EUROPE
CRE 180

ECONOMIC OUTLOOK
REAL ESTATE PERSPECTIVES

GLOBAL RESEARCH
October 2024

BNP PARIBAS REAL ESTATE

Real Estate for a changing world

BNP PARIBAS REAL ESTATE

EXECUTIVE SUMMARY

IN A NUTSHELL

MODEST GLOBAL GROWTH

- We expect global GDP to grow by 2.9% y/y in 2024 and 2.8% y/y 2025.
- However, the balance in global growth is shifting.
- Rising real incomes, lower interest rates and public investment will support a recovery in the Eurozone.
- Meanwhile, growth is expected to slow across other major economies.

INFLATION RATES RETURN TO CENTRAL BANK TARGETS

- Headline inflation rates have temporarily dipped below central bank targets in recent months.
- While domestic price pressures remain elevated, forward-looking indicators point to further declines.
- The European Central Bank has increased its pace of interest rate cuts.

INVESTMENT SHOWS FIRST SIGNS OF GROWTH

- €147bn were invested in commercial real estate over the past 12 months, which represents a 7 % decrease compared to Q3 2023.
- Easing rate of fallback suggests mid 2024 will be the bottom for the CRE investment market following the crash triggered by inflationary shock.
- The rise of 1% between Q2 2024 and Q3 2024 is another indicator of recovery

YIELDS HOLDING THE LINE

- Central banks are clearly on a rate cutting path and beginning to transition their focus to growth rather inflation.
- Consequently, a floor now exists for real estate yields. Since Q4 2023 prime yields across all asset classes have remained constant and likely to stay that way for 2024.

OFFICE LETTING: TAKE-UP GAINS MOMENTUM

- 5.73 m sqm has been transacted since January 2024 in the 18 main European markets, marginally ahead of 2023 (+2%) driven by select markets.
- The overall result remains below the 9-month long-term average (-14%) reflecting the ongoing structural changes in the office market where occupier activity focuses on smaller but more efficient premises.

THE POLARISATION OF OFFICE MARKETS IS INCREASING

- Vacancy expansion in numerous markets is the consequence of a growing geographical and quality 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 and for second-hand space.

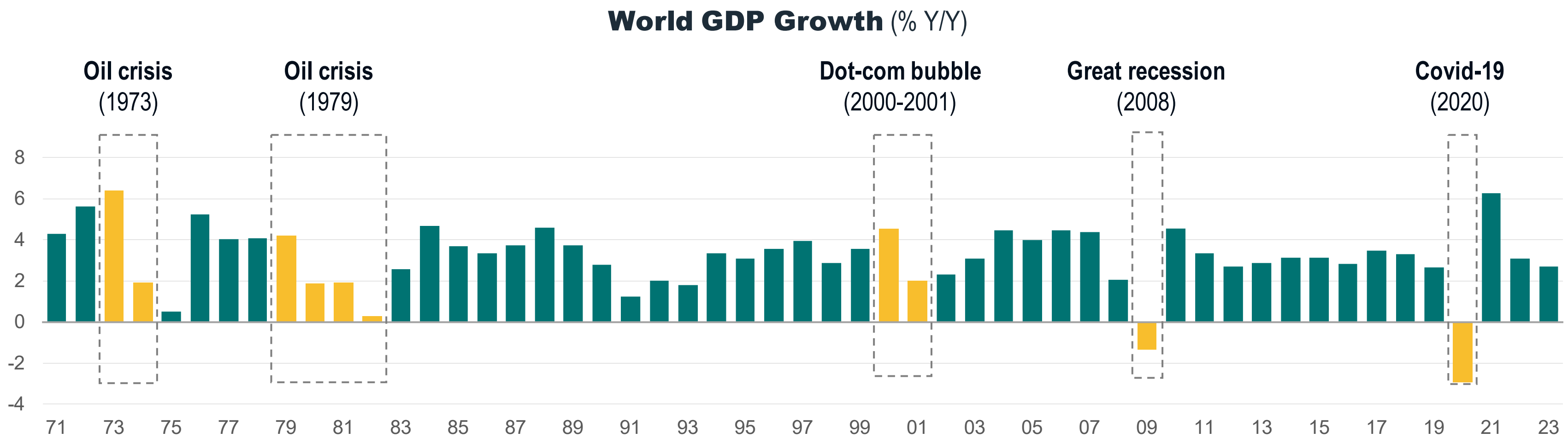
BNP PARIBAS REAL ESTATE

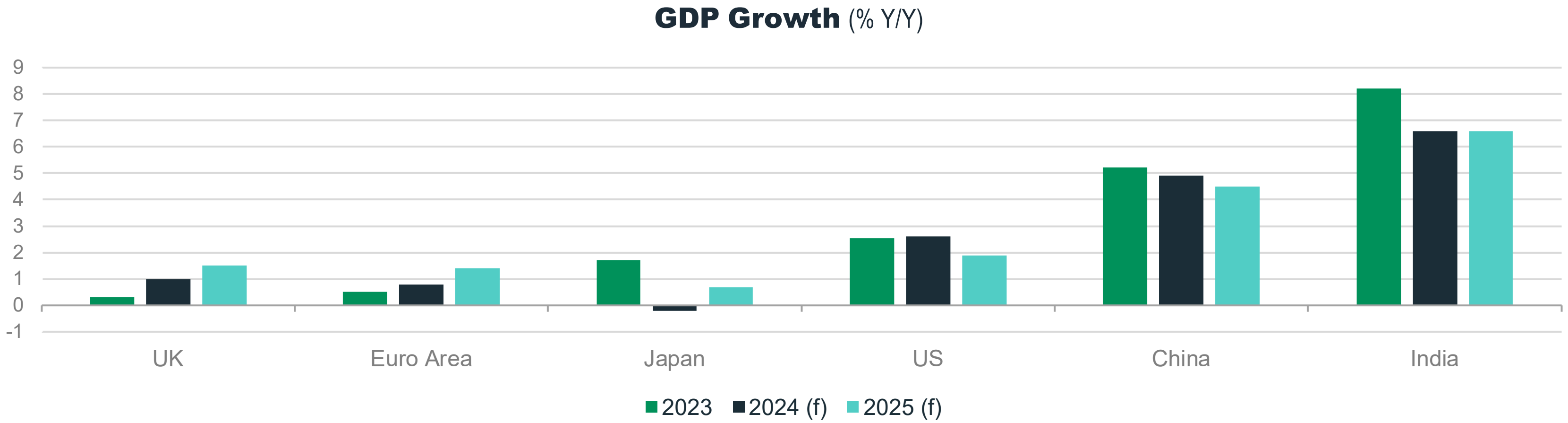
01.

ECONOMIC OUTLOOK

GLOBAL ECONOMY

STEADY GLOBAL GROWTH





Recovery in Europe offset by slower growth elsewhere.

