EUROPE
CRE 180

ECONOMIC OUTLOOK

REAL ESTATE PERSPECTIVES

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GLOBAL RESEARCH
January 2024

BNP PARIBAS
REAL ESTATE

Real Estate for a changing world

BNP PARIBAS
REAL ESTATE

AGENDA

01. ECONOMIC OUTLOOK

02. REAL ESTATE PERSPECTIVES

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EXECUTIVE SUMMARY

IN A NUTSHELL

GLOBAL PICTURE REMAINS MIXED

- The latest economic data paint a mixed picture. In both the Eurozone and the US, the signal from most confidence surveys in December is encouraging. But it is still too early to conclude to a bottoming out.
- The economic situation also remains vulnerable to geopolitical tensions.
- Our 2024 growth forecasts for the OECD countries are close to those of the ECB.

CORE INFLATION NOW ON A DOWNWARD PATH

- The rate hike cycle is coming to an end. The weakening of economic activity and lower inflation have met some of the preconditions needed for the the Fed, ECB and the BoE to move towards a neutral stance.
- The consensus expects the ECB to start reducing rates in July, bringing the deposit rate back to 3.25% by the end of the year.

INVESTMENT PLUMMETED IN 2023

- An unfinished repricing process kept Investment in the deep freeze over 2023
- All asset classes experienced a strong reduction. Offices (-59%) showed strongest declines while hotels (-26%) and retail (-40%) incurred the least declines. Logistics volumes fell 48% though this sector has experienced some of the most rapid repricing and may now be stable.

2023 WAS MARKED BY YIELDS DECOMPRESSION

- 2023 will be regarded as the year of yield decompression with European markets characterized by protracted price discovery processes across all asset types.
- The bond yield gap between government bond yields and real estate only truly began to firm up in H2 2023. It means that the rethinking about the prices being paid for assets has a clearer framework and prices have better chance to settle.

OFFICE: LETTING ACTIVITY REMAINED SUBDUED IN 2023

- 7.60 m sqm was transacted in Europe's 17 main markets over 2023, down by 19% vs 2022. Annual volumes are below their long-term average (-16%).
- This decline is mostly due to a reduced number of very large transactions. Occupiers are looking for space optimization to meet hybrid working patterns and reduce costs.

THE FLIGHT TO QUALITY CONTINUES

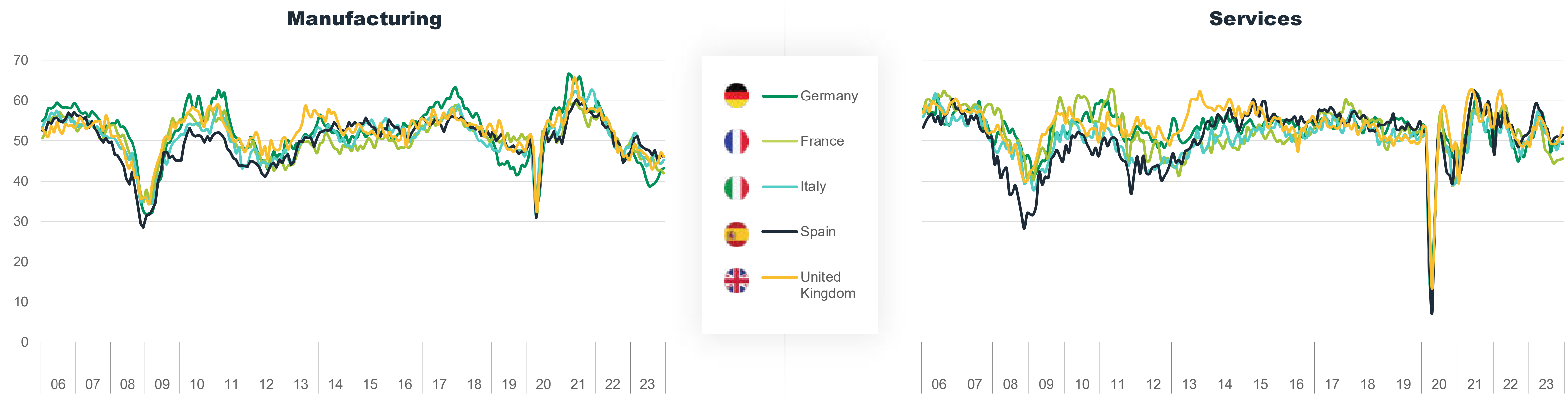
- While hybrid work models are here to stay, workplace plays a key role in attracting and retaining talent, both in terms of space quality and location. Demand is also high for energy-efficient and sustainable buildings.
- These increasing quality requirements drive values up for modern buildings located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

01.

ECONOMIC OUTLOOK

PURCHASING MANAGER INDEX SURVEYS

GLOBAL PICTURE REMAINS MIXED



DYNAMICS APPEAR FAVOURABLE IN THE EUROZONE

The signal from most confidence surveys is slightly encouraging, especially in the euro area. Not only did the European Commission's economic sentiment indicator pick up significantly in December 2023 for the third consecutive month, but the increase was driven by all components (business sector sentiment and consumer confidence)

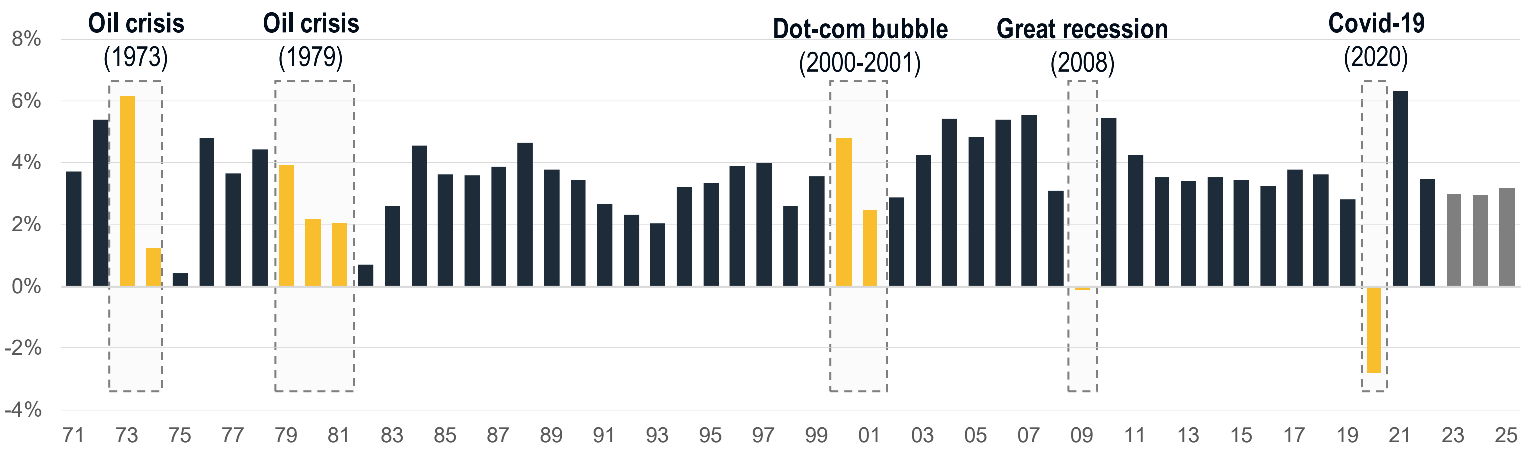
The good news also includes stabilisation in December of the Eurozone's PMI composite index (47.6), thanks to the small improvement in services (+0.1, to 48.8) offsetting the deterioration in the manufacturing sector (-0.2, to 44.4, output component). Decline in the latter is of lower magnitude due to improvement in the new orders and export components.

Sources: S&P, BNP Paribas Economic Research.

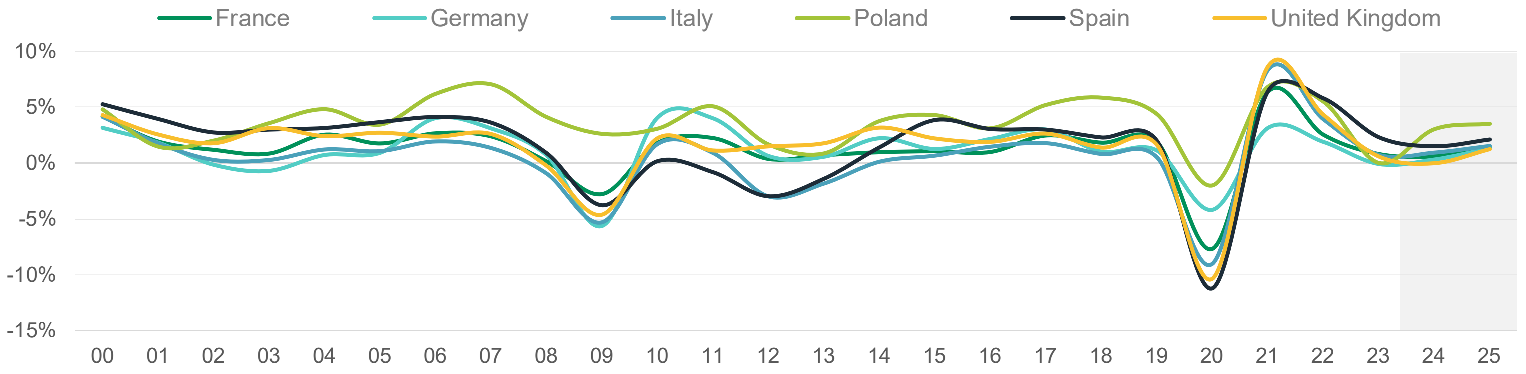
ECONOMIC OUTLOOK

WHAT OUTLOOK FOR THE MAIN ECONOMIES?

