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CBRE RESEARCH | EMEA

2021 EMEA REAL ESTATE

MARKET OUTLOOK



CBRE



01

ECONOMY

Euro area GDP to fall by 7.3% in 2020, bouncing back by 4.6% in 2021. Monetary policy to remain ultra-accommodative for at least the next 18 months, if not longer.

02

INVESTMENT

Gradual recovery expected in the investment market, with a return to pre-COVID norms by second half of 2022.

03

OFFICES

Rents looking softer. Occupiers will start to execute portfolio and workplace strategies to position themselves for more distributed working and greater agility.

04

RETAIL

Still susceptible to health management restrictions and structural change, but opportunities in grocery sector, retail parks and exceptional prime assets.

05

LOGISTICS

Strong demand picture with e-commerce to the fore, supported by supply chain reconfiguration. Opportunities in land-constrained markets and site repositioning plays.

06

HOTELS

Operator revenues and profit remain challenged through 2021, but improved alignment of buyer and seller expectations will support dealflow.

07

BEDS

Defensive characteristics mean multifamily will expand as investors diversify and new entrants continue to emerge. Strong focus on operational efficiencies and incorporating flexible space into new development.

08

DATA CENTRES

Benefitting from shift to online in consumer and corporate behaviour. Boost to build and buy investments will continue through 2021, supporting emergence of new hubs.

09

OPERATIONAL REAL ESTATE

Leisure and entertainment sectors will remain disrupted. The more defensive parts of the sector, mainly healthcare, have generally performed better and will enter 2021 with established long-term trajectories largely intact.

RESTART THE UNEVEN RECOVERY

History will record 2020 as a year of convulsive change. Governments and populations across the globe struggled to control the spread of COVID-19 while also trying to manage the knock-on effects of a broad range of pandemic control measures. Hardly any area of economic or social activity has been unaffected.

After some lifting of restrictions in the summer months, a rise in case numbers in the northern hemisphere winter has brought a reintroduction of at least partial lockdown measures in many parts of Europe. The duration and success of these measures, and the timing of their removal, will go a long way to determining the recovery path as we head into 2021. The recent news around the development of an effective vaccine offers some encouragement.

What of commercial real estate? As expected many of the conventional measures of market activity, such as investment turnover and leasing demand, weakened sharply in 2020. But in many parts of the market values have remained surprisingly resilient, supported in part by the massive scale of government and central bank interventions.

As with all crises, the impacts will be uneven. Closure and subsequent capacity restrictions in large parts of the retail and hospitality sectors, for instance, are giving rise to substantial challenges.

Data centres, by contrast, are benefitting from the widespread switch to digital and parts of the multi-family residential market look robust too.

And as with many crises, there are longer-term structural impacts that are often only apparent with the luxury of hindsight. We are witnessing a dramatic acceleration in the changing role of the office, with more lasting effects from the forced experiment in home-based working still to be confirmed. Similarly the interplay between retail and logistics has taken on a new dynamic which will support the rise of urban logistics.

And new opportunities will undoubtedly emerge. Heading into 2021, while there is still great uncertainty around near-term prospects, the likely introduction of a vaccine offers grounds for hope. We look forward to working with you our clients as we move towards what looks like an uneven recovery.

EMEA REAL ESTATE MARKET
OUTLOOK 2021

01

ECONOMY



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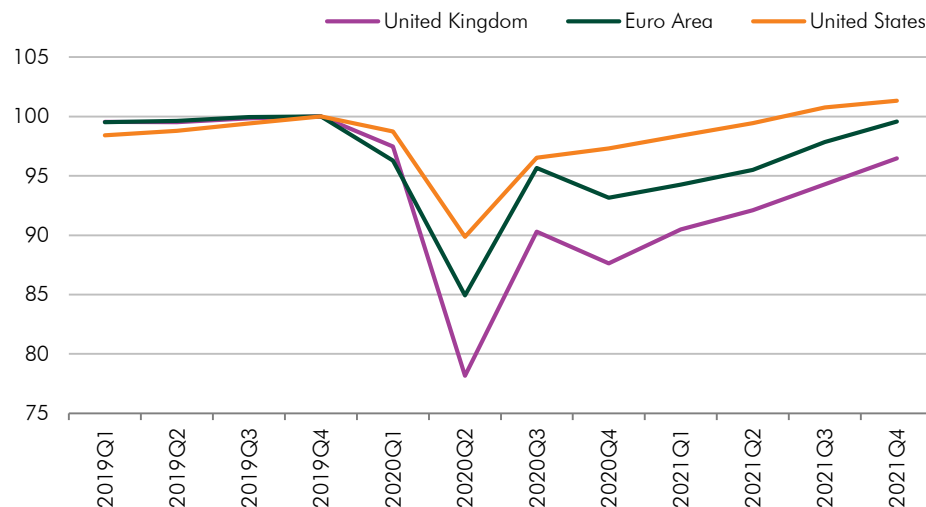
NEAR-TERM WEAKNESS BUT A STRONGER SECOND HALF

A ROBUST RECOVERY IN 2021

- The path of GDP in 2020 was punctuated by a large hit to activity in Q2 with a significant bounce in Q3. Growth is likely to stall in the fourth quarter as governments have tightened restrictions to slow the spread of COVID-19. As a result, over recent months CBRE have downgraded our European output forecasts to include a final quarter of 2020 contraction, especially sharp in the Eurozone, and further contraction in Q1 2021.
- Stronger growth awaits in 2021. Just as the eurozone economy rebounded quickly from the spring 2020 lockdowns, we expect the current inactivity to vanish and give way to much stronger GDP growth as the lockdowns end and broad-scale vaccination becomes available. Assuming the vaccine is approved for mass use in January, as we expect, growth should pick up sharply in Q2 2021 and continue throughout the rest of the year.
- CBRE's house view is that Eurozone GDP will fall by 7.3% in 2020, recovering by 4.6% in 2021 as restrictions are eased and the impact of monetary and fiscal stimulus starts to feed through. Central and Eastern Europe, which has been relatively less affected by the pandemic, is expected to fall by 5.3% in 2020, growing by 6.7% in 2021. We also expect that Central and Eastern Europe will continue to outperform over the next five years.
- The evolution of the pandemic will in the near term determine the economic trajectory during the year coupled with the public health response to it. Our vaccine assumption means we see a return to normality in the first and second quarters. Our house view is predicated on the EU and the UK reaching a Canada-style trading arrangement by the January deadline. While this remains a clear downside risk, we have taken the view that structural changes which have been accelerated by COVID-19 pose a greater risk to UK and continental European real estate markets. For more detail on CBRE's view on the Brexit endgame and its implications for real estate, please read our recent report [here](#).

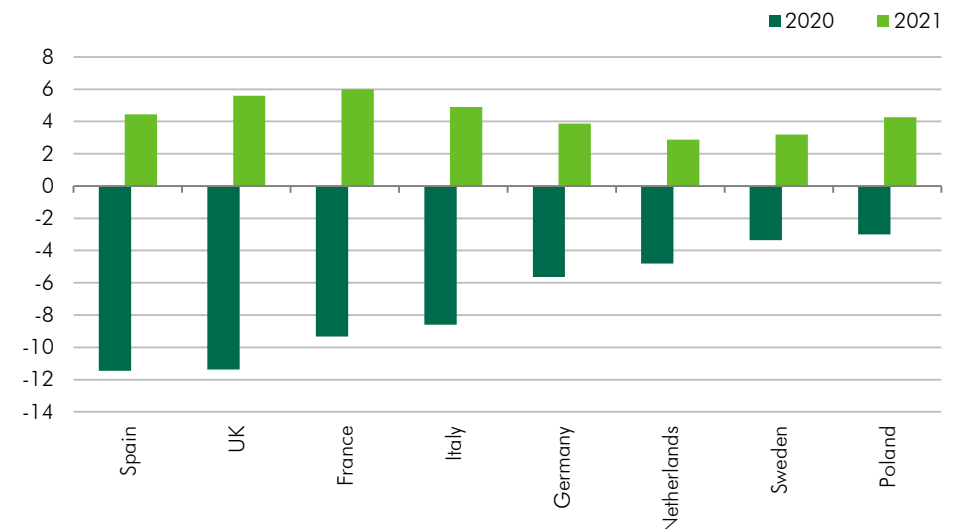
FIGURE 1: REAL GDP FORECASTS

2019 Q4 = 100



Source: November CBRE House View, Oxford Economics, CBRE Research, 2020

FIGURE 2: REAL GDP GROWTH FORECASTS (%)



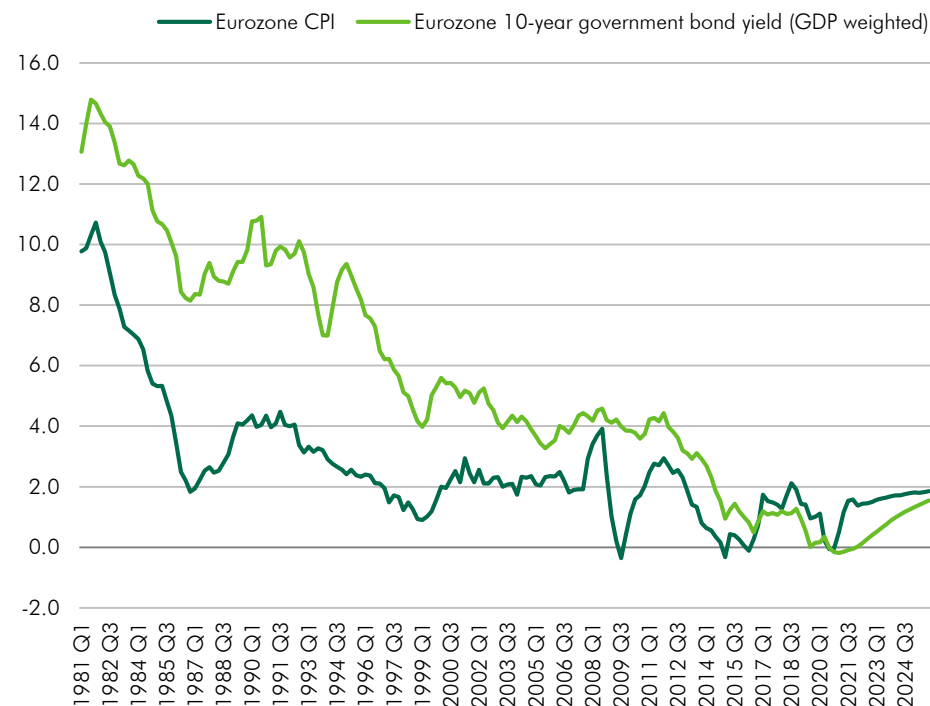
Source: November CBRE House View, Oxford Economics, CBRE Research, 2020

