

EUROPE CRE 360

ECONOMIC OUTLOOK

REAL ESTATE PERSPECTIVES

GLOBAL RESEARCH
November 2023



**BNP PARIBAS
REAL ESTATE**

Real Estate for a changing world

EUROPE CRE 360 CONTENTS

1 ECONOMIC OUTLOOK 4

2 REAL ESTATE PERSPECTIVES 10

EXECUTIVE SUMMARY

IN A NUTSHELL

ECONOMIC RESILIENCE IS FADING

After a slightly positive first half-year, eurozone activity is likely to stall in the second half-year. The labour market should also lose momentum. However, the extent of this decline and an increase in the unemployment rate should be relatively limited given persistent recruitment difficulties.

INVESTMENT STILL PLUMMETING

All asset classes experienced a strong reduction. Logistics (-58%) was the most affected as prices were already expensive before problems arose. Offices (-62%) suffered as well as complicated pricing adds difficulties to a sector where structural change seems to be underway. Hotels (-26%) and retail (-43%) incurred the least declines.

OFFICE: LETTING ACTIVITY IS REMAINING SUBDUED

2023 letting activity is struggling to regain the volumes seen in 2022 when take-up returned to its long-term average. Take-up after 9 months shrank 22% relative to 2022. 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.

LOW MOMENTUM FOR EUROPEAN LOGISTICS

The logistics market in Europe decreased significantly in 2023 as the manufacturing sector feels the effect of slower demand and new orders weakening. Yet market fundamentals remain healthy as low vacancy rates and limited land availability continue to push rents up. Yield decompression is now slowing down in most European countries. This could unlock investment activity in the next quarters.

RETAIL: A MIXED PICTURE FOR THE MARKET

Retail is affected by a **decrease** in investment volume but is gaining **traction** in market share. Retail fundamentals resist: global tourism on track to return to pre-pandemic levels. International tourists' arrivals were **strong** in **Europe**, with the **Southern/Mediterranean** region leading the recovery, boosting both **footfall** and **retail sales**.

RESIDENTIAL: A FADING CYCLE

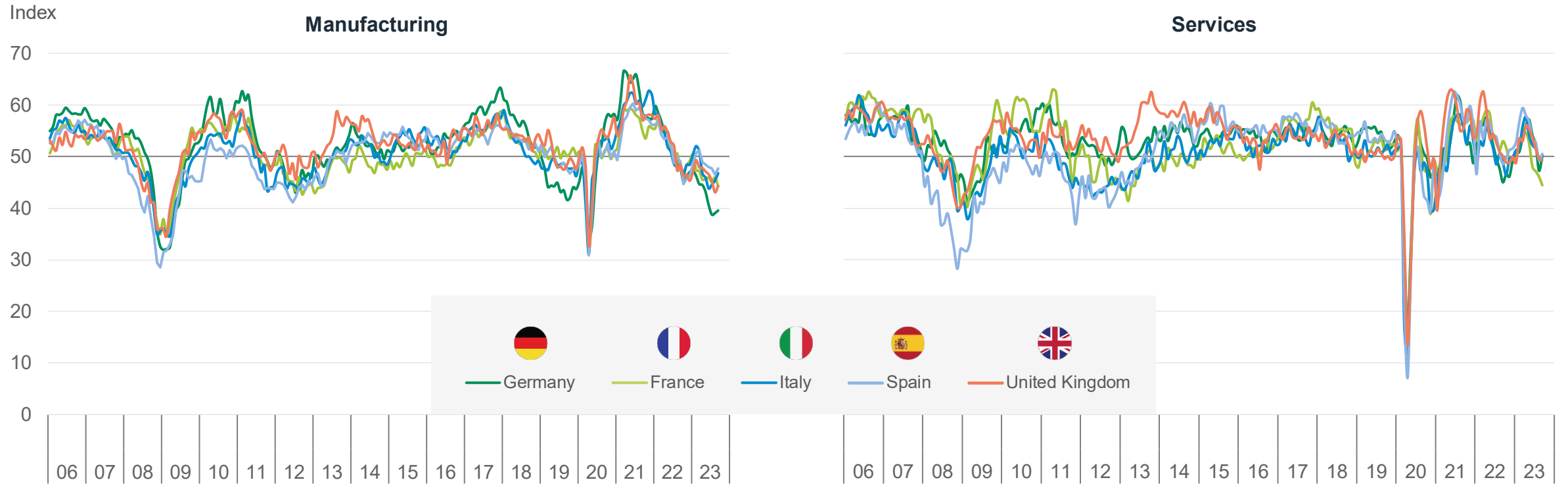
Residential investment plummeted by 54% in the 9 months of 2023 y/y. Housing transaction volume dropped by 19% driven by tight credit conditions. As results, house prices in the Europe continue to fall i.e., -1.1% vs the last year. Rental values are still booming owing to the shift in the monetary policy and the drop of listed property put up for rents.

EUROPE CRE 360

ECONOMIC OUTLOOK

PURCHASING MANAGER INDEX SURVEYS

ACTIVITY IS LOSING MOMENTUM



Sources: Markit, BNP Paribas Economic Research.

Global activity is down at the end of the third quarter

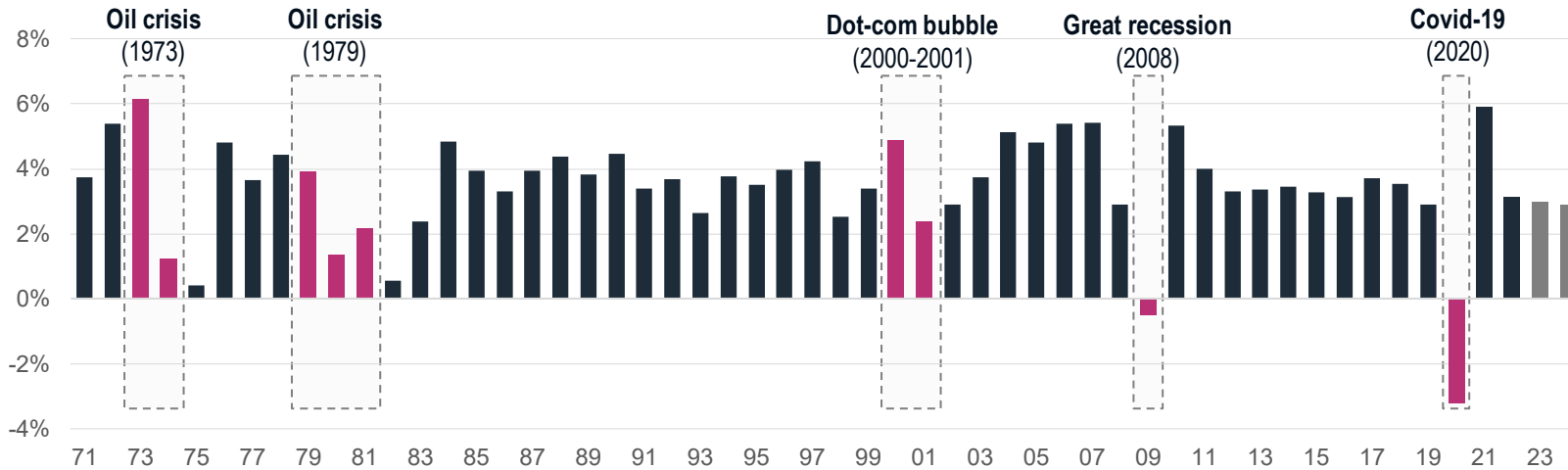
The third quarter of 2023 ended with the eighth consecutive decline in the Global composite PMI. This is an increasingly tangible evidence of a slowdown in the world economy. This negative signal is reinforced by an index level now close to the 50-point threshold that separates expansion from contraction (50.5 compared to 50.6 in August).

The main drag continues to come from the manufacturing sector. Indeed, in the face of borrowing costs and higher prices, consumers continue to reduce their spending.

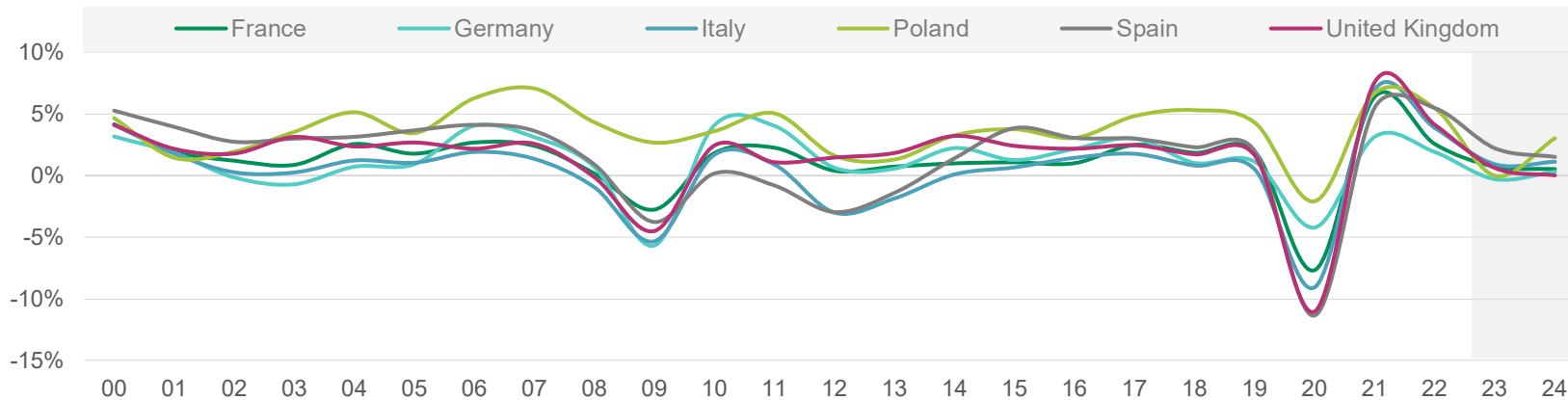
ECONOMIC OUTLOOK

WHAT OUTLOOK FOR THE MAIN ECONOMIES?

World GDP



GDP Growth in European countries



Sources: BNP Paribas Real Estate, OECD.

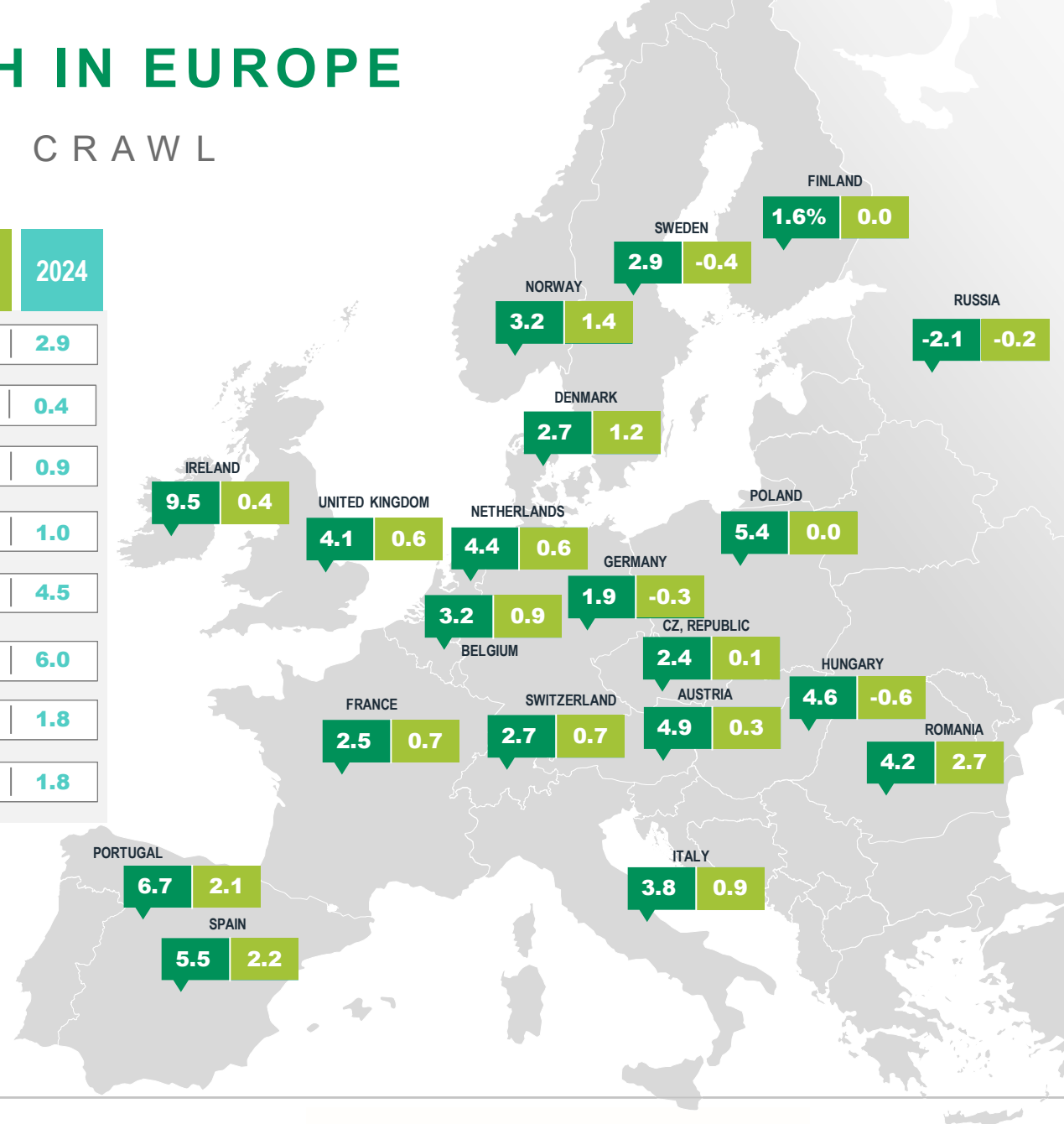
Economic resilience is fading

- Economic activity proved resilient in the first half of 2023, despite an aggressive tightening in monetary policy. Warm weather and diversification away from Russian energy supplies helped to bring down prices.
- Headwinds from monetary policy were mitigated by several (albeit fading) buffers including savings built up during the pandemic, labour hoarding and supportive fiscal policy. Principle growth has come from the service sector, tourism especially. This prevented Eurozone real GDP from contracting in the first quarter and helped growth to accelerate to 0.3% q/q in the second quarter.
- Economic growth was stronger in Ireland, France and Spain, and weaker in Germany and Italy.
- Looking ahead, the resilience in activity is likely to prove short-lived as the impact of these mitigating forces begins to fade. Europe cannot rely on external growth due to fading momentum in China and the US. Additionally service sector output is likely to witness reduced momentum.
- As a result, monetary policy is set to weigh more heavily on the economy in the coming quarters.

