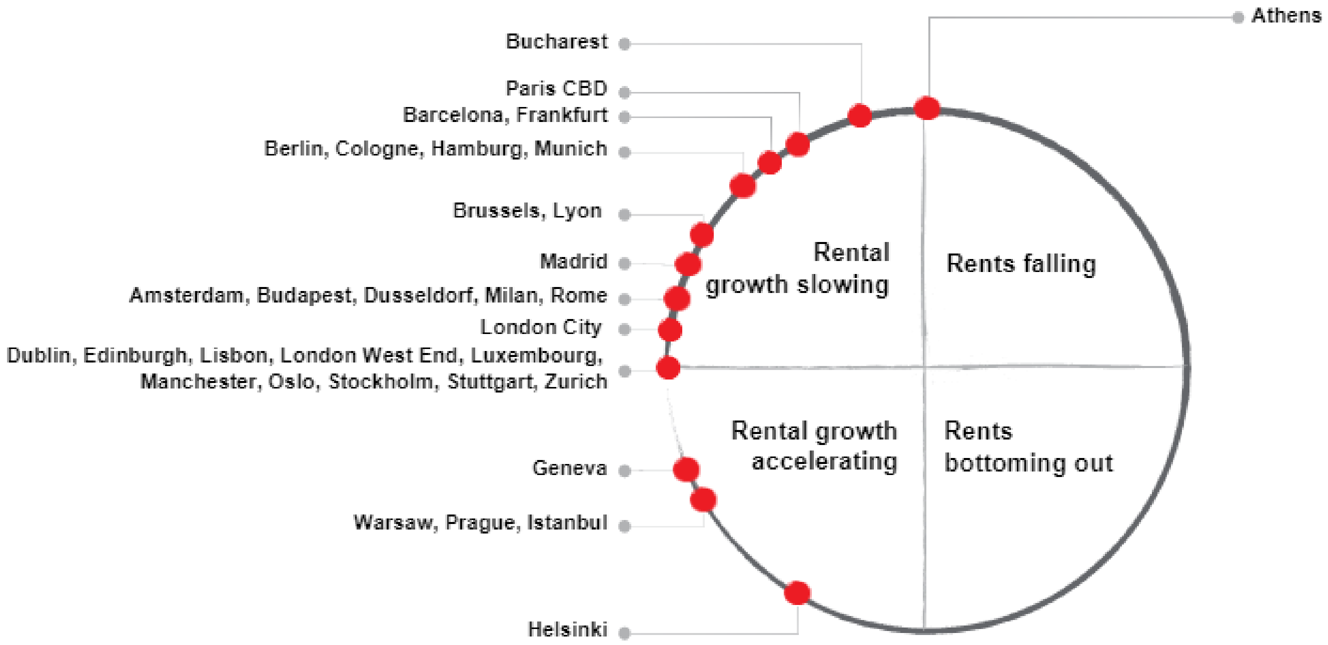
# JLL Office Property Clock Q3 2022

EMEA Office Research

## Strong Q3 office leasing activity despite market uncertainties.

- The European Office Rental Index increased during Q3 2022, growing by +2.2% q-o-q and +5.0% y-o-y.
- Q3 take-up totalled 2.6 million sq m, up +18% y-o-y and 7% above of the 5-year Q3 average.
- European office vacancy remained unchanged at 7.2% during Q3.
- Most markets poised for steady prime rental growth over the medium term, with multiple clocks reset into the "growth accelerating" quadrant.




*Source: JLL, October 2022*

*The clock diagram illustrates where JLL estimates each prime office market is within its individual rental cycle as at the end of September 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

