

# European Market View

March 2021

UK EASES RESTRICTIONS DESPITE THIRD WAVE IN EUROPE





# Overview

## ECONOMIC HIGHLIGHTS

- Eurozone inflation was confirmed at 0.9% in February, unchanged from the prior month. Core inflation was down from 1.4% to 1.1%, showing that underlying price pressure remains muted given the continued uncertainty in the macroeconomic environment.
- In this month's monetary policy meeting the ECB announced that it would ramp up its asset purchase programme under the Pandemic emergency purchase programme (PEPP) in upcoming quarters. This is to counteract potential spillover risks from rising US bond yields, which would increase Eurozone borrowing costs at the early stage of the economic recovery and which could affect a sustained inflation recovery.
- The global government bond yield sell-off had gathered steam in January, when the US Democrats won control over the Senate. Combined with the vaccine rollout, this has raised market confidence regarding the economic recovery and has led to a shift away from government debt. UK bond yields have risen to an almost two-year high.
- Eurozone economic sentiment rose sharply in Sweden, Italy and Germany, bringing Eurozone sentiment to 93.4 (up from 91.5 in January). Sentiment fell in Spain and the Netherlands. UK consumer confidence rose sharply as well to the highest level since beginning of the pandemic.

## REAL ESTATE

- European residential investment remained strong at the start of this year, reflecting the large weight of capital targeting this sector for its defensive and counter-cyclical characteristics.
- MSCI's Monthly Index for February showed All Property returns continued to exhibit signs of recovery with month-on-month returns of 0.6% meaning that annual returns were -0.5%, the strongest they have been post-pandemic. This improvement was largely a result of sharpening yields in the Industrial sector, however all sectors gave positive returns over February.

*The outbreak of the Novel Coronavirus (COVID-19) was declared by the World Health Organisation as a "global health emergency" on the 30th January 2020 and was then characterised as a pandemic in March 2020. COVID-19 has impacted global financial markets, severely restricted international trade and travel, disrupted business operations (in part or in their entirety) and negatively impacted most investment asset classes (including real estate (whether held directly or indirectly, or whether as a result of being a lender to owners of real estate)). As a result, conditions exist in the real estate markets that may result in value uncertainty and valuations are reported on the basis of significant valuation uncertainty or extraordinary assumptions related to the impact of COVID-19. This communication contain forward-looking statements. Forward-looking statements are statements that are not descriptions of historical facts and include statements regarding management's intentions, beliefs, expectations, research, market analysis, plans or predictions of the future. Because such statements include risks, uncertainties and contingencies, actual results may differ materially from those expressed or implied by such forward-looking statements*

# Vaccine row darkens EU/UK relationship

EUROPEAN MACRO ENVIRONMENT

## Major News - Events to Watch

- At a summit end of March, the EU backed tougher export controls for vaccines produced in Europe, after weeks of heated discussions with the UK. The export controls are aimed at companies – primarily AstraZeneca - failing to deliver their committed doses to the EU and prioritising other countries. As at March 22<sup>nd</sup>, almost 45% of UK citizens have received a first vaccine dose vs. only 13% of EU citizens. Both parties later released a joint statement reiterating the importance of global supply chains and the intention to work together.
- The UK is progressing in line with the proposed “roadmap out of lockdown”. From March 29<sup>th</sup> citizens will be allowed to meet different households for outdoor activities. Meanwhile, France has imposed stricter lockdown measures in some key areas like Paris again, after Covid-19 cases had resurged. The German chancellor Angela Merkel had also called for a stricter Easter lockdown to fight the growing, more deadly UK Covid-19 variant in Germany, but later reversed the move following critical public backlash.



A fight regarding the distribution of vaccines does not only affect the EU vs. UK, but also member states within the EU. Unhappy with the share of vaccines his country and CEE countries had received, Austrian chancellor Sebastian Kurz urged the EU to rethink the distribution system. This was later shut down by the German government, which argued that rights to vaccines were fairly divided by size of citizenship, but not all countries had actually bought into those shares.

Source: LaSalle (03/21), Oxford Economics (03/21), Financial Times (03/21), BBC (03/2021)



# Key macro drivers

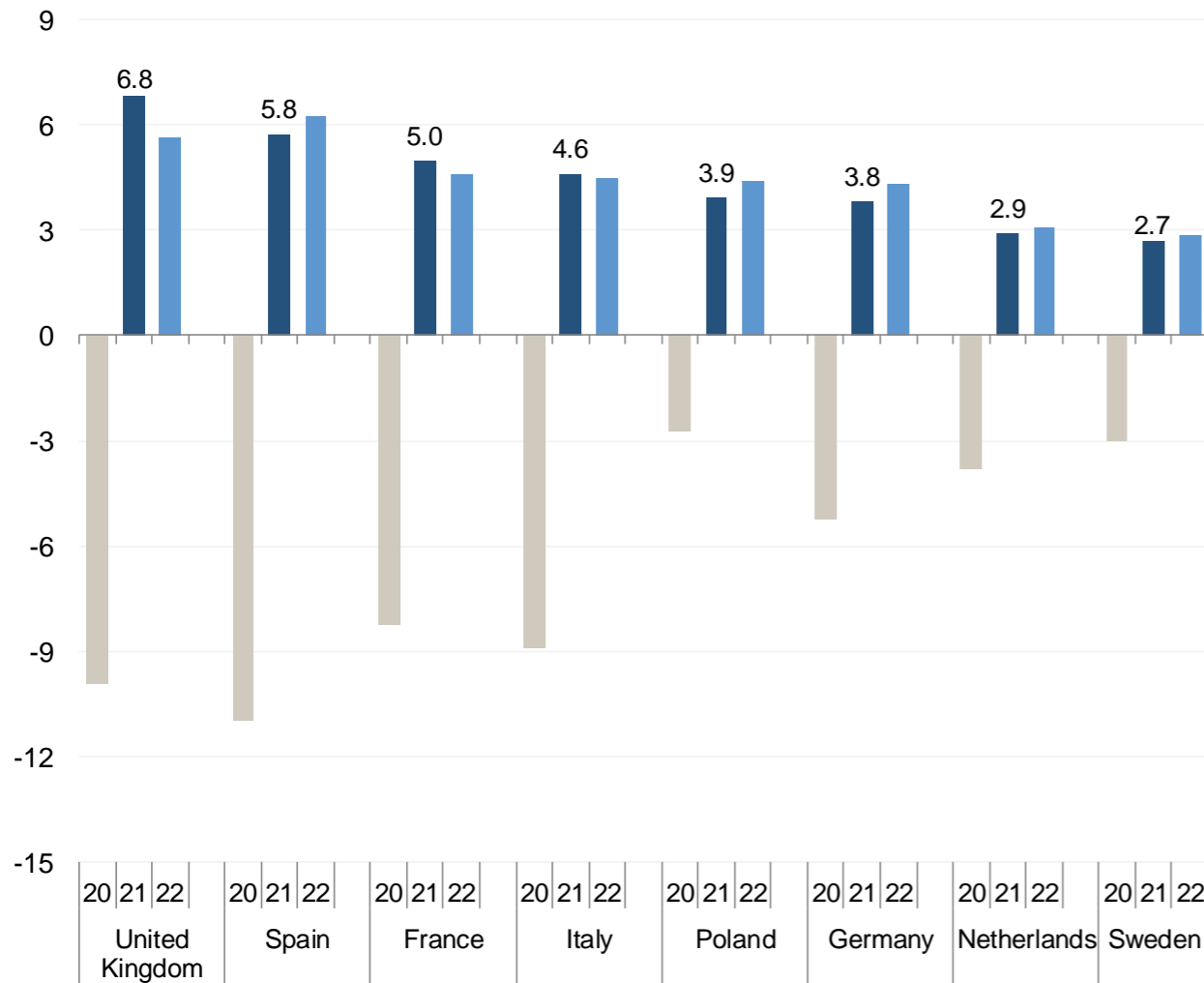
ECONOMIC AND DEMOGRAPHIC INDICATORS

# Eurozone unemployment steady at 8.1% beginning of 2021

## ECONOMIC GROWTH & UNEMPLOYMENT RATE FORECASTS

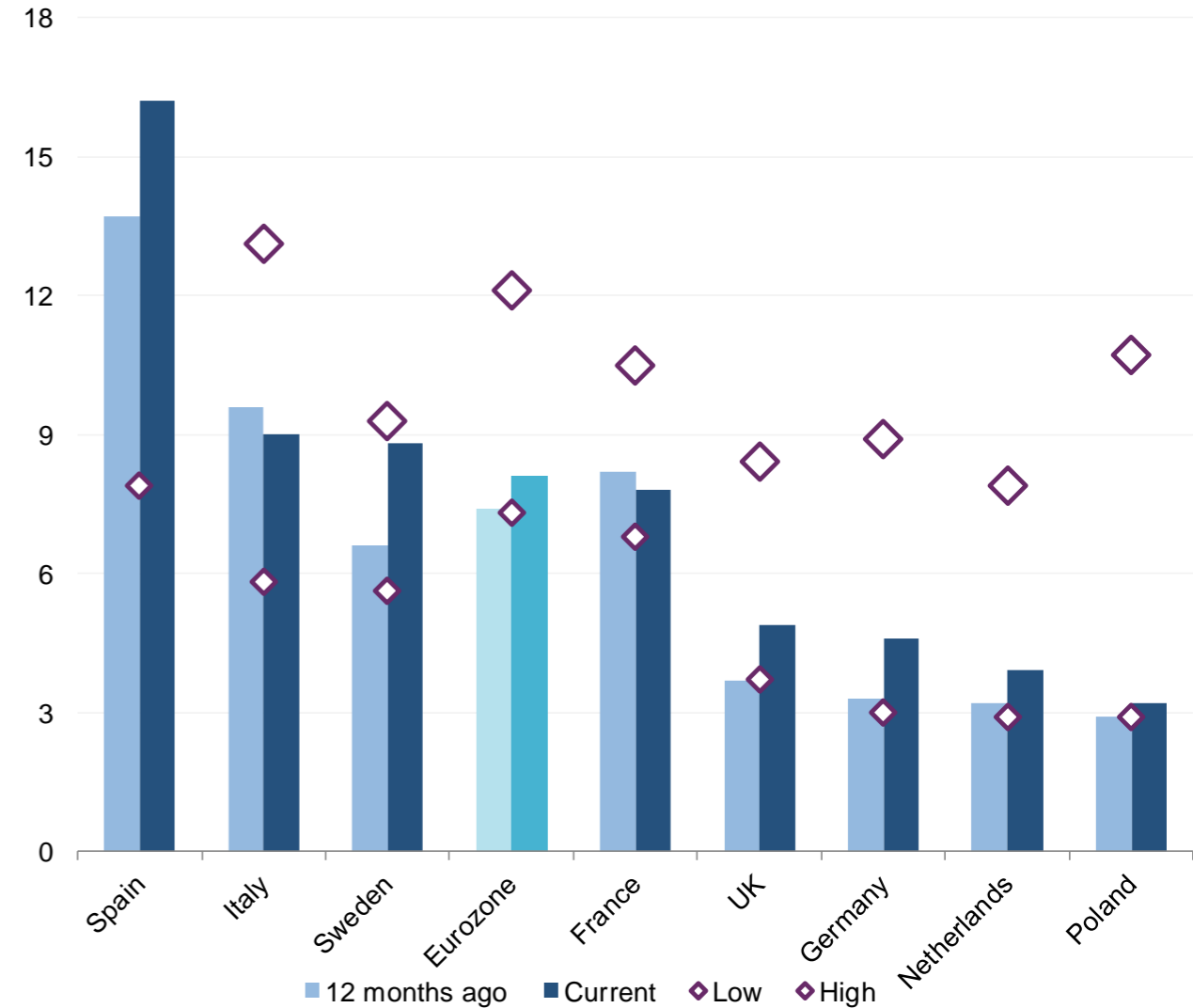
### GDP Growth Forecasts

[% pa]



### Unemployment Rate

[%; as at March 2021]



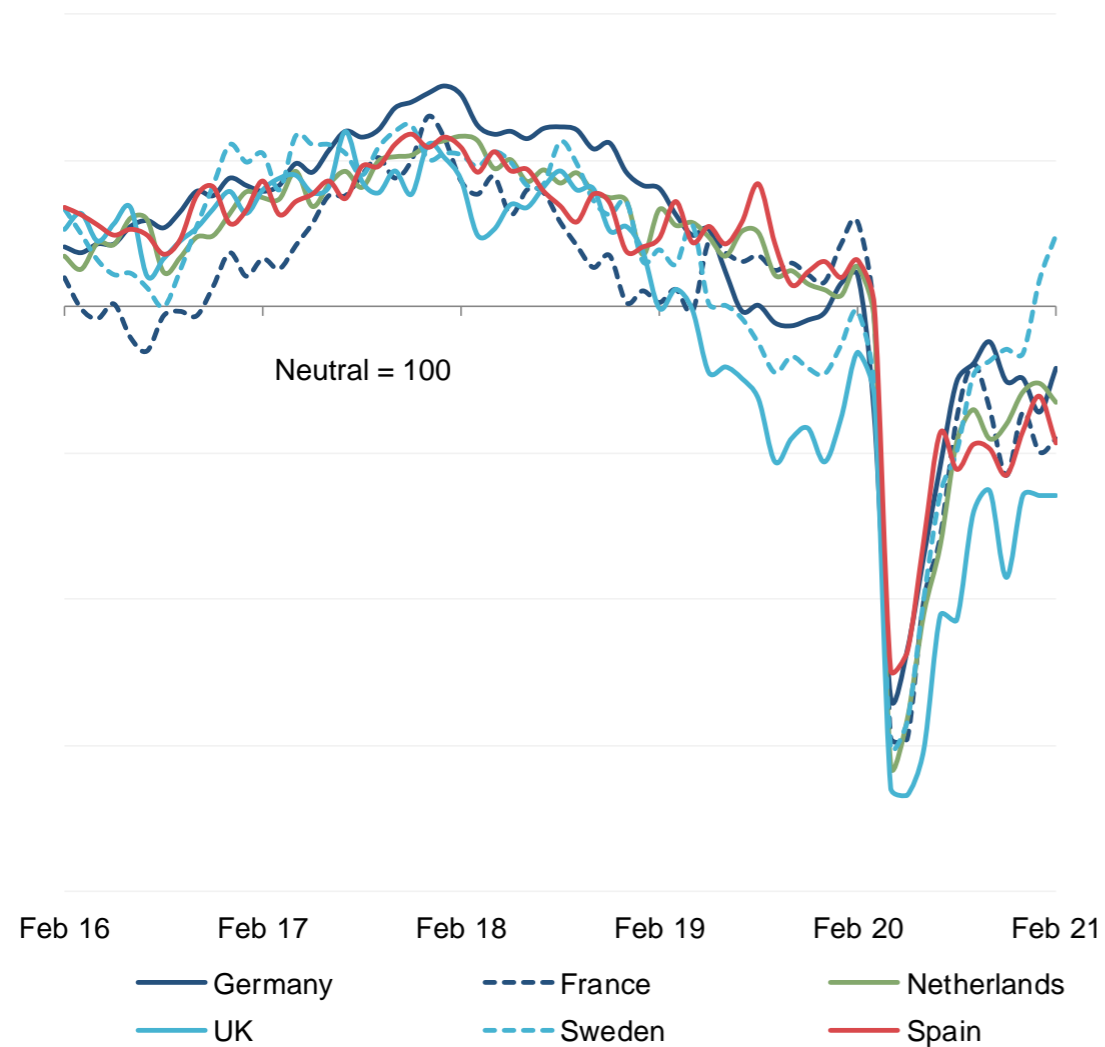
Note: High/low since January 2006; Spain's highest unemployment rate @ 26.3%  
 Source: Oxford Economics (03/21), Thomson Reuters (01/21), LaSalle (03/21)

# Swedish and German sentiment improve sharply in February

ECONOMIC CLIMATE & SENTIMENT INDICATORS

## Economic Sentiment Indicator

[Monthly index]



## UK Consumer Confidence Index

[2009-19]



Note: The business climate indicator indicates the phase of the business cycle

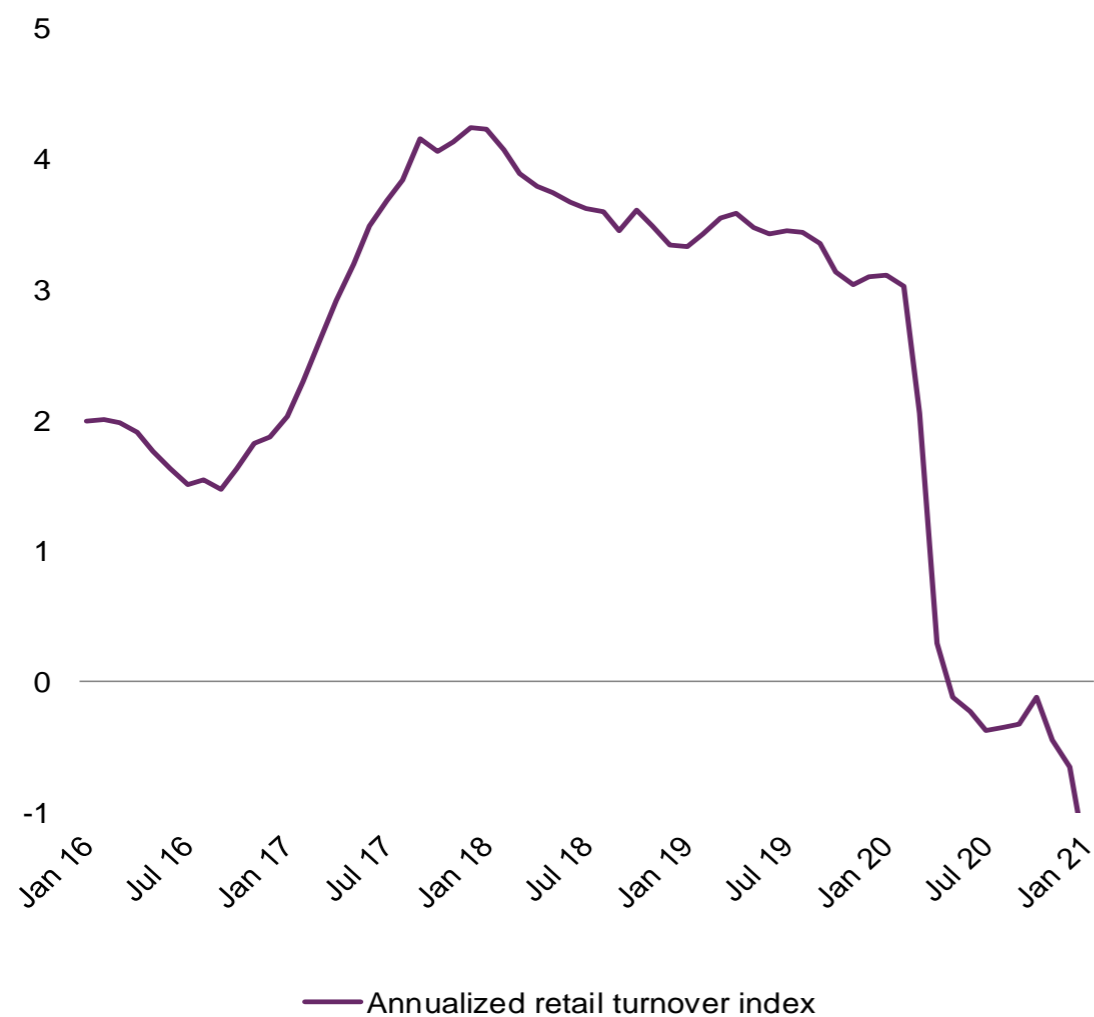
Source: LaSalle (03/21), Thomson Reuters (02/21), GFK (03/21)

