

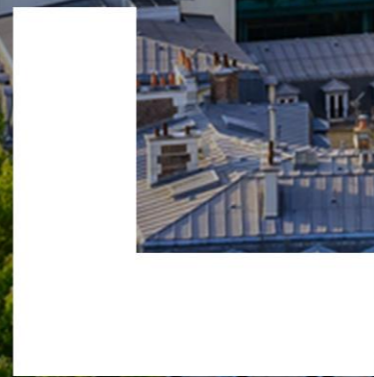
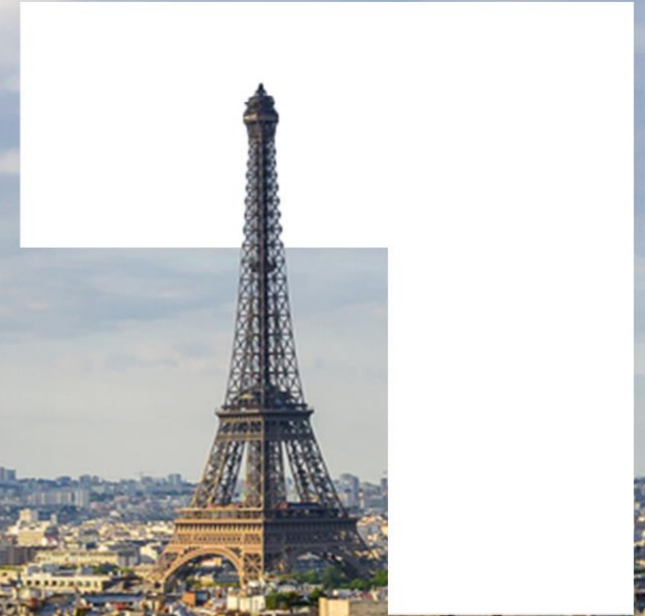


# Europe Market View

Macro & real estate update

June 2024

Investing today. For tomorrow.

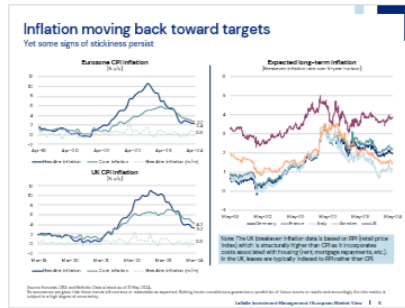


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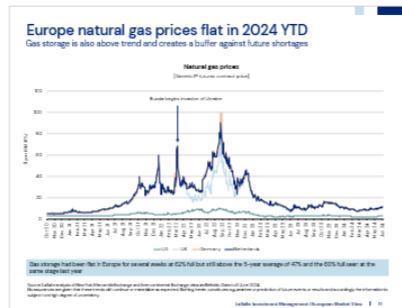
## 1 Macro drivers

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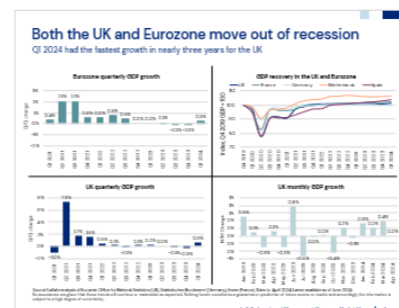
### Inflation



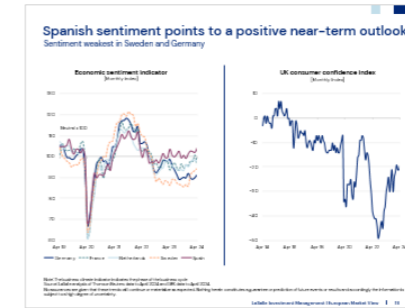
### Energy



### Growth



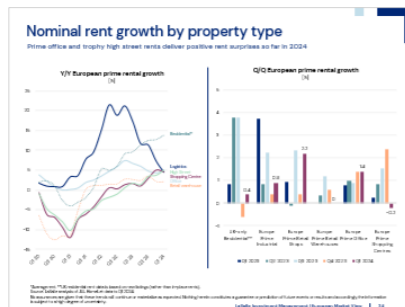
### Sentiment



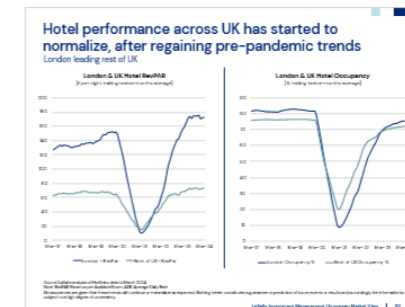
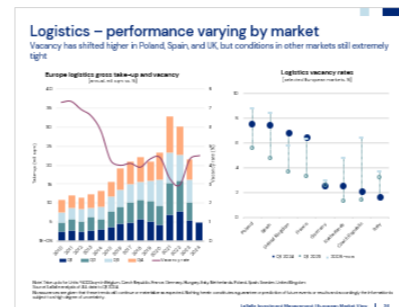
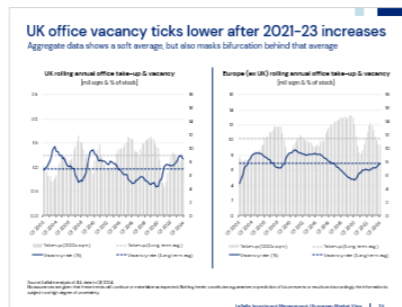
## 2 Occupier trends

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### Rent growth



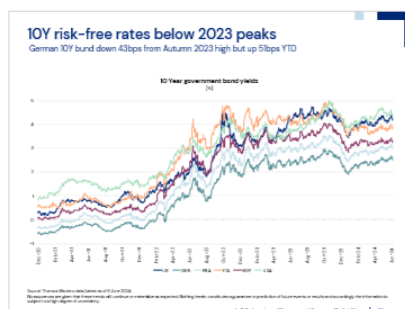
### Fundamentals by property type



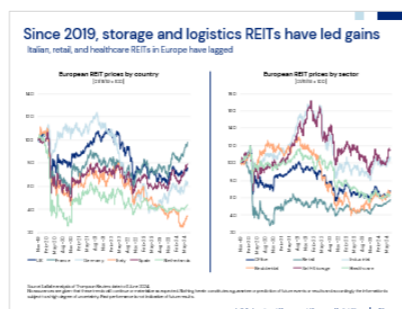
## 3 Capital markets

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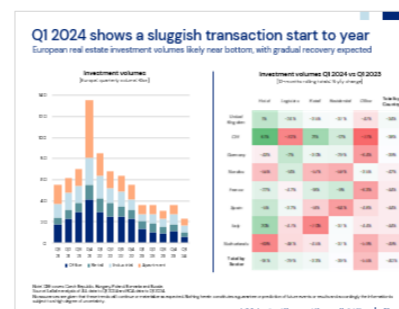
### Rates



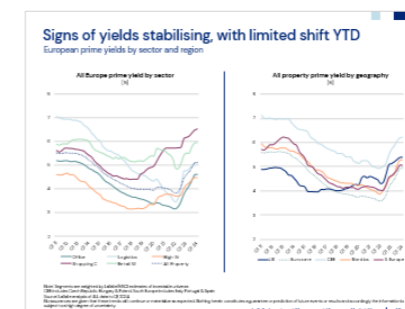
### REITs



### Transactions



### Yields



# Seeing European markets as they are – June 2024

## Europe developments through June 2024

- The current European real estate capital market price correction has been significant– on par with the 2008–09 GFC. Signs are that it is now nearly complete.
- Real rental growth is now turning positive (even as nominal growth has cooled).
- The return to positive real rent growth is driven by decelerating European inflation. This enabled the ECB to cut rates in June, following cuts by several other European central banks.
- After a shallow recession in Europe, positive, albeit slow, growth is returning year-to-date. Geopolitical headwinds, on both trade and security, are likely to put constraints on medium term growth.
- Real estate continues to become more operational – with tenants seeking and negotiating more flexibility.
- There is a scarcity of centrally located offices that fit occupiers’ new hybrid work and decarbonization goals. Central London and Paris office demand has surprised positively year-to-date. The middle of the market though is softer.








ECB delivers rate cut in June

## ISA Briefing



## Global themes relevant to Europe

(from our 2024 ISA Outlook report) – [link here](#)

- Searching for (in some cases finding) peak rates 
- Solving the capital stack equation 
- Fundamentals coming off the boil 
- Beyond bifurcation 
- Changing definition of quality and core 

## Our top strategy recommendations in Europe

1. Strategies rooted in barriers to supply
  - Creating 'super-prime' offices
  - Logistics
  - Rented residential and BTR
2. Debt strategies
  - Solving capital stack 'inequalities'
3. Select operational real estate strategies
  - Purpose-built student accommodation (PBSA)
  - UK private medical
  - Conversion of space to residential use
  - Limited service hotels

## ISA Outlook



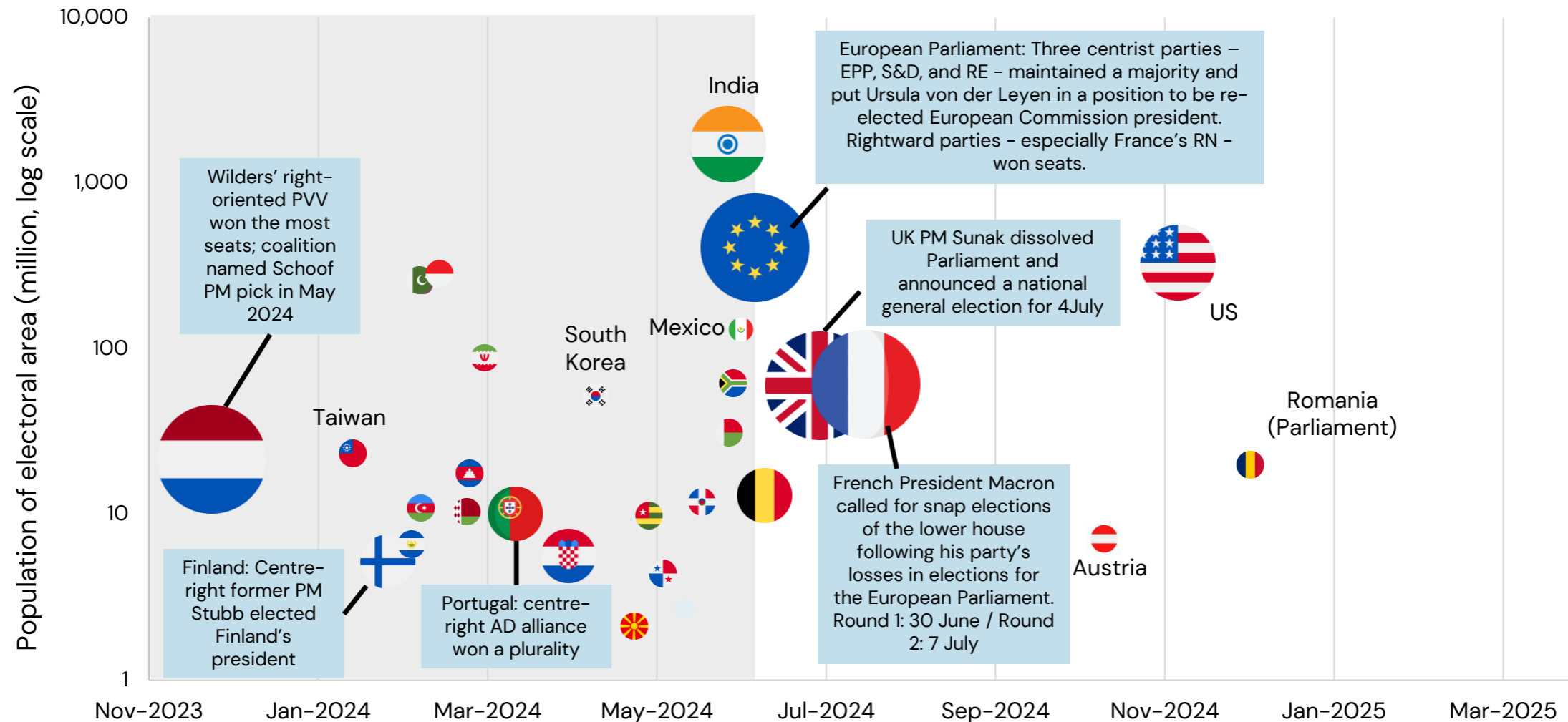
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# Macro drivers

# A busy electoral timeline for 2024

A new European Parliament elected; upcoming French National Assembly and UK general elections

## World election\* timeline and country population



2024 is a year with a busy electoral schedule, both within and beyond Europe. Over 182 million Europeans participated, voting for the European Parliament on 6–9 June. Summer 2024 includes two additional elections, with surprisingly early timing, in the UK and France. France holds the first round of its legislative election on 30 June (2<sup>nd</sup> round 7 July) and the UK will hold a general election on 4 July.

\*National and supranational elections are shown on the timeline. For future elections, we show only those in Europe or the US for simplicity; there are other elections outside Europe to come which are not shown. Elections in major European countries are enlarged.

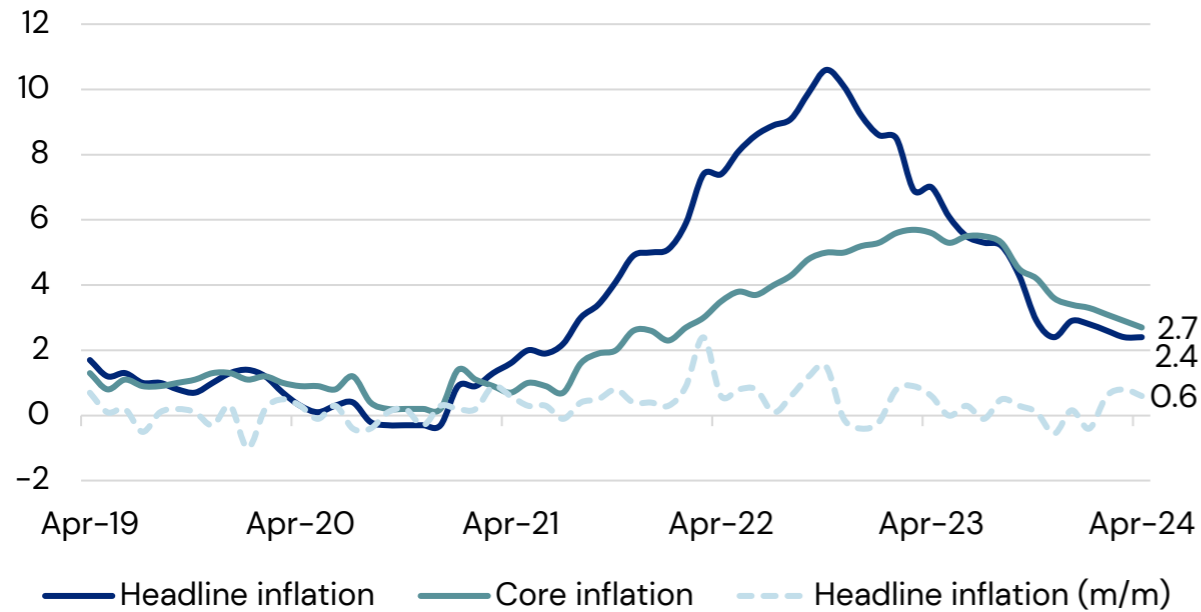
Source: European Commission, national electoral authorities. As of 17 June 2024.

No assurances are given that these trends will continue or materialize as expected. Nothing herein constitutes a guarantee or prediction of future events or results and accordingly the information is subject to a high degree of uncertainty.

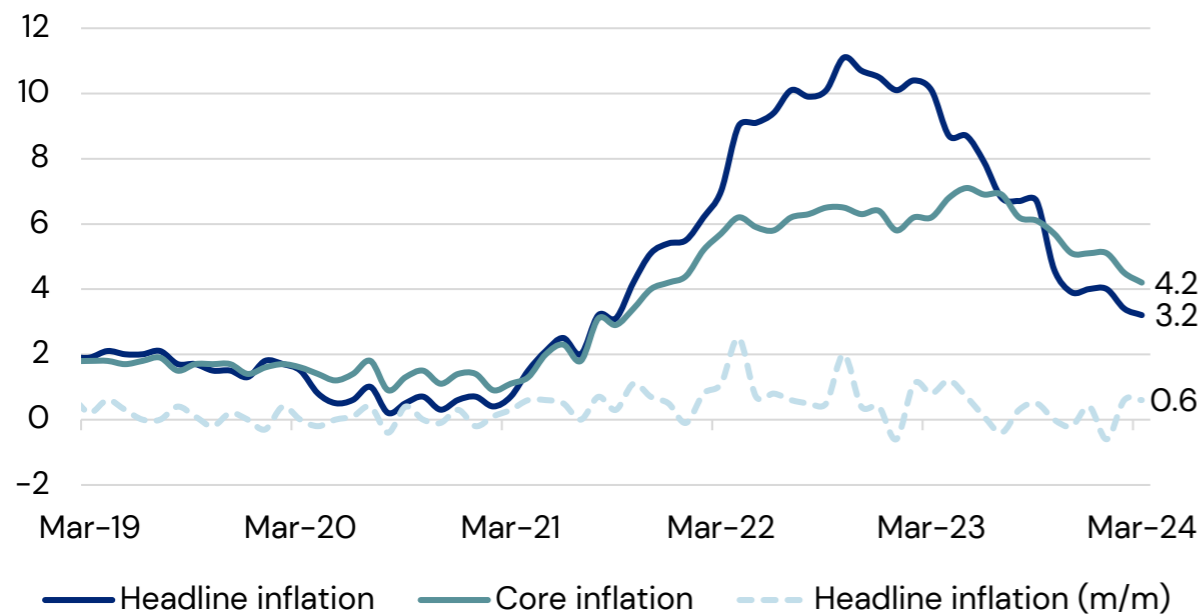
# Inflation moving back toward targets

Yet some signs of stickiness persist

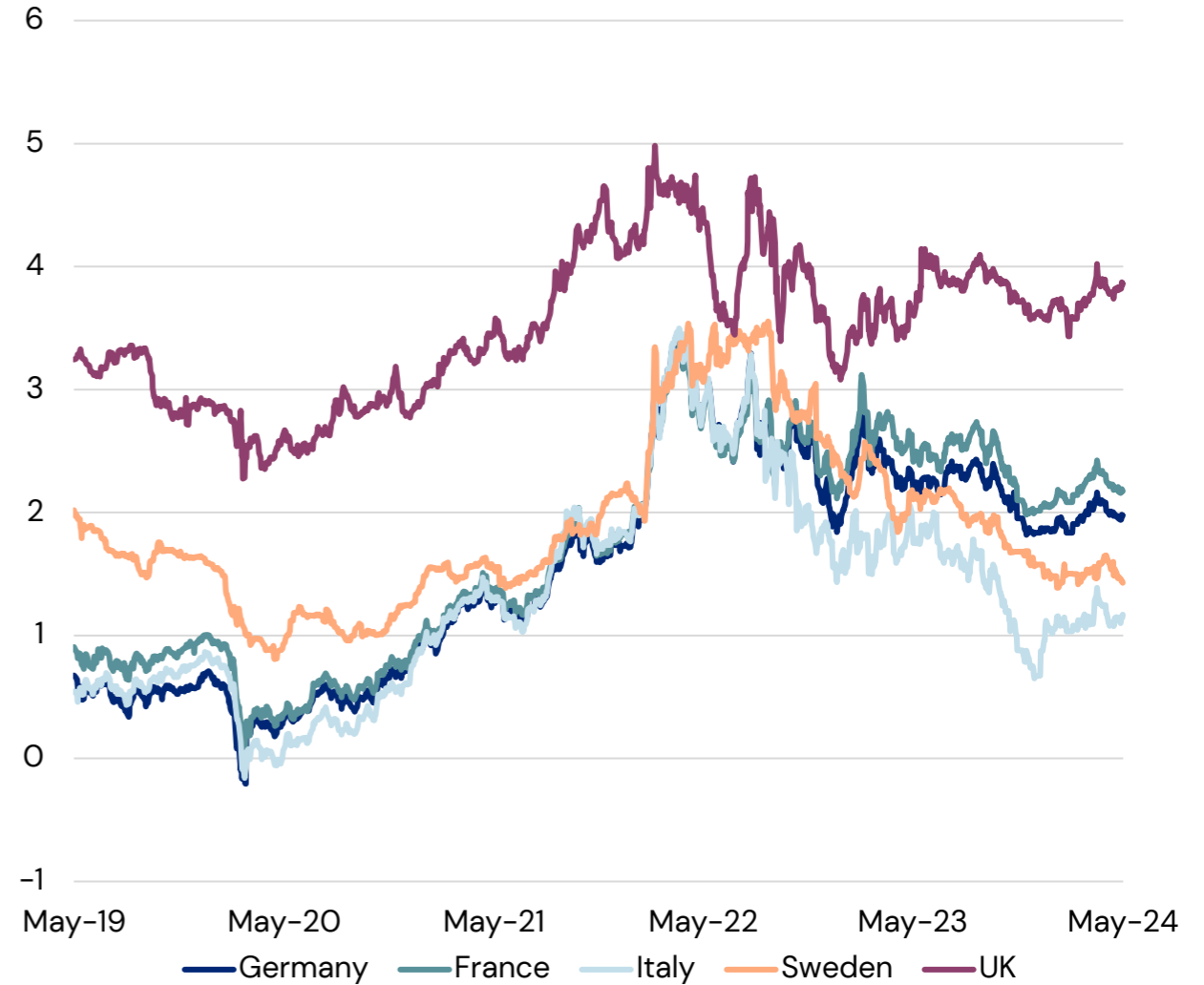
**Eurozone CPI inflation**  
[% y/y]



**UK CPI inflation**  
[% y/y]



**Expected long-term inflation**  
[Breakeven inflation rate over 5-year horizon]



Note: The UK breakeven inflation data is based on RPI (retail price index) which is structurally higher than CPI as it incorporates costs associated with housing (rent, mortgage repayments, etc.). In the UK, leases are typically indexed to RPI rather than CPI.

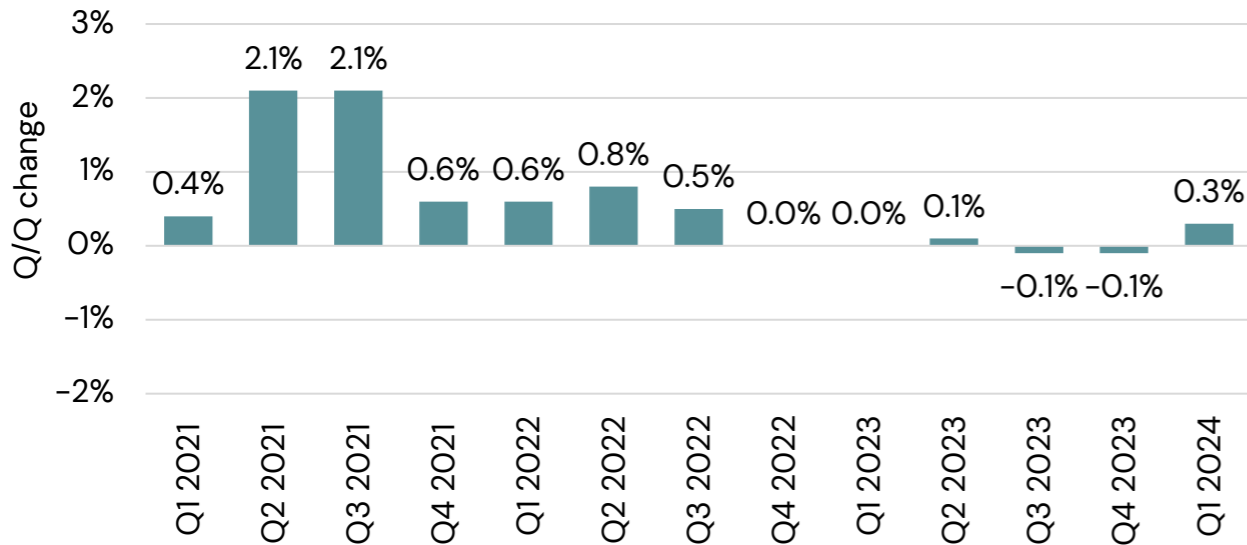
Source: Eurostat, ONS, and Refinitiv. Data is latest as of 31 May 2024.

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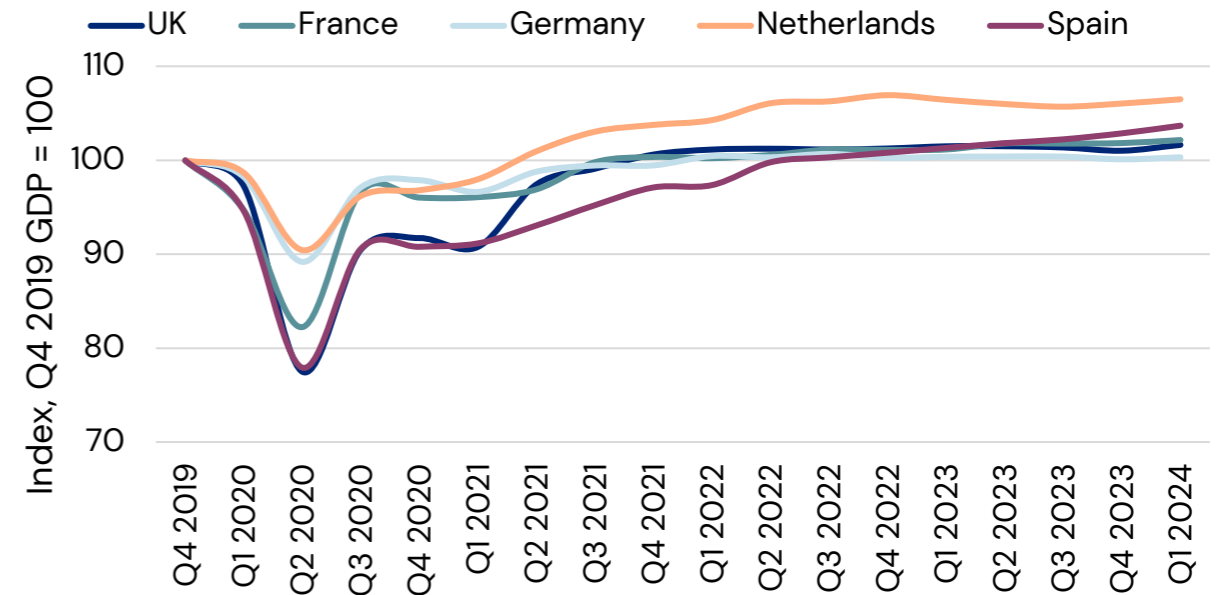
# Both the UK and Eurozone move out of recession

