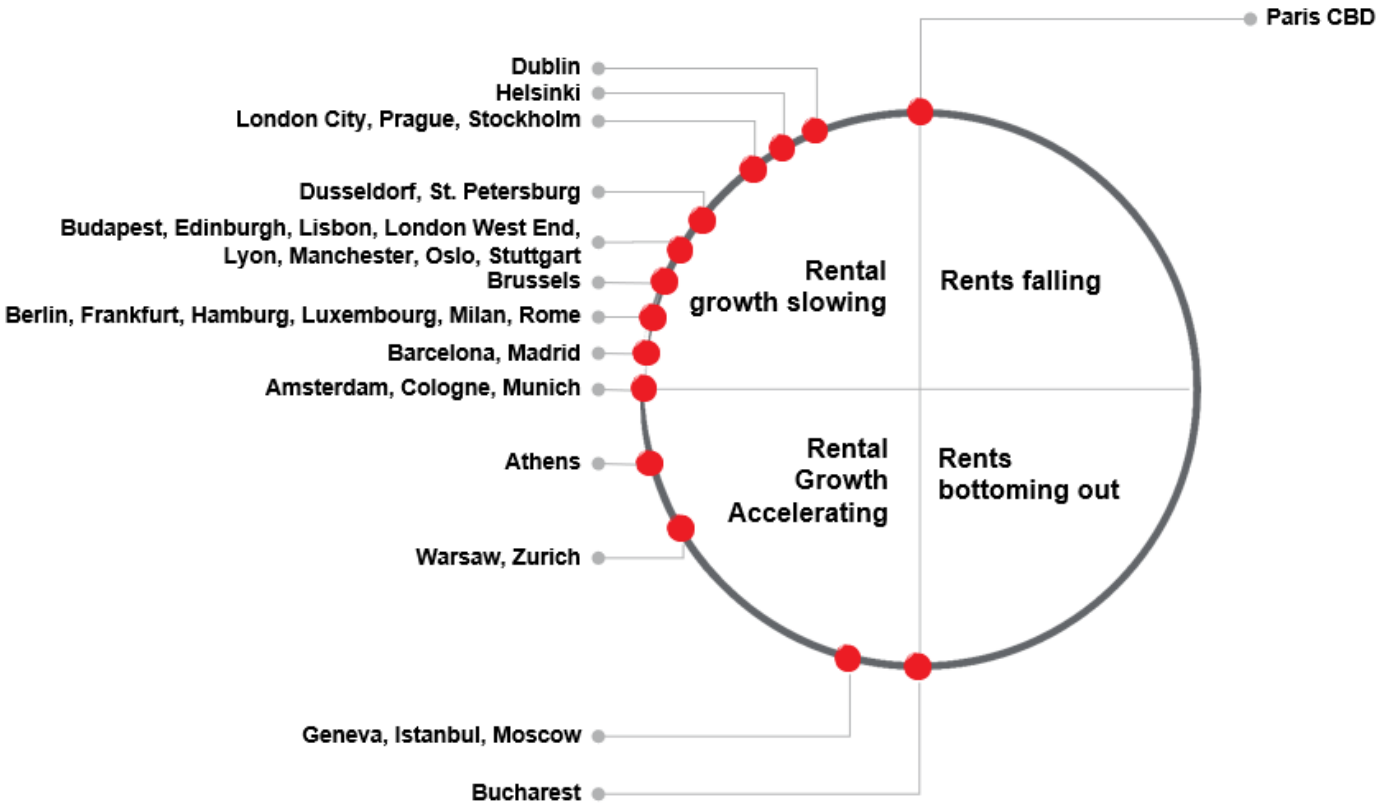
JLL Office Property Clock Q4 2019

EMEA Office Research

Q4 occupier demand pushes 2019 leasing activity to a new record year

- European office take-up amounted to circa 3.5 million sq m in Q4 2019, representing a 9% y-o-y decrease.
- European office vacancy tightened by 20 bps to 5.5% in Q4 2019 - the lowest level since 2002.
- The European Office Rental Index rose by 1.2% q-o-q and 4.1% y-o-y.



Source: JLL, January 2020

The clock diagram illustrates where JLL estimates each prime office market is within its individual rental cycle as at the end of December 2019. Markets can move around the clock at different speeds and directions. The diagram is a convenient method of comparing the relative position of markets in their rental cycle. Their position is not necessarily representative of investment or development market prospects. Their position refers to prime face rental values. Markets with a "step pattern" of rental growth do not tend to follow conventional cycles and are likely to move between the "hours" of 9 and 12 o'clock only, with 9 o'clock representing a jump in rental levels following a period of stability.

