REAL ESTATE CONVICTIONS EUROPE

The fund manager's view of european real estate markets in Europe

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FIGURES

EUROZONE GROWTH FORECAST 2021

+4,1 %

EUROZONE INFLATION FORECAST 2021

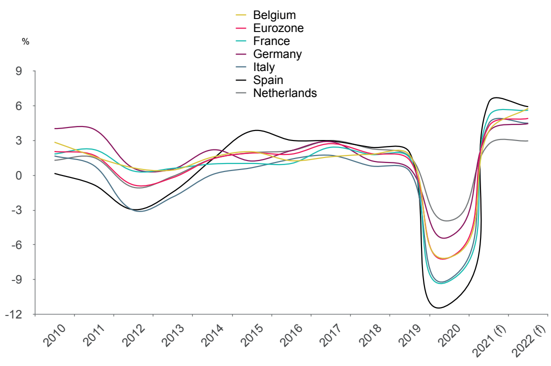
1,4 %

YIELD ON 10 YEAR GOVERNMENT BONDS IN THE EUROZONE

-0,1 %

Source : Oxford Economics

ECONOMIC ENVIRONMENT: GDP IN EUROPE



Sources: Primonial REIM Research & Strategy based on Oxford Economics.

ECONOMIC AND REAL ESTATE ENVIRONMENT

Invisible to the naked eye, the COVID-19 virus has nevertheless left traces of its passage everywhere: more than 2 million casualties worldwide, closed borders and restricted civil liberties. 2020, «The Worst Year Ever[1]», was marked by a pandemic crisis that caused a violent and unexpected recession in global economic activity (-3.9%). 2021 is already shaping up to be a pivotal year during which we expect to gain the upper hand over the pandemic and achieve the hoped-for breakthrough (+5.2% for world GDP). However, there are still many uncertainties we will need to deal with along the way out of the tunnel. A major challenge is emerging for all countries throughout the world: the success of vaccine campaigns, despite the multiplication of variants and the implementation of new lockdowns at the beginning of the year, in order to ensure a revival of confidence and activity from mid-2021.

With the acquisition of a large portfolio of vaccines (2.3 billion doses), based on various technologies already developed or under development, the European Union is aware of the risks of downgrading that could result from failure or too long a delay. After a historic decline of -6.8% in the eurozone in 2020, there is some hope for a resumption of economic growth in the eurozone in 2021 (+4.1%). However, the strength of the recovery will not be uniform across European countries. In Germany, GDP is expected to rise in 2021 (+3.6%) after a contraction in 2020 (-5.3%), a dynamic quite similar to that of the Netherlands (+2.6% in 2021, -3.9% in 2020). In France and Belgium, activity is expected to rebound even more strongly in 2021 (+5.0% and +4.0% respectively) because the decline was stronger in 2020 (-8.3% and -6.2%) compared to the economies of the North. In Italy and Spain, the economic rebound is expected to be 4.5% and 5.8% respectively in 2021 after a decline of 8.8% and 10.9% in 2020.

At its last meeting in January 2021, the ECB reconfirmed the very accommodative stance of its monetary policy to support the eurozone economies. Accordingly, key ECB interest rates will remain at low levels until the inflation outlook of close to 2% is sustainable. In addition, the ECB will continue its work on the Pandemic Emergency Procurement Programme (PEPP), which now totals €1,850bn. One of the effects of this policy has been to enable a reduction in yield spreads between the long-term German interest rate for the largest economy in the eurozone and the other countries.

With €240bn invested in 2020 (-25% year-on-year), including €150bn for the eurozone (-30%), the European commercial real estate market[2] is declining due to the caution of investors who have largely opted for well-located assets leased to resilient tenants. Investment volumes for Germany (€60bn, -23% year-on-year), France (€30bn, -36%), the Netherlands and Belgium (€16bn, -23%) and Italy €8bn, -34%) remained well above their ten-year average, with the exception of Spain (€9bn, -54%). Overall, prime yields for the best located office, residential and healthcare sectors remained stable or experienced slight year-over-year reductions. On the other hand, the current crisis has had a strong impact on shops and hotels, which saw their yields climb between the end of 2019 and the end of 2020.

[1] Time Magazine cover title for December 2020

[2] Commercial real estate refers to office, retail, logistics, service and residential real estate for institutional investors.

Sources for figures: BNP PRE, CBRE, RCA, Oxford Economics.

