EUROPE
CRE 360

ECONOMIC OUTLOOK

REAL ESTATE PERSPECTIVES

GLOBAL RESEARCH
February 2022

BNP PARIBAS
REAL ESTATE

Real Estate for a changing world

EUROPE CRE 360

CONTENTS

EXECUTIVE SUMMARY

IN A NUTSHELL

ECONOMIC GROWTH IS EASING IN THE EUROZONE

A normalization in growth is expected in Europe, with household spending underpinned by cheap financing conditions, a further improvement in the labour market and faster wage growth. Stronger supply chain disruptions and inflationary pressures may have a negative impact on 2022.

INVESTMENT BACK TO PRE COVID-19 LEVELS

€272.7bn was invested in Europe over 2021, which represents a 15% increase vs 2020, in line with the pre-Covid-19 levels. Investment in logistics (+51%) reached an all-time high while office (+10%) and hotel (+33%) investments are on the road to recovery. However retail investment (-7%) continues its descent.

OFFICE: VERY DYNAMIC Q3 AND Q4

Take-up at the end of 2021 saw a significant increase (+27%) compared to last year. Slightly more than 10 million sqm was taken-up last year. Even though the pre-covid levels are not reached, take-up showed signs of normalisation in Q3 and Q4.

AN ALL TIME-HIGH FOR LOGISTICS

Market fundamentals are healthy, underpinned by strong economic growth. Low vacancy rates combined with strong demand boosted by e-commerce contribute to rental growth. Investment is setting a new record gaining share on other assets. Prime yields are still compressing, reflecting aggressive pricing on prime products.

RETAIL INDUSTRY ON THE WAY TO RECOVERY

With retail trade gradually resuming across Europe with restrictions easing, retail investment slightly improved from Q2. Retail warehousing and supermarkets continue to benefit from investors' rising interest while shopping centres and high street may attract opportunistic transactions in the coming months.

RESIDENTIAL: FROM ALTERNATIVE TO MAINSTREAM

Soaring house prices driven by cheap financial conditions, high saving rates and shift in housing demand. Resilient rental markets challenged by international mobility restrictions and rent regulation. High investors demand continue to compress residential yields.

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ECONOMIC OUTLOOK

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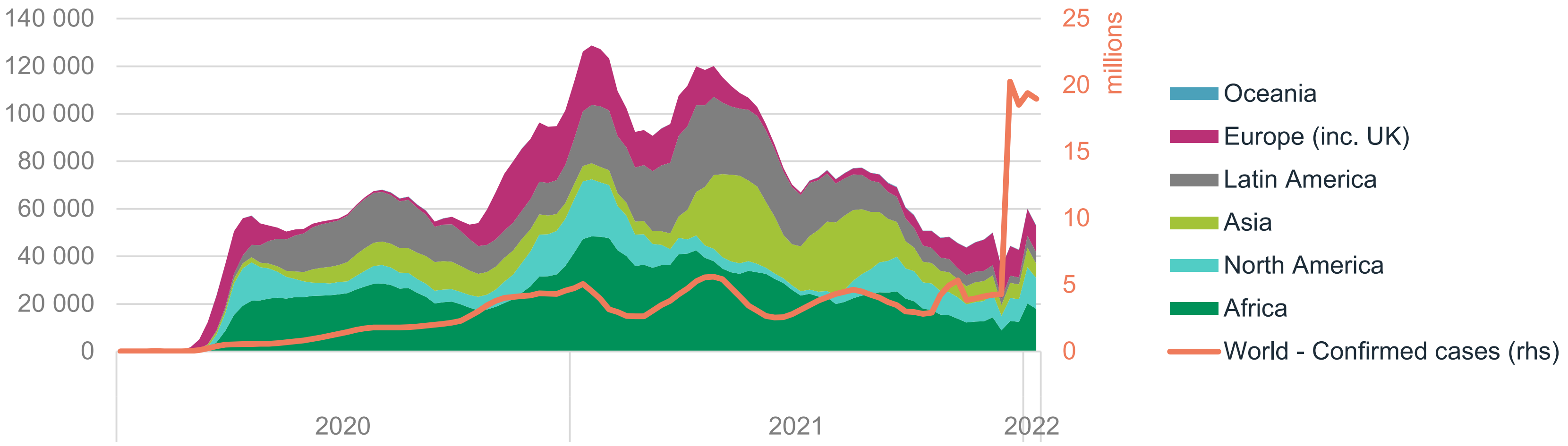
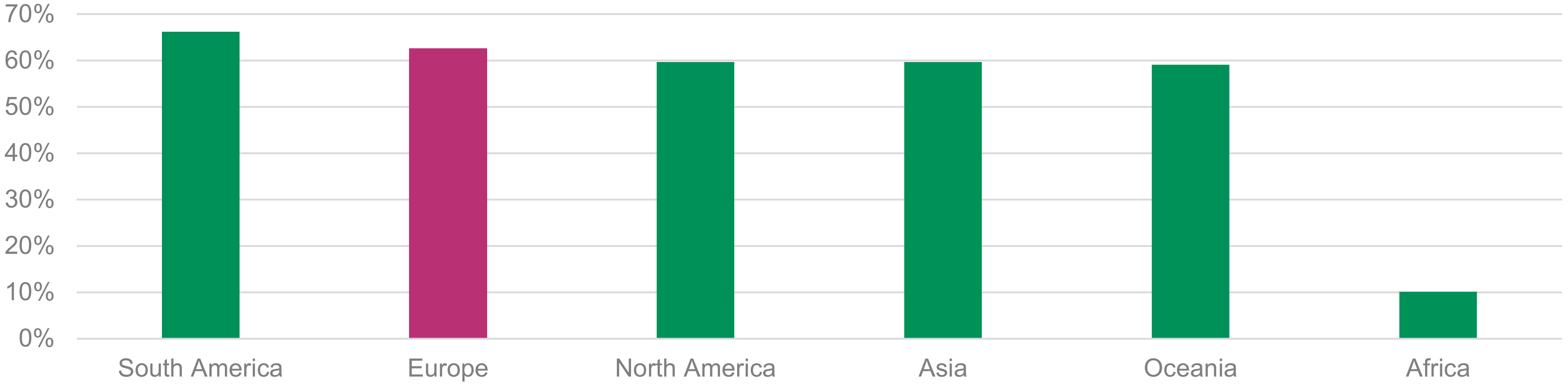
COVID-19: WHERE ARE WE?

NEW COVID CASES ARE RISING SHARPLY

Number of weekly deaths and confirmed cases



Vaccination around the World
(Share of the population fully vaccinated)



New COVID-19 case numbers continue to rise sharply

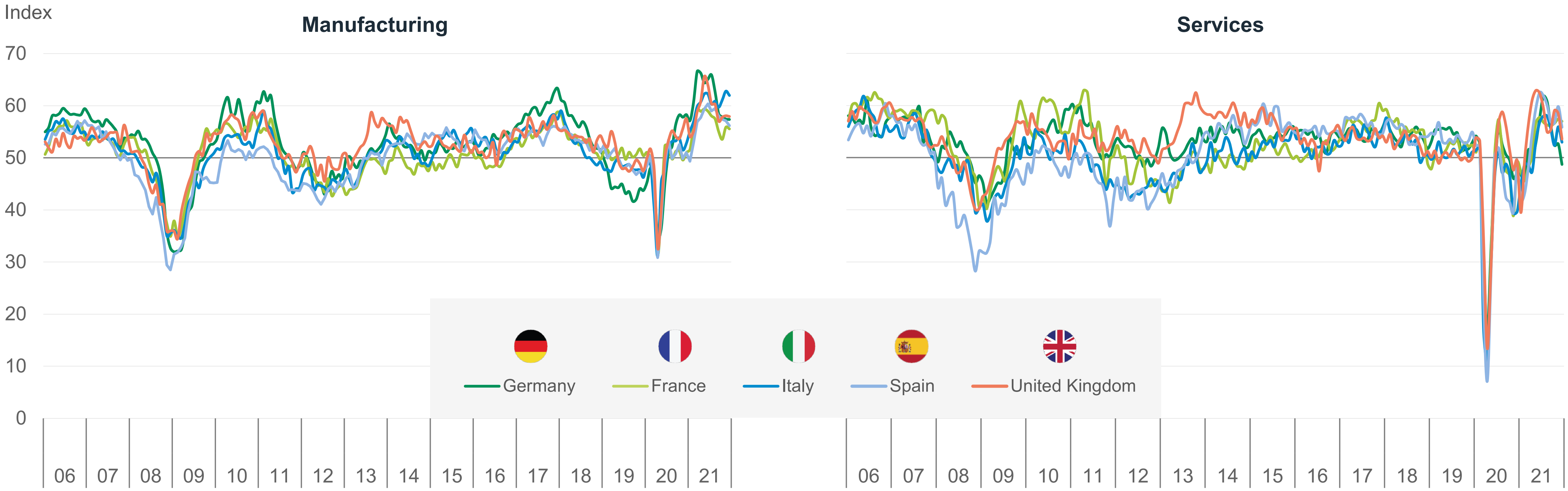
- The weekly number of new Covid-19 cases remains very high in most regions because of the Omicron variant. 21.2 million new cases were reported in the week of 10-17 January.
- The largest weekly increases were recorded in Asia (+95.7%), followed by North America (40%), Europe (6.7%). Africa experienced a decrease in the number of cases (-16.4%).
- On a weekly basis, the highest number of new cases in a single country was in the USA (6,178,670). France was next with 2,006,679 cases (+15.7%), followed by India (1,672,526), Italy (827,805), Spain (784,598) and the UK (599,966).

Vaccination levels are high

- To date, 9.57 billion Covid-19 vaccine doses have been administered worldwide since vaccination campaigns began in the fourth quarter of 2020, including 813 million booster doses.
- Nearly 60% of the world's population has now received at least one dose of a Covid-19 vaccine. However, there are still substantial disparities between rich nations, where 77% of the population has received at least one dose, and low-income countries (8%).
- On the mobility front, visits to retail and leisure facilities remain on a downward trend in Germany, Belgium, Italy, France, Spain, the US and the UK.

PURCHASING MANAGER INDEX SURVEYS

A BROAD IMPROVEMENT OF BUSINESS CONFIDENCE



Sources: Markit, BNP Paribas Economic Research.

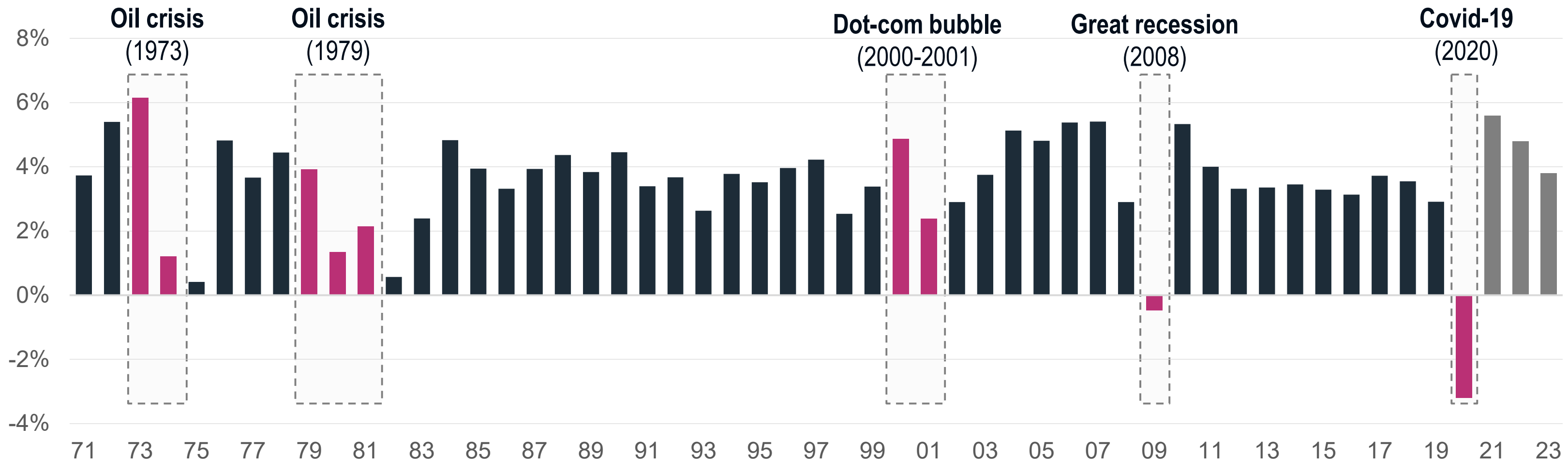
Numerous headwinds are constraining growth prospects in the Eurozone.
Supply bottlenecks and supply disruption have been dominant themes throughout the year, acting as a headwind to growth, both directly but also indirectly, by causing a pick-up in inflation to levels not seen in decades

Nevertheless, business conditions surveys have shown resilience so far. Indeed, company investments should benefit from improved profitability, very attractive financing conditions, increased capacity utilization and a favourable demand outlook. Although the downside risks have increased, our scenario for 2022 remains fairly optimistic.

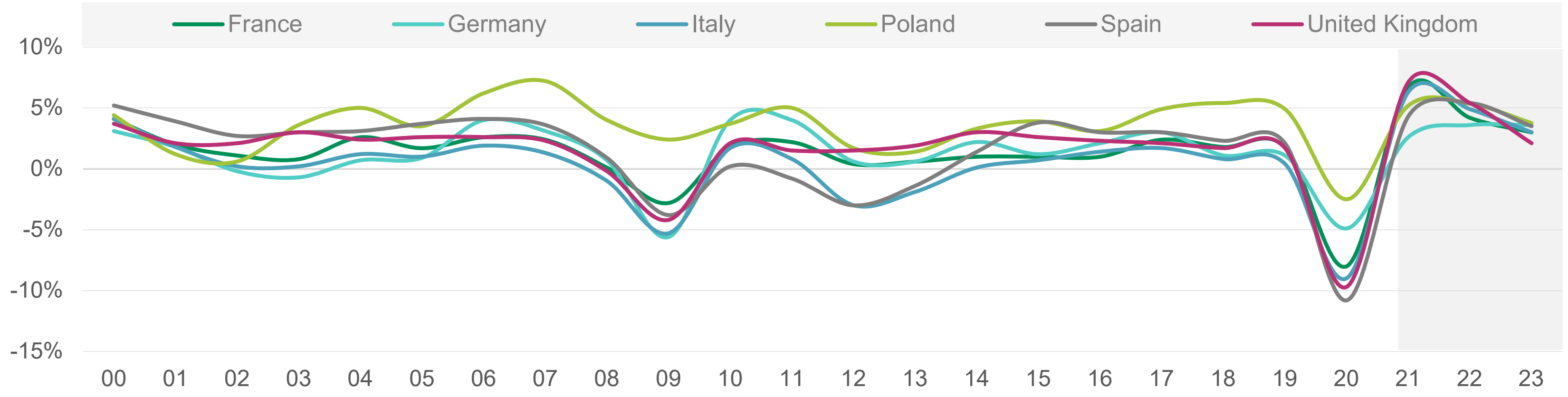
ECONOMIC OUTLOOK

WHAT OUTLOOK FOR THE MAIN ECONOMIES?

World GDP



GDP Growth in European countries



Sources: BNP Paribas Real Estate, OECD.

2022: A normalization in growth

- In the advanced economies, we expect above potential growth in real GDP, with household spending underpinned by cheap financing conditions, a further improvement in the labour market and faster wage growth.
- However, concern about the Omicron variant may lead to precautionary behaviour, weighing on certain household spending categories, slowing again the economic recovery.
- Finally, in several countries, household surveys reflect a growing concern about elevated inflation, which is eroding real disposable income. This is particularly an issue for lower income households.

