

# EUROPE CRE 180

ECONOMIC OUTLOOK  
REAL ESTATE PERSPECTIVES



GLOBAL RESEARCH  
July 2024

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Real Estate for a changing world

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# EXECUTIVE SUMMARY

## IN A NUTSHELL

### ECONOMIC RECOVERY UNDERWAY IN EUROPE

- The global economy has proved resilient in the face of strong economic headwinds.
- We expect global GDP to grow by 2.9% p.a. in 2024 and 2025.
- Rising real incomes and lower interest rates will support a recovery in Eurozone economic activity.

### YIELDS HOLDING THE LINE

- Central banks kept up interest rate tightening efforts into the third quarter of 2023. Thus, the bond yield gap with real estate only truly began to firm up by late 2023.
- Since Q4 2023 prime yields across all asset classes remain constant. Current levels are expected to hold for the remainder of the year, though compression signals may show late 2024 / early 2025.

### INFLATION RATES NORMALISE

- Inflation rates have made significant progress towards central bank targets.
- That said, much of the decline in inflation has been driven by global factors. Relatively little progress has been made on the domestically generated parts of inflation.
- As a result, central banks will remain cautious about lowering interest rates.

### OFFICE LETTING: A SUBDUED H1 2024

- 3.72 m sqm was transacted over H1 24 in the 18 main European markets, in line with H1 23 overall result. H1 volumes stood at 16% below their H1 10-year average.
- While some markets have experienced a new decline in volumes, take-up gained traction in many markets.
- Overall, 2024 letting volumes should be in line with 2023 results.

### INVESTMENT SETTLING DOWN

- €141bn were invested in commercial real estate over the 12 months to Q2 2024, which represents a 26 % decrease compared to Q2 2023.
- Though still lower annually, the rate of decline is halved and represents light at the end of the tunnel for the CRE sector. The investment market seems to be settling down following the inflationary shock triggered by post pandemic recovery and the Ukraine war

### THE FLIGHT TO QUALITY CONTINUES

- While hybrid work models are here to stay, workplace plays a key role in attracting and retaining talent, both in terms of space quality and location. Demand is also high for energy-efficient and sustainable buildings.
- These increasing quality requirements drive values up for modern buildings located in the most established districts.

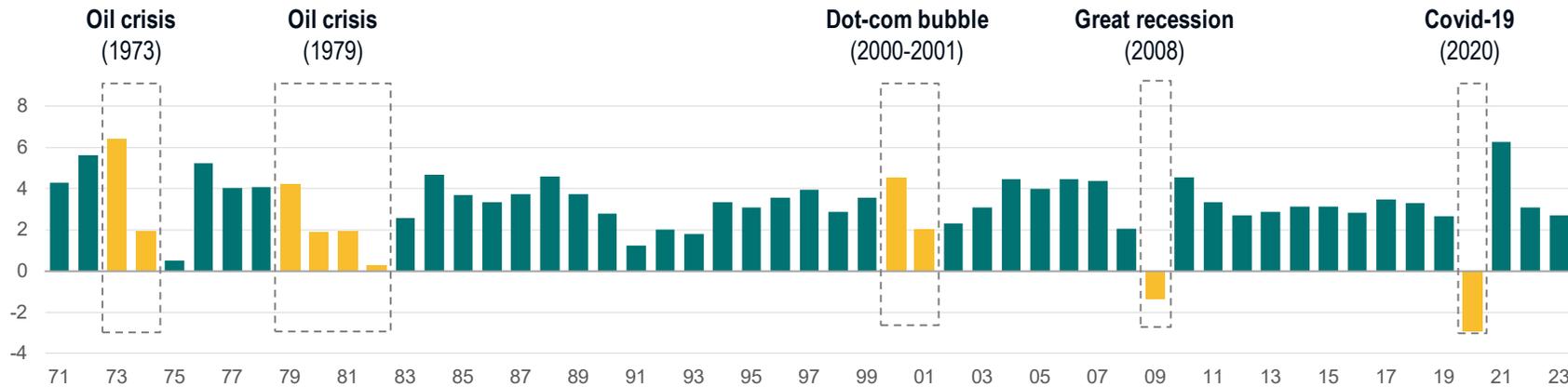
01.

# ECONOMIC OUTLOOK

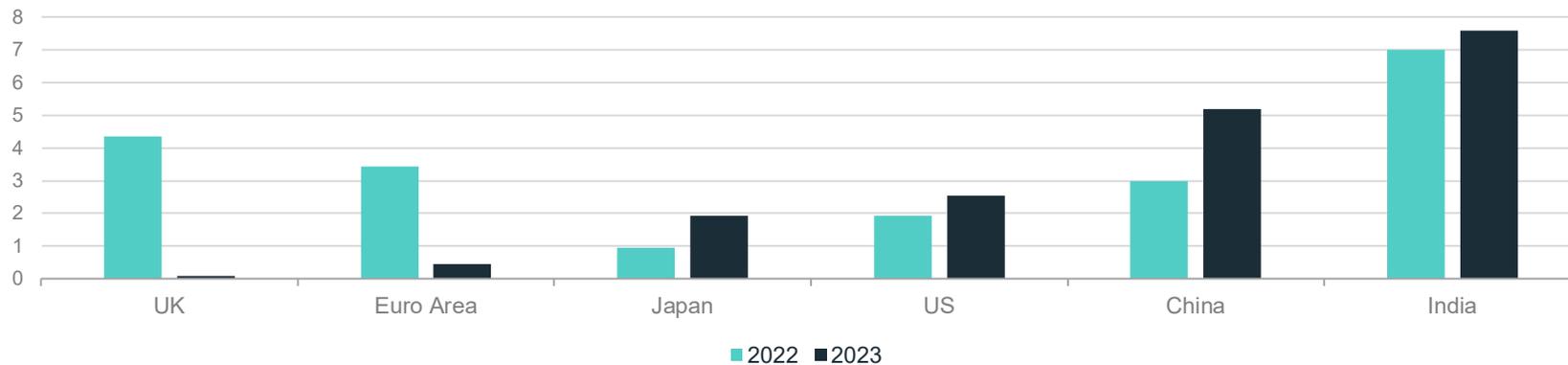
# GLOBAL ECONOMY

## GLOBAL GROWTH NORMALISES

World GDP Growth (% Y/Y)



GDP Growth (% Y/Y)



