CORESTATE
Capital Group

Dear partners and investors,

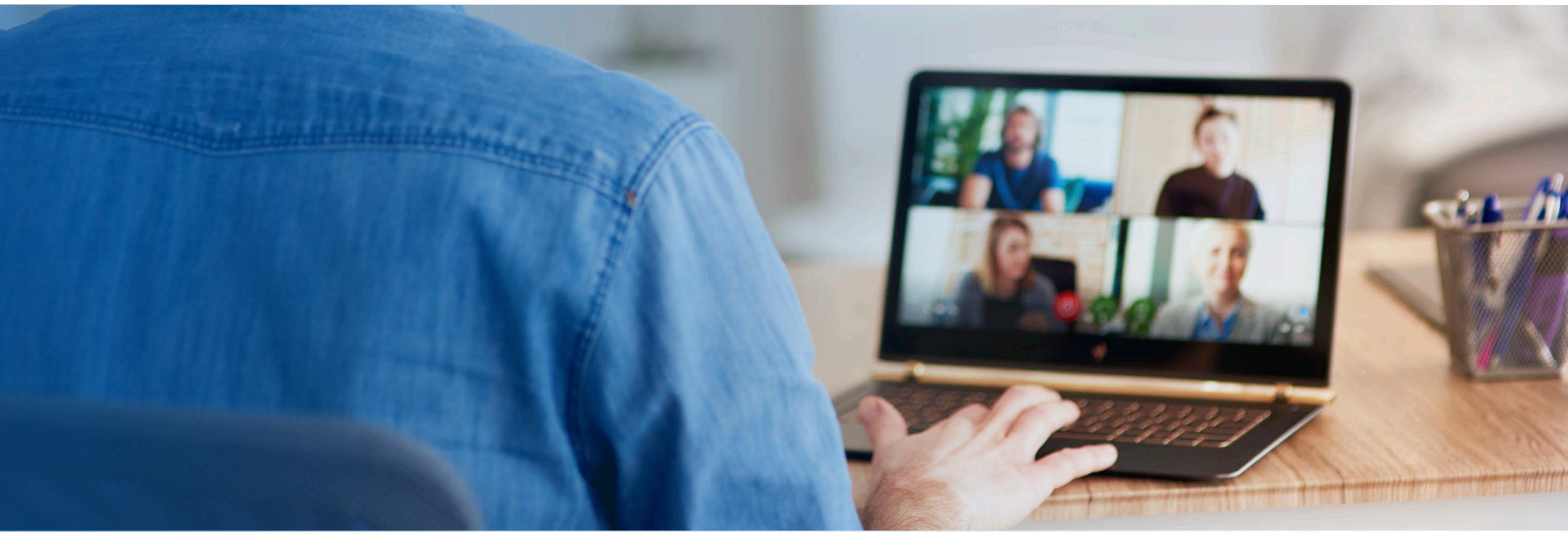
We believe that in these uncertain times, open and transparent communication is a prerequisite. CORESTATE wants to ensure that you have a full picture on the actions we are taking, to manage the investments you have entrusted us with. Further updates will follow in due course.

As per Angela Merkel's recent statement, these are the most challenging times for Germany as well as the rest of Europe for over two generations. Whereas we cannot foresee the full implications on our lives and the economy yet, we can certainly say that it will have an impact on all of us. The COVID-19 Pandemic will require substantial sacrifices from many parties in our society. CORESTATE has taken all necessary steps to ensure that day to day operations remain intact and our employees remain safe.

We continuously monitor our exposure in the real estate sectors and engage with stakeholders at the asset level, including tenants, third party service providers and financing banks. Our Fund and Asset Management teams are reviewing existing business plans in light of the developing situation, undertaking a variety of stress tests and ensuring appropriate action plans are put in place to support our tenant base. Further details and actions will be communicated to investors of the respective projects and assets.

We are actively engaging with our investors to determine how to support the community and business owners through these challenging times to retain valued tenants after the crisis. CORESTATE understands that we have a primary responsibility to the commercial interests of our investors, but also our tenants as well as the community in general. We work hard to align both during these difficult times.

