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PRIMONIAL REIM GERMANY PERSPECTIVES

Investor´s view on the German Real Estate Market

Florian Wenner, Head of Research & ESG, Primonial REIM Germany

FIGURES 2022

ECONOMIC GROWTH (GDP)

+1.7%

INFLATION

+8.0%

10-YEAR GOVERNMENT BOND YIELDS

+2.6%

Source: Oxford Economics

ECONOMY

Winter is in full swing and even historically cold December weeks have not led to energy shortages or even blackouts in Germany. There is little to suggest that this situation will change in the coming months. It should therefore be noted that at least part of the energy crisis has been overcome for this winter. However, concerns about a recession have by no means disappeared. The year 2022 still closed with economic growth of 1.7%. For 2023, however, economic output is expected to decline by 0.6%.

The yield on 10-year federal bonds has now risen to around 2.6%. The risk premium for real estate is therefore melting down further. In conjunction with significantly higher construction interest rates, rising real estate yields can therefore be expected in the medium term.

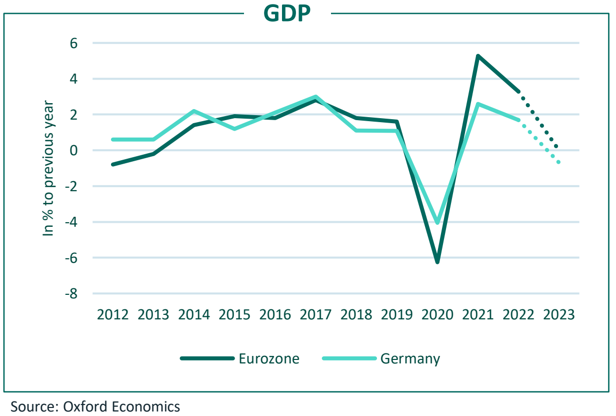
The Research & Strategy Department´s role is to formalize Primonial REIM´s real estate investment strategies, based on continuous monitoring of the European markets. By nature, real estate is at the crossroads of financial (interest rates), economics (tenants), demographics and social factors. This is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

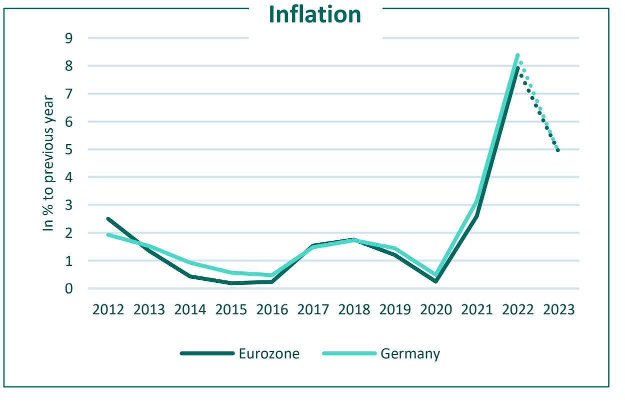
Primonial REIM relies on its local teams to provide on-the-ground research on the German markets. As Germany is a polycentric market, with specific real estate features, standards of valuation, demographic challenges and industrial forces, we want to provide a regular analysis of Germany´s real estate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

INFLATION

Inflation appears to have peaked. For example, the monthly inflation rate reported by the Federal Statistical Office was below 9% in December. For 2022 as a whole, an inflation rate of around 8% was calculated. Energy prices fell again significantly at the end of the year - not least due to government support measures such as the assumption of the gas budget billing for December. Even if the lower prices for oil and gas have not yet reached end consumers in many cases, there are indications that the situation is easing.

In addition, key interest rate hikes are playing a role in terms of slightly declining inflation rates, even if this effect is less significant in the case of predominantly supply-induced inflation. By contrast, rising interest rates are of major significance for the real estate sector. Interest rates are now generally above 4%. The pressure on real estate prices is increasing accordingly from month to month. An inflation rate of around 5% is expected for 2023.



