Confidence must be earned

Amundi ASSET MANAGEMENT

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Covid-19: short-term pain, long-term opportunities for European commercial real estate

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Dear client,

The Covid-19 crisis now appears to be deeper and more widespread than initially estimated by financial markets, and it is placing a huge strain on the global economy. In this new and evolving context, real estate is likely to share in the economic pain in the short run, but could prove resilient in the longer term given its defensive features, including its ability to dampen volatility and bring diversification to portfolios.

Investors are already aware of real estate's added value. The asset class has enjoyed impressive success over the last decade. Real estate markets have been growing strongly, bolstered by a low-rates environment and the subsequent 'hunt for yield' among investors. This growth should remain in place once the worst of the Covid-19 crisis is over, with government bond yields trending even lower across developed markets.

Investment flows have been boosting real estate markets all over Europe in the past few years: investment markets have proved healthy and valuations have benefited from a lack of supply that has pushed yields downward in the most sought-after locations. For leasing markets, office rentals have been supported by healthy labour dynamics across Europe. As the global economy suffers from the fallout of the pandemic in the coming months, there may be some upward pressure on yields, in particular for real estate segments and locations considered less resilient.

On a longer-term perspective, real estate's defensive features and its well-known benefits for investors are likely to provide some immunisation from the crisis. Real estate's dynamics are driven by deep-rooted societal and demographic changes, including the rising focus on climate change. The high visibility on rental cashflows, especially for properties on long-term leases, is appealing to institutional investors. In addition, the persisting low interest rates have created a significant premium over most fixed income securities. Finally, should the current crisis lead to higher inflation, real estate may offer a good hedge as rents are indexed in most geographies and sub-asset classes.

A lot of uncertainties remain around the impacts of the Covid-19 crisis on the economy and financial markets, and also on real estate. However, some pre-existing trends could be strengthened by this unprecedented health crisis. For offices, there were many comments from the industry about how the widespread lockdown could dramatically change the way people work, with an overwhelming rise of smart working and wellness in offices. The same could be the case for retail and logistics, with the rise of e-commerce, together with the importance of supply chains and locations. Finally, it is our conviction that ESG investing is a long-term trend that is much valued by investors in real estate investing. Today, the environmental aspect of ESG is a must-have, with the integration of carbon footprint measurements coming on the back of high demand for climate change. The Covid-19 crisis could play a significant part in highlighting the importance of the 'S' pillar for social matters in ESG investing, including building new types of workplaces that aim to preserve employees' health and improve employees' networking.

Many developments are ongoing at the moment and it is difficult to make any accurate predictions. In uncertain times, asset managers must keep their eyes open to be able to jump on any opportunity and investors should stick to fundamentals as they prepare for the new cycle. Real estate investment has solid fundamentals that can help investors seize any opportunities arising from the fast-growing trends in offices, retail, logistics or ESG. We hope that reading this article will help investors forge some convictions around real estate fundamentals and longer-term dynamics.

European real estate in the wake of Covid-19

"A drop in leasing and investment activities is expected in 2020 in many countries, even if a rebound is likely in Q4 as this is dependent on the economic and outbreak situations."

Over the past few weeks, most Western economies have remained frozen by the lockdown measures taken to contain the Covid-19 pandemic. These measures have already had an unprecedented economic impact, but the magnitude of the long-term fallout is difficult to assess at this stage. **For real estate, we believe that the short- and long-term impacts have to be distinguished: cashflows (e.g., rents) are being hit in the short term, while in the long run some real estate markets' pre-existing structural trends might accelerate.**

The lockdown measures implemented in many European countries have significantly affected corporate activity, with some companies adapting to the new safety rules and others shutting down temporarily. In real estate markets, this situation led many companies to postpone their projects or decisions to the post-lockdown period due to the travel limitations (e.g., on-site visits were not possible). In addition, due to the lack of visibility, market players widely adopted a 'wait-and-see' strategy. Therefore, we expect **a drop in investment and leasing activities in 2020 in many countries, even if a rebound is expected in Q4 as this is dependent on the economic and outbreak situations.**

Deals that were at an advanced due diligence stage when the crisis hit typically went ahead. **For both tenants and landlords, an immediate impact of the lockdown measures was a decrease in financial inflows.** Under such exceptional circumstances, many tenants asked their landlords to postpone rental payments. **The most affected sectors have been hospitality and retail**, as many hotels, retail shops and shopping centres have been closed for weeks. **Logistics appears to be more resilient** thanks to flourishing e-commerce activity, although some subsectors could be impacted adversely, mainly those linked to industrial activity or brick-and-mortar retail. **Offices and senior housing have been less impacted at this stage**, even if smaller companies are struggling. **Residential also seems resilient**, though changes in the unemployment rate and cost of financing have to be monitored closely as these directly impact this sector.

Short-term impact on leasing markets

"The situation on the leasing market before Covid-19 could smooth the effects of the crisis, even if there are divergences between real estate segments, sectors and locations."