OFFICES

INVESTMENT IN OFFICE REAL ESTATE IN EUROPE – Q4 2020 (12 MONTHS)	€92bn
TREND IN PRIME YIELDS IN EUROPE – Q4 2020 (ONE YEAR)	→
TREND IN OFFICE TAKE-UP IN EUROPE – Q4 2020 (12 MONTHS)	↘
TREND IN VACANCIES IN EUROPE – Q4 2020	↗
TREND IN RENTS IN EUROPE – Q4 2020	→

In the eurozone, office investment is concentrated in two cities: Paris and Berlin. Outside the European Union and due to the uncertainties related to Brexit, investors have strongly limited their exposure to the UK market. After the air pocket recorded in the second quarter of 2020 and a rebound in the last half of the year, the volume of investment in office real estate in Europe was €92bn in 2020, a 34% decline year-on-year. Investors were attracted to the markets with high-quality, well-served, international office space with a large employment base. In the eurozone, Paris tops the list with nearly €17bn in investments, followed by Frankfurt and Berlin with nearly €10bn. None of the other European capitals exceed €5bn: Amsterdam, Brussels, Madrid, Milan or Munich.

After a decade characterised by a generalised compression trend, the hierarchy of yields on European prime office space has been turned on its head in the space of a year. Compared to the end of 2019, in the hundred or so office space markets analysed, prime yields were further compressed in a quarter of the most high-quality locations, a third of prime yields remained stable, while the other markets saw more or less marked corrections, mainly in the secondary markets. Cuts of between 5 and 10 bp were identified in the most «core» markets, such as Paris, Munich, Berlin or Frankfurt with a yield of less than 3.00%. Conversely, the corrections were mostly identified in European regional cities between the end of 2019 and the end of 2020 (+15 and +50 bp year-on-year).

Lockdown measures have had a heavy impact on European demand. The volume of office space take-up was approximately 9 million sq.m, down by almost 40% year-on-year. The Paris market remains Europe's largest market with 1.3 million sq.m transacted in 2020 (-45% year-on-year), followed by Berlin and Munich (demand take up in excess of 500,000 sq.m). For their part, Brussels, Milan, Amsterdam and Dublin took up around 300,000 sq.m. All European markets experienced year-on-year declines in trading volume of -15 and -60% in 2020.

PROJECTIONS OF JOB CREATION DYNAMICS IN THE MAIN EUROZONE COUNTRIES (Q/Q-1)

Sources: Primonial REIM Research & Strategy based on Oxford Economics.

Vacancies have increased in Europe, with the lack of transactions and the delivery of new offers influencing this dynamic. Amsterdam, Berlin, Cologne, Hamburg and Paris still have vacancy rates below the European average, while other major capitals such as Dublin, Helsinki, Madrid and Milan now have vacancy rates above 7%.

Rents remained stable or increased slightly in a majority of European markets. Most of the corrections were observed outside the eurozone: in the Eastern European countries and the United Kingdom. The ultra «prime» areas with very high rents, such as Paris CBD (€940/sq.m), held their ground and other markets with potential for rental growth experienced a slight increase, such as Brussels and Amsterdam.

Sources for figures: CBRE, IMMOSTAT, BNP PRE, RCA

RETAIL

INVESTMENT IN RETAIL REAL ESTATE IN EUROPE – Q4 2020 (12 MONTHS)	**€36bn**
TREND IN PRIME HIGHSTREET YIELDS IN EUROPE – Q4 2020 (ONE YEAR)	↗
TREND IN PRIME SHOPPING CENTRE YIELDS IN EUROPE – Q4 2020 (ONE YEAR)	↗
TREND IN THE PENETRATION RATE OF E-COMMERCE IN THE EUROZONE – 2021	↗
TREND IN RETAIL TURNOVER IN THE EUROZONE – 2021	↗

Business activity was severely disrupted by social distancing measures. However, while some brands were less impacted due to their digital transformation and/or the continuation of their business, this did not prevent a drying-up of capital flows for this asset class. In constant decline since 2015, the volume of investment in retail real estate in Europe recorded a further limited decline (-18% year-on-year to total €35.7bn in 2020. Germany confirmed its leading position (€9.2bn, -16% year-on-year), followed by France (€4.1bn, -36% year-on-year), Spain (€2.4bn, +76% year-on-year) and the Netherlands (€ 2.4bn, -7% year-on-year).

