Real Estate

Europe

Unlocking success in European real estate – 2023 market analysis

Insights from the European real estate practice at Reed Smith

January 2024

ReedSmith

Driving progress
through partnership

Contents

Introduction

We are delighted to present our annual European real estate report, offering a compelling overview of the 2023 real estate market across Europe. Within the pages, we highlight a selection of prominent deals that exemplify our commitment to delivering exceptional results and guiding our clients towards unparalleled success.

In the European real estate industry, success is achieved through a combination of strategic skills, legal expertise, and market knowledge. Reed Smith's real estate practice, with a strong presence in London, Paris, Munich, and Frankfurt, is a prominent player in this field. With exhaustive experience throughout the entire property life cycle, our European real estate team acts on investment, development, leasing, and corporate transactions for a wide range of assets, including offices, retail spaces, senior living and health care facilities, data centres, and the hospitality sector.

Market overview 2023

In a year of persistently high inflation, Europe experienced a notable slowdown in growth in 2023. The central banks sought to moderate high inflation by removing monetary accommodation, resulting in rising interest rates and a higher cost of capital – both acting as a brake on real estate investment. The challenges facing Europe were exacerbated by the continued conflict in Ukraine, an ongoing cost of living crisis, and the enduring shockwaves from escalating energy prices. Collectively, these factors exerted a detrimental influence on the region's economic landscape, further stifling investment initiatives.

However, amidst this challenging macroeconomic and geopolitical terrain, the underlying market fundamentals in Europe remained resilient. Robust lending indicators and a trajectory of strong rent growth served as stalwart pillars supporting the real estate sector. Despite witnessing a contraction in deal flows, the European real estate market discerned promising signs of growth on the horizon.

Noteworthy is the UK office market, which, unlike its U.S. counterpart, weathered the storm relatively unscathed and emerged in a notably robust position. Similarly, although the hotel market experienced a dip in investment flowing into existing stock following the initial post-COVID-19 rebound, a significant volume of developmental initiatives continued to unfold. Investments in data centres and senior living facilities promised increasing returns and while the logistics market is gradually reaching saturation, warehouses and storage real estate generally maintained stability as an investment. In contrast, in-store retail was still recovering from the impact of COVID-19 and faced challenges due to the surge in e-commerce. However, shopping centres across Europe experienced a resurgence, with many repurposing themselves to offer a mixed-use retail and leisure experience – a trend that has gained traction as an appealing investment opportunity.

While Europe grappled with a confluence of adverse economic forces in 2023, the real estate landscape exhibited signs of adaptability and resilience amidst the prevailing challenges. 2023 served as evidence of the market's capacity to navigate complexities and discover avenues for growth even in the most difficult circumstances.

Navigating the report

In the following sections, we present a detailed analysis of the real estate market in 2023 and explore the remarkable deals that have defined our impact across distinct practice areas and asset classes:

- **Investment insights**: Gain insight into our approach to European real estate investment. We highlight significant transactions in city centres and urban developments, showcasing our expertise in value creation.
- **Development triumphs**: Discover how we have successfully brought complex development projects to life, overcoming challenges with innovative legal solutions. Our portfolio includes iconic skyscrapers, mixed-use developments, and sustainable projects aligned with market demands.
- **Leasing milestones**: Delve into the world of leasing, where our practice facilitates agreements that benefit both landlords and tenants. From securing prime office spaces to revitalising retail areas, our team ensures mutually beneficial outcomes.
- **Diverse asset classes**: Across various property types such as offices, retail spaces, senior living and health care facilities, data centres, and the dynamic hospitality sector, we have achieved notable successes.

Each section offers insights into how we leverage our specialised knowledge to deliver maximum value for our clients.

Celebrating success

As we reflect on 2023, this report serves as a testament to our ongoing commitment to excellence and innovation, as well as an opportunity to celebrate the successes that our collective efforts have yielded. We are privileged to collaborate with clients who dare to dream big, and we are proud to champion their visions with unwavering dedication.

As we reflect on the achievements of the past year, we stand ready to harness these experiences to propel our clients towards new horizons in the evolving landscape of European real estate.

Jimmy Theodorou
Global chair of the Real Estate Practice
2021 - 2024

Investment – Foundations for future growth

Key takeaways

- *Investment activity in 2023 persisted but moderated compared to the robust performance in the first half of 2022.*
- *The weaker economic outlook prompted caution, leading some investors to divest for liquidity, yet the anticipated recession did not materialise.*
- *Despite a diverse investor base, limited opportunities, especially in the UK, prevailed due to hesitancy among European real estate owners.*
- *A resilient debt market strengthened the real estate sector, providing a solid foundation for sustained investment activity and the potential for future growth.*

The landscape of the real estate investment market in 2023 was defined by a confluence of factors shaped by the events of preceding years. The market found itself in a state of transition, navigating shifts in economic conditions, fluctuations in interest rates, and evolving investor sentiment.

Throughout 2023, investment activity persisted, albeit with a discernible moderation compared to the robust performance witnessed in the first half of 2022. The prevailing weaker economic outlook made investors cautious, prompting some to divest portions of their portfolios to bolster liquidity. Even cash-flush investors, typically opportunistic during economic downturns, found themselves navigating a challenging landscape. Contrary to expectations, the economic slowdown did not spiral into the anticipated recession, but it did result in a sluggish market characterised by unattractive stock and devoid of the distress opportunities that investors often seek.

The European real estate market remained bolstered by a diverse investor base, including foreign investment, which continued to play a pivotal role. The devaluation of the pound relative to other currencies, particularly the U.S. dollar, presented an intriguing dynamic with the potential to stimulate inbound investment. Despite the robust interest, particularly in the UK market, limited opportunities presented themselves in comparison to previous years. European real estate owners, exercising caution in the face of uncertainties, were reluctant to bring prime assets to the market, contributing to a scarcity of high-quality stock.