World GDP



GDP growth in European countries



Global picture remains mixed

- The latest economic data paint a mixed picture. In both the Eurozone and the US, the signal from most confidence surveys in December is encouraging. But it is still too early to conclude to a bottoming out.
- Non-farm payrolls in the US remained robust in December. But the collapse of the employment component of the ISM survey in the non-manufacturing sector looks alarming and business failures are on the rise.
- The economic situation also remains vulnerable to geopolitical tensions.

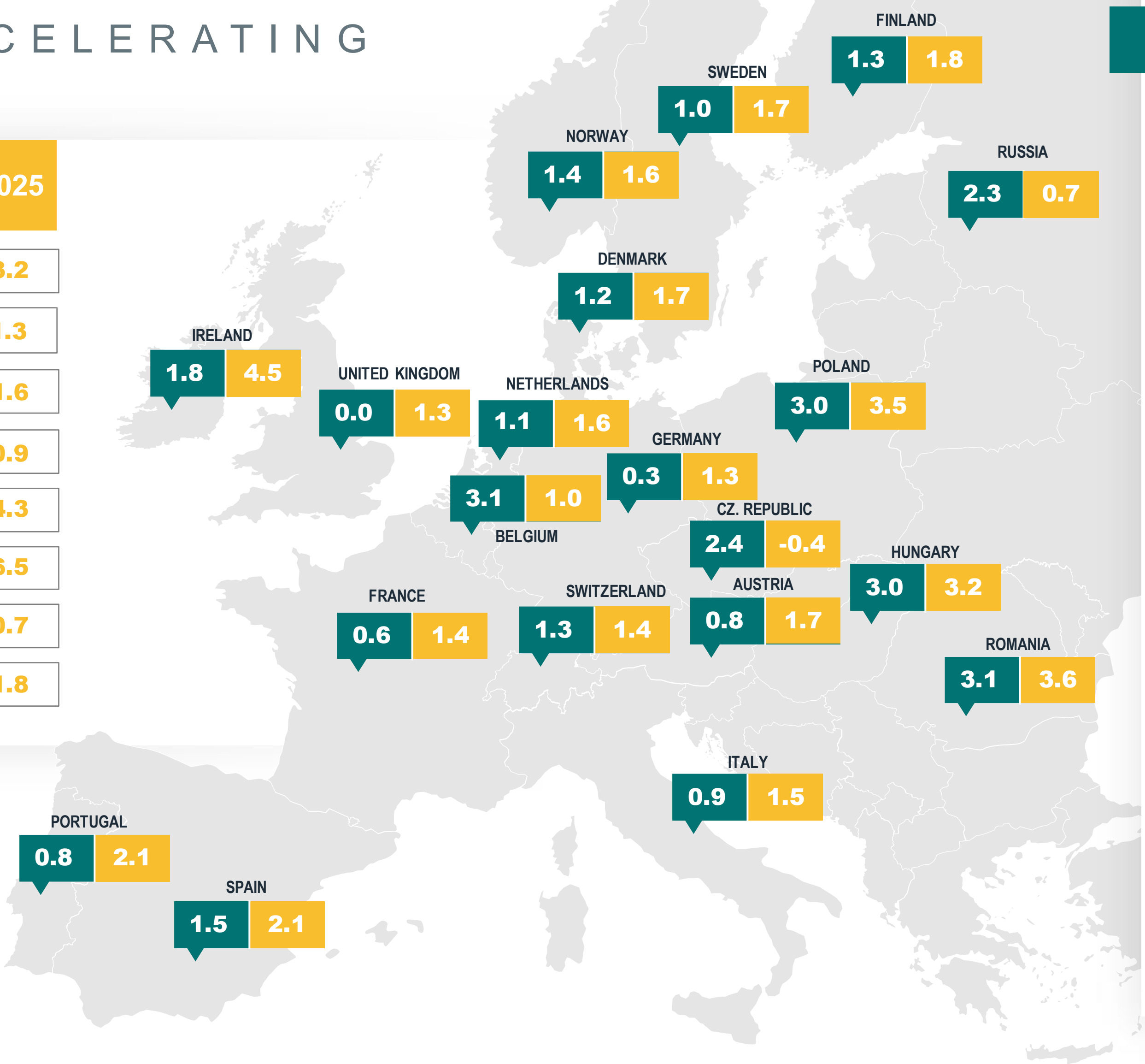
Encouraging news in Europe

- According to the first estimate, real GDP in the Eurozone contracted slightly in Q3 (-0.1% q/q) after two quarters of stagnation.
- The negative effects of monetary tightening are expected to continue to weigh on economic activity this winter. Apart from the possibility of a small technical recession in the second half of 2023, activity is expected to stabilize in the first quarter of 2024, before a more pronounced recovery from spring onwards.
- This would be underpinned by a first rate cut by the ECB, which we expect to happen mid 2024.

GDP GROWTH IN EUROPE

ACTIVITY IS DECELERATING

FORECAST (%)	2023	2024	2025
World	3.0	2.9	3.2
United States	2.4	0.9	1.3
Euro area	0.5	0.6	1.6
Japan	2.1	0.8	0.9
China	5.2	4.5	4.3
India	7.5	7.0	6.5
Russia	3.0	2.3	0.7
Brasil	3.1	1.8	1.8



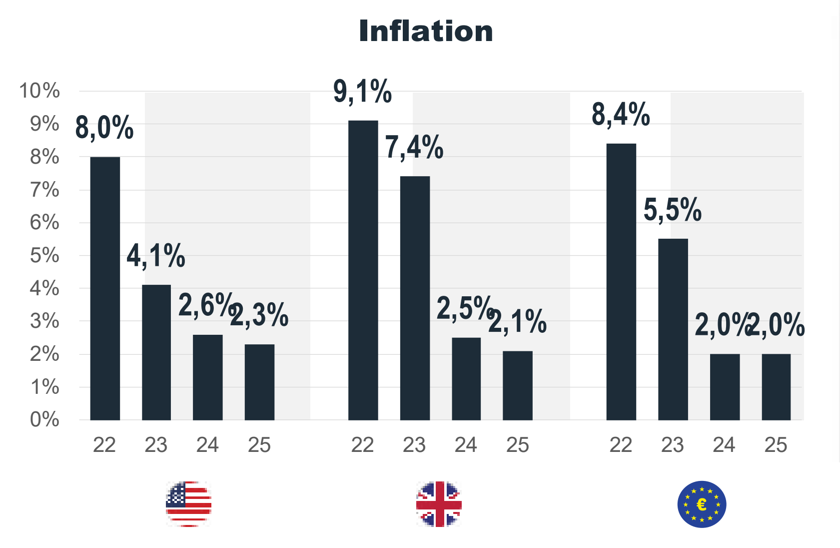
A more resilient economic scenario

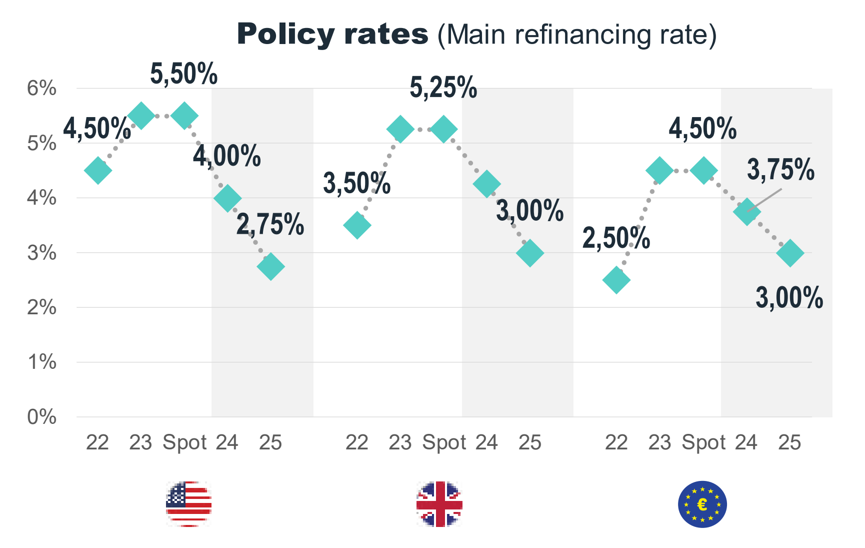
- Our 2024 growth forecasts for the OECD countries are close to those of the ECB.
- US activity decelerated only slightly in the first half of 2023 thanks to the resilience of household consumption and the strength of non-residential investment. Q3 GDP growth was even stronger but a sharp slowdown remains expected in Q4 because of the diminution of excess savings and the ensuing loss of momentum of the household consumption engine.
- Economic growth in China rebounded in early 2023 following the end of the zero Covid policy, but the recovery has weakened very rapidly. Export momentum has stalled due to depressed global demand and tensions with the US.
- According to our forecasts, eurozone activity is likely to stall in Q4 2023, under the effects of a contraction in GDP in Germany and France, which should be offset by growth in Italy and, above all, Spain.

