EUROPE CRE 180

ECONOMIC OUTLOOK

REAL ESTATE PERSPECTIVES

GLOBAL RESEARCH
April 2024

BNP PARIBAS
REAL ESTATE

Real Estate for a changing world

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EXECUTIVE SUMMARY

IN A NUTSHELL

THE GLOBAL ECONOMIC ACTIVITY STRENGTHENS

- The global economy has been resilient and should continue to grow, albeit at a slower pace than last year.
- We expect the global GDP growth to reach +2.9%, with an acceleration for advanced economies and a modest slowdown in emerging markets.
- Economic activity in the Eurozone is expected to gradually pick up over the course of 2024, buoyed by improving household purchasing power and falling interest rates.

CORE INFLATION NOW ON A DOWNWARD PATH

- Despite the rebound in the United States, inflation continues overall to slow in the G7 countries and in the euro area as a whole.
- inflation continues to decline in the euro area, with inflation expected to fall temporarily below 2% in the second quarter, in line with our forecast.

INVESTMENT DECLINE SLOWING DOWN

- €32.7bn were invested in Europe over Q1 2024 which represents a 10% decrease versus Q1 2023. This is the lowest level for a Q1 since 2011. Nevertheless, on a rolling-year basis, the decline between Q1 2024 and Q4 2023 is only -3%, showing the first signs of stabilization.
- Offices (-27%) and retail (-21%) recorded the strongest declines. Not all asset classes experienced reduction. Hotel investment (+2%) is ahead showing improvement in volumes

Q1 2024 MARKED BY YIELD STABILISATION

- 2023 will be regarded as the year of yield decompression with European markets characterized by protracted price discovery processes across all asset types.
- Over Q1 2024, prime yields in every sector seem to stabilize in most European markets.

OFFICE: A MODEST START TO 2024

- 1.82 m sqm was transacted over Q1 24 in the 18 main European markets, decreasing by 5% vs Q1 23. Quarterly volumes stood at 17% below their Q1 10-year average.
- While some markets have experienced a new decline in volumes, take-up gained traction in many markets.

THE FLIGHT TO QUALITY CONTINUES

- While hybrid work models are here to stay, workplace plays a key role in attracting and retaining talent, both in terms of space quality and location. Demand is also high for energy-efficient and sustainable buildings.
- These increasing quality requirements drive values up for modern buildings located in the most established districts.

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01.

ECONOMIC OUTLOOK

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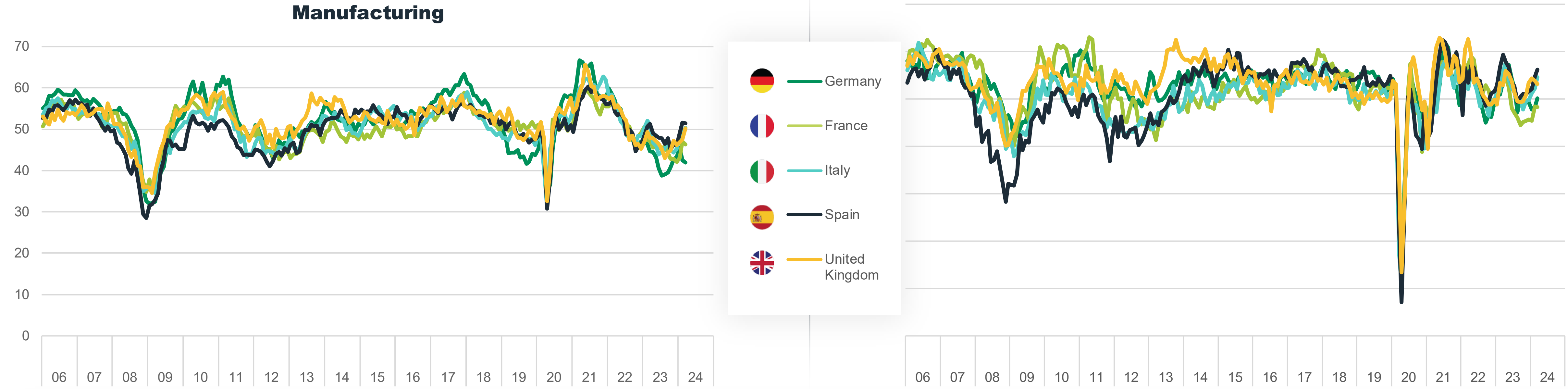
PURCHASING MANAGER INDEX SURVEYS

EUROZONE IS GETTING READY FOR A RECOVERY



PMIs POINT TOWARDS A PICKUP IN ECONOMIC MOMENTUM

The S&P Global manufacturing PMIs for March point towards a pickup in economic momentum in most countries. The improvement is broad-based. In manufacturing, very high scores for new orders and the quantity of purchases were recorded. In services, business expectations and the assessment of new business opportunities have picked up markedly.

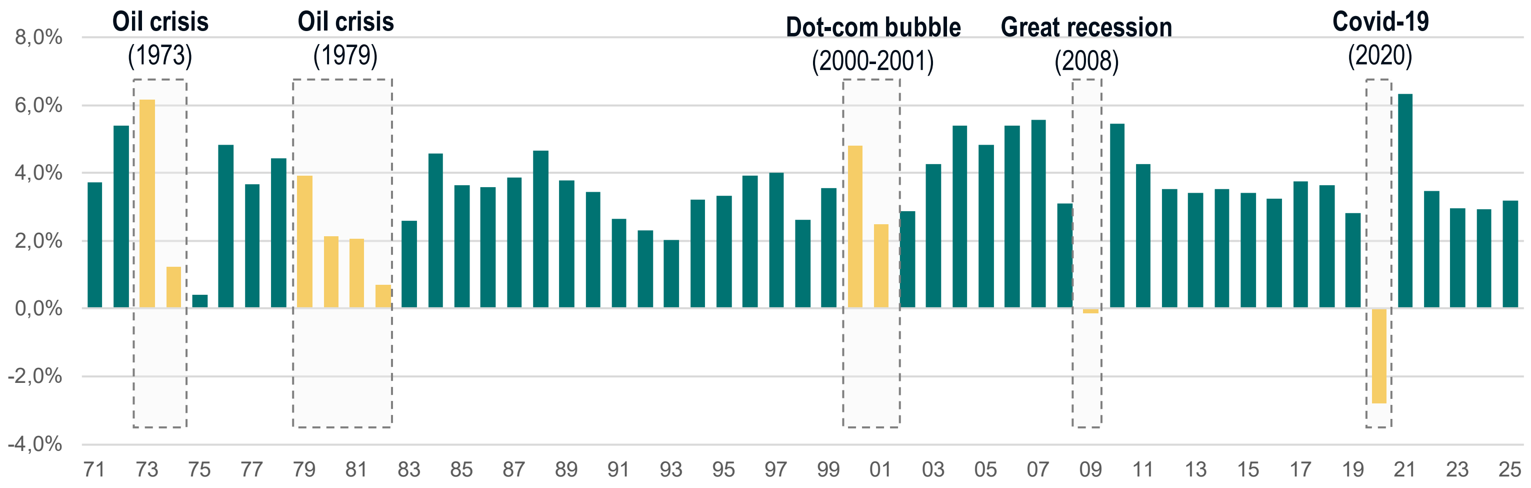
Momentum in employment on the other hand is slower in both services and manufacturing especially. This may reflect that due to labour hoarding, companies have enough staff to meet the expected increase in demand. In such case, productivity may improve, which would be welcomed by companies given the pressure coming for wage growth.

Sources: S&P, BNP Paribas Economic Research.

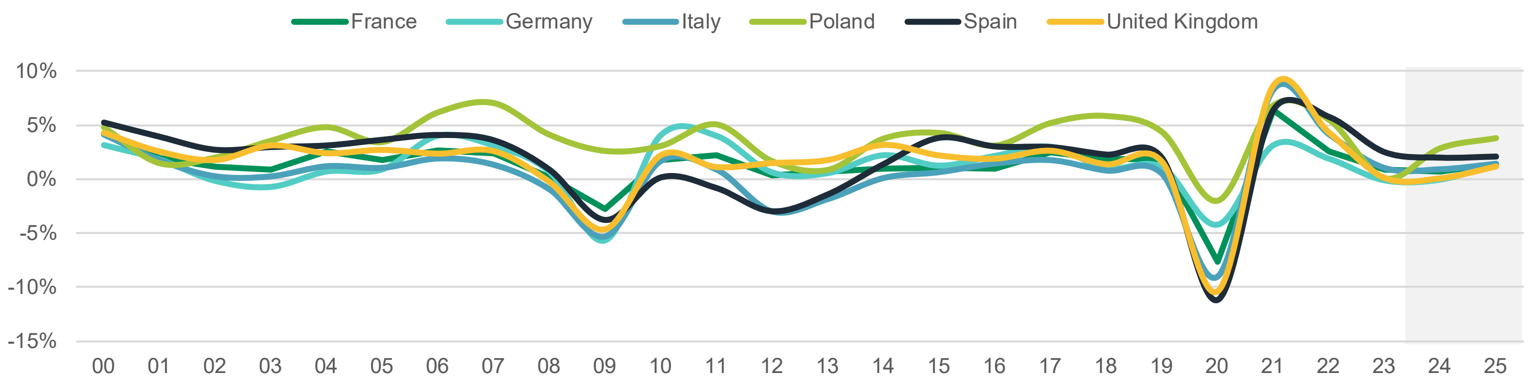
ECONOMIC OUTLOOK

WHAT OUTLOOK FOR THE MAIN ECONOMIES?

