EUROPE CRE 360

ECONOMIC OUTLOOK

REAL ESTATE PERSPECTIVES

GLOBAL RESEARCH
May 2023

BNP PARIBAS REAL ESTATE

Real Estate for a changing world

EUROPE CRE 360

CONTENTS

EXECUTIVE SUMMARY

IN A NUTSHELL

MODEST GROWTH IN EUROPE

In March, economic conditions in the major OECD economies remained favorable to limited expansion. In Europe, we are still seeing catch-up effects in energy-intensive sectors and the labour market remains resilient to current economic shocks.

However, we are still cautious as there are lots of uncertainties in the global economy. Growth remains finely balanced against recession.

INVESTMENT PLUMMETING

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. Over the 12 months ending with Q1 2023, investment reached €219 almost reaching Q1 2021's low point.
Overall, between Q1 2022 and Q1 2023, investment decreased by 60%. All asset classes experienced a strong reduction.

OFFICE LETTING ACTIVITY: A QUIET START TO 2023

While 2022's overall take-up returned to its long-term average in Europe, the contraction noticeable in few markets at the end of 2022 extended across Europe in early 2023. Take-up at the end of Q1 2023 shrank 23% relative to Q1 2022.
Most markets have experienced decline in volumes, mostly due to a reduced number of very large transactions.

LOW MOMENTUM FOR EUROPEAN LOGISTICS

The logistics market in Europe is slowing as manufacturing is starting to feel the effect of slower demand. Yet market fundamentals remain healthy as low vacancy rates and limited land availability continue to push rents up.
Yield decompression is slowing towards stabilisation in most European countries. This could unlock investment activity in the next quarters.

RETAIL LEAST AFFECTED BY SLOWDOWN

Retail experienced only a decrease of 6% in investment volumes (vs Q1 2022) and regained interest in terms of investment market share. Brands expansion present a mixed picture in Q1 2023, with premium/luxury retailers and innovative mass-market ones still dynamic on the occupier market, while the cost of living crisis is exposing weaknesses in many brands' business strategies.

RESIDENTIAL: A FADING CYCLE

Residential investment plummeted by 70% in Q1 2023 y/y. Housing transaction volume dropped by 6.8% driven by tight credit conditions. House prices continue to rise but at a slower pace +3.6% after +6.7% at the beginning of the year. Rental values are booming owing to the shift in the monetary policy and the drop of listed property put up for rents.

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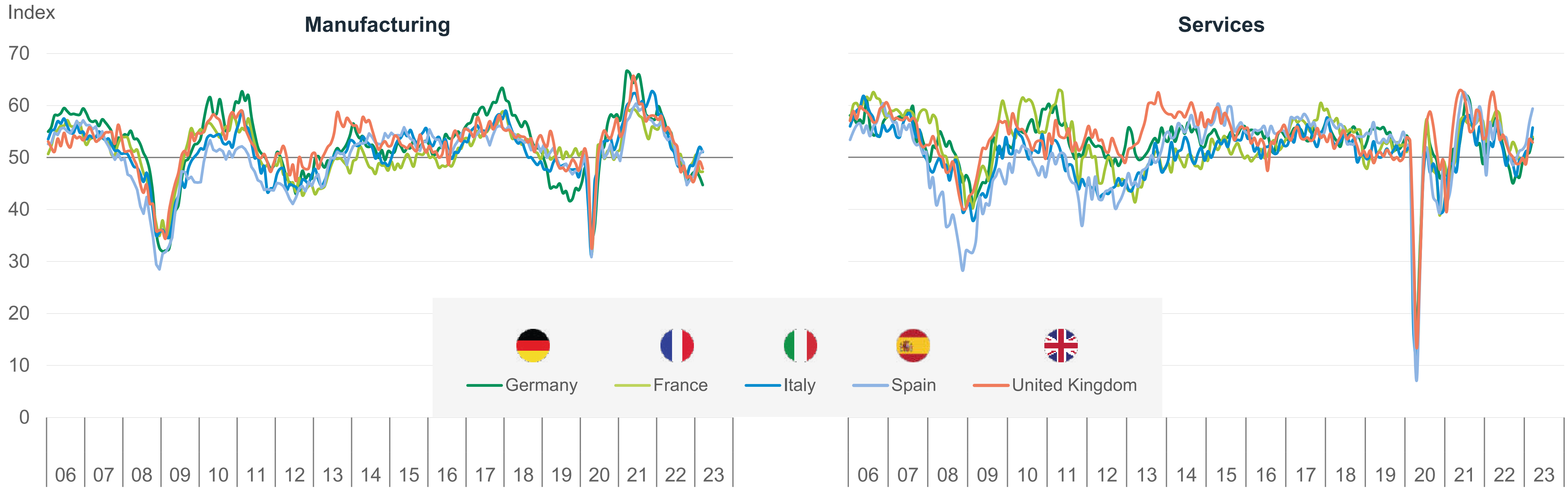
PURCHASING MANAGER INDEX SURVEYS

DIVERGENCE BETWEEN INDUSTRY AND SERVICES



Sources: S&P, BNP Paribas Economic Research.

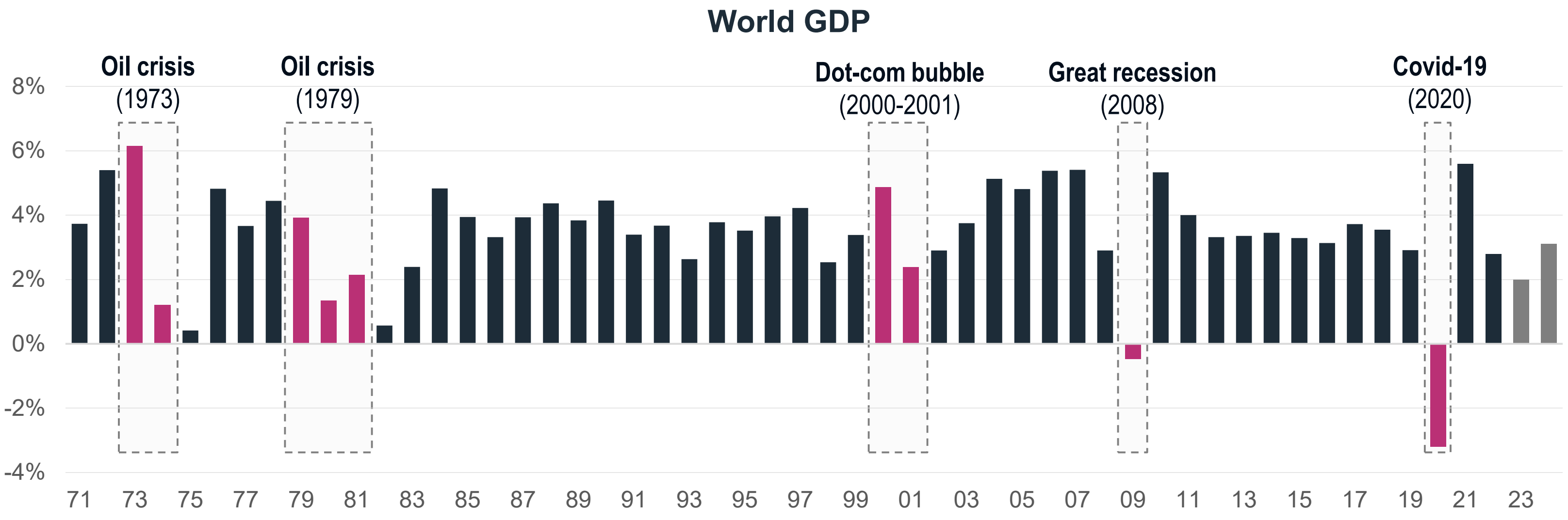
Strong divergence between manufacturing and services

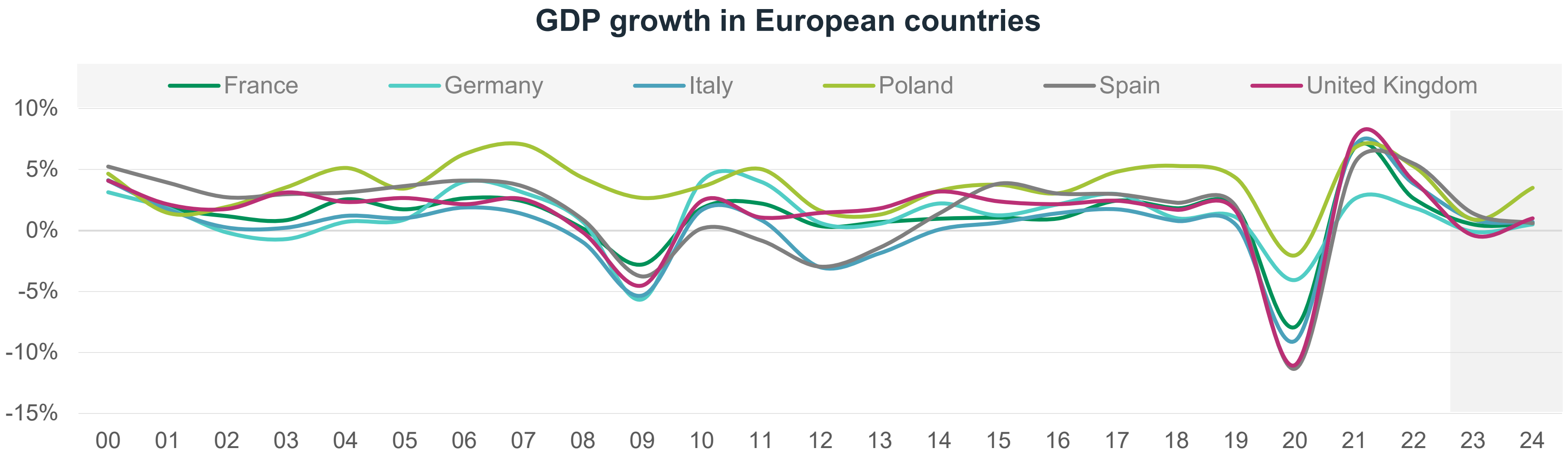
PMI indices indicate that overall activity is not faltering: the composite index rose from 53.7 to 54.4 in April 2023. The manufacturing PMI fell further in contractionary territory to 45.5 from 47.3 in March, while the services index rose again to 56.6, the best reading in a year.

The growing gap between the industry and services indicators raises questions about the nature of the current economic cycle. The service sector leads expansion whilst manufacturing is starting to feel the effects of slower demand. Though improved delivery times in the supply chain allowed fulfillment of existing orders, new orders maybe weakening

ECONOMIC OUTLOOK

WHAT OUTLOOK FOR THE MAIN ECONOMIES?





Sources: BNP Paribas Real Estate, OECD.

Slower activity has a number of causes

- After a year characterized by an inflationary shock and a bond crash, 2023 will not escape a slowdown in activity. There are roll over factors from 2022 that may dampen output:
  - The invasion of Ukraine by Russia may continue to shape energy and commodity prices. Its main impact in 2023 is to impose energy transition costs that may act as a drag on output
  - The reopening of the Chinese economy following abandonment of zero-Covid will take time to feed into the global economy, particularly through supply chains
  - Monetary tightening from the main central banks is likely to sustain over 2023 with no loosening

Lower growth for Europe

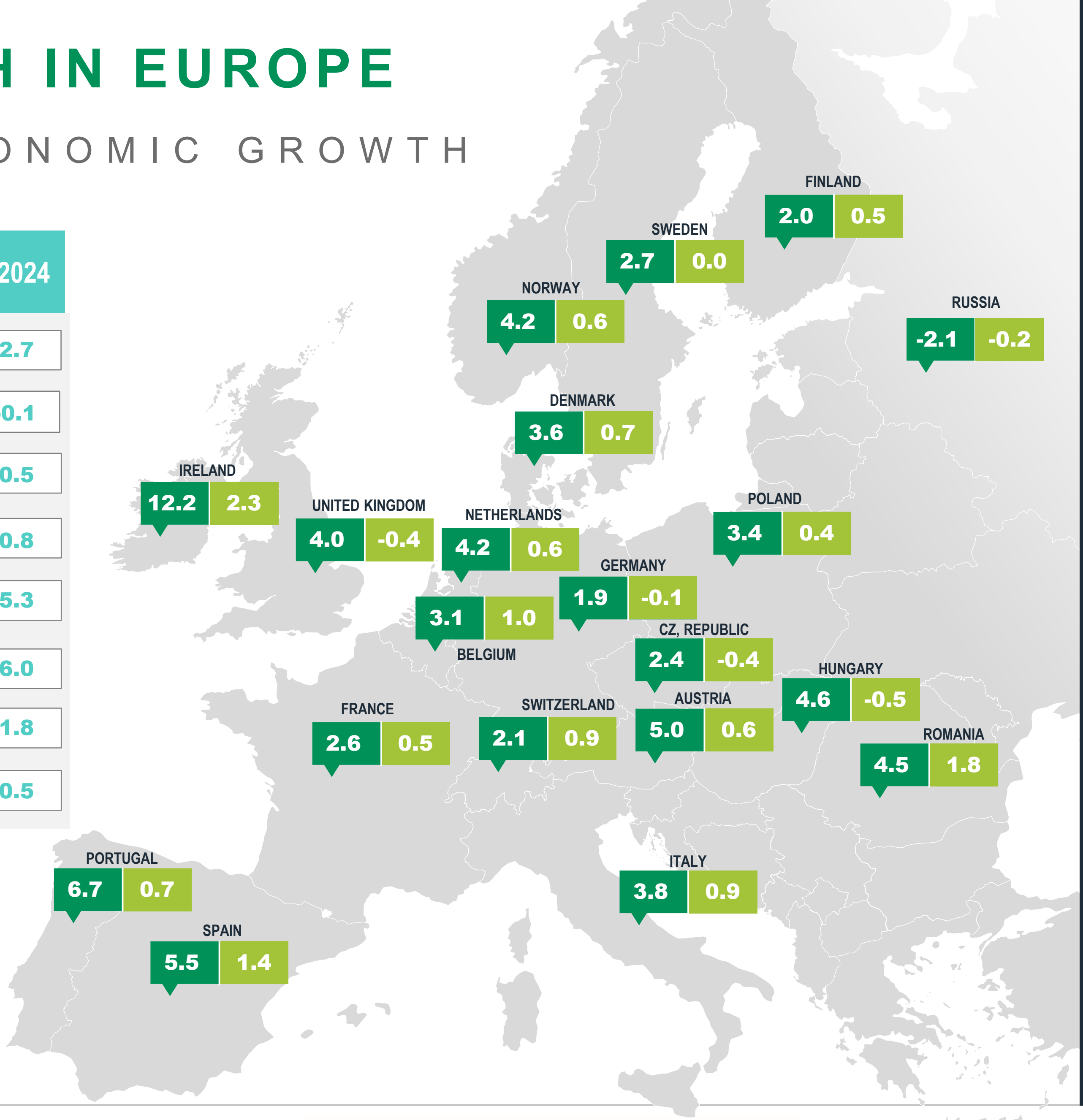
- Despite the current uncertainties, we expect positive growth in Europe. Indeed, the limited rise in unemployment, the support from fiscal policy in many European countries and the need to invest in the context of the energy transition should limit the economic shock.
- Nonetheless, the economy remains finely balanced between recession and expansion and could tilt either way. It is greatly dependant on the policy response from the ECB.
- Overall, we may see weak to moderate growth in Europe in 2023 (0.7%).

GDP GROWTH IN EUROPE

RESILIENT ECONOMIC GROWTH

FORECAST (%):

	2022	2023	2024
World	3.1	2.2	2.7
United States	2.1	1.4	-0.1
Euro area	3.5	0.7	0.5
Japan	1.0	1.2	0.8
China	3.0	5.6	5.3
India	7.0	5.7	6.0
Russia	-2.1	-0.2	1.8
Brasil	2.9	1.5	0.5



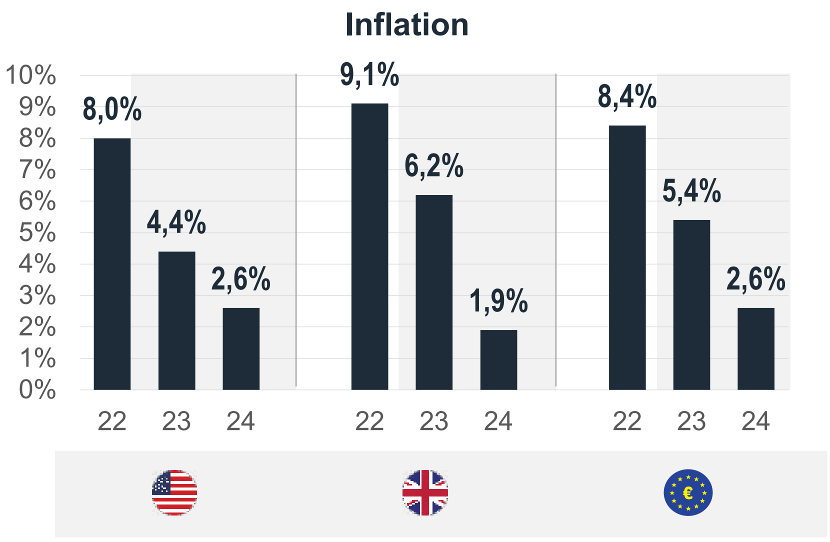
Source: BNP Paribas Real Estate Research.