Q1 2024 had the fastest growth in nearly three years for the UK

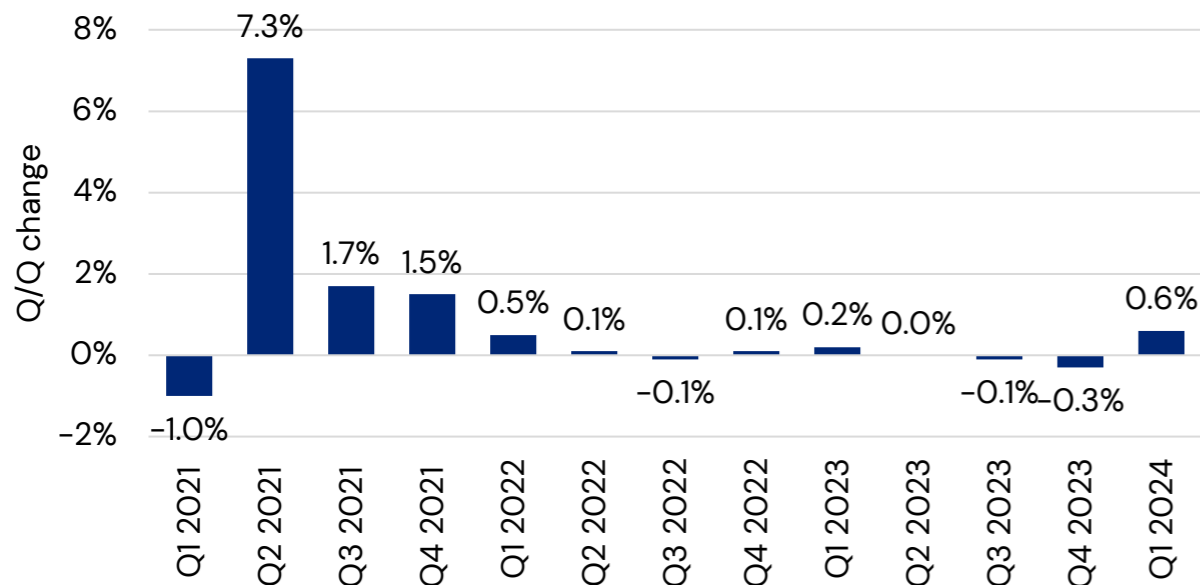
**Eurozone quarterly GDP growth**



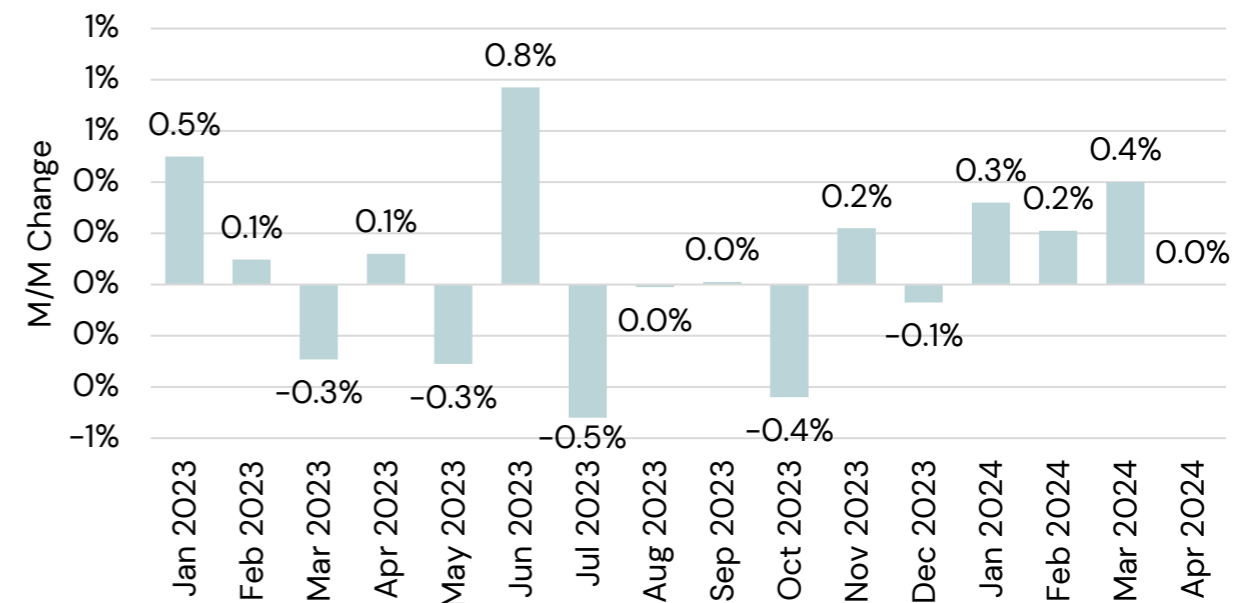
**GDP recovery in the UK and Eurozone**



**UK quarterly GDP growth**



**UK monthly GDP growth**

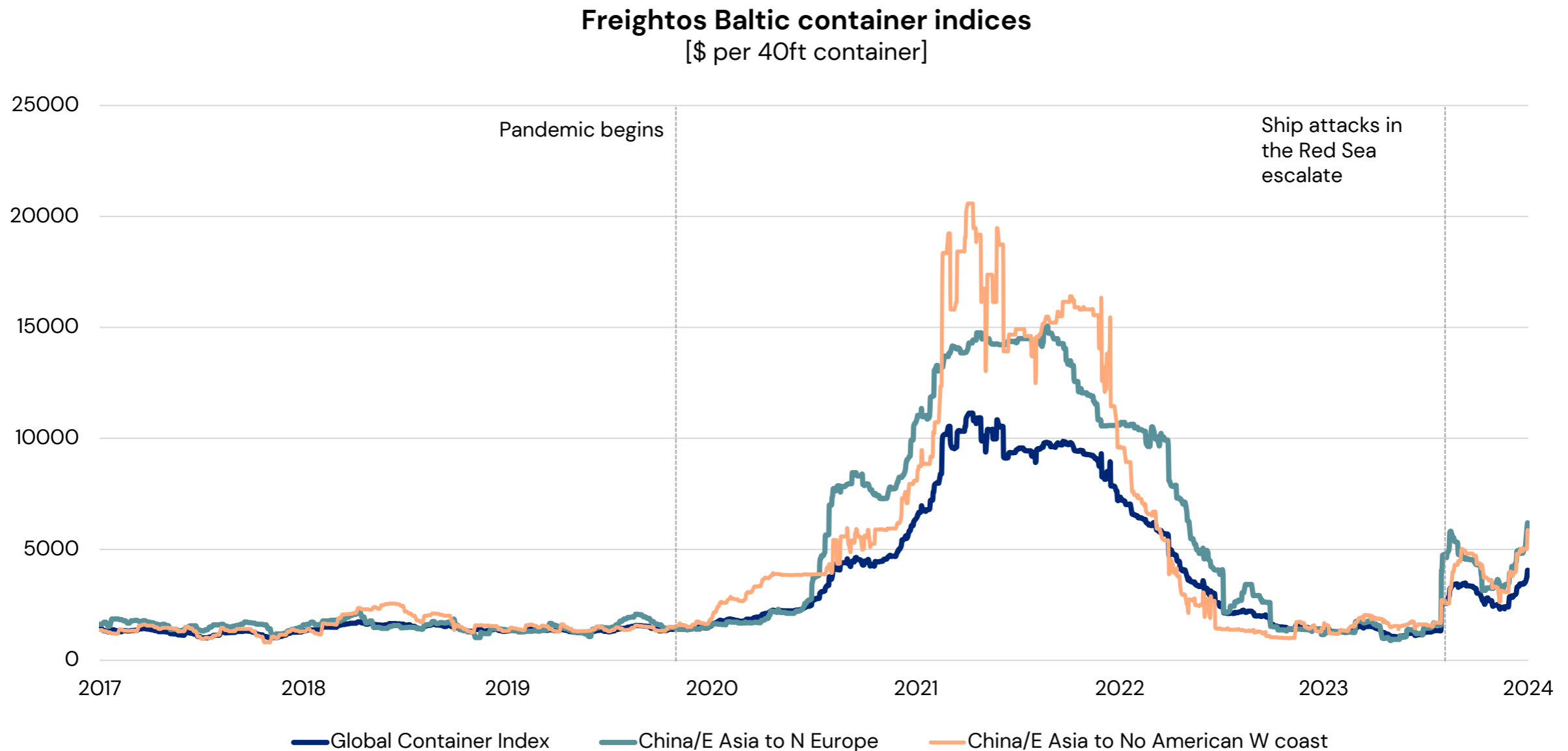


Source: LaSalle analysis of Eurostat, Office for National Statistics (UK), Statistisches Bundesamt (Germany), Insee (France). Data to April 2024. Latest available as of June 2024.

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# Shipping costs to Europe have increased in 2024

Costs spiked early in 2024, abated, now trending up in Q2



Attacks on shipping through the Red Sea have driven rising prices because they have forced shipping companies to divert traffic around the Cape of Good Hope. It has also contributed to port congestion, notably in Spain – where more goods are now being transferred. While still well below 2021–22 levels, the cost to ship from East Asia to Northern Europe is up 286% YTD.

Source: Thomson Reuters and Port Technology International as of 6 June 2024.

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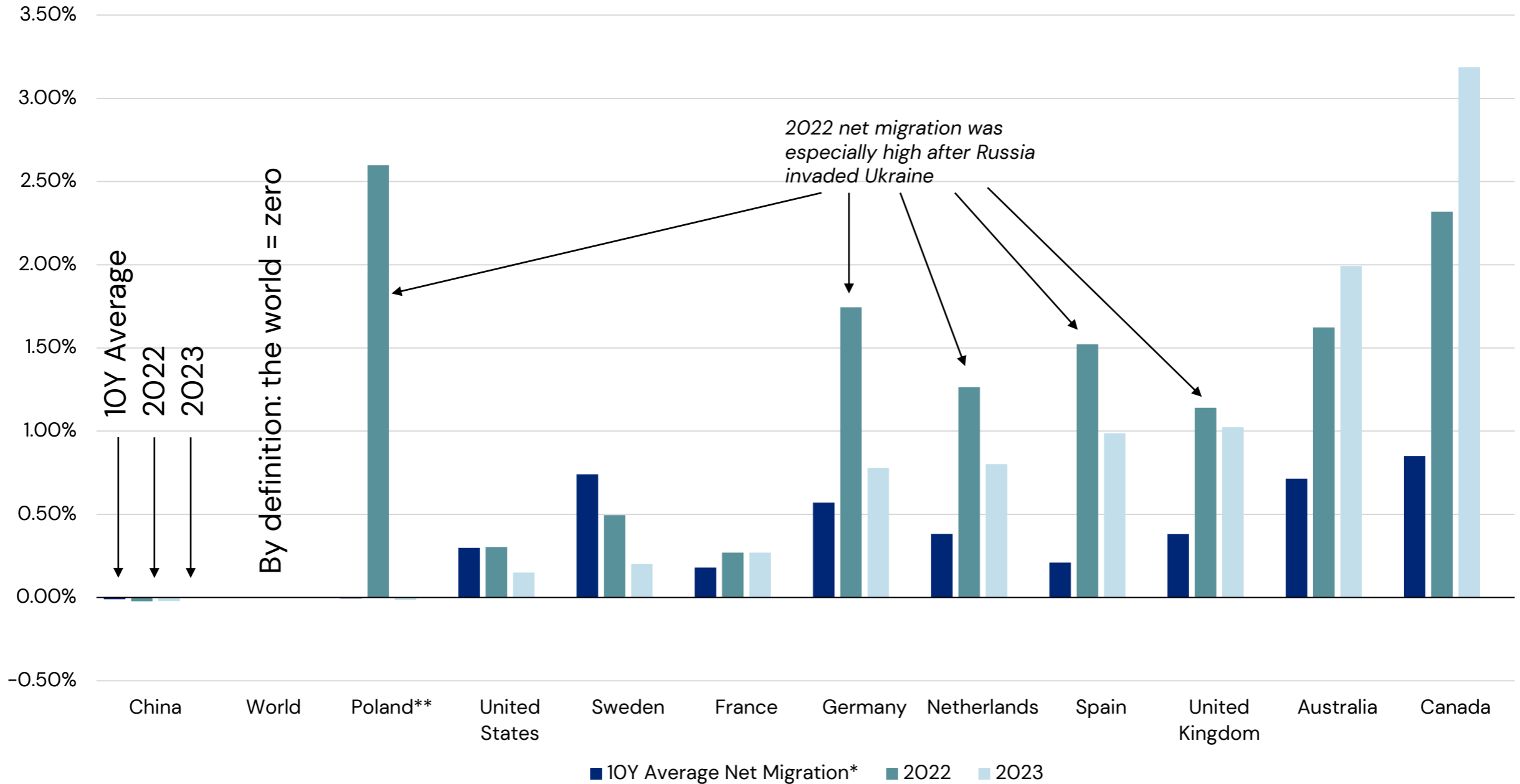


# Net migration to Europe down in 2023, still high

German, UK, Spanish, and Dutch net migration 2023 figures are well above its 10Y average; this topic has been a focus of elections in both the Netherlands and UK

**Net migration in 2023 vs. 10Y Average**

[% of population per year]

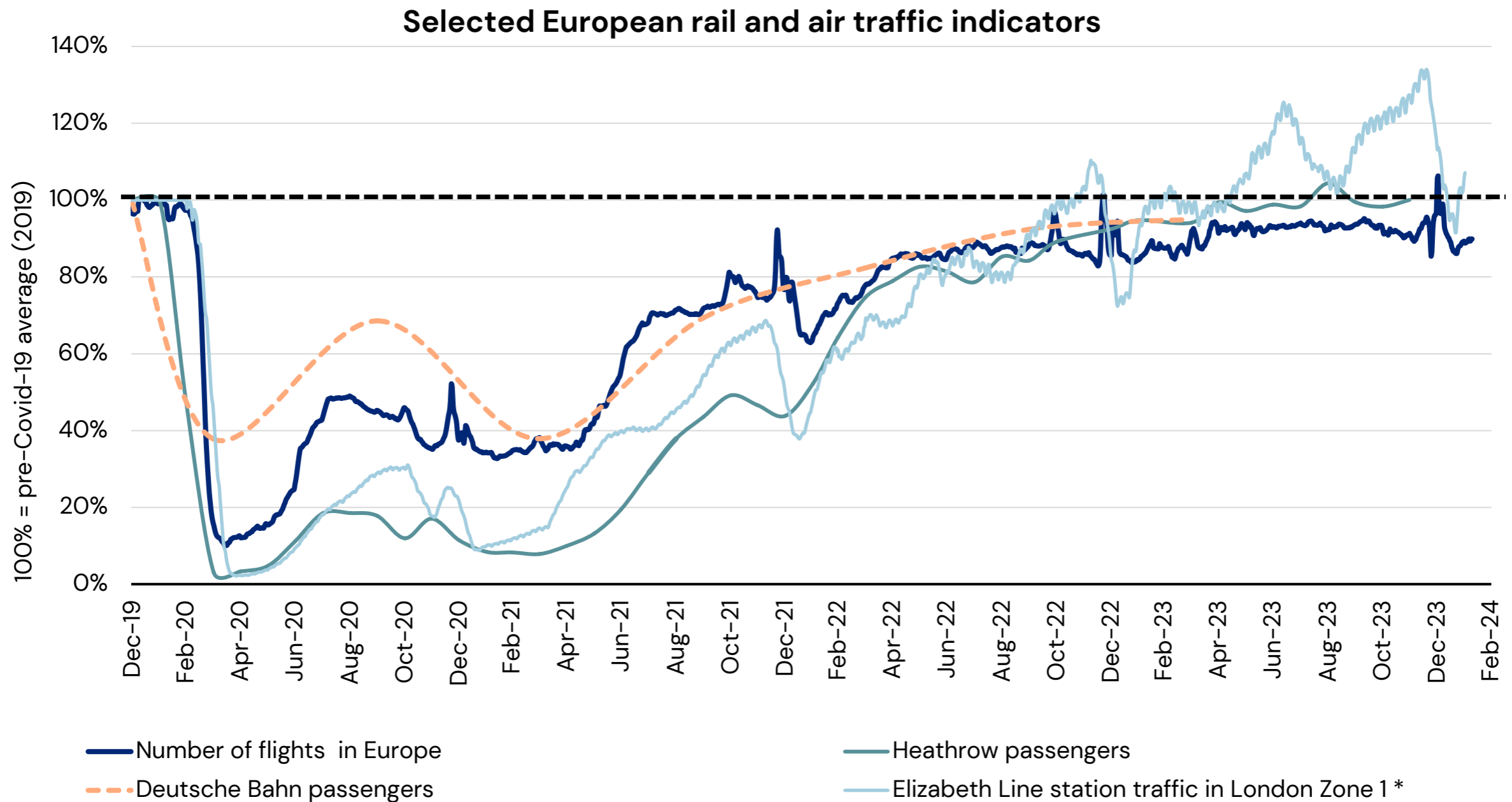


Source: LaSalle analysis of World Bank and national statistics agency reports on migration. \*10Y average excludes figures from 2022 & 2023. \*\* 2022 & 2023 Poland figures are based on Ukrainian migration

No assurances are given that these trends will continue or materialize as expected. Nothing herein constitutes a guarantee or prediction of future events or results and accordingly the information is subject to a high degree of uncertainty.

# European mobility has largely recovered

London office nodes near Elizabeth Line stations are benefiting from traffic boost



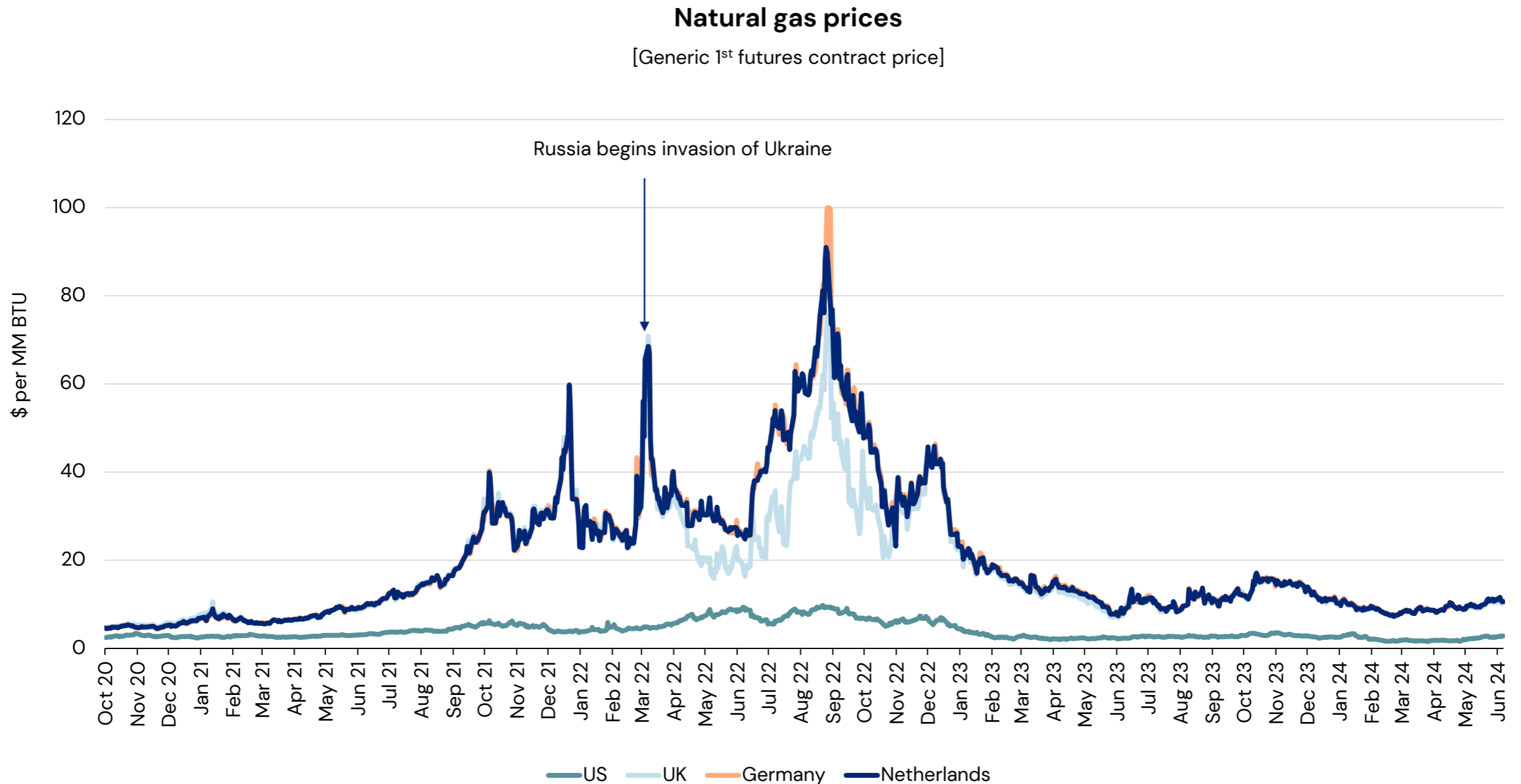
Sources: Transport for London, Eurocontrol, Deutsche Bahn, and Heathrow data to February 2024.

European flights area 7 day rolling average. Heathrow data is monthly, Deutsche Bahn data is biannual, and \*Elizabeth line data is seven day rolling average for swipe-ins at London Underground stations in Zone 1 at which the Elizabeth line.

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# Europe natural gas prices flat in 2024 YTD

Gas storage is also above trend and creates a buffer against future shortages



Gas storage had been flat in Europe for several weeks at 62% full but still above the 5-year average of 47% and the 60% full seen at the same stage last year

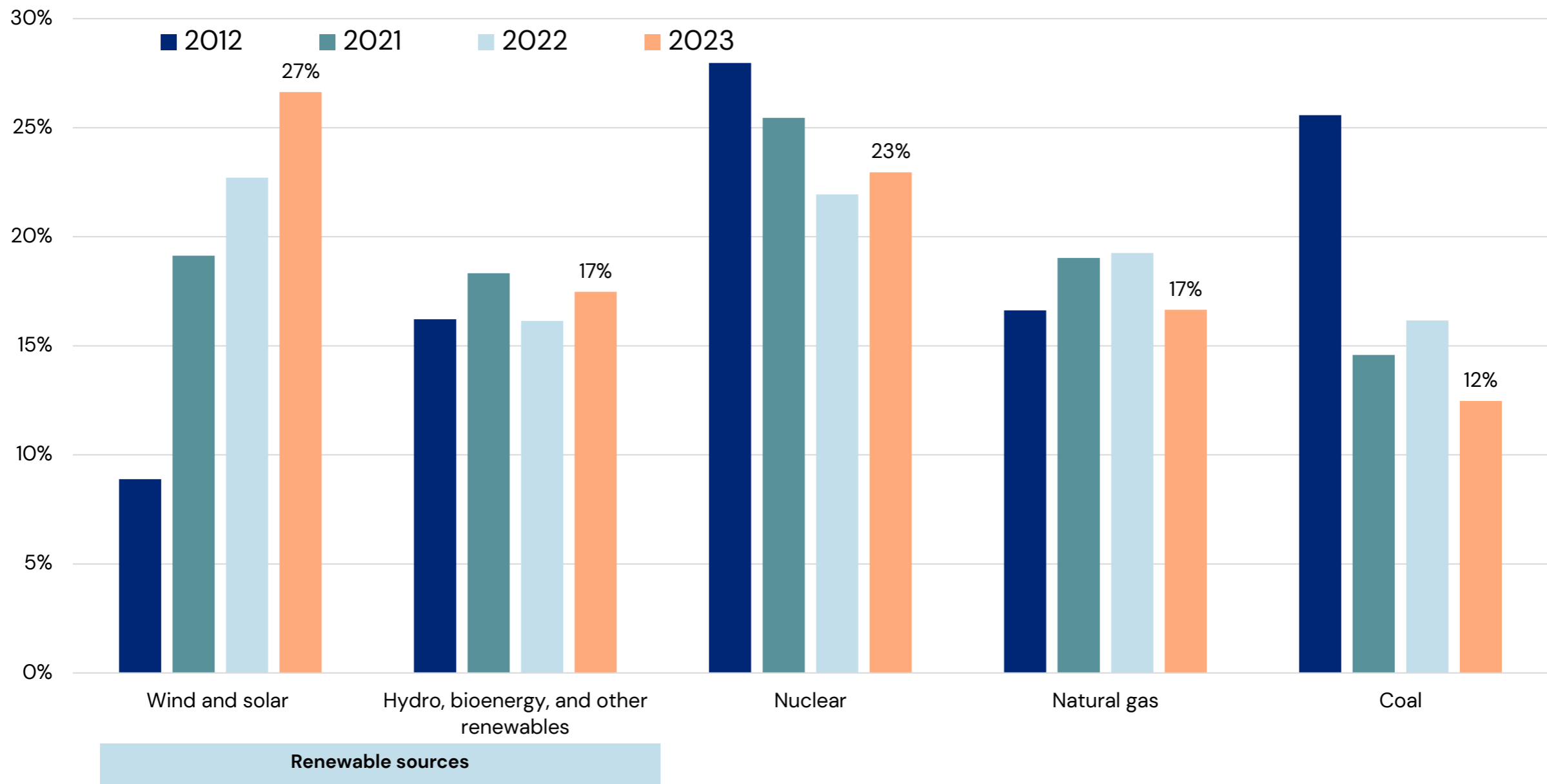
Source: LaSalle analysis of New York Mercantile Exchange and Intercontinental Exchange data via Refinitiv. Data to 6 June 2024.

No assurances are given that these trends will continue or materialize as expected. Nothing herein constitutes a guarantee or prediction of future events or results and accordingly the information is subject to a high degree of uncertainty.

# Renewables generated 44% of 2023 European electricity

The highest share of renewable electricity\* in EU's history

### European electricity generation share by source



\*Renewables include wind, solar, bioenergy (energy from organic materials such as trees, food waste, and crops), hydro energy, and other renewables (geothermal).

Note: This data is natural gas used for electricity generation – and does not capture natural gas usage for heating – which explains some of the difference in trend relative to the prior page.

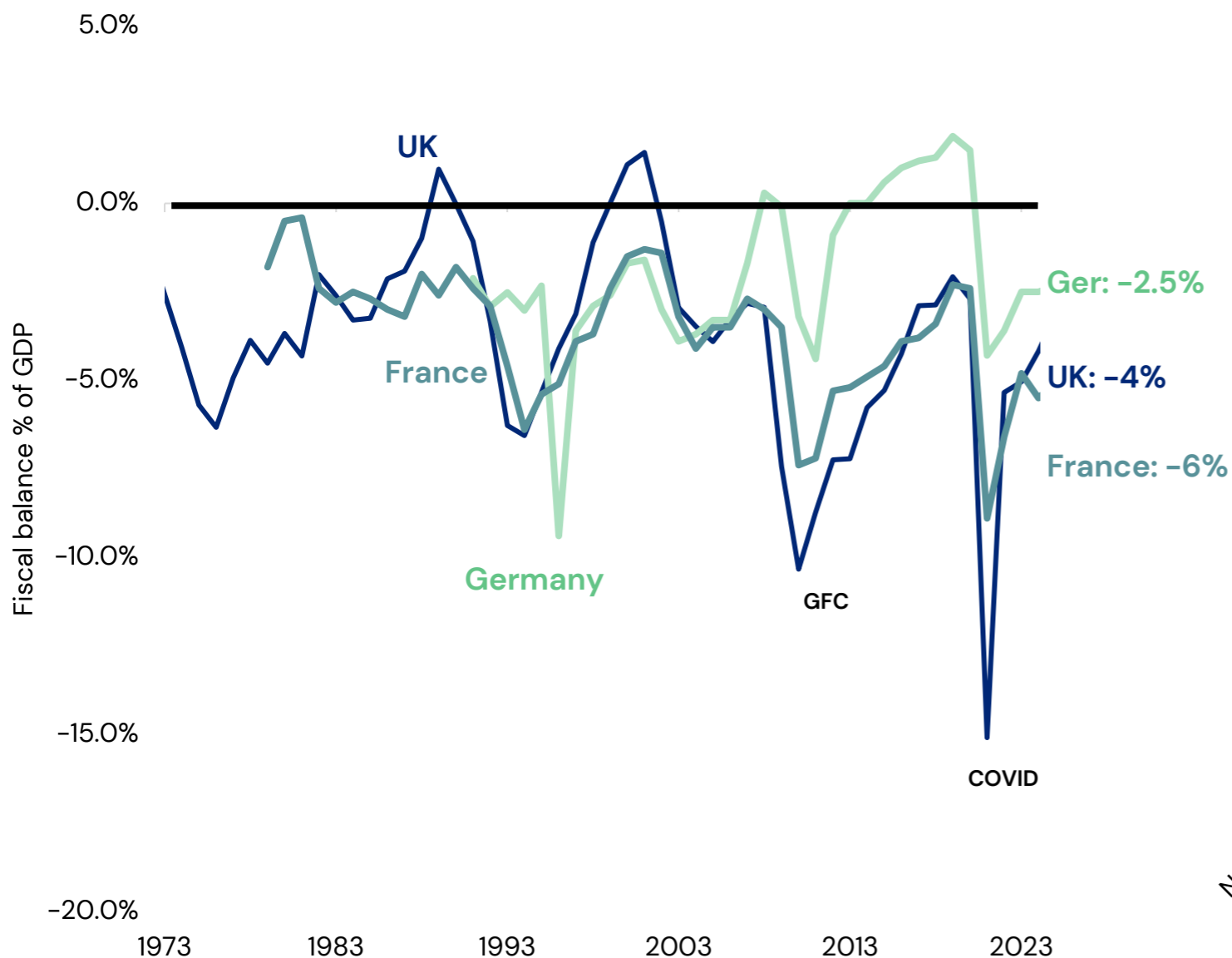
Source: Annual electricity data analysis by Ember (<https://ember-climate.org/insights/research/european-electricity-review-2024/>)

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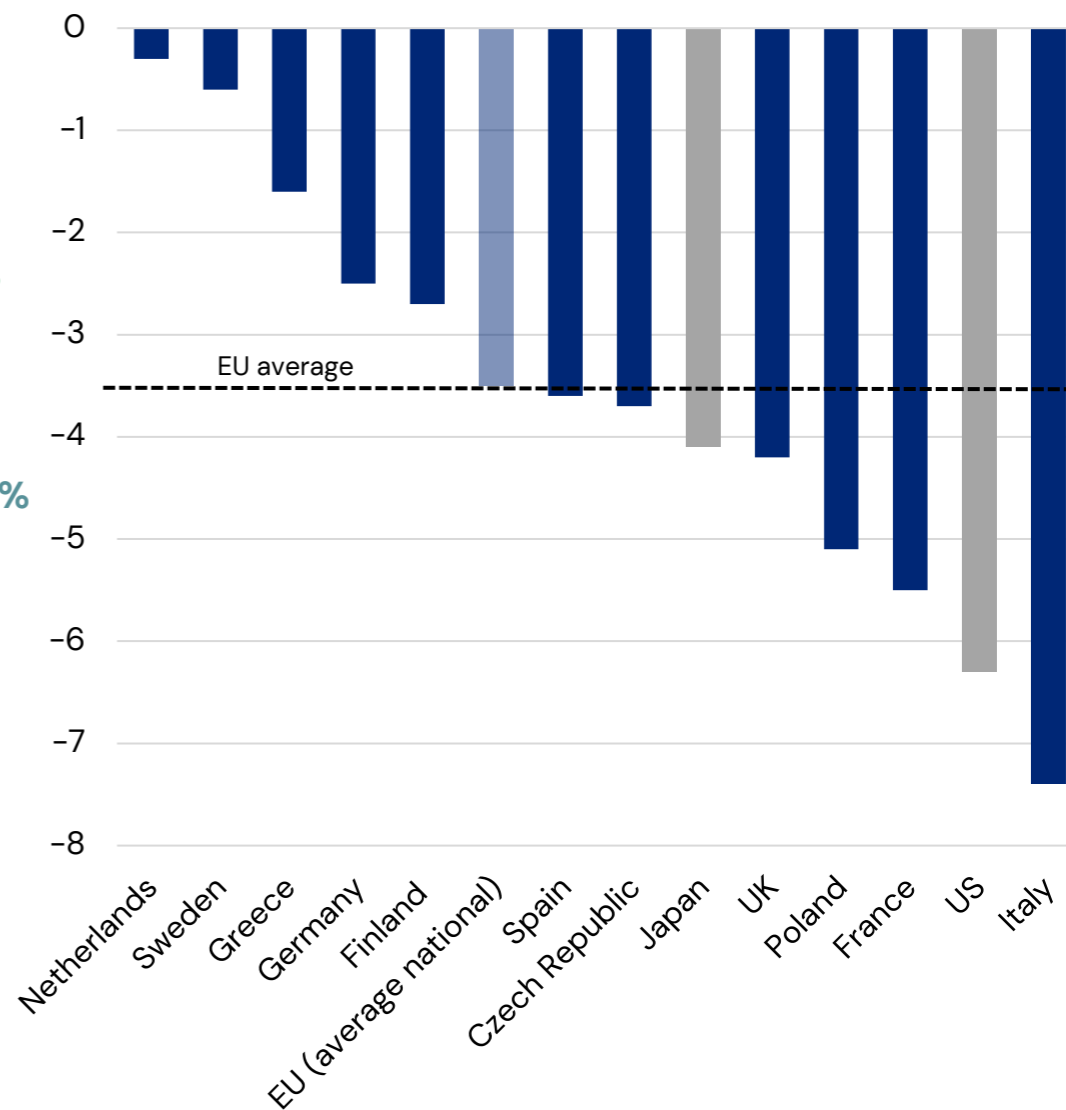
# Elevated deficits reduce room for fiscal manoeuvre

Range of fiscal conditions across European markets

Deficit/Surplus, % of GDP: last 50 years



2023 government deficit, as % of GDP



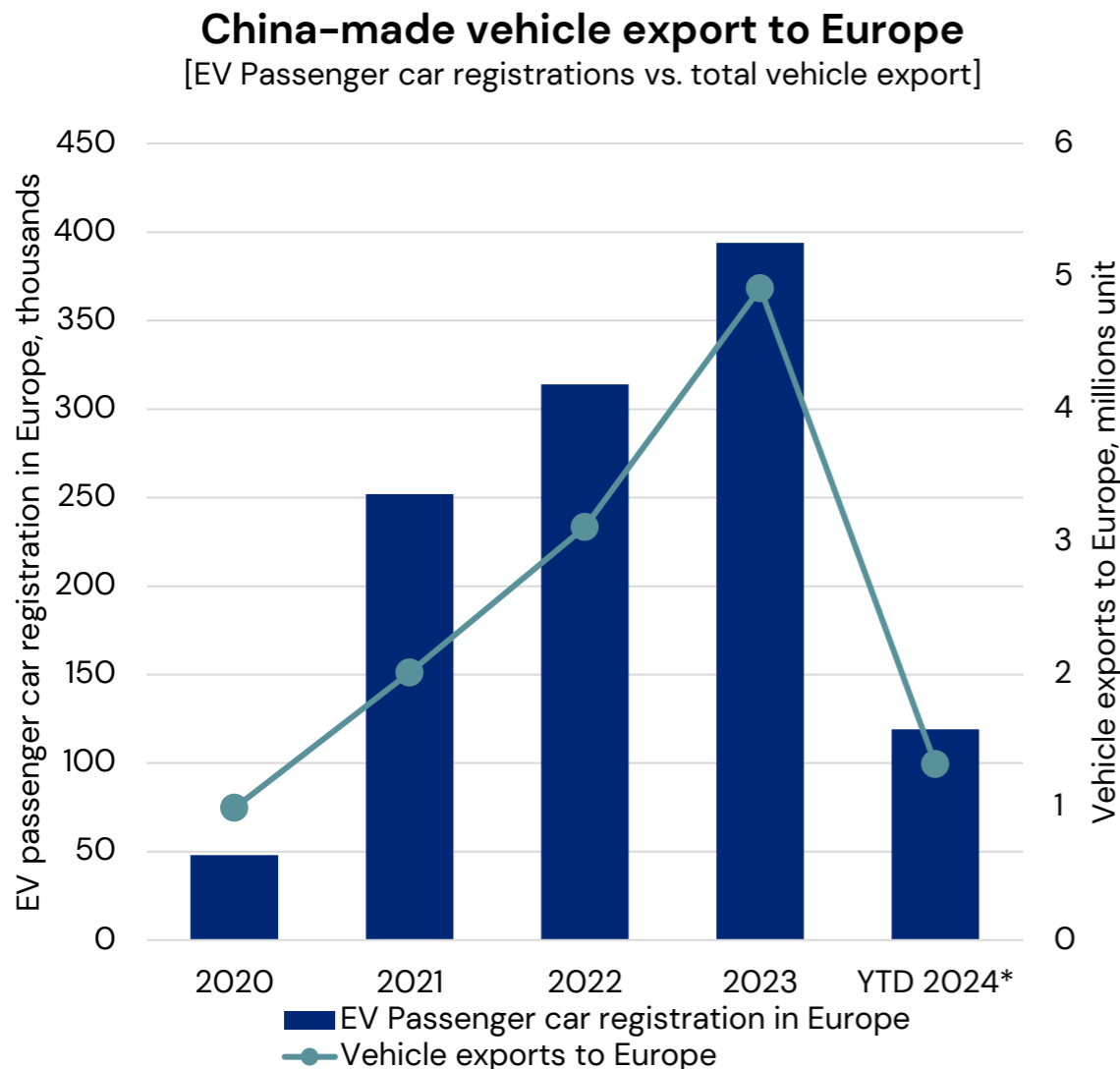
Deficits in Europe are elevated – near levels seen in historic crises and recessions. As a region, Europe’s average deficit and debt levels are below those in the US and Japan. However, major governments in Europe face varied constraints – from significant headroom in the Netherlands and Germany to more limited room for manoeuvre in Italy, France, and the UK.

