Cromwell European REIT

2H and FY 2020 Results Presentation

Economic and Real Estate Country Update Supplement
23 February 2021

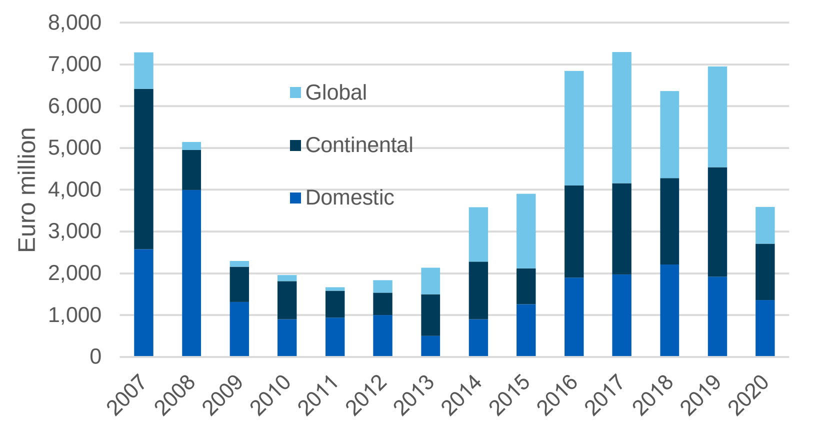
The Netherlands

Office Market Outlook

Occupational Market

- Overall leasing activity totalled 565,000 sq m across the key business hubs in the Netherlands in 2020, which was 33% below the level recorded in 2019, with activity stunted by COVID-19 delaying corporate decisions about future space requirements.
- Amsterdam, which is the Netherlands largest office market, was resilient with leasing activity on par with the previous year. However, activity in the secondary markets, such as Rotterdam, Utrecht, and The Hague, fell by 52%, 58%, and 27% respectively.
- With the current government support measures in place, the impact of the crisis on office-based businesses lacks some clarity. However, several major Dutch office occupiers including Airbus, Shell, KLM, Booking.com and Uber have announced restructuring plans which are expected to impact office space demand, but the Netherlands traditionally has one of the highest proportions of employees working from home on a regular basis.
- Demand is likely to drop over the short term, yet the vacancy rates across the Dutch cities remain low, with only small rises seen in 2020. The majority of the development pipeline is pre-let, so a dramatic rise in vacant space over the short to medium term is not expected.
- Amsterdam has the most active development pipeline, with 249,000 sq m to be delivered in 2021, compared to only 66,000 sq m across the rest of the country in total.
- The economy is forecast to rebound in late 2021/2022, and occupier demand for Dutch offices is likely to return with prime rental growth forecast across Amsterdam, Rotterdam, The Hague, and Utrecht over the next two years.

Office Volumes by Capital Source



Economy

Indicator	2020	2021	2022 Outlook (vs 2021)
GDP Growth	-3.9%	2.7%	↗
Industrial Production	-3.9%	2.8%	↘
Consumer Prices, average	1.3%	1.5%	↗
Population (millions)	17.4	17.5	↗
Population Growth Rate	0.5%	0.3%	↘
Unemployment Rate	4.6%	5.8%	↗

Annual % change unless specified

- The start of vaccinations means activity is expected to pick up in the latter part of 2021 with overall GDP growth of 2.7% in 2021.
- With the renewed lockdown, a significant boost to spending is expected to come only after 1Q. Private consumption is forecast to rise by 2.7% this year, and by 3.5% in 2022.
- The job-retention schemes are likely to expire by mid-2021, resulting in unemployment rate rising until early-2022, not expected to rise much above the long-run average and not materially hamper growth

Investment Market

- The transaction volume for offices in the Netherlands totalled €3.6 billion in 2020, which was 48% below the volume recorded in 2019. Offices were the third most sought after sector accounting for 19% of activity, behind Apartments, which accounted for 39%, and Industrial which also accounted for 19%.
- The increase in property transfer tax to 8% for real estate investments in the Netherlands is expected to drive up transaction costs in 2021, and as a result, some investors would have brought forward investment decisions, boosting the overall investment volumes in 2020 despite COVID-19 restrictions.
- One notable deal that took place in 2020 was the sale of the INIT Building in Amsterdam for €125 million whereby US HighBrook Investors purchased the city centre office asset from Aroundtown and LRC Europe.
- Foreign investors account for ~62% share in the Dutch office sector
- The COVID-19 crisis and associated economic uncertainty have lowered investors risk appetite and investment activity has concentrated on core products, with a lack of activity for value-add and opportunistic product. As a result, prime office yields contracted in 4Q 2020 in Amsterdam to 3.00% and to 4.50% in The Hague.

Sources:
Oxford Economics – the Netherlands Economic Forecast January 18 2021
Real Capital Analytics – data as at January 27 2021
CBRE – Market discussion with local research team January 25 2021

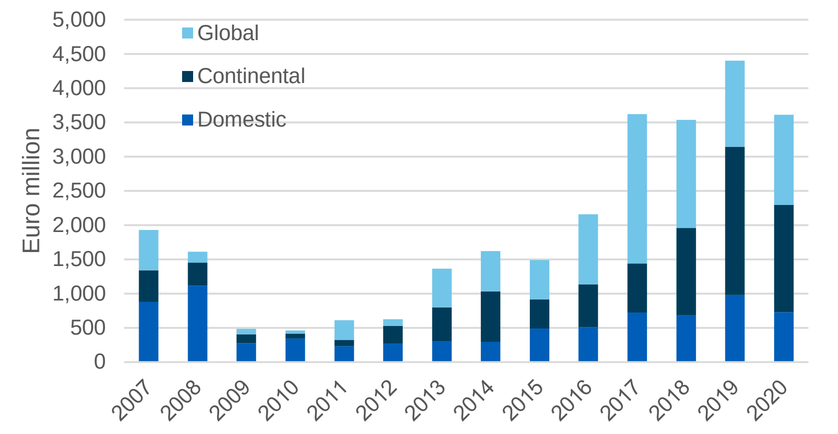
The Netherlands

Light Industrial / Logistics Market Outlook

Occupational Market

- Domestic consumption and the volume of sales online had been growing across the country, with the pandemic serving to accelerate the adoption of online retail platforms. Online sales volumes are expected to have recorded strong growth in 2020, accounting for 13% of all retail activity.
- This increase has been driving demand for logistics space and whilst occupier demand has fallen significantly for other sectors, logistics take-up for 2020 totalled 2.1 million sq m, which is only 7% less than the amount of space leased in the active 2019.
- The greater Rotterdam region was the most active with 336,000 sq m leased in 2020, a 34% increase on 2019, followed by West Brabant where 209,000 sq m was leased, a 14% increase on 2019.
- The availability of suitable space remains low with the national vacancy rate at 4.7% in 4Q 2020. Any rises in availability are expected to be limited as the recent nitrogen policy implemented by the Dutch government meant that many development projects have had their planning consent revoked, and new projects cannot go ahead without a zero emissions policy in place. As a result, developments have been delayed or cancelled and developers are expected to be less able to supply the new facilities needed to meet demand.
- The highest rents are found in the Schiphol Area where levels are at €87.50 per sq m per year and €70 per sq m per year in Rotterdam. The restrictive pipeline is expected to put further pressure on prime rents which are forecast to rise over the next two years.

Industrial Volumes by Capital Source



Economy

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- With the renewed lockdown, a significant boost to spending is expected to come only after 1Q. Private consumption is forecast to rise by 2.7% this year, and by 3.5% in 2022.
- The job-retention schemes are likely to expire by mid-2021, resulting in unemployment rate rising until early-2022, not expected to rise much above the long-run average however not hampering growth that much.

Investment Market

- Investor sentiment for the industrial sector was positive over the course of 2020 with deal volumes reaching €3.6 billion. Although this is 18% below the trading volumes recorded in 2019, it is the third highest total on record, with activity held back by the lack of suitable product coming to the market.
- Investors continue to be drawn to the market due to the strong occupier fundamentals with demand underpinned by growth in the e-commerce sector.
- Foreign capital dominated activity in 2020 accounting for 80% of activity equating to €1.6 billion worth of industrial assets. US, Canadian, UK and German buyers were the most active. Domestic capital was more subdued, accounting for only 20% of activity, with transaction volumes 26% less than 2019.
- One of the most significant transactions in 2020 was Deka Immobilien’s purchase of VidaXL II, a logistics development project in Venlo, for €110 million.
- The weight of capital targeting the sector, combined with the limited number of new buildings being developed, led to strong downward pressure on yields throughout 2020 with prime yields moving in from 4.00% in 4Q 2019 to 3.60% in 4Q 2020.

