PRIME CAPITAL

European Real Estate Debt

Newsletter Q2 2022

Summary

> Q1 2022 was the second strongest start to a year for European Real Estate investments after Q1 2020, with a total transaction volume reaching EUR 79.8bn, a staggering 31% increase compared to the same period one year prior.

> Stricter lending policies at banks increase demand for alternative real estate financing instruments, in particular Whole Loans and Mezzanine Finance.

> In rather turbulent times, real estate debt investments continue to display attractive risk-return-profiles. Prime Capital was able to close an attractive Whole Loan for a local supply centre in Northern Germany with an IRR of > 11%.

Real Estate Market Europe

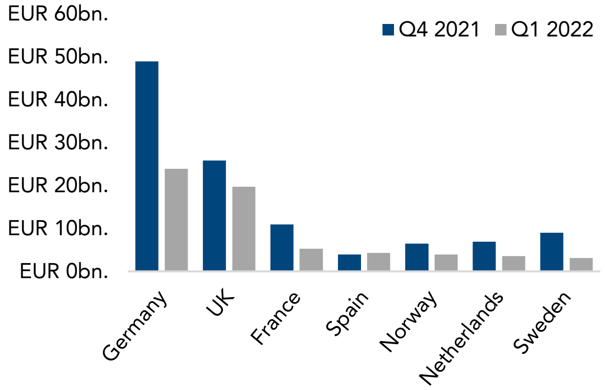

Figure 1: Transaction Volume by Quarter (Western Europe).

The transaction volume in Europe reached EUR 79.8bn during the first quarter of 2022 (YoY: +31%)[1], marking this quarter the second strongest start into a year after the EUR 90bn that were invested during Q1 2020. This brings the investment volume for the past twelve months to an all-time high of EUR 387bn, driven by a particularly strong end of 2021. The strong performance of the first quarter 2022 highlights that institutional investors continue to deploy capital into the European real estate market.

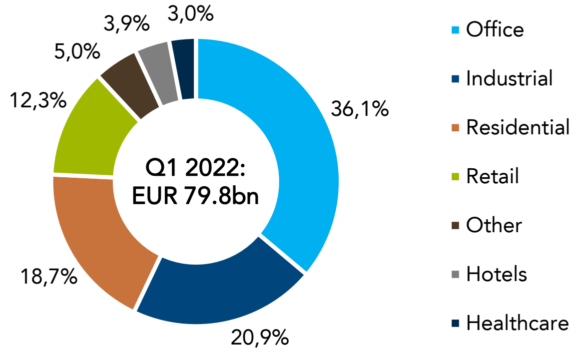

Figure 2: Transaction Volume by Asset Class (Western Europe).

Country-wise, most of the main markets saw increased investment volumes during Q1 2022 compared to the same period a year prior. This includes the UK where volumes

[1] Source: CBRE - European Real Estate Investment Volumes Q1 2022.

were up 52%, Germany (+51%), BeNeLux (+29%), and the Nordics (+33%). However, not all countries were able to enjoy a firm rebound in investment volumes. France is one of the major markets that saw a continuous drop in transaction volumes (-41%), adding more fragmentation to the European investment market.

On a sector level, the industrial sector displayed outstanding performance during the first quarter of the year with increases in investment volume of +993% in Norway, +402% in Spain, +112% in Germany, and +93% in Italy. These figures highlight investors' interest in industrial assets which is fuelled by expectations of rental growth resulting from low vacancy rates and rising demand due to continuous increase in e-commerce activity.

The office segment has outperformed the first quarters of the previous two years in Q1 2022 with investment volumes up 78% versus Q1 2021 and +4% versus Q1 2020. Investors are mainly focused on high-quality, sustainable assets in prime location, driving up competition for such assets. Lower quality assets on the other hand are lagging behind as investors are cautious about the capex needs associated with bringing these assets to adequate sustainability standards.

As the impact of covid-19 on consumer spending and travel continues to recede, the Retail and Hotel sectors saw a firm recovery during the first quarter of 2022, up 72% and 3%, respectively. France and Norway saw the strongest ever Q1 investment volumes in Retail, while Spain witnessed a record-breaking start to the year in Hotels, demonstrating a buoying investor sentiment for these asset classes.

In contrast to most segments, Residential and Healthcare started off the year slower with investment volumes down -18% YoY. While investors remain interested in both segments, investment activity has been slowed down by insufficient stock availability.

