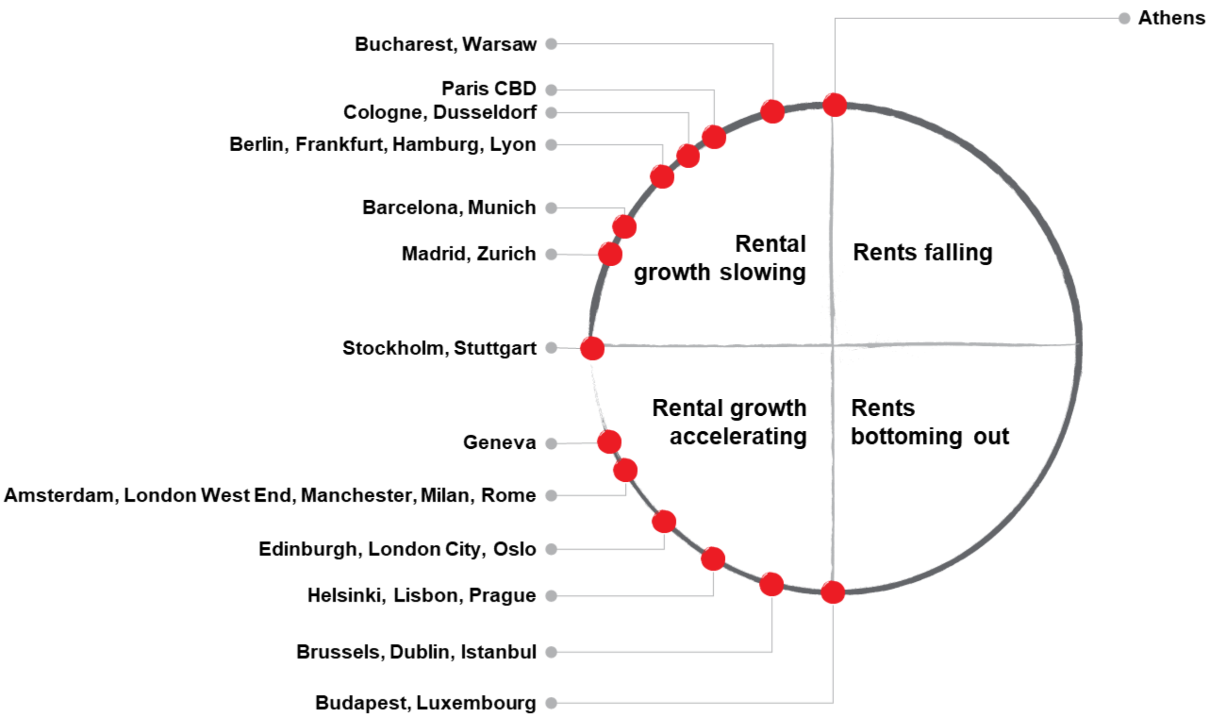
JLL Office Property Clock Q1 2022

EMEA Office Research

Strong Q1 European leasing activity recorded despite market uncertainties

- The European Office rental index improved slightly during Q1 2022, growing by +0.5% q-o-q and +1.7% y-o-y.
- Q1 take-up totalled 2.5 million sq m, up +29% y-o-y and only 2.7% shy of the 5-year Q1 average.
- European office vacancy softened by a further 10 bps, reaching 7.3% in Q1, and is likely to come under further pressure through 2022.
- Most markets poised for steady prime rental growth over the medium term, with multiple clocks reset into the “growth accelerating” quadrant.



Source: JLL, April 2022

The clock diagram illustrates where JLL estimates each prime office market is within its individual rental cycle as at the end of April 2022. 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 start of 2022 was a quarter of two halves. At the beginning of the year the emerging story was of higher energy and commodity prices pushing up inflation. By February, rates of inflation across Europe had jumped to multi-decade highs, and knock-on effects to wider economic conditions were beginning to emerge. However, this was against a backdrop of otherwise reasonably good economic conditions, and monetary policymakers were raising rates to tame inflation with limited concern for the growth impact. This changed on February 24th, however, with the events unfolding in Ukraine profoundly effecting the economic outlook for Europe. Energy and commodity prices have risen further. Supply chain disruption and costs have climbed higher from already unprecedented levels. Business and consumer confidence have taken a turn for the worse, and not just in countries bordering or close to the directly conflict affected areas. The quarter closed with producer prices rising, inflation expectations rising, and forecasts for GDP growth being pared back. That is not to say that we face recessionary conditions, as many countries in Europe were expected to see above-trends rates of growth this year as they concluded their recoveries from Covid-19. But tighter monetary conditions are coming. The Bank of England is widely expected to raise its policy rate further this year as it continues to tackle inflation, while the ECB has announced the end of its asset purchases and is expected to raise rates before year end if inflation stays high.

