Cromwell European REIT

3Q 2020 Business Update

European Economic and Real Estate Update and Outlook Supplement
10 November 2020

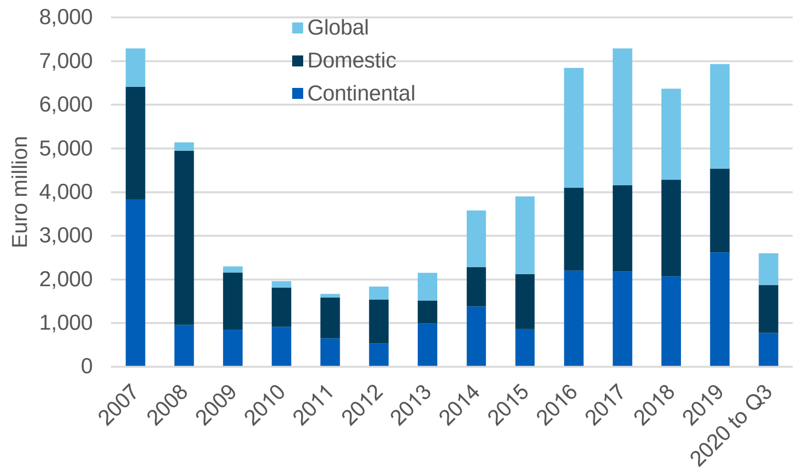
The Netherlands

Office market outlook

Occupational Market

- Office leasing activity was relatively subdued during 3Q with take-up volume totalling 105,000 sq m, down 21% as compared to 2Q levels. This took the total volume for the first three quarters of 2020 to 394,000 sq m – 34% below the same period in 2019.
- Amsterdam was the most active of the Dutch cities, with 57,000 sq m leased, followed by The Hague and Rotterdam where 23,000 sq m and 13,000 sq m were leased respectively.
- The slowdown in activity during 3Q was largely due to a second COVID-19 wave across Europe. As a result, companies with active expansion plans have largely put these on hold, while some other companies are focusing on streamlining operations, evidence by several occupiers consolidating their office accommodation.
- Nevertheless, enquiries for new office space remain high, particularly in Amsterdam, and leasing activity is expected to bounce back with more clarity around economic recovery.
- With the current leasing activity slowdown, the vacancy rate increased across all major cities with the exception of Utrecht. Amsterdam continues to have the lowest rate at 4.8%, followed by Utrecht and The Hague at 5.6% and 7.8% respectively.
- Occupiers are more likely to restructure and extend their current lease agreements due to increased uncertainty, which is expected to put downward pressure on headline rental levels, with landlords more willing to offer some incentives. In 3Q, prime rents in Amsterdam's Zuidas fell marginally by 2.1% and in Utrecht by 3.5% to €460 per sq m and €275 respectively.

Office Volumes by Capital Source



Economy

Indicator	2019	2020	2021 Outlook (vs 2020)
GDP Growth	1.6%	-4.8%	↗
Industrial Production	-0.9%	-3.2%	↗
Consumer Prices, average	2.6%	1.5%	↘
Population (millions)	17.4	17.4	↗
Population Growth Rate	0.6%	0.5%	↘
Unemployment Rate	4.3%	5.0%	↗

Annual % change unless specified

- 3Q saw a strong rebound in activity, especially in retail trade and services, with GDP growth forecasted to be at -4.8% in 2020 despite the historic 8.5% drop in 2Q.
- Outlook is weaker as the second COVID-19 wave has triggered another partial lockdown. Overall, GDP is forecast to decline by 4.8% in 2020, before recovering by 3.7% in 2021.
- The government's new job-retention scheme has helped to support the labour market but unemployment is expected to continue to rise at a lower pace into 2021.

Investment Market

- Office investments across the Netherlands totalled €828 million in 3Q, up 14% on 2Q volumes. However, YTD office trading volumes reached €2.6 billion, down as compared to the prior corresponding period.
- In 3Q, the office sector was the most popular, accounting for 30% of all deals concluded in the quarter, followed by residential with a 27% share.
- 2020 has seen domestic investors more active, purchasing €1.1 billion of offices – a 43% share of the total volume – replacing some lost activity from global investors who have been limited by lockdown and travel restrictions in undertaking physical site inspections.
- Investors are becoming more risk-adverse, focusing on well-located core product in established city centres. Demand for quality has meant that prime yields are flat despite lower levels of activity – prime yields in Amsterdam are the lowest at 3.1%, followed by Rotterdam, the Schiphol Area and The Hague at 4.1%.
- The weaker economic outlook due to the second wave of COVID-19 has seen debt margins increase and less appetite for value-add opportunities – those tempted by higher risk acquisitions expect a larger price reduction to reflect the added risk, something that sellers currently are unwilling to accept.

Sources:
Oxford Economics – Netherlands Economic Forecast October 20 2020
Real Capital Analytics – data as at October 28 2020
CBRE – Market discussion with local research team October 20 2020

