

EMEA Office Market Dynamics

Q1 2024

Research

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Despite optimistic sentiment across Europe, improvement to occupational markets yet to materialise in Q1



The European Office Prime Rental Index continued to increase at a faster pace, growing by +1.8% q-o-q and +6.5% y-o-y.



Q1 2024 take-up totalled 2.0 million sqm, down 7% y-o-y and 17% below the Q1 5-year average.

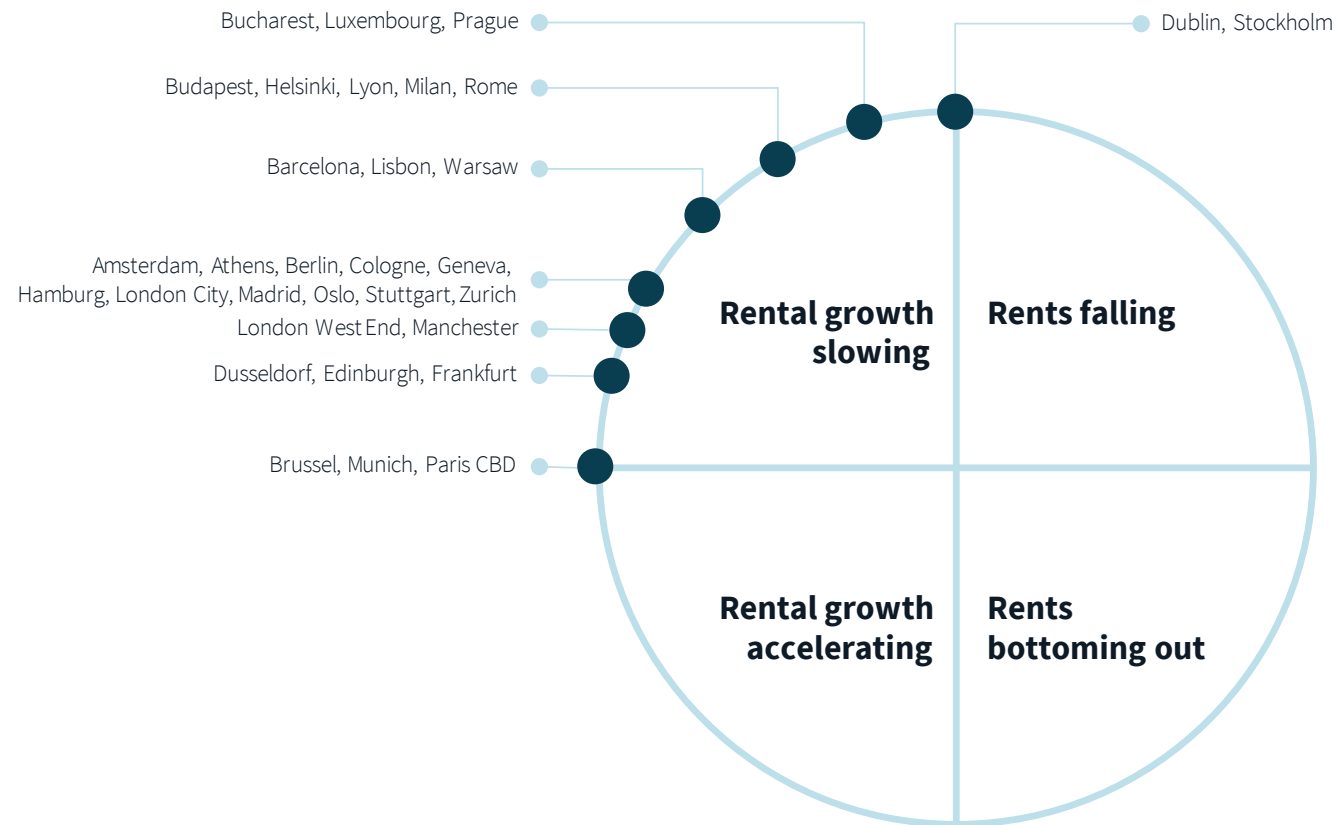


European office vacancy increased slightly q-o-q from 8.0% to 8.1% in Q1 2024, the highest rate since Q4 2015.



