

# EUROPE CRE 360

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ECONOMIC OUTLOOK

REAL ESTATE PERSPECTIVES

GLOBAL RESEARCH

February 2023



**BNP PARIBAS**  
**REAL ESTATE**

Real Estate for a changing world

EUROPE CRE 360

# REAL ESTATE PERSPECTIVES

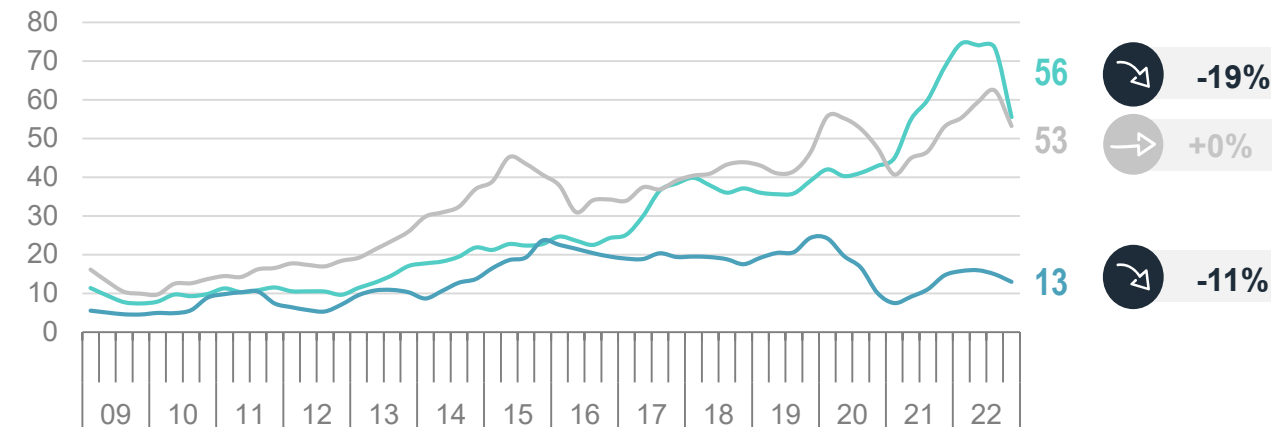
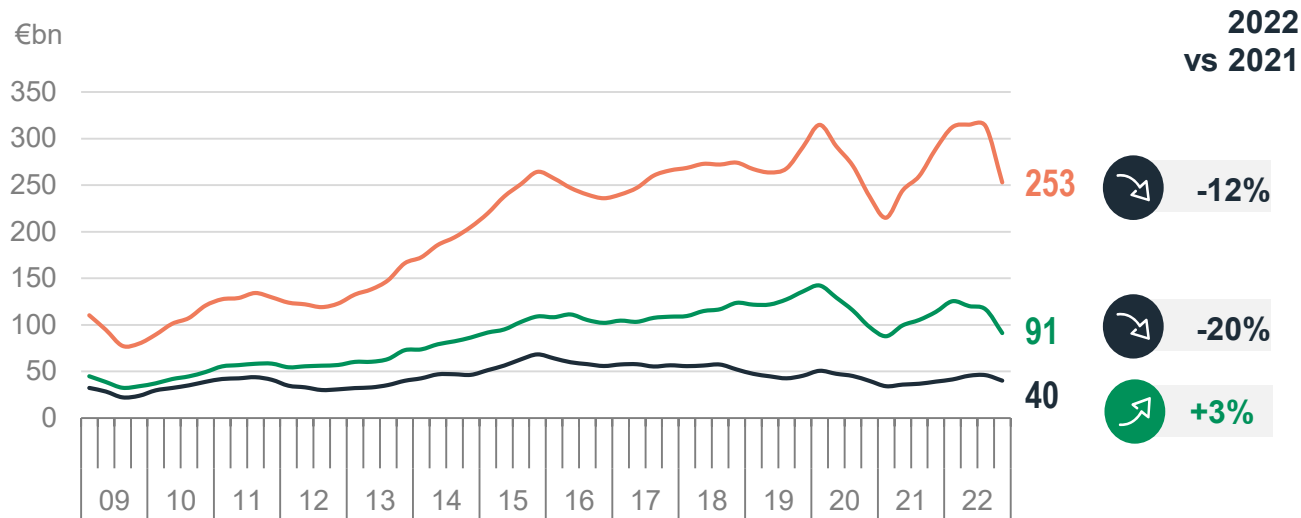
COMMERCIAL REAL ESTATE  
INVESTMENT MARKETS





