PRIMONIAL REIM

MAY 2021

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REAL ESTATE CONVICTIONS

Asset Manager's view of the European real estate markets

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FIGURES

GROWTH FORECASTS

+4,1 %

EUROZONE 2021

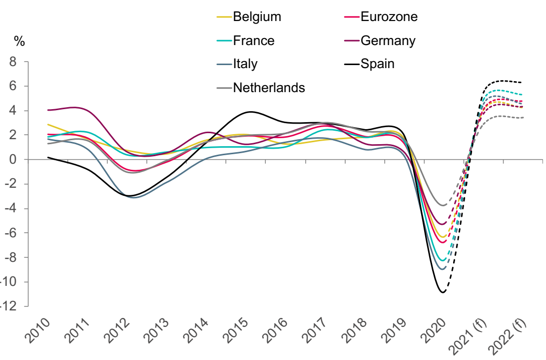
1,4 %

10-YEAR GOVERNMENT BOND YIELDS

-0,1 %

Source : Oxford Economics

ECONOMIC ENVIRONMENT: GDP IN EUROPE



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

ECONOMIC AND REAL ESTATE ENVIRONMENT

While the pandemic has killed more than 3 million people worldwide, India has become the new epicentre of the epidemic where the situation is particularly worrying. The world's largest economy, the United States, is outlining what the rebound of developed economies will look like in a vaccinated world that is being fuelled by a massive stimulus package to ensure recovery. Although the horizon is brightening for those economies that have the capacity to achieve herd immunity quickly and are able to implement major recovery plans, the ground that still needs to be covered before the «light at the end of the tunnel» is seen, differs greatly from one country to another. The rebound in activity (+6.1% in 2021) will be guaranteed provided that vaccination campaigns are successful and the health risks that variants could cause are eliminated.

After a period of further travel restrictions during Q1 2021, the Old Continent is looking to lift lockdown measures while vaccination campaigns are seen as too slow to control the circulation of the virus and ensure an immediate recovery. The European Union is aware of the risks that failure or too great a delay could have and is therefore looking for various solutions to speed up its campaign. After a historic fall in GDP of -6.8% in the eurozone in 2020, and although 2021 is looking brighter (forecast of +4.1%), there are still a number of uncertainties that need to be dealt with in order to the stop and go strategy of economies and ensure a real recovery. In Germany, GDP is expected to rise in 2021 (+3.8%) after a contraction in 2020 (-5.3%), a dynamic quite similar to that of the Netherlands (+2.9% in 2021, -3.8% in 2020). In France and Belgium, activity is expected to rebound even more strongly in 2021 (+4.9% and +4.1% respectively) as the economic downturn was sharper in 2020 (-8.2% and -6.3%) compared to the economies of the North. In Italy and Spain, the economic rebound is expected to be 4.5% and 5.5% respectively in 2021 after a decline of 8.9% and 10.8% in 2020.

At the beginning of the year, the ECB confirmed the very accommodating stance of its monetary policy to support the eurozone economies. Although they may rise, key ECB interest rates will remain at low levels until the inflation outlook of close to 2% is sustainable or if the economy overheats. One of the effects of this policy has been to enable a reduction in yield spreads between sovereign rates and the other eurozone countries. The indirect consequence of this situation is that the risk/return profile for real estate is even more favourable.

With €50bn invested in Q1 2021 (-31% year-on-year), of which €29bn for the eurozone (-38%), the European commercial property market[1] is declining due to the caution of investors who have once again opted for flight to quality by focusing on the location of assets and the resilience of tenants. Investment volumes for Germany (€12bn, -33% year-on-year), France (€7.6bn, -27%), the Netherlands and Belgium (€2.2bn, -66%) and Spain €1.7bn, -43%) remained well above their ten-year average, with the exception of Italy (€1.1bn, -27%). These investment declines should be put into perspective as they compare to a historically high first quarter of 2020. With the exception of residential, which saw a further compression of its prime yield, offices, healthcare, retail and hotels were mostly stable in Q1 2021 compared to the end of 2020.

