Research

EMEA | 2023

JLL office property clock Q4 2022

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Best-in-class outperforms despite softening demand

The European Office Rental Index increased by **2.6% q-o-q** during Q4 2022, and by **7.2% y-o-y.**

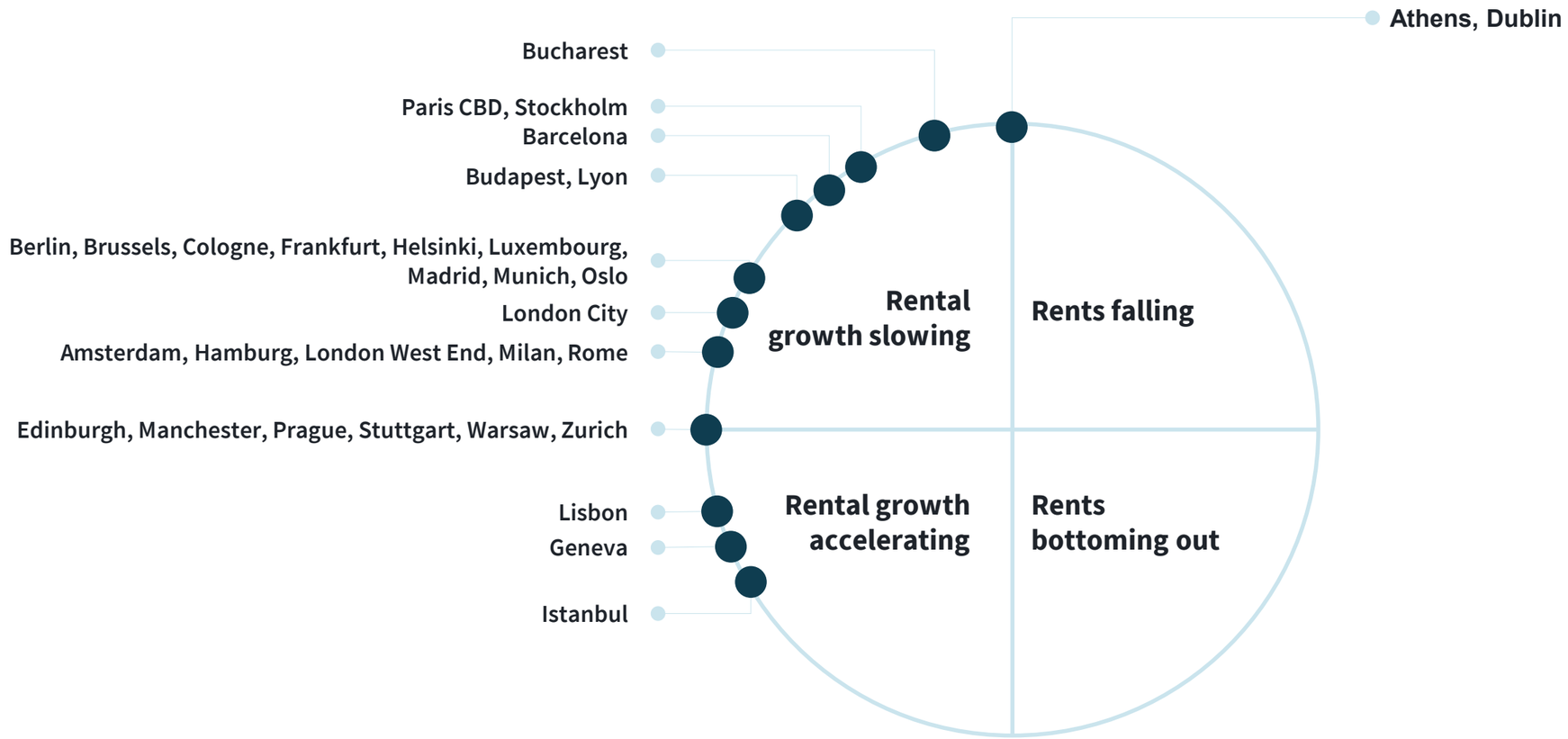
Most markets poised for steady prime rental growth over the medium term, albeit at a slower pace.

At 2.4 million sqm, Q4 take-up was down by **24% y-o-y**, but 2022 total surpassed 2021 by **7%.**

European office vacancy rose from 7.2% to **7.6%** during Q4.

At **5.3 million sqm**, 2022 completions were the highest since 2009 but rising costs are likely to cause delays in future deliveries.

European offices rental clock Q4 2022



Source: JLL, January 2023

The clock diagram illustrates where JLL estimates each prime office market is within its individual rental cycle as at the end of January 2023. 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.

