



REAL ESTATE CONVICTIONS

An Asset Manager's View of the
European Real Estate Markets

2024 – Q3
OCTOBER 2024



ECONOMIC AND REAL ESTATE ENVIRONMENT



“ In October 2024, the ECB announced its third consecutive rate cut to ease its restrictive monetary policy, and we believe that a new momentum has opened up for the European real estate market. Indeed, this quarter we have seen a thaw in certain real estate indicators.

Henry-Aurélien Natter,
MRICS, Research Director.



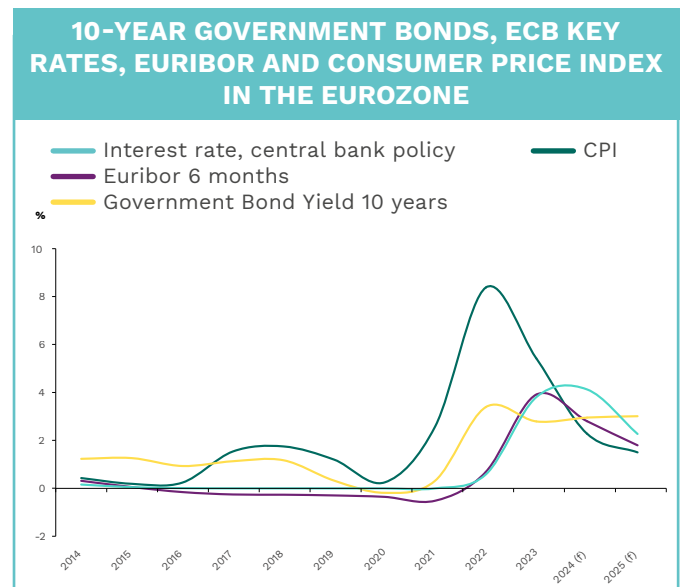
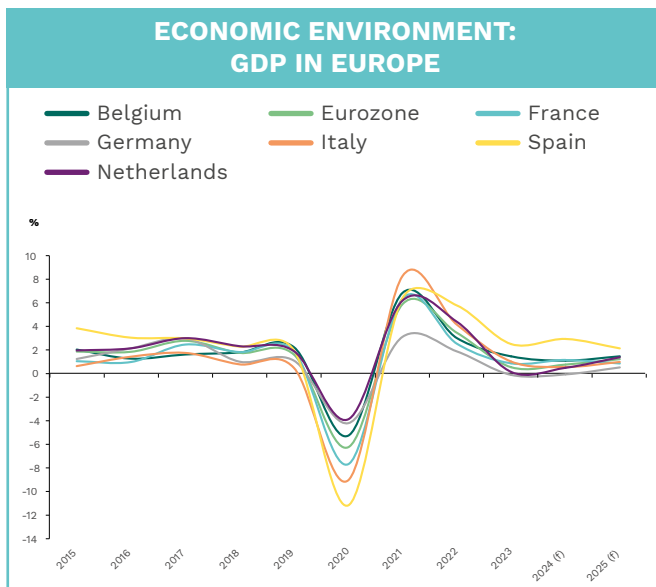
Global growth forecasts currently stand at +3.2% in 2024, and are set to remain at this level next year. For the time being, the “soft landing” scenario remains the most likely, while that of a global recession is receding. However, a number of risks remain. GDP momentum could suffer from a lack of productivity gains in the years ahead, regional conflicts could escalate, and a return to trade and industrial protectionism continues to loom over long-term growth prospects.

GDP growth in the Eurozone is forecast at +0.8% in 2024, and we anticipate a rebound in economic activity (+1.2%) in 2025. Despite a downward revision to the growth outlook compared to the previous quarter, we believe that the economy will strengthen over time as the restrictive effects of the ECB’s monetary policy gradually ease. Thus, Spain’s GDP should grow at +2.9% in 2024 and +2.1% in 2025, France (+1.1% and +0.9%), Belgium (+1.1% and +1.5%), Italy (+0.6% and +1.0%), the Netherlands (+0.5% and +1.4%) and Germany (-0.1% and +0.5%).

Eurozone inflation reached 1.7% year-on-year in September 2024, 0.8 points lower than in June 2024. Core inflation was stable at 2.7% in September 2024. Against this backdrop, the ECB decided to cut its key rates by a further 25 basis points at its September and October 2024 meetings.

Despite the lack of any indication from central bank governors as to their next strategic choices, and provided underlying inflation continues to fall, we are maintaining our scenario of a further rate cut in December 2024. Any further move towards a less restrictive monetary policy is an element in favour of real estate, with the corollary of a positive impact on prices that may be spread over several years, all other things being equal. In fact, the 75 basis-point cut in key rates has already eased borrowing rates, leading to an increase in the number of home loans.

With regard to budgetary and deficit issues, adjustments will have to be made to reduce pressure on the sovereign bonds of European countries.



Investment volumes seem to be showing a slight upturn in capital flows, and diversification remains the watchword of investment strategies.

The ECB’s three consecutive cuts in key interest rates have opened the door to a stabilization, or even some slight stirrings, in investment volumes. Indeed, we have seen a slight improvement in investment volumes over two consecutive quarters (for the same period last year) for nine successive quarters. This thaw seems to suggest that confidence is gradually returning to the European real estate market.

