SHIFT CAPITAL BAROMETER | Q4 2022

MACROECONOMIC OUTLOOK

- While inflation remained a concern in Q4 2022, most geographies saw their inflation rate peak. Futures show that markets align with central bankers' hopes for a soft landing, i.e. a short-lived recession, or no recession at all in 2023, quickly followed by a return to growth and nominal inflation rates
- Resilient consumer spending coupled with the lower-than-expected impact of the energy crisis, thanks to unusually warm temperatures, have led analysts to revise their growth forecasts upwards. The EU Commission's latest economic forecasts now showcase real GDP growth of 0.8% in 2023 and 1.6% in 2024 in the EU and by 0.9% and 1.5% in the euro area (+0.5% vs previous 2023 estimate)
- The ECB is nonetheless expected to keep raising rates to rein in inflation in the short term. Latest surveys show that markets are now expecting a 3.50% terminal rate, to be reached in Q2 2023

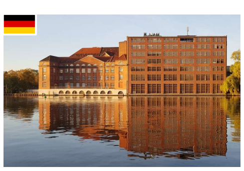
FINANCING MARKETS

- Although somewhat drying up in specific non-core locations, overall liquidity in debt markets remains healthy. Lender appetite proved strong for hospitality and residential, which demonstrated their resilience in the current market as well as industrial and life sciences, where quality supply is scarce
- In the value-add investment field, bank liquidity is still present for profitable development projects in prime locations and led by reputable investors. LTCs have nonetheless declined by 5 pts on average
- As of Q4-22 asset write-downs were minimal although appraisers are expected to increase their cap rate assumptions in the coming quarters, which may increase the number of covenant breaches
- Telescoping of upcoming loan maturities with combination of higher all-in debt costs, declining valuations and stricter lending regulations around the provisioning of bad debt is likely to lead to challenging refinancing processes. For now, the scope of this issue remains limited to short-maturity, 60%+ LTV and bullet loans closed in 2018-19 but should widen as 2020-21 loans get closer to maturity. Consequences could include fire sales, recapitalisations, or an increase in use of junior debt. Restructuring is therefore likely to become a hot topic in the quarters / years ahead
- This challenging environment should create growth opportunities for alternative lenders, as highlighted by the launch of several new debt funds in the past several months. Such lenders will be able to refinance maturing loans through junior/mezzanine facilities as well as help finance value-add projects in the markets deserted by banks. These alternatives financing solutions will inevitably lead to higher WACCs and lower IRRs for investors

Evolution of margins and LTVs across Europe

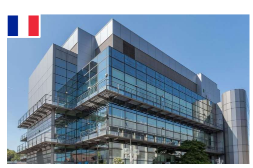
		France	Germany	Iberia	Italy	Benelux	CEE
Margins (bps)	Core	120-150	110-140	180-200	180-250	120-150	150-180
	Value-add	300-350	220-300	310-350	310-375	300-350	330-380
	Trend (yoy)	↑	↑	↑	↑	↑	↑
LTV (%)	Core	50-55	50-55	50-55	50-55	50-55	50-55
	Value-add	45-50	45-50	45-50	45-50	45-50	45-50
	Trend (yoy)	↓	→	↓	→	↓	↓

Q4-22 MILESTONE FINANCINGS



Asset: Mixed-use portfolio
Location: Berlin region
Loan amount: €515m
Deal: Refinancing of a 258,300 sqm mixed-use portfolio
Investor: GSG
Lenders: BerlinHyp, DZHyp & IBB

Asset: 44-acre land plot to de developed
Location: Milan
Loan amount: €250m
Deal: Acquisition & development financing of the 2026 Olympic village
Investors: Covivio, Prada, Coima
Lender: Intesa Sanpaolo

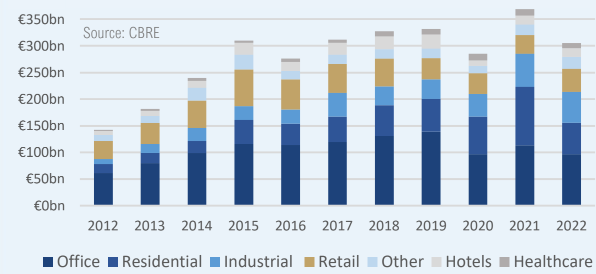


Asset: 21k sqm life sciences centre
Location: Romainville
Loan amount: €[55-60]m
Deal: Acquisition financing
Investors: Oxford Properties, Novaxia
Lender: CACIB

