

EUROPE CRE 360

ECONOMIC OUTLOOK

REAL ESTATE PERSPECTIVES



GLOBAL RESEARCH

November 2024

© AdobeStock_612800565



BNP PARIBAS
REAL ESTATE

Real Estate for a changing world

01.

ECONOMIC OUTLOOK

— p4

02.

REAL ESTATE PERSPECTIVES

— p9

p10 CAPITAL MARKETS

p19 OFFICE

p25 LOGISTICS

p30 RETAIL

p33 RESIDENTIAL

p37 HOUSEVIEW

EXECUTIVE SUMMARY

IN A NUTSHELL



MODEST GLOBAL GROWTH

- We expect global GDP to grow by 2.9% y/y in 2024 and 2.8% y/y 2025.
- However, the balance in global growth is shifting.
- Rising real incomes, lower interest rates and public investment will support a recovery in the Eurozone.
- Meanwhile, growth is expected to slow across other major economies.



INVESTMENT SHOWS FIRST SIGNS OF GROWTH

- €108.8bn were invested in Europe over the 9 months of 2024, rising by 8% compared to 2023. The increase is driven by all asset classes except offices.
- Easing rate of fallback suggests mid-2024 will be the bottom for the CRE investment market following the crash triggered by inflationary shock.



OFFICE LETTING: TAKE-UP GAINS MOMENTUM

- 5.73 m sqm has been transacted since January 2024 in the 18 main European markets, marginally ahead of 2023 (+2%) driven by selected markets.
- The overall result remains below the 9-month long-term average (-14%) reflecting the ongoing structural changes in the office market where occupier activity focuses on smaller but more efficient premises.



LOGISTICS INVESTMENT FINDS ITS WAY BACK TO GROWTH

- Over the 9 months of 2024, the occupier market decreased by 6% in the leading European markets compared to 2023. Demand has been lagging in most countries.
- Industrial and logistics investment increased by 17% in Europe over the 9 months of 2024. The volume of investment rose in most countries, an encouraging trend for the rest of the year. Yield decompression has closed with stabilisation recorded almost everywhere in Europe.



RETAIL: PROMISING PROSPECTS FOR OCCUPIER MARKET

- Retail recorded a decrease of 9% in investment volume over the past 12 months. Investors show most confidence in the core markets, as Germany, the UK and France captured almost two-thirds of transaction volume.
- The occupier market proved resilient, notably thanks to the continuing strong flow of tourists which is returning to pre-pandemics levels. Furthermore, the slowdown of inflation rate will impact positively real wages and consumer confidence, thus boosting domestic consumption across Europe.



RESIDENTIAL: HETEROGENEOUS MOMENTUM

- Residential investment is recovering, +2.3% y/y in 9m 2024. Housing transaction volume dropped by 8.9% y/y in Q2 2024 but seems to consolidate if we compare H1 2024 vs H1 2023.
- House prices in Europe are expanding again +1.9% y/y across European cities but momentum is heterogeneous across Europe. On the contrary, rental values are still booming, +7.1% y/y in Q2 2024 owing to the shift in the monetary policy and the ongoing regulations in Europe.

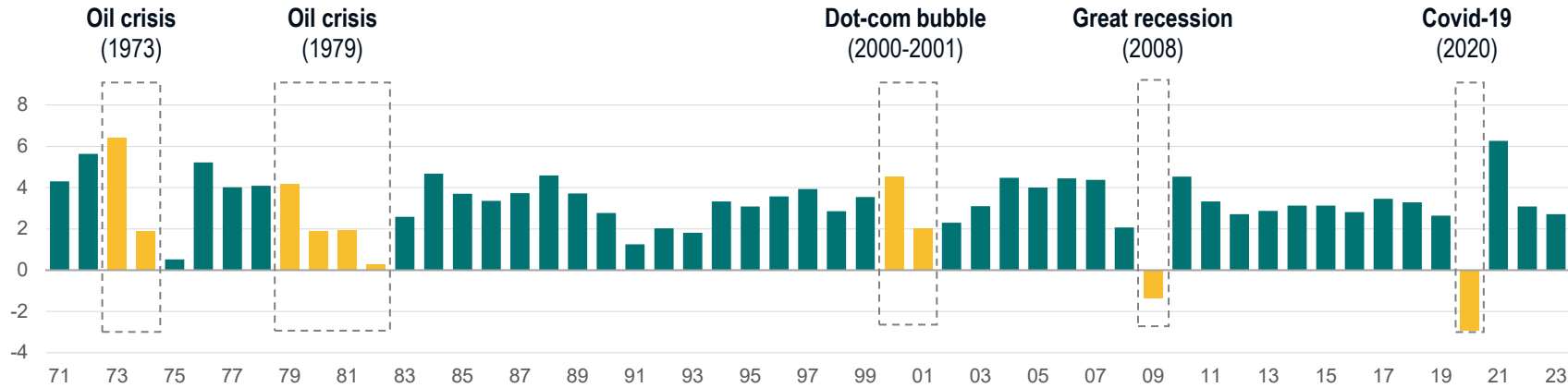
01.

ECONOMIC OUTLOOK

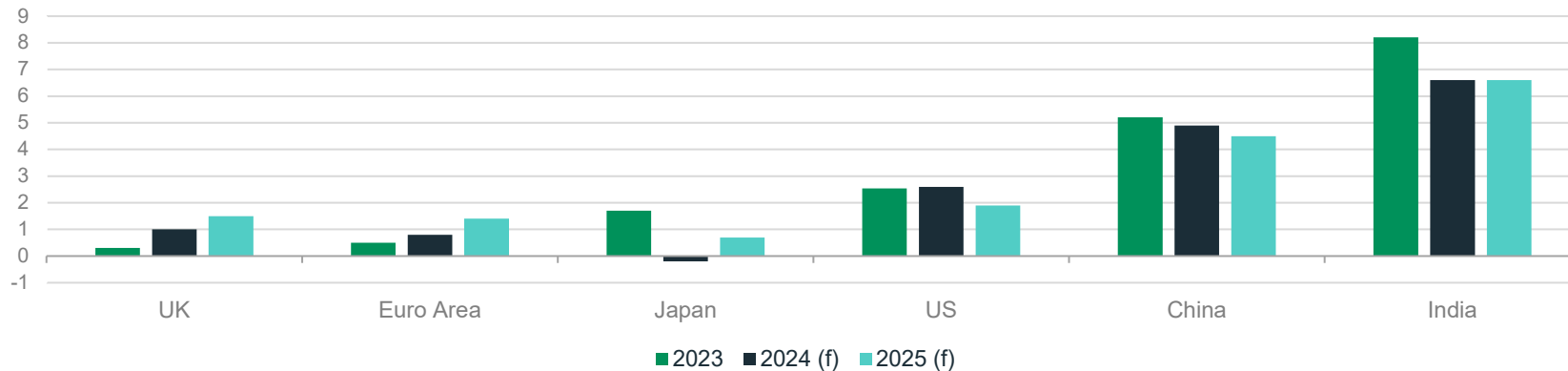
GLOBAL ECONOMY

STEADY GLOBAL GROWTH

World GDP Growth (% Y/Y)



GDP Growth (% Y/Y)



Recovery in Europe offset by slower growth elsewhere.

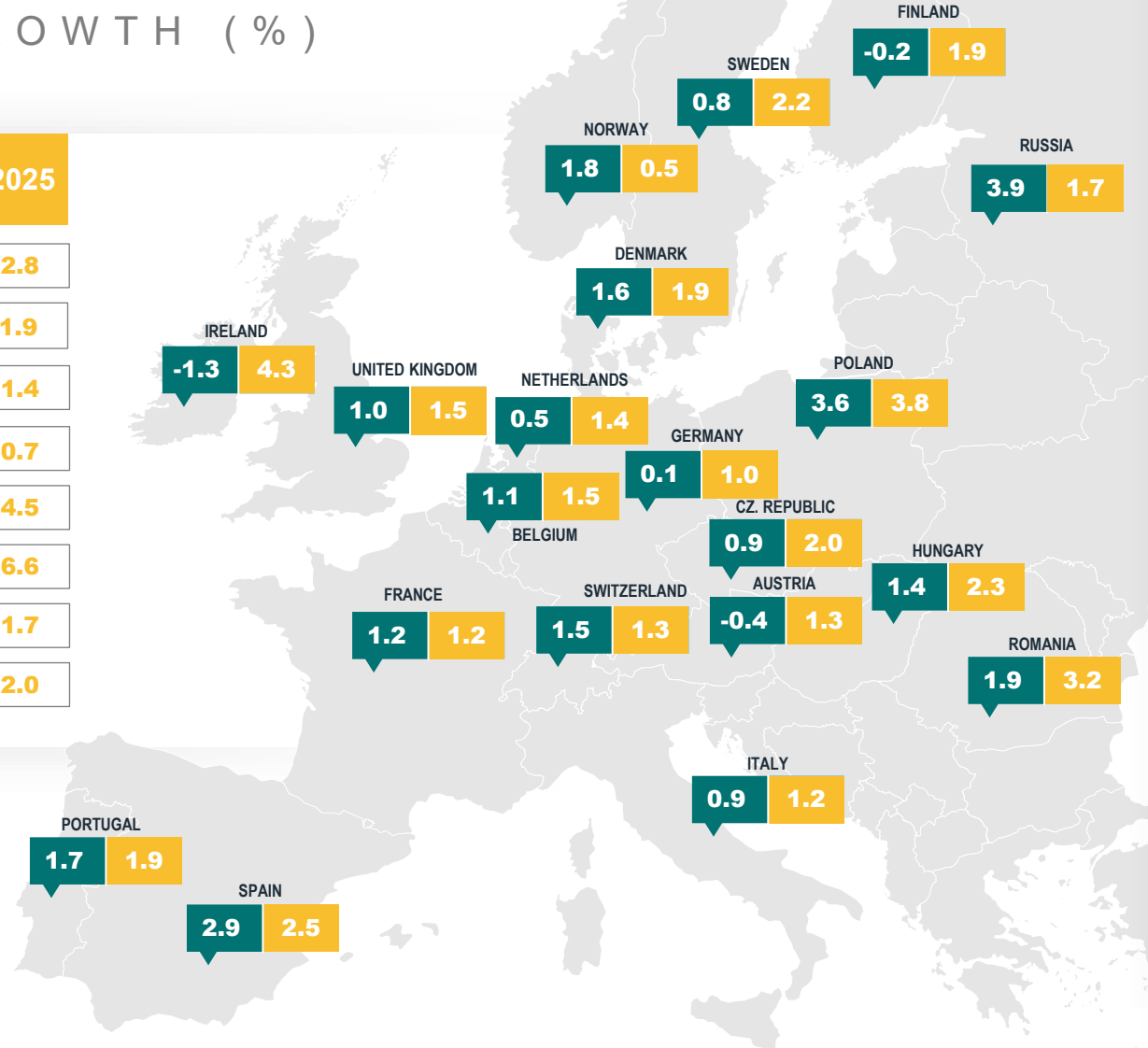
- Global economic growth slowed in 2023 as high inflation, high interest rates, tight fiscal policy and global conflicts weighed on activity.
- The slowdown was concentrated in Europe, while other major economies saw stronger growth.
- However, the balance is shifting. The Euro Area and UK are forecast to see a gradual recovery in economic growth over the next couple of years. By contrast, growth in China, India, Japan and the US is set to slow.
- Fears of a recession in the US have eased, following more positive economic data. Meanwhile, new policy measures have been announced in China to boost economic growth.
- Overall, our forecasts are consistent with global economic growth averaging just under 3% p.a. over the next couple of years.

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	2.8
United States	2.5	2.6	1.9
Euro area	0.5	0.8	1.4
Japan	1.7	-0.2	0.7
China	5.2	4.9	4.5
India	8.2	6.6	6.6
Russia	3.7	3.9	1.7
Brasil	2.9	3.1	2.0



Eurozone growth outperformed expectations in Q3.

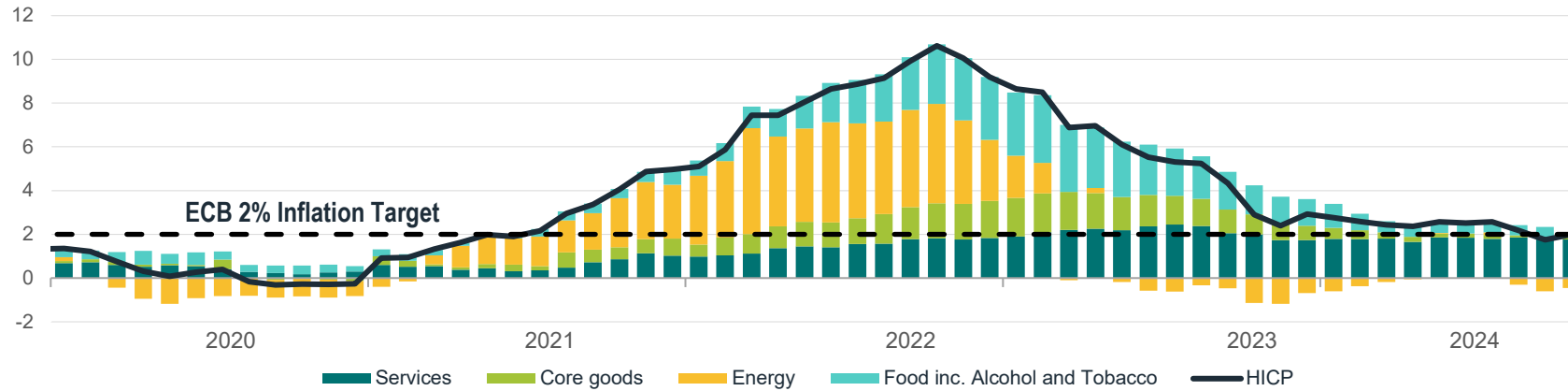
- The Eurozone's economic recovery progressed at a faster pace than expected in Q3. Real GDP grew by 0.4% q/q, compared to the 0.2% q/q consensus forecast.
- The bloc's growth rate was flattered by some one-off factors including a 2.0% q/q rebound in Ireland GDP and the Sporting Events in Paris, which supported a solid 0.4% q/q rise in France GDP.
- The 0.2% q/q rise in German GDP was stronger than expected, helping the economy to avoid recession. However, the underlying picture is less positive than the headline number suggested.
- Both Italy and Spain are benefiting from NGEU funds and tourism. However, the strong impulse from immigration is a Spanish specific story. While GDP in Spain surprised to the upside again (0.8% q/q), GDP in Italy stagnated (0.0% q/q).
- Economic growth in the UK was particularly strong in first half of the year. Although, this is likely to soften in Q3 and Q4.
- Overall, the Q3 GDP data was a reminder to interpret the survey evidence with caution, which had been consistent with activity stagnating.
- Looking ahead, the combination of interest rate cuts, rising real incomes and NGEU disbursements will continue to support demand in the coming quarters.

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

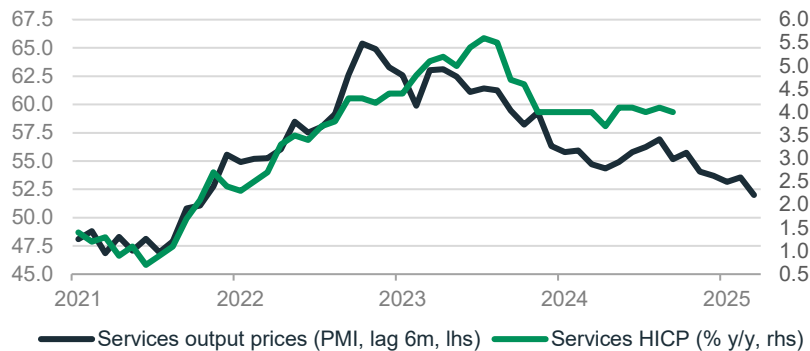
INFLATION RATES

INFLATION DIPS BELOW 2% TARGET

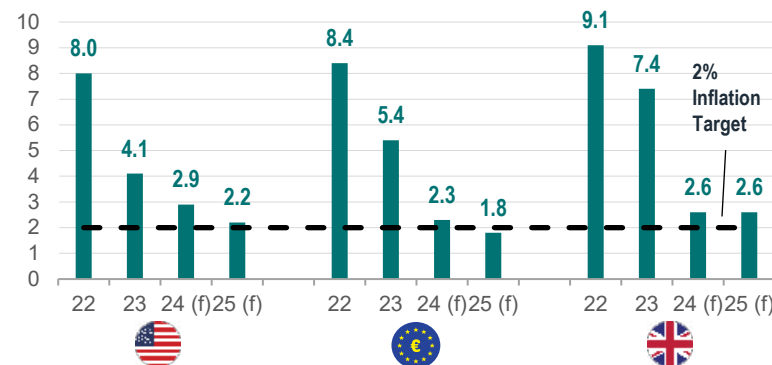
Eurozone Inflation (% Y/Y)



Eurozone Services Inflation



Annual Inflation Rates (% Y/Y)



'Quick wins' fade, but promising signs for services inflation.