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

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

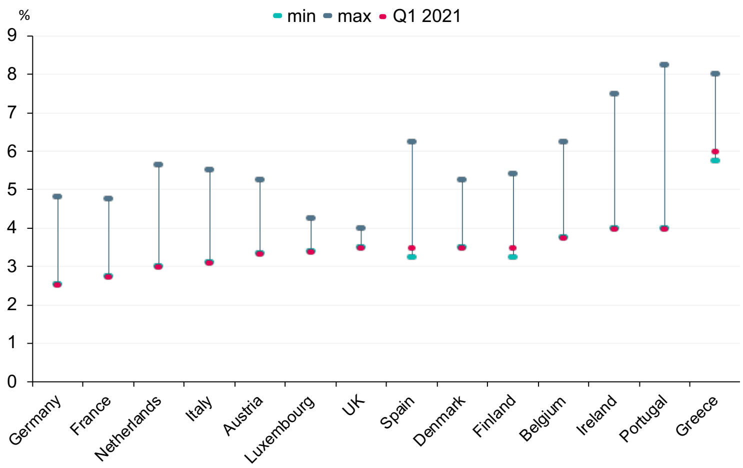
OFFICES

INVESTMENT IN OFFICE REAL ESTATE IN EUROPE – Q1 2021 (3 MONTHS)	€15bn
TREND IN PRIME YIELDS IN EUROPE – Q1 / Q-1 2021	→
TREND IN OFFICE TAKE-UP IN EUROPE – Q1 2021 (3 MONTHS / Q-N-1)	↘
TREND IN VACANCIES IN EUROPE –Q1 2021 (3 MONTHS / Q-N-1)	↗
TREND IN RENTS IN EUROPE – Q1 2021 (3 MONTHS / Q-N-1)	↘
TREND IN JOB CREATION – Q1/ Q-1 2021	↗

Despite massive recourse to working from home, offices remain the preferred type of asset but investors remain selective by targeting assets able to deliver a sustainable rental performance and with an attractive location. In the eurozone, two capitals have monopolised capital flows: Paris and Berlin. Volume of investment in office real estate in Europe amounted to €14.6bn in Q1 2021, down 57% year-on-year. As part of the strategy initiated in 2020, investors have focused on international office markets that are high quality, well serviced and have a large employment base, which means they have a good capacity to rebound. In the eurozone, Paris tops the list with nearly €3bn in investments, followed by Berlin (€700m) and Frankfurt (€450m). None of the other major European capitals exceed €400m in commitment: Amsterdam, Brussels, Madrid, Milan or Munich.

As the post-Covid era begins to emerge in line with the rate of vaccination and although prime office yields have mostly remained stable over the past quarter compared to the end of 2020, new dynamics have emerged. In the hundred or so office markets analysed, yields remained largely stable in the most prime locations. However, some regional metropolitan areas and secondary markets have experienced decompressions between late 2020 and Q1 2021 (+15 and +25 bp). Conversely, cuts of between 10 and 50 bp were identified, proving that markets adapt quickly depending on the context. Yields on core markets, such as Paris, Munich, Berlin and Frankfurt, are currently less than 3.00%.

PRIME YIELDS FOR PRIME OFFICE SPACE IN MAJOR EUROPEAN COUNTRIES 2011-Q1 2021



Sources : Primonial REIM Research & Strategy based on CBRE.

The new restrictive measures and lockdowns in various European countries have further impacted investment demand. The volume of office space take up did not exceed 2 million sq.m in the quarter, with a drop of around 35% year-on-year. The Paris market remains Europe's largest market with 327,000 sq.m transacted in 2020 (-30% year-on-year), followed by Berlin and Munich (demand take up of around 100,000 sq.m, also down). Similarly, narrower markets such as Brussels, Milan, Amsterdam, Dublin and Lisbon have seen a contraction in the number of leases signed, which meant that take up was below 50,000 sq.m.

Lockdown measures in Q1 2021 contributed to a further increase in vacancy rates in Europe. Amsterdam, Berlin, Munich and Paris still have vacancy rates below the European average, while other major capitals such as Helsinki, Madrid and Milan now have vacancy rates above 9%.

