

EUROPE CRE 360

ECONOMIC OUTLOOK
REAL ESTATE PERSPECTIVES



GLOBAL RESEARCH
September 2024

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BNP PARIBAS
REAL ESTATE

Real Estate for a changing world

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EXECUTIVE SUMMARY

IN A NUTSHELL

ECONOMIC RECOVERY UNDERWAY IN EUROPE

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

INFLATION RATES NORMALISE

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

INVESTMENT SETTLING DOWN

- €143bn were invested in commercial real estate over the 12 months to Q2 2024, which represents a 25 % decrease compared to Q2 2023.
- Though still lower annually, the rate of decline is halved and represents light at the end of the tunnel for the CRE sector. The investment market seems to be settling down following the inflationary shock triggered by post pandemic recovery and the Ukraine war

OFFICE LETTING: A SUBDUED H1 2024

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

LOW MOMENTUM FOR EUROPEAN LOGISTICS

- Take-up decreased by 5% in H1 2024 across the leading European countries. Occupiers concern about cost control in a still weak economy inhibits expansion.
- Industrial and logistics investment increased by 6% in Europe during H1 2024. The volume of investment rose in a number of individual countries, an encouraging trend for the rest of the year. Yield stabilisation was recorded in most countries over the past two quarters.

RETAIL: PROMISING PROSPECTS FOR OCCUPIER MARKET

- Investor interest in retail assets remains selective though the sector is slowly gaining more traction in investment market share (19% in Q2 2024).
- 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.

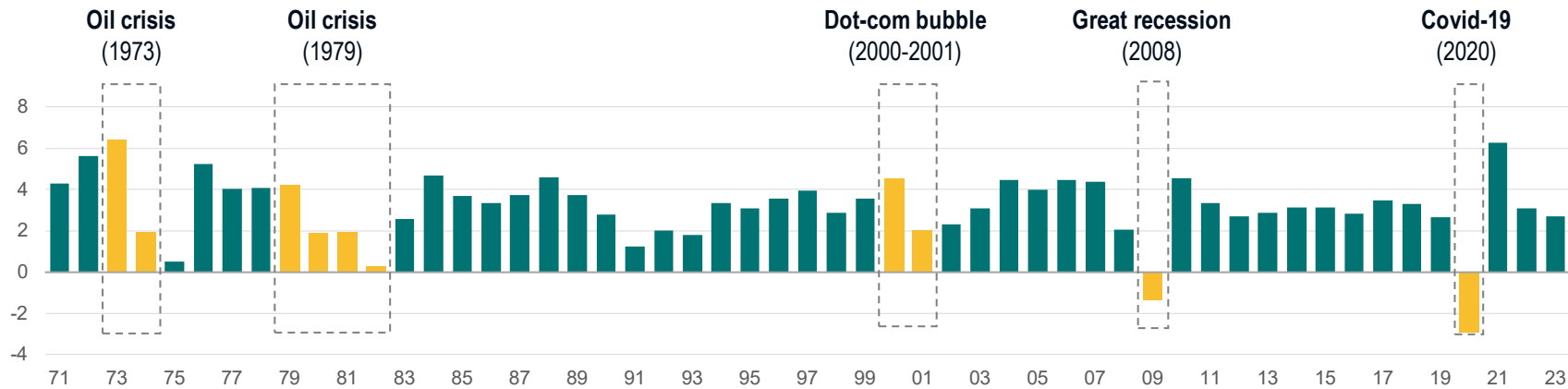
01.

ECONOMIC OUTLOOK

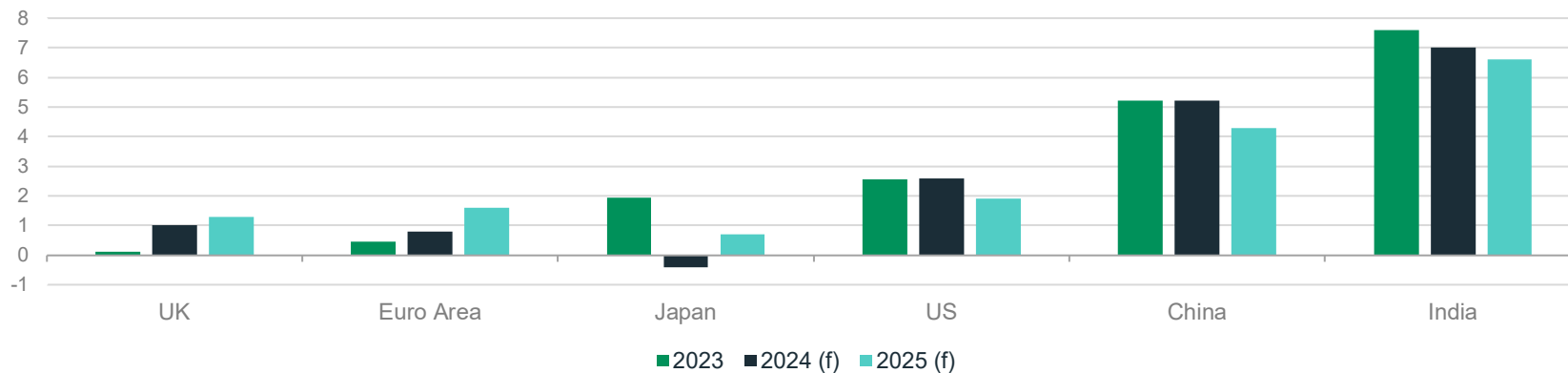
GLOBAL ECONOMY

GLOBAL GROWTH STABILISES

World GDP Growth (% Y/Y)



GDP Growth (% Y/Y)



Europe enters a recovery while challenges arise elsewhere

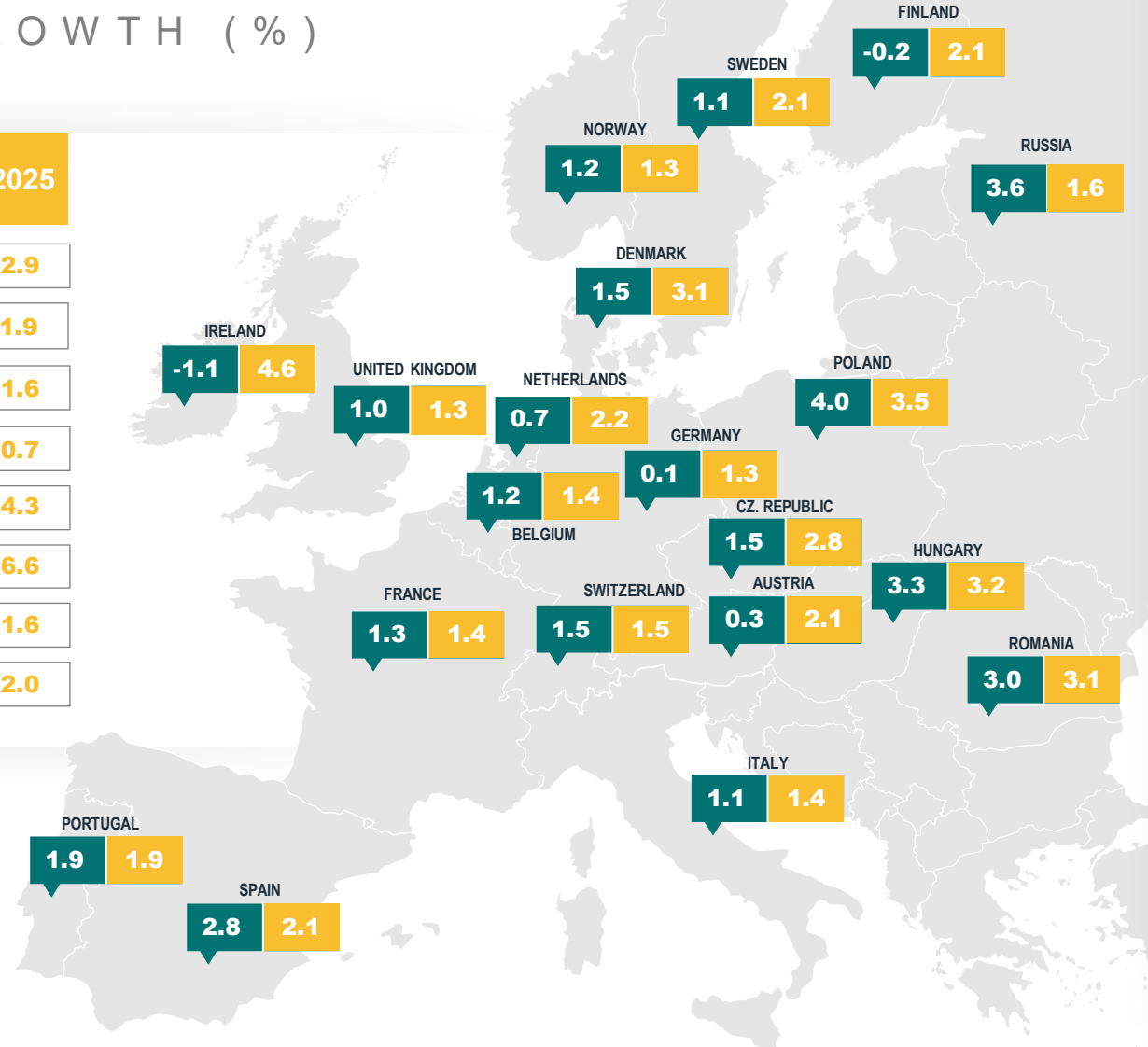
- **Global economic growth slowed in 2023 as several headwinds persisted.** These included high inflation, high interest rates, tighter fiscal policy and global conflicts.
- The slowdown in economic growth was focused in Europe, while there was greater resilience elsewhere.
- Positive supply dynamics helped economic growth in the US to exceed expectations. Meanwhile, expansion in the industry, construction and services sectors supported growth in China.
- **Looking ahead, global growth is likely to continue at a similar pace over the next couple of years.**
- However, the rate of growth will be differentiated across countries. While growth is forecast to slow across most major economies, an economic recovery is expected in Europe.

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

ECONOMIC GROWTH IN EUROPE

ANNUAL GDP GROWTH (%)

	2023	2024	2025
World	2.7	2.9	2.9
United States	2.5	2.6	1.9
Euro area	0.5	0.8	1.6
Japan	1.9	-0.4	0.7
China	5.2	5.2	4.3
India	7.5	7.0	6.6
Russia	3.6	3.6	1.6
Brasil	2.9	2.2	2.0



Economic activity strengthens at the start of 2024

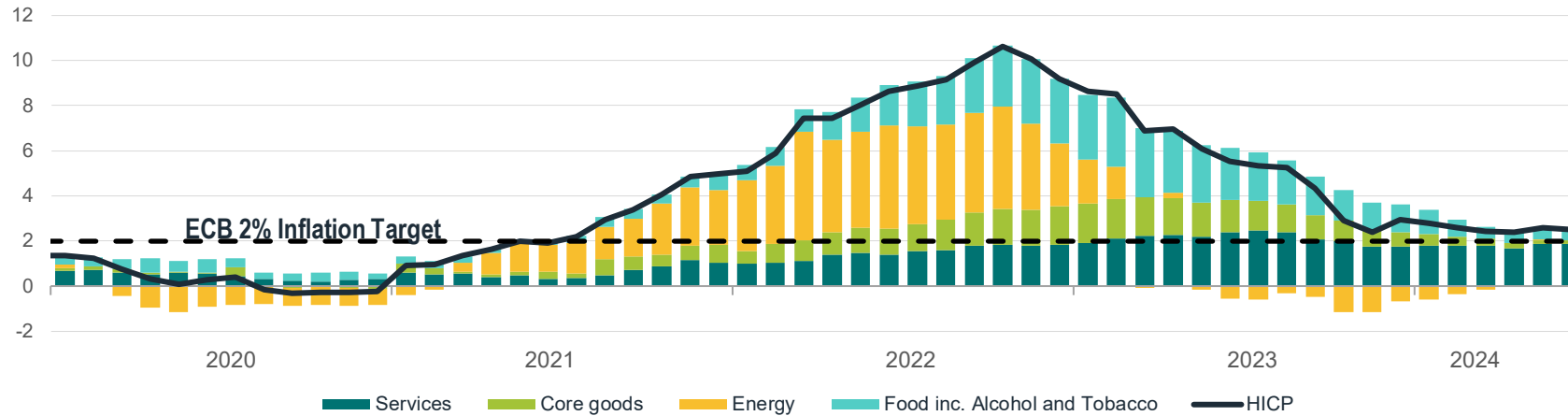
- Focusing on Europe, **economic growth in 2023 was particularly weak in Germany and the UK**. Both countries saw activity stagnate and the UK entered a mild recession in the second half of the year. Growth also slowed in France, Italy and Spain, albeit to a lesser extent.
- However, **more recent data show that European economies started 2024 on a stronger footing**. Generally, Europe's largest economies saw economic growth in the first half of the year, with Spain and the UK the top performers. However, the German economy continued to lag behind.
- The broad-based increase in economic activity in H1 2024 supports the view that a recovery is underway.
- **The continued improvement in real incomes and the normalisation of borrowing costs will underpin growth in consumer spending and business investment over the next couple of years**. In turn, economic growth rates are set to pick up across Europe.
- NextGenerationEU disbursements will help the Southern European economies to outperform core economies in the near term. Structural challenges in Germany mean its recovery is likely to be slower than in France, Italy, Spain and the UK. Meanwhile, productivity gains will support growth in Central and Eastern Europe.

