PRIMONIAL REIM

REAL ESTATE CONVICTIONS

The fund manager's view of real estate markets

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FIGURES

GROWTH FORECAST, FRANCE 2019

1.5 %

INFLATION FORECAST, FRANCE 2019

1.3 %

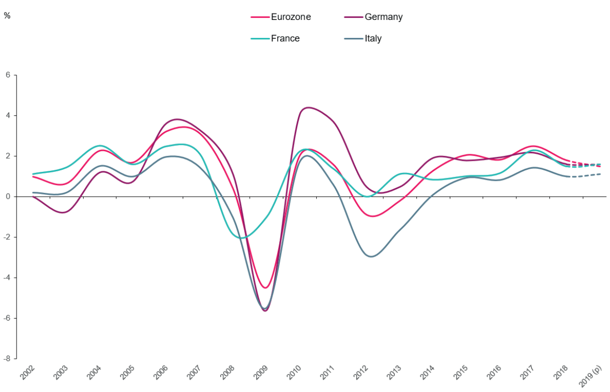
10Y TREASURY BOND FORECAST, FRANCE 2019

10Y FRENCH TREASURY BOND

1.1 %

Source: Oxford Economics

ECONOMIC ENVIRONMENT : GDP IN EUROPE



Sources: Primonial REIM Research & Strategy according to Oxford Economics

ECONOMIC ENVIRONMENT

2018, the year of desynchronization. The US economy saw a sharp acceleration in its economic growth of nearly 3% due to the tax reforms introduced by D. Trump. By comparison, the other main economic blocks toned it down, as China showed signs of a slowdown and the four major European economies (Germany, France, Italy and Spain) contributed to the dip in growth in the eurozone. The tide began to turn at year-end in the US, however, and it was once again the financial markets that raised the alarm. For some, the correction to equity prices at the end of 2018 was an advanced indicator of a more pronounced slowdown of global economic expansion. .

As 2019 gets off to a start, economic growth prospects are therefore less optimistic than at the beginning of 2018. Causes of investors' mistrust include a return of bilateralism in trade relations, the rise in populist tensions and volatility on the stock markets. US growth forecasts should fall back to 2.5% in 2019. The world's second largest economy, China, became a focus of concern again because of the increasing signs of a slowdown in its economy, despite a GDP of more than 6%, its worst growth rate in 28 years.

The eurozone's open economy slowed in 2018 due to the deceleration of global trade. Growth forecasts for 2019 indicate a slowdown for the eurozone (+1.4% year on year), the trend being more pronounced for Germany (+1.6%), whereas France's growth should be in keeping with past levels (+1.5%). Some positive factors remain, including the European Central Bank's (ECB) accommodative policy, the easing of fiscal policy across the eurozone and rising private consumption. In 2019, some growth factors will dissipate, however, such as external demand and corporate investment.

Will there be further delay in rate rises ? In the specific case of French real estate, the global economic slowdown could have an impact on rental markets, although they are showing signs of resilience (see below). Investors are nevertheless above all looking towards the European Central Bank. Although the ECB announced the ending of quantitative easing (large-scale purchases of securities) in December 2018, the economic environment suggests that key rates should be kept the same. Long-term yield forecasts for 10-year French Treasury bonds should therefore be limited to around 1% in 2019, i.e. a low level that will have no impact on prime real estate yields.

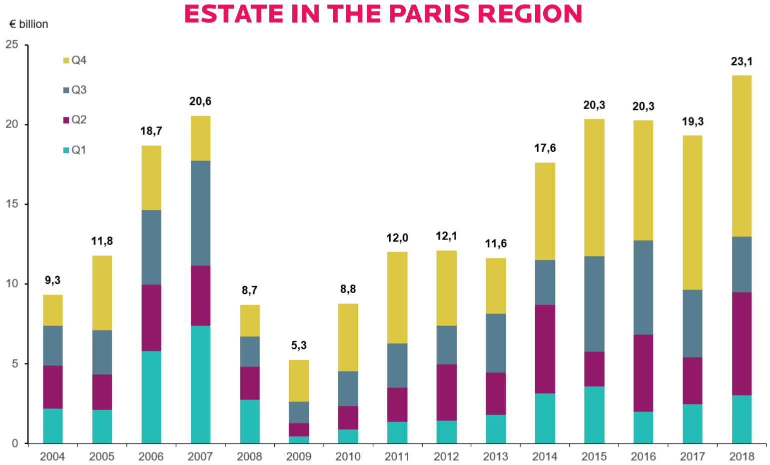
Source of quantified data: Oxford Economics

