CROMWELL EUROPEAN REIT

ECONOMIC AND EUROPEAN REAL ESTATE COUNTRY UPDATE

SUPPLEMENT TO RESULTS PRESENTATION
FOR THE THIRD QUARTER AND NINE MONTHS
ENDED 30 SEPTEMBER 2019

12 November 2019

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EUROPEAN REIT

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All figures in this presentation are as at 30 Sep 2019 and stated in Euro ("**EUR**" or "**€**"), unless otherwise stated

1. "**sq m**" refers to square metres

Contents

1 CEREIT’s Portfolio and Geographic Presence

2 Denmark Market Outlook

3 Finland Market Outlook

4 France Market Outlook

5 Germany Market Update

6 Italy Market Update

7 Germany Market Update

8 The Netherlands Market Update

9 European Update and Outlook

CEREIT's Portfolio and Geographic Presence as at 30 Sep 2019

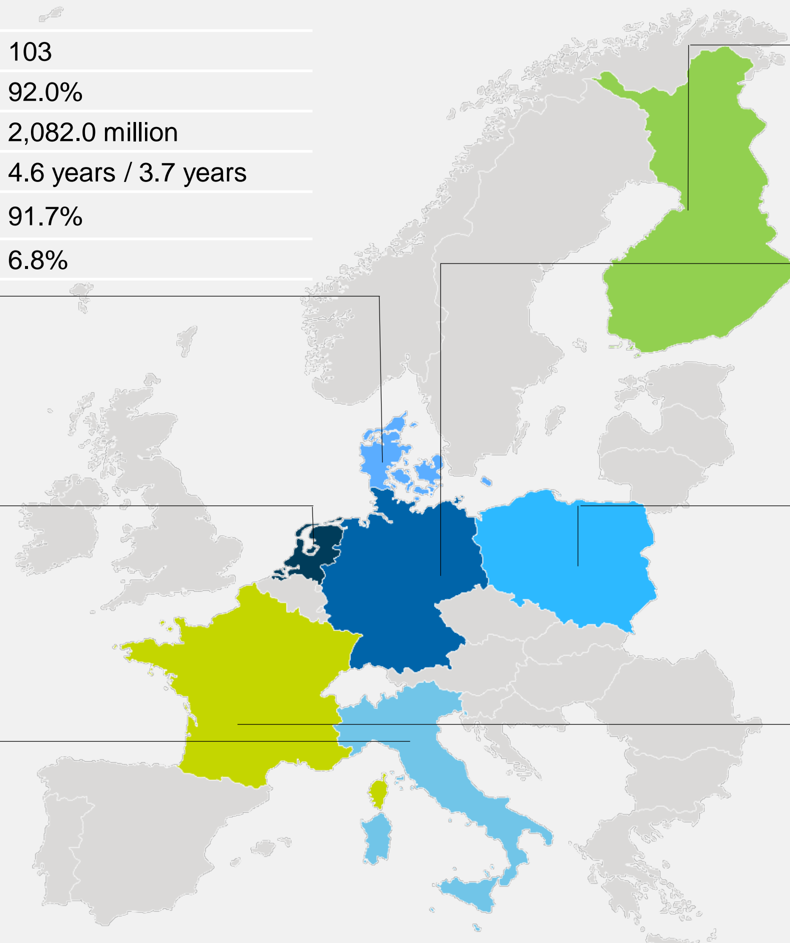
(Including the Recently Divested Parc d'Osny)

Properties	103
Occupancy Rate (by lettable area)	92.0%
Valuation (€)[1]	2,082.0 million
WALE / WALB[2]	4.6 years / 3.7 years
% Freehold[3]	91.7%
Average Reversionary Yield[4]	6.8%

Denmark	
Properties	13
Lettable Area (sq m)	151,491
Valuation (€ million)	83.1[5]
% of Portfolio	4.0%
Average Reversionary Yield	7.8%

The Netherlands	
Properties	17
Lettable Area (sq m)	260,205
Valuation (€ million)	627.0
% of Portfolio	30.1%
Average Reversionary Yield	5.7%

Italy	
Properties	17
Lettable Area (sq m)	335,994
Valuation (€ million)	458.6
% of Portfolio	22.0%
Average Reversionary Yield	6.0%



Finland	
Properties	11
Lettable Area (sq m)	61,977
Valuation (€ million)	115.5
% of Portfolio	5.5%
Average Reversionary Yield	7.8%

Germany	
Properties	11
Lettable Area (sq m)	166,738
Valuation (€ million)	118.6
% of Portfolio	5.7%
Average Reversionary Yield	6.9%

Poland	
Properties	6
Lettable Area (sq m)	111,210
Valuation (€ million)	242.0
% of Portfolio	11.6%
Average Reversionary Yield	7.9%

France	
Properties	28
Lettable Area (sq m)	403,878
Valuation (€ million)	437.2
% of Portfolio	21.0%
Average Reversionary Yield	8.0%

1. 97 properties valued as at 30 Jun 2019 and 6 properties as per the announced acquisitions on 21 Jun 2019 recorded at purchase price
2. WALE and WALB as at 30 Sep 2019. WALE is defined as weighted average lease expiry by headline rent based on the final termination date of the agreement (assuming the tenant-customer does not terminate the lease on any of the permissible break date(s), if applicable); WALB is defined as the weighted average lease break by headline rent based on the earlier of the next permissible break date at the tenant-customer's election or the expiry of the lease
3. % freehold and continuing / perpetual leasehold by value
4. A proxy to present cap rate. Reversionary Yield is the net market rental value per annum (net of non-recoverable running costs and ground rent) expressed as a percentage of the net capital value. The reversionary yield for the portfolio and sub portfolios is the average Reversionary Yield weighted by the valuation
5. Slight decrease due to negative FX variance

A Selection of CEREIT's Properties

Haagse Poort
The Hague, The Netherlands

De Ruijterkade
Amsterdam, The Netherlands

Bastion
's-Hertogenbosch, The Netherlands

Bischofsheim (An der Steinlach)
Frankfurt, Germany

Parc Des Grésillons
Paris, France

Green Office
Krakow, Poland

Milano Piazza Affari
Milan, Italy

Naverland 8
Copenhagen, Denmark

Avatar Office
Krakow, Poland

Central Plaza
Rotterdam, The Netherlands

Koningskade
The Hague, The Netherlands

Plaza Forte
Helsinki, Finland

Roma Amba Aradam
Rome, Italy

Hamburg (Moorfleeter Strasse)
Hamburg, Germany

Parc Des Docks
Paris, France

Riverside
Warsaw, Poland

Herstedvang 2-4
Copenhagen, Denmark

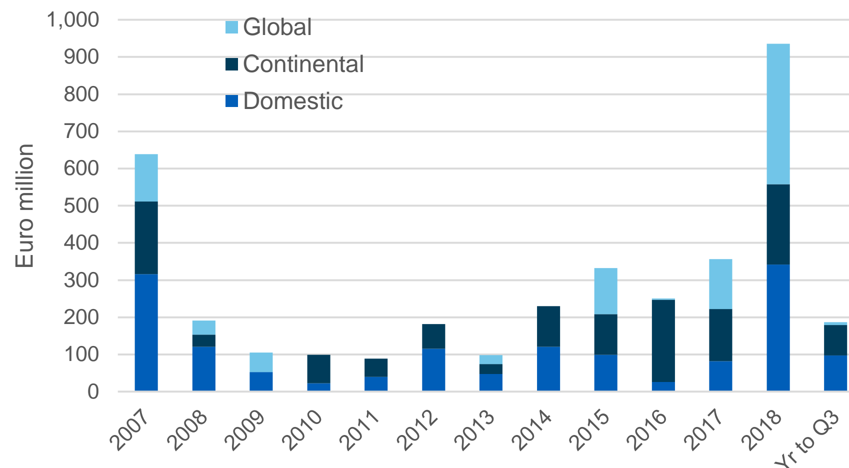
Cap Mermoz
Paris, France

Denmark – Light Industrial / Logistics Market Outlook

Real Estate Market

- The recent performance of the Danish industrial market has been relatively strong, supported by an economy that appears to have dodged the slowdown that has afflicted much of Europe. This outperformance has been aided by particularly strong pharmaceutical production with the export of these pharmaceutical products has also aiding the resilience of overall export growth.
- Supply of quality schemes continues to tighten in Copenhagen with the vacancy rate hovering round the 2.0% mark. Prime rents, currently at DKr 600/sq.m/year, are under pressure to rise as incentives are concurrently scaled back.
- Limited speculative supply is further exacerbating the situation, resulting in occupiers being forced to either accept higher rental levels in order to secure modern, good-quality space or look for schemes that are further away. This has led to rising interest levels along the E20 corridor south-west of Copenhagen which is evolving into a key logistics hub in Denmark.
- Investment activity slowed further in 3Q with year-to-September industrial trading volumes reaching just €187 million. Domestic capital accounts for a 43% share of 2019 deals-to-date with Swedish and American investors the key source of foreign activity.
- The majority of activity so far in 2019 has been outside the capital city of Copenhagen, namely in Aarhus, Denmark's second city and principal industrial port and important trade hub hence the need for industrial and warehouse space in the area.