# Retail sales decline further in January

## CONSUMER CLIMATE

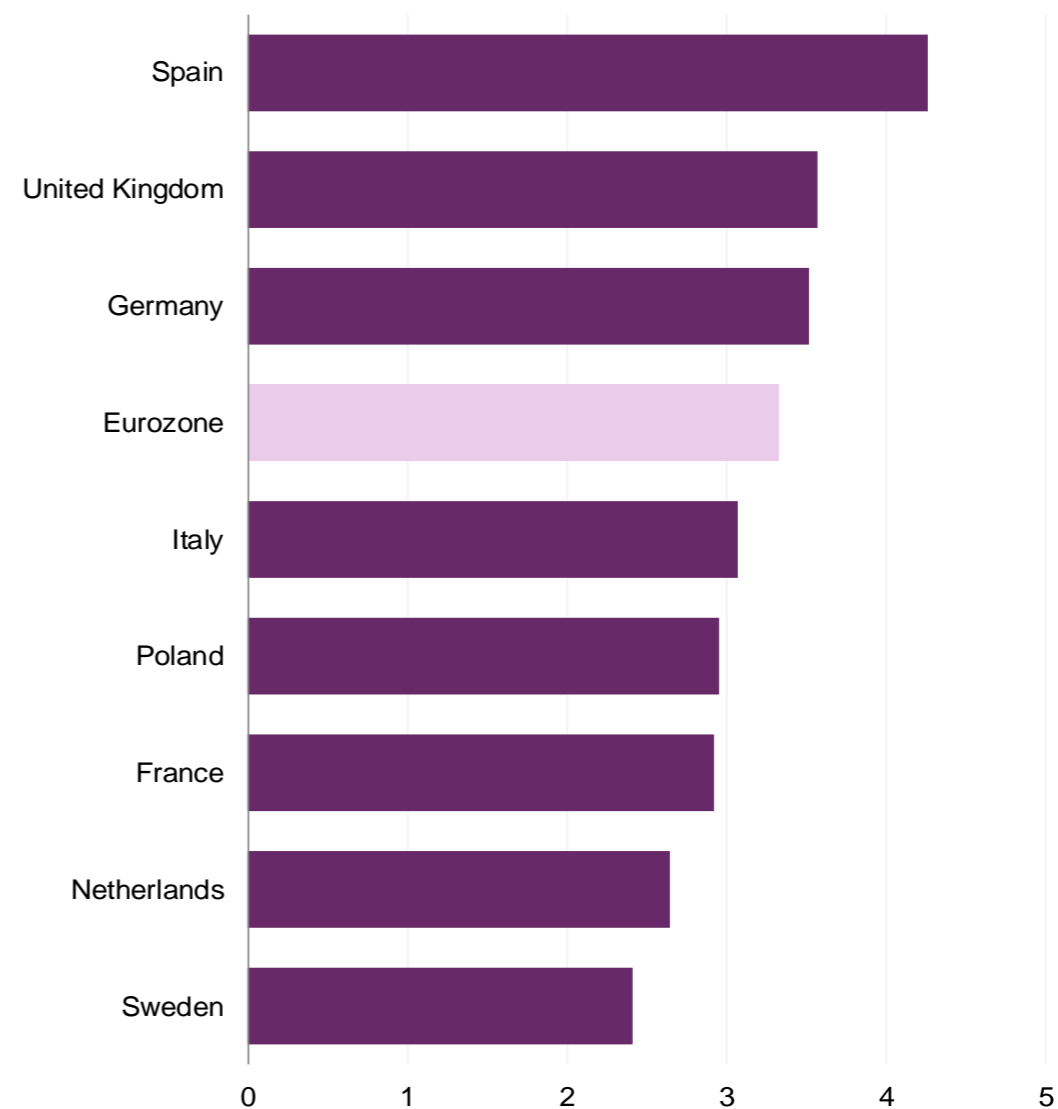
### EU27 & UK Retail Sales Growth

[Annualised turnover index, % y/y]



### Real Private Consumption Growth Forecasts

[Avg 2021-25, % pa, as at March 2021]



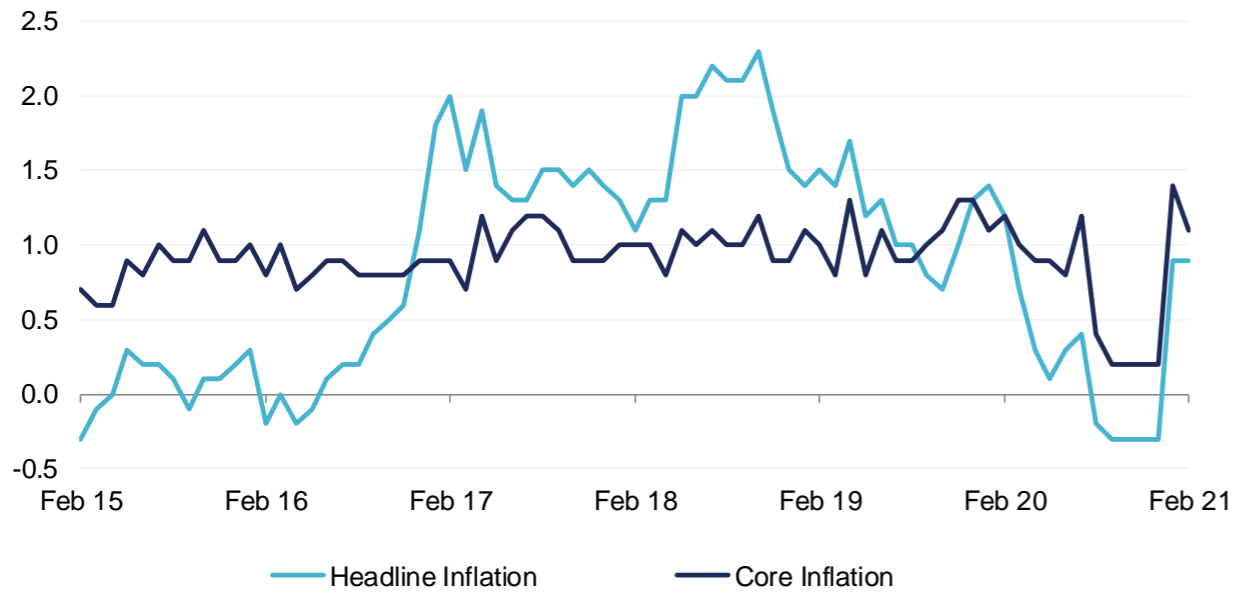
Source: Eurostat (01/20), Oxford Economics (03/21), LaSalle (03/21)

# Headline inflation stable m/m, but core inflation down from 1.4% to 1.1%

## INFLATION

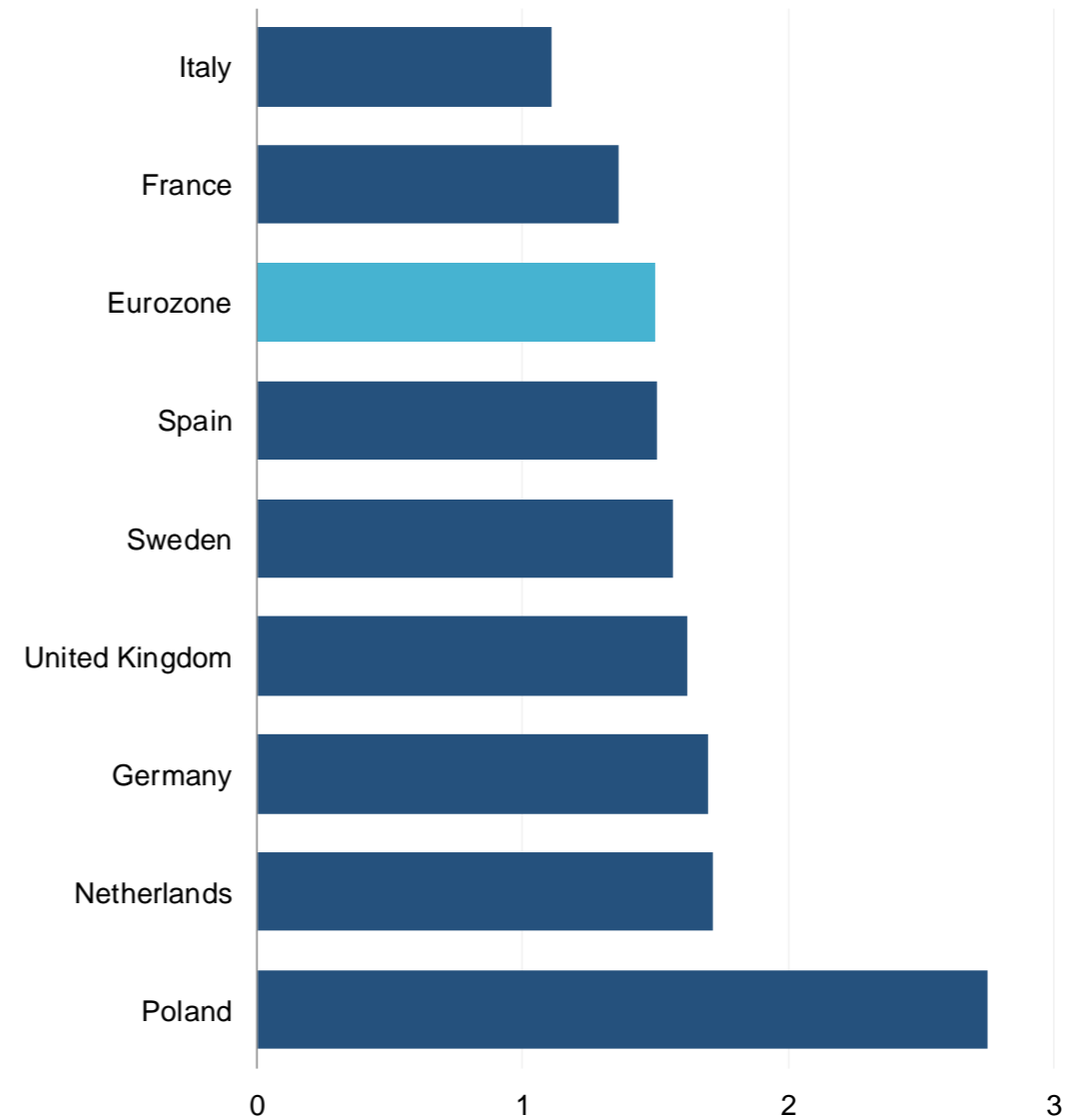
### Eurozone CPI Inflation

[% y/y]



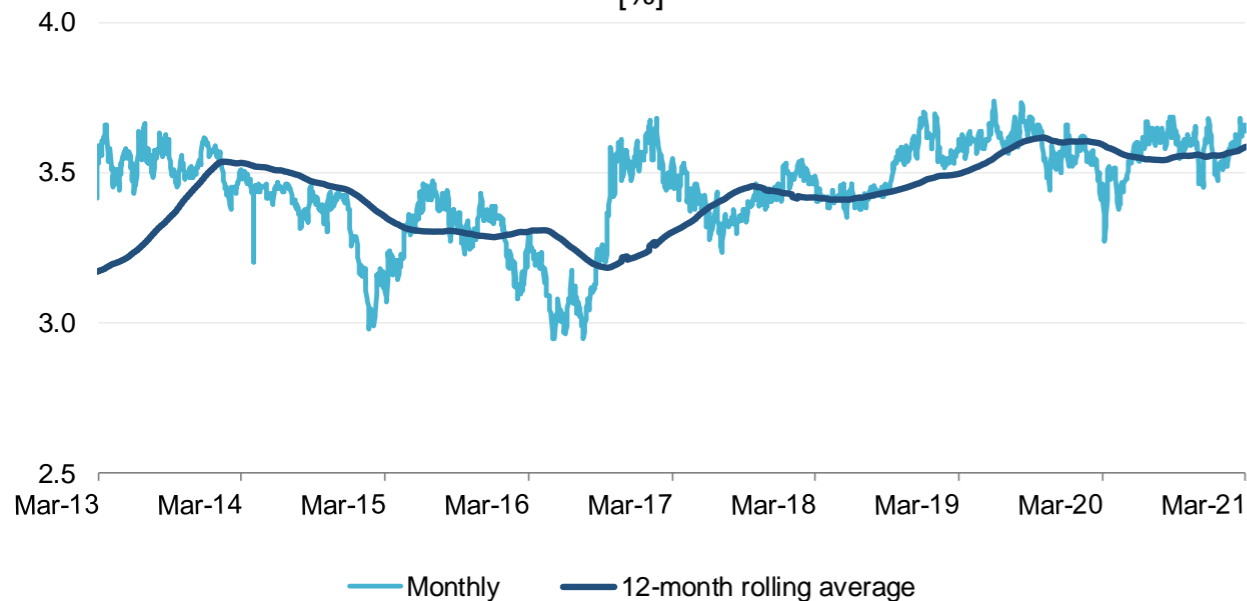
### CPI Inflation Forecasts

[Avg 2021-22, % pa, as at February 2021]



### UK: 5-yr, 5-yr forward inflation expectation rates

[%]



Source: LaSalle (03/21), Oxford Economics (03/21), Thomson Reuters (03/21)





# Capital market conditions

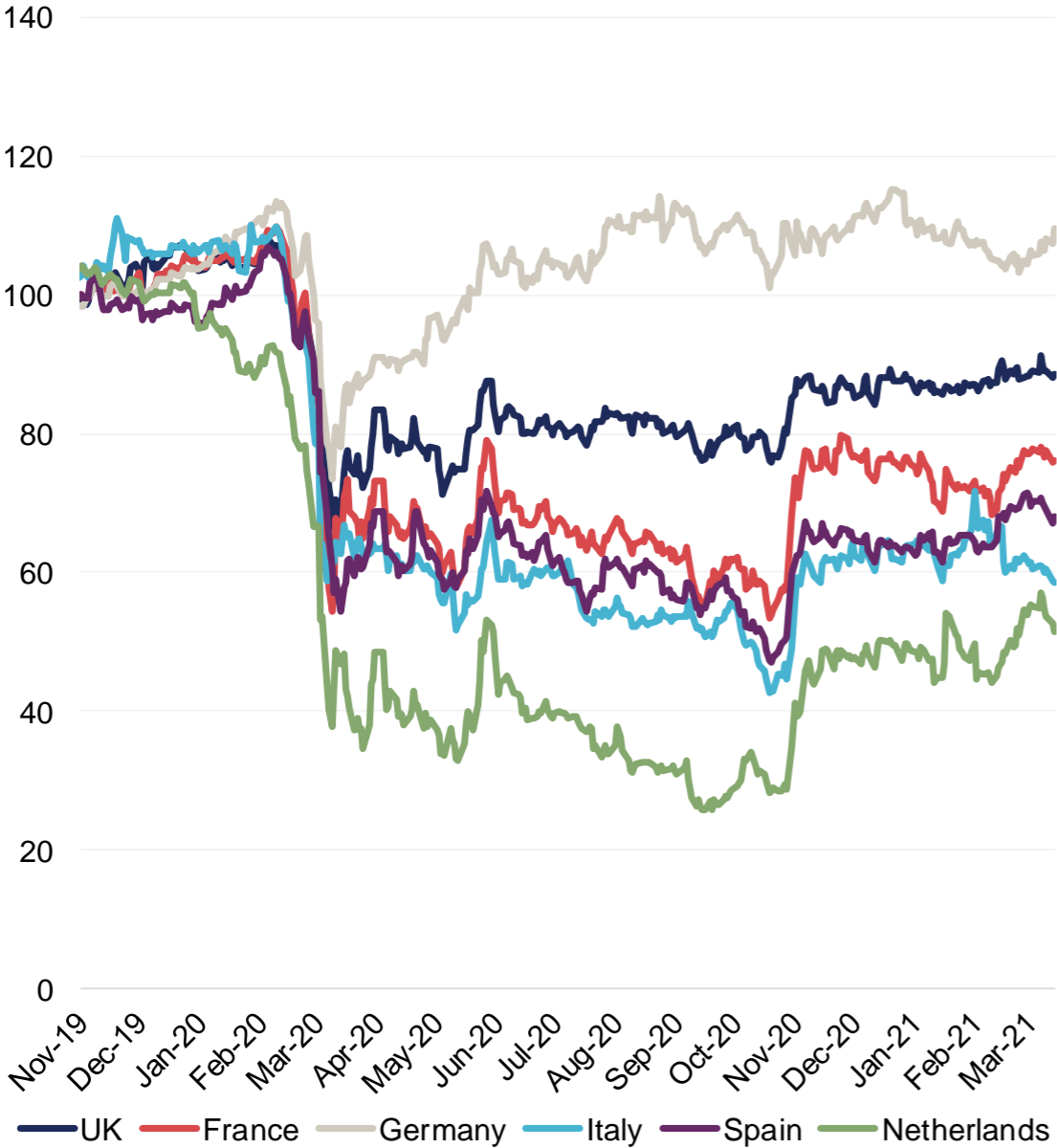
FINANCIAL INDICATORS AND ASSOCIATED RISKS

# German REIT prices improving in March, mirroring economic sentiment

## EUROPEAN REAL ESTATE INVESTMENT TRUST PRICING

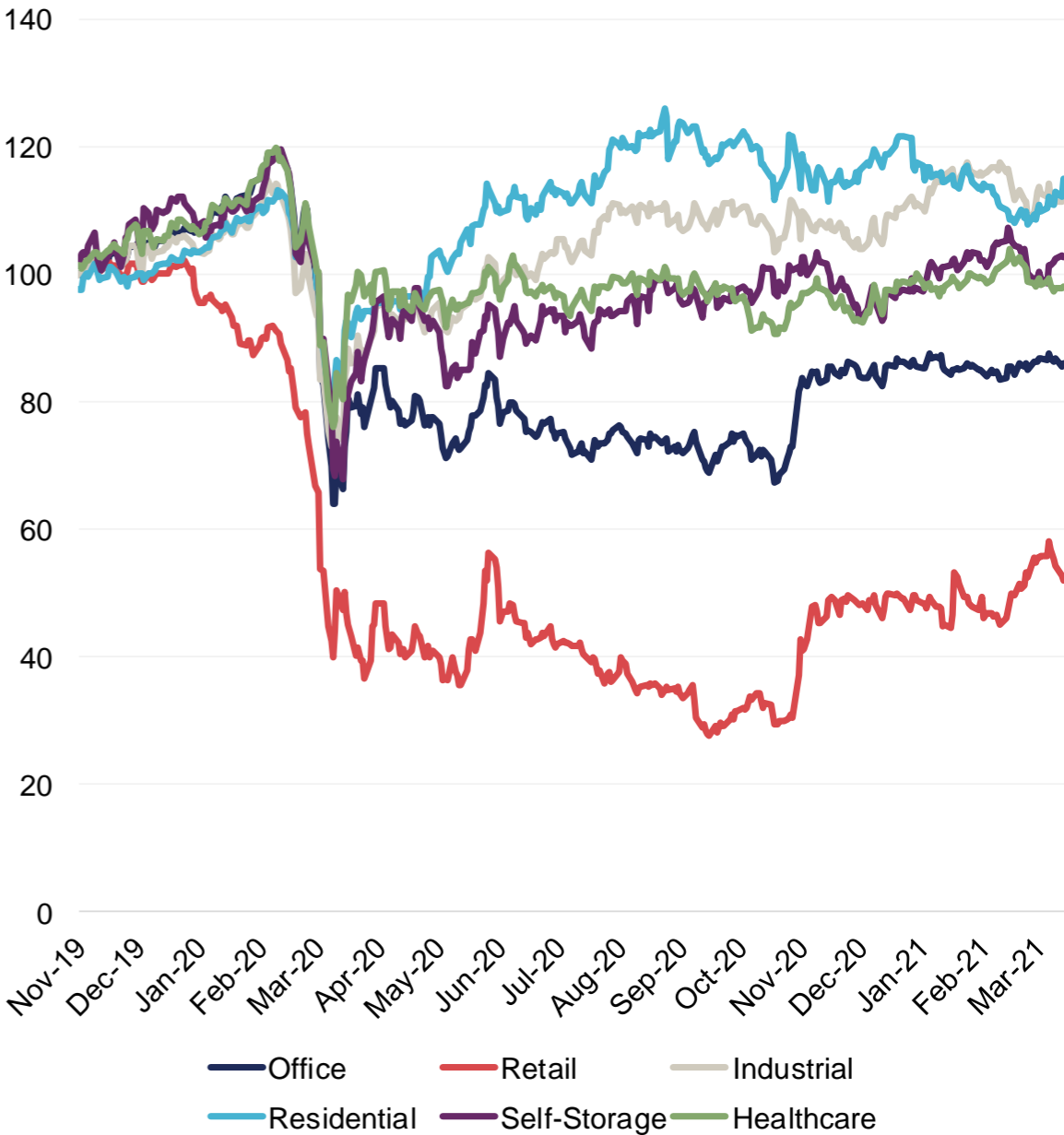
European REIT Prices by Sector

[01/11/19 = 100]