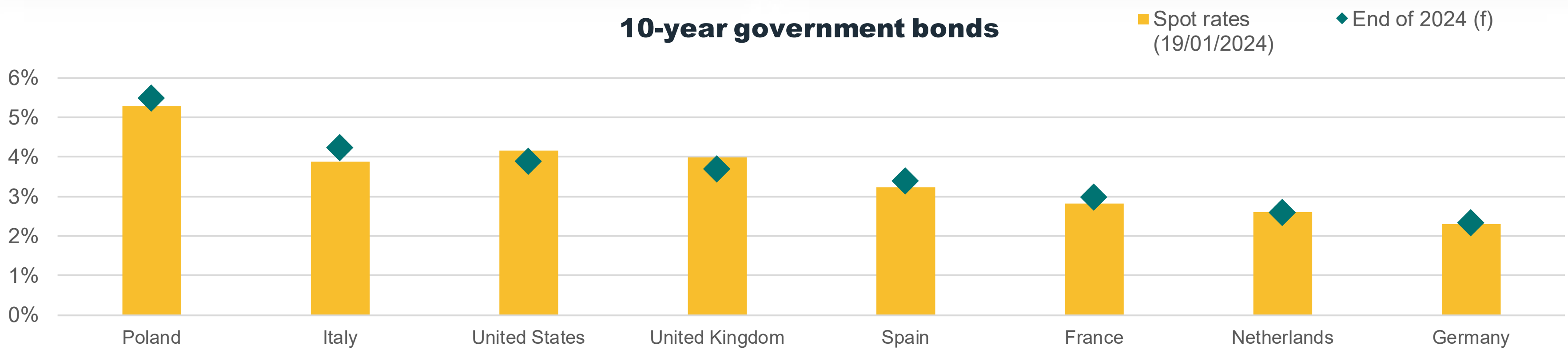
Source: BNP Paribas Real Estate Research

FINANCIAL OUTLOOK

ECONOMIC AND FINANCIAL INDICATORS







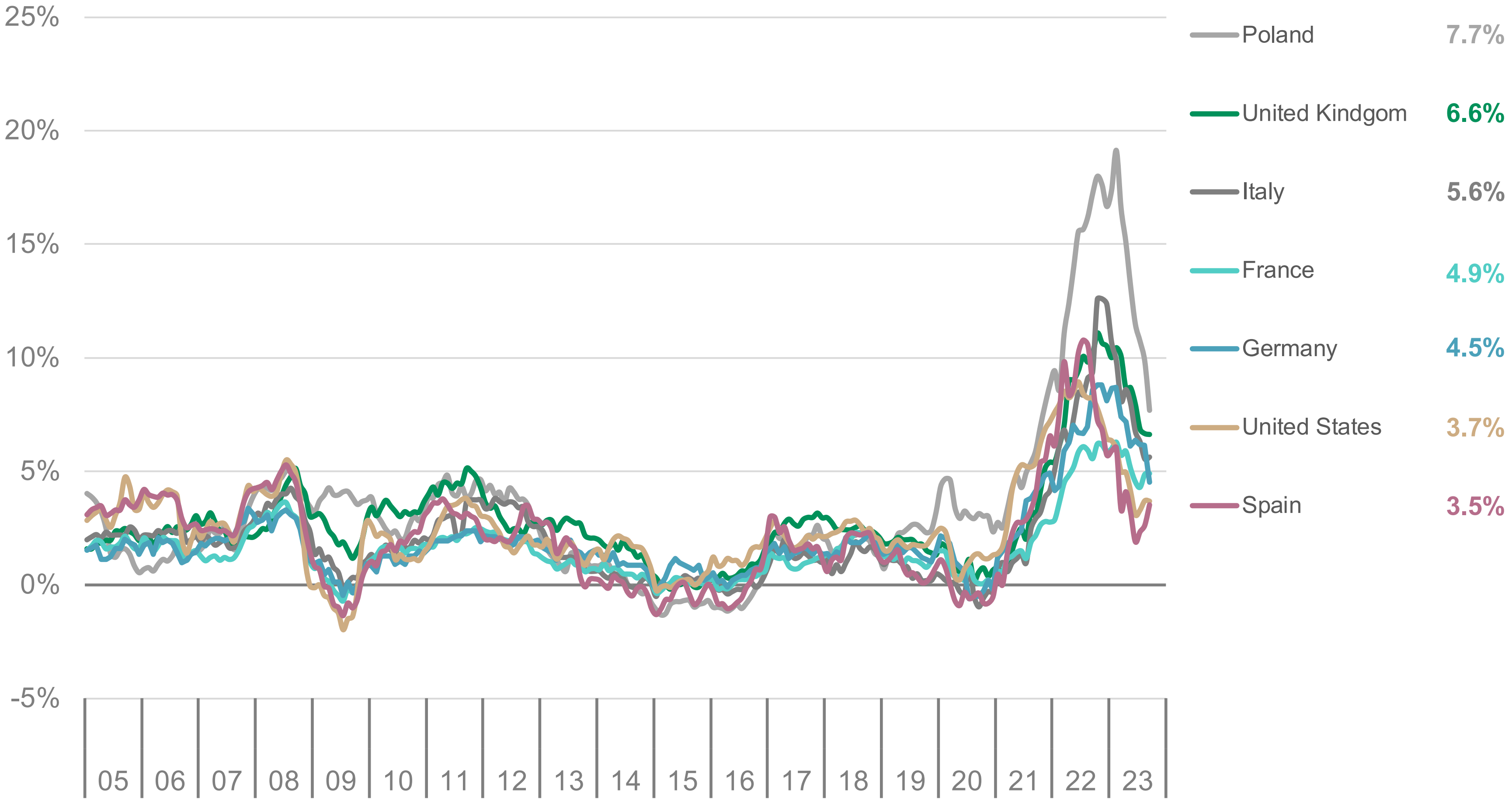
Lower central bank rates

- The rate hike cycle is coming to an end. The weakening of economic activity and lower inflation have met some of the preconditions needed for the the Fed, ECB and the BoE to move towards a neutral stance.
- The neutral stance (neither increase or decrease) is a necessary first step before committing to monetary policy loosening. It provides central banks with room to move rates back up if there is a resurgence in inflation. Consequently, policy rates may be held at their current high level for an extended period, until mid-2024 according to our forecasts.
- The first rate cuts are likely to accompany a consistent downward fall in core inflation plus moderation in wage growth (a key indicator under scrutiny).
- The consensus expects the ECB to start reducing rates in July, bringing the deposit rate back to 3.25% by the end of the year.
- Rate reduction will not reverse all the increases seen. As a result, monetary policy may remain restrictive over most of 2024 and perhaps into 2025.

Sources: BNP Paribas Economic Research, OECD.

INFLATION IN EUROPE

CORE INFLATION NOW ON A DOWNWARD PATH



Disinflation is a slow process

- The annual headline inflation rate increased in December 2023 over the November figure though this does not indicate an inflationary surge is returning.
- Increase is mostly a technical index effect. The pickup in the headline rate was expected because energy price deflation is slowing down relative to last year.
- It masks a further decline in core inflation and a positive momentum towards a lower inflationary environment. Headline inflation is expected to resume falling from January.
- The question remains how fast the 'last mile' will be covered, between the current rate of around 3% and the central bank 2% target.
- According to our current forecasts, the euro area may win the race, with the inflation target reached in June.
- In contrast, the United States CPI inflation measure is less likely to reach the 2% target by year-end: it may stand at 2.5% y/y (2.7% on annual average).

Sources: BNP Paribas Economic Research, OECD.

02.

REAL ESTATE PERSPECTIVES

02.

REAL ESTATE PERSPECTIVES

CAPITAL MARKETS

EUROPE CRE 180

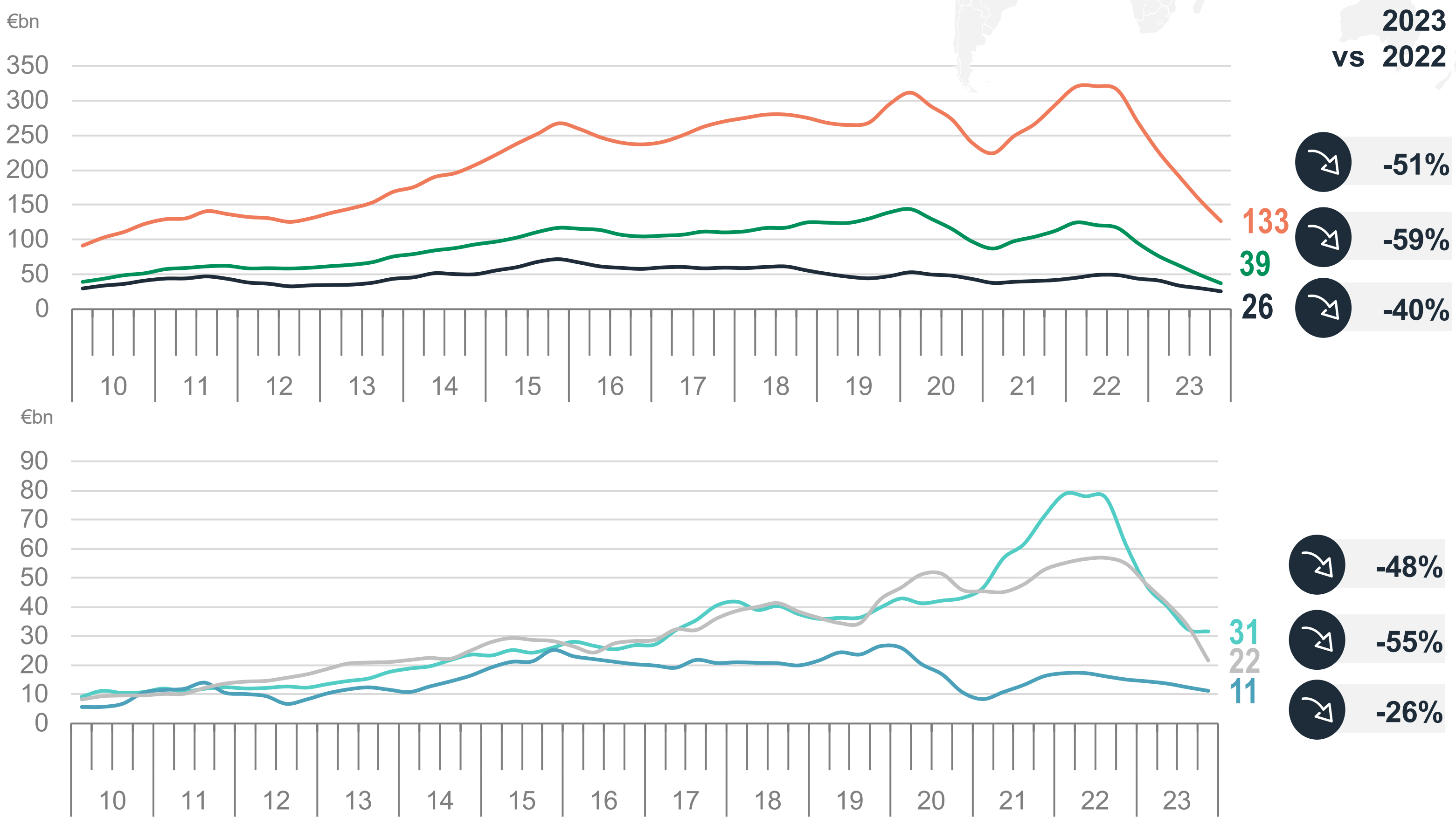
INVESTMENT IN EUROPEAN COMMERCIAL REAL ESTATE

