Real I.S. Research
Realometer

February 2024

Real I.S. AG / Research and Investment Strategy

Real I.S. Research
Realometer February 2024

Results country and market analysis

Real I.S.

Key Findings

Higher property yields and expectations of lower interest rates open up windows of opportunity for property investments.

- Interest rates recently lower again with further interest rate cuts expected (inverted yield curve).

- Property yields are expected to peak in 2024. This will mark the end of the price correction.

- Most markets offer little growth in supply and expected rising rents in the coming years.

- Inflation hedging via index regulations in rental contracts remains advantageous and supports the performance of properties.

Realometer

Countries

The economy remains weak, interest rates are trending downwards, ESG and resilience remain ongoing topics.

Office

Favourable window opens for core office properties in Germany, Benelux, France and the UK.

Retail

Trend reversal expected in 2024, prospects brighten. Weak consumption is currently a burden. Local suppliers continue to be very crisis-proof.

Logistics

Prospect of high rental price growth, but currently risks due to weak industrial production. Demand for modern space remains high.

Hotel

The hotel markets continued to stabilise in 2023. The recovery is well advanced.

Residential

The housing markets are characterised by a shortage of supply and rising rents. High construction costs and government regulation have a negative impact.
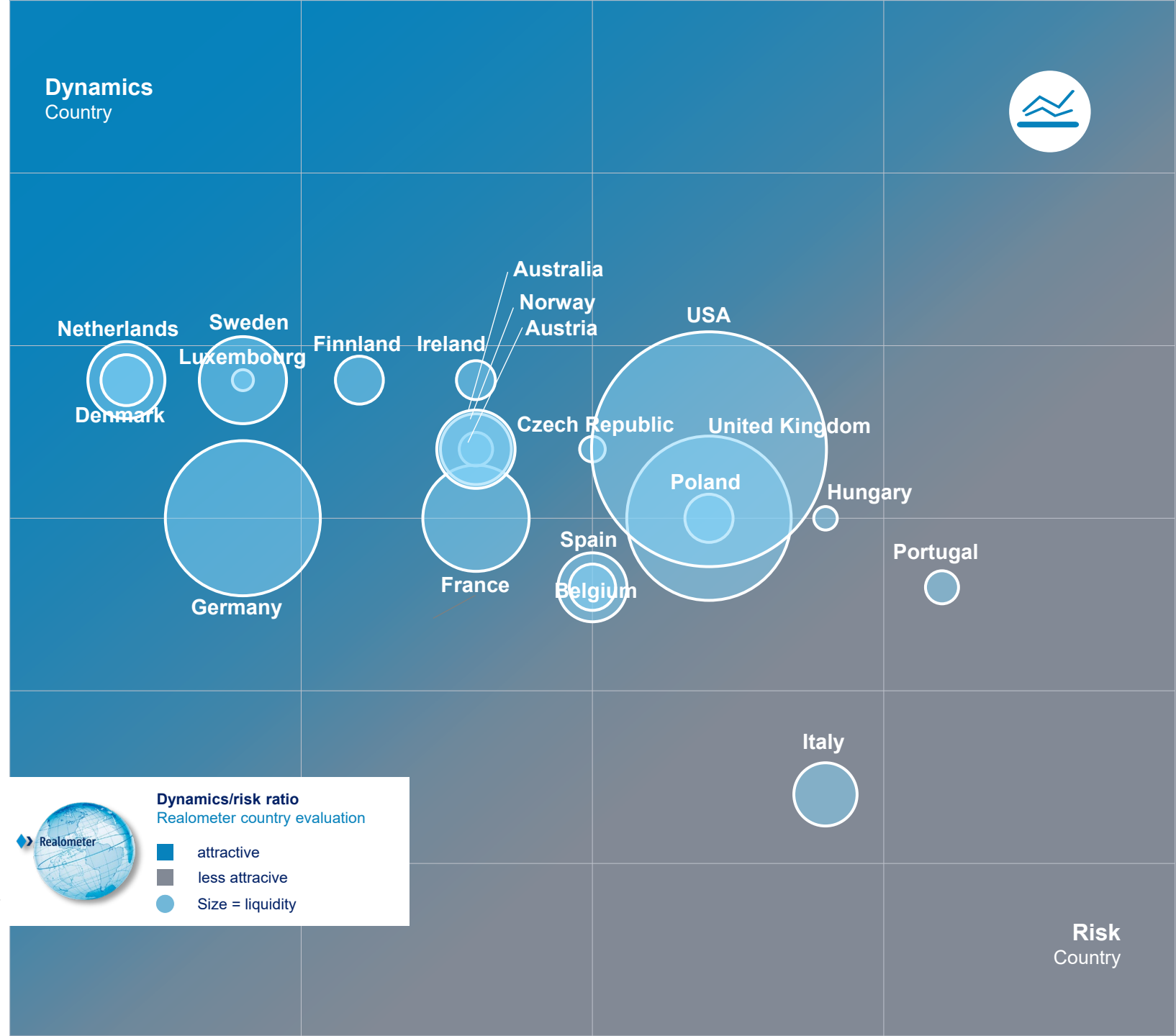
Country Analysis

