EUROPE
CRE 360

ECONOMIC OUTLOOK

REAL ESTATE PERSPECTIVES

GLOBAL RESEARCH
February 2023

BNP PARIBAS REAL ESTATE

Real Estate for a changing world

EUROPE CRE 360

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EXECUTIVE SUMMARY

IN A NUTSHELL

IS RECESSION INEVITABLE?

The drop in gas prices, the decline in headline inflation and the improvement of survey data in December are giving the impression that for the Eurozone, 2023 might be better than expected. However, it is most likely that in twelve months' time we will look back at 2023 as a recession year, a year of disinflation, and a year when central bank interest rates reached their terminal rate and stabilized.

INVESTMENT PLUMMETING

The dramatic increase in financing costs in Europe during 2022, led to repricing in H2. Consequently, investment plummeted over the rest of the year to reach €248bn (-14% vs 2021), and 7% below the average of the last 5 years.
The Q4 volume of €47bn (-57% vs Q4 2021) was the lowest quarter of the year when Q4 is generally the most active.

OFFICE TAKE-UP RETURNED TO ITS LONG-TERM AVERAGE

Take-up at the end of 2022 saw a significant increase (+11%) compared to last year. Almost 11 million sqm was transacted in Europe's 25 main markets, in line with the 10-year average. Letting activity showed first signs of consolidation in Q4, with the post Covid-19 rebound mitigating.

RESILIENCE FOR EUROPEAN LOGISTICS MARKETS

The logistics market in Europe proved resilient despite a difficult political and economic environment. Low vacancy rates and limited land availability continue to push rents up and magnified by construction costs.

Rental growth prospects remain attractive to investors. Consequently, capital markets recorded strong volumes across Europe despite the slowdown at the end of 2022 as prices adjusted.

RETAIL SURVIVED THE INFLATION SURGE IN 2022

Good transactional activity over H1 meant retail experienced an increase in investment volumes (+2.6% vs 2021). Despite a turbulent year for the industry, retail sales were healthy thanks to the strong recovery in tourism and footfall in every European city. This helped brands continue to plan business expansion with store rolls out, particularly in the discount range and luxury segment.

RESIDENTIAL: RENTAL SECTOR MOMENTUM

Residential investment plummeted by 42% in 2022. Housing transaction volume dropped by 7.8%. House prices continue to rise but at a slower pace +5.1% 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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ECONOMIC OUTLOOK

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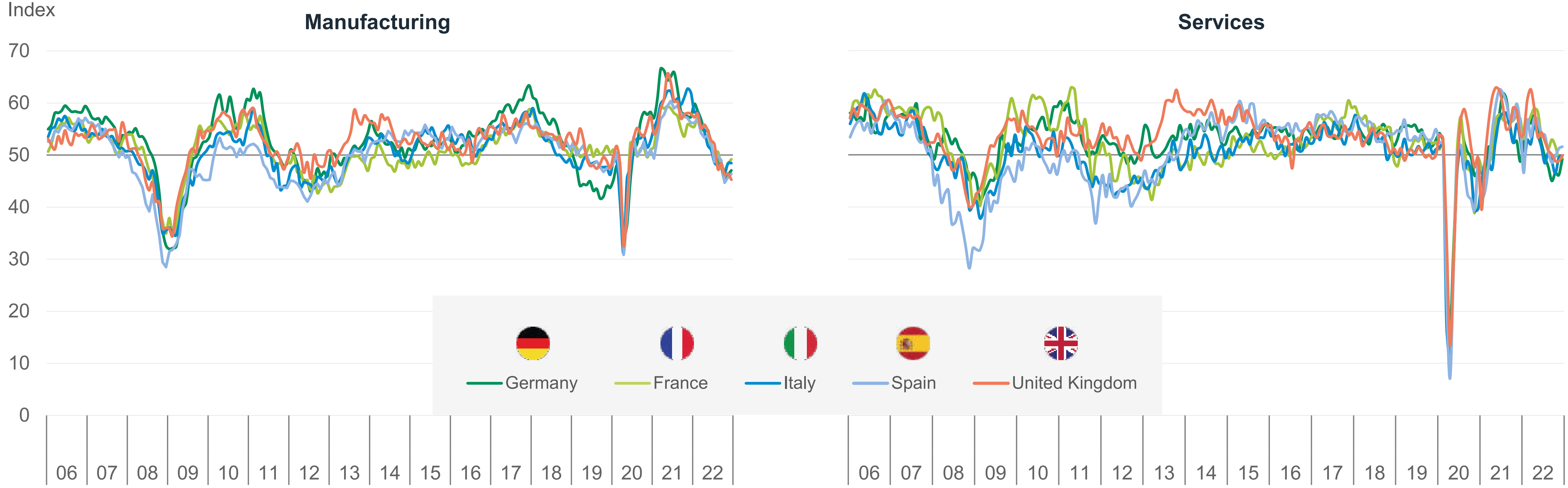
PURCHASING MANAGER INDEX SURVEYS

BUSINESS ORDERS STABILISE AT THE END OF 2022



Sources: Markit, BNP Paribas Economic Research.

PMI indexes are improving at the end of 2022

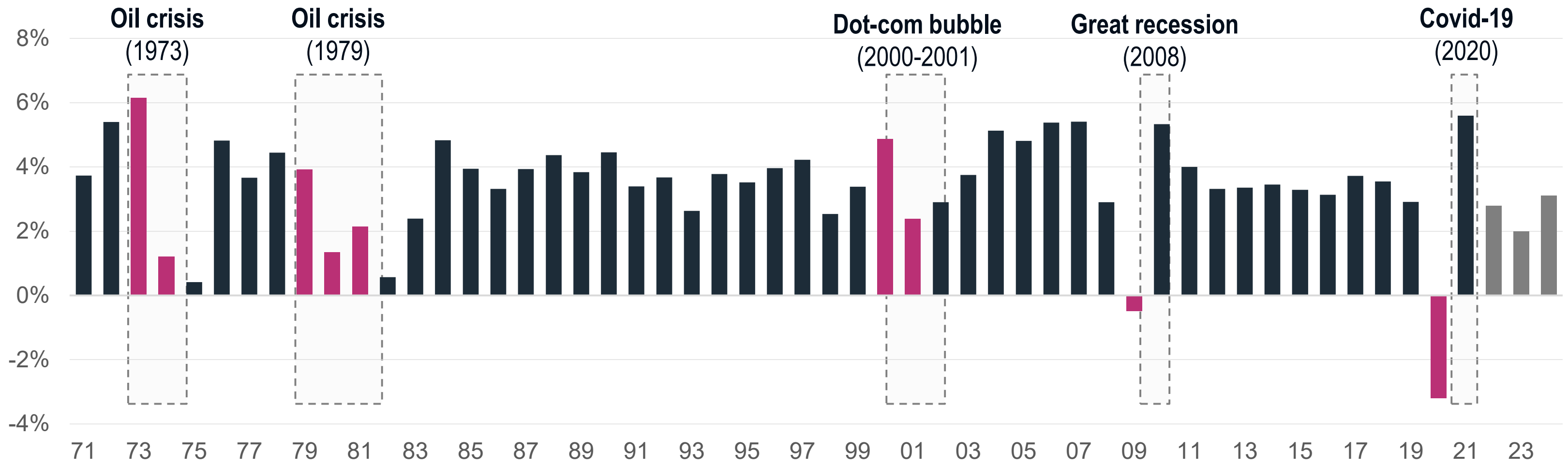
The survey data bodes well for growth momentum at the turn of the year, which could create a favorable carry-over effect for GDP this year. Some hope that lower inflation will mean fewer ECB rate hikes. However, caution is warranted. Inflation remains far too high and core inflation moved higher in December. Moreover, survey data provide little or no information on the pace of growth beyond the first quarter of this year.

Although this recent data has led others to argue that the recession may be shallower than expected, we think it’s too early to become optimistic.

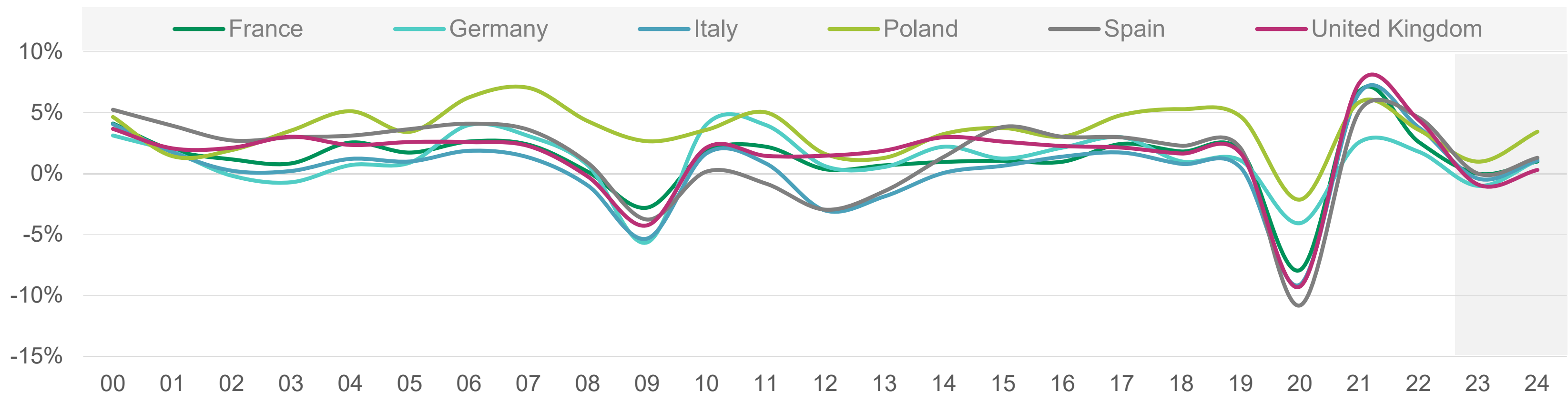
ECONOMIC OUTLOOK

WHAT OUTLOOK FOR THE MAIN ECONOMIES?

World GDP



GDP Growth in European countries



Sources: BNP Paribas Real Estate, OECD.

Recession is looming

- After a year characterized by an inflationary shock and a bond crash, 2023 may start with a marked 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

A mild recession in Europe

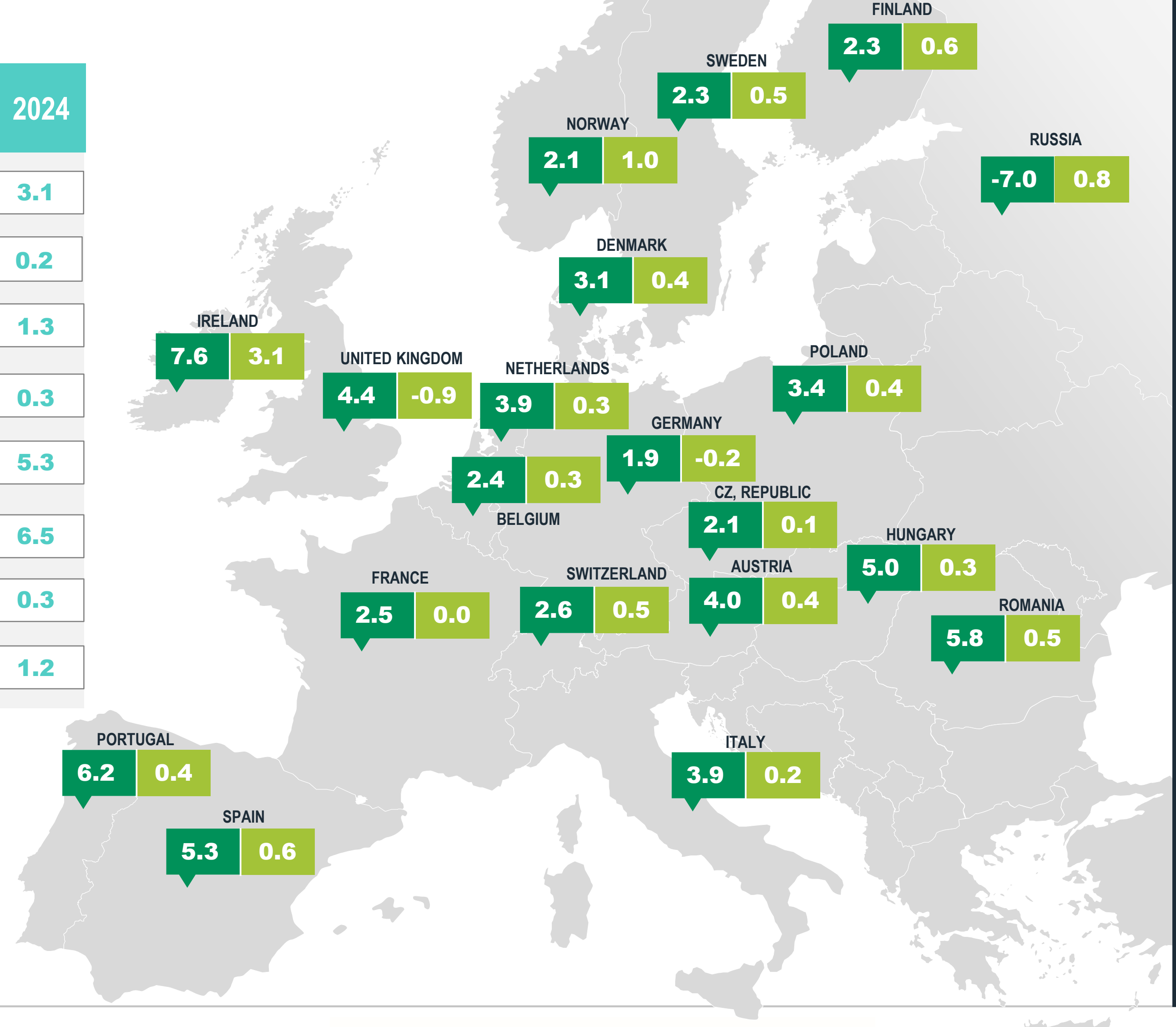
- Despite the current uncertainties, we expect only a limited recession in Europe. Indeed, the limited rise in unemployment, the support from fiscal policy in many European countries and the need to invest in the context of the energy transition should limit the economic shock.
- The recession should then be followed by a moderate recovery as the various shocks start to ease.
- Overall, we should have a mild recession in Europe in 2023 (-0.5%) as the rebound in H2 will not be strong enough to compensate for the slowdown.

GDP GROWTH IN EUROPE

RECESSION COULD BE AVOIDED

FORECAST (%):

	2022	2023	2024
World	2.0	2.9	3.1
United States	2.1	0.7	0.2
Euro area	3.4	0.2	1.3
Japan	1.2	0.9	0.3
China	3.0	5.1	5.3
India	8.3	6.2	6.5
Russia	-7.0	0.8	0.3
Brasil	3.0	0.5	1.2



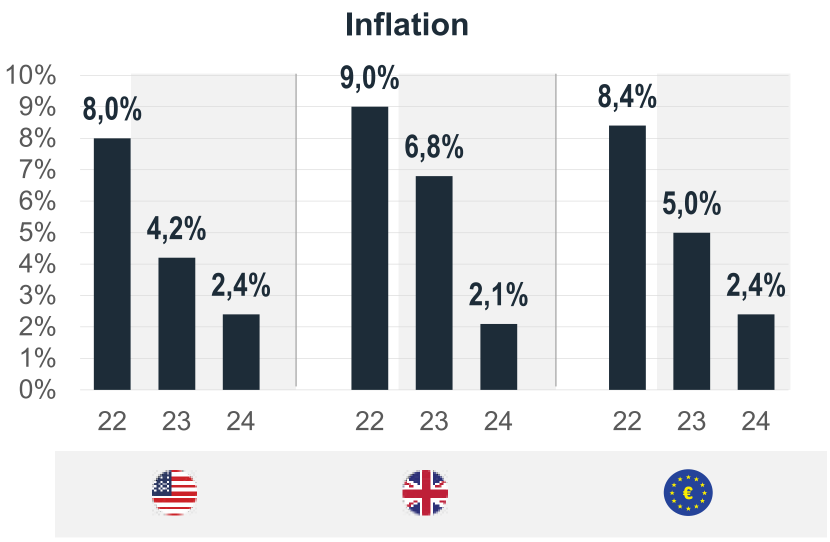
Source: BNP Paribas Real Estate Research.