### Europe enters a recovery while challenges arise elsewhere

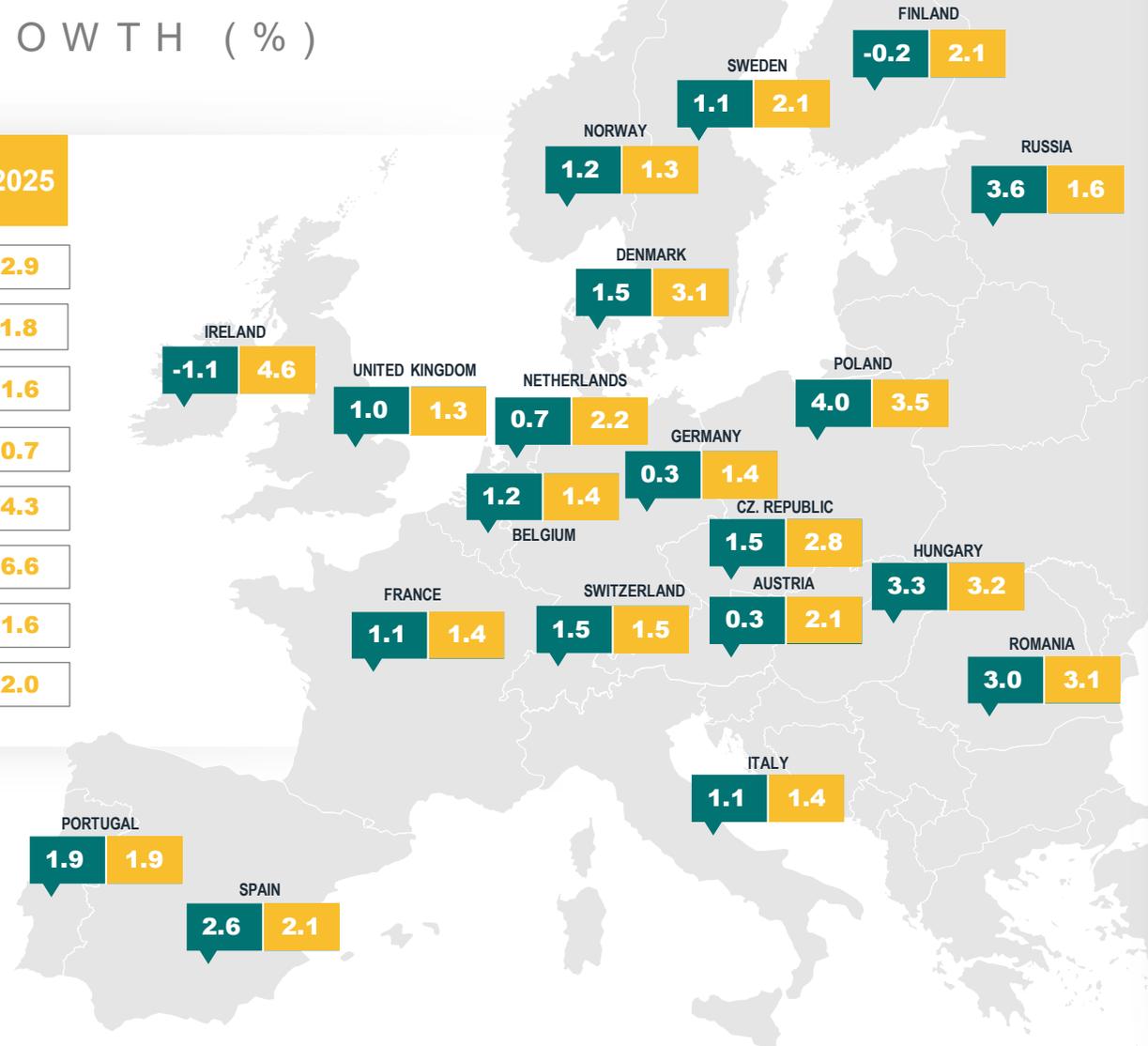
- **Global economic growth slowed in 2023 as several headwinds strengthened.** These included high inflation, high interest rates, tighter fiscal policy and increased geopolitical conflicts.
- **Economic growth slowed most notably in Europe.** By contrast, there was more resilience elsewhere.
- Positive supply dynamics helped economic growth in the US to exceed expectations. Meanwhile, expansion in the industry, construction and services sectors supported growth in China.
- **Looking ahead, global growth is likely to continue at a similar pace over the next couple of years.** However, the distribution of growth rates between countries is likely to shift. While growth is forecast to ease across most major economies, that is expected to be offset by an economic recovery in Europe.

Sources: BNP Paribas Real Estate Research, Oxford Economics, World Bank, Macrobond

# ECONOMIC GROWTH IN EUROPE

## ANNUAL GDP GROWTH (%)

	2023	2024	2025
World	2.7	2.9	2.9
United States	2.5	2.5	1.8
Euro area	0.5	0.9	1.6
Japan	1.9	-0.4	0.7
China	5.2	5.2	4.3
India	7.5	7.0	6.6
Russia	3.6	3.6	1.6
Brasil	2.9	2.2	2.0



### Activity strengthens at the start of 2024

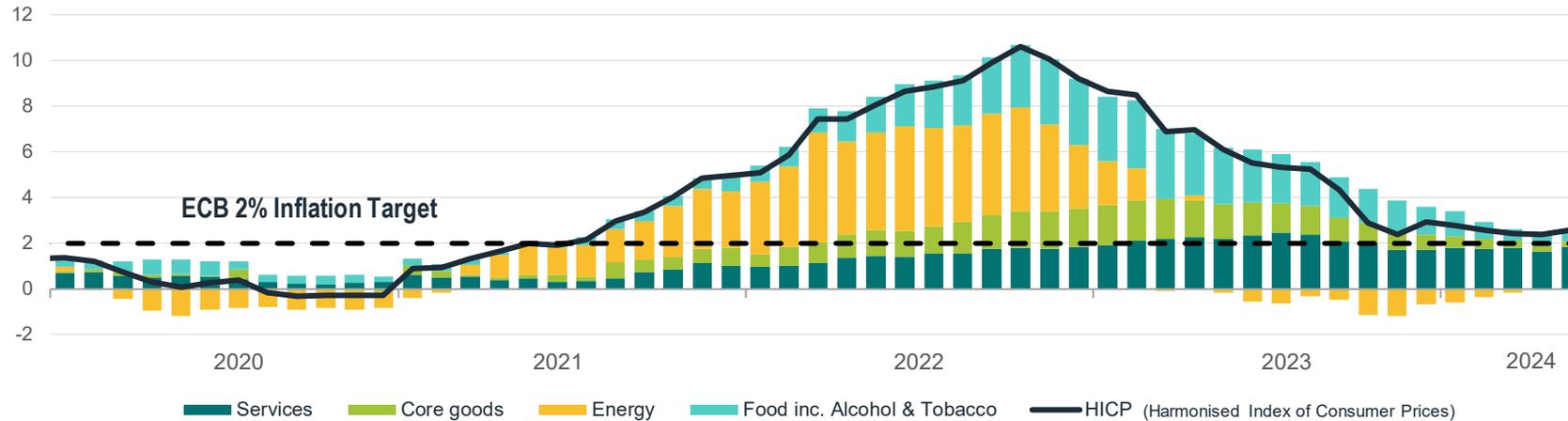
- Focusing on Europe, **economic growth has been particularly weak in Germany and the UK**. Both countries saw activity stagnate in 2023 and the UK entered a mild recession in the second half of the year. Growth also slowed in France, Italy and Spain albeit to a lesser extent.
- However, **more recent data point to European economies starting 2024 on a stronger footing**. Each of the five largest economies grew in the first quarter of the year, with the strongest quarterly growth rates seen in Spain and the UK.
- With economic indicators pointing to momentum in activity carrying into the second quarter, it appears that an economic recovery is underway. **The continued improvement in real incomes and the normalisation of borrowing costs will underpin growth in consumer spending and business investment over the next couple of years**. In turn, economic growth rates are set to pick up across Europe.
- NextGenerationEU disbursements will help the periphery to outperform core economies in the near term. Structural challenges in Germany and the UK mean their recoveries are likely to be slower than in France, Italy and Spain.

