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REAL ESTATE CONVICTIONS

Asset Manager's View of the European Real Estate Markets

Henry-Aurélien NATTER, MRICS
Head of Research

ECONOMIC AND REAL ESTATE ENVIRONMENT

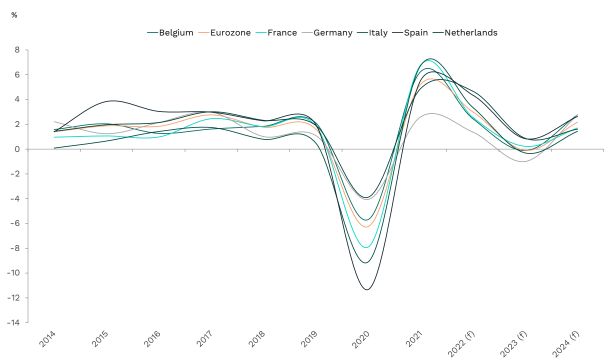
The repercussions of Russia's invasion of Ukraine have created substantial challenges for the world economy. This has increased uncertainty and resulted in repeated cuts of global growth forecasts since the beginning of the conflict, with the latest figure suggesting growth of 2.8% in 2022. The tightening of monetary and fiscal conditions in an attempt to control inflationary pressures has directly resulted in the slowing of growth that we are already seeing. Although growth in 2022 is showing good resilience, we are likely to see a slowdown in 2023 before a recovery in 2024.

When it comes to the eurozone, the trend will be similar to that in the global economy, with a resilient performance in 2022 (3% growth) followed by a marked slowdown in 2023. Europe, closest to the front-line of the conflict after Ukraine itself, is seeing its national economies bear the full burden, particularly in the cases of Germany (1.4% growth in 2022) and Italy (3.4%), due to their dependence on Russian gas. Growth in Belgium (2.5%), France (2.6%), the Netherlands (4.7%) and Spain (4.4%) will hold up better over 2022.

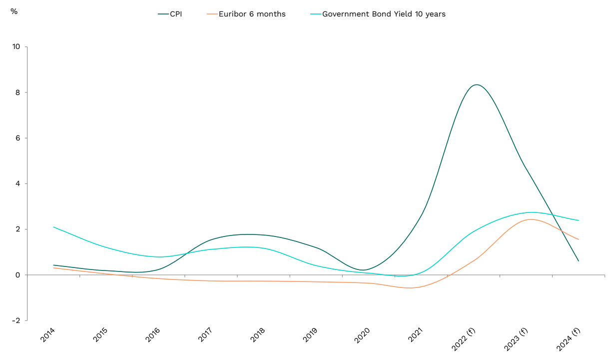
Europe's current cost of living crisis is first and foremost the direct consequence of the effects of the war in Ukraine on energy and food prices. Shortages of materials, equipment and labour are also pushing up prices. At the end of October 2022, the ECB made its third move of the year, with an additional 75bp increase in its policy rates as it attempts to limit the sharp rise in inflation (10.0% year-on-year in September). Current forecasts suggest high inflation in 2022 (8.1%), and the target of bringing consumer price inflation back to 2% only looks achievable over the medium to long term.

Accelerated interest rate rises will result in a significant increase in the cost of money via lending rates. This paradigm shift resulted in a tightening of lending conditions for businesses and consumers in the third quarter of 2022. This led to a fall in demand for loans, and could result in financial pressure in countries where the share of floating rate loans is significant.

ECONOMIC ENVIRONMENT: EUROPEAN GDP



GOVERNMENT 10-YEAR BONDS, EURIBOR AND CONSUMER PRICE INDICES IN THE EUROZONE



Over the first nine months of 2022, the European real estate market saw €202 billion of investment[1], similar to the volume seen in 2021. However, after a very strong start to the year the market slowed down in the third quarter, affected by the geopolitical situation and the increase in interest rates.

Rising uncertainty and questions over the economic outlook started to hit transaction volumes in the third quarter, limiting them to €51 billion, a 34% drop over a year. Investors have been biding their time and focusing on the acquisition of assets that conform to their risk/return strategies, with possible adjustments made to reflect economic conditions.

Looking at the major countries, investment volumes were €54 billion in the UK (up 8% over the year), €35 billion in Germany (-28%), €25 billion in France (+11%), €12 billion in Spain (+51%), €11 billion in the Netherlands (-19%) and €8 billion in Italy (+32%).

Offices were the dominant asset class, with €69 billion, followed by logistics (€46 billion), residential (€45 billion), retail (€28 billion), hotels (€9 billion) and healthcare (€5 billion).

The fast increase in the cost of interest has consequences for the rate of growth in capital gains, but rental yields remain on a good path and are boosting performance.

