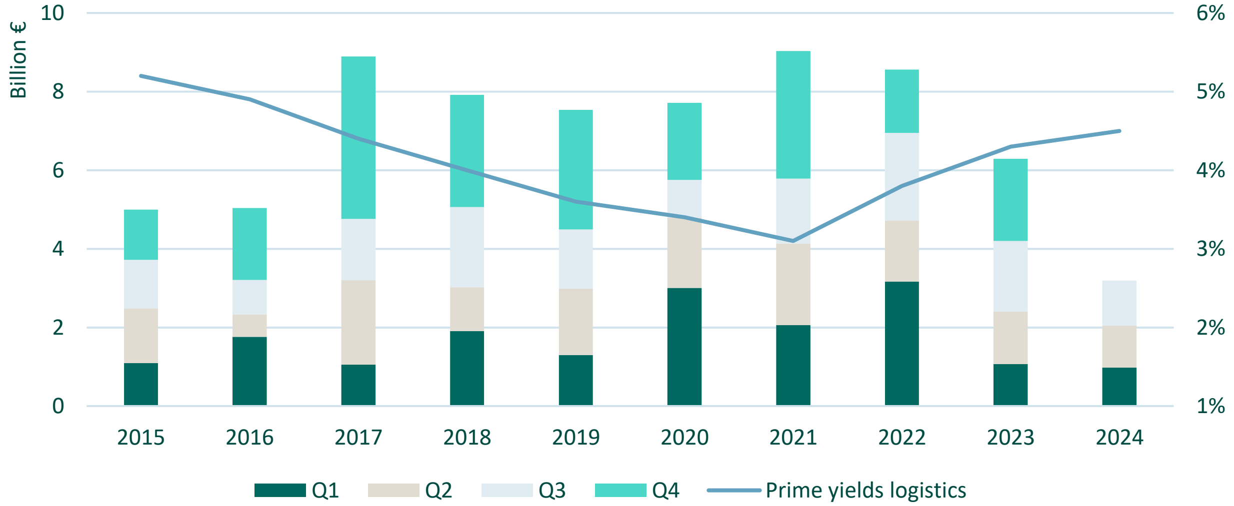
Investors composition logistics Q1-Q3 2024



OUTLOOK

Despite the lower transaction volume compared with last year, logistics real estate is benefiting from its reputation as a particularly resilient asset class, especially among foreign investors. Strong demand for modern logistics properties is being met by a shortage of supply, which is preventing the higher transaction volumes of the boom years. There is still some reluctance to develop new projects due to the slowing economy and the lack of available space.

Logistics transaction volume and yields



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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REIM GERMANY

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