World GDP



GDP growth in European countries



The global economic activity strengthens in Q1 2024

- Elevated central bank rates and the withdrawal of fiscal policy support should weigh on economic activity.
- Nevertheless, the global economy has been resilient and should continue to grow, albeit at a slower pace than last year.
- We expect the global GDP growth to reach +2.9%, with an acceleration for advanced economies and a modest slowdown in emerging markets.
- The economic situation also remains vulnerable to geopolitical tensions.

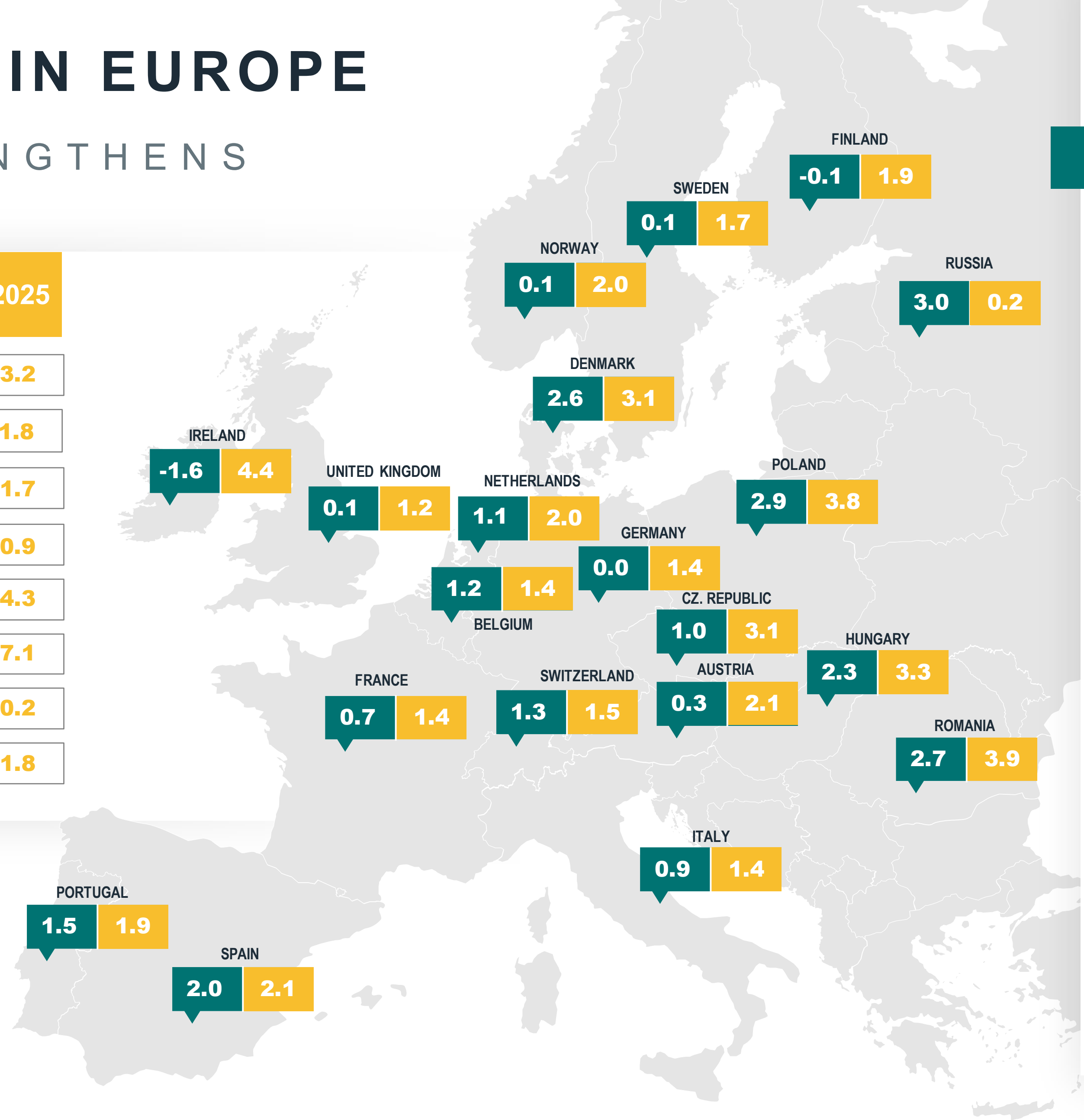
Encouraging news in Europe

- Economic activity in the Eurozone is expected to gradually pick up over the course of 2024, buoyed by improving household purchasing power and falling interest rates.
- Consequently, the upside risk to the European economy lies with domestic demand. Downside risks to growth in the Eurozone are mainly in the industrial sector, where export activity reduced over winter.
- Despite promising signs from the PMI indicators, the industrial sector in the Eurozone continues to face major structural problems, which will not be addressed alone by the ECB lowering policy rates

GDP GROWTH IN EUROPE

ACTIVITY STRENGTHENS

	2023	2024	2025
World	3.0	2.9	3.2
United States	2.5	2.8	1.8
Euro area	0.5	0.7	1.7
Japan	1.9	0.4	0.9
China	5.2	4.5	4.3
India	7.5	8.1	7.1
Russia	3.6	3.0	0.2
Brasil	2.9	1.8	1.8



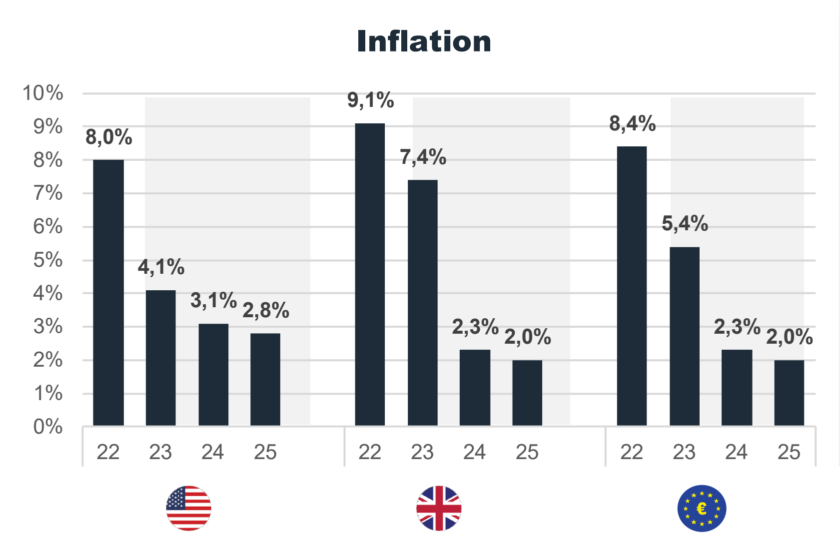
A more resilient economic scenario

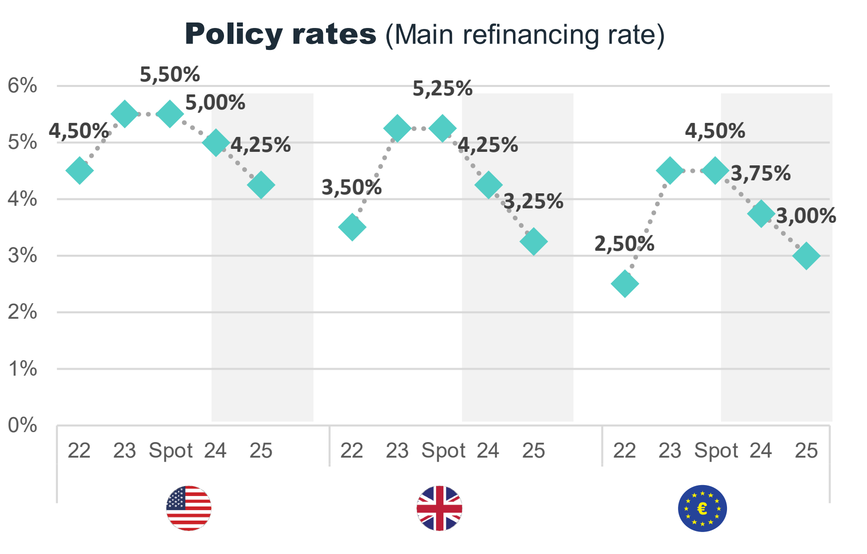
- Our 2024 growth forecasts for the OECD countries are close to those of the ECB.
- Economic growth in the United States is expected to slow down marginally during the first quarter of 2024, standing at +0.7% q/q, according to our estimate. The potential recessionary trend of the manufacturing sector does not seem to have spread to the rest of the economy for the time being.
- Against a backdrop of sluggish domestic demand and strategic rivalries, particularly with the US, the Chinese government is further developing its industrial policy to support economic growth and strengthen “national security“. Priority is being given to the high-tech and energy transition sectors.
- The pressure on the labour market is expected to remain high in 2024, as evidenced by the Eurozone job vacancy rate, which, despite falling to 2.8% in Q4 2023, still remained far higher than its pre-COVID level.