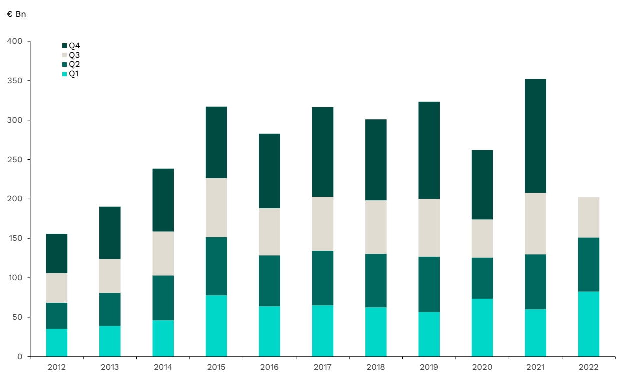
The repositioning of some yields continued over the third quarter of 2022, with a direct link to the strong and rapid increase in central bank policy rates. This phenomenon, nascent in the second quarter of 2022, thus became more widespread.

Although total returns are still on the right track, valuations have been affected, with performance now coming more from rental yields. Moreover, indexation, which is generally linked to the consumer price index, provides total or partial protection against inflation. As a result, in the current situation indexation, via increased rents, has taken up the running from capital gains in driving total returns. Clearly this capacity varies as a function of the financial stability of the tenant or operator (especially in the face of rising energy costs this winter), as well as by asset class and by country given differences in regulations.

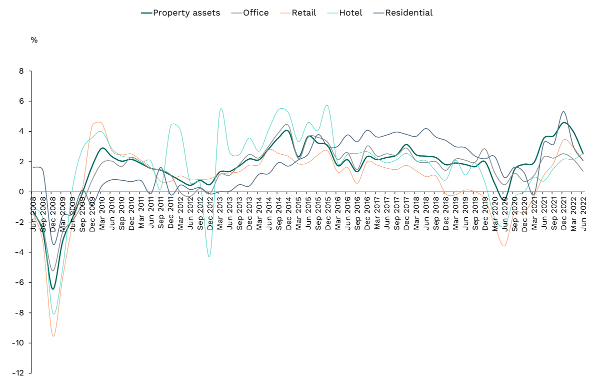
Biding their time pending any possible price corrections, investors have adopted acquisition strategies focused on the best opportunities, which are completely dependent on market timing.

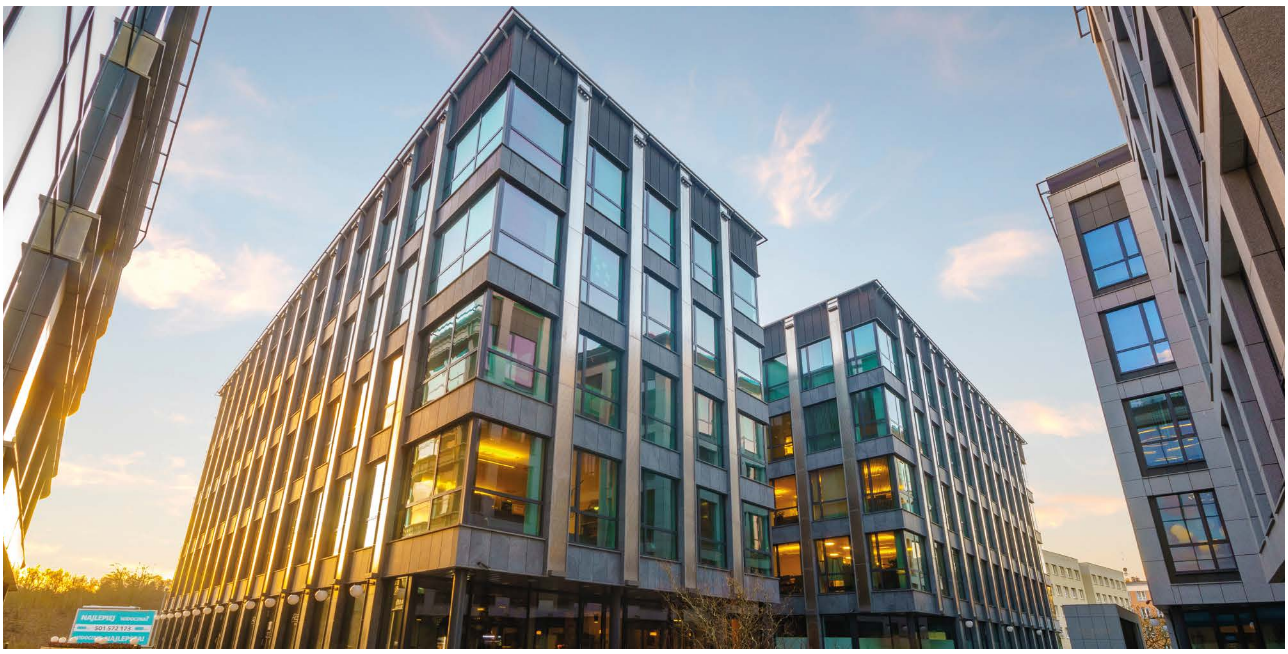
[1]The real estate market covers offices, retail, logistics, services and residential assets for institutional investors.