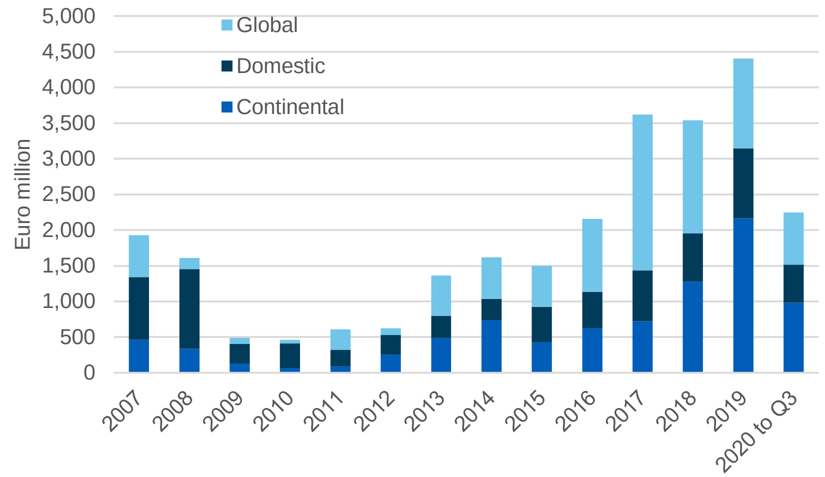
The Netherlands

Light industrial / logistics market outlook

Occupational Market

- Occupier activity was down slightly in 3Q, with 356,000 sq m of logistics space leased, which was 8% below the take-up volume in 2Q. This brings the total volume in the first three quarters of the year to 1.4 million sq m, 24% down over the same period in 2019.
- Occupier demand is weaker in 2020 as compared to 2019 due to a fall in trade generally across Europe, exacerbated by the onset of COVID-19. However, e-commerce demand continues to increase, and occupiers from this segment have been the most active in the market as they position their platforms for further growth.
- Rotterdam was the most active area in 3Q, with take-up reaching 50,000 sq m, followed by the Schiphol Area and then West Brabant where 39,000 sq m and 25,000 sq m were let respectively.
- Since 2Q 2019, the vacancy rate across the Netherlands has been rising due to the amount of speculative space delivered to the market. With development activity now easing, the vacancy rate has decreased marginally over the quarter from 4.9% in 2Q to 4.7% in 3Q.
- Fewer new buildings are expected to be completed in the near future, due to limited development pipeline caused by tightened environmental legislation on nitrogen emissions.
- Rents are stable, with the highest rents paid in the Schiphol Area at €87.50 per sq m per year. With anticipated further economic recovery and limited speculative completions, strong rental growth is expected to flow through.

Industrial Volumes by Capital Source



Economy

Indicator	2019	2020	2021 Outlook (vs 2020)
GDP Growth	1.6%	-4.8%	↗
Industrial Production	-0.9%	-3.2%	↗
Consumer Prices, average	2.6%	1.5%	↘
Population (millions)	17.4	17.4	↗
Population Growth Rate	0.6%	0.5%	↘
Unemployment Rate	4.3%	5.0%	↗

Annual % change unless specified

- 3Q saw a strong rebound in activity, especially in retail trade and services, with GDP growth forecasted to be at -4.8% in 2020 despite the historic 8.5% drop in 2Q.
- Outlook is weaker as the second COVID-19 wave has triggered another partial lockdown. Overall, GDP is forecast to decline by 4.8% in 2020, before recovering by 3.7% in 2021.
- The government's new job-retention scheme has helped to support the labour market but unemployment is expected to continue to rise at a lower pace into 2021.

Investment Market

- Investor demand for Dutch logistics assets has exceeded expectations with 2020 transaction volumes totalling €2.25 billion for the first nine months of 2020, well above the long-run 10-year annual average of €2.0 billion.
- Since the COVID-19 outbreak began in March, investors have increasingly shifted their focus to core, defensible investment products resulting in more interest for residential investments, logistics and prime offices which together accounted for 77% of the trading volume so far in 2020. Investors are particularly drawn to the logistics sector due to the increasing levels of e-commerce activity.
- While domestic investors are active, investments made by foreign buyers are the predominant source of capital inflows into the logistics sector, with the UK, USA and German investors the most active over the first nine months of 2020. Dutch investors purchased €532 million worth of assets, accounting for 24% of the activity.
- Appetite for the sector is well-spread across the country although Rotterdam is the standout area for activity in 2020. The strong demand for the sector continues to put downward pressure on prime yields with a 10-basis-point inward shift to 3.9% in 3Q for properties that are well-let and well-connected within the logistics hotspots.

Sources:
Oxford Economics – Netherlands Economic Forecast October 20 2020
Real Capital Analytics – data as at October 28 2020
CBRE – Market discussion with local research team October 20 2020

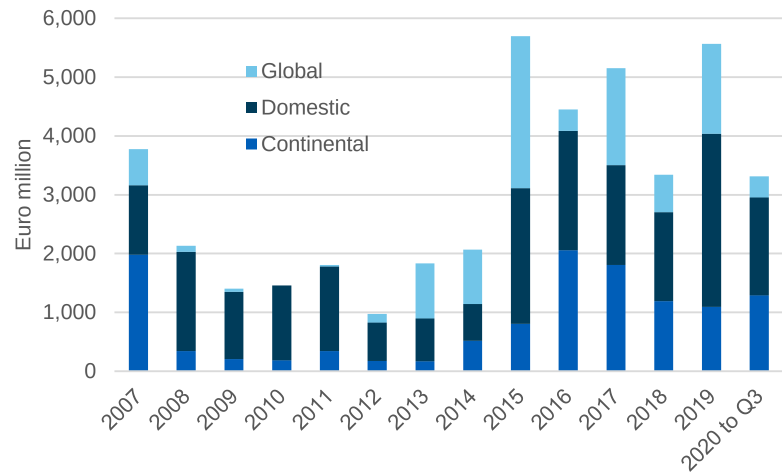
Italy

Office market outlook

Occupational Market

- Leasing activity remained subdued across Italy in 3Q. In Milan, a fall in occupier confidence caused a decline in pre-let occupier deals, resulting in a slowdown in the absorption of Grade A space. The lack of activity was due to occupiers taking more time over real estate decisions and reviewing options in light of current market conditions. This has resulted in landlords beginning to increase incentives.
- Occupiers continue to be interested in flexible office space solutions as an alternative to traditional spaces, which is a reflection of the general wait-and-see attitude that has characterised large parts of the office sector since the beginning of the pandemic.
- Despite the easing of occupier demand, the prime headline rent remained stable at €600 per sq m level in Milan, where it has been at for the past 12 months. The vacancy rate was also stable at just under 10% for the entire city and much tighter in the CBD at 5.6%, reflecting the appetite of occupiers to be in this submarket. With 568,000 sq m currently under construction, the level may rise, although not dramatically.
- In Rome, leasing activity in 3Q was down 29% on 2Q with the Centre and EUR areas the most dynamic accounting for 89% of deals (up 13% on 2Q). The current vacancy rate for the city as a whole is 8.9%, significantly lower in the CBD at 2.74% – this is supporting the €450 per sq m per year prime rent level which is expected to hold firm with COVID-19 related restrictions having limited impact on quality products in central locations.
- While some schemes have been delayed, the development pipeline in Rome is healthy with currently 147,000 sq m under construction and due for completion before 2022.