The COVID-19 pandemic continues to change day by day and the economic impacts remain highly uncertain. All recent projections expect the eurozone economy to contract in 2020. Given the lockdown of regions and countries and severe measures at a corporate level (the German automotive sector stands still, for example, the impact might well be more pronounced. It is also widely anticipated that H1 2020 will witness a rare global recession.



The pandemic will have a twofold impact on the property market:

from an investment / capital market and an occupational / fundamental market.

INVESTMENT MARKET

In the short term, investor demand will be highly risk averse focussing on the core side of the real estate market. In the core spectrum it is particularly the 'security of income' aspect that will play a decisive role, meaning long leases to secure tenants. The 'higher-risk' end of the spectrum will likely see less demand in the short term and, indeed, pockets of the market can become illiquid and – as a result – non-transparent.

As the global interest rate environment will be 'even lower for even longer', and overall liquidity in the market is high, it is likely that initial yields for the core end of the real estate market will remain defensive. For non-core properties, there is an increasing risk that yields will soften in accordance with the individual property's risk.

OCCUPATIONAL MARKET

In general, there is an elevated short-term risk to the income side of the commercial real estate market as companies will be reluctant to expand and take on new space. In addition, there is – dependant on the severity of the economic impact – an elevated risk of corporate failures, which could lead to space returning to the market and heighten vacancy rates. The impact on the residential sector will likely be relatively low.

DEBT FINANCING

The current environment has caused a lot of uncertainty and nervousness in the debt finance market. Banks have shifted their focus to internal analysis as well as risk assessments. Banks currently put priority on the analysis of their existing exposure and risk positions in respect of already granted loans rather than focus on new business opportunities.

Liquidity is key, as senior lenders enjoy a preferred security position. With the avoidance of payment defaults, borrowers will be able to buy time which will help to overcome those exceptional times. In addition to the liquidity situation, any existing covenant agreed within the loan documentations should be monitored closely. By reviewing and forecasting cash flow situations potential covenant breaches should be identified as early as possible and, subject to the actual degree of breach mitigants discussed with the lender, e.g. waiver of covenants, amendment of covenants, suspension of covenants or similar solutions may be negotiated with the lenders. Irrespective of this and as said before, payment defaults should be avoided under any circumstances as those make the negotiations with the lender more complicated.

As the final outcomes of the COVID-19 crisis cannot be predicted as of now, it is hard to say what the long-term consequences will be for each bank.

From our current observations the banks will be impacted differently based on their business model, the asset classes they were invested in, the risk appetite they had and ultimately the (equity-) capital buffers and profitability they currently do have and may benefit from.

