

THE LIGHTHOUSE: BNP PARIBAS REIM PRESENTS ITS OUTLOOK OF THE EUROPEAN PROPERTY MARKET

In this fifth edition, “The Lighthouse H1 2022 – European Property Market outlook”, BNP Paribas REIM presents its outlook of the European real estate market, across all sectors. For this, the company relies on in-house forecasts, analysis and expertise of its local teams, to define its convictions and investment opportunities for 2022 and beyond.

A context of uncertainty and an inflationary environment that allow residential, healthcare, logistics and prime office assets to stand out to investors

The European economy has held up and continued to grow in the first half of 2022, supported by the ongoing rebound in the service sector as COVID restrictions eased. Tourism in particular has increased sharply and definitely helped the hotel and retail sectors. One of the biggest issue in today’s investment community is the growing inflation that will last throughout the year. In addition, there is an expected slowdown in economic growth with a significant decrease in GDP (Gross Domestic Product) forecast across Europe in 2022 (+2.7% in the Eurozone and +3.8% in the UK), a moderate decline which should continue in 2023.

The report also highlights that European real estate markets have gone through the COVID crisis in a surprisingly solid manner. Now, in this uncertain period, there is a shortage of building materials and a lack of available space, especially sustainable and energy-efficient space. In this context, some sectors, such as residential, healthcare, logistics and prime offices, are likely to experience robust prime rental growth and be the most sought-after by investors. However, this positive rental trend will vary significantly between assets, with increasing polarization between attractive and sustainable buildings and average to poor locations and buildings. The ESG factor in particular will play a key part in investment with the growing stakeholder-driven requirements and the increased regulation for sustainable space.

“This report shows that we’ve entered a new phase, which led to a shift in investors’ priorities. Indeed, we clearly see that the investment criteria are even more precise and rigorous with a focus on alternative assets such as healthcare and logistics, on offices located in prime locations and on ESG with an increased demand for energy-efficient buildings. Overall, the outlook for the real estate sector has changed materially. Going forward we believe that the biggest driver of return will be rental growth on the back of strong inflation” comments **Laurent Ternisien, Chief Client Officer for BNP Paribas REIM.**

The key findings are

1. A strong inflation that can be translated into rental growth so long as the stock is limited
Real Estate in one of the best asset classes to compensate for this inflation, either through rental growth or through indexation. Occupiers are likely to find space scarcest in residential, logistics, healthcare and prime offices sectors. These markets should experience the strongest rental growth, driven by inflation and strong demand.



2. Weaker sentiment among institutional investors could slow down investment volumes

There will be more hesitation from the investors due to higher financing costs and the denominator effect. Indeed, some investors have a maximum limit on real estate exposure, which can constrain their investments in times of declining bond and equity valuations.

3. Improving energy efficiency will also improve performance

Sustainability is set to play an ever greater role in investment decisions and is high on investors' criteria due to a rise in energy prices and upcoming rules. This increased regulation and pressure from investors and the general public will lead to substantially higher demand for energy efficient buildings.

The focus on green assets is especially high in offices, retail and hotels. As there is a lack of energy-efficient buildings amid this strong demand, rents and values are likely to be higher for these types of buildings. ESG-compliant assets promise higher profitability in the long-term.

4. Healthcare real estate is still the top performing sector and will be for the next five years

The appeal of healthcare assets to investors remains intact and solid, as the sector generates a healthy yield, along with stable, indexed rents based on long leases. Thanks to institutional investors' enthusiasm for healthcare, investment in the asset type has risen significantly over the last decade, from 0,5% of total investment in commercial real estate in 2010 to around 3% today.

Demographic change is the key driver of overall care trends and the consequent demand for the sector. With the intensification of population ageing in Europe, the overall need for medical care is higher. Moreover, older populations are now generally better educated and wealthier than they used to be so they are more likely to access medical services more frequently.

The healthcare real estate sector also has the ability to further diversify portfolios, as it stands out as one of the most resilient sector to economic downturns. Thus, it offers the most attractive risk-return combination. The sector is expected to outperform all the other sectors over the next five years.

5. An increased polarization in office markets

Two years after the beginning of the pandemic, market trends show that the office market should remain one of the most sought-after sector in real estate investors' portfolio even though it was one of the sectors most affected by the crisis. Over Q1 2022, more than 27bn euros were invested in office properties in Europe and the share of offices in the total real estate investment is back to 43% which is similar to pre-COVID figures.

However, investors are being more selective and are looking for new and flexible buildings, in prime locations, adapted to post-COVID requirements, with a secured tenancy schedule and a low carbon footprint.

These past two years have allowed a hybrid organization to emerge with a split between remote working and going to the office. In this new context, offices need to be more attractive for their employees and offer services, flexibility and comfortable working conditions.

Markets are seeing a two-speed trend as there is still a difference between central submarkets and new buildings in prime locations that show low availability compared to peripheral office districts that show much higher vacancy rates. This will have a clear impact on the rental growth outlook and therefore global returns.

6. A strong resilience in the residential sector

Throughout Europe, residential benefits from strong fundamentals, due to the mismatch between demand and supply, partly driven by the rising number of households, making this sector appealing to institutional investors. Consequently, the European residential investment market has grown considerably in recent years.

Rents are likely to increase and keep pace with inflation. House prices, on the other hand, will be under pressure due to higher mortgage rates and lower spending power. As a result, demand for rental properties is likely to grow further, but rental growth will become the major driver of returns.

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With BNP Paribas REIM, you invest in REAL ESTATE AS LIVING ASSETS.

BNP Paribas REIM, a business line of BNP Paribas Real Estate, provides a wide range of real estate funds and investment solutions for investors, based on strong convictions.

Deeply European, we have a close understanding of local markets, a view of every square metre, every street, every neighbourhood, every urban eco-system.

With our 330 employees, we care for assets as we care for living beings, aiming to build a better living environment for our 200+ institutional investors and 150,000+ private investors.

We believe in ESG to reconcile social, environmental and financial performance.

We apply innovation in order to better adapt to the risks and opportunities of today and tomorrow.

At the end of 2021, BNP Paribas REIM managed €29.7 billion of living European assets on behalf of institutional and private investors.

BNP Paribas Real Estate Investment Management is composed of regulated entities in the following countries: France, BNP Paribas Real Estate Investment Management S.A.; Italy, BNP Paribas Real Estate Investment Management Italy SGR; Germany, BNP Paribas Real Estate Investment Management Germany GmbH; UK, BNP Paribas Real Estate Investment Management UK Limited; Luxembourg, BNP Paribas Real Estate Investment Management Luxembourg S.A.

Each of the legal entities responsible for offering products or services to their customers is referred to in the product documentation, contracts and related information.

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