POLICY ENVIRONMENT TO REMAIN SUPPORTIVE

INTEREST RATES: LOWER FOR EVEN LONGER

- The European Central Bank (ECB) remains committed to supportive financial conditions in the euro area. The deposit rate remains negative and the ECB has increased the size and pace of the pandemic asset purchase programme (PEPP); now committed to purchasing €1.35 trillion of bonds until June 2021.
- With such a large and committed asset purchase programme, the ECB has created room for EU Member States to increase debt issuance substantially without borrowing costs rising significantly. The move appears to have stabilised financial markets; long-term interest rates are at historically low levels and risk spreads between member states have narrowed to pre-crisis levels.
- Looking further out, the weak economic growth and inflation outlook means that we expect monetary policy to remain ultra-accommodative for at least the next 18 months, if not substantially longer. We do not expect short-term interest rates to rise until 2023.
- Lower for longer short-term interest rates, weaker inflation and significant asset purchases means long-term interest rates will remain at historically low levels, which is good news for property. As the ECB continues to distort prices in liquid financial markets, and with the property spread remaining attractive, there is likely to be increased interest in real assets such as property.

FIGURE 3: EUROZONE CPI AND LONG-TERM INTEREST RATES



Source: CBRE Research, Oxford Economics, 2020

KEY TAKEAWAYS

- Near-term weakness but a robust recovery in 2021, especially the second half
 - Robust growth in 2021 following the availability of a vaccine
 - Risks still tilted to the downside
 - Country differences caused by a combination of policy and industry mix
- Lower-for-even-longer interest rate environment
 - Low inflation - both current and expected - and significant asset purchases mean lower for longer interest rate environment
 - Short-term interest rates not expected to rise until 2023
 - Debt servicing is comfortable and debt sustainability is not a near-term risk
 - Attractive property spreads on the risk-free rate will continue to drive interest in real assets, including real estate

2021 EMEA REAL ESTATE MARKET
OUTLOOK

02

INVESTMENT



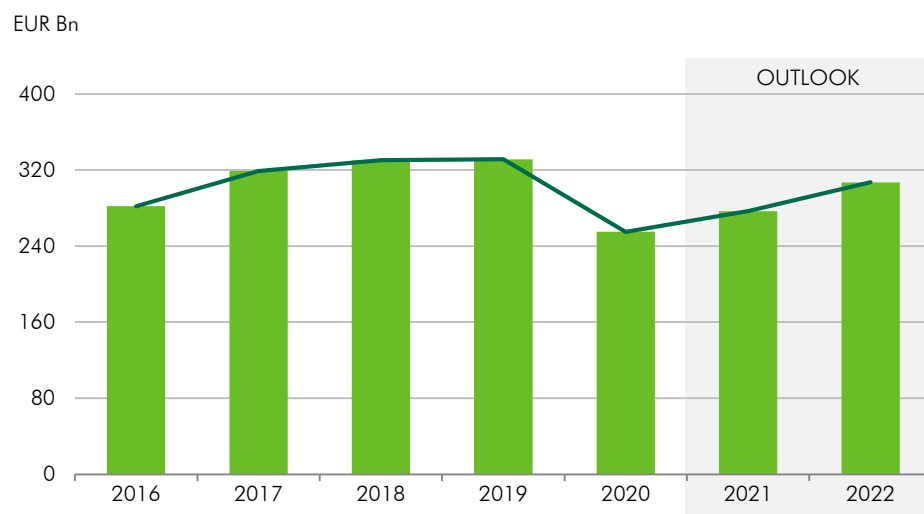
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INVESTMENT TO RECOVER IN 2021 BEFORE RETURN TOWARDS PRE-COVID NORMS BY H2 2022

CAUTIOUS OPTIMISM: A RETURN TO NORMALCY BY H2 2022

- It is expected that European commercial real estate investment volumes will end 2020 down 25%. CBRE's current house view projects volumes to increase by 8.5% in 2021 and return to pre-COVID norms by H2 2022, provided current vaccine timelines remain on track.
- In terms of property types, the logistics market should continue to outperform. This is thanks partly to a resurgence of private equity and institutional sales. The growing implementation of sale-and-leaseback strategies taking place may also further boost deal flow. The multifamily sector should also benefit from the willingness of European governments to support wage and rental programs.
- Office markets will gradually return. Still, the expected growth in remote and hybrid work patterns will focus investor appetite in higher-quality assets and locations. In the retail sector, legacy deals have inflated volumes during H1 2020, but Q3 marked a turning point with genuine stabilisation. Despite market evidence suggesting that retail properties will transact at low levels in the near to mid-term, we expect some degree of resilience and improvement in favourable segments of the market.

FIGURE 4: INVESTMENT VOLUME OUTLOOK, EUROPE

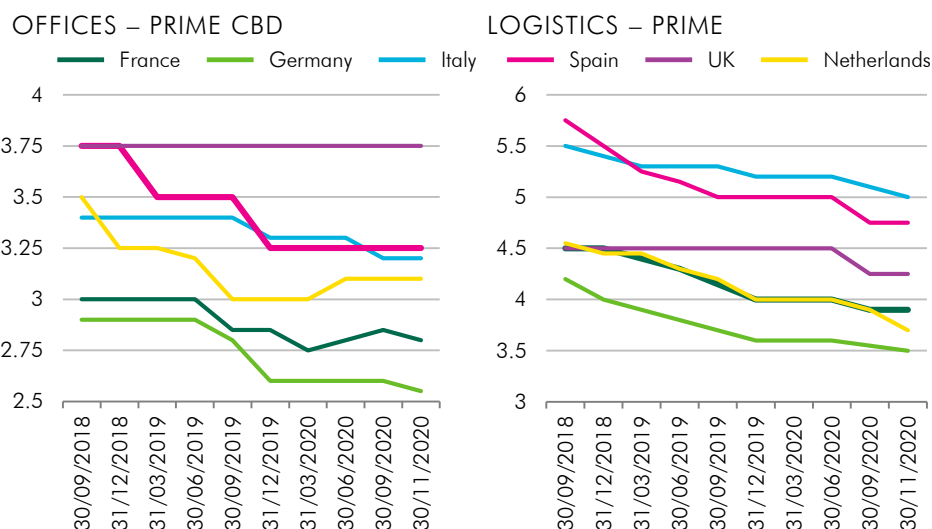


Source: CBRE Research, 2020

PAYING FOR SAFETY: YIELDS SUGGEST INVESTORS FAVOUR SECURE AND DEFENSIVE ASSETS

- Since the onset of the pandemic, secure prime assets in core European markets have seen limited movement in yields. Notably, prime CBD office yields in the UK have experienced no change while those in Germany have marginally compressed. Although office markets will see challenges into 2021, we expect this resilience in larger markets to continue. Considering the amount of equity targeting the logistics and multifamily sectors, yields across these asset types may see incremental compression in 2021.
- In prime centralised hotel and retail assets, as well as for decentralised and secondary offices, yields are expected to increase during 2021 and, depending on broader economic and social conditions, potentially into 2022. Distressed sales in these sectors, especially in the hotel industry, may exacerbate movement in yields over the short to medium term.

FIGURE 5: PRIME YIELDS (%) – CBD OFFICES AND LOGISTICS



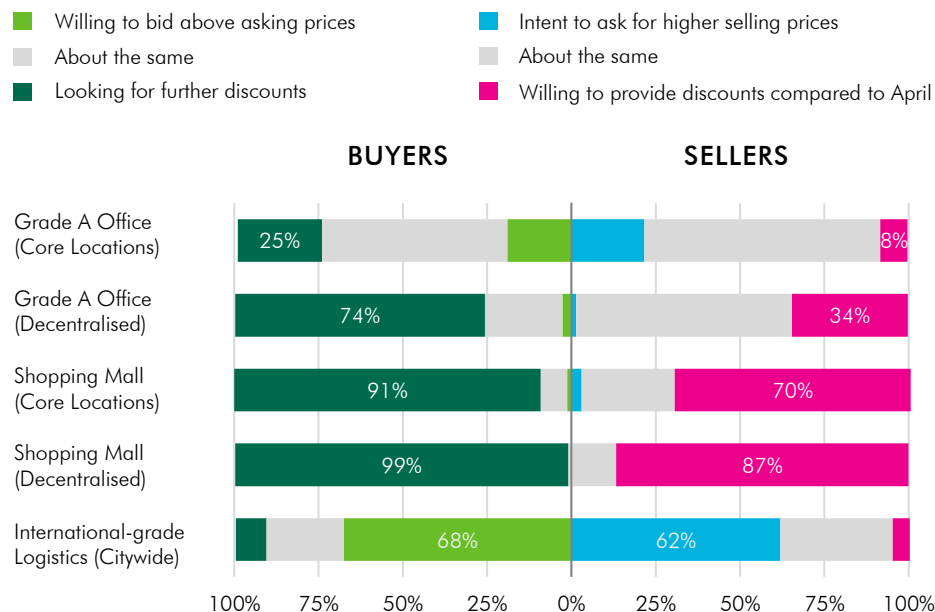
Source: CBRE Research, 2020

ALL-EQUITY ADVANTAGE: DISCOUNTS AVAILABLE ACROSS DECENTRALIZED AND VALUE-ADD ASSETS, ESPECIALLY IN THE RETAIL AND HOTEL SECTORS

- Discounts have started to materialise across retail and hotel assets, especially those in value-add and core-plus developments. Bid-ask spreads are subsequently tightening. Given the current market cycle and with the roll-out of a vaccine on the horizon, floors will have likely formed across property sectors by H2 2021. Mid-2021 may prove to be a key period when investment volumes stage a strong recovery. Still, opportunity also exists for discounted acquisition and/or development in up-and-coming locations.
- Assets that are highly sought-after, such as multifamily and Grade A offices, appear to be trading at a premium. Buyers of logistic assets have also indicated willingness to bid-up prices. Meanwhile buyer and seller price expectations for other office assets remain farther apart. This is likely to limit upside potential in these sectors.
- As general uncertainty hanging over markets subsides, and activity resumes, investment volumes will return. However, we may not see notable recovery in non-prime sectors for several more quarters. Stricter underwriting standards and less availability of debt will continue to favour equity investors.

