Research

EMEA | 2023

JLL office property clock Q3 2023

JLL SEE A BRIGHTER WAY

jll.eu

Leasing demand remains sluggish, but rental growth continues its upward movement

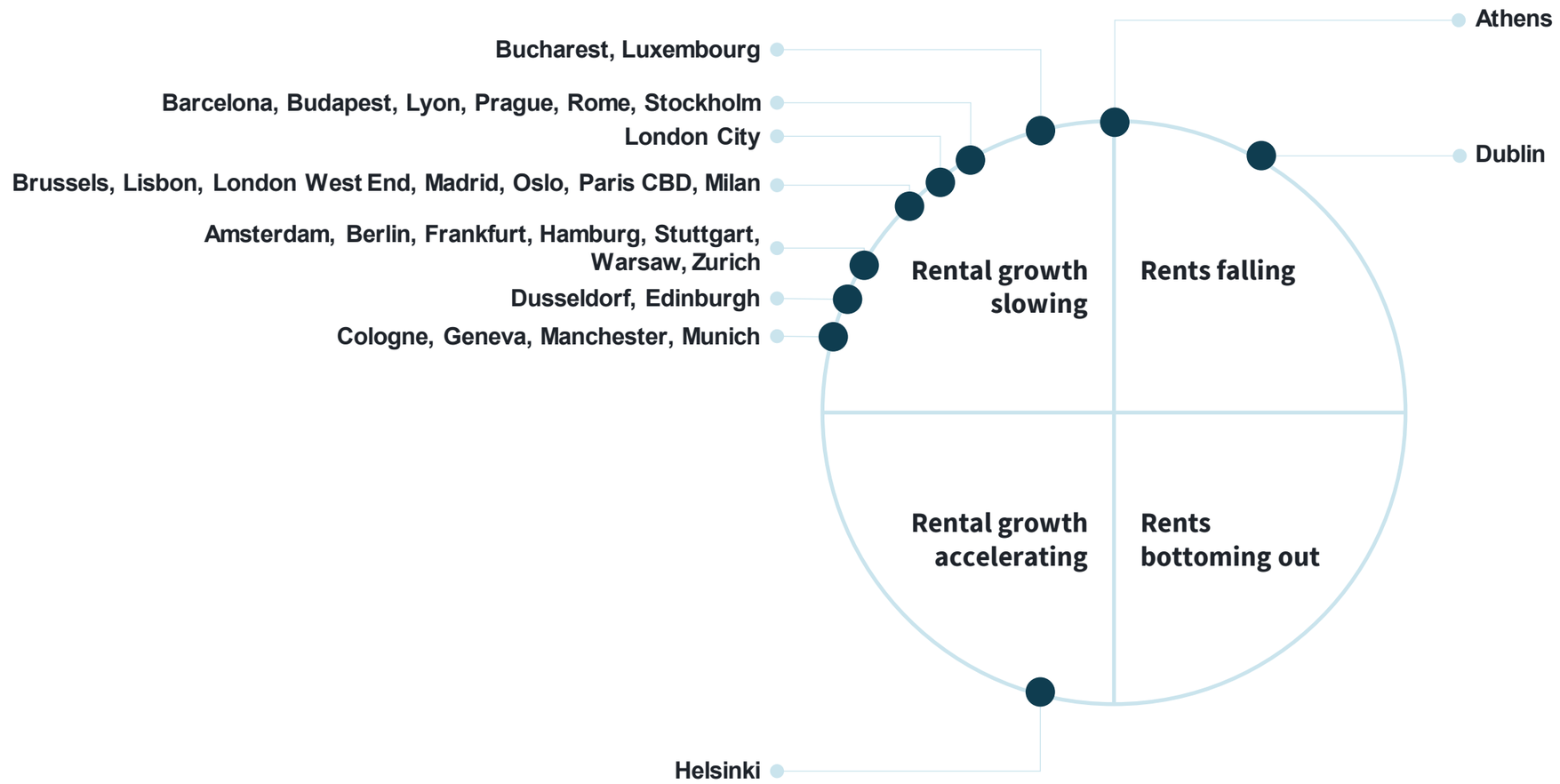
The European Office Prime Rental Index increased during Q3 2023, growing by +1.5% q-o-q and +5.4% y-o-y.