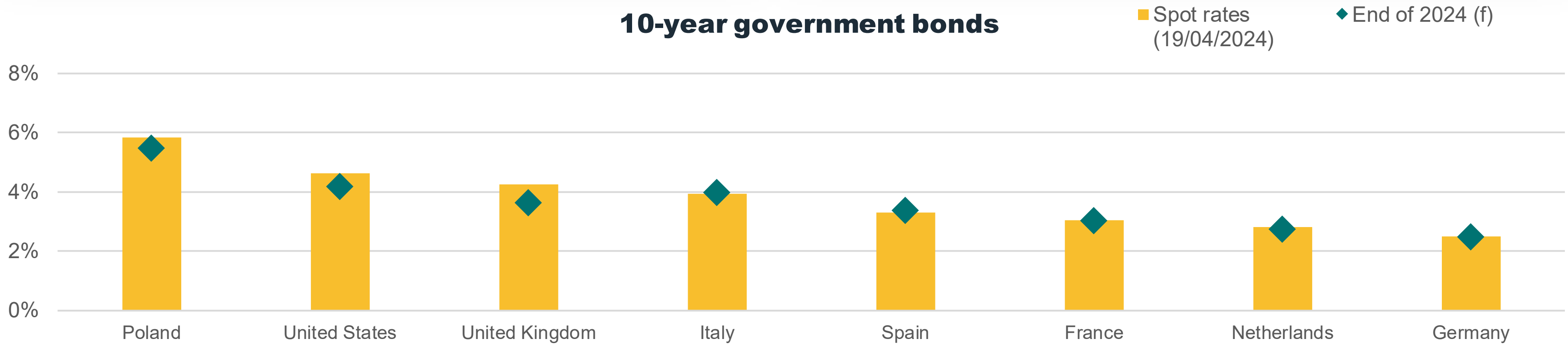
Source: BNP Paribas Real Estate Research

FINANCIAL OUTLOOK

ECONOMIC AND FINANCIAL INDICATORS







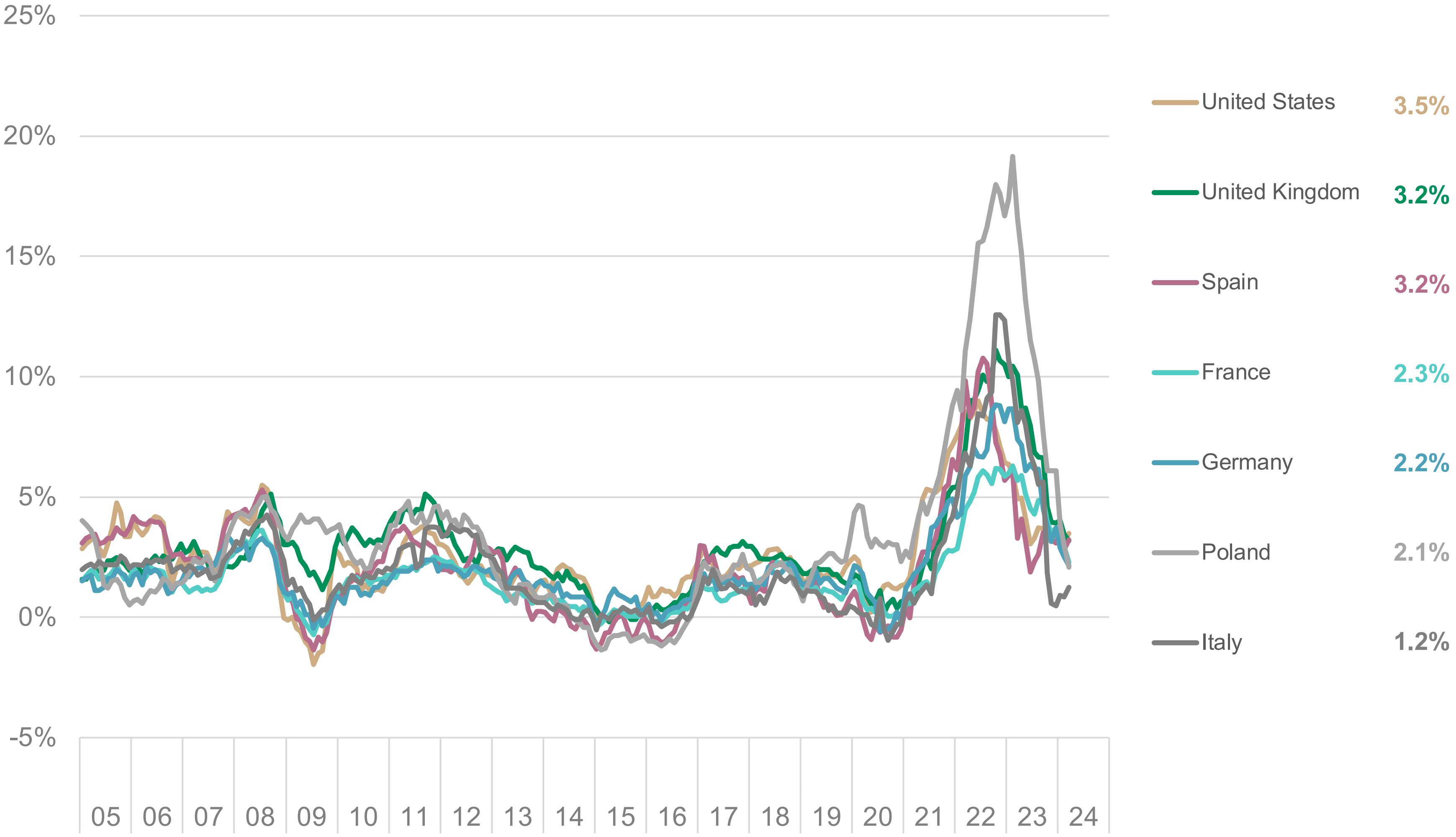
Each central bank has its own pace

- 2024 should be the year of the start of the easing cycle by the Federal Reserve, the ECB, and the Bank of England, primarily to accompany the easing of inflation.
- Inflation remains on a downward trend, except for the United States. Indeed, despite the rebound in the United States, inflation continues overall to slow in the G7 countries and in the euro area as a whole
- However, the timing of the first cut remains uncertain, as does the number of expected cuts. Conditions for a first rate cut in June seem to be in place for the ECB, which, according to our forecasts, would thus act before the Fed, whose first rate cut is expected in July (instead of June previously).
- The possibility is rising that the Fed will not cut rates at all this year because of the resilience of growth and inflation. Such a prolonged Fed monetary status quo could have more negative than positive consequences.
- The consensus expects the ECB to start reducing rates in June, bringing the deposit rate back to 3.75% by the end of the year.
- Rate reduction will not reverse all the increases seen. As a result, monetary policy may remain restrictive over most of 2024 and perhaps into 2025.

Sources: BNP Paribas Economic Research, OECD.

INFLATION IN EUROPE

CORE INFLATION NOW ON A DOWNWARD PATH



Inflation remains on a downward trend

- Despite the rebound in the United States, inflation continues overall to slow in the G7 countries and in the euro area as a whole.
- In the United States, the monthly increase in prices in services has gained momentum in recent months. Housing remains the main driver of inflation in the country, contributing to more than half (2.1 pp) to the total increase.
- On the other hand, inflation continues to decline in the euro area, with inflation expected to fall temporarily below 2% in the second quarter, in line with our forecast. On a year-on-year basis, the harmonised index of prices in the euro area fell by 0.2 points to 2.4% in March.
- A third of EU member States recorded inflation below 2% last month.
- In the UK, the CPI fell back below 4% y/y in March for the first time in two-and-a-half years, while core inflation fell 0.5 percentage points to 4.5%. Deflation in durable goods intensified (-1.7%), energy fell (-13.8%) though prices still remain high, while inflation in services is yet to slow significantly (+6.1%). Decline in the latter is offset by strong wage growth.

Sources: BNP Paribas Economic Research, OECD.

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REAL ESTATE PERSPECTIVES

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02.

REAL ESTATE PERSPECTIVES

CAPITAL MARKETS

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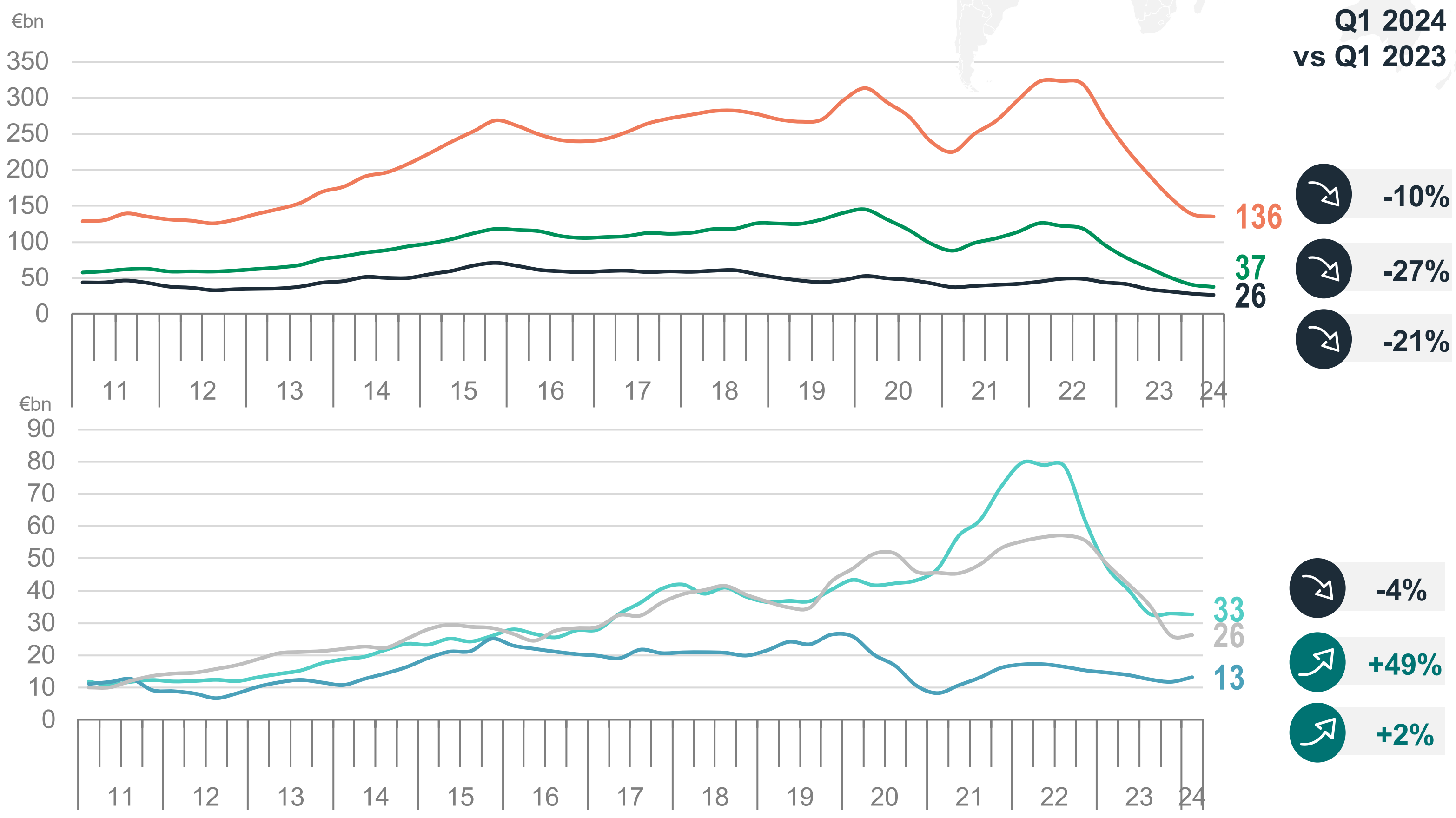
INVESTMENT IN EUROPEAN COMMERCIAL REAL ESTATE