Economic overview

Many European economies appear to have tipped into recession in the fourth quarter, with GDP expected to have contracted and a further contraction forecast for the start of 2023. The economic backdrop is far from all negative though. Inflation looks to have peaked at the back end of the year as commodity, shipping and energy prices all eased from their highs earlier in the year. Risks to the inflationary outlook are now broadly balanced and inflation is set to fall throughout 2023. The trajectory for interest rates softened, as economies slowed and the inflation outlook moderated. Labour markets held up remarkably well too, with unemployment rates remaining close to multi-decade lows, wages rising quickly (albeit not as fast as inflation). Labour market indicators softened but the expected deterioration is limited.

While growth turned negative in many economies, the recession is forecast to be relatively short and shallow. There is already light at the end of the recessionary tunnel, with most major European economies forecast to return to growth by Q2 2023, marking the downturn as relatively short-lived.

Prime rental growth

Prime office rents continue to outperform. The JLL European Office Rental Index increased by 2.6% q-o-q, the highest quarterly rise since Q2 2010. Annual office growth reached 7.2% in 2022, the strongest uplift since 2008. The considerable rental growth is a testament of resilience of best-in-class, amenity rich, well-located office space with strong sustainability performance.

Most European office markets continue to be positioned in the 'growth quadrants' of the Office Clock. Rental increases were witnessed in 10 of 23 Index markets including **Dusseldorf** (+26.7% q-o-q), **Hamburg** (+6.3% q-o-q), **London** (+4.0% q-o-q), **Frankfurt** (+3.4% q-o-q), **Milan** (+2.2% q-o-q) and **Paris** (+2.2% q-o-q) among others. **Dublin** recorded a drop (-3.0% q-o-q), while other European index markets saw no change.

Prime office rents in **Dusseldorf** increased significantly during Q4 2022 (+26.7% q-o-q) due to large transactions in new build and development schemes. These transactions moved prime rents to a new level.

Dublin saw a 3% drop in rental growth in Q4 2022 due to weaker occupier demand, especially from the tech sector. With a substantial amount of Grade A sublease space coming to the market at the end of 2022, rents could fall further in 2023.

European prime office rental growth is likely to continue in 2023, albeit at a slower pace, with some of the tighter CBDs expected to see healthy single digit rises. However, this does not represent the full market spectrum, with older product, especially offices with low energy efficiency standards in non-central submarkets, already witnessing rental reductions.

Prime office rental change Q4 2022 (% q-o-q)

Office demand

The European occupational markets showed signs of softening in the final quarter of the year. At 2.4 million sqm, Q4 2022 take-up was down by 24% on Q4 2021, which was the lowest final quarter since Q4 2012. However, the 2022 total of 10.2 million sqm still surpassed 2021 by 7%.

The tech sector has taken a notable step back across most European cities in recent months, with Finance and Legal becoming the most active sectors across Europe.

At a city level, Q4 leasing volume gains were witnessed in **Milan** (+47% y-o-y), **Prague** (+21% y-o-y), **Rotterdam** (+14% y-o-y) and **Hamburg** (+7% y-o-y). The highest losses in Q4 were witnessed in **the Hague** (-81% y-o-y), **Utrecht** (-69% y-o-y) and **Stockholm** (-65% y-o-y).

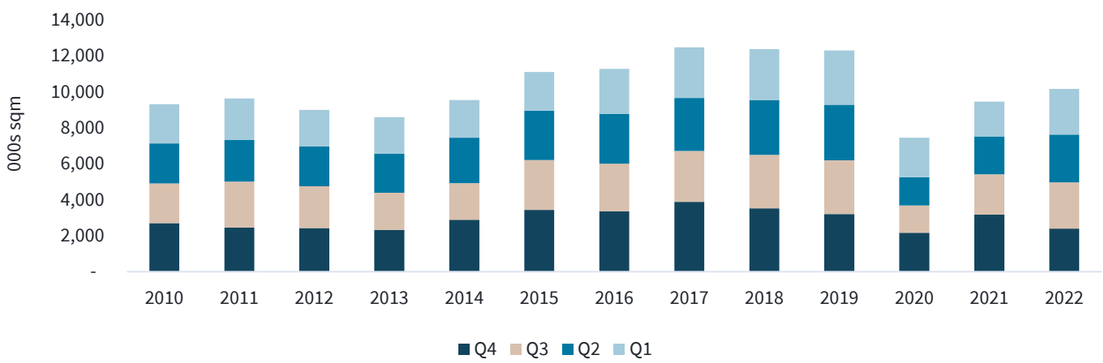
In Europe's largest office market, **Paris**, Q4 take-up reached 602,000 sqm (-11% y-o-y), taking the full figure of 2022 to 2.1 million sqm, representing a +10% annual increase. The main driver of activity in 2022 was the search for the best locations, creating a greater contrast between the most and less established submarkets in Paris.

