EUROPE CRE 360

OVERALL SITUATION
ECONOMIC OUTLOOK
REAL ESTATE PERSPECTIVES

GLOBAL RESEARCH
OCTOBER 2020

BNP PARIBAS REAL ESTATE

Real Estate for a changing world

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BNP PARIBAS REAL ESTATE

Real Estate for a changing world

EXECUTIVE SUMMARY

IN A NUTSHELL

KEY MESSAGES

LOCKDOWN 2.0 AND VAGUE RECOVERY

As most countries across Europe witness a resurgence in COVID-19 cases, many are now instituting new restrictive measures. If we are still forecasting a rebound of the global GDP growth in 2021, risks remain, however, skewed to the downside.

STRONG SHOCK ON FOREIGN INVESTMENT

Foreign investment experienced a bigger shock than domestic investment, particularly from Americas, Middle East, Asia Pacific while European investment showed more resilience. This benefited domestic investment that showed more resilience.

THE RETAIL INDUSTRY HOLDS ITS BREATH

After a summer favourable for consumption's recovery, the retail industry is now depending on the outcome of the second wave. Another slowdown is already happening and tougher measures may accelerate the decline of traffic in retail outlets.

OFFICE TAKE-UP DEEPLY IMPACTED

Office take-up in Europe reached its lowest 9-month total since 2009 (-42% y-o-y). In a context of climbing vacancy and declining net absorption in most markets, prime headline rents remained stable with upward pressure on incentives though.

A LOGISTICS MARKET REMARKABLY RESILIENT

Unlike during the 2009 GFC, occupier market fundamentals are healthy with low vacant space and strong demand boosted by Ecommerce. Investment declined in Q2 but bounced back in Q3 and yields compressed further; investor appetite is not fading.

OVERALL SITUATION

BNP PARIBAS
REAL ESTATE

RESTRICTIONS ACROSS EUROPE

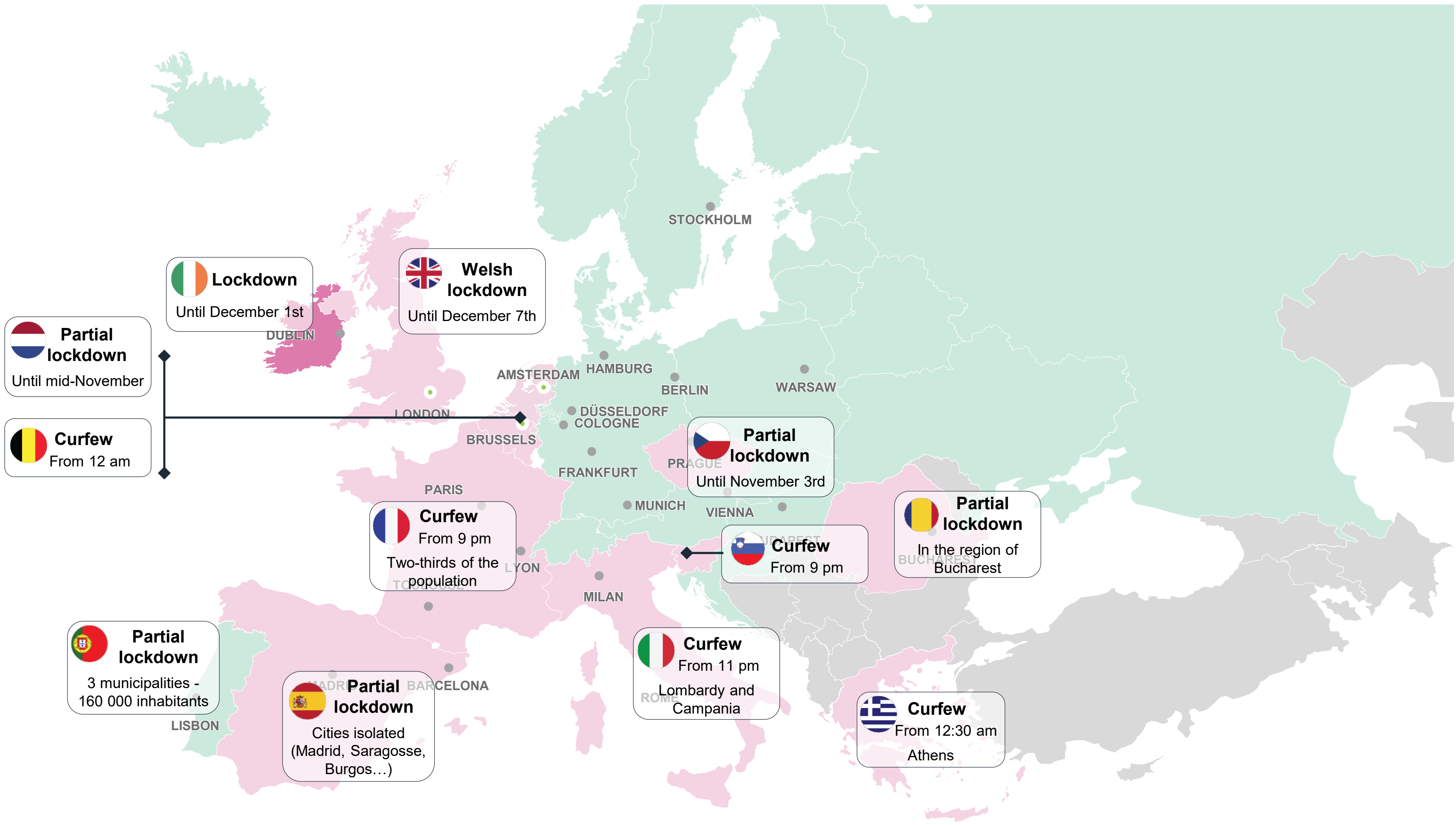
As of October 22nd

TOUGHER NEW RULES AS CASES SURGE IN EUROPE

Total lockdown

Partial / regional restrictions

No restriction

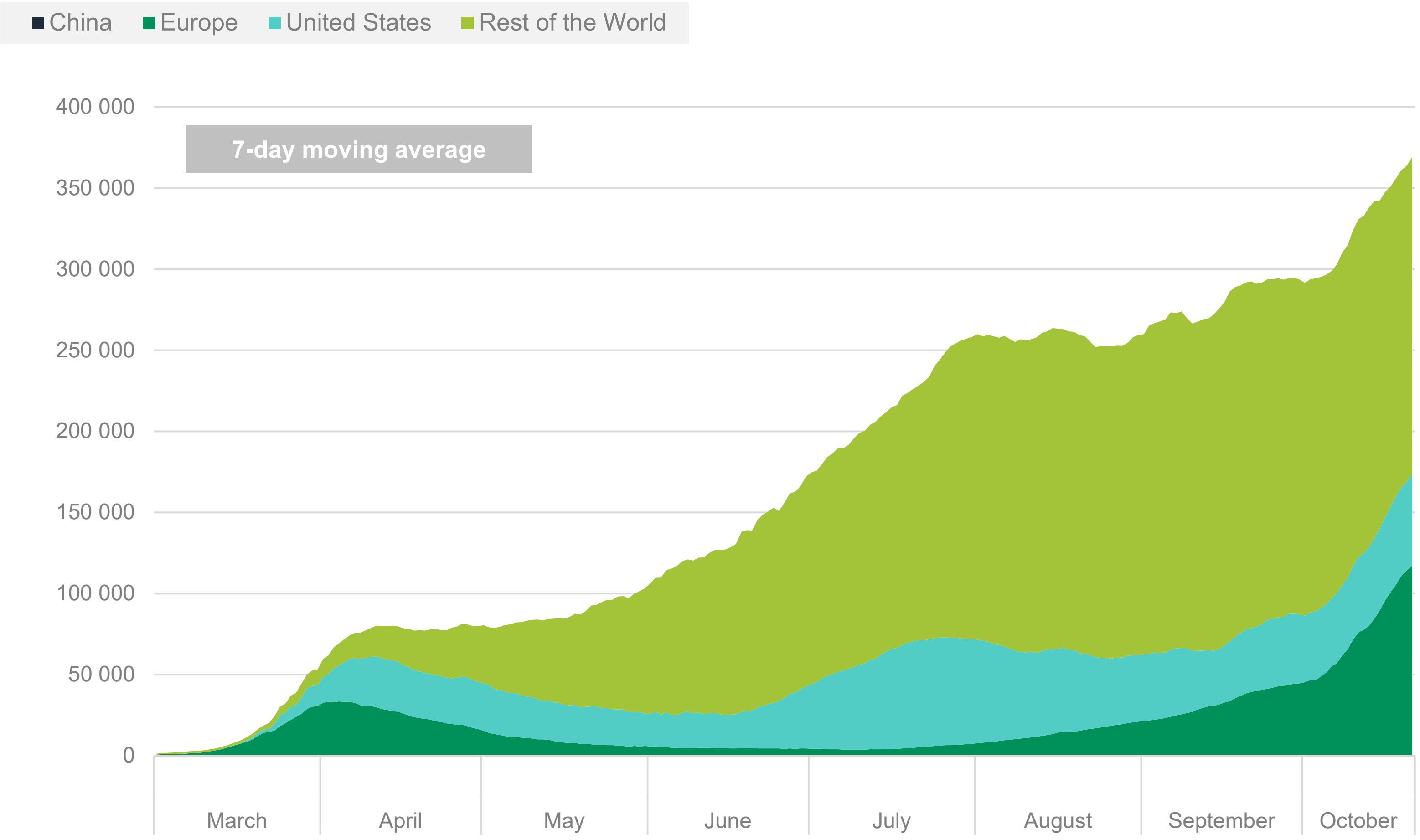


Source: Government announcements.

CONFIRMED DAILY CASES OF COVID-19

VIRUS WIDELY SPREAD OUTSIDE CHINA

Confirmed daily cases in the world

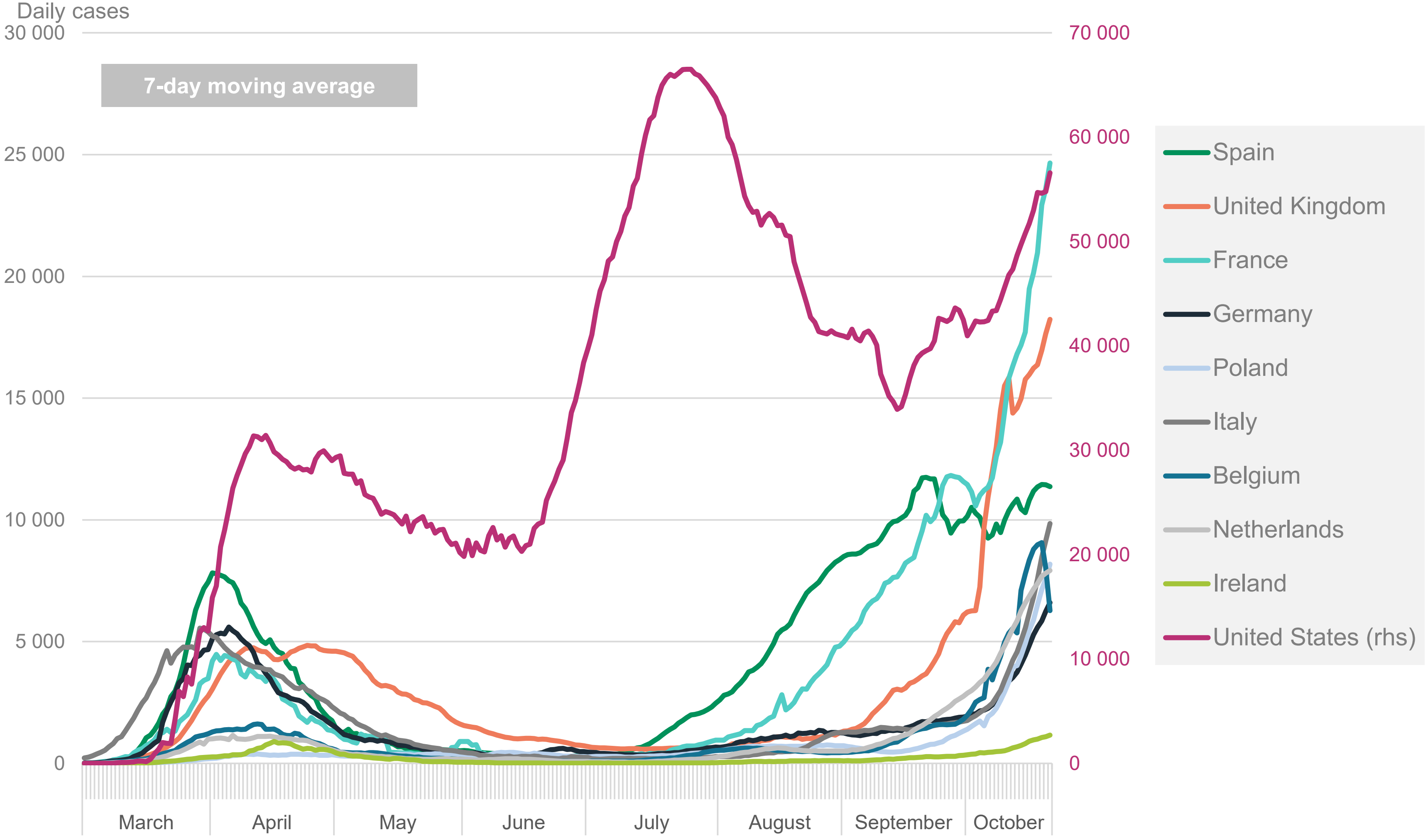


Sources: World Health Organisation.

- **The COVID-19 emergency at the beginning of 2020 took the world by surprise.** It delivered an economic shock just as the global economy had begun to stabilise from trade wars in the preceding years. **Its mid-term implications for the global economy still remain uncertain**, but it is clear that the effect came in three phases:
  - **disruption to the supply chain in China**, where most factories were shut during the peak of the crisis
  - **development into a pandemic spreading across Europe**
  - **pandemic in emerging countries**
- Currently, around **100,000 new cases** are being **reported each day in the World.**
- The virus also widely spread in Europe, and **lockdown measures were implemented in March** to slow its progression.
- **Confirmed cases in European countries were decreasing between April and August**, but the **situation is worrisome again** as cases are growing at **a higher pace than during the first wave.**
- **In the US, the virus is still spreading quickly** and some measures are put in place by the different states.
- Finally, **the situation on the rest of the world is not reassuring either** as the number of new cases has never decreased since March**.**

NUMBER OF DAILY CONFIRMED CASES

ARE WE SEEING A SECOND WAVE?



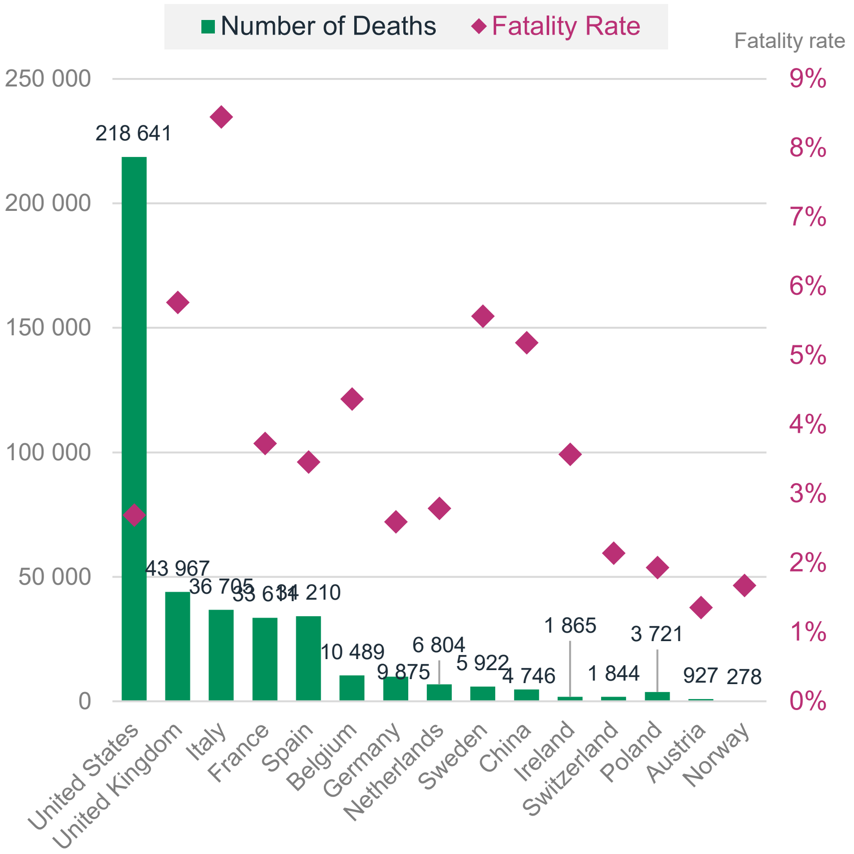
Sources: World Health Organisation.

- **The number of daily cases is now increasing in a lot of European countries.**
- The easing of the lockdown measures (even partial) has driven an increase in cases.
- **Now, the number of daily cases is even higher than it was during the first wave** (for France, Belgium, the UK and Italy, the most impacted countries in Europe so far).
- **Countries are now implementing partial restrictions on social events**, to slow the pace of transmission. For example, **France implemented a curfew** for the main cities. **The UK is also trying to prevent indoors social interaction**, as it is now prohibited to meet other household inside.
- **Ireland is the first European country to reimpose a national lockdown** of 6 weeks amid a Coronavirus resurgence.
- We are not expecting a similar situation as in March, as **we think that national lockdown will be the solution of last resort** given its implication for the economy. However, **there are still high pressure on governments** and we could see drastic measures to protect the population.

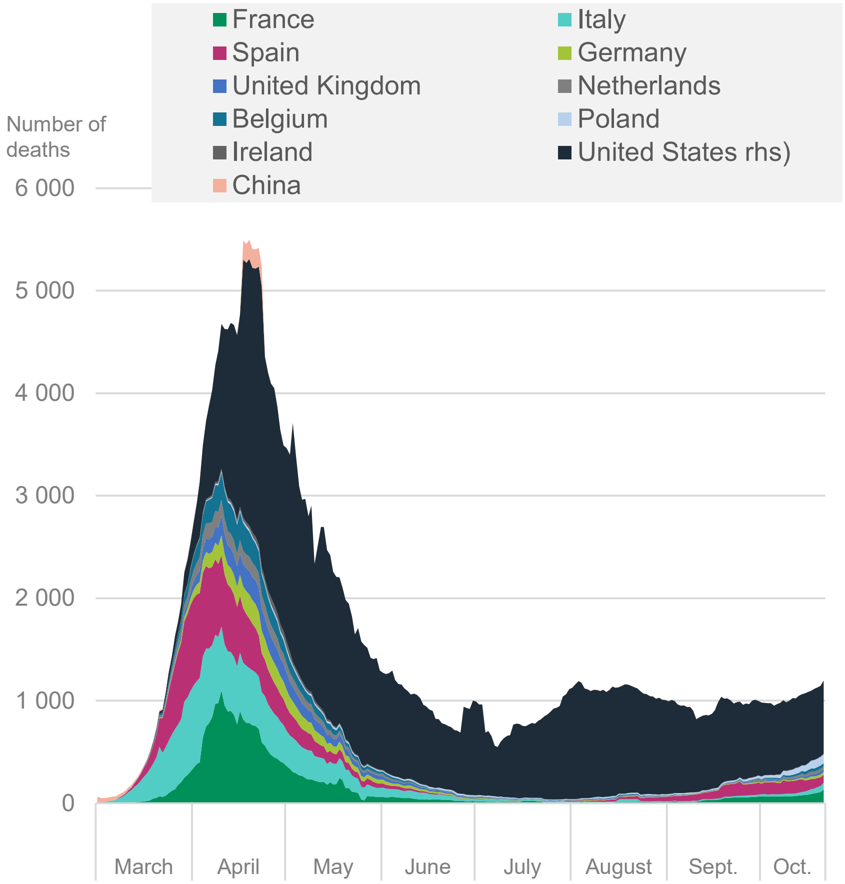
THE DEATHS CAUSE FROM COVID-19

FATALITY RATE DEPENDS ON QUALITY OF HEALTHCARE AND POPULATION AGE

Fatility rate in the world



Number of daily deaths



- **The fatality rate differs greatly from country to country**. In China, the fatality rate has stood around 5% since the beginning of the outbreak. For countries with more strongly resourced healthcare systems (Germany, Switzerland, etc.), the fatality rate could even be lower.
- **Population age and living arrangements are an important factor for the number of deaths.** Risks are higher for countries where several generations may live in the same place (Italy or Spain for example). **Care home exposure seems to be the other factor** (UK). This means that older people are not properly isolated and have a greater chance of catching the virus.
- **The United States are now the country with the highest number of deaths in the world.**
- **With the resurgence of the virus, the number of deaths is around 5,400 ~~deaths~~** per day around the world
- **The number of daily deaths has decreased sharply in European countries since the pick of the first wave**. However, the number of hospitalisation is increasing and the number of deaths could rise quickly, implying more measures from the governments.

