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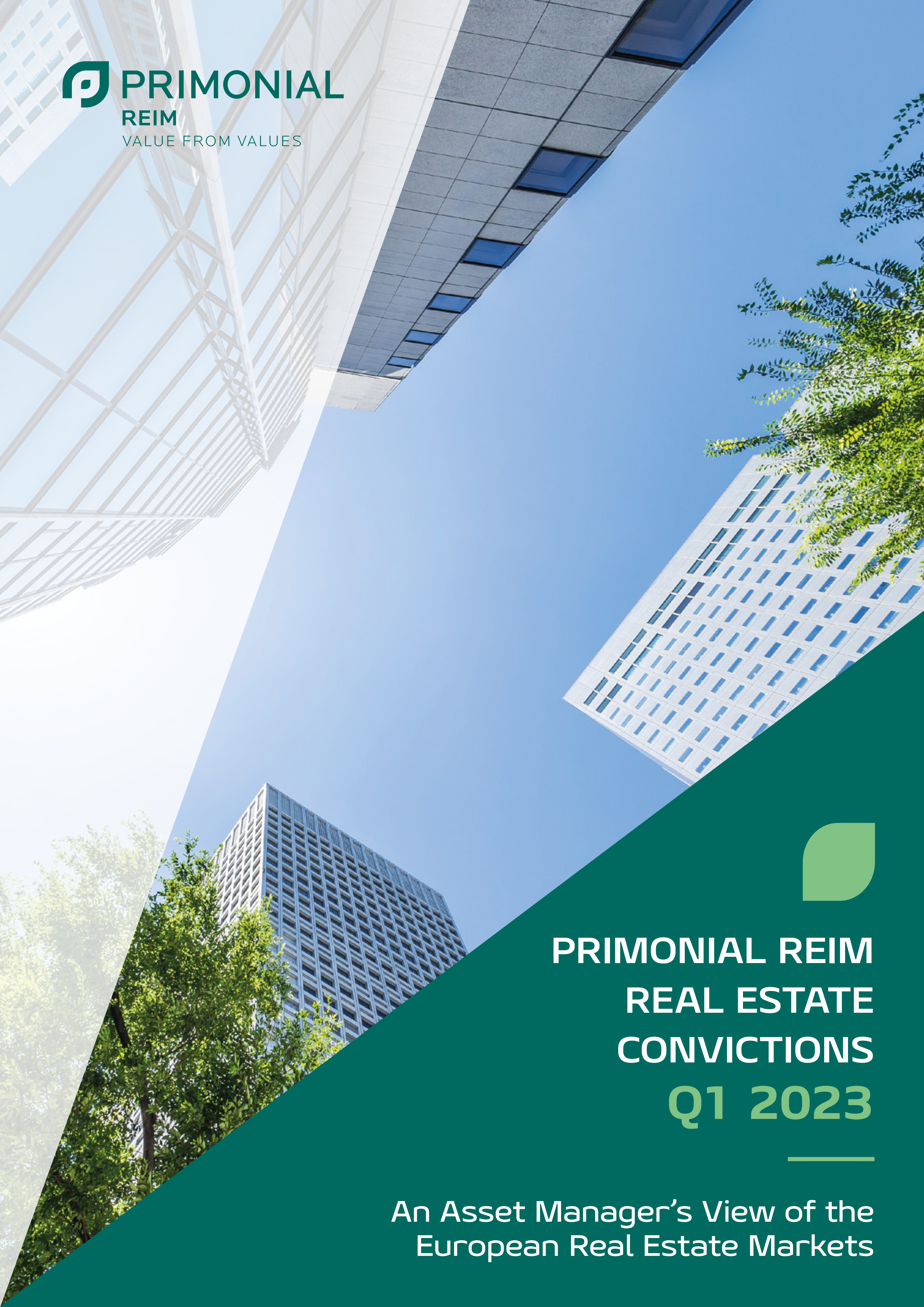


PRIMONIAL REIM REAL ESTATE CONVICTIONS Q1 2023

An Asset Manager's View of the European Real Estate Markets

ECONOMIC AND REAL ESTATE ENVIRONMENT

« The unexpected resilience of the European economy has led to an improvement in the business perspectives for 2023. However, the ECB has once again chosen to increase its interest rates to limit the impact of inflation, which is expected to decrease by the end of the year. For analysts, controlled inflation will enable a new, more accommodative policy of interest rates. Regarding real estate, this situation has led investors to be more rigorous in their allocation choices during the first quarter of 2023. At the same time, we note that real estate assets which meet ESG criteria and are able to generate performance through income return, particularly healthcare assets, are becoming attractive to investors. »

