



# European Market View

Economy & real estate update

Q2 2023

Investing today. For tomorrow.

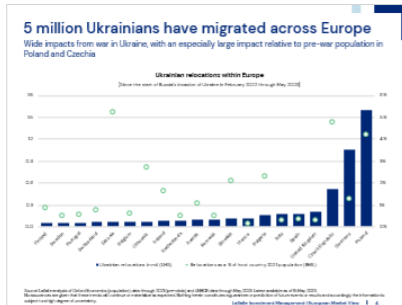


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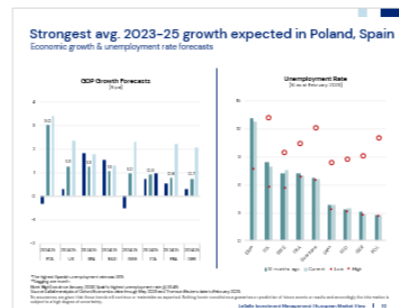
### Migration



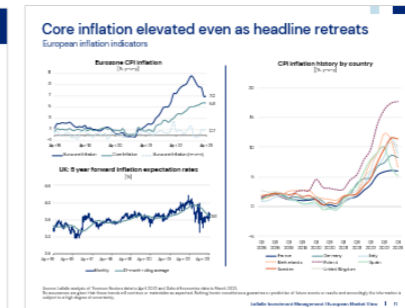
### Energy



### Growth



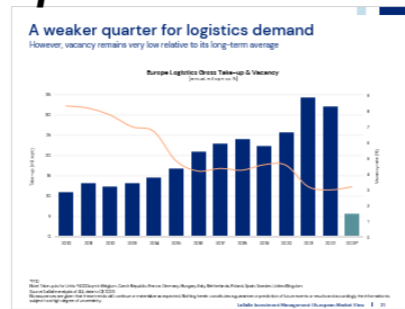
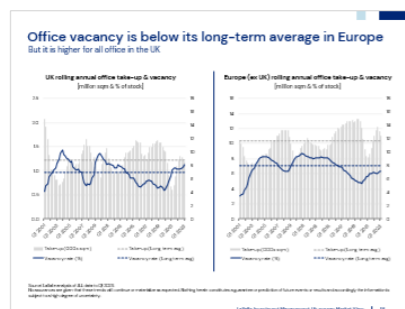
### Inflation



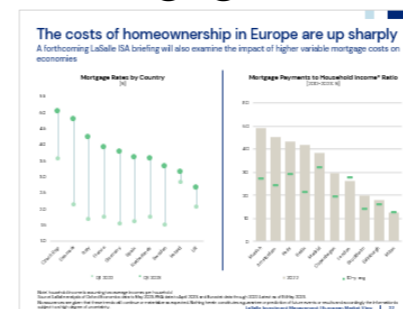
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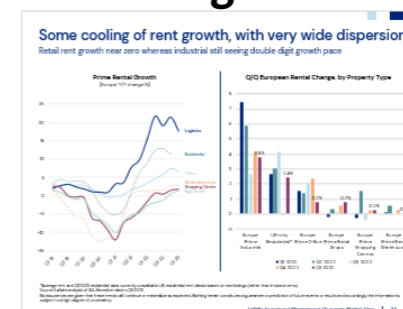
### Take-up



### Mortgage costs



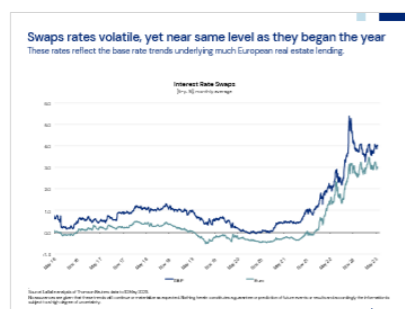
### Rent growth



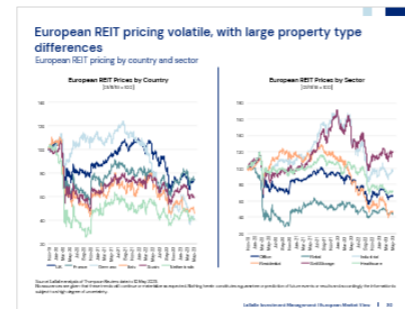
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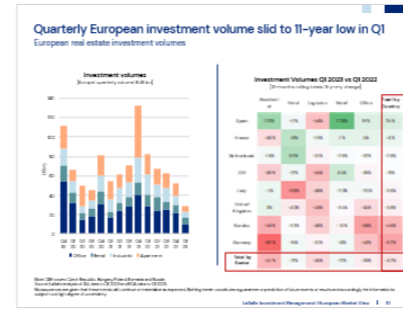
### Rates



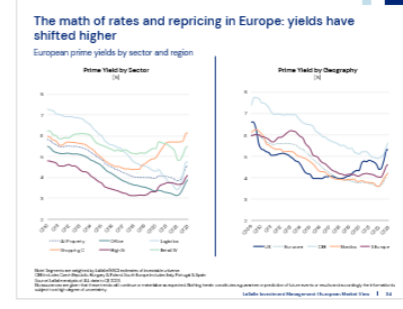
### REITs



### Transactions



### Yields



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# Macro drivers

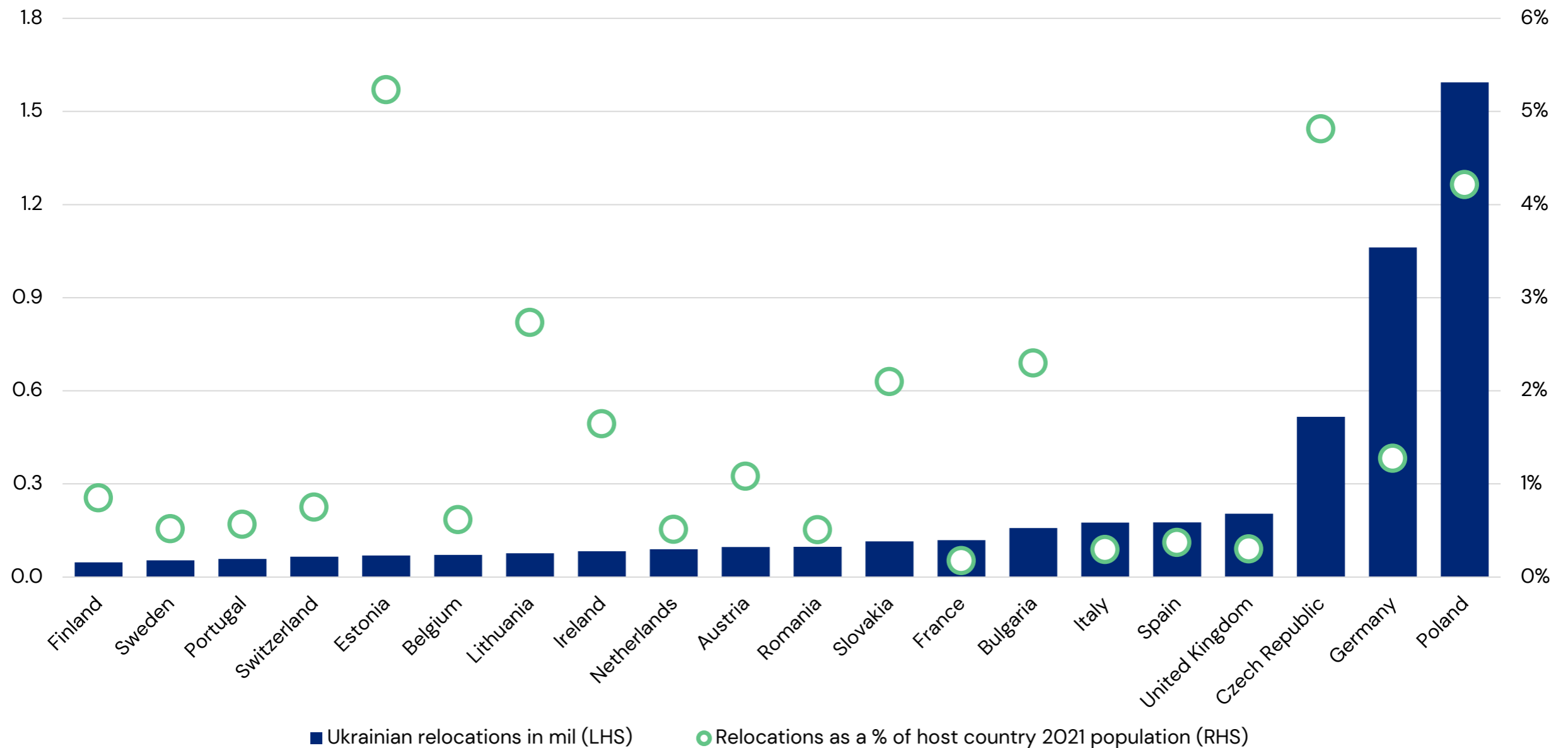
Economic & Demographic indicators

# 5 million Ukrainians have migrated across Europe

Wide impacts from war in Ukraine, with an especially large impact relative to pre-war population in Poland and Czechia

## Ukrainian relocations within Europe

[Since the start of Russia's invasion of Ukraine in February 2022 through May 2023]



Source: LaSalle analysis of Oxford Economics (population) data through 2021 (pre-crisis) and UNHCR data through May 2023. Latest available as of 15 May 2023.

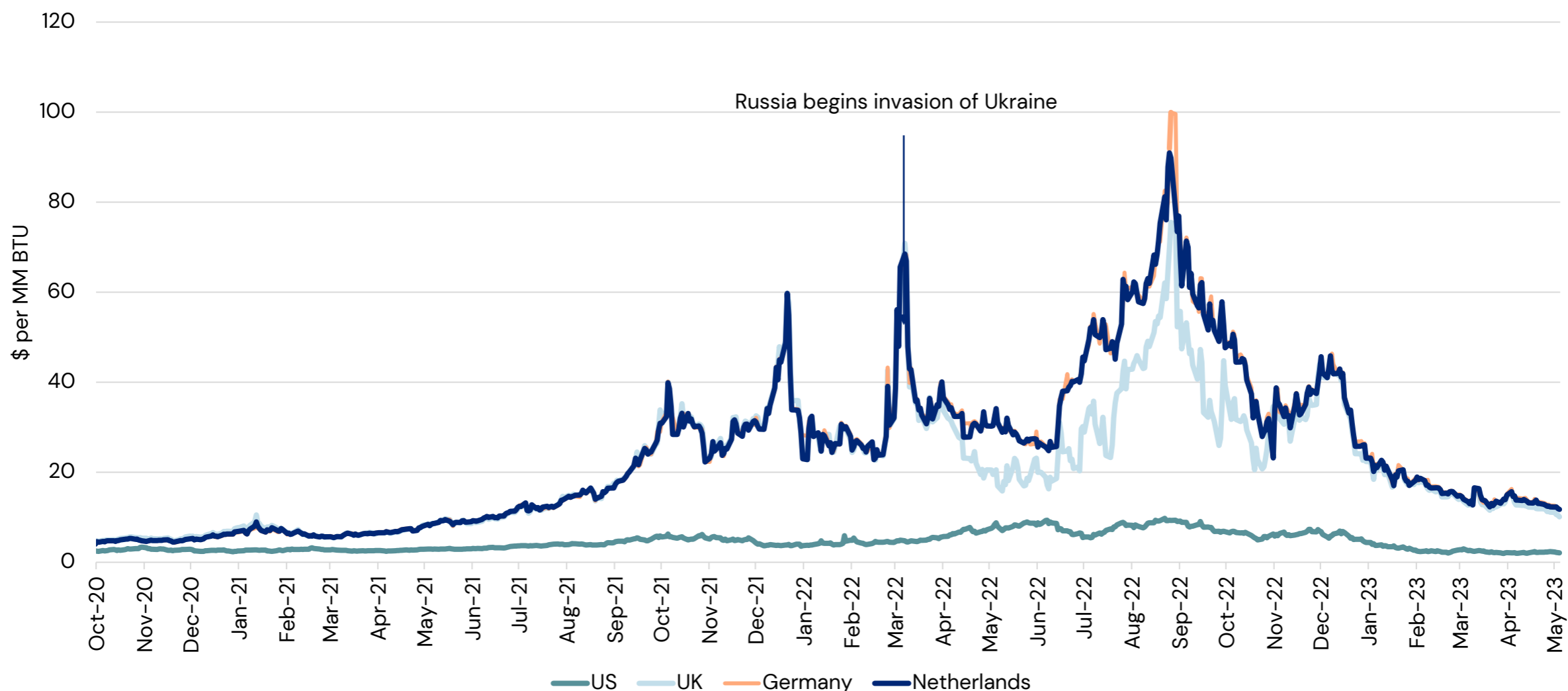
No assurances are given that these trends will continue or materialize as expected. Nothing herein constitutes a guarantee or prediction of future events or results and accordingly the information is subject to a high degree of uncertainty.

# European natural gas prices are down 65% from a year ago

Yet also 45% higher than their average level during 2019

## Natural gas prices

[Generic 1<sup>st</sup> futures contract price]



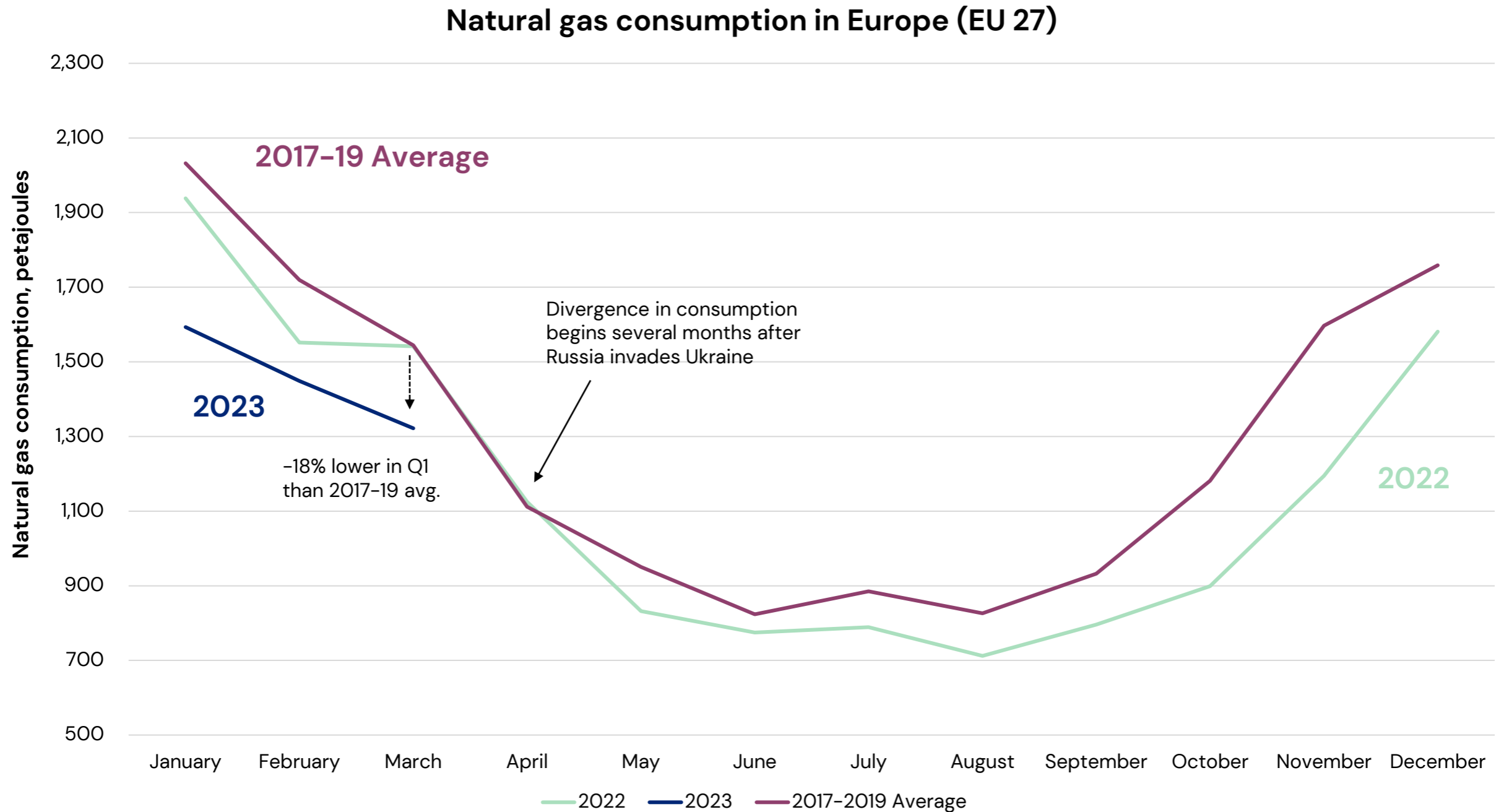
Natural gas consumption in the EU fell by almost 18% in the eight months to March hereby exceeding the target (15%) set by the bloc. EU gas storage is currently filled up to 61% of the capacity, well above the 10-year average (39%) for the same period.

Source: LaSalle analysis of New York Mercantile Exchange and Intercontinental Exchange data via Refinitiv. Data to 4 May 2023.

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# European natural gas consumption is down by one fifth

Monthly data quantifies the degree of reduction driven by a combination of conservation + the milder than typical 2022–23 winter temperatures



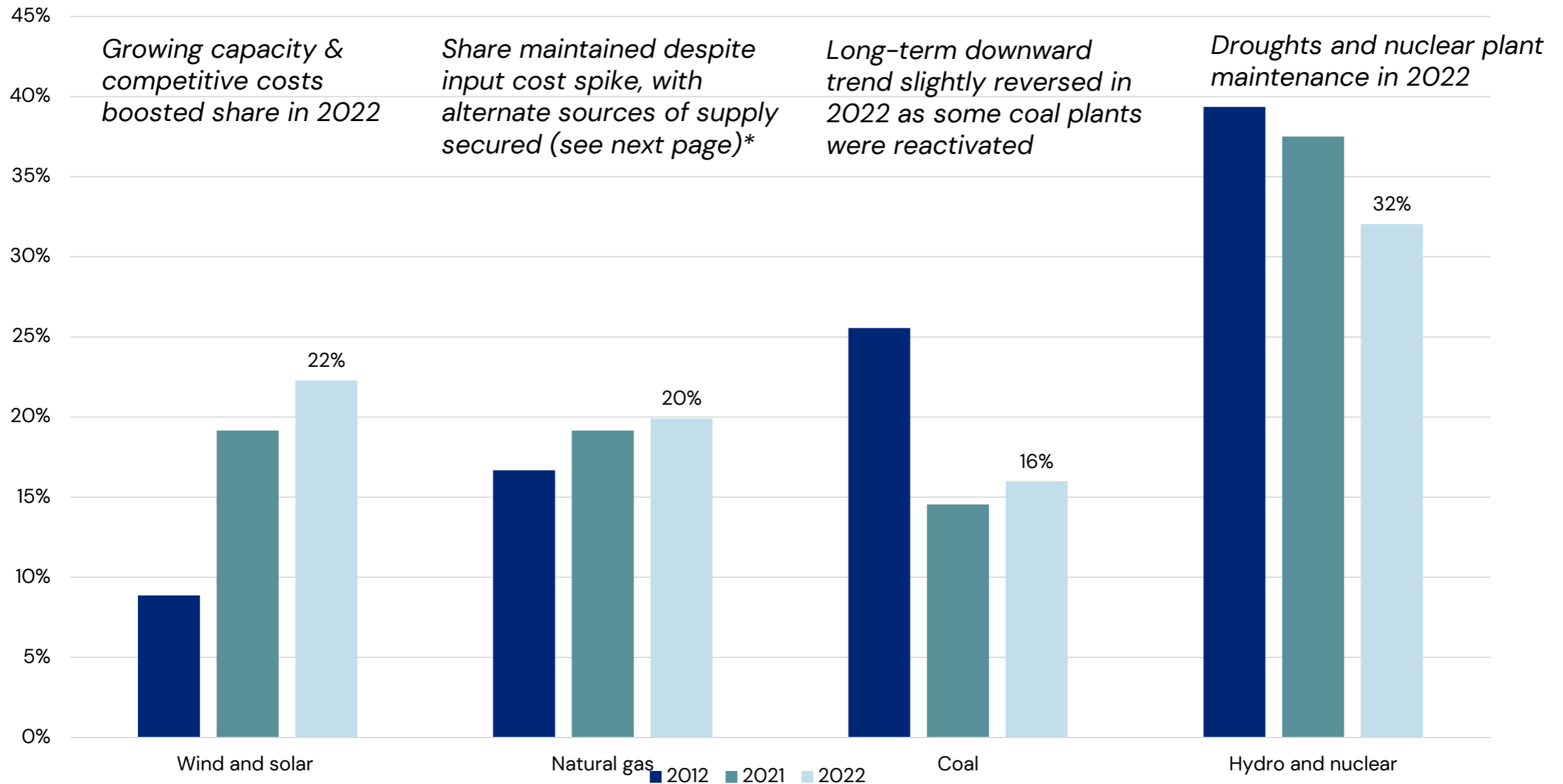
Source: LaSalle analysis of Eurostat data to March 2023. Note that the UK is excluded from all time series data above.