Sources: World Health Organisation.

GOVERNMENT RESPONSE STRINGENCY INDEX*

Source: Oxford COVID-19 Government Response Tracker, Blavatnik School of Government

GOVERNMENT RESPONSES ARE RAMPING UP ACROSS EUROPE

	15-Feb	15-Mar	15-Apr	15-May	31-May	15-Jun	30-Jun	15-Jul	31-Jul	15-Aug	31-Aug	15-Sep	30-Sep	01-Oct	02-Oct	03-Oct	04-Oct	05-Oct	06-Oct	07-Oct	08-Oct	09-Oct	10-Oct	11-Oct	12-Oct	13-Oct
Austria	0.0	48.2	81.5	59.3	50.0	43.5	43.5	31.5	31.5	31.5	31.5	36.1	40.7	40.7	40.7	40.7	40.7	40.7	40.7	40.7	40.7	40.7	40.7	40.7	40.7	44.9
Belgium	11.1	50.9	81.5	75.0	75.0	51.9	51.9	48.2	61.1	56.5	50.9	50.9	45.4	45.4	45.4	45.4	45.4	45.4	45.4	45.4	45.4	43.5	43.5	43.5	43.5	43.5
Denmark	0.0	65.7	68.5	65.7	57.4	57.4	57.4	54.6	54.6	50.9	50.9	47.7	50.9	50.9	50.9	50.9	50.9	50.9	50.9	50.9	50.9	50.9				
Finland	13.9	37.0	60.2	53.7	48.2	35.2	35.2	40.7	35.2	32.4	32.4	32.4	32.4	32.4	32.4	32.4	32.4	32.4	32.4	32.4	32.4	32.4	32.4			
France	13.9	52.3	88.0	74.1	72.2	65.3	41.2	38.4	38.4	40.3	40.3	45.8	46.8	46.8	46.8	46.8	46.8	46.8	46.8	46.8	46.8	46.8				
Germany	11.1	32.9	76.9	64.4	59.7	59.7	63.4	55.1	57.9	56.9	59.7	49.5	49.5	46.8	46.8	46.8	46.8	46.8								
Hungary	0.0	53.7	76.9	63.0	63.0	63.0	52.8	52.8	52.8	49.1	49.1	40.7	40.7	40.7	40.7	40.7	40.7	40.7	40.7	40.7	40.7	40.7	40.7	40.7		
Ireland	5.6	48.2	90.7	90.7	83.3	72.2	38.9	38.9	38.9	59.7	70.8	70.8	52.3	52.3	52.3	52.3	52.3	52.3	52.3	61.6	61.6	61.6	61.6	61.6	61.6	
Italy	19.4	85.2	93.5	63.0	63.9	55.6	55.6	58.3	48.2	50.9	54.6	43.5	43.5	43.5	43.5	43.5	43.5	43.5	51.9	51.9	51.9	51.9	51.9	51.9	51.9	51.9
Netherlands	0.0	54.6	79.6	68.5	68.5	59.3	59.3	39.8	39.8	39.8	47.2	47.2	58.3	58.3	58.3	58.3	58.3	58.3	58.3	58.3	58.3					
Norway	11.1	51.9	79.6	54.6	54.6	37.0	37.0	37.0	37.0	37.0	34.3	34.3	28.7	28.7	28.7	28.7	28.7	28.7	17.6	17.6	17.6	17.6	17.6	17.6	17.6	17.6
Poland	5.6	57.4	83.3	83.3	64.8	50.9	50.9	39.8	39.8	39.8	39.8	38.0	19.4	19.4	19.4	19.4	19.4	19.4	19.4	19.4	19.4					
Portugal	11.1	32.4	82.4	75.0	71.3	69.9	72.7	71.3	65.3	66.2	55.1	58.8	58.8	58.8	58.8	58.8	58.8	58.8	58.8	58.8	58.8	58.8	58.8	58.8	58.8	58.8
Spain	11.1	67.1	85.2	83.3	68.1	57.4	39.4	64.4	64.4	62.5	62.5	55.1	55.1	55.1	55.1	55.1	55.1	55.1	55.1	55.1	55.1	55.1	55.1	55.1	55.1	
Sweden	0.0	16.7	46.3	46.3	46.3	38.9	38.9	38.9	37.0	37.0	37.0	37.0	37.0	37.0	37.0	37.0	37.0	37.0	37.0	37.0	37.0	37.0	37.0	37.0	37.0	37.0
Switzerland	0.0	44.4	73.2	65.7	63.0	48.2	37.0	41.2	44.9	44.9	44.9	43.1	43.1	43.1	43.1	43.1	43.1	43.1	43.1	43.1	43.1	43.1	33.8	33.8	33.8	33.8
UK	11.1	13.0	79.6	71.3	69.4	71.3	71.3	64.4	64.4	66.2	66.2	65.7	67.6	67.6	67.6	67.6	67.6									

Scale

0.0	25.0	50.0	75.0	100.0

Strictest

**Data publicly available on indicators of government response such as school closures, workplace closures, travel bans, monetary measures, fiscal measures etc is used to compile a composite measure. This measure is an additive score of nine indicators measured on an ordinal scale, rescaled to vary from 0 to 100 (100 = strictest). This index indicates the strictness of government policies, and should not be used to score the appropriateness of a country's response.*

Gaps in data: Data is updated on twice-weekly cycles, however not every country is updated in every cycle, recent dates are prone to missing data. If any of the policy indicators used is missing, the index calculation is rejected and no value is returned. If there is another recent data point with all indicators included, then an index is calculated and data is 'smoothed' over the gaps.

- **The Government Stringency index allows a comparison across Europe in order to determine which Government is implementing or heading towards stricter measures**. The latest data shows the tightness of restrictions at the national level remain well below the levels seen back in April. We are at a pivotal point where strict measures across many are to be expected in the coming days.
- **Italy, Portugal, Spain and Ireland have remained relatively consistent with their approach with the index remaining stable**, however this has not prevented the countries from experiencing a second wave of COVID cases. It is worth noting this index will also include fiscal and monetary measures, therefore a consistent index may reflect support provided by the governments and central banks.

Source: Oxford COVID-19 Government Response Tracker, Blavatnik School of Government.

MOBILITY TRENDS ACROSS EUROPE

RECOVERY IN RETAIL VISITS BEGINS TO MODERATE

RETAIL & RECREATION

National level	15-Feb	15-Mar	15-Apr	15-May	31-May	15-Jun	30-Jun	15-Jul	31-Jul	15-Aug	31-Aug	15-Sep	30-Sep	01-Oct	02-Oct	05-Oct	06-Oct	07-Oct	08-Oct	09-Oct	12-Oct	13-Oct
Austria	9	-59	-62	-34	-44	-12	-2	-3	-11	-40	-2	-4	-16	-14	-20	-18	-16	-19	-19	-20	-20	-23
Belgium	3	-66	-74	-50	-48	-7	2	-5	-29	-48	9	-7	-10	-17	-17	-12	-14	-12	-20	-20	-16	-19
Denmark	-2	-33	-23	-25	-20	11	23	24	15	-4	16	8	7	4	0	5	5	1	0	0	16	19
Finland	3	-24	-42	-34	-26	4	-2	9	-2	-8	-5	-4	-6	-7	-6	-9	-12	-10	-14	-13	-8	-9
France	-2	-38	-82	-48	-40	-18	-7	-3	-15	-30	0	-10	-16	-19	-21	-15	-14	-17	-18	-17	-16	-17
Germany	6	-12	-45	-29	-19	-10	0	-2	-6	-20	2	-1	0	-6	0	-3	-7	-6	-11	-10	-6	-6
Hungary	14	-42	-46	-30	-44	-3	3	6	-1	1	8	0	-13	-13	-7	-7	-6	-11	-5	-2	-13	-17
Ireland	-11	-36	-69	-70	-64	-37	-24	-20	-21	-28	-9	-16	-28	-26	-26	-20	-21	-34	-32	-34	-30	-31
Italy	3	-90	-80	-58	-37	-18	-8	-6	-7	-37	-7	-1	-8	-9	-14	-11	-8	-12	-10	-11	-15	-11
Netherlands	1	-32	-38	-32	-43	-5	-2	8	-9	-15	2	4	-10	-21	-15	-18	-16	-16	-26	-17	-11	-8
Norway	1	-71	-29	-7	-13	14	18	15	-2	-9	1	1	-2	-4	-6	-1	-3	-4	-5	-6	-2	-2
Poland	7	-70	-53	-30	-34	-2	3	7	3	-41	7	0	-3	-8	-7	-9	-9	-8	-9	-6	-14	-16
Portugal	4	-62	-69	-57	-45	-28	-20	-15	-13	-13	-6	-10	-12	-12	-19	-21	-15	-14	-12	-18	-15	-17
Spain	4	-62	-69	-57	-45	-28	-20	-15	-13	-13	-6	-10	-12	-12	-19	-21	-15	-14	-12	-18	-15	-17
Sweden	2	-25	-19	-17	2	6	7	8	-4	-14	-2	-7	-5	-6	-5	-8	-12	-9	-10	-8	-12	-11
Switzerland	-1	-27	-74	-35	-19	-14	-3	-10	-15	-22	-8	-8	-9	-13	-13	-11	-10	-13	-12	-14	-14	-11
UK	-12	-11	-72	-69	-67	-46	-45	-33	-29	-33	3	-19	-26	-23	-30	-24	-26	-24	-27	-28	-27	-29

City level	15-Feb	15-Mar	15-Apr	15-May	31-May	15-Jun	30-Jun	15-Jul	31-Jul	15-Aug	31-Aug	15-Sep	30-Sep	01-Oct	02-Oct	05-Oct	06-Oct	07-Oct	08-Oct	09-Oct	12-Oct	13-Oct
Vienna	11	-57	-69	-39	-53	-14	-2	-12	-18	-47	-7	-8	-18	-16	-20	-20	-16	-22	-21	-20	-24	-29
Brussels	11	-70	-82	-63	-63	-27	-21	-27	-46	-59	-14	-25	-24	-30	-28	-26	-27	-24	-40	-36	-35	-37
Copenhagen	1	-56	-53	-52	-39	-3	-1	-5	-10	-29	6	-2	-9	-15	-22	-9	-12	-16	-20	-17	0	2
Helsinki	-1	-30	-49	-40	-31	-7	-16	-11	-17	-20	-11	-7	-8	-12	-12	-10	-15	-12	-17	-19	-13	-14
Paris	-4	-69	-93	-76	-68	-48	-34	-39	-51	-59	-35	-32	-35	-39	-41	-41	-41	-40	-42	-42	-42	-43
Berlin	5	-37	-53	-39	-36	-17	-11	-22	-18	-24	-8	-13	-9	-14	-15	-14	-16	-19	-21	-28	-17	-19
Budapest	12	-58	-60	-57	-70	-22	-17	-16	-26	-34	-9	-16	-24	-25	-23	-21	-20	-25	-19	-17	-28	-29
Dublin	-10	-40	-75	-74	-66	-44	-33	-31	-33	-38	-21	-26	-42	-38	-40	-34	-37	-40	-40	-41	-38	-38
Rome	2	-91	-81	-60	-37	-21	-18	-17	-24	-61	-27	-10	-14	-14	-18	-17	-14	-22	-17	-18	-23	-16
Amsterdam	-4	-38	-43	-34	-50	0	5	2	-19	-19	0	2	-10	-21	-16	-22	-11	-13	-27	-17	0	3
Oslo	-1	-79	-39	-22	-31	-1	-6	-17	-22	-29	-12	-13	-22	-25	-26	-18	-25	-24	-22	-19	-18	-19
Warsaw	-9	-77	-67	-44	-49	-17	-10	-12	-21	-62	-9	-12	-14	-15	-19	-18	-16	-18	-19	-18	-26	-28
Lisbon	6	-64	-72	-62	-52	-35	-32	-31	-32	-40	-24	-24	-23	-23	-31	-33	-27	-26	-24	-29	-28	-28
Madrid	-1	-89	-91	-86	-70	-29	-22	-24	-40	-58	-20	-24	-32	-32	-39	-31	-34	-34	-34	-36	-36	-36
Stockholm	6	-38	-39	-35	-23	-19	-20	-30	-33	-33	-18	-21	-17	-20	-17	-19	-26	-21	-21	-22	-23	-23
Zurich	-9	-26	-74	-38	-33	-20	-9	-17	-25	-19	-13	-12	-9	-14	-13	-16	-15	-20	-19	-21	-20	-15
London	-11	-24	-79	-75	-73	-55	-58	-48	-46	-48	-18	-35	-39	-37	-47	-36	-39	-39	-41	-41	-40	-43

Source: Google.

The baseline refers to the median value for each corresponding day of the week during the 5-week period of 3 Jan – 6 Feb 2020.

- **Google Mobility data uses mobile phone locations to provide insights on where people are travelling.** The dataset highlights the percent change in visits to places compared to 'normal' levels within a geographic area.
- It is clear from the data, highlighted by the green tabs, **the summer months across most European countries saw visits to retail and recreation places return to pre-COVID levels and in many cases even exceeding them.** Of the countries that went into lockdown Germany's residents were quick to return to retail and recreational places as soon as restrictions were eased. This can be partly explained by the fact that advancements in digital such as click & collect and online shopping remains behind the curve in Germany relative to its counterparts i.e. the UK.
- **With the implementation of new restrictions across most European countries recently a fall in visits to retail and recreation places is evident**, as highlighted by the faint red re-emerging which indicates levels are moving further below baseline levels.
- **A second order effect to retail especially in City centres comes from the decline in office use as home-working is encouraged.** If more people continue to work from home this will mean retail places within city centres will suffer potentially at the cost of out-of-town retail and recreational places.

MOBILITY TRENDS ACROSS EUROPE

WORKPLACE VISITS SOFTEN AS RESTRICTIONS RE-INTRODUCED

WORKPLACES

National level	15-Feb	15-Mar	15-Apr	15-May	31-May	15-Jun	30-Jun	15-Jul	31-Jul	15-Aug	31-Aug	15-Sep	30-Sep	01-Oct	02-Oct	05-Oct	06-Oct	07-Oct	08-Oct	09-Oct	12-Oct	13-Oct
Austria	0	-18	-52	-36	-14	-24	-20	-30	-36	-31	-31	-22	-20	-17	-18	-18	-18	-18	-17	-17	-17	-18
Belgium	1	-29	-64	-44	0	-34	-32	-40	-51	-19	-40	-26	-20	-19	-20	-24	-20	-18	-19	-20	-21	-21
Denmark	-6	-22	-48	-31	5	-18	-29	-52	-48	-2	-19	-16	-16	-16	-17	-17	-17	-16	-16	-17	-40	-39
Finland	-2	-10	-49	-32	4	-41	-48	-52	-51	2	-29	-21	-18	-17	-18	-19	-19	-17	-18	-19	-36	-35
France	-2	-9	-68	-45	7	-31	-26	-30	-40	-27	-34	-22	-17	-16	-18	-18	-17	-16	-16	-16	-17	-17
Germany	0	-5	-44	-26	8	-23	-22	-26	-34	-8	-24	-16	-13	-12	-14	-17	-17	-16	-17	-17	-24	-23
Hungary	4	-16	-47	-37	-10	-25	-25	-29	-33	-3	-26	-19	-16	-15	-15	-15	-15	-15	-14	-14	-16	-16
Ireland	-4	-16	-68	-60	-18	-46	-43	-42	-44	-6	-41	-33	-32	-31	-29	-32	-31	-32	-32	-30	-33	-32
Italy	0	-55	-64	-42	-2	-28	-26	-25	-28	-47	-31	-24	-21	-19	-20	-20	-20	-18	-18	-18	-19	-18
Netherlands	0	-11	-46	-35	6	-33	-32	-35	-48	-2	-33	-28	-26	-27	-23	-29	-29	-26	-28	-24	-33	-33
Norway	-1	-27	-47	-26	-3	-23	-37	-57	-56	-8	-25	-20	-26	-25	-25	-28	-28	-27	-29	-30	-18	-18
Poland	0	-26	-45	-29	5	-20	-20	-25	-29	-35	-26	-12	-9	-8	-7	-9	-9	-8	-8	-8	-11	-12
Portugal	1	-23	-63	-46	-5	-32	-31	-30	-33	-20	-37	-27	-21	-19	-20	-73	-21	-18	-19	-18	-18	-17
Spain	0	-48	-68	-55	-16	-34	-30	-30	-34	-19	-36	-29	-24	-22	-22	-23	-22	-21	-21	-27	-72	-22
Sweden	-2	-10	-31	-26	9	-30	-40	-59	-59	1	-28	-22	-19	-18	-20	-19	-20	-18	-18	-19	-20	-19
Switzerland	-2	-13	-46	-27	-4	-19	-18	-27	-40	-14	-20	-16	-20	-19	-20	-22	-23	-22	-23	-24	-21	-21
UK	-4	-4	-69	-60	-26	-50	-48	-46	-48	-13	-68	-36	-34	-32	-32	-34	-34	-32	-33	-31	-35	-35

City level	15-Feb	15-Mar	15-Apr	15-May	31-May	15-Jun	30-Jun	15-Jul	31-Jul	15-Aug	31-Aug	15-Sep	30-Sep	01-Oct	02-Oct	05-Oct	06-Oct	07-Oct	08-Oct	09-Oct	12-Oct	13-Oct
Vienna	2	-16	-61	-44	-12	-31	-26	-36	-40	-30	-37	-26	-27	-25	-25	-25	-24	-25	-25	-24	-25	-25
Brussels	1	-37	-73	-59	-11	-45	-43	-46	-56	-23	-52	-40	-36	-35	-36	-39	-35	-34	-37	-37	-41	-37
Copenhagen	-6	-27	-60	-42	6	-27	-33	-49	-49	-8	-25	-27	-27	-26	-27	-28	-27	-26	-26	-26	-45	-43
Helsinki	-4	-12	-57	-41	6	-48	-54	-58	-57	-1	-39	-30	-28	-27	-27	-28	-28	-27	-28	-27	-47	-46
Paris	-7	-24	-85	-68	-8	-55	-46	-46	-53	-31	-48	-37	-34	-33	-35	-36	-35	-34	-34	-36	-36	-35
Berlin	1	-12	-53	-33	13	-28	-32	-38	-38	1	-27	-22	-21	-20	-21	-23	-23	-23	-23	-29	-37	-36
Budapest	3	-19	-59	-51	-13	-38	-36	-38	-41	-9	-36	-31	-29	-27	-27	-27	-28	-27	-27	-26	-28	-29
Dublin	-4	-18	-75	-68	-20	-57	-54	-52	-52	-9	-52	-45	-47	-45	-43	-46	-45	-45	-45	-43	-46	-45
Rome	1	-57	-70	-51	0	-37	-35	-34	-36	-43	-47	-35	-33	-30	-30	-31	-31	-31	-29	-29	-31	-30
Amsterdam	0	-10	-55	-42	6	-42	-40	-45	-51	0	-37	-32	-32	-36	-29	-36	-36	-31	-36	-31	-49	-49
Oslo	-1	-37	-62	-44	-1	-38	-46	-62	-61	-12	-40	-33	-47	-47	-46	-35	-36	-34	-34	-33	-34	-34
Warsaw	-6	-33	-64	-50	10	-43	-41	-43	-46	-32	-45	-33	-31	-30	-31	-30	-31	-31	-31	-32	-34	-36
Lisbon	1	-25	-69	-54	-10	-42	-40	-40	-42	-23	-45	-36	-31	-29	-30	-76	-31	-29	-29	-28	-29	-28
Madrid	-1	-53	-77	-80	-24	-47	-42	-40	-43	-13	-51	-44	-41	-38	-38	-39	-39	-37	-38	-37	-82	-37
Stockholm	-1	-14	-44	-41	10	-43	-49	-62	-64	-1	-46	-39	-36	-35	-36	-37	-38	-35	-35	-36	-36	-36
Zurich	-5	-12	-52	-36	-4	-29	-24	-33	-44	-9	-29	-22	-21	-20	-21	-35	-33	-33	-34	-34	-36	-32
London	-3	-7	-77	-68	-33	-59	-58	-55	-57	-21	-74	-48	-46	-44	-44	-45	-46	-44	-45	-42	-45	-45

Source: Google.