Henry-Aurélien NATTER
MRICS, Head of Research

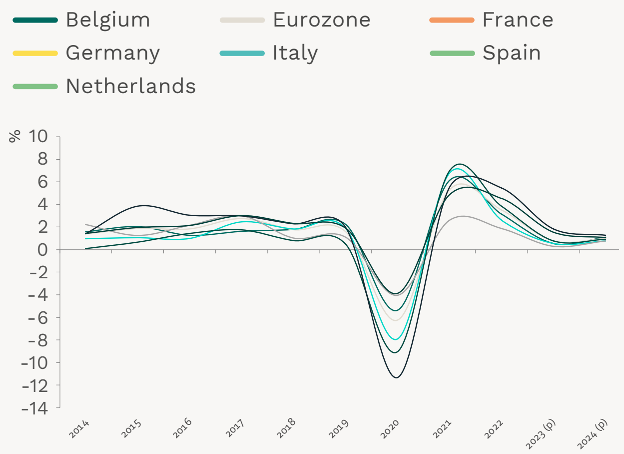
While uncertainties about the outlook remain in a context of high inflation, the consequences of the Russian war in Ukraine and three years of the COVID-19 pandemic, China's economic reopening and the resilience of the labour market in advanced economies have improved the economic outlook in the short term. Thus, global growth forecasts currently stand at 2.8% for 2023 and 3.0% for 2024.

For the eurozone, the unexpected resilience of economic activity also led to a slight improvement in the outlook. In this context, growth in the eurozone was revised upwards for 2023 with growth of +0.8% in 2023 and +1.0% in 2024. By country, Spain's GDP is expected to increase by +1.8% in 2023 and by +1.3% in 2024, followed by the Netherlands (+1.5% and +1.1%), Italy (+0.8% and +0.9%), France (+0.5% and +0.8%), Belgium (0.5% and +1.1%) and Germany (+0.3% and +0.8%).

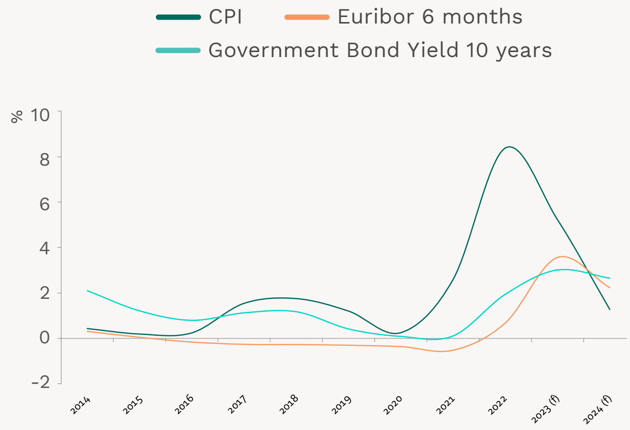
While rate hikes by major central banks stressed financial markets in March 2023, the peak of inflation in the eurozone is expected to be reached and a slowdown is expected for the second half of the year. In early May 2023, the ECB again raised key interest rates by 25 bp to curb inflation. This policy seems to be bearing fruit since the deceleration has been strong within the eurozone. Indeed, the CPI rose from +8.3% in February to +6.9% in March. Current forecasts show inflation still high for the whole of 2023 (+5.2%), but much lower than in 2022 (+8.4%). As a result, the ECB is expected to intervene twice more in June and July 2023, but in a rather moderate way compared to 2022. In 2024 and 2025, with the gradual impact of the tightening of monetary policy, inflation should continue to decline and return to its target of 2%.

If the 10-year rate hike has led to a rise in the cost of credit, central banks could be close to the peak and end their drastic monetary tightening policy. The FED may be the first major central bank to end its rate hike policy soon. According to the consensus, the ECB would have a terminal rate of 3.75% in July 2023 if inflation comes under control and could start a bearish cycle between the end of 2023 or during the year 2024.

ECONOMIC ENVIRONMENT: GDP IN EUROPE



10-YEAR GOVERNMENT BONDS, EURIBOR AND EUROZONE CONSUMER PRICE INDEX



As a consequence of the wait-and-see attitude of buyers, the volume of investments fell in the first quarter of 2023.