The presence of a resilient debt market further fortified the sector, laying a solid foundation for sustained investment activity and the potential for future growth.

Investment matter highlights

- Assisted a prominent UK investor in the acquisition by sale and leaseback of 20 holiday parks in the UK, valued at approximately £150 million. This was a complex deal, structured under two tranches with a condensed timeline, allowing only two months for the team to close the deal. Given the time pressure, the due diligence was a true team effort with 34 timekeepers assisting with the deal.
- Represented a luxury retail firm on the multimillion-pound acquisition of the Tiffany & Co. flagship store on Old Bond Street in the West End of London.
- Advised on the off-market acquisition of a four-star tourist and hotel residence near the centre of La Salle-les-Alpes.
- Acted on the multimillion-pound sale of Deansgate, a listed building in Manchester, offering mixed-use office and leisure facilities. The team also acted on the disposal of Stuart House, a prominent office building, Arrow industrial estate, and a commercial dock in Kent.

Infrastructure and development

Key takeaways

- *The demand for new construction in Europe declined in 2023 due to elevated interest rates and soaring building costs.*

- *Construction production in the EU remained consistent with the previous year until the final quarter, with sustainability efforts temporarily offsetting the contraction.*

- *High costs, influenced by economic weaknesses and the conflict in Ukraine, led to a slowdown in traditional construction, but alternative developments, especially in student accommodation and build to rent, demonstrated resilience.*

- *Developers adeptly adjusted to the challenges in 2023, with a focus on sustainability and a notable trend of repurposing existing buildings. Despite finance challenges, the infrastructure segment experienced steady demand and a shift towards renewable projects, driven by concerns over gas supply security.*

In 2023, there was a gradual decline in the demand for new construction in Europe, primarily attributable to elevated interest rates and soaring building costs. As of June, EU construction production maintained parity with the same period in the preceding year. Ongoing construction projects and a heightened emphasis on sustainability temporarily mitigated the contraction of construction deals until the final quarter of the year. However, as the backlog of work gradually dissipated, the late cyclical nature of the sector began to manifest signs of a slowdown, in response to prevailing economic weaknesses, high interest rates, and escalating building expenses.

The confluence of market dynamics and the ongoing conflict in Ukraine contributed to an increase in materials costs, further exacerbated by high interest rates, rendering financing more expensive. Consequently, the demand for traditional construction work softened due to the prohibitively high cost of development without a corresponding increase in anticipated returns. Nevertheless, amidst this shift, there remained a sustained demand for alternative developments, particularly in sectors such as student accommodation and build to rent, where market demand demonstrated greater resilience.

Generally, given the large scale and protracted timelines of development projects, developers are well accustomed to navigating economic cycles. In response to the challenges of 2023, many developers adjusted their schemes adeptly to align with market forces. There was also a notable trend in site location, with certain new developments situated in regional cities as a result of the surge in costs. Additionally, there was a discernible industry-wide focus on sustainability, with numerous developers opting to repurpose existing buildings rather than embark on entirely new construction projects. As well as being a cost saving method, this shift underscored a collective commitment to environmental responsibility and a reduction in carbon footprint within the construction sector.

In the infrastructure segment, despite being affected by the high costs of finance, demand remained steady, partly driven by necessity and by strategic government policy towards investment in order to drive economic growth. The extended lead times inherent in the infrastructure industry contributed to their resilience against short-term market volatility. Notably, there was a marked increase in renewable projects during the year, driven by concerns over the security of gas supply due to the conflict in Ukraine. Gas had been considered a reliably cheap and available fuel for power stations, but this is no longer the perception and the market shifted its focus and investments towards renewables, particularly wind and solar projects.

The Middle East remains a very active region, with significant ongoing infrastructure investment.

Infrastructure matter highlights

Petrochemicals complex
Advising on the development and financing of a petrochemicals complex in Egypt.

Onshore and offshore wind projects
Representing a leading wind turbine manufacturer in relation to a number of onshore and offshore wind projects globally, including advising on developments throughout Europe, the United States, and Asia.

Water purification facilities
Representing the project company in the negotiation of an engineering, procurement, and construction (EPC) contract for a series of desalination and water purification facilities in the Middle East.

Development matter highlights

The 3.5-hectare development of Holbeck and Temple in Leeds
Advising on the 3.5-hectare ongoing development of Holbeck and Temple in Leeds, consisting of over 1 million square feet of commercial and residential space with outdoor food and leisure facilities, including ongoing discussions with the British Library North, which itself is undergoing a £75 million transformation. We have assisted in relation to the site assembly, right of light advice, construction, and lettings, and we hope to continue to provide support through the next 10 years of this project as more buildings are developed.

The construction of helipads and aircraft hangars at Oxford Airport
Advising on the construction and development of a purpose built airbus facility, including the construction of new helipads and hangars, at Oxford Airport and the subsequent leasing of them.

Mixed-use development in Mayfair
Advising on a mixed-use development site in the heart of Mayfair, which will comprise 30 super prime apartments, office space, food and beverage outlets, and a gym.

The development of a new hospital in Bad Homburg
Advising on the development of a new hospital in Bad Homburg, Germany. The hospital is designated to function as a rehabilitation hospital and is recognised as one of Europe's foremost institutions in establishing and advancing standards for the rehabilitation of physical cerebrospinal injuries.

Edgbaston build to rent scheme
Acted on all development aspects of a new 375 build to rent apartment project within the grounds of Edgbaston Stadium in partnership with Warwickshire Cricket Club and Homes England. Our role included drafting and negotiating contracts, advising on risk, performance guarantees, and project timelines. We also provided strategic guidance on overage obligations, covenants, and secured compliant financing arrangements. Leveraging our experience, we skilfully negotiated favourable terms, striking a balance between proficiency and cost-effectiveness.

