Cromwell European REIT

1H 2020 Results Presentation

Economic and Real Estate Country Update Supplement
11 August 2020

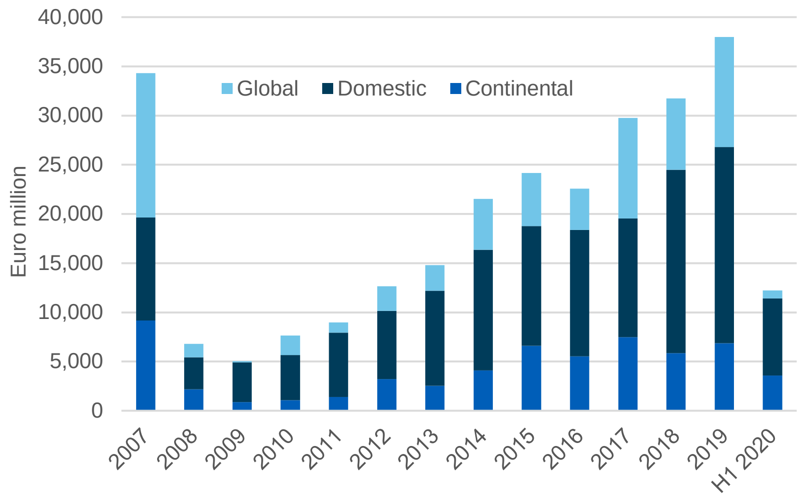
The Netherlands

Office Market Outlook

Real Estate Market

- Occupier activity was weaker during the first half of 2020. The lockdown measures resulted in a 20% decline in take-up against 1H 2019 across key Dutch office markets. A number of active requirements were on hold due to difficulties in viewing offices, and corporations re-assessing their real estate needs. In Amsterdam, 43,200 sq m was leased in 2Q, 46% below the long-term quarterly average of 80,000 sq m.
- With lockdown measure easing, the number of active occupiers in the market have begun to increase. However, these are occupiers of smaller floorplates of around 2,500 sq m. Occupiers that would typically take larger lot sizes have adopted a wait-and-see approach before committing to the capital expenditure and are delaying their real estate decisions.
- Despite the fall in demand, the vacancy rate remains low across the Netherlands. In the Hague, vacancy is 5.8%. Rates in Rotterdam and Utrecht are marginally higher. Headline rents have remained stable as have incentives in the central locations of key markets. However, in secondary markets, occupiers have been negotiating for more favourable terms.
- In 1H 2020, the total office investment volume reached €1.6 billion, which is 29% down on the same period in 2019. Investors have continued to target quality over location and as a result the investment activity in 1H 2020 was dispersed over more cities than usual. Given the preference for core product, prime yields have remained stable.
- Banks have continued to lend against developments but at a higher rate. On developments private equity has been taking the letting risk but this is against a higher yield. Institutions have also been active but require a rental guarantee.

Office Volumes by Capital Source



Economy

Indicator	2019	2020	2021 Outlook (vs 2020)
GDP Growth	1.6%	-5.0%	↗
Industrial Production	-0.9%	-3.4%	↗
Consumer Prices, average	2.6%	1.1%	↗
Population (millions)	17.35	17.43	↗
Population Growth Rate	0.61%	0.46%	↘
Unemployment Rate	4.3%	4.7%	↗

Annual % change unless specified

- As lockdown measures were eased, consumer spending rebounded strongly in May
- Retail sales surged by 9% m/m and are now above their pre-pandemic level
- Overall GDP will decline by 5.0% this year as the lockdown measures implemented in 1Q and 2Q weigh on growth. A rebound of 3.8% in 2021 is expected
- The unemployment rate saw a record increase in June, but remains at historically low levels and should provide a strong foundation for recovery

Outlook

- Over the next 12 months, occupier demand is expected to remain similar to pre-COVID levels. Working from home has already largely been factored into the nationwide vacancy rate as it was already a characteristic of the Dutch market pre COVID-19 with approximately 17.6% of the work force working remotely on a daily basis. The nationwide vacancy rate is expected to fall to 6.4% by the end of 2020, from 6.8% seen in 2019.
- How occupiers and their employees use their space will be looked at more closely as wellness and collaboration become much more important elements of the office, rather than simply a workspace which most homes can now provide to some extent. The accessibility and quality of the office are be crucial to maintaining values.
- Currently the development pipeline remains limited, with 114,000 sq m to be delivered in 2020, and 397,000 sq m in 2021. The majority of this space has already been pre-let so the completion of these schemes are likely not to have too much of a negative impact on the vacancy rate.
- Despite the fall in investment activity in 1H 2020 with some investors putting deals on hold while they wait for more clarity around pricing, the fundamentals supporting the key Dutch office markets remain strong and activity is expected to pick up during the second half of 2020.

Sources:
Oxford Economics - Netherlands Economic Forecast July 20 2020
Real Capital Analytics – data as at July 30 2020
CBRE – Market discussion with local research team July 20 2020
Colliers – Market discussion with local research team July 24 2020