Sources: BNP Paribas Real Estate Research, Oxford Economics, BNP Paribas, Macrobond

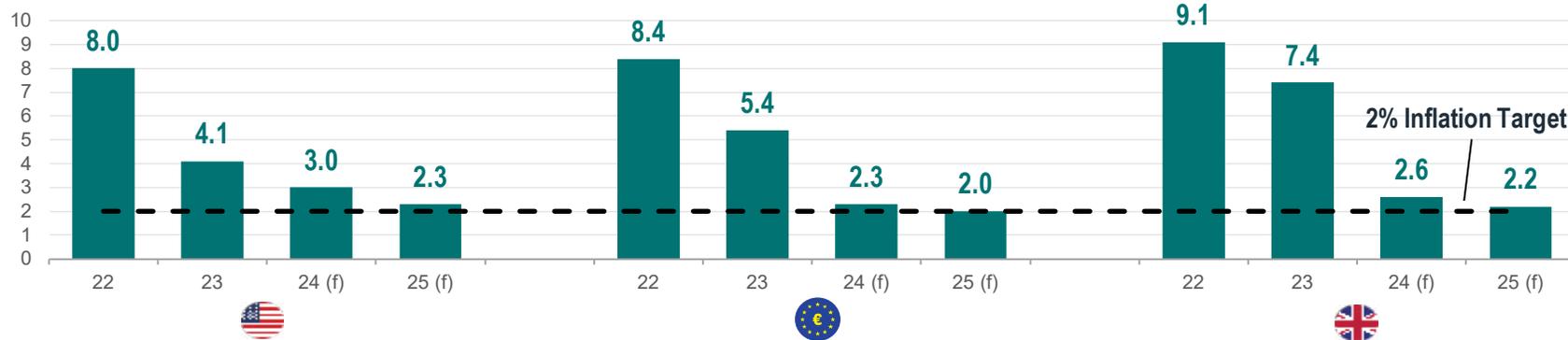
# INFLATION RATES

## PRICE PRESSURES FADE

Contributions to Eurozone Inflation (% Y/Y)



Annual Inflation Rates (% Y/Y)



## Inflation rates converge towards central bank targets

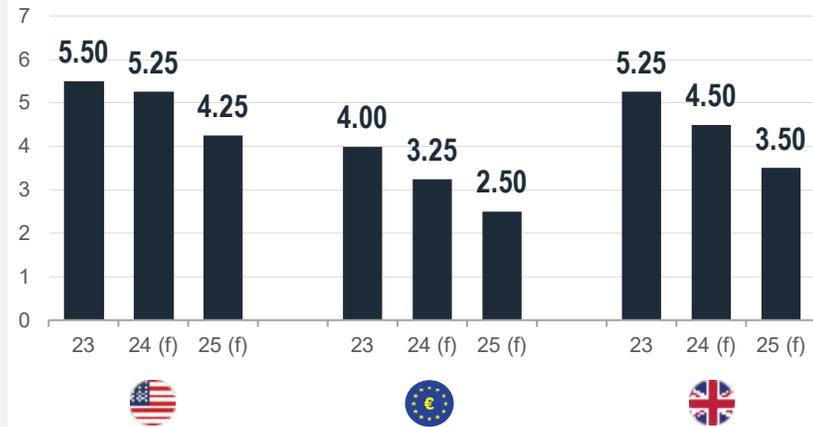
- **The slowdown in inflation has been a global story.** Inflation rates in the Eurozone, the UK and the US have made significant progress towards central bank targets of 2% y/y.
- The common trend is no coincidence. Much of the decline in inflation has been driven by global factors, reflected in sectors such as energy, food and goods.
- **However, the battle against inflation is not yet won.** There has been relatively little progress made in the domestically generated parts of inflation. This is reflected in persistently high rates of inflation in the services sector.
- By contrast, overcapacity in China means that price pressures there are much weaker. China's inflation rate temporarily dipped into negative territory last year and remains low. Given China's importance in global trade, this will have spillover effects for inflation rates in other countries too.
- Looking ahead, global factors are set to provide waning support to the disinflationary process. In fact, a renewed rise in oil prices could lead to a small rise in headline inflation rates over the course of the year. Geopolitical risks continue to raise the prospect of adverse supply shocks which could lead to renewed inflationary pressures.
- Leading indicators in labour markets point to a continued decline in nominal wage growth, which should contribute to a gradual decline in domestic price pressures. As a result, core inflation rates are likely to trend lower over the next couple of years.

Sources: BNP Paribas Economic Research, Eurostat, BNP Paribas, Macrobond.

# FINANCIAL MARKETS

## ECONOMIC AND FINANCIAL INDICATORS

### End-Year Policy Rates (%)



### 10-Year Government Bond Yields (%)



### Global REIT Index (End-2019 = 100)



## Central banks cut interest rates with caution

- **The progress made on inflation towards targets means that central banks are starting to consider lowering interest rates.** Indeed, the European Central Bank cut its policy rate by 25ps in its June meeting. While both the Bank of England and Federal Reserve kept policy rates unchanged at their June meetings, they are expected to deliver their first rate cuts in the second half of the year.
- **That said, there is still a lack of confidence that inflation will return to central bank targets on a sustained basis.** This partly stems from concerns that strong wage growth will keep services inflation sticky. As a result, markets have pared back their expectations for interest rate cuts since the start of the year.
- **Rather than front-loading interest rate cuts, central banks are likely to spread them out over the next couple of years.**
- At the end of the cutting cycle, it is widely expected that policy rates will remain above the lows seen over the past decade. The higher for longer narrative has led to a small rise in long-term government bond yields since the start of the year and is likely to prevent significant declines in yields from their current levels.
- Elsewhere, the major stock market indices in Europe, the UK and US have trended higher since the start of the year. While global REIT prices increased towards the end of 2023, they have held broadly flat since the start of 2024.

Sources: BNP Paribas Economic Research, Federal Reserve, ECB, BoE, FTSE EPRA/NAREIT, Macrobond

02.