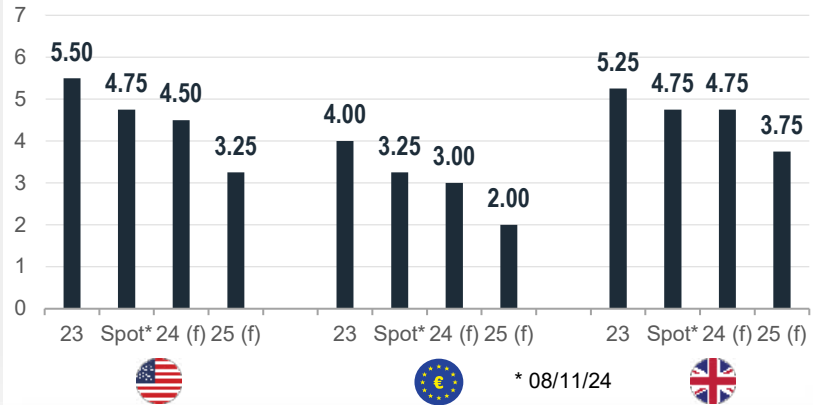
- The latest inflation data has been encouraging. Headline CPI rates fell below the central bank 2% targets for both the Euro Area and UK for the first time since 2021.
- Beneath the surface, the picture is more nuanced. Much of the decline in inflation has been driven by global factors, reflected in sectors such as energy, food and goods.
- By contrast, relatively little progress has been made on the domestically generated parts of inflation, as shown by the persistently high inflation rate in the services sector.
- Looking ahead, the 'quick wins' from food and core goods disinflation may have already been exhausted. Meanwhile, as energy deflation abates, we expect headline inflation to temporarily rise back above the 2% target in the coming months.
- Survey-based evidence is consistent with further declines in both services and core inflation in the Euro Area. This strengthens the view that underlying price pressures are easing and inflation is headed for the 2% target in the medium term.
- A similar trend is expected in the UK. Although, domestic price pressures remain a little stickier and may therefore take longer to return to levels consistent with sustained target-inflation.

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

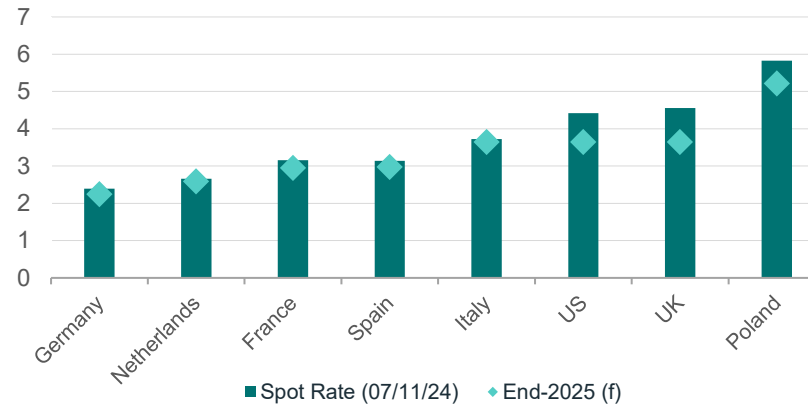
FINANCIAL MARKETS

ECONOMIC AND FINANCIAL INDICATORS

End-Year Policy Rates (%)



10-Year Government Bond Yields (%)



Euro Area Volatility Index



European Real Estate Equity Index

(End-2019 = 100)



ECB increases pace of interest rate cuts.

- A broad-based decline across economic indicators encouraged central banks in Europe and the US to increase the pace of policy easing.
- The US Federal Reserve lowered its policy rate by 50bps in September and 25bps in November. Meanwhile, the ECB delivered its third rate cut in October, lowering the Deposit Facility Rate to 3.25%.
- Both central banks are expected to continue lowering interest rates at a faster pace than previously anticipated. Though the US election result adds upside risk to our end-2025 Federal Funds Rate forecast. The Bank of England delivered its second rate cut in November and is expected to continue easing policy at a more gradual pace.
- Our policy rate forecasts are consistent with small declines in 10-year government bond yields in the UK, US and Poland over the next year, and little movement elsewhere.
- Several factors have contributed to heightened volatility in financial markets, reflected in the European Volatility Index. For example, increased geopolitical tensions in the Middle East and concerns around the growth and interest rate outlooks.
- Bond yields rose significantly in September and October, contributing to a decline in REIT prices.

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

02.

**REAL ESTATE
PERSPECTIVES**

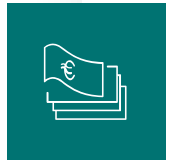
02.

REAL ESTATE PERSPECTIVES

CAPITAL MARKETS

CAPITAL MARKETS IN EUROPE

CAPITAL MARKETS UNPACKED



INVESTMENT VOLUME

€108.8bn

9M 2024

The CRE investment market hit bottom in Q1 and is now growing again



BEST PERFORMING SECTOR

+40% y.o.y

HOTELS

Hotels remain a favourite with total investment in Q3 of €18 billion



PRIME YIELDS

4.70% vs Q3 2023 **4.4%** vs Q3 2023 **5.00%** vs Q3 2023

Office

Retail

Logistics

Q3 2024

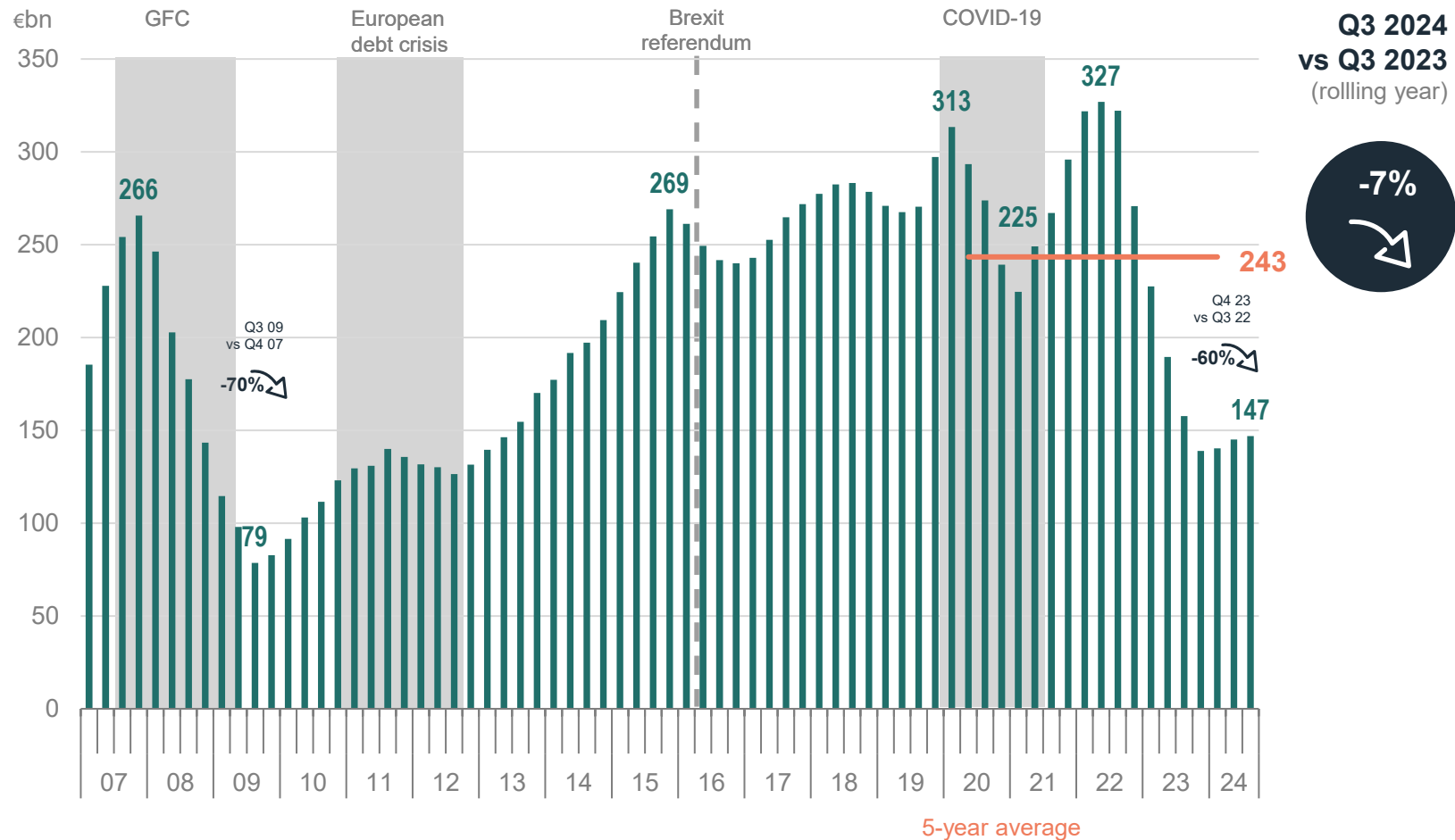
Q3 2024

Q3 2024

Prime yields seem to have stabilised across all asset types at European level and some cities witness early compression signs

INVESTMENT IN EUROPEAN COMMERCIAL REAL ESTATE

FIRST SIGNS OF GROWTH



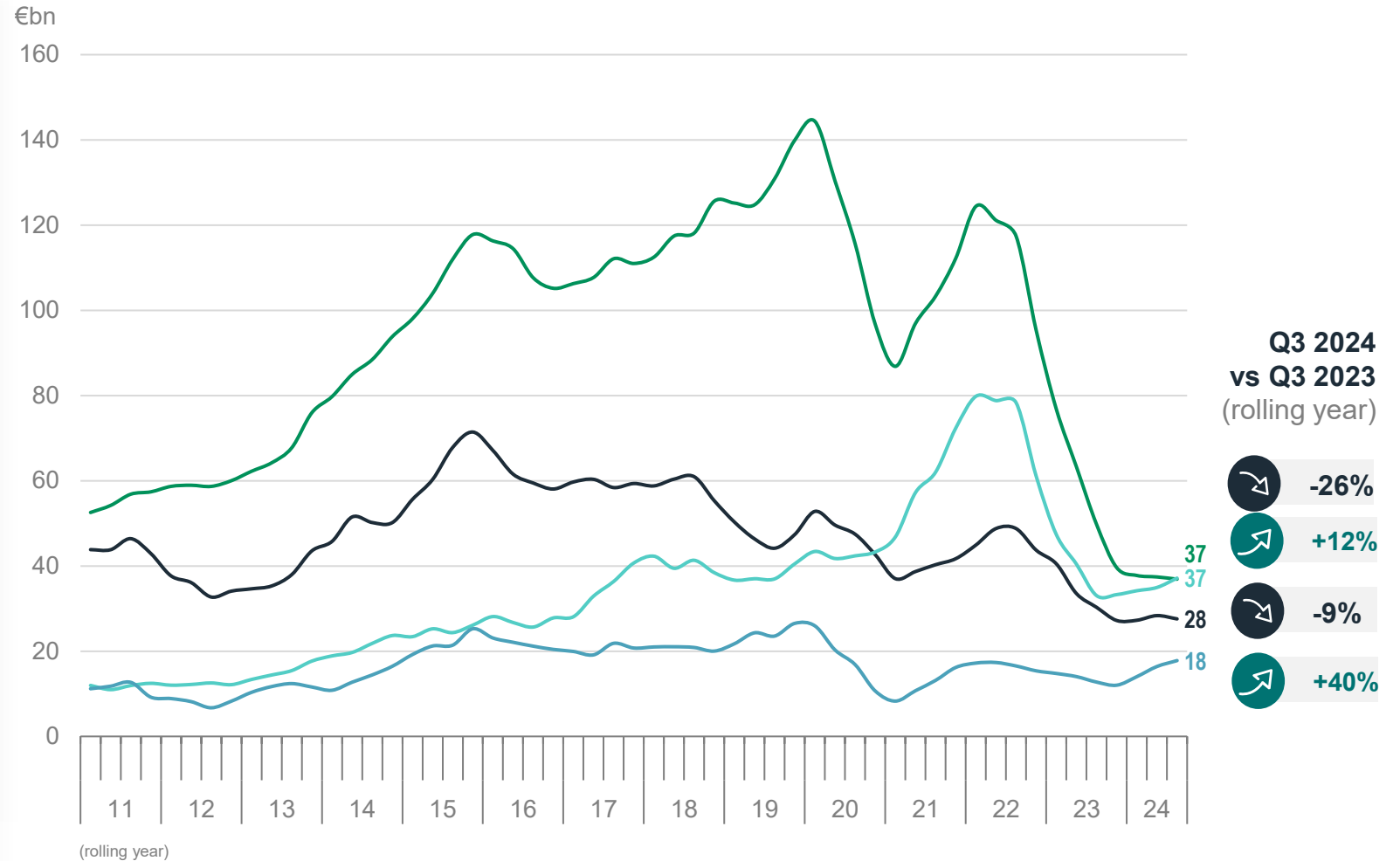
- **€147bn were invested** in commercial real estate over the 12 months to **Q3 2024**, which represents a **-7% annual decrease**, the slowest pace of decline since Q4 2022. As of 9M 2024, first evidence of growth is shown as volume grew +8% compared to 9M 2023.
- Easing rate of fallback suggests mid 2024 will be the bottom for the CRE investment market following the crash triggered by inflationary shock. More stability is emerging in the macroeconomic and financial backdrop as central banks move into the next phase of policy.
- **The ECB has undertaken back-to-back rate cuts of 25 basis points in the deposit facility. The first in June 2024, second in September and third in October. The Bank of England made its first 25bps cut in August. These moves firmly signal the end of the hard monetary policy response to crisis.**
- To some extent the CRE market has anticipated a better environment. The slight rise of **1% between Q3 2024 and Q3 2024** is another indicator of recovery that started at the beginning of the year.
- 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.**

This excludes residential investment.

INVESTMENT IN EUROPEAN COMMERCIAL REAL ESTATE

LOGISTICS MATCH OFFICE FOR THE FIRST TIME ON RECORD

- Market reactivation is beginning to stand out in the investment numbers. The degree of this varies between asset classes because they are at different points in the new cycle. Nevertheless, improvement is found on both an annual and a quarterly basis.
- Offices at €37 billion decreased by 26% year-on-year**, its slowest pace for 2 years. Steadiness is becoming gradually apparent with the quarterly volume 7% higher than Q3 2023. Offices still hold one quarter of the market.
- Logistics at €37 billion (+12% vs Q3 2023)** is the traditional asset recovering fastest. Its volume equalled offices for the first time ever in Q3. It remains to be seen if this is a turning point for real estate allocations. Volumes grew over the quarter (+6% vs Q2 2024) as investors now may detect some under-pricing in the sector. Improvement is such that logistics may see its first annual increase since 2022.
- Retail at €28 billion (-9% vs Q3 2023)** continues to bump along the bottom. Investment remains highly selective as the sector is still perceived as risky. However, good performance is showing in some countries (Ireland, Germany). The market share is stable at 19% and up over the 15% seen in 2022.
- Hotels at €18 billion** reinforces its position as the best performing asset in CRE. The sector has rapidly grown at +40% compared to last year. Market share is now 12%, three times larger than the 4% seen in 2021.



This excludes residential investment.