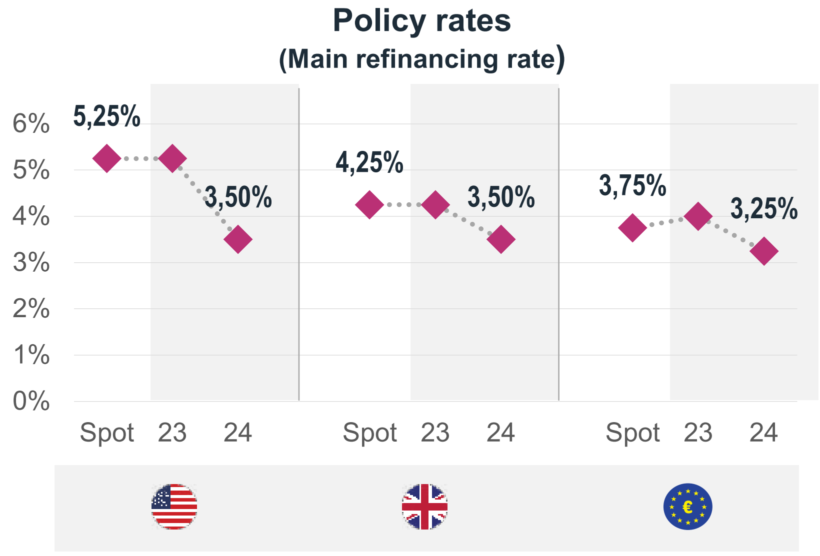
A more resilient economic scenario

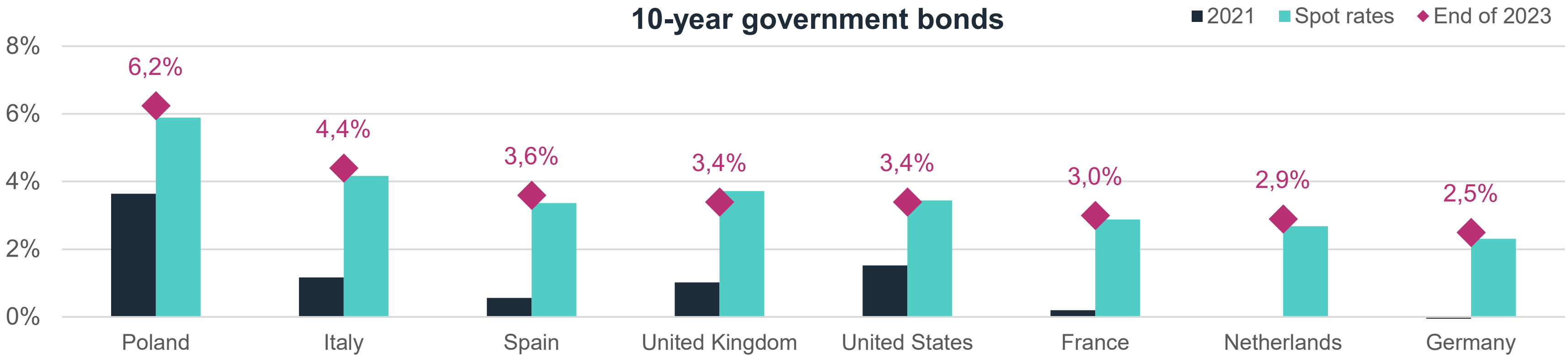
- In March, economic conditions in the major OECD economies remained favorable towards some expansion.
- While in the US, the growth momentum is continuing, Europe is still benefitting from catch-up effects in the energy-intensive sectors and in transport equipment (which is benefitting from reduction in supply difficulties).
- China's economic activity started to rebound in late January, driven primarily by services and household consumption.
- According to our forecasts, the outlook for growth in 2023 is fairly mixed: from the United Kingdom (where negative growth cannot yet be ruled out) to the United States and Japan (where growth should be clearly positive).
- The Eurozone should experience lower growth. While a recession is unlikely for 2023, growth is still incredibly fragile. Unemployment remains at record lows, fueling labour shortages and faster wage increases.

FINANCIAL OUTLOOK

ECONOMIC AND FINANCIAL INDICATORS







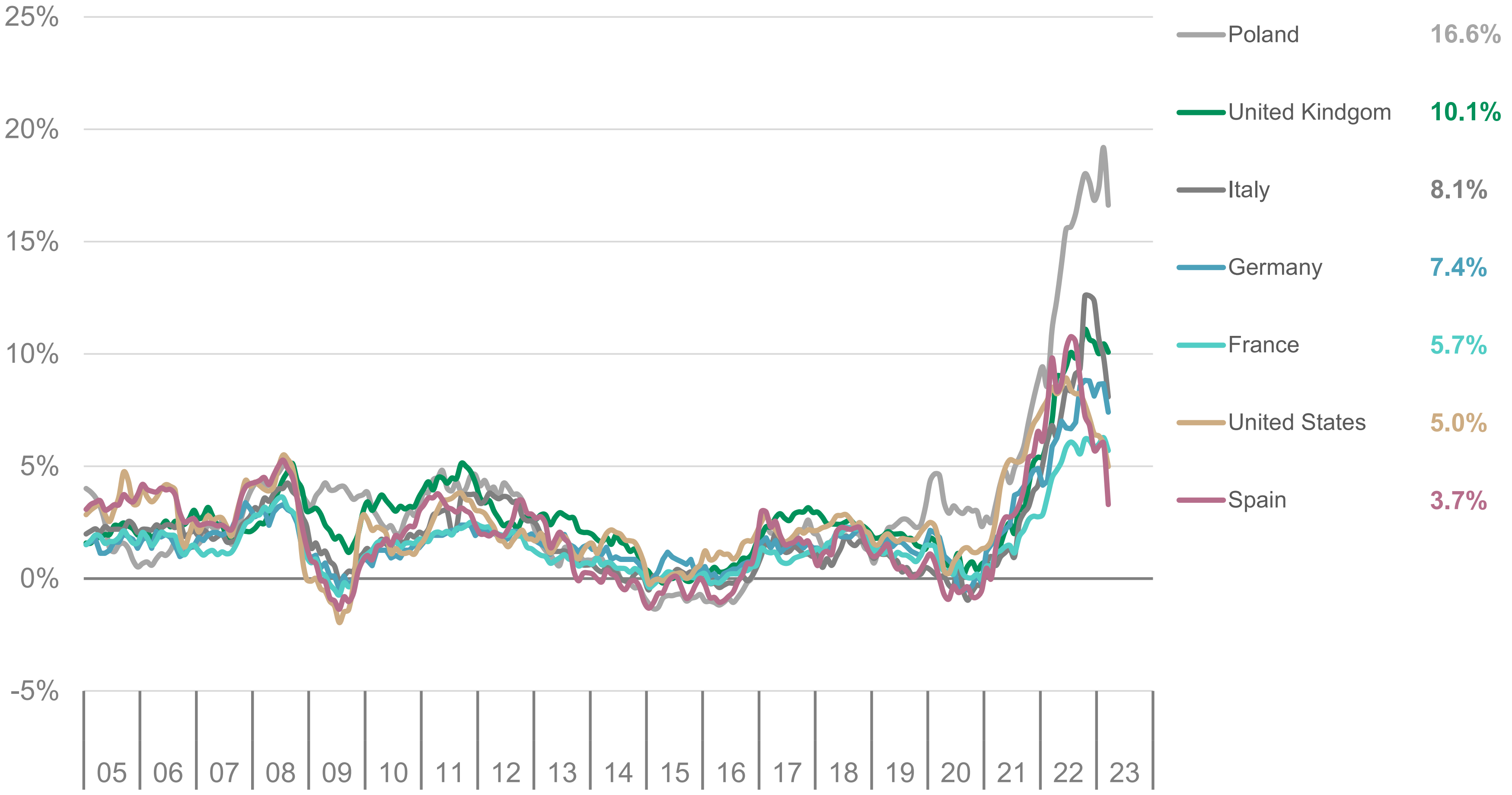
Sources: BNP Paribas Economic Research, OECD.

Normalization in monetary policy

- The decline in energy inflation has led to disinflation in the headline rate. This is relative, as core inflation has not declined to the same extent in either the US or Europe. Food inflation is a key driver having reached new heights in Europe.
- As a result, the recovery in household confidence remains very moderate and is not yet reflected in the willingness to buy in many countries.
- In the US, the Federal Reserve should continue its tightening policy. Given the current economic uncertainties, we expect the terminal rate to be lower than previously expected, at 5.25% (upper range).
- The ECB should also continue to increase interest rates, with the deposit facility rate peaking at 3.5% (and the refinancing rate peaking at 4.0%) in June.
- The ECB is waiting for cooler wage growth and clearer signs of lower core inflation before ending the rate cycle. The new rates will maintain through the rest of 2023 with no cuts until 2024.
- In the near-term, there is some upward potential for long term rates. As 2023 moves to its end, yields may move lower as the inflation outlook improves and the market starts anticipating policy easing in 2024.

INFLATION IN EUROPE

WAITING FOR MORE SIGNIFICANT DISINFLATION



Source: Macrobond.

Disinflation is a slow process

- The preliminary inflation numbers for February had the effect of a cold shower on hopes that prices were under control due to the acceleration of core inflation.
- Inflation barely slowed in February (8.5% YoY, after reaching 8.6% in January) as the drop in the contribution of the energy was offset by the increase from the food component and services prices.
- As a result, the inflation rate should remain significantly above the target of 2% by the end of 2023.
- The disinflationary trend should continue in the coming month albeit at a slow pace. On the supply side, the delivery times index is now at a record level as supply chain pressures have eased. In addition, lower prices might be expected as demand is just starting to weaken.

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COMMERCIAL REAL ESTATE INVESTMENT MARKETS

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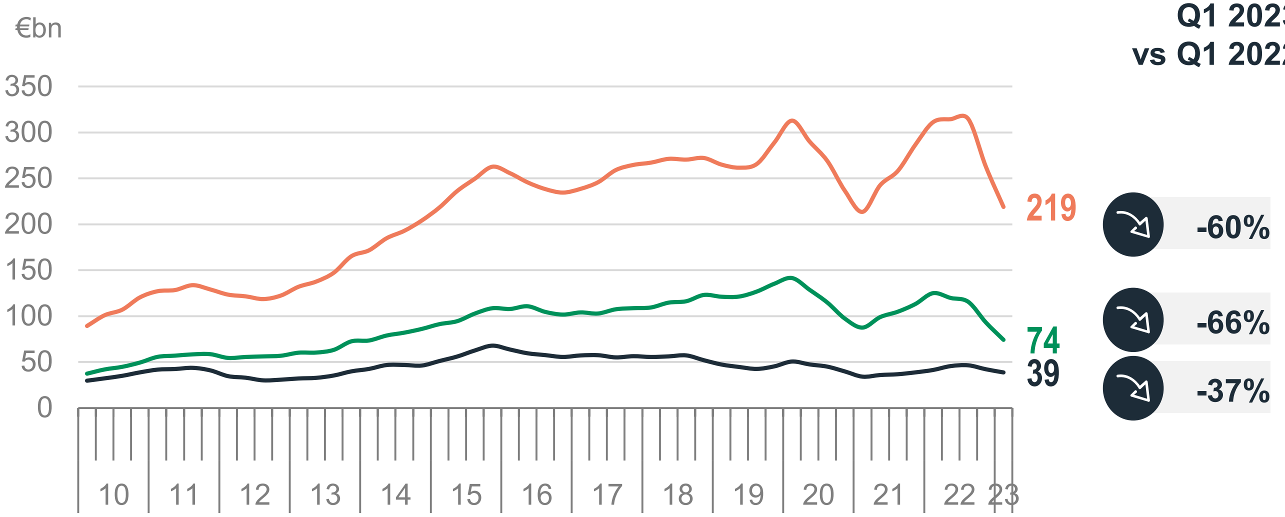
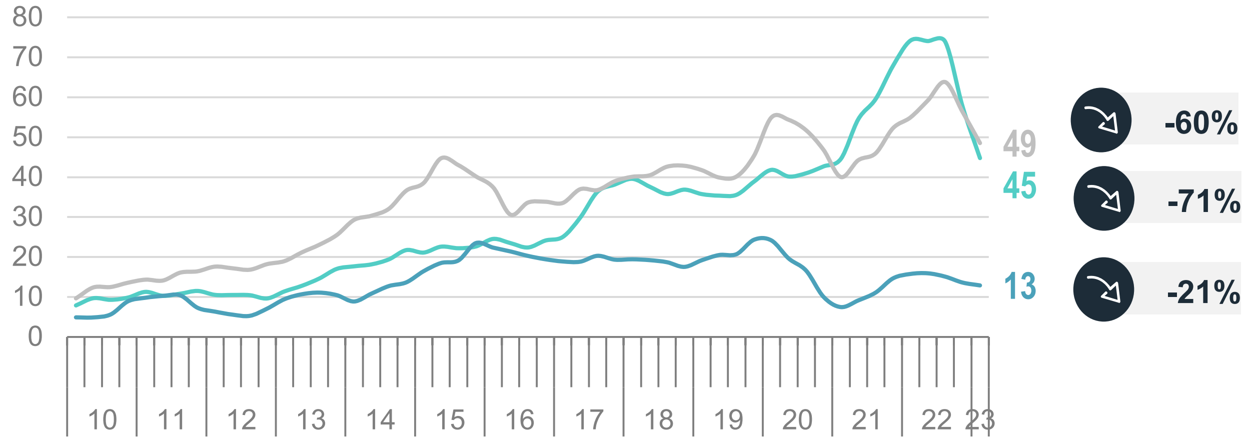
INVESTMENT IN COMMERCIAL REAL ESTATE IN EUROPE

BREAKDOWN OF INVESTMENT BY ASSET CLASS

Q1 2023 vs Q1 2022





Investment scales back as buyers and sellers assess pricing

- Investment reached a high of €313bn in Q2 2022, almost touching Q1 2020's record (€314bn). 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. Over the 12 months ending with Q1 2023, investment reached €219 almost reaching Q1 2021's low point.
- Overall, between Q1 2022 and Q1 2023, investment decreased by 60%. All asset classes experienced a strong reduction. Logistics (-71%) was the most affected as prices were already expensive before problems arose. Offices (-66%) suffered as well as complicated pricing adds difficulties to a sector where structural change seems to be underway. Hotels (-21%) and retail (-37%) incurred the least declines.

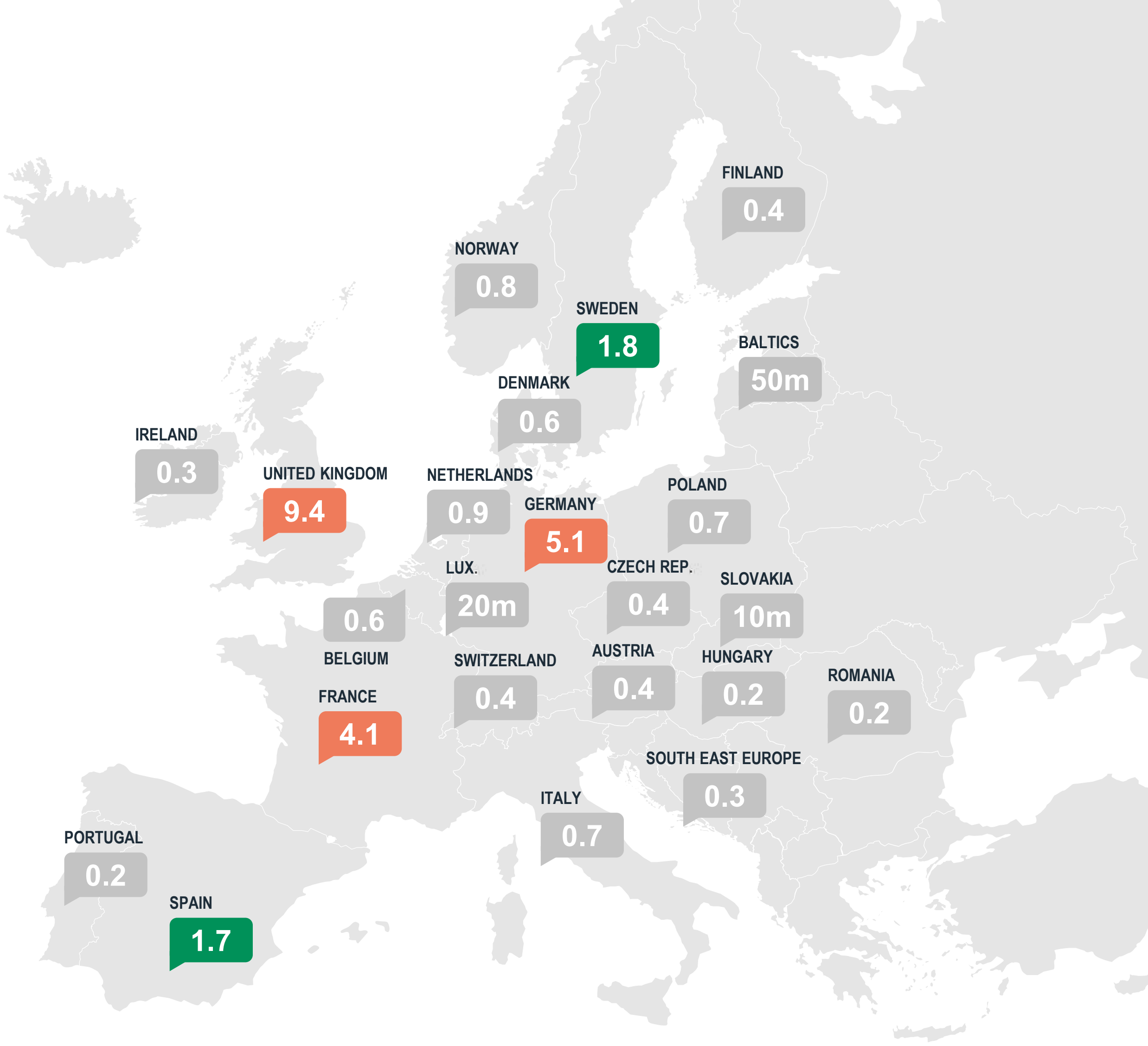
Commercial real estate
Office
Retail
Industrial & logistics
Hotel
Other

This excludes residential investment.