OFFICES

OFFICE PRIME YIELD IN THE PARIS CENTRAL BUSINESS DISTRICT	3.00 %
YEAR-ON-YEAR CHANGE IN TAKE-UP IN THE PARIS REGION	-5.00 %
VACANCY RATE IN THE PARIS REGION	5.10 %

Record volumes invested. The €32 billion threshold was crossed in the commercial real estate investment market for the first time in France in 2018. The Paris region's market attracted the largest share of capital, accounting for 3/4 of the amounts invested. Offices in West Paris, La Défense and the West Crescent were the main targets. Deals of upwards of €300 million were signed in these zones, such as Capital 8 covering 45,000 sq. m bought by Invesco, the Tour Pacific covering 53,000 sq. m bought by SG Insurance, and the Tour Sequana covering 43,000 sq. m bought by AccorHotels. France's other regions were not far behind, with deals worth more than €250 million, including the purchase of a portfolio of offices in Lyon covering 60,000 sq. m by Primonial REIM. Still a substantial risk premium. Prime office yields in the Paris region offered a risk premium of around 220 bp in 2018 compared with the 10-year French Treasury bond, repre-senting a 5 bp fall versus 2017. Despite an environment of growing risk aversion, the average value per square meter is continuing to increase (+1% year on year) and is focusing attention (€6,510/sq. m on average). The Paris segment, with average values of more than €8,000/sq. m, and the West Crescent & La Défense, at €6,000/sq. m, outstrip the other regions, where average values are less than €5,000/sq. m. This market sentiment is fueled by a few exceptional deals whose value exceeds €15,000/sq. m.

VOLUME OF INVESTMENT IN COMMERCIAL REAL ESTATE IN THE PARIS REGION



Sources: Primonial REIM Research & Strategy according to Immostat

The rental market is showing signs of strength. After an outstanding year in 2017 (2.8 million sq. m), and despite a fall (-5% year on year), take-up was satisfactory in 2018, with 2.5 million sq. m changing hands on the Paris region's rental market. The first half of 2018 saw growth (+18% year on year), driven by economic buoyancy in 2017, prior to a decline in the last six months (-23% year on year) due to the economic slowdown and the risks threatening the growth outlook. Average headline rents gained €380/sq. m/year for second-hand space rents (+6% year on year) and €386 sq. m/year for new or refurbished properties (+3% year on year). Demand for office space, scarcity of supply and the reduction in incentive measures (which fell below the 20% threshold on average in the fourth quarter of 2018) are behind the upwards pressure on rents. Also note that coworking companies were particularly active in 2018. This includes WeWork, which leased 20,000 sq. m in the Le France building in the 13th district of Paris, a massive Paris Rive Gauche urban development program.

Source of quantified data : Immostat, BNP PRE, CBRE, Primonial REIM

RETAIL

CHANGE IN HOUSEHOLD CONSUMPTION IN 2019 (FORECAST)	**+ 1.40 %**
HIGH STREET SHOP YIELD	**2.50 %**
SHOPPING CENTRE YIELD	**3.50 %**
RETAIL PARK YIELD	**4.25 %**