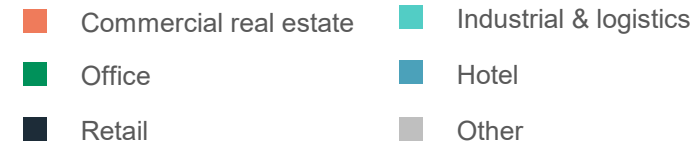
# INVESTMENT IN COMMERCIAL REAL ESTATE IN EUROPE

## BREAKDOWN OF INVESTMENT BY ASSET CLASS



### Investment plummeting

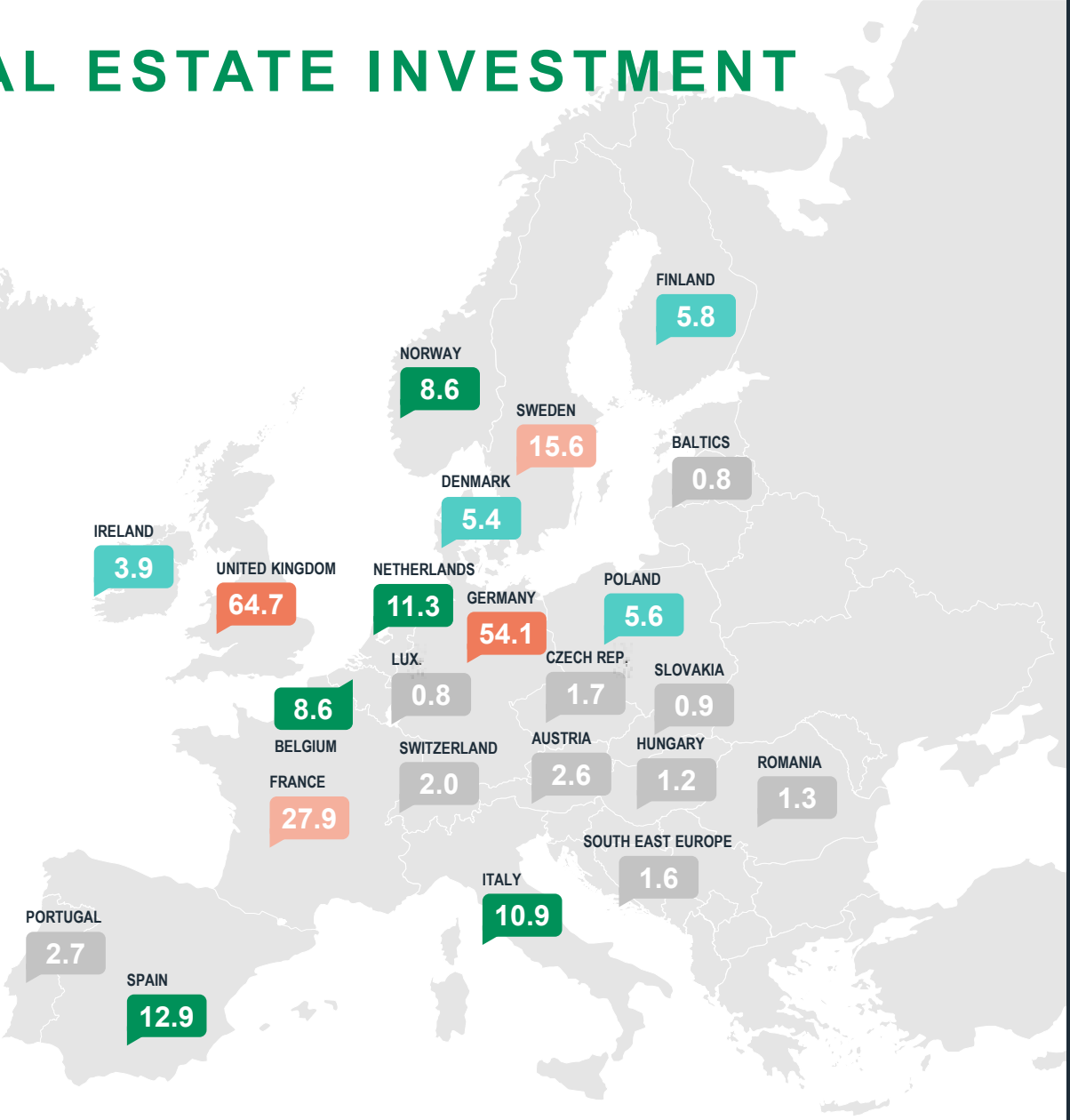
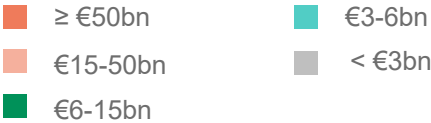
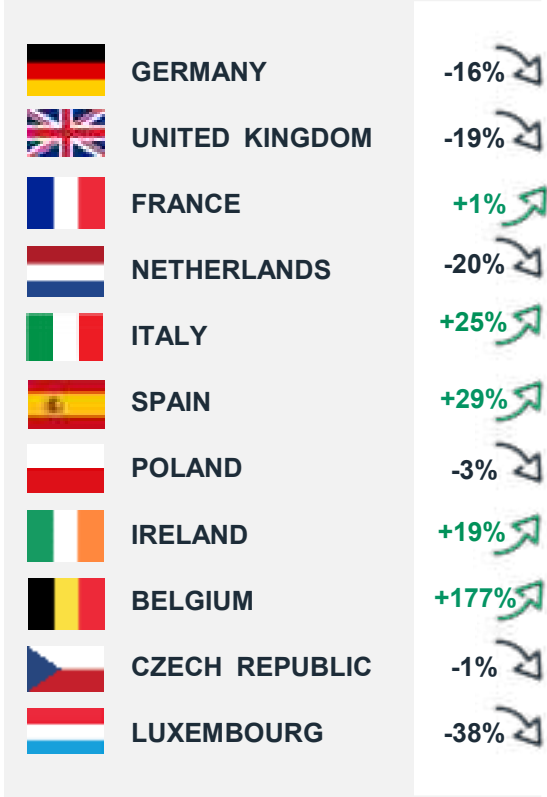
- Investment regained momentum over 2021 after the Covid-19 crisis to reach pre-crisis levels as economies reopened with control of the pandemic outbreak. It reached a high of €315bn in Q2 2022, almost touching Q1 2020's record (€315bn).
- The dramatic increase in financing costs in Europe during 2022, led to repricing in H2. Consequently, investment plummeted over the rest of the year to reach €253bn (-12% vs 2021), and 6% below the average of the last 5 years.
- The Q4 volume of €49bn (-55% vs Q4 2021) was the lowest quarter of the year when Q4 is generally the most active.
- All asset classes experienced a reduction annually over 2022. Offices (-20%) and logistics (-19%) suffered the most, hotels (-11%) saw a reduction, but retail (+3%) showed resilience due to expansion over the previous three quarters.



This excludes residential investment.

# COMMERCIAL REAL ESTATE INVESTMENT

2022 vs 2021



- €253.0bn were invested in Europe over 2022, which represents a 12% decrease vs 2021.
- A closer look at European countries shows great geographical variance. The strong declines in the two major countries Germany (-16%) and the UK (-19%) hide stabilization in France (+1%) and good performance in smaller countries such as Italy (+25%), Spain (+29%), Belgium (+177%) and Ireland (+19%).

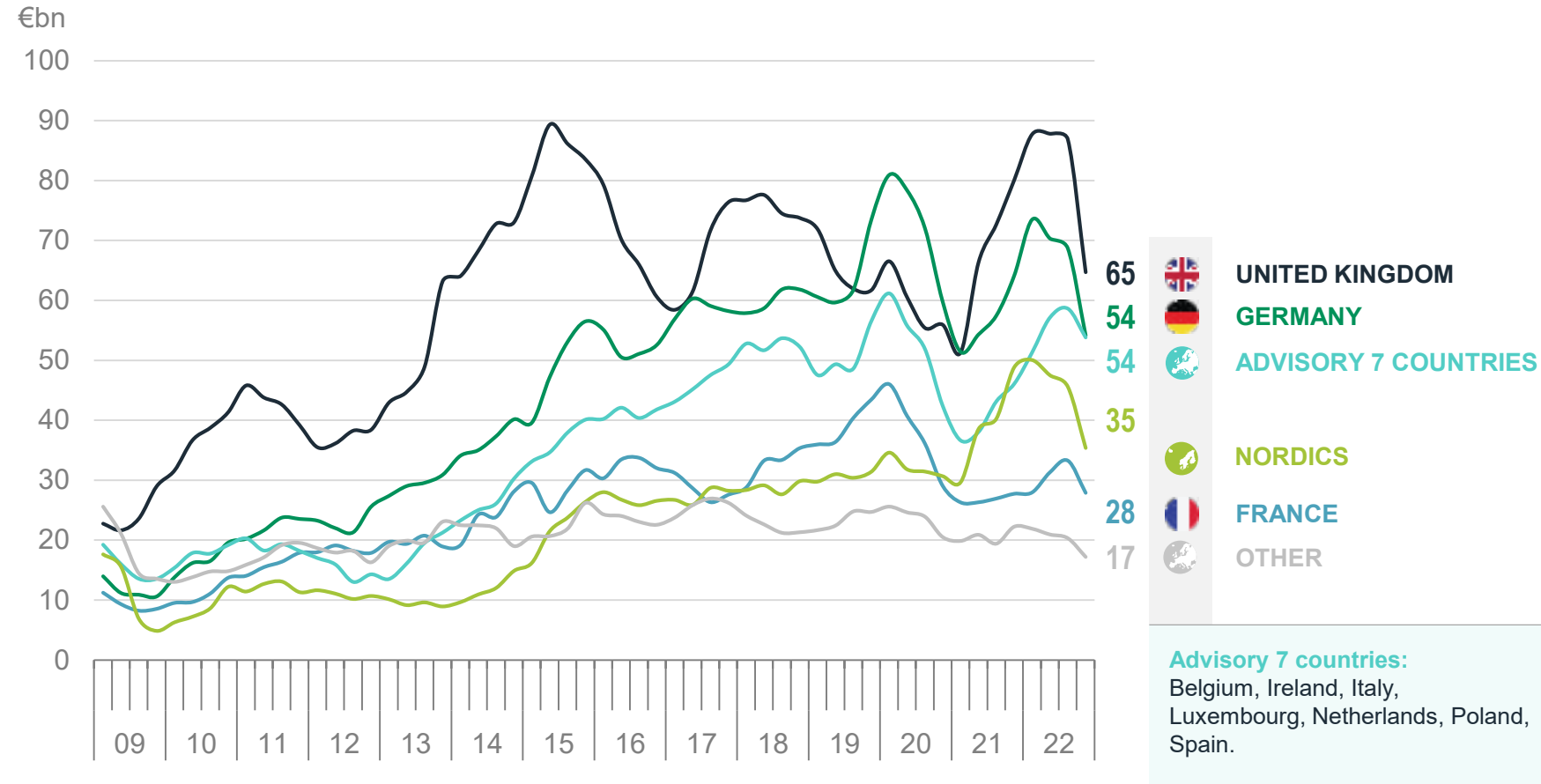
(excludes residential investment)