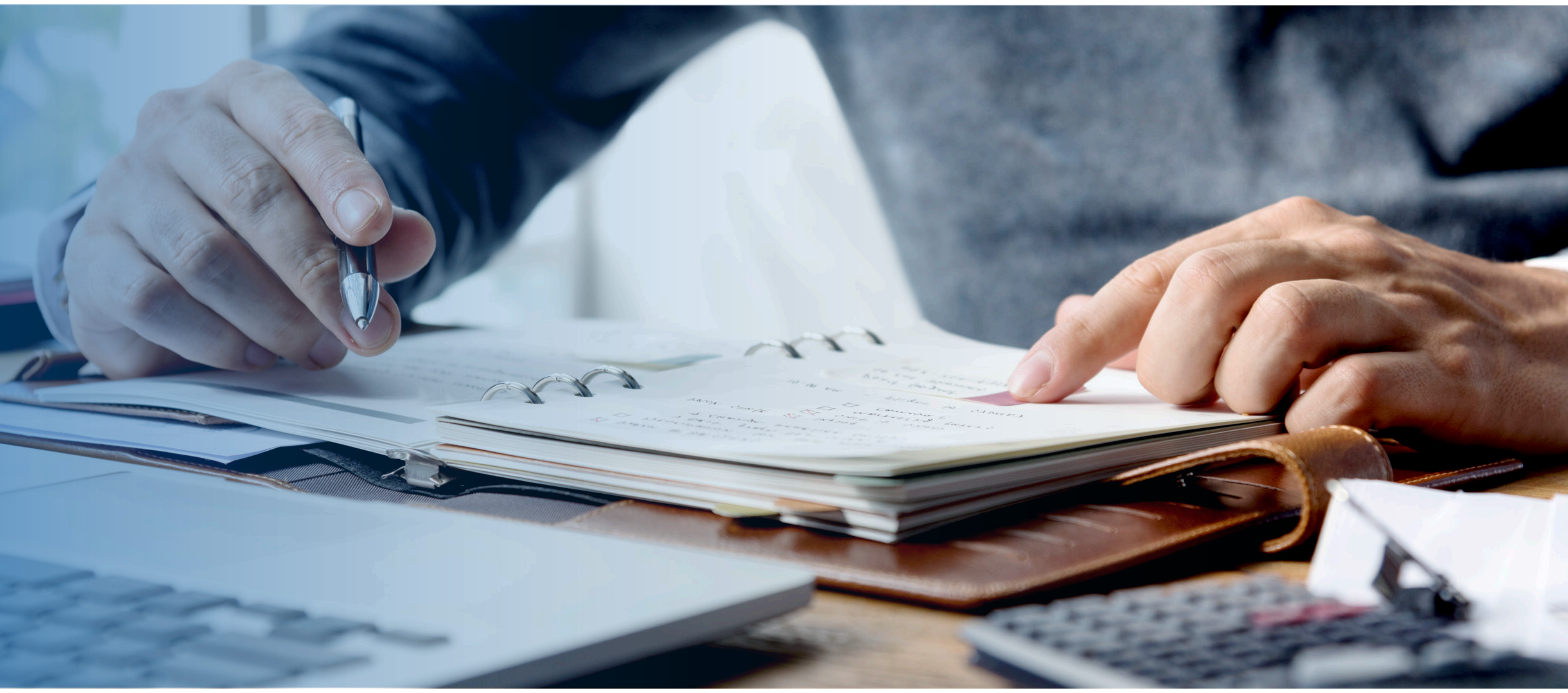
It seems likely that, very similar to the capital market crisis back into 2007/2008, it will take some time for banks to return to normality upon the current impacts/limitations. We will certainly see different recovery scenarios in the various European countries due to the different strength of impacts in the various countries. Some of the banks will adapt lending parameters depending on the underlying asset class and the impact suffered

We continue to:

/ Review the liquidity situation within the investment structures, undertake stress case scenarios and check any potential impact on the capability to cover debt services

/ Monitor agreed debt servicing covenants

/ Closely communicate and cater to ongoing information requests with lenders to ensure alignment and trust in our business models



HOTEL AND LEISURE

The hotel / leisure sector is the most immediately hit, facing the highest risk. Dependant on the length of the pandemic, many operators face a risk of loss of income.

To sustain the business, landlords may make concessions on the rent. Some hotels / sports & leisure operators might face financial stress with possible bankruptcy.

The sector will furthermore be extremely challenged by the period after the local lock downs. The sequential break out of the pandemic in different countries will have significant effects on worldwide travel and tourism. Whilst travellers need to first be allowed back into the country, availability of transport such as flights, post-travel quarantine measures and the personal willingness of people to travel will be additional hurdles of the sector for a substantial time after the lock downs.

OFFICE

The short-term impact on the office market is generally less pronounced than hotel or retail but strongly depends on the individual tenant. Typically, companies have reacted quickly to provide home office equipment to the employees to secure a continuation of the business. This reduces the risk of rental deferrals.

A part of the market that is affected directly, are co-working concepts and serviced office operators as they will see their incomes being reduces quickly. Also, in a mid-term perspective, companies might potentially refrain from taking space in co-working office due to the lesser control on the environment and the other members of the location. On the other hand, tenants from the entertainment, health or pharmacy industries should be relatively protected from an impact of the pandemic.