Denmark Investment Volumes (€million)



Economy

Indicator	2018	2019	2020 Outlook (vs 2019)
GDP Growth	1.5%	2.0%	↘
Industrial Production	2.1%	4.3%	↘
Consumer Prices, average	0.8%	0.8%	↗
Population (millions)	5.79	5.82	↗
Population Growth Rate	0.45%	0.39%	↗
Unemployment Rate	3.9%	3.7%	→

Annual % change unless specified

- The fundamentals of the Danish economy are relatively solid, reflected in GDP growth of 2.0% in 2019, well above the 1.1% expected for the Eurozone.
- The labour market is still robust with very low unemployment which will continue to push up wages and boost household incomes.
- A favourable investment environment is supported by a loose monetary policy.
- That being said, there are external headwinds which will drag on growth in 2020 including Brexit-related uncertainty and fragility in the global trade environment. Both have the potential to hamper demand for Danish exports.

Outlook

- There is clear investor appetite for Danish logistics schemes despite the small size of the overall market, with activity supported by the steady rise of e-commerce. Ecommerce is acting as a demand accelerator for logistics space. E-commerce in Denmark is expected to be worth €19.5 billion at the end of 2019, a rise of 12.7% y-o-y.
- This will have an impact on increasing demand for urban logistics as well, from both occupiers and investors in the search for the optimal balance between efficient ways to combine quick access to their customer base with warehouse networks, while protecting margins.
- The market continues to be characterised by a lack of stock due to historic restraints by developers to build on a speculative basis. This is now being compounded by rising construction costs which will filter down to the occupier who will see further rental price increases for well-located quality stock. However, supported by pent-up demand and strong fundamentals, over time the expectation is for more schemes to break ground on a speculative basis.
- Target areas are Copenhagen and hubs that are well-connected by infrastructure. However, with a lack of product coming to market some investors and/or developers are looking to more peripheral areas, potentially for opportunities to reposition older stock. Yields are currently at 5.25%, having come in a positive 25 bps over the quarter.

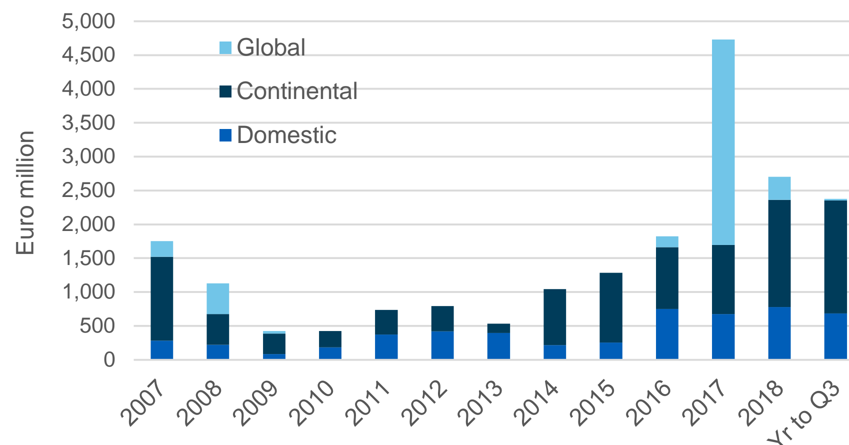
Sources:
Oxford Economics – Country Economic Forecast Denmark 29 Sept 2019
Real Capital Analytics – data as at 30 Oct 2019
Statistics Denmark
CBRE – Denmark Real Estate Outlook 2019

Finland – Office Market Outlook

Real Estate Market

- The occupier market continues to perform well with a clear desire by occupiers for quality space with flexible floorplates in excess of 2,000 sq,m. These are however in limited supply, especially in the CBD where the vacancy rate is 3.8%. Indeed, availability has been steadily declining and is now 11.4% across the Helsinki Metropolitan Area (HMA).
- Employees are having a greater say in where businesses should be located and the well-connected CBD area has benefitted from this, becoming the most popular district. With limited supply, rental levels have been pushed up over the past few years to €41.00/sq.m/month in Q3. Some companies who are needing to renew their leases are struggling to thus find suitable space at reasonable prices and this has seen higher levels of activity in alternative submarkets such as Ruoholahti to the west of the CBD.
- Strong demand for office assets in Helsinki continued in 3Q, underpinned by relatively solid economic conditions as well as the amount of capital searching for real estate investment opportunities and improvements in the occupier market. Helsinki's CBD area is the most sought after but there is rising evidence that secondary submarkets of the capital are now attracting more and more attention, able to office quality, well-connected schemes.
- Following an active 1H 2019, investment activity slowed in 3Q, but nonetheless the year to 3Q trading volume reached €2.4 billion for the office sector. Office is the target sector for the majority of investors. Typically, cross-border capital dominates the Finnish real estate sector but 3Q bucked the trend with 90% of offices deals attributable to domestic capital.

Office Volumes by Capital Source



Economy

Indicator	2018	2019	2020 Outlook (vs 2019)
GDP Growth	1.7%	1.2%	↘
Industrial Production	3.4%	2.2%	↘
Consumer Prices, average	1.1%	1.1%	↗
Population (millions)	5.52	5.52	→
Population	0.14%	0.12%	→
Unemployment Rate	7.4%	6.7%	→

Annual % change unless specified

- Domestic demand was the key driver of growth with consumption bouncing back after 1Q declines and investments increasing.
- Unemployment ticked up in 2Q and wage growth may have peaked. However, 2019 GDP of 1.2% is still expected – above the Eurozone average of 1.1%.
- The external environment remains risk-filled, with escalating trade tensions, the rising threat of a no-deal Brexit and industrial woes in Germany all potentially hampering exports for the remainder of 2019.
- The government's spending plan should help to prop up growth but probably not enough to offset all factors.

Outlook

- The emergence of a two-tier market is expected to feature more prominently over the next 12-18 months with the quality and flexibility of space at the top of any company's search list. The CBD is likely to retain its appeal but companies need to be willing to pay the higher rents that the area is commanding.
- Landlords offering flexible lease terms will see shorter void periods in their buildings as occupiers continue to demand shorter leases and more frequent lease breaks in contracts – those landlords able and willing to do so will have a competitive advantage. As companies demand more flexibility for their workforce, landlords have responded to this through adapting their space and offering new kinds of co-working or flexible space concepts, where occupiers can occupy space and acquire business services for short-term and temporary use with very flexible contracts.
- With demand for prime offices outstripping supply and fierce competition for quality assets, yields have come under further downward pressure and are now at historic lows across the majority of submarkets in the Helsinki Metropolitan Area – 3.40% for CBD offices as at 3Q. It is also seeing investors expand their search areas, with rising levels of interest in some of the emerging secondary areas of the capital city.
- Approximately 80,000 sq.m completed in H1 2019 with a further 21,500 sq.m scheduled for H2 2019 – on par with the 10-year completion average of 90,000 sq.m. There is a further 135,000 sq.m in the 2020 development pipeline.