Q3 take-up totalled 2.1 million sqm, down by 14% y-o-y and 13% below the 5-year Q3 average.

European office vacancy increased slightly from 7.6% in Q2 2023 to 7.7% in Q3 2023.

Completions totaled 826,000 sqm in Q3 2023, the lowest volume since Q1 2019.

European offices rental clock Q3 2023



Source: JLL, October 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

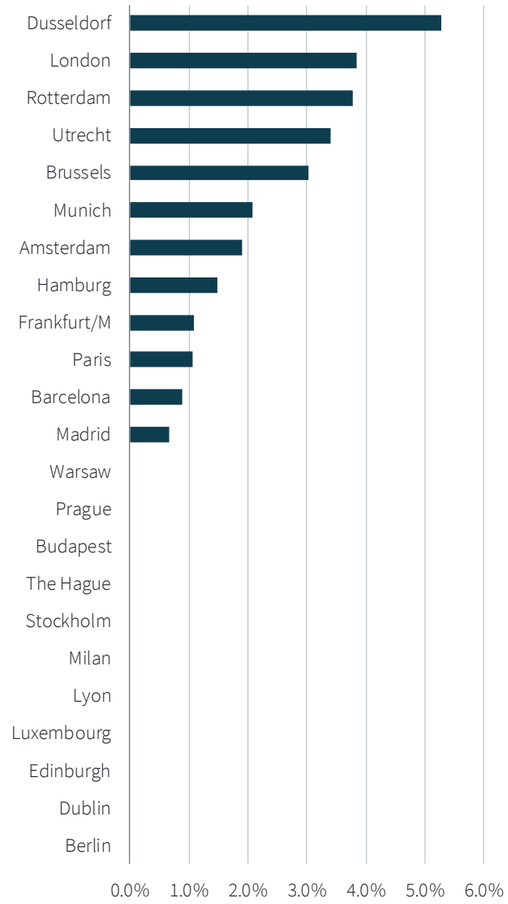
Inflation continued heading down in Q3, dropping to 4.3% in September in the Eurozone from 5.5% at the end of Q2, while in the UK it dropped from 8.0% to 6.7%. This was driven down by falling energy and commodity prices. Core inflation also continued to drop indicating softening price pressures more broadly. Contracting producer prices indicate further falls to come for CPI. Most forecasters see inflation approaching 2% by the end of next year. Central banks kept monetary policy tight to weigh on inflation. The Bank of England raised rates by 25bps in August, while the ECB did so in each of in August and September. Financial markets are currently pricing in rates staying where they are for nine to twelve months before the start of a loosening cycle begins. Economic performance largely disappointed during the quarter. Labour markets softened, and the manufacturing, services and construction PMIs remained – or dipped - below 50 across the major European countries, including in the UK. Eurozone GDP is expected to have remained unchanged at 0.1% QoQ, while for the UK no change is forecast. The rest of the year is forecast to see recession in Germany, and weak but strengthening growth elsewhere. 2024 is forecast to see higher growth across most markets.

Office rents

The European Office Rental Index continued to increase in Q3 2023 (+1.5% q-o-q). This quarterly movement is above the 10-year average of 1.0%. At 5.4%, annual European office rental growth also remains well above the 10-year average of 3.7%. Occupancy and pricing fundamentals amongst premium offices continue to fare better than in poorer quality accommodation.

Rental increases were witnessed in 12 of 23 Index markets including Dusseldorf (+5.3% q-o-q), London (+3.8% q-o-q), Rotterdam (+3.8% q-o-q), Utrecht (+3.4% q-o-q) and Brussels (+3.0% q-o-q). The remaining 11 markets saw no rental growth in Q3 2023.