FIGURE 6: OBSERVATIONS ON PRICING – SEPTEMBER CAP RATE SURVEY

'How has buyers'/sellers' attitude towards asset pricing changed since the period immediately prior to the COVID-19 outbreak?'



Source: CBRE Research, survey sent to CBRE EMEA Capital Market Professionals, 2020

KEY TAKEAWAYS

- Gradual recovery expected as CBRE is forecasting investment volumes to grow by about 8.5% in 2021, and a return to pre-COVID norms by H2 2022
 - As general uncertainty in the market subsides and travel restrictions are lifted, investors will return to investment markets
 - Investor appetite for logistics, multifamily and prime office assets, especially in major markets, should continue through 2021
 - Distressed sales in hotel and secondary retail assets will likely materialise in the near term
 - As market floors are formed across non-prime sectors, equity investors will be well-positioned to capitalise on discounts

2021 EMEA REAL ESTATE MARKET
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OFFICES



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SHORT-TERM DEMAND WEAKNESS AND STRUCTURAL CHANGES

LEASING DEMAND WEAKER

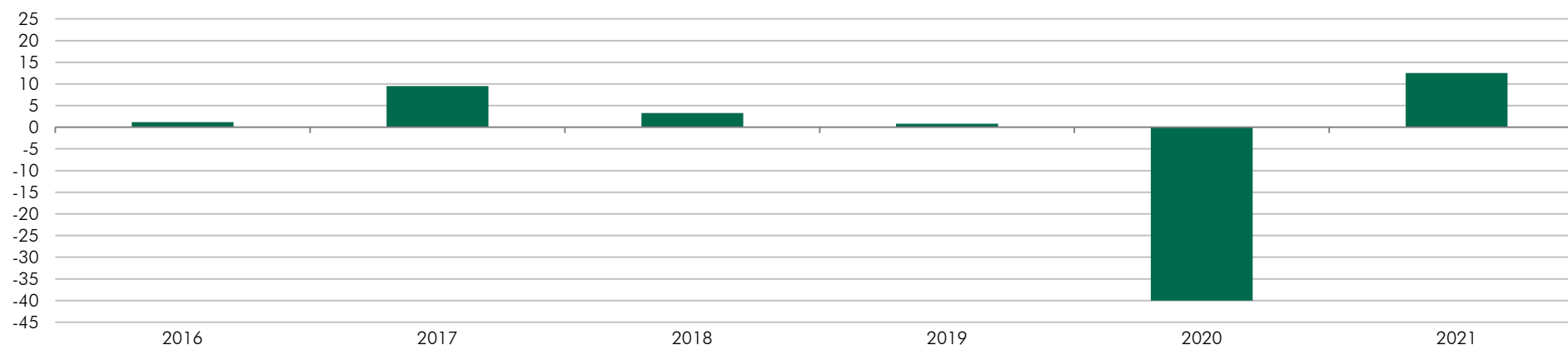
- Leasing demand has been severely impaired by the impact of economic weakness and lockdown measures. Through three quarters of 2020, overall take-up across the main office markets is 40% down against the same period in 2019. Geographic disparities persist, with CEE cities generally showing greater resilience than many of the major western European markets.
- The re-introduction of partial lockdown measures in many markets increases short-term downside risk, but we expect some recovery in leasing volumes in 2021, driven by a combination of:
 - Strengthening demand conditions as economies recover
 - Some loosening of constraints on corporate capex
 - New developments completing and offering pre-let opportunities
 - Occupiers pursuing quality upgrades
- The tendency of some occupiers to extend or renew in situ where viable will remain a limiting factor for leasing levels, but overall we expect a rebound in leasing activity in the order of 10-15% next year, likely skewed towards the second half of the year.

VACANCY RISING, BUT NOT UNIFORMLY

- The supply side of office markets will continue to loosen in 2021, with overall vacancy rates rising. This trend is already evident, with the EU-28 vacancy rate up from 7.25% at the end of 2019 to over 8.6% in Q3 2020. We expect this figure to rise by a further 1-1.5 percentage points in 2021.
- On the face of it this will reduce or remove upward pressure on rents and expand occupier choice, but there are some important nuances. Firstly, prior to mid-2020 vacancy levels had been falling for several years, in some cases to levels that constrained occupier choice. Secondly, total market vacancy rates are mostly far higher than corresponding figures for core, prime space: occupiers with short-term expansion needs and tight search criteria will still face limitations on choice.
- Thirdly, the scale of development activity has been relatively disciplined in this cycle, and broadly we expect this to remain the case. New completions across the 15 major markets* will rise sharply in 2021 as late-stage developments complete, before easing back. Over 50% of the 2021-22 pipeline is already pre-let, and new development starts in Q2-Q3 were over a third lower than in the previous two quarters. On the other hand the contribution to vacancy of subleased space, particularly small units, will rise.

* Vienna, Brussels, Paris, Berlin, Frankfurt, Munich, Dublin, Milan, Amsterdam, Warsaw, Moscow, Barcelona, Madrid, Stockholm, London

FIGURE 7: OFFICE LEASING, EUROPE, YEAR ON YEAR GROWTH (%)



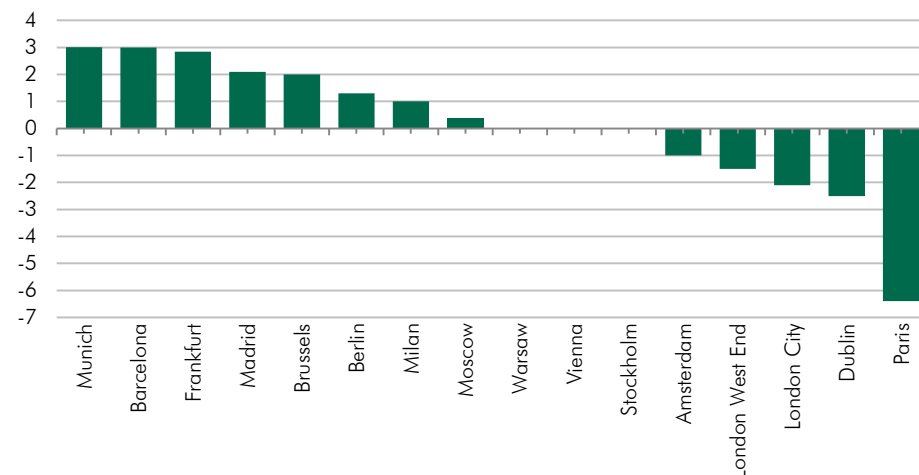
Source: CBRE Research, 2020

RENTS UNDER SHORT-TERM PRESSURE, AND QUALITY GRADIENT SET TO EXPAND

UNEVEN RENTAL PICK UP AND FLIGHT TO QUALITY

- Rents are under general downward pressure and likely to remain so in many markets through 2021. The CBRE EMEA prime office rent index has been falling since the end of Q1 and is 0.4% lower year-on-year, with some notably larger falls in markets such as London (-7.7%), Stockholm (-7.5%) and Dublin (-3.8%).
- The 2021 picture is mixed. Some of these early fallers will stabilise, with delayed falls emerging in Paris and Amsterdam, and some pick up in Germany and Spain.
- We will see more evidence next year of occupiers starting to execute portfolio and workplace strategies to position themselves for more distributed working and greater agility. Based on CBRE survey evidence a high proportion of corporates are looking to reduce their office footprint, support increased remote working and start to shift towards more agile choice-based work patterns, including greater use of flex space. The impacts will not be immediate, and clear trends may not emerge until post-vaccine, but they will represent a headwind to overall leasing demand. They will also favour higher quality, wellness-capable and tech-enabled buildings. Secondary, and more particularly tertiary, assets will face accelerated obsolescence and mid-range rents look more vulnerable than prime.

FIGURE 8: PRIME OFFICE RENT GROWTH, 2021 (%)



Source: CBRE Research, 2020

KEY TAKEAWAYS

- Investors
 - Assess good secondary assets in strong locations that may be capable of repositioning or upgrade, as yields look to be drifting out
 - Core well-let long-income assets offer greatest protection against downturn, but few bargains
 - Flexible space providers will need to raise the focus on wellness and hygiene in their offer. This is becoming a greater point of difference in selection decisions
 - Still a growth sector over typical hold periods, but pricing of short-term risks needs attention
- Occupiers
 - Weaker markets offer opportunity for more aggressive lease negotiation, particularly in non-prime space
 - Opportunities for regears to lock into lower pre-recovery rent rolls
 - Rigorous evaluation needed of cost and productivity impacts of different fixed v remote work combinations
 - Consolidation strategies to focus on core buildings: smaller but better

2021 EMEA REAL ESTATE MARKET
OUTLOOK

04

RETAIL



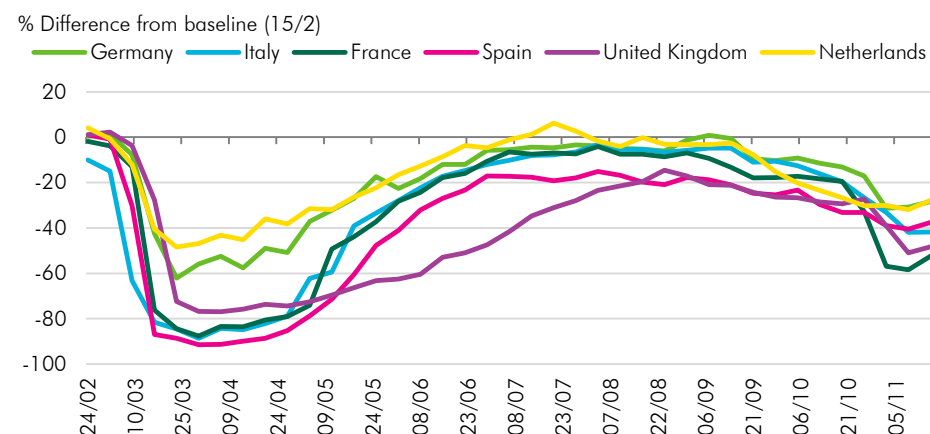
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SHORT-TERM UNCERTAINTY BUT SOME MORE POSITIVE SIGNALS

PATCHY RETAIL RECOVERY TO DATE

- A second wave of infections and government measures to curtail them is currently dominating the retail markets and producing heightened short-term uncertainty. While the timing and detail of lockdown measures vary from country to country, a common focus on restricted opening of many types of non-essential retail is clearly having an impact.
- Consumer confidence was up from April lows in October, but still at levels below March in most markets. This reflects general economic weakness, and particularly softer labour markets, with unemployment on an upward path and other income reductions also affecting many consumers.
- Retail and leisure mobility patterns (Figure 9) illustrate the different recovery patterns. Sweden, the Netherlands and Poland surpassed pre-pandemic footfall levels over the summer. Other key EMEA markets landed at around -10% mobility. The UK mobility recovery has lagged other EMEA markets through much of 2020, after a longer lockdown, along with Spain where infections rose from mid-August, following a resumption of tourism, which should have improved mobility. In key markets, retail mobility has started recovering from the lows at the start of November due to new restrictions, and we expect this to continue once restrictions are less stringent.