Source: OBR, Insee, Federal Reserve (FRED), Oxford Economics, Eurostat, IMF. Data latest as of 14 June 2024,

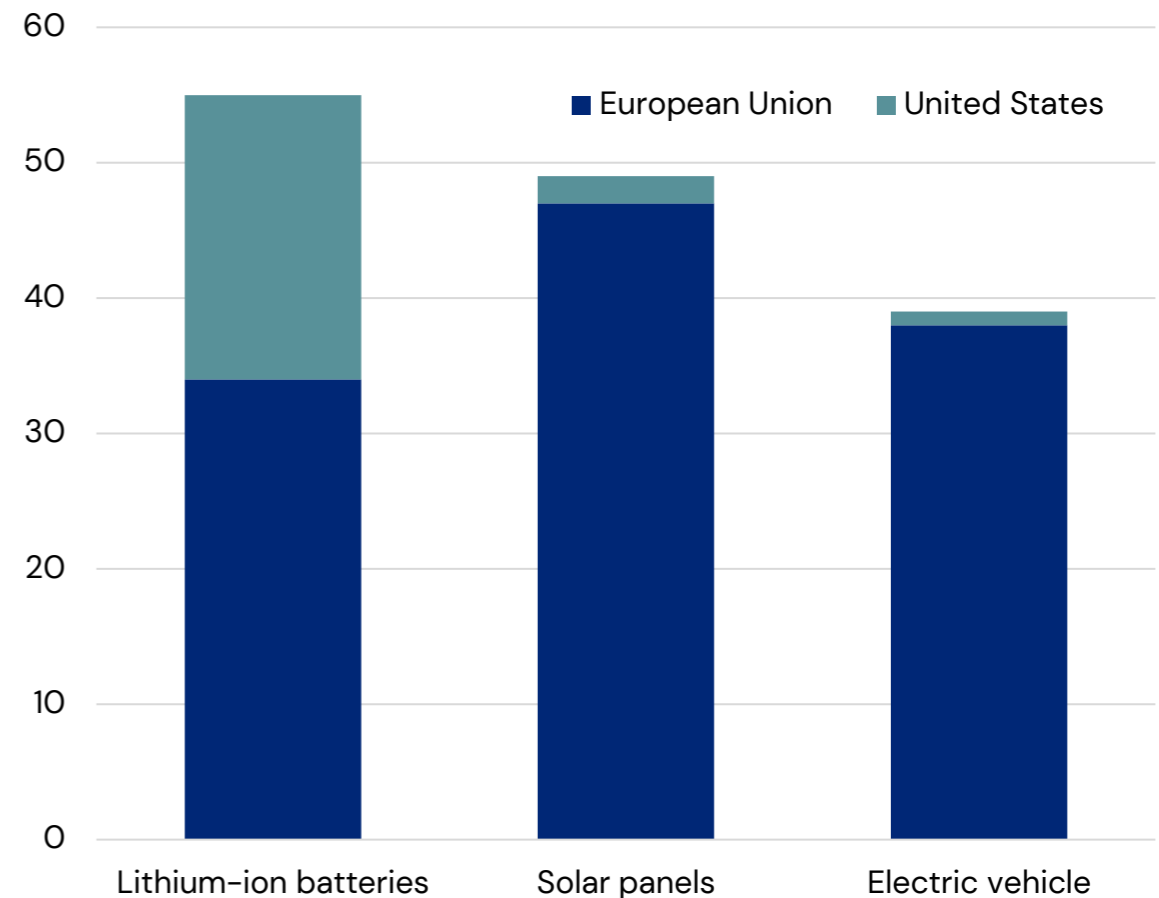
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# Possible glut of Chinese electric vehicles in Europe

European Commission announced additional tariffs on Chinese EVs in June



**China's direct export of selected goods to the US & EU**  
[% of China's total export, 2023]



Chinese electric cars are filling storage spaces across shipping hubs in Europe, with some automakers seeking to rent additional space to manage the excess inventory. According to the Association of European Vehicle Logistics (ECG), vehicle exports to Europe from China reached 1.3 million units in the first quarter of 2024. This represents an increase of 33% relative to the same period a year ago, with a large majority being EVs.

Europe has lower tariffs on many Chinese goods and trades significantly more with China than the US. In early June, the European Commission announced additional tariffs on Chinese EV exports of up to 38% (this compares to 100%+ US tariffs on Chinese EVs).

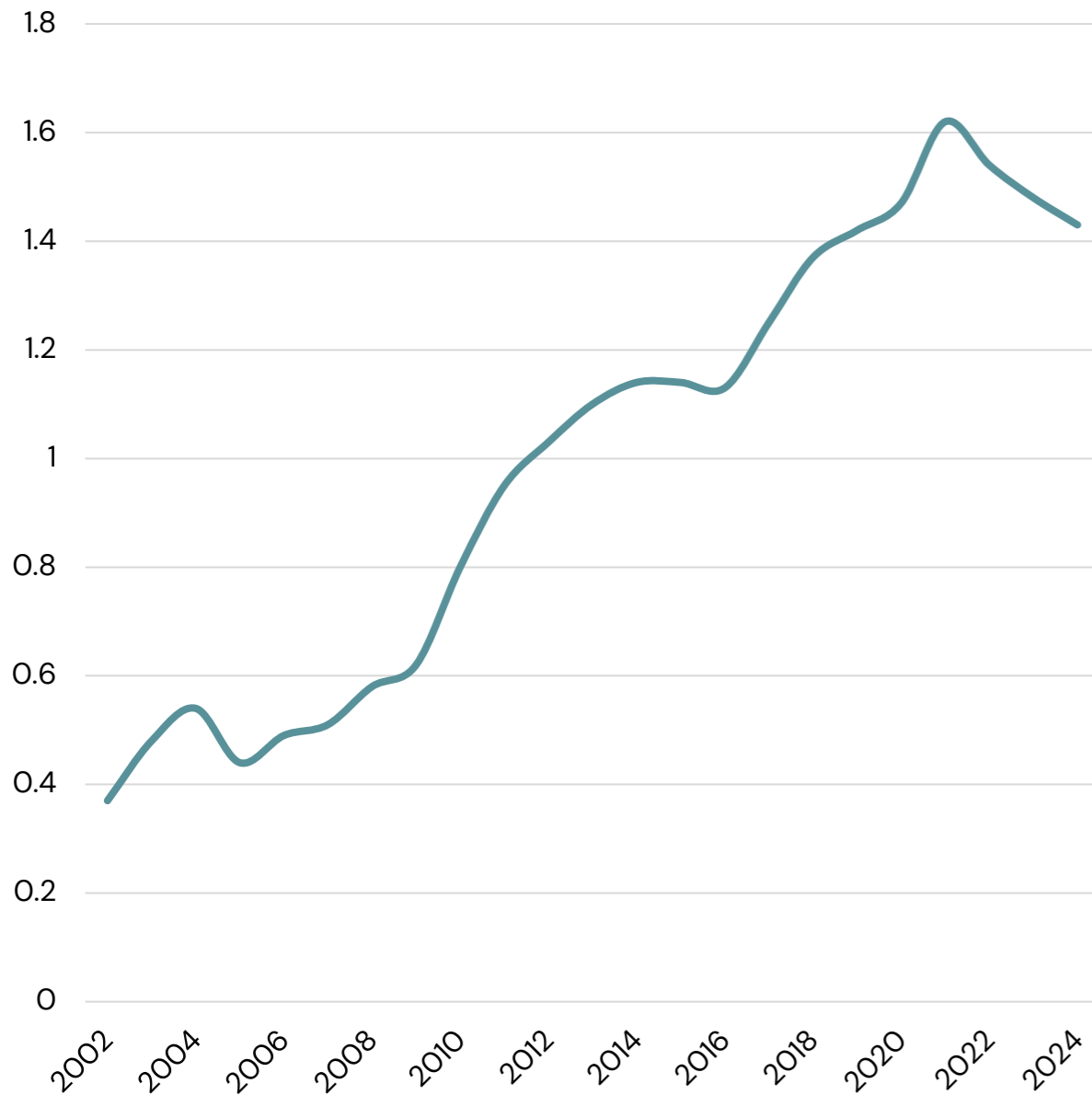
Source: Schmidt Automotive Research, ECG, and GACC data. Latest data as of 17 June 2024.

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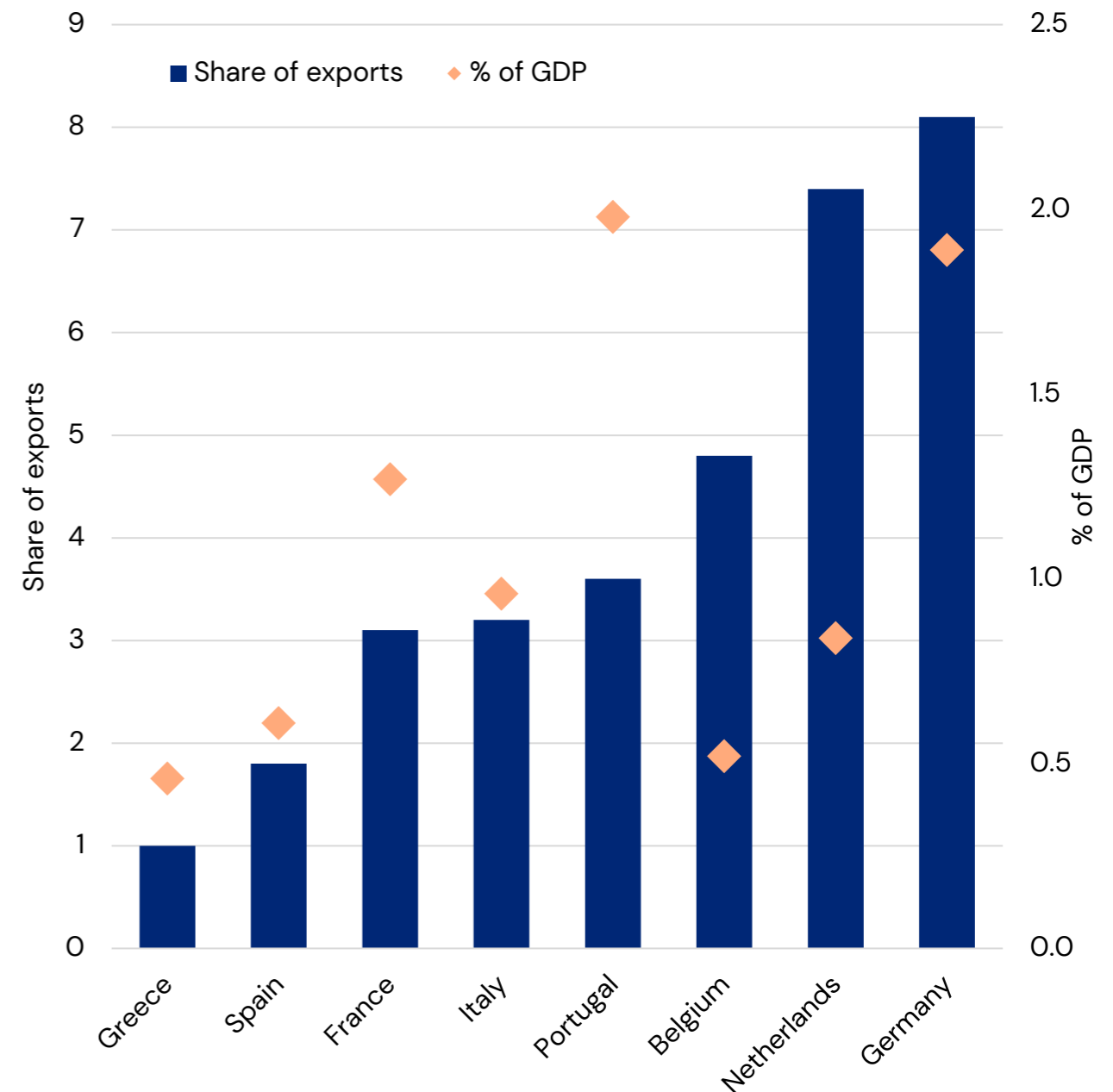
# Trade headwinds: European exports to China slow

Germany's economy is driven by exports to China more than any other market in Europe and could feel the impact of retaliatory tariffs the most

**EU27 export trade with China**  
[% of European Union GDP]



**Goods export to China in 2023**  
[% share of GDP and total goods exports]



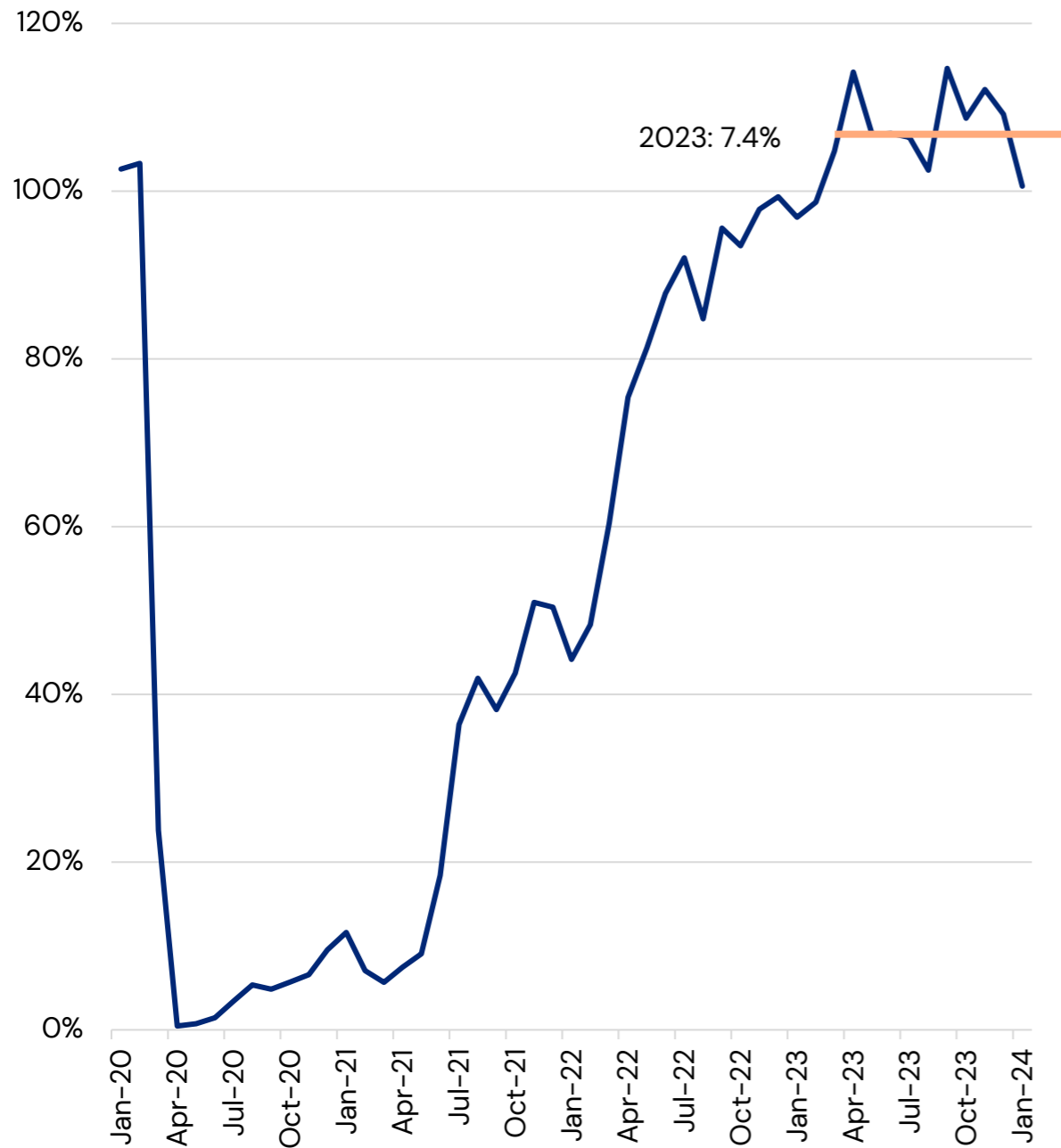
Source: Refinitiv data. Latest data as of 11 June 2024.

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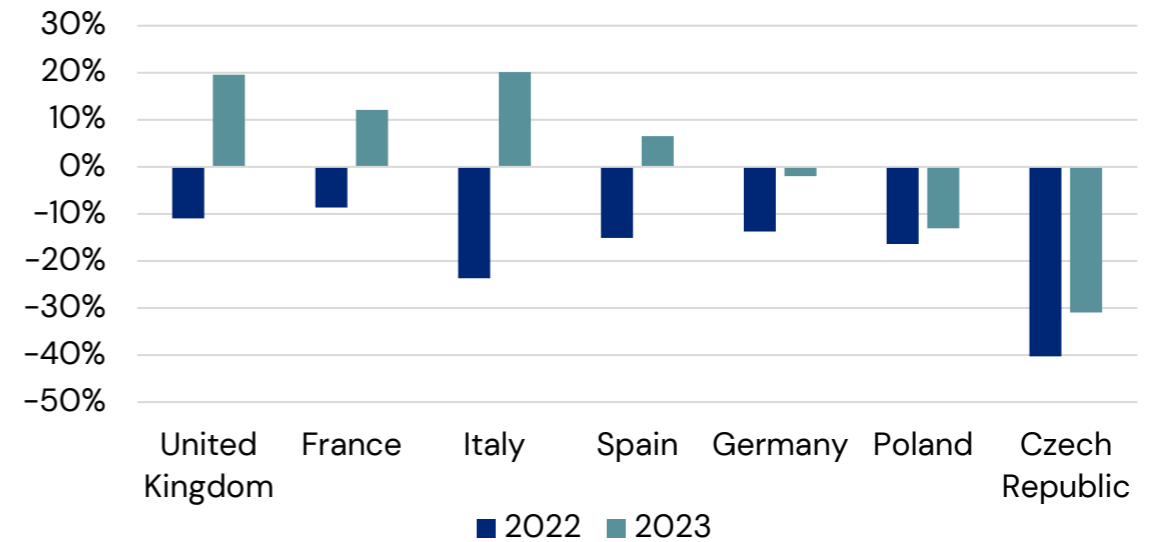
# US travel to Europe has strongly rebounded

Italy, France, and UK saw largest uptick in 2023; Olympics to further boost Paris visitors this summer

**US passenger departures to Europe**  
[relative to same month 2019]

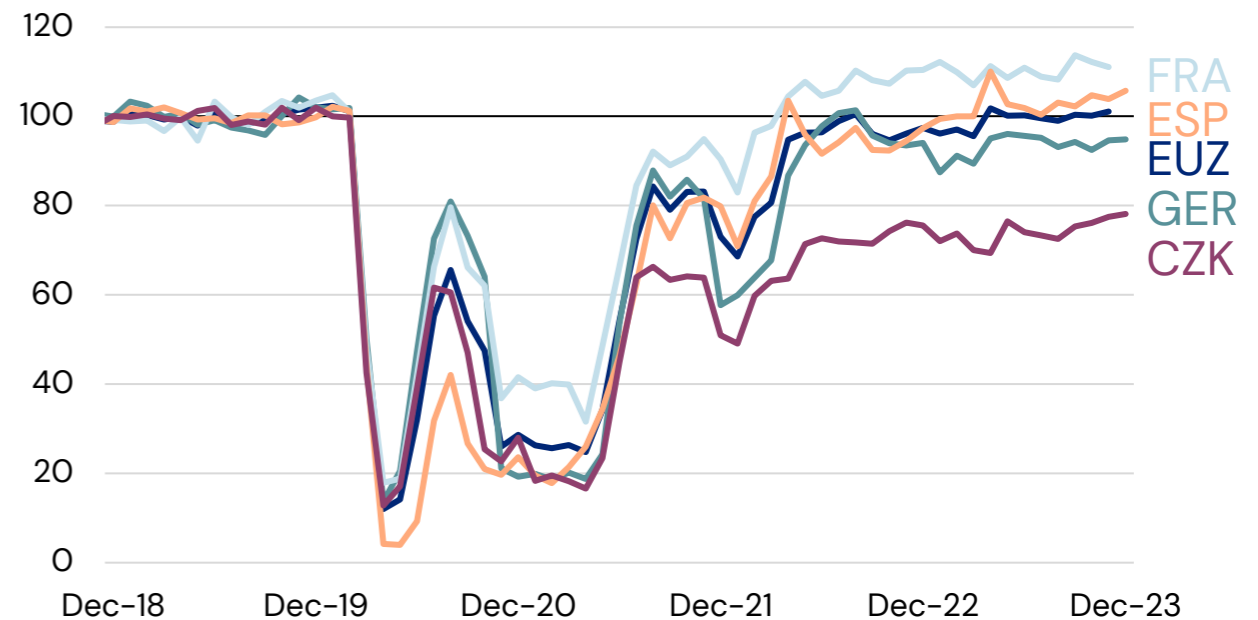


**European destinations of US travelers**  
[Number of travelers v 2019]



**Inflation adjusted revenue index**

[seasonally & calendar adjusted, accommodation sector, avg 2019 = 100]



Source: International Trade Administration and Eurostat data to April 2024.

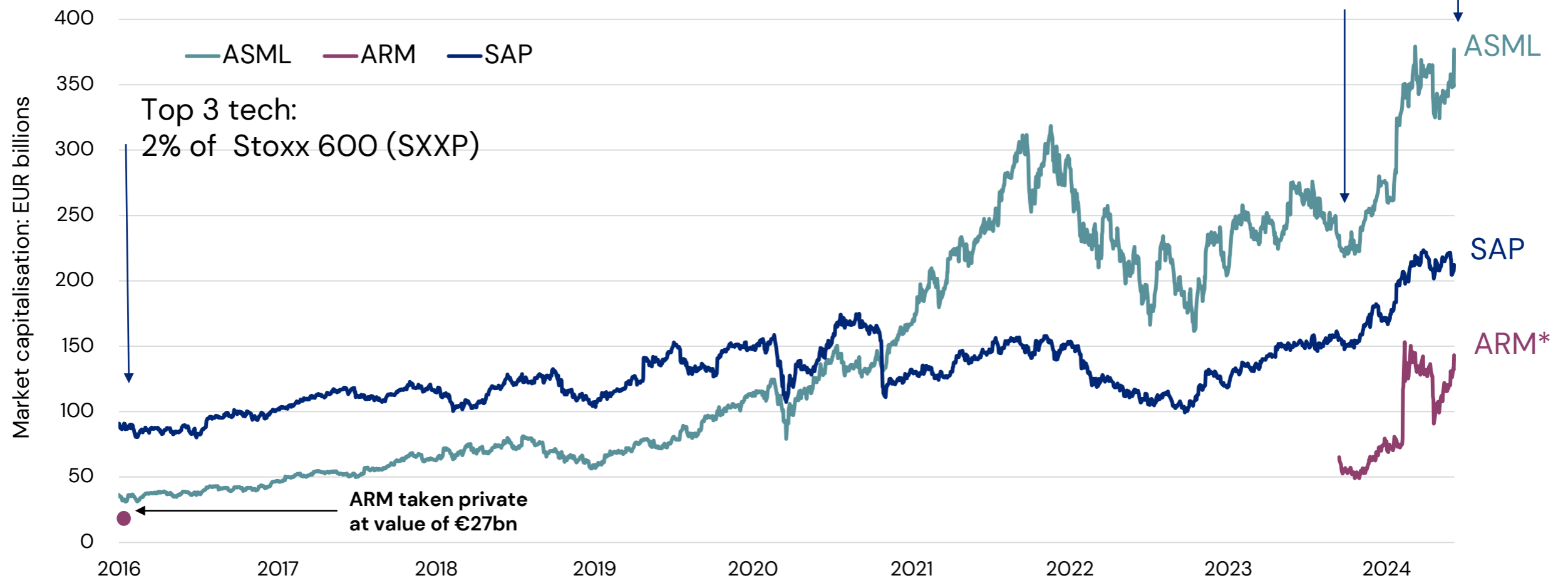
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# Europe's largest native tech firms boom

While much smaller than the US tech giants, AI tailwinds have led Europe's top three native tech firms to comprise a higher share of overall market cap

Market capitalisation



June 2024: Top 3 tech	Market cap	Global rank (all public firms)	Change in value – 1Y
1. ASML	€377bn	22	+39%
2. SAP	€212bn	50	+41%
3. ARM	€143bn	98	+120% from Sept. IPO

\*ARM went public on September 14, 2023 and therefore no public pricing data available prior to that date. ARM is listed on New York's Nasdaq but based in Europe.

Based on company HQ, not listing. US listed in Ireland excluded. Prosus excluded.