The baseline refers to the median value for each corresponding day of the week during the 5-week period of 3 Jan – 6 Feb 2020.

- **As lockdown measures eased across Europe**, it was positive to see many office workers return to their offices relatively quickly (by the end of May).

- **Office workers in the UK have been much slower to return to their desks compared to workers across the rest of Europe.** Once restrictions eased visits to the workplace for **the UK** were still down by 26% compared to 'normal' levels. Since then, **as the rest of Europe** witnessed a steady flow of workers back in their offices, UK workers opted to stay away. A partial explanation may well be the later lockdown and higher death toll which could explain the reluctancy of UK office workers to return to the places of work.

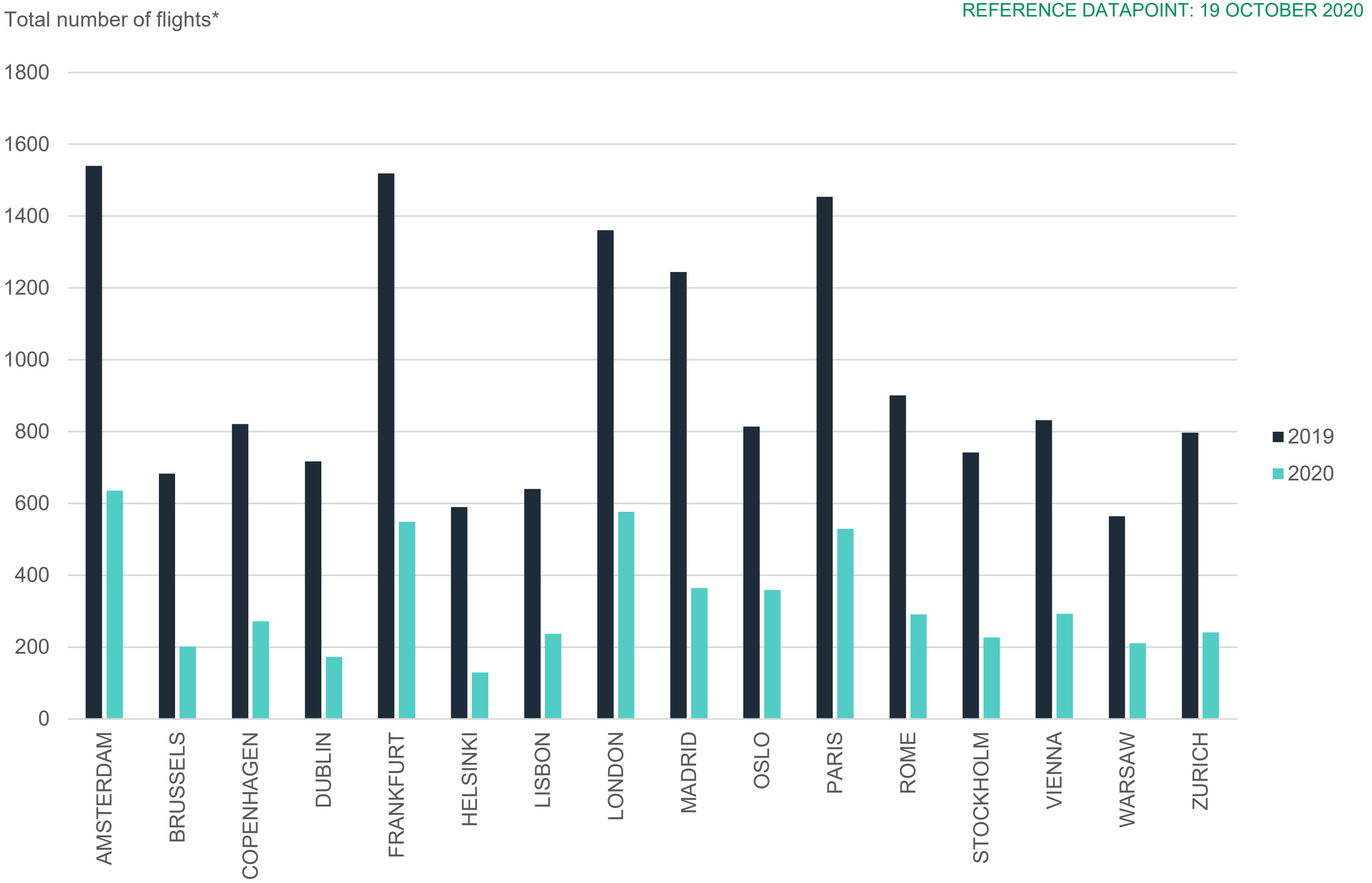
- Similarly **Ireland, Netherlands and Norway**, who have also experienced visits to workplaces remain on average a third below 'normal' levels. There is a growing concern of the impact of extended working from home on the economic health of city centres that are reliant on office workers, in particular retail and recreational places.

- **As most of Europe is engulfed in the second wave of rising COVID cases the return to the workplace is beginning to tail off**. It is likely we will witness visits to the workplace to decline, but it looks unlikely to fall to levels witnessed back in April. One reason for this is the fact many employers have implemented measures to make their work premises COVID secure which has reassured many of their workers.

DAILY AIRPORT TRAFFIC ACROSS MAIN EUROPEAN AIRPORTS

AIR TRAFFIC ACROSS EUROPEAN SKIES IS DOWN BY 40%

REFERENCE DATAPOINT: 19 OCTOBER 2020



Source: Eurocontrol.

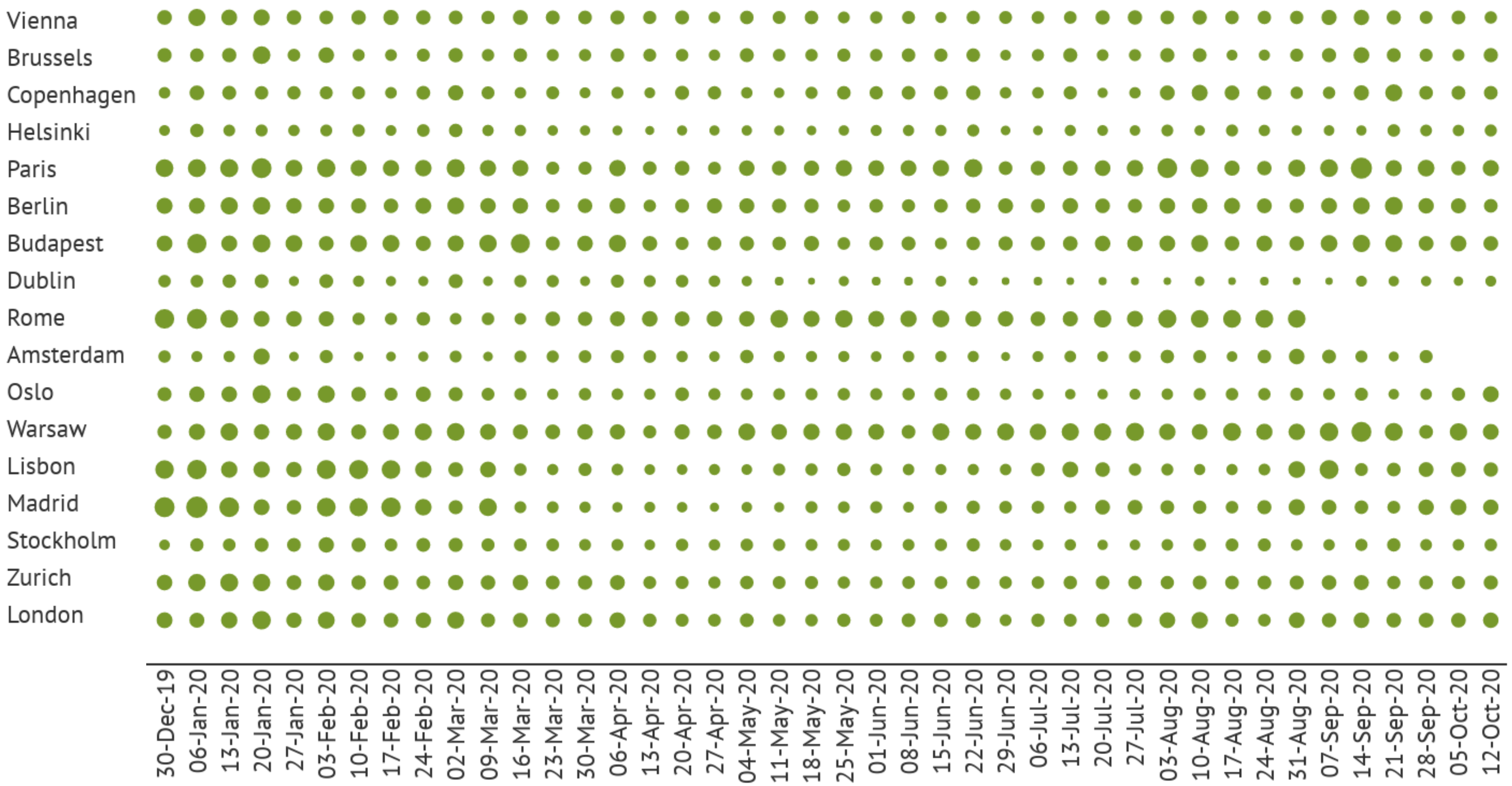
*Total Departing and Arriving Flights to/from the main airport hub in each city.
The comparison with previous year is made using the closest similar day.

- Eurocontrol – an organisation that manages 90% of Europe’s air traffic publish data on daily airport traffic across Europe, comparing data to the same period in 2019.
- **Across Europe the number of flights remain 40% below normal levels**. Compared to 2019 levels flights are 61% down for Amsterdam, -64% at London Heathrow and -66% Paris CDG.
- According to Eurocontrol the main traffic flow remains intra-European flow, although this is still 58% below 2019 levels. The busiest airports currently are **Amsterdam** (572 flights a day**), London Heathrow** (489 flights), **Paris CDG** (483 flights) and **Frankfurt** (443 flights).
- **Travel has evolved significantly since the onset of COVID**. Several practices that are required to control the spread of COVID such as the two-metre rule cannot be maintained in the current commercial aircraft. Furthermore the constantly evolving quarantining jurisdictions is becoming difficult to keep up with.
- **Another element of travel that has been hit is business travel which has ground to a halt**. Most client meetings have now transitioned over to online platforms. However, it seems this will not be a permanent change, business travel is forecast to recover much quicker than other travel. Despite the ease of meeting online there is no substitute for meeting in person to build relationships and discuss sensitive business information.

AIR POLLUTION LEVELS ACROSS EUROPEAN CITIES

LOCKDOWN MEASURES HELPED LOWER POLLUTION LEVELS

Average weekly concentration of nitrogen dioxide (ug/m3)*



**To calculate the weekly averages, a daily mean is calculated across each station. The weekly averages are particularly useful to evaluate the impact of lockdown measures on air quality. It is worth noting in some instances changes in weather conditions could also play a part in the changes observed in air pollution.*

- **The European Environment Agency track hourly and daily pollution levels across 3,000 monitoring stations across Europe**. In this particular dataset the data is taken from stations that are 'traffic stations' close to roads.
- The bubble chart on the left refers to the levels of nitrogen dioxide. The greater the size of the bubble the higher the level of air pollution present at that given point. The months of March through to May clearly show the drops in air pollutions which is consistent across most countries.
- **Although lockdown measures have had detrimental effects on people's livelihoods and economies**. One positive has certainly been the reduced levels of air pollution. Noticeable reductions were seen in **Madrid, Lisbon and Oslo**. Air pollution levels dropped in **Dublin** much later and since then have not returned to pre-COVID levels.
- It is no surprise to see, since lockdown measures have eased the levels of air pollution have begun to rise again. **London, Berlin and Paris** have seen levels reach pre-lockdown levels with some even exceeding those levels. It will be worth watching to see how pollution levels change as we may see more opt to choose to travel by car rather than public transport.

Source: European Environment Agency.

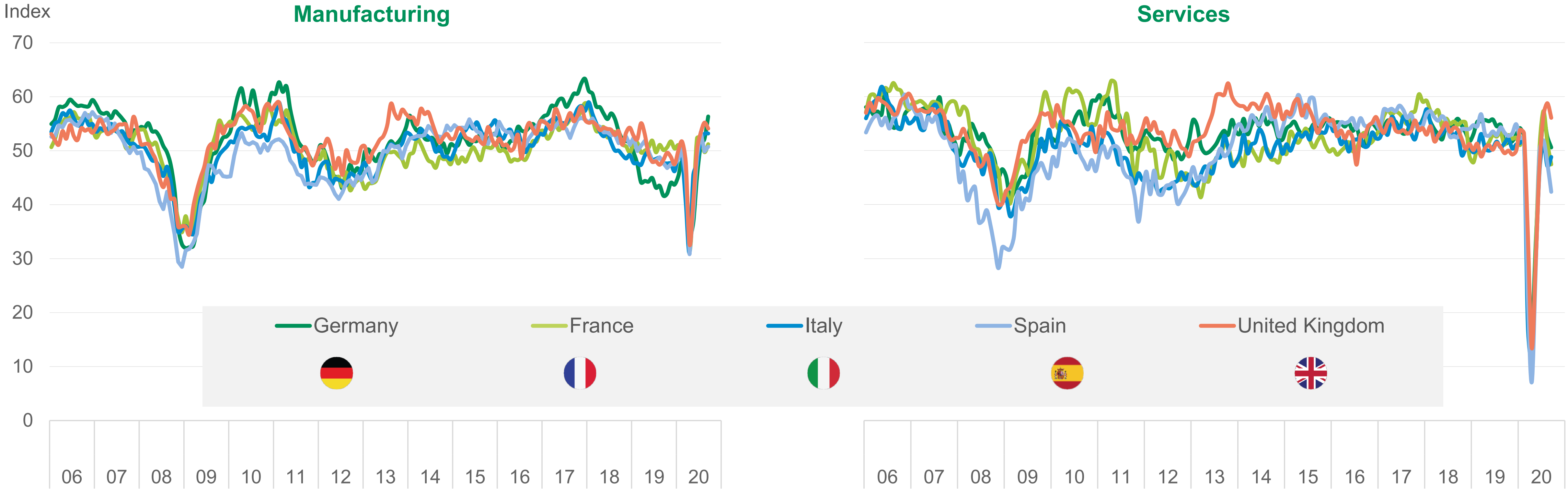
ECONOMIC OUTLOOK

BNP PARIBAS
REAL ESTATE

PURCHASING MANAGER’S INDEX SURVEYS

TOWARD A NEW SLOWDOWN?

- **As a number of countries are putting back some of the lockdown measures, activity is slowing across the world.** However, the manufacturing sector is now less affected as most of the measures are mostly impacting the service sector.
- **For several weeks, the improvement in economic data has been slowing down.** This loss of momentum is unsurprising as it has followed a substantial rebound which could not last as it comes from resumption of economic activity and not growth. But it also reflects the rise in the number of new Covid-19 cases across the world.
- **Second waves are adding to the level of uncertainty, both for households and businesses, weakening the confidence needed to accelerate growth.**

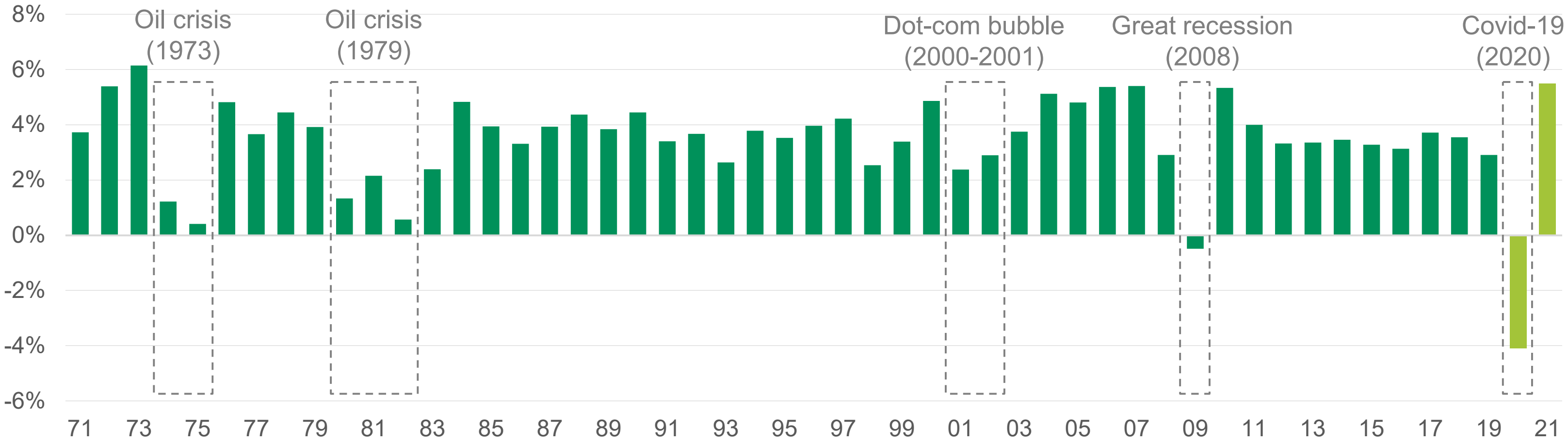


Sources: Markit, BNP Paribas Economic Research.

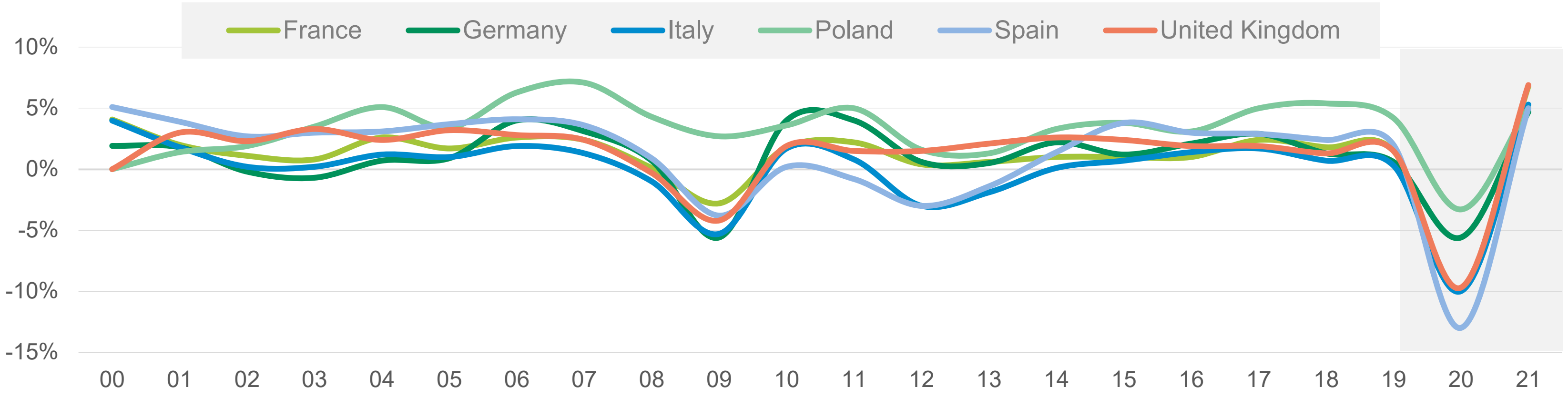
ECONOMIC OUTLOOK

WHAT OUTLOOK FOR THE MAIN ECONOMIES?