FIGURE 9: RETAIL AND LEISURE MOBILITY

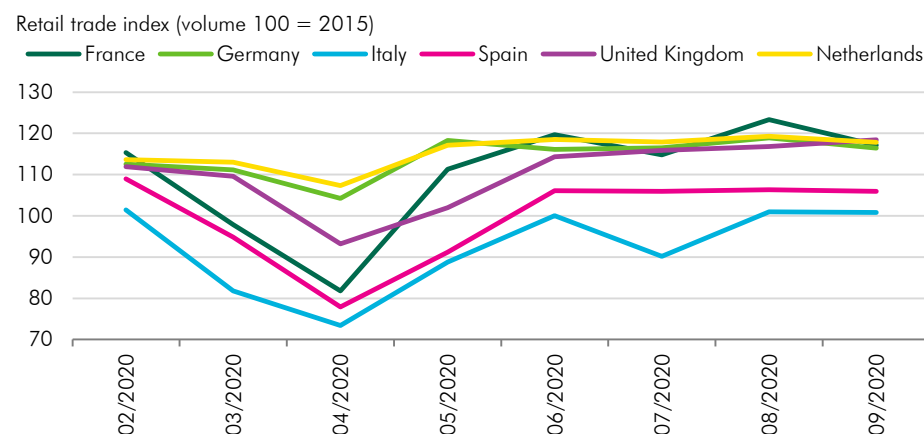


Source: Google mobility data, Macrobond, CBRE Research, 2020

PENT-UP DEMAND STARTING TO COME THROUGH

- With many economic interventions aimed directly at supporting the consumer sector, there was some evidence of higher demand for consumer goods being realised after initial lockdowns, which suggest that significant pent-up demand may also be released once the current restrictions are loosened.
- Retail sales saw y-o-y growth in May in the German, Dutch, Austrian and Nordic markets, and in June in France. Some of this growth can be attributed to e-commerce (See figure 11), yet retailers also achieved higher sales from lower footfall in all markets, suggesting improved sales efficiency. Retail sales stabilised over summer before the second wave of infections necessitated further government restrictions (Figure 10).
- There is considerable variation in the performance of different retail sub-sectors, which we generally expect to persist until the majority of the population has been vaccinated. Grocery retailers have continued to perform well throughout 2020. By contrast experience-orientated retail, F&B, leisure and entertainment, trailed behind non-essential retail with regards to the pace of reopening, with operations more severely impacted and some unable to operate at all.

FIGURE 10: SALES RECOVERY IN SELECTED EMEA MARKETS



Source: Eurostat, Macrobond, CBRE Research, 2020

RETAIL AND RETAIL PROPERTY: WHAT'S NEXT?

WHAT'S NEXT FOR THE RETAIL MARKETS?

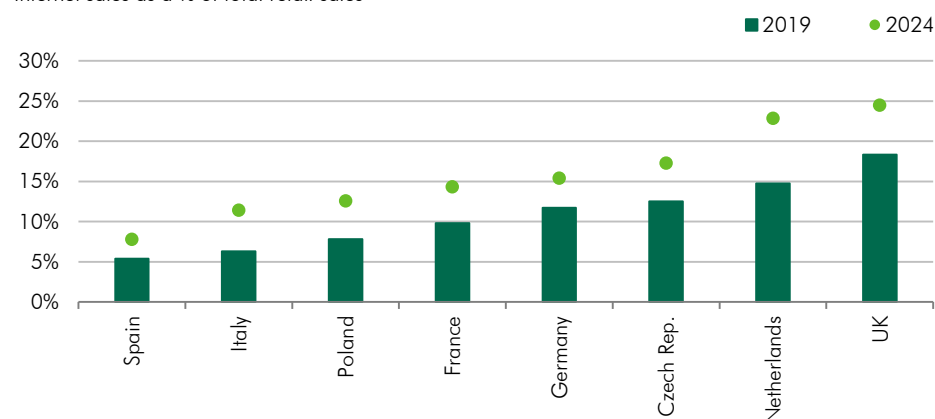
- Retail-specific government measures, positively in the shape of stimulus measures, or conversely through lockdown and reopening strategies, have severely influenced market performance and will continue to do so. Some retailers are also facing supply chain irregularities, cash flow constraints, and changes to consumer preferences and needs.
- In the medium term, the full recovery of major city locations depends on at least a widespread return to the office and of tourism and business travel. International mobility is currently only expected to return entirely by the end of 2024.

RETAIL PROPERTY MARKET ACTIVITY

- There are areas of stronger activity. Since reopening after the first lockdown, leasing demand has continued in several sectors across EMEA, including boutique gyms, leisure wear, household goods and home technology. Some opportunistic retailers are using current conditions as a means of acquiring retail space on more favourable terms. Online retailers are also looking to establish themselves in the offline market, often in a smaller, city store format.

FIGURE 11: FORECAST E-COMMERCE PENETRATION, SELECTED MARKETS

Internet sales as a % of total retail sales



Source: Euromonitor 2020

CHANGING RETAIL PROPERTY FUNDAMENTALS

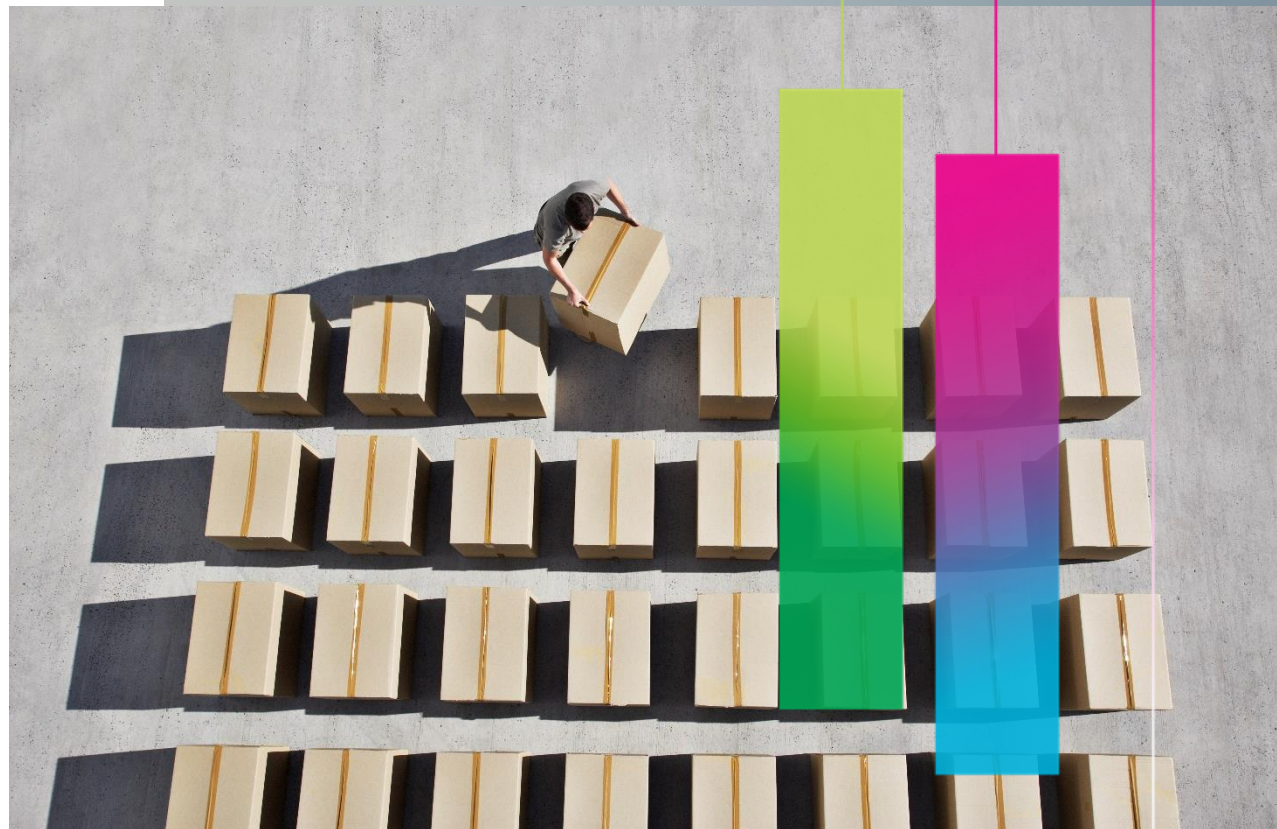
- Recent months have seen the recalibration of retail property fundamentals, with rents dropping and yields expanding in many shopping centres and high streets across Europe. Markets such as the UK and the Netherlands, that were already experiencing structural change due to higher levels of e-commerce, are seeing larger corrections.
- The consumer popularity of some retail property segments (retail parks, convenience) is reflected in their robust rents and yields. The evolution towards turnover rents, at least in the short term, requires a change in leasing practices and standards and raises questions about the sustainability of rent levels and visibility on performance, e.g. including online sales.
- However, medium term, it might give an investor a more rounded view of individual retailer performance, ideal tenant mix, which retailers drive footfall and what return can be expected from different assets at levels that are manageable for retailers in the long term.