The health crisis has therefore accelerated the changes taking place between traditional physical shops and the rise of e-commerce. A correction of yields on a large majority of retail spaces was therefore recorded in 2020. Yields on the majority of highstreet assets remained stable between the third and fourth quarters of 2020 in the European prime and secondary markets. The decompression phenomenon (between 10 and 50 bp) nevertheless caught up with the markets that were spared in the first half of 2020 (Belgium, Netherlands, France, Germany). As regards shopping centres, the trend towards decompression was strong and widespread at the beginning of 2020 and gradually decreased in intensity at the end of the year. After a phase of decompression in the first half of the year, it is interesting to note that retail parks were stable or experienced a slight compression in the last quarter of 2020 (between -5 and -25 bp). Finally, supermarkets experienced generalised yield compression due to their strategic role during this health crisis.

PROJECTIONS OF HOUSEHOLD SPENDING DYNAMICS IN THE MAIN EUROZONE COUNTRIES (Q/Q-1)

Sources: Primonial REIM Research & Strategy based on Oxford Economics.

Private consumption recorded a historic decline in 2020. Consumption declined sharply in 2020 due to the lockdown of economies. However, this decline was largely offset by government support schemes. Consumption fell in the eurozone in 2020 (-8.1%) but should rebound in 2021 (+3.8%). This situation will inevitably have repercussions on the turnover of chains in value terms (-1.1% in 2020 before increasing sharply in 2021 (+4.7%). The countries most affected by the fall in consumption were Spain, Ireland and Italy for the whole of 2020. On the other hand, the penetration rate of e-commerce as a proportion of total retail sales increased sharply due to the lockdown and social distancing measures.

Adjustments to the rental values of retail premises were made. While the trend was fairly strong for shopping centres over several quarters (between -1% and -20%), the adjustment for highstreet retail space was concentrated at the end of the year (between 0% and -10%). The United Kingdom, a market outside the eurozone, recorded the strongest corrections for both the highstreet and shopping centres over several quarters.

Sources for figures: Oxford Economics, CBRE, RCA.

RESIDENTIAL

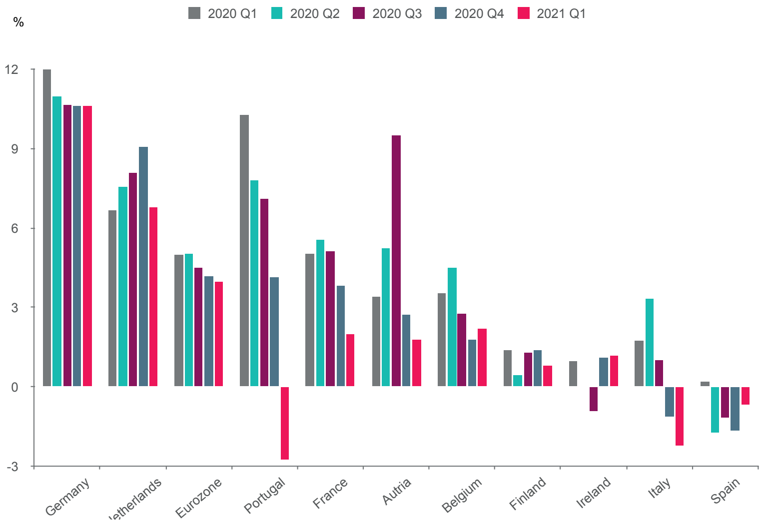
INVESTMENT IN RESIDENTIAL REAL ESTATE IN EUROPE – Q4 2020 (12 MONTHS)	€55bn
TREND IN PRIME YIELDS IN EUROPE – Q4 2020 (ONE YEAR)	↘
TREND IN PRICE INCREASES IN EUROPE – Q4 2020	↗

Appearing as a safe haven during this crisis, residential captured a significant share of capital. After an exceptional year in 2019, residential real estate therefore confirmed the attraction of investors to this asset class, which totals an investment volume of €54.7bn in 2020, down 14% year-on-year. In the eurozone the most active markets were: Germany (€16.7bn, -12% year-on-year), the Netherlands (€7.4bn, -11% year-on-year), France (€3.7bn, +2.4% year-on-year) and Spain (€1.8bn, -73% year-on-year). It should be noted that the decrease in the Netherlands and Spain follows a record amount of money committed in these two markets in 2019 and that the increase in France continues.

