



Altus Group

Q3 2024

Pan-European Valuation Dataset: Expert Analysis

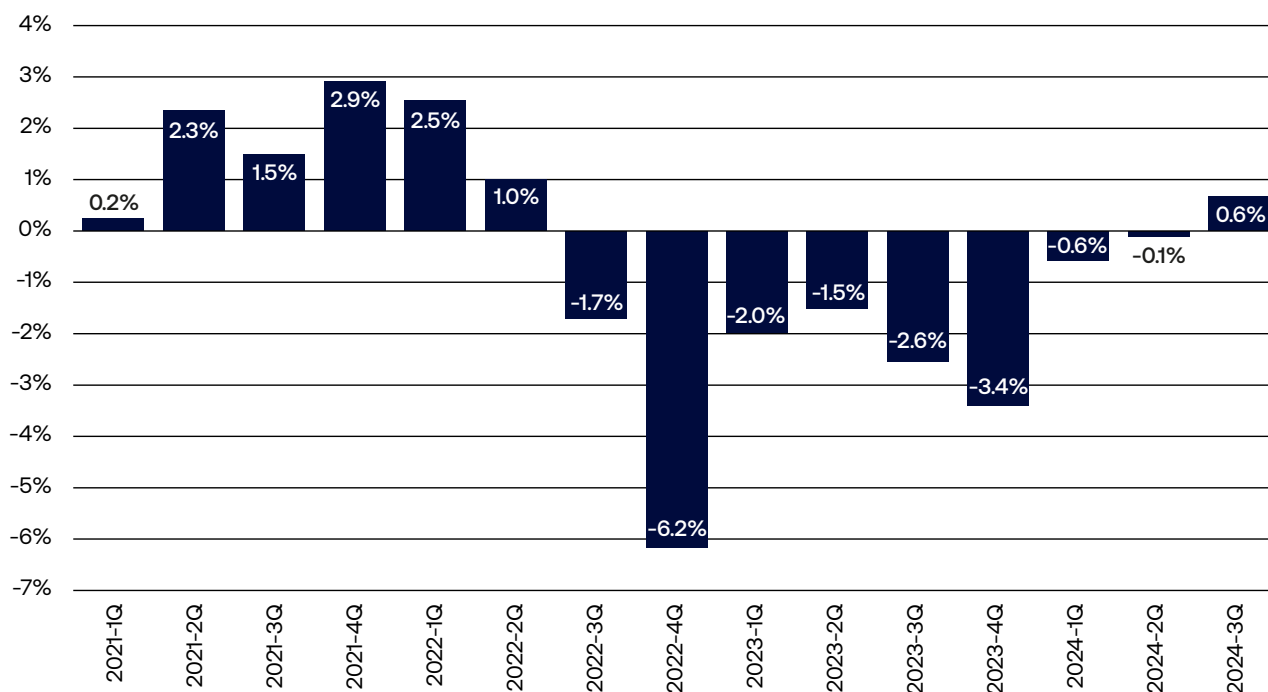
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Q3 2024 Pan-European Valuation Dataset: Expert Analysis

The third quarter of 2024 saw green shoots begin to emerge across the Pan European Valuation Dataset. While a measured amount of recovery has been evident for the past few periods, the third quarter marked the first time in two years that the movement in CRE values turned positive, up 0.63% across all commercial property types.