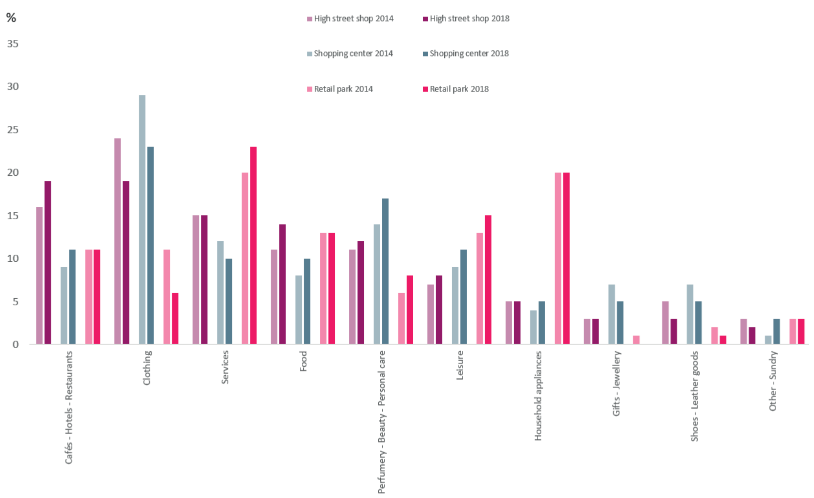
Whereas, on the stock market, listed real estate companies invested in retail real estate had an extremely difficult year in 2018, in France the year was more mixed for this segment, with dividend yields sometimes far exceeding the direct real estate yield.

Around €4.4 billion were invested in retail real estate in 2018 (+9% year on year). The signals were clear: high street shops won the popularity contest both for trophy assets in top locations and city center food retail spaces. Note the sale of a portfolio of 67 Monoprix stores by the Casino group for €742 million and the purchase of Apple's flagship store on the Avenue des Champs-Elysées for €600 million by Hines and BVK.

Prime assets are showing considerable resilience, with low yields, while some secondary assets saw a rise in 2018. Prime high street shops recorded a yield of 2.5%, with a differential of 100 to 175 bp for shopping centers and retail parks.

There were strong shifts in the organization of physical retail outlets, forced to reinvent themselves in order to adapt to new household consumption patterns. For several years, the "Clothing" sector has been undergoing a profound change resulting, between 2014 and 2018, in a significant reduction in the number of outlets in favour of "Services", "Cafés, Hotels and Restaurants" and "Leisure".

RÉBREAKDOWN OF THE NUMBER OF RETAIL OUTLETS BY TYPE AND BY ACTIVITY IN FRANCE FROM 2014 TO 2018



Sources : Primonial PREIM Recherche et Stratégie d'après Codata

The "yellow vest" crisis negatively affected some brand companies' performances in the center and on the outskirts of cities during the last few weeks of 2018. This crisis is tending to accelerate the reconfiguration at work in the retail real estate market. On the one hand, rental values in the best locations offering secure revenue have continued to rise, mainly because of the increase in leases, whereas other locations have seen renegotiations or trade-offs.

Sources of quantified data: BNP PRE, C&W

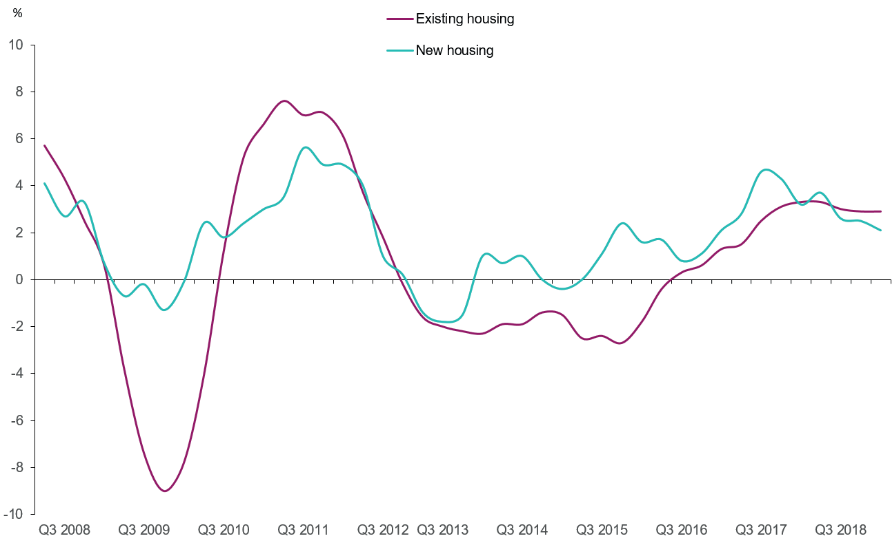
RESIDENTIAL

EXISTING HOUSING SOLD AT Q3 2018	956,000 sales (+0.8% on an annual qoq basis)
RISE IN PRICES OF EXISTING HOUSING IN FRANCE AT Q3 2018	+3.4% (year on year)
BUILDING STARTS AT Q3 2018 (12-MONTH TOTAL)	423,900 (-1.1% versus the end of 2017)

