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VALUE FROM VALUES

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REAL ESTATE CONVICTIONS

Asset Manager's View of the European Real Estate Markets

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ECONOMIC AND REAL ESTATE ENVIRONMENT

With the war in Ukraine having triggered a costly crisis, the timing of any end to the conflict remains unclear. The economic repercussions of the crisis will contribute to a marked slowing of global growth in 2022 and will fuel inflation. These factors have led to a fresh downgrade in expectations of global growth to 3% for 2022, from 3.8% at the beginning of the year. Central banks are currently focusing their attention on the tools to deploy in reducing inflation. The economic cost of measures is currently less of a priority for them than the arresting of inflationary pressures.

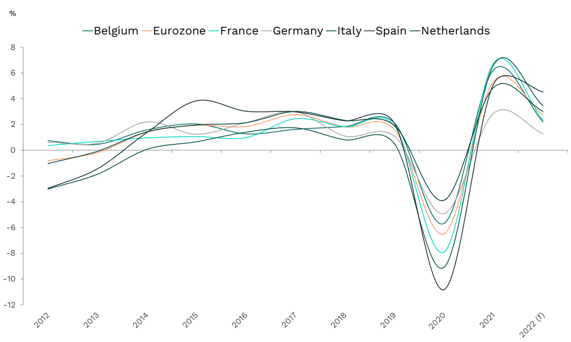
On the economic front, the Eurozone faces a further deterioration in prospective growth in 2022 (to 2.7%). The likelihood of a recession has increased, but this has not become a certainty. The level of economic activity remains high, and several indicators continue to be positive. This said, the impact on individual European economies differs widely. Germany (1.3% growth in 2022), Belgium (2.1%) and France (2.3%) are the countries hardest hit by the geopolitical pressures, whilst the Netherlands (3.0%), Italy (3.5%) and Spain (4.5%) are still performing well relative to the European average.

The war in Ukraine has resulted in a sharp increase in prices for energy and agricultural goods. In addition, shortages of materials, equipment and labour following the pandemic are also pushing up prices. These circumstances led the ECB to take stronger than expected action, with a 50 basis point hike in its policy rates on the 21st of July 2022 in an attempt to tackle the sharp rise in inflation (8.6% for the 12 months to end-June). Forecasts suggest that inflation for 2022 will nevertheless be high (7.1%) and the target of bringing consumer price inflation back to 2% will be met only in the medium term.

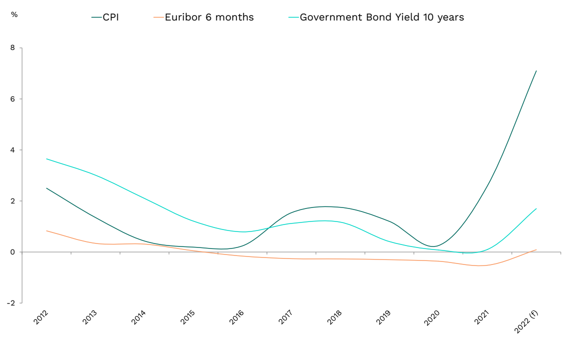
This increase in rates mark the end of the era of negative interest rates, which has resulted in a rise in the cost of money (+1.7% for 2022). Meanwhile, the ECB plans to monitor spreads and introduce mechanisms to prevent it from widening unjustifiably; in order to avoid any new sovereign debt crisis in the Eurozone.

Source of figures : CBRE, Eurostat, FMI, RCA, Oxford Economics.

ECONOMIC ENVIRONMENT: EUROPEAN GDP



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



Sources: Primonial REIM Research & Strategy according to Oxford Economics

Despite a limited impact on financing conditions during the first half of 2022, coupled with the uncertain economic and geopolitical context, the European real estate market[1] saw total investment of €136 billion (up 6% over a year).

Looking at the major countries, investment volumes were €40 billion in the UK (stable over the year), €23 billion in Germany (-28%), €16 billion in France (+11%), and €6 billion each in Italy (+70%), the Netherlands (-12%) and Spain (+13%).

Offices were the dominant asset class, with €45 billion, followed by residential (€33 billion), logistics (€31 billion), retail (€18 billion), hotels (€6 billion) and healthcare (€3 billion).

Following the ECB's decision to raise its policy rates, the conditions for access to financing has changed very quickly.

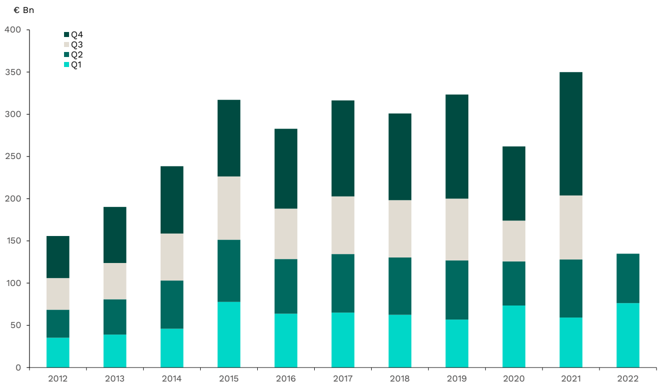
Although yields were mainly stable in the second quarter of 2022, some decompression was seen in response to expectations of bonds yield increases. In a smaller proportion of the market, yield compressions were observed for the most sought-after assets.