KEY TAKEAWAYS

Opportunities exist in:

- Grocery sector
 - Due to combination of long leases and more predictable property income
- Retail parks
 - Focus on convenience, catchment relevant
 - No need for public transport
 - Often grocery anchored
- Exceptional retail assets
 - Curiosity and demand around the best locations and centres in Europe remain, but discounts are sought by incoming investors
- Retail property repurposing and repositioning
 - The recalibration of rents, and retail property values, will provide opportunities for new ownership and in some cases opportunities for repositioning and repurposing

LOGISTICS

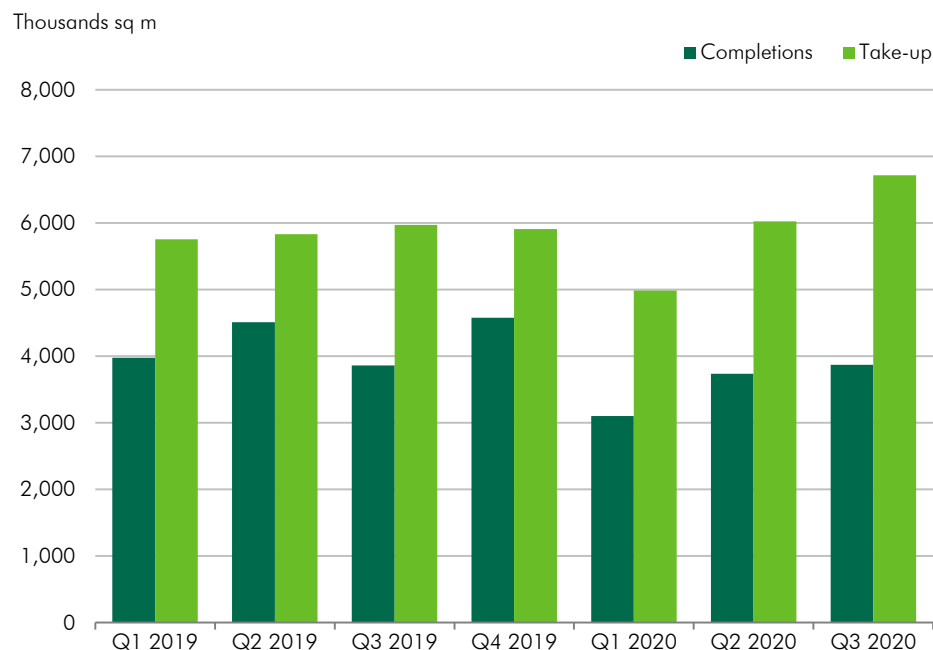


E-COMMERCE TO THE FORE IN STRONG PERIOD FOR DEMAND

STRONG OCCUPIER DEMAND WILL CONTINUE

- The strength of occupier demand for logistics space across Europe during the pandemic has continued to underpin strong performance in the sector, despite the challenging macroeconomic environment. Most recently, several European countries experienced record take-up levels in Q3 2020, mainly driven by online and food retailing.
- We expect sector fundamentals, notably the expansion of the online channel, to continue to drive demand for space in 2021. Demand from e-commerce will be supplemented by further demand coming from the reconfiguration and expansion of supply chains, in order to better prepare them for future disruptions and consumer demand shocks.

FIGURE 12: EUROPEAN LOGISTICS TAKE-UP AND COMPLETIONS

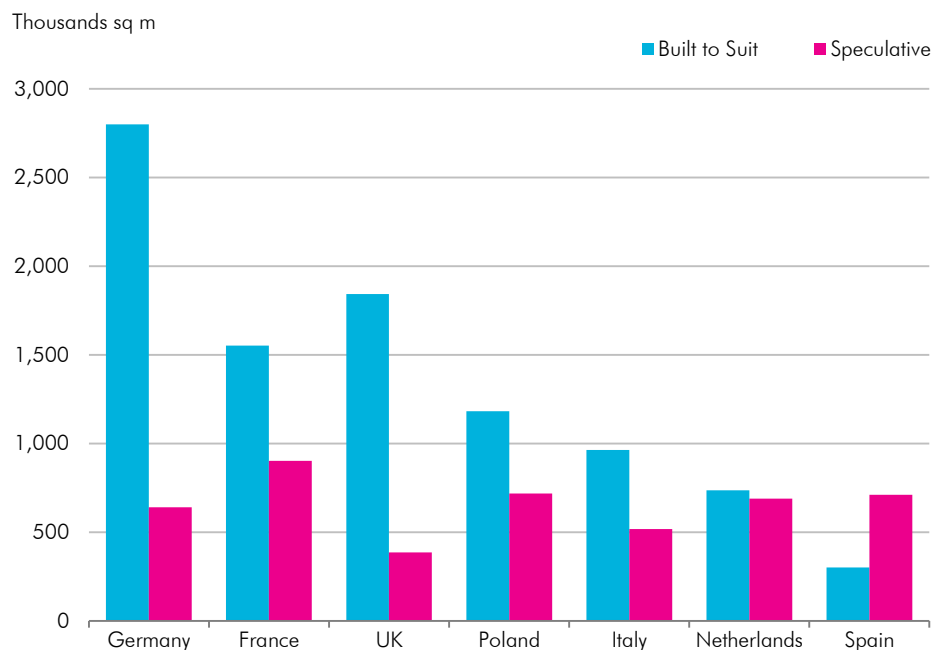


Source: CBRE Research (H2 2020), Top 9* logistics countries: Belgium, Czech Republic, France, Germany, Italy, Netherlands, Poland, Spain, UK

AND WE EXPECT A HEALTHY RESPONSE FROM DEVELOPERS

- After the experience of the Global Financial Crisis, logistics developers are generally much more cautious about speculative development. Most of the development pipeline in the major markets is already committed and the constrained debt market makes it difficult to fund speculative schemes. However, risk appetite for logistics is increasing and we could see an increase in speculative development although it is unlikely to be substantial.
- Vacancy rates will continue to remain low, so new units and built to suit opportunities will be rapidly absorbed. The second-hand and secondary markets may suffer slightly more from the challenging macroeconomic outlook and preferences for modern facilities.

FIGURE 13: EUROPEAN LOGISTICS DEVELOPMENT PIPELINE



Source: CBRE Research (H2 2020), Space under construction to be completed during H2 2020 and H1 2021

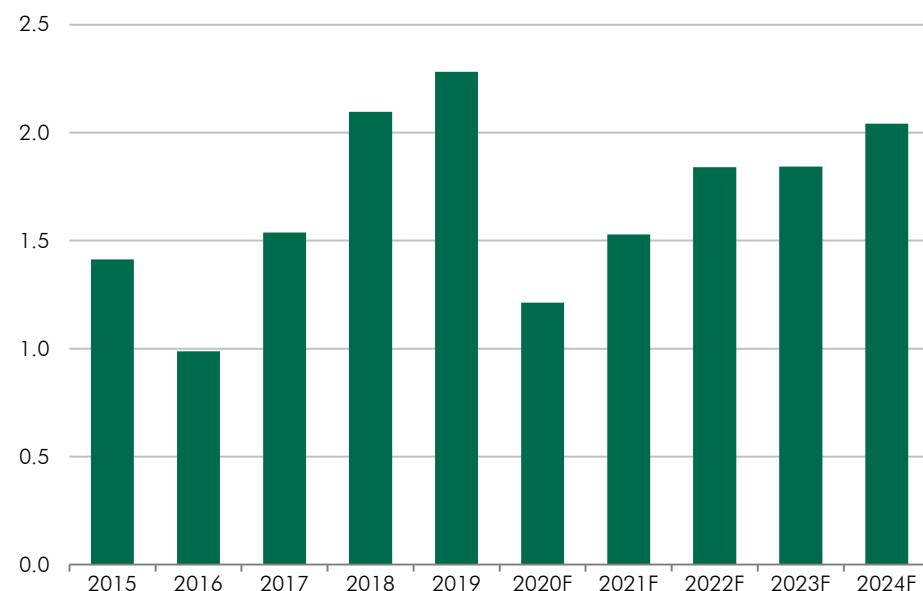
URBAN LOCATIONS TO LEAD RENTAL GROWTH

STILL PLENTY OF ROOM FOR PRIME RENTAL GROWTH

- Occupier competition for modern, well located logistics facilities has brought new record highs for logistics rents in several markets across Europe.
- Our forecast indicates growth for prime big box logistics rental index as an average of the major European markets at a rate of 1.9% per annum for the period 2020 to 2024. We expect higher rental growth in urban locations, due to land scarcity and greater demand from e-commerce occupiers.
- The spread between prime and secondary rents is also expected to widen. Demand for modern units will remain higher due to their ability to facilitate greater usage of the floorspace with their higher ceilings, and to accommodate technology and automation, to support efficiency.

FIGURE 14: EUROPEAN LOGISTICS PRIME RENTAL GROWTH FORECAST

Annual rental growth (%)



Source: CBRE Research (H2 2020), weighted average of the main 31 European submarkets

KEY TAKEAWAYS

- Reconfiguration and expansion of supply chains:
 - Increased inventories
 - Near-shoring of suppliers and production facilities
 - Steady implementation of automation
 - CEE countries to benefit the most due to lower operational costs
- Tightening of land availability:
 - Focus on service and the growth of parcel deliveries will bring logistics closer to urban consumers
 - Assess competition with other land uses and social objections that can impede development of urban logistics
 - Opportunities for repurposing of unsuccessful retail parks as logistics distribution centres
- Continued growth of the online channel:
 - Online retailers' expansion plans have been accelerated due to sudden increase in ecommerce sales
 - Supermarkets are expanding their non-store distribution network in order to deliver online orders
 - Cold storage facilities in high demand

HOTELS

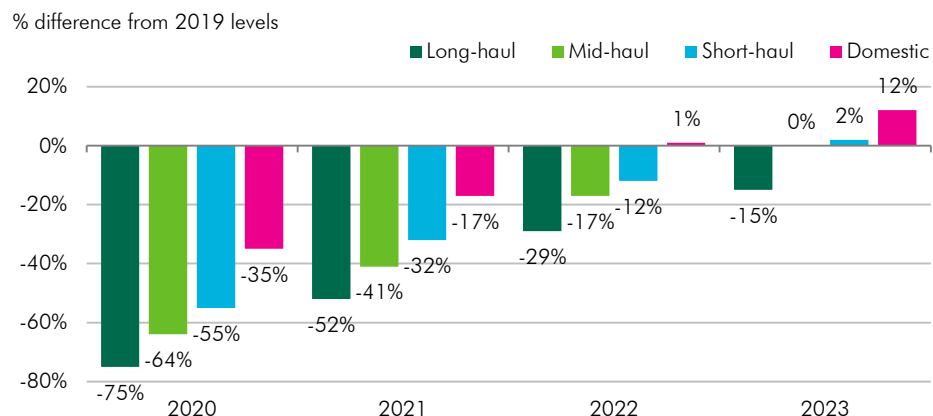


CHALLENGING IN THE SHORT-TERM

DOMESTIC LEISURE LEADING

- Domestic leisure demand has been the key driver of hotel performance across Europe since the region's partial reopening. Provincial markets are benefitting to a greater degree than gateway and capital cities which typically rely more on international and business-related demand (Figure 15 & 16). Overall, average hotel performance levels remain lower than 2019 levels in almost all locations.
- There was a hope that 'staycation' demand would partly offset the absent corporate and meetings market in late-2020 and early-2021, but the resurgence of the virus and renewed lockdown measures are weighing heavily on general travel decisions (Figure 16).
- The availability of a vaccine for COVID-19 is expected to have a profound impact on the trajectory of hotel demand recovery. Assuming that an effective vaccine is widely administered by mid to late 2021, and accounting for the socio-economic consequences of the virus, we expect hotel revenues to broadly recover to pre-pandemic levels in 2024. Speed of recovery will vary based on a hotel's location, business mix, physical condition, management and market position.