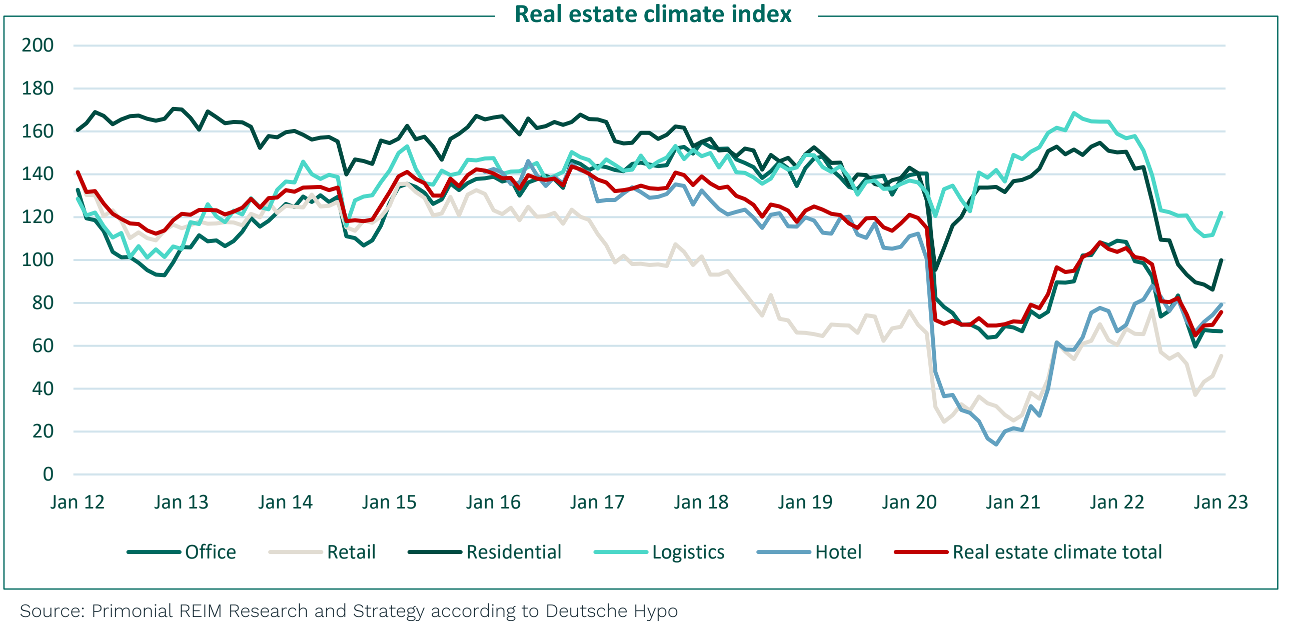


Source: Oxford Economics

GERMAN REAL ESTATE CLIMATE

Sentiment in the real estate market appears to have bottomed out for now. From March to October 2022, the real estate climate knew almost only one direction: down. With the start of the fourth quarter, there was a slight improvement in the real estate climate - albeit at a low level. The main reasons for this are the secure energy supply for the winter and relatively good fundamental economic data. Although concerns about a recession have not disappeared and rising interest rates continue to exert great pressure on real estate prices, some real estate players seem to be cautiously optimistic again about the year ahead. All asset classes, with the exception of the office climate, saw a slight upturn in sentiment at the beginning of the year.

The decisive factor for the real estate year 2023 will be how quickly real estate players come to terms with the "new" price level and when the transaction market can pick up speed again. In this context, in addition to the development of interest rates, the further development of the Ukraine war, the stability of global supply chains and, last but not least, the risk aversion of institutional investors will play a major role. The fact that the real estate industry is facing major challenges, particularly with regard to achieving climate targets in the building sector, will lead to institutional investors becoming more selective in their capital allocation. Real estate players who combine credible sustainability strategies with active asset management will benefit and, in this way, contribute not only to achieving the Paris climate target, but above all to maintaining and increasing the value of their real estate portfolios.



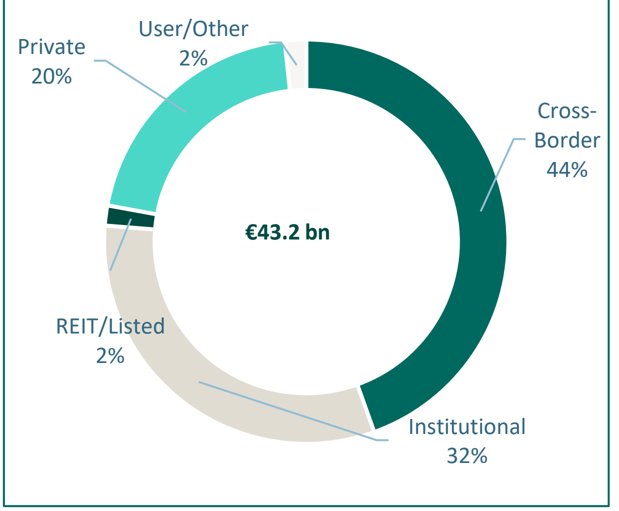
Source: Primonial REIM Research and Strategy according to Deutsche Hypo

TRANSACTION VOLUME

The fact that real estate investments are highly dependent on the interest rate environment is basically known to every professional real estate player. However, if interest rates rise so rapidly in a short period of time, as happened in the past year, this can lead in some cases to serious crash landings in terms of value. The halving of the transaction volume of 2021 compared to 2022 is an expression of this shock. Financial difficulties on the part of project developers, a halt to construction projects and the threat of insolvency on the part of some real estate companies which in recent years have focused exclusively on growth are further evidence of the end of the past real estate boom. For most real estate players, the year 2022 meant one thing above all: wait and see; wait until financiers, sellers and buyers have adjusted to the new price level. This state of affairs is still continuing. Nevertheless, despite all adversities, 43.2 billion euros were again invested in the most important real estate asset classes in Germany last year. Around 44% of the capital invested came from abroad. Overall, however, less was invested in German real estate last year than at any time in the past 10 years.

Behind office and residential, logistics has established itself as the clear number three on the German real estate transaction market. Smaller asset classes such as healthcare achieved comparatively good transaction results, although news of recent operator insolvencies in the care sector also dampened the mood here. It is becoming more important again for investors to spread their real estate investments across various asset classes and to ensure the highest possible decorrelation in asset allocation. A mix of more cyclical and non-cyclical asset classes promises a good risk/return profil.

