

# The Lighthouse Report: BNP Paribas REIM shares its outlook of the European Real Estate Market

BNP Paribas REIM presents its new report “The Lighthouse H2 2021 – A European Property Market Outlook”. This fourth edition focuses on the current economic framework, the relative position of real estate and the different sectors and the investment opportunities identified for 2022 and after.

## A stabilizing economy that offers good opportunities for the real estate sector

In the report, BNP Paribas REIM gives an economic overview of 2021 and beyond. The report highlights a growth in all European countries’ gross domestic product (GDP) with a 5% increase in the Eurozone on average in 2021 and robust growth thereafter. Overall, the first half of the year was stronger, with a GDP growth of 6% across Europe whereas the second half of the year is experiencing a slowdown with an expected 4.4% growth.

Real estate investments have seen a return of confidence with an increase of 7.4% in volumes compared to 2020. Some sectors confirm their attractiveness like offices and residential while others are struggling, mostly retail, with the exception of retail warehouses. Two sectors are particularly sought-after since the beginning of the pandemic: logistics and healthcare, which are performing well above their pre-crisis levels. This trend confirms that investors are slowly shifting their allocation away from traditional sectors to invest in alternative assets.

*“This report shows us that the outlook for real estate is good. The economic growth is strong and the inflation is high, while bond yields are near floor level and should stay relatively low. Meanwhile, many institutional investors are eager to allocate more to private and real assets to cope with the negative real rates, and real estate clearly fits within this strategy. One thing that this market analysis shows is the demand of investors regarding ESG issues, on which BNP Paribas REIM is committed through a roadmap and solid objectives to achieve by 2025,”* explains **Maarten van der Spek, Global Head of Strategy for BNP Paribas REIM.**

## The key findings are

### 1. Inflation will be structurally higher until at least 2023

The economic rebound following the COVID-19 crisis is looking strong in Europe, we expect the GDP growth to be positive in all European countries in 2021. At the same time, the crisis caused an increase in commodity prices and construction costs that affect the development prices and therefore the rents, but there shouldn’t be a massive increase in bond yields. The real estate market is well positioned to generate strong returns and contribute positively to investors’ portfolios.

### 2. A strong focus on ESG assets will push up values

Reports have demonstrated the importance of sustainability and the need for the real estate industry to act quickly, as more government regulations are expected to be put into place to reduce companies’ carbon footprints. More and more investors are also focusing on ESG and integrating it into their investment strategies as it was proven that sustainable assets have higher returns. The real estate industry faces the



challenge to adapt and offer solutions to fit this demand, as the stock of sustainable or energy efficient assets is limited. This will put pressure on prices, but also indicates the (re-)development opportunity for investors.

### **3. We expect healthcare to generate the highest return over the next 5 years**

The healthcare sector seems to have benefited from the crisis. The sector is influenced by economic and demographic trends such as the rise of elderly people and chronic diseases, which lead to higher investor demand. It should outperform the more traditional asset classes and benefits from the highest total return within the existing diversity of products, a lack of good quality assets, high yields and growing rents.

### **4. The UK is still expected to outperform continental Europe**

The UK is expected to outperform the rest of Europe in the coming years as it is among the highest performing markets in most sectors, driven by relatively high yields and a robust economic recovery.

### **5. We like retail warehouses**

Warehousing, DIY stores and retail parks have shown the most growth during the crisis. The share of retail warehouses and supermarkets transacted has more than doubled from 2014 to 2021, to reach 68% this year. Unlike shopping centres and high street retail that declined during the COVID crisis, retail warehouses will continue to offer strong returns thanks to solid rents and high yields.

### **6. The office is dead. Long live the office market**

With the different lockdowns and the massive use of remote working, the future role of offices was uncertain, but we are optimistic. The investment in offices is still the highest among all sectors with 30% of the total volume. The supply of quality offices is tight, rents are high and investors are still very interested in this sector, especially prime offices. Now, companies will focus on prime quality buildings located in most central locations, well connected to public transports that offer a wide range of services and that meet environmental standards.

### **7. Strong momentum in logistics, but moderation expected**

The logistics sector has been benefitting from the rise of the e-commerce, although reports show that only 25% of Europe's logistics take-up in the first half of 2021 was by e-commerce companies. Driven by a huge investor demand, yields have been under pressure and are now very close to office yields levels. We also expect a strong growth in rents as the demand is increasing and the supply is getting shorter.

### **8. Investors are keen to increase their residential allocation**

Institutional investors are now more than ever investing into the residential sector, driven by the demonstrated resilience during the downturn and often mismatch between supply and demand. The relatively stable cash flows and returns coupled with low volatility in economic downturns are attractive in this crisis period.

Click [here](#) to download the report.

#### **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 330 employees, we care for assets as we care for living beings, aiming to build a better living environment for our 200+ institutional investors and 150,000+ 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 beginning of 2021, BNP Paribas REIM managed €29 billion of living European assets on behalf of institutional and private investors.

BNP Paribas Real Estate Investment Management is composed of regulated entities in the following countries: France, BNP Paribas Real Estate Investment Management S.A.; Italy, BNP Paribas Real Estate Investment Management Italy SGR; Germany, BNP Paribas Real Estate Investment Management Germany GmbH; UK, BNP Paribas Real Estate Investment Management UK Limited; Luxembourg, BNP Paribas Real Estate Investment Management Luxembourg S.A.

Each of the legal entities responsible for offering products or services to their customers is referred to in the product documentation, contracts and related information.

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