Growth eases in the Eurozone

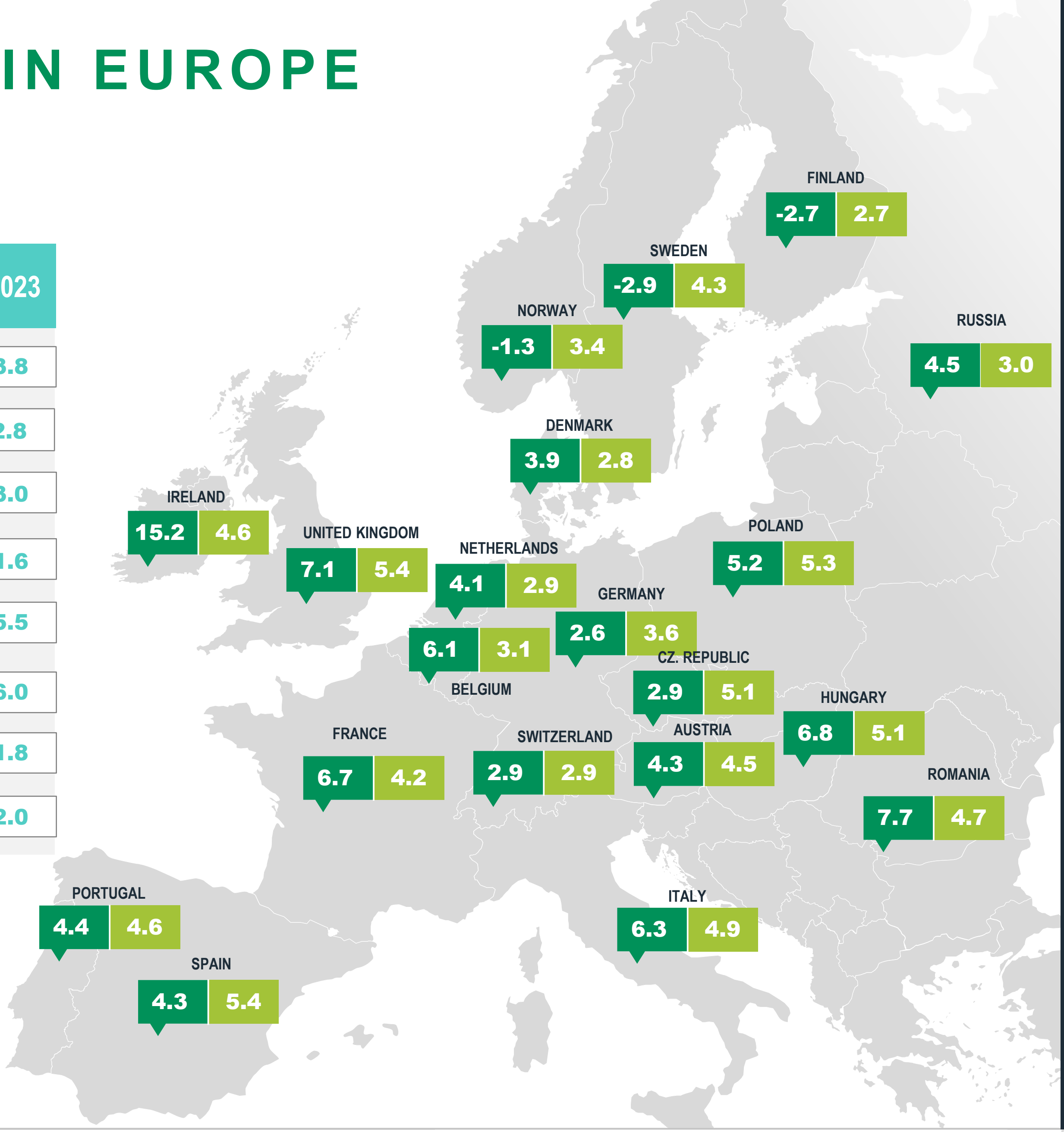
- After another quarter of vigorous growth (2.2% q/q in Q3), the Q4 outlook is much less attractive (0.4% q/q). We nonetheless estimate that full-year growth in the Eurozone will average 5% in 2021.
- Stronger supply chain disruptions and inflationary pressures should have a negative impact on 2022. Yet the main characteristic of growth in 2022 is that it will hold well above its long term trend.
- In 2023, growth is expected to remain strong.

GDP GROWTH IN EUROPE

GROWTH EASES

FORECAST (%):

	2021	2022	2023
World	5.6	4.8	3.8
United States	5.5	4.7	2.8
Euro area	5.0	4.2	3.0
Japan	1.7	2.6	1.6
China	7.9	5.3	5.5
India	8.0	11.0	6.0
Russia	4.5	3.0	1.8
Brazil	4.8	0.5	2.0



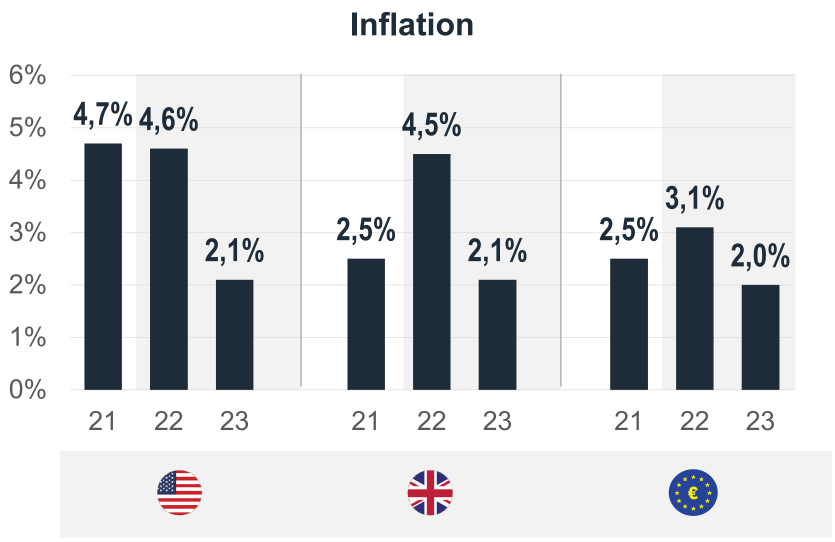
Source: BNP Paribas Real Estate Research.

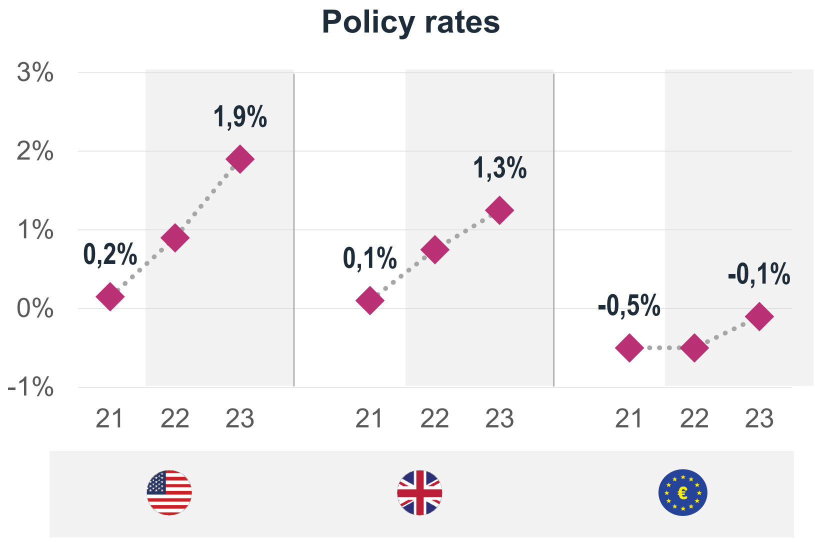
An optimistic scenario

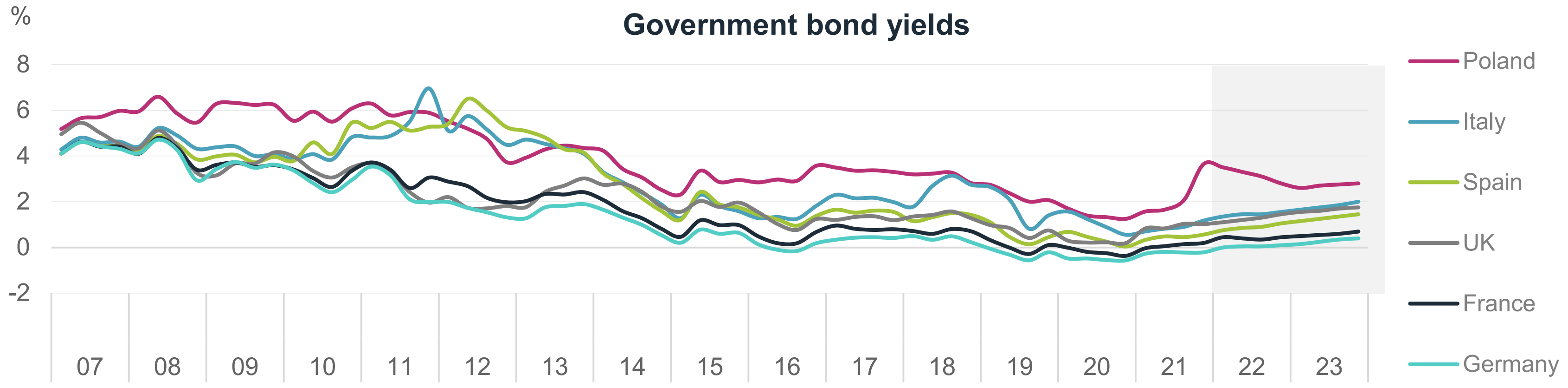
- Growth in the Eurozone remained strong in Q3 2021, in line with expectations (2.2% q/q). However, the outlook for Q4 is much less bright (we expect growth to slow down to 0.4% q/q).
- However, in addition to the awaited normalization, headwinds have increased (supply-side problems, surging inflation and uncertainties arising from the new wave of the pandemic).
- Nevertheless, business conditions surveys have shown resilience so far. Although the downside risks have increased, our scenario for 2022 remains fairly optimistic.
- Albeit in a rather uneven manner, the US economy has bounced back swiftly from the Covid-19 pandemic and is now stronger than in 2019. Its growth rate, at 5.5% in 2021, is likely to return gradually to normal.
- In the US, the Federal Reserve has started tapering and this should lead to net asset purchases ending in March this year.
- In the Eurozone, the ECB has announced in December that it will stop net purchases under the PEPP in March 2022. Given the strength of the recovery, we expect underlying price pressures to build further and the ECB should increase its deposit rate in June 2023.

FINANCIAL OUTLOOK

ECONOMIC AND FINANCIAL INDICATORS







Sources: BNP Paribas Economic Research, OECD.

A normalization of inflation and monetary policy

- Covid-induced supply bottlenecks are still a dominant theme and caused a pick-up in inflation to levels not seen in decades.
- The main central banks in Western economies are arguing that the shock is mainly transitory. However, transitory does not necessarily mean 'short lived' and some forecasters are now considering a scenario in which inflation and upward pressure on wages could last.
- Indeed, the underlying dynamics of inflation are upwards, with an acceleration of wage growth, which could push companies to increase their sales prices.
- This implies that monetary policy will normalize as well, but with important differences in timing. In the US, the Federal Reserve has started to slow down the pace of monthly asset purchases and it should be followed by several rate hikes, starting around the mid 2022.
- In the Euro area, monetary policy should remain very accommodative. If the Pandemic Emergency Purchase Programme is expected to end in March 2022, we only expect a first increase of the deposit rate in June 2023.
- The monetary divergence between the Fed and the ECB should cause a further strengthening of the dollar versus the euro.

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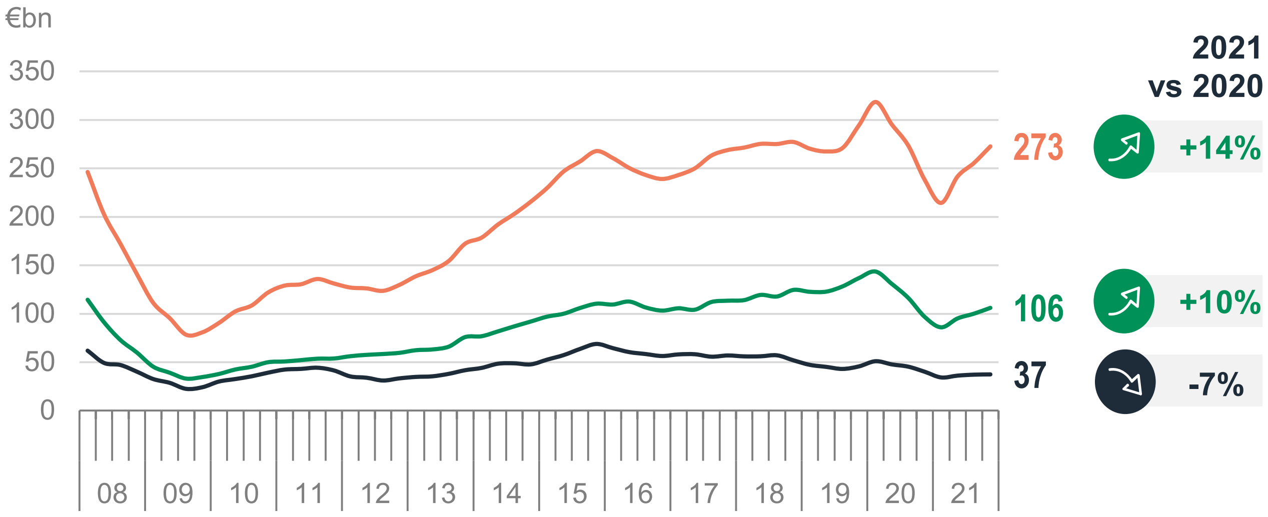
REAL ESTATE PERSPECTIVES

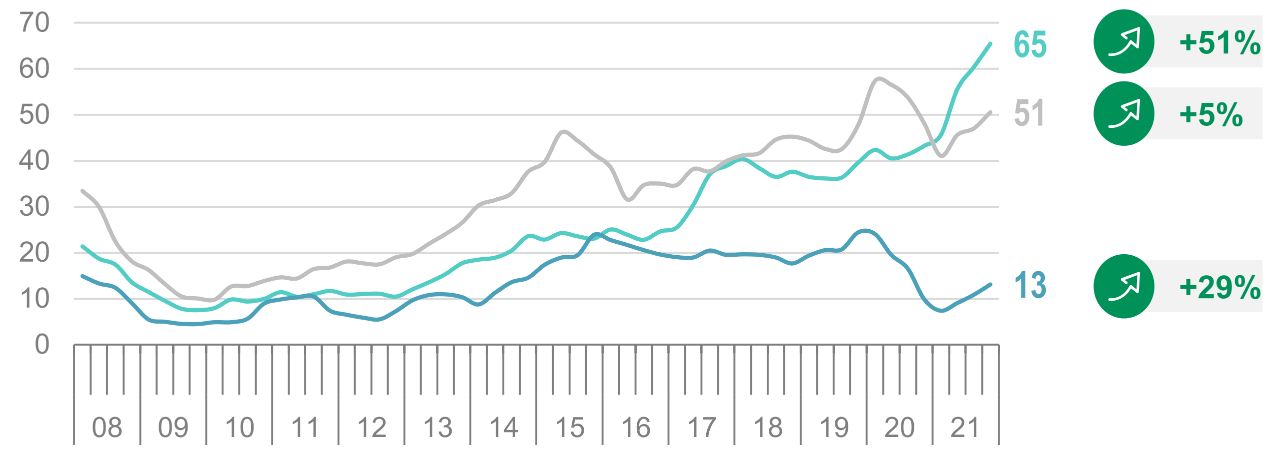
CAPITAL MARKETS

BNP PARIBAS REAL ESTATE

INVESTMENT IN COMMERCIAL REAL ESTATE IN EUROPE

BREAKDOWN OF INVESTMENT BY ASSET CLASS





INVESTMENT BACK AT PRE-COVID-19 LEVELS

- After an all-time high in Q1 2020 (€319bn over 12 months), investment plummeted over 2020 and reached its lowest point at Q1 2021 (€212bn), 12% below the 5-year average. Investment was inhibited by the lockdowns all over Europe, travel restrictions as well as hesitation from institutional investors that adopted a wait-and-see attitude.
- Investment traction restored from Q2 2021 (€242bn) as European countries gradually took control of the outbreak mainly through vaccination and with the help of the summer lull in virus transmission. Q2 2021 (+70% vs Q2 2020) saw a strong impulse in investment, while the increase in Q3 and Q4 2021 (+29% and +22%) was moderate, almost reaching the average of the previous years.
- Most asset classes are affected by this turn of events, in positive or negative ways. Logistics profited from greater trust shown in e-commerce expansion. Office investment improvement is balanced as teleworking put a clear divide between modern and older units. Retail investment seems to have flattened with the sector becoming more opportunistic in character.