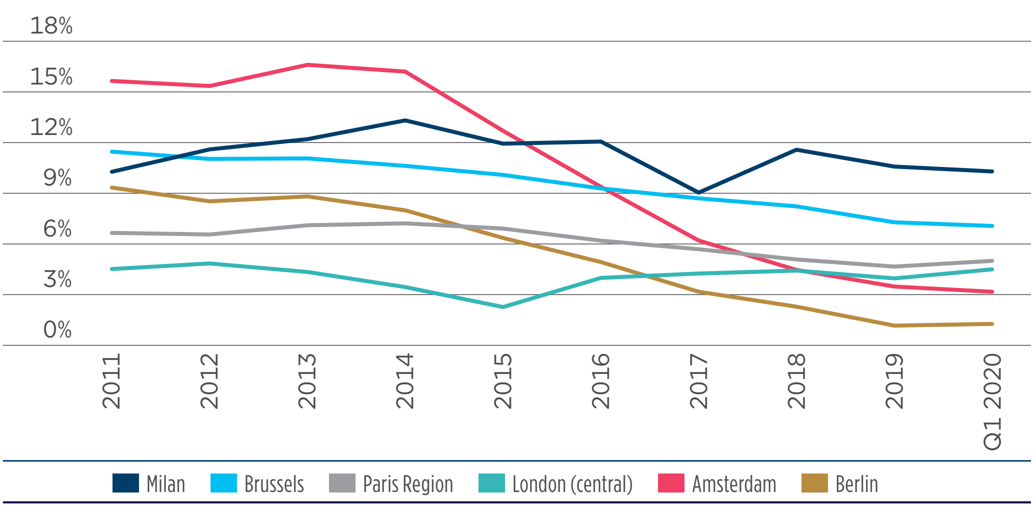
A key issue is the impact of the current crisis on rental values and dynamics. We expect a deepening of pre-existing divergences between private real estate segments (e.g., core and core plus vs value-added and opportunistic) and sectors, such as retail, hospitality, logistics and offices. **Before the Covid-19 outbreak, the leasing market in Europe was favourable for logistics and offices, while more contrasted for retail**. In recent years, **demand for logistics** has been boosted by the rise of e-commerce, while the demand for **offices** was supported by:

- **strong employment figures;**
- **a lack of supply for new buildings in central areas;** and
- office space being a **means to attract and retain talent.**

On the back of the high demand, vacancy rates have dropped over the past few years, sometimes sharply. This was particularly true in the central business districts (CBDs) of Berlin, Munich and Paris. This led to increases in rents in many CBDs and also in the surrounding areas. Vacancy rates should increase slightly but overall they should stay in their historical lower range throughout 2020.

"The current crisis could downgrade the financial situation of many retailers and push rents downward, depending on the strength of the economic recovery."

Figure 1. Office vacancy rates, end of period



Source: Amundi Immobilier on CBRE Research data (Q1 2020). Data as of 7 May 2020.

According to our base macroeconomic scenario of a strong recession followed by a slow recovery from end 2020/early 2021, the demand for offices could be impacted adversely, at least until visibility and confidence improve. Since the level of the Eurozone GDP in 2021 could stay below its level of 2019, the employment rate will suffer, and office rental demand could be dampened – even if uncertainty remains high at this stage.

On this basis, we believe that **the pre-outbreak situation in the office leasing market could smooth the effects of the crisis, even if there are divergences between real estate segments, sectors and locations**. Data on unemployment and employment intentions will have to be monitored closely as they are key drivers of office space demand. Another key factor is the financial situation of tenants, i.e., their ability or not to keep on paying the previous level of rents.

The pandemic has hit two segments of the leasing market most harshly due to the lockdown measures: **hospitality and retail. The hotel sector was hit the hardest**, as the travel industry has been almost completely shut down. The prospects for the rental income of shopping centres are weak in the short term, except for supermarkets and discounters, where cashflows have stayed positive so far. Lockdown measures have weakened discretionary private spending, with the luxury segment under heavy pressure.

"Investors and lenders are expected to adopt risk-averse behaviour in the short term, favouring assets with high-quality tenants and locations, as well as focusing on liquidity issues."

Now that lockdown measures have been lifted, the uncertainty over the speed of the economic recovery is hinging on consumer sentiment and behaviour, as well as some fears around crowded spaces such as shopping centres and hotels.

This crisis comes on top of an already challenging situation for the retail market. Many international retailers have been focusing on prime cities and areas, following a broad consensus towards multichannel strategies, with a mix of online and brick-and-mortar channels. In the end, **the current crisis could downgrade the financial situation of many retailers and push rents downward, depending on the strength and speed of the economic recovery**. We believe that the recovery for those sectors will be gradual and that it will take time.

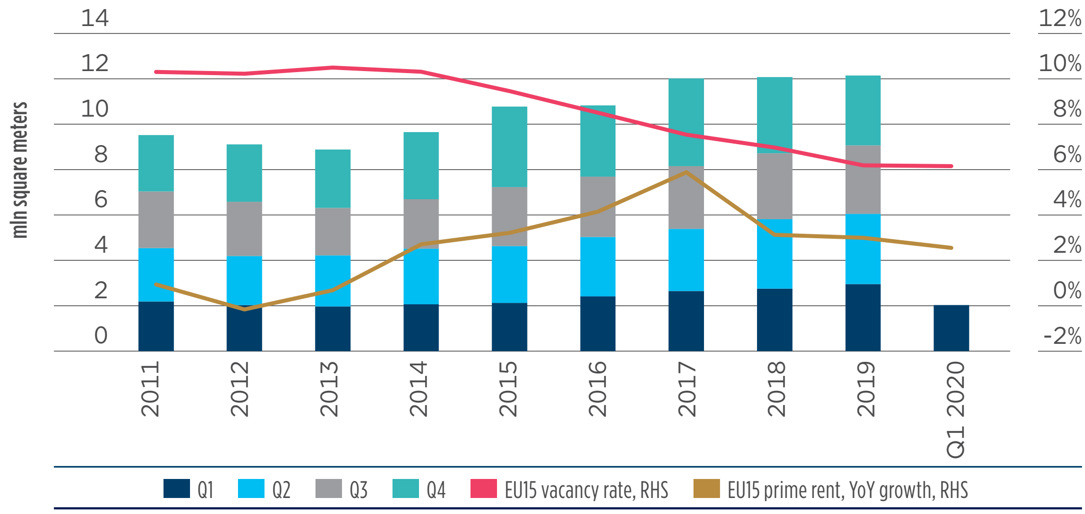
Due to the weak economic environment, **investors and lenders are expected to adopt risk-averse behaviour in the short term, favouring assets with high-quality tenants and locations, as well as focusing on liquidity issues**, especially in a market with high capital values. Financing should be more difficult to obtain – or at a higher cost – in particular for retail assets or speculative schemes.