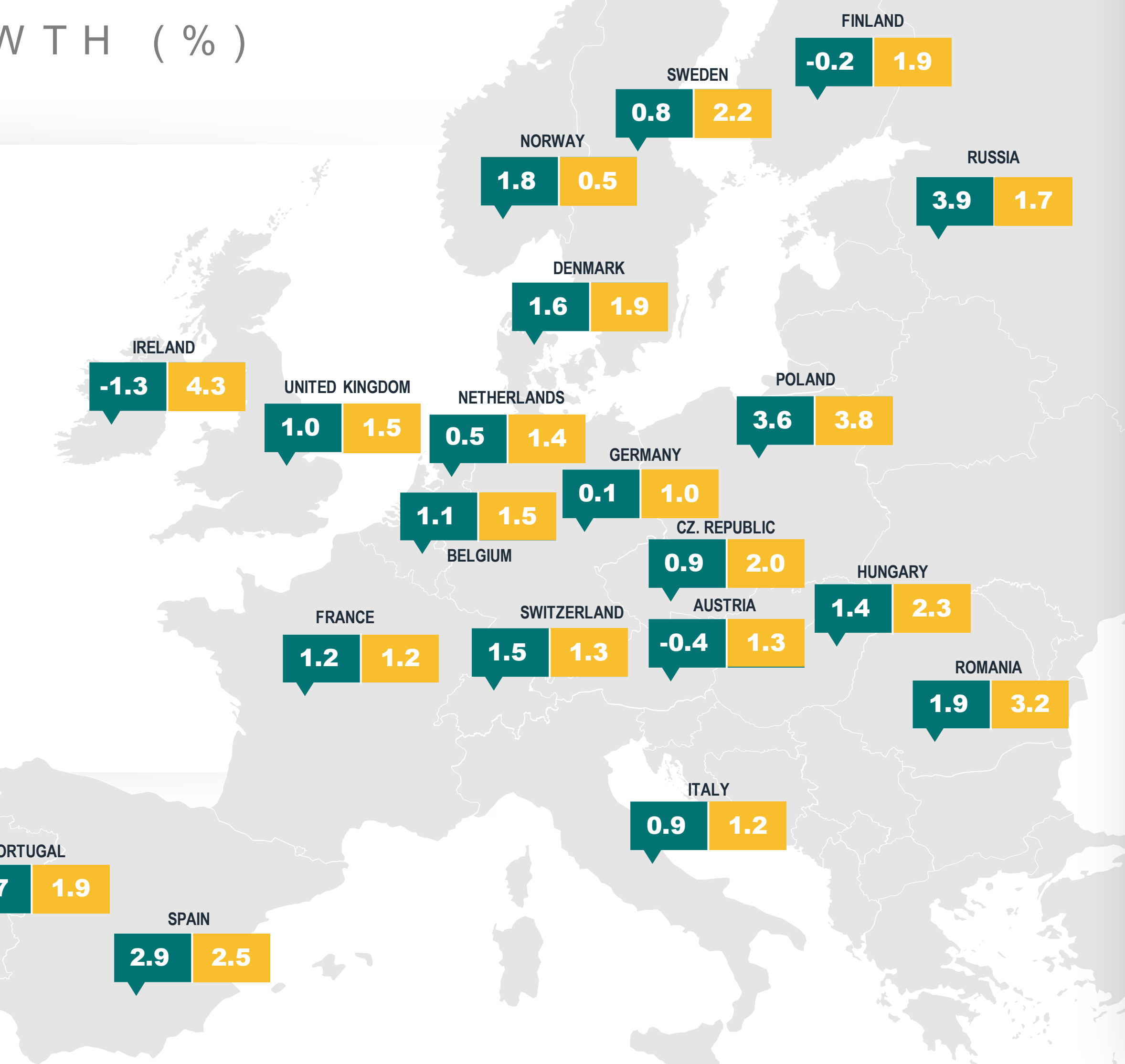
- Global economic growth slowed in 2023 as high inflation, high interest rates, tight fiscal policy and global conflicts weighed on activity.
- The slowdown was concentrated in Europe, while other major economies saw stronger growth.
- However, the balance is shifting. The Euro Area and UK are forecast to see a gradual recovery in economic growth over the next couple of years. By contrast, growth in China, India, Japan and the US is set to slow.
- Risks of a US recession have risen in recent months, although we continue to expect a soft landing. Meanwhile, new policy measures have been announced in China to boost economic growth.
- Overall, our forecasts are consistent with global economic growth averaging just under 3% p.a. over the next couple of years.

Sources: BNP Paribas Real Estate Research, Oxford Economics, World Bank, Macrobond

ECONOMIC GROWTH IN EUROPE

ANNUAL GDP GROWTH (%)

	2023	2024	2025
World	2.7	2.9	2.8
United States	2.5	2.6	1.9
Euro area	0.5	0.8	1.4
Japan	1.7	-0.2	0.7
China	5.2	4.9	4.5
India	8.2	6.6	6.6
Russia	3.7	3.9	1.7
Brasil	2.9	3.1	2.0



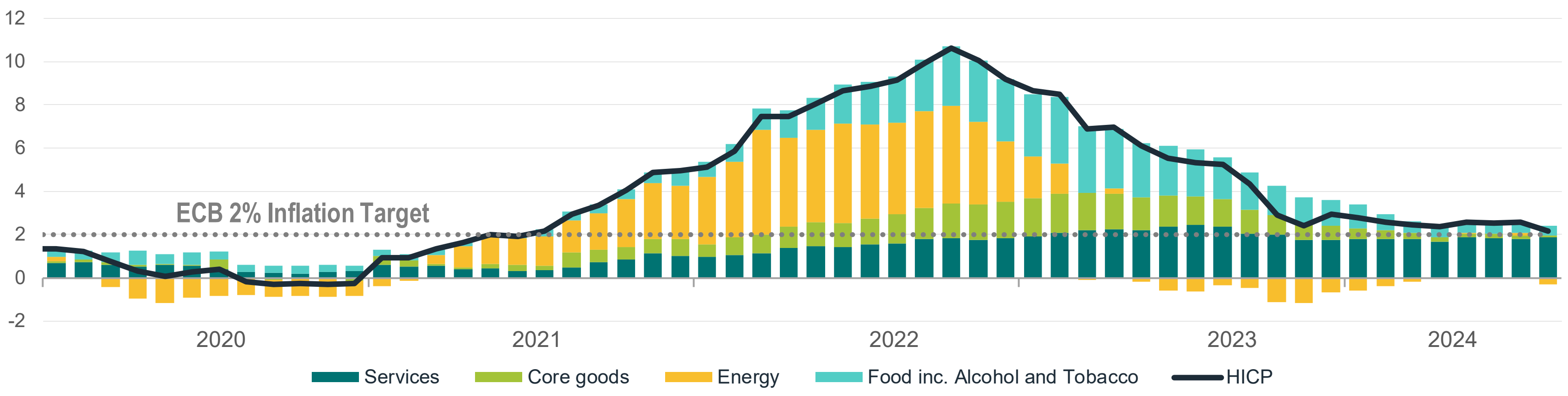
Europe's recovery rests on shaky foundations.

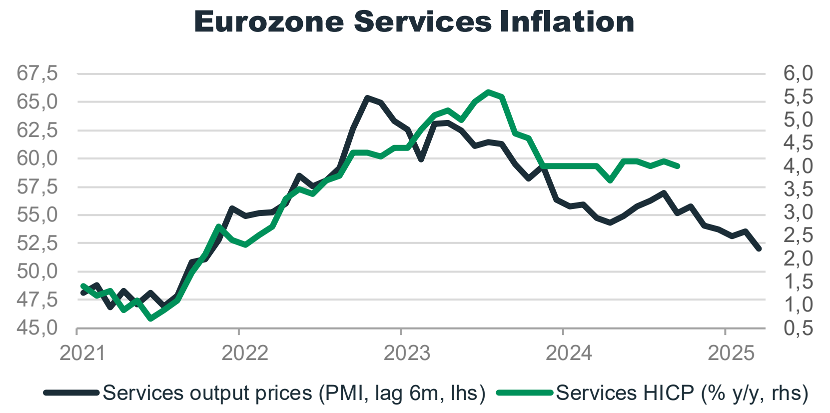
- The Eurozone's economic recovery continued at a modest pace in Q2, with a 0.2% q/q rise in real GDP. Spain continued to record the fastest quarter-on-quarter growth (0.8%), with France (0.2%) and Italy (0.2%) in the middle of the pack and Germany recording an outright contraction (-0.1%). Meanwhile, growth in the UK has outperformed expectations in the first half of the year, as the economy rebounded from recession in 2023.
- However, there are signs that growth across European economies may be losing momentum. For example, the eurozone composite PMI fell from 51.0 in August to 48.9 in September. Based on past form, this is consistent with economic activity stagnating in the third quarter. While the PMI scores held up better in the UK, the economy is unlikely to maintain its pace of growth from the first half of the year.
- Overall, the near-term outlook has weakened slightly but economies will continue to receive support from lower inflation, falling interest rates and NextGenerationEU disbursements. This should help to underpin modest growth at the Eurozone level.
- Spain is set to become the main engine of Eurozone growth in the next couple of years. Meanwhile, we continue to expect decent growth rates across Central and Eastern Europe.

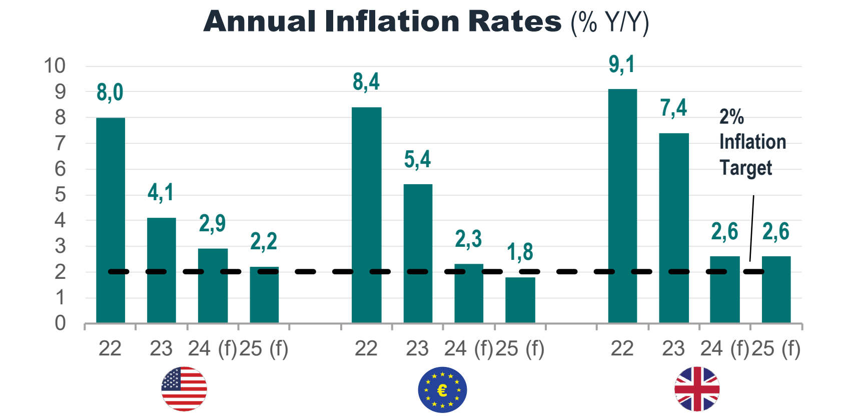
Sources: BNP Paribas Real Estate Research, Oxford Economics, BNP Paribas, Macrobond

INFLATION RATES

INFLATION DIPS BELOW 2% TARGET







'Quick wins' fade, but promising signs for services inflation.