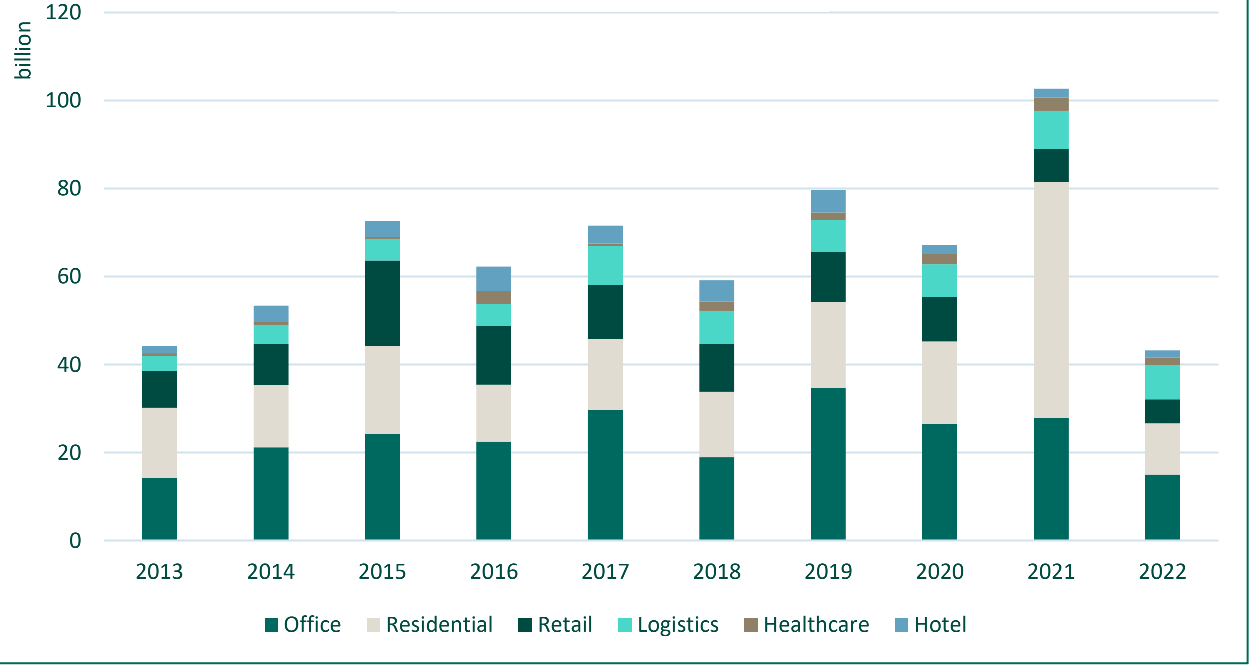
Investors composition 2022



OUTLOOK

Pressure on real estate prices due to rising interest rates and yield increases in the sovereign bond market continues to increase. It is to be expected that market players will have adjusted to the new, lower price level in the course of the first half of 2023 and that the investment markets will pick up speed again. However, record transaction volumes of over EUR 100 billion, as in 2021, are not to be expected in 2023 either.

Transaction volume per asset class



Source: Primonial REIM Research and Strategy according to RCA

SUMMARY ASSETKLASSEN

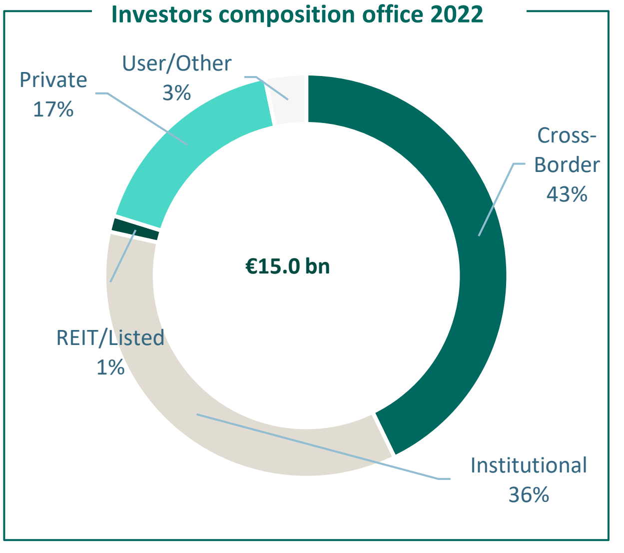
Asset Class	Transaction Volume Q1-Q4 2022	Transaction Volume 5-year-average Q1-Q4	Cross-Border Volume Q1-Q4 2022	Prime Yields Q4/2022	Trend Transaction Volume Previous Year
Office	€15.0 bn	€24.6 bn	€6.4 bn (43 %)	3.6 %	➘
Residential	€11.6 bn	€23.6 bn	€5.3 bn (46 %)	2.5 %	➘
Retail	€5.5 bn	€9.1 bn	€1.5 bn (27 %)	3.5 % (High-Street-Shops)	➘
Healthcare	€1.7 bn	€2.2 bn	€0.8 bn (47 %)	4.4 %	➘
Hotel	€1.6 bn	€3.1 bn	€0.6 bn (37 %)	4.7 %	➘
Logistics	€7.9 bn	€7.7 bn	€4.6 bn (58 %)	3.8 %	➘

Source: Primonial REIM Research and Strategy according to CBRE, RCA

OFFICE

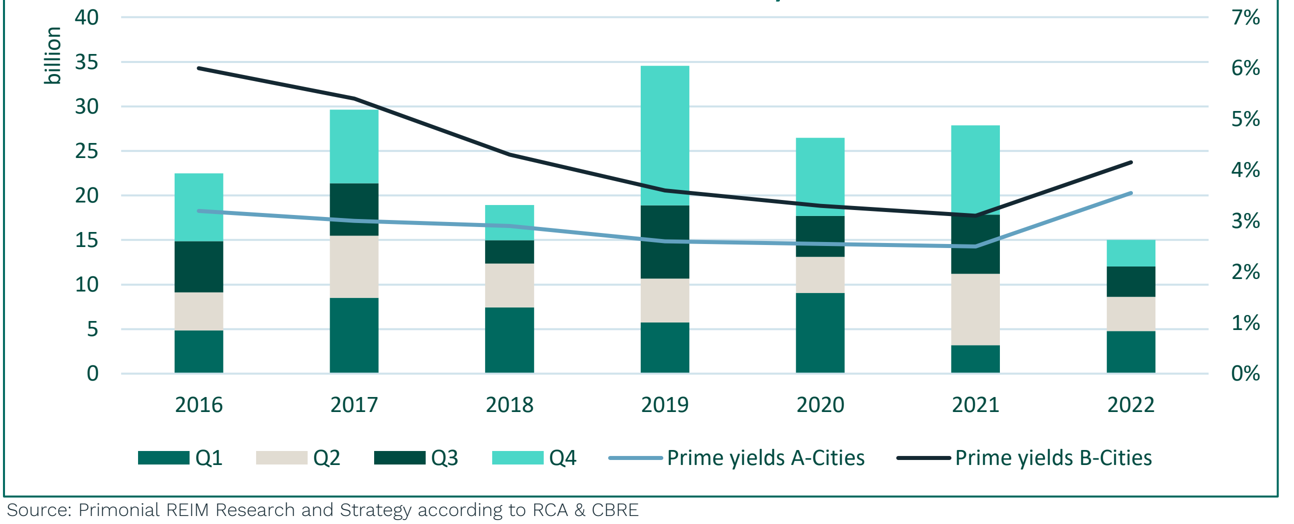
OFFICE TRANSACTION VOLUME Q1-Q4 2022	€15.0 bn
THEREOF CROSS-BORDER TRANSACTION VOLUME Q1-Q4 2022	€6.4 bn
PRIME YIELDS OFFICE A-CITIES Q4/2022	3.6 %
PRIME YIELDS OFFICE SECONDARY-CITIES Q4/2022	4.2 %
TRANSACTION VOLUME TREND COMPARED TO PREVIOUS QUARTER	↘