"Despite the crisis, investor sentiment on the office sector remains roughly positive. It remains the largest sector in Europe in terms of investment volumes."

Short-term impact on the investment activity

The Covid-19 outbreak occurred during a **dynamic real estate investment market**, with strong investment volumes all over Europe thanks to strong investor appetite and high levels of liquidity. The lack of supply for prime assets constrained volumes and contributed to the drop in prime yields, which occurred in many cities and market segments.

Figure 2. European office market, take-up for 30 Western European cities

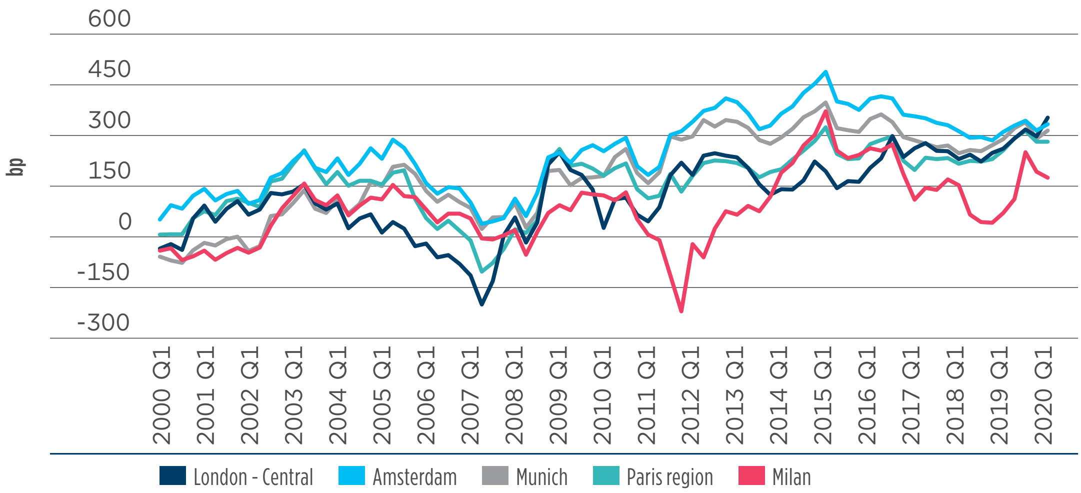


Source: Amundi Immobilier on CBRE Research data (Q1 2020). Data as of 7 May 2020.

"The spread between office prime yields and ten-year government bond yields has remained wider than its historical average in many European markets."

Prime yields for offices, logistics and high-street shops hit new all-time lows in many European markets. However, this was offset by **the low interest rates environment, allowing the spread with ten-year government bond yields to remain wider than its historical average** in many markets. This situation has favoured a rise in capital values, which reached high levels in many markets. **Despite the crisis, investor sentiment on the office sector remains roughly positive. It remains the largest sector in Europe in terms of investment volumes.**

Figure 3. Spread between office prime yields and domestic ten-year government bond yield, end of period



Source: Amundi Immobilier on CBRE Research data (Q1 2020) and ECB. Data as of 7 May 2020.

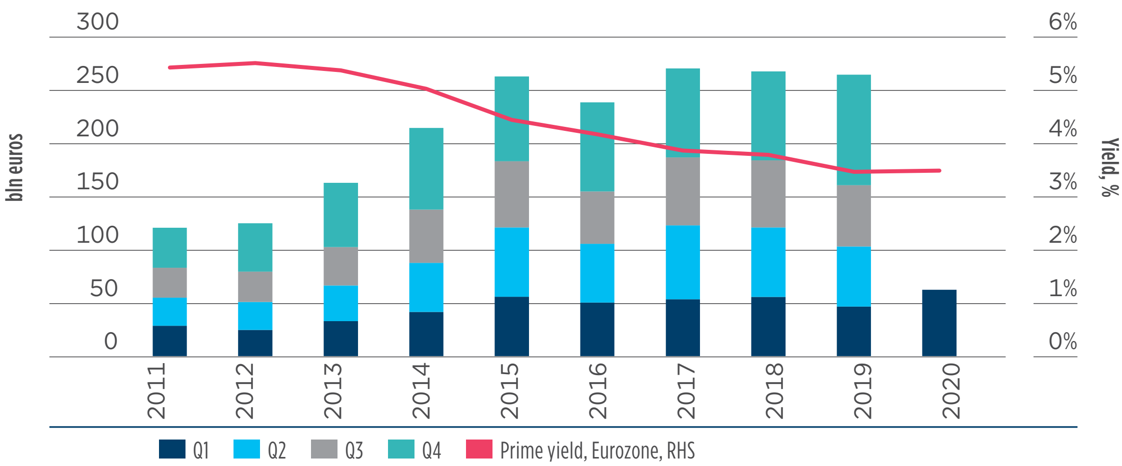
"In the short run, rental income may shrink as some payments get postponed, with the pandemic hurting small firms most."