Office Volumes by Capital Source



Economy

Indicator	2019	2020	2021 Outlook (vs 2020)
GDP Growth	0.3%	-9.8%	↗
Industrial Production	-1.1%	-12.3%	↗
Consumer Prices, average	0.6%	-0.1%	↗
Population (millions)	60.3	60.2	↘
Population Growth Rate	-0.2%	-0,2%	↘
Unemployment Rate	9.9%	9.3%	↗

Annual % change unless specified

- 3Q saw a strong rebound post lockdowns as the economy recovered from the historic 13% q-o-q collapse in 2Q GDP.
- 4Q is expected to be slower as indicated by a softening in some high-frequency indicators with cases of COVID-19 rise again.
- GDP is forecast to contract by 9.8% in 2020 and grow by 6.0% in 2021.
- The labour market is performing better than expected and in August the level of employment increased for a second month in a row.
- Italy will be a beneficiary of the EU's Recovery Fund from 2021

Investment Market

- Investor sentiment continues gather positive momentum for Italian offices, with the transaction volume totalling €3.3 billion during the first nine months of the year – encouragingly well ahead of the €3.2 billion 10-year annual average.
- So far in 2020, domestic investors have been the most active, acquiring €1.7 billion of offices, which accounts for 50% of all transactions. Continental investors, especially French and German, were the second most active group (39% of deals). The United States was by far the most active global source of capital, although South Korean capital also made some investments.
- Milan was the most sought-after location due to its market size, quality of product and breadth of strong occupiers. The intensity of demand has resulted in further 10-basis-point compression of the prime yield to 3.2% in 3Q. In Rome, activity levels were lower but surprisingly on the upside which helped to support the 3.7% prime yield level.
- Despite the uncertainty brought on by COVID-19 pandemic, investor demand has been higher than initially expected, with cautious optimism about the medium- to long-term outlook. A growing trend of flight to quality is expected from investors, with interest in value-added opportunities easing due to an increase in the cost of debt and a reduction in LTV ratios for transactions with a moderate risk profile.

Sources:
Oxford Economics – Italy Economic Forecast October 15 2020
Real Capital Analytics – data as at October 28 2020
C&W – Market discussion with local research team October 21 2020
CBRE – Milan office view 3Q 2020
CBRE – Rome office view 3Q 2020

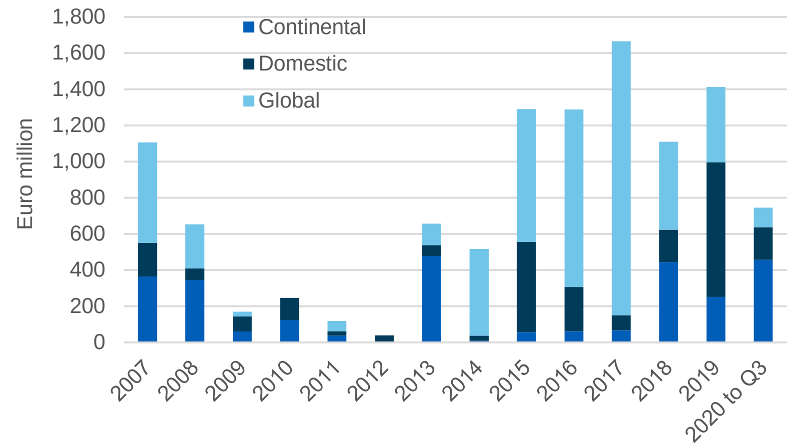
Italy

Light industrial / logistics market outlook

Occupational Market

- Occupier demand for logistics space across Italy remained strong with 3Q take-up volume totalling 720,000 sq m – the highest quarterly volume on record. This brings the total take-up level since the beginning of the year to just under 1.6 million sq m.
- The global pandemic continues to support the growth of online sales and consequently, the need for space by e-commerce operators, who have more than doubled the amount of space they occupy in the market during the year as compared to 2019.
- Pharmaceutical and food companies were active for temporary space as they look to shore up their supply chains as the second wave of COVID-19 imposes further restrictions on the population, all the while assessing what their future footprint will look like.
- Small- to medium-sized properties saw the highest level of take-up in 3Q but encouragingly the number of deals involving logistics space over 50,000 sq m increased during 3Q. The demand for build-to-suit space remains high, led by international third-party logistic firms aiming to consolidate their presence in the Italian market with new high-quality hubs.
- The high level of leasing activity this year has led to a reduction in the vacancy rate, which fell to 2.6% in 3Q, down from 2.8% in 2019. The very low levels of supply are supporting positive rental growth albeit at differing rates. Existing properties are trailing build-to suit ones due to greater customisation and higher land values, especially for the development of urban properties. The rent for prime space in Milan and Rome grew to €57 per sq m per year in 3Q, from €56 per sq m per year in June.

Industrial Volumes by Capital Source



Economy

Indicator	2019	2020	2021 Outlook (vs 2020)
GDP Growth	0.3%	-9.8%	↗
Industrial Production	-1.1%	-12.3%	↗
Consumer Prices, average	0.6%	-0.1%	↗
Population (millions)	60.3	60.2	↘
Population Growth Rate	-0.2%	-0,2%	↘
Unemployment Rate	9.9%	9.3%	↗

Annual % change unless specified

- 3Q saw a strong rebound post lockdowns as the economy recovered from the historic 13% q-o-q collapse in 2Q GDP.
- 4Q is expected to be slower as indicated by a softening in some high-frequency indicators with cases of COVID-19 rise again.
- GDP is forecast to contract by 9.8% in 2020 and grow by 6.0% in 2021.
- The labour market is performing better than expected and in August the level of employment increased for a second month in a row.
- Italy will be a beneficiary of the EU's Recovery Fund from 2021

