EUROPEAN PROPERTY MARKET

AFTER THE RESET: NOW REPOSITIONING

OUTLOOK H1 2023

INTERNATIONAL RESEARCH

BNP PARIBAS REAL ESTATE

Real Estate for a changing world

CONTENT

BNP PARIBAS REAL ESTATE

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FOREWORD

THERE IS RESEMBLANCE OF CALM AFTER THE STORM FOR THE EUROPEAN ECONOMY AND REAL ESTATE MARKETS. FOLLOWING SIGNIFICANT REPRICING IN 2022, WE EXPECT A SMALLER SCALE ADJUSTMENT IN YIELDS THIS YEAR. MOREOVER, THE RELATIVE POSITION OF THE DIFFERENT SECTORS REMAINS IN FLUX.

In recent months, we have seen significant improvement in major economic indicators around the world. **The prevailing view is that the global economy may get away with a shallower and shorter period of economic contraction than had been expected six months ago, with most economies avoiding a recession altogether.** Additionally, consumer and business confidence indices are edging back up in most European countries. One reason is that inflation in most economies appears to have peaked, thanks to reduced volatility in the energy market. This paves the way for monetary authorities to contemplate both what the terminal policy rate may look like and when that might be achieved. **In our view, there is little justification for further significant rate rises before assessing the cumulative impact on the economy of the successive hikes already made.** The more interesting question is whether rates will return to their past lows and when might central banks start to cut them again. Answers to these questions will have significant implications for future performance of the real estate sector.

The investment market has gone through a major adjustment over the past six months as policy rates tightened rapidly. Property yields have risen significantly across all sectors on the back of the increased cost of debt. **Although most of the expected adjustments have already occurred, we think some further repricing is likely in 2023, however it is likely to vary between sectors.** For investors, the race has been on to meet interest cover ratios rather than to protect return levels. As such, sectors that are able to generate higher levels of income, particularly via rental value growth, are likely to be better protected from further yield adjustments. These include logistics, where vacancy remains generally low; prime offices, driven by Enviroment, Social and Governance (ESG) requirements; and the alternative sector, particularly residential, where affordability issues and inflation are driving up rents.

This report looks in more detail at how these issues will affect the performance of European real estate over the next five years. In general, the Logistics and Shopping Centre sectors will provide the best annualised return over the next five years (respectively 6.9% and 6.7% estimated), albeit for very different reasons. In the case of logistics, this will be driven largely by rental growth amid limited yield decompression. Most of the yield increases occurred in 2022. Shopping centre yields have expanded considerably, making income return relatively high, even though rental growth is limited or even negative in some instances. For offices, the great divide between demand for prime and secondary assets will intensify as regulation begins to weigh on unsustainable buildings. **In all, property is undergoing a short-term adjustment that does not alter the long-term relative position of the asset class in a broader investment strategy.** However, the desirability of the different sectors remains in flux.

Samuel Duah
Head of Real Estate Economics
International Research

EUROPEAN REAL ESTATE PERSPECTIVE

REWRITING THE RULEBOOK

by Samuel Duah

A tumultuous year looks likely to give way to greater stability. Although the dust is yet to settle completely, the real estate landscape in 2023 is clearer than it was six months ago.

The abrupt end to ten years of global loose monetary policy has shifted the financial backdrop much faster than anticipated. The market is now emerging from the grey period of price uncertainty. We think that much of the repricing for the best quality property has now taken place, although for secondary assets, there is still considerable doubt.

In this situation, having absorbed the multiple shocks of last year, investors are regrouping and beginning to apply strategies that are better adapted to the new financial environment.

CONTINUE REPRICING MAY LEAD TO LOWER INVESTMENT VOLUMES

Total investment volume, see **Exhibit 1,** in Europe was €248.3bn for 2022, down 14% on 2021. The decrease was driven largely by the lack of activity in the latter part of the year, amid the height of pricing uncertainty. In Q4, generally the most active time of the year, transaction volumes were down 76% compared to the same period in 2021. In terms of sectors, offices (€90bn) and logistics (€54bn) bore the brunt of the slowdown in 2022, each falling by 21% vs 2021. This was followed by the alternative sector, down by 14% to €27bn. However, retail (€34bn) remained relatively stable, down 2% vs 2021, having fallen significantly over the previous couple of years.

As yields stabilise in the coming quarters, we expect investors to reposition their portfolios to account for future changes in real estate markets. The rebalancing emphasis will be on property that has enduring value, measured by its ability to generate the most secure income in the future, in a changing real estate environment.

Several emerging themes will inform this rebalancing. The most important will be the issue of obsolete buildings, initially in the UK where legislation coming into force in 2023 will make letting of non-compliant buildings illegal. This is already the case in the Netherlands, where since beginning of 2023 a minimum Energy Performance Certification (EPC) C is required to let an office building. In **Exhibit 2** we show that across all sectors, over 50% of buildings will fail to meet the minimum EPC level, in the UK, for letting. Other countries around Europe are likely to follow this legislative path and how investors reposition their real estate portfolios in this context will become a key consideration.

RISK-FREE RATES ARE LIKELY TO SETTLE INTO A BAND BY THE SECOND HALF OF 2023

More interest rate hikes are likely in 2023, although **the prevailing market viewpoint is that**

75bps

2YR WEIGHTED AVERAGE ALL PROPERTY YIELD SHIFT ACROSS EUROPE

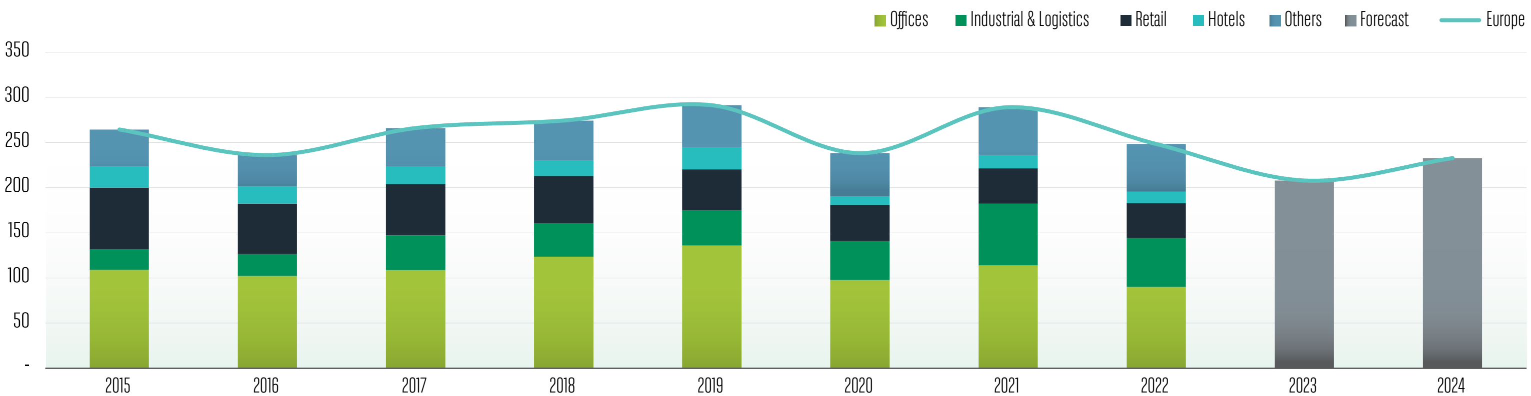
€205bn

EXPECTED INVESTMENT VOLUME FOR 2023 IN EUROPE

<50%

SHARE OF PROPERTIES IN ALL SECTORS THAT MEET UK ENERGY REGULATION

Exhibit 1: **EUROPEAN INVESTMENT VOLUME BY SECTOR** (€bn)



Source: BNP Paribas Real Estate

key interest rates will peak by midyear. This reflects two developments since our last report in July: first, the likelihood that headline inflation peaked over Christmas, and second, signals from survey data showing how much consumers are suffering from the cumulative increases in the rates so far.

This should help long-term rates to settle and trade within a band, even if volatility within the range may increase. The key point is that bond yields are unlikely to return to the sub-2% era, even if inflation abates and moves down to the 2% target rates (we think this unlikely).

This is the reset discussed in our previous report and we incorporate this scenario into our forecasts. Consequently, we maintain the revisions made to our forecasts for real estate returns in Europe. **Total returns, as shown in Exhibit 3, are likely to stay low across the 2023-2027 forecast period, driven mostly by income return.**

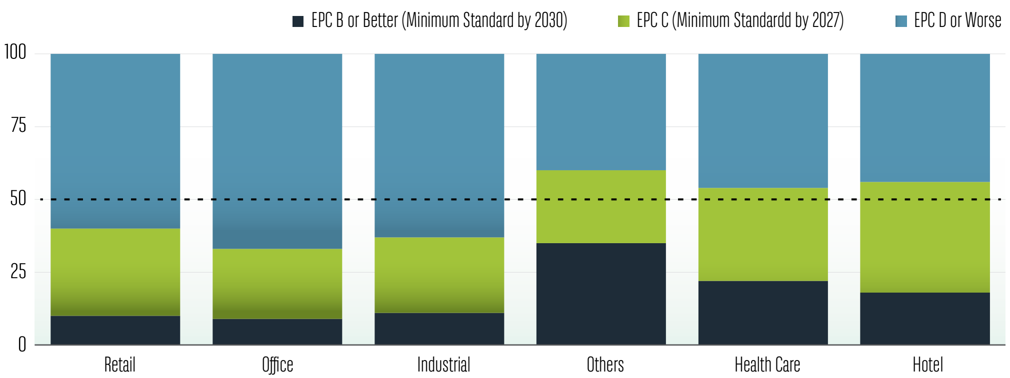
The yield decompression that began in 2022 still has further to go in 2023, even if the bulk of the adjustment is behind us. This means that returns will see next to no contribution from capital growth, which will continue to remain negative across the front end of the forecast period for all sectors. We anticipate that positive capital growth may re-emerge in the middle of the forecast period, with the strongest level seen in logistics, driven by rental growth, and weakest for offices, particularly for secondary assets over the forecast period.

For offices, the events of 2022 created further structural challenges to the sector and we have reduced our total return forecast for Europe as a whole. In addition to the emerging problem of surplus stock (worsened by energy obsolescence), there is now more expensive financing. With this combination, the prime segment is likely to perform best over the forecast period and may detach from the market average. Market returns could average 5.9% over 2023 to 2027. For prime assets, we think that most market repricing occurred in late 2022 and should have fully worked through by mid-2023. It is this segment that is likely to see the strongest transactional activity and may see positive capital growth by 2024. Low positive rental growth continues as the mainstay of office returns over the forecast, with the inflation kicker, particularly for continental European markets. For the UK, the main driver of prime rental growth will be the lack of good quality buildings.

Unlike the Global Financial Crises (GFC) that had near deflation and hosts of company bankruptcies, there have been relatively few major retailer failures so far. Retail was also improving in early 2022 in investment transactional terms before the backwash of repricing caught up. **We think the sector in Europe as a whole will continue to see negative capital values for prime high street locations (-4.6%) and shopping centres (-4.8%) in 2023.** Although survey data shows record lows for consumer confidence, spending has held up better than expected. We still think the sector will overcome these difficulties, restoring growth and playing out the recovery story. Over the forecast period, we see average capital growth for high streets (1.3%) and shopping centres (1.0%) per annum.

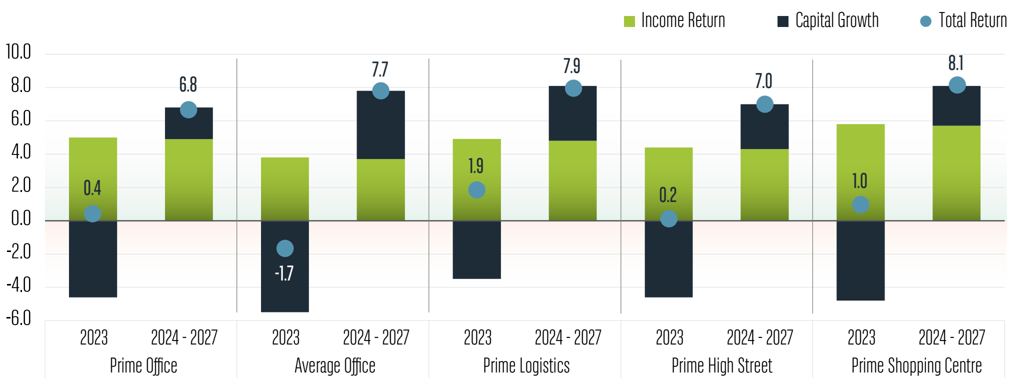
> *"Most of the repricing for prime assets has already happened; but for secondary assets there is still considerable doubt."*

Exhibit 2: SHARE OF U.K. PROPERTIES IN EACH SECTOR BY EPC BAND (%)



Source: BNP Paribas Real Estate

Exhibit 3: AVERAGE EUROPEAN TOTAL RETURN BY SECTOR, NEAR VS LONG TERM (%, p.a.)