Given the current uncertainty, many investors have adopted a 'wait-and-see' approach and are exhibiting risk-averse behaviour. This applies to the quality of tenants, the quality of properties (e.g., core, core plus, value-added) and the quality of locations. We believe that **investors should remain cautious in their asset selection** for the foreseeable future, and in particular **for hotel and retail properties**, even if they might consider some opportunities when they arise.

This situation may cause a repricing of some assets, especially the weakest ones. Consequently, we could witness a widening of the yield spreads between the different types of real estate assets, segments, sectors or locations (e.g., between big cities), whereas the past years have seen a convergence of those yields. We could also see more divergence in yields as a function of lease duration and the quality of tenants. For now, the visibility on such a scenario remains low. The upcoming transactions will have to be watched carefully and a repricing before year-end is likely. **Assets linked to demographic trends such as residential, healthcare and senior housing could be relatively good performers in the context of the economic fallout of Covid-19**.

For residential more specifically, the expected population growth rate in some major cities should be a driver of demand, both for leasing and buying. Therefore, some investment opportunities could emerge from the lack of residential supply observed in some big cities and also highlight that real estate investment and development might be the answer to some societal issues and needs. However, as the European residential market shows significant discrepancies between cities, and there has been a strong price surge in recent years, asset selection is key.

Figure 4. Commercial real estate investment in Europe



Source: Amundi Immobilier on CBRE Research data (Q1 2020). Data as of 7 May 2020.

Long-term fallout of Covid-19 on real estate sectors

"Covid-19 may accelerate the pre-existing trend of smart working, though lockdown measures have also highlighted the importance of physical office spaces in work relationships, networking and corporate culture."

The Covid-19 outbreak has accelerated the existing trends that have been shaping the main real estate sectors in recent years. As of today, **an acceleration of the existing trends appears more likely than new structural shifts**.

One of the main trends that has been boosted by the crisis is smart working. This trend had been growing for several years, with people working from home one or two days per week or with some work flexibility such as desk sharing. The lockdown period has forced many firms to adopt remote working in a much more extended way, breaking up some reluctance from both employees and managers. At the same time, the lockdown experience has highlighted the key role that a physical presence at the office can play in work relationships, networking and corporate culture. Keeping in mind the importance of this for both workers and companies, office spaces will have to adapt to the needs that the pandemic has created, one of them being more space in the office and less density to cope with social distancing. The outbreak has also underlined the **importance of wellness in offices**, especially air quality. This trend had also already been in place in recent years.

Retail and logistics were being transformed by the rise of e-commerce well before the Covid-19 crisis. This trend has been reinforced during the lockdown in some countries, notably with the boom in the food delivery business. The question is whether consumers will continue to shop online with the same magnitude after the crisis or not. To this end, **client experience and multi-channel solutions will remain key for retailers' business strategies**.

For **logistics**, the current situation has highlighted the importance of having diversified supply chains and warehousing locations, with one issue being the **possible relocation of some production in order to reduce the dependency on China**. This could impact the logistics market, in particular the demand for some locations, with an increase of insourcing in European parts of the value chain.

Real estate remains attractive in the longer term

Despite the current uncertainty, we believe that the European real estate market offers some advantages to investors:

- **Income visibility**: when the asset is on a long-term lease, rental cashflows are highly predictable – though tenant risk has to be taken into account.
- **Inflation hedge**: as pointed out in a recent paper, a regime shift towards higher inflation is possible over the next decade; real estate dampens the effects of inflation as rents are usually indexed.
- **Yield premium**: the current yield premium between real estate and many government bonds is significantly high. This could continue, given the expected lower-for-longer interest rate environment.

"The current situation highlights the importance of portfolio diversification to limit the impact of market risks, in particular idiosyncratic risks."

Having said that, real estate remains an **illiquid asset**, the level of which varies depending on sectors, segments and locations, among other factors. Overall, **the current crisis highlights the importance of portfolio diversification to limit the impact of market risks**, in particular idiosyncratic risks. Diversification in the types of tenants, lengths of leases, cities, countries and market segments could help limit those risks. Diversification is particularly critical in real estate investment, as portfolio allocations cannot be changed on a regular basis, unlike on financial public markets of equities and bonds.

Focus: ESG becoming mainstream

Apart from the immediate aftershock of the Covid-19 crisis, there are other, more structural issues shaping real estate market trends. Among them, ESG principles are particularly relevant. While sustainability considerations affect all industries, **they are key for the real estate sector**.

On the **environment**, real estate is an industry of particular focus among ESG investors, with an estimated 40% of all global carbon emissions being driven by the construction and operation of buildings, according to the 2017 UN Environment Global Status Report. Long-term investors are paying increasingly high attention to how real estate companies navigate issues such as climate change, water scarcity and changes in environmental legislation. Integrating such considerations into investment processes may drive positive results via active engagement techniques designed to improve sustainability performance by implementing positive company-screening strategies.

"The social pillar (e.g., wellbeing, sustainability, design and technology) could become prevalent following the Covid-19 crisis."