We are therefore seeing a reworking of the landscape, the scale of which is still hard to quantify. Investors are likely to move into a period of observation whilst price corrections, if indeed there are any, take place. It could suggest that investors are going to adjust their acquisition strategies to seize the best opportunities and continue to invest in the most secure assets given the context, as the appetite and liquidity is still there.

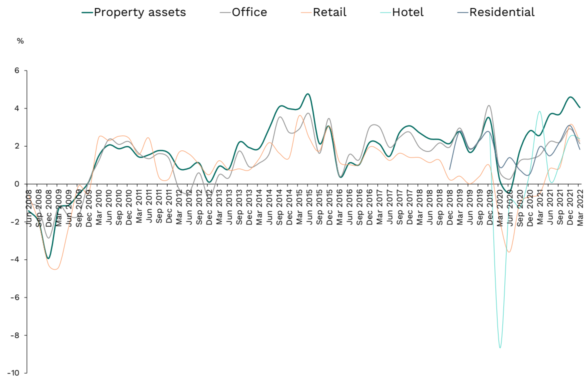
[1]The real estate market covers offices, retail, logistics, services and residential assets for institutional investors.

Source of figures: CBRE, FMI, RCA, Oxford Economics.

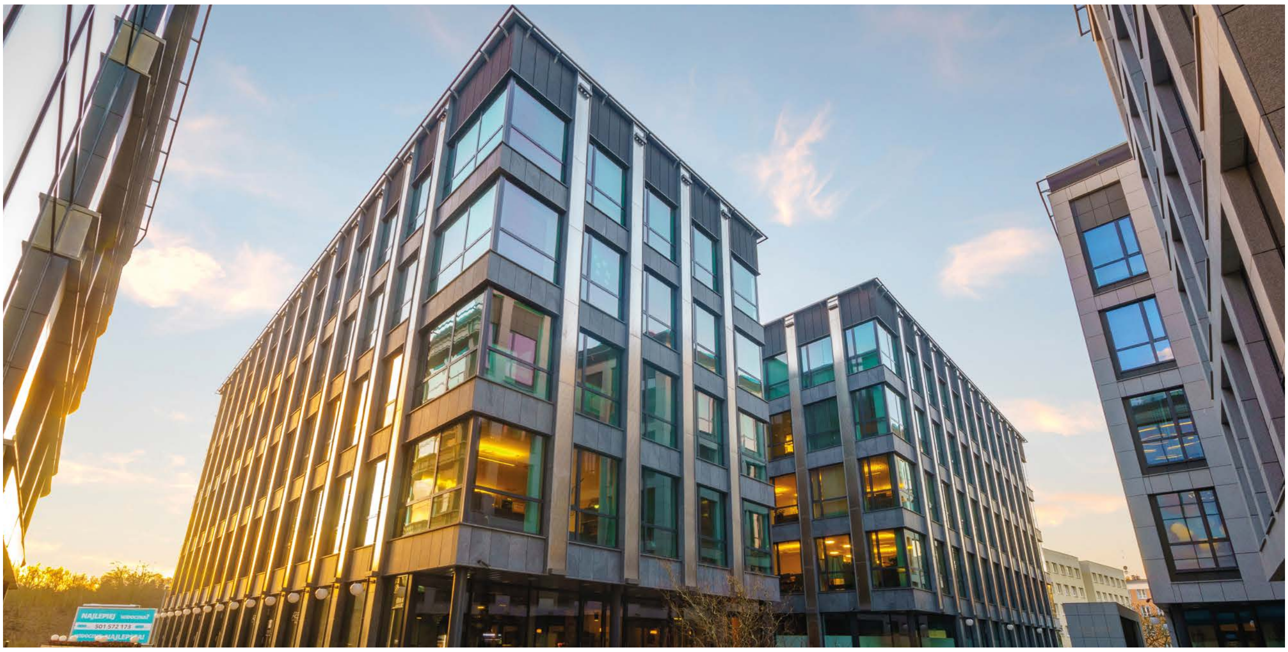
REAL ESTATE INVESTMENT VOLUMES IN EUROPE



QUARTERLY TOTAL RETURN ON EUROPEAN REAL ESTATE ASSETS



Sources: Primonial REIM Research & Strategy according to RCA, MSCI Property fund index.



