2025 EUROPEAN HOUSE VIEW

SNAPSHOT

AFFINIUS CAPITAL

- Eurozone GDP grew by 0.7% in 2024 and is expected to rebound to 1.2% in 2025.
- The UK economy is estimated to have grown by 0.9% in 2024, followed by 1.4% in 2025.
- As inflation decelerates, real wage growth should support a rebound in consumption and sentiment.
- Falling inflation has opened the door to interest rate cuts.
- The pace of rate cuts in Europe is likely to be steady and data-driven, rather than rapid and based on sentiment.

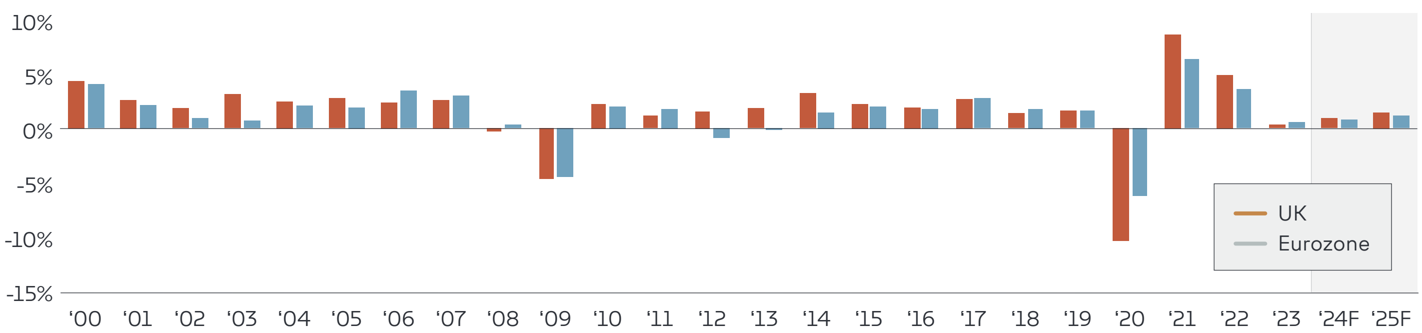
1. The eurozone economy has entered a better phase with economic recovery, low unemployment, and more moderate inflation.

2. We expect the nascent recovery to continue over the next 12 months – albeit growth is likely to remain modest and uneven.

3. While sentiment has improved, the potential for geopolitical missteps poses a risk to our positive outlook.

MACRO VIEW

REAL GDP GROWTH (ACTUAL vs. FORECASTED)



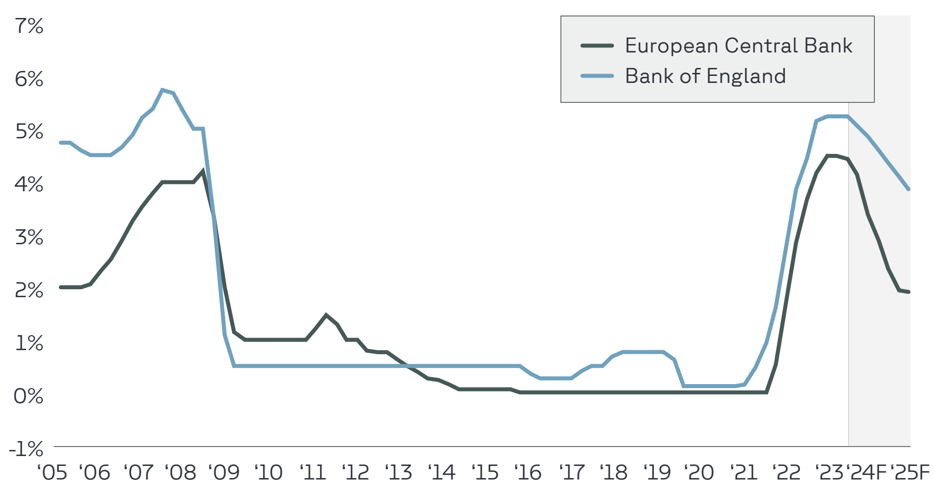
Source: Oxford Economics, December 2024

We believe we are now at a turning point, and that the market will enter a period of gradual economic recovery, albeit growth will remain modest.

