PRIME CAPITAL

German Real Estate Debt

Newsletter Q4 2021

Summary

> Q3 2021 was the strongest quarter for the German RE market in terms of transaction volume over the last 5 years with a total deal volume of EUR 27bn and EUR 60.8bn YTD.

> Loan margins for mezzanine financing remain stable at a high level.

> The pipeline and opportunity set for established alternative lenders continues to grow. Prime Capital was able to close an attractive financing for a residential portfolio in Germany with an IRR of > 8%.

Real Estate Market Germany

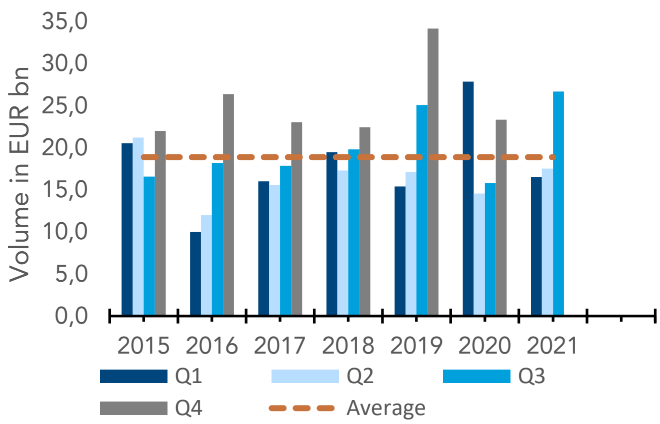

Figure 1: Transaction Volume by Quarter (Germany).

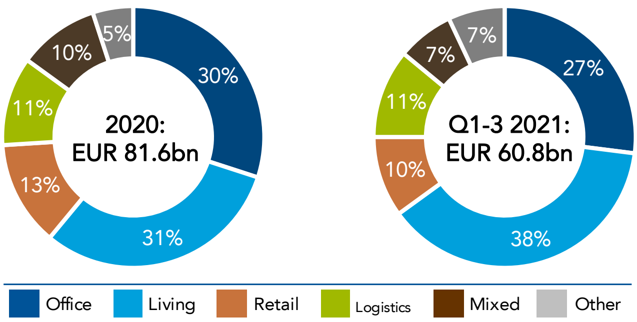

Figure 2: Transaction Volume by Asset Class (Germany).

The transaction volume in Germany amounts to EUR 60.8bn in the first three quarters of the year (see Figure 1[1]). The third quarter alone adds to EUR 27bn or 44% of the total. A number of high-priced single-asset transactions contributed to this development, primarily the two Frankfurt office buildings T1, which was sold to Allianz for around EUR 1.4bn and Skyper, which was sold to Ampega for around EUR 550m. In addition, another promising office project at Mainzer Landstrasse 23 in Frankfurt's banking district was acquired by CV Real Estate AG for approximately EUR 185m. A total of 35 office transactions, worth over EUR 100m, were completed in 2021.

[1] Source: JLL, Investment Market Overview, July 2021.

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Residential remains the most popular asset class among investors. A total of more than EUR 23bn was invested in this sector in the first three quarters, which accounts for 38% of the total transaction volume and significantly exceeds the annual figures for 2018 and 2019. Office properties follow with 27% (or 16.4bn by the end of Q3). Total volume in Q3 increased by 10% year-on-year to 9bn. As international players gradually return to the German market, conditions should be attractive for a further increase in transaction volumes. The rumors surrounding the sale of the Marienturm in Frankfurt's CBD should be highlighted here. A bid of EUR 830m by a Korean investor is reportedly on the table.[2] Furthermore, the logistics asset class continues to enjoy great popularity. Transaction volumes of 6.4bn (11%) in the first nine months of the year and 2.6bn in the last three months have been reported. Here, too, a high proportion of foreign capital is expected to have flowed into the market (around 50%). The retail sector accounted to 10% or 5.9bn, thereof around 74% were invested in more resilient segments such as supermarkets, discount retailers and retail parks.

Top 7 cities continue to have investors' favours, with transaction volumes rising to EUR 35.9m in the first three quarters, up 36% year-on-year. Growth was particularly strong in Berlin with EUR 15.6bn (+91% y-o-y). More than half of these were realized in the residential sector.

Mezzanine Financing Market Overview

Prime Capital's proprietary deal database[3] provides more transparency into the opaque CRE debt market. In the last 12 months, we have observed stable margins for existing properties of around 9% IRR (Figure 3) on average, though Q3 saw a minor compression.

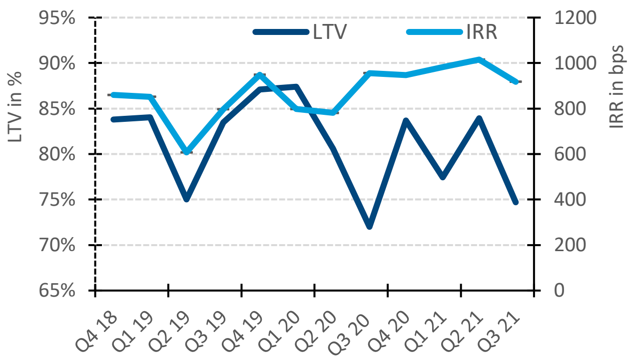

Figure 3: LTV and margins for existing properties mezzanine financing in Germany.