Source: BNP Paribas Real Estate

SCARCITY (PRIME) AND ABUNDANCE (SECONDARY) WILL SHAPE RENTAL GROWTH PROSPECTS

Investors must look back to the 1990s to find an equivalent period for real estate, when income return dominated total return; such has been the impact of the financial reset in 2022. It is rental growth prospects that are the key criterion, shaped as always by occupancy and vacancy figures. In the new era, for the short-term at least, extremes may shape growth; scarcity for logistics, abundance for retail and a unique combination of both for offices.

LOGISTICS RENTAL GROWTH CONTINUES TO BENEFIT FROM LIMITED SUPPLY

Lack of supply in the logistics sector will remain a key theme in 2023. It has actually worsened because of real estate's trio of challenges: energy obsolescence, elevated financing and high construction costs. Construction costs are the most significant, given much of the available supply is built when tenants sign up. Limited supply drove rental growth in 2022 (12%) and is likely to continue doing so across the forecast period. Materials inflation is only likely to ease towards the end of 2023, so construction currently underway or projected to start this year will still have to factor higher construction cost into rents.

Consequently, **at European level, rental growth in 2023 (3.9%) and 2024 (3.0%) will remain relatively limited.** We forecast that the push from materials inflation will eventually subside, and the combination of further supply and reduced demand may weaken growth to 1.3% by 2027. Rental growth is likely to be strongest in markets like the UK (4.4%) and France (3.3%).

RETAIL RENTAL RECOVERY ON THE HORIZON

Retail still suffers from an abundance of units, although this varies considerably across Europe and even within cities. The luxury end still has limited availability, while mid-to-mass-market locations that have sufficient footfall and prosperous consumer pools are doing well. Retail as a sector is holding up better than might have been anticipated given the inflationary backdrop. Nonetheless, the sector's structural weakness and outlook continues to dampen retail rental prospects. Consumer spending may weaken with the end of energy support schemes over 2023. Although some chains are announcing expansions, cost control will remain important for retailers.

We expect flat rental growth (0.4%) in 2023; an improvement on 2022 (-0.7%). Genuine growth should occur towards the back end of the forecast with a European average of 1.4% by 2027.

MAJOR OFFICES FACE CHALLENGES IN GENERATING RENTAL GROWTH

Occupancy may be weaker in 2023 than 2022 and concentrated in high quality buildings as efficiency regulations come into force. There is a clear split in rental performance for offices, between modern units that have strong rental potential (behind prime rental increases seen in 2022) and secondary premises that have worsening prospects. **Energy regulations and operational costs will start to put significant downward pressure on old units over the forecast period. Some units risk being unlettable.**

> *"Energy efficiency remains a major risk to income."*

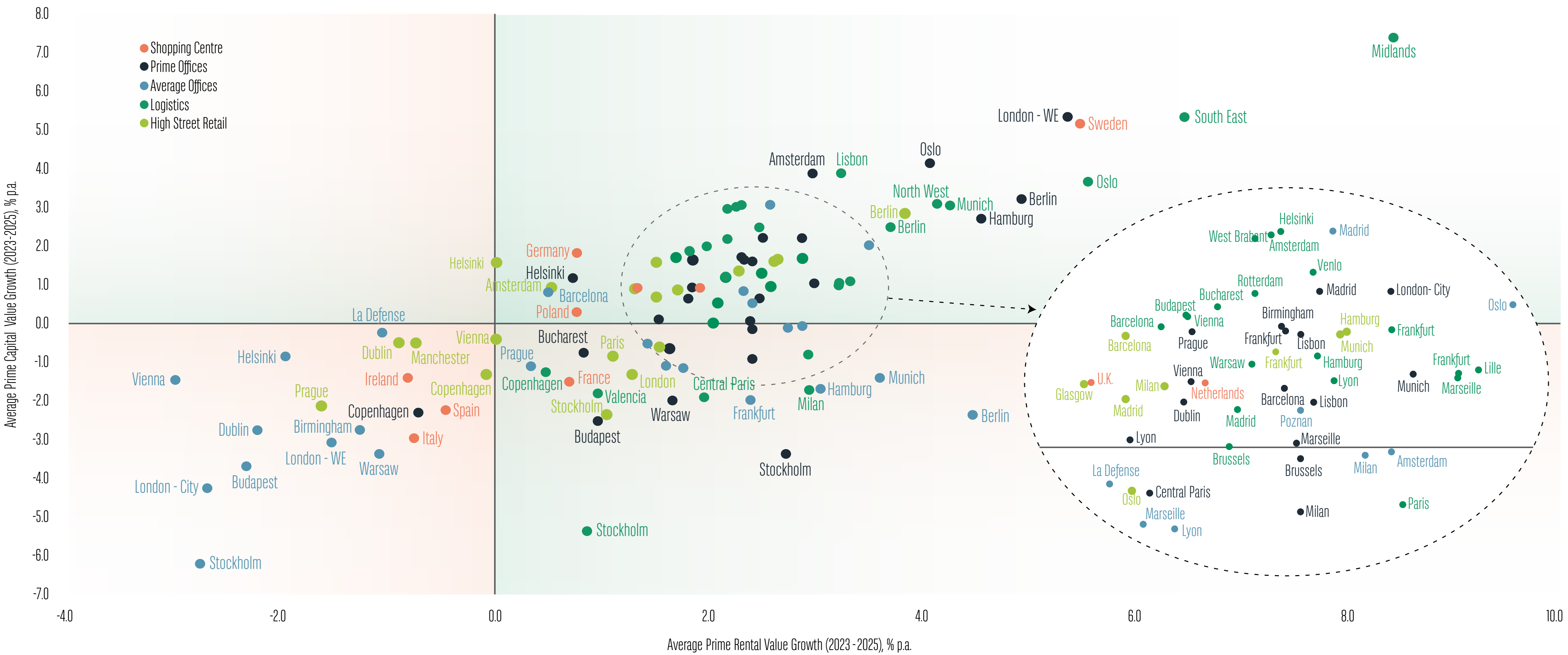
We still think that the gap between net effective and headline rents of modern and secondary offices is likely to embed a rigid two-tier market across Europe, one that favours Central Business Districts (CBD) areas.

Additionally, the volume of top-quality space is much lower with a highly constrained pipeline. This leaves European markets caught between scarce good space (those taken up in 2022) and an abundance of lower quality offices (the units released in 2022).

REAL ESTATE MARKET MOMENTUM

Rewriting the investment rulebook requires taking into account the new financial environment, where inflation is elevated and more volatile. More than ever, the best returns will come from the best units in the right location. This matters especially for the office sector where **the most modern offices in CBDs are likely to retain their premium over secondary units in peripheral markets.** It is possible that a large segment of the office stock will become unlettable in some countries over the forecast period as regulations around ESG and net zero bite. It is a situation analogous to what retail has faced over the last ten years with the rise of e-commerce.

Exhibit 4: REAL ESTATE MOMENTUM BY SECTOR (%)



Source: BNP Paribas Real Estate

A lot of the adjustment in retail, particularly for high streets, has occurred over the past 5 years and the sector as a whole is likely to perform better over the forecast period. Major logistic hubs that have strong rental potential will appeal to investors.

In **Exhibit 4** we show the spectrum of performance outcomes that may occur. The sectors and markets that offer the best balance of capital growth and rental performance over the next 5-year period include prime offices, retail and logistics. For offices, this includes the principal German cities – led by Berlin – and UK cities, especially London, historically a leading city in cycles.

For logistics, Birmingham, Munich and Lisbon are the leading markets. Retail continues to demonstrate lower momentum potential over the period.

ECONOMIC **OUTLOOK**

ADAPTING TO A NEW WORLD

by Samuel Duah

2.40% GERMAN BUND **3.35%** U.K. GILT

10YR GOVERMENT YIELD IN 2023

0.8% EURO AREA **0.1%** U.K.

AVERAGE GDP GROWTH OVER (2023-2024)

3.50% EURO AREA **4.25%** U.K.

EXPECTED TERMINAL POLICY INTEREST RATE FOR THE CURRENT CYCLE

CALM AFTER THE ECONOMIC STORM

The past year saw the most dramatic reset of global financial conditions in recent times. In the space of six months, monetary policies across the world returned to their pre-GFC levels and above. It is unlikely that such events will recur in 2023, implying that economies probably face a year of restructuring rather than upheaval.

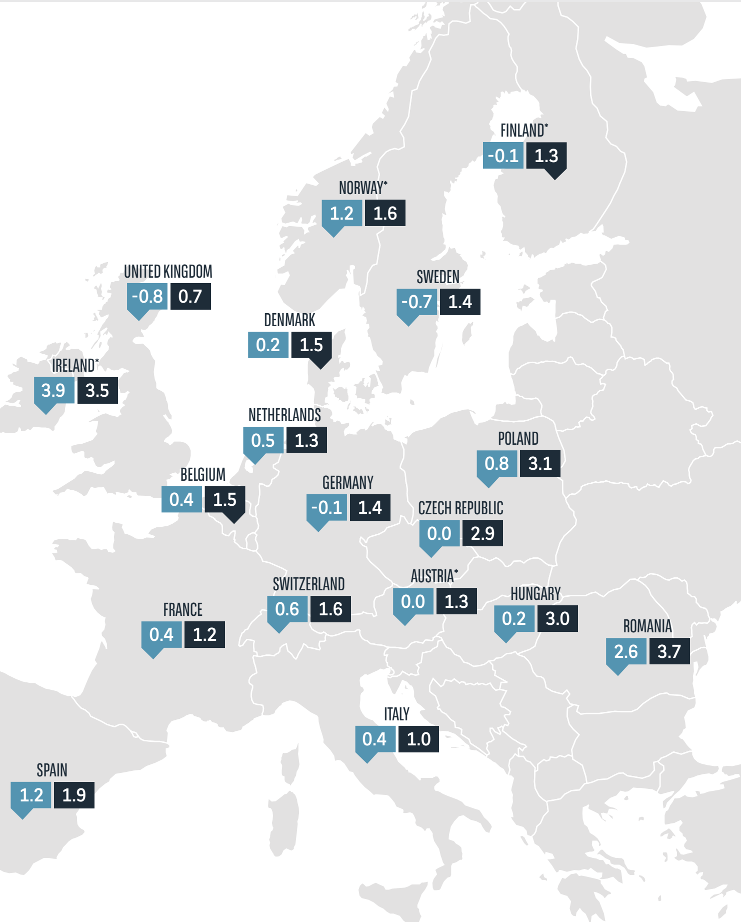
The prevailing mood is one of cautious optimism, reinforced by recent data that shows inflation weakening. It will take another few months of data to confirm a downward trajectory, so some uncertainty remains. Nonetheless, visibility on inflation – and hence interest rates – has improved for 2023, kindling hope that the slowdown may be far shallower than had been feared during the second half of 2022.

A QUIETER YEAR BECKONS WITH HEADWINDS FOR GROWTH

It looks set to be a very quiet year, with government, business and consumers recalibrating their activities following a volatile 2022. Cost control is likely to be the dominant theme in 2023 and domestic demand may remain weak for several reasons. These include: (1) elevated consumer energy costs, even though wholesale prices have fallen substantially; (2) tight financial conditions affecting business

EXHIBIT 5: GDP (%) EXPECTIONS FOR MONETARY BLOCKS AND SELECTED EUROPEAN COUNTRIES

	2023	2024
WORLD	2.9	31
UNITED STATES	0.7	1.1
EURO AREA	0.4	1.2
JAPAN	1.4	1.1
CHINA	4.5	4.8
INDIA	6.1	6.8
RUSSIA	-2.6	1.2
BRAZIL	0.5	1.3



Source: Consensus Economics, February 2023

investment and consumer activities as both face higher refinancing costs and (3) falling real wages, which will prompt households to cut discretionary spending.

At the end of 2022, the hard data showed that most European economies avoided a recession. According to the European commission's estimate, euro-area GDP grew by 3.5% in 2022. In the UK, the figure was 4.1%. Greater clarity in monetary policy direction combined with steep falls in wholesale energy prices are key factors behind the improvement in economic momentum. This is reflected in the rise in PMI survey readings for January, which rebounded in the euro area

(50.3), Germany (49.9) and France (49.1) to around the midpoint. In the UK it worsened (48.5), indicative perhaps of its slower recovery path, see **Exhibit 6.**

Nonetheless, inflation has not entirely dissipated and will remain influential on growth patterns. Supply chain disruption as well as commodity and energy shortages are diminishing, although their costs are slower to fall. In addition, the full impact from increased financing costs is only just starting to bite, particularly in household expenditure. The drag effect means that our central outlook for this year remains one of stagflation, with GDP growth resembling a downturn rather than a recession, amidst elevated inflation.