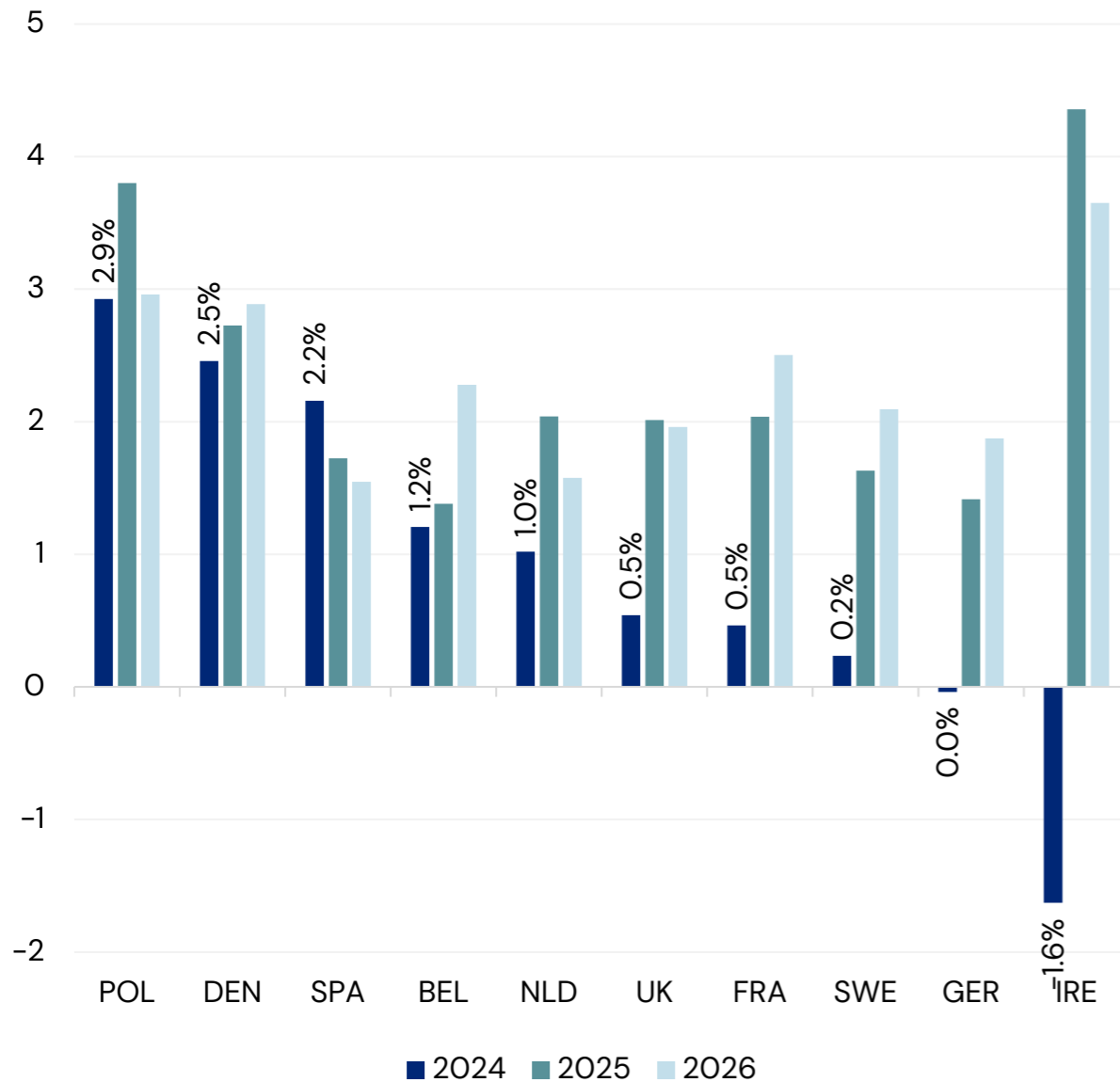
Source: Refinitiv LSEG data to 6 June 2024.

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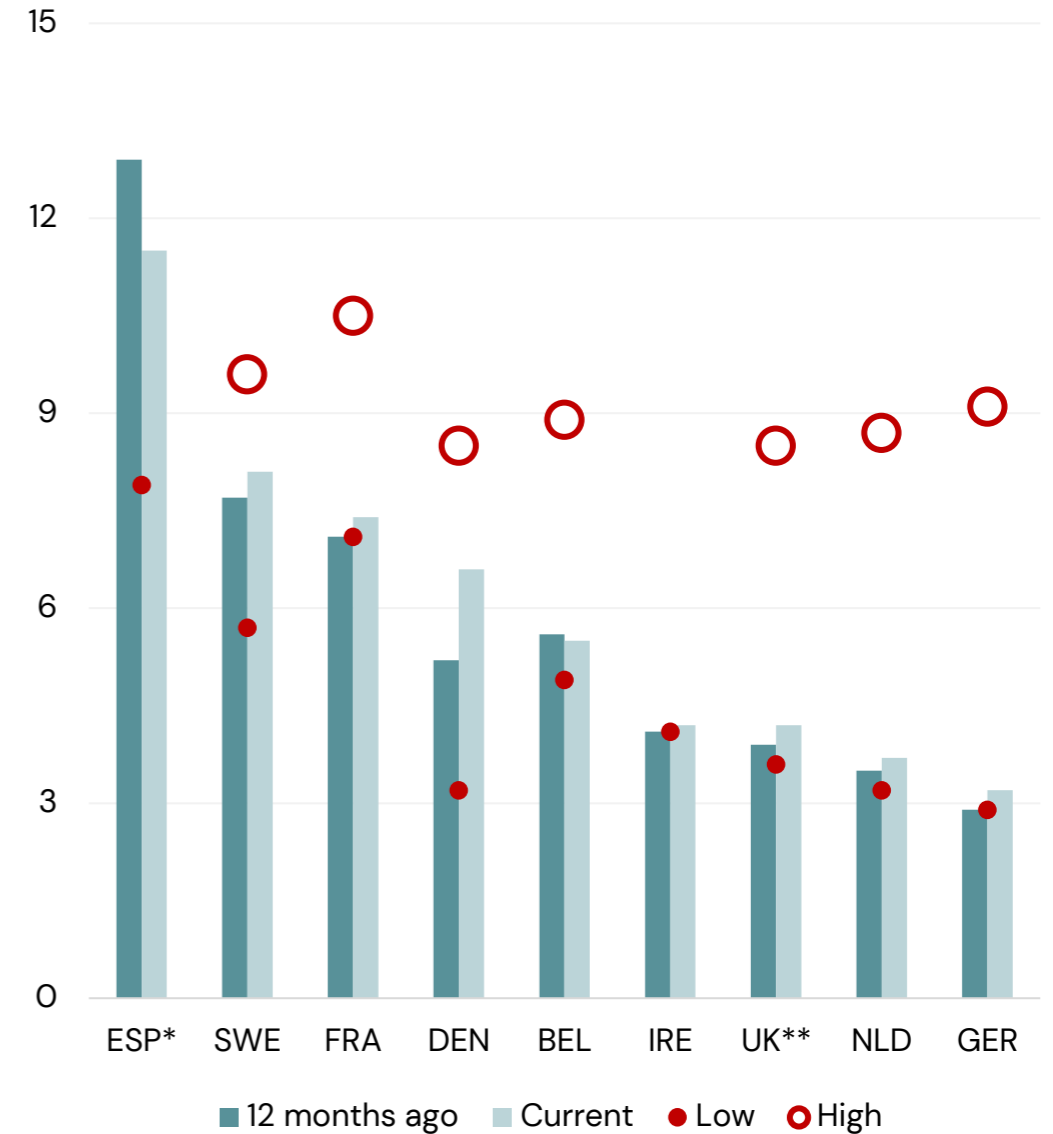
# European growth: Poland, Denmark, and Spain to lead

## Economic growth & unemployment rate forecasts

**GDP growth forecasts**  
[% p.a.]



**Unemployment rate**  
[%; as of February 2024]



\*\*The highest Spanish unemployment rate was 26%

\*\*Lagging one month

Note: High/low since January 2006; Spain's highest unemployment rate @ 26.4%

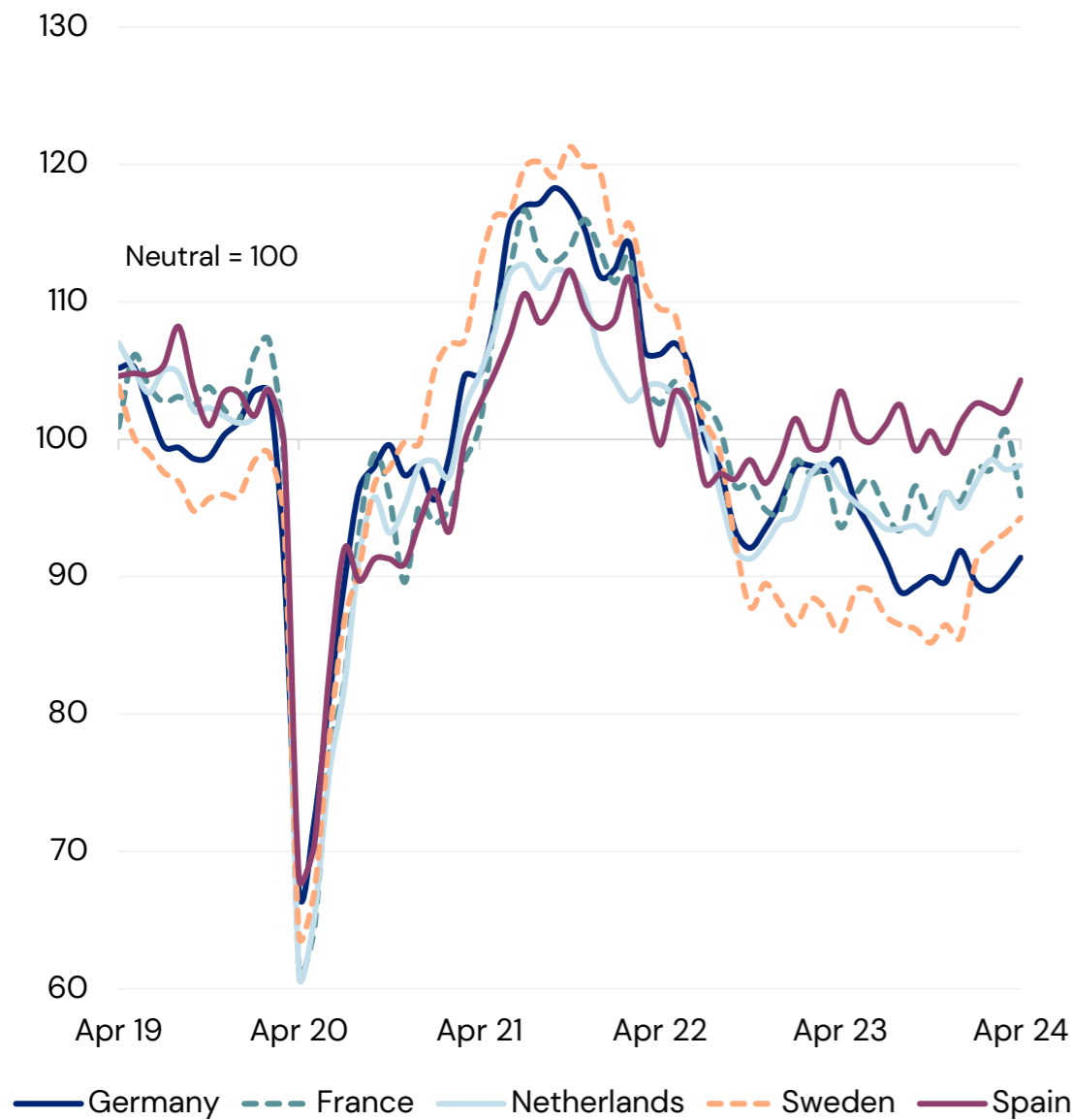
Source: LaSalle analysis of Oxford Economics data through April 2024 and Thomson Reuters data to February 2024.

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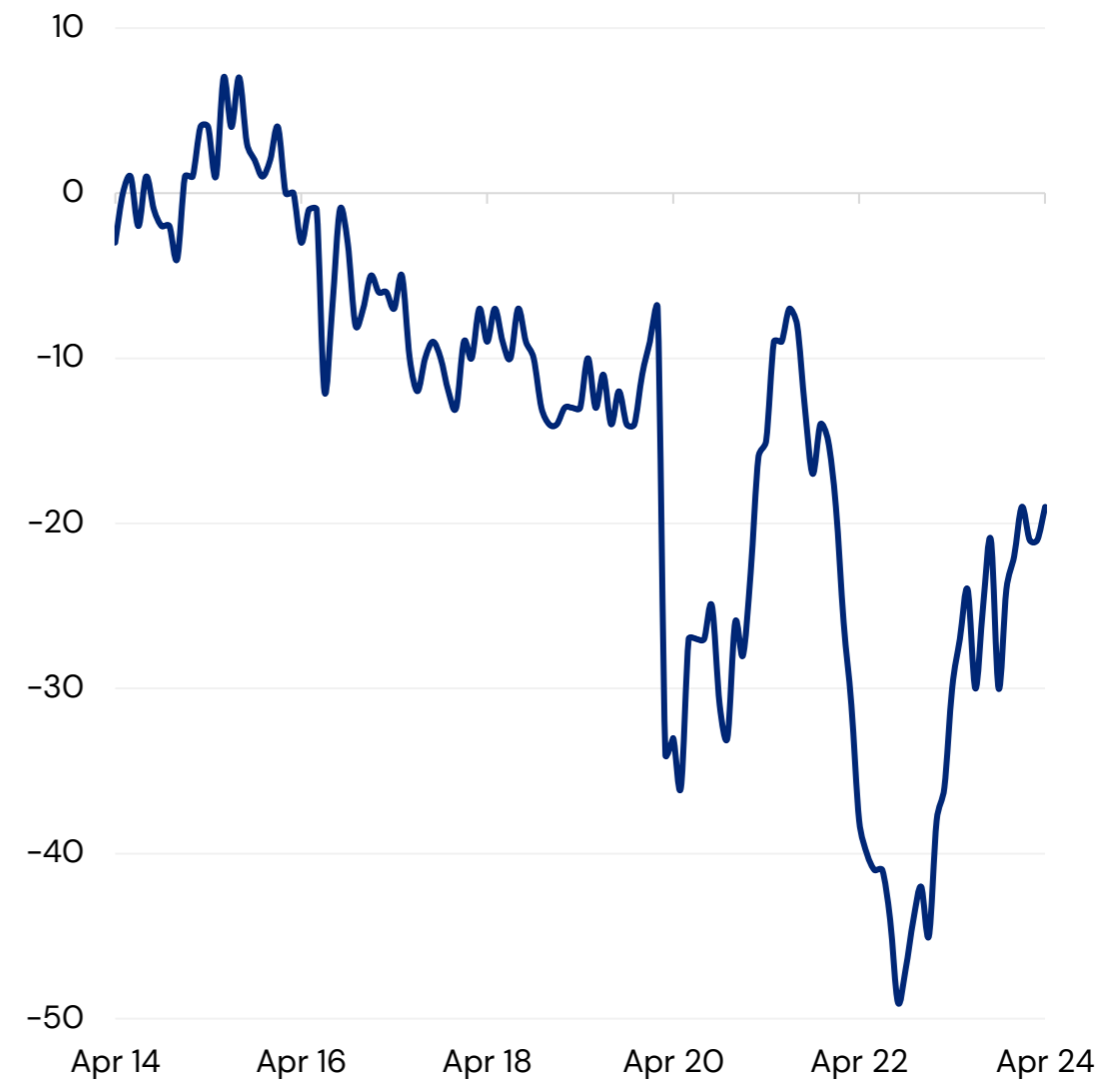
# Spanish sentiment points to a positive near-term outlook

Sentiment weakest in Sweden and Germany

### Economic sentiment indicator [Monthly index]



### UK consumer confidence index [Monthly Index]



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

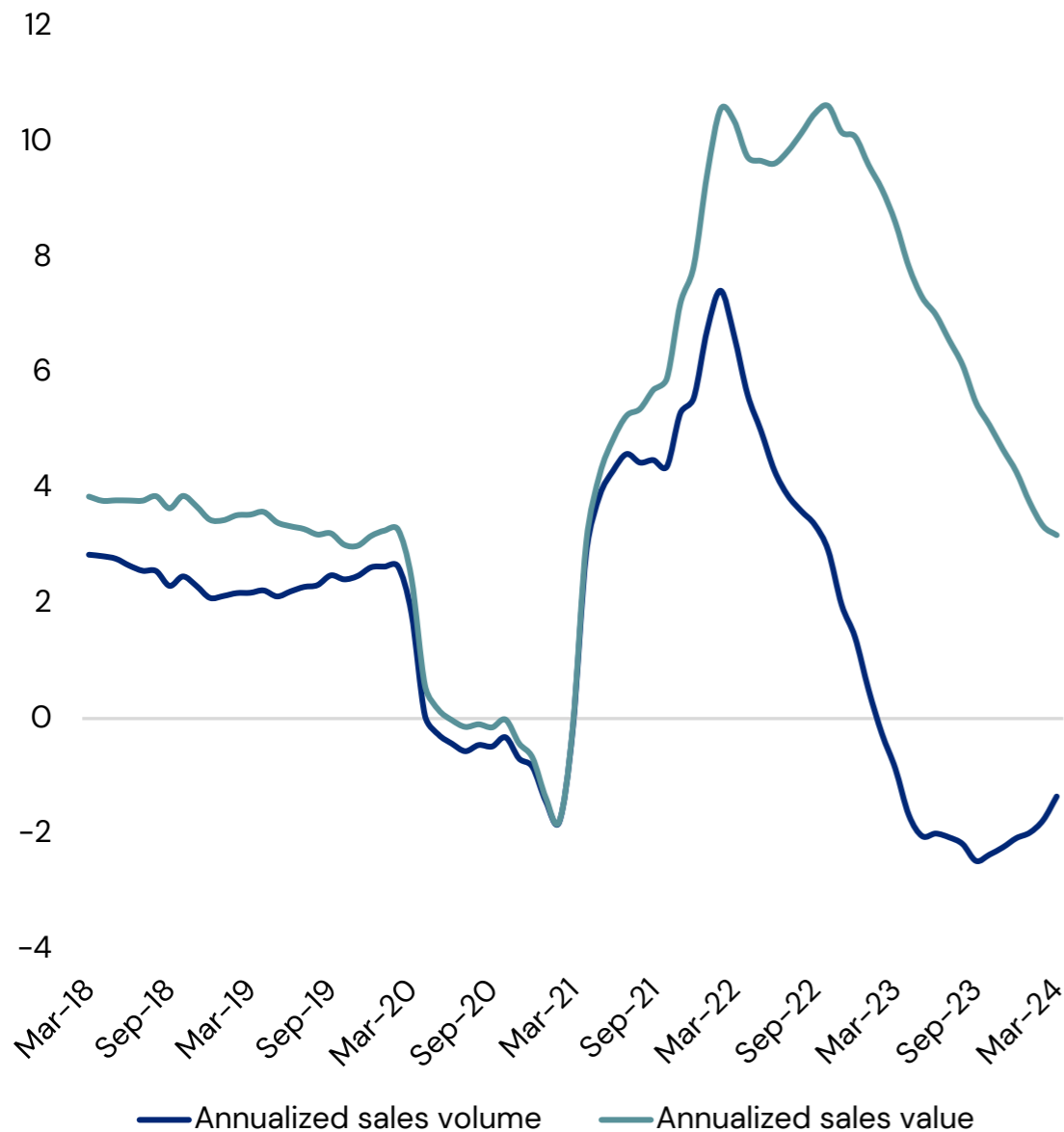
Source: LaSalle analysis of Thomson Reuters data to April 2024 and GfK data to April 2024.

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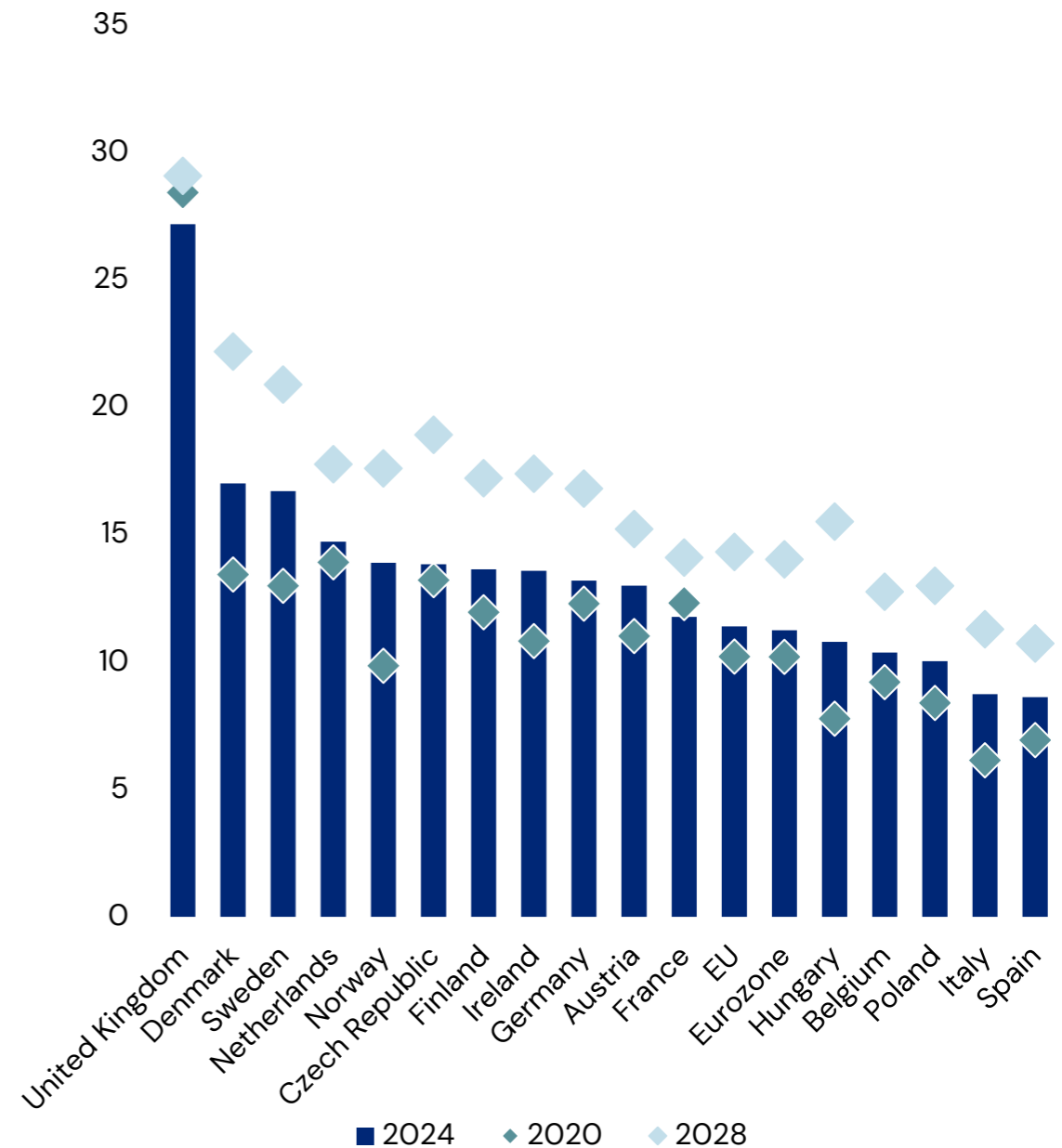
# EU retail sales volume ticks higher

Ecommerce gains expected, but at a more gradual pace than seen over last 10 years

**EU27 retail sales growth**  
[Annualised turnover index, % y/y]



**Retail spending online share**  
[European countries, %]



Source: LaSalle analysis of Eurostat data to March 2024 and PMA data as of April 2024.

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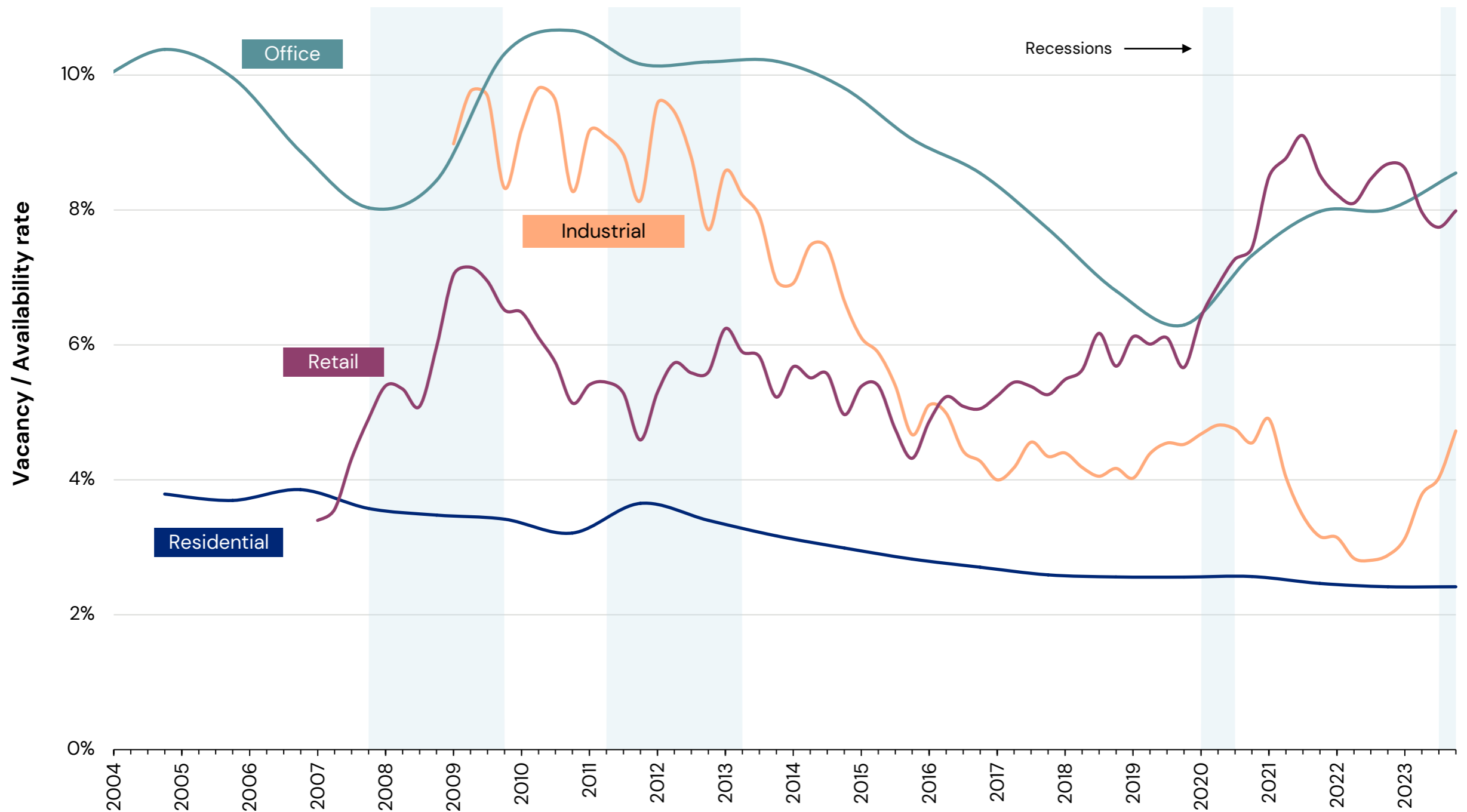
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# Real estate occupier trends

Demand & Supply indicators

# Europe real estate vacancy by property type

Reflects a mix of structural and cyclical changes



Source: JLL (Europe office and industrial), MSCI (Europe residential and retail). Data through Q4 2023.

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# Europe rent growth history: nominal vs. real

Nominal growth comes off the boil but real rent growth has recently improved



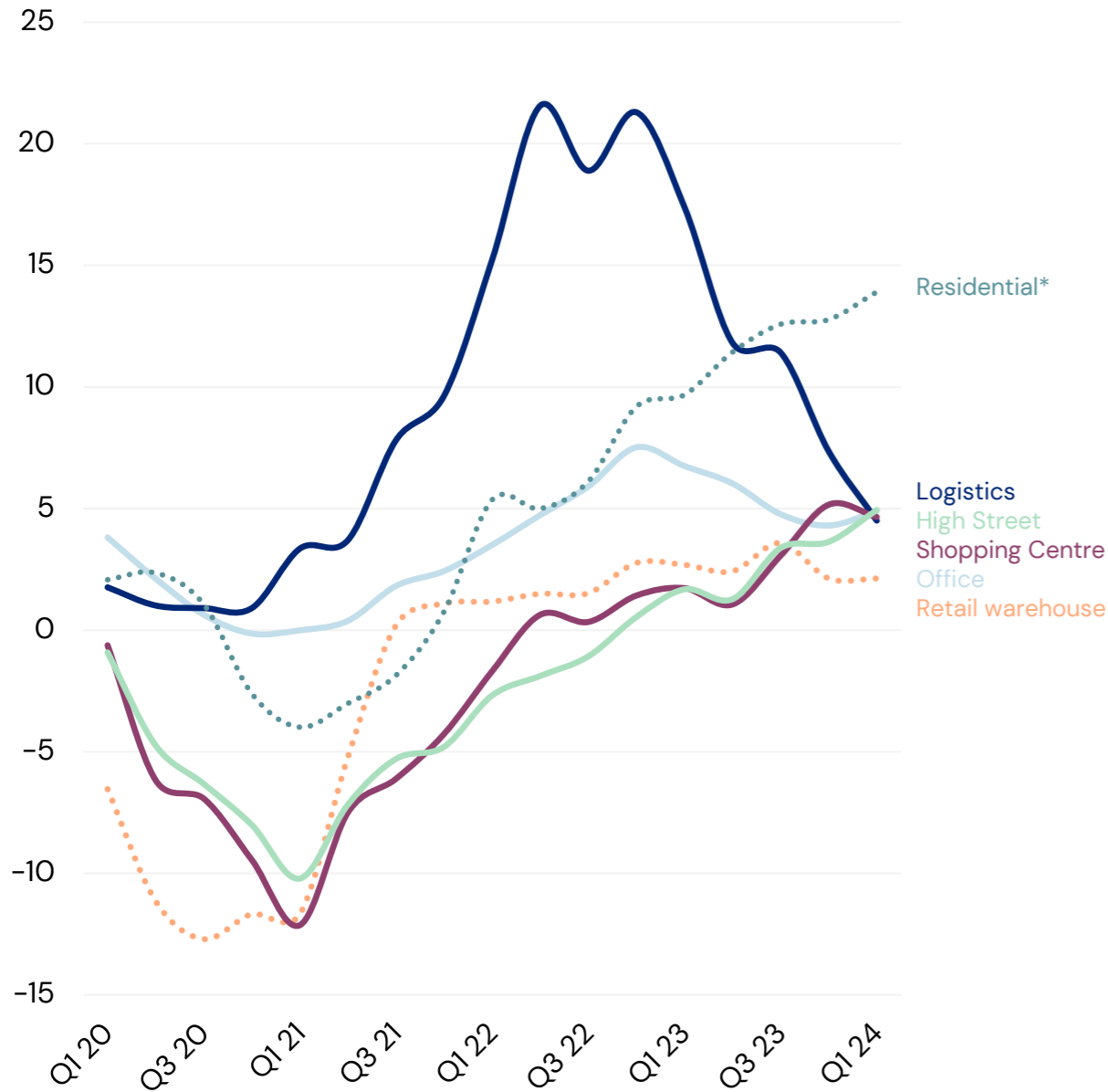
Source: LaSalle analysis of JLL and MSCI data. Data to Q1 2024 where available.