OFFICES

INVESTMENT IN OFFICE REAL ESTATE IN EUROPE – Q2 2022 (6 MONTHS)	€45bn
PRIME YIELDS IN EUROPE – Q2 2022 / Q1 2022	→
TAKE UP IN EUROPE – Q2 2022 (6 MONTHS) / Q1 2021 (6 MONTHS)	↗
VACANCY RATES IN EUROPE – Q2 2022 / Q1 2022	→
RENTS IN EUROPE – Q2 2022 / Q1 2022	→
JOB CREATION – Q2 2022 / Q1 2022	↗

Investors confirmed their appetite for office real estate in the first half of 2022. Total investment volumes in the European office real estate sector was €45 billion over the first half of 2022 (up 6% over a year). Investor interest in the UK was confirmed, with €13 billion committed (up 52% over a year). Meanwhile the French market held steady, with nearly €7 billion, stable for the year. Lastly, Germany faced investors taking a watching brief (€7 billion, down 44%) given the threat due to the country's economy as a result of the vulnerability of its gas supplies.

Although most markets were stable from one quarter to the next, a good third of them saw readjustments at the end of the first half of 2022. Thus, the tendency towards decompression, showing that investors were already seeking to price in the rise in bond rates, was seen in certain narrow prime markets and in poorly located secondary markets at the end of the second quarter of 2022. Over a year the full year the trend was slightly different, with an even split between stability and a compression trend. This contradictory finding reflects the change in circumstances as a result of the conflict in Ukraine. The markets most at the 'core', such as Paris, Munich, Berlin and Milan, offered yields of less than 3.00%.

Job creation in Europe (up 2% year-on-year at the end of the second quarter) and the need for modernisation of space were both factors which supported new leases in the first half. Take up for offices totalled some 6 million sqm in the first half of 2022, a sharp increase in volume compared to the same period in 2021. With transactions of just over one million sqm, Paris office market was typified by the strengthening of prime locations and strong trends in user demand at a time when this could have been affected by the war in Ukraine. Paris was followed by London, Berlin and Munich, where transaction volumes were between 300,000 and 350,000 sqm. In the Eurozone, the Belgian (Brussels), Italian (Milan) and Spanish (Madrid, Barcelona) markets saw transactions of between 100,000 and 250,000 sqm.

Vacancy rates came down in nearly 65% of the markets[2] analysed in Europe, whilst 20% of supply saw an increase in vacancy rates from the first to second quarter of 2022. Central districts in Paris, Berlin, Munich, Vienna and Zurich posted vacancy rates of less than 5%,

Le Shift ©Boegly_Grazia

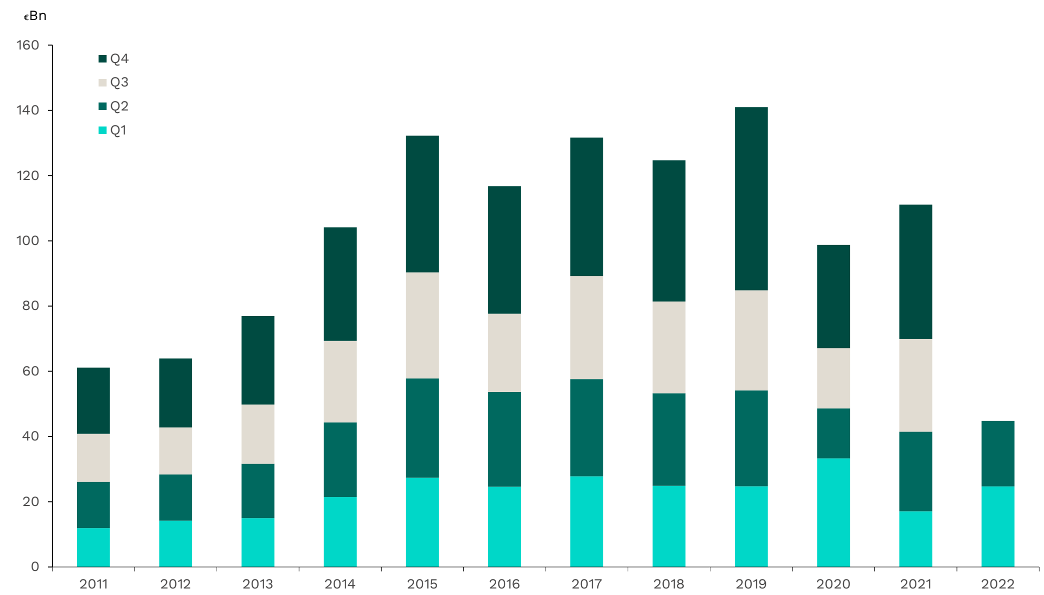
but at the same time saw contradictory trends between a reduction in vacancies for the most attractive areas and an increase in supply in districts that are not attracting users, including in European capitals. Other cities such as Barcelona, Madrid, London City and Milan have more than 10% of their total area available.

Rents are characterised by a dichotomy between rising values for modern, flexible central offices that meet ESG criteria on the one hand, and on the other offices with high vacancy rates and limited attractiveness. Prime locations, such as Paris CBD, post the highest rents in the Eurozone and are approaching the €1,000/sqm threshold, whilst rents in markets such as Berlin, Frankfurt and Milan run at €500 to €650/sqm and those in Brussels, Madrid and Barcelona are around €250 to €450/sqm.