REAL ESTATE INVESTMENT VOLUMES IN EUROPE



QUARTERLY TOTAL RETURN ON EUROPEAN REAL ESTATE ASSETS





OFFICES

INVESTMENT IN OFFICE REAL ESTATE IN EUROPE – Q3 2022 (9 MONTHS)	€69bn
PRIME YIELDS IN EUROPE – Q3 2022 / Q2 2022	↗
SATISFIED DEMAND IN EUROPE – Q3 2022 (9 MONTHS) / Q3 2021 (9 MONTHS)	↗
VACANCY RATES IN EUROPE – Q3 2022 / Q2 2022	↘
RENTS IN EUROPE – Q3 2022 / Q2 2022	↗
JOB CREATION – Q3 2022 / Q2 2022	↗

Although investors continue to favor offices as an asset class, they were more cautious in the third quarter of 2022, as the office sector faces challenges from hybrid working and the risk of obsolescence for buildings that have not yet completed their energy transition. Total investment volumes in the European office real estate sector were €69 billion over the first nine months of 2022 (down 5% over a year). Investors confirmed their interest in the UK, with €18 billion of commitments, followed by Germany with more than €12 billion. France remained on track with more than €11 billion in commitments, ahead of Italy with more than €4 billion, then Spain and the Netherlands with a little less than €3 billion each.

A small majority of markets analysed saw a decompression of yields, a direct consequence of the sharp increase in bond rates over the third quarter, whilst the remaining markets remained stable[2]. Thus decompressions of between 10 and 50bp were seen in a number of markets as a direct result of the rising cost of money between the second and third quarters of 2022. Very few eurozone markets remain below the 3% threshold, with only Paris, Munich, Berlin and Milan at such levels.

Continued job creation in Europe (up 1.5% over a year at the end of the third quarter) has contributed to maintaining growth in new leases over the first nine months of 2022. Satisfied demand for offices totalled more than 8 million sqm in the first nine months of 2022, a sharp increase in volume compared to 6.5 million sqm let in the same period in 2021. With nearly 1.5 million sqm of transactions, the Paris market showed good resistance, despite geopolitical and economic uncertainty. Users continued to favour the most attractive areas, high-quality space and good transport links. Paris was followed by London, Berlin and Munich, where transaction volumes were between 500,000 and 650,000 sqm. In the eurozone, Milan, Madrid, Barcelona and Frankfurt all saw transaction volumes of between 300,000 and 400,000 sqm.

Vacancy rates came down in nearly 52% of the markets analysed in Europe, whilst 26% of supply saw an increase in vacancy rates from the second to third quarter of 2022. Central districts in cities such as Paris, Berlin, Munich, Vienna and Lyon saw vacancy rates of less than 5%, with these figures being stable or on a downward trend. Districts which are less attractive to

