CROMWELL EUROPEAN REIT

BUSINESS UPDATE

FOR THE FIRST QUARTER
ENDED 31 MARCH 2020

Economic and Real Estate Country Update Supplement

12 MAY 2020

CROMWELL
EUROPEAN REIT

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All figures in this presentation are as at 31 March 2020 and stated in Euro ("**EUR**" or "**€**"), unless otherwise stated

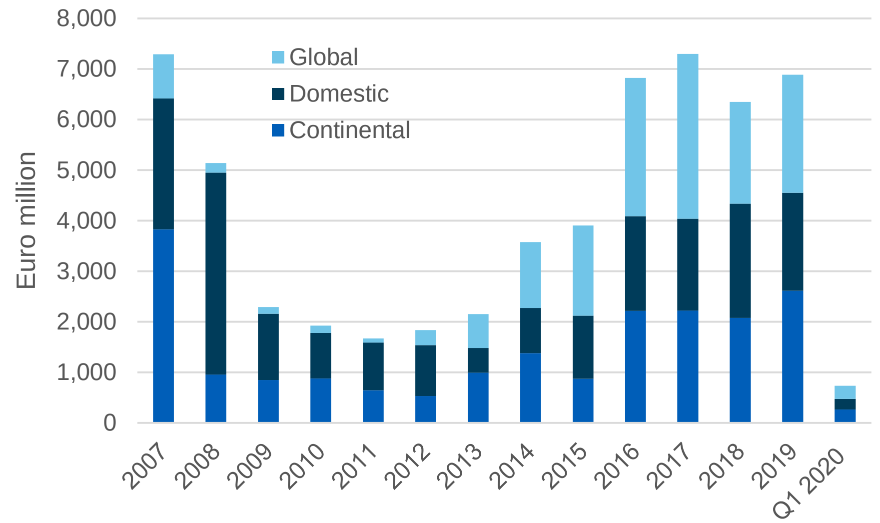
1. "**1Q 2020**" refers to the period from 1 January 2020 to 31 March 2020; "**2Q 2020**" refers to the period from 1 April 2020 to 30 June 2020; "**1H 2019**" refers to the period from 1 January 2020 to 30 June 2020; "**FY2020**" refers to the period from 1 January 2020 to 31 December 2020

The Netherlands – Office Market Outlook

Real Estate Market

- The key office markets across the Netherlands entered 2020 in good health and remain relatively robust despite the spread of the COVID-19 virus and certain lockdown measures that followed in an attempt by the government to contain the virus
- A combination of robust occupier demand and a substantial amount of office space that was withdrawn from the market in recent years has left vacancy rates at their lowest levels since the financial crisis, supporting rental growth in the recent past
- A lack of high-quality available space has led to a rise in pre-letting activity and as a result 50% of the office space currently under construction has already been leased. The completion of these schemes will have little impact on the availability rate, which is creating an upward pressure on headline rents. Prime rents in Amsterdam, The Hague, Rotterdam and Utrecht reached annual levels of €475/sqm, €225/sqm, €245/sqm and €285/sqm respectively.
- Following a near record 2019, with €6.8 billion of office space transacted, investment activity was subdued in the first quarter of 2020, partly due to the outbreak of COVID-19 worsening towards the end of the quarter, but also due to the lack of opportunities for investors. In 1Q 2020, €738 million was transacted into the Dutch office market.
- The investor profile continues to be mixed with transactions in 1Q equally spread between domestic, global and continental capital. Investors are increasingly viewing the Dutch capital as a European core market and from their perspective it is slowly but surely, gaining an international position alongside the likes of London, Paris and Frankfurt.

Office Volumes by Capital Source



Economy

Indicator	2019	2020	2021 Outlook (vs 2020)
GDP Growth	1.8%	-3.6%	↗
Industrial Production	-1.2%	-4.8%	↗
Consumer Prices, average	2.6%	0.6%	↗
Population (millions)	17.35	17.43	↗
Population Growth Rate	0.61%	0.46%	↘
Unemployment Rate	4.3%	5.2%	↗

Annual % change unless specified

- As the economy was in good shape before the pandemic, a relatively quick recovery is expected once containment measures prove successful, with GDP growth expected to be -3.6% in 2020, and 4.3% in 2021.
- Private consumption will contract by 4% this year, but then rebound with growth of 3.7% in 2021 once social restrictions have been relaxed
- Services exports will decline by 5.7% this year due to the disruption to global supply chains and partial production stops.

Outlook

- The prolonged impact of COVID-19 will lead to a rise in unemployment figures across the Netherlands as businesses are put under increasing financial difficulties. However, this is from a low base with Dutch unemployment at 4.3% entering 2020.
- A rise in vacancy could follow as occupiers release space or put expansion plans on hold for a while. However, with a lack of high-quality available space, limited development pipeline and strong pre-COVID-19 demand, a significant rise in vacancy is unlikely. Indeed, while any rise in vacancy will take some pressure off the positive rental growth witnessed over the past couple of years, headlines rents will be supported by a rise in incentives.
- Serviced office operators are expected to suffer more than traditional offices in the short term, but as we move away from the restricted COVID-19 environment, they will continue to be a significant part of the corporate workplace networks.
- Transaction volumes, which were low in 1Q 2020, are expected to be impacted further in the second and third quarter of the year as COVID-19 restricts activity. Deals will happen, but they will also take longer given the restrictions. Prime yields are expected to soften with a rise in the availability rate and lack of potential positive rental growth. However, no adjustments have been made so far due to the lack of transactional evidence.