COMMERCIAL REAL ESTATE INVESTMENT

Q1 2023 vs Q1 2022

GERMANY	-74%
UNITED KINGDOM	-58%
FRANCE	-25%
NETHERLANDS	-73%
ITALY	-74%
SPAIN	-38%
POLAND	-69%
IRELAND	-23%
BELGIUM	-69%
CZECH REPUBLIC	-56%
LUXEMBOURG	-95%



≥ €3bn

€1-3bn

< €3bn

(excludes residential investment)

Source : BNP Paribas Real Estate

EUROPE – Q1 2023

€29.0bn

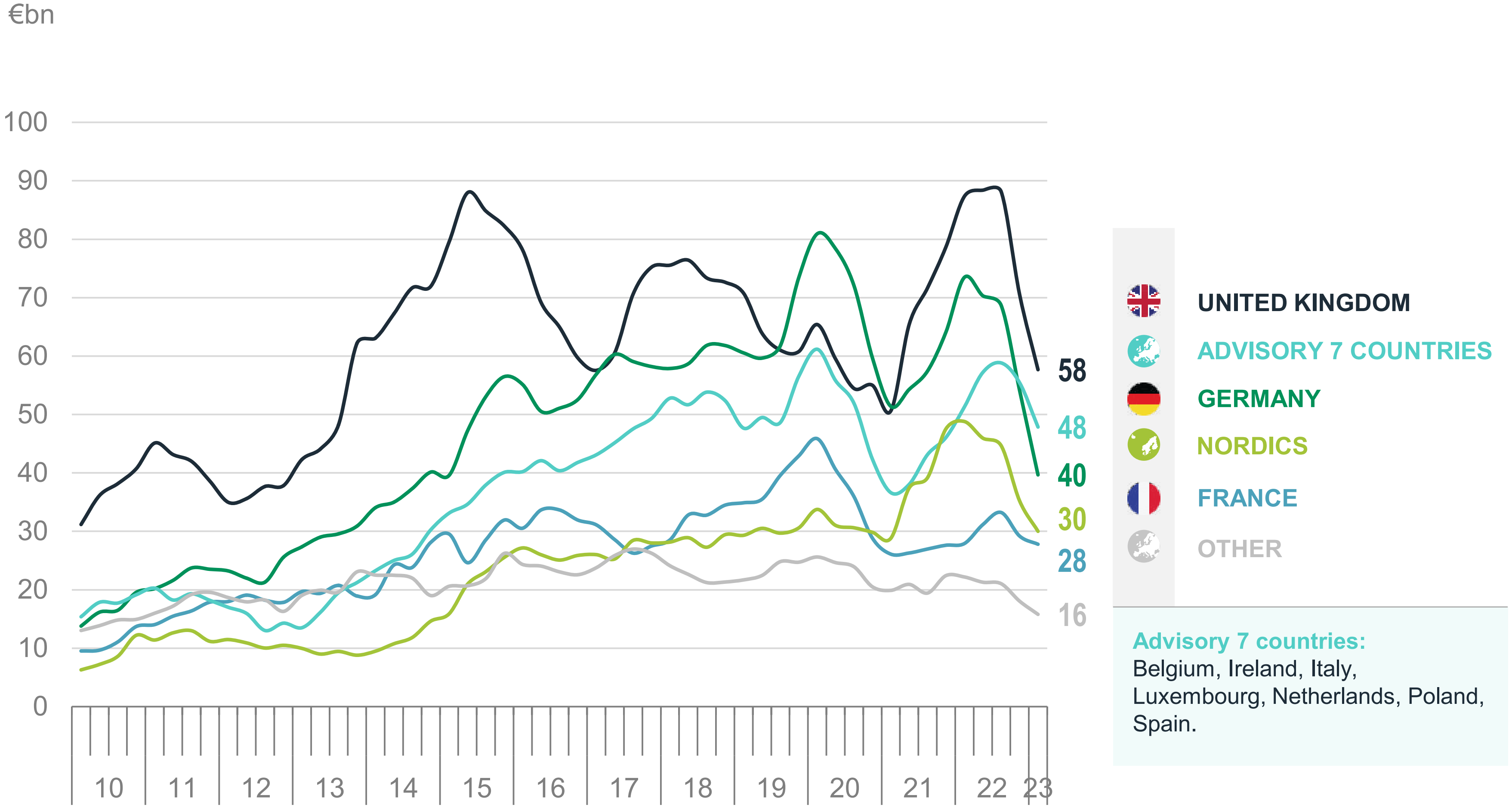
-60% vs Q1 2022

- €29.0bn were invested in Europe over Q1 2023, which represents a 60% decrease vs Q1 2022.
- All countries experienced a decline: Germany (-74%), the UK (-58%) and France to a lesser extent (-25%) largely due to no peaking earlier in 2022. Italy (-74%), the Netherlands (-73%), Belgium and Poland (-69%) saw their investment drop back while declines in Spain (-38%) and Ireland (-23%)'s were of lower magnitude.

COMMERCIAL REAL ESTATE INVESTMENT VOLUME

INVESTMENT REMAINS HIGH EVEN WITH BUYER CAUTION

CRE Investment volume (€ billion)



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

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.

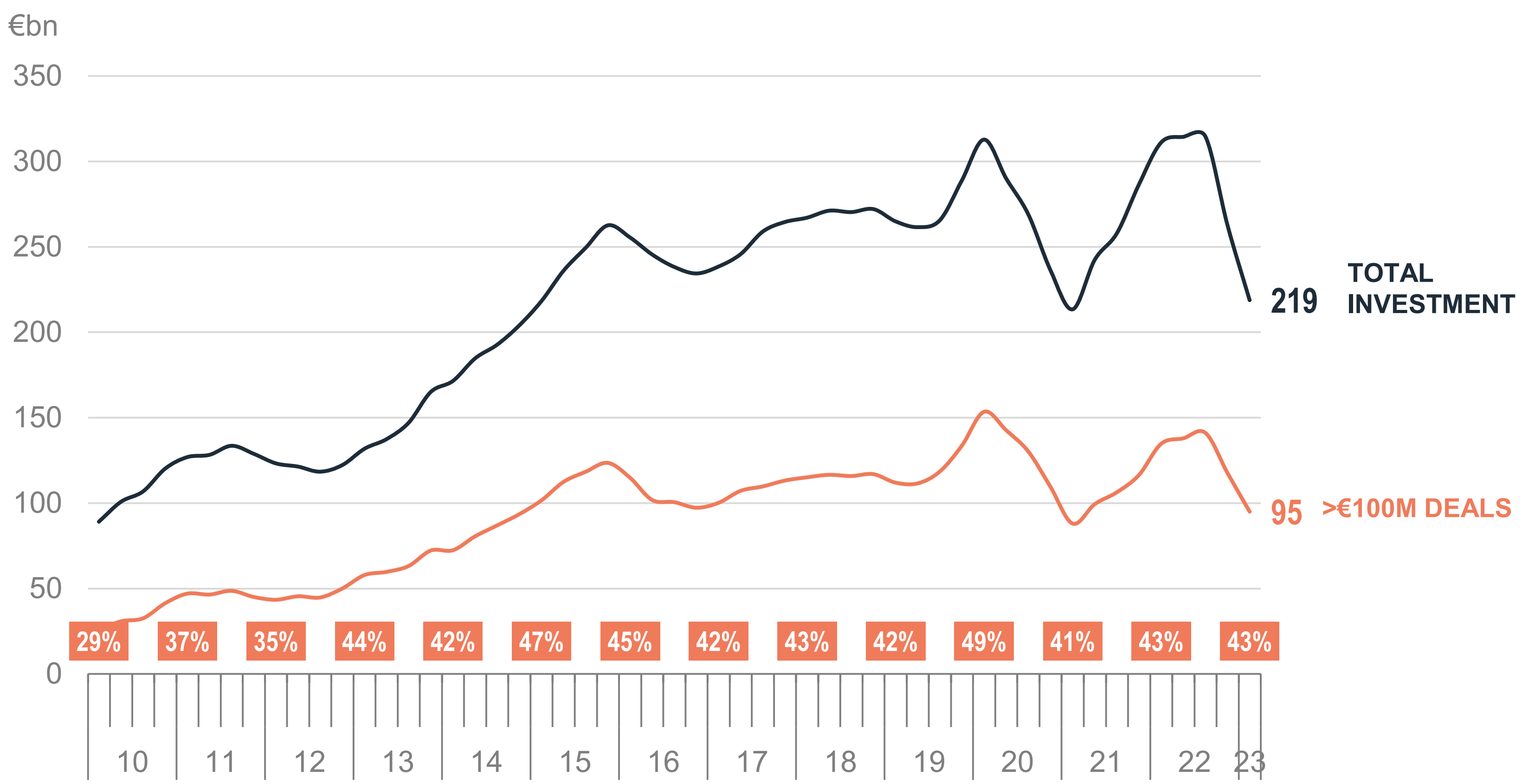
INVESTMENT BY SIZE BAND

Mega deals also scaling back

- The peak in mega deals (>€100m) occured in Q1 2020 with a record figure of €155bn (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 €89bn occurred in Q1 2021. This was down 43% over Q1 2020 figure. Prior to global interest rate cycle tightening, the segment was regaining momentum reaching €141bn 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 sorts of deals take a long time to complete. Consequently the share of mega deals increased (46%).

Commercial Real Estate Investment in Europe

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



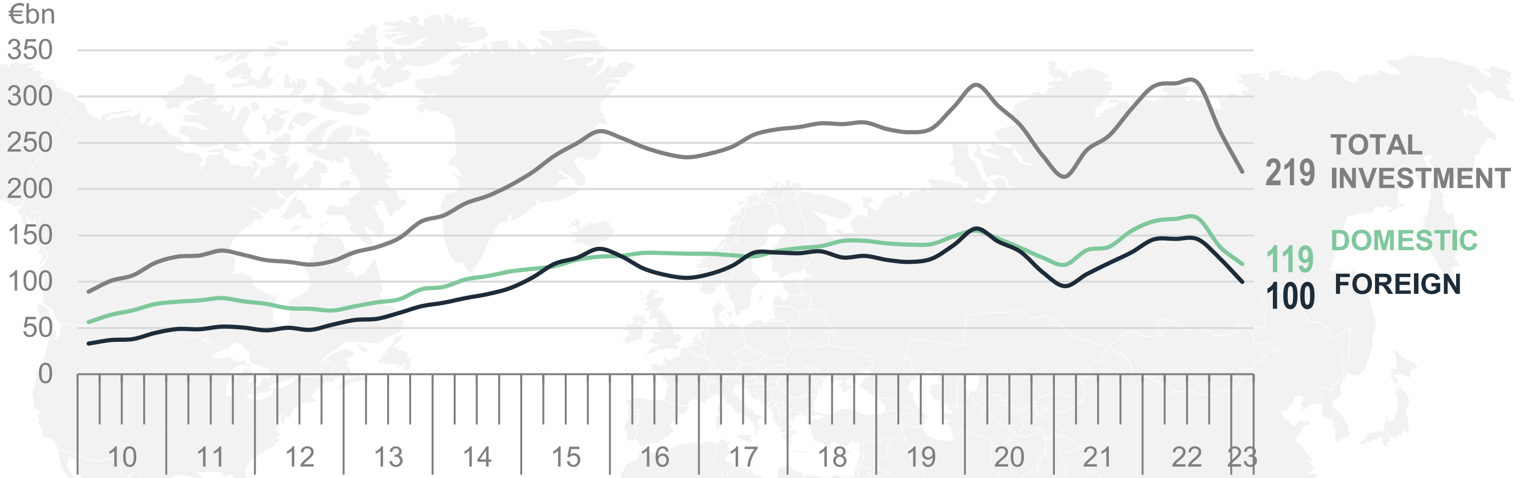
Source: BNP Paribas Real Estate.

CROSS-BORDER INVESTMENT MARKET

- Over 2022, foreign investment was very high during the first 3 quarters, peaking at €146bn (on a rolling-year basis) in Q2. It then declined sharply over Q4 reaching €100bn in Q1 2023 (-32%).
- Within foreign investment, **European cross-border investment declined in line with the overall reduction in activity (-30%).** It represents 42% of foreign investment, a smaller share than during the Covid-19 years, but still above pre-pandemic times.
- Investment from other continents shows contrasting developments. **American investors** showed less interest in the European market (-37%) but are still very present with 33% of foreign investment.
- Investments from Asia Pacific were also very important over the 12 last months. **With more than €13bn invested, (-6%),** Asian investor share increased slightly (13%).
- Middle East investors are less interested in the European market compared to Americans and Asians. **They only represented 3% of the last 12 months foreign investment with €2.8bn invested (-14%).**

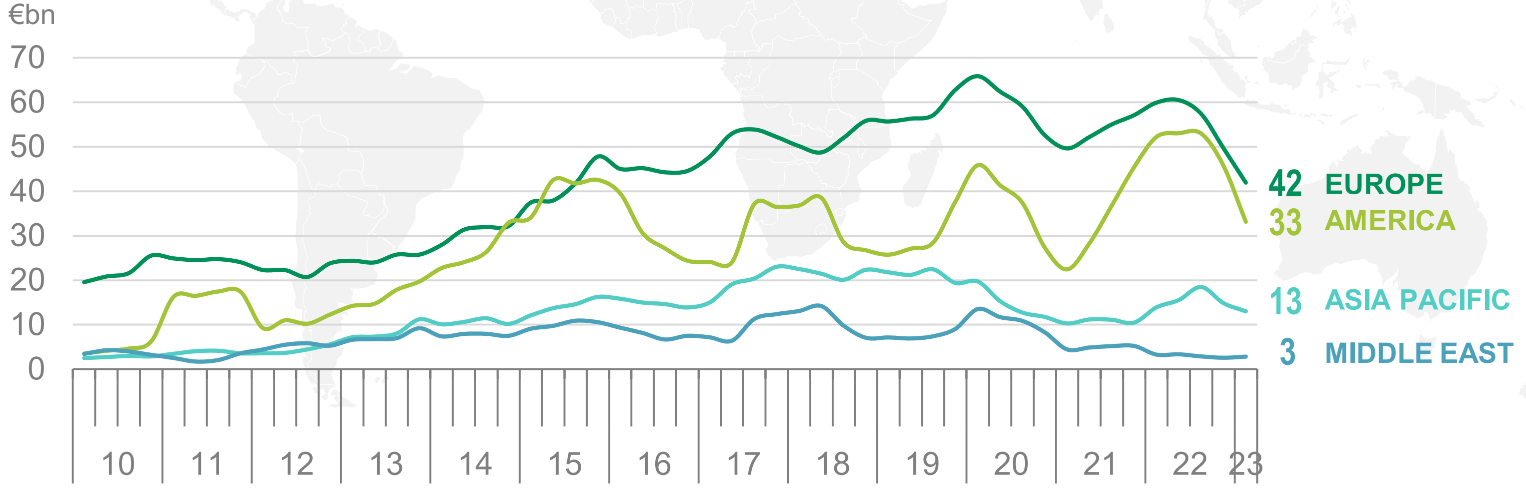
Commercial Real Estate Investment in Europe