BREAKDOWN BY ASSET CLASS

Q1 2024 shows the first signs of stabilization in investment volumes

- €32.7bn were invested in Europe over Q1 2024 which represents a 10% decrease versus Q1 2023. This is the lowest level for a Q1 since 2011. Nevertheless, on a rolling-year basis, the decline between Q1 2024 and Q4 2023 is only -3%, showing the first signs of stabilization.
- The pause in increasing interest rates in late 2023 was a positive signal to investors and the market reacted accordingly.
- Offices (-27%) continue with the strongest declines due to difficult pricing plus structural changes from energy compliance and hybrid working. Retail (-21%) also saw further fallback. Logistics investment (-4%) experienced a smoother decline.
- Not all asset classes recorded reduction. Hotel investment (+2%) is ahead showing improvement in volumes.

Commercial real estate
Office
Retail
Industrial & logistics
Hotel
Other



This excludes residential investment.

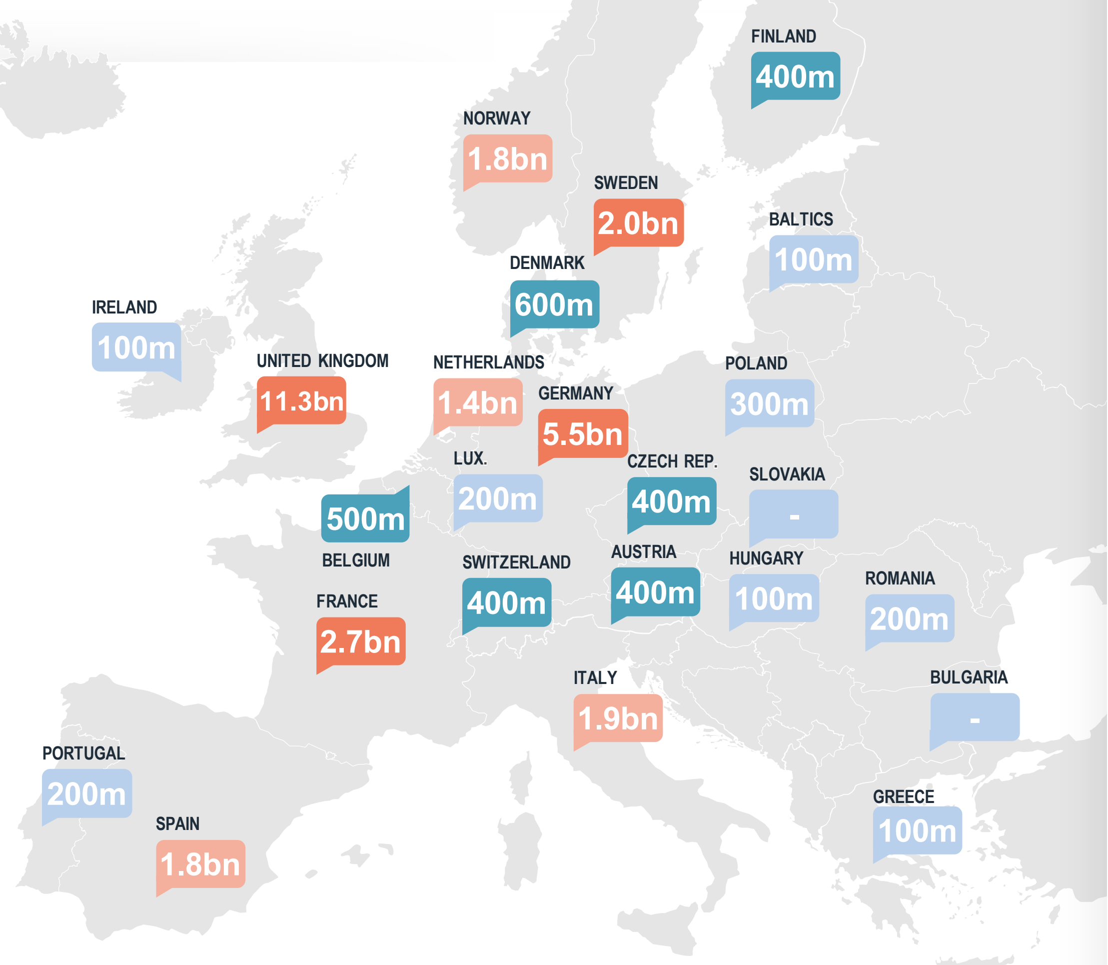
COMMERCIAL REAL ESTATE INVESTMENT

Q1 2024 vs Q1 2023

UNITED KINGDOM	-23%
GERMANY	+8%
FRANCE	-40%
SWEDEN	+9%
NETHERLANDS	+53%
SPAIN	+7%
ITALY	+159%
NORWAY	+101%
POLAND	-51%
BELGIUM	-22%
DENMARK	-28%
FINLAND	-13%
IRELAND	-60%
AUSTRIA	-21%
LUXEMBOURG	+954%

≥ €2bn | €400m-1bn

€1-2bn | < €400m



(excludes residential investment)

EUROPE – Q1 2024

€32.7bn

-10% vs Q1 2023

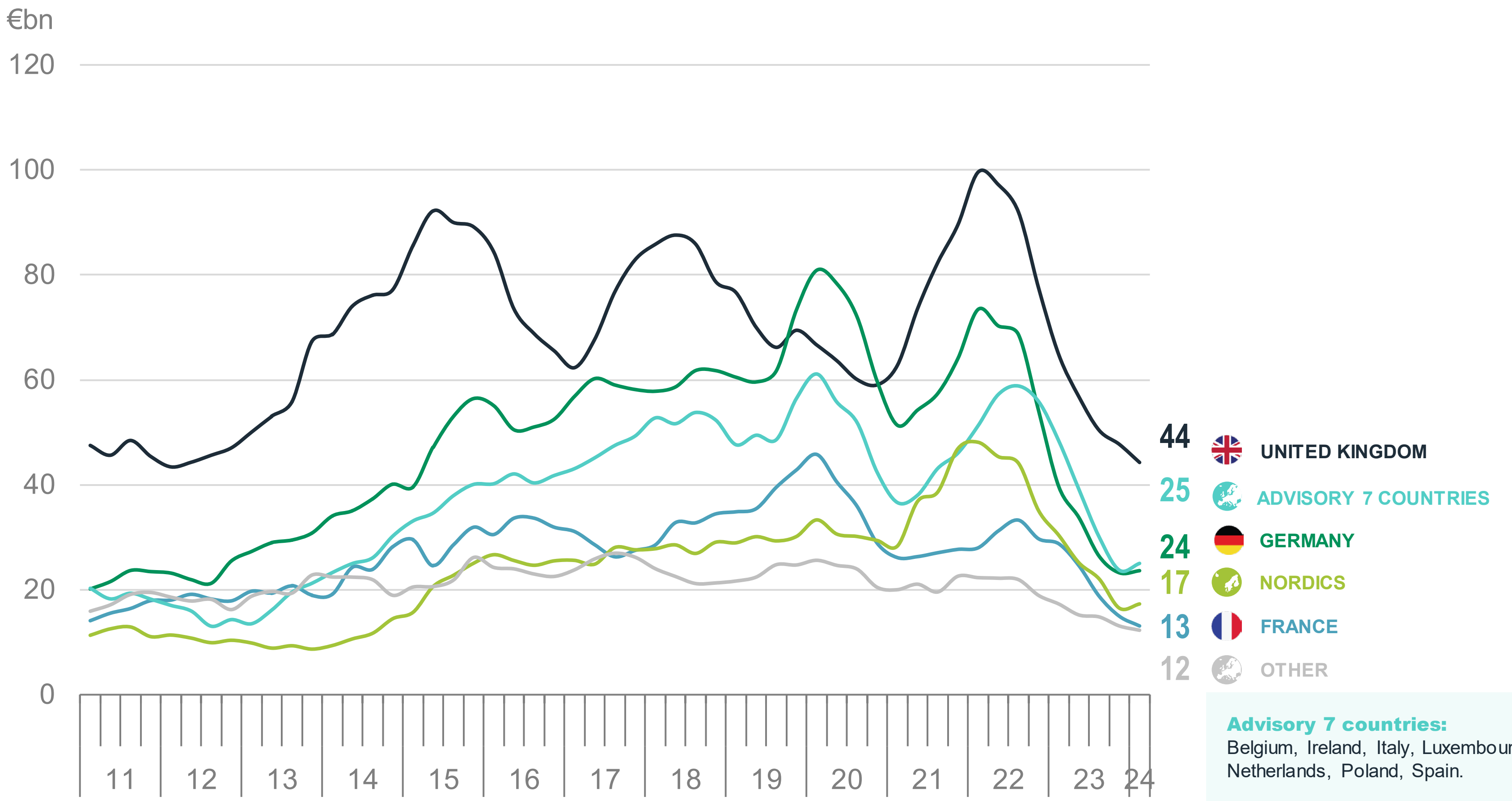
- €32.7bn were invested in Europe over Q1 2024, which represents a 10% decrease vs Q1 2023.
- Some countries saw an improvement in Q1 2024 compared to Q1 2023: Luxembourg (+954%), Italy (+159%), Norway (+101%), the Netherlands (+53%), Sweden(+9%), Germany (+8%) and Spain (+7%). Others are still in a downward cycle such as Ireland (-60%), Poland (-51%), France (-40%), Denmark (-28%), the UK (-23%), and Belgium (-22%).