Source : BNP Paribas Real Estate

# COMMERCIAL REAL ESTATE INVESTMENT VOLUME

INVESTMENT REMAINS HIGH EVEN WITH BUYER CAUTION

CRE Investment volume (€ billion)



Source: BNP Paribas Real Estate Research.

- Over 2021 and early 2022, markets recovered sharply to post investment volumes similar to pre-pandemic levels.
- In the current climate of inflation and monetary policy tightening, rapid bond yield expansion is creating pricing uncertainty in real estate. It is also creating difficulty in lending which is now more expensive.
- The outcome is that a more selective approach to property from buyers is emerging at the end of 2022. All countries are now trending down in absolute investment volumes, except for Belgium.
- Activity remained historically high but Q4 marked a significant change with weakness not seen since the GFC.

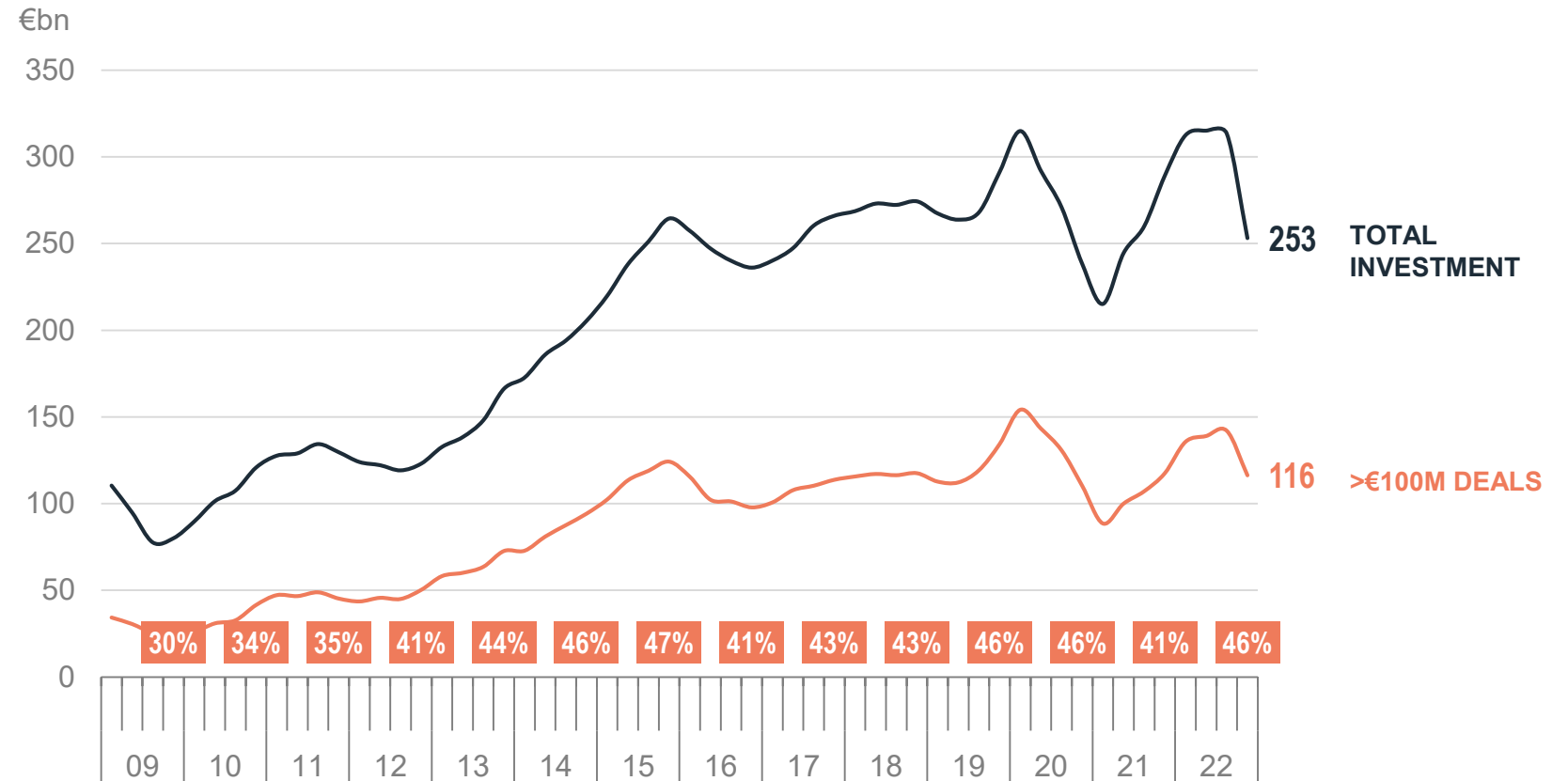
# INVESTMENT BY SIZE BAND

## Deep slowdown in mega deals yet to appear

- Mega deals (>€100m) volume in Q1 2020 reached a record figure of €154bn (on a rolling-year basis), which represents 49% of the total investment, an unusually big share for a Q1. Mega deals had been on the rise from mid-2019.
- The volume of mega deals dropped post Q2 2020 and only reached €89bn at Q1 2021 on a rolling-year basis. This was down 43% vs the 12 months to Q1 2020 figure and was the low point. The situation improved over the rest of 2021 and beginning of 2022 to reach €142bn at Q3 2022.
- The mega deals volume dropped over Q4 2022 but to a lesser extent than other size bands of deals. This may be a contract issue as these sort of deals take a long time to complete. Consequently the share of mega deals increased (46%).

