Property EU
European Real Estate Markets 2018/2019

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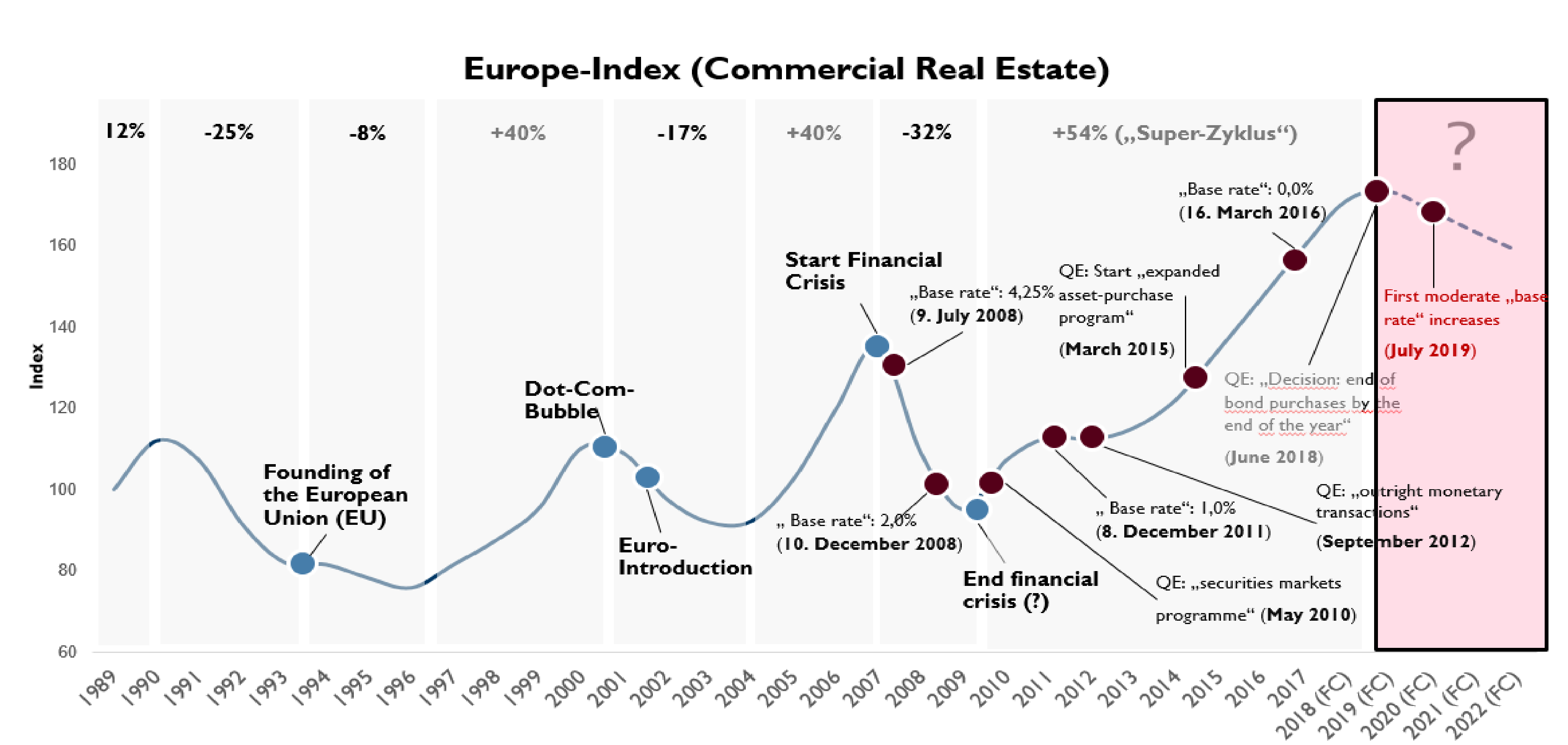
Economic Outlook

Cyclic pattern of the European commercial real estate markets



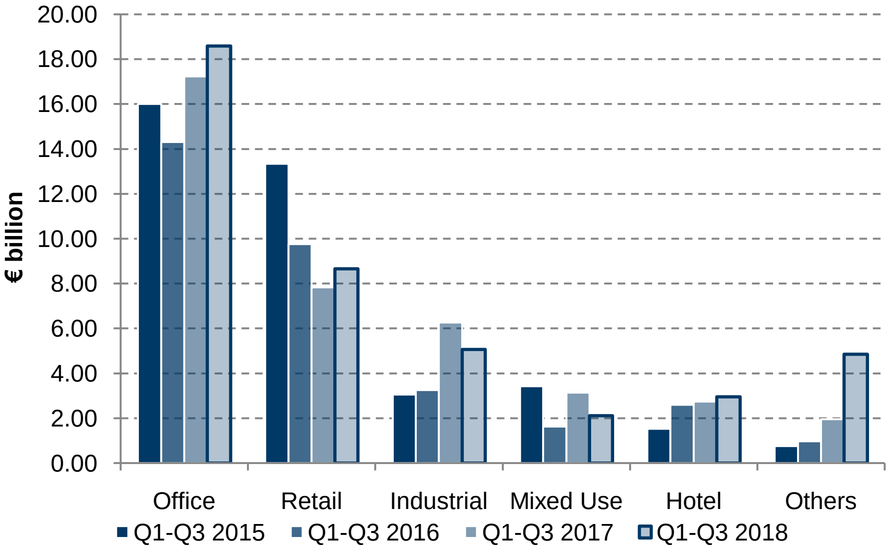
- Insecurity: Possibility of „cyclical trend change“
- Which strategical implications can be derived?