GDP GROWTH IN EUROPE

SLOWING TO A CRAWL

FORECAST (%):	2022	2023	2024
World	3.5	3.0	2.9
United States	1.9	2.2	0.4
Euro area	3.4	0.5	0.9
Japan	1.0	2.0	1.0
China	3.0	5.1	4.5
India	7.2	6.1	6.0
Russia	-2.1	-0.2	1.8
Brazil	2.9	3.1	1.8



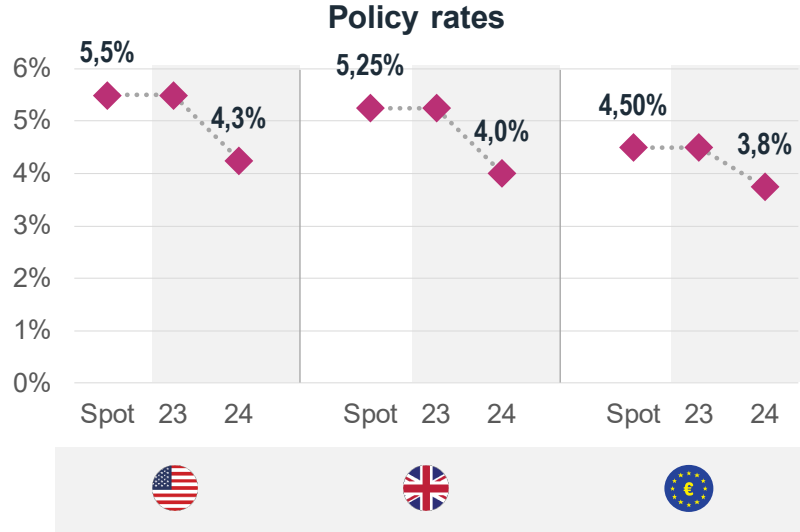
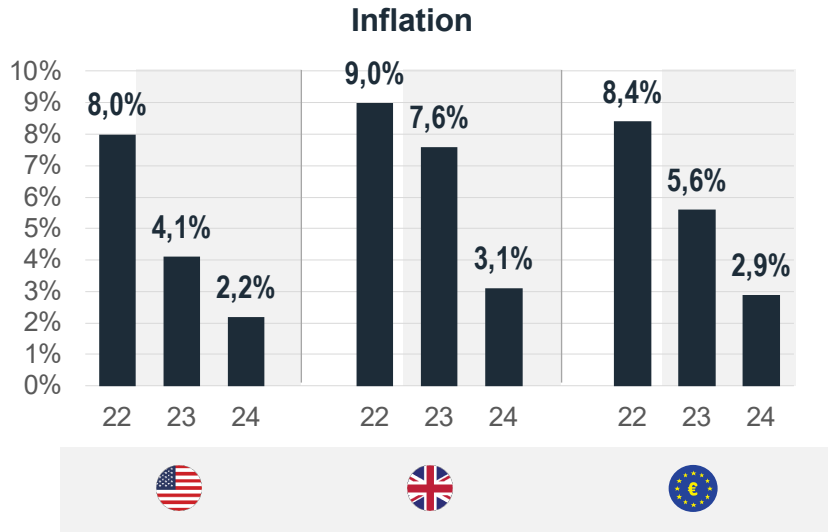
Growth is slowing globally

- According to our forecasts, eurozone activity is likely to stall in the second half of 2023, under the effects of a contraction in GDP in Germany (Q3 and Q4) and France (Q3 only) which should be offset by growth in Italy and, above all, Spain.
- The labour market should also lose momentum. However, the extent of this decline and an increase in the unemployment rate should be relatively limited given persistent recruitment difficulties. The unemployment rate remained at a record low of 6.4% in September in the Euro area.
- The US economy keeps growing, postponing the onset of a recession. While household consumption has so far proven resilient to the monetary tightening, it is unlikely to defy gravity forever. Contraction here may slow output in the US economy over 2024.
- After some hesitation, the Chinese authorities finally stepped up their stimulus measures over the summer. The recent slight upturn in economic growth is set to continue in Q4 2023.
- We do not expect a recession in the euro zone as a whole in 2023, but moderate growth at 0.5%, mainly due to a favorable carry-over effect in 2022. After a slightly positive first half-year, eurozone activity is likely to stall in the second half-year

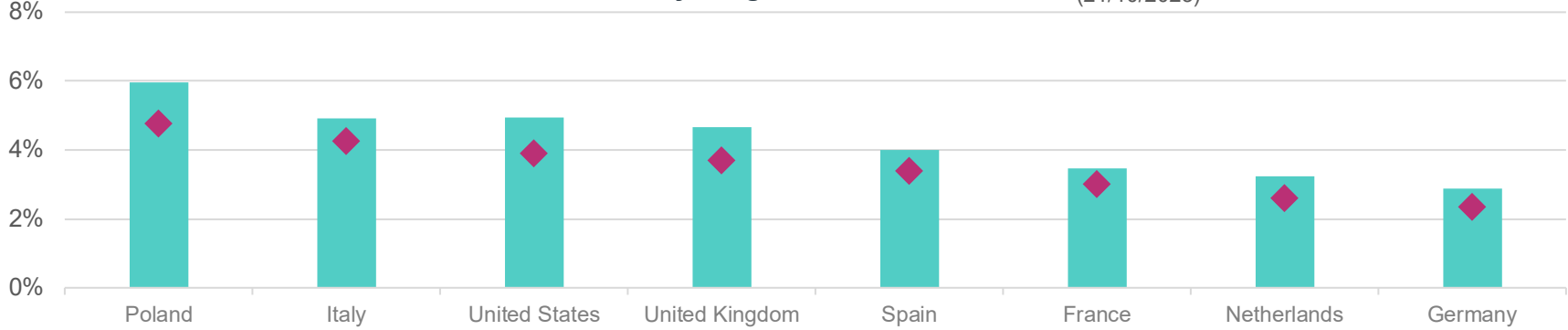
Source: BNP Paribas Real Estate Research.

FINANCIAL OUTLOOK

THE RATE HIKE CYCLE IS COMING TO AN END



10-year government bonds



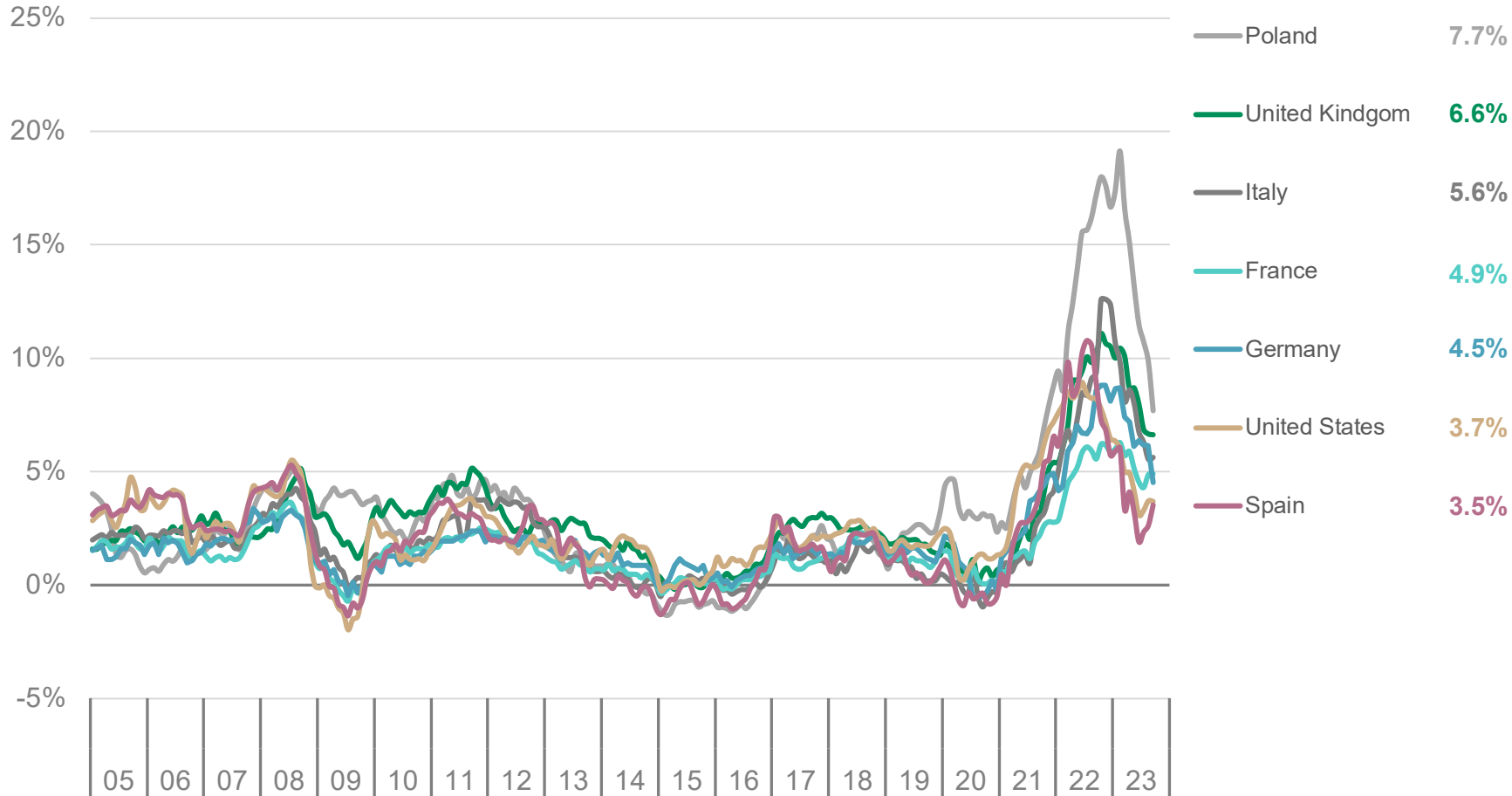
Sources: BNP Paribas Economic Research, OECD.

The end is near for monetary policy tightening

- The further weakening of economic activity and lower inflation expected by the end of 2023 should prompt the Fed, like the ECB and the BoE, to stop raising policy rates. However, a further final tightening round cannot be absolutely ruled out.
- Interest rate hikes are unlikely to be followed immediately by cuts. To continue the fight against inflation, monetary response is expected to hold policy rates at their current high level for an extended period, until mid-2024 according to our forecasts.
- The first rate cuts may accompany a sharper fall in inflation and offset its positive impact on real policy rates.
- Given the trajectory of inflation, monetary policy may remain restrictive until the end of 2024.
- As part of its monetary tightening, the ECB also announced a complete halt, starting in July 2023, of its reinvestments under the APP. European long-term rates remain on an uptrend, moving in line with US rates, but in a more muted way. They are expected to ease gradually as the fall in core inflation should become more visible, dissipating uncertainty over the continuation of monetary tightening.

INFLATION IN EUROPE

DISINFLATION SLOWED BY CHANGES IN DRIVERS



Sources: Macrobond.

Disinflation is proving a slow process

- The peak in inflation was reached in mid-2022 but disinflation in the core measure remains gradual. Headline inflation should approach the 2% target in 2024.
- However, the slow pace of core prices disinflation argues in favor of keeping monetary policy in restrictive territory, even if headline inflation fades more quickly than expected. This may limit the scope for economic rebound in 2024.
- Eurozone annual inflation reached 4.3% in September. Prices rose at a slower pace than in August (5.2%).
- Core inflation decreased to 4.5% in September, from 5.3% last month.
- An escalating Middle East conflict could create a spike in inflation. Indeed, credit rating agency S&P warned that the global economy risks a renewed inflation shock if the conflict were to further deteriorate. So far, the market reaction remains limited with a small increase of oil prices.

EUROPE CRE 360

REAL ESTATE PERSPECTIVES



EUROPE CRE 360

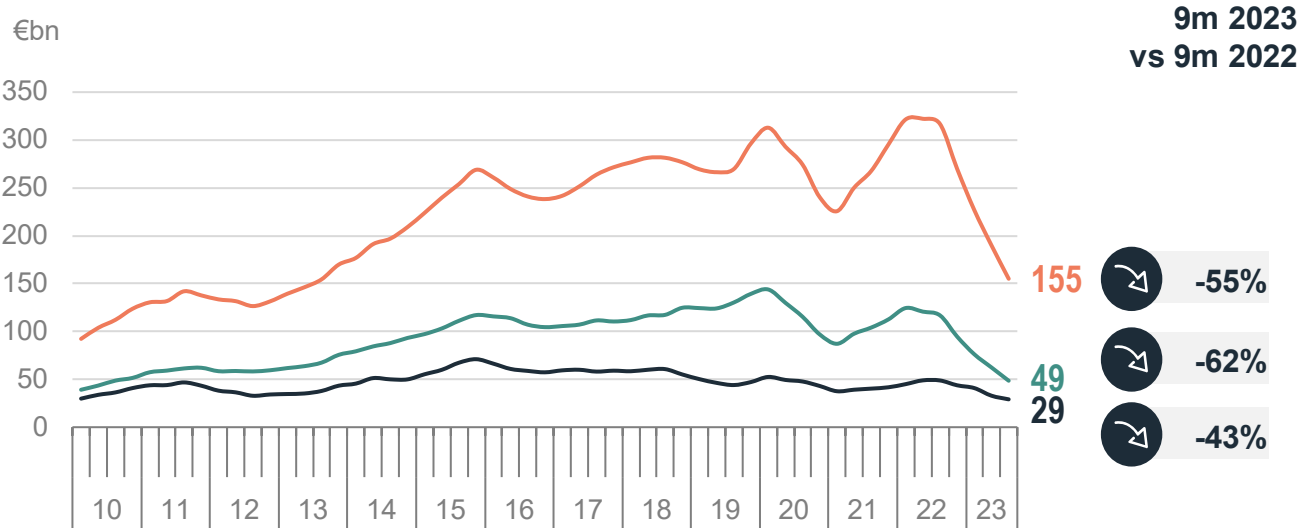
REAL ESTATE PERSPECTIVES

COMMERCIAL REAL ESTATE
INVESTMENT MARKETS



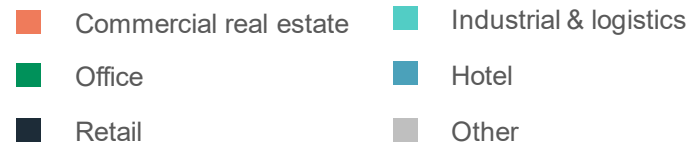
INVESTMENT IN COMMERCIAL REAL ESTATE IN EUROPE

BREAKDOWN OF INVESTMENT BY ASSET CLASS



Investment scales back as buyers and sellers assess pricing

- Over the 12 months ending with Q3 2023, investment reached €155m, far below Q1 2021's low point and back to 2013 levels. This compares with the high in investment of €322bn reached in Q2 2022. Overall, between Q3 2022 and Q3 2023, investment decreased by 55%.
- The basis for subdued activity remains the unsettled macroeconomic backdrop. The aftershocks from the Covid pandemic and then the Ukraine war triggered the economic turmoil that led to the sharpest fall back in market activity in a decade.
- The rapid acceleration in financing costs from mid-2022, destabilized pricing in the market resulting in investment plummeting by Q4 as buyers and sellers pulled back. All asset classes experienced a strong reduction. Logistics (-58%) was the most affected as prices were already expensive before problems arose. Offices (-62%) suffered as well as complicated pricing adds difficulties to a sector where structural change seems to be underway. Hotels (-26%) and retail (-43%) incurred the least declines.



Office

Retail

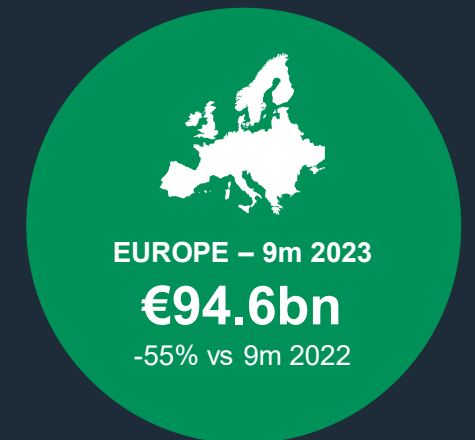
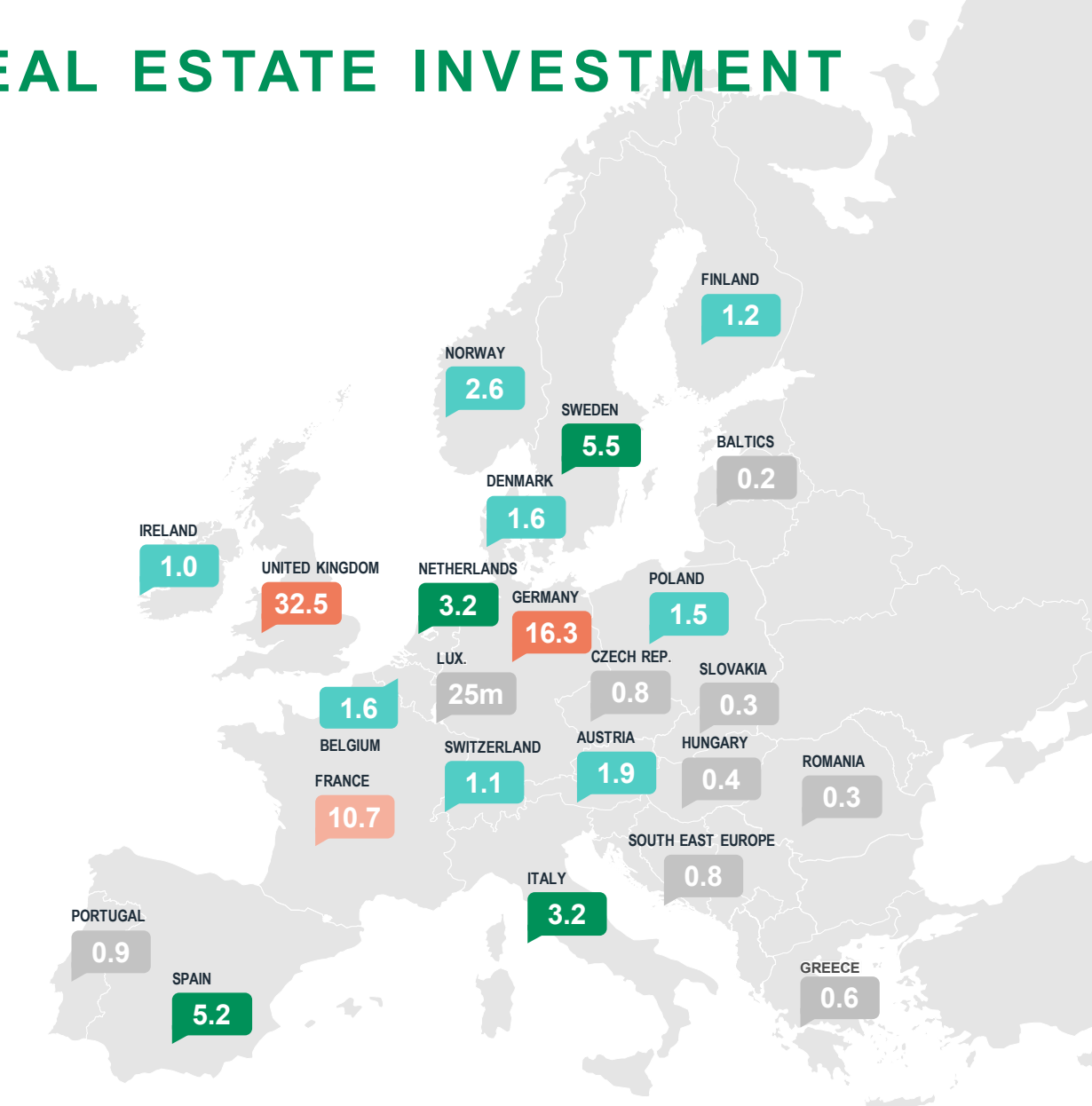
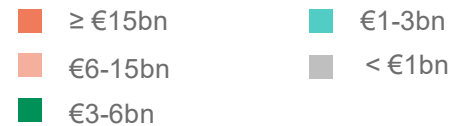
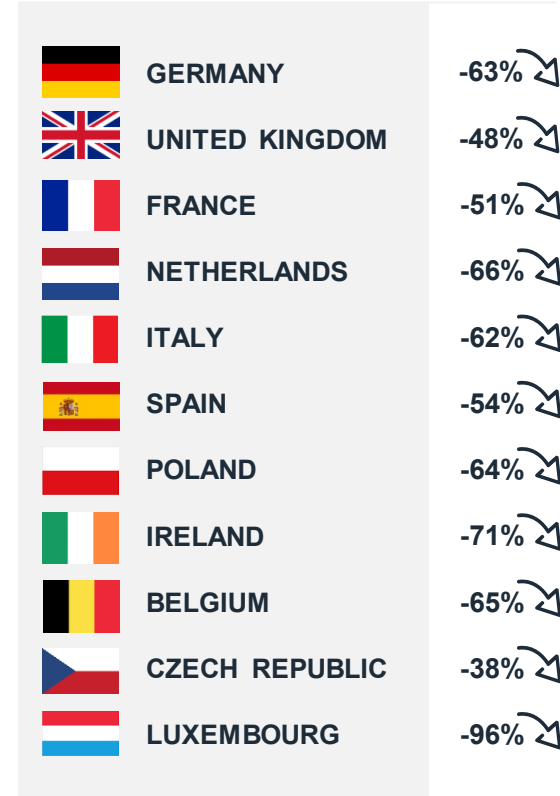
Hotel

