EUROPE CRE 360

ECONOMIC OUTLOOK
REAL ESTATE PERSPECTIVES

GLOBAL RESEARCH
May 2024

BNP PARIBAS REAL ESTATE

Real Estate for a changing world

BNP PARIBAS REAL ESTATE

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.

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. Hotel investment (+2%) is ahead showing improvement in volumes

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.

LOW MOMENTUM FOR EUROPEAN LOGISTICS

- Take-up decreased by 25% in Q1 2024 across the leading European countries. The lack of new developments remains supportive of rental growth in prime sectors although weaker demand offsets its momentum.
- Industrial and logistics investment hit a low point in Q1 2024, decreasing by 4% in Europe compared to Q1 2023. It is expected to pick up gradually throughout the year. Yield decompression is effectively drawing to a close and stabilisation is expected in the coming quarters.

RETAIL: PROMISING PROSPECTS FOR OCCUPIER MARKET

- Investor interest in retail assets remains selective though the sector is slowly gaining more traction in investment market share (19% in Q1 2024).
- The occupier market proved resilient, notably thanks to the continuing strong flow of tourists which is returning to pre-pandemics levels. Furthermore, the slowdown of inflation rate will impact positively real wages and consumer confidence, thus boosting domestic consumption across Europe.

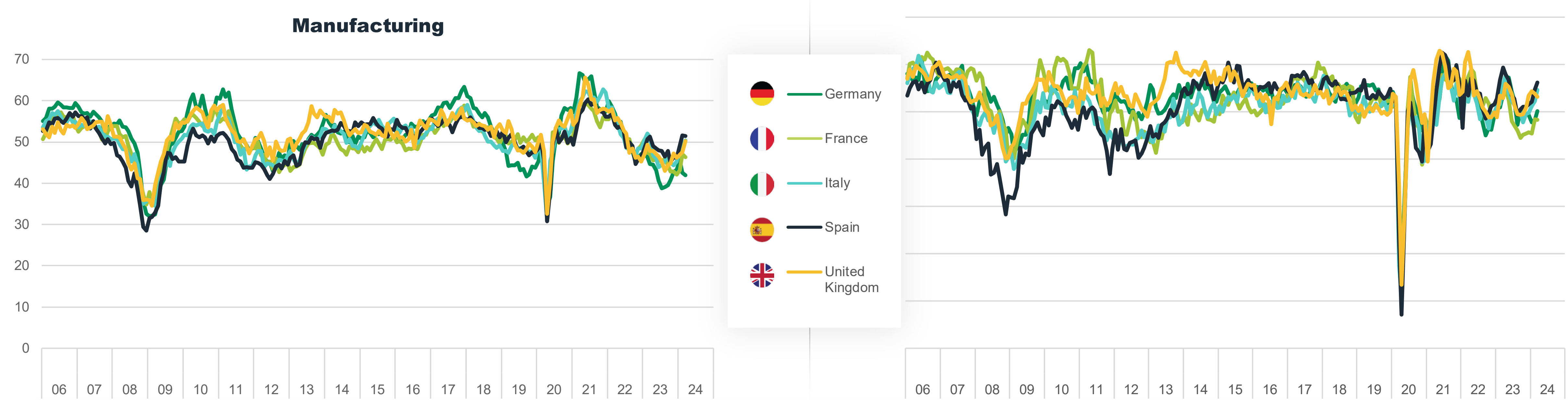
RESIDENTIAL: A CONSOLIDATION PHASE ?

- Residential investment declined by 25% in Q1 2024 y/y. Housing transaction volume dropped by 15% in 2023 driven by tight credit conditions and the decline in mortgage lending.
- House prices in Europe are entering in a consolidation phase -0.3% in 2023 vs last year . On the contrary, rental values are still booming, +7.1% in Q4 2023 y/y, owing to the shift in the monetary policy and the drop of listed property put up for rent.

01. ECONOMIC OUTLOOK

PURCHASING MANAGER INDEX SURVEYS

EUROZONE IS GETTING READY FOR A RECOVERY



PMIs POINT TOWARDS A PICKUP IN ECONOMIC MOMENTUM

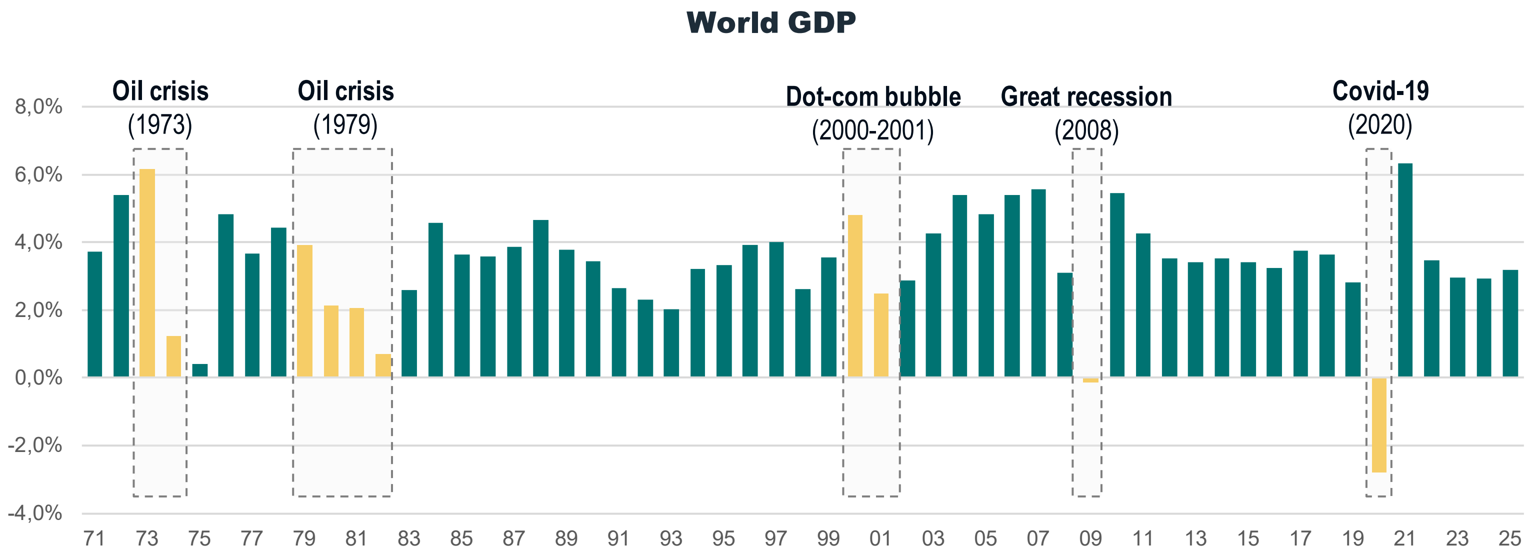
The S&P Global manufacturing PMIs for March point towards a pickup in economic momentum in most countries. The improvement is broad-based. In manufacturing, very high scores for new orders and the quantity of purchases were recorded. In services, business expectations and the assessment of new business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

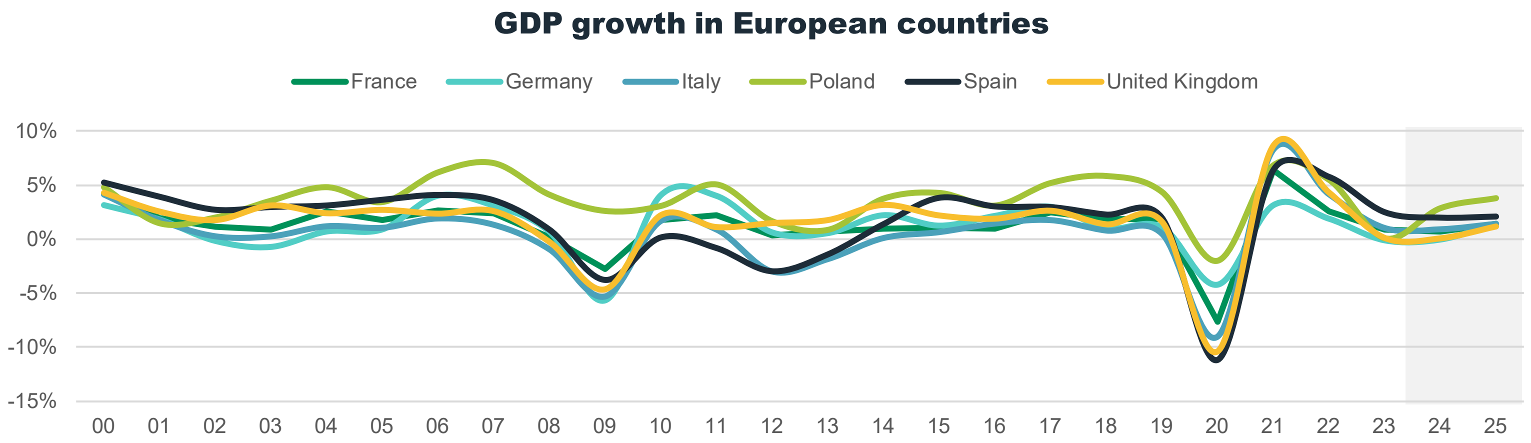
Momentum in employment on the other hand is slower in both services and manufacturing especially. This may reflect that due to labour hoarding, companies have enough staff to meet the expected increase in demand. In such case, productivity may improve, which would be welcomed by companies given the pressure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

Sources: S&P, BNP Paribas Economic Research.

ECONOMIC OUTLOOK

WHAT OUTLOOK FOR THE MAIN ECONOMIES?





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.

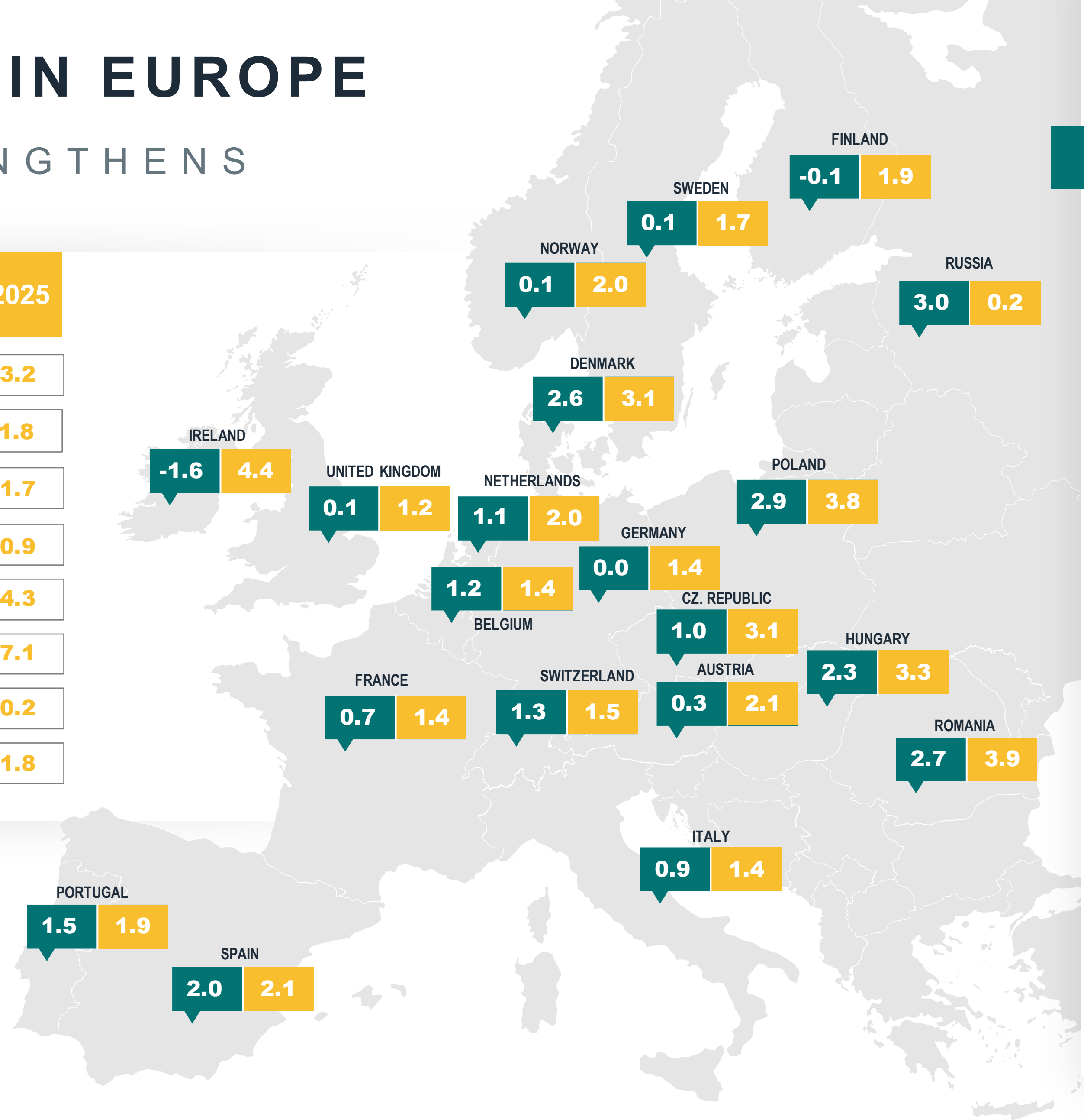
Encouraging news in Europe

- 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



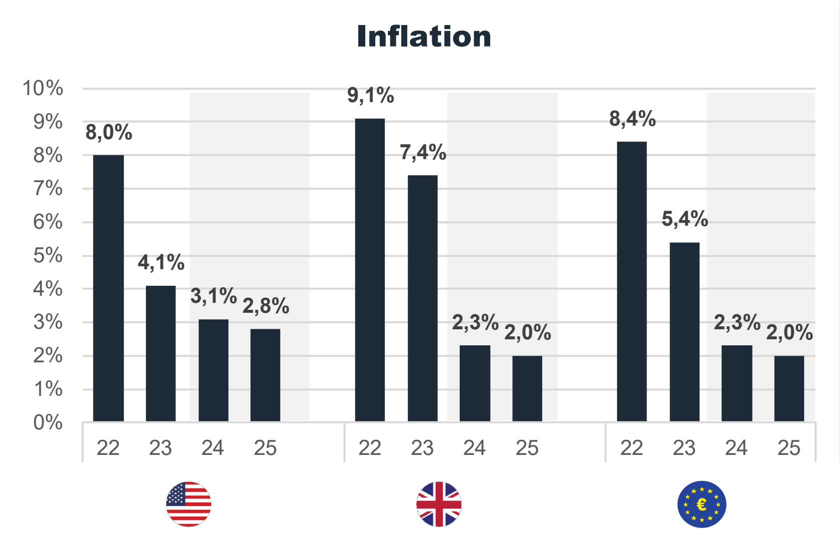
A more resilient economic scenario

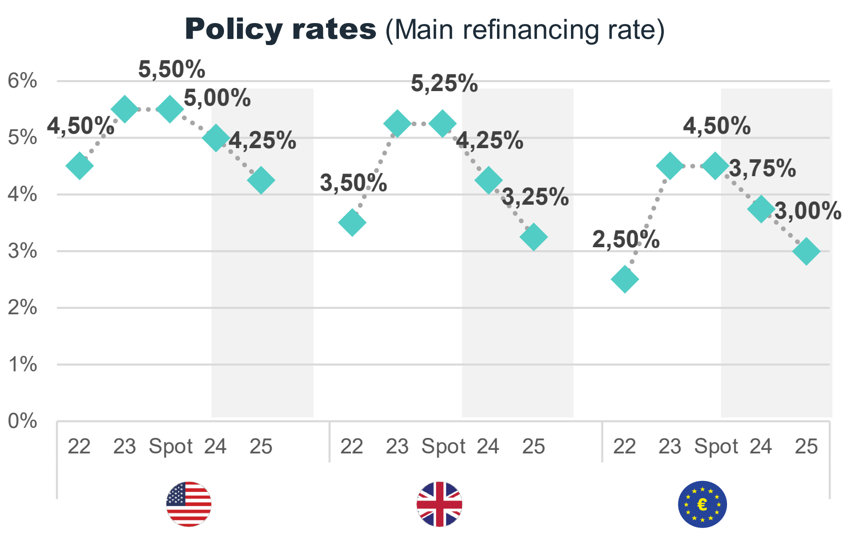
- Our 2024 growth forecasts for the OECD countries are close to those of the ECB.
- Economic growth in the United States is expected to slow down marginally during the first quarter of 2024, standing at +0.7% q/q, according to our estimate. The potential recessionary trend of the manufacturing sector 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.

