PRIME CAPITAL

German Real Estate Debt

Newsletter Q3 2020

German Real Estate Q3 2020 Overview

> The trend of decreasing LTC / LTV values and increasing margins that characterised the first half of 2020 has continued into the third quarter.
> In the first three quarters of 2020, German real estate transaction volume (EUR 58.1bn) was approximately the same as in the first three quarters of 2019. After a strong Q1 (+82% YoY), Q2 and Q3 suffered from the impact of the Covid-19 pandemic.
> Focus topic / sample transaction: Food retail proved to be a resilient asset class during turbulent times.

Real Estate Market Germany

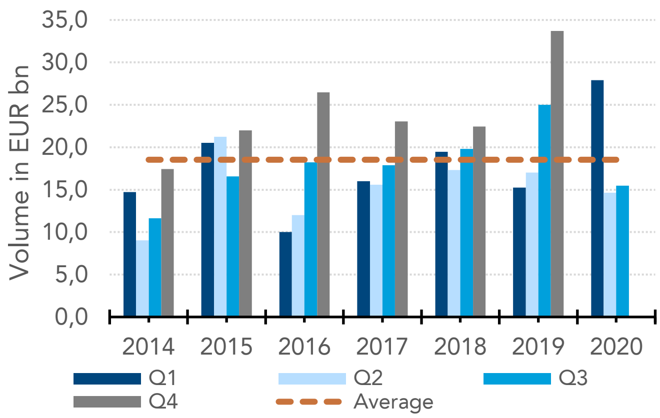

Figure 1: Transaction Volume Germany

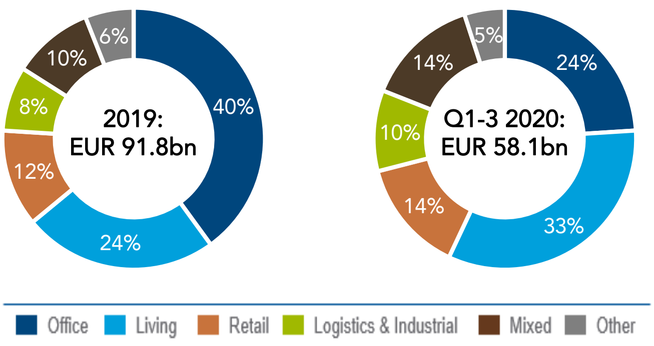

Figure 2: Transaction Volume by Asset Classes

PRIME CAPITAL

As shown in Figure 1[1] , the total German transaction volume in the first three quarters of 2020 amounted to around EUR 58.1bn, which is slightly more than the volume during the first nine months of 2019 (+0.9%). The Top 7 cities accounted for a total volume of EUR 26.6bn, corresponding to a 45.8% share of the total transaction volume. Compared to the same period last year, the transaction volume decreased by 17%. Berlin remains in its dominant position, although transaction volume has decreased by 29% to EUR 8.3bn. Hamburg remains the only city where transaction volume has increased: Deal volume was EUR 4.9bn in the first three quarters of 2020, an increase of 29% compared to the same period last year.

Looking at the different segments, EUR 19bn or 33% of the total transaction volume has been invested in the residential sector, representing the largest share of all segments (see *Figure 2*). Secondly, office properties that have been traded in the first nine months of the year accounted for a significant lower share of EUR 14.2bn or 24% of total transaction volume during the first three quarters. Retail properties accounted for EUR 8bn (14%).

Net initial prime yields for logistics in the Top 7 fell by 22 bps to 3.53% and for offices by 6 bps to 2.85%. Yields in the retail sector were broadly stable as investors remain cautious. Shopping-centre yields were stable at 4.75%, warehousing-park yields dropped by 20 bps to 4.0%, warehousing-solus-unit yields dropped by 20 bps to 4.6% and high-street yields increased by 2 bps to 2.89%.

Mezzanine Financing Market Overview

Q3 was characterised by an increase in interest rates and lower LTVs in the mezzanine financing market, especially for existing properties. In general, as banks try to reduce their exposure to real estate debt, mezzanine lenders have started to play a more central role in real estate-financing transactions, which allows them to obtain more favourable terms such as higher coupons and lower LTVs.