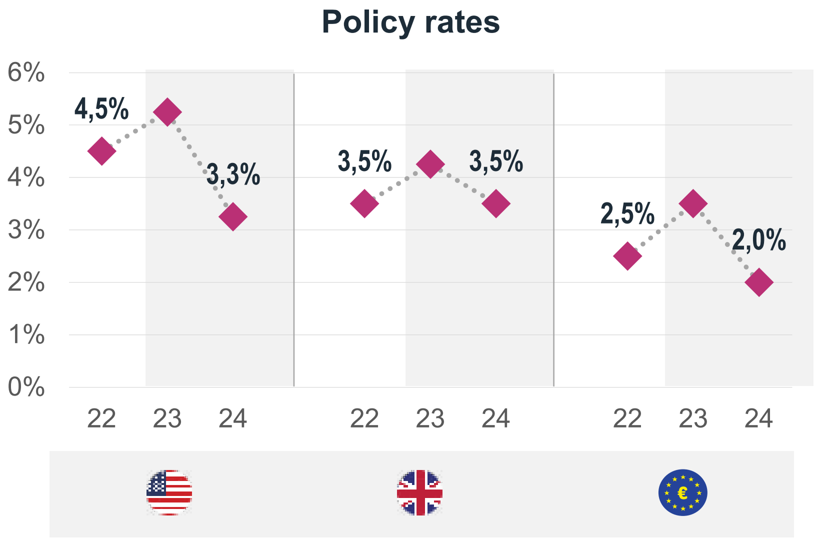
A possible recession in Europe

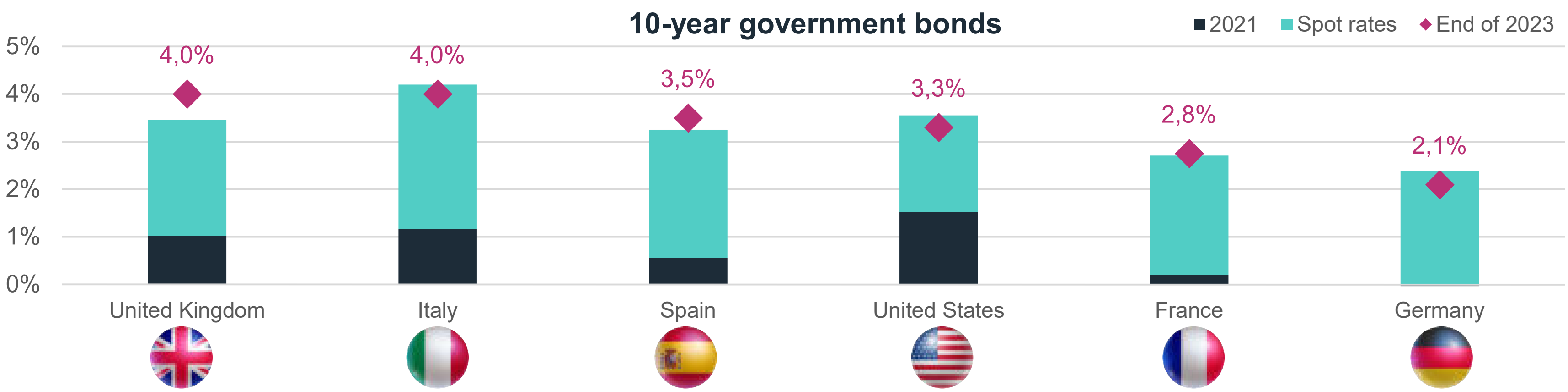
- It seems highly likely that for the Eurozone, 2023 will bring an easing in headline inflation, a contraction in GDP and a peak in the ECB's policy rates.
- In our base scenario, the economic environment is expected to get worse before getting better. Inflation should continue to be high, fuelled by supply chain disruptions and the war in Ukraine. The normalization of the monetary policies should also prevent strong level of GDP growth.
- The strength of the employment data reflects a degree of resilience in the economy in the face of the multiple shocks. Indeed, the robust performance of the job market, a key stronghold against the inflationary shock, was confirmed as the unemployment rate slipped to historical lows. Job creation is slowing as employers sacrifice vacancies before actual jobs.
- The US economy is now ahead of its inflation peak. However, the pace of disinflation could be longer than expected, impacting consumer and business confidence.
- In China, exports suffer from weaker global demand, and the discontinuation of the zero-Covid strategy will take to stabilise the economy. Ongoing problems in the property sector continue to weigh heavily on confidence, private consumption and investment.

FINANCIAL OUTLOOK

ECONOMIC AND FINANCIAL INDICATORS







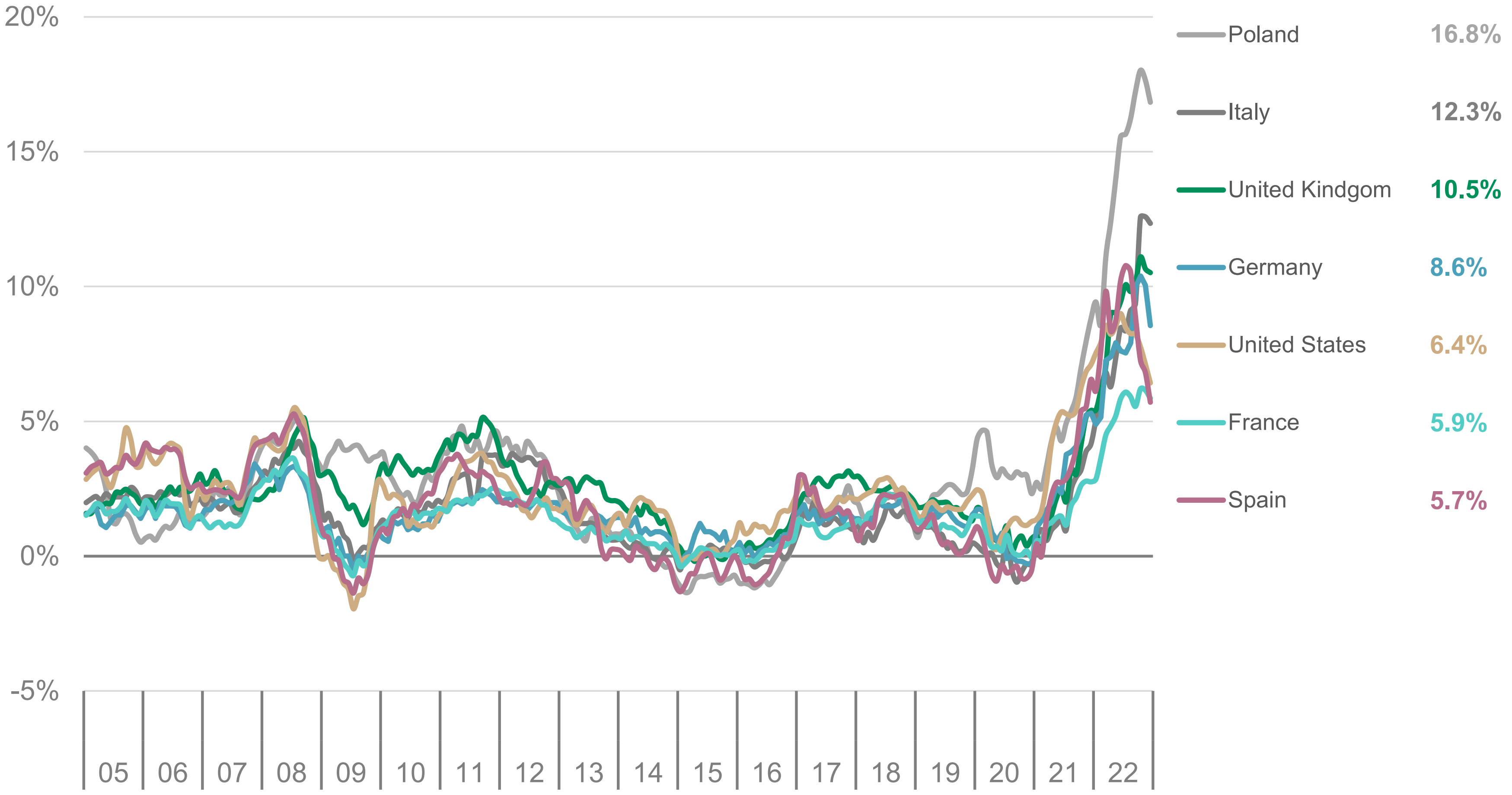
Sources: BNP Paribas Economic Research, OECD.

A normalization of monetary policy

- In the US, the Federal Reserve is continuing to tighten its monetary policy at a swift pace. The terminal rate of 5.25% (upper limit) should be reached towards the first quarter of 2023.
- The Fed is looking for economic slowdown and clear indication that the inflation is a downward path before it ends policy tightening.
- In the Eurozone, the ECB stopped its net asset purchases in July. During the latest meeting, the ECB rose its rate by 50bps. This increase may be followed by further hike to reach a rate of 3.0% in 2023.
- Government bonds already reflect monetary policy tightening, pricing in year-end levels that should not be that different from end 2022 levels. For 2024, we expect lower yields as growth slows and inflation declines.
- In addition, sovereign spreads widened significantly in Europe in June. The ECB has designed a new anti-fragmentation instrument to reduce the potential that monetary transmission results in an excessive increase in bond yields in certain countries.

STRUCTURALLY HIGHER INFLATION

UNCERTAINTY AROUND INFLATION PROJECTIONS



Sources: Macrobond.

The contribution of energy in the global rise of prices is decreasing

- Supply disruptions arising from the war in Ukraine and post pandemic economic adjustment created significant inflationary pressures in energy and commodity prices that may unwind over 2023.
- US inflation fell in December to its lowest level in more than a year, in a further sign that price pressures have peaked amid the Fed's campaign to tighten monetary policy.
- The peak for the Eurozone may have occurred at the end of 2022, but inflation is likely to remain elevated, well above the 2% target at the end of 2023 and in 2024.
- The elevated level and generalization of inflation in core products is persistent and therefore difficult to reduce.
- Although headline inflation should decelerate by the end of the year, we expect a more persistent core inflation in 2023 and 2024.
- In the UK, inflation continues to spread and the underlying inflation is increasing (10.5% y/y). We expect inflation to hit its peak in Q1 2023 at 13.8% before slowing down but still staying well above the 2% inflation target - 6.8% in 2023).

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COMMERCIAL REAL ESTATE
INVESTMENT MARKETS

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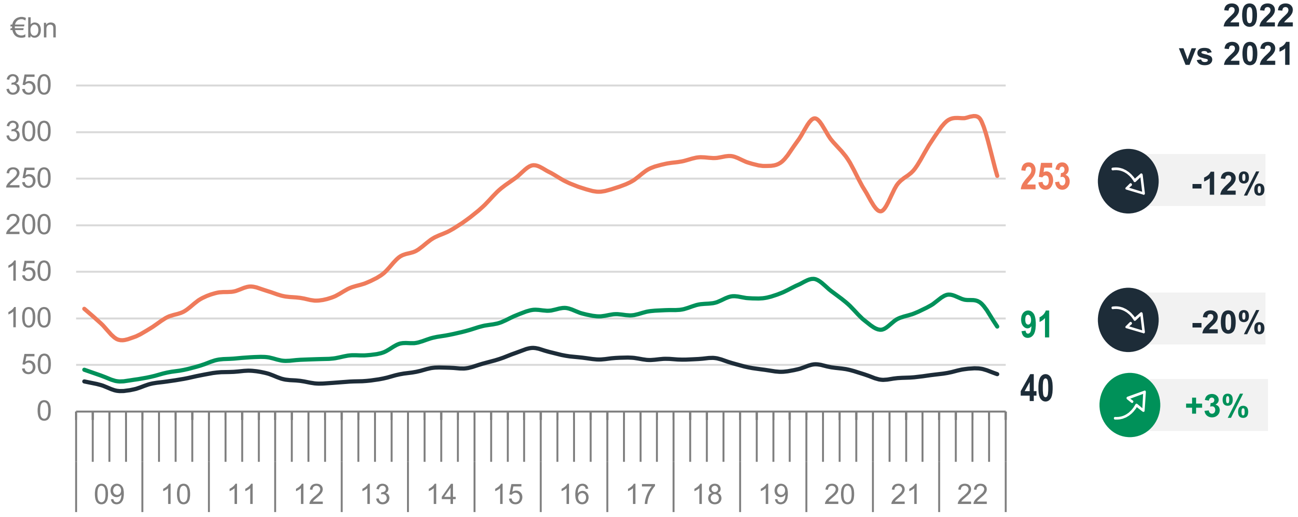
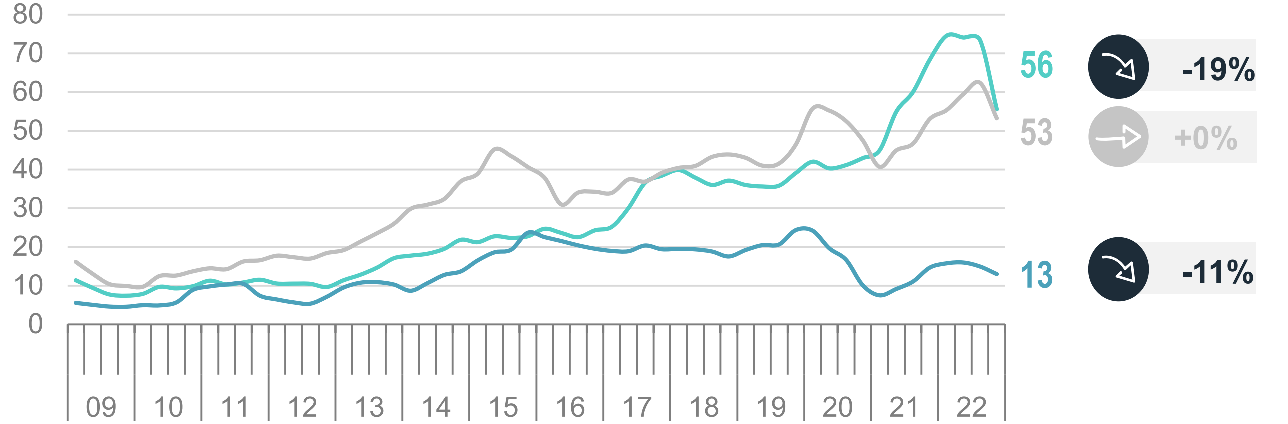
REAL ESTATE

INVESTMENT IN COMMERCIAL REAL ESTATE IN EUROPE

BREAKDOWN OF INVESTMENT BY ASSET CLASS





Investment plummeting

- Investment regained momentum over 2021 after the Covid-19 crisis to reach pre-crisis levels as economies reopened with control of the pandemic outbreak. It reached a high of €315bn in Q2 2022, almost touching Q1 2020's record (€315bn).
- The dramatic increase in financing costs in Europe during 2022, led to repricing in H2. Consequently, investment plummeted over the rest of the year to reach €253bn (-12% vs 2021), and 6% below the average of the last 5 years.
- The Q4 volume of €49bn (-55% vs Q4 2021) was the lowest quarter of the year when Q4 is generally the most active.
- All asset classes experienced a reduction annually over 2022. Offices (-20%) and logistics (-19%) suffered the most, hotels (-11%) saw a reduction, but retail (+3%) showed resilience due to expansion over the previous three quarters.

Commercial real estate
Office
Retail
Industrial & logistics
Hotel
Other

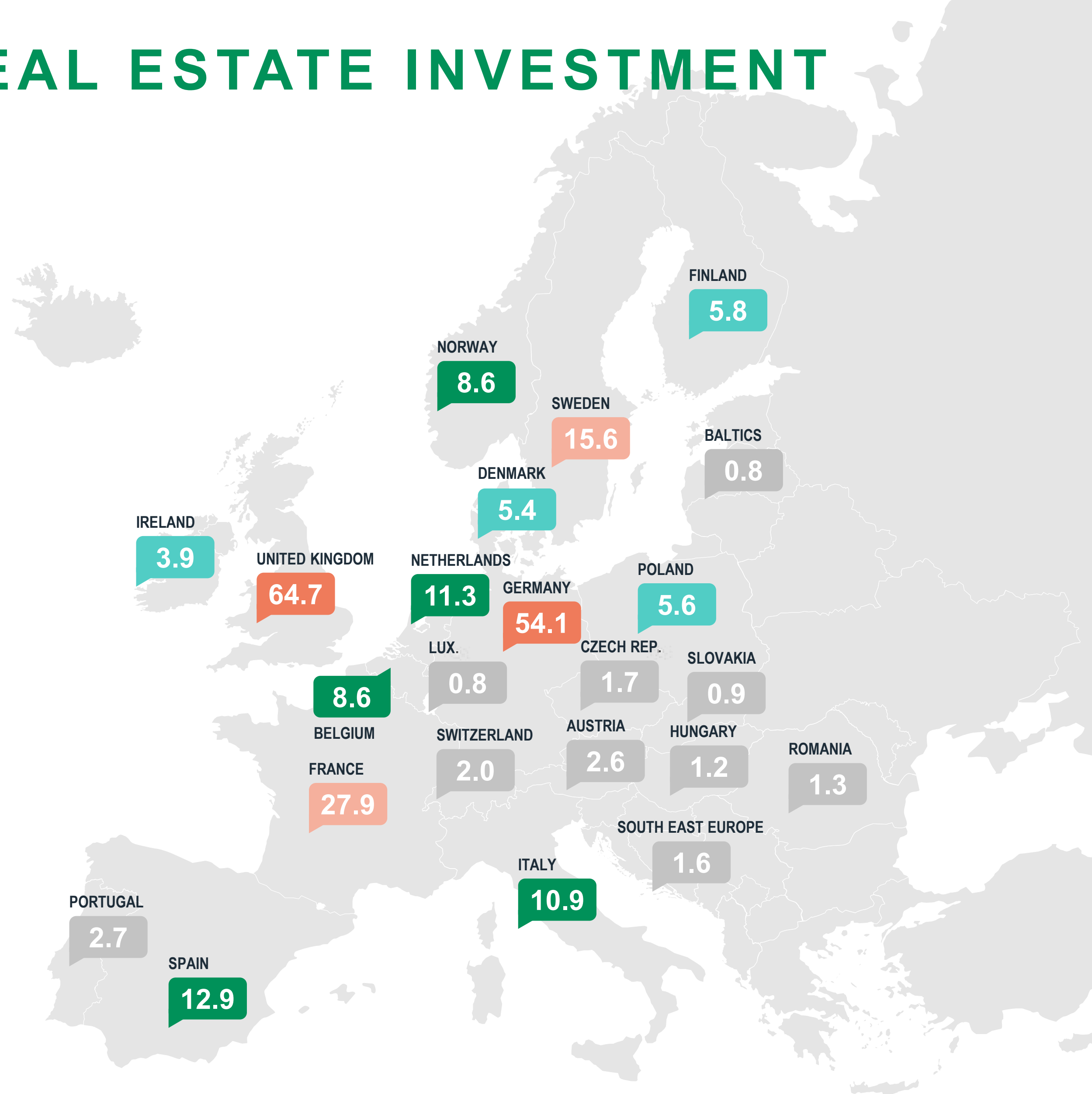
This excludes residential investment.