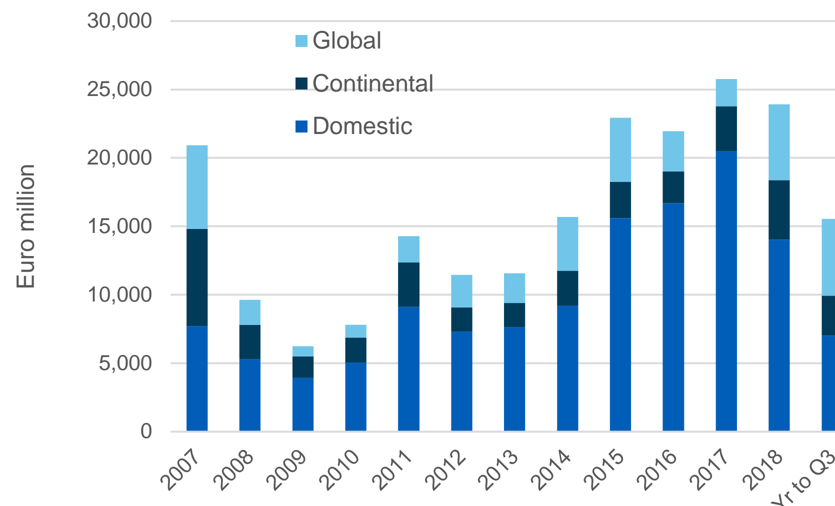
Sources:
Real Capital Analytics – data as at 30 Oct 2019
JLL - Nordic Outlook Autumn 2019
Oxford Economics – Country Economic Forecast Finland 25 Oct Sept 2019

France – Office Market Outlook

Real Estate Market

- Leasing activity was strong in 3Q, with 545,000 sq.m of office take-up in the Greater Paris Region. This brings the year-to-3Q to 1.7 million sq.m - down 10% on the comparative period in 2018 due to a slower start to 2019, but stable against the ten-year average.
- Against a somewhat restricted development pipeline, vacancy continues to decline and has fallen back to 2007 levels, ending 3Q at 4.8%. More stock will come online in 2020-2021 with an average of 545,000 sq.m per annum mainly located in La Défense, the Western Crescent and in the Inner Rim. Due to the scarcity of quality supply (particularly in Paris city), the difference between rental levels for second hand and renovated space and rents for new/refurbished space continues to narrow.
- €6.5 billion was invested into the office sector in 3Q 2019 – the strongest quarter so far in 2019 after a slow beginning to the year. The year-to-3Q reached €15.5 billion, up by an impressive 25% over the comparative period in 2018. The Greater Paris Region dominates the investment scene, accounting for 88% of all office deals in 2019 so far. A number of deals closed in Lyon in 3Q, cementing the city's pole position among the regional hubs, followed by Lille and Toulouse.
- There has been an increase in Asian capital, especially from South Korean investors looking for a foothold in the French market. Swiss, American and German investors have also been active so far in 2019. Yields have compressed to historic lows both in Paris and strong performing regional centres such as Lyon and Marseille, as the weight of capital outweighs available opportunities. Some investors are turning to value-add and core plus transactions and there is also rising interest in development opportunities as a way of creating value.

Office Volumes by Capital Source



Economy

Indicator	2018	2019	2020 Outlook (vs 2019)
GDP Growth	1.7%	1.3%	→
Industrial Production	0.2%	0.6%	↘
Consumer Prices, average	1.9%	1.1%	↗
Population (millions)	66.97	67.09	↗
Population Growth Rate	0.13%	0.18%	↗
Unemployment Rate	8.8%	8.2%	↘

Annual % change unless specified

- Business and consumer confidence remain positive supporting anticipated GDP growth of 1.3% in 2019, above the Eurozone average of 1.1%.
- Business investment is suffering from external headwinds. The export outlook is deteriorating as US-China trades tensions escalate further. Brexit uncertainty continues and concerns linger over economic weakness in Germany and Italy.
- The WTO has approved the imposition of tariffs on US$7.5 billion of imports from the EU.
- Employment growth should moderate but remain positive, reaching 8.0% at the end of 2020.

Outlook

- With a number of deals in late stage negotiation and some pent-up demand expected to be satisfied by year-end, total take-up across the Greater Paris Region should be in the region of 2.3 million sq.m. However, the constrained levels of speculative construction has slowed decision making, with some occupiers choosing to renegotiate their current leases rather than bear the expense of a move to potentially unsuitable space either on the basis of quality or location. This scarcity of quality supply is seeing rents come under upward pressure and this is the most extreme in Paris' CBD where vacancy is very low at 2.2% and rents have risen by 4% over the quarter to €880/sq.m/year.
- Investors are drawn to core and core + products with the Centre West and Inner Rim submarkets of Paris in particular focus. Given limited supply, some investors are retaining their assets and refurbishing in order to capitalise on potential rental uplifts. Others are focused on assets outside the central areas of the capital that stand to benefit from the Grand Paris project or the new appeal of urban logistics. This is particularly true for the Outer Rim and La Défense submarkets.
- With strong investor appetite for real estate and scarce supply, office yields are being squeezed and expected to narrow further by the end of 2019. This is both in Paris where yields are 2.85% and in secondary districts of the capital. In the regions, the prime 3Q yield is 3.70% in Lyon and further contractions are expected in the main regional markets.

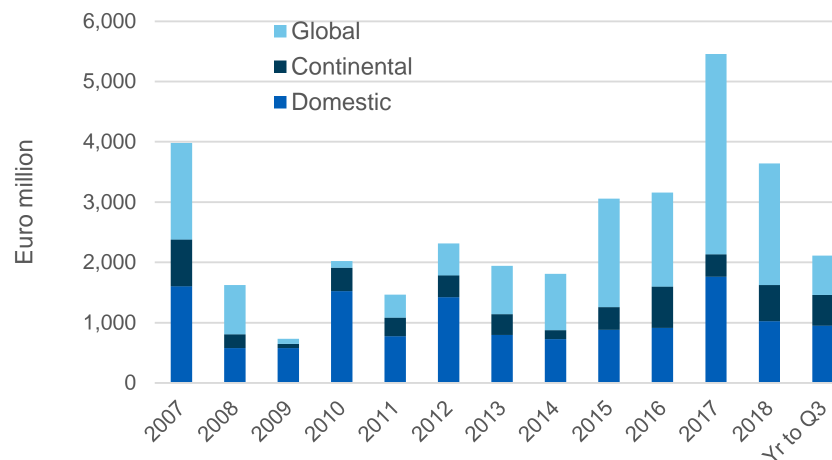
Sources:
Real Capital Analytics – data as at 30 Oct 2019
CBRE – France Investment Q3 2019 & Paris Office Market Q3 2019
Oxford Economics – Country Economic Forecast France 11 Oct 2019

France – Light Industrial / Logistics Market Outlook

Real Estate Market

- The occupier market got off to a flying start at the beginning of the year but has progressively slowed since then. Year-to-3Q take-up reached 2.5 million sq.m, reflecting a slowdown of 14% compared to the same period in 2018 but, is still 12% above the ten-year average. The lower levels of leasing activity can be partly attributed to the lack of available space, combined with limited development due to the scarcity of well-located land parcels. As a result, pent-up demand remains unsatisfied.
- While the Greater Paris Region – the largest and most mature of the French markets – reported take-up of 608,000 sq.m over 2019 to 3Q, activity has slowed. However, a few large deals scheduled for completion in 4Q this help boost year-end overall totals.
- Demand is largely driven by 3PL's and retailers/manufacturers all looking to optimise their supply chains and capitalise on the structural changes that are happening with consumer behaviour and the continued rise in online sales.
- €2.1 billion was invested into the wider industrial market across the year-to-3Q due to sustained demand from e-commerce and urban logistics companies. Domestic demand accounts for 45% of all deals since January 2019. Foreign inflows are largely attributed to American investors, alongside the UK, South Korean and German buyers.
- Yields are around 4.25% for quality stock in Paris and Lyon having compressed by 25 bps over the quarter, setting new benchmark lows. Marseille and Lille, along the North-South Axis are attracting more investor attention and with limited product available, yields may see a further 25-50 bps compression over the next 9-12 months from the current 4.50%.