FIGURE 15: EUROPE: INTERNATIONAL ARRIVALS VS. DOMESTIC ARRIVALS

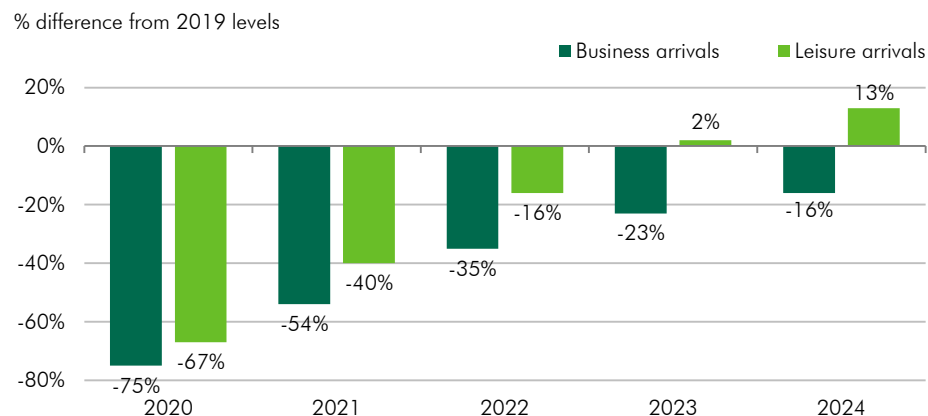


Source: Tourism Economics, October 2020

DEVELOPMENT PIPELINE ADJUSTING

- With significantly curtailed, albeit recovering, revenues through 2021, hotel operating profits will remain low. The challenges of paying debt and rent, for example, will remain acute for many owners and operators. That said, operators have found ways to reduce expenses during the pandemic and, assuming these measures can be sustained, many hotels will be more efficient and profitable when normality resumes.
- Some countries in Europe have a material development pipeline comprising hotels that are already in construction and therefore likely to be delivered. This will undoubtedly impact the rate of performance recovery for some markets and increase the pressure on existing, under-invested assets in the short-term. However, many pipeline projects that entered the pandemic in the design or planning stage, and were therefore not committed, have either been deferred or abandoned – as a consequence, the supply threat in the medium-term will be limited and this will support operating performance recovery.
- The reluctance of many people to forego their 2020 summer vacation in spite of restrictions has demonstrated the resilience of leisure tourism demand. Travel and experiences are fast becoming the main form of social currency and this will support increased demand for tourism as Millennials and then Gen Z move into their prime spending years.

FIGURE 16: EUROPE: INTERNATIONAL ARRIVALS BY SEGMENT

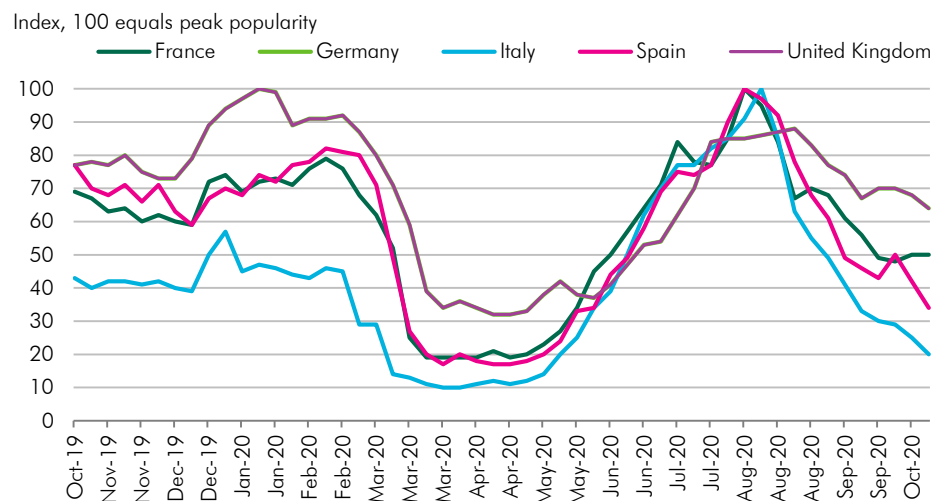


Source: Tourism Economics, October 2020

FINANCE TO UNDERPIN RECOVERY

- With a challenging short-to-medium term outlook for operating performance and the increased cost of debt, values are expected to remain lower than 2019 levels. However, the 'discount' will vary depending on the physical and operational characteristics of an asset – fit-for-purpose, limited-service hotels are predicted to be the most resilient in terms of operational performance and movement in capital values.
- The European debt market remains open and finance will be available for the right deals, particularly those of material scale. This includes development finance, although it will be expensive. Having generally granted forbearance through 2020, we expect lenders to look more strategically at their existing hotel exposure in 2021 – borrowers will need to demonstrate a sustainable business model and suitable plan for recovery. An attempt to restructure and right-size loans is likely to trigger disposals.
- Investment turnover fell sharply in 2020 with only a few notable transactions, including some hotel companies disposing of freeholds in order to recapitalise. In 2021, we expect the bid-ask spread to converge and a material uptick in deal flow. Private equity funds and family office investors are expected to be particularly active.

FIGURE 17: GOOGLE SEARCH POPULARITY: SEARCH TERM 'HOTELS'



Source: Google Trends, October 2020

KEY TAKEAWAYS

- Hotel revenues and profit to remain under pressure through 2021 – rent and debt payments, for example, will continue to be a challenge for operators and owners. New supply will weigh on short-term performance recovery in some European markets.
- Looking further ahead, less new supply, greater operational efficiencies and robust underlying demand will support strong income generation.
- Greater alignment of buyer and seller expectations is anticipated to lead to more deal flow in 2021. Private equity and family offices will be particularly acquisitive.
- Real estate and operational businesses must work together. They have complementary skills to support and enhance the performance of each other. In partnership, they are better equipped to:
 - Accelerate innovation
 - Deal with distress
 - Recapitalise businesses
- Stakeholders must formulate and implement a plan in order to navigate the short-term challenges and capitalise on the recovery. This should consider opportunities for:
 - Increased customer focus
 - Cost reduction
 - Consolidation
 - Repositioning/Capex

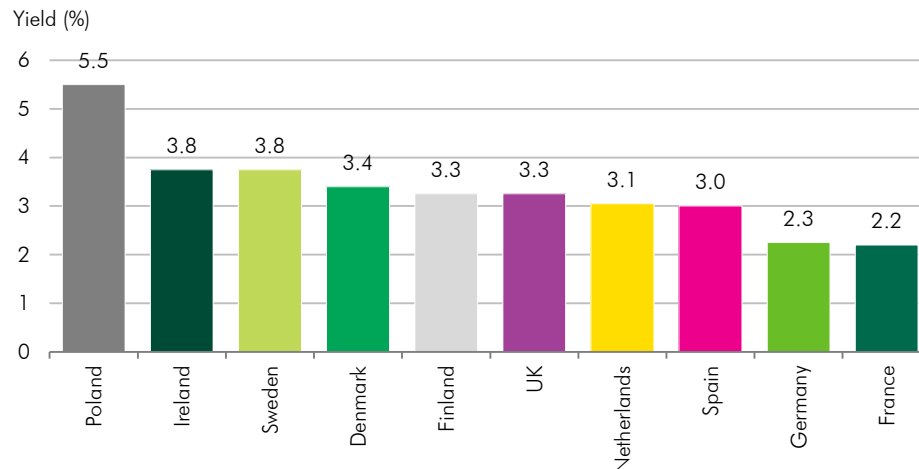
BEDS



RESILIENCE PROVING INCREASINGLY ATTRACTIVE

- The COVID-19 crisis has highlighted the relative resilience of the beds sector. Although clearly affected, multifamily, co-living and student accommodation have generally held up well against other sectors.
- Multifamily displays robust levels of occupancy and rent collection underpinned by the basic need for housing, with tenants prioritising rent payments. It has also been supported by government interventions, such as job support schemes, that have protected incomes during the COVID-19 crisis.
- However, demand will continue to come under pressure in 2021 so operators will need to review strategies to maintain lease-up rates, occupancy and rent collection. Incorporating flexible work-space into developments and offering work-from-home furniture packages are measures that will be welcomed by tenants, although they will also add cost for operators.
- New entrants to the sector, coupled with existing operators expanding, will boost supply in 2021. Some markets are also reporting rising instances of a change of use to multifamily, from hotels for example. [Co-living](#) continues to grow, although there is still a lack of understanding of the concept in some markets, which will hinder progress.