COMMERCIAL REAL ESTATE INVESTMENT

2022 vs 2021

GERMANY	-16%
UNITED KINGDOM	-19%
FRANCE	+1%
NETHERLANDS	-20%
ITALY	+25%
SPAIN	+29%
POLAND	-3%
IRELAND	+19%
BELGIUM	+177%
CZECH REPUBLIC	-1%
LUXEMBOURG	-38%

- ≥ €50bn
- €15-50bn
- €6-15bn
- €3-6bn
- < €3bn



(excludes residential investment)

Source : BNP Paribas Real Estate

EUROPE – 2022

€253.0bn

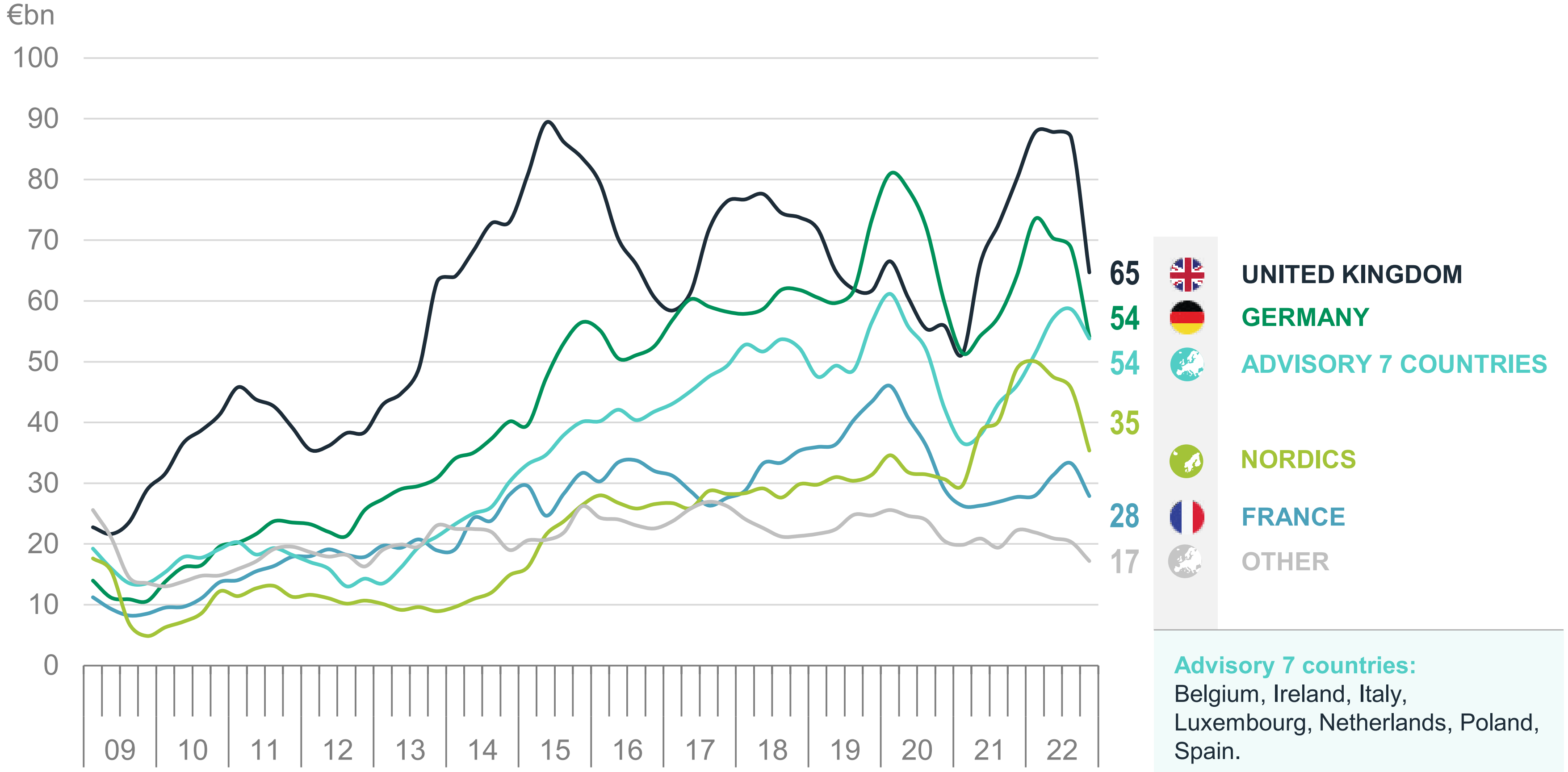
-12% vs 2021

- €253.0bn were invested in Europe over 2022, which represents a 12% decrease vs 2021.
- A closer look at European countries shows great geographical variance. The strong declines in the two major countries Germany (-16%) and the UK (-19%) hide stabilization in France (+1%) and good performance in smaller countries such as Italy (+25%), Spain (+29%), Belgium (+177%) and Ireland (+19%).

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.

- Over 2021 and early 2022, markets recovered sharply to post investment volumes similar to pre-pandemic levels.
- In the current climate of inflation and monetary policy tightening, rapid bond yield expansion is creating pricing uncertainty in real estate. It is also creating difficulty in lending which is now more expensive.
- The outcome is that a more selective approach to property from buyers is emerging at the end of 2022. All countries are now trending down in absolute investment volumes, except for Belgium.
- Activity remained historically high but Q4 marked a significant change with weakness not seen since the GFC.

Source: BNP Paribas Real Estate Research.

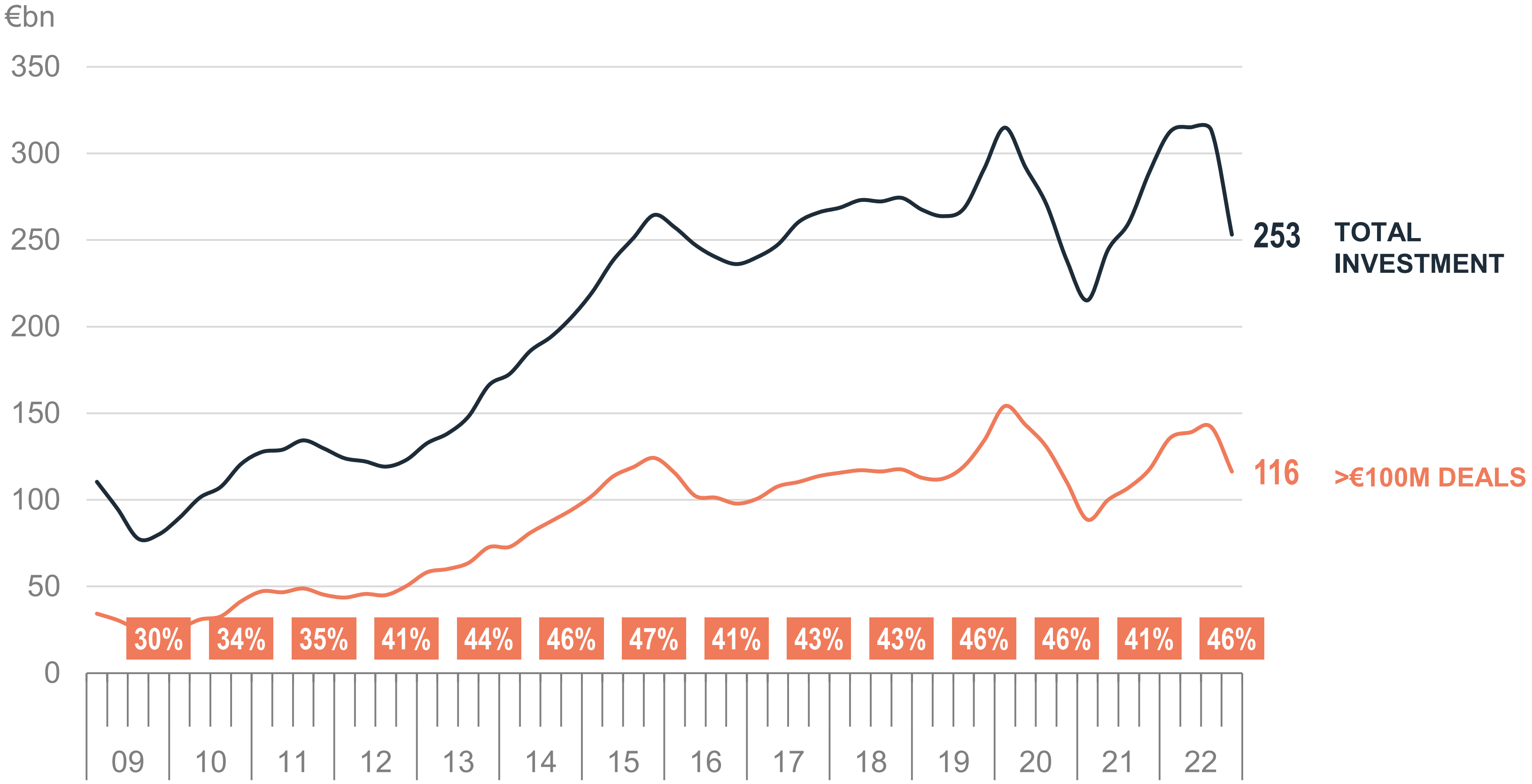
INVESTMENT BY SIZE BAND

Deep slowdown in mega deals yet to appear

- Mega deals (>€100m) volume in Q1 2020 reached a record figure of €154bn (on a rolling-year basis), which represents 49% of the total investment, an unusually big share for a Q1. Mega deals had been on the rise from mid-2019.
- The volume of mega deals dropped post Q2 2020 and only reached €89bn at Q1 2021 on a rolling-year basis. This was down 43% vs the 12 months to Q1 2020 figure and was the low point. The situation improved over the rest of 2021 and beginning of 2022 to reach €142bn at Q3 2022.
- The mega deals volume dropped over Q4 2022 but to a lesser extent than other size bands of deals. This may be a contract issue as these sort 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



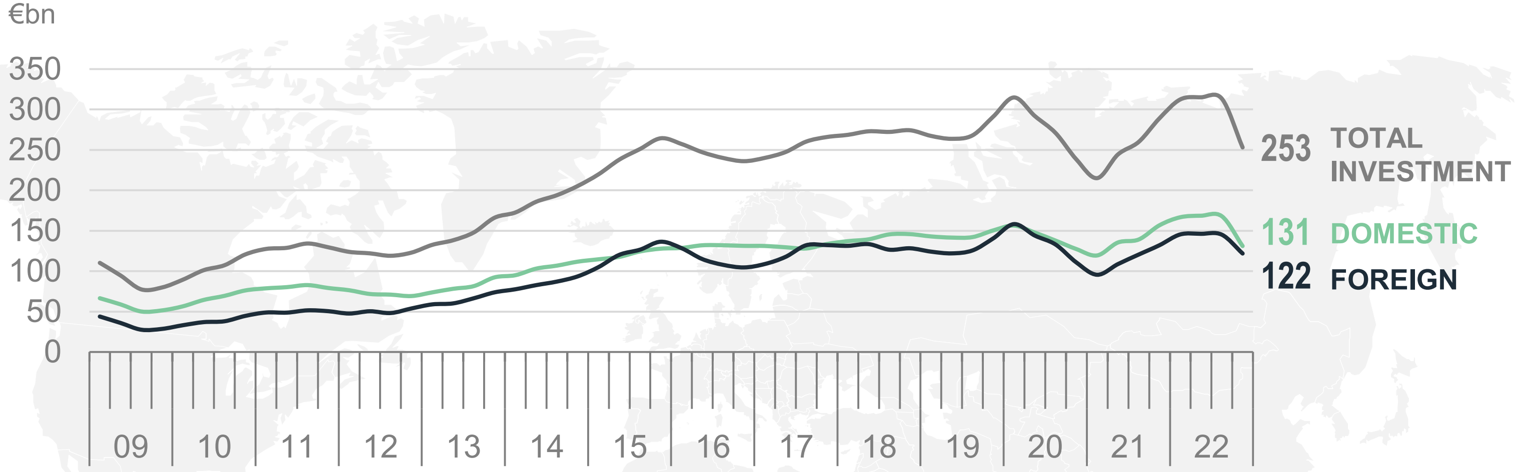
Source: BNP Paribas Real Estate.

CROSS-BORDER INVESTMENT MARKET

- Over 2022, foreign investment stood very high during the first 3 quarters, it reached €146bn (on a rolling-year basis) at Q2. It then declined sharply over Q4 (-54%) so that overall it reached €122bn in 2022 (-8%).
- Within foreign investment, **European cross-border investment was more affected (-13%).** It only represented 40% of foreign investment, such a modest share has not been seen since before the Covid-19 crisis (the share of European investment was around 45% during the pandemic).
- Conversely, investment from other continents proved more dynamic since the beginning of 2022. **American investors** showed strong interest in the European market in 2022. **With almost €45bn spent in 2022 (-2% vs 2021),** American investors (37%) are the most represented just after the Europeans (39%).
- Investments from Asia Pacific were also very important since the start of the year. **With almost €15bn invested over 2022 (+41% vs 2021),** Asian investor share increased slightly (12%).
- Middle East investors are less interested in the European market compared to Americans and Asians. **They only represented 2% of 2022 foreign investment with €2.2bn invested (-59% vs 2021).**

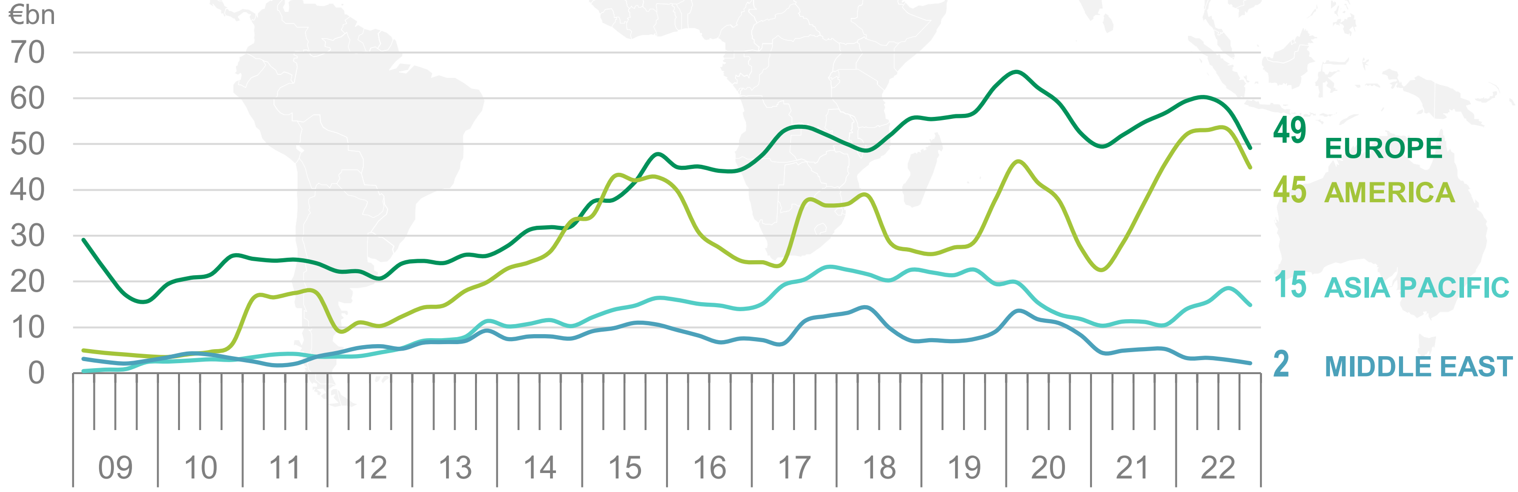
Commercial Real Estate Investment in Europe

