

European Investment Q2 Preliminary Results



The economic pace: slowly but surely

As we progress through 2024, the European investment market continues navigating a landscape shaped by economic and political developments. In May, the European Union's annual inflation rate edged up slightly to 2.7% from April's 2.6%, reflecting persistent service inflation pressures that remain above the target. The expectation is that inflation will hold steady at 2.7% throughout the year before easing to 2.2% in 2025.

Against this backdrop, the European Central Bank (ECB) has adjusted its monetary policy by cutting interest rates by 25 basis points, reducing the deposit rate to 3.75%. Despite the higher-than-expected inflation data, a further 25-bps cut in July appears unlikely. Nevertheless, the ECB maintains cautious optimism, anticipating a gradual reduction of rates to 3.25% by the end of 2024 and further down to 2.00% by the end of 2025, which is in line with the ongoing disinflation process. Bond yields across Europe have shown mixed movements. German

10-year government bond yields fell marginally to 2.5% by the end of June, providing some relief in a stabilising market. However, French 10-year bond yields remain elevated, driven by market concerns over increased public spending under the new government.

The political landscape remains turbulent, with France's unexpected election adding to the series of parliamentary elections scheduled in 2024, including those in Portugal, Belgium, Austria, the UK, and Romania. These elections, with the potential for significant government changes, are expected to introduce a level of uncertainty, leading many investors to adopt a wait-and-see approach until political stability is assured.

The Eurozone has demonstrated modest yet promising growth, with an estimated 0.3% increase in GDP for Q2 2024. Forecasts suggest that the region will achieve 0.7% growth for the entire year, improving to 1.2% in 2025. However, core markets

such as the UK, Germany, and France, as well as Northern Europe, are anticipated to experience weaker GDP growth.

Fig 1: GDP growth



Source: Savills Research based on Oxford Economics

First signs of recovery in Q2

In this somewhat more optimistic environment, investment activity in Europe shows signs of a gradual recovery. With a considerable drop in prices over the past 18 months, the gap between sellers' and buyers' price expectations is narrowing. Furthermore, improved conditions in the debt market have made it easier to secure loans for large or non-prime deals, resulting in a significant uptick in high-leverage transactions.

Our preliminary results suggest that the European volume in Q2 will reach approximately €40.5 billion, marking a 19% increase from the previous quarter. This brings the rolling 4-quarter investment volume to €146.8 billion, a 1.3% rise from the first quarter of the year. This marks the first positive improvement since Q3 2022, indicating a cautious but emerging optimism in the market.

For the first half of 2024, the investment volume in Europe is projected to exceed €74 billion. This is still 2% down compared to

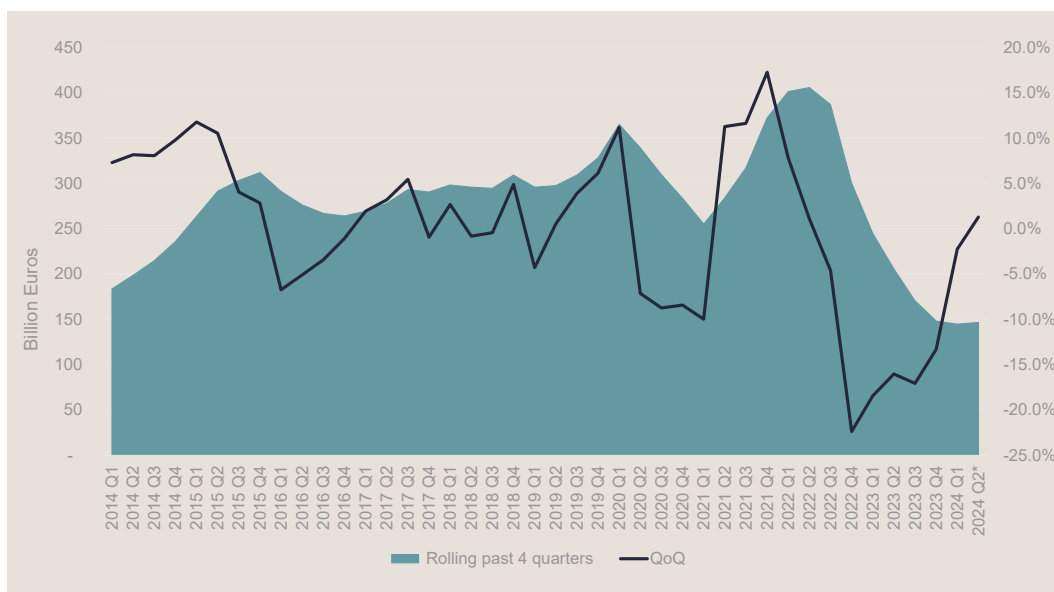
the same period last year and 42% below the five-year average. Our preliminary results suggest that half of the countries we survey, including Romania, Czech Republic, Poland, Italy, Denmark, UK, Norway, and Spain, will record an annual increase on last year's H1.