## Commercial Real Estate Investment in Europe

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



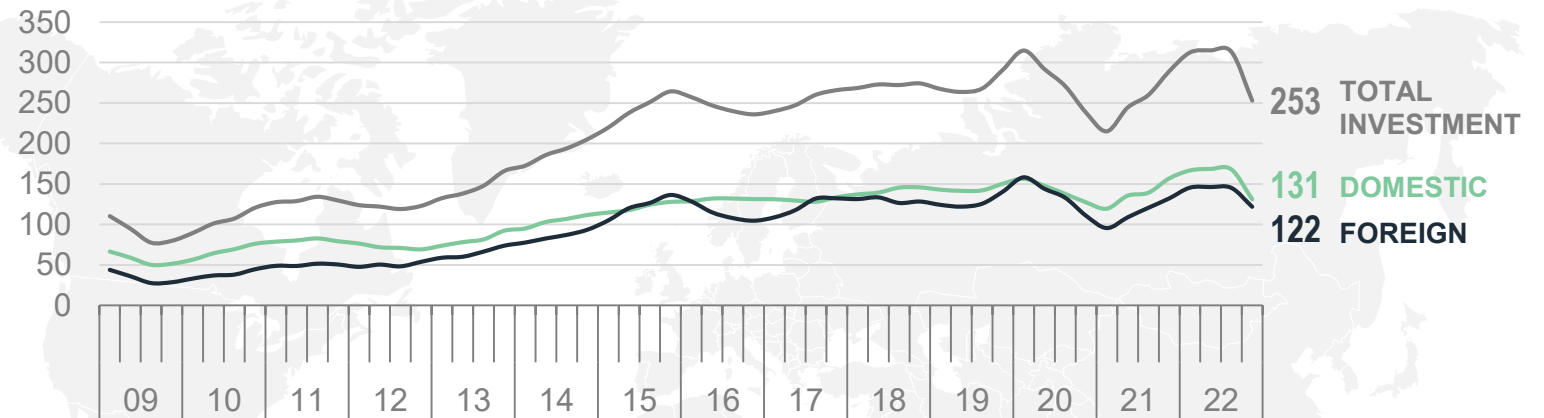
Source: BNP Paribas Real Estate.

# CROSS-BORDER INVESTMENT MARKET

- Over 2022, foreign investment stood very high during the first 3 quarters, it reached €146bn (on a rolling-year basis) at Q2. It then declined sharply over Q4 (-54%) so that overall it reached €122bn in 2022 (-8%).
- Within foreign investment, **European cross-border investment was more affected (-13%)**. It only represented 40% of foreign investment, such a modest share has not been seen since before the Covid-19 crisis (the share of European investment was around 45% during the pandemic).
- Conversely, investment from other continents proved more dynamic since the beginning of 2022. **American investors** showed strong interest in the European market in 2022. **With almost €45bn spent in 2022 (-2% vs 2021)**, American investors (37%) are the most represented just after the Europeans (39%).
- Investments from Asia Pacific were also very important since the start of the year. **With almost €15bn invested over 2022 (+41% vs 2021)**, Asian investor share increased slightly (12%).
- Middle East investors are less interested in the European market compared to Americans and Asians. **They only represented 2% of 2022 foreign investment with €2.2bn invested (-59% vs 2021)**.

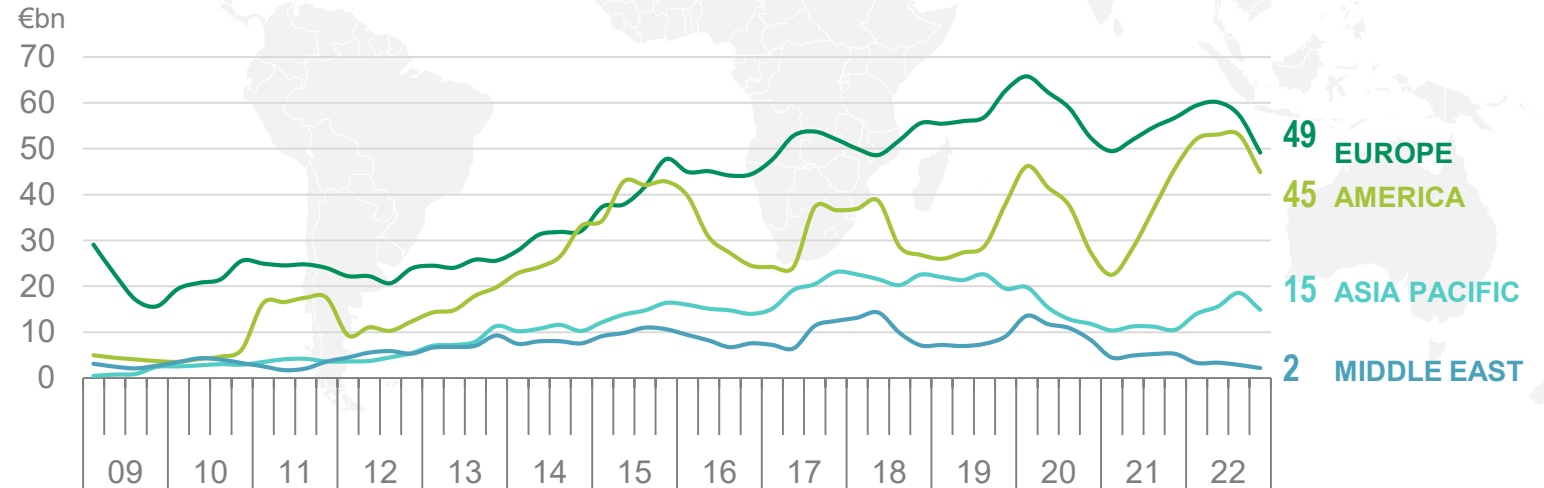
## Commercial Real Estate Investment in Europe

Total, foreign and domestic investment  
€bn



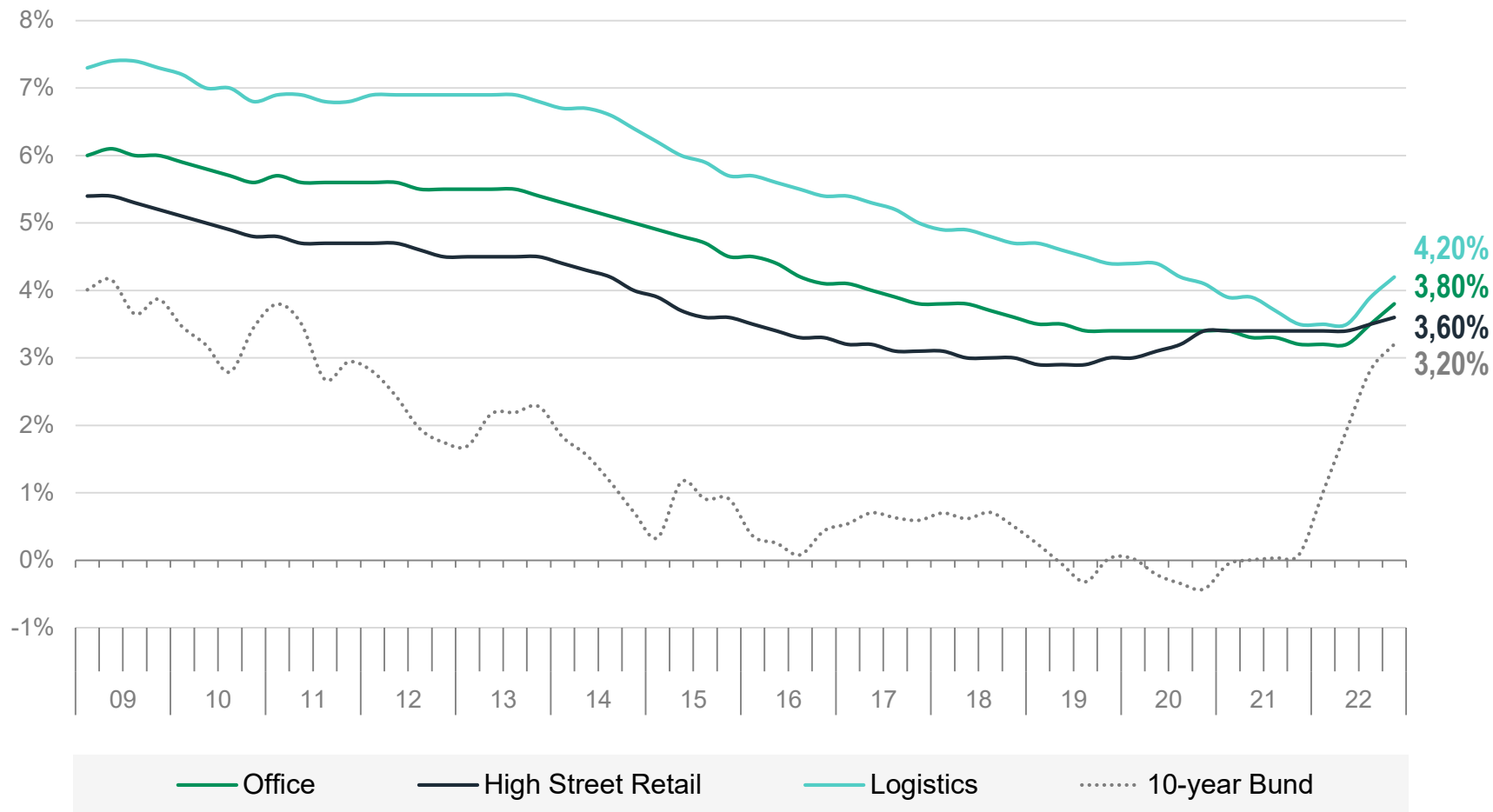
## Commercial Real Estate Investment in Europe