World GDP



GDP Growth in European countries

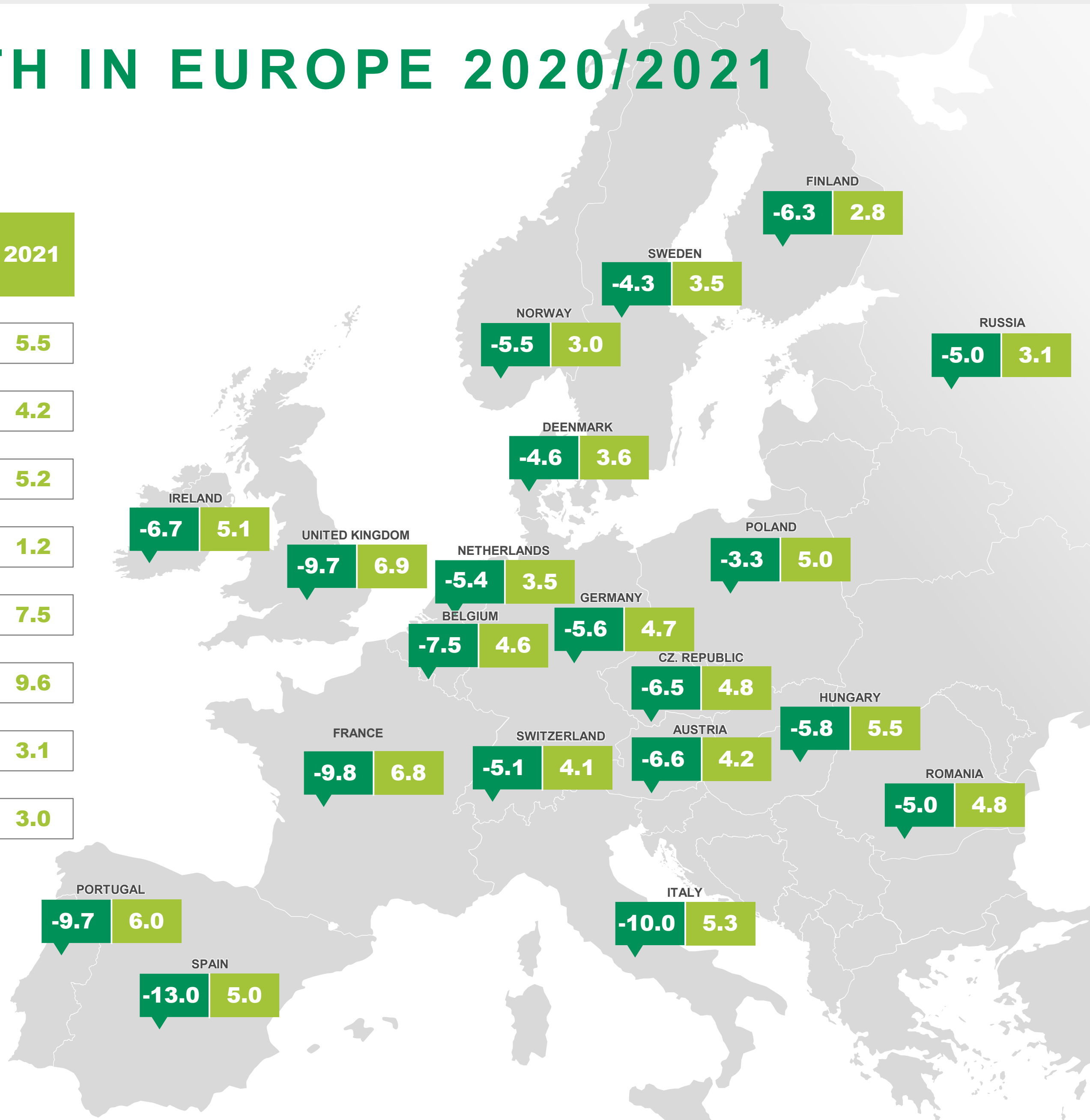


Sources: BNP Paribas, Oxford Economics, OECD.

- While the global economy entered Q3 2020 with relatively strong momentum, after Q2's plunge, **the most recent indicators point to a flattening out, and so to a significant slowdown in GDP growth in Q4.**
- **We are still expecting the economic recovery to continue**, but to lose pace and proceed in an uneven fashion across countries and sectors.
- **The US and the Eurozone entered Q3 with stronger momentum**, so we revised their growth profiles up in the short term. Mid term growth may be more subdued.
- Within emerging economies, we continue to expect most countries in emerging Asia to outperform Latam.
- **All in all, we are forecasting a global GDP growth at -4.1% in 2020 and a rebound at 5.5% in 2021.**
- We anticipate differences to intensify in the Euro area**. Germany is expected to lead the way, with Spain and Italy lagging behind, on the back of both cyclical and structural factors.**
- In our view, **fiscal support is still an important driver of the recovery**. However, governments are now more likely to become increasingly selective on the overall level of spending and on where the money goes.
- In addition to the second wave, **there are still some major political risks**, mainly with the US election, Brexit and US-China tension.

GDP GROWTH IN EUROPE 2020/2021

FORECAST (%):	2020	2021
World	-4.1	5.5
United States	-4.2	4.2
Euro area	-8.0	5.2
Japan	-5.4	1.2
China	2.5	7.5
India	-11.4	9.6
Russia	-5.0	3.1
Brazil	-5.0	3.0

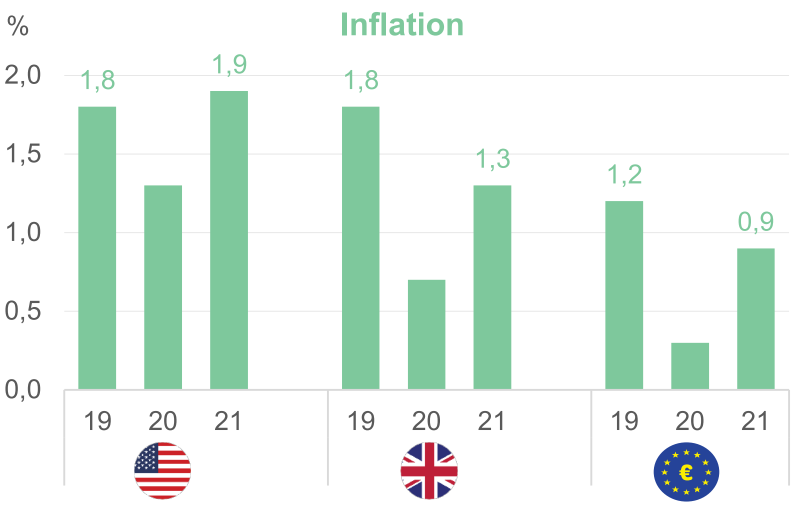


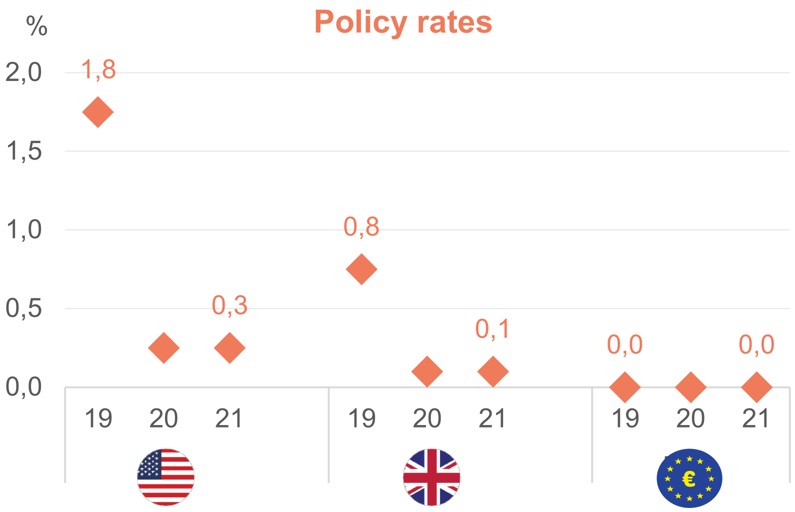
Source: BNP Paribas Real Estate Research.

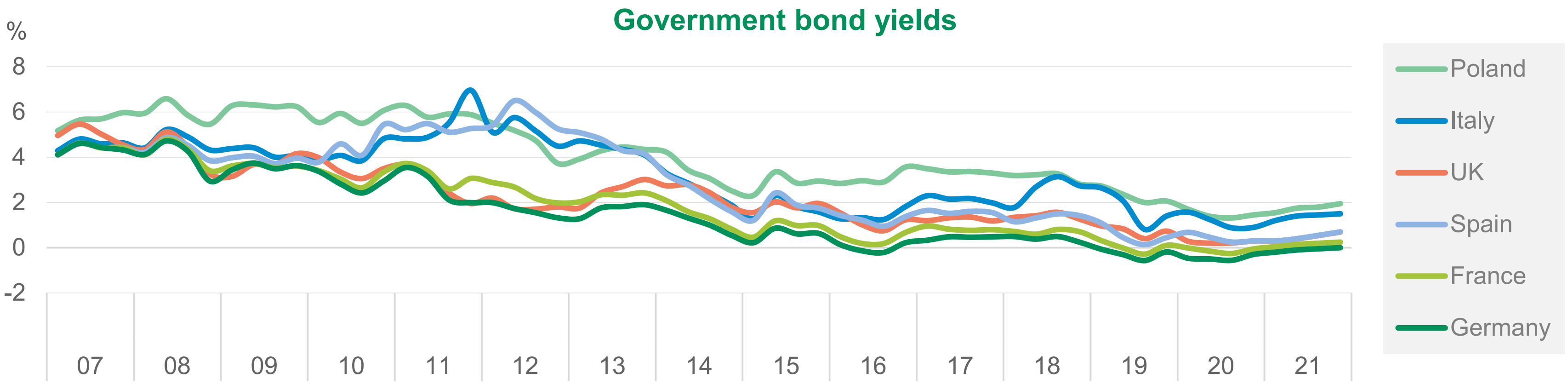
- **The analysis of the economic consequences of the Covid-19 predominantly focused on the near term. Yet there will also be profound longer-term consequences.**
- These include higher debt burdens for governments and many companies. There is the risk that **many people who have lost their jobs** or are in furlough schemes will remain unemployed for a considerable time.
- **The supply side of the economy will undergo changes as value chains are modified** to increase their resilience to shocks.
- **The demand side will alter as well.** Changes to **spending habits during lockdown** – such as increased use of e-commerce - may become permanent. **The demand for office space** will evolve as well as more people work from home, even in a post-pandemic world.
- **We are still expecting China to outperform the rest of the world**, and the US and Germany to outperform the Euro area.
- **A second wave of Covid-19 infections could weigh on demand**, but our forecasts assume new national lockdowns will be avoided. Meanwhile, health officials globally have warned that a widespread vaccine is unlikely to be available before next year.
- **Risks remain, however, predominantly skewed to the downside**, as more and more countries have already decided to tighten their restrictive measures.

FINANCIAL OUTLOOK

ECONOMIC AND FINANCIAL INDICATORS







- **The negative demand shock triggered by the Covid-19 crisis has hit price trends**. Moreover, the lack of demand (triggering the economic downturn) is likely to outweigh supply side upward pressures meaning **inflation looks set to remain below target** over the next 12 months
- **In the Euro area, as the macroeconomic environment remains depressed and uncertain, disinflationary pressures are mounting.**
- Moreover, **the movement has been amplified by the strengthening of the euro against the dollar**.
- We are not expecting major changes in monetary policy over the coming months. **The ECB could extend its Pandemic Emergency Purchase Programme (PEPP) beyond 2021 and increase its total envelope** if the financial conditions tighten or if the recovery is less positive than expected.
- **Large rises in bond yields are not expected in the coming months**. Along with asset buyback programs, there is sufficient private demand to keep the government bond yields low.
- However, **there is high uncertainty over the debt created by fiscal policies that may have some impact in the longer term.**

Sources: BNP Paribas Economic Research, Oxford Economics, OECD.

REAL ESTATE PERSPECTIVES

REAL ESTATE PERSPECTIVES

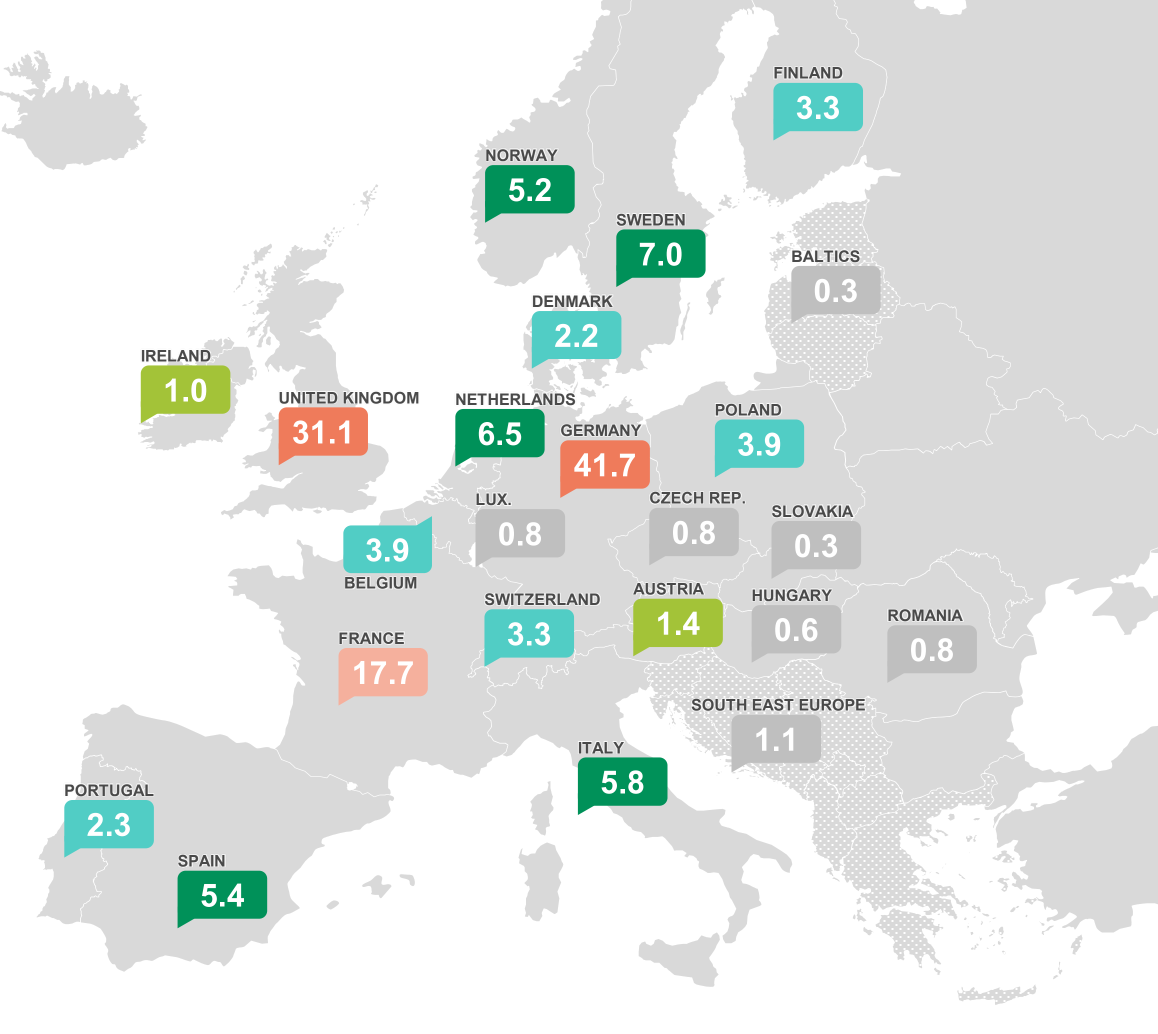
COMMERCIAL REAL ESTATE
INVESTMENT MARKETS

BNP PARIBAS
REAL ESTATE

COMMERCIAL REAL ESTATE INVESTMENT

9-month period 2020 vs 9-month period 2019

GERMANY	-3%
UNITED KINGDOM	-20%
FRANCE	-31%
NETHERLANDS	-25%
ITALY	-19%
SPAIN	-25%
POLAND	-10%
IRELAND	-41%
BELGIUM	+38%
CZECH REPUBLIC	-66%
LUXEMBOURG	-22%
ROMANIA	+63%



Source: BNP Paribas Real Estate.

*excludes residential investment

EUROPE – 9m 2020

€150.0bn

-15% vs 9m 2019

- After a record year 2019, investment was still buoyant in early 2020. Q1 2020 set a new all-time high for commercial real estate investment in Europe for a Q1. €69bn were invested, which represents a 46% increase vs Q1 2019, 28% higher than the 5-year-average.
- With Covid-19 pandemic hitting Europe, from mid-March, most of European investment markets experienced a sharp slowdown in their activity.
- This drove the investment trend downwards for 2020 first 9 months (-15%) in most of European countries.

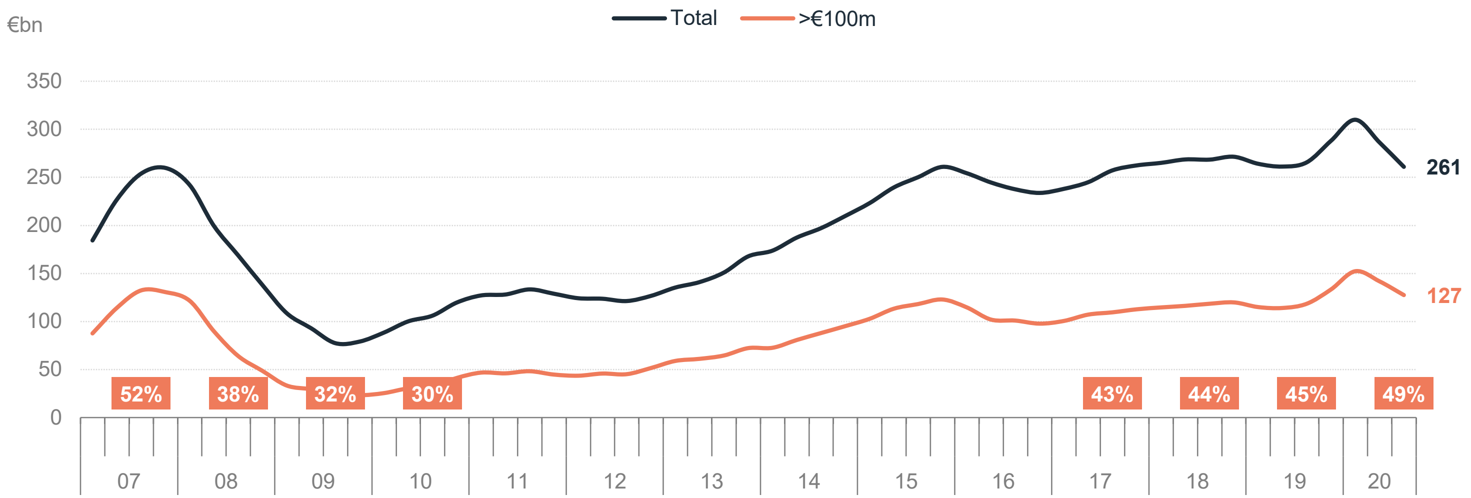
CAPITAL MARKET OUTLOOK

SIZE OF DEALS

Mega deals more impacted by the crisis

- **Mega deals (>€100m)** volume in Q1 2020 reached a record figure of €36bn, which represents 53% of the total investment, an unusually big share for a Q1. The mega deals have demonstrated an uptick in activity since mid 2019.
- The volume of mega deals dropped in Q2 and Q3 2020 and only reached €35bn, -42% down on Q2+Q3 2019 figure. Most importantly the share of mega deals over Q2 and Q3 2020 is only 43% vs 53% in Q1, which shows this segment being negatively impacted by the longer lockdown goes on. Over 2020's first 9 months, mega deals still represented 48% of investment.
- Big deals are more complicated and require a longer process before signature. The act of signature is a legal formality to a deal already done. This may explain why at onset the corona virus outbreak effect on the investment market impacted smaller deals more immediately. The process for small deals is easier to terminate. Yet as the crisis goes on, the momentum behind getting big deals operational is diminishing because of the problems of lockdown.

COMMERCIAL REAL ESTATE INVESTMENT IN EUROPE
TOTAL AND >€100M SIZE BAND - VOLUME AND SHARE



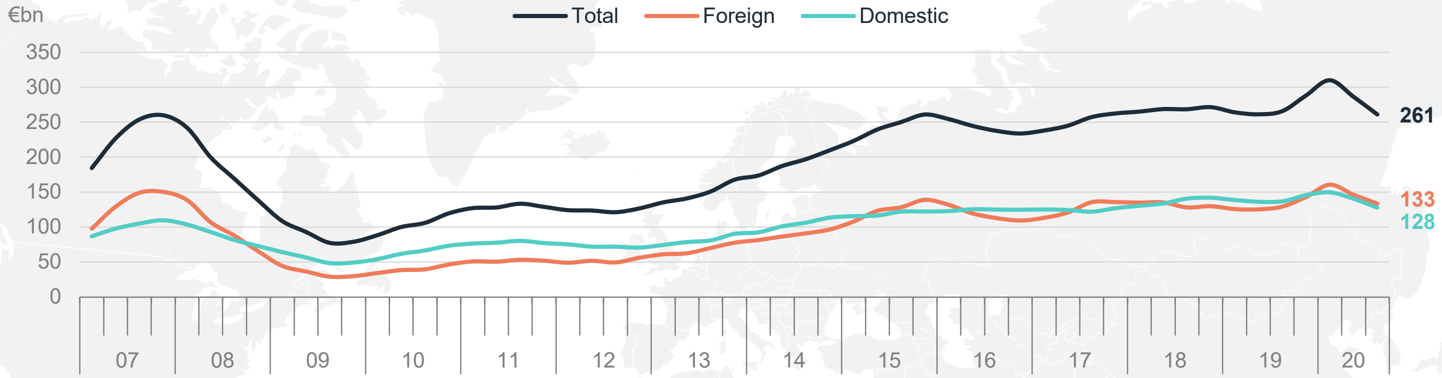
Source: BNP Paribas Real Estate.