Commercial real estate
Office
Retail
Industrial & logistics
Hotel
Other

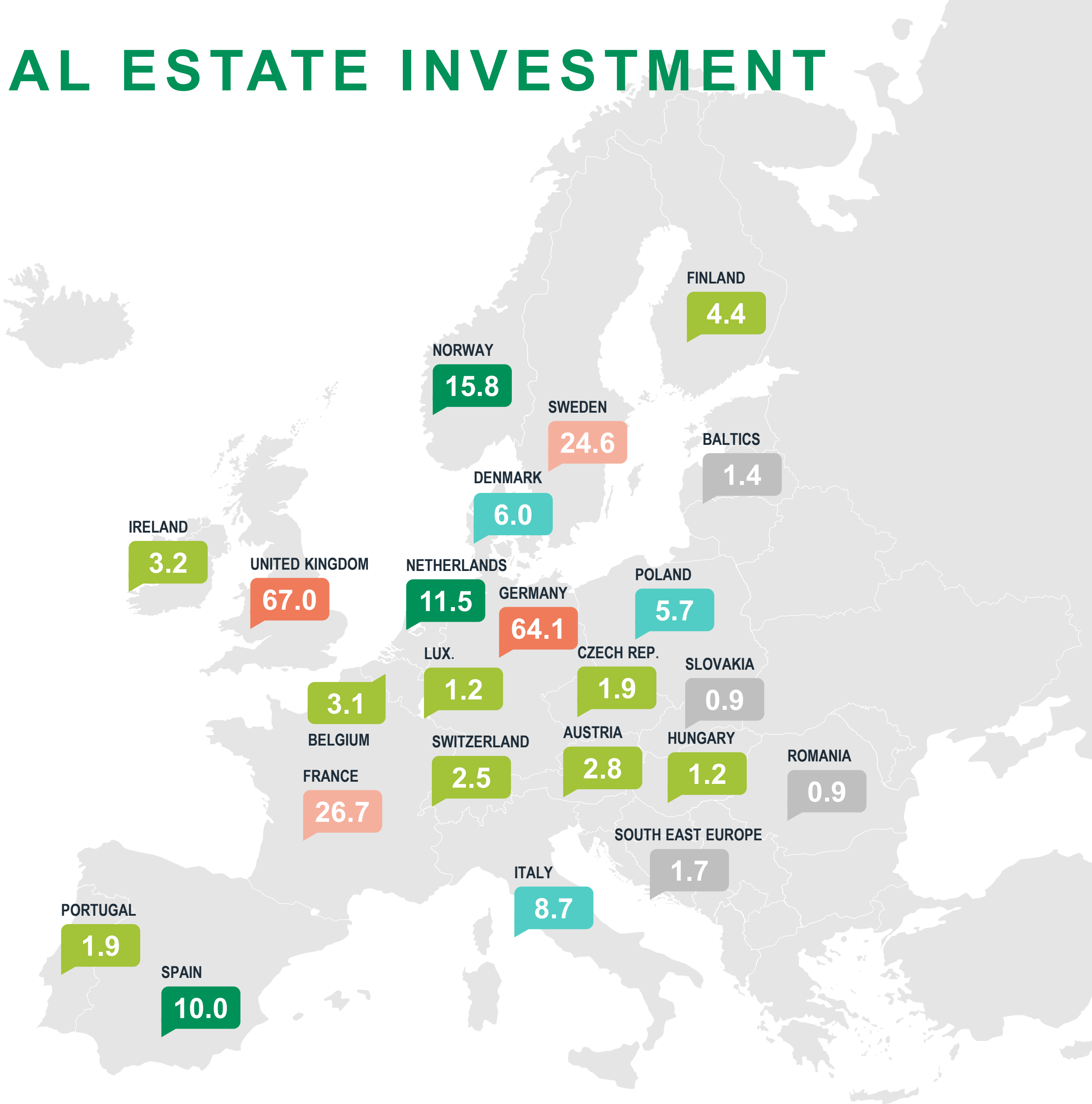
This excludes residential investment.

COMMERCIAL REAL ESTATE INVESTMENT

2021 vs 2020

GERMANY	+7%
UNITED KINGDOM	+21%
FRANCE	-8%
NETHERLANDS	-8%
ITALY	+4%
SPAIN	+29%
POLAND	+15%
IRELAND	+84%
BELGIUM	-44%
CZECH REPUBLIC	+39%
LUXEMBOURG	+7%

- ≥ €50bn
- €20-50bn
- €10-20bn
- €5-10bn
- €1-5bn
- < €1bn



(excludes residential investment)

Source : BNP Paribas Real Estate

EUROPE – 2021

€272.7bn

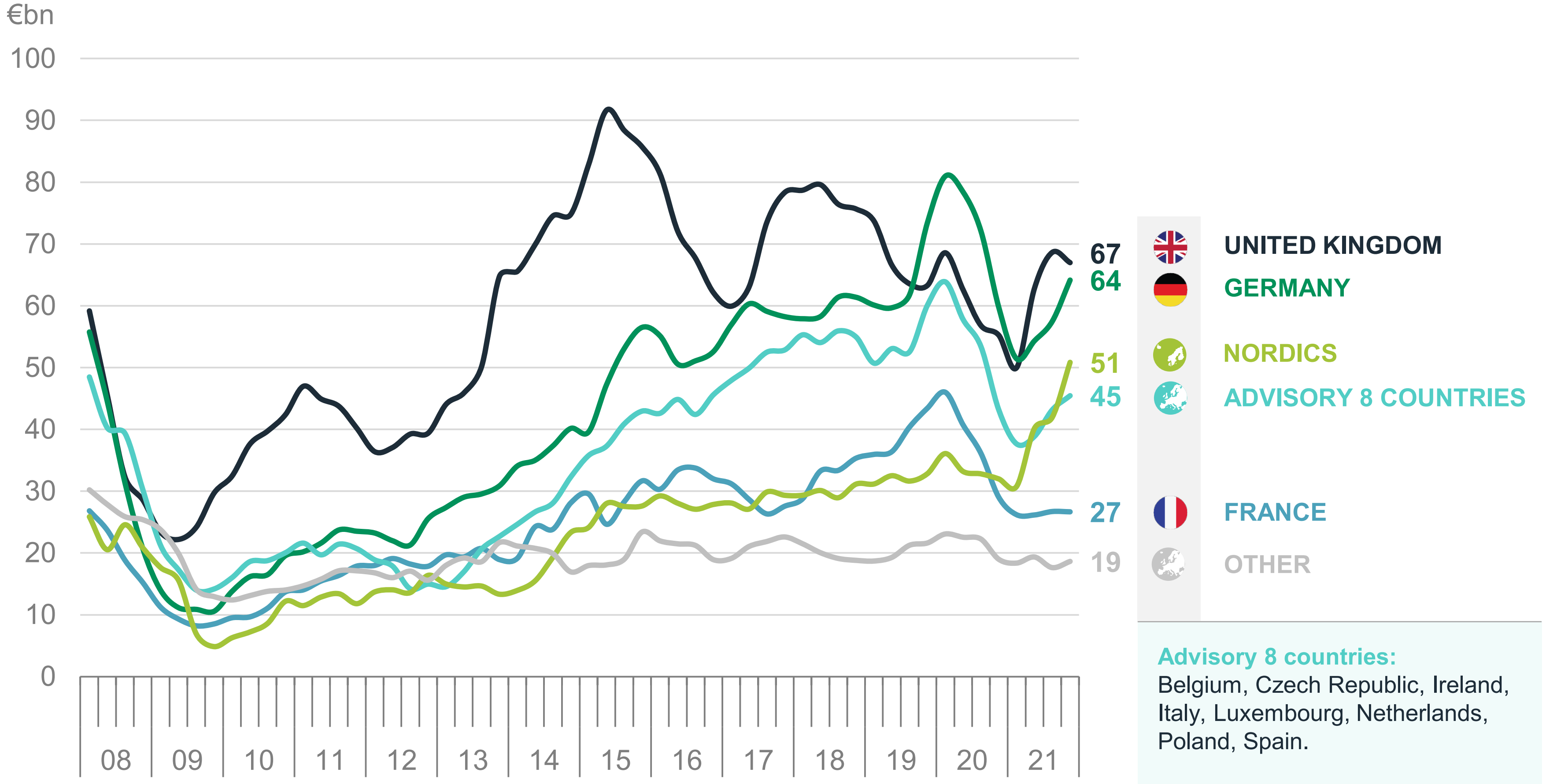
+14% vs 2020

- €272.7bn was invested in Europe over 2021, which represents a 14% increase vs 2020, in line with the pre-Covid-19 levels.
- However, a closer look at European countries shows geographical variance. The improvement in the United Kingdom, Germany, Sweden and Spain marked the rising trend. Investment levels in some other countries such as France, the Netherlands or Belgium are still below those of 2020.

COMMERCIAL REAL ESTATE INVESTMENT VOLUME

PROPERTY REMAINS AN ATTRACTIVE ASSET TO BUY

CRE Investment volume (€ billion)



Advisory 8 countries:
Belgium, Czech Republic, Ireland, Italy, Luxembourg, Netherlands, Poland, Spain.

- There is no comparison between the impact of the current crisis on investment volumes and that of the global financial crisis of 2008/9 throughout Europe. Volumes remain high, as today's credit conditions are not tight, and investors don't expect major deflation in prices in most markets for secure assets. Cash is there and definitely king over the current period.
- All countries are trending up except for France, which remained flat over 2021.
- The United Kingdom benefited from its advanced vaccination campaign and from the post-Brexit dynamic as investors returned to the market. It is back in top place among European countries despite a weaker Q4.
- Northern Europe suffered the least from the pandemic, and is even experiencing a surge in investor interest, with Sweden and Norway reaching all-time highs.

Source: BNP Paribas Real Estate Research.

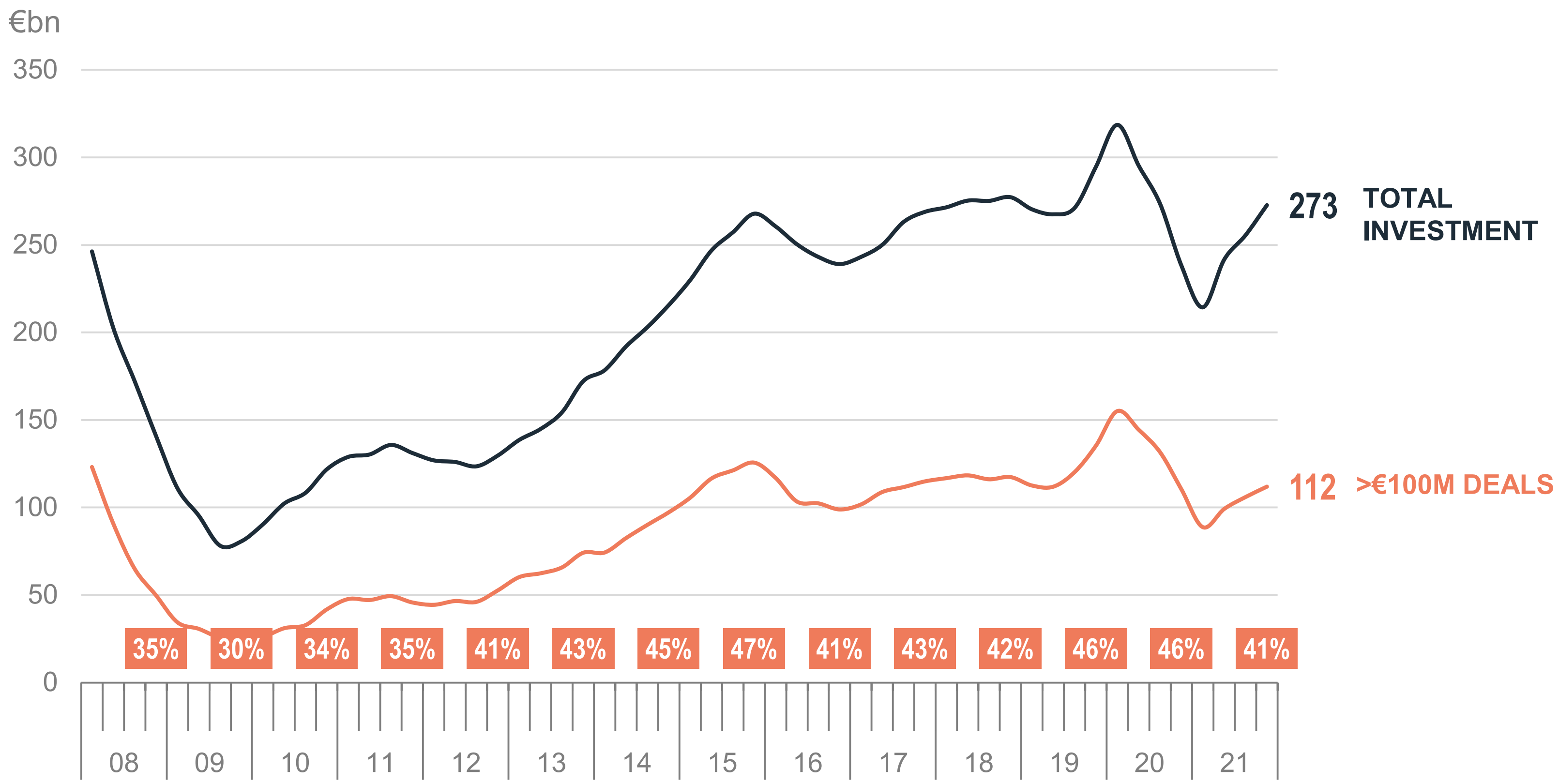
INVESTMENT BY SIZE BAND

MEGA DEALS MORE IMPACTED BY THE CRISIS

- Mega deals (>€100m) volume in Q1 2020 reached a record figure of €155bn (on a rolling-year basis), which represents 48% 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 from Q2 2020 and only reached €89bn at Q1 2021 on a rolling-year basis, down -43% vs the 12 months to Q1 2020 figure, versus -33% for total investment. The situation improved for mega deals too over the rest of 2021, albeit more slowly than for the other deal size segments.
- Big deals are more complicated and require a longer process before signature. The signature is a legal formality for a deal already done. This may explain why the corona virus outbreak initially impacted smaller deals. The process for small deals is easier to terminate. Yet as the crisis went on, the momentum behind closing big deals diminished because of the mobility problems of lockdown. With travel becoming easier, this segment maybe gaining traction again, although it will possibly be the slowest to restore full market normality.