- The latest inflation data have been encouraging. Headline CPI rates fell below the central bank 2% targets for both the Euro Area and UK for the first time since 2021.
- Beneath the surface, the picture is more nuanced. Much of the decline in inflation has been driven by global factors, reflected in sectors such as energy, food and goods.
- By contrast, relatively little progress has been made on the domestically generated parts of inflation, as shown by the persistently high inflation rate in the services sector.
- Looking ahead, the 'quick wins' from food and core goods disinflation may have already been exhausted. Meanwhile, as energy deflation abates, we expect headline inflation to temporarily rise back above the 2% target in the coming months.
- Survey-based evidence is consistent with further declines in both services and core inflation in the Euro Area. This strengthens the view that underlying price pressures are easing and inflation is headed for the 2% target in the medium term.
- A similar trend is expected in the UK. Although, domestic price pressures remain a little stickier and may therefore take longer to return to levels consistent with sustained target-inflation.

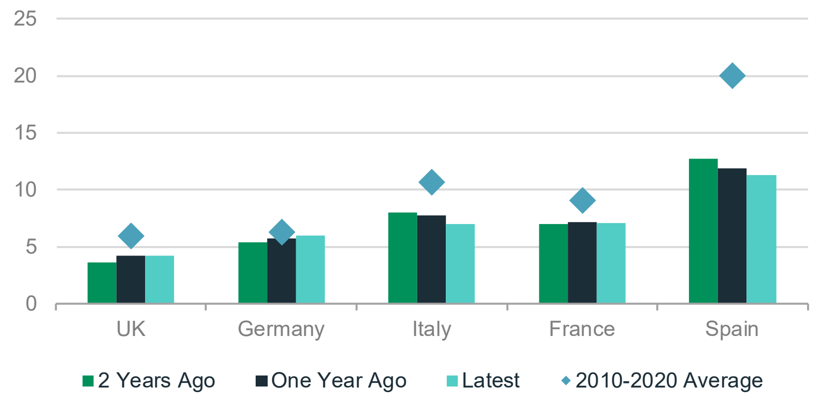
Sources: BNP Paribas Economic Research, Eurostat, BNP Paribas, Macrobond.

LABOUR MARKETS

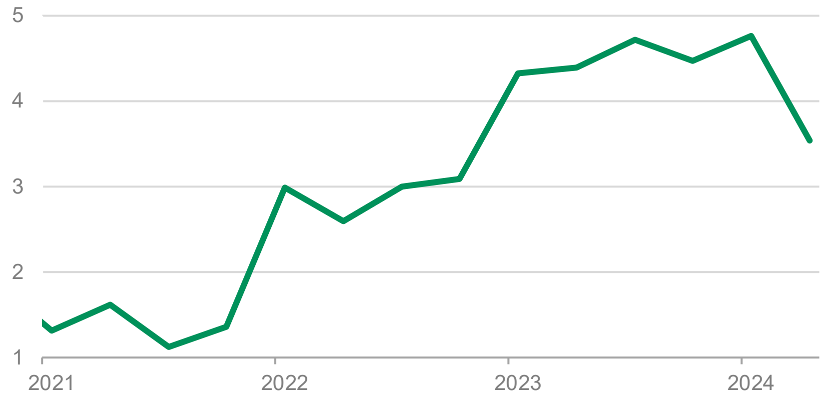
WAGE GROWTH COOLS

Euro Area Job Vacancy Rate (%)

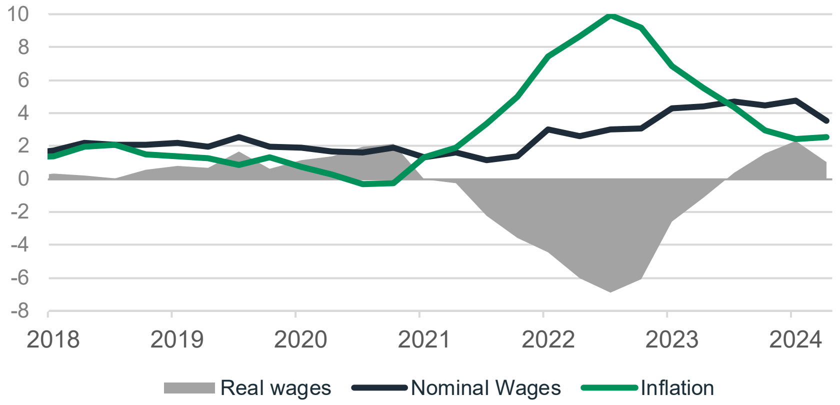
Unemployment Rates (%)



Euro Area Wage Growth (% Y/Y)



Eurozone Inflation & Wage Growth (% Y/Y)



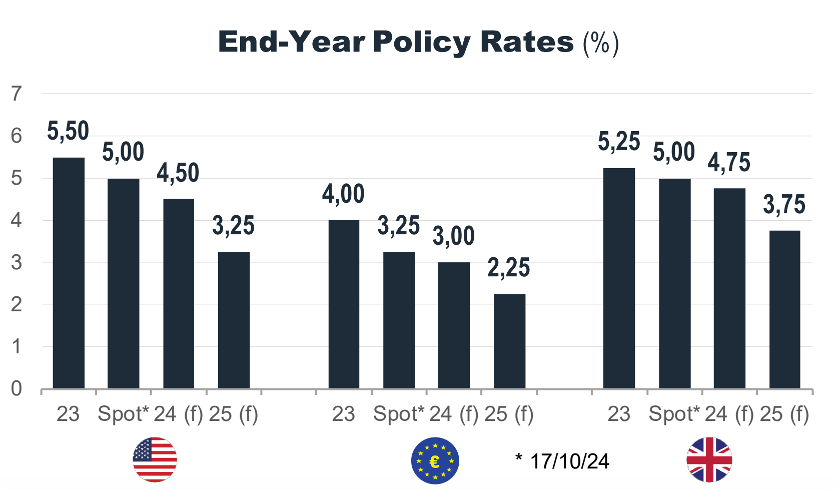
Looser labour market conditions feed through to slower wage growth.

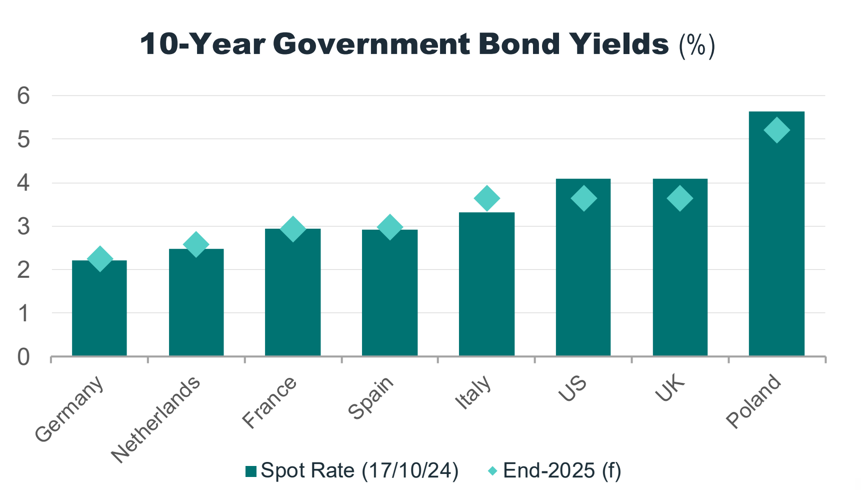
- Firms have responded to challenging economic conditions by paring back their demand for labour. This has primarily taken the form of withdrawing job vacancies, which dropped significantly again in Q2.
- Firms have also moderated their rate of hiring. Over the past year, employment has fallen in both the Agriculture, Forestry & Fishing and Real Estate Services sectors. At the other end of the spectrum, the Information & Communication and Public Administration sectors recorded the strongest annual employment growth in Q2.
- At the same time, firms remain cautious about making redundancies as there remains an element of labour hoarding. As a result, unemployment rates have generally held steady over the past few months and remain below their historical averages.
- There is now firm evidence that looser labour market conditions have impacted wage negotiations. Wage growth slowed significantly in Q2 and is expected to slow further in the coming quarters.
- Despite the slowdown in nominal wage growth, it continued to outpace inflation. As a result, wages grew in real terms for the fourth consecutive quarter in Q2, following a long run of declines.