Source: Catella Research 2018

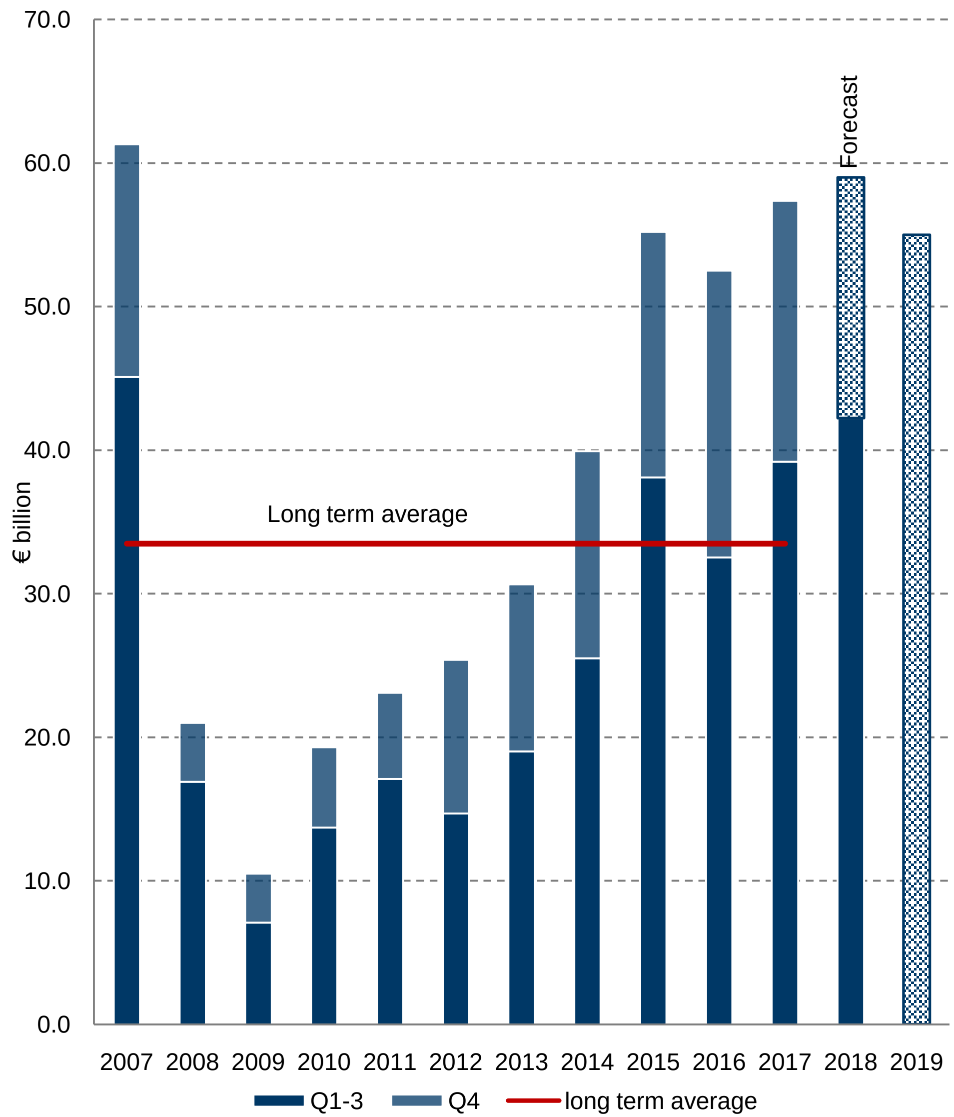
Germany: Investment market driven by large transactions

QUICK STATS Q1-3 2018		COMPARED TO Q1-3 2017
Commercial transaction volume	€ 42.23 billion	**+8%**
Prime office yield (Average TOP 5)	3.02%	**-22 bp**
Prime retail yield (Average TOP 5)	2.90%	**-30 bp**
Prime office yield (Average B-locations)	4.90%	**-40 bp**
Prime yield logistics	4.10%	**-65 bp**

Commercial transaction volume per type of asset



Commercial transaction volume in Germany



Source: Catella Research 2018

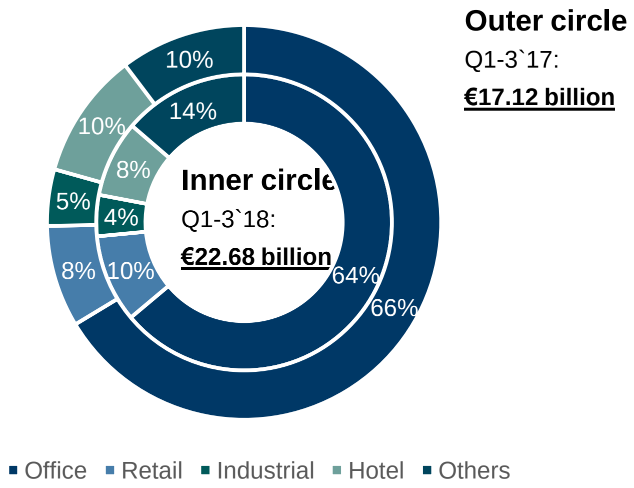
Germany: Top 5 markets with record volumes

Q1-3 2018	BER	DUS	FRA	HAM	MUN	RHINE-RUHR*
Office stock, (sqm million)	19.00	7.70	11.90	13.70	14.10	25.33
Office prime rent, (€ sqm)	33.50	27.00	41.00	27.00	37.00	27.00
Commercial transaction volume (€ billion)	4.59	2.75	6.79	3.92	4.64	4.79
Cross border (in %)	64.0	54.0	40.0	22.3	40.0	47.4
Prime office yield (in %)	2.90	3.25	3.15	3.05	2.90	3.25

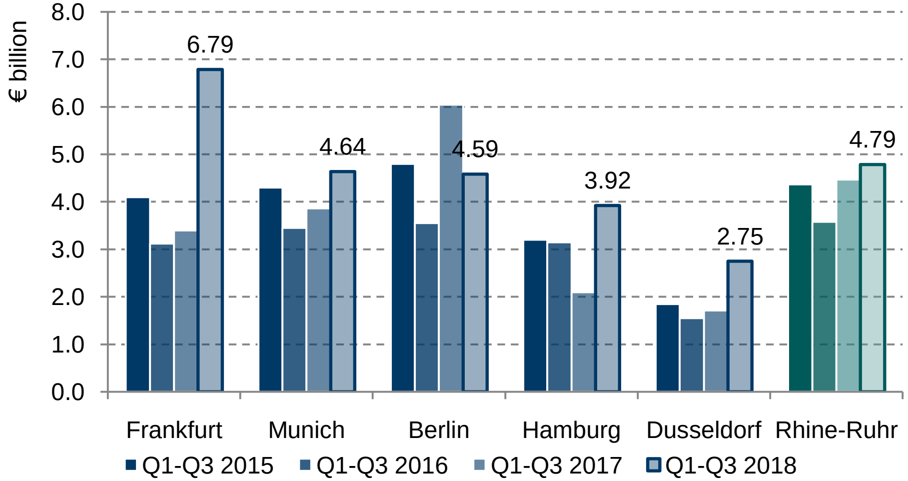
* Dusseldorf, Cologne, Duisburg, Essen, Bochum, Dortmund

- The German commercial transaction volume for the first three quarters of 2018 of €42.23 billion is the second highest after 2007.
- Record volumes of €22.68 billion in Q1-3 2018, representing a strong increase of approx. 32%, for the Top 5 cities: due to large single asset deals in these markets, especially in Frankfurt.
- Over €14.5 billion, by far the biggest share of 64%, was invested in office properties in the Top 5 markets. Retail transactions increased in the Top 5, only due to the consolidation of Kaufhof and Karstadt (approx. €2.0 billion). Logistics transactions gain momentum in the Top 5, but the lion`s share is still being transacted in the rest of the country, with large portfolio deals.
- There is still high demand for core office properties and existing product is scarce, therefore increasing interest for development projects in core locations.
- There are still some large transactions in the pipeline. Thus, for the German commercial investment market an overall investment volume of approx. €59 billion seems feasible.