CAPITAL MARKET OUTLOOK

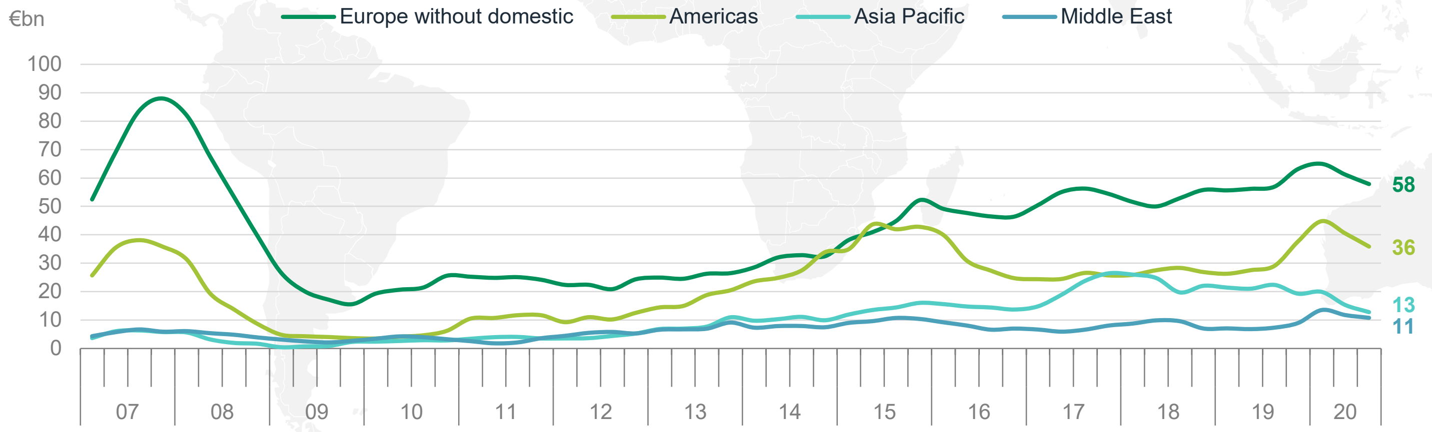
CROSS-BORDER INVESTMENT MARKET

- **Foreign investment** is being affected by the spread of the outbreak through Europe. **Most foreign investors delayed their ongoing deals** until Europe was open again. Over Q2 and Q3 2020, foreign investment plummeted (-43% vs Q2+Q3 2019) while domestic investment proved more resilience (-33%).
- Within foreign investment**, European cross-border investment was less affected (-26%),** which makes sense as geographical proximity favoured business during the lockdowns and still today.
- Investment from other continents was on the other hand strongly affected by the crisis. There was **American activity in Q2 and Q3**, but strongly diminished (-58%), with €7bn invested. The most impacted regions were Asia Pacific and Middle East. There was almost no activity from both these regions over Q2 and a bit more in Q3. **Asian** investors bought for less than €3bn of European assets (-72% y-o-y) while **Middle East** investors acquired for barely €1bn (-72% y-o-y).
- As observed in 2009, reduction in cross-border deals in European markets **could benefit domestic investment**. This trend could be amplified as local investors are physically closer to the markets. Therefore we might see an **increase in the share of domestic investment in 2020**. When market recovery starts, the share of foreign investors should gradually increase but it may take time to reach pre-crisis levels.
- For domestic investors, this situation could be seen as an opportunity to make deals in a less competitive environment.

COMMERCIAL REAL ESTATE INVESTMENT IN EUROPE
TOTAL, FOREIGN AND DOMESTIC INVESTMENT



COMMERCIAL REAL ESTATE INVESTMENT IN EUROPE
FOREIGN INVESTMENT DETAIL

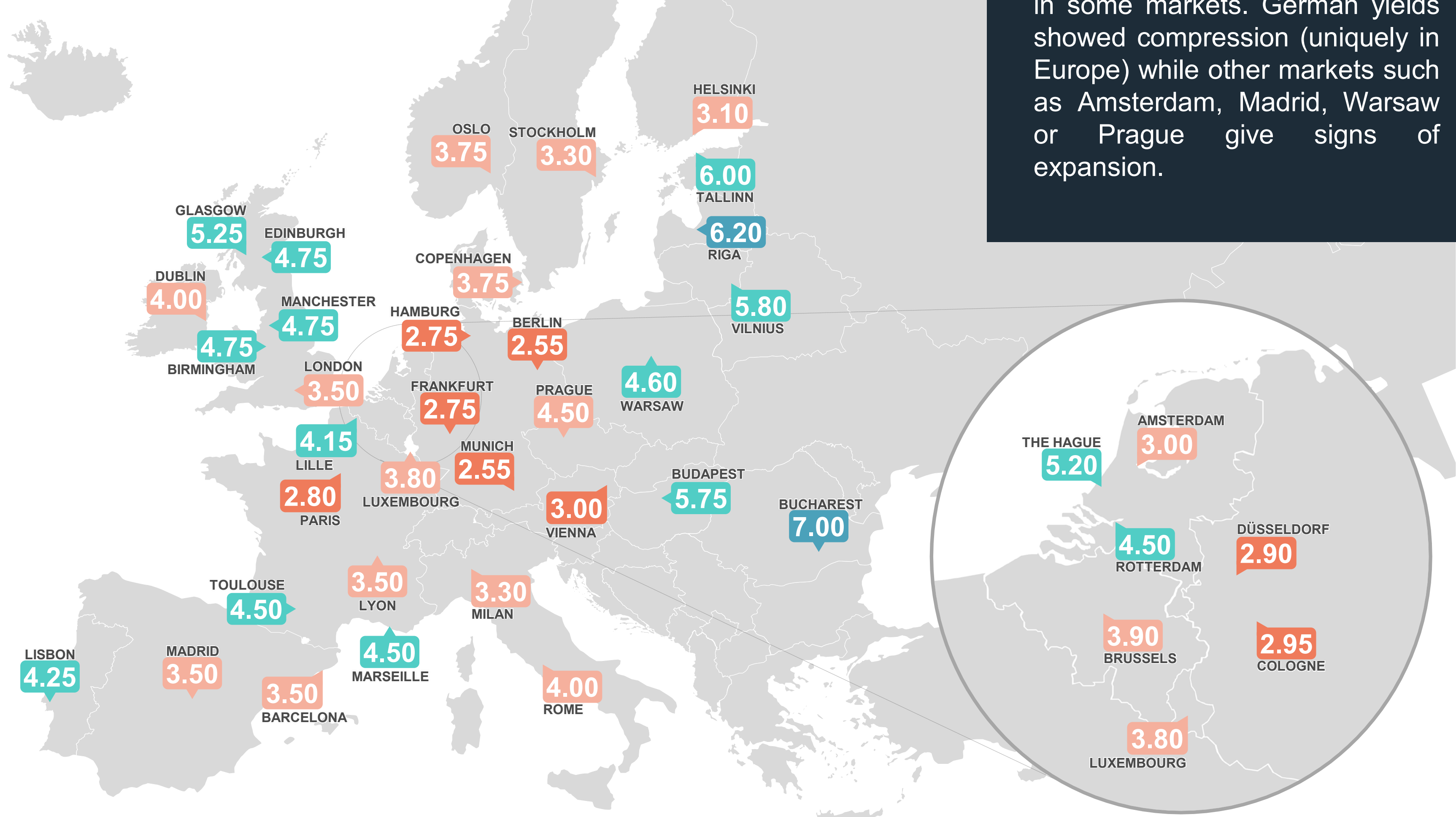


PRIME OFFICE YIELDS

Q3 2020 vs Q1 2020

BERLIN	-5bp ↘
PARIS	= →
AMSTERDAM	+10bp ↗
MADRID	+50bp ↗
MILAN	= →
LONDON	= →
LUXEMBOURG	= →
BRUSSELS	= →
DUBLIN	= →
PRAGUE	+50bp ↗
WARSAW	+10bp ↗
BUCHAREST	= →

- ≤ 3%
- 3-4%
- 4-6%
- >6%



- The downward trend in office prime yields that has been ongoing for several years has halted for most markets.
- But they are showing movement in some markets. German yields showed compression (uniquely in Europe) while other markets such as Amsterdam, Madrid, Warsaw or Prague give signs of expansion.

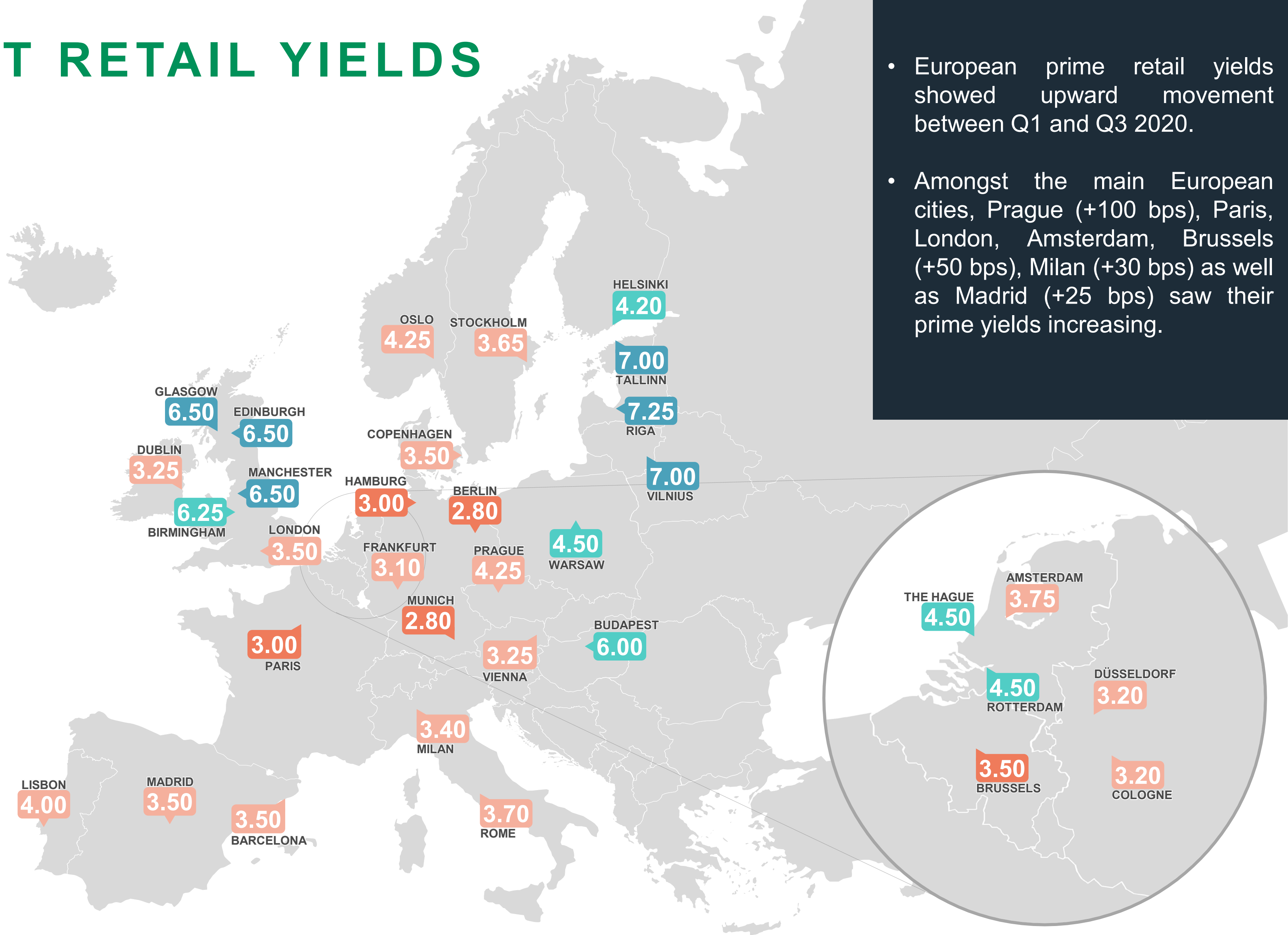
Source: BNP Paribas Real Estate.

PRIME HIGH STREET RETAIL YIELDS

Q3 2020 vs Q1 2020

BERLIN	=
PARIS	+50bp
AMSTERDAM	+50bp
MADRID	+25bp
MILAN	+30bp
LONDON	+50bp
BRUSSELS	+50bp
DUBLIN	=
PRAGUE	+100bp
WARSAW	+25bp

- ≤ 3%
- 3-4%
- 4-6%
- >6%



- European prime retail yields showed upward movement between Q1 and Q3 2020.
- Amongst the main European cities, Prague (+100 bps), Paris, London, Amsterdam, Brussels (+50 bps), Milan (+30 bps) as well as Madrid (+25 bps) saw their prime yields increasing.

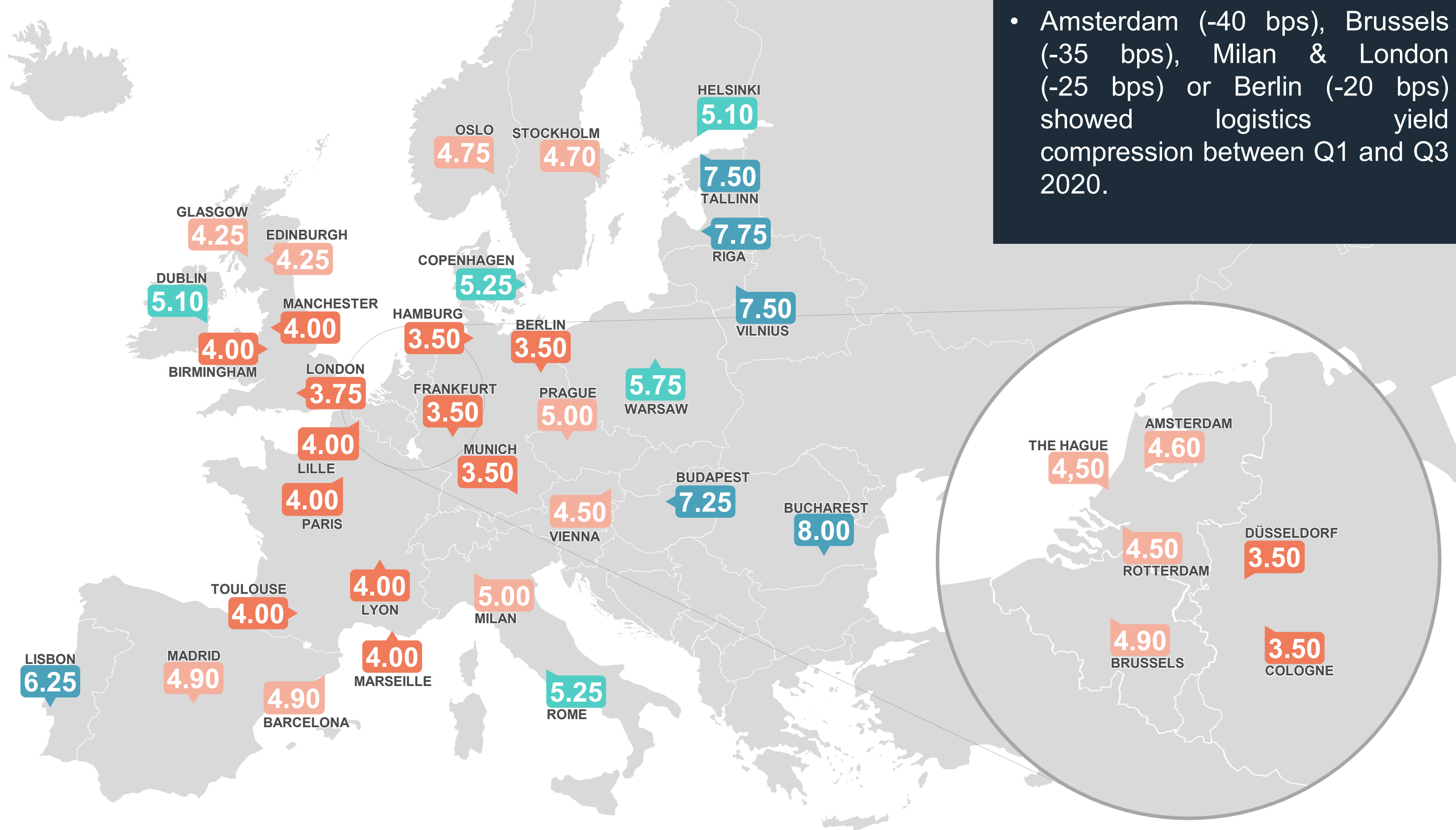
Source: BNP Paribas Real Estate.

PRIME LOGISTICS YIELDS

Q3 2020 vs Q1 2020

BERLIN	-20bp
PARIS	=
AMSTERDAM	-40bp
MADRID	=
MILAN	-25bp
LONDON	-25bp
BRUSSELS	-35bp
DUBLIN	=
PRAGUE	=
WARSAW	=
BUCHAREST	=

- ≤ 4%
- 4-5%
- 5-6%
- >6%



- In contrast to the other main property sectors, European prime logistics yields continue to decrease in some markets while they remain stable in others.
- Amsterdam (-40 bps), Brussels (-35 bps), Milan & London (-25 bps) or Berlin (-20 bps) showed logistics yield compression between Q1 and Q3 2020.

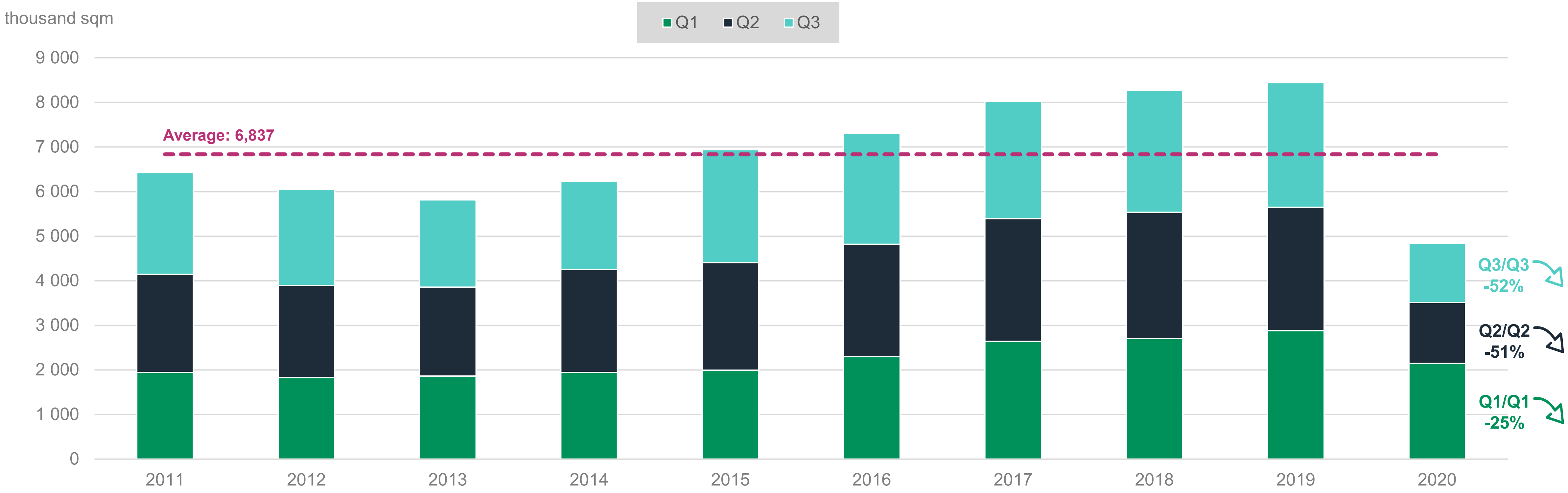
Source: BNP Paribas Real Estate.