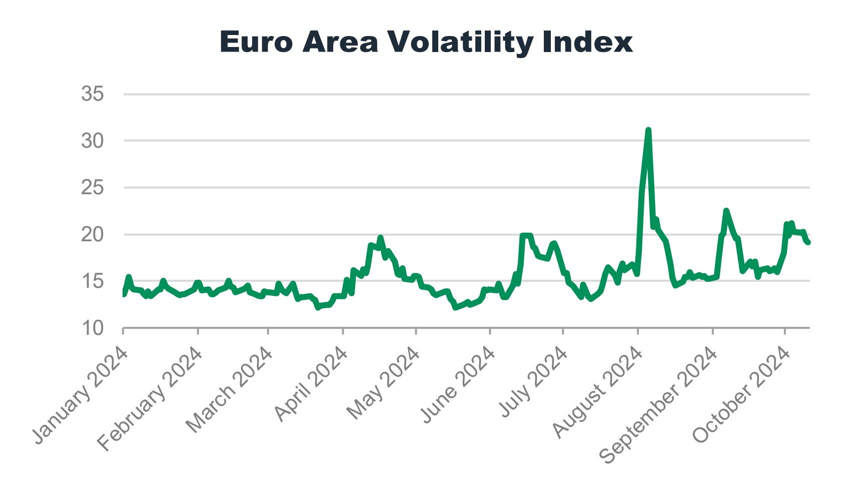
Sources: BNP Paribas Economic Research, Eurostat, DG ECFIN, INSEE, GFEA, ONS, INE, Istat, ECB, Macrobond

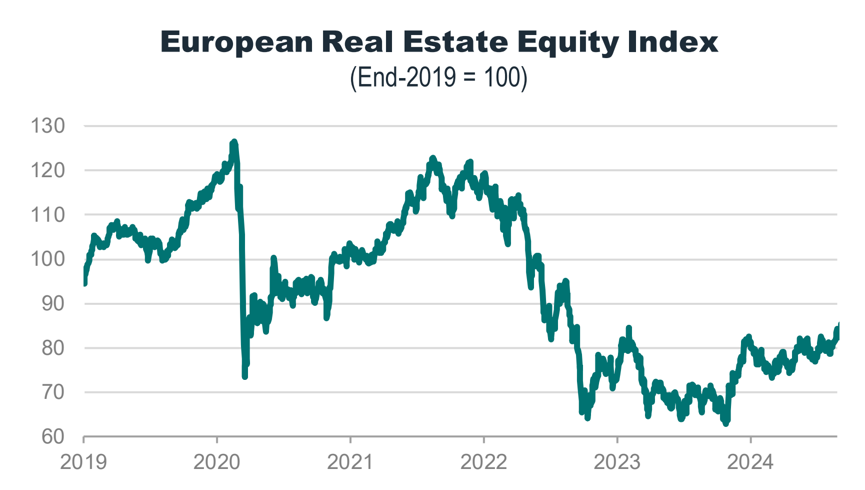
FINANCIAL MARKETS

ECONOMIC AND FINANCIAL INDICATORS









ECB increases pace of interest rate cuts.

- A broad-based decline across economic indicators encouraged central banks in Europe and the US to increase the pace of policy easing.
- The US Federal Reserve lowered its policy rate by 50bps in its September meeting. Meanwhile, the ECB delivered a second consecutive rate cut in October, leaving the Deposit Facility Rate at 3.25%.
- Both central banks are expected to continue lowering interest rates at a faster pace than previously anticipated. By contrast, the Bank of England kept its policy rate unchanged in September and is expected to ease policy at a more gradual pace.
- Our policy rate forecasts are consistent with small declines in 10-year government bond yields in the UK and US and little movement across Europe.
- Elsewhere, several factors have contributed to heightened volatility in financial markets, reflected in the European Volatility Index. For example, increased geopolitical tensions in the Middle East and concerns around the growth and interest rate outlooks.
- Nevertheless, equity markets reflected an improvement in sentiment around real estate, with European REIT prices trending higher in recent months.

Sources: BNP Paribas Economic Research, CBOE, Federal Reserve, ECB, BoE, FTSE EPRA/NAREIT, Macrobond

BNP PARIBAS REAL ESTATE

02.

REAL ESTATE PERSPECTIVES

BNP PARIBAS REAL ESTATE

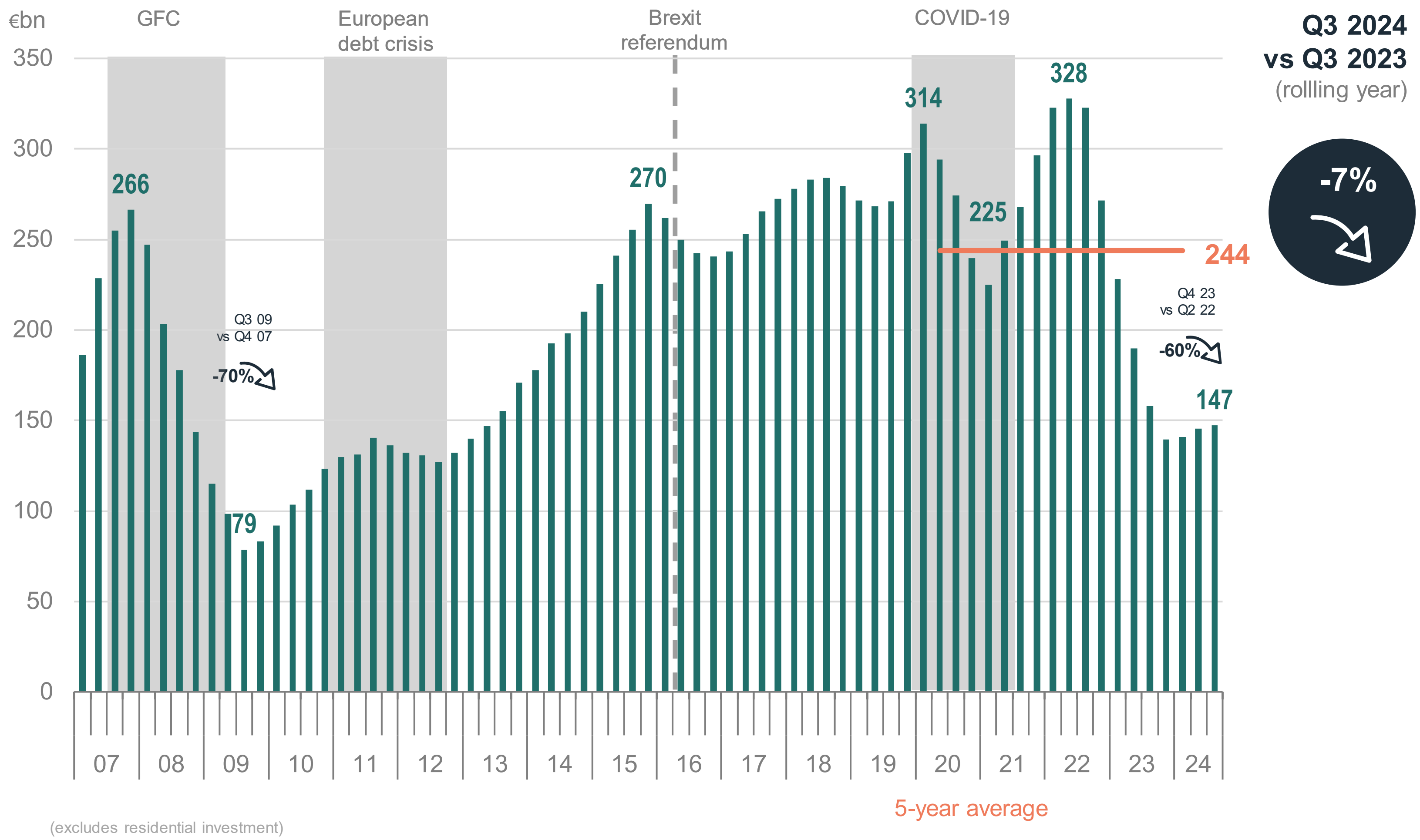
02.