With a transaction volume of around 15 billion, office investments remain the most popular asset class among institutional investors in 2022. However, the transaction volume is at its lowest level for many years. The wait-and-see attitude of all market players is clearly noticeable. Compared with year-end 2021, prime yields have already risen significantly and currently stand at 3.6% for prime markets and 4.2% for secondary cities. This represents an increase of more than 100 basis points in each case. In addition to the higher interest rates, which lead to certain reductions in value for all real estate investments, concerns about a prolonged recession are also playing a major role for office properties. Added to this are discussions about remote work and the associated impact on demand for office space. Despite these numerous challenges, the rental markets remained very stable in the past year. Rents are expected to rise in 2023, particularly for centrally located space. However, some large companies from the tech and banking sectors have already announced job cuts. This could result in space downsizing, but also in greater cost awareness. For investors, this means that - especially beyond the top segment - active asset management geared to user needs will gain in importance. Since not all users can afford or want to move into newly built spaces, energy optimization measures in existing buildings will play an important role in the future.



OUTLOOK

Demand for office space remains very stable. It can be assumed that the investment markets will pick up again in the course of the year. In addition to detailed analyses of location qualities, active asset management, particularly in the energy sector, will play a major role, since growing energy costs reduces room for rental growth. For investors who have already developed efficient energy concepts, there may therefore be promising opportunities in the office market in the course of 2023.



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

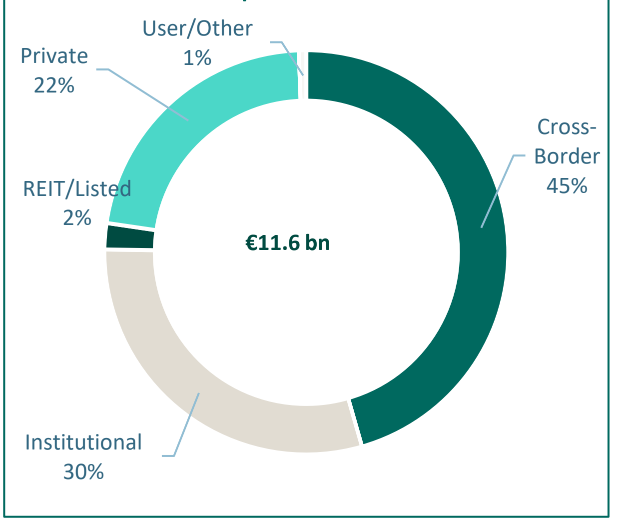
RESIDENTIAL

TRANSACTION VOLUME RESIDENTIAL Q1-Q4 2022	**€11.6 bn**
THEREOF CROSS-BORDER TRANSACTION VOLUME Q1-Q4 2022	**€5.3 bn**
PRIME YIELDS RESIDENTIAL Q4/2022	**2.5 %**
TRANSACTION VOLUME TREND COMPARED TO PREVIOUS QUARTER	↘

Even though the transaction volume for residential real estate, at around EUR 11.6 billion, is significantly lower than in the previous year (2021 special case acquisition of Deutsche Wohnen by Vonovia), residential real estate is very popular with investors. This is reflected in the second-highest sentiment scores in a comparison of asset classes in the German Real Estate Climate Index. The reasons for this cautiously positive outlook lie primarily in the sustained high demand for housing. In addition, a decline in residential construction activity is expected due to increased construction and financing costs, which will exacerbate the supply shortage in major cities. On the other hand, there are regulatory risks - also with regard to the potential for rent increases and possible contributions by landlords to increased energy costs or increasing obligations to invest in cost-intensive energy refurbishments.

In addition, prices are also declining in parts of the residential segment due to the rise in interest rates on borrowed capital. However, the price reductions have so far been smaller than in other types of use.