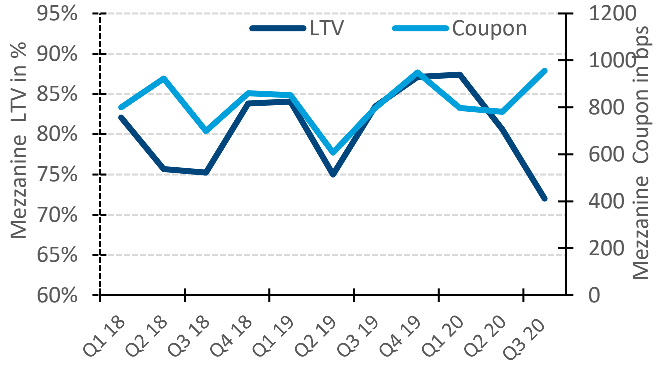

Figure 3: LTV and margins for existing properties mezzanine financing in Germany

Based on Prime Capital's proprietary deal database[2], recent LTV values for mezzanine financings of existing properties over the observation period (Q1 2018-Q3 2020) ranged from 72% to a maximum of 87%. The average LTV for Q3 2020 was moderate with 72% (-8pp in comparison to Q2 2020).

Coupons[3] ranged from 607 bps to 956 bps. The average margin across all property segments and locations in Q3 2020 was 956 bps. This implies a 159 bps increase compared

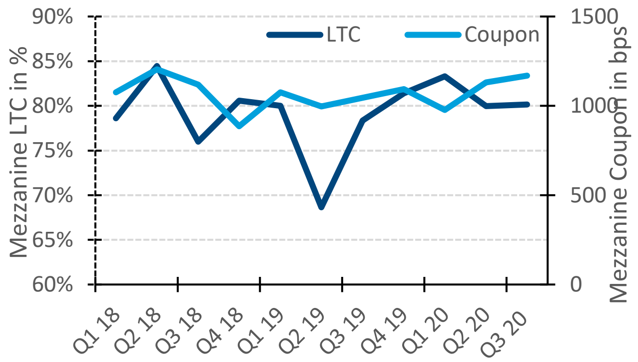

Figure 4: LTC and margins in mezzanine project development financings in Germany

to Q3 2019.

For mezzanine financings of developments, LTC values over the observation period (Q1 2018-Q3 2020) ranged from 69% to a maximum of 84%. The average for Q3 2020 is 80%.

Coupons[3] ranged from 886 bps to 1,204 bps. The average margin across all property segments and locations in Q32020 was 1,169 bps, which implies an increase of 192 bps compared to Q1 2020 and a 123 bps increase compared to Q3 2019.

[1] Source: JLL, Investment Market Overview, October 2020, page 2, available under: https://www.jll.de/en/trends-and-insights/research/investment-market-overview

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

[3] These are coupons which are not all-in margins, i.e. possible other fees (e.g. up-front) payable by the borrower are not included.

PRIME CAPITAL

The trend of decreasing LTC and LTV values and increasing margins that characterised the first half of 2020 has continued into the third quarter. This is the direct result of banks' decision to reduce lending to the sector, which we expect to continue in Q4 as well.

Food retail - a robust anchor in turbulent times

When it comes to reliable, income-generating real estate, grocery stores are near the top of the list for a number of today's institutional investors.

This is not surprising, as supermarkets have proven its resistance to crises in times of corona restrictions. While many retail segments completely lost sales due to forced closures, the food retail sector even recorded sales growth in some cases. Thus, even during the COVID 19 peak, most food retailers continued to meet their rental payments.

Grocery store assets – as well as grocery-anchored local shopping centres – are also regarded as more resilient to the rise of e-commerce than other retail sub-sectors. The local, personal experience remains the preferred model for food shopping at present for many reasons. Consumers still prefer to choose their fruit, vegetables, meat and fish by hand. The other major issue is price, as profit margins in the world of food retail are already very low, so adding professional pickers and delivery involves costs that consumers have so far been largely unwilling to bear. While retailers have been put off by economics, shoppers continue to build this routine with often repeated, fairly inexpensive purchases into their day or week.

The low penetration of online food shopping – between 1 and 3% in Europe – has increased the confidence of property investors in supermarket investments. One further reason they're proving popular is that classic real estate fundamentals, such as location and credit-worthiness of tenants, are easily verifiable. We believe, the food retail sector will continue to prove attractive to those investors seeking strong, stable returns over longer periods.

Example for a mezzanine debt supermarket deal:

In Q3 2020 Prime Capital closed a mezzanine financing of EUR 60.0m for the acquisition of a large food-retail portfolio, located throughout Germany.

The portfolio consists of more than 100 food-retail properties, predominantly leased to major food retailers such as EDEKA, Schwarz Group and Rewe Group. The sponsor is a real estate investment group focusing on food-anchored real estate such as supermarkets and discounters. The financing is structured with a term of 5 years, strong covenants and an attractive IRR in the high single digits at a moderate LTV. The investors are two Prime Capital managed real estate mezzanine debt funds. Below you can find an overview over the financing:

Properties

Sector	Food-Retail
Units	120
Lettable area	> 275,000 sqm
Parking lots	> 12,000
Rental income	c. EUR 33.0m
WALT	4.7 years
Occupancy rate	96.0%

Mezzanine financing

Rank	Subordinated
Amount	EUR 60.0m
Term	5 years
LTV	Moderate
IRR	High single digits
Covenants	e.g. LTV, DSCR and WALT
Collateral	1st lien share pledge i.a.