BREAKDOWN BY ASSET CLASS

An unfinished repricing process kept Investment in the deep freeze over 2023

- The market year-end total of €133m for 2023 (-54% Q4 2022 – Q4 2023) is far behind Q1 2021's pandemic induced low point.
- The ever-shifting ground of financing costs that characterised much of 2023 extracted a toll on European investment activity. The elongated nature of the monetary policy cycle created difficulties establishing suitable pricing against bond yields and acceptable lending costs.
- All asset classes experienced a strong reduction. Offices (-59%) recorded the strongest declines due to difficult pricing plus structural changes from energy compliance and hybrid working.
- Hotels (-26%) and retail (-40%) incurred the least declines. Logistics volumes fell 48% though this sector has experienced some of the most rapid repricing and may now be stable.

Commercial real estate
Office
Retail
Industrial & logistics
Hotel
Other



This excludes residential investment.

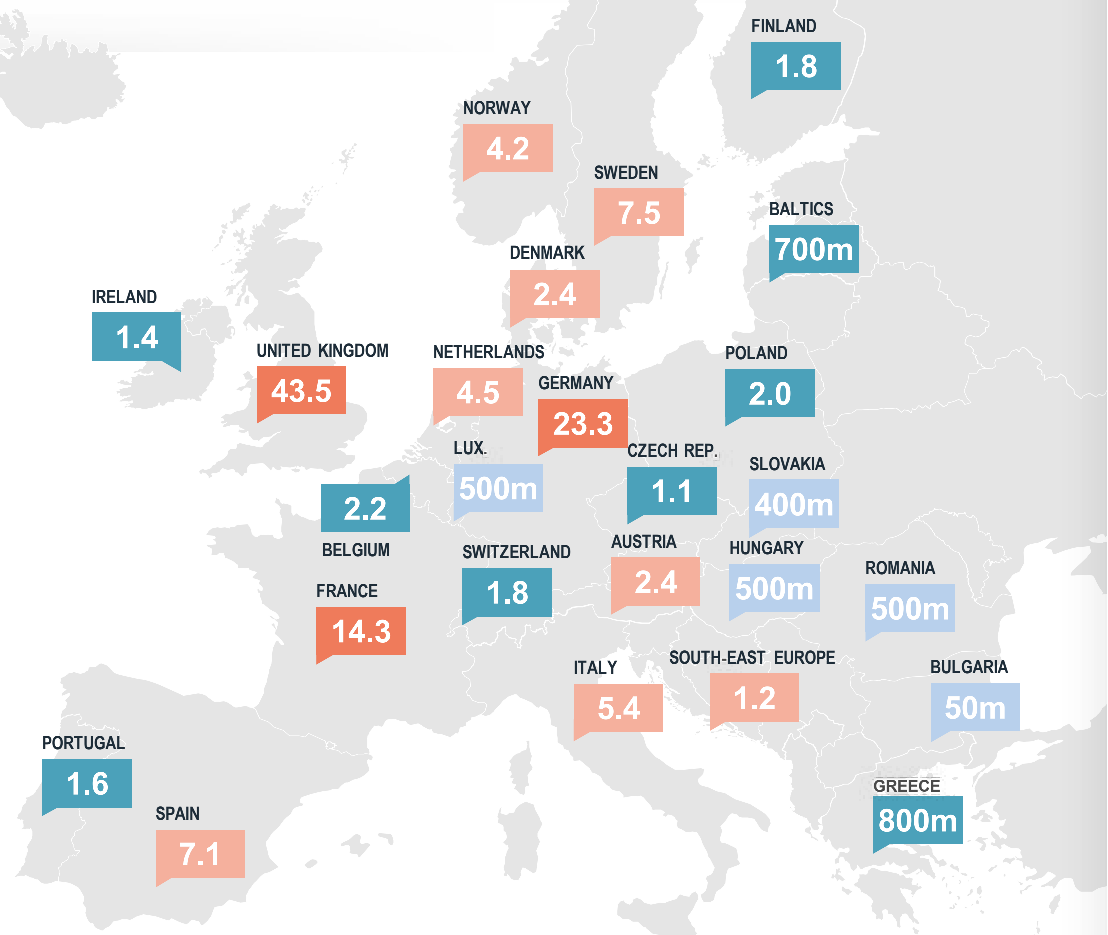
COMMERCIAL REAL ESTATE INVESTMENT

2023 vs 2022

UNITED KINGDOM	-43%
GERMANY	-57%
FRANCE	-51%
SWEDEN	-53%
NETHERLANDS	-66%
SPAIN	-45%
ITALY	-49%
NORWAY	-47%
POLAND	-65%
BELGIUM	-74%
DENMARK	-58%
FINLAND	-63%
IRELAND	-66%
AUSTRIA	-7%
LUXEMBOURG	-35%

≥ €10bn €700m-2bn

€2-10bn < €700m



(excludes residential investment)

EUROPE – 2023

€133.2bn

-51% vs 2022

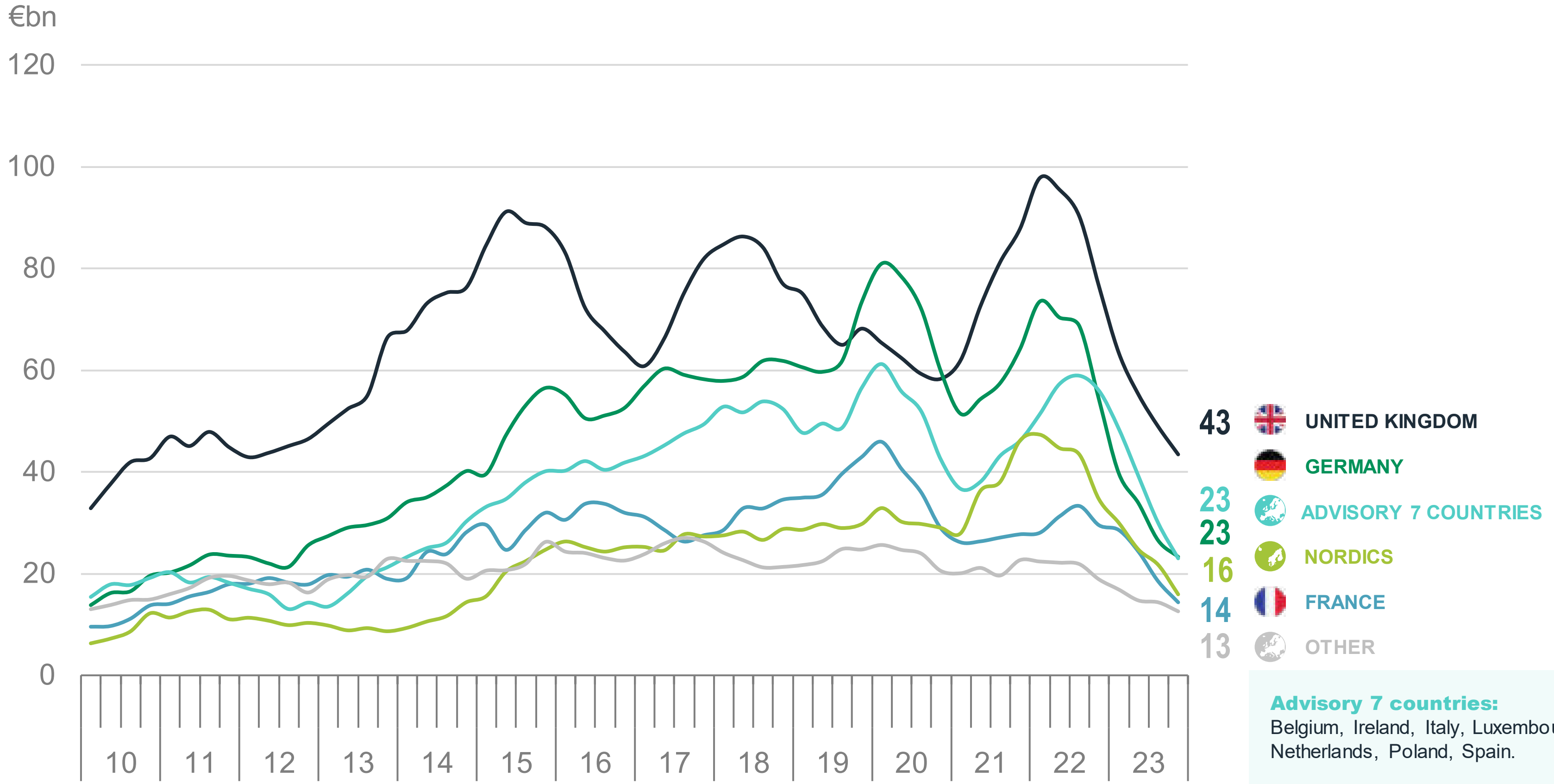
- €133.2bn were invested in Europe over 2023, which represents a 51% decrease vs 2022.
- Some countries experienced a strong decline : Germany (-57%), the Netherlands (-66%), Belgium (-74%); Ireland (-66%), Finland (-63%), Poland (-65%), or Denmark (-58%) while declines in Austria (-7%) or Luxembourg (-35%) were of lower magnitude.