As shown in **Exhibit 5,** for the Euro area we expect improve GDP growth in 2023 (0.4%) before activity picks up in 2024 (1.2%). The UK may finally slide into recession in 2023 (-0.8%) with weak restorative growth in 2024 (0.7%): the poorest performance of all European countries. Germany may also experience recession in 2023 (-0.1%), with growth in 2024 (1.4%). In Italy, GDP growth expected to be positive in 2023 (0.4%) and 2024 (1.0%). The strongest performing big nations are France (0.4%) and Spain (1.2%). The later continue to show the strongest GDP growth in 2024 (1.9%). Ireland (3.9%) is the standout nation in Western Europe in 2023, elsewhere followed by Romania (2.5%) and Norway (1.2%).

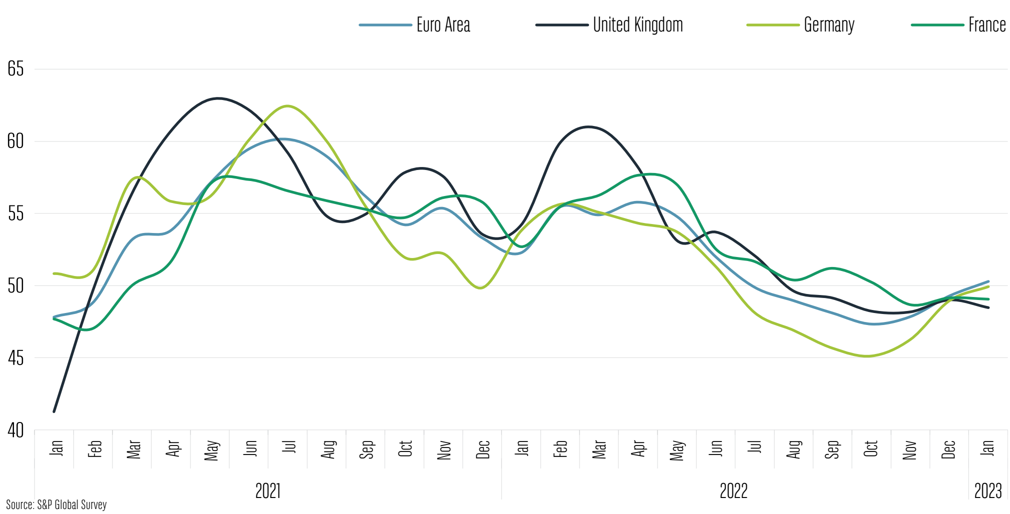
SHIFTING INFLATION COMPONENTS

Wage demand remains an acute issue in Europe as high-energy costs erode consumer purchasing power. This is influencing production and service costs for businesses, which may be passed on to end consumers. Ultimately, the consumer pays for all such increases, which means inflation is likely to remain an important factor in European economies over 2023.

Nonetheless, the main drivers of inflation are changing. With the energy component clearly past its peak, headline inflation will fall quickly as shown in **Exhibit 7,** but core inflation is likely to stay elevated throughout the year. Inflation for goods may slow over 2023 but not for services. Moreover, although inflation may fall, prices will remain high due to its past cumulative effect. This will continue to challenge consumers.

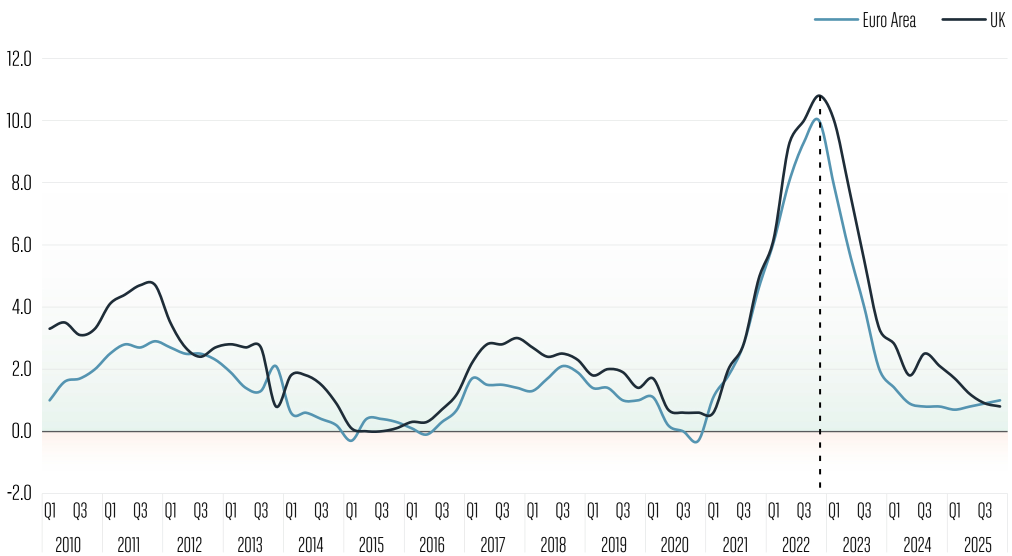
There remains significant upside risk to inflation. We now see Euro area inflation in 2023 (5.7%) and 2024 (2.4%) a shade lower than our previous forecast and closer to target rates by end 2024. The story is similar in Italy (6.5%), Germany (5.4%) and France (6.2%) in 2023. Spain is likely to see the lowest inflation in 2023 (2.8%) and 2024 (1.5%). However, UK inflation is likely to be stickier in 2023 (7.4%), but less so in 2024 (2.1%). One key reason for the stickiness of UK inflation relates to the government's policy of supporting consumers' energy costs. Whilst in most European countries, government intervention is

Exhibit 6: **PURCHASING MANAGERS INDEX SURVEY** (INDEX)



Source: S&P Global Survey

Exhibit 7: **HEADLINE CONSUMER PRICE INFLATION** (%, Y/Y)



Source: Oxford Economics

"The prevailing mood is one of cautious optimism, reinforced by recently released positive survey and inflation data."

confined to capping the energy cost for consumers, in the UK the consumers are being subsidised to cope with higher energy bills.

CENTRAL BANK FIREFIGHTING DRAWING TO A CLOSE

Since the end of Q1 2022, global policy rates have risen substantially in the face of heightened inflation. The European Central Banks (ECB) has increased its main refinancing rate four times since 2022, from 0% to the current rate of 3.0% at the end of January 2023. The Bank of England (BoE) has also increased its policy rate nine times, from 0.5% up to 4.0% at its latest meeting in February.

The market expectation is that policy rates will reach terminal values by end of H1 2023. For the BoE and ECB this should be around 4.25% and 3.50%, respectively: see **Exhibit 8.** Thereafter it should remain stable over the remainder of 2023. Although there has been some speculation about early reductions, we expect a pause rather than a pivot in central bank policy given persistently high inflation. The area of concern to central banks now will be wage inflation, as unemployment remains historically low with very little slack in the labour market. The service sector is also playing a much more important role than in the past, and given that inflation here is not falling, central banks are likely to remain unsympathetic to calls for early cuts. As long as uncertainty lingers over the path for core inflation, the new higher interest rate environment will persist.

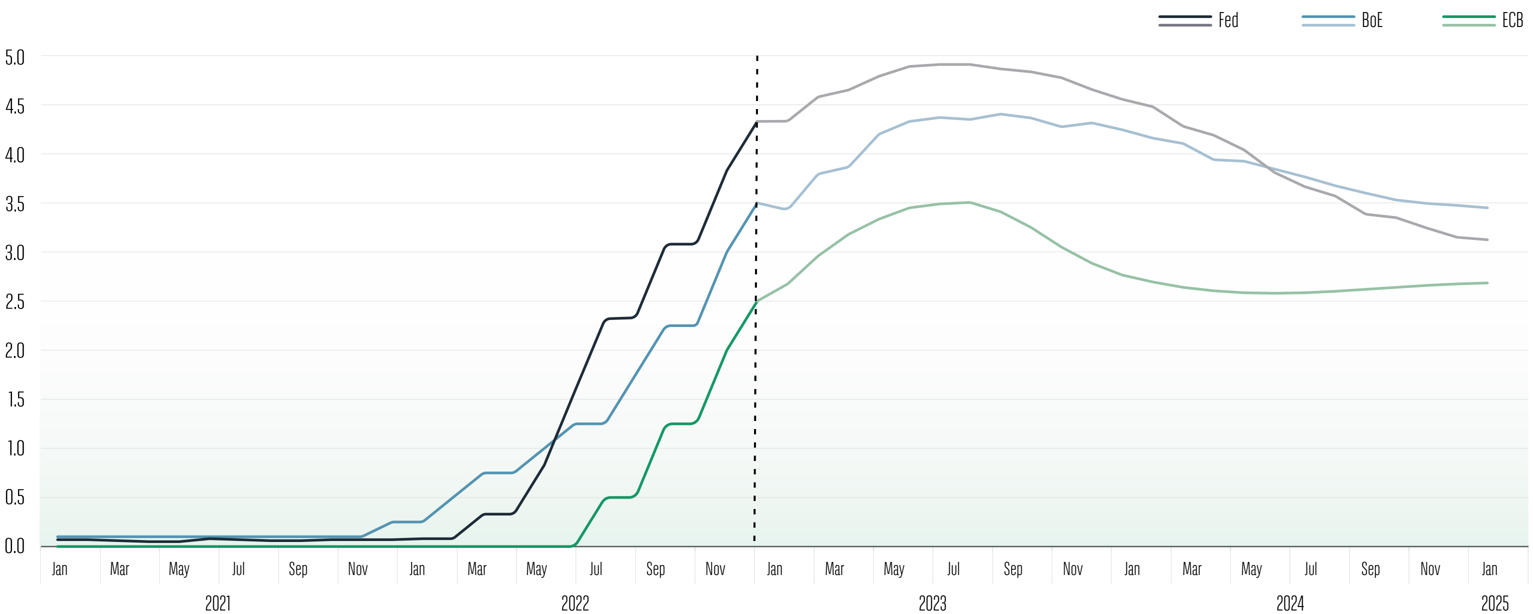
> *"We see global central bank policy rates reaching their terminal value by end of Q1 2023."*

SUBSTANTIAL WRITE-DOWNS AND SURGES IN ASSET MARKETS

The risk-off attitude produced a significant adjustment in asset prices in 2022. Equity and fixed income markets experienced some sharp sell-offs mid-year, following the significant increase in global policy rates. There were also strong rallies at the end of the year driven by optimism that inflation will fade quickly enough to prompt early interest rate cuts. The outlook for European markets was specifically boosted by the perception of a resolution to the energy crisis. The current expectation is for reduced earnings in 2023, due to weak economies, before growth resumes in 2024.

Bonds were the asset class hit hardest by inflation's acceleration and the central bank response: many bond markets recorded their worst routs in years. Bond yields – a key metric for real estate investors – rose sharply. The signs of peaking inflation and a possible end to rate hikes seems to have stabilised price corrections. Over the coming year, bonds may post positive real rates of return and institutional sentiment towards the asset class may improve sharply. For real estate, this means further stabilisation of the risk premium and improved pricing clarity.

EXHIBIT 8: MARKET EXPECTATIONS FOR BANK BASE RATES (%)



Source: Macrobond

LEGEND:
Federal Reserve (Fed) effective rate with Fed funds futures as forecast
Bank of England (BoE) bank rate with Sonia futures as forecast
European Central Bank (ECB) key rate with EURIBOR futures as forecast

SECTOR PROSPECTS

ANNUS HORRIBILIS GIVES WAY TO HOPE IN 2023

by Samuel Duah

The biggest interest rate surge in decades led to significant re-rating of property, even as the occupier market remained solid. It was real estate's worst year since the GFC. All the sectors saw major shifts in yields, some more so than others. However, the biggest implication for the asset class is that investors are re-weighting the different sectors amid structural changes.

OFFICES – MODERN LIFE

Post COVID-19, the profound changes to the way we work continues to echo throughout the office sector. It is now clear that hybrid working is here to stay and companies are working through what this means for their office space demand. Moreover, increased energy costs have pushed energy efficiency and ESG issues to the fore. As a result, there is now regulatory momentum to prescribe a minimum energy efficiency level, such as the MEES regulation in the UK, for leasing a building. Many buildings may not meet the new standards, which come into play as early as April 2023, and others may be viable only if construction costs fall enough to support refurbishment. Either way, this will continue to polarise the performance of modern and secondary buildings.