Mezzanine and Whole Loan Financing Market Overview[2]

During the first quarter of 2022 we have observed stable returns for Whole Loan and Mezzanine debt strategies for existing properties. The average IRR for Whole Loan financings ticked 50bps higher in Q1 2022 compared to the previous quarter at 550bps (Figure 3). The returns for Mezzanine financings, on average, slid slightly by 10bps to 9.8% (Figure 4) in Q1 2022, and remained significantly above the two year average IRR of 8.7%. LTVs for Whole Loans remained flat at 75% (Figure 3) during the first quarter, while ticking marginally higher for Mezzanine financings at 76%, down 100bps compared to the previous quarter.

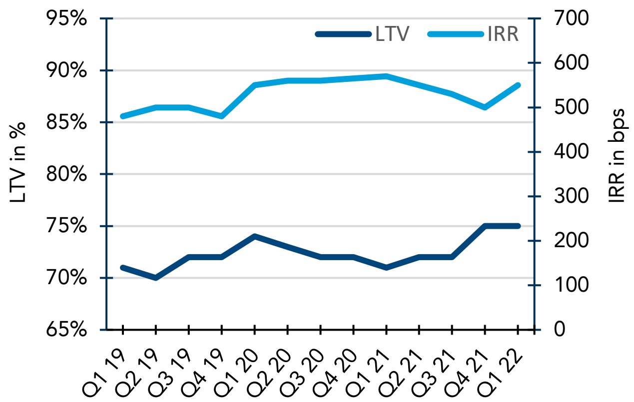

Figure 3: LTV and margins for existing properties Whole Loan financing in Europe.

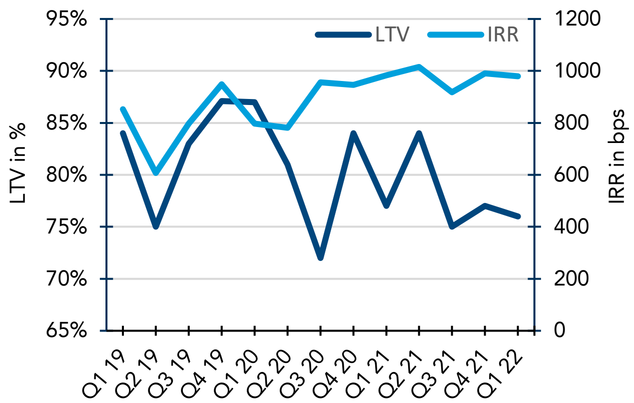

Figure 4: LTV and margins for existing properties Mezzanine financing in Germany.

Project developments offered slightly higher Whole Loan returns in Q1 2022 with 6.5% on average, compared to 6.4% in Q4 2021. Returns for Mezzanine financing remained stable for project development strategies, with average IRRs of 11.5%, 70bps higher compared to the last quarter of 2021. Whole Loan LTCs for project developments have also remained almost constant, at 71% in Q1 2022, 100bps higher than in Q4 2021 and mezzanine loan LTCs, which saw only a slight decrease (-100 basis points) and stood at 82% in Q1 2022.

[2] The aggregated data in this section is based on the transactions conducted by Prime Capital (closed- pipeline- and rejected-deals).

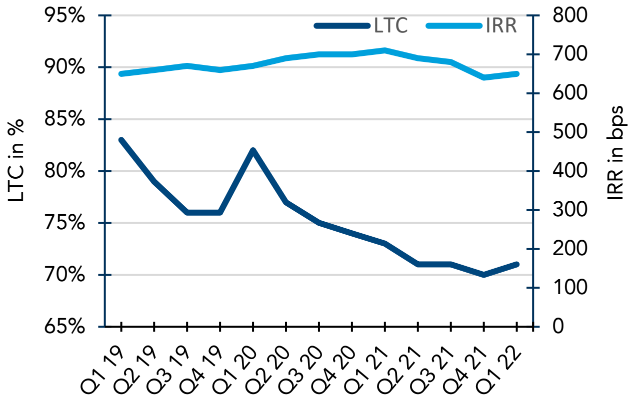

Figure 5: LTC and margins for Whole Loan project development financing in Europe.