The safe-haven status of the residential sector contributed to a compression of prime yields in the safest cities and the best fundamentals in the eurozone. The risk premium between residential yields and 10-year sovereign rates was still favourable to investors during 2020. In the eurozone, Paris, Munich Vienna and Helsinki, saw the lowest prime yields, between 2.0% and 3.0%. Most of the major cities (Brussels, Berlin, Amsterdam, Madrid, etc.) recorded a reduction in their prime yield year-on-year (between 3% and 5.5%). Conversely, some cities that presented political or economic risks before the crisis recorded readjustments, such as Barcelona in Spain or Rome in Italy.

Due to the continuing demographic pressure in European metropolitan areas, public authorities have put in place solutions to facilitate access to housing in areas that have been under stress for several years. Some local authorities, particularly in Germany and France, have passed laws to cap rents and thus limit their escalation. Generally, this system consists of setting rent caps by neighbourhood, type of building and/or dwelling. However, for the European authorities, various indicators need to be monitored to ensure the stability of residential markets: the level of household debt, the quality of loans granted and a balanced increase in the level of residential property prices in relation to rents and household incomes. Despite restrictive measures and market risks, residential real estate was an asset with a steady and secure cash flow in 2020.

PROJECTIONS OF EVOLUTION OF HOUSE PRICES IN THE MAIN EUROZONE COUNTRIES (Q/Q-1)



Sources: Primonial REIM Research & Strategy
based on National statistics and Oxford Economics.

The health crisis has not threatened the fundamentals of the residential sector: demographic pressure, lack of supply and low interest rates have contributed to the rise in house prices in the eurozone in 2020. Residential prices in the eurozone mainly continued to rise in the fourth quarter of 2020 (+4.20% q/q1), although some markets experienced corrections. Germany (+10.6% q/q-1), the Netherlands (+9.1%), Portugal (+4.1%), France (+3.8%), Austria (-2.7%), Belgium (+1.8%), Finland (+1.4%) and Ireland (+1.1%) again showed positive dynamics. Conversely, Italy (-1.1%) and Spain (-1.6%) recorded slight corrections in their national residential price indices in the fourth quarter of 2020.

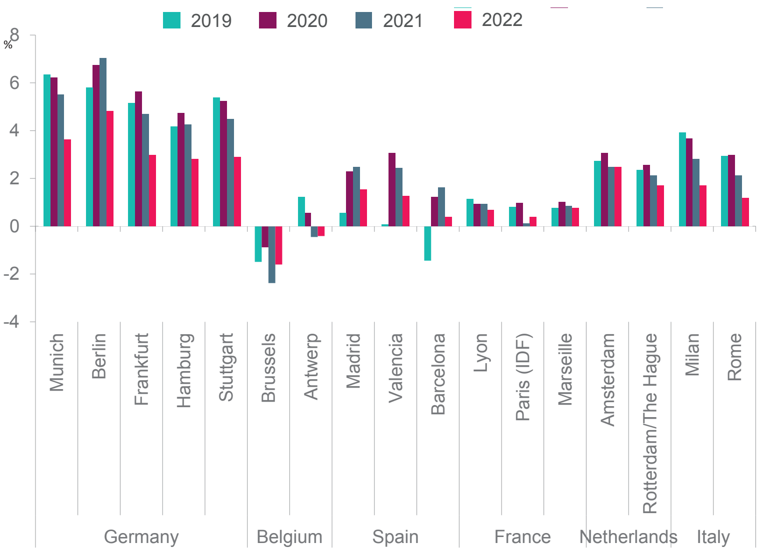
Sources for figures: National statistics, RCA, Oxford Economics.

HEALTHCARE

INVESTMENT IN HEALTHCARE REAL ESTATE IN EUROPE – Q4 2020 (12 MONTHS)	€7bn
TREND IN PRIME YIELDS IN EUROPE – Q4 2020 (ONE YEAR)	→
NEW BEDS NEEDED BY 2025/2030 IN EUROPE	↗

While it is undeniable that the Covid-19 pandemic has impacted European demographics in 2020, in the long term the fundamentals of the healthcare market and demand remain unchanged for the time being. The dependent population over 80 years of age has paid a heavy price during the epidemic, but the health measures put in place to combat Covid-19 could, in the long term, lead to a decrease in mortality due to influenza and rotavirus and thus to an increase in life expectancy in Europe. Moreover, it has been established that demographic pressure will continue to increase in the coming years, leading to a correlative increase in the number of dependent elderly people. The loss of autonomy must be accompanied by assistance or care, particularly for the population of over 80-year-olds, which will increase from 22 million in 2020 to 26 million in 2030 in the eurozone. The shortage of future offers in senior residences and nursing homes therefore remains a central issue. According to professionals, around 45,000 new beds in nursing homes will have to be created every year between 2015 and 2025/2030 in the main eurozone countries in order to meet demand. Moreover, a significant part of existing properties will have to be modernised.