LOGISTICS – A SECTOR OF TWO HALVES

Demand for logistics space remained high across Europe in 2022. Rents have seen two years of sharp increases on the back of low vacancy rates. Meanwhile, geopolitical upheaval has prompted an even sharper focus on supply chains and the European reshoring trend has gathered pace. These events underline the robustness of the logistics occupier market. Sadly, the strength of the occupier market has not carried into the investment market. Yields adjusted by far more than the other sectors, due to the jump in the cost of debt. The relatively strong yield expansion mirrors the sharp yield contraction of recent years. We see further adjustment in 2023 even as the occupier market strengthens, creating a truly two-tier market in the sector.

RETAIL – ARE WE THERE YET?

2022 was supposed to be a year of recovery for the retail sector, after a prolonged period of structural change that left it under-performing the other sectors. However, the invasion of Ukraine and widespread inflation in the wake of soaring energy costs dashed such hopes. We expect 2023 to be pivotal for retail recovery. Footfall keeps improving, as international visitor numbers increase, and the figures are close to pre-pandemic levels, with Spain and the UK still a little behind. We see this as supportive for occupier demand in European retail space, which should stabilise. Retail yields offer a compelling opportunity relative to other sectors.

RESIDENTIAL – COST PUSH

Affordability is being challenged significantly by the sudden increase in household mortgage rates across Europe. This is sharply increasing demand for rental accommodation in big cities. Moreover, we see a significant imbalance between supply and demand in the rental sector made worse by regulatory challenges, particularly in the area of energy ratings for lettable buildings. These have contributed to a dramatic reduction in the rental stock, notably in Berlin, Barcelona, and Valencia, manifesting in sharp rental increases.

OFFICES

MODERN LIFE

by Stephen Ackroyd

1.7%

SPREAD OF PRIME OVER AVERAGE RENTAL GROWTH OVER THE NEXT 5YRS

120bps

SPREAD OF AVERAGE OVER PRIME OFFICE YIELDS

22%

EXPECTED FALL IN NET ABSORPTION IN EUROPE FOR 2023

The second half of 2022 was a difficult period for commercial real estate investment, with offices faring the worst of all. **Investment in European offices came in at €90.1bn for 2022, down 21% on 2021.** Given the rapid shift in financial conditions, few were willing to test the waters on pricing.

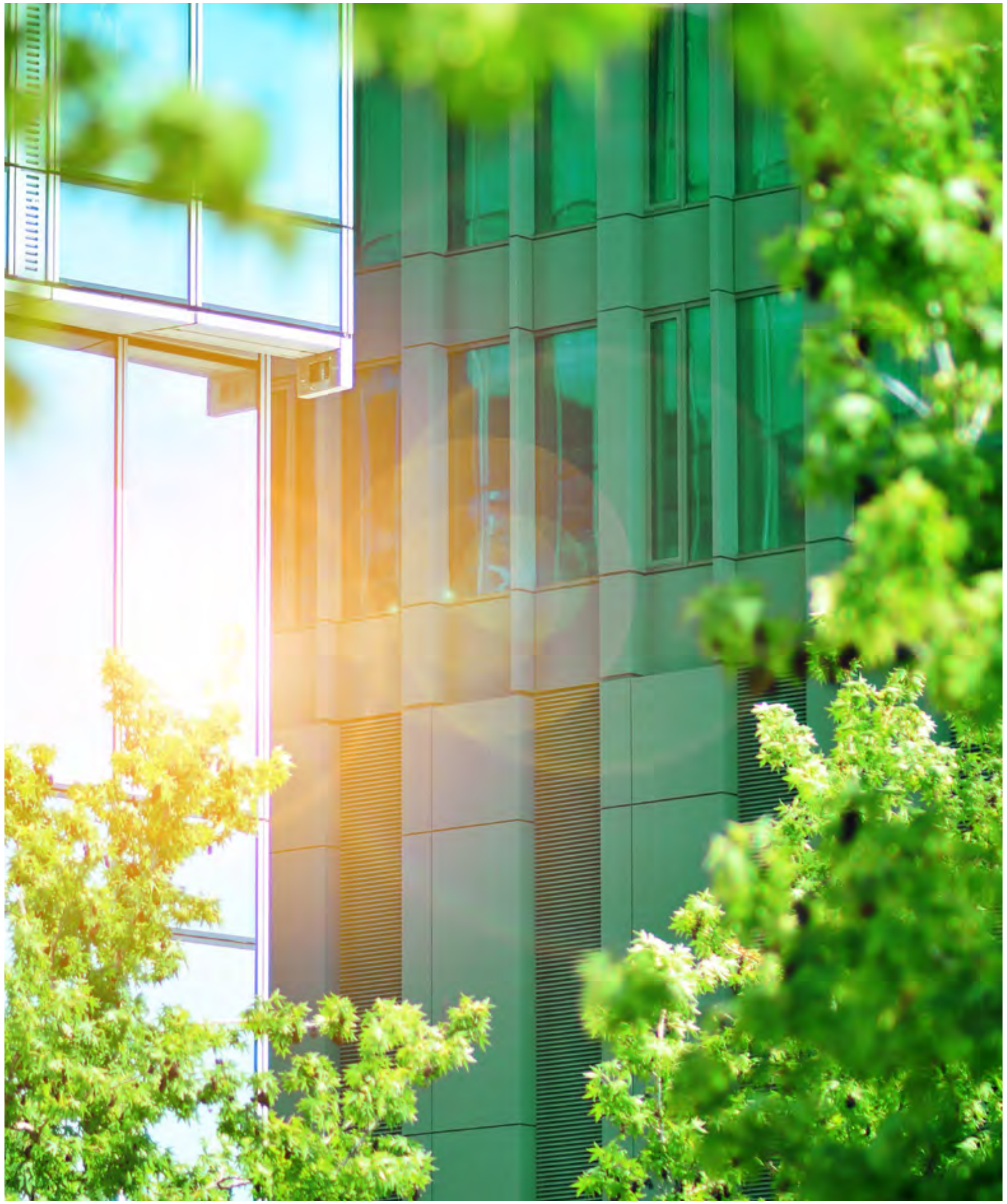
It is likely we have seen the worst. Modern units drove sales in 2022, meaning there are now less of these to buy, yet there is a profusion of secondary units. **Unlike previous corrections, their viability is subject to the structural changes of energy obsolescence and new workplace practices.** Many may not meet the new standards and others may be viable only if construction costs fall enough to support refurbishment. That might only become clear as the year unfolds, suggesting that 2023 may create plenty of choice but leave it difficult to choose.

THE WORST OF RETURNS IS PROBABLY BEHIND US

The upcoming year is unlikely to see offices excel in terms of total returns. Although the bulk of the yield adjustment is behind us, there is still some more to come in 2023.

Consequently, **we expect average prime office returns to be negative in Europe over 2023 (-0.9 %).** European office returns should pick up from 2024 (5.0 %), accelerating to the forecast peak of 6.3% in 2027.

Some regions could escape negative returns. **The UK promises to be the best performing in 2023 with returns of 5.2%.** Other regions showing positive returns include Nordics (1.4%), CEE (1.3%) and Benelux (1.4%). Weaker regions include France (-9%) and Germany (-3.1%). The Nordics may be



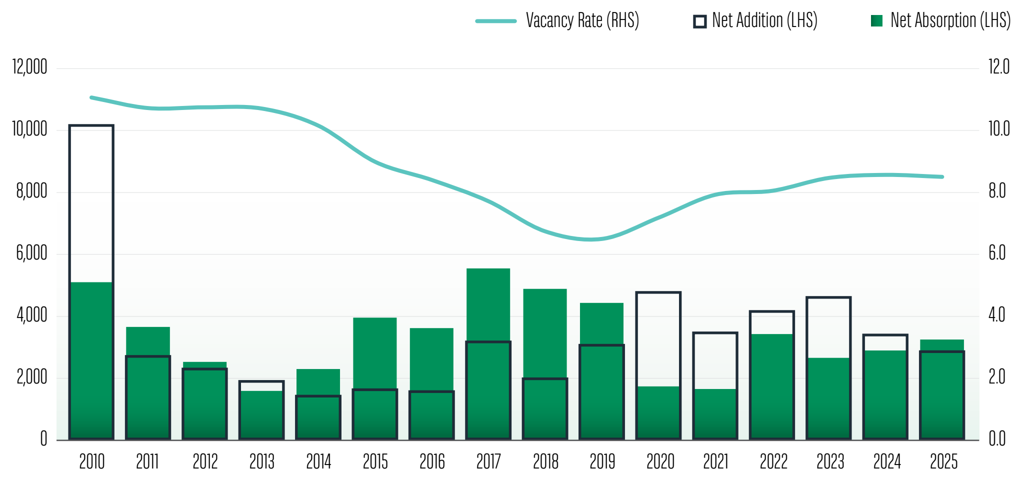
the strongest performing region overall, across the forecast period; we estimate a double-digit return mid-forecast (10% in 2026).

At city level, there may be some negative returns in 2023 but all should get back to positive territory by 2024. With Greater Paris, we anticipate returns of -9.9% in 2023 before bouncing back to 6.0% in 2024. The top performing cities in 2023 include Central London (9.5%), Birmingham (6.4%) and Amsterdam (6.4%). The best performers by the end of the forecast are Bucharest (8.6%), Lyon (8%) and Oslo (7.6%)

Overall market returns look generally low but positive over 2023; strongest in Southern Europe (6.6%) and weakest in Germany (-2.3%). European total return may post around 0.4% in 2023 improving to 7.2% by 2027. French regional cities perform particularly well over the forecast with Lyon (17.7%) Marseille (19.5%), Bordeaux (19.1%) and Lille (20.5%) all likely to see double-digit returns.

> *“Modernity will be the watchword for both investors and occupiers in 2023.“*

Exhibit 9 . **NET ABSORPTION** (000S sqm), **NET ADDITIONS** (000S sqm) and **VACANCY RATE** (%)



Source: BNP Paribas Real Estate

A QUIETER YEAR AHEAD FOR OCCUPANCY

It was a good year for take-up. **Around 9.17 million sqm was transacted in Europe’s 17 main markets, in line with the long-term average.** This was 12% higher than 2021, in contrast to investment. The good letting activity meant the occupational market parted ways with the investment market over H2 2022.

Over 2023, the occupational market may be quieter. **Many companies will have made moves as part of 2022 business plans.** Given the economic outlook and persistent inflation (even if the headline rate falls), **companies may concentrate on cost control.** Operating leases also now sit on balance sheets (under IFRS 16 and GAAP accounting standards) so feature under liabilities.

Most cities are likely to see flat take-up or small declines. **Lettings in 2022 focused on securing modern space that is adaptable and with high environmental standards.** This favoured modern units over second hand. Pursuing “the less but better” ethos associated with new working practices comes at the expense of second hand and especially grey units being released onto the market. Consequently, vacancy rates were static at 7.1% in 2022, unchanged from 2021.

Across the forecast period, **office vacancy will be pushed up by second hand releases, we estimate to 8.5% in 2023 rising to 8.6% in 2024** before dropping back to 8.2% by 2027: see **Exhibit 9.** Office employment may not grow sufficiently to absorb the surplus space. Some cities may see a slightly higher rate of structural vacancy until the stock is replaced or upgraded.

Those cities with the lowest vacancy rates include the French markets of Paris CBD (2.5%) and

Marseille (3.4%) and the German markets of Cologne (3.5%), Berlin (3.6%) and Stuttgart (4.0%)

ENERGY-RESILIENT BUILDINGS SUPPORTIVE OF PRIME RENTS

Modern units located in CBDs, a segment with the best energy standards and lowest availability, have remained supportive of prime rents. Energy regulations now make older units more expensive and far less attractive to occupiers. The European Commission proposes to upgrade Energy Performance Certificates to at least Grade F by 2027. The UK is further ahead and in 2023, legislation will forbid letting of units below Grade E. Some properties falling short of this standard could end up leaving the stock as energy-obsolescent buildings.

We anticipate that European office rents overall will see prime rental growth of 3.6% in 2023 (down from the inflation-fuelled 7.6% in 2022). As shown in Exhibit 10, rental growth will be weaker on average over the forecast period compared to the past ten years average.

German cities look strongest for rental growth over the forecast period. Düsseldorf leads in 2023 at 11.5%. Other thriving cities over 2023 include Central London (9.6%), Cologne (7.1%) and Hamburg (6%). Berlin (3.1%) could end up as the best performing city by 2027.

This is in contrast to market rents, where European growth may only just exceed 1% by the end of the forecast (1.2% in 2027). Germany should see the highest growth at 4% for 2023 and across the period. The UK is weakest at -1.9% in 2023 and 0% by 2027. At city level, Cologne leads (6.1%) followed by Berlin (5.3%), with Frankfurt and Hamburg each at 3.4%.