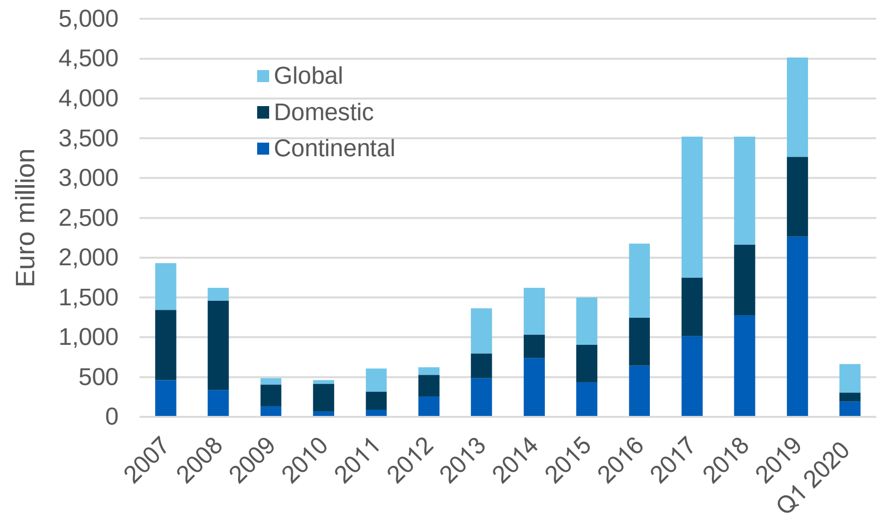
Sources:
Real Capital Analytics – data as at April 29 2020
CBRE – Market discussion with local research team 1 May 2020
CBRE – Market Presentation “What impact will Covid-19 have on the office market” May 2020
CBRE – Real Estate Outlook 2020 April Update April 2020
Oxford Economics – Country Economic Forecast Netherlands 23 April 2020

The Netherlands – Light Industrial / Logistics Market Outlook

Real Estate Market

- The past twelve months has seen a high level of development activity in response to strong demand for logistics assets. Some older stock has been released as occupiers upgrade and this largely accounted for the slight up-tick in the vacancy rate. In 2019 2.6 million sqm in newly built logistics space were added to the overall stock – this is triple the average annual increase in the previous ten years.
- Whilst the demand for logistics real estate remains strong due to the continuing popularity and growth of e-commerce, a proportion of investor focus has shifted towards the end of the supply chain - “last mile” logistics. This has led to an increase in demand for locations and properties close to the major cities in order to service the ever shorter delivery times demanded by consumers.
- Prime rents remained stable across most cities in the Netherlands. However, there has been some exceptions in sought-after locations with limited availability of land, where a slow increase has occurred. Namely around Venlo, where rents have risen from €48/sqm/year to €53/sqm/year, and in the Rotterdam region where rents grew from €65/sqm/year to €68/sqm/year over the last 12 months.
- Prime yields fell as strong investor demand for quality logistics space continued, which in turn saw investors willing to take on greater risk either via opportunities in Tier II markets or development risk and accept more compromises in the terms of their lease contracts such as shorter lease terms. Investment volumes were subdued in 1Q 2020, with only €664 million transacting, as some deals failed to complete. Activity is expected to resume once lockdown restrictions are lifted supported by robust fundamentals underpinning the sector.

Industrial Volumes by Capital Source



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- Services exports will decline by 5.7% this year due to the disruption to global supply chains and partial production stops.

Outlook

- Due to the COVID-19 outbreak, online retailers and grocery linked logistics have been taking additional temporary space. This is partly due to an increase in consumer demand, but also to store goods which cannot be sold due to government restrictions and which normally would move seamlessly through supply chains. Some of this may be converted into permanent space as occupiers reassess the sustainability of their supply chains.
- The relatively high levels of speculative construction seen in recent years is likely to slow with developers and investors less willing to accept risk and financing becoming more expensive. Developers are also beginning to face a rise in public opposition with people objecting to “big-box” developments at the expense of the natural landscape.
- E-commerce is also becoming controversial, due to the congestion caused by the sheer volume of delivery vehicles on the road and the working conditions at distribution centres, yet consumer demand continues apace and online retail volumes are expected to rise.
- Despite the fall in new development activity, a drop in demand from some logistics occupiers will lead to a slight increase in the vacancy rate, although this is not expected to be substantial. Headline rents will stabilise, perhaps with a slight increase in incentives offered by landlords, but prime yields are expected to hold at 4.0% given investor interest.

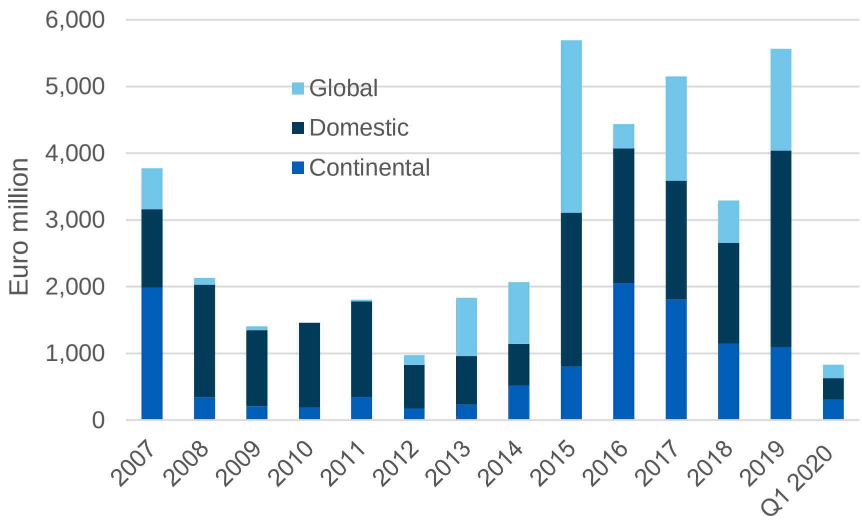
Sources:
Real Capital Analytics – data as at April 29 2020
CBRE – Market discussion with local research team 1 May 2020
CBRE – Real Estate Outlook 2020 April Update April 2020
Oxford Economics – Country Economic Forecast Netherlands 23 April 2020

Italy – Office Market Outlook

Real Estate Market

- Take-up in Milan was just shy of 100,000 sqm - encouraging result given the onset of COVID-19 in early March. 42% of the quarter's take-up was for pre-lets indicating that some occupiers are taking a long-term view of the market and securing the right space while the opportunity exists.
- 27,700 sqm of renovated Grade-A was delivered in Milan in 1Q, 70% of which had pre-let agreements in place and as such the vacancy rate dropped below 10%. Manufacturing & Energy, High-Tech and Financial sectors were the most active sectors.
- Occupier activity in Rome was up 14% on 4Q 2019 reaching 27,000 sqm with the uncertainty linked to COVID-19 not affecting 1Q levels. Although by and large the majority of deals were in late stage negotiations, it was nonetheless a positive start. Vacancy is 8.6% and despite the 130,000 sqm due to be delivered by 2021, not expected to rise dramatically.
- 1Q 2020 saw €830 million invested into the office sector. This was down only 8% on the comparative quarter in 2019 which was a record-breaking year for Italian real estate. Activity is largely based on the deals that had already been closed or were in late stage negotiations prior to the nationwide lockdown on 9th March.
- Milan and Rome, the country's key hubs of economic activity, continue to be the focus for investors attracting the bulk of capital inflows. While domestic investors are active, accounting for about 40% of 1Q activity, international capital from the US, France and Germany was notable.

