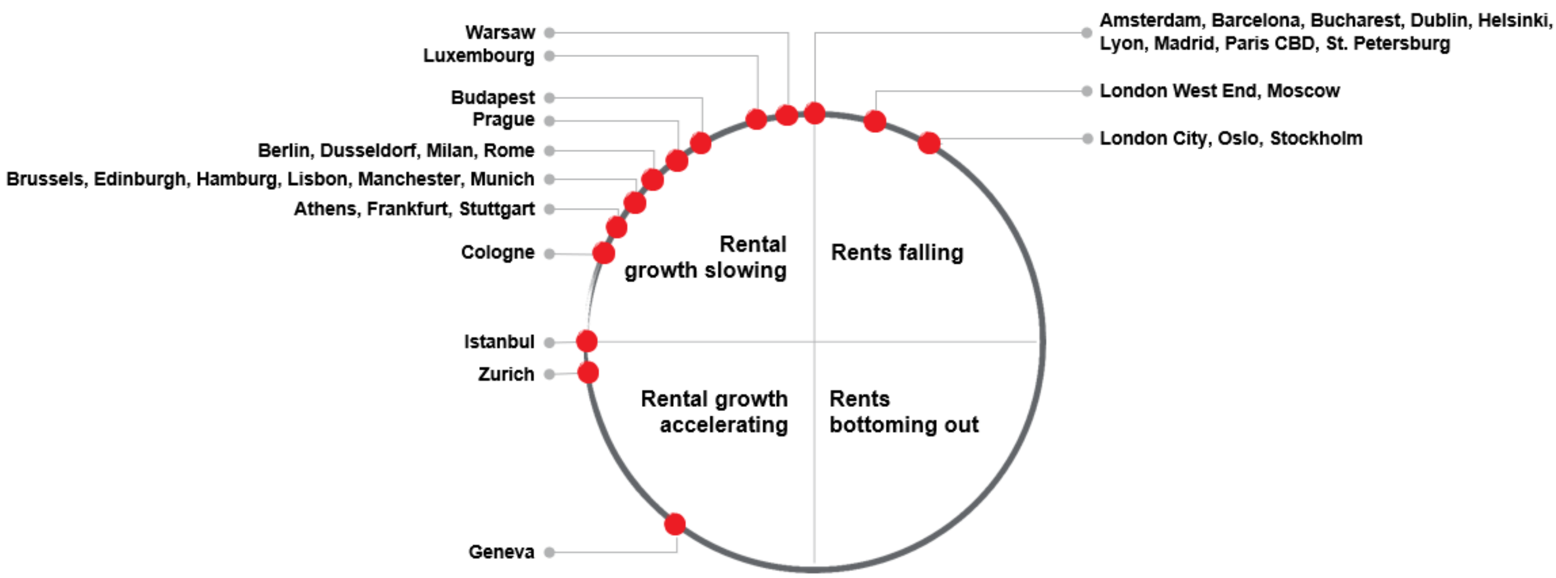
JLL Achieve Ambitions

JLL Office Property Clock Q3 2020

EMEA Office Research

Office take-up continues to be subdued due to COVID-19 uncertainty

- The European Office Rental Index decreased by 0.3% q-o-q.
- European office take-up totalled approximately 1.7 million sq m in Q3 2020, a 50% decrease y-o-y.
- European office vacancy increased by 40 basis points to 6.3% during Q3 and is set to move around 7% during 2021.



Source: JLL, October 2020

The clock diagram illustrates where JLL estimates each prime office market is within its individual rental cycle as at the end of September 2020. 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 response to the COVID-19 pandemic remained at the forefront of the health, economic, and real estate impacts across EMEA in Q3. All markets saw a rapid resurgence in GDP as previously shuttered sectors and businesses were allowed to reopen and re-enter the market place. Early signs of a rebound became evident in May or June, but promise of a rapid full recovery has vanished as travel and social distancing restrictions have remained in place, and people have only partially returned to their previous ways of behaving. Signs of a second wave of the virus emerged in late summer across Europe and have continued to build. Local lockdowns and restrictions have replaced national-level sanctions, reducing, but not eliminating, the economic pain. Government support schemes continue to operate to various degrees, and a renewed response should not be ruled out as evidence of economic scarring – business insolvencies and job losses – mount. With colder weather approaching in Europe, medical experts expect the pandemic will become harder to supress. Economic activity is likely to suffer from self- and government-imposed restrictions, further delaying the recovery and increasing the costs of the downturn.