The economy remains weak, interest rates are trending downwards, ESG and resilience remain ongoing topics.

- Economic growth remains weak. Geopolitical uncertainties also continue to weigh on the economy.

- Interest rates at a lower level, inverted yield curve indicates falling interest rates in near future.

- ESG: In the assessment of sustainability, France has deteriorated compared to 2023, while Austria and Australia have improved.

- In the overall rating, 12 out of 20 countries have improved compared to 2023 due to the better economic conditions.

Note: Dynamics or yield and risk are figures which are determined using a scoring process based on various criteria. These are not net initial yields or volatility, but rather a quantitative estimate of the expected momentum and risk on country level.

5

Dynamics
Country

Australia
Norway
Austria
USA
Netherlands
Sweden
Luxembourg
Finnland
Ireland
Denmark
Czech Republic
United Kingdom
Poland
Hungary
Spain
Portugal
France
Belgium
Germany
Italy

Dynamics/risk ratio
Realometer country evaluation

- attractive
- less attracive
- Size = liquidity

Realometer

Risk
Country

Office

Favourable window opens for core office properties in Germany, Benelux, France and the UK.

- Due to falling interest rates and rising net yields on office property, the yield spread is now 190 basis points on average, making office investments more attractive.

- Vacancy rates have increased only marginally, while rents are expected to rise by approx. 8% by the end of 2027.

- In sum 47 office markets, 6 have deteriorated and 11 have improved. The average results have improved compared to the previous year.

Note: Dynamics or yield and risk are figures that are determined using a scoring process based on various criteria. These are not net initial yields or volatility, but rather a quantitative estimate of the expected return and risk of a possible real estate investment.

Dynamics/yield
Country and market, 50% each

Luxembourg
Washington DC
Dublin
Rotterdam
Melbourne
Prague
Copenhagen
New York
Stockholm
Amsterdam
Lyon
Helsinki
Warsaw
Cologne
Frankfurt
Brussels   Paris
Munich
Hamburg
London   Madrid
Budapest
Marseille
Stuttgart
Dusseldorf
Oslo
Berlin
Vienna
Sydney
Rom
Lissabon
Barcelona
Milan

Dynamics/risk ratio
Realometer market evaluation

Realometer

■ attractive

■ less attractive

Aggregated risk
Country and market, 50% each

Retail

Trend reversal expected in 2024, prospects brighten. Weak consumption is currently a burden.

- Rents in the high street retail sector are expected to bottom out in 2024 and reverse the trend. Forecasts predict rental growth of around 8 % by 2027.

- Private consumption will develop very weakly in 2023 and weigh on the risk assessment.

- The overall result (including country scoring) is slightly better than in the previous year.

Note: Dynamics or yield and risk are figures that are determined using a scoring process based on various criteria. These are not net initial yields or volatility, but rather a quantitative estimate of the expected return and risk of a possible real estate investment. Analysis here at country level.