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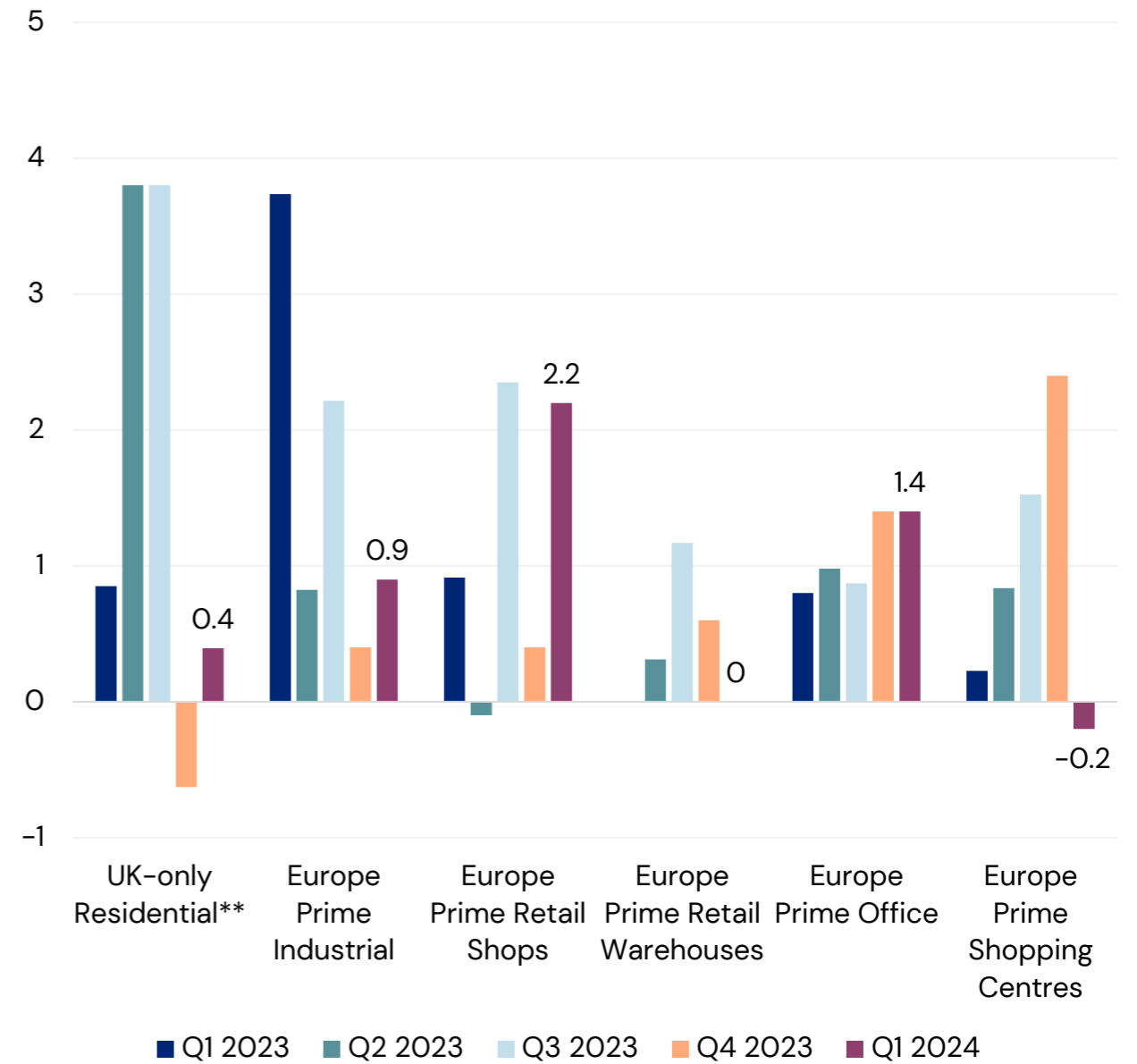
# Nominal rent growth by property type

Prime office and trophy high street rents deliver positive rent surprises so far in 2024

### Y/Y European prime rental growth [%]



### Q/Q European prime rental growth [%]



\*Average rent. \*\*UK residential rent data is based on new listings (rather than in-place rents).

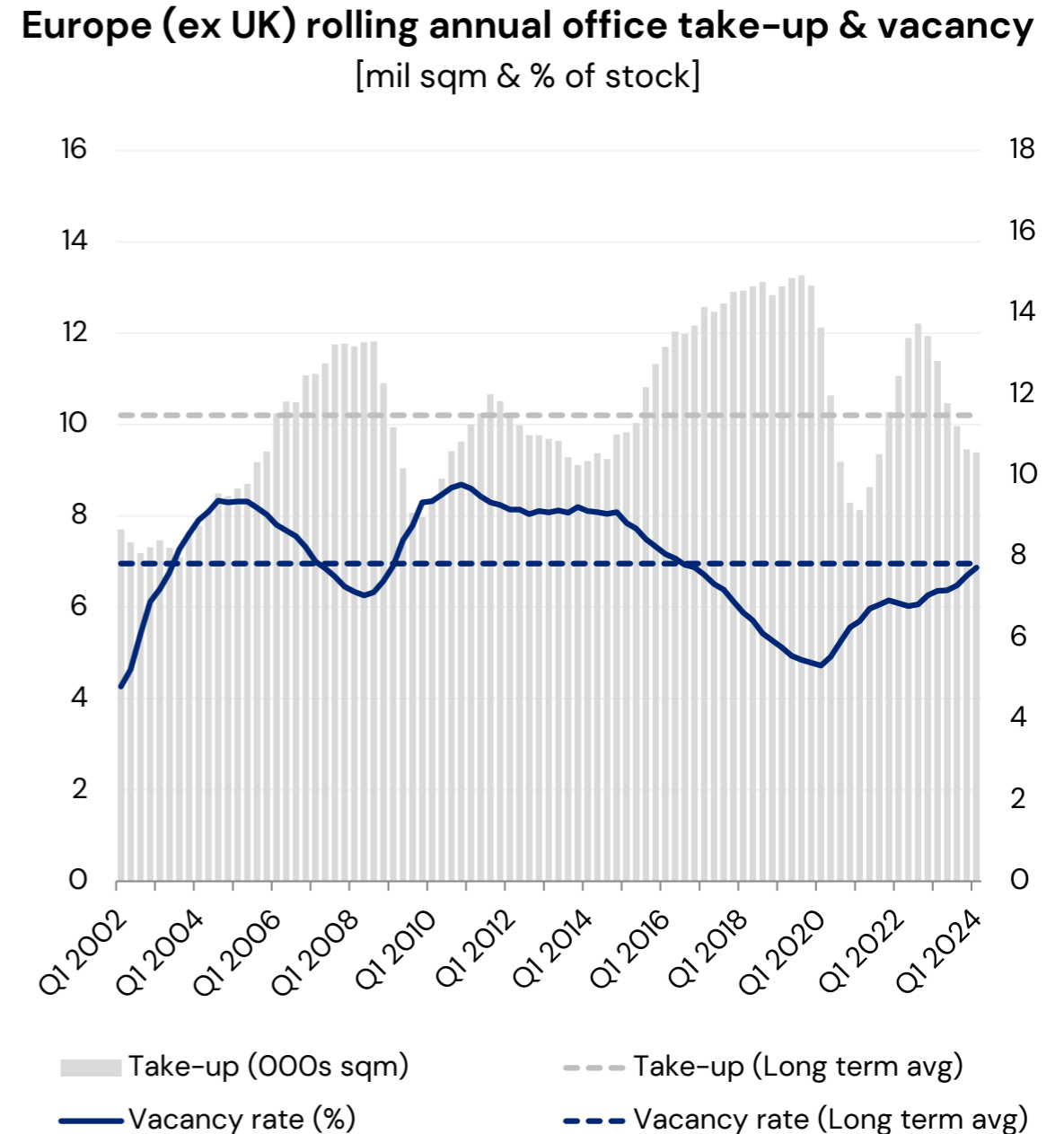
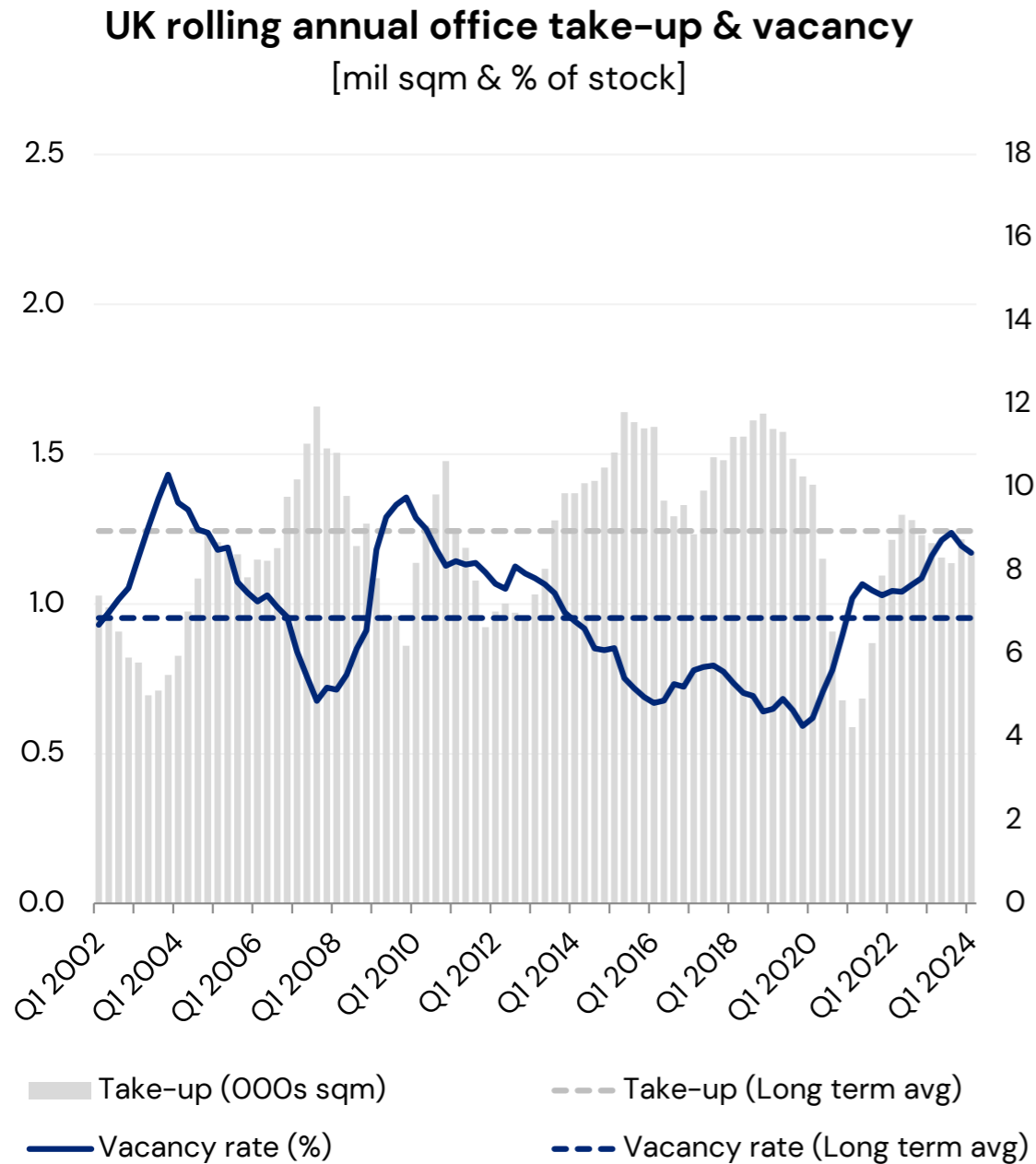
Source: LaSalle analysis of JLL, HomeLet data to Q1 2024.

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# UK office vacancy ticks lower after 2021-23 increases

Aggregate data shows a soft average, but also masks bifurcation behind that average

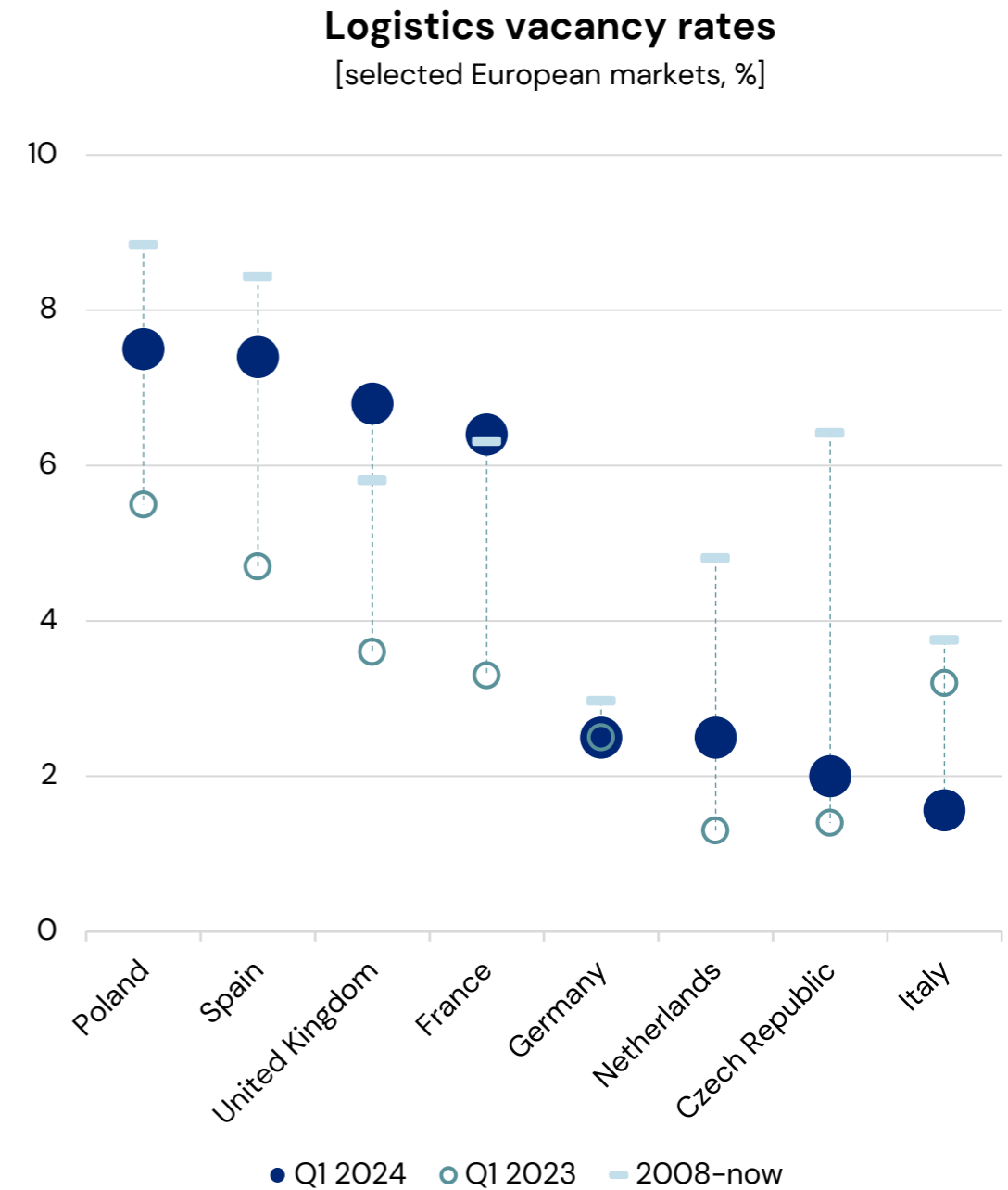
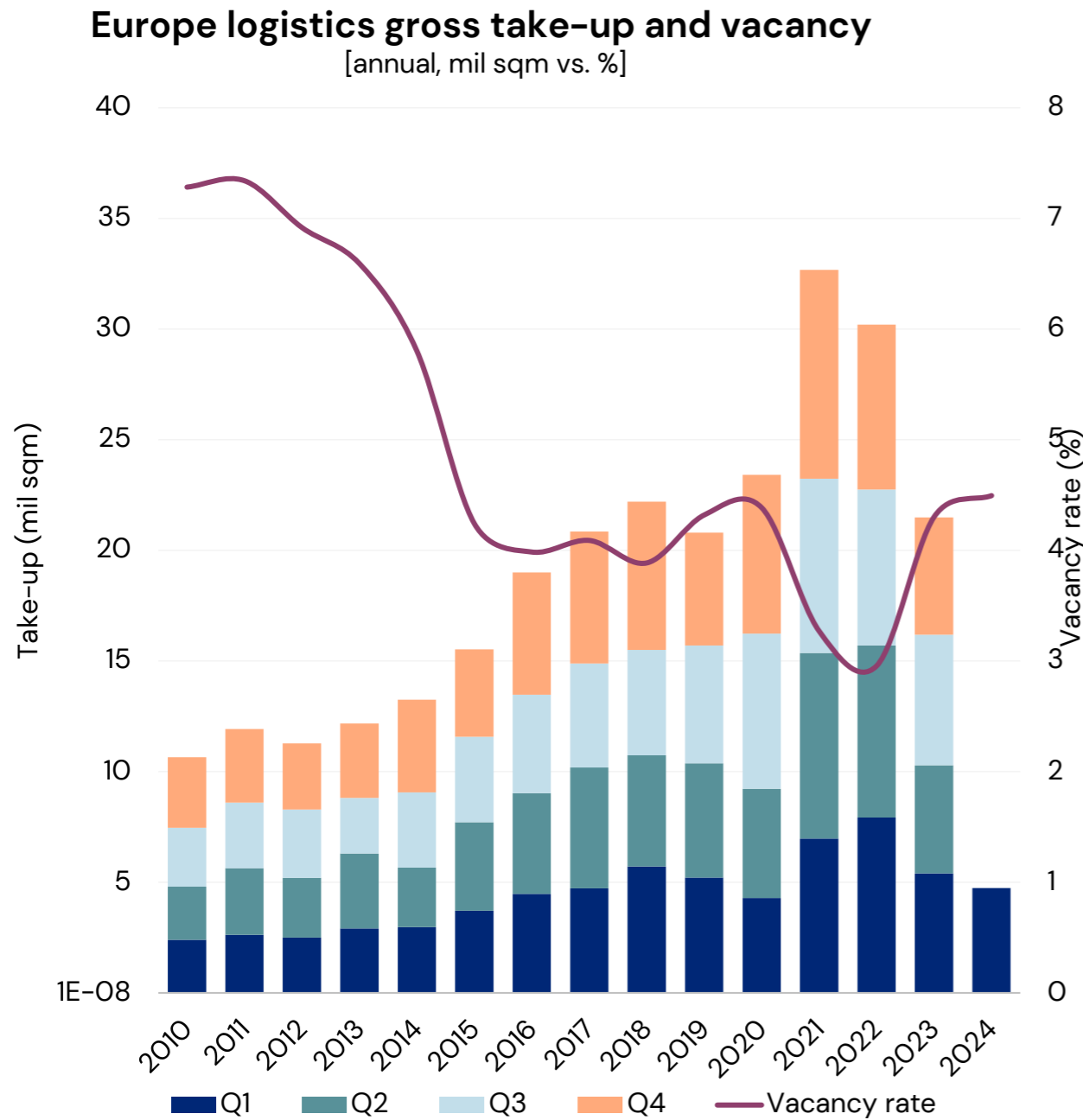


Source: LaSalle analysis of JLL data to Q1 2024.

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# Logistics – performance varying by market

Vacancy has shifted higher in Poland, Spain, and UK, but conditions in other markets still extremely tight



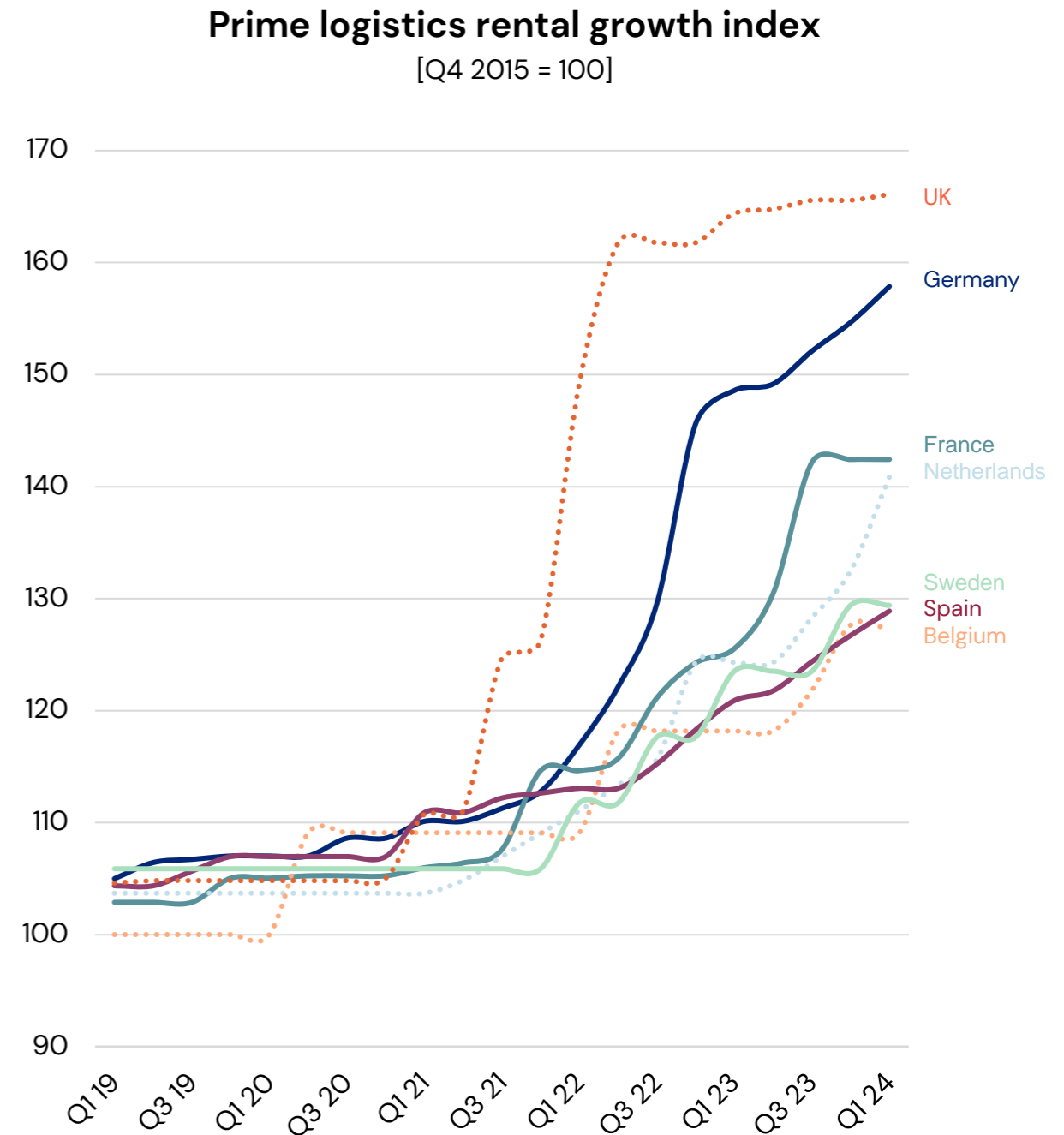
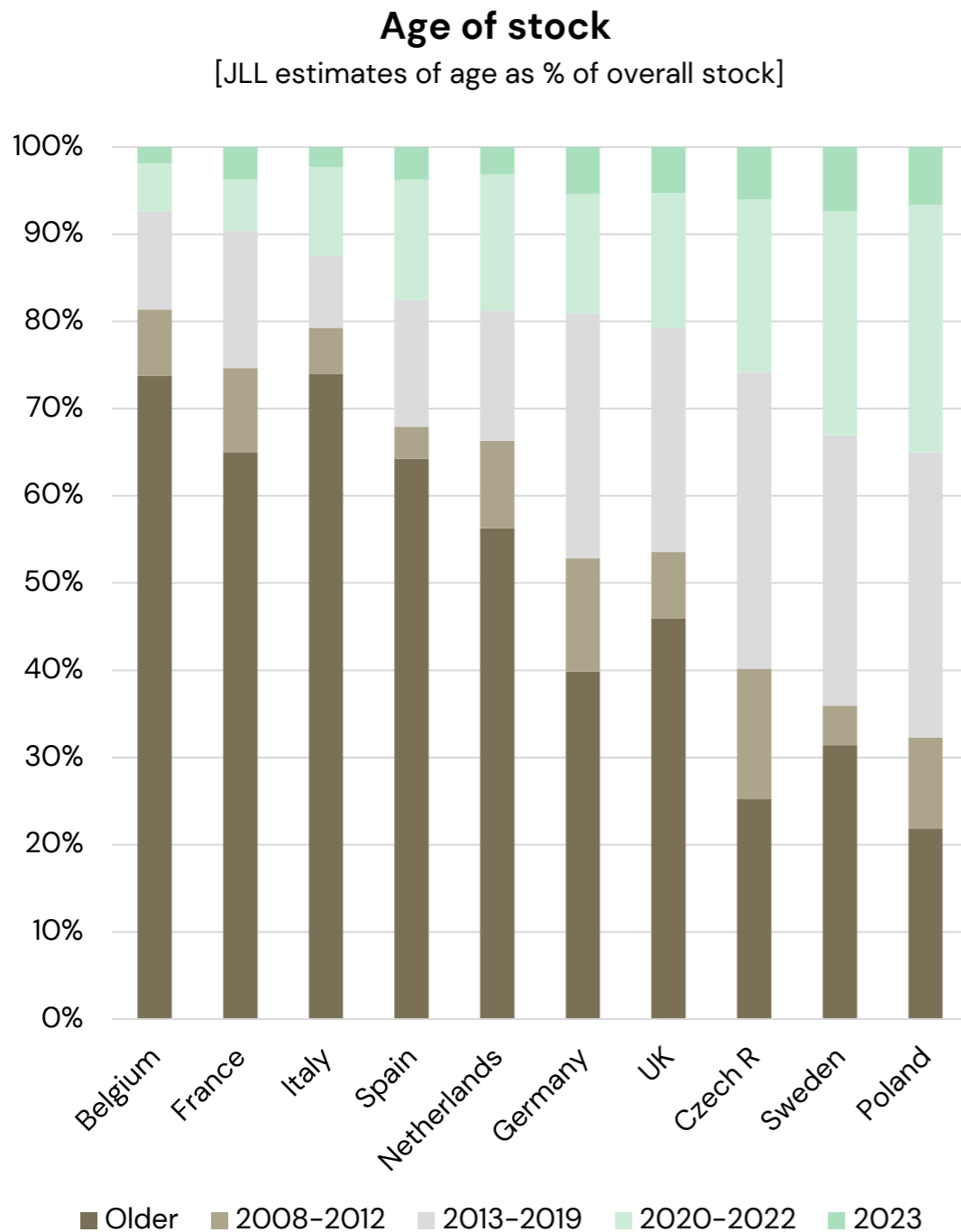
Note: Take up is for Units >5000sqm in Belgium, Czech Republic, France, Germany, Hungary, Italy, Netherlands, Poland, Spain, Sweden, United Kingdom

Source: LaSalle analysis of JLL data to Q1 2024.

No assurances are given that these trends will continue or materialize as expected. Nothing herein constitutes a guarantee or prediction of future events or results and accordingly the information is subject to a high degree of uncertainty.

# Continued upward pressure on logistics rents can still be seen in the Neth. and Germany

Modern stock makes up a small proportion of the market



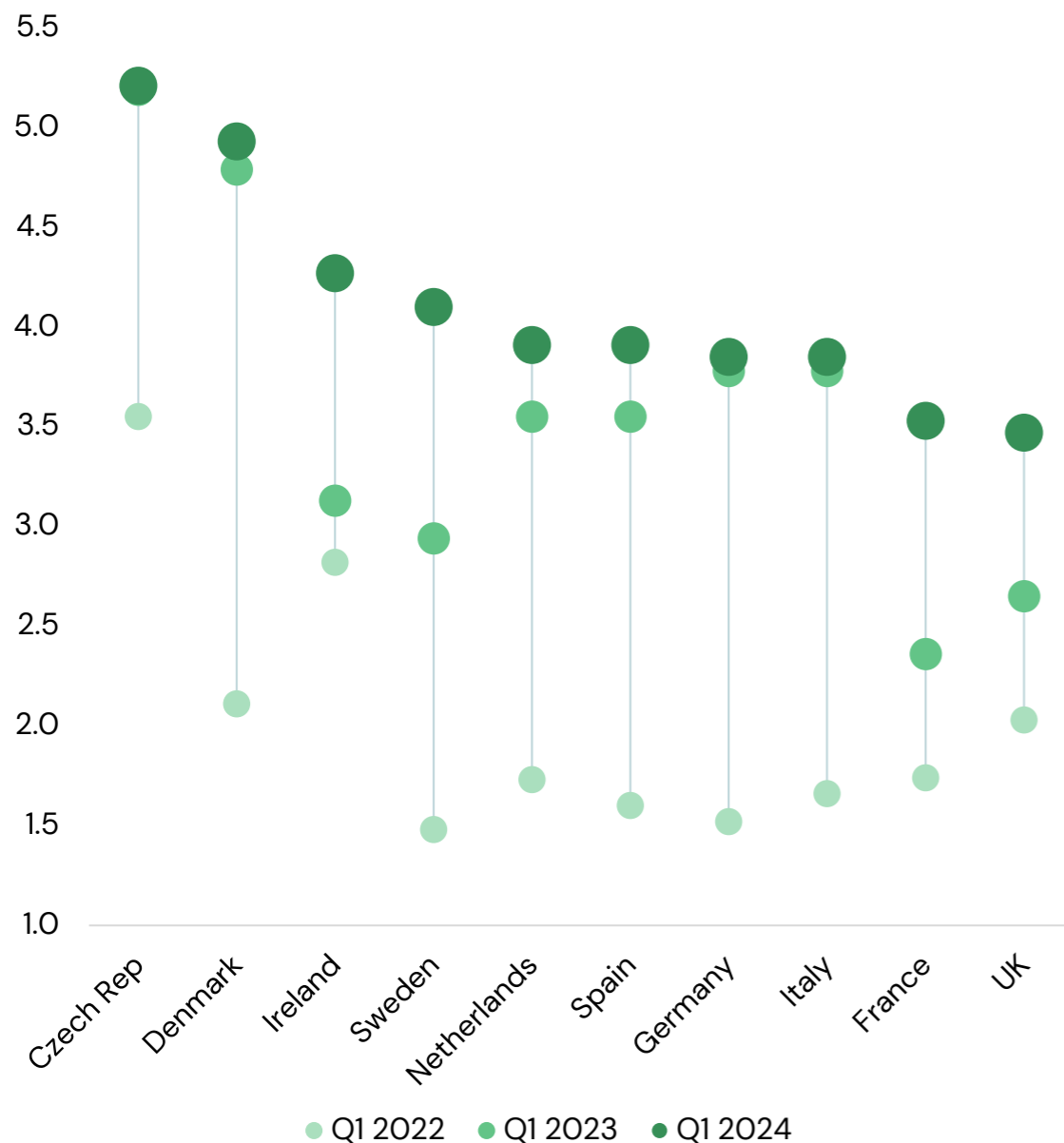
Source: LaSalle analysis of JLL data to Q1 2024.