REAL ESTATE PERSPECTIVES

CAPITAL MARKETS

INVESTMENT IN EUROPEAN COMMERCIAL REAL ESTATE

FIRST SIGNS OF GROWTH



- **€147bn were invested** in commercial real estate over the 12 months to **Q3 2024,** which represents **a -7% annual decrease**, the slowest pace of decline since Q4 2022.
- Easing rate of fallback suggests mid 2024 will be the bottom for the CRE investment market following the crash triggered by inflationary shock. More stability is emerging in the macroeconomic and financial backdrop as central banks move into the next phase of policy.
- **The ECB has undertaken back-to-back rate cuts of 25 basis points in the deposit facility. The first in June 2024, second in September and third in October. The Bank of England made its first 25bps cut in August. These moves firmly signal the end of the hard monetary policy response to crisis.**
- To some extent the CRE market has anticipated a better environment. The rise of **1% between Q2 2024 and Q3 2024** is another indicator of recovery that started at the beginning of the year.
- Although market correction (-60%) has been comparable to the Great Financial Crisis (-70%), volumes have not (and now will not) gone down to levels seen in late 2009. As with the post GFC environment, **investment volumes may gain traction over the next year.**

COMMERCIAL REAL ESTATE INVESTMENT

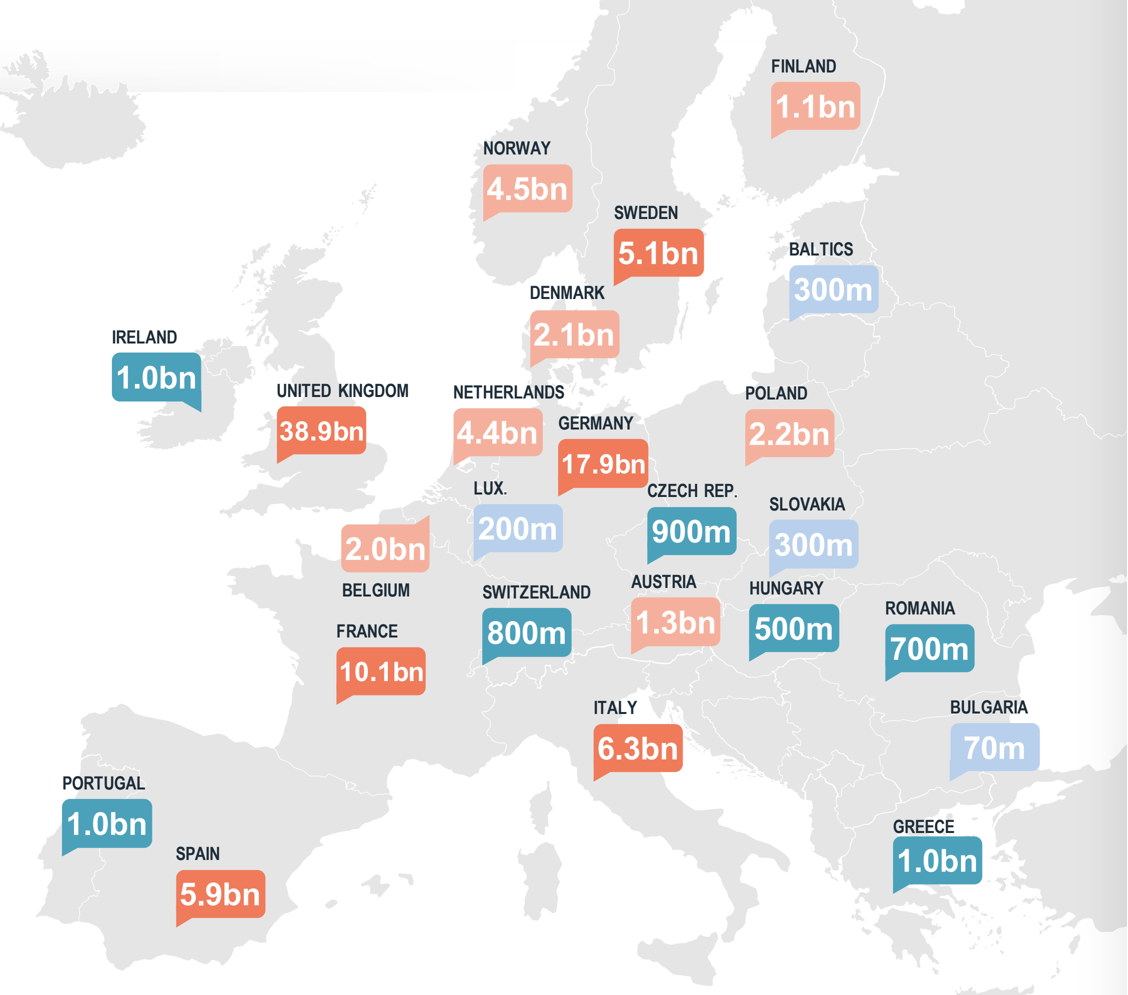
STEADY IMPROVEMENT IN VOLUMES

9M 2024 vs 9M 2023

UNITED KINGDOM	+7%
GERMANY	+15%
FRANCE	-10%
SWEDEN	-11%
NETHERLANDS	+33%
SPAIN	+14%
ITALY	+85%
NORWAY	+47%
POLAND	+42%
BELGIUM	+27%
DENMARK	+24%
FINLAND	-16%
IRELAND	+5%
AUSTRIA	-33%
LUXEMBOURG	+163%

≥ €5bn €400m-1bn

€1-5bn < €400m



(excludes residential investment)

EUROPE – 9M 2024

€108.5bn

+8% vs 9M 2023

- **€108.5bn** were invested in Europe since the beginning of 2024**, rising by 8%** compared to 9M 2023.
- The Big 3 collectively account for 60% of market share.
- **Investment in Germany** continues to improve with a gain of around 15%.
- Most markets are growing with **fastest growth seen in Italy (+85%)** reaching €6.3bn. All asset types are selling but particularly for retail (+537%) and office (+141%).

Source : BNP Paribas Real Estate

CROSS-BORDER INVESTMENT IN EUROPE – 9M 2024

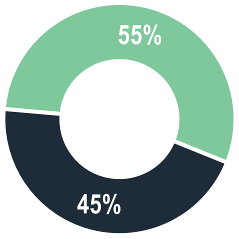
RISING INTEREST IN EUROPE FROM AMERICAN INVESTORS

- **Foreign investment represents a market share of 45% in the 9M 2024.** In some countries like Italy and the Netherlands foreign investment dominates at 68% and 57% respectively**.**
- **European cross-border volume experienced growth of +3%** compared to Q3 2023 with a market share of 37% comparing the 10-year average (39%).
- Investment from other continents shows contrasting developments. **Increasing interest from American investors resulted in transaction volume rising 38% compared to 9M 2023**, notably in France (+557% at 2.4bn). Fast growth also occurred in the Netherlands (+123%), Italy (+117%), and Spain (+201%).
- Volumes from **APAC declined again to 8% market share.** Allocations decreased by 30% compared to last year, even faster than in H1 (20%). As of now, APAC based investors have mainly focused on Germany (€1.7bn) and Ireland (€140m).
- Enthusiasm from **Middle East investors for Europe also faded in 2024, with €1.3bn of investment**, a decrease by half compared to 9M 2023.

