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Jan Schweiger
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+49 (0)30 28 44987 65*Press Release***Warburg-HIH Invest Market Report: Real Estate Markets Benefit from Time Factor at Present, and from Attractive Yield Level Long-Term**

- Increased likelihood of a long trough cycle
- Germany will benefit from sound positioning in long run
- Impact on real estate markets subject to time lag
- Real assets remain attractive investment class

Hamburg, 18 May 2020 – Warburg-HIH Invest Real Estate (“Warburg-HIH Invest”) assumes that real assets will remain an attractive asset class for investors with a longer-term investment horizon despite the extreme short-term setbacks the coronavirus pandemic is causing for national economies everywhere. According to a current assessment by Professor Dr. Felix Schindler, Head of Research at Warburg-HIH Invest, Germany is in a comparatively sound baseline situation, even if the level of uncertainty is high at the moment. “There is no blueprint how to cope with the ongoing crisis, and the decisive factor to gauge the scale of the ramifications is the duration of the pandemic,” said Schindler. A swift return of the national economies to the level prior to the onset of the corona pandemic seems less and less realistic. “The recovery of the national economies will take an increasingly disproportionate length of time the longer lock-down, restrictions and uncertainty drag on. Going forward, we consider an extended trough cycle more and more likely at this time,” explained the researcher.

“In the short term, we expect to see a massive drop in transaction volumes on the real estate investment markets,” said Schindler. The travel restrictions alone suggest as much. “It will only be after a certain delay that major, long-term ramifications of the coronavirus crisis will hit the real estate markets. For the time being, this widens the freedom of action in asset management,” as the economist elaborated. “Considering the persistent investment pressure—especially in the core sector—we anticipate expanding risk spreads, especially for riskier investment styles, single types of use and for specific locations or countries,” predicted Schindler. At the moment, the occupier markets show a greater level



of restraint among companies that are planning to expand and the temporal postponement of new rentals, and this will cause the brisk rental dynamics of recent years to slow down noticeably. “When you look at the historically low vacancy rates and a moderate building activity, we have an excellent baseline situation on the German occupier markets compared to previous crises, and this should have a stabilising effect,” as Schindler emphasised.

The high level of uncertainty and the looming recession is already reflected in virtually all purchasing managers' indices and sentiment indicators. On top of that, the shock for the real economy has now reached the financial market and triggered turbulences. “With the first weeks of crisis behind us, faith in the measures taken by central banks and governments has increased, and we are back in calmer waters,” said Schindler. Warburg-HIH Invest expects risk premiums to go up but interest rates to stay low for a long time to come. “We are looking at a ‘lower-for-longer scenario’ and thus at a low interest rate environment that we will have to work with for an indefinite period of time,” the economist explained. “Since secure bond markets yield only insignificant returns, and since equity markets are defined by a high degree of volatility, the investor interest in safe real estate investments with stable cash flows will persist, and so the very high pressure to invest in real assets is here to stay.”

Germany shows comparatively sound parameters for coping with the coronavirus crisis. In regard to fiscal policy measures and aid packages, the London-based “Deep Knowledge Group” think tank ranks Germany first, ahead of the United States and Japan. “The budget surplus of recent years and the successful model of short-time work arrangements help the German economy tremendously in its efforts to weather the crisis,” said the economist. Generally speaking, Germany still counts among the safe haven internationally, as reflected in the fact that it ranked second in the “Safety Countries Ranking” by the Deep Knowledge Group. “The quarantine concept is proving effective, the government measures are kicking in, and the healthcare system is up to speed. The sound institutional and economic parameters will ensure that capital will keep pouring into Germany and be committed in real assets,” commented Schindler.

That being said, each of the use types in the real assets sector presents a different picture. The hospitality segment already anticipates substantial corrections, and expects them to hit near-term, whereas the retail segment requires a differentiated approach. Comparatively stable is the performance of neighbourhood centres anchored by retailers from the food and toiletries sectors. In the case of shopping centres, losses in revenues are already being felt because leases here tend to include turnover rent clauses. “In the office sector,” said Schindler, “the effects we see appear to be moderate and downstream, because there are currently no indications for a deeper, prolonged recession that would cause a massive downturn on the labour market.” Although the logistics segment is impacted by collapsing supply chains, the sector is credited with a positive long-term outlook because of accelerated online retailing, the increased warehousing of safety-relevant products by companies and government



institutions and with a view to the possible creation of redundant supply chains. Ramifications are expected to be least dramatic on the housing market. Because of the extensive government aid programs, Schindler anticipates “partial collection losses at worst.” However, even the residential segment includes formats with increased exposure, such as serviced apartments and micro-living, because these are dependent on business and travel activities.

All things considered, Warburg-HIH Invest believes the structural parameters for real estate markets remain attractive even in the wake of the coronavirus crisis. “The demographic mega-trends remain intact while the low interest rate environment and the volatility of equity markets are here to stay,” said Schindler.

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**Prof. Dr. Felix Schindler, Head of Research
Warburg-HIH Invest**



About Warburg-HIH Invest

Warburg-HIH Invest is one of the leading investment managers for real estate in Germany and Europe. We adopt a future-oriented approach to finding, developing and managing properties in the interests of our clients.

Decades of experience, proximity to the real estate markets and a tight-knit network allow us to identify real estate opportunities and quickly implement them in the right phase of the market.

Around 150 institutional clients have entrusted their investments to Warburg-HIH Invest. Our specialists for structuring, product development, real estate management and market development all work to develop the right investment solutions for them.

Warburg-HIH Invest is represented at ten locations throughout Europe. As part of the HIH Group, our in-house capacities cover the entire real estate investment value chain.

Early identification of changes in the market, implementation of regulatory requirements and future-oriented digital management are part of our corporate philosophy.

We currently manage assets with a volume of more than EUR 11.3 billion across 71 funds.

More information can be found on the the company's website at: www.warburg-hih.com/en