Foreign investment detail  
€bn



# AVERAGE PRIME YIELDS IN EUROPE

BASED ON 16 MARKETS



- Prime yield compression, mostly paused during 2020 with the pandemic except for logistics. Compression resumed over 2021 with resumption of market activity.
- Compression ended in 2022. From H2 onwards, the first strong signs of expansion occurred, affecting all the main sectors of real estate.
- The principal factor behind yield expansion is the change in the macro-financial environment. The persistence of inflation is prompting more robust response from central banks to normalize monetary policy.
- Bond yields are subsequently growing very rapidly, reducing the yield gap with real estate and prompting rethinking about the prices being paid for assets.

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

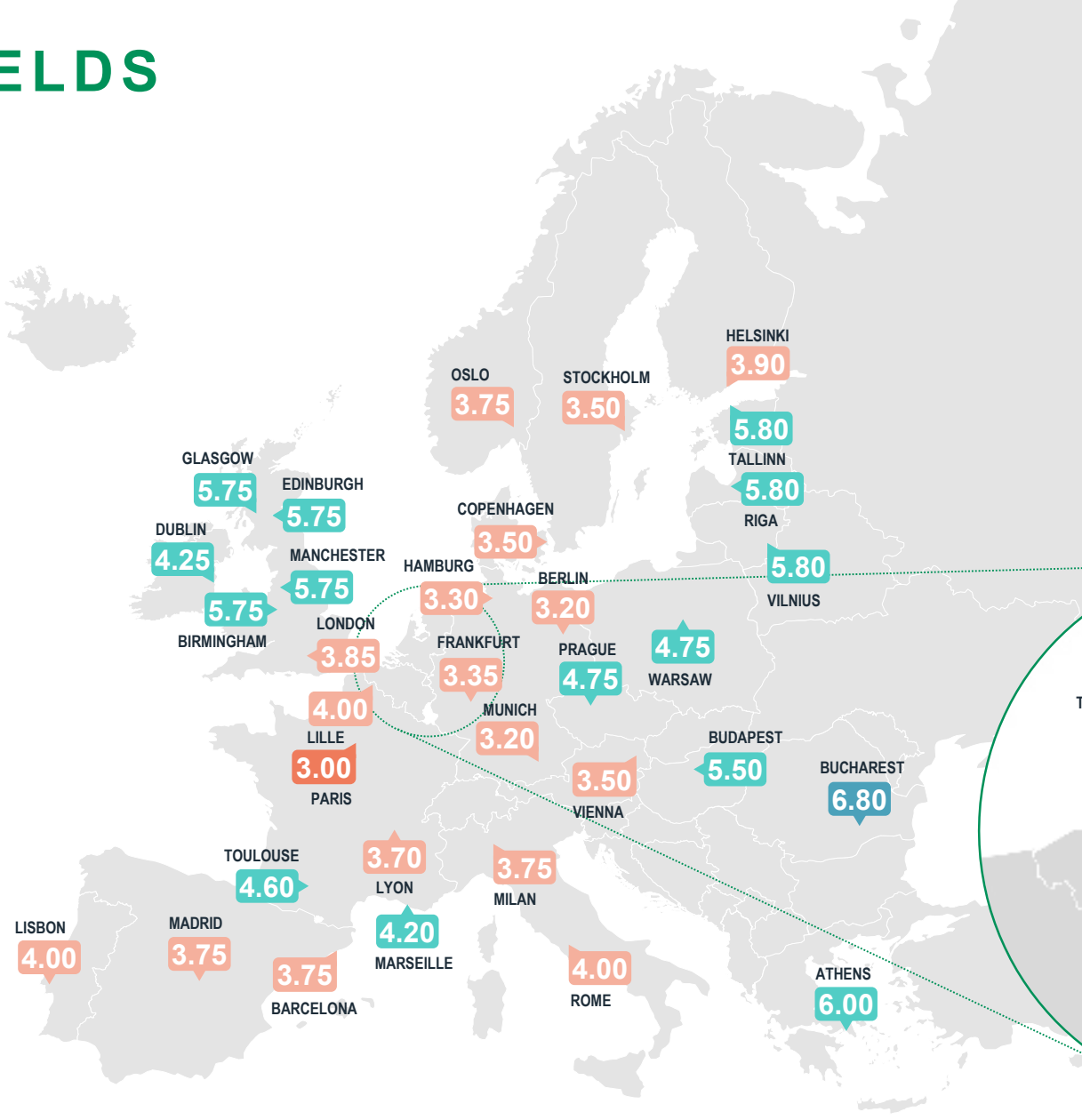
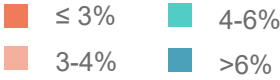
Source: BNP Paribas Real Estate Research.