Other

This excludes residential investment.

COMMERCIAL REAL ESTATE INVESTMENT

9m 2023 vs 9m 2022



- €94.6bn were invested in Europe over the first three quarters of 2023, which represents a 55% decrease vs Q3 2022.
- Most countries experienced a strong decline: Germany (-63%), the Netherlands (-66%), Italy (-62%), Poland (-64%), Ireland (-71%), Belgium (-65%) or Luxembourg (-96%) while declines in the United Kingdom (-48%), and in France (-51%) were of lower magnitude.

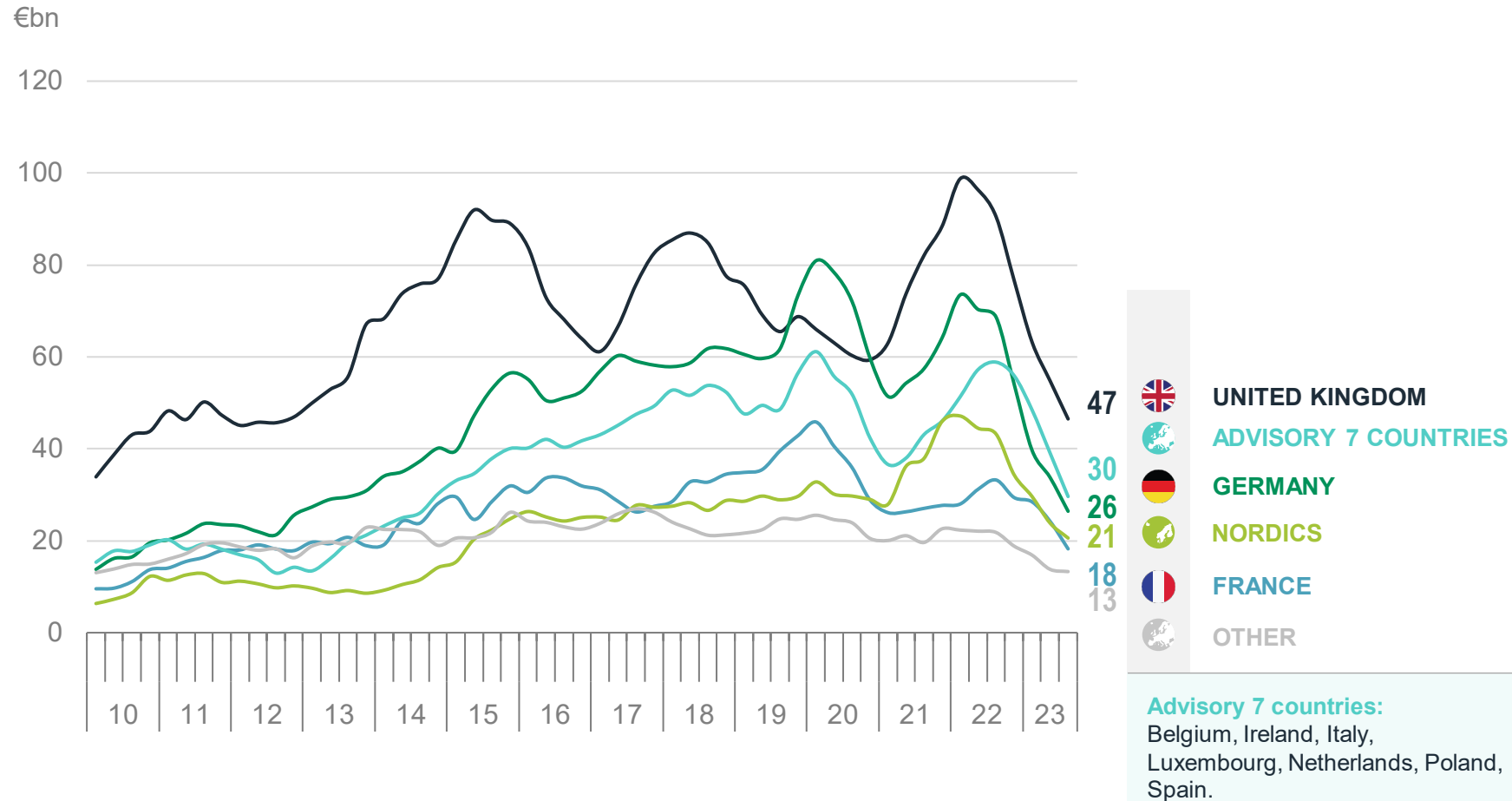
(excludes residential investment)

Source : BNP Paribas Real Estate

COMMERCIAL REAL ESTATE INVESTMENT VOLUME

INVESTMENT REMAINS HIGH EVEN WITH BUYER CAUTION

CRE Investment volume (€ billion)



Source: BNP Paribas Real Estate Research.

- Early 2022, markets were posting investment volumes similar to pre-pandemic levels.
- From mid 2022, high inflation and subsequent acceleration in monetary policy tightening, resulted in rapid bond yield expansion. As this situation has not yet stabilized, extensive pricing uncertainty in real estate now exists. It is also creating difficulty in lending which is now more expensive.
- The outcome is that a more selective approach to property from buyers emerged at the end of 2022. All countries are now trending down in absolute investment volumes.

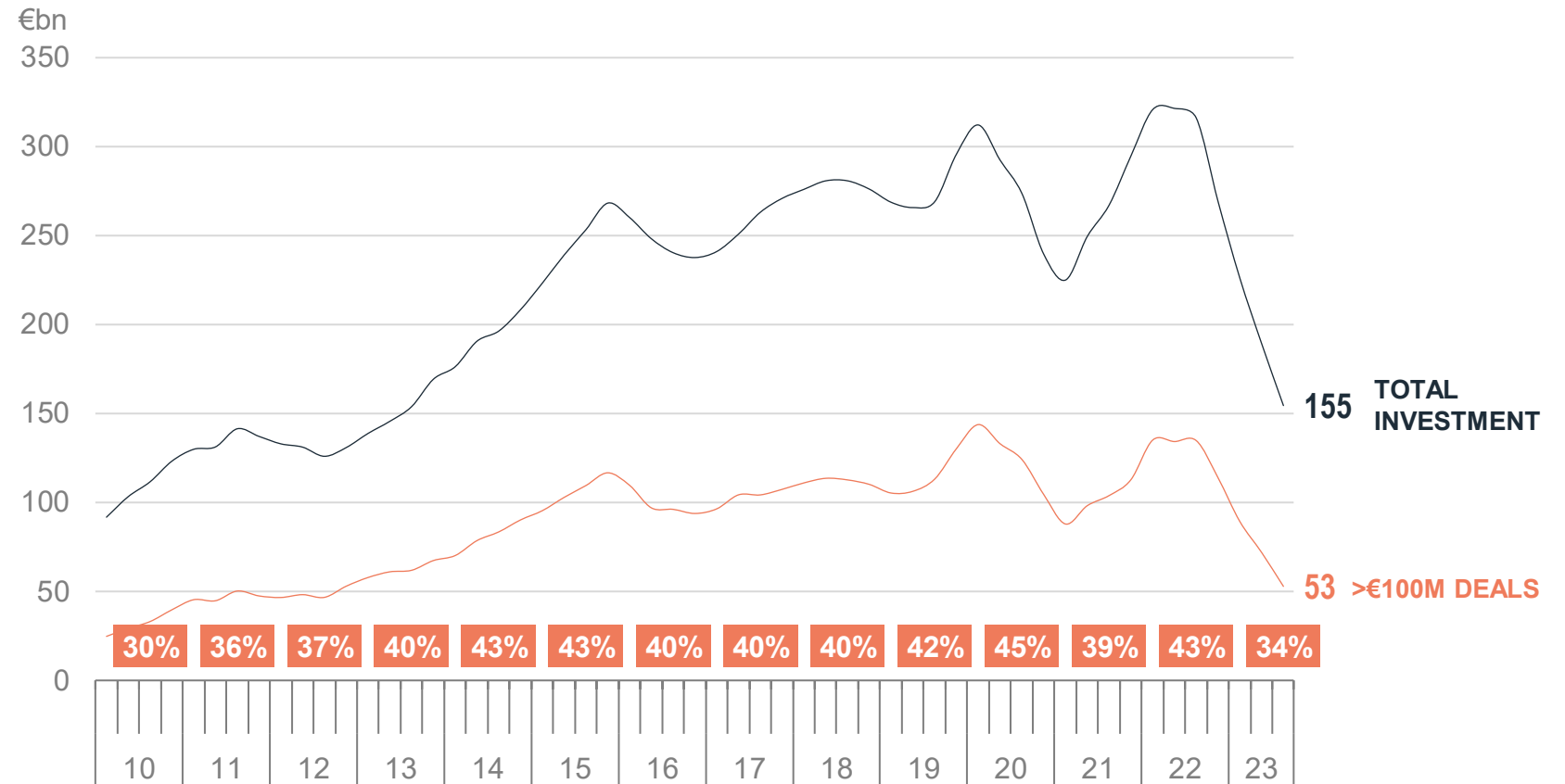
INVESTMENT BY SIZE BAND

Mega deals also scaling back

- The peak in mega deals (>€100m) occurred in Q1 2020 with a record figure of €144bn (on a rolling-year basis). That is 49% of the total investment, an unusually big share for a Q1 and may not reappear for the time being.
- The pandemic induced low point of €88bn occurred in Q1 2021. This was down 39% over Q1 2020 figure. 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 but to a lesser extent than other size bands of deals. The delayed response to interest rates may be a timing issue as these sort of deals take a long time to complete. Consequently the share of mega deals increased (46%). But it then decreased strongly and they now represent only 34% of investment with €53bn spent over the last 12 months, which is a very low level when put in perspective with the historic figures.

Commercial Real Estate Investment in Europe

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



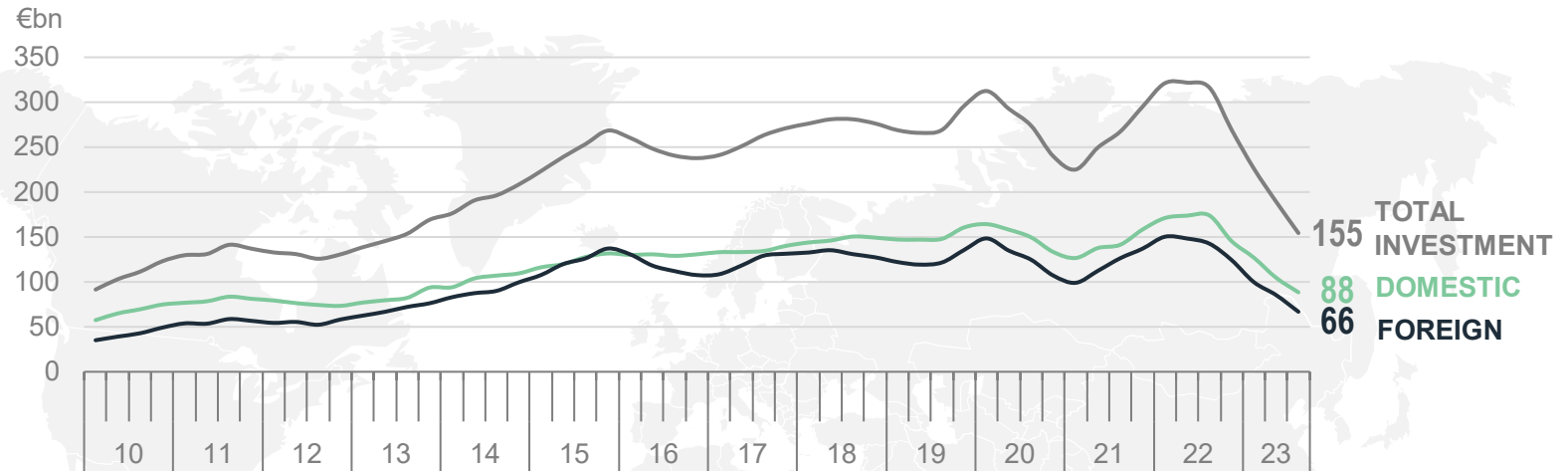
Source: BNP Paribas Real Estate.

CROSS-BORDER INVESTMENT MARKET

- Over 2022, foreign investment was very high during the first three quarters, peaking at €150bn (on a rolling-year basis) in Q1. It then declined sharply over Q4 reaching €67bn in Q3 2023 (-53%).
- Within foreign investment, **European cross-border investment declined in line with the overall reduction in activity (-53%)**. It represents 35% 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 markets (-61%) but are still very present with 31% of foreign investment.
- Investments from Asia Pacific were also very important over the last 12 months. **With more than €11bn invested, (-39%)**, the Asian investor share increased significantly (17%).
- Middle East investors have more interest in the European markets. **They represented 6% of the last 12 months foreign investment with €3.9bn invested (+51%)**.