FIGURE 18: RESIDENTIAL YIELDS, PRIME CAPITAL CITY, OCTOBER 2020

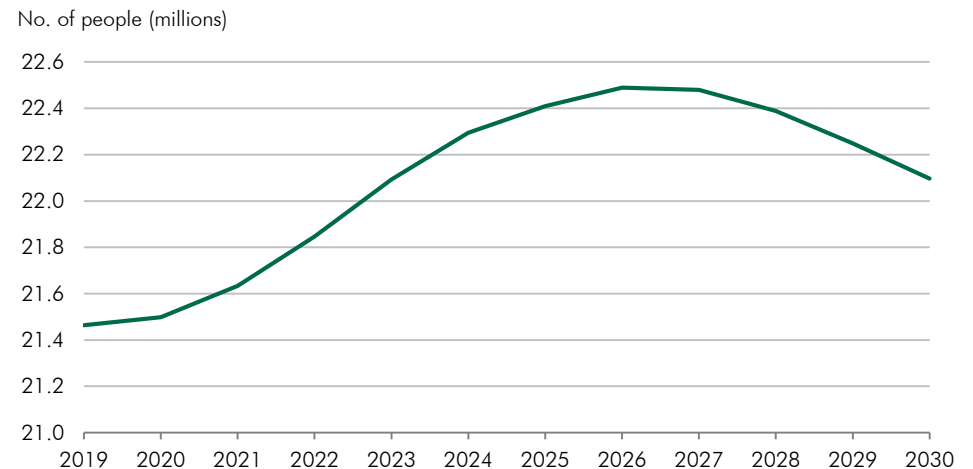


Source: CBRE Research, November 2020

STUDENT HOUSING

- Student accommodation has faced the biggest challenges in 2020, compounded by outbreaks of COVID-19 in student communities at the start of the new academic year. As a result, occupancy fell and many providers will continue to face operational and cost pressures into 2021.
- In the face of these challenges, most student accommodation operators are focusing on current assets rather than expansion, and some markets have reported schemes going back into planning for alternative uses. This will reduce supply in the short-term. However, student demand remains fundamentally strong, underpinned by a growing age cohort and rising participation rates. So we expect the acute supply and demand imbalance to persist.
- The performance of student accommodation will be dictated by the demographic composition of universities and asset location. Portfolios that are more reliant on international students could face increased pressures and some institutions will likely expand online learning programmes in the short-term, making purpose-built accommodation unnecessary. This will put income streams under pressure, although these should ease as restrictions are lifted.

FIGURE 19: 15-19 YEAR OLD POPULATION, SELECTED COUNTRIES, 2019-2030



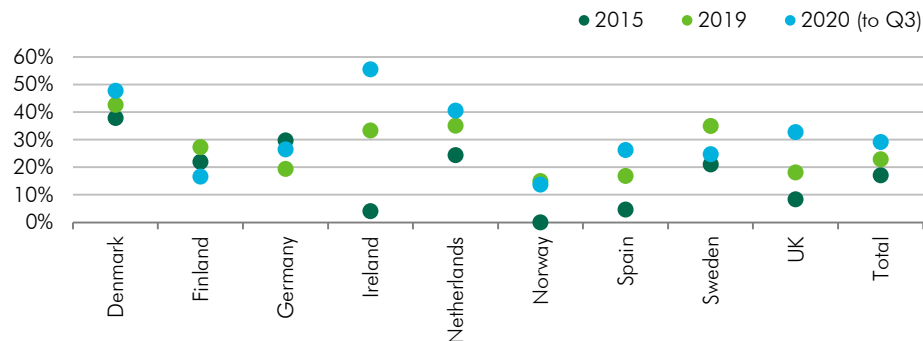
Source: Oxford Economics, November 2020

RIISING INVESTMENT APPETITE THOUGH FURTHER REGULATION LIKELY

- Despite COVID-19 restrictions, investment has been strong in 2020. There is a high level of equity targeting the sector and the lending environment is highly competitive. Because of its resilience and robust long-term fundamentals, we expect investment into the beds sector to reach record levels in 2021, and account for a growing proportion of total real estate investment. This will be driven both by existing investors expanding portfolios and new entrants diversifying from traditional commercial real estate. Travel restrictions will continue to impede global investment though.
- The increased prevalence of working from home has caused some tenants to reassess the need to live in city centres, close to transport links. Interest in more affordable suburban locations and the delivery of single-family housing schemes will accelerate in 2021.
- Further regulation could impact markets in 2021. An example is Denmark where uncertainty surrounding new taxation rules and stricter rental regulation have constrained the multifamily sector. As the full economic impact of the pandemic begins to materialise, more governments will face pressure to introduce further regulation.
- With businesses under short-term cost pressure, there is little prospect of generalised wage growth, and therefore rental growth. However, the market remains highly competitive which is underpinning pricing and we don't expect a significant rise in yields.

FIGURE 20: RESIDENTIAL SHARE OF INVESTMENT, 2015, 2019 AND 2020

Residential as proportion of total real estate investment



Source: CBRE Research, November 2020

KEY TAKEAWAYS

- The sector will undoubtedly face challenges in 2021, particularly as government support for jobs may taper. However, its proven resilience relative to other real estate sectors means multifamily will expand as investors diversify and new entrants come forward. Structural shortages prevail and will keep fundamentals generally sound.
- The outlook for student accommodation is also strong but perhaps more cautious in the short-term compared with the other beds sectors, and operators will continue to face occupancy, cost and income pressures in the 2020/21 academic year.
- On balance, although the outlook for rents is more subdued than in previous years, a highly competitive market will maintain pricing. This has already been demonstrated, as deals that finalised after restrictions were initially eased were agreed at pre-lockdown prices.
- The continuing impact of the pandemic will require an even greater focus on the tenant, operational efficiencies and incorporating flexible space into new development. This will:
 - Enhance communities and maintain occupancy
 - Boost lease-up rates
 - Maintain income and improve cost efficiency
- There is an opportunity for private investors to diversify the location of portfolios and deliver single-family and affordable/social housing to:
 - Capitalise on emerging trends
 - Address the undersupply of social housing
 - Create a more defensive and diversified income stream

DATA CENTRES



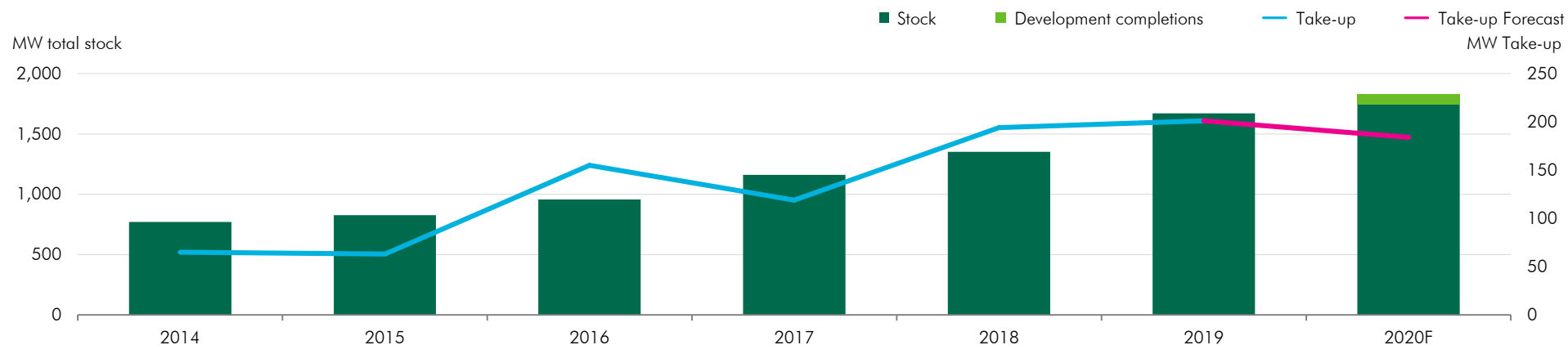
THE DIGITAL REFUGE IN THE COVID ERA

- Europe's leased data centre market has benefited from the 2020 pandemic. This is despite providers having to accommodate lockdown challenges including supply chain bottlenecks for mechanical and electrical equipment, reduced access to sites for operations and construction teams, and challenges stemming from customers looking to deploy cost-cutting measures.
- COVID-19 has shifted consumer and business behaviour when it comes to anything online, from content consumption to remote working tools and cloud. This has fuelled high demand for cloud and connectivity services – many of which reside in leased data centres.
- As a result, the main problem is that there is not always enough supply to meet growing demand at the pace required by the largest cloud and internet providers. The result, through 2020, is historically low vacancy rates in key markets such as Frankfurt and Paris. We have also seen more speculative builds as data centre providers race to bring sites online for hyperscale cloud and internet companies. These customers, at the same time, are increasing the size of their data centre requirements, and securing pre-lets and options to ensure future supply for application and services growth.

RECORD SUPPLY SCHEDULED FOR 2021/2022

- The industry's response is to bring a huge volume of supply online in 2021, with even more already scheduled again for 2022. The data centre market, due to the power-intensive nature of customer requirements, deals in MW as opposed to square metres applicable to most of the traditional CRE sectors. The four largest markets of Frankfurt, London, Amsterdam and Paris (collectively referred to as FLAP) currently offer a combined stock of 1,748MW.
- CBRE's figures show an additional 400MW under construction for 2021, with the largest element of this – 137MW – in Frankfurt. Some of these projects were scheduled to come online in 2020 but were pushed out due to COVID restrictions.
- These dynamics have meant there is increasing demand, but not always enough supply coming online at a pace required by the largest cloud and internet providers. Hyperscale demand is currently behind around 80% of FLAP take-up, and this is a trend we expect to see play out across many of Europe's other markets through 2021. Already markets such as Madrid, Dublin, Zurich, Warsaw and Milan are seeing increasing interest from data centre providers. Investors – from private equity to infrastructure funds and real estate developers – are also seeking new investment avenues, and this is driving conversations around new data centre hot spots – or hubs – across Europe as markets attract growing interest from a range of different parties.

FIGURE 21: FLAP LEASED DATA CENTRE MARKET STOCK AND DEMAND



Source: CBRE Research, Q2 2020

NEW DATA CENTRE HUBS EMERGING

LAND AND POWER IN DEMAND

- Over the past few years, industry demands for land and power have been highest around the locations where hyperscalers have built out cloud availability zones (typically a collection of three data centres for redundancy – a requirement for delivering cloud services).
- This has meant land, and increasingly power supply, in these regions has become increasingly difficult to come by and, in many markets, more expensive. Since COVID, many of these locations are also competing with the growing logistics market.
- Over the last two years, there has also been growing concern over the amount of energy data centres consume. In some cases it is about restrictions on power supply, or limitations on power transmission networks. In others it is about sustainability. Governments are taking much more notice of data centre developments as a result, and are looking to influence where such assets are located.
- The combination of these elements has led providers to consider new locations in existing markets in which to acquire land and build data centres. As a result, through 2021, we expect to see some new data centre hubs emerge across Europe, such as the north of London as providers expand from the busy western corridor or to the west of Frankfurt, for example.