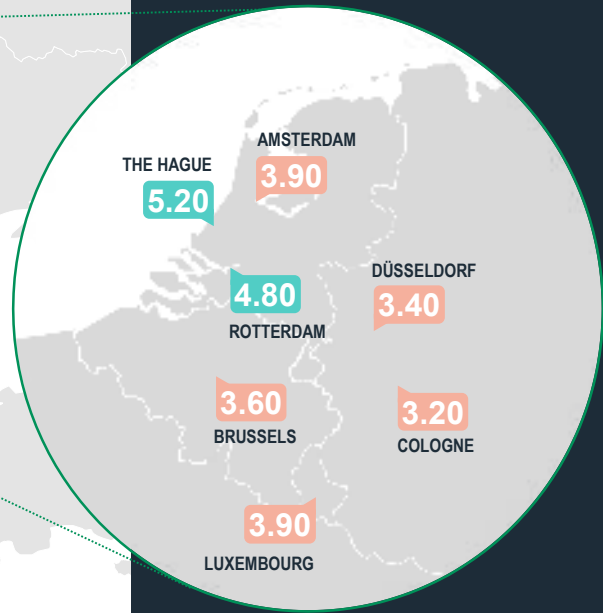
# PRIME OFFICE YIELDS

Q4 2022 vs Q1 2022

	BERLIN	+80bp ↗
	PARIS	+30bp ↗
	AMSTERDAM	+100bp ↗
	MADRID	+65bp ↗
	MILAN	+75bp ↗
	LONDON	+60bp ↗
	LUXEMBOURG	+50bp ↗
	BRUSSELS	+35bp ↗
	DUBLIN	+25bp ↗
	PRAGUE	+75bp ↗
	WARSAW	+25bp ↗



- Office yield compression over 2021 came to a halt. Q2 and Q3 2022 showed the first signs of expansion, a trend that generalized in Q4.
- All the main European markets experienced an expansion since Q1, the strongest have been observed in Amsterdam (+100bps), Berlin (+80 bps), Prague, Milan and Hamburg (+75 bps), Frankfurt and Munich (+70 bps).



Source : BNP Paribas Real Estate

EUROPE CRE 360

# REAL ESTATE PERSPECTIVES

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OFFICE  
MARKETS



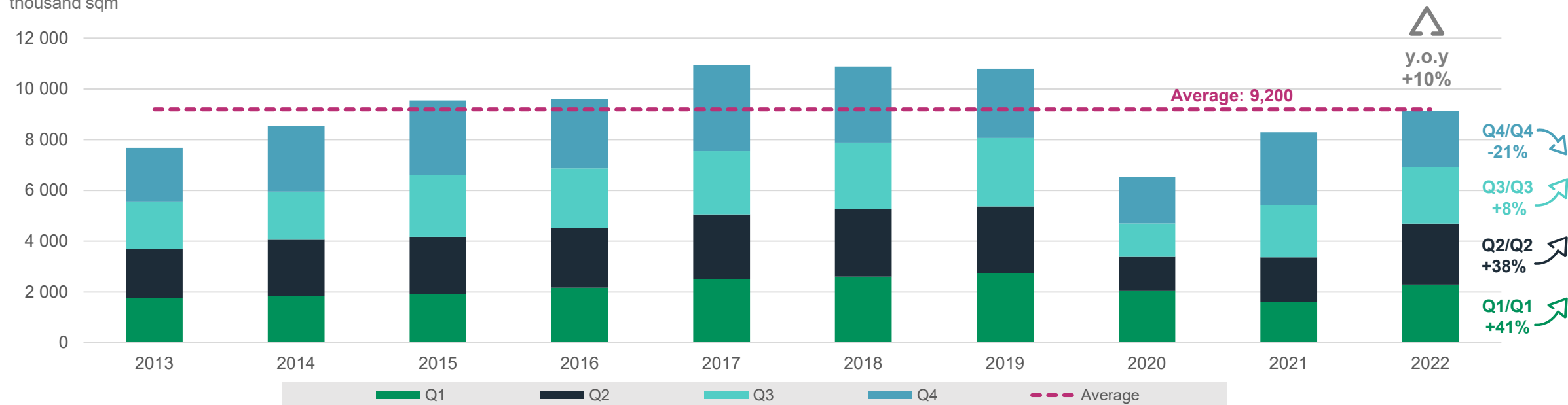
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# OFFICE TAKE-UP IN EUROPE – 2022

## 17 MAIN EUROPEAN OFFICE MARKETS \*

thousand sqm



### Letting activity returned to its long-term average in 2022

- 9.17m sqm was transacted in Europe's 17 main markets over 2022, in line with the long-term average.
- After solid first 9 months, take-up showed first signs of consolidation in Q4. The post-Covid rebound seems to be fading.
- Indeed, take-up reached 2.26m during Q4, decreasing by 21% vs Q4 21. This result is -14% below the Q4 10-year average.
- Most markets showed strong rebounds in volumes in 2022, such as Dublin (+63%), Central London (+45%), Milan (+28%), Madrid (+26%).
- Amsterdam and Luxembourg are still experiencing decreases in volumes, while the six main German markets, Rome and Barcelona remained stable compared to the previous year.

Source: BNP Paribas Real Estate Research.

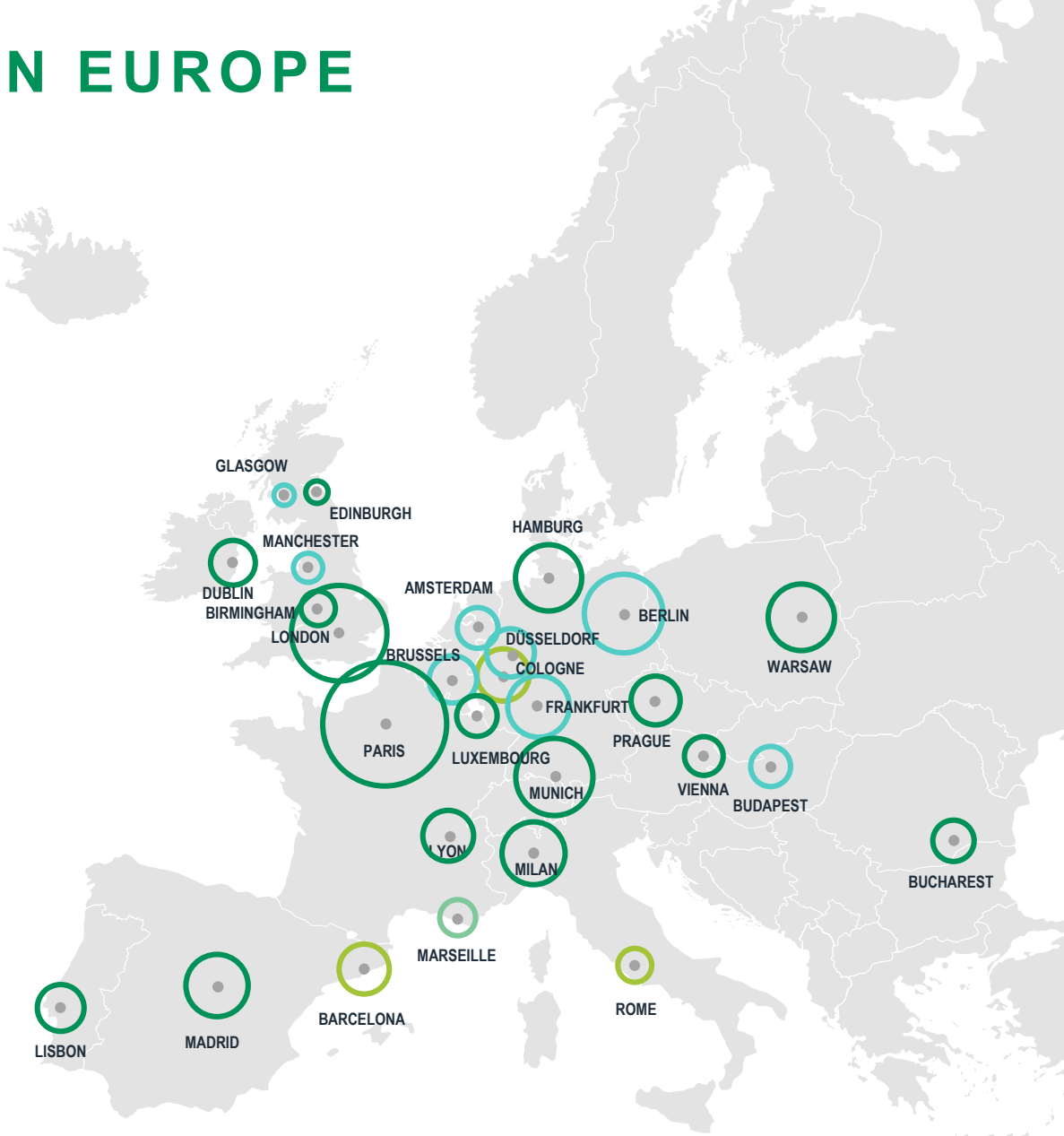
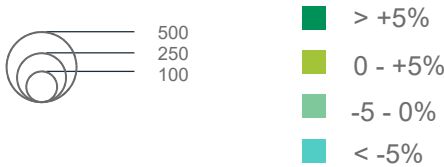
\* Berlin, Cologne, Düsseldorf, Frankfurt, Hamburg, Munich, Central Paris, Central London, Brussels, Barcelona, Madrid, Dublin, Milan, Rome, Luxembourg, Amsterdam, Warsaw