European REIT Prices by Country

[01/11/19 = 100]

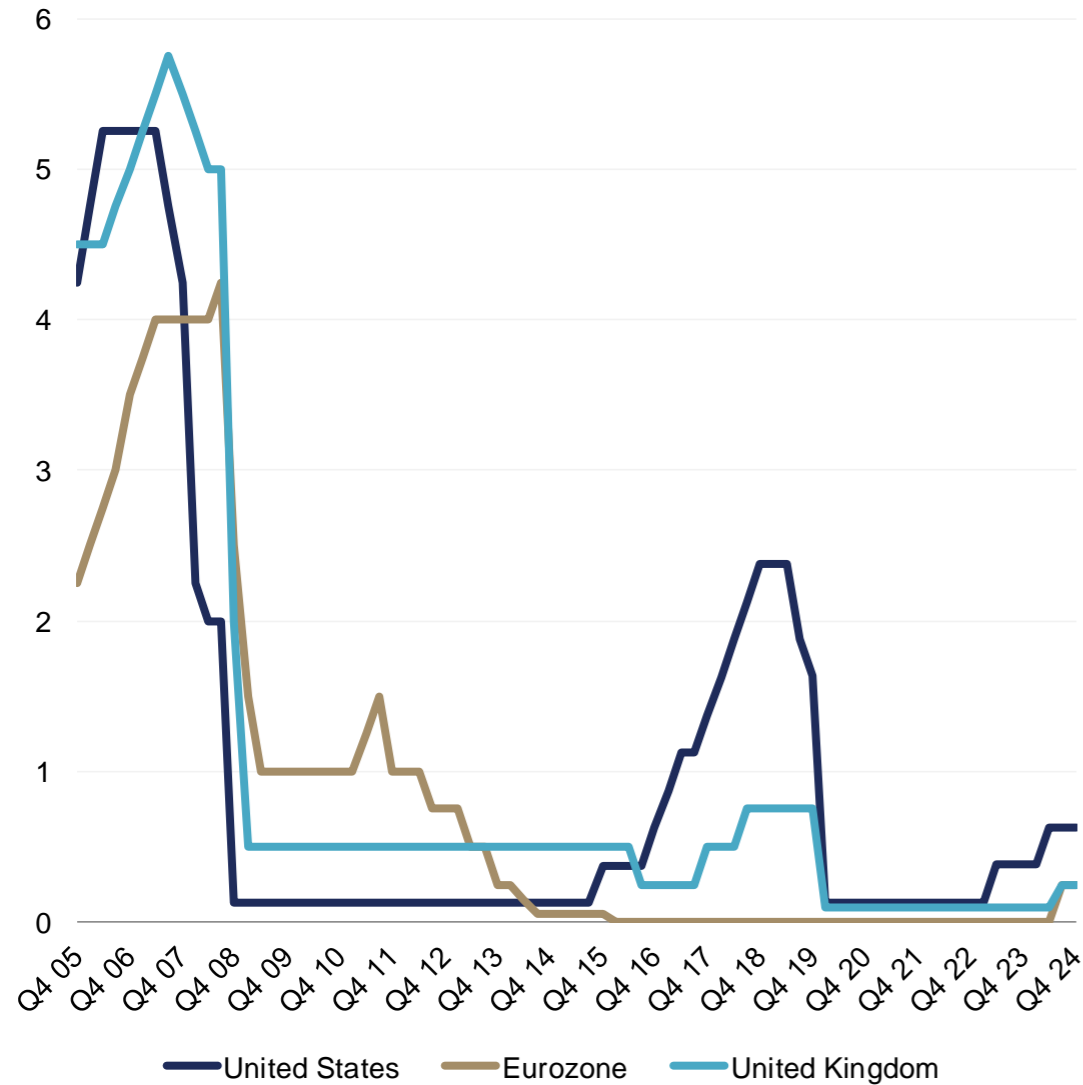


Parentheses = Change from 2020 peak to latest  
 Source: LaSalle (03/21) Thompson Reuters (03/21)

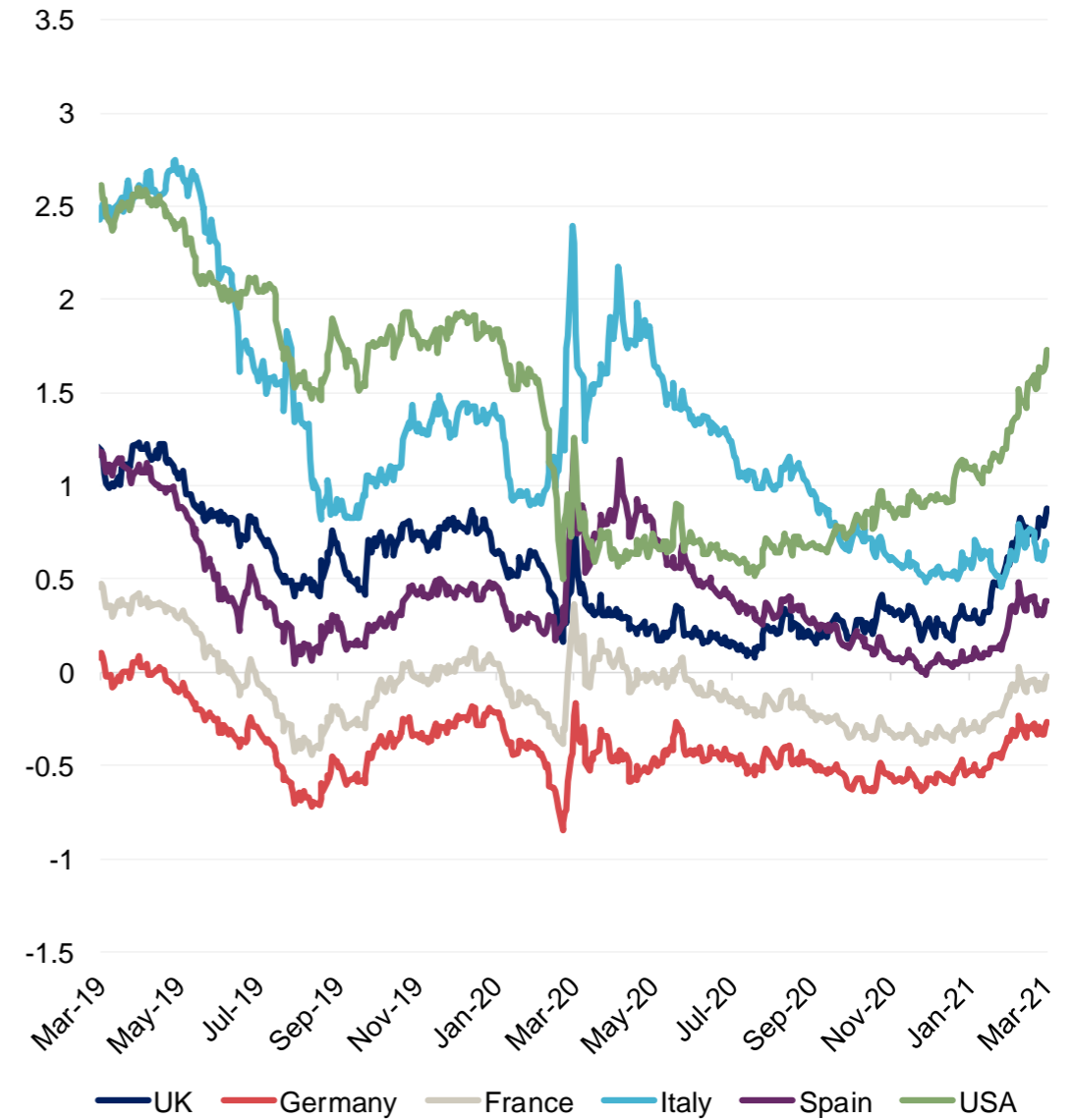
# UK bond yields rise to highest level in almost two years in March 2021

INTEREST RATE FORECASTS & 10-YEAR GOVERNMENT BOND YIELDS

### Central Bank Policy Rates [%]



### 10 Year Government Bond Yields [%]



Source: Oxford Economics (03/21), Thomson Reuters (03/21), LaSalle (03/21)

# Prime office senior lending terms stable in March

SWAP RATES REMAIN NEGATIVE IN EUROZONE AND LOW IN UK BUT CREEPING UP

Debt terms shown here are based on our best estimates, acknowledging the current high level of market uncertainty

## Debt terms for 5-year senior loan on prime office

	Maximum LTV	Maximum LTV	Loan amortization	Margin range over Euribor/Libor*	Up-front arrangement fees
	5Y Senior	No amortization	If LTV > threshold [pa]	50% LTV [bps]	[as % of loan amount]
<b>Germany</b>	55%-60%	55%	1.0%-2.0%	110-140	0%-0.5%
<b>France</b>	50%-55%	55%	1.0%-2.0%	120-140	0.4%-0.8%
<b>UK</b>	50%-55%	55%	1.0%-2.0%	150-190	0.7%-1.0%
<b>Spain</b>	40%-45%	40%	1.5%-2.0%	150-200	0.8%-1.0%

## 5-Year Interest Rate Swaps

[% , month average]



Source: LaSalle (03/21), Thomson Reuters Datastream (03/21)

\*Euribor (EUR loans) and over Libor (GBP loans)



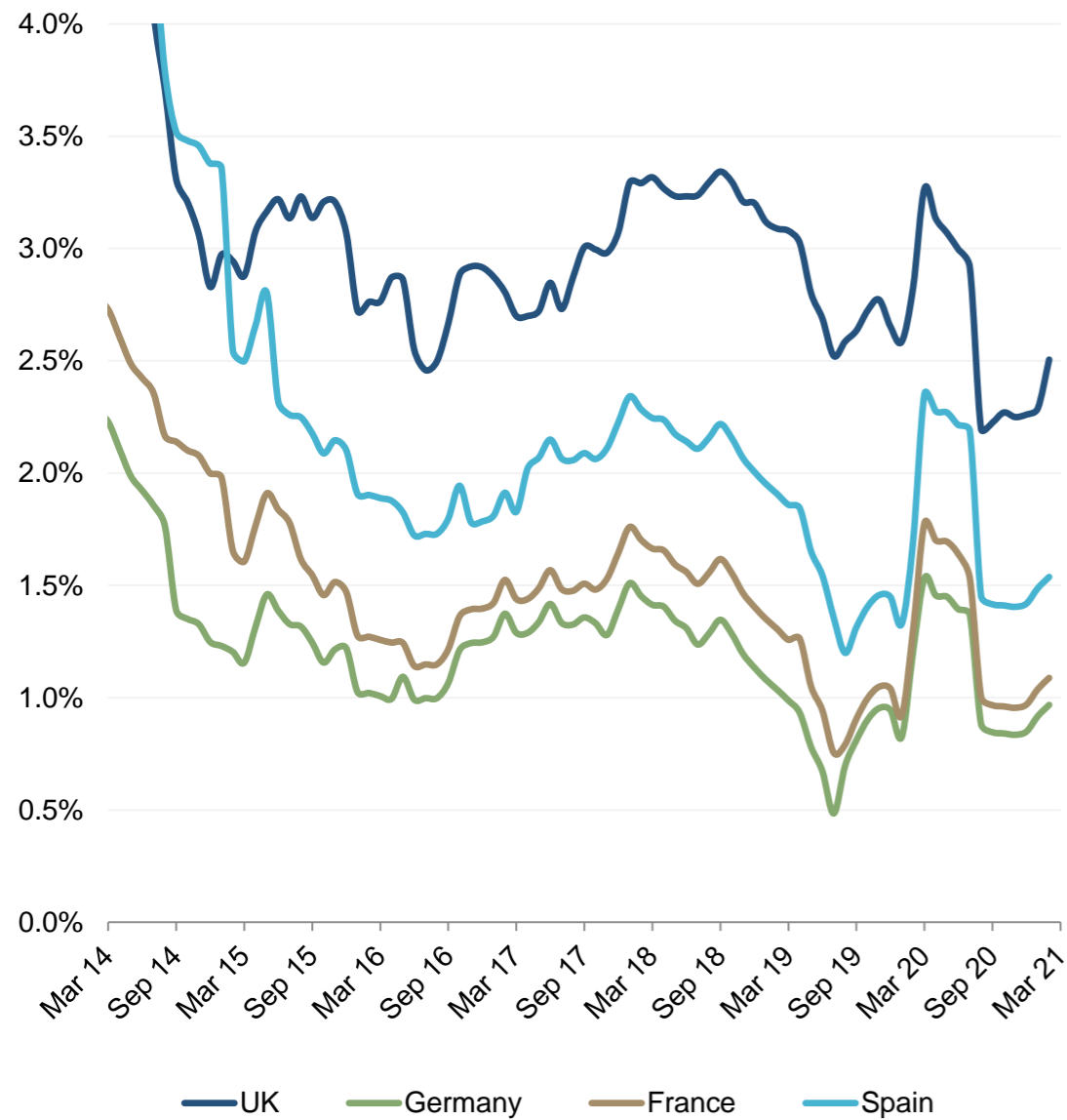
# Senior bank lenders acting with caution regarding LTV ratios

ALL-IN COST OF DEBT STILL RELATIVELY LOW IN HISTORICAL CONTEXT

Debt terms shown here are based on our best estimates, acknowledging the current high level of market uncertainty

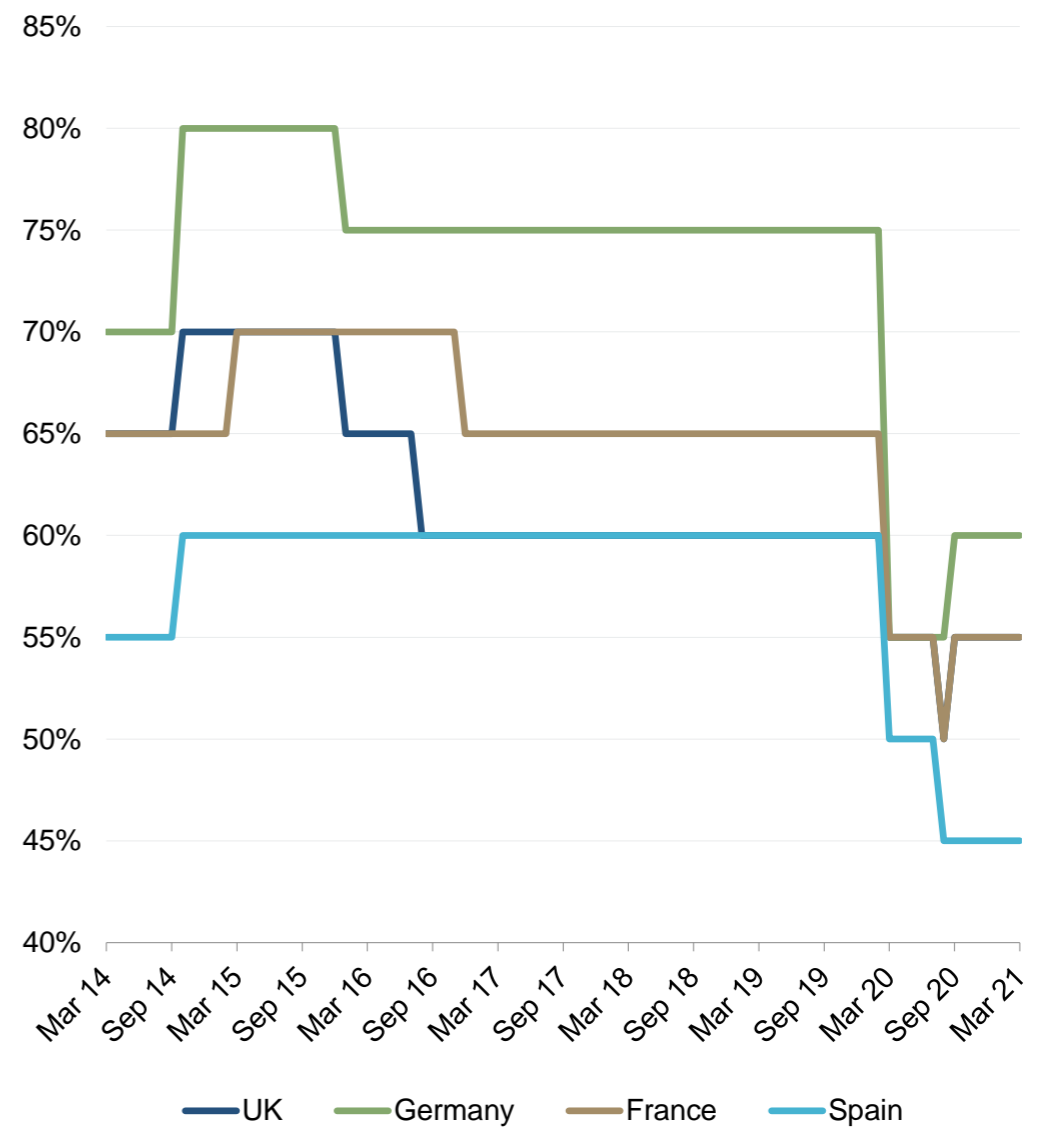
## Implied All-in Cost of CRE Debt

[5Y senior loan on prime office asset at 50% LTV]



## Maximum LTV Available

[5Y senior on prime office asset]