Total, foreign and domestic investment



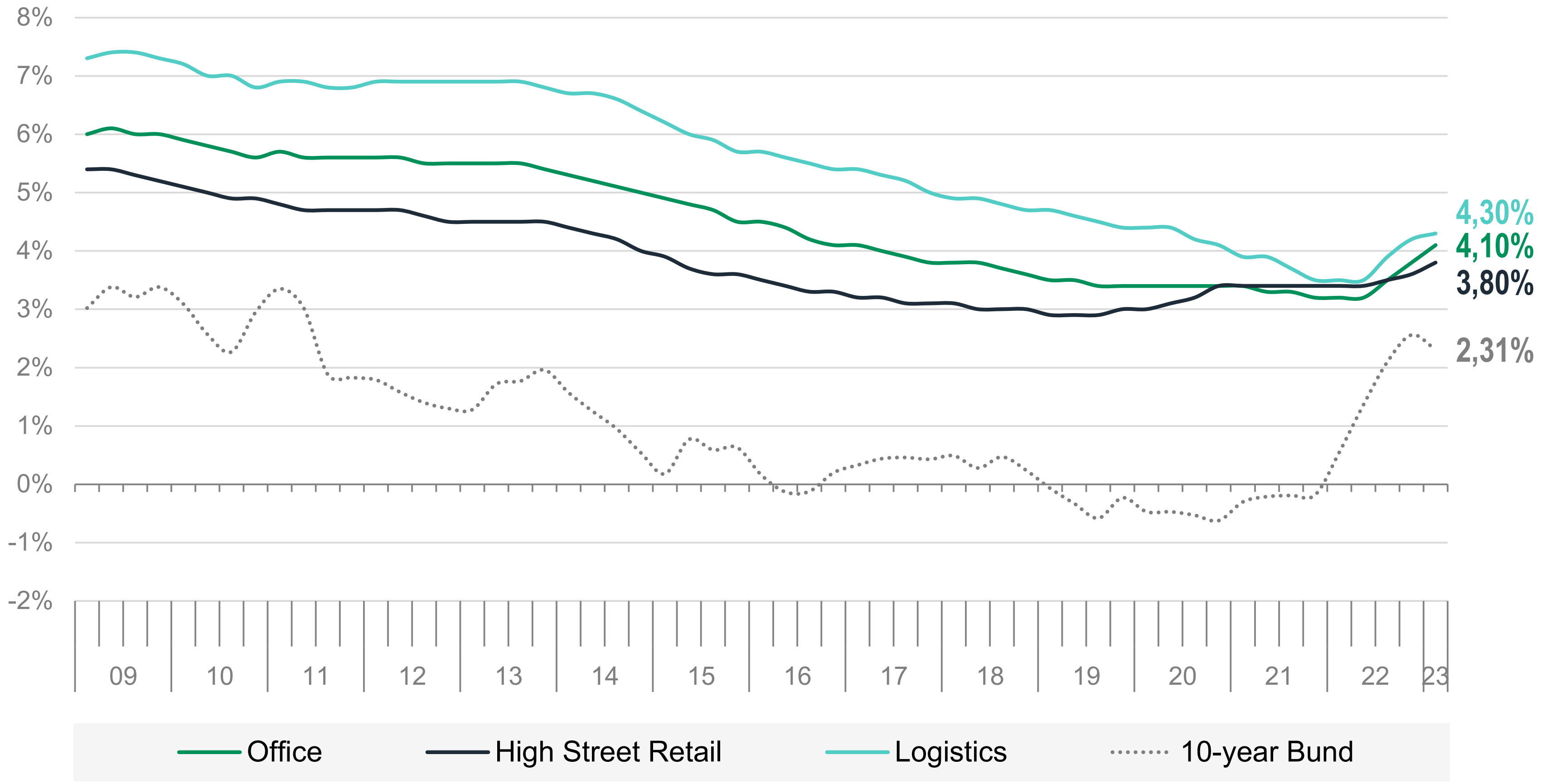
Commercial Real Estate Investment in Europe

Foreign investment detail



AVERAGE PRIME YIELDS IN EUROPE

BASED ON 16 MARKETS



Source: BNP Paribas Real Estate Research.

- Prime yield compression, came to an end in 2022 closing off ten years of declines.
- Mid-2022 showed the first signs of expansion that have strengthened since. Decompression is affecting all the main sectors of real estate.
- 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.

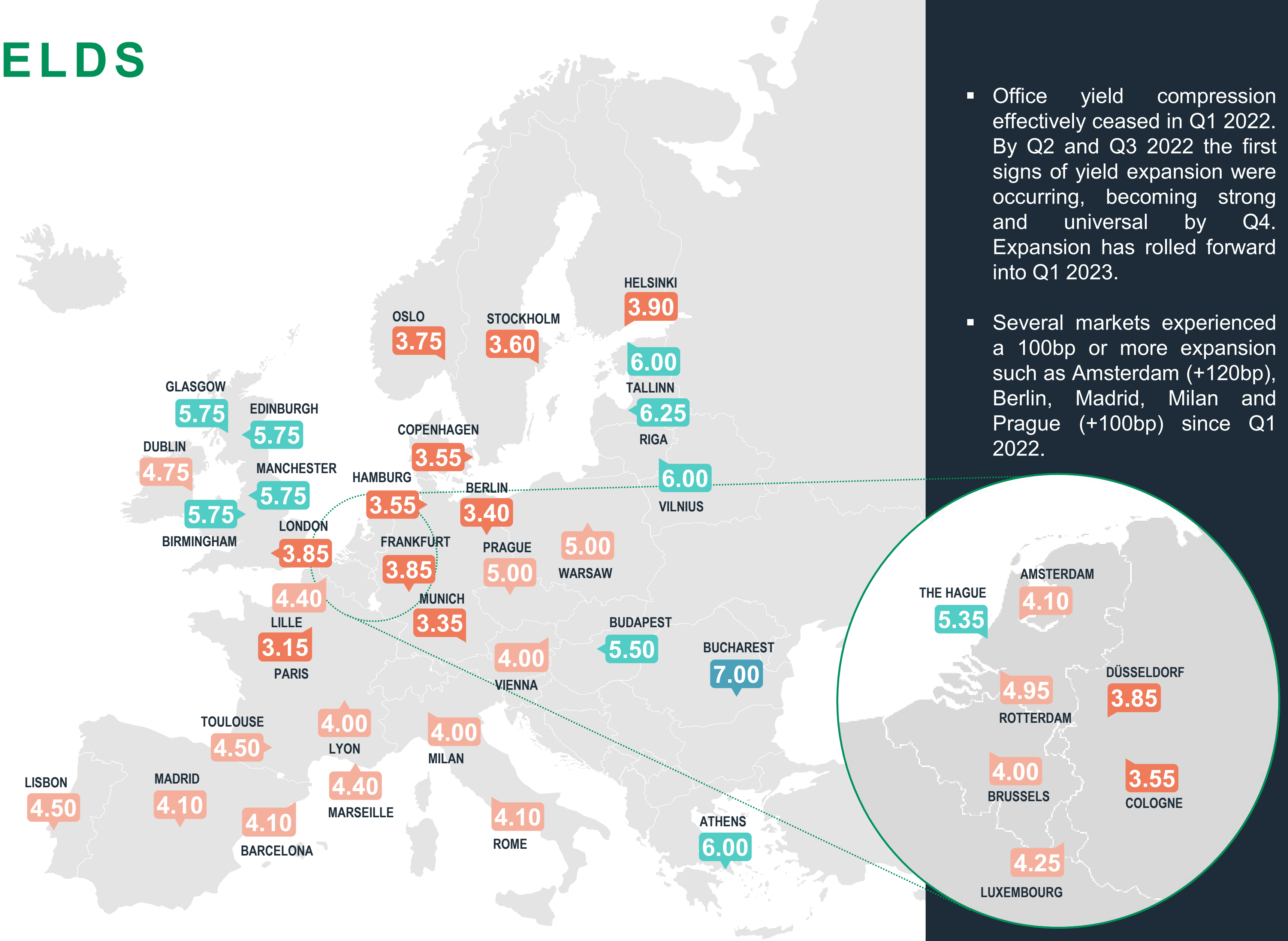
Based on 16 cities: Amsterdam, Berlin, Brussels, London, Paris, Dublin, Frankfurt, Hamburg, Lisbon, Luxembourg, Madrid, Milan, Munich, Prague, Vienna and Warsaw.

PRIME OFFICE YIELDS

Q1 2023 vs Q1 2022

BERLIN	+100bp
PARIS	+45bp
AMSTERDAM	+120bp
MADRID	+100bp
MILAN	+100bp
LONDON	+60bp
LUXEMBOURG	+85bp
BRUSSELS	+75bp
DUBLIN	+75bp
PRAGUE	+100bp
WARSAW	+50bp

≤ 4%
4-5%
5-6%
>6%



Source : BNP Paribas Real Estate

- 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 Q1 2023.
- Several markets experienced a 100bp or more expansion such as Amsterdam (+120bp), Berlin, Madrid, Milan and Prague (+100bp) since Q1 2022.

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REAL ESTATE PERSPECTIVES

OFFICE MARKETS

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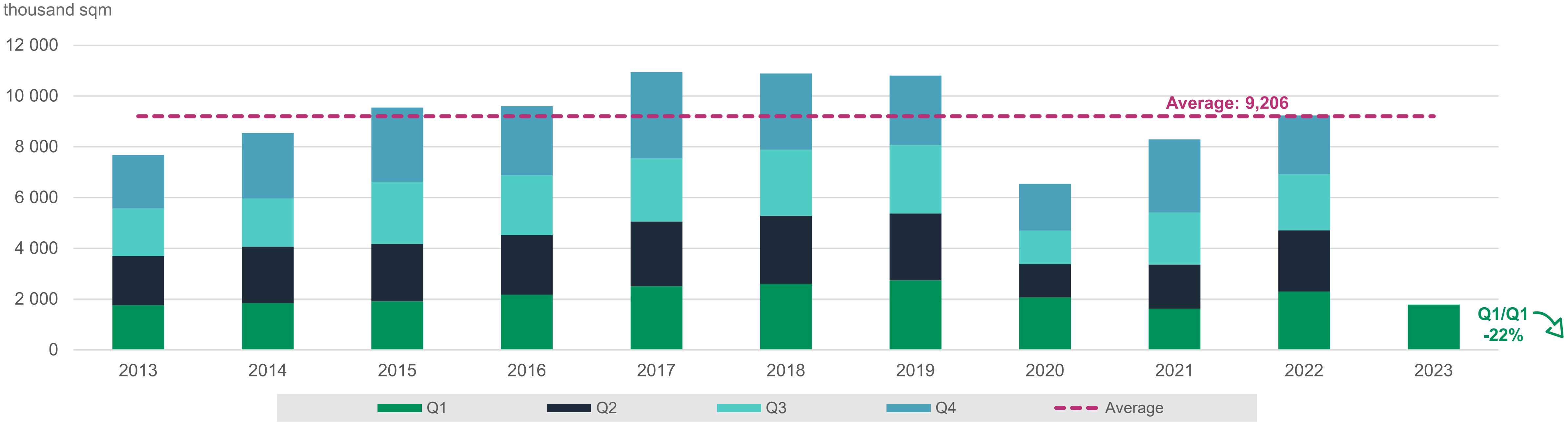
OFFICE TAKE-UP IN EUROPE – 3-MONTH PERIOD

17 MAIN EUROPEAN OFFICE MARKETS*



A modest start to 2023

- While 2022's overall take-up returned to its long-term average in Europe, the contraction noticeable in few markets at the end of 2022 extended across Europe in Q1 2023.
- Around 1.80 m sqm transacted over Q1 23 in the 17 main European markets, decreasing by 22% vs Q1 22.
- Quarterly volumes stood at 15% below their Q1 10-year average.
- Take-up declined in many markets including Dublin (-42%), Central Paris (-36%), Warsaw (-36%) and the six main German markets (-24%).
- Rome and Amsterdam stand in contrast accelerating by 70% and 34% y.o.y respectively. .

Source: BNP Paribas Real Estate Research.

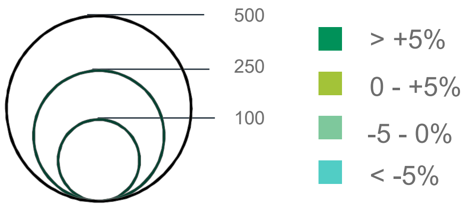
* Berlin, Cologne, Düsseldorf, Frankfurt, Hamburg, Munich, Central Paris, Central London, Brussels, Barcelona, Madrid, Dublin, Milan, Rome, Luxembourg, Amsterdam, Warsaw

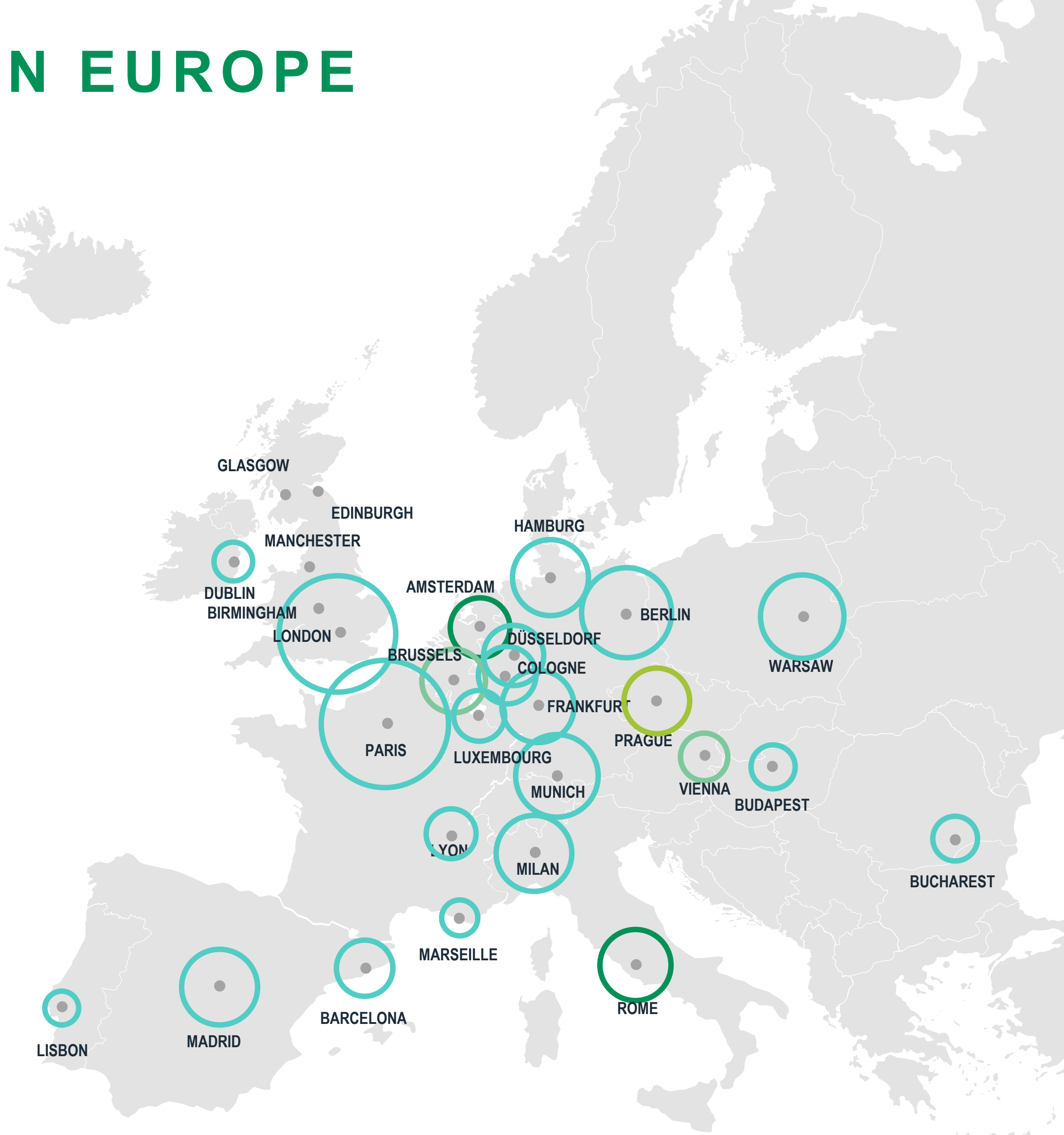
OFFICE TAKE-UP IN EUROPE

Q1 2023 vs Q1 2022

CENTRAL LONDON	-10%
BERLIN	-22%
CENTRAL PARIS	-36%
AMSTERDAM	+34%
MADRID	-24%
MILAN	-9%
WARSAW	-36%
BRUSSELS	-4%
DUBLIN	-42%
LUXEMBOURG	-35%

Deals in thousand sqm





Source: BNP Paribas Real Estate.