Dynamics/yield
Country and market, 50% each

Finnland
Ireland   Australia
Czech Republic
Sweden
Hungary
United Kingdom
Belgium
Portugal
Netherlands
Denmark
Poland
Spain
Austria
Germany   France
Italy

Dynamics/risk ratio
Realometer market evaluation

Realometer

■ attractive

■ less attractive

Aggregated risk
Country and market, 50% each

Logistics

Prospect of strong rental growth, but currently risks due to weak industrial production.

- Yields have risen by 80 basis points over the year, the yield gap to bonds has widened significantly.

- Rental growth of around 13 % by 2027, further improving the yield scoring of the logistics markets.

- Industrial production decline in the first three quarters of 2023. Despite this, the overall result (including country assessment) has improved.

Note: Dynamics or yield and risk are figures that are determined using a scoring process based on various criteria. These are not net initial yields or volatility, but rather a quantitative estimate of the expected return and risk of a possible real estate investment. Analysis here at country level.

8

Dynamics/yield
Country and market, 50% each

Denmark
Sweden
Finland
Ireland
Netherlands   Australia
Czech Republic
United Kingdom
Poland   Hungary
Germany
Spain
Portugal
France
Belgium
Italy

Dynamics/risk ratio
Realometer market evaluation

Realometer

attractive

less attractive

Aggregated risk
Country and market, 50% each

Hotel

The hotel markets continued to stabilise in 2023. The recovery is well advanced.

- Occupancy has improved further, but has not yet reached the level of 2019. Overnight stays are only slightly below the pre-corona level.

- Room revenues exceed pre-crisis levels in all markets, in some cases by as much as 30 - 40 %.

- Return, risk and the overall scoring have improved significantly compared to the previous year. Berlin remains the only exception with (only) a constant score.

Note: Dynamics or yield and risk are figures that are determined using a scoring process based on various criteria. These are not net initial yields or volatility, but rather a quantitative estimate of the expected return and risk of a possible real estate investment. Analysis here at country level.

9

Dynamics/yield
Country and market, 50% each

Dublin
Brussels
Amsterdam
Hamburg
Vienna
Frankfurt
Paris
Barcelona
London
Madrid
Munich
Berlin
Milan

Dynamics/risk ratio
Realometer market evaluation

Realometer

■ attractive
■ less attractive

Aggregated risk
Country and market, 50% each

Residential

The housing markets are characterised by a shortage of supply and rising rents. High construction costs and government regulation have a negative impact.

- Forecast of sharply rising rents in almost all markets (on average + 12 % by 2027).

- Yield spread to bonds increases on average from around 70 to around 110 basis points.

- The number of residential property transactions remains low.

- Yield, risk and overall score have improved compared to the previous year.

Note: Dynamics or yield and risk are figures that are determined using a scoring process based on various criteria. These are not net initial yields or volatility, but rather a quantitative estimate of the expected return and risk of a possible real estate investment.