Source : BNP Paribas Real Estate

COMMERCIAL REAL ESTATE INVESTMENT VOLUME

INVESTMENT VOLUMES HITTING THE BOTTOM

- With a global reset in financial conditions, no country can escape consequences, no matter how large the domestic market is. More so these days for Europe given the international nature of real estate investment.
- Consequently, all countries have headed down towards ten-year lows over 2023. Nonetheless what is notable is that the relative shares of investment have not really altered.
- The big three individual countries - UK Germany and France - remain in their respective positions albeit at lower volume levels.
- With the pace of volume declining slowly, investment volumes have reached the bottom or are likely to reach it over 2024 depending on the country.



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

Source : BNP Paribas Real Estate Research

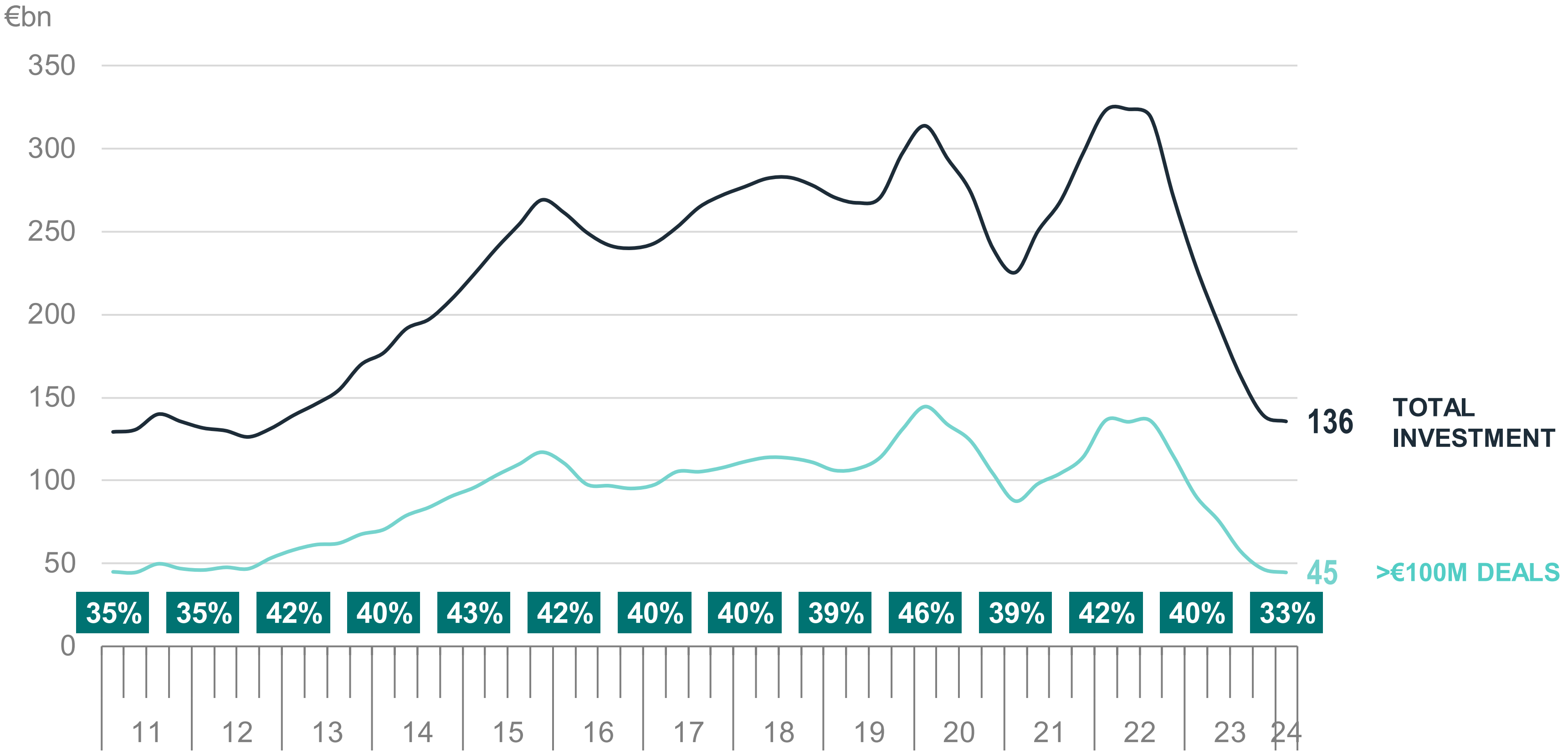
INVESTMENT BY SIZE BAND

Mega deals are bottoming out

- The peak in mega deals (>€100m) occurred in Q1 2020 with a record figure of €145bn (on a rolling-year basis). That is 46% of the total investment, an unusually big share for a Q1 and may not reappear for the time being.
- Prior to global interest rate cycle tightening, the segment was regaining momentum reaching €135bn at Q3 2022. The mega deals volume dropped over Q4 2022, and volumes are now at a ten-year low though maybe stabilizing.
- Mega deals are among the complicated and time consuming to complete. In an environment where the debt financing is expensive, only the very cash rich or those with very low leverage can entertain deals of this nature.
- Consequently, the share of mega deals represents 33% of investment with €45bn spent over Q1 2024. This is a low level when put in perspective with historic figures of the last ten years.

Commercial Real Estate Investment in Europe

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

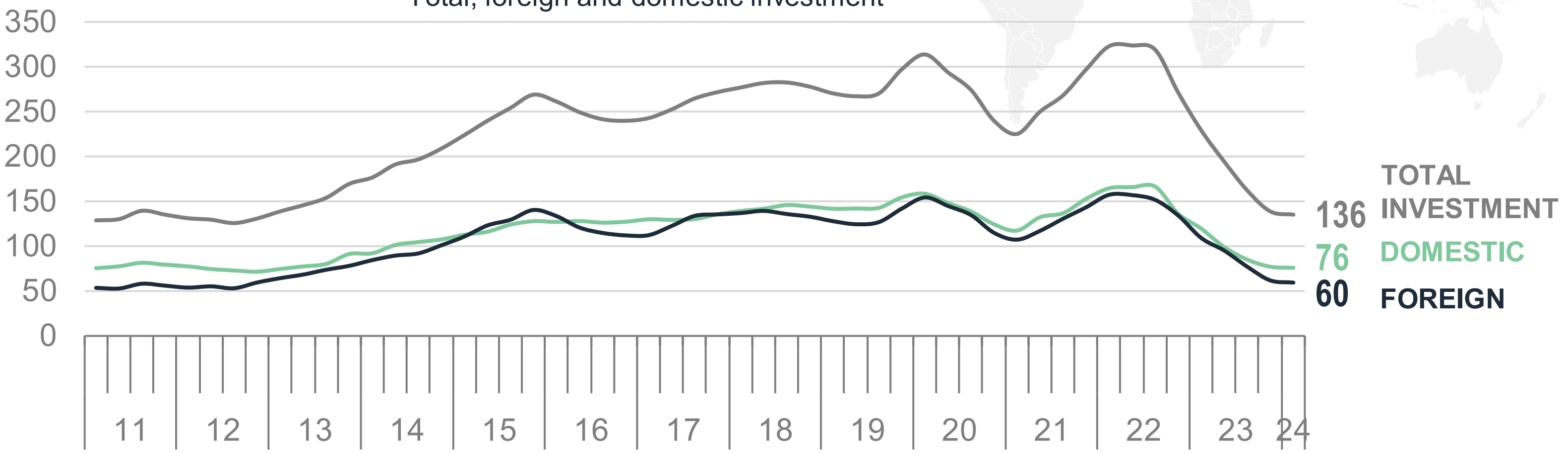


CROSS-BORDER INVESTMENT MARKET

- Over 2022, foreign investment was very high during the first three quarters, peaking at €158bn (on a rolling-year basis) in Q1. It then declined sharply from Q4 2022 reaching €60bn in Q1 2024 (-62%).
- Within foreign investment, European cross-border investment declined in line with the reduction in foreign investment (-47%). It represents 40% of foreign investment, a smaller share than during the Covid-19 years, and comparable to pre-pandemic times.
- Investment from other continents shows contrasting developments. American investors showed a sudden interest in the European market (+63% vs Q1 2023), with a share jumping from 22% in Q4 2023 to 42% of foreign investment in Q1 2024.
- Investment from Asia Pacific continues to decline in Q1 2024, their share represents only 9% over the last 12 months. With only €580m invested (-57%) in Q1 2024, Asian investor share accounts for 4% of foreign investment.
- Middle East investors showed more interest in Europe over 2023, but only €340m has been invested in Q1 2024 (-79% vs Q1 2023).