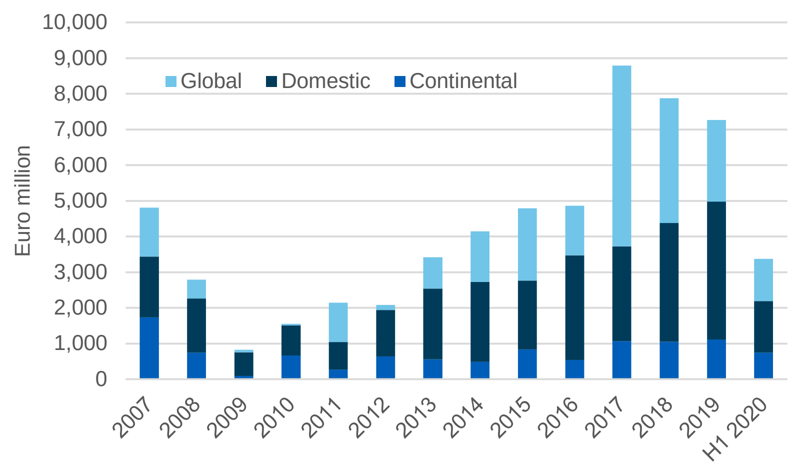
The Netherlands

Light Industrial / Logistics Market Outlook

Real Estate Market

- Leasing activity eased during the first half of the year with letting volumes declining by 45% compared to 1H 2019. The high level of demand for online retail meant that e-commerce operators were the most acquisitive during this period, with some occupiers such as Coolblue and Picnic currently looking for expansion possibilities.
- Some regions of the Netherlands which largely service domestic markets, such as central Utrecht have seen a robust level of demand during the first half of the year. However, regions which service international markets have struggled somewhat, such as Venlo and Tilburg, which largely operate with Germany, although the situation is expected to be temporary.
- A combination of easing occupier demand, and the delivery of new development space has led to a rise in the vacancy rate from 5.1% in 1Q to 5.89% in 2Q. Before COVID-19, development activity was strong with investors keen to take speculative developments. However, there has noticeably been less appetite from occupiers over the last few months.
- Investor sentiment was strong at the beginning of the year, however towards the end of 1Q the COVID-19 outbreak began to delay deals and restrict activity as undertaking site visits was prohibited for a period of time. In 1H 2020, the total investment volume reached €1.7 billion, which was higher than expected and on par with the 1H 2019 volume.
- DEKA were particularly active and acquired a number of industrial assets, which reflects the strong, positive investor appetite for the sector. As a result of this demand, prime yields have remained stable in 2Q and are not expected to rise by the end of the year.

Industrial Volumes by Capital Source



Economy

Indicator	2019	2020	2021 Outlook (vs 2020)
GDP Growth	1.6%	-5.0%	↗
Industrial Production	-0.9%	-3.4%	↗
Consumer Prices, average	2.6%	1.1%	↗
Population (millions)	17.35	17.43	↗
Population Growth Rate	0.61%	0.46%	↘
Unemployment Rate	4.3%	4.7%	↗

Annual % change unless specified

- Dutch manufacturing output weakened in May but remains well above the Eurozone average - weak external demand and a fall in exports were contributing factors
- Overall GDP will decline by 5.0% this year as the lockdown measures implemented in 1Q and 2Q weigh on growth. A rebound of 3.8% in 2021 is expected
- The unemployment rate saw a record increase in June, but remains at historically low levels and should provide a strong foundation for recovery

Outlook

- Due to the ongoing growth of e-commerce, the demand for logistics space remains high. The expectation is for more than a third of the Dutch inhabitants to order more products online with the COVID-19 crisis, further boosting this trend.
- Other occupier types within the sector have been hit harder by the pandemic, leading them to postpone their decisions on relocation or expansion. Manufacturing firms in particular have seen a fall in sales and are expected to be less active over the short term. This could lead to an increase in sale and leaseback activity as firms look to increase the equity of their business.
- The investment market appears to be relatively robust during the first half of 2020 with transactions mainly delayed due to the market uncertainty rather than cancellations. At the beginning of 2H 2020, investor interest has increased again for core product and value-add opportunities in highly accessible locations near cities. These locations are potential future city hubs for last mile delivery.
- However, investors are understood to be less keen on large logistics warehouses which are not tenanted and are likely to look for more secure opportunities and income streams. Prime yields are expected to remain across the Netherlands, with capital interest strong enough to hold pricing levels.

Sources:
Oxford Economics - Netherlands Economic Forecast July 20 2020
Real Capital Analytics – data as at July 30 2020
CBRE – Market discussion with local research team July 20 2020
Colliers – Market discussion with local research team July 24 2020

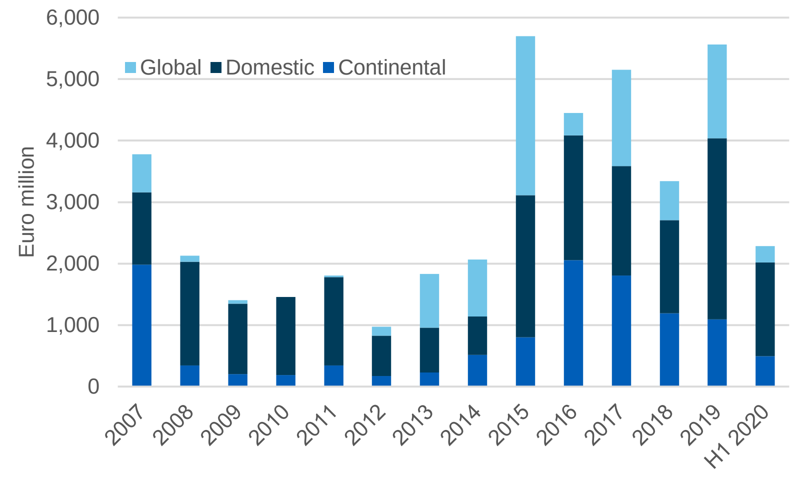
Italy

Office Market Outlook

Real Estate Market

- Letting activity decreased over the first half of the year as the uncertainty related to the COVID-19 crisis and prolonged lockdowns saw companies reflect on their accommodation needs. In Milan take-up reached 161,000 sq m, a 31% decrease from 1H 2019 with activity largely driven by the Financial Services sector which accounted for 45% of deals.
- In Rome 1H 2020 take-up reached 46,000 sq m, 73% down on 1H 2019. The majority of deals were signed in the EUR Centro, Centro and EUR Laurentina regions, which continue to be the most sought after regions by occupiers and accounted for 76% of take-up in 1H.
- Despite the subdued leasing activity during the first half of the year, there remains limited grade A availability across the two main cities, and as a result the vacancy rate is low. Milan's overall vacancy level remains below 10%, whilst in Rome it is at 8.9%. The lack of available options to occupiers has resulted in headline rents remaining stable.
- 1H 2020 trading volumes reached €2.3 billion with 2Q being by far the more active quarter, accounting for 70% of the half year activity. Milan dominates the investment scene with 85% of all deals taking place here and a clear focus on the CBD and Porta Nuova submarkets that are able to offer the quality stock that is sought after by investors. In Rome €173 million was invested into the office sector in 1H.
- There has been an easing in international capital flowing into the Italian real estate market over the last quarter, but domestic investors have been quick to fill the gap, accounting for 78% of 2Q deals. With quality a clear target there has been no movement in pricing at the prime end with yields held firm at 3.30% in Milan and 3.70% in Rome.