The **social pillar** (e.g., wellbeing, sustainability, design and technology) could become prevalent following the Covid-19 crisis. It could shape the building of new workplaces that could provide spaces that enhance employee health and engagement. Buildings tuned in to today's wellbeing standards offer potentially higher returns, as tenants end up staying longer and are willing to pay higher rents for these services. Also, on social issues, real estate investors can help address some of the long-term issues of our society, such as rising income and wealth inequality. On this matter, social housing projects are becoming popular, with the aim of providing affordable housing. Social housing often has a negative connotation in many countries and social housing projects have historically often been viewed as projects that seek to build the largest number of units with cheap materials, having little concern for the quality of life of its residents. However, this is changing and there are several examples of social housing projects by famous architects, who manifest their point of view through exceptional projects with innovative solutions that improve the urban experience.

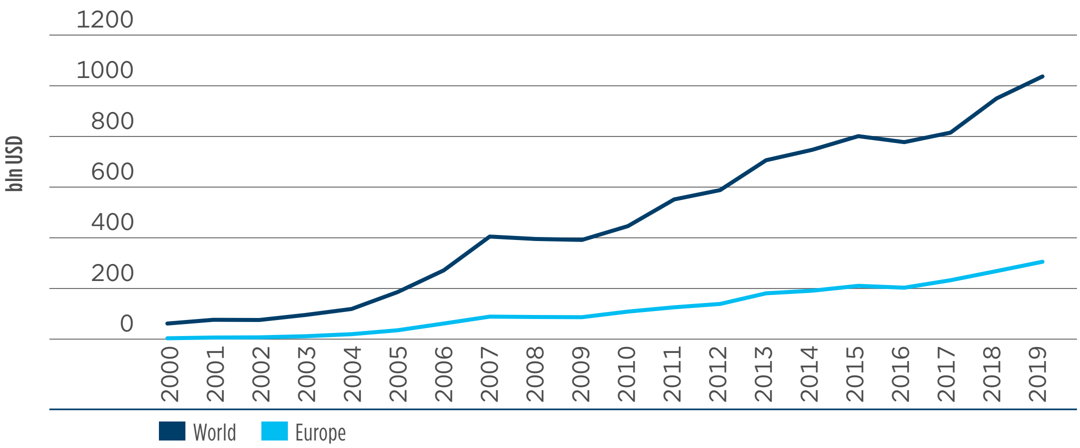
Finally, a clear-cut **governance that includes a solid internal control process** could be useful in order to better meet investors' needs. A governance-aware policy on real estate assets should be mindful of the risks of political lobbying and corruption.

Investor trends: a transforming market[1]

"Amid economic uncertainties and zero or negative interest rates, private real estate should see soaring demand thanks to its perceived safe-haven nature."

Before the Covid-19 crisis, real estate markets had been growing strongly to reach a total **size of about $3 trillion globally, as of September 2019**. Globally, private real estate holdings accounts for about one-third of real estate assets, an all-time high. Amid economic uncertainties and zero or negative interest rates, **private real estate should see soaring demand thanks to its perceived safe-haven nature**. In Europe – where the share of negative-yielding bonds is particularly large – private real estate growth has been even stronger, with European strategies totalling $306 billion of assets under management (AuM) as of September 2019.

Figure 5. World- vs. Europe-focused closed private real estate funds, AuM, bln USD



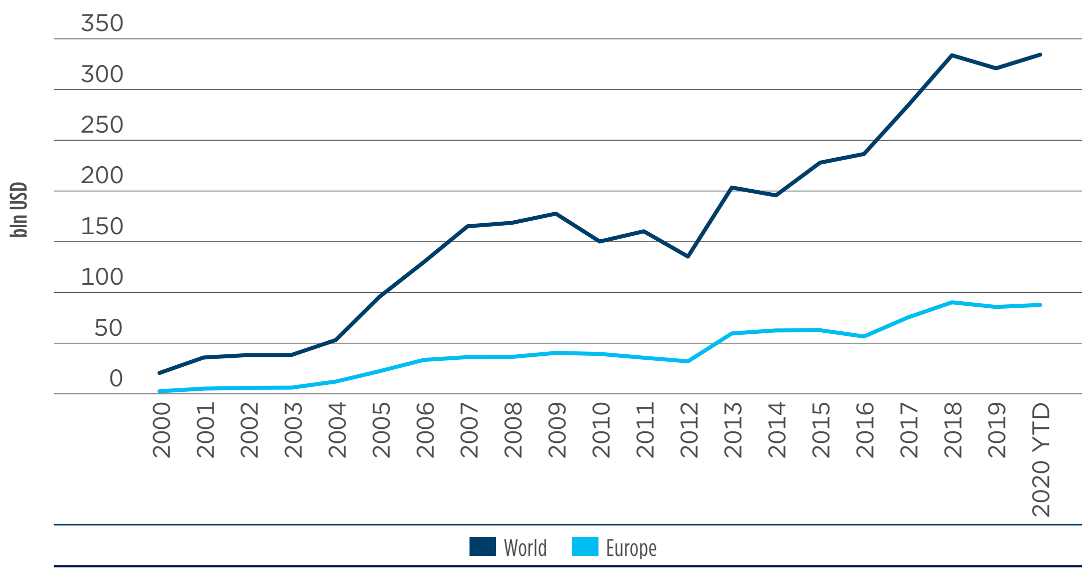
Source: Preqin Pro, Amundi. Data as of 4 May 2020.

"The dry powder of private real estate funds is at all-time highs, meaning that they will be able to seize opportunities arising from the crisis at discounted prices."