Office Rents

European prime headline rents remain resilient during the first quarter of the year. Accordingly, the European Office Rental Index increased during Q1 2022 (+0.5% q-o-q). At 1.7%, annual European office rentals still remain well below the 5-year average of 3.2%. Occupancy and pricing fundamentals amongst premium offices have fared far better than in lower quality spaces. Rental increases were witnessed in 8 of the 23 Index markets, including Dublin (+4.3% q-o-q), Milan (+3.3% q-o-q), Edinburgh (+2.6% q-o-q) and Stockholm (+2.4% q-o-q). Prime rents decreased in Budapest (-2% q-o-q) and Paris (-1.1% q-o-q). Across most other European index markets, prime rents remained stable.

Increased levels of demand for office spaces along with lower vacancies continue to place upward pressure on prime rents throughout most parts of Europe. Across a handful of markets, occupiers are willing to pay above the prime rent-level to secure the best quality spaces, most notably in sub-markets such as Milan's historic city centre. Accordingly, we expect the European office index to increase through 2022.

Office Demand

Despite rising uncertainty over the latter part of the first quarter, data indicates that many markets continue to showcase robust demand levels. At 2.5 million sqm, Q1 2022 take-up volumes are up 29% y-o-y, only -2.7% shy of the 5-year Q1 average. New requirements continue to come in at a fast pace, along with negotiations and new deals, especially in Northern Europe. Whilst the presence of Russian firms remains limited across Europe for the most part, some countries are reporting weaker Q1 2022 volumes compared to historical levels, largely driven by a wait-and-see approach employed by many corporates.

Regionally, both Western Europe (+25% y-o-y) and CEE (+73% y-o-y) experienced healthy improvements in quarterly take-up. At a city level, strongest Q1 leasing volume gains were witnessed in Dublin (+945% y-o-y), Warsaw (+167% y-o-y), Madrid (+134% y-o-y), London (+97% y-o-y), Munich (+89% y-o-y) and Paris (+40% y-o-y). In contrast, a handful of markets experienced volume declines in Q1, most notably Utrecht (-79% y-o-y), Luxembourg (-42% y-o-y), Brussels (-41% y-o-y), Stockholm (-22% y-o-y) and Berlin (-17% y-o-y).

In Europe's largest office market, Paris, Q1 take-up reached 504,000 sq m, down 26% from the previous quarter, though up 40% y-o-y. Whilst first quarter leasing volumes remain 7.5% shy of the 5-year Q1 average, sentiment in Central Paris continues to grow from strength to strength. Q1 demand was driven by corporates in the life-science, finance, tech, public and luxury sectors. The tight CBD market has seen occupiers start to move towards La Défense, evidenced by the likes of Enedis acquiring 26,000 sq m in the Altiplano. Geographical polarisation continues to intensify across Paris, with central core nodes performing exceptionally well.

Leasing sentiment in London remains positive at the end of the first quarter, with demand largely stemming from the financial services industries, whilst the TMT sector shows promise as employees start to return to the office and companies reconsider their strategies. Compared to Q1 2021, London's leasing volumes are up 97%, reaching 233,000 sq m by the end of March 2022. Major transactions driving this take-up involved Hogan Lovells (24,700 sq m), Newline Underwriting Management Limited (3,000 sq m) and Citibank (2,200 sq m). Take-up levels exceed the 5-year Q1 average by 31%.

Take-up across the Germany Big-5 reached 705,000 sq m through the first three months of the year, up 15% y-o-y, though still 7.2% short of the 5-year Q1 average. Greatest gains were recorded in Munich (+89% y-o-y), Dusseldorf (+36%) and Frankfurt (+35% y-o-y), whilst both Berlin (-17% y-o-y) and Hamburg (-10% y-o-y) showcased softening in activity levels. Lease activity saw notable contributions come from the tech and education sectors, with the largest deals involving Bosch Energy and Building Solutions (19,700 sq m) and CBS Cologne Business School (16,600 sq m).