Quarterly appreciation - all property



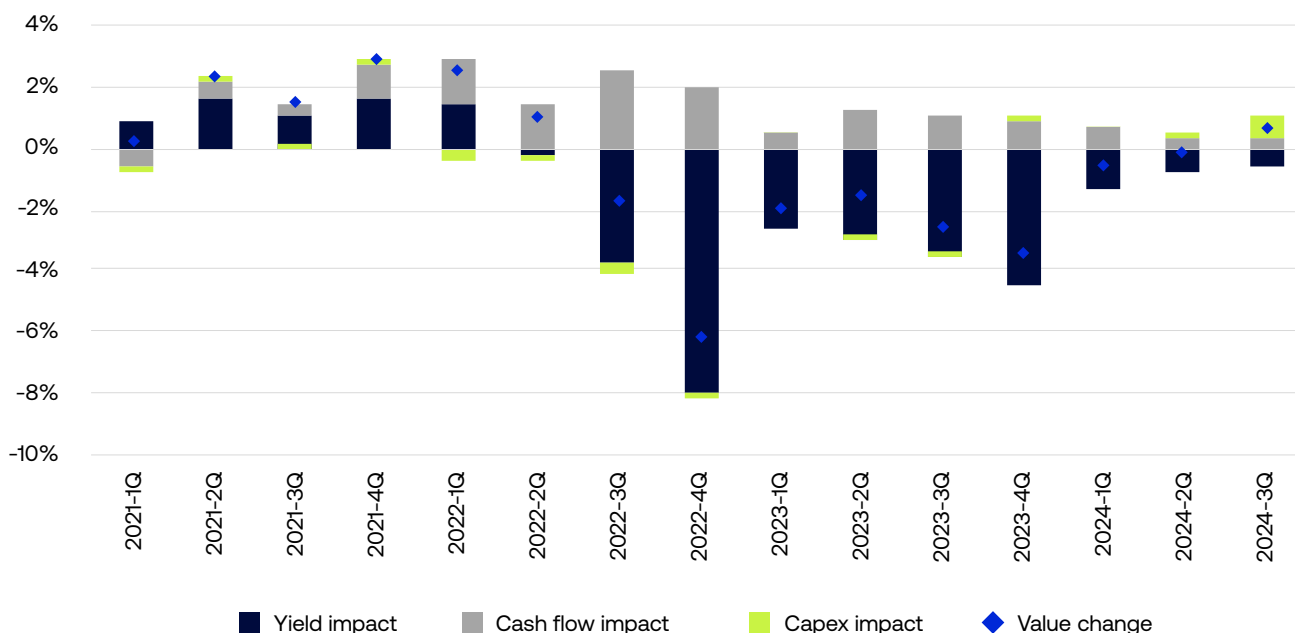
Source: Altus Group's Pan-European Valuation Dataset

Cash flow gains in all sectors except office, along with a reduction in the projected capital being modelled into valuations, is what helped value movements turn positive overall in Q3.

Valuation yields continued to increase across all property types, putting some downwards pressure on values despite the European Central Bank's movement to lower interest rates.

The level of pure pricing adjustment has, however, continued to taper off, with a negative -0.5% impact on values compared to -0.7% in the prior quarter and -1.4% in the opening three months of the year.

Appreciation attributes – all property



Source: Altus Group's Pan-European Valuation Dataset

Sector trends

Values rose in all sectors. Yield corrections continued to hold back values in each of the four main sectors, however improving cashflows and the reduction in projected capital modelled into valuations ensured that appreciation levels were positive in all property types.

Breakdown of Q3 Value Movements

	Value change	Yield impact	Cash flow impact	Capital expenditure
All	0.63%	-0.45%	0.29%	0.79%
Industrial	0.38%	-0.41%	0.49%	0.30%
Office	0.55%	-0.60%	-0.24%	1.39%
Residential	0.53%	-0.53%	0.75%	0.31%
Retail	1.26%	-0.26%	0.75%	0.78%
Other	0.57%	0.02%	0.38%	0.18%

Source: Altus Group's Pan-European Valuation Dataset

Industrial

The industrial sector, which has proven to be the more resilient of the sectors over the last year, had a relatively quiet Q3. The sector finished at the lower end of the hierarchy, but a net positive trade-off between cashflow gains and further yield increases ensured that values continued to rise, up 0.4% over the quarter.

Values were up in most markets, with the largest gains reported in Sweden (1.3%) followed by Germany (1.0%) and the Netherlands (0.9%). Sweden and Netherlands recorded some of the larger increases in market rents for the quarter. Values in Germany received a boost as yields here began to trend back down.

Office

Office values turned positive in Q3, up 0.5%, but with a mixed set of influences. The investment return on appreciation, when you take into the amount of capital spending during the quarter (reversing out the cap exp effect +1.4%), was still technically negative within the office sector.

Office was the only sector where cashflows were lowered during the quarter detracting on values by -0.2%. With both in place and market rents trending upwards, the downside on cashflows can be traced to an increase in rental concessions and an escalation in the level of operating expenses.

Added to all of this, yields moved out by more than average impacting values to the tune of -0.6%.

There was a mixed set of results across the markets, ranging from a positive 4.9% value change in Sweden to a further write down of -2.6% in the UK. Sweden led the hierarchy with an above average improvement in market rents, reflected in a positive cashflow effect, added to which yields were lowered, helping further improve values over the quarter. In contrast, yield increases in the UK continued to pull back on values and cashflows were scaled back as in-place rents tended to be lower.

Outside of the main sectors within the other grouping, hotel assets had another comparatively strong quarter. While revenue levels may have been dialed back slightly in Q2, strengthening investor interest in this sub property type was reflected in a positive yield impact which helped the values rise by more than average for the quarter.