Office Volumes by Capital Source



Economy

Indicator	2019	2020	2021 Outlook (vs 2020)
GDP Growth	0.3%	-7.6%	↗
Industrial Production	-1.4%	-15.4%	↗
Consumer Prices, average	0.6%	-0.5%	↗
Population (millions)	60.27	60.15	↘
Population Growth Rate	-0.21%	-0.21%	↘
Unemployment Rate	10.0%	12.2%	↘

Annual % change unless specified

- The economy is expected to shrink by 7.6% in 2020 as government measures saw the cessation of non-essential manufacturing, construction and an almost complete shutdown of the consumer sector.
- 2H 2020 should see some growth as lockdown measures are lifted, but the success of these will dictate the pace of recovery. GDP growth for 2021 is currently forecasted to rebound strongly (3.8%).
- A €25 billion fiscal package ("Cura Italia") has been launched that includes funding for the healthcare system; tax credits for firms and support for temporarily unemployed workers to preserve employment levels and incomes.

Outlook

- The Italian real estate market entered 2020 in a strong position. There is however, mounting evidence that investors are now acting with more caution, adopting a wait-and-see approach as to how success the lifting of lockdown measures are and how quickly, at least some, consumption can be resumed.
- That said, with the office sector expected to be one of the more resilient ones, and with capital available to deploy, a resumption of deal flow should come back relatively quickly if the level of good quality product that was coming to market in 1Q is maintained. COVID-19 has caused a progressive slippage in deals in progress rather than a complete withdrawal of those in the pipeline. For now, prime yields are expected to hold firm over the quarter at 3.30% in Milan and 3.70% in Rome, although this is deduced from limited evidence.
- As banks take a temporarily more stringent approach to development finance against a weaker economic backdrop, the reduction in development activity could mean the market returns to a shortage of investment product that it had been slowly overcoming in recent years. This will, in time, put downward pressure on yields especially as the lack of product that has historically been a strong constraint to investment in the Italian market.
- Going forward, once the market environment returns to more normal levels, there is expected to be a strong appetite for core and value-add opportunities in both central Milan and Rome, thus presenting opportunities for those willing to go further a field.

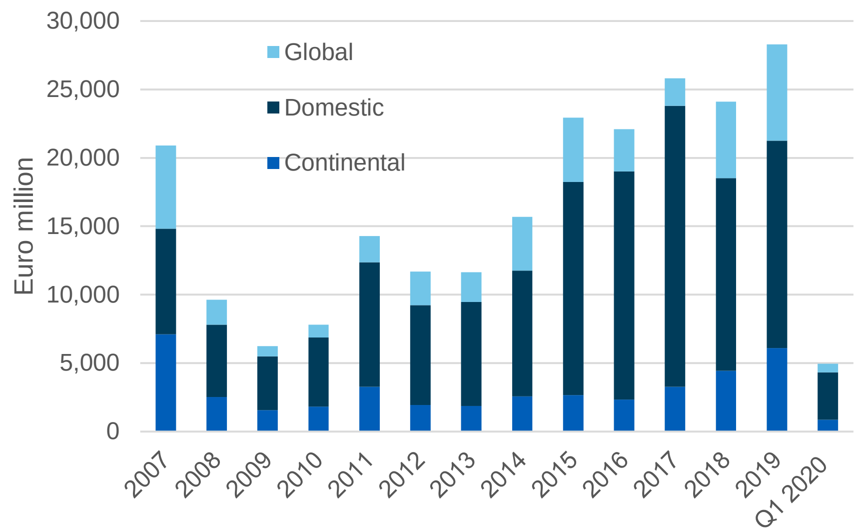
Sources:
CBRE – Milan & Rome Marketview 1Q 2020
CBRE – Market discussion with local research team 4 May 2020
Oxford Economics – Country Economic Forecast Italy 9 April 2020

France – Office Market Outlook

Real Estate Market

- 1Q 2020 saw almost 465,000 sqm of office space let in the Greater Paris Region, 14% lower than in 1Q 2019, with higher overall levels held back by the absence of mega deals in excess of 20,000 sqm floorplates.
- While it is impossible to know what the level of take-up would have been, had the health crisis had not broken out, there was growing evidence that demand was slowing given the weaker economic backdrop with strikes at the end of 2019 and at the beginning of the year, compounded by the outbreak of the COVID-19 virus.
- Availability hit a record low of 2.7 million sqm on 1 Jan 2020 and has since risen slightly to 2.9 million sqm. The increase is due to the slowing deal flow pipeline combined with some development completions mainly located in the Inner Rim North and Outer Rim submarkets. That said, vacancy still remains low at 5% for the Greater Paris region and very tight at 1.5% in the CBD.
- €4.9 bn was invested into the office sector in 1Q 2020, which was the third best quarterly performance recorded for the French office sector. The Greater Paris Region continues to exert its dominance on the French investment scene with 86% of 1Q deals taking place in the region.
- While Asian capital is taking a more wait-and-see approach, European and Middle Eastern capital has been busy, with investors from the UK, Israel, Saudi Arabia, Switzerland and Germany all in acquisition mode and closing on deals in 1Q.

Office Volumes by Capital Source



Economy

Indicator	2019	2020	2021 Outlook (vs 2020)
GDP Growth	1.3%	-5.3%	↗
Industrial Production	0.3%	-5.0%	↗
Consumer Prices, average	1.1%	0.3%	↗
Population (millions)	67.09	67.25	↗
Population Growth Rate	0.18%	0.24%	↗
Unemployment Rate	8.2%	9.5%	↘

Annual % change unless specified

- Government measures put in place to curb the spread of COVID-19 slowed the economy to a standstill in H1 with GDP contracting by 5.3% in 2020.
- Social distancing and containment measures will cause consumption to collapse in H1, with almost half of total spending at risk of loss or delay.
- Output will start to recover later in H2 as containment measures are lifted by mid-May, daily activity resumes and monetary and fiscal policy stimulus start to feed through, leading to a rebound to 4.4% growth in 2021
- Despite employment packages in place the unemployment rate that is likely to rise to close to 10% in Q2 before falling again towards year-end.