PROJECTIONS OF EVOLUTION IN THE NUMBER OF PEOPLE OVER 80 IN THE MAIN CITIES (REGIONS) OF THE MAJOR EUROZONE COUNTRIES (IN %) (N/N-1)



Sources: Primonial REIM Research & Strategy based on Oxford Economics.

European healthcare real estate, a socially indispensable infrastructure, remains a sought-after asset class for investors, but the lack of available-for-sale products limits this keen interest. Investment volume (senior residences and nursing homes) totalled €6.6bn in Europe in 2020 (-17% year-on-year). In the eurozone, the market is up (+4% year-on-year) with €4.4bn of investment. The German market performed very well with €1.8bn transacted in 2020, followed by the Benelux countries for nearly €900m, the southern European countries for nearly €500m and France for around €400m.

Prime healthcare real estate yields have remained largely stable, although there has been some compression. Prime yields on nursing homes in France, Germany, Belgium and Finland are equal to or less than 4.75%, stable year-on-year. Prime yields on nursing homes in Spain, Italy, the Netherlands and Portugal are 5.00% and 6.00%. Italy experienced a slight compression of its prime yield year-on-year.

The healthcare sector continued its consolidation on a European scale, demonstrating the importance of strong and responsive international operators in times of crisis. After entering the Dutch market for the first time in 2019, Korian aims to operate 50 facilities with approximately 1,300 beds in 2021 through partnerships with local market leader Ontzorgd Wonen and through the acquisition of facilities from family businesses such as Het Gouden Hart. In addition, Orpéa made new acquisitions, particularly in Ireland, becoming the number two in the country with the acquisition of Brinley Healthcare. At the end of 2020, DomusVi, Europe's number three provider of nursing homes was in negotiations to acquire Les Matines, a French company made up of a dozen establishments. In the clinical sector, the American KKR finally acquired a 45% stake in Elsan, France's second largest private hospital group, alongside a block of French shareholders. This transaction values the group at €3.3bn.

Sources for figures: RCA, Operators, Primonial REIM.

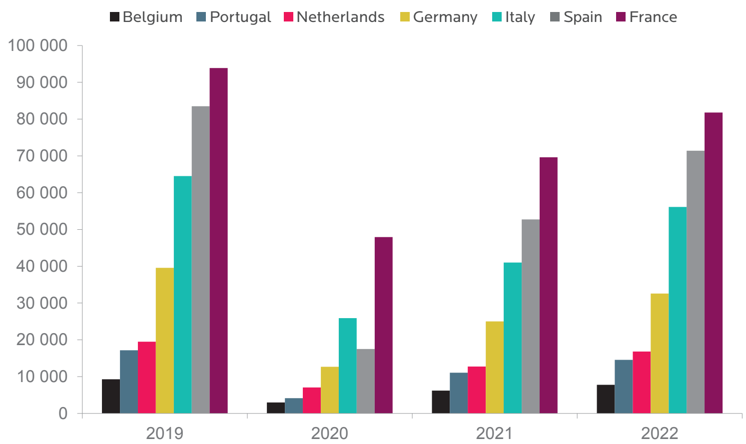
HOTELS

ROOM OCCUPANCY RATE IN EUROPE – Q4 2020 (12 MONTHS)	33.1%
REVPAR IN EUROPE – Q4 2020 (12 MONTHS)	€30.9
NUMBER OF ROOMS SOLD OR RENTED IN EUROPE – Q4 2020 (12 MONTHS)	582,000,000
PRIME YIELDS ON HOTEL ACCOMMODATION IN MAJOR EUROPEAN CITIES – Q4 2020 (12 MONTHS)	4.25% – 6.5%
OUTLOOK FOR TOURIST ARRIVALS IN EUROPE – 2021	↗

The tourism sector is one of the sectors hardest hit by the Covid-19 pandemic due to border closures and restrictive measures. For the airline sector, this has resulted in a dramatic decline in international tourist arrivals and for the hotel sector in closures for both independents and large hotel brands. Accordingly, over 2020 as a whole, the hotel real estate market totalled €9bn (-65% year-on-year). Capital was concentrated in Germany (€1.8bn, -62% year-on-year), France & Benelux (€1.3bn, -58% year-on-year) and Italy, Spain & Portugal (€2.2bn, -49% year-on-year).