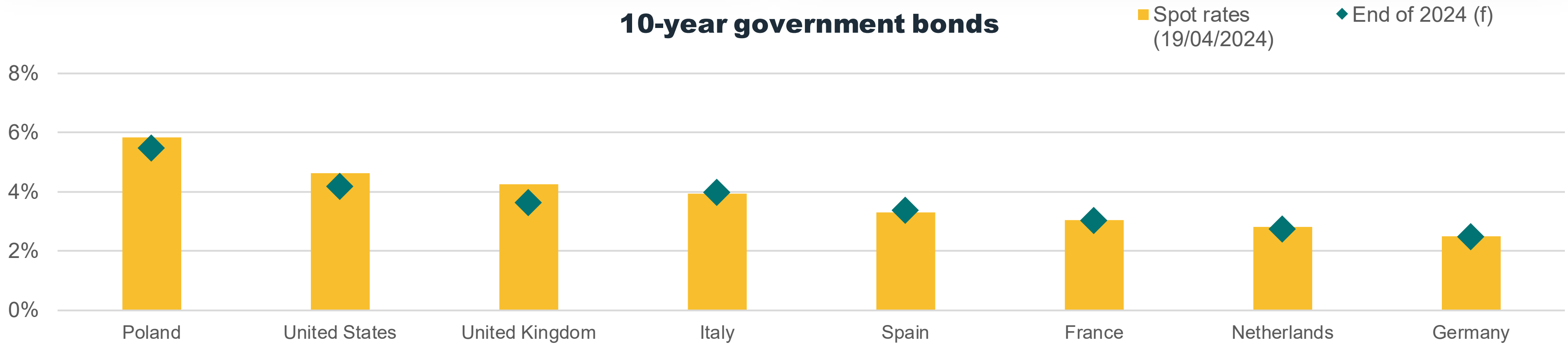
Source: BNP Paribas Real Estate Research

FINANCIAL OUTLOOK

ECONOMIC AND FINANCIAL INDICATORS







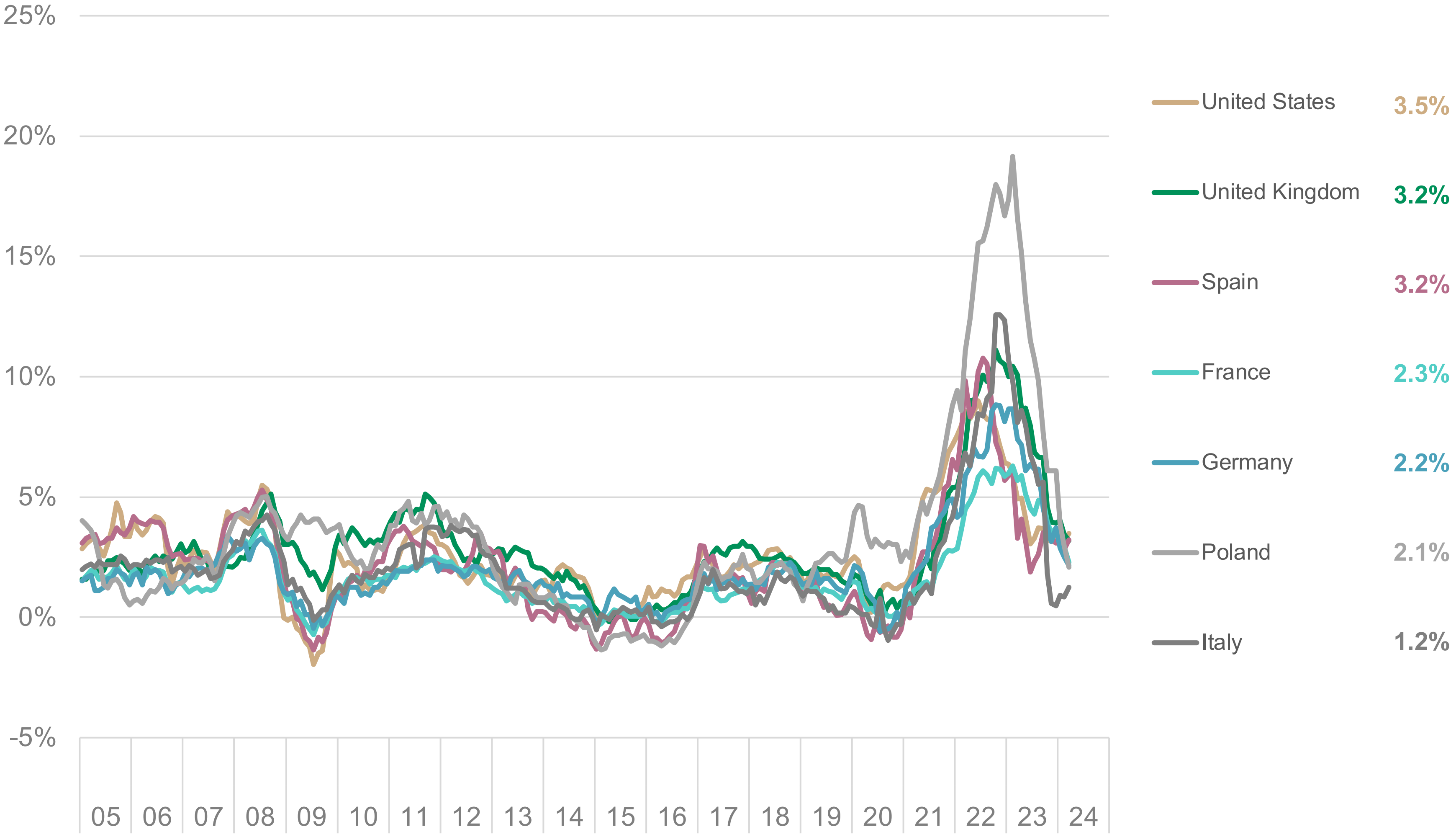
Each central bank has its own pace

- 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

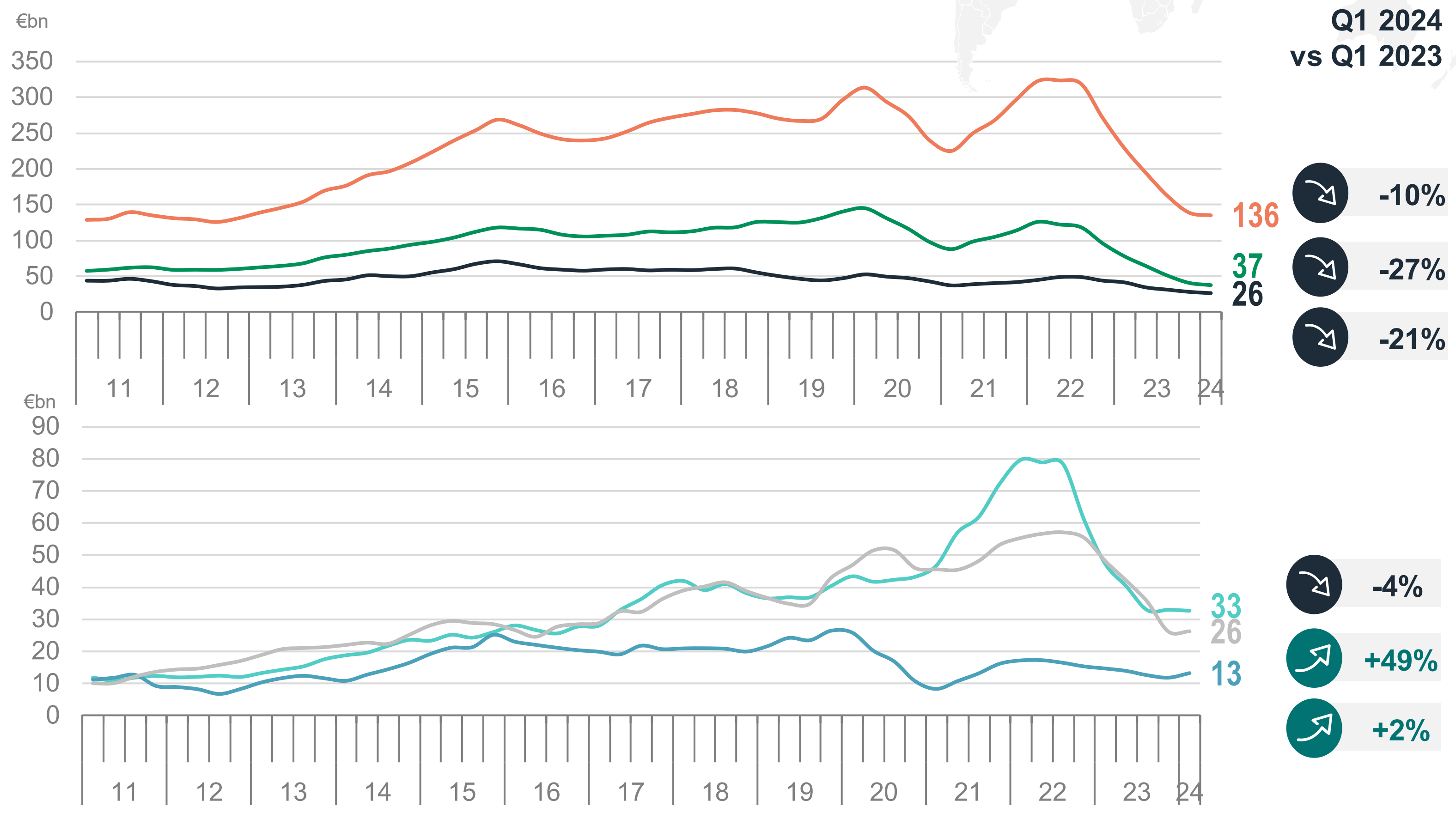
INVESTMENT IN EUROPEAN COMMERCIAL REAL ESTATE

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.

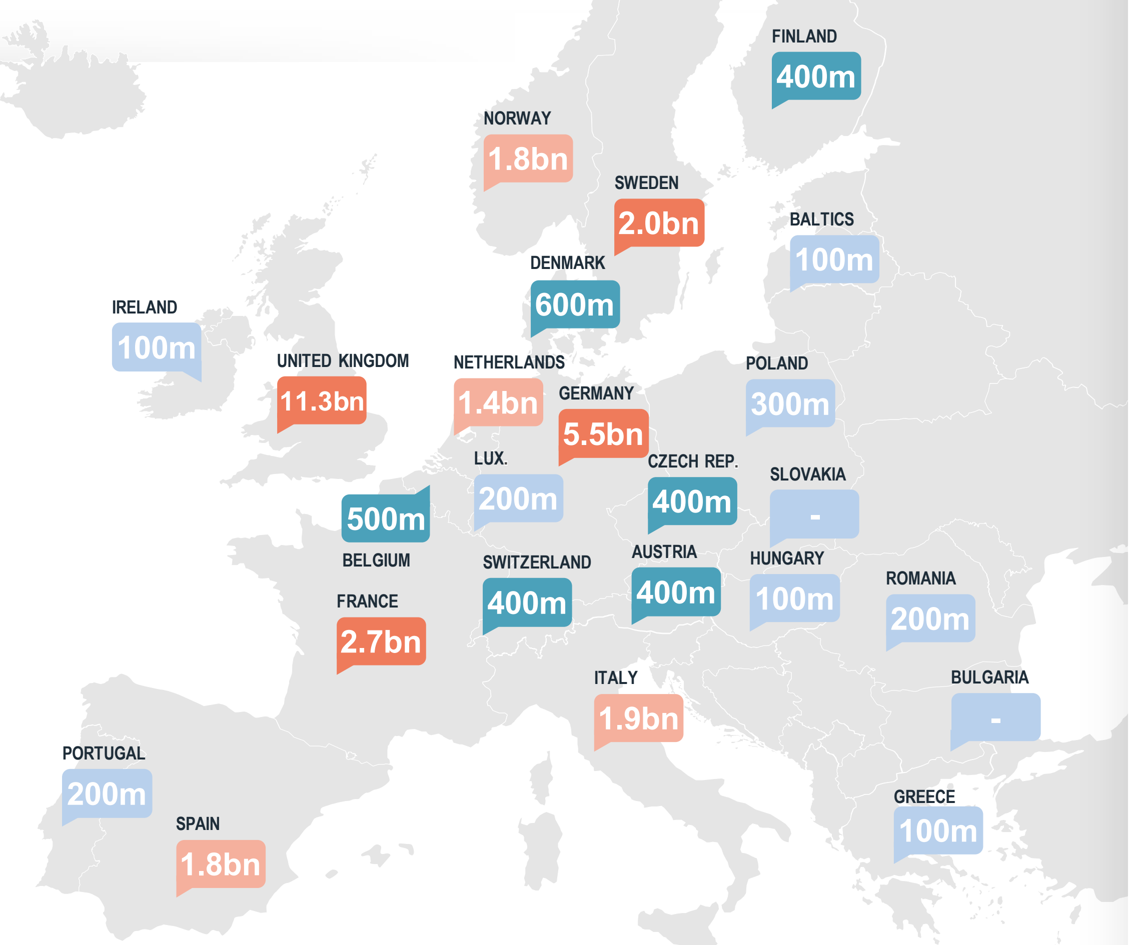
COMMERCIAL REAL ESTATE INVESTMENT

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

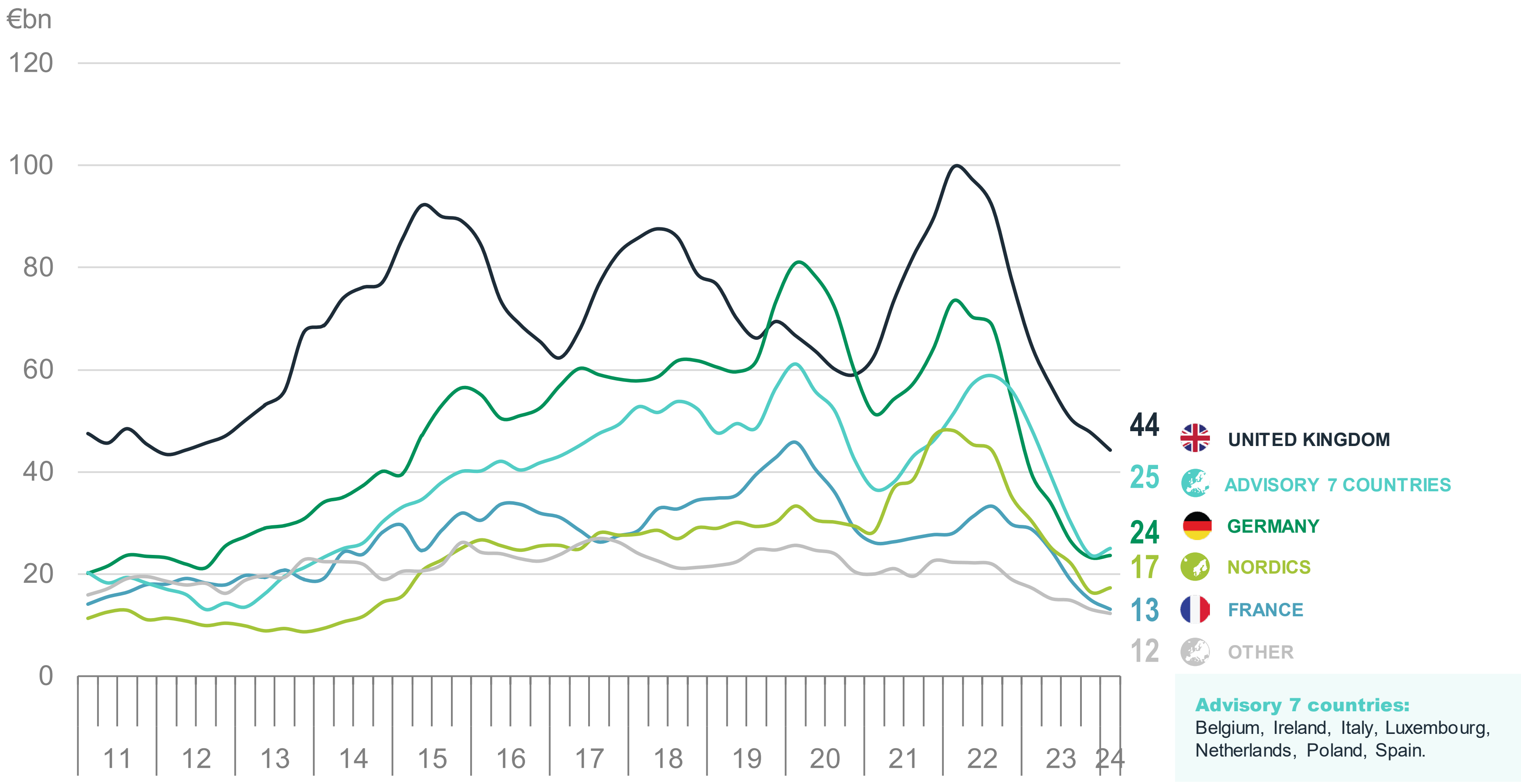
- €32.7bn were invested in Europe over Q1 2024, which represents a 10% decrease vs Q1 2023.
- Some countries saw an improvement in Q1 2024 compared to Q1 2023: Luxembourg (+954%), Italy (+159%), Norway (+101%), the Netherlands (+53%), Sweden(+9%), Germany (+8%) and Spain (+7%). Others are still in a 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.