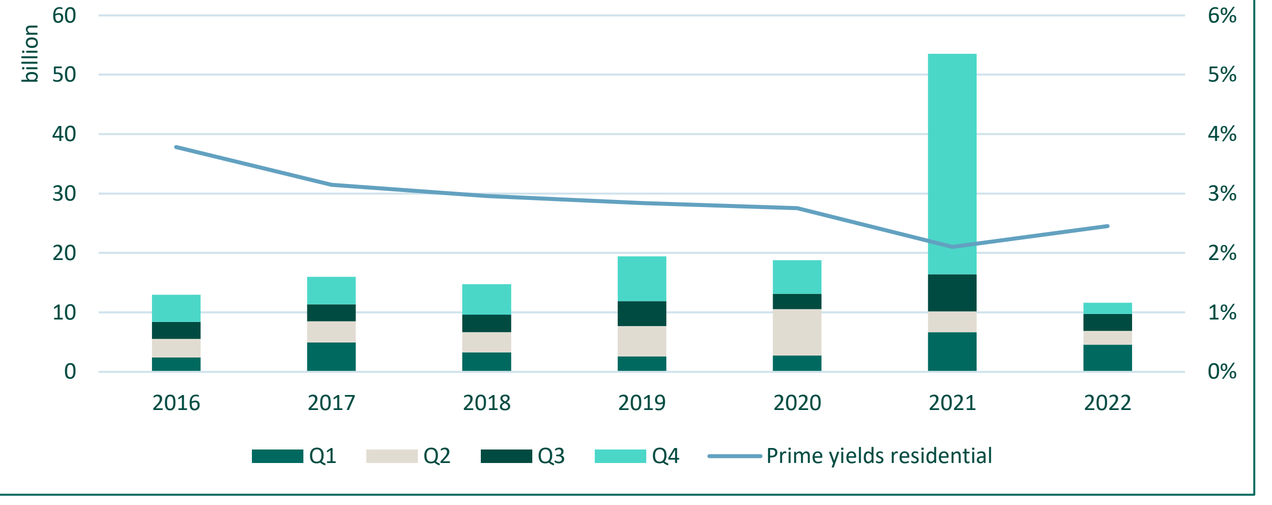
Investors composition residential 2022



OUTLOOK

Many investors are cautiously optimistic about the German housing market, as the threat of recession is having less of an impact on residential markets and demand pressure continues to increase due to low levels of new construction. However, it remains to be seen whether interest rate-related reductions in the value of residential real estate in a politically sensitive environment can be fully compensated for by higher rental yields.

Residential transaction volume and yields



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

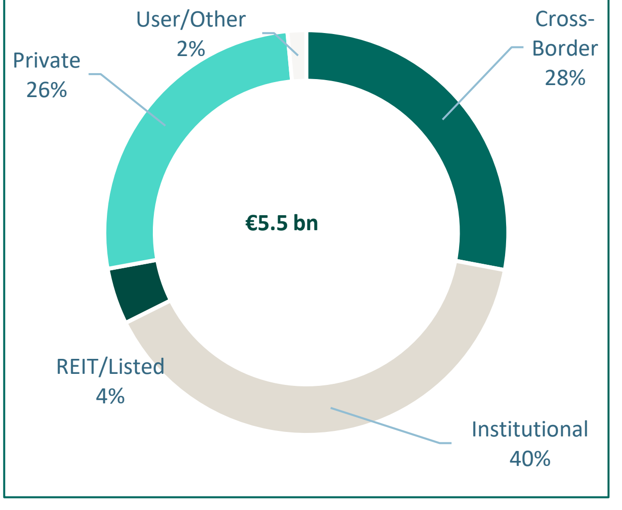
RETAIL

TRANSACTION VOLUME RETAIL Q1-Q4 2022	€5.5 bn
THEREOF CROSS-BORDER TRANSACTION VOLUME Q1-Q4 2022	€1.5 bn
PRIME YIELDS HIGH-STREET-SHOPS Q4/2022	3.5 %
PRIME YIELDS SUPERMARKETS Q4/2022	4.3 %
PRIME YIELDS SHOPPING-CENTER Q4/2022	5.1 %
TRANSACTION VOLUME TREND COMPARED TO PREVIOUS QUARTER	↘

In 2022, around EUR 5.5 billion was invested in retail real estate. This is by far the lowest figure in recent years. Interest from foreign investors in particular has declined significantly, with a share of less than 30%. The greatest investor interest continues to be in specialist stores and retail parks. As in other asset classes, prime yields for retail properties have risen noticeably. For shopping centers, they are now over 5%.

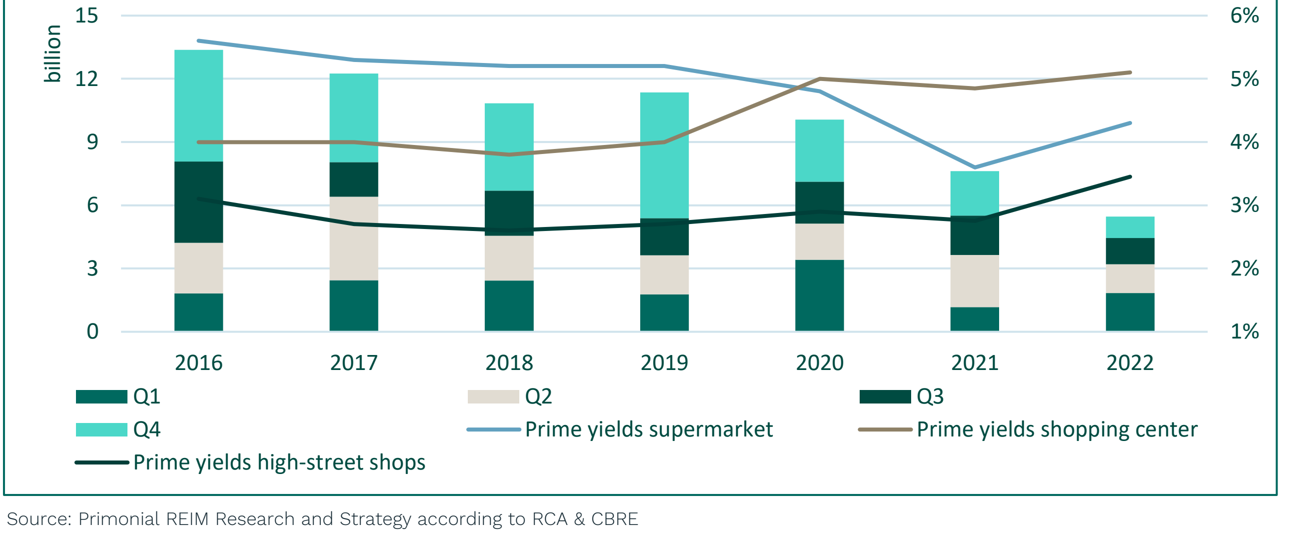
After a significant drop in consumer sentiment in the year to October 2022 according to the HDE consumer barometer, Germans' propensity to buy has recently risen slightly again, so that retailers are cautiously optimistic about 2023. The main reasons for the turnaround in the sentiment barometer are the decline in inflationary momentum, stable employment figures and the secure energy supply for the winter combined with lower energy prices. However, the stationary retail sector continues to struggle with major structural problems. Since the start of the Corona pandemic, the food service industry has been hit above all by staff shortages. Real estate investors must therefore continue to take a close look at the tenant mix and the future viability of the respective benefit business model when making retail investments.