The uncertain context and the difficulty in assessing the value of assets, creating a gap between buyers' and sellers' expectations, led to the freezing of the market. The volume of investment was therefore limited with only €34 billion of commitment at the beginning of 2023, -61% over one year. Investors with liquidity have therefore been successful by opting for assets that are in line with their performance/risk strategy.

By main country, investment volumes in real estate in the United Kingdom reached more than 10 billion (-60% over one year), €7 billion (-40%) in France, €4.5 billion (-71% over one year) in Germany, just under €3 billion (-9%) in Spain, €1.5 billion (-70%) in the Netherlands and less than €1 billion (-75%) in Italy.

By asset class, offices dominate with nearly 11 billion (-63% over one year), followed by retail (7 billion, -40%) which takes second place, residential (6.5 billion, -68%), logistics (5.5 billion, -74%), hospitality (3 billion, +1%) and healthcare (1 billion, -34%).

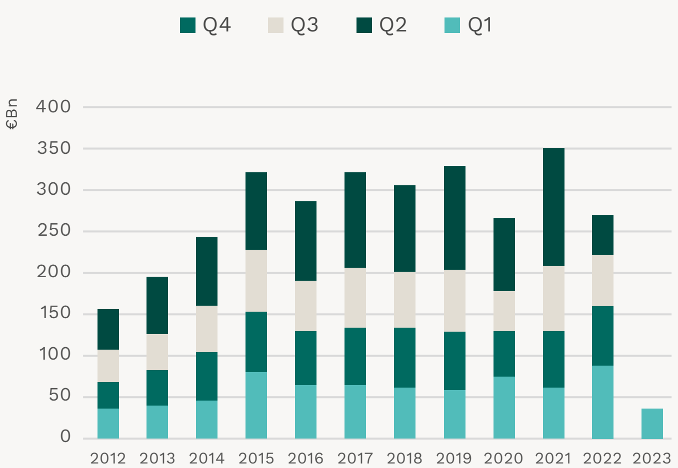
Income return on real estate are driving performance, while rising borrowing rates are impacting capital growth. Healthcare real estate has the highest total return in Europe.

The acceleration of the rise in key rates sought by Central Banks to reduce inflation has led to a process of reconstitution of the risk premium, i.e. a rise in the returns demanded by investors.

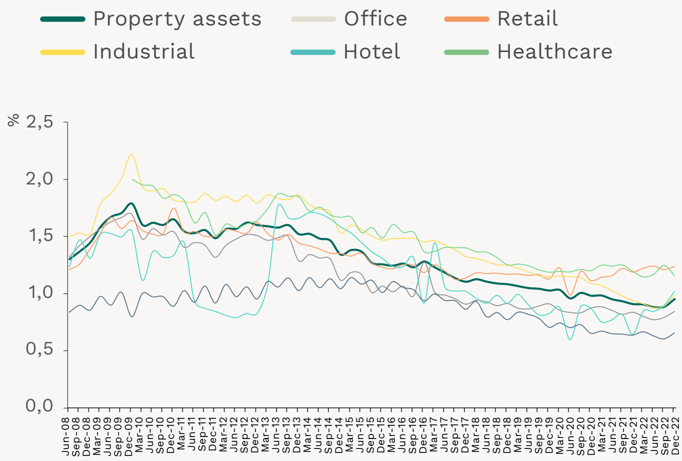
At the same time, the total return was therefore impacted by the soaring cost of debt as anticipated. Capital valuation is impacted, but the extent of price adjustment varies across countries and markets. Regarding income return, due to its partial or total indexation on the consumer price index in Europe, rental performance has strengthened.

According to the latest data available, healthcare, hospitality and retail are the asset classes that have resisted the best compared to logistics, an asset that will have a significant capacity for recovery, but a very volatile profile.

REAL ESTATE INVESTMENT VOLUME IN EUROPE



QUARTERLY INCOME RETURN OF REAL ESTATE IN EUROPE



OFFICES

Investment in office real estate in Europe – 2023 Q1 (3 months)	€11 bn
Trend in prime yields in Europe – 2023 Q1 / 2022 Q4	→
European Take-up Trend – 2023 Q1 (3 months) / 2022 Q1 (3 months)	↘
Trend in vacancies in Europe – 2023 Q1 / 2022 Q4	→
Rent trend in Europe – 2023 Q1 / 2022 Q4	↗
Trend in job creation – 2023 Q1 / 2022 Q4	↗