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

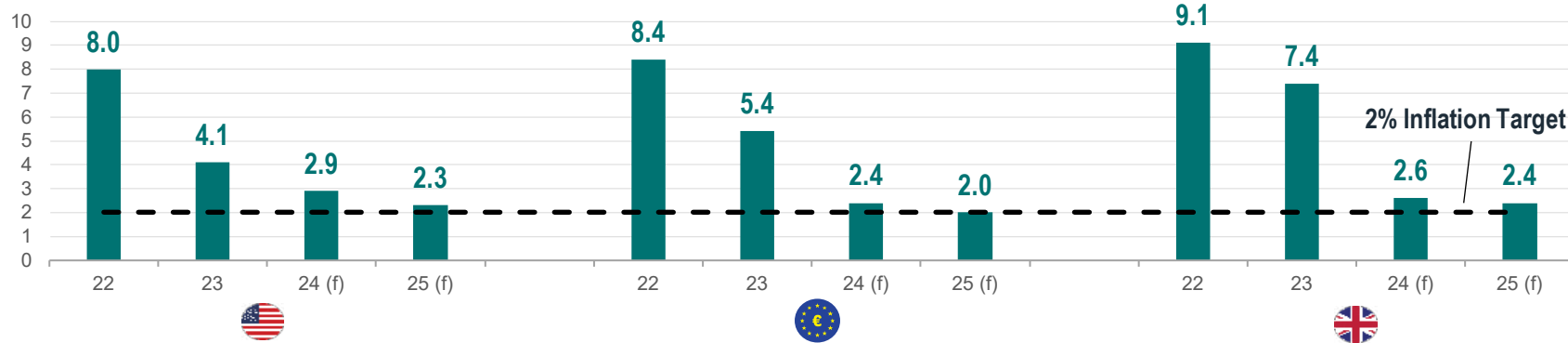
INFLATION RATES

PRICE PRESSURES FADE

Eurozone Inflation (% Y/Y)



Annual Inflation Rates (% Y/Y)



Inflation rates converge towards central bank targets.

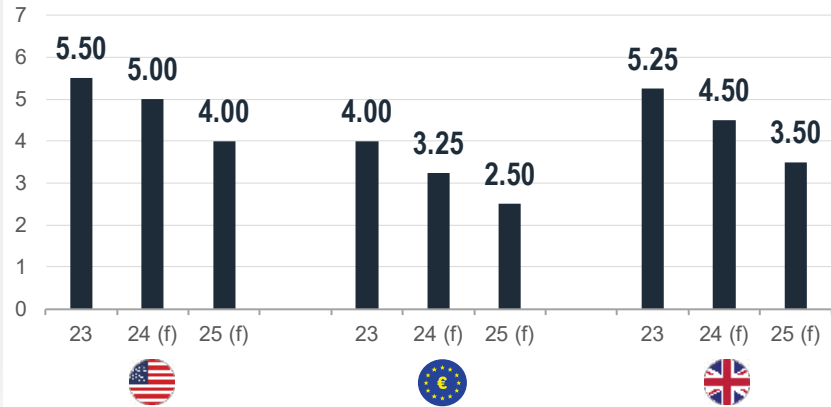
- **The slowdown in inflation has been a global story.** Inflation rates in the Eurozone, UK and the US have made significant progress towards central bank targets of 2% y/y.
- The common trend is no coincidence. Much of the decline in inflation has been driven by global factors, reflected in sectors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

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

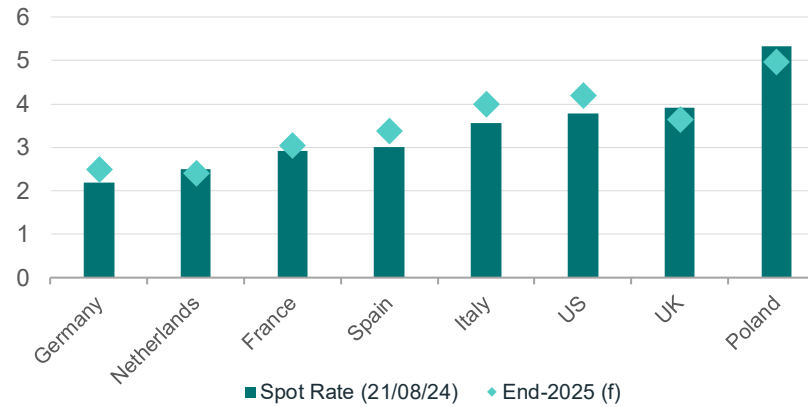
FINANCIAL MARKETS

ECONOMIC AND FINANCIAL INDICATORS

End-Year Policy Rates (%)



10-Year Government Bond Yields (%)



Euro Area Volatility Index



European Real Estate Equity Index

(End-2019 = 100)



Central banks cut interest rates with caution.

- The progress made on inflation towards target rates has prompted central banks to start lowering interest rates. Indeed, the European Central Bank (ECB) and Bank of England (BoE) delivered their first rate cuts in June and August, respectively.
- In our view, the first interest rate cut was an important line in the sand for investors, as it provided a signal on the direction of interest rates. In turn, long-term government bond yields have trended lower since central banks started their cutting cycles.
- That said, more evidence is needed before central banks become confident that inflation is headed for the 2% target on a sustained basis. This partly stems from concerns that strong wage growth will keep services inflation high.
- We think this will keep central banks cautious about cutting interest rates too quickly. **As a result, we expect a gradual decline in policy rates over the next couple of years, which argues against significant declines in bond yields in the near term.**
- Elsewhere, the major stock market indices in Europe, the UK and US have trended higher since the start of the year. Although, weaker economic data in the US led to a global sell-off of risky assets in August and a spike in Europe's STOXX Volatility Index.
- While global European REIT prices increased towards the end 2023, they have held broadly flat since the start of 2024.