Investors remain selective, targeting assets that provide the highest return through strong profit growth and favourable supply and demand fundamentals. Hence, multifamily, hospitality, and logistics are the three sectors that attract strong investor interest. As a result, the distribution of investments across all property types increasingly appears evenly spread.

As expected, REITs are gradually increasing their activity. Appealing valuations and the growth of specific asset classes considered more defensive benefit REIT fund managers. Private and institutional investors are also cautiously re-entering the market as interest rates decrease. Meanwhile,

cash-rich investors, including sovereign wealth funds not relying on costly debt, continue to engage in transactions within the lower volume range.

Fig 2: Rolling past 4-quarter investment volume



Source: Savills Research

Full-year volume revised downward

Due to the anticipated economic stagnation in Germany this year and unforeseen elections in France, which are expected to temporarily stall investment activity, we have adjusted our forecast downward. We anticipate the total European investment volume will likely range between €160-175 billion by the close of 2024. This forecast reflects a resurgence in investment volume, poised to grow annually by 8-18%, surpassing the €148 billion recorded in 2023.

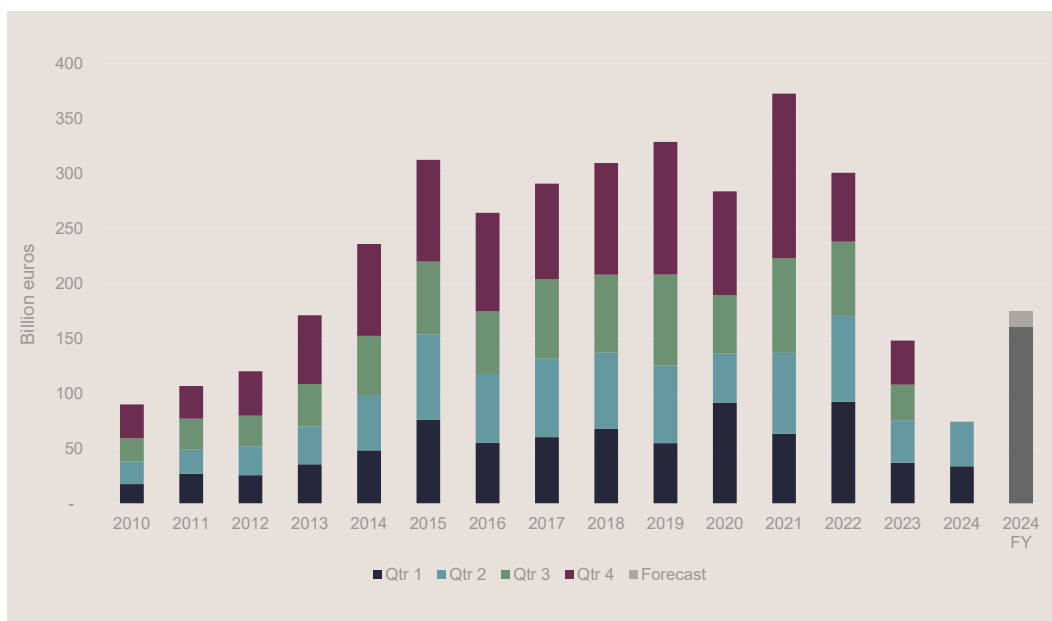
The recovery is projected to be relatively widespread across Europe, with the Nordic and CEE regions, along with Italy, projected to exhibit the highest annual growth rates. Conversely, France is anticipated to fall behind due to a prevalent wait-and-see approach among investors. The UK is forecasted to experience moderate annual growth, with London notably reclaiming its status as the top European city for investment. In Germany, investment volumes are predicted to stay lower than the previous year's levels. Sectors with robust occupier