European Office Occupier Markets

The pace of economic activity in Europe continued to soften at the back end of 2019. Consumer confidence deteriorated across the region, but with strong fundamentals still in place – such as high employment, low unemployment, and positive real wage growth – retail spending growth has continued to hold up. Industrial sentiment and activity worsened further, with the manufacturing PMIs slipping further above the 50-mark that separates expansion from contraction. Germany, where industry has been in recession for over a year, saw the pace of decline ease, possibly indicating an approaching nadir in the industrial downturn. Positively, the previous softening in services sector activity reversed in December and sentiment among services-oriented businesses picked up. The political backdrop remained volatile throughout the quarter, capping a frenetic year. Looking ahead to 2020, we can expect a similarly challenging year, with continued political uncertainty and some increased economic pressure. Nevertheless, the outlook for the European office market still looks promising as unemployment continues to fall, and we expect rental growth to outperform the 10-year average.

Office Rents

The European Office rental Index rose by 1.2% q-o-q and 4.1% y-o-y in Q4. 11 of the 24 Index markets saw q-o-q increases (compared with 8 in Q3 2019). 2019 is the third consecutive year of >4% annual rental growth in Europe, indicating the continued strength of the European office market overall.

In London, prime rents remained stable in Q4. However, the 2.2% rental growth for the year is a good indicator for the resilience of the London office market. 2019 saw the peak of the current development cycle and combined with above (10-year) average take-up we expect to see continued rental growth in 2020. As a result, we have pushed back its clock position to 10.45. In Paris, prime rents moved up for the sixth consecutive quarter (2.4% q-o-q to €860/ sq m per annum). While some marginal upward movement could happen, we forecast prime CBD rents to remain stable in the year ahead.

In Germany, 2019 rental growth exceeded the forecast made at the start of the year by 2.3% as result of tight supply on the market. Munich (1.2% q-o-q), Frankfurt (2.5% q-o-q), Berlin (2.8% q-o-q) and Dusseldorf (1.8% q-o-q) all saw continued rental growth in Q4 2019. Hamburg saw no change in prime rents in Q4 2019. Berlin recorded another stellar year, with 8.8% y-o-y rental growth in 2019. This landed Berlin in the top of the European rental growth ranking for 2019 (third highest behind Barcelona - 8.9% and The Hague - 10%).

In Spain, Madrid (+1.4%) and Barcelona (+1.9%) saw another quarter of rental growth in Q4. The rental uplift in Spain has been gradual but consistent with Q4 2019 representing the 20th consecutive quarter of rental growth in both cities. As both markets look to tighten further, rents are likely to continue along this steady upward trajectory.

In the Netherlands, Amsterdam rents remained stable at €450/ sq m per annum. However, The Hague (4.8% q-o-q) and Utrecht (1.9% q-o-q) both saw further rental uplifts. Other markets which recorded quarterly rental in Q4 2019 were Edinburgh (2.9%) and Stockholm (2.6%).

Looking ahead we expect rental growth to moderate somewhat in 2020 to 2.2% for Europe. However, some cities are expected to continue to outperform the European average, in particular Spain, The Netherlands and selected German office markets.

Office Demand

Despite a slight slowdown in European office take-up in Q4 (-9% y-o-y), full-year data suggests yet another outstanding performance for the European occupier market in 2019. Indeed, with annual take-up of circa 13.9 million sq m, the 2019 total set a new record in surpassing the previous high point of 2018 (+1% y-o-y).

There were encouraging signs in both Western Europe (+1% on 2018) and Central & Eastern Europe (+1% on 2018), reflecting the broad-based outperformance across the region. Furthermore, despite record low vacancy, European net absorption outperformed the 10-year average by 20% in Q4. Overall, despite some well-documented headwinds, this strong FY result points to a resilient demand side and solid outlook for 2020.

In Germany, take-up across the Big 5 office markets amounted to circa 840,000 sq m in Q4 2019, only Frankfurt (+77% q-o-q) posted an increase in occupier activity. On an annual basis, take-up in the German Big 5 totalled approximately 3.4 million sq m (-1% y-o-y). There were strong performances in Berlin (+19% y-o-y) and Dusseldorf (+33% y-o-y), while Frankfurt (-8% y-o-y), Hamburg (-9% y-o-y) and Munich (-22% y-o-y) all posted decreases on 2018. However, this still represents a remarkable result given the intense supply shortages across the Big 5.