Declining take-up and rising vacancies are beginning to impact rents in many markets. Prime areas such as Paris CBD with rents above €900/sq.m are still on the rise (+4% year-on-year) while secondary markets and some European regional metropolises have seen corrections compared to Q1 2020.

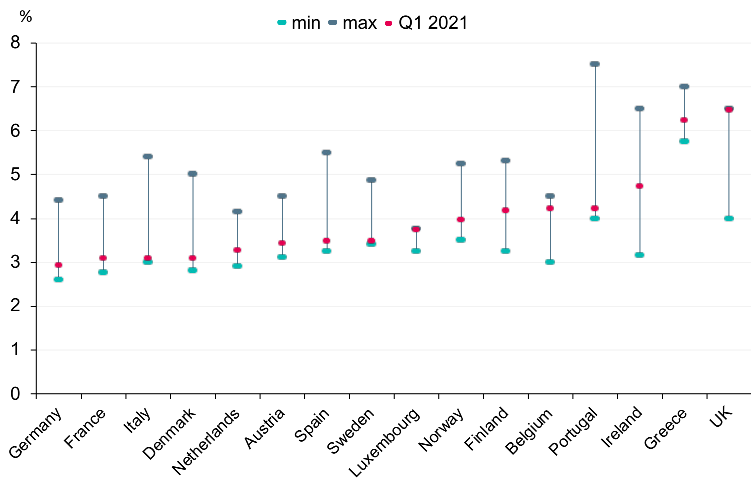
Sources for figures: CBRE, IMMOSTAT, BNP PRE, RCA.

RETAIL

INVESTMENT IN RETAIL REAL ESTATE IN EUROPE- Q1 2021 (3 MONTHS)	€4bn
TREND IN PRIME HIGHSTREET YIELDS IN EUROPE – Q1 / Q-1 2021	→
TREND IN PRIME SHOPPING CENTRE YIELDS IN EUROPE – Q1 / Q-1 2021	→
TREND IN THE PENETRATION RATE OF E-COMMERCE IN THE EUROZONE – 2021	↗
TREND IN RETAIL TURNOVER IN THE EUROZONE – Q1 / Q-1 2021	↗

The third wave of infection in Europe has once again severely disrupted business activity as a result of measures taken to contain the spread of the virus in the first three months of 2021. While the sectors deemed essential were able to continue their activity, investors preferred to adopt a wait-and-see attitude overall. Volume of investment in retail real estate in Europe recorded a further marked decline (-58% year-on-year) to total €4.3bn in Q1 2021. Germany has confirmed its first-place position with €1.2bn in commitments in Q1 2021, followed by Spain (€225m), France (€160m), and the Netherlands (€70m).

PRIME YIELDS FOR HIGHSTREET SHOPS IN MAJOR EUROPEAN COUNTRIES 2011-Q1 2021



Sources : Primonial REIM Research & Strategy based on CBRE.

While for the various types of retail property analysed in Europe, yields on prime retail properties have remained largely stable and there have been further corrections between the end of 2020 and Q1 2021. Yields on the majority of highstreet assets remained stable between Q4 2020 and Q1 2021 in the European prime and secondary markets. However, some decompressions were observed (between 5 and 25 bp) in certain markets such as Norway, Denmark and Finland. For shopping centres, the decompression trend seen in 2020 lost some intensity in Q1 2021. Lastly, retails parks were stable or recorded compression in Q1 2021 (between 0 and -25 bp). Finally, supermarkets recorded compression in a quarter of the markets analysed. The new restrictions in Q1 2021 explain this trend.

Private consumption fell in Q1 2021 but is expected to pick up as the economy unlocks. With Europeans opting to put their money into savings as a result of shops being closed and uncertainty about the future, consumption fell again in Q1 2021 (-4.5%). This situation had only a limited impact on retailers' sales in value terms, +0.6% in Q1 2021. Despite lockdown measures, the countries least affected by the fall in consumption and which outperformed the eurozone average were France, Belgium and Italy, and to a lesser extent Spain, Finland and Portugal.