Mixed-use scheme in North West London
Advised on the purchase of a mixed-use building in Cricklewood, North West London. The client intends to fully redevelop the building into a mixed-use scheme.

Sale of earmarked development site in Chalfont St Giles
Advised on the complicated share sale of Little Chalfont Park in December 2023. The green belt development site has planning permission for 480 homes, a care home, school and clinic. In the months leading up to the sale, the team also negotiated an option agreement with London Underground Limited to build a bridge over the adjoining railway – a planning requirement for the development.

Leasing – Shorter terms but no big-city exodus

Key takeaways

- *In response to economic uncertainty in 2023, there was a notable increase in short-term renewals of existing leases as tenants preferred flexibility amidst instability.*
- *Leasing activity was significantly influenced by location. Major cities like London, Paris, Frankfurt, and Munich experienced low vacancy rates in central areas, while suburban regions faced high vacancy rates, posing challenges for landlords.*
- *The significance of ‘quality’ played a crucial role. Grade A spaces with top-tier amenities attracted tenants, albeit at a premium cost. Nearly new spaces, being cost-effective and environmentally friendly, created a competitive scenario where repurposing existing structures became an advantageous alternative for developers.*

Against the backdrop of the uncertain economic landscape in 2023, there was a noticeable surge in short-term renewals of existing leases. Tenants, wary of committing to new positions amidst economic instability, opted for the flexibility provided by these shorter lease terms. Throughout the year, the pivotal factor shaping leasing activity was location. In the centre of major cities, such as London, Paris, Frankfurt, and Munich, tenant vacancy rates remained low. However, demand declined steeply when moving away from the centre, resulting in high vacancy rates in suburban regions, which posed a challenge for landlords in securing tenants.

The significance of ‘quality’ emerged as another influential factor. Grade A spaces, characterised by top-tier amenities and infrastructure, were highly attractive to tenants, albeit at a premium cost. Meanwhile, nearly new spaces, while still appealing, presented a more cost-effective and environmentally friendly option for both developers and tenants. This nuanced dynamic created a scenario where, for developers, the prospect of repurposing existing structures became a more competitive alternative to initiating entirely new builds. The cost-effectiveness of repurposing, coupled with the continued allure of nearly new spaces, provided a strategic advantage in a market where fiscal prudence and quality considerations are paramount.

Leasing matter highlights

The EQ building, Bristol

Acted on the pre-let of the third and fourth floor of the EQ building in Bristol to HSBC and Evelyn Partners. Located in the heart of Bristol city centre, the 200,000 square foot EQ scheme is the largest speculative office development underway in the south of England and is set to achieve landmark sustainability credentials, being carbon net zero in operation and rated BREEAM ‘Outstanding.

Globe Point development, Leeds

Acted on the leasing of the ground, third, fourth (Reed Smith Leeds office), fifth, and sixth floors of the 40,430 square foot Globe Point development, a seven-storey office development on Globe Road within the Temple district of Leeds. Designed to BREEAM rating ‘Excellent,’ the floor plan maximises natural daylight to deliver healthy, flexible workspaces and the upper floors include terraces that provide spectacular views across the city from the roof gardens.

Commercial Letting at the Mondrian Hotel

Facilitated the leasing process for a private members club and bar at the Mondrian Hotel, Shoreditch, securing Blue Marlin as the new tennant. As a beacon of refined taste and exclusiveness, Blue Marlin will add an extra layer of prestige to the Mondrian Hotel, enhancing its reputation as a destination for those who seek the epitome of luxury in every facet of their experience.

Leasing of GolfWang’s European flagship store

Represented GolfWang, a U.S. streetwear brand established by Tyler, the Creator, in connection with the leasing of 57–59 Beak Street, central London, that will become the brand’s flagship store in Europe. GolfWang's presence in London marks a significant stride in the brand's global expansion, blending urban aesthetics with the city's diverse cultural tapestry.

Litigation – Insolvencies and new rules

Key takeaways

- *Europe experienced a notable increase in insolvencies in 2023, driven by high interest rates and reduced disposable income, particularly affecting the UK with national brands filing for administration.*

- *The rise of restructuring arrangements in the UK, exemplified by the Fitness First case, highlighted the courts' support for tenants in an effort to save businesses, impacting landlords and revealing the fragile state of high street brands.*

- *The UK Telecoms Code and the Building Safety Act 2022 eroded landlords' positions, favouring telecom operators and imposing stringent restrictions on recovering safety-related costs. These developments emphasised a shift in the legal landscape towards occupants' rights and safety concerns.*

- *The UK Economic Crime (Transparency and Enforcement) Act, aimed at combating money laundering, brought increased transparency at the Land Registry, imposing penalties and restrictions for non-compliance, with registration deadlines for offshore landowners.*

- *The UK Levelling-up and Regeneration Act, aimed at rejuvenating the high street, faced challenges amid retail closures and job losses. In Paris, the 'PLU bioclimatique' reform introduced new town planning regulations, requiring commercial properties to allocate space for social housing, reflecting a broader push for affordable housing and climate adaptation.*

In 2023, Europe grappled with a surge in insolvencies driven by high interest rates and reduced disposable income, introducing a layer of uncertainty for landlords. Tenants who had negotiated lease concessions during the pandemic now faced post-pandemic rent increases. In the UK, especially, the cost of living and energy crises, together with rental hikes and heavy rates liabilities, resulted in a stream of insolvencies, with national high street brands such as Joules, Wilko and Hunter filing for administration. 2023 witnessed a rise in dilapidations and service charge disputes where landlords sought to repair or renew ageing infrastructure in an already difficult environment for tenants struggling to keep their heads above water. The accelerated pace of shop closures shed light on the fragile state of businesses and the broader impact of UK business rates on high street brands. Despite a 2023 revaluation reflecting pandemic impacts, adjustments fell short for struggling high street businesses.