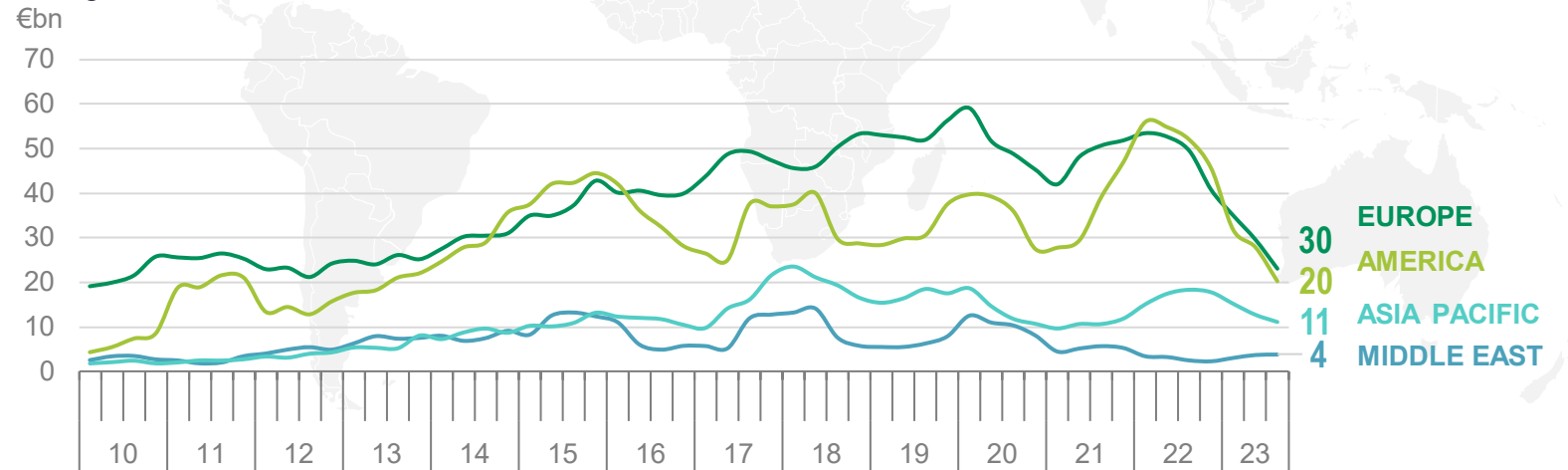
Commercial Real Estate Investment in Europe

Total, foreign and domestic investment



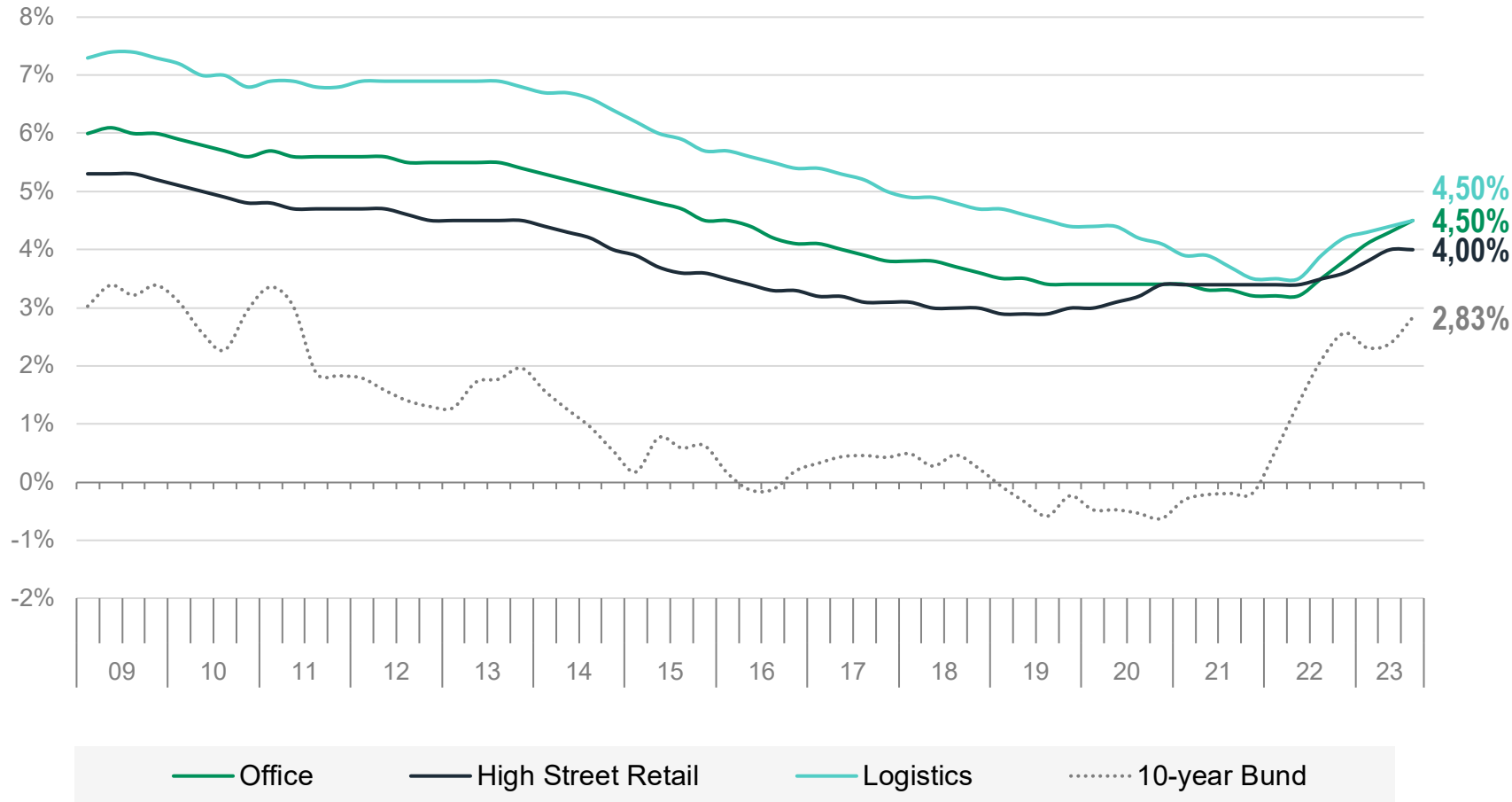
Commercial Real Estate Investment in Europe

Foreign investment detail



AVERAGE PRIME YIELDS IN EUROPE

BASED ON 16 MARKETS



- Prime yield compression, came to an end in 2022 closing off ten years of decline.
- The European market has now experienced almost a full year of yield decompression, affecting all sectors.
- The principal factor behind yield expansion is the change in the macro-financial environment. Persistent inflation is prompting more robust response from central banks. It is accelerating normalization of monetary policy.
- Bond yields are subsequently growing very rapidly, reducing the yield gap with real estate and prompting rethinking about the prices being paid for assets.

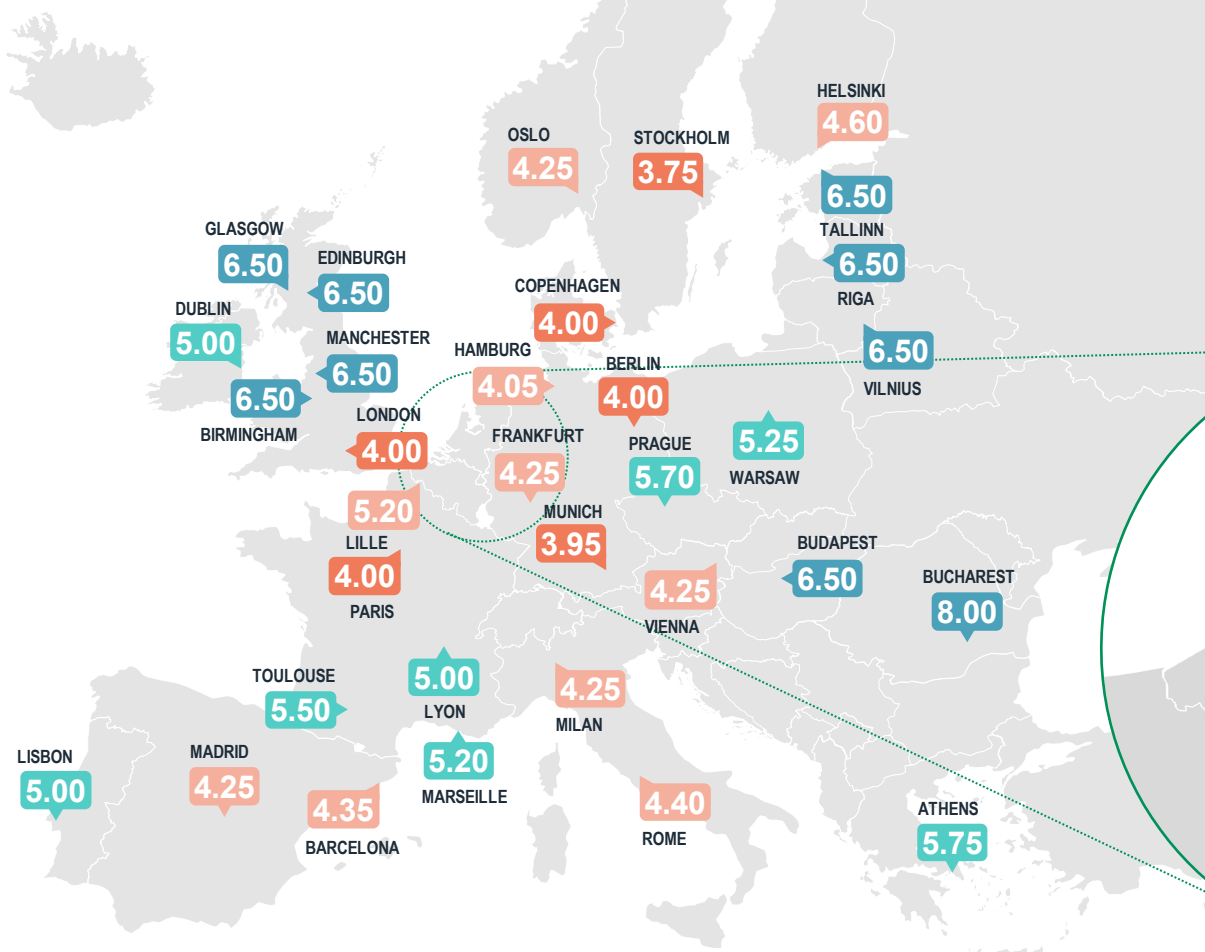
Based on 16 cities: Amsterdam, Berlin, Brussels, London, Paris, Dublin, Frankfurt, Hamburg, Lisbon, Luxembourg, Madrid, Milan, Munich, Prague, Vienna and Warsaw.

Source: BNP Paribas Real Estate Research.

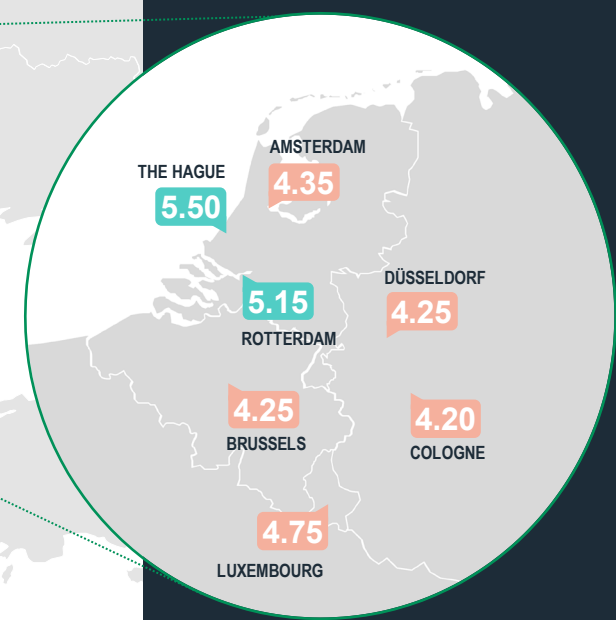
PRIME OFFICE YIELDS

Q3 2023 vs Q3 2022

	BERLIN	+115bp ↗
	PARIS	+100bp ↗
	AMSTERDAM	+95bp ↗
	MADRID	+75bp ↗
	MILAN	+100bp ↗
	LONDON	+75bp ↗
	LUXEMBOURG	+100bp ↗
	BRUSSELS	+65bp ↗
	DUBLIN	+90bp ↗
	PRAGUE	+120bp ↗
	WARSAW	+75bp ↗



- Office yield compression effectively ceased in Q1 2022. By Q2 and Q3 2022 the first signs of yield expansion were occurring, becoming strong and universal by Q4. Expansion has rolled forward into Q3 2023.
- The strongest decompression in the last 12 months were observed in the German markets (+115 bp for Berlin), Paris, Milan, and Luxembourg (+100 bp).



Source : BNP Paribas Real Estate

EUROPE CRE 360

REAL ESTATE PERSPECTIVES

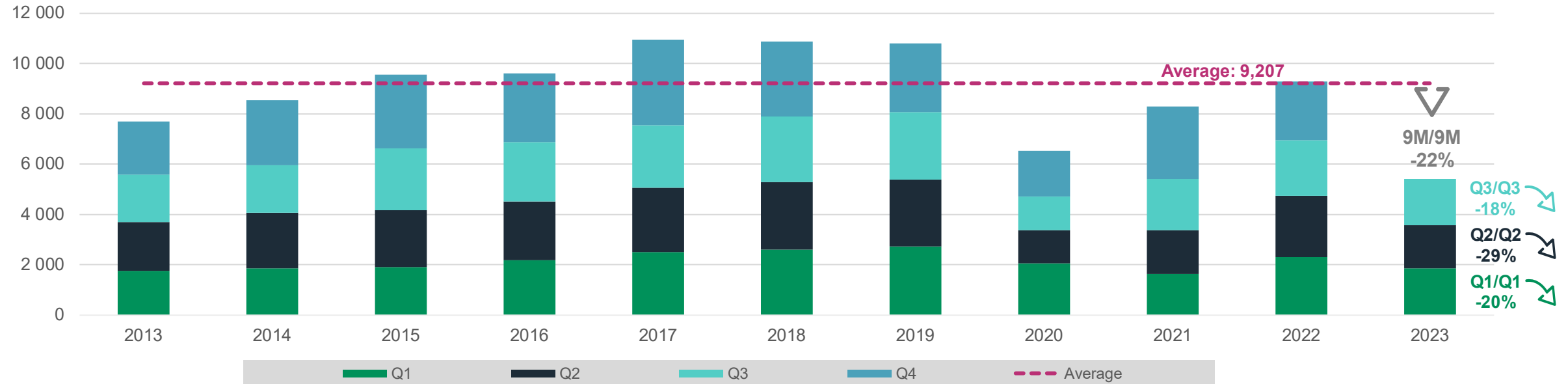
OFFICE
MARKETS



OFFICE TAKE-UP IN EUROPE – 9M 2023

17 MAIN EUROPEAN OFFICE MARKETS *

thousand sqm



Letting activity remained subdued in Q3 2023

- 2023 letting activity is struggling to regain the letting volumes seen in 2022 when take-up returned to its long-term average.
- Consequently, volumes after 9 months are below their 10-year average (-17%).
- Around 5.41m sqm was transacted since January 2023 in the 17 main European markets, down by 22% vs 2022.
- Most European markets experienced significant declines in volumes including Barcelona (-39%), Central London (-27%) and the six main German markets (-33%).
- Rome (+60%), Madrid (+11%) and Brussels (+5%) stand in contrast with some acceleration.

Source: BNP Paribas Real Estate Research.

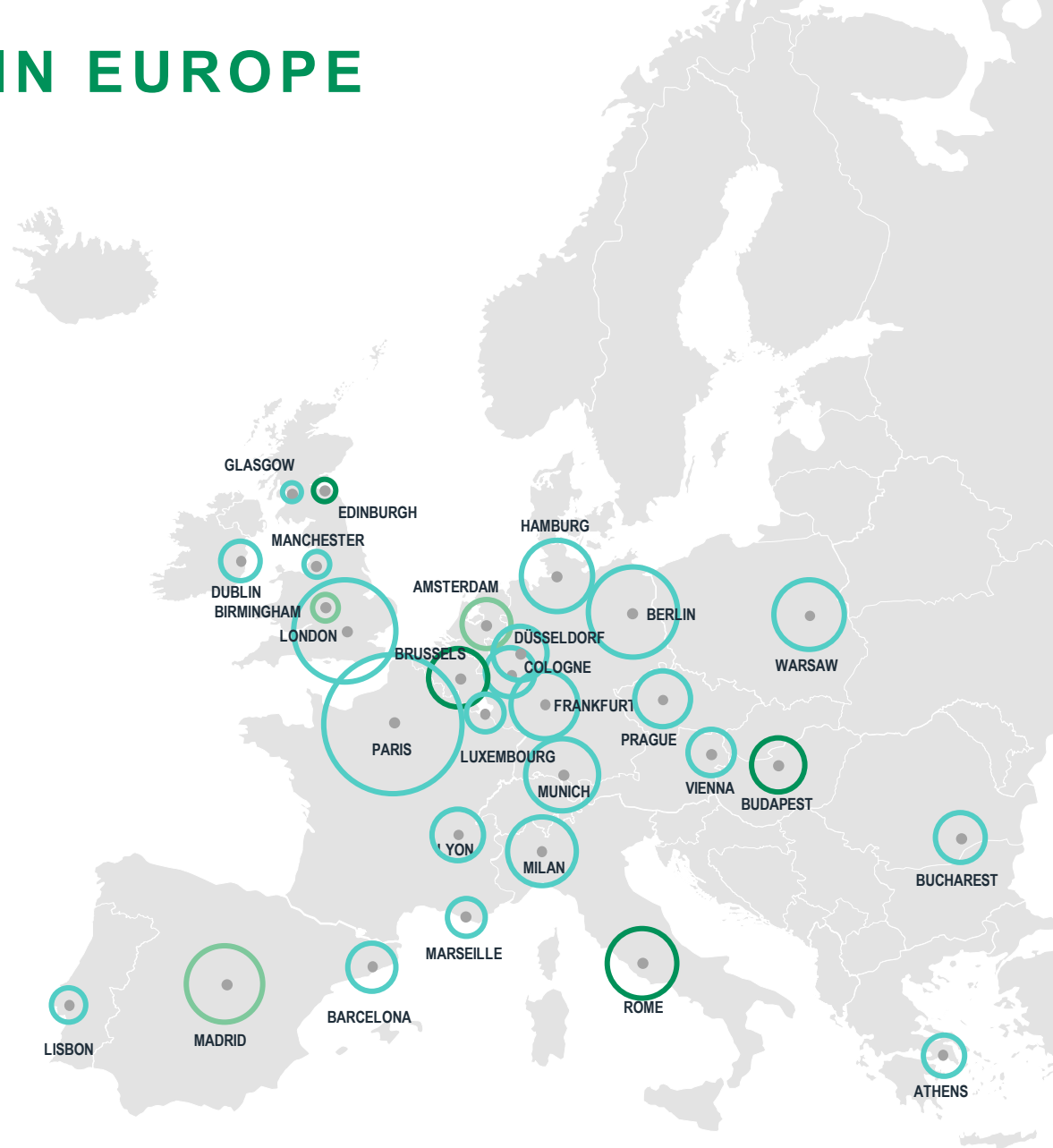
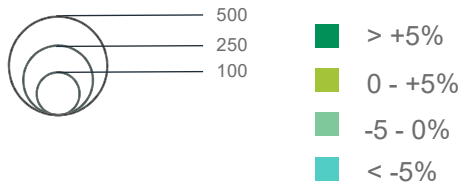
* Berlin, Cologne, Düsseldorf, Frankfurt, Hamburg, Munich, Central Paris, Central London, Brussels, Barcelona, Madrid, Dublin, Milan, Rome, Luxembourg, Amsterdam, Warsaw

OFFICE TAKE-UP IN EUROPE

9M 2023 vs 9M 2022

	CENTRAL LONDON	-27%
	BERLIN	-32%
	CENTRAL PARIS	-14%
	AMSTERDAM	-4%
	MADRID	+11%
	MILAN	-18%
	WARSAW	-18%
	BRUSSELS	+5%
	DUBLIN	-44%
	LUXEMBOURG	-47%

Deals in thousand sqm



Take-up is contracting

- Take-up after 9 months in 2023 declined by 21% compared to last year.
- 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 9-month volumes surpassing their long-term average.