**REAL ESTATE  
PERSPECTIVES**

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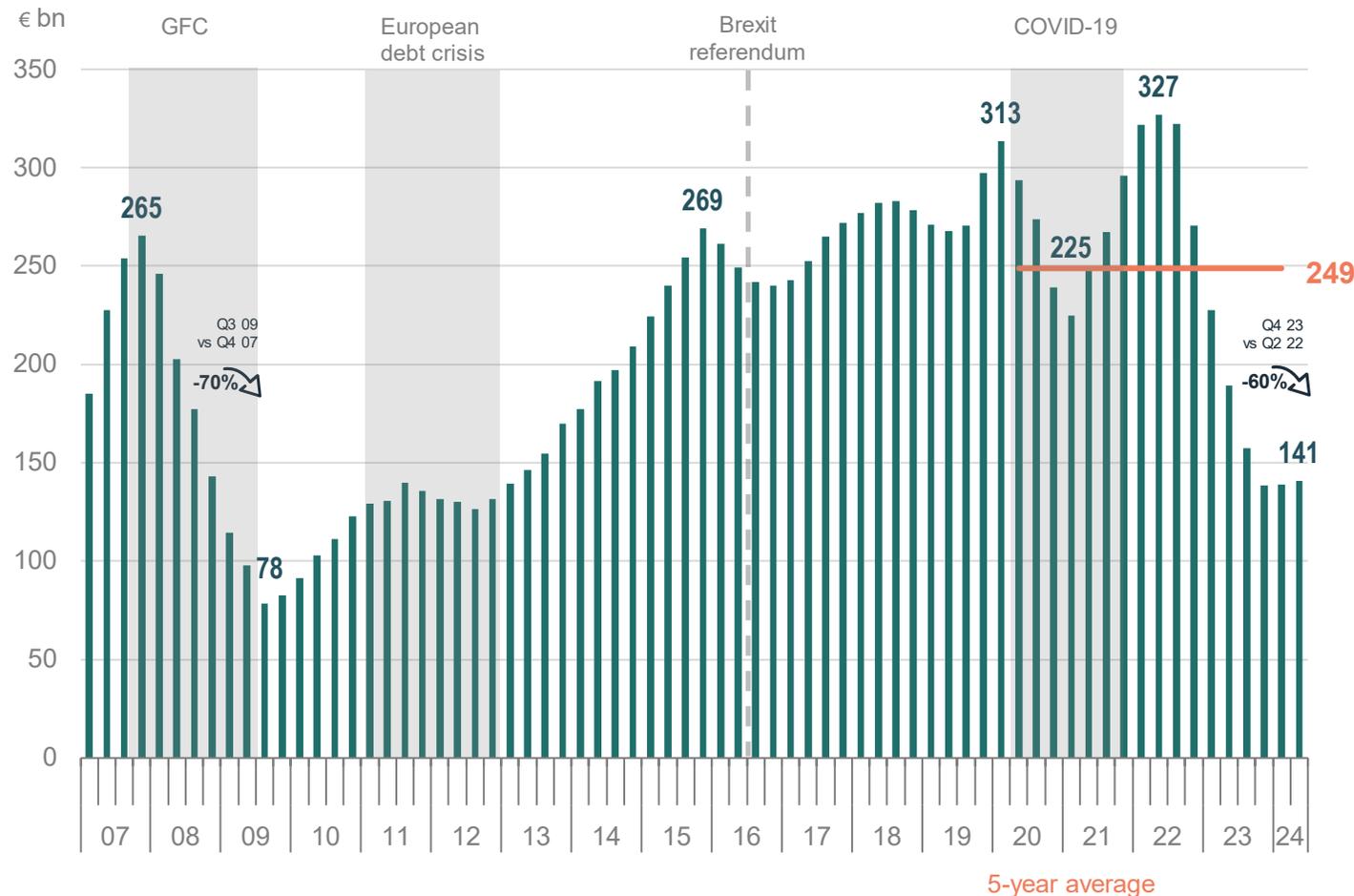
**REAL ESTATE PERSPECTIVES**

**CAPITAL MARKETS**

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# INVESTMENT IN EUROPEAN COMMERCIAL REAL ESTATE

## TRANSACTION VOLUMES SETTLE DOWN



**Q2 2024**  
vs Q2 2023  
(rolling year)



- **€141bn were invested** in commercial real estate over the 12 months to **Q2 2024**, which represents a **26 % decrease** compared to Q2 2023
- Though still lower annually, the rate of decline is halved and represents light at the end of the tunnel for the CRE sector. The investment market seems to be settling down following the inflationary shock triggered by post pandemic recovery and the Ukraine war. As the ripples from these events fade, more stability is emerging in the macroeconomic and financial backdrop.
- **The ECB rate cut in May 2024 is part of the emerging improvement as it firmly signals the end of the hard monetary policy response to crisis.**
- To some extent the CRE market has anticipated a better environment. The rise of **1% between Q1 2023 and Q2 2024 is indicative of nascent recovery.**
- Although market correction (-60%) has been comparable to the Great Financial Crisis (-70%), volumes have not (and now will not) go down to levels seen in late 2009. As with the post GFC environment, **investment volumes may gain traction over the next year.**

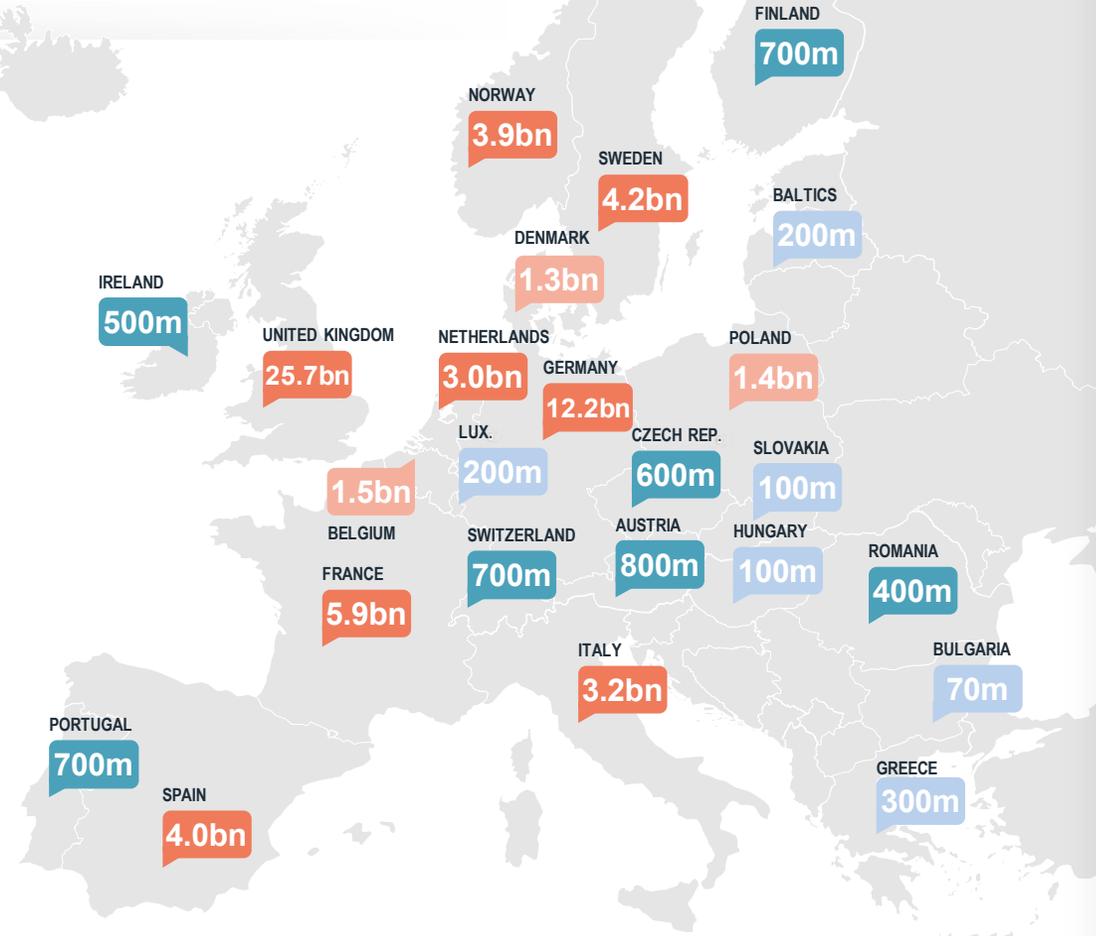
Source : BNP Paribas Real Estate

# COMMERCIAL REAL ESTATE INVESTMENT

INVESTMENT RISING IN MOST COUNTRIES

## H1 2024 vs H1 2023

	UNITED KINGDOM	+0%
	GERMANY	+34%
	FRANCE	-29%
	SWEDEN	-13%
	NETHERLANDS	+36%
	SPAIN	+3%
	ITALY	+55%
	NORWAY	+47%
	POLAND	+59%
	BELGIUM	+48%
	DENMARK	-4%
	FINLAND	-26%
	IRELAND	+2%
	AUSTRIA	-21%
	LUXEMBOURG	+721%



## EUROPE – H1 2024

€72.3bn

+3% vs H1 2023

- €72.3bn were invested in Europe over H1 2024, rising by 3% compared to H1 2023.
- Investment market in **Germany** accelerated in Q2, with the **portfolio** segment doubling with more than €2.7bn.
- In the United Kingdom, volume reaches €25.7bn for H1 2024 in line with H1 last year, mainly driven by **residential** and **hotel** investment boom.