Source : BNP Paribas Real Estate Research

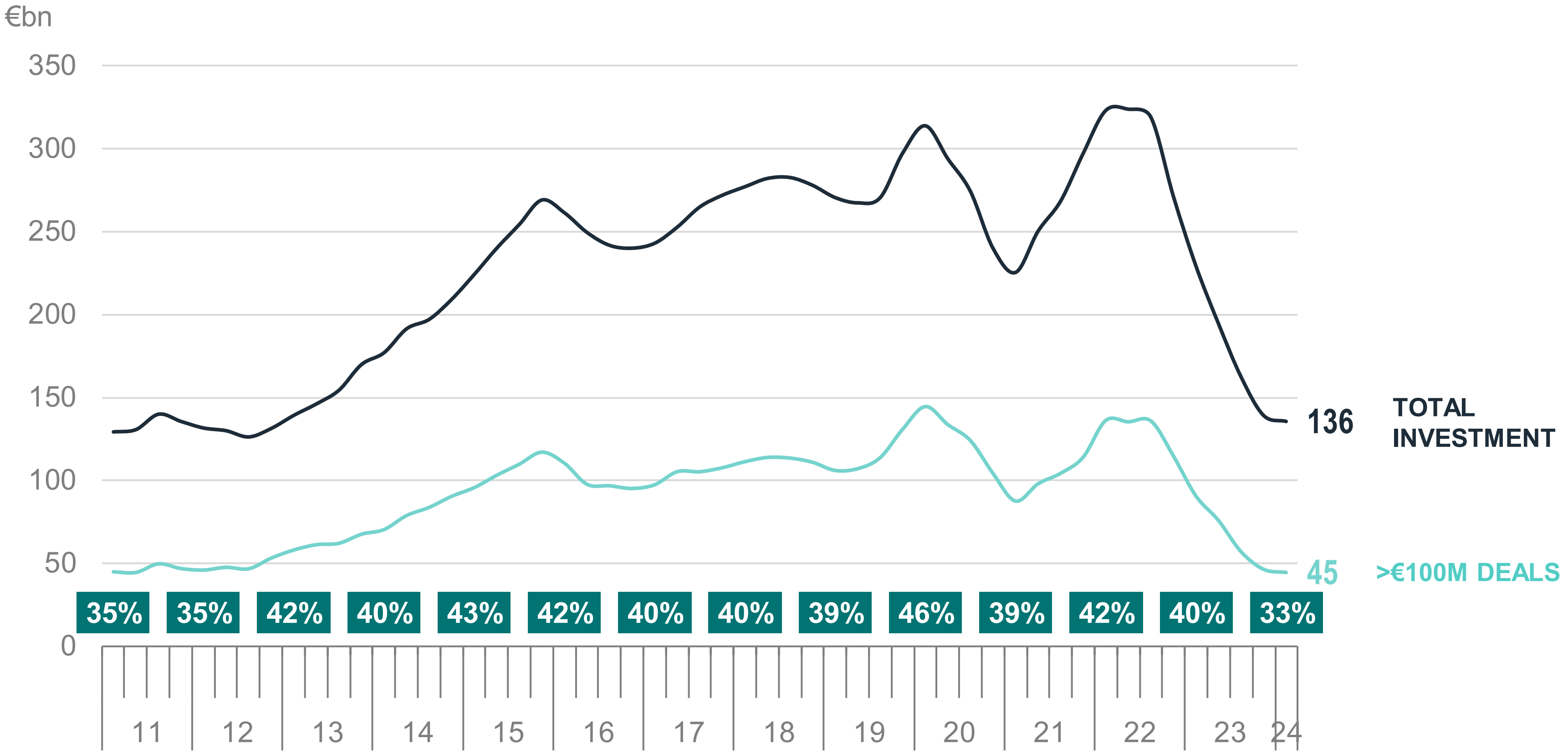
INVESTMENT BY SIZE BAND

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

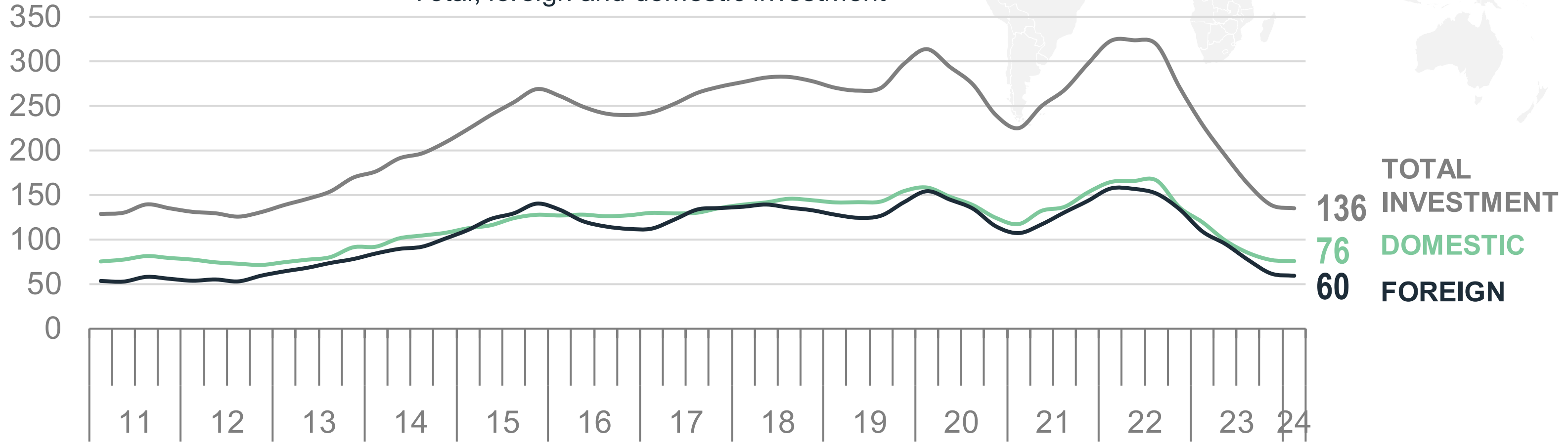


CROSS-BORDER INVESTMENT MARKET

- 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).

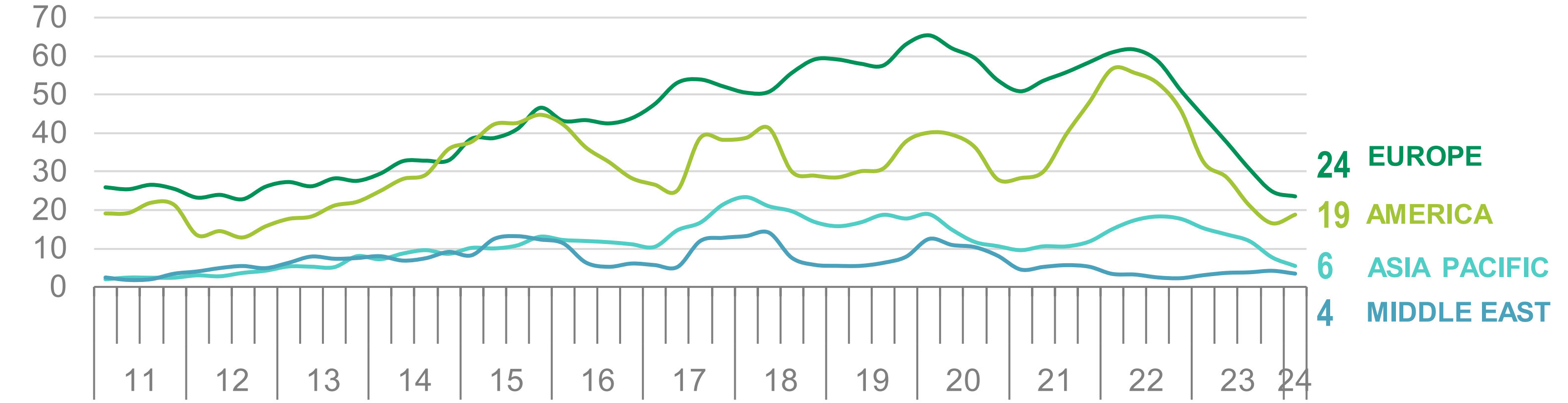
Commercial Real Estate Investment in Europe

Total, foreign and domestic investment



Commercial Real Estate Investment in Europe

Foreign investment detail



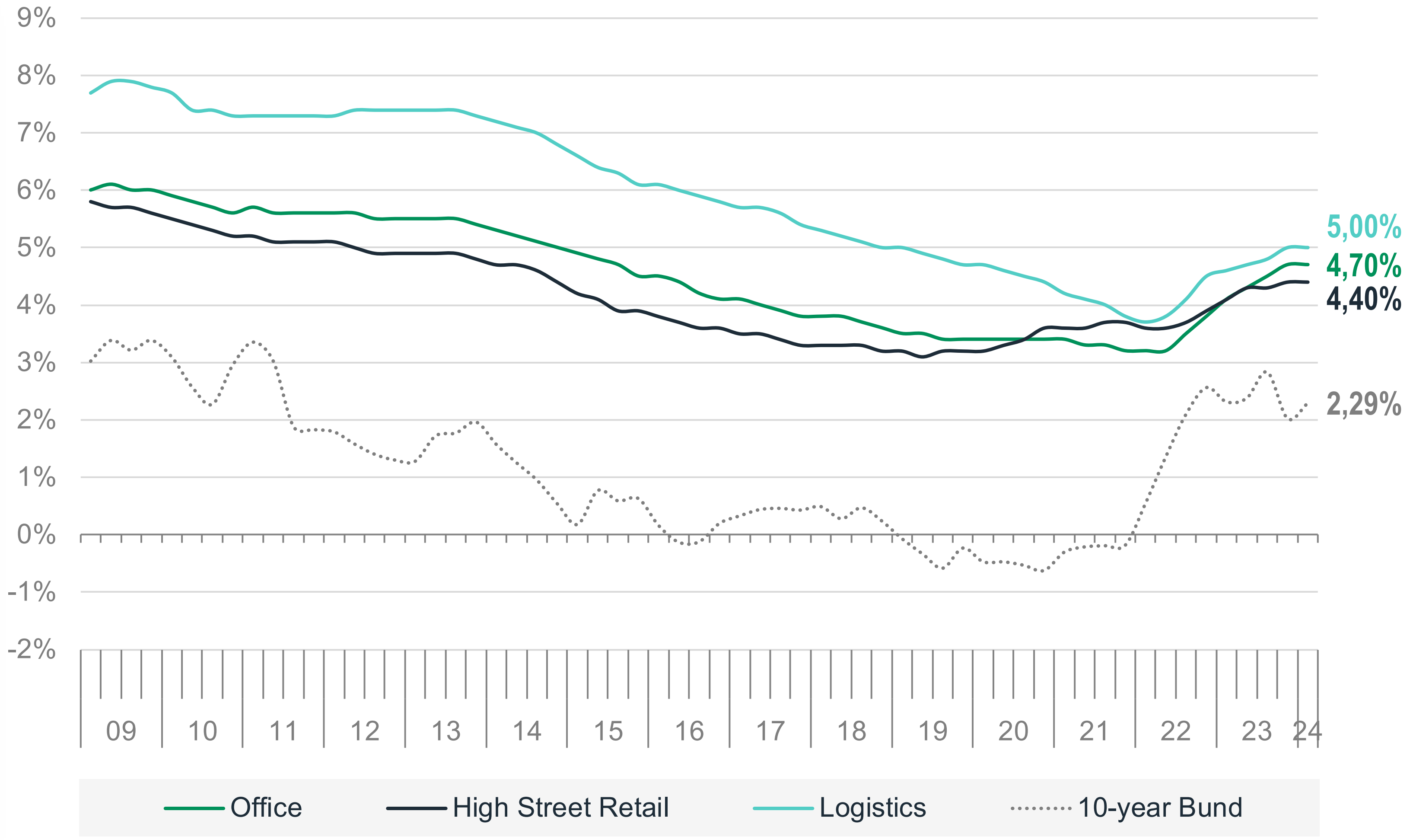
AVERAGE PRIME YIELDS IN EUROPE

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.



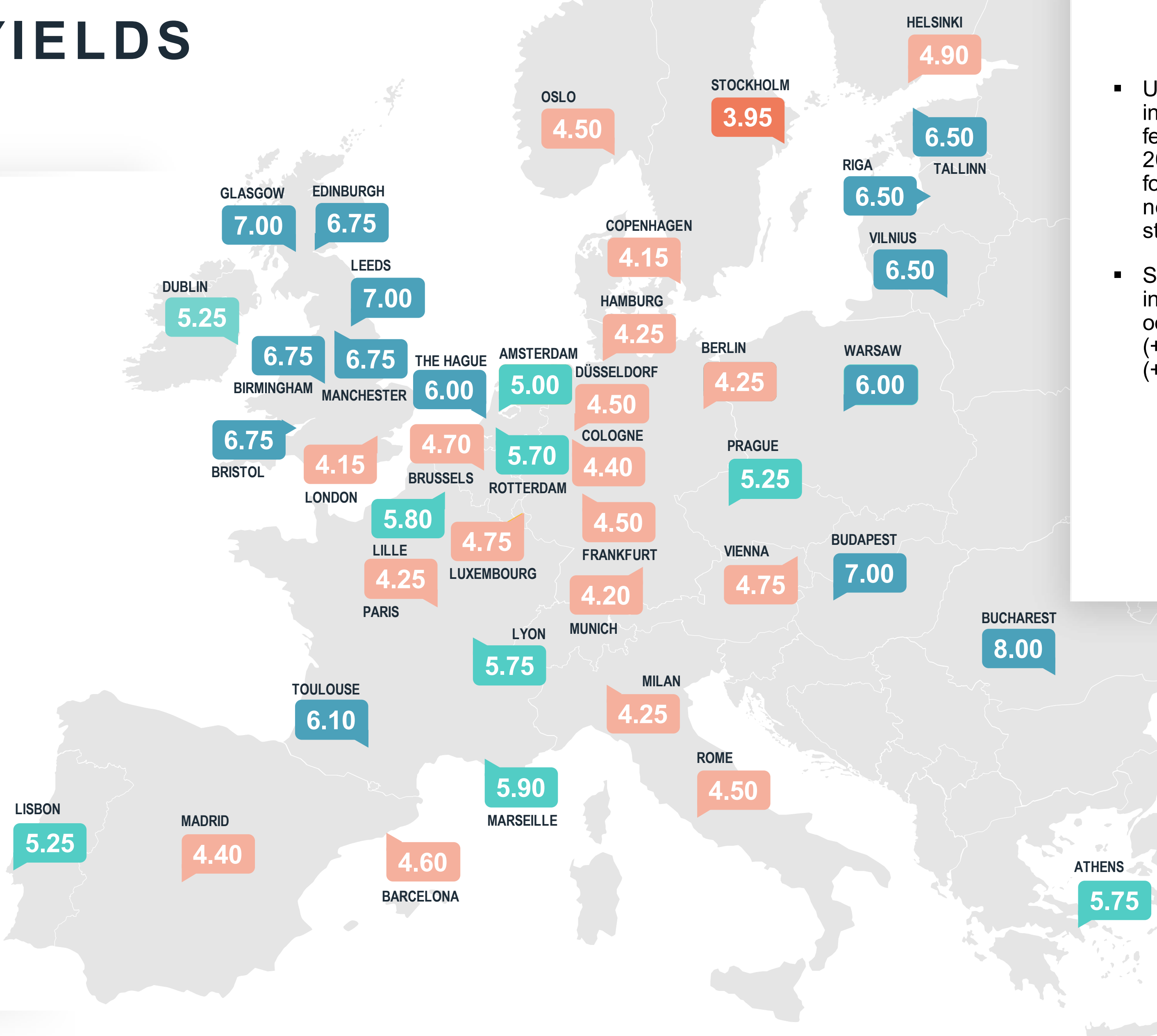
Source : BNP Paribas Real Estate

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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OFFICE MARKETS

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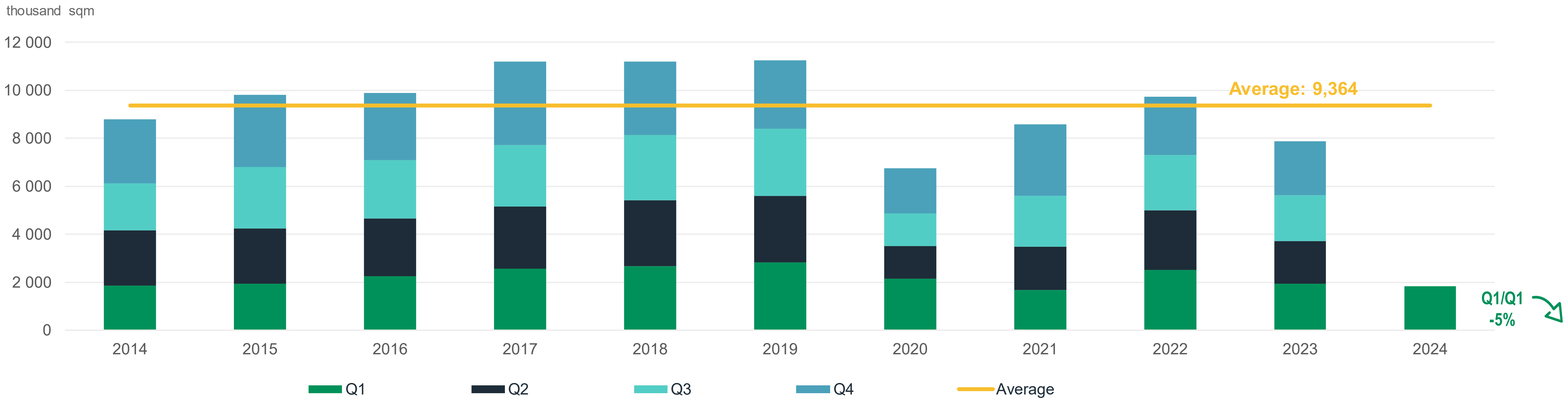
OFFICE TAKE-UP IN EUROPE – 3-MONTH PERIOD