If the pandemic will have a longer impact on the economy and there is an increasing number of credit defaults, banks will face an increasingly tough time. The continuation of the low interest rate environment will in addition remain a burden. Therefore, markets like Frankfurt or London, which are banking heavy, face elevated risks. In fact, London's office market might face particularly high risks as it is heavily penetrated by both co-working operators and the banking industry and on top of that it faces more potential headwinds from the Brexit process.

RETAIL AND GASTRONOMY

While countries and regions are in lock down, businesses in retail and gastronomy face a loss of turnover and income. From a real estate perspective this bears a direct risk if the rent paid has a high turnover component.

Aside from turnover rents, risks are multi-layered and can result in rental concessions by the landlord to prevent tenants from defaulting and to avoid being in a situation having to re-let during a weak economic period.

In Germany, backed by a new state law, retailers are as a general rule protected from extraordinary termination if rent deficiency is the result of COVID-19. Already, retailers announced to halt lease payments temporarily. However this means rent payment deferrals and not a rental loss. If the lock-down lasted longer and the economic impact is more pronounced, risks increase that there is a rising number of retailer failures and bankruptcies.

There will be a short-term as well as medium-term impact. Gastronomy has only limited capacity to make-up foregone revenues. Additionally, the ramp-up to achieve pre lock-down business levels will require time. It is too early to evaluate the impact, as the possibilities of subsidies and interim financing are expanding daily. Ultimately, the majority of property owners will have a vested interest to find solutions with these business owners, for them to continue their operations and remain valuable tenants in the long run.

Grocery and fast-moving consumer goods are affected to a much lesser extent. Strong covenants like larger retail chains – particularly those with a functioning omnichannel retail strategy – will provide an element of income security, while owner-run shops and smaller chains pose a higher risk to income streams

Nearly all retail, gastronomy and hotel tenants approached us for rent free periods or rent reductions. Particularly big retail chains have already communicated very clear expectations. We are currently in internal discussions to proceed with an aligned approach, balancing investor and our tenants' interest. We currently pursue an individual approach, depending on the size of the tenant's company and strategic importance for the property. Rent deferrals, possibly in connection with a contract extension, are considered on an individual basis.

LOGISTICS AND LIGHT INDUSTRIAL

A large part of the logistics sector, particularly that that is tied to the field of ecommerce, should hold up well in the current environment. Tenant side demand should remain strong. An area where risks are higher can be found among facilities of manufacturing industries that are dependent on functioning global supply chains, like the automotive sector.

Also hit by reduced global goods throughput will be logistics operations at large international ports and airports.

RESIDENTIAL

Generally, risks of rental loss will be relatively low in the classic residential sector. However, there might be a risk of reduced rental growth or even rental declines if the economic environment would continue to deteriorate. What is already observable is that in the field of apartment and single-family homes both transactional activity and leasing activity declined. Practically speaking this is a result of it being difficult or in some cases impossible to view an apartment.

SERVICED APARTMENTS

We have taken immediate steps to mitigate the situation:

/ Suspension of all new guest-related initiatives (i.e. partnerships, community events)

/ Suspension of purchases for non-essential items

/ Re-negotiation of supplier contracts to reduce contracted fixed cost

/ Reduction of flexible cost for our operating assets

/ Negotiation with travel agents and third-party servicing to share the impact of cancellation fees and avoid payment of commissions

April, May and June 2020 will be very weak months in terms of performance in the hospitality industry. This also affects CORESTATE locations, which are forecasted to run at 5%–34% occupancy during those months. In normal annual seasonality, summer months (July/August) and winter months (December/January) are traditionally weaker than the rest of the year.

Some positive outliers during the weaker months are usually caused by big events and fairs. These have been cancelled, in most regions definitely until end of June.