Outlook

- The Greater Paris Region is supported by good underlying fundamentals to weather the slowdown of activity in the leasing market due to COVID-19. There is limited speculative space in the construction pipeline with about 50% of the pipeline due to complete by 2022 already pre-let. This rises to 80% in the CBD.
- Vacancy is at historic lows at around 2% across Paris City and 1.5% in the CBD, so even though some space will be released no dramatic increases in vacancy expected. This is reflected in current rental values of €850-900/sqm/year in the CBD with often no incentives on small to medium sized floorplates and 5% - 15% on larger spaces.
- Leasing deals continue to be signed but they are taking longer. However, these is evidence of leases being signed for medium to long-term real estate projects even during the lockdown, with most the result of companies requiring optimisation and office modernisation.
- The high share of international buyers typically seen in the market is likely to slow in Q2 and possibly Q3 with a return in Q4 as the market stabilises.
- There is a strong focus on core with deals completing at 3.0%. So far there is no evidence of distress in the market and so limited rationale for any price adjustments, at least at the prime end of the market.

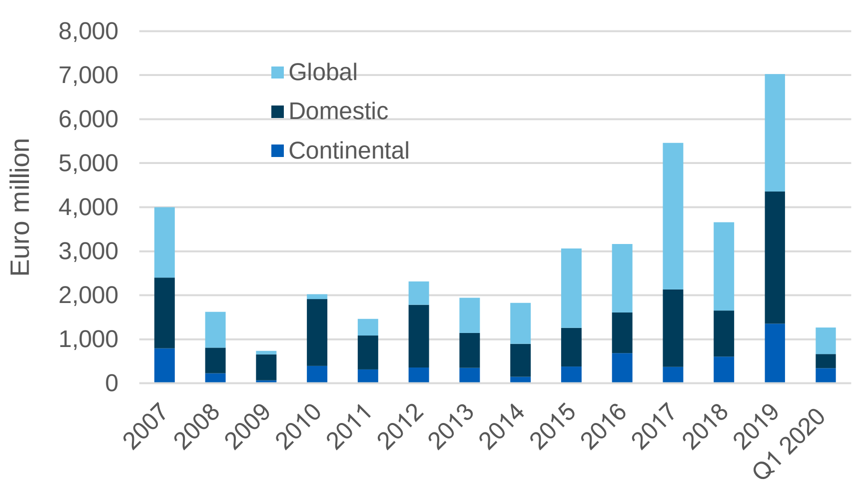
Sources:
Real Capital Analytics – data as at 29 April 2020
CBRE – France, Paris Region, Office 1Q 2020
Knight Frank – The Greater Paris Region Office Market 1Q 2020
Oxford Economics – Country Economic Forecast France 20 April 2020

France – Light Industrial / Logistics Market Outlook

Real Estate Market

- In the short-term, the COVID-19 pandemic and lockdown measures are proving to be a hurdle in terms of finalising transactions. Some deals did close and in the Greater Paris Region, while leasing activity slowed in Q1, 68,530 sqm was let, a substantial decrease on the same quarter in 2019 and partly attributable to the lack of deals above 20,000 sqm.
- Good occupier demand was recorded along the North-South Axis which accounted for 57% of deal in 1Q. Of the four main markets, the Hauts-de-France took the lead from the Paris Region, (23% vs. 15% respectively), followed by the Centre-Valde Loire (14%), and Normandy and Auvergne-Rhône-Alpes (13% each).
- Vacancy increased slightly in 1Q due in part to some older space released back to the market and in part as some speculative space completed. This paves the way for available solutions when the market rebounds. Retailers, for example, continue to proactively look strategically at their supply chains, hoping to perhaps nearshoring some part of it.
- €1.3 billion was invested into the wider industrial market in 1Q 2020 – surpassing the five-year quarterly average of €1.2 billion and the fourth most active quarter on record.
- Q1 activity was boosted by the sale of two major Pan European portfolios; one was sold by American investor Ares, bought by Investec with a large share located across France. The other was the French Hub & Flow portfolio, sold by the American investor Carlyle and acquired by Ivanhoe Cambridge. Alongside US capital, Canadian, UK and German capital were also active 1Q.

Industrial Volumes by Capital Source



Economy

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- Output will start to recover later in H2 as containment measures are lifted by mid-May, daily activity resumes and monetary and fiscal policy stimulus start to feed through, leading to a rebound to 4.4% growth in 2021
- Despite employment packages in place the unemployment rate that is likely to rise to close to 10% in Q2 before falling again towards year-end.

Outlook

- While activity may have slowed as occupiers and investors are unable to transact with speed due to the governmental restrictions put in place as a result of the COVID-19 virus, once lockdowns begin to be lifted the sustained interest previously seen in the sector is expected to be renewed as the Covid-19 crisis has highlighted the major role played by logistics in the national economy and could act as a accelerator for the asset class.
- The investor landscape is expected to remain relatively competitive with French institutions and insurance companies beginning to take a more interested view and active participation in the sector, using it as a diversification channel. Amundi for example has been more active, alongside Swiss Life, Primonial and BNP Paribas REIM all of which is adding to competition within a sector already very competitive particularly for the best space.
- Prime yields, currently at around 4.00% for prime assets in the Greater Paris region are expected to hold at a similar level across the remainder of the year. A notable trend has been of rising levels of interest outside the traditional North-South Axis running from Lille in the north to Marseille in the south with yields here around 100 bps higher than the capital.
- Fundamental transformations to retail and supply chains will be a key driver of demand once lockdowns are lifted as they continue to consolidate and redefine their real estate needs in order to respond to new modes of consumption.