COMMERCIAL REAL ESTATE INVESTMENT

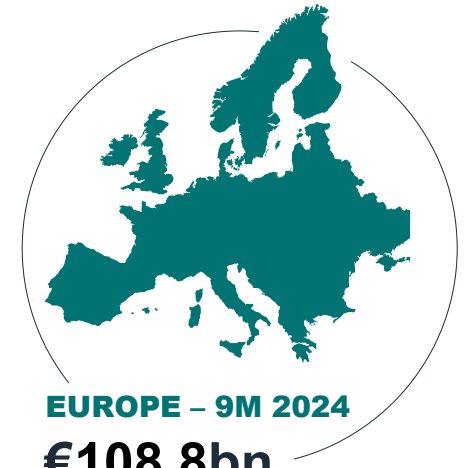
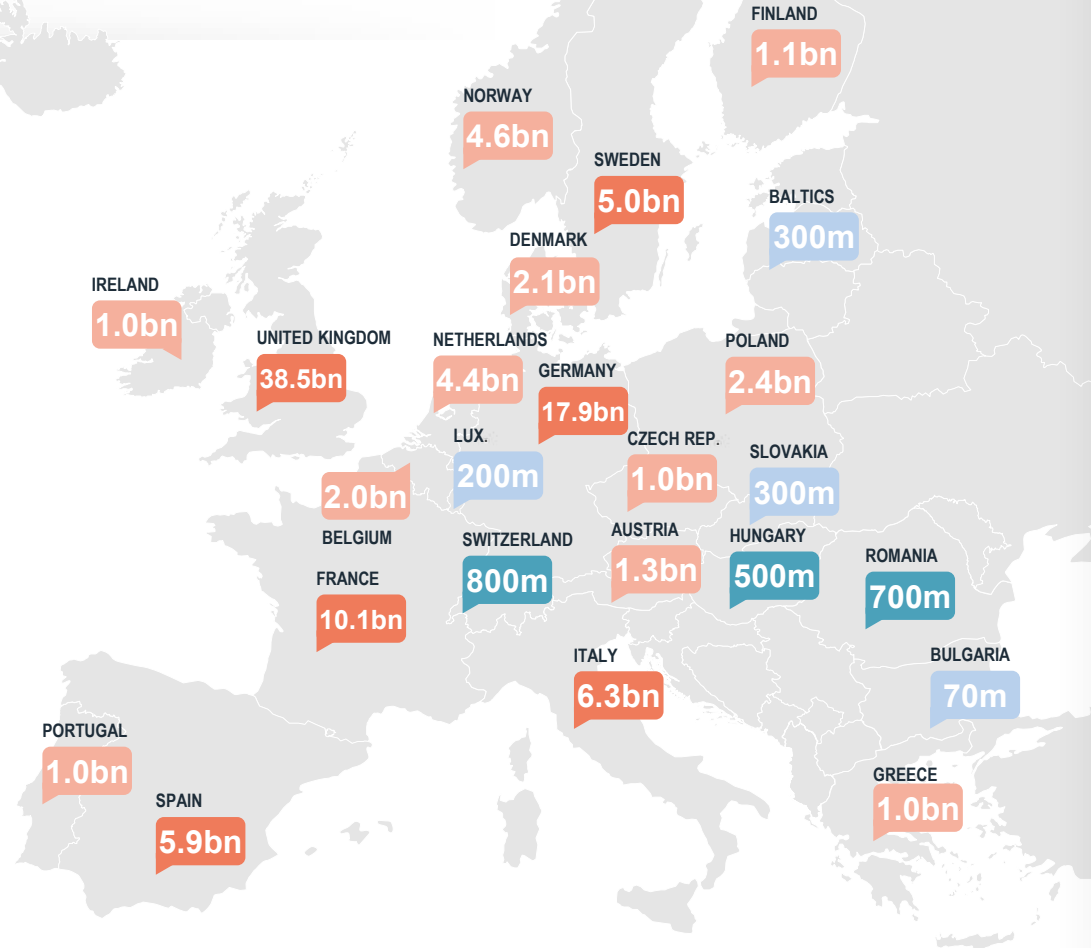
STEADY IMPROVEMENT IN VOLUMES

9M 2024 vs 9M 2023

	UNITED KINGDOM	+7%
	GERMANY	+15%
	FRANCE	-10%
	SWEDEN	-11%
	NETHERLANDS	+33%
	SPAIN	+14%
	ITALY	+85%
	NORWAY	+47%
	POLAND	+42%
	BELGIUM	+27%
	DENMARK	+24%
	FINLAND	-16%
	IRELAND	+5%
	AUSTRIA	-33%
	LUXEMBOURG	+163%

	≥ €5bn		€400m-1bn
	€1-5bn		< €400m

(excludes residential investment)



EUROPE – 9M 2024

€108.8bn

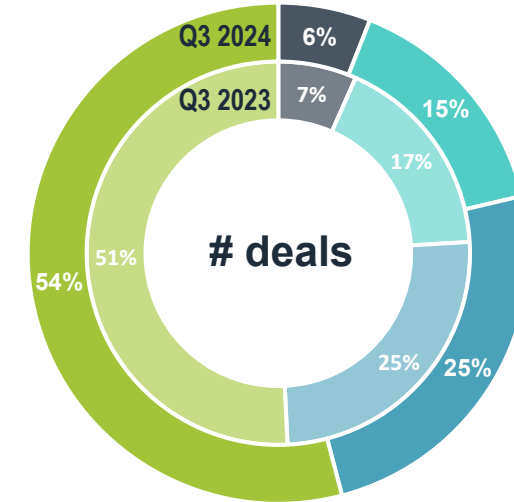
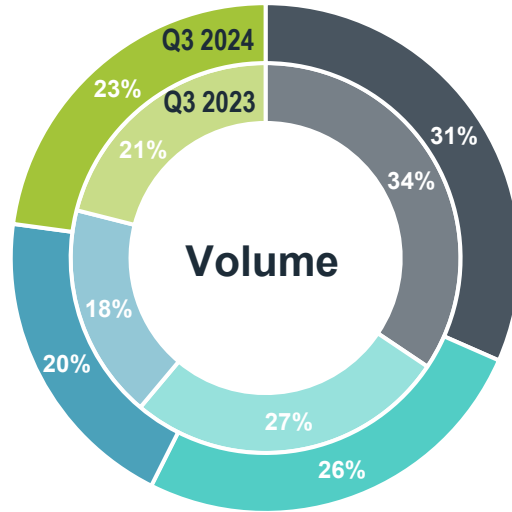
+8% vs 9M 2023

- **€108.8bn** were invested in Europe since the beginning of 2024, **rising by 8%** compared to 9m 2023.
- The UK, France, and Germany collectively account for 60% of market share.
- **Investment in Germany** continues to improve with a gain of around 15%.
- Most markets are growing, with **fastest growth seen in Italy (+85%)** reaching €6.3bn. All asset types are selling but particularly for retail (+538%) and office (+140%).

Source : BNP Paribas Real Estate

INVESTMENT IN EUROPEAN COMMERCIAL REAL ESTATE

INVESTMENT BALANCING OUT BY SIZE BAND



- Since 2022, the progressive decline in volume share of mega deals reflected a shift in demand towards lower price asset categories. Larger deals are taking much longer to reappear in the market, though are likely to make more of an impact over 2025 as global investors enact new business plans in response to the changed financial situation.
- Nevertheless, in Q3 2024, **mega deals (>€100m) dominate the market with a 31% volume share and a steady 6% in number of transactions.**
- Transactions in the **€40m to €100m band hold** 26% of the market volume. This segment has demonstrated the greatest stability in market share over time in volume and number of deals.
- Deals under **€40m** gained 15% volume compared to last year. This size band is also gaining market share (43% for Q3 2024 vs. 39% for Q3 2023).
- The number of **<€20m deals** has grown by 24% since Q3 2023 and holds now half of the market. This possibly reflects greater ease in assembling money to undertake deals of this size.

This excludes residential investment.

CROSS-BORDER INVESTMENT IN EUROPE – 9M 2024

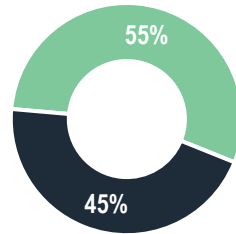
RIISING INTEREST IN EUROPE FROM AMERICAN INVESTORS

- Foreign investment contributed to overall rise by growing by +12% (vs 9m 2023) and represents a steady market share of 45% in the 9m 2024 (5-year average at 48%). In some countries like Italy and the Netherlands foreign investment dominates at 68% and 57% respectively.
- European cross-border volume experienced growth of +7% compared to 9m 2023 with a market share of 37% comparing the 10-year average (39%).
- Investment from other continents shows contrasting developments. Increasing interest from American investors resulted in transaction volume rising 48% compared to 9m 2023, notably in France (+557% at 2.4bn). Fast growth also occurred in the Netherlands (+123%), Italy (+117%), and Spain (+201%).
- Volumes from APAC declined again to 8% market share. Allocations decreased by 30% compared to last year, even faster than in H1 (20%). As of now, APAC based investors have mainly focused on Germany (€1.7bn) and Ireland (€140m).
- Enthusiasm from Middle East investors for Europe also faded in 2024, with €1.3bn of investment, a decrease by half compared to 9m 2023.

€ 59.6bn

+5%
vs 9M 2023

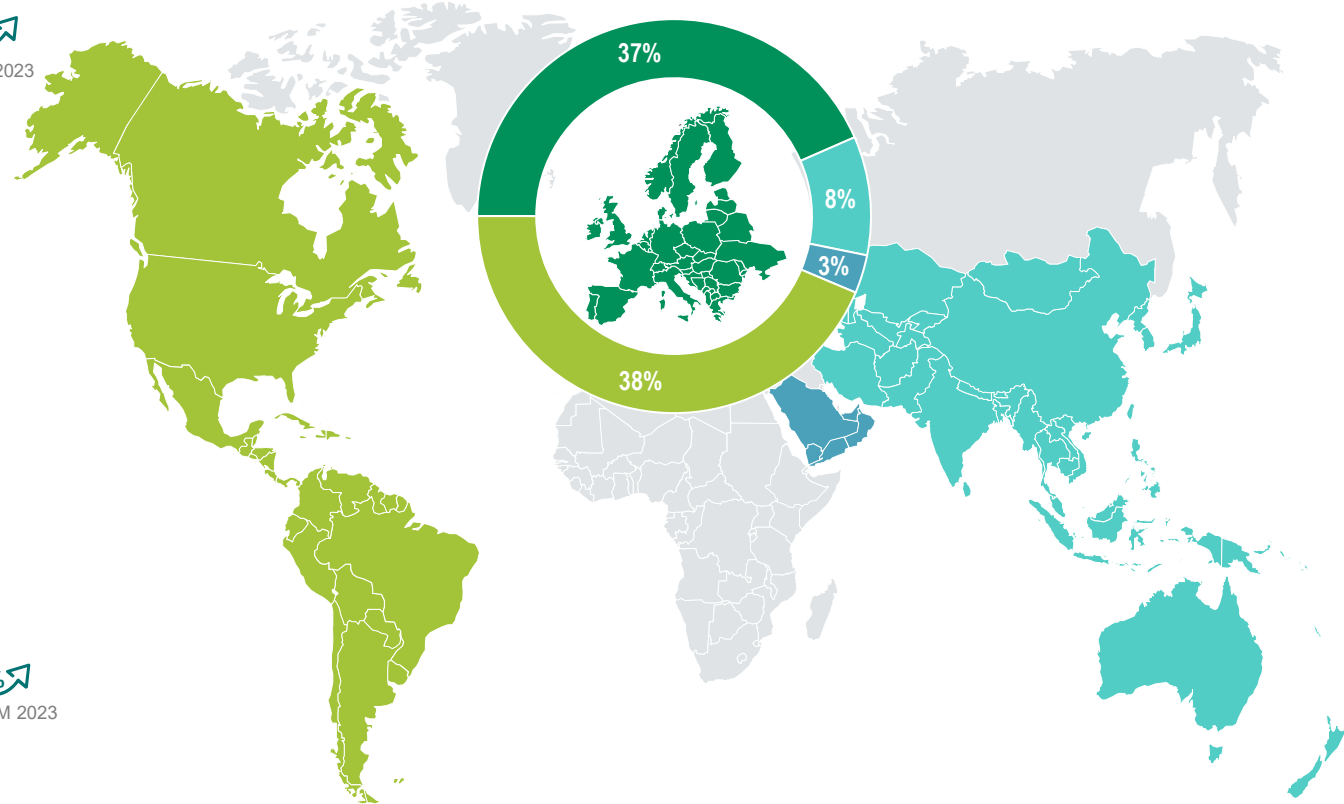
DOMESTIC INVESTMENT



CROSS-BORDER INVESTMENT

€ 49.3bn

+12%
vs 9M 2023



EUROPE
€18.5BN +7%
vs 9M 2023

AMERICAS
€18.7BN +48%
vs 9M 2023

ASIA PACIFIC
€4.1BN -30%
vs 9M 2023

MIDDLE EAST
€1.3BN -52%
vs 9M 2023

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

This excludes residential investment.

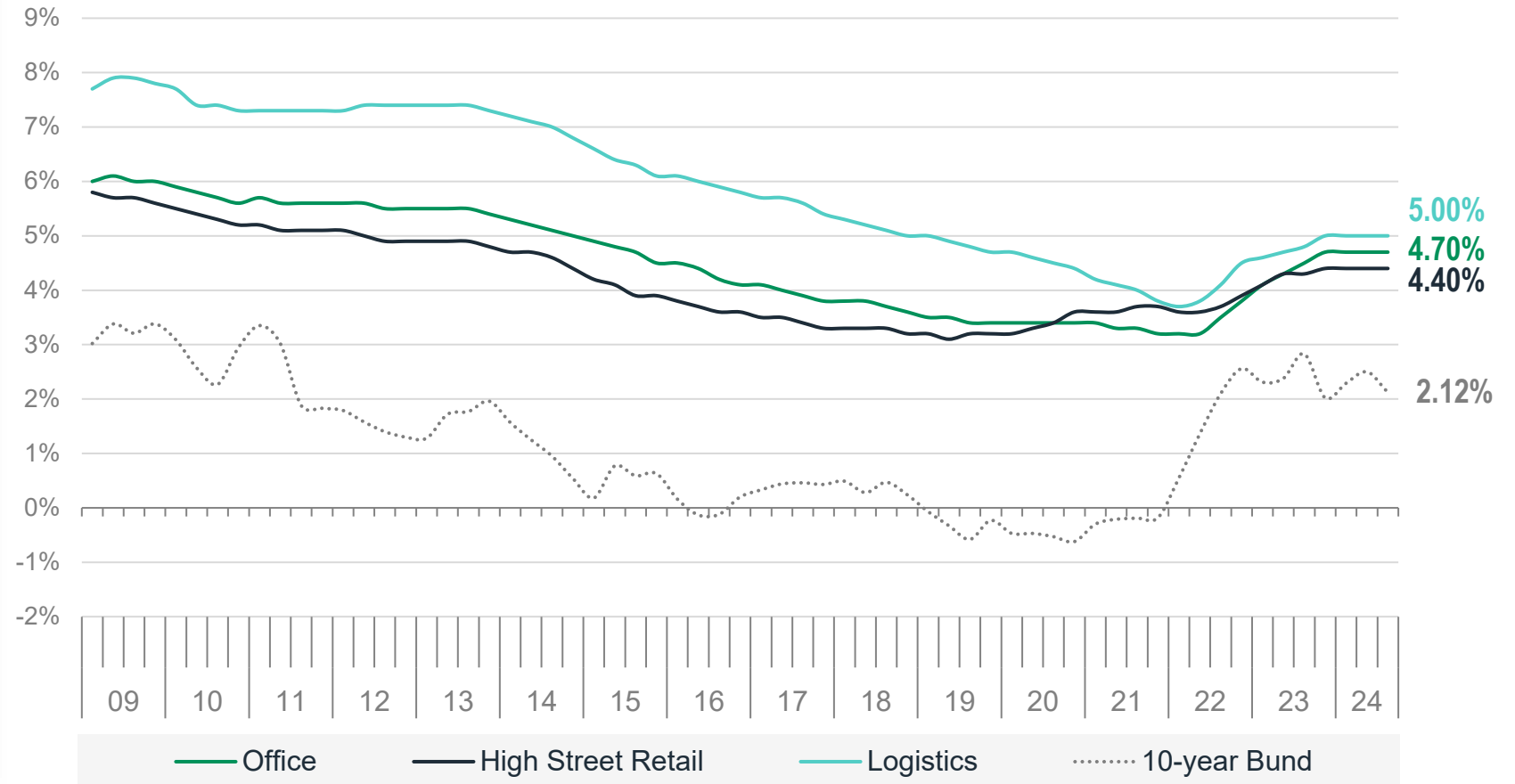
AVERAGE PRIME YIELDS IN EUROPE

MONETARY POLICY BECOMING MORE FAVOURABLE TO REAL ESTATE

Holding the line

- Central banks are clearly on a rate cutting path and beginning to transition their focus to growth rather than inflation. The main question is pace of reduction rather than direction of interest rates.
- **Consequently, a ceiling now exists for real estate yields.** Real estate is entering a new phase for pricing. **Since Q4 2023 prime yields** across all asset classes have remained **constant and likely to stay that way** for 2024. Sporadic compression signals from some markets may even show in late 2024 or early 2025.
- **Stockholm (3.95%) remains the lowest yielding market in Europe for offices**, followed by London (4.00%) experiencing early compression signs as are Baltic cities.
- **Retail locations are led by London and the German cities** with high street prime yields **below 4.00%**.
- **The lowest yielding logistics market** is also in **Germany** at 4.25%, followed by **the United Kingdom** (4.50%) and **France** at 4.90%.

