

Across the Pond

Opportunities in European Real Estate

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The Bridge to Alternative Investments

Real Estate Bust: Right Time, Wrong Place

Analysts and journalists have long been discussing the impending commercial real estate collapse in the US. However, European deals have already fallen off a cliff in both value and volume. In the first three quarters of 2023, the aggregate deal value was just \$12 billion, less than 10% of 2018's aggregate. Significant and sticky inflation led the European Central Bank (ECB) and Bank of England (BOE) to implement aggressive monetary policy that has essentially brought the real estate market to a halt.

<10%

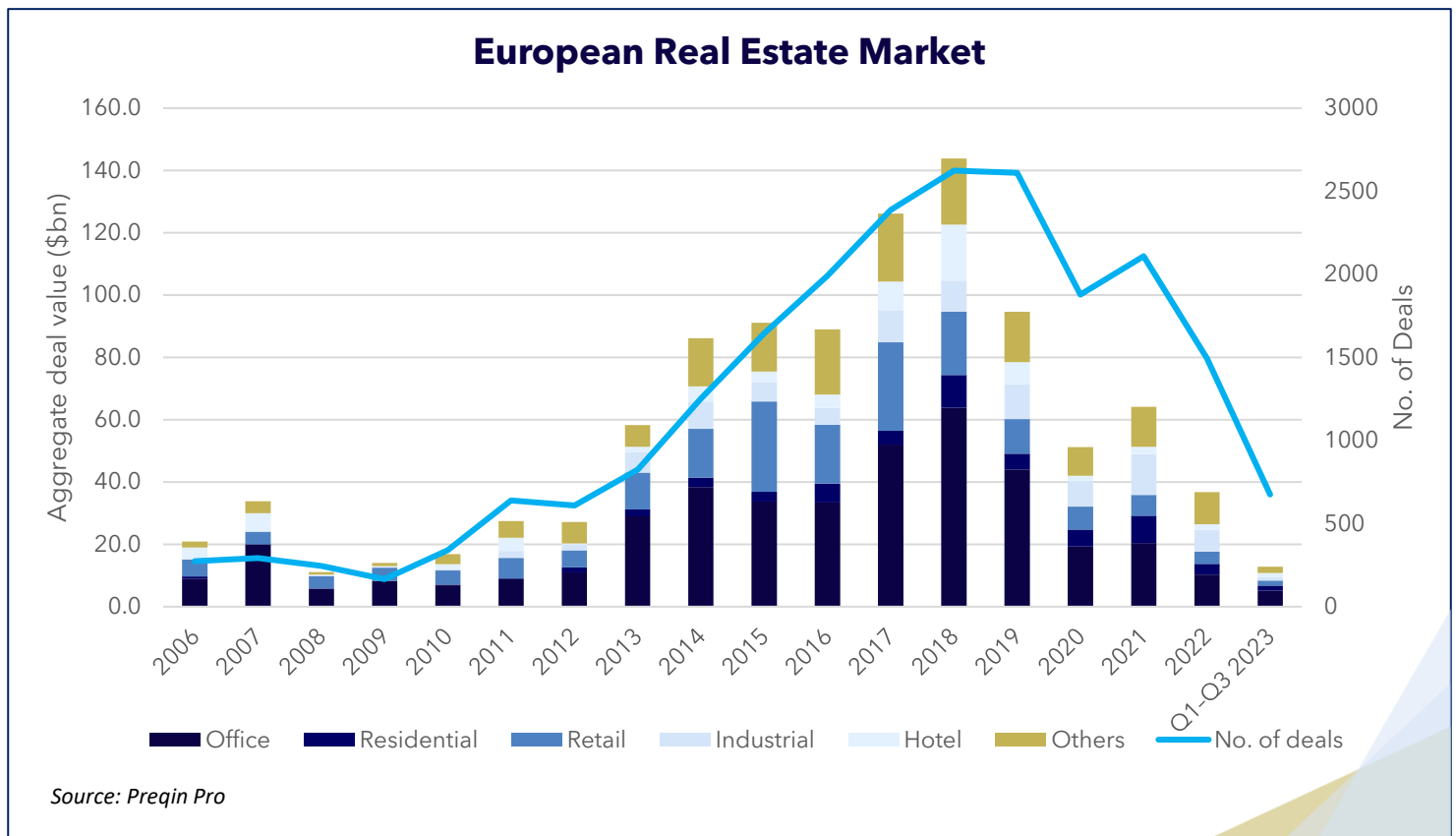
Euro RE deal volume compared to '18 levels