INVESTMENTS

- Investment into European real estate reached €305bn in 2022, marking a 18% decrease vs 2021, driven by a very strong start to the year (Q1 volumes reached €87bn) followed by lower activity in the second half (Q4: -58% yoy)
- 2022 volumes were driven by the logistics/industrial and office asset classes, €58bn and €96bn, respectively while retail and healthcare also showed strong volumes. On the other hand, residential and hotels recorded volumes down 46% and 9% yoy, respectively
- Southern Europe demonstrated the most positive trend with record investment levels (Italy +25%; Spain +38%; Portugal +13%)

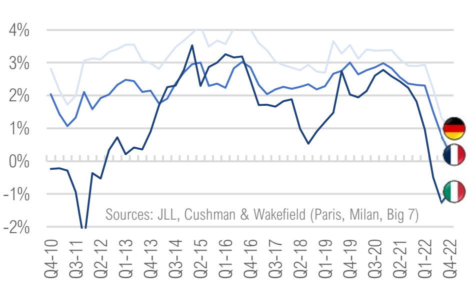
Annual investment volumes, by asset type



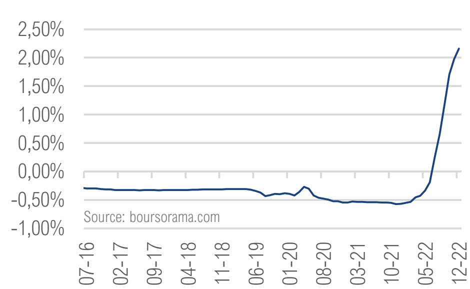
COUNTRY OUTLOOK

- In France, €26.1bn were invested in 2022 (-1% yoy), a rather good performance which, nonetheless, shouldn't hide difficult market conditions. Retail and logistics/industrial recorded strong volumes and captured c.21% and 25% of all transactions, respectively. The office segment had a lackluster year with only €14bn invested, representing only 54% of volumes vs c.70% historically. As expected, prime yields started to increase in most asset classes albeit to varying degrees (+100bps for logistics, +80bps for prime CBD office, +35 bps for high street retail). Lending liquidity remained broadly available although at more conservative LTCs and margins
- In Germany, 2022 proved challenging as total investment volumes halved compared to 2021, at €43.2bn. Investors & lenders sentiment indices continued to show pessimism although late 2022/early 2023 data hinted at improving sentiment. The Deutsche Hypo RE climate Index rebounded slightly from its previous low of 64,8 (now 74,1). RE investment activity is expected to stay muted while economic uncertainty remains high. Conventional lenders' increasing focus on Core assets & low-leverage deals creates opportunities for alternative players willing to fill the gap. The subordinated debt originated in the recent years' low-interest period may suffer from potential repricing and questionable exit in current markets
- Despite an unusually quiet Q4 (€2.2bn), in 2022, Italy has proven more resilient than most other EU countries with volumes reaching €11.6bn (+25% yoy), close to the €12.0bn 2019 record. Offices and logistics were the two main drivers, with volumes of €6.7bn (58% of total). Northern Italy continued to concentrate the most volumes (c.62%), with Milan making up 42% of these. However, as the 10-year BTP bounced within the 3.6-4.8% range, core real estate risk premia have gone negative, questioning where valuations are heading. Yields increased for all asset classes, with Milan office prime yield reaching 3.80% in Q4 22 (+70 bps). Bank liquidity is still available for core assets and pre-let developments, while for other asset classes, debt funds are increasingly active

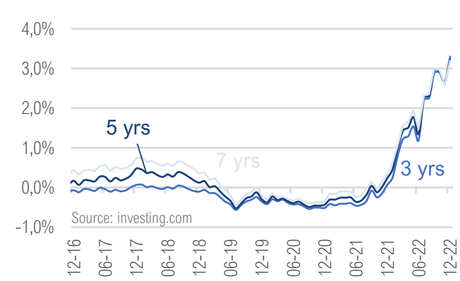
PRIME OFFICE YIELD SPREADS[1]



EURIBOR 3M



IRS SWAP RATES



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

Sources : Q4-22 CBRE European Real Estate Investment volumes, JLL Marketbeat quarterly reports, C&W quarterly reports, investing.com, boursorama.com, Primonial quarterly reports