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Sources:
Oxford Economics – the Netherlands Economic Forecast January 18 2021
Real Capital Analytics – data as at January 27 2021
CBRE – Market discussion with local research team January 25 2021

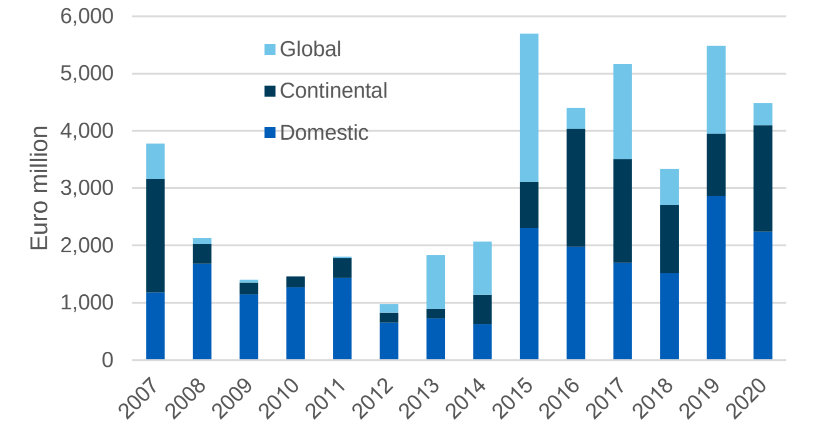
Italy

Office Market Outlook

Occupational Market

- The pandemic has led to a slowing in occupier activity in Milan, with leasing activity in 2020 totalling 280,000 sq m, 41% below the level of activity in 2019 as corporates put expansion plans on hold and larger deals in particular are postponed until there is more clarity.
- Nearly all submarkets in Milan have seen a weakening in occupier take-up, including the CBD and Semicentre by 56% and 91% respectively. However, demand has held up in the Periphery, with take-up reaching 113,000 sq m, which is a 2% rise over 2019.
- The vacancy rate in Milan fell slightly in 2020 to 9.9% from 10.2 in 4Q 2019, despite the easing in leasing activity. Levels are much lower in the CBD and Porta Nuova areas at 4.4%, with most available space of lower quality located in the Periphery and Hinterland markets. The lack of space in these markets has helped to support prime rents of €600 per sq m year.
- Leasing activity in Rome totalled 123,000 sq m in 2020, a 56% decrease on 2019 with a distinct lack of large lettings and occupiers focused on taking smaller spaces on more flexible terms, while assessing their accommodation needs.
- Rome's vacancy rate rose to 9.5%. There is however, large variations across the submarkets with the vacancy rate at 2.6% in the CBD. High quality assets remain in short supply in prime locations which has supported rental levels of €450 per sq m per year.
- Occupier demand for quality space in the core locations is expected to continue, while deliveries of new and refurbished space is slowing. The reluctance to venture outside of the CBD, on the part of both occupiers and developers, is likely to support prime rental growth.

Office Volumes by Capital Source



Economy

Indicator	2020	2021	2022 Outlook (vs 2021)
GDP Growth	-9.0	4.5	Flat
Industrial Production	-10.8	10.7	↘
Consumer Prices, average	-0.1	0.5	↗
Population (millions)	60.2	60.0	↘
Population Growth Rate	-0.2	-0.2	↗
Unemployment Rate	9.2	10.1	↘

Annual % change unless specified

- A slow start for the economy is anticipated with further lockdown restrictions imposed during 1Q 2021. Overall, GDP is forecast to grow by 4.5% in 2021, following a 9% contraction in 2020, and return to pre-crisis levels by the end of 2022.
- The labour market performed better than expected in the summer and, in contrast to expectations, the rise in employment continued in Q4.
- Fiscal policy has been very supportive to the economy with the Italian government spending around €110 billion in 2020 (6% of GDP). Moreover, from mid-2021, Italy is expected to benefit from the EU's Recovery Fund.

Investment Market

- Offices continue to be popular and the most sought-after sector with transaction volumes reaching €4.5 billion in 2020, equivalent to 52% of the country's investment activity.
- There is a polarisation of investment targets producing intense competition for core assets in the CBD. Over 60% of 4Q deals took place in the CBD putting downward pressure on yields which have compressed to 3.10% in the submarket.
- Rome has attracted a rising proportion of investment from foreign buyers, with German, British and French capital active in 2020. Germany's Allianz Real Estate Holdings purchased Arte 25, a suburban office building for €200 million and Deka Immobilien acquired Via Colombo 80, a recently renovated suburban office building for around €110 million.
- Prime yields remained flat during 2020 at 3.70%, however, with the increasing levels of capital targeting the sector, further yield contraction could be seen in 2021.
- Investment activities are currently being held back by the climate of uncertainty surrounding the future demand for office space by occupiers. For this reason, investors have mainly adopted a wait-and-see approach to value-add and opportunistic deals, favouring core transactions with strong covenants.

Sources:
Oxford Economics - Italy Economic Forecast January 14 2021
Real Capital Analytics – data as at January 27 2021
C&W – Market discussion with local research team February 9 2021

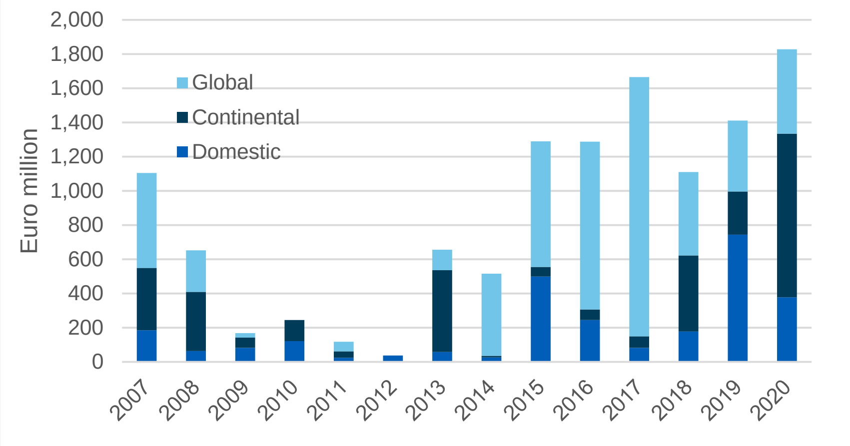
Italy

Light Industrial / Logistics Market Outlook

Occupational Market

- Leasing activity reached a new record of 2,220,000 sq m in 2020, an increase of 19% compared with 2019. Of this, 650,000 was concluded in 4Q. The market continues to be driven by 3PLs - 52% of 4Q's take-up – as they increasingly carry out omnichannel activities.
- Growth of online shopping and rising demand for home deliveries are driving demand for both big-box and smaller distribution centres located within proximity to urban populations. Amazon has already established several large-scale distribution facilities in Italy and are rapidly expanding their network throughout the country, notably with two new fulfilment centres which are expected to open in 2021 in Treviso and Modena, along with a large delivery sortation centre in Rome and further express delivery centres in urban markets.
- There has been strong demand for build-to-suit developments, with international distribution companies and retailers keen to customise buildings to fit their requirements in terms of fit-out and automation. Speculative developments are limited with banks hesitant to lend against 100% speculative schemes and so the availability of Grade A space remains tight. The vacancy rate fell across the year from 2.8% in 4Q 2019 to 2.6% in 4Q 2020.
- The highest rents in Italy are found in the north of the country, particularly close to urban centres. The increased level of occupier demand for logistics, coupled with the limited availability led to a small increase in prime rents during the second half of 2020 to €57 per sq m per year. With the growth of e-commerce forecast to continue, occupier demand is set to remain strong, which is expected to lead to further rental growth in the sector.