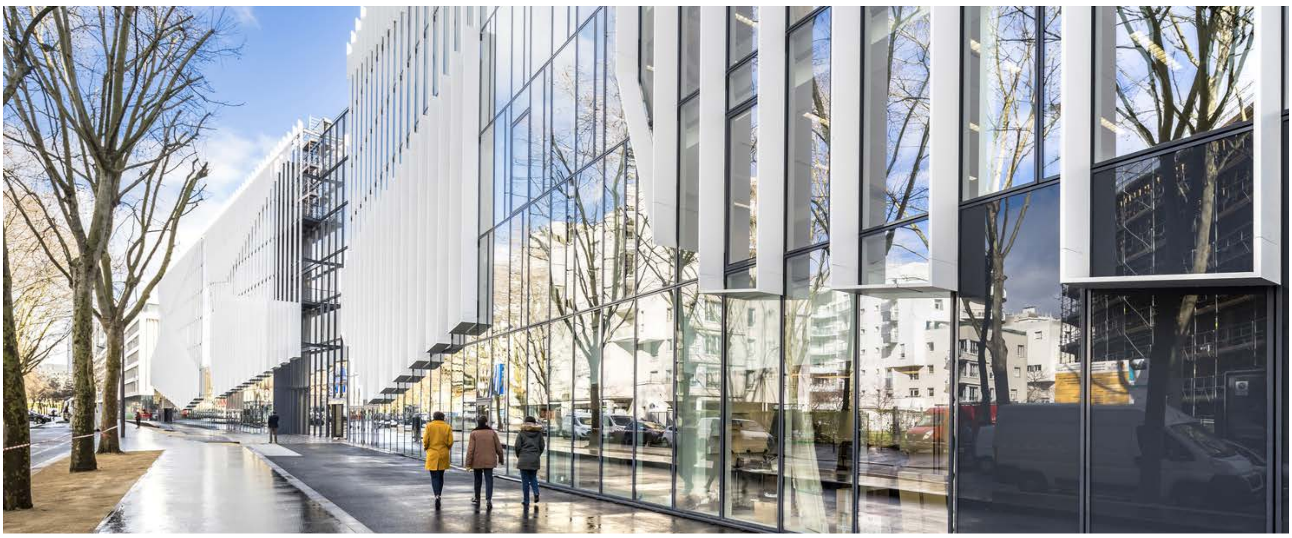
[2]Of nearly a hundred European markets analysed by Primonial REIM Research & Strategy

Source of figures: CBRE, IMMOSTAT, BNP PRE, RCA

EUROPEAN OFFICE REAL ESTATE INVESTMENT VOLUMES



Sources: Primonial REIM Research & Strategy according to RCA



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RETAIL

INVESTMENT IN RETAIL REAL ESTATE IN EUROPE – Q2 2022 (6 MONTHS)	€18bn
HIGH STREET PRIME YIELDS IN EUROPE – Q2 2022 /Q1 2022	→
PRIME YIELDS IN EUROPEAN SHOPPING CENTRES – Q2 2022 /Q1 2022	→
E-COMMERCE PENETRATION RATES IN THE EUROZONE – 2022	↗
RETAIL SALES IN THE EUROZONE – Q2 2022 / Q1 2022	↗

Investors have gradually returned to the retail market given the opportunities to be seized as we emerge from the pandemic. Total investment volumes in the European retail real estate sector was €17 billion in the first half of 2022 (up 23% year-on-year). Germany saw a deceleration with slightly under €3 billion in commitments in the first half of 2022 (down 26% year-on-year), followed by France with €2 billion (up 163%), Spain with €800 million (+56%), and the Netherlands with around €550 million (down 3%).

Yields on retail assets were typified by stability in the vast majority of markets between the first and second quarters of 2022. Yield compression was seen in a small minority of markets with significant footfall, whilst there was further decompression in the least attractive segments. Yields on high street assets were mostly stable from one quarter to the next, but compressions of between 5bp and 50bp did occur, particularly in the most attractive streets in France and the UK. Shopping centre markets were mostly stable from one quarter to the next. However, over the past year markets have split into three main categories: stable markets, attractive markets seeing yield compression and unpopular market which have seen continued decompression.