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

€74.7bn

H1 2024

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



BEST PERFORMING SECTOR

+10% pa

HOTELS

Hotels remain a favourite with total investment in Q2 of €15 billion



PRIME YIELDS

4.70% vs Q2 2023 **4.4%** vs Q2 2023 **5.00%** vs Q2 2023

Office

Retail

Logistics

Q2 2024

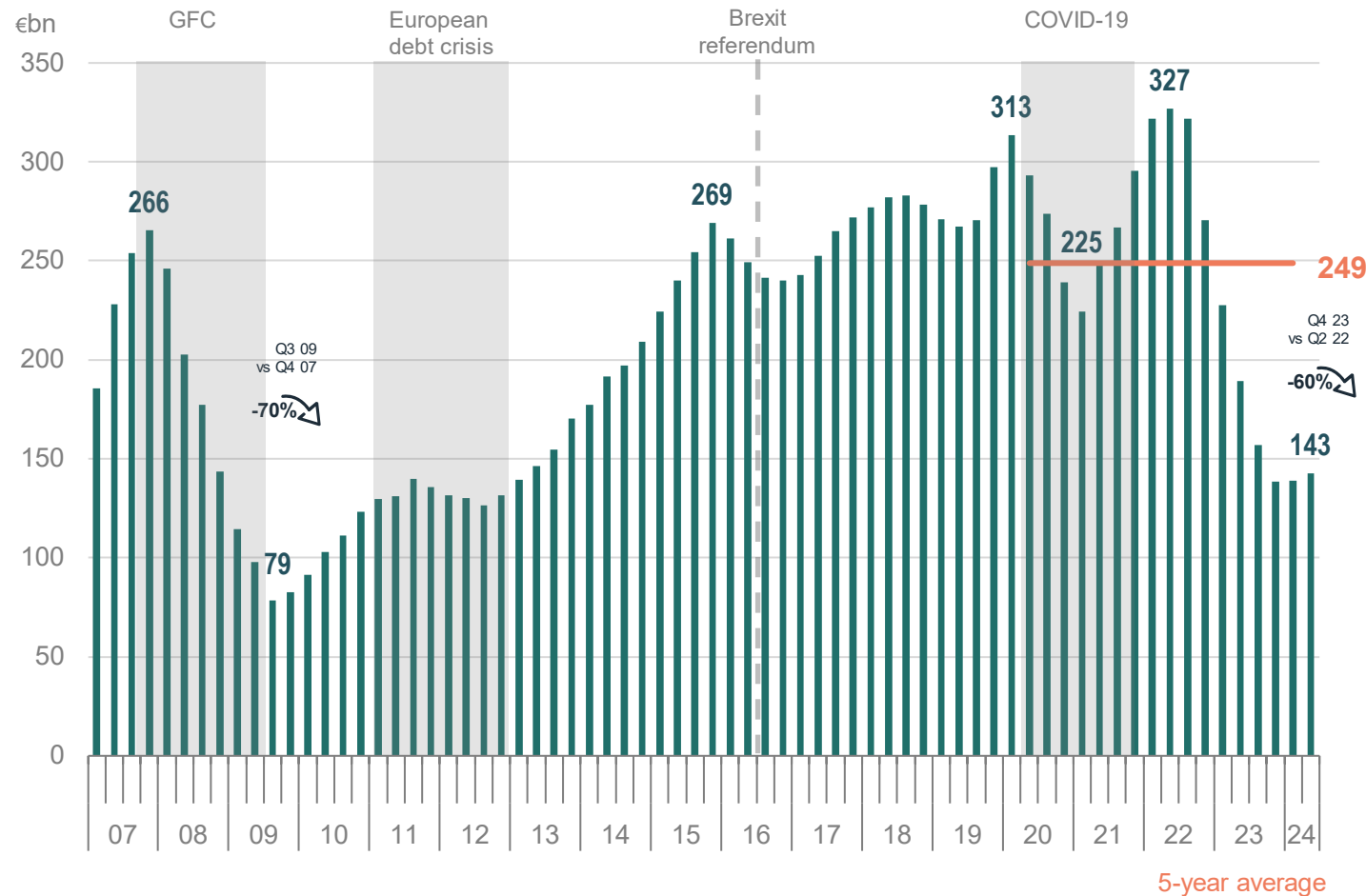
Q2 2024

Q2 2024

Prime yields seem to have stabilised across all asset types at European level

INVESTMENT IN EUROPEAN COMMERCIAL REAL ESTATE

TRANSACTION VOLUMES SETTLE DOWN



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

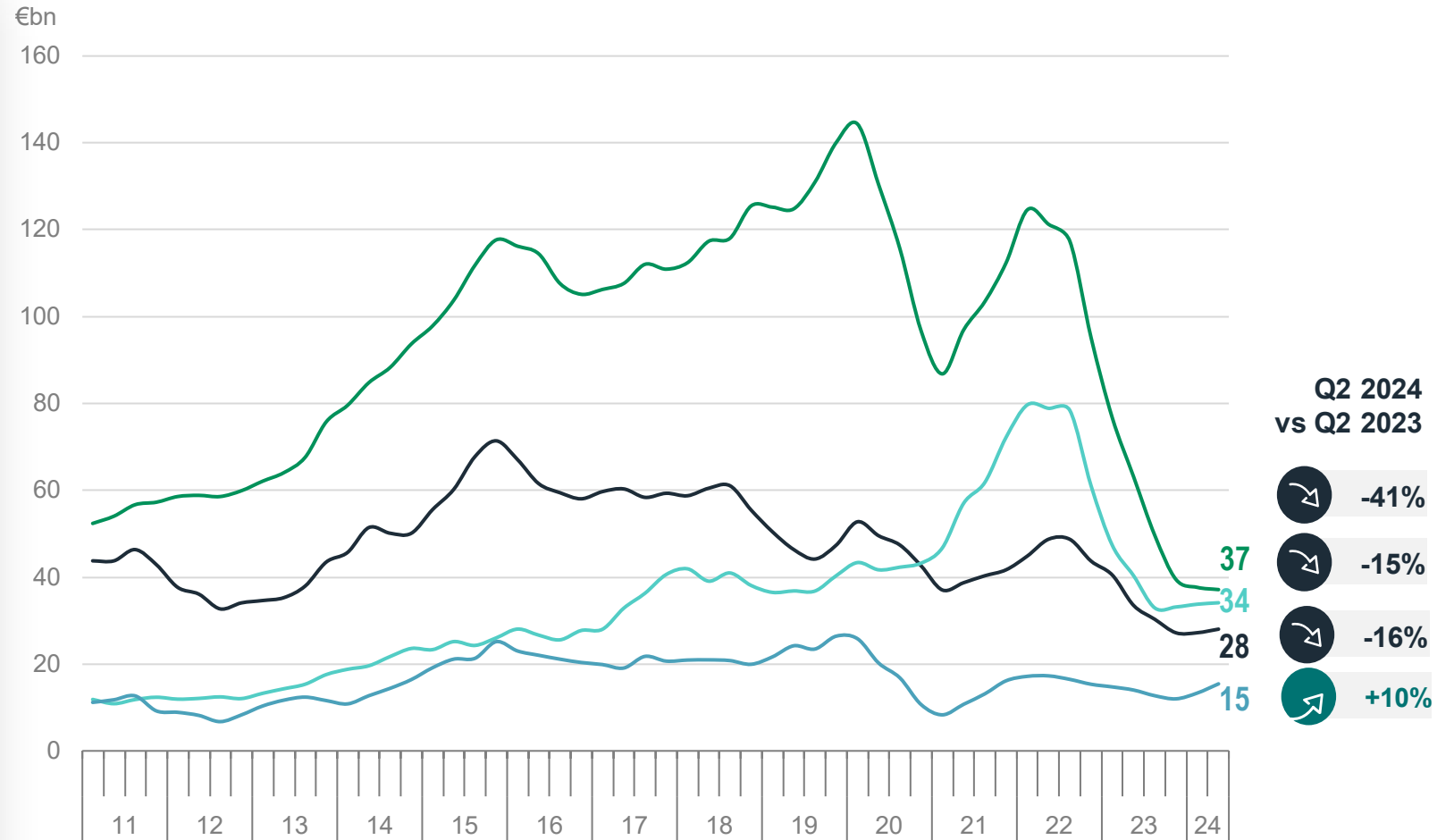


- **€143bn were invested** in commercial real estate over the 12 months to **Q2 2024**, which represents a **25 % decrease** compared to Q2 2023.
- Though still lower annually, the rate of decline is halved and represents light at the end of the tunnel for the CRE sector. The investment market seems to be settling down following the inflationary shock triggered by post pandemic recovery and the Ukraine war. As the ripples from these events fade, more stability is emerging in the macroeconomic and financial backdrop.
- **The ECB rate cut in June 2024 is part of the emerging improvement as it firmly signals the end of the hard monetary policy response to crisis.**
- To some extent the CRE market has anticipated a better environment. The rise of **3% between Q1 2024 and Q2 2024 is indicative of nascent recovery.**
- Although market correction (-60%) has been comparable to the Great Financial Crisis (-70%), volumes have not (and now will not) gone down to levels seen in late 2009. As with the post GFC environment, **investment volumes may gain traction over the next year.**

INVESTMENT IN EUROPEAN COMMERCIAL REAL ESTATE

SHIFT IN SHARES DYNAMICS IN A LANDSCAPE OF RECOVERY

- Annual volumes for real estate asset classes (except for hotels) continue to show declines. Quarterly though the market is a mixture of stability and improvement.
- **Office at €37 billion** fares the worst annually at -41% pa, and has also lost market share, moving from 48% of the market in 2019 to 26% in Q2 2024. Investors remain wary about the sector given its structural issues. Nevertheless, compared to last quarter absolute declines have ceased.
- **Logistics at €34 billion** (-15% vs Q2 2023) is the sector improving fastest. Volumes grew over the quarter reflecting renewed investor interest with stable pricing established at the start of the year. It has gained share and is now like offices at 24%.
- **Retail at €28 billion** (-16% vs Q2 2023) also expanded over the quarter. Investment remains highly selective as the sector is still perceived as risky. Retail market share is steady at 20% and up over the 14% seen in 2022.
- **Hotels at €15 billion** reinforce their position as the best performing asset in CRE. The sector has grown 10% compared to last year and rose again over Q2. Market share is now 11% compared to 4% in 2021.



This excludes residential investment.

COMMERCIAL REAL ESTATE INVESTMENT

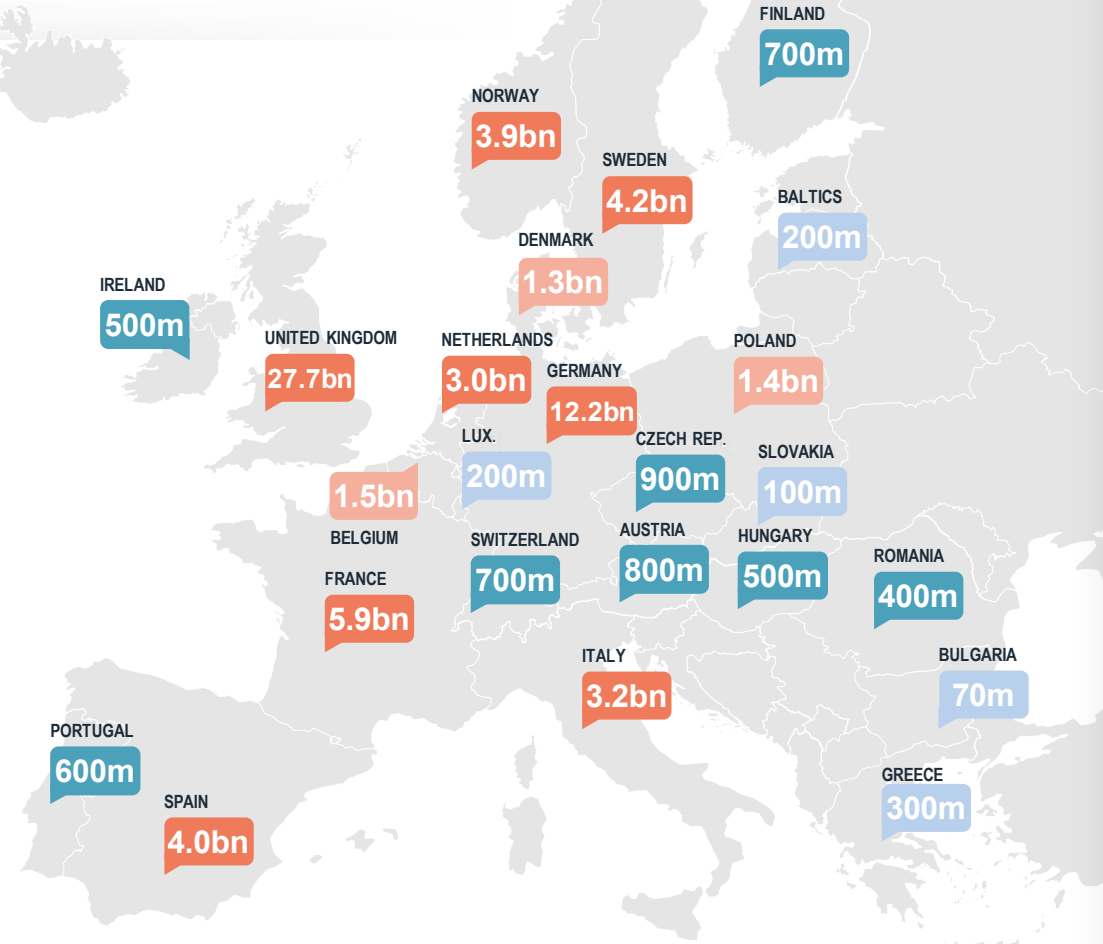
INVESTMENT RISING IN MOST COUNTRIES

H1 2024 vs H1 2023

	UNITED KINGDOM	+8%
	GERMANY	+34%
	FRANCE	-29%
	SWEDEN	-13%
	NETHERLANDS	+36%
	SPAIN	+3%
	ITALY	+55%
	NORWAY	+47%
	POLAND	+59%
	BELGIUM	+48%
	DENMARK	-4%
	FINLAND	-26%
	IRELAND	+2%
	AUSTRIA	-21%
	LUXEMBOURG	+721%

	≥ €2bn		€400m-1bn
	€1-2bn		< €400m

(excludes residential investment)



EUROPE – H1 2024

€74.7bn

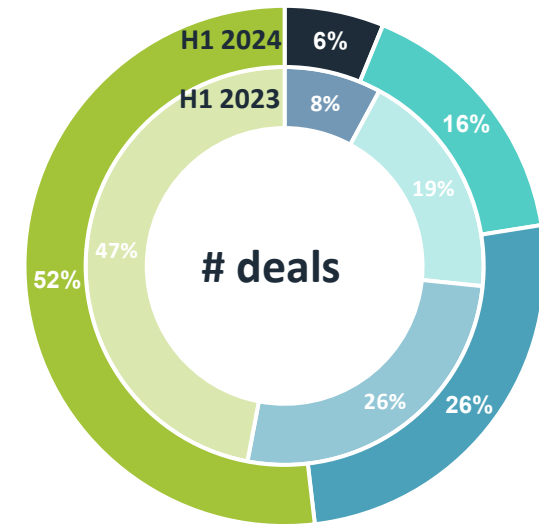
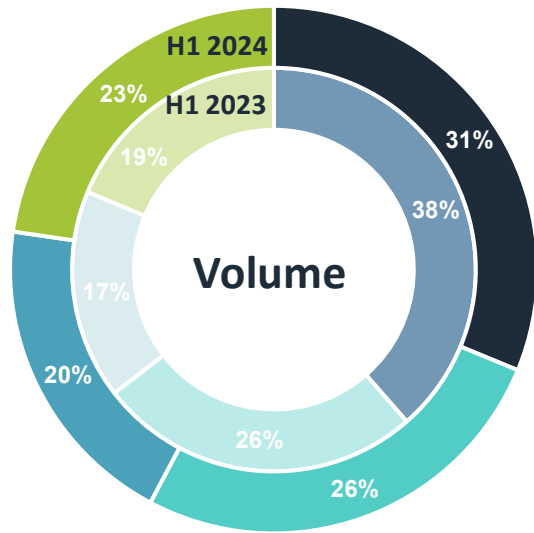
+7% vs H1 2023

- €74.7bn were invested in Europe over H1 2024, rising by 7% compared to H1 2023.
- Investment market in **Germany** accelerated in Q2, with the **portfolio** segment doubling with more than **€2.7bn**.
- In the United Kingdom, volume reaches **€27.7bn for H1 2024** in line with H1 last year, mainly driven by **residential** and **hotel** investment boom.

Source : BNP Paribas Real Estate

INVESTMENT IN EUROPEAN COMMERCIAL REAL ESTATE

SHARES ARE EQUALIZING BETWEEN SIZE BANDS



- Q2 2024 **mega deals (€<100m)** fell to 31% (vs 39% in Q2 2023). Reduction in large scale deals has been increasingly a feature of the market since 2022.
- Transactions from **€40m to €100m** declined 23% since Q2 2023. However, their market share is relatively stable, accounting for a quarter of the market.
- Deals under **€40m** dropped 10% compared to last year. This size band is gaining market share (43% for Q2 2024 vs. 36% for Q2 2023).
- The number of **<€20m deals** has grown by 4% since Q3 2023 and represents half of the market.