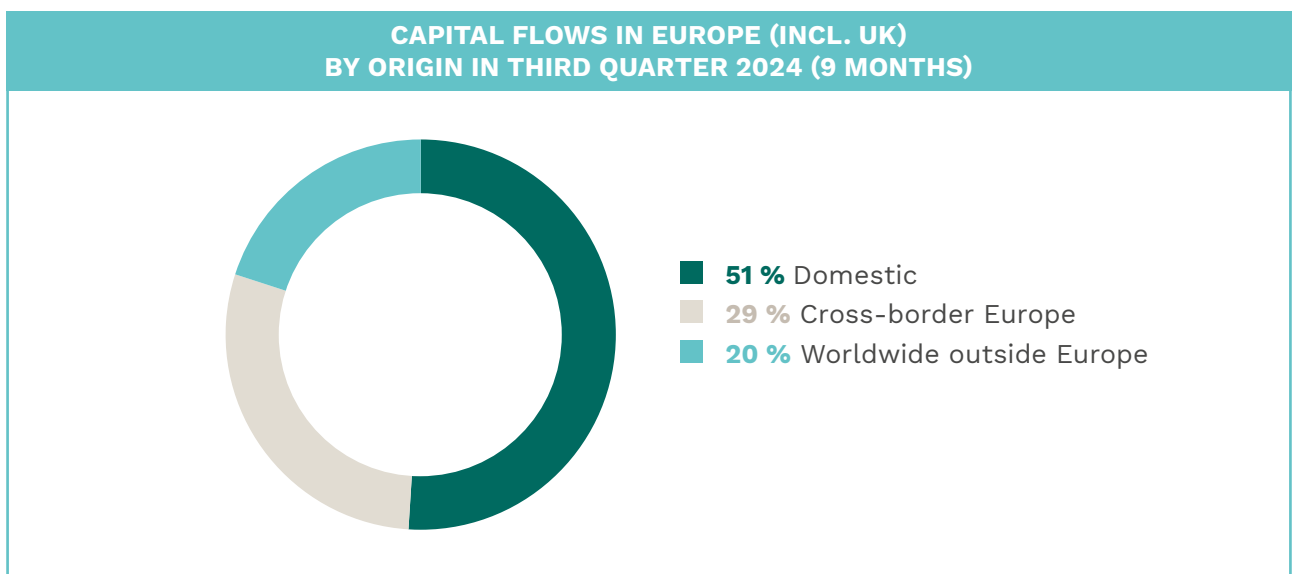
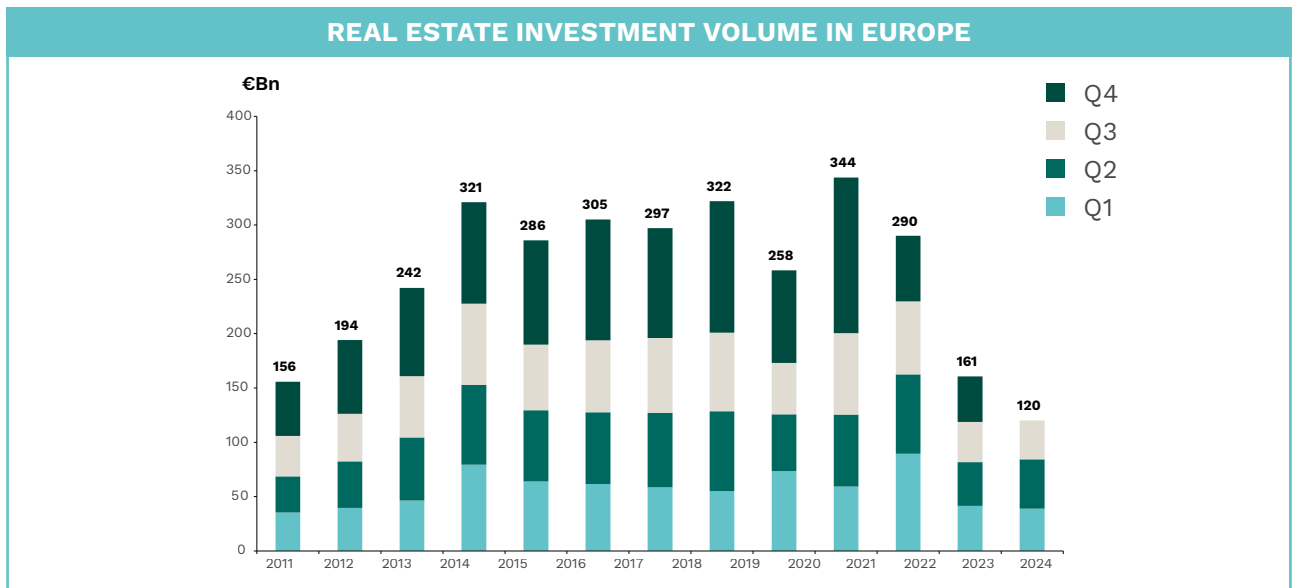
Despite these signs, investment volumes were low, with commitments of over 120 billion euros in the first nine months of 2024, compared with around 119 billion euros in the same period of 2023.

By country, 64% of real estate investment volumes were concentrated in three countries: the UK (33%),

Germany (21%) and France (13%). These were followed by Spain (7%), the Netherlands (7%) and Italy (6%).

By asset class, three main poles emerge. The first is consumption (retail and logistics), which accounts for 41% of investment volumes; the second is housing and services (residential, hotels, and healthcare), with 36% of investment volumes; and finally, the business pole, which includes the office asset class, accounts for 23% of capital.

In terms of capital flows, investors favoured their domestic market (51%), dominated by institutional investors (17%), private investors (21%), listed real estate companies (6%) and end-users (7%). International capital flows from outside Europe accounted for around 20% of investments. North American investors (Americans and Canadians) saw their activity grow and their interest in European real estate strengthen.