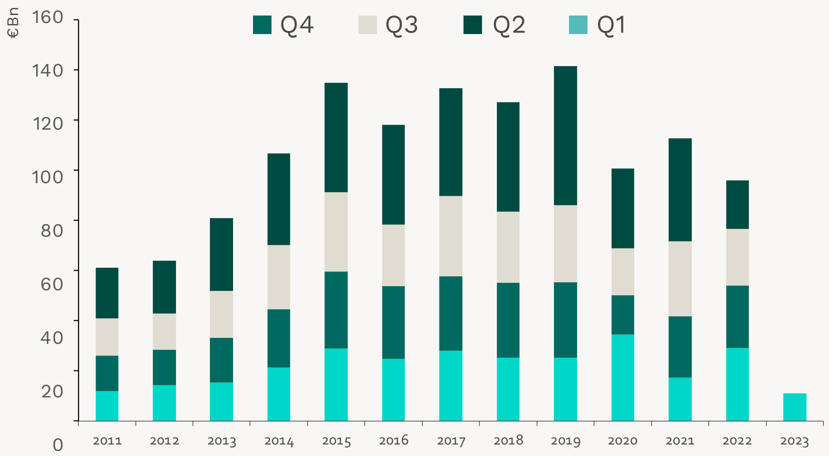
The rise in sovereign rates and the uncertain context will have led investors to play it safe on this asset class, which records a low level of investment in the first quarter of 2023 compared to its 10-year average. The wait-and-see attitude of investors, the recomposition between markets as well as changes in legislation on the energy performance of buildings have impacted capital flows. The volume of investment in office real estate in Europe totalled €11 billion in the first quarter of 2023 (-63% over one year). France leads the ranking and records nearly €4 billion (-11%), followed by the United Kingdom with 3 billion (-67%) and Germany with about €1 billion (-80%). Spain, Italy, the Netherlands and Belgium recorded commitments of less than €1 billion.

Between December 2022 and the end of the first quarter of 2023, the majority of office markets[1] in Europe remained stable, while the other part experienced decompressions, as a direct consequence of the sharp rise in bond rates. Decompressions of between 10 and 50 bp were observed in the office markets at the end of the first quarter of 2023. However, two developments are noteworthy compared to the previous quarter, advocating for an exit from the zone of turbulence: firstly, an amplitude of decompression that is settling and secondly, more and more markets are stable. Prime markets have a yield of less than 4.5% in cities such as Paris, London, Munich, Vienna, Madrid, Milan and Helsinki. Markets with a yield equal to or greater than 4.5% are Lisbon, Rome, Barcelona or Rotterdam, for example.

The European rental market was weak, while new job creation continued in the first quarter of 2023 (+1.1% over one year). Take-up for office space totalled 2.6 million m², down from 3 million m² transacted in the same period in 2022. With a total of 317,000 m² placed, the Parisian market had a slow start to the year. The most attractive neighbourhoods in the eyes of users, in quality areas and with good accessibility in terms of transport, were the most popular. London, Berlin and Munich follow, with leases between 100,000 and 200,000 m² signed.

The general trend is towards stable supply available between the end of 2022 and the first quarter of 2023, but the trends are very different. The central districts, such as Paris, Berlin and Munich, have managed to maintain a vacancy of less than 5%. In contrast, Barcelona, Madrid and London City still have a vacancy rate of over 10%.

INVESTMENT VOLUME IN OFFICE REAL ESTATE IN EUROPE



The attraction of users to modern, flexible, ESG-compliant and transport-accessible central office buildings continued to drive rents up. The Parisian business district has the highest rent in the eurozone, with just over €1,000/m² for the most sought-after assets. Berlin, Frankfurt, Munich and Milan offer rents of between €500-700/m² and markets like Brussels, Madrid or Barcelona have rents of around €250-450/m².

1/ Out of nearly one hundred European markets analysed by Primonial REIM Research and Strategy