Investment Market

- Investment activity picked-up markedly in 3Q following the forced lockdown-caused slowdown in 2Q. In the first three quarters of the year, €744 million has been invested into Italian logistics assets, the majority of which traded in the third quarter.
- The strong fundamentals exhibited by logistics continue to attract investors, broadening the range of international players operating in Italy. European investors, in particular from Germany, continue to be the most active, purchasing €457 million over the year to 3Q which reflects a 61% share of all deals concluded so far in 2020.
- The logistics market is expanding as more and more generalist investors are considering urban logistics from a core perspective, alongside the specialists who have so far approached the sector from a core plus perspective.
- Capital is diverted away from retail to logistics, which is creating demand in a sector that cannot, for the time being at least, be satisfied. The amount of capital wanting to deploy is limited by the available product supply and this in turn has seen prime yields compress by 10 basis points in both Milan and Rome to historic lows of 5.1% and 5.2% respectively.
- The confidence in the long-term fundamentals of the sector continues to boost development activity, and particularly speculative developments, which account for 25% of the space currently under construction.

Sources:
Oxford Economics – Italy Economic Forecast October 15 2020
Real Capital Analytics – data as at October 28 2020
C&W – Market discussion with local research team October 21 2020
CBRE – Italy Logistics and Industrial 3Q 2020

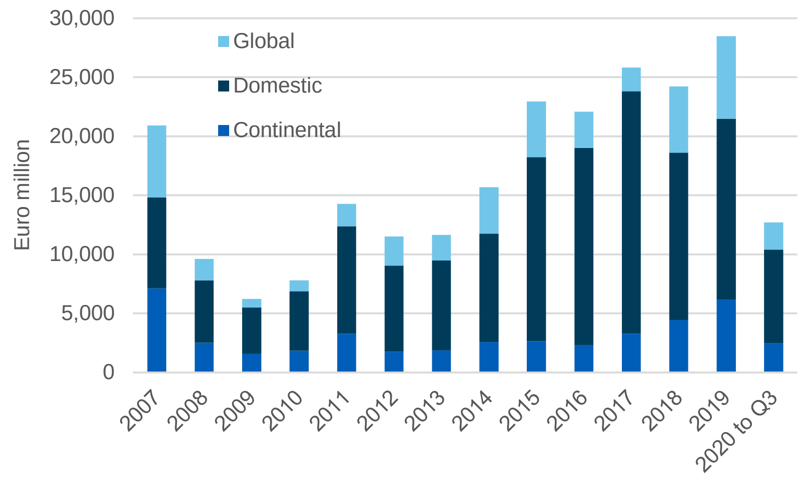
France

Office market outlook

Occupational Market

- Leasing activity was subdued across the Greater Paris Region with take-up in 3Q totalling 246,200 sq m. The lower levels of corporate activity are due to occupiers opting to delay their accommodation decisions as they assess what they might need in the future, while some deals are seeing longer negotiation periods as lockdown restrictions slow activity.
- Larger office space, above 5,000 sq m, has seen the largest drop in demand as occupiers are more wary about taking more income risk on their books. Smaller offices, below 5,000 sq m, have proven more resilient, with take-up totalling 661,000 sq m in the first 9 months of the year. As occupiers evaluate their real estate strategies and work-from-home policies, the future of larger office transactions remains somewhat uncertain in the near-term.
- All business districts in the Greater Paris Region have suffered a drop-in activity. However, Paris Centre West, traditionally one of the main drivers of demand, has suffered more than other business districts.
- In 3Q, the vacancy rate across Ile-de-France rose to 5.6% and whilst it is the highest level in three years, it is low by historic standards. Vacant space has increased due to a mix of reasons that include excess space being returned as some offices have been vacated, and the completion of speculative properties such as in La Défense where the vacancy rate is 7.5%, following the completion of the Alto Tower (50,000 sq m).
- Vacancy is still very low in the CBD at 2.7%, which is supporting the upswing in prime rents in the capital, which increased 4.4% over the quarter to €940 per sq m per year.

Office Volumes by Capital Source



Economy

Indicator	2019	2020	2021 Outlook (vs 2020)
GDP Growth	1.5%	-10.1%	↗
Industrial Production	0.5%	-13.1%	↗
Consumer Prices, average	1.1%	0.6%	↗
Population (millions)	67.1	67.3	↗
Population Growth Rate	0.2%	0.2%	↗
Unemployment Rate	8.2%	8.5%	↗

Annual % change unless specified

- Robust household consumption helped to support a stronger-than-expected post-lockdown rebound in 3Q.
- The outlook is for slower economic growth, with both business and consumer sentiment weakening as cases of the virus rise and renewed COVID-19-related restrictions are implemented.
- As activity struggles in some sectors, notably tourism and recreation, the unemployment rate is expected to peak at 11.5% by mid-2021, before starting to decline.
- Investment is expected to rebound markedly in 2021 led by public sector investment.

Investment Market

- 3Q was the second most active quarter in 2020 with €3.6 billion invested into offices, bringing the year's total to €12.7 billion. Overall 2020 volumes track lower than 2019 due to the absence of a number of mega-deals such as Le Lumière in Paris.
- Domestic investors are by far the most active, prepared to bid aggressively for core product where headline yields are 2.80%. French investors saw their share deals increase to 63% in 2020 so far from 54% in 2019. Whilst overseas investment has eased, capital from Germany has been strong with several large transactions in 3Q, including the purchase by DWS of Toko in the 17th district.
- British and American investors have traditionally been attracted to core plus and value-added opportunities, however with tighter financing conditions and weaker occupier demand, they have recently adopted a wait-and-see attitude.
- The fourth quarter, typically the busiest, will provide further indication as to the resilience of the Greater Paris Region market. Both investment and occupier activity are expected to be higher than in 3Q as several major transactions in the pipeline complete. However, the arrival of a second wave of the pandemic and the further weakening of the economy is likely to fuel the wait-and-see attitude of both occupiers and investors, likely postponing a more solid recovery in the office market until 2021.