Industrial Volumes by Capital Source



Economy

Indicator	2020	2021	2022 Outlook (vs 2021)
GDP Growth	-9.0	4.5	Flat
Industrial Production	-10.8	10.7	↘
Consumer Prices, average	-0.1	0.5	↗
Population (millions)	60.2	60.0	↘
Population Growth Rate	-0.2	-0.2	↗
Unemployment Rate	9.2	10.1	↘

Annual % change unless specified

- A slow start for the economy is anticipated with further lockdown restrictions imposed during 1Q 2021. Overall, GDP is forecast to grow by 4.5% in 2021, following a 9% contraction in 2020, and return to pre-crisis levels by the end of 2022.
- The labour market performed better than expected in the summer and, in contrast to expectations, the rise in employment continued in Q4.
- Fiscal policy has been very supportive to the economy with the Italian government spending around €110 billion during 2020 (6% of GDP). Moreover, from mid-2021, Italy is expected to benefit from the EU's Recovery Fund.

Investment Market

- Robust fundamentals in the logistics sector have attracted strong investor interest and a record €1.8 billion of industrial assets transacted in 2020. This accounts for 21% of all investment activity making industrial the second most sought after sector behind offices.
- Confidence in the fundamentals underpinning the logistics sector is driving development with 1.6 million sq m of new space delivered in 2020 – a rise of 81% on the previous 12 months. The increased development pipeline is helping to boost quality stock of investment grade assets and therefore driving further investor appetite for the sector.
- Foreign investors were the main source of capital in 2020, accounting for 79% of transactions. European investors were particularly active, purchasing €958 million worth of industrial stock compared to €492 million from global investors.
- The increased level of investment demand has led to yield hardening over the year from 5.20% in 4Q 2019 to 5.00% in 4Q 2020. Despite the reduction, these yields offer a discount over more established European markets where prime yields have compressed to below 4.00%.
- The projected growth in e-commerce is expected to continue to drive demand for urban, last-mile facilities leading to further yield compression as investor interest rises. This is expected to lead to some investors looking beyond the traditional logistics hubs for opportunities to areas that are beginning to emerge as viable locations.

Sources:
Oxford Economics - Italy Economic Forecast January 14 2021
Real Capital Analytics – data as at January 27 2021
C&W – Market discussion with local research team February 9 2021
CBRE – Italy Logistics and Industrial Q4 2020

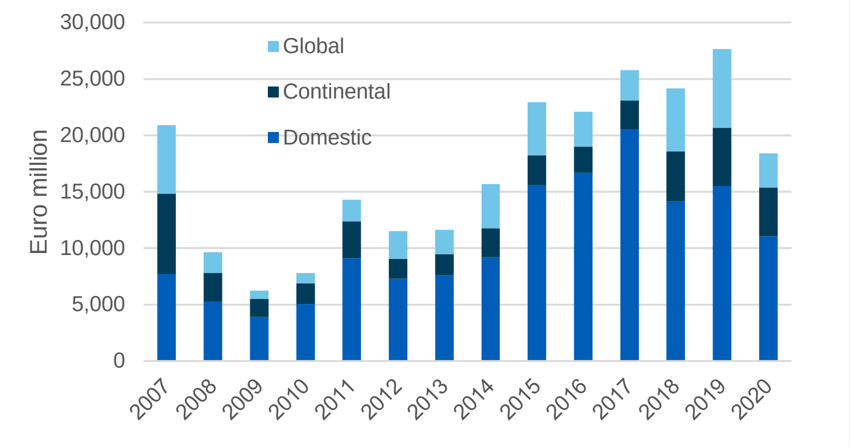
France

Office Market Outlook

Occupational Market

- Leasing activity across the main office markets in France totalled 1.9 million sq m in 2020, which was 44% less than the volume of space leased in 2019. However, 4Q 2020 showed signs of resilience as activity picked up significantly despite renewed lockdown measures.
- A lack of large deals (above 5,000 sq m) was the main reason for the drop in letting volumes. Larger occupier moves have been put on hold as corporates focus on safeguarding cash assets. Demand for the small and medium sized segment (below 5,000 sq m) has proven more resilient to the crisis, albeit with flexible lease terms.
- With leasing demand subdued, the nationwide vacancy rate increased in 2020 from 3.7% to 4.8% as some speculative space completed and some excess space was released. In the Greater Paris region the vacancy rate rose to 6.3%, a level not seen since 2016.
- Despite the rise in vacancy rates, the amount of high quality space that occupiers are still keen on is limited and as a result headline rents have seen some positive growth in 2020. In Paris Centre West, for example, prime rents reached €930 per sq m per year, reflecting a 6% increase on 4Q 2019 levels.
- Incentives continue to rise however, and in 2021 there could be pressure to drop headline rents, particularly in business districts where incentives are already substantial.
- The office market rebound depends on the speed of the vaccination rollout and the French economy's return of growth. Initial signs of improvement are expected to begin to emerge in 2H 2021, even if a return to normal business is predominantly expected for 2022.

Office Volumes by Capital Source



Economy

Indicator	2020	2021	2022 Outlook (vs 2021)
GDP Growth	-9.1	5.1	↗
Industrial Production	-10.4	7.7	↘
Consumer Prices, average	0.5	1.1	↗
Population (millions)	67.3	67.4	↗
Population Growth Rate	0.2	0.2	↗
Unemployment Rate	8.0	10.3	↘

Annual % change unless specified

- The economic outlook has deteriorated as the new and more transmissible variants of the COVID-19 virus have now reached Europe, while the deployment of the vaccines has been markedly slower in France than in other countries, resulting in a slower GDP growth forecast for 2021 at 5.1%.
- Further support has been announced, notably for companies, with new subsidies for businesses in the most-affected sectors to be deployed, and the partial unemployment scheme has also been extended. Despite this, the unemployment rate is set to peak at 10.4% in 3Q, before receding gradually.

Investment Market

- Offices continue to be the most active investment sector with €18 billion transacted in 2020, accounting for 59% of total trading volumes. The fall compared to the previous twelve months is due to a lack of large lot size deals.
- Investors continue to focus their activity on the Greater Paris market, particularly the CBD and La Défense submarkets. Many buyers are reluctant to venture outside the capital due to the relatively small size of the regional markets and general lack of good quality stock.
- The regional markets have traditionally been and continue to be dominated by domestic investors, although foreign capital has acquired some assets typically through wider portfolio acquisitions. Lyon is the most significant of these regional markets, situated inside the Rhone-Alps Region, which recorded it second best year for investment in 2020 with €1.7 billion worth of assets exchanging hands.
- Within Paris, the Southern Loop fared well for office investment, recording a increase in investment activity over the year, primarily due to seven transactions over €100 million, including Espace Lumière which was recently acquired by Tishman Speyer.
- Prime yields largely remained flat across France, although there was evidence of some yield softening in core markets in 4Q albeit from historic lows. For core product in central areas prime yields compressed by 5 bps to 2.75%.

Sources:
Oxford Economics - France Economic Forecast January 18 2021
Real Capital Analytics – data as at January 27 2021
CBRE – Office MarketView 4Q 2020
CBRE – Market discussion with local research team January 29 2021