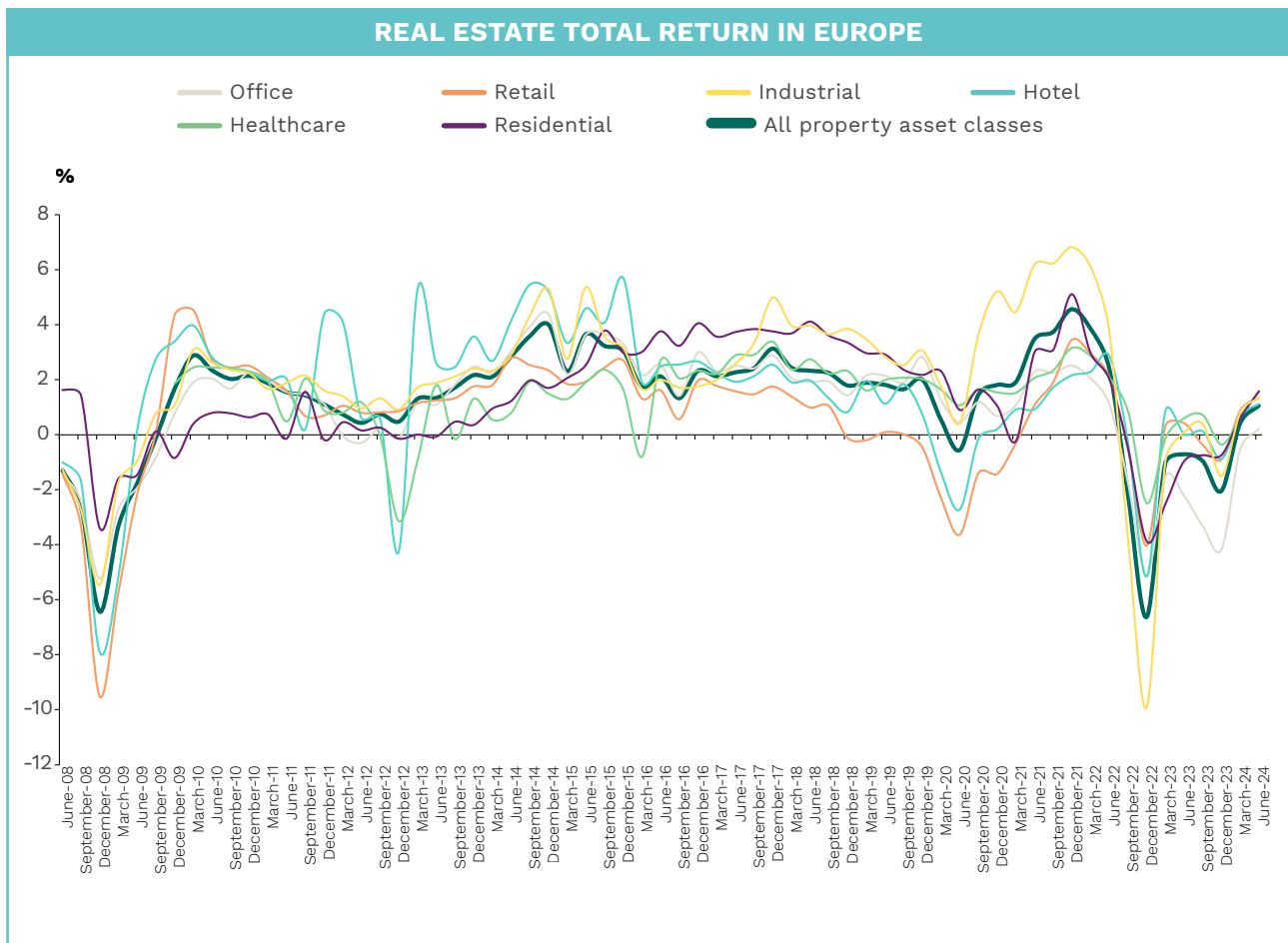
For two consecutive quarters, real estate performance has confirmed its return to positive territory, thanks to successive cuts in ECB key rates.

After being severely impacted by the sharp rise in interest rates over the past eight quarters, real estate performance has gradually changed regime, and for the past two consecutive quarters has enjoyed a positive average performance. The end of the ECB rate hike in October 2023 and the first rate cuts in June, September, and October 2024 have enabled performance to gradually return to positive territory, thanks to dynamic rental yields. The return on capital

is still slightly negative. This means that the *repricing* process will have to be fully purged before real estate values can enter a new expansion cycle.

Since June 2024, the total return of all asset classes analysed (office, retail, logistics, healthcare, hotels, and residential) in Europe has moved into positive territory. rental performance has offset the latest value adjustments. The office sector is still experiencing significant value adjustments.

The total return of the final months of 2024 will be decisive for the direction of capital performance.





OFFICES

OFFICE PROPERTY INVESTMENT IN EUROPE - 2024 Q3 (9 MONTHS)	€ 28 Bn
PRIME YIELD TREND IN EUROPE - 2024 Q3 / 2023 Q4	→
TAKE-UP TREND IN EUROPE - 2024 Q3 (9 MONTHS) / 2023 Q3 (9 MONTHS)	→
VACANCY TREND IN EUROPE - 2024 Q3 / 2023 T4	↗
RENTAL TREND IN EUROPE - 2024 Q3 / 2023 Q4	↗
JOB CREATION TREND - 2024 Q3 / 2023 Q4	↗