Office Volumes by Capital Source



Economy

Indicator	2019	2020	2021 Outlook (vs 2020)
GDP Growth	0.3%	--9.3%	↗
Industrial Production	-1.1%	-16.1%	↗
Consumer Prices, average	0.6%	0.1%	↗
Population (millions)	60.30	60.20	↘
Population Growth Rate	-0.18%	-0.16%	↘
Unemployment Rate	9.9%	10.4%	↗

Annual % change unless specified

- The easing of restrictions has already seen positive retail sales data and industrial production in June, along with improving mobility data
- The economy is expected to contract by 9.3% in 2020, followed by a substantial recovery of 6.0% in 2021
- Investment fell significantly in 1H and is likely to remain so in 2H if the banking system starts to tighten credit as a result of sustained, weaker economic and financial conditions
- There is stress in the labour market and although the June unemployment rate (8.8%) is lower than in February it is distorted by a dip in the participation rate

Outlook

- There is easing in occupier activities over the last four to five months as corporations assess their accommodation needs in the short to medium term and try to make longer-term judgements without having the full details regarding the COVID-19 crisis. However, this is not expected to see vacancy in Milan and Rome rise.
- Levels are anticipated to decline marginally as the fall in active requirements which is expected to be temporary, will be partially offset by a slowdown in the development pipeline. The majority of schemes that do continue to break ground are doing so only when a full or partial pre-let is in place
- Medium sized floorplates of between 1,000 sq m to 4,999 sq m have been the most sought after by occupiers recently, accounting for 48% of completed deals in 2020. The fact that occupiers are keen to take larger space demonstrates their confidence in the market.
- Prime rents are stable in the CBD at €600 per sq m in Milan and €450 per sq m in Rome. Incentives could rise slightly but have so far have remained the same. Stability in rents and returns during the COVID-19 crisis reflects a cautiously positive climate, with possibly further compression of prime yields in core markets over the next few months.
- Investor sentiment has remained relatively robust. Once the market environment returns to more normal levels, there is expected to be a renewed strength in investor appetite for core and value-add opportunities in both central Milan and Rome.

Sources:
Oxford Economics - Italy Economic Forecast August 7 2020
Real Capital Analytics – data as at July 30 2020
CBRE – Market discussion with local research team July 22 2020
CBRE – Milan office market view 2Q 2020
CBRE – Rome office market view 2Q 2020

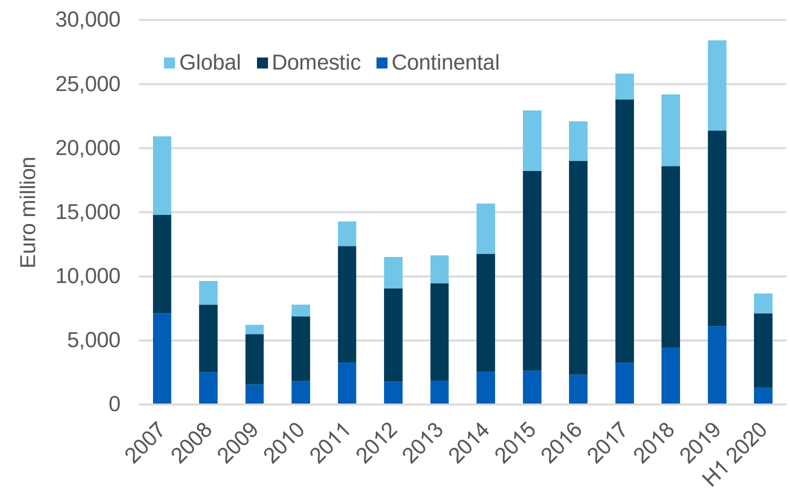
France

Office Market Outlook

Real Estate Market

- Leasing activity was subdued during 1H 2020 due to the lockdown measures implemented to limit the spread of COVID-19. The majority of disruption fell in 2Q when take-up declined by 40% from the previous quarter. The drop in activity could have been greater but for Total's 130,000 sq m letting in La Défense boosting volumes – the deal was initiated pre COVID-19.
- Demand for larger offices above 5,000 sq m have so far been the most affected by the pandemic with leasing activity in the first half of 2020 down 40% from 1H 2019 and 47% below the 10-year average. This trend is expected to continue with larger occupiers delaying their real estate strategies in order to focus on operational issues or rethinking their workspace strategy for a post-COVID era.
- At the beginning of the year, the vacancy rate was expected to rise due to the completion of several speculative schemes and the easing of demand has amplified this trend. In the Greater Paris region vacancy increased but remains tight at 5.1% although there are variations across the city. For example 2.0% in the CBD and 5.5% in La Défense.
- Headline rents remain stable – they are highest in the CBD at €900 per sq m per yr, €697 per sq m in Paris Centre West, €540 per sq m in Southern Paris, and €490 in La Défense. There has been rising evidence of incentives increasing as landlords try to limit any void periods.
- Investment activity was surprisingly resilient during the lockdown period, slowing by 20% during the first half of 2020 compared to 1H 2019, with volumes reaching €8.7 billion. The lack of clarity on pricing has led to some marginal yield softening and prime yields in the capital moving from 2.75% at the beginning of the year to 3.00% in 2Q.