The consequences of Covid-19 on tourism consumption have led to a correction in yields on hotel assets over the whole of 2020. However, it was during the first half of the year that the strongest decompressions were identified, while a transition took place during the third and fourth quarters. A decompression of between 25 and 50 bp was observed between the end of 2019 and the fourth quarter of 2020 in the eurozone. Prime yields in Berlin, Munich, Helsinki, Vienna, Amsterdam and Paris are between 4.25% and 4.75%. Cities such as Milan, Madrid, Brussels and Lisbon are positioned between 5.0% and 6.5%.

PROJECTIONS OF TOURIST ARRIVALS IN THE MAIN EUROZONE COUNTRIES



Sources: Primonial REIM Research & Strategy based on Oxford Economics.

The number of hotel rooms sold or rented in Europe in 2020 was approximately 582 million (compared with 815 million in 2019). This fall is explained by the halt in international and, to a lesser extent, domestic tourist flows. According to first estimates, the tourist flow in Europe totalled around 250 million arrivals in 2020 compared to 750 million in 2019. By country, France, Italy, the Netherlands, Belgium and Germany are likely to limit the decline in the flow of tourist overnight stays compared to the European and international average. Conversely, Spain and Portugal are among the hardest hit countries. The change in the customer profile has contributed to a reshuffling of the cards by category. The number of rooms sold or rented was dominated by economy hotels with 47% of the volume, with the mid-range segment accounting for 40% of establishments, upscale hotels representing 10% and the luxury segment 3%.

Occupancy and RevPAR levels were profoundly affected by the implementation of many health restrictions in 2020. In terms of hotel indicators, the hotel occupancy rate in Europe fell from 71.9% in 2019 to 33.1% in 2020, the average price was €118 in 2019 and is now €93 and RevPAR, which was €85.1, has fallen to €33.1. By category, economy hotels fared well with an occupancy rate of over 40%, mainly driven by French customers, the mid-range category was impacted with an occupancy rate of around 30% and the upscale and luxury segment with an occupancy rate of between 25% and 29% due to the absence of international customers.

Sources for figures: CBRE, RCA, STR, Oxford Economics.

REAL ESTATE OUTLOOK 2021- 2025

OUTLOOK FOR THE MAIN MARKETS IN THE EUROZONE	Short term (less than 12 months)	Medium term (between 1 and 5 years)
OFFICE SPACE (DEPENDING ON MARKETS)	Opportunistic to positive	Positive
RETAIL (DEPENDING ON FORMATS)	Wait-and-see to opportunistic	Opportunistic
RESIDENTIAL	Positive	Positive
HEALTHCARE	Positive	Positive
HOTELS	Wait-and-see to opportunistic	Opportunistic

With some uncertainties dispelled, 2021 started on a more positive basis than previously estimated. The risks associated with a no-deal Brexit were finally resolved from a trade point of view in December 2020, the election of Joe Biden as President of the United States with a majority in the Senate will enable his administration to govern, and the launch of the vaccination campaigns have raised hopes of a return to gradual normality during 2021, even though many uncertainties remain.

In this context, the central scenario we have adopted is that of the major European and international institutes, which assumes that, after the plunge in 2020, GDP in the eurozone is expected to rise in 2021 (+4.2%). These estimates are based on the assumption that the lockdown measures in the 19 countries will be maintained until the end of March 2021.

However, the spread of uncontrolled variants of Covid-19 in eurozone member states, an extension of the lockdown measures after the end of March or increased logistical difficulties in carrying out the vaccination campaigns would partially jeopardise these prospects.

If the situation were to deteriorate sharply compared with the central scenario, the eurozone would only return to its pre-crisis level from 2023 onwards. On the other hand, a real division could quickly emerge between countries that are unsuccessful in implementing their vaccination campaigns and countries that succeed in achieving herd immunity, such as Israel, where the spectacular vaccination campaign is showing the first signs of effectiveness (according to data at the end of January 2021), allowing local authorities to express their optimism regarding the introduction of a health «passport» by April 2021.

In the eurozone, notwithstanding massive support from governments and European economic institutions seeking to minimise business failures and promote the recovery, there are clear «pre-crisis» and «post-crisis» user profiles for ensuring sustainable income over time. Similarly, the convergence of «pre-crisis» real estate yields has been shaken up and has given way to a new hierarchy of yields between real estate types.