Commercial Real Estate Investment in Europe

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



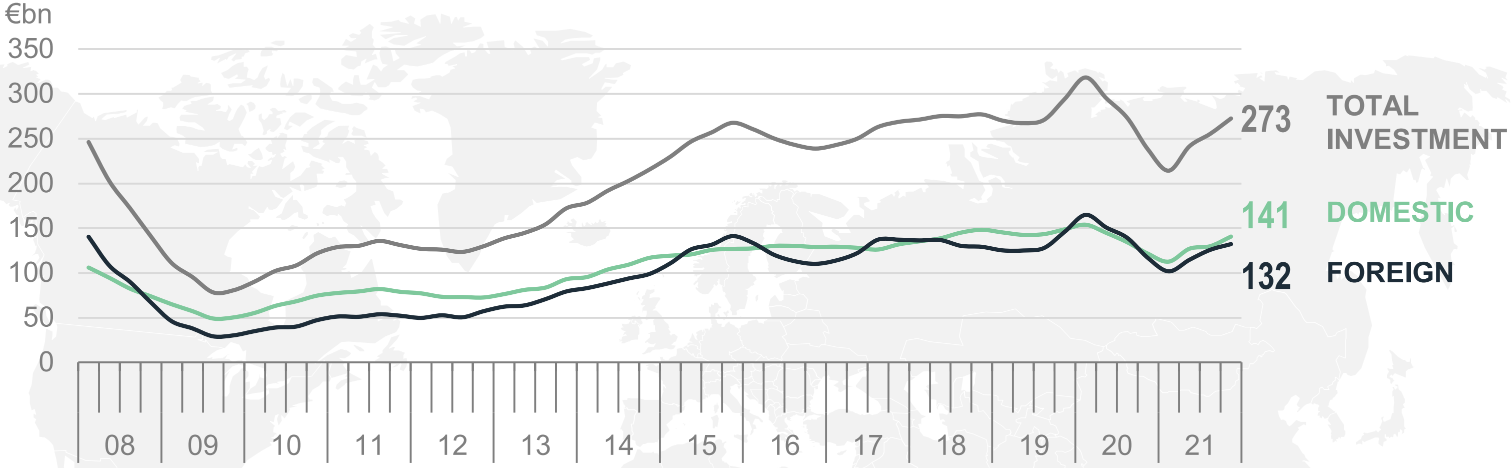
Source: BNP Paribas Real Estate.

CROSS-BORDER INVESTMENT MARKET

- **Foreign investment** was hindered by the spread of the virus through Europe. In spring 2020, m**ost foreign investors delayed their ongoing deals** until Europe was open again. Over the twelve months to Q1 2021, foreign investment plummeted (-38% vs Q1 2020), although the situation improved over the rest of 2021.
- Within foreign investment, **European cross-border investment was less affected** which makes sense as nearby deals were easier to do during the lockdowns. It increased by 7% in 2021 vs 2020.
- Conversely, investment from other continents was hit hard by the crisis. But the post crisis period seems to be differing from one continent to the next.
- On the one hand, **American investors** showed strong interest in the European market in 2021. With almost €42bn spent over the year, American investment is **back to pre-crisis levels**.
- On the other hand, investors from Asia Pacific and Middle East don't seem to be as active in their European investments. **They represented respectively 8% and 4% of foreign investment, which is very low** considering Asians represented around 20% of foreign investment back in 2019.
- As observed in 2009, the reduction in cross-border deals in Europe **was somewhat compensated by domestic investment** during the pandemic. But as restrictions eased, foreign investment resumed much more strongly than expected.

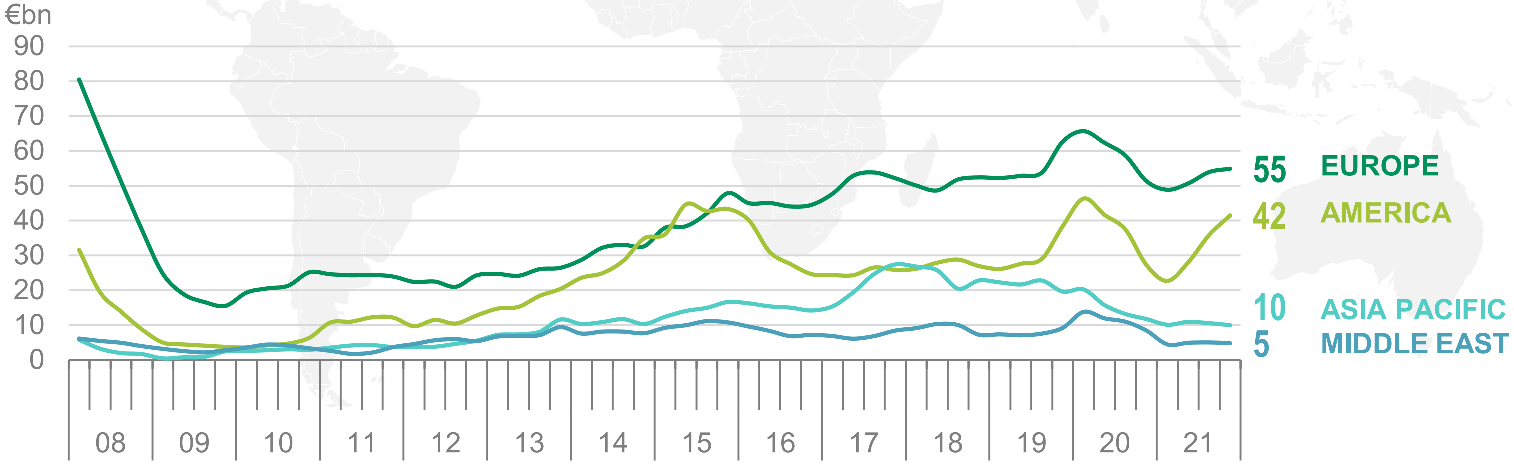
Commercial Real Estate Investment in Europe

Total, foreign and domestic investment



Commercial Real Estate Investment in Europe

Foreign investment detail

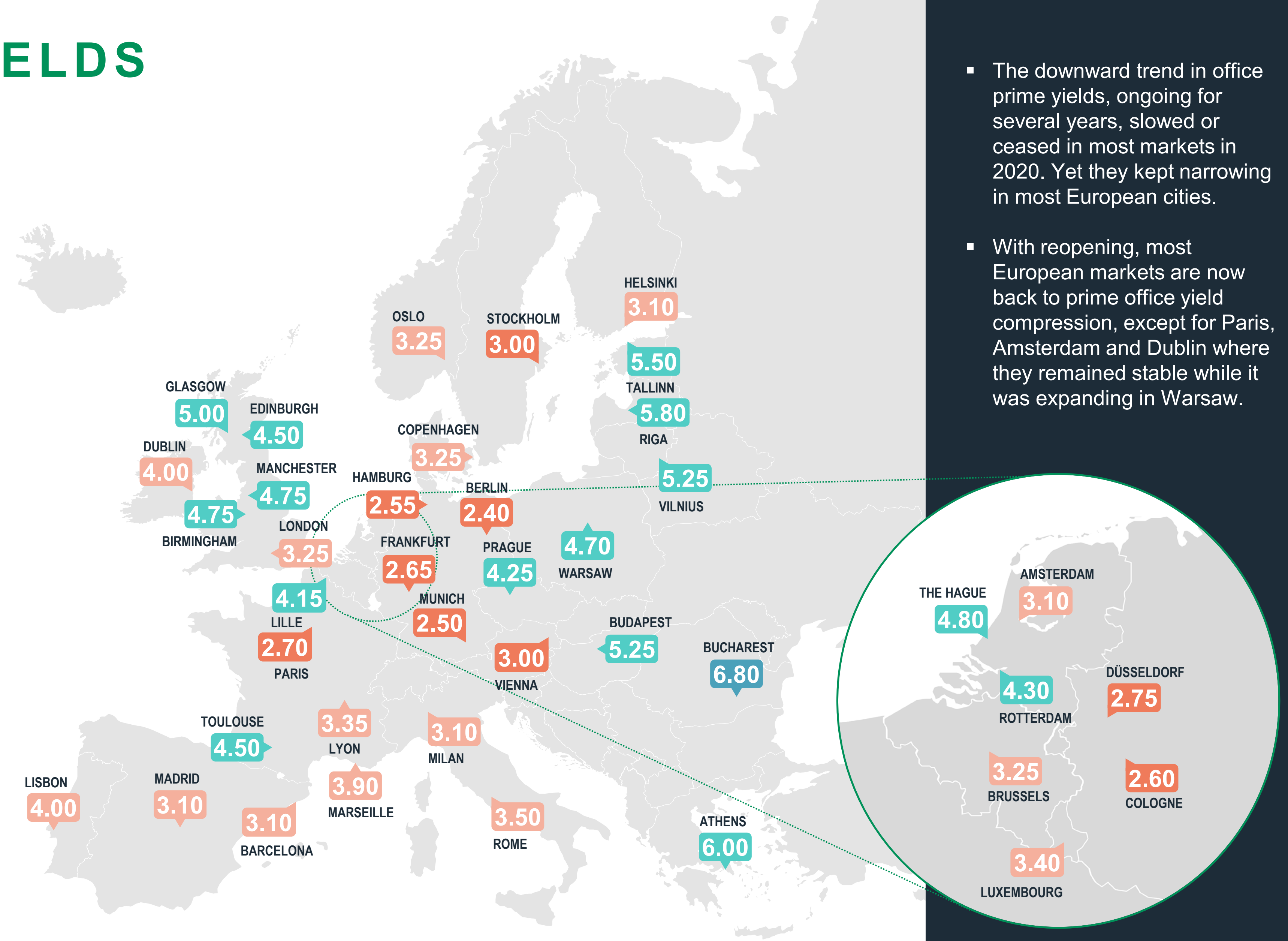


PRIME OFFICE YIELDS

Q4 2021 vs Q4 2020

BERLIN	-15bp
PARIS	=
AMSTERDAM	=
MADRID	-40bp
MILAN	-10bp
LONDON	-25bp
LUXEMBOURG	-30bp
BRUSSELS	-65bp
DUBLIN	=
PRAGUE	-25bp
WARSAW	+10bp

≤ 3%
3-4%
4-6%
>6%



Source: BNP Paribas Real Estate

- The downward trend in office prime yields, ongoing for several years, slowed or ceased in most markets in 2020. Yet they kept narrowing in most European cities.
- With reopening, most European markets are now back to prime office yield compression, except for Paris, Amsterdam and Dublin where they remained stable while it was expanding in Warsaw.

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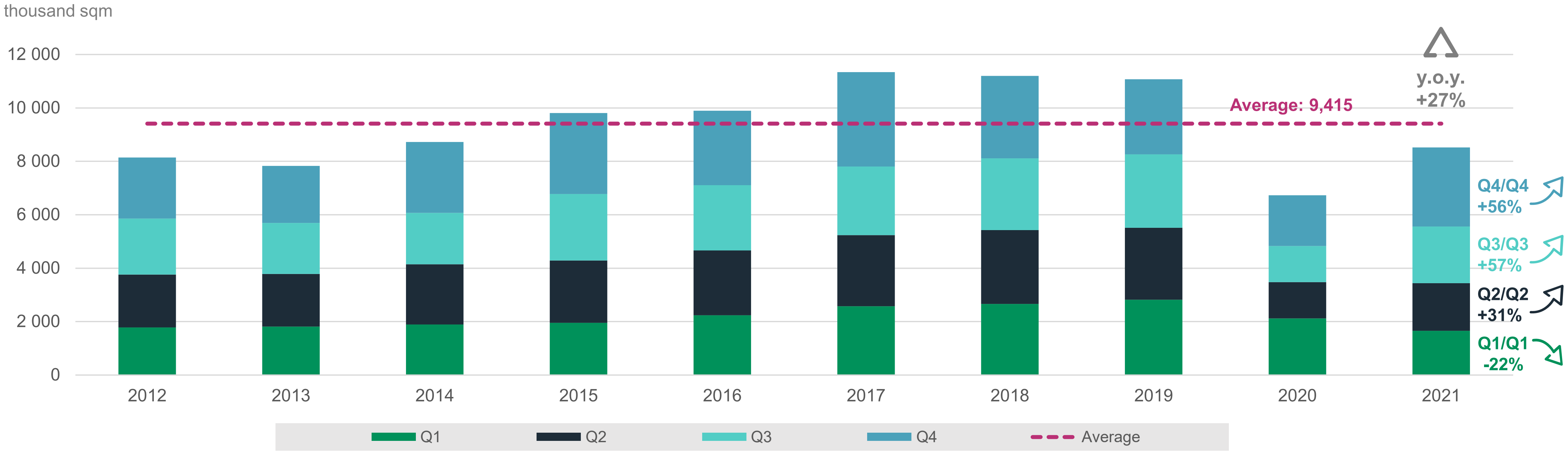
REAL ESTATE PERSPECTIVES

OFFICE
MARKETS

BNP PARIBAS
REAL ESTATE

OFFICE TAKE-UP IN EUROPE – 2021

18 MAIN EUROPEAN OFFICE MARKETS*



Gradual improvement in letting activity throughout 2021

- 8.52m sqm was transacted in Europe's 17 main markets over 2021. Even though the start to the year was quieter than expected due to recurring waves of infection, take-up started to recover from Q2 and showed continuous improvement afterwards.
- Even though the overall result for 2021 is – as anticipated – still below the pre-crisis levels (-8%), signs of normalisation in letting activity are in sight.
- Indeed, take-up reached 2.95m sqm during Q4 2021, which is in line with pre-covid usual volumes for Q4.
- Most markets show strong rebound in volumes, such as in Barcelona (+85% vs. 2020), Central London and Brussels (+46% each), Central Paris (+36%) or in the 6 main German markets (+27%)

Source: BNP Paribas Real Estate Research.

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

OFFICE TAKE-UP IN EUROPE

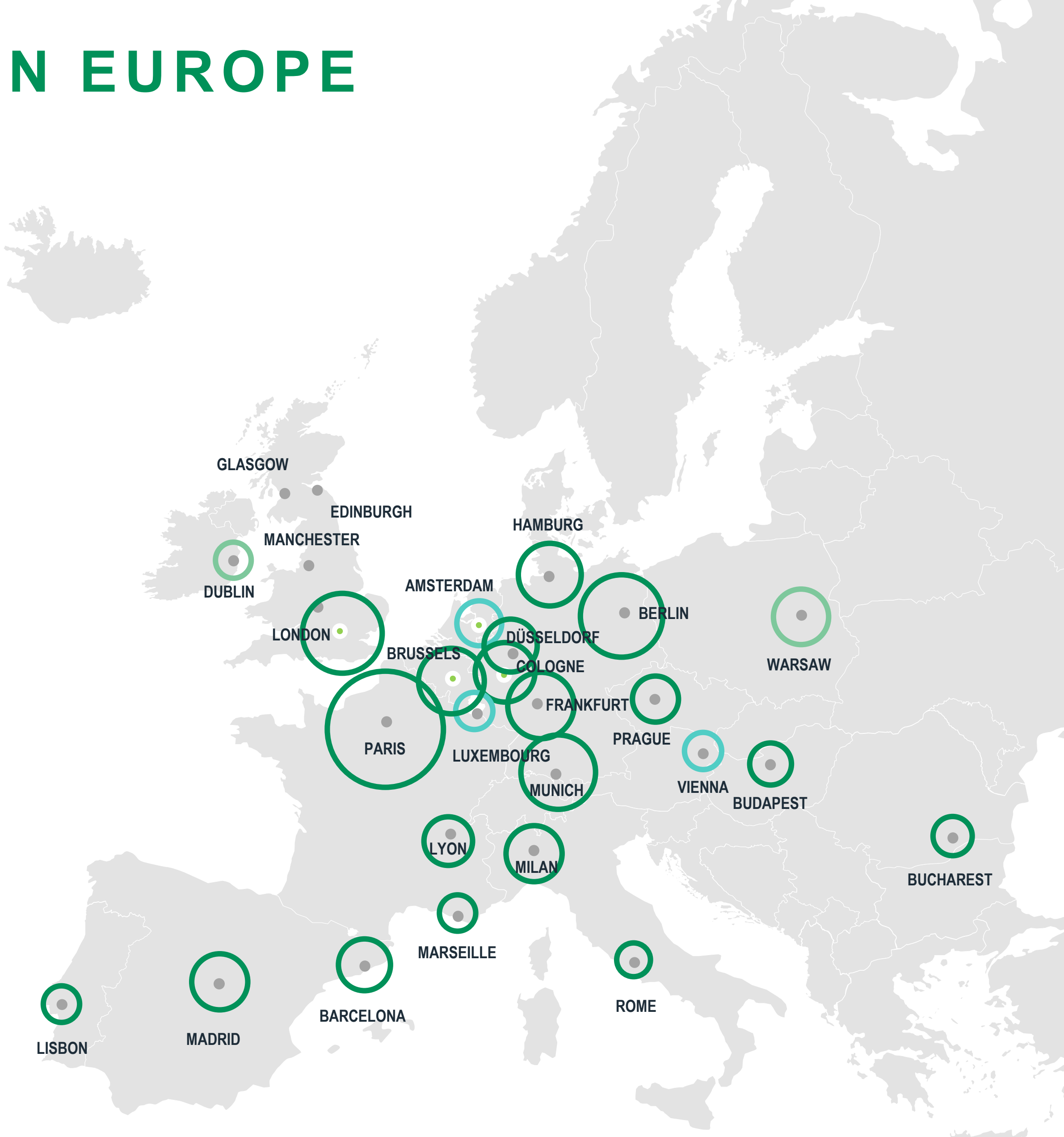
2021 vs 2020

CENTRAL LONDON	+46%
BERLIN	+17%
CENTRAL PARIS	+36%
AMSTERDAM	-11%
MADRID	+8%
MILAN	+34%
WARSAW	-3%
BRUSSELS	+46%
DUBLIN	-2%
LUXEMBOURG	-25%

Deals in thousand sqm

1,000
500
250

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



Source: BNP Paribas Real Estate.