Sources:
Oxford Economics – France Economic Forecast September 9 2020
Real Capital Analytics – data as at October 28 2020
CBRE – Paris MarketView 3Q 2020
Knight Frank – Paris Ile de France Office Market 3Q 2020

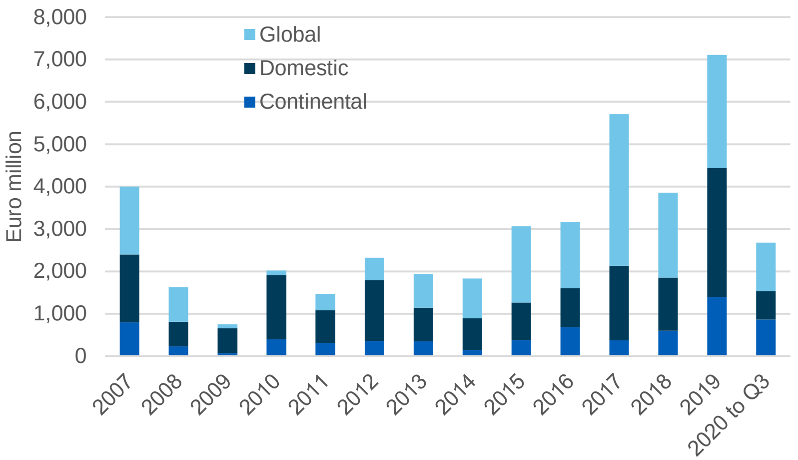
France

Light industrial / logistics market outlook

Occupational Market

- Across France, logistics take-up in the first nine months of 2020 totalled 2.1 million sq m, with 1.6 million sq m in key regional centres and 474,000 sq m in the Greater Paris Region. With a number of negotiations expected to conclude over 4Q, take-up should reach circa 3.0 million sq m.
- Along the Central Axis, the main north-south spine of the logistics market, 1.4 million sq m of leasing activity was recorded, equivalent to 66% of 3Q occupier activity. Outside the Central Axis, the Centre-Val-se-Loire and Occitania areas recorded healthy take-up of 216,000 sq m and 103,000 sq m respectively. Most other areas are expected to see lower levels of take-up but not due to slower demand, more linked to the absence of large transactions, most of which have been delayed until 2021.
- There was a clear preference for new space which represented 62% of activity in the first nine months of 2020. Given this significant share, it is evident that occupiers are seeking efficient and increasingly bespoke logistics products. From their initial designs, buildings are made sustainable and even reversable, meeting high energy performance requirements.
- Vacant space has been growing nationally since 2019 and this continued in 3Q. Across the country, availability totalled 3.3 million sq m, equivalent to a vacancy rate of 6.7%. The level in the Greater Paris Region is a little higher at 7.3% but neither are expected to rise dramatically because while some space may be returned to the market, less space will be delivered via speculative completions.

Industrial Volumes by Capital Source



Economy

Indicator	2019	2020	2021 Outlook (vs 2020)
GDP Growth	1.5%	-10.1%	↗
Industrial Production	0.5%	-13.1%	↗
Consumer Prices, average	1.1%	0.6%	↗
Population (millions)	67.1	67.3	↗
Population Growth Rate	0.2%	0.2%	↗
Unemployment Rate	8.2%	8.5%	↗

Annual % change unless specified

- Robust household consumption helped to support a stronger-than-expected post-lockdown rebound in 3Q.
- The outlook is for slower economic growth, with both business and consumer sentiment weakening as cases of the virus rise and renewed COVID-19-related restrictions are implemented.
- As activity struggles in some sectors, notably tourism and recreation, the unemployment rate is expected to peak at 11.5% by mid-2021, before starting to decline.
- Investment is expected to rebound markedly in 2021 led by public sector investment.

Investment Market

- In the first nine months of 2020, investment in the industrial and logistics sector totalled €2.7 billion and with a number of deals in late stage negotiation, trading volumes are expected to reach €5 billion by the end of 2020, above the €3.2 billion 10-year annual average.
- Appetite for logistics in France is on an upward trend, representing 12% of all deals so far in 2020. The sector has not only proven to be resilient in the face of the challenges posed by the COVID-19 health crisis given the urgent needs of supply chains and the continuing rise of e-commerce, it has offered investors liquidity, scale and maturity.
- Domestic investors are dominant with a 63% share of buy-side activity so far this year. In terms of international capital acquiring, Danish and British buyers were the most active Continental European buyers; Canada and United States are also strong sources of global capital.
- High investor demand has resulted in a limited amount of quality supply left in the market, which is driving prices upwards, reflected in the prime yield compressing in 3Q by 10 basis points to 3.9%. With continued investor interest, yields are likely to compress further.
- Sale-and-leaseback (S&L) transactions are gaining pace, particularly from owner brands and mass distributed companies, freeing up capital for them to re-invest in their platforms. S&L deals accounted for a third of all volumes transacted since the start of the year.

Sources:
Oxford Economics – France Economic Forecast September 9 2020
Real Capital Analytics – data as at October 28 2020
CBRE – France Logistics 3Q 2020