CROSS-BORDER INVESTMENT IN EUROPE – H1 2024

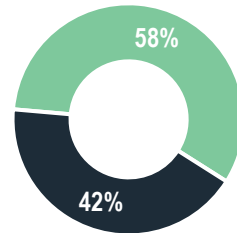
RIISING INTEREST IN EUROPE FROM AMERICAN INVESTORS

- As of **H1 2024**, **domestic investment dominates the market at 58%**. Patterns resemble 2011 levels though it varies by country. For example, in the UK, international investors account for **41%** of Central London office volume this year, marking the lowest share acquisition since 2001.
- Within foreign investment, **European cross-border transactions declined** and now represent only **a third of foreign investment** compared to 46% back in 2019.
- Investment from other continents shows contrasting developments. Since late 2023, increasing interest from **American investors** in the European market resulted in transaction volume **rising 57% compared to H1 2023**, notably in Germany (+90%).
- Volumes from **APAC** keep declining, representing a consistent **12%** of the market share. With only **€3.6bn** invested, allocations **decreased by 20%** compared to last year. As of H1 2023, APAC based investors mainly focus on **Germany** (€1.7bn) and the **UK** (€1.1bn).
- Enthusiasm from **Middle East** investors for Europe has faded in 2024, with only **€600m**, a **decrease of 64% of investment** volume compared to **H1 2023**. All countries experienced this outcome except for Italy, counting for +35% vs H1 2023 at €70m and Poland with a surprising €16m investment.

€ 43.2bn

+11%
vs H1 2023

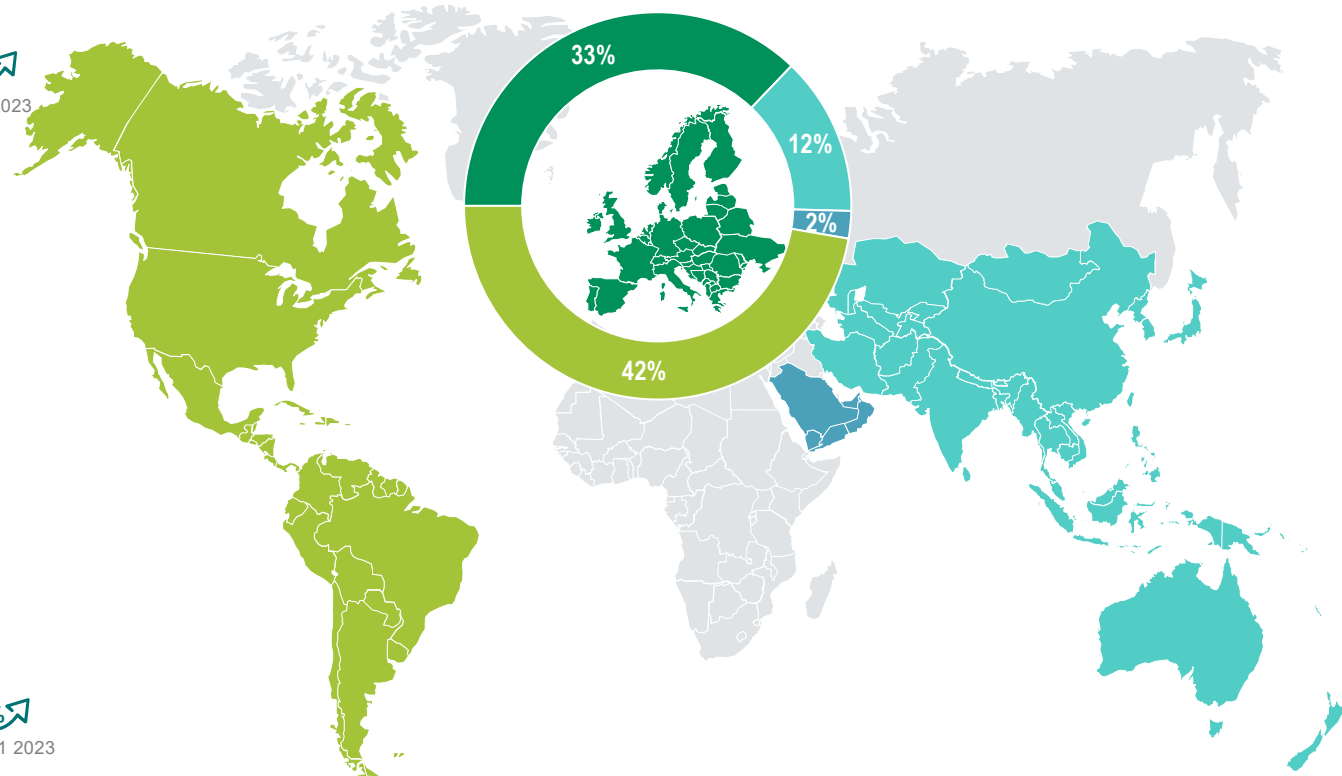
DOMESTIC INVESTMENT



CROSS-BORDER INVESTMENT

€ 31.5bn

+1%
vs H1 2023



EUROPE
€10.1BN -19%
vs H1 2023

AMERICAS
€12.9BN +57%
vs H1 2023

ASIA PACIFIC
€3.6BN -20%
vs H1 2023

MIDDLE EAST
€0.6BN -64%
vs H1 2023

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

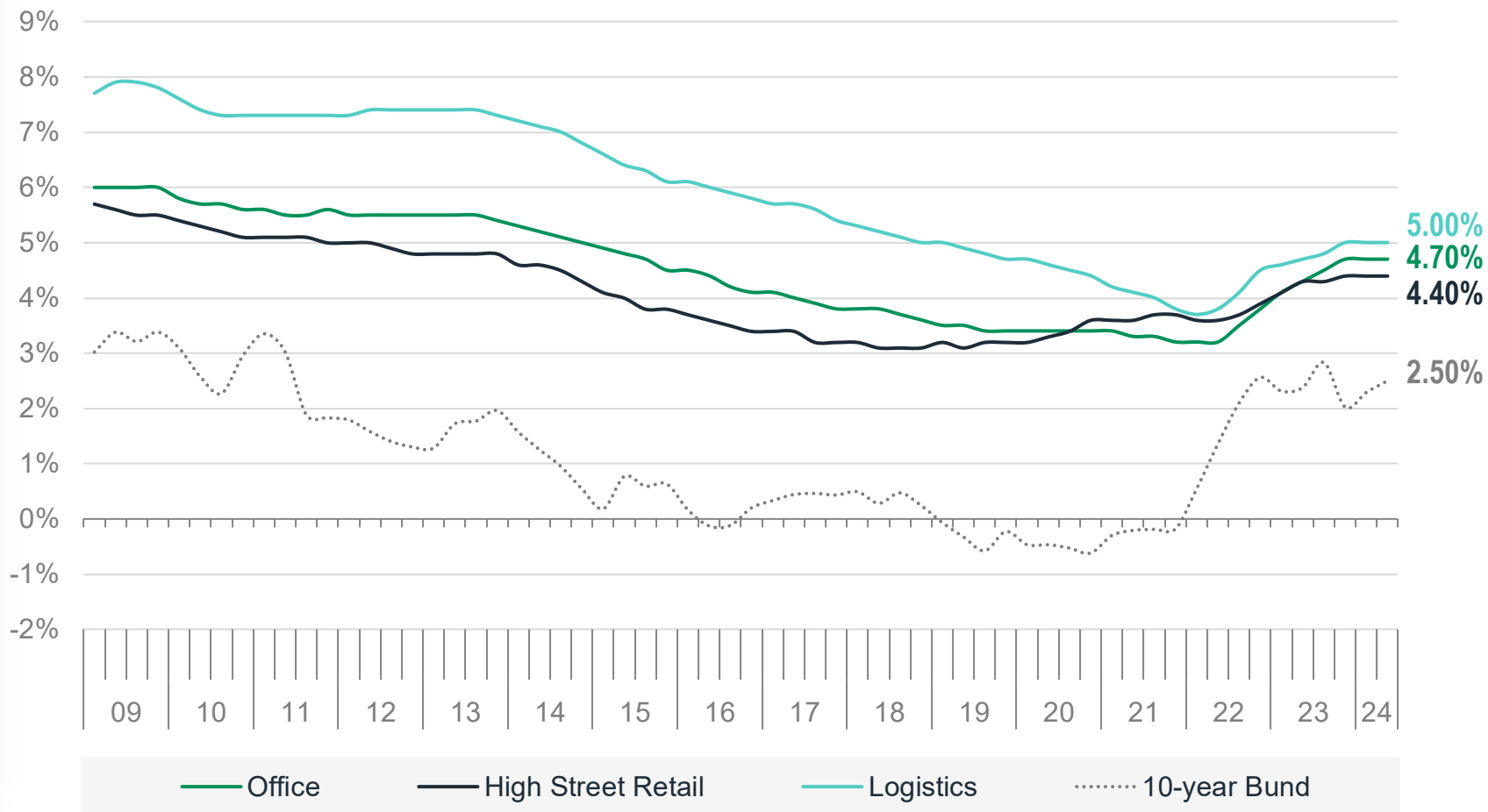
AVERAGE PRIME YIELDS IN EUROPE

OUTLOOK CONSENSUS CLAIMS STABILITY THROUGHOUT 2024

Holding the line

- The emerging improvement in the macroeconomic and financial backdrop over H1, has gone a long way to help stabilise yields. Although not large cuts, the moves by the ECB and BoE send a signal that tightening phase has concluded.
- Consequently, since Q4 2023 prime yields across all asset classes have remained constant and likely to stay that way for H2 2024. Sporadic compression signals from some markets may even show late 2024/early 2025.
- Stockholm (3.95%) is the lowest yielding market in Europe for offices, followed by London and Copenhagen (4.15%).
- Retail locations are led by London and the German cities with high street prime yields below 4%. In Germany, other retail sectors are above 4%, with retail parks posting 4.75%, discounters / supermarkets (4.90%) and shopping centres (5.60%).
- The lowest yielding logistics market is also in Germany at 4.25%, followed by the United Kingdom (4.50%) and France at 4.75%.

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



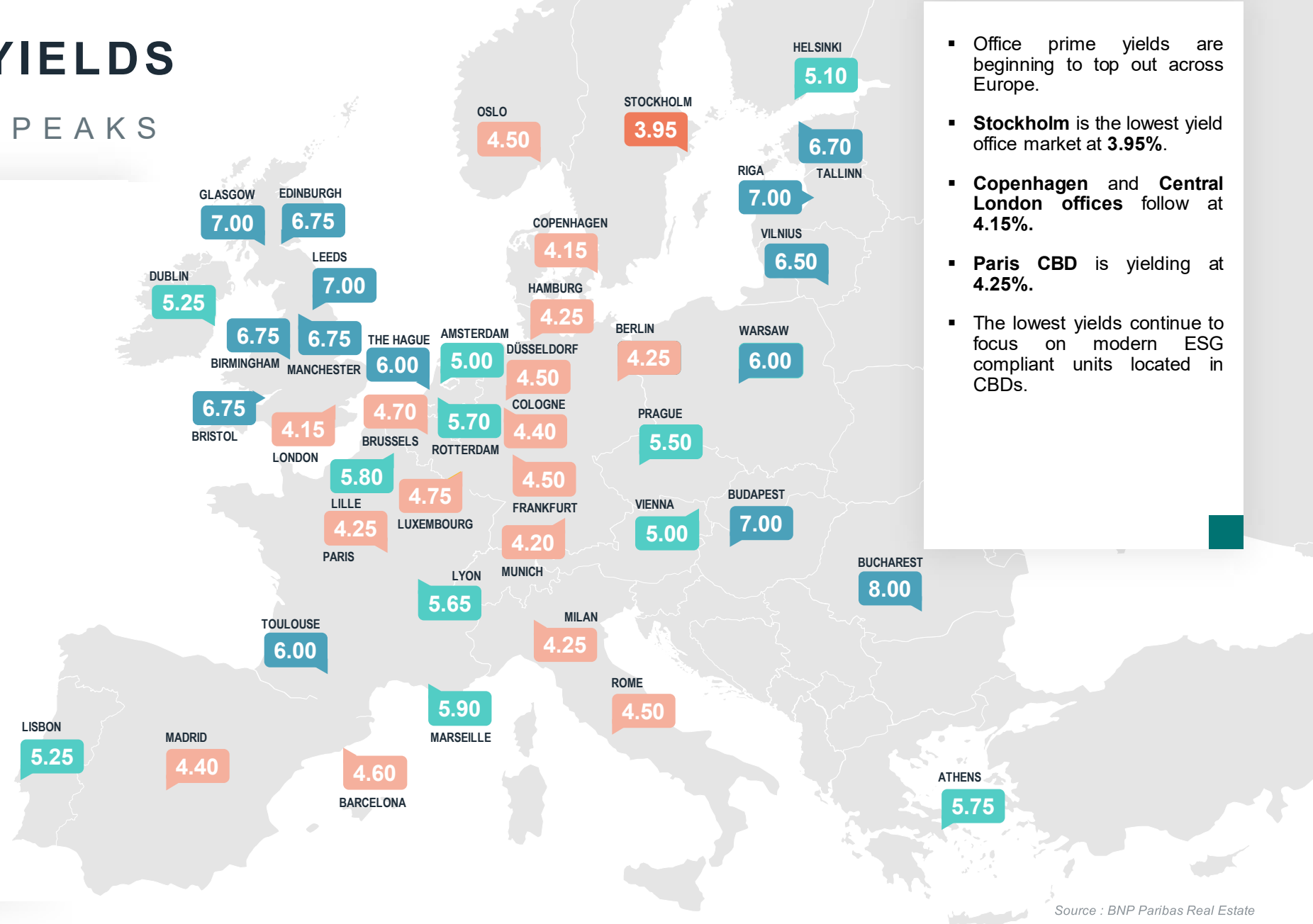
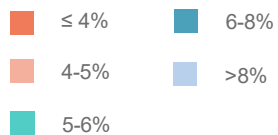
Source : BNP Paribas Real Estate