(excludes residential investment)

Source : BNP Paribas Real Estate

# CROSS-BORDER INVESTMENT IN EUROPE – H1 2024

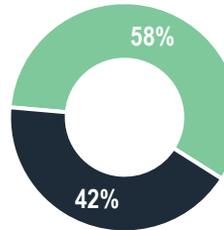
## RIISING INTEREST IN EUROPE FROM AMERICAN INVESTORS

- As of **H1 2024**, **domestic investment dominates the market at 58%**. Patterns resemble 2011 levels though it varies by country. For example, in the UK, international investors account for **41%** of Central London office volume this year, marking the lowest share acquisition since 2001.
- Within foreign investment, **European cross-border transactions declined** and now represent only **a third of foreign investment** compared to 45% back in 2019.
- Investment from other continents shows contrasting developments. Since late 2023, increasing interest from **American investors** in the European market resulted in transaction volume **rising 56% compared to H1 2023**, notably in Germany (+90%).
- Volumes from **APAC** keep declining, representing a consistent **12%** of the market share. With only **€3.6bn** invested, allocations **decreased by 22%** compared to last year. As of H1 2023, APAC based investors mainly focus on **Germany** (€1.7bn) and **Spain** (€100m).
- Enthusiasm from **Middle East** investors for Europe has faded in 2024, with only **€600m**, a **decrease of 65% of investment** volume compared to **H1 2023**. All countries experienced this outcome except for Italy, counting +35% vs H1 2023 at €70m.

€ 41.7bn

+7%

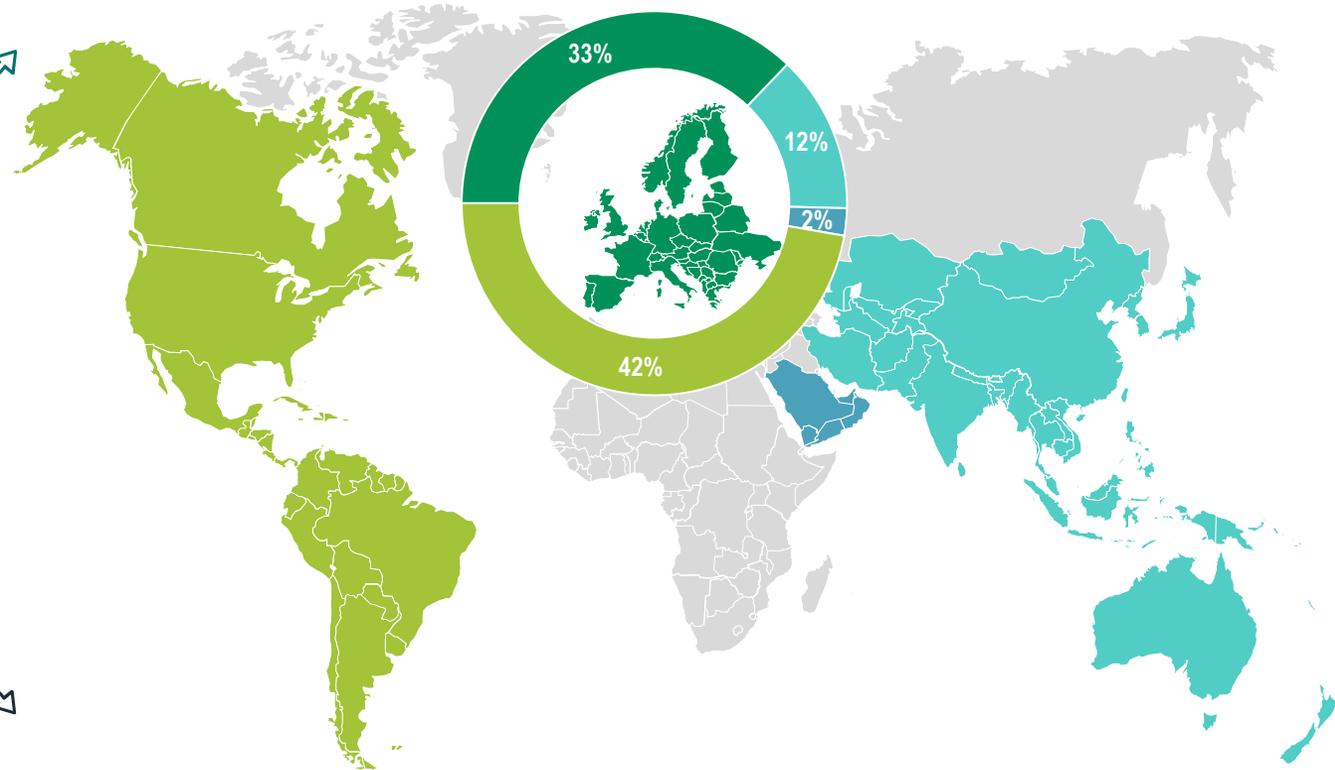
DOMESTIC INVESTMENT



CROSS-BORDER INVESTMENT

€ 30.7bn

-9%



**EUROPE**  
€9.9BN -22%

**AMERICAS**  
€12.8BN +56%

**ASIA PACIFIC**  
€3.6BN -22%

**MIDDLE EAST**  
€0.6BN -65%

Investment as commercial real estate investment, which excludes residential investment.