Source : BNP Paribas Real Estate

COMMERCIAL REAL ESTATE INVESTMENT VOLUME

INVESTMENT VOLUMES ARE CLOSE TO BOTTOMING OUT

- With a global reset in financial conditions, no country can escape consequences, no matter how large the domestic market is. More so these days for Europe given the international nature of real estate investment.
- Consequently, all countries have headed down towards ten-year lows over 2023. Nonetheless what is notable is that the relative shares of investment have not really altered.
- The big three individual countries - UK Germany and France - remain in their respective positions albeit at lower volume levels.
- With the pace of volume declining slowing, investment volumes may be close to bottoming out and 2024 likely to be start of a new cycle.



Advisory 7 countries:
Belgium, Ireland, Italy, Luxembourg, Netherlands, Poland, Spain.

Source : BNP Paribas Real Estate Research

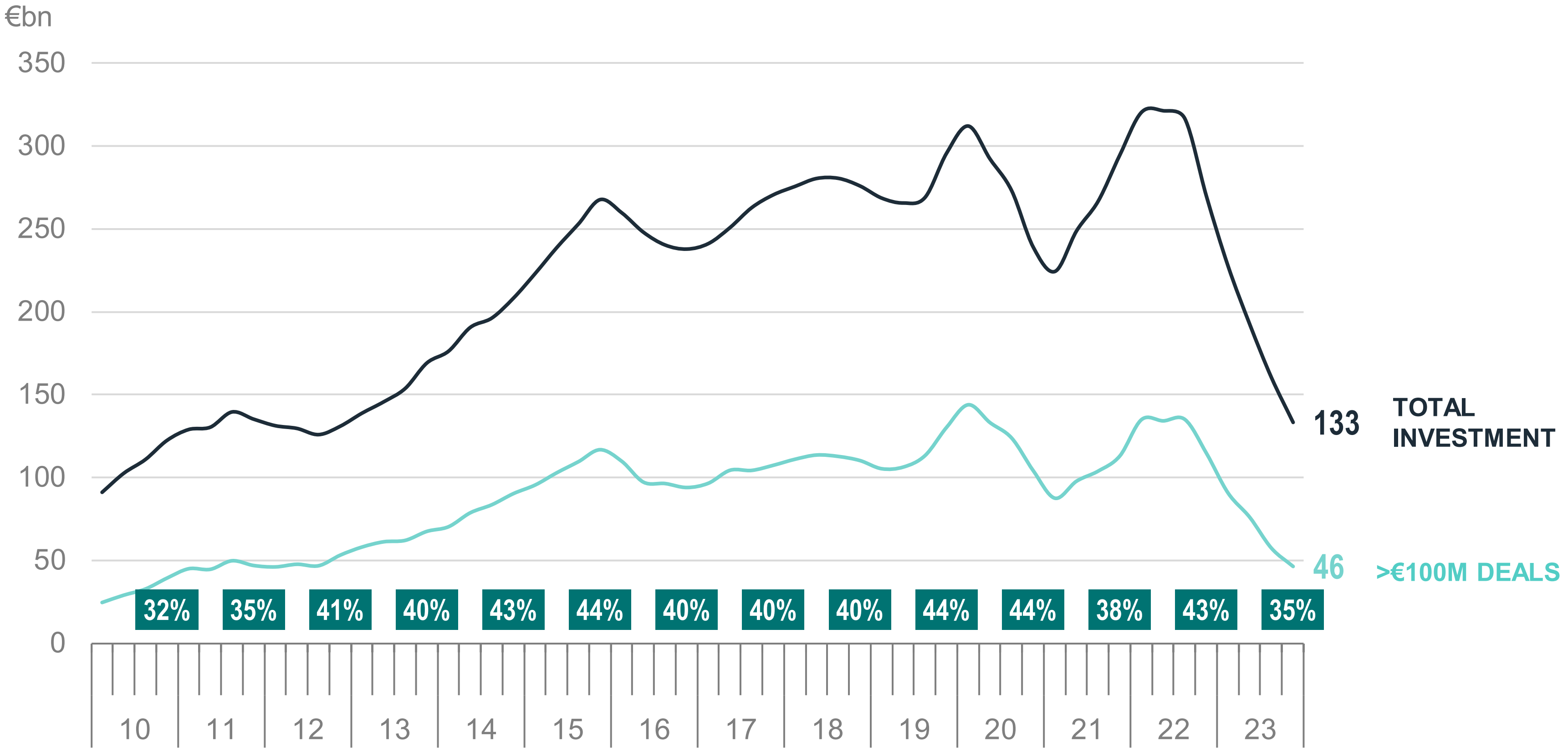
INVESTMENT BY SIZE BAND

Mega deals are bottoming out

- The peak in mega deals (>€100m) occurred in Q1 2020 with a record figure of €144bn (on a rolling-year basis). That is 46% of the total investment, an unusually big share for a Q1 and may not reappear for the time being.
- Prior to global interest rate cycle tightening, the segment was regaining momentum reaching €135bn at Q3 2022. The mega deals volume dropped over Q4 2022, and volumes are now at a ten-year low.
- Mega deals are among the complicated and time consuming to complete. In an environment where the debt financing is expensive and not stable, only the very cash rich or those with very low leverage can entertain deals of this nature.
- Consequently, the share of mega deals represents 35% of investment with €46bn spent over 2023. This is a low level when put in perspective with historic figures of the last ten years.

Commercial Real Estate Investment in Europe

Total and >€100m size band - volume and share

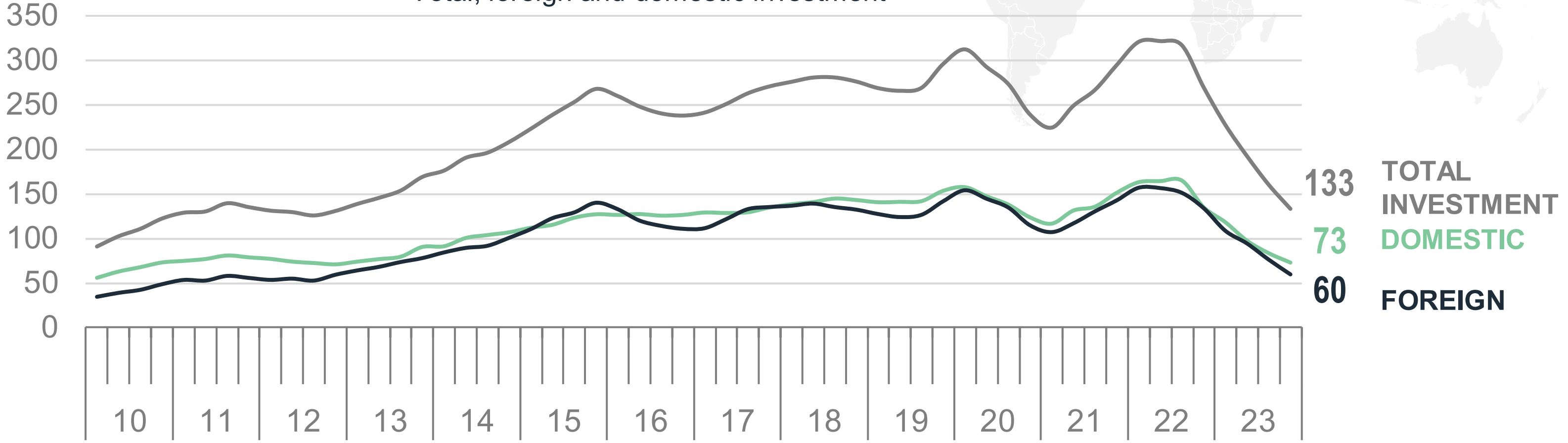


CROSS-BORDER INVESTMENT MARKET

- It has been a quieter year for foreign investment though not a completely absence of activity. Over 2022, foreign investment was very high during the first three quarters, peaking at €157bn (on a rolling-year basis) in Q1. It then declined sharply from Q4 2022 reaching €60bn in Q4 2023 (-55%).
- Within foreign investment, European cross-border investment declined in line with the overall reduction in activity (-52%). It represents 41% of foreign investment, a smaller share than during the Covid-19 years, and comparable to pre-pandemic times.
- Investment from other continents shows contrasting developments. American investors showed less interest in the European market (-65%) but are still the largest overall with 27% of foreign investment.
- Investment from Asia Pacific also scaled back over 2023. With more than €7bn invested (-57%), Asian investor share accounts for 13% of foreign investment.
- Middle East investors became more interested in the European markets. More than €4bn has been invested, reflecting growth of 73%. They accounted for 7% of all foreign investments made in 2023.

