MACROECONOMIC OUTLOOK

- The highlight of the beginning of the year was a certain "resilience" of the Eurozone economy amidst continued volatility, the rate hike cycle, and a distressed banking sector. Eurozone registered a QoQ growth of 0.1%, hence avoiding a possible recession. The so-called recovery was due to an improved energy picture in Europe. Natural gas and Brent crude prices have fallen by 85% from August 2022
- In this context, the European Commission has revised upwards its 2023 GDP forecast to 1.0% from 0.8% previously and to 1.7% for 2024
- Nevertheless, with accrued inflation further hiking interest rates, low unemployment keeping pressure on wages, tighter monetary policies, and bank failures across the US and Europe, uncertainty will prevail, and recession is not completely ruled out for the next few quarters

FINANCING MARKETS

- Lower LTVs and higher margins have been the hot topics of financing markets this past year
- In light of the central banks' attempt to mitigate high levels of inflation through the tightening of monetary policies, the cost of debt has increased and lenders are focusing on maintaining interest covers at decent levels, thereby lowering LTV ratios across all sectors. The combination of the latter with the declining asset values has led to funding gaps, leaving borrowers in a situation where replacing the existing with *quid pro quo* debt is no longer possible. Extra equity injections, contracting subordinated debt - even the use of cash traps from current loans - have emerged as solutions to alleviate the situation
- Similarly, lenders have reassessed margins reflecting current market uncertainties. An average increase of 20-30 bps on senior loans in all sectors combined has been registered since March 2022
- Alongside, senior debt cost has increased by 200-300 bps yoy. Nevertheless, while the significant rise of interest rates has impacted both short-term and long-term rates, in Q1 short-term rates continued to rise while long-term rates started easing off, signaling a stabilization of prime real estate cost of debt
- Despite major headwinds and constraints, liquidity remains available and a parallel is not to be drawn with the 2008 financial crisis. Today banks are better capitalized, and non-bank lenders (funds, insurance) have grown significantly and are originating more loans. Besides, the monetary policy conditions are not to be compared with those of 2008

Evolution of margins and LTVs across Europe

		France	Germany	Iberia	Italy	Benelux	CEE
Margins (bps)	Core	125-200	130-300	160-220	180-250	140-300	150-180
	Value-add	260-350	240-380	275-350	310-375	275-350	330-380
	Trend (yoy)	→	↑	→	↑	↑	→
LTV (%)	Core	45-65	45-70	45-60	45-60	45-65	50-55
	Value-add	45-60	45-60	45-60	45-60	45-60	45-50
	Trend (yoy)	↑	↑	→	→	↑	→

Q1-23 MILESTONE FINANCINGS

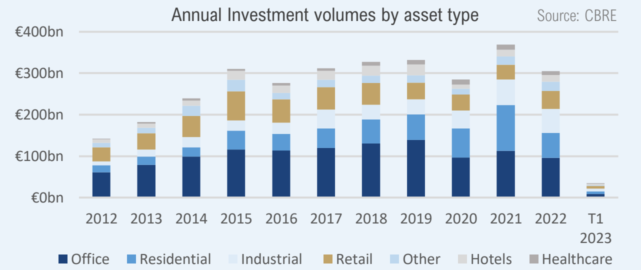
Asset: Logistics portfolio
Location: Bavaria
Loan amount: €505m
Deal: Refinancing
Investor: VIB Vermögen AG
Lenders: Helaba, BerlinHyp, BayernLB

Asset: 110-acre land plot development
Location: Milan Santa Giulia district
Loan amount: in excess of €500m
Deal: Land acquisition financing
Investors: LendLease & PSP Investment
Lender: Intesa Sanpaolo

Asset: 18,515sqm office building
Location: Levallois-Perret
Loan amount: €[100]m
Deal: Acquisition + Capex financing
Investors: Weinberg CP, Henderson Park
Lenders: CACIB