EUROPE – Q1 2023

2.17m sqm

26 markets

-23% vs Q1 2022

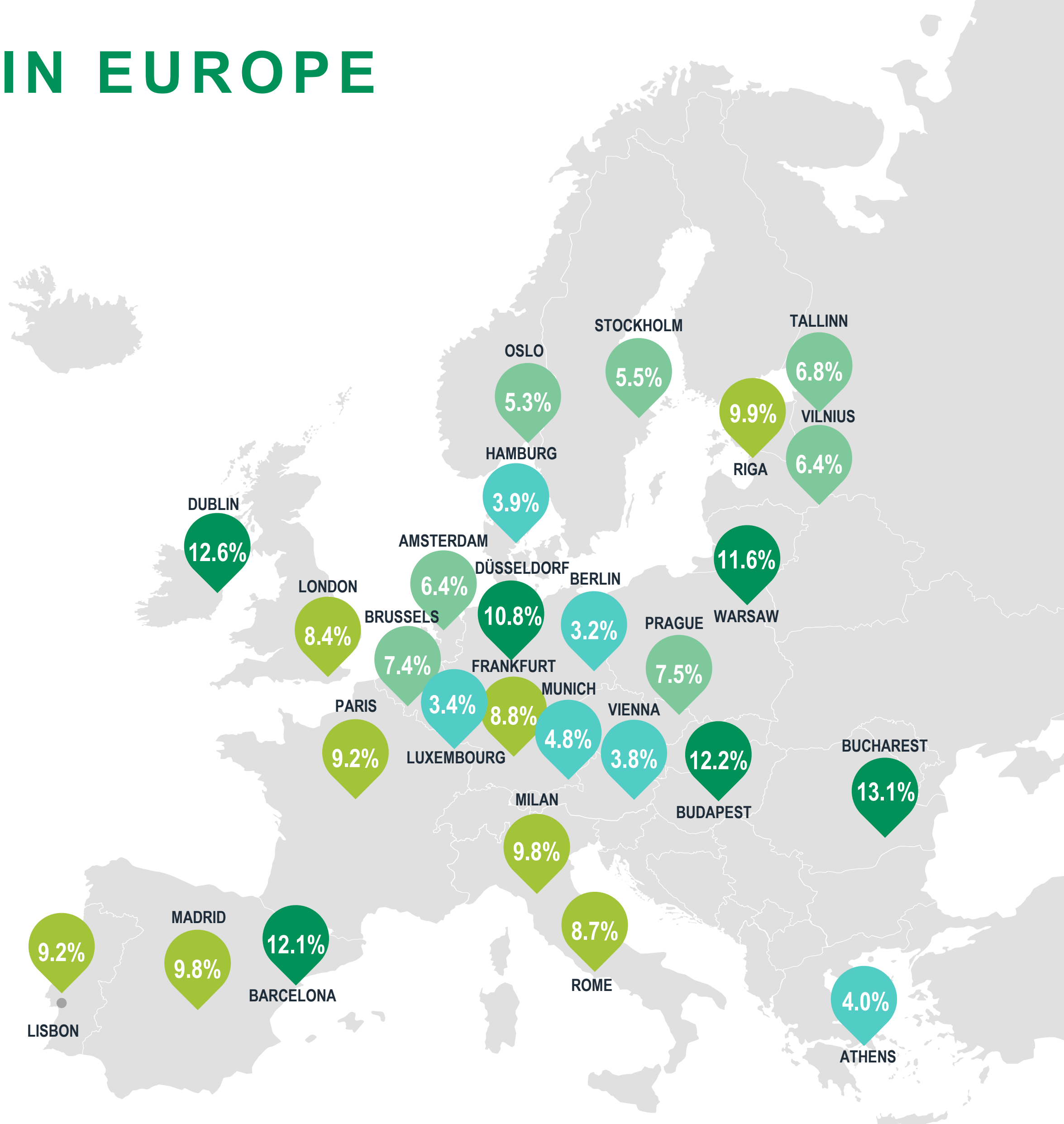
Take-up down in Q1 2023

- Take-up at the end of Q1 23 shrank 23% relative to Q1 22.
- 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 have seen an increase in letting activity. This occurred with Rome (+ 70%) where the volume was driven by the closure of a very large transaction to a public sector tenant.

OFFICE VACANCY IN EUROPE

Q1 2023 vs Q1 2022

CENTRAL LONDON	-30 bp	↘
BERLIN	-20 bp	↘
CENTRAL PARIS	+70 bp	↗
AMSTERDAM	+50 bp	↗
MADRID	=	→
MILAN	+20 bp	↗
WARSAW	-60 bp	↘
BRUSSELS	-60 bp	↘
DUBLIN	+210 bp	↗
LUXEMBOURG	-50 bp	↘



Source: BNP Paribas Real Estate

EUROPE – Q1 2023

7.4%

29 markets

+20bp vs. Q1 2022

Vacancy remains under control in Europe

- The overall vacancy rate in Europe stood at 7.4% at Q1 2023 (+20bp vs. Q1 2022).
- Most markets are stable, though vacancy increase occurred in Barcelona (+300 bps vs. Q1 2022) and Dublin (+210 bps) which saw strong completions in 2022.
- Most markets are seeing two-speed dynamics, with low availability in central submarkets and in new buildings, and much higher vacancy rates in peripheral office districts.

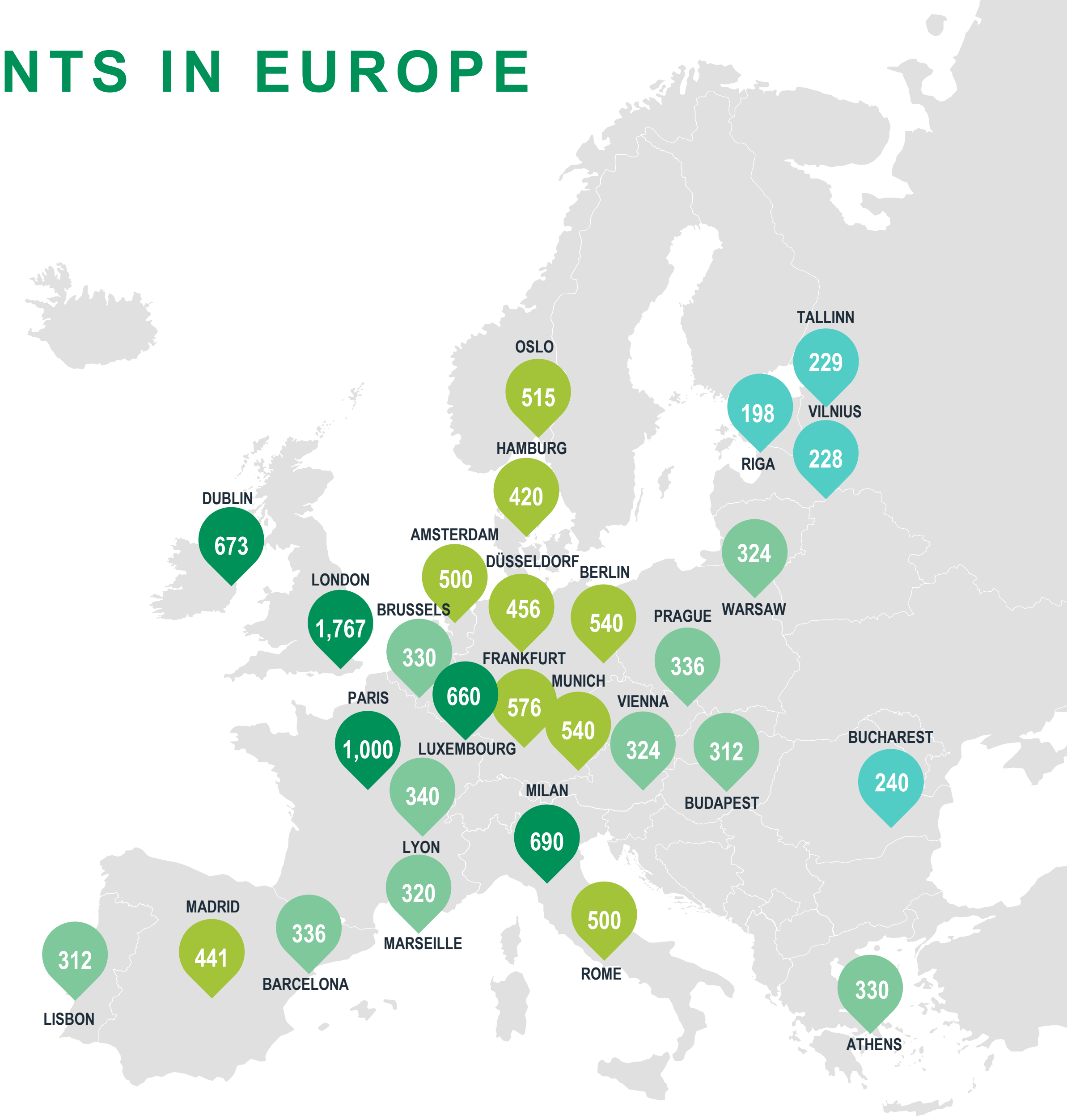
OFFICE PRIME RENTS IN EUROPE

Q1 2023 vs Q1 2022

CENTRAL LONDON	+21%
BERLIN	+5%
CENTRAL PARIS	+4%
AMSTERDAM	+3%
MADRID	+2%
MILAN	+10%
WARSAW	+8%
BRUSSELS	+3%
DUBLIN	+8%
LUXEMBOURG	=

Rents are in €/sqm/year

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



Source: BNP Paribas Real Estate

Prime rents still driven by the demand for quality

- Having sustained value over the crisis period, prime office rents in the key cities are now growing again.
- With the widespread uptake of hybrid work models, companies are seeking attractive and modular workplaces offering greater connectivity.
- The very low availability of prime assets and the appeal of high quality buildings located in the most sought-after districts drive values up.
- Over the past 12 months, London (+21%), Milan (+10%), Warsaw (+8%) and Dublin (+8%) have seen the most significant increases in values.

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LOGISTICS MARKETS

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LOGISTICS WAREHOUSING MARKET IN EUROPE

LOGISTICS IN A NUTSHELL

LOW MARKET MOMENTUM

Take-up decreased significantly in Q1 2023 in the leading European countries. The manufacturing sector is starting to feel 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 Q1 2023 FOR LOGISTICS INVESTMENT

Q1 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.

DISINFLATION : A SLOW PROCESS

Economic conditions in European economies remained favorable to limited growth. Inflation slowed marginally in February (8.5% YoY, after reaching 8.6% in January) as the drop in the contribution of energy was offset by the increase in food and services prices. As a result, the ECB should continue to increase rates over the mid-part of the year

ONLINE PENETRATION FOR RETAIL SALES IS STILL LOW

Online accounts for 12% 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.

LARGE DISPARITIES IN LABOUR COSTS ACROSS EUROPE

Labour availability and cost are strategic issues in occupier location decisions. They also matter for developers in assessing the cost and time with which they can deliver buildings. The post-pandemic labour shortages add to an already existing problem of securing staff.

LOGISTICS OCCUPIER MARKET IN EUROPE

TAKE-UP IN 6 COUNTRIES: -43% (Q1 2023 VS Q1 2022)

Below its 5-year average, the market is slowdown

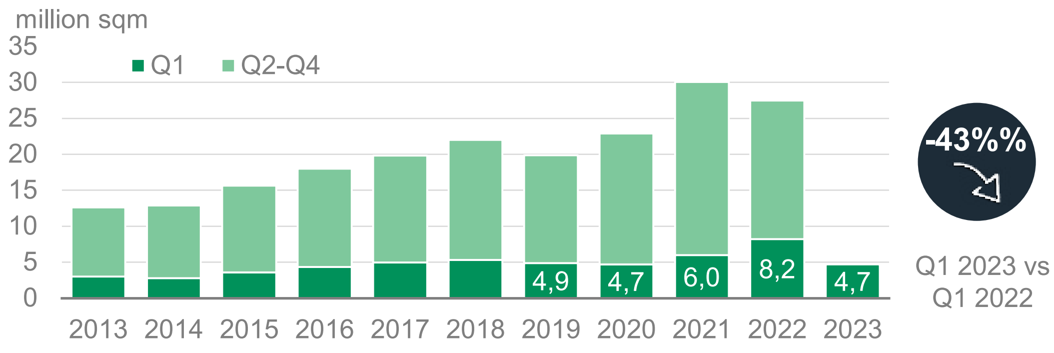
- **In Q1 2023, the market decreased by 43%** in the 6 leading European markets. The total volume of 4.7 million sqm compares well with the level recorded in 2019 before Covid.
- Sufficient economic growth existed in 2022 to ensure good performance in occupier markets. In Q1 2023, the manufacturing sector started to feel the effect of a slower demand and new orders weakening.
- Structural changes in consumer spending patterns continue to raise e-commerce penetration rates.

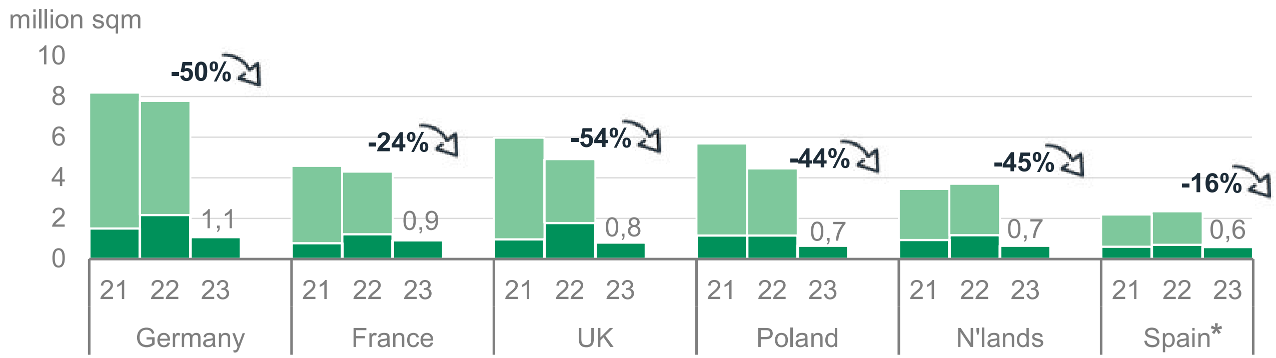
It means the need for logistics space remains ongoing even though slower economic growth is clearly impacting most European markets.

- 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 is well below the European average of 4%.
- New developments are still insufficient to meet demand, yet few speculative developments are launched.

Country profiles in Q4 2022

- In **Germany**, the slowdown in momentum seen in H2 2022 is confirmed in Q1 2023, due to both economic slowdown and the lack of supply. Rental growth stabilized in Q1 2023, after a massive increase in construction costs that had led to significant rental growth in 2022. The scarcity of new products is still putting pressure on rents.
- In the **UK**, like most European countries, take-up decreased significantly after the exceptional volumes recorded last year. The market remains resilient even though slower demand has been hampering market growth.
- In **Poland**, the has been loosing momentum since mid-2022. Low vacancy rates and rising costs exerted pressure on rents. Prime rents increased sharply over the past year stepping up in the main logistics hubs from €41-€44 to €54-€59 during Q1 2023. In Warsaw I the prime rent soared to €117.
- In **France**, the market remained resilient in Q1 2023 supported by demand from 3Pls. Supply is scarce in most markets leaving the vacancy rate at its lowest ever level of below 3%. Competition between occupiers for high quality buildings stays sharp, implying further prospects for rental increases in prime locations.
- In the **Netherlands**, following two years of buoyant activity, the market has been adjusting down in Q1 2023 reflecting the difficult economic context. Low availability is still putting pressure upward on rents.
- In **Spain**, the market maintained a good volume of transactions in Q1 2023. Activity was stimulated by e-commerce and food retailers. Low vacancy rates, particularly in Barcelona and Valencia, are still creating the conditions for rental growth.