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# Wind and solar generated 22% of 2022 European electricity

Shifting mix shows response to energy crisis

### European electricity generation share by source



\* Note that 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-2023/>)

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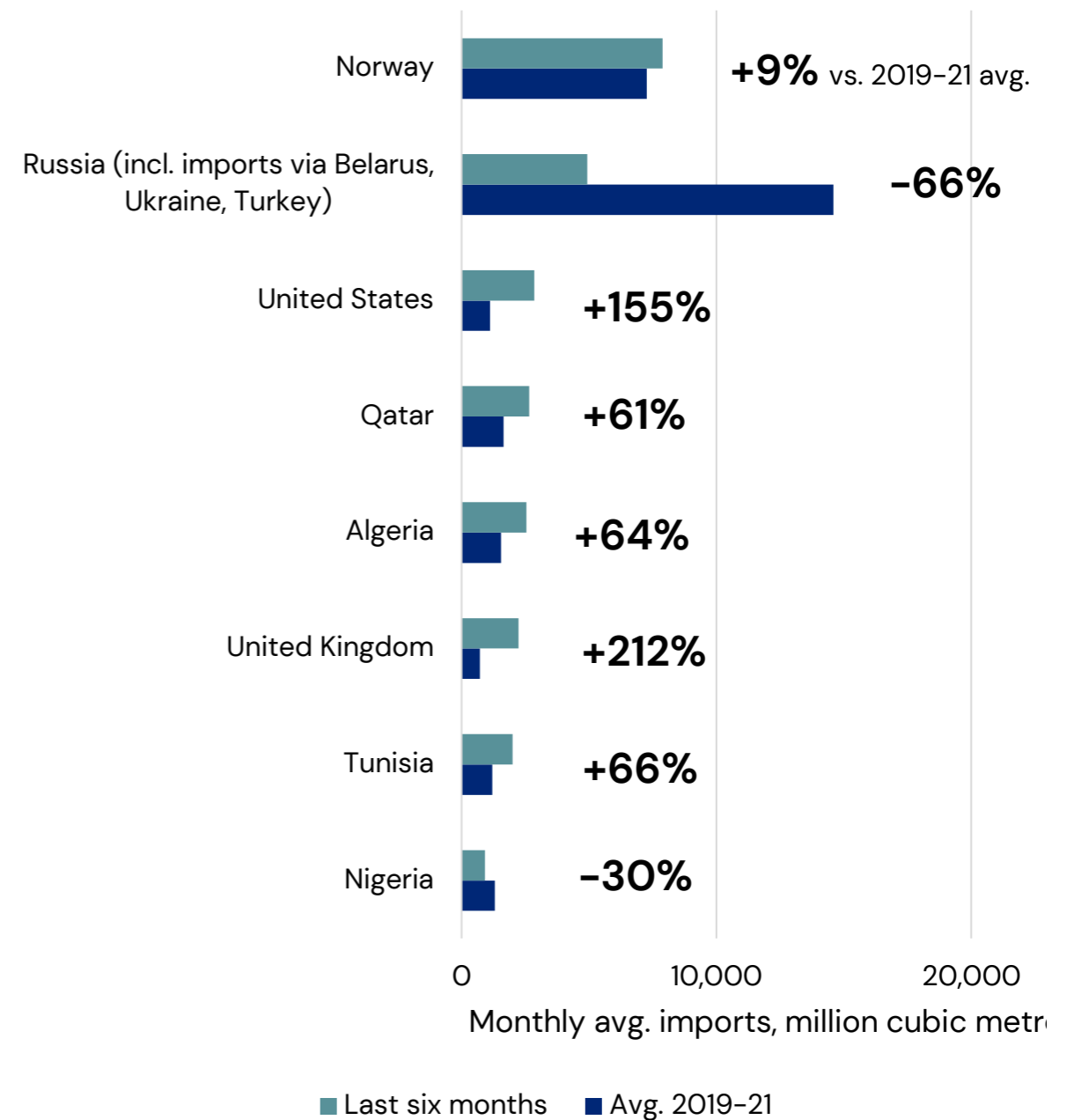
# EU natural gas imports: backfilling Russian supply

Imports from other sources have backfilled about 80% of pre-war Russian supply

### EU natural gas imports: Russia vs. others



### Change in EU gas imports by source\*



\*Intra-EU gas imports/export transfers have been excluded from this analysis.

Source: LaSalle analysis of Eurostat import data through year-end 2022. UK excluded from all EU time series data. Latest full data available as of 15 May 2023.

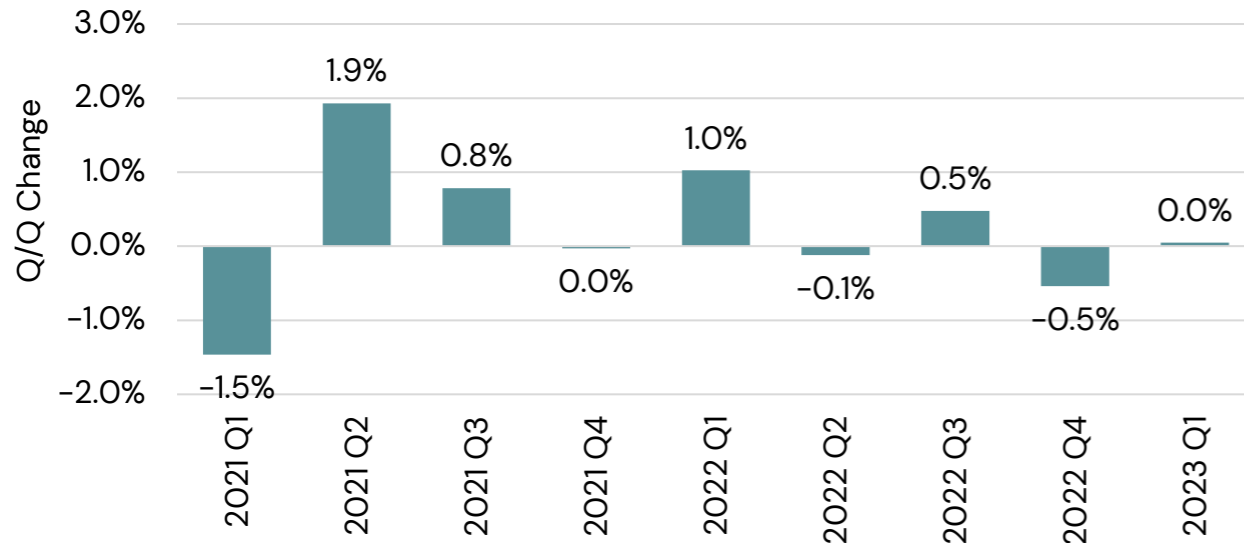
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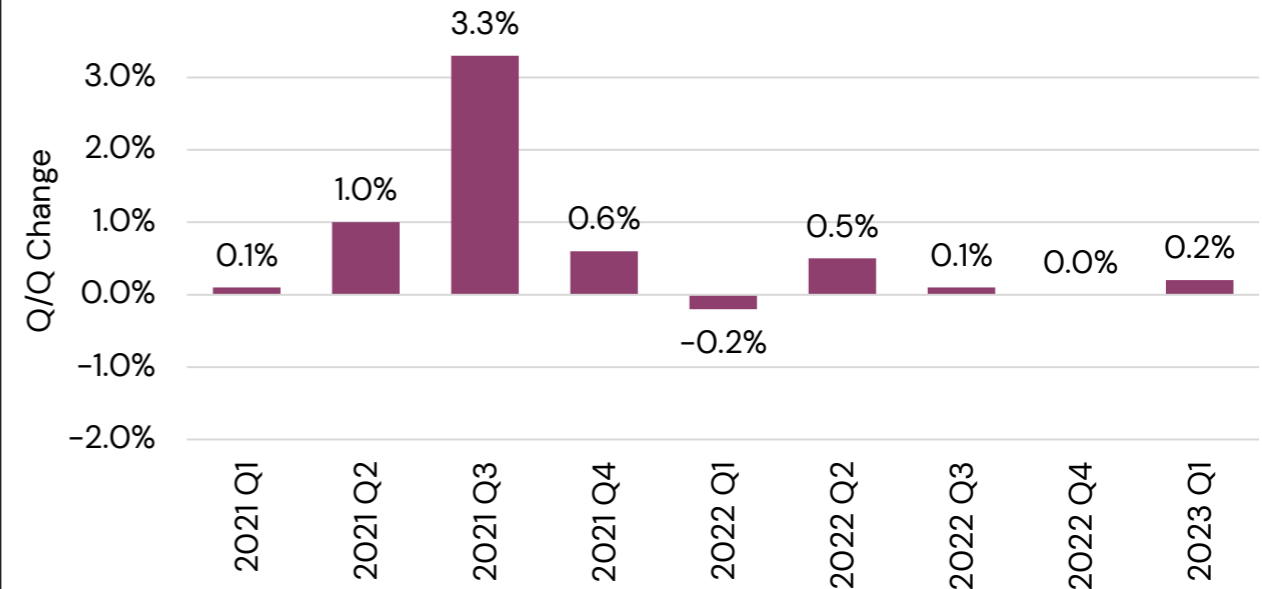
# High frequency GDP data; flirting with recession

Quarterly and monthly-frequency European GDP shows near zero growth

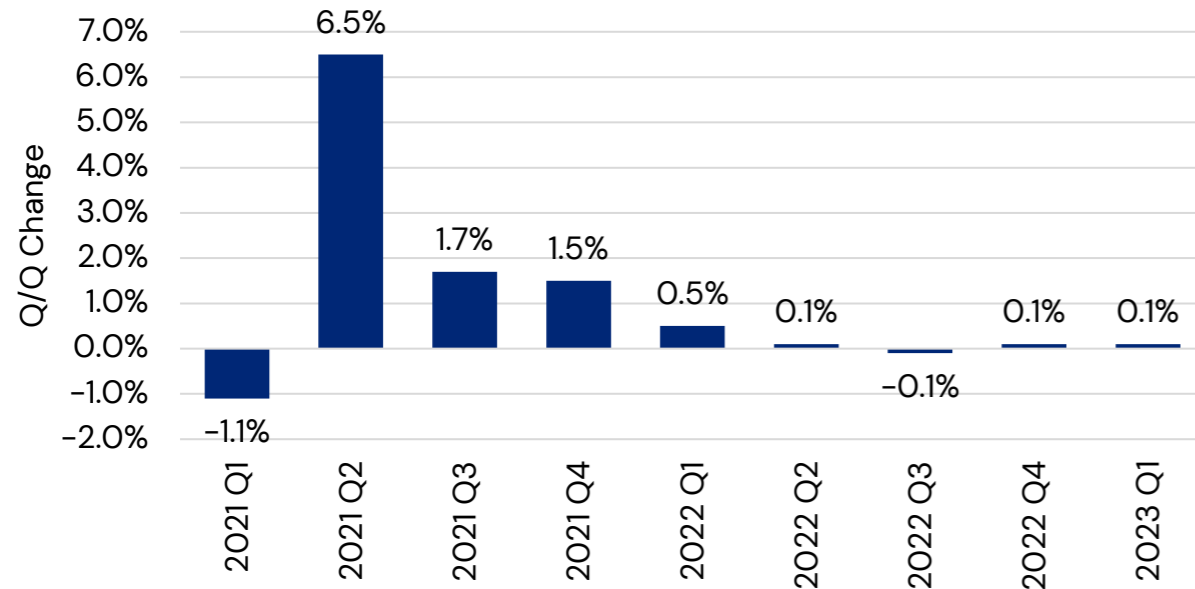
Germany Quarterly GDP Growth



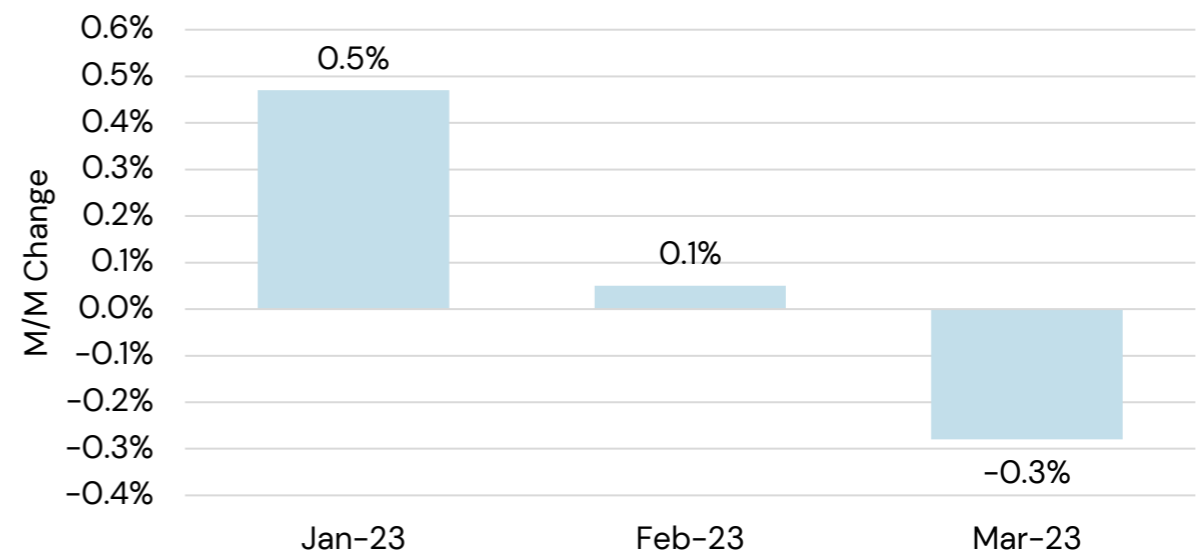
France Quarterly GDP Growth



UK Quarterly GDP Growth



UK Monthly GDP Growth



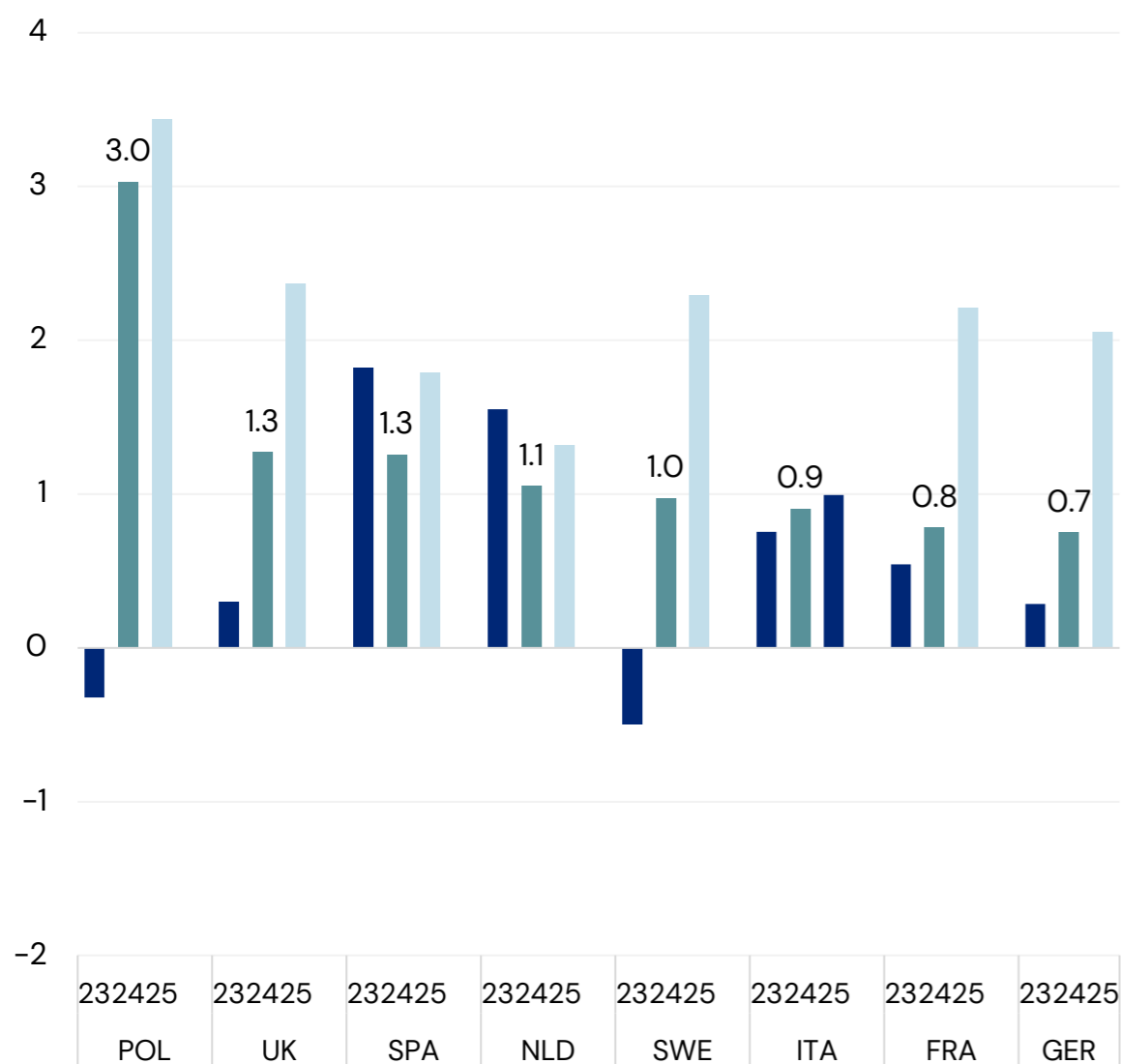
Source: LaSalle analysis of Office for National Statistics (UK), Statistisches Bundesamt (Germany), Insee (France). Data to March 2023.

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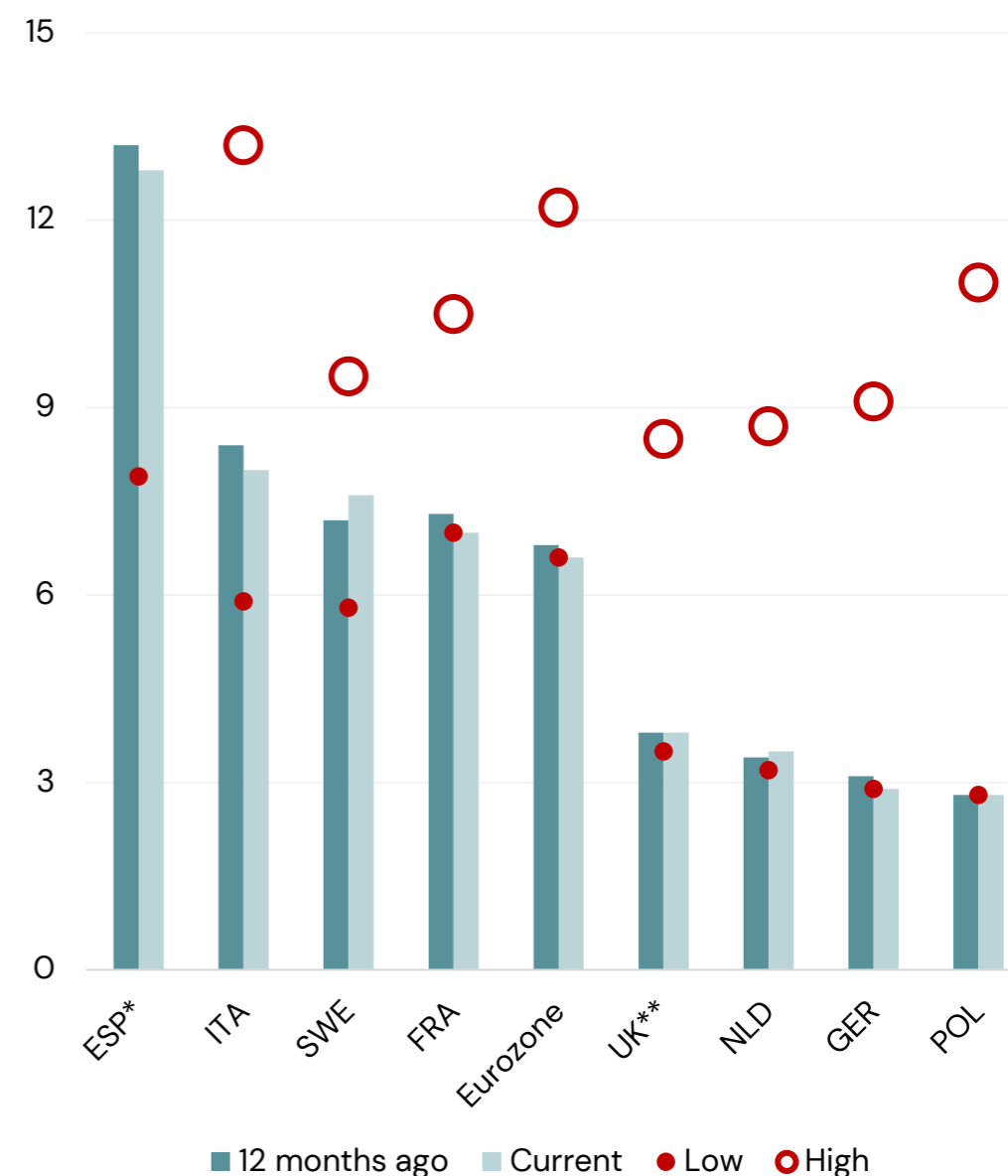
# Strongest avg. 2023-25 growth expected in Poland, Spain

Economic growth & unemployment rate forecasts

### GDP Growth Forecasts [% pa]



### Unemployment Rate [%; as at February 2023]



\*The highest Spanish unemployment rate was 26%

\*\*Lagging one month

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

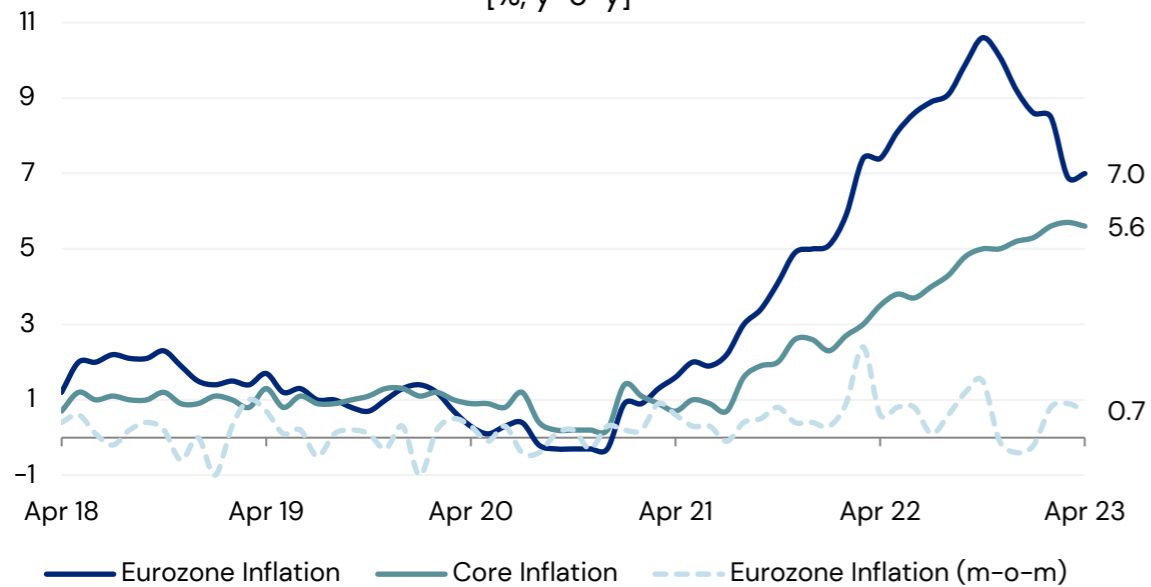
Source: LaSalle analysis of Oxford Economics data through May 2023 and Thomson Reuters data to February 2023.