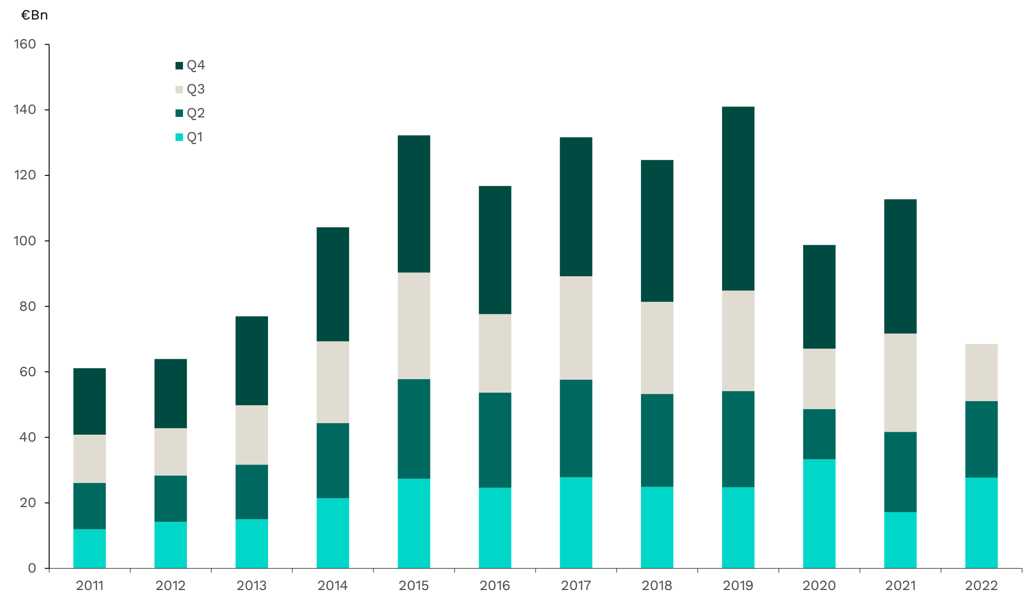
Le Shift ©Boegly_Grazia

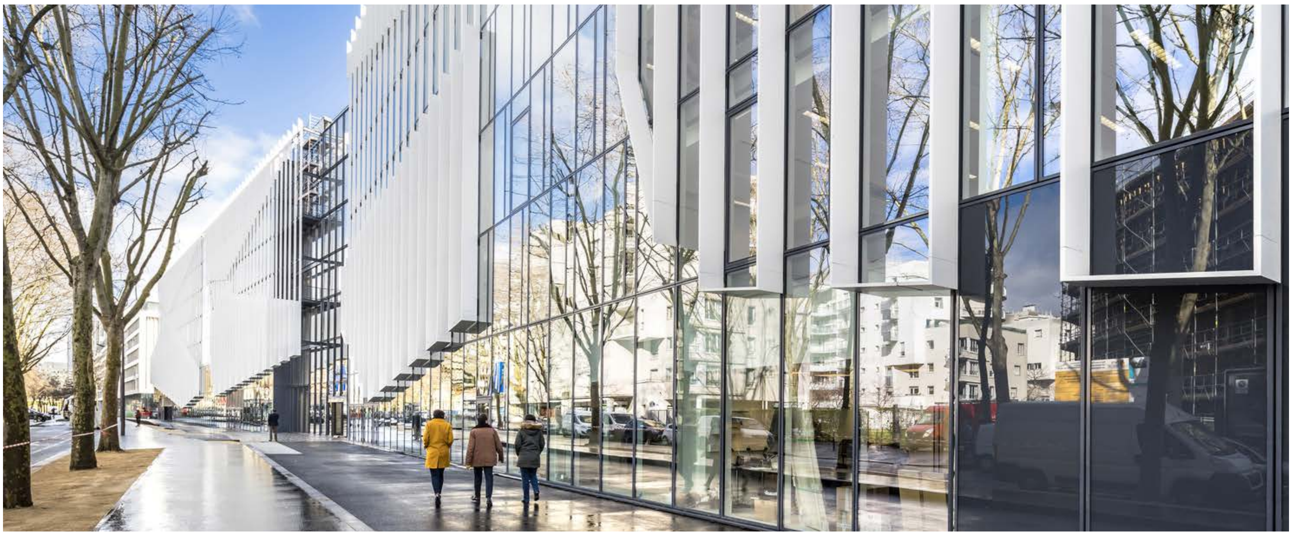
users, including some in European capitals, tended to see an increase in available supply from one quarter to the next. Cities such as Barcelona, Madrid and London City still have more than 10% of their total area available.

When it comes to rents, one trend is getting stronger quarter after quarter: users are seeking out central, modern, flexible offices that meet ESG criteria. As the supply of such assets is limited, rents grew over the third quarter of 2022 in a large majority of markets. The Paris CBD has the highest rents in the eurozone at around €1,000/sqm, whilst rents in Berlin, Frankfurt, Munich and Milan run at €500 to €600/sqm and those in Brussels, Madrid and Barcelona are around €250 to €450/sqm.

[2]Of nearly a hundred European markets analysed by Primonial REIM Research & Strategy

EUROPEAN OFFICE REAL ESTATE INVESTMENT VOLUMES





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RETAIL

INVESTMENT IN RETAIL REAL ESTATE IN EUROPE – Q3 2022 (9 MONTHS)	€28bn
PRIME STREET LEVEL YIELDS IN EUROPE – Q3 2022 /Q2 2022	→
PRIME YIELDS IN EUROPEAN SHOPPING CENTRES – Q3 2022 /Q2 2022	→
E-COMMERCE PENETRATION RATES IN THE EUROZONE – 2022	↗
RETAIL SALES IN THE EUROZONE – Q3 2022 / Q2 2022	↗

After the early part of the year was characterised by the seizing of opportunities following the end of the pandemic, the third quarter saw a clear deceleration. Total investment volumes in the European retail real estate sector were €28 billion over the first nine months of 2022 (up 15% over a year). The UK was the biggest market with nearly €7 billion invested by the end of the third quarter of 2022, followed by Germany with just under €5 billion, France with nearly €4 billion, Spain with just over €3 billion and the Netherlands with slightly less than €1 billion.