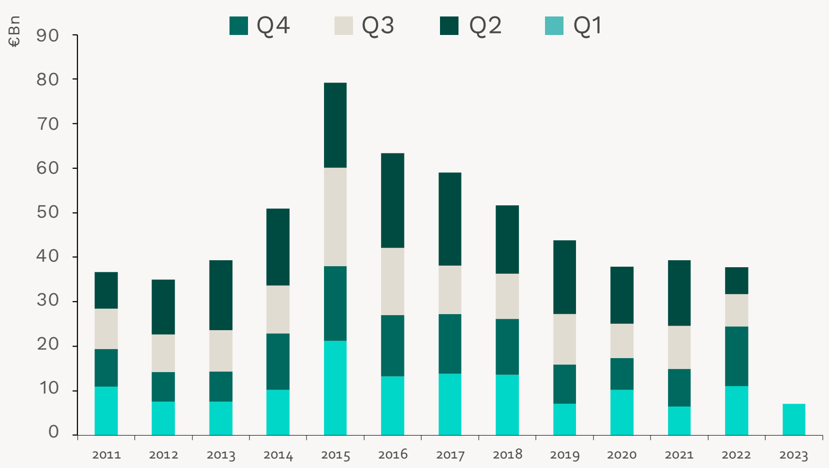
RETAIL

INVESTMENT IN RETAIL REAL ESTATE IN EUROPE - 2023 Q1 (3 MONTHS)	€7 bn
TREND IN HIGH STREET PRIME YIELDS IN EUROPE – 2023 Q1 / 2022 Q4	→
TREND IN PRIME RATES OF RETURN IN SHOPPING CENTRES IN EUROPE – 2023 Q1 / 2022 Q4	→
TREND IN THE E-COMMERCE PENETRATION RATE IN THE EUROZONE – 2023	↗
TREND IN RETAIL TURNOVER IN THE EUROZONE – 2023 Q1 / 2022 Q4	↗

While the volume of transactions in retail was also impacted, it still held up better than offices. The reason why retail is starting on a more favourable basis today is the result of the corrections that were made during the Covid crisis. Thus, the volume of investment in retail real estate in Europe will have totalled more than €7 billion over the whole of 2022, a decline of 40% over one year. The UK was the most active market, with more than €3 billion invested in the first quarter of 2023, followed by Germany with €1 billion, Spain with €875 million, France with €650 million, and Italy and the Netherlands with less than €500 million.

Rates of return for high street and shopping centres were mostly stable at the end of the first quarter of 2023. However, about a third of the markets still experienced an increase in their risk premium. Yields experienced decompressions of between 5 and 50 bp for high street and between 15 and 35 bp for shopping centres between the fourth quarter of 2022 and the first quarter of 2023. High street yields in Paris, Amsterdam, Lyon, Vienna, Madrid and Brussels were less than or equal to 4.5%. Munich, Helsinki or Dublin, for example, had rates equal to or higher than 4.7%. Regarding shopping centres, Paris, the major German cities and Vienna were below 5.5%, while Helsinki, Madrid and the major Italian cities were above.

RETAIL INVESTMENT VOLUME IN EUROPE



While the trend in private consumption is on the rise, it remains to be monitored. Indeed, there are adverse effects directly related to the high inflation that weighs on real disposable income of households. However, the positive resilience of the labour market and the high average savings rate are factors that operate in favour of maintaining consumption. However, this positive momentum could evolve over the next two quarters. For now, the turnover of retailers has grown by about 7% year-on-year at the end of the first quarter of 2023, with outperformance from countries such as Germany, France, Finland, the Netherlands and Belgium. While countries such as Italy and Spain performed well, they were below the European average. At the eurozone level, retail sales volumes were down again. This observation therefore reflects the fact that the growth in the turnover of retailers remains driven by price growth and not by sales volumes.

The rental values of high street and shopping centres continued their repositioning between the fourth quarter of 2022 and the first quarter of 2023. However, the trend was less pronounced than in the previous quarter. A large majority of ground-floor retail units and shopping centres continued to see their rental values readjusted. **Conversely, the attractiveness of the most sought-after locations by retailers was reflected in a further increase in rents in the first quarter of 2023.**