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

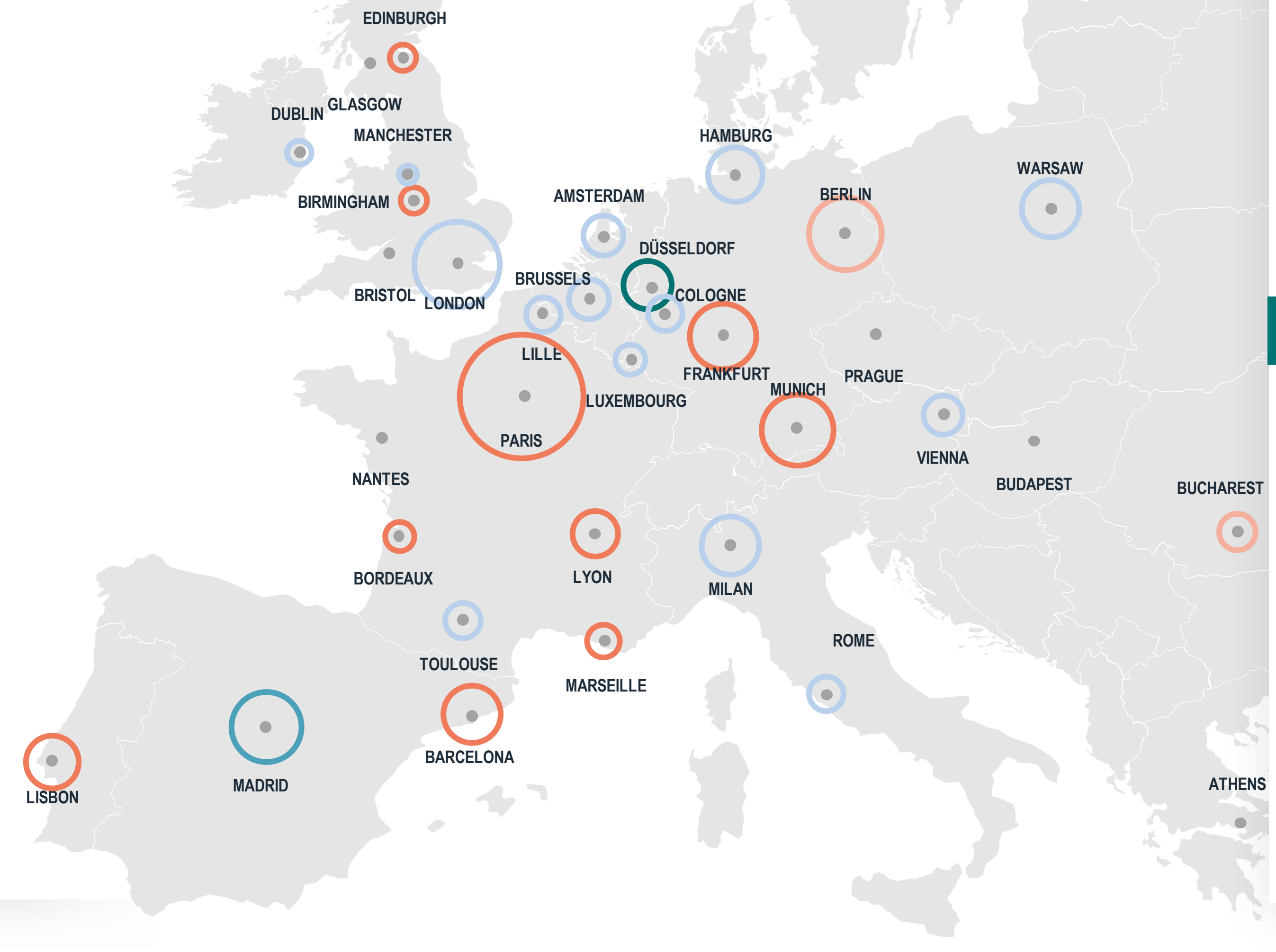
Q1 2024 vs Q1 2023

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

500
250
100

> +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

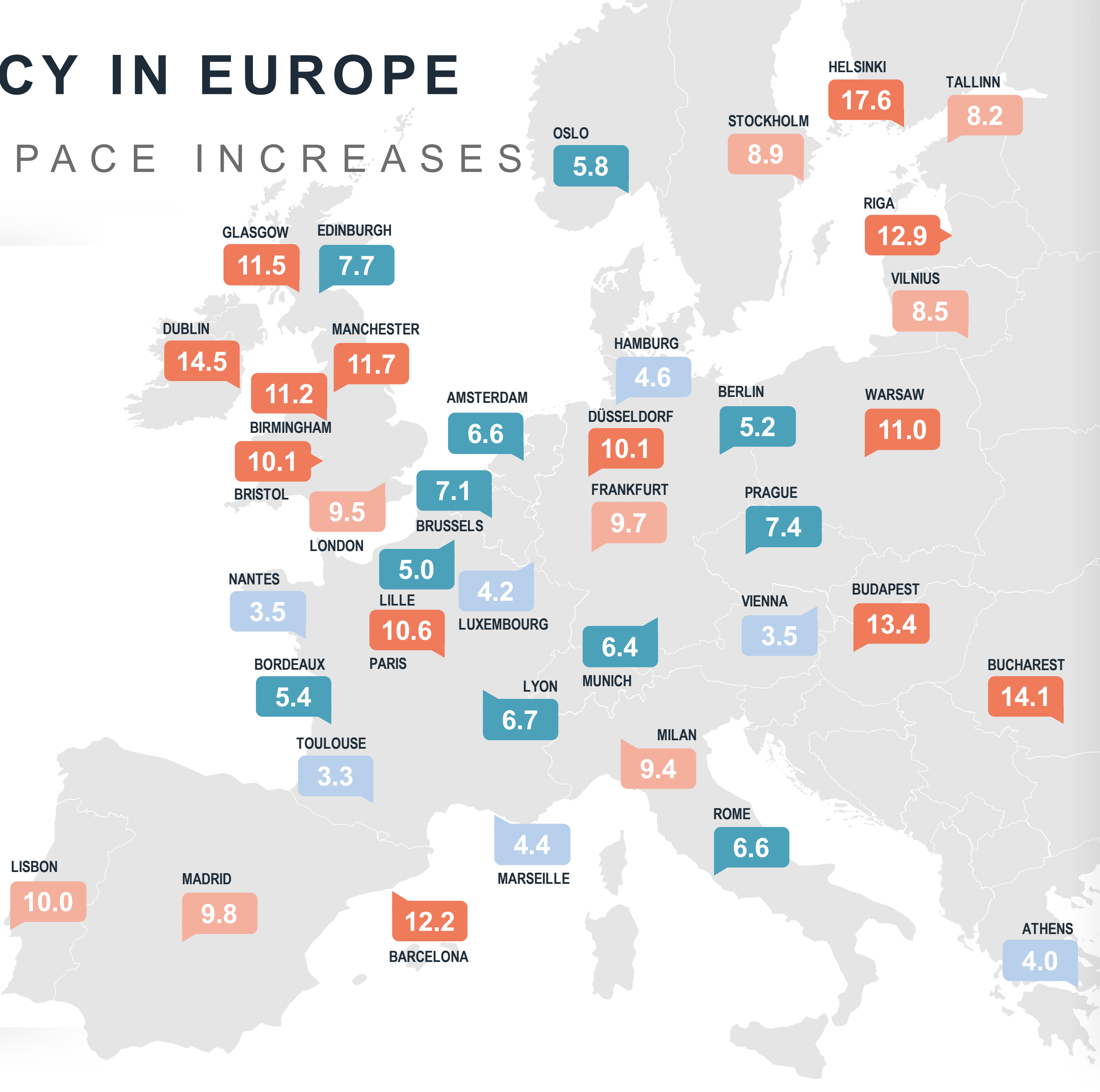
SECOND-HAND SPACE INCREASES

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

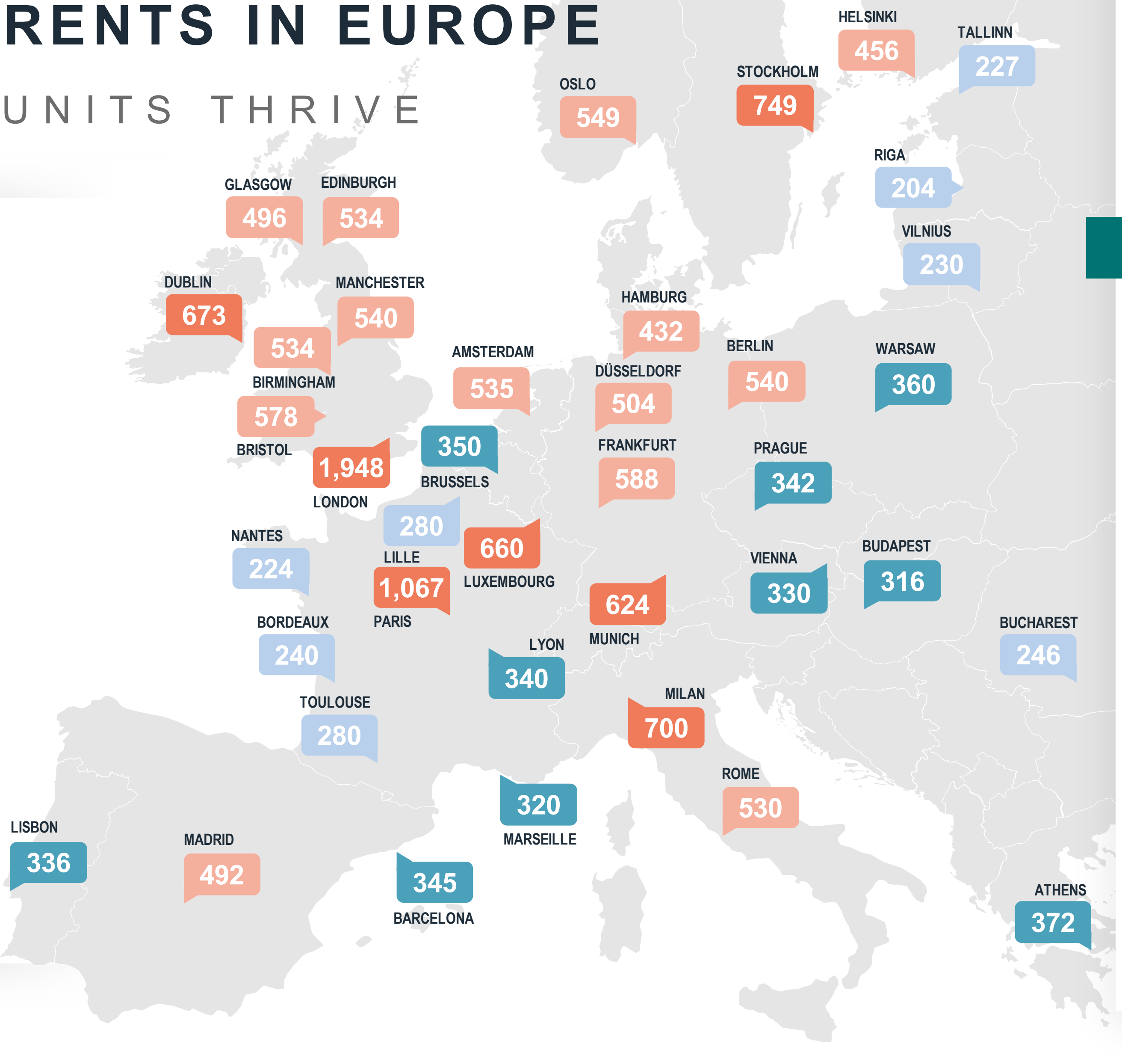
BEST IN CLASS UNITS THRIVE

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

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LOGISTICS MARKETS

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LOGISTICS WAREHOUSING MARKET IN EUROPE

LOGISTICS IN A NUTSHELL

MARKET FUNDAMENTALS REMAIN HEALTHY

- Take-up decreased by 25% in Q1 2024 across the leading European countries. The manufacturing sector still feels the effect of weak demand and exports have been slowing down.
- Market fundamentals remain healthy with vacancy rates below 5% in most countries. The lack of new developments remains supportive of rental growth in prime sectors although weaker demand offsets its momentum.

YIELD DECOMPRESSION IS DRAWING TO A CLOSE

- Industrial and logistics investment hit a low point in Q1 2024, decreasing by 4% in Europe as a whole compared to Q1 2023. Yet, the volume of investment rose in a number of individual countries, an encouraging trend for the rest of the year.
- Yield decompression is effectively drawing to a close and stabilisation was recorded in most countries during the first quarter 2024. This should unlock investment activity in 2024.

THE GLOBAL ECONOMIC ACTIVITY STRENGTHENS

- 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.

INFLATION REMAINS ON A DOWNWARD TREND

- Inflation continues to decline in the euro area, expected to fall temporarily below 2% in the second quarter. 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.
- 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.

STRONG POTENTIAL OF GROWTH FOR ONLINE SALES

- Online accounts for 11% of total retail sales in Europe. There are great differences between countries though, with northern European countries tending to have greater share. Changing shopping habits is a structural demand driver for warehousing space. As online shopping grows, so does reverse logistics, increasing the space needed.

THE CHOICE OF LOCATION REMAINS PARAMOUNT

- As retailers develop omni-channel solutions, the choice of location for last mile delivery along with regional delivery network is of fundamental importance. The main challenge faced with both is land availability.

LOGISTICS OCCUPIER MARKET IN EUROPE

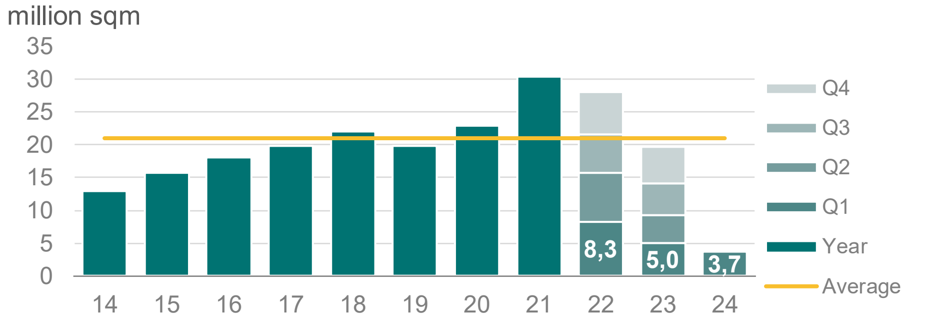
TAKE-UP IN 6 COUNTRIES: -25% (Q1 2024 VS Q1 2023)

BELOW ITS 5-YEAR AVERAGE, THE MARKET IS SLOWING DOWN

- In Q1 2024, the market decreased by 27% in the leading European markets compared to Q1 2023. Demand has been lagging and most countries recorded a slow start to the year.
- Logistics markets were boosted by e-commerce and food retailers over the past five years. Given the economic uncertainties and slow growth in the main European economies, weaker expansion is occurring here.
- The manufacturing sector still feels the effect of weak domestic demand and exports have been slowing down. Consequently, it is not surprising to see some signs of market slowdown in most countries.
- The risk of oversupply remains limited even though vacancy rates have been increasing in some markets. Overall, these remain low at sub 5% in most European countries.
- The lack of new products and increasing pressure on land availability continue to create an upward trend in rents.

COUNTRY PROFILES IN Q1 2024

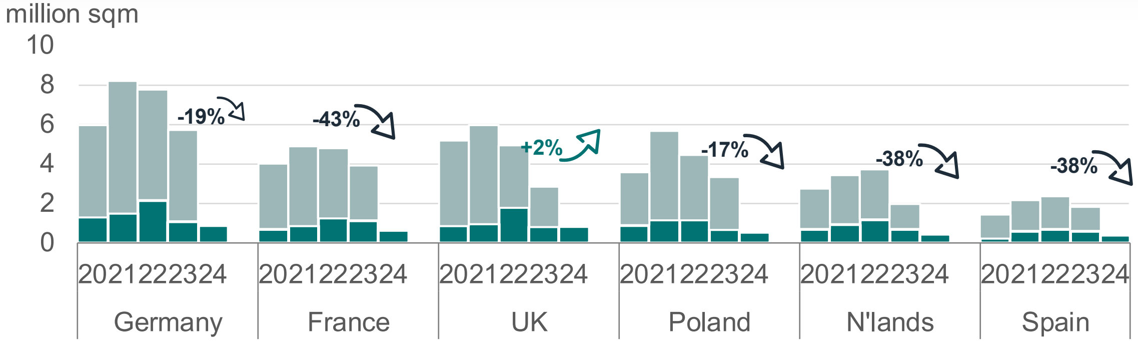
- In **Germany** the volume of transactions dropped significantly in Q1 2024. The economic downturn that has persisted for several quarters has become, with some delay, noticeable for the first time. ESG requirements and the scarcity of new products are still putting pressure on rents.
- In the **UK**, the market bottomed out in Q2 2023 before picking up during the second half of the year. Take-up stabilised in Q1 2024 compared to Q1 last year supported by strong demand from the Food & Beverages industry.
- Like most European countries, **Poland** recorded a slow start at the beginning of the year. Prime rents stabilised to €51.6/sqm/yr in Warsaw II and €50.4 in Poznan and Central Poland.
- In **France**, the logistics occupier market remained quite resilient during 2023 in a context of weak economic growth and high inflation. Market slowdown in Q1 2024 is unsurprising as the economy remains slow. Overall, land is becoming scarce, and the lack of supply has become recurrent in some markets. The vacancy rate in France is at 3.3%.
- In the **Netherlands**, following two years of buoyant lettings, the market slowed sharply in 2023 reflecting lower economic activity and the lack of good quality supply. Like most European countries, it experienced a slow start in Q1 2024. Low availability is still putting pressure upward on rents.
- In **Spain**, the market recorded a slowdown in Q1 2024 compared to Q1 2023 but still maintained a good volume of transactions, particularly in Madrid. Unlike most European countries, the Spanish economy has expanded, and GDP growth is forecast to increase by 2.0% in 2024.