Source: BNP Paribas Real Estate Research.

EUROPE CRE 360

REAL ESTATE PERSPECTIVES

LOGISTICS
MARKETS



LOGISTICS WAREHOUSING MARKET IN EUROPE

LOGISTICS IN A NUTSHELL

LOW MARKET MOMENTUM

Take-up decreased significantly in 2023 in the leading European countries. The manufacturing sector feels the effect of slower demand and new orders weakening. However, market fundamentals remain healthy with vacancy rates below 4% in most countries and the lack of new developments still contribute to rental growth in prime sectors.

SLOWDOWN IN 2023 FOR LOGISTICS INVESTMENT

2023 experienced significant slowdown in investment. It is the result of rapid adjustment in the macro financial environment with bond yield expansion and rising interest rates. Yield decompression is now slowing down in most European countries. This could unlock investment activity in the next quarters.

ECONOMIC RESILIENCE IS FADING

After a slightly positive first half-year, eurozone activity is likely to stall in the second half-year.

The labour market should also lose momentum. However, the extent of this decline and an increase in the unemployment rate should be relatively limited given persistent recruitment difficulties.

THE RATE HIKE CYCLE IS COMING TO AN END

The further weakening of economic activity and lower inflation that we expect to see by the end of this year should prompt the Fed, like the ECB and the BoE, to stop raising their policy rates. However, a further tightening cannot be ruled out.

ONLINE PENETRATION FOR RETAIL SALES IS STILL LOW

Online accounts for 11% of total retail sales in Europe. There are great differences between countries though, with northern European countries tending to have greater share. Changing shopping habits is a structural demand driver for warehousing space. As online shopping grows, so does reverse logistics, increasing the space needed.

THE CHOICE OF LOCATION REMAINS PARAMOUNT

As retailers develop omni-channel solutions, the choice of location for last mile delivery along with regional delivery network is of fundamental importance. The main challenge faced with both is land availability.

LOGISTICS OCCUPIER MARKET IN EUROPE

TAKE-UP IN 6 COUNTRIES: -36% (9M 2023 VS 9M 2022)

Below its 5-year average, the market is slowing down

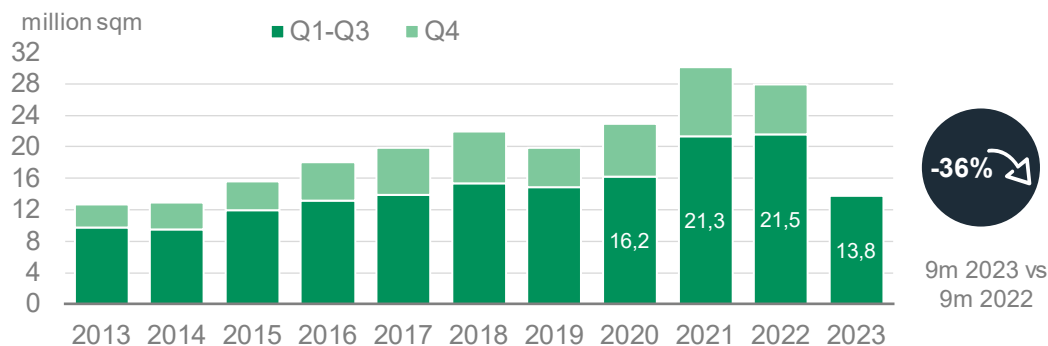
- Over the 9 months of 2023, the market decreased by 36% in the leading European markets. This is compared with the exceptional volumes recorded in 2021 and 2022.
- Sufficient economic growth existed in 2022 to ensure good performance in occupier markets. In 2023, the manufacturing sector felt the effect of slower demand and new orders weakening.
- Structural changes in consumer spending patterns continue to raise e-commerce penetration rates.

It means the need for logistics space remains ongoing even though slower economic growth is clearly impacting most European markets.

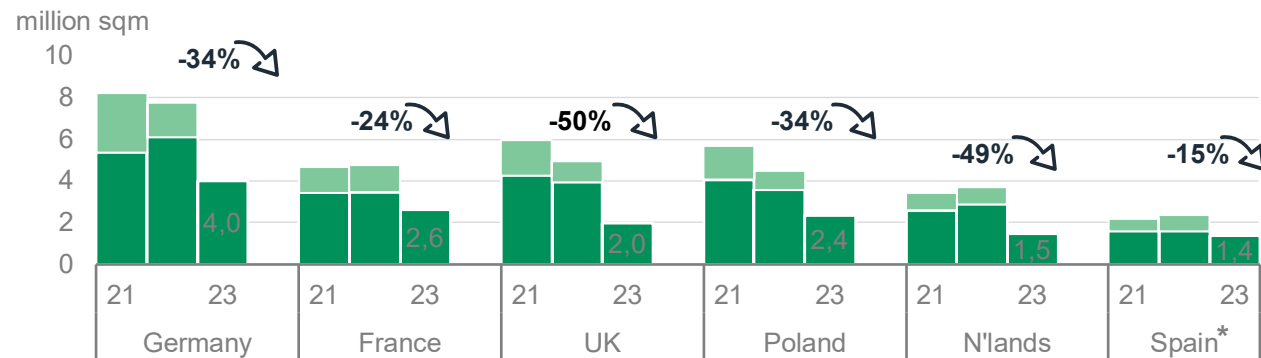
- Supply drying up over the past three years while demand stayed sharp means there is major imbalance in some markets.
- Construction times and availability of land dictate the market balance in areas where the vacancy rate remains well below the European average of 5%.
- New developments are still insufficient to meet demand, yet few speculative developments are launched.

Country profiles over the 9 months of 2023

- In **Germany** demand is relatively subdued compared to the record years 2022 and 2023. A massive increase in construction costs in 2022 had led to significant rental growth. It continued in 2023 as ESG requirements and the scarcity of new products are still putting pressure on rents.
- In the **UK**, like most European countries, take-up decreased significantly after the exceptional volumes recorded last year. The Q3 take-up does, however, represent a 15% quarterly increase and could suggest that the market has already bottomed out.
- In **Poland**, after a slow start at the beginning of the year, take-up increased significantly in Q3 2023. Prime rents rose slightly by 2% during Q3 to €51.6/sqm/yr in Warsaw II and €50.4 in Poznan.
- In **France**, the market has been slowing down reflecting the economic backdrop and rental growth. Demand for XXL warehouses and build-to-suit solutions dropped significantly. Supply is scarce in most markets leaving the vacancy rate at 3.4%. Competition for high quality buildings stays sharp, implying further prospects for rental increases in prime locations.
- Following two years of buoyant activity, the market is trending downward reflecting lower economic activity and the lack of good quality supply. Low availability is still putting pressure upward on rents.
- In **Spain**, the market maintained a good volume of transactions. After strong rental growth in 2022, the main Spanish markets have recorded stabilization in prime rental values as supply has loosened since the beginning of the year.



Take-up – 6 countries (France, Germany, Netherlands, Poland, Spain, UK)



*Total of Madrid + Barcelona + Valencia

LOGISTICS PRIME RENTS

STRONG RENTAL GROWTH IN 2023

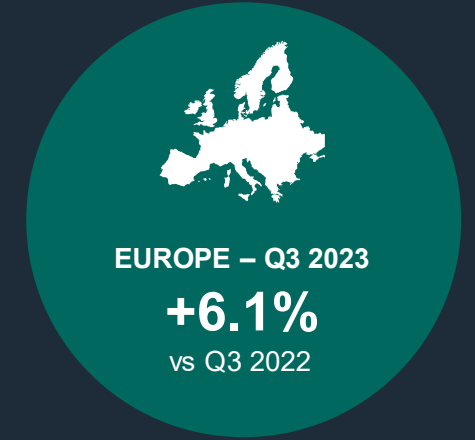
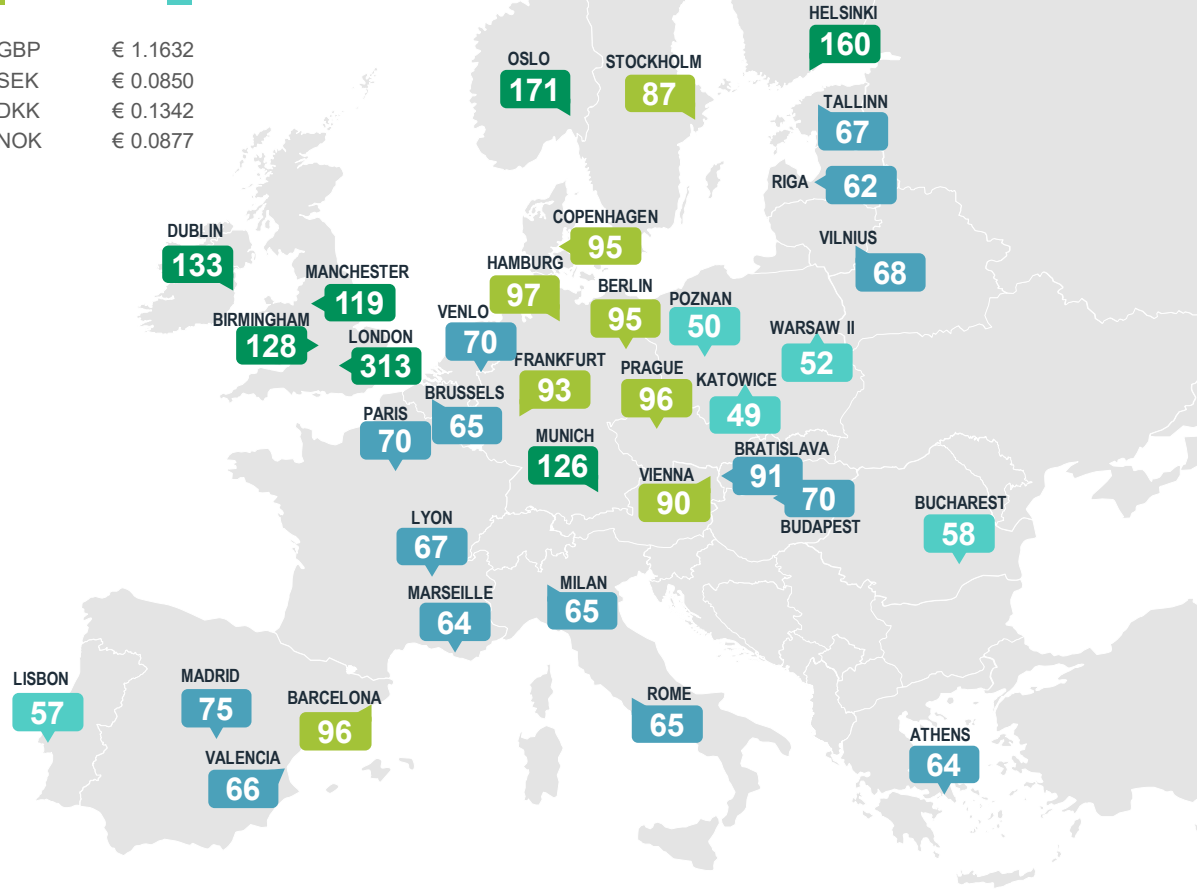
Q3 2023 vs Q3 2022

	FRANKFURT	+6%	↗
	BERLIN	+5%	↗
	BIRMINGHAM	+14%	↗
	LONDON	=	→
	PARIS	+11%	↗
	VENLO	+12%	↗
	MADRID	=	→
	BARCELONA	+10%	↗
	WARSAW II	+10%	↗
	PRAGUE	=	→
	MILAN	+8%	↗
	STOCKHOLM	+7%	↗
	OSLO	+15%	↗

Rents in €/sqm/yr

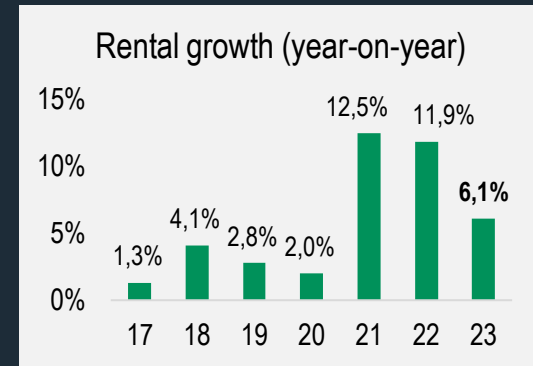
	≥ €100		€60-80
	€80-100		< €60

1 GBP	€ 1.1632
1 SEK	€ 0.0850
1 DKK	€ 0.1342
1 NOK	€ 0.0877



Prime rents are weighted by GDP levels

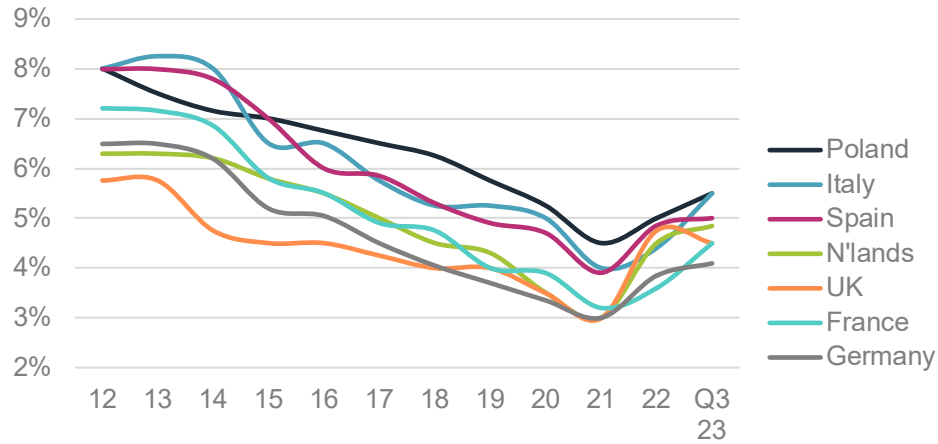
48 markets, 21 countries



Source: BNP Paribas Real Estate Research.