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



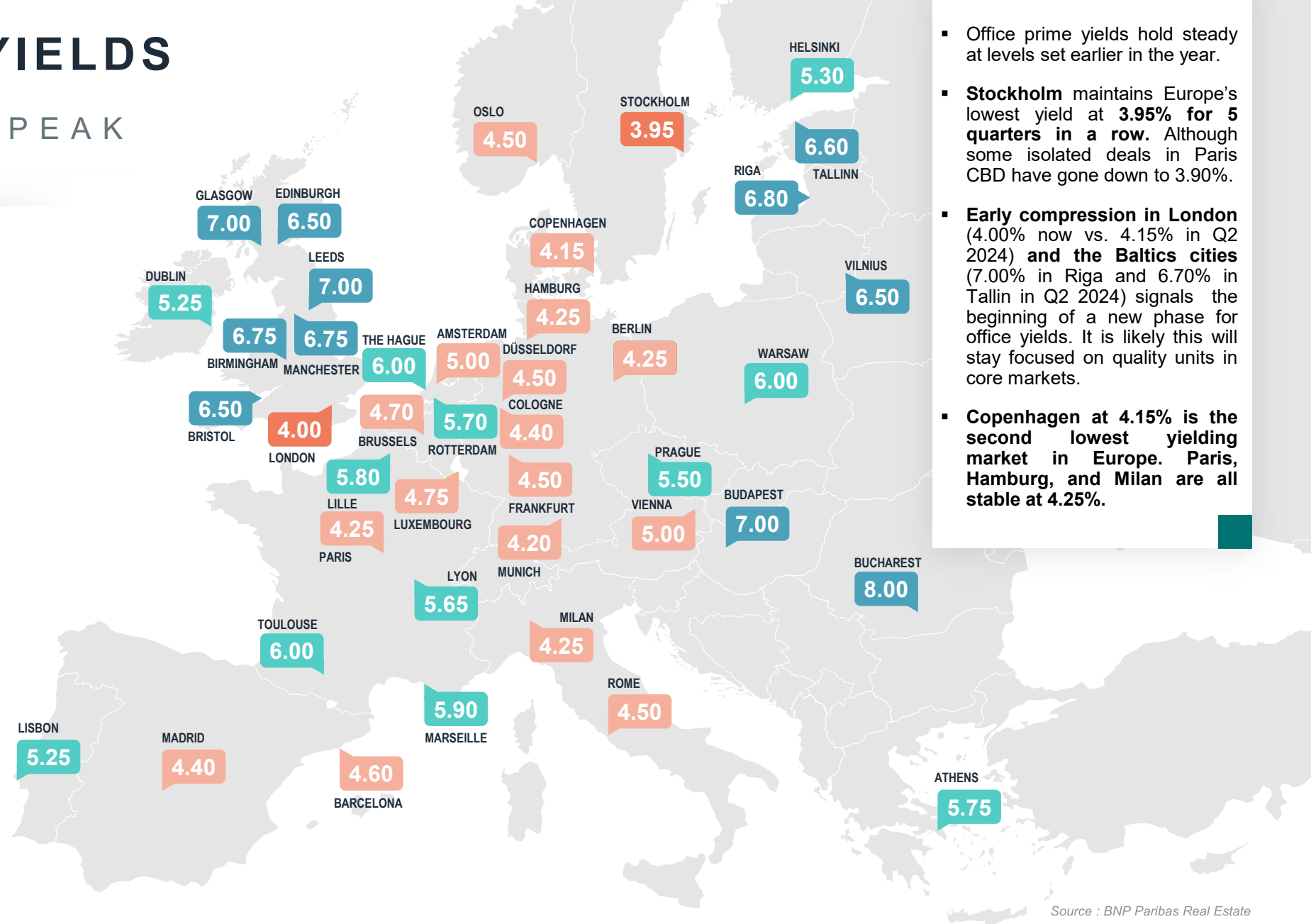
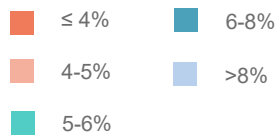
This excludes residential investment.

PRIME OFFICE YIELDS

REACHING THEIR PEAK

Q3 2024 vs Q3 2023

	PARIS	+25bps ↗
	LONDON	-15bps ↘
	BERLIN	+25bps ↗
	STOCKHOLM	+20bps ↗
	MUNICH	+25bps ↗
	MILAN	+0bps →
	OSLO	+25bps ↗
	MADRID	+15bps ↗
	BRUSSELS	+45bps ↗
	DUBLIN	+25bps ↗
	AMSTERDAM	+45bps ↗
	COPENHAGEN	+15bps ↗
	BARCELONA	+25bps ↗
	LUXEMBOURG	+0bps →
	WARSAW	+75bps ↗



- Office prime yields hold steady at levels set earlier in the year.
- Stockholm** maintains Europe's lowest yield at **3.95% for 5 quarters in a row**. Although some isolated deals in Paris CBD have gone down to 3.90%.
- Early compression in London** (4.00% now vs. 4.15% in Q2 2024) and the **Baltics cities** (7.00% in Riga and 6.70% in Tallin in Q2 2024) signals the beginning of a new phase for office yields. It is likely this will stay focused on quality units in core markets.
- Copenhagen** at 4.15% is the **second lowest yielding market in Europe**. Paris, Hamburg, and Milan are all stable at 4.25%.

Source : BNP Paribas Real Estate

02.

REAL ESTATE PERSPECTIVES

OFFICE MARKETS

OFFICES MARKET IN EUROPE

FLIGHT TO QUALITY OF EUROPEAN OFFICES



TAKE-UP

+2.0%

vs. 9M 2023

Recovery is on the horizon: following a new decline in early 2024, Q2 and Q3 volume showed an expansion in take-up



PRIME RENTS

41 markets Main markets
+3.8% **+7.0%**

vs. Q3 2023

Prime rents are still driven by high demand for top space



AVERAGE RENTS

Main markets
+3.6%

vs. Q3 2023

Average rents are growing at a slower pace as demand for secondary locations is weaker



VACANCY RATE

8.8% **+90 bps**

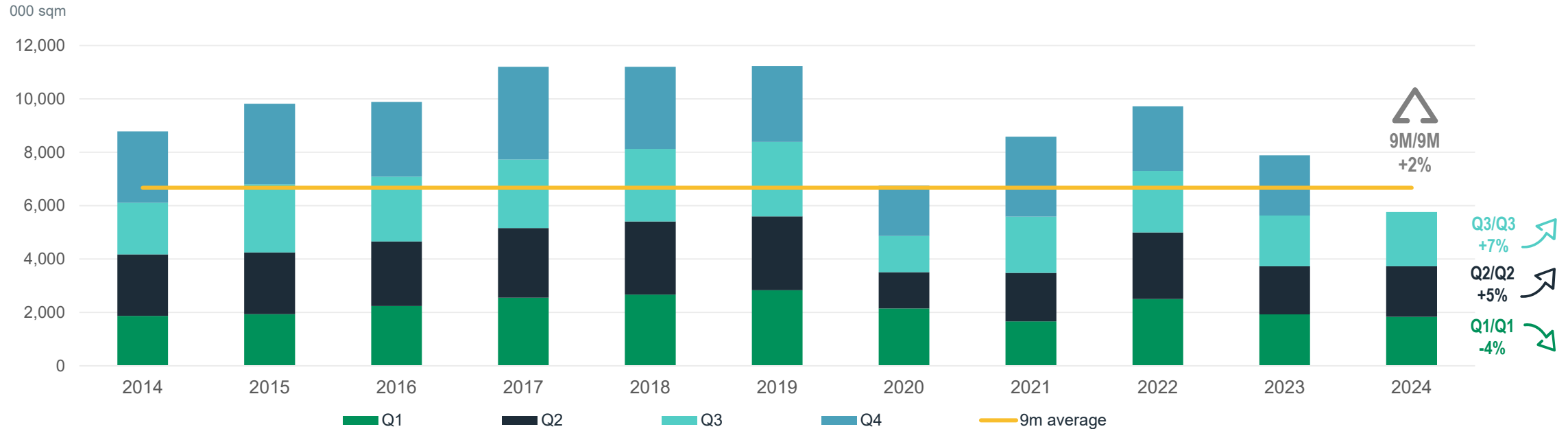
Q3 2024

vs. Q3 2023

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.

OFFICE TAKE-UP IN THE MAIN EUROPEAN OFFICE MARKETS*

LETTING VOLUMES GROWING



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

Take-up gains momentum

- For the second quarter in a row, take-up gained traction in Europe.
- Around 5.77 m sqm has been transacted since January 2024 in the 18 main European markets. Overall volumes are marginally ahead of 2023 (+2%) driven by select markets. These include Dublin (+60%), Barcelona (+44%), Munich (+37%), Madrid (+10%), Cologne (+9%), Frankfurt (+8%), Brussels (+7%) and Central London (+5%).
- The overall result remains below the 9-month long-term average (-14%) reflecting the ongoing structural changes in the office market where occupier activity focuses on smaller but more efficient premises.
- Enough economic uncertainty prevails in the major European markets to weigh on demand in the short term. That could see overall 2024 letting volumes staying in line with the 2023 results.

Source : BNP Paribas Real Estate

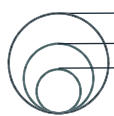
OFFICE TAKE-UP IN EUROPE

RECOVERY IS ON THE HORIZON

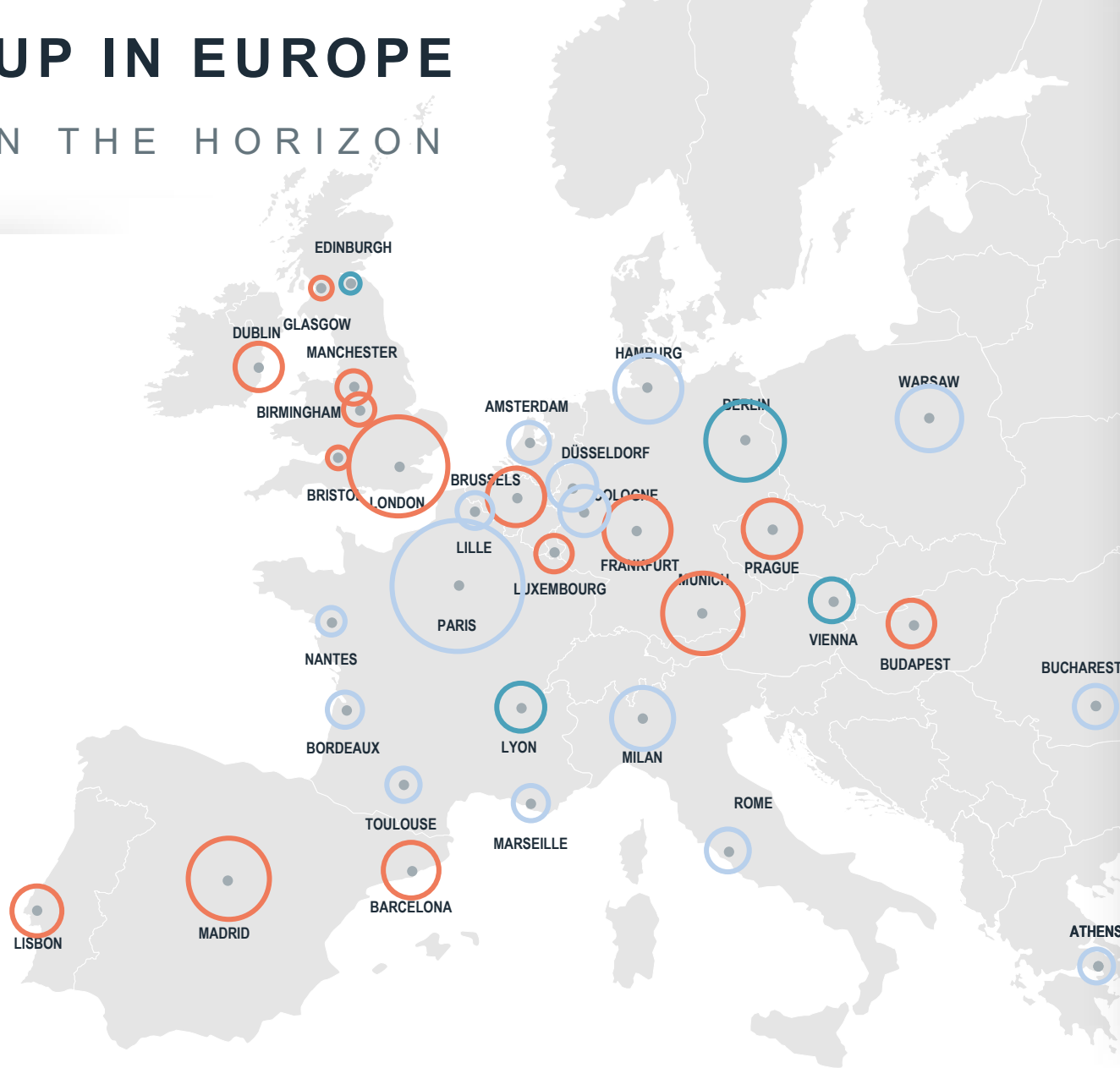
9M 2024 vs 9M 2023

	CENTRAL LONDON	+5%	
	BERLIN	-1%	
	CENTRAL PARIS	-6%	
	AMSTERDAM	-20%	
	MADRID	+10%	
	MILAN	-9%	
	WARSAW	-6%	
	BRUSSELS	+7%	
	DUBLIN	+60%	
	LUXEMBOURG	+6%	
	VIENNA	-4%	
	FRANKFURT	+8%	
	BARCELONA	+44%	

Deals in thousand sqm



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



EUROPE – 9M 2024

7.33m sqm 35 markets
+2% vs. 9M 2023

Mixed picture for take-up

- Take-up at the end of September 2024 was close to the 2023 result.
- While some markets experienced 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.
- Volumes remain below their long-term averages though appear to have stabilised.

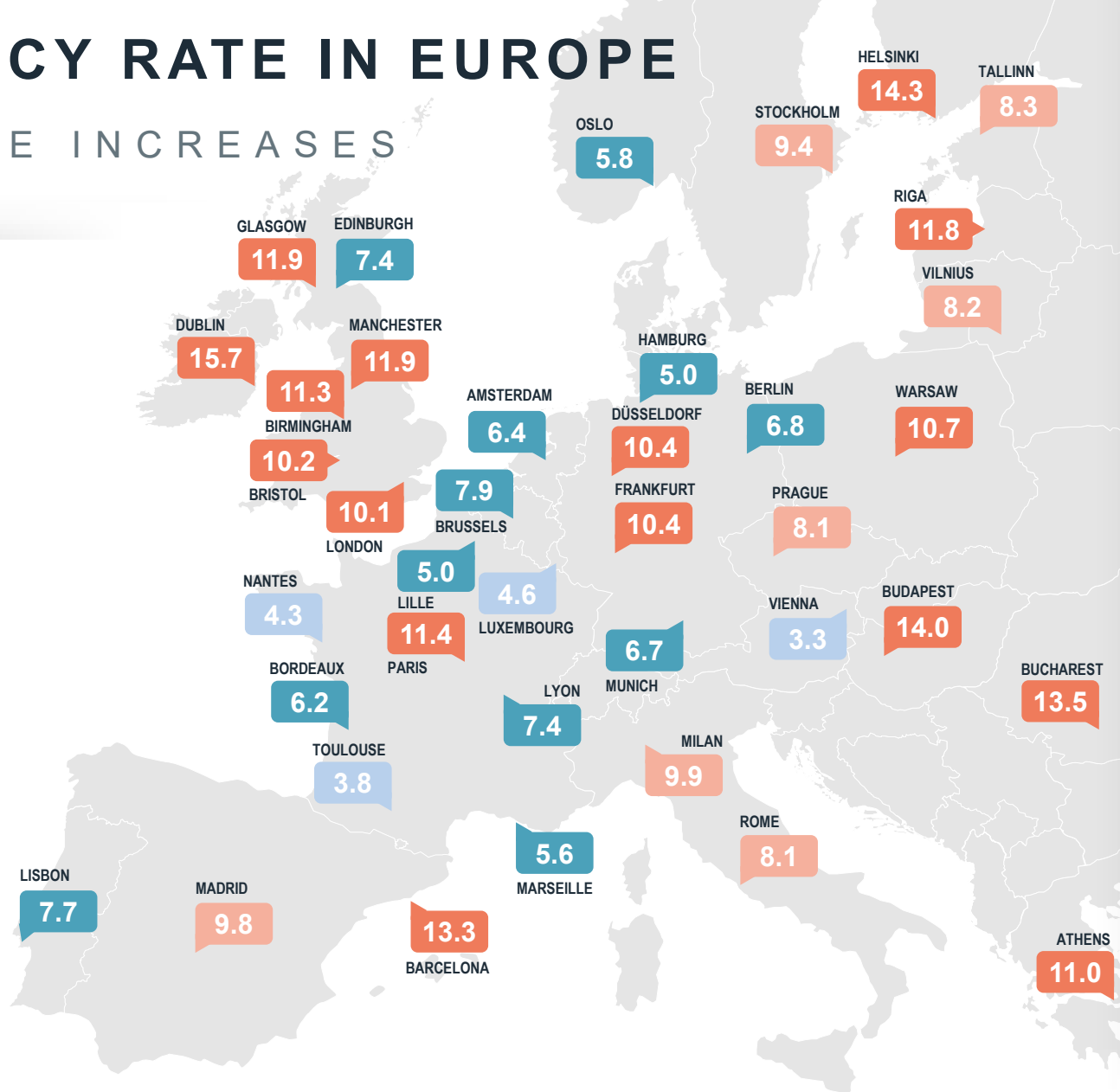
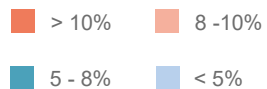
Source : BNP Paribas Real Estate

OFFICE VACANCY RATE IN EUROPE

AVAILABLE SPACE INCREASES

Q3 2024 vs Q3 2023

	CENTRAL LONDON	+50bp ↗
	BERLIN	+280bp ↗
	CENTRAL PARIS	+170bp ↗
	AMSTERDAM	-20bp ↘
	MADRID	-10bp ↘
	MILAN	+20bp ↗
	WARSAW	+10bp ↗
	BRUSSELS	+100bp ↗
	DUBLIN	+280bp ↗
	LUXEMBOURG	+80bp ↗
	VIENNA	-30bp ↘
	FRANKFURT	+120bp ↗
	BARCELONA	+60bp ↗
	STOCKHOLM	+290bp ↗
	HELSINKI	-30bp ↘



EUROPE – Q3 2024

8.8% 30 markets
+90bp vs. Q3 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 892,000 sqm at the end of September, 79% vs. Q3 2023) and Dublin (186,000 sqm completed in 9 months, exceeding by 50% the 5-year annual volume average).