In this context, location and user profile will remain key criteria in the investment selection process to ensure the sustainability of the overall yield over time. However, the risk/return outlook is changing. This crisis has highlighted the fact that risk management in the investment process must henceforth be complemented by extra-financial criteria, notably social or environmental, in order to anticipate future challenges..

OFFICES

The core office markets in Europe now appear to be the best positioned for the current cycle in terms of value, revenues and liquidity. While working from home has helped companies get through the health crisis of 2020, it is also clear that the physical and collaborative work environment contributes to the well-being of employees and is a key success factor for companies. On the other hand, it is too early today to quantify the real quantitative impact of working from home on office markets in the long term, but a polarisation between «core» and «secondary» markets was observed between the end of 2019 and the end of 2020. We believe that in the short term, the real estate cycle (value, rent) will have a greater impact on the overall performance of assets than working from home, which we see more as an acceleration of trends in markets that are already imbalanced. As a result, core assets/markets adapted to the new characteristics of the future workplace, with solid tenants and long leases, should experience the best prospects for valuation and future rental growth, while the least secure or obsolete assets could experience corrections (secondary locations, significant vacancies, unsuitability for new uses) which could impact the ability of these assets/markets to deliver a high level of performance in the medium term. In the short term, while a new hierarchy of yields has been adopted based on the fundamentals of each market, further compression could be recorded on certain core assets and opportunities will be seized in emerging districts, offering offices adapted to new uses when the recovery in demand take up is confirmed.

RETAIL

The restrictive measures (curfews, closures of certain shops, lockdown measures) will still have an impact on consumption throughout the eurozone. The impact on yields will be limited because the adjustments have already been recorded. In terms of location, we believe that the most core European market footings and shopping centres should have the most favourable prospects for valuation and future rental growth, while assets with a secondary location or high vacancies could impact their ability to deliver stable performance over the medium term. In addition, we continue to believe that the rapid increase in online sales remains a threat to businesses that have yet to make the digital transition. These user profiles represent a risk in terms of succeeding in delivering secure revenues, irrespective of the type of asset. In the short term, after the new hierarchy of yields, stabilisation should take place for a majority of assets, irrespective of format. Opportunities may arise with the gradual return to normal.

RESIDENTIAL

While the question of a one-off correction in residential property values may arise for some markets, market fundamentals in the eurozone are likely to result in stable values in a large majority of European cities.

REAL ESTATE OUTLOOK 2021- 2025

OUTLOOK FOR THE MAIN MARKETS IN THE EUROZONE	Short term (less than 12 months)	Medium term (between 1 and 5 years)
OFFICE SPACE (DEPENDING ON MARKETS)	Opportunistic to positive	Positive
RETAIL (DEPENDING ON FORMATS)	Wait-and-see to opportunistic	Opportunistic
RESIDENTIAL	Positive	Positive
HEALTHCARE	Positive	Positive
HOTELS	Wait-and-see to opportunistic	Opportunistic

For the time being, we believe that residential price growth in the eurozone should be maintained (+3.5% in 2021 and +2.6 in 2022) due to a lower correlation to the economic cycle than other assets. In the event of a correction, we believe that the impact will be limited in time due to demographic pressure (accentuated by the temporary halt in developments) and measures to ensure market liquidity. However, in the event of a prolonged recessive economic environment, which would impact household income and therefore their debt capacity, a negative impact on housing prices could be observed. For the time being, the European residential markets are mainly expected to perform well in the medium term in terms of capital and rental performance, despite occasional adjustments in certain markets.