The current crisis has hit not only financial markets, but also property markets, with fundraising in the private real estate space shrinking amid the high uncertainty on rental cashflows and asset valuations. In any case, **the dry powder of private real estate funds is at all-time highs, meaning that those funds will be able to seize any opportunities arising from the crisis, such as assets at discounted prices**. High dry powder used to be seen by investors as a disadvantage, but could now turn out to be seen as a competitive advantage for those funds.

[1]References throughout this section are to Preqin, unless otherwise stated and to closed funds.

Figure 6. World vs. Europe-focused private real estate closed funds, dry powder, bln USD



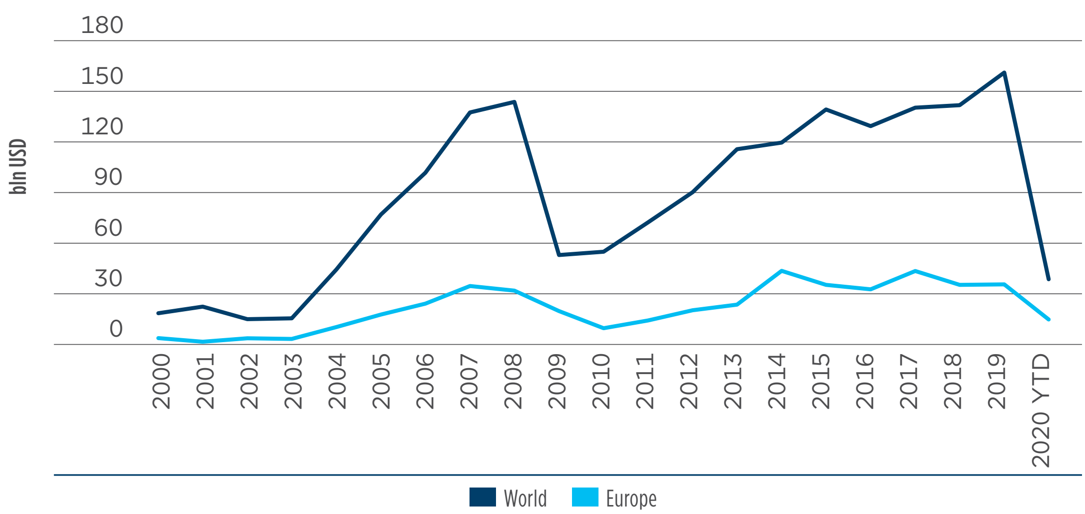
Source: Preqin Pro, Amundi. Data as of 4 May 2020.

The Covid-19 pandemic has been shaping market trends and investor behaviour in different ways:

"The amount of capital raised by real estate funds dropped quickly over the first quarter of 2020."

- **Falling fundraising**: the amount of capital raised by real estate funds dropped quickly over the first quarter of 2020, reverting a previously positive trend. This affected all regions, though with varying magnitude and speed. There may also be seasonal factors at work, as fundraising tends to slow down in the first quarter and recover in the second and third quarters, together with increased market competition. **A large number of institutional investors are cutting the size of their commitment to real estate or redirecting their capital towards large and established fund managers, leading to a higher concentration among the largest funds of recognised brands with strong track records**.

Figure 7. World vs. Europe-focused private real estate fundraising, bln USD



Source: Preqin Pro, Amundi. Data as of 4 May 2020.

- **Fewer funds closing and higher average fund sizes**: the number of funds closing has dropped quickly, while the average fund size has grown at a single-digit rate.

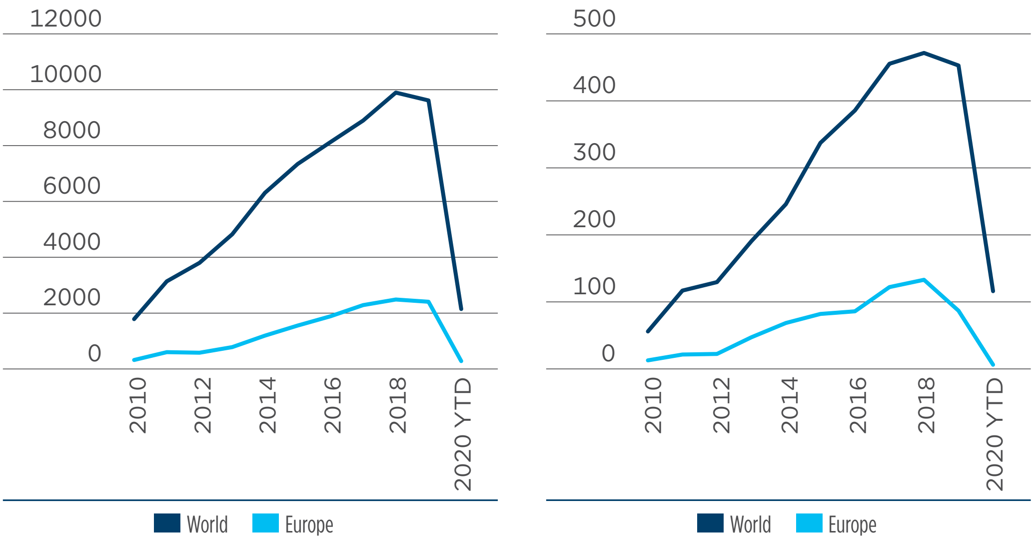
"The number of funds in the market and the aggregate targeted capital suggest that investors see Covid-19 as a short-term hurdle to their real estate commitment."

In Europe, it is more difficult to close a fund than in other regions and in the average fund size looks limited, up 3% on average against a 16% rise reported globally.