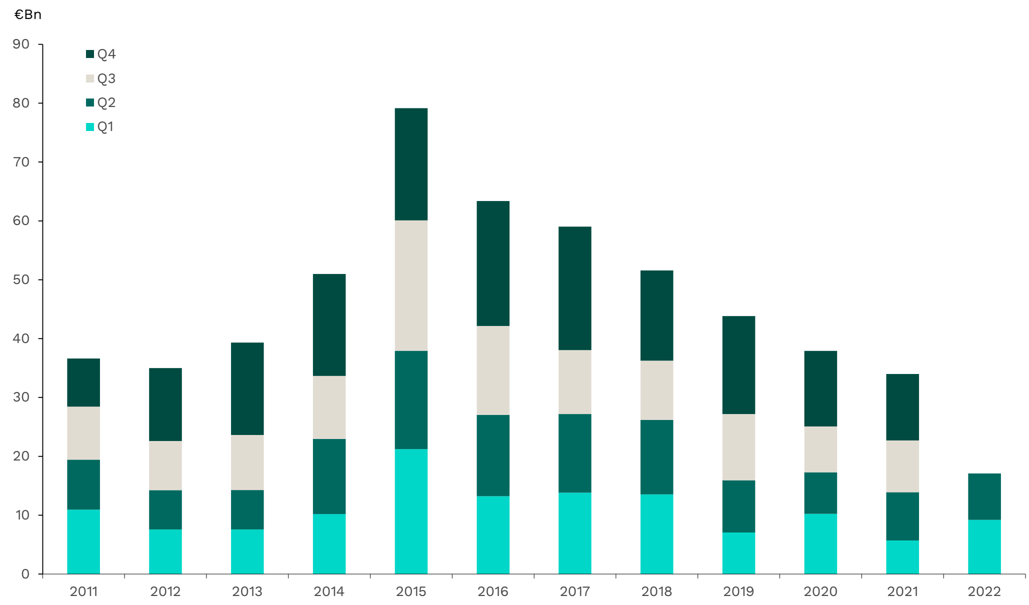
Private consumption was flat during the second quarter of 2022, compared to the same period in 2021, reflecting the initial repercussions of the Ukraine war and the persistence of bottlenecks in production and distribution. However, store chains managed to maintain growth in sales. As a result, private consumption in the Netherlands, Austria, Germany and Belgium outperformed the European average. France, Italy and Spain were in line with or below this average. Store chains saw real-terms sales growth over the second quarter of 2022 (5% 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 rose slightly for street level assets and were stable for shopping centres. Street level shops in a large majority of Eurozone countries saw rental values rise in the second quarter of 2022. For shopping centres there was a more mixed picture in the individual markets, but overall figures were stable.

Source of figures: Oxford Economics, CBRE, RCA

Portefeuille High Street Retail ©Fabrice Debatty

RETAIL INVESTMENT VOLUMES IN EUROPE



Sources: Primonial REIM Research & Strategy according to RCA

Portefeuille High Street Retail ©Fabrice Debatty

RESIDENTIAL

INVESTMENT IN RESIDENTIAL REAL ESTATE IN EUROPE – Q2 2022 (6 MONTHS)	€33bn
PRIME YIELDS IN EUROPE – Q2 2022 / Q1 2021	→
PRICES TRENDS IN EUROPE – Q2 2022 / Q1 2022	↗
HOUSEHOLD INCOME IN THE EUROZONE – Q2 2022 / Q1 2022	↗

Investment in block residential assets in Europe held on to second place behind offices, with investment volumes of more than €33 billion in the first half of 2022 (up 6% year-on-year). Within the Eurozone, Germany saw total investment of nearly €7 billion (down 30% year-on-year), followed by France with over €4 billion (up 23%), Spain with €1.6 billion (up 116%), and the Netherlands with €1.5 billion (down 28%). Outside the Eurozone, the UK market was the most active, with investment of €7 billion (up 60% year-on-year), followed by Sweden with over €4 billion (up 231%) and Denmark with over €2.6 billion (down 21%).

In the majority of markets prime yields were stable between the end of 2021 and the end of the first half of 2022, but slight compressions and decompressions were also to be seen. Within the Eurozone the lowest yields, at below the 3.0% mark, were to be found in Paris, Vienna and Munich. Although the risk premiums between residential yields and 10-year sovereign rates still favour the former, this will need to be watched carefully. Big cities were mostly stable, with some of them seeing a slight compression of prime yields. However, other cities are seeing slight readjustments, remaining in line with their 2021 levels, due to the risk of an increase in the ECB's policy rates.

Eurozone consumer price inflation has accelerated, reaching 8.6% for the 12 months to June 2022. This increase in the CPI may be partially passed on in future rent reviews. The countries where inflation was above this average were the UK, Spain, Belgium and the Netherlands. Countries at or below the average included France, Portugal, Finland, Italy, Germany, Austria and Ireland. In addition, legal or regulatory measures to limit rises between two locations in certain pressurised markets will offer transparency on rent rates and correct excessive increases.