Transaction volume by type of use, Top 5 markets



Commercial transaction volume, Top 5 markets & Rhine-Ruhr

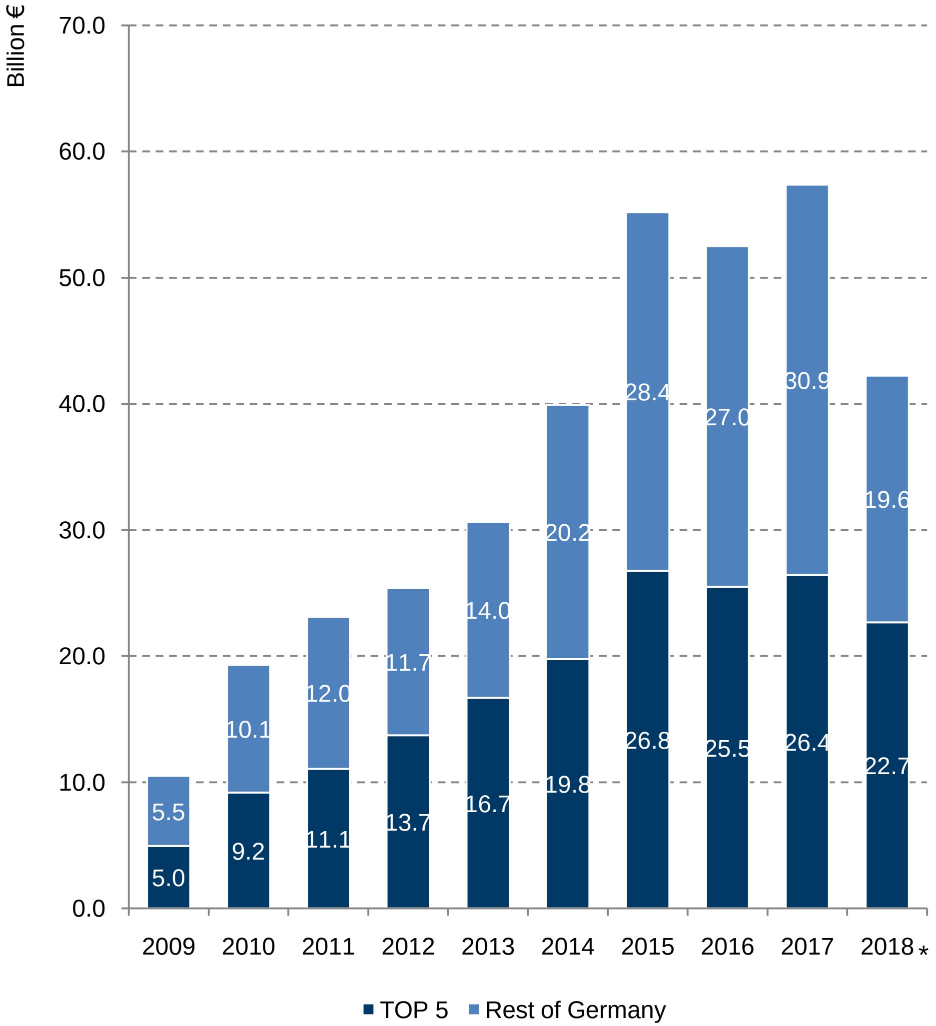


Source: Catella Research 2018, RCA

Germany: Investors increasingly seeking for assets outside the Top

Commercial transactions year-to-date 2018
(office, retail, logistics)