Office Volumes by Capital Source



Economy

Indicator	2019	2020	2021 Outlook (vs 2020)
GDP Growth	1.5%	-10.1%	↗
Industrial Production	0.4%	-11.7%	↗
Consumer Prices, average	1.1%	0.5%	↗
Population (millions)	67.11	67.27	↗
Population Growth Rate	0.20%	0.24%	↘
Unemployment Rate	8.2%	9.4%	↗

Annual % change unless specified

- The post-lockdown rebound in demand was stronger than expected with household spending on goods increasing by 36% in May, broadly offsetting two-thirds of the combined losses recorded in March and April, following the lifting of the lockdown from 11 May
- Around 30% of employees were still in furlough in May and as activity struggles to resume in some sectors, notably tourism and recreation services, the unemployment rate could reach levels last seen in 2010 of 11.5%
- Overall GDP is forecast to decline by 10.1% in 2020, before rebounding by 7.3% in 2021

Outlook

- Leasing activity has already shown an improvement at the beginning of 3Q. There is more positive sentiment in the office sector and the sector is potentially on the road to recovery. However, total take-up volumes in H2 2020 are likely to remain subdued compared to the five-year average as a result of widespread economic damage and persistent uncertainty.
- A number of large developments and refurbishments are set to complete by the end of the year, such as Stories in St Ouen, Symbiose in Bagneux, Alto, and Trinity and Landscape in La Défense, the completion of which will add a further 822,100 sq m to existing stock.
- The release of this additional space as well as an easing in occupier demand could lead to a rise in the vacancy rate to around 7%. There may also be some downward pressure on rents, particularly for secondary office space or buildings in areas with an already high vacancy rate such as La Défense, Péri-Défense and the Inner Rim North.
- In the medium term, the COVID-19 crisis may accelerate the change in occupiers' workspace strategy. Remote working and space optimisation may have an impact on workspace design and size, but the office as a place for collaboration is likely to remain.
- Whilst the investment volume is expected to be low in the second half of the year, large domestic investors are expected to remain active, including insurance companies, which have largely targeted prime offices in core locations.

Sources:
Oxford Economics - France Economic Forecast July 21 2020
Real Capital Analytics – data as at July 30 2020
Knight Frank – Market discussion with local research team July 22 2020
CBRE – Paris office market view 2Q 2020

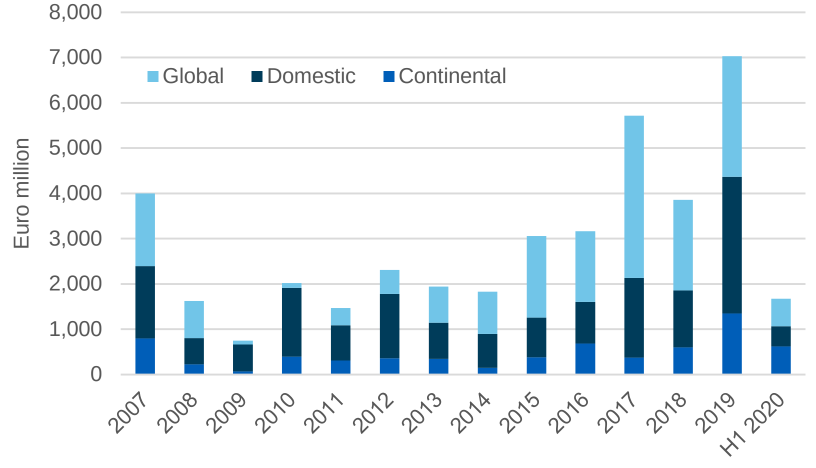
France

Light Industrial / Logistics Market Outlook

Real Estate Market

- Following a strong performance in the leasing market over the last four years, the French logistics market began to slow by in beginning of 2020, although this was more due to a lack of well-located quality stock than a waning in appetite.
- COVID-19 has seen a number of active requirements put on hold and some deals have also been paused as occupiers reassess their real estate needs and whether indeed they need more space to near-shore and strengthen supply chains. However, since lockdown has ended, occupier demand has increased, particularly for logistics space above 30,000 sq m.
- Across France, logistics take-up in 1H 2020 totalled 1.2 mn sq m, a 45% fall from 1H 2019. The regional markets recorded deals of 918,300 sq m and 291,600 sq m transacted in Paris. Activity in the Greater Paris market was driven by transactions for small and medium units between 5,000 sq m - 20,000 sq m which were in high demand.
- Availability ticked-up towards the end of 2019 across France. This has continued in the first half of 2020. The vacancy rate in Paris remains low compared to other parts of France, particularly for larger assets above 40,000 sq m, which there is currently little available stock.
- The lockdown period appears to have had little impact on investor sentiment with investors continuing to show a strong appetite for logistics assets. A number of new investors have emerged despite the uncertain economic backdrop with decisions supported by the long-term trends influencing the expansion of the sector. The transaction volume totalled €1.7 billion in 1H 2020, on par with 1H 2019. Prime yields remained stable at 4.00%.

Industrial Volumes by Capital Source



Economy

Indicator	2019	2020	2021 Outlook (vs 2020)
GDP Growth	1.5%	-10.1%	↗
Industrial Production	0.4%	-11.7%	↗
Consumer Prices, average	1.1%	0.5%	↗
Population (millions)	67.11	67.27	↗
Population Growth Rate	0.20%	0.24%	↘
Unemployment Rate	8.2%	9.4%	↗

Annual % change unless specified

- The post-lockdown rebound in demand was stronger than expected with household spending on goods increasing by 36% in May, broadly offsetting two-thirds of the combined losses recorded in March and April, following the lifting of the lockdown from 11 May
- Around 30% of employees were still in furlough in May and as activity struggles to resume in some sectors, notably tourism and recreation services, the unemployment rate could reach levels last seen in 2010 of 11.5%
- Overall GDP is forecast to decline by 10.1% in 2020, before rebounding by 7.3% in 2021

Outlook

- As lockdown measures were lifted, occupier sentiment has improved with the realisation that some of the online demand for e-commerce will be permanently converted. This is expected to lead to a rise in leasing activity in the second half of the year.
- There are also a number of large deals in the pipeline which could push the annual take-up volume to 2 million sq m, resulting in a 11% decline from 2019, a good result given the current global circumstances.
- Occupiers looking for space in 1H 2020 were drawn to quality with 70% of deals signed for new, higher quality space, an increase from 67% in 2019. This confirms that occupiers are seeking efficiency and increasingly bespoke logistics products. From their initial design, buildings are sustainable and even reversible, with high expectations in terms of energy performance.
- The strong investment activity during the first half of the year was driven by the disposal of two major pan-European portfolios, of which a significant proportion of the assets were located in France. One was purchased by American investors Greenoak and Ares and the other, the French Hub & Flow portfolio was sold by another American investor, Carlyle. This could lead to a prosperous year and may even prove to be the second-best annual performance in recorded history. As a result, prime yields are not expected to soften and will remain at 4.00% for the rest of the year.