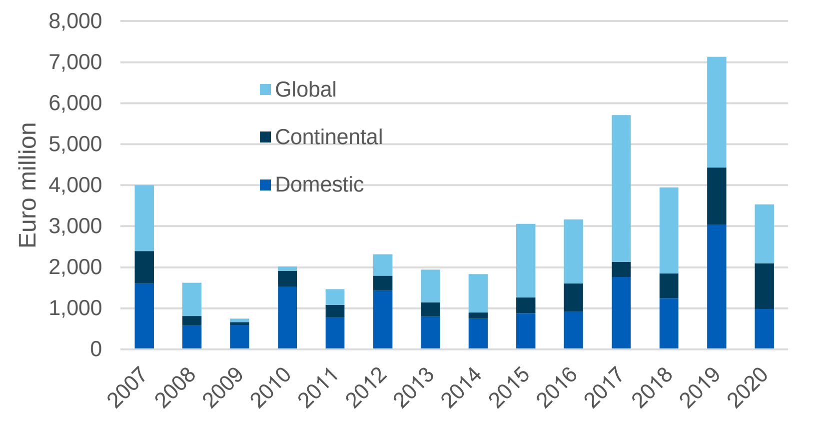
France

Light Industrial / Logistics Market Outlook

Occupational Market

- 2020 leasing activity was relatively robust across France with take-up volumes totalling 3.6 million sq m. and whilst this is a 10% decline on 2019, it is an 8% increase over the 10-year average. The slight drop-off compared to 2019 was due to a lack of larger transactions – in 2020 there were nine lettings above 50,000 sq m, compared to 15 in 2019.
- Two-thirds of deals took place outside the Greater Paris area with performance primarily driven by e-commerce and urban logistics demand. Encouragingly, activity picked up significantly in 4Q, with major transactions such as Renault's 78,000 sq m lease in Cergy-Pontoise and XPO Logistics' 40,000 sq m letting in Nanteuil-le-Haudoin.
- E-commerce is expected to continue to strengthen the logistics market in the long-term, as companies reconsider the installations and technical capacities of existing buildings. From warehouses to small storage units close to consumers, warehousing demands are evolving, as is the expansion of the national logistics network.
- Nationally there is 2.8 million sq m of vacant space, reflecting a vacancy rate of 5.7%. There are however, disparities across the country - the Lille market, for example, is oversupplied with a vacancy rate of 11.4%, whereas supply is scarce in the RA and PACA regions, with vacancy rates of 1.3% and 2.5% respectively.
- Rents have remained resilient, and some markets registered rental rises. For example, the Rhone Alpes and some areas in the Greater Paris region, where supply is tight, recorded an upswing in rents.

Industrial Volumes by Capital Source



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- Further support has been announced, notably for companies, with new subsidies for businesses in the most-affected sectors to be deployed, and the partial unemployment scheme has also been extended. Despite this, the unemployment rate is set to peak at 10.4% in 3Q, before receding gradually.

Investment Market

- Investment activity totalled €3.5 billion in 2020 across France and while this was 50% below the transaction volume in 2019 as undertaking due diligence and the signing of deals were delayed, it was 10% above the 10-year average.
- Foreign investors were the main source of capital, accounting for 72%. Investors from the UK were the most active, increasing their investment in French industrial assets by 54%. Investors from Canada, Sweden and Switzerland also increased their share in 2020. One of the largest deals was the sale of Carrefore portfolio to Argan for circa €900 million.
- The pandemic has accelerated the trends affecting the market, with the continued rise of e-commerce and growing need for retailers and logistics players to improve their supply chains, driving activity. Market specialists are consolidating their position, for example, Argan's purchase of the FM Logistics portfolio in 4Q. However, investors in general are willing to strengthen their position, as shown by the acquisition of the logistics portfolio by Real I.S.
- With an rising number of investors targeting the sector and limited options, prime yields is expected to continue to harden. Yields fell during the second half of 2020 to 3.75% from 4.00%.
- A number of large transactions are expected to complete during the first quarter of 2021, and as a result, the overall investment volume in 2021 should be higher than in 2020.

Sources:
Oxford Economics - France Economic Forecast January 18 2021
Real Capital Analytics – data as at January 27 2021
CBRE – Logistics MarketView 4Q 2020
CBRE – Market discussion with local research team January 29 2021

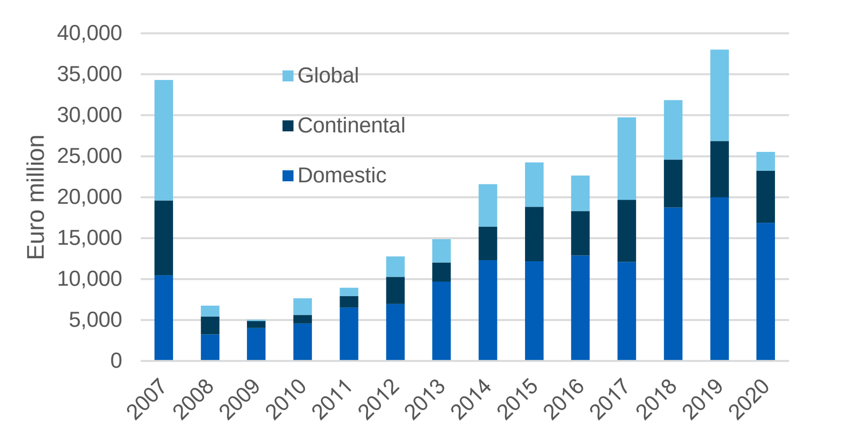
Germany

Office Market Outlook

Occupational Market

- Leasing activity across the big seven cities fell by 34% to a total of 2.7 million sq m in 2020. Due to the pandemic, budgets are more likely to be cut, with office relocation projects put on hold and a focus instead on lease renewals. Take-up levels declined in all of the big seven cities, ranging from -27% in Munich to -55% in Stuttgart.
- Lettings larger than 10,000 sq m in particular are subdued. Compared to 2019, the number of deals for large office space fell by 43% across the Big 7 during 2020.
- The weakening demand led to an increase in the availability rate across Germany. The national average was 5.6% at the end of 4Q 2020, compared to 4.9% at the end of 2019. Frankfurt was the only market out of the big seven where the availability rate declined over the last 12 months.
- Despite a number of development projects being postponed, the development pipeline is still well stocked with over 2 million sq m of new office space set to complete in 2021. Currently, over 50% of this space has already been let, and as occupiers are targeting high quality space in prime locations, pre-letting activity is expected to continue. As a result, the delivery of these buildings is expected to only have a limited impact on the availability rate.
- In 2020, Stuttgart, Berlin, and Hamburg were the only cities in the big seven which saw positive rental growth. Prime rents in Frankfurt remained the most expensive in the country at €528 per sq m per year. In 2021, CBRE forecasts rents to increase on average by 1.5% across the big seven.

Office Volumes by Capital Source



Economy

Indicator	2020	2021	2022 Outlook (vs 2021)
GDP Growth	-5.3	3.8	↗
Industrial Production	-10.3	8.1	↘
Consumer Prices, average	0.5	1.8	↘
Population (millions)	83.2	83.3	↗
Population Growth Rate	0.1	0.1	↗
Unemployment Rate	5.9	6.0	↘

Annual % change unless specified

- The vaccination campaign is expected to make substantial progress in 1H, which is expected to allow the economy to pick up. Overall, the economy is expected to grow by 3.8% in 2021, following a 5.3% decline in 2020.
- The lifting of restrictions and the strong rebound in the auto sector, which benefits from several countries' car-purchase incentive schemes, saw output recoup 85% of its losses by November. Industrial output is expected to rise by 8% in 2021.
- The improved government scheme to subsidise reduced working hours is expected to limit the impact of recession on employment, leading to a 0.2% rise in 2021.

Investment Market

- Investment in German offices totalled €26 billion in 2020, which accounts for 38% of total trading volumes in the year, making offices the most sought-after sector across the country.
- Investment into the office sector was down 33% on the transaction volume recorded in 2019. This is due to travel restrictions and local lockdowns reducing the ability to undertake due diligence, not a waning in appetite for the sector, especially for those of good quality stock in well-located areas.
- Domestic investors continued to be the main source of capital targeting the sector, with €17 billion transacted in 2020 which equates to 66%. Of the foreign capital, European investors were more active than global, accounting for 25% and 9% respectively.
- One of the largest single asset deals was the purchase of the 32-storey Silberturm (Silver Tower) office building in Frankfurt, currently let to Deutsche Bahn, purchased in a joint venture between Imfarr and SN Betelligungen from Samsung STA for around €567 million.
- With investors focusing increasingly on core and core plus products with long rental agreements and tenants with excellent credit ratings, prime yields have remained under pressure, with further yield compression recorded in the key German office markets. In Munich, prime yields are at 2.55%, down from 2.60% at the end of 2019 and 195 bps below the 2007 market peak.