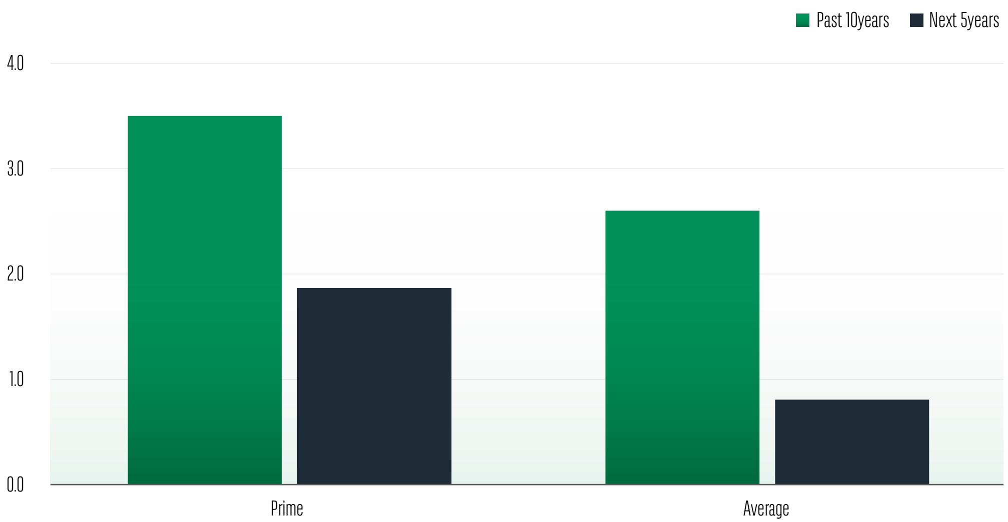
"Prime yields almost fully repriced by early 2023."

PRIME YIELDS ALMOST AT THEIR RESET POINT

The average European yield was 3.8% at the end of 2022 representing an increase of around 50 basis points over the year. Decompression was almost universal in the European city markets. **We still think there is room for yield expansion in the prime segment in 2023, albeit of smaller magnitude as shown in Exhibit 11.** Much of the repricing is now in place and the overall European yield may resume gradual decompression from 2024 to reach around 3.58% by 2027. **What is clear is that not all yields will return to their pre-2022 levels – that era has finished.**

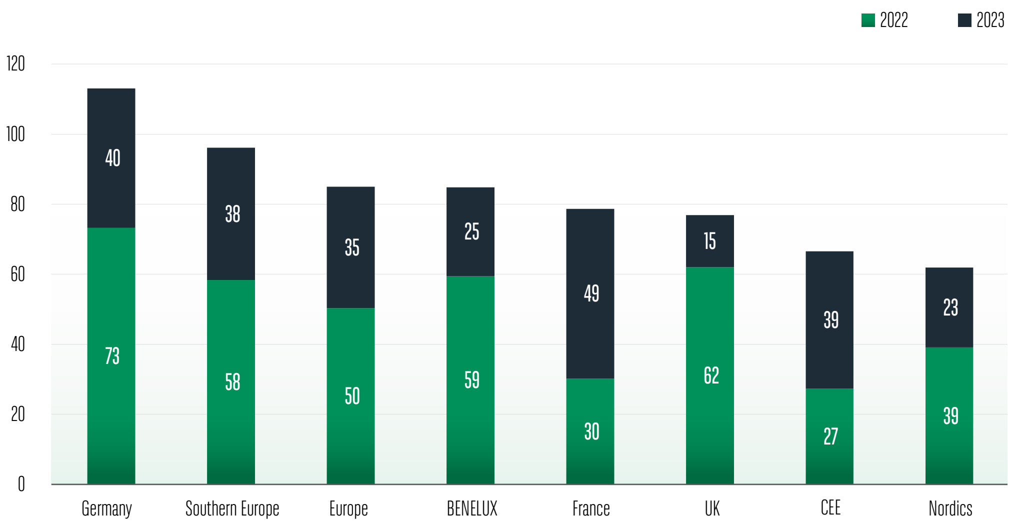
Market yields are likely to spend the whole of 2023 repricing. The European average of 4.6% in 2022 should expand to 4.97% in 2023 and 4.98% in 2024. Many units could find their pricing drops dramatically in 2023 because of poor suitability for tenants and especially energy obsolescence.

Exhibit 10. **AVERAGE EUROPEAN RENTAL GROWTH BY SEGMENT** (%, p.a.)



Source: BNP Paribas Real Estate

Exhibit 11. **YIELD SHIFT BY REGION** (bps)



Source: BNP Paribas Real Estate

RETAIL

ARE WE THERE YET?

by Philippe Guardiola

-21 VS. **-45**

EURO AREA UK

CONSUMER CONFIDENCE INDICATORS

2bps **11bps**

HIGH STREET SHOPPING CENTRE

EXPECTED SHIFT IN PRIME YIELDS OVER NEXT 5YRS

1.2%

AVERAGE EXPECTED RENTAL GROWTH OVER NEXT 5YRS

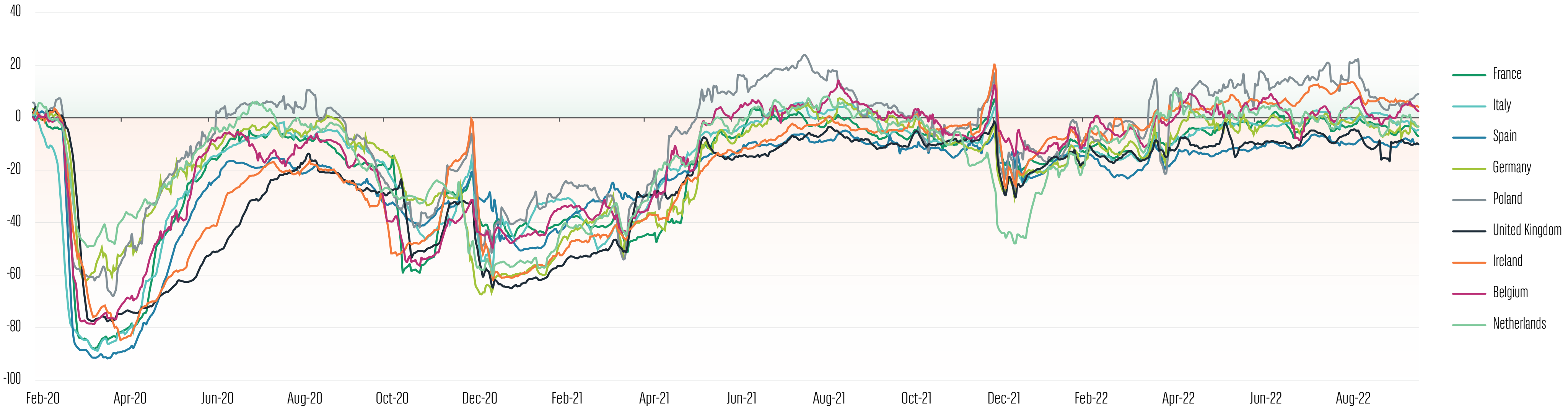
UNCERTAINTY HOLDING BACK RETAIL RECOVERY

After a year marked by the invasion of Ukraine and widespread inflation in the wake of the pandemic, 2023 should prove pivotal for retail recovery. While the lockdowns had already taken a heavy toll on a declining retail sector, the war followed by sanctions and an international backlash prompted companies trading with (or in) Russia to reconsider their ties. Finally, rising raw material prices and supply chain disruptions, causing delays and higher costs across the globe, fuelled soaring inflation, and added pressure on households' spending power and consumption.

However, although the geopolitical and economic situations remain uncertain, the recovery is still happening. Footfall keeps improving as indicated in **Exhibit 12** and is close to its pre-pandemic level, with Spain and the UK still a little behind. Europe received almost twice as many international visitors in 2022 (+93%) as it did in 2021, according to the UN World Tourism Organisation. However, even though the continent leads the global tourism recovery and the improvement is gathering pace, arrivals in Europe are still 21% lower than in 2019. Tourism should continue to grow in 2023, especially as China opens up for travelling again.

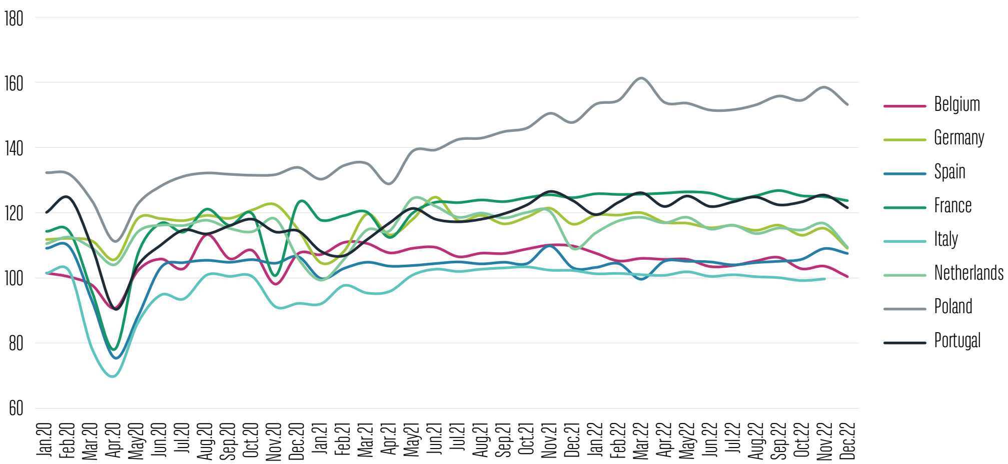
In **Exhibit 13,** retail sales volumes are back to a level comparable to the situation before the pandemic. The European average hides some disparities, with Poland, France and Portugal showing a significant increase, while Italy and Belgium are still lagging. The high inflation impact on purchasing power has not slowed the luxury segment, as its consumer base is less sensitive to rising prices. However, mass-market retailers often depend on cheaper labour in

Exhibit 12. CHANGE IN THE NUMBER OF VISITIORS IN RETAIL AND LEISURE CENTRES (ROLLING 7-DAY AVERAGE)



Source: BNP Paribas Real Estate

Exhibit 13. EVOLUTION OF RETAIL SALES VOLUMES (INDEX 2015 = 100)



Source: BNP Paribas Real Estate

Asia and have tighter margins, forcing them to pass on the rise of materials and logistics costs in their prices. These hikes have pushed consumers towards discounters. While the two extremes have shown strong performances, retailers in the middle will have to work on their business models to control their costs and support consumption.

INVESTING IN RETAIL

For the retail market, 2022 was its fifth straight year of decreasing investment volumes. However, the -2% y-o-y decrease makes it the most resilient sector, as offices and logistics both saw -21% declines. In our main scenario, retail yields keep expanding in 2023 but should stabilize by the end of the year. However, as repricing had begun before the COVID-19 crisis, the retail spread is historically high and the decompression will likely be less severe than for offices or logistics.

Asset classes will be affected unevenly with prime high street locations remaining attractive, especially luxury thoroughfares with very low vacancy and thus a high pressure on rents. Mass market retailers are facing difficulties on two fronts: rising costs of products and increases in rents, due to indexation. Prime rental values, in decline for the four previous years, could show a small increase this year before picking up pace in 2024-2025. Yields could also expand by an average of 19 bps in 2023, on top of the 70 bps already gained between 2018 and 2022. However, they should peak in 2023-2024. Investment is still recovering as high streets show a +44% increase y-o-y in the 6 biggest markets, but transactions are likely to fall in size as investors have become more selective and do not want to overcommit.

Shopping centres have been hit the hardest by the COVID-19 crisis due to their lack of flexibility and very high occupancy costs. Investment in these assets has plummeted and prime yields have expanded by around 100 bps since January 2020 on average. Repricing could continue in 2023, as we expect a further 25 bps of decompression, while rents are being renegotiated which could result in a fourth consecutive year of decreases. However, as demand is low and yields are among the highest offered by commercial real estate assets, shopping centres could prove attractive for opportunistic investors, as shown by the +138% increase in volumes invested in 2022 in the 6 biggest European countries, albeit mostly due to the takeover of Deutsche EuroShop.

Retail parks have been much more resilient as they were best adapted to the health crisis. Their accessibility and value-for-money brands, as well as their ability to operate as hybrid last-mile delivery hubs kept them attractive for both customers and investors. However, investment in 2022 fell by -30% compared to 2021, as investors began to shift back to the other retail asset classes.