Sources:
Oxford Economics - France Economic Forecast July 21 2020
Real Capital Analytics – data as at July 30 2020
Knight Frank – Market discussion with local research team July 22 2020
CBRE – France logistics market view 2Q 2020

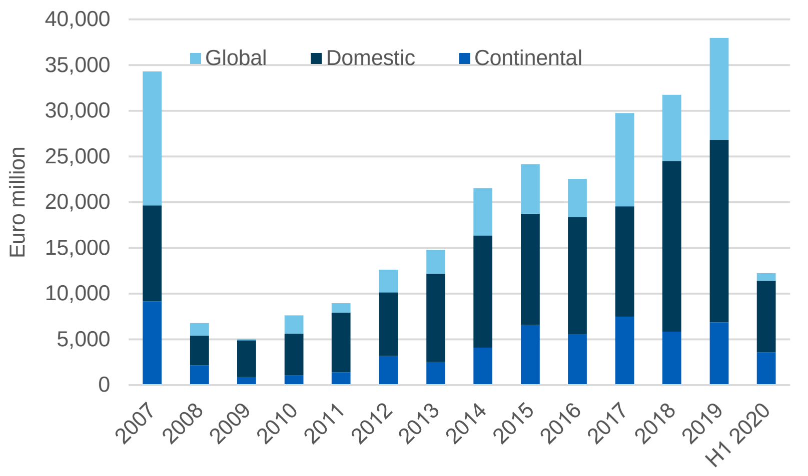
Germany

Office Market Outlook

Real Estate Market

- Leasing activity was subdued during the first half of 2020 with the take-up volume just exceeding 1 million sq m, a 37% decrease from 1H 2019.
- Munich was the most active market where 328,000 sq m was leased. This was 24% down from the previous year, due to a lack of larger deals. The most significant deal was Amazon, taking 30,000 sq m, however other occupiers which would usually take larger floorplates are delaying their real estate decisions. With office demand easing, the vacancy rate in Munich increased by 30 basis points, but remains very tight at 2.6% in 2Q. Despite this rise, prime rents have so far been unaffected and remain at €40 per sq m per month.
- 271,000 sq m was leased in Berlin during 1H, with the market continuing to be driven by the public sector, which has a market share of 42.8%. Notably, Deutsche Rentenversicherung took 84,000 sq m, the largest letting in 1H 2020. Despite this activity, the overall vacancy rate increased slightly to 1.5%. While an increase is undesirable, the rate remains very low.
- Office investment volume totalled €12.2 billion during 1H 2020 and while 2Q was slower, the half year amount was 11% above that of 1H 2019 – a positive performance for the market.
- Investors continued to focus on the seven largest office markets which has seen pricing remain stable across all key markets. Berlin recorded the largest number of deals (26% of all activity), followed by Dusseldorf, Munich, Hamburg, Stuttgart and Cologne. Activity has largely been driven by a strong increase in the proportion of portfolio transactions, from 3% in the first half of 2019 to just under 36% 1H 2020. This is mainly due to corporate takeovers.

Office Volumes by Capital Source



Economy

Indicator	2019	2020	2021 Outlook (vs 2020)
GDP Growth	0.6%	-6.3%	↗
Industrial Production	-4.3%	-9.9%	↗
Consumer Prices, average	1.5%	0.6%	↗
Population (millions)	83.10	83.23	↗
Population	0.20%	0.15%	↘
Unemployment Rate	5.0%	5.7%	↘

Annual % change unless specified

- The easing of lockdown measures has boosted the economy, which is now showing a strong rebound in activity. Notably retail sales saw a significant surge in May, increasing by 14% from April
- Recovery in the industrial sector was not as strong for lacklustre global demand and supply-chain disruptions still weigh on performance
- Labour market news is cautiously positive. The unemployment rate only edged up to 6.4% in June from 6.3% in May. The number of workers on the government's furlough scheme also appears to have peaked
- Overall, GDP is forecast to decline by 6.3% in 2020, before recovering to 5.2% growth in 2021

Outlook

- If Germany can avoid a second wave of COVID-19, then the outlook for the rest of the year remains positive. A bounce back in activity is anticipated during 3Q and a number of larger deals are expected. The high performance witnessed in previous years are unlikely to be matched, however.
- In Munich, the proportion of speculatively constructed space is above average and there are concerns that if leasing remains subdued then this space will not be quickly absorbed by the market. This would lead to a rise in the vacancy rate, particularly in less central locations. That being said, with the vacancy rate so low, a slight rise is not expected to impact prime rental values and indeed any change would come first in landlords offering more attractive incentives packages.
- Leasing activity is also expected to be down in Berlin in 2020, with companies that would typically be looking for the new space currently adjusting their space requirements while keeping a close eye on what's going on in the market. As a result, Berlin's vacancy rate may also increase slightly, but like Munich, prime rents should remain stable.
- Investor sentiment remains strong for offices in Germany and there are currently a number of large transactions in the pipeline which could push the investment volume to €20 billion by the end of the year. The share of foreign capital increased from 31% in 1Q to 45% in 2Q, dominated by French investors over the last few months, together with Swiss and Swedish capital.