INVESTMENTS

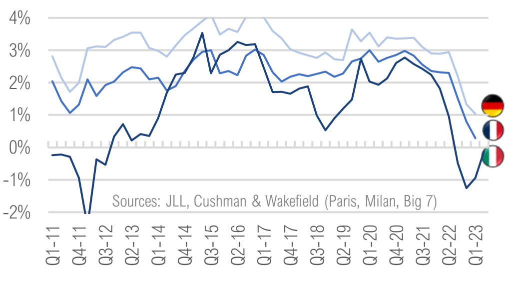
- Investments into European real estate reached €34bn in Q1 2023, pointing out a *c.*60% decrease vs Q1 2022
- 2022 started off with record levels of investments, akin to pre-pandemic ones. However, the inflation spike followed by the consequent monetary policy tightening in mid-2022 led to bond yield expansion, pricing uncertainty, lending reluctance, and ultimately a more selective approach to property acquisition from buyers
- Investment volumes have plummeted across all countries (Germany -74%, France -25%, Italy -74%, Spain -38%) and asset classes. Logistics (-71%) and Offices (-66%) experienced the strongest contractions, whereas Hotels (-21%) and Retail (-37%) were the most resilient



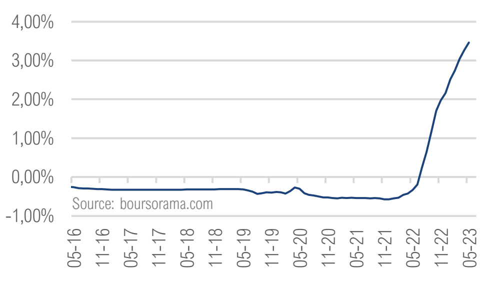
COUNTRY OUTLOOK

- In France, although investment volumes fell by c.25% compared with Q1 2022, it was to a lesser extent than in other European countries. This was largely due to the slowdown experienced earlier in 2022. However, this remains the lowest amount invested since Q1 2014. Retail was the only driver registering good performance (39% of investments) as a result of several large transactions. The situation remained gloomy for the Industrial and Logistics sectors, but a potential recovery is expected given the pipeline underway for this asset class. On the Office side, the downgrade is not only due to economic uncertainty but also to structural changes and the peculiarity of the Parisian market. Nevertheless, we expect a market rebound by the end of the year subject to key rates stabilization and yield spread expansion
- In Germany, the investment market has seen a further deterioration during Q1 2023 with *c.*-70% volume vs. Q1 2022. This is the worst figure since 2010. From an investor perspective, asset pricing and financing costs remain crucial issues. While sentiment remains slightly positive in Logistics and Residential, perspectives are still poor in Retail and Office. The Hospitality industry is on the path to a good post-Covid recovery. However, we expect banks to remain cautious and new business targets are already being reviewed downwards. Increasing RWAs on existing loan books is likely to translate into a more conservative and selective lending strategy
- In Italy, investments have experienced a sharp slowdown in Q1 2023 with *c.*-70% volume vs. Q1 2022. Logistics remains the most sought-after asset class while Office has seen a slow start to 2023 with an increased dynamism in Q2. More emphasis is put on alternative asset classes like Healthcare. In the short-term, rising interest rates are most likely to continue negatively impacting the Italian/European CRE, but in the medium/long term, investors are expected to be attracted to the value-add opportunities offered by the Italian real estate, which is one of the most obsolete in Europe. Hybrid formats and emerging asset classes (Healthcare, Longevity, Education) may further contribute to the recovery of the sector

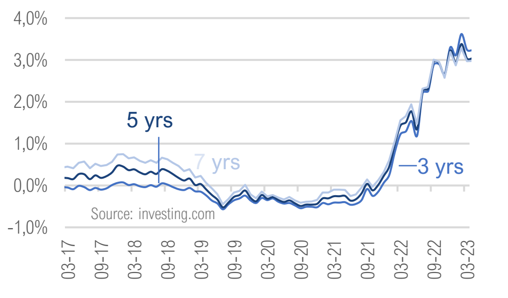
PRIME OFFICE YIELD SPREADS[1]



EURIBOR 3M



IRS SWAP RATES



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

Sources: Q1-23 CBRE European Real Estate Investment volumes, JLL Marketbeat quarterly reports, C&W quarterly reports, BNP Europe 180 CRE, investing.com, boursorama.com, Primonial quarterly reports