In 2023, the insolvency backdrop to the UK real estate litigation landscape was brought into sharp focus by the rise of restructuring arrangements. At the beginning of the year, this was exemplified by the Fitness First case, where the courts supported Fitness First against its landlords based on its argument that 'in the money' creditors would be better off in the arrangement than in the insolvency alternative – in this case administration. In this and other restructuring cases in 2023, landlords were repeatedly crammed down as an asset class in favour of other creditors in an effort to save the tenant business.

UK landlords' position was further eroded by the UK Telecoms Code, which continued to prioritise operators over landowners, enabling telecom operators to automatically upgrade telecom apparatus and apply for limited rights of access to land. Further, in the wake of the Grenfell Tower disaster, the Building Safety Act 2022, which came into force gradually in 2023, brought about significant changes in landlords' and developers' liability for fire safety. Notably, it imposed stringent restrictions on landlords attempting to recover the costs of safety-related works for buildings exceeding 11 metres in height through service charges. Collectively, these developments underscored a shifting legal landscape in favour of occupants' rights, infrastructure development, and safety concerns in the UK real estate sector.

The start of 2023 marked the registration deadline for offshore landowners under the UK Economic Crime (Transparency and Enforcement) Act, aimed at combating money laundering. The Act increased transparency at the Land Registry, making it challenging to conceal property ownership through offshore companies and trusts. Failure to register by the deadline resulted in criminal penalties, daily fines, imprisonment of officers, and – perhaps the most effective sanction – having restrictions placed on titles at the Land Registry, preventing property transactions from proceeding to registration.

Against this backdrop, the UK government's initiatives, including the Levelling-up and Regeneration Act, aim to breathe new life into the high street but are encountering challenges as businesses navigate the financial burden of business rates. Retail closures and job losses underscore the pressing need to address the broader economic context, emphasising the importance of nuanced considerations in commercial property valuation amidst sector-specific pandemic impacts.

Meanwhile, the adoption of the new town planning regulation in Paris, the '*PLU bioclimatique*', reformed the city's building regulations, requiring commercial properties exceeding 5,000 square metres to devote 10% of their space to social housing. This reform reflected the municipality's desire to increase the supply of affordable housing and adapt the city to climate change. In specific zones targeted for residential development, large commercial buildings would need to include a minimum proportion of residential space during sale, conversion, or major redevelopment. Planned for implementation by 2024, these bioclimatic rules faced a tight schedule, prompting most commercial developments in Paris to expedite completion before 2024 to avoid the provision of social housing.

Litigation matter highlights

Advice on obtaining vacant possession
Advising an institutional developer on obtaining vacant possession of over 40 business premises and assisting with disputes arising in respect of those tenancies protected under the Landlord and Tenant Act 1954. The London team also advised on obtaining vacant possession of Sackville House.

Right of light issues
Advising on contentious right of light issues in relation to a major multimillion-pound mixed-use development.

Telecommunications
Representing landowner clients against the erection of unwanted telecommunications infrastructure on their property under the new UK Telecoms Code.

Boundary and easement disputes
Advising in relation to boundary disputes, easement disputes, adverse possession, and trespass issues arising at a client's racecourse property.

Modernisation of leases
Providing extensive advice to a landlord of a portfolio of 140 properties across England and Wales regarding the modernisation of leases, as well as the inclusion of new terms pursuant to recent Landlord and Tenant Act 1954 case law.

Compensation disputes
Advising a hotel developer in a dispute over compensation recoverable from National Highways in respect of highways works carried out at the property.

Misrepresentation and breach of contract disputes
Advised a high net worth individual on the purchase of a super prime £13 million residential property in Mayfair and options for rescission due to misrepresentation and unjust enrichment regarding the deposit.

Contested applications
Advising clients on contested applications to assign or carry out alterations under leases.

Appointing receivers and obtaining possession
Appointing receivers to act in the management and disposal of a high net worth individual's properties; obtaining possession and sale orders.

Logistics - Resilient market reaching saturation

Key takeaways

- *Investor interest in logistics remains strong despite challenges.*
- *The UK logistics market is entering a saturation phase post-COVID-19, resulting in a substantial buy-in for new entrants seeking to capitalise on space scarcity.*
- *The European self-storage market shows overall stability, but some regions exhibit signs of weakening due to sluggish occupancy growth and rental rates.*

Investor interest in the logistics sector has demonstrated remarkable resilience, with transactional activity maintaining momentum. This enduring appeal was chiefly propelled by third-party logistics providers seeking heightened supply chain flexibility. Anticipated to persist, low vacancy rates are foreseen as build-to-suit projects become increasingly prevalent. However, the landscape presents challenges, with the elevated cost of financing and higher exit yields rendering speculative development more complex.

In the UK, the logistics market is beginning to enter a saturation phase, having experienced a slowdown post-COVID-19. The surge in demand for warehouses and logistics facilities, particularly those in proximity to airports and essential travel links, has outpaced available space. Exacerbating the situation, soaring construction costs have negatively impacted yields and rental returns, diminishing the appeal of new logistics developments. Consequently, a notable trend has emerged – a substantial buy-in for new entrants seeking to capitalise on the scarcity of available space and the sector's inherent value.

The European self-storage market exhibits overall stability, though certain regions show signs of weakening, attributed to sluggish occupancy growth and rental rates. The adoption of self-storage, a trend originating in the United States, reflects evolving consumer behaviour and changing business needs. Notably, Germany – a late entrant to the self-storage market – is experiencing a surge in interest, especially in Eastern regions where prices are lower. An industry that was previously nascent in Germany now presents investors with a distinctive opportunity to capitalise on a hitherto untapped market.

Logistics matter highlights

Acquisition of a logistics warehouse in France

Advised on the off-market acquisition of a 50,405 square metre logistics warehouse located in Pont-d'Ain. The logistics warehouse, which is aiming for a 'Very Good' BREEAM rating, has 1,047 square metres of office space and 229 parking spaces, including 15 for heavy goods vehicles, and its roof is entirely covered with photovoltaic panels.