Source : BNP Paribas Real Estate

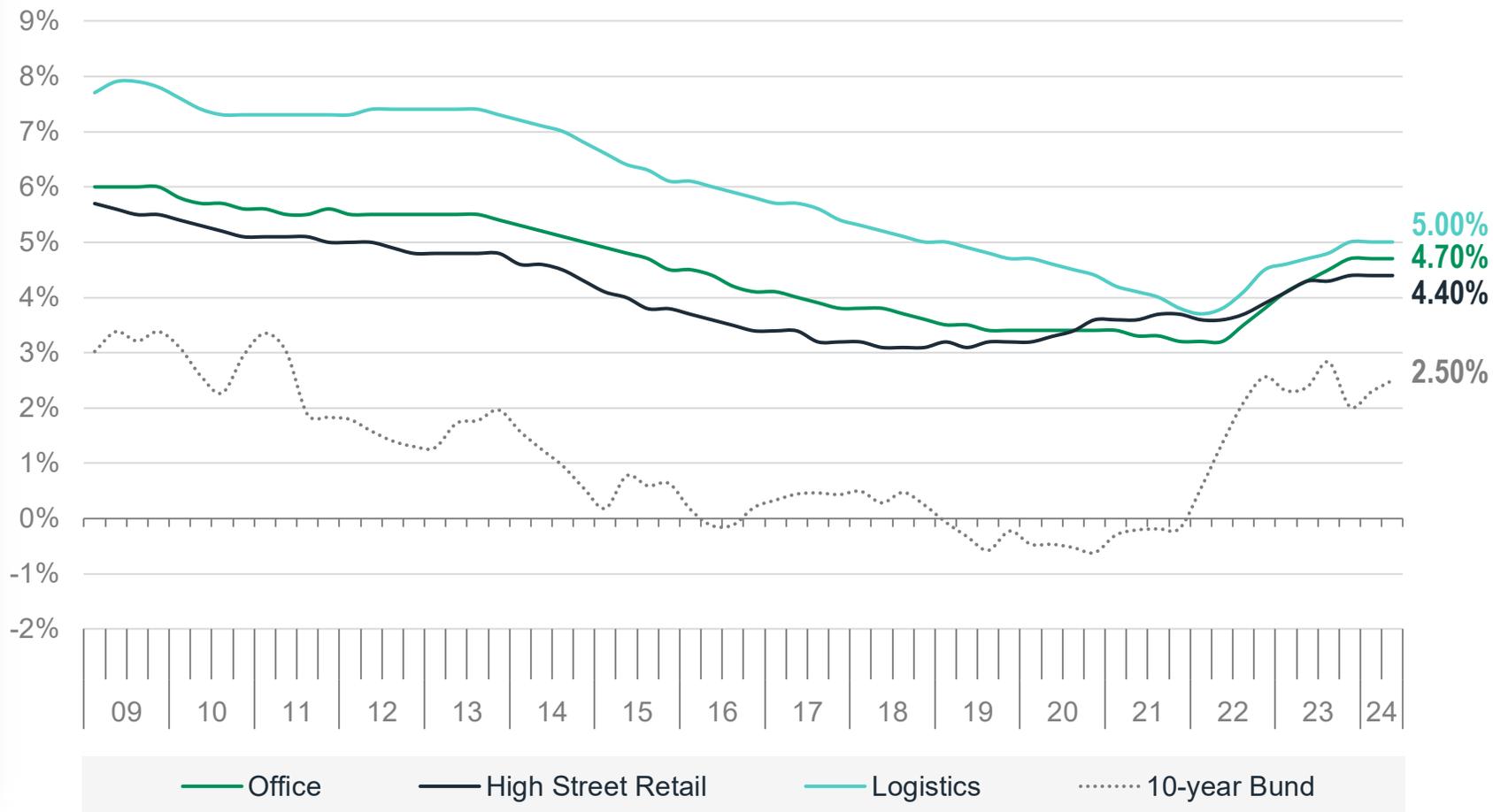
# AVERAGE PRIME YIELDS IN EUROPE

OUTLOOK CONSENSUS CLAIMS STABILITY THROUGHOUT 2024

## Holding the line

- Despite initial estimates that the cycle would terminate in early 2023, central banks kept up interest rate tightening efforts into the third quarter of 2023. Thus, the bond yield gap with real estate only truly began to firm up by late 2023.
- **Since Q4 2023 prime yields** across all asset classes remain **constant**. Current levels are expected to hold for the remainder of the year, though compression signals may show late 2024 / early 2025.
- **Stockholm (3.95%) is the lowest yielding market in Europe for offices**, followed by London and Copenhagen (4.15%).
- **Retail locations are led by London** and the **German cities** with high street prime yields **below 4.00%**. In Germany, other retail sectors are above 4%, with retail parks posting 4.75%, discounters / supermarkets (4.90%) and shopping centres (5.60%).
- **The lowest yielding logistics market** is also in **Germany** at 4.25%, followed by **the United Kingdom** (4.50%) and **France** at 4.75%.

**Based on 16 cities:** Amsterdam, Berlin, Brussels, London, Paris, Dublin, Frankfurt, Hamburg, Lisbon, Luxembourg, Madrid, Milan, Munich, Prague, Vienna and Warsaw.



Source : BNP Paribas Real Estate

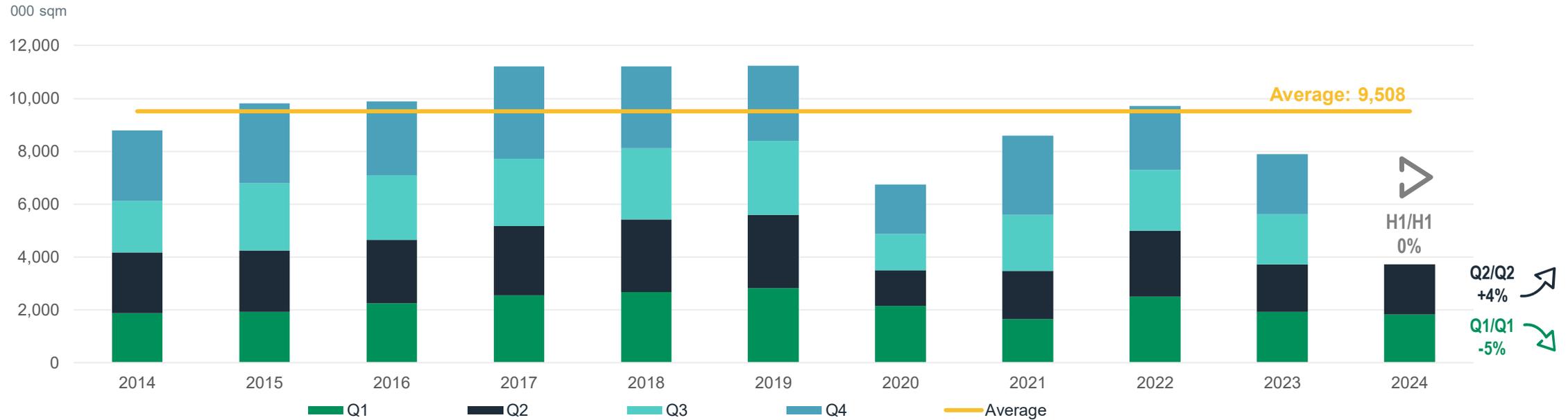
02.

REAL ESTATE PERSPECTIVES

OFFICE MARKETS

# OFFICE TAKE-UP IN THE MAIN EUROPEAN OFFICE MARKETS\*

LETTING ACTIVITY REMAINED WEAK IN H1 2024



\* Berlin, Cologne, Düsseldorf, Frankfurt, Hamburg, Munich, Lyon, Central Paris, Central London, Brussels, Barcelona, Madrid, Dublin, Milan, Rome, Luxembourg, Amsterdam, Warsaw

## A subdued H1 2024

- In line with 2023 letting activity, take-up remained subdued in H1 2024 in Europe.
- Around 3.72 m sqm was transacted over H1 24 in the 18 main European markets, in line with H1 23. H1 volumes are consequently below their 10-year average (-16%).
- However, Q2 volume improved somewhat driven by a rebound in several markets: Dublin (+119% vs Q2 23), Düsseldorf (+68%), Barcelona (+35%), Brussels (+44%), Munich (+31%), Central London (+24%) and Berlin (+14%). Very large deals (over 10,000 sqm) transacted in those markets made the difference.
- Weak economic conditions in the major European markets of Germany and France may continue to weigh on demand in short-term. Overall, 2024 letting volumes should be in line with 2023 results.