Industrial Volumes by Capital Source



Economy

Indicator	2018	2019	2020 Outlook (vs 2019)
GDP Growth	1.7%	1.3%	→
Industrial Production	0.2%	0.6%	↘
Consumer Prices, average	1.9%	1.1%	↗
Population (millions)	66.97	67.09	↗
Population Growth Rate	0.13%	0.18%	↗
Unemployment Rate	8.8%	8.2%	↘

Annual % change unless specified

- Business and consumer confidence remain positive supporting anticipated GDP growth of 1.3% in 2019, above the Eurozone average of 1.1%.
- Business investment is suffering from external headwinds with the export outlook deteriorating as US-China trades tensions escalate further. Brexit uncertainty continues and concerns linger over economic weakness in Germany and Italy.
- The WTO has approved the imposition of tariffs on US$7.5 billion of imports from the EU.
- Employment growth should moderate but remain positive, reaching 8.0% at the end of 2020.

Outlook

- There is a clear lack of available quality space across the core logistics hubs in France. Developers however, continue to act with a some caution, keen to ensure that any development costs can be recouped via rental income or by offloading the property.
- Although, as the lack of supply intensifies and rental rises are evident in most areas, there are initial signs that some developers are dusting down previously shelved plans and revisiting them. The trend remains that most schemes are tending to break ground with at least a partial pre-let agreement in place as developers look to confirm that they can cover construction costs which are generally on the rise.
- As the structural changes in retail continue to impact the industrial market, urban logistics is now, more than ever, on investors' radar. Retailers are restructuring, and in some instances, needing to supplement their supply chains in order to satisfy the ever shorter delivery times demanded by consumers.
- The development of this type of product however, will come up against alternative uses, such as residential, given the proximity to urban centres. This is leading to the development of multi-storey schemes, and while little tested in the market ,are expected to be of more interest to both occupiers and investors offering higher density ratios. A further development that has been noted is in-town showroom shops for traditionally out-of-town retailers where product is then distributed from the urban logistics centres.

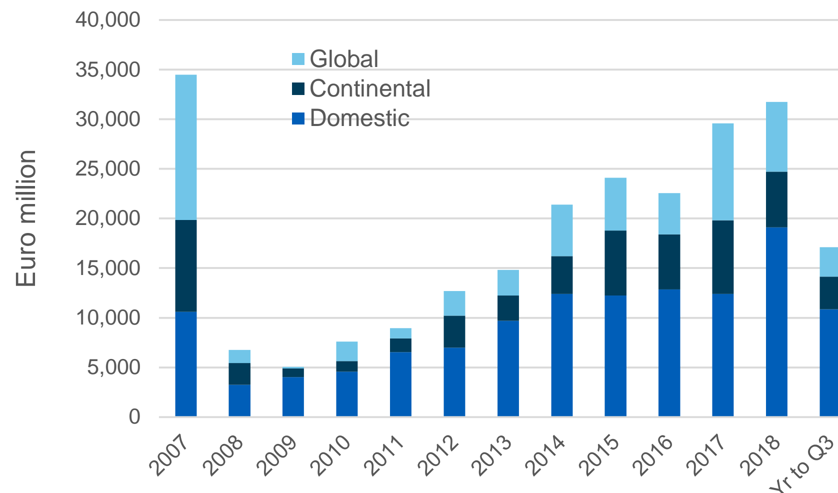
Sources:
Real Capital Analytics – data as at 30 Oct 2019
CBRE – France Investment 3Q 2019 & France Logistics 3Q 2019
Oxford Economics – Country Economic Forecast France 9 Oct 2019

Germany – Office Market Outlook

Real Estate Market

- 3Q was another impressive quarter for occupier activity with 1.02 million sq.m taken off the market. This brings the year-to-3Q to 3.0 million sq.m – a new record - and up 6% on the comparative period in 2018. Activity is largely supported by the tight labour market and consequential expansion of businesses. This is despite weaker overall economic conditions which mainly affects the industrial sector. Plus, the current war on talent sees companies try to retain their employees even during a period of economic weakness.
- Berlin is far ahead of the other German cities posting a record-breaking 320,000 sq.m in 3Q and 726,000 sq.m of take-up over the year-to-3Q, 26% ahead compared to the same period in 2018. Munich takes second position, followed by Hamburg and Dusseldorf with activity supported by a high number of large floor plated deals in excess of 5,000 sq.m.
- The sustained strong demand levels and restrained development pipelines have seen availability levels continue to fall with vacancy nationwide around 3.5%. This has resulted in positive upswings for headline rents in all key hubs and well-connected B-locations.
- 3Q trading volumes hit €14.3 billion with the office sector once again featuring strongly (48% or €6.9 billion of investor activity). While smaller, Tier II and III cities are seeing more interest from investors as they look for higher yielding opportunities, the A-locations of Berlin, Dusseldorf, Frankfurt, Cologne, Munich and Stuttgart dominate the investor universe with approximately 90% of activity in 3Q. The attractive financing environment and strong performance of the occupier market are key draws. Domestic investors were the most active in 3Q but international interest is evident - from the USA, the UK and France.

Office Volumes by Capital Source



Economy

Indicator	2018	2019	2020 Outlook (vs 2019)
GDP Growth	1.5%	0.6%	↗
Industrial Production	0.9%	-3.1%	↗
Consumer Prices, average	1.7%	1.4%	→
Population (millions)	82.92	83.11	↗
Population	0.28%	0.23%	↗
Unemployment Rate	5.2%	5.0%	→

Annual % change unless specified

- 2019 GDP is expected to be 0.6% as growth slowed in Q2 and initial indications for 3Q suggests that the German economy stagnated, narrowly avoiding a technical recession.
- Risks remain given the industrial and global trade weaknesses and emerging signs of adverse spill-overs into domestic demand.
- But the labour market is resilient and robust domestic demand will be a key factor in avoiding a recession.
- Employment edged higher in August and surveys suggest further slow gains, keeping labour markets tight (unemployment rate of 5.0%). Wage gains are elevated amid robust consumer confidence.

Outlook

- Over the course of 2019 prime yields have steadily declined, under sustained downward pressure given the amount of capital chasing the limited product on offer. Berlin and Munich are the most expensive locations where prime office yields are 2.80%, followed by Frankfurt and Hamburg also below 3.00% at 2.90%.
- The supply shortage is worsening and while vacancy rates are falling, rents are rising and incentives packages have been largely scaled back. The markets are surprisingly resilient, remaining largely unaffected by the deteriorating economic outlook with no signs of falling demand. On the contrary, take-up in some markets was limited by a lack of supply.
- 2020 is expected to see 2.0 million sq,m of new deliveries which will go someway to alleviating the low vacancy rates of 1.6% in Berlin and 2.2% in Munich for example. Some companies have built in expansion space when signing leases but if the economic environment weakens further some plans will be put on hold and a proportion of excess space may be handed back. Availability however, is not expected to rise significantly in this instance as more than two-thirds is already pre-let.
- The tight vacancy is hindering higher levels of take-up but there are some opportunities available in off-pitch locations and/or redevelopment projects to reposition older and under-rented office stock. In addition, as the retail sector works through its structural changes the upper floors of larger retail units could offer conversion opportunities to office use.