Increasing transactions outside the Top5 markets since 2014

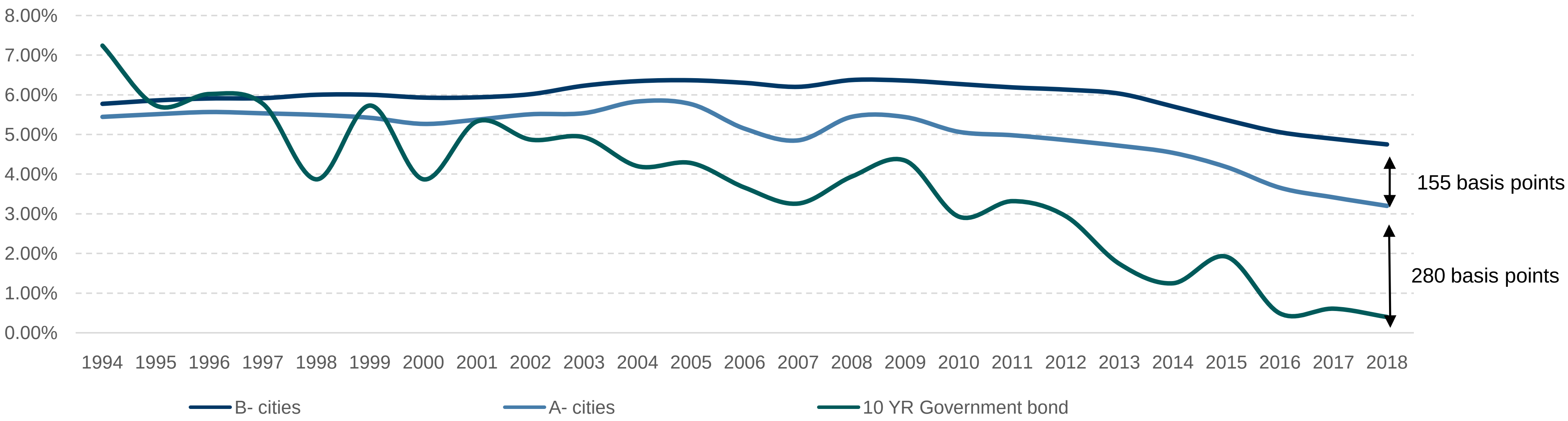


* Q1-3

Source: Catella Research 2018, RCA

Germany: Yield gap is shrinking further, forecasts predict stable yields

Prime market yields vs. Government bond yield



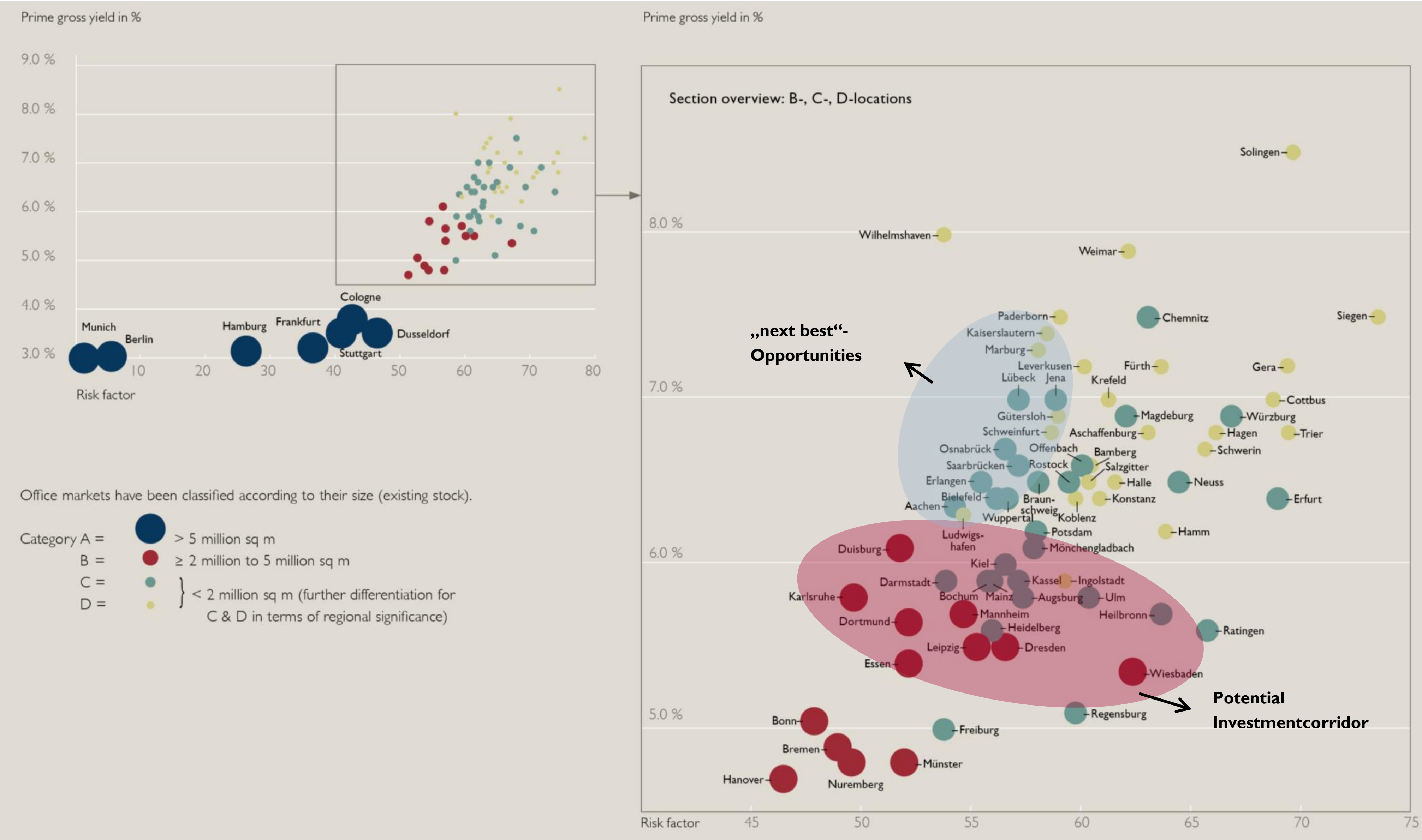
- As a result of the sustained high demand, particularly for core office properties, yields declined further, but at a slower pace. The latest forecasts for yields only see modest further compression in 2018.

- However, the yield gap of approximately 280 basis points between prime property yields and bond yields remains very supportive and still leads to further inflow into property. Investors with higher yield requirements and “manage to core strategy” might therefore focus on “core plus” and “value add” investments outside the A-cities / Top 7 markets.

- The ECB decided in their last meeting to keep the main refinancing rate unchanged at 0%. By the end of the year, the QE-program (monetary policy support bond purchases) will be over. The key interest rates remain at zero levels until further notice. A first modification of refinancing rate is therefore expected in 2019.

Source: Catella Research 2018, PMA

Germany: Risk / Return profile of German office markets 2018



Source: Catella Research 2018

Germany: Most prominent commercial transactions in Top 5 Markets 2018

Market	Property	Adress	Buyer	Price in € million	Gross yield	Price €/m²
Hamburg	Springer Quartier	Axel-Springer Platz 1	Ärzteversorgung Niedersachsen, Sachsen-Anhalt, Mecklenburg-Vorpommern	400	**3.3 %**	6,558
Hamburg	K1	Kaiserkai 1	Triuva	86.9	**3.3% (net)**	8,276
Frankfurt	EL55	Eschersheimer Landstr. 55	Cresco Capital	44	**3.7%**	5,045
Frankfurt	Behördenzentrum	Gutleutstr. 112-138	Aroundtown Property	500	**3.8%**	5,501
Frankfurt	Galileo Tower	Gallusanlage 7	CapitaLand	356	**4.0%**	8,786
Munich	Correo Quartier	Bayerstr. 49-53	Credit Suisse	275	**2.7%**	6,071
Munich	Machtlfinger Höfe	Machtlfinger Str. 5-15	Conren Land	85	**3.7%**	4,603
Munich	Leo 240	Leopoldstr. 240-244	AEW Europe	60	**4.0%**	5,128
Berlin	Zalando Campus	Valeska-Gert-Str.	Hines	235	**3.7%**	5,153
Berlin	Stresemann Campus	Stresemannstr. 121-121a	Aroundtown Property	70.5	**4.1%**	4,819
Berlin	Rathaus Mitte	Karl-Marx-Allee 31	Caleus Capital, Tristan Capital	87.4	**4.2%**	4,185
Dusseldorf	Infinity Office	Schwannstr. 10	DIC Asset	153	**3.5%**	7,463
Dusseldorf	Kö- Blick	Königsallee 61	Fabrica Immobiliare SGR, Cicerone Fund	50	**3.5%**	7,407

Source: Catella Research 2018

Germany: Low yields and demographic factors with strengthening pressure on real estate prices