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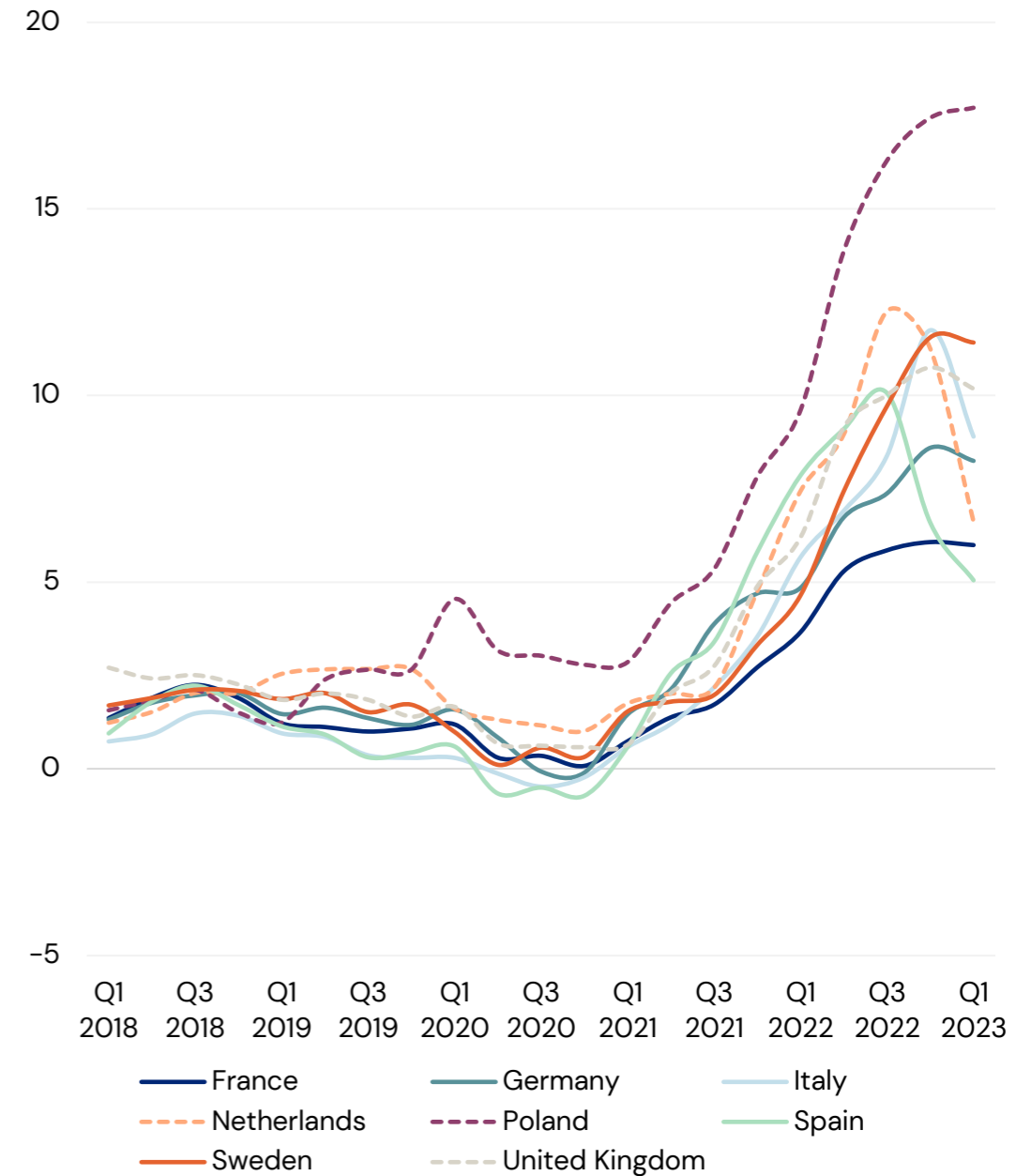
# Core inflation elevated even as headline retreats

## European inflation indicators

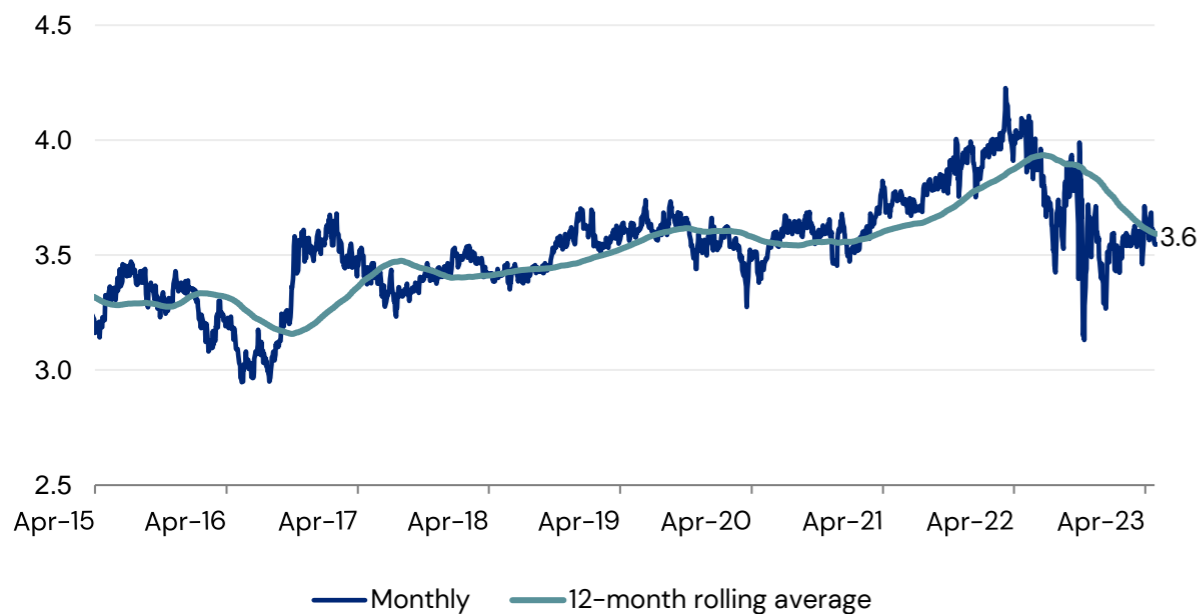
**Eurozone CPI inflation**  
[% y-o-y]



**CPI inflation history by country**  
[[% y-o-y]



**UK: 5 year forward inflation expectation rates**  
[%]



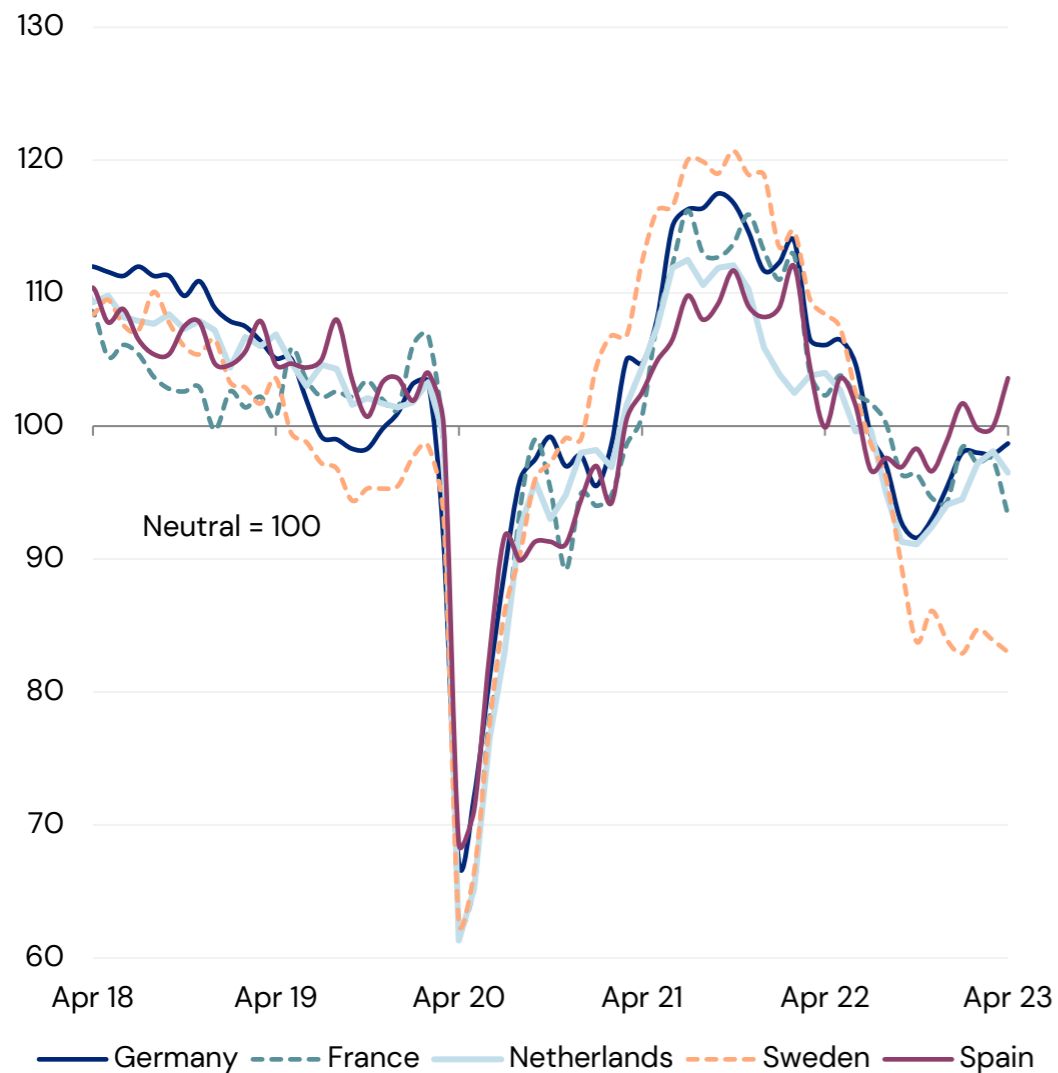
Source: LaSalle analysis of Thomson Reuters data to April 2023 and Oxford Economics data to March 2023.

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# Spanish sentiment turns positive

Whereas Sweden and the UK are negative outliers, with weaker readings than the rest of Europe

### Economic Sentiment Indicator [Monthly index]



### UK Consumer Confidence Index [2013-23]



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

Source: LaSalle analysis of Thomson Reuters data to April 2023 and GfK data to April 2023.

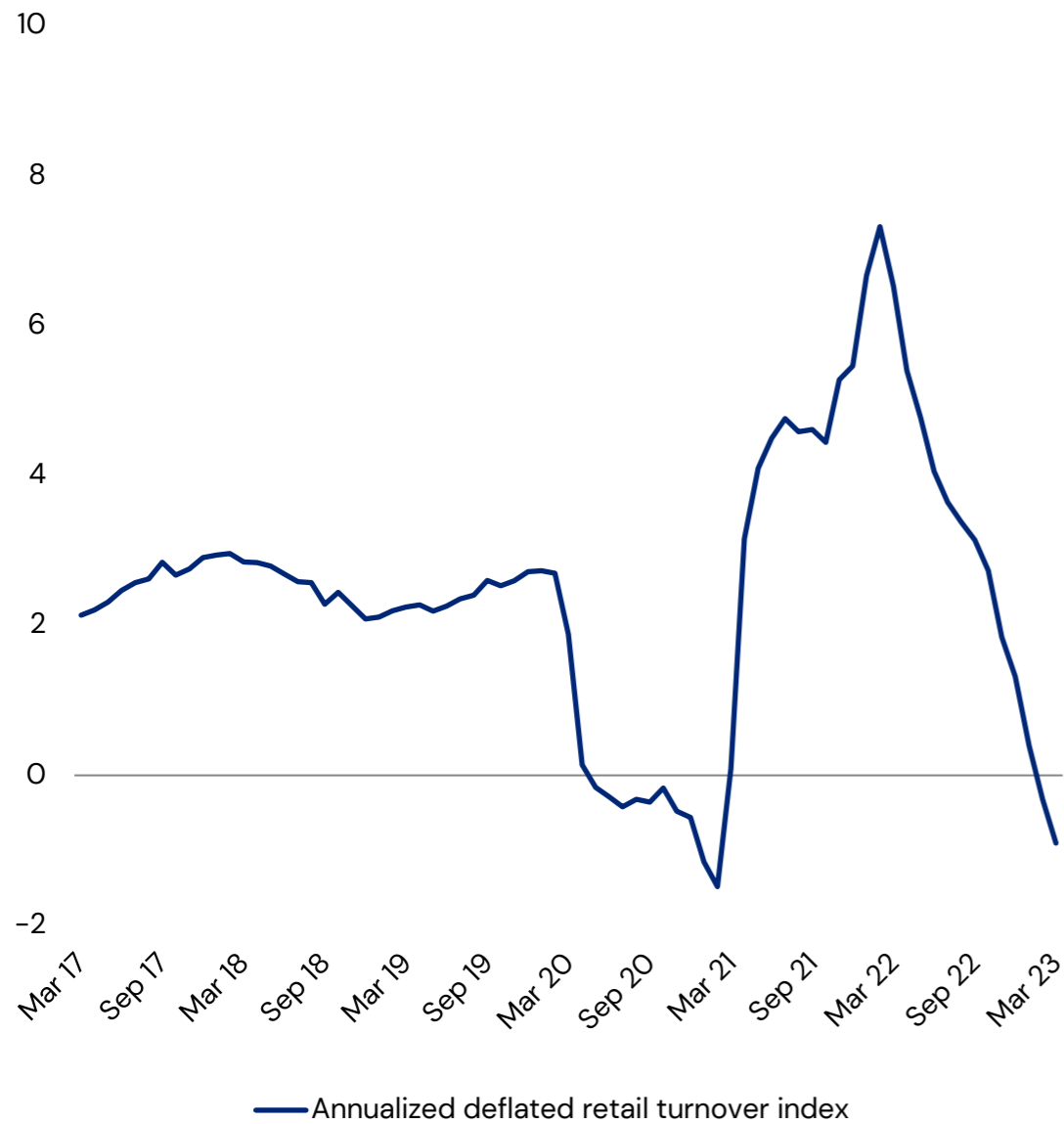
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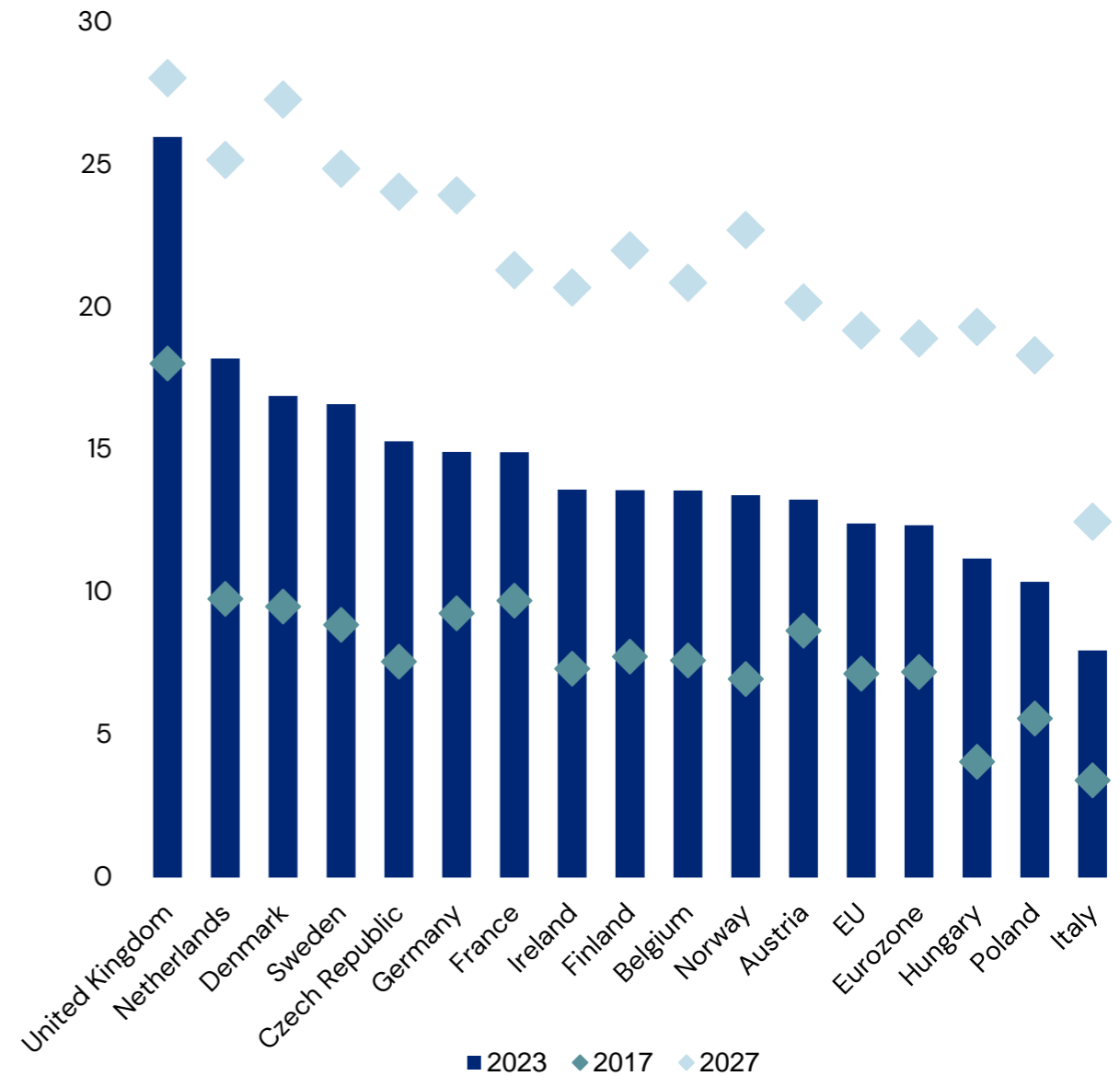
# Real spending power has been hit by inflation

European Ecommerce expected to catch up with UK penetration over the next five years

**Real EU27 Retail Sales Growth**  
[Annualised deflated turnover index, % y/y]



**Retail Spending Online Share**  
[European countries, %]

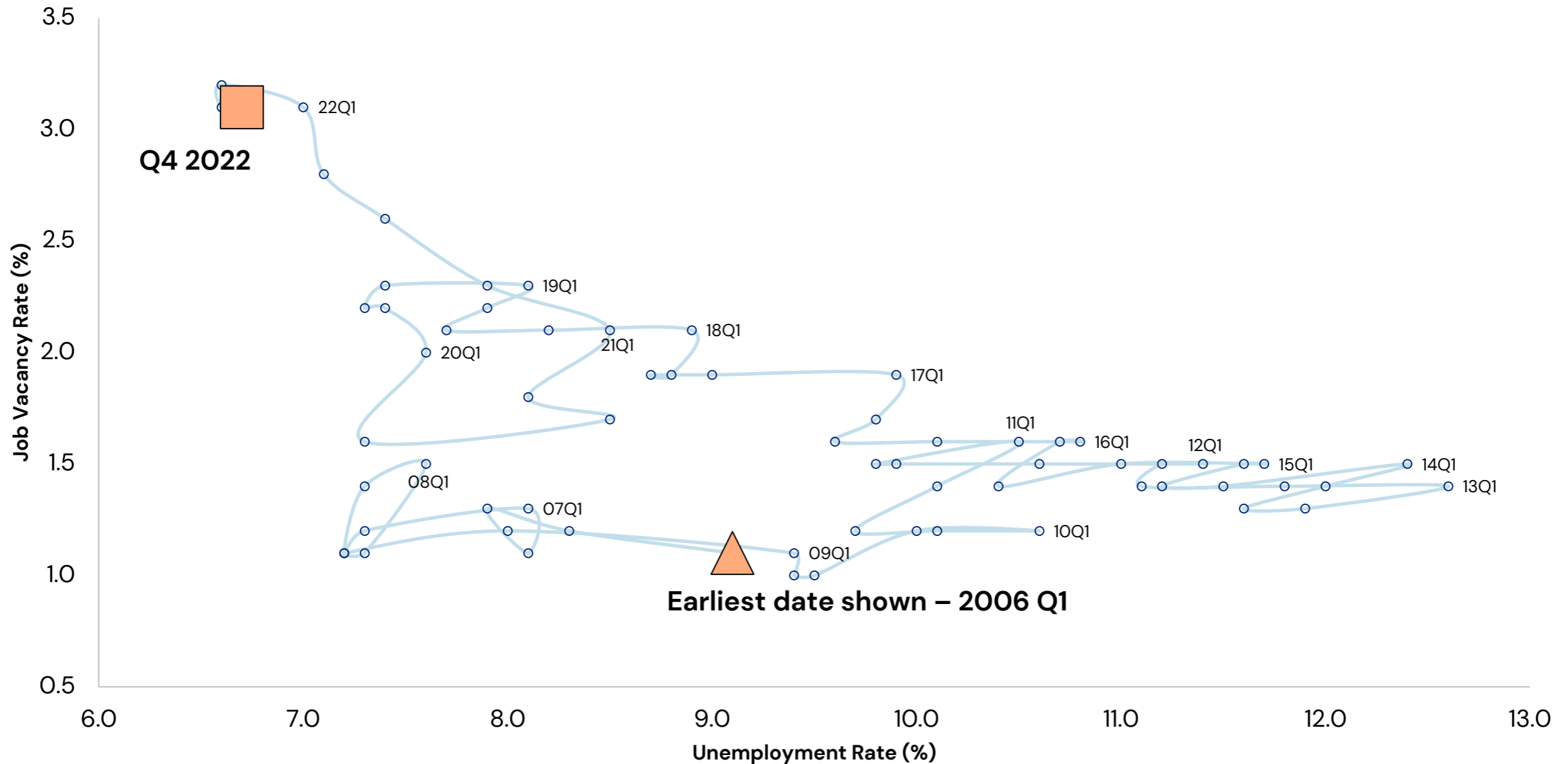


Source: LaSalle analysis of Eurostat data to March 2023 and PMA data to April 2023.

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# Relationship between unemployment rate and job vacancy

The Beveridge curve shows very low current unemployment and high job vacancies



The relationship between unemployment and job vacancies – the Beveridge curve – is shown over time above, with the line connecting periods across time. Today's tight labour market environment is unusual relative to the historical relationship since 2006.