RESIDENTIAL

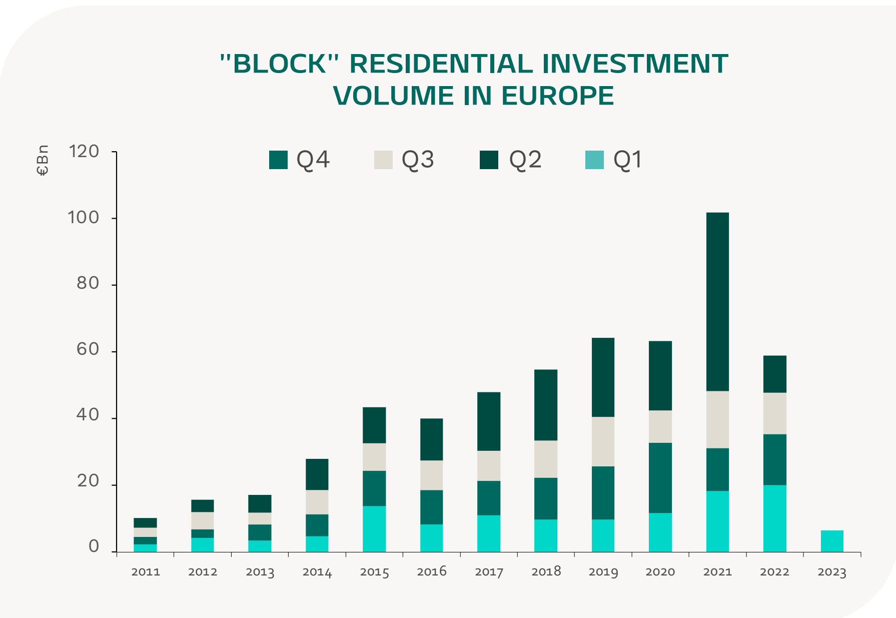
INVESTMENT IN RESIDENTIAL REAL ESTATE IN EUROPE - 2023 Q1 (3 MONTHS)	€6.5 bn
TREND IN PRIME YIELDS IN EUROPE – 2023 Q1 / 2022 Q4	↗
TREND IN RESIDENTIAL PRICE GROWTH IN EUROPE - 2023 Q1 / 2022 Q1	→
TREND IN HOUSEHOLD WAGES IN THE EUROZONE - 2023 Q1 / 2022 Q4	↗

Investment in "block" residential assets in Europe has slowed sharply, mainly in Germany after record years and in Sweden due to the market turnaround accelerated by variable-rate loans which has deteriorated asset values, and ranks third behind offices and retail with an investment volume of €6.5 billion in 2022 (-69% over one year). In the eurozone, Germany has invested more than €1 billion, followed by Spain with almost €1 billion in commitments, the Netherlands with €650 million and France with almost €600 million. Outside the eurozone, the United Kingdom was the most active, with more than €2 billion of investment, followed by Denmark with €500 million.

Decompressions were noted on the prime yield for several markets, in connection with the rise in borrowing rates. In the eurozone, Paris and Munich still have the most compressed prime yields with a prime rate below 3.0%. As regards the other major European cities, they followed a similar trend with a slight average decompression of between 10 and 20 bp, i.e. readjustments consistent with the rise in central bank borrowing rates.

The consumer price index (CPI) within the eurozone appeared to stabilise on a high plateau. For residential real estate, this CPI growth will be reflected in part or in full during a rent revision according to the indexation mechanisms specific to each country. Countries that were above the European CPI average are the Netherlands, Austria, Italy, Belgium, Germany and Portugal. The countries in the average or below are Ireland, Finland, Spain and France. On the other hand, rules such as «rent control» or the energy performance criteria of a building are there to protect tenants against abusive rent increases or energy-inefficient housing.

Residential construction in Europe resumed in the first quarter of 2023 after the sharp slowdown at the end of 2022. However, construction costs continued to increase in the first quarter of 2023, which weighed heavily on the new building permits, which are in sharp decline. At the same time, housing prices in the eurozone have stagnated at an annualised rate, but corrections were noted in some markets in the first quarter of 2023. On average, residential prices in the eurozone stagnated in the first quarter of 2023 (-0.1% t/t-n-1). Portugal (+6.7% t/t-n-1), Ireland (+4.6%), Belgium (+2.0%), France (+1.9%), Spain (+1.6%) and Italy (+1.0%) are up, while prices have corrected in Austria (-0.4%), the Netherlands (-1.0%), Finland (-2.2%) and Germany (-4.5%). Finally, it should be noted that the implementation of new energy performance standards in certain markets, such as France, directly impacts the market with discounts of about 15% of the sale price on these properties compared to “virtuous” properties.



HEALTHCARE

INVESTMENT IN HEALTHCARE REAL ESTATE IN EUROPE – 2023 Q1 (3 MONTHS)	**€1 bn**
TREND IN PRIME YIELDS IN EUROPE – 2023 Q1 / 2022 Q4	↗
OUTLOOK FOR CARE BED REQUIREMENTS BY 2030 IN EUROPE	↗