Source : BNP Paribas Real Estate

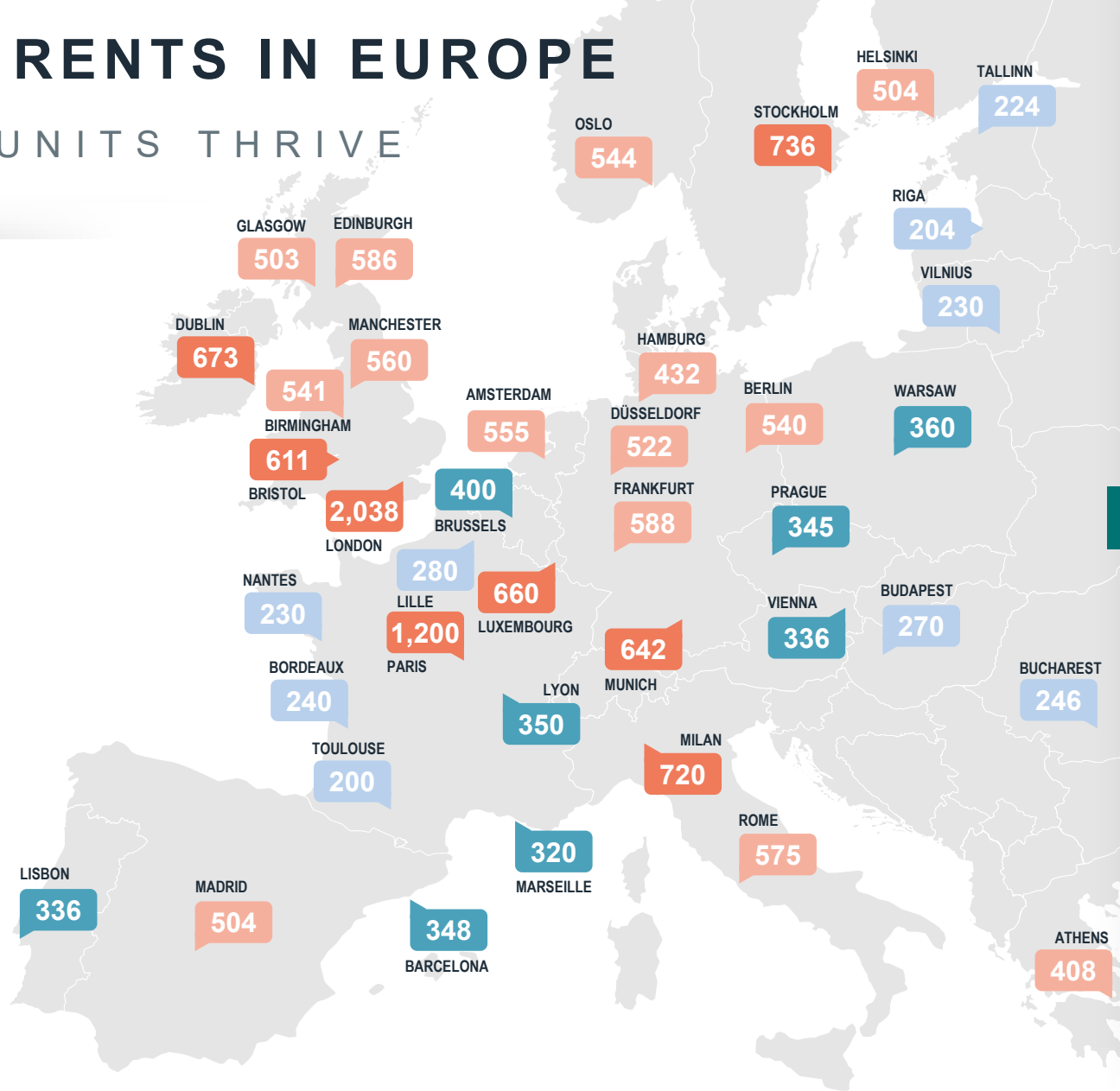
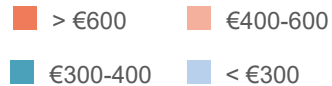
OFFICE PRIME RENTS IN EUROPE

BEST-IN-CLASS UNITS THRIVE

Q3 2024 vs Q3 2023

	CENTRAL LONDON	+7%
	BERLIN	=
	CENTRAL PARIS	+20%
	AMSTERDAM	+6%
	MADRID	+11%
	MILAN	+4%
	WARSAW	+11%
	BRUSSELS	+18%
	DUBLIN	=
	LUXEMBOURG	=
	VIENNA	+2%
	FRANKFURT	=
	BARCELONA	+4%

Rents (€/sqm/year)



EUROPE – Q3 2024

+3.8% vs. Q3 2023
41 markets

Prime rents still driven by high demand for top space

- The very low availability for grade A and the appeal of high-quality buildings located in the most sought-after districts continue to drive values up.
- The rise in prime rents was more pronounced in the 18 main European markets, with +7.0% in average y.o.y.
- Structural changes occurring in the office sector favour prime and modern units, and less space. The focus on quality over quantity will continue to support prime rents over the coming quarters.

Source : BNP Paribas Real Estate

02.

REAL ESTATE PERSPECTIVES

LOGISTICS MARKETS

LOGISTICS WAREHOUSING MARKET IN EUROPE

LOW MOMENTUM FOR EUROPEAN LOGISTICS



TAKE-UP

-6%

vs. Q1-Q3 2023

Below its 5-year average, the market is sluggish



PRIME RENTS

+3.0% **+1.2%**

over 1 year

over 9 months

Market slowdown is easing the pressure on rental growth



INVESTMENT

+17%

vs. Q1-Q3 2023

Strong repricing helps the market to find its way back to growth in most markets



PRIME YIELDS

+130 bps **-2 bps**

Since Q1 2022

Last quarter

Yield decompression has closed. Prime yields have been stable three quarters in a row.

LOGISTICS OCCUPIER MARKET IN EUROPE

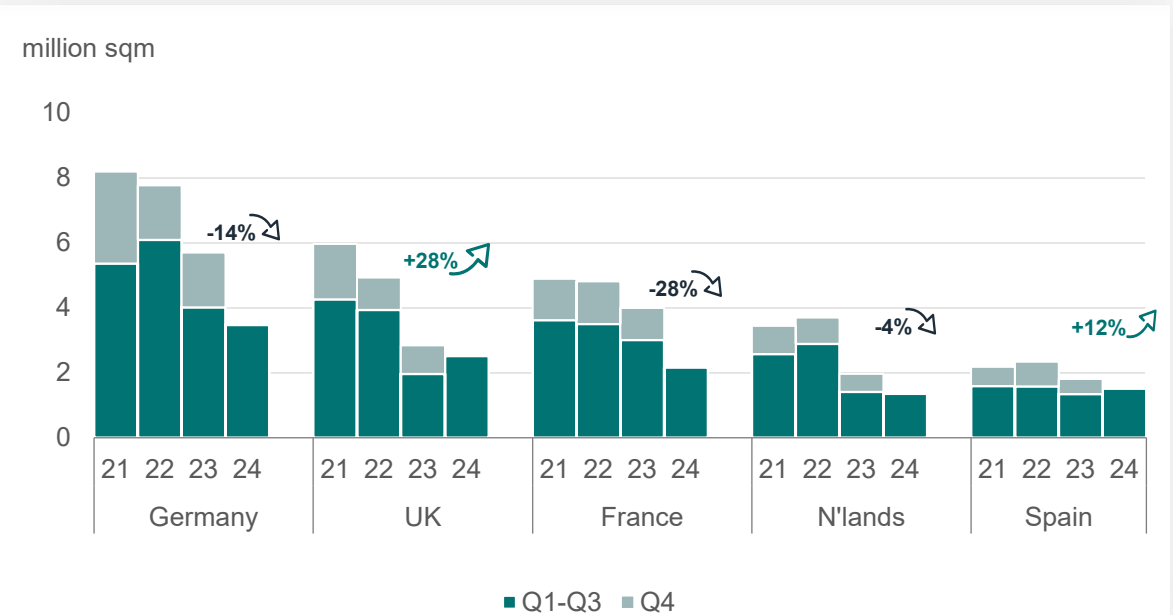
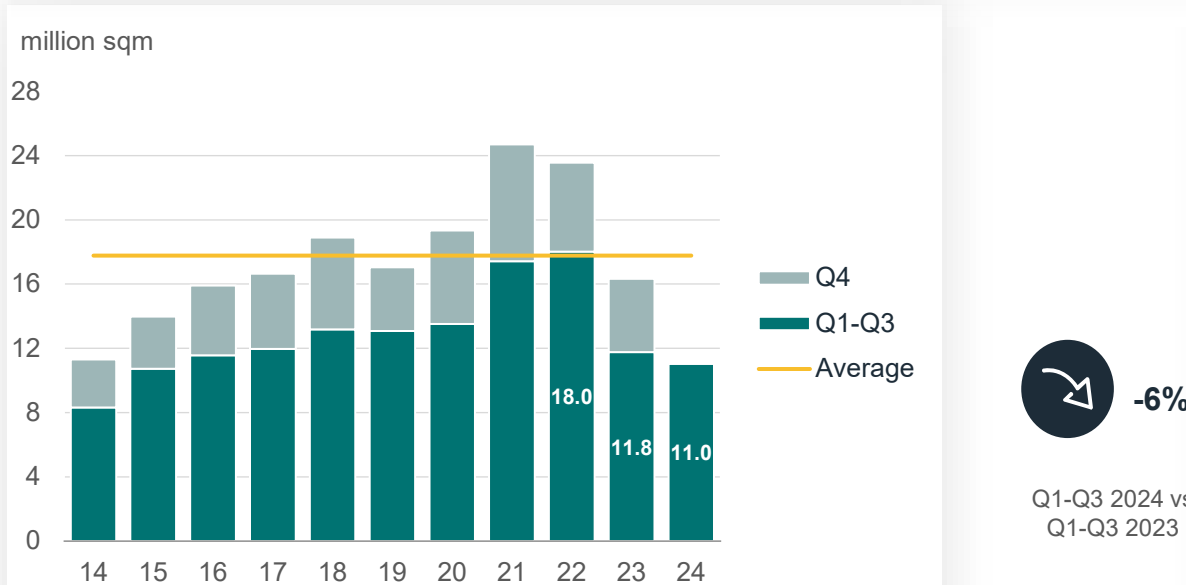
TAKE-UP IN 5 COUNTRIES: -6% (Q1-Q3 / 2024 VS 2023)

BELOW ITS 5-YEAR AVERAGE, THE MARKET IS SLUGGISH

- Over the 9 months of 2024, the market decreased by 6% in the leading European markets compared to 2023. Demand has been lagging in most countries.
- Logistics markets were boosted by e-commerce and food retailers over the past five years. Given the economic uncertainties and slow growth in the main European economies, weaker expansion is occurring here.
- The manufacturing sector in particular feels the effect of both weak domestic demand and

exports slowing down. Consequently, it is not surprising to see some signs of market slowdown in most countries.

- The risk of oversupply remains limited even though vacancy rates have been increasing in some markets. Overall, these remain low at sub 6% in most European countries.
- The lack of new products and increasing pressure on land availability continue to create an upward trend in rents.



Source: BNP Paribas Real Estate Research

LOGISTICS PRIME RENTS

RENTAL GROWTH IS SLOWING DOWN

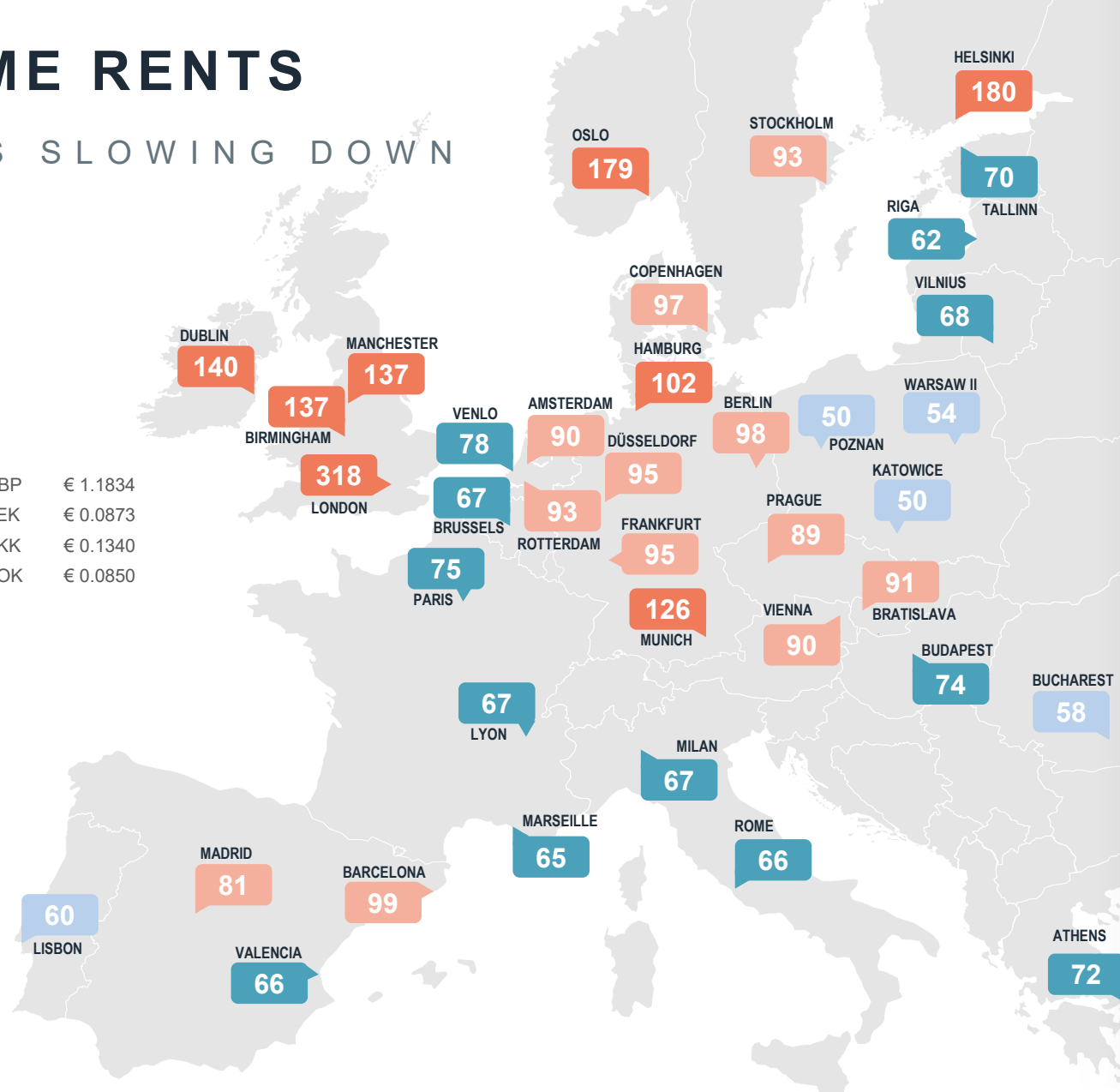
Q3 2024 vs Q3 2023

	FRANKFURT	+3%	
	BERLIN	+4%	
	LONDON	=	
	BIRMINGHAM	+5%	
	PARIS	+7%	
	VENLO	+11%	
	MADRID	+8%	
	BARCELONA	+3%	
	WARSAW II	+5%	
	PRAGUE	-8%	
	MILAN	+3%	
	STOCKHOLM	+4%	
	OSLO	+8%	