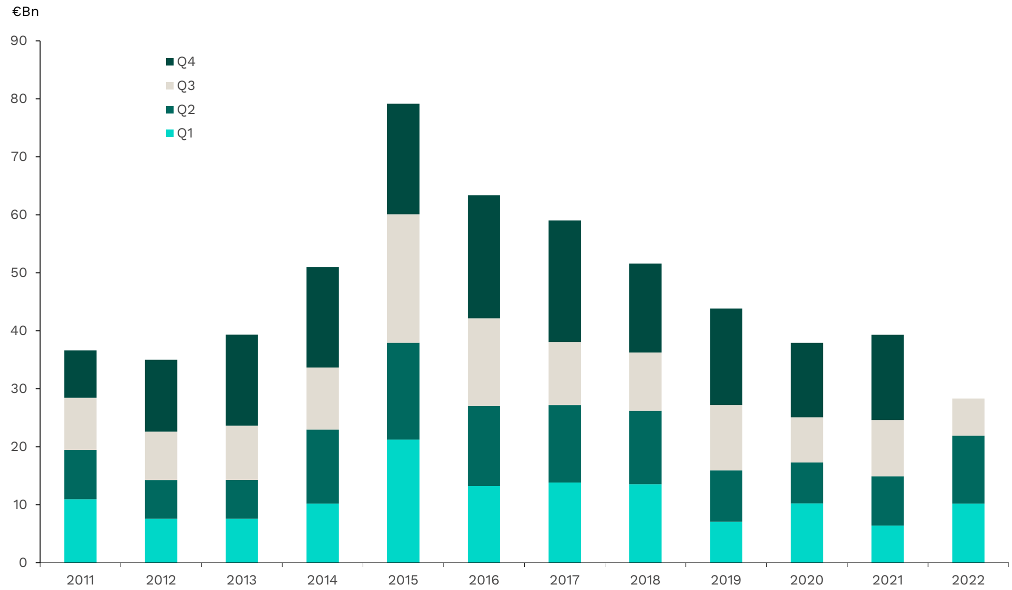
Yields from retail assets again saw a period of stability in most markets analysed, but decompressions of between 5 and 50bp were also observed over the third quarter of 2022. Yields on street-level assets were again mostly stable from one quarter to the next, and the same was true of shopping centres. However, some decompressions, of between 5 and 50bp, were seen in both categories. Rising interest rates, the inflation picture and the risk of a slowdown in growth explain these corrections in markets identified as at the greatest risk over the coming period.

Some indicators linked to consumer spending suggest that consumption in the eurozone lost steam over the third quarter of 2022. With demand for services providing the engine of GDP growth over the second quarter, consumer spending has suffered from the repercussions from the war in Ukraine and its inflationary consequences. Consumer spending in Spain, the Netherlands and Italy outperformed the European average, but that in France, Belgium and Austria lagged behind the average. Retailers saw real-terms sales growth over the third quarter of 2022 (+9% year-on-year), with countries such as Spain and the Netherlands outperforming. France and Germany were close to the European average.

Trends in rental values were mostly stable for street level assets and saw slight increases for shopping centres. Street level shops in a large majority of eurozone countries saw stable rental values in the third quarter of 2022, albeit with slight readjustments in the third quarter of 2022. In shopping centres, trends were more marked, with bigger movements in either direction in certain markets.

Portefeuille High Street Retail ©Fabrice Debatty

RETAIL INVESTMENT VOLUMES IN EUROPE



Portefeuille High Street Retail ©Fabrice Debatty

RESIDENTIAL

INVESTMENT IN RESIDENTIAL REAL ESTATE IN EUROPE – Q3 2022 (9 MONTHS)	**€45bn**
PRIME YIELDS IN EUROPE – Q3 2022 / Q2 2022	↗
PRICES TRENDS IN EUROPE – Q3 2022 / Q3 2021	↗
HOUSEHOLD INCOME IN THE EUROZONE – Q3 2022 / Q2 2022	↗

Investment in block residential assets in Europe slipped to third place amongst asset classes, but remained fairly close behind logistics with investment volumes of around €45 billion in the first nine months of 2022 (down -8% year-on-year). This slowing in the third quarter was due mainly to the German market, which is one of the biggest and most liquid in Europe. Within the eurozone, Germany saw total investment of nearly €10 billion, followed by France with over €4 billion, Spain with €3 billion, and the Netherlands with over €2 billion. Outside the eurozone, the UK market was the most active, with investment of €10 billion, followed by Sweden with over €5 billion and Denmark with nearly €4 billion.

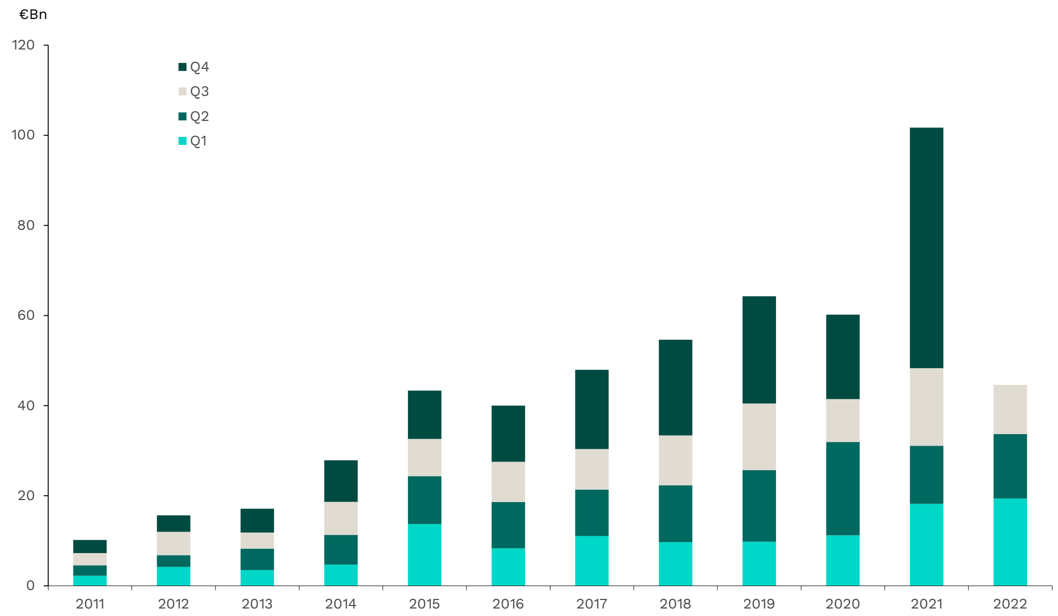
Some slight decompression was observed in prime yields in certain markets, linked to the fast rise in interest rates. Within the eurozone the lowest yields, at below the 3.0% mark, were to be found in Paris and Munich. However, the risk premium between residential yields and 10-year sovereign rates is now narrowing and will therefore need to be monitored. The majority of major cities saw decompressions averaging around 10bp, representing a slight readjustment in line with the yields seen in 2021. The fact that rents have risen by more than prices in certain markets also serves to explain this purely mechanical adjustment.

