MACROECONOMIC OUTLOOK

- Q3 2022 was marked by continuing Russian attacks in Ukraine, and the general assessment of their economic consequences for the global economy. The shocks unleashed by the war are hitting the EU economy both directly and indirectly, setting it on a path of lower growth and higher inflation
- The rapid increase in energy and food commodity prices is feeding global inflationary pressures, eroding the purchasing power of households and triggering a faster monetary policy response than previously assumed
- Overall, real GDP is forecast to grow by 3.3% in 2022 and 0.3% in 2023 in the EU and by 3.2% and 0.3% in the euro area. The projected annual growth rate for this year is propped up by the momentum gathered with the recovery of last year and a stronger first half than previously estimated. Most EU states are expecting a technical recession this winter, followed by a fall in inflation and an economic rebound in spring

FINANCING MARKETS

- The mix of war in Ukraine, rising commodity prices and high inflation is leading to a downturn in sentiment among banks for real estate financing
- In light of central banks' unwinding accommodative monetary policy, short-term rates have risen significantly (E3M = 198 bps as of writing), shifting lender's scrutiny on borrowing costs. This has translated into rising financing costs for all asset classes
- In return, alongside tighter financing terms, lenders have adopted a more prudent approach starting from more in-depth collateral analysis, to urging for higher ICR (translated to lower entry LTC) as well as calling for equity first deals
- Stricter lending policies at banks increase demand for alternative real estate financing instruments, in particular whole loans and junior / mezzanine debt
- The industry will be running on higher priced debt narrowing the difference between bank debt margins and debt funds margins
- Despite uncertainty, due to mitigating strategies through hedging and robust cash flows, there was no widespread distress on existing loans in the UE in Q3 2022. As per the forthgoing lending market, along tighter conditions, banks are also cherry-picking amongst borrowers favoring those with a solid track record therefore narrowing down their offer to their trusted client base

Evolution of margins and LTVs across Europe:

		France	Germany	Iberia	Italy	Benelux	CEE
Margins (bps)	Core	120-150	110-140	180-200	150-200	120-150	150-180
	Value-add	300-350	220-300	310-350	310-350	300-350	330-380
	Trend	↑	↑	↑	↑	↑	↑
LTV (%)	Core	50-55	50-55	50-55	50-55	50-55	50-55
	Value-add	45-50	45-50	45-50	45-50	45-50	45-50
	Trend	↓	→	↓	↓	↓	↓

RECENT MILESTONE FINANCINGS

Asset: Logistics center
Location: Erfurt (Thuringia)
Loan amount: €254m
Deal: development 354,000 sqm logistics platform
Investor: ATMIRA Group
Lead arranger: PBB

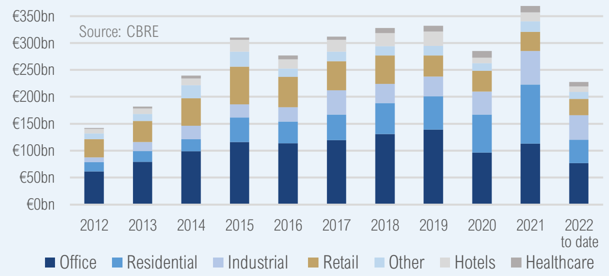
Asset: Logistics center
Location: 15km south of Verona
Loan amount: €150m
Deal: Acquisition of 5 logistics warehouses of over 246,000 sqm
Investor: Starwood
Lenders: ING, BNP Paribas

Asset: 18k sqm retail & office building
Location: 150 Champs-Elysées, Paris
Loan amount: €480m
Deal: Acquisition financing
Investor: Brookfield AM
Lenders: BNP Paribas, ING, CACIB, SocGen and others