The correction phenomenon in rental values of retail premises is gradually giving way to a transition towards stability. The downward trend was most pronounced for shopping centres in the first quarter (between 0% and -10%), while rental values stabilised for highstreet shops (between 0% and -5%). Countries such as Germany, Austria and Belgium have already seen their prime highstreet rental values remain stable for at least two quarters.

Sources for figures: Oxford Economics, CBRE, RCA

RESIDENTIAL

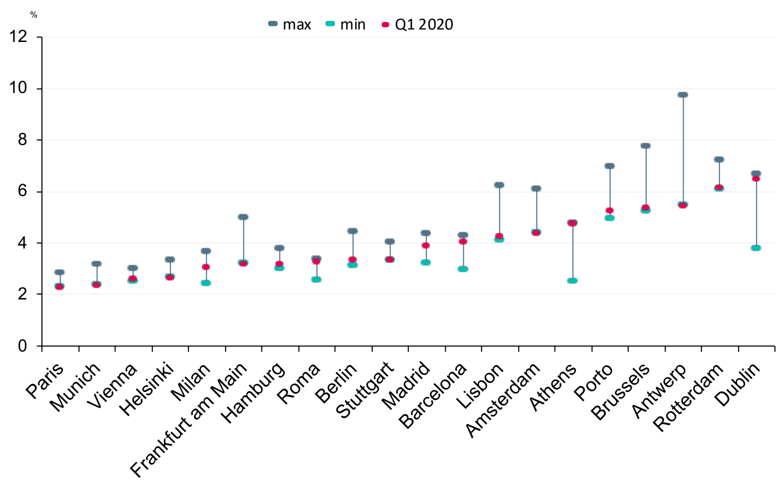
INVESTMENT IN RESIDENTIAL REAL ESTATE IN EUROPE – Q1 2021 (3 MONTHS)	€16bn
TREND IN PRIME YIELDS IN EUROPE – Q1/ Q-1 2021	↘
TREND IN PRICE INCREASES IN EUROPE – Q1/ Q-1 2021	↗
TREND IN HOUSEHOLD WAGES IN THE EUROZONE – Q1 / Q-1 2021	↗

Block sales of residential real estate have attracted capital flows due to the defensive profile of these assets. The volume of investment in residential real estate amounted to €15.8bn in Q1 2021 (+40% year-on-year). In the eurozone, the most active markets were Germany (€5.6bn), France (€2.1bn), the Netherlands (€700m), Spain (€550m) and Austria (€500m). Outside the eurozone, we note that the United Kingdom was active (€3.2bn), followed by Denmark (€1.8bn) and Sweden (€650m).

The safe-haven status of the residential sector contributed to a compression of prime yields in the safest cities with the best directed economic fundamentals. The risk premium between residential yields and 10-year sovereign rates was still favourable to investors during Q1 2021. In the eurozone, Paris, Munich Vienna and Helsinki, saw the lowest prime yields at below 3.0%. Yields in a majority of major European cities compressed again between the end of 2020 and Q1 2021 (between 10 and 40 bp) in Antwerp, Brussels, Helsinki, Berlin, Frankfurt, Munich, Dublin, Rome, Rotterdam, Lisbon, Porto and Barcelona. There was a pause in other major cities after sharp cuts in 2020.

Due to the continuing demographic pressure and a major shortfall in offer in European metropolitan areas, public authorities are seeking to put in place solutions to facilitate access to housing in areas that are under stress. 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. Despite the restrictive measures and market risks, residential property remains an asset with regular and secure income, allowing investors to protect themselves against the risk of inflation. We can already anticipate minimum rent increases of between 1% and 2% in the eurozone countries.

RESIDENTIAL PRIME YIELDS IN MAJOR EUROPEAN CITIES 2011-Q1 2021



Sources: Primonial REIM Research & Strategy based on national statistics.