Eurozone consumer price inflation continued to accelerate, reaching 10.0% over the 12 months to September 2022. This increase in the CPI may be partially passed on in future rent reviews, depending on the indexation mechanisms in use in each country. The countries where inflation was above this average were the UK, the Netherlands, Belgium and Spain. Countries at or below the average included Portugal, Finland, Italy, Germany, Austria, Ireland and France. Meanwhile, legal structures and regulations relating to rent control could help reduce the risk of market failures. Such mechanisms serve to limit the increase between two tenancies in certain pressurised markets.

Coliving Sharies - Bruxelles ©Jakub Mazur

Residential construction in Europe is showing signs of slowing due to rising construction costs. At the same time, rate rises to tackle inflation create a risk of corrections in some local or national markets. Although residential asset prices in the eurozone continued to rise, the trend has been slowing. Thus residential prices in the eurozone continued to rise in the third quarter of 2022, at a rate of 5.4% year-on-year. The Netherlands (up +12%y/y), Portugal (+9%), Germany (+8%), Ireland (+6%), France (+5%), Spain (+5%), Austria (+3%), Belgium (+3%), and Italy (+2%) all saw increases, whilst prices in Finland (+0%) stagnated due to a drop in consumer confidence, the effect of higher interest rates and a pace of construction that remains high relative to demand. At the same time, the introduction of energy performance standards in certain markets, such as France, has a direct impact on properties with poor thermal performance, with discounts for certain apartments of up to 15% of the sales price compared to better-performing assets.

INVESTMENT IN BLOCK RESIDENTIAL REAL ESTATE IN EUROPE



Coliving Sharies - Bruxelles ©Jakub Mazur

HEALTHCARE

INVESTMENT IN HEALTHCARE REAL ESTATE IN EUROPE – Q3 2022 (9 MONTHS)	€5bn
PRIME YIELDS IN EUROPE – Q3 2022 / Q2 2022	→
FORECASTS OF BED DEMAND BY 2030 IN EUROPE	↗

The healthcare market has proved relatively resilient despite a lack of supply. Investment volumes (senior residences and care homes) totalled more than €5 billion in Europe in the third quarter of 2022, a year-on-year decline in volume terms but well above the average for the previous ten years. In Europe, the German market was the focus of capital flows, with €1.5 billion invested over the first nine months of 2022, followed by the UK with over €1.3 billion, then Sweden with more than €550 million, France with around €500 million and the Netherlands with around €400 million.

Prime yields in healthcare real estate, that is to say on well located assets in dense urban areas and fully matched with investors' expectations, were mainly stable between the second and third quarters of 2022, with the exception of Germany where yields returned to their end-2021 level. In France, Sweden, the UK, Belgium and Germany prime yields were at or below 4.00% for the best-quality senior care homes. For assets not in the heart of densely populated urban centres, this figure rises by between 50bp and 100bp. Prime yields in Austria, Italy, Spain, the Netherlands, Finland, Ireland and Portugal were above 4.00% for care homes at the end of the third quarter of 2022.

Prime yields for clinics were 5% or below in France and Germany but more than 5.5% in the Netherlands.