REAL ESTATE PERSPECTIVES

OFFICE MARKETS

OFFICE TAKE-UP IN EUROPE

19 MAIN EUROPEAN OFFICE MARKETS* - 9-MONTH PERIOD



Take-up plunges in 2020

- Office take-up in Europe decreased sharply over the 9-month period in 2020 after 6 years of consecutive increase. Interestingly, volumes started to contract before the outbreak of the pandemic but accelerated from Q2, when lockdown measures were imposed everywhere.
- Volumes after 9 months are consequently well below their 10-year average.

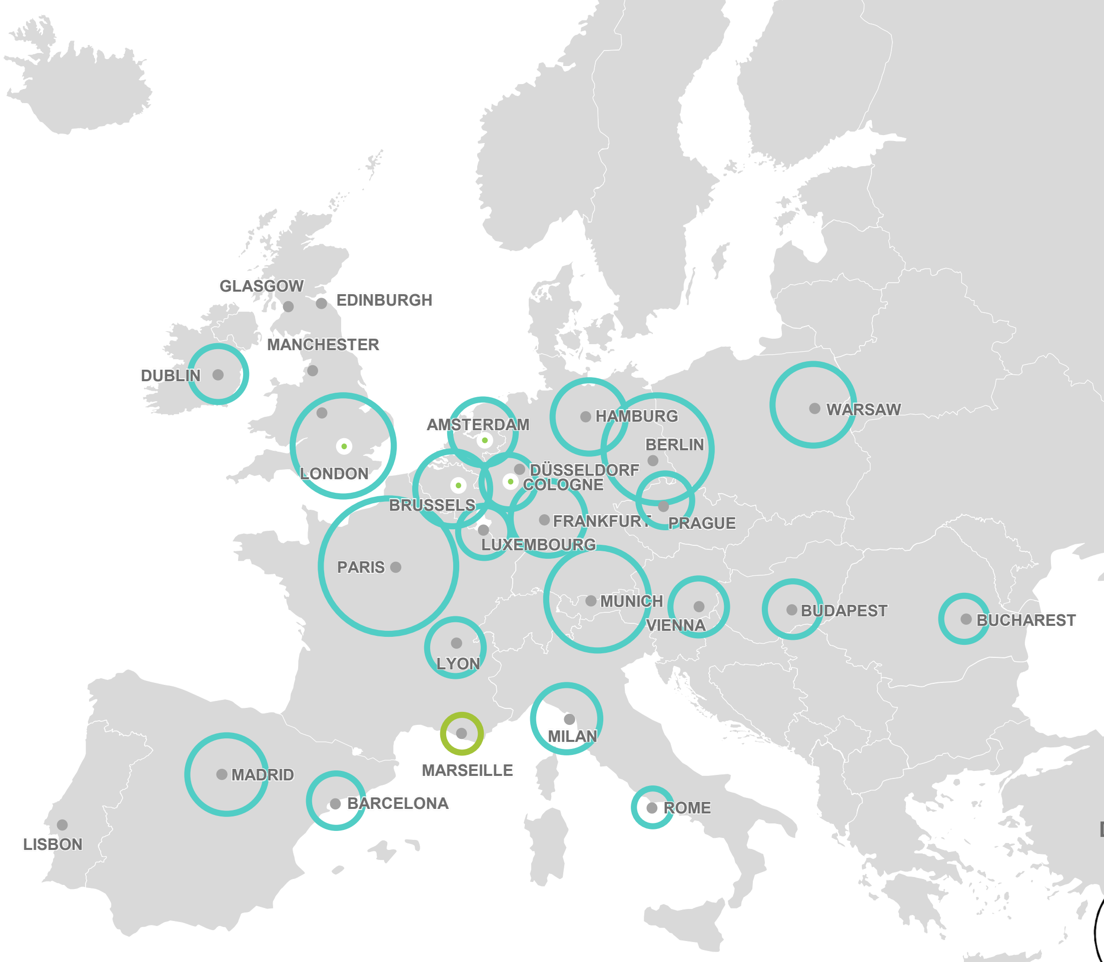
Source: BNP Paribas Real Estate Research.

* Central Paris, Central London, Berlin, Cologne, Dusseldorf, Frankfurt, Hamburg, Munich, Brussels, Barcelona, Madrid, Dublin, Milan, Rome, Luxembourg, Amsterdam, Warsaw, Prague, Bucharest.

OFFICE TAKE-UP IN EUROPE

Q3 2020 vs Q3 2019

CENTRAL LONDON	-48%
BERLIN	-34%
CENTRAL PARIS	-46%
AMSTERDAM	-12%
MADRID	-46%
MILAN	-46%
WARSAW	-35%
BRUSSELS	-45%
DUBLIN	-32%
LUXEMBOURG	-36%
BUCHAREST	-56%
PRAGUE	-37%



EUROPE – 2020 9M

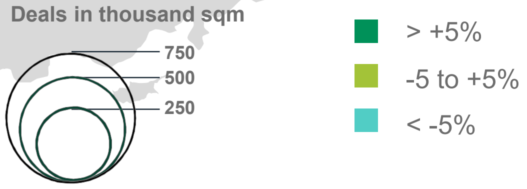
9.64M sqm

26 markets

- 42% vs. 2019 9M

Significant fall in take-up

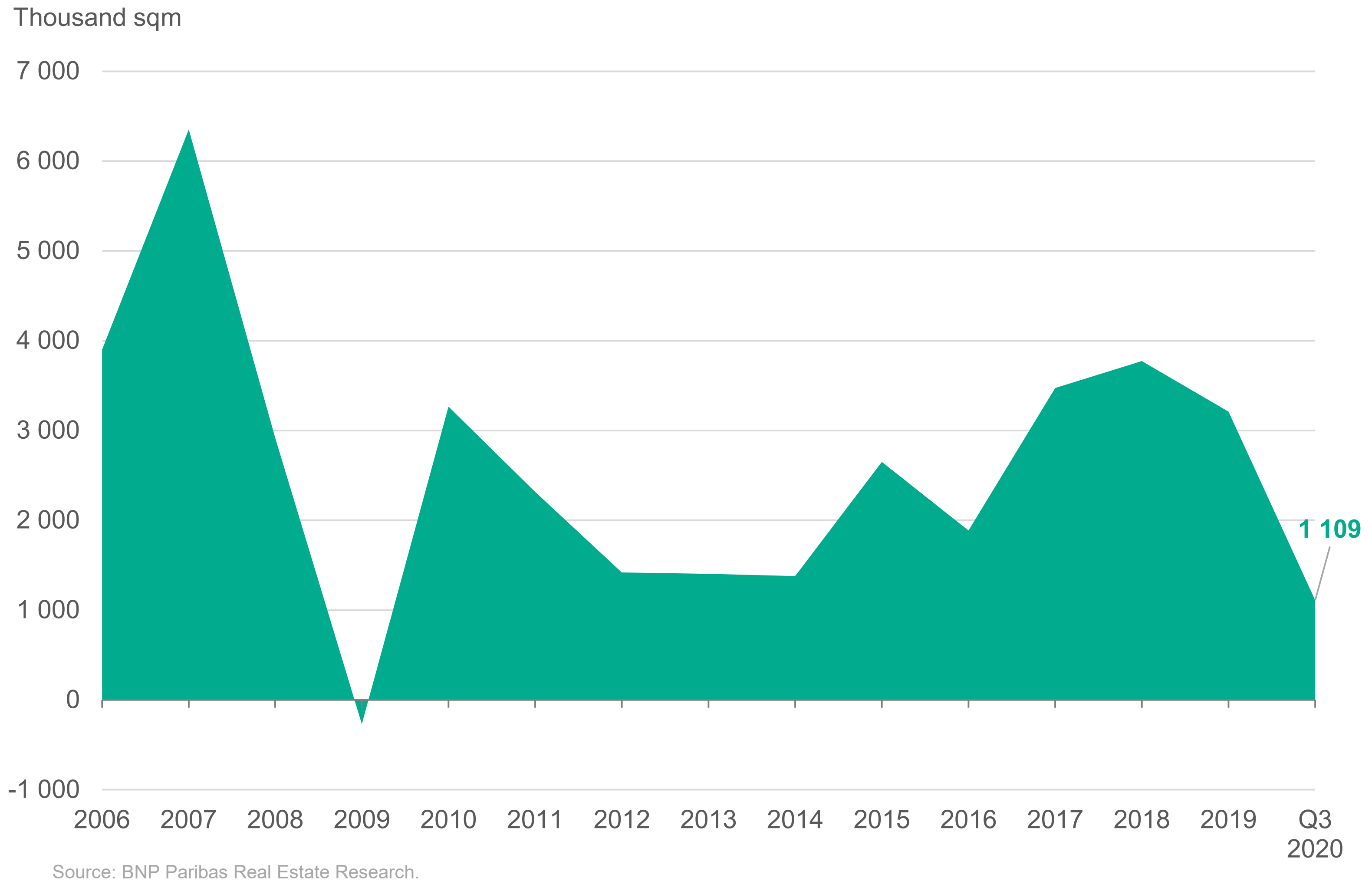
- **Take-up at the end of H1 in Europe shrank 42% relative to the same period last year.**
- **Volumes reached their lowest 9-month total since 2009 (25 markets)**



Source: BNP Paribas Real Estate Research.

OFFICE OCCUPIER MARKETS

THE NET ABSORPTION OF OFFICES PLUMMETS



Source: BNP Paribas Real Estate Research.

Drop in net absorption of offices

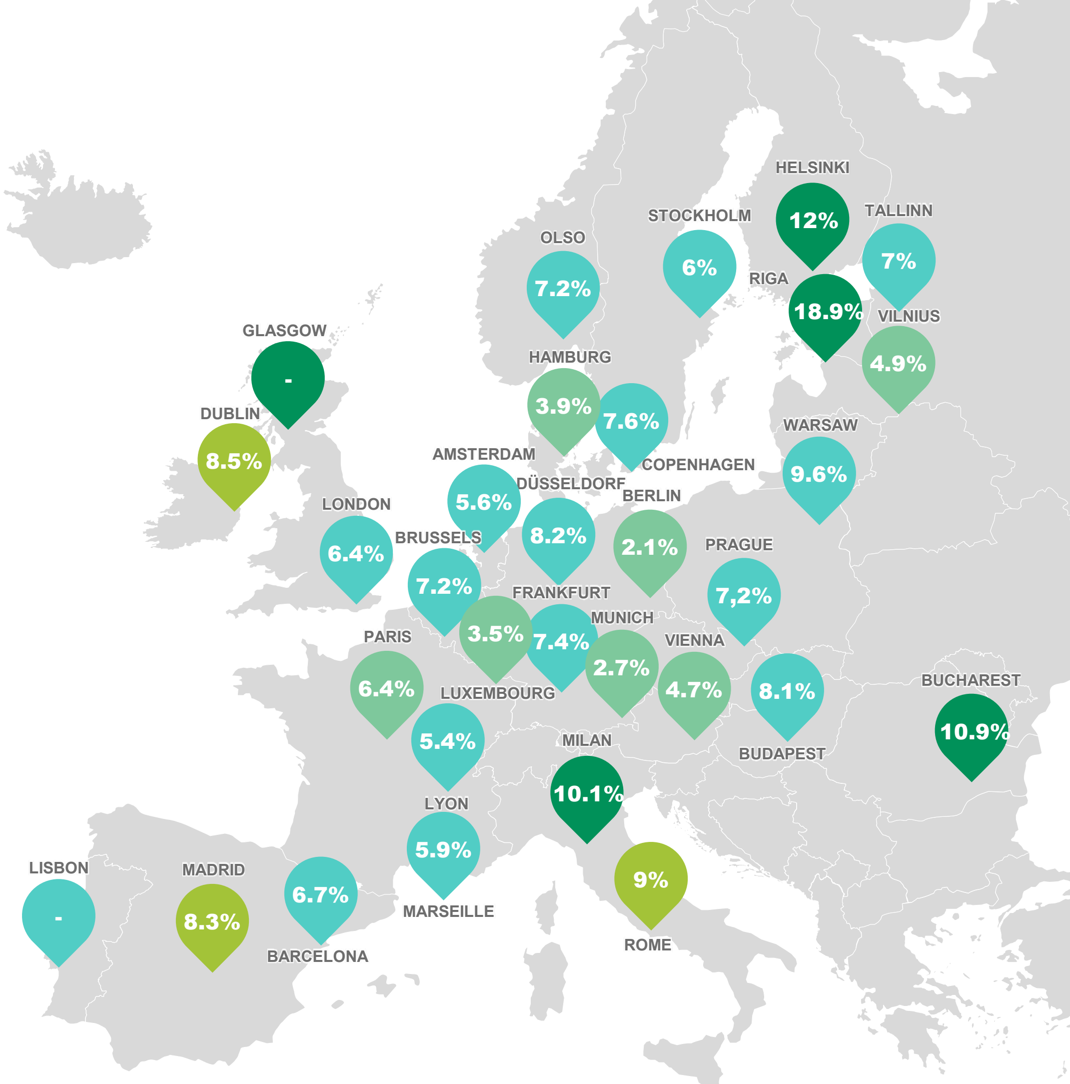
- **The net absorption of offices in Europe (18 markets*) stood at 1.109 million sqm** (representing 0.5% of the total stock) at the end of Q3 2020. This is a significant drop compared to the same period last year, as Q3 2019 net absorption was at 3.46 million sqm.
- **The variation of occupied stock y.o.y. was negative in 7 markets among the 18 listed below**.
- The slowdown in take-up on a European level and the completions of schemes in many markets can explain the fall of net absorption.

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

OFFICE VACANCY IN EUROPE

Q3 2020 vs Q3 2019

CENTRAL LONDON	+90 bp
BERLIN	+50 bp
CENTRAL PARIS	+140 bp
AMSTERDAM	-80 bp
MADRID	-40 bp
MILAN	+20 bp
WARSAW	+140 bp
BRUSSELS	+10 bp
DUBLIN	+320 bp
LUXEMBOURG	-20 bp
BUCHAREST	+20 bp
PRAGUE	+210 bp



EUROPE – Q3 2020

6.3%

29 markets

+40 bps vs. Q3 2019

Slight increase in vacancy

- **The overall vacancy rate in Europe stood at 6.3% at the end of Q3 (+40 bps vs. Q3 2019).**
- **Vacancy increased in most markets y.o.y mostly due to completions.**
- **Among the main markets, Dublin saw the sharpest increase (+320 bps)**

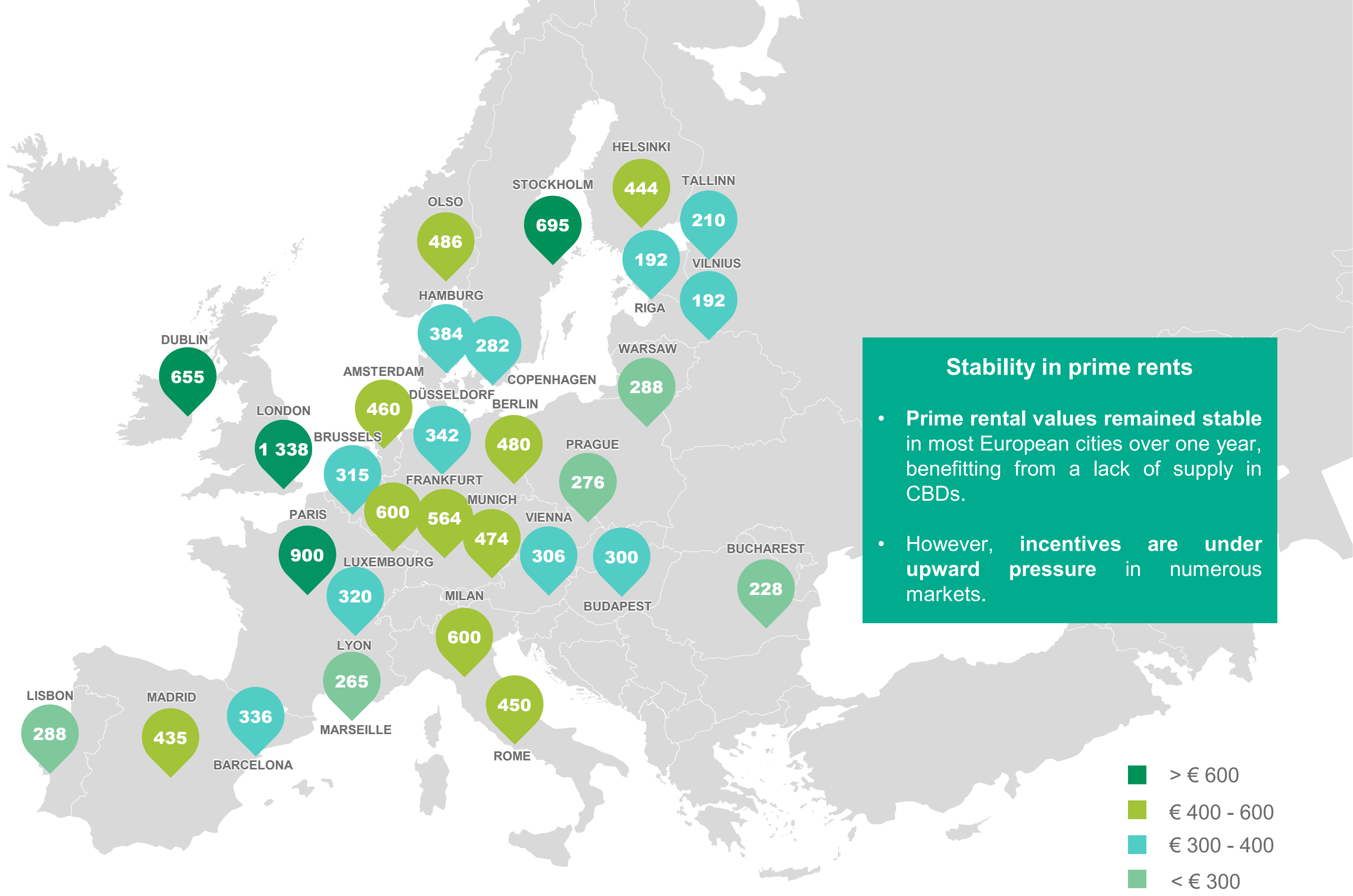
> 10%
8 -10%
5 - 8%
< 5%

Source: BNP Paribas Real Estate Research.

OFFICE PRIME RENTS IN EUROPE

Q3 2020 vs Q3 2019

CENTRAL LONDON	=
BERLIN	+5%
CENTRAL PARIS	+2%
AMSTERDAM	+2%
MADRID	=
MILAN	=
WARSAW	=
BRUSSELS	=
DUBLIN	-2%
LUXEMBOURG	=
BUCHAREST	=
PRAGUE	=



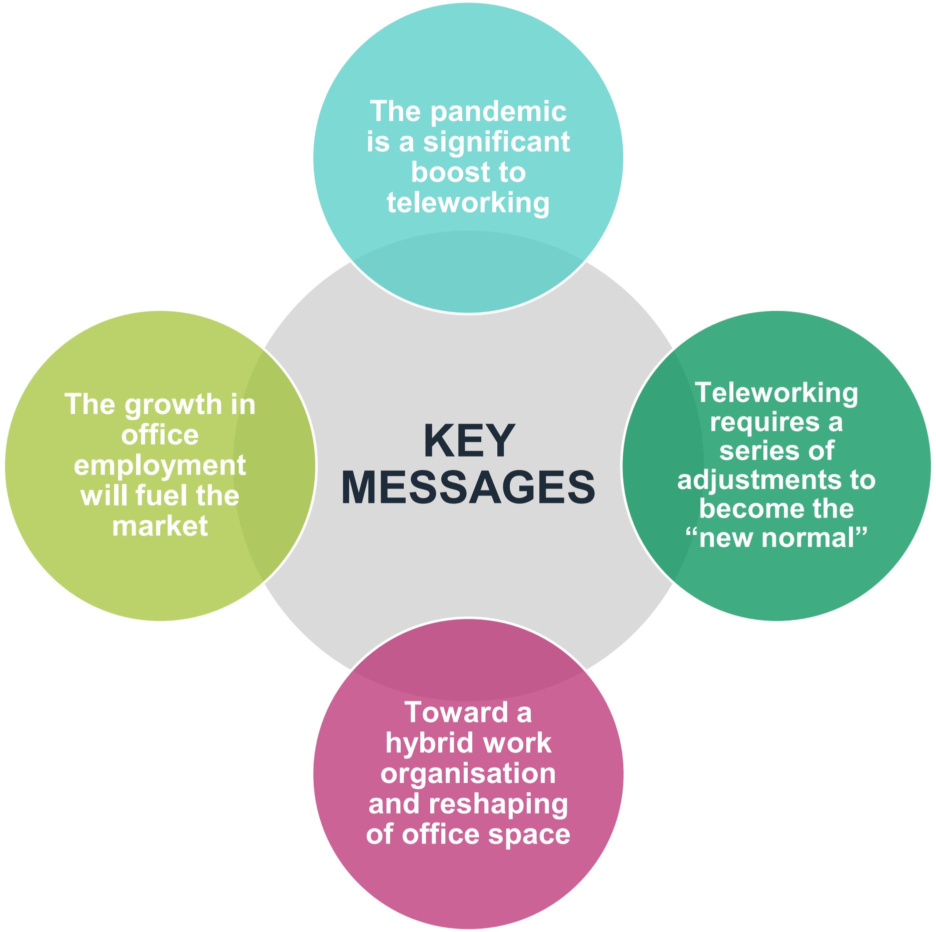
Stability in prime rents

- **Prime rental values remained stable** in most European cities over one year, benefitting from a lack of supply in CBDs.
- However, **incentives are under upward pressure** in numerous markets.