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

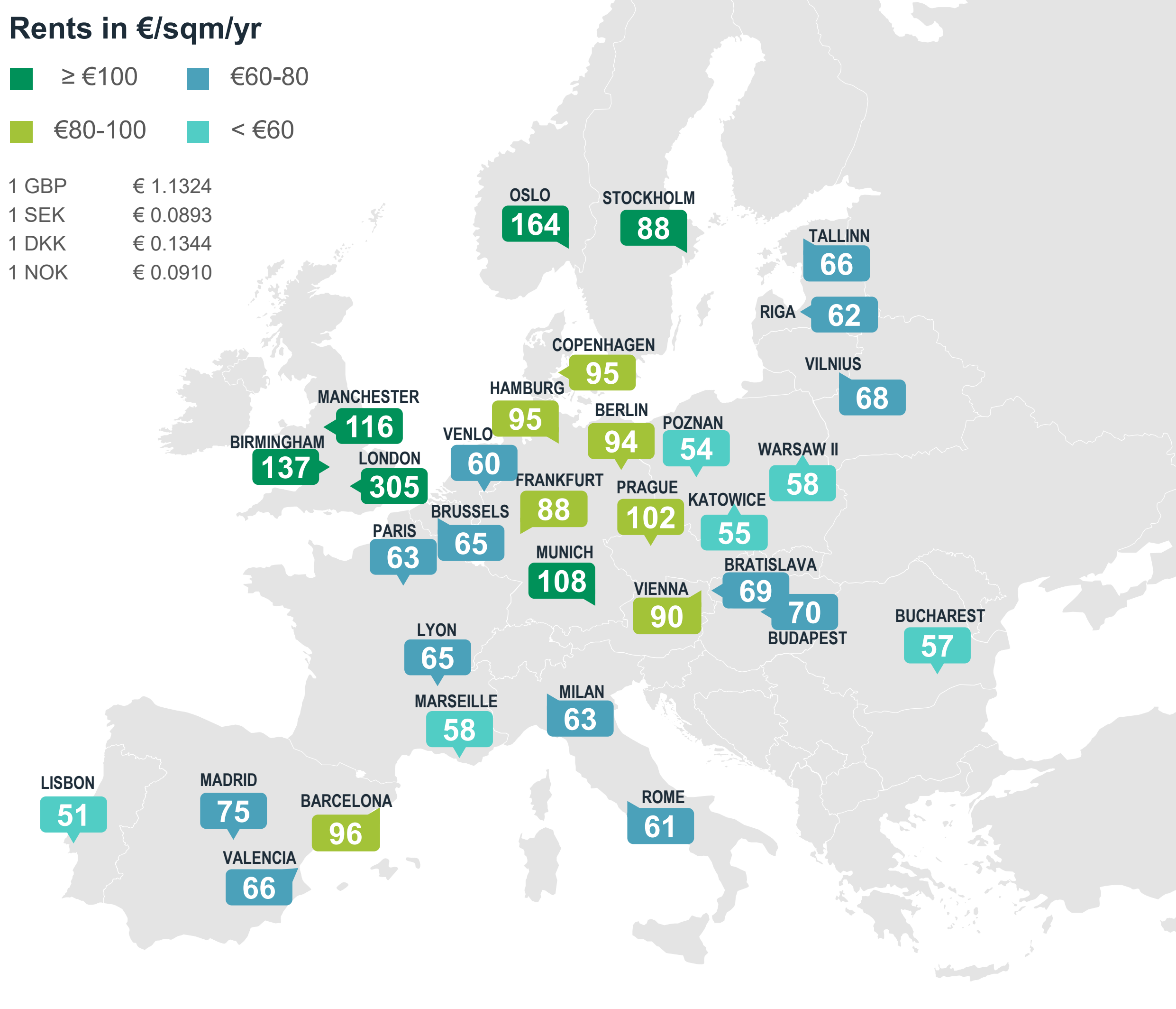
*Total of Madrid + Barcelona + Valencia

LOGISTICS PRIME RENTS

STRONG RENTAL GROWTH IN Q1 2023

Q1 2023 vs Q1 2022

FRANKFURT	+1%
BERLIN	+4%
BIRMINGHAM	+41%
LONDON	+11%
PARIS	+3%
VENLO	+9%
MADRID	=
BARCELONA	+10%
WARSAW II	+23%
PRAGUE	+16%
MILAN	+9%
STOCKHOLM	+7%
OSLO	+24%



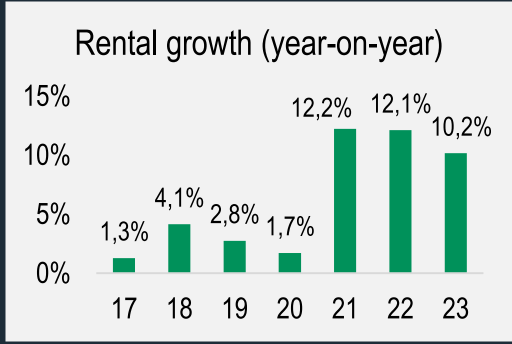
Source: BNP Paribas Real Estate Research.

EUROPE – Q1 2023

+10.2%

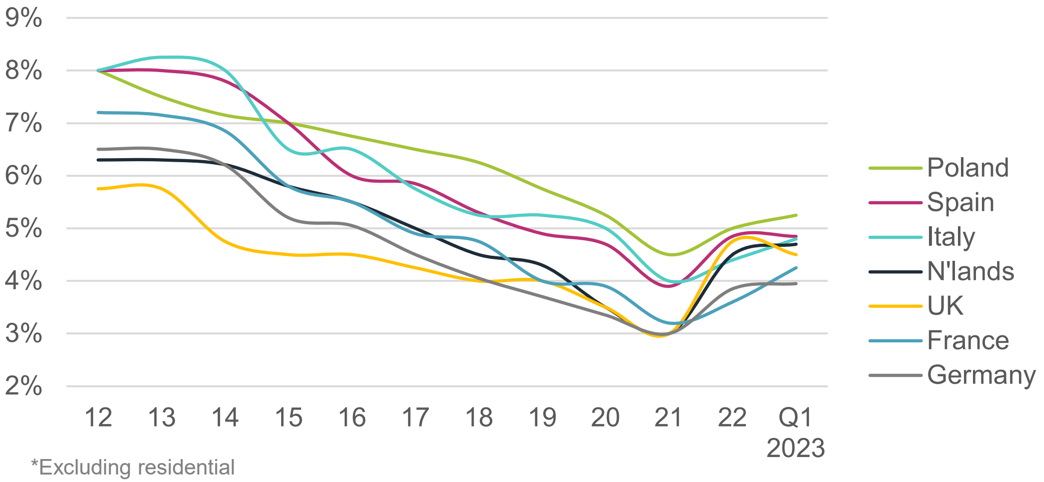
vs Q1 2022

47 markets, 21 countries



INDUSTRIAL & LOGISTICS INVESTMENT IN EUROPE

DECOMPRESSION IN Q1 2023 (+85 BPS SINCE Q1 2022)

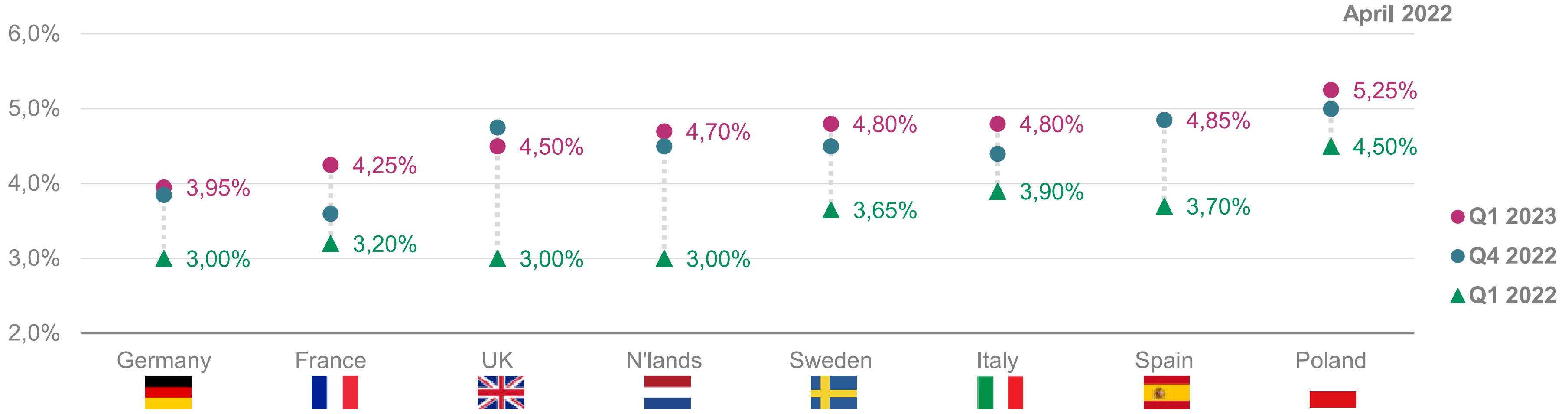


*Excluding residential

Logistics prime yields are still decompressing

- Inflationary pressure and subsequent rising long-term government bond yields are leading to logistics prime yield expansion.
- The ECB is waiting for cooler wage growth and clearer signs of lower core inflation before ending the rate cycle. The new rates will maintain through the rest of 2023.
- Stabilisation of logistics prime yields is expected throughout Europe over H2.

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



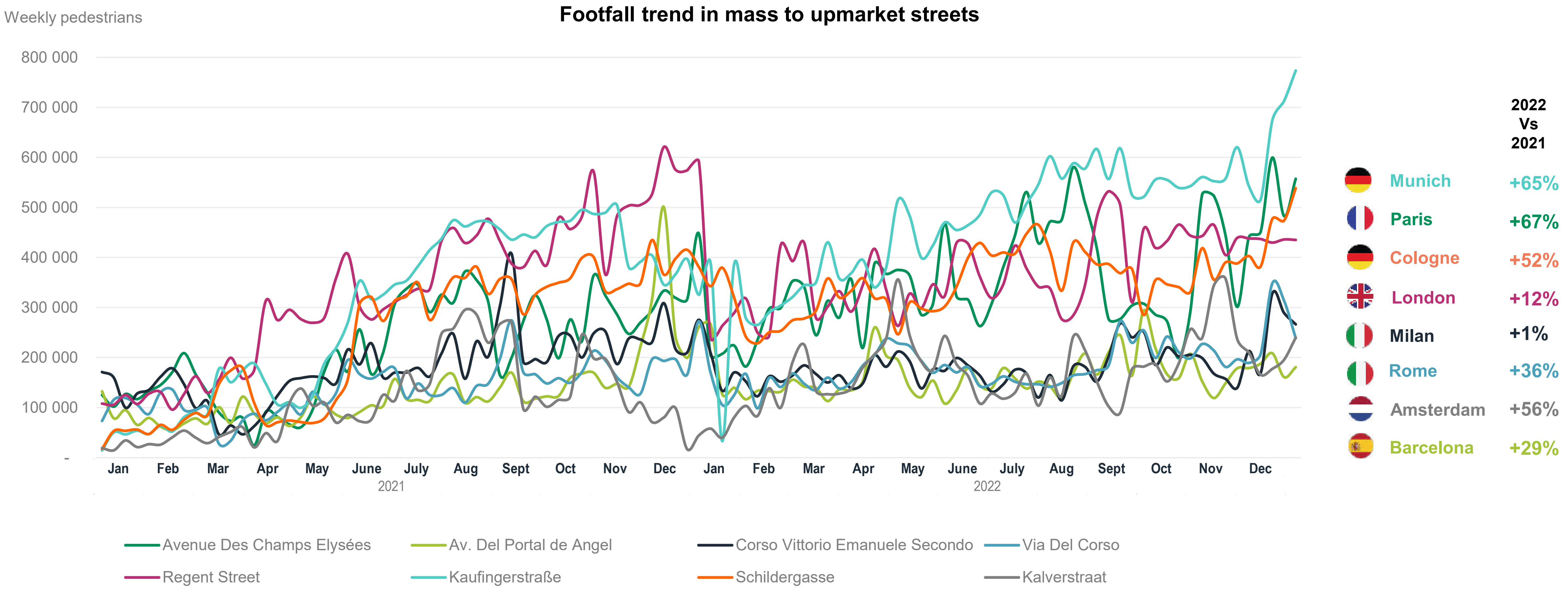
EUROPE CRE 360

REAL ESTATE PERSPECTIVES

RETAIL MARKETS

BNP PARIBAS REAL ESTATE

FOOTFALL TREND ON MASS-MARKET EUROPEAN HIGH STREETS



Source: MyTraffic and Hystreet

- The majority of cities experienced a strong increase in footfall in 2022 compared to last year, even though 2019 levels have still not been reached yet.
- This strong recovery of international tourism and footfall helped retail sales to stay healthy in Europe despite the economic turmoil. Many mass-market retailers reported solid turnover (Zara, Fast Retailing, SMCP…).

RETAIL INVESTMENT IN EUROPE BY ASSET CLASS- Q1 2023

AN INVESTMENT REBALANCING BETWEEN RETAIL SEGMENTS

HIGH STREET

34%

(+38% vs Q1 2022)*

SHOPPING CENTRES

27%

(+56% vs Q1 2022)*

RETAIL WAREHOUSING

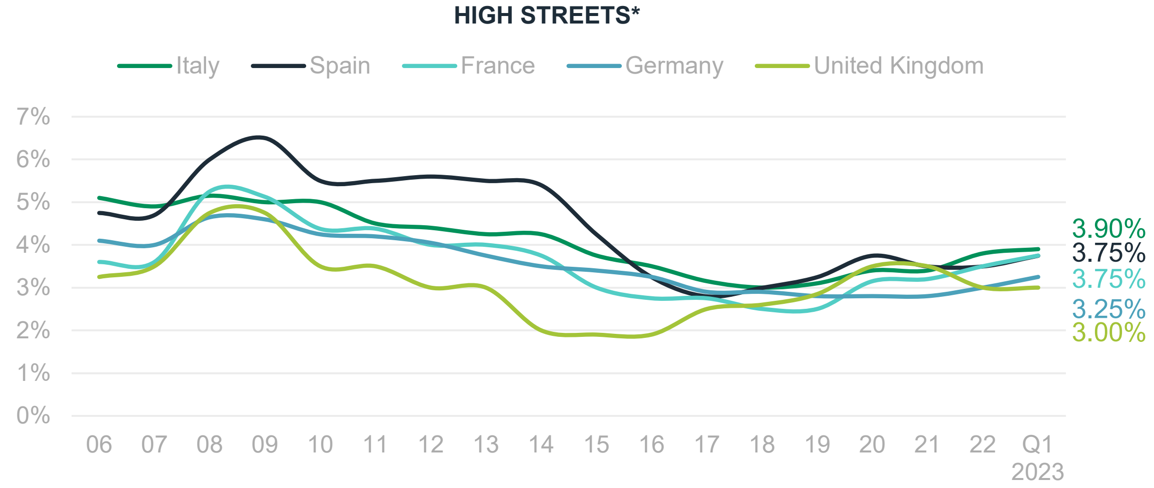
39%

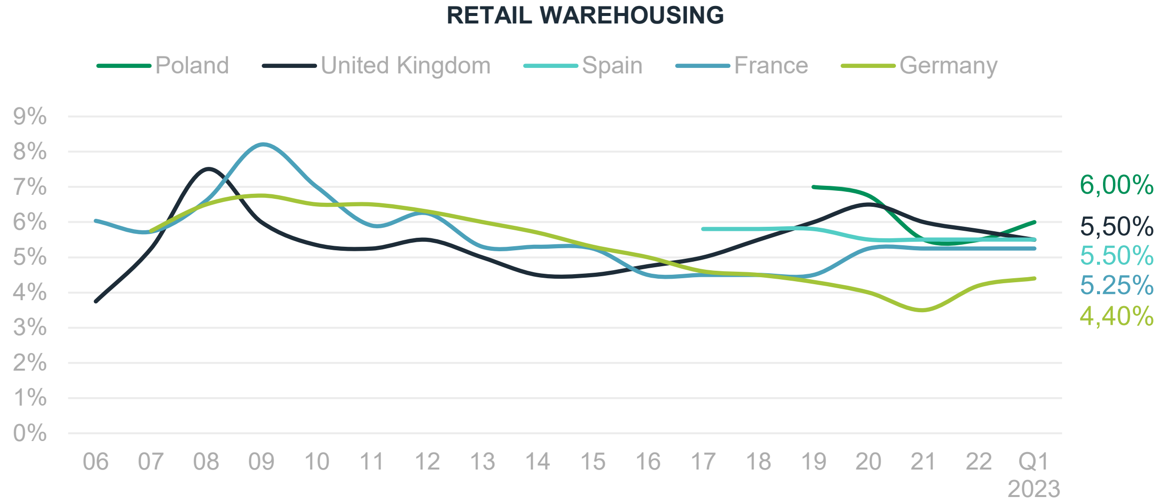
(-30% vs Q1 2022)*

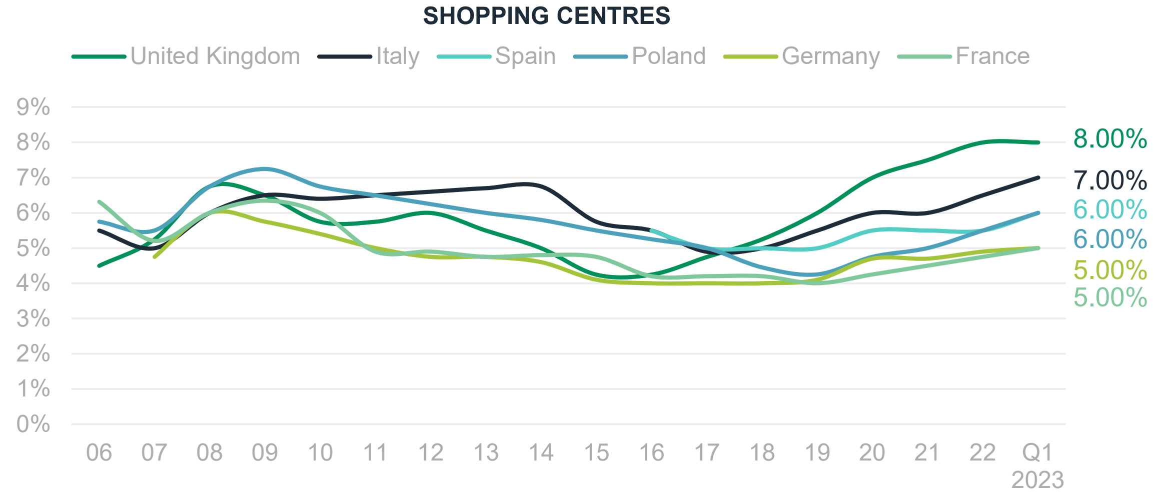
*the sub-sector % breakdown refers to total investment volume in six European countries (Germany, UK, France, Spain, Italy and Poland)

RETAIL PRIME YIELDS

THE SECTOR ALREADY WENT THROUGH CRASH TEST BEFORE COVID







- Most countries witnessed an **expansion in yields** for retail assets but **not as much as other property types**. This is mainly due the **repricing that already occurred** during Covid-19 crisis, when the retail sector was **hit harder than other segments**.