Central London take-up also slowed in the final quarter to reach 195,000 sqm (-22% y-o-y) and fell short of the 10-year quarterly average. However, the annual total of 900,000 sqm was 18% above the volumes recorded in 2021.

Office take-up was also subdued in the **German Big 5** markets in the final quarter of the year. Take-up in the Big 5 cities was 600,000 sqm, down nearly 60% from the 959,000 recorded during Q4 2021. However, the annual total of 2.9 million sqm was 2% above the volumes recorded in 2021. The only market that recorded gains was Hamburg (+7% y-o-y). Take-up volumes were subdued in Berlin (-55% y-o-y), Frankfurt (-46% y-o-y), Dusseldorf (-31% y-o-y) and Munich (-28% y-o-y).

The macro-economic headwinds have started to impact office leasing decision-making. Occupier demand is likely to remain subdued in H1 2023, with a recovery expected in the second half of 2023.

European office demand



JLL Office Property Clock | Q4 2022

Office supply

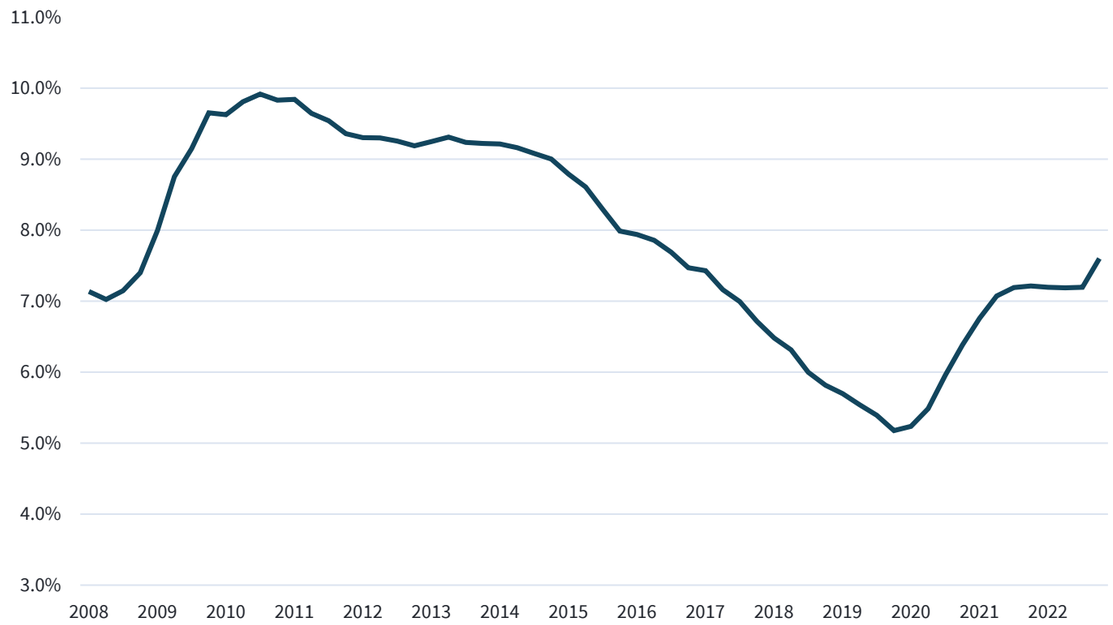
European office vacancy increased by 40 bps to 7.6% during Q4 2022, the highest level in six years. Increased supply, limited corporate expansion and reduced space requirements due to hybrid working have started to impact vacancies across Europe.

16 of the 23 index markets recorded an increase in vacancy during Q4 2022, including **Utrecht** (+260 bps to 7.6%), **the Hague** (+250 bps to 5.7%), **Dublin** (+130 bps to 13.3%) and **Milan** (+120 bps to 13.1%). Five markets saw a decrease in available supply, including **Dusseldorf** (-30 bps to 7.9%), **Brussels** (-30 bps to 7.4%) and **Frankfurt** (-30 bps to 8.5%).

Office completions are on the rise, totalling 1.7 million sqm in Q4 2022 and 5.3 million sqm in 2022, the highest annual volume since 2009. **Paris** (770,000 sqm), **London** (730,000 sqm), and **Berlin** (716,000 sqm) accounted for the lion's share of office space being delivered in 2022. Development levels are expected to remain elevated compared to the 10-year average (4 million sqm), with over 6 million sqm expected to complete in 2023.

However, faced with ever rising construction and finance costs, many developers are likely to delay decisions to start new office schemes, especially speculative new-build construction. Refurbishments are likely to remain an important part of the market.

European office vacancy



We can support you with expert advice that reflects your business needs and priorities

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