After four years of total returns eroded by negative capital growth due to yield expansions, rental income should take the upper hand in 2023 and we could see total returns stabilising by 2024. High streets could offer prime returns around 7% and shopping centres around 8% on average over 2024-2027. As the geopolitical and economic situations become clearer, investment volumes and returns should improve.

NEW TRENDS

Overall, the COVID-19 crisis has accelerated a shift in consumption patterns by steering consumers towards smaller local shops. According to a study by L'Observatoire Cetelem, 84% of Europeans intend to buy and consume local, seasonal and organic products. Agility will be key for retailers and shopping centre operators to address this growing awareness.

> *"The current economic context has strengthen both ends of the markets, with luxury and discounters proving attractive while the "squeezed middle" faces greater operational difficulties."*

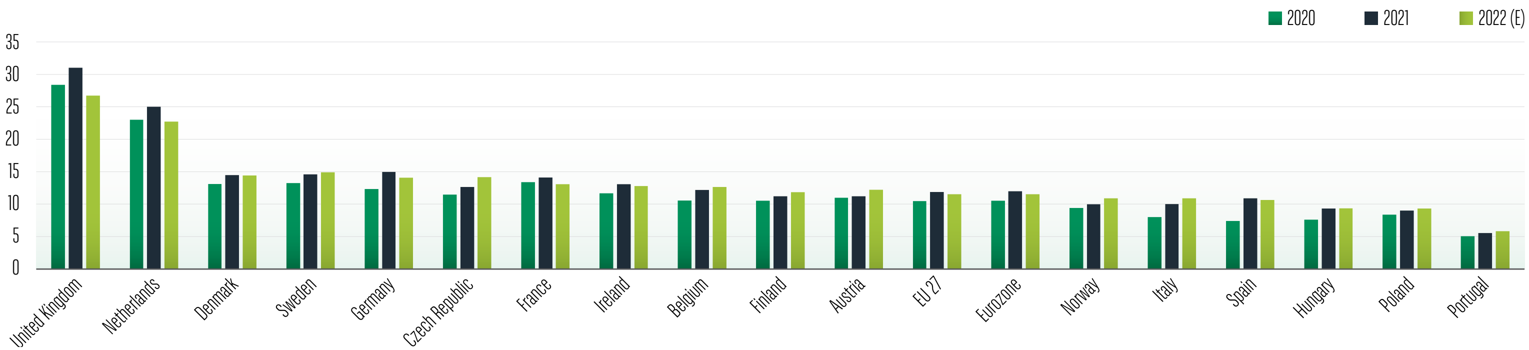
An increasing number of large brands have recently decided to relocate some stores in or closer to city centres to draw nearer to urban consumers, going against the trend of the past decade.

Consumers reduced their spending to focus on necessities during the beginning of the pandemic. As inflation rises, we might see the same behaviour, as households favour cautious savings in times of uncertainty. Even though e-commerce, as shown in **Exhibit 14,** is still on an upward trend, its pace has slowed and some countries even saw decreases in 2022. Online retail is no longer seen as a direct competitor or a threat to physical stores, as the differences become blurred. Already before the COVID-19 crisis, a large number of retailers were looking to strengthen their online sales by introducing Omni channel experiences. Strong digital development has proven a significant hedge against the health crisis, and brands are looking at click & collect as an additional revenue stream. Even Primark, which had strictly focused on physical stores, has launched 25 click & collect stores as a trial in England.

However, with rising costs and tighter margins, the free returns that European shoppers have become accustomed to could come to an end. Around 50% of German and Swiss online shoppers, and 40% of French and Italians, said they have returned an item in the past year. Significant costs in logistics, cleaning and repackaging are prompting retailers to act: introducing fees, suggesting sizes based on previous purchases or suspending overstepping accounts.

Some pure e-commerce players are also moving to the middle ground: after trialling books and groceries, Amazon opened its first physical clothing store in Los Angeles in May. Amazon Style aims to build a shopping experience inspired by online browsing. Brick-and-mortar locations should certainly retain their relevance as part of Phygital retail¸ where technology enables consumers to take advantage of both online and physical worlds. In the future, retail will probably blur the lines between physical and digital, as well as goods and services.

Exhibit 14. E-COMMERCE PENETRATION BY COUNTRY (%)



Source: BNP Paribas Real Estate

LOGISTICS

A SECTOR OF TWO HALVES

by Thomas Glup

9%

TOTAL RETURN IN EUROPE NEXT YEAR

2.3% p.a.

AVERAGE PRIME RENTAL GROWTH IN EUROPE

30bps

PRIME YIELD EXPANSION IN 2023

OVERVIEW

Demand for logistics space remained high in Europe in 2022. Rents have seen two years of sharp increases. Geopolitical upheaval has prompted an even sharper focus on securing supply chains and the European reshoring trend has gathered pace.

Online retailing remains an important demand driver, as physical retailers are also continuously expanding their online presence. The shortening of supply chains, the expansion into delivery networks and more storage warehouses are likely to be reflected in Europe-wide demand for industrial and logistics space in the medium term.

Vacancy rates remain low and availability scarce. The sharp rise in construction and financing costs is slowing the production of new buildings, especially speculative projects.

Due to rising construction costs and ever higher land prices, as well as competitive pressure from other uses in city logistics, prime rents in 2022 surged a further 12%. We expect significantly lower growth of just under 4% in Europe by the end of the current year.

There has been an inflexion in logistics investment since H2 2022. Although investment is still high, the changed interest rate environment has dramatically widened logistics prime yields.

However, we do not expect these opposing trends of yield decompression and rental growth to last beyond 2023. Rental growth is expected to slow from 2024 onwards, while yields should fall moderately in parallel. From 2025, both trends could stabilise.

OCCUPIER MARKETS

European logistics markets ended 2022 with strong overall figures. Although take-up of 22.5 million sqm in the five most important countries (France, Germany, Netherlands, Spain, UK) fell short of the previous year's record result by around 7%, it was only the second time ever that the 20 million sqm threshold has been exceeded. As such, the result was clearly above the 5-year average.

There was strong demand from logistics companies, which accounted for more than 40% of take-up. Global supply and transport disruptions are bringing protection of supply chains into sharper focus.

Take-up fell somewhat in H2. The looming recession in some countries and the consequent cooling of economic sentiment contributed to the slowdown. Nevertheless, the lack of available space is still the main obstacle to take-up.

Although some companies are likely to be more cautious about leasing new space due to the pending recession, the supply shortage is likely to intensify further. We therefore expect take-up in 2023 to revert to its five-year average sqm.

The online share of retail in Europe has soared from 8% in 2019 to 11.5% in 2022 due to the pandemic outbreak, lockdowns and the digitalisation push. Although a slowdown is expected this year due to the overall decline in consumption, online sales are still expected to achieve high annual growth in the coming years. PMA forecasts an increase to around 20% by 2027.

The risk of oversupply is limited as the vacancy rate in most European countries is below 4%.

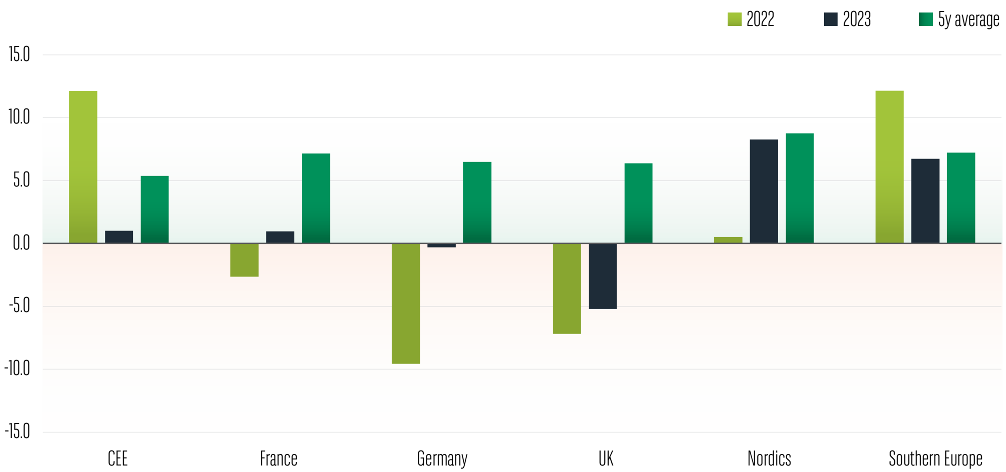
"Demand for space fell in 2022 amidst cooling economic sentiment. However the lack of availability remains the main obstacle to growth in take-up."

Speculative development has also had its wings clipped. We assume that the current economic and geopolitical backdrop will keep a lid on supply, as new developments are hampered by the lack of land, rising construction costs and inflation-related uncertainties in the financing of projects. The pressure on rents should therefore continue in the medium term.

The high excess demand combined with increased construction costs, scarce land reserves as well as inflation has caused rents to rise noticeably year-on-year in almost all markets. Landlords have also benefited from high inflation in indexed leases. Based on 48 surveyed markets in 21 countries, the increase in rents from 2021 to 2022 was around 12%. The increase in the UK was particularly strong at almost 22%.

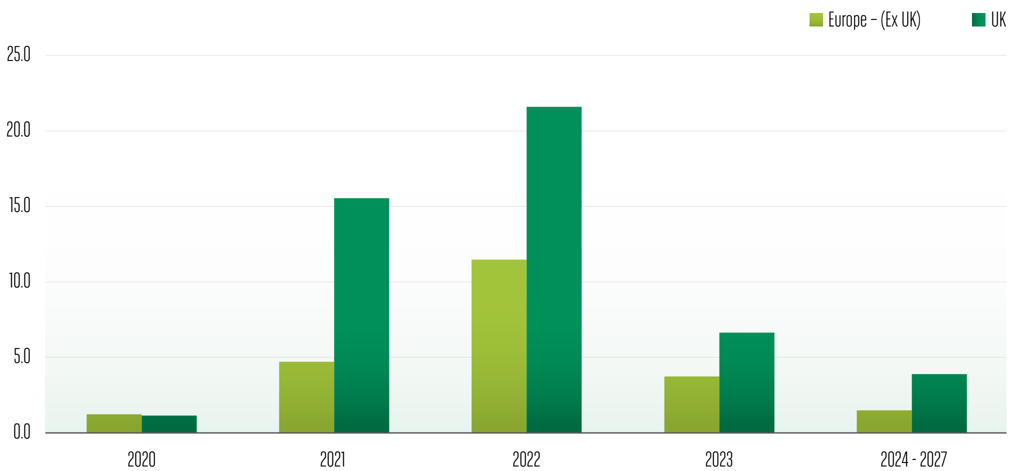
Rents will continue to rise, but probably at a much slower pace, also due to easing inflationary pressure. Our rental growth forecast for Europe in 2023 is therefore a shade below 4%. From 2025

Exhibit 15. **LOGISTICS TOTAL RETURN BY REGION** (%)



Source: BNP Paribas Real Estate

Exhibit 16. **PRIME RENTAL VALUE GROWTH** (%)



Source: BNP Paribas Real Estate

onwards, this growth could slow significantly further, to below 2%.

INVESTMENT MARKETS

Even after five years of outstanding investment volumes, the market is still attracting plenty of buyers. Investment last year came in at €54bn, making 2022 the second strongest year ever for investment in logistics and significantly higher than the results from 2017 to 2020. However, it also represents a decline of 21% compared to the record year of 2021.

This was mainly due to the low transaction volume in the fourth quarter. Since September, uncertainties in financial markets and rising interest rates have led to tougher negotiations and wait-and-see positions, which have dampened investment.

Industrial and logistics real estate commands a strong market share compared to other asset classes, increasing from 15% of total commercial real estate investment in 2017 to 22% in 2022.

The crisis resilience of logistics attracted new groups of investors during the pandemic, also because of low borrowing costs. This further accelerated the decline in yields and triggered price growth that was unsustainable. However, the changed interest rate environment for financial markets has impacted logistics prime yields. As a result, the yield compression of the last few years in many

European countries had already stopped by mid-2022. Instead, a significant increase in prime yields of 60bp was observed on average in Europe between 2021 and 2022. However, we believe much of the price correction has already taken place. By the end of 2023, we expect the incremental rise in yields to be no more than 30bp on average. The forecast yield decompression in 2023 ranges from 10bp to 85bp. From 2024 onwards, we even expect yields to start compressing again slightly.

The yield gap between logistics and offices in Europe narrowed considerably in recent years, to just 70bp at the end of 2021. The gap has since widened again and by the end of 2022 had increased to 80bp.