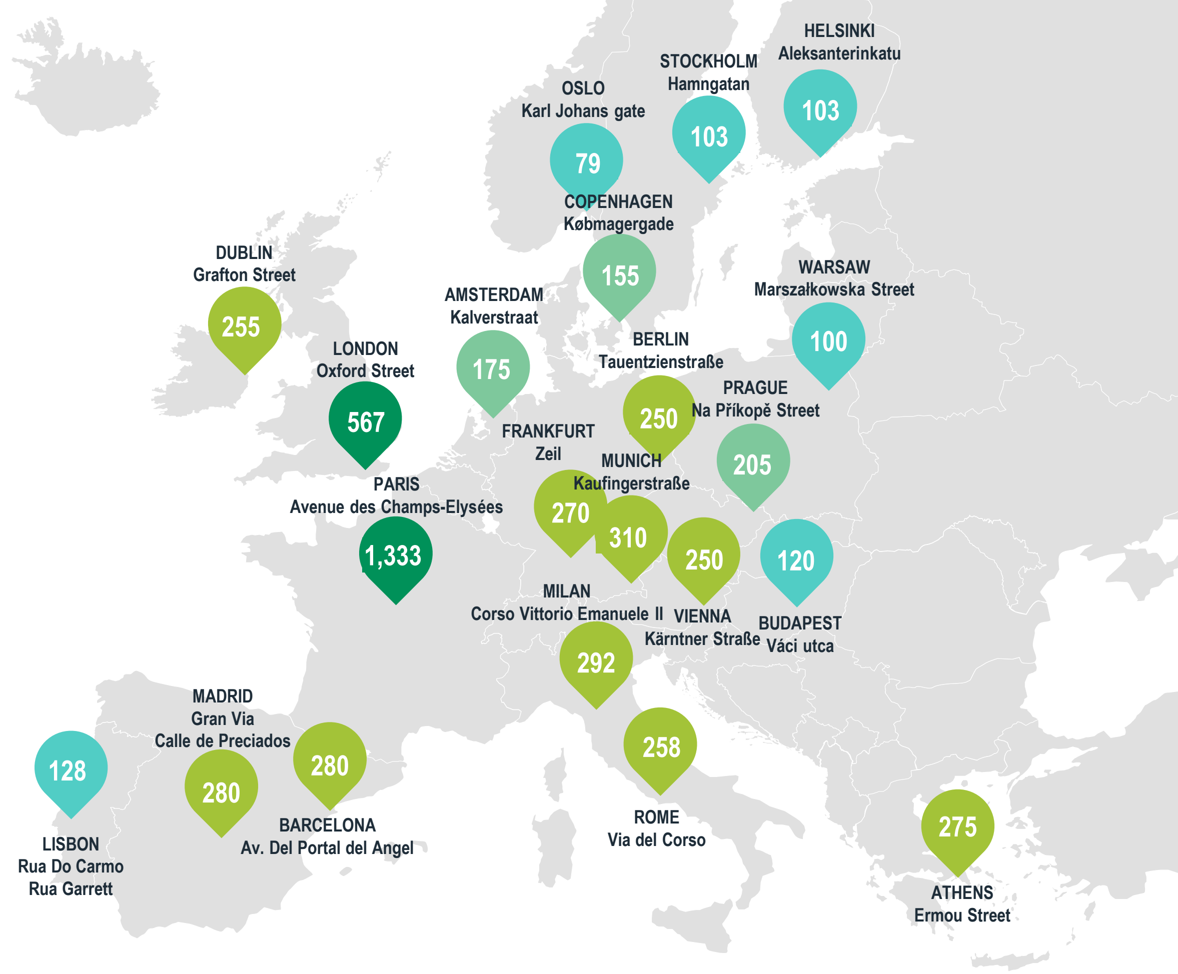
*The prime high street yield refers exclusively to the luxury sector

HIGH STREET PRIME RENTS IN EUROPE

MASS MARKET STREETS – Q4 2022

Q4 2022 vs Q4 2021

CENTRAL LONDON	-19%
BERLIN	=
CENTRAL PARIS	-6%
AMSTERDAM	-7%
MADRID	=
MILAN	+12%
STOCKHOLM	=
PRAGUE	=
VIENNA	-7%



> € 500 | € 150 - 250 | € 250 – 500 | < € 150

Source: BNP Paribas Real Estate

Trends and expectations
Insights provided by local Research teams

Landlord and tenants have different outlooks at present. Landlords are expecting rental growth, especially considering inflation levels, whereas tenants consider current rental levels high. The compromise will be some limited rental growth, with increases in the headline rent but additional significant incentives. Indeed, the market is already seeing **very rapid increases in incentives**, which have moved from somewhere in the range of 15-20 months to **up to even 30 months** in some instances.

The large tourist traffic in Greece and the willingness of Greek citizens to spend post pandemic, allowed **F&B and entertainment businesses to surpass 2019 levels in sales**. The demand for stores still exists for prime locations, with little availability in areas such as Ermou, Voukourestiou, Glyfada, the centre of Piraeus (V Georgiou Dios) and Tsimiski Street in Thessaloniki. There is a cautious optimism for retail in 2023, as there **are new premium sports and street fashion brands entering the Greek market.**

Rent levels are stable at the moment, as there are not many vacancies in prime high streets. Therefore demand is **high for A+ locations**. Tourists are back in the city centre of Vienna, which is a good development – especially for the luxury brands/luxury market. Rent levels **may rise in 2023** in prime areas due to **very rare opportunities to secure units in these areas.**

EUROPE CRE 360

REAL ESTATE PERSPECTIVES

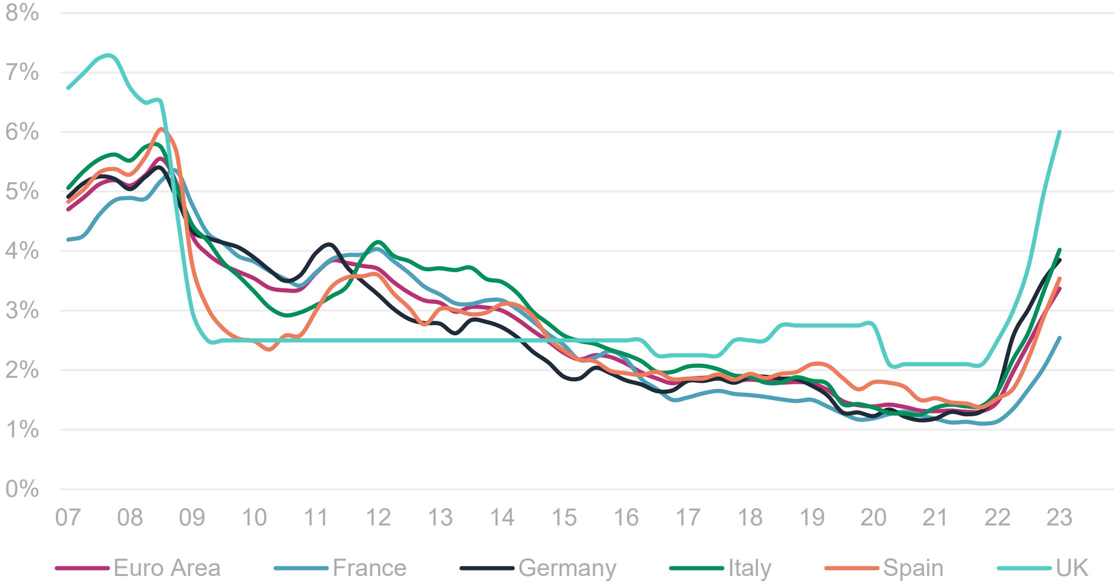
RESIDENTIAL MARKETS

BNP PARIBAS REAL ESTATE

FINANCING MARKET

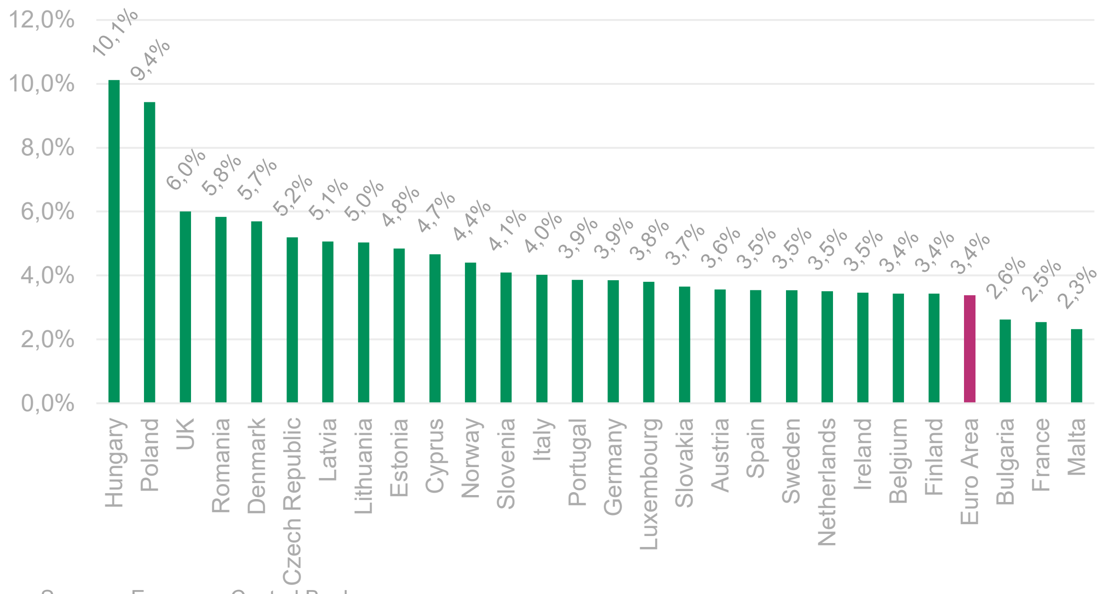
THE REPOSITIONING OF ECB MONETARY POLICY IS DRIVING MORTGAGE RATES UP

Mortgage rates



Sources: European Central Bank

Mortgage rates

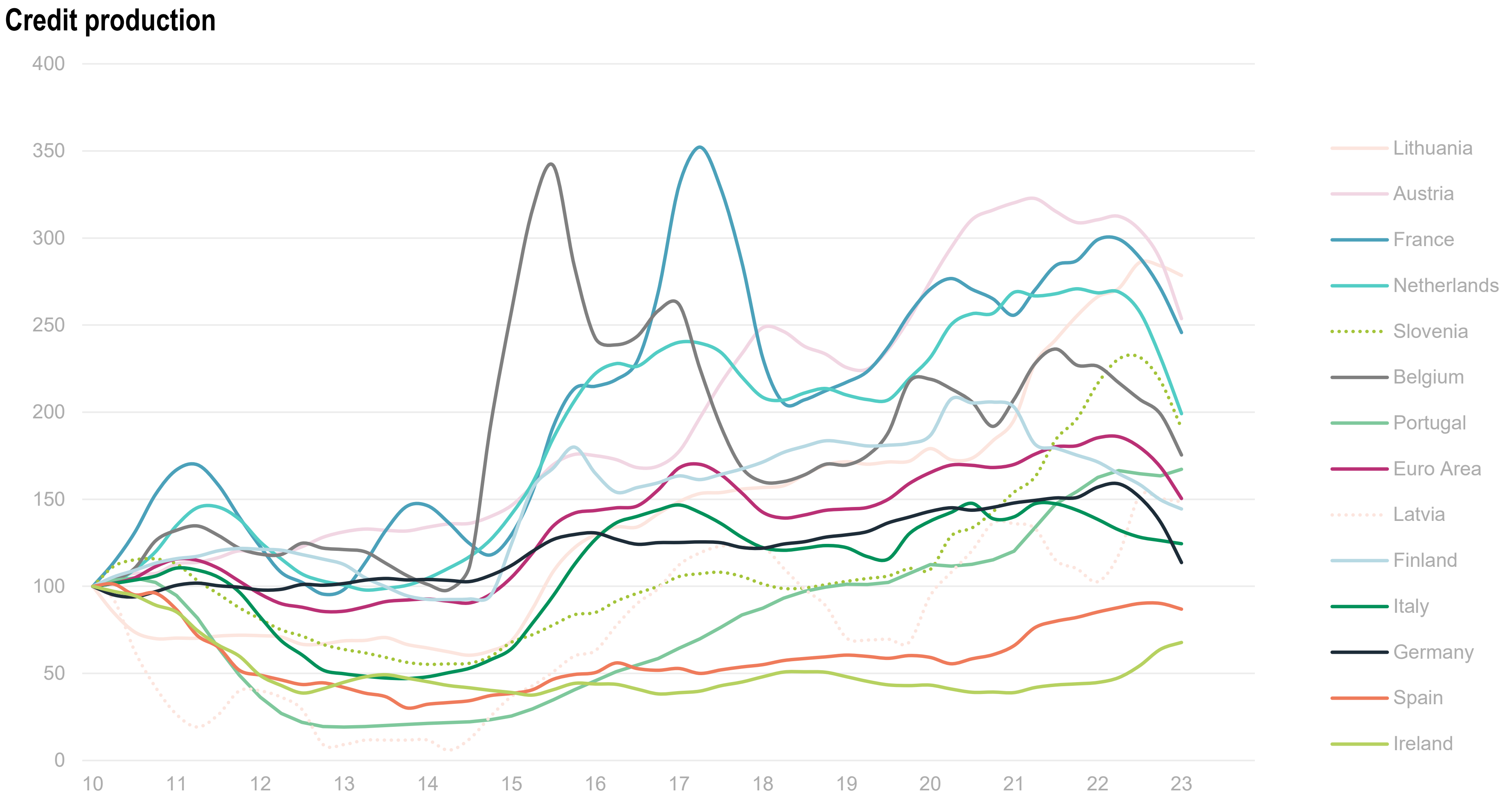


Sources: European Central Bank

- The central bank's monetary policy is the most disruptive element for European residential markets at the moment.
- The Governing Council decided to raise the three key ECB interest rates by 25 basis points in May. Accordingly, the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will be increased to 3.75%, 4.00% and 3.25% respectively. This is the fastest increase in the Euro's history. In comparison, during the GFC rates increased by +200 bps to hit 4.0%. The increase in key rates to curb inflation has resulted in significant rises in the Euribor and mortgage rates.
- The average mortgage rate in Europe rose from 1.31% at the end of 2021 to 3.4% in Q1 2023: +206bps in 5 quarters. The largest increases are observed in the Nordics and Central & Eastern Europe (Hungary +570 bps, Poland +447 bps, the United Kingdom +390bps, Denmark +320 bps, Lithuania +296bps , Slovakia +272bps, Finland +264 bps and Germany +253 bps). In contrast, the increases were more moderate in Ireland, France, Norway, the Netherlands, Belgium and Sweden of less than 200bps.
- The 12-month Euribor reached 3.62% in Q1 2023, +412 bps since Q4 2021, paving the way for stronger growth in mortgage rates in the coming months. The rise in mortgage rates excludes more households from the property market and significantly reduces their borrowing capacity. In addition, it increases the risk of default for some households with variable rate debt or with refinancing needs.