# OFFICE TAKE-UP IN EUROPE

2022 vs 2021



Deals in thousand sqm



Source: BNP Paribas Real Estate.



EUROPE – 2022  
**11.24m sqm**  
26 markets  
+11% vs 2021











## 2022 take-up returned to its long-term average

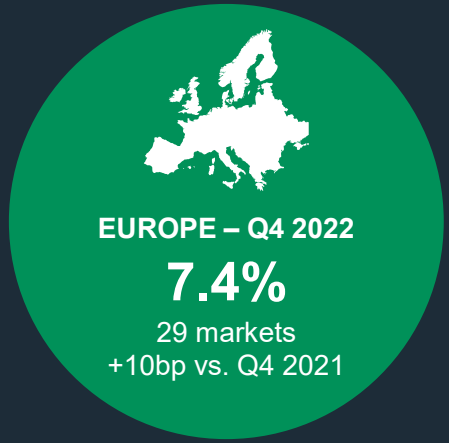
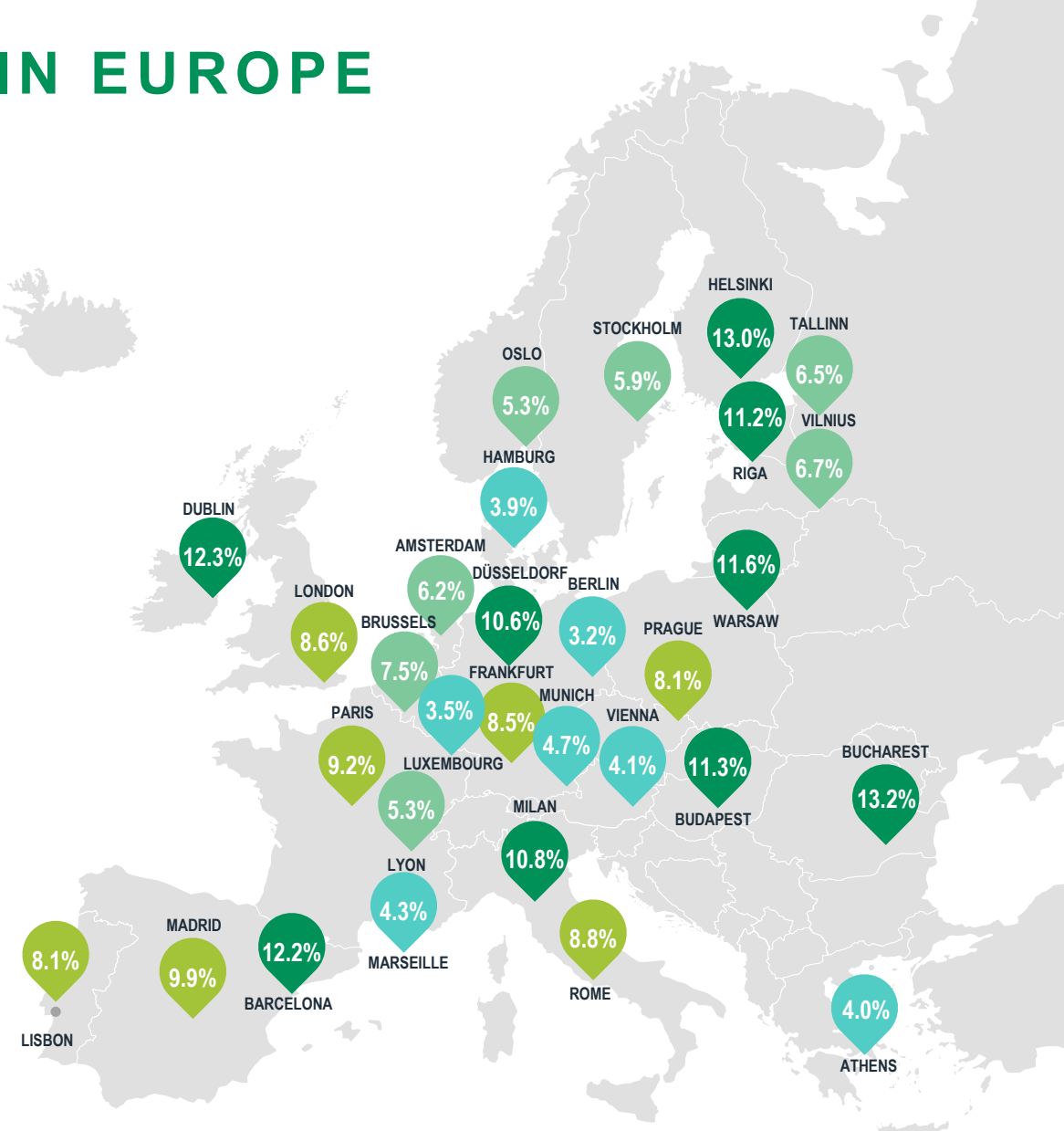
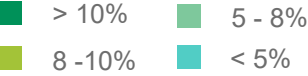
- Take-up at the end of 2022 rose by +11% compared to last year.
- Thanks to this significant rebound, 2022 volumes exceeded 10-year averages in several markets including Milan (+38%), Cologne (+11%), Hamburg (+9%) and Warsaw (+7%).
- However, not all markets experienced a similar rebound in volumes, with some remaining below their long-term average.