- **Rising number of funds**: in Europe, the number of private real estate funds in the market has spiked, with competition to attract capital at a high level. High investor demand and appealing fees are all good reasons for newcomers to enter this market. However, **some of these funds may struggle to survive in a consolidating market, where the key elements for success are brand recognition, the size of both the asset manager and the fund, a proven track record, a fair fee structure and the implementation of ESG principles**. The number of funds in the market and the aggregate targeted capital have grown over the past three years, both in Europe and globally. As of April 2020, there were 207 funds in Europe for an aggregate target size of €82 billion, while globally there were 901 funds for an overall target size of $269 billion. This demonstrates the strong appetite for the asset class, with high competition for deals, and suggests that **investors see Covid-19 as only a short-term hurdle to their real estate commitment**.
- **Reduction in the number and size of deals**: **the ongoing pandemic and the high competition for top-quality assets are affecting the number of deals and their aggregated value**, with both showing a steep drop over the first quarter of 2020. In the short term, most deals at an advanced stage should go ahead, but a reduction in the number of new deals is expected, as many fund managers are adopting a 'wait-and-see' approach. This will impact all regions and sectors, though at varying levels. As the economy recovers, real estate deal activity is expected to rebound sharply.

"The Covid-19 crisis is strengthening the ongoing consolidation of the European private real estate market."

Figure 8. Real estate deals worldwide and in Europe, total number (left-hand chart) and value (right-hand chart), mln USD



Source: Preqin Pro, Amundi. Data as of 4 May 2020.

Overall, **the Covid-19 crisis is strengthening the ongoing consolidation of the private European real estate industry**. We believe that this market remains attractive to investors despite the adverse fallout of the crisis in the short term.

Key investor trends[2]

In an uncertain economic and political environment where the coronavirus fallout is proving deeper and longer than initially anticipated, with interest rates set to stay low for

[2]Data throughout this section refer to the Preqin survey based on a sample of about 3,400 investors worldwide investing primarily in European real estate (Preqin Pro sample, data as of 4 May 2020).

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"Real estate will remain appealing to investors, as it offers relatively stable income, high diversification and is a proven hedge against a possible acceleration of inflation trends in the long run."

a long period of time and more than $12 trillion of negative-yielding bonds globally, we believe **real estate will remain appealing to investors**. This asset class offers relatively stable and predictable income cashflows, high diversification thanks to its low correlation with traditional asset classes, and is a proven hedge against a possible acceleration of inflation trends in the long run. **According to a recent survey from Preqin, real estate investors are currently worried about**:

- High pre-crisis valuations and the upcoming repricing;
- High competition for the limited number of high-quality assets in safe countries; and
- The impact of the current economic environment on institutional portfolios.

As equities have fallen across all markets, their share within investor portfolios has declined dramatically. This denominator effect, together with bond yields trending downwards and significant losses among emerging markets assets, is making private markets look more attractive than ever. Before the current crisis, the 2020 European investor outlook for private real estate was bright for several reasons:

- Most investors were generally satisfied with the performance, which usually met their expectations;
- A positive allocation gap of 1.6% in Europe (i.e., the difference between target and current investor allocation to real estate); and
- About 20% of those investors planned to re-invest in European real estate over the next 12 months.

The Covid-19 crisis has changed this investor outlook, which now appears more conservative in the short run, while longer-term prospects look unchanged so far. Investors are decreasing slightly or keeping unchanged their allocation plans to European real estate in the short term, but **remain confident and have appetite for the asset class in the longer term**. According to Preqin, investors plan to limit their investments to one single fund in the short term, but with a bigger size of commitment, rising from an average of $50 million to almost $300 million. **Due to the current high level of uncertainty, they prefer large funds from recognised brands. Most investors appreciate European strategies with a low risk-return profile, as they look for ways to offset volatile market conditions**. The most active investors on European real estate strategies are traditionally pension funds, foundations and insurance companies. However, over the past few years, demand from family offices and wealth managers has been picking up. Most inflows in that space are coming from Europe-based investors.

"The Covid-19 crisis has changed the investor outlook, which now appears more conservative in the short run. Longer-term prospects look unchanged so far."

Table 1. Distribution of worldwide investors investing primarily in Europe, as a share of total respondents

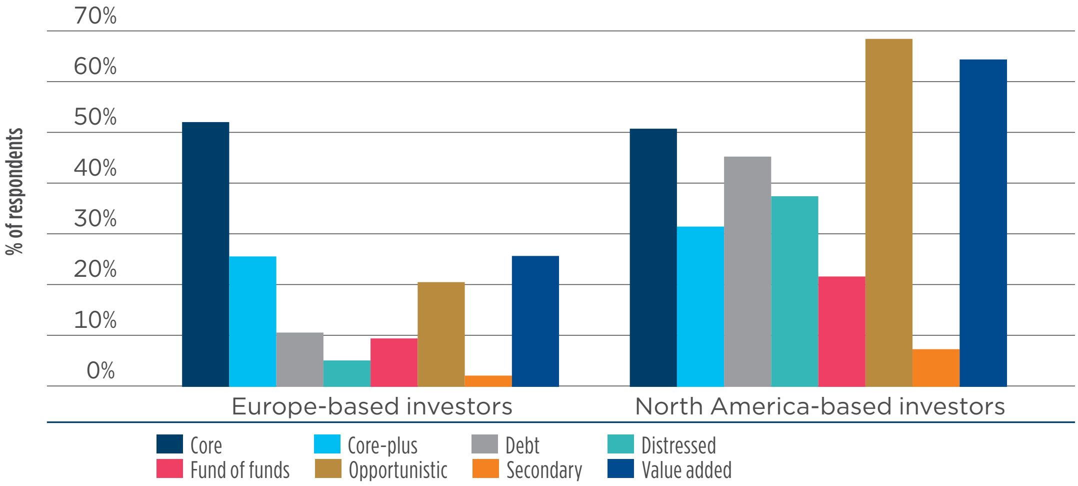
Europe-based	North America-based	Asia- and ROW-based
47%	41%	12%

Source: Amundi, Preqin Pro database. Data of 22 April 2020. ROW: Rest of the world.