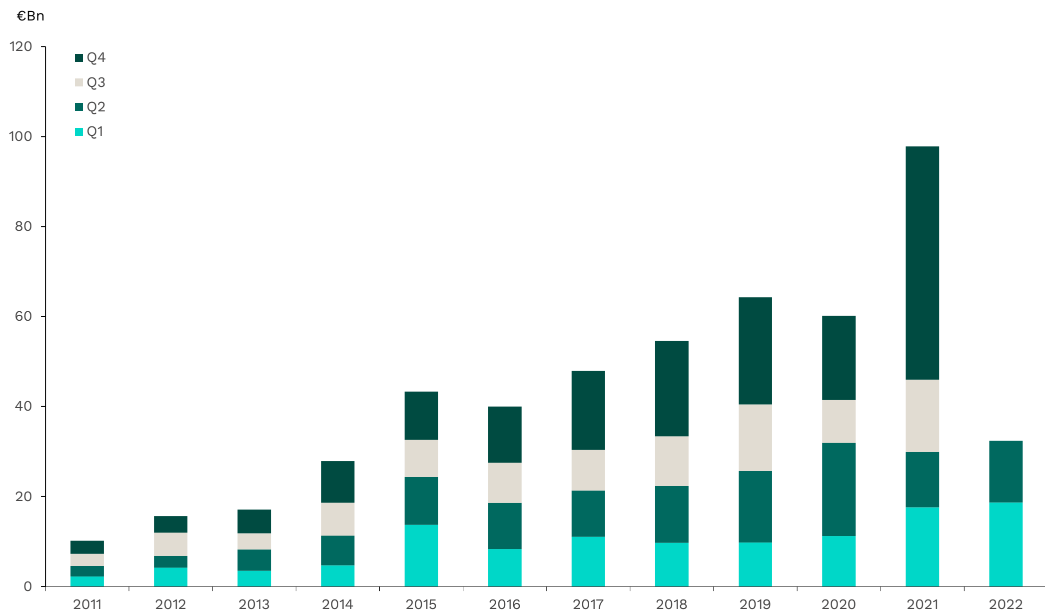
Residential construction in Europe is showing signs of recovery, but strong upward pressure on costs is emerging. At the same time, although interest rates

Coliving Sharies - Bruxelles ©Jakub Mazur

have risen, they remain at low levels. These two factors contributed to an increase in housing prices at the end of the second quarter of 2022. Residential prices in the Eurozone continued to rise in the second quarter of 2022 (up +9.7% YoY) across all markets analysed but at a slower pace than in the first quarter. The Netherlands (up 18% q/q), Germany (13%), Ireland (12%), Portugal (11%), France (7%), Austria (6%), Spain (5%), Belgium (5%), Italy (3%) and Finland (2%) all saw growth in prices per sqm.

Source of figures: National statistics, RCA, Oxford Economics

INVESTMENT IN BLOCK RESIDENTIAL REAL ESTATE IN EUROPE



Sources: Primonial REIM Research & Strategy according to RCA

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HEALTHCARE

INVESTMENT IN HEALTHCARE REAL ESTATE IN EUROPE – Q2 2022 (6 MONTHS)	€3bn
PRIME YIELDS IN EUROPE – Q2 2022 / Q1 2022	↘
FORECAST BED DEMAND BY 2025/2030 IN EUROPE	↗

Despite the rush to invest in European healthcare real estate, the lack of supply in the market limited transactions in the first half of 2022. Investment volumes (senior residences and care homes) totalled more than €3 billion in Europe in the first half of 2022, marking a year-on-year drop in volume terms. The lack of supply has limited the movement of capital into this asset class. The German market was the focus of capital flows, with €1 billion invested in the first half of 2022, followed by the UK with just under €700 billion, then Sweden with around €350 billion, France with around €300 million and the Netherlands with slightly over €200 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, saw some compression year-on-year. In France, Sweden, the UK, and Germany prime yields were 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 4.00% or above for care homes at the end of the second quarter of 2022. Prime yields for clinics were 5% or below in France and Germany.

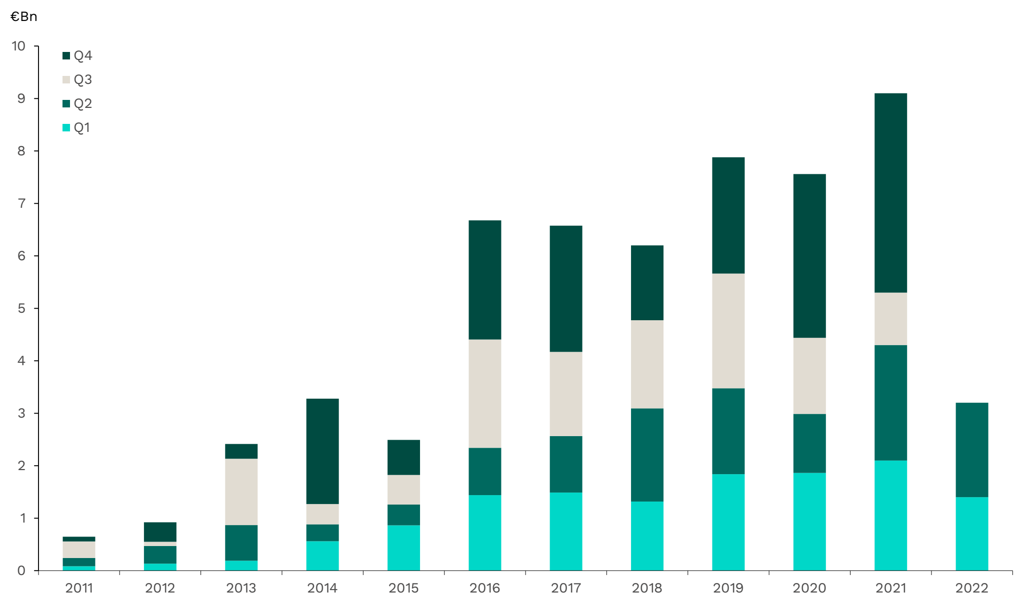
The average price per bed in Europe was around €150,000 in the second quarter of 2022. The most prime assets changed hands at a shade over €230,000 per bed, with assets in the bottom quartile trading at more than €100,000 on average over the quarter. In France prices averaged close to €180,000 per bed over the quarter; Germany was next, with an average close to €150,000; in Italy the average was less than €100,000, and in Spain transactions averaged over €90,000. Outside the Eurozone the average transaction price per bed was €170,000 in the UK, over €200,000 in Denmark, around €300,000 in Sweden and less than €100,000 in Poland.