Financing and pre-lets of an industrial park

Acted on the financing of a multi-let industrial park in Preston and the subsequent first and second major pre-lets to DHL and DPD. The park, located to optimise logistical efficiency, offers state-of-the-art facilities to accommodate a diverse range of industrial tenants. The successful negotiation and execution of the first and second major pre-lets to industry giants DHL and DPD further solidify the park's position as a hub for leading logistics companies, contributing significantly to the local economy and reinforcing its appeal as a prime industrial destination in Preston.

Leasing of a logistics centre

Advised TK Maxx in connection with the leasing of a 450,000 square foot logistics centre at Crewe Commercial Park. The Crewe Commercial Park logistics centre is strategically designed to meet the evolving demands of modern commerce, providing TK Maxx with an expansive, cutting-edge operational space to enhance their supply chain capabilities.

Health care and senior living

Key takeaways

- *Sustained allure of health care investment driven by a demographic shift towards an ageing population.*
- *Extended lease terms in the health care sector provide investors with a stable and predictable revenue stream, ensuring long-term financial viability.*
- *Commitment to ethical and sustainable practices in the health care sector resonates with investors prioritising responsible and socially conscious investment approaches.*

Our reputation in the senior housing and long-term care industry spans more than 40 years and is built upon a multidisciplinary group of real estate, regulatory, corporate, and finance lawyers devoted to the senior housing and long-term care real estate market.

The senior living market in Europe continued to attract robust health care investment throughout 2023. Investors remain captivated by the sector's resilience, propelled by the unwavering demand from occupiers, extended lease terms, and the strategic potential for implementing effective environmental, social, and governance (ESG) strategies.

The sustained allure of health care investment is underpinned by the demographic shift towards an ageing population, emphasising the enduring demand for senior living facilities. The extended lease terms characteristic of this sector offer investors a stable and predictable revenue stream, fostering long-term financial viability. The health care sector's commitment to ethical and sustainable practices also resonates with investors, who prioritise responsible and socially conscious investment approaches.

Health care and senior living matter highlights

Acquisition of a Senior Assisted Living Facility
Advised on the acquisition of strategically located senior assisted living facilities in Amiens, Alfortville, and Dijon. Emphasising geographical diversification, this investment responds to the rising demand for senior assisted living services in these communities. Tailored to the unique requirements of senior residents, the facilities in Amiens, Alfortville, and Dijon prioritise well-being and community engagement, contributing to a supportive and enriching living environment.

Care Home Development
Advised on the development of care homes in Peterborough, Burleigh, and Eastbourne. Each project is carefully customised to meet the specific demands of its location, showcasing our commitment to fostering sustainable and purpose-driven developments across the UK's diverse geographic contexts.

Redevelopment of Ravenscourt Hospital
Advised on the ongoing transformation of Ravenscourt Hospital, West London's largest available redevelopment site, into a versatile mixed-use scheme. This redevelopment includes a significant component of 'later living' apartments, addressing the evolving real estate landscape in the region. This approach underscores a commitment to unlocking the potential of prime locations for diversified and community-centric development, catering to the dynamic needs of the local community.

Hospitality

Key takeaways

- *A notable rebound in the hotel industry as it experienced its first COVID-19-free year since 2019.*
- *High-end leisure is particularly promising, driven by the prioritisation of travel for younger generations and elevated expectations for immersive experiences.*
- *Corporate travel faced challenges post-COVID-19 but saw increased demand for small corporate meetings, incentives, conferences, and exhibitions (MICE).*

On the operational front, the hotel industry experienced a resurgence in 2023, revelling in its first full year without the constraints of COVID-19 since 2019. The landscape for high-end leisure looked promising in both the short and long term, driven by the prioritisation of travel for younger generations and the significantly elevated expectations surrounding their experiences. The contemporary traveller seeks not just accommodation but a high-end, immersive experience. This shift in consumer expectations has catalysed a renaissance in the hospitality sector, positioning it as a key focus for both operators and investors alike.

While corporate travel has declined since the onset of COVID-19 and faced additional budgetary constraints amidst broader economic challenges in 2023, there was a discernible uptick in demand for small corporate meetings, incentives, conferences, and exhibitions (MICE)..The operational fundamentals of the hotel industry proved enticing, contributing to growing investment volumes throughout the year.

However, the sector now confronts new challenges, including heightened focus on environmental, social, and governance (ESG) issues, global economic volatility, and evolving consumer behaviours. Stakeholders demand increased sustainability efforts, compelling the industry to assess and mitigate its environmental impact.

Hospitality matter highlights

- **Refinancing of Hilton Hotel**
  Advised on the refinancing of London Hilton on Park Lane.
- **Redevelopment of Cambridge House**
  Advising on all aspects of the redevelopment of Cambridge House (formerly the In and Out Club) into a five-star hotel with residential and commercial elements.
- **Acquisition of a four-star hotel in the Alps**
  Advised on the off-market acquisition of a four-star tourist and hotel residence near the centre of La Salle-les-Alpes.
- **Redevelopment of a fire and police station**
  Advising on the redevelopment of a landmark fire and police station in Newcastle into a high-end luxury hotel with a restaurant, bar, and café.
- **Redevelopment of Admiralty Arch**
  Advising on the redevelopment of Admiralty Arch to convert the historic landmark into a luxury hotel under the Waldorf Astoria brand. Revised plans incorporate an expanded room count and an exclusive spa, along with the introduction of a two-bedroom suite offering the 'most sensational view of Buckingham Palace'. Positioned at the centre of the building on the fourth-floor bridge, the suite will be available for overnight stays and private events. The hotel is set to showcase restaurants and bars curated by world-renowned chefs. Additionally, it will highlight two outdoor spaces – an expansive sixth-floor rooftop terrace and a ground-floor terrace – providing guests with picturesque views of St James' Park.