Source: BNP Paribas Real Estate Research.

TELEWORKING

IN A NUTSHELL



KEY MESSAGES

THE PANDEMIC IS A SIGNIFICANT BOOST TO TELEWORKING

- Teleworking accelerated significantly during the lockdown to ensure continuity in economic activity.
- The pandemic will probably boost the share of employees working remotely in the long run as it proved companies can operate effectively with remote work.

TELEWORKING REQUIRES ADJUSTMENTS TO BECOME THE "NEW NORMAL"

- The development of teleworking should not lead to binary thinking: it is unlikely that a 100% telecommuting work organisation will become the norm as it requires technical and management adjustment.
- Teleworking should remain the prerogative of certain types of jobs only in companies that will be able to adapt to the requirements of this type of work flow.

TOWARD A HYBRID WORK ORGANISATION AND RESHAPING OF OFFICE SPACE

- The rise in teleworking will probably exert a downward impact on the demand for offices.
- However, our main scenario is that teleworking will remain limited to a certain number of days per week with differences depending on the type of jobs and company organisation. Moreover, the expected de-densification and reshaping of office spaces should limit the decrease in demand.

THE GROWTH IN OFFICE EMPLOYMENT WILL FUEL THE MARKET

- Office employment is expected to grow significantly in Europe in the next ten years. Companies will need offices to accommodate this additional workforce, which should generate take-up and have a positive impact on the occupied stock.

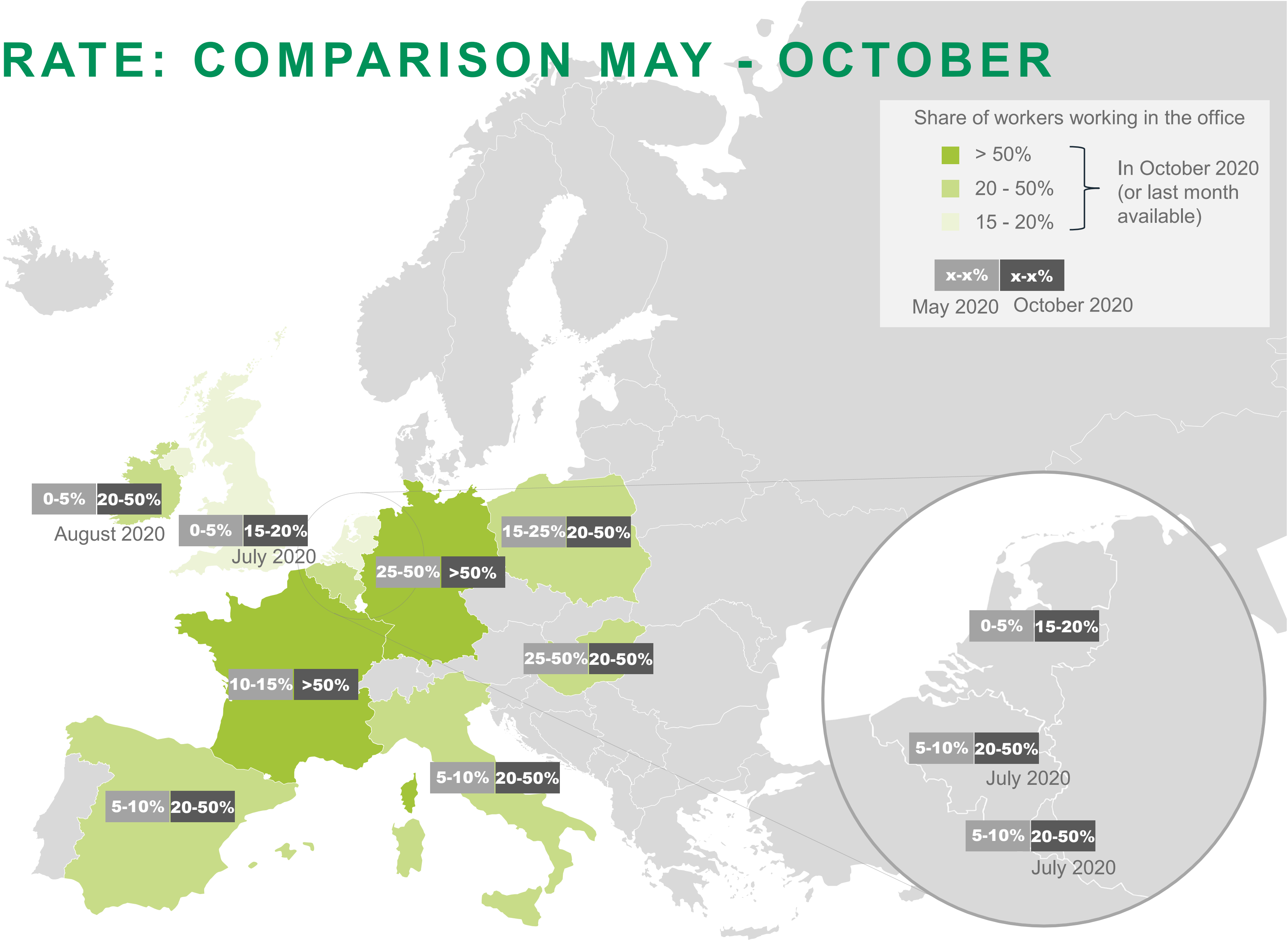
ON-SITE WORKING RATE: COMPARISON MAY - OCTOBER

- The **lockdown measures imposed** everywhere in Europe after the outbreak of the pandemic in Spring 2020 have quickly forced companies to implement teleworking solutions to ensure business continuity.

- **In May 2020, the overwhelming majority of European workers were working remotely**, Differences exist between countries. In the UK or in Ireland, no more than 5% of office workers were working on-site, according to BNP PRE Property Management data. Conversely, the lockdown in Germany was not as strict as in some other parts of Europe, and 25 to 50% of the employees were working in the office.

- **In October 2020**, some countries were back to a majority of on-site working, such as France and Germany. In other severely hit countries, such as Spain and Italy, the rate of employees working in the office remains lower.

- Some countries have experienced **a wane and wax phenomenon,** for instance **Hungary** where the majority of workers were working in the office during the summer (>50% in July and August), before seeing the rate decreasing again in September. The same phenomenon occurred in **the Netherlands**, where the on-site working rate decreased from 20-50% between June and September to 15-20% in October.



Source: BNP Paribas Real Estate Property Management.

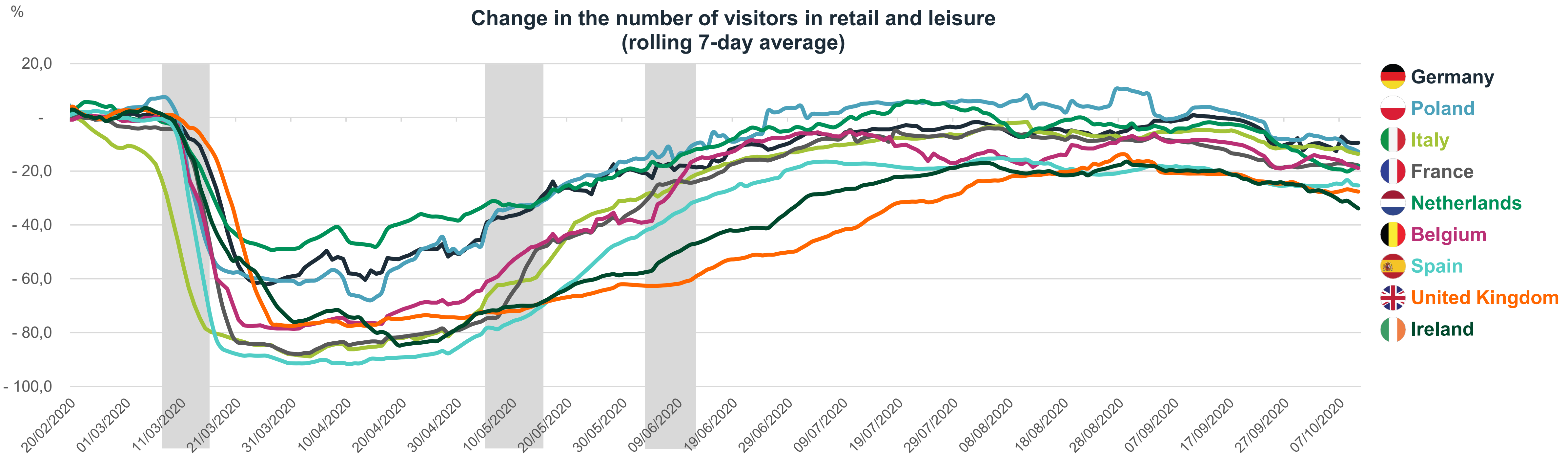
REAL ESTATE PERSPECTIVES

RETAIL
MARKETS

BNP PARIBAS
REAL ESTATE

MOBILITY DATA: NEW DECLINE IN PHYSICAL STORES' TRAFFIC

AFTER A NEAR-NORMAL SUMMER, A SLOWDOWN SEEMS TO APPEAR



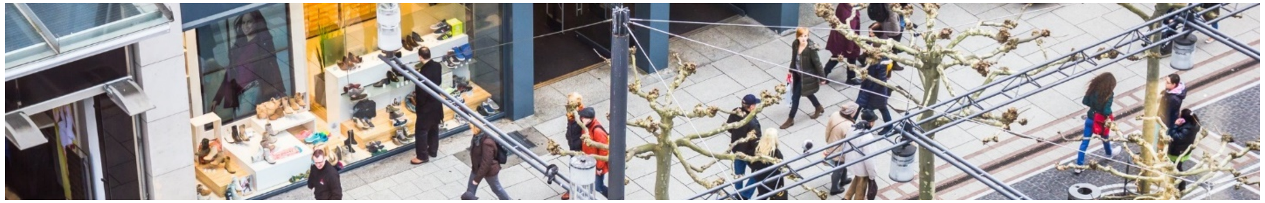
The baseline refers to the median value for each corresponding day of the week during the 5-week period of 3 Jan – 6 Feb 2020.

Source: Google Mobility Reports (15 October 2020).

- Across Europe, lockdown started between the 10th and the 15th of March. **Shops reopened around mid-May in most European countries**, **except in the UK and Ireland**, where reopening of shops occurred one month after. Two months after the reopening, **consumers were back everywhere at over 80-90%** of the level recorded before lockdown.
- Since mid-September, the resumption of the pandemic and the new health restrictions implemented have led to **a new decline in retail and leisure outlet footfall**. Logically, the countries where the second wave is most intense are those that see sharpest decrease. For example, **Ireland**, which is facing a rapid increase in the number of cases shows the biggest drop in footfall. After the announcement of a new lockdown, this drop in footfall will accelerate.
- **In Spain and in the UK**, footfall remains weak at almost 30% lower than its pre-covid level.

RETAIL OCCUPIER MARKETS

A GRADUAL AND CAUTIOUS RECOVERY OF THE RETAIL INDUSTRY



Recovery in retail may be gradual and subject to outcomes from the second wave

- In Europe, since the retail industry has resumed activity in mid-May, a revenge spending effect for non-food products was recorded. In August, **the purchases of non food-products were higher than their pre-crisis level**.
- **Recovery may be gradual over the coming months** and will depend on the resumption of pandemic. Further growth factors include the reopening of international tourism, although that is subject to a large delay effect (through travel planning) and caveated by possible weakened purchasing power.
- We are observing that **lower footfall is partly compensated by higher spending**. Rates of conversion strongly depend on the country, the retail sector and retailers concerned.

The "new normal" of retail

- **Since stores have reopened in mid-May, consumers have had to adapt the way they shop.** Shopping is now permitted under the condition of **a number of required new safety protocols** including (in line with local government guidelines):
  - A limit of shopper numbers per sqm and social distancing rules
  - A safe queuing system for customers to enter
  - Staff safety measures
  - Wearing masks in shops (masks are mandatory in most European countries: France, Spain, Germany, Czech Republic and Austria)
  - Limited business hours to allow for enhanced sanitizing and disinfecting
  - One-way traffic patterns, where customers must follow a specific, marked path though the store with certain doors as entrance only or exit only
- Lockdown was synonymous with a move toward **local consumption** with a rise in consumers looking to support local businesses, smaller brands and independent retailers that perhaps need their business now more than ever. With a large proportion of the population still working from home, this trend **could endure if local businesses can continue to offer customers a more personalised experience that comes with shopping local.**
- According to a recent research released by Mastercard, three in four (74 per cent) shoppers in Europe are now more likely to shop in their local communities than they were a year ago. Half of European consumers choose local shops by convenience or to avoid queues in bigger supermarkets (40 per cent).
- All in all, consumers encounter **a very different shopping experience** from what they used to before the spread of Covid-19.

RETAIL OCCUPIER MARKETS

HOW HAS THE COVID-19 CRISIS IMPACTED RETAILERS?

Difficulties are greater for the most fragile sectors

- Retailer reduction in revenues resulted in **cash flow problems.**
- Most of them are currently dealing with **excess inventory** which represents a huge cost.
- Many retail businesses that have entered administration during the recent weeks were already struggling prior to the pandemic.

Mixed impact depending on the category of goods

- **Fashion sales faced dramatic drops** (less for child apparel) and especially for retailers like Primark which don't have an online sales channel.
- **Food sales have experienced solid revenues,** but margins are under pressure, especially because they need to install safety measures for Covid.
- **Positive impact for DIY stores,** which were able to remain open.
- **Sales of electrical, gym and garden equipment have increased** during the lockdown.

Impact on real estate

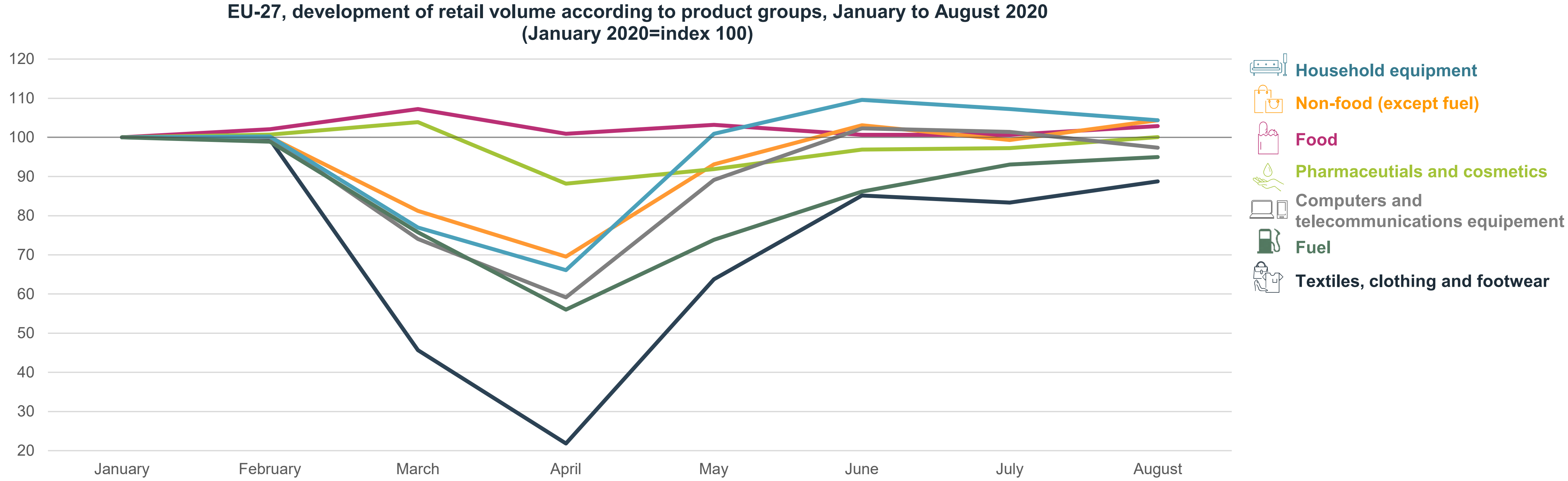
- We can expect a **mixed impact among European countries**. Indeed, France already faced crises in the past (yellow vests, protests against the pension reform plans) and renegotiation have been already initiated.
- Cash shortage has pushed retailers to explore **sales and leaseback opportunities**.
- Companies will **reassess their store portfolio** to generate cash and to invest in their digital market strategy.
- As for an example, Zara's mother company Inditex has announced the **closure of 1,200** of its 7,293 stores worldwide by the end of 2021.

Rental levels in prime locations likely to see least change

- Prime rents are the ones likely to see the least important changes in the immediate future for most European key cities. Conversely, downward adjustments could be recorded in some secondary locations. All in all, gaps will certainly be reinforced between prime and secondary locations in terms of rents and vacancy, as this pattern was already observed in the past five years.

IMPACT OF THE COVID-19 CRISIS ON RETAIL TRADE

IN AUGUST, THE POSITIVE TREND OF RETAIL SALES CONTINUED



EU-27, development of retail volume 2020, monthly data, seasonally and calendar adjusted (January 2020=100) - Source: Eurostat.

European retail sales of food-products have by now **stabilized** and are at their pre-crisis levels.

After a slight decrease in July, **sales of non-food products increased again in August.** The sales of non-food products, especially of household equipment, have clearly surpassed their pre-crisis levels. The sales of other non-food products are getting close to February's level. Textiles, clothing and footwear is the only category which is still far from its previous levels.

RETAIL INVESTMENT MARKETS

THE VALUE GAP MAY WIDEN BETWEEN PRIME AND SECONDARY ASSETS

Polarisation between prime and secondary locations

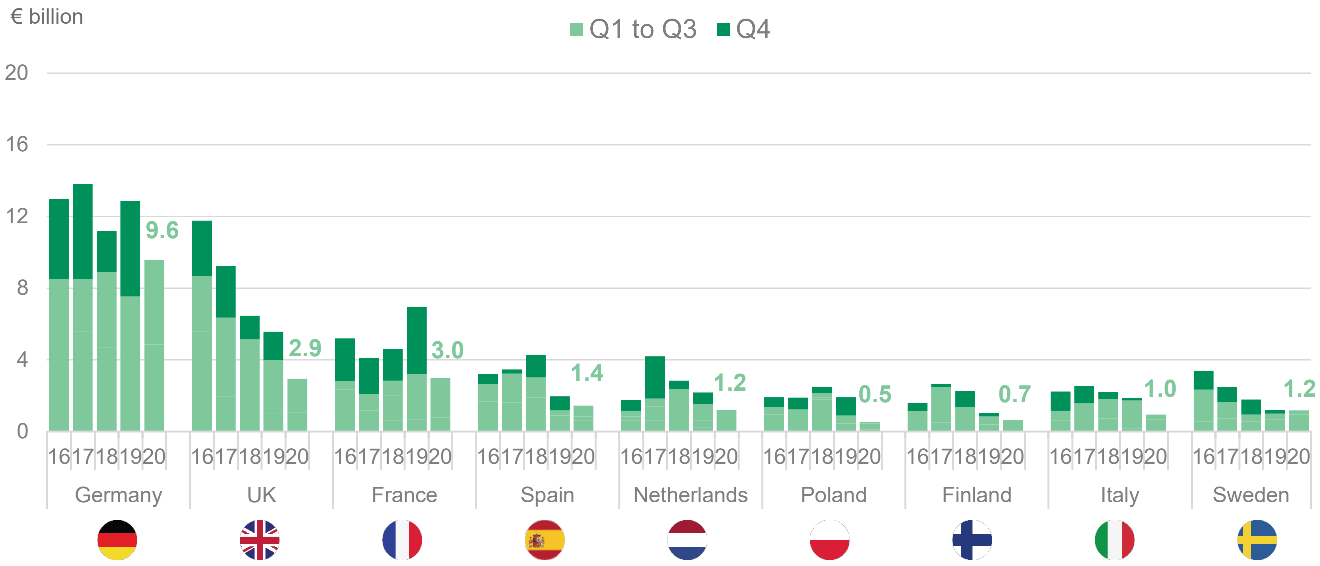
- **Prime locations are expected to suffer less** from the Covid-19 impact than the secondary locations. **Liquidity for prime assets should remain stable** and only a **slight adjustment in prices** is expected in the main high-street locations.
- For **secondary locations**, a **more notable decrease in values is expected** to reflect demand levels. Some investors may take the opportunity to (re)enter retail markets if decompression of prime yields occurs in some locations.
- **Prime locations** having already faced other serious events in the past (sovereign debt crises, terrorist attacks, strikes) are likely to **demonstrate their strong resilience** in theses circumstances again.
- In terms of how investors are reacting, most buyers '**wait and see**' with deals processes slowing down, put on hold or at worse, cancelled.
- All in all, **liquidity and likely repricing** will strongly depend on the **asset quality** (location, turnover, vacancy and footfall). Some powerful retailers may use **the opportunity to improve their high street / shopping centres positions** by acquiring position from the failing ones.