In the UK, London registered a decline in leasing activity during Q4, with total demand reaching 241,000 sq m (-15% q-o-q). In 2019, UK's capital city recorded its second lowest full-year take-up volume since 2012 (-9% y-o-y). However, this result was still 5% above the 10-year annual average, highlighting the resilience of the occupier market.

In France, Paris continues to record robust take-up during Q4, with 640,000 sqm up 12% on the 10-year average. On an annual basis, Paris also recorded a fall in occupier activity (-10% y-o-y) but the result was broadly in line with the 10-year FY average. Elsewhere in France, Lyon saw its strongest year on record in 2019 (+30% y-o-y).

Outside the 3 'engine room' economies, strong 2019 results were achieved in Brussels (+45% y-o-y), Budapest (+36% y-o-y), Milan (+24% y-o-y) and Stockholm (+18% y-o-y). The late cyclical occupier rally in Madrid also continued, with the Spanish capital registering its highest annual take-up volume since 2007 (+28% y-o-y).

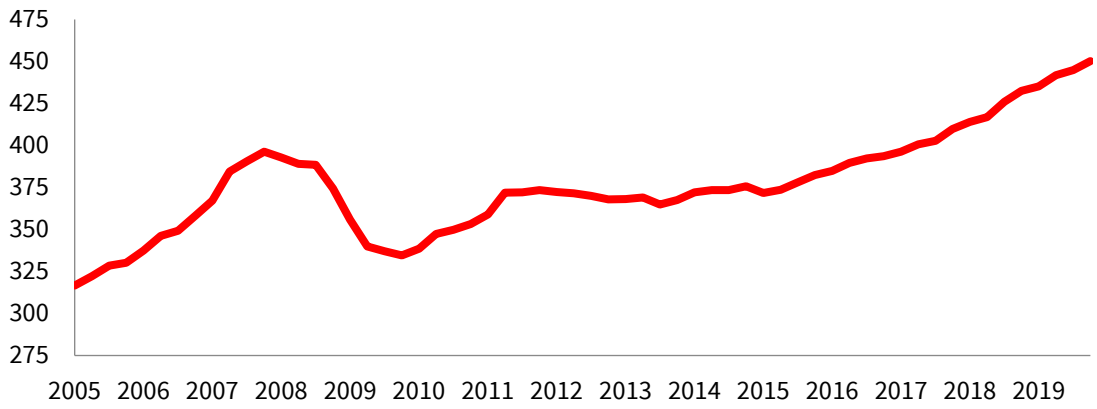
Over the next few years, we also expect selected second-tier cities to outperform, as tenants feel the pinch of rising costs and look beyond core markets for office space.

Office Supply

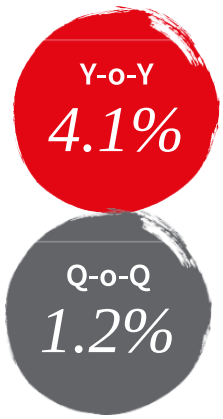
Development activity across Europe continued to accelerate over the past 12 months. Office completions amounted to approximately 4.3 million sq m in 2019, but we forecast full-year 2020 completions to reach circa 7.1 million 2020, before the supply pipeline peaks to hit 8.5 million sq m in 2021.

European office vacancy tightened by 20 bps to 5.5% in Q4 2019 – the lowest vacancy rate since 2002. Across Europe, 18 of the 24 Index markets recorded a fall in vacancy in Q4, with the most notable declines observed in The Hague (-220 bps to 3.5%), Amsterdam (-70 bps to 3.0%) and Barcelona (-60 bps to 4.3%). On the other hand, availability increased in Rotterdam (+50 bps to 11.0%), Utrecht (+70 bps to 7.3%), Prague (+30 bps to 5.4%), Dublin (+10 bps to 7.2%) and Moscow (+10 bps to 9.9%).

Prime European Office Rental Index (EUR / sq m pa)