1 GBP € 1.1834
 1 SEK € 0.0873
 1 DKK € 0.1340
 1 NOK € 0.0850

Rents in €/sqm/yr

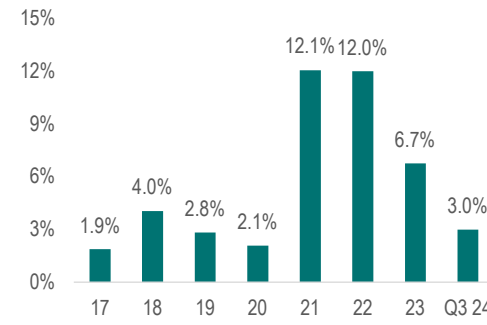
	≥ €100		€60-80
	€80-100		≤ €60



+3.0%
 Vs Q3 2023

+1.2%
 In 2024
 (over 9 months)

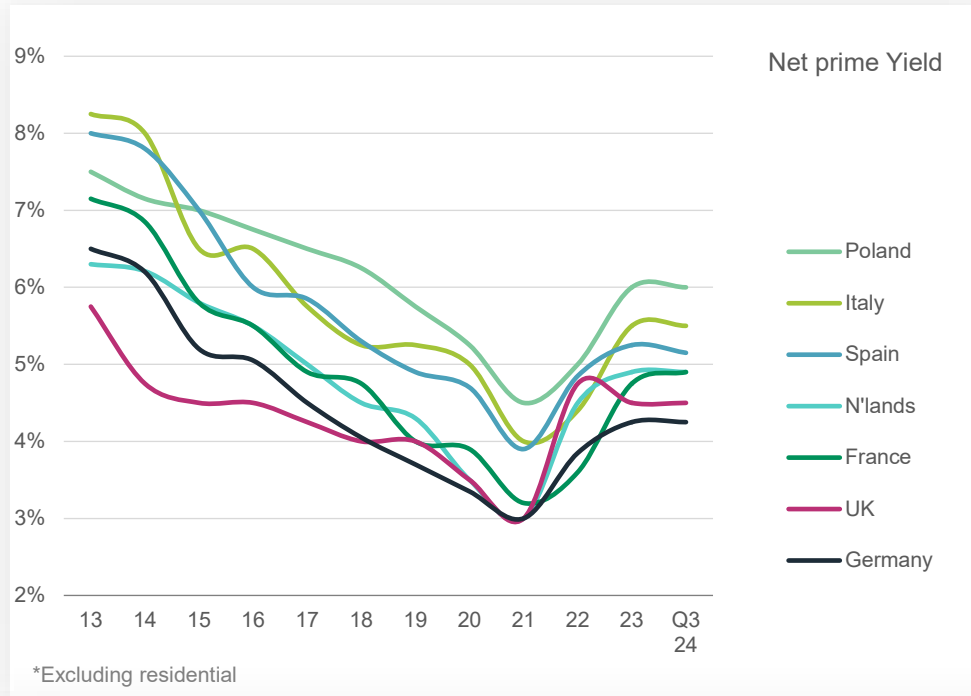
Rental growth (year-on-year)



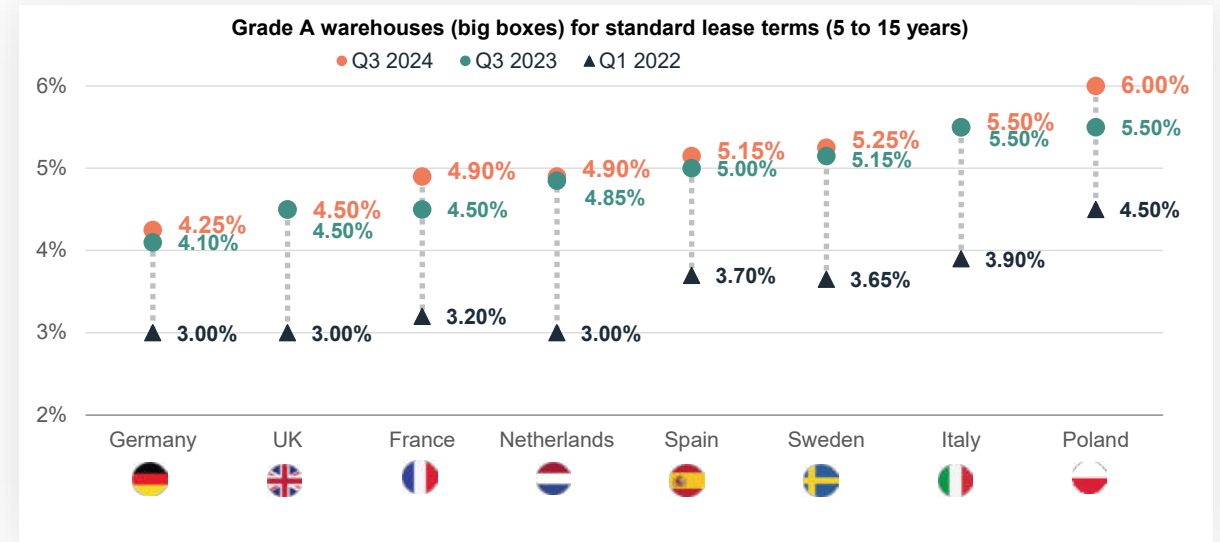
Source : BNP Paribas Real Estate Research

NET PRIME YIELDS IN EUROPE

STABILISATION IN 2024



Net Prime Yields – Grade A warehouses (big boxes) for standard lease terms (5 to 15 years)



Logistics prime yields have stabilised in Europe for 3 quarters in a row

- Prime yields decreased by 2 bps during Q3 2024 in Europe (versus the last quarter).
- Inflationary pressure and subsequent rising long-term government bond yields that had led to logistics prime yield expansion over the past two years are progressively being lifted.
- Logistics prime yields will stabilise throughout the whole of Europe by the end of the year reflecting the cuts in interest rate policy over the second half of 2024.

Source: BNP Paribas Real Estate Research

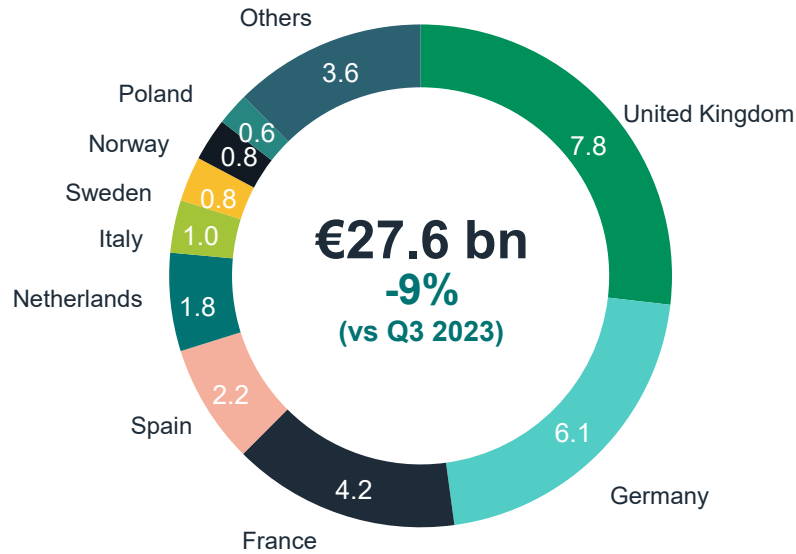
02.

REAL ESTATE PERSPECTIVES

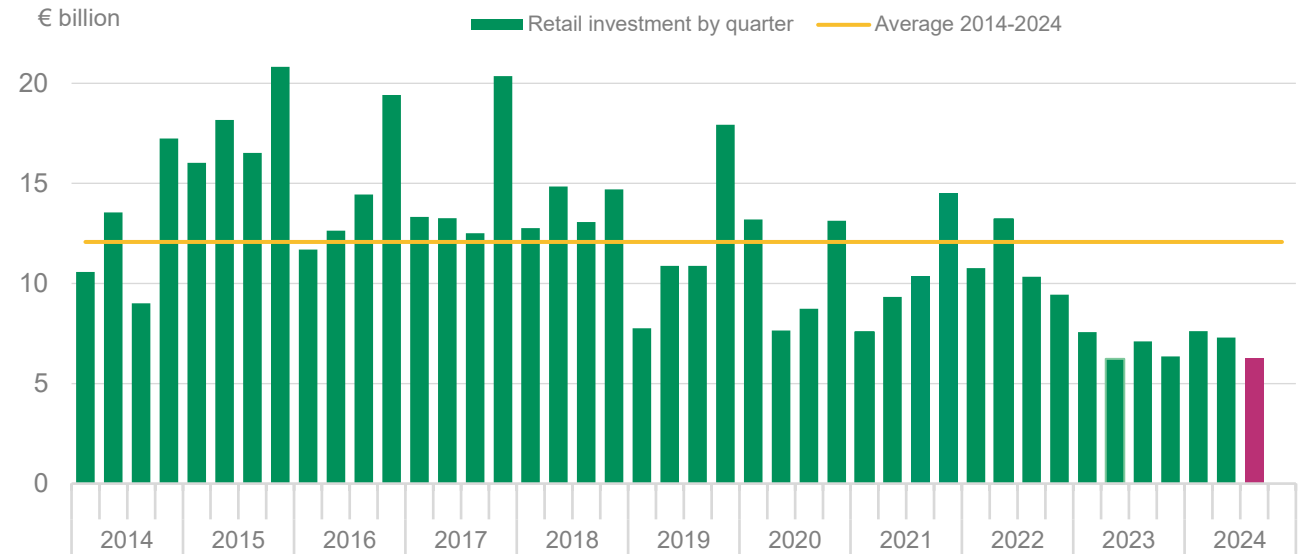
RETAIL MARKETS

RETAIL SECTOR ON THE SLOW PATH TO RECOVERY

Breakdown by country (Q3 2024 – 12 months)



Retail investment by quarter

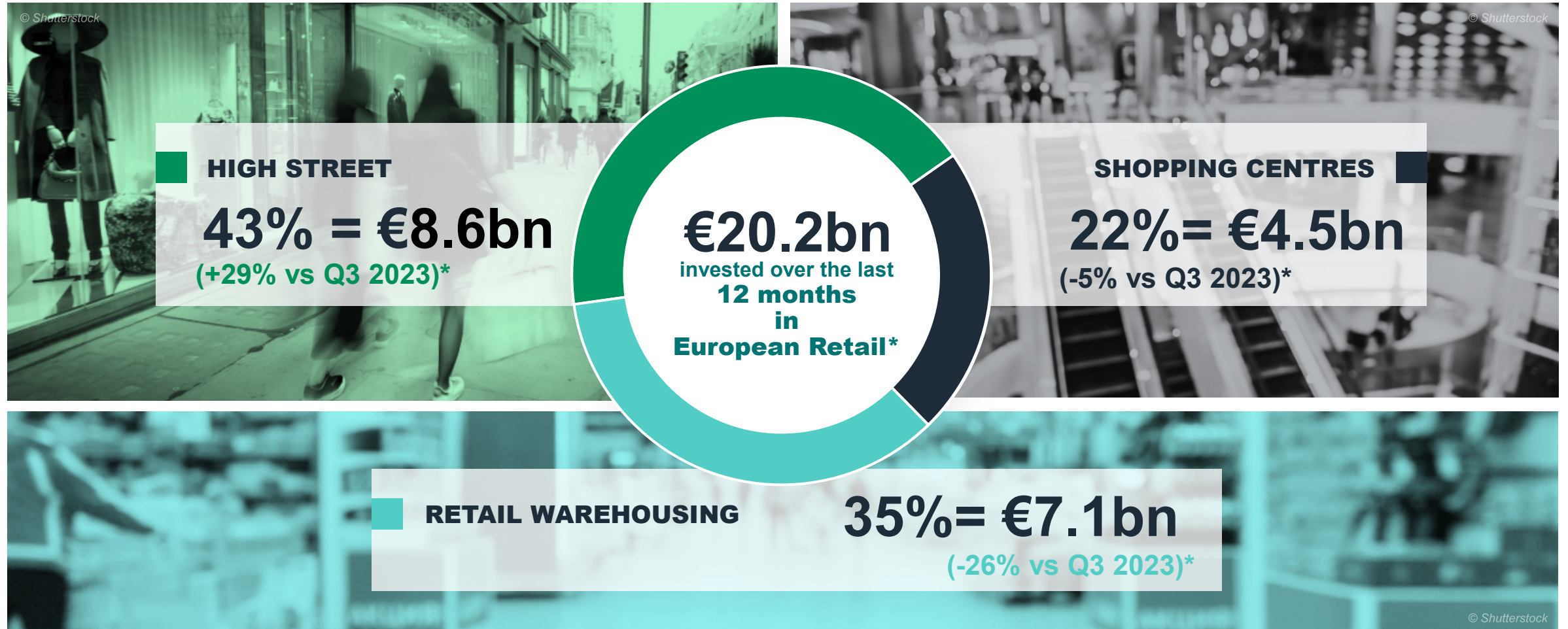


- **Retail** recorded a decrease of 9% in investment volume over the past 12 months.
- Investors show **most confidence** in the core markets, as Germany, the UK and France captured almost **two-thirds of transaction volume**.
- In some countries, over the past 12 months, **retail has been one of the most traded commercial asset classes**. In Germany, investors allocated almost as much capital in retail (24%) as in logistics (27%) and for the first time more than offices (20%). In Spain, the retail sector is the second biggest sector after hotels with 23% of the total. In Italy, the retail sector matched office allocation with 26% and 27% respectively of investment volumes.
- The **weaker investment market** contrasts with a **stronger occupier market**. Indeed, operational fundamentals are performing well in retailer turnover, footfall and rental payment.

Source: BNP Paribas Real Estate Research.

RETAIL INVESTMENT IN EUROPE BY ASSET CLASS – Q3 2024

HIGH STREET GROWTH SUPPORTED BY THE LUXURY SECTOR



* Total investment volume in six European countries (Germany, UK, France – including owner-occupier deals, Spain, Italy, and Poland).

Source: BNP Paribas Real Estate Research.

02.

REAL ESTATE PERSPECTIVES

RESIDENTIAL MARKETS

TRANSACTION VOLUME IN EUROPE

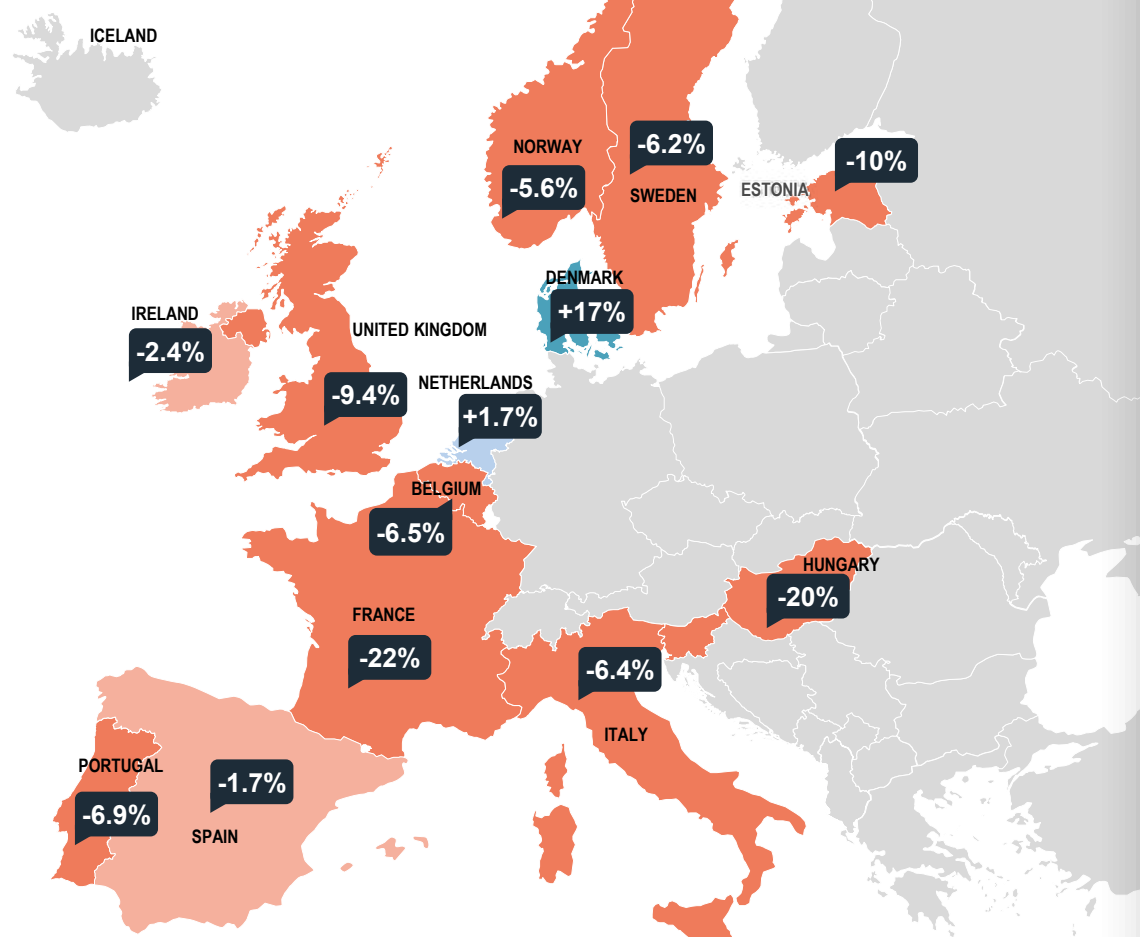
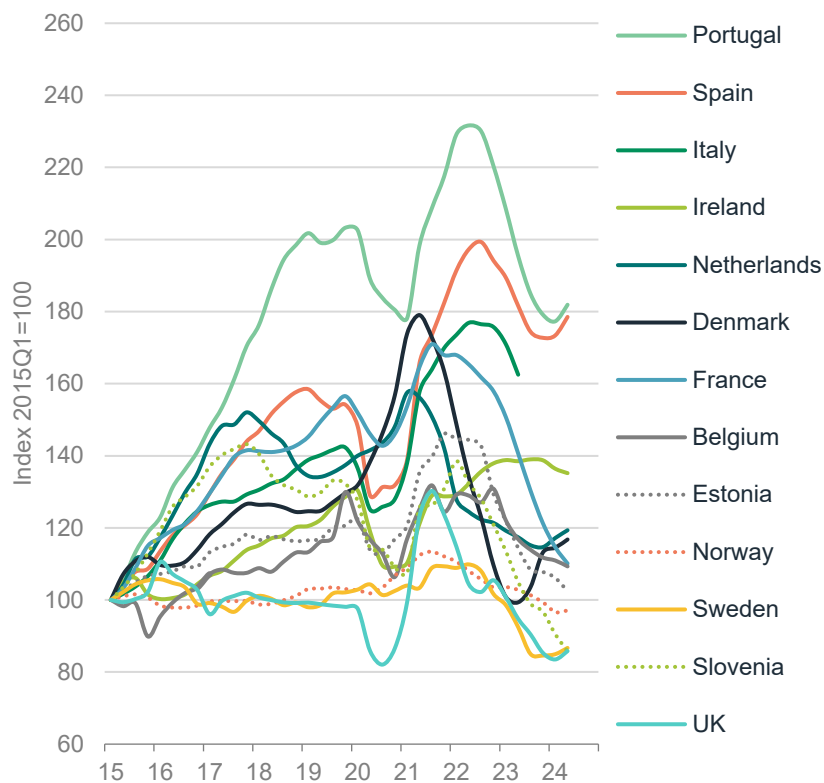
ACTIVITY IS RECOVERING