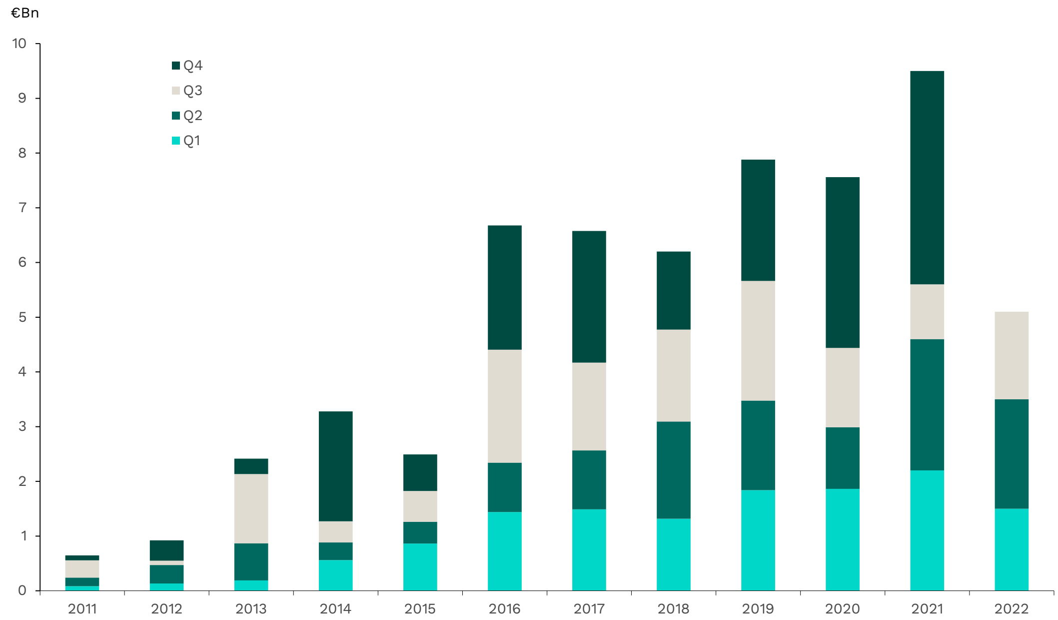
The average price per bed in Europe was around €160,000 in the third quarter of 2022. Top-level prime assets changed hands at a shade over €220,000 per bed, with assets in the bottom quartile trading at more than €100,000 on average over the quarter. In France prices averaged more than €200,000 per bed over the quarter; Germany was next with an average close to €160,000; in Spain assets changed hands at an average of €110,000 per bed, whilst in Italy the figure was around €100,000. Outside the eurozone the average transaction price per bed was €190,000 in the UK, less than €200,000 in Denmark, a drop on the previous quarter, around €300,000 in Sweden and less than €100,000 in Poland.

Over the first nine months of 2022, the demographic potential for new demand for healthcare assets continued to increase in the main European countries. This pressure will bring an increase in development of the supply of healthcare assets and encourage the renovation of the obsolescent segment of the market. The countries with the largest number of citizens aged over

Beausoleil EHPAD Korian ©Primonial REIM France

75 include Germany (9.5 million), Italy (7.2 million), France (6.6 million), Spain (4.9 million) and the Netherlands (1.5 million). This age group is seeing faster growth than most others. The dependency ratio, that is to say the ratio of the over-65 population to the population aged 15 to 64, is currently around 32.5% and is likely to rise to 52.6% by 2050. The consequence of an ageing population is an increase in the number of dependent older people. Loss of physical independence, particularly amongst those aged over 85, requires support or care provision.

SENIOR RESIDENCES AND CARE HOMES INVESTMENT VOLUMES IN EUROPE



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HOTELS

INVESTMENT IN HOTEL REAL ESTATE IN EUROPE – Q3 2022 (9 MONTHS)	€9bn
ROOM OCCUPANCY RATES IN EUROPE – Q3 2022 (9 MONTHS) / Q3 2021	↗
REVPAR IN EUROPE – Q3 2022 (9 MONTHS) / Q3 2021	↗
AVERAGE PRICE PER NIGHT IN EUROPE – Q3 2022 (9 MONTHS) / Q3 2021	↗
PRIME YIELDS IN EUROPE – Q3 2022 / Q2 2022	→
EXPECTED TOURIST ARRIVALS IN EUROPE – 2022/2021	↗

After a satisfactory beginning to the year, investors scaled back their commitments in the third quarter of 2022. The hotel real estate market was worth €9 billion during the first nine months of 2022, down 14% year-on-year. Despite the marked upturn in international and internal air travel, hotel bookings have still not returned to their pre-pandemic levels. Inflationary pressures are also creating risks that tourists will adjust their accommodation budgets. In Europe, capital focused on the UK, with more than €3 billion invested to the end of the third quarter of 2022, followed by Spain, with nearly €2 billion, then France and Germany with slightly over €1 billion each.