EUROPE – 2021

10.08M sqm

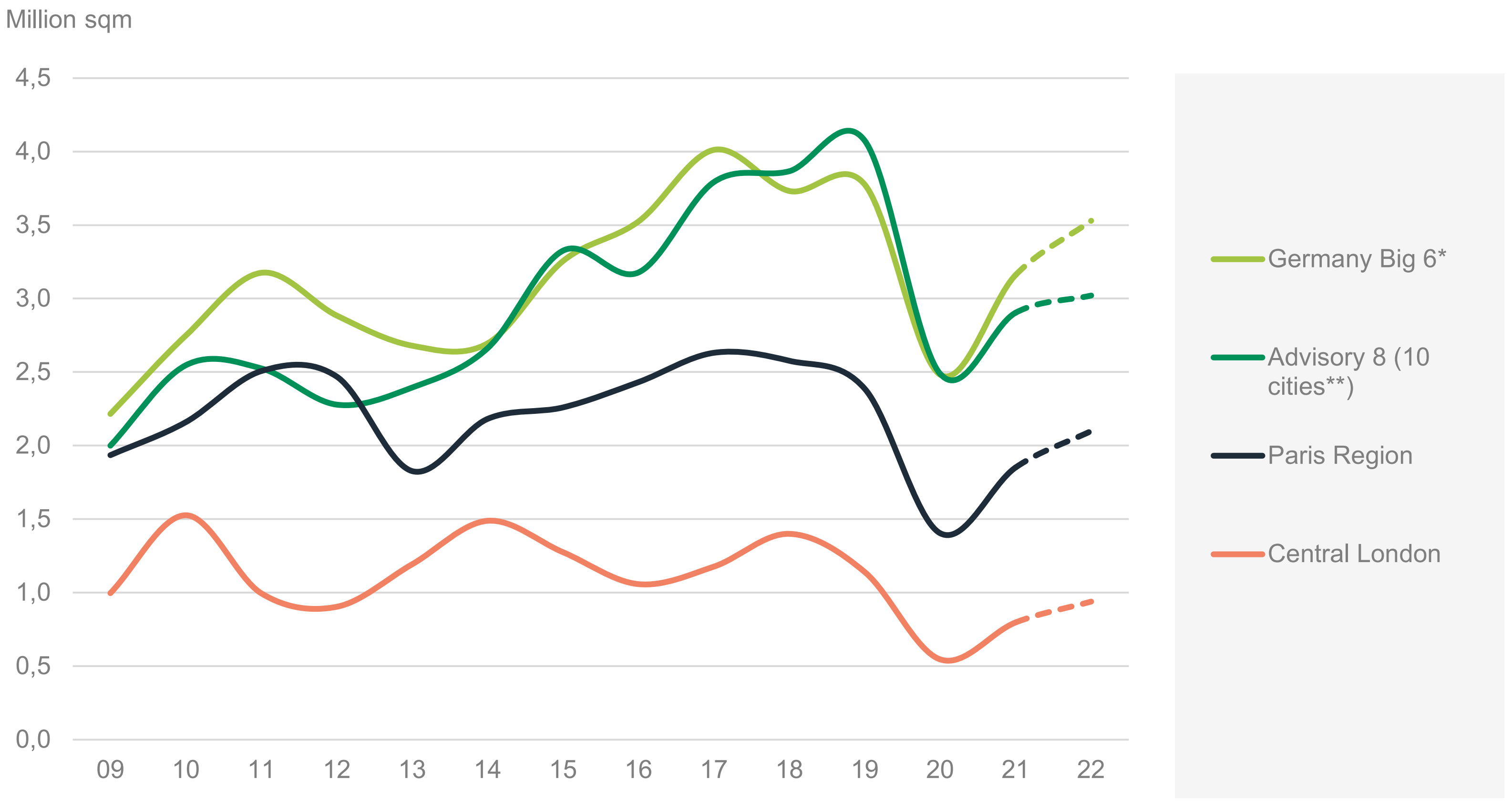
26 markets
+27% vs 2020

Strong increase in volumes but pre-covid levels are not reached

- Take-up at the end of 2021 saw a significant increase (+27%) compared to last year.
- 10.08m sqm was taken up in Europe, which is still far from the pre-covid years, when take-up amounted to approximately 13m sqm yearly (2017-2019).
- Volumes were on the rise in most markets. The market was buoyant in Central London and Brussels (+46% each) whereas cities such as Amsterdam, Luxembourg, Warsaw and Dublin still recorded decreases.

OFFICE TAKE-UP

TAKE-UP SHOULD RECOVER IN 2022



* Berlin, Cologne, Düsseldorf, Frankfurt, Hamburg, Munich.

** Amsterdam, Barcelona, Brussels, Dublin, Luxembourg, Madrid, Milan, Rome, Warsaw, Prague

Source: BNP Paribas Real Estate Research.

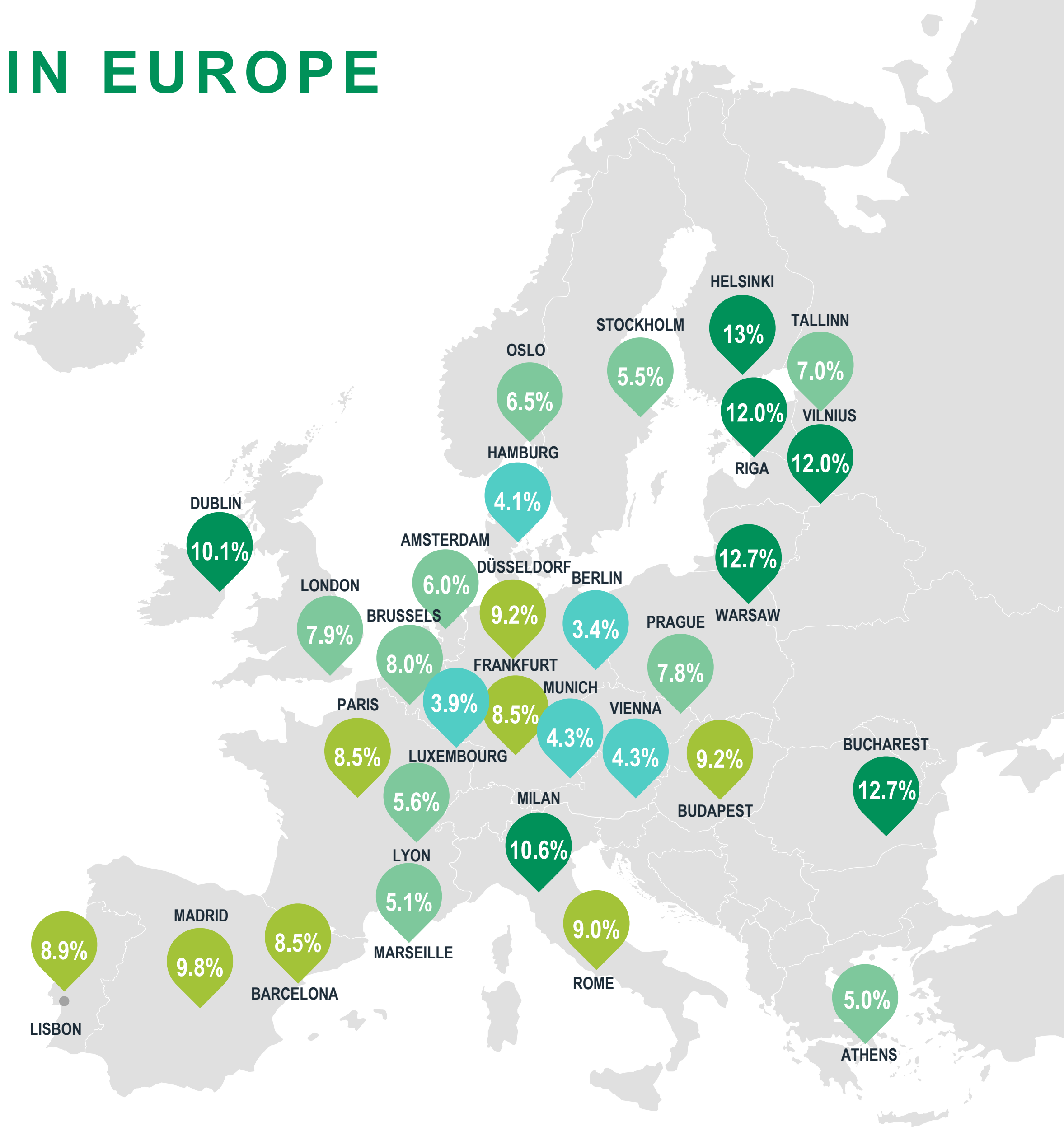
Further improvement in letting activity expected in 2022

- 2021 is the first step toward the recovery of the market.
- Take-up should accelerate again in the coming months in all markets.
- We are anticipating in 2022:
  - 3.5m sqm in the 6 main German markets, +12% vs. 2021
  - 2.1m sqm in Paris Region, +13% vs. 2021
  - 0.94m sqm in Central London, +18% vs. 2021
  - 3.0m sqm in the Advisory 8 cities**, +4% vs. 2021, with the largest increases expected in the markets which still recorded decreases in 2021, such as Dublin (+27% expected) or Luxembourg (+19%)
- Pre-crisis levels should however not be reached in 2022.

OFFICE VACANCY IN EUROPE

Q4 2021 vs Q4 2020

CENTRAL LONDON	+10 bp
BERLIN	+100 bp
CENTRAL PARIS	+110 bp
AMSTERDAM	+20 bp
MADRID	+80 bp
MILAN	+50 bp
WARSAW	+280 bp
BRUSSELS	+50 bp
DUBLIN	+100 bp
LUXEMBOURG	+10 bp



■ > 10% ■ 5 - 8%
■ 8 -10% ■ < 5%

Source: BNP Paribas Real Estate

EUROPE – Q4 2021

7.3%

30 markets

+50 bps vs. Q4 2020

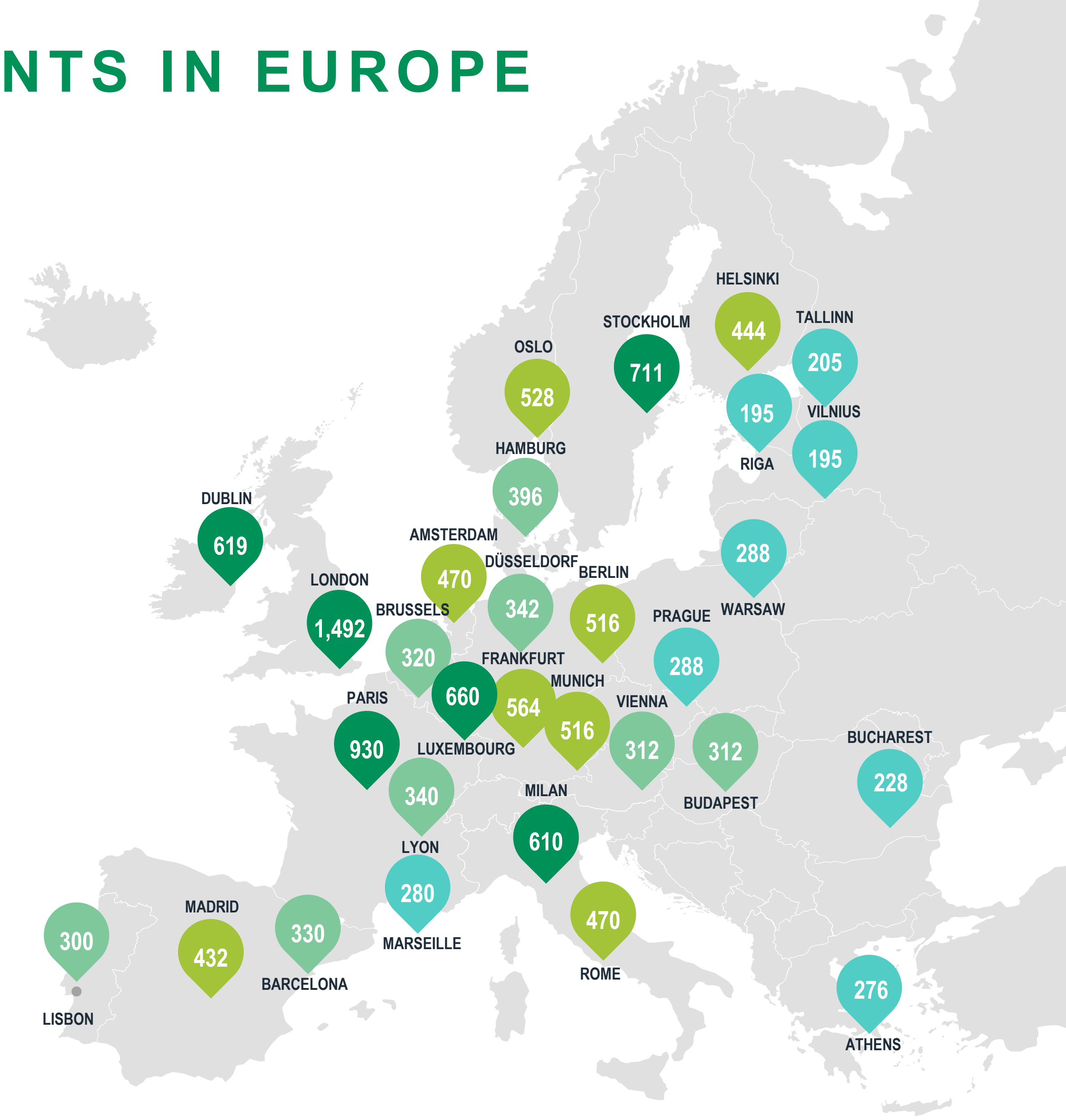
Vacancy remains under control in Europe

- The overall vacancy rate in Europe stood at 7.3% at the end of 2021 (+50 bps vs. Q4 2020).
- After a sharp increase over the course of 2020 and in the first half of 2021, vacancy rates seem to be stabilizing since the end of Q2 2021, thanks to the progressive recovery of take-up.
- 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.

OFFICE PRIME RENTS IN EUROPE

Q4 2021 vs Q4 2020

CENTRAL LONDON	+4%
BERLIN	+8%
CENTRAL PARIS	+3%
AMSTERDAM	+2%
MADRID	-1%
MILAN	+2%
WARSAW	+4%
BRUSSELS	+2%
DUBLIN	-5%
LUXEMBOURG	+10%



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

Source: BNP Paribas Real Estate

Prime rents were mostly unaffected by the crisis

- Despite the slowdown in take-up, the prime market segment did not suffer from the crisis.
- Indeed, in most markets, prime rental values never decreased over the outbreak of the pandemic, and many of them are even higher than their pre-crisis level.
- The very low availability of prime assets and the appeal of high quality buildings located in the most sought-after districts drove the values up.
- Luxembourg (+10%) and Berlin (+8%), where vacancy rates are among the lowest in Europe, have seen the most significant increases in values.