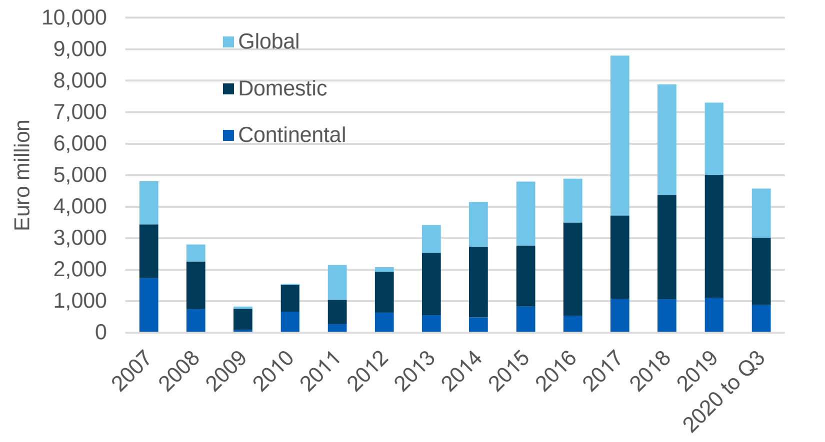
Germany

Light industrial / logistics market outlook

Occupational Market

- Occupier demand for German logistics remains strong with leasing activity totalling 2 million sq m in 3Q – a 29% increase on 2Q leasing volumes and 22% above the five-year average.
- The third quarter of 2020 was the strongest quarterly volume in terms of take-up since 2017, taking occupier activity for the first three quarters of the year to 4.9 million sq m. Hamburg was the most active market with 178,000 sq m leased in 3Q, followed by Berlin and Frankfurt at 163,000 sq m and 114,000 sq m respectively.
- Given the way things are developing in the wake of the COVID-19 pandemic and initial signs of an economic recovery, more than 6 million sq m of take-up is likely to be achieved in the industrial and logistics real estate market this year.
- In the medium term, demand for logistics space is expected to rise further, driven by an even stronger future realignment of the global supply chain, various re-/nearshoring strategies, the introduction of buffer storage, more consumer spending moving online and retailers continuing to adopt an omni-channel approach to their operations.
- The healthy levels of occupier demand in 3Q is reflected in a very low national vacancy rate of 2.4%. Prime headline rents were stable over the quarter but with the prospect of some rental growth in 2021. Munich is the most expensive market at €7.15 per sq m per month, followed by Frankfurt at €6.50 per sq m per month and then Hamburg at €6.20 per sq m per month.

Industrial Volumes by Capital Source



Economy

Indicator	2019	2020	2021 Outlook (vs 2020)
GDP Growth	0.6%	-5.3%	↗
Industrial Production	-4.3%	-11.3%	↗
Consumer Prices, average	1.5%	0.6%	↗
Population (millions)	83.1	83.2	↗
Population Growth Rate	0.2%	0.2%	↘
Unemployment Rate	5.0%	5.9%	↘

Annual % change unless specified

- The forecast for 3Q GDP growth has been revised upwards to over 8% q-o-q with monthly data showing that the German economy is rebounding strongly, with consumer demand the mainstay of the recovery.
- A softening in some high-frequency indicators amid resurgent infections across Europe means the recovery path is less strong. Overall GDP is likely to contract by 5.3% in 2020 and grow by 4.8% in 2021.
- Whilst industrial production fell by 25% y-o-y in April, the lifting of restrictions and the strong rebound in the auto sector saw output recoup almost half of its losses by August.

Investment Market

- Investor interest for industrial and logistics assets continue to be high, demonstrated by €4.6 billion worth of assets exchanging hands in 2020 so far – similar to the €4.5 billion seen in the comparative period in 2019. This re-enforces the resilience and opportunities in the sector as COVID-19 restrictions, whilst may delay deals, have not restricted enduring appetite for the sector.
- Investors continue to be drawn to the strong fundamentals underpinning the sector and the high level of occupier demand from sectors such as e-commerce, pharmaceuticals and classic food logistics. All sectors have seen their importance increased during the pandemic leading to a robust level of take-up which is not expected to decline.
- Traditionally, there has been a healthy mix of foreign and domestic investors and 2020 has seen this trend continue with international buyers accounting for 53% of deals. Asian investors, usually linked to large sales, are restrained due to travel restrictions but North American buyers and investors from other European countries have stepped into the gap.
- The sustained interest for logistics product has been reflected in a five-basis-point hardening in prime yields to 3.55% across key hubs in 3Q. A further fall in 4Q cannot be ruled out as activity gathers momentum with some transactions that were initially placed on hold during the peak phase of the lockdown likely to be finalised this year.

Sources:
Oxford Economics – Germany Economic Forecast October 12 2020
Real Capital Analytics – data as at October 28 2020
CBRE – Market discussion with local research team October 22 2020
BNP Paribas – Logistics investment market Germany 3Q 2020

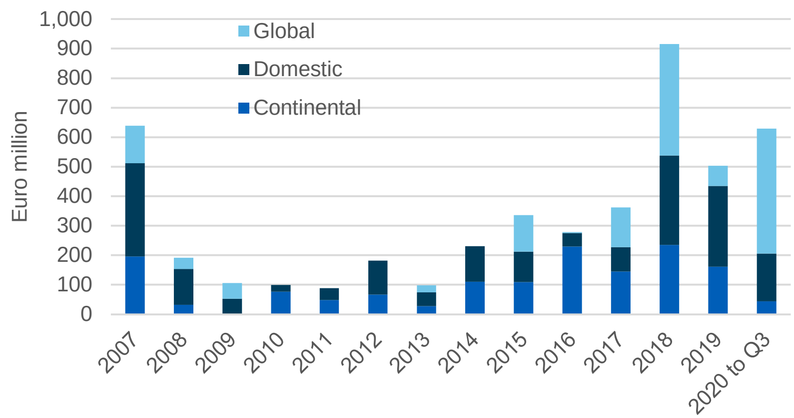
Denmark

Light industrial / logistics market outlook

Occupational Market

- Logistics occupiers across Denmark have continued to be active in 3Q with online retailers and supermarkets chains being the main drivers behind take-up. E-commerce occupiers have been particularly active, driven by the fact that online sales now represent 17% of all retail spend across the country.
- Manufacturing has so far been restricted in 2020 however this sector has begun to return to normal levels in 3Q and with order books rising, this is likely to support the recovery.
- Supply chains are also being reviewed with several occupiers now looking to near-shore operations away from China, which will further increase the level of demand.
- The deals which have been signed have generally been for smaller units, with only a few deals above 10,000 sq m.
- There is an acute lack of supply in the Danish logistics market with the vacancy rate very low at 2.7% in 3Q. This could rise slightly due to the volume of new space coming to the market but no dramatic shifts are expected as quality space is being absorbed with ease at the moment. Currently, 500,000 sq m is under construction, 300,000 sq m of which will be delivered in 2021, the majority of which is being built in the south of the country.
- 66% of the development pipeline has already been let, which means that an increase in the vacancy rate will likely be small and have little negative impact on prime rents.