-35%

Q1 2024 vs Q1 2023

Source: BNP Paribas Real Estate Research



LOGISTICS PRIME RENTS

STEADY RENTAL GROWTH IN Q1 2024

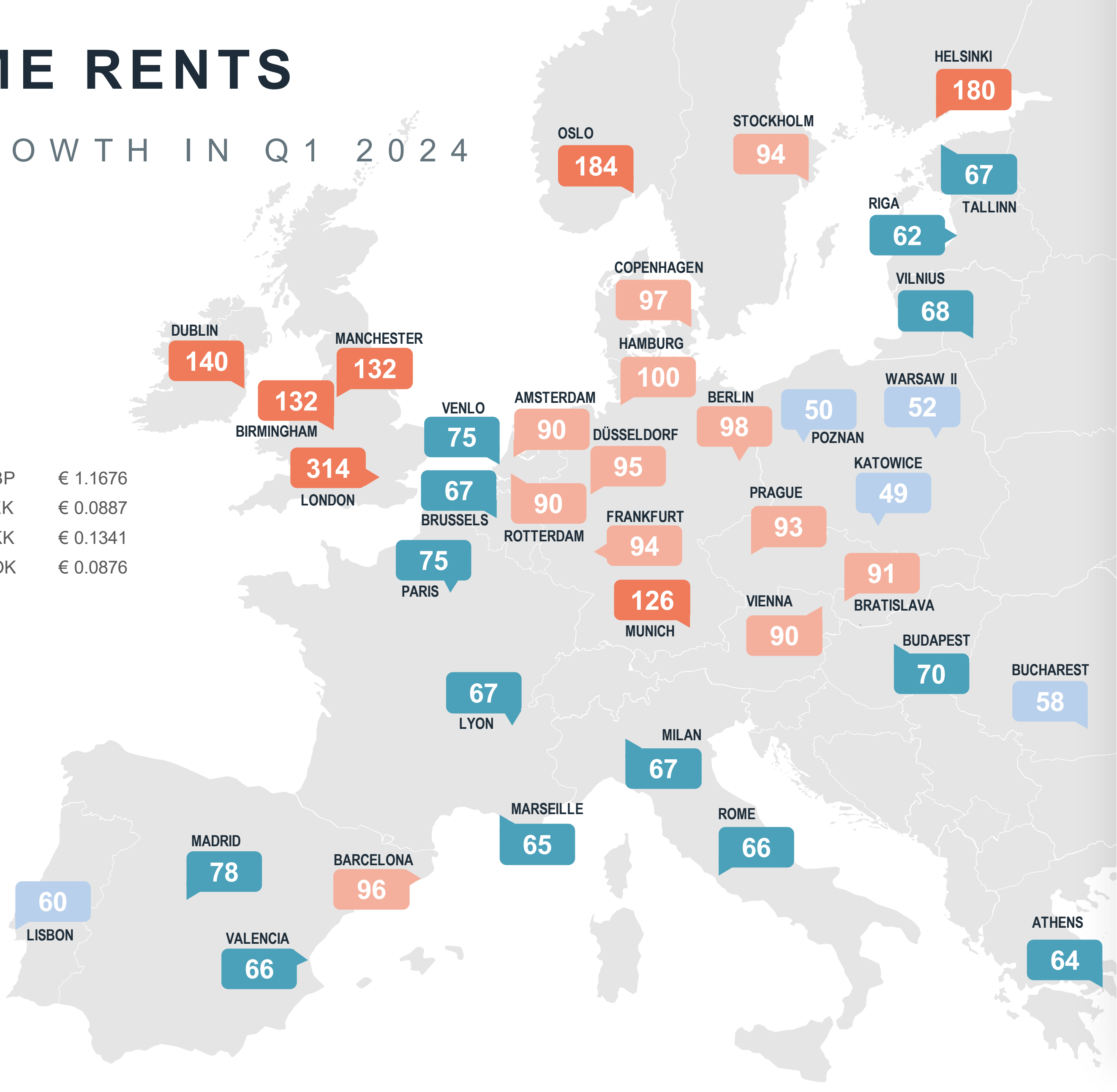
Q1 2024 vs Q1 2023

FRANKFURT	+8%
BERLIN	+5%
LONDON	=
BIRMINGHAM	+11%
PARIS	+19%
VENLO	+11%
MADRID	+4%
BARCELONA	=
WARSAW II	+2%
PRAGUE	-9%
MILAN	+6%
STOCKHOLM	+6%
OSLO	+17%

Rents in €/sqm/yr

- ≥ €100
- €80-100
- €60-80
- ≤ €60

1 GBP	€ 1.1676
1 SEK	€ 0.0887
1 DKK	€ 0.1341
1 NOK	€ 0.0876

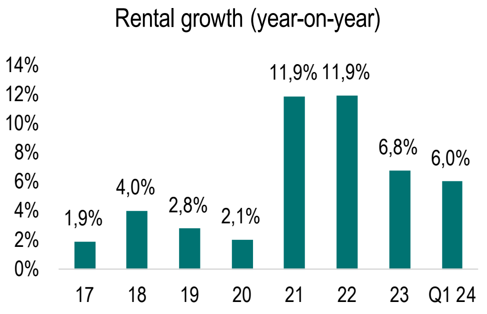


EUROPE Q1 2024

+6.0% vs Q1 2023

49 markets, 22 countries

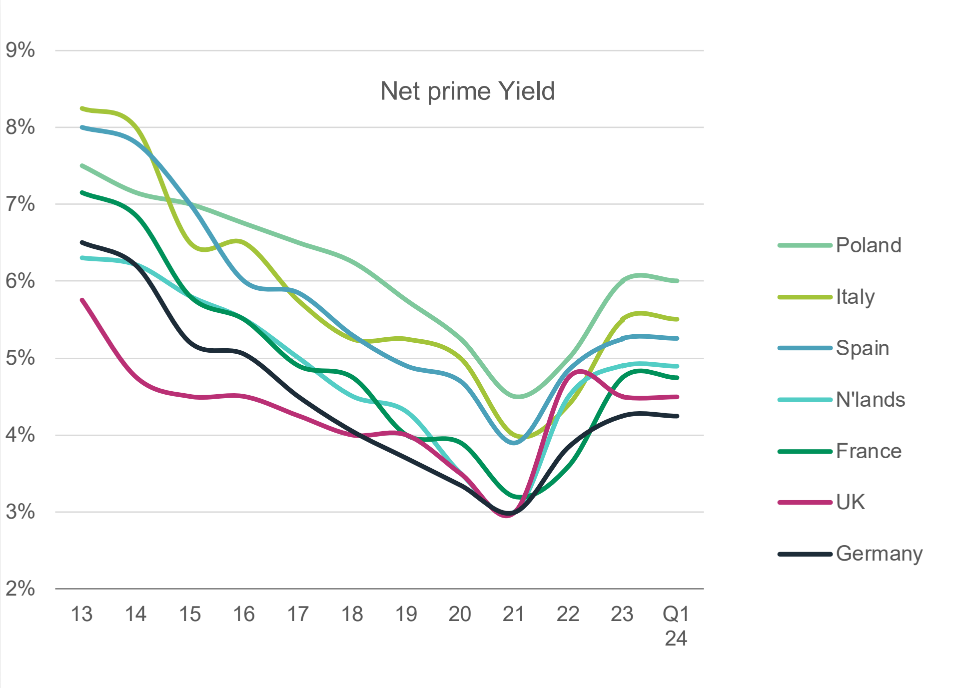
Rental growth (year-on-year)



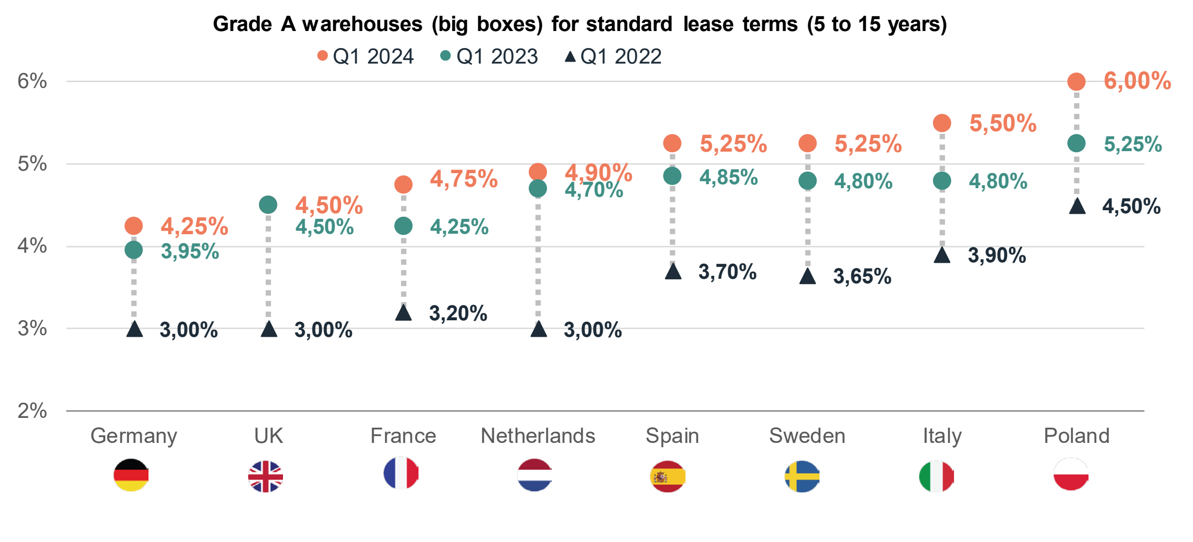
Source : BNP Paribas Real Estate

NET PRIME YIELDS IN EUROPE

STABILISATION IN Q1 2024



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



Logistics prime yields have stabilised in Europe for the first time in 2 years

- Prime yields rose by 2 bps during Q1 2024 in Europe (+2 bps over the past quarter).
- Inflationary pressure and subsequent rising long-term government bond yields that had led to logistics prime yield expansion over the past two years are progressively being lifted.
- Logistics prime yields may stabilise throughout Europe by H2. This reflects the anticipated downward changes in interest rate policy over the second half of 2024.

Sources: S&P, BNP Paribas Economic Research

BNP PARIBAS REAL ESTATE

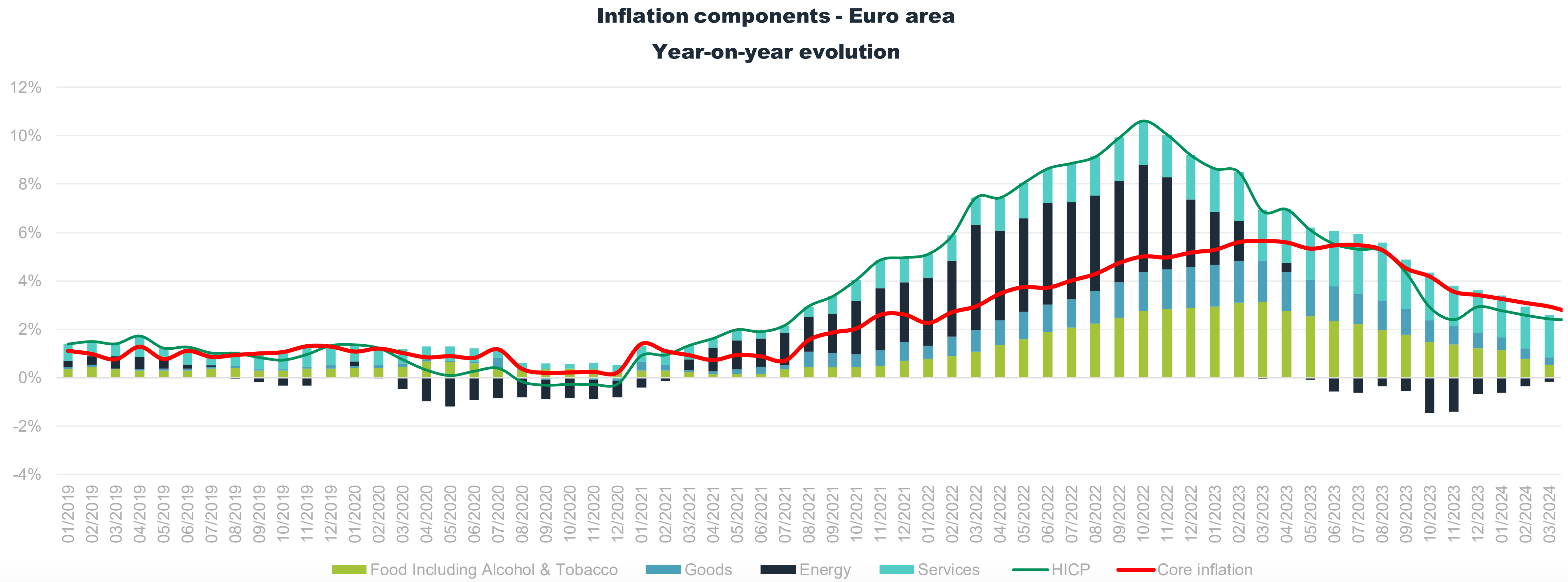
02.

REAL ESTATE PERSPECTIVES

RETAIL MARKETS

EUROPE CRE 360

CORE INFLATION IS SLOWING

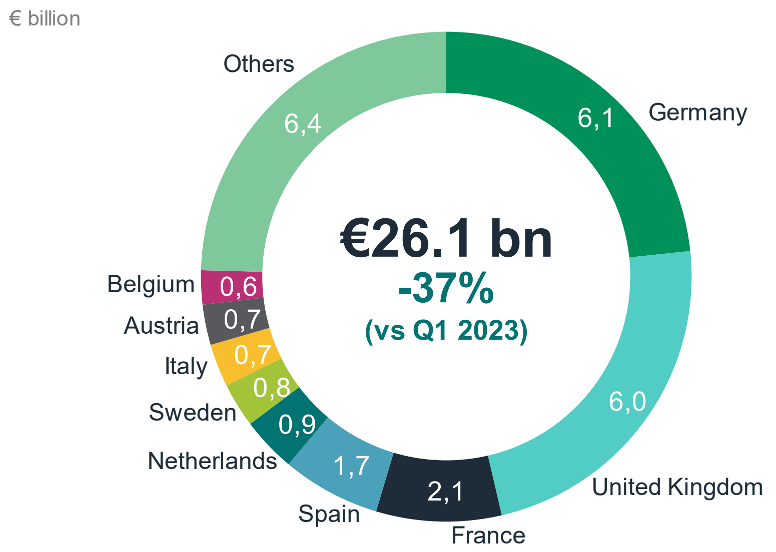


- The Harmonised Index of Consumer Prices (HICP) growth for the Euro area stands at **+2.4%** y-o-y in April, stabilising slightly above the ECB's 2% target.
- Energy has been making a negative contribution to inflation since May 2023, **due to base effects** following the sharp rise recorded in 2022.
- **Food prices**, which were the main component of inflation in 2023, have also fallen back (+0.1% y-o-y in March 2024 compared with +15.5% a year ago).
- **Core inflation has also been falling steadily over the past 9 months**, from +5.5% to +2.7% in April. It is being driven mainly by **services**, reflecting the rise in wages, which should outperform inflation this year and improve household purchasing power.

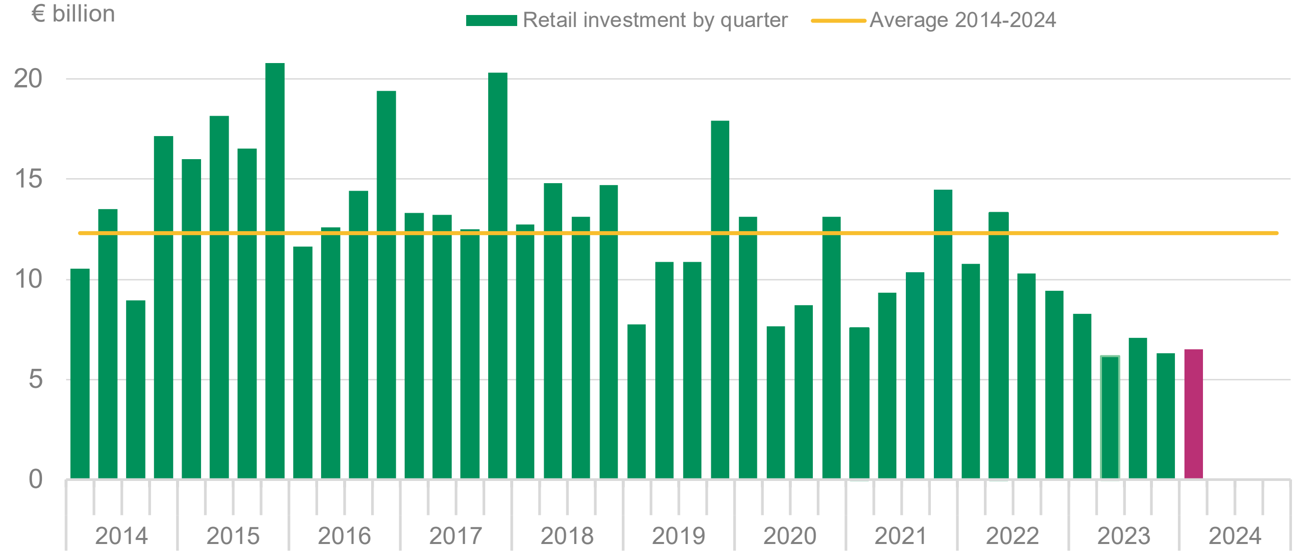
Sources: BNP Paribas Economic Research, Eurostat.