10

Dynamics/yield
Country and market, 50% each

Dublin

Birmingham

Copenhagen

The Hague

Amsterdam

London

Barcelona

Rotterdam

Leipzig   Madrid

Lyon

Munich

Dusseldorf

Hamburg

Berlin   Frankfurt

Stuttgart

Paris

Dynamics/risk ratio
Realometer market evaluation

Realometer

■ attractive

■ less attractive

Aggregated risk
Country and market, 50% each

Realometer

Focus

on selected markets

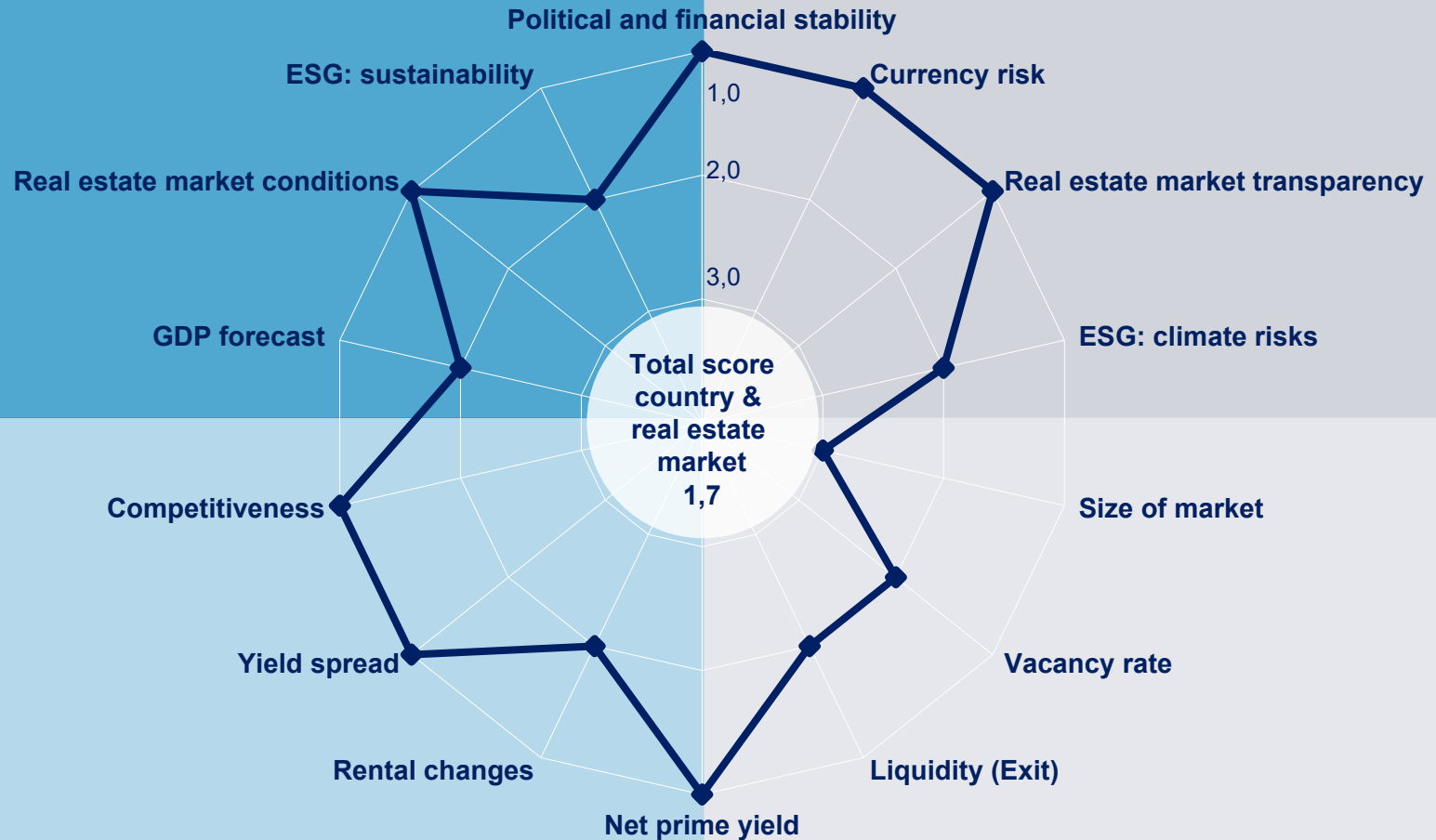Real I.S.

Office Rotterdam

Rotterdam is currently one of the best locations alongside Amsterdam, some German cities, Luxembourg and Stockholm.

- Of all the cities analysed in the eurozone, Rotterdam currently offers the highest net prime yield of 5.5 %.

- The vacancy rate has fallen from just under 18 % to around 8 % in the last 10 years.

- Modern office space in good locations is in short supply and will boost rents in the coming years.

- Although Rotterdam is the second largest office market in the Netherlands, it is one of the smaller markets in Europe with 3.5 million m² of space.