EUROPE – Q2 2024

-8.9% vs. Q2 2023

Transaction volume



- ❖ Housing transaction volume dropped by 8.9% in Q2 2024 vs Q2 2023 on a rolling year basis.
- ❖ Housing transactions declined by 22% in France, 18% in Slovenia, 10% in Estonia, 9.4% in the United Kingdom and 7.7% in Malta.
- ❖ The decline is lower in Spain (-1.7%), Ireland (-2.4%), Norway (-5.6%), and Belgium (-6.5%).
- ❖ Transactions in Denmark (+17%) and the Netherlands (+1.7%) have started to rebound.
- ❖ Comparing H1 2024 with H1 2023, we see stabilisation in the transaction volume. Transactions are on a recovery path as is the case with the Netherlands (+9%), Denmark and Spain (+7%), Sweden (+5%), Malta (+4%), Portugal (+3%), and the United Kingdom (+1%).

Sources: BNP Paribas Real Estate Research

Data for Italy, and Hungary are 1 or 2 quarters late

RESIDENTIAL PRICE GROWTH IN EUROPE

HOUSE PRICE EXPANSION RESUMES

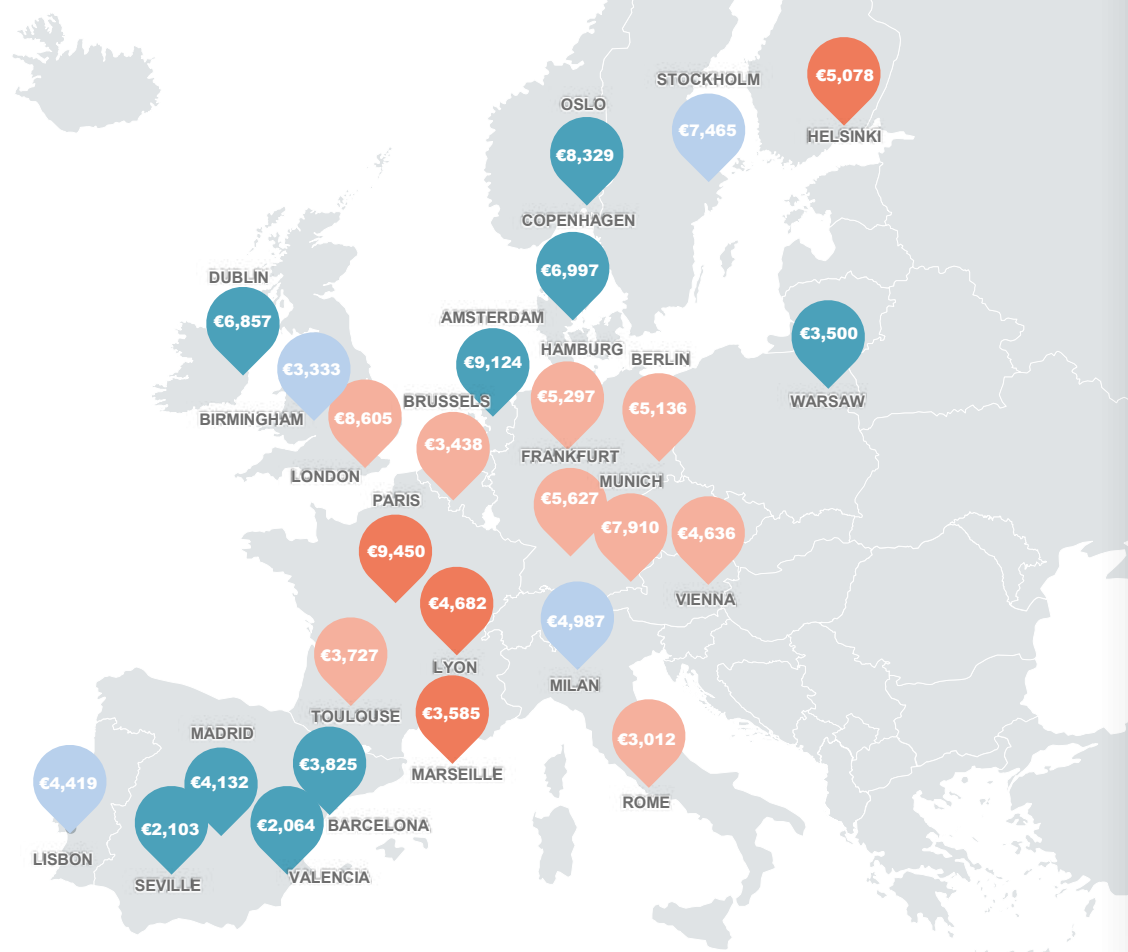
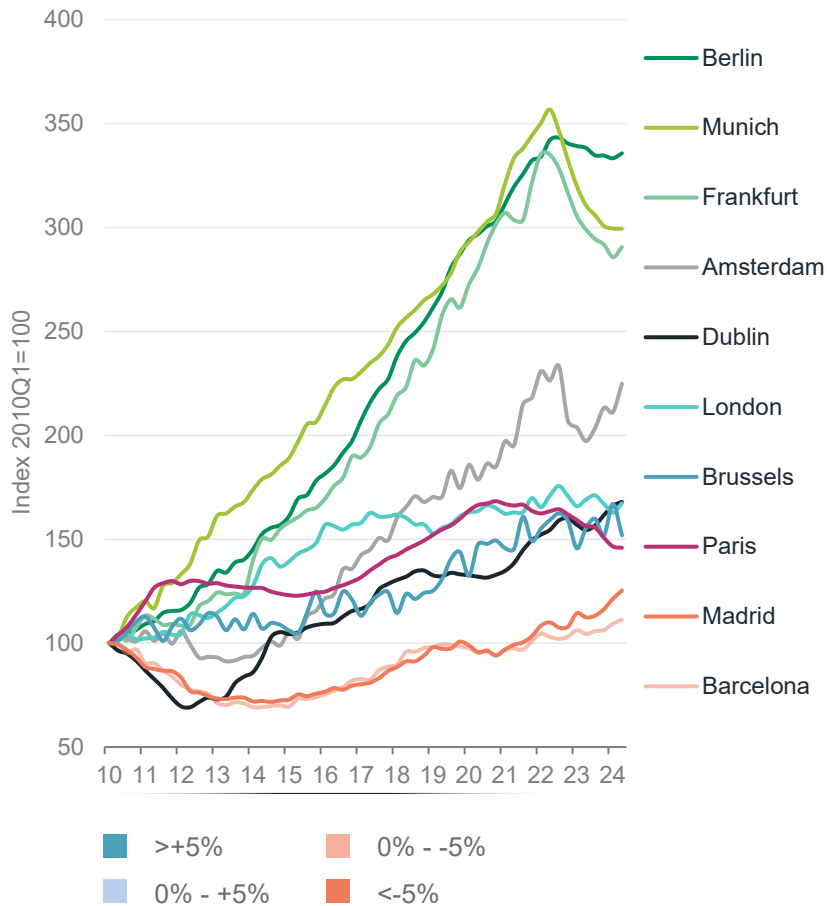


EUROPE – Q2 2024

+1.9% vs. Q2 2023

- ❖ House prices across European cities are now expanding on aggregate at +1.9% in Q2 2024 vs Q2 2023.
- ❖ Over the last year, 15 cities have experienced increases with 4 cities experiencing double digit growth – Warsaw (+15%), Amsterdam (+14%), Madrid (+11.5%) and Valencia (+11%).
- ❖ In Q2 2024, house prices continued to fall in Paris (-6.7% y/y), Helsinki (-5.0% y/y), Munich (-3.6% y/y), Hamburg (-2.9% y/y), Brussels (-2.3% y/y), and London (-1.1% y/y). However, we also observed growth in cities such as Birmingham and Milan (1.4% y/y), Stockholm (2.7% y/y), Lisbon (4.6% y/y), Rotterdam (5.5% y/y), Oslo (5.6% y/y), Barcelona (6.6% y/y), Dublin (8.8% y/y) and Copenhagen (9.5% y/y).
- ❖ House prices are on a recovery path. Over the last 24 years, house prices have reached historic highs in Dublin, Lisbon, Madrid, Milan, Oslo, and Warsaw.

Residential price growth



Sources: BNP Paribas Real Estate Research

RESIDENTIAL RENTAL GROWTH IN EUROPE

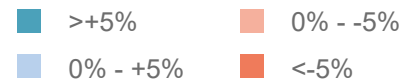
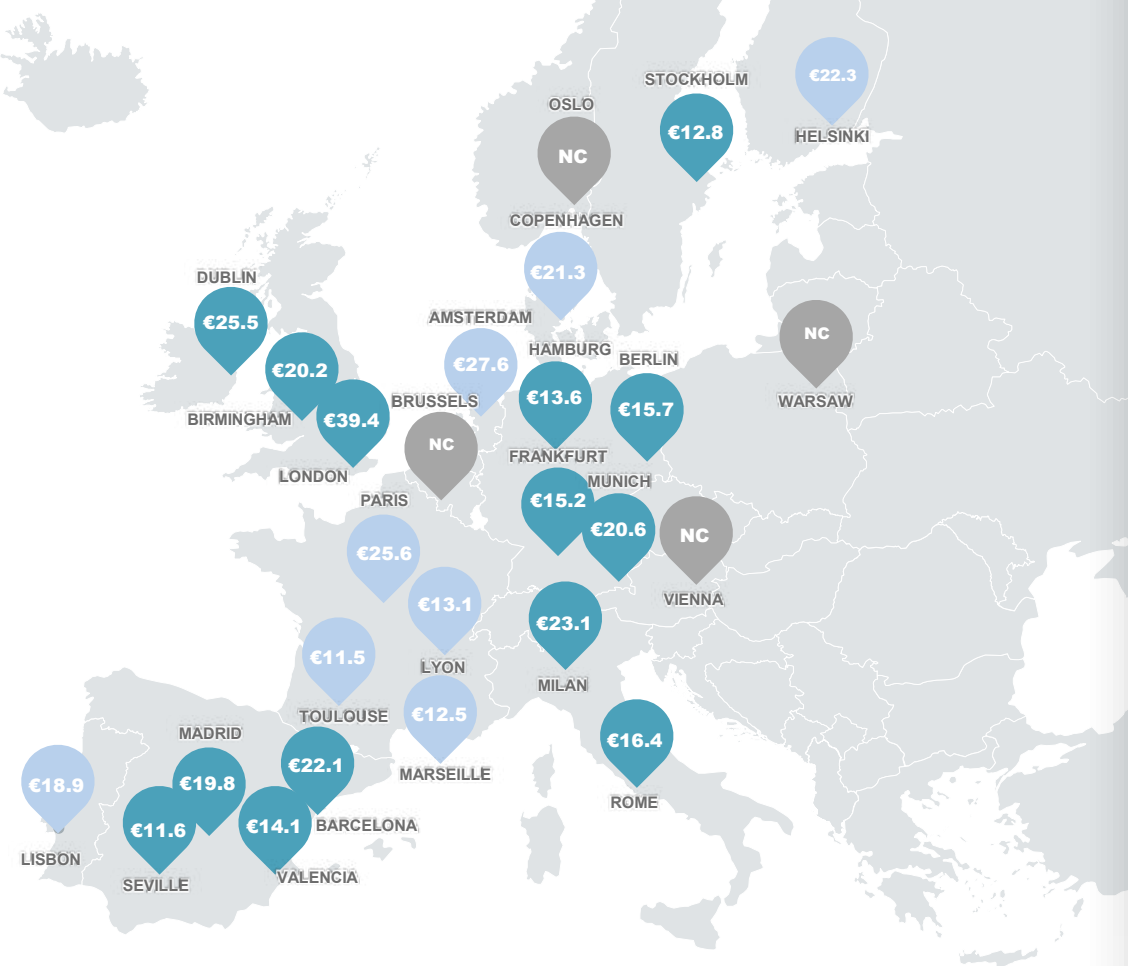
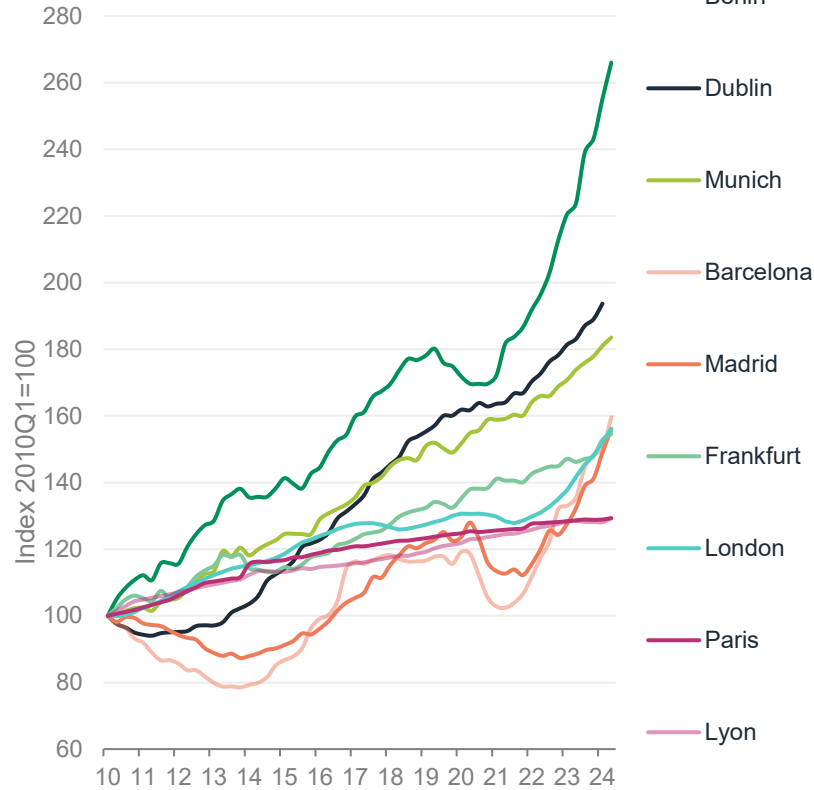
RENTS HIT NEW RECORD HIGHS



EUROPE – Q2 2024

+7.1% vs. Q2 2023

Residential rental growth



Sources: BNP Paribas Real Estate Research

- ❖ Residential rental values across European markets are still booming at +7.1% y/y in Q2 2024.
- ❖ Demand in the rental market continues to rise despite high rental values. Several factors explain this: 1) higher cost of purchase prices and mortgage rates convey to a decrease in property affordability, 2) European regulations on energy and limits on rent increase led to lessors leaving the rental market, creating a supply shortage, 3) more profitability can be achieved in the short-term rental market as tourism rises.
- ❖ As a result, double-digit growth is observed in 7 of the 26 markets: Valencia (+19%), Berlin (+18.9%), Madrid (+17.9%), Barcelona (+17.8%), Rome (13.1%), Manchester (+10.9%), and London (+10.2%).