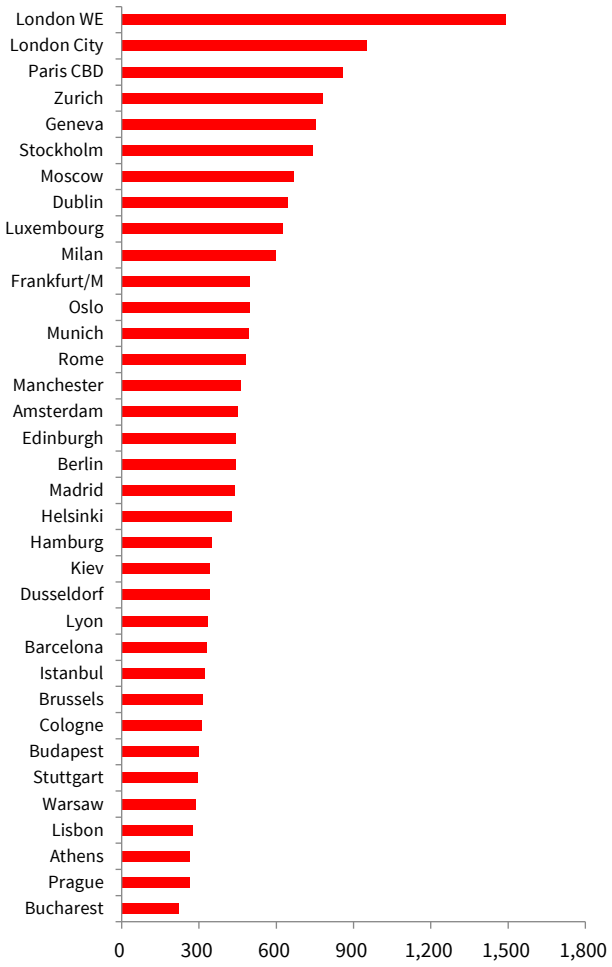


% Change Q4 2019



Weighted Nominal Rental Trend, 1980 = 100
Source: JLL, January 2020

Prime Office Rents Q4 2019 (EUR / sq m pa)



Prime Office Rental Change Q4 2019 (% Q-o-Q)

Source: JLL, January 2020

Definitions

Prime Rent

Represents the top open-market rent that could be expected for a notional office unit of the highest quality and specification in the best location in a market, as at the survey date. The rent quoted normally reflects prime units of over 500 sq m of lettable floor space, which excludes rents that represent a premium level paid for a small quantity of space. The Prime Rent reflects an occupational lease that is standard for the local market. It is a face rent that does not reflect the financial impact of tenant incentives and excludes service charges and local taxes. The Prime Rent represents Jones Lang LaSalle's market view and is based on an analysis / review of actual transactions for prime office space, excluding any unrepresentative deals. Where an insufficient number of deals have been made for prime office space, an assessment of rental value is provided by reference to transactions generally in that market adjusted accordingly to equate to prime.

Take up

Take-up represents floor space acquired within a market for occupation during the survey period (normally three-monthly). A unit is registered as taken-up when a legally-binding agreement to acquire the unit has been completed. Take-up includes floor space leased and sold for occupation, and the pre-lettings of floor space in course of development or prior to the start of construction.

Annual Net-Absorption

Represents the change in the occupied stock within a market during one year. Net Absorption is calculated on the basis of "top-down" estimates of occupied stock derived by subtracting vacant office stock from the total office stock of that market. Mothballed stock, i.e. floor space held vacant and not being offered for letting, usually pending redevelopment or refurbishment, is excluded.

Vacancy Rate

The Vacancy Rate represents immediately vacant office floor space, inclusive sub-lettings, in all completed buildings within a market as at the survey date (normally at the end of each quarter period), expressed as a percentage of the total stock

Completions

Completions represent floor space completed during the survey period (normally annually and projected forward by three years) within a market. Completions include both new development and refurbished accommodation that has been substantially modernised. An office is regarded as complete when the developer will undertake no further work until a tenant / occupier is secured. In the majority of instances this means that all main services are completed, and suspended ceilings and light fittings are installed. Some developments are considered to be completed when they reach "shell-and-core" condition where the accommodation is to be marketed in that state.

Future Completions

Represents the total floor space of new and refurbished developments, either pre-planned, planned or under construction, that are expected to complete in a given year or the remainder of a current year (e.g. at Q1 2020 for Q1-Q4 2020). The total volume contains developments of high completion probability which are usually already under construction, have obtained building permits / authorisation, or are considered for other reasons highly likely to be completed.

Alex Colpaert
Head of EMEA Offices Research
EMEA Offices Research
+31 (0)6 50 671 152
alex.colpaert@eu.jll.com

Ben Russell
Associate
EMEA Offices Research
+44 (0)207 852 4402
benjamin.russell@eu.jll.com

Michael Hooijmaaijer
Analyst
EMEA Offices Research
+44 (0)203 147 1771
michael.hooijmaaijer@eu.jll.com

Tom Carroll
Head of EMEA Corporate Research
EMEA Corporate Research
+44 (0)203 147 1207
tom.carroll@eu.jll.com

jll.eu
Jones Lang LaSalle