- Increasing residential prices

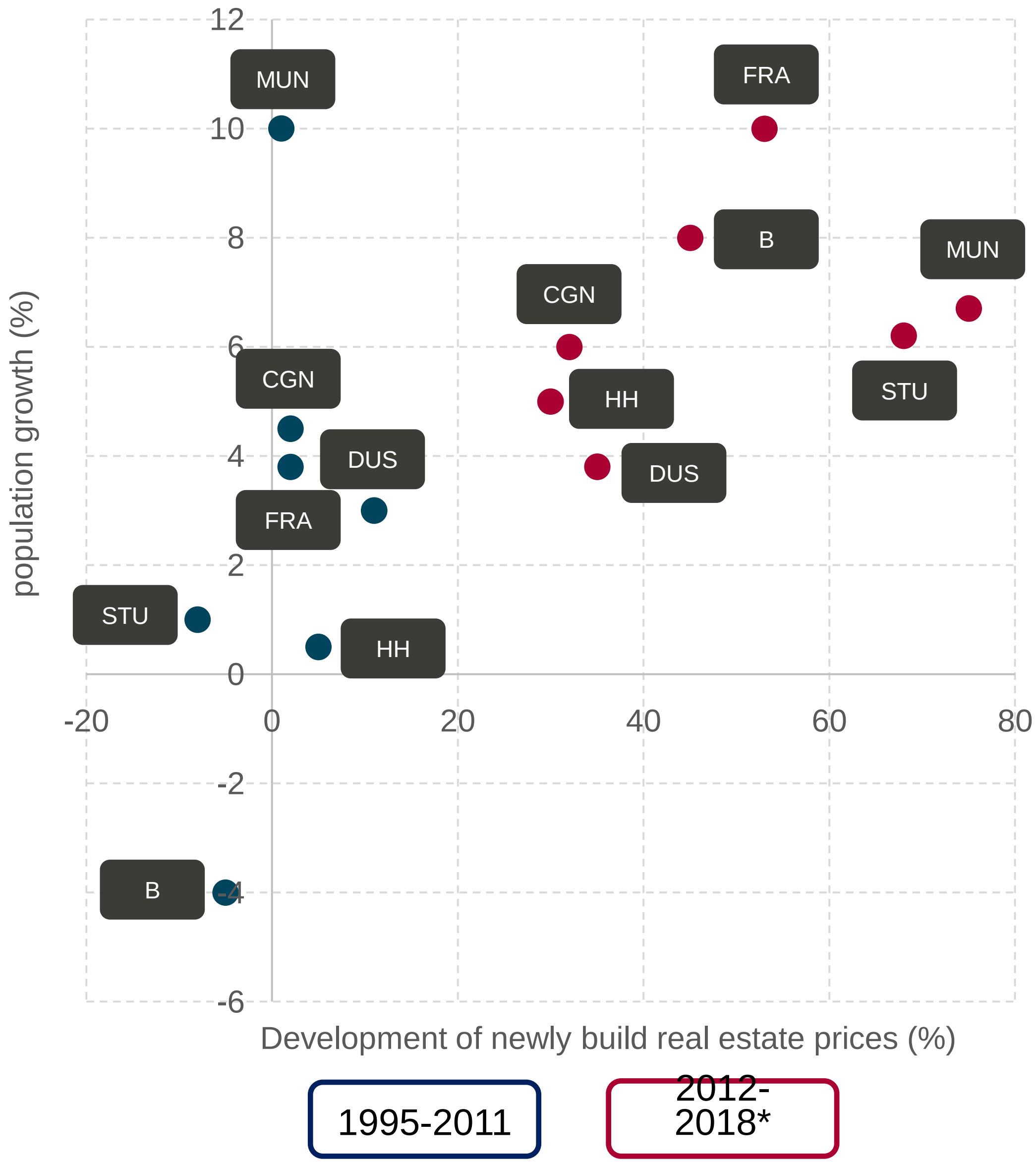
  - Influx towards metropolitan areas

- Strongly growing demand

  - social housing / housing subsidy / goal conflicts

- Extending supply of residential real estate properties

  - regulation / transaction costs / electoral freedom for private capital formation



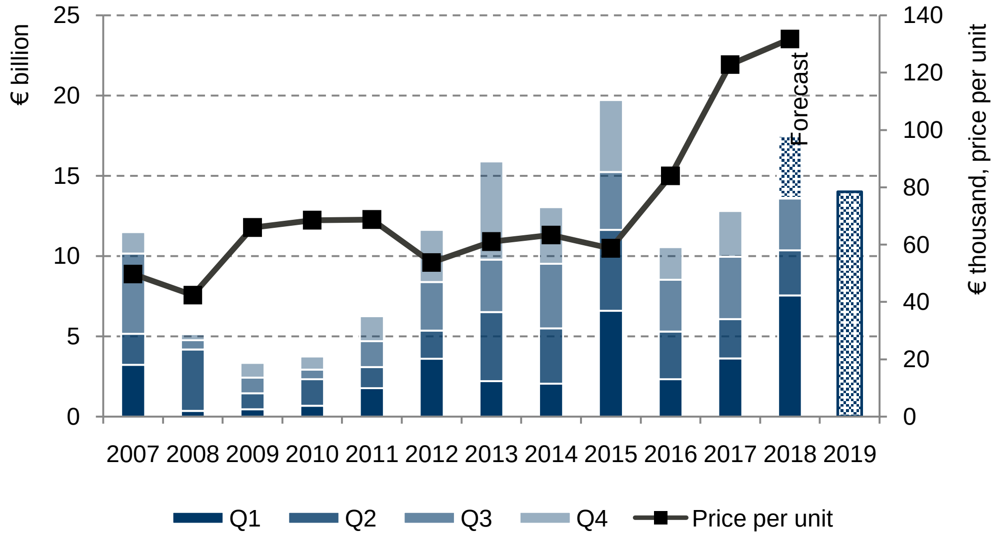
Source: Catella Research 2018, Destatis, * Q2/2018

Germany: Residential volume heading for new record

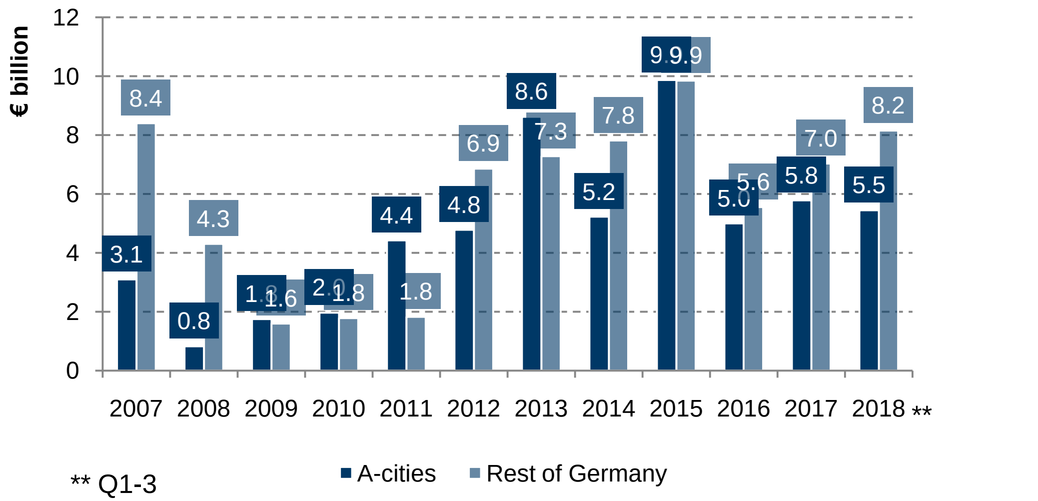
- The German residential market registered a strong volume of approx. €13.6 billion in the first three quarters of 2018, an increase of 37% compared to Q1-3 2017.
- The acquisition of the German Buwog portfolio for €2.9 billion by Vonovia is the overall largest portfolio deal so far.
- The proportion of German A- cities slowed down, mainly due to the large corporate deals (Vonovia, Adler) and scarcity of large residential portfolios in these cities.
- Acquisitions of project developments are rising further, due to scarcity of existing core assets and continued high demand for housing especially in urban areas.
- Demand for micro apartments and student housing is gaining momentum. The supply for investors is therefore getting wider, due to social changes and rising population in metropolitan areas.
- With rising demand in specific housing products (micro apartments), which are particularly interesting for international investors, a transaction volume of minimum €17 billion in 2018 seems feasible.

