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PRESS RELEASE

BNP PARIBAS REIM SHARES ITS MARKET OUTLOOK AND INVESTMENT STRATEGIES WITH ITS LATEST LIGHTHOUSE REPORT

BNP Paribas REIM presents "The Lighthouse H2 2024 – European Property Market Outlook", its outlook for the European real estate market using its in-house forecasts, analysis, and the expertise of its local teams. In this nineth edition, BNP Paribas REIM defines its convictions and provides the investment strategies to adopt considering the expected macroeconomic and financial environment for the rest of 2024 and beyond.

The European real estate market enters a recovery cycle and offers new investment opportunities

The first quarter of 2024 showed good signs of an economic recovery being underway. Inflation rates have fallen significantly across Europe making central banks adjust their monetary policies. The first rate cut made by the European Central Bank in June already sent a positive signal to investors and should restore some momentum for real estate assets. Further rate cuts are expected over the rest of the year, helping to lower borrowing costs and ease pressure on investors. Overall, financial conditions are set to ease further in the coming quarters which should support the recovery of real estate markets.

After spending the last 18 months in wait-and-see mode, real estate funds with cash to invest in European strategies can start to deploy their capital as the market enters a new cycle. Investors may target higher returns through value-add strategies or seek alternative assets to have a more balanced portfolio. Residential continues to be the top target of investors in Europe, closely followed by industrial and logistics, offices and finally the retail sector.

As there are fewer assets available to buy than during previous investment cycles, the competition among investors should increase for core and alternative assets. As such, the reduction of the investible stock combined with an increase in transaction volumes should put a higher pressure on yields, especially for the most targeted assets and locations.

"This new edition supports our previous prediction that real estate should see a gradual recovery in 2024. The economic upturn, the decrease of inflation and interest cuts are positive signs for the real estate industry. As we are slowly approaching a turning point, investors might benefit from new opportunities and will adopt new behaviours, such as shifting to a more diversified portfolio" comments **Laurent Ternisien, Deputy Head for BNP Paribas REIM.**

We highlight 6 key trends for real estate investment:

1. **A good vintage, but a small vintage**

The market is split between those still fixing the problems of the past created by higher interest rates and those already investing for the next cycle. These conflicting mindsets make 2024 a transitional year, but one that could produce a good vintage of real estate investments. That said, it is set to be a small vintage considering the low amounts of capital raised and fewer assets available to buy. Value-add investment looks well timed, and core investment can lock in high income returns before yields decline later in the cycle.

2. **Fundamentals make the difference**

The rise in interest rates was the macro event that reset all real estate values, but real estate fundamentals should define the timing and pace of the recovery. Logistics and hotels should lead in 2024. Prime office markets also feature in the top rankings as well as logistics; both should perform well again in 2025. In terms of location, the most mature and liquid markets should lead the recovery. The UK, Netherlands, Germany, and France should attract most of the available capital from investors as repricing in these countries has been swift and extensive.

3. **Time to measure and manage social impact**

Investors are increasing their focus on the social impact of real estate investment, so they can assess it alongside environmental factors. There is a lack of global standards, but investors and managers are working together to agree on ways to measure and manage social impact across all property types, as well as focusing more investment on areas such as affordable housing and social infrastructure. This year could be pivotal in implementing a full range of ESG investment criteria.

4. **Prime office returns to stack up against the risks**

The repricing that has already occurred for prime offices leaves this part of the market looking attractive again, while the repricing equilibrium for the rest of the market is still unclear. Two types of investors could be active buyers: firstly, generalist and long-term investors looking for trophy offices at discount prices, and secondly those looking opportunistically for high returns and distressed assets who see the office market as the largest source of such deal. In both cases, investors could adapt the offices to modern occupier requirements through refurbishments or convert them to mixed-use assets.

5. **Take your pick along the retailer supply chain**

Logistics and retail properties are two parts of the same supply chain. The logistics market has been volatile but has a bias towards new stock with good lease covenants. Meanwhile, retail is starting to offer good returns relative to its risks after years of weaker performance. Investors can gain exposure to consumer trends bolstered by strong wage growth at an entry point that suits them. There should be a rebalancing between retail and logistics investment after years of investors shifting away from retail and toward logistics.

6. **Thematic investment into healthcare and recreation**

There are several common factors among healthcare, hospitality, and recreation. First, there is definite strong demand for all. Trends that link health, tourism, and recreation – such as Europe's ageing population and its spending habits – help form a consistent strategy that could differentiate a real estate portfolio from the wider market. Second, operator risk is a key consideration in these sectors, especially as their services need to remain affordable to avoid losing clients and revenue. However, there are also differences from an investor's perspective, with healthcare providing stable returns, while hospitality and recreation have greater potential for enhanced returns.

Click here to download our research document: The Lighthouse BNP Paribas REIM.

About BNP Paribas REIM

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 340 employees, we care for assets as we care for living beings, aiming to build a better living environment for our 250+ institutional investors and 140,000+ 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 2023, BNP Paribas REIM managed €26.1 billion of living European assets on behalf of institutional and private investors.

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