Sources:
Oxford Economics - Germany Economic Forecast January 13 2021
Real Capital Analytics – data as at January 27 2021
CBRE – Market discussion with local research team January 22 2021
JLL – Office market overview Big 7 4Q 2020

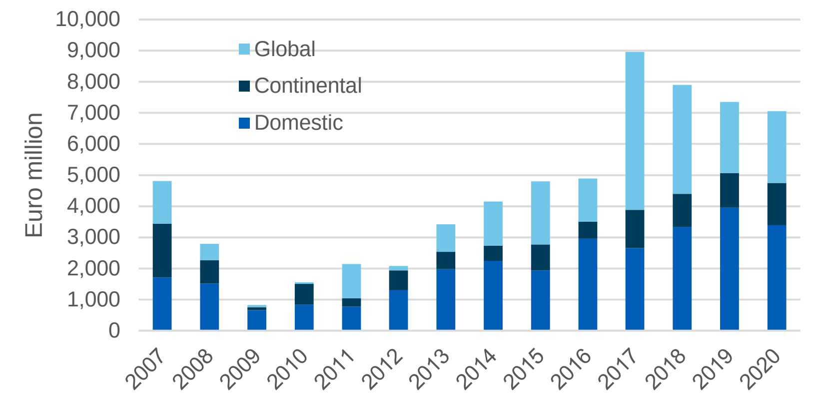
Germany

Light Industrial / Logistics Market Outlook

Occupational Market

- The strong market momentum seen in 2018 and 2019 continued in 2020 with leasing activity reaching 6.9 million sq m. While requirements for industrial space eased during the first half of the year 2020, e-tailers activated their space requirements in 2H 2020 boosting overall volumes. With physical units closed, conventional non-food retailers focused on their online platforms, leading to several large logistics deals above 10,000 sq m.
- The e-commerce proportion of take-up increased steadily over the course of the year and amounts to just under 20% of activity for 2020, which is 13.5% above the five-year average.
- Due to the strong leasing activity, the overall vacancy rate fell to the historic low of 2.3% in 4Q 2020, despite the delivery of 5 million sq m through development. The average prime rent has increased slightly by 1.4% y/y to €85.80 per sq m per year in 4Q 2020. Dusseldorf recorded the strongest growth where prime rents are currently €73.20 per sq m per year.
- In 2021 strong demand is expected to stem from logistics providers that are implementing structural changes due to the recalibration of supply chains. The requirements of e-tailer fulfilment centres for large areas and urban distribution logistics' demand for small areas are likely to continue to drive the market but are likely to come up against limited supply.
- Tenants competing for available space, and the rising cost of land for new buildings, is expected to lead to further upward pressure on prime rents, but the focus is expected to be on quality space at the expense of more obsolete buildings.

Industrial Volumes by Capital Source



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Consumer Prices, average	0.5	1.8	↘
Population (millions)	83.2	83.3	↗
Population Growth Rate	0.1	0.1	↗
Unemployment Rate	5.9	6.0	↘

Annual % change unless specified

- The vaccination campaign is expected to make substantial progress in 1H, which is expected to allow the economy to pick up. Overall, the economy is expected to grow by 3.8% in 2021, following a 5.3% decline in 2020.
- The lifting of restrictions and the strong rebound in the auto sector, which benefits from several countries' car-purchase incentive schemes, saw output recoup 85% of its losses by November. Industrial output is expected to rise by 8% in 2021.
- The improved government scheme to subsidise reduced working hours is expected to limit the impact of recession on employment, leading to a 0.2% rise in 2021.

Investment Market

- The German investment market remains liquid and attractive to defensive investors as investments continue to perform well. There is less appetite for risk at present and investors are focusing on sectors that are driven by non-cyclical demand factors, such as logistics.
- COVID-19 has accelerated the shift towards a larger share of retail transactions taking place online and the associated rise in demand for home deliveries, both of which are supporting the rising interest levels in the sector.
- Industrial and logistics transactions totalled €7 billion in 2020, which was only 4% below the volume recorded in 2019. One of the largest transactions of 2020 was AEW's acquisition of a 14-asset logistics portfolio, purchased from Patrizia for €447 million in December.
- Domestic investors continued to be the most active in 2020, accounting for 48% of transactions. Of foreign capital, global investors were more active acquiring €2.3 billion of assets, compared to €1.4 billion bought by European investors.
- Transaction volumes for value-add and core plus products have fallen due to a widening spread in buyer and seller pricing expectations. But, the strong momentum in the logistics investment market for core product has seen prime yield harden further to 3.40% from 3.60% in 4Q 2019, with further yield compression likely for 2021.

Sources:
Oxford Economics - Germany Economic Forecast January 13 2021
Real Capital Analytics – data as at January 27 2021
CBRE – Market discussion with local research team January 22 2021
CBRE – German Industrial and Logistics market 4Q 2020

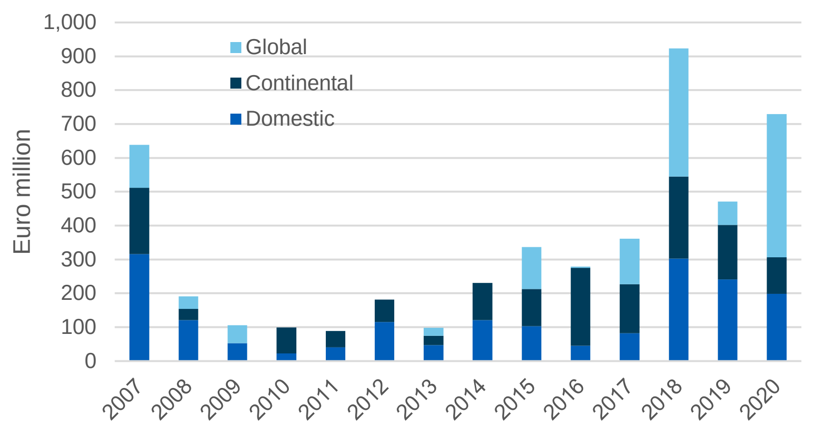
Denmark

Light Industrial / Logistics Market Outlook

Occupational Market

- 2020 has seen a high level of demand coming from biopharmaceutical companies, and going forward, an increasing supply of drugs from drug manufacturers is expected to drive occupier demand for pharmaceutical logistics. Online retail and the domestic consumer markets are also a rising source of leasing demand for industrial and logistics property in Denmark.
- Online grocery occupiers have also been expanding, and the growth in business to consumer delivery is expected to drive demand for last mile distribution within the Greater Copenhagen region and underpin future demand for centrally located distribution centres within proximity to consumers. New logistics centres, located at key transport hubs, such as the airport and along motorway corridors are in high demand from occupiers.
- Across the country, the vacancy rate fell in 4Q 2020 from 4.3% to 4.1%, with the lowest vacancy rates found in southern Denmark and around the capital. The highest vacancy rate is in the South Jutland region.
- Speculative development in Copenhagen remains limited due to high construction costs and the need to recoup these via a secure long lease agreement. Most development is either driven by the end-user or has a strong pre-let agreement in place before breaking ground. As a result, the volume of available space remains low and is likely to remain so, keeping upward pressure on prime rents, which are currently at €80.61 per sq m per year.

Industrial Volumes by Capital Source



Economy

Indicator	2020	2021	2022 Outlook (vs 2021)
GDP Growth	-4.2	1.9	↗
Industrial Production	-6.0	3.2	↗
Consumer Prices, average	0.4	1.0	↗
Population (millions)	5.8	5.9	↗
Population Growth Rate	0.3	0.4	↗
Unemployment Rate	4.8	4.6	↘

Annual % change unless specified

- Denmark's vaccination programme has got off to the strongest start in the EU (based on share of population vaccinated), which should allow for social distancing measures to be significantly eased from 2Q leading to an overall GDP growth of 1.9% in 2021.
- The unemployment rate fell to 4.5% in November from a peak of 5.5% in May and should continue to decrease in 2021 as demand recovers.
- Exports declined sharply during 1H 2020 but fared better than many other European countries due to the relatively high share of pharmaceuticals and food in Denmark's export mix.