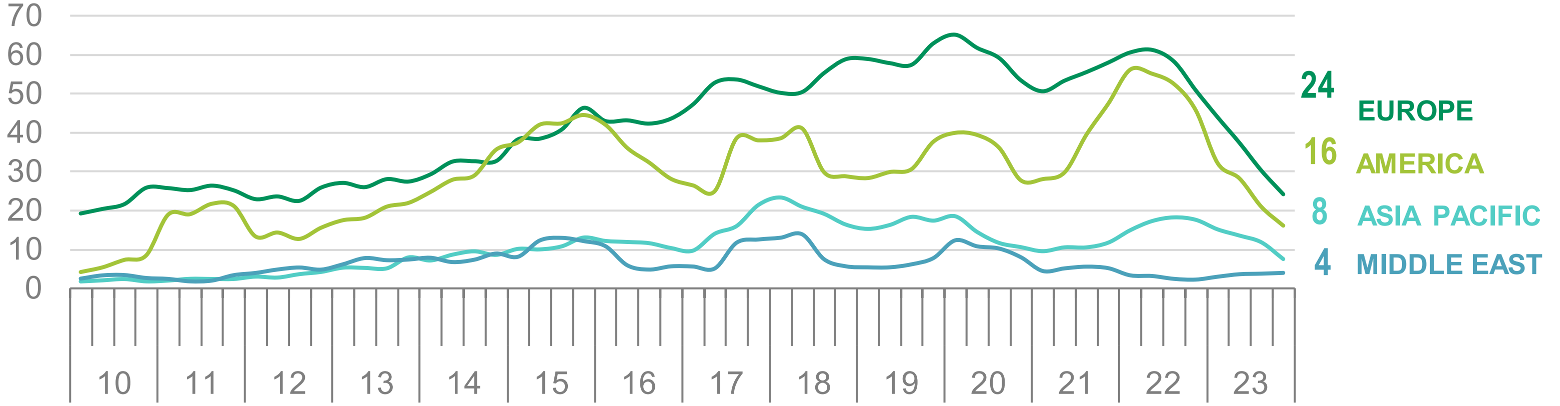
Commercial Real Estate Investment in Europe

Total, foreign and domestic investment



Commercial Real Estate Investment in Europe

Foreign investment detail



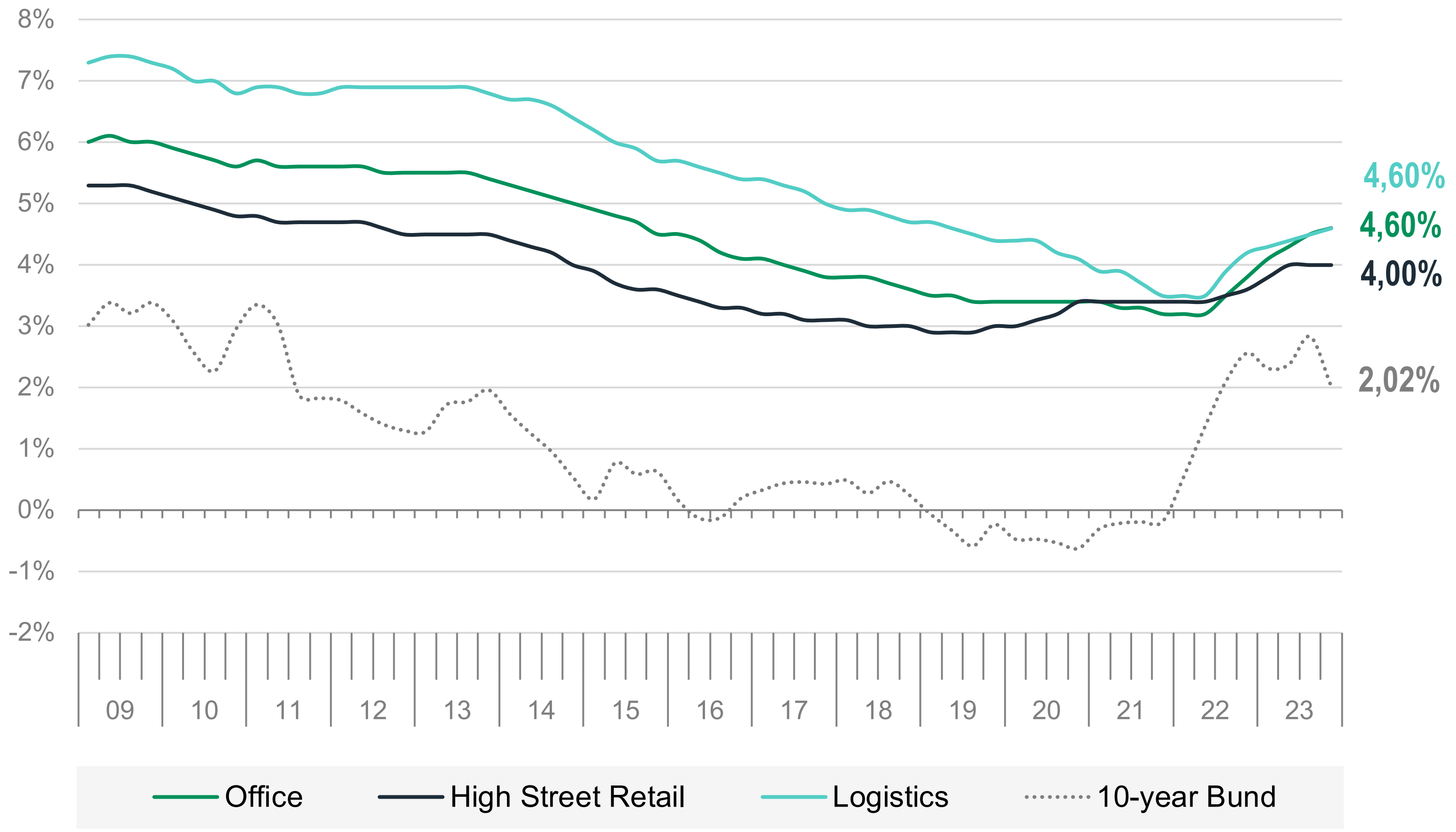
AVERAGE PRIME YIELDS IN EUROPE

BASED ON 16 MARKETS

Only a little further to go

- 2023 will be regarded as the year of yield decompression with European markets characterized by protracted price discovery processes across all asset types.
- Prolonged price discovery reflects the similarly protracted nature of monetary policy. It has taken the whole of 2023 for central banks to get on top of persistent inflation. Instead of ending the interest rate tightening cycle in early 2023 as many hoped, central banks maintained the tightening process into the third quarter.
- This meant the bond yield gap with real estate only truly began to firm up in H2 2023. It means that the rethinking about the prices being paid for assets has a clearer framework and prices have better chance to settle.