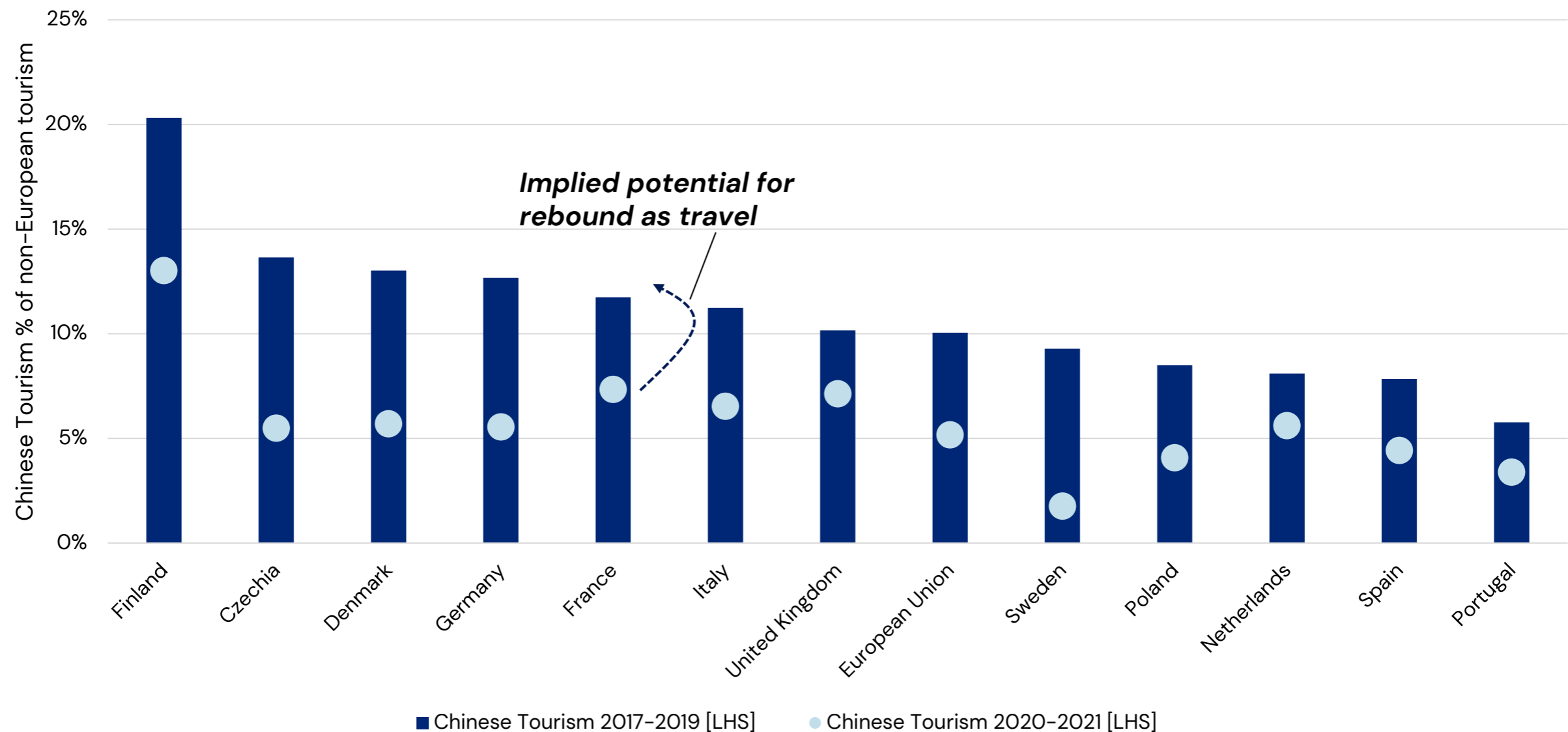
Source: LaSalle analysis of Eurostat data to April 2023.

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# European tourism poised to benefit from China's re-opening

Chinese visitors were 12% of non-Europe visitors to France in 2019, but declined to 7% in 2020-21

Share of overseas/Cross-regional tourism in Europe  
[China]



Source: LaSalle analysis of Eurostat and ONS data to 2021. Latest as of 15 May 2023.

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# Real estate occupier trends

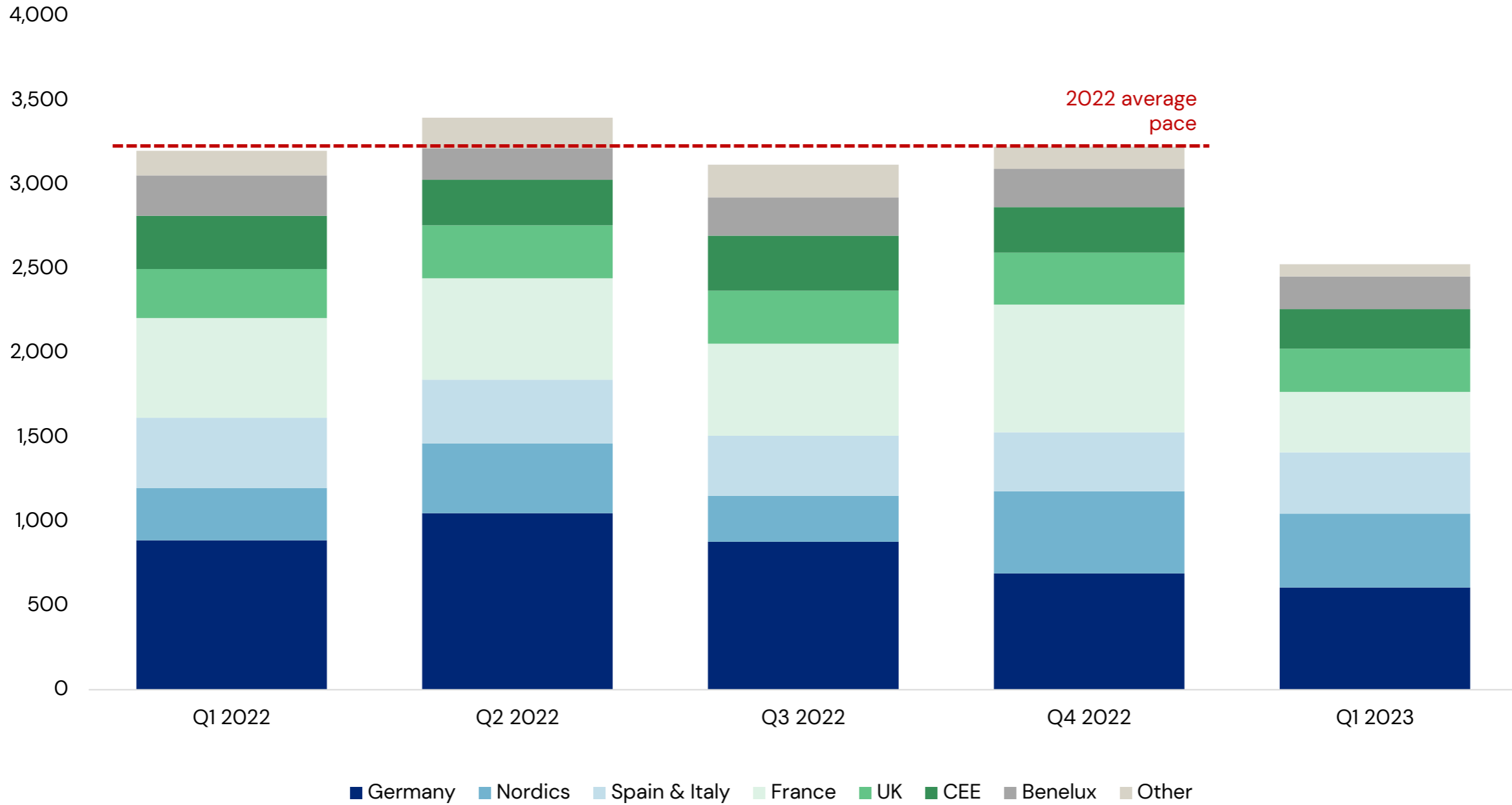
Demand & Supply indicators



# Office take up slowed in Q1 2023

Leasing in Q1 2023 was 28% below the 2022 average pace

Cumulative gross office take-up by country  
[mil sqm]

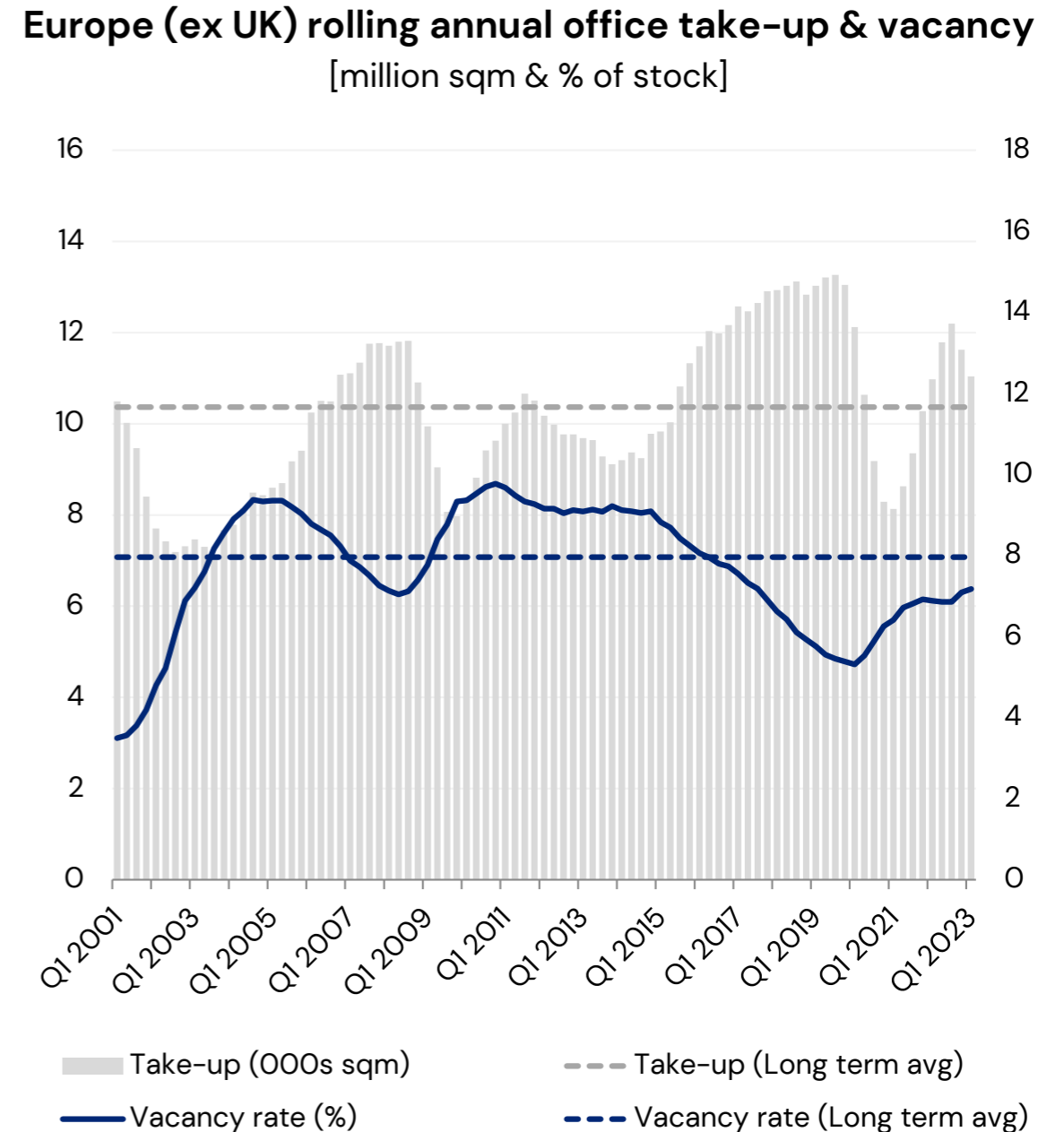
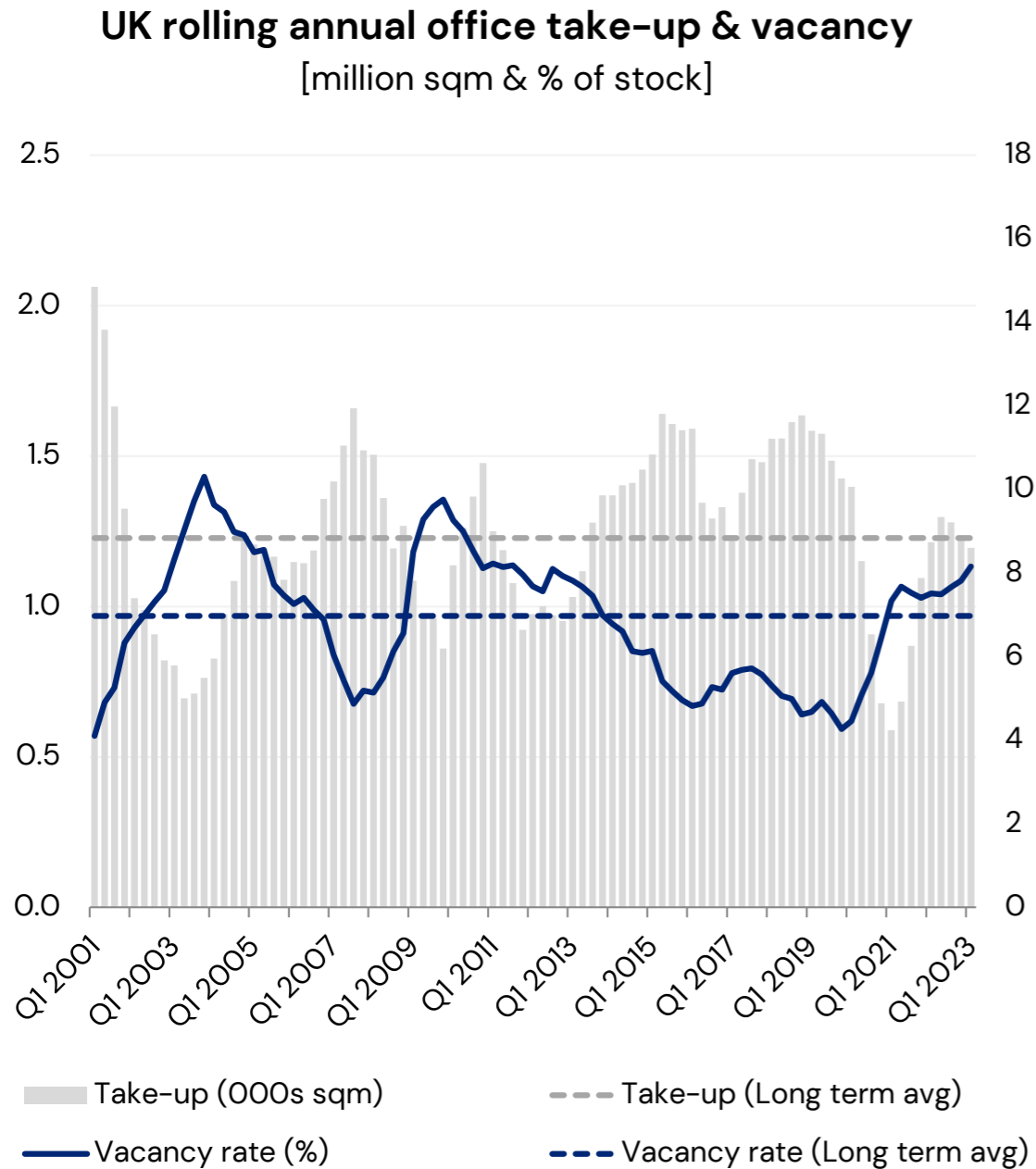


Source: LaSalle analysis of JLL data to Q1 2023.

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# Office vacancy is below its long-term average in Europe

But it is higher for all office in the UK



Source: LaSalle analysis of JLL data to Q1 2023.

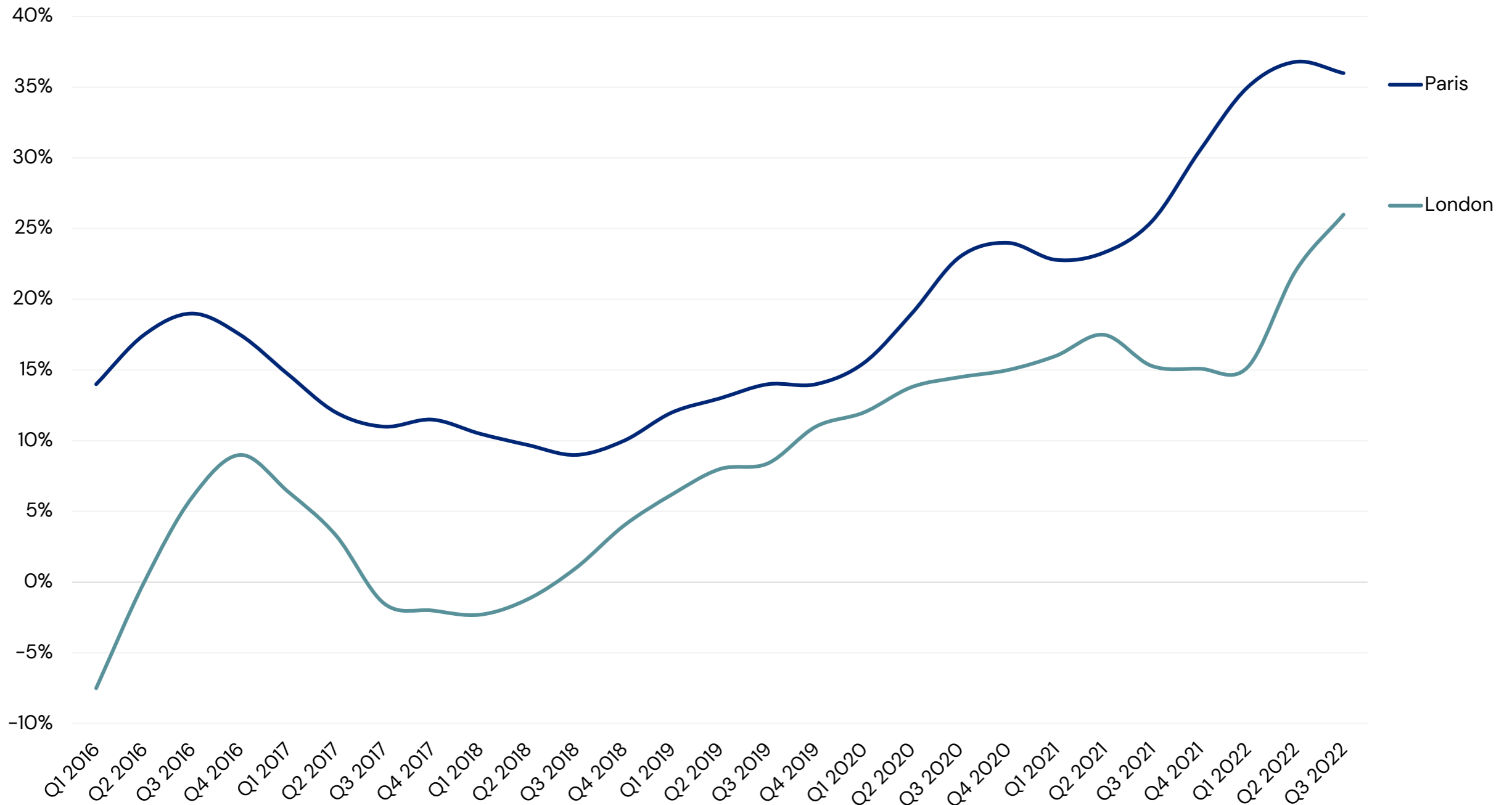
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# European office green premium grows

Differences in price for offices with sustainability ratings

Sale-price gap for offices that have sustainability ratings

[%]



Source: MSCI analysis released November 2022.