4.00%

ECB Deposit Facility at a historic high

2.8%

Sticky, but easing, inflation in Euro Area



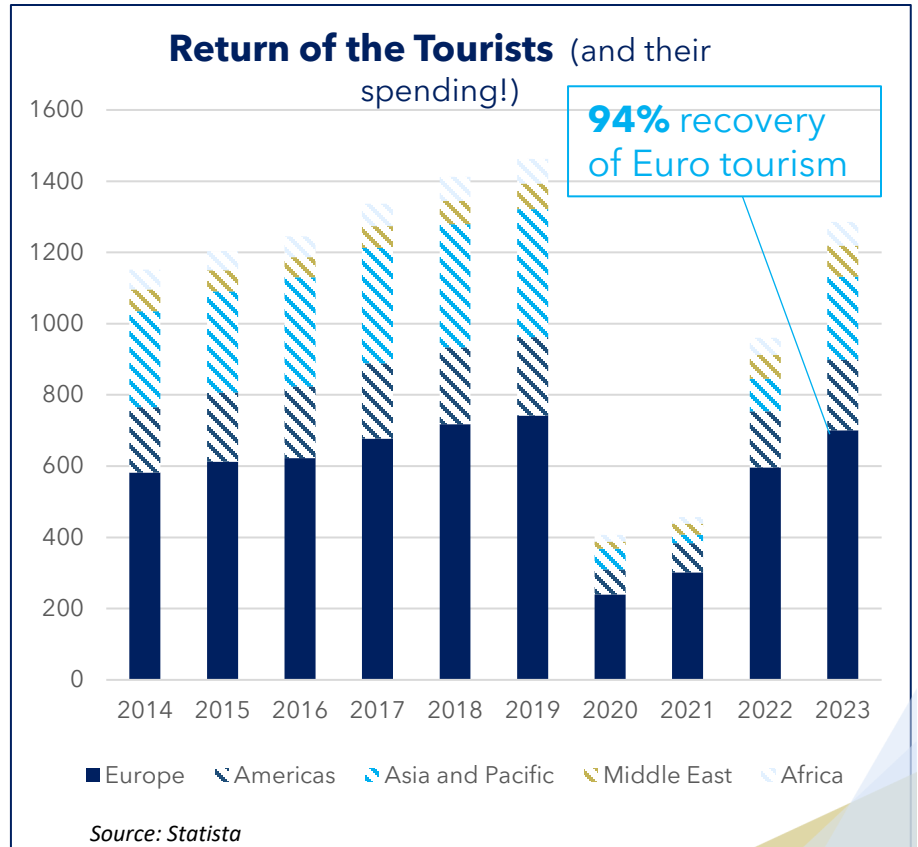
As inflation in Europe falls back to earth and the economy constricts, analysts anticipate rate cuts to come in the next few quarters. Valuations are therefore likely to bottom in 2024 with renewed deal volume. Opportunistic investors can take advantage of the current stressed market environment to buy quality assets from owners with bad balance sheets.

European Hospitality Assets

Several years after the onset of the COVID-19 pandemic, tourism around the world is nearly back to 2019 highs. In 2023, Europe received more than 700 million international travelers or 94% of pre-pandemic levels. Hotels greatly benefited, seeing RevPAR expand 20% and have surpassed 2019 numbers.

The recovery has been predominantly supported by leisure travel, specifically intra-regional and domestic, while international business travel remains 19% below 2019 levels. However, with the growing enforcement of return-to-office policies as well as a restoration of live corporate and industry events, we anticipate this segment to do well in 2024.

Long-haul tourists from Asia Pacific markets, which had been lagging, are also expected to return in strength.



Athletes + Superstars

Beyond ordinary leisure and business travel, Europe is preparing for a year of spectacular entertainment. Paris will host the 2024 Summer Olympics while UEFA Euro 2024 will be held in 10 cities across Germany. Turning to the arts, Taylor Swift, Bruce Springsteen, and Metallica will all be touring the continent.

Such spectacles will undoubtedly aid the tourism sector in the home stretch of its recovery, particularly high-quality hospitality assets in prime markets.



700 million international travelers in 2023



+20% in European hotel RevPAR*



Millions of spectators at sporting and music events

*Revenue per available room

Takeaways for Your Real Estate Portfolio

Considering such opportunities in Europe, advisors should evaluate the current makeup of their client’s real estate portfolios. While large private REITs and other core real estate funds have offered ease of access in recent years, many of these strategies are highly concentrated in a handful of property types in the US.