Investment Market

- Against the backdrop of COVID-19 and global economic uncertainty, the Danish investment market has recorded a rise in activity in 2020, with continued interest from foreign investors. Denmark's stable and open economic backdrop, combined with low sovereign debt makes the market an attractive location, particularly as investors adopt more cautious strategies.
- Investment into the industrial and logistics market totalled €729 million in 2020, which is a 55% increase over 2019. The market has seen rising competition from foreign capital, which accounted for 73% of the total invested. The rise in foreign investors targeting the sector has led to further pressure on prime yields, which now stand at around 4.65%.
- Some notable transactions included CBRE GI's purchase of a logistics facility at Kastrup Airport, the distribution centre was acquired on behalf of a separate client account, from World Flight Services (WFS) in a sale and leaseback transaction. UK investor, Blackbrook Capital also acquired a modern last-mile logistics facility in Hillerod, for €4 million.
- Currently, there is a high proportion of owner-occupation in the Danish industrial sector, and sale & leaseback transactions are providing investors with more opportunities to buy into the market. Occupiers are increasingly demanding modern, high-tech facilities, which are likely in turn to provide further investment opportunities.

Sources:
Oxford Economics - Denmark Economic Forecast January 14 2021
Real Capital Analytics – data as at January 27 2021
CBRE – Market discussion with local research team January 25 2021

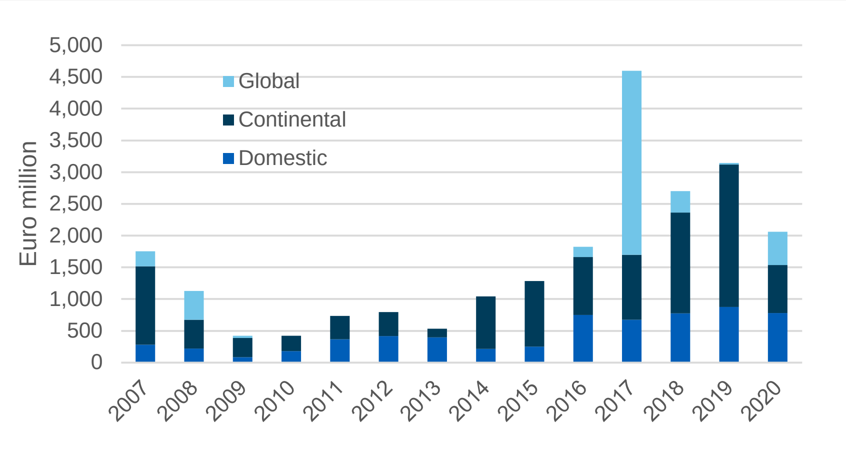
Finland

Office Market Outlook

Occupational Market

- Against a backdrop of uncertainty, some office space decisions have been postponed and this is translating into weaker demand levels in 2020 and is expected to continue into the first half of 2021 before activity picks up again.
- The occupiers that have been active are targeting modern buildings offering high levels of digital connectivity. One of the key deals of 2020 was signed by international software company, Trimble Solutions Corporation, which took 10,300 sq m of space in a new office project at Hatsina in Espoo. The building is part of a wider urban redevelopment area encompassing almost 100,000 sq m of offices, hotels, retail and housing. Trimble signed a long-term lease with occupancy scheduled for 2021. The building project is aiming to achieve the BREEAM Excellent certification.
- Office development activity is continuing within the CBD as well as in submarkets that are expected to benefit from improvements to local infrastructure and public transport. In Helsinki, 209,000 sq m was delivered in 2020. Despite this additional new space, the vacancy rate remained flat at 12.6% across the city, and much lower at around 5% in the CBD.
- Prime rents have remained flat in 2020, with rents in Helsinki currently at €504 per sq m per year. With subdued activity expected in 1H, positive rental growth is not expected in 2021.

Office Volumes by Capital Source



Economy

Indicator	2020	2021	2022 Outlook (vs 2021)
GDP Growth	-3.2	2.0	↗
Industrial Production	-3.2	1.5	↗
Consumer Prices, average	0.3	1.1	↗
Population (millions)	5.5	5.5	↘
Population Growth Rate	0.1	0.1	↘
Unemployment Rate	7.8	8.1	↘

Annual % change unless specified

- Finland has endured the pandemic considerably better than most other European economies, with output in 3Q just 2.8%, compared to a 4.3% decline on average across the Eurozone.
- Restrictions are expected to likely remain in place in 1Q, but from 2Q the impact of vaccinations is expected to see containment measures ease driving an increase in consumer spending. Overall the economy is expected to expand by 2.0% in 2021.
- A rise in government spending due to strong automatic stabilisers, such as unemployment benefit, and discretionary fiscal policy is expected to provide a boost to growth this year.

Investment Market

- Investment activity in the office market totalled €2 billion in 2020. Whilst this was 34% below activity in 2019, it represented 45% of the total Finnish trading volume for the year, proving that there is still investor appetite for offices, although on a more selective basis.
- The Finnish property market has developed an increasingly foreign investor base and the market is strongly influenced by wider investment market conditions across Europe. Cross-border capital represented 62% of the office investment market in 2020.
- Most foreign capital and institutional investors have focused their activity in the Helsinki CBD area, which has put pressure on prime yields in recent years. However, the impact of the pandemic has led to a slight softening of yields to 3.50%.
- Some investors have started to look towards other prime submarkets, particularly where infrastructure improvements or redevelopment activity offers the potential for future growth. For example, Keilaniemi in Espoo is attracting investment due to rising connectivity from the new metro service and is expected to become a central public transport hub once the final terminus of the Raide-Jokeri light rail line to Itäkeskus in Helsinki is built.
- A rise in flexible working patterns is likely to drive up obsolescence in secondary locations and the market is expected to become increasingly polarised. This coupled with investors moving down the risk curve is expected to reduce liquidity outside of the key urban markets and the spread between prime and secondary yields is expected to increase.

Sources:
Oxford Economics - Finland Economic Forecast January 15 2021
Real Capital Analytics – data as at January 27 2021
CBRE – Market discussion with local research team January 22 2021

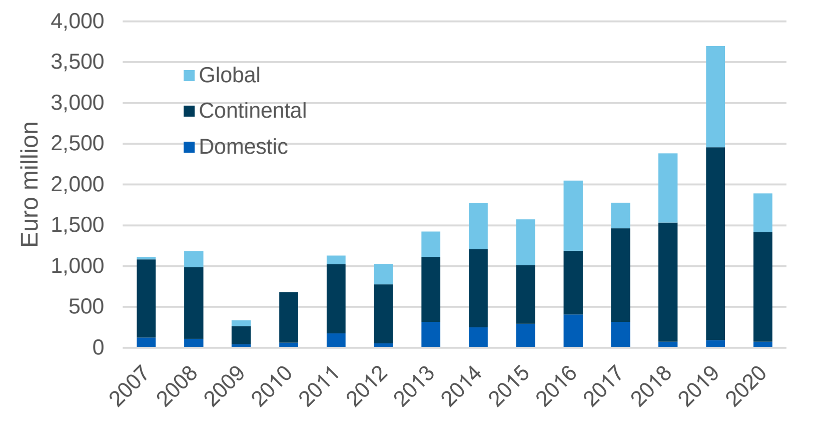
Poland

Office Market Outlook

Occupational Market

- Leasing activity across Poland's main cities reached 669,000 sq m in 2020 - 23% lower than the previous year's volume. Warsaw remains the country's largest and most active market, with take-up totalling 385,000 sq m in 2020 (57% of activity). However, occupier demand was 37% below the level seen in 2019 as occupiers generally have placed decisions on hold as they started to strategise for the months ahead and try to understand what their accommodation requirements are likely to be.
- Prior to the pandemic, Warsaw's vacancy rate had been steadily declining due to high demand from occupiers against relatively limited new speculative supply. At the start of the 2020 office vacancy was at 7.5%, the lowest it had been since 2008. However, over the course of 2020 it has risen 9.9% in 4Q 2020. A similar trend has been seen across the other major cities also. The delivery of new office space is a key driver of the increase in the vacancy rate with 314,000 sq m of new space delivered in 2020, almost double the amount of development in 2019.
- Despite activity being constrained by the pandemic, prime office rents have remained stable in 2020, with the highest rents in Warsaw's CBD at €300 per sq m per year. However, there are currently a wide range of incentives on offer, resulting in net effective rents 20% below their asking rents.
- Once the situation starts to settle, the market fundamentals are expected to remain in Poland, with start-ups and tech companies looking for flexible, co-working spaces, which is expected to drive future demand.