Source: LaSalle (03/21), Thomson Reuters Datastream (03/21)

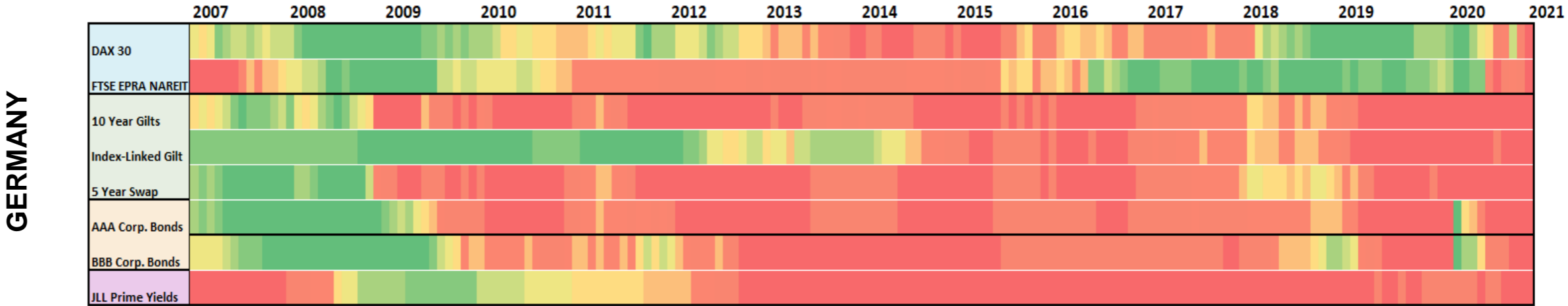
Implied all-in cost of debt = annualised up-front fee + 5Y swap + margin for 50% LTV

CRE = commercial real estate

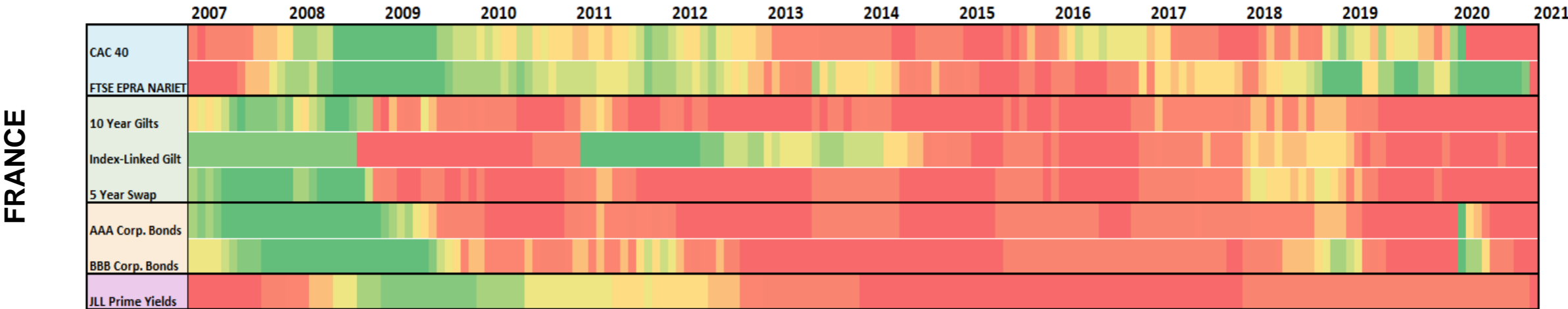
# Prime German & French Property pricing expensive compared to history

BASED ON ASSET CLASS PRICING WEBS

**Asset Class Pricing\***  
[compared to history]



**Asset Class Pricing\***  
[compared to history]



\*from green to red = from cheap to expensive  
Source: LaSalle (01/21) MSCI (12/20) Thomson Reuters (12/20).



# Investment Activity

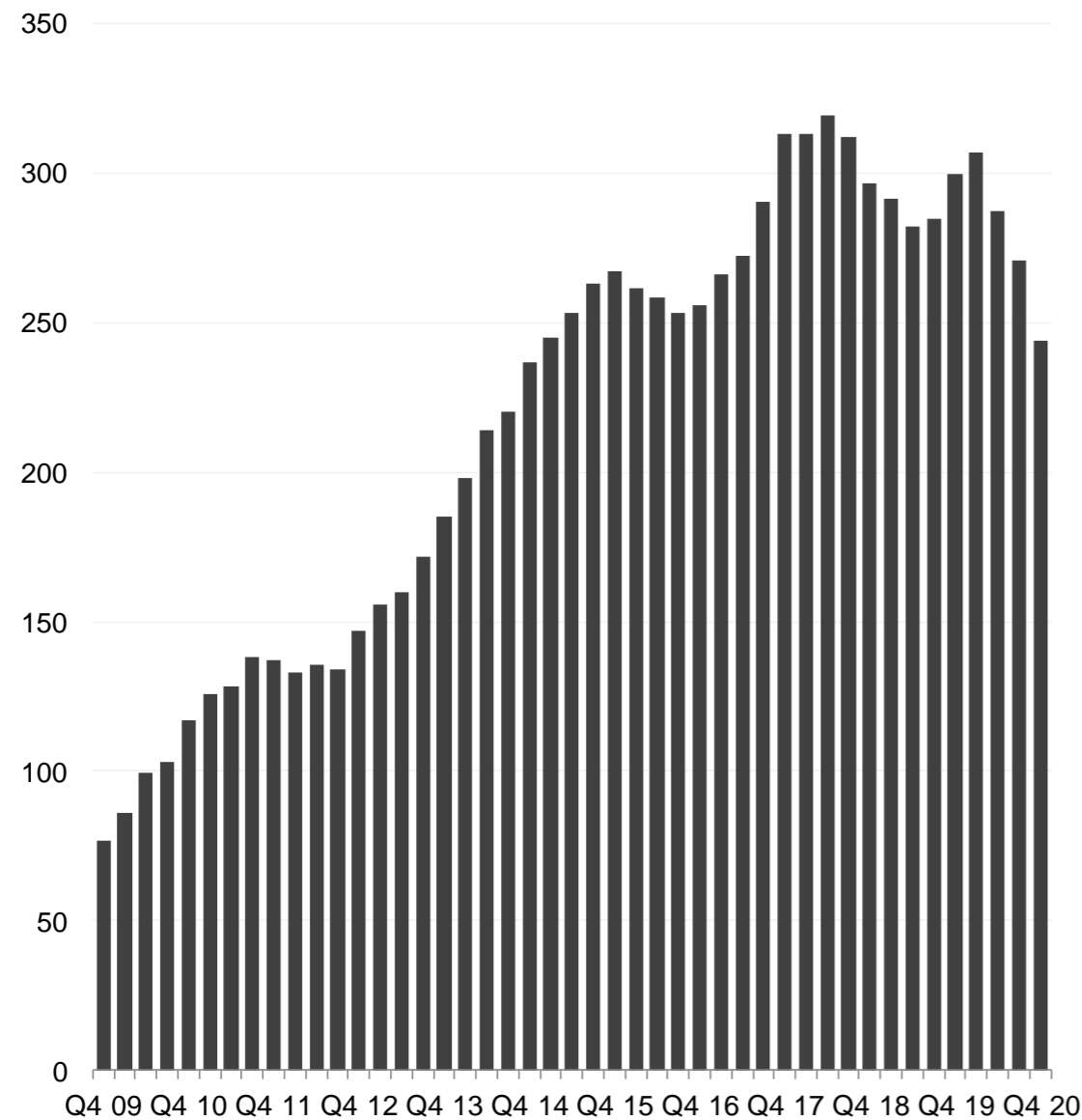
REAL ESTATE INVESTMENT VOLUMES AND MARKET LIQUIDITY

# Italy, France and Spain suffered highest investment losses in 2020

## EUROPEAN REAL ESTATE INVESTMENT VOLUMES

### Investment volumes

[Europe; rolling annual volume; EUR bn]



### Investment Volumes 2020 vs 2019

[12-months rolling totals; % y/y change]

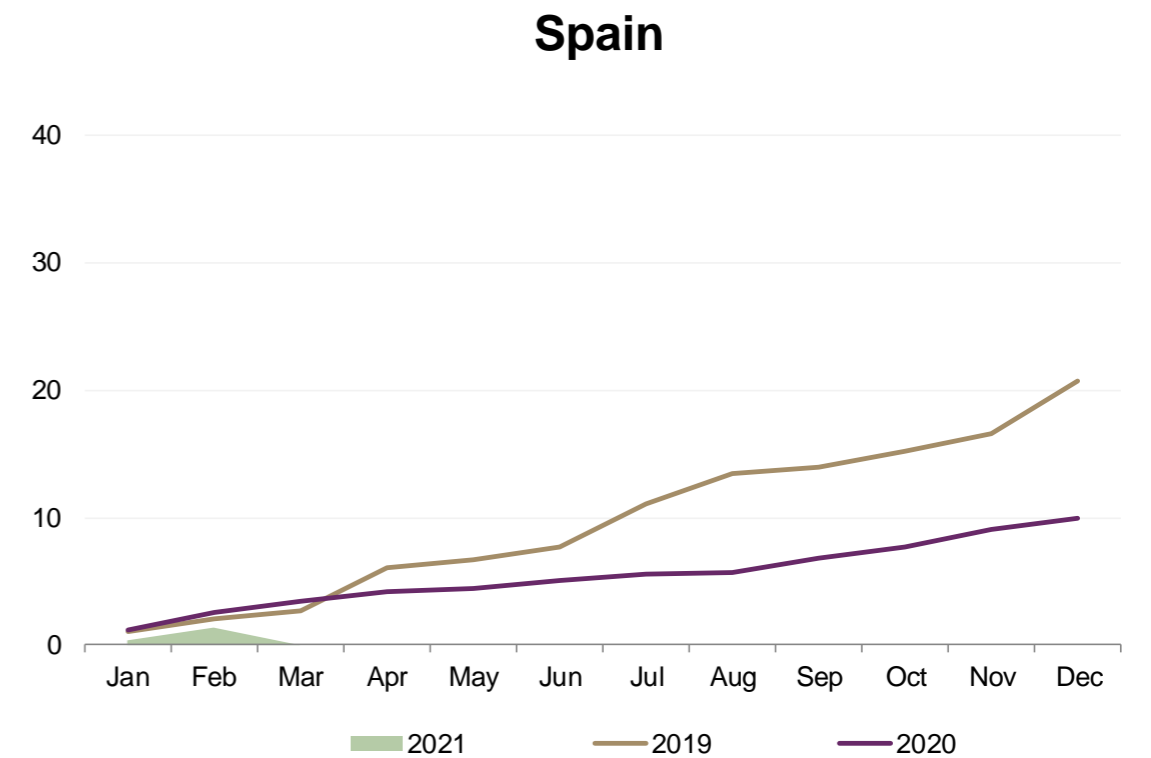
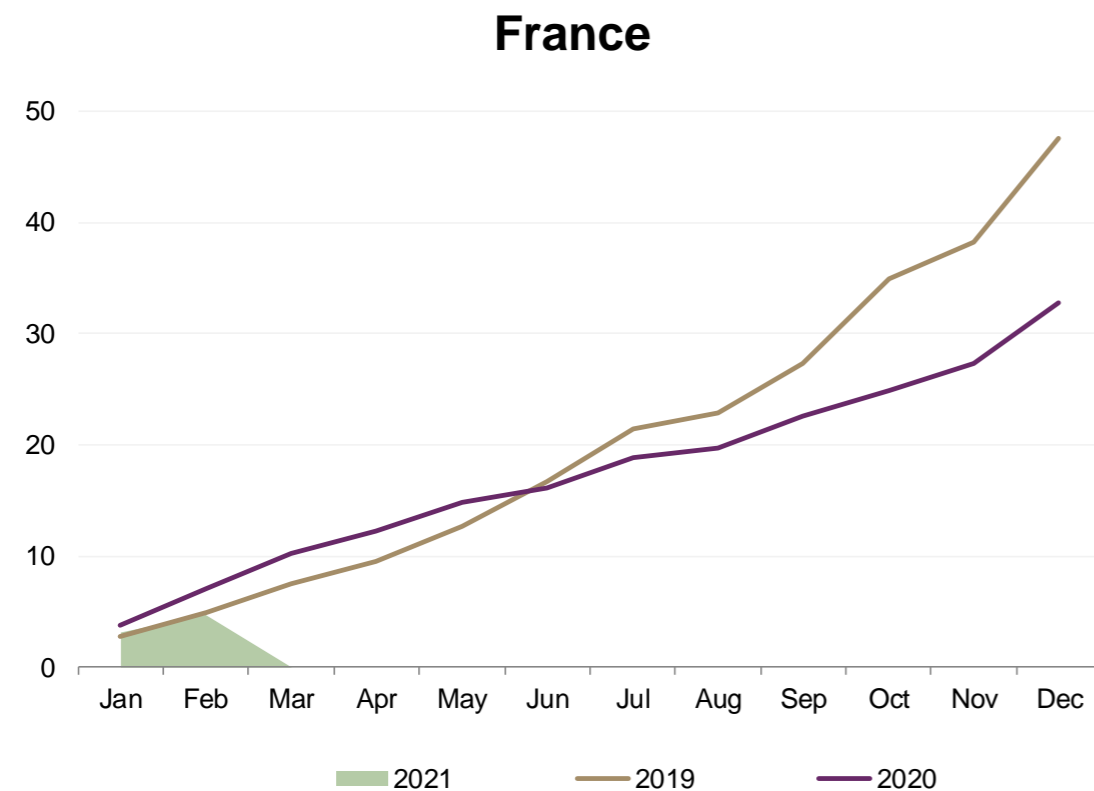
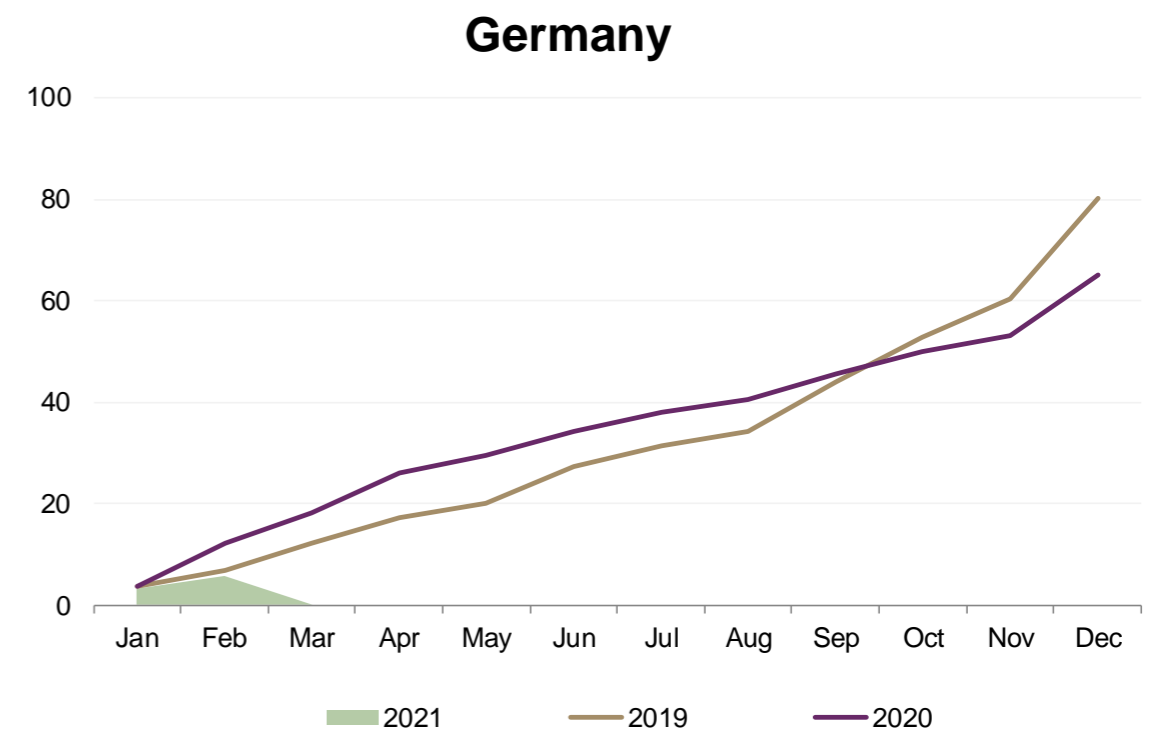
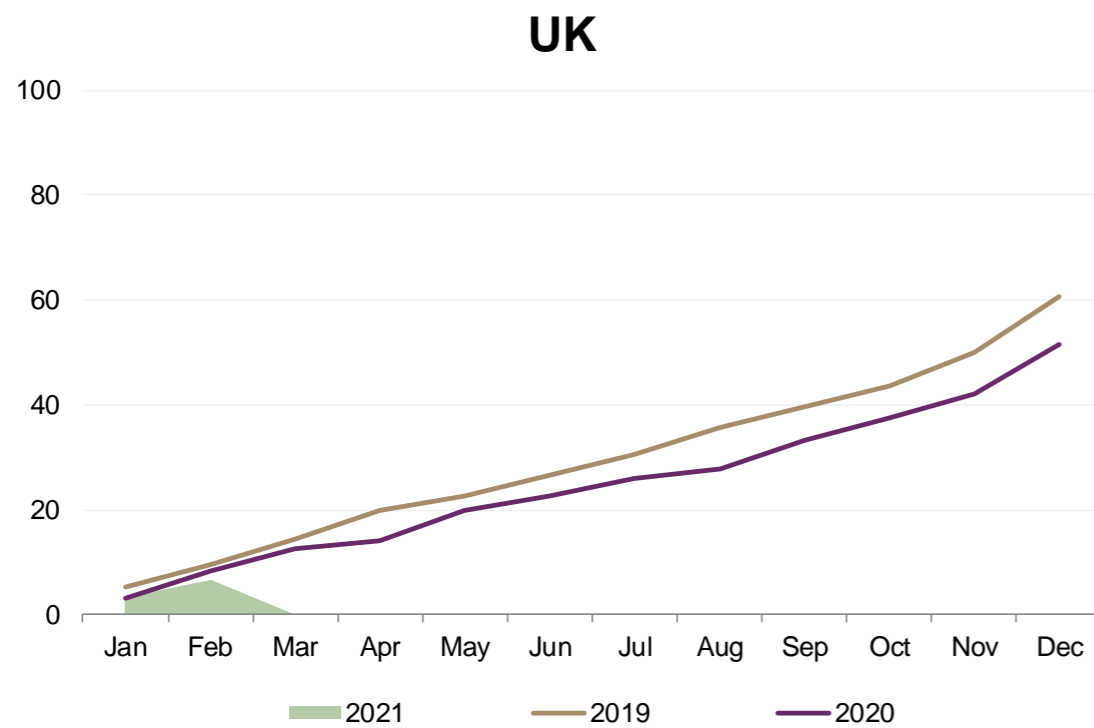
	Logistics	Residential	Retail	Office	Hotel	Total by Country
United Kingdom	30%	19%	7%	-32%	-72%	-13%
Germany	11%	-10%	-14%	-30%	-63%	-21%
Nordics	9%	-7%	-21%	-11%	-54%	-9%
CEE	167%	327%	-56%	-34%	-74%	-10%
Italy	62%	0%	-83%	-18%	-67%	-34%
France	-46%	7%	-33%	-29%	-68%	-31%
Netherlands	-1%	0%	5%	-34%	-78%	-15%
Spain	-21%	-74%	89%	-72%	-53%	-55%
<b>Total by Sector</b>	11%	-7%	-18%	-30%	-67%	-22%