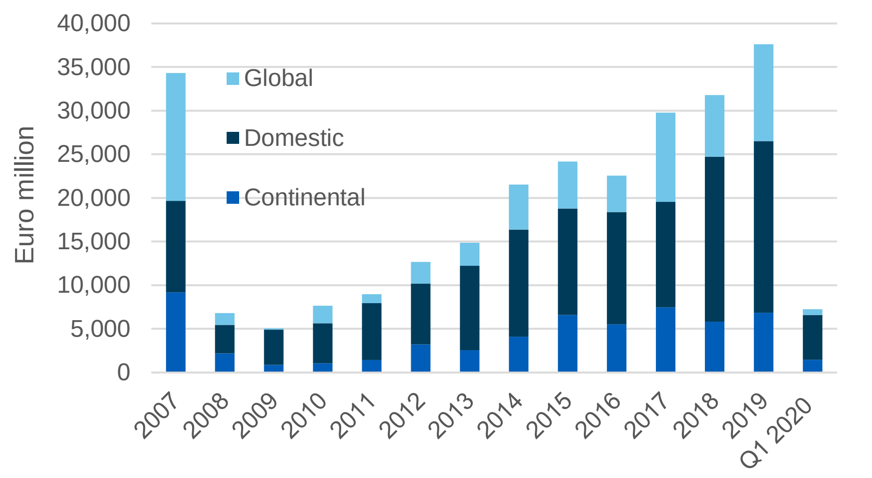
Sources:
Real Capital Analytics – data as at 29 April 2020
CBRE – France Logistics 1Q 2020
Oxford Economics – Country Economic Forecast France 20 April 2020

Germany – Office Market Outlook

Real Estate Market

- Total take-up in 1Q across Germany's top 7 cities of Berlin, Cologne, Düsseldorf, Frankfurt, Hamburg, Munich and Stuttgart amounted to 701,000 sqm - a 30% decline on a 12-month basis and the weakest quarterly activity since 3Q 2014, and while the occupier market began showing signs of easing towards the end of 2019 which continued into the first quarter of 2020, this can in part be attributed to a lack of available space.
- After dropping significantly from quarter to quarter in recent years, vacancies now seem to have reached a low point with the average vacancy rate low at 3%. Since the onset of COVID-19 corporates have put their accommodation plans on hold, which will change market dynamics and a slowdown in demand is expected. But, with vacancy at historic lows even after accounting for lower demand, vacancy should not rise too dramatically.
- The investment market continued to be strong in the first quarter of 2020 with €7.3 billion transacted in Germany's office market. The majority of which (71%) came from domestic investors. Of the international capital, European investors were much more active, particularly those from Switzerland, France and Italy.
- The top seven cities continue to attract the bulk of capital with 80% of transactions in 1Q located in these markets. Berlin proved to be the strongest market with 31% of the overall volume, followed by Frankfurt (20%), Dusseldorf (10%, Munich (9%), and Hamburg (7%).
- Portfolio deals were prominent in 1Q, accounting for a share of 35%. There were also numerous individual purchases above €100 million which closed, helping to boost overall trading volumes. The depth of investor interest in Germany held yields firm over the quarter.

Office Volumes by Capital Source



Economy

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Industrial Production	-4.6%	-5.7%	↗
Consumer Prices, average	1.5%	0.9%	↗
Population (millions)	83.10	83.23	↗
Population	0.20%	0.15%	↘
Unemployment Rate	5.0%	5.5%	↘

Annual % change unless specified

- GDP could contract by 1.5% in 1Q, with a larger decline of around 8% in 2Q as virus containment measures bring the economy to a standstill.
- A gradual lifting of the lockdown is planned for early-May, which is expected to trigger a bounce-back, especially given the government's strong fiscal response. However, 2020 GDP is forecast to fall by 3.9%.
- Industry and construction firms are allowed to operate, but a lack of workers, supply-chain issues or a demand slump has still curtailed activity.
- The government scheme to subsidise reduced working hours to keep workers employed will limit the impact of recession on employment, but wage growth will come to a temporary halt.

Outlook

- The development pipeline remains strong across Germany for the next few years, although as at the end of 1Q, 50% of completions due by the end of 2022 had already been secured under pre-let agreement.
- Vacancy rates will also likely increase in the coming quarters as a result of diminishing demand. However, with not all new construction projects likely to be realised and some being shelved until there is more clarity on secure income streams, any rises are not expected to be dramatic, maintaining pressure on rents for when more solid requirements return to the market.
- There is potential for a rise in the amount of space for sub-let as occupiers look to divest space to cut the cost of their operations.
- Some investors are likely to adopt a wait-and-see approach and monitor developments in 2Q resulting in a reduction in investment volumes. However, negotiations are continuing as planned and some transactions are taking place although with longer lead times given current market conditions. Some product will temporarily not be launched on the market due to increased uncertainty and until there is more clarity on pricing.
- There remains a significant shortage of quality product in core office markets, which continues to attract strong interest from investors and with no evidence of fire sales prime yields are largely expected to remain stable with a possible 5-10 bps outward shift if at all.

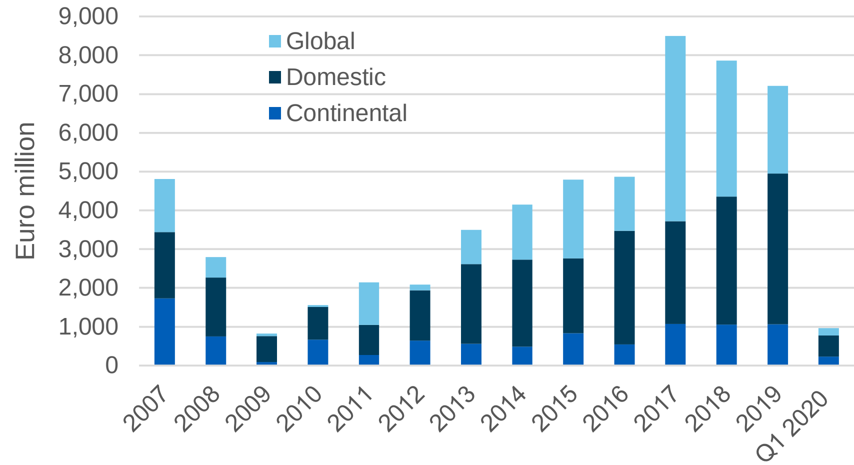
Sources:
Real Capital Analytics – data as at 29 April 2020
CBRE – Germany Office Investment Market April 2020, JLL – Office Market Overview April 2020
CBRE – Market discussion with local research team 28 April 2020
Oxford Economics – Country Economic Forecast Germany 17 April 2020