02.

REAL ESTATE PERSPECTIVES

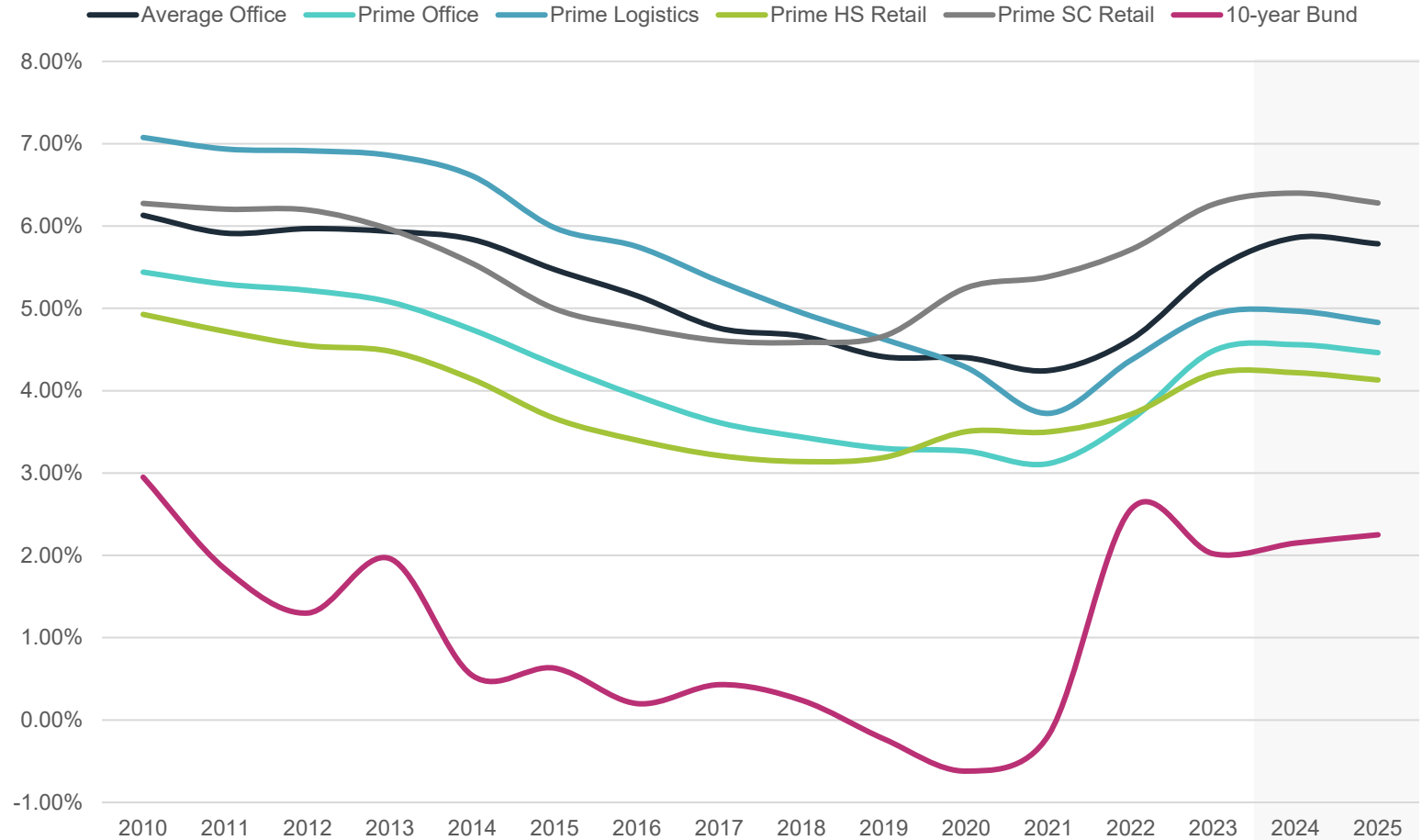
HOUSEVIEW

AVERAGE PRIME YIELDS IN EUROPE

BASED ON 16 MARKETS

A Cautious Compression in Yields Emerges

- After two years of significant adjustment in real estate values on the back of sharp increases in interest rates, we believe that the market has now bottomed out and likely to stay stable for the rest of 2024.
- Central banks have started the easing cycle with both the European Central Bank (ECB) and the Bank of England (BoE) cutting interest rates by 75bps and 50bps, respectively, already in 2024. We expect further cuts in 2025.
- However, heightened geopolitical tensions and global fiscal loosening means money market interest rates remain volatile. In recent months we have seen swap and risk-free rates return to the high levels seen at the beginning of the year. On the back of this volatility, we see a broader fall in real estate yields starting cautiously at the beginning of 2025.
- However, for Grade A assets with strong fundamentals, including good location and rental growth potential, the adjustment has already started driven by high investor demand and weak supply.

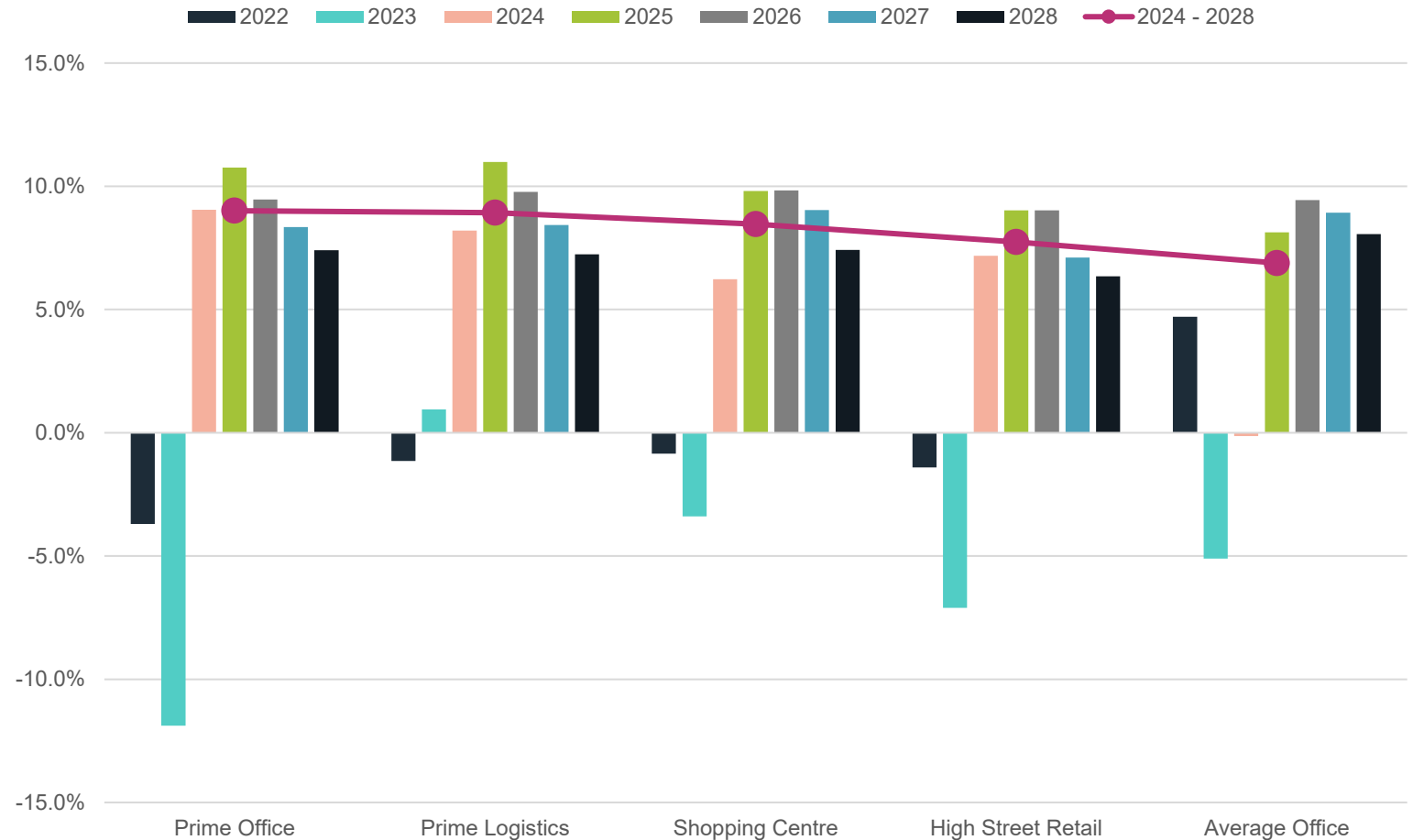


PRIME TOTAL RETURN IN EUROPE

AVERAGE BY ASSET CLASS – EUROPE

Total return should turn positive in 2024

- The uncertainty in the real estate market is most acute in the **office** segment. It is going through a profound structural and cyclical change. There is now a clear dichotomy in the performance of prime and average buildings, as tenant demand concentrates on well located and ESG compliant assets.
- In the **logistics** sector we see a similar dichotomy in performance between the occupational and investment markets. Occupier demand for space has slowed in some core markets, but with supply still constrained, rental growth has normalized from the highs in recent months. However, in the investment market demand remains strong and yields continue to compress, yielding a good returns.
- The **retail** sector remains challenged even if the expected returns remain in high single digits. This is driven by a high level of yields (and therefore income return), particularly in Shopping Centers.

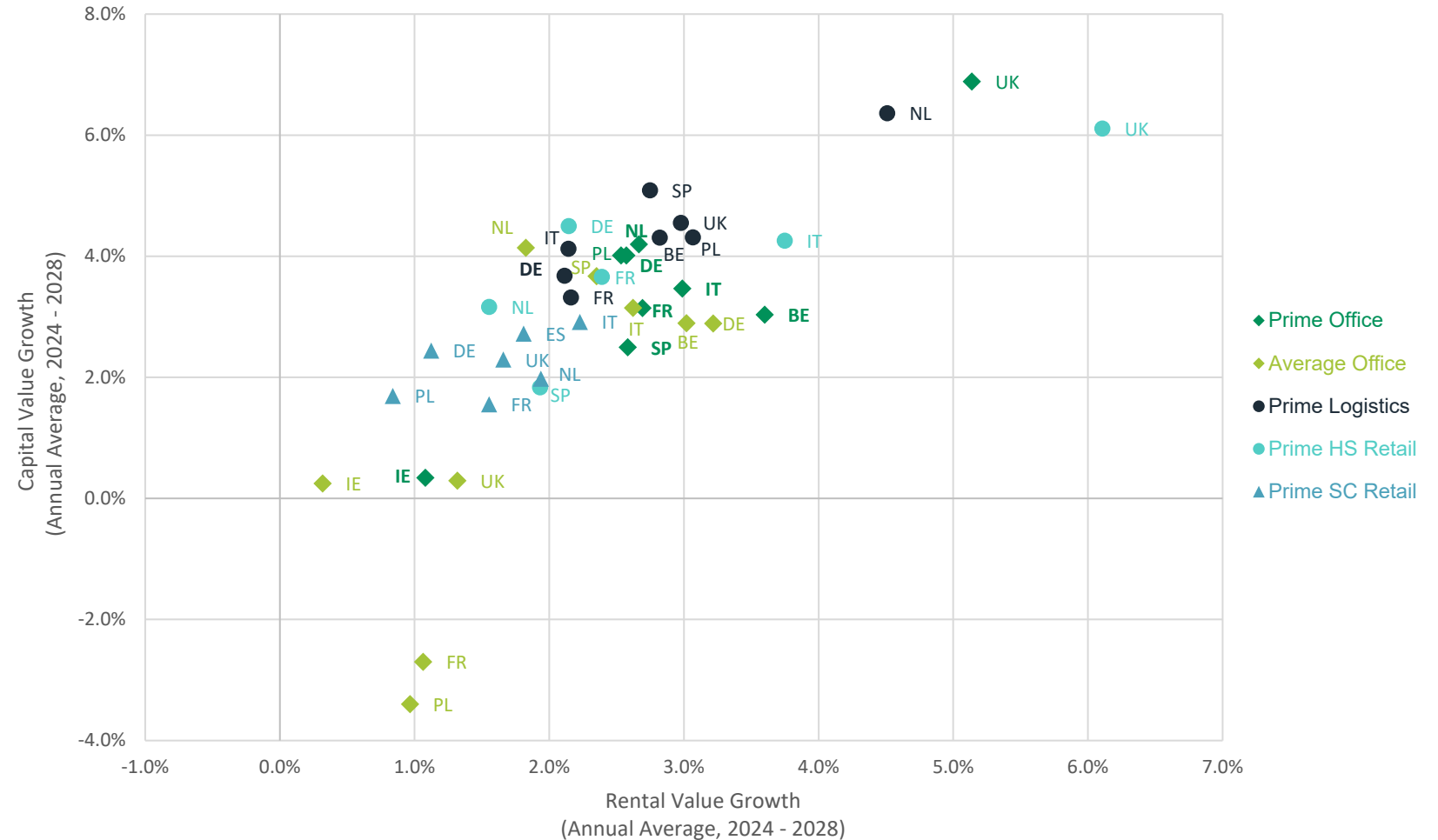


REAL ESTATE MOMENTUM

PRIME RENTAL GROWTH VS PRIME CAPITAL GROWTH

Strongest growth from modern well-positioned property

- Each property cycle builds upon what has happened before, so the new one at the beginning will still feature assets that were already performing well.
- Yet it remains the case that the assets best positioned to gain from market reactivation are those that already have the right combination of capital and rental growth prospects.
- We believe prime office and logistics offer the best balance of capital and rental growth over the next five years, albeit at a slower tempo than in the previous cycle. The alternative asset classes such as the broader living sector and data center also present an interesting prospect.
- For the office sector the pressure on secondary stock will continue due to poor tenant demand and increased need for CAPEX to maintain their value.



LOCATIONS

EUROPE

FRANCE

Headquarters

50, cours de l'Île Seguin
- CS 50280 92650 Boulogne-
Billancourt cedex
Tel.: +33 1 55 65 20 04

GERMANY

Goetheplatz 4
60311 Frankfurt am Main
Tel.: +49 69 29 89 90

UNITED KINGDOM

10 Harewood Avenue
London NW1 6AA
Tel.: +44 20 7338 4000

BELGIUM

Avenue Louise 235
1050 Brussels
Tel.: +32 2 290 59 59

SPAIN

C/ Emilio Vargas, 4
28043 Madrid
Tel.: +34 91 454 96 00

IRELAND

57 Adelaide Road,
Dublin 2
Tel.: +353 1 66 11 233

ITALY

Piazza Lina Bo Bardi, 3
20124 Milano
Tel.: +39 02 58 33 141

LUXEMBOURG

Kronos building
10, rue Edward-Steichen
2540 Luxembourg
Tel.: +352 34 94 84

Investment Management

Tel.: +352 26 06 06

NETHERLANDS

Antonio Vivaldistraat 54
1083 HP Amsterdam
Tel.: +31 20 305 97 20

POLAND

Grzybowska 78,
00-844 Warsaw
Tel.: +48 22 653 44 00

PORTUGAL

Avenida da República, 90 Piso 1,
Fracção 1
1600-206 Lisboa
Tel.: +35 1 939 911 125

MIDDLE EAST / ASIA

DUBAI

Emaar Square
Building n° 1, 7th Floor
P.O. Box 7233, Dubaï
Tel.: +971 44 248 277

HONG KONG, SAR CHINA

63/F, Two International
Finance Centre
8 Finance Street, Central,
Hong Kong, SAR China
Tel.: +852 2909 8888

SINGAPORE

20 Collyer Quay, #17-04
Singapore 049319
Tel.: +65 681 982 82

ALLIANCES

AUSTRIA
CZECH REPUBLIC
GREECE
HUNGARY
JERSEY
NORTHERN IRELAND
PORTUGAL
ROMANIA
SLOVAKIA
SWITZERLAND
USA

CONTENTS AND PRODUCTION

Acknowledgments

We would like to thank all the local teams, Newsec and the alliances for their assistance in the preparation of this report.



BNP Paribas Real Estate Disclaimer Clause

BNP Paribas Real Estate cannot be held responsible if, despite its best efforts, the information contained in the present report turns out to be inaccurate or incomplete. This report is released by BNP Paribas Real Estate and the information in it is dedicated to the exclusive use of its clients. The report and the information contained in it may not be copied or reproduced without prior permission from BNP Paribas Real Estate.

All rights reserved. This report is protected in its entirety by copyright. No part of this publication may be reproduced, translated, transmitted, or stored in a retrieval system in any form or by any means, without the prior permission in writing of BNPPRE.



KEEP IN TOUCH WITH US, WHEREVER YOU ARE

#BEYONDBUILDINGS



www.realestate.bnpparibas.com