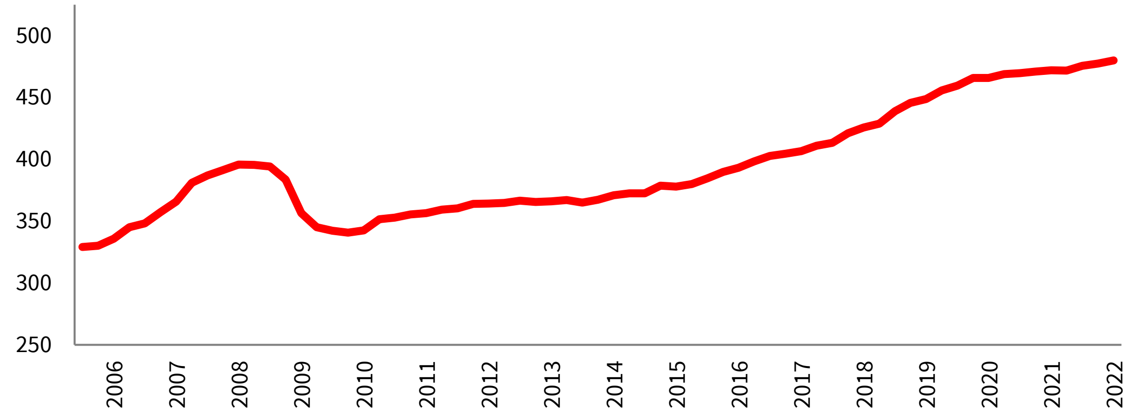
In other parts of Europe, major improvements in leasing activity were recorded in Dublin (+945% y-o-y), Madrid (+134% y-o-y), Milan (+53% y-o-y) and Barcelona (+40%). Meanwhile softened demand levels were witnessed in Luxembourg (-42% y-o-y), Brussels (-41% y-o-y), Stockholm (-22% y-o-y) and Amsterdam (-18% y-o-y). In CEE, Warsaw (+167% y-o-y) showcased significant gains in leasing volumes, whilst Prague (+3% y-o-y) recorded marginal improvements. Budapest (-22% y-o-y) was the only CEE index market to experience a slowdown in demand. As the direct impact of the pandemic on the office market eases and employees gradually return to the office, companies will rethink their strategies as they become increasingly active in the leasing space.

Office Supply

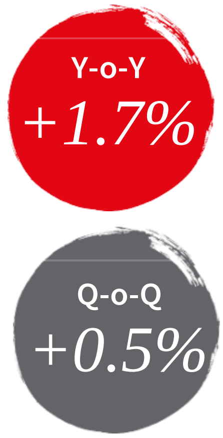
European office vacancy increased by 10 bps to 7.3% during Q1 2022. The market-wide trend in corporate consolidations and prime space relocations will likely place further pressure on aggregate vacancy levels in 2022. 12 of the 23 index markets recorded an increase in vacancy during Q1 2022, most notably The Hague (+100 bps to 5.1%), Utrecht (+100 bps to 7%), Rotterdam (+90 bps to 7.7%) and Dublin (+50 bps to 11.2%). 8 markets saw a decrease in available supply, led by Lyon (-80 bps to 5%), Barcelona (-60 bps to 6%) and Brussels (-50 bps to 7.8%). Vacancy remained stable in Paris, Munich, and Edinburgh.

European completions reached 1.3 million sq m during the first quarter, down 14% from Q4 2021, though up +9% y-o-y. Most significant contributions came from Berlin (296,000 sq m), Paris (241,000 sq m), Milan (147,000 sq m) and London (142,000 sq m). The Ukraine crisis continues to impact construction activity, with many sites in CEE facing significant labour shortages. Furthermore, construction costs are expected to increase across Europe, as many construction materials have been originally sourced from Russia and Ukraine. The future supply pipeline is consequently anticipated to tighten further over 2022.