Sources:
Oxford Economics - Germany Economic Forecast July 9 2020
Real Capital Analytics – data as at July 30 2020
Avison Young – Market discussion with local research team July 22 2020
Avison Young – Berlin office market view 2Q 2020
Avison Young – Munich office market view 2Q 2020
CBRE – Germany office investment market 2Q 2020

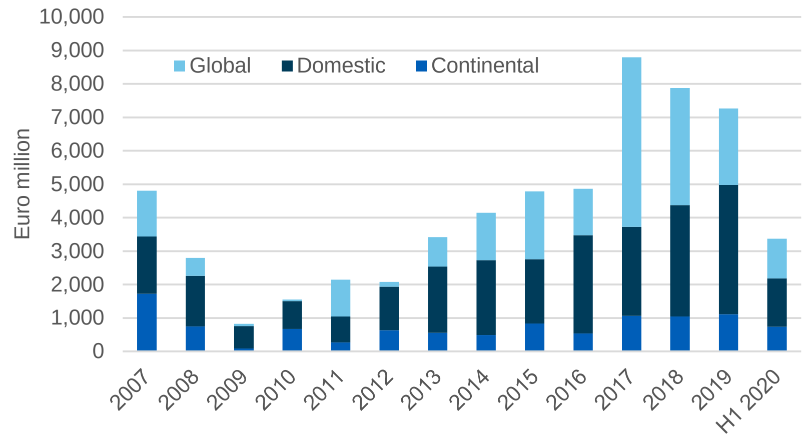
Germany

Light Industrial / Logistics Market Outlook

Real Estate Market

- Occupier sentiment remains positive across most German logistics markets with the overall take-up volume reaching 2.9 million sq m in 1H, just 11% below the same period in 2019. Frankfurt and Munich were the most active markets where 256,000 sq m and 208,000 sq m were leased respectively, with the majority, encouragingly, signed during 2Q.
- With occupier activity remaining strong, the vacancy rate is roughly stable and tight at 2.4% across Germany. The limited choice for occupiers is maintaining pressure on headline rental values that are €7.15 per sq m per month in Munich and €6.50 per sq m in per month in Frankfurt, the most expensive areas.
- The investment market has performed above expectation during the COVID-19 lockdown period with the transaction volume in 1H totalling €3.4 billion, which is 61% above the long-term average. The market was dominated by single transactions which accounted for 68% of activity in 1H 2020, with seven above the €100 million mark. Due to this demand, net prime yields in major locations remain stable at 3.60%.
- Investors continue to be drawn to Frankfurt, which recorded its highest volume of activity in half a year with a total of €375 million, boosted by the purchase of part of the Neckermann site by Interxion. Foreign investors have been particularly active in the German logistics sector in recent years, but with global travel restrictions in place, about 50% of deals in 1H were by domestic investors who are more familiar with market nuances.

Industrial Volumes by Capital Source



Economy

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Unemployment Rate	5.0%	5.7%	↘

Annual % change unless specified

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- Labour market news is cautiously positive. The unemployment rate only edged up to 6.4% in June from 6.3% in May. The number of workers on the government's furlough scheme also appears to have peaked
- Overall, GDP is forecast to decline by 6.3% in 2020, before recovering to 5.2% growth in 2021

Outlook

- Occupier demand for German logistics has remained strong during 1H 2020 and the robust performance of the leasing market is not showing any signs of abating over the remainder of the year. This may in turn keep the overall vacancy rate at a historical low levels of sub 3%. Prime rents are expected to grow positively over the next two years.
- Investors have also continued to target the sector due to the market's stability compared to the rest of Europe. Given the number of potential deals in the pipeline, the transaction volume is on target to exceed the €7 billion mark for a fourth consecutive year. There is the possibility of a minor downturn in sales if there is a second wave of COVID-19 as undertaking due diligence will be more difficult as was seen with the suspension of some deals in during the peak of the lockdown in 2Q.
- Despite the pandemic, the sector has become more attractive to a large number of investor types. It is therefore not surprising that the spectrum of buyers remained extremely diversified at the end of the second quarter.
- Special purpose funds were the most active in the first half of the year, accounting for 26% of transactions, followed by investment managers at 21%, and open-ended funds at 14%. Due to the weight of capital looking for opportunities in Germany, prime yields are expected to remain in the region of 3.60% over the next two years.

Sources:
Oxford Economics - Germany Economic Forecast July 9 2020
Real Capital Analytics – data as at July 30 2020
Avison Young – Market discussion with local research team July 22 2020
BNP Paribas – Logistics investment overview 2Q 2020

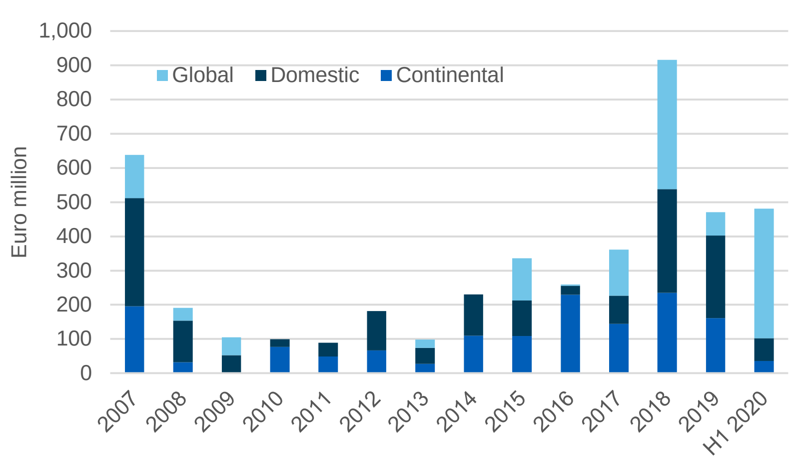
Denmark

Light Industrial / Logistics Market Outlook

Real Estate Market

- Occupiers in the logistics market have remained active with the sector largely benefiting from the COVID-19 situation. Online retailers and supermarkets chains have continued to drive healthy levels of take-up in 1H 2020. Supply chains are also being reviewed with several occupiers now looking to near-shore operations, leading to a rise in demand levels.
- The strengthening of occupier demand has led to a fall in vacancy and an upward pressure on prime headline rents. Whilst the vacancy rate has fallen from 2.4% in December 2019, to 2.18% in June 2020, prime rents in Copenhagen have risen to €80.50 per sq m per year
- A number of development projects are under construction across Denmark, including speculative schemes. Notably, DSV announced plans to invest 2 billion Danish Kroner in a new logistics centre, which will become Europe's largest single let asset at 700,000 sq m. Simultaneously, DSV wants to consolidate its warehouse and cross-docking terminals in the Horsens area to ensure increased efficiency and productivity.
- Investment activity has also been strong during 1H 2020 with the transaction volume totalling €481 million, which is already 2% more than the volume transacted in the whole of 2019. So far in 2020, the market has been dominated by global capital, accounting for 79% of deals.
- The strong investor demand has led to a hardening of prime yields from 5.00% in 1Q, to 4.75% in 2Q. For secondary stock, yields are likely to move out, particularly for assets in non-core locations.