CRE MARKET CONDITIONS

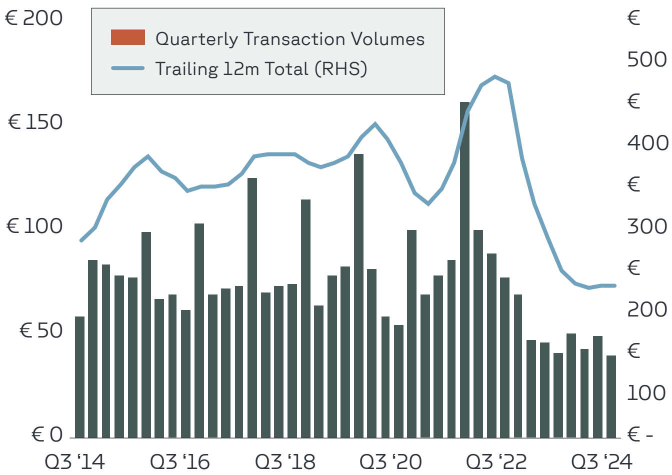
- Commercial real estate (CRE) investment is showing signs of recovery.
- We expect a gradual increase in investment activity over the next 12 months, with easing financing pressures, allowing buyers and sellers to converge.
- European markets adjusted values much more rapidly than the United States, and as a result may lead the recovery, a marked change from its usual expected lag to the US.
- Values have started to recover in 2024 and for most property types, we think pricing has probably hit its low.

CENTRAL BANK POLICY RATES (2005-2025)



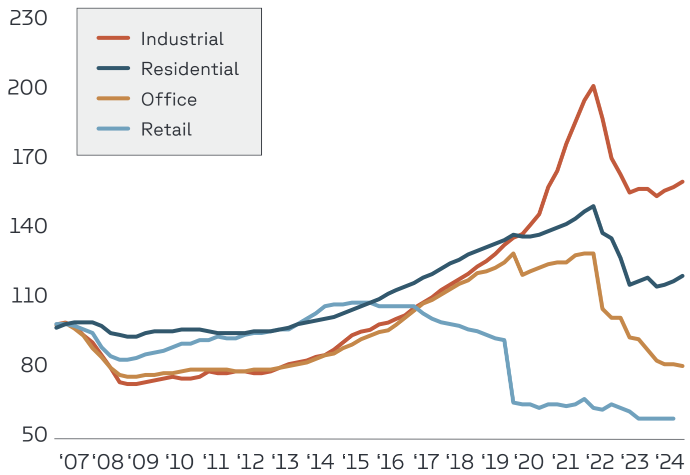
Source: Oxford Economics, December 2024

EUROPEAN CRE INVESTMENT VOLUMES (€ BILLIONS)



Source: MSCI Real Assets, Q3 2024

EUROPEAN COMMERCIAL PROPERTY PRICE INDEX



Source: Green Street, Q3 2024

COMMERCIAL REAL ESTATE OPPORTUNITIES AND STRATEGIES

1. Our conviction around the **intersection of real estate and technology** has grown even stronger.
2. Reduced supply in **logistics** and **housing** driven by lower development activity, and challenges in obtaining power for **data centers** will lead to increased demand for modern space.
3. Regulatory measures, compounded by recent economic volatility, have significantly constrained traditional sources of CRE debt capital and in our view, is presenting a **strategic opportunity for debt funds** to leverage market dynamics and address capital shortfalls.

LOGISTICS

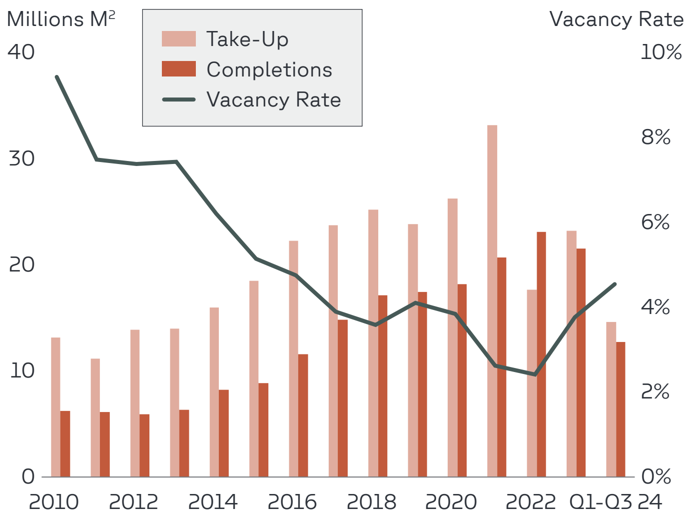
We expect three key secular themes to underpin demand for modern logistics space: **i) Continuation of e-commerce tailwinds and further adoption ii) Reconfiguration of supply chains and on/near/reshoring iii) Need for operational efficiency and sustainability.** As referenced in our recent **RESEARCH PAPER**, these themes hold potential for driving demand for modern quality logistics stock which we believe strongly favors a development-led strategy.