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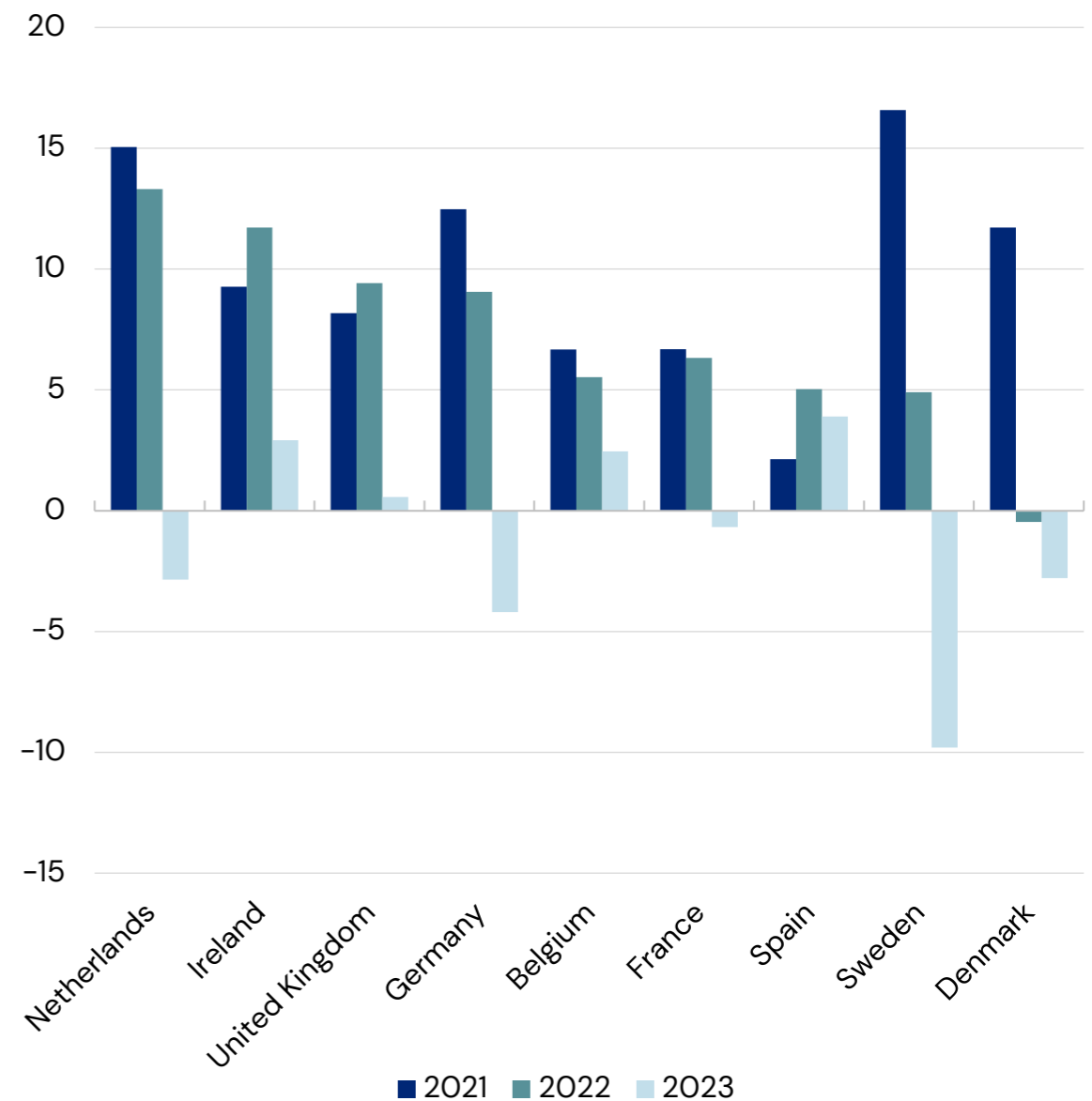
# European mortgage rates and house price change

LaSalle ISA briefing on mortgage rate examines the impact of higher variable mortgage costs on economies, read more on this [here](#)

**Mortgage Rates by Country**  
[%]



**House price growth**  
[% y/y, sorted by 2021-23 average]



Note: household income is assuming two average incomes per household

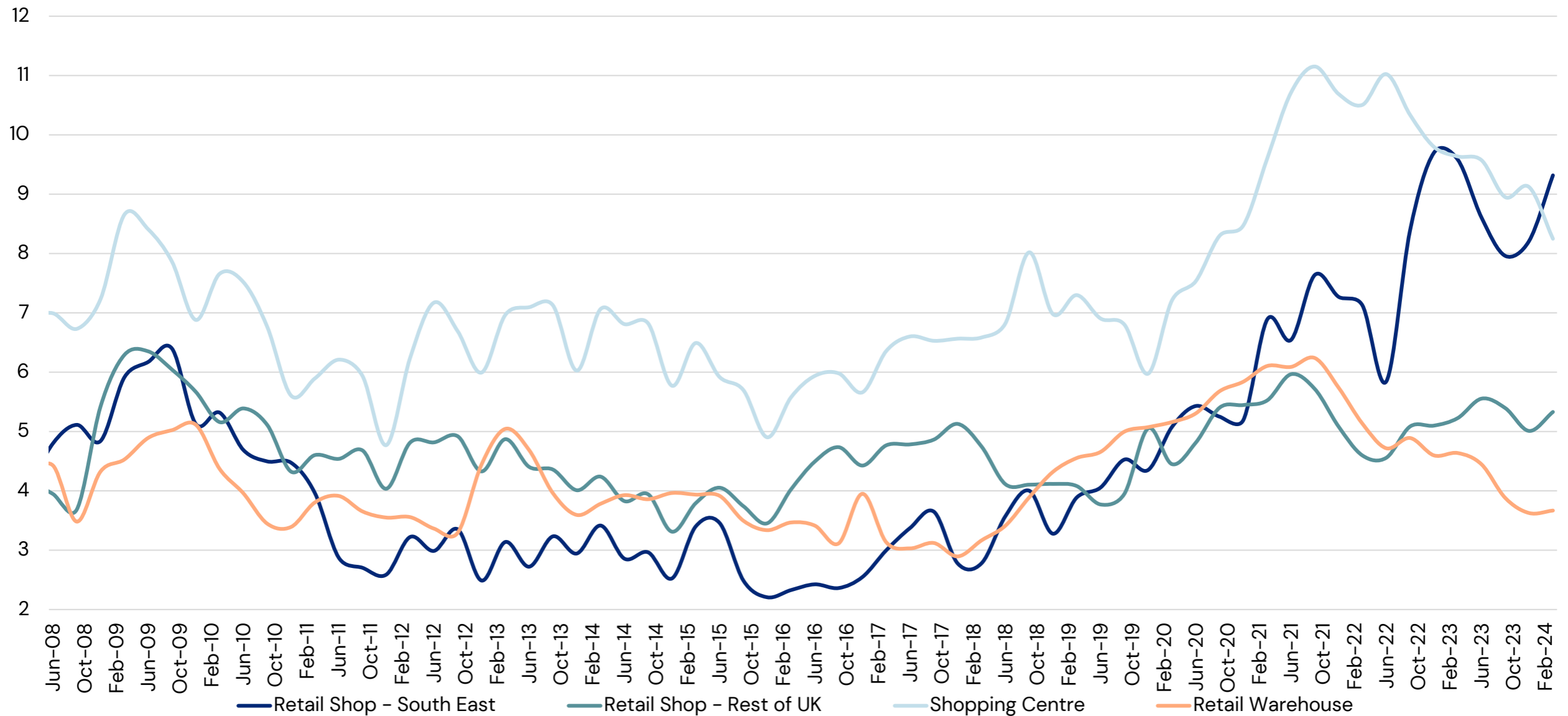
Source: LaSalle analysis of Oxford Economics data to May 2024, and PMA data to April 2024. Latest as of 31 May 2024.

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# UK shopping centre retail vacancy rates decline

But still wide gap in vacancy between shopping centres and retail parks

**UK retail vacancy rate**  
[% units vacant]



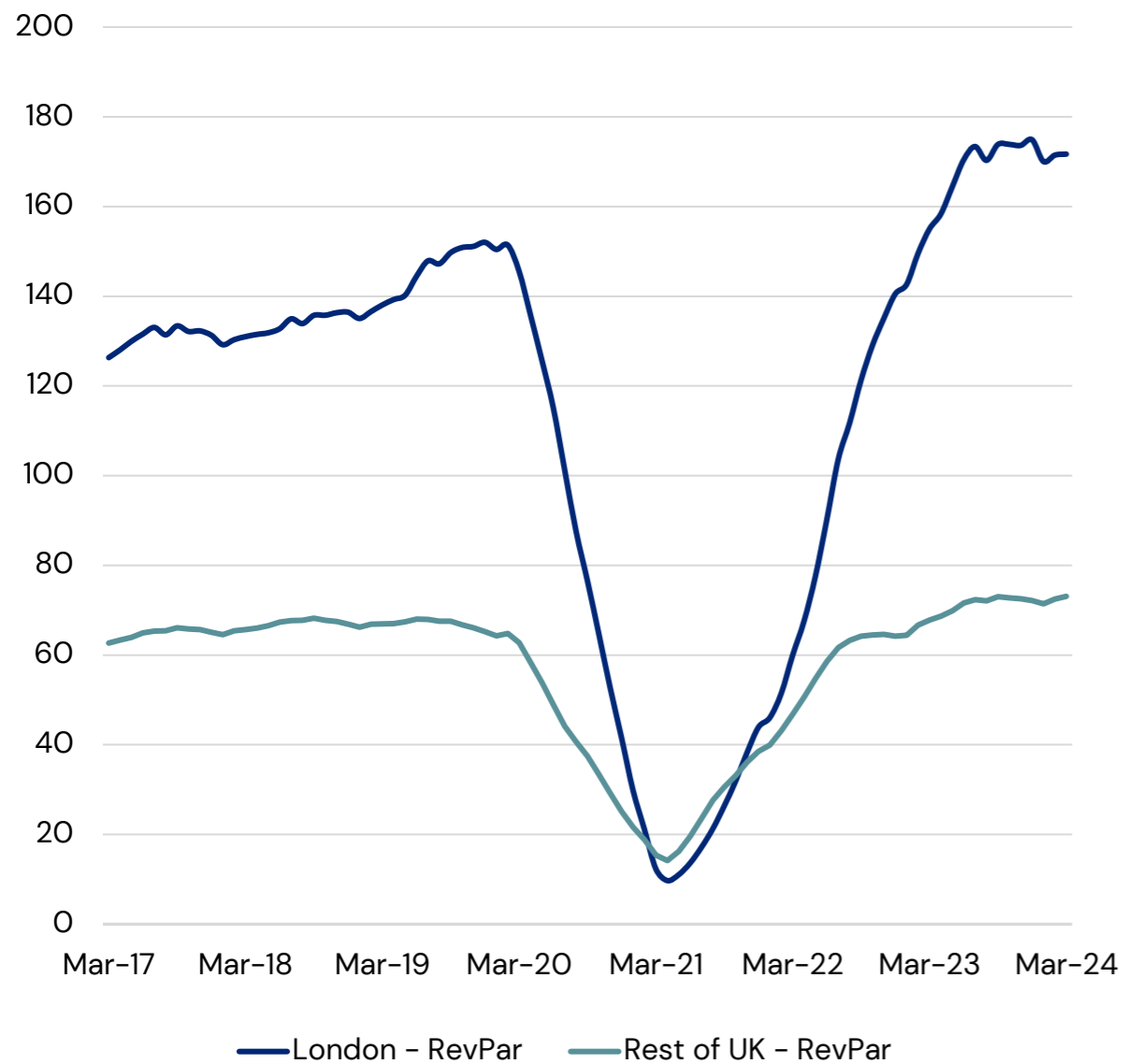
Source: LaSalle analysis of data from BRC to April 2024 and MSCI to Q1 2024.

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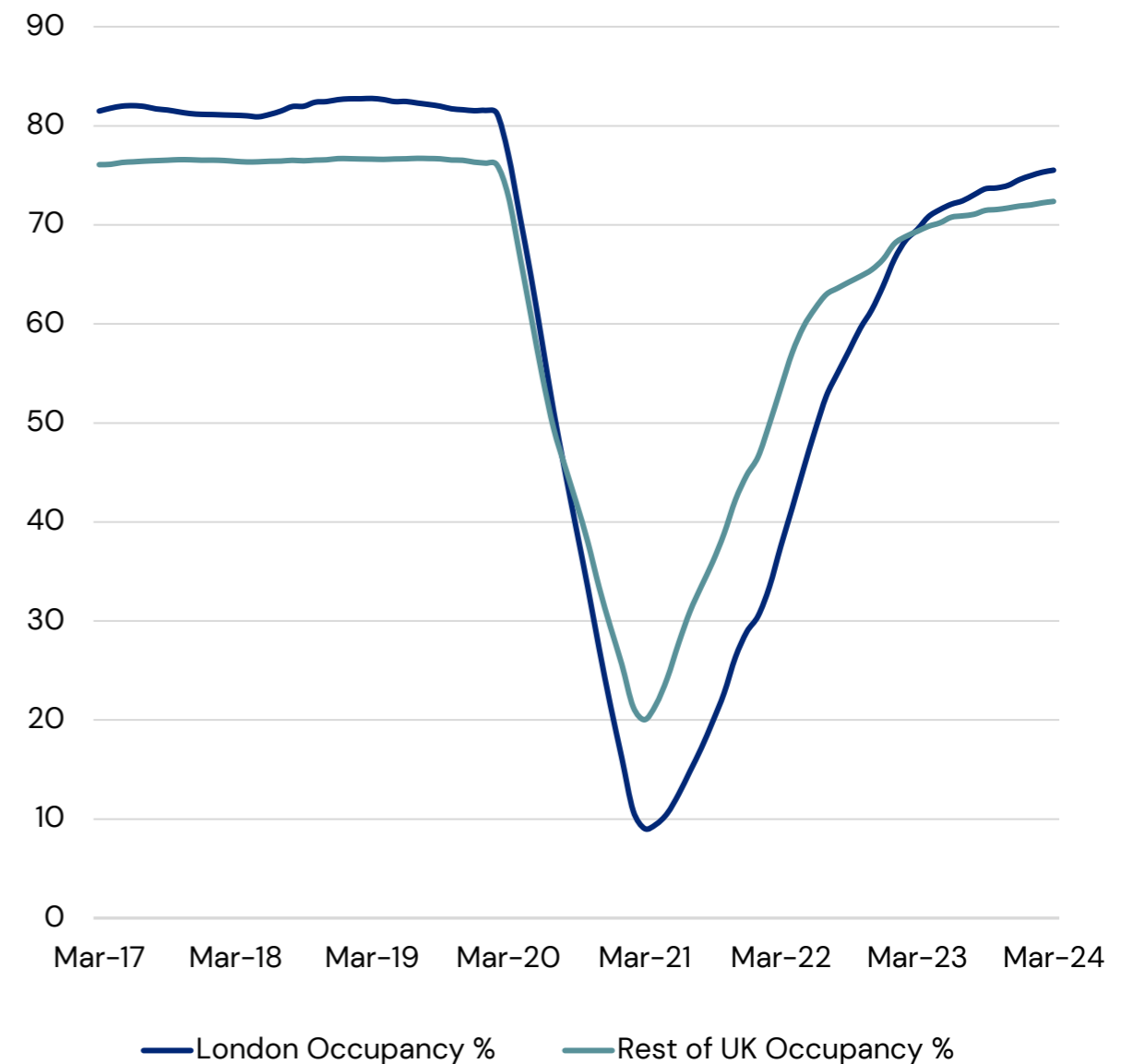
# Hotel performance across UK has started to normalize, after regaining pre-pandemic trends

London leading rest of UK

**London & UK Hotel RevPAR**  
[£ per night, trailing twelve-months average]



**London & UK Hotel Occupancy**  
[% , trailing twelve-months average]



Source: LaSalle analysis of HotStats data to March 2024.

Note: RevPAR: Revenue per Available Room. ADR: Average Daily Rate

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3

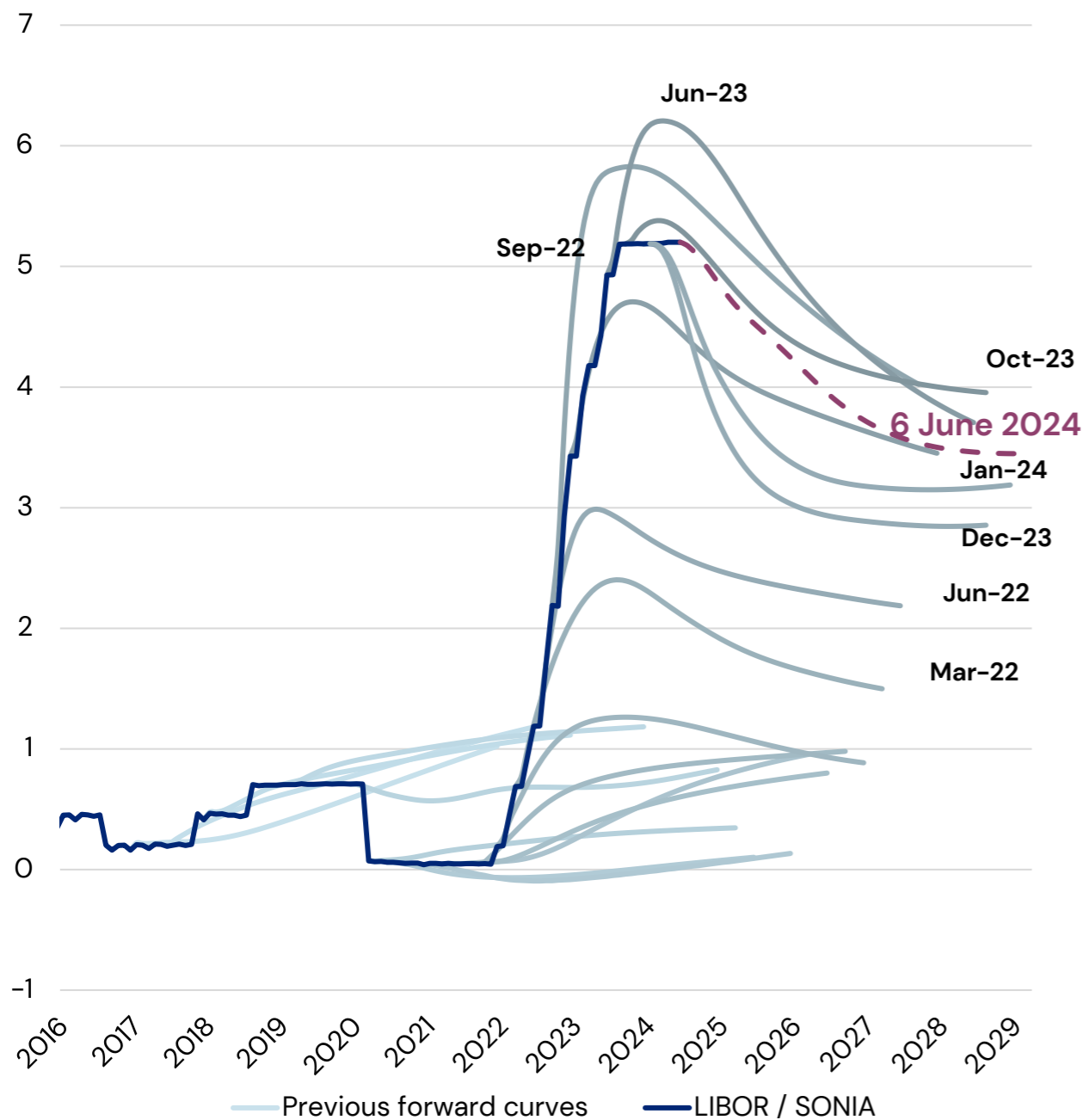
# Real estate capital markets

Debt, investment volumes and market liquidity

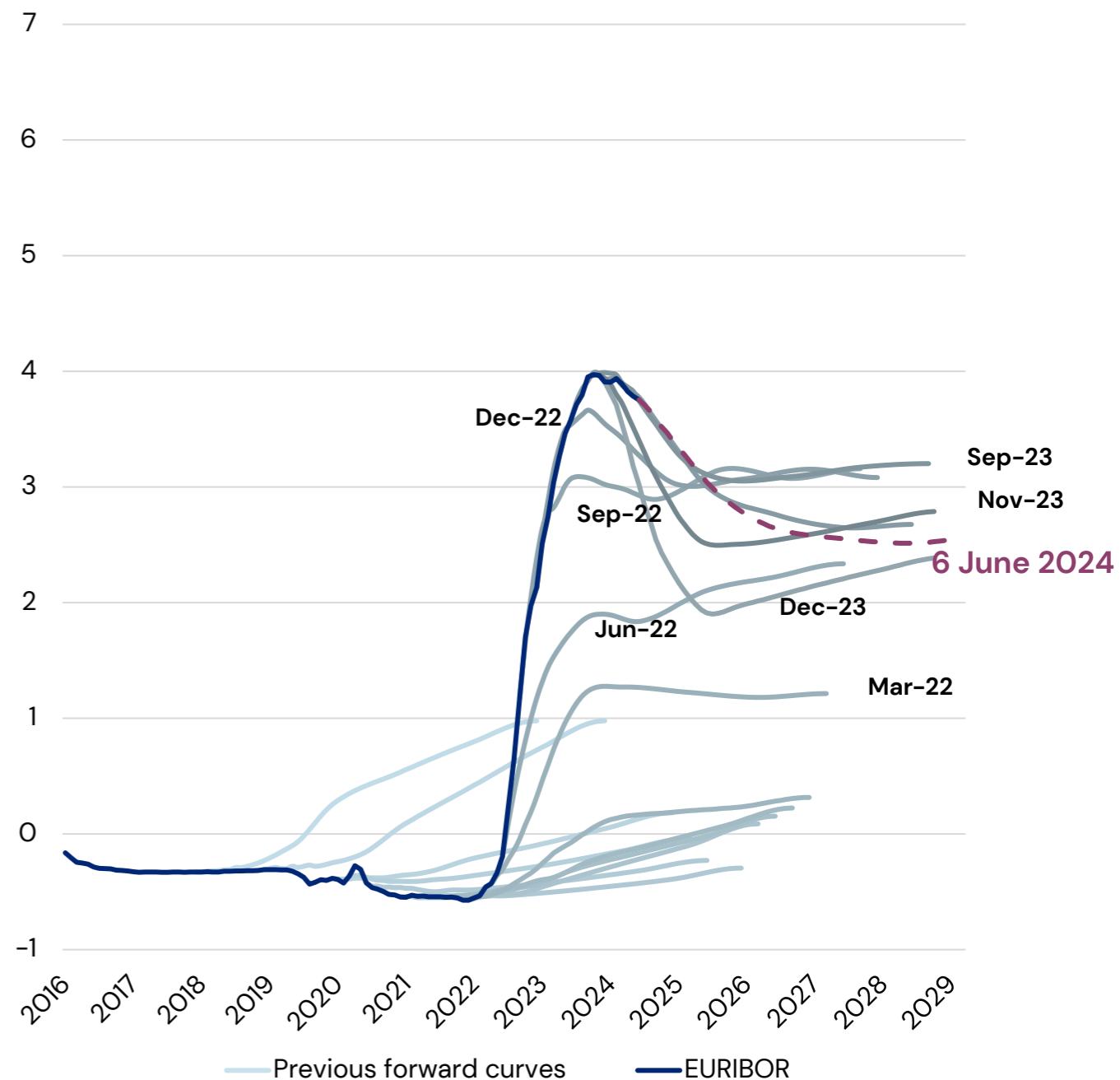
# Acclimatizing after an alpine interest rate climb

Market expectations for SONIA and EURIBOR

SONIA / LIBOR forward curve\*  
[%]



Euribor forward curve  
[%]



\* Overnight rate

Source: LaSalle analysis of data from Refinitiv / Thomson Reuters. Data through 6 June 2024. Each expectation line is five years long and they are shown at 6-month intervals.

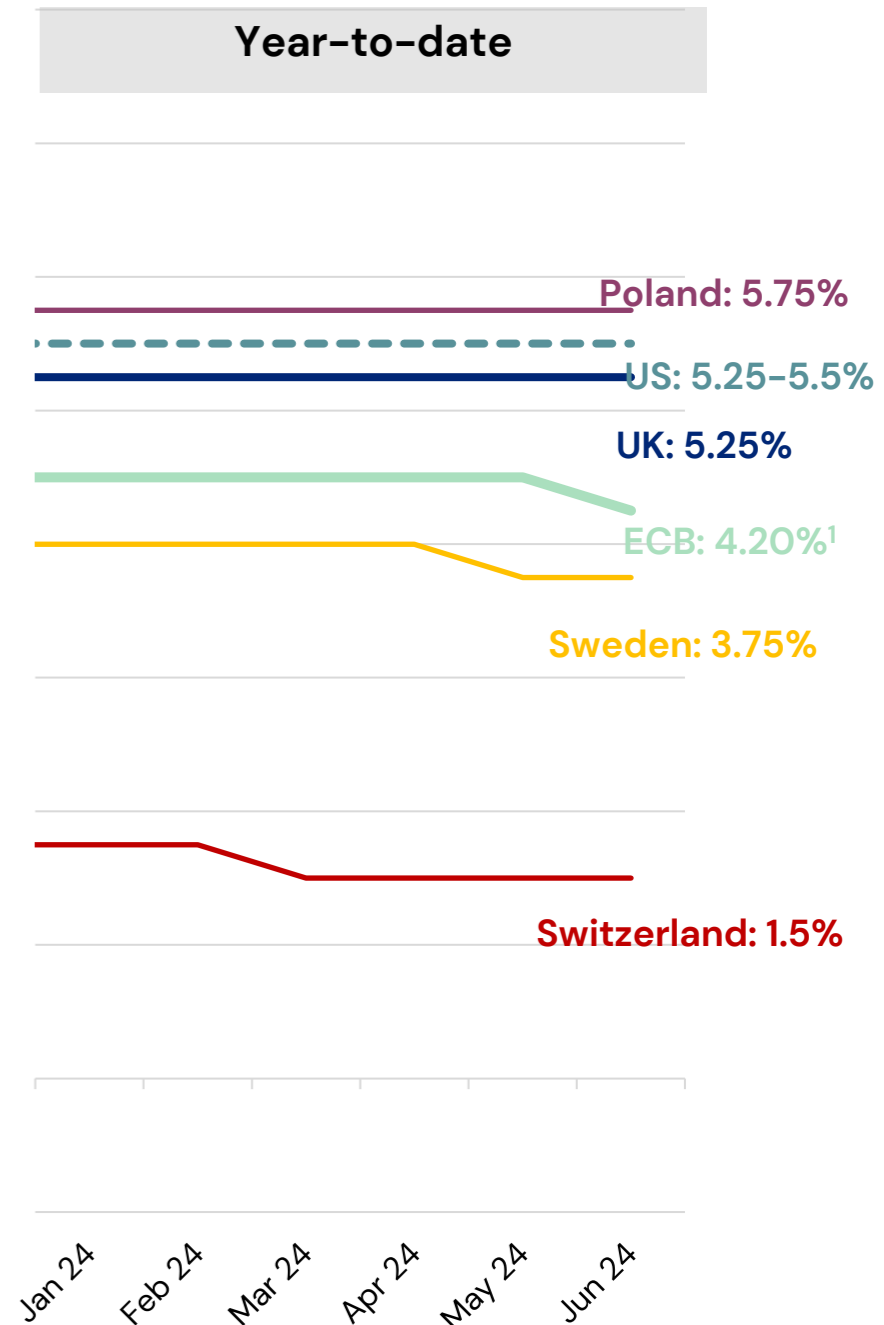
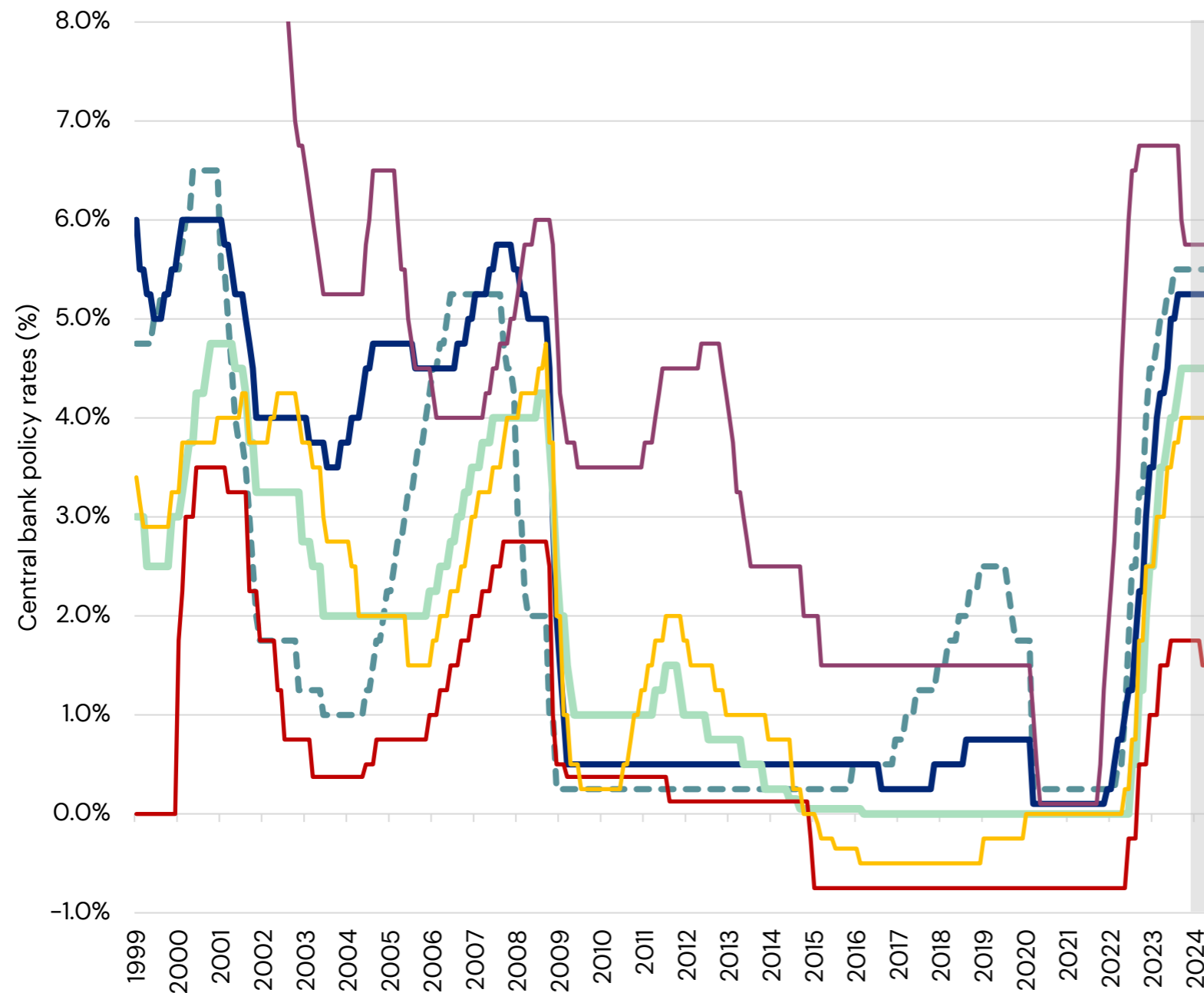
No assurances are given that these trends will continue or materialize as expected. Nothing herein constitutes a guarantee or prediction of future events or results and accordingly the information is subject to a high degree of uncertainty. Past performance is not indicative of future results.