Conditions in the European economy took a turn for the worse in the third quarter as inflation continued to rise, interest rates and funding costs headed sharply higher, and the energy crisis continued. The war in Ukraine continued and with it, European sanctions on Russia. European economies have, since earlier in the year, been working to increase their gas storage and cut back on energy consumption, issuing a patchwork of guidance and policy supports to households and businesses across the region. Gas and coal prices rose further during the quarter, driving up electricity prices. Energy costs in Europe increased much more than in other parts of the world. Positively, disruption to supply chains began to ease and the costs of internal shipping came down sharply. International commodity prices also dropped backed, with many falling below their pre-invasion level, though they remain very volatile. This will help reduce some of the upward pressure on inflation, though for many economies, including those in Europe, currency depreciation against the US dollar worked to affect import prices in the opposite direction, raising the local currency price of commodities. Monetary policymakers continued their tightening cycles, raising interest rates further into contractionary territory in CEE markets. The ECB and Bank of England both made further upward shifts in policy rates too, though they remain considerably behind the curve compared to their smaller peers. Government bond yields and other funding costs moved sharply higher in anticipation of more interest rate hikes, and international market turbulence, initiated by a loss of confidence in the new UK government's fiscal plans, added upward pressure to yields. The upshot was a deterioration in forecasts for GDP growth this year and next. Many of the major European economies are already contracting and will see continued weakness through the back end of next year. Not all economies are equally afflicted, however, and there remain those better insulated from the energy crisis, such as Portugal or Norway (an energy exporter), those that are less affected by inflation, such as France and Switzerland, and those better to able to respond to slowing economic performance with fiscal stimulus (such as Ireland and the Netherlands).

### *Office Rents*

European prime headline rents continued to accelerate in Q3 2022. The European Office Rental Index increased by 2.2% q-o-q, the second strongest quarterly increase since 2010. At 5.0%, annual European office rentals is well above the 5-year average of 3.6%. Occupancy and pricing fundamentals amongst premium offices continue to fare better than in poorer quality accommodation.

The majority of office markets are now in the 'growth quadrants' of the Office Clock with no major declines expected in the short term. In fact, a number of markets saw counter clock movements in Q3, indicating improved rental growth prospects. For example, Barcelona, Warsaw and Lyon saw above expected growth on the back of tight market conditions for best-in-class product.

Rental increases were witnessed in 18 of the 23 Index markets Lyon (+10.3% q-o-q), Rotterdam (+8.2% q-o-q), Brussels (+4.8% q-o-q), Amsterdam (+4.2% q-o-q), Milan (+3.8% q-o-q), Prague (+3.8% q-o-q), Hamburg (+3.1% q-o-q) and Dublin (+3.1% q-o-q) among others. Across all other European index markets prime rents remained stable. Strong levels of demand for high quality, amenity driven office space, coupled with low vacancy rates 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, in particular as the development pipeline erodes further.

### *Office Demand*

Despite significant macroeconomic headwinds, the European occupational markets continue to show strength. At 2.6 million sqm, take-up was up 18% on Q3 2021. Life Sciences, Finance, Professional Services and particularly Legal are the most active sectors across Europe. The Tech sector has taken a notable step back across most European cities. This is partly attributable to limited start-up funding, but some of the larger tech firms have also become more cautious as uncertainty increases. Looking back over the last two decades, it took between 3 to 5 quarters before macro-shifts came through in take-up numbers. Therefore, the outlook for the next 12 months continues to be conversative.

Regionally, Western Europe (+14% y-o-y) experienced healthy improvements in quarterly take-up. In the CEE region, take-up volumes were also up in Q3 2022 (+53% y-o-y). At a city level, strongest Q3 leasing volume gains were witnessed in Prague (+198% y-o-y), Stockholm (+104% y-o-y), Dublin (+70% y-o-y), Madrid (+49% y-o-y) and Milan (+44%). Elsewhere, Berlin (+33% y-o-y), Hamburg (+22% y-o-y) and Luxembourg (+28% y-o-y) recorded y-o-y increases. In Dusseldorf (-53% y-o-y), and Barcelona (-31% y-o-y) office take-up was more subdued.

In Europe's largest office market, Paris, Q3 take-up reached 460,000 sqm, down from the two previous quarters, when activity surpassed 500,000 sqm each quarter. Take-up since the start of the year stands at nearly 1.5 million sqm, close to the market's 10-year average (-4%). Demand drivers continue to involve setting up hybrid working solutions in (often smaller) top-quality, well-served offices. The most established markets remain in high demand.

Central London take-up reached 219,000 sqm in Q3, down from the 242,000 sqm recorded in Q2 and the 10-year quarterly average. This brought the year-to-date leasing volumes to nearly 700,000 sqm, 37% ahead of the equivalent period in 2021 (540,000 sqm). Pre-leasing activity continued in the three months to September, accounting for 21% of total quarterly take-up. Quarterly take-up was led by the Banking & Finance sector who accounted for 34% of total leasing volumes. This was followed by the TMT sector (19%) and Professional services (17%).