Dynamics 1,6

Macro level Netherlands

Risk 1,2

Political and financial stability
ESG: sustainability
Currency risk
1,0
2,0
Real estate market transparency
Real estate market conditions
3,0
ESG: climate risks
GDP forecast
Total score country & real estate market 1,7
Size of market
Competitiveness
Vacancy rate
Yield spread
Rental changes
Liquidity (Exit)
Net prime yield

Return 1,6

Office real estate market Rotterdam

Risk 2,3

Rating: Score 1 = best evaluation,
Score 3 = unfavourable expression of the criteria
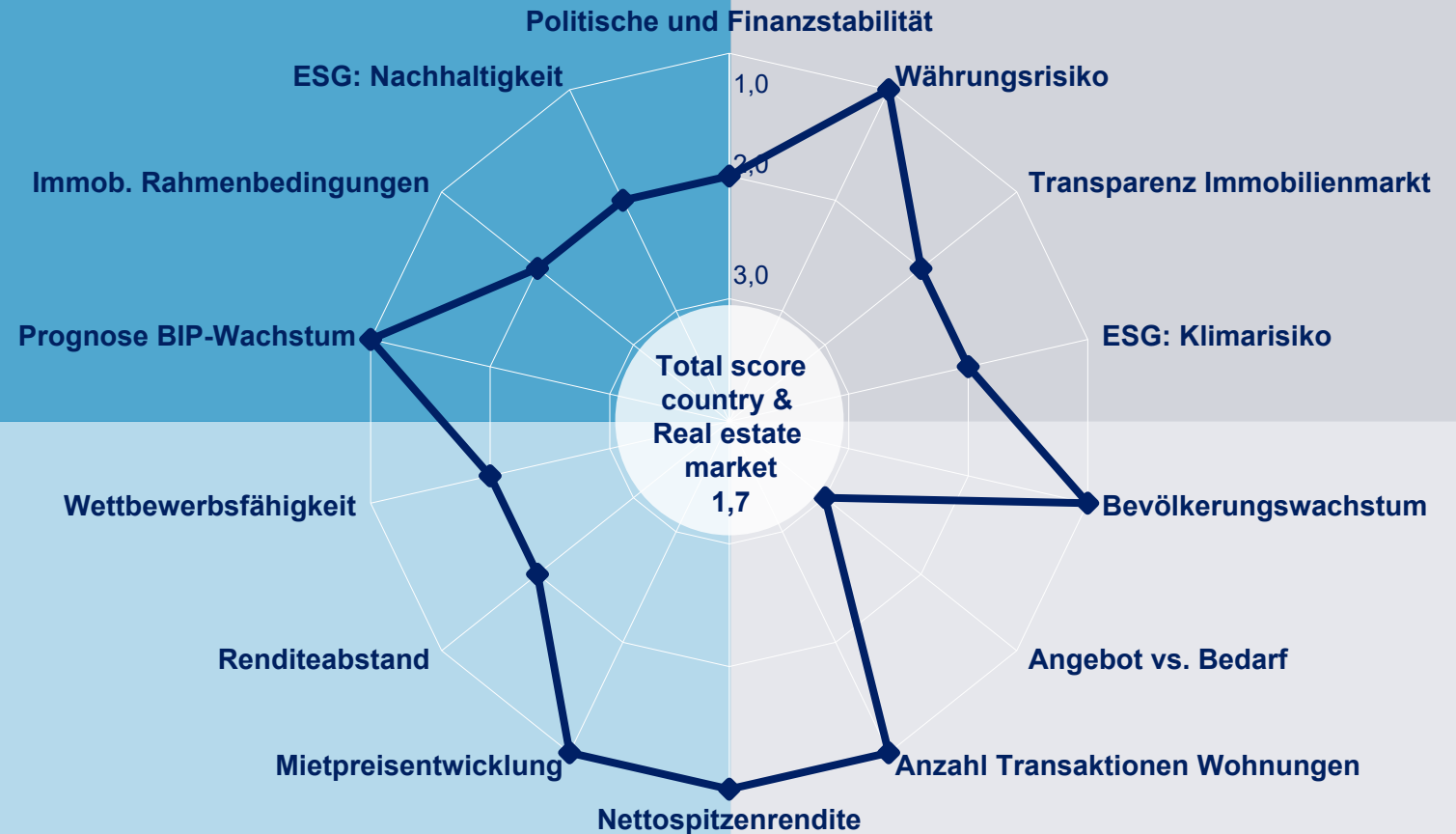
Residential Dublin

Appartments in Dublin offer comparatively high yields with a positive outlook.