Industrial Volumes by Capital Source



Economy

Indicator	2019	2020	2021 Outlook (vs 2020)
GDP Growth	2.8%	-3.6%	↗
Industrial Production	2.7%	-5.3%	↗
Consumer Prices, average	0.8%	0.4%	↗
Population (millions)	5.8	5.8	↗
Population Growth Rate	0.4%	0.4%	↗
Unemployment Rate	3.7%	4.8%	↗

Annual % change unless specified

- After the initial quick recovery in 3Q, the pace of recovery is slowing due to rise in virus cases and more stringent containment measures.
- The GDP forecast for 2021 has been reduced to +3.3%, following a relatively mild 3.6% contraction expected in 2020.
- As Denmark has a relatively high share of less cyclical export goods and its exports will likely remain relatively resilient compared to other European countries.
- Denmark's generous salary compensation scheme helped to limit the rise in unemployment with rate falling to 4.9% from a the May peak of 5.6%.

Investment Market

- Investment activity has been strong across Denmark with the transaction volume totalling €629 million over the first three quarters of the year – this is already a 25% increase on 2019 as a whole and only 30% behind the record-breaking year of 2018.
- The industrial sector is becoming increasingly attractive to investors. In 2020, industrial transactions accounted for 14% of total trading volumes, 3 p.p. more than in 2019.
- Global buyers are the main source of capital in 2020, in particular from the United States and South Korea, with the transaction volume totalling €423 million (67% of activity). Domestic investors have been looking to diversify away from the retail sector and are looking to the logistics sector for long-term opportunities and so far in 2020 have acquired €161 million of assets largely in Copenhagen but increasingly in strategic regional cities.
- Prime yields were unchanged over the quarter at 4.75% – this is their lowest level on record and with the weight of capital targeting the sector, this could lead to a further reduction in the prime yield by the end of the year.
- The fundamentals behind secondary assets are weaker, resulting in lower investor interest. As a result the yield gap between prime and secondary assets may continue to widen over the medium term, presenting opportunities for those able to move up the risk curve.

Sources:
Oxford Economics – Denmark Economic Forecast October 19 2020
Real Capital Analytics – data as at October 28 2020
CBRE – Market discussion with local research team October 29 2020

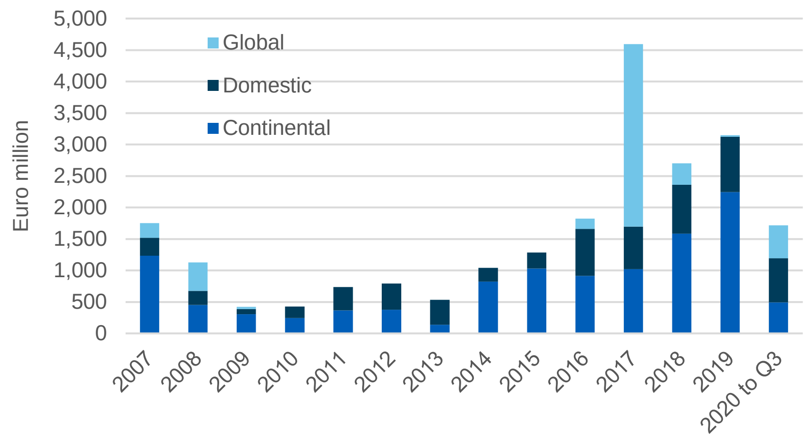
Finland

Office market outlook

Occupational Market

- Leasing activity is subdued across Finland with take-up easing during the third quarter of 2020 as occupiers are largely adopting a wait-and-see approach and postponing expansion plans amid the increased uncertainty brought on by the second wave of COVID-19.
- Media and technology companies have been the most active in leasing space and appear to be more resilient to the impact of COVID-19. There is also some appetite for smaller offices with several requirements in the market for space under 3,000 sq m as business look to mitigate risks where the can whilst remaining operational.
- Occupiers that have been taking space, have been focused on quality, with demand in prime locations sustaining the unchanged prime rent in Helsinki of €42 per sq m per year in 3Q - the level they have been at for the past 12 months.
- The office vacancy rate in the Helsinki Metropolitan Area (HMA) is stable at around 12.6%. Whilst this figure seems high compared to other European office markets, it is largely inflated by older stock in secondary locations that is much harder to let. The vacancy rate for higher quality space in the CBD is closer to 5.0%.
- With 318,000 sqm of new office space in the pipeline and due to complete by the end of 2022 in Helsinki, the vacancy rate may nudge up and see landlords maintain headline rents but perhaps offer incentive packages to retain tenants and limit void periods. However, some of these schemes have yet to break ground and could therefore be delayed.

Office Volumes by Capital Source



Economy

Indicator	2019	2020	2021 Outlook (vs 2020)
GDP Growth	1.1%	-3.3%	↗
Industrial Production	2.0%	-2.6%	↗
Consumer Prices, average	1.0%	0.4%	↗
Population (millions)	5.5	5.5	↗
Population Growth Rate	0.1%	0.1%	↗
Unemployment Rate	6.8%	7.7%	↘

Annual % change unless specified

- Finland's initial bounce back from the pandemic has slowed as virus cases rose and forward-looking business and consumer confidence indicators started to soften.
- GDP is forecast to contract by 3.3% this year, and grow by 1.8% in 2021.
- Government spending plans for 2021 should help to support growth with measures including an ambitious plan to boost employment and extra funding for job seekers, as well as lower child care costs.
- Encouragingly, the unemployment rate fell to 8.4% in September, but remains above the 6.5% registered in February before the pandemic hit.