# OFFICE VACANCY IN EUROPE

Q4 2022 vs Q4 2021

	CENTRAL LONDON	+70 bp ↗
	BERLIN	-20 bp ↘
	CENTRAL PARIS	+70 bp ↗
	AMSTERDAM	+20 bp ↗
	MADRID	+10 bp ↗
	MILAN	+20 bp ↗
	WARSAW	-110 bp ↘
	BRUSSELS	-50 bp ↘
	DUBLIN	+230 bp ↗
	LUXEMBOURG	-40 bp ↘



Vacancy remains under control in Europe

- The overall vacancy rate in Europe stood at 7.4% at the end of 2022 (+10bp vs. 2021).
- While most markets experienced stabilization or even a slight decrease, vacancy increased in some of them over the year, including Barcelona (+340 bps vs. 2021) and Dublin (+230 bps) which saw strong completions in 2022.
- Most markets are seeing two-speed dynamics, with low availability in central submarkets and in new buildings, and much higher vacancy rates in peripheral office districts.





Source: BNP Paribas Real Estate

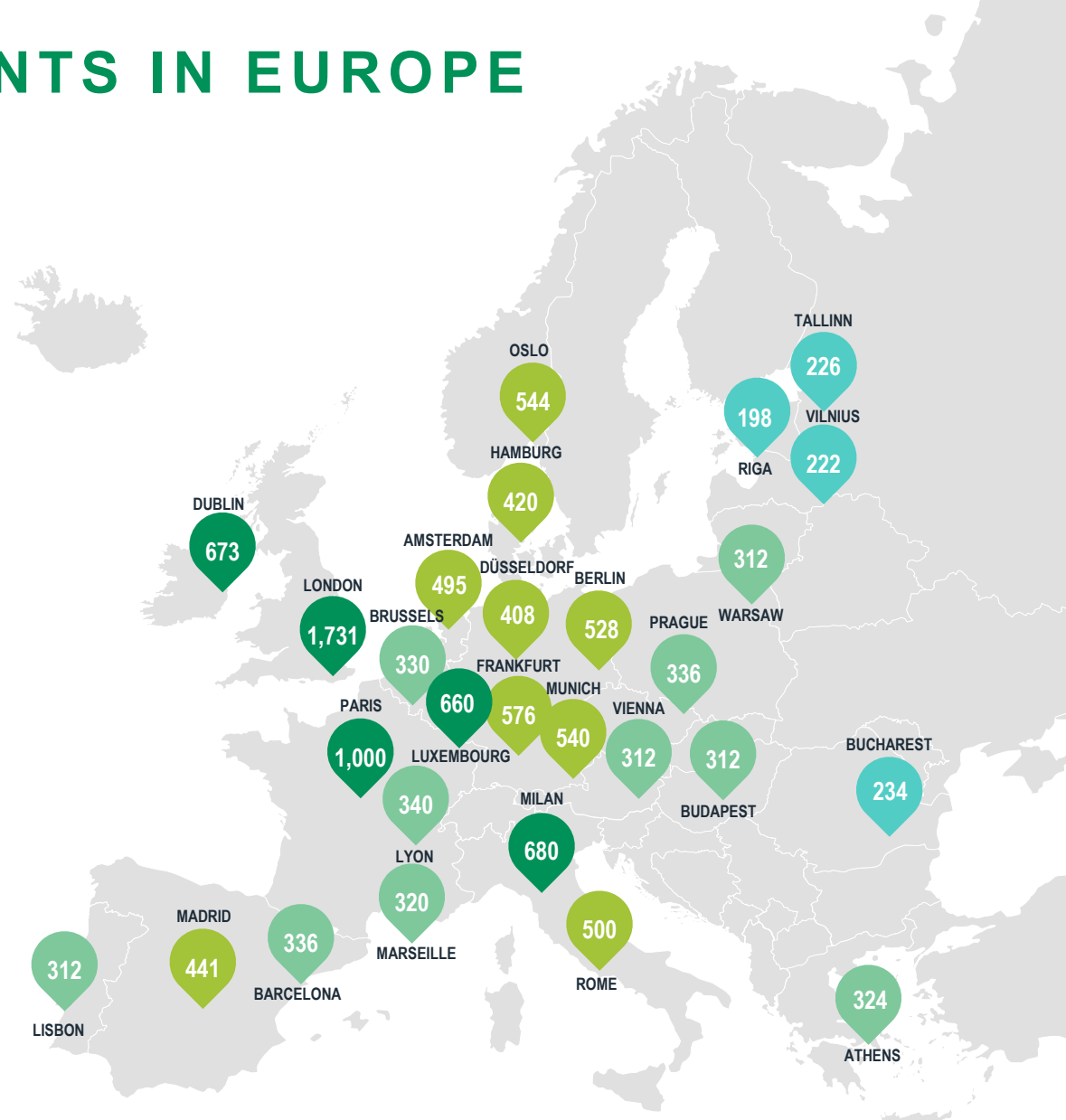
# OFFICE PRIME RENTS IN EUROPE

Q4 2022 vs Q4 2021



Rents are in €/sqm/year

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



Prime rents still driven by the demand for quality

- Having sustained value over the crisis period, prime office rents in the key cities are now growing again.
- With the widespread uptake of hybrid work models, companies are seeking attractive and modular workplaces offering greater connectivity.
- The very low availability of prime assets and the appeal of high quality buildings located in the most sought-after districts drive values up.
- Over the past 12 months, London (+19%), Warsaw (+13%), Milan (+11%) and Dublin (+9%) have seen the most significant increases in values.

Source: BNP Paribas Real Estate

# LOCATIONS

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## EUROPE

### FRANCE

Headquarters  
50, cours de l'Île Seguin - CS 50280  
92650 Boulogne-Billancourt cedex  
Tel.: +33 1 55 65 20 04

### GERMANY

Goetheplatz 4  
60311 Frankfurt am Main  
Tel.: +49 69 29 89 00

### UNITED KINGDOM

5 Aldermanbury Square  
London EC2V 7BP  
Tel.: +44 20 7338 4000

### BELGIUM

Avenue Louise 235  
1050 Brussels  
Tel.: +32 2 290 59 59

### SPAIN

C/ Emilio Vargas, 4  
28043 Madrid  
Tel.: +34 91 454 96 00

### IRELAND

57 Adelaide Road,  
Dublin 2  
Tel.: +353 1 66 11 233

### ITALY

Piazza Lina Bo Bardi, 3  
20124 Milano  
Tel.: +39 02 58 33 141

### LUXEMBOURG

Kronos building  
10, rue Edward-Steichen  
2540 Luxembourg  
Tel.: +352 34 94 84

Investment Management  
Tel.: +352 26 06 06

### NETHERLANDS

Antonio Vivaldistraat 54  
1083 HP Amsterdam  
Tel.: +31 20 305 97 20

### POLAND

Grzybowska 78,  
00-844 Warsaw  
Tel.: +48 22 653 44 00

### PORTUGAL

Avenida da República, 90 Piso 1,  
Fracção 1  
1600-206 Lisboa  
Tel.: +35 1 939 911 125

## MIDDLE EAST / ASIA

### DUBAI

Emaar Square  
Building n° 1, 7th Floor  
P.O. Box 7233, Dubai  
Tel.: +971 44 248 277

### HONG KONG, SAR CHINA

63/F, Two International  
Finance Centre  
8 Finance Street, Central,  
Hong Kong, SAR China  
Tel.: +852 2909 8888

### SINGAPORE

20 Collyer Quay, #17-04  
Singapore 049319  
Tel.: +65 681 982 82

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