Total, foreign and domestic investment



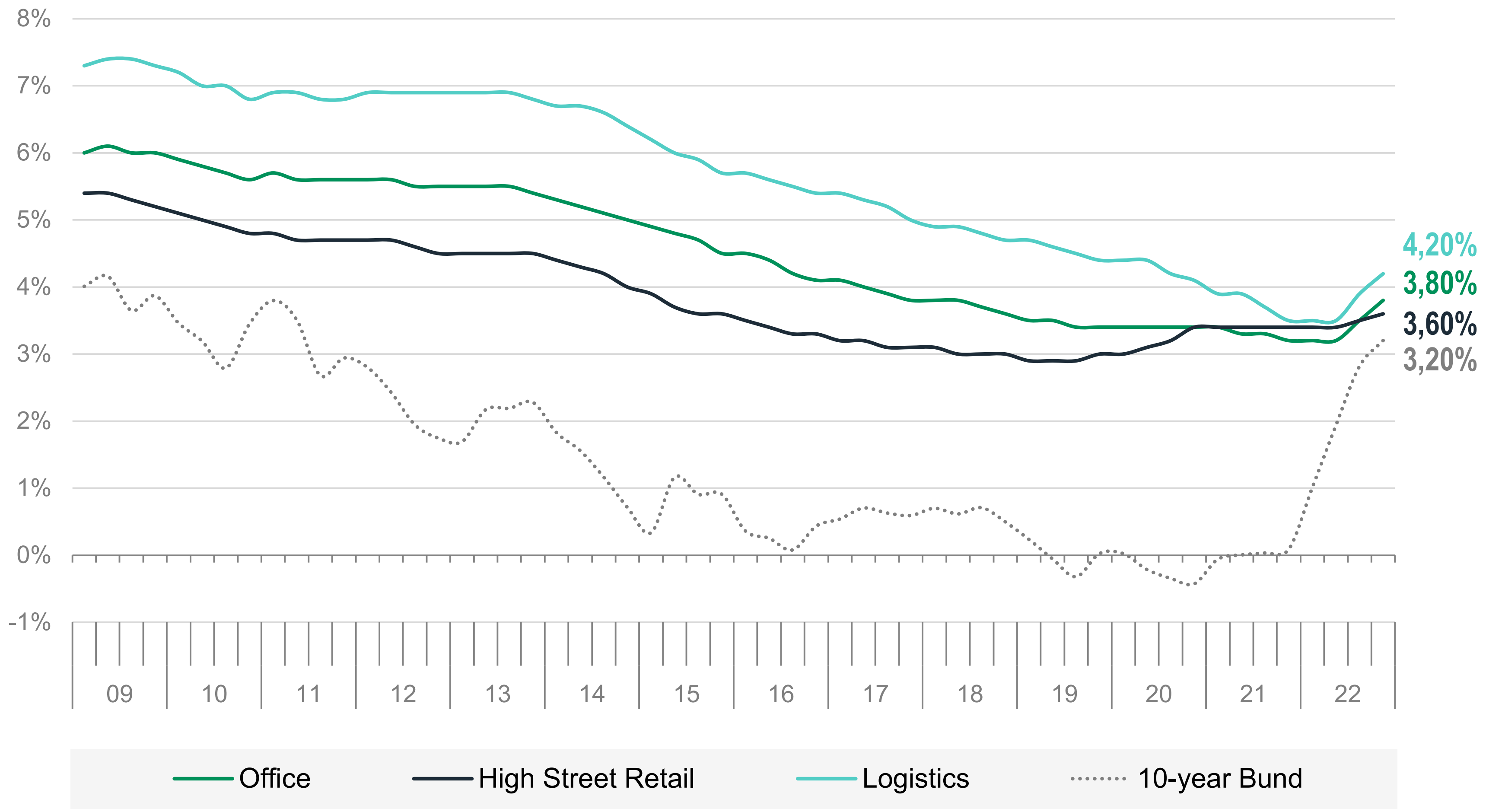
Commercial Real Estate Investment in Europe

Foreign investment detail



AVERAGE PRIME YIELDS IN EUROPE

BASED ON 16 MARKETS



Source: BNP Paribas Real Estate Research.

- Prime yield compression, mostly paused during 2020 with the pandemic except for logistics. Compression resumed over 2021 with resumption of market activity.
- Compression ended in 2022. From H2 onwards, the first strong signs of expansion occurred, affecting all the main sectors of real estate.
- The principal factor behind yield expansion is the change in the macro-financial environment. The persistence of inflation is prompting more robust response from central banks to normalize 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.

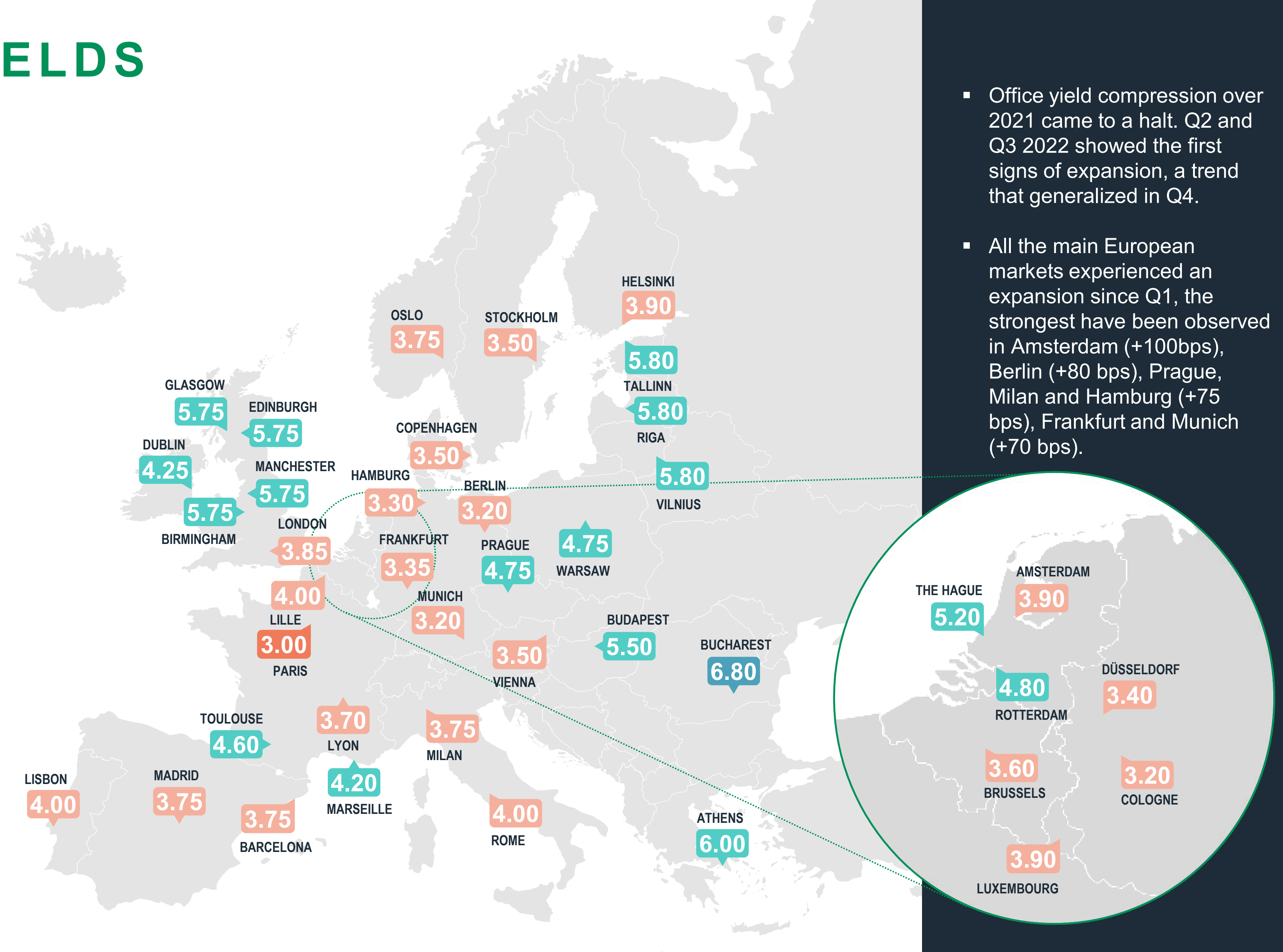
Based on 16 cities: Amsterdam, Berlin, Brussels, London, Paris, Dublin, Frankfurt, Hamburg, Lisbon, Luxembourg, Madrid, Milan, Munich, Prague, Vienna and Warsaw.

PRIME OFFICE YIELDS

Q4 2022 vs Q1 2022

BERLIN	+80bp
PARIS	+30bp
AMSTERDAM	+100bp
MADRID	+65bp
MILAN	+75bp
LONDON	+60bp
LUXEMBOURG	+50bp
BRUSSELS	+35bp
DUBLIN	+25bp
PRAGUE	+75bp
WARSAW	+25bp

≤ 3%
3-4%
4-6%
>6%



Source : BNP Paribas Real Estate

- Office yield compression over 2021 came to a halt. Q2 and Q3 2022 showed the first signs of expansion, a trend that generalized in Q4.
- All the main European markets experienced an expansion since Q1, the strongest have been observed in Amsterdam (+100bps), Berlin (+80 bps), Prague, Milan and Hamburg (+75 bps), Frankfurt and Munich (+70 bps).

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OFFICE
MARKETS

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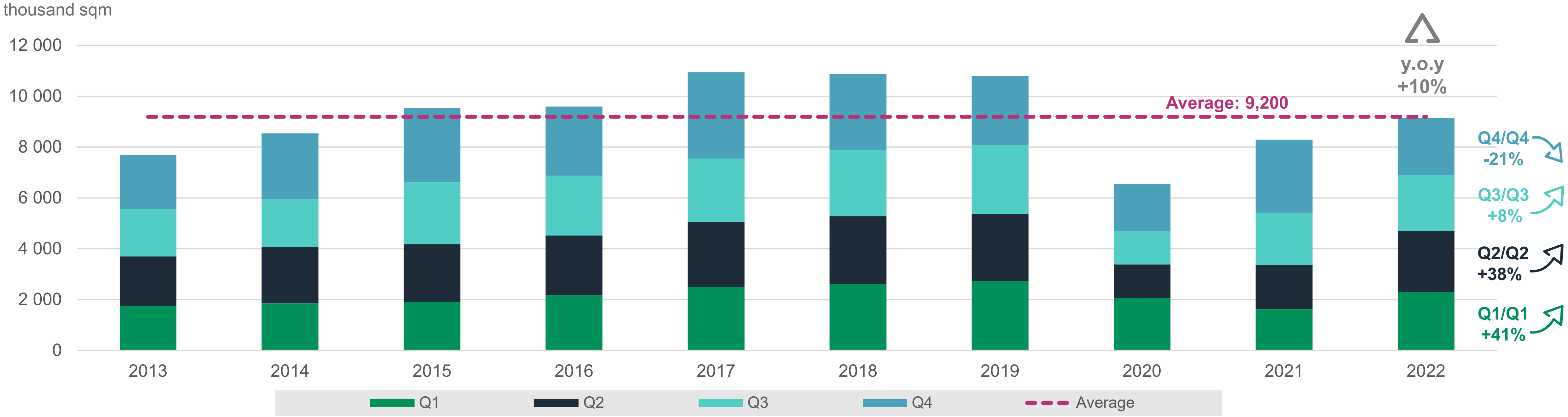
OFFICE TAKE-UP IN EUROPE – 2022

17 MAIN EUROPEAN OFFICE MARKETS*



Letting activity returned to its long-term average in 2022

- 9.17m sqm was transacted in Europe's 17 main markets over 2022, in line with the long-term average.
- After solid first 9 months, take-up showed first signs of consolidation in Q4. The post-Covid rebound seems to be fading.
- Indeed, take-up reached 2.26m during Q4, decreasing by 21% vs Q4 21. This result is -14% below the Q4 10-year average.
- Most markets showed strong rebounds in volumes in 2022, such as Dublin (+63%), Central London (+45%), Milan (+28%), Madrid (+26%).
- Amsterdam and Luxembourg are still experiencing decreases in volumes, while the six main German markets, Rome and Barcelona remained stable compared to the previous year.

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

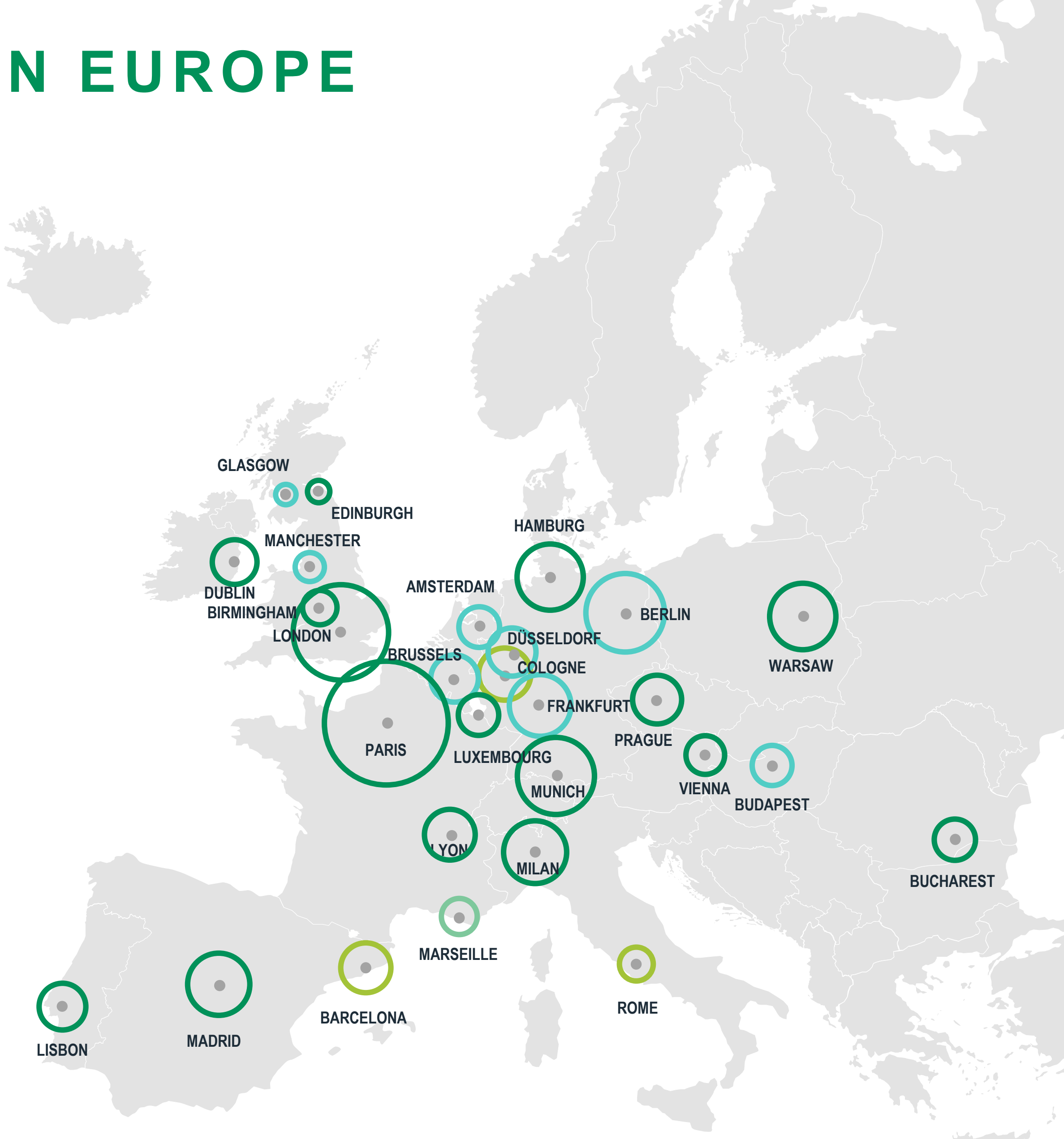
2022 vs 2021

CENTRAL LONDON	+45%
BERLIN	-7%
CENTRAL PARIS	+13%
AMSTERDAM	-23%
MADRID	+26%
MILAN	+28%
WARSAW	+48%
BRUSSELS	-37%
DUBLIN	+63%
LUXEMBOURG	+23%

Deals in thousand sqm

500
250
100

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



Source: BNP Paribas Real Estate.