Investors composition retail 2022



OUTLOOK
In 2023, retail investments will remain something for specialists and rather risk-averse investors. A detailed analysis of the tenant structure may reveal good investment opportunities in individual cases.

Retail transaction volume and yields



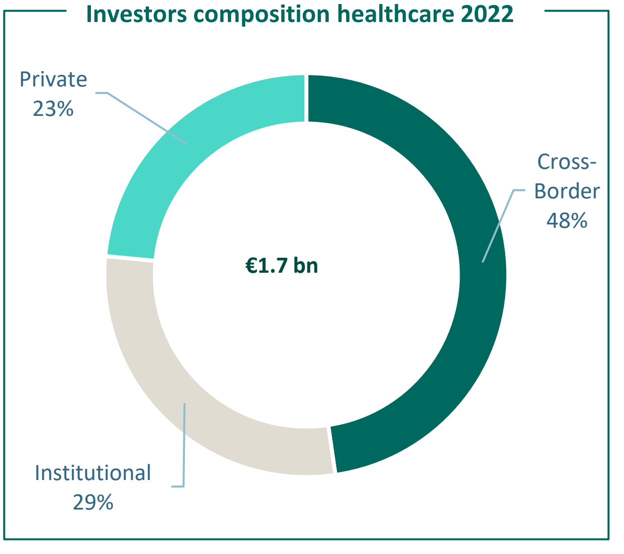
Source: Primonial REIM Research and Strategy according to RCA & CBRE

HEALTHCARE

HEALTHCARE TRANSACTION VOLUME Q1-Q4 2022	**€1.7 bn**
THEREOF CROSS-BORDER INVESTMENT VOLUME Q1-Q4 2022	**€0.8 bn**
PRIME YIELDS HEALTHCARE Q4/2022 (GROSS)	**4.4 %**
TRANSACTION VOLUME COMPARED TO PREVIOUS QUARTER	↘

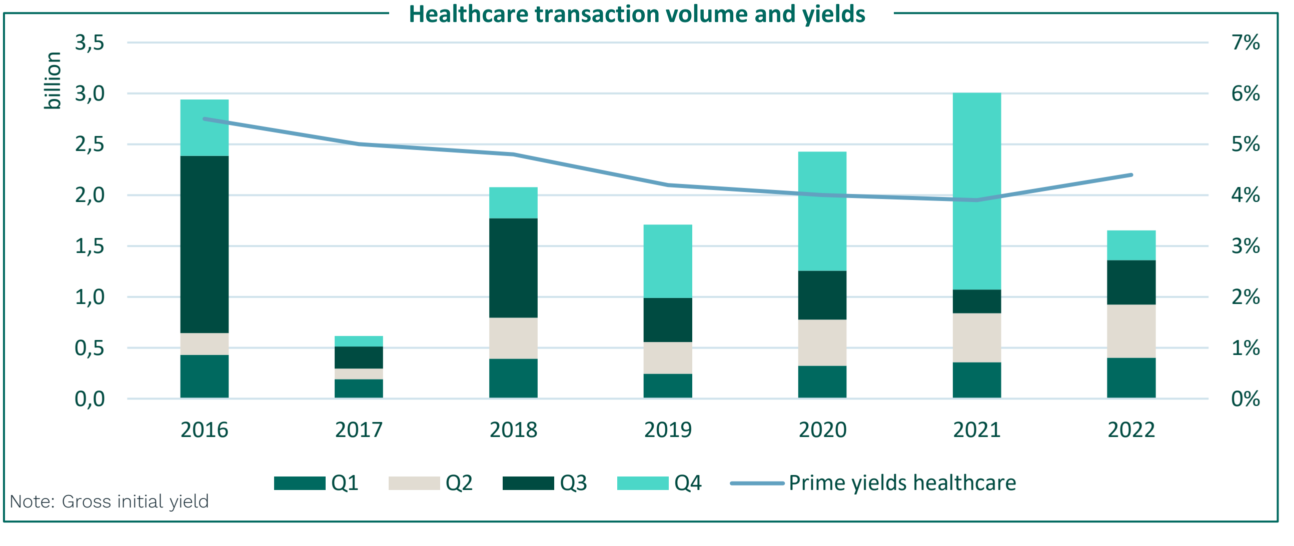
With a transaction volume of around 1.7 billion, healthcare properties continued to enjoy high popularity in 2022. The figure is slightly below the five-year average, although this is distorted by Vonovia's acquisition of Deutsche Wohnen's care portfolio. Prime yields for nursing homes rose noticeably at the end of the year due to higher interest rates and currently stand at 4.4%.