Source : BNP Paribas Real Estate

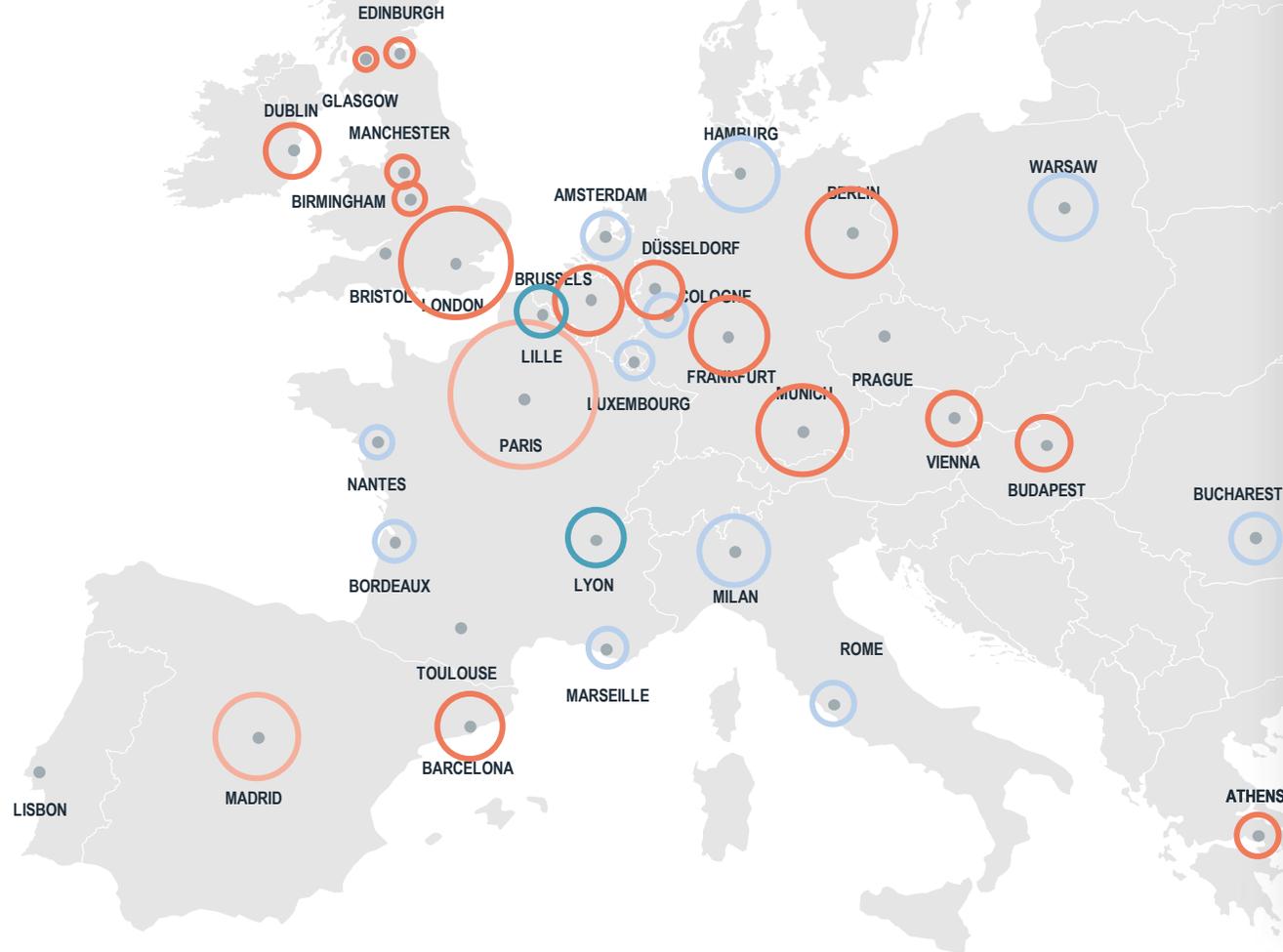
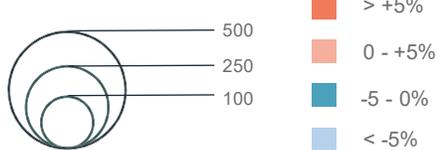
# OFFICE TAKE-UP IN EUROPE

STABILISATION IS ON THE HORIZON

## H1 2024 vs H1 2023

	CENTRAL LONDON	+8%	
	BERLIN	+7%	
	CENTRAL PARIS	=	
	AMSTERDAM	-14%	
	MADRID	=	
	MILAN	-8%	
	WARSAW	-26%	
	BRUSSELS	+7%	
	DUBLIN	+56%	
	LUXEMBOURG	-33%	
	VIENNA	+14%	
	FRANKFURT	+13%	
	BARCELONA	+49%	

Deals in thousand sqm



## EUROPE – H1 2024

**4.43m sqm** 30 markets  
-1% vs. H1 2023

## Mixed picture for take-up

- Take-up at the end of H1 2024 is in line with H1 2023 overall result.
- While some markets have experienced a new decline in volumes, take-up gained traction in many markets. Letting volume expansion is highly sensitive to large transactions. These deals not only take longer to close but their start is also highly sensitive to challenging economic backdrops.
- Despite the increase in activity, volumes remain below their long-term average.

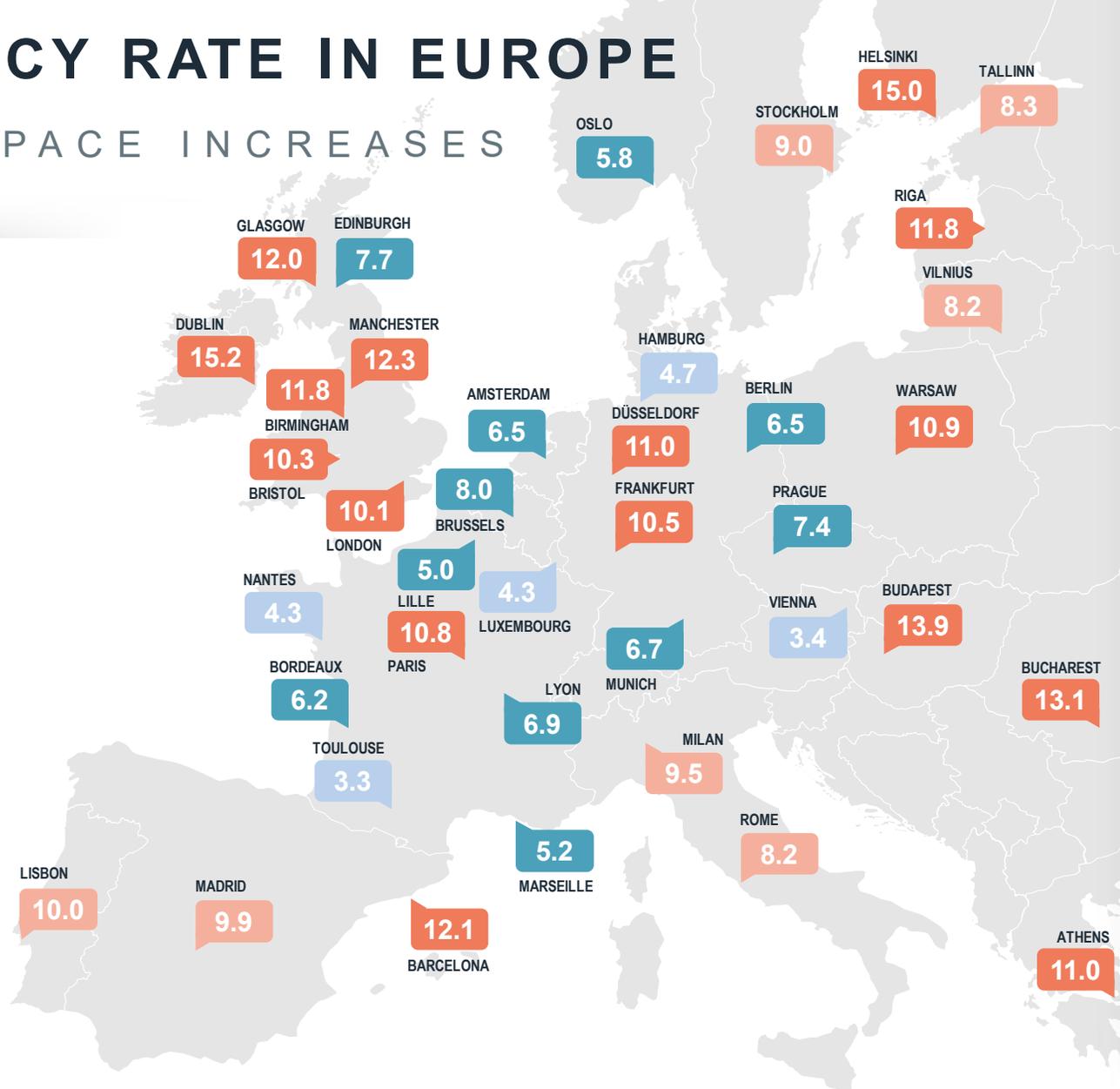
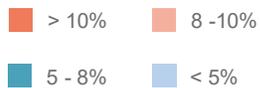
Source : BNP Paribas Real Estate