Over the first half 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 75 include Germany (9.5 million), Italy (7.2 million), France (6.6 million), Spain (4.9 million) and the Netherlands (1.5

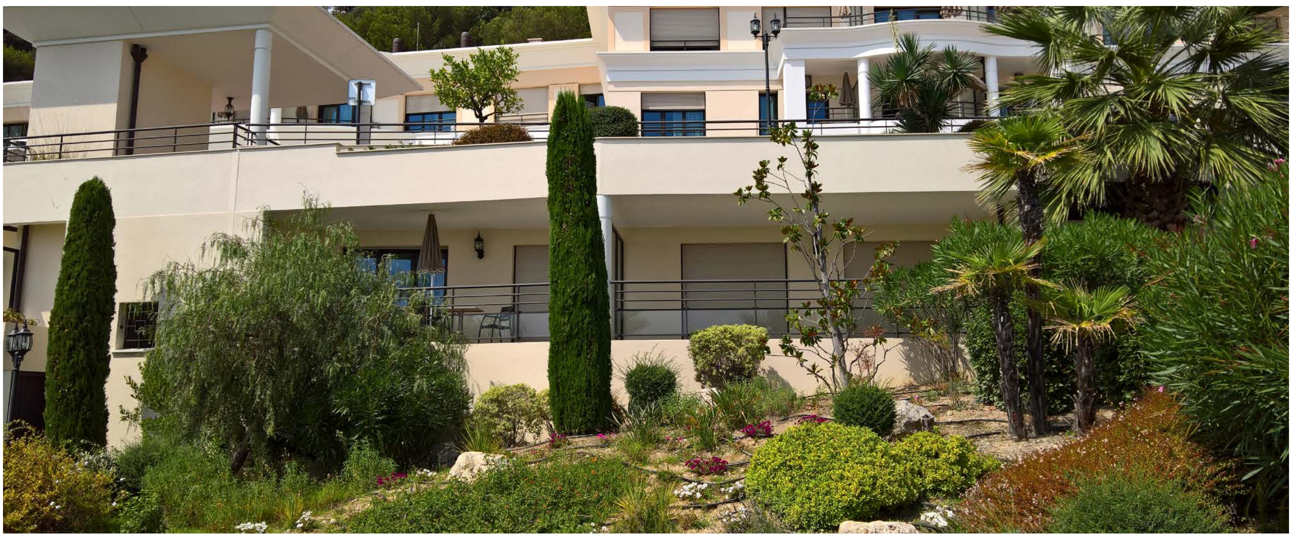
Beausoleil EHPAD Korian ©Primonial REIM France million). This age group is seeing faster growth than most others. The dependency ratio, that is to say the ratio of the over-65 population to the population aged 15 to 64, is currently around 32.5% and is likely to rise to 52.6% by 2050. The consequence of an ageing population is an increase in the number of dependent older people. Loss of independence, particularly amongst those aged over 85, requires support or care provision.

Source of figures: RCA, C&W, Operators, Primonial REIM

SENIOR RESIDENCES AND CARE HOMES INVESTMENT VOLUMES IN EUROPE



Sources: Primonial REIM Research & Strategy according to RCA



Beausoleil EHPAD Korian ©Primonial REIM France

HOTELS

INVESTMENT IN HOTEL REAL ESTATE IN EUROPE – Q2 2022 (6 MONTHS)	6 Mds€
ROOM OCCUPANCY RATES IN EUROPE – Q2 2022 (6 MONTHS) / Q2 2021	↗
REVPAR IN EUROPE – Q2 2022 (6 MONTHS) / Q2 2021	↗
AVERAGE PRICE PER NIGHT IN EUROPE – Q2 2022 (6 MONTHS) / Q2 2021	↗
PRIME YIELDS IN EUROPE – Q2 2022 / Q1 2022	→
EXPECTED TOURIST ARRIVALS IN EUROPE – 2022/2021	↗

The hotel sector has returned to favour amongst investors. The hotel real estate market was worth €6 billion to the end of the first half of 2022, stable on a year-on-year basis. Although the war in Ukraine has cooled investor interest somewhat, it has not had a similar effect on tourists. In Europe, capital focused on the UK, with more than €2 billion investment in the first half of 2022, followed by Spain, with just over €1 billion, France with just under €1 billion and Germany with €500 million.