€ 59.6bn

+7% vs 9M 2023

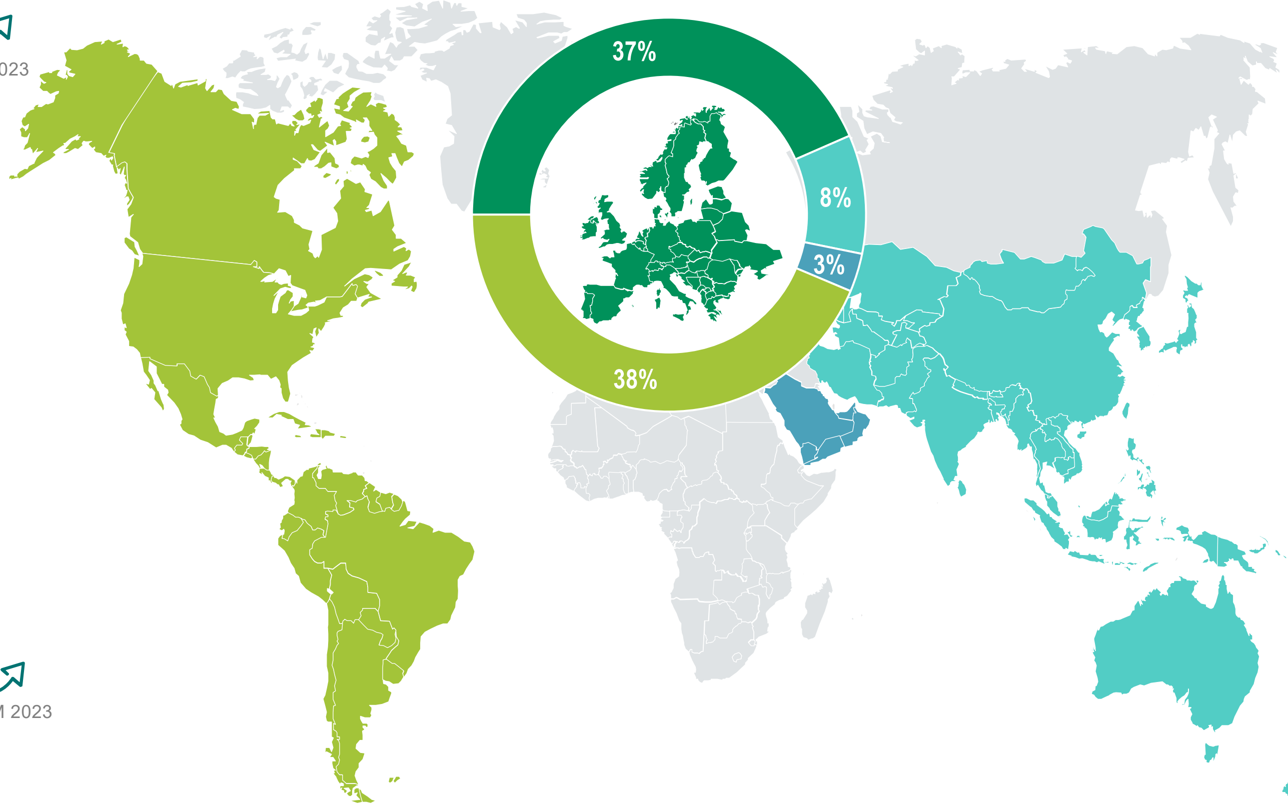
DOMESTIC INVESTMENT



CROSS-BORDER INVESTMENT

€ 49.3bn

+9% vs 9M 2023



EUROPE **€18.5BN** +7% vs 9M 2023

AMERICAS **€18.6BN** +45% vs 9M 2023

ASIA PACIFIC **€4.1BN** -29% vs 9M 2023

MIDDLE EAST **€1.3BN** -50% vs 9M 2023

Investment as commercial real estate investment, which excludes residential investment.

This excludes residential investment.

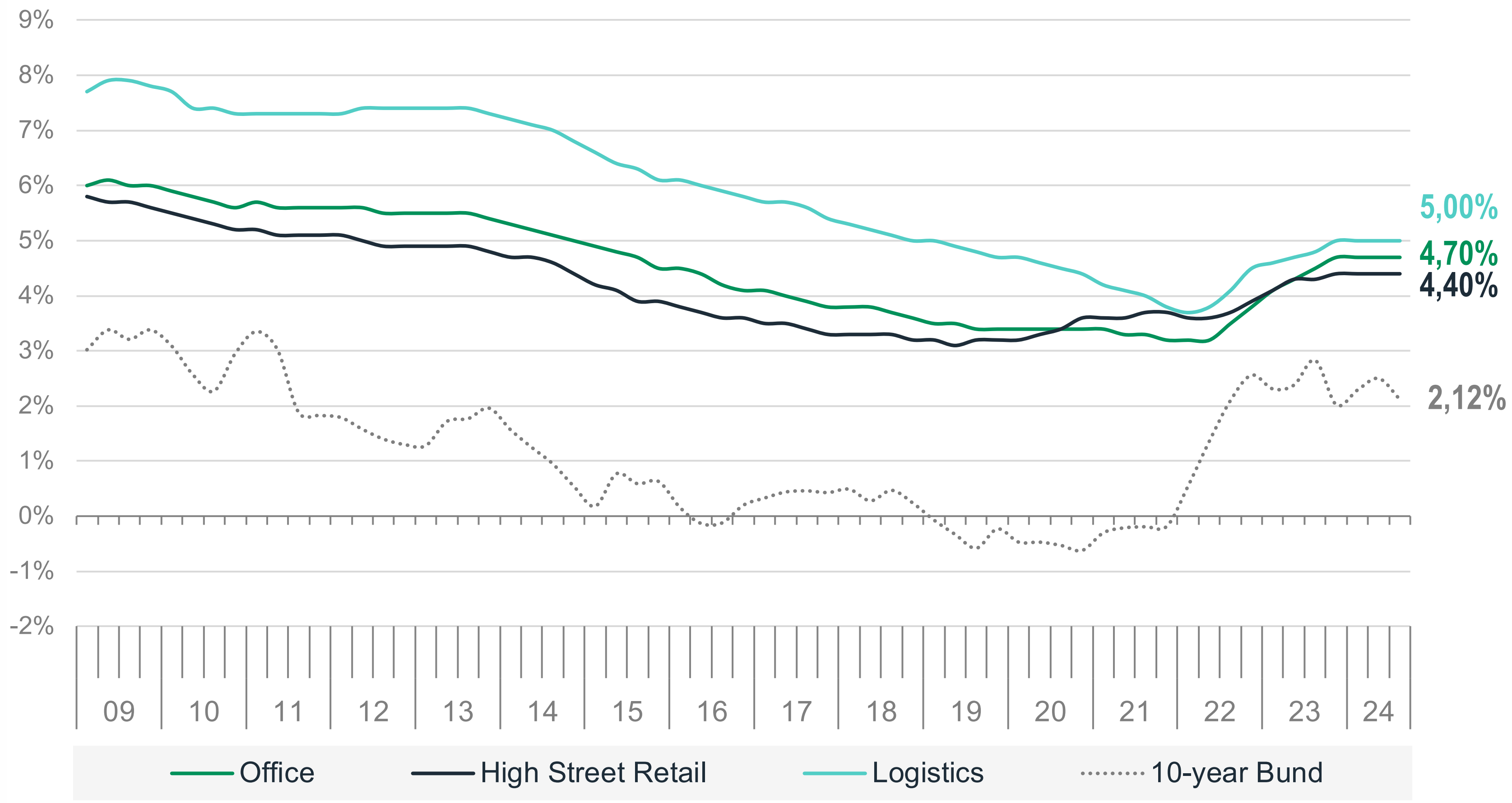
AVERAGE PRIME YIELDS IN EUROPE

MONETARY POLICY BECOMING MORE FAVOURABLE TO REAL ESTATE

Holding the line

- Central banks are clearly on a rate cutting path and beginning to transition their focus to growth rather inflation. The main question is pace of reduction rather than direction of interest rates.
- **Consequently, a floor now exists for real estate yields.** Real estate is entering a new phase for pricing. **Since Q4 2023 prime yields** across all asset classes have remained **constant and likely to stay that way** for 2024. Sporadic compression signals from some markets may even show in late 2024 or early 2025.
- **Stockholm (3.95%) remains the lowest yielding market in Europe for offices**, followed by London (4.00%) experiencing early compression signs as are Baltic cities.
- **Retail locations are led by London** and the **German cities** with high street prime yields **below 4.00%**
- **The lowest yielding logistics market** is also in **Germany** at 4.25%, followed by **the United Kingdom** (4.50%) and **France** at 4.90%.

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



This excludes residential investment.

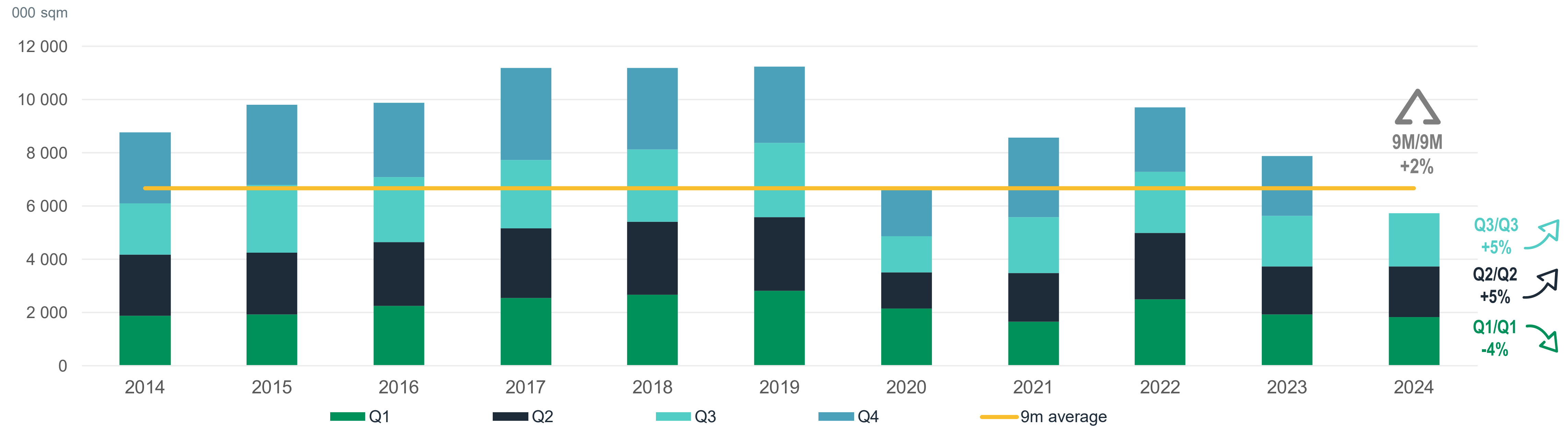
02.