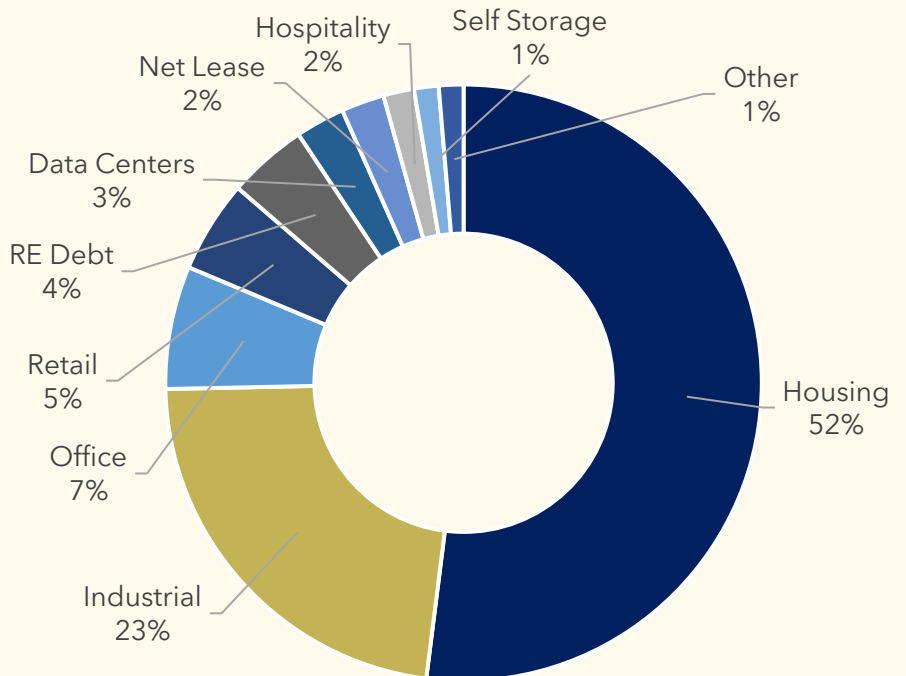
Allocators should evaluate and consider more boutique managers focused on a particular market and property type. Such managers can unlock value and drive alpha by venturing into segments where larger asset managers are unable to gain scale and therefore avoid.

PPB Capital Market Solutions partners with differentiated managers and provides unconflicted guidance to private wealth advisors investing in private markets.

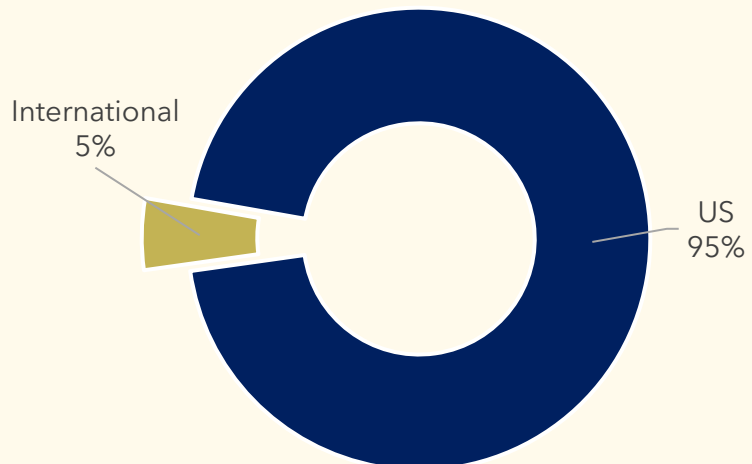
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Diversification Options for Real Estate Investors

REIT* Sector Types



REIT Geography



* Equal-weight portfolio of Blackstone Real Estate Income Trust (BREIT), Starwood Real Estate Income Trust (SREIT), and Ares Real Estate Income Trust (AREIT)

Evaluating Real Estate exposure at an opportune time

As you think about ways to bring diversification and income to your clients' portfolios, often untapped and overlooked market sectors surface to add value. That's why it's critical to ensure your manager research process leaves no stone unturned and is highly in tune with policies that can bring benefits for opportunistic investors.

Incorporating boutique or niche managers allow for uncorrelated returns, and in turn, downside risk protection in ways you might not have considered. Simply buying a distressed property in Europe can limit full potential. Investors need to look for high-quality assets that have been squeezed, like **hospitality**.

Diversification considerations

#1 How have you typically allocated to real estate in the past?

#2 Where do you see the asset class playing a role in your tactical and strategic allocations?

#3 What has been your approach to international exposure in private markets?

We can help. **Contact us**  **484.278.4017**  **advrel@ppbadvisors.com**

Sources

- p. 2 Preqin Pro
- p. 3 Statista
CBRE European Real Estate Market Outlook 2024
- p. 4 Blackstone Real Estate Income Trust (BREIT)
Starwood Real Estate Income Trust (SREIT)
Ares Real Estate Income Trust (AREIT)

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