Germany – Light Industrial / Logistics Market Outlook

Real Estate Market

- Despite the slowdown in German industry, occupier demand for logistics remains high with take-up reaching 1.1 million sqm in 1Q. The level of leasing activity is being driven by strong domestic demand, and e-commerce, and could be greater but for a severe shortage of free existing stock and available land in some markets, which restricted deal levels.
- Prime rents in general have remained stable by and large but with some positive rental growth witnessed in Munich with rents rising 1.4% over the quarter to €7.15/sqm/month, and remains the most expensive location across Germany.
- Trading volumes in 1Q 2020 totalled €967 million. Whilst overseas investors remain active in the market and deals concluding with capital from the UK, South Africa and Sweden, the majority of buildings were bought by domestic capital, which accounted for 56% of transactions in 1Q.
- Although investor demand for logistics assets is as broad as it has ever been, the majority of the transaction volume relates to larger units due to the sale of four individual buildings in excess of €100 million, in addition to a number of portfolio sales.
- At the end of 1Q 2020, prime yields were stable at 3.60% across the key German hubs. The impact of COVID-19 has not yet had a significant impact on sales in the logistics market as most deals in 1Q were in late stage negotiations by the time lockdown restrictions were imposed. That said, demand for product is strong and so any yield movement will be small.

Industrial Volumes by Capital Source



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Unemployment Rate	5.0%	5.5%	↘

Annual % change unless specified

- GDP could contract by 1.5% in 1Q, with a larger decline of around 8% in 2Q as virus containment measures bring the economy to a standstill.
- A gradual lifting of the lockdown is planned for early-May, which is expected to trigger a bounce-back, especially given the government's strong fiscal response. However, 2020 GDP is forecast to fall by 3.9%.
- Industry and construction firms are allowed to operate, but a lack of workers, supply-chain issues or a demand slump has still curtailed activity.
- The government scheme to subsidise reduced working hours to keep workers employed will limit the impact of recession on employment, but wage growth will come to a temporary halt.

Outlook

- COVID-19 has exposed German manufacturers to the risks of a breakdown of international supply chains, and in response more manufacturing is likely to be re-shored, especially in systemically relevant industries like pharmaceuticals and chemicals. This may not be possible in the short to medium-term, therefore many manufacturers will look to establish multiple channels of supply without relying on one supplier, which in turn will drive higher costs but limit the breakdown in getting product to market.
- Whilst prime rents are expected to fall across most sectors, the logistics market could be an exception, as food retailing as well as the pharmaceutical and health care sectors have increased short-term logistics needs and space in needs to house goods temporarily due to disrupted production lines. Any movements in rental levels are likely to be reflected in increased incentives packages first.
- The number of speculative developments is likely to reduce in the short-term future, as developers prioritise securing planning permission and investors are reluctant to close on new forward funded deals, opting for standing investments with an in-place income stream.
- While there is more noticeable fragility in the occupier market this is largely expected to be temporary and some activity will resume once lockdown measures are lifted, albeit gradually. The logistics sector is expected to be more resilient that most sectors and with good long-term fundamentals supporting the sector, investor appetite will pick-up later the in the year and with that only limited outward movement in yields is anticipated.

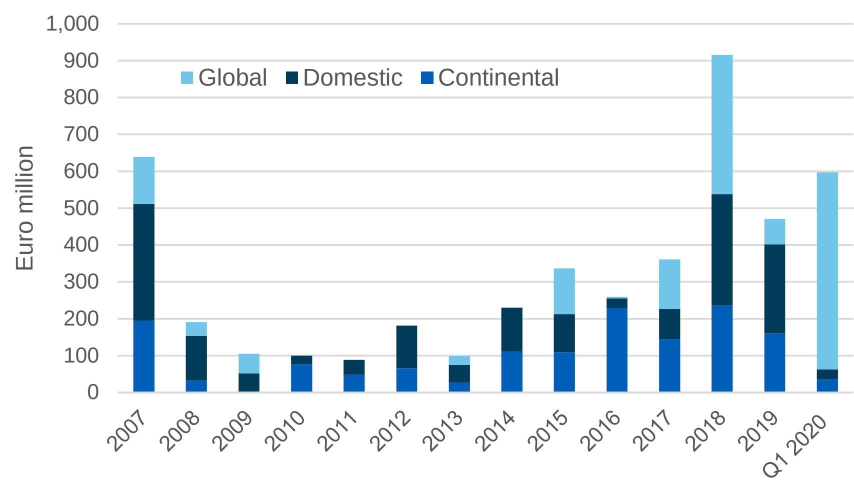
Sources:
Real Capital Analytics – data as at April 29 2020
Avison Young – Germany Outlook 2020
CBRE - Germany Outlook 2020CBRE – Market discussion with local research team 28 April 2020
Oxford Economics – Country Economic Forecast Germany 17 April 2020

Denmark – Light Industrial / Logistics Market Outlook

Real Estate Market

- Robust demand from retailers and supermarkets chains supported relatively healthy levels of take-up in 1Q, maintaining pressure on the already low vacancy rate.
- For logistics space in Copenhagen, vacancy is quoted at around 2%, but this only takes into account openly marketed units, not reflecting any 'grey' space that is available but not on the open market. Even if this was included vacancy would still remain below 4%.
- 400,000 sqm of logistics space is currently under construction across Denmark, half of which is located in the Greater Copenhagen area. And so, while development continues, the discrepancy between developers and occupiers remains. Developers are building 10,000+ sqm schemes to maximise development profit but occupiers are wanting smaller spaces of between 2,000 - 3,000 sqm.
- Investment volumes were just under €600 million in 1Q 2020. This is more than the 2019 annual total but, is boosted by the Danish portion (200,000 sqm) of a €572 million Pan European logistics portfolio that was acquired by Blackstone. Thus, for this quarter, atypically foreign capital was more active than domestic.
- The majority of activity is concentrated around key import /export locations with the Greater Copenhagen the country's main market. Occupiers tend to focus on locations such as Taastrup, IshØj KØge and Greve. Another hub of activity is focused in the Triangle area in Jutland.