Investment Market

- With the emergence of the second wave of COVID-19 and its weakening of the economic outlook, investors are beginning to act with more caution during the third quarter of 2020, but this has not impacted investment activity thus far. The overall transaction volumes for 2020 reached €1.7 billion, on par with the 10-year annual average of €1.7 billion
- Offices continue to be the most sought-after sector, accounting for 51% of transactions in the first three quarters of the year, up from the 43% in 2018 and 45% in 2019. This is followed by seniors housing (16%), boosted by some large deals and then retail (13%).
- Helsinki is the main target market for investors, as it offers a breadth and depth of occupiers. Turku and Tampere also receiving interest from investors but with specific focus on core product income preservation stream. Value-add opportunities are seeing lower levels of interest and pricing here is likely to move out.
- Historically, domestic capital sources dominated activity, but more recently international investors have become more active accounting for 59% of deals so far in 2020. In particular German and Swedish buyers have been in acquisitive mode.
- Despite investor demand, deals are taking longer to conclude and there has been a marginal 5 basis point increase of prime yields, but they remain close to historic lows of 3.40%.

Sources:
Oxford Economics – Finland Economic Forecast October 21 2020
Real Capital Analytics – data as at October 28 2020
CBRE – Market discussion with local research team October 20 2020

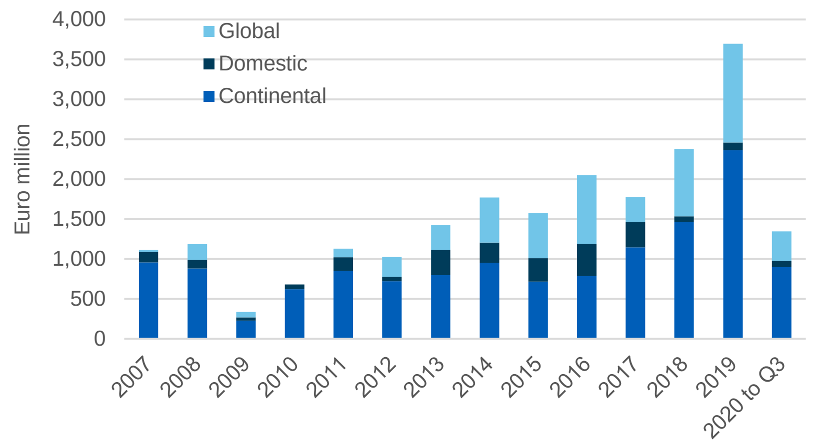
Poland

Office market outlook

Occupational Market

- Leasing activity was subdued across Poland's main cities, with take-up in 3Q totalling 120,000 sq m – this was a 36% decrease from 2Q. So far in 2020, 551,000 sq m has been leased, a 26% decrease from the first three quarters of 2019.
- Take-up in Warsaw reached 59,000 sq m in 3Q, with most of the space taken outside the city centre. Due to the market uncertainty, many companies are still postponing decisions on the amount of office space they need. Of the deals that were singed, financial and professional service firms were among the most active sectors in the first three quarters of the year, accounting for 24% and 17% of the space leased respectively.
- Across the regional cities, take-up reached 60,000 sq m in 3Q, which was a 29% increase on 2Q. Wroclaw was the most active market with 17,000 sq m taken.
- It was an active quarter for development, and in Warsaw, 131,500 sq m of new space was delivered to the market across seven projects. Even though 66% of the new development space was already let, the delivery of these schemes increased the amount of available space in Warsaw to 559,000 sq m, which resulted in a rise in the vacancy rate to 9.6% across the capital, lower at 8.4% in the city centre submarket.
- Despite the rise in the amount of available space and lower levels of occupier demand, the headline rent in Warsaw was stable at €25 per sq m per month, with some emerging evidence of rising incentive packages. Headline rents in the regional cities range between €15.50 per sq m per month in Poznan to €12.50 per sq m per month in Lublin.

Office Volumes by Capital Source



Economy

Indicator	2019	2020	2021 Outlook (vs 2020)
GDP Growth	4.2%	-3.0%	↗
Industrial Production	4.4%	-3.9%	↗
Consumer Prices, average	2.2%	3.2%	↘
Population (millions)	38.0	37.9	↘
Population Growth Rate	-0.1%	-0.1%	↘
Unemployment Rate	5.4%	5.9%	↘

Annual % change unless specified

- The stronger-than-expected bounce in 3Q has seen the GDP forecast for 2020 revised to -3.0%.
- Industrial output and retails sales were up around 3% y-o-y in September.
- But a steep second wave of COVID-19 infection rates and the subsequent re-introduction of stringent containment measures is likely to slow the pace of recovery in 4Q.
- European Commission's 'Next Generation EU' recovery plan will see Poland as a major beneficiary, which is likely to support growth over the budget period of 2021-27.

Investment Market

- 3Q was the slowest of 2020 as COVID-19-related restrictions slowed activity. 3Q volume was just €105 million, bringing the total volume for the year so far to €1.3 billion, down 23% on the 10-year annual average, though that includes the record years of 2018 and 2019.
- There is optimism that the transaction volume will receive a boost in 4Q with several large deals ongoing with some expected to conclude before the end of 2020. Despite potential surge in activity, office investment will likely be down year-on-year.
- Foreign capital continues to dominate investment activity with 94% (€1.27 billion) of activity so far in 2020. The majority of this was from Continental European investors (Luxembourg, Germany, Switzerland and France) who purchased €898 million of offices. Amongst global investors American capital dominated, with investors from Lebanon and the Philippines also made purchases.
- The majority of deals took place in Warsaw, confirming investor interest in stable, core product. The disposal of Chmielna 89 to Madison or the purchase of Generation Park Z by DEKA substantiates interest in the western part of Warsaw City Centre, in areas where further transactions are expected to take place.
- Prime yields were stable across all key cities in 3Q. Warsaw yields are the lowest at 4.50%, followed by Wroclaw at 5.50% and Krakow at 5.75%.

Sources:
Oxford Economics – Poland Economic Forecast October 25 2020
Real Capital Analytics – data as at October 28 2020
Colliers – Market discussion with local research team October 21 2020
Avison Young – Property investment market report, Poland 3Q 2020
CBRE – Warsaw office market snapshot 3Q 2020
CBRE – Regional office market snapshot 3Q 2020

THANK YOU

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