# Central bank policy rates over time in Europe

ECB cuts rates by 25 bps in June; it is not the only European central bank to begin cuts

Central bank policy benchmark rates

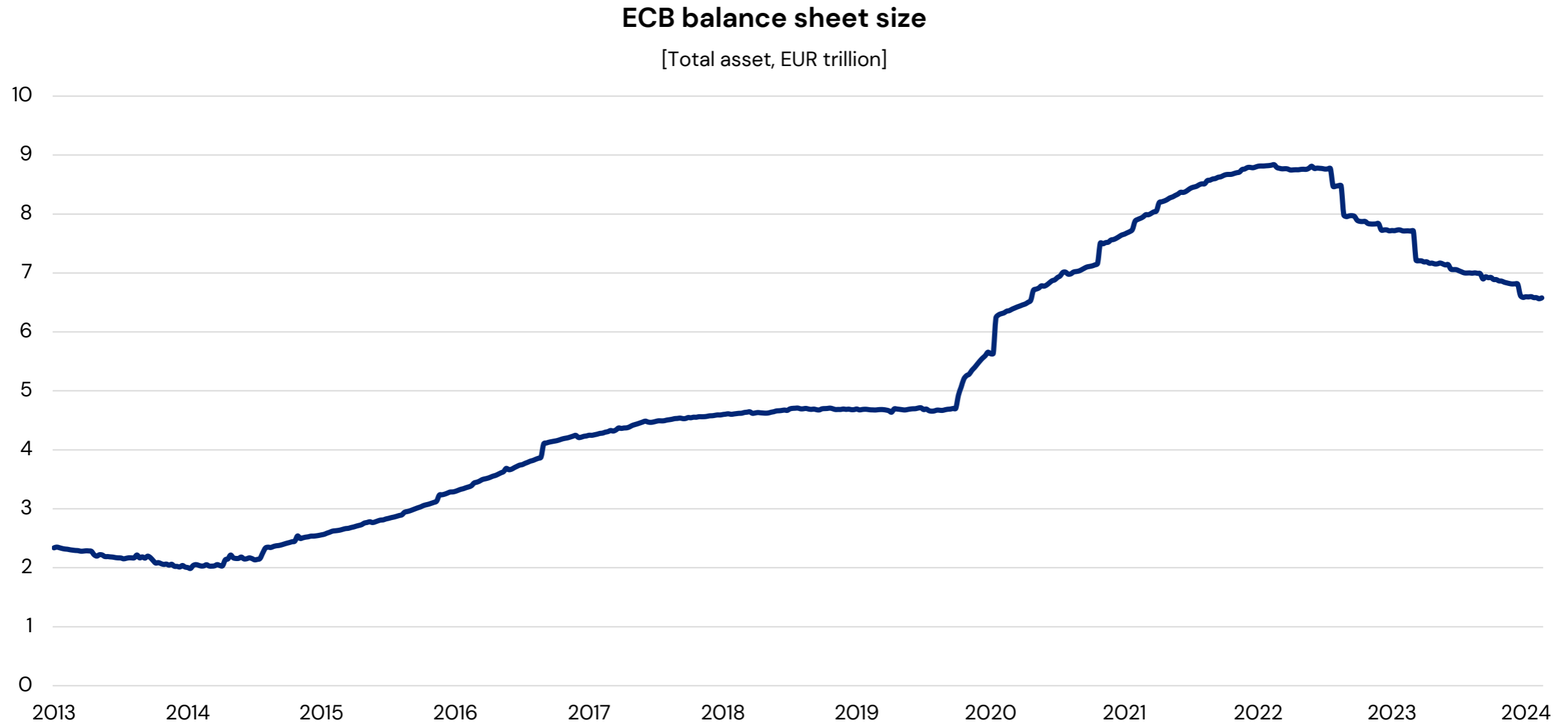


Notes. 1. ECB main refinancing rate Source: Refinitiv LSEG, central bank websites, LaSalle. Data latest as of 10 June 2024.

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# ECB shrinking its balance sheet

The ECB total balance sheet has shrunk by -26% from peak



The ECB is removing some liquidity from the banking system through its balance sheet. The share of government bonds owned by the Eurosystem central banks has declined to about 35% as a result.

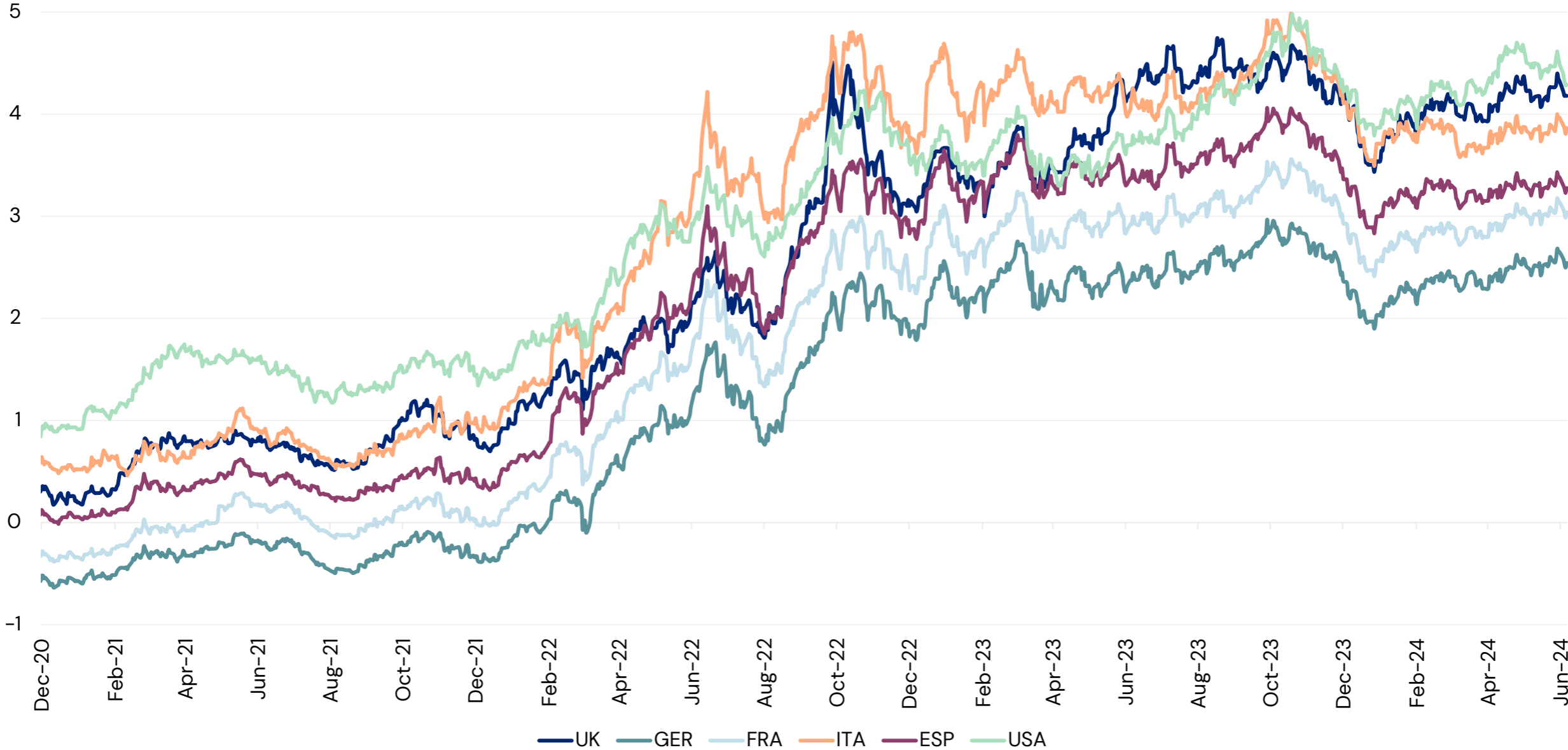
Source: ECB data as of 31 May 2024.

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# 10Y risk-free rates below 2023 peaks

German 10Y bund down 43bps from Autumn 2023 high but up 51bps YTD

10 Year government bond yields [%]



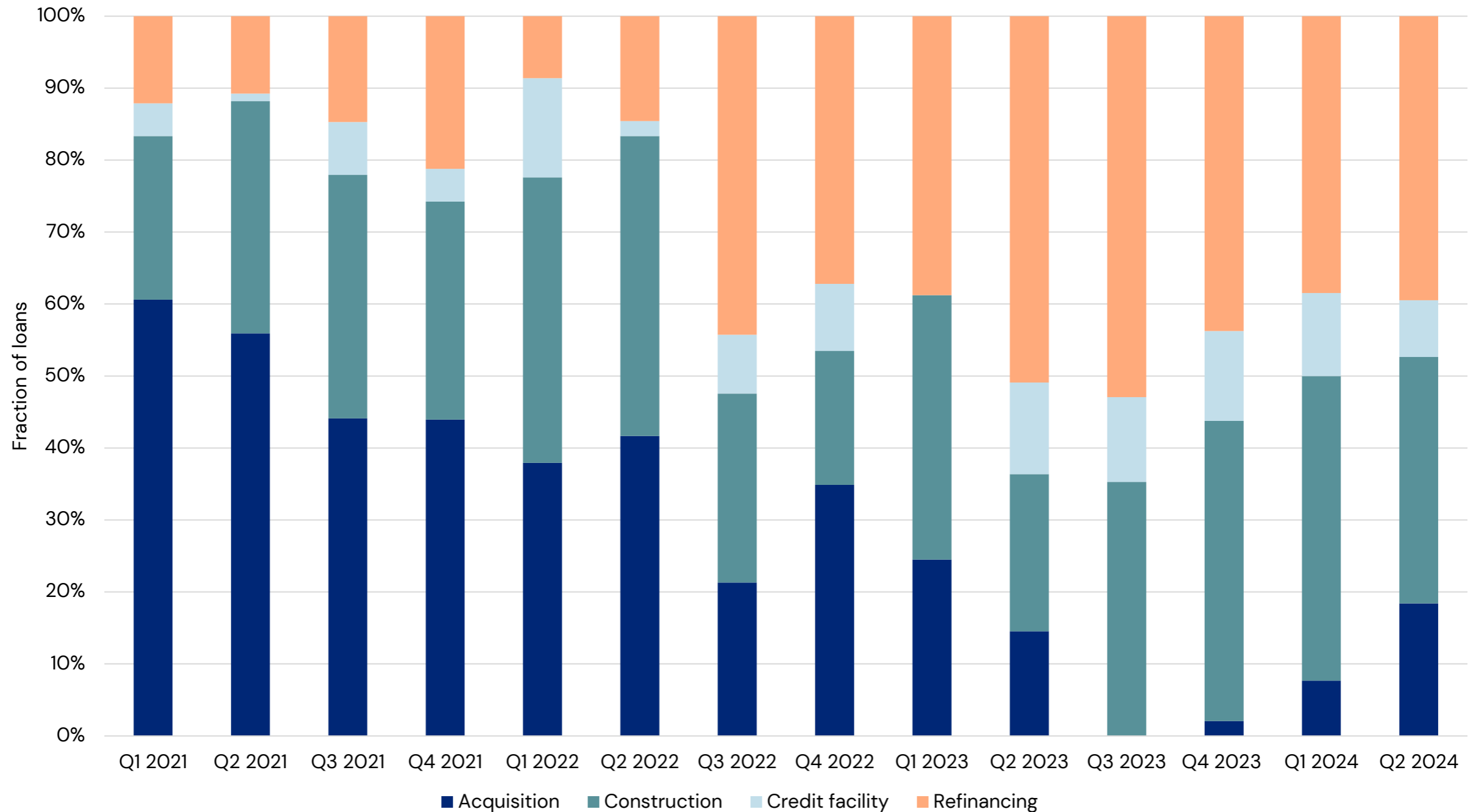
Source: Thomson Reuters data, Latest as of 6 June 2024.

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# Real estate loan mix shows some return of new acquisitions

Real estate loans extended by purpose

Proportion of loans by purpose



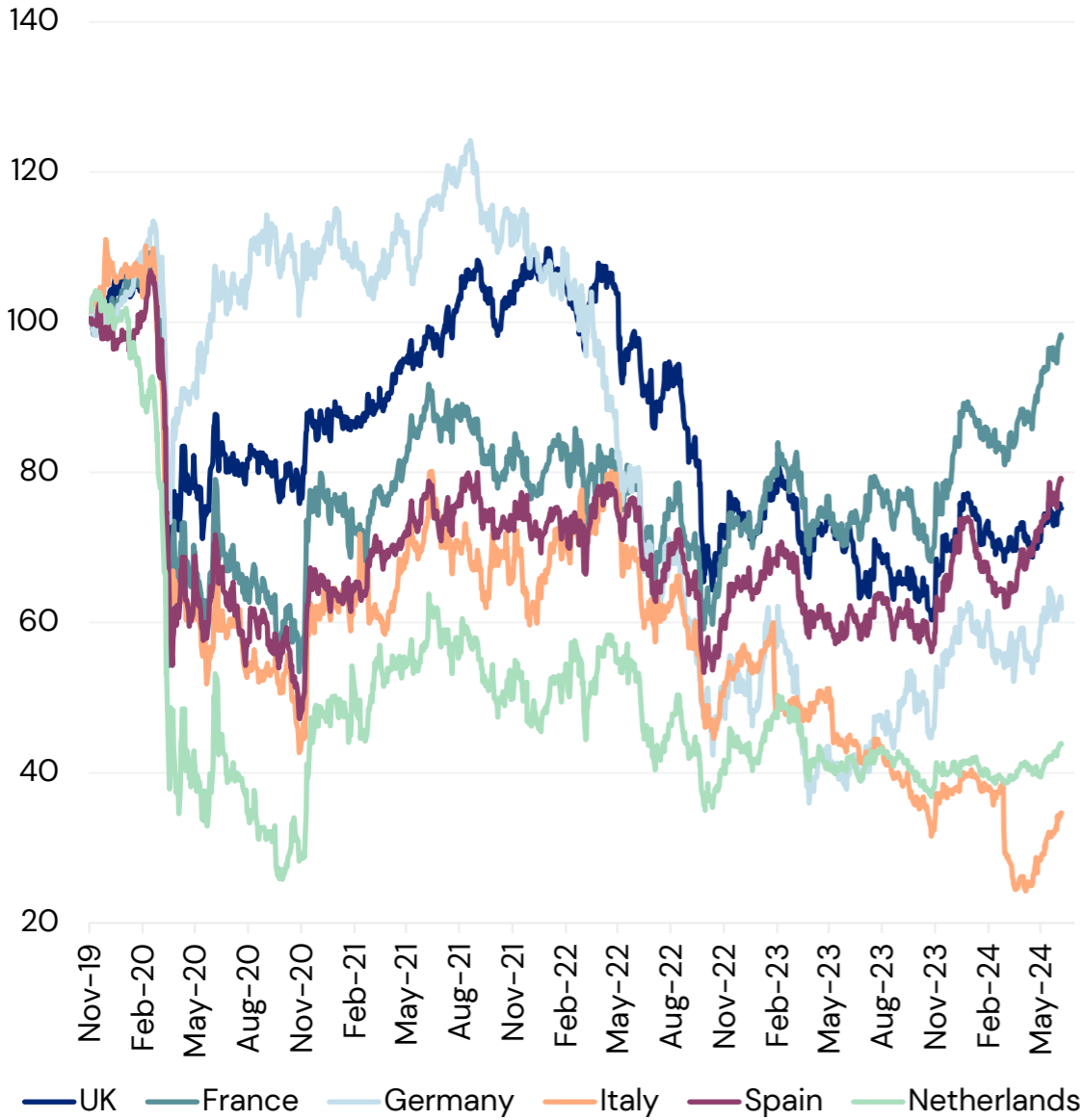
Source: LaSalle analysis of Real Estate Capital data to June 2024.

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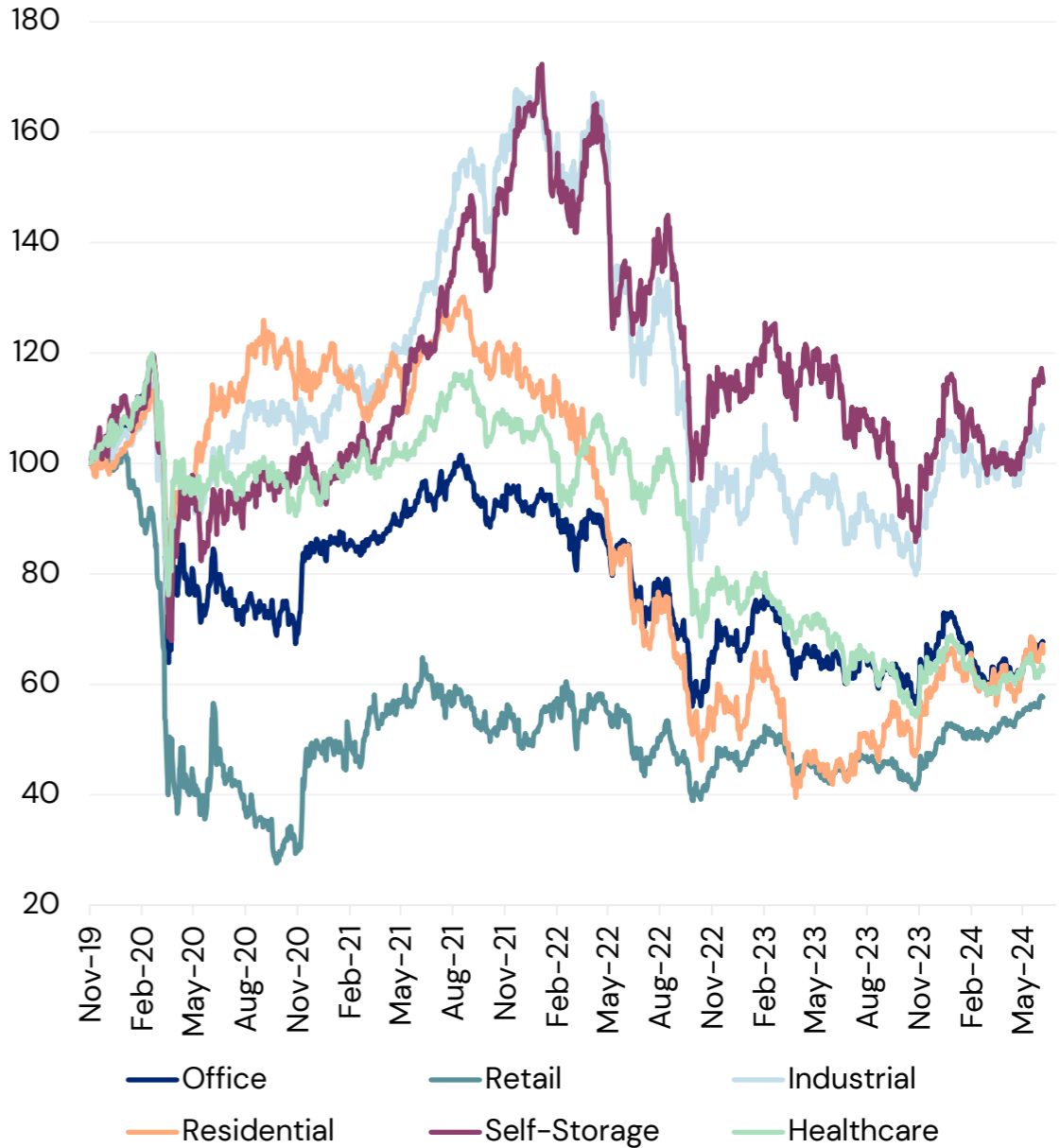
# Since 2019, storage and logistics REITs have led gains

Italian, retail, and healthcare REITs in Europe have lagged

**European REIT prices by country**  
[01/11/19 = 100]



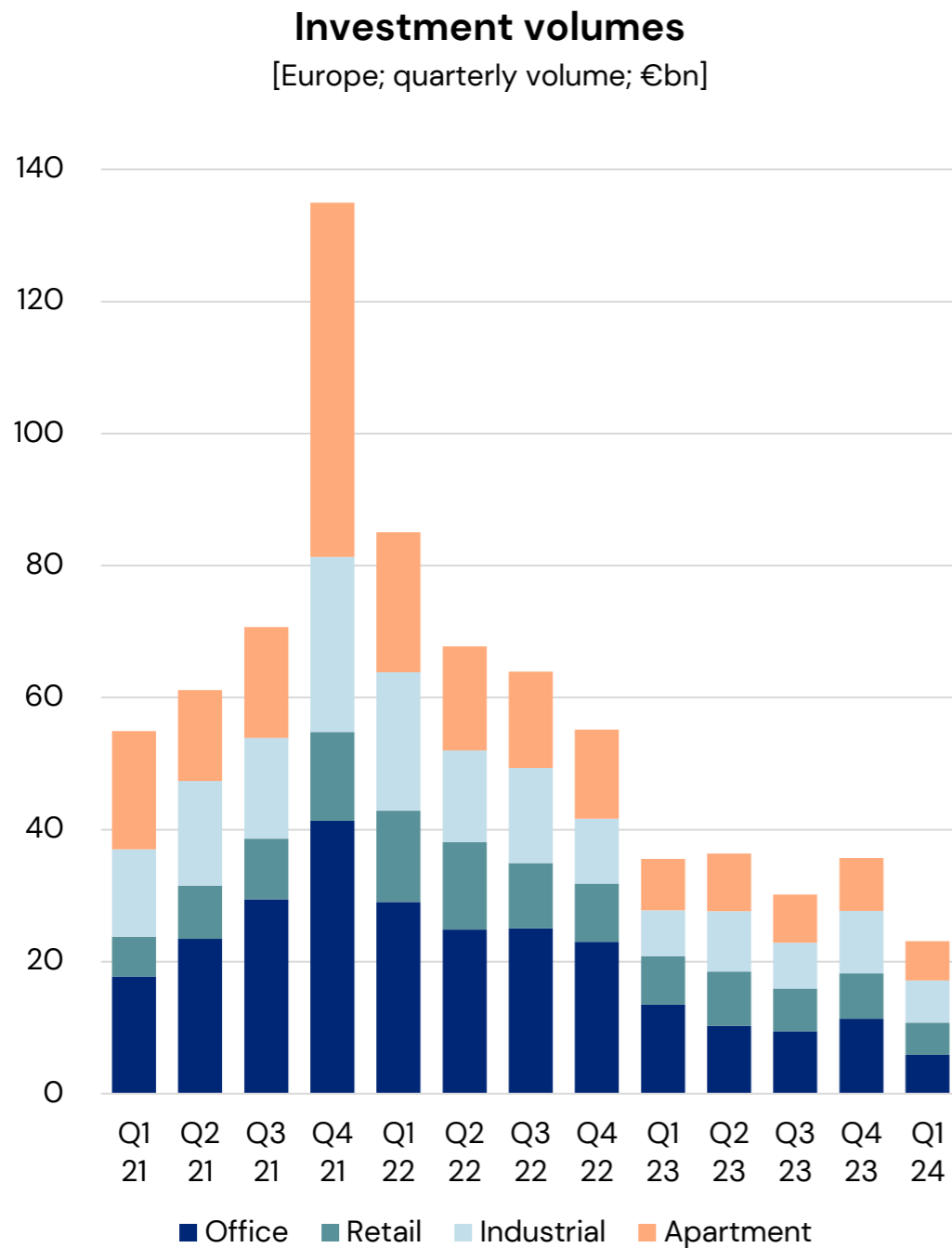
**European REIT prices by sector**  
[01/11/19 = 100]



Source: LaSalle analysis of Thompson Reuters data to 6 June 2024.  
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# Q1 2024 shows a sluggish transaction start to year

European real estate investment volumes likely near bottom, with gradual recovery expected



**Investment volumes Q1 2024 vs Q1 2023**  
[12-months rolling totals; % y/y change]

	Hotel	Logistics	Retail	Residential	Office	Total by Country
United Kingdom	1%	-24%	-35%	-37%	-47%	-34%
CEE	61%	-70%	21%	-12%	-77%	-38%
Germany	-43%	-2%	-30%	-29%	-64%	-39%
Nordics	-55%	-14%	-57%	-59%	-35%	-42%
France	-22%	-42%	-18%	-9%	-63%	-44%
Spain	-5%	-32%	-51%	-64%	-48%	-44%
Italy	20%	-47%	-70%	-37%	-44%	-44%
Netherlands	-69%	-48%	-45%	-37%	-59%	-49%
<b>Total by Sector</b>	-18%	-29%	-33%	-39%	-55%	-40%

Note: CEE covers Czech Republic, Hungary, Poland, Romania and Russia

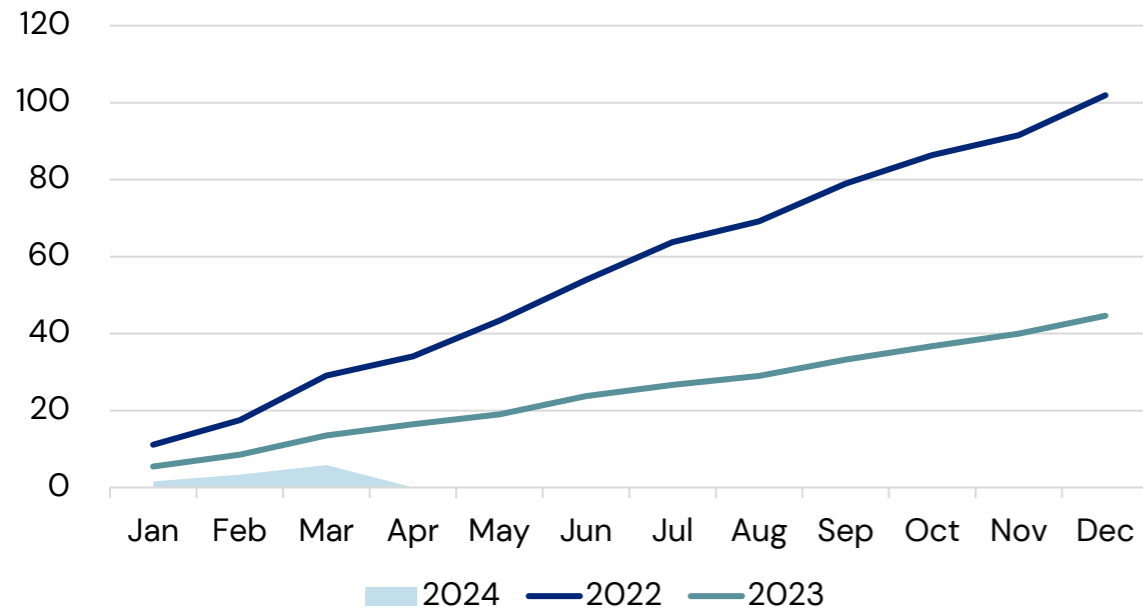
Source: LaSalle analysis of JLL data to Q1 2024 and RCA data to Q1 2024.