Source: JLL (Q4 20), LaSalle (01/21). Includes residential investment  
CEE covers Czech Republic, Hungary, Poland, Romania and Russia



# Local lockdowns depress investment volumes in February

EUROPEAN REAL ESTATE INVESTMENT VOLUMES (CUMULATIVE YEAR-TO-DATE, EUR BILLION)

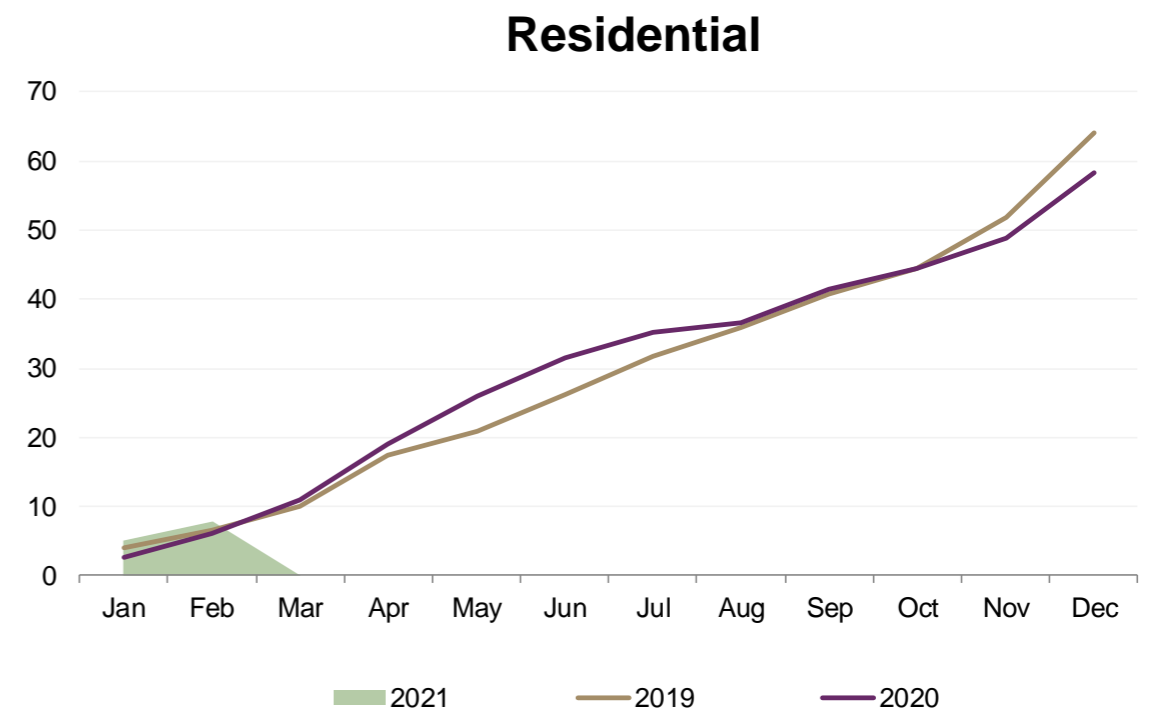
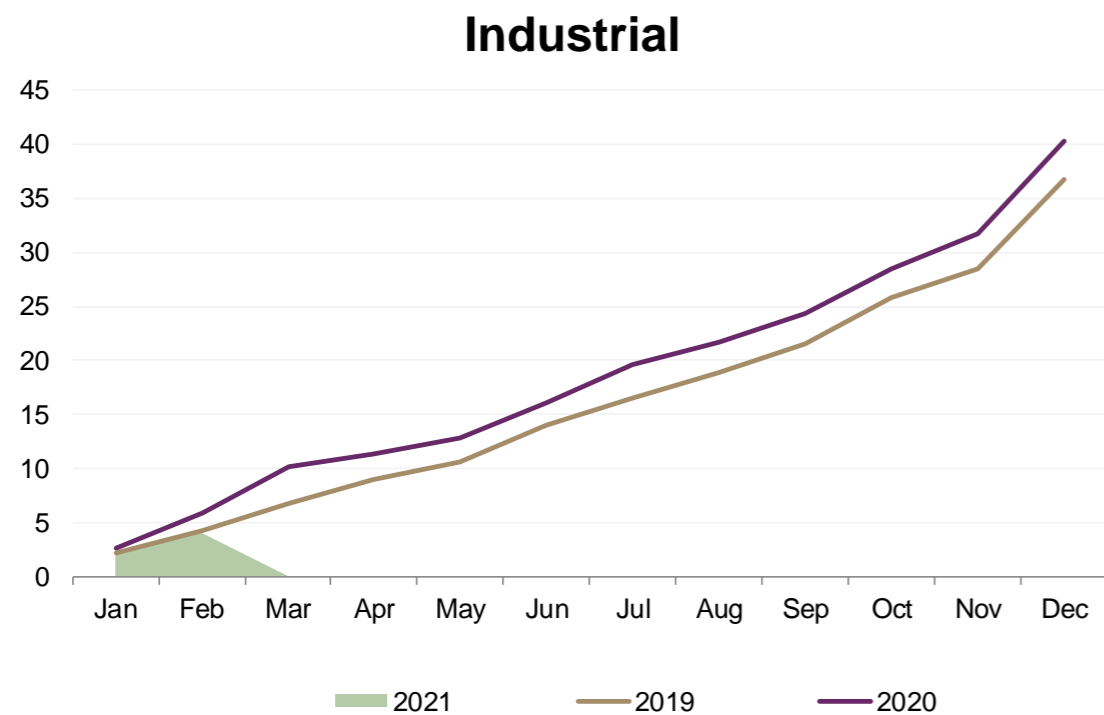
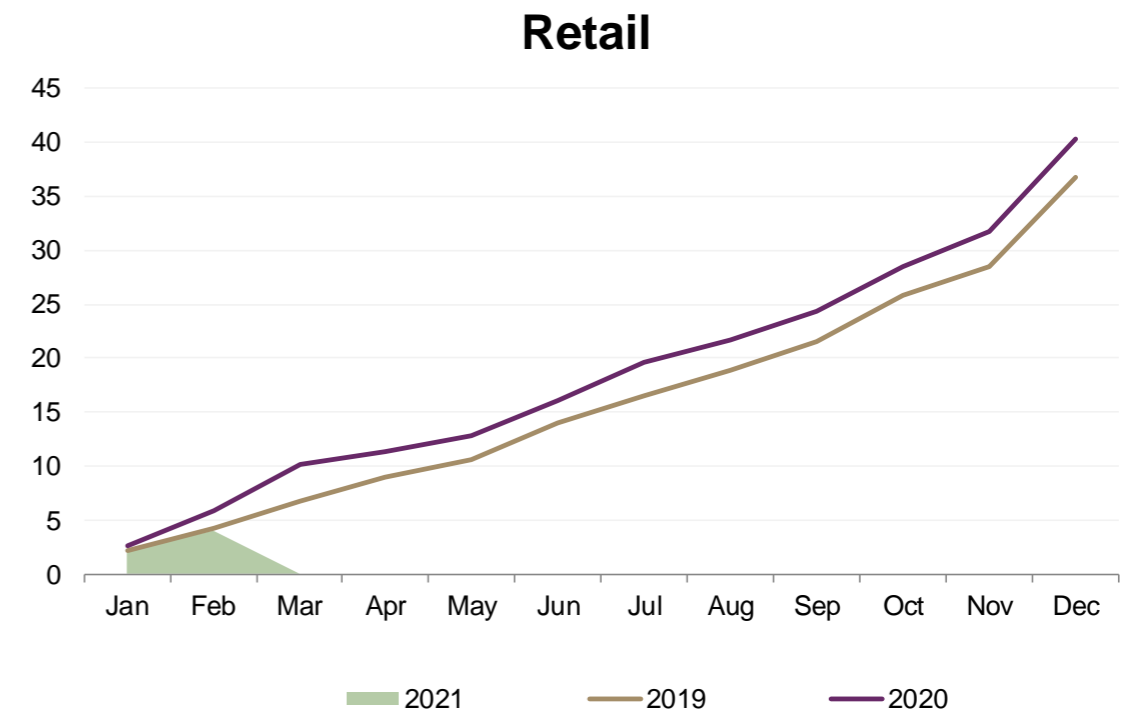
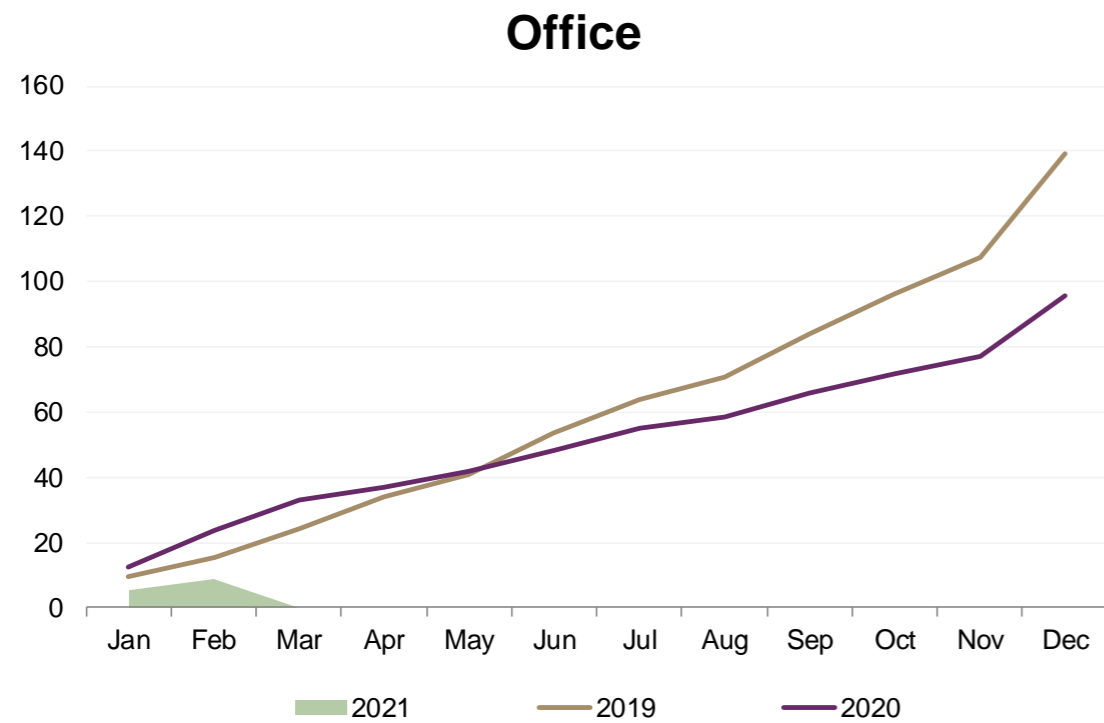


Source: RCA (02/21), LaSalle (03/21)

Includes office, retail, industrial, hotels, multifamily (apartments) and portfolios. 2020 figures are preliminary and subject to revisions

# First two months of 2021 look promising for the residential sector

EUROPEAN REAL ESTATE INVESTMENT VOLUMES (CUMULATIVE YEAR-TO-DATE, EUR BILLION)



Source: RCA (02/21), LaSalle (03/21)

Includes portfolios. 2020 figures are preliminary and subject to revisions



# Real Estate Occupier Trends

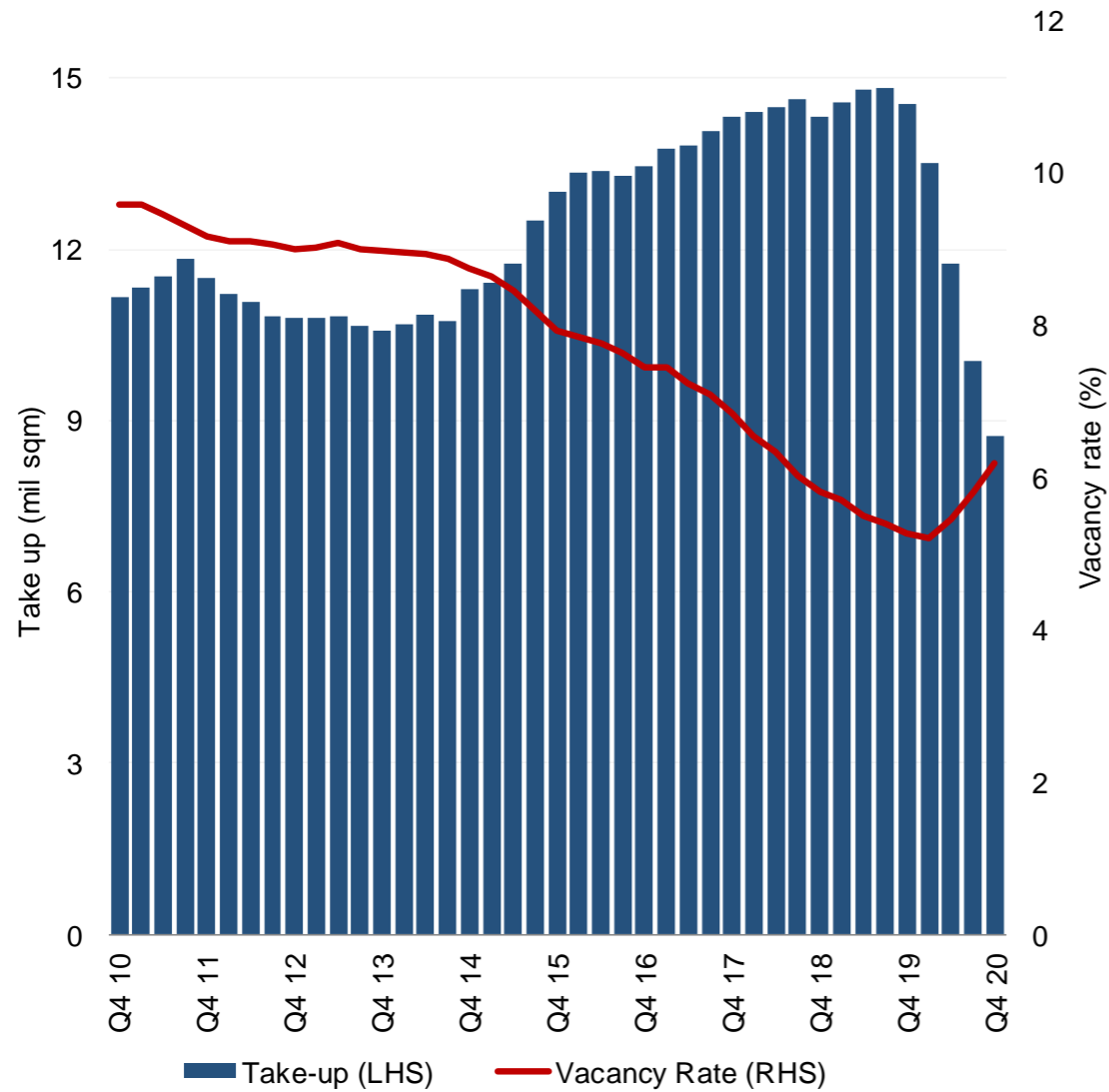
DEMAND & SUPPLY INDICATORS

# European office take-up down -40% y/y in 2020

## EUROPEAN OFFICE DEMAND INDICATORS

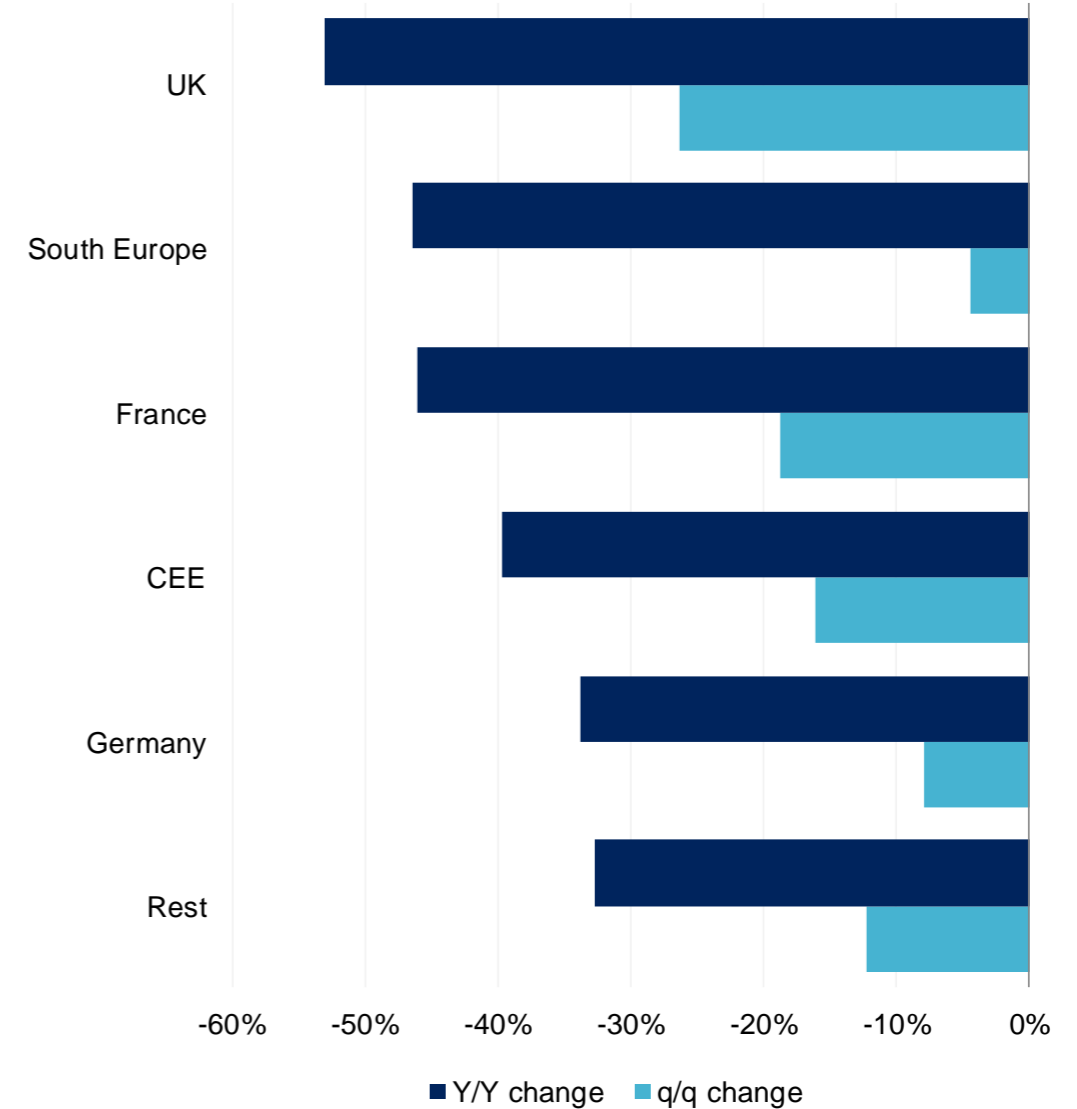
### Office Take-up & Vacancy

[Europe; rolling annual volume; mil sqm vs %]