Shopping centres and retail parks

- Measures from landlords for **suspension or cancellation of rent payments** plus **government assistance** will be vital for the vast majority of retailers. Some of main European retail landlords have already announced **rent-free periods** during the lockdown. Others are dealing with this on **a case-by-case basis**.
- In the shopping centres sub-segment, **opportunistic transactions** might be registered after the crisis recedes. Depending on how long and deep the crisis is, **a higher risk premium could be offered** on the market.
- **Repricing for shopping centres and retail warehouses** should accelerate, especially for non-core assets, providing opportunities for investors. This trend will depend on the **leverage financing facility** which is key for all value-added and opportunistic investors. Investors shall be more attracted by assets with financing facilities in place.

RETAIL INVESTMENT IN EUROPE

A SLOW RECOVERY



Retail investment: still a sluggish market since mid-March

- In Q3 2020, the **European retail investment volume amounted to €7.7 bn** (–28% compared to Q3 2019). However, thanks to a very dynamic Q1, **the retail investment volume reached €44.2 bn over the past 12 months** (+ 5% compared to Q3 2019 – 12 months).
- **The retail market still represents 17% of total commercial real estate**, which remains stable compared to the previous year.
- **Covid-19 has obviously impacted the market since Q2**, due to the **cautious attitude** from investors. This trend may be observed also in the coming months, depending on when the economy recovers.

Country profiles in Q3 2020

- **Germany remains the main driver** for the European retail property with 34% of total European retail investment on a rolling year basis. Thanks to a particularly buoyant Q1 and the recovery in Q3 (+14% vs Q3 2019), the German market confirmed its positive trend increasing by 27% in Q3 2020 – 9 months versus to Q3 2019 – 9 months.
- With €3.0 billion in Q3 2020 – 9 months, **the French market recorded a slight decrease by -7% vs Q3 2019 – 9 months**. This relative stability is mainly due to the disposal by URW of 54.2% of its shares in 5 large shopping centres in France in Q2. This boosted the figure by just over €1 bn.
- **The Spanish market is showing a surprising dynamism with a 22% increase in the past nine months,** thanks to two portfolios transacted in Q3 (supermarkets Mercadona and Adeo – Leroy-Merlin).

REAL ESTATE PERSPECTIVES

LOGISTICS
MARKETS

BNP PARIBAS
REAL ESTATE

LOGISTICS OCCUPIER MARKET IN EUROPE

TAKE-UP IN 6 COUNTRIES: +7% (9 MONTHS 2020 VS 9 MONTHS 2019)

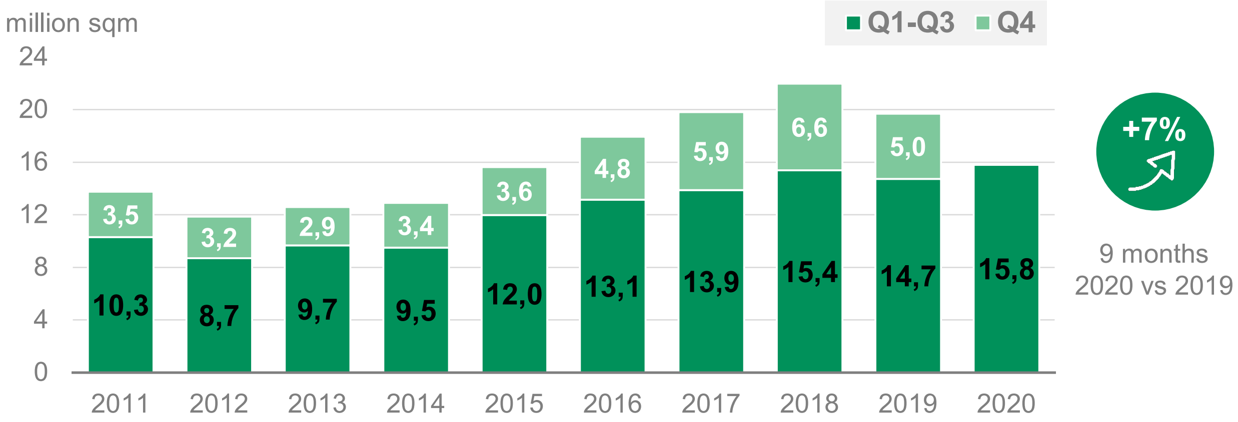
Strong resilience of the European logistics market

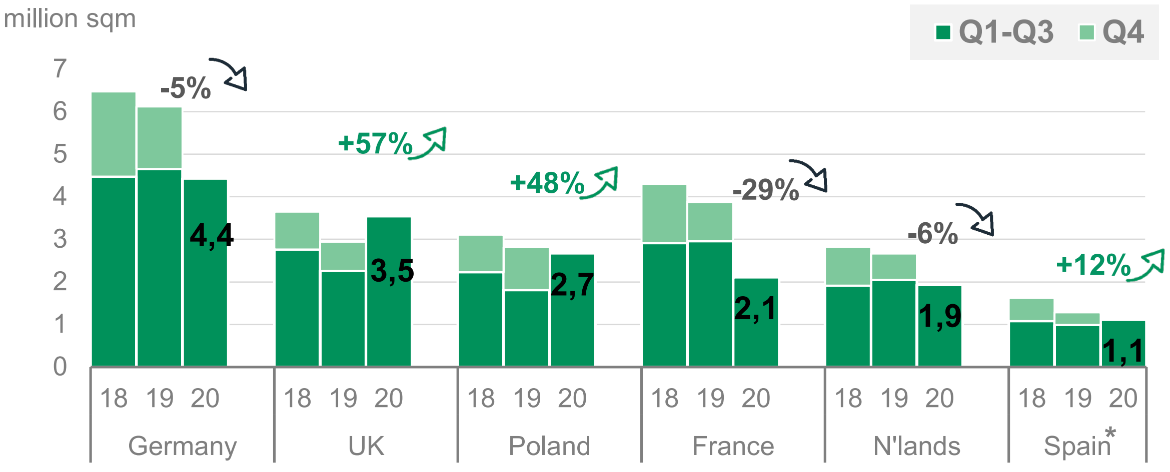
- The beginning of an economic slowdown at the start of the year did not have a major effect on the market. **Activity remained strong in most markets** supported by a buoyant e-commerce.
- The COVID crisis impacted the market in Q2, as a result of the general lockdown in most European countries, but **some markets have proved particularly resilient, again boosted by e-commerce.** Overall, in the 6 major markets in the first 9 months 2020, take-up even increased compared to the same period last year.
- Supply drying up over the past two years with demand staying sharp means there is a major imbalance in the market. While some premises are expected to be released back on the market, **there is no major risk of oversupply.**
- **New developments are still insufficient** to meet demand and few speculative developments are launched.

Country profiles in Q1-Q3 2020

- **Take-up in Germany remained high**, but decreased in some of the main hubs, constrained by a lack of modern space. E-commerce is a strong market driver with large transactions signed in 2020.
- **Occupier demand in the UK has proven extremely resilient**, Q3 reaching the highest quarterly figure on record. The market was boosted by short term COVID-related deals and mostly by online retail. Amazon alone took over 1 million sqm between Q1 and Q3 2020.
- **In Poland, the volumes achieved in 9 months are close to the record volume of 2018**. The market has been boosted by e-commerce, but also by the manufacturing sector.
- **In France, the occupier market is slowing down.** This stems from the economic slowing since Q4 2019 and the fact that most major retailers have completed their first phase of supply-chain transformation. Some large transactions are expected at the end of the year.
- In the **Netherlands**, following a strong Q1 due to some very large transactions, **activity slowed down significantly in Q2, and started to pick up again in Q3**, boosted by demand in the retail sector.
- After two exceptional years 2018 and 2019, **the Spanish market is still dynamic** so far in 2020, despite the lockdown that was one of the toughest in Europe.

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





*Total of Madrid + Barcelona + Valencia

LOGISTICS OCCUPIER MARKET IN EUROPE

STRONG RESILIENCE DESPITE COVID

Demand is driven by on-line sales

- **Until COVID lockdowns occurred, the European markets reached outstanding volumes of transactions** boosted by a strong demand for owner-occupier developments.
- **Negotiations have been disrupted** thus creating delays in developments.
- Even though general lockdown has been lifted, containment is not over. **Safety measures have a negative impact on productivity** and the disruptions in the supply chains are still affecting all businesses.
- Given the current economic turmoil, **the outstanding letting records of the past 3 years are most probably behind us for a couple of years.**

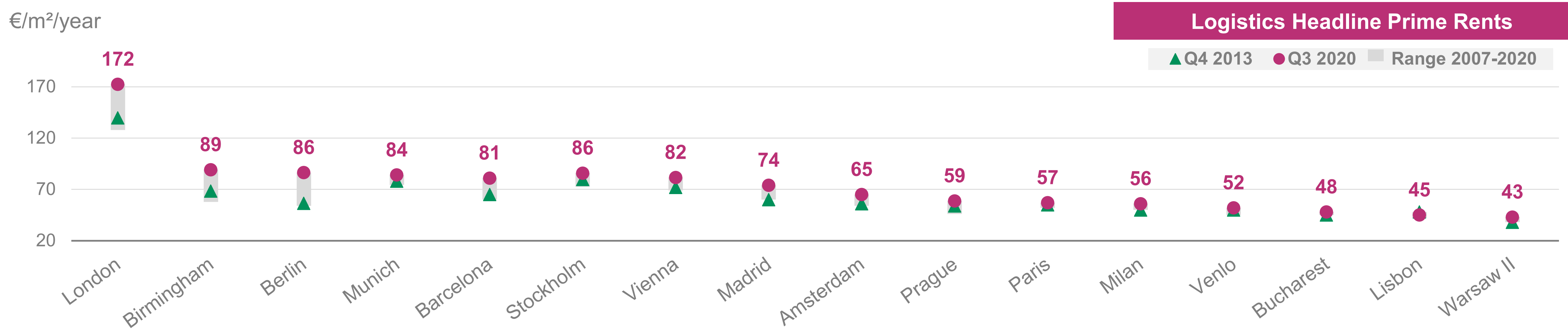
Supply will increase despite slowdown in the construction of new warehouses

- A **slowdown in new developments** is occurring from the disruptions created by containment in most European countries. If the new construction launched before the crisis is underway, it will be completed. Yet future developments will be reduced overall.
- **Financing new projects is expected to be more difficult** since banks are tightening their lending criteria. This will strongly impact new speculative developments in a context of increased risk aversion.
- Supply will increase as second hand space is released.
- **The crisis is affecting all businesses** and some will be downsizing or shut down: their warehouses will be released and put back on the market.

Rental growth is slowing down

- Following two years of substantial growth, **prime rents remained stable overall**, caught between cooler demand from economic slowdown on one hand, low supply on the other.
- **In some places rents even increased** in transactions located closer to the city for urban logistics purposes.
- **Currently the impact on rents from COVID disruption is negligible**, but with release of space into the market, we expect more incentives and an overall downward pressure on rents to appear.

Logistics Headline Prime Rents



INDUSTRIAL & LOGISTICS INVESTMENT IN EUROPE

INVESTMENT REMARKABLY STABLE

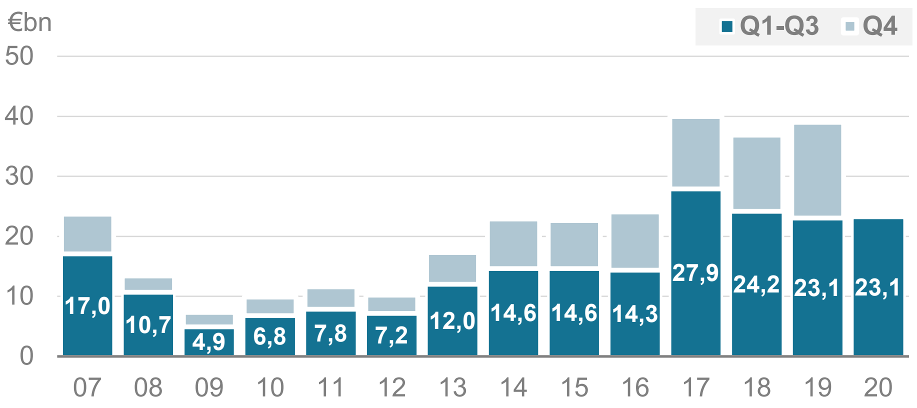
Industrial & logistics investment stable despite a low Q2 2020

- €23.1 bn in Q3 2020 (year-to date). Q1 was the highest first quarter recorded in the last 15 years (€9.5bn), offset by a low Q2 (€5.3bn) before returning to a high Q3 (€8.3bn).
- **The industrial and logistics sector is gaining market shares** on other asset classes accounting for 15% of total commercial real estate.
- Following two years of outstanding volumes of investment, **the market continues to attract investors** due to:
  - Low government bonds
  - Strong relative pricing compared to other sectors
  - A strong driver in e-commerce
- The COVID crisis impacted the market in Q2 during lockdown, but **industrial and logistics investment bounced back in Q3**.
- **Logistics remains quite resilient**: the fall in volumes is expected to be less than seen for other asset types.

Country profiles in Q1-Q3 2020

- **In the UK, Industrial and logistics investment has inevitably been subdued** compared to pre-crisis. Far from a lack of demand, a key factor behind the slowdown in industrial & logistics volumes has been a lack of suitable investment opportunities.
- **In Germany, the logistics investment market continued to thrive** despite the COVID crisis and the scarcity of products in the major hubs. The prime yield bottomed at 3.5% in Q3.
- **The market remained particularly dynamic in France**, despite a significant drop in Q2. Investor appetite remains strong and investment volumes are expected to reach the good levels recorded in 2017-2018.
- **In the Netherlands**, Industrial and logistics investment rose sharply in Q1 but investors have been increasingly cautious since the COVID crisis and investment volumes dropped in Q2 and Q3. Given current negotiations, **activity is expected to pick up again in Q4.**
- **In Poland, industrial and logistics is about to reach a historical record volume of investment** in 2020, thanks to several portfolios acquired by investors from China, Singapore and South Africa. The market benefits from strong drivers including low labour costs and the strategic positions of units especially along the German border.
- **In Spain**, after two years with outstanding volumes of investment, **the market started slow at the beginning of the year before picking-up sharply in Q3**. Given current negotiations, the market could reach yet again the €1bn threshold in 2020.

Investment Europe (€bn)



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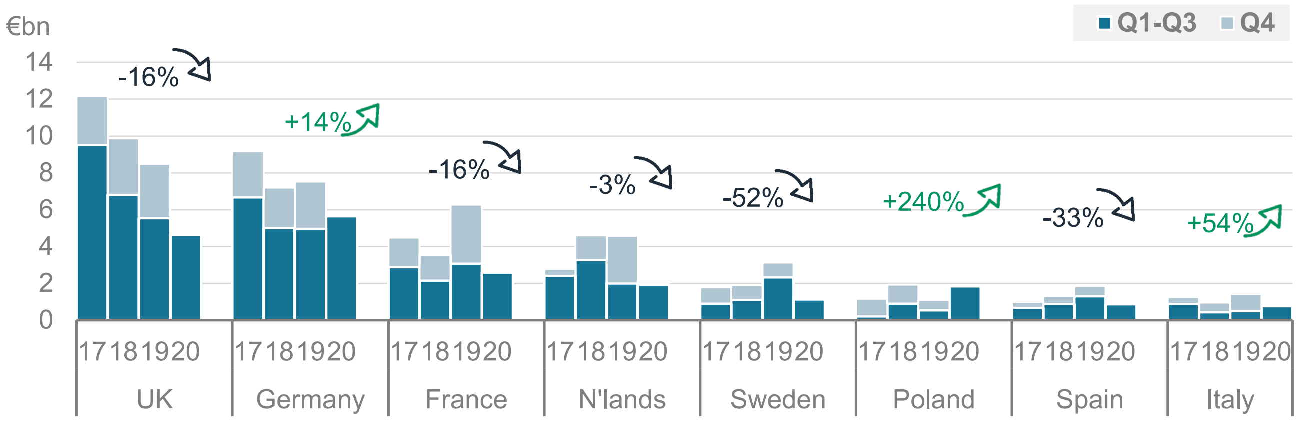
9 months 2020 vs 2019



INDUSTRIAL & LOGISTICS INVESTMENT IN EUROPE

A BRIGHT SPOT

Logistics property remains attractive for investors

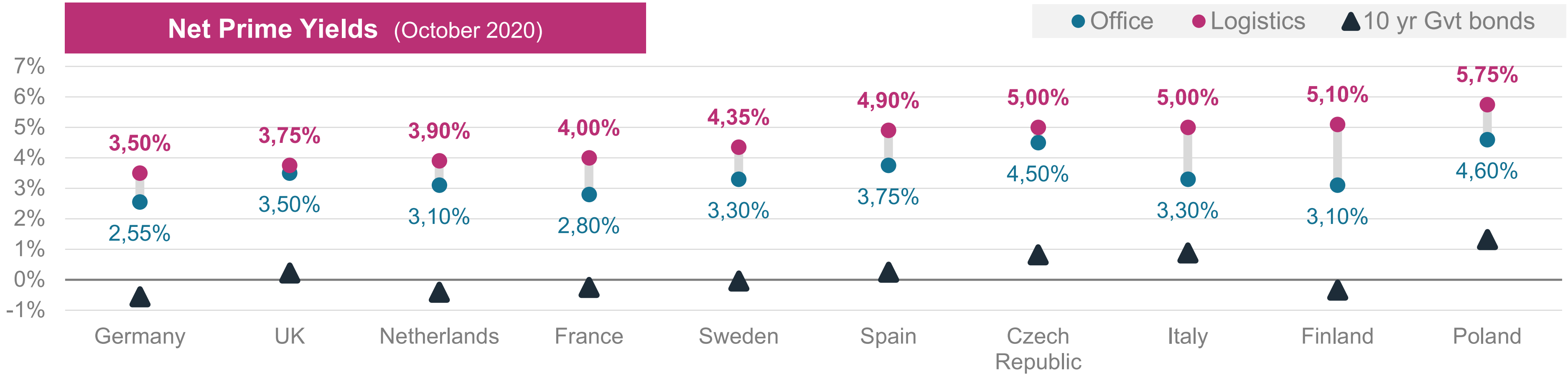
- From an investment point of view **the logistics and Industrial sector remains a bright spot** as demand for space remains solid from sectors that are beneficiaries of the COVID crisis. Even so, we can anticipate lower investment volumes in the industrial sector due to the obstructions to deal negotiations.
- Because of more secure income generation, **logistics investment is expected to remain quite resilient**: the fall in volumes will probably be less than seen for other asset types.

Hubs with global exposure are more vulnerable

- In the short term, **reduced global trade flows arising from the pandemic, will impact demand for logistics property** at ports (both sea and air) through reduced utilization. Investment interest is unlikely to abate as in the medium to long term we see little waning in occupier demand for logistics space in these locations.
- **E-commerce is emerging from the situation stronger** with increased penetration in more countries globally. This could provide further boost to demand for space at ports, especially airports, as they allow faster delivery from long distance.

Prime yields are likely to stabilize

- Going forward we will see increased divergence in the performance of different logistics segments.
- Depending on the risk profile of the investor, the yield gap will widen.
- **Prime yields are likely to be stable across Europe**. Average yields though, are expected to increase given a context of tightened financing conditions and growing risk aversion.
- **Repricing will depend** more on how marginal the fundamentals are: location, state of the building and prevailing rental conditions.



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