Residential

Residential values rose by 0.53%, benefiting from an above average 0.75% cashflow effect.

Values in the two largest residential markets in the dataset Netherlands and Germany were both in the ascendency, up 0.9% and 0.3%. Values in Denmark increased up by 0.7%. Each of these markets reporting cashflow gains over the quarter.

Retail

Retail emerged as the standout front runner having recorded positive appreciation in all sub property types. Cashflows gains strengthened over the quarter, contributing to the net positive impact on values, while the sector was less affected by yield increases.

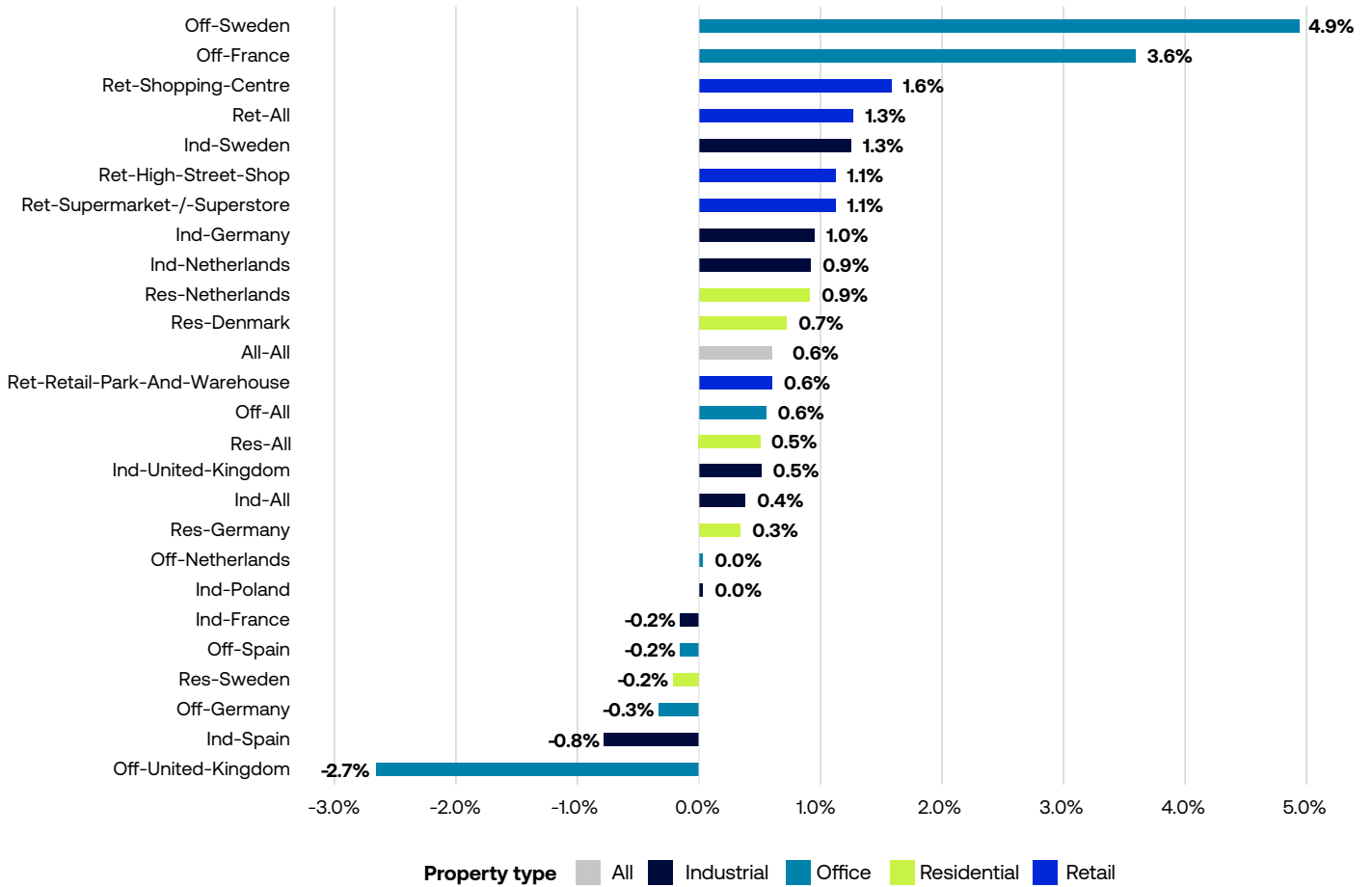
Shopping centres emerged as the lead performer in Q3 having received a boost from a scale back in the amount of budgeted capital expenditure.