- The Irish residential property market is benefiting from dynamic economic growth and the highest population growth of all the markets under review.

- As in other markets, the rise in interest rates is putting pressure on the score of the return component.

- The Dublin housing market (bottom half of the diagram) is currently one of the best rated cities alongside The Hague and Copenhagen.

Dynamics 1,6 | Macro level Ireland | Risk 1,8

Politische und Finanzstabilität
ESG: Nachhaltigkeit
Währungsrisiko
Immob. Rahmenbedingungen
Transparenz Immobilienmarkt
ESG: Klimarisiko
Prognose BIP-Wachstum
Bevölkerungswachstum
Wettbewerbsfähigkeit
Angebot vs. Bedarf
Renditeabstand
Anzahl Transaktionen Wohnungen
Mietpreisentwicklung
Nettospitzenrendite

1,0
2,0
3,0

Total score country & Real estate market 1,7

Return 1,2 | Residential real estate market Dublin | Risk 1,6

Rating: Score 1 = best evaluation,
Score 3 = unfavourable expression of the criteria

Comparison Logistics Netherlands vs. Italy

The Netherlands has a much more balanced profile, offering more investment opportunities with lower risks.

- At the macro level, the Netherlands outperforms Italy in most criteria.

- At approx. 5.3%, Italy offers the highest net yields in the eurozone alongside Portugal.

- The Netherlands achieves net yields with 50 basis points less due to its better risk profile.

- In line with the rating of the individual criteria, the overall scoring is also clearly in favour of the Netherlands (1.7 vs. 2.2).

Rating: Score 1 = best evaluation,
Score 3 = unfavourable expression of the criteria

| Dynamics 1,6 | Macro level Netherlands | Risk 1,2 |
| Dynamics 2,8 | Macro level Italy | Risk 2,4 |

Political and financial stability
ESG: sustainbility
Currency risk
Real estate market conditions
Real estate market transparency
1,0
2,0
3,0
GDP forecast
ESG: climate risks
Total score country & Real estate market 1,7 2,2
Competitiveness
Logistics Performance Index
Yield spread
Industrial production volume
Rental changes
Liquidity (Exit)
Net prime yield

| Return 1,4 | Logistics real estate market Netherlands | Risk 1,8 |
| Return 1,4 | Logistics real estate market Italy | Risk 2,0 |

Scoring Realometer

methodology

Real I.S.

Realometer scoring methodology: Criteria, weightings and indicators

Macro level (country)

		Criteria	Weight-ing	Indicator
Dynamics	1	Competitiveness	10%	Global Competitiveness Index of World Economic Forum
	2	GDP forecast	20%	Average Consensus Economics GDP forecast current year and next year
	3	Real estate market conditions	10%	Qualitative analysis, e.g. lease contract legislation, ancillary purchase costs
	4	ESG: sustainability	10%	Sustainability rating of the country based on the Global Sustainability Competitiveness Index by SolAbility
Risk	5	Political and financial stability	20%	S&P Rating
	6	Currency risk	10%	Maximum negative change of exchange rates within three years from 1999 to today, daily exchange rate data (rolling time slots)
	7	Real estate market transparency	10%	JLL Real Estate Transparency Index
	8	ESG: climate risk	10%	Climate Risk Index based on the World Risk Index of the Ruhr University Bochum, Germany

Office real estate market (location)

		Criteria	Weight-ing	Indicator
Return	1	Net prime yield	10%	Net prime yield (based on most recent data available)
	2	Rental price changes	30%	Rental price changes in percent, current vs forecast next 4-5 years
	3	Yield spread	10%	Net prime yield minus 10-year government bond
Risk	5	Size of market	15%	Office stock (in million sqm)
	6	Vacancy rate	25%	Vacancy rate in percent (based on most recent data available)
	7	Liquidity (Exit)	10%	Annual volume of office real estate transactions

Real I.S.