Demographic pressure, lack of supply and low interest rates contributed to the rise in housing prices in the eurozone in 2021. Housing prices in the eurozone accelerated in Q1 2021 (+5.25% q/q-1), with only one country recording a slight correction in prices. Germany (+10.6% q/q-1), the Netherlands (+9.2%), Austria (+7.5%), Belgium (+2.6%), France (+2.2%), Ireland (+2.4%), Portugal (+1.3%), Finland (+0.7%) and Italy (+0.2%) again showed positive dynamics. Only Spain (-1.0%) saw a slight readjustment in its national housing price index in Q1 2021. For European financial authorities, price increases must be balanced and in line with the level of household debt to ensure the stability of housing markets.

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

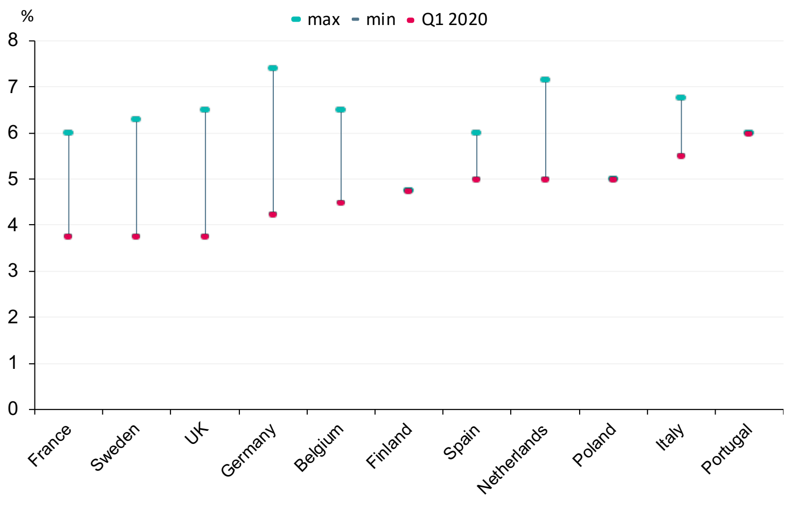
HEALTHCARE

INVESTMENT IN HEALTHCARE REAL ESTATE IN EUROPE - 2021 Q1 (3 MONTHS)	€2bn
TREND IN PRIME YIELDS IN EUROPE – Q1/ Q-1 2021	→
EXTRA BEDS NEEDED BY 2025/2030 IN EUROPE	↗

European healthcare real estate, a socially useful investment by nature, remains a popular asset class for investors. Investment volume (senior residences and nursing homes) totalled €2.1bn in Europe in Q1 2021 (+8% year-on-year). In the eurozone, the German market performed very well with around €500m in investment in Q1 2021, followed by France with €250m, Benelux for almost €100m and the southern European countries for almost €100m.

Prime healthcare real estate yields remained stable in Q1 2021 compared to the end of 2019. 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. In France and Germany, clinics have positioned themselves for a prime yield of less than 5% in Q1 2020. This asset class has experienced a steady and generalised compression over the last ten years.

PRIME YIELDS FOR SENIOR RESIDENCES AND NURSING HOMES IN MAJOR EUROPEAN COUNTRIES 2011-Q1 2021



Sources: Primonial REIM Research & Strategy, RCA, C&W.

The healthcare sector is continuing its consolidation on a European scale, demonstrating the importance of robust international operators. This pan-European consolidation strategy is enabling the largest operators to achieve economies of scale. The main European operators are French groups such as Orpea, Korian, Ramsay Santé or German groups like Fresenius Helios or Asklepios. Achieving critical size at an international level is strategic for an operator because it provides greater financial stability and guarantees better operational efficiency.

The fundamentals of the healthcare sector are still in good shape as demographic pressure will continue to increase in the years ahead, with the population in the eurozone rising from 342 million in 2020 to more than 347 million in 2040, which means that the healthcare real estate supply will have to meet this high demand. One of the major demographic changes will be the increase in the number of the dependent elderly. 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 challenges posed by demographic pressure will require health care systems to respond to increasing demand. The shortage of future supply 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. Finally, a significant part of existing properties will have to be modernised.

Sources for figures: RCA, Operators, Primonial REIM.