EUROPE – 2022
11.24m sqm
26 markets
+11% vs 2021

2022 take-up returned to its long-term average

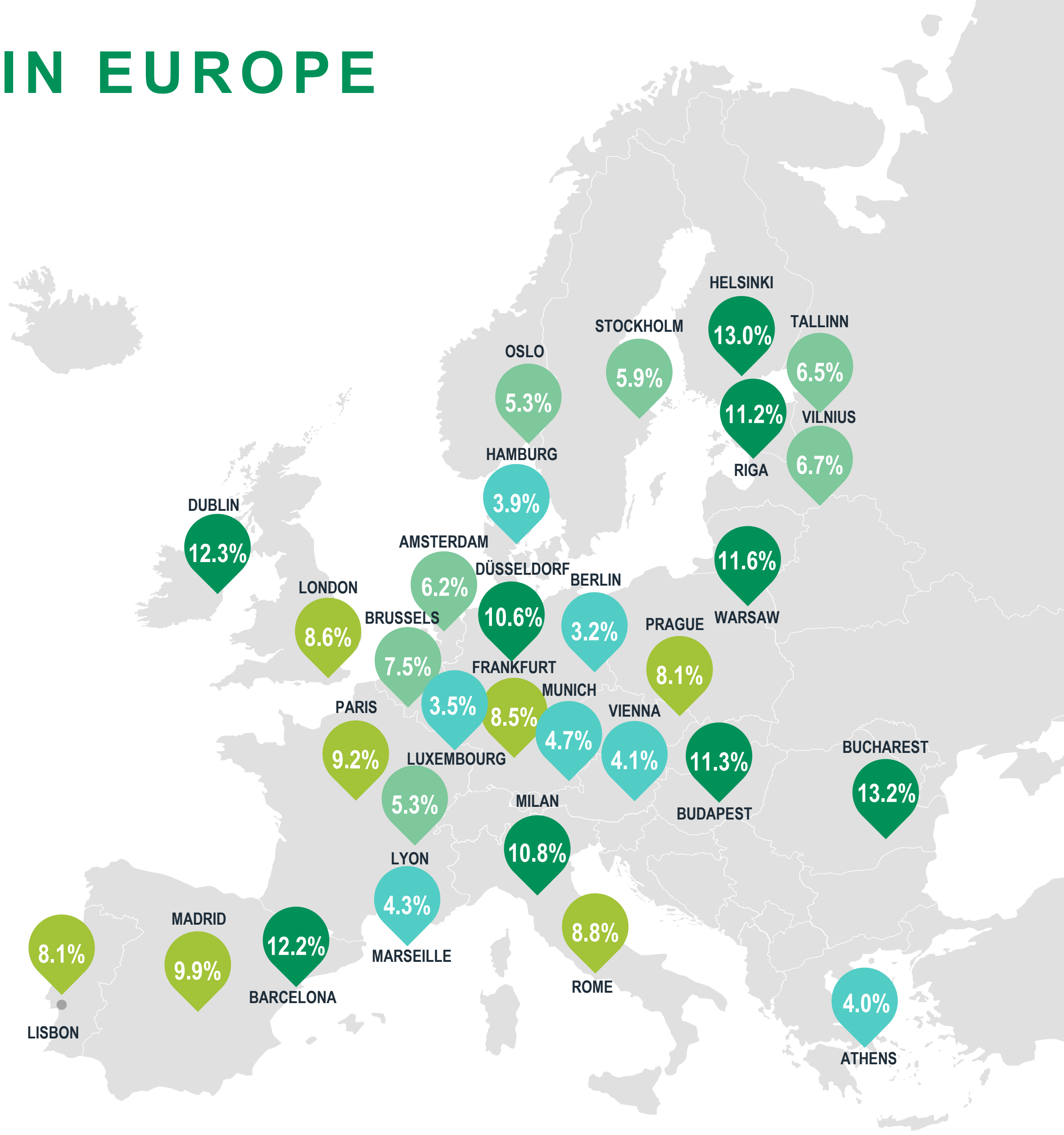
- Take-up at the end of 2022 rose by +11% compared to last year.
- Thanks to this significant rebound, 2022 volumes exceeded 10-year averages in several markets including Milan (+38%), Cologne (+11%), Hamburg (+9%) and Warsaw (+7%).
- However, not all markets experienced a similar rebound in volumes, with some remaining below their long-term average.

OFFICE VACANCY IN EUROPE

Q4 2022 vs Q4 2021

CENTRAL LONDON	+70 bp
BERLIN	-20 bp
CENTRAL PARIS	+70 bp
AMSTERDAM	+20 bp
MADRID	+10 bp
MILAN	+20 bp
WARSAW	-110 bp
BRUSSELS	-50 bp
DUBLIN	+230 bp
LUXEMBOURG	-40 bp

> 10% 5 - 8%
8 -10% < 5%



Source: BNP Paribas Real Estate

EUROPE – Q4 2022
7.4%
29 markets
+10bp vs. Q4 2021

Vacancy remains under control in Europe

- The overall vacancy rate in Europe stood at 7.4% at the end of 2022 (+10bp vs. 2021).
- While most markets experienced stabilization or even a slight decrease, vacancy increased in some of them over the year, including Barcelona (+340 bps vs. 2021) and Dublin (+230 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.

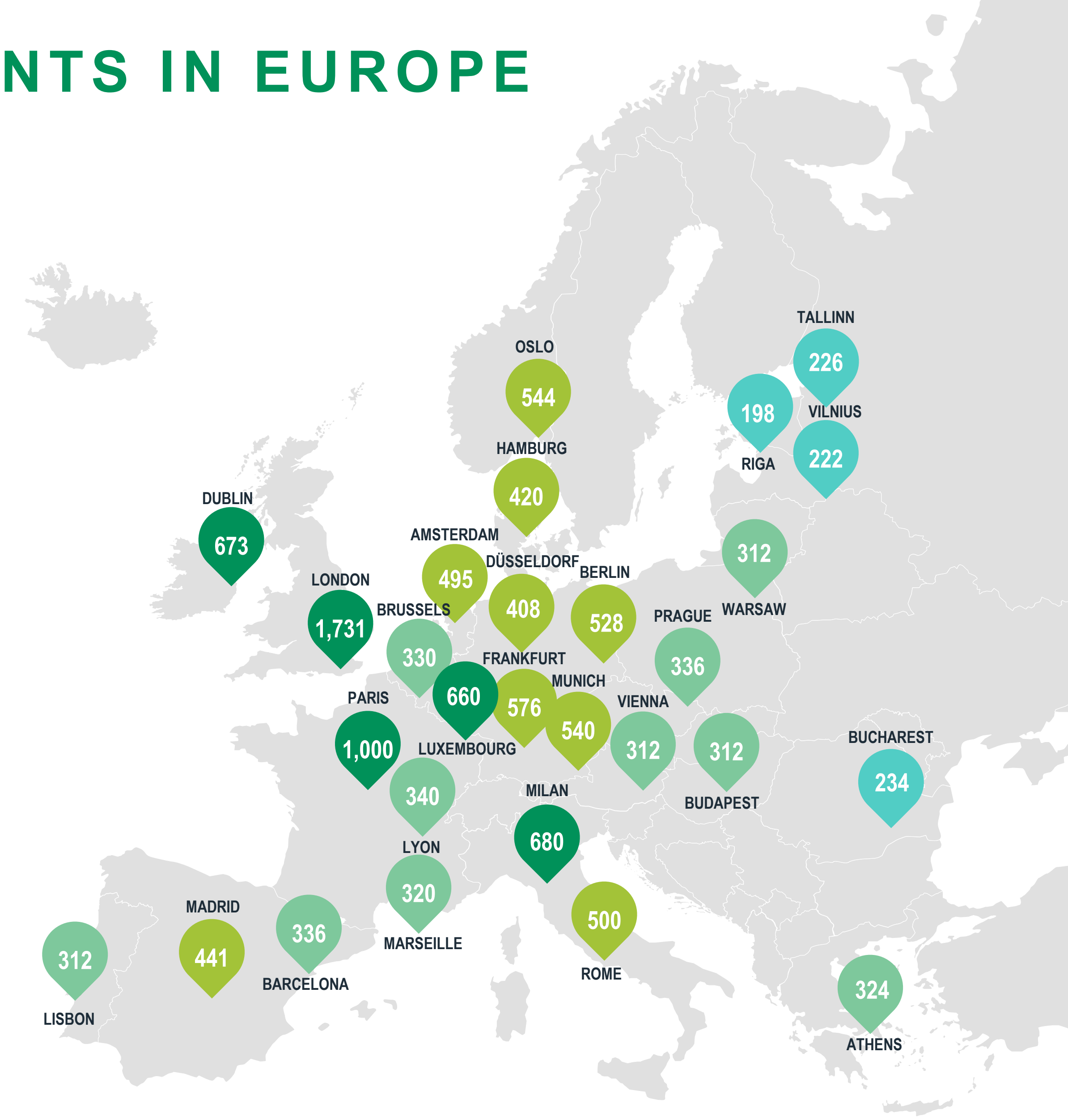
OFFICE PRIME RENTS IN EUROPE

Q4 2022 vs Q4 2021

CENTRAL LONDON	+19%
BERLIN	+2%
CENTRAL PARIS	+8%
AMSTERDAM	+5%
MADRID	+2%
MILAN	+11%
WARSAW	+13%
BRUSSELS	+3%
DUBLIN	+9%
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 (+19%), Warsaw (+13%), Milan (+11%) and Dublin (+9%) have seen the most significant increases in values.

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REAL ESTATE PERSPECTIVES

LOGISTICS
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LOGISTICS WAREHOUSING MARKET IN EUROPE

LOGISTICS IN A NUTSHELL

GOOD MARKET MOMENTUM

Take-up decreased by 10% in 2022 in the six leading European countries. It maintained a high level above the 5-year average despite the difficult economic backdrop. Market fundamentals are healthy with vacancy rates below 4% in most countries. The lack of new developments has contributed to rental growth in prime sectors.

SIGNIFICANT SLOWDOWN IN Q4 2022 FOR LOGISTICS INVESTMENT

Despite a strong year overall, Q4 experienced strong slowdown in investment. It is the result of rapid adjustment in the macro financial environment with bond yield expansion and rising interest rates. It created pricing uncertainty with yield decompression in most European countries.

THE THREAT OF DEEP RECESSION IS FADING

2023 might be better than expected as gas prices are dropping, headline inflation is declining and the PMI survey in December is showing signs of improvement. If 2023 becomes a year of disinflation, it may see central bank interest rates reach their terminal rate and stabilize.

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

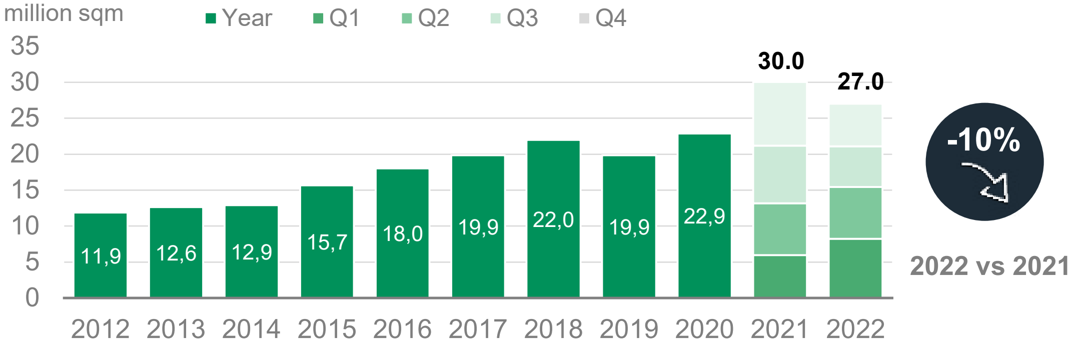
TAKE-UP IN 6 COUNTRIES: -10% (2022 VS 2021)

Above its 5-year average, the market is holding up well despite an economic slowdown

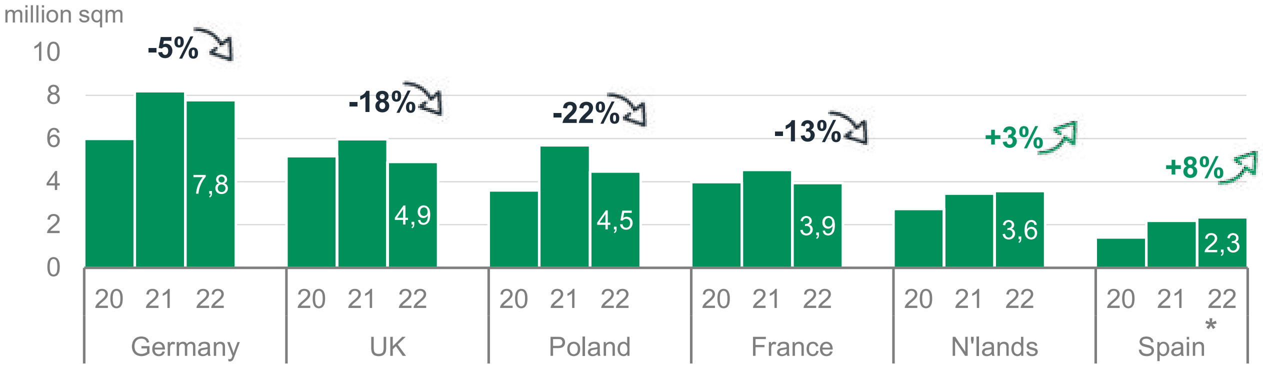
- **In 2022, the market decreased by 10%** in the 6 leading European markets. The total volume of 27.0 million sqm compares well with the exceptional volumes recorded in 2021.
- Sufficient economic growth existed in 2022 to ensure good performance in occupier markets. Take-up of space declined in some countries but not everywhere.
- Demand for space increased from tenants looking for efficiency gains. Many seek to get units in their network in the right locations to increase delivery speed to customers.
- Structural changes in consumer spending patterns continue to raise e-commerce penetration rates. It means the need for logistics space remains ongoing.
- 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**, slowdown in momentum in H2 mainly stemmed from a lack of supply, which is becoming more noticeable in the sub-centres. Massive increase in construction costs led to significant rental growth in Hamburg, Munich, and Cologne during 2022.
- The **UK** occupier market maintained solid dynamics fuelled by e-commerce. The acute shortage of new units supports rental strong growth in the UK.
- In **Poland**, the market remained dynamic but started to lose momentum in the second half of the year. Low vacancy rates and rising costs started to exert pressure on rents. Prime rents increased sharply stepping up in the main logistics hubs from €41-€44 to €49-€59 during 2022. In Warsaw I the prime rent soared to €117.
- In **France**, strong demand for large warehouses gave an extra boost to the market in early 2022, though activity was more steady in the second half. Supply remains scarce in most markets leaving the vacancy rate at its lowest ever level of below 3%. Competition between occupiers for high quality buildings remains sharp, implying some prospects for rental increases in prime locations.
- In the **Netherlands**, the market is holding up well despite restrictions for new developments. Robust demand and low availability are still putting pressure upward on rents.
- In **Spain**, the market achieved another historic record volume of transactions in 2022. Activity was stimulated by e-commerce and food retailers. Low vacancy rates are creating the conditions for rental growth.