Completions totaled 1.2 million sqm in Q1 2024, with Paris, Berlin, Munich, and London accounting for the lion's share of European office completions.

European offices rental clock Q1 2024



Economic overview

In Europe, inflation continued its downward path. Headline Eurozone inflation dropped from 2.9% in December to 2.6% in March, while the core rate saw a slightly larger drop from 3.4% to 2.9%. For the UK, the drop in February and further decline in March gave reassurance that the three-month plateau at 4% did not indicate the floor for the current inflationary path. As inflation approaches the 2% rate targeted by central banks, the pace of decline has slowed, and a levelling off at or slight above this mark is expected in the second half of the year. Policy interest rates remained on hold at the main central banks during the quarter, as they assessed the strength of price pressures. As of mid-April, markets were pricing in one cut by the ECB in June with the possibility of a further move in H2; while in the UK the BoE is expected to make three 25 basis points cuts before year-end, with the first likely in August. Elsewhere in Europe, Switzerland initiated its monetary easing cycle, and the central banks of Hungary and Czech Republic continued cutting rates. Economic performance over the quarter was weak overall albeit mixed, and on an improving trajectory. Growth rates for 2024 are forecast to be broadly in line or slightly higher than in 2023 for most markets, with the quarterly pace of growth increasing as we move toward 2025.

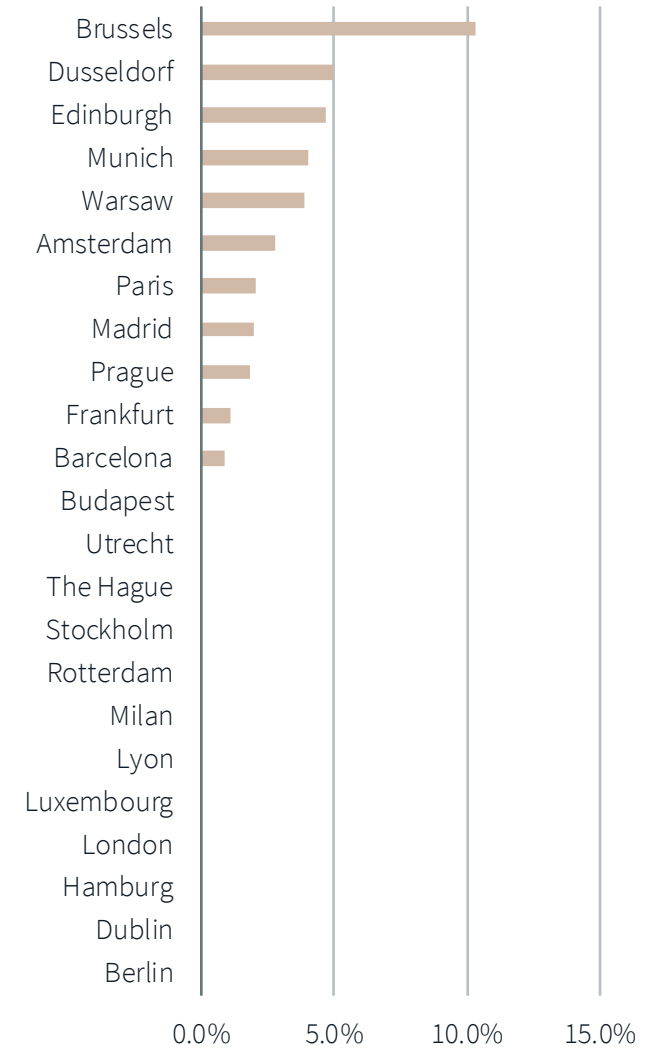


01 Office rents

The European Office Rental Index continued to increase in Q1 2024 (+1.8% q-o-q). At 6.5%, annual European office rental growth remains well above the 10-year average of 3.9%.

Rental increases were witnessed in 11 of 23 Index markets including Brussels (+10.3% q-o-q), Dusseldorf (+5.0% q-o-q), Edinburgh (+4.7% q-o-q), Munich (+4.0% q-o-q) and Warsaw (+3.8% q-o-q). The remaining 12 markets saw no rental growth in Q1 2024.