Realometer scoring methodology: Criteria, weightings and indicators

Bewertung Einzelhandel

		Criteria	Weighting	Indicator
Return	1	Net prime yield	10%	Net prime yield (based on most recent data available)
	2	Rental price changes	30%	Rental price changes in percent, current vs forecast next 4-5 years
	3	Yield spread	10%	Net prime yield minus 10-year government bond
Risk		Private consumption	25%	Change in average private consumption in the last three quarters according to OECD
	6	Share of e-commerce	15%	Share of e-commerce in aggregate retail spending (based on most recent data available)
	7	Liquidity (Exit)	10%	Annual volume of retail real estate transactions

Bewertung Logistik

		Criteria	Weighting	Indicator
Return	1	Net prime yield	10%	Net prime yield (based on most recent data available)
	2	Rental price changes	30%	Rental price changes in percent, current vs forecast next 4-5 years
	3	Yield spread	10%	Net prime yield minus 10-year government bond
Risk	5	Logistics Performance Index	20%	World Bank Logistics Performance Index
	6	Industrielles Produktionsvolumen	20%	Change of average industrial production volume in the last three quarters according to OECD
	7	Liquidität (Exit)	10%	Annual volume of logistics real estate transactions

Real I.S.

Realometer scoring methodology: Criteria, weightings and indicators

Bewertung Hotel

		Criteria	Weight-ing	Indicator
Return	1	Net prime yield	10%	Net prime yield (based on most recent data available); hotel type of business lease/rental contract (no management contract or hotel building without contractual obligation)
	2	Change in RevPAR	30%	Change in RevPAR (revenue per available room) in percent, current vs forecast next 4-5 years
	3	Yield spread	10%	Net prime yield minus 10-year government bond
Risk	5	Demand: trend in overnight stays	20%	Net prime yield (based on most recent data available); hotel type of business lease/rental contract (no management contract or hotel building without contractual obligation)*
	6	Acceptance of offer, change in occupancy rate	20%	Change in RevPAR (revenue per available room) in percent, current vs forecast next 4-5 years*
	7	Liquidity (Exit)	10%	Net prime yield minus 10-year government bond

Bewertung Wohnen

		Criteria	Weight-ing	Indicator
Return	1	Net prime yield	10%	Net prime yield (based on most recent data available)
	2	Rental price changes	30%	Rental price changes in percent, current vs mid-term forecast (5 years)
	3	Yield spread	10%	Net prime yields minus 10-year government bond
Risk	5	Population growth	20%	Forecast population growth over the next 5 years
	6	Construction activity vs requirements	20%	Net growth in number of units in relation to change in number of households over the last five years
	7	Liquidity (Exit)	10%	Annual volume of institutional real estate transactions on the local housing market

* Due to the sharp slump in 2020 during the lockdown phases of the coronavirus pandemic and the correspondingly large percentage changes in the following year or years, the analysis of annual rates of change may not be meaningful. Other meaningful key figures are then determined, e.g. reference is made to the level before the pandemic.

Real I.S.

Contact

If you have any questions, please do not hesitate to contact us

Marco Kramer
Head of Research &
Investment Strategy
Tel. +49 89 489 082 130
marco.kramer@realisag.de

Luca Gudewill
Director Research &
Investment Strategy
Tel. +49 89 489 082 440
luca.gudewíll@realisag.de

Sven Scherbetitsch
Director Research &
Investment Strategy
Tel. +49 89 489 082 132
sven.scherbetitsch@realisag.de

Julian Truxa
Director Research &
Investment Strategy
Tel. +49 89 489 082 167
julian.truxa@realisag.de

Disclaimer

Real I.S.