PRIME OFFICE YIELDS

REACHING THEIR PEAKS

Q2 2024 vs Q2 2023

	PARIS	+75bps ↗
	LONDON	+15bps ↗
	BERLIN	+50bps ↗
	STOCKHOLM	+25bps ↗
	MUNICH	+50bps ↗
	MILAN	+0bps →
	OSLO	+50bps ↗
	MADRID	+25bps ↗
	BRUSSELS	+55bps ↗
	DUBLIN	+25bps ↗
	AMSTERDAM	+70bps ↗
	COPENHAGEN	+40bps ↗
	BARCELONA	+35bps ↗
	LUXEMBOURG	+25bps ↗
	WARSAW	+75bps ↗



- Office prime yields are beginning to top out across Europe.
- Stockholm** is the lowest yield office market at **3.95%**.
- Copenhagen** and **Central London offices** follow at **4.15%**.
- Paris CBD** is yielding at **4.25%**.
- The lowest yields continue to focus on modern ESG compliant units located in CBDs.

Source : BNP Paribas Real Estate

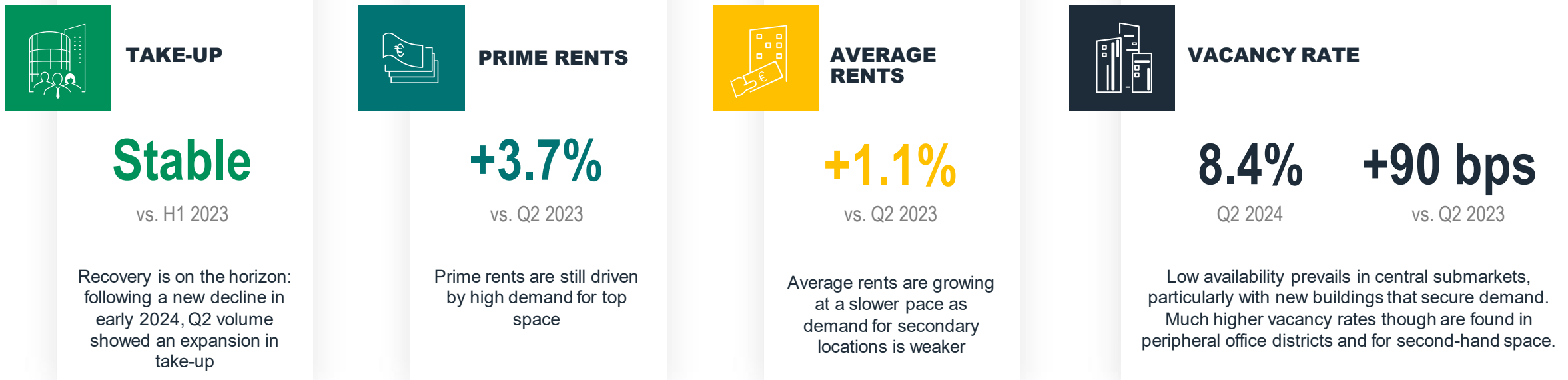
02.

REAL ESTATE PERSPECTIVES

OFFICE MARKETS

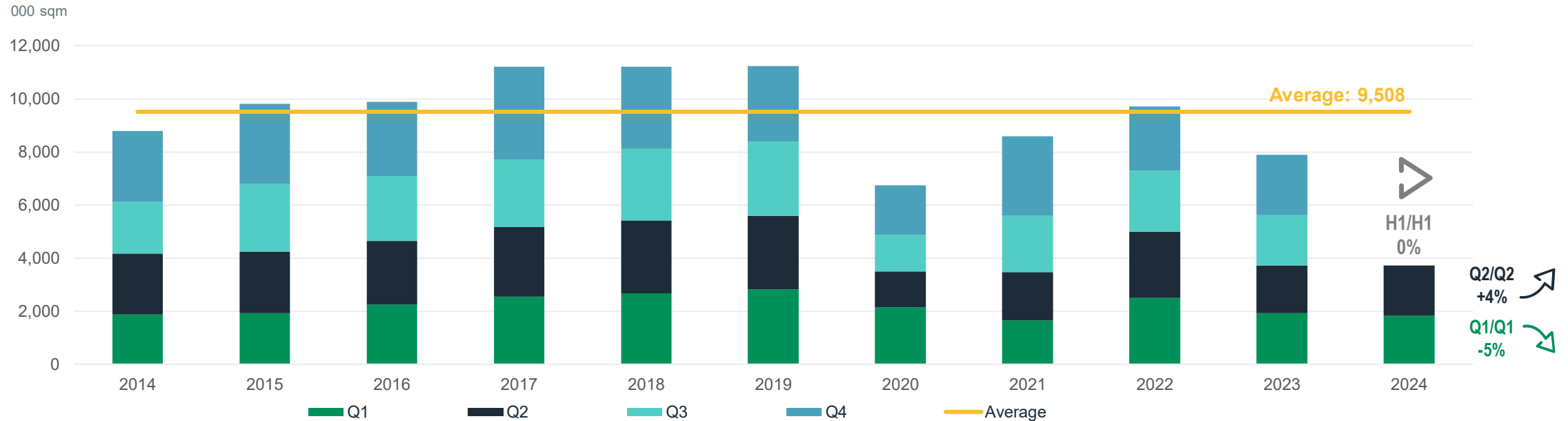
OFFICES MARKET IN EUROPE

FLIGHT TO QUALITY OF EUROPEAN OFFICES



OFFICE TAKE-UP IN THE MAIN EUROPEAN OFFICE MARKETS*

STABLE LETTING ACTIVITY IN H1 2024



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

A subdued H1 2024

- Take-up was effectively stable in H1 2024 in Europe, though the character of the two quarters was different. Q2 showed expansion in take-up in contrast to Q1. The market is positioned for growth as occupiers are likely to become more active towards the end of the year.
- Around 3.72 m sqm was transacted over H1 24 in the 18 main European markets, in line with H1 23. H1 volumes are below their 10-year average (-16%).
- The improvement in Q2 volume is driven by a rebound in some markets: Dublin (+119% vs Q2 23), Düsseldorf (+68%), Barcelona (+35%), Brussels (+44%), Munich (+31%), Central London (+24%) and Berlin (+14%). Very large deals (over 10,000 sqm) transacted in those markets made the difference.
- Weak economic conditions in the major European markets of Germany and France may weigh on demand. That could be enough to result in overall 2024 letting volumes staying in line with 2023 results.

Source : BNP Paribas Real Estate

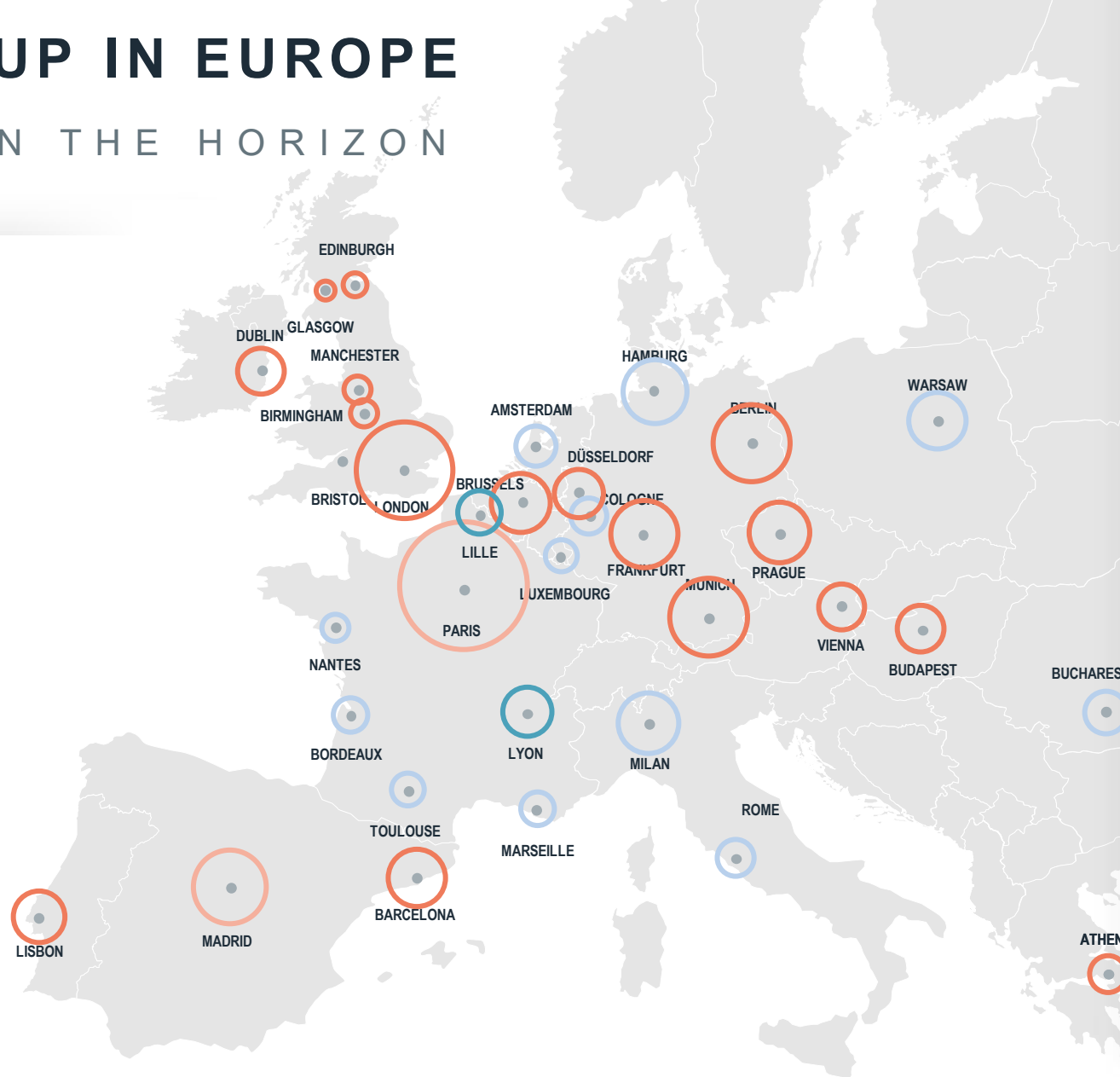
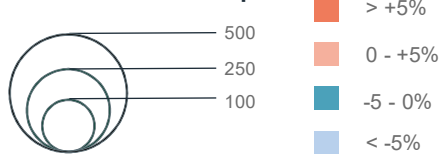
OFFICE TAKE-UP IN EUROPE

RECOVERY IS ON THE HORIZON

H1 2024 vs H1 2023

	CENTRAL LONDON	+10%	
	BERLIN	+7%	
	CENTRAL PARIS	=	
	AMSTERDAM	-14%	
	MADRID	=	
	MILAN	-8%	
	WARSAW	-26%	
	BRUSSELS	+7%	
	DUBLIN	+56%	
	LUXEMBOURG	-33%	
	VIENNA	+14%	
	FRANKFURT	+13%	
	BARCELONA	+49%	