In January 2023, we released our "Tomorrow's Hospitality A-Z guide", examining the challenges posed by the COVID-19 pandemic to the global hospitality industry. The sector responded with swift digitalisation, cost-cutting, and innovative repurposing of real estate. Despite the initial setbacks, the industry has displayed resilience and innovation, with many thriving businesses now exploring opportunities in emerging trends like the metaverse, wellness, and sustainable travel.

Click on image to view the "Tomorrow's Hospitality A-Z guide".

Retail – Inflation and proactive repurposing

Key takeaways

- *Higher inflation in 2023 led to a decline in disposable income across Europe and this weaker consumer sentiment resulted in shop closures, administration of national brands, and challenges for various high street retailers.*

- *Despite the accelerated shift to online platforms during the pandemic, 2023 saw increased consumer demand for the return to physical retail. Pop-up stores proliferated, providing in-store experiences and flexibility, but consumer preference was primarily focused on shopping centres and outlets offering a comprehensive day out.*

- *Cessation of tax-free shopping for tourists in the UK, part of Brexit plans, led to significant impacts on luxury brands, prompting urgent calls for policymakers to address issues and ensure the sector's vibrancy.*

As a result of higher inflation, disposable income fell across Europe in 2023, which pinched consumer purchasing power. Weaker consumer sentiment manifested through shop closures across Europe and multiple national high street brands, such as Joules, M&Co, Wilko, Hunters, and Paperchase in the UK, fell into administration. However, supermarkets and food-anchored retail remained resilient, despite higher prices reducing profit margins. The cosmetic industry also remained surprisingly buoyant, partially explained by the 'lipstick effect', a term coined to explaining the demand for small indulgences during a squeeze on incomes.

Despite the acceleration of the consumer shift towards online platforms during the COVID-19 pandemic, 2023 witnessed a notable surge in heightened consumer demand for the return to physical retail. This resurgence was evident through a proliferation of pop-up stores, a trend appealing to consumers in search of an in-store experience, while also providing flexibility for retail occupants not bound by long-term leases. Unfortunately, despite its potential to aid the struggling high street, this consumer preference fell short as demand was predominantly focused on shopping centres and outlets – retail locations featuring expansive stores and a range of amenities such as parking, cafés, supermarkets, and restaurants, collectively offering a full day out.

Retail centres adapted to these evolving consumer preferences proactively by repurposing themselves, introducing additional leisure amenities such as cinemas, virtual reality experiences, gyms, and museums. A notable example is the integration of virtual reality experiences at Westfield London, a large shopping centre located in White City, West London. In the post-COVID-19 era, the modern shopping experience goes beyond the transactional; people now value the mixed-use environment of shopping centres, enjoying leisure offerings, gyms within the premises, food courts, and a diverse range of amenities.

The luxury retail industry in the UK faced a unique set of challenges, particularly regarding its reliance on overseas customers. While luxury retail tends to be the most resilient segment of the industry in economic downturns, the UK luxury market was significantly affected in 2023 as a result of recent tax changes. The cessation of tax-free shopping for tourists, implemented at the end of 2020 as part of the government's Brexit plans, has discouraged overseas customers from buying in the UK, profoundly impacting the retail landscape and costing the UK an estimated US$14 billion in lost GDP. Prominent luxury brands, including Gucci, Tiffany, and De Beers, have voiced their concerns through an open letter to the UK government, urging a reconsideration of plans to end tax-free shopping. The consequences have been so severe that luxury brands in airports are refraining from renewing leases, citing a significant decrease in footfall as a deterrent. This underscores the urgency for policymakers to address the challenges faced by the luxury retail sector to ensure its continued vibrancy and contribution to the broader retail landscape.

Retail matter highlights

The extension and refurbishment of Heal's on Tottenham Court Road

Assisted the high-end furniture retailer Heal's in extending and refurbishing its original London store on Tottenham Court Road. The refurbishment has doubled the shop frontage to 100 metres of windows along what is known as London's furniture street and significantly rearranged the store's interior to cater to the demands of the modern home.

Sale of a retail property in Halbach, Germany

Advised a long-standing real estate investment client on the sale of a retail property, including a multi-storey car park and adjoining office space, in Halbach, Germany. The advice mainly covered the preparation of the sale (including due diligence information), the negotiation with neighbours on easement creations, the negotiation of the purchase agreement, and the related documentation, as well as the notarisation.

Offices – Reviewing needs, prioritising sustainability

Key takeaways

- *The trend of regearing during COVID-19 has shifted to a more strategic approach, with tenants choosing flexible arrangements and shorter lease terms rather than subletting options.*
- *Despite an overall decrease in demand, the consistent requirement for top-tier office spaces, sustainable standards, and high-specification features remains high.*
- *Divergent approaches to the return-to-work policies across Europe have given rise to disparate conditions in the continent's office markets.*

The flexible working model, which has become a cultural norm post-COVID-19, has prompted firms to reassess their office space needs, leading many to consider downsizing while prioritising higher quality and improved amenities. Notably, a significant portion of office space in the construction or refurbishment pipeline, set for completion in 2023, quickly secured pre-lease agreements. The consistent requirement for top-tier office spaces ensured that the necessity for new developments or refurbishments remained high, even in the face of an overall decrease in demand.

Clients are increasingly prioritising sustainable and energy-efficient standards such as BREEAM and EPC. High-specification spaces are in great demand and tend to be swiftly snapped up. Conversely, smaller offices that have not undergone refurbishment are finding favour among potential occupants looking to scale down their space requirements.