# OFFICE VACANCY RATE IN EUROPE

## SECOND-HAND SPACE INCREASES

### Q2 2024 vs Q2 2023

	CENTRAL LONDON	+90bp ↗
	BERLIN	+260bp ↗
	CENTRAL PARIS	+140bp ↗
	AMSTERDAM	+10bp ↗
	MADRID	= →
	MILAN	-70bp ↘
	WARSAW	-50bp ↘
	BRUSSELS	+90bp ↗
	DUBLIN	+310bp ↗
	LUXEMBOURG	+90bp ↗
	VIENNA	-30bp ↘
	FRANKFURT	+180bp ↗
	BARCELONA	-70bp ↘
	STOCKHOLM	+320bp ↗
	HELSINKI	+100bp ↗



### EUROPE – Q2 2024

**8.4%** 32 markets  
+100bp vs. Q2 2023

- Vacancy expansion in numerous markets is the consequence of a growing geographical and quality mismatch in supply and demand.
- Low availability prevails in central submarkets, particularly with new buildings that secure demand. Much higher vacancy rates though are found in peripheral office districts and for second-hand space.
- Completions have also impacted the immediate supply in several markets such as Berlin (available modern space accounted for 847,000 sqm at the end of June, +81% vs. H1 2023) and Dublin (deliveries in the first half of 2024 exceeded the 5-year annual volume average).

Source : BNP Paribas Real Estate

# OFFICE PRIME RENTS IN EUROPE

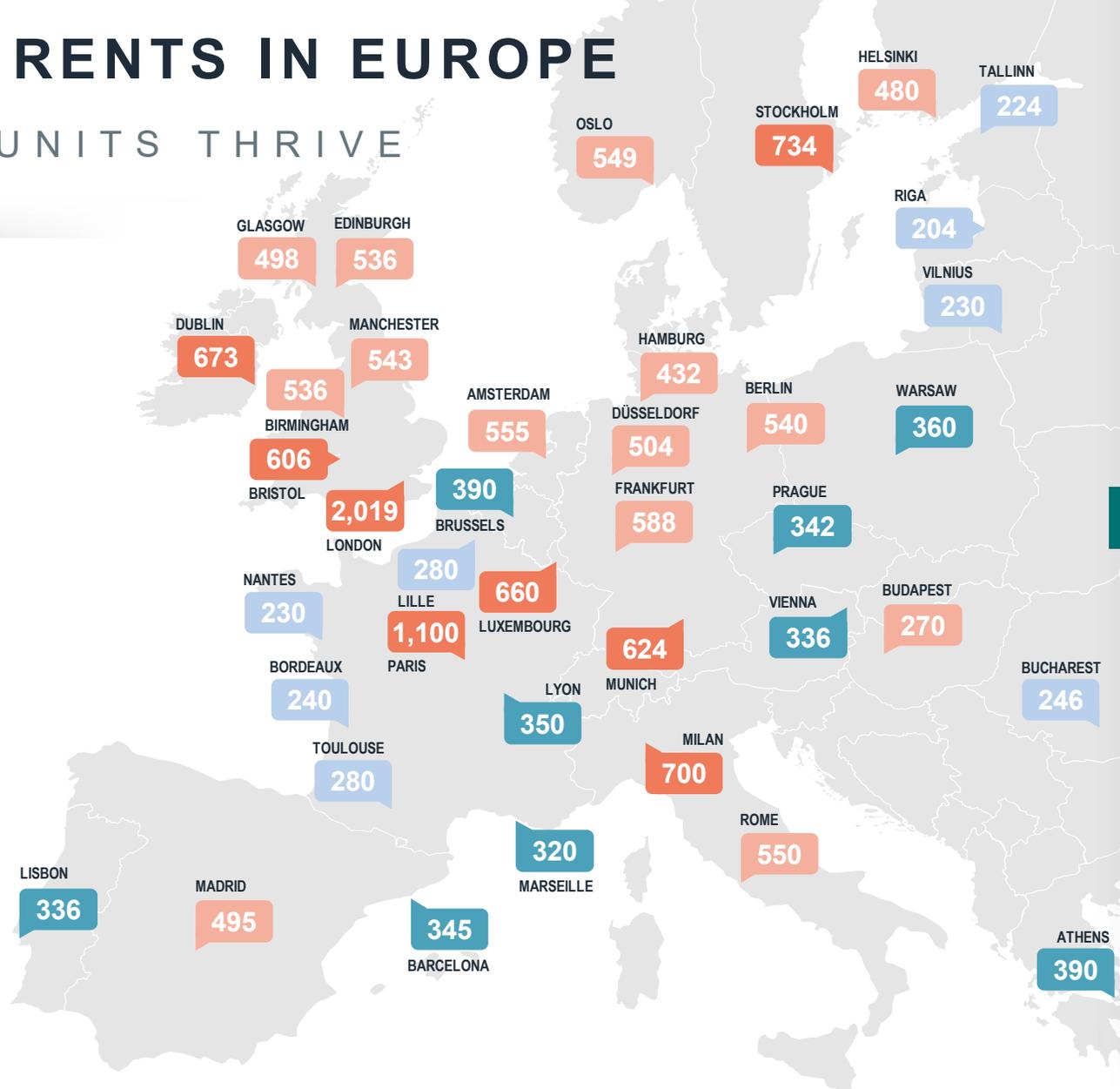
BEST-IN-CLASS UNITS THRIVE

## Q2 2024 vs Q2 2023

	CENTRAL LONDON	+10%
	BERLIN	=>
	CENTRAL PARIS	+10%
	AMSTERDAM	+9%
	MADRID	+11%
	MILAN	+1%
	WARSAW	+11%
	BRUSSELS	+18%
	DUBLIN	=>
	LUXEMBOURG	=>
	VIENNA	+4%
	FRANKFURT	+2%
	BARCELONA	+3%

Rents (€/sqm/year)

	> €600		€400-600
	€300-400		< €300



## EUROPE – Q2 2024

**+3.8%** vs. Q2 2023  
36 markets

## Prime rents still driven by high demand for top space

- The very low availability of prime assets and the appeal of high-quality buildings located in the most sought-after districts continue to drive values up.
- Structural changes occurring in the office sector favours prime and modern units, and less space. This increasing focus on quality over quantity will continue to support prime rents over the coming quarters.

Source : BNP Paribas Real Estate

# LOCATIONS

## EUROPE

### FRANCE

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## ALLIANCES

AUSTRIA  
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GREECE  
HUNGARY  
JERSEY  
NORTHERN IRELAND  
PORTUGAL  
ROMANIA  
SLOVAKIA  
SWITZERLAND  
USA

# CONTENTS AND PRODUCTION

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