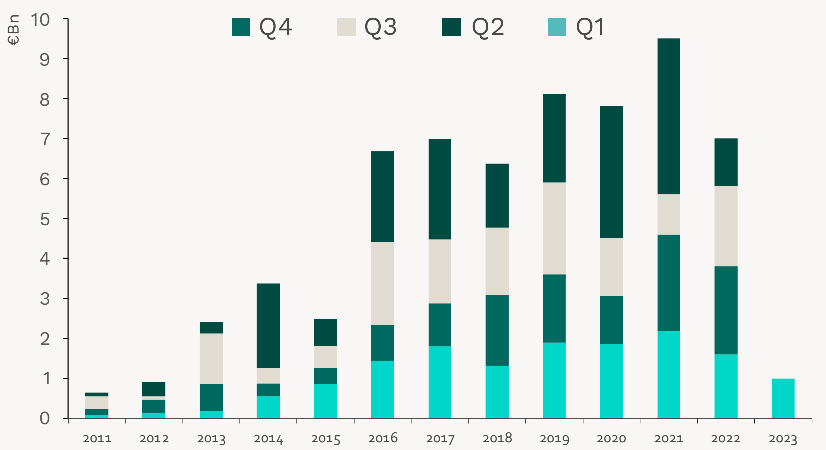
Investment volume (senior residences and nursing homes) totalled more than €1 billion in Europe in the first quarter of 2023, a volume down 34% year-on-year. In Europe, Germany was the most dynamic, with more than €300 million invested in the first quarter of 2023, followed by the United Kingdom with about €200 million, France with about €100 million and Belgium and the Netherlands with about €200 million respectively.

Prime yields in healthcare real estate experienced a slight decompression between the end of 2022 and the first quarter of 2023. France, Sweden, the United Kingdom, Belgium and Austria have prime rates of return of less than or equal to 4.50% for nursing homes. Prime yields in Germany, Italy, Spain, the Netherlands, Finland, Ireland and Portugal were above 4.50% for nursing homes. Finally, the prime performance of clinics also experienced a slight decompression between the end of 2022 and the first quarter of 2023. It was less than 5.0% in France and Germany and close to 6.0% in the Netherlands. It should be noted that the financial difficulties of several medium-sized operators in Germany have agitated the market. However, these remain isolated cases.

The average price per bed in Europe stood at €155,000 in the first quarter of 2023. The most prime assets were transacted at around €200,000 per bed on average, while the lowest quartile assets were traded at less than €145,000 on average. By country, France recorded an average price per unit of about €169,000 per bed and Germany ranks second, with a price per bed that is around €147,000 on average. Regarding Spain and Italy, a unit was signed at less than €100,000 on average this quarter. Outside the eurozone, the United Kingdom recorded an average price per transaction that was close to €200,000. Denmark has experienced an average price of more than €155,000. Finally, Sweden has the highest price per bed with about €300,000 in Sweden while in Poland, a bed was transacted at less than €100,000.

The demographic pressure of the elderly population generates a growing demand for healthcare real estate in various European countries. The sector will also have to meet the challenge of renovating its stock and constructing new buildings to meet demand. The loss of autonomy must be supported through assistance or care, especially for the population over 75 years of age, which will increase from 44 million in 2020 to more than 66 million in 2040 in the European Union (excluding the United Kingdom). Indeed, dependence increases sharply from the age of 75. By country, Germany will have the largest number of people over 75 years of age with 13 million people by 2030, followed by France with 10.5 million people. Spain, Italy and the Netherlands are closely following the heavyweights of the eurozone with a fast-growing population aged over 75 years old, between 3 and 10 million people in these countries by 2040.

INVESTMENT VOLUME IN RETIREMENT HOMES AND NURSING HOMES IN EUROPE



The latest official figures for overall health expenditure, including current healthcare expenditure as well as all curative and rehabilitation care, are on the rise, +5% between 2019 and 2020. By country, Germany has the largest budget with more than €430 billion in spending in 2020, followed by France with €280 billion, Italy with €160 billion, Spain with €120 billion and the Netherlands with €89 billion.