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

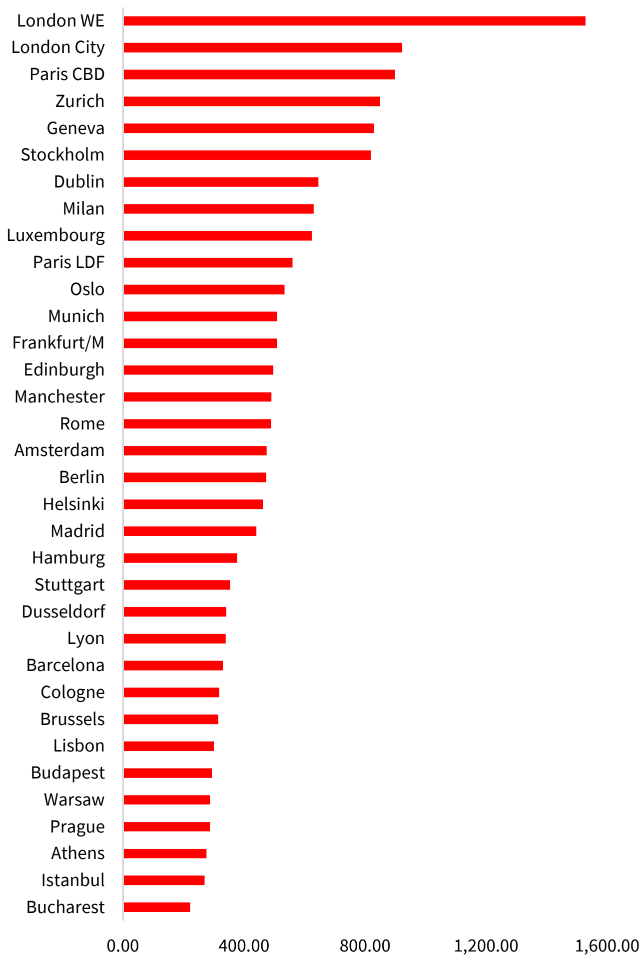


% Change Q1 2022

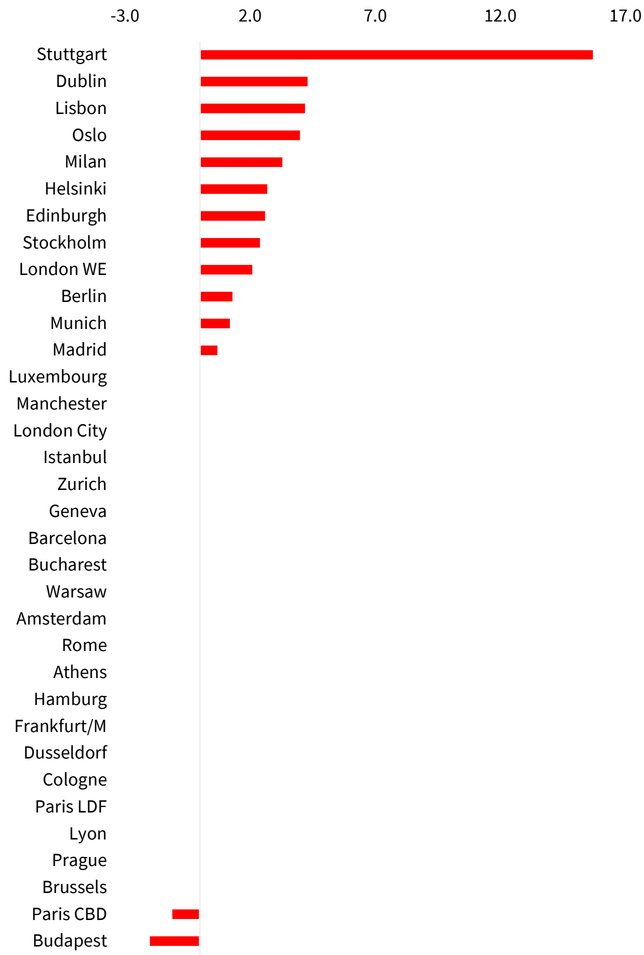


Weighted Nominal Rental Trend, 1980 = 100
Source: JLL, April 2022

Prime Office Rents Q1 2022 (EUR / sq m pa)



Prime Office Rental Change Q1 2022 (% Q-o-Q)



Source: JLL, April 2022

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 2022 for Q1-Q4 2022). 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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