### Change in Take-up by Country

[% Q4 2020]



Source: LaSalle (01/21), JLL (Q4 20)

Take-up based on 31 major office markets across Europe and vacancy rate based on 34 major office markets  
CEE covers Prague, Warsaw and Budapest; South Europe covers Milan, Rome, Lisbon, Barcelona and Madrid

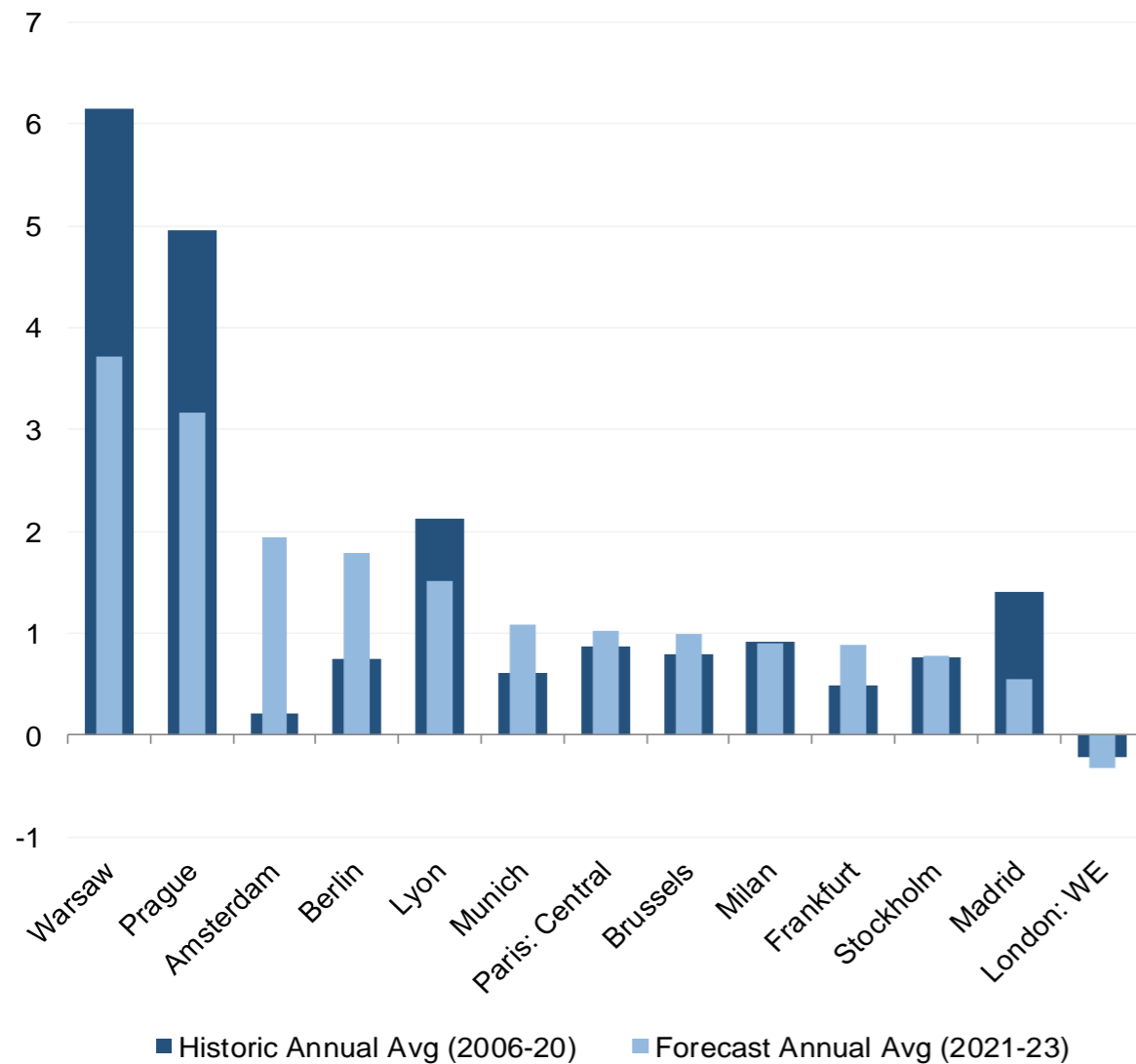


# Vacancy rate remains tight in core European markets despite Covid-19

## OFFICE SUPPLY INDICATORS

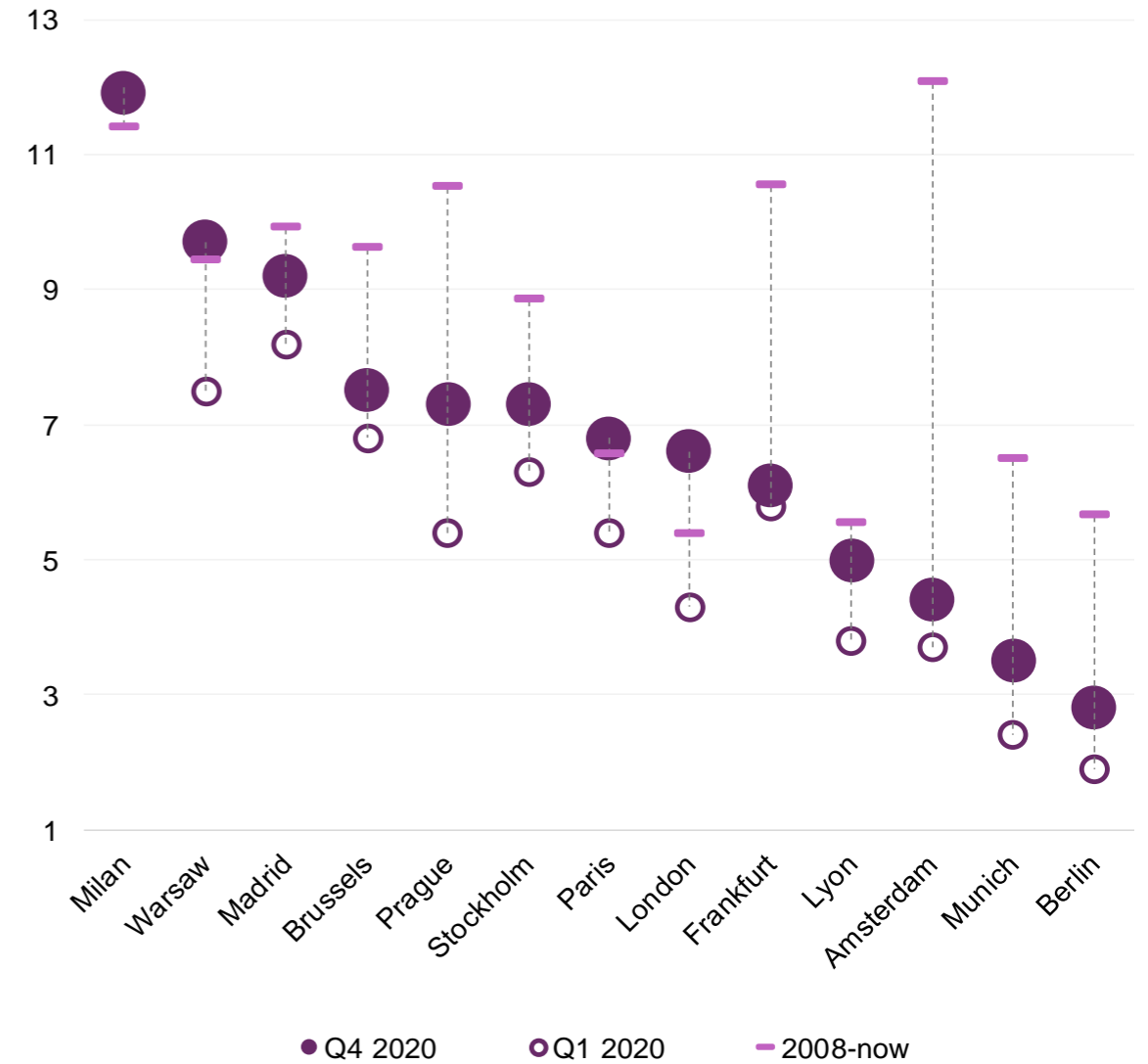
### Office Net Additions

[Europe; as % of total stock in key cities]



### Office Vacancy Rates

[selected European markets, %]



Source: PMA (10/20), LaSalle (10/20), JLL (Q4 2020)

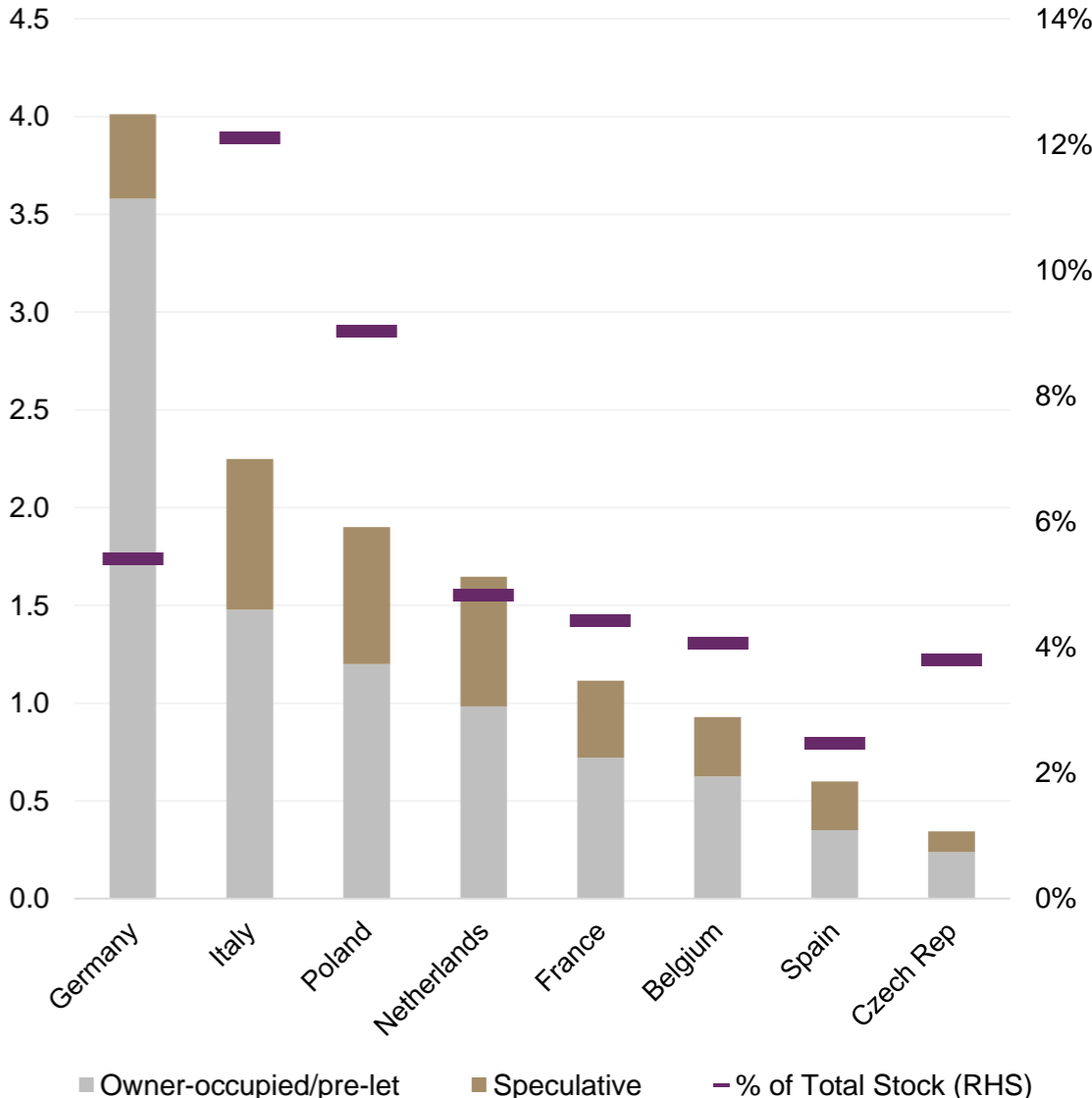
# Logistics: take-up remains resilient boosted by e-commerce growth

SUPPLY IS THE MAIN RISK TO WATCH

**Europe ex-UK Logistics Take-up**  
[mil sqm across 9 countries]



**Logistics Space Under Construction**  
[sqm millions]

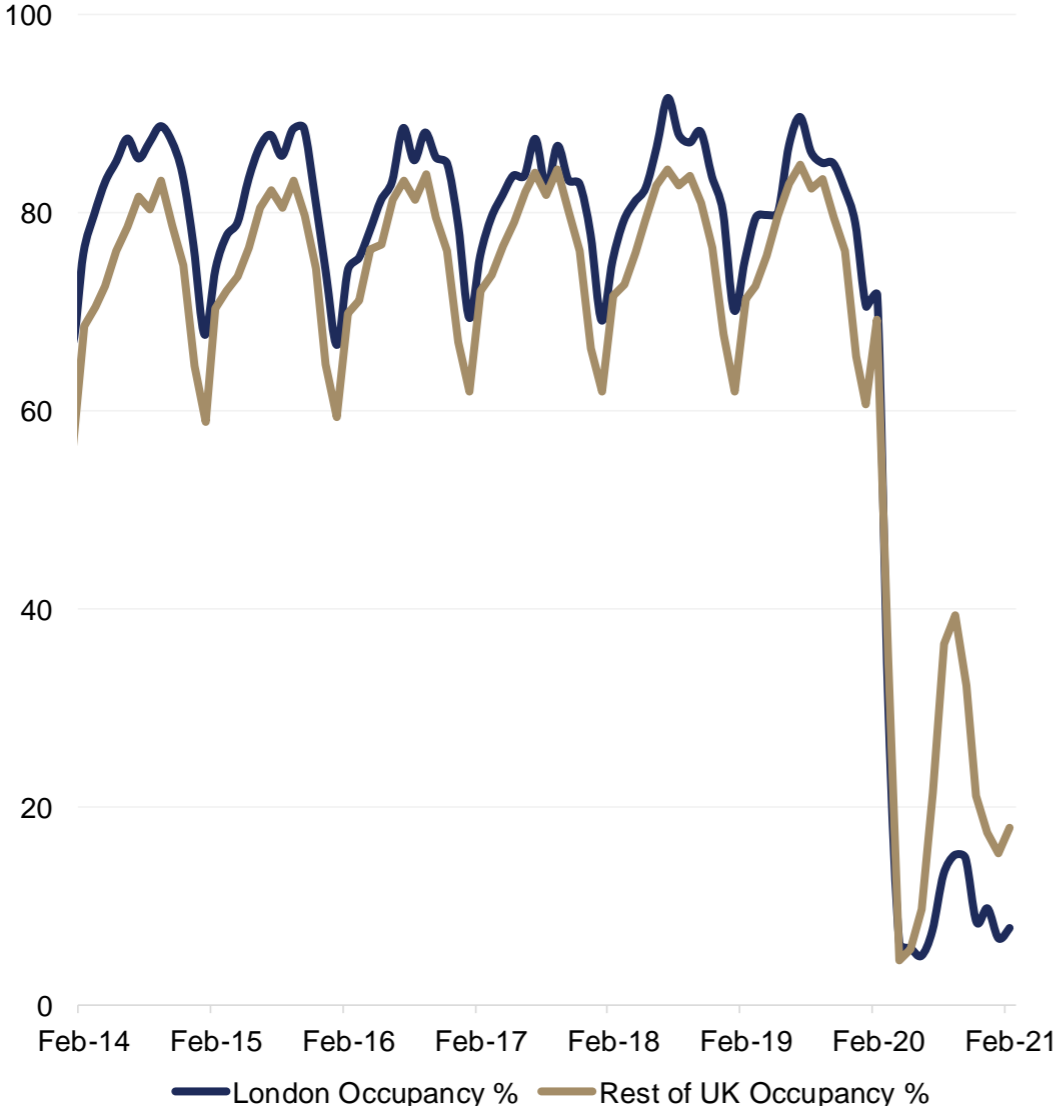


Source: LaSalle (11/20), JLL (Q4/20)  
Note: Take up is for Units >5000sqm in Belgium, Czech Republic, France, Germany, Hungary, Italy, Netherlands, Poland, Spain

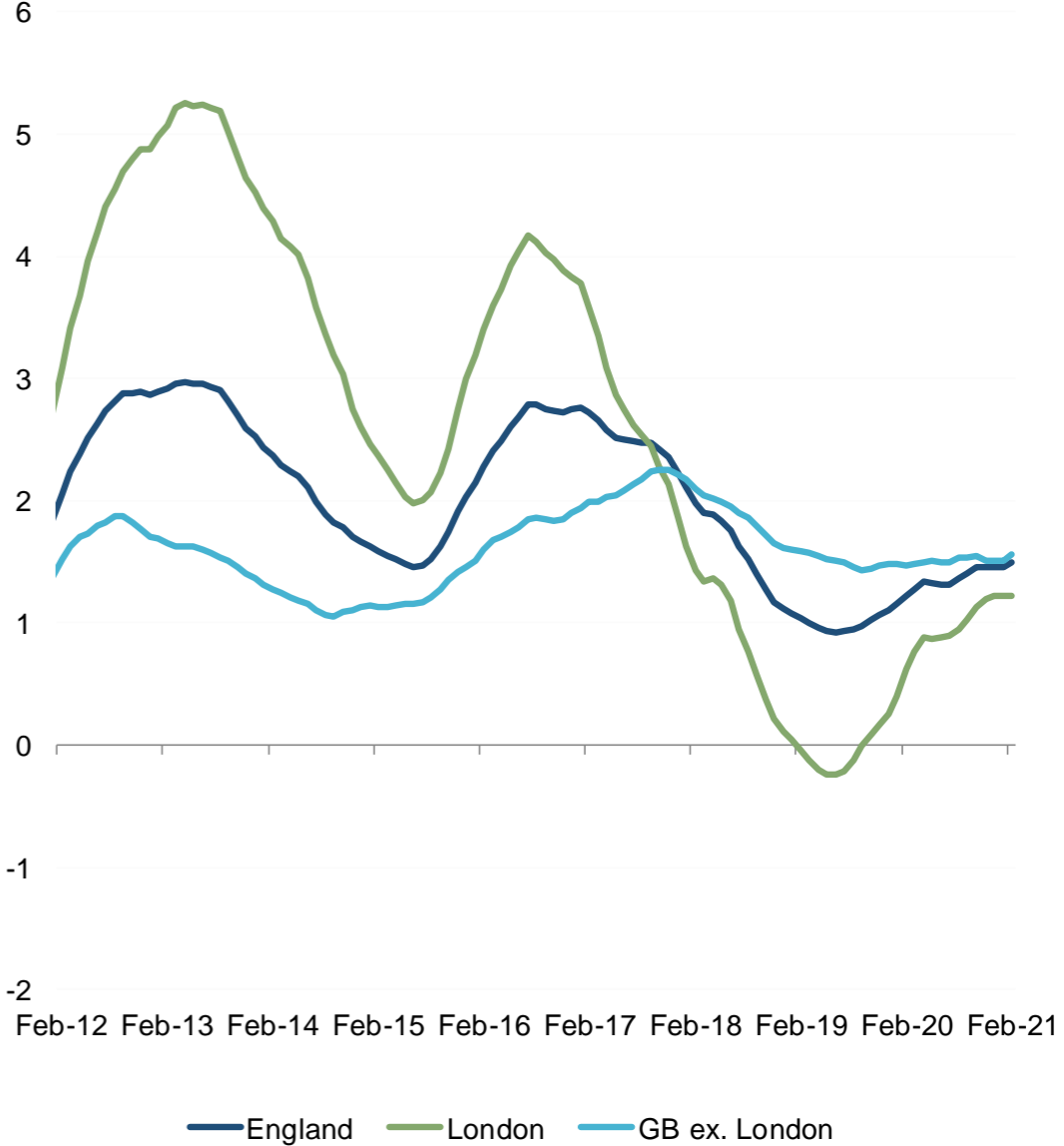
# One year post Covid-19, hotel occupancies remain very weak