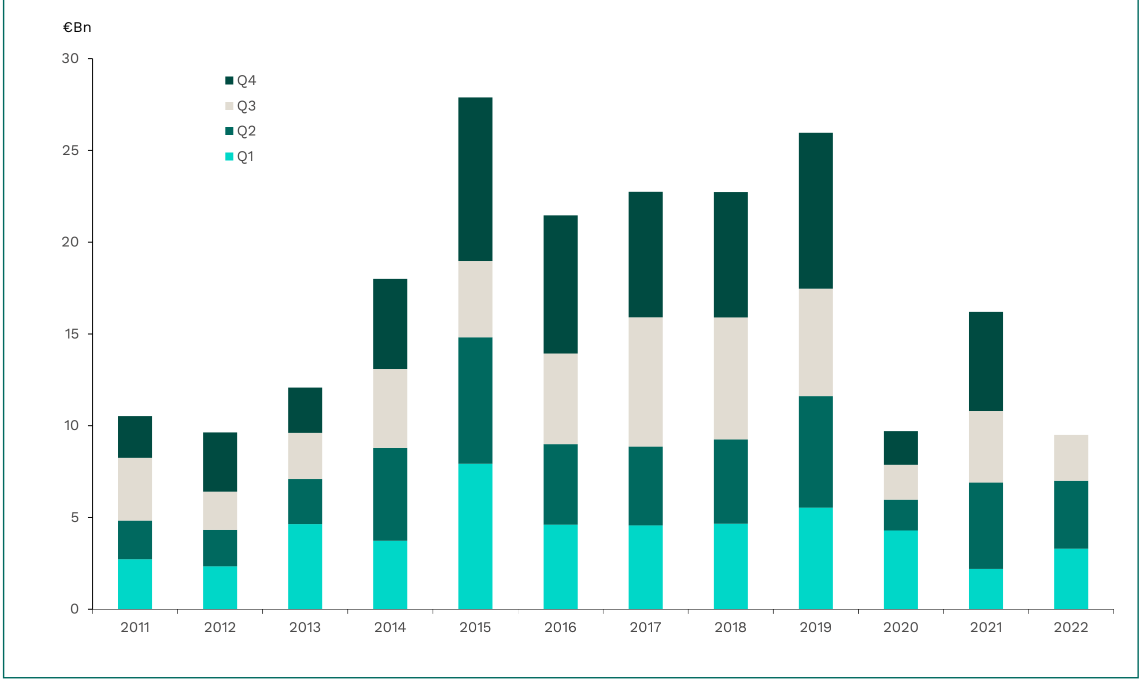
Prime yields on hotels were largely stable over the third quarter of 2022. However, after a period of compression as the industry emerged from the Covid crisis, some hotel markets saw further decompression, averaging between 10 and 25bp. Prime yields on leased hotels, based on rental profitability, were at or under 4.5% in London, Paris and the big German cities. Madrid, Milan, Amsterdam, Brussels and Lisbon offered yields above 4.5%. Prime yields for hotels under management contracts, which allow hotel owners to capture value from both the operation of the hotel and the real estate asset, offer a supplemental yield above lease levels of between 100bp and 250bp.

The number of hotel rooms sold or let in Europe grew sharply over the first nine months of 2022 (+99% up over a year) in line with the gradual recovery in leisure, and to a lesser extent business, travel. The basis of comparison worked in favour of the first three quarters of 2022, given the restrictions in force during 2021. Although international tourism is now recovering gradually, the uncertainties relating to the war in Ukraine still create risks for the sector. Having been hit hard, rooms sold or let in up-scale hotels (+128%) and the luxury category (+105%) recovered well thanks to the gradual return of European tourists, although growth in international and business travel continues to lag expectations. Budget hotels, which

Hotel B&B Nice Aeroport Arenas ©Primonial REIM France had suffered less, continued to perform well (+65% over the year). The mid-range category also made strong gains, of between 90% and 100%.

Indicators for the hotel sector all showed strong improvement over the first nine months of 2022 compared to the same period in 2021 when restrictions were still in force. Occupancy rates in European hotels have risen steadily, gaining 245bp over the first nine months of 2022, taking them to over 64%. Average prices have followed a similar trend, rising to €132 per night at end-September, from €101 in 2021. RevPAR continued to rise, hitting €85 from just €40 a year earlier. By category, only budget hotels had an occupancy rate over 70%.

INVESTMENT VOLUMES FOR EUROPEAN HOTELS



Hotel B&B Nice Aeroport Arenas ©Primonial REIM France

Sources used throughout this document: Primonial REIM Research & Strategy data, Immostat, CBRE, Savills, BNP PRE, JLL, Knight Frank, MSCI , Oxford Economics, Eurostat, OCDE, FMI, Stabel, NSI, CZSO, DST, Destatis, Stat, CSO, Statistics, INE, INSEE, DZS, ISTAT, CSB, Statistics Lithuania, Statec, KSH, CBS, Statistik Austria, Stat Poland, INE, INSSE, Statistics Finland, SCB, SSB, BFS, ONS, STR, Operators.

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.

About Primonial REIM

Primonial REIM has a workforce of 400 employees in **France, Germany, Luxembourg**, **Italy, United Kingdom** 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,
- **33,5 %** healthcare/education,
- **10 %** residential,
- **7 %** retail,
- **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 1,526 properties (offices, healthcare/education, retail, residential, hotels) located in **11 European countries.**

www.primonialreim.com

CONTACT

RESEARCH & STRATEGY DEPARTMENT

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

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

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

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

The Research & Strategy Department's role is to formalise 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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