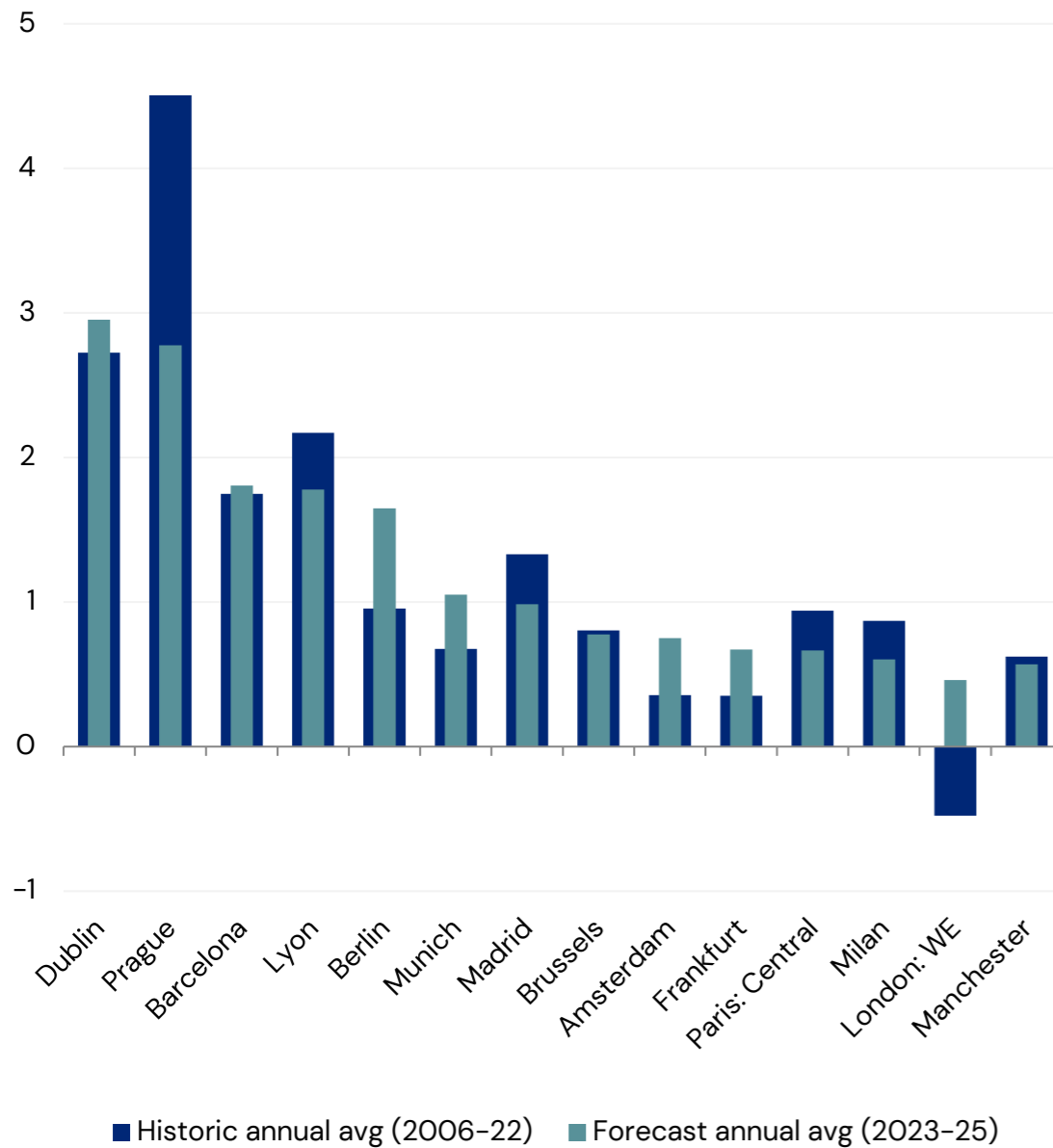
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# European office supply growth is limited

Large rise in vacancy in Dublin y-o-y driven by new supply

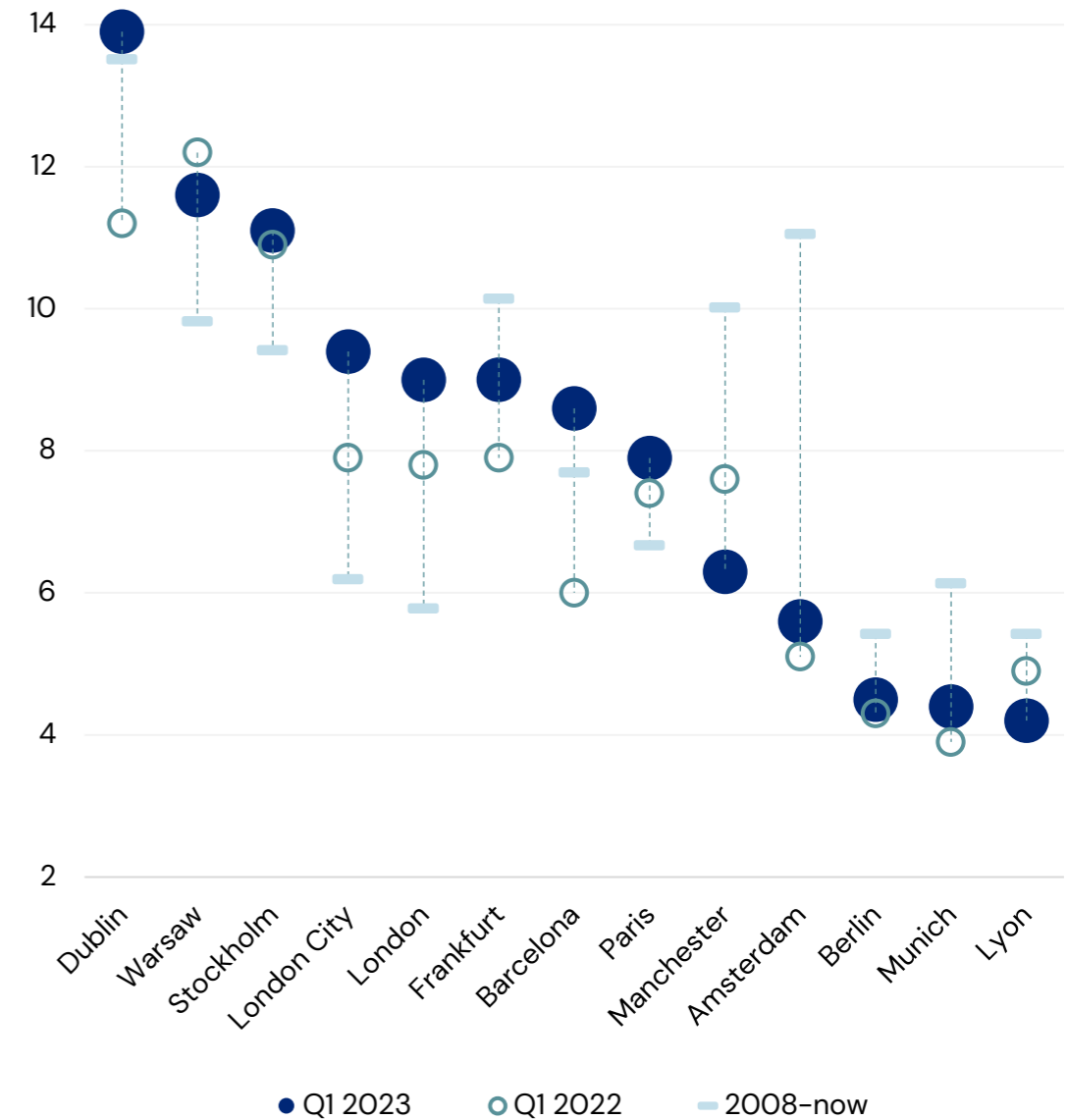
## Office Net Additions

[selected European markets; as % of total stock]



## Office Vacancy Rates

[selected European markets, %]



Source: LaSalle analysis of PMA data to April 2023 and JLL data to Q1 2023.

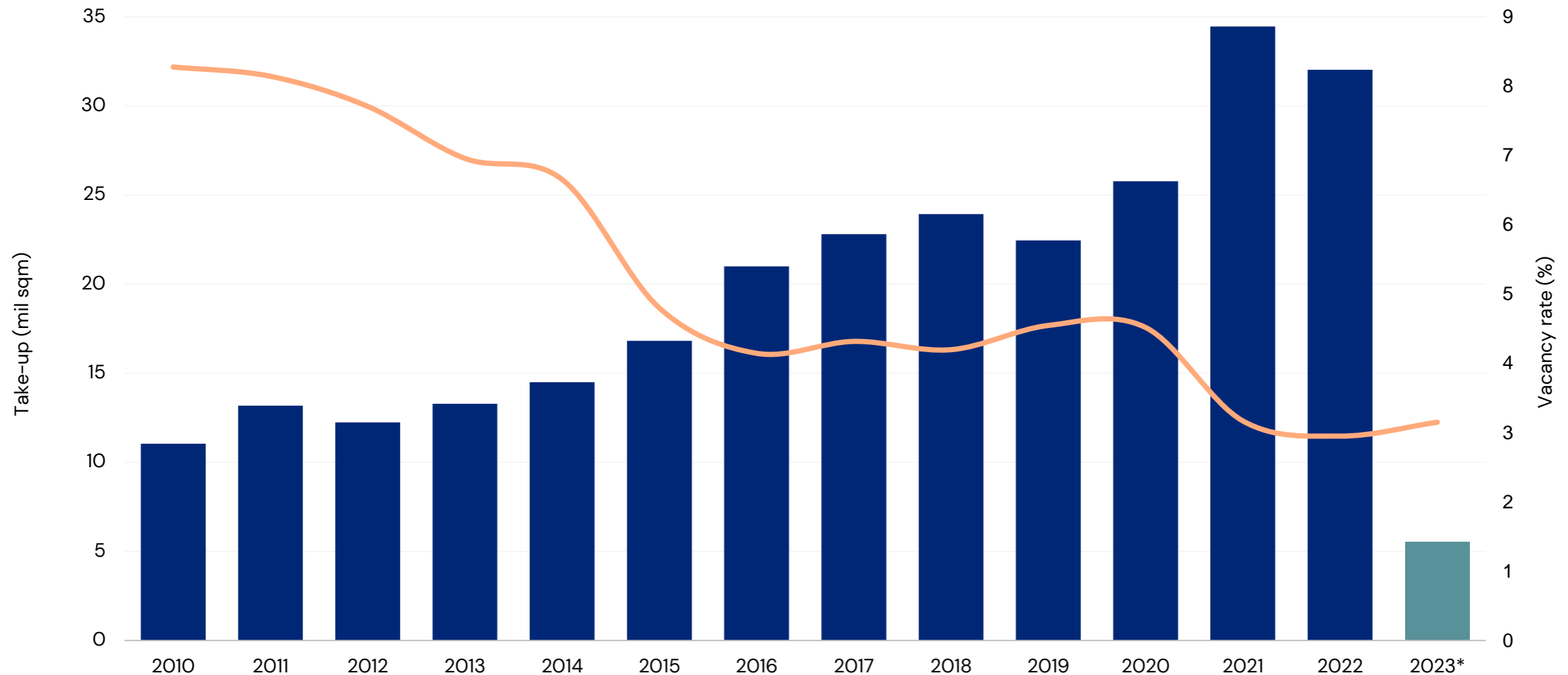
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# A weaker quarter for logistics demand

However, vacancy remains very low relative to its long-term average

Europe Logistics Gross Take-up & Vacancy  
[annual, mil sqm vs. %]



\*YTD

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

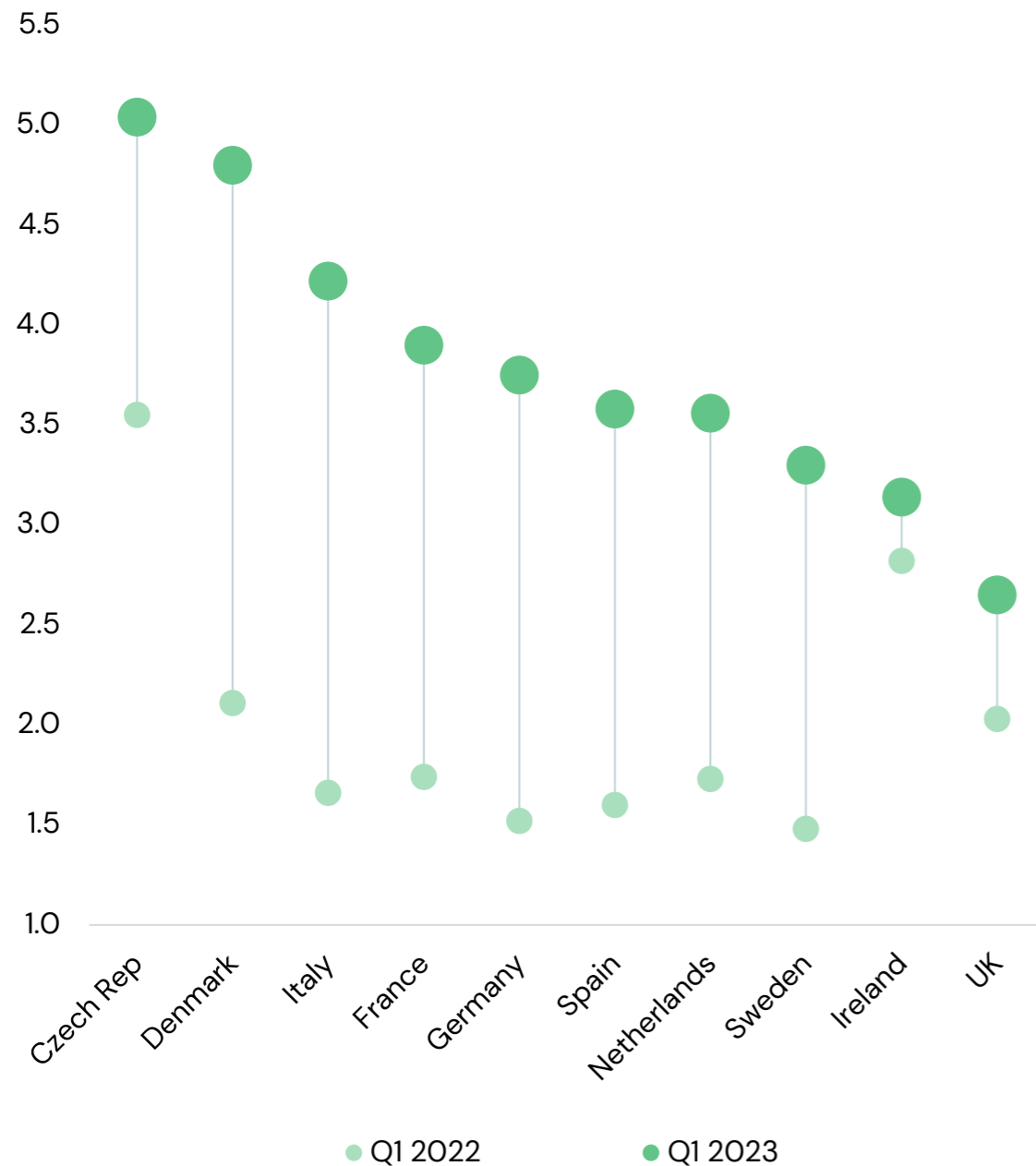
Source: LaSalle analysis of JLL data to Q1 2023.

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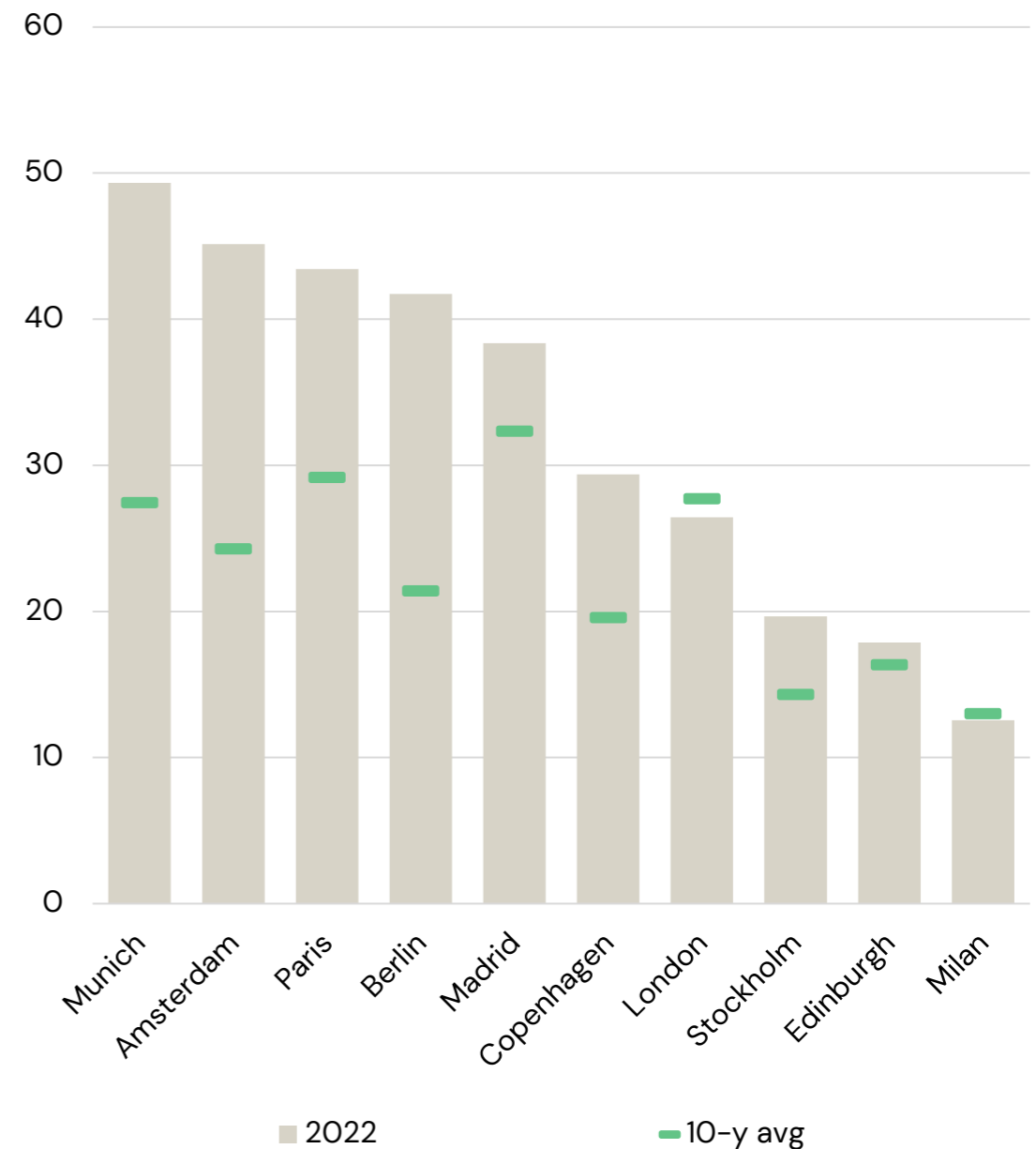
# The costs of homeownership in Europe are up sharply

A forthcoming LaSalle ISA briefing will also examine the impact of higher variable mortgage costs on economies

**Mortgage Rates by Country**  
[%]



**Mortgage Payments to Household Income\* Ratio**  
[2012-2023; %]



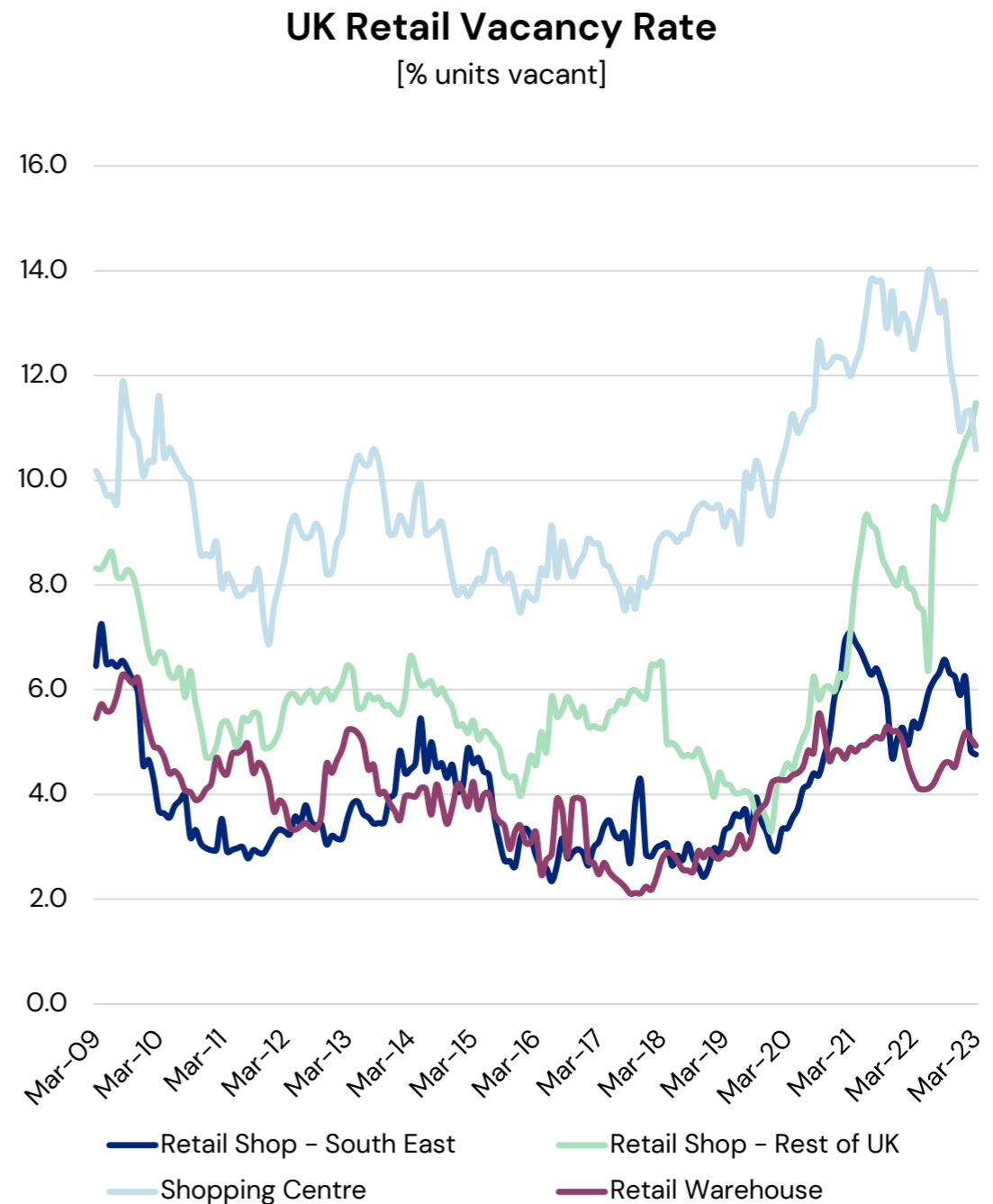
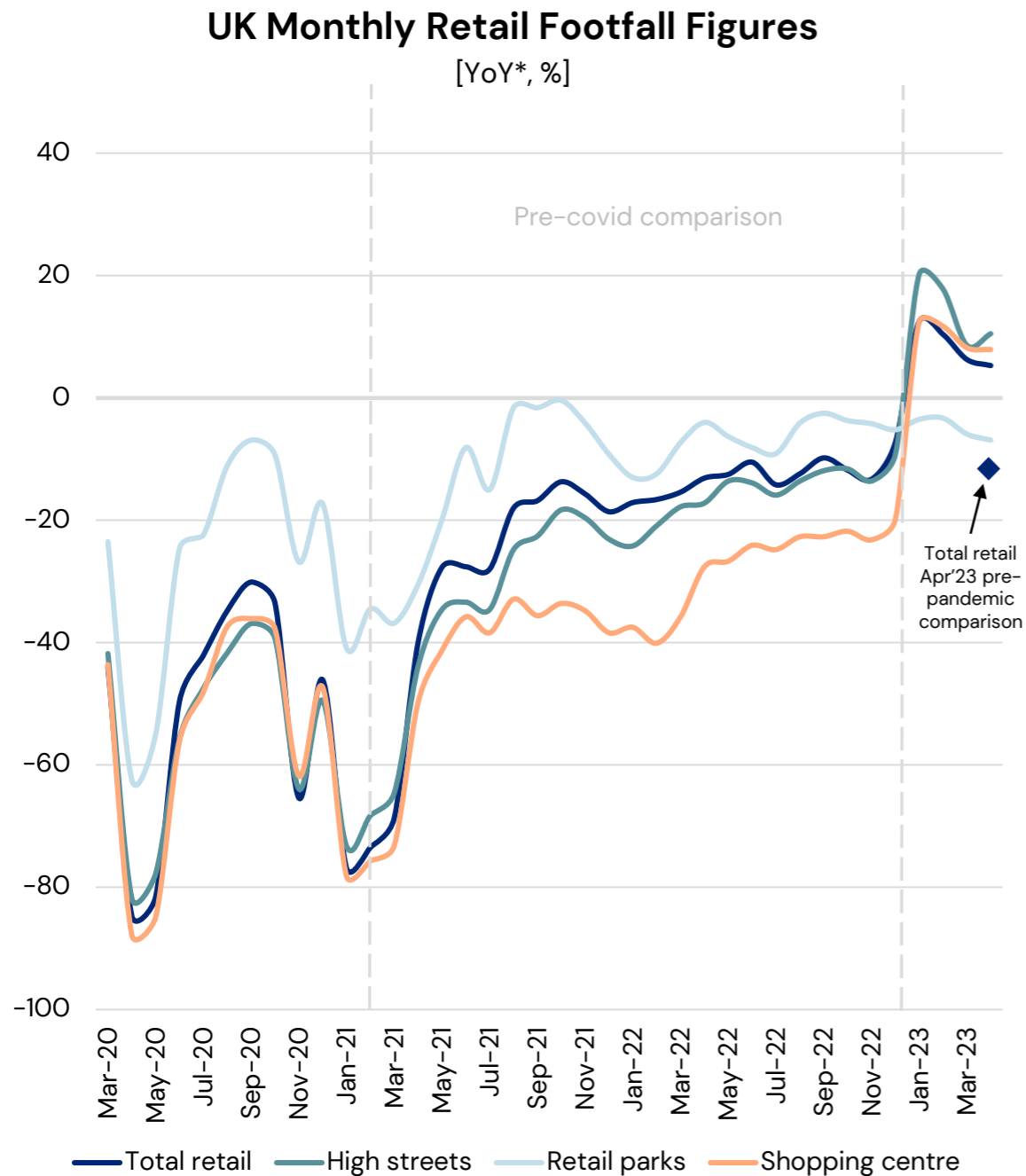
Note: household income is assuming two average incomes per household

Source: LaSalle analysis of Oxford Economics data to May 2023, PMA data to April 2023, and Eurostat data through 2022. Latest as of 15 May 2023.