RETAIL SECTOR STILL ON THE SLOW PATH TO RECOVERY

Breakdown by country (Q1 2024 – 12 months)



Retail investment by quarter



- **Retail** recorded a decrease of **37%** in investment volume.
- Investors show **most confidence** in the core markets, as Germany, the UK and France captured **more than 50% of transaction volume**.
- Investor interest in retail assets is selective though slowly **gaining more traction** in **investment market share** (**19%** in Q1 24 vs **18%** in Q1 23). This level had not been observed for **5 years** (19% in Q1 19).
- In some countries, over the 12 past months**, retail has been one of the most traded commercial asset classes**. In Germany, investors allocated almost as much capital in retail (26%) than in logistics (28%) and for the first time, it is even ahead of office (23%). In Spain, the retail sector is the second biggest sector after hotel with 24% of the total.
- This **weak investment market** contrasts with a **strong occupier market**. Indeed, operational fundamentals are performing well, in terms of retailer turnover, footfall, and rental payment.

RETAIL INVESTMENT IN EUROPE BY ASSET CLASS – 2024

RETAIL WAREHOUSING ATTRACTED HALF OF RETAIL INVESTMENT

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HIGH STREET

26%

(-59% vs Q1 2023)*

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SHOPPING CENTRES

23%

(-52% vs Q1 2023)*

RETAIL WAREHOUSING **51%** (-29% vs Q1 2023)*

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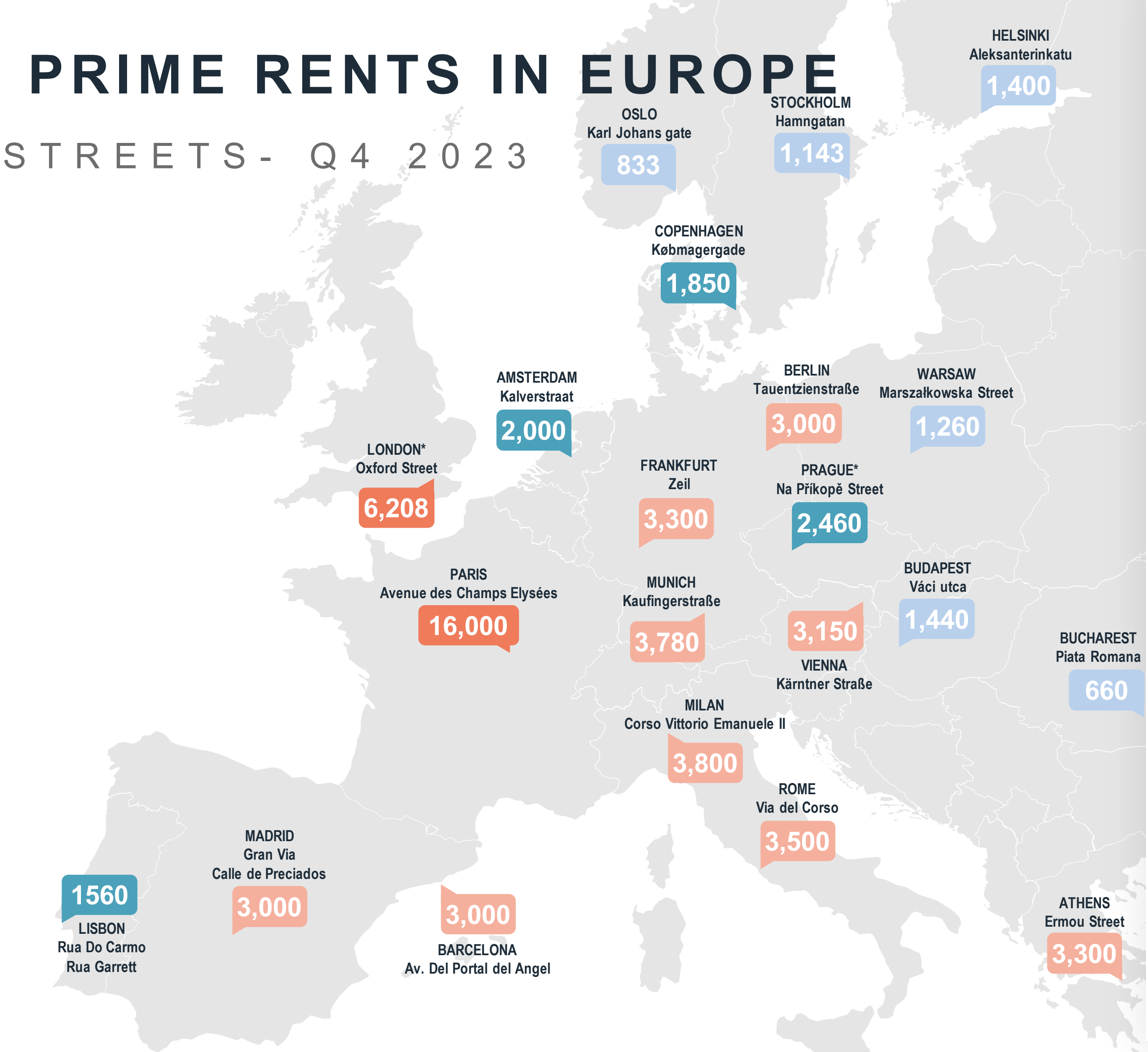
*the sub-sector % breakdown refers to total investment volume in six European countries (Germany, UK, France, Spain, Italy and Poland)

HIGH STREET PRIME RENTS IN EUROPE

MASS MARKET STREETS- Q4 2023

Q4 2023 vs Q4 2022

CENTRAL LONDON	-9%
CENTRAL PARIS	=
MUNICH	+2%
MILAN	+9%
ATHENS	=
ROME	+13%
VIENNA	+5%
BARCELONA	-11%
MADRID	-11%
PRAGUE	=
AMSTERDAM	-5%
COPENHAGEN	=
LISBON	+2%
BUDAPEST	+6%
HELSINKI	-18%



EUROPE – Q4 2023

-1% **21 markets**

Expectations for rental growth is flat currently. Multi-location operators are **carefully reconsidering their business location network. CBD vitality** is in **flux** due to post-covid market situation.

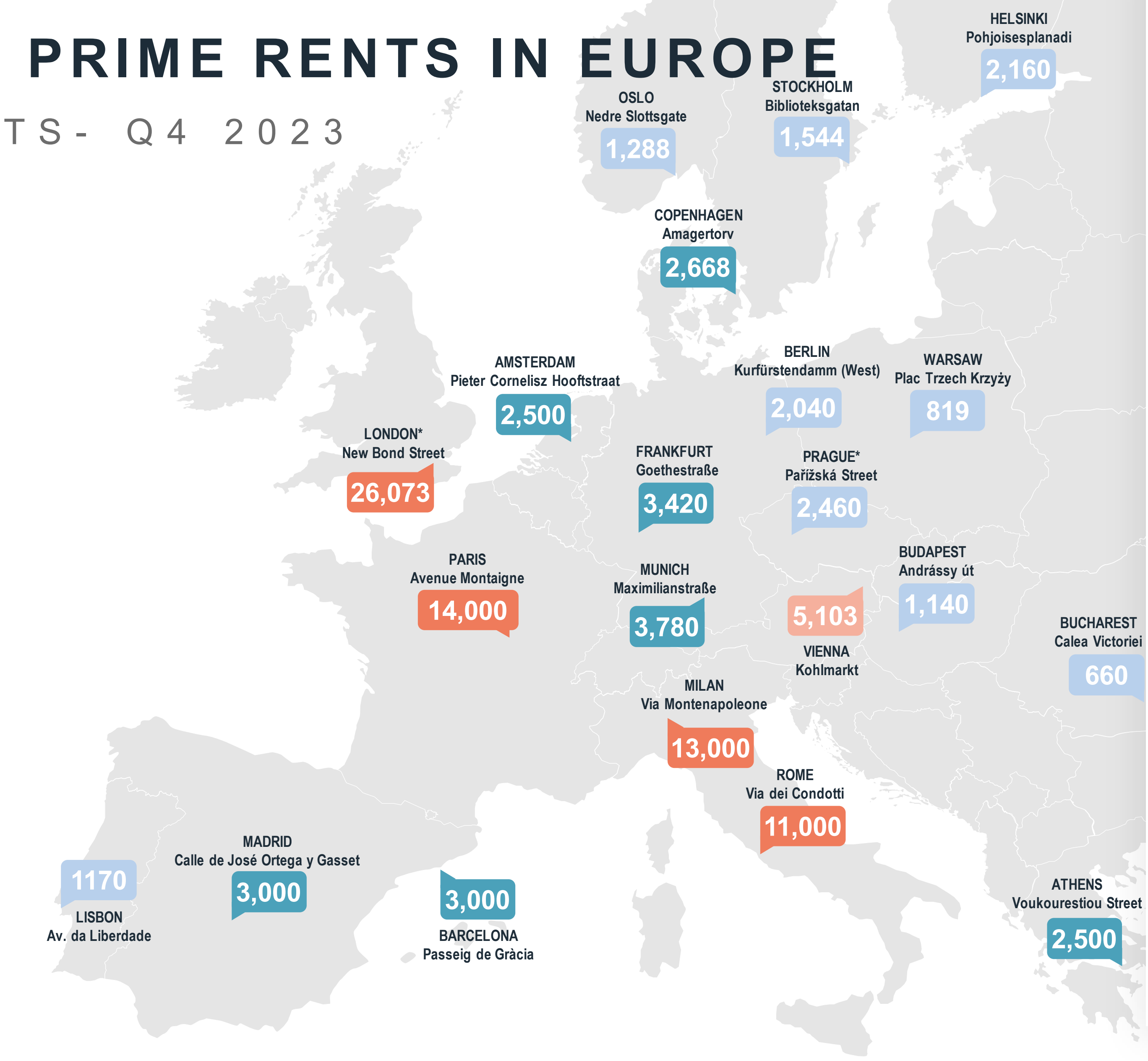
Bucharest is becoming a more popular **tourist destination**, and this could lead to an **increase in demand for retail space** in the city. Moreover, the Romanian government is investing heavily in infrastructure projects, which could make it **easier for retailers to access Bucharest and its city centre.**

> € 6,000 | € 3,000 - 6,000 | € 1,500 – 3,000 | < € 1,500

**Q2 2023 values. Source : BNP Paribas Real Estate and Alliances*

HIGH STREET PRIME RENTS IN EUROPE

LUXURY STREETS- Q4 2023



Q4 2023 vs Q4 2022

CENTRAL LONDON	=	→
CENTRAL PARIS	=	→
MILAN	+16%	↗
ROME	+15%	↗
VIENNA	+5%	↗
MUNICH	+2%	↗
BARCELONE	=	→
MADRID	=	→
COPENHAGEN	+1%	↗
AMSTERDAM	=	→
ATHENS	=	→
PRAGUE	=	→
HELSINKI	-20%	↘
STOCKHOLM	+1%	↗
LISBON	+3%	↗

> € 10,000 | € 5,000 -10,000 | € 2,500 – 5,000 | < € 2,500

EUROPE – Q4 2023

+1% **21 markets**

Prime rents continue to edge upwards. Demand for the **luxury submarket is strong** but focused on key locations such as **Milan** and **Rome**. High street customers tend to be characterised by a **lower sensitivity to price increases.**

The luxury segment seems to be doing fine, with strong purchasing power from tourism due to **weak NOK** and **low inflation** compared to other European countries.

**Q2 2023 values. Source : BNP Paribas Real Estate and Alliances*

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02.

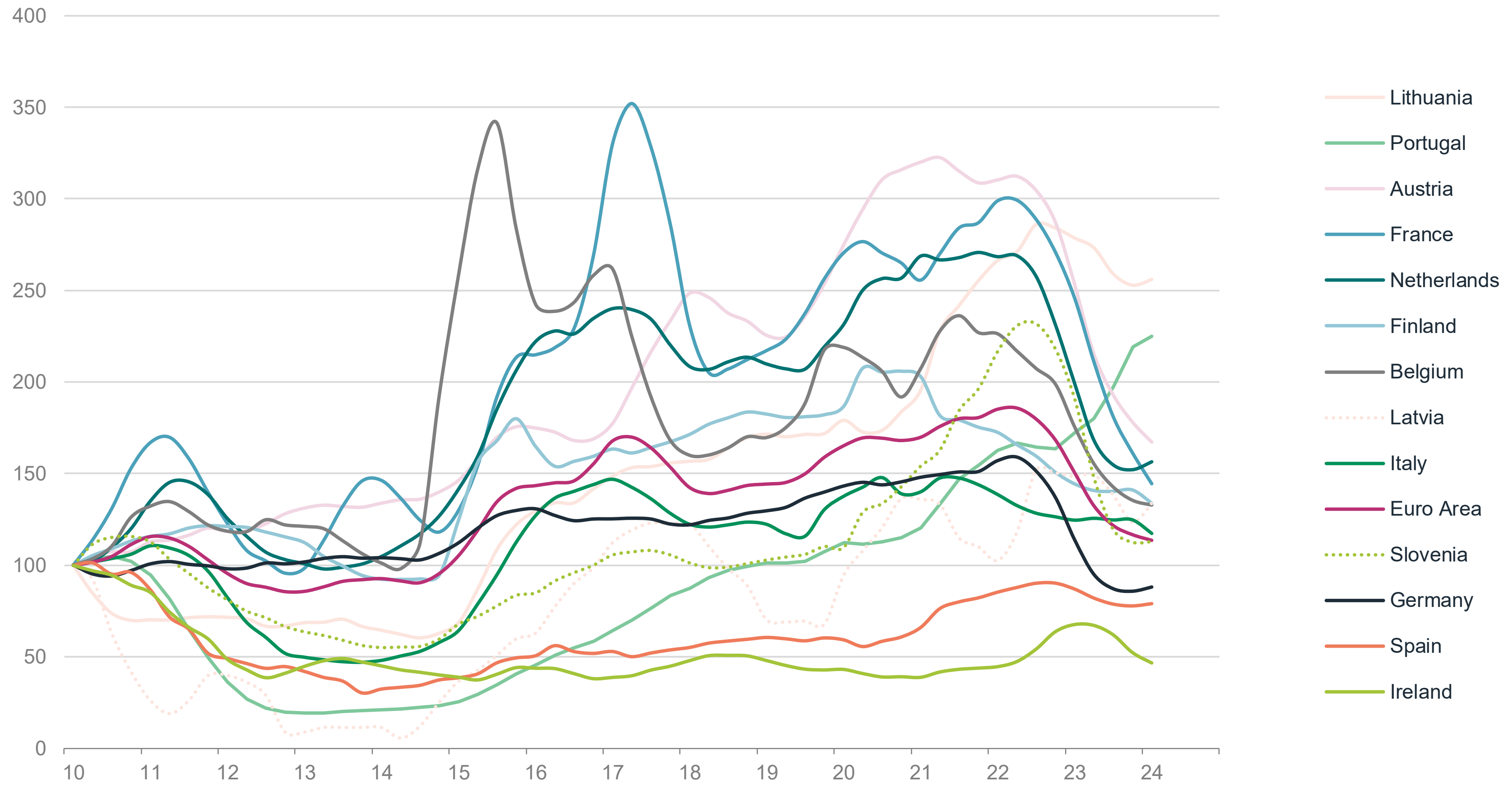
REAL ESTATE PERSPECTIVES

RESIDENTIAL MARKETS

MORTGAGE LENDING IN EUROPE

MORTGAGE LENDING DECLINES SHOULD BOTTOM OUT SOON

Mortgage lending (Index Q1 2020=100)