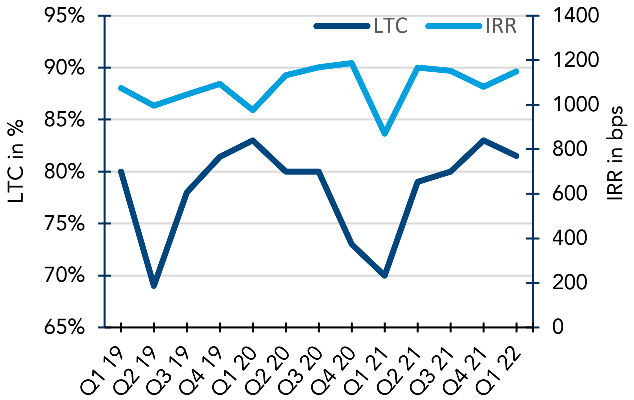

Figure 6: LTC and margins in Mezzanine project development financings in Germany.

Inflation – Uncertainty in the lending market

The mix of war in Ukraine, rising commodity prices and high inflation is leading to a downturn in sentiment among banks for real estate financing. In addition, long-term interest rates have risen sharply and in recent months have made the biggest jumps in decades. If the shortages of goods and raw materials persist or even worsen, inflation could rise further. This would in turn likely push interest rates further up. In addition to higher market interest rates, banks are increasingly demanding risk premiums in these uncertain times, especially after the supervisory authorities criticized stability risks in the German real estate market and announced macro prudential measures. Also, surcharges due to stricter requirements for risk-weighted assets under Basel IV, which have to be applied since 2022, have the potential to slow down lending and worsen financing conditions.

At Prime Capital, we see our Real Estate Debt business well equipped for an environment with monetary uncertainty and policy changes. Our financing focus is on core+, value-add and project developments - thus we achieve high returns with short maturities. The short average loan life gives us the opportunity to react quickly to rate changes and invest repaid funds at adjusted conditions, while our Whole Loans and Mezzanine financings provide wide enough spreads to offer adequate returns on outstanding loans, even as (senior) interest rates tick higher. Moreover, rents of indexed leases adjust to higher levels in case of inflation. Rental income would increase (with a certain time lag) and continues to allow for the continued servicing of interest and principal. In addition, new leases are concluded at levels in line with the market, which are then higher due to inflation.

For all of our closed financings, we've structured financial covenants to mitigate cash flow and refinancing risks as well as further qualitative covenants in order to protect our debt investment appropriately. In our view, risk management is characterized by sound financing structures in prosperous times in order to be adequately protected in the event of a deterioration in market environment. In addition our portfolio management performs close monitoring of cash flow and market value covenants and enables timely activation of appropriate measures.

Sample Q2 2022 Whole Loan transaction

Amongst others in Q2 2022 our real estate debt team was able to close an attractive Whole Loan financing for an expanding local supply centre in Northern Germany. The asset is fully let with a well-diversified tenant base from the resilient food retail asset class and DIY store to serve daily needs. The sponsor plans to modernize the current building and add another building to the complex, as demand for additional space from current and new tenants is very high. We have provided a Whole Loan of > EUR 25m to support the project. The transaction offers an exceptional risk-return profile with a strong security package including a 1st ranking mortgage, a guarantee over the entire loan amount incl. interest provided by the sponsor and an IRR >11%.

> EUR 25m Real Estate financing for a resilient local supply centre in the north of Germany

Region	North Germany	Rank	Senior (Whole Loan)
Sector	Retail Park (food, DIY)	Size	EUR >25m
Strategy	Existing	Term	c. 2 years
WALT	>6 years	LTV	< 75 %
Rental income	>EUR 1,7m	IRR	>11.0%
Exit Value	EUR 43m	Covenants	LTV, debt-to-rent, mile-stones
Total project costs	c. EUR 33m	Collaterals (among others)	1st ranking land charge, 1st ranking pledges, guarantees

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About Prime Capital's Private Debt Team

Our team has been active in the Real Estate Debt market for many years, with a particular expertise in Mezzanine and Whole-Loan transactions and has already carried out transactions of more than EUR 700m. In addition, our wider Private Debt Team invests into Transport Debt, Infrastructure Debt and Corporate Lending. We expect significant further growth in these areas, which provide attractive risk-adjusted returns to our investors.

Prime Capital's Private Debt Team manages assets in excess of EUR 2bn across private debt segments on behalf of institutional investors. Further information about Prime Capital AG can be found on our website www.primecapital-ag.com.

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