Industrial Volumes by Capital Source



Economy

Indicator	2019	2020	2021 Outlook (vs 2020)
GDP Growth	2.4%	-3.7%	↗
Industrial Production	2.7%	-4.5%	↗
Consumer Prices, average	0.8%	0.3%	↗
Population (millions)	5.81	5.84	↗
Population Growth Rate	0.36%	0.37%	↗
Unemployment Rate	3.7%	5.0%	↘

Annual % change unless specified

- High frequency data continue to indicate a relatively quick recovery for the Danish economy from the pandemic-induced recession.
- After this initial bounce, the recovery will be much more gradual. Continuing low-level restrictions, higher unemployment and weak global demand all mean GDP is not expected to reach its 4Q 2019 level until 2H 2021
- The pace of recovery in global trade is a key risk to Denmark's export dependent economy, although the less-cyclical food and pharmaceuticals held up well
- Overall GDP will decline by 3.7% this year, before recovering by 4.1% in 2021

Outlook

- The heightened supply chain risks could translate into higher demand for both large and last-mile logistics facilities as well as distribution hubs and warehouses, as occupiers may require extra space to stockpile goods and thus ensure that they can deliver to consumers in good time.
- There could also be a further increase in interest for new manufacturing locations, due to manufacturers reshaping their supply chain strategies and moving production closer to consumers. As a result, demand for both existing logistics facilities and locations with development potential, could see an added interest from both occupiers and investors across Denmark.
- This rise in demand is expected to generate upward pressure on prime headline rents which are forecast to increase by 1.5% a year over the next five years.
- The weight of capital targeting the sector from both European and global investors is expected to keep prime yields stable over the next 12 months. The lack of yield softening combined with positive rental growth could lead to an average annual total return of 7.1% over the next five years.
- The fundamentals behind secondary assets, however, are less strong, resulting in lower investor interest. As a result, the yield gap between prime and secondary assets may continue to widen over the medium term.

Sources:
Oxford Economics - Denmark Economic Forecast July 16 2020
Real Capital Analytics – data as at July 30 2020
Avison Young – Market discussion with local research team July 15 2020
CBRE – The future of Nordic Logistics May 2020

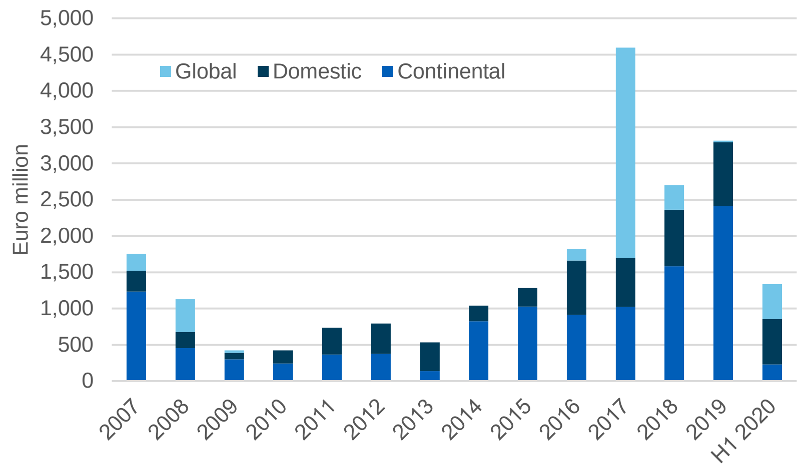
Finland

Office Market Outlook

Real Estate Market

- Leasing activity across Finland eased during the second quarter of the year with lockdown measures and market uncertainty restricting deals and causing occupiers to revise their real estate strategies. Since lockdown has eased, occupier activity has started to increase, with new requirements coming from larger companies and smaller occupiers remaining cautious.
- Despite the subdued leasing activity, the office vacancy rate in Helsinki continues to linger around 12.6%, a slight decrease from 2019. Whilst this figure seems high compared to other office markets around Europe, its largely inflated by older stock in secondary locations. The vacancy rate for more modern space in the CBD is closer to 5.0%.
- Due to the lack of available grade A space, prime rents are stable at €42 per sq m per month, a 5% increase on 2Q 2019. However, market uncertainty has led to an increase in incentives offered by landlords who are preferring to adjust incentive packages rather than rents.
- Investor sentiment continues to be strong with the investment volume totalling €1.3 billion during the first half of the year. Historically, the market has been dominated by domestic capital, namely pension funds and insurance, but more recently, international investors have become more active and are looking for opportunities.
- Despite the added interest, the current market uncertainty and potential threat of a second wave of COVID-19 has led to a 10 bps softening of prime yields in Helsinki to 3.35%. The yield softening has been greater for value-add and opportunistic assets.