INVESTMENTS

- Investment into European real estate reached €229bn in 9M-22, the strongest ever first nine months of a year, driven by a very strong Q1, where total investment volumes reached €87bn
- 9M-22 volumes were driven by the logistics and office asset classes, €77bn and €45bn, respectively while retail and healthcare also show strong volumes. Residential and Hotels recorded volumes down 25% and 13% yoy, respectively
- Southern Europe demonstrated the most positive trend with record investment levels, up 30% in Q3 and 57% for the year's first nine months

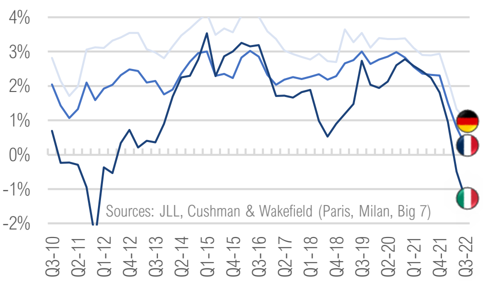
Annual investment volumes, by asset type



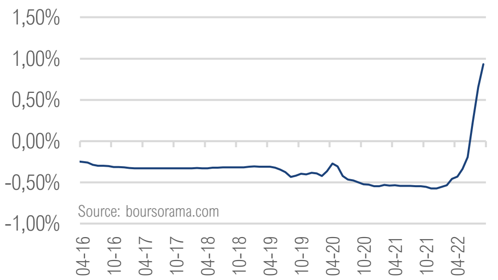
COUNTRY OUTLOOK

- In France, investment volumes reached €25bn during the first nine months, up 11% yoy (+25% from 10Y average). The office segment has had a lackluster year (52% of invested volume vs 70% over the last 10Y) whereas retail and logistics have both had an exceptionally dynamic year accounting for almost half of the investment volumes. As expected, prime yields decompression movement has begun, showing from Q3 a significant number of deal breaks and marketing delays which we expect will have an effect on future investment volumes. Despite this, lending liquidity is still fair, and we do not expect it to be the first slowdown factor
- In Germany, investment volumes stood at €35bn during the first nine months, marking a 28% decrease yoy despite a strong H1 (Q3: €15.9bn, down 40% yoy). General pessimism persists, fueled by recessionary fears linked to the energy crisis, inflation, and increased financing costs. The Deutsche Hypo RE climate Index fell to levels not seen since the great financial crisis (64.8). RE investment activity is expected to stay muted while economic uncertainty remains high and asset values not clear. Conventional lenders are expected to further focus on core assets and conservative leverage, creating opportunities to alternative players willing to fill the gap, especially on value add and subordinated debt levels
- In Italy, investment volumes reached €8bn during the first nine months, marking a 32% increase yoy, close to FY21 levels on an annualized basis (€10.5bn). The office sector accounted for €4bn, span across 57 deals and Milan remained the key investment driver, attracting around €2.7bn capital (69% of the total), with 38 deals. Despite strong volume, uncertainty remains. With the 10 BTP yield now surpassing most prime property yields, repricing appears a must to further attract capital in the sector. In the short term, macroeconomic uncertainty may cause a sentiment of caution. However, long-term expectations are for the beginning of a new real estate cycle

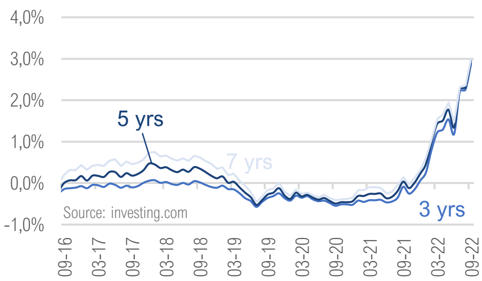
PRIME OFFICE YIELD SPREADS[1]



EURIBOR 3M



IRS SWAP RATES



 [1] Prime office yield spreads defined as prime office rental yields [minus] relevant 10-year government bond yield

Sources : Q3-22 CBRE European Real Estate Investment volumes, JLL Marketbeat quarterly reports, C&W quarterly reports, investing.com, boursorama.com, Primonial quarterly reports