INDUSTRIAL & LOGISTICS INVESTMENT IN EUROPE

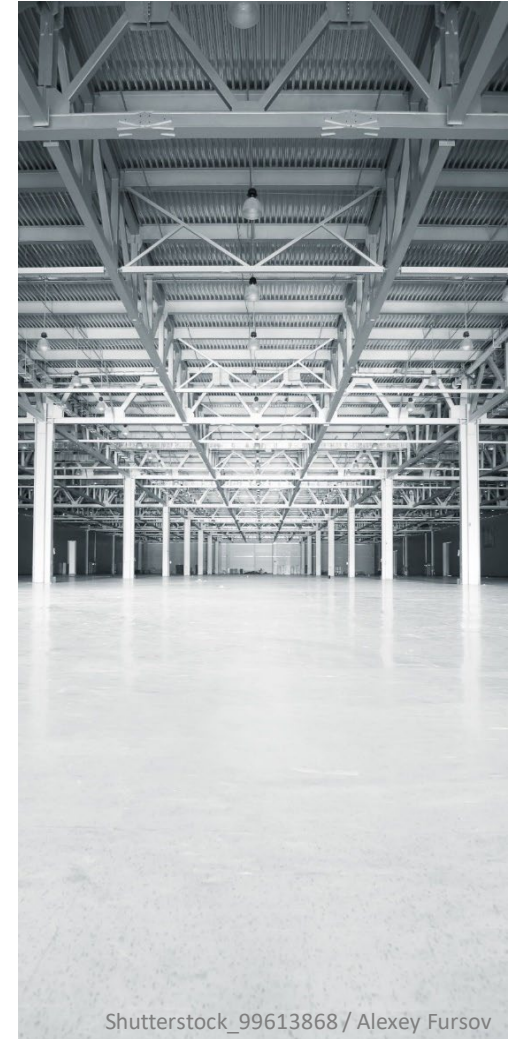
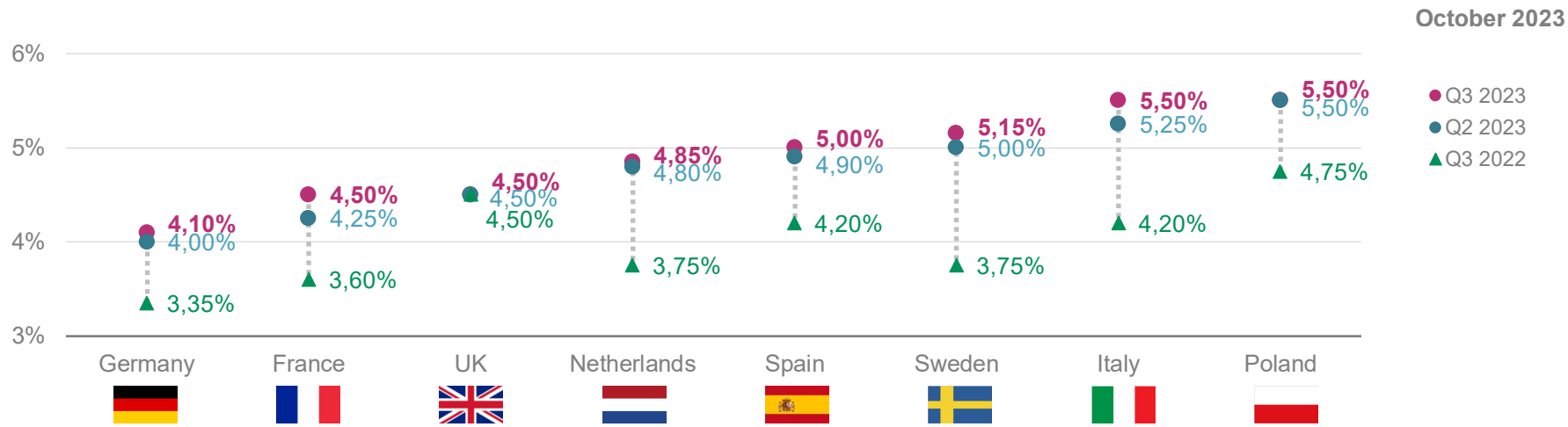
DECOMPRESSION IN Q3 2023 (+15 BPS DURING THE LAST QUARTER)



Logistics prime yields are still decompressing

- Prime yields rose by 45 bps in the past 9 months in Europe (+15 bps over the past quarter).
- Inflationary pressure and subsequent rising long-term government bond yields have led to logistics prime yield expansion.
- Stabilisation of logistics prime yields is expected throughout Europe in the next quarters. This will reflect the changes in interest rate policy as terminal rates are reached in 2024.

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



EUROPE CRE 360

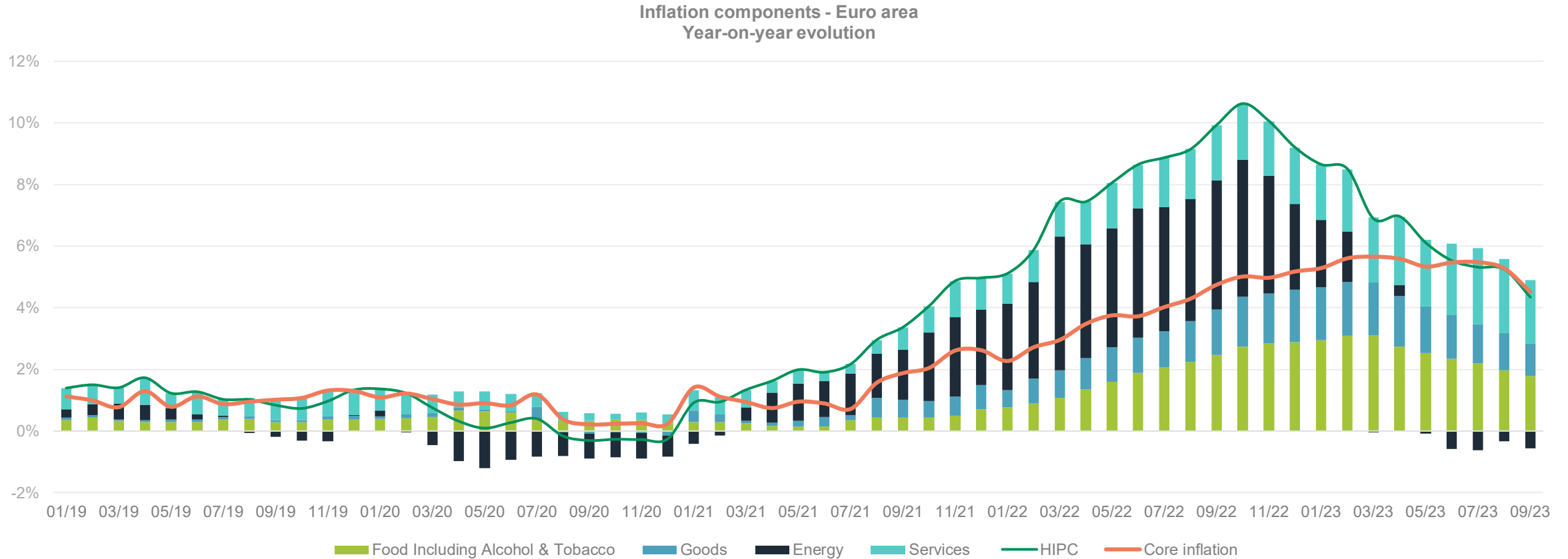
REAL ESTATE PERSPECTIVES

RETAIL
MARKETS



EVOLUTION OF INFLATION COMPONENTS

CORE INFLATION IS FINALLY SLOWING



- The CPI growth for the Euro area stood at +4.3% y-o-y in September, down from +10.6% a year ago.
- Despite the rise of fuel prices over summer, the influence of energy on headline inflation is reduced because of the base effect.
- Food prices have declined for 7 consecutive months, which is of particular importance to European consumers
- Although the headline rate remains above the ECB's 2% target, with core inflation now decreasing there is reduced pressure on central banks to raise interest rates.

RETAIL INVESTMENT IN EUROPE BY ASSET CLASS – Q3 2023

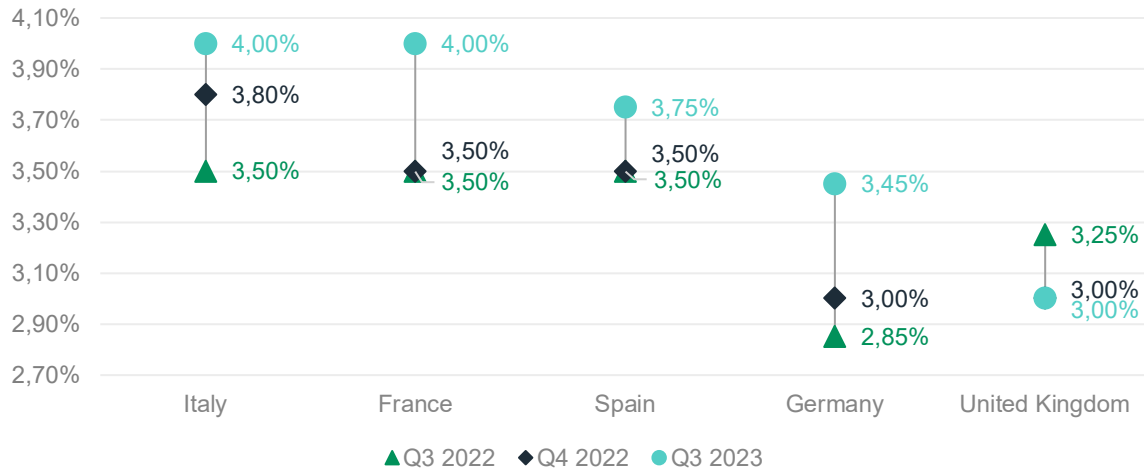
RETAIL WAREHOUSING ACCOUNT FOR HALF OF TOTAL RETAIL INVESTMENT VOLUME



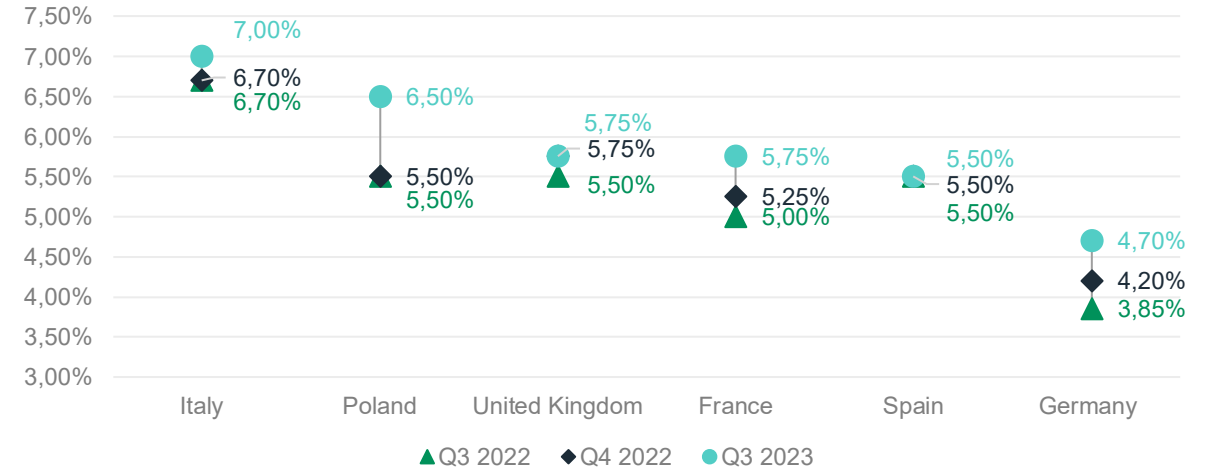
LESS RETAIL PRIME YIELD EXPANSION

THE SECTOR ALREADY WENT THROUGH CRASH TEST BEFORE COVID

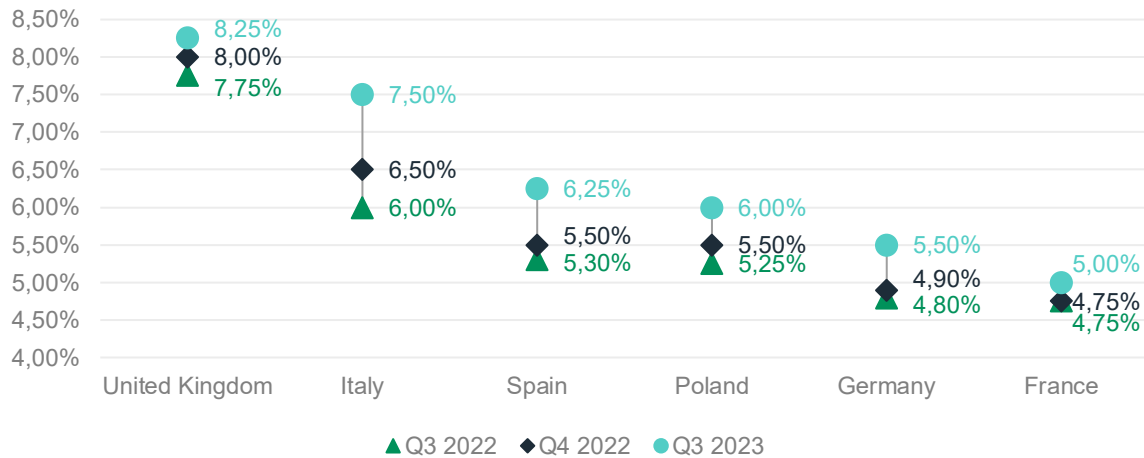
High street prime yield



Retail warehousing prime yield



Shopping centres prime yield




















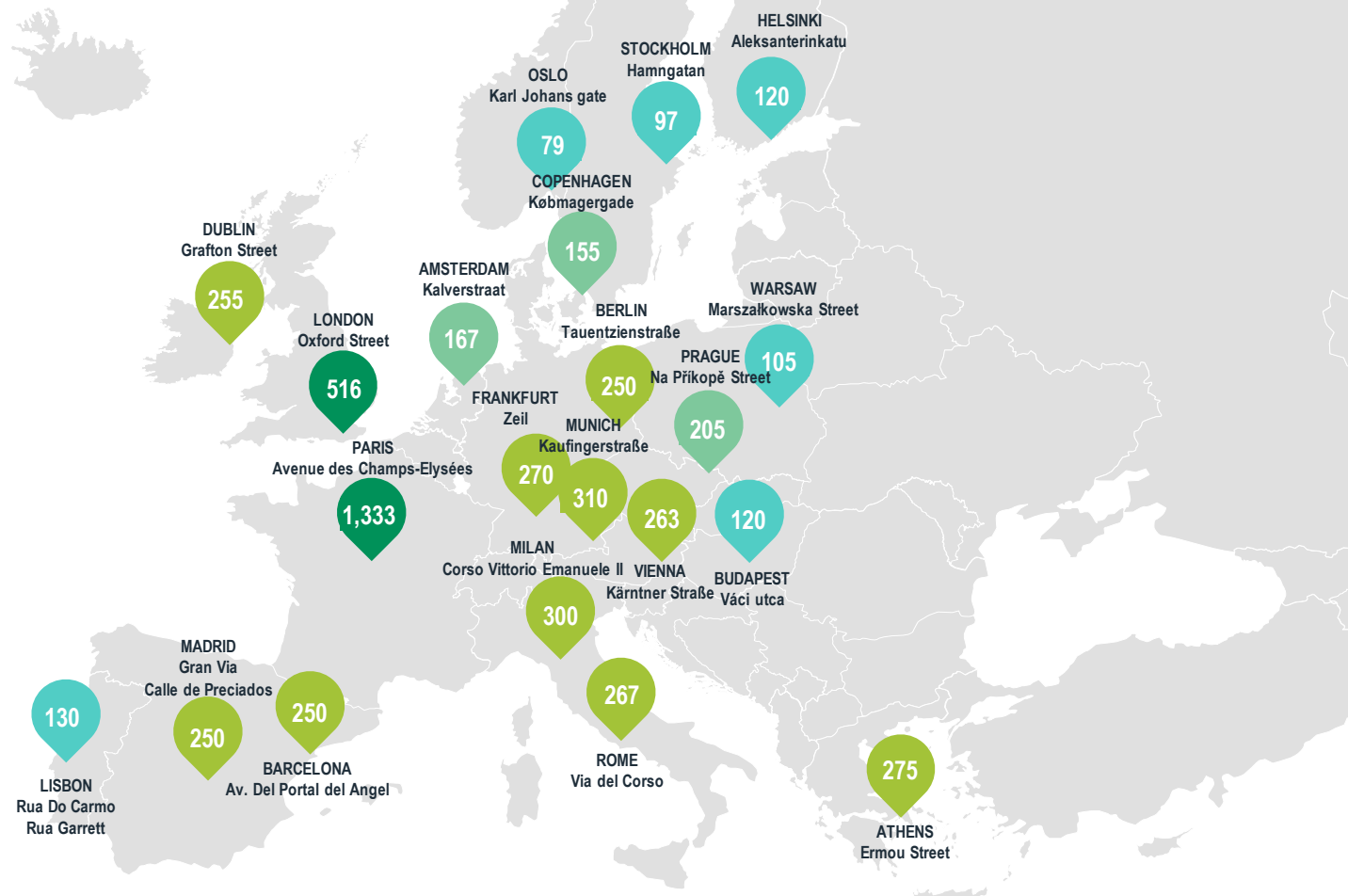
*The prime high street yield refers exclusively to the luxury sector

HIGH STREET PRIME RENTS IN EUROPE

MASS MARKET STREETS - Q2 2023

Q2 2023 vs Q2 2022

	CENTRAL PARIS	+7%
	CENTRAL LONDON	-17%
	MUNICH	=
	MILAN	+7%
	ATHENS	+3%
	ROME	+7%
	VIENNA	+5%
	BARCELONA	-11%
	MADRID	-11%
	PRAGUE	=
	AMSTERDAM	-9%
	COPENHAGEN	-1%
	LISBON	+2%
	BUDAPEST	=
	HELSINKI	-25%
	WARSAW	+5%
	STOCKHOLM	+2%