60% of **logistics occupiers** are planning to **expand** their European logistics footprint over the next three years.

Source: CBRE, Power of Three European Summit, May 2024

- Leasing activity has moderated since the pandemic peak but remains above the previous decade's average.
- We anticipate vacancy rates will remain low given the combination of strong demand and constraints on development.
- Persisting supply-demand imbalances have contributed to strong rental growth, and we believe market rents will continue to increase, albeit at a moderated pace.

EUROPEAN LOGISTICS FUNDAMENTALS

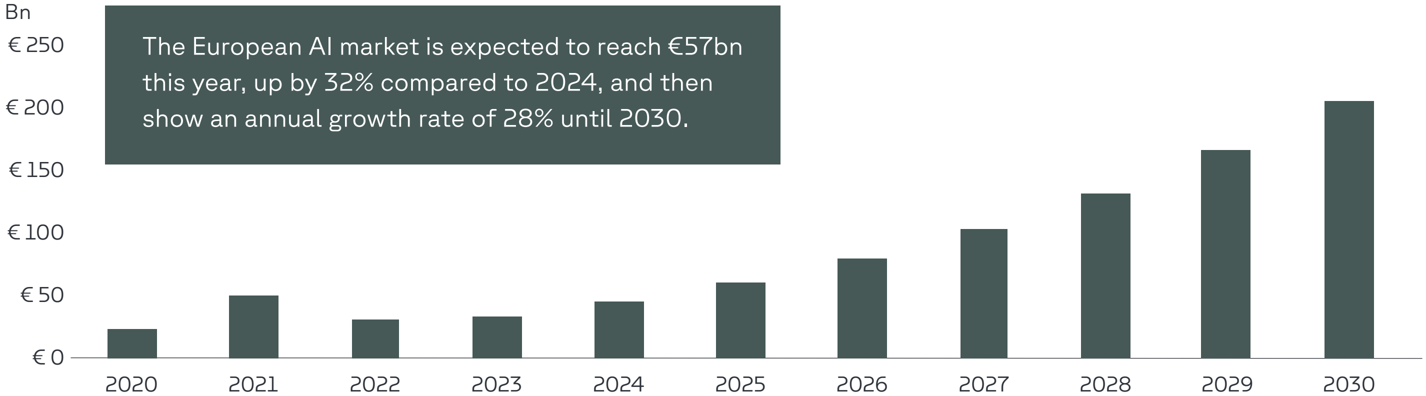


Source: CBRE, September 2024

DATA CENTERS

We think there will be opportunities to capitalize on the exponential growth in demand for data center capacity in Europe and believe it pairs well with our existing logistics business. **Despite an increased number of data center deliveries over the next four years, the European market is expected to remain largely undersupplied.** We believe this will support continued rises in building and rental costs.

MARKET SIZE OF EUROPEAN ARTIFICIAL INTELLIGENCE



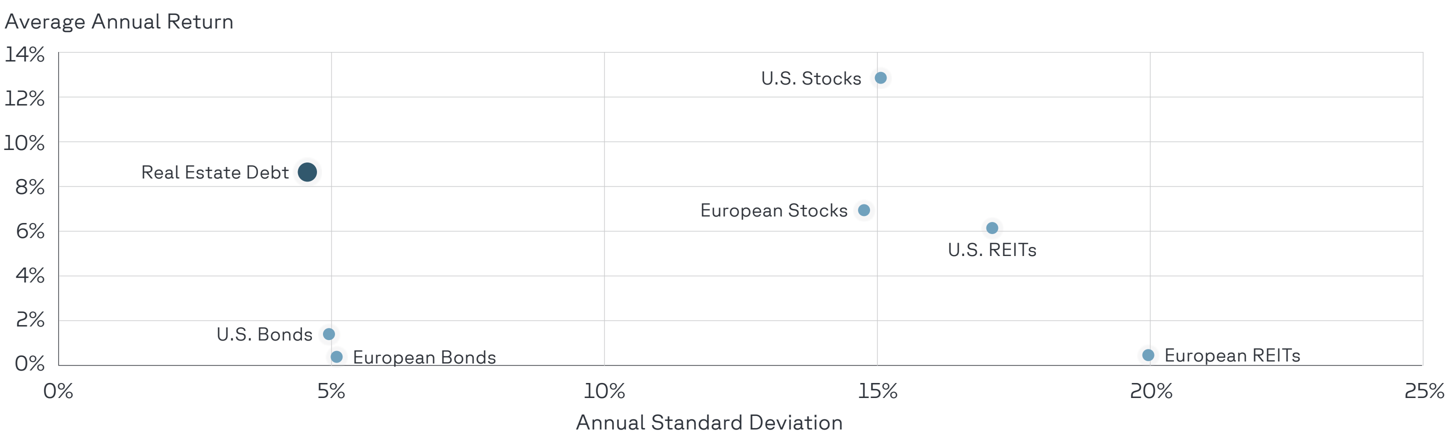
Source: Statista, March 2024

REAL ESTATE LENDING

Regulatory changes have reduced appetite and capability to lend in scale among traditional lenders. **We believe there continues to be an opportunity for alternative lenders to fill this void, create velocity, and capitalize on the robust demand.**