Deals in thousand sqm



EUROPE – H1 2024

4.56m sqm 32 markets
Stable vs. H1 2023

Mixed picture for take-up

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

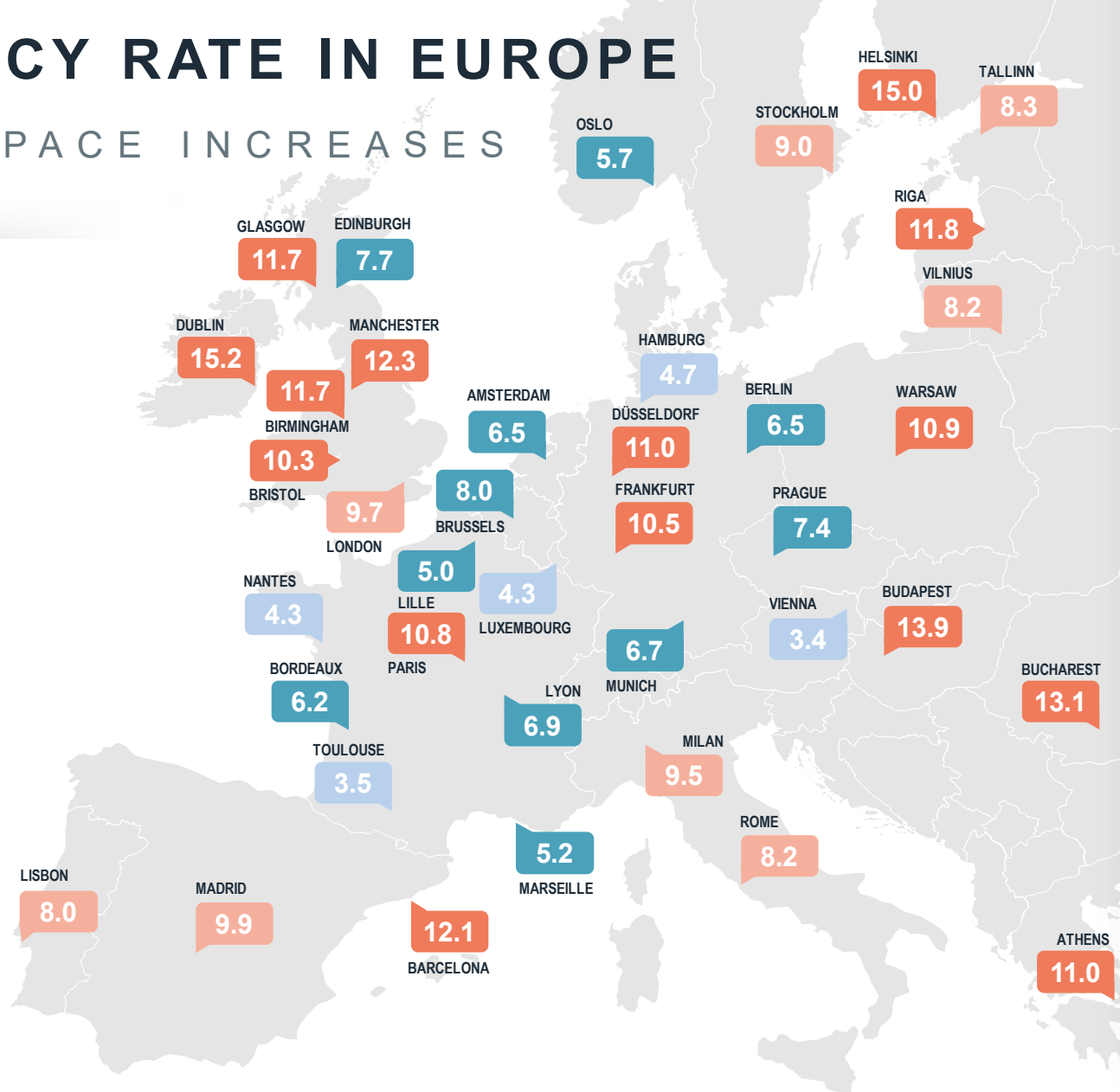
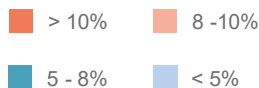
Source : BNP Paribas Real Estate

OFFICE VACANCY RATE IN EUROPE

SECOND-HAND SPACE INCREASES

Q2 2024 vs Q2 2023

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



EUROPE – Q2 2024

8.4% 36 markets
+90bp vs. Q2 2023

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

Source : BNP Paribas Real Estate

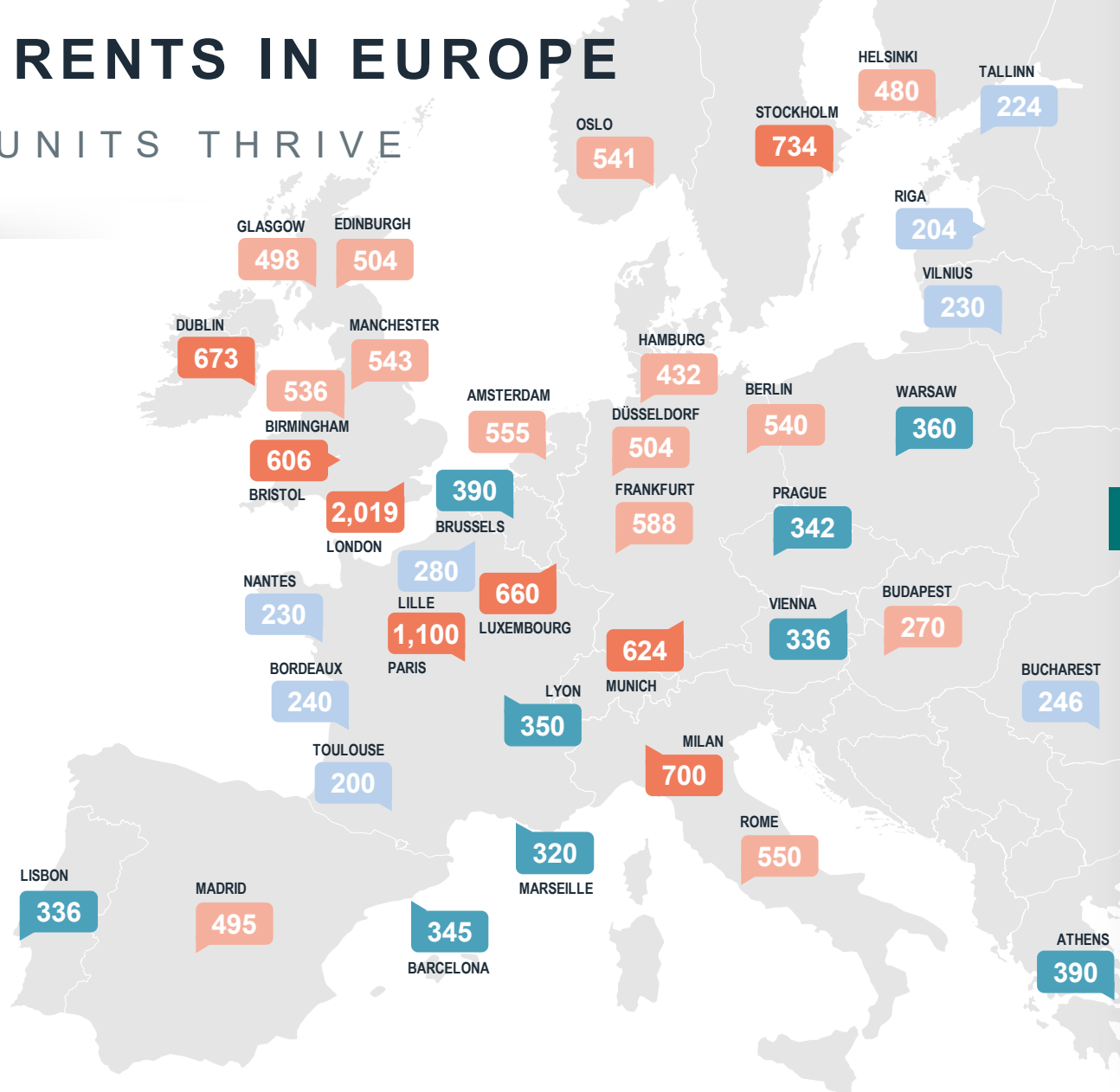
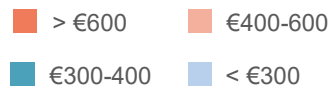
OFFICE PRIME RENTS IN EUROPE

BEST-IN-CLASS UNITS THRIVE

Q2 2024 vs Q2 2023

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

Rents (€/sqm/year)



EUROPE – Q2 2024

+3.7% vs. Q2 2023
39 markets

Prime rents still driven by high demand for top space

- The very low availability 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 +6.4% in average y.o.y.
- Structural changes occurring in the office sector favours 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

-5%

vs. H1 2023

Below its 5-year average, the market is sluggish



PRIME RENTS

+5.2% **+0.9%**

vs. Q2 2023

Last quarter

Market slowdown is easing the pressure on rental growth



INVESTMENT

+6%

vs. H1 2023

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



PRIME YIELDS

+125 bps **+2 bps**

Since Q2 2022

Last quarter

Yield decompression is drawing to a close. Prime yields have been stable two quarters in a row.

LOGISTICS OCCUPIER MARKET IN EUROPE

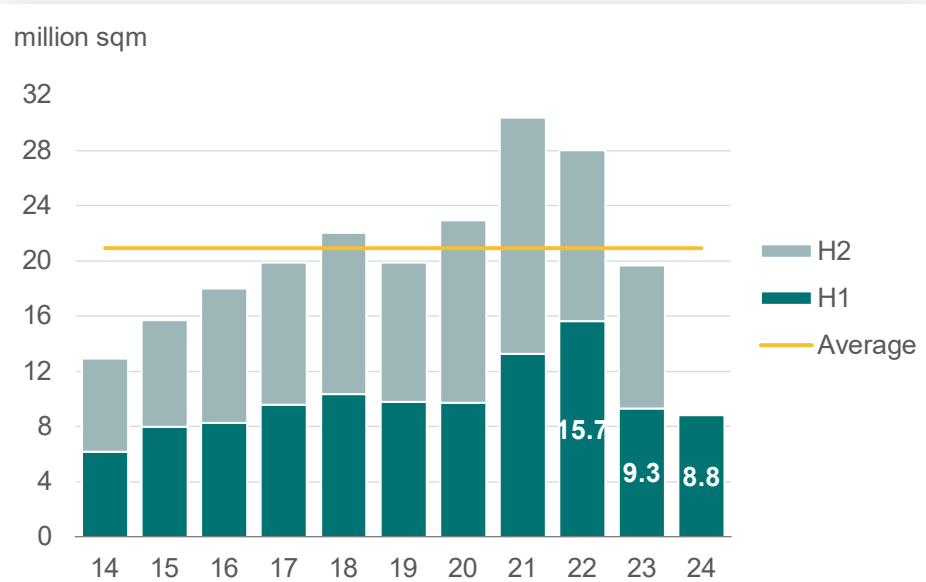
TAKE-UP IN 6 COUNTRIES: -5% (H1 2024 VS H1 2023)

BELOW ITS 5-YEAR AVERAGE, THE MARKET IS SLUGGISH

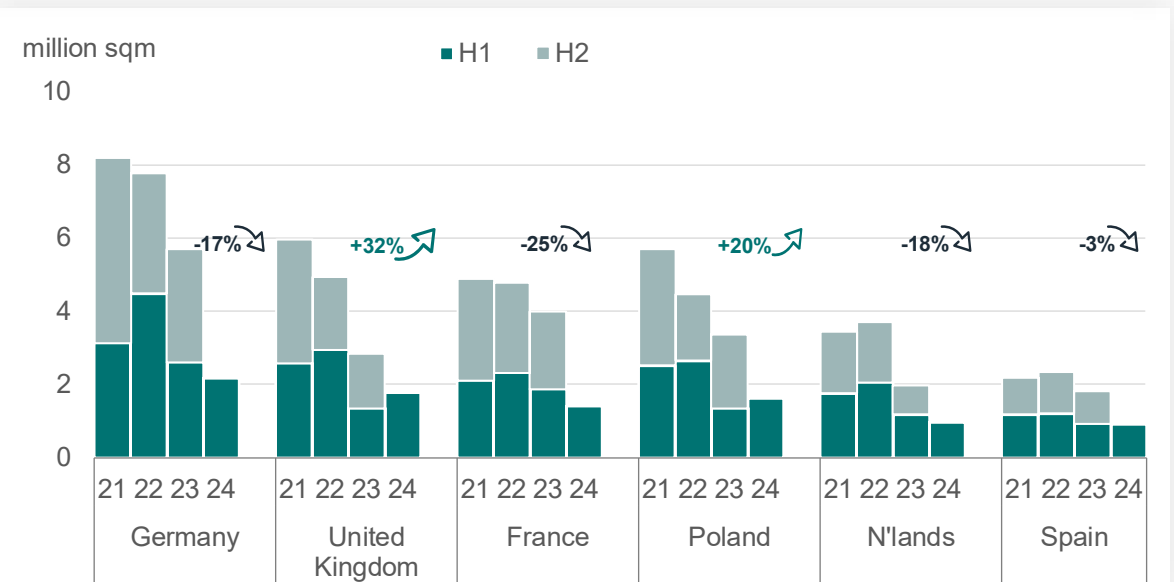
- In H1 2024, the market decreased by 5% in the leading European markets compared to H1 2023. Demand has been lagging and most countries recorded a slow start to the year.
- Logistics markets were boosted by e-commerce and food retailers over the past five years. Given the economic uncertainties and 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.