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



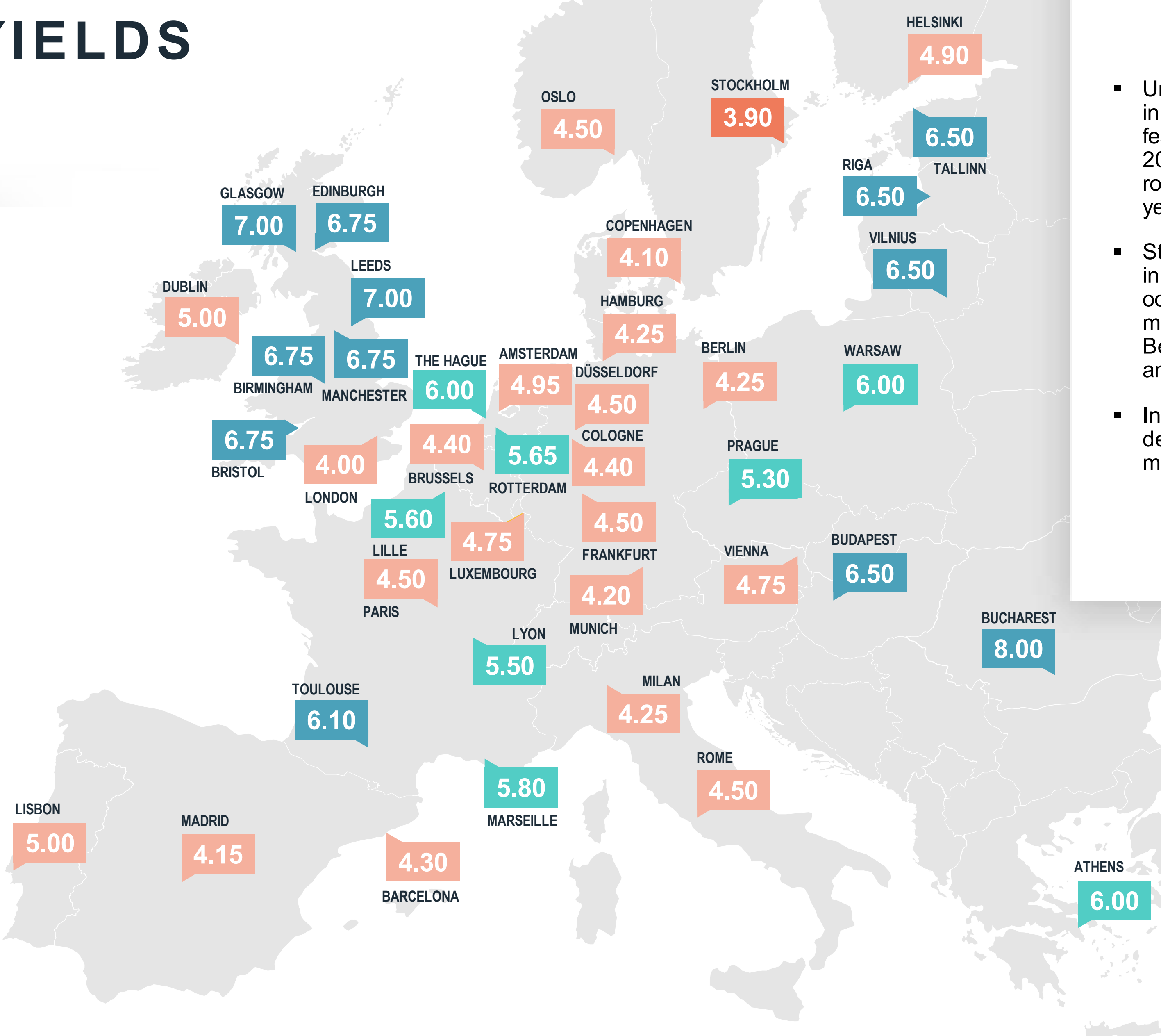
Source : BNP Paribas Real Estate

PRIME OFFICE YIELDS

Q4 2023 vs Q4 2022

PARIS	+150bp
LONDON	+15bp
BERLIN	+105bp
STOCKHOLM	+40bp
MUNICH	+100bp
MILAN	+50bp
OSLO	+75bp
MADRID	+40bp
BRUSSELS	+80bp
DUBLIN	+75bp
AMSTERDAM	+105bp
COPENHAGEN	+60bp
BARCELONA	+55bp
LUXEMBOURG	+85bp
WARSAW	+125bp

≤ 4% 6-8%
4-5% >8%
5-6%



- Universal decompression in office yields became a feature in Europe by Q4 2022. Expansion has rolled forward over the year into Q4 2023.
- Strongest decompression in the last 12 months occurred in the German markets (+105 bp for Berlin), Paris, Amsterdam and Warsaw (+125 bp).
- In London, the bulk of decompression occurred much earlier in the year

Source : BNP Paribas Real Estate

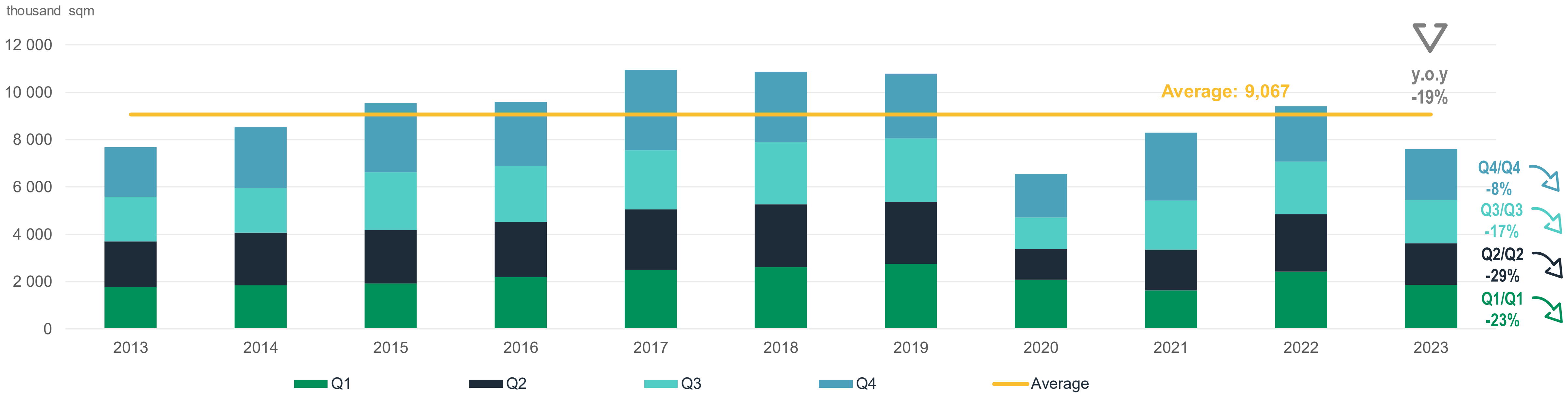
02.

REAL ESTATE PERSPECTIVES

OFFICE MARKETS

OFFICE TAKE-UP IN EUROPE – 2023

17 MAIN EUROPEAN OFFICE MARKETS*



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

Letting activity remained subdued in 2023

- 7.60 m sqm was transacted in Europe's 17 main markets over 2023, down by 19% vs 2022.
- Annual volumes are below their long-term average (-16%).
- Most European markets experienced significant declines in volumes including Dublin (-50%), Central London (-23%), Barcelona (-18%) and the six main German markets (-26%).
- Madrid (-1%), Brussels (+9%) and Rome (+78%) stand in contrast with some stabilization or even acceleration.

Source: BNP Paribas Real Estate Research.

OFFICE TAKE-UP IN EUROPE

A QUIET YEAR FOR LARGE DEALS

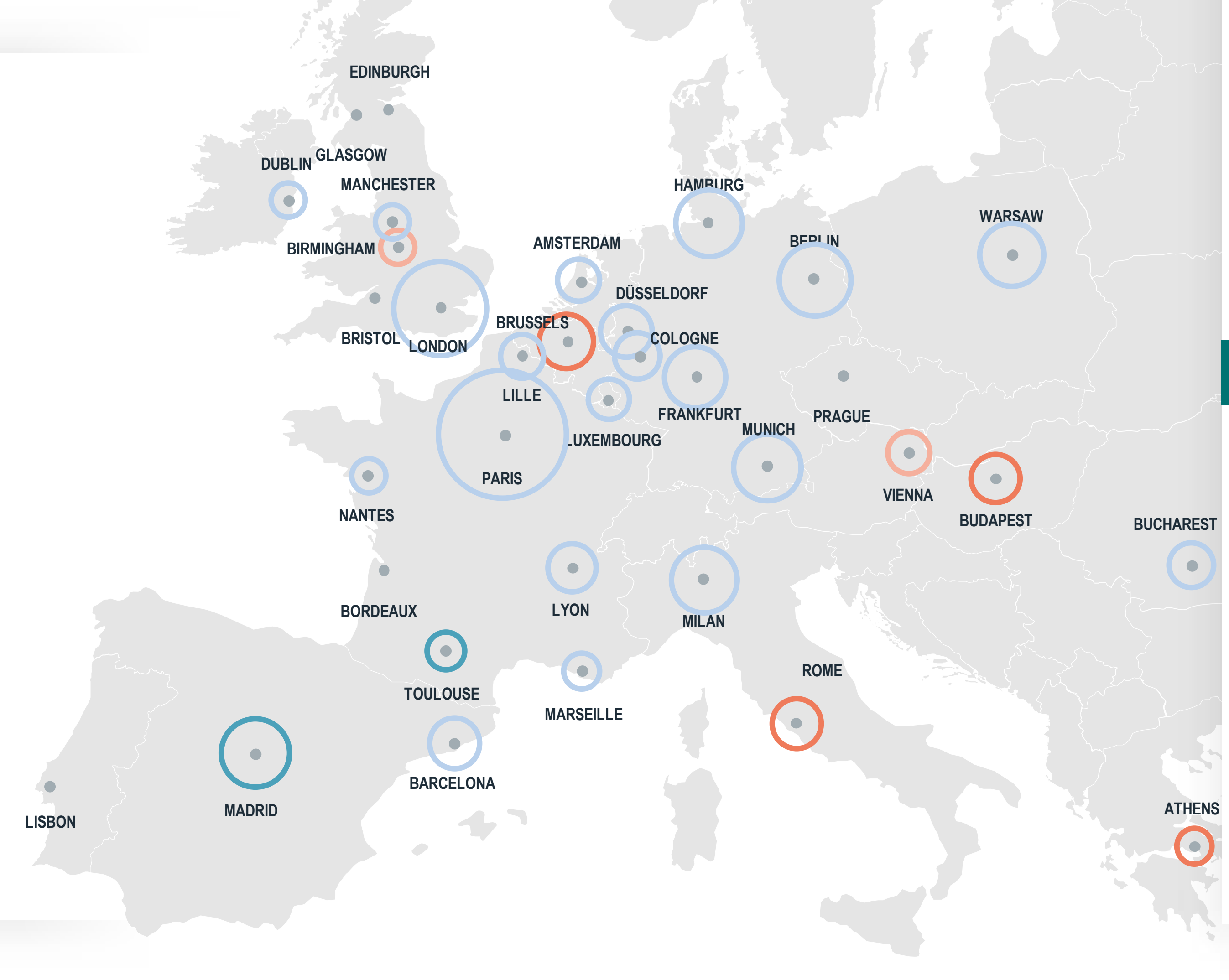
2023 vs 2022

CENTRAL LONDON	-23%	↘
BERLIN	-30%	↘
CENTRAL PARIS	-20%	↘
AMSTERDAM	-18%	↘
MADRID	-1%	↘
MILAN	-11%	↘
WARSAW	-241%	↘
BRUSSELS	+9%	↗
DUBLIN	-50%	↘
LUXEMBOURG	-16%	↘

Deals in thousand sqm

500
250
100

- > +5%
- 0 - +5%
- -5 - 0%
- < -5%



EUROPE – 2023

9.92m sqm 31 markets

-17% vs. 2022

Take-up scales down

- Take-up at the end of 2023 declined by 17% compared to 2022.
- Most markets have experienced a decline in volumes, mostly due to a reduced number of very large transactions (over 10,000 sqm).
- However, a few markets such as Madrid, Milan and Rome continue to show good momentum with annual volumes surpassing their long-term average.