Our **RESEARCH** shows that the opportunity for investors in real estate debt in 2025 is compelling, and alternative lenders are poised to further expand their market share. **The debt opportunity today takes advantage of a looming debt fund gap and attractive pricing.**

RETURN/RISK COMPARISON OF ASSET CLASSES, 10 YEARS TO Q2 2024



Source: Bloomberg, Preqin, NAREIT,. Note: All returns are total returns. Real Estate Debt is based on global debt fund performance from Preqin, U.S. stocks is S&P 500, European stocks is S&P Europe 350, U.S. bonds is Bloomberg U.S. Aggregate, European bonds is Bloomberg EuroAgg Index, U.S. REITs is U.S. NAREIT All-Equity index, European REITs is FTSE EPRA NAREIT Europe REITs index.

MEDIA & STUDIOS

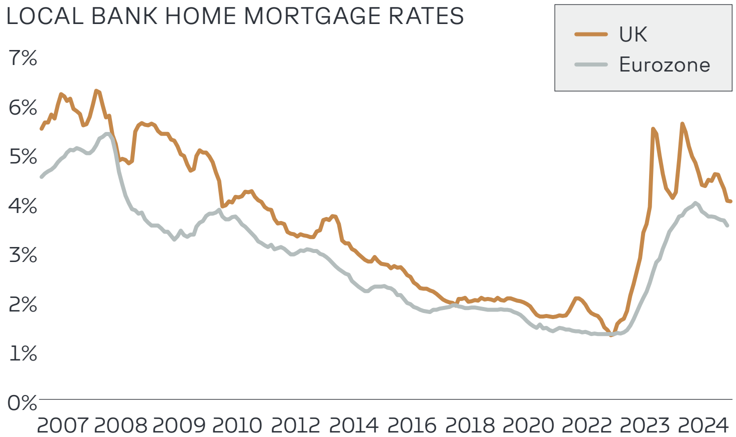
- We believe premier studio properties are uniquely positioned to capitalize on the recovery following the disruptions caused by recent Hollywood strikes.
- The future of this sector will be shaped by evolving technologies that favor vertically integrated platforms.
- These platforms combine operational expertise with ownership of the most strategically located and technologically advanced facilities, creating a competitive advantage that goes beyond scale.

HOUSING

Europe is grappling with a shortage of housing, due to a lack of funding, lengthy planning procedures, and rising demand. Strong growth in household formation over the last decade has led to an increased need for housing. Demographic trends including an aging population and a rise in the number of single-person households are also reshaping housing demand.

We see a growing opportunity to develop institutional-quality multifamily residences in select European markets based on compelling demographics and supply/demand factors, in particular in the UK. Our recent paper on the **UK BUILD-TO-RENT SECTOR** highlights the opportunity to develop high-quality, professionally managed rental accommodation in a market where rental growth and occupancy remain strong.

LOCAL BANK HOME MORTGAGE RATES



Source: Bank of England, European Central Bank. November 2024.
Note: UK rate is 5 year (75% LTV) fixed rate mortgage

CONCLUSION

We expect the next 12 months to be a good vintage year for real estate investment with interest rates moving beyond their peak, solid occupier fundamentals, and diminishing development pipelines. We are cautiously optimistic about a potential market upswing and remain well-positioned to grow areas of our business based on supply/demand imbalances or strong long-term fundamentals.

JUSTIN HILDEBRANDT
Senior Managing Director,
Head of Europe
justin.hildebrandt@affiniuscapital.com

MAX VON BELOW
Managing Director,
Global Investors Group
max.vonbelow@affiniuscapital.com

KAREN MARTINUS
Senior Vice President,
Research and Investments
karen.martinus@affiniuscapital.com

SHAUN CONNERY
Managing Director,
Head of European Debt
shaun.connery@affiniuscapital.com

Important Disclosures

AFFINIUS CAPITAL

WTC Amsterdam, H-Tower,
Zuidplein 94, 1077 XV Amsterdam,
The Netherlands

+31(0)20 235 17 00
affiniuscapital.com