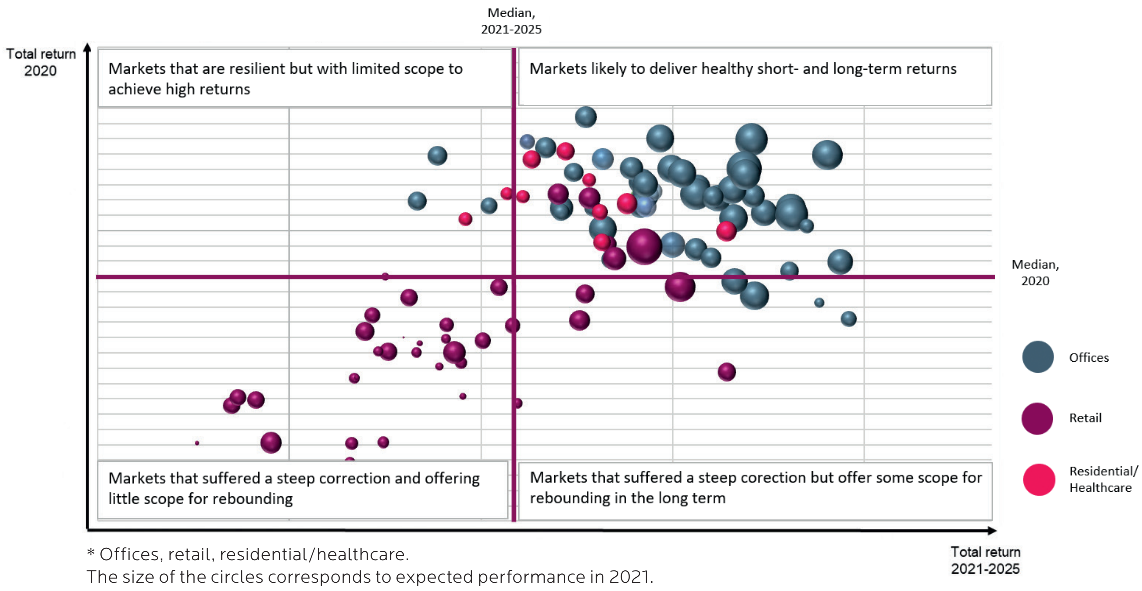
HEALTHCARE

The Covid-19 crisis has highlighted the importance of healthcare systems for European populations and the challenges in the short, medium and long term. The Covid-19 crisis has highlighted the importance of healthcare systems for European populations and the challenges in the short, medium and long term. One of the limitations that has become apparent is the need to strengthen the current offer for the elderly. This will require very significant investment by the public and private sectors, especially as demographic pressure - irrespective of viral threats - will remain strong over the coming years. For the time being, we believe that the shortage of supply in the market could lead to limited investment volumes but this will not be the result from a process of investor mistrust. As a result, prime yields should behave in a similar manner to what we expect to see on the residential market.

HOTELS

The tourism sector suffered a major shock in 2020 and will continue to experience disruption in 2021. While the performance of the hotel sector fell in 2020, a rebound in the sector's main indicators is expected in 2021 in terms of occupancy rate, average price and RevPAR. Concerning prime hotel yields, some assets are no longer likely to experience any decompression, while other markets could see further adjustments. On the other hand, the economy and mid-range segments managed to show some resilience thanks to the domestic customer base, while the high-end/luxury segments were heavily penalised by the absence of international customers. This is expected to continue until international tourist flows resume. After a certain amount of mistrust, opportunistic acquisitions on the part of investors could quickly develop with the intensification of vaccine campaigns and the gradual reopening of borders.

OUTLOOK FOR THE PERFORMANCE OF REAL ESTATE IN EUROPE IN 2020-2025



* Offices, retail, residential/healthcare.
The size of the circles corresponds to expected performance in 2021.

Sources for figures: CBRE, STR, Oxford Economics, Primonial REIM Research & Strategy.

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.

Primonial Real Estate Investment Management (Primonial REIM) is a portfolio management company approved by the French financial markets authority (AMF) on 16 December, 2011. It received AIFM accreditation on 10 June, 2014. Its business consists in creating, structuring and managing long-term real estate investments by individual and institutional investors.

Primonial REIM has a comprehensive range of expertise:

- **multi-products:** SCPI, OPCI, SCI;
- **multi-sectors:** offices, retail, residential, hotels, healthcare and education property;
- **multi-national:** France, Germany, Spain, Italy, Belgium, Ireland, Netherlands and Czech Republic.

At 31 December 2020, Primonial REIM had:

- **+ € 26bn** of assets under management;
- **75 909** associates;
- **50 independent real estate** advisors;
- a portfolio of **4,643,011 m² and 7,000 tenants,** including a high share of large corporate tenants (Samsung, Korian, Crédit Agricole, SNCF, etc.).

www.primonialreim.com

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The Research & Strategy Department's role is to formalize Primonial REIM's real estate investment strategies, based on continuous monitoring of the French and European markets. Although collective real estate accounts for a growing share of institutional portfolios and household savings, it is at the crossroads of financial (hierarchy of rates), economic (tenants' business models), demographic (the metropolisation phenomenon) and societal (changes in usage) factors. This is why a cross-cutting analysis is needed, which is also long term and therefore in keeping with the horizon of most real estate investors.

Real Estate Convictions Europe offers Primonial REIM's quarterly view of its markets of choice, i.e. offices, retail outlets and healthcare and residential real estate, in the Eurozone.

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