Industrial Volumes by Capital Source



Economy

Indicator	2019	2020	2021 Outlook (vs 2020)
GDP Growth	2.4%	-3.1%	↗
Industrial Production	2.7%	-7.6%	↗
Consumer Prices, average	0.8%	0.5%	↗
Population (millions)	5.82	5.84	↗
Population Growth Rate	0.39%	0.41%	↗
Unemployment Rate	3.7%	5.2%	↘

Annual % change unless specified

- Denmark is amongst the first wave of European countries to begin the gradual lifting of some lockdown measures.
- Consumer spending plunged with the tourism, restaurants and transport sectors suffering badly – the economy is expected to contract by 3.1% in 2020.
- Unemployment is expected to rise but government policies to keep businesses afloat and prevent widespread layoffs should ensure consumers are in a strong position to raise spending in 2H.
- Government debt only just over 30% of GDP in 2019 there are ample resources to support the economy during the shock.

Outlook

- It is widely accepted that 1Q 2020 investment volumes are not reflective of the current market situation. However, while investor sentiment is softening somewhat until there is more clarity on the current situation, the Danish government have begun to ease COVID-19 lockdown measures, which will help support the healthy demand for logistics schemes.
- Prime yields are expected to hold steady in 2Q at 5.00% but this is against a lack of activity with any new benchmark becoming clearer as the quarter progresses. There are also no visible pricing gains to be made by looking for opportunities outside Copenhagen, with yields in Aarhus at similar levels to the capital.
- With a large proportion of current standing stock built over 10 years ago and in need of renovation in order to raise the quality to suit todays modern occupier needs, redevelopment opportunities can be found but need to be planned carefully as construction costs are high. More leasing opportunities will become available as the ADP and PDF joint venture to build out the Taulov Dry Port continues.
- Debt financing will be crucial for the market in the short term, with a focus on interest rates and LTV ratios as well as the general statements on lending policy. Even before the crisis we have seen a rather restrictive attitude expressed by the Danish banks, resulting in increased activity from foreign banks and a rise in alternative financing such as forward funding.

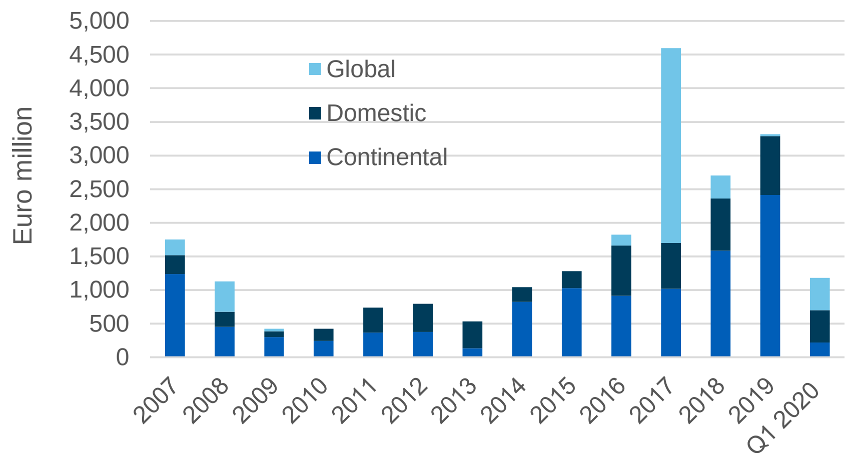
Sources:
Real Capital Analytics – data as at 29 April 2020
Statistics Denmark
CBRE – Market discussion with local research team 23 April 2020
Oxford Economics – Country Economic Forecast Denmark 21 April 2020

Finland – Office Market Outlook

Real Estate Market

- For occupiers, office location is becoming increasingly more important as corporates look to attract and retain talent. As a result, the developments which are being built are in close proximity to transport hubs such as a train or metro station. The most significant office projects being completed this year in the Helsinki Metropolitan Area (HMA) include the Tripla Workery office properties in Pasila; the Urban Environment House in Kalasatama; and Fredriksberg's B and C office buildings in Vallila.
- Office construction is slowing down as economic growth expectations weaken. By the end of 2020, 107,000 sqm will be added to the stock figure in the HMA, a 1.2% increase. Thereafter the pace of speculative completions falls further. However, prime rents should hold at current levels of €42/sqm/month given that the vacancy rate for Grade A offices in Helsinki's CBD is close to 0%, and 5% overall.
- Offices continue to be the preferred investment sector in Finland and totalled €1.2 billion in 1Q, this represents a 54% of the total transaction volume. Overseas investors continue to be the main source of capital accounting for 59% of total trading volumes. The Helsinki market remains the most active with 56% of purchases taking place in the capital.
- The robust demand for offices seen from investors before the outbreak of COVID-19 put downward pressure on prime yields which compressed in the City Centre by 15 bps over the past six months to 3.25% for the best stock, 4.00% for well located assets outside the CBD. Outside the capital, in major provincial towns, yields were 5.25% as at 1Q.

Office Volumes by Capital Source



Economy

Indicator	2019	2020	2021 Outlook (vs 2020)
GDP Growth	1.0%	-4.8%	↗
Industrial Production	1.9%	-5.6%	↗
Consumer Prices, average	1.0%	0.2%	↗
Population (millions)	5.52	5.53	↗
Population	0.11%	0.13%	↗
Unemployment Rate	6.7%	9.1%	↘

Annual % change unless specified

- GDP is expected to contract by 4.8% in 2020 as COVID-19 containment measures stall the economy. A recovery to growth of 4.1% is anticipated in 2021 as the impact of the pandemic fades.
- Investment is likely to decline sharply in Q2 as businesses put investment plans on hold due to the uncertain economic outlook.
- Exports are likely to suffer as supply chains face disruption with the closure of car factories across Europe, a sign of a manufacturing slowdown.
- A rise in government spending such as unemployment benefit, and discretionary fiscal policy will provide a small boost to growth.