Office Volumes by Capital Source



Economy

Indicator	2020	2021	2022 Outlook (vs 2021)
GDP Growth	-2.9	3.6	↗
Industrial Production	-2.9	7.6	↘
Consumer Prices, average	3.4	2.6	↘
Population (millions)	37.9	37.9	↘
Population Growth Rate	-0.1	-0.1	↘
Unemployment Rate	5.9	5.7	↘

Annual % change unless specified

- 1Q saw the re-introduction of containment measures which has restricted economic activity, resulting in weaker, but positive GDP growth forecast for 2021 of 3.6%, followed by 4.8% expansion in 2022.
- The government has extended its fiscal support measures for companies in the second lockdown, targeted at the most-affected sectors and is expected to be more modest in size than during the first lockdown.
- Fiscally, Poland is better prepared than most other European countries, with the stock of government debt at a relatively low 46% of GDP at end-2019.

Investment Market

- In 2020, commercial investment in Poland reached €5.5 billion, a 31% decline compared to 2019. As the largest and most liquid investment market in Central and Eastern Europe, Poland continues to be attractive to foreign investors with Chinese, US, and investors from the UK particularly active in 2020.
- Behind industrial, offices were the second most invested sector in 2020, accounting for €1.9 billion or 35% of total investment. This is a 49% decline compared to 2019, where offices received €3.7 billion and accounted for circa 60% of total investment.
- Overseas investors accounted for 96% of office investment in 2020. European investors were the most active with transaction volumes totalling €1.3 billion, compared to global investors which purchased €474 million. Domestic investors were traditionally less active with involvement in €75 million worth of office deals.
- Most investors targeted the Warsaw market however, the two largest single asset transactions in 2020 were situated in Krakow. The first being the sale of Equal Business Park in Krakow for €130 million, bought by RIDA Development and Ares Management. The second was Skanska's disposal of the High5ive III-IV office building to Credit Suisse for €129 million.
- Despite the fall in deal volumes as investors were limited from visiting assets, prime yields held across all markets. At 4Q 2020, prime yields in Warsaw are 4.25% in the city centre, and 6.50% in the rest of the city.

Sources:
Oxford Economics - Poland Economic Forecast January 14 2021
Real Capital Analytics – data as at January 27 2021
CBRE – Market discussion with local research team January 29 2021

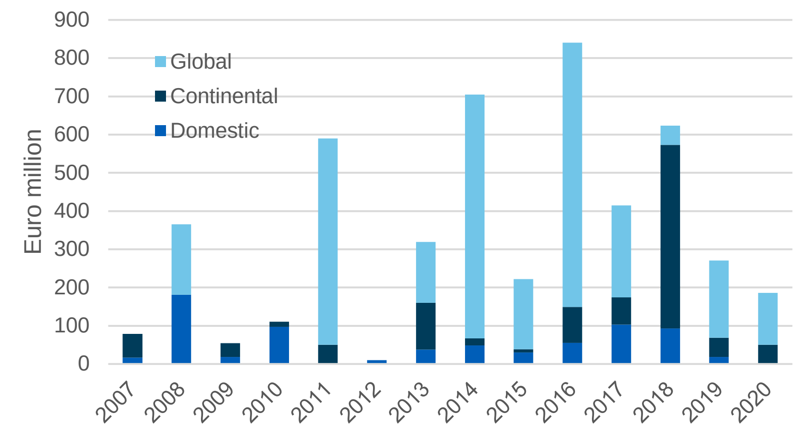
Czech Republic

Light Industrial / Logistics Market Outlook

Occupational Market

- The greater Prague region is the largest logistics and distribution hub in the Czech Republic and the second largest in the CEE after Warsaw. Serving consumer markets, e-commerce and rising trade volumes have all contributed to the high demand for logistics and distribution facilities in the region.
- Occupier demand proved resilient in 2020, with logistics leasing activity across the country totalling 811,000 sq m, which was only 14% below the level of activity recorded in 2019. Prague also has a strong pharmaceuticals sector and IT manufacturing industry driving take-up in 2020 to 214,000 sq m.
- The strong level of occupier demand in the Prague region led to a decline in vacancy from 3.5% in 4Q 2019 to 2.2% in 4Q 2020. Outside of Prague, the vacancy rate increased slightly to 5.3% over the same period, largely due to the delivery of new logistics space, with 670,000 sq m added to stock in 2020, 83% of which was outside of Prague.
- Prime rents were remained stable in 2020, with the highest rents achievable in Prague at €58.80 per sq m per year and lower outside the capital as €56.40 per sq m per year.
- Looking ahead, the monthly minimum wage in the Czech Republic is 6% lower than in Poland and between 50% and 70% lower than in the Netherlands, Spain, France, and Germany. This will likely continue to play a factor in warehouse demand and incentivise growth along the country's border to serve the e-commerce demand for its neighbours.

Industrial Volumes by Capital Source



Economy

Indicator	2020	2021	2022 Outlook (vs 2021)
GDP Growth	-6.8	2.9	↗
Industrial Production	-8.5	8.5	↘
Consumer Prices, average	3.1	2.3	↘
Population (millions)	10.7	10.7	↗
Population Growth Rate	0.2	0.1	↘
Unemployment Rate	3.6	4.2	↘

Annual % change unless specified

- A sharp surge in infections after Christmas and slow rollout of the vaccination programme has resulted in a weaker economic outlook in 1Q.
- Overall GDP growth now forecast to expand by 2.9% instead of 3.2% in 2021.
- The short-time work scheme, which has so far prevented a large-scale rise in unemployment, runs throughout the winter and is likely cause 2021 unemployment rate to peak at 4.2%, before falling in 2022.
- The government is moving forward with an income tax cut, which is expected to dent long-term public finances.

Investment Market

- The Czech investment market recorded €2.6 billion in investment in 2020, a decline of 12% on the volume achieved in 2019. While overall volumes are down, cross-border investment into the Czech Republic has proved to be more resilient, down just 5% over 2020.
- 2020 investment volumes into the industrial sector were down 31% in 2020 compared to 2019, to €186 million. On average over the past 10 years, industrial investment has equated to 17% of total investment in the Czech Republic, however in 2020, it accounted for just 7% partly hindered by the lack of quality product available.
- The Czech Republic is situated in a prime geographical location at the centre of Europe and the country is a natural crossroads for major transit corridors, and growing in importance since its entrance into the European Union in 2004. The country is therefore a strategic option, as it provides an extensive network of transport routes, serving both domestic markets and surrounding European countries.
- The largest industrial deal in 2020 was part of a portfolio transaction. In July, GLP bought the Goodman EU Portfolio for €1 billion, with two of the properties located in the Czech Republic and were valued at €124 million. Another large portfolio deal was concluded in 2020, with Allianz acquiring 19 properties from VGP group for €424 million, €67 million of this was for three assets in the Czech Republic.
- Prime yields remained flat at 5.00% in Prague, and 5.75% in the rest of the country.

Sources:
Oxford Economics - Czech Republic Economic Forecast January 20 2021
Real Capital Analytics – data as at January 27 2021