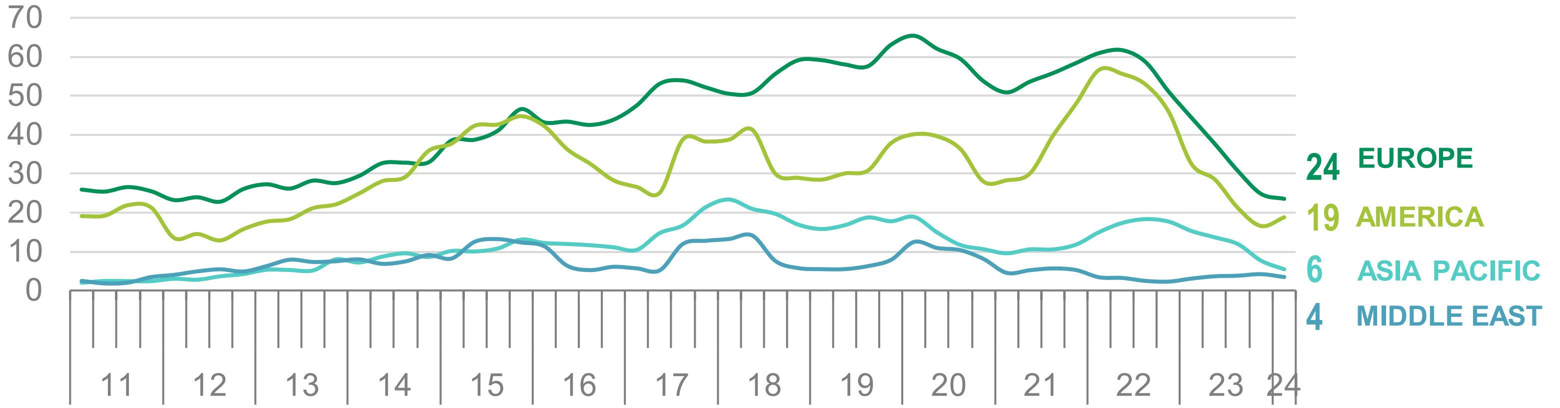
Commercial Real Estate Investment in Europe

Total, foreign and domestic investment



Commercial Real Estate Investment in Europe

Foreign investment detail



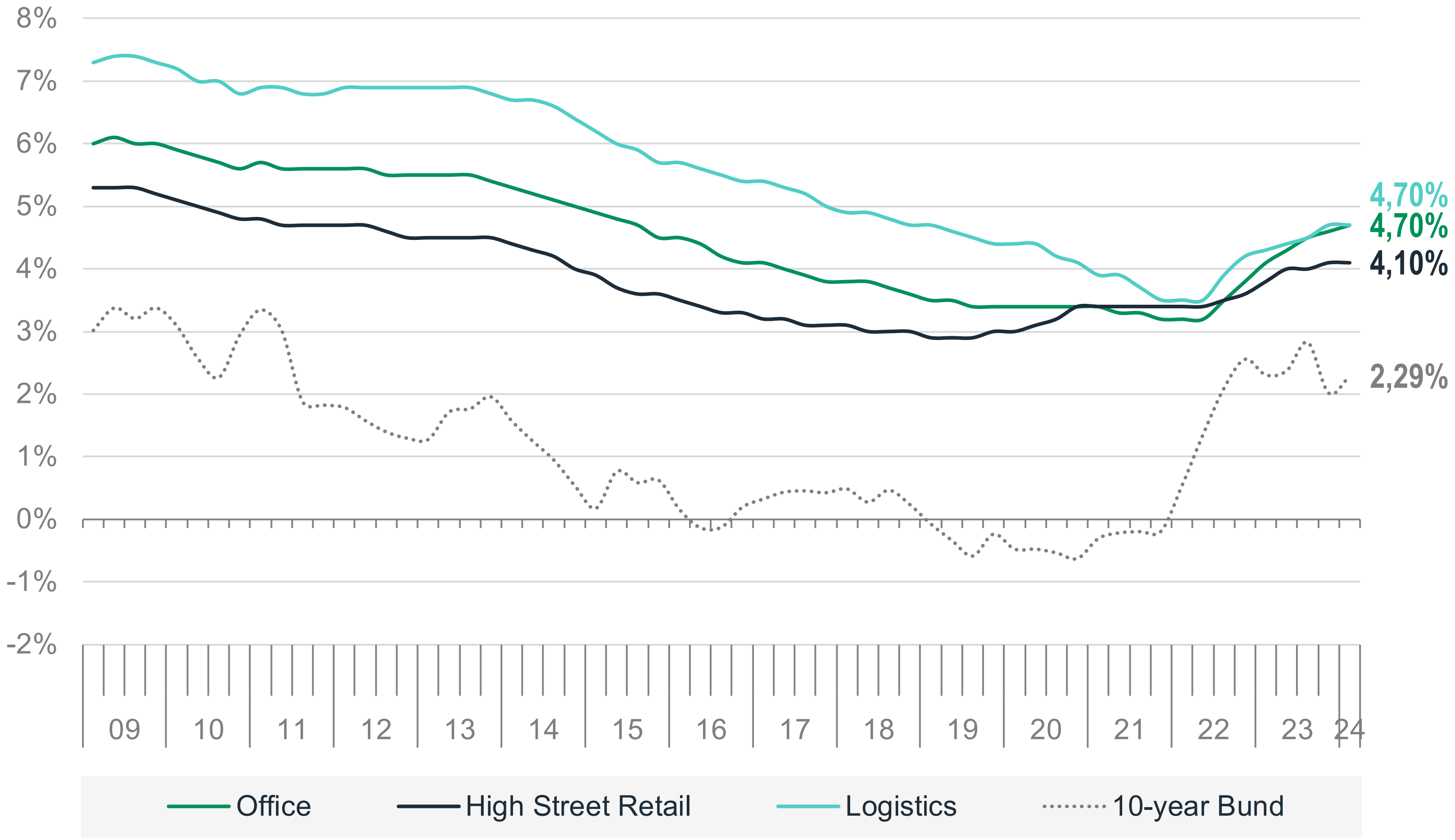
AVERAGE PRIME YIELDS IN EUROPE

BASED ON 16 MARKETS

Yields reaching the top

- 2023 will be regarded as the year of yield decompression with European markets characterized by protracted price discovery processes across all asset types.
- Prolonged price discovery reflects the similarly protracted nature of monetary policy. It has taken the whole of 2023 for central banks to get on top of persistent inflation. Instead of ending the interest rate tightening cycle in early 2023 as many hoped, central banks maintained the tightening process into the third quarter.
- This meant the bond yield gap with real estate only truly began to firm up in H2 2023. It means that the rethinking about the prices being paid for assets has a clearer framework and prices have better chance to settle.

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



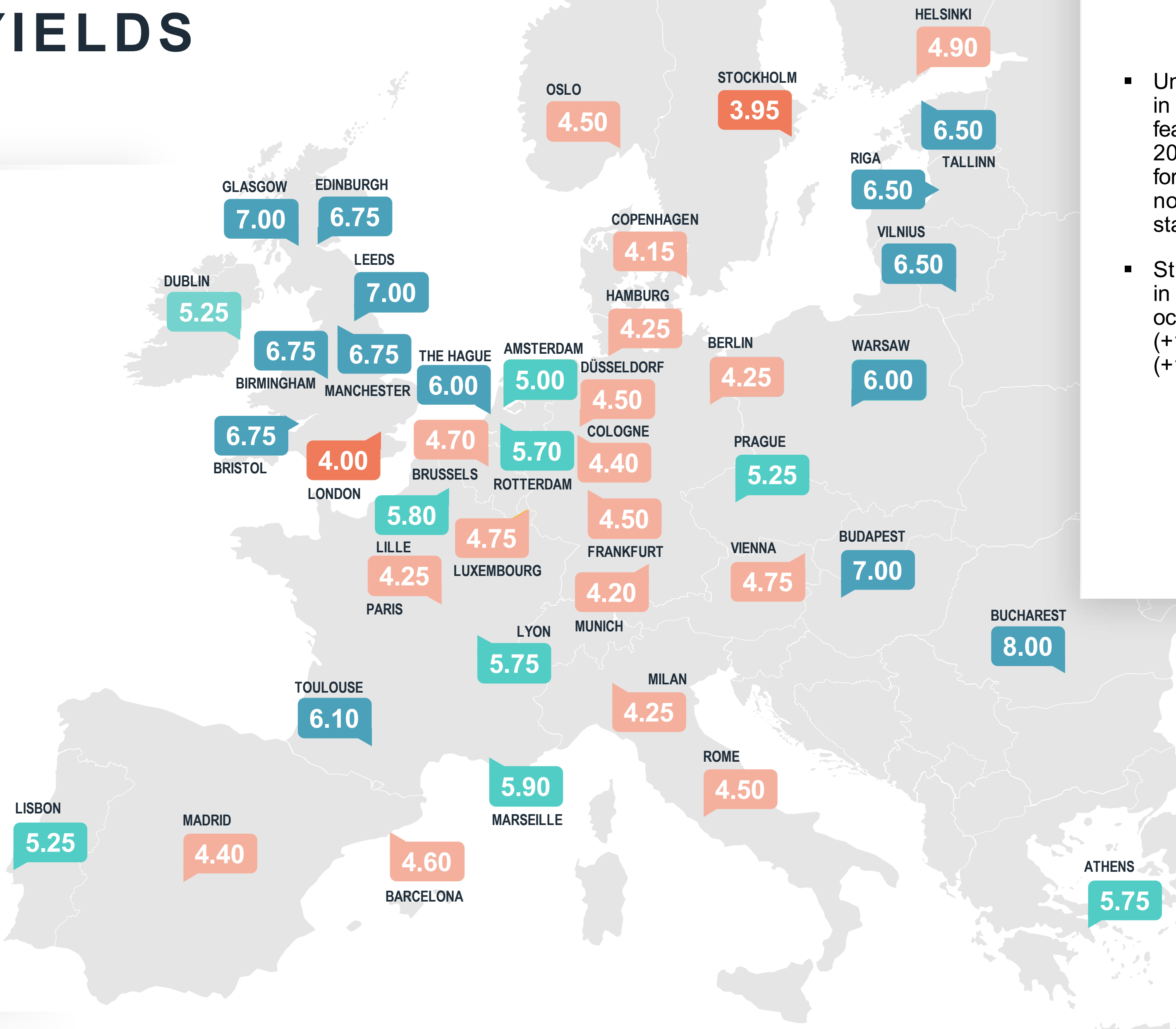
Source : BNP Paribas Real Estate

PRIME OFFICE YIELDS

Q1 2024 vs Q1 2023

PARIS	+110bps
LONDON	+15bps
BERLIN	+85bps
STOCKHOLM	+35bps
MUNICH	+85bps
MILAN	+25bps
OSLO	+75bps
MADRID	+30bps
BRUSSELS	+70bps
DUBLIN	+50bps
AMSTERDAM	+90bps
COPENHAGEN	+60bps
BARCELONA	+50bps
LUXEMBOURG	+50bps
WARSAW	+100bps