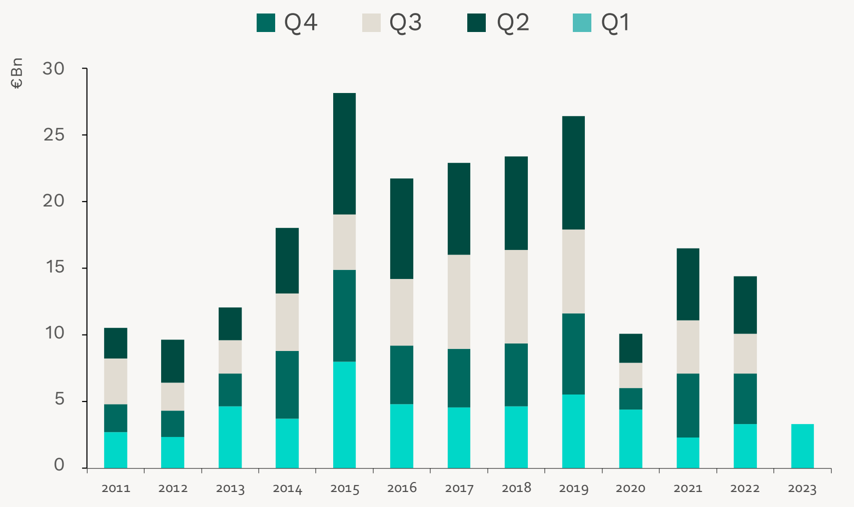
HOSPITALITY

INVESTMENT IN HOTEL REAL ESTATE IN EUROPE – 2023 Q1 (12 MONTHS)	€3 bn
ROOM OCCUPANCY RATES IN EUROPE – 2023 Q1 (3 MONTHS) / 2022 Q1	↗
REVPAR IN EUROPE – 2023 Q1 (3 MONTHS) / 2022 Q1	↗
AVERAGE DAILY RATE IN EUROPE – 2023 Q1 (3 MONTHS) / 2022 Q1	↗
TREND IN PRIME YIELDS IN EUROPE – 2023 Q1 / 2022 Q4	→
TOURIST ARRIVALS EXPECTED IN EUROPE – 2023/2022	↗

The capital committed for hotels will have finally managed to maintain a constant level, but a level that is still lower than the pre-COVID period. The hotel real estate market totalled more than €3 billion in the first quarter of 2023, stable over one year. In Europe, investments were concentrated in France, with more than €1 billion of investment in 2022, followed by Spain with about €650,000 million of commitment, then the United Kingdom with a fairly close amount, Germany with €300 million as well as Italy and Portugal with less than €100 million of commitment respectively.

The prime yields for hotels remained stable in the first quarter of 2023 compared to the last quarter of 2022. Prime rates of return for hotels under lease, based on rental profitability, remained below 4.5% compared to the previous quarter in London and Paris. The major German cities, Madrid, Milan, Amsterdam, Brussels and Lisbon maintained a yield of more than 4.5%. The hotels prime yields under a management contract, enabling the hotel owner to tap into both the value of the business capital and the value of the real-estate asset, offer a differential of between +100 and +250bp compared to a leasing contract.

HOTEL INVESTMENT VOLUME IN EUROPE



The number of hotel rooms sold or rented in Europe at the end of the first quarter of 2023 was on the rise (+32% over one year) in line with the recovery in passenger traffic in Europe. Whereas the number of tourists has not yet caught up with 2019 levels, arrivals are constantly improving. More than a year after the start of the war in Ukraine, while Western Europe was the best-performing region, the tourism impact in Eastern Europe remains significant. The recovery is still below the European average. One of the main reasons for this is Eastern Europe's dependence on Russian tourists. At European level, intra-European travel has increased its market share due to the international restrictions we have experienced. Tourists from non-US markets will increase, in particular, due to the reopening of China's borders to international travel. Driven by this dynamism, the rooms of high-end hotels (+41%) and the luxury category (+30%) rebounded well. Budget hotels were less impacted, and continued to perform well (+14% over one year). The medium category also increased (between +34% and +38%).

Hotel indicators are on the rise at the beginning of 2023. Continuously increasing, the occupancy rate of the hotel industry in Europe is up, +60% year-on-year. The average price is also oriented upwards, reaching €119 at the end of March 2023 against €103 over the same period in 2022. The RevPAR continued its acceleration to €72, whereas it was only €47 a year earlier. By category, the economy hotel sector is the only one to benefit from an occupancy rate of 70%.

Sources used throughout the document: Data from Primonial REIM Research and Strategy, Immostat, CBRE, Savills, BNP PRE, JLL, Knight Frank, MSCI, Oxford Economics, Eurostat, OECD, IMF, 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 €34,8 billion of assets under management. Its conviction-based allocation breaks down into:

- **44 %** offices,
- **33 %** healthcare/education,
- **11 %** residential,
- **6 %** retail,
- **5 %** hotels,
- **1 %** logistics.

Its pan-European platform manages **61 funds** and has more than 100,000 investor clients, 54% of which are **individual investors** and **46% institutional**. Its real estate portfolio consists of more than 1,535 properties (offices, healthcare/education, retail, residential, hotels) located in **10 European countries**.

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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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