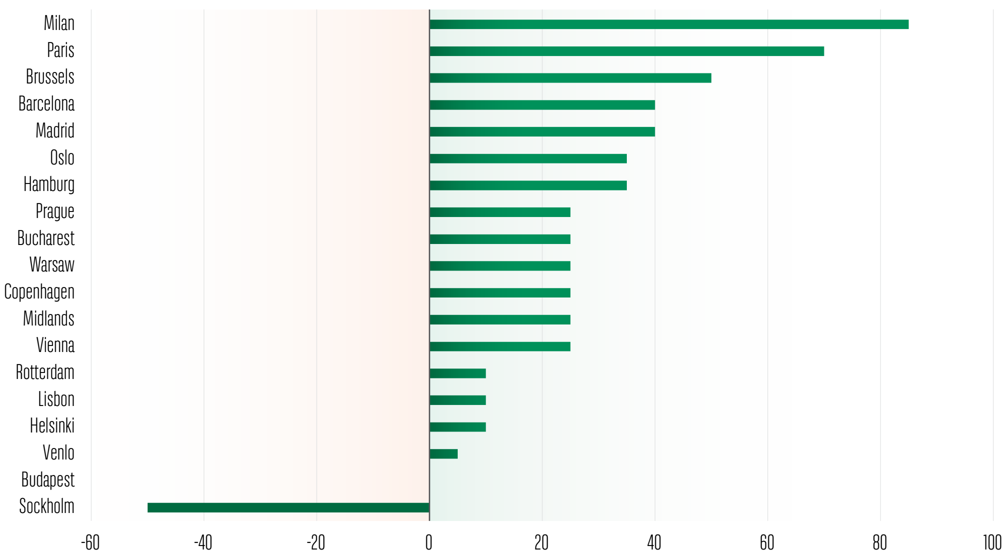
Due to high increases in rents and the lower increase in prime yields compared to some asset classes, the logistics sector has higher prime total returns compared to office and retail. While a value of almost 2% is expected for logistics in 2023, the prime total return is only just in positive territory for retail and even in negative at around -2% for offices. Although the times of double-digit interest-driven returns are definitely in the past, high single digits could return for all asset classes from 2025.

FUTURE CHALLENGES

The greatest risk factors for the logistics sector continue to be at the global economic and political level. Further inflation could also severely affect companies seeking space and thus depress take-up by owner-occupiers and tenants. ESG considerations have also become more important.

Europe seems able to avert the looming energy crisis. This means that demand from energy-intensive companies and their corresponding production sites should no longer be threatened. The danger of increased friendshoring, i.e. the migration of European production facilities to countries with low energy costs, seems to have been averted. The fundamental data for the European logistics markets, especially from the demand side, are therefore still good, so that on balance, the outlook for logistics investment looks promising, at least from 2024 onwards.

Exhibit 17. **EXPECTED YIELD SHIFT IN SELECTED EUROPEAN MARKETS** (END 22 – END 23, BPS)



Source: BNP Paribas Real Estate

RESIDENTIAL

COST PUSH

by Alexis Pourcelot

8.3%

AVERAGE Y/Y RENTAL GROWTH IN 2022

3.42%

SPREAD OF AVERAGE 5YR FIXED MORTAGE RATE IN THE UK OVER THE EURO ZONE

30bps

FALL IN EUROPEAN LENDING TO HOUSEHOLDS FOR HOUSE PURCHASE

RAISING CAPITAL IS EXPENSIVE…

The ECB hiked key interest rates by 50bp in its February monetary policy meeting. So far the refinancing rate has increased by +300bp in just 8 months to reach 3% at the beginning of February. This is the fastest increase in the euro's history. For comparison, between 2005 and 2008, rates increased by +200 bps to 4%, but the process took 19 months. According to reports from the ECB's latest meeting, further rate increases are likely in the coming months based on inflation figures.

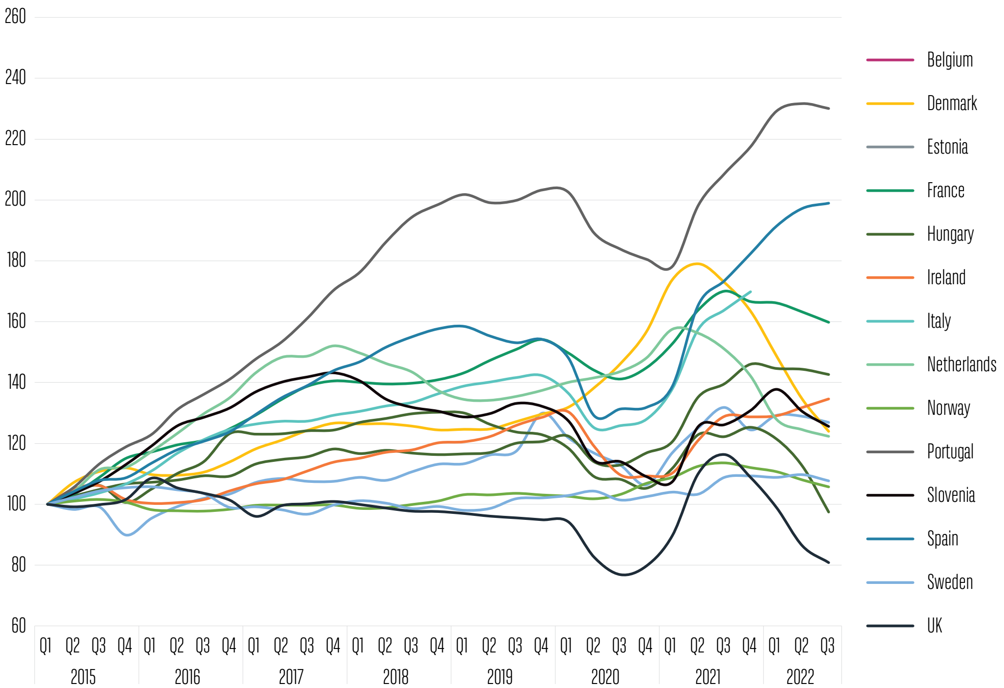
This shift in monetary policy has resulted in a significant hike for mortgage rates across Europe. Mortgage rates in the Euro area jumped from 1.31% in Q4 2021 to 2.94% in Q4 2022 i.e. +163 bps in a year. Looking ahead, the 12-month Euribor reached 3.3% in Q4 2022 paving the way for further mortgage rate hikes in the coming months.

…LOWERING INVESTMENT ACTIVITY

Due to tightening financial conditions, European lending to households has declined by nearly 10% since its Q2 2022 peak. Transaction volumes had dropped by -7.8% y/y in Q3 2022 and by nearly 10% since their peak over the last two years; see **Exhibit 18.** Likewise, interest rate hikes have greatly affected the residential investment market in Europe. Investment stalled in H2 2022, down -68% vs H2 2021. However, 2021 was exceptional, with numerous mergers of operators totalling €30bn. Stripping out these mergers, residential investment was down -18% vs the previous year and -7% vs the 5-year average.

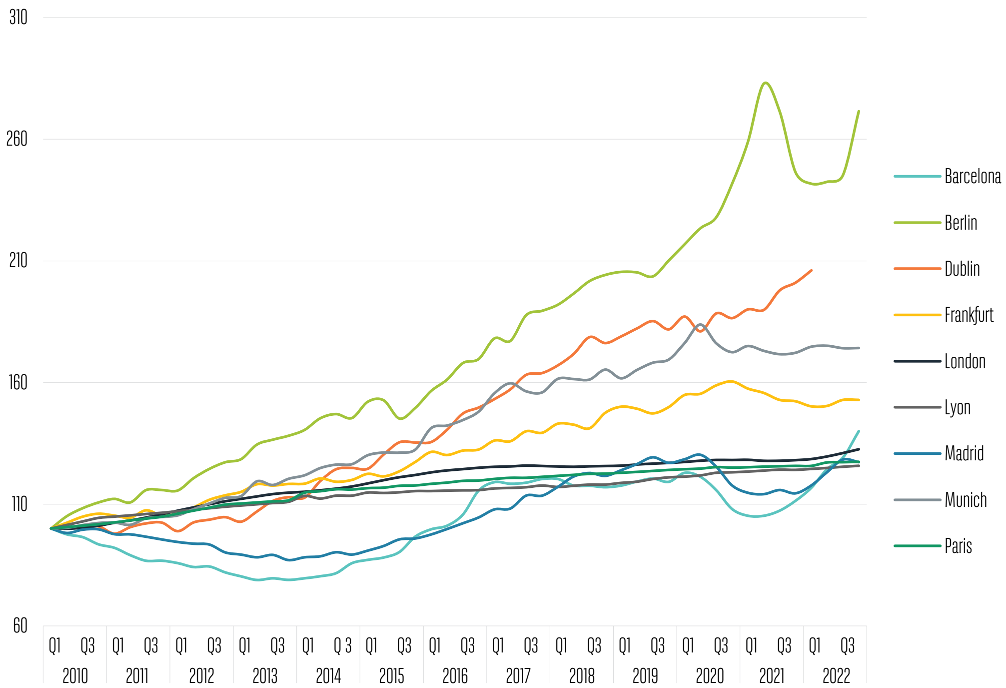
Hikes in mortgage rates and government bond yields are challenging the investment market by

Exhibit 18. **EVOLUTION OF RESIDENTIAL TRANSACTIONAL VOLUME** (INDEX 2015Q1=100)



Source: Eurostat

Exhibit 19. **RESIDENTIAL RENTAL GROWTH IN SELECTED EUROPEAN CITIES** (INDEX, 2010Q1 = 100)



Source: BNP Paribas Real Estate

reducing the risk premium and the risk-adjusted return of real estate. We see several risks that will force some players to sell up. The first is over-exposure to real estate due to the drop in the stock market. The second is the need to refinance amid soaring financing costs. Lastly, high construction costs combined with high interest rates are forcing investors to cancel or postpone their development plans. We therefore expect residential investment to decline in 2023. Some price adjustments are required to counterbalance the increase in financing and construction costs if investment is to pick up again.

PRICE ADJUSTMENTS ARE ALREADY HAPPENING

House prices in Europe are still rising fast. However, the pace slowed to +7.4% y/y in Q3 vs +10.4% in Q1 2022. House prices in the 28 cities we monitor are also slowing, coming in at +5.1% y/y in Q3 vs 6.7% y/y in Q1 2022. Demand has shifted towards the outskirts of large cities and to medium-sized cities, reflecting the development of hybrid working patterns.

Moreover, mortgage rate hikes and rising house prices have made it considerably harder for households to buy. It is no coincidence that we have seen house prices starting to edge downward in 13 out of 28 cities that we cover since the peaks of the last two years. Prices have fallen by -11.0% in Stockholm, around -7.0% 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.

Prices are following more logical patterns based on factors such as property features, energy label, quality and location. The housing market is cooling due to the new economic environment. We expect house prices to adjust in 2023 after their impressive run in recent years and due to the significant rise in mortgage rates. Higher mortgage rates will put homeownership out of reach for many households and could negatively affect indebted households on variable rates, as well as those obliged to refinance their mortgage every 2 or 5 years. Moreover, looking at the affordability ratio in **Exhibit 19,** most markets are overvalued except Rome, Seville, Valencia and Madrid. The new economic environment might exacerbate the tightening of financial conditions due to the risk perceived by banks, thereby cooling house prices. We expect significant adjustment in house prices to occur in the most overvalued markets.