*Based on properties and portfolios € 5 million and greater. Single- family, semi-detached houses and condominium purchases are excluded.

Residential transaction volume and price per unit*



Residential transaction volume in German A-cities vs rest of Germany*



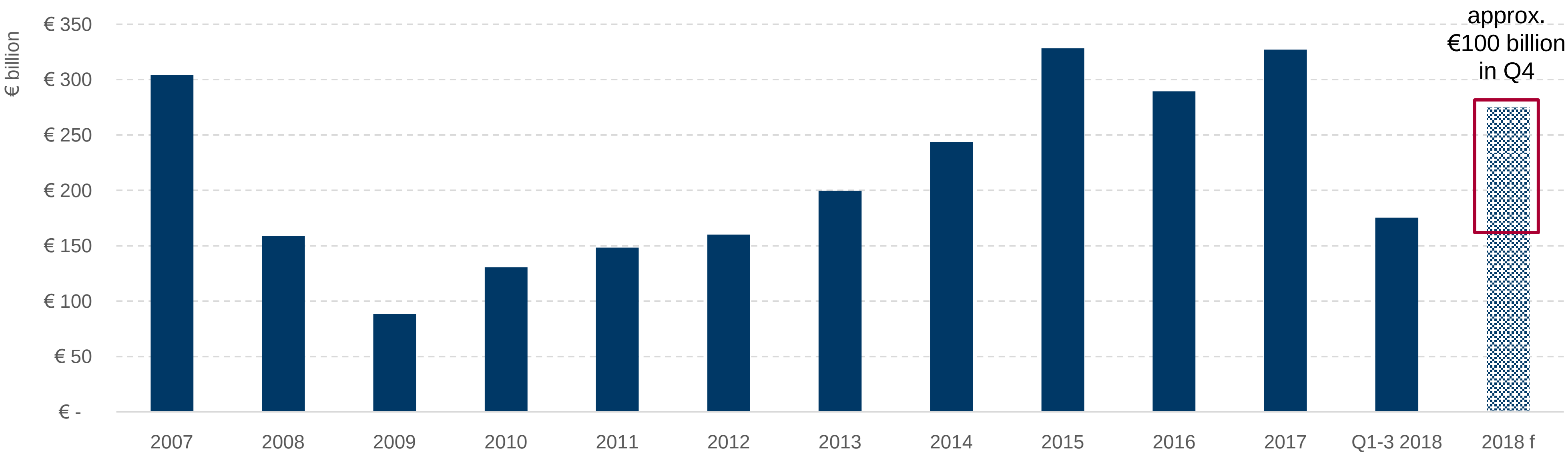
** Q1-3

Source: Catella Research 2018

European Investment Market – strong fourth quarter

- The total real estate investment volume in Europe reached €175.3 billion in the first three quarters of 2018, 15% below the Q1-3 2017 result. The decline in activity is that 2017 was a record year and, with sellers demanding high prices, the deal flow cannot keep growing ad infinitum.
- Nevertheless, market sentiment remains positive and early indications are that the fourth quarter will be healthy and has already started very strong with approx. €30 billion completed deals and another approx. €26 billion are pending.
- Furtthermore, there has not yet been a change in pricing trends. Yields in some markets are starting to drift sideways but there is no sign of a major turn. The part of the market most vulnerable to repricing is the super-prime end and properties yielding 3% may be affected when rates start to rise.