≤ 4% | 6-8% | 4-5% | >8% | 5-6%



- Universal decompression in office yields became a feature in Europe by Q4 2022. Expansion rolled forward over 2023 and is now pointing to stabilization in Q1 2024.
- Strongest decompression in the last 12 months occurred in Paris (+110bps) and Warsaw (+100 bps).

Source : BNP Paribas Real Estate

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REAL ESTATE PERSPECTIVES

OFFICE MARKETS

EUROPE
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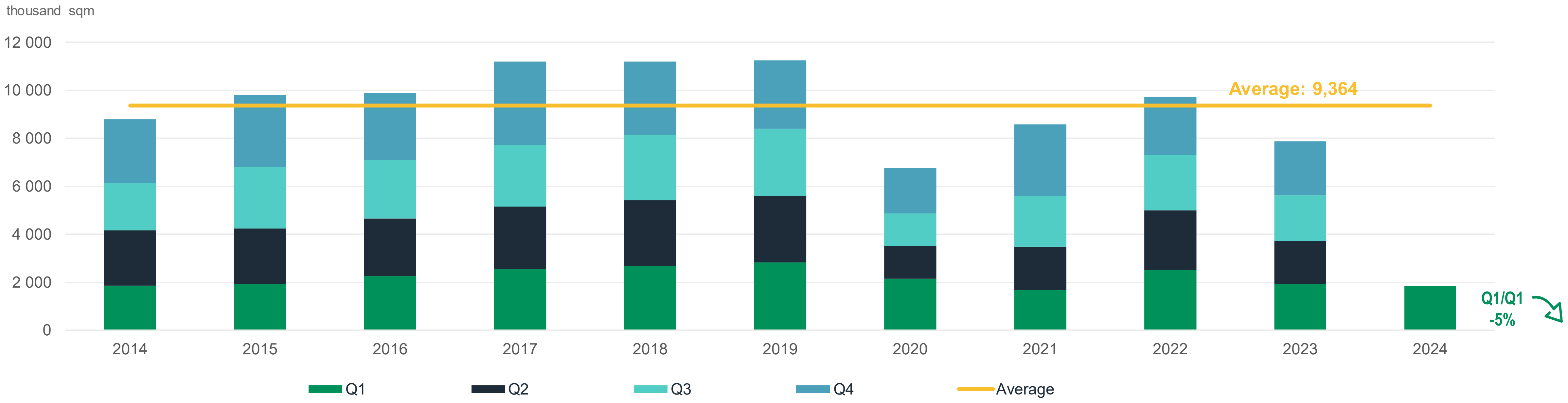
OFFICE TAKE-UP IN EUROPE – 3-MONTH PERIOD

18 MAIN EUROPEAN OFFICE MARKETS*



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

A modest start to 2024

- In line with 2023 letting activity, take-up remained subdued in Q1 2024 in Europe.
- Around 1.82 m sqm transacted over Q1 24 in the 18 main European markets, decreasing by 5% vs Q1 23.
- Quarterly volumes stood at 17% below their Q1 10-year average.
- Several European markets experienced new declines in volumes such as Rome (-64%), Dublin (-39%), Amsterdam (-38%), Hamburg (-21%) and Central London (-17%).
- Barcelona (+61%), Frankfurt (+28%), Munich (+17%), Lyon (16%) and Central Paris (+14%) contrast with acceleration.

Source: BNP Paribas Real Estate Research.

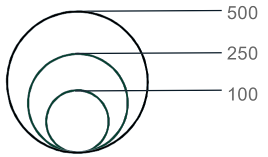
OFFICE TAKE-UP IN EUROPE

STABILISATION IS ON THE HORIZON

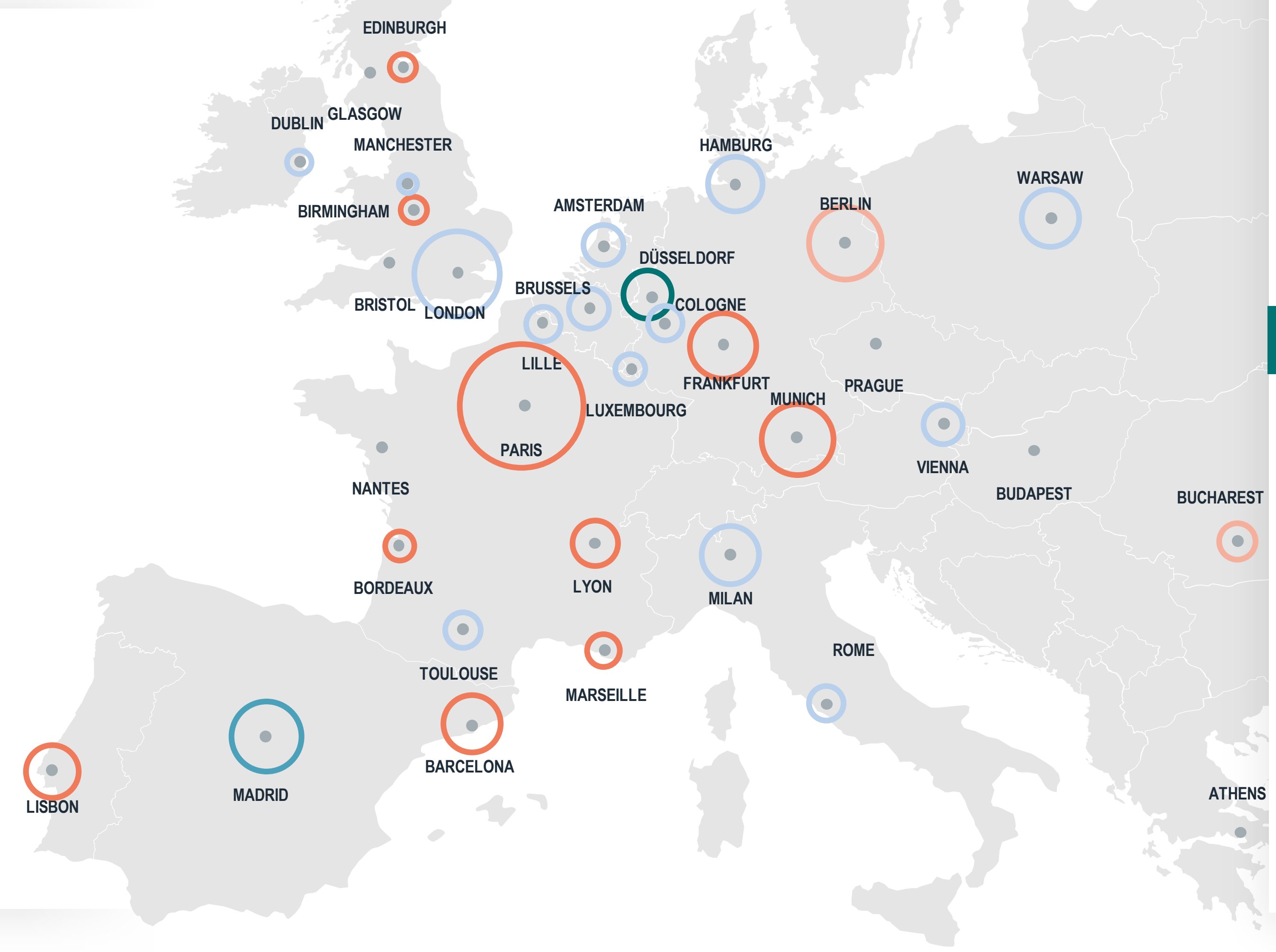
Q1 2024 vs Q1 2023

CENTRAL LONDON	-17% ↘
BERLIN	+1% ↗
CENTRAL PARIS	+14% ↗
AMSTERDAM	-6% ↘
MADRID	= →
MILAN	-7% ↘
WARSAW	-24% ↘
BRUSSELS	-38% ↘
DUBLIN	-39% ↘
LUXEMBOURG	-48% ↘

Deals in thousand sqm



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



EUROPE – Q1 2024

2.15m sqm 29 markets

-5% vs. Q1 2023

Mixed picture for take-up

- Take-up at the end of Q1 2024 decreased by 5% compared to Q1 2023.
- While some markets have experienced a new decline in volumes, take-up gained traction in many markets.
- However, despite the increase in activity, volumes are still below their long-term average except in Southern Europe (Barcelona, Madrid and Milan), supported by stronger economic growth.