CREDIT PRODUCTION IN EUROPE

TIGHTENING OF CREDIT CONDITIONS RESULTS IN DECLINE



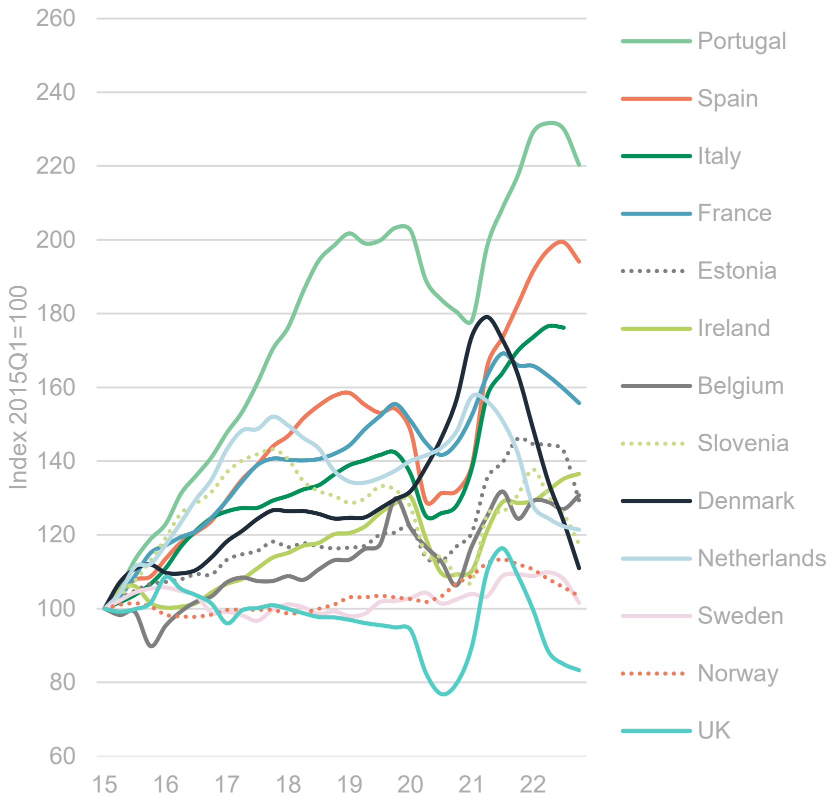
Source: European Central Bank

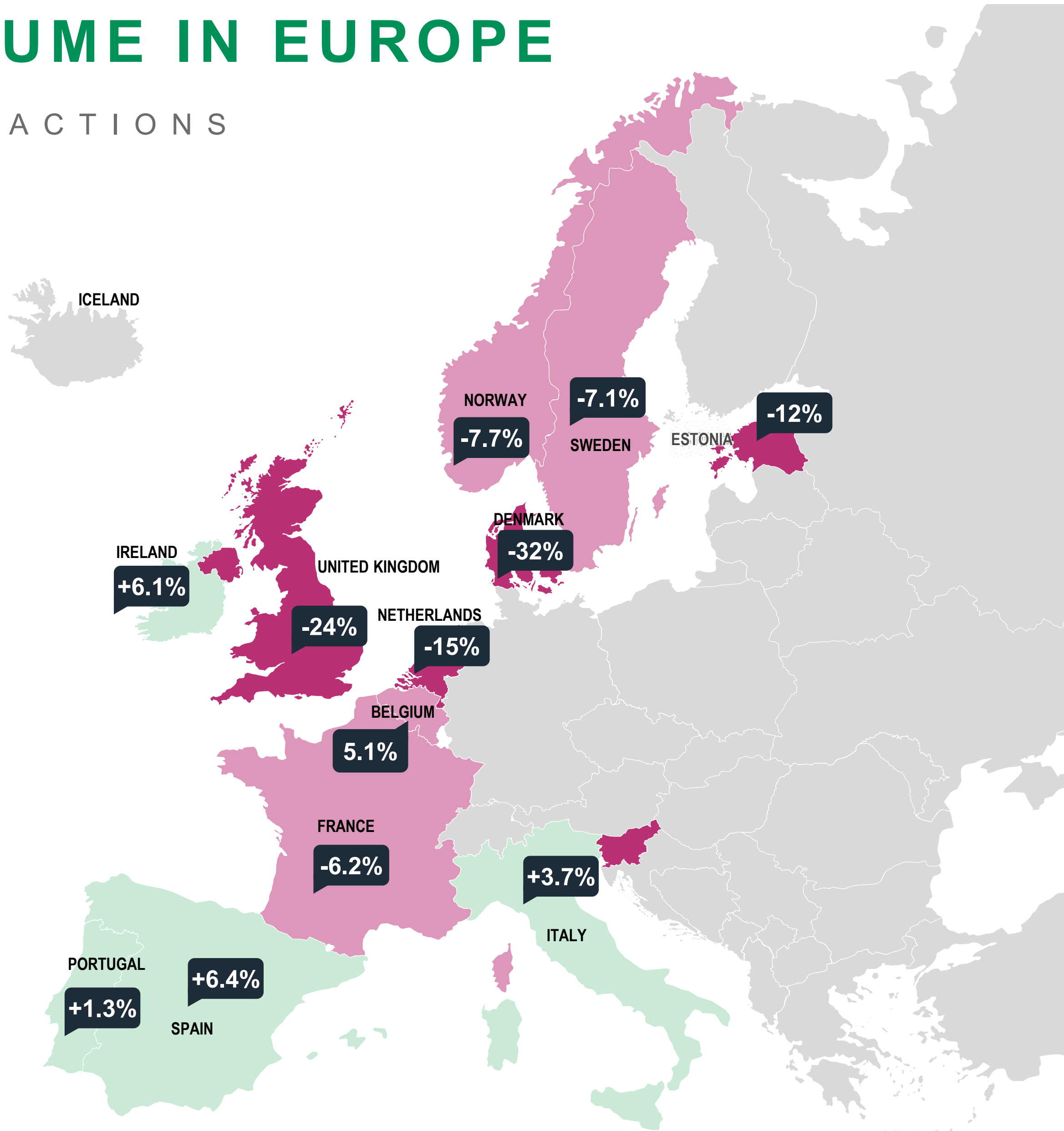
- Credit production reached its peak in Q2 2022 with € 1,077bn granted. However, economic uncertainties and the increase in mortgage rates are tightening credit supply and reducing demand. Credit supply declined by -19% to reach € 872bn in Q1 2023.
- Most European countries recorded a decline in lending. The most important declines are recorded in Croatia (-70%), Poland (-69%), the Czech Republic (-58%), the United Kingdom and Hungary (-33%), Germany (-28%) and the Netherlands (-27%).
- Credit production continues to expand in Bulgaria, Ireland, Latvia, Lithuania, Malta, Portugal, Romania and Spain. However we observe a significant slow down in production and only 2 countries reach their peak in Q1 2023.

TRANSACTION VOLUME IN EUROPE

DROP IN HOUSING TRANSACTIONS

Transaction volume





Sources: Eurostat, National statistics offices, BNPPRE

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

EUROPE

-6.9%

Q4 2022 vs Q4 2021

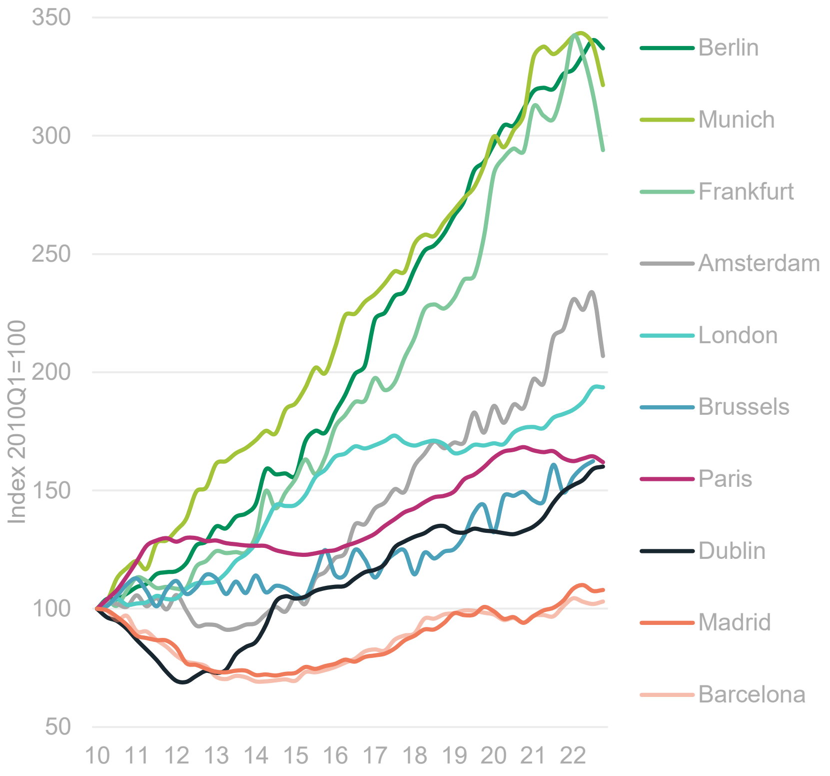
(13 countries)

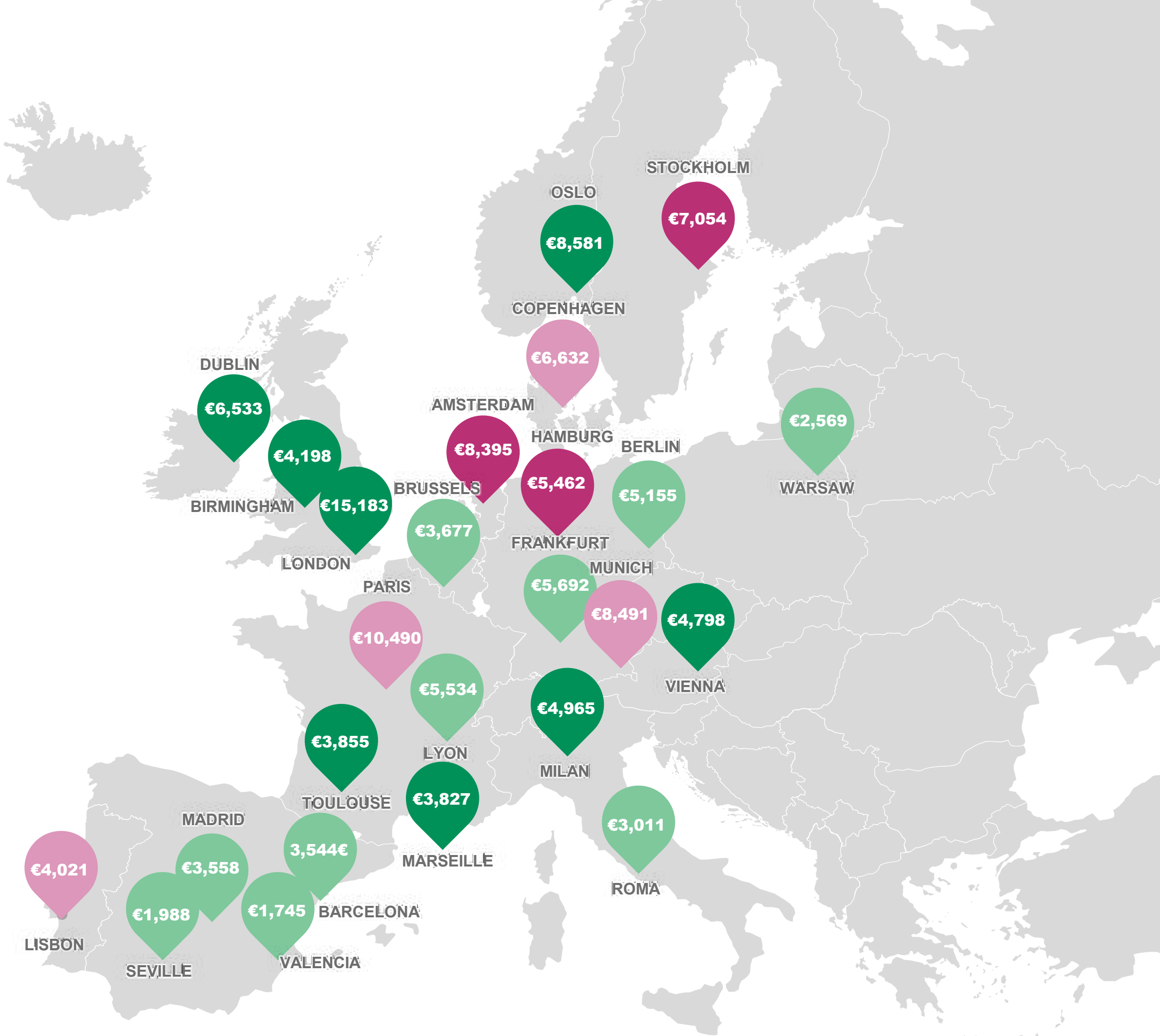
- ❖ Housing transaction volume dropped by 6.9% in Q4 2022 on a rolling year basis.
- ❖ The slow down is driven by several factors: the tightening in credit conditions, the significant increase in mortgage rates and of course the constant increase in house prices. As a consequence, we observe a significant worsening of housing affordability triggering a decline in the number of transactions.
- ❖ Housing transactions declined by 32% in Denmark, -24% in the United Kingdom, -15% in the Netherlands. The decline is more moderate in France (-6.2%), Norway (-7.7%) and Sweden (-7.1%).
- ❖ Transaction volumes continue to be dynamic in Southern Europe +6.4% in Spain and +1.3% in Portugal. Transactions continue to expand in Ireland (+6.1%) and Belgium (+5.1%).

RESIDENTIAL PRICE GROWTH IN EUROPE

SLOW DOWN AND SOME ADJUSTMENT IN HOUSE PRICES

Residential price growth





Sources: BNPPRE

EUROPE

+2.8%

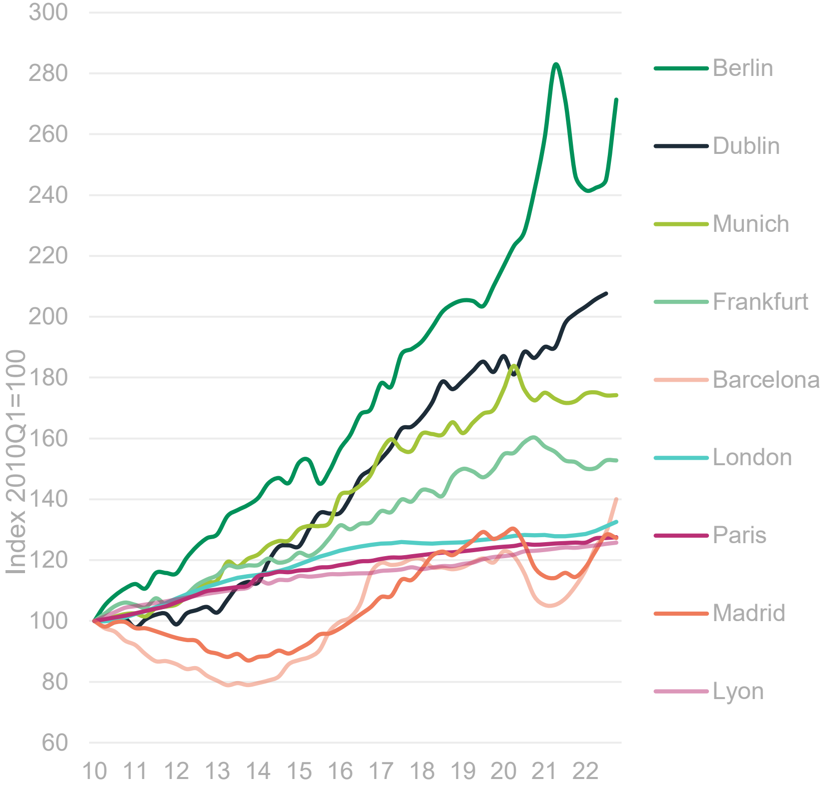
Q4 2022 vs Q4 2021

- House prices across European cities continue to rise, but at a slower pace, recording +2.8% y/y in Q4 2022 vs 6.7% y/y in Q1 2022.
- Over the last year, cities that experienced double digit growth reduced from 9 in Q1 2022 to 3 in Q4 2022. It includes: Birmingham (+16.1%); Marseille (+13.8%) and Vienna (10%).
- Nevertheless, house prices are now in decline in 20 cities out of the 28 we have monitored since the peak was reached over the last 2 years.
- House prices declined by 14% in Frankfurt, -12% in Prague, -11% in Stockholm and Amsterdam, -8% in Rotterdam and around -6% in Munich, Hamburg and Copenhagen.
- As result of interest rate hikes, the housing market is cooling down and demand is moving toward cheaper markets such as suburbs.

RESIDENTIAL RENTAL GROWTH IN EUROPE

RENTS ARE BOOMING

Residential rental growth



>+2%   0% - -2%
0% - +2%   <-2%

Sources: BNPPRE

EUROPE

+8.1%

Q4 2022 vs Q4 2021

- Residential rental values across European markets are booming at +8.1% 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 9 markets out of the 23 we monitor: Lisbon (+30.8%), Barcelona (+25.7%), Valencia (+20.9%), Prague (+18.4%), Oslo (+13.4%), Madrid (+11.2%), Milan (+11.1%), Amsterdam (+10.8%) and Berlin (+10.1%). In the case of Barcelona although rent control was removed in 2022, the rental stock shrunk dramatically because of the regulation.

CONTENTS AND PRODUCTION

Acknowledgments

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Picture Credentials

Cover; p. 4-75: Shutterstock.

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REAL ESTATE

Real Estate for a changing world

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