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REAL ESTATE PERSPECTIVES

LOGISTICS
MARKETS

BNP PARIBAS REAL ESTATE

LOGISTICS WAREHOUSING MARKET IN EUROPE

THE LOGISTICS MARKET HITS NEW RECORDS

The logistics market is thriving

- **The occupier market broke a new record volume of transactions in 2021 increasing by 29% in the 6 leading countries**, with a number of regions posting new highs in take-up. Yet construction rates for warehouses are lagging demand and speculative developments remain limited. The shortage of material further exacerbates by creating delays in new development and access to land is a limiting factor. Tight demand and supply balance means rental pressures are building.
- **Industrial and logistics investment reached another record**, **but ongoing demand will be satisfied only to a limited extent**. The shortage of product available in prime locations resulted in yield compression. Prime yields dropped across Europe during 2021 by 60 bps on average over the last year. Further yield compression is anticipated as competitive pricing remains tough.

Strong market drivers

- The acceleration of vaccination campaigns across Europe combined to the **economic upturn across Europe in 2021** stimulated demand for warehouses.
- **Covid-19 accelerated the shift to e-commerce** and put the spotlight on supply chains. Shoppers turned to internet sales and traditional retailers developed internet solutions for their customers.
- **The transformation of the retail sector by e-commerce development is far from complete**. It will continue to affect demand for logistics space for at least the next five years.

Distribution Centres

Fulfilment Centres

Cross-Docking

Cold Storage

Last Mile

Logistics organisation will see transformation in the longer term

- As an alternative to holding more inventory in response to supply chain disruptions, companies may establish dedicated logistics networks that minimize distribution costs and move goods faster. Thus, **the need to optimize the supply chain remains a strong driver** for future take-up of logistics space, particularly at local and regional levels.
- **The conception and use of logistics platforms are key in the performance of supply chains**. Development by end users will contribute to the transformation of the supply chain.
- In recent years, a large part of demand for space in the sector has been driven by warehouses for the storage and distribution of finished goods manufactured much further away. **The COVID crisis led companies to on-shore part of their manufacturing processes**. As such, we see increased long-term demand for industrial space as a base for manufacturing, altering the nature of some of the space required.
- Product returns as part of whole life cycle and right to repair movements are growing in importance.

The outbreak promoted the penetration of e-commerce

- **Demand for logistics space is fuelled by on-line business**. E-commerce covers a broad range of goods and the corona crisis has had a positive, though occasionally mixed, effect on them. It has accelerated demand in some areas, stalling in others depending on the good bought and where it is moving from.
- We believe that in the medium to long term **changes in consumer behaviour will normalise on-line shopping.** It will help increase the penetration of e-commerce in markets where this has been limited so far, further boosting demand for logistics space.

E-COMMERCE IS A KEY MARKET DRIVER

FAST MARKET GROWTH WITH STRONG POTENTIAL

The outbreak expanded the online catchment with people new to shopping digitally

The outbreak expanded the online catchment with people new to shopping digitally

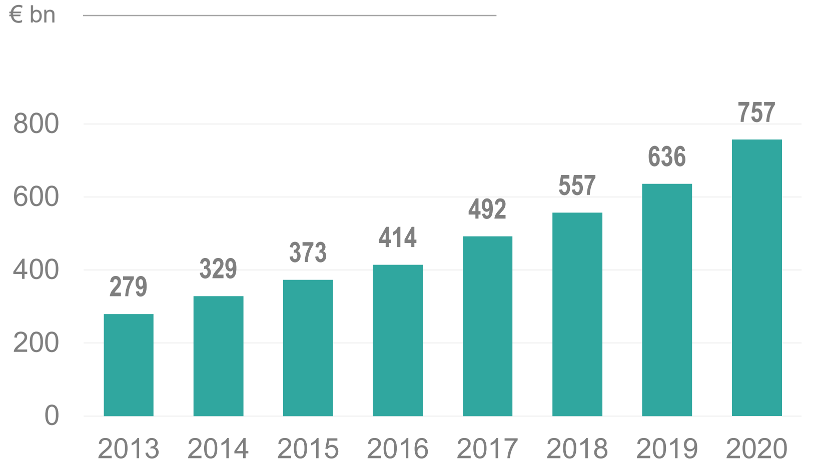
- **Acceptance of e-commerce** as a shopping channel was boosted by the restrictions in place during lockdown in most countries.
- **The structure of the industry is evolving** with large international operators highly competitive on price and/or delivery, and a growing number of retailers selling online.
- Today, **competition is clearly on speed of delivery** more than pricing alone. Competition here is tied to labour and transportation.
- **Automation is becoming key** in facilities serving online retailing. Parcel delivery is complex, and occupiers are looking for efficiency and cost effective ways to deliver as many parcels as possible.
- The **need to move the logistics chain closer to the end consumer** is creating even greater demand for “last mile” logistics, not only for delivery but for collection as well. It may be that more warehousing specifically dedicated to reverse logistics is required.

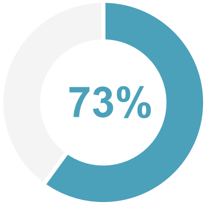
Goods and Services

+19% 2020

Online sales in Europe

Source: E-commerce Europe.

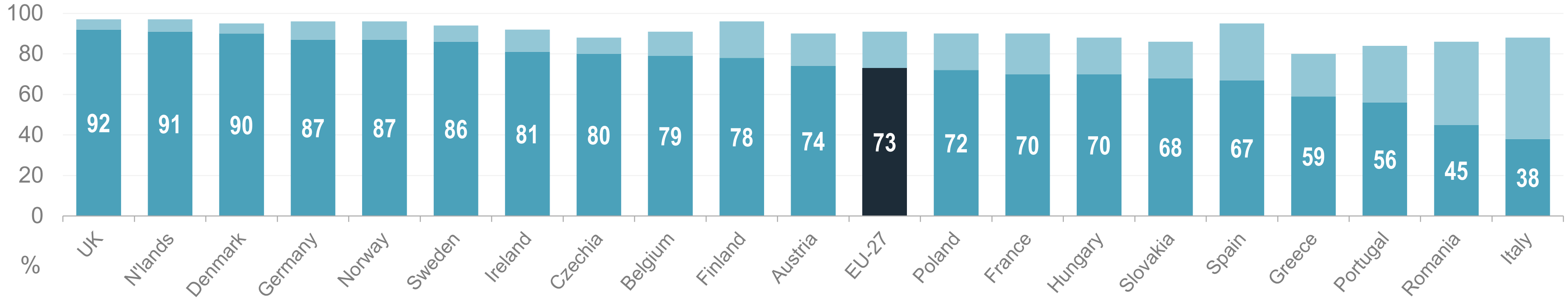




“73% of the population in Europe buy online”

Source: Eurostat.

Individuals using the internet for ordering goods or services in 2020



LOGISTICS OCCUPIER MARKET IN EUROPE

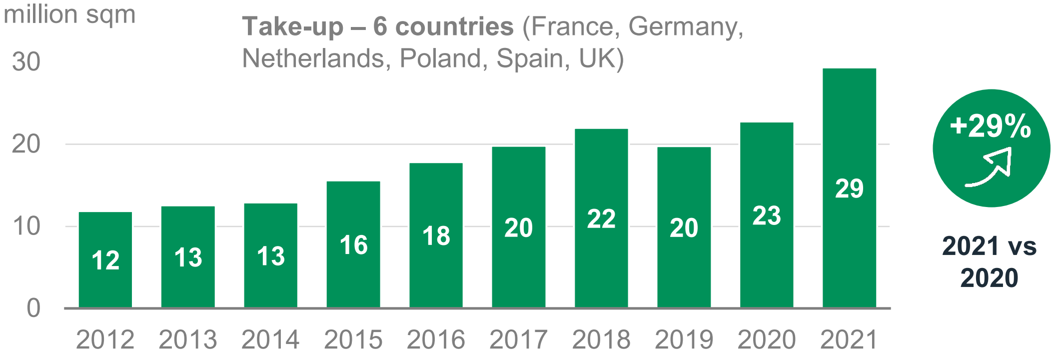
TAKE-UP IN 6 COUNTRIES: +29% (2021 VS 2020)

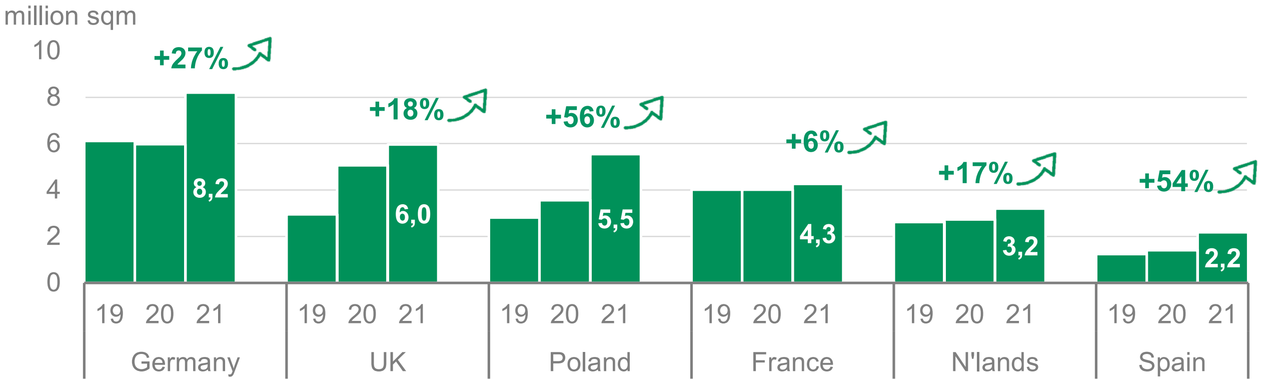
With demand structurally strong, supply is the variable adjusting the market

- **2021 set yet again another new record volume of transactions** in Europe, boosted by online sales and an overall economic upturn. Take-up rose by 29% in the 6 leading European markets with market growth in every country.
- **The strong changes in consumer behaviour triggered by the Covid-19 crisis supported on-line shopping** and helped raise the penetration of e-commerce in markets where this had been limited so far, further boosting demand for logistics space.
- **Supply drying up over the past three years while demand stayed sharp** means there is a major imbalance in some markets. This was particularly evident in prime locations where demand shifted towards other regional locations.
- **The speed of delivery and availability of land will dictate the market balance** in areas where the vacancy rate is well below the European average of 5% recorded in 2021.
- **New developments are still insufficient** to meet demand, yet few speculative developments are launched.

Country profiles in 2021

- In **Germany**, the logistics market run at full speed to reach a new record volume of transactions in 2021, boosted by e-commerce. The logistics sector came through the crisis better than almost all other sectors of the economy.
- The **UK** broke a new record in 2021 at 6 million sqm. Market growth was underpinned by a strong economic upturn (+7.1% in 2021). With the development pipeline for new stock contracting slightly and occupier sentiment remaining strong, long term returns look stable as rental growth continues.
- In **Poland**, take-up achieved another record year. The pandemic fuelled the already solid growth of e-commerce and the robust economic growth (+5.2% in 2021) further supported the market.
- In **France**, after a slow start a the beginning of the year, the market gained momentum supported by good activity in Paris and Lille and by strong GDP growth (+6.7% in 2021), one of the highest in Europe. Overall, supply remains scarce in most submarkets.
- In the **Netherlands**, take-up set a new record year. Due to low availability in the main logistics hotspots, take-up continued to shift towards less established locations. Rents stabilized but strong demand and low availability are still seeing some upwards pressure.
- In **Spain**, the market achieved a historic record volume of transactions above 2 million sqm in 2021. Activity was stimulated by e-commerce and food retailers as well as strong economic growth (+4.3% in 2021). Vacancy rates are still very low contributing to create an upward pressure in rents, particularly in Barcelona.





EUROPE CRE 360

REAL ESTATE PERSPECTIVES

RETAIL
MARKETS

BNP PARIBAS
REAL ESTATE

MOBILITY DATA: AN UPWARD TREND IN EARLY 2022

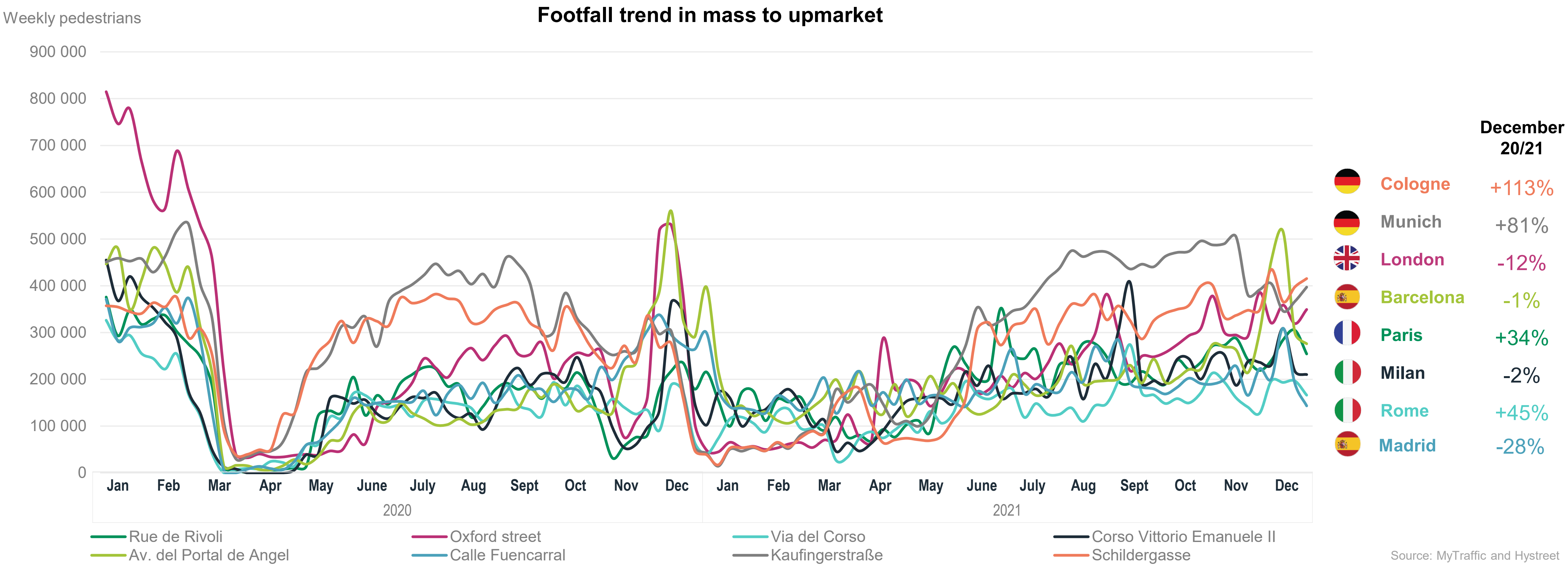
STORE FOOTFALL CLOSE TO PRE-COVID LEVELS

The baseline refers to the median value for each corresponding day of the week during the 5-week period of 3 Jan – 6 Feb 2020.

Source: Google Mobility Reports (3 February 2021).

- Over the last two months, **footfall proved very volatile.** In December, during holidays season, footfall even exceeded pre-crisis levels in Ireland, Poland and Belgium, and in France and Italy to a lesser extent.
- In the Netherlands, end of the year lockdown strongly impacted footfall.
- An **upward trend** can be observed in early 2022. With the remove of pandemic restrictions across Europe, a **further improvement** is expected.