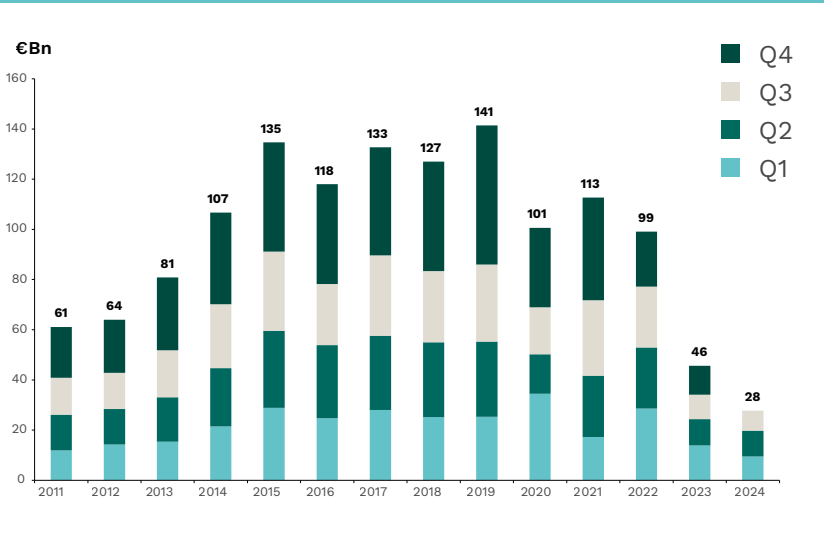
The volume of investment in office property in Europe totalled 28 billion euros in the first nine months of 2024, compared with 34 billion euros over the same period in 2023. The office market remained split in two. Well-located assets with ESG criteria were the most sought-after by investors. The UK is Europe’s leading office market, with around €8 billion invested by the end of Q3 2024, followed by Germany with around €5 billion and France with over €4 billion. Italy accounted for almost 2 billion euros, the Netherlands for around 2 billion and Spain for over 1 billion euros.

While some markets have seen downturns of between 10 bp and 100 bp between the third quarter of 2024 and the end of 2023, the trend in more and more markets is towards stability. Offices in the most sought-after districts have yields of between 4.0% and 5.0%, and are located in cities such as Paris, London, Munich, Madrid and Milan. Notably, prime yields in Paris have been compressed by 25 bp, the first time this market has seen this in 36 months.

The European user market has maintained a satisfactory level of take-up. In the first nine months of 2024, just over 7 million sq. m of space was placed, a similar volume to the same period in 2023. The European labour market continued to create jobs due to resilient economic growth in the first nine months of 2024. The Paris market slowed down in the third quarter of 2024, but will still have totalled almost 1,300,000 sq. m over nine months, followed by London, Munich/Berlin, Madrid and Milan, with between 350,000 sq. m and 900,000 sq. m leased in each of these markets. Users are looking for central, flexible, and energy-efficient offices.

Supply showed signs of stability between the second and third quarters of 2024. However, over the first nine months of 2024 compared with the same period in 2023, vacancy has risen. Central districts have confirmed their attractiveness to users, with vacancy rates remaining at low levels. This is the case for Paris intra-muros, with a vacancy rate of around 5%. Conversely, Barcelona, Madrid and Frankfurt have vacancy rates in excess of 10%.

INVESTMENT VOLUME IN OFFICE PROPERTY IN EUROPE



Rents rose faster in the third quarter of 2024 than we had seen in the first two quarters. Central districts once again saw the strongest growth in rents. Prime rents in the Paris business district exceeded €1,100 per square metre for the most sought-after assets. Dublin, Berlin, Munich, Milan and Rome offer rents of between €500 and €750/sqm, and markets such as Brussels, Madrid and Barcelona have rents of around €300-550/sqm. Accompanying measures (rent-free periods) remained largely stable at the end of the third quarter of 2024. The highest levels of rent-free periods are proposed for markets with a large supply or for less attractive areas, in order to attract users.



RESIDENTIAL

RESIDENTIAL PROPERTY INVESTMENT IN EUROPE - 2024 Q3 (9 MONTHS)	€ 26 Bn
TREND IN PRIME YIELDS IN EUROPE - 2024 Q3 / 2023 Q4	→
TREND IN RESIDENTIAL PRICE IN EUROPE - 2024 Q3 / 2023 Q4	→
TREND IN HOUSEHOLD WAGES IN THE EUROZONE - 2024 Q3 / 2023 Q3	↗

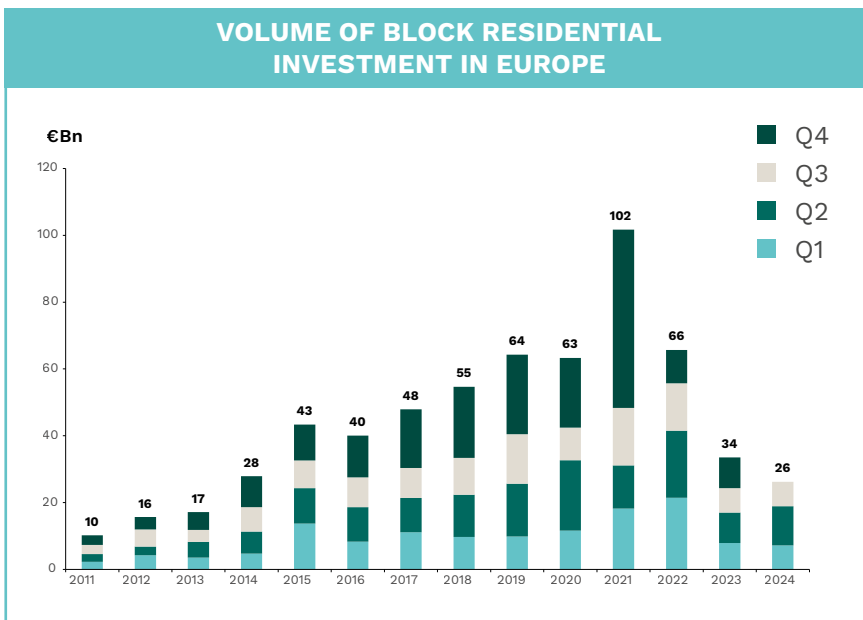
Block residential investment volumes in Europe rose in the first nine months of 2024. The market has totalled around €26 billion since the start of 2024, compared with €24 billion over the same period in 2023. In the eurozone, Germany has invested around €8 billion, the Netherlands more than €3 billion, France more than €2 billion, and Spain and Austria have each invested more than €1 billion. Outside the eurozone, the United Kingdom was the most active, investing nearly €8 billion, followed by Sweden with nearly €3 billion and Denmark with around €1 billion.