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



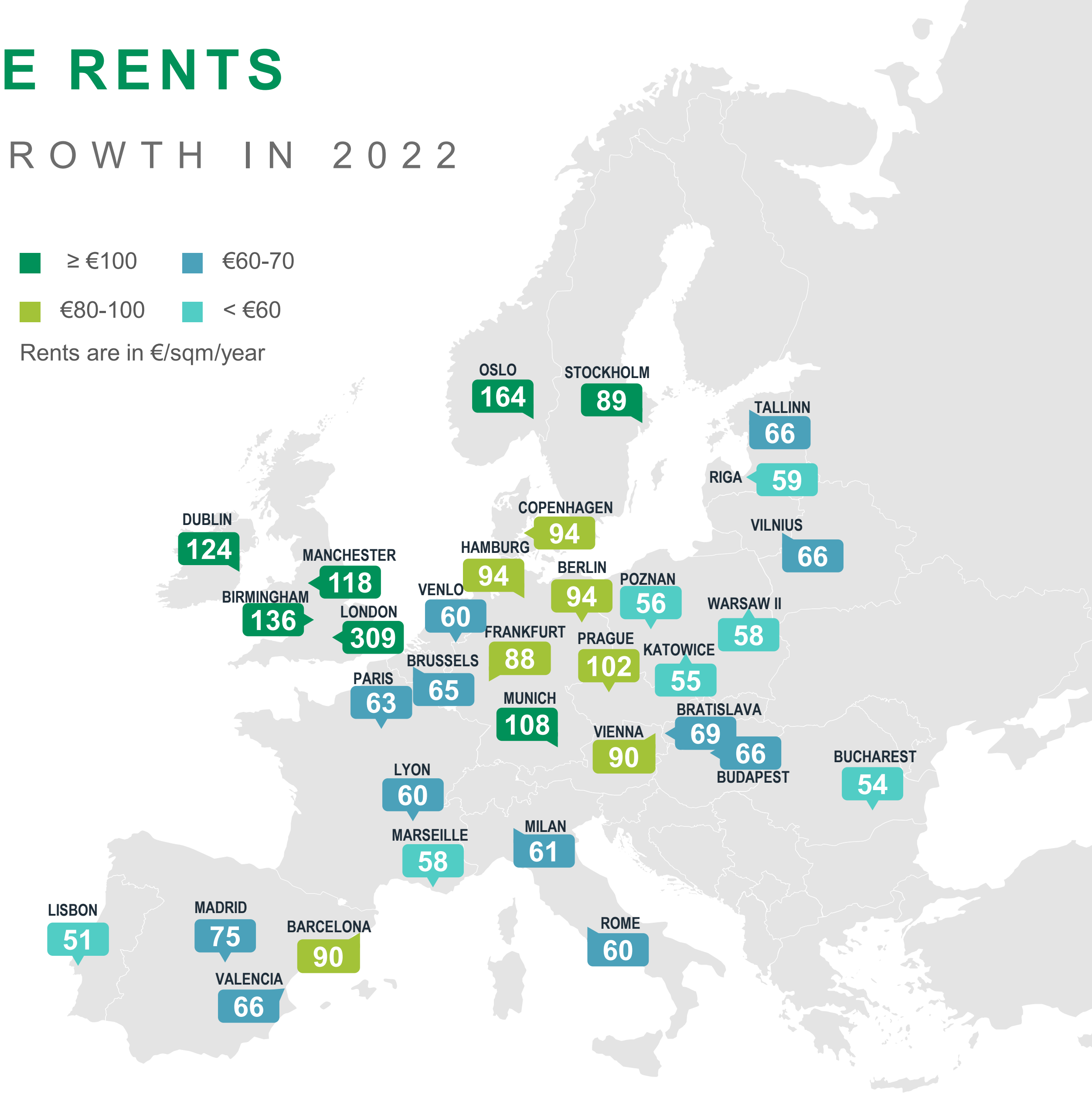
*Total of Madrid + Barcelona + Valencia

LOGISTICS PRIME RENTS

STRONG RENTAL GROWTH IN 2022

Q4 2022 vs Q4 2021

FRANKFURT	+3%
BERLIN	+4%
BIRMINGHAM	+38%
LONDON	+19%
PARIS	+5%
VENLO	+9%
MADRID	=
BARCELONA	+3%
WARSAW II	+33%
PRAGUE	+31%
MILAN	+7%
STOCKHOLM	+5%
OSLO	+26%



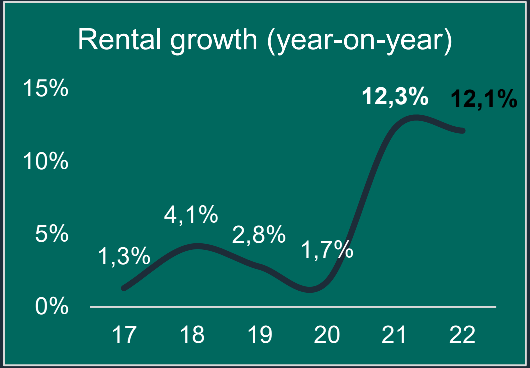
Source: BNP Paribas Real Estate Research.

EUROPE – Q4 2022

+12.1%

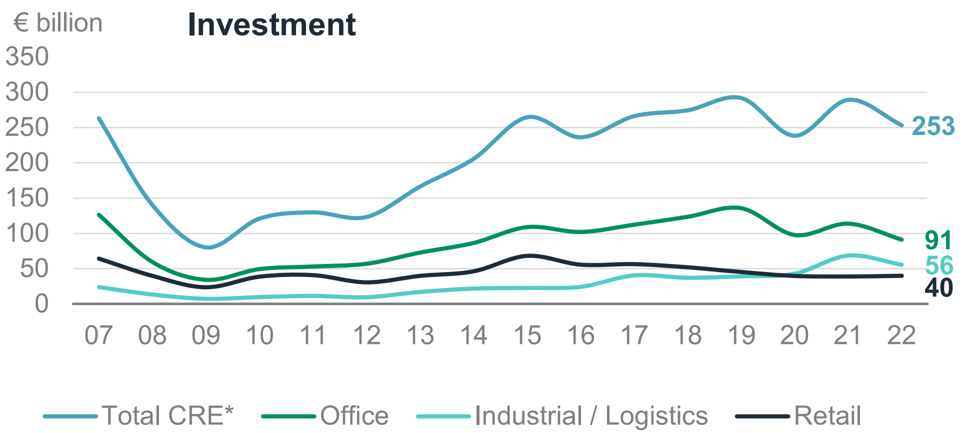
vs Q4 2021

48 markets, 21 countries



INDUSTRIAL & LOGISTICS INVESTMENT IN EUROPE

DECOMPRESSION IN Q4 2022 (+60BPS SINCE Q4 2021)



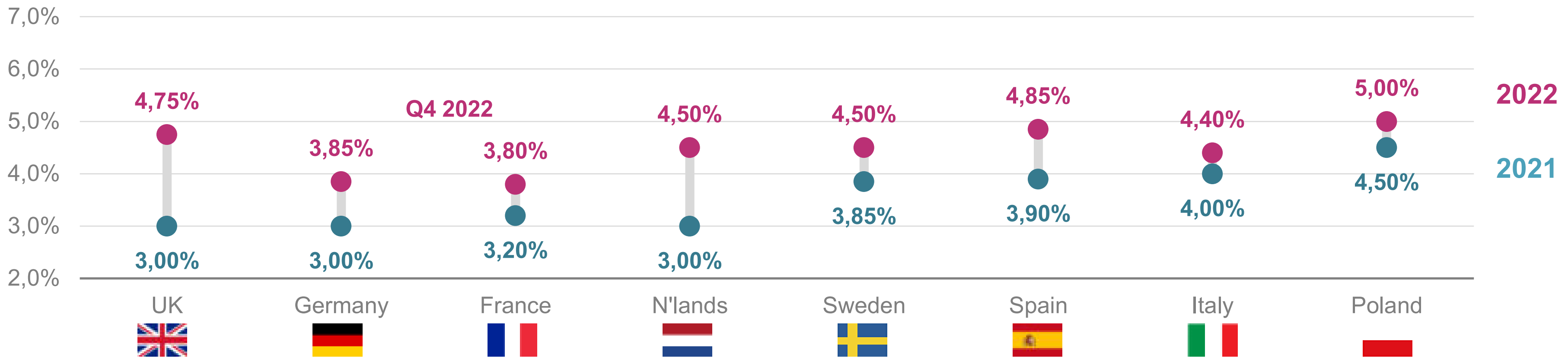
*Excluding residential

Logistics prime yields are still decompressing

- Prime yields rose by 60 bps during 2022 (in a panel of 48 markets).
- Inflationary pressure and subsequent rising long-term government bond yields are leading to logistics prime yield expansion.
- Further decompression of logistics prime yields is still expected throughout Europe in the next few months. This will reflect further increase in government bond yields in 2023 as they respond to ECB and BoE interest rate decisions.