KEY TAKEAWAYS

- High demand has encouraged data centre build and buy investments, and this trend will continue through 2021.
- Think ahead of the curve when it comes to new data centre locations.
 - There are fewer options in existing markets, and they often come at a higher cost
 - Look at where cloud deals are being signed – this is an indicator of where leased data centre customers are likely to need additional or future supply
 - Pay attention to government initiatives that involve the sector that could influence your ability to land and expand in a market
- There is appetite for investing in the data centres sector across all major European markets in 2020.
 - Data centre providers are willing to be innovative when it comes to identifying sites for new supply. We have seen investments in car show rooms, logistics sites, and multifamily and retail land parcels and green space for data centre developments
 - Understanding of power requirements and connectivity is vital when marketing properties to this market

OPERATIONAL REAL ESTATE



LEISURE AND ENTERTAINMENT: IN NEED OF SUPPORT AND RESTRUCTURING

- The COVID-19 pandemic has had widely varying implications for the different categories of operational real estate, but few have been left completely unscathed. Predictably, non-essential leisure and entertainment activities have been challenged the most. Given the likelihood of continued disruption well into 2021 due to lockdowns and other restrictions, several sectors are likely to rely significantly on direct and indirect government support for their short-term sustainability.

LEISURE AND ENTERTAINMENT

- European cinema attendance reportedly dropped more than 90% over the course of the summer in certain countries, but rebounded to a limited extent as restrictions were initially lifted. Nevertheless, jitters in the sector were manifested in the repeated postponement of big releases, depressing the sector's short-term recovery prospects. A beneficiary of the closure of cinemas, at least at the beginning of the lockdown period, were home streaming services including Netflix, which registered a marked jump in new subscribers in the first quarter. High demand for games consoles is another sign of this trend.
- Theatres and other live arts venues were arguably even more acutely affected. Indeed at a continental level, the long-term survival of the performing arts sector has been called into question, prompting most European governments to announce specific measures to prop up their national culture industries, ranging from modest grants and loans to billion-euro-plus schemes in the cases of Germany, France and the United Kingdom.
- The health and fitness sector was similarly affected, with gym attendance all but suspended during the majority of national lockdowns. Despite the current problems, and a suspension of M&A activity during 2020, a number of operators, particularly in the low-cost segment remain bullish for the medium term. For instance, The Gym Group, a UK-based operator, continued to acquire sites for new developments during the lockdown period and has announced that it is building a pipeline for new openings in 2021.
- The licenced leisure sector (restaurants, pubs, bars and nightclubs) has experienced arguably the rockiest ride of all. Lockdowns have, nevertheless, accelerated one pre-pandemic trend, namely a rise in home deliveries, with data from sources including Deliveroo revealing peak-time order increases of up to 40% across Europe compared with pre-lockdown numbers. Further restructuring of the sector, both at the corporate level and in terms of day-to-day operations to fulfil changing COVID-related regulations are a near certainty heading into 2021.

- By contrast, holiday parks have displayed surprising resilience in the face of the pandemic. Following a crushing start to the season, occupancy rates recovered strongly from July with UK holiday park operators reporting occupancy of 99%, in excess of the long run average of c. 95% for the equivalent period. The attractiveness of the sector to investors was demonstrated by the acquisition of Roompot, one of Western Europe's largest operators with a dominant position in the Netherlands, by KKR in June 2020. In the medium term, we expect a continuing process of consolidation in the sector in Europe, with a focus on smaller acquisitions driven.

HEALTHCARE

- The private acute hospital sector, depending on the country concerned, acts either as an integral part of the national healthcare system through outsourcing and institutional reimbursement, or as a parallel conduit funded by discretionary health insurance. In many European countries, this model was effectively overridden at the outset of the pandemic, with many routine procedures being put on hold, and bed-space requisitioned for the care of patients suffering from COVID-19. Further reinforcing the resilience of the sector, state reimbursement mechanisms for this short-term arrangement were mostly based on covering operators' costs, insulating them against cashflow shortfalls.
- While longer-term trends will remain at play in the leisure sector, 2021 is likely to remain dominated at an operational level by the ongoing response to COVID-19. Trade is likely to remain disrupted for the foreseeable future due to periodic lockdowns, so the prospects of many operators will be partly reliant on short-term fixes including government job protection plans and related subsidies, and on any rent concessions that can be agreed with landlords.
- A number of sectors have traditionally been regarded as inherently more defensive, particularly those possessing infrastructure-like characteristics. While these sectors have experienced challenges in 2020, their resilience has been borne out both operationally and in terms of their continued appeal to investors.

RESILIENCE IN THE MORE DEFENSIVE PARTS OF THE SECTOR, MAINLY HEALTH

- The private acute hospital market continues to witness above-trend levels of M&A and property investment activity, not least in the UK where the largest platform – BMI Hospitals – was acquired by a JV of Circle Healthcare Group and the US REIT, MPT. We anticipate further substantial platform sales in the UK and continental Europe in early 2021.
- The long-term care sector was significantly affected by the pandemic from the outset. As well as high levels of fatalities, restrictions on new admissions caused a marked drop in occupancy (large operators in several countries have reported a fall of 10% as at October in comparison with the same point a year ago). Nevertheless, sentiment remains bullish, with the major consolidators (chiefly Orpea, Korian, and DomusVi of France) all continuing to eye cross-border acquisitions which we expect to materialise through 2021 and beyond. The property investment market for this stock also remains strong in the established markets, notably Germany, where recent portfolio sales have set new yield benchmarks, and this trend is expected to continue for the foreseeable future.
- Retirement living, a niche residential sector, is increasingly being viewed by institutional investors as an appealing diversification strategy. While progress in 2020 was limited by the pandemic, we are aware of a number of specific development opportunities across continental Europe which are garnering investor interest and which we expect to gain traction in 2021.
- The self-storage sector in Europe has continued to show strong growth, and significant resilience. Based on data collated by the Federation of European Self Storage Associations, many facility operators are currently recording better results than at the same time last year, and development and acquisition projects have continued. Apart from the European market leader, Shurgard Self Storage Europe SARL, with more than 200 stores in seven countries, the sector has few major cross-border operators, and offers consolidation opportunities. We are aware of significant interest from institutional investors seeking exposure, and 2021 has the potential to be transformative for the sector.

KEY TAKEAWAYS

- Operational real estate classes rely on the sustainability of operators' business models and the physical assets within which those operators generate cashflow. The COVID-19 pandemic has presented major challenges to almost all operational real estate sectors, and demanded a range of responses both corporately and on the ground. These will continue to dominate decision-making going into 2021.
- We identify two broad categories:
 - Leisure and entertainment sectors will likely remain disrupted for the foreseeable future. Operators should seek the fullest access to support measures including government job protection schemes and related subsidies, and any rent concessions that can be agreed with landlords. Despite this, two specific areas within this category – health and fitness and holiday parks – offer investment opportunities arising from growth and consolidation.
 - The more defensive parts of the sector – mainly different types of healthcare, but also self-storage – have generally performed much better and will enter 2021 with their established long-term trajectories largely intact. In several of these areas there are opportunities related to M&A platform sales and cross-border acquisitions as major operators look to establish genuinely pan-national capabilities. Institutional investors will remain key to this process, and pricing looks likely to remain competitive.
- As in the hotels market, it is important that real estate and operational businesses collaborate. Whether navigating short-term difficulties or expansion plans for the recovery, the input of the full range of stakeholders is most likely to optimise the outcome.



This report was written by CBRE's multi-national cross border EMEA research team comprised of commercial real estate professionals located across Europe. If you have any questions regarding the content of the report, the contributors listed below are ready to assist you.

Economy

Neil Blake, Ph.D.

Global Head of Forecasting and
EMEA Chief Economist
neil.blake@cbre.com

Aaron Hussein

Economist
EMEA Forecasting Team
aaron.hussein@cbre.com

Ruth Hollies

Director, Research
ruth.hollies@cbre.com

Capital Markets

Benjamin Pipernos

Analyst
EMEA Capital Markets Research
benjamin.pipernos@cbre.fr

Offices

Richard Holberton

Head of Occupier
Research EMEA
richard.holberton@cbre.com

Retail

Tasos Vezyridis

Senior Director
EMEA Retail and Logistics Research
tasos.vezyridis@cbre.com

Logistics

Tasos Vezyridis

Senior Director
EMEA Retail and Logistics Research
tasos.vezyridis@cbre.com

Pol Marfà

Senior Analyst
EMEA Logistics Research
pol.marfamiro@cbre.com

Living (Beds)

Jen Siebrits

Head of UK Research
jennet.siebrits@cbre.com

Scott Cabot

Associate Director
Residential Research
scott.cabot@cbre.com

Hotel/Leisure

Joe Stather

Associate Director
OPRE Hotels – Advisory Services
joe.stather@cbrehotels.com

Data Centres

Penny Madsen-Jones

Research Director Data Centres
penny.madsen-jones@cbre.com

Operational Real Estate

Ed O'Brien

Senior Director
edward.obrien@cbre.com

EMEA Research

Jos Tromp

Head of Research,
Continental Europe
Head of Thought Leadership
and Data Strategy, EMEA
jos.tromp@cbre.com

Global Research

Richard Barkham, Ph.D, MRICS

Global Head of Research/
Global Chief Economist
richard.barkham@cbre.com

Henry Chin, Ph.D.

Global Head of Investor
Thought Leadership
henry.chin@cbre.com.hk

Spencer Levy

Chairman of
Americas Research
spencer.levy@cbre.com

Julie Whelan

Global Head of Occupier
Thought Leadership
julie.whelan@cbre.com

2021 EMEA REAL ESTATE MARKET OUTLOOK



CBRE RESEARCH

This report was prepared by the CBRE EMEA Research Team, which forms part of CBRE Research – a network of preeminent researchers who collaborate to provide real estate market research and econometric forecasting to real estate investors and occupiers around the globe.

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