House prices in the eurozone remained stable this quarter after five quarters of value revisions. There were major disparities between countries. Prices rebounded in the Netherlands (+11.0% year-on-year), Ireland (+8.5%), Spain (+6.7%), Belgium (+3.8%), Portugal (+3.6%) and Italy (+0.4%). Easing borrowing rates, limited supply, a resilient labour market, a high savings rate and buoyant wages all contributed to a strong rebound in price growth. Conversely, prices continued to fall in Finland (-0.7%), Austria (-1.7%), Germany (-3.7%) and France (-4.2%). The fall in prices in these markets can be explained by continuing sluggish demand.

Prime yields remained largely stable over the third quarter, year-on-year. Germany was one of the last countries to see some adjustment, with a 5 basis-point increase in the third quarter of 2024 compared with the previous quarter. In the eurozone, Amsterdam, Berlin, Brussels, Paris, Milan and Munich have prime yields of between 3.0% and 5%.

The consumer price index (CPI) in the eurozone stood at 1.8% at the end of the third quarter of 2024. The main countries where the index remains above 2% are Belgium, the Netherlands and Portugal. For residential property, part or all of the CPI rate will be passed on, depending on the indexation mechanisms specific to each country. On the other hand, regulations such as ‘rent control’ or the ‘carbon tax’ can influence rent dynamics.

The housing construction sector in Europe has seen a very sharp decline. Between 2022 and 2026, a decline of 17% is expected. Countries such as Sweden, Germany, Austria, and France are expected to see a fall of between 35% and 45% in the number of new homes. Poland and Spain, on the other hand, are faring better. The causes of this fall are the consequences of the pandemic, the materials inflation crisis, and the rise in interest rates. Although the ECB could cut rates, this may not be enough to get the property development sector back on its feet quickly, which will add to the pressure on prices once rates have come down.





HEALTHCARE

HEALTHCARE PROPERTY INVESTMENT IN EUROPE - 2024 Q3 (9 MONTHS)	€ 3 Bn
TREND IN PRIME YIELDS IN EUROPE - 2024 Q3 / 2023 Q4	→
OUTLOOK FOR BED REQUIREMENTS UP TO 2030 IN EUROPE	↗

Healthcare property (senior housing and nursing homes) totalled €3 billion in the first nine months of 2024. In the eurozone, investment volumes were concentrated in Germany, France, the Netherlands, Italy, and Spain. Outside the eurozone, the United Kingdom was dynamic, with over €1 billion invested, followed by Sweden with almost €500 million.

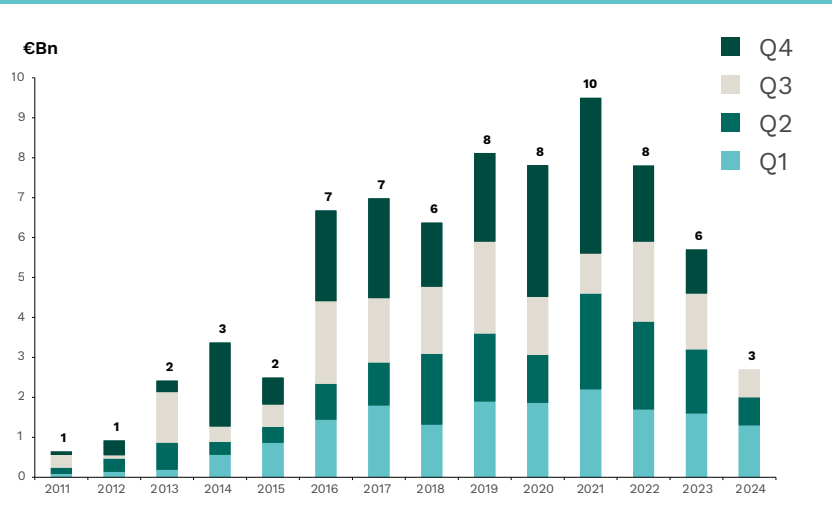
Prime yields on healthcare property remained stable in the overwhelming majority of cases between the third quarter of 2024 and the end of 2023. Only France saw a slight decompression of 10 basis points between the third and second quarters of 2024. France, the UK, Belgium, Austria and Sweden have prime yields of between 4.5% and 5.0% for care homes. In Germany, Italy, Spain, the Netherlands, Finland, Ireland, and Portugal, prime yields were between 5.0% and 6.0%. Finally, after the final adjustments, the process of decompression should give way to a phase of stability. Prime yields on clinics were around 5.0% and 6.0% in France, Germany, the Netherlands, Italy, and the UK.

The average price per bed in Europe stood at just under €170,000 in the third quarter of 2024. The most prime assets were signed for around €240,000 per bed on average, while assets in the lowest quartile were signed for €150,000. On a country-by-country basis, France and Germany saw a range of prices per bed signed between €125,000 and €175,000 at the end of the third quarter. Outside the eurozone, the United Kingdom recorded an average price per transaction in excess of €200,000 while Sweden posted an average price per bed of €150,000.