FOOTFALL TREND ON EUROPEAN HIGH STREETS



Source: MyTraffic and Hystreet

After a challenging 2020, hopes for a recovery in 2021 were mostly based on a **massive vaccination campaign of European citizens**, which began in April. Thus, the second quarter of the year corresponded to the beginning of a **"return to normal". From mid-April**, European countries began to lift their restrictions, and everywhere, **the total reopening of "non-essential" stores as well as bars and restaurants has increased the footfall in high streets. The third quarter** followed this positive evolution. Countries further eased their restrictions, resulting in a significant uptick in pedestrian traffic. **The end of 2021 was marked by an epidemic resurgence** due to the variants**, resulting in a further drop of footfall in some European high streets.**

RETAIL INVESTMENT MARKETS

THE VALUE GAP MAY WIDEN BETWEEN PRIME AND SECONDARY ASSETS

Polarisation between prime and secondary locations

- **Prime locations are expected to suffer less** from the Covid-19 impact than the secondary locations. **Liquidity for prime assets should remain stable** and only a **slight adjustment in rents** is expected in the main high-street locations.
- For **secondary locations**, the **steeper decrease in rents is expected** to reflect demand levels. Some investors may take the opportunity to (re)enter retail markets if decompression of prime yields occurs in some locations.
- **Prime locations** having already faced other serious events in the past (sovereign debt crises, terrorist attacks, strikes) are likely to **demonstrate their strong resilience** in these circumstances again.
- In terms of how investors are reacting, most buyers are opting to '**wait and see**' with deals taking longer to process, being postponed or at worst cancelled.
- All in all, **liquidity and likely repricing** will strongly depend on the **asset quality** (location, turnover, vacancy and footfall). Some powerful retailers may use **the opportunity to improve their high street / shopping centre positions** by acquiring sites from struggling names.

Shopping centres

- Measures by landlords **suspending or cancelling rental payments** plus **government assistance** are vital for the vast majority of retailers. Some leading European retail landlords have announced **rent-free periods**. Others are dealing with this on **a case-by-case basis**.
- In the shopping centre sub-segment, there could be **opportunistic transactions** after the crisis recedes. Depending on how long and deep the crisis is, **a higher risk premium could be offered** on the market.
- **Repricing for shopping centres** should accelerate, especially for non-core assets, providing opportunities for investors. This trend will depend on the **leverage financing facility** which is key for all value-added and opportunistic investors. Investors will be more attracted to assets with financing facilities in place.

Retail parks and retail warehousing

- **Retail parks appear more resilient**, often accessible by car (out-of-town fringe locations), comprising mostly anchor convenience stores, characterized by more affordable rental values. We have already observed **increased demand for food-anchored and stand-alone assets.**

PAN-EUROPEAN FOOTFALL ANALYSIS

WHICH STREETS HAVE CONTINUED TO ATTRACT THE HIGHEST PEDESTRIAN TRAFFIC?

The **Pan-European Footfall Analysis** aims at providing a one-off overall and lifestyle "snapshot" of the prime streets in **34 key cities in Europe**.

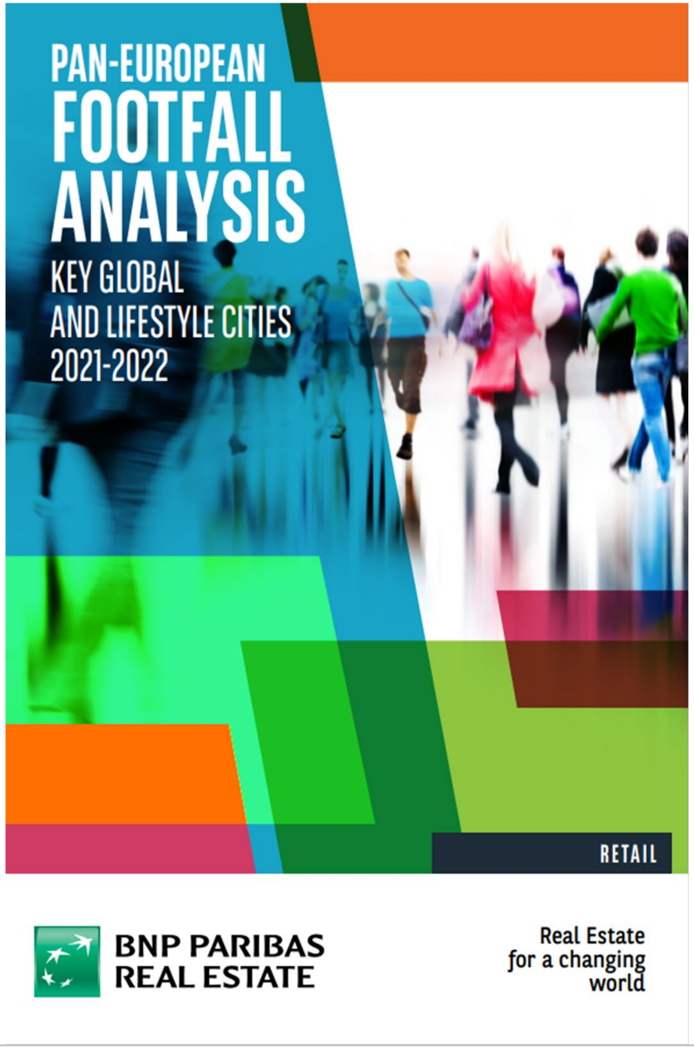
Pedestrian traffic is one of the **prime indicators** to assess the strength of retail, albeit insufficient on its own to be a fully determinant driver.

The full footfall report is available HERE

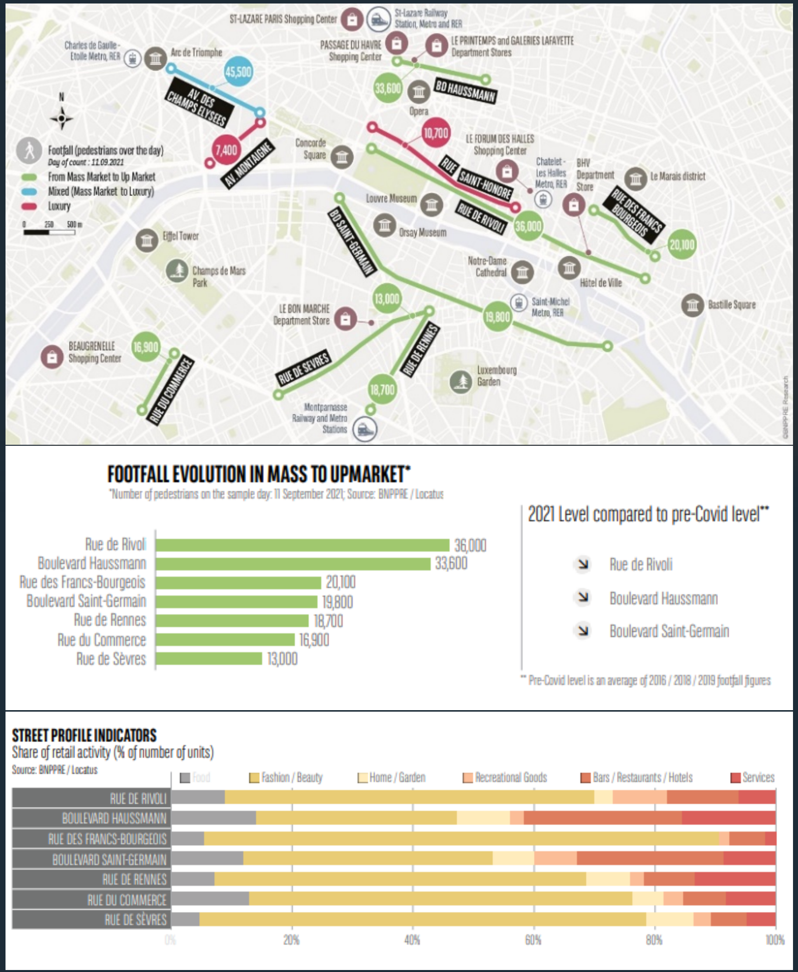
This analysis has been supported **by BNPPRE Research teams, Retail Agencies and Alliance partners across 19 European countries.**

Counting was conducted by our partner LOCATUS in **130 prime streets of 34 main cities all over Europe** during one Saturday per city chosen within 3 dates.

Each city was divided into **"Mass-Market to Upmarket"** and **"Luxury" categories** and between **2 and 10 streets were selected**, depending on scale and population of the city.



Focus on Paris' map, footfall figures and street profile



EUROPE CRE 360

REAL ESTATE PERSPECTIVES

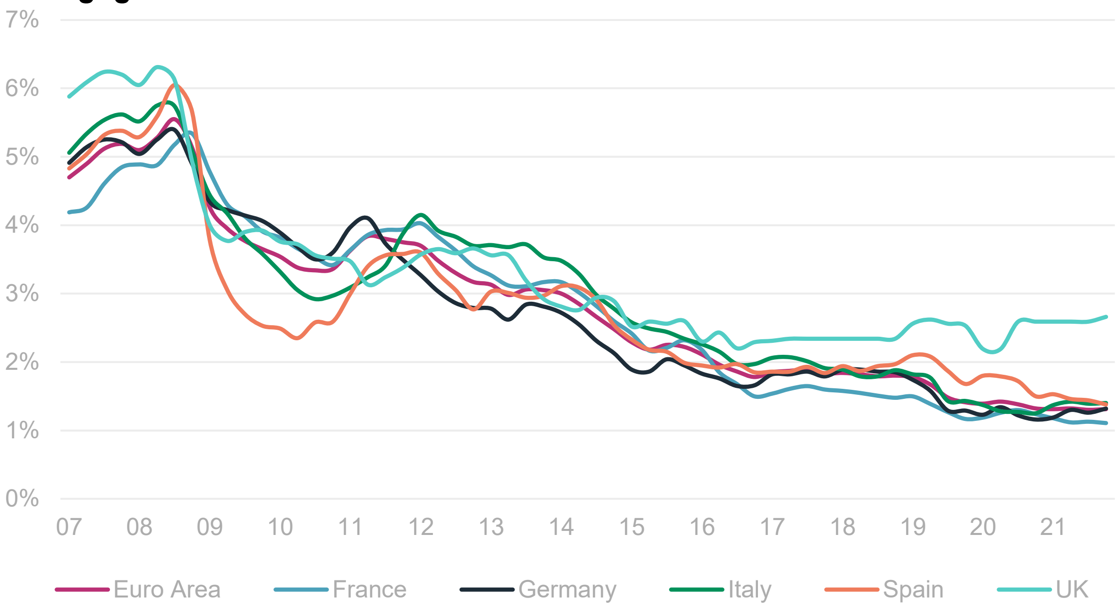
RESIDENTIAL MARKETS

BNP PARIBAS REAL ESTATE

FINANCING MARKET

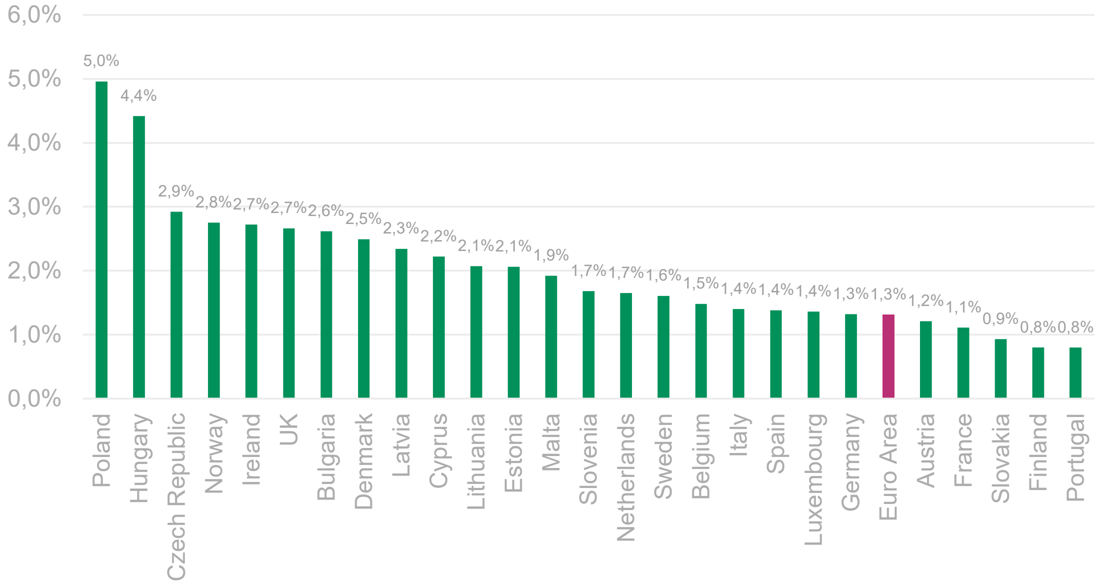
ECB POLICY IS STILL MAINTAINING MORTGAGE RATES AT THEIR LOWEST LEVEL

Mortgage rates



Sources: European Central Bank

Mortgage rates



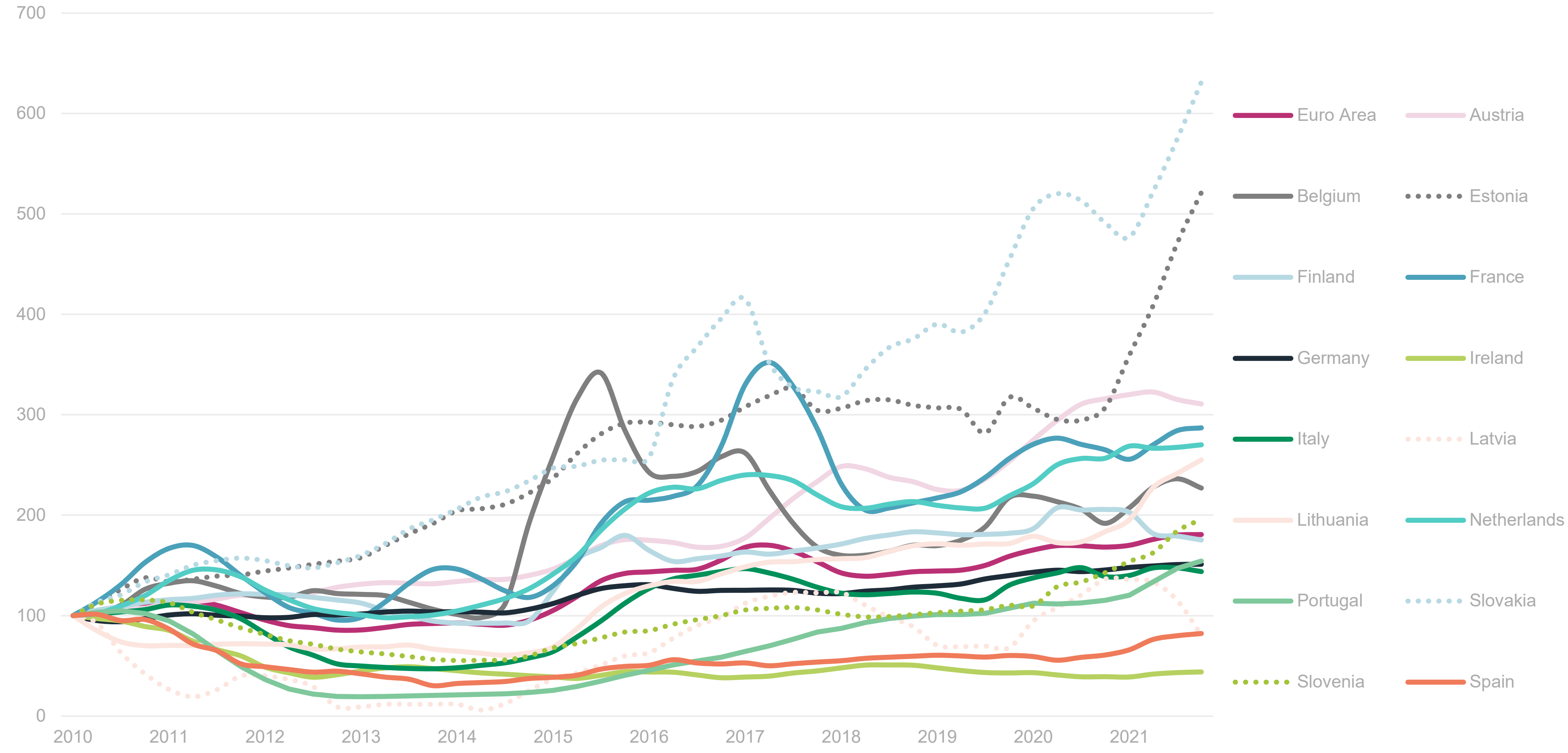
Sources: European Central Bank

- By setting the refinancing rate at 0.00%, ECB monetary policy resulted in the key interest rate of the European interbank, the 12-month Euribor, going into negative territory since the end of 2015; it is currently at -0.50% (end of Q4 2021).
- The Eurozone economic recovery of +5.2% for 2021 along with a rebound in inflation (+2.6% in average in 2021) has potential to push the interest rate up. 10-year government bond in the Eurozone increased by +35bps since the end of 2020 standing at +0.14% at the end of Q4 2021 as investors anticipate Central Bank moves to tighten policy. The European Central Bank will end up its pandemic emergency purchase program by March 2022 but decided not to increase key interest rate by the end of 2022.
- Mortgage rates in the Eurozone remain stable at historically low levels of 1.31% in Q4 2021. Germany, Austria, France, Slovakia, Portugal and Finland provide the lowest mortgage rate of the Eurozone in a range of 0.8% and 1.3%.
- In Q4 2021, loan supply standards slightly tighten due to lower risk tolerance from banks. Moreover, loan demand decreased in Q4 2021 after skyrocketed in Q2 2021. Tightening in credit conditions also contributed to reduce credit demand.