H1 2024 vs H1 2023



Source: BNP Paribas Real Estate Research

LOGISTICS PRIME RENTS

STEADY RENTAL GROWTH IN Q2 2024

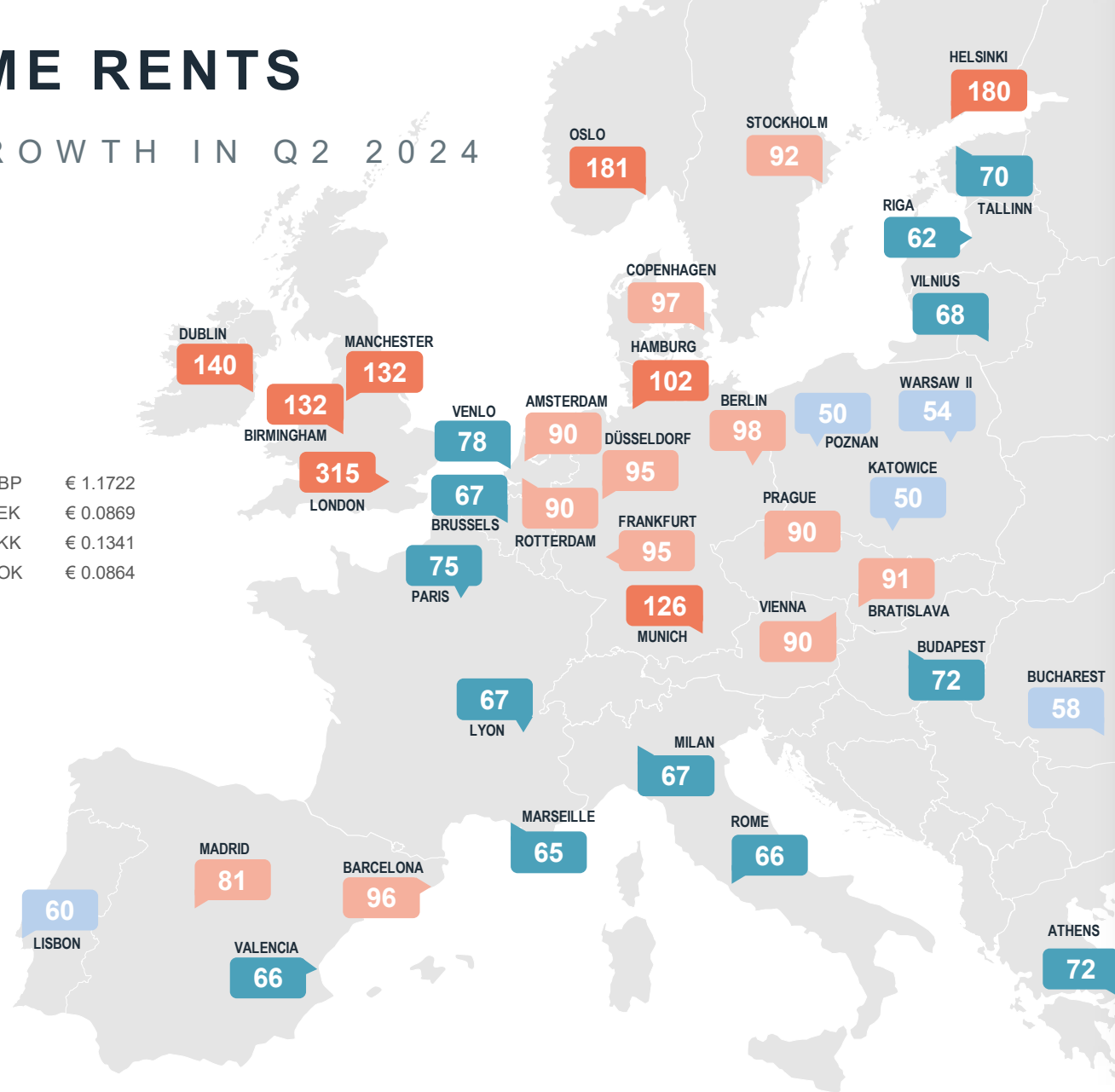
Q2 2024 vs Q2 2023

	FRANKFURT	+6%	
	BERLIN	+5%	
	LONDON	=	
	BIRMINGHAM	+5%	
	PARIS	+15%	
	VENLO	+11%	
	MADRID	+8%	
	BARCELONA	=	
	WARSAW II	+7%	
	PRAGUE	-6%	
	MILAN	+3%	
	STOCKHOLM	+3%	
	OSLO	+11%	

1 GBP € 1.1722
 1 SEK € 0.0869
 1 DKK € 0.1341
 1 NOK € 0.0864

Rents in €/sqm/yr

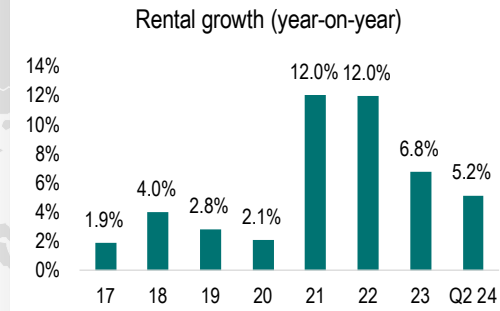
	≥ €100		€60-80
	€80-100		≤ €60



+5.2%
vs Q2 2023

+0.9%
Last quarter

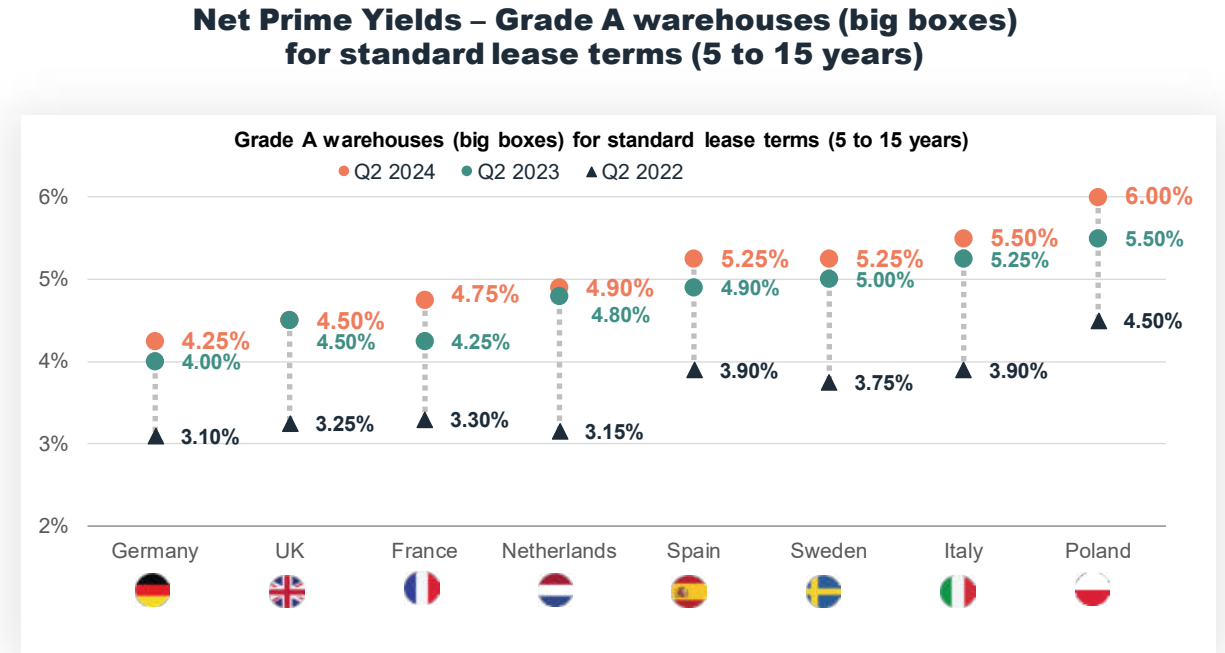
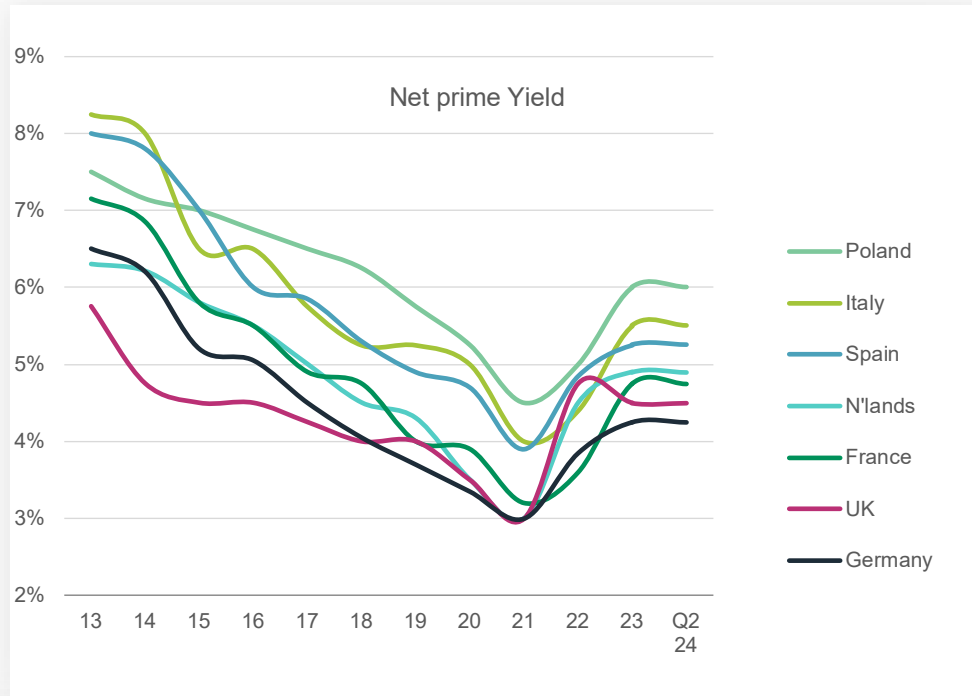
Rental growth (year-on-year)



Source: BNP Paribas Real Estate Research

NET PRIME YIELDS IN EUROPE

STABILISATION IN 2024 (+2 BPS DURING THE LAST QUARTER)



Logistics prime yields have stabilised in Europe for the first time in 2 years

- Prime yields rose by 2 bps during Q2 2024 in Europe (+2 bps over the past 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 may stabilise throughout Europe by H2. This reflects the anticipated downward changes in interest rate policy over the second half of 2024.

Source: BNP Paribas Real Estate Research

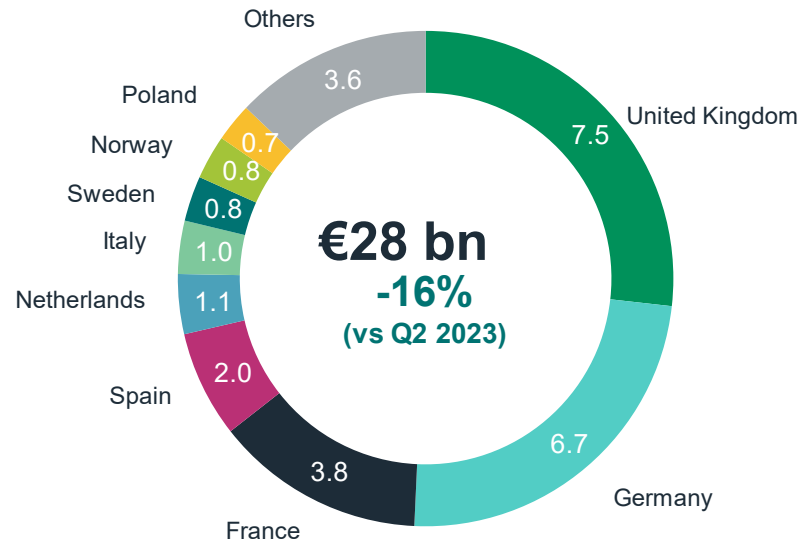
02.