Overall spending on healthcare is high in Europe. The question of rationalising budgets was raised in some countries during 2024. Health budgets (as a % of GDP) are mainly allocated to hospitals and outpatient services in France, Germany, and Italy. Western Europe has the highest per capita expenditure while Eastern Europe has the lowest expenditure. There is a strong correlation between income and healthcare spending. Thus, European countries with high incomes are generally those that spend the most on health per capita.

A further rise in the number of people aged over 65 is expected in 2024, bringing the rate to 21.8% of the population in the eurozone. This figure reflects the ageing of the population in Europe, representing an increase of more than 3 percentage points compared with 2012. At the same time, this growth in the population of senior citizens in all European countries is generating demand for healthcare property. Italy, Portugal, and Finland have rates of over-65s that are higher than the European average. Conversely, Luxembourg and Ireland have a lower rate of over-65s than the European average. France and Germany, which have large populations of over-65s, are within the European average. Loss of autonomy must be accompanied by assistance or care, particularly for the population aged over 75, which will rise from 44 million in 2020 to over 66 million in 2040 in the European Union (excluding the United Kingdom).

VOLUME OF INVESTMENT IN RETIREMENT AND CARE HOMES IN EUROPE





HOSPITALITY

HOTEL PROPERTY INVESTMENT IN EUROPE - 2024 Q3 (9 MONTHS)	€ 15 Bn
ROOM OCCUPANCY IN EUROPE - 2024 Q3 (9 MONTHS) / 2023 Q3	↗
REVPAR IN EUROPE - 2024 Q3 (9 MONTHS) / 2023 T3	↗
AVERAGE DAILY RATE IN EUROPE - 2024 Q3 (9 MONTHS) / 2023 T3	↗
TREND IN PRIME YIELDS IN EUROPE - 2024 Q3 / 2023 Q4	→
EXPECTED TOURIST ARRIVALS IN EUROPE - 2024/2023	↗

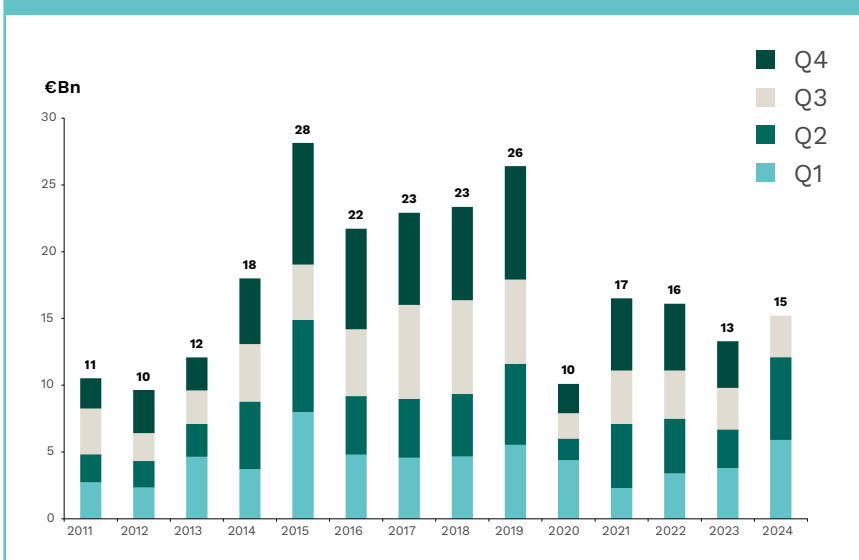
The European hotel property market totalled €15 billion at the end of the third quarter of 2024, compared with less than €10 billion over the same period in 2023. Capital was concentrated in three major markets: the United Kingdom with almost €6 billion of commitments, followed by Spain and France, with each of these two markets accounting for around €2.5 billion of investment. Germany and Italy recorded more than €1 billion each. Finally, the Netherlands and Portugal accounted for volumes of around 500 million euros.

Prime yields on hotel assets in Europe remained largely stable over the first nine months of 2024 compared with the end of 2023. Prime yields on leased hotels, based on rental profitability, remained stable, offering prime yields of between 4.75% and 8.5%. The major cities of southern Europe, such as Milan, Rome, Madrid, Barcelona, Lisbon, and Athens, offered yields of between 5% and 8%. Yields in northern cities such as London, Paris, Amsterdam, Brussels, Dublin, Helsinki, and the major German cities were between 4.75% and 6.0%. Prime yields on hotels under management contracts, which enable hotel owners to capture both the value of the business and the value of the property, offer prime yields in Europe of between 6.0% and 9.5%. Yields have remained largely stable in this category.

The number of hotel rooms sold or let in Europe was up at the end of the third quarter of 2024, by 2.1% year-on-year. The trend towards normalising growth in the sector is continuing. 2024 should be a good year for the European continent, thanks to the many sporting and entertainment events. Revenues are expected to rise, and the number of tourist arrivals should also be dynamic for 2024 as a whole. By category, economy hotels recorded a slight slowdown in growth (between -0.1% and +0.7%). The mid-range category continued to grow well (between 2% and 4%). Rooms in top-of-the-range hotels (+4.7%) and those in the luxury category (+2.1%) performed satisfactorily.

Hotel indicators were on the rise in the third quarter of 2024. The occupancy rate for hotels in Europe rose to over 70% at the end of the third quarter of 2024. The average price is also on the rise, reaching over €164 in the first nine months of the year, compared with €157 over the same period in 2023. RevPAR stood at €116, compared with €109 a year earlier. By category, economy hotels are the only ones to have achieved an occupancy rate of over 74% since the start of the year. The other categories were between 64% and 72%.