Source : BNP Paribas Real Estate

OFFICE VACANCY IN EUROPE

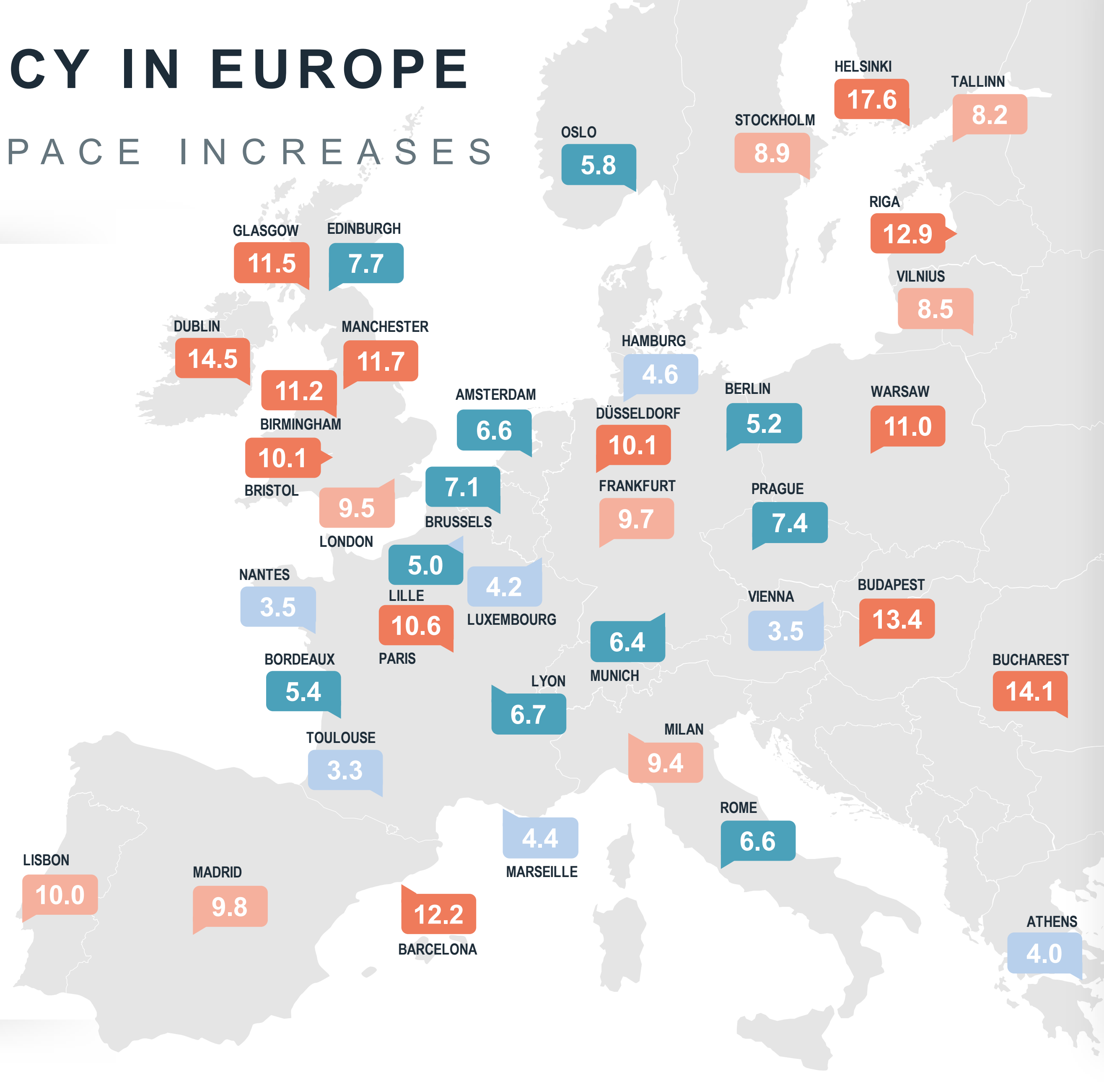
SECOND-HAND SPACE INCREASES

Q1 2024 vs Q1 2023

CENTRAL LONDON	+60bp
BERLIN	+200bp
CENTRAL PARIS	+140bp
AMSTERDAM	+10bp
MADRID	=
MILAN	-40bp
WARSAW	-60bp
BRUSSELS	-30bp
DUBLIN	+180bp
LUXEMBOURG	+80bp

> 10% 8 -10%

5 - 8% < 5%



EUROPE – Q1 2024

7.6% 31 markets
Stable vs. Q1 2023

- The overall vacancy rate in Europe stood at 7.6% at Q1 2024 (stable vs. Q1 2023).
- Expansion in numerous markets is the consequence of a growing geographical mismatch in supply and demand. Low availability prevails in central submarkets, particularly with new buildings that secure demand. Much higher vacancy rates though are found in peripheral office districts.
- Trends vary between markets: Munich, Frankfurt, Central Paris and Berlin saw a significant rise (100 bp or higher). Central London and Amsterdam experienced moderate increases. In Milan and Warsaw, the vacancy rate markedly declined.

Source : BNP Paribas Real Estate

OFFICE PRIME RENTS IN EUROPE

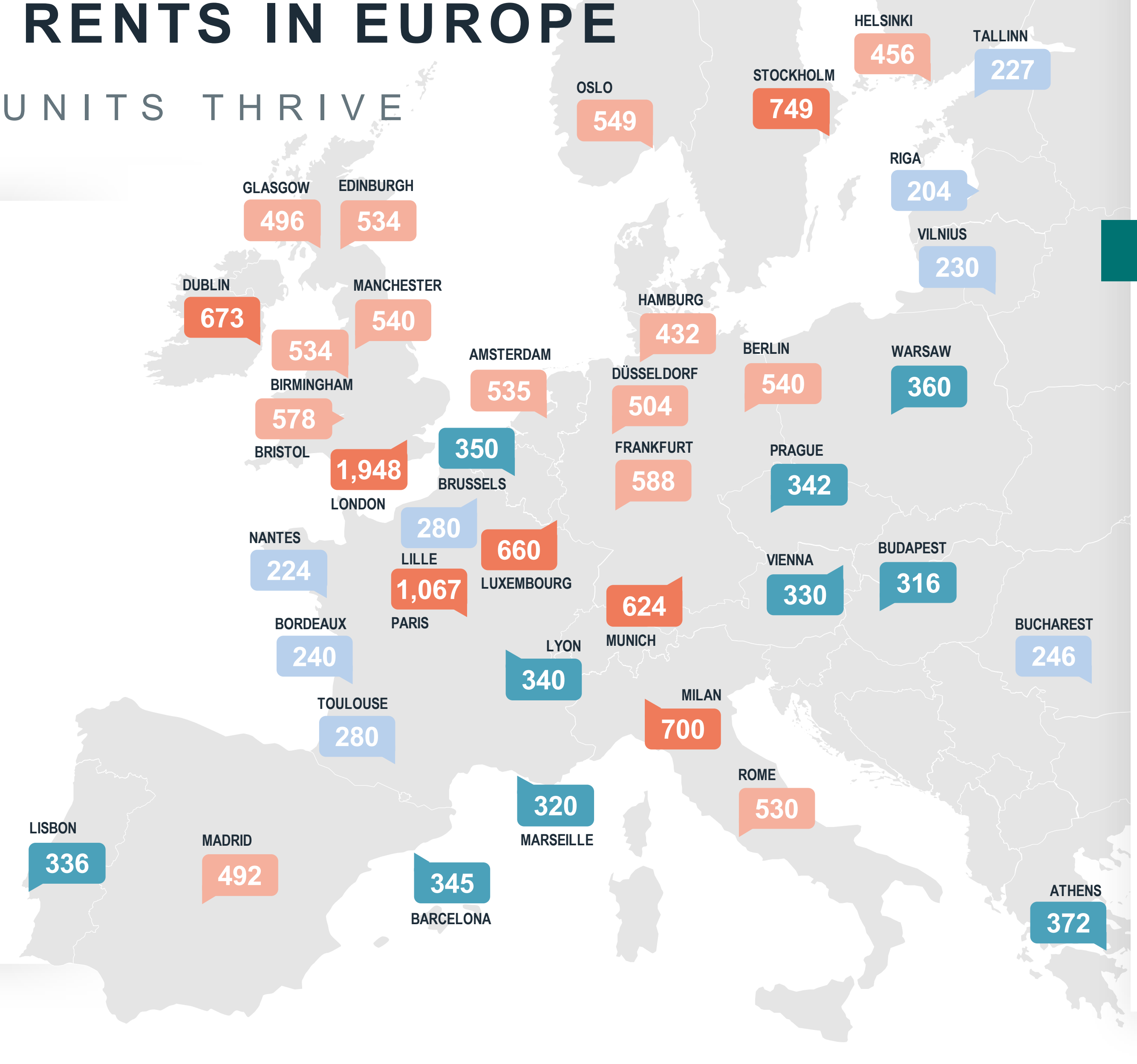
BEST IN CLASS UNITS THRIVE

Q1 2024 vs Q1 2023

CENTRAL LONDON	+7%
BERLIN	→
CENTRAL PARIS	+7%
AMSTERDAM	+10%
MADRID	+12%
MILAN	+1%
WARSAW	+11%
BRUSSELS	+6%
DUBLIN	→
LUXEMBOURG	→

Rents (€/sqm/year)

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



Prime rents still driven by high demand for top space

- The very low availability of prime assets and the appeal of high-quality buildings located in the most sought-after districts continue to drive values up.
- Workplace plays a key role in attracting and retaining talent, both in terms of space quality and location.
- Over the past 12 months, Madrid (+12%), Warsaw (11%), Amsterdam (+10%), Central Paris and Central London (+7%) have seen the most significant increases in values.

Source : BNP Paribas Real Estate

LOCATIONS

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