The hotel sector saw widespread stability in prime yields across all European markets between the first and second quarters of 2022. Over the year, the trend was one of compression (of between 50bp and 75bp) in line with the gradual emergence from the Covid crisis. Prime yields on leased hotels, based on rental profitability, were at or under 4.5% in Berlin, Frankfurt, Munich, Madrid, Paris and Milan. Amsterdam, Brussels and Lisbon offered yields above 4.75%. 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. Over the year, the most sought-after hotels under management contracts saw yields expand by between 25bp and 50bp.

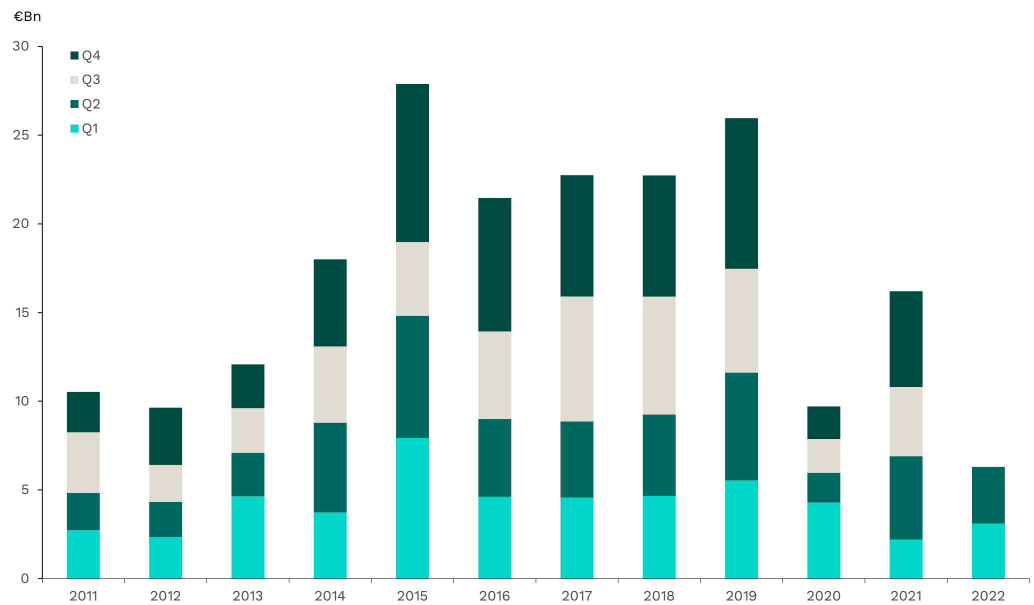
The number of hotel rooms sold or let in Europe grew sharply over the first half of 2022 (up 124% over a year) as health restrictions were eased. The basis of comparison worked in favour of the first half of 2022, given that restrictions were still in force during the same period in 2021. Although we are seeing an increase in tourist numbers, the war in Ukraine has contributed to inflationary pressures on costs, particularly for transport, which remains a significant part of consumers' travel budgets. Having been hit hard, rooms sold or let in up-scale hotels (+175%) and the luxury category (+178%) recovered well thanks to the gradual return of European and international tourists. Budget hotels, which had suffered less, continued

Hotel B&B Nice Aeroport Arenas ©Primonial REIM France to perform well (+70% over the year). The mid-range category also made gains of between 120% and 155%.

Indicators for the hotel sector all showed strong improvement over the first half of 2022 compared to the same period in 2021 when restrictions were still in force. Occupancy rates in European hotels have risen steadily and were 30bp higher over a year, at 58% in the first half of 2022. Average prices have followed a similar trend, rising to €121 per night at end June 2022, from €83 in 2021. RevPAR continued to rise, hitting €71 from just €24 a year earlier. By category, only budget hotels had an occupancy rate close to 70%.

Source(s) of figures: CBRE, RCA, STR, Oxford Economics

INVESTMENT VOLUMES FOR EUROPEAN HOTELS



Sources: Primonial REIM Research & Strategy according to RCA

Hotel B&B Nice Aeroport Arenas ©Primonial REIM France

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.**

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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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Ref.: Real Estate Convictions Europe Brochure – **082022** - Primonial REIM, a simplified joint-stock company with capital of 10,000 euros, registered with the Business and Company Register, Paris, under number 884 030 842, with its head office at 6-8 rue du Général Foy, 75008 Paris, and with the tax identification number FR18 884 030 842.