fundamentals, such as logistics and the living sectors, will continue to fare well in 2024. Hotel investment activity is anticipated to remain strong, primarily driven by consolidations as some owner-occupiers exit. Although Q2 saw a dip in retail activity, likely due to a scarcity of prime opportunities rather than a lack of investor interest, we predict consistent retail activity in the latter half of the year. This is supported by the significant repricing observed in the sector over the past two years. Grocery stores, supermarkets, and retail parks, known for their resilience, will continue to be the main focus for investors.

Investors operating internationally will seek to take advantage of appealing pricing levels seen across different European jurisdictions. Consequently, an increase in cross-border investment activity, spearheaded by US investors, is anticipated for the remainder of the year.

Despite a partial return of confidence in the market expected during the latter part of the year, the 2024 volume will remain significantly below the long-term average. Our projections indicate a year-end decrease of 45% and 50% compared to the preceding five years.

Fig 3: European investment volumes



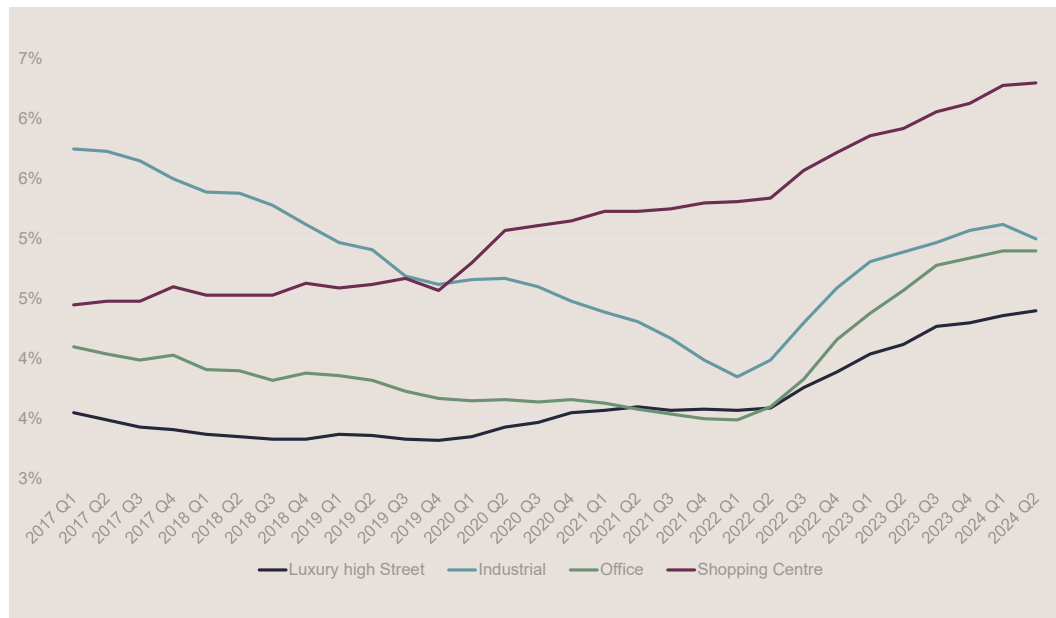
Source: Savills Research

Yield to remain broadly stable until the end of the year

As the gap in price expectations narrows and central bank rates decline, prime yields remained stable this quarter after nine quarters of decompression across all asset types. In Q2 2024, the European average prime logistics yield stood at 5.0%, prime office CBD yields at 4.9%, prime shopping centre yields at 6.4%, and prime luxury high street yields at 4.4%.

Looking ahead, most European locations forecast yields to remain broadly stable across most sectors with little inward movements expected, most notably in key logistics hubs in the UK, Italy, France, Spain, Sweden and Denmark, but also in London, Milan and Stockholm CBD offices.

Fig 4: Prime European yields



Source: Savills Research



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