Supermarkets service more of the essential side of the retail market and proved their attraction, leading from a combined yield and cashflow standpoint, both of which were accretive to values in Q3.

Investor sentiment towards the retail sector looks to be improving as yields for both supermarkets and high street retail came down during the quarter, which had a positive impact on values.

Quarterly sector country appreciation spreads

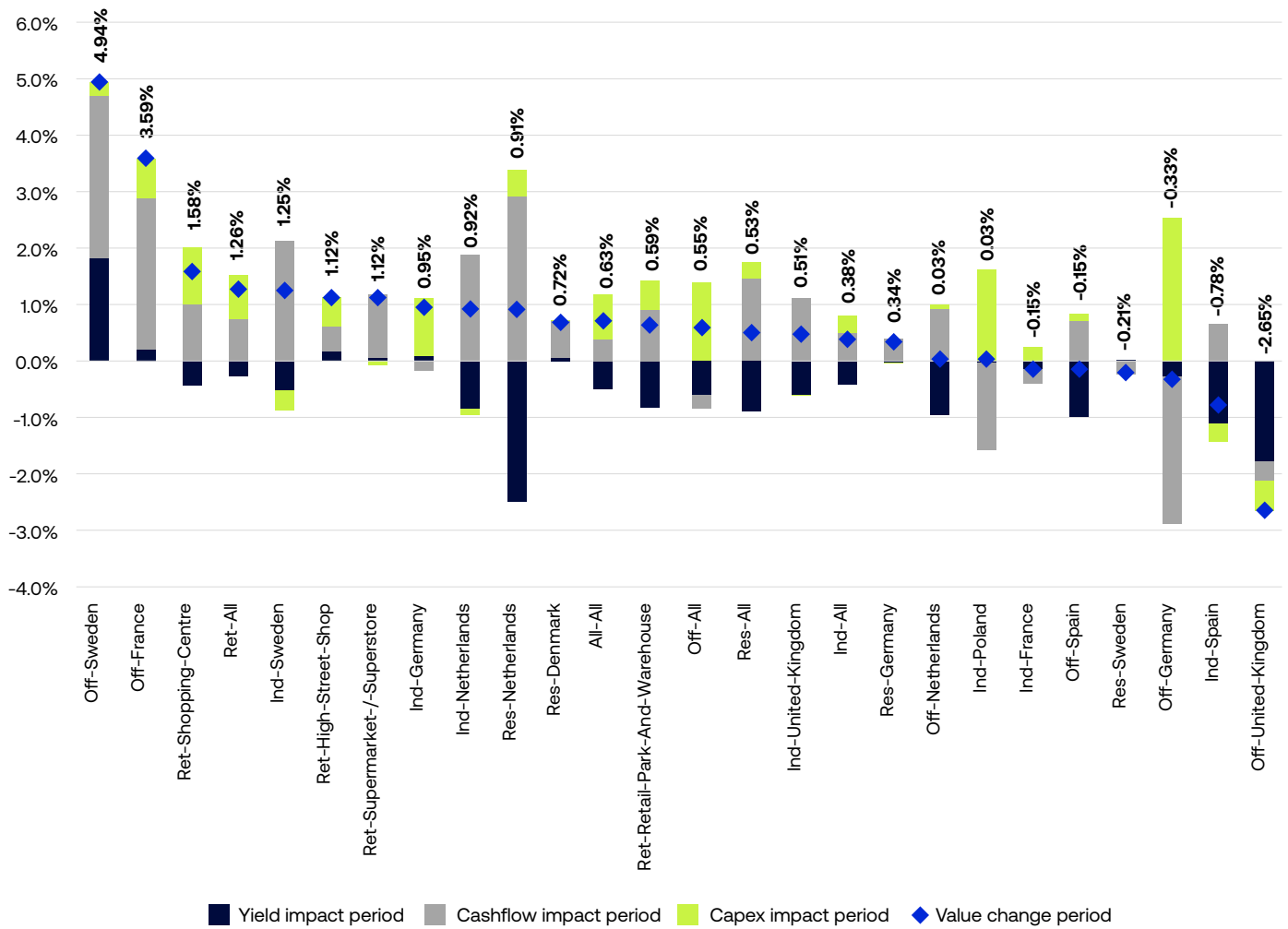
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Source: Altus Group's Pan-European Valuation Dataset

Impact metrics – by sector and country

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Source: Altus Group's Pan-European Valuation Dataset



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