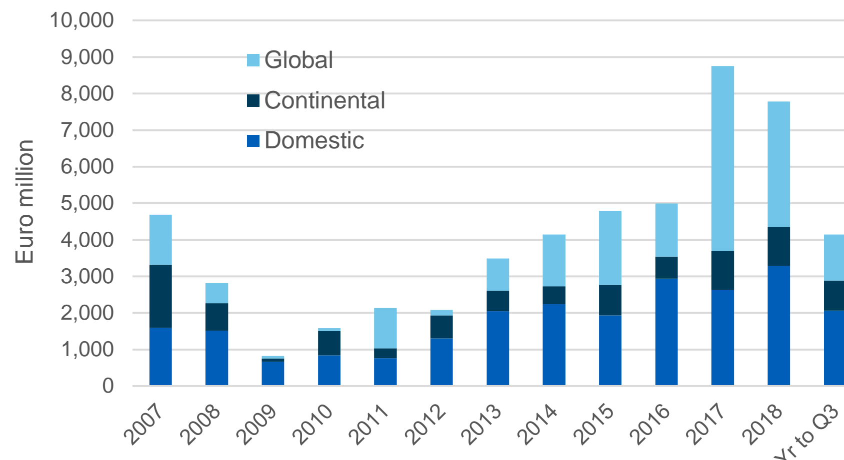
Sources:
Real Capital Analytics – data as at 30 Oct 2019
BNP Paribas – Office Market Germany 3Q 2019
BNP Paribas – Office Investment Market Germany 3Q 2019
Oxford Economics – Country Economic Forecast Germany 9 Oct 2019

Germany – Light Industrial / Logistics Market Outlook

Real Estate Market

- Occupier activity is strong for well-located, quality product with 1H 2019 recording take-up of around 3.3 million sq.m. This is 9% lower than the comparative period in 2018 but 15% higher than the 10-year average. Demand for logistics space in particular, is going from strength to strength as it rides the wave of rising demand generated by the structural changes in the retail sector and the continued rise of e-commerce.
- Higher levels of take-up do not appear to be being held back by weaker economic conditions, more so by rising land and construction costs and the limited availability of suitable development sites which are restraining market activity. In the first half of the year, around 353,000 sqm of warehousing and logistics space was completed in the Big 5, of which only 15% remained available at the time of completion.
- Investor appetite for German logistics continues unabated with approximately €4.1 billion exchanging hands in the year-to-3Q. The 3Q trading volumes was €1.3 billion, a similar level to 1Q and equates to a 9% share of all deals in Germany in 3Q. Single asset deals account for 60% of trading volumes as the volume of portfolios brought to market declines.
- Foreign capital is active although their share declined to 35% in 3Q. From a European perspective, UK and French investors are particularly active while truly global capital has largely come from the USA and the Middle East, attracted by the diversity of multiple key cities. Part of the rationale for international capital flows to slow is that such capital favours large portfolios which are in limited supply.

Industrial Volumes by Capital Source



Economy

Indicator	2018	2019	2020 Outlook (vs 2019)
GDP Growth	1.5%	0.6%	↗
Industrial Production	0.9%	-3.1%	↗
Consumer Prices, average	1.7%	1.4%	→
Population (millions)	82.92	83.11	↗
Population	0.28%	0.23%	↗
Unemployment Rate	5.2%	5.0%	→

Annual % change unless specified

- 2019 GDP is expected to be 0.6% as growth slowed in Q2 and initial indications for 3Q suggests that the German economy stagnated, narrowly avoiding a technical recession.
- Risks remain given the industrial and global trade weaknesses and emerging signs of adverse spill-overs into domestic demand.
- But the labour market is resilient and robust domestic demand will be a key factor in avoiding a recession.
- Employment edged higher in August and surveys suggest further slow gains, keeping labour markets tight (unemployment rate of 5.0%). Wage gains are elevated amid robust consumer confidence.

Outlook

- The seemingly unrestrained growth of the logistics sector in Germany is having an impact across the entire supply chain from retailers to transport service providers. It also a growing topic for consideration by developers and city planners who need to choose between designating land for 'last mile' logistics or for crucially needed residential units.
- Choosing a suitable location is as critical for an occupier as it is for a developer and investor. This is especially the case for logistics centres on the fringe of cities where companies are struggling for more space in order to meet rising demand for shorter delivery times, whilst meeting the challenge posed by green logistics.
- Suitable land sites will remain in short supply and so developers, investors and occupiers need to get more creative and test alternative concepts, for example combining logistics and bricks-and-mortar shops. The supply shortage combined with the growing demand of consumers for shorter delivery times is also driving the renovation of older properties. The new types of logistics solutions include automation that enables storage racks to be used to the maximum height allowed by the ceilings, as well as developing B and C locations.
- With demand strong and stable for warehousing and logistics space, total take-up for the year is expected to be in the region of 6.0 million sq.m. Currently, around 530,000 sqm is under construction of which only 8% (41,000 sq.m) is available. Most construction activity is taking place in the Berlin and Frankfurt regions.

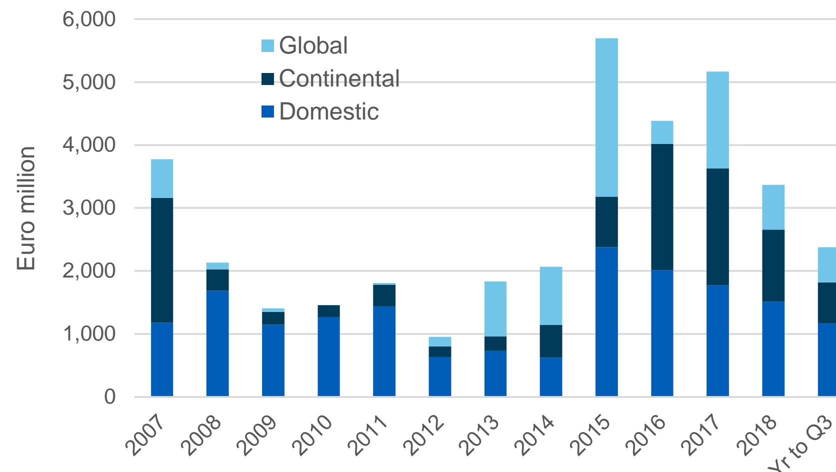
Sources:
JLL – Logistics and Industrial Market Overview August 2019
Real Capital Analytics – data as at 30 Oct 2019
BNP Paribas – Logistics Investment Market Germany 3Q 2019
Oxford Economics – Country Economic Forecast Germany 9 Oct 2019

Italy – Office Market Outlook

Real Estate Market

- Milan recorded take-up of 120,000 sq.m in 3Q, bringing the year-to-date level to 360,000 sq.m. Co-working is an increasingly significant feature of the capital as companies look for space in strategic parts of the city and are closing transactions for entire buildings. Vacancy is in the region of 10%. Despite a further 190,000 sq.m due to complete in 2020, over half is already pre-let and no significant change in availability is anticipated. The continued pressure on centrally located space has seen headline rents rise to €600/sq.m/year.
- Leasing activity was very strong in Rome, with 76,500 sq.m let, equating to a year-to 3Q figure of almost 250,000 sq.m – a record nine months for Rome. Value-add investments seen in the recent past aimed at improving the quality of office stock continue, as does the spread from core locations to alternative areas where infrastructure developments are opening up the submarkets. However, it should be noted that with limited economic expansion anticipated and few occupier expansions, take-up is very much being driven by existing office occupiers abandoning secondary locations and buildings, as new opportunities open up in consolidated districts.
- A total of €2.4 billion has been invested in the office sector since the beginning of 2019, of which 32% was in 3Q. Rome and Milan accounted for a huge 96% of the total activity in 2019, with Milan the key contributor, accounting for 62% of all deals this year.
- Prime yields in Milan are stable at 3.40%. While they have fallen in good secondary locations, that will open up with infrastructure developments from 5.00% to 4.90%.

Office Volumes by Capital Source



Economy

Indicator	2018	2019	2020 Outlook (vs 2019)
GDP Growth	0.7%	0.1%	↗
Industrial Production	0.5%	-0.8%	↗
Consumer Prices, average	1.1%	0.6%	↗
Population (millions)	60.40	60.27	↘
Population Growth Rate	-0.20%	-0.21%	↘
Unemployment Rate	10.6%	10.1%	→

Annual % change unless specified

- The Italian economy remains stagnant as restrained domestic growth holds GDP to 0.1% in 2019, improving marginally to 0.2% in 2020.
- Political uncertainty will continue to drag on growth and alongside public debt, pose as downside risks.
- 5 Star Movement (M5S) and the Democratic Party (PD) form a new, albeit unlikely, government which saw a drop in Italian bond yields as the government clearly has a more pro-European perspective.
- Employment is rising but cautiousness remains with only a marginal increase in jobs expected over the coming 12 months.