Source : BNP Paribas Real Estate

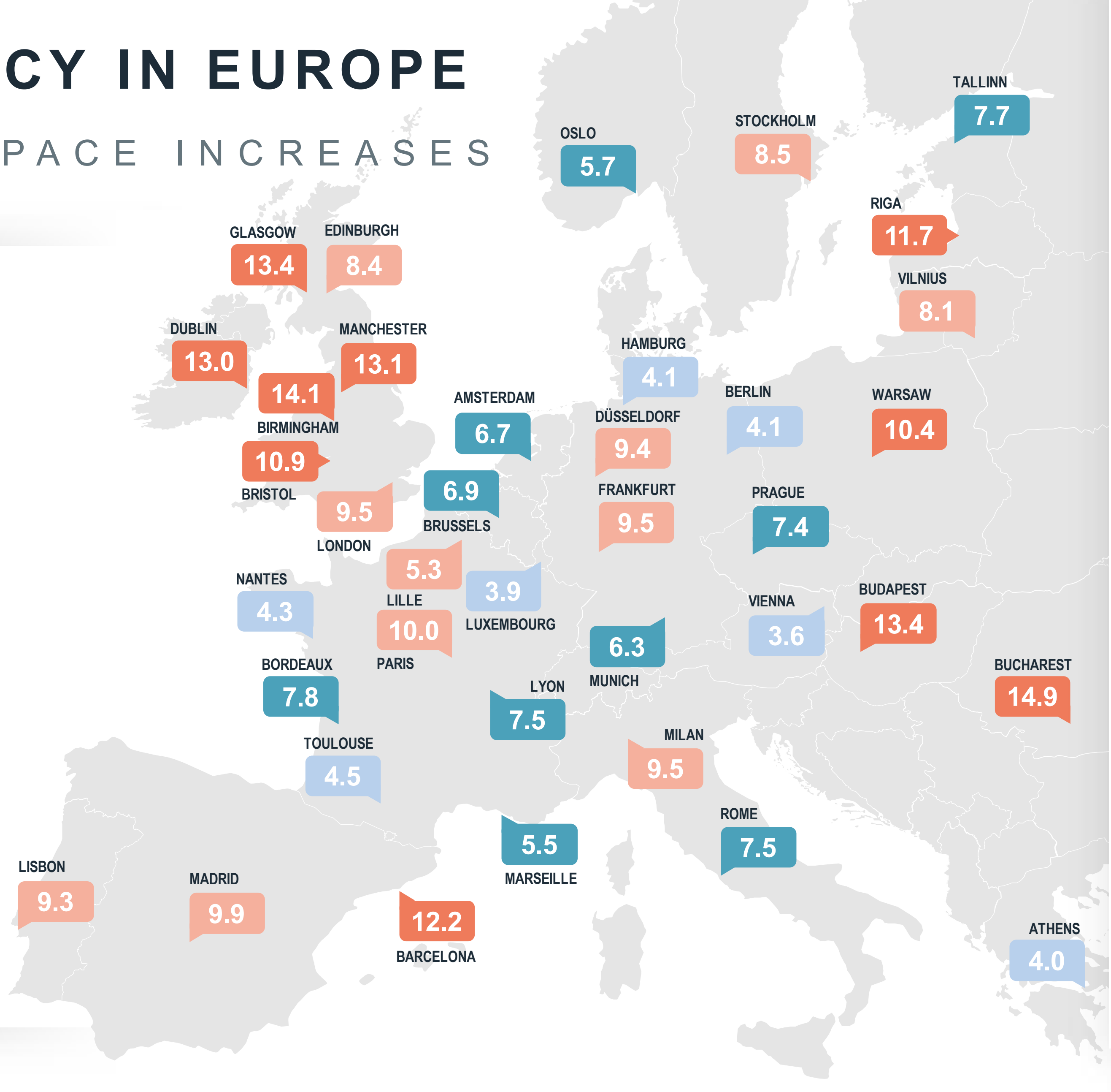
OFFICE VACANCY IN EUROPE

SECOND-HAND SPACE INCREASES

Q4 2023 vs Q4 2022

CENTRAL LONDON	+10bp
BERLIN	+90bp
CENTRAL PARIS	+100bp
AMSTERDAM	+20bp
MADRID	=
MILAN	-130bp
WARSAW	-120bp
BRUSSELS	-60bp
DUBLIN	+60bp
LUXEMBOURG	+40bp

> 10% 8 -10%
5 - 8% < 5%



EUROPE – Q4 2023

8.0% 32 markets
+40bp vs. Q4 2022

- The overall vacancy rate in Europe stood at 8.0% at Q4 2023 (+40bp vs. Q4 2022).
- Expansion is the consequence of a growing geographical mismatch in supply and demand. Low availability in central submarkets and in new buildings secures demand. Much higher vacancy rates though are found in peripheral office districts.
- Trends vary between markets: Munich, Frankfurt, Central Paris and Berlin saw a significant rise (100 bp or higher). Central London and Amsterdam experienced moderate increases. In Milan and Warsaw, the vacancy rate markedly declined.

Source : BNP Paribas Real Estate

OFFICE PRIME RENTS IN EUROPE

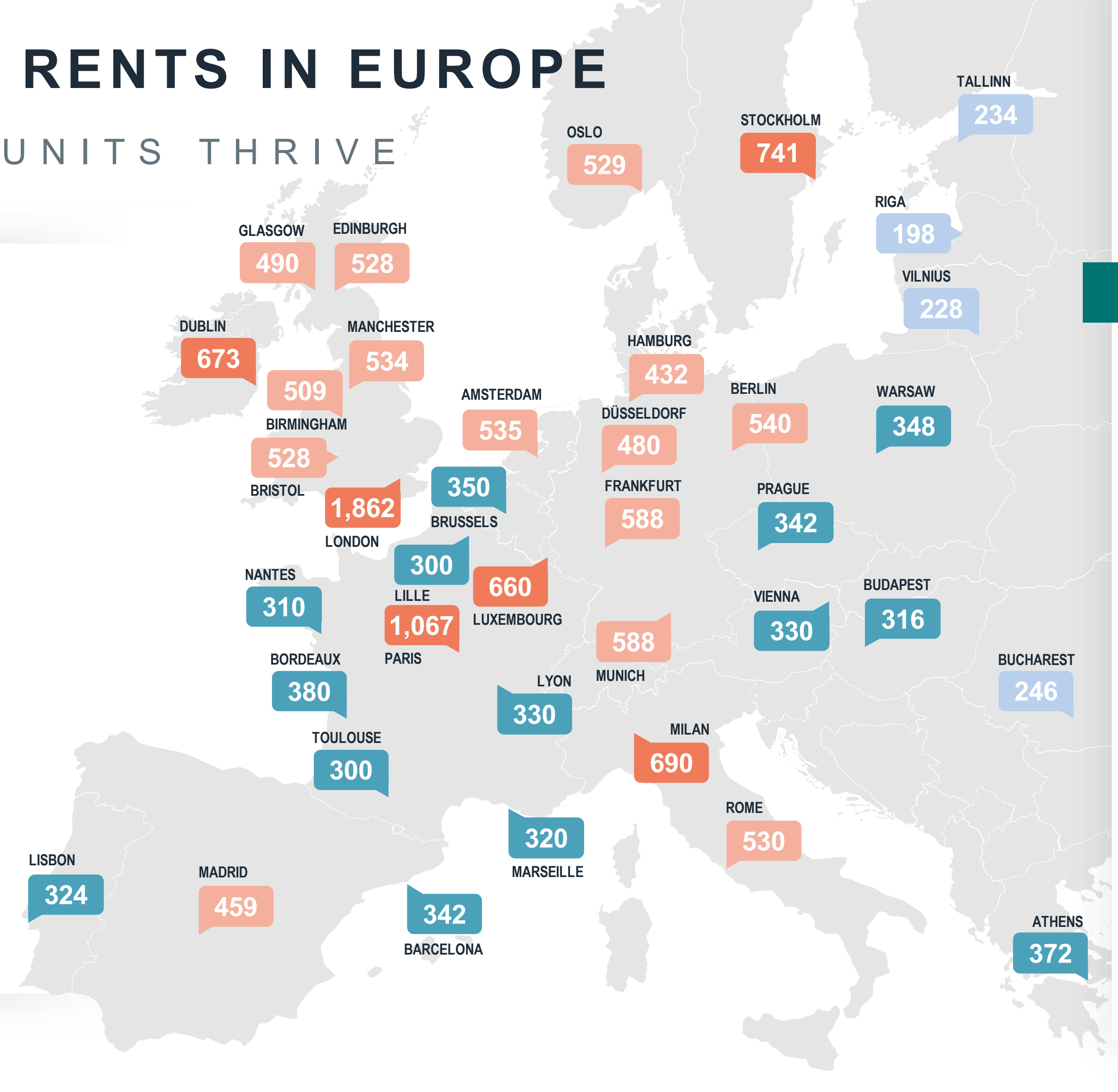
BEST IN CLASS UNITS THRIVE

Q4 2023 vs Q4 2022

CENTRAL LONDON	+7% ↗
BERLIN	+2% ↗
CENTRAL PARIS	+7% ↗
AMSTERDAM	+8% ↗
MADRID	+4% ↗
MILAN	+1% ↗
WARSAW	+7% ↗
BRUSSELS	+6% ↗
DUBLIN	→
LUXEMBOURG	→

Rents (€/sqm/year)

- > €600
- €400-600
- €300-400
- < €300



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.
- Workplace plays a key role in attracting and retaining talent, both in terms of space quality and location.
- Over the past 12 months, Amsterdam (+8%), Central Paris, Central London and Warsaw (+7%) have seen the most significant increases in values.

Source : BNP Paribas Real Estate

LOCATIONS

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