Existing housing volumes are still substantial. The number of existing housing transactions in the third quarter of 2018 grew to 956,000 sales (+0.8% on an annual qoq basis). Over the first nine months of 2018, apartment prices continued to climb (+3.4% year on year) in the Paris region (+4.2%) and in the other regions (+2.6%). In 2018, the steepest price rises were recorded in the main French metropolitan areas of Bordeaux (+8.8% year on year), Lyon (+7.4%), Paris (+5.9%) and Nantes (+6.7%).

The new housing market is showing signs of stalling. With 423,900 building starts in the third quarter of 2018 (12-month total), new housing construction continued to fall (-1.1%) compared with 2017. There was a large dip in the real estate released for sale to individuals by real estate developers (-14.2% year on year). Although new housing prices have continued to increase (+2.1% year on year), they are showing signs of stalling quarter on quarter.

PRICE INDEX FOR MAINLAND FRANCE, YEAR-ON-YEAR CHANGE



Sources : Primonial REIM Recherche & Stratégie d'après INSEE

Conditions are still positive in historical terms. The average interest rate on housing loans (long term and fixed rate) fell in the second half of the year to around 1.5%. Loan terms are getting longer, however, due to the rise in real estate prices.

An active institutional market. The block residential market for institutional investors exceeded €4 billion in 2018. Yields are between 2.5% and 3.0% for residential real estate in Paris, and between 3.5% and 6.0% in the other regions. The most emblematic transaction in 2018 was the sale by SNCF of a portfolio of 135 buildings for €1.4 billion.

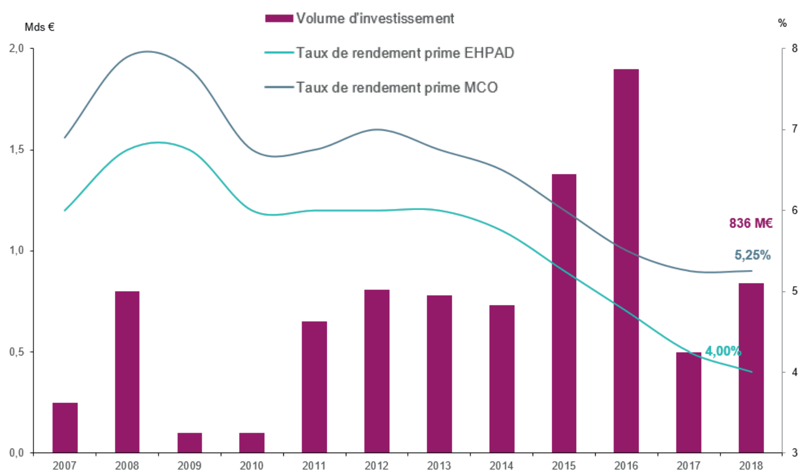
Sources of quantified data: BNP PRE, JLL, FNAIM, Notaire-INSEE and Soes, Sitadel

HEALTHCARE

CARE HOME PRIME YIELD	4.0 % - 5.5 %
MEDICAL, SURGERY AND OBSTETRIC CLINIC PRIME YIELD	5.25 % - 6.5 %

The healthcare real estate investment volume in France was more than €800 million in 2018. After the two acquisitions of care home portfolios at the start of the year by AXA IM-RA and Icade, for €250 million and €180 million respectively, smaller purchases took place in the second half-year. Primonial REIM signed a deal for the purchase of a rehabilitation and recuperative care clinic for €14m in Cahuzac and Swiss Life bought an elderly care home in Saint-Mandé. With more than €2 billion of assets under management, the sector leaders are still Primonial REIM and Icade Santé. Prime yields fell slightly (-25 bp year on year), to 4.0% at the end of 2018 for care homes, and remained stable at 5.25% for medical, surgery and obstetric clinics.