Prime office rental change Q1 2024 (% q-o-q)



02 Office demand

Although leasing sentiment has improved in the major European markets, take-up volumes were subdued in Q1 2024. At 2.0 million sqm, Q1 leasing volumes were 22% down from last quarter and 7% below the same quarter last year.

Leasing processes continue to be prolonged, as many occupiers continue to figure out their office requirements in the hybrid work environment. Increasingly, occupiers are considering alternative central locations as limited availability and high rents in CBDs become a common challenge across major markets in early 2024.

Compared annually, 11 markets saw an increase in office demand. These include the Hague (+128% y-o-y), Edinburgh (+69% y-o-y), Barcelona (+41% y-o-y), Madrid (+22% y-o-y), Munich (+18% y-o-y), Lyon (+15% y-o-y), Frankfurt (+12% y-o-y), Milan (+5% y-o-y), Berlin (+3% y-o-y), Düsseldorf (+2% y-o-y) and Paris (+1% y-o-y).

Paris take-up reached 451,700 sqm in Q1 2024, in line with levels seen in Q1 2023 (+1%), though still below the market's 10-year average (-15%). While Q1 2023 was dominated by transactions across small and medium-sized spaces, Q1 2024 activity was mainly driven by larger spaces. A total of 17 transactions exceeding 5,000 sqm were recorded, contributing 182,650 sqm (+32% y-o-y) of total take-up.

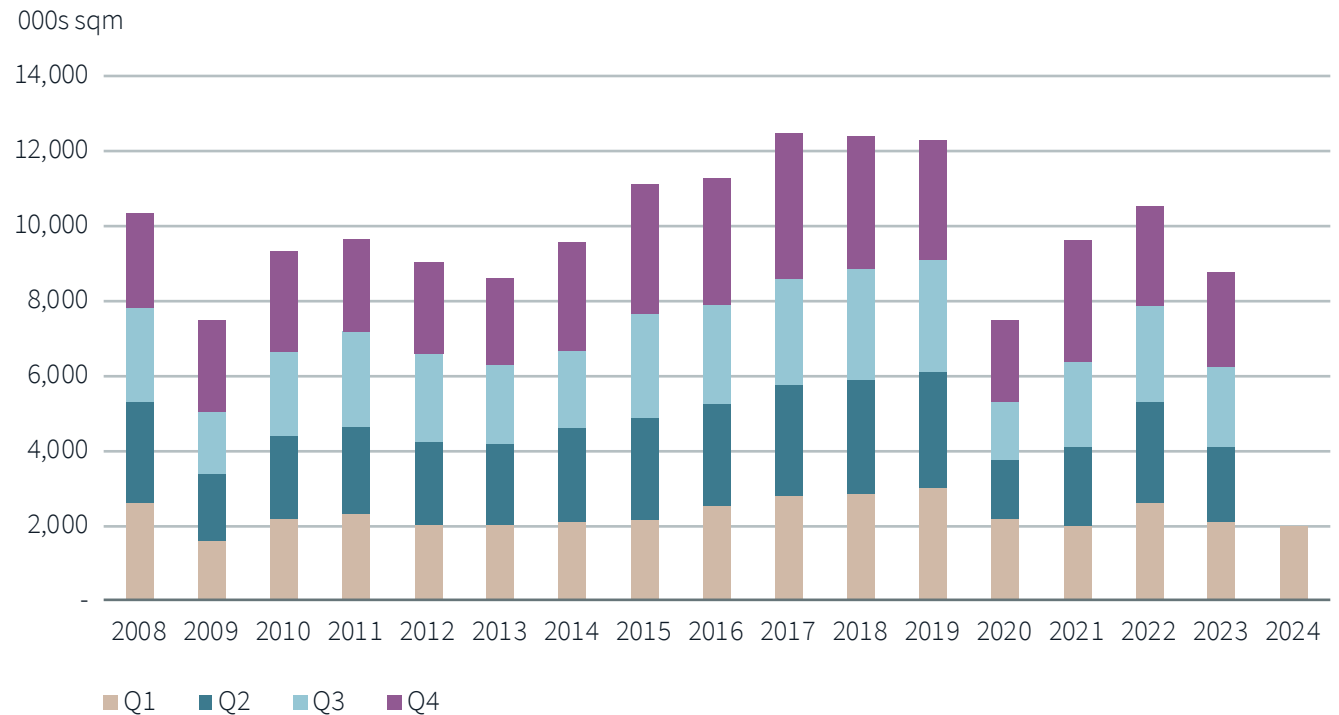
In Central London, leasing activity was subdued in the first quarter of the year with 139,000 sqm recorded in the three months to March. This marked the lowest quarterly volumes since Q1 2021, 31% below the 10-year Q1 average of 204,000 sqm. The banking & finance sector accounted for the largest share of Q1 activity with 28% of total volume. In the West End, take-up fell in Q1 to 47,000 sqm, 39% below the corresponding period in 2023 and 45% below the 10-year quarterly average. This was the slowest start to a year since 2009, 41% below the 10-year