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

December 2022



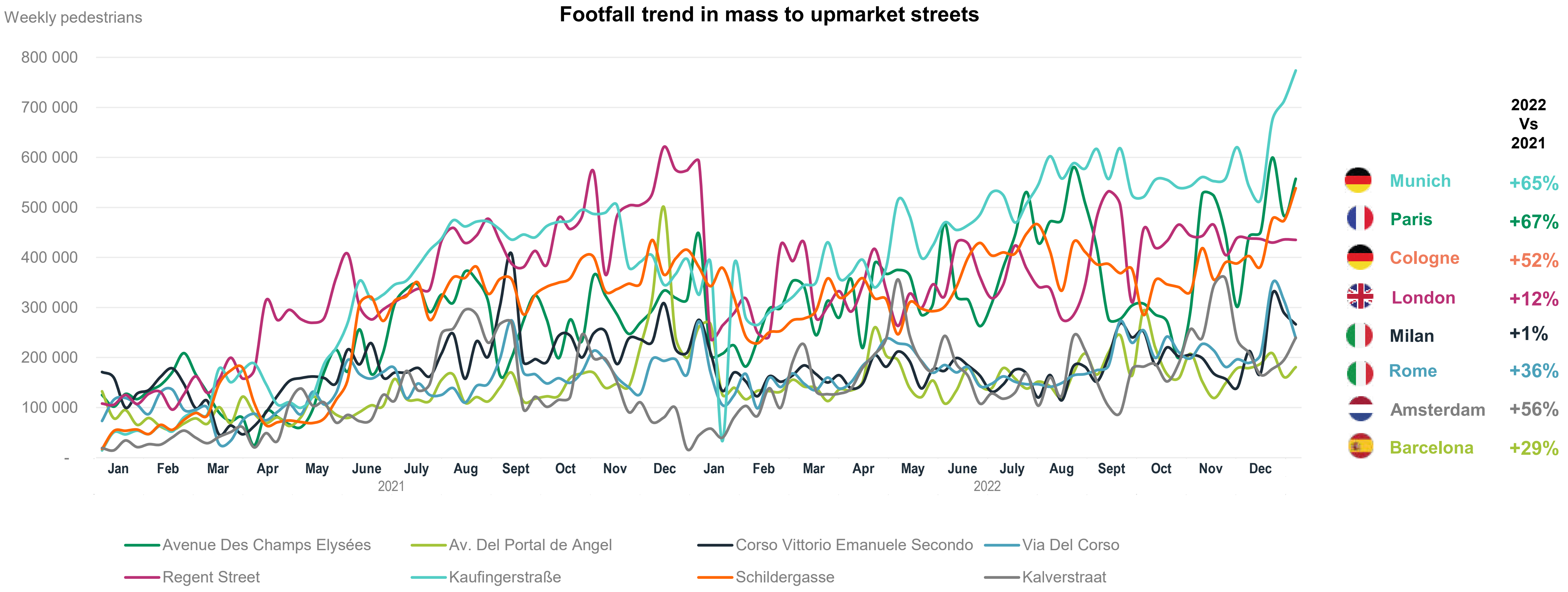
EUROPE CRE 360

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

AN INVESTMENT REBALANCING BETWEEN RETAIL SEGMENTS IN 2022

HIGH STREET

34%

(+44% vs Q4 2021)*

SHOPPING CENTRES

28%

(+138% vs Q4 2021)*

RETAIL WAREHOUSING

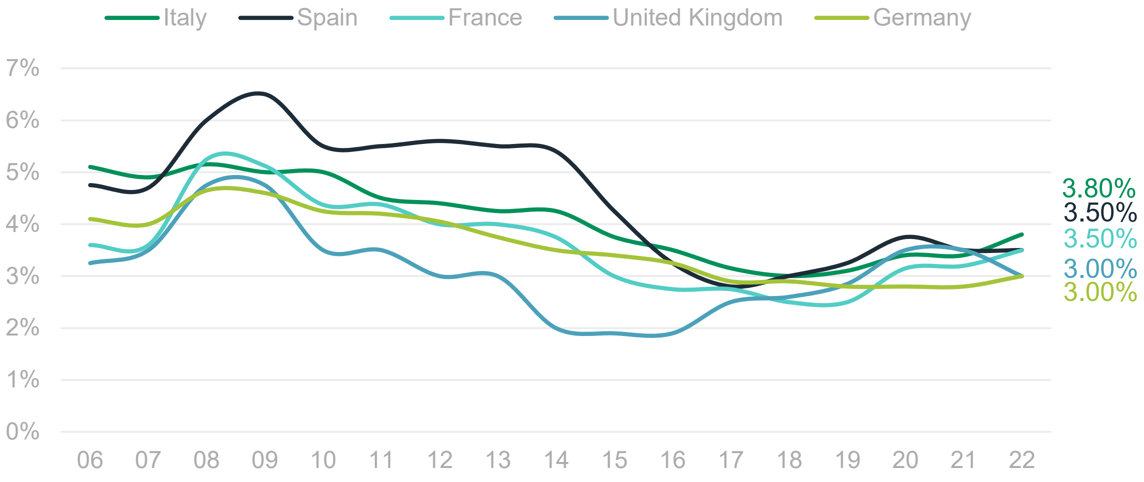
38% | (-30% vs Q4 2021)*

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

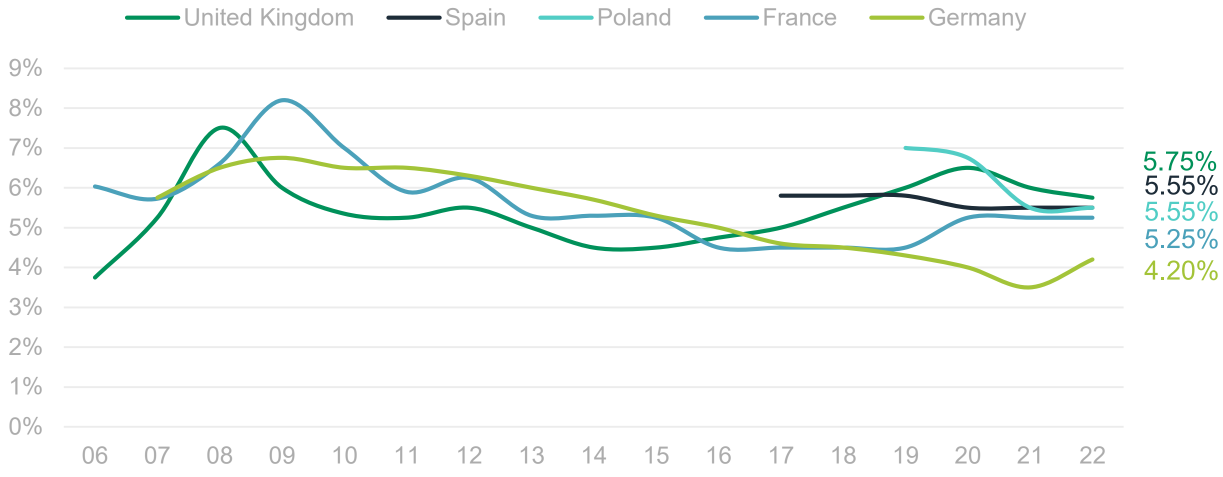
RETAIL PRIME YIELDS

LESS RETAIL PRIME YIELD EXPANSION COMPARED TO OTHER ASSET CLASSES

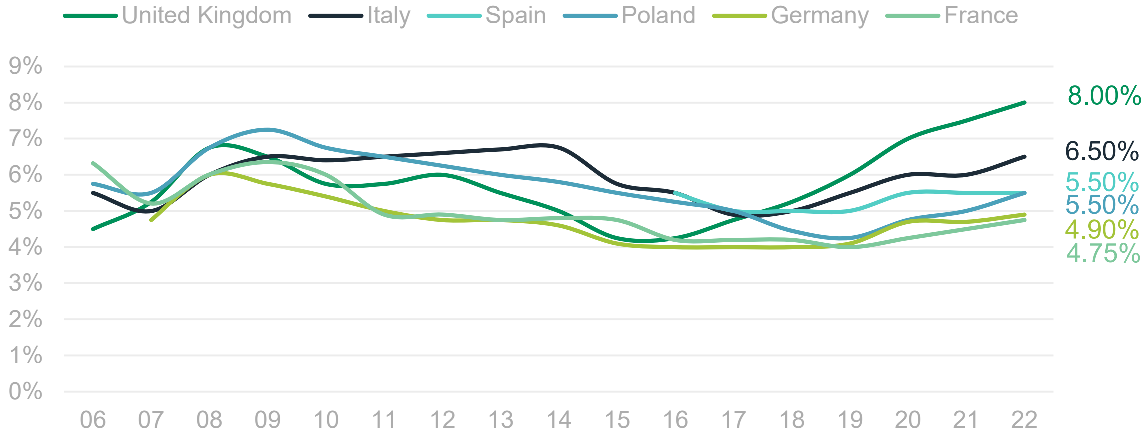
HIGH STREETS*



RETAIL WAREHOUSING



SHOPPING CENTRES



- 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

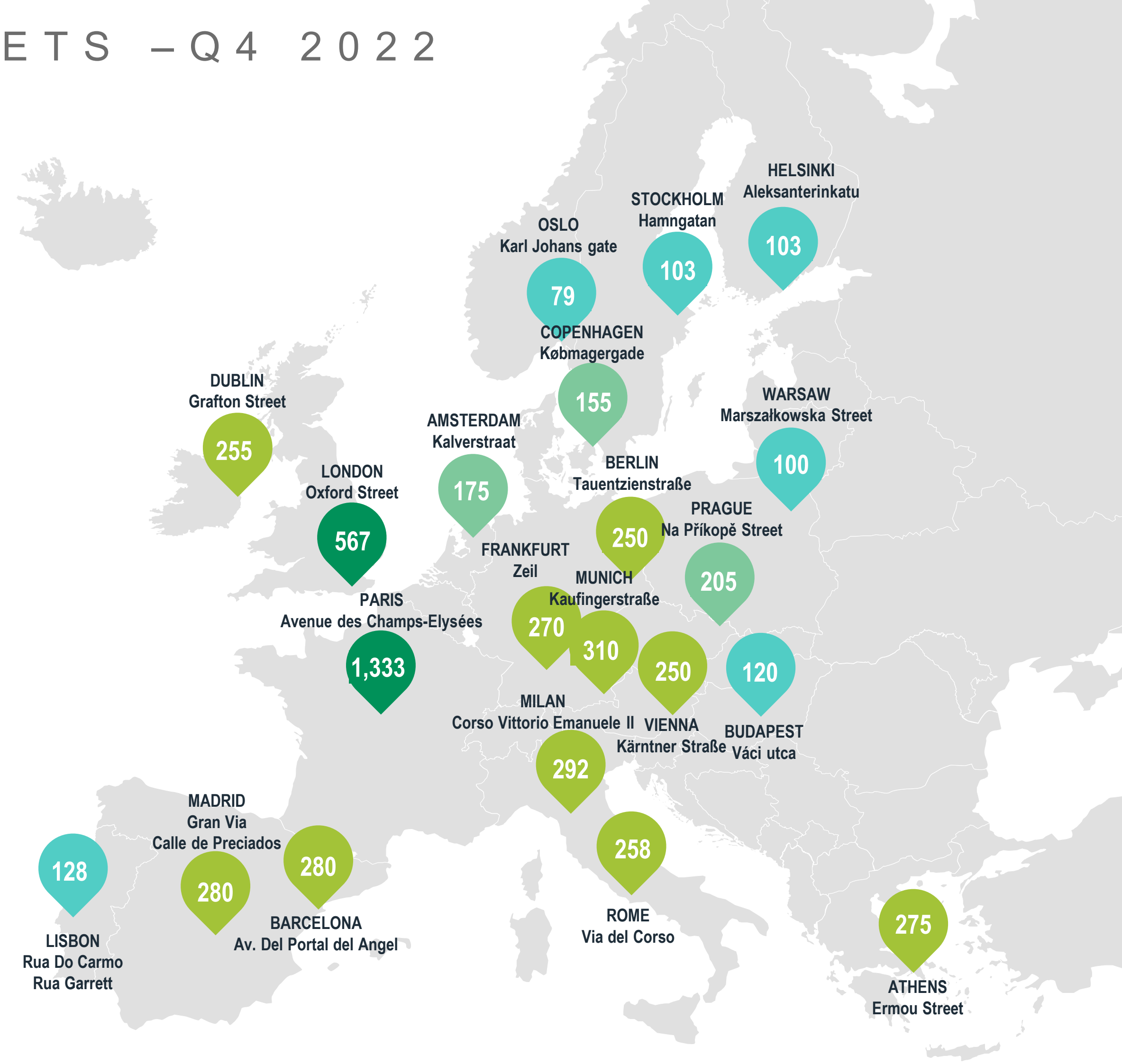
MASS MARKET STREETS – Q4 2022

Q4 2022 vs Q4 2021

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

Rents are in €/sqm/year

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

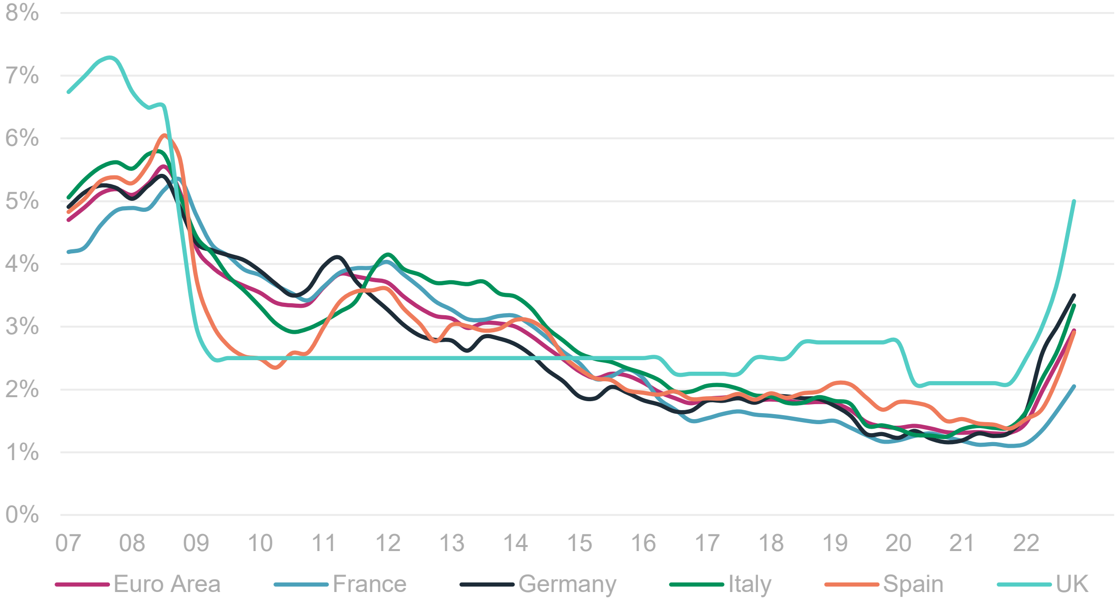
RESIDENTIAL MARKETS

BNP PARIBAS REAL ESTATE

FINANCING MARKET

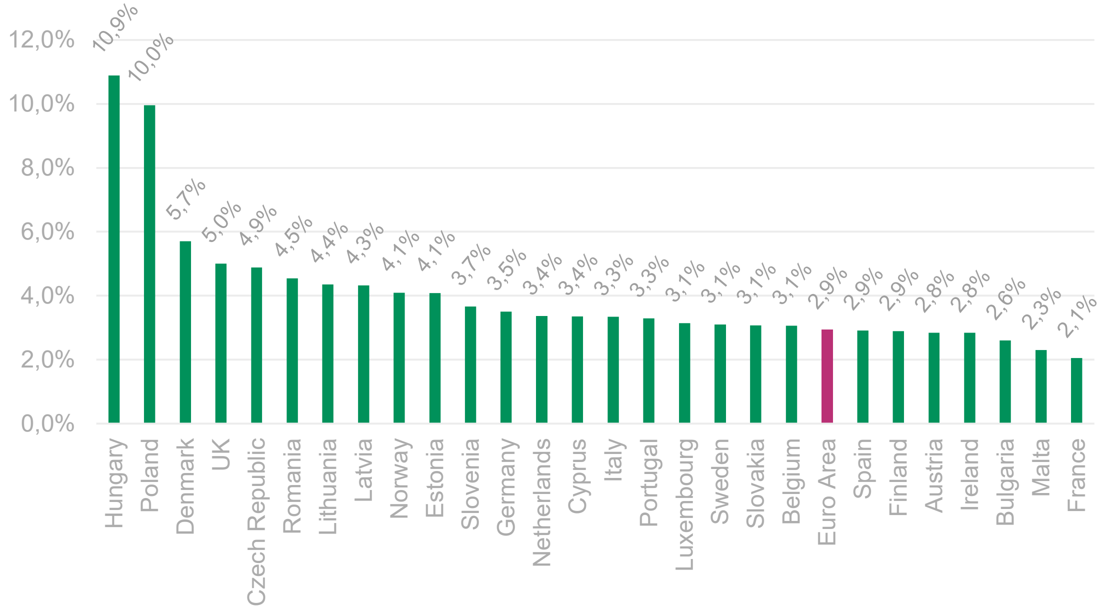
THE REPOSITIONING OF ECB MONETARY POLICY IS DRIVING MORTGAGE RATES UP

Mortgage rates



Sources: European Central Bank

Mortgage rates



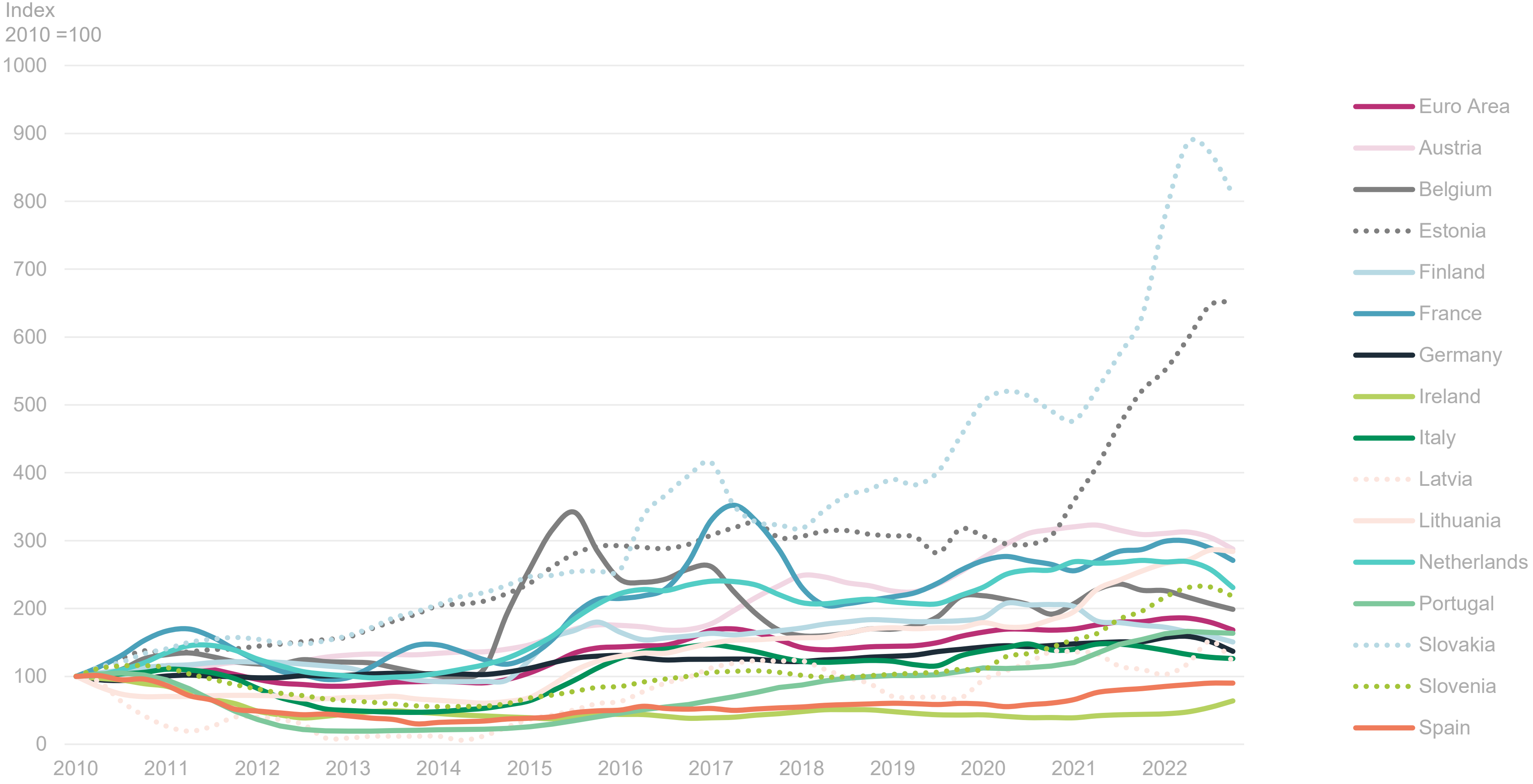
Sources: European Central Bank

- The central bank's monetary policy is the most disruptive element for European residential markets at the moment.
- The ECB hiked key interest rates by 50bps in its February monetary policy meeting. The refinancing rate has shot up by +300bps in only 8 months and reached 3.0% at the beginning of February. This is the fastest increase in the Euro's history. In comparison, between 2005-2008 rates increased by +200 bps to hit 4.0%. However, it took a total of 19 months. According to the ECB president, Christine Lagarde, further rates increases are likely in the coming months based on inflation figures. 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 2.94% in Q4 2022: +163bps in a year. The largest increases are observed in the Nordics and Eastern Europe (Hungary +647 bps, Poland +500 bps, Denmark +321 bps, the United Kingdom +290bps, Lithuania +228bps, Germany +218 bps, Slovakia +214bps, Finland +210 bps, Czech Republic +196 bps and the Netherlands +171bps). In contrast, the increases were more moderate in Ireland, France, Romania, Sweden and Spain between + 12bps and +153bps.
- The 12-month Euribor reached 3.3% in Q4 2022, +380 bps since Q4 2021, paving the way for stronger growth in mortgage rates in the coming months. 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 a number of households with variable rate debt.