HOTEL INVESTMENT VOLUME IN EUROPE





RETAIL

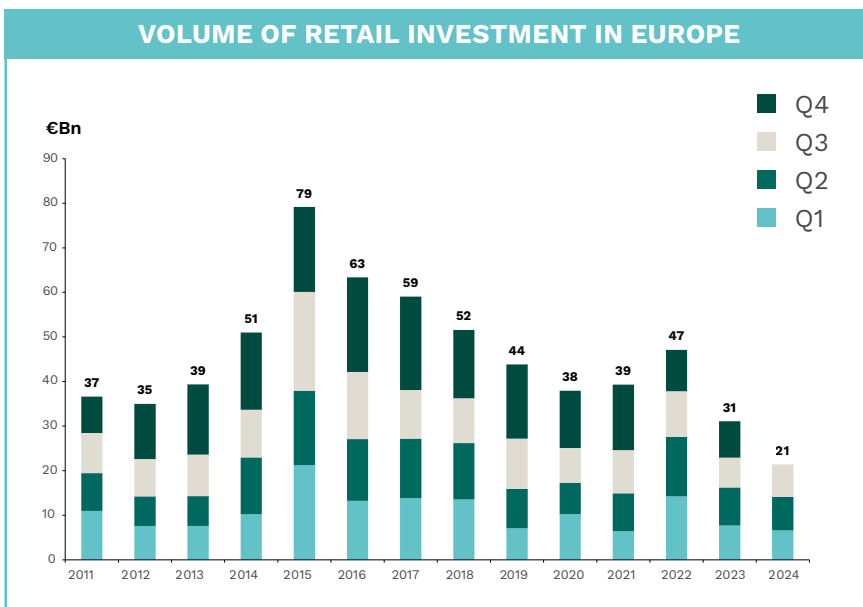
RETAIL PROPERTY INVESTMENT IN EUROPE - 2024 Q3 (9 MONTHS)	€ 21 Bn
TREND IN PRIME RETAIL YIELDS IN EUROPE - 2024 Q3 / 2023 Q4	➔
TREND IN PRIME YIELDS FOR SHOPPING MALLS IN EUROPE - 2024 Q3 / 2023 Q4	➔
TREND IN DEFLATED RETAIL SALES IN THE EUROZONE - 2024 Q3 / 2023 Q4	↗

The volume of investment in retail property fell at the end of the third quarter of 2024, compared with the same period in 2023. As a result, the volume of investment in retail property in Europe will have totalled more than €21 billion over the first nine months of 2024, compared with almost €23 billion over the same period in 2023. The UK and Germany were the most active markets, with between €5 billion and €7 billion invested. Italy, France, and Spain accounted for more than €2 billion of commitments in their respective markets. Italy and Spain have seen a strong upturn in commercial investment in 2024, with amounts already exceeding those for the whole of 2023. The Netherlands is still at a low level, with only €600 million invested in this market. Investors are currently focusing on locations with a high pedestrian flow that can generate dynamic sales for retailers.

Yields on retail premises and shopping malls remained largely stable in the first nine months of 2024 compared with the end of 2023. Prime retail yields in Amsterdam, Milan, Madrid, Munich, and Paris were between 4.0% and 4.5%. In Vienna, Brussels, Lisbon, Dublin, and Helsinki, yields were between 4.5% and 6.0%. As far as shopping malls are concerned, the trend is towards stability, with prime rates of between 5% and 9% in Europe.

Rental values for ground floor retail premises rose slightly at the end of the third quarter of 2024. Rental values for shopping malls were, on average, trending downwards at the end of the third quarter. One of the main risks identified by retailers is the increase in business failures, a direct consequence of the high cost of credit.

Leading indicators show that, after a period of uncertainty, private consumption is gradually improving, helping to support retail sales growth. In the third quarter of 2024, retail sales in the eurozone were up by around 2%. Some countries, such as the Netherlands, Spain, and Germany, reported above-average growth. It is worth noting that sales growth accelerated between the third and second quarters. It remains to be seen whether this trend will continue in the fourth quarter of 2024. In the eurozone as a whole, after several quarters of decline, retail sales volumes changed trajectory and showed a slight increase in the third quarter of 2024. However, it should be remembered that it is price growth, and not volumes, that is driving sales growth for retailers.





LOGISTICS

INVESTMENT IN LOGISTICS PROPERTY IN EUROPE - 2024 Q3 (9 MONTHS)	€ 27 Bn
TREND IN PRIME YIELDS IN EUROPE - 2024 Q3 / 2023 Q4	➔
FOREIGN TRADE TREND - 2024 Q3 / 2023 Q4	↗
TREND IN E-COMMERCE SALES IN THE EUROZONE EXPECTED BY 2029	↗

The logistics sector recorded a slight increase in investment volume at the end of the third quarter of 2024. The European logistics property market totalled €27 billion in the first quarter of 2024, compared with €24 billion in the same period in 2023. Capital was concentrated in the UK with over €8 billion, followed by Germany and France with over €4 billion. The Netherlands, Sweden, Italy, and Spain had investment volumes of between €1 billion and €3 billion.

Prime yields on logistics properties in Europe were largely stable during the first nine months of the year. Although some markets saw a few changes between the end of 2023 and the beginning of 2024, there was a broadly stable trend across all markets, from one quarter to the next. The most sought-after markets are yielding less than 5.5%. This is particularly true of Germany, the Netherlands, France, Belgium, Spain, and Italy.