European transaction volume in € billion*

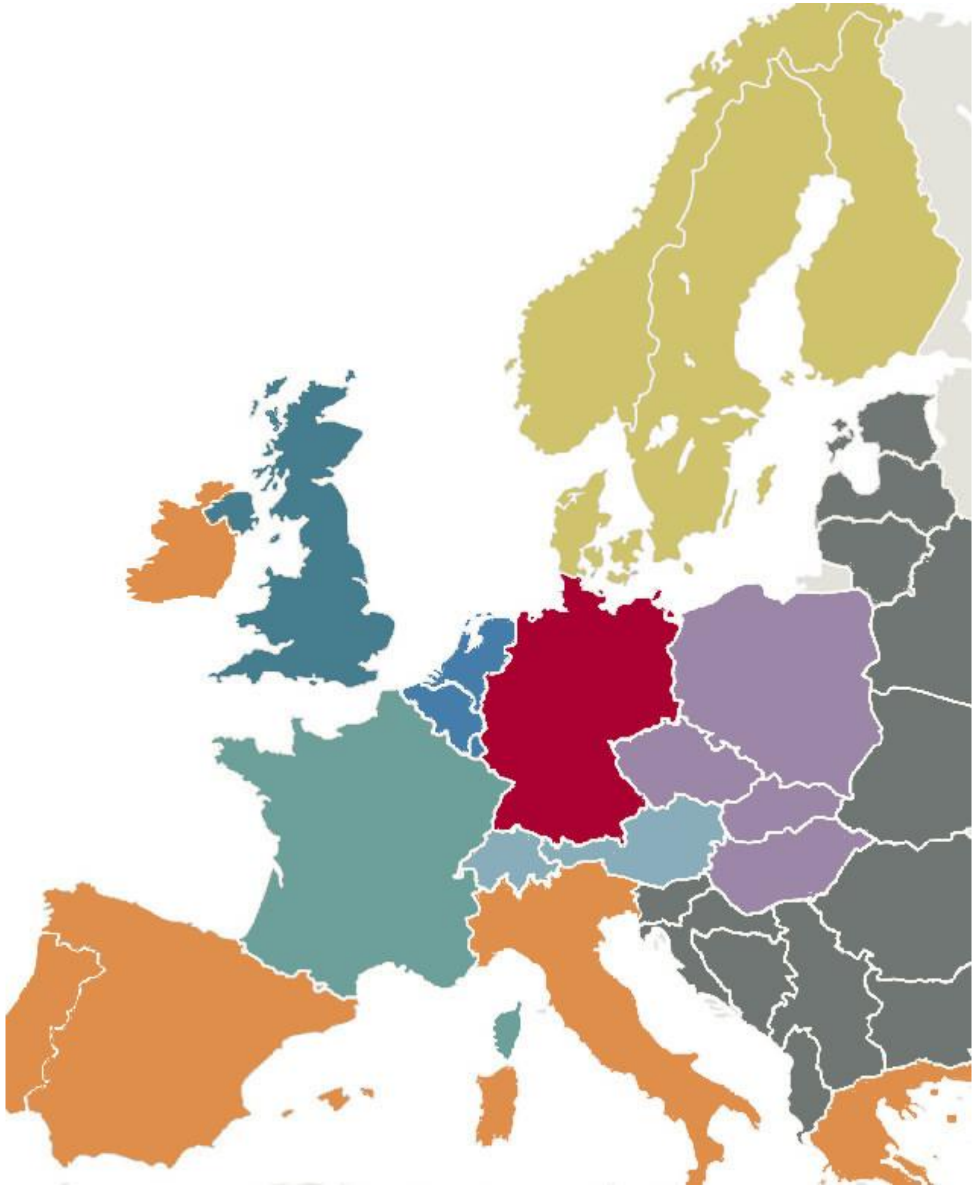


* All assets: office, retail, industrial, hotel, residential

Source: Catella Research 2018, RCA

European investment volume Q1-3`18 – Country Review

1	**Germany**: 55.8 billion €
2	**United Kingdom:** 45.7 billion €
3	**Benelux** (BEL, NED, LUX): 19.0 billion €
4	**France:** 17.8 billion €
5	**Turnaround Europe** (IRL, POR, ESP, GRE, MAL, CYPR, ITA): 16.9 billion €
6	**Nordics** (SWE, FIN, NOR, DEN, ISL): 16.7 billion €
7	**Central Europe** (POL, CZE, SVK, HUN): 7.1 billion €
8	**Austria & Switzerland**: 4.7 billion €
9	**Eastern Europe**: 2.6 billion €



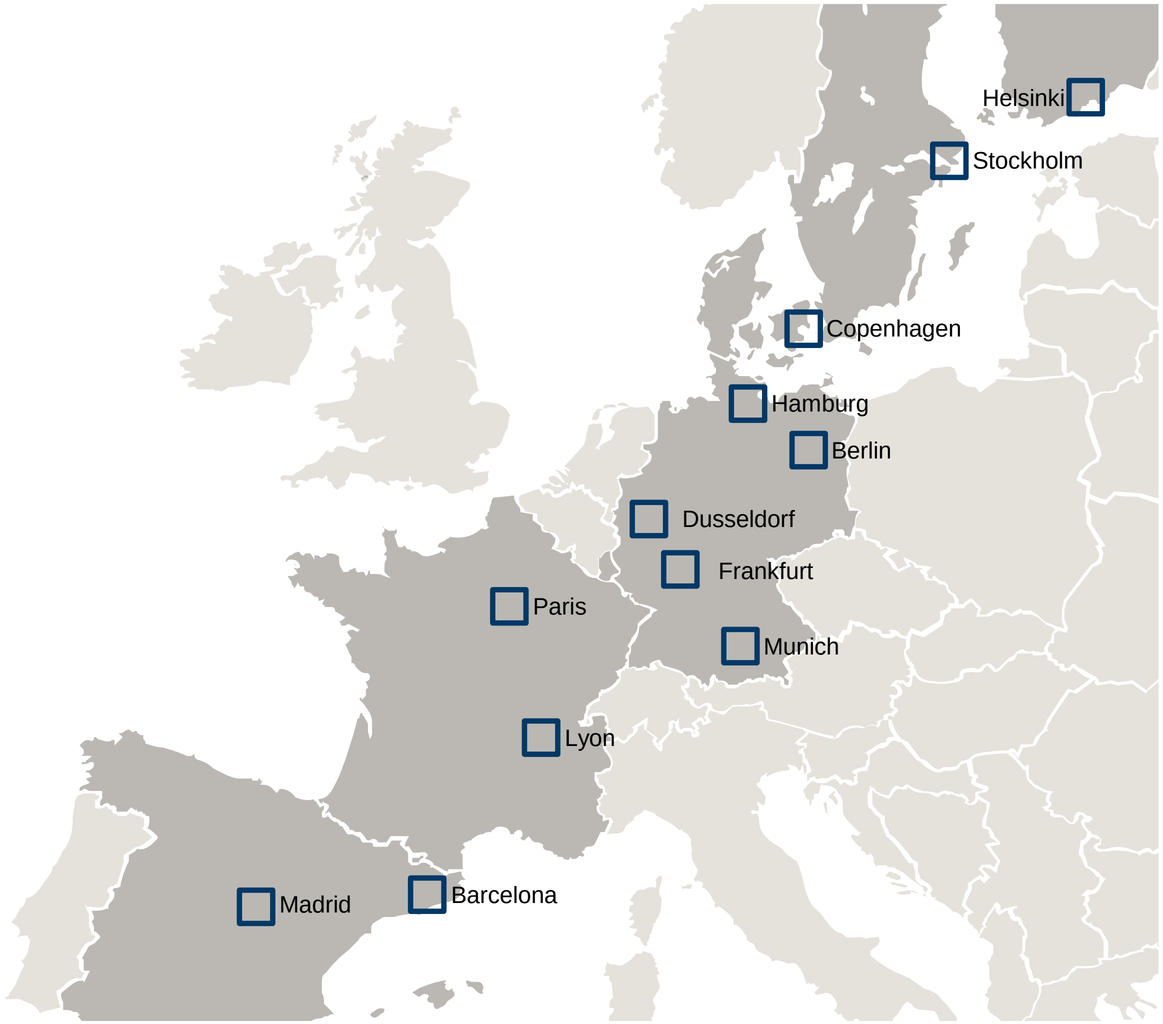
* All assets: office, retail, industrial, hotel, residential

Source: Catella Research 2018, RCA

European Real Estate Markets – Office overview

<u>Vacancy rate and Outlook 2019</u>

Lyon	6.60%	↘	
Madrid		↘	9.50%
Barcelona		→	8.20%
Stockholm	7.70%	→	
Copenhagen	7.20%	→	
Helsinki	12.80%	→	
Berlin	1.90%	↘	
Frankfurt	7.70%	↘	
Hamburg		↘	3.90%
Munich	3.50%	↘	
Dusseldorf	6.70%	↘	
Paris	5.00%	→	