Outlook

- Despite the sluggish performance of the economy, the outlook for the real estate market is relatively bright looking at occupier and investment activity in Milan and Rome. There is good demand for high-spec space in well-connected areas and with a number of deals in late stage negotiations, take-up is expected to outperform in both Milan and Rome in 2019. However, this should be layered with some caution as a significant proportion of take-up is replacement space rather than new entrants to the market and vacancy remains in double digits in both cities.
- Areas with lower vacancy are still expected to see some, albeit marginal, growth over the next twelve months. This will be crucial to investor decisions as yields are at historic lows, so growth will most likely come from rental growth rather than rising prices.
- While domestic investors are active with a 40% share of 3Q trading volumes, it is foreign capital that is making the market, in particular capital from France and the USA, and to a lesser extent Germany, Switzerland and the UK.
- There is good appetite for core and value-add investors in both Milan and Rome. However, overall inflows of capital to Italian real estate are likely to slow in the medium-term as the poor economic outlook continues to unravel and elevated political risks see investors act with heightened caution. Those not familiar with the market are unlikely to venture forth, impacting overall trading volumes in 2019.

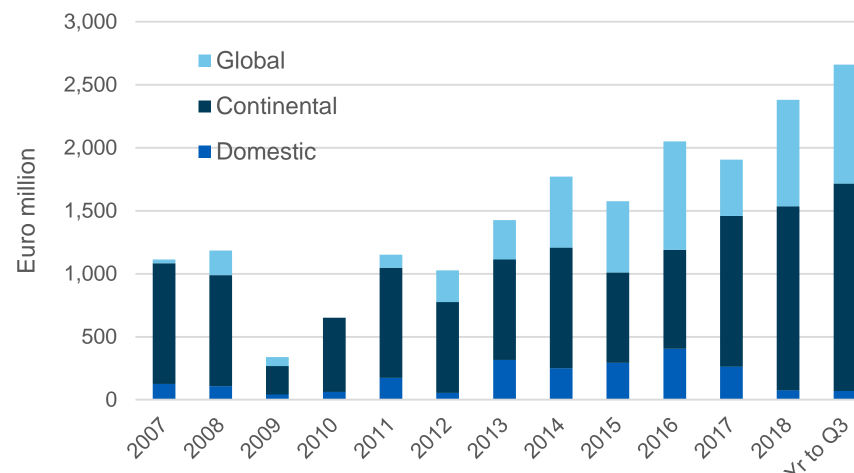
Sources:
CBRE – Milan & Rome Marketview 3Q 2019
C&W – Italy Office Market Snapshot 3Q 2019
Real Capital Analytics – data as at 30 Oct 2019
Oxford Economics – Country Economic Forecast Italy 23 Oct 2019

Poland – Office Market Outlook

Real Estate Market

- 3Q was another outstanding quarter for the Warsaw office market supported by a resilient economy that is performing better than a number of its European neighbours. Year-to-3Q take-up of 690,000 sq.m was the highest on record in the capital, while the availability of space continues to fall and is at its lowest level since 3Q 2012.
- Despite a robust development pipeline in Warsaw of almost 760,000 sq.m, more than 50% has been secured under pre-let agreements and so the vacancy rate of 8.2% is not expected to rise significantly even as more space becomes operational functional. This does however mask submarket differences with city centre vacancy being much lower at 5.5%.
- Nationwide (ex Warsaw) saw year-to-3Q take-up levels of 515,000 sq.m. A key trend is the changing structure of the demand in regional markets and the higher proportion of pre-let activity. In Q1–Q3 2019 one third of the total take-up amount (almost 168,000 sq.m) came from pre-lets. This number is 33% above the result for the whole of 2018.
- 3Q 2019 investment activity into the office sector in Poland reached €1.04 billion, boosted by the sale of the Warsaw Spire building for €386 million - the largest deal the market has ever recorded. This brings the year-to-3Q activity to €2.7 billion, 11.8% higher than full-year 2018.
- Warsaw continues to be a key target for investors, offering a depth and breadth of occupiers. That being said, regional markets continue to grain traction with 49% of deals taking place outside Warsaw in 3Q.

Office Volumes by Capital Source



Economy

Indicator	2018	2019	2020 Outlook (vs 2019)
GDP Growth	5.2%	4.0%	↘
Industrial Production	5.8%	4.4%	↘
Consumer Prices, average	1.8%	2.2%	↗
Population (millions)	37.98	37.95	→
Population	0.0%	-0.01%	→
Unemployment Rate	6.1%	5.5%	↘

Annual % change unless specified

- The Polish economy is set to expand by 4.0% in 2019 despite a slower 2Q largely due to the weaker pace of stock-building.
- Industrial production also fell due to a decline in car production – this is expected to reverse in September as car plants are typically interrupted by breaks in August.
- Even if there is a Sep bounce back in industrial production, it is likely to drag on overall growth in 3Q as external demand, in particular from Germany is likely to remain muted.
- The outlook for the domestic sector remains bright. Wage growth is robust and consumer confidence supported by the tight labour market has hit an all-time high.

Outlook

- As the year progresses Warsaw will continue to feature a shortage of quality space, especially in Central locations and this is despite the high levels of anticipated completion levels. Development is also strong in the regional office markets with 900,000 sq.m of space under construction mainly concentrated in Kraków, the Tri-City and Wrocław.
- Low vacancy rates and upward pressure on rents will be the dominant issues until at least the end of the year/early next year. Incentives packages and fit-out contribution offered for prime units situated in the most sough-after locations have been scaled back and are limited.
- Flexibility in floorplates as well as lease terms and lengths are increasingly demanded by occupiers who are seeking to attract and retain the best talent, with office accommodation a key metric in doing so. There has been a steady rise in levels of demand for space from flexible operators and it is estimated that flexible accommodation now covers 3.9% of office stock in the centre of Warsaw. This is a trend that is also being seen in the key regional office markets.
- While the outlook is generally positive for the Polish office market and low vacancy and good demand are expected to remain unchanged over the next twelve months, an element of caution is expected to surface as investors consider how much further the cycle has to run (particularly so in Warsaw), leading to portfolio diversification and investors increasingly looking at industrial and alternative assets.

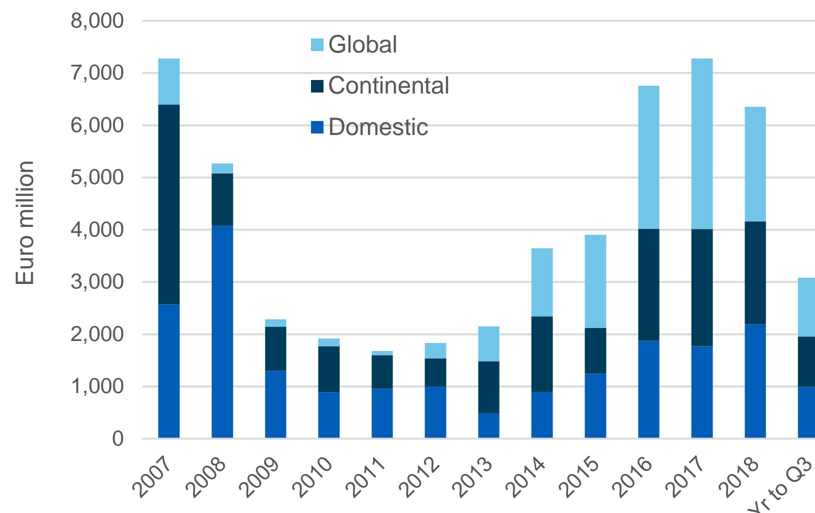
Sources:
Oxford Economics – Country Economic Forecast Poland 9 Oct 2019
Savills – Office Market in Warsaw, Oct 2019
Knight Frank – Warsaw Office Market 3Q 2019
JLL – Regional Office Markets Oct 20192019
Real Capital Analytics – data as at 30 Oct 2019

The Netherlands – Office Market Outlook

Real Estate Market

- The office market is facing very limited availability, especially regarding large offices in the CBD and the South Axis. Only 423,500 sqm of office space is currently available, translating to a vacancy rate of 5.8%.
- In Amsterdam, 3Q take-up was just 68,500 sq.m, bringing the total to 161,900 sq.m in the first three quarters of 2019 - 23%, lower than the same period in 2018. The lower levels of leasing activity are more likely to be due to constrained supply levels rather than a waning in demand. Indeed, with a number of active requirements looking for space and not being able to satisfy their needs in Amsterdam, companies are spilling out to peripheral areas of the capital and this is is putting upward pressure on rental rates.
- The situation in Rotterdam is similar. The vacancy rate is around 10.5% but the supply of quality stock within this is very limited, especially in the city centre around Central Station. Take-up declined in 3Q after reaching the highest level of all major cities in the Netherlands in 2Q.
- €4.5 billion was invested into the Dutch real estate market in 3Q. Volumes were boosted by investors' large appetite for residential property. While the amount invested into the office sector in 3Q was down from the previous quarter, the percentage share contribution of the sector increased from 19% to 22%.
- Domestic investors are active, representing roughly a third of the market. The bulk of international capital is drawn from a broad range of countries, the majority coming from the UK, the USA, South Korea, Germany, France and Israel.