REAL ESTATE PERSPECTIVES

OFFICE MARKETS

OFFICE TAKE-UP IN THE MAIN EUROPEAN OFFICE MARKETS*

LETTING VOLUMES GROWING



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

Take-up gains momentum

- For the second quarter in a row, take-up gained traction in Europe.
- Around 5.73 m sqm has been transacted since January 2024 in the 18 main European markets. Overall volumes are marginally ahead of 2023 (+2%) driven by select markets. These include Dublin (+60%), Barcelona (+44%), Munich (+37%), Madrid (+10%), Cologne (+9%), Frankfurt (+8%), Brussels (+7%) and Central London (+5%).
- The overall result remains below the 9-month long-term average (-14%) reflecting the ongoing structural changes in the office market where occupier activity focuses on smaller but more efficient premises.
- Enough economic uncertainty prevails in the major European markets to weigh on demand in the short term. That could see overall 2024 letting volumes staying in line with the 2023 results.

Source : BNP Paribas Real Estate

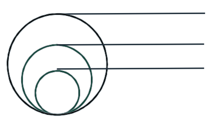
OFFICE TAKE-UP IN EUROPE

RECOVERY IS ON THE HORIZON

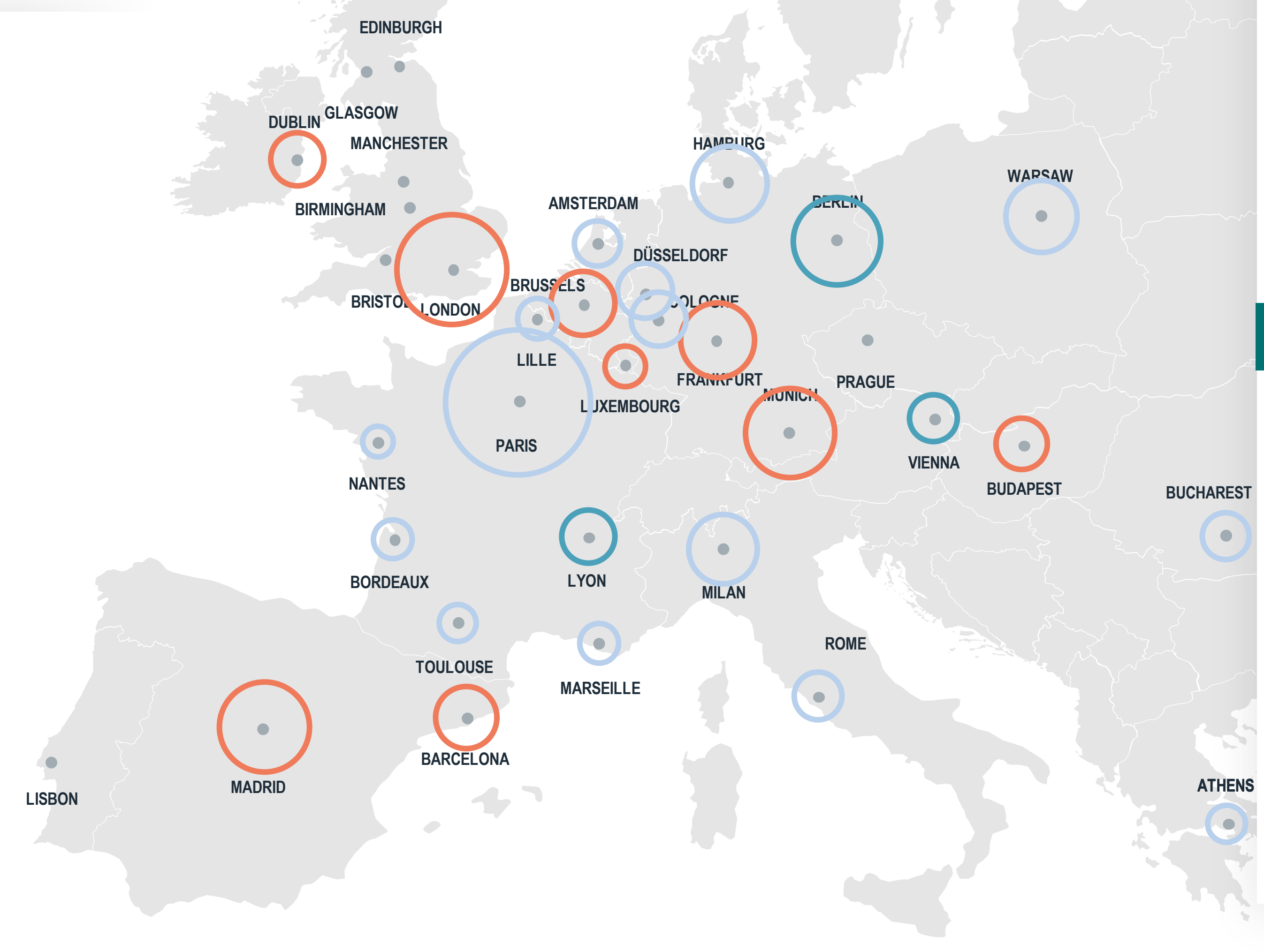
9M 2024 vs 9M 2023

CENTRAL LONDON	+5%	↗
BERLIN	-1%	↘
CENTRAL PARIS	-6%	↘
AMSTERDAM	-20%	↘
MADRID	+10%	↗
MILAN	-9%	↘
WARSAW	-6%	↘
BRUSSELS	+7%	↗
DUBLIN	+60%	↗
LUXEMBOURG	+6%	↗
VIENNA	-4%	↘
FRANKFURT	+8%	↗
BARCELONA	+44%	↗

Deals in thousand sqm



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



EUROPE – 9M 2024

6.77m sqm 27 markets

-3% vs. 9M 2023

Mixed picture for take-up

- Take-up at the end of September 2024 was close to the 2023 result.
- While some markets experienced new decline in volumes, take-up gained traction in many markets. Letting volume expansion is highly sensitive to large transactions. These deals not only take longer to close, but their start is also highly sensitive to challenging economic backdrops.
- Volumes remain below their long-term averages though appear to have stabilised.