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# UK retail footfall still below pre-pandemic levels despite improvements

Retail sector



\*February 2021 - December 2022 figures compared to pre-covid level over the same period

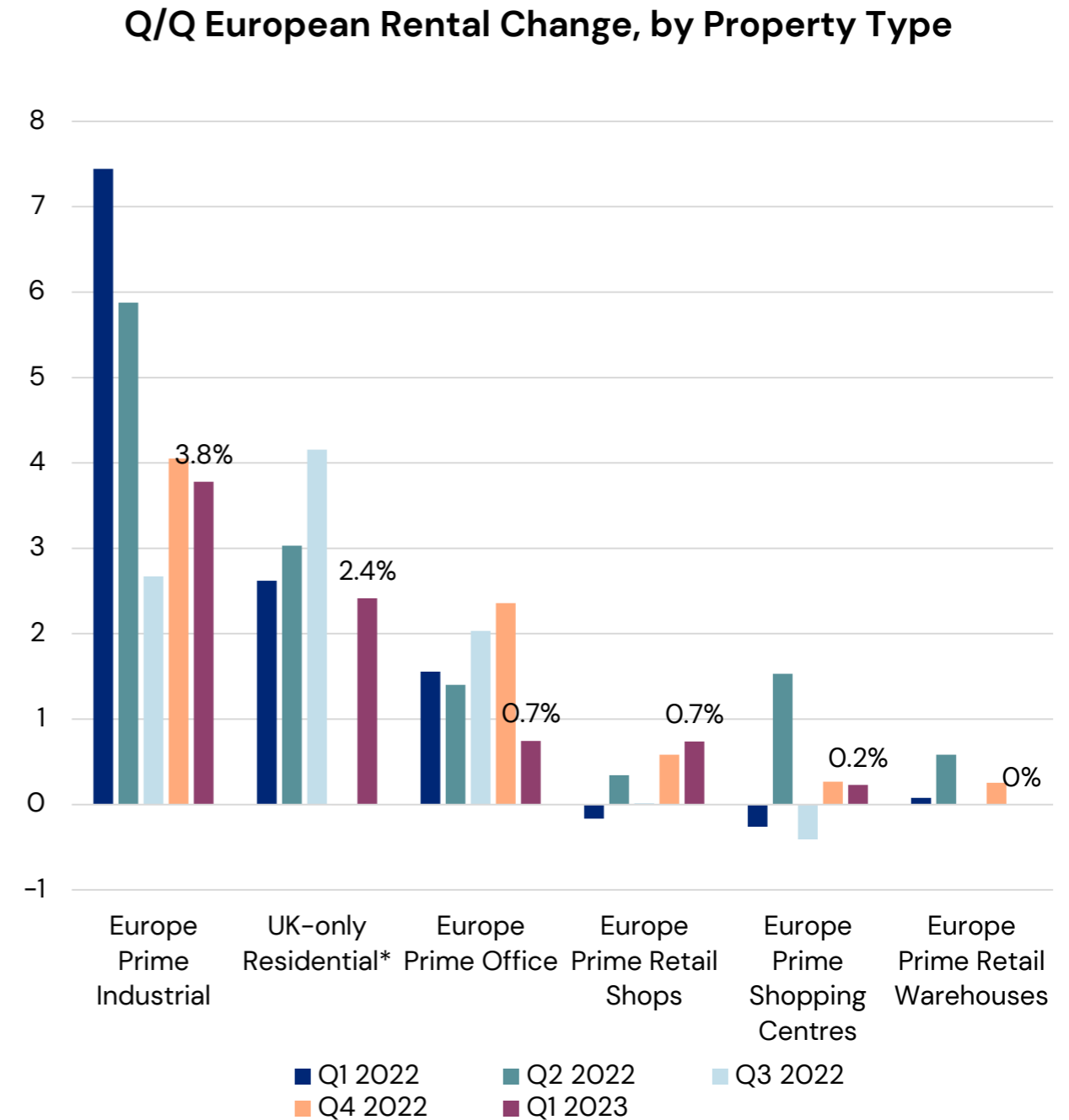
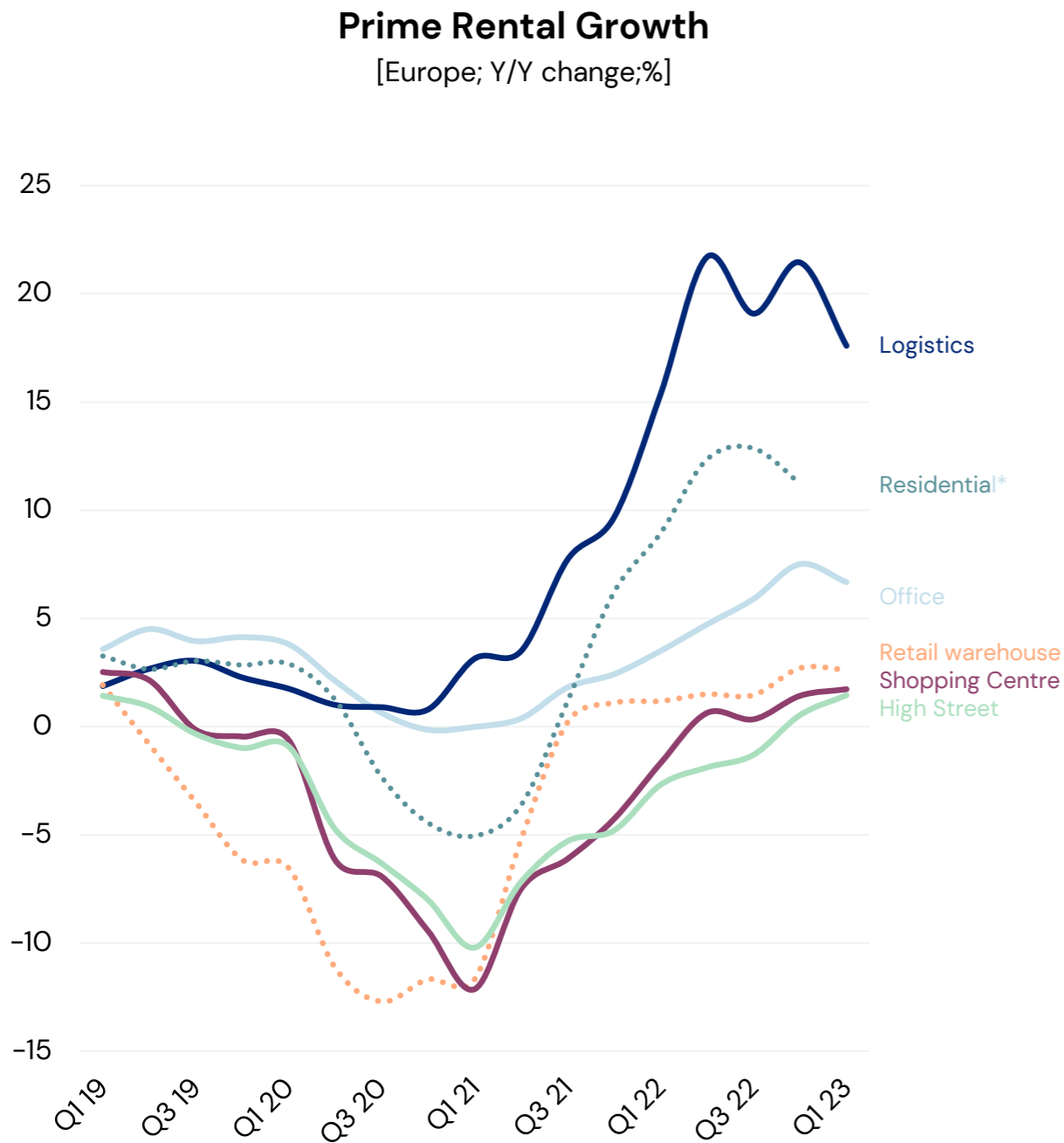
E.g., Feb 2021 - Jan 2022 : Yo2Y, Feb 2022 - Dec 2022 : Yo3Y

Source: LaSalle analysis of data from BRC to Q1 2023 and MSCI to Q1 2023. Latest as of 15 May 2023.

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# Some cooling of rent growth, with very wide dispersion

Retail rent growth near zero whereas industrial still seeing double digit growth pace



\*Average rent and Q1 2023 residential data currently unavailable. UK residential rent data is based on new listings (rather than in-place rents).

Source: LaSalle analysis of JLL, HomeLet data to Q1 2023.

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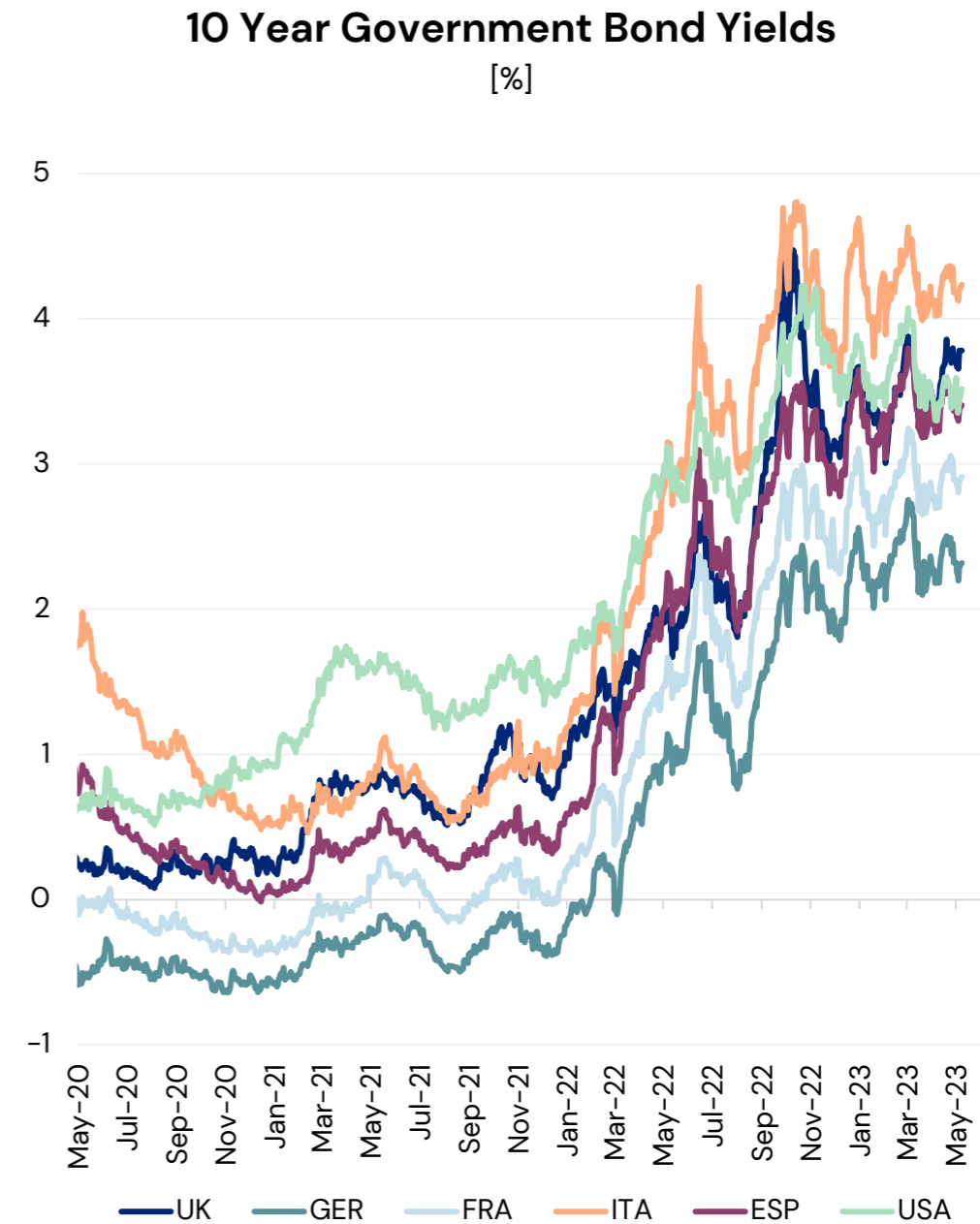
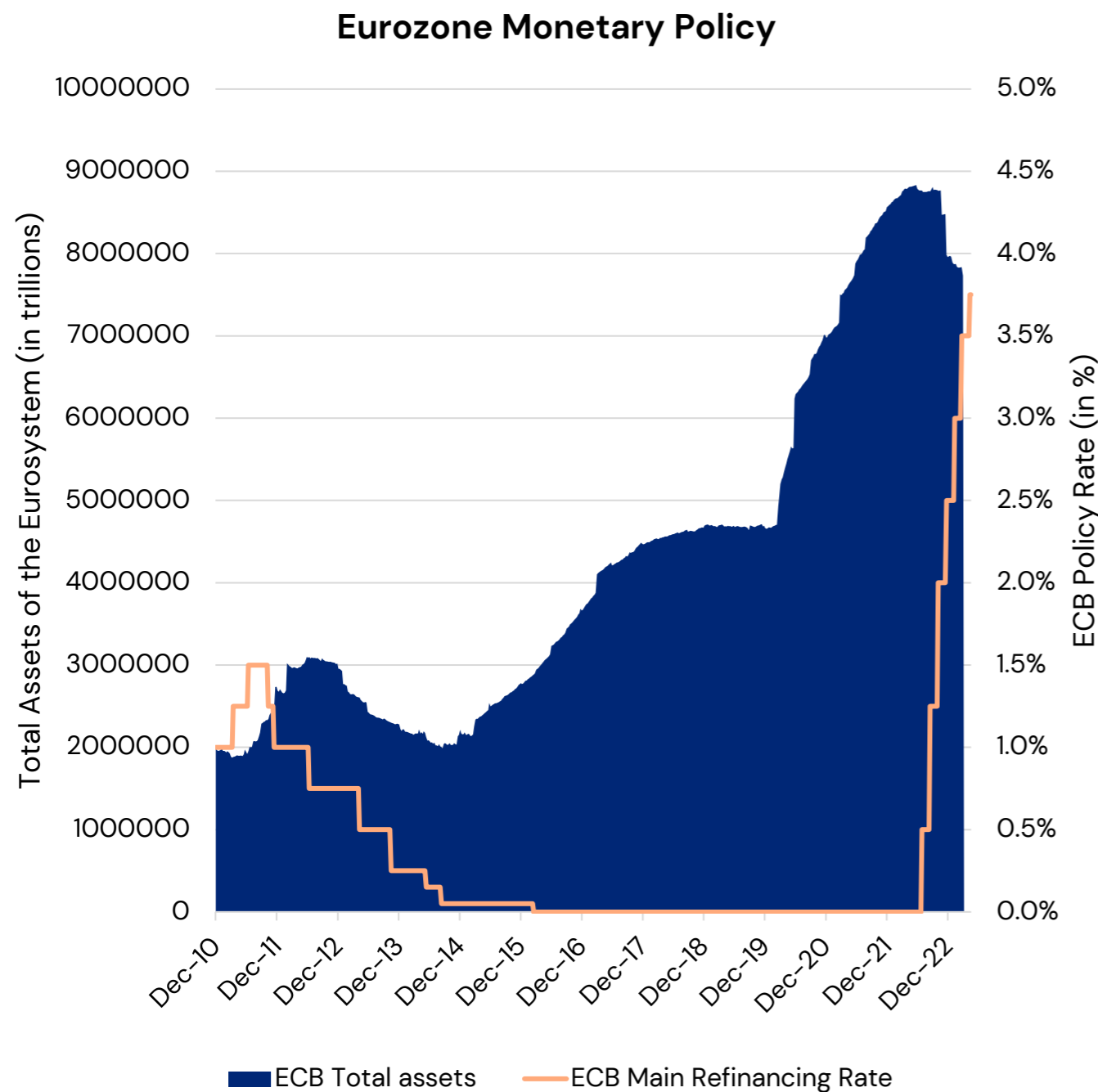
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# Real estate capital markets

Debt, investment volumes and market liquidity

# The ECB raised interest rates by 25bps to 3.75% at their May meeting

Interest rate forecasts & 10-year government bond yields

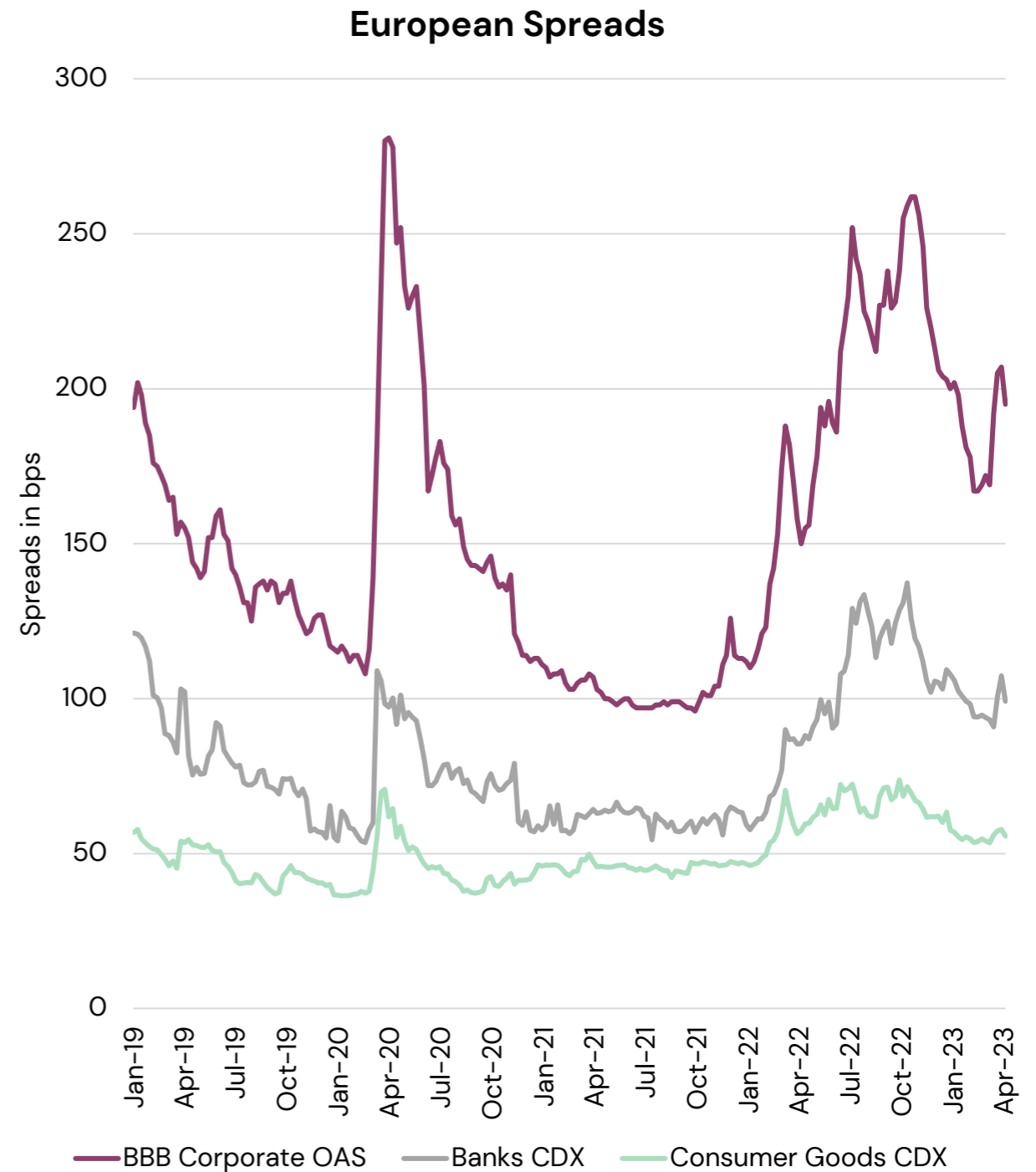
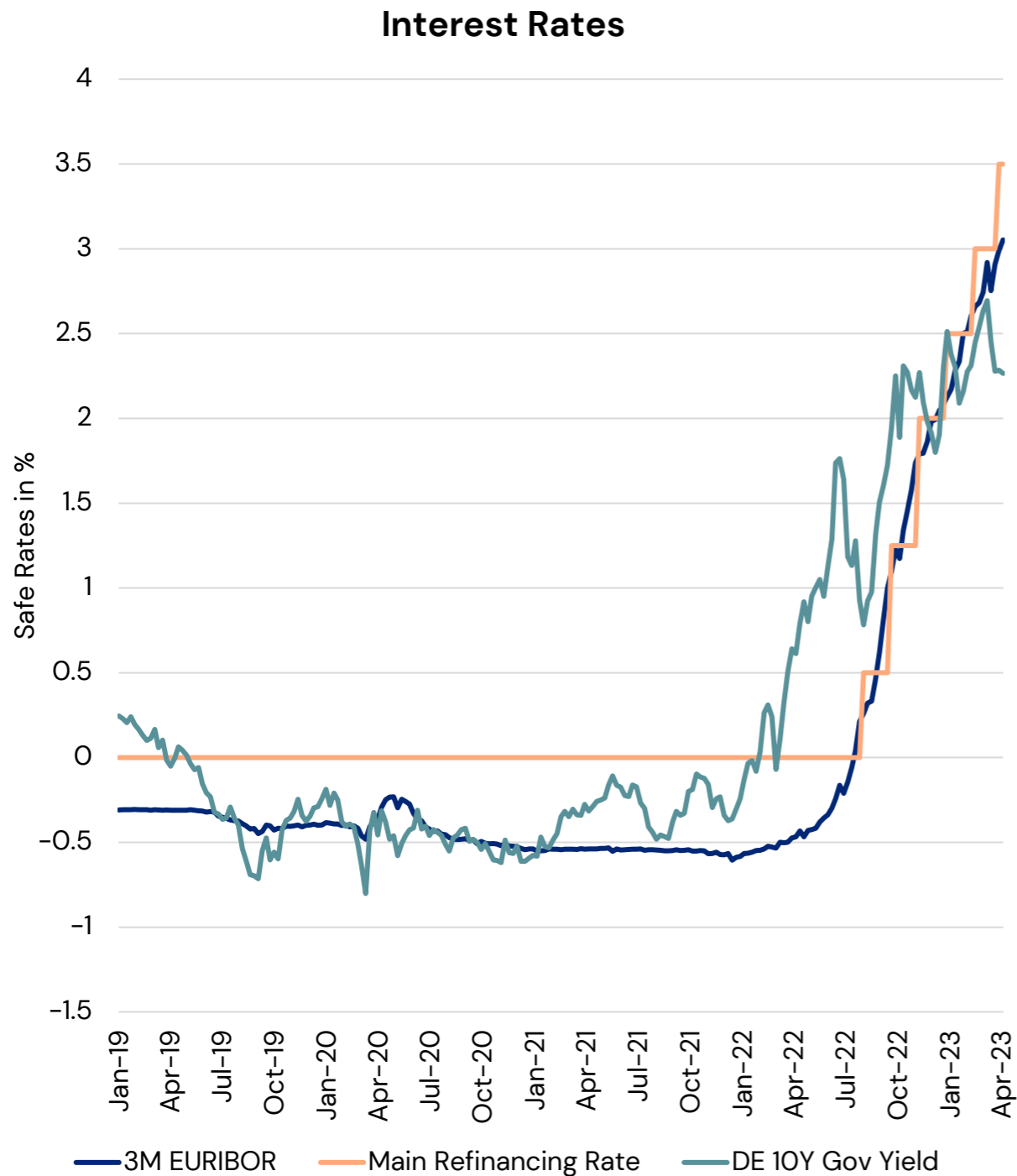


Source: LaSalle analysis of Thomson Reuters data to May 2023. Latest as of 15 May 2023.