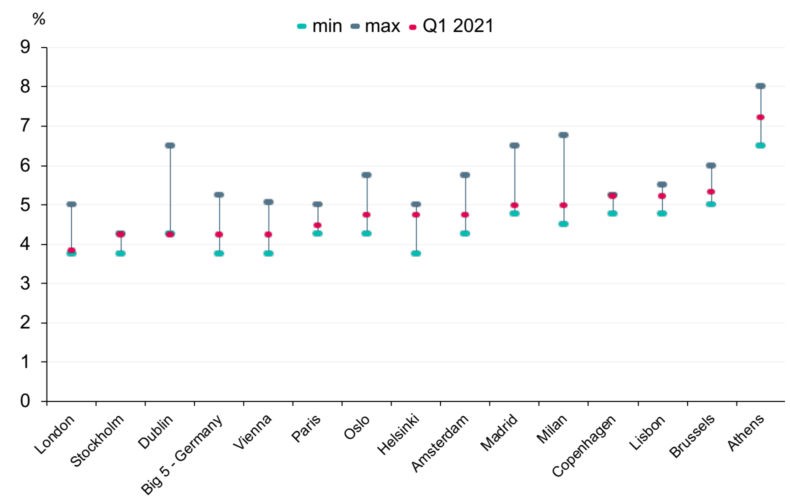
HOTELS

INVESTMENT IN HOTEL ESTATE IN EUROPE – Q1 2021 (3 MONTHS)	€2bn
ROOM OCCUPANCY RATE IN EUROPE – Q1 / Q-N-T-1 2021	↘
REVPAR IN EUROPE – Q1 / Q-N-T-1 2021	↘
AVERAGE DAILY RATE IN EUROPE – Q1 / Q-N-T-1 2021	↘
TREND IN PRIME YIELDS IN EUROPE – Q1/ Q-1 2021	→
EXPECTED TOURIST ARRIVALS IN EUROPE – 2021	↗

In a context that remains tense in Europe, the tourism sector has been heavily hit by the restrictive measures to control the third wave of COVID-19. Accordingly, in Q1 2021, the hotel real estate market totalled €1.9bn (-45% year-on-year). Capital was concentrated in Spain & Portugal (€450m), Germany (€350m), France & Benelux (€150m) and Italy (€100m). Outside the eurozone, capital flows were directed towards the United Kingdom, with almost €350m in investment.

Following corrections in hotel asset yields in 2020, early 2021 seems to have marked a turning point with stable rates. After a phase of decompression (between 25 and 50 bp) in 2020, prime yields remained stable in Q1 2021, with the exception of Helsinki, which recorded a 25 bp decompression. Prime yields on hotels under lease contracts, with their purely rental returns, 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%. Prime yields on hotels under management contracts, which allow the hotel owner to capture both the value of the business and the value of the real estate asset, offer a differential of between +100 and +250 bp depending on the market compared with rental contracts.

PRIME YIELDS FOR LEASED HOTELS IN MAJOR EUROPEAN COUNTRIES 2011-Q1 2021



Sources: Primonial REIM Research & Strategy based on CBRE.

The number of hotel rooms sold or rented in Europe in Q1 2021 was down sharply (-56.6% year-on-year). This fall reflects the tourism sector's entry into the crisis, symbolised by the drying up of international and national leisure and business tourists. This situation has therefore led to a change in customer profile, contributing to a reshuffling of the cards by category. Rooms sold or rented in economy hotels were the least affected (-38% year-on-year), the mid-range category recorded a drop of around 55% in line with the average for all categories, while upscale hotels (between -62% and -65%) and the luxury category (-70) were strongly impacted.