Office Volumes by Capital Source



Economy

Indicator	2018	2019	2020 Outlook (vs 2019)
GDP Growth	2.5%	1.6%	↘
Industrial Production	0.6%	-0.9%	↗
Consumer Prices, average	1.7%	2.5%	↘
Population (millions)	17.23	17.32	↗
Population Growth Rate	0.53%	0.49%	↗
Unemployment Rate	4.8%	4.2%	↗

Annual % change unless specified

- The Dutch economy held up well in 2Q, growing by a surprisingly strong 0.5% q/q, which raises the 2019 growth forecast to 1.6% y/y.
- While there is robust domestic demand, external headwinds such as a slowing German economy remain a drag on the manufacturing sector.
- The labour market is a bright spot, with unemployment close to a record low of 4.2%. With inflation rising to 2.8% in August, consumers will not see much of a rise in real incomes.

Outlook

- Unemployment is low and employment is rising. This will filter down to continued demand for offices, particularly for good quality space in central areas. Well-connected hubs offering multiple infrastructure options are aplenty and companies are willing to pay higher rents for these locations as they look to reduce their carbon footprint while offering employees an attractive work location. Rotterdam Central Station is a good example of this which will delivering at least 80,000 sq.m by completion in 2022.
- While local municipalities have loosened their planning regimes, the most likely source of opportunities will come from the redevelopment or refurbishment of older office stock, although some of this is being removed from stock and repurposed into other uses, such as residential.
- Yields are at historic lows of around 3.20% for prime CBD assets, 4.50% for offices in good quality, well-connected secondary locations and 5.00% in major Tier II cities. Some further compression might occur, given the strength of the occupier market and pent up investor demand, but this will only be for the very best product and not wholesale across the market.
- Demand for the more popular locations in the big cities means that their vacancy rates have dropped significantly, the incentives for their tenants are limited and that their rents are on the rise. As such, an increasing number of tenants will continue to opt for alternative locations in, or even outside, the big cities.

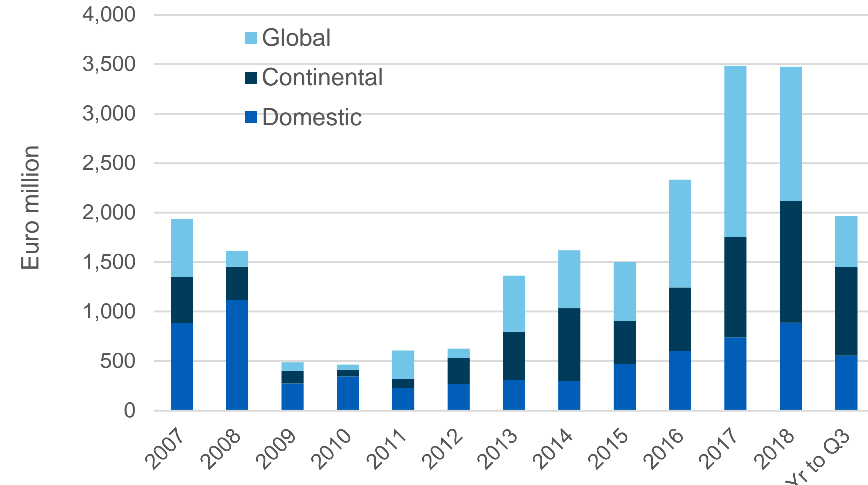
Sources:
Real Capital Analytics – data as at 30 Oct 2019
Oxford Economics - Country Economic Forecast The Netherlands 17 Oct 2019
Bouwinvest – Trends and developments on the Dutch real estate market 2019 - 2021

The Netherlands – Light Industrial / Logistics Market Outlook

Real Estate Market

- Over the first half of the year, nationwide leasing activity for industrial and logistics space reached 2.6 million sq.m, 32% higher than the equivalent period in 2018. The logistics subsector contributed to 57% of the take up (1.5 million sq.m), and was the single largest sub sector.
- The strength of the occupational market is largely driven by the strong rise of e-commerce, with 10.7% of all purchases in the Netherlands now made online. On the supply side, the decreasing availability of land for new developments in the main logistics hotspots, among other influential factors, is limiting new developments. For the first time in history, the result is a scarcity of product in both the logistics occupier market as well as the investment market.
- Initial 3Q estimates show that €536 million was invested into the Dutch industrial sector, slower than in 2Q but roughly on par with the slower first quarter of the year. Prime yields in key hubs such as Amsterdam and Rotterdam have seen steady compression over the recent past as an excess of capital chases limited product result resulted in fierce competition for the best space. Some investors, looking for higher yielding opportunities, are shifting their attention to either Tier II locations or older schemes that need repositioning.
- Sustained foreign interest is apparent. 72% of 3Q deals involve international capital, with UK buyers particularly active, followed by German, US and Belgian investors. The sector is seen as an attractive proposition for domestic and international capital alike, supported by a stable political environment, good infrastructure and a favourable tax framework.

Industrial Volumes by Capital Source



Economy

Indicator	2018	2019	2020 Outlook (vs 2019)
GDP Growth	2.5%	1.6%	↘
Industrial Production	0.6%	-0.9%	↗
Consumer Prices, average	1.7%	2.5%	↘
Population (millions)	17.23	17.32	↗
Population Growth Rate	0.53%	0.49%	↗
Unemployment Rate	4.8%	4.2%	↗

Annual % change unless specified

- The Dutch economy held up well in 2Q, growing by a surprisingly strong 0.5% q/q, which raises the 2019 growth forecast to 1.6% y/y.
- A diverging trend is emerging with robust domestic demand supporting growth, while the external headwinds such as a slowing German economy, continues to drag on the manufacturing sector.
- The labour market is a bright spot with close to record low unemployment of 4.2% although with inflation rising to 2.8% in August consumers will not see much of a rise in real incomes.

Outlook

- Not only is demand outstripping supply, the schemes that are available are also increasingly unable to meet the rising demand from occupiers, whose requirements are for larger and higher warehouses. They are unable to service a more demanding consumer base. This has resulted in many occupiers looking to new developments to satisfy their accommodation needs and they are prepared to pay the premium to secure this type of space.
- The market is expected to see higher levels of speculative logistics developments, which may see vacancy rise. If it does, it is expected to be for the short-term as the majority of new (speculative) developments are fully let within 3-6 months after completion. With increasing pressure on the occupational market, positive rental growth is more commonplace.
- Developers, seeing the opportunity in the market, are increasingly looking for alternative locations outside the prime logistics hotspots. However, suitable land sites, in particular large plots are scarce given the current pace of new developments, resulting in a question mark around how sustainable the development pipeline is.
- The Council of State recently ruled that the current strategy for reducing excess nitrogen is in breach of EU law, resulting in a planning crisis. This impasse can be expected to seriously delay the pipeline of new logistics developments, which will further increase pressure on the logistics occupier market.