Source: BNP Paribas Real Estate

EUROPE CRE 360

REAL ESTATE PERSPECTIVES

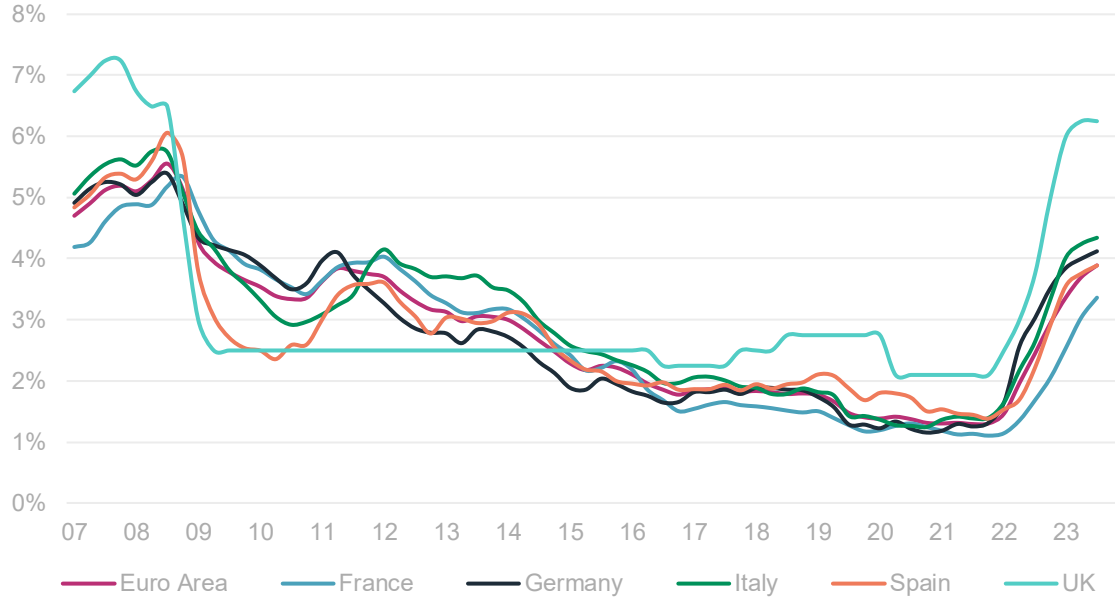
RESIDENTIAL
MARKETS



FINANCING MARKET

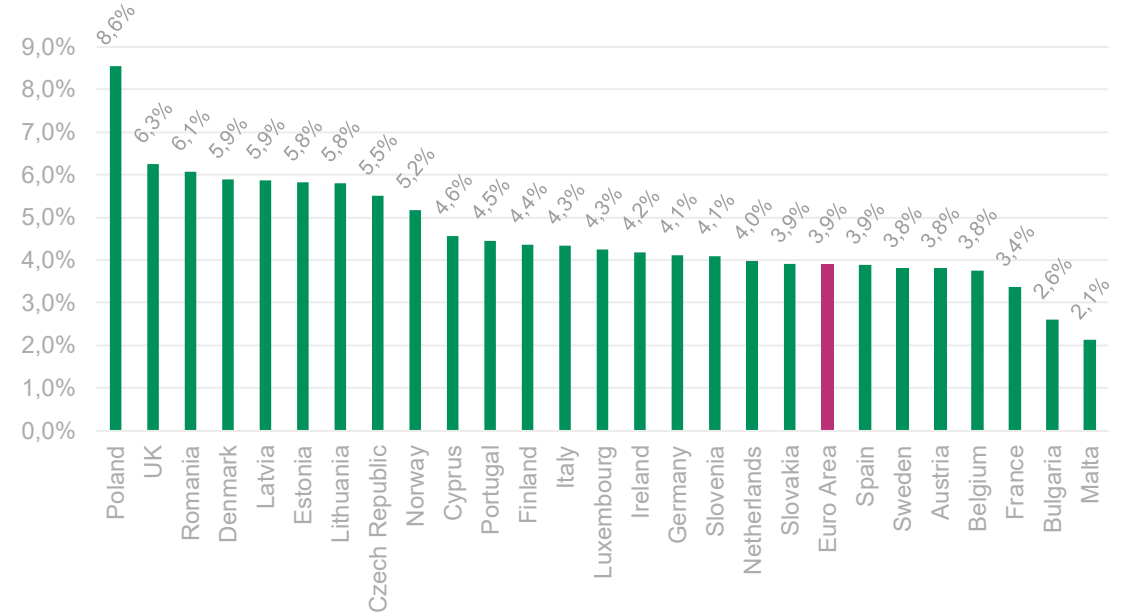
MORTGAGE RATES BACK AT 2009 LEVELS

Mortgage rates



Sources: European Central Bank

Mortgage rates



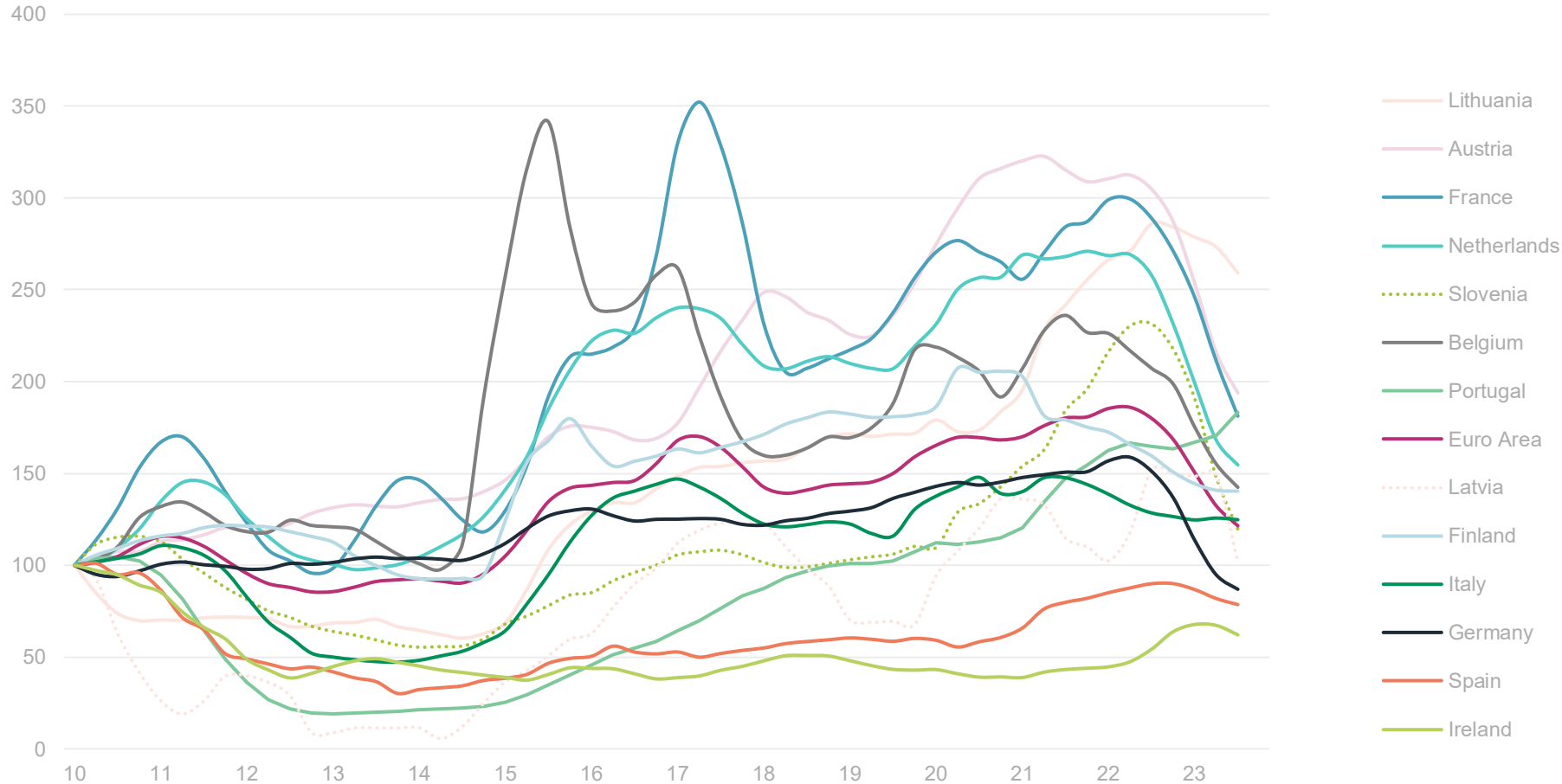
Sources: European Central Bank

- ❖ The central bank's monetary policy is the most disruptive element for European residential markets now.
- ❖ The Governing Council decided to pause interest rates hikes in October. Consequently, interest rates are stable on the main refinancing operations (4.5%), marginal lending facility (4.75%) and the deposit facility (4.0%). The decision to keep interest rates stable reduced pressure on the Euribor 12 months that closed in October at 4.05% after 4.23% in September.
- ❖ The average mortgage rate in Europe has risen from 1.31% at the end of 2021 to 3.9% in Q3 2023: +258bps in 7 quarters. The largest increases are observed in the United Kingdom (+415 bps), Estonia (+377bps), Lithuania (+374 bps), Portugal (+366 bps), Poland (+359 bps), Finland (+358 bps), Latvia (+353 bps) and Denmark (+340 bps). In contrast, the increases were more moderate in Ireland, Sweden, France, Belgium, Netherlands, Slovenia and Norway at less than 200bps.
- ❖ Even though the 12-month Euribor closed in October at 4.05%, we expect mortgage rates to carry on increasing in next quarter to catch-up up with interest rates. Mortgage rates in the Euro area may reach the 4.0% threshold by the end of the year. The rise in mortgage rates is excluding more households from the property market and significantly reducing their borrowing capacity. In addition, it increases the risk of default for households with variable rate debt or with refinancing needs.

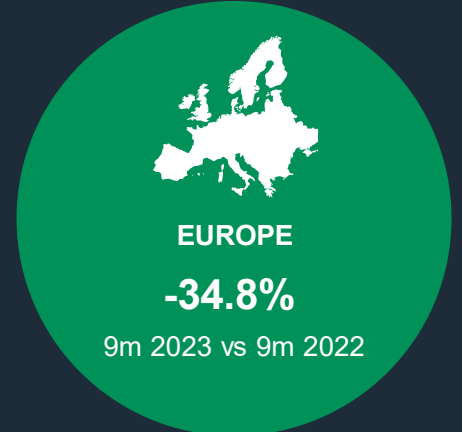
MORTGAGE LENDING IN EUROPE

TIGHTENING OF CONDITIONS RESULTS IN A DROP IN MORTGAGE LENDING

Mortgage lending (€)



Source: European Central Bank

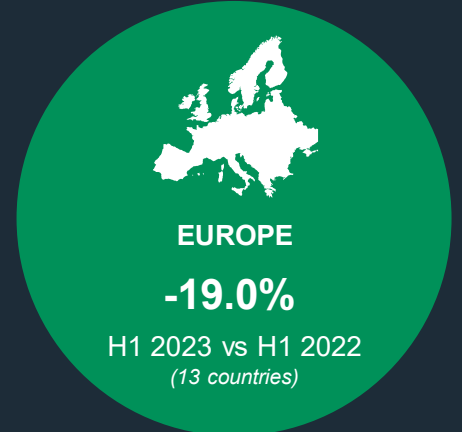
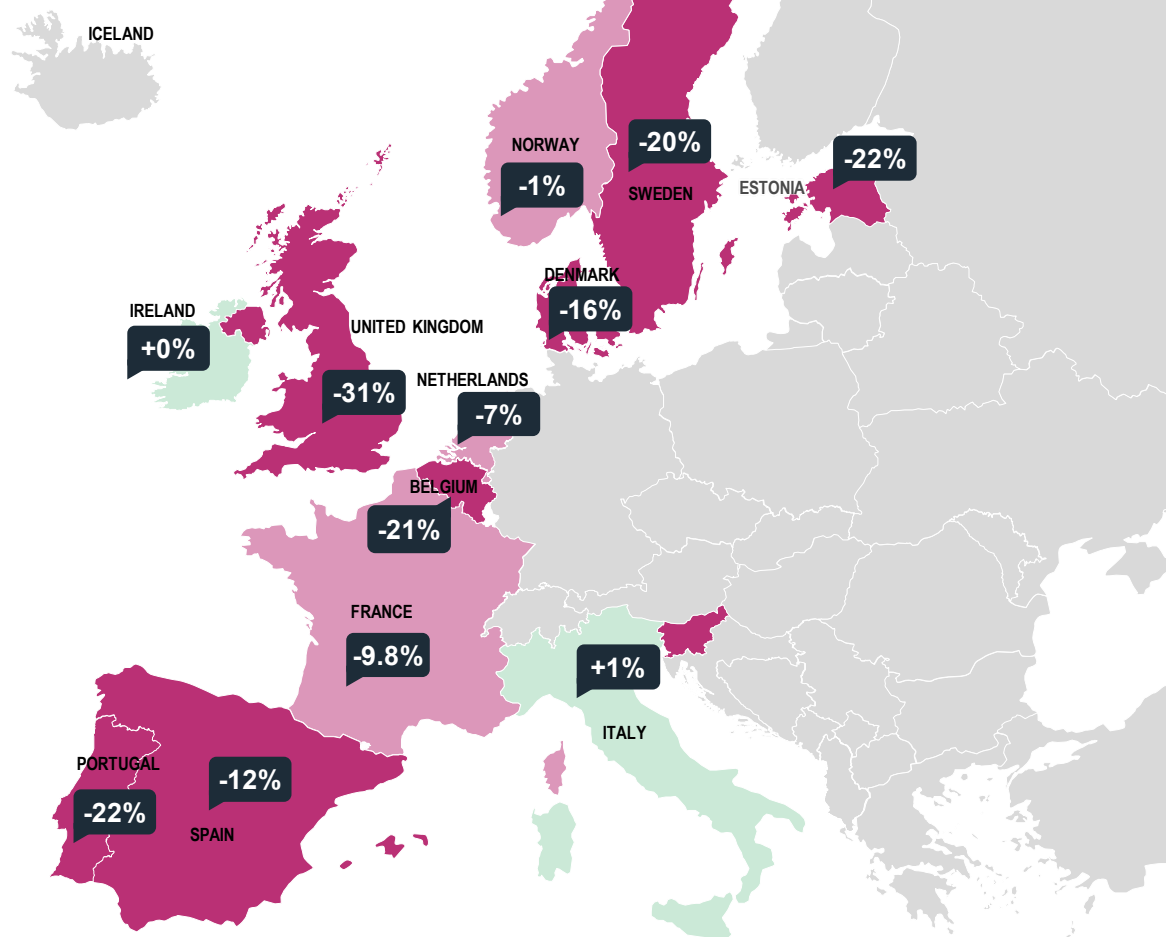
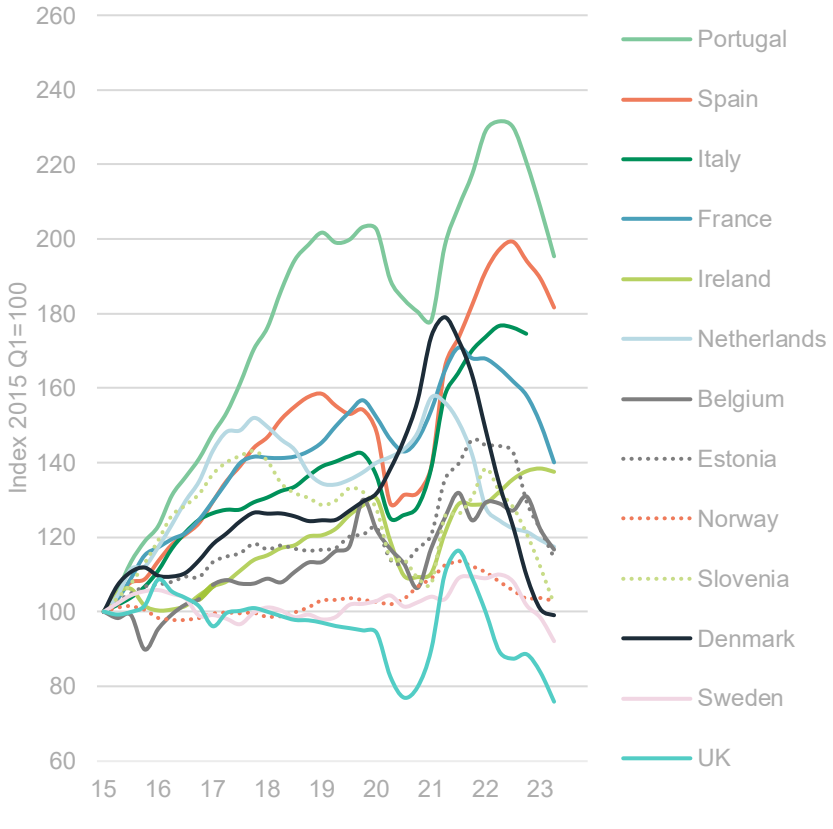


- ❖ Mortgage lending reached its peak in Q2 2022 with € 1,077bn granted. However, economic uncertainties and the increase in mortgage rates are tightening credit supply and reducing demand. Mortgage lending declined by 34.8% to reach € 510bn over the 9 months of 2023, the lowest level since 2015.
- ❖ Most European countries recorded a decline in lending. The most important declines are recorded in Poland (-66%), Hungary (-60%), Slovakia (-59%), Slovenia (-54%), Denmark (-45%) and Germany (-44%).
- ❖ However, countries such as Italy, Ireland, Finland, Estonia, Lithuania and Spain adjusted significantly less.
- ❖ Credit production continues to expand in Bulgaria, Cyprus and Portugal.