Sources: European Central Bank

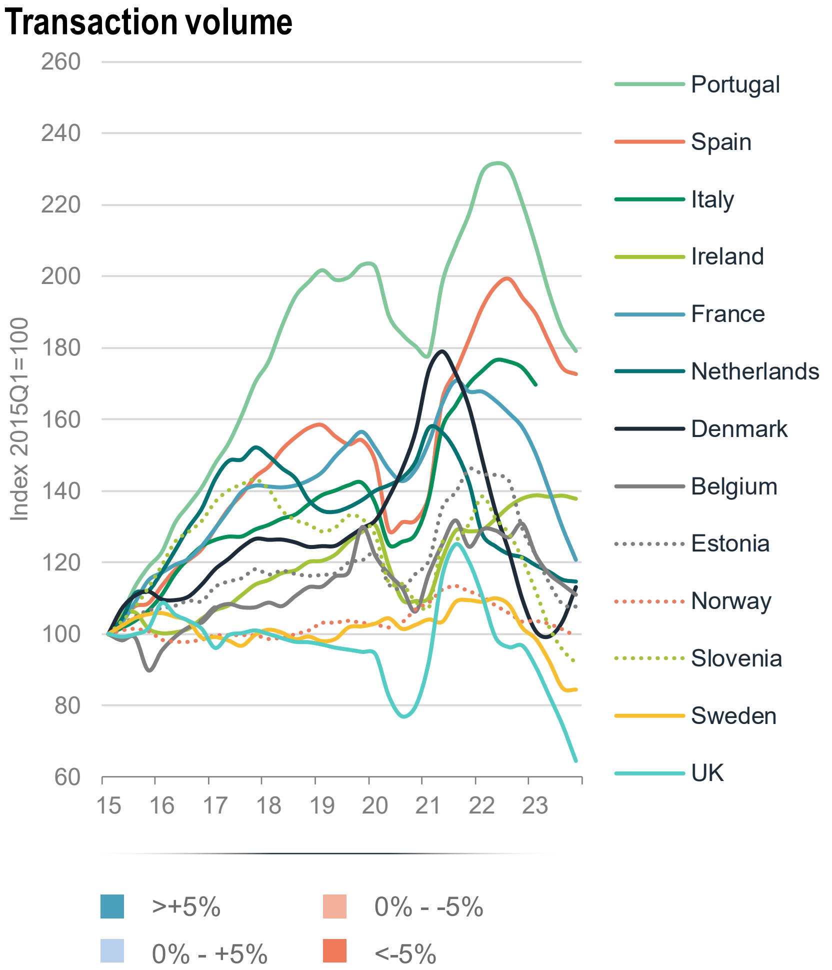
EUROPE – Q1 2024

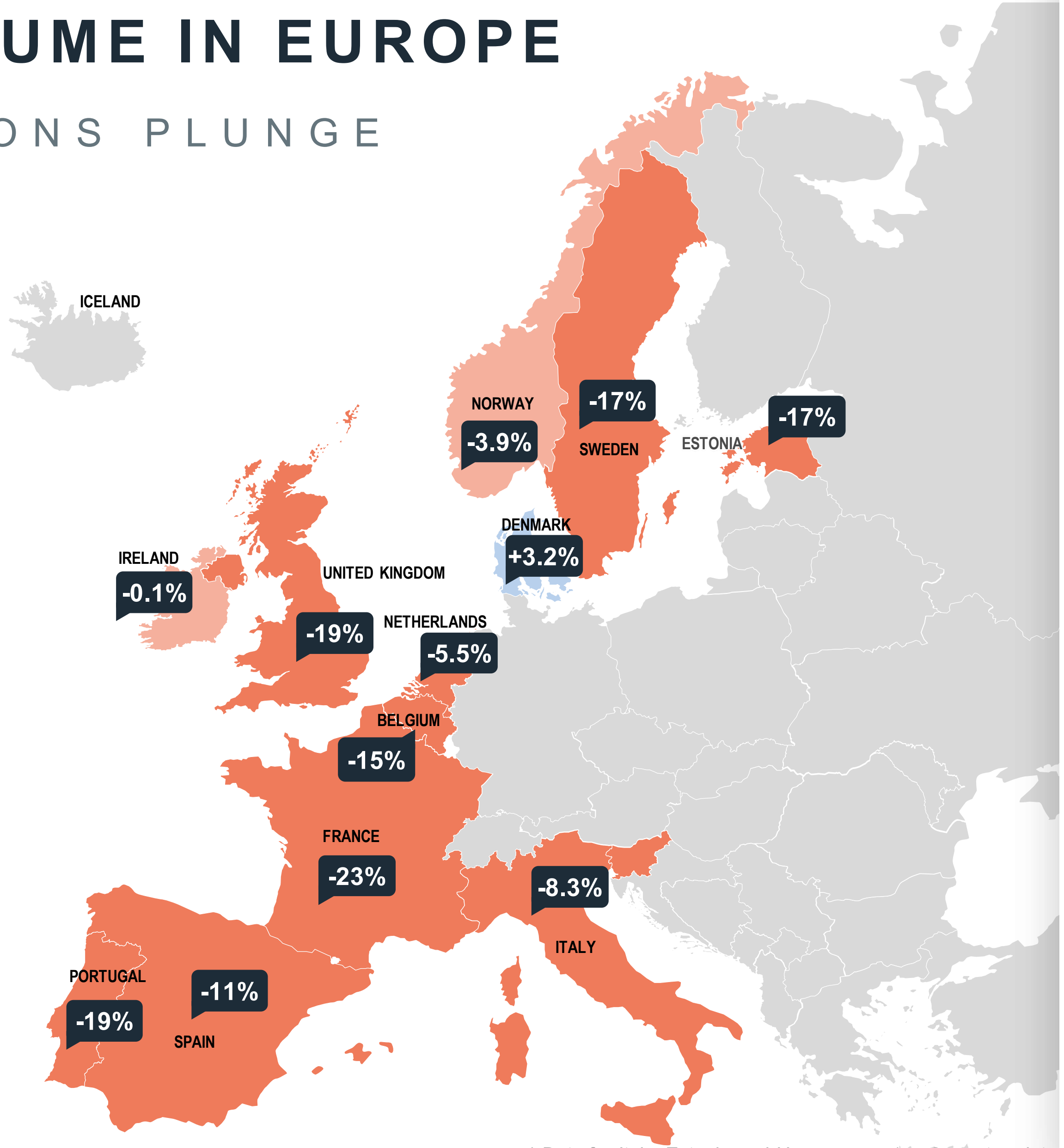
-25% vs. Q1 2023

- Mortgage lending reached its peak in Q2 2022 with € 1,077bn granted on a rolling year basis. However, economic uncertainties and the increase in interest rates tightened credit supply and reduced demand. Mortgage lending declined by 25% in Q1 2024 y/y to € 659bn, the lowest level since 2015.
- Most European countries recorded a decline in lending. The largest declines y/y occurred in Luxembourg (-49%), France (-41%), Slovenia (-41%), Denmark (-38%), Slovakia (-36%) and Austria (-34%).
- However, countries such as Italy (-6%), Finland (-7%), Lithuania (-8%), and Spain (-9%) witnessed significantly lower downward adjustments in mortgage lending.
- Credit production continues to expand in Cyprus (+64%), Czech Republic (+31%) Portugal (+31%), Bulgaria (+21%) and Estonia (+4%).
- Finally, we notice a rebound q/q in the credit production in most countries following the decline in mortgage rate.

TRANSACTION VOLUME IN EUROPE

HOUSING TRANSACTIONS PLUNGE





Sources: BNP Paribas Real Estate Research

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

EUROPE – Q4 2023

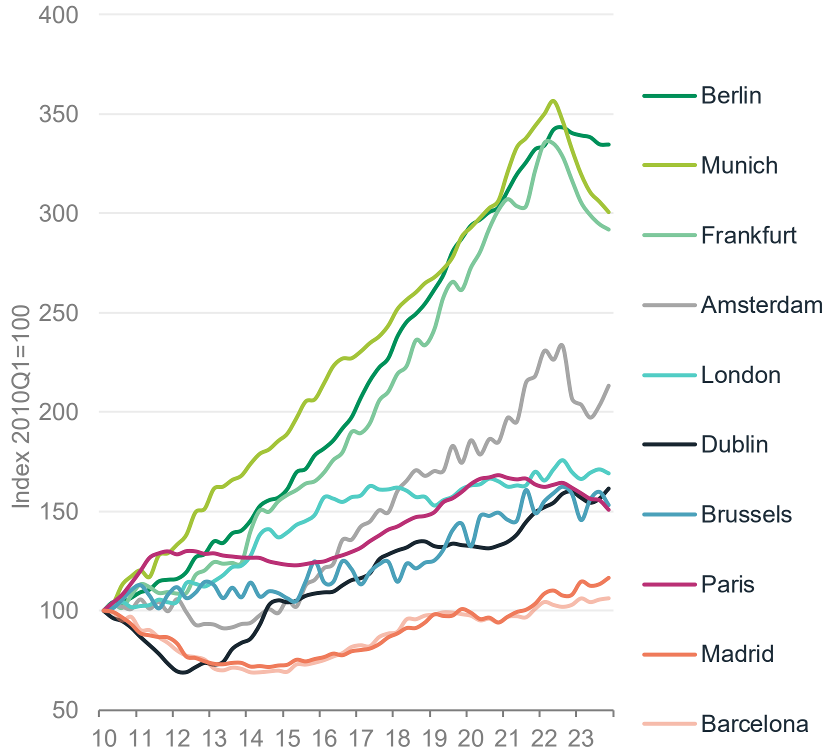
-15% vs. Q4 2022

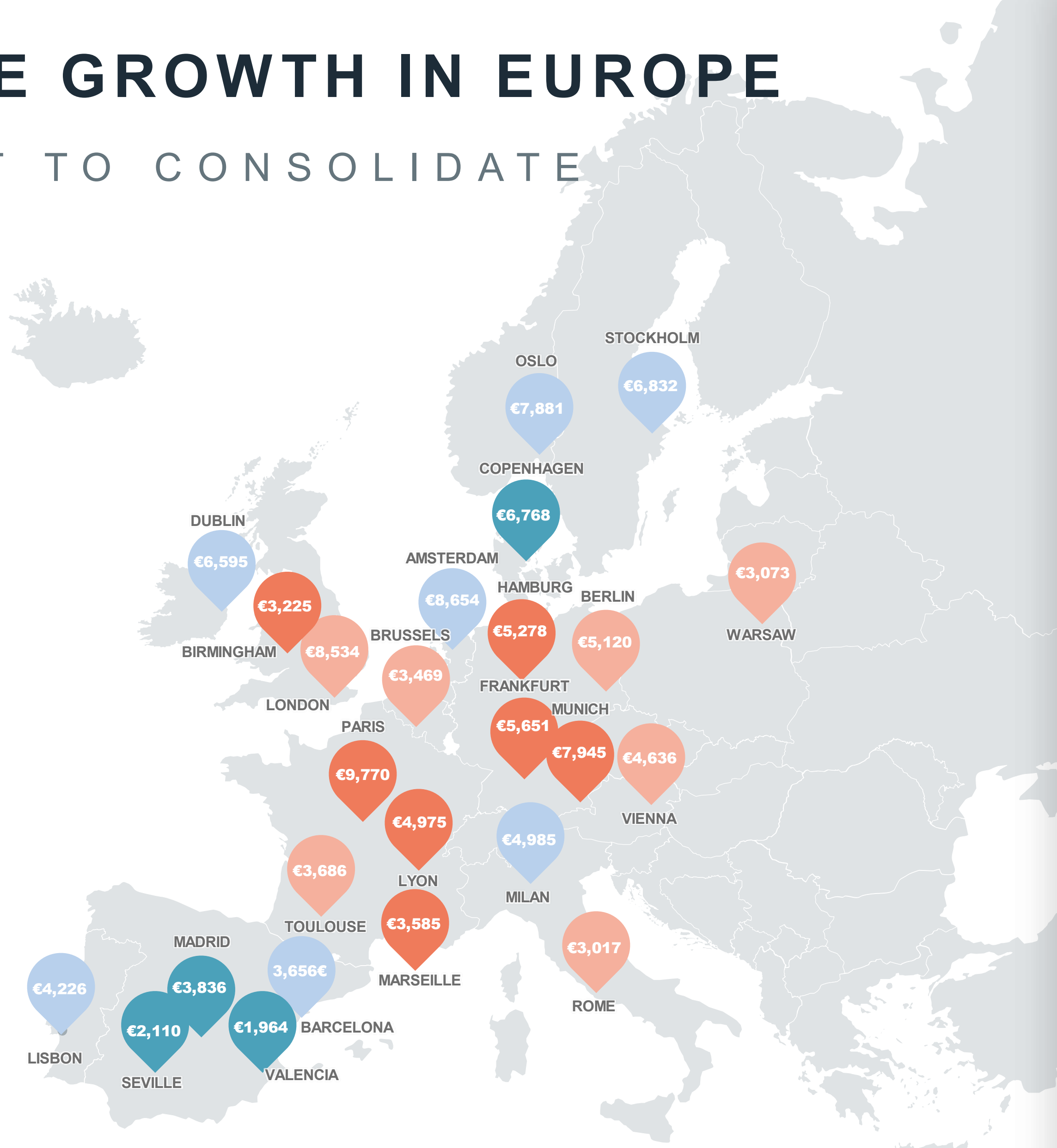
- Housing transaction volume dropped by 17% in Q4 2023 vs Q4 2022 on a rolling year basis.
- The slowdown is driven by several factors: the tightening in credit conditions, the significant increase in mortgage rates and, of course, the constant increase in house prices over the last 8 years. The latter is key to worsening housing affordability and thus triggering a significant decline in the number of transactions.
- Housing transactions declined by 24% in Slovenia, 23% in France, 19% in the United Kingdom and 18% in Portugal.
- The decline is lower in Ireland (-0.1%), Norway (-3.9%), the Netherlands, (-5.5%), and Spain (-11%).
- The decline in transaction volumes is starting to slowdown and could bottom out in the second half of the year.

RESIDENTIAL PRICE GROWTH IN EUROPE

HOUSE PRICES START TO CONSOLIDATE

Residential price growth





Sources: BNP Paribas Real Estate Research

EUROPE – Q4 2023

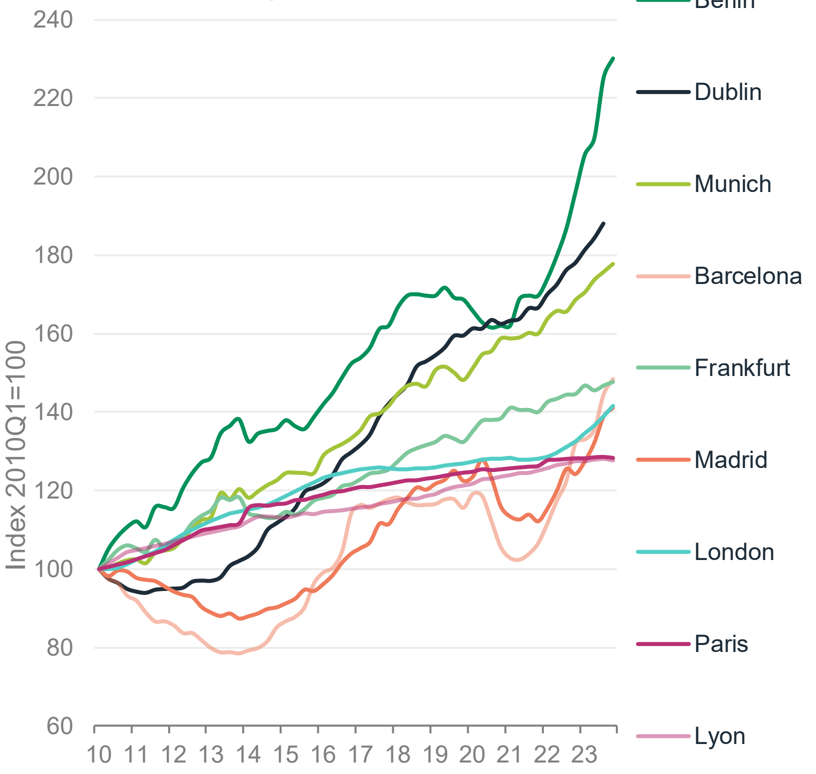
-0.3% vs. Q4 2022

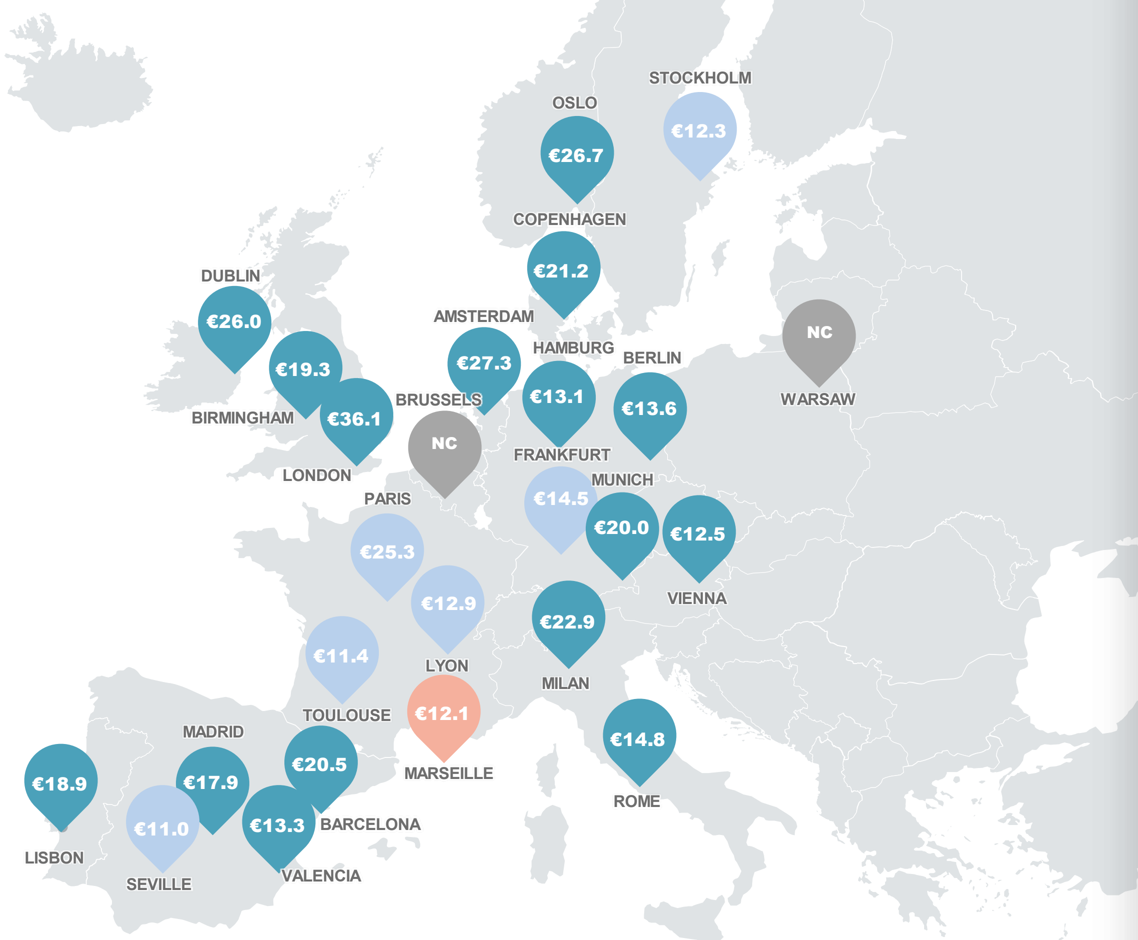
- House prices across European cities are stabilizing in aggregate at -0.3% in Q4 2023 vs Q4 2022.
- Over the last year, cities that experienced double digit growth reduced from 9 in Q1 2022 to 2 in Q4 2023 - Valencia (+12.6%), Copenhagen (10.9%).
- Moreover, compared to the peak of the last 2 years, house prices have declined in 20 cities out of the 28 we monitor.
- In Q4 2023, house prices declined by -9.5% in Munich, -7.8% in Frankfurt, -7.3% in Hamburg, -6.9% in Paris and -5.6% in Birmingham. However, Southern Europe continue to perform, +12.6% in Valencia, +7.8% in Madrid, +6.1% in Seville, +5.1% in Lisbon, +3.2% in Barcelona, +1.7% in Milan
- Despite, the significant drop we observed the last two year, the decline starts to slowdown, and we even observe a rebound in some markets owing to some affordability restoring.