We expect the cancellations for large events and fairs to continue until fall 2020. Therefore, the business in Q3 and Q4 will continue to be impacted by COVID-19. We expect some business travel to rebound in September and October, while tourism related to events, concerts, sports, etc. will remain weak.

Unless governments force us to close assets, we are expecting to keep our Serviced Apartment assets open. The operational structure for serviced apartments is an advantage in times like these. Given our wholly owned operating business, JOYN, has a small team on site and does not operate any additional services such as Restaurants, Kitchen, Bars, Spas or in-house laundry, this means that we can continue to operate the essential front office focused operations.

As of today, some corporate long-stay guests are still staying at our assets. Companies who have corporate agreements with us are grateful for our continued operation. For corporate long stay travellers, serviced apartments remain a highly attractive solution vs. hotels – both in terms of privacy and business continuity. We expect long-stay guests, e.g. for corporate projects, to recover sooner than tourist dependent visitors.

STUDENT HOUSING

We have immediately taken measures to ensure safe continuity of our operations. This includes implementing a rotation system to minimize staff exposure. Scouts are conducting a daily walk around whilst ensuring strict social distancing measures.. All life safety systems, essential maintenance and statutory compliance tasks are still undertaken. Cleaning companies have been asked to be extra diligent, disinfecting door handles, lifts, and stair banisters. Communal areas have been closed to reduce risk. Contact details for enquiries are being displayed in the properties.

Occupancy in Germany and Austria is currently at >95%. However, a large share of students has returned home before the travel bans were put in place. Scouts report that properties are very quiet. There is still a number of occupants in our German properties, as some guests are not students (e.g. in need of temporary accommodation before finding an apartment). We have had quite a few cancelations for the summer semester due to courses being cancelled.

Letting activities are still ongoing, but at a reduced pace. Our Scouts are using video conferencing to perform viewings. Where face to face viewings are required or requested, we ensure good social distancing and hygiene protocols. Further activity will very much depend on how the situation changes around institutions being allowed to open in Germany, Austria, Spain and the UK. We anticipate stagnant bookings until August, with limited or no rental growth for 12-24 months. The UK's is predicting a slow-down in international students for 12 months at least. Whilst macro factors will limit demand, it is possible that professionals pursuing postgraduate degrees during these challenging times (e.g. financial services workers seeking a post-graduate degree) somewhat support demand.

This presentation has been compiled by CORESTATE Capital Partners GmbH a company of the CORESTATE Capital Group, April 2020.

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We remain at your disposal
to discuss your questions
during these challenging times.

Do not hesitate to reach out to our Equity Raising and Client Services colleagues in the different regions:

CORESTATE CAPITAL GROUP

Douglas Edwards
Head of Group Equity Raising & Client Services

T +49 69 3535630230
M +49 162 7765471
douglas.edwards@corestate-capital.com

CORESTATE CAPITAL – GERMANY

Charles Smith
Managing Director Client Relations

T +49 69 3535630133
M +49 172 2664020
charles.smith@corestate capital.com

Anne Zeller
Executive Director Client Relations

T +49 69 3535630135
M +49 173 7210914
anne.zeller@corestate-capital.com

CORESTATE CAPITAL – SWITZERLAND

Boris Pauli
Managing Director Client Relations

T +41 44 5678877
M +41 79 349 71 82
boris.pauli@corestate-capital.com

Michael Qamar
Executive Director Equity Raising & Client Relations

T +41 44 5678866
M +41 78 805 79 44
michael.qamar@corestate-capital.com

CORESTATE CAPITAL – INTERNATIONAL

Rajit Dass
Executive Director Equity Raising & Client Relations

T +44 207 183 7611
M +44 7718 120534
rajit.dass@corestate-capital.com

HANNOVER LEASING

Marco Ambrosius
Executive Director Equity Raising

T +49 69 353 5630190
M +49 162 2477659
marco.ambrosius@corestate-capital.com

Friedrich-Ebert-Anlage 35-37 | Tower 185 | 60327 Frankfurt am Main | +49 69 3535 6300 | info@corestate-capital.com | corestate-capital.com