TRANSACTION VOLUME IN EUROPE

HOUSING TRANSACTIONS PLUNGE AS CREDIT TIGHTENS

Transaction volume



- ❖ Housing transaction volume dropped by 19% in H1 2023 vs H1 2022.
- ❖ The slowdown is driven by several factors: the tightening in credit conditions, the significant increase in mortgage rates and of course the constant increase in house prices over the last 8 years. Therefore, we observe a notable worsening of housing affordability triggering a decline in the number of transactions. Likewise, a wait-and-see attitude now exists, tied to house price decline across Europe.
- ❖ Housing transactions declined by -31% in the United Kingdom, -22% in Portugal and Estonia, -21% in Belgium and -20% in Estonia.
- ❖ The decline is less important in Norway (-1%), Netherlands, (-7%), France (-9.8%) and Spain (-12%)
- ❖ Transaction volumes remain stable in Ireland (+6.7%) and Italy (+3.7%).

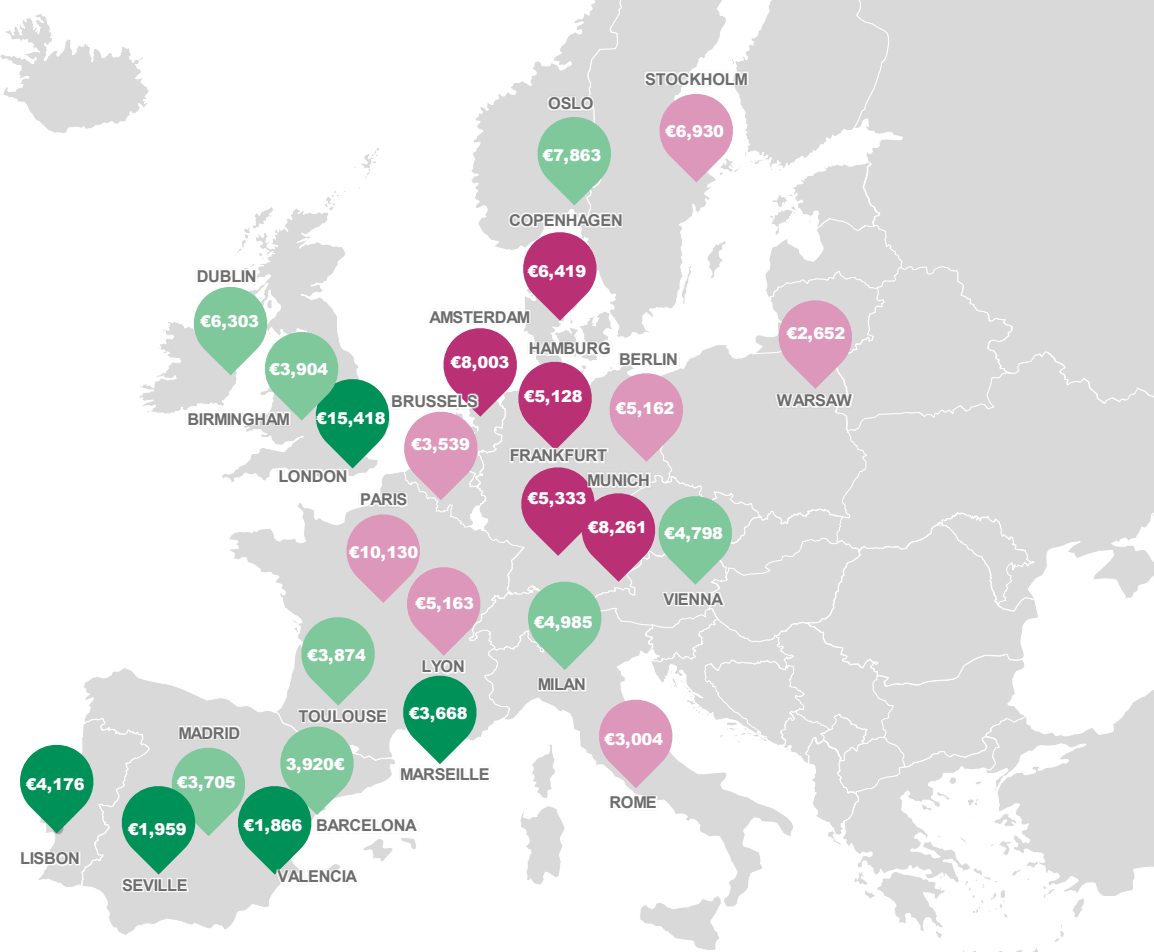
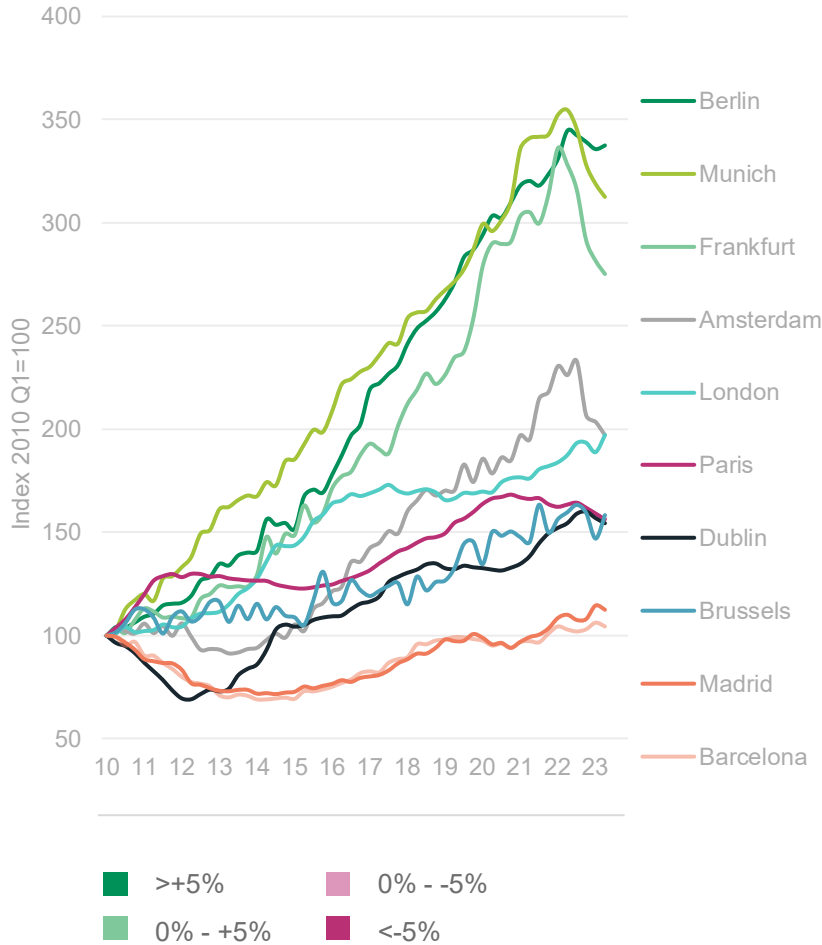
Sources: Eurostat, National statistics offices, BNPPRE

* Data for Italy, Estonia and Hungary are 1 of 2 quarters late

RESIDENTIAL PRICE GROWTH IN EUROPE

REVERSAL IN THE HOUSE PRICE CYCLE

Residential price growth



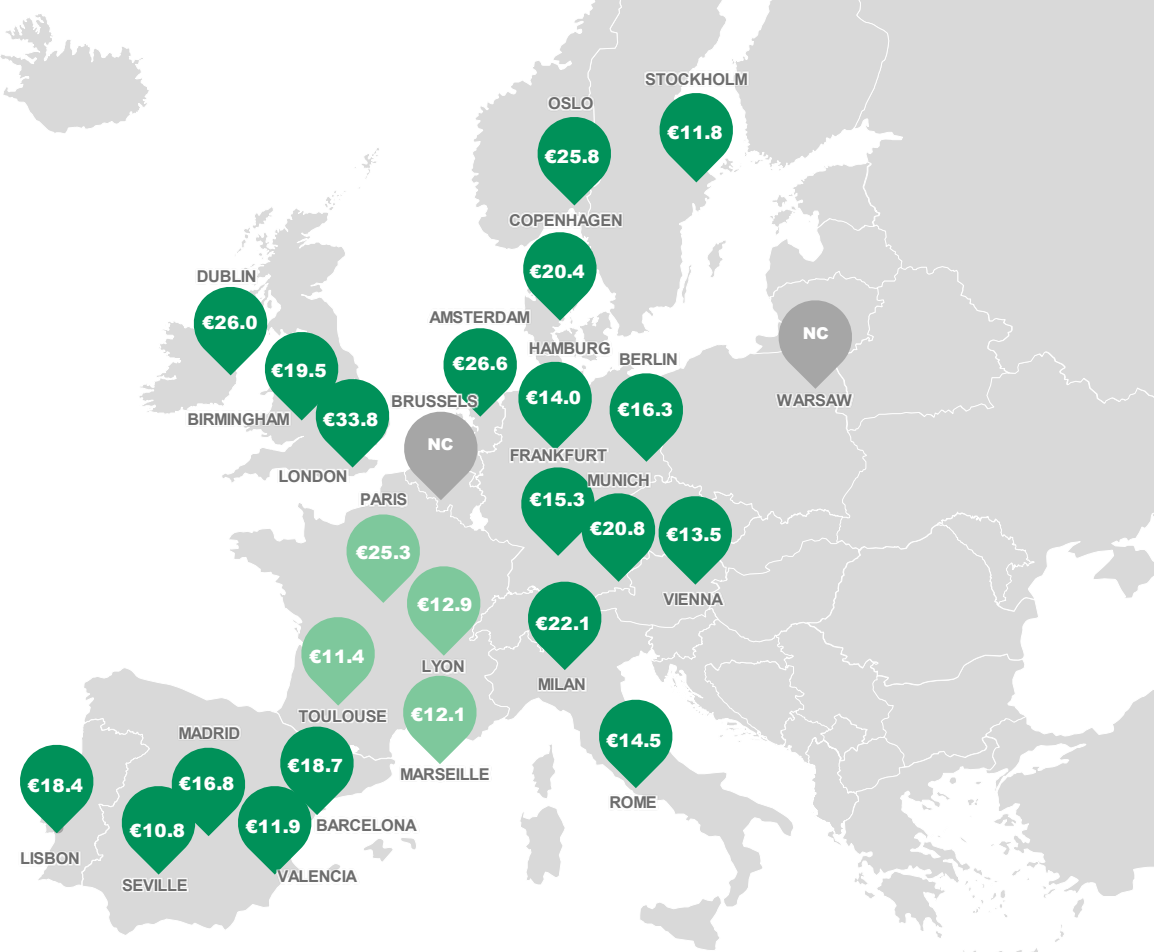
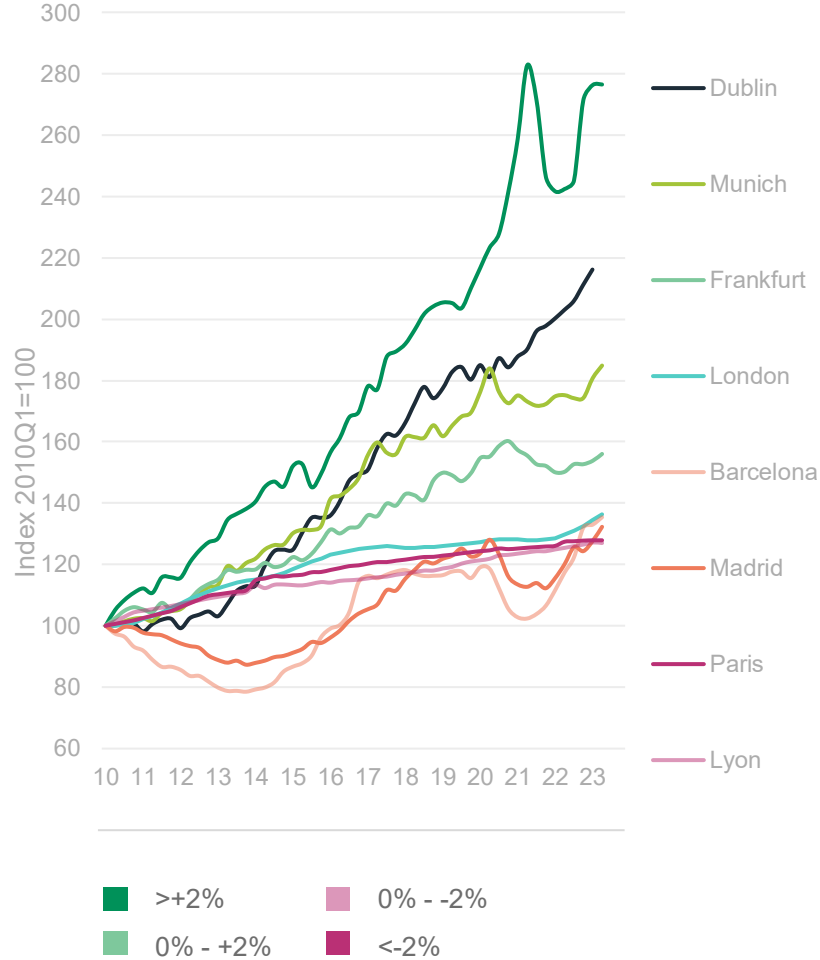
- ❖ House prices across European cities are continuing to decline in aggregate at -1.2% in Q2 2023 vs Q2 2022.
- ❖ Over the last year, cities that experienced double digit growth reduced from 9 in Q1 2022 to 1 in Q2 2023 - Valencia (+10.1%).
- ❖ Moreover, compared to the peak of the last 2 years, house prices are declining in 24 cities out of the 28 we monitor.
- ❖ For instance, house prices declined by 18% in Frankfurt, -15.4% in Amsterdam, -12.7% in Hamburg, -11.9% in Munich, -10.8% in Rotterdam.
- ❖ As a result of interest rate hikes and credit supply tightening, the housing market is cooling down and demand is in a wait-and-see attitude, moving toward cheaper markets such as suburbs.

Sources: BNPPRE

RESIDENTIAL RENTAL GROWTH IN EUROPE

RENTS HAVE HIT RECORD HIGHS IN MOST MARKETS

Residential rental growth



- ❖ Residential rental values across European markets are still booming at +8.9% y/y.
- ❖ Since the beginning of 2022, we have seen a sharp increase in demand for rental properties owing to hikes in mortgage rates and the decline in the affordability of buying.
- ❖ As a consequence, numbers of rental dwellings listed in web platforms shrunk dramatically putting strong pressure on rental values.
- ❖ Moreover, the spread between the cost of buying vs the cost of renting in main markets is fuelling rents.
- ❖ We record a double digit growth in 12 markets out of the 27 we monitor: Lisbon (+26%), Valencia (+21.5%), Edinburgh (+17.2%), Glasgow (+15.5%), Barcelona (+15.2%), Warsaw (+14.9%), Berlin (+14.1%) and Manchester (+10.6%). In the case of Berlin and Barcelona although rent control was removed, the rental stock shrunk dramatically because of the regulation.

Sources: BNPPRE

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

5 Aldermanbury Square
London EC2V 7BP
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, Dubai
Tel.: +971 44 248 277

HONG KONG, SAR CHINA

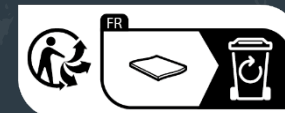
63/F, Two International
Finance Centre
8 Finance Street, Central,
Hong Kong, SAR China
Tel.: +852 2909 8888

SINGAPORE

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

ALLIANCES

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



KEEP UP-TO-DATE WITH BNP PARIBAS REAL ESTATE'S NEWS,
WHEREVER YOU ARE

#BEYONDBUILDINGS



www.realestate.bnpparibas.com



Real Estate for a changing world

N° ADEME : FR200182_03KLJL