STRONG FUNDAMENTALS

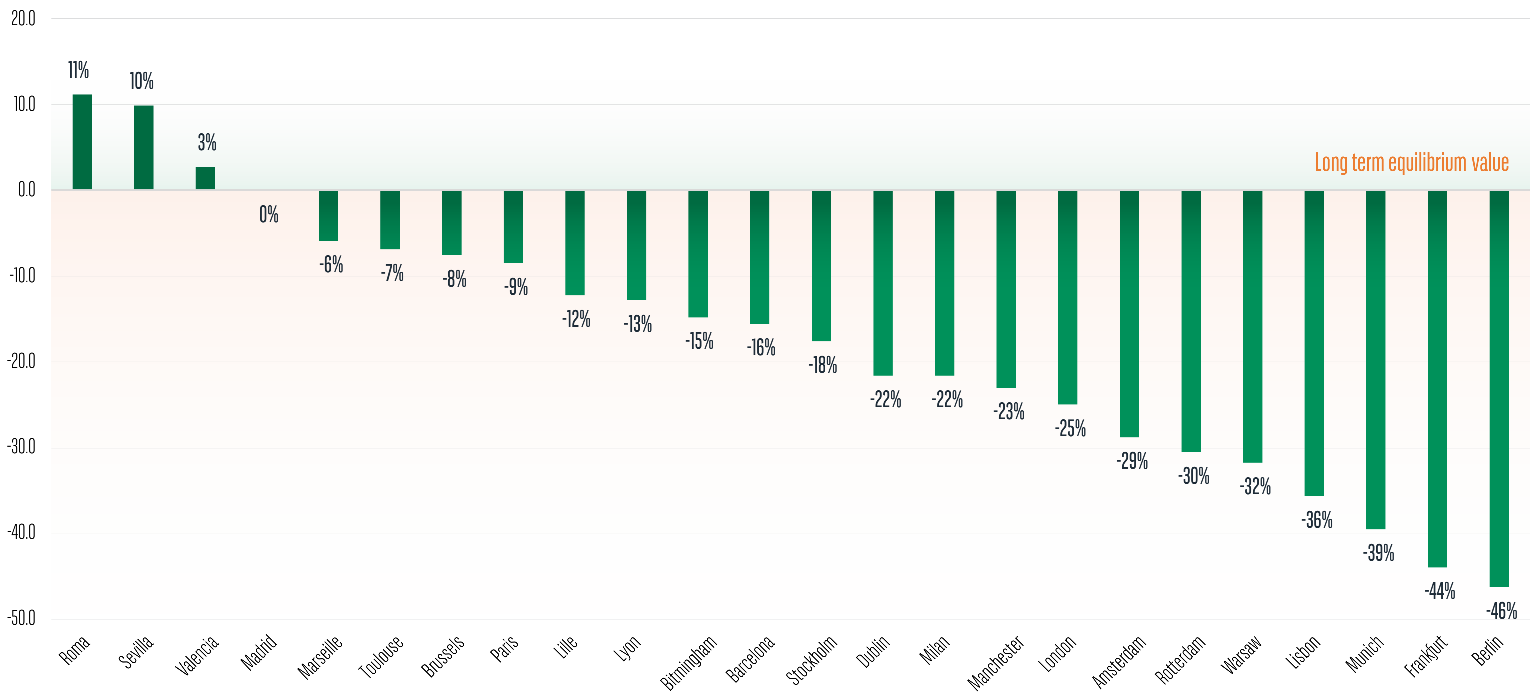
The change in financial conditions affecting households is sharply increasing the demand for rental housing in big cities. Rental growth reached +8.3% y/y in Q4 2022, i.e. the highest average year-on-year growth recorded since 2010. We see a significant imbalance between demand and supply in the rental sector owing to legal uncertainties related to housing regulations. These have contributed to a dramatic reduction in the rental stock, notably in Berlin, Barcelona, and Valencia. Moreover, regulated rent increases have been confined to 2%-3% to prevent indexation to inflation, prompting landlords to recoup the loss of revenue on new contracts. Demand from tenants has also shifted toward dwellings that are more efficient to avoid soaring energy bills. The next challenge might be a ban on renting any dwelling with a low energy label, as is already the case in France and upcoming in the UK via the MEES regulation. This regulation will significantly increase pressure on the availability of rental properties.

> *“We see significant imbalance between demand and supply in the rental sector on the back of increasing mortgage rates.”*

The buy-vs-rent ratio indicator shows that in most markets, renting is the best option for households that want to optimise space. In Munich, Prague, Hamburg, London, Copenhagen, Frankfurt, Lyon, Paris, Amsterdam, Berlin and Oslo, households can afford to rent twice the space they would be able to purchase. Since the pandemic, it has become more affordable to rent than to buy in several Southern European markets, such as Barcelona, Madrid, Milan and Rome.

Unlike house prices that might decline during the first half of 2023, we expect rental values to continue expanding. Southern Europe should continue to see substantial increases in rental values driven by better labour markets, high income growth forecasts and a strong potential in rental market depth. The moderate affordability ratio, as shown in **Exhibit 20,** should also support rental growth. However, rental increases should be fairly limited in Dublin, Paris, Lisbon, Amsterdam and Barcelona, where the affordability ratio is already high and income growth expectations remain low. The German markets, as well as Prague, Lille, Lyon, Marseille, Toulouse, Madrid, Valencia have significant scope for rental increases given their affordability ratios, income growth forecasts and rental stock. However, some markets are contending with challenging rent regulation issues.

Exhibit 20. **AFFORDABILITY RATIO** (%)



Source: BNP Paribas Real Estate

APPENDIX

EUROPEAN OFFICE MARKET OVERVIEW (5yr average, 2023-2027, % p.a.)

	AVERAGE OFFICE MARKET				PRIME OFFICE MARKET			
	Rental Growth	Income Return	Capital Growth	Total Return	Rental Growth	Income Return	Capital Growth	Total Return
Vienna	-1.80	4.67	-0.63	4.04	1.11	3.62	1.13	4.75
Berlin	3.97	4.15	-0.14	4.01	4.42	3.42	3.91	7.33
Cologne	3.39	4.40	-0.08	4.32	3.56	3.52	3.05	6.57
Dusseldorf	2.74	4.50	0.08	4.58	3.38	3.62	2.72	6.34
Frankfurt	2.17	4.45	-0.24	4.21	2.13	3.57	1.75	5.32
Hamburg	2.59	4.30	-0.06	4.24	3.56	3.52	3.09	6.61
Munich	3.10	4.05	0.26	4.31	2.47	3.42	2.05	5.47
Stuttgart	2.31	4.55	0.09	4.64	1.67	3.62	1.28	4.90
Greater Paris	1.36	4.69	-0.27	4.42	1.93	3.42	-0.04	3.38
Central Paris	1.59	4.64	-0.35	4.29	1.93	3.42	-0.04	3.38
Paris - CBD	1.84	3.81	-0.76	3.05	1.93	3.42	-0.04	3.38
La Defense	-0.40	4.85	-0.68	4.17	1.61	4.40	0.,47	4.97
Lyon	1.51	5.30	-0.17	5.13	1.98	3.93	1.43	5.36
Marseille	1.84	5.80	-0.04	5.76	1.52	4.43	0.48	4.91
Lille	1.84	5.80	0.30	6.10	1.18	4.26	0.27	4.27
Bordeaux	1.49	5.80	0.37	6.17	1.36	4.32	0.65	4.87
London - Central	0.30	5.11	-0.80	4.31	3.68	3.89	3.93	7.82
London - City	-2.08	5.15	-2.46	2.69	1.73	4.89	1.53	6.42
London - Midtown	-2.56	4.95	-2.37	2.58	1.59	4.39	1.37	5.76
London - West End	-2.15	4.83	-1.85	2.98	3.68	3.89	3.93	7.82
Birmingham	-1.37	7.86	-1.58	6.28	1.39	5.89	1.20	7.09
Bristol	-2.84	7.86	-1.87	5.99	0.99	5.89	0.89	6.78
Manchester	-1.60	7.86	-1.10	6.76	1.12	5.89	0.94	6.83
Edinburgh	-1.96	7.86	-1.33	6.53	1.52	5.89	1.35	7.24
Dublin	-1.34	5.82	-1.03	4.79	1.09	4.34	1.08	5.42
Copenhagen	-2.69	5.27	-2.90	2.37	0.04	3.71	-0.36	3.35
Helsinki	-1.18	5.02	-0.43	4.59	1.10	3.87	1.63	5.50
Stockholm	-1.91	4.73	-3.56	1.17	1.64	3.43	-1.14	2.29
Oslo	3.71	5.25	2.97	8.22	4.05	3.75	4.95	8.70
Prague	0.20	6.24	0.00	6.24	1.40	4.87	1.41	6.28
Budapest	-0.70	8.00	-1.35	6.65	0.58	5.82	-1.17	4.65
Warsaw	-0.65	5.60	-1.31	4.29	1.00	5.21	-0.42	4.79
Bucharest					0.50	7.42	0.23	7.65
Milan	2.41	6.04	0.50	6.54	1.60	4.14	0.34	4.46
Rome	0.65	7.18	0.29	7.47	1.35	4.33	0.49	4.82
Lisbon	1.90	5.65	0.35	6.00	2.04	4.13	1.71	5.84
Madrid	2.05	6.21	1.73	7.94	2.14	3.83	2.37	6.20
Barcelona	0.99	6.69	0.70	7.39	1.67	3.83	1.87	5.70
Brussels	1.80	5.74	0.13	5.87	2.01	3.92	0.78	4.70
Amsterdam	2.30	4.82	0.82	5.64	2.33	3.82	3.47	7.29
Weighted European Average	**0.58**	**5.53**	**-0.48**	**5.04**	**1.90**	**4.27**	**1.36**	**5.63**

Source: BNP Paribas Real Estate

EUROPEAN RETAIL MARKET OVERVIEW (5yr average, 2023-2027, % p.a.)

	PRIME HIGH STREET RETAIL			
	Rental Growth	Income Return	Capital Growth	Total Return
Vienna	0.39	3.85	0.53	4.38
Berlin	3.02	3.11	3.09	6.20
Cologne	2.39	3.56	2.42	5.98
Frankfurt	2,02	3.46	2.07	5.53
Hamburg	2.34	3.26	2.39	5.65
Munich	2.17	3.11	2.23	5.34
Stuttgart	2.84	3.51	2.91	6.42
Dusseldorf	2.06	3.51	2.10	5.61
Greater Paris	1.52	3.73	1.07	4.80
London - Central	0.77	3.23	-0.79	2.44
Birmingham	0.99	7.75	0.74	8.49
Manchester	1.33	7.75	1.08	8.83
Glasgow	1.75	7.75	1.50	9.25
Dublin	0.82	4.69	1.28	5.97
Oslo	1.62	4.25	0.47	4.72
Copenhagen	0.00	3.91	-0.48	3.43
Helsinki	0.55	4.30	2.46	8.41
Stockholm	0.63	3.94	-0.90	3.04
Prague	-0.98	5.38	-0.90	4.48
Milan	1.03	3.89	1.31	5.20
Rome	1.02	3.99	1.30	5.29
Madrid	1.59	3.64	1.67	5.31
Barcelona	1.59	3.79	2.18	5.97
Amsterdam	0.32	4.27	0.56	4.83
Weighted European Average	**1.32**	**4.32**	**1.26**	**5.65**

Source: BNP Paribas Real Estate

	PRIME SHOPPING CENTRE			
	Rental Growth	Income Return	Capital Growth	Total Return
Germany	0.69	4.76	1.98	6.74
France	0.82	5.11	-0.31	4.80
U.K.	1.36	8.24	0.75	8.99
Ireland	-0.49	5.50	-0.84	4.66
Sweden	6.73	5.40	3.01	8.41
Czech Republic	1.48	6.05	3.22	9.27
Poland	0,46	5.37	0.56	5.93
Italy	-0.24	5.91	-1.24	4.66
Spain	0.12	5.50	0.03	5.53
Portugal	1.28	5.74	1.32	7.06
Netherlands	1.44	5.47	2.12	7.59

Source: BNP Paribas Real Estate

EUROPEAN LOGISTICS MARKET OVERVIEW (5yr average, 2023-2027, % p.a.)

	PRIME LOGISTICS			
	Rental Growth	Income Return	Capital Growth	Total Return
Vienna	1.10	4.60	1.13	5.73
Berlin	3.14	4.02	2.93	6.95
Ruhr Area	3.43	4.02	3.22	7.24
Dusseldorf	2.13	4.02	1.95	5.97
Frankfurt	2.48	4.02	2.28	6.30
Hamburg	2.21	4.02	2.01	6.03
Munich	3.34	4.02	3.13	7.15
Greater Paris	2.77	4.32	1.01	5.33
Lyon	3.13	4.32	2.27	6.59
Marseille	3.23	4.32	2.37	6.69
Lille	3.37	4.32	2.55	6.87
London - Heathrow	4.85	4.67	4.39	9.06
Midlands	5.06	5.17	4.63	9.80
North West	2.69	5.17	2.25	7.42
Oslo	4.33	4.54	3.19	7.73
Copenhagen	0.57	4.73	-0.47	4.26
Helsinki	1.36	4.58	1.81	6.39
Stockholm	0.72	4.15	-2.29	1.86
Poznan	1.26	5.42	1.26	6.68
Warsaw	1.55	5.18	1.56	6.74
Bucharest	1.02	8.00	1.02	9.02
Prague	1.10	4.82	1.12	5.94
Budapest	1.19	6.00	1.19	7.19
Milan	2.37	5.08	0.39	5.47
Lisbon	2.75	5.39	3.71	9.10
Madrid	1.82	5.02	2.07	7.09
Barcelona	1.70	5.02	1.96	6.98
Valencia	0.86	5.94	-0.12	5.82
Brussels	1.83	4.82	1.04	5.86
Amsterdam	1.66	4.64	2.33	6.97
Rotterdam	1.99	4.52	2.21	6.73
Venlo	1.65	4.50	2.11	6.61
West Brabant	1.65	4.44	2.35	6.79
Weighted European Average	**2.25**	**4.78**	**1.89**	**6.68**

Source: BNP Paribas Real Estate

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