Office Rents

The Q3 2020 European Office Rental Index decreased for the first time since 2015, moving down by -0.3% q-o-q. While sentiment clearly remains subdued, the prime office segment has been resilient. Small rental increases were recorded in Paris (1.1% q-o-q) and Edinburgh (1.4% q-o-q). In Paris there has been clear transaction evidence, with multiple deals done around the new prime rent of EUR 900/ sqm/ year as grade A availability remains at an all-time low.

Moscow (-6.7% q-o-q) and Stockholm (-1.9%) recorded a decrease in prime rents. In Stockholm Q3 2020 saw the first downward move in rents since 2009, following a 11-year growth period in which rents increased by 110%. While demand for prime space remains plentiful and the number of deals increased compared to Q2, the significant pressure which drove this rental spike in recent years has subsided somewhat. Prime rents remained stable across all other markets in Europe.

While the Prime rental index decreased by -0.3% in Q3, the net effective index decreased by -0.9%. Uncertainty in the market has pushed dynamics to more tenant favourable conditions in some cities. Consequently, incentives have started to creep up in Q3, with net effective rents down in 11 of the 24 Index markets. In Western Europe, the net effective rent saw the most significant decrease in Stockholm (-4.9% q-o-q), Rotterdam (-2.9% q-o-q), Brussels (-2.3% q-o-q) and Madrid (-2.2% q-o-q).

Looking ahead, European prime headline rents are unlikely to see a sharp correction. Rents are expected to see low single digit decreases in 2020 across a number of European cities. However, more generous incentives in response to the economic headwinds and general uncertainty are more likely to be granted going forward.

Office Demand

Following months of uncertainty and the traditionally more quiet summer months, leasing demand slowly picked up towards the end of Q3. Nevertheless, European office take-up reached around 1.7 million sq m in Q3 2020, a 50% decrease y-o-y and the lowest quarterly volume on record. This brings year-to-date European take-up to circa 5.9 million sq m, down -42% y-o-y.

In Germany, take-up across the Big-5 office markets amounted to circa 500,000 sq m in Q3 2020 (-43% y-o-y). Leasing volumes were impacted across the board in Q3 with Dusseldorf (-67% y-o-y), Berlin (-56% y-o-y), Hamburg (-40% y-o-y), Munich (-27%) and Frankfurt (-8% y-o-y) all down. While larger corporate requirements continue to be characterised by indecision, September did see an uptick in small and medium sized deals.

Leasing activity in Central London reached 85,000 sq m in Q3, down -70% y-o-y. This was underpinned by Baker & McKenzie's acquisition of 13,500 sq m at 280 Bishopsgate, which was the largest deal of the quarter. The uncertainty around the impact of the pandemic and the impending Brexit at the end of 2020 is likely to weigh on leasing activity towards the end of the year, prolonging already delayed occupier decision-making. In Paris, office leasing also remained subdued in Q3 with total take-up reaching 246,000 sq m, down -58% y-o-y.

In Madrid office leasing reached 99,000 sq m during Q3, recovering from a subdued Q2. This was mainly underpinned by two large deals over 17,000 sq m. The Barcelona office market remained very quiet, with office take-up totalling at 29,000 sq m in Q3 – down 63% on Q3 2019. In Milan leasing volumes dropped to a record low in Q3 2020 with 21,000 sqm transacted representing a -82% decrease on Q3 2019.

In Amsterdam Q3 take-up reached 25,000 sq m during Q3 2020 (-60% y-o-y), following a very resilient start to the year. Activity is mainly down due to delayed relocation decision-making for most corporates. Also demand from flex office providers, usually about 10-15% of the total demand, has been halted.