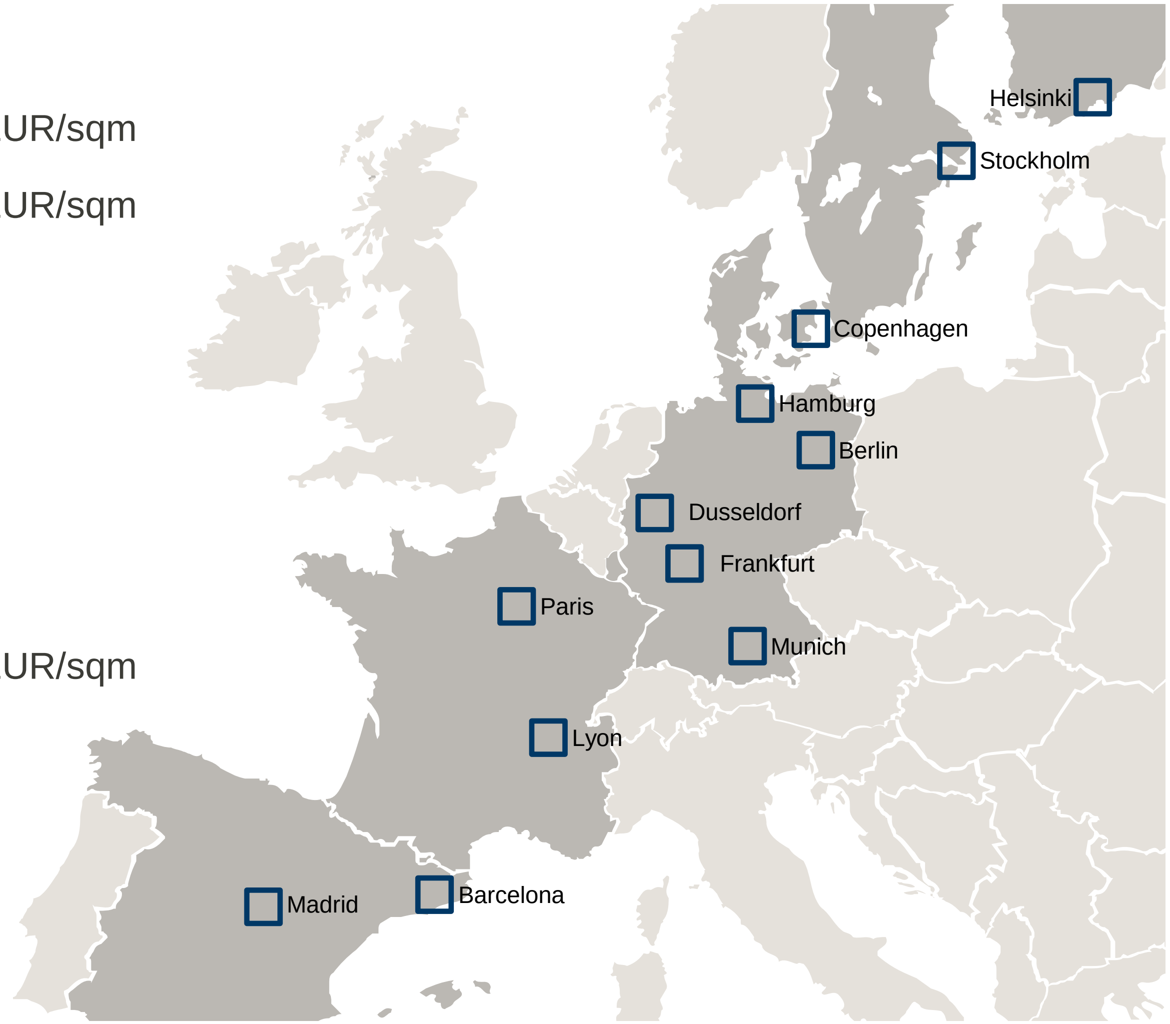


Source: Catella Research 2018

European Real Estate Markets – Office overview

Prime rent and Outlook 2019

- Lyon 21.25 EUR/sqm →
- Madrid 32.50 EUR/sqm ↗
- Barcelona 24.00 EUR/sqm ↗
- Stockholm 56.00 EUR/sqm ↗
- Copenhagen 19.00 EUR/sqm →
- Helsinki 33.00 EUR/sqm ↗
- Berlin 33.00 EUR/sqm ↗
- Frankfurt 40.50 EUR/sqm ↗
- Hamburg 27.50 EUR/sqm ↗
- Munich 30.00 EUR/sqm ↗
- Dusseldorf 27.50 EUR/sqm →
- Paris 67.50 EUR/sqm ↗



Source: Catella Research 2018

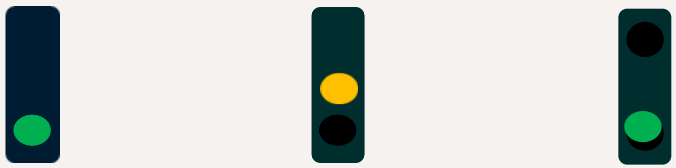
Catella’s Outlook for 2018 / 2019

- Large amount of available capital for real estate investments – especially by institutional investors
- Expected yield compression – in second-tier locations and markets
- Office and retail properties – will remain the most sought after assets for both international and national investors
- Rising take-up volumes – in European office markets with increasing prime rents and declining vacancy rates
- Housing sector – will come increasingly on the radar of investors, especially project developments
- In the short run, the real estate market seems relatively healthy, with prices and rents still on the rise

- However, a slowdown can be expected given the rise of construction projects, the tapering of the ECB’s QE program, and the eventual rise of interest rates
- Market bets expect a first rate move in Q3
- The low inflation and cautious lending suggests that it will be a controlled/gradual slowdown, rather than a sudden bubble burst

Source: Catella Research 2018

Catella´s Strategy – Real Estate Asset Allocation 2018 / 2019



Cycle ***Valuation*** ***Sentiment***

Catella

- Signals from the three components:
  - Cycle positive
  - valuation neutral
  - sentiment positive, nevertheless plateauing

Asset Allocation*

Overweight	Residential Healthcare Student Housing
Positive	Office (observe flexible workspace evolution) Hotel Industrial /Logistics Developments
Selective	Retail (out of town) 3rd tier locations ….

*strategic allocation - case-by-case examination

Source: Catella Research 2018

Are the Real Estate markets facing a change?

…sure, but we should trust the fundamentals more than the sentiment

Source: Catella Research 2018

Thank you for your attention.. Let´s discuss!