REAL ESTATE PERSPECTIVES

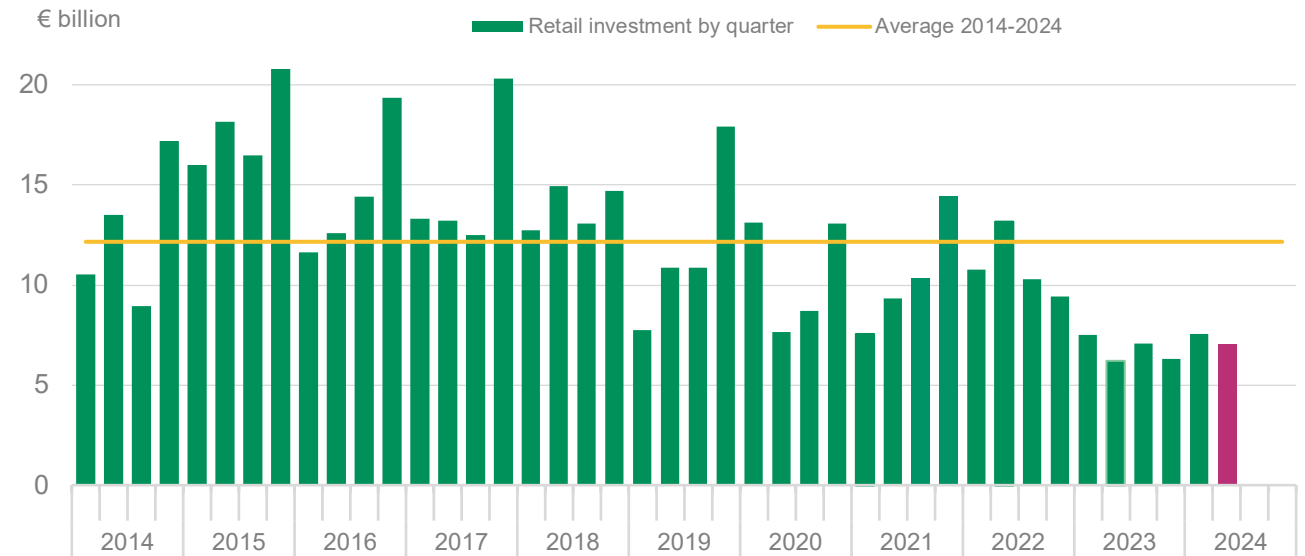
RETAIL MARKETS

RETAIL SECTOR STILL ON THE SLOW PATH TO RECOVERY

Breakdown by country (Q2 2024 – 12 months)



Retail investment by quarter

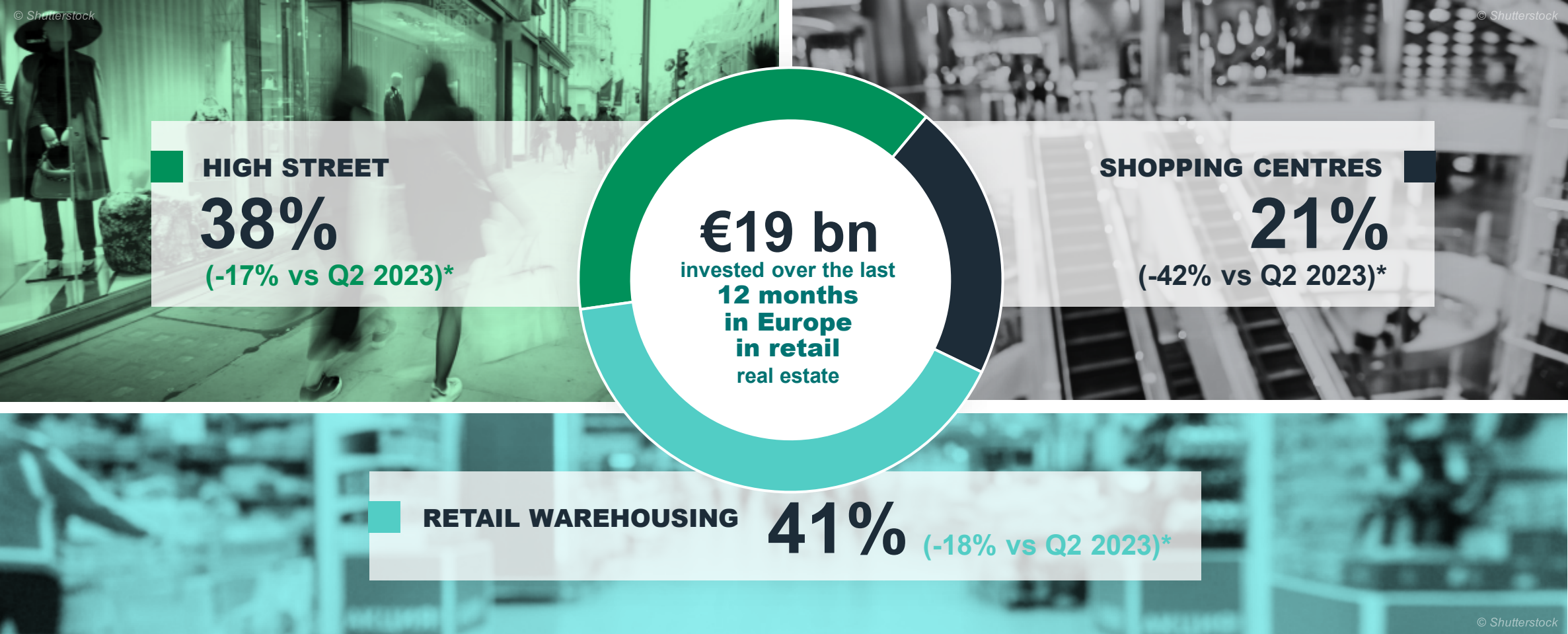


- **Retail** recorded a decrease of **16%** in investment volume over the past 12 months.
- Investors show **most confidence** in the core markets, as Germany, the UK and France captured **more than 50% of transaction volume**.
- Investor interest in retail assets is selective though slowly **gaining more traction** in investment market share (**19%** in Q2 24 vs **18%** in early 23). This level had not been observed for **5 years** (19% in Q1 19).
- In some countries, over the 12 past months, **retail has been one of the most traded commercial asset classes**. In Germany, investors allocated almost as much capital in retail (26%) than in logistics (29%) and for the first time, it is even ahead of office (19%). In Spain, the retail sector is the second biggest sector after hotel with 27% of the total.
- This **weak investment market** contrasts with a **strong occupier market**. Indeed, operational fundamentals are performing well, in terms of retailer turnover, footfall, and rental payment.

Source: BNP Paribas Real Estate Research.

RETAIL INVESTMENT IN EUROPE BY ASSET CLASS – Q2 2024

HIGH STREET PROVED RESILIENT DRIVEN BY LUXURY



*the sub-sector % breakdown refers to total investment volume in six European countries (Germany, UK, France, Spain, Italy, and Poland)

Source: BNP Paribas Real Estate Research.

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REAL ESTATE PERSPECTIVES

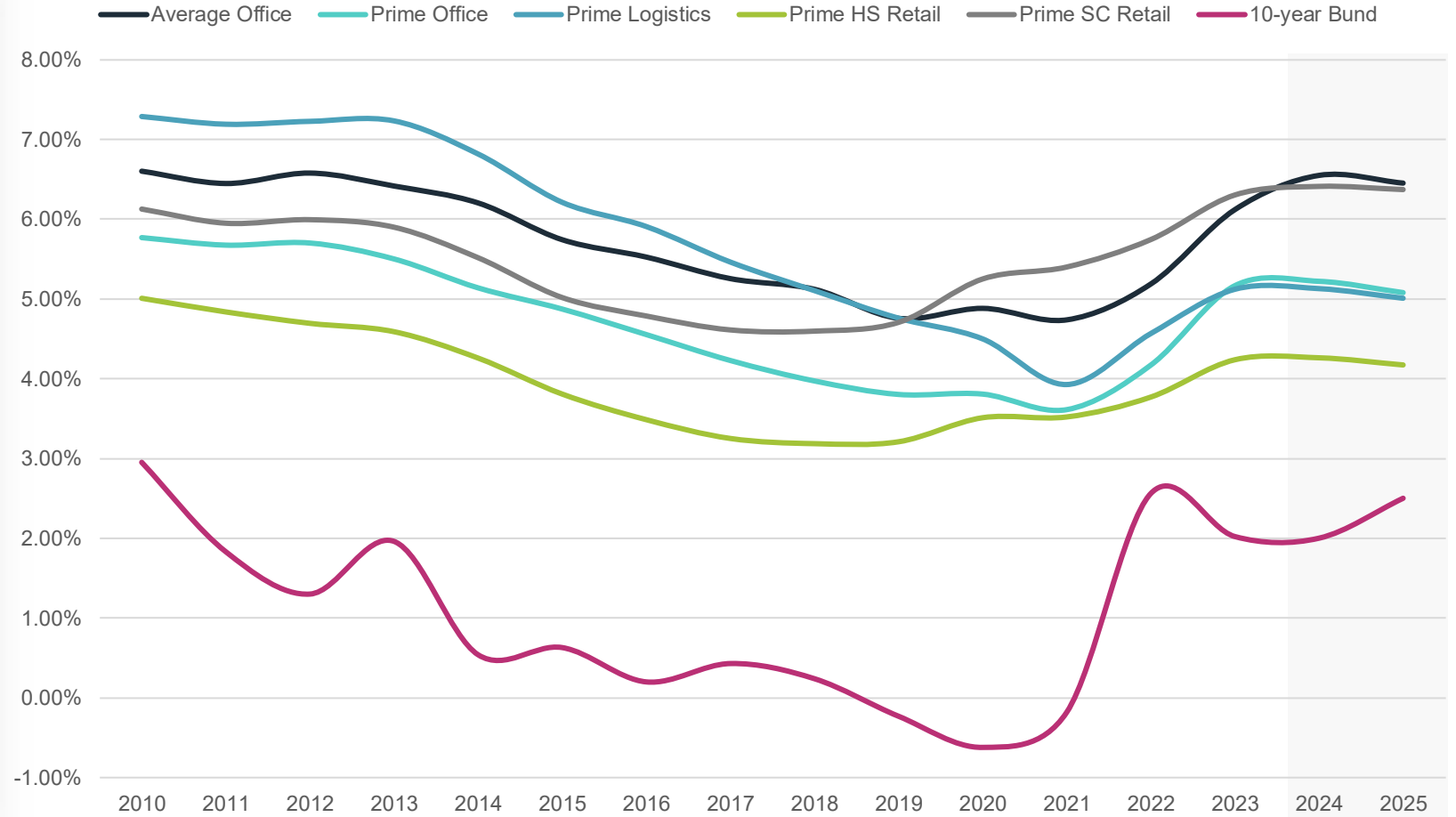
HOUSEVIEW

AVERAGE PRIME YIELDS IN EUROPE

BASED ON 16 MARKETS

Yield decompression has bottomed out

- After two years of significant adjustment in real estate values on the back of sharp increases in interest rate, 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) announcing the first cut in their policy rates in the summer.
- As a result market interest rates, such as swap and risk-free rates have adjusted lower. While the pace of these adjustments remain uncertain, we see the resultant fall in real estate yields starting at the beginning of 2025.
- However, for assets with a strong desirability the adjustment has already started driven by high investor demand and weak supply.
- The attractiveness of these assets depends greatly on its location, tenant demand and rental growth potential most of all.



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.
- There is no ambiguity about **logistics**. Factors such as online spending and supply chain disruptions have boosted demand for logistics space across Europe. We expect an end to yield expansion by 2024, with rental growth prospects encouraging investors back after the hiatus of 2023.
- The **retail** sector is enjoying a renaissances after years of being out of favour due to profound structural changes in shopping habits. We see good returns in both segments of the sector driven by high yields in Shopping center and good rental growth, hence capital values, in high street retail.



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.



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