Even though some operator insolvencies became public at the beginning of the year, healthcare properties remain very attractive investments under certain conditions. For example, economic difficulties among operators are primarily attributable to structural problems such as overly rapid growth and management errors. The fact that inpatient nursing homes are highly regulated and, in particular, that the costs of rent and maintenance can be passed on to residents continues to offer great security, especially in times of weaker economic activity. Owners can also help reduce operators' (energy) costs through energy optimization measures. The biggest structural problem remains the lack of nursing staff. From an investor's point of view, it is therefore very important to closely monitor the economic situation of the operator and the occupancy rates of each facility in order to anticipate potential problems at an early stage.



OUTLOOK

Inflation combined with sharp increases in personnel costs pose major challenges for nursing home operators. Owners can help to relieve operators of costs through targeted energy-saving measures. Staff shortages and the resulting lower occupancy rates will continue to be the biggest challenge facing the care sector in the future.



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

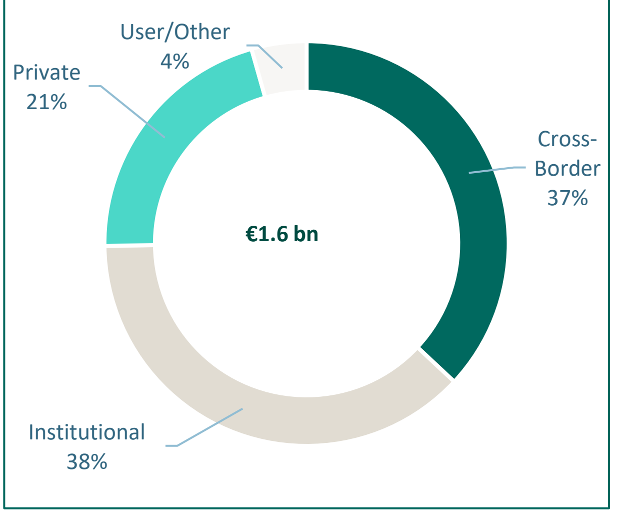
HOTEL

HOTEL TRANSACTION VOLUME Q1-Q4 2022	€1.6 bn
THEREOF CROSS-BORDER INVESTMENT VOLUME Q1-Q4 2022	€0.6 bn
PRIME YIELDS HOTEL Q4/2022	4.7 %
TRANSACTION VOLUME COMPARED TO PREVIOUS QUARTER	↘

With a transaction volume of around 1.6 billion euros, hotel investments ranked last in a comparison of the six largest asset classes. Slightly more than one third of the invested capital came from foreign investors. This figure is still also significantly lower than in the pre-Corona years.

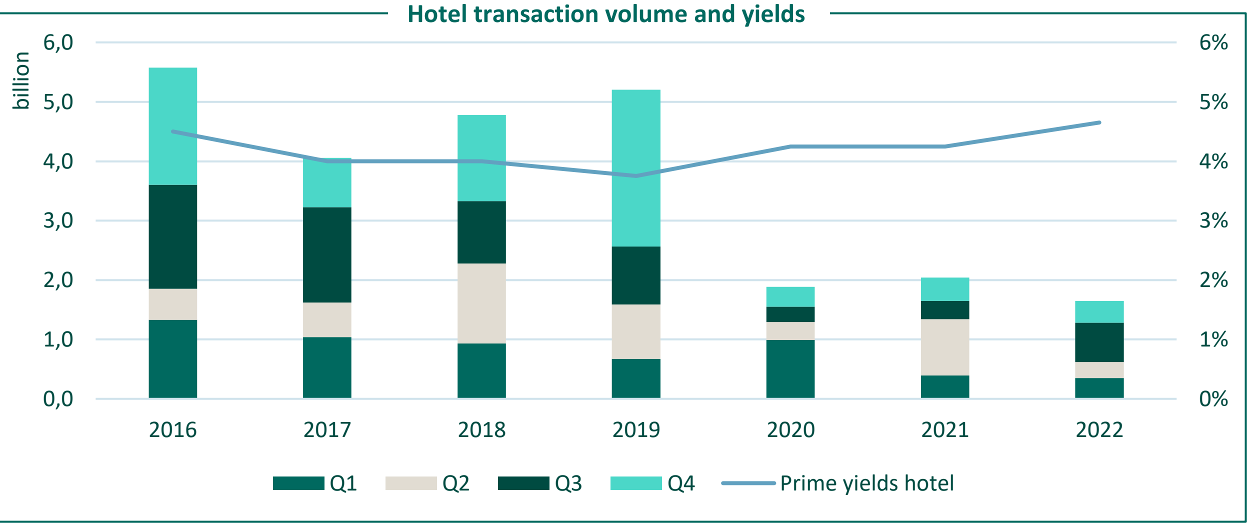
Irrespective of the decline in investor interest, the hotel industry, which was severely affected by the Corona pandemic in the last three years, nevertheless looks back positively on the past year. Overnight stays figures, occupancy rates and room rates have risen significantly, confirming the fundamental upswing in the hotel industry compared with the Corona years of 2020 and 2021. City tourism in particular was able to pick up speed again in 2022. At the same time, the challenges for hotel operators are increasing significantly. As an industry with very high energy consumption and dependent on customers for energy-saving, hotel operators are suffering from increased energy costs. Further operator consolidations are therefore to be expected. In their purchasing decisions, investors will have to pay even closer attention to the energy condition of the hotel buildings and subject the economic viability of the business model of the respective hotel chains to a detailed analysis.

Investors composition hotel 2022



OUTLOOK
Good overnight stays figures and stable hotel demand are expected for 2023. For operators, the greatest challenges are to be seen in increased energy costs and staff shortages. Investors are expected to remain cautious due to the difficult macroeconomic environment.