RESIDENTIAL AND HOTELS

**UK Hotel Occupancy**  
[%]



**UK Private Residential Rental Growth**  
[Rolling 3-month Annual Growth %]



Source: LaSalle (03/21), HotStats (02/21), ONS (02/21)



# Pricing Fundamentals

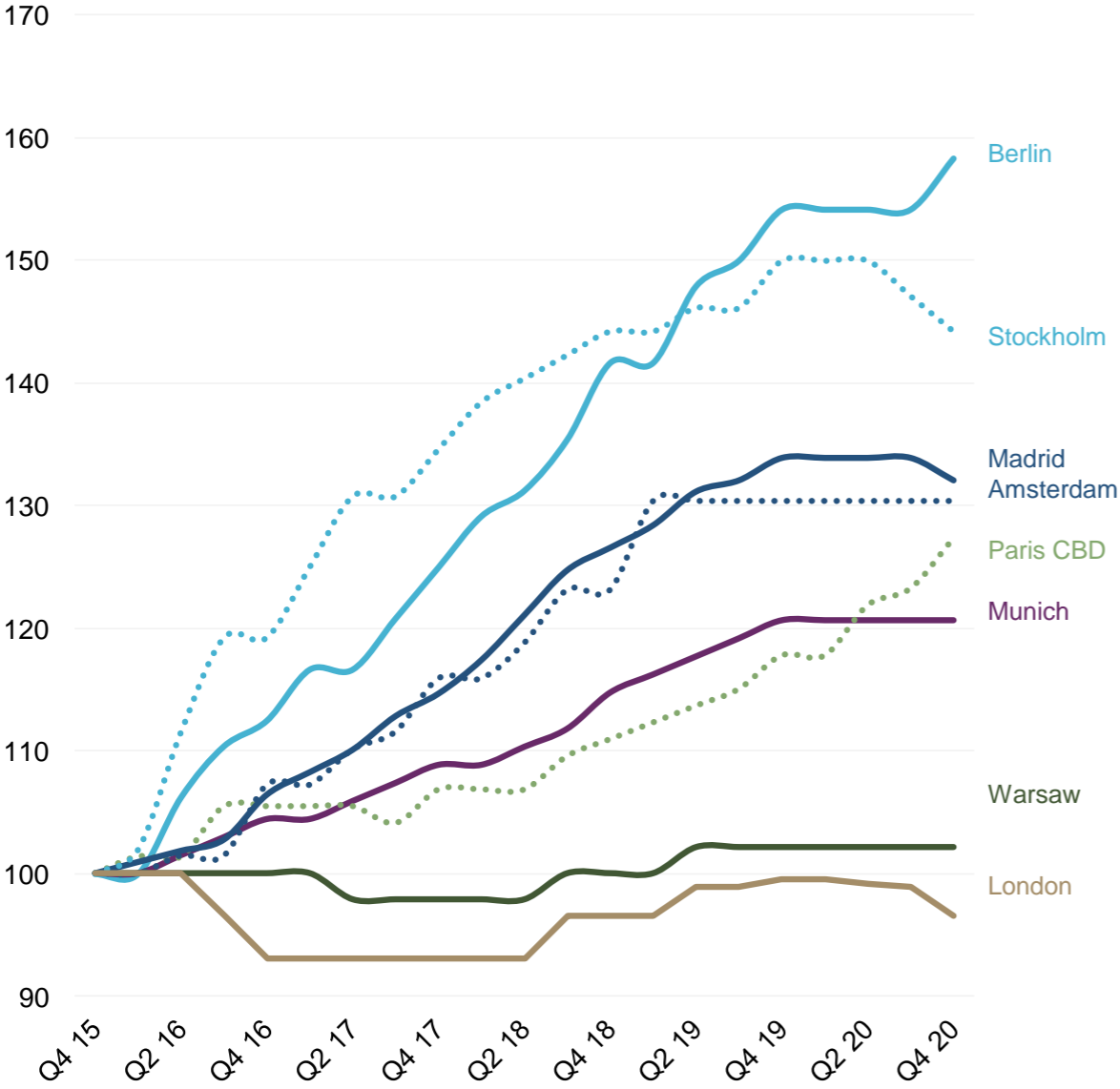
PRIME YIELDS AND TOTAL RETURNS

# Great rental growth variation between individual sectors and markets

## PRIME OFFICE RENTS

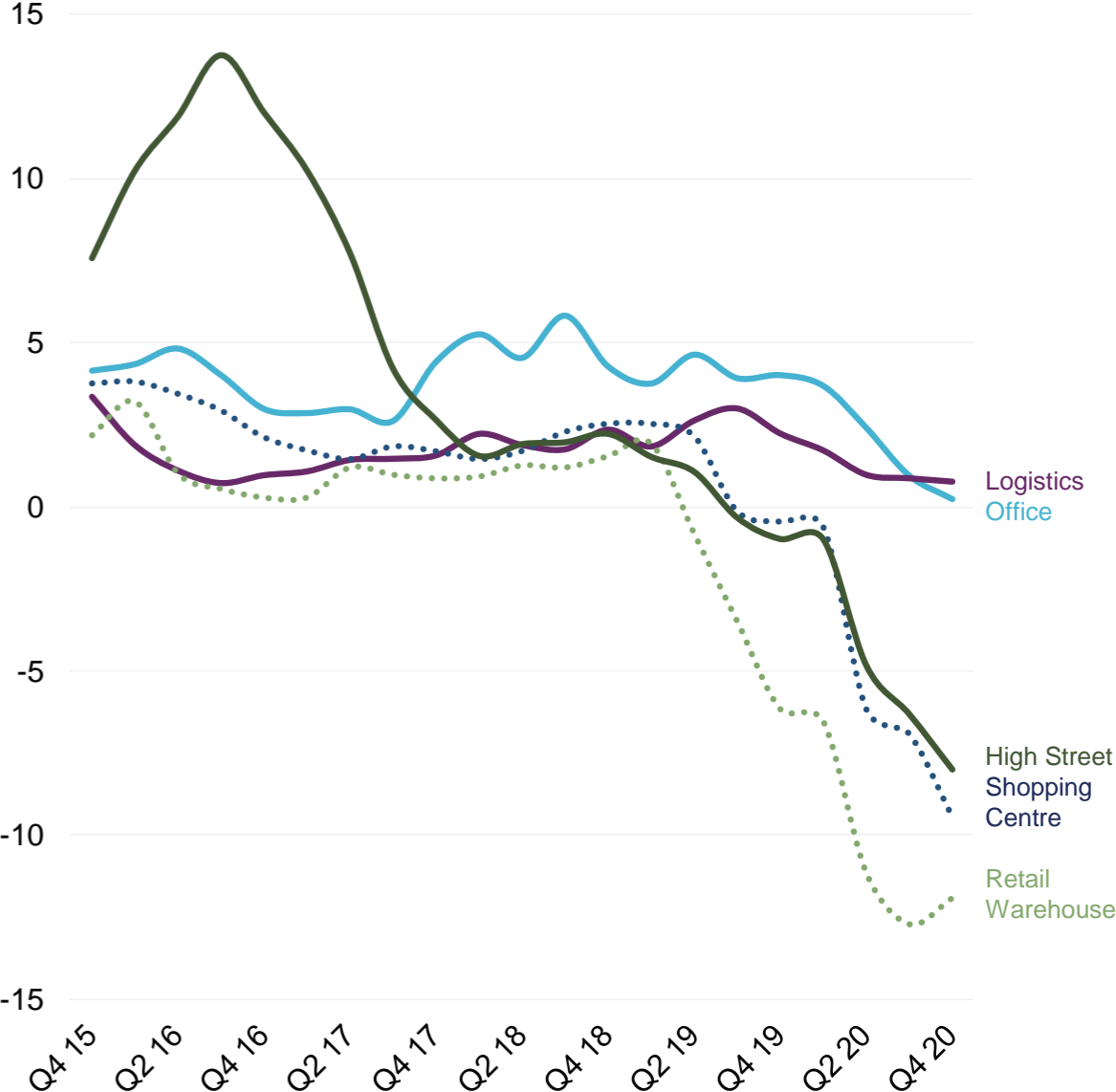
**Prime Office Rental Growth Index**

[Q4 2015 = 100]



**Prime Rental Growth Index**

[Europe; Y/Y pa;%]



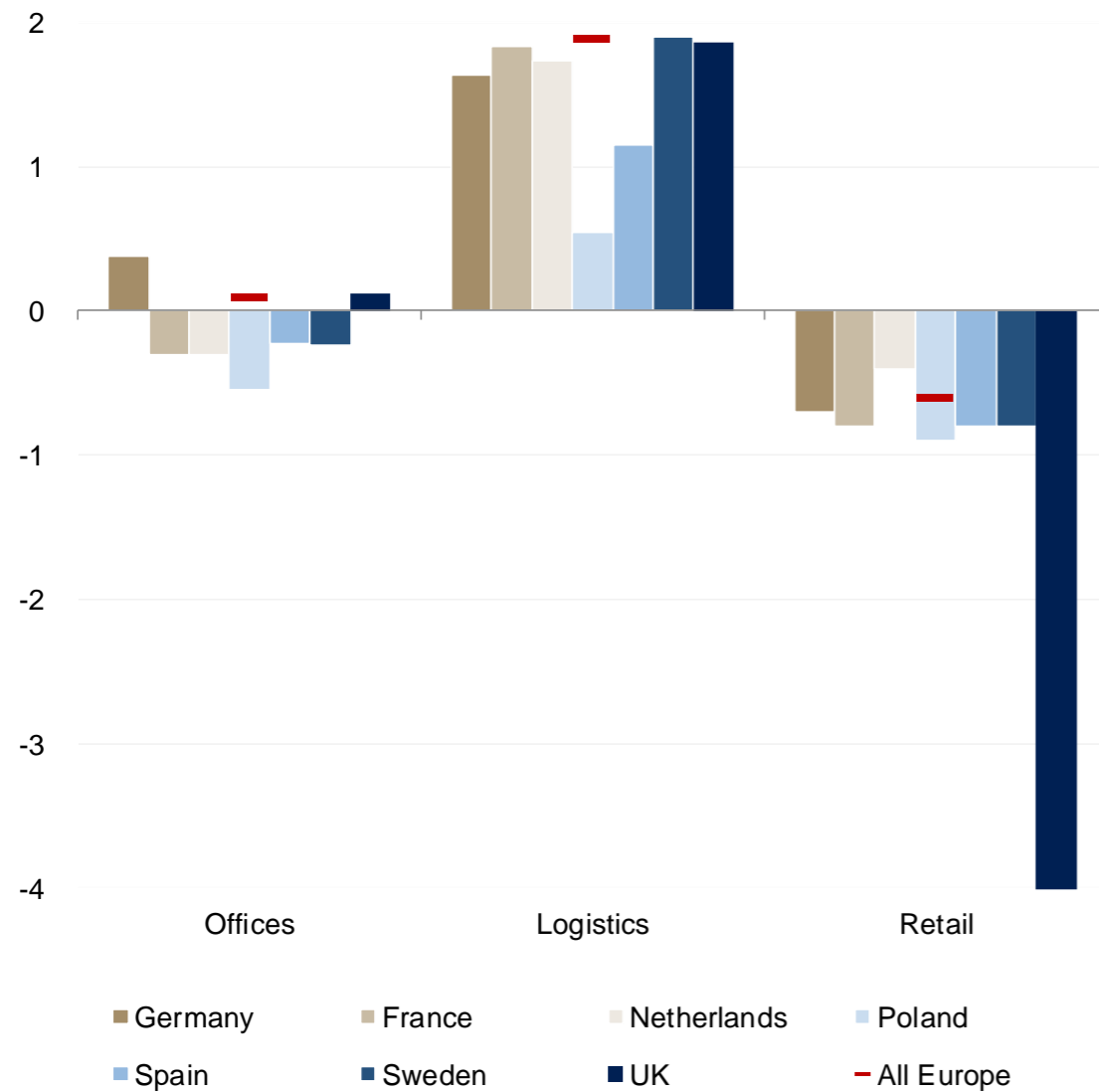
Source: LaSalle (01/21), JLL (Q4 20)

# Logistics rental growth forecast to outperform, especially urban logistics

## PRIME EUROPEAN ALL PROPERTY RENTAL GROWTH FORECASTS

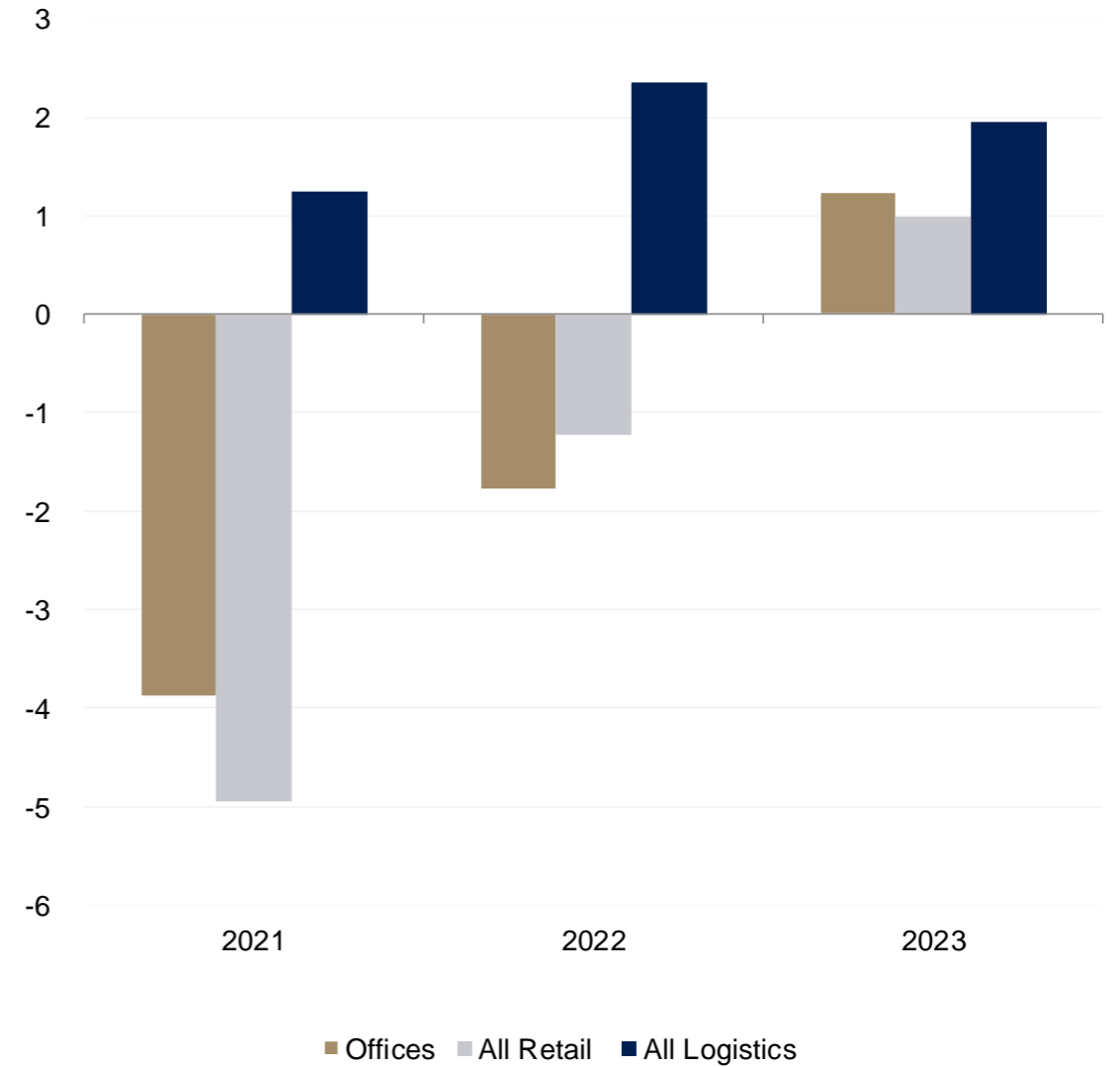
### Rental Growth Forecasts by Country

[Europe, avg 2021-25, % pa]



### Rental Growth Forecasts

[Europe, % pa]



Source: LaSalle (11/20)

Note: Segments are weighted by LaSalle/IPD estimates of investable universe

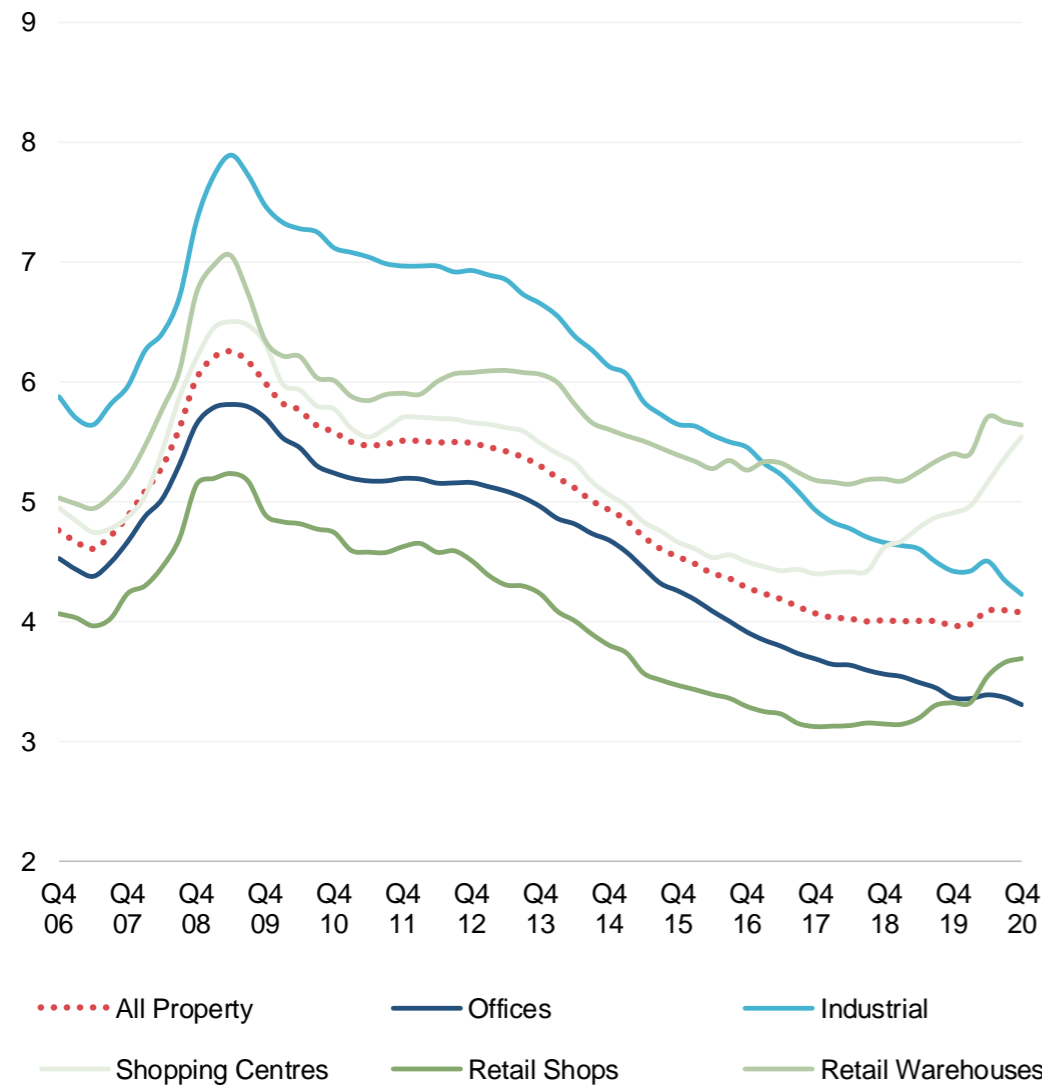
Retail includes High Street Shops, Shopping Centres and Retail Warehouses, Logistics includes Urban Logistics and Motorway Logistics