With respect to strategies, **European investors favour core real estate**, followed by **core plus** and **value-added**, while US-based investors tend to invest in Europe in opportunistic and value-added strategies, which both offer higher expected returns but present more risks.

"The most active investors in European real estate strategies are traditionally pension funds, foundations and insurances companies."

Figure 9. Strategy preferences, as a share of total respondents



Source: Preqin Pro, Amundi. Data as of 4 May 2020.

Within Europe, investors tend to favour Germany, France, the Netherlands, the Nordics, Italy and Spain, according to the 2020 PwC Real Estate Investor Survey, published before the coronavirus outbreak. Prospects for the UK market remain uncertain in the wake of Brexit. In any case, **the pandemic has changed the way investors perceive country-level risk, with a focus on how local governments are managing the crisis and the measures taken to economies**. Regarding the type of **investment vehicles**, investors tend to favour closed-end funds when investing in European real estate.

Table 2. Investor preference on investment vehicles, as a share of total respondents

Closed-end funds	Listed funds	Direct investments
79%	33%	44%

Source: Amundi, Preqin Pro database. Data as of 4 May 2020.

"ESG investing is proving increasingly relevant to investors."

Finally, according to the 2020 Preqin investor survey, 44% of investors are concerned about ESG investing, with most of these requiring good quality reporting. They believe that the risk related to climate change has increased in their real estate portfolios and expect that risk to increase further over the next five years. According to the PWC Emerging Trends in Real Estate survey, some investors have responded positively to the reduction in targets for CO2 emissions agreed by the COP21 in December 2015. For them, making their assets 'Paris-proof' overrides short-term political and economic concerns.

Definitions

- **Basis points:** One basis point is a unit of measure equal to one one-hundredth of one percentage point (0.01%).
- **Closed-end fund:** In these funds, there is no internal mechanism for investors to redeem their subscriptions. Investors' subscriptions are tied up for the lifetime of the fund unless investors can find a buyer for their shares on the secondary market.
- **'Core plus' real estate investment strategy:** 'Core plus' is synonymous with 'growth and income' in the stock market and is associated with a low to moderate risk profile. Core plus property owners typically have the ability to increase cash flows through light property improvements, management efficiencies or by increasing the quality of tenants. Similar to core properties, these properties tend to be of high quality and well occupied.
- **Core real estate investment strategy:** 'Core' is synonymous with 'income' in the stock market. Core property investors are conservative investors looking to generate stable income with very low risk. Core properties require very little hand-holding by their owners and are typically acquired and held as an alternative to bonds.
- **Correlation:** The degree of association between two or more variables; in finance, it is the degree to which assets or asset class prices have moved in relation to each other. Correlation is expressed by a correlation coefficient that ranges from -1 (always move in the opposite direction) through 0 (absolutely independent) to 1 (always move in the same direction).
- **Dry powder:** This refers to cash reserves kept on hand by a company, venture capital firm or individual to cover future obligations, purchase assets or make acquisitions. Securities considered dry powder could be Treasuries or other short-term fixed income investments that can be liquidated at short notice in order to provide emergency funding or allow an investor to purchase assets.
- **EU-15:** Germany, Belgium, France, Italy, Luxembourg, the Netherlands, Denmark, Ireland, the United Kingdom, Greece, Spain, Portugal, Austria, Finland and Sweden.
- **Office vacancy rate:** Share of unoccupied office space immediately available relative to all existing office space.
- **Open-ended funds:** In these funds, investors have the choice of whether to partially or completely redeem their subscription on each redemption day, subject to the redemption terms specified in the fund's offering document.
- **Opportunistic real estate investment strategy:** Opportunistic is the riskiest of all real estate investment strategies. It is synonymous with 'growth' in the stock market. Opportunistic investors take on the most complicated projects and may not see a return on their investment for three or more years. Opportunistic properties often have little to no cash flow at acquisition but have the potential to produce a large amount of cash flow once the value has been added.
- **Prime rent:** Rent of the most sought-after assets relative to available supply. This is the highest rent for a given asset class and geographical area.
- **Prime yield:** Yield provided by leasing under the market conditions of the assets – sometimes few in number – most sought-after by investors relative to available supply. This was the lowest yield for a given asset class and geographic area.
- **Take-up:** Spaces leased or acquired for own use. It does not include lease renewals.
- **Value-added real estate investment strategy:** 'Value-added' is synonymous with 'growth' in the stock market and is associated with moderate to high risk. Value-added properties often have little to no cash flow at acquisition but have the potential to produce a large cash flow once the value has been added.

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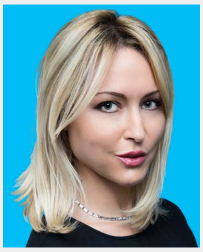

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Important Information

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