Outlook

- COVID-19 has had a significant negative impact on the economy, with GDP forecast to contract in 2020, and the unemployment rate to rise to 9.1%. However, the fundamentals underpinning core office markets in Finland are robust, with vacancy low and a declining development pipeline, which will help limit the impact.
- The vacancy rate will likely rise over the coming quarters, however the current lack of available prime office space in the CBD will help maintain rental levels. Incentives offered by landlords could increase as well as more flexible terms offered such as shorter leases or contributions to fit-out costs.
- There has also been significant infrastructure investment in Helsinki with improvements made to the light rail, railway and tube which will make the city centre more accessible and open up new submarkets for investment such as Keilaniemi and Ruoholahti.
- The impact of Covid-19 on the investment market will be reflected in the 2Q volumes which are expected to decline quite significantly as deal negotiations take longer but more significantly fewer assets are being brought to market until sellers have a clearer picture on pricing.
- Once activity resumes, domestic institutional buyers are likely to be the most active due to their understanding and confidence in the local market and are likely to target core opportunities first should there be a price dislocation.

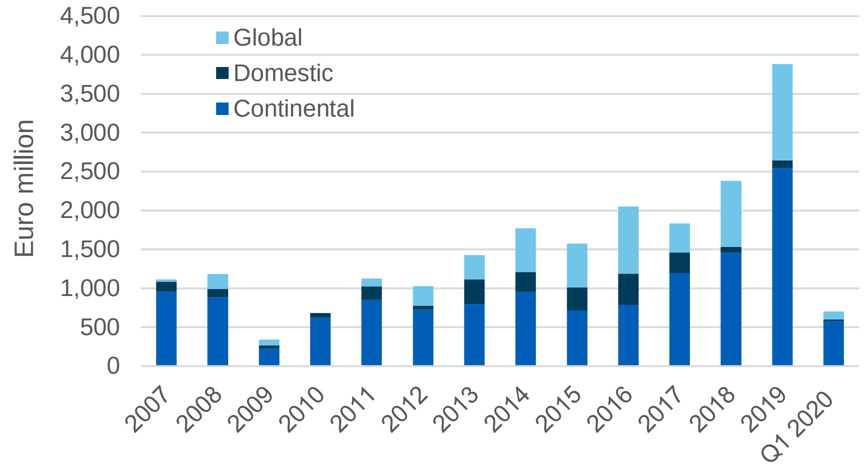
Sources:
Real Capital Analytics – data as at 29 April 2020
CBRE – Market discussion with local research team 28 April 2020
BNP Paribas – Helsinki Office Report March 2020
Oxford Economics – Country Economic Forecast Finland 22 April 2020

Poland – Office Market Outlook

Real Estate Market

- The high levels of leasing activity seen in 2019 continued in the first quarter of 2020, particularly in Warsaw where 139,000 sqm of space was taken. The sustained level of occupier demand seen in the capital has driven the overall vacancy rate down to 7.48%, its lowest level since 2012. The regional markets also saw strong levels of leasing activity, particularly in TriCity, Krakow, and Lublin, where the vacancy rate fell to 4.1%, 10.0%, and 7.5% respectively.
- The development pipeline is strong across Poland, with a number of offices to be delivered in 2020. There is currently 700,000 sqm of new space under construction across 30 projects, of which 400,000 sqm is in Warsaw. During the first quarter of the year, only one scheme completed, the first stage of the Varso Complex in Warsaw, which delivered almost 7,000 sqm of new space to the market.
- Despite the high demand and fall in vacancy rates, prime rents remained flat in the first quarter of 2020, with the highest achievable rents stable over the past few quarters at €25/sqm/month in Warsaw's City Centre. These are unlikely to rise over the coming quarters due to the impact of COVID-19, if anything, an increase in incentives can be expected, as landlords try to maintain tenants.
- Investment activity continued to be strong in the first quarter of 2020 with €703 million transacted. The majority of investors were overseas buyers, and in particular, from Europe, which accounted for 82% of activity. This level of demand from investors maintained pricing levels, with prime yields recorded at 4.25% in Warsaw.

Office Volumes by Capital Source



Economy

Indicator	2019	2020	2021 Outlook (vs 2020)
GDP Growth	4.2%	-1.7%	↗
Industrial Production	4.4%	-1.9%	↗
Consumer Prices, average	2.2%	3.3%	↘
Population (millions)	37.95	37.92	↘
Population	-0.05%	-0.08%	↘
Unemployment Rate	5.4%	6.7%	↘

Annual % change unless specified

- The strict lockdown measures inevitably lead to a sudden stop in economic activity, resulting in a 6% GDP contraction in 2Q.
- Consumption will fall 7% in 2Q, however a large share of consumer spending will be deferred rather than lost completely, so a strong bounce back is expected as containment measures are lifted.
- There will be direct hit to industrial production and exports as automakers close, leading to a 7% fall in 2Q.
- One of the key downside risks is that job losses become permanent, threatening the recovery in H2.

Outlook

- Despite the impact of COVID-19, the office market is not expected to see any dramatic changes. This is due to its high level of occupier demand for new space witnessed in recent quarters, which is expected to resume, albeit gradually, once lockdown measures are lifted, which has recently begun. Renegotiations are expected to be a larger share of overall occupier activity than expansion driven deals over the coming quarters, as companies assess the impact of COVID-19.
- Some of the 400,000 sqm due for completion in Warsaw over the remainder of 2020 may be delayed and pushed to 2021, which could potentially reduce this year's supply by 15% - 20% and help to maintain market fundamentals for when stronger demand levels resume.
- Rental levels are expected to come under some downward pressure, perhaps falling by around 4% to €24/sqm/month for the best space. Landlords are likely to have to include more flexibility in their offering to tenants, such as shorter and more flexible lease terms.
- The investment in IT during the crisis to allow large scale homeworking is likely to alter the way occupiers want to use space when they return to their offices. This could lead to an increase in demand for serviced offices, although this sector is likely to see less demand in the short term due to its reliance on start-ups and SMEs.
- The majority of investment transactions in 1Q 2020 volumes had already completed or were in late stage negotiations when the COVID-19 outbreak began. Activity over the next two quarters will be slower and result in some yield softening, especially for older stock.

Sources:
Oxford Economics – Country Economic Forecast Poland 15 April 2020
CBRE – Warsaw Office Marketview April 2020
CBRE – Market discussion with local research team 30th April 2020
Real Capital Analytics – data as at 29 April 2020

THANK YOU

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