Source : BNP Paribas Real Estate

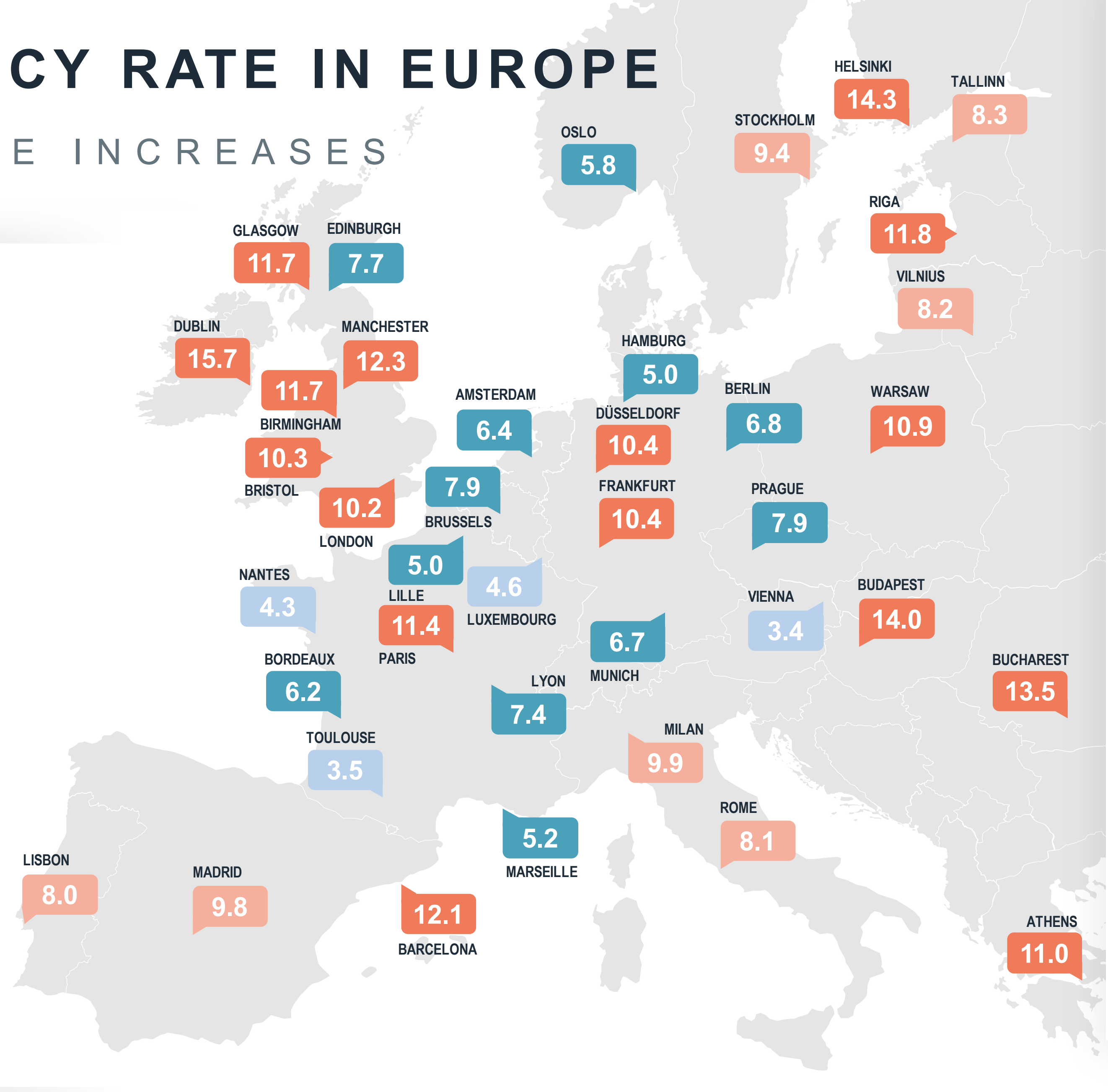
OFFICE VACANCY RATE IN EUROPE

AVAILABLE SPACE INCREASES

Q3 2024 vs Q3 2023

CENTRAL LONDON	+50bp
BERLIN	+280bp
CENTRAL PARIS	+170bp
AMSTERDAM	-20bp
MADRID	-10bp
MILAN	+20bp
WARSAW	+10bp
BRUSSELS	+100bp
DUBLIN	+280bp
LUXEMBOURG	+80bp
VIENNA	-30bp
FRANKFURT	+120bp
BARCELONA	-60bp
STOCKHOLM	+290bp
HELSINKI	-30bp

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



EUROPE – Q3 2024

8.6% 30 markets
+70bp vs. Q3 2023

- Vacancy expansion in numerous markets is the consequence of a growing geographical and quality 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 and for second-hand space.
- Completions have also impacted the immediate supply in several markets such as Berlin (available modern space accounted for 892,000 sqm at the end of September, 79% vs. Q3 2023) and Dublin (186,000 sqm completed in 9 months, exceeding by 50% the 5-year annual volume average).

Source : BNP Paribas Real Estate

OFFICE PRIME RENTS IN EUROPE

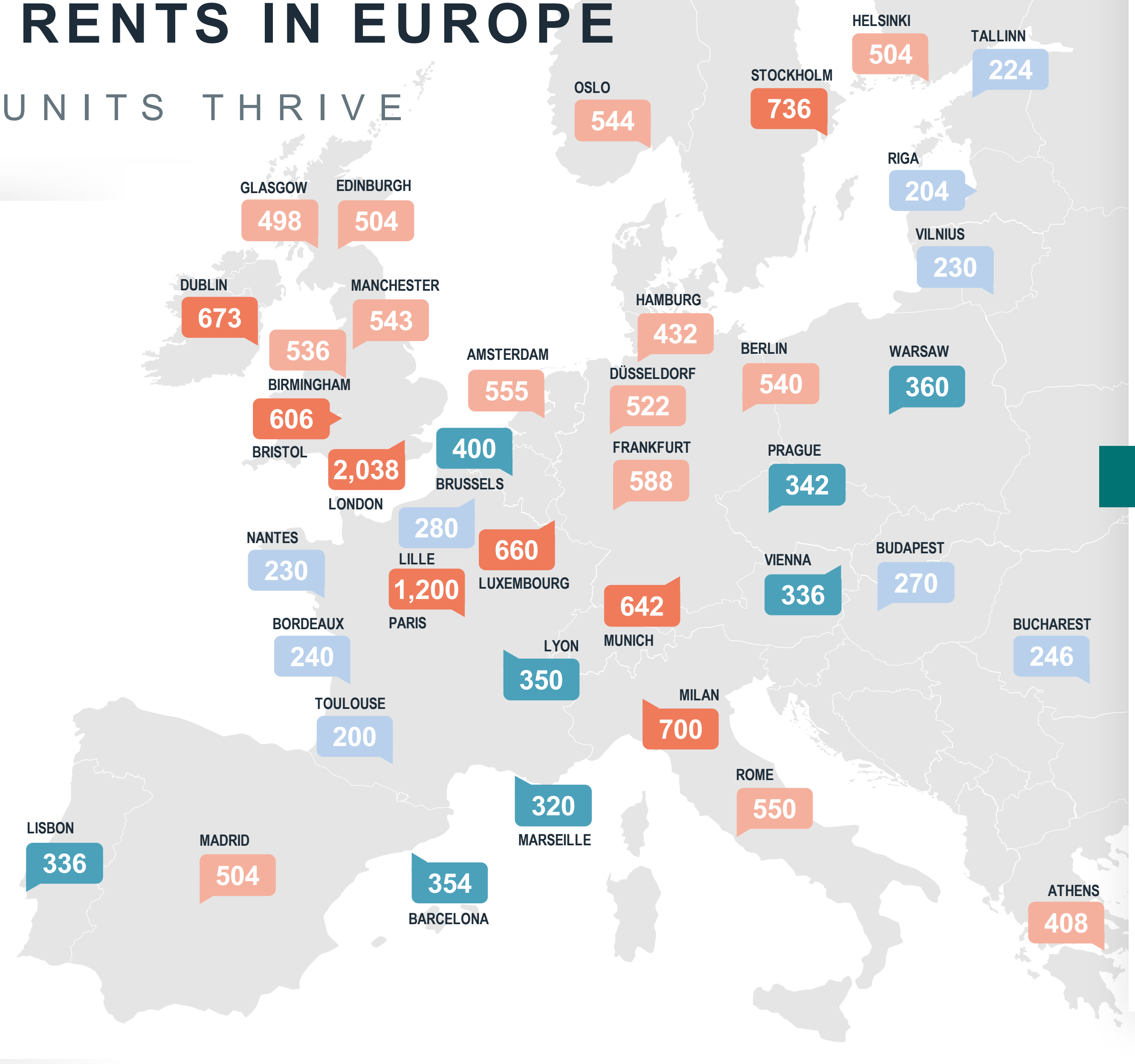
BEST-IN-CLASS UNITS THRIVE

Q3 2024 vs Q3 2023

CENTRAL LONDON	+7%
BERLIN	=
CENTRAL PARIS	+20%
AMSTERDAM	+6%
MADRID	+11%
MILAN	+4%
WARSAW	+11%
BRUSSELS	+18%
DUBLIN	=
LUXEMBOURG	=
VIENNA	+2%
FRANKFURT	=
BARCELONA	+5%

Rents (€/sqm/year)

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



EUROPE – Q3 2024

+4.5% vs. Q3 2023

37 markets

Prime rents still driven by high demand for top space

- The very low availability for grade A and the appeal of high-quality buildings located in the most sought-after districts continue to drive values up.
- The rise in prime rents was more pronounced in the 18 main European markets, with +6.8% in average y.o.y.
- Structural changes occurring in the office sector favour prime and modern units, and less space. The focus on quality over quantity will continue to support prime rents over the coming quarters.

Source : BNP Paribas Real Estate

LOCATIONS

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CONTENTS AND PRODUCTION

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