Sources:
C&W – The Netherlands Industrial Market Snapshot 2Q 2019
Real Capital Analytics – data as at 30 Oct 2019
Savills – The quest for the next logistics hotspots, Autumn 2019
Oxford Economics - Country Economic Forecast The Netherlands Oct 17 2019

European Update and Outlook

CROMWELL
EUROPEAN REIT

16

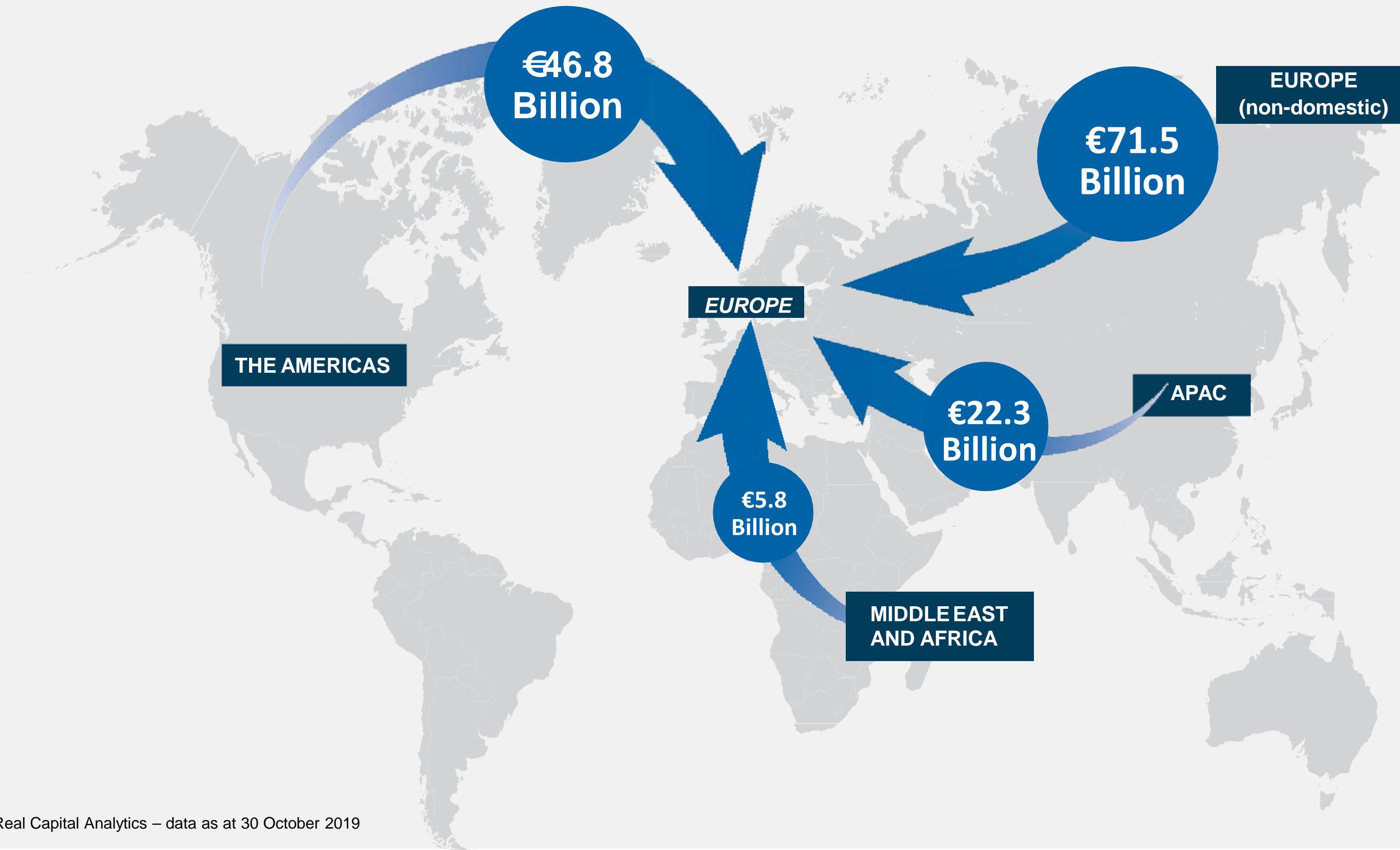
Commentary on the European Economy

- Eurozone economic growth forecasts for 2019 have been revised down to 1.1% and while Europe's economy is slowing, data indicates a divergence between robust activity in services, with PMI data indicating positive performance, and a struggling manufacturing sector, which continues to underperform
- Eurozone's growth in 2Q 2019 slowed to 0.2%, following 1Q 2019's 0.4% expansion. Strong domestic demand continues to underpin economic activity with household spending picking up, boosted by a falling unemployment rate and wages growing at the fastest rate in a decade. The labour market remains resilient and the unemployment rate is at a decade-low of 7.5%. Private spending grew slightly as households benefited from higher incomes
- Political risks remain a threat; the potential election of a populist government in Italy, the uncertainty surrounding the outcome of Brexit, the Catalan independence issue and the 'Gilets Jaunes' protests in France are a few examples
- In September, the European Central Bank ("**ECB**") decreased the interest rate on deposits by 10 b.p. to -0.50%. It also reactivated the asset purchase programme, at €20 billion per month, announcing that the new Quantitative Easing (QE) would be open-ended
- Eurozone's current low interest rate environment and ECB's determination to achieve an inflation outlook of 2.0% is helping to attract foreign capital into real estate, moderately offsetting the weakness caused by external geopolitical headwinds

Source: Oxford Economics

Global Capital Flows to Europe – Momentum Continues in 2019

Cross-border activity: Twelve Months to 3Q 2019

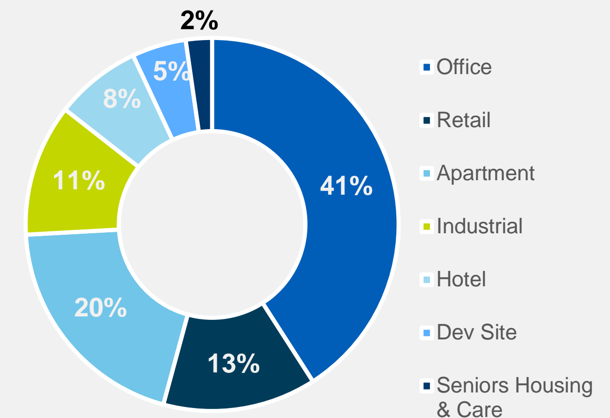


Source: Real Capital Analytics – data as at 30 October 2019

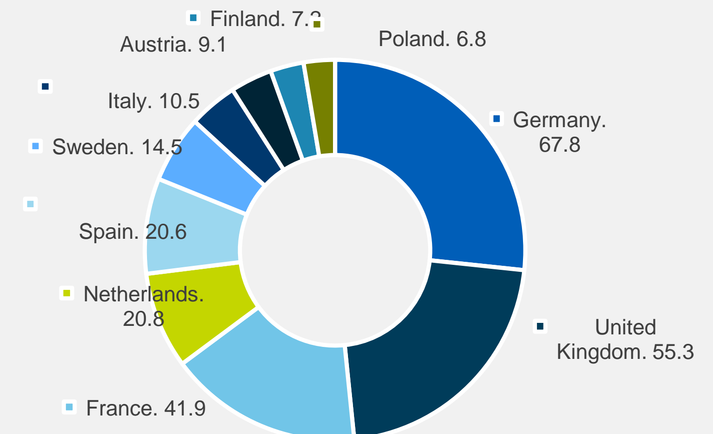
European Commercial Real Estate Commentary

- European property investment volumes reached €64.9 billion in 3Q 2019 – slightly down on 2Q 2019, but up 14.8% on 1Q 2019 activity
- Cross-border capital accounted for 46% of all 3Q 2019 transactions in Europe, with significant capital inflows from Continental Europe at 47%, followed by capital inflows from USA / Canada (30%) and then capital inflows from Asia (19%)
- Investor appetite for office sector continues, accounting for 43% of 3Q 2019 trading volumes. Residential comes in second with 17%, followed by retail sector (14%) and the industrial sector (10%) – similar levels to the last twelve months
- Higher levels of activity recorded in 'non-traditional' sectors such as hotels and seniors housing & care as they continue to expand, attracting more capital
- The current low-interest rate environment is helping to attract capital into real estate, offsetting to some extent the weaknesses caused by external geopolitical headwinds
- A renewal of the ECB's quantitative easing programme will further support increased capital deployment into Europe's real estate market

Investment by Sector (12 months to Sep 2019)



Top 10 European Destinations (€billion, 12 months to Jun 2019)



Sources:
Real Capital Analytics – data as at 30 October 2019
Real Capital Analytics – Europe Capital Trends 3Q 2019

THANK YOU

If you have any queries, kindly contact:
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