Office Volumes by Capital Source



Economy

Indicator	2019	2020	2021 Outlook (vs 2020)
GDP Growth	1.1%	-4.5%	↗
Industrial Production	1.8%	-2.1%	↗
Consumer Prices, average	1.0%	0.2%	↗
Population (millions)	5.52	5.53	↗
Population	0.11%	0.13%	↗
Unemployment Rate	6.8%	7.7%	↘

Annual % change unless specified

- The economic contraction during 2Q was less severe than first feared, meaning that the economy is now expected to contract GDP by 4.5% in 2020 before recovering by 2.7% in 2021
- Finland's recovery is forecast to be slower than other European countries as unemployment remains elevated and global trade takes some time to return to its 4Q 2019 levels
- Inflation dropped to -0.2% in 2Q as weak oil prices weighed on prices. Oil prices are expected to pick up in 2H as demand recovers following the sharp slump under lockdown conditions around the world

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Outlook

- Leasing activity over the next two years will depend on the strength of the economic recovery in Finland. Whilst GDP is forecast to rebound in 2021, this could change if there is a large increase in the unemployment rate which is currently 8% although there are 570,000 employees which have been furloughed. If a high proportion of these jobs are made redundant then Finland's recovery could be much slower.
- Given that pre COVID-19 Finland had one of the highest proportion of employees working from home in Europe this should not impact the level of occupier demand going forward as it has largely been factored into the market structure for some time now.
- There may indeed be an increase in demand for flexible space and for office space located close to large residential areas. Having said that, demand for good quality, well-located CBD offices is not expected to fall.
- There has been significant infrastructure investment in Helsinki with improvements made to the western metro line increasing the connectivity between Helsinki to Espoo. The light rail is also undergoing improvements, making the city centre more accessible and opening up new submarkets for investment such as Keilaniemi and Ruoholahti.
- The uncertainty surrounding the economy has added a layer of caution to investor sentiment with 2020 volumes expected to be down from 2019. This could result in a softening of yields with prime yields potentially rising to 3.50% by the end of the year.

Sources:
Oxford Economics - Finland Economic Forecast July 17 2020
Real Capital Analytics – data as at July 30 2020
CBRE – Market discussion with local research team July 28 2020

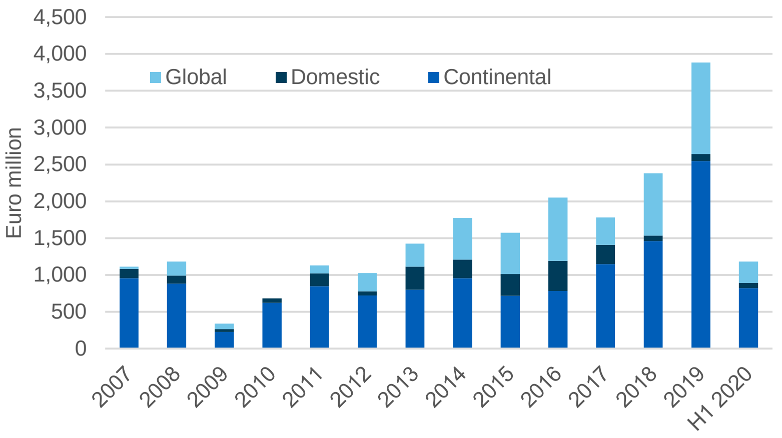
Poland

Office Market Outlook

Real Estate Market

- Leasing activity held up well in 1H 2020 despite the increased market uncertainty brought on by COVID-19. Take-up reached 420,000 sq m, only a 13% decrease from 1H 2019. Warsaw and Krakow were the most active markets, accounting for 56% and 15% of all deals respectively.
- The largest deal of the year so far was signed by The PZU Group, who leased 47,000 sq m in Generation Park Y, Skanska's new office building in Warsaw. This deal takes the development to 98.5% occupied.
- With limited grade A stock available in the core markets, pre-letting activity on developments has risen. Of the 393,000 sq m of office space to be delivered in 2020 over 50% of this has already been taken, with much of the rest of space likely to be let before completion. As a result, a significant increase in the overall vacancy rate brought on by development completions is not expected.
- The overall vacancy rate increased over the last six months from 8.1% in December to 9.2% at the end of 2Q. However, the rate for grade A property is much lower at 5%, which is why prime headline rents have remained stable during 1H. However, there has been some evidence of more generous incentives offered by landlords.
- Investment activity was down slightly with transactions taking longer than usual to complete. The overall investment volume reached €1.2 billion during 1H, with several German and US funds active as well as Asian capital. The slight fall in activity led to some yield softening, with prime yields increasing in Warsaw from 4.25% in 1Q to 4.5% in 2Q.

Office Volumes by Capital Source



Economy

Indicator	2019	2020	2021 Outlook (vs 2020)
GDP Growth	4.2%	-3.5%	↗
Industrial Production	4.4%	-5.0%	↗
Consumer Prices, average	2.2%	3.2%	↘
Population (millions)	37.95	37.92	↘
Population	-0.05%	-0.08%	↘
Unemployment Rate	5.4%	6.0%	↘

Annual % change unless specified

- As COVID-19 containment measures were eased in May, activity made some moderate gains with a GDP fall of only 0.5% q/q
- Industrial production slowed to 15.5% in May as plants resumed production but contraction in the sector remains as firms continue to operate below capacity
- Retail sales saw a more marked improvement, from a 23.8% y/y decline in April to -9.4% in May, confirming that April was the trough for activity
- Overall GDP is forecast to decline by 3.5% in 2020 – one of the better performing Eurozone countries, before recovering by 5.6% in 2021.

Outlook

- Leasing activity is expected to remain at a similar level to that witnessed during the first half of the year and will mainly be driven by larger companies. Due to the limited availability of good quality office space, large occupiers must look for suitable premises well in advance whilst smaller companies can afford to wait and postpone their decisions regarding their real estate strategy.
- In 2Q, the amount of sublet space increased and this trend is likely to continue during the second half of the year. Firms are offering parts of their existing office space in order to economise on the excess space that they have taken and do not need. Whilst the proportion of sublet space remains small, it does create an additional lease option for companies operating in the city and could exert a downward pressure on rents.
- There is currently 839,000 sq m of office space set to be delivered through development completions before the end of 2022, with the vast majority in the central parts of Warsaw. Of the space under construction, 44% has already been leased meaning occupiers might need to compete for the remaining stock, leading to further rental growth. Over the next five years, prime rents are forecast to grow by 1% on average per year.
- Whilst the right-wing Andrzej Duda won re-election at the beginning of 3Q, this is not expected to deter foreign capital from investing in Poland. In fact, investment activity is expected to increase during 2H with yields beginning to fall again from 2021.

Sources:
Oxford Economics - Poland Economic Forecast July 20 2020
Real Capital Analytics – data as at July 30 2020
CBRE – Market discussion with local research team July 24 2020
JLL – Warsaw office market July 2020

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