Elsewhere in Europe leasing volumes were down Rotterdam (-75% y-o-y), Utrecht (-69% y-o-y), Moscow (-65% y-o-y), Stockholm (-59% y-o-y), Brussels (-52% y-o-y), Warsaw (-46% y-o-y), Budapest (-44% y-o-y), Dublin (-44% y-o-y), Prague (-30% y-o-y) and Lyon (-29% y-o-y). .

The quarterly take-up numbers are expected to be subdued for the foreseeable future, with the recent spike in Covid-19 case numbers likely to put a damper on a Q4 revival. However, in the second half of August and September a notable uptick in requirements, physical viewings and transactions was recorded across most of Europe. Much of this was focused around the small space segment (< 1,000 sq m). In particular the large space segment (>5,000 sq m) is still very inactive. Many corporates continue to put requirements on hold and have instead used this time to assess their future occupational needs. JLL forecast that 2020 leasing volumes will be down by at least -35% on the 3-year average.

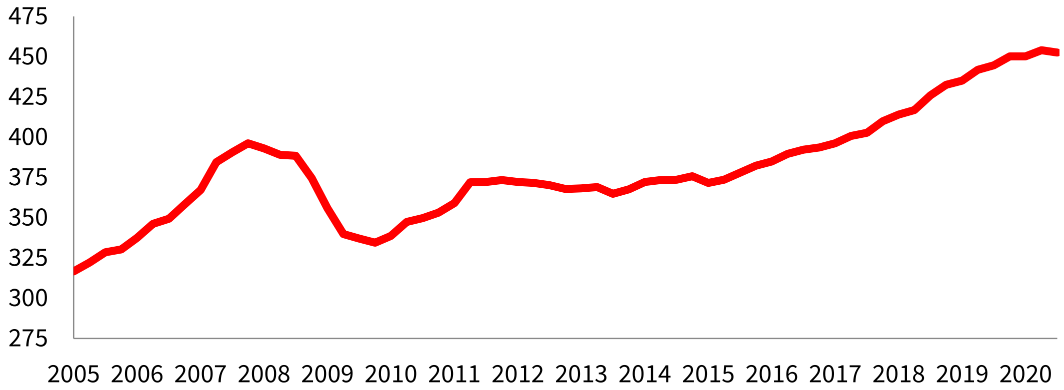
Office Supply

European office vacancy increased by 40 basis points to 6.3% in Q3 2020. Across Europe, Luxembourg (-20 bps to 2.9%) and Budapest (-10 bps to 7.2%) both saw a fall vacancy. In 18 of the 24 index markets vacancy increased with Dublin (+150 bps to 9.5%), Barcelona (+100 bps to 5.2%), Rotterdam (+100 bps to 9.4%), Moscow (+80 bps to 11.5%) and Warsaw (+70 bps to 7.9%) seeing the most significant rise.

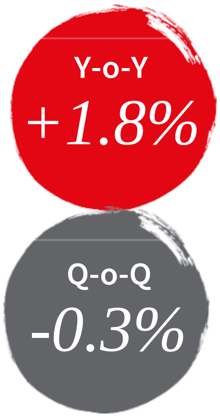
Availability moved up across most European cities in Q3 2020 as a result of lower pre-lettings and an increase in sublease space. Tenant controlled supply (grey space) noticed an uptick as result of COVID-19. While during Q3, most markets record an increase in the amount of sublets available it has so far had a marginal impact on overall vacancy. However, as some corporates look to cash in on temporarily obsolete (growth) space, expectations are for this to be more significantly reflected in the numbers from Q4 2020 onwards.

As construction sites are operating as usual across most of Europe, development activity picked up over the last three months. Office completions totalled around 1.2 million sq m in Q3, the highest so far this year. Paris (342,000 sq m), Berlin (143,000sq m) and Munich (132,000 sq m) accounting for the majority of new delivered space. Looking ahead, Q4 2020 should see the highest completions levels this year as delayed schemes are pushed over the line. This should put vacancy under further upward pressure.