The trend of regearing, prevalent during the COVID-19 era, has given way to a more strategic approach among clients. Tenant break clauses have become common, reflecting a shift in priorities. While the subletting market lacks robustness, tenants are opting for more flexible arrangements, often choosing to terminate leases or negotiate shorter terms rather than pursue subletting options. This strategic manoeuvring demonstrates a nuanced and pragmatic approach by clients as they navigate the evolving landscape of office space dynamics.

Office buildings have thrived as a robust market in the UK; however, the narrative differs across the rest of Europe. In Germany, the return to the office post-COVID-19 has been less flexible than in the UK, leading to a significant contraction in deal flow within the office market. The migration of many Germans to the countryside during the pandemic has posed a challenge to the country's swift return to pre-COVID-19 market levels.

Moreover, larger firms and financial institutions throughout Germany seem to have embraced the popularity of remote work. Unlike their counterparts in the UK and the United States, German firms are not insisting on employees returning to the office. Commerzbank, Germany's second largest private bank, announced in November 2023 that it plans to leave the decision on mobile and flexible working to individual teams. This trend is evident in the office take-up rate in Germany, which was 30% lower in 2023 compared to the previous year.

While French culture leans more towards a return to the office, in Paris, the '*PLU bioclimatique*' underscores the municipality's desire to decrease the amount of office space. Following this reform's announcement, numerous office developments have been repurposed into hotels to circumvent the social housing ruling.

Office matter highlights

- **Multimillion-euro office acquisition in Paris**
  Representing an asset management firm in connection with the multimillion-euro acquisition of an office building in the west of Paris, rented to several tenants, on an off-market basis.

- **Pre-let agreements for a landmark office building in Mayfair**
  Executed the pre-let agreement for the second and sixth floors of a 67,568 square foot landmark office building in Mayfair. This new development seamlessly integrates premium amenities and unmatched connectivity with contemporary aesthetics. It also proudly holds exemplary sustainability credentials, meeting the BREEAM rating of 'Excellent'.

- **Expansion of office space for corporate occupier**
  Acted on the expansion of office space for a corporate occupier in a City of London property, including adding four extra floors to their previous lettings, equating to approximately 81,000 square feet.

- **Multimillion-pound acquisition of Wellbar Central**
  Advised on the multimillion-pound acquisition of Wellbar Central, a prominent office building in Newcastle.

Data centres – Energy consumption is central

Key takeaways

- *Despite limited power availability, there is a growing demand for new data centre developments, contributing to a decline in vacancy rates globally.*

- *Challenges such as low supply, construction delays, and power shortages have created a worldwide supply shortage, leading to increased prices for data centre capacity.*

- *A critical issue lies in the over-allocation of energy during data centre construction, presenting an opportunity for sustainable practices through legal frameworks that align energy allocation with actual needs, mitigating strain on power availability.*

- *Data centre owners and operators are increasingly exploring and harnessing the potential of waste heat, adopting innovative strategies for sustainability.*

Despite limited power availability, the demand for new data centre developments is on the rise, contributing to a decline in vacancy rates. A confluence of factors such as low supply, construction delays, and power shortages has intensified the demand for data centres, creating a worldwide supply shortage and subsequently leading to price increases for data centre capacity.

There has been significant year-on-year growth in data centre supply in key hubs such as Frankfurt, London, Amsterdam, and Paris. However, a critical challenge in the market is the scarcity of available power. The inherent issue lies in the fact that each time a data centre is built, there is a reservation of more energy than is actually needed. This over-allocation of energy results in more reserved energy than the data centre requires.

Addressing this challenge presents an opportunity to channel surplus energy back into the market, rather than constructing additional power lines or nuclear plants. A strategic solution lies in legal frameworks that enable a decrease in the energy reserve, aligning the energy allocation more closely with the actual needs of the data centres. By optimising energy usage and reducing unnecessary reserves, the industry can mitigate the strain on power availability, foster sustainability, and enhance the overall efficiency of data centre operations.

Moreover, we observed a growing trend among data centre owners and operators who are actively exploring and harnessing the potential of their waste heat. An increasing number of them are adopting innovative strategies to repurpose the heat generated within their facilities, contributing to sustainable practices. Notably, some entities are engaging in initiatives where they redirect this excess heat to warm nearby homes and other buildings in the local community. This forward-thinking approach not only minimises the environmental impact by repurposing waste heat but also demonstrates a commitment to community engagement and responsible resource utilisation within the broader framework of sustainable business practices.

Data centres matter highlights

- **Construction contracts for data centre developments throughout Europe and the Middle East**
  Advising on one of the world's leading data centre owners and operators on its construction contracts for its suite of data centres throughout Europe and the Middle East. Our work includes developing a number of standard contracts, based on FIDIC, on a framework basis and advising on negotiations with multiple contractors.

- **Acquisition of a 70,000 square metre site from Coca-Cola for the construction of a data centre**
  Advised on the multimillion-euro acquisition of an approximately 70,000 square metre site from Coca-Cola for the construction of a data centre and ancillary facilities.

- **Developing the potential to repurpose waste heat from data centres**
  Assisting Equinix with a project to further develop the potential of waste heat in two of their data centres in Germany.

Reed Smith European real estate – About us

European offices with real estate industry focused lawyers

Athens
Brussels
Frankfurt
London
Munich
Paris

A European offering of over

80 real estate industry focused lawyers working across

6 offices

in Europe

With **39** core real estate lawyers and over **80** real estate industry-focused lawyers based in key locations across Continental Europe, we can advise on the full range of real estate matters.