The Germany letting market has held up well during the third quarter. Take-up in the Big 7 cities over the first nine months of 2022 is just under 2.8 million sqm, an increase of 29% compared to the same period last year. Gains were recorded in Berlin (+33% y-o-y), Hamburg (+22% y-o-y) and Frankfurt (+8% y-o-y). Take-up volumes were subdued in Dusseldorf (-53% y-o-y) and Munich (-2% y-o-y).

### *Office Supply*

European office vacancy remained stable at 7.2% for the fifth quarter in a row. The market-wide trend in corporate consolidations and prime space relocations, especially away from the peripheral submarkets will likely impact vacancy levels in the coming year. 7 of the 23 index markets recorded an increase in vacancy during Q3 2022, including Barcelona (+120 bps to 7.2%), Budapest, (+110bps to 11.0%), Utrecht (+60 bps to 4.9%) and Amsterdam (+30 bps to 5.1%). Eleven markets saw a decrease in available supply during Q3 2022, including Rotterdam (-150 bps to 5.1%), Stockholm (-80 bps to 10.8%) and Edinburgh (-70 bps to 5.3%).

European office completions reached 1.2 million sqm during the third quarter, up by 15% from Q2 2022 and down 2% y-o-y. The highest volume of office delivery came from Paris (177,000 sqm), Milan (151,000 sqm) and London (146,000 sqm). With development declining and pre-letting remaining strong, Grade A supply constraints are likely to persist, and we anticipate further rental growth over the next 12 months.
Just over half of the projected completions in 2022 took place in the first three quarters, suggesting that we are likely to see many schemes delayed until 2023. Faced with ever rising construction and finance costs, many developers are delaying decisions to start new office developments, especially speculative new-build construction. Refurbishments are likely to prevail as seen as a cheaper, quicker, and more sustainable option.
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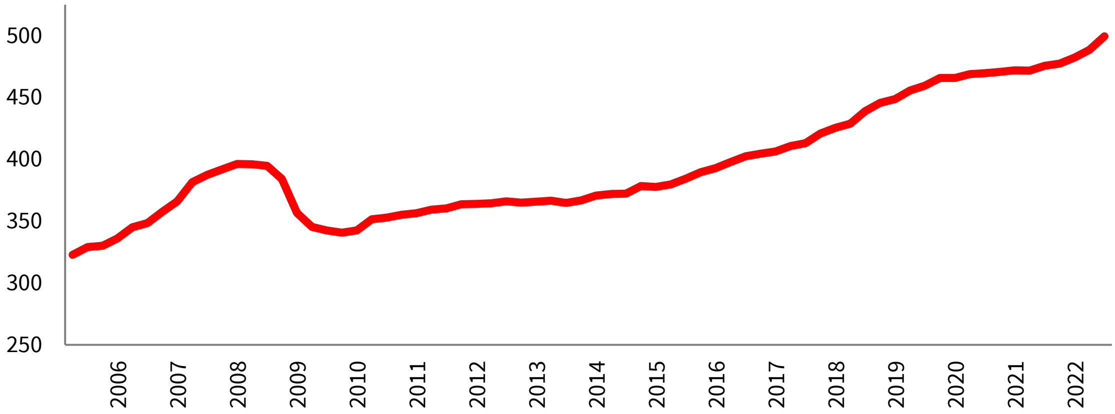
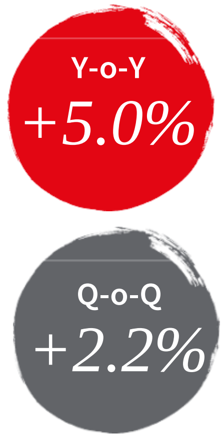
## Prime European Office Rental Index (EUR / sq m pa)