Occupancy levels, average daily rate and RevPAR were affected by the implementation of health restrictions in Q1 2021 compared to the same period in 2020. However, March 2021 seems to have been a turning point with the easing of some restrictions in Europe, leading to a slight improvement in some indicators. The hotel occupancy rate in Europe stood at 23.5% in Q1 2021, down 51.8% year-on-year. The average price is also down from €100 in Q1 2020 to €71 at the end of March 2021 and the RevPAR (accommodation revenue) which was €49 is down to €17. By category, the economy and mid-range hotels are doing well with an occupancy rate of over 20%, while the upscale and luxury segment has not exceeded 20% 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
COMMERCIAL (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 note than previously estimated. The launch of vaccination campaigns and the recovery plans, especially in the United States, have raised hopes of a gradual return to normality in 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 (+4.1%). We expect a strong rebound in the second half of 2021, as restrictions are gradually eased and economies are unlocked, with activity accelerating across sectors. In addition, a strong rebound in private consumption could improve the outlook for this year but also for 2022.

However, the spread of Covid-19 variants, a return to lockdown measures, or persistent barriers to vaccine production and distribution would partially undermine this outlook. 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 gap could quickly appear between countries that are unable to manage their vaccination campaigns successfully and those that succeed in achieving herd immunity, as is currently the case for Israel, the United Kingdom and especially the United States, allowing these countries to express optimism on their economic prospects. In any case, the progressive arrival of the «second generation» of vaccines with the RNA technique being developed by pharmaceutical laboratories against variants, strongly reduces the risks of a return to hard lockdown.

In the eurozone, one of the main risks of the massive support given to the economy by governments and European institutions in order to minimise business failures and promote recovery is that of a zombification of the economy. Government measures to fight against the effects of the pandemic, such as moratoriums on debt, the cancellation of certain taxes for employers, and the extensive use of partial activity schemes, are all elements that contribute to the zombification of companies, and accordingly, of tenants. The quality of users is therefore essential to ensure constant rental income over time.

A NEW EXTRA-FINANCIAL ENVIRONMENT

In this context, location and user profile 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 and environmental, in order to anticipate future challenges.

The integration of environmental and social issues into the real estate value chain could therefore have a profound impact on the market. The entry into force of the Sustainable Finance Disclosure Regulation (SFDR) on 10 March 2021 requires asset management companies to document sustainability factors at two levels: on the one hand, the effect on fund performance of «sustainability risks» such as extreme climatic variations, floods, etc., and on the other, the effect of real estate assets on the environment (adverse impacts): carbon emissions, energy and water consumption, waste, etc. The setting of extra-financial objectives, the certification of funds and assets, and the growing obligation to disclose information should make sustainable real estate not only a compartment in its own right (as is the case for the equity market) but a standard that will gradually be imposed on the entire market. This has long-term consequences, which are in line with changes accelerated by the health crisis: a flight-to-quality towards new, flexible and connected assets; increased dialogue between landlords and tenants about the latter's practices; more frequent changes in the use of space; higher standards of building sanitation; and, finally, increasingly detailed measurement of the extra-financial impact of the real estate portfolio.

OFFICES

Markets for well-located offices now appear to be the best positioned for the current cycle in terms of value, revenues and liquidity. Despite a decrease in take-up in Q1 2021 due to health restrictions in various European countries, it is still too early to quantify the real impact that working from home will have on the office market in the coming decade. One thing is certain: it has become clear to everyone that the physical and collaborative work environment contributes to the well-being of employees and is a strategic place for bringing corporate culture to life. Accordingly, the attraction of users and investors for core central markets and well-serviced office hubs close to residential locations seems to be emerging. We believe that some markets may experience short-term value/rent adjustments due to their positioning in the cycle. The unlocking and gradual recovery of the economy will, quarter after quarter, redirect overall rents upwards for the best located markets we analyse. 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. On the other hand, there are opportunities to be seized in future districts offering offices adapted to new uses when the recovery in take-up is confirmed.

RETAIL

The structural changes and restrictions have had a strong impact on the value and rents of all types of businesses. Businesses facing a fundamental problem will need to be repositioned or restructured to meet new consumer needs. We believe that the decompression that appeared between late 2019 and late 2020 should be much more limited in 2021 in line with the economic recovery. In terms of location, we believe that the most core highstreet shops and shopping centres on European markets that meet new consumer expectations should have the best prospects for valuation and future rental growth, while assets with a secondary location, high vacancy rates or a user profile that is out of step with new consumer expectations could see their ability to deliver performance affected. Opportunities could be available with a clear upturn in consumption in all European markets.

