

When Are Real Estate Values Expected to Stop Falling?

Falling inflation and sluggish growth are providing central banks with room to cut interest rates this year, potentially as early as 2Q24. At the same time, real estate values had another weak quarter in 4Q23 as they further adjusted to higher rates and an illiquid market environment. As a result of lower values and improving sentiment, our outlook is that the turning point for values will come in the middle of 2024 (**Exhibit 1**).

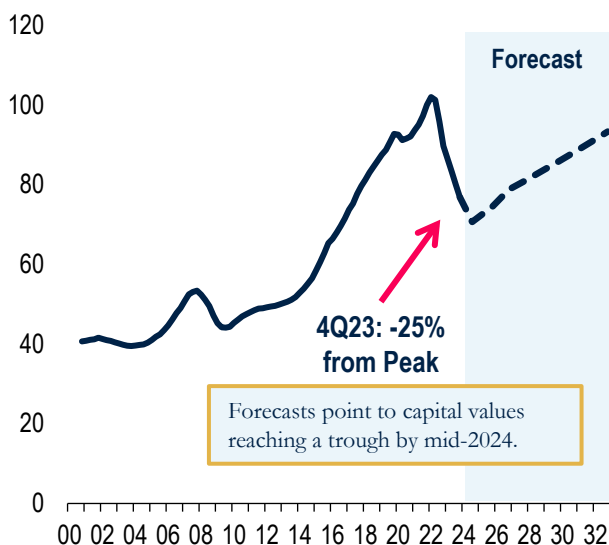
There are some variations by sector. In logistics, data centers and hotels, values have already fallen a long way and these sectors have a resilient rental growth outlook that is supported by structural

trends, such as rising digitalization and a bounce back in tourism. Values in these sectors don't have to adjust much further to represent target yields, which are consistent with long-term fair value (**Exhibit 1**).

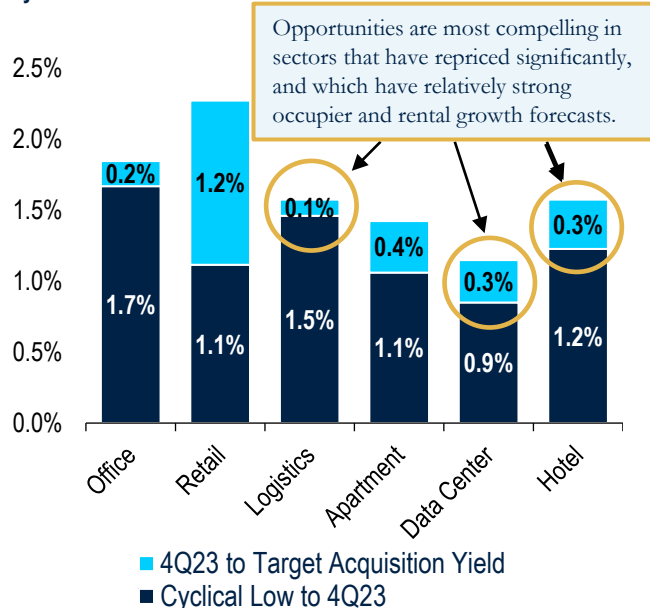
In other sectors, the value correction has further to run either because target pricing is still some way off (i.e., in retail) or because the rental growth outlook is less certain and liquidity is very low, which could mean values will overshoot (i.e., in office). However, falling interest rates are set to reduce pressure on values to fall beyond 2024 in all sectors.

Exhibit 1: Real Estate Value Correction Nearly Done

Prime Nominal Capital Value Index, Europe All Property (4Q21=100)



Prime Market Yield Correction to Target Acquisition Yield by Sector



Sources: PMA, Cushman & Wakefield, CBRE, PGIM Real Estate. As of February 2024.

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