Q1 average. In the City, a total of 84,000 sqm of space transacted in Q1, down 60% quarter-on-quarter and 34% below the 10-year quarterly average. Newly built and refurbished space accounted for 43% of volumes this quarter, down on the long-term average of 50%.

In the German Big 5 markets, take-up reached 537,000 sqm through Q1 2024. This is slightly up (+3%) on the same quarter last year. Take-up by sector remains diversified across the Big-5 markets, with only three sectors taking more than 10% market share: other business services (19%), public administration (13.6%) and manufacturing (13.5%).

European office take-up



03 Office supply

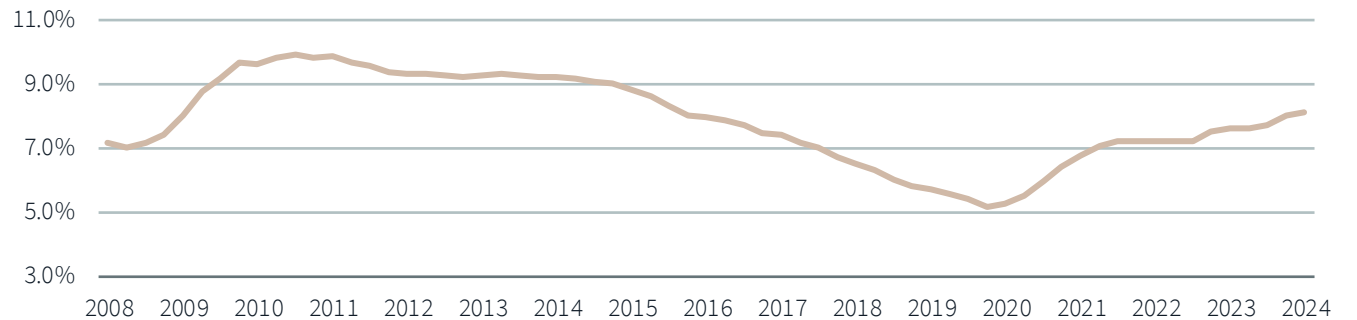
European office vacancy reached 8.1% during Q1 2024, up 10 bps from the previous quarter and at its highest rate since Q4 2015. However, in most European markets, high vacancies remain concentrated amongst older stock in decentralised areas, whilst CBD locations continue to outperform with significantly stronger occupancy rates.

14 of the 23 index markets recorded an increase in vacancy during Q1 2024, including Warsaw (+70 bps to 11.0%), Dublin (+50 bps to 15.4%), Lyon (+50 bps to 5.5%), Munich (+50 bps to 5.6%), Paris (+40 bps to 8.8%), Brussels (+40 bps to 7.5%)

and Utrecht (+40 bps to 4.9%). Six markets saw a decrease in available supply, including Rotterdam (-50 bps to 4.7%), London (-30 bps to 8.9%), Madrid (-20 bps to 10.2%), Amsterdam (-10 bps to 7.5%), Edinburgh (-10 bps to 6.6%) and Frankfurt (-10 bps to 8.6%). Barcelona, Berlin, and Milan remained stable.

Completions totaled 1.2 million sqm in Q1 2024. Paris (202,000 sqm), Berlin (177,000 sqm), Munich (167,000 sqm) and London (94,000 sqm) accounted for half of the office space delivered over the quarter.

European office vacancy



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