

THE LIGHTHOUSE: BNP PARIBAS REIM PRESENTS ITS OUTLOOK OF THE EUROPEAN PROPERTY MARKET

In this seventh edition, “The Lighthouse H2 2023 – European Property Market Outlook”, BNP Paribas REIM presents its outlook for the European real estate market using its in-house forecasts, analysis and the expertise of its local teams. Here BNP Paribas REIM defines its convictions and investment opportunities for the rest of 2023 and beyond.

Stagflation and weak investor sentiment affects the European real estate market

European real estate markets are still responding to the new environment implied by higher financing costs and the pricing adjustment that started at the end of 2022. Investors are waiting to see where financing costs are heading and how prices react. The current level of pending deals does not suggest that market activity will pick up in the short term and the price discovery phase could extend further into 2023. Moreover, yield rises may continue until the end of 2023 when central banks should stop tightening their monetary policies.

To create value during this readjustment phase, investors need to focus more on liquid markets and understand which sectors to concentrate on to optimise risk/return. They also need to determine assets' long-term fair value given the market is likely to remain highly cyclical.

The importance of sustainable investment is stronger than ever and real estate projects need to incorporate sustainable practices to be more attractive and have long-term profitability. Investors need to take into account assets' obsolescence, regarding climate change but also in terms of location, function and economy. As a result, they should not overlook assets that need only light improvements as refurbishment could avert functional or economic obsolescence.

Investors still need to focus on diversification to reduce portfolio volatility. Residential and healthcare assets are good opportunities for this strategy as they have been more resilient during the current repricing phase and should be among the top performers over the next five years. The healthcare market especially, benefits from good long-term prospects for demand driven by macro trends that should not be affected by the current economic slowdown, such as an ageing population or increase of chronic diseases.

In addition, logistics and hospitality represent high risk/return options for investors. A resurgence of discretionary spending on experiences should benefit hospitality and in particular hospitality focused on health and wellbeing such as yoga, meditation or spa resorts and nature-based tourism, including camping.

“This report shows that the new economic context that started at the end of 2022 should continue throughout 2023 with high inflation and interest rates. This delays the recovery of the European real estate market, as it influences both financing conditions and investors' sentiment. Investors are adopting new strategies to adapt and diversify their portfolios. They need to focus on more liquid markets and sustainable assets, as well as property types driven by macro trends that are immune to the current context such as an ageing population, urbanisation and greater household formation” comments **Laurent Ternisien, Chief Client Officer for BNP Paribas REIM.**



The key findings are:

1. Financing conditions will dictate the recovery

High inflation and the US banking crisis have not weakened the European economic outlook, but lenders and borrowers remain extremely risk averse. The flow of debt could diminish further and weigh on investment activity across Europe throughout 2023.

2. European real estate still needs to price in short-term risks

Yields are rising quickly to account for higher debt costs. The UK is furthest into this repricing phase, followed by the rest of Europe. The timing and height of peak central bank interest rates is still unclear. The risk of large-scale refinancing and fund redemptions could cause the repricing phase for prime assets to be sharper and extend further.

3. Redefining core investment to avoid the stranded assets and submarkets

Secondary assets are likely to see their pricing drift out for many years across all property types. Small, but significant, parts of the market may become stranded and never be core again. Meanwhile, core-plus and value-add investors could find many assets in strong markets worth improving and making sustainable.

4. Waiting for prime office returns to add up

The occupier fundamentals of European office markets are in a much stronger position than those of US office markets. However, even within European cities, a strong micro location is essential. Buyers are waiting for debt costs and equity yields to return to feasible spreads. Pricing should stabilise in the next six to twelve months, but investment volumes would stay at extreme lows.

5. Looking for protection from future downturns

No property type is exempt from repricing, but healthcare and residential have been more resilient. They benefit from long-term macro trends, such as demographics, and, in turn, investors are committed for the long term. They are showing their credentials for reducing portfolio risk in a market that could see further volatility in the future. Operator risk remains a key consideration for healthcare and managed residential.

6. Logistic investment needs careful analysis and quick decisions

Logistics is the top performing sector over the next five years. E-commerce is, however, unlikely to maintain the double-digit rental growth seen recently. Investors, therefore, need to be confident on future rent reversions and that the building's design and function are sustainable. Strong competition among buyers is likely.

7. A resurgence of discretionary spending should benefit hospitality

Mid-to-high income households are spending more on experiences. The hospitality sector is close to a full recovery from the pandemic, although budget and midscale hotels, especially those reliant on business travel, may continue to struggle. Camping and nature-based holidays should remain popular, while upper scale and luxury hotels also should perform well.

Click [here](#) to download our research document: **The Lighthouse BNP Paribas REIM.**

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With BNP Paribas REIM, you invest in REAL ESTATE AS LIVING ASSETS.

BNP Paribas REIM, a business line of BNP Paribas Real Estate, provides a wide range of real estate funds and investment solutions for investors, based on strong convictions.

Deeply European, we have a close understanding of local markets, a view of every square metre, every street, every neighbourhood, every urban eco-system.

With our 360 employees, we care for assets as we care for living beings, aiming to build a better living environment for our 230+ institutional investors and 140,000+ private investors.

We believe in ESG to reconcile social, environmental and financial performance.

We apply innovation in order to better adapt to the risks and opportunities of today and tomorrow.

At the end of 2022, BNP Paribas REIM managed €29.7 billion of living European assets on behalf of institutional and private investors.



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