PRIME CAPITAL

About Prime Capital's Private Debt Team

Our Real Estate team, which has been active in the Real Estate Debt market for many years, has already carried out transactions of more than EUR 500m. The Private Debt Team additionally invests in Aviation Debt (& Equity), Infrastructure Debt and Corporate Lending. We expect significant further asset growth in these areas, while providing satisfactory risk adjusted returns to our largely institutional investors.

Prime Capital's Private Debt Team manages in excess of EUR 2bn across these asset classes for institutional investors. Further information about Prime Capital AG can be found on the web site
www.primecapital-ag.com

Contact:

Dennis Davidoff
Investment Manager
Private Debt

Prime Capital – Portfolio Management Private Debt
impd@primecapital-ag.com

PRIME CAPITAL

Disclaimer:

*The information and opinion contained in this document (hereinafter "**Information**") is provided only for advertising purposes, and is not construed as a solicitation or an offer to buy or to sell any securities or financial instruments in any jurisdiction whatsoever. It does not constitute an official confirmation, invitation, solicitation or offer to subscribe for or purchase or sell any of the products or services of Prime Capital AG, Frankfurt am Main. No investment decision should be made on the basis of this document. The Information contained herein may not be complete and may not contain all relevant material information related to any (financial) instrument presented. No representation or warranty is made or implied concerning, and Prime Capital AG assumes no responsibility for, the accuracy, completeness, reliability or comparability of the information contained herein relating to third parties.*

The Information contained in this document was obtained in good faith from sources considered to be reliable, but its accuracy, completeness, reliability, or comparability is not guaranteed or otherwise warranted or represented by Prime Capital AG. Specifically, the Information contained herein has been obtained from third party sources, which is based solely on publicly available information. Prime Capital AG makes no representation, express or implied, as to the accuracy, correctness, suitability or timeliness of such data. In particular, Prime Capital AG is not obligated to update information provided in this document or to delete obsolete information from this document. The information provided in this document may change at any time without prior notification. As a result, information once published in this document may not be understood to mean that matters have remained the same since publication or that the information is still up-to-date following its publication. The validity of the information is limited to the point in time of their being issued and may change based on market developments.

This document and the Information contained herein is confidential and intended only for the person to whom it has been provided and under no circumstance may a copy be shown, copied, transmitted, or otherwise given to any person other than the authorized recipient without the prior written consent of Prime Capital AG.

The content of this document is protected by intellectual property rights owned by Prime Capital AG. The reproduction, transmission (electronically or by other means), linking, alteration, storage, archiving or other uses for public or private use of information or data, in whole or in parts, in particular, the use of texts, portions of texts or images requires the prior consent of Prime Capital AG. In particular, you are prohibited from:

- *i. copying this document in whole or in parts (whether by printing them on paper, saving them to a file or otherwise);*
- *ii. removing, changing or otherwise making the content of this document incomprehensible or using the material contained on this document in a manner other than intended in these legal notices and terms of use;*
- *iii. using this document or the information it contains for unlawful purposes.*

The Information provided herein is not taking into account any particular person's objectives, financial situation or needs. Investors should before acting on the information provided in this document, consider the appropriateness of the information having regard to their individual objectives, financial situation or needs.

Please bear in mind, that any forward looking statements re targets and achieving such targets is subject to unexpected risk and uncertainties and can not be guaranteed in any way.

Privacy:

Prime Capital AG is committed to protecting your privacy. The types of personal information we collect about you depends on the relationship with us. They include (i) your personal contact details such as name, title, postal addresses, email addresses and telephone numbers, (ii) the company you work for and your position, (iii) identification and background information we may collect about you as part of our business acceptance procedures, (iv) technical information such as information from your visits to our website or relating to the event invitations, updates, marketing material, and other communication we send to you electronically, (v) your communication preferences regarding marketing materials or (vi) any other personal information you provide to us during your relationship with us, such as dietary requirements, any physical disability and your views and comments.
They ways in which we collect personal information about you may include the following: (i) in the course of our business acceptance procedures, (ii) through your general use of our website . In particular, we collect personal information about you if you complete forms on our website and if you send emails to firm personnel, (iii) through your responses to our emails asking that you confirm and update information we maintain about you, or that you provide your consent for us to communicate with you, or (iv) through information you may provide to representatives of our firm at conferences or similar events.