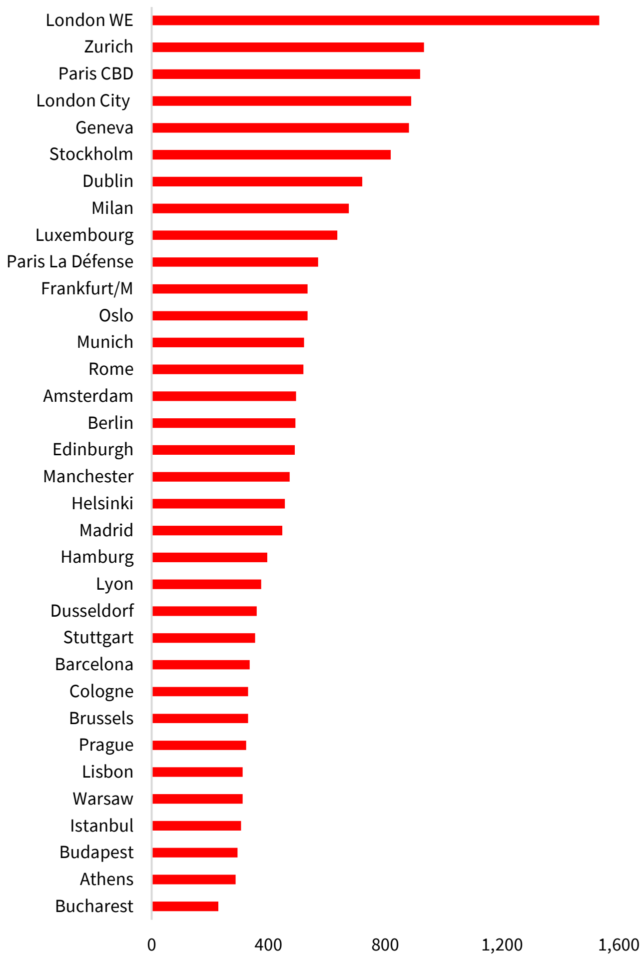



## % Change Q3 2022

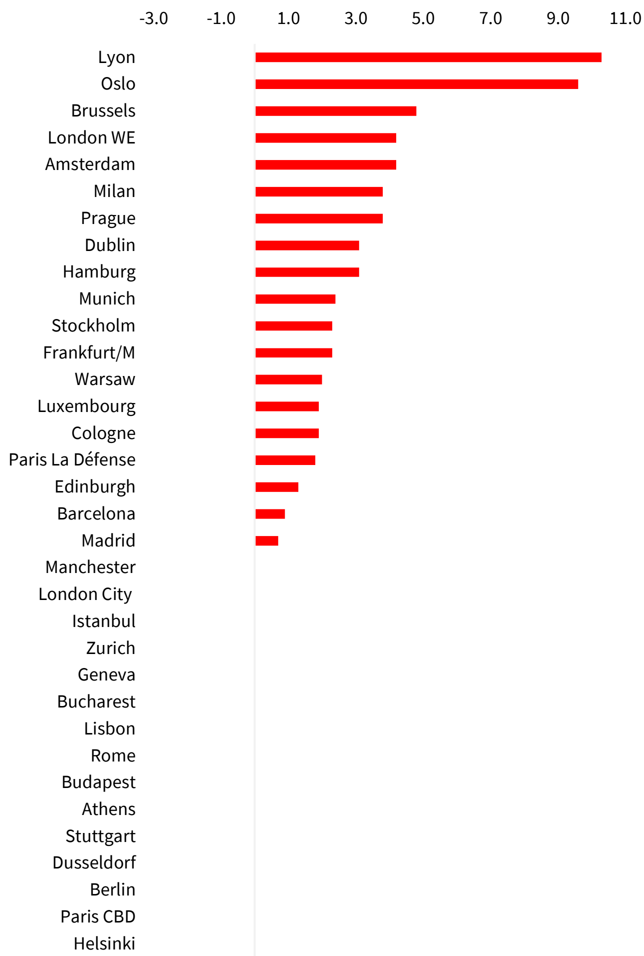



*Weighted Nominal Rental Trend, 1980 = 100*
*Source: JLL, October 2022*

## Prime Office Rents Q3 2022 (EUR / sq m pa)




## Prime Office Rental Change Q3 2022 (% Q-o-Q)




*Source: JLL, October 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.


*Bo Glowacz*
**Head of EMEA Office Research**
EMEA Office Research
+44 (0)79 285 027 94
bo.glowacz@jll.com

*Atalanti Angelopoulou*
**Senior Analyst**
EMEA Office Research
+44 (0)20 708 75644
A.Angelopoulou@jll.com

*Michael Scott*
**Senior Analyst**
EMEA Markets Research
+44 (0)75 1370 9575
michaelc.scott@jll.com


**jll.eu**

Jones Lang LaSalle

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