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# Elevated interest rates and spreads

Corporate spreads have widened since the beginning of 2022



Source: LaSalle analysis of Thomson Reuters data through April 2023.

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# Swaps rates volatile, yet near same level as they began the year

These rates reflect the base rate trends underlying much European real estate lending.



Source: LaSalle analysis of Thomson Reuters data to 10 May 2023.

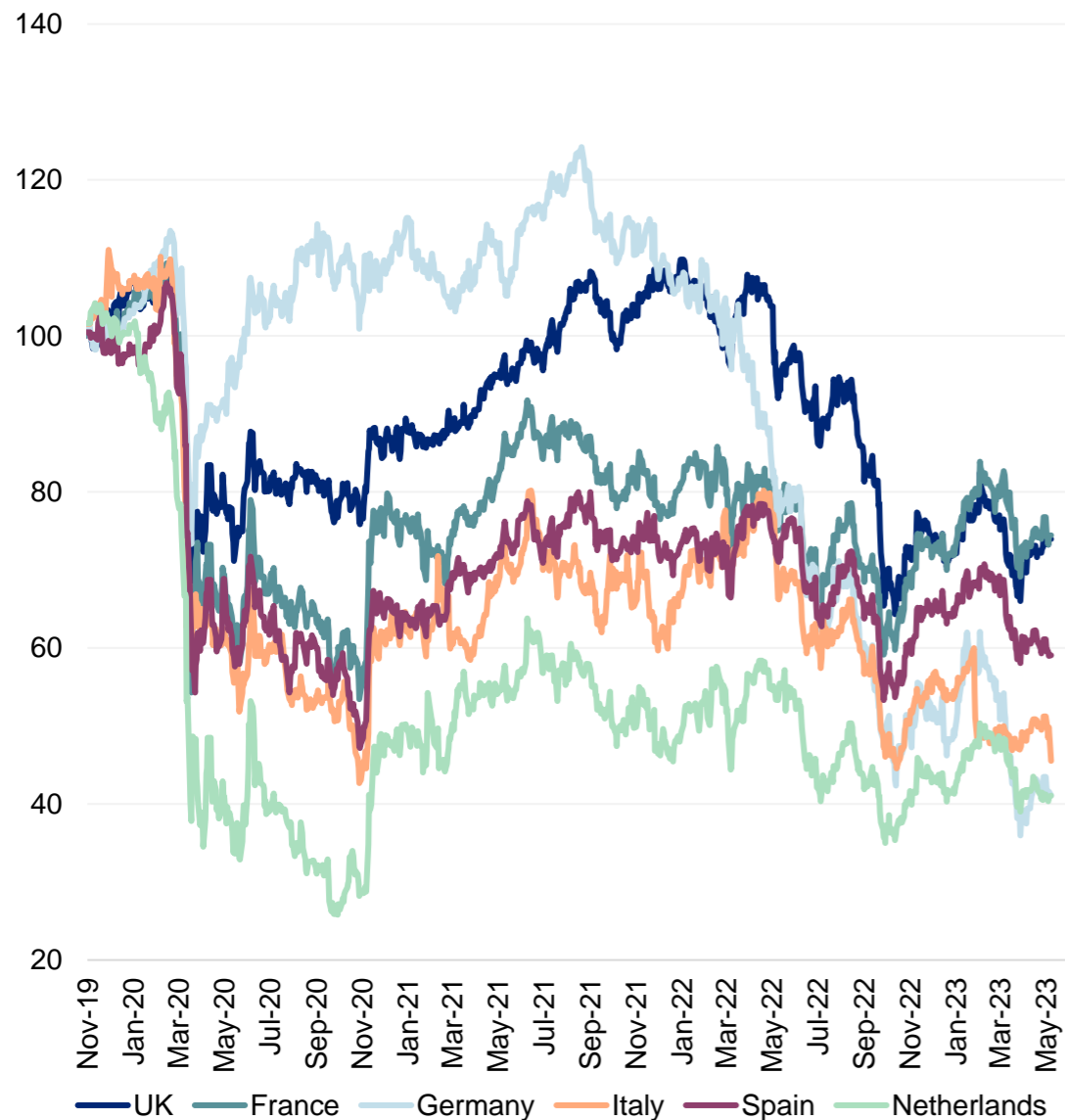
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# European REIT pricing volatile, with large property type differences

European REIT pricing by country and sector

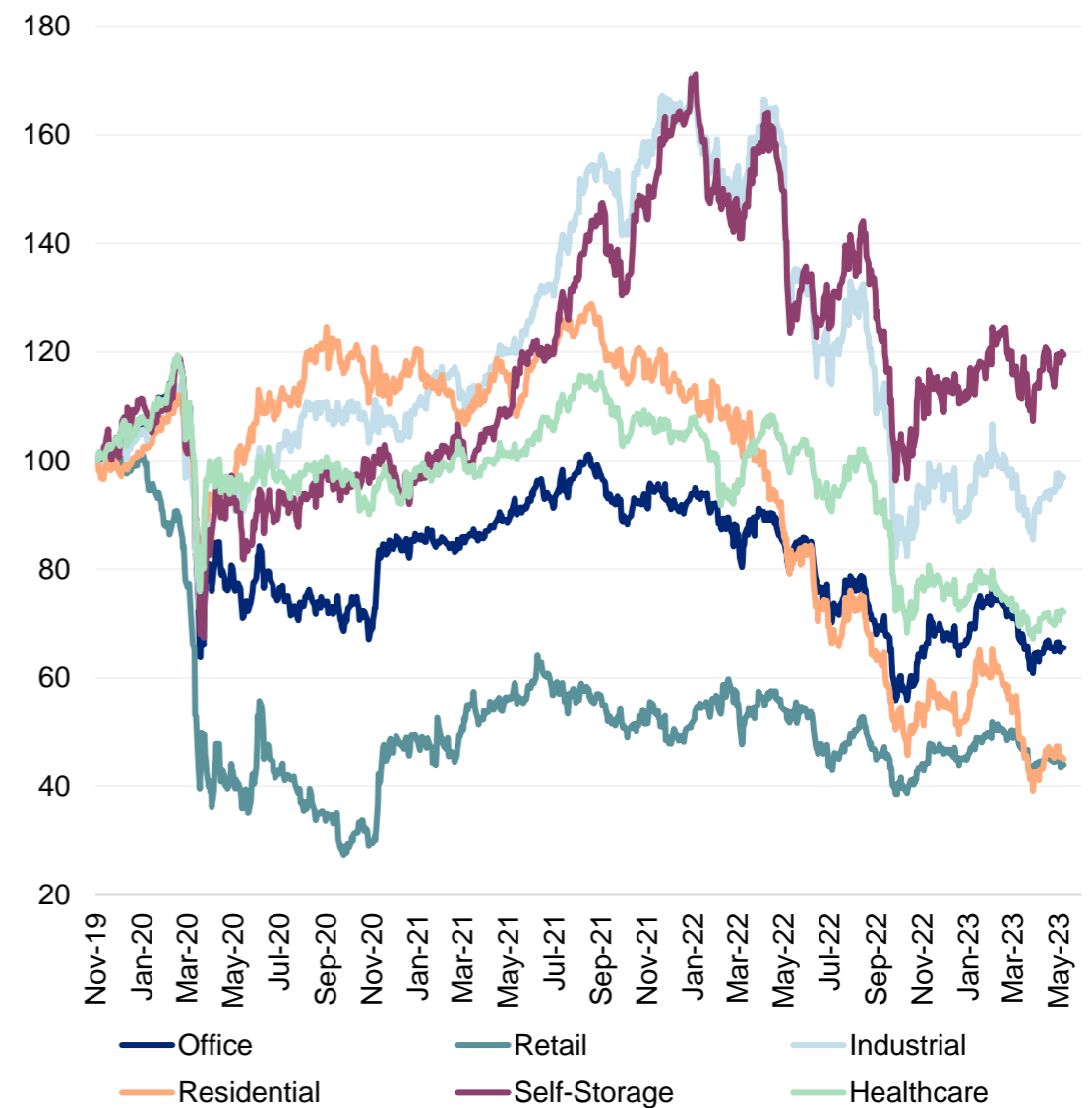
**European REIT Prices by Country**

[01/11/19 = 100]



**European REIT Prices by Sector**

[01/11/19 = 100]

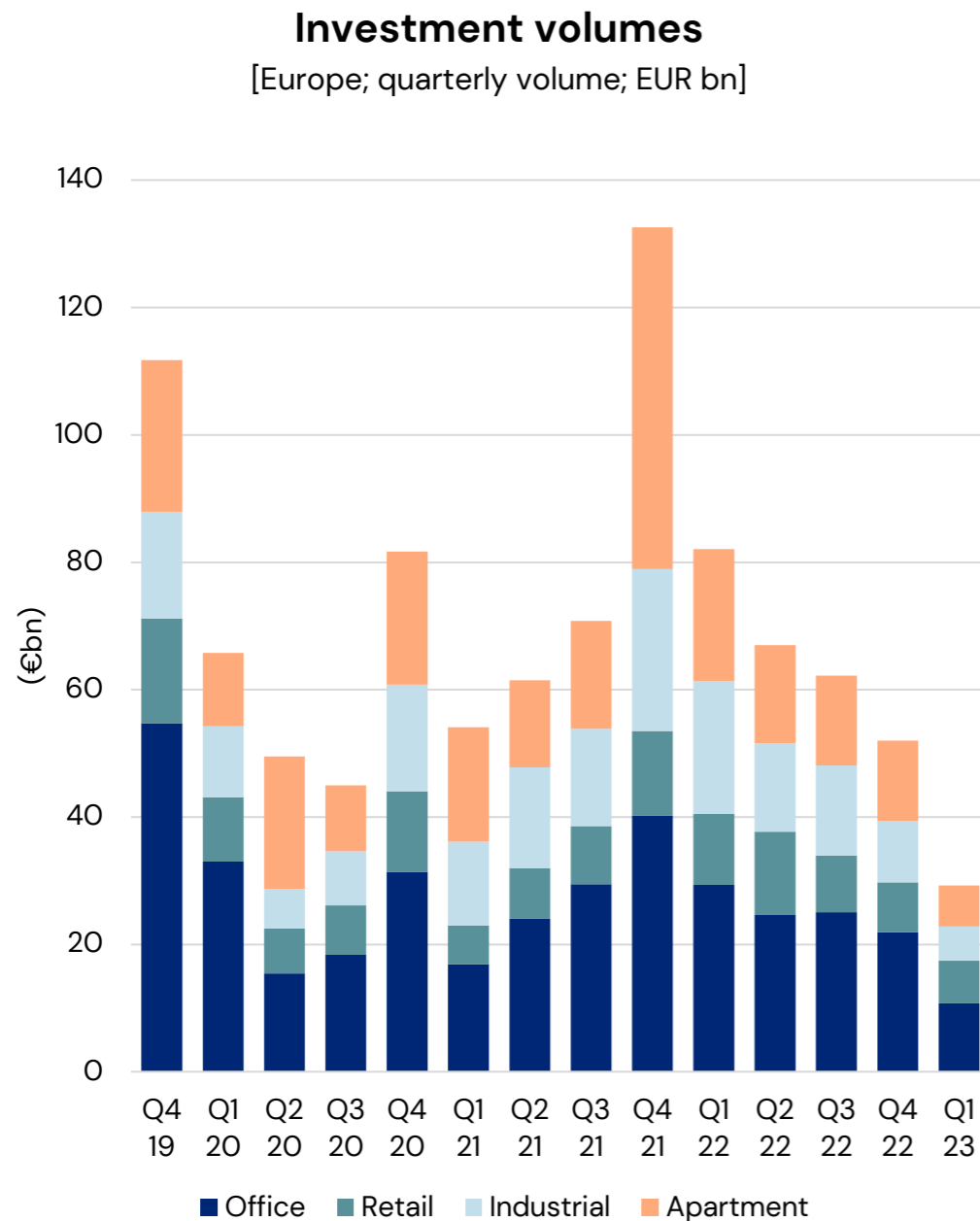


Source: LaSalle analysis of Thompson Reuters data to 10 May 2023.

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# Quarterly European investment volume slid to 11-year low in Q1

## European real estate investment volumes



## Investment Volumes Q1 2023 vs Q1 2022

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

	Residential	Hotel	Logistics	Retail	Office	Total by Country
Spain	123%	-17%	-54%	224%	19%	25%
France	-44%	74%	-16%	7%	5%	-4%
Netherlands	-18%	92%	-37%	-26%	-32%	-28%
CEE	-49%	-12%	-55%	45%	-36%	-31%
Italy	-7%	-68%	-48%	-20%	-20%	-36%
United Kingdom	3%	-40%	-53%	-35%	-45%	-38%
Nordics	-59%	-33%	-48%	-37%	-64%	-56%
Germany	-82%	-15%	-37%	-14%	-53%	-62%
<b>Total by Sector</b>	<b>-57%</b>	<b>-21%</b>	<b>-45%</b>	<b>-12%</b>	<b>-39%</b>	<b>-42%</b>

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

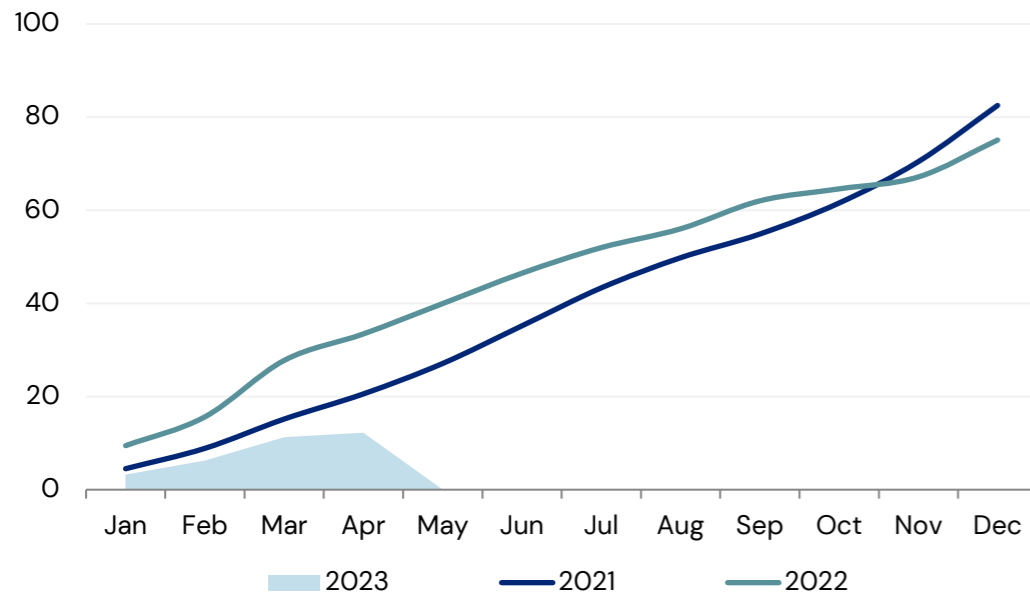
Source: LaSalle analysis of JLL data to Q1 2023 and RCA data to Q1 2023.

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.

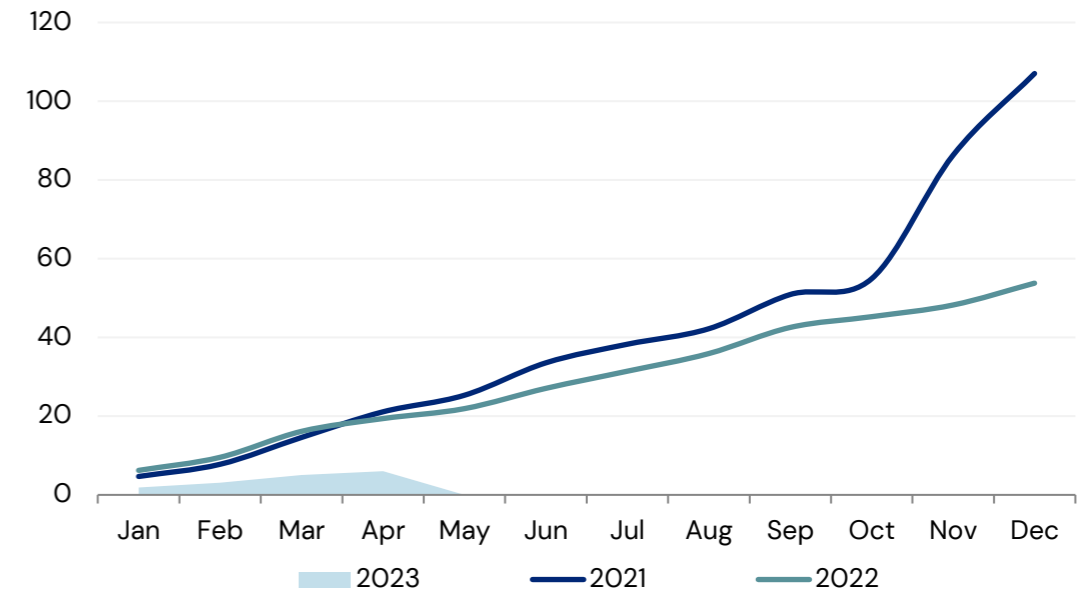
# Main markets (bar Spain) have recorded significant declines in deals

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

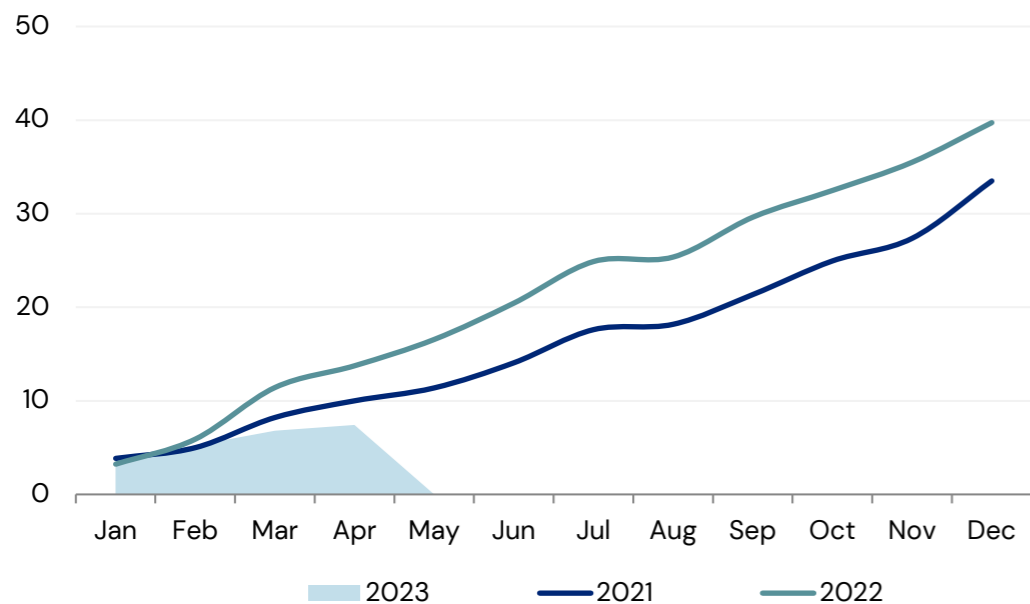
### UK



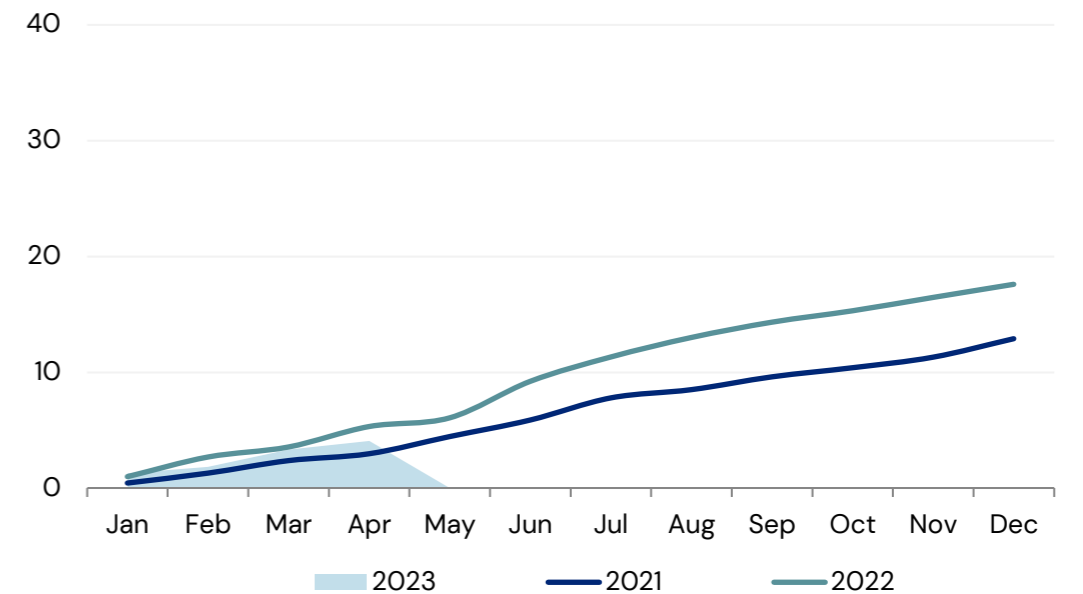
### Germany



### France



### Spain



Includes office, retail, industrial, hotels, multifamily (apartments) and portfolios.