Margins for development financings (Figure 4) have been hovering around 12% over the last two quarters. It appears that competition to source good project development financings triggered by Covid-19 has slowed down the pressure on interest rates. Interest rates for developments below 8% are a thing of the past for now.

On average, LTV values for mezzanine financings of existing properties during the quarter ranged from 73% to a maximum of 86%. The average LTV in Q3 2021 is at 75%, implying a nine percentage point decrease vs. Q2.

Mezzanine financing of developments exhibited LTC values during the quarter from 60% to a maximum of 85%. The average for Q3 2021 was at 80% (+1pp in comparison to Q2 2021).

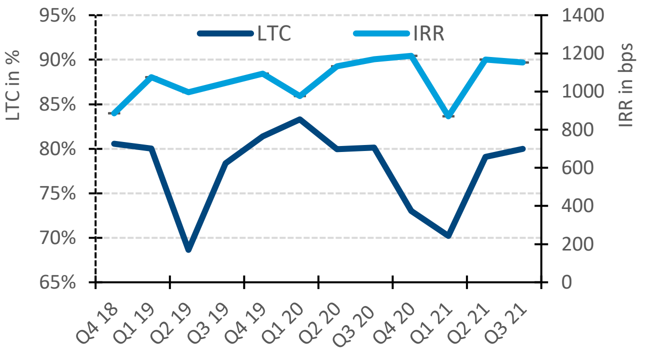

Figure 4: LTC and margins in mezzanine project development financings in Germany.

Current Alternative Financing Market

The world is still under the influence of the Covid-19 pandemic. Even if large parts of the real estate industry have weathered the crisis well so far, the pandemic has not left individual asset classes unscathed. These certainly include the non-food-anchored retail and hotels. In this environment, banks remain cautious and are reluctant to provide senior financing. Senior lending by banks has fallen by an average of 20% over the past twelve months[4]. In most cases, subordinated lenders were able to fill the resulting gap and also stepped in when banks offered insufficient loan-to-value ratios. At just under EUR 6.1bn, the mezzanine volume in 2020 was roughly at the previous year's level. Subordinated volumes are expected to increase significantly in 2021.

Our observations so far in 2021: Demand for mezzanine capital is rising, but it is mainly offered for well-prepared and solidly structured financings with an appropriate collateral concept that is being implemented. The share of smaller mezzanine loans (<EUR 6m) is decreasing. Overall, the average loan size has continued to climb, while the absolute number of transactions has declined. It can be observed that temporarily higher interest rate expectations have

[2] According to "CoStar News".

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

[4] FAP Mezzanine Report 2021.

normalized to pre-corona levels, but are on average approx. 50bps higher on a risk-adjusted basis than before the pandemic.

The clear winner of the crisis remains the residential asset class. In addition, of course, top locations such as the top 7 cities continue to enjoy great popularity. However, we also felt a slight restraint in the financing of office properties. Increasing home office use and the continuing uncertainty as to what space will be needed at all in the future, made assessment difficult at times. But here, too, the market has visibly normalized - not least because many mezzanine providers have stepped in and countered the reluctance of banks to provide senior financing with higher mezzanine tranches. In good locations and with corresponding pre-letting rates, office continues to be a popular asset class.

A clear trend can be observed among capital investors: Institutional investors are increasingly investing in the mezzanine/ whole loan asset classes via credit funds, as lending is complex and risk diversification is becoming increasingly difficult to achieve in-house. If you look at foreign investors such as Asian investors, who were very active in Germany before the pandemic, continue to have a difficult time. Due to travel restrictions and the requirement of on-site visits for properties to be financed, financing in Germany was still virtually impossible. However, Asian investors are ready and waiting for travel restrictions to be lifted soon, so they can pursue projects in Germany. In addition, another trend can be observed in the CRE market: demand for whole loan solutions is on the rise. More and more market players perceive the value of "one-stop shop" solutions that avoid having to wait for an agreement between senior and mezzanine lenders.

Prime Capital closed a EUR 15m mezzanine financing with >8% IRR for a residential portfolio in Germany

As one of several transactions, we were able to close an attractive residential transaction with our mezzanine debt fund in this quarter. The financed diversified portfolio consists of 28 existing residential properties across 7 German locations (among others Hamburg and the Rhine-Main Region in the greater Frankfurt area) with a market value of EUR 140.1m. All assets are fully let at affordable rental levels. The sponsor is an institutional real estate investor specializing in residential properties with value-add potential. The provided mezzanine financing will be used to partly finance capex measures and to distribute equity. We structured the bearer bond with a term of 2y + 2x 1y extension options (incl. a make-whole mechanism), second-ranked land charge and subordinated securities with an additional directly enforceable guarantee provided by the involved fund. An IRR of more than 8% will be achieved via a regular coupon, upfront fees and a PIK component (see following table for further information).

We look forward to the end of the year and to 2022 with confidence, in light of the extensive pipeline of attractive projects we are working on.

Attractive > 8% IRR return for a diversified German residential portfolio mainly in A & B cities

Property			Mezzanine
Portfolio	28 residential properties	Amount	EUR 15.0m
Sector	Residential	Term	2y + 2x 1y extension option
Strategy	Portfolio financing with capex investments	LTV	< 80 %
Rentable area	> 60.000 sqm	IRR	> 8.0%
Units	> 500	Covenants	DSCR, LTV
Market Value	EUR 140.1m	Collaterals (among others)	(i) 2nd ranked land charge, (ii) Guarantee of the fund

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 600m. 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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