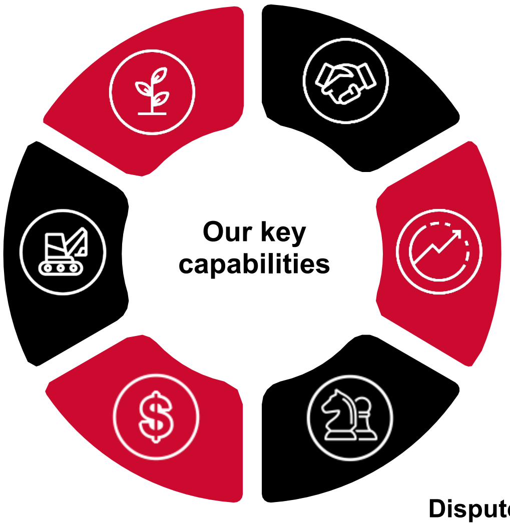
How we can assist

Investment

With experience across the range of real estate investments, including corporate and asset sales, limited partnerships, real estate investment trusts, joint ventures, property funds, private equity funds, and sale and leaseback transactions, we have the knowledge necessary to ensure your investments run smoothly.

Landlord and tenant

Our lawyers will help all parties involved in your landlord-tenant relationship reach the agreements needed for your mutual success. We can offer you advice on local, regional, and international matters in all asset classes including office, hotels and leisure, retail, industrial, and unique sub-markets.



Development

From single asset redevelopment to 1,000+ unit mixed-use sites, we have the ability and knowledge to advise on your projects from concept to completion. Calling on years of experience, we can help you turn your plans into profitable and attractive developments.

Corporate

Whether for M&A, capital markets, or private equity transactions, or any type of commercial matter, we combine vast experience from working with some of the world's most successful and sophisticated businesses with a wealth of knowledge of local law and business practice. We help you manage the now and anticipate the next.

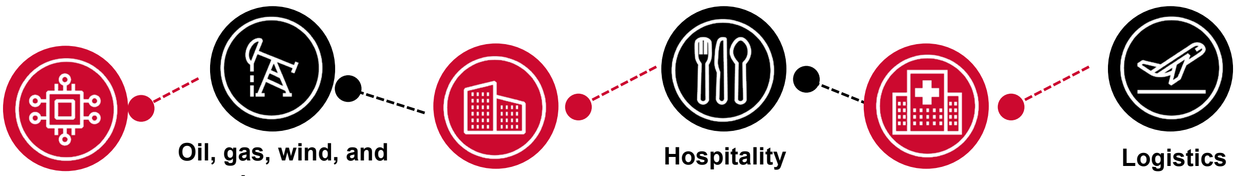
Finance

Our team has the experience to help you with all types of real estate financing and deal structures, including loans, commercial mortgage-backed securities, construction lending, revolving loans, New Market Tax Credit lending, tax exempt bonds, and enterprise zone bonds.

Disputes

You need practical commercial advice when facing contentious real estate issues, be it advice on risk management or on handling a complex investment dispute. Our breadth and depth of experience when dealing with disputes is considered invaluable by our clients, including some of the best known and most active players in the real estate industry.

Key asset classes



- Data Centres
- Oil, gas, wind, and solar energy projects
- Commercial
- Hospitality
- Health care and senior living
- Logistics

Our European real estate team

Jimmy Theodorou
Partner
London
+44 (0)20 3116 2906
jtheodorou@reedsmith.com

Joanna M. Carter
Partner
London
+44 (0)20 3116 2862
jmcarter@reedsmith.com

Richard Ceeney
Partner
London
+44 (0)20 3116 2863
rceeney@reedsmith.com

Sarah Cunningham
Partner
London
+44 (0)20 3116 2884
scunningham@reedsmith

Nick Harris
Partner
London
+44 (0)20 3116 2988
nharris@reedsmith.com

Harald Francisco Heller
Partner
Frankfurt
+49 (0)69 222289 812
hheller@reedsmith.com

Stephane Illouz
Partner
Paris
+33 (0)1 76 70 40 39
sillouzr@reedsmith.com

Andrew P. Jenkinson
Partner
London
+44 (0)20 3116 3405
ajenkinson@reedsmith.com

Daniel Kyriakides
Partner
London
+44 (0)20 3116 3644
dkyriakides@reedsmith.com

Dr. René Lochmann LL.M.
Partner
Munich
+49 (0)89 20304 130
rlochmann@reedsmith.com

Prof. Dr. Martin Meißner
Partner
Frankfurt
+49 (0)69 22228 9810
mmeissner@reedsmith.com

Brigid A. North
Partner
London
+44 (0)20 3116 3492
bnorth@reedsmith.com

Lawrence Radley
Partner
London
+44 (0)20 3116 3539
lradley@reedsmith.com

Graham M. Reid
Partner
London
+44 (0)20 3116 3546
greid@reedsmith.com

Dr. Etienne Richthammer
Partner
Munich
+49 (0)89 20304 140
erichthammer@reedsmith.com

Laura Riddeck
Partner
London
+44 (0)20 3116 3489
lriddeck@reedsmith.com

Nav Sahota
Partner
London
+44 (0)20 3116 2853
nsahota@reedsmith.com

Carole Steimlé
Partner
Paris
+33 (0)1 86 65 42 19
csteimle@reedsmith.com

Reed Smith is a dynamic international law firm, dedicated to helping clients move their businesses forward.

Our belief is that by delivering smarter and more creative legal services, we will not only enrich our clients' experiences with us, but also support them in achieving their business goals.

Our long-standing relationships, international outlook, and collaborative structure make us the go-to partner for the speedy resolution of complex disputes, transactions, and regulatory matters.

For further information, please visit reedsmith.com.

ABU DHABI
ASTANA
ATHENS
AUSTIN
BEIJING
BRUSSELS
CENTURY CITY
CHICAGO
DALLAS
DUBAI
FRANKFURT
HONG KONG
HOUSTON
LONDON
LOS ANGELES
MIAMI
MUNICH
NEW YORK
ORANGE COUNTY
PARIS
PHILADELPHIA
PITTSBURGH
PRINCETON
RICHMOND
SAN FRANCISCO
SHANGHAI
SILICON VALLEY
SINGAPORE
TYSONS
WASHINGTON, D.C.
WILMINGTON

reedsmith.com