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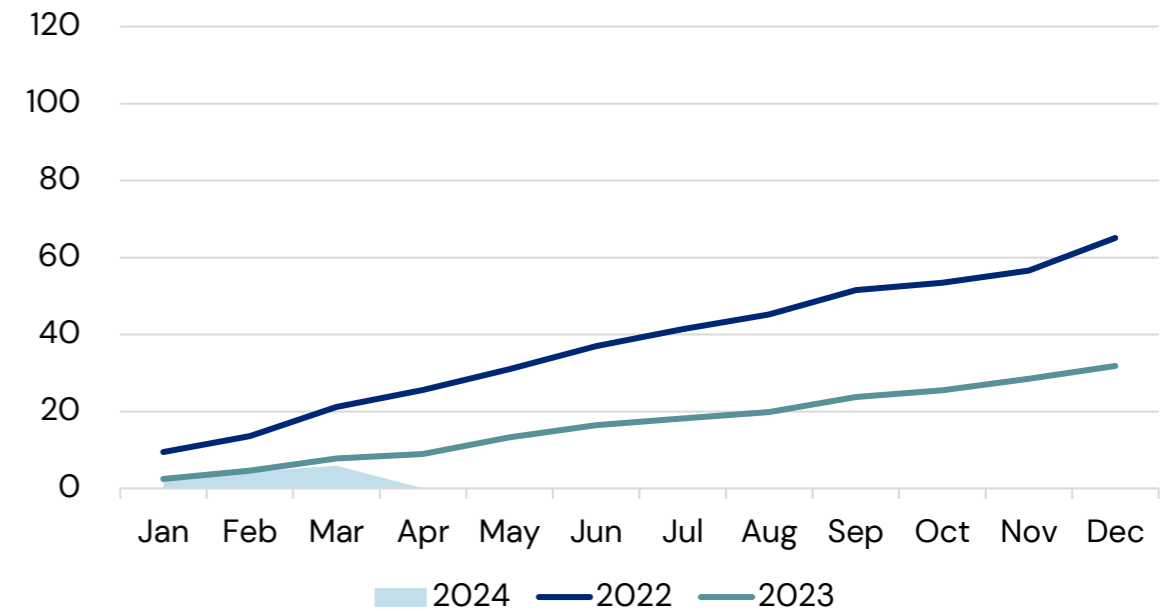
# Office volume down the most of any sector, -57% YoY

European real estate investment volumes (cumulative year-to-date, EUR billion)

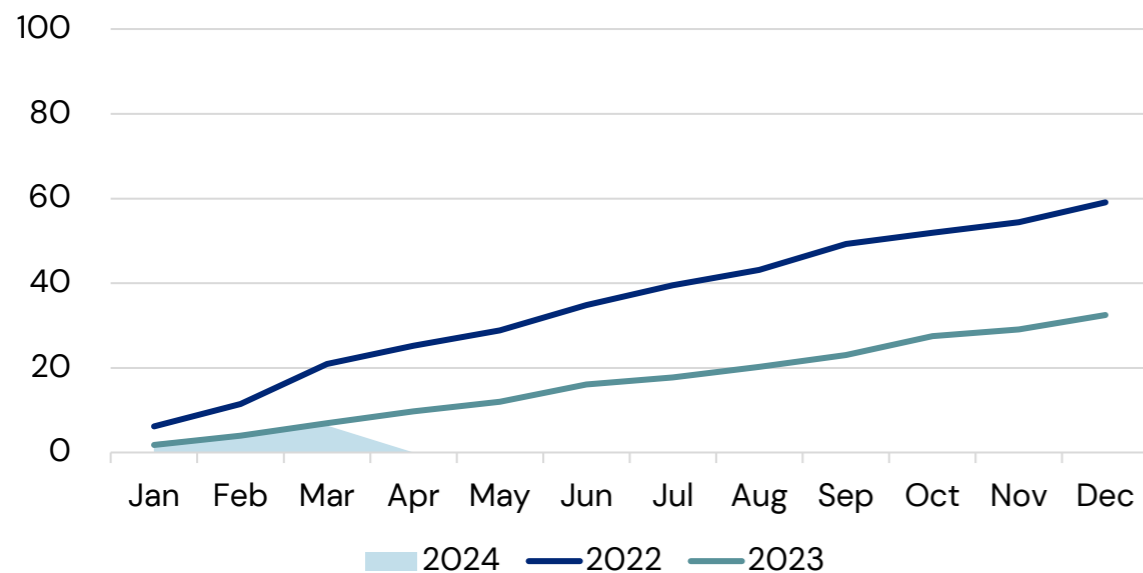
## Office



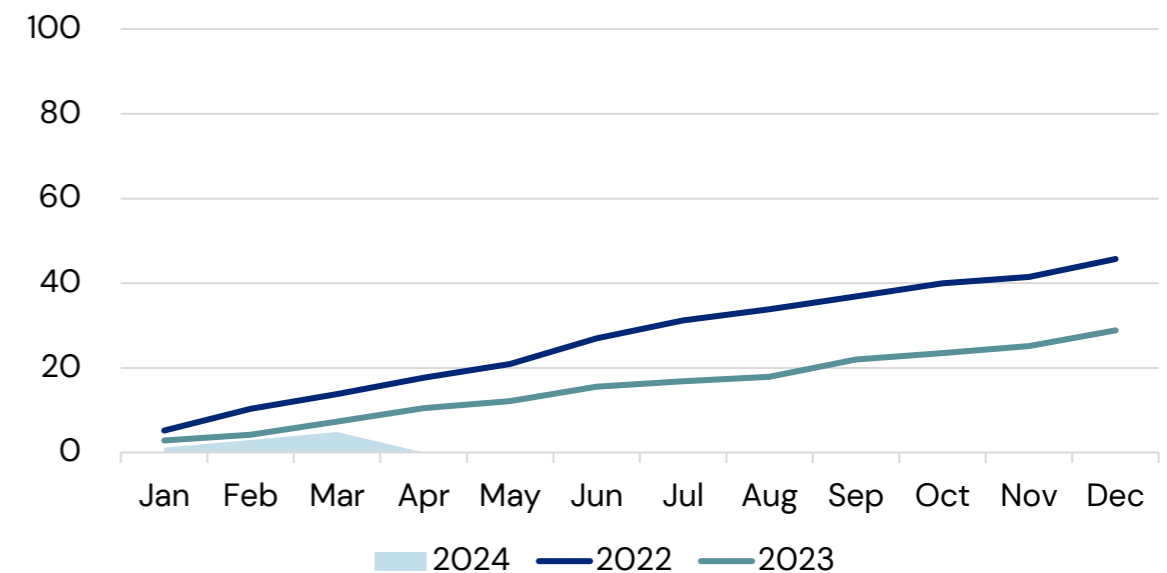
## Residential



## Industrial



## Retail



Includes market portfolio transactions in addition to single assets.

Source: LaSalle analysis of JLL data to Q1 2024.

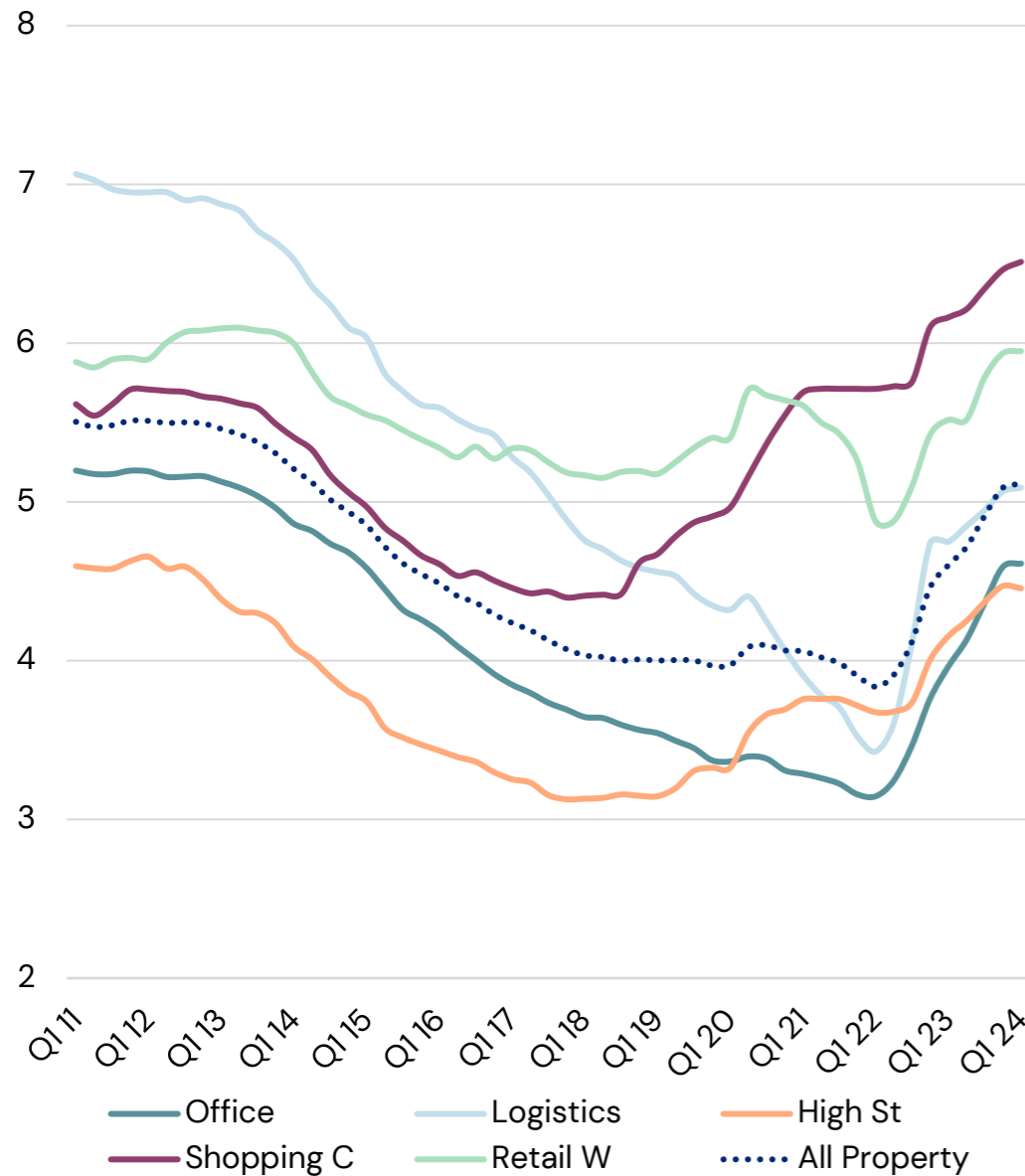
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# Signs of yields stabilising, with limited shift YTD

European prime yields by sector and region

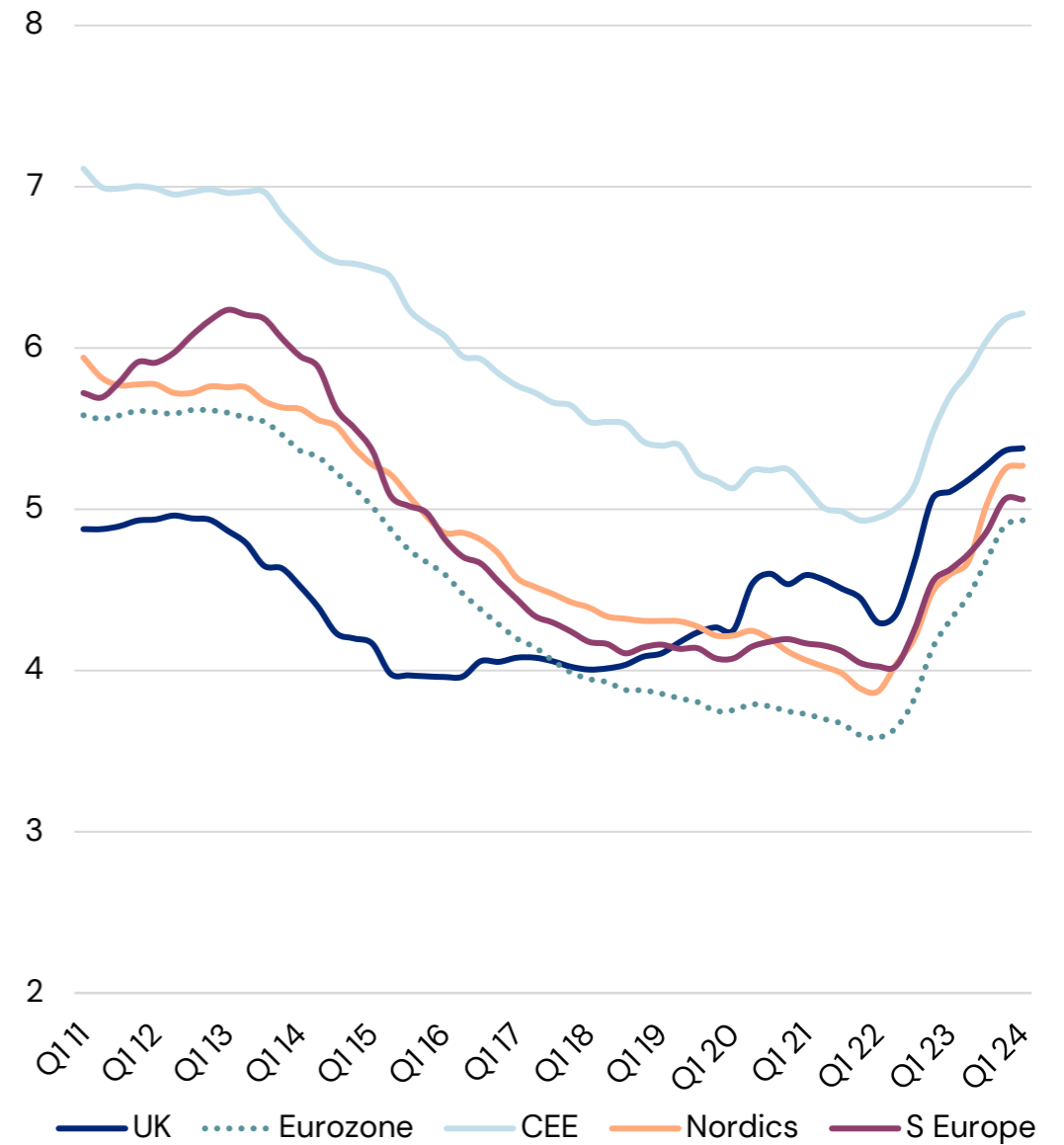
### All Europe prime yield by sector

[%]



### All property prime yield by geography

[%]



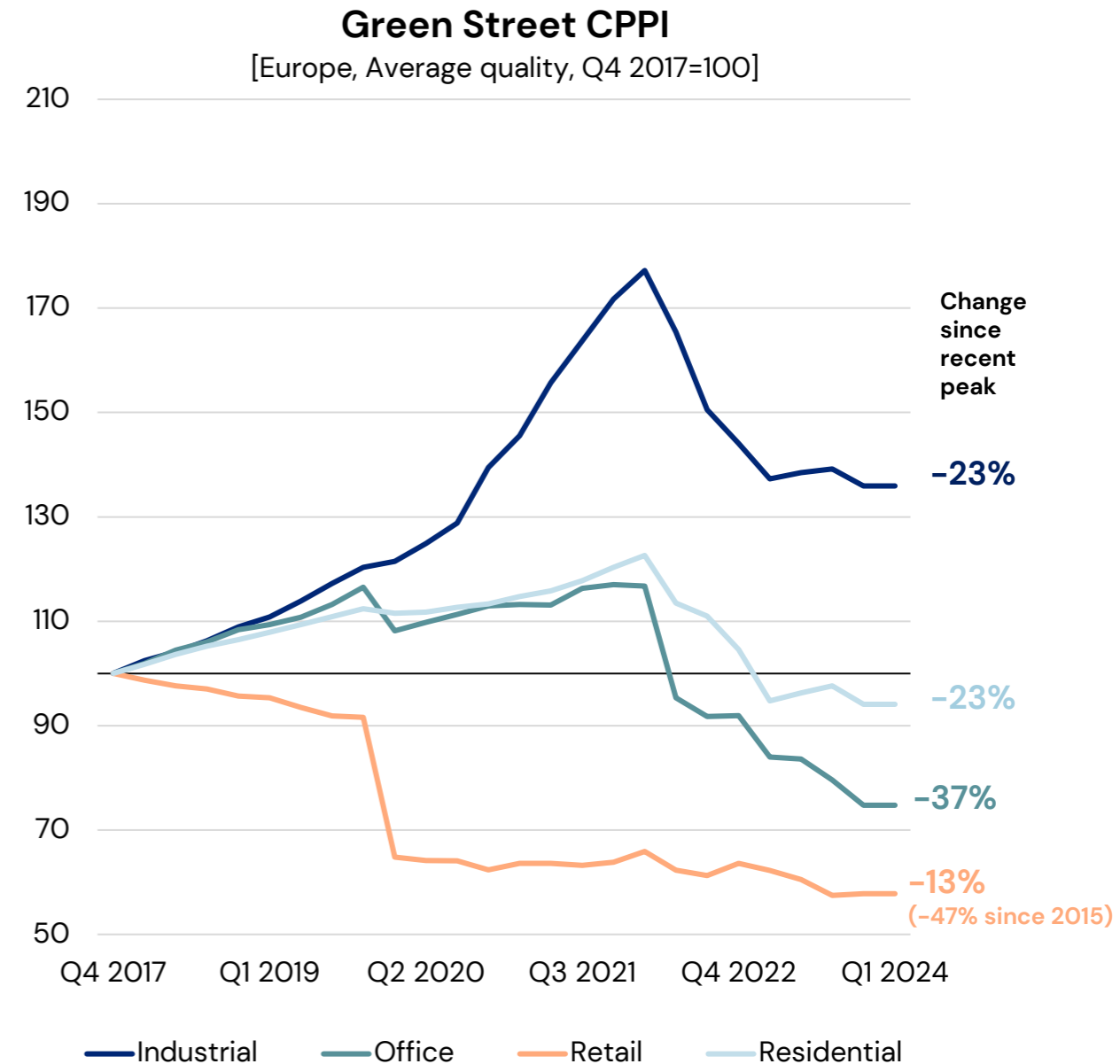
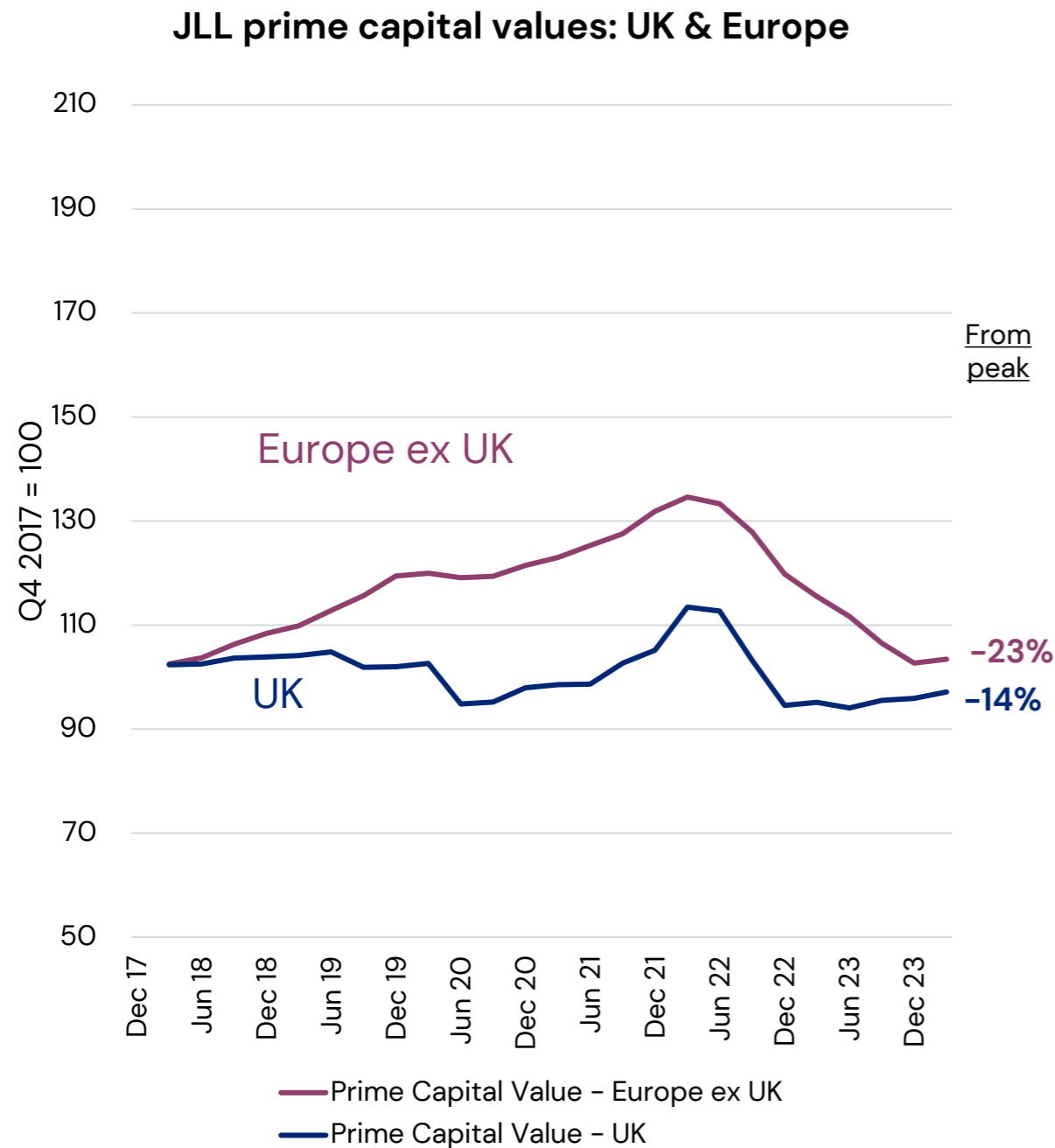
Note: Segments are weighted by LaSalle/MSCI estimates of investable universe.  
 CEE includes Czech Republic, Hungary & Poland. South Europe includes Italy, Portugal & Spain  
 Source: LaSalle analysis of JLL data to Q1 2024.

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# European real estate price indices

Data captures the reset in values over the last two years



\*The Green Street CPPI is based on average-quality assets and reflects their own estimates of current pricing. Broker estimates and transaction data differs somewhat but the overall magnitude of the decline is similar.

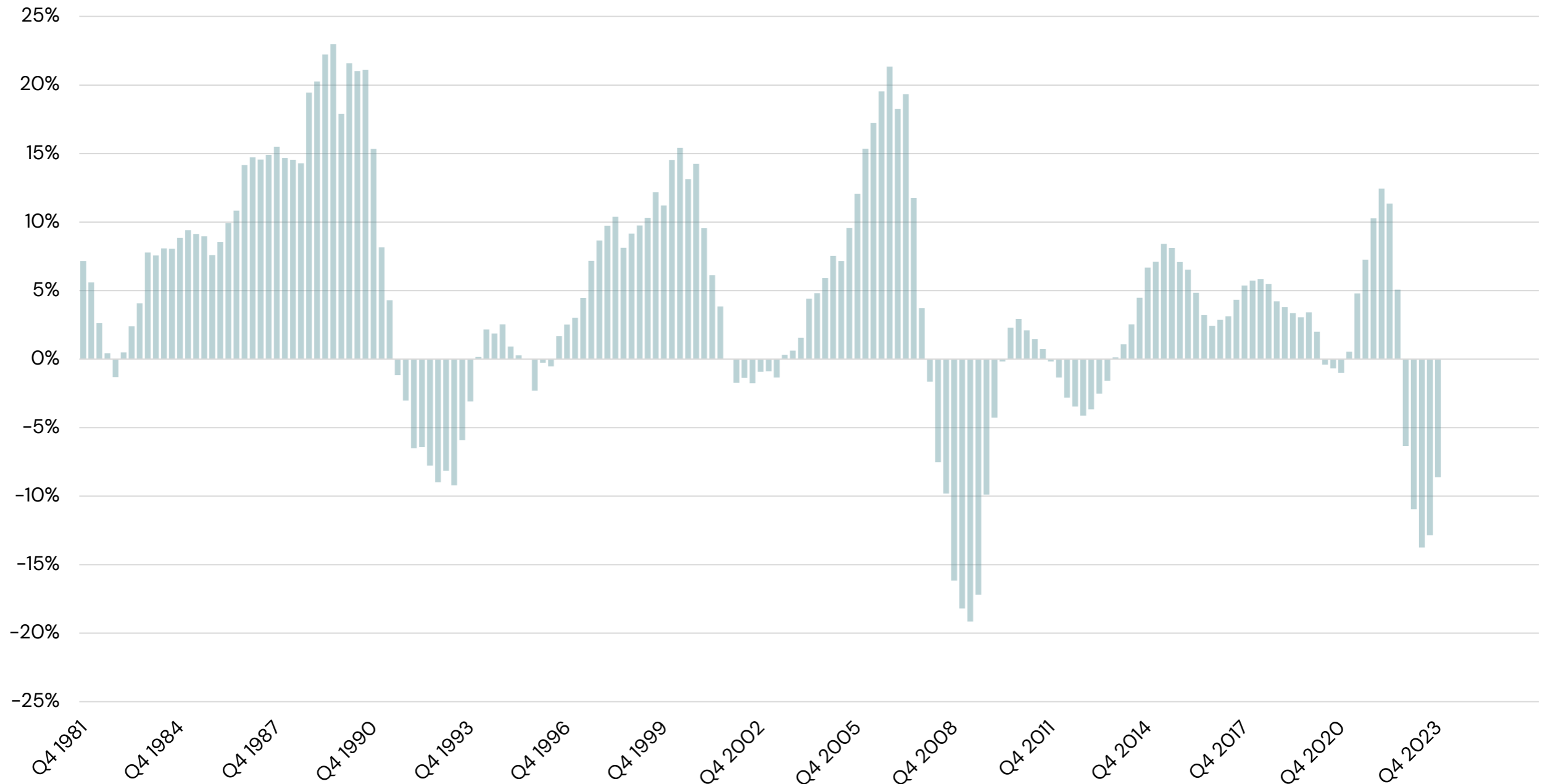
Source: Green Street Advisors; LaSalle analysis of MSCI data. Latest data as of 29 May 2024.

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# Real estate capital markets are cyclical

Capital value change in Europe since 1981

Europe real estate capital value change: Nominal for all markets and property types

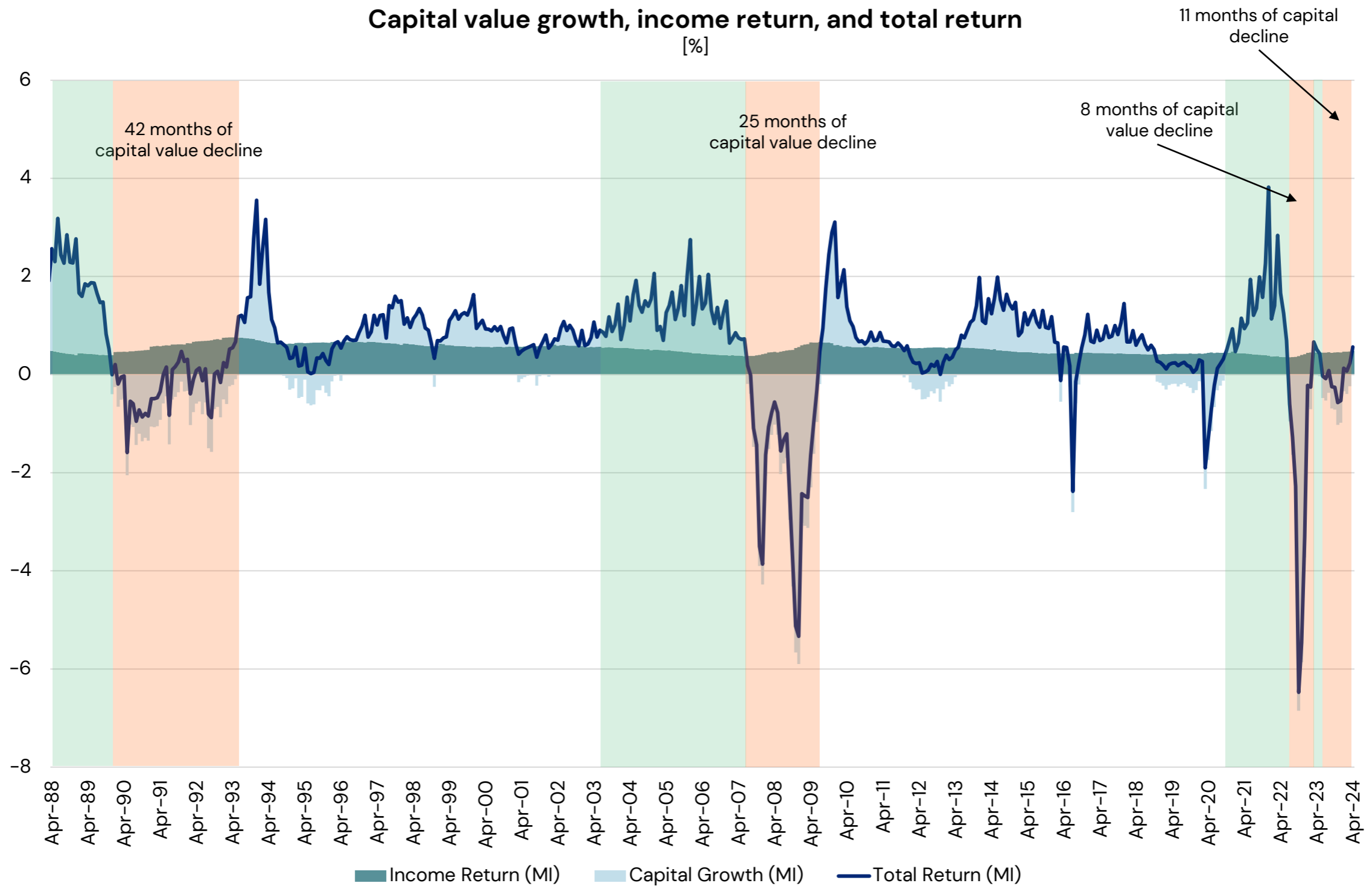


Source: LaSalle analysis of JLL and MSCI data. Data to Q4 2023.

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# UK MSCI Monthly total returns over time

Marginally positive capital growth of 0.1% over April following eleven months of consecutive decline



Source: LaSalle analysis of MSCI data to April 2024.

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