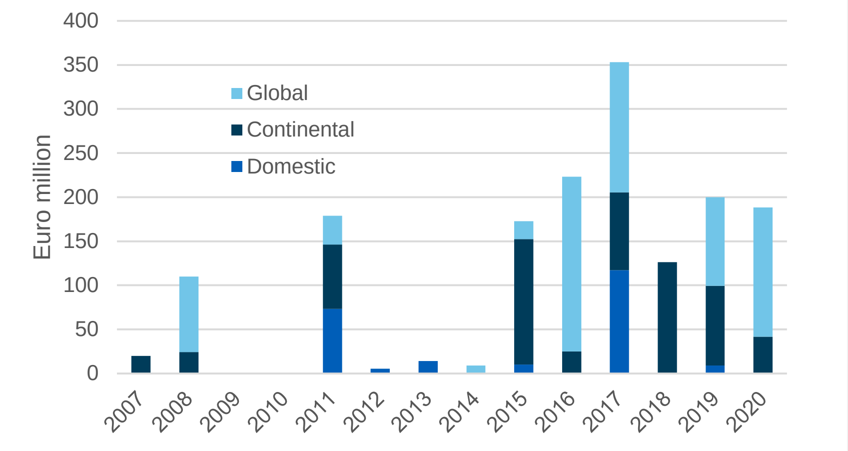
Slovakia

Light Industrial / Logistics Market Outlook

Occupational Market

- Occupier demand remains strong across Slovakia, with leasing activity increasing by 31% to 412,000 sq m in 2020. With the majority of logistics stock concentrated within the Greater Bratislava region, leasing was most active here, with distribution companies expanding their networks in response to expanding e-commerce demand.
- The automotive industry remains highly important to Slovakia's industrial and logistics market. However, rising e-commerce demand is encouraging higher interest from retailers and distributors and is broadening the occupier base. Overall take-up in the Greater Bratislava region was 277,000 sq m in 2020 - almost twice as much as the previous year.
- Despite strong occupier demand, vacancy increased across the country to 6.5% in Bratislava and 8.8% in the rest of the country. This increase was largely driven by the addition of new space from the development pipeline, although it is expected to be absorbed with relative ease.
- In 2020, 203,000 sq m was added to the stock. Speculative development is popular and accounts for the majority of schemes (58%), and while this is expected to continue, along with land acquisitions, as the sector positions itself for strong demand in 2021 and beyond, banks are more cautious and prefer some pre-let arrangements to be in place.
- Prime rents in Slovakia remained at €46.80 per sq m per year. Despite the high volume of speculative development and rising vacancy rates, an increasing level of demand for high quality assets may drive rental growth in those locations where quality supply is still tight.

Industrial Volumes by Capital Source



Economy

Indicator	2020	2021	Outlook (vs 2021)
GDP Growth	-5.8	4.6	↗
Industrial Production	-9.1	9.7	↘
Consumer Prices, average	1.9	1.4	↗
Population (millions)	5.5	5.5	↗
Population Growth Rate	0.1	0.1	↘
Unemployment Rate	6.9	7.1	↘

Annual % change unless specified

- A combination of the high levels of COVID-19 infections, the extension of the containment measures, and a slow rollout of the vaccination programme, has led to a weaker economic output with GDP now forecast to grow by 4.6% in 2021.
- Consumption is expected to remain subdued for as long as the restrictions remain in place. However, the 3Q data proved that consumers are willing to spend their excess funds once the virus is contained, which is expected to aid the recovery from 2Q 2021 onwards.
- Industry continues to carry good momentum, partially offsetting the losses in services.

Investment Market

- In 2020, investment volumes totalled €370 million, down slightly from the €458 million invested in 2019. The market is highly dependent upon foreign capital, with foreign investors involved in 93% of all deals that concluded in 2020.
- €189 million was transacted in the industrial sector, accounting for 51% of the total investment market showing a clear appetite for the sector.
- Domestic investors were notable by the their absence in 2020, with global capital the most active, transacting on €147 million, compared to €42 million bought by European investors.
- Higher volumes of investment activity could be held back by the small size of the overall market and this is despite new product being developed. Many single industrial assets are too small to attract interest from institutional capital and so Slovakian assets often, but not always, are acquired through wider regional portfolio transactions.
- One of the key deals was the sale of the 28-asset Maximus Portfolio, acquired by P3 Logistics Parks for €950 million which included two logistics properties located in Slovakia, worth around a €126 million share of the total.
- Prime yields for industrial assets are currently at around 6.15%. Investors are focused on prime assets and so the gap between yields for prime and secondary quality assets is expected to widen over the next 12 months.

Sources:
Oxford Economics - Slovak Republic Economic Forecast January 25 2021
Real Capital Analytics – data as at January 27 2021

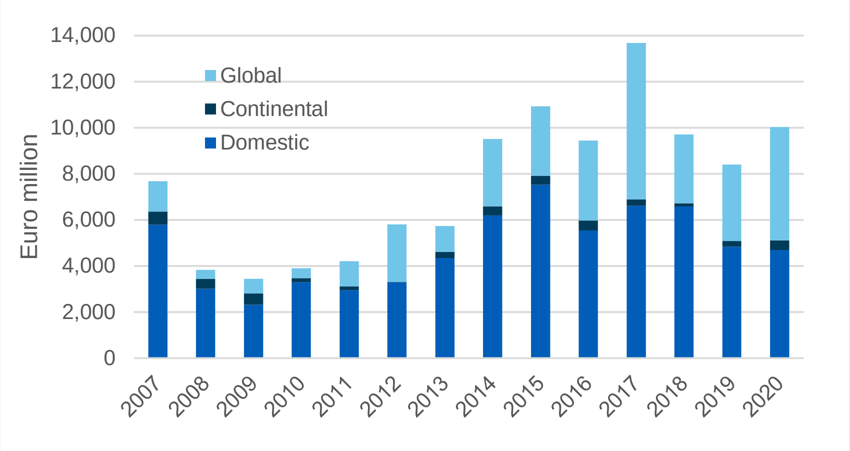
The United Kingdom

Light Industrial / Logistics Market Outlook

Occupational Market

- Leasing activity in 4Q reached 1 million sq m, pushing the 2020 total to a record-high of 4 million sq m, a 69% increase on 2019 levels. The pandemic has evidenced the essential role of logistics to keep food and goods moving. 2021 will bring further focus on building more resilient supply chains, increasing safety stocks and diversifying suppliers to prevent future disruption, all of which will require additional warehousing space.
- Demand is expected to continue from retailers who are benefiting from the prolonged effects of COVID-19 in consumer behaviour and those brands wanting to preserve market share will need to secure warehouse space to expand their online channels.
- The leasing of purpose-built and speculatively built space continued to drive demand in 4Q. Occupiers invested heavily in new facilities to help sustain long term growth and future proof their supply chains. The most active occupiers in 4Q had specific requirements in terms of building location, specification, and power and fibre availability which fed through into increased, concentrated activity for the best product.
- Strong take-up saw the vacancy rate fall from 6.0% in 2019 to 4.2% in 4Q 2020. In response to constrained supply and a bullish occupier market 4Q saw an increase in development starts, with two-thirds of the 1.2 million sq m, having secured pre-lets.
- Strong demand for logistics property is expected to continue, particularly for prime assets in core locations and with limited availability, positive rental growth is forecast despite the increase in development activity.

Industrial Volumes by Capital Source



Economy

Indicator	2020	2021	2022 Outlook (vs 2021)
GDP Growth	-9.9%	5.5%	↗
Industrial Production	-8.6%	2.3%	↗
Consumer Prices, average	0.9%	1.5%	↗
Population (millions)	66.8	66.9	↗
Population Growth Rate	0.1%	0.3%	↗
Unemployment Rate	6.2%	7.3%	↘

Annual % change unless specified

- The UK's vaccination roll-out is ahead of Europe, with a meaningful relaxation of social distancing restrictions expected during 2Q, leading to a strong consumer-led rebound in GDP.
- The UK economy is expected to grow by a healthy 5.5% in 2020, followed by further growth in 2022 of 6.0%.
- The labour market is proving to be resilient with unemployment around 6.2%, supported by the Job Retention Scheme, which is likely to be extended until COVID-10 related restrictions have been lifted.

Investment Market

- €10 billion of industrial assets changed hands across the UK in 2020 and with an exceptional 4Q; volumes were 19% up on 2019.
- The size, depth and breadth of the investor market continues to attracts buyers from across the globe with 53% of 2020 deals involved a foreign buyer. The resilience of the sector and long-term cash-flows have also started to attract new, non-specialist investors looking for opportunities to capitalise on future growth prospects.
- The strong underlying fundamentals of tight supply and rising demand in the occupier market are expected to continue to drive strong competition for the best assets which will support good investment activity in 2021 and put downward pressure on yields.
- Location is critical, with a focus on well-connected units and urban logistics. A 'flight to quality' in terms of location and specifications is one of the expected outcomes of ongoing supply chain reconfiguration and expansion, however secondary locations will also be in demand.
- Unlocking stock will be a key ingredient of 2021 and the expectation is for further joint ventures and M&A activity, with some players looking for sub-sector and local expertise to take advantage of the growth in the sector.

Sources:
Oxford Economics – United Kingdom Economic Forecast February 16 2021
Real Capital Analytics – data as at January 27 2021
CBRE – United Kingdom Logistics Q4 2020
Savills - UK Logistics: Big shed briefing January 2021
Gerald Eve – Prime Logistics Bulletin Q4 2020

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