CREDIT PRODUCTION IN EUROPE

TIGHTENING OF CREDIT CONDITIONS RESULTS IN A DECLINE IN CREDIT PRODUCTION

Credit production



Source: European Central Bank

EUROPE

-6.8%

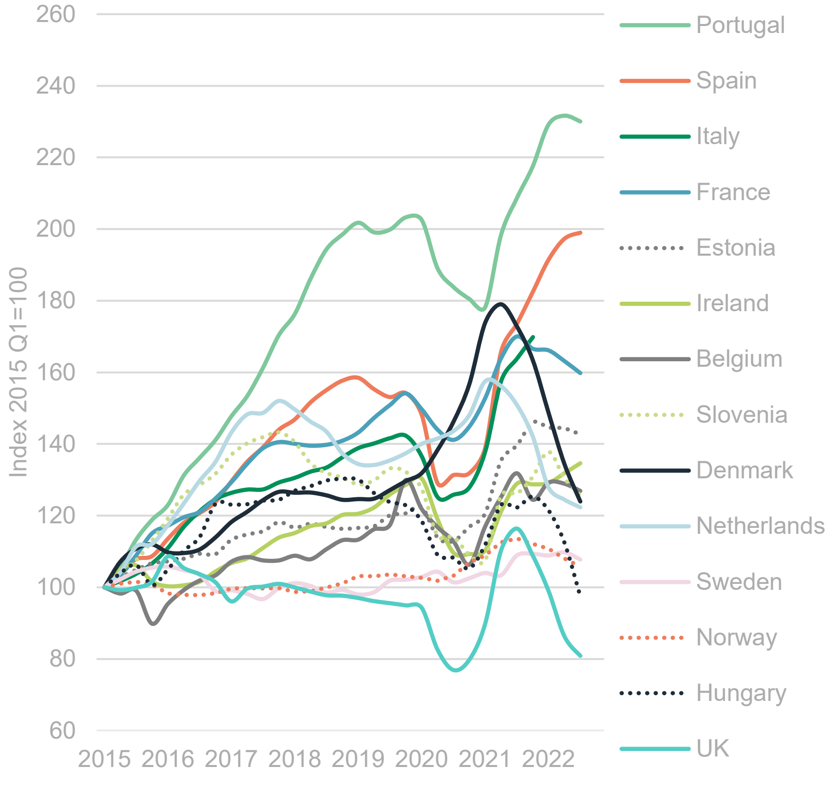
Q4 2022 vs Q4 2021

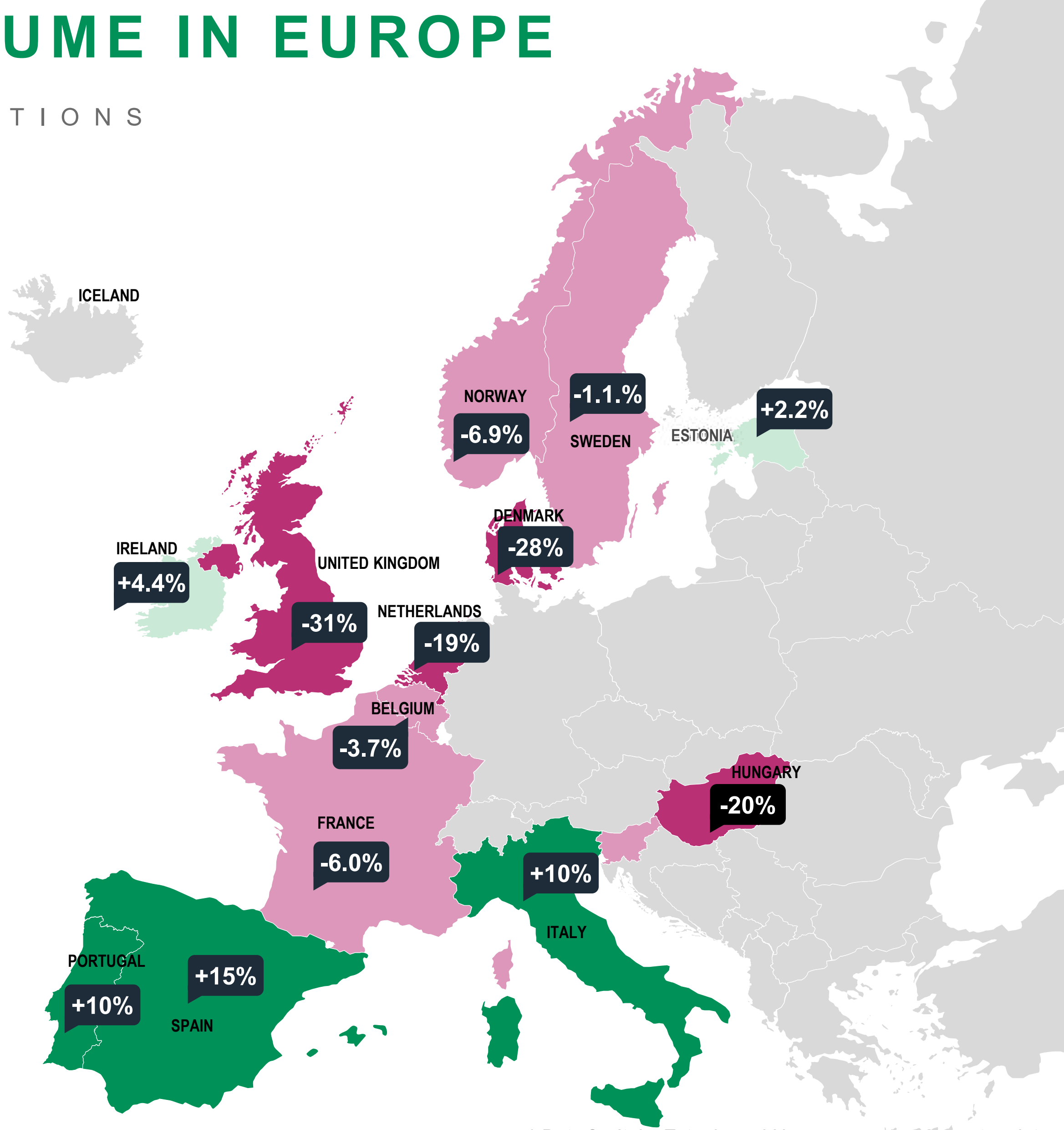
- Credit production reached its peak in Q2 2022 with € 1,077bn granted. However, economic uncertainties and the increase in mortgage rates are tightening credit supply and reducing demand. Credit supply declined by -6.8% y/y and -9.4% vs the peak.
- In Q4 2022, most European countries recorded a decline in lending. The most important declines are recorded in Croatia (-60%), the Czech Republic (-52%), the United Kingdom (-34%), the Netherlands (-15%), Finland (-14%), and Belgium and Italy (-12%).
- Credit production continues to expand in Bulgaria, Denmark, Estonia, Ireland, Latvia, Lithuania, Luxembourg Portugal, Romania, Slovakia, Slovenia Sweden and Spain. However we observe a significant slow down in production and only 6 countries reach their peak in Q4 2022.

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

-7.8%

Q3 2022 vs Q3 2021

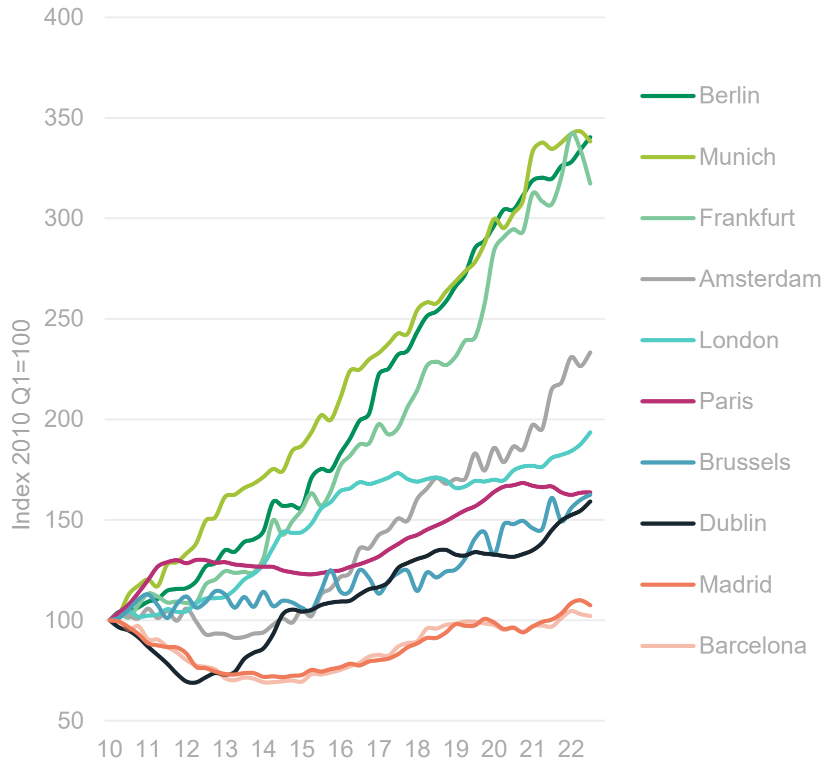
(12 countries)

- Housing transaction volume dropped by 7.8% in Q3 2022 and on a rolling year basis.
- The slow down is driven by several factors: the tightening of 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 decreased by -31% in the United Kingdom, -28% in Denmark, -20% in Hungary, -19% in the Netherlands. The decline is more moderated in Norway (-6.9%), France (-6.0%), Belgium (-3.7%) and Sweden
- Transaction volumes continue to be dynamic in Southern Europe: +15% in Spain and +10% in Portugal and Italy.

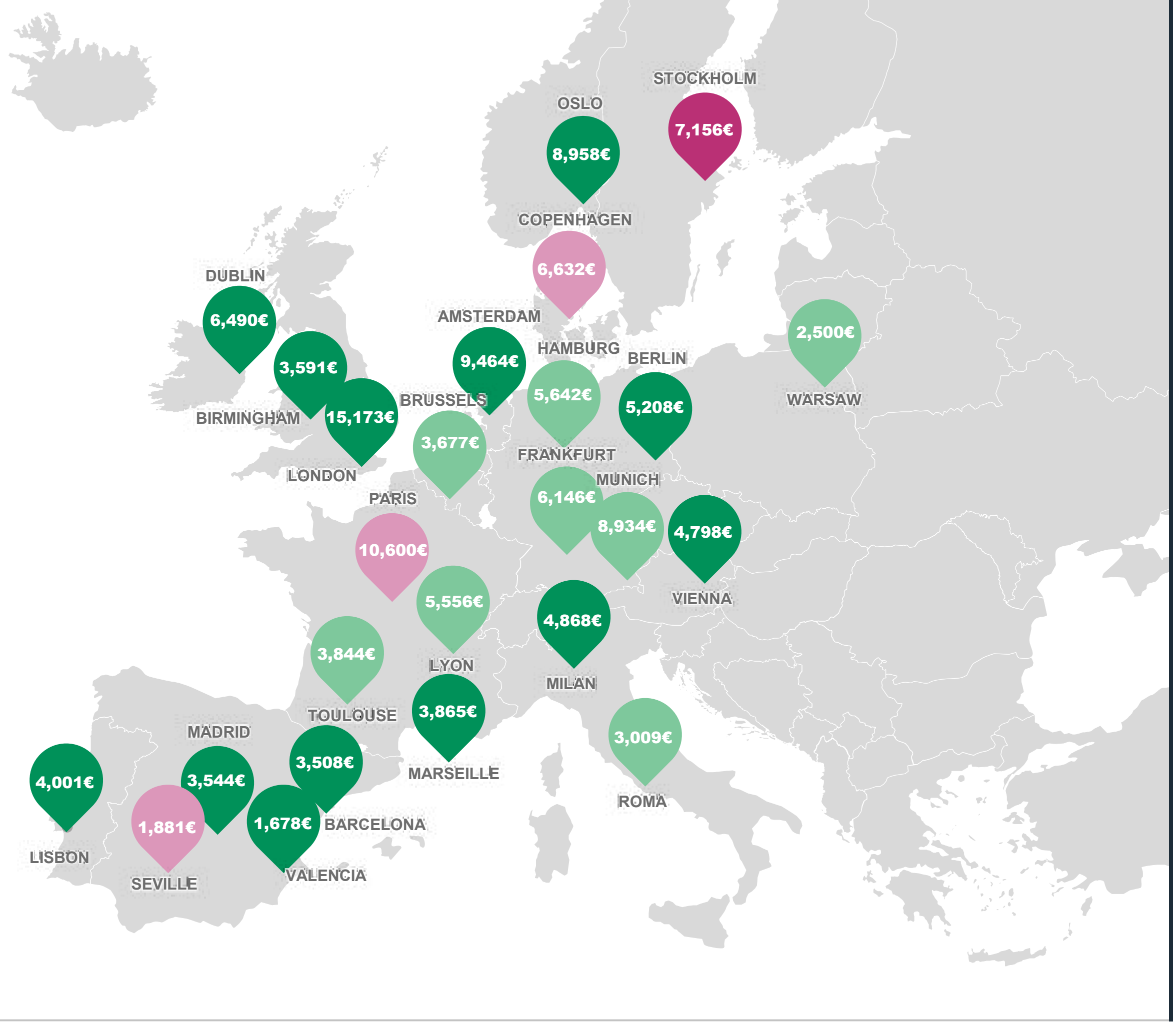
RESIDENTIAL PRICE GROWTH IN EUROPE

SLOWDOWN AND SOME ADJUSTMENT IN HOUSE PRICES

Residential price growth



Prices are in €/sqm



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

Sources: BNPPRE

EUROPE

+5.1%

Q3 2022 vs Q3 2021

❖ House prices across European cities continue to rise, but at a slower pace, recording +5.1% y/y in Q3 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 4 in Q3 2022. It includes: Birmingham (+10.8%); Manchester (+11.3%); Lisbon (+12.4%) and Marseille (+18.4%).

❖ Nevertheless, house prices start to decline slightly in 13 cities out of the 28 we monitor since the peak was reached over the last 2 years.

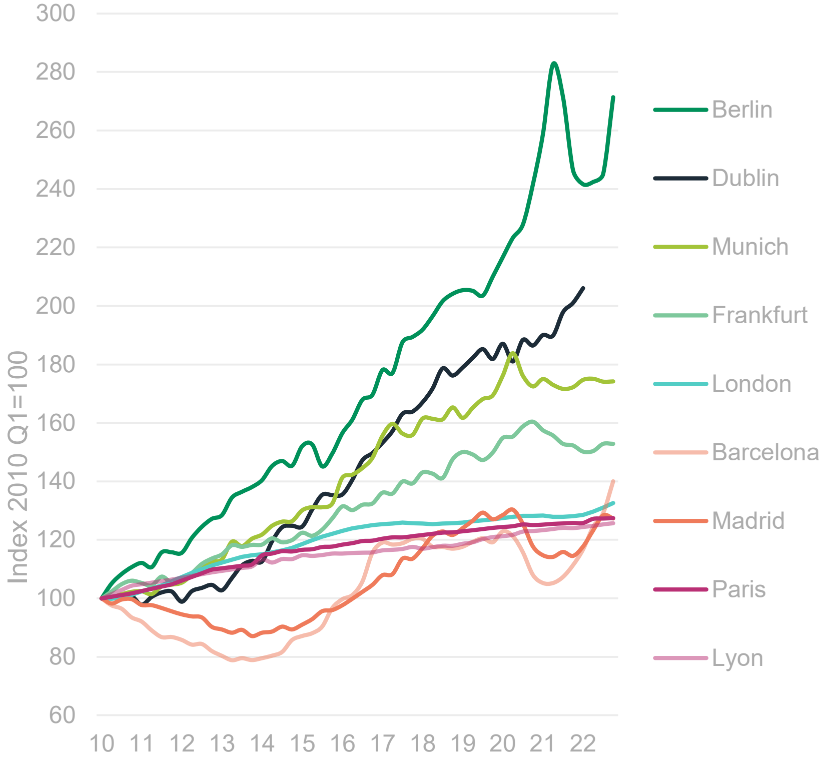
❖ For instance, house prices declined by 11% in Stockholm, around -7% in Frankfurt and Seville, -6.1% in Copenhagen, -4.3% in Prague, -3.2% in Hamburg, -2.8% in Paris and Lisbon and -2.3% in Madrid and Barcelona.

❖ As a result of interest rate hikes, the housing market is cooling down and the demand is moving toward cheaper markets such as suburbs.

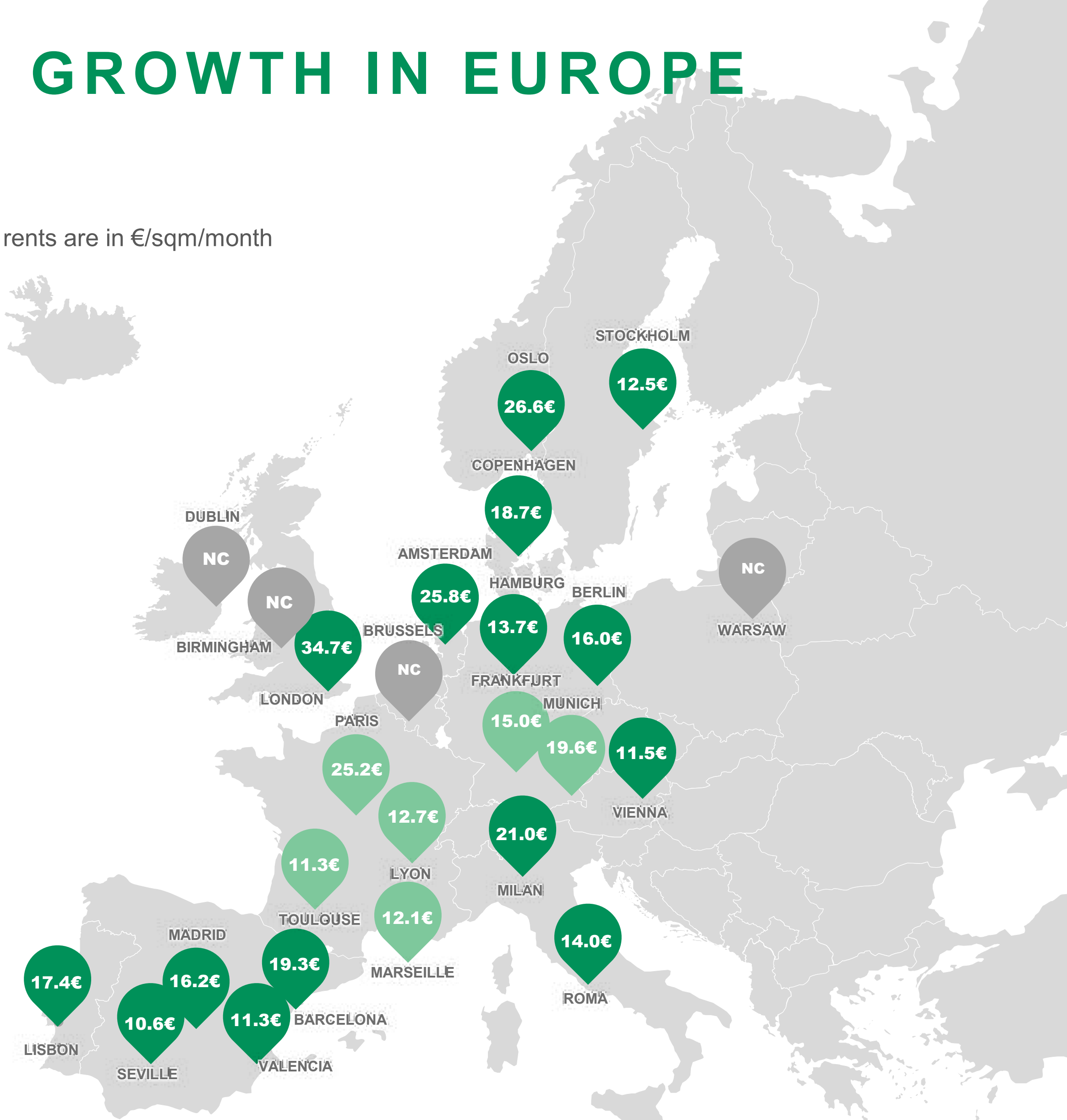
RESIDENTIAL RENT GROWTH IN EUROPE

RENTS ARE BOOMING

Residential rent growth



rents are in €/sqm/month



■ >+2%
■ 0% - +2%
■ 0% - -2%
■ <-2%

Sources: BNPPRE

EUROPE

+8.3%

Q4 2022 vs Q4 2021

- Residential rental values across European markets are booming at +8.3% 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, 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 double-digit growth in 9 markets out of the 23 monitored. 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 rent control was removed in 2022 but the rental stock shrunk dramatically because of the regulation.

LOCATIONS

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