# Prime all property yield stable in Q4, but greater sector divergence

## EUROPEAN PRIME YIELDS BY SECTOR AND REGION

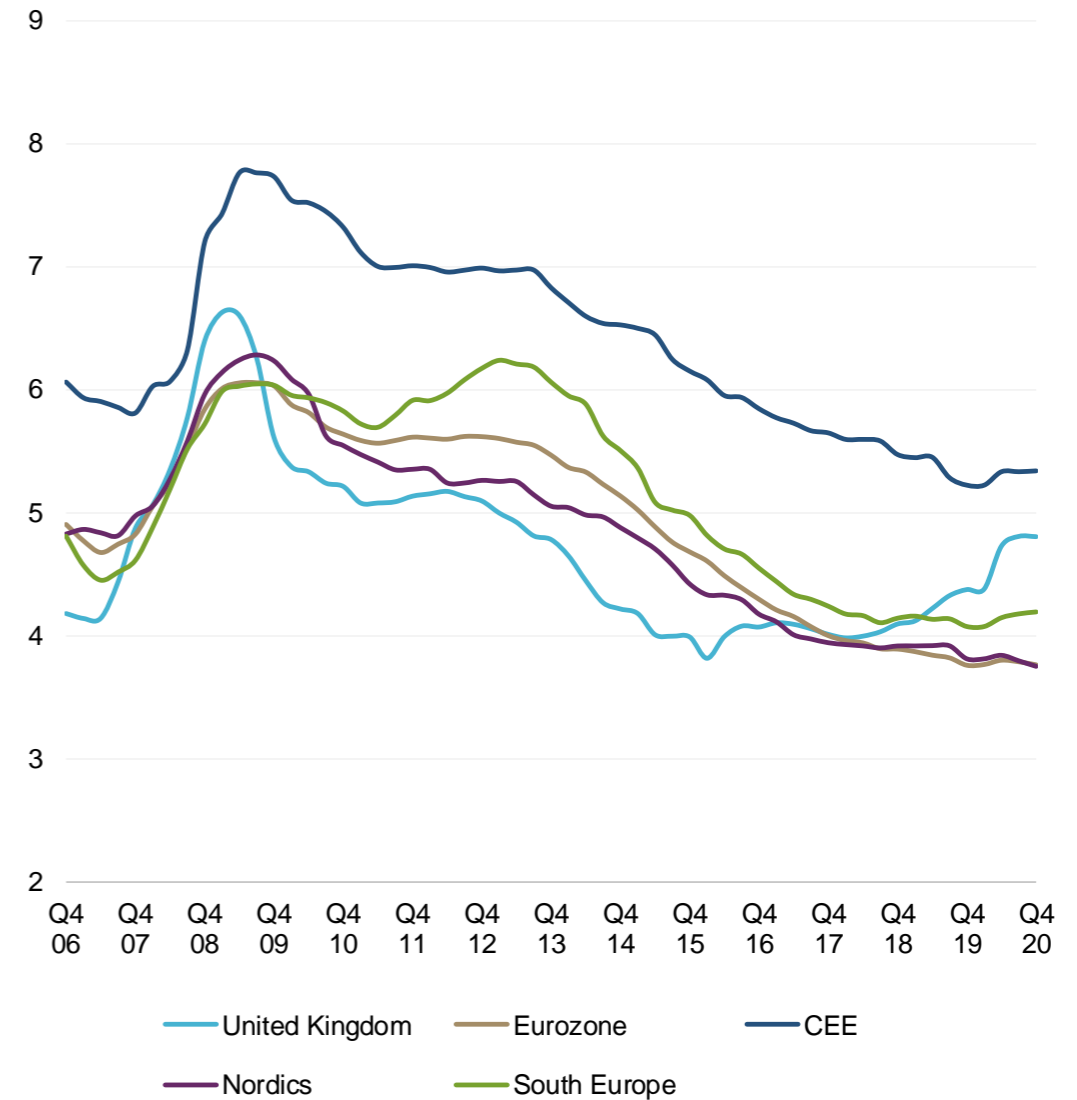
### Prime Yield by Sector

[%]



### Prime Yield by Geography

[%]



Source: JLL (Q4 20), LaSalle (01/21)

Note: Segments are weighted by LaSalle/MSCI estimates of investable universe.

CEE includes Czech Republic, Hungary & Poland. South Europe includes Italy, Portugal & Spain

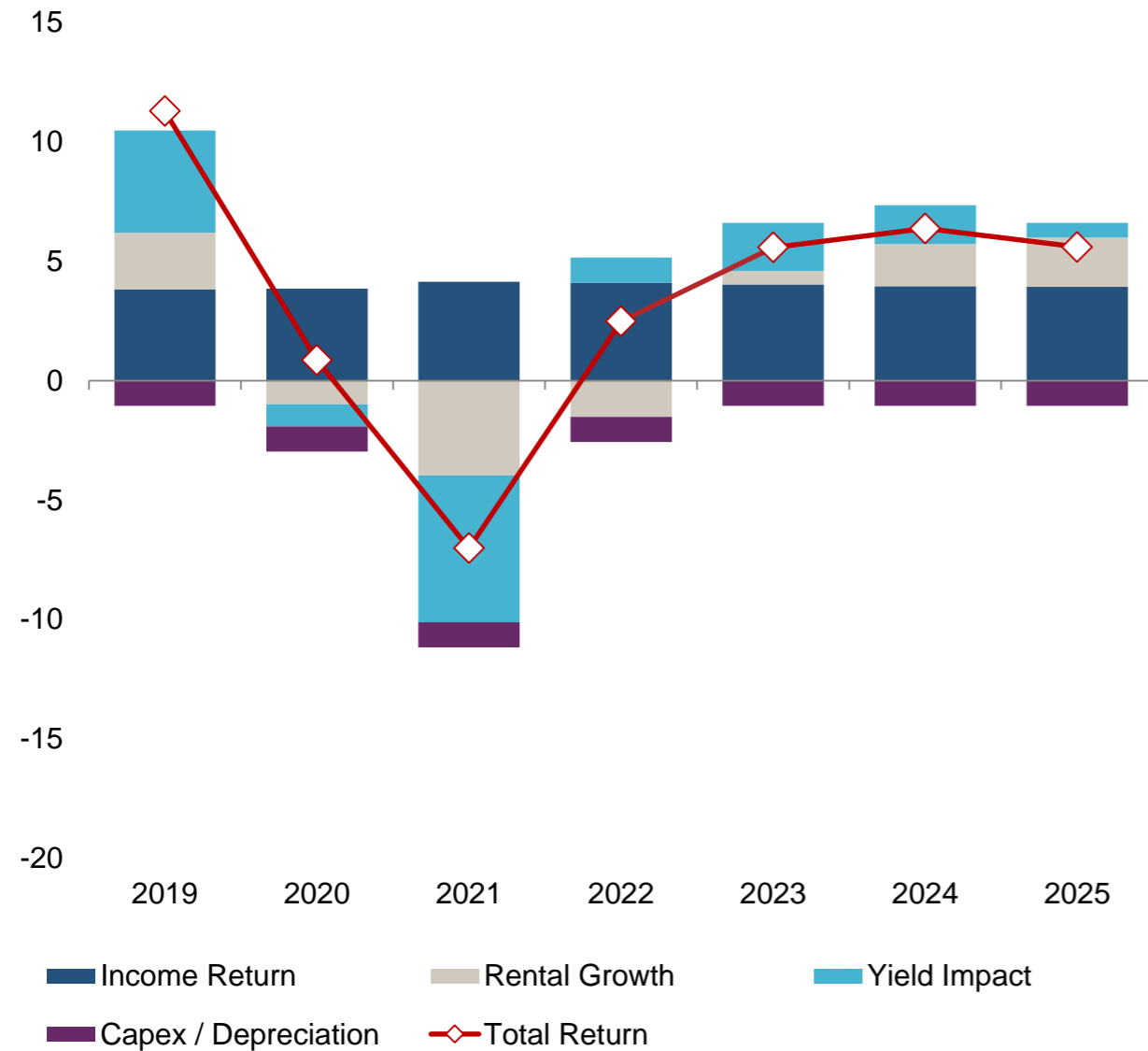


# Yield expansion expected this year, before compression resumes

## PRIME ALL PROPERTY TOTAL RETURNS FORECASTS

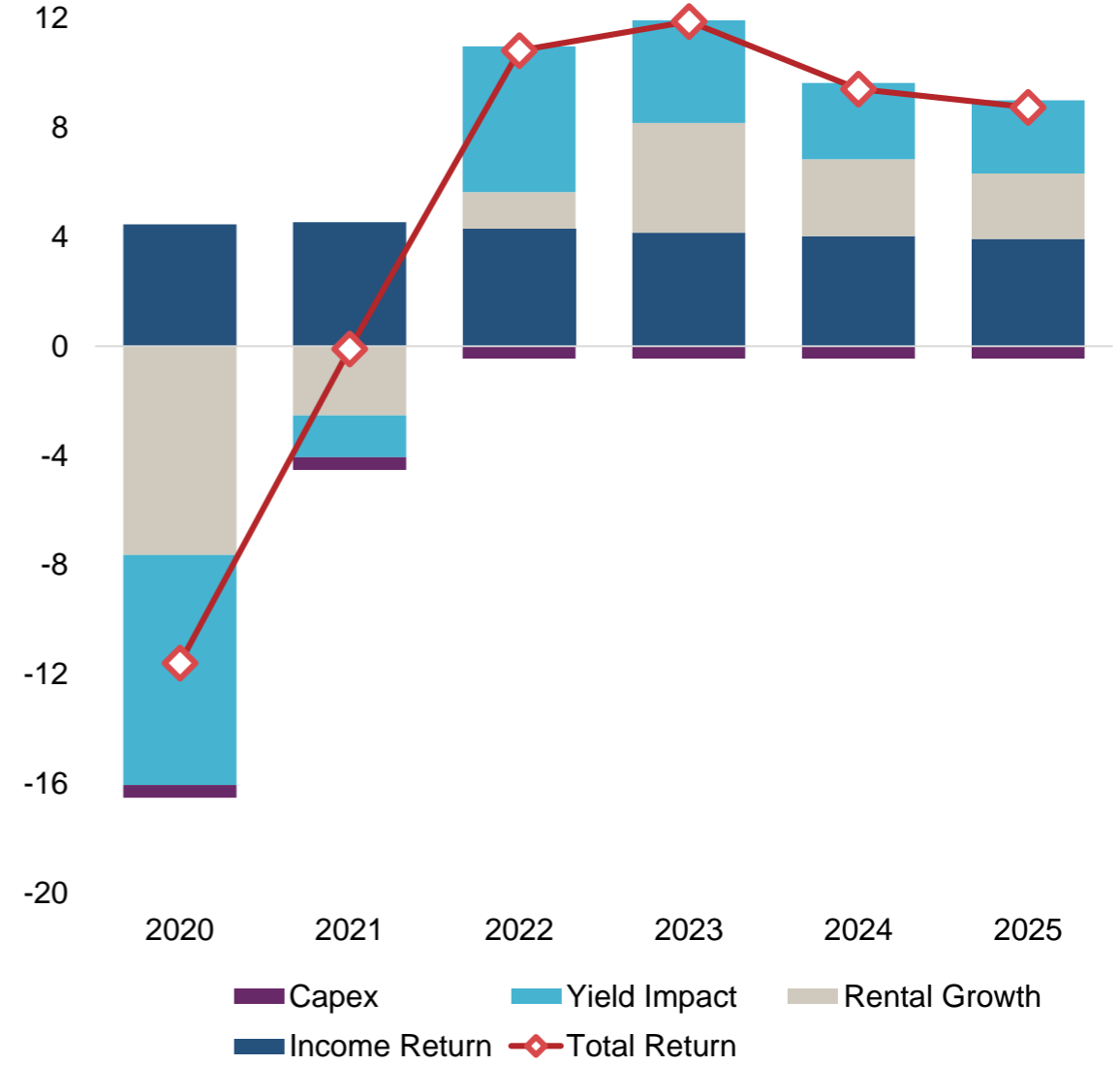
### Prime All Property Total Returns C.Europe

[% pa]



### Prime All Property Total Returns UK

[% pa]



Source: LaSalle (11/20)

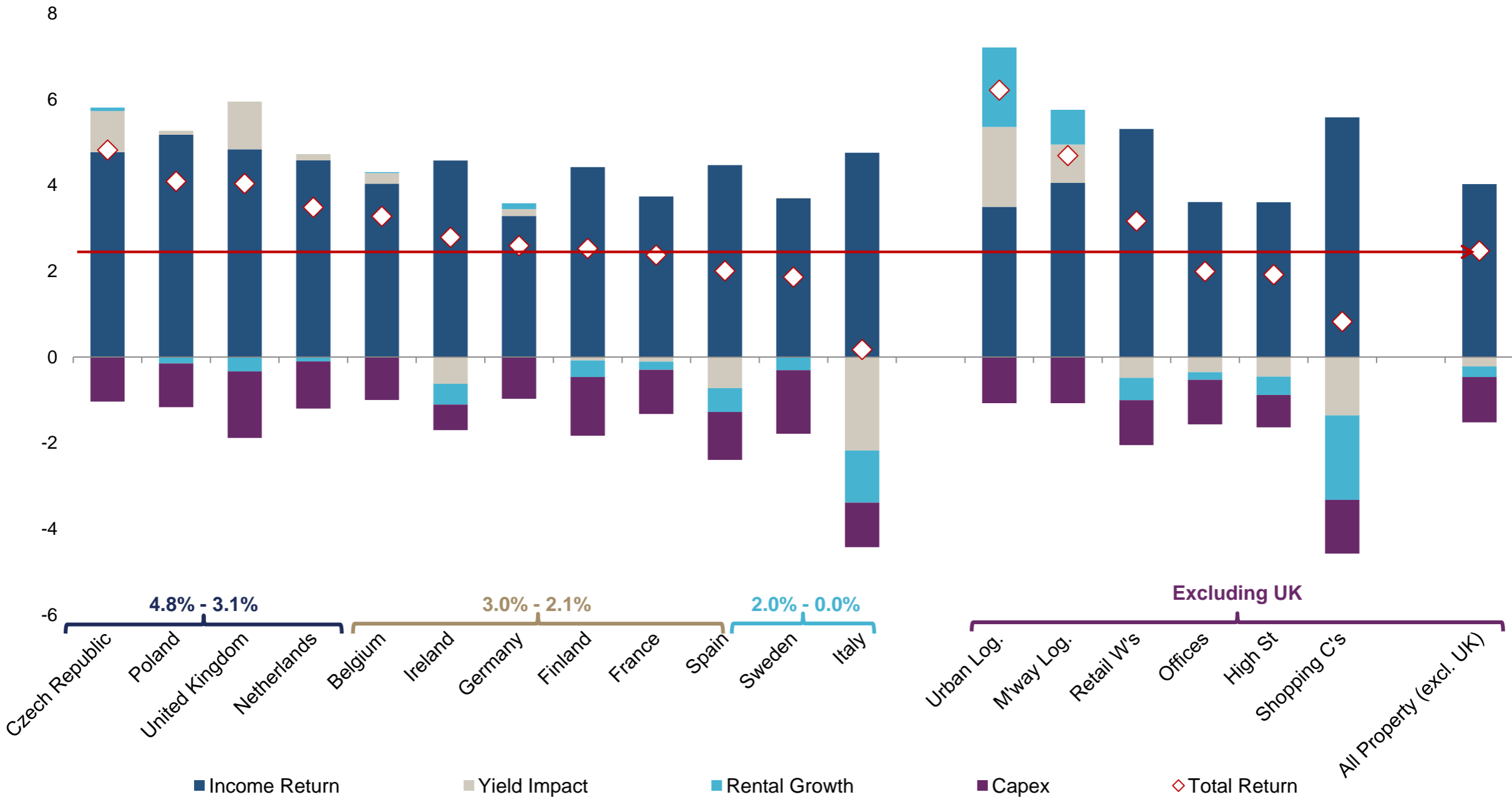
Note: European segments are weighted by LaSalle/MSCI estimates of investable universe

# Prime Europe (excl. UK) total returns 2021-25: 2.5% pa

PRIME TOTAL RETURNS FORECASTS BY COUNTRY & SECTOR

## Prime total returns forecasts

[Avg 2021-25, % p.a.]



Source: LaSalle (11/20)  
 Note: European segments are weighted by LaSalle/MSCI estimates of investable universe

# Investment themes play both sides of capital markets “chasm”

CREATE CORE SHEDS & BEDS; AWAIT REPRICING ELSEWHERE

	Core	Higher return
<b>Best Opportunities</b>	<b>Urban logistics &amp; modern motorway logistics</b> <i>Well-connected big box and dominant hubs</i>	<b>Logistics development &amp; multi-let industrial</b>
	<b>Residential</b> <i>Urban build-to-rent, affordable &amp; family housing</i>	<b>Residential development</b> <i>incl. for sale, urban BTR, family housing &amp; retirement</i>
	<b>Secure long term income offices</b> <i>Prime in key centres with low vacancies and strong, well-connected micro-markets</i>	<b>Office refurbishment &amp; build-to-core</b> <i>Strongest locations only; avoid near-term office leasing risk</i>
	<b>Inflation-linked with high site value; ground leases &amp; income strips</b> <i>Primarily a UK opportunity</i>	
	<b>Affordable housing, retirement housing, healthcare, educational facilities</b>	<b>Niche sectors</b> <i>Emerging sectors such as self-storage</i>
<b>Other Opportunities</b>	<b>Long-term income producing retail warehouse/retail parks</b> <i>Food-anchored retail in demographically strong markets</i>	<b>Repriced retail repositioned to alternative use</b>
		<b>Repriced hotels</b> <i>With strong covenant and/or operational manager</i>

Source: LaSalle (11/20)

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