RESIDENTIAL RENTAL GROWTH IN EUROPE

RENTS HIT NEW RECORD HIGHS

Residential rental growth





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

Sources: BNP Paribas Real Estate Research

EUROPE – Q4 2023

+7.1% vs. Q4 2022

- Residential rental values across European markets are still booming at +7.1% y/y.
- Since the beginning of 2022, we have seen a sharp increase in demand for rental properties owing to hikes in mortgage rates and the decline in the affordability of buying.
- Consequently, numbers of rental dwellings listed on web platforms shrunk dramatically putting strong pressure on rental values.
- Moreover, the spread between the cost of buying vs the cost of renting in main markets is fuelling rents.
- We record double digit growth in 9 markets out of the 27 we monitor: Valencia (+21%), Berlin (+17.3%), Madrid (+13.6%), Edinburgh and Birmingham (+13.2%), Barcelona (+12.4%), Manchester (+12.1%), Lisbon (+11.8%) and Milan (+10.6%). In the case of Berlin and Barcelona although rent control was removed, the rental stock had shrunk dramatically because of the regulation.

BNP PARIBAS REAL ESTATE

02.

REAL ESTATE PERSPECTIVES

HOUSEVIEW

EUROPE CRE 360

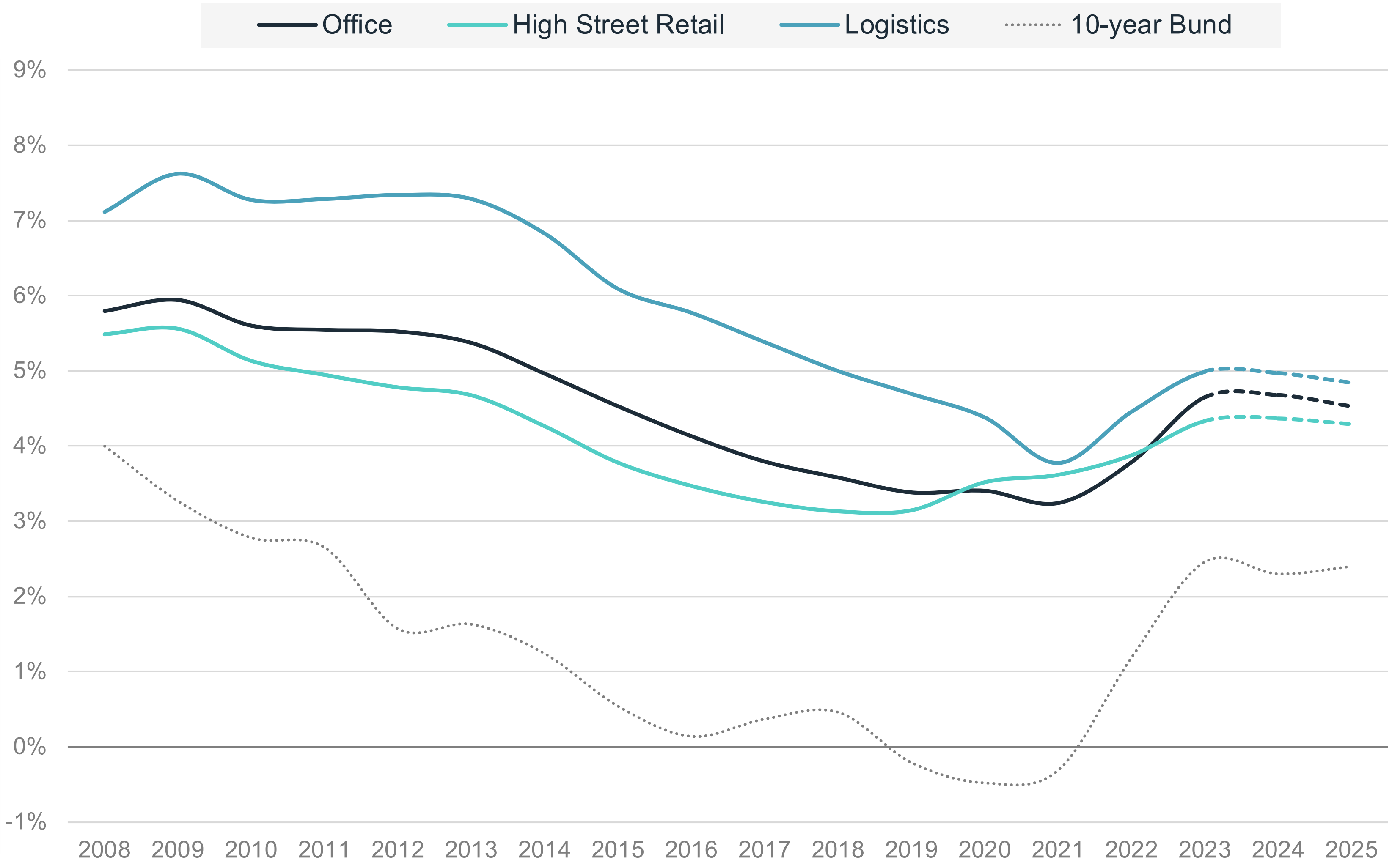
AVERAGE PRIME YIELDS IN EUROPE

BASED ON 16 MARKETS

Yield decompression has almost run its course

- Instead of ending the interest rate tightening cycle in early 2023 as had been hoped, central banks maintained the tightening bias into the third quarter.
- Given the nature of valuation systems in different European countries, this has meant an almost constant catch-up process all year: 2023 will be regarded as the year of yield decompression.
- While we see further yield decompression expansion in 2024, albeit marginal, we acknowledge that this is the tail end of this process.
- Although yields have repriced broadly, investor appetite for the various asset classes varies.
- The attractiveness to investors therefore depends greatly on the asset's location, occupational dynamics, tenant demand and rental growth potential most of all.

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

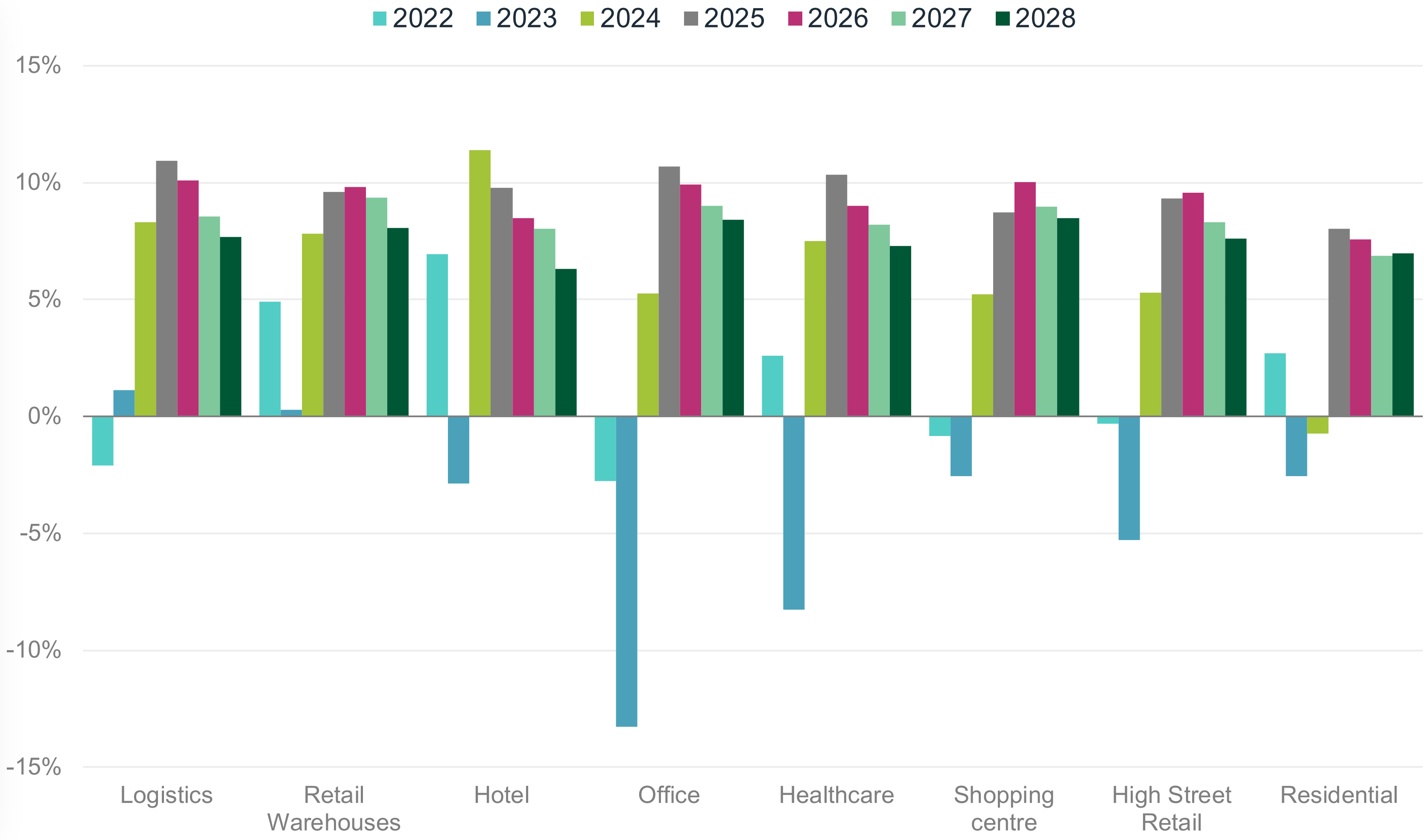


PRIME TOTAL RETURN IN EUROPE

AVERAGE BY ASSET CLASS – EUROPE

Total return should turn positive in 2024

- The uncertainty in the real estate market is most acute in the **office** segment. It is going through profound changes on multiple fronts: price adjustment after the sharpest increase in debt cost in decades; working patterns that continue to suggest reduced demand for space; and a regulatory framework that will increase obsolescence.
- There is no ambiguity about **logistics**. Factors such as online spending and supply chain disruptions have boosted demand for logistic space across Europe. We expect an end to yield expansion by 2024, with rental growth prospects encouraging investors back after the hiatus of 2023.
- The **retail sector** has seen sharp declines in investment in recent years, driven by profound structural changes in shopping habits. However, we are seeing pockets of rental growth again, consistent with recovery for the sector.

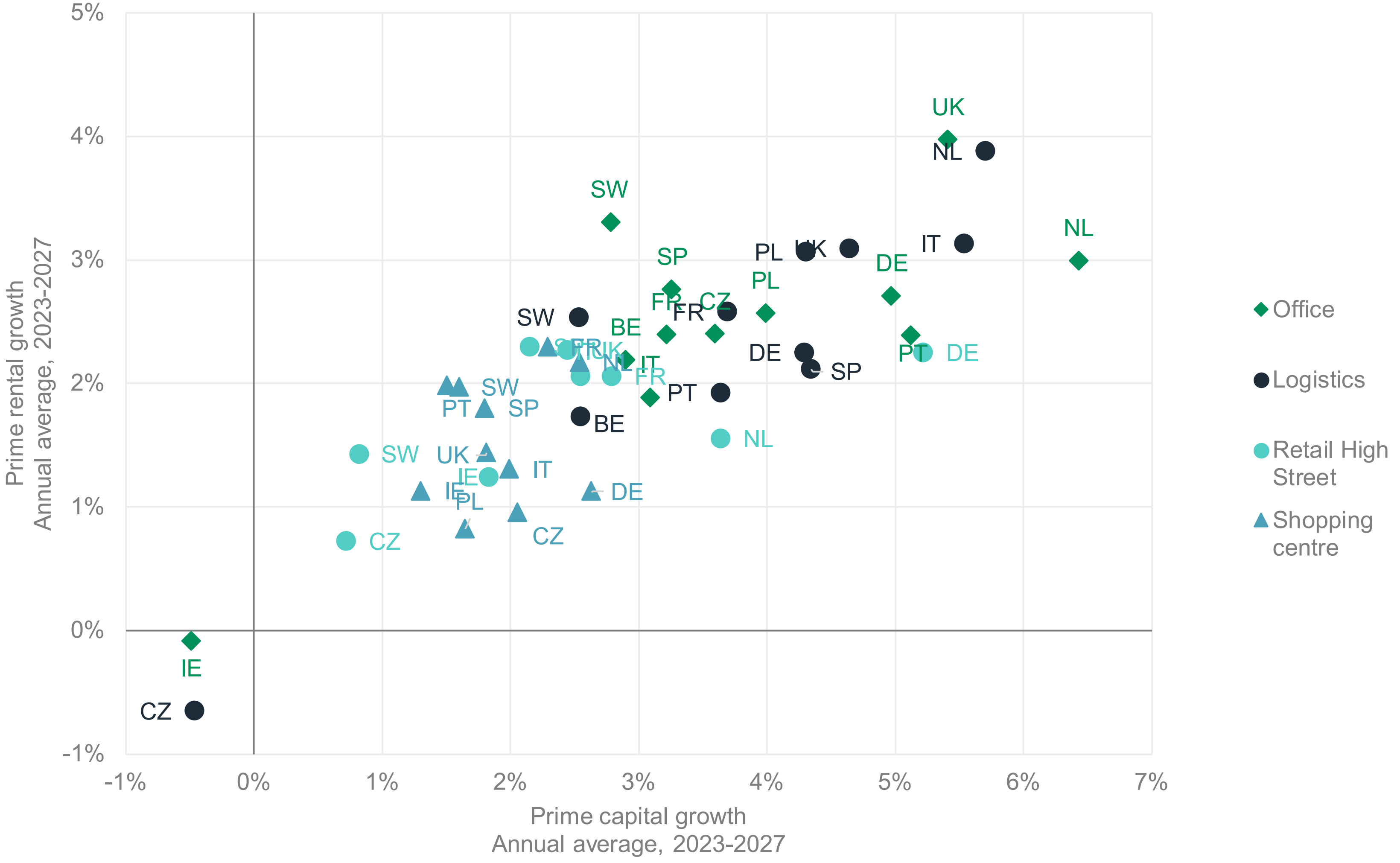


REAL ESTATE MOMENTUM

PRIME RENTAL GROWTH VS PRIME CAPITAL GROWTH

Strongest growth from modern well positioned property

- Each property cycle builds upon what has happened before, so the new one at the beginning will still feature assets that were already performing well.
- Yet it remains the case that the assets best positioned to gain from market reactivation are those that already have the right combination of capital and rental growth prospects.
- This means assets that may still perform well include offices and logistics, although they may not excel as in the previous five years. New cycles are also periods when different assets start to generate momentum.
- We continue to think that logistics and modern offices in CBDs may retain premiums. Sustained pressure on secondary office stock is likely to occur because of poor tenant demand and inadequacies in the building fabric.
- Logistics may come under increasing pressure from environmental standards.



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