New Report Details Investor Pullback in European CRE

For anyone keeping an eye on European markets, it would come as no surprise to hear that there has been a sharp decline in commercial real estate (CRE) investment since the start of the year. Faced with macroeconomic uncertainty, and the challenges of tightening monetary policy, many investors in Europe have chosen to keep their dry powder safely on the side.

Now, with the release of the recent “Europe - CRE 180” report from international banking group BNP Paribas, we have some comprehensive figures on how that pullback has played out over the past 12 months.

Investment Volume by Asset Class

The report shows that over the year ending in Q3 2023, investment into commercial assets dropped substantially. BNP Paribas notes: “Overall, between Q3 2022 and Q3 2023, investment decreased by 55%.”

Broken down into specifics, the results show a sharp drop-off across most asset classes, including:

- A 58% decrease in investment in logistics properties,
- 62% decline for office,
- 43% decline for retail, and
- 26% for hospitality, which showed the greatest resilience of any major asset class.

Luxembourg, Ireland Lead Declines

On a country-by-country basis, Luxembourg saw the largest decline in investor interest with a drop-off of 96%. Meanwhile, Ireland showed a 71% decline, with multiple other countries posting declines of 62-66%, including Germany, Poland, The Netherlands, Italy, and Belgium.

The United Kingdom and France fared a little better, with investment totals decreasing by 48% and 51% respectively.

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Focus on Office

The “CRE 180” report gave special focus to the European office sector, which posted multiple indicators of waning demand, noting: “2023 letting activity is struggling to regain the letting volumes seen in 2022 when take-up returned to its long-term average. Consequently, volumes after 9 months are below their 10-year average (-17%).”

Despite variations across the continent, office vacancy rates also showed a generally higher trend. The overall vacancy rate for Europe was 7.8%, with several cities trending much higher, like Dublin at 12.5% and Barcelona at 12.7%.

Nevertheless, the “flight to quality” trend still seems to be in full effect. BNP Paribas reported that prime rents rose between 5-8% in multiple markets, with Amsterdam, Berlin, Madrid, and Milan showing “the most significant increases in value.”

As Trepp points out in their own analysis of the report, however: “With inflation across Europe running at elevated levels, in real terms, these rental price changes are likely falling or flat year-on-year.”

Bright Spots Across the Continent

Despite the somber outlook from this report, what’s worth bearing in mind is that this is a very high-level look at the situation on the ground.

When it comes to specific subsectors and locations, there are still strong opportunities for CRE professionals working in European markets. Markets like life sciences continue to show strength, while sectors like data centers provide a wealth of knock-on opportunities in global markets.

As always, however, the key to capitalizing on those opportunities will be to keep a sharp eye on fundamentals and to stay in the loop about incoming CRE trends.