CREDIT PRODUCTION IN EUROPE

CREDIT IN EUROPE REACHES ITS HIGHEST HISTORICAL LEVEL

Credit production



Source: European Central Bank

EUROPE

+7.4%

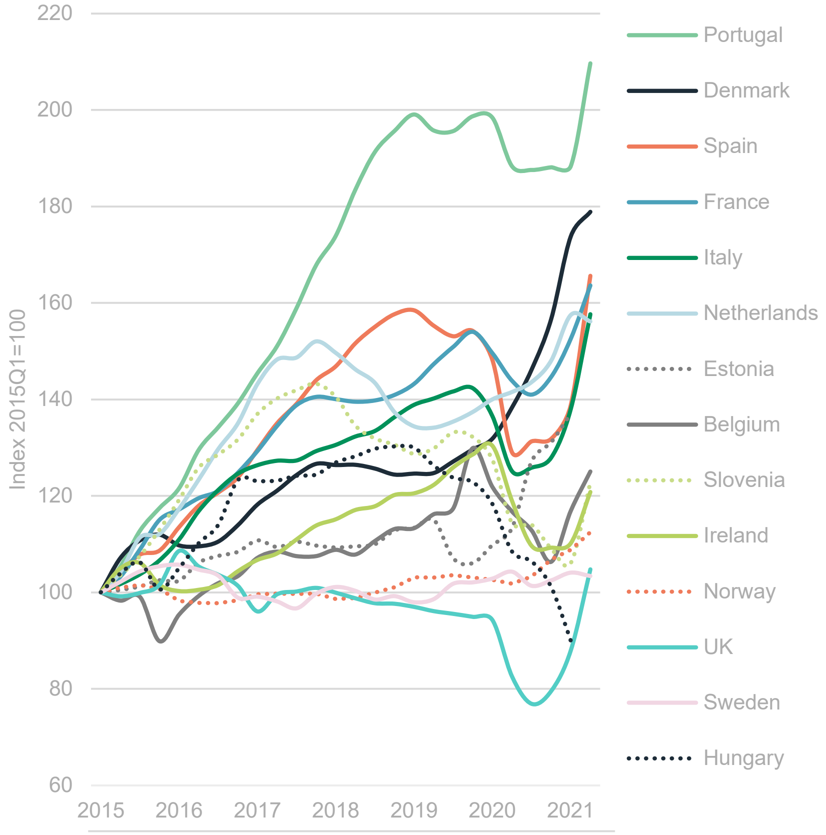
Q4 2021 vs Q4 2020

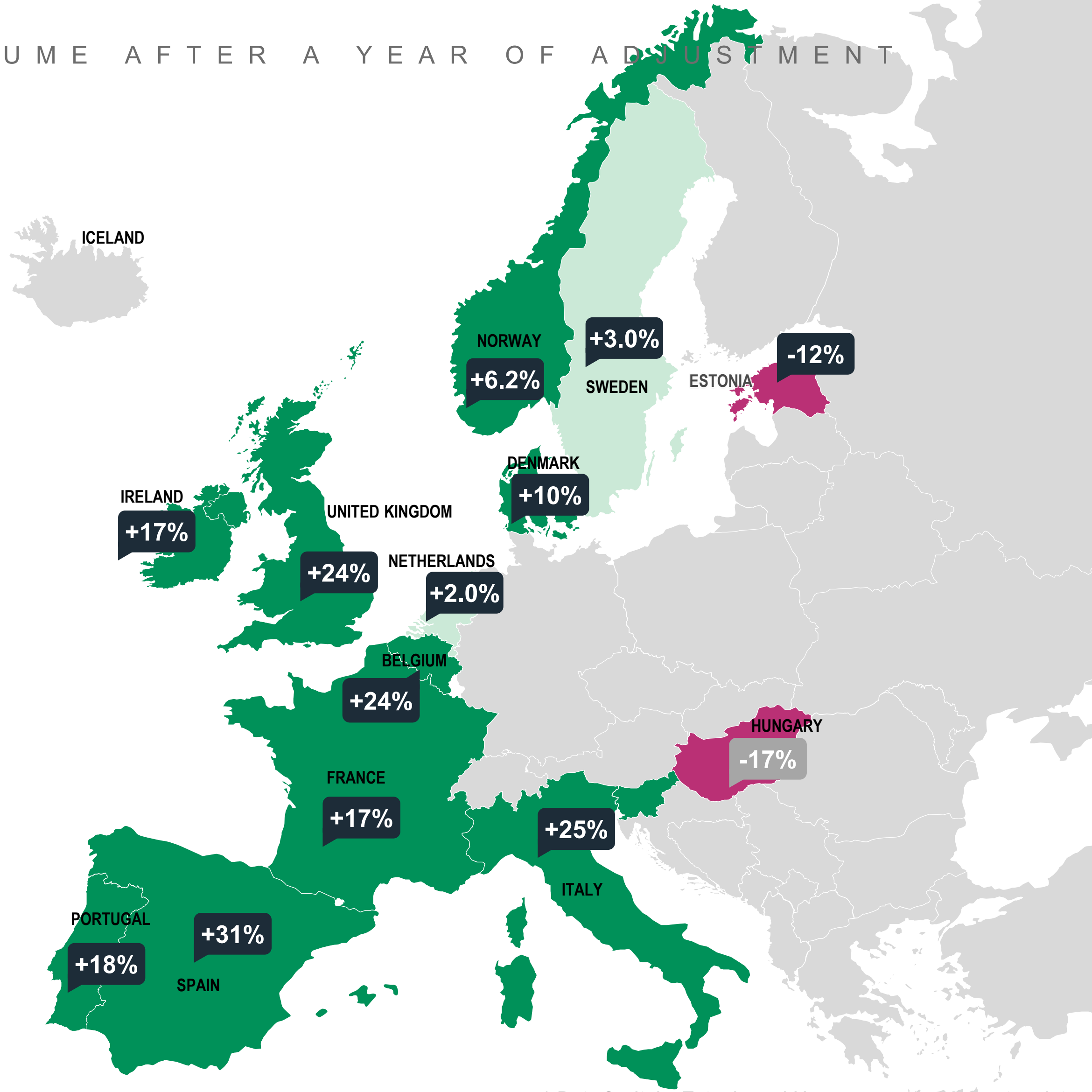
- In Q4 2021 and on a rolling year basis, more than thousands billion euros have been granted in credit in the Eurozone. It reached an all time high in Q4 2021 with €1,047bn granted i.e. +7.4% compared to last year.
- In the same period, most European countries recorded a positive trend in lending except Austria, Croatia, Finland and Latvia where credit volumes decreased.
- Also, credit volumes increased by +5% in Italy, Germany and Netherlands, by +8% in France, +35% in Spain and Portugal and +84% in UK (due to introduced in Q2 2020).
- Since 2010, credit production twofold in the Euro area, Slovenia, more than twofold in Belgium and Lithuania, nearly threefold in the Netherlands, and France and more than threefold in Austria, Estonia and Slovakia.

TRANSACTION VOLUME IN EUROPE

SOAR IN TRANSACTION VOLUME AFTER A YEAR OF ADJUSTMENT

Transaction volume





>+5%   0% - -5%

0% - +5%   <-5%

Sources: Eurostat, National statistics offices, BNPPRE

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

EUROPE

+16%

Q3 2021 vs Q3 2020

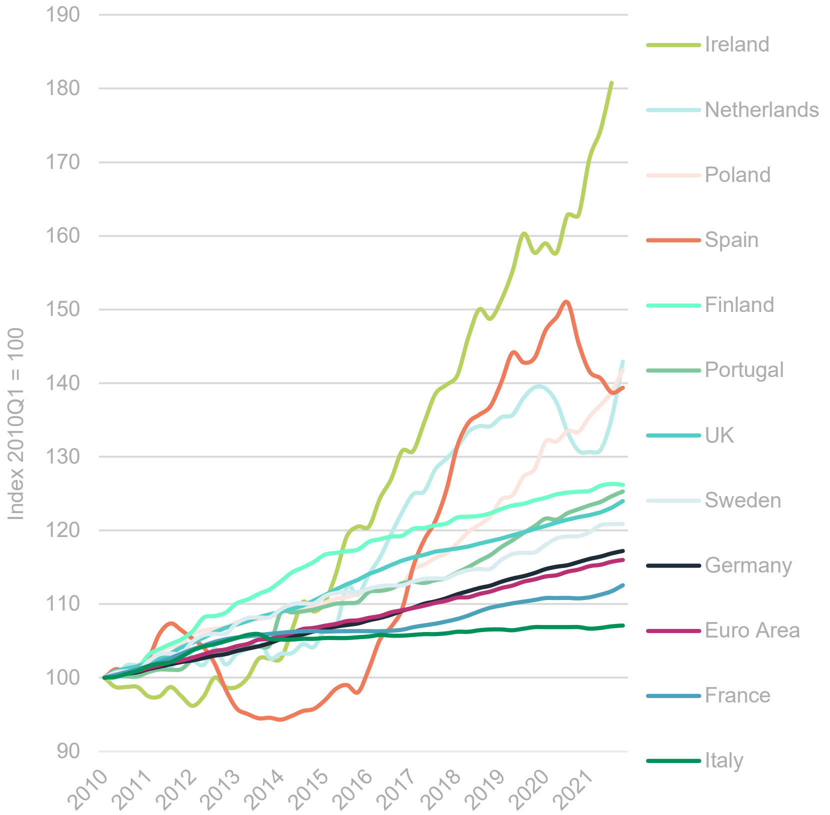
(12 countries)

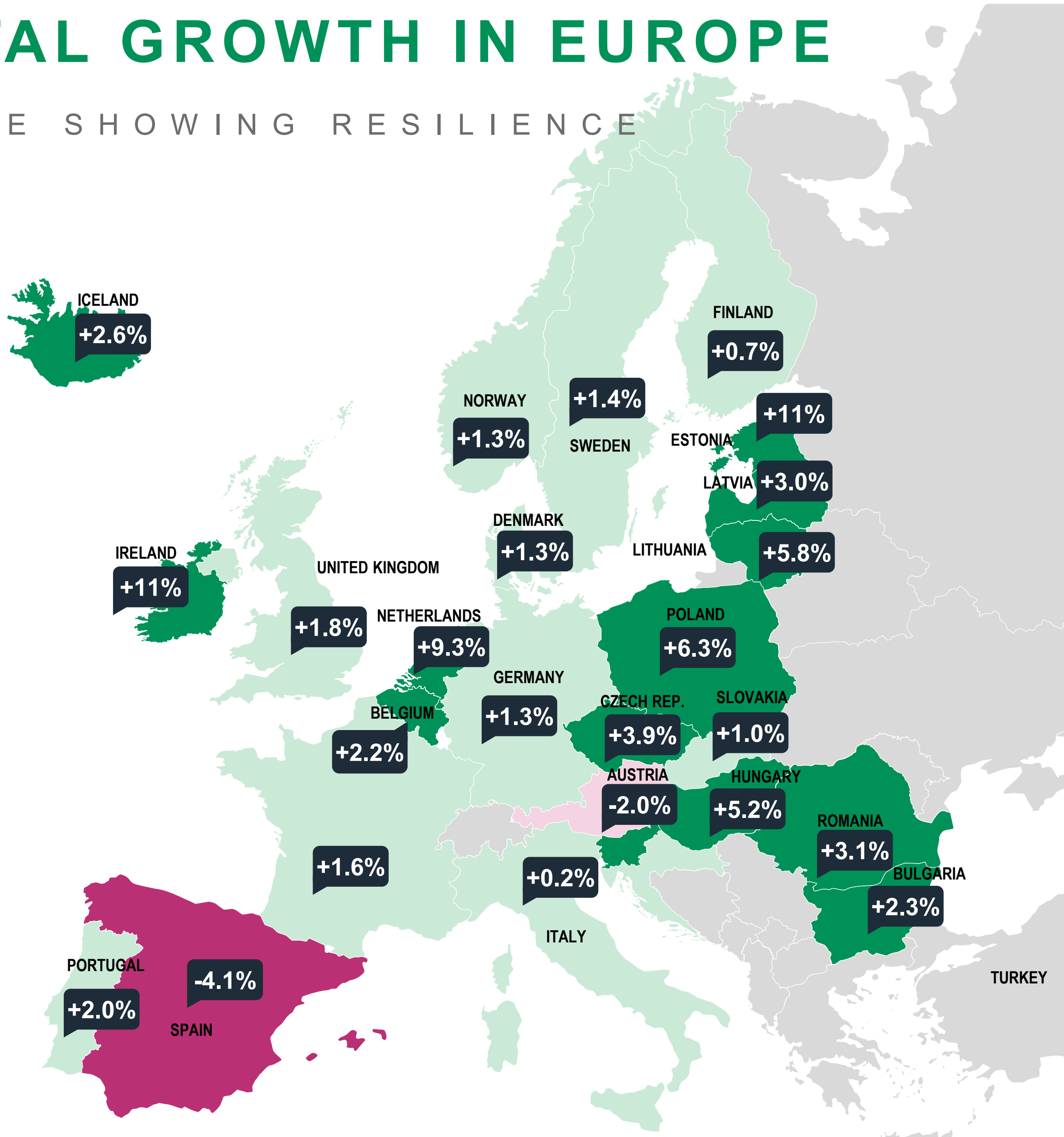
- Housing transaction volume soared by +16% in Q3 2021 and on a rolling year basis.
- Transactions bounced back after the lockdown period and have overtaken their pre-crisis level in most countries excluding Ireland, Malta and Slovenia that are still recovering from the Covid crisis.
- In Q3 2021 and on a rolling year basis, transaction volume increased by +32% in Spain, +28% in the United Kingdom, +20.2% in France, +18.4% in Portugal, +17.8% in Denmark, +16.8% in Ireland and +16.6% benefitting from low interest rates, and homeworking opportunity.
- Since 2015, transaction volume more than doubled in Portugal, rose by +80% in Denmark and +60% in France, Spain, Italy and Netherlands.

RESIDENTIAL RENTAL GROWTH IN EUROPE

RENTS, ON THE RISE, ARE SHOWING RESILIENCE

Residential rental growth





Sources: Eurostat, National statistics offices, BNPPRE

EUROPE

+1.1%

Q4 2021 vs Q4 2020

- Residential rental values in the Eurozone hits new record with +1.1% increases in Q4 2021 vs Q4 2020.
- Between 2010 and 2021 housing rents increased at different speeds, outperforming inflation. We registered a rental growth of +80% in Ireland, around +40% in Spain, Poland and the Netherlands around +25% in Finland, Portugal, the United Kingdom and Sweden. Rents in France and Italy remained contained over the period respectively at +12% and +7%. In the Eurozone and Germany, rents increased over inflation (+16%).
- Much seasonal housing has been put in the long-term rental market as consequence of the Covid-19 crisis, creating a surge in the rental supply and containing rents. This phenomena is even greater in Southern Europe such as Spain, Italy and France that host a lot of foreigners. However, we observe a consolidation of rents and the rental market is bouncing back due to high demand trying to benefit from the adjustment in rents.

LOCATIONS

(JANUARY 2022)

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