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

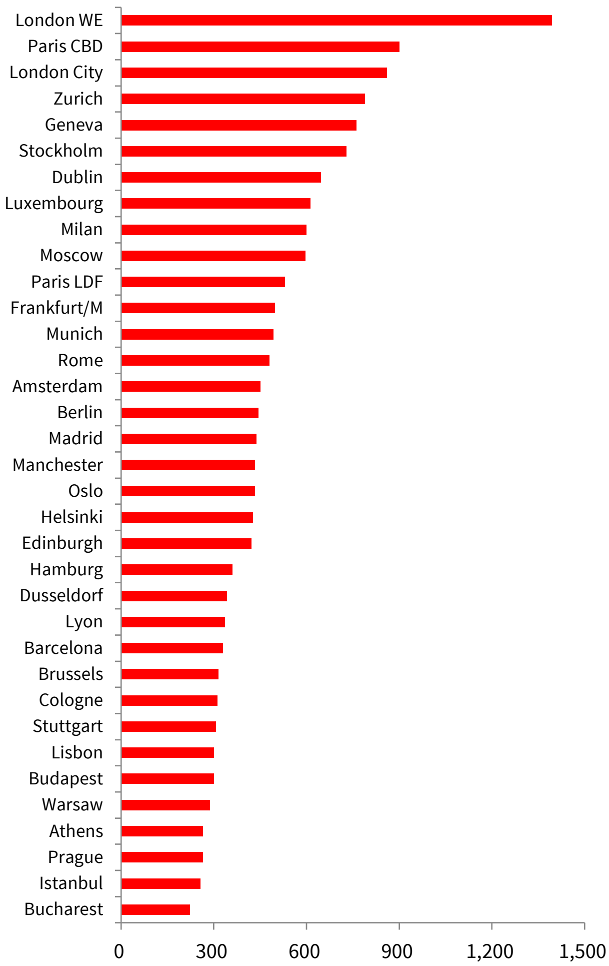


% Change Q3 2020

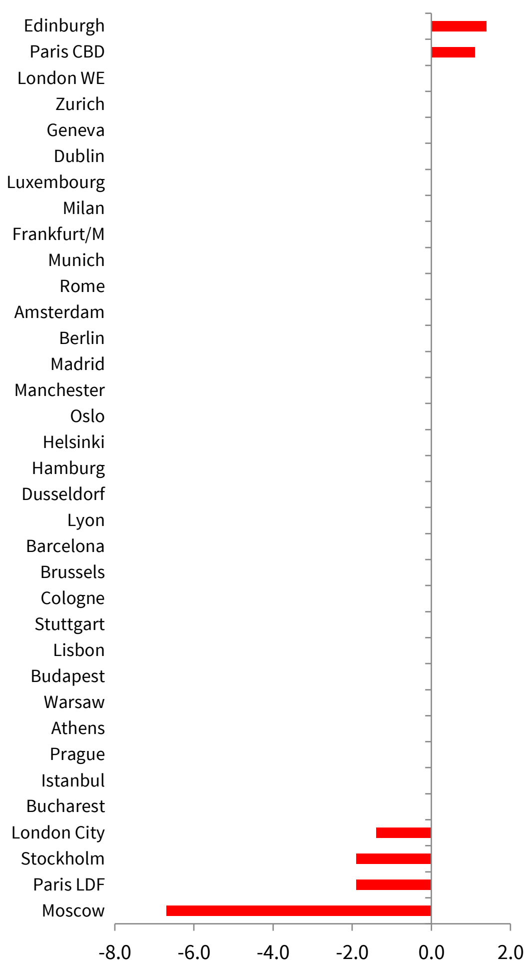


Weighted Nominal Rental Trend, 1980 = 100
Source: JLL, October 2020

Prime Office Rents Q3 2020 (EUR / sq m pa)



Prime Office Rental Change Q3 2020 (% Q-o-Q)



Source: JLL, October 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.

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