Hotel transaction volume and yields



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

LOGISTICS

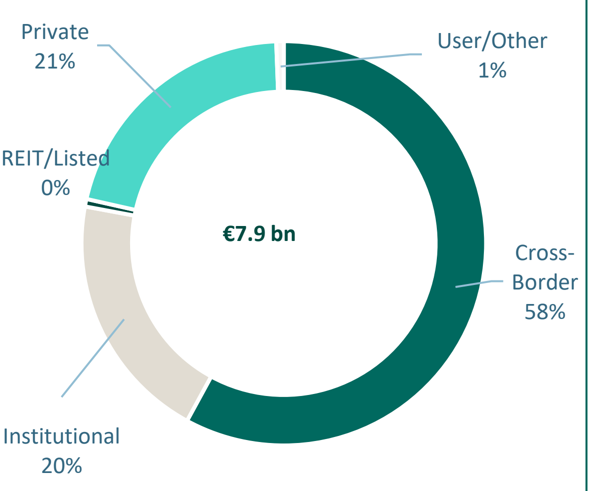
LOGISTICS TRANSACTION VOLUME Q1-Q4 2022	€7.9 bn
THEREOF CROSS-BORDER INVESTMENT VOLUME Q1-Q4 2022	€4.6 bn
PRIME YIELDS LOGISTICS Q4/2022	3.8 %
TRANSACTION VOLUME COMPARED TO PREVIOUS QUARTER	↘

Logistics real estate has now firmly established itself as the third most popular asset class in Germany after office and residential real estate. This is reflected in a transaction volume of just under EUR 8 billion in 2022, which is even above the five-year average. More than half of the capital invested came from foreign investors.

Despite sustained high demand for German logistics properties, prices have also risen significantly in the logistics sector due to increased borrowing rates. Prime yields for logistics properties are currently at 3.8%, 70 basis points above the 2021 year-end level.

In addition, due to the large roof areas, the installation of photovoltaic systems is playing an increasingly important role in logistics properties. The areas can be used both for direct power consumption on site and for feeding into the grid. For owners of logistics properties, this can either be an additional source of income by selling the solar power or leasing the roof areas to solar system operators, or it can serve to save energy costs and CO^2 emissions through direct on-site power consumption.

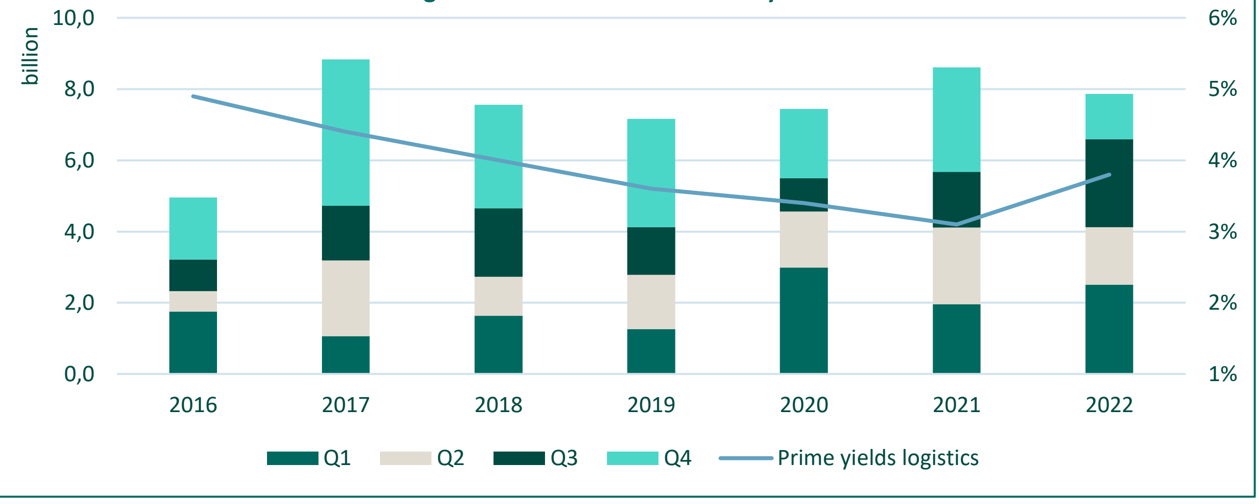
Investors composition logistics 2022



OUTLOOK

To avoid supply bottlenecks caused by (over)dependence on global supply chains, and to adapt to the development of e-commerce increased demand for warehousing and production facilities as well as distribution centers in Europe is expected to continue.

Logistics transaction volume and yields



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: 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 **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 €33.5 billion of assets under management. Its conviction-based allocation breaks down into:

- 45 % offices,
- 34 % healthcare/education,
- 10 % residential,
- 8 % retaill,
- 4 % hotels.

Its pan-European platform manages 61 funds and has more than 80.000 investor clients, 53% of which are individual investors and 47% institutional. Its real estate portfolio consists of more than 1.400 properties (offices, health/education, retail, residential, hotels) located in eleven European countries.

www.primonialreim.com

CONTACT

RESEARCH & STRATEGY DEPARTMENT
Daniel WHILE, MRICS • Head of Research, Strategy & Sustainability
daniel.while@primonialreim.com

Florian WENNER • Head of Research & ESG Germany
florian.wenner@primonialreim.com

Henry-Aurélien NATTER, MRICS • Director Research
henry-aurelien.natter@primonialreim.com

Adrien ISIDORE • Economist Statistician
adrien.isidore@primonialreim.com

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 Germany offers Primonial REIM's quarterly view of the most important asset classes: offices, retail, residential, healthcare, hotel and logistics.

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REIM GERMANY

Ref.: Real Estate Convictions Germany Brochure – 022022 - Primonial REIM, a simplified joint-stock company with capital of 10,000 euros, registered with the Business and Company Register, Paris, under number 884 030 842, with its head office at 6-8 rue du Général Foy, 75008 Paris, and with the tax identification number FR18 884 030 842.