HEALTHCARE REAL ESTATE INVESTMENT VOLUME AND YIELD IN FRANCE



Sources : Primonial REIM Recherche & Stratégie d'après RCA, Your Care et C&W

The care home sector in France was composed of more than 7,500 establishments with 612,000 beds in 2018. We estimate that, by 2025, the sector will need 145,000 new beds or to modernize. While the five biggest operators own 55% of the beds in the private sector, the consolidation by the sector leaders is continuing. Korian (more than 30,000 beds in France) recently acquired the Omega group (1,000 beds), for instance. The medical, surgery and obstetrics/rehabilitation and recuperative care/long-term care/psychiatric care/home hospitalization sector accounts for around 4,000 establishments with nearly 500,000 beds. The number of healthcare establishments is falling in the medical, surgery and obstetric sector, as facilities are combined in a move towards outpatient care. Despite an ongoing shift towards concentration, private sector players are still modest, as the top three operators own nearly 25% of all establishments. **The sector is therefore still being consolidated across France and Europe**.

Sources of quantified data: Your Care, RCA, Primonial REIM

DEFINITIONS

10-Year French Treasury bonds: debt securities issued by the French state with a 10-year term. The 10-year French Treasury bond is widely accepted as the risk-free indicator.

Volume of investment in commercial real estate: global volume of office, retail outlet, business premises and warehouse assets acquired, by an investment buyer, for a "deed-in-hand" amount of more than €4 million.

Office take-up (Immostat): all rentals or sales to occupiers (rather than sales to investors) involving premises for office use. This is expressed in square meters of usable space.

Off plan : off-plan sales are the contractual method whereby buildings that have yet to be built are sold. Investors become their owners as construction progresses.

Incentives measures: incentives granted to tenants, such as rent-free periods and improvement works.

Yield : relationship between the gross or net income from the building and the "deed-in-hand" capital invested by the buyer (acquisition price + property transfer fees and taxes).

Shops walls: refers to traditional shops on the ground floor of buildings in city center high streets.

Shopping Centre: building containing a complex of at least 20 shops, housed in covered galleries, centered on a supermarket that ensures a customer flow.

Retail park: an open-air retail complex built and managed as a single unit. Includes at least five buildings joined together by thoroughfares. Located on the outskirts of cities.

Care home: a medically-equipped structure designed to accommodate elderly people needing care.

Medical, surgery and obstetric clinic: hospital stays to receive short-term care, with or without accommodation, or treatment for serious conditions during their acute phase.

Primonial Real Estate Investment Management (PREIM) is a portfolio management company authorised by the Autorité des Marchés Financiers (AMF - French Financial Markets Authority) on 16 December 2011.

It received AIFM authorisation on 10 June 2014. Its business consists of creating, structuring and managing long-term real estate investments for individual and institutional investors.

Primonial REIM has a comprehensive range of expertise:

- **Multi-product: SCPI, OPCI and SCI funds,**
- **Multi-sector: offices, retail outlets, residential assets and healthcare and education facility real estate,**
- **Multi-national: France, Germany, Spain, Italy, Belgium and Ireland.**

At 31 December 2018, Primonial REIM had

- **€17.2 billion of assets under management,**
- **58,920 associates,**
- **43 independent real estate advisors,**
- **Assets worth 3,817,380 sq. m. and 7,000 tenants, including a large share of major corporate tenants (e.g. Samsung, Korian, Crédit Agricole and SNCF).**

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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 offers Primonial REIM's quarterly view of its markets of choice, i.e. offices, retail outlets and healthcare and residential real estate, in France (two publications a year) and Europe (European Real Estate Convictions, two publications a year).

PRIMONIAL
REIM

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Ref.: H2 2018 Real Estate Convictions Brochure - DC02895 - 022019