RESIDENTIAL

The fundamentals of residential markets in the eurozone point to growth in values in the vast majority of European cities over the 2021-2025 period. For the time being, we believe that residential price growth in the eurozone should be maintained 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 in a number of countries (accentuated by the temporary halt in new supply) and measures to ensure market liquidity. Obviously, in the event of a prolonged recessive economic environment or a significant rise in interest rates, 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 over 2021-2025 in terms of capital and rental performance, despite occasional adjustments in certain markets.

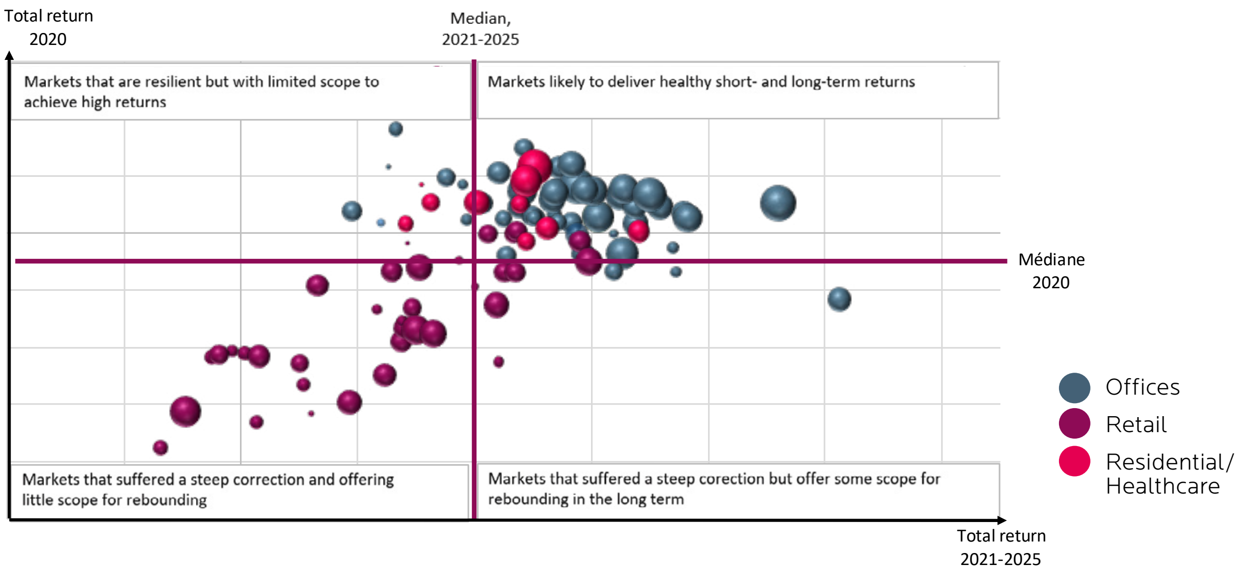
HEALTHCARE

Health infrastructures are crucial for the European populations and constitute a societal challenge for the years ahead. One of the limitations that has become apparent is the need to strengthen the current supply for the elderly. This will require very significant investment by the public and private sectors, especially as demographic pressure - irrespective of viral threats which will not alter the demographic balance - will remain strong over the coming years. For the time being, as for residential, we believe the need for beds in ageing societies will continue to justify investors' appetites. As a result, the sector's ability to deliver capital performance and secure income over the long term is well oriented.

HOTELS

After the major shock in 2020, the tourism sector will experience further disruption in 2021. While the performance of the hotel sector was still disappointing in Q1 2021 due to health measures to block the spread of the virus, a rebound in the sector's main indicators is still expected from Q2 2021 onwards for occupancy rate, average price and RevPAR. In terms of hotel prime yields, a majority of markets should experience a stable phase in 2021. 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 scheduled for this summer. Vaccine/health passport measures will also be monitored, as well as the specific situations of certain countries that are crucial for tourism (China, in particular).

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. Each circle corresponds to a real estate market.

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:

- **+ € 23bn** 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.).

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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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