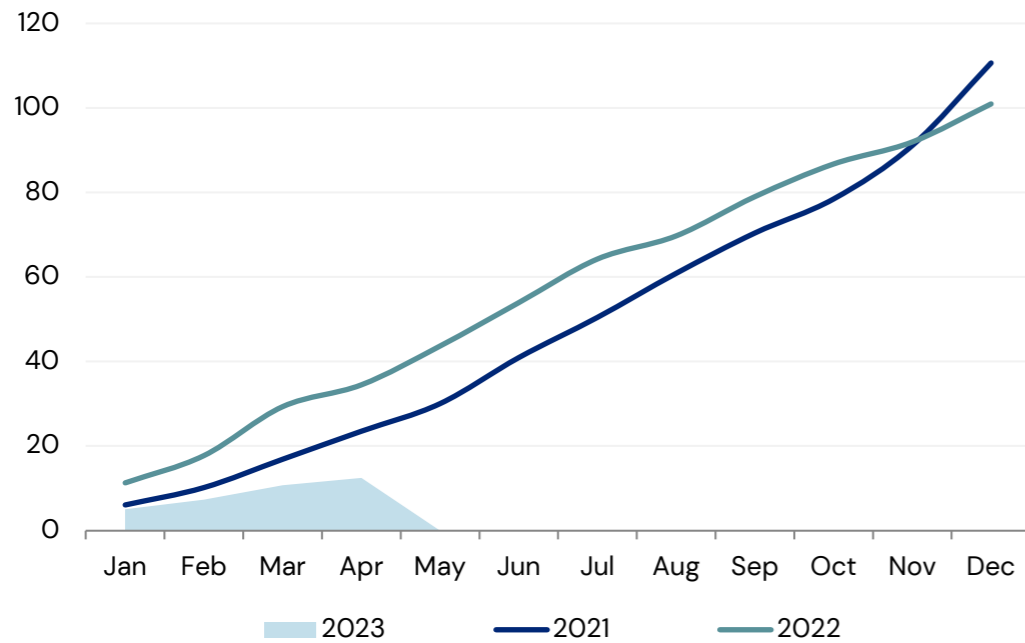
Source: LaSalle analysis of JLL data to Q1 2023.

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.

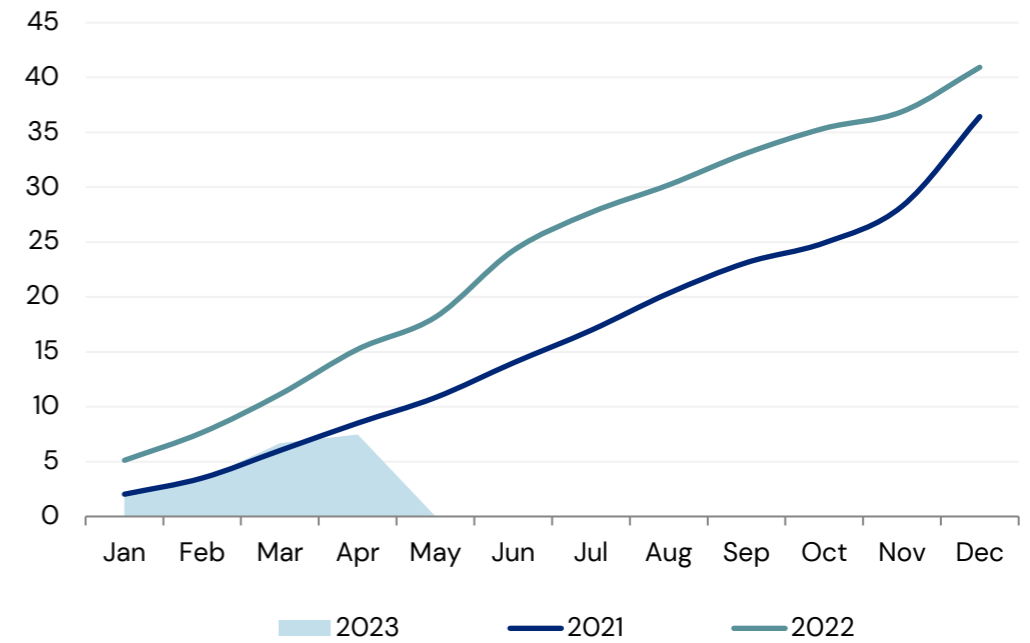
# European transaction volume by property type

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

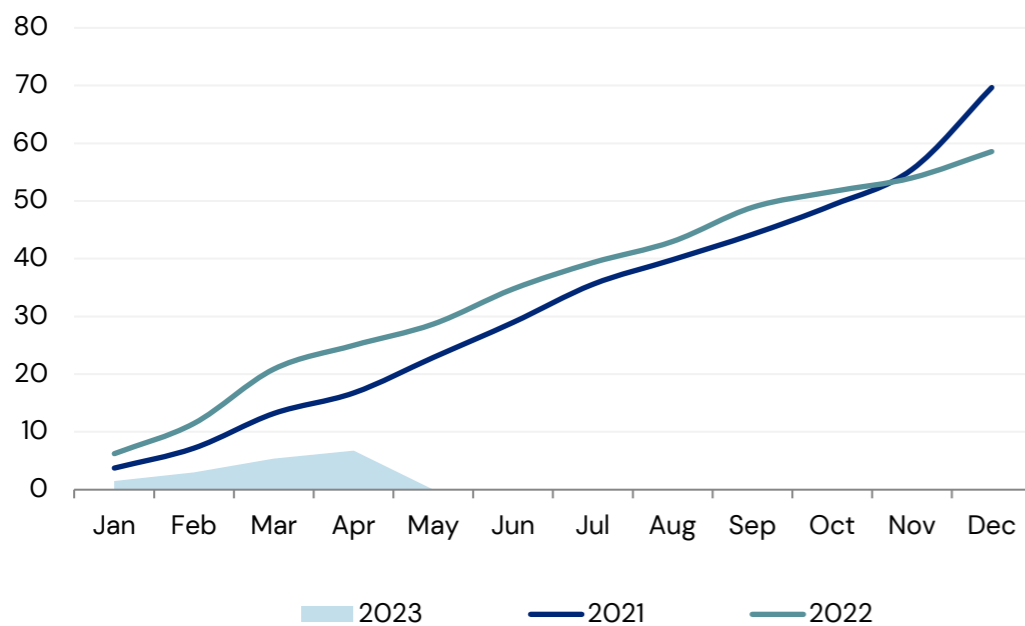
## Office



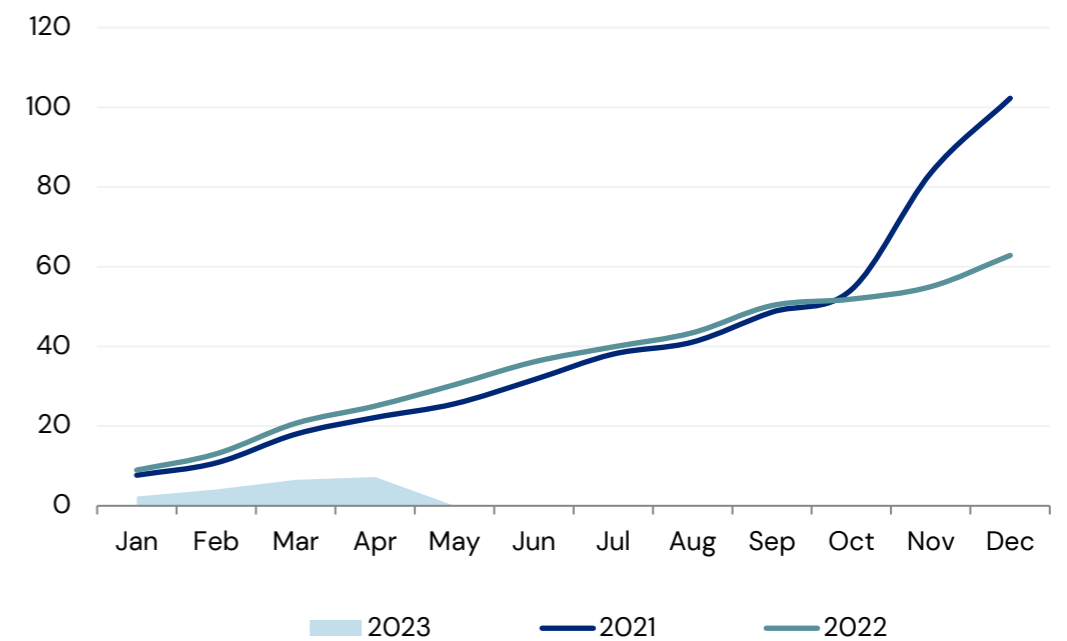
## Retail



## Industrial



## Residential



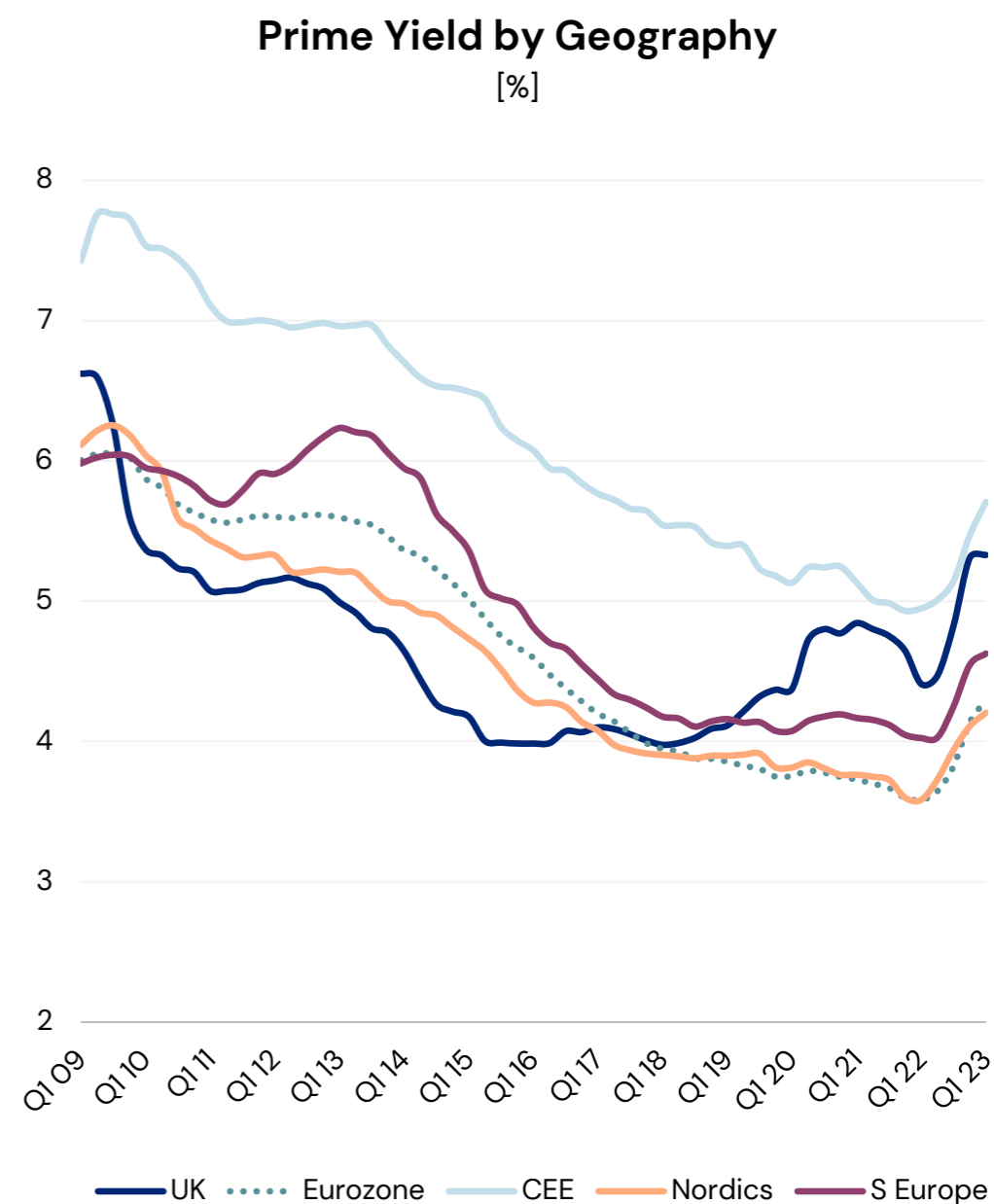
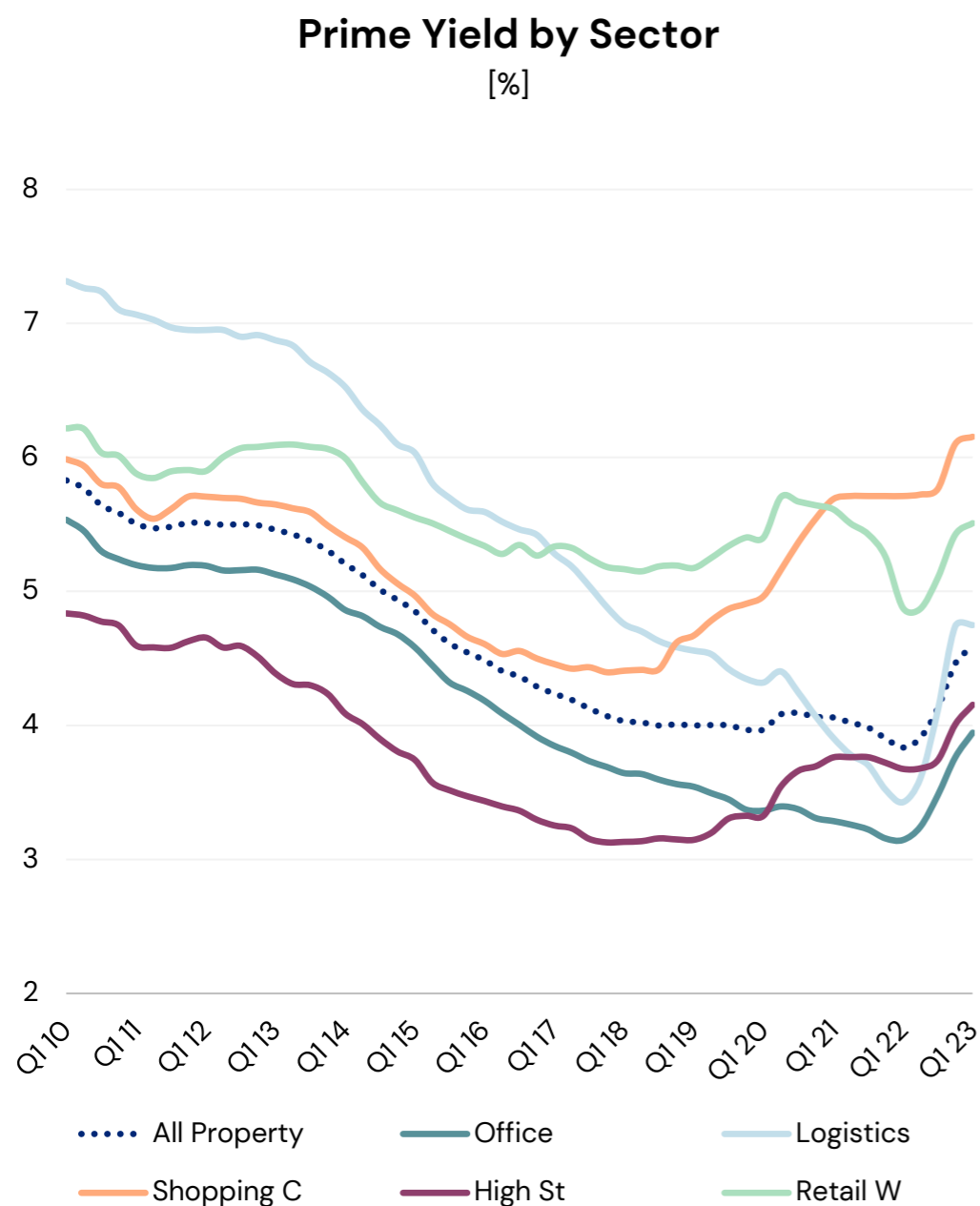
Includes portfolios.

Source: LaSalle analysis of JLL data to Q1 2023.

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.

# The math of rates and repricing in Europe: yields have shifted higher

European prime yields by sector and region



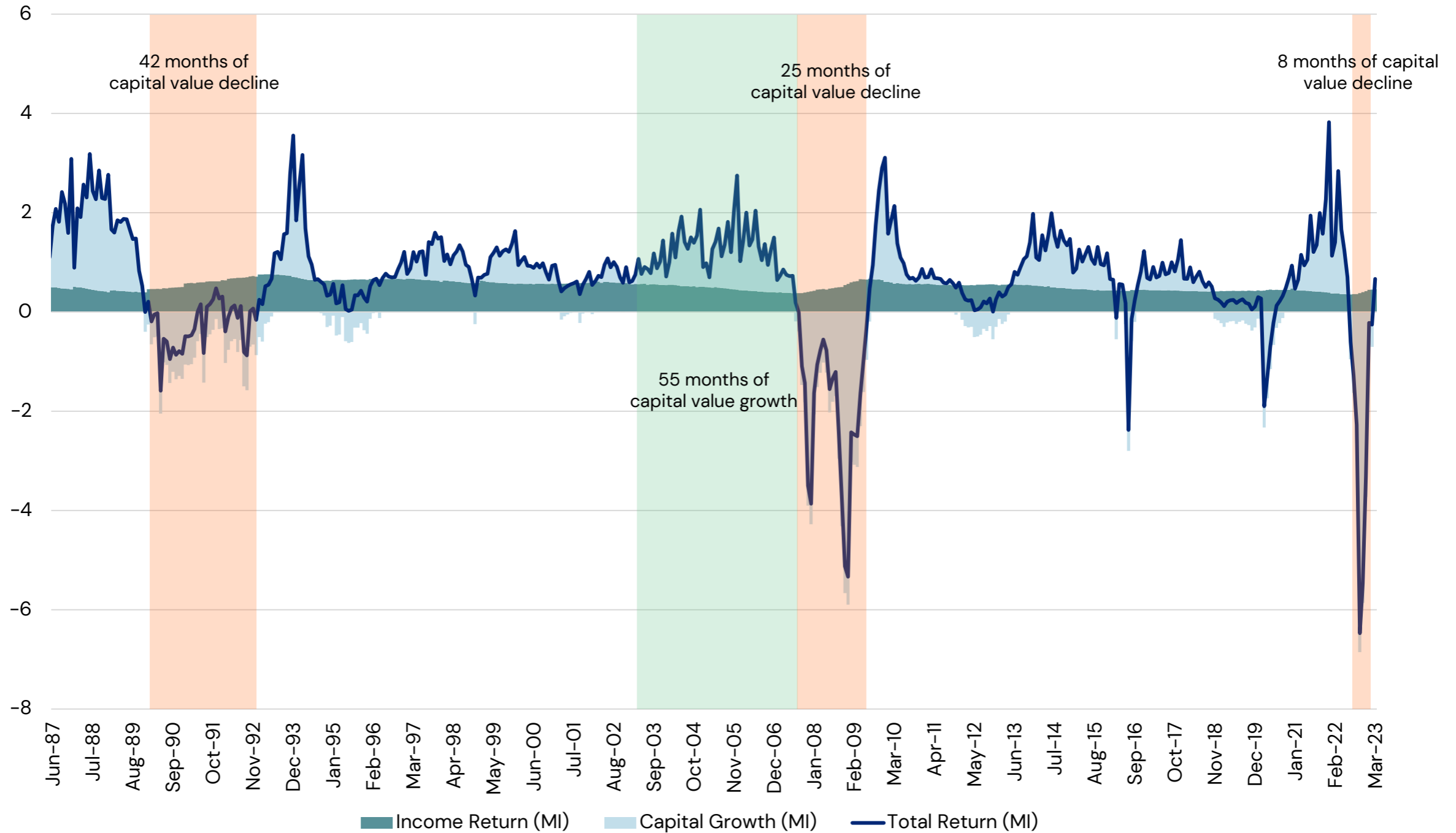
Note: Segments are weighted by LaSalle/MSCI estimates of investable universe.  
 CEE includes Czech Republic, Hungary & Poland. South Europe includes Italy, Portugal & Spain  
 Source: LaSalle analysis of JLL data to Q1 2023.

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# UK MSCI Monthly Total Returns over time

Latest reading turned positive

Capital value growth, income return, and total return [%]



Source: LaSalle analysis of MSCI data to Q1 2023.

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## ISA Portfolio view

Forthcoming, Mid-year 2023



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## ISA Focus



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[LaSalle European Cities Growth Index](#)

[2022 JLL & LaSalle Global Real Estate Transparency Index](#)

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