Rental market activity was down slightly at the end of the third quarter of 2024. Net warehouse take-up was around 11.5 million sqm in the first nine months of 2024, down slightly from over 12 million sqm of net take-up in the same period in 2023. The most important markets were France, Italy, the Netherlands, the United Kingdom, Germany, and Poland.

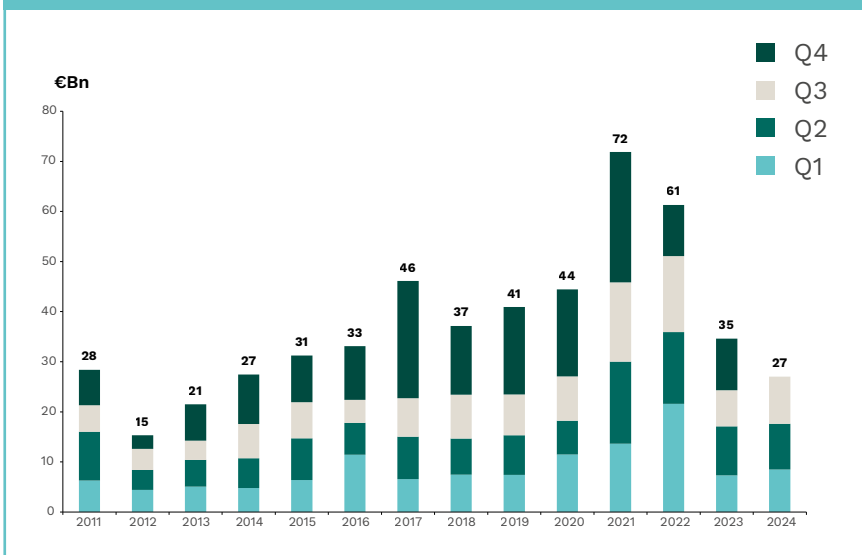
The supply of logistics real estate increased in the first nine months of 2024 compared with the end of 2023. Markets such as Germany, the Netherlands, France, Belgium, and Italy have vacancies of less than 5%. Conversely, the United Kingdom, Spain, and Poland have vacancies in excess of 5%.

Rents rose slightly. Average headline rents for the best warehouses rose by between 1.5% and 5.0% in the first nine months of 2024 compared with the end of 2023. Rents in Germany, the Netherlands, Spain, Belgium, and France are between €70/sqm and €105/sqm.

The growth of e-commerce will continue to drive demand for logistics. E-commerce sales in Europe are expected to grow by an average of 9% a year between now and 2029, reaching a volume of around €1,000 billion.

External trade in the eurozone was slightly in surplus at the end of the first six months of the year, compared with the same period in 2023. Conversely, imports and intra-European trade are falling. These flows are likely to fuel or curb demand for warehouses along transport corridors and in industrial port areas, which are the gateways to and from Europe.

VOLUME OF INVESTMENT IN LOGISTICS IN EUROPE



DEFINITIONS

10-year government bonds: debt securities issued by a state for a period of ten years, generally acknowledged to be a risk-free investment.

Investment volume in corporate real estate: total volume of premises acquired in the offices, retail, business premises and warehouses segments by an investor.

Take-up of offices: all leases or sales to the occupant (as opposed to sales to investors) for premises to be used as offices. It is expressed as square meters of usable space.

Sale Before Completion: sale before completion is the contractual method for selling a building before it is built. The investor becomes the owner as it is built.

Free leases: favourable measures granted to tenants (rent cuts, renovation work, etc.).

Yield: ratio between the gross or net revenues from the building and the capital committed by the buyer (acquisition price + fees and transfer taxes).

Store premises: traditional ground-floor retail premises located in town-center high streets.

Shopping center: a building containing at least 20 retail outlets housed in indoor centers around a large food store that drives customer traffic.

Retail park: an outdoor shopping center built and managed as a single unit. It comprises at least five buildings linked by lanes and located on city peripheries.

Care homes: a health facility that houses dependent elderly people.

Medical, surgery and obstetric clinics: medical facilities for short-term care, with or without lodging, or for severe conditions during their acute phase.

RevPAR: abbreviation for Revenue Per Available Room. It corresponds to the turnover on accommodation of an establishment divided by the total number of rooms RevPAR also corresponds to Occupancy Rate multiplied by ADR.

ADR: abbreviation for Average Daily Rate. It is calculated (excluding breakfast) by dividing total revenue by the number of occupied rooms.

Hotel Occupancy Rate (OR): ratio of the number of occupied rooms to the total number of rooms in a hotel.

About Praemia REIM

Praemia REIM brings together 550 employees in **France, Germany, Luxembourg, Italy, Spain, Singapore, and the United Kingdom**. The company leverages its values of conviction and commitment as well as its European-scale expertise to design and manage real estate funds for its national and international clients, whether individuals or institutions.

As of December 31, 2023, **Praemia REIM** holds **38 billion euros** in assets under management. Its conviction allocation is composed of:

- **48%** healthcare/education real estate,
- **33%** offices,
- **8%** residential,
- **5%** retail,
- **5%** hospitality, and
- **1%** logistics.

Its pan-European platform manages **61 funds** and comprises over **96,000 individual and institutional investors**. Its real estate portfolio includes more than 1,600 buildings spread across the main asset categories and located in **11 European countries**.

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The Research & Strategy Department's role is to formalise Praemia REIM's real estate investment strategies, based on continuous monitoring of the French and European markets. Although collective real estate accounts for a growing share of institutional portfolios and household savings, it is at the crossroads of financial (hierarchy of rates), economic (tenants' business models), demographic (the metropolisation phenomenon) and societal (changes in usage) factors. This is why a cross-cutting analysis is needed, which is also long term and therefore in keeping with the horizon of most real estate investors.



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