Prime office rental change Q3 2023 (% q-o-q)



Office demand

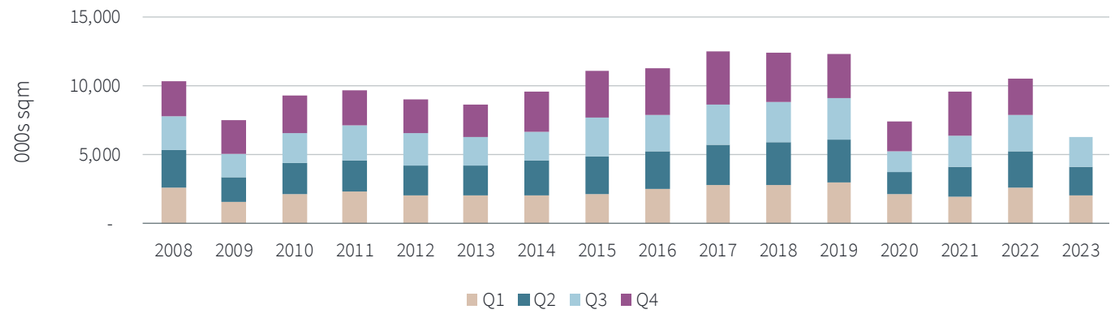
Q3 2023 data points to a continued weakness in office demand on a yearly basis. At 2.1 million sqm, Q3 was down by 14% on Q3 2022. On quarterly basis, demand levels recorded a slight increase of 5%, however, year-to-date take-up is down by 20% in comparison to the same period last year. Corporates continue to be hesitant to make decisions. However, a cautious but clear positive momentum has been observed in some markets. The focus remains on best-in-class, sustainable and centrally located accommodation. In some instances, the scarcity of top-quality office space in the CBD is forcing tenants to seek space in non-traditional submarkets.

In Paris, despite the economic and financial climate, companies were more active in Q3. Take-up reached 485,000 sqm in the Greater Paris Region over the past 3 months, taking year-to-date figure to 1.4 million sqm. This -12% y-o-y decrease means that the overall volume was -11% lower than the 10-year average. The rental market in the Greater Paris Region continued to make up for the slow start to the year. While SMEs fared better over H1, the trend has reversed, with large transactions being the most resilient (-7% in terms of both the volume and the number of transactions). 17 transactions were completed over the last 3 months taking the total number of transactions spaces over 5,000 sqm to 40 by the end of September. Activity was predominantly driven by the traditional sectors such as law firms, banking, insurance and media. The small space segment (under 1,000 sqm), saw a slightly larger year-on-year reduction (-11%), with levels returning to the long-term average. Lastly, 210 transactions were recorded in the medium space segment (1,000 - 5,000 sqm), with a-18% decrease in both the number of transactions and the volume.

In Central London, leasing activity was resilient over the summer with 208,300 sqm transacted in the three months to September and marked the highest quarterly volumes of the year to date. This was ahead of the previous quarter (186,000 sqm) but remained 19% below the 10-year Q3 average of 260,000 sqm. The year-to-date take-up totalled 585,000 sqm, which was 21% lower than the same period in 2022 (743,000 sqm) and 15% below the long-term YTD average (697,000 sqm). Throughout Q3 2023, eight deals over 5,000 sqm transacted, three of which were in excess of 10,000 sqm. The service industry sector accounted for the largest share of Q3 activity, with 30% of quarterly volumes. This was largely driven by the retail & leisure, insurance and service office operators' subsectors. The banking & financial and professional services sectors remained active transacting 26% and 23% of total quarterly take-up, respectively. Total space under offer remained high with 316,000 sqm in negotiations across Central London at the end of September. This is 11% up y-o-y and remains well ahead of the long-term average of 251,000 sqm. The flight to quality shows no signs of slowing down, with 68% of the total space under offer being for pre-let, newly built or refurbished stock.

Office take-up was also subdued in the German Big 5 markets in the third quarter of the year. Take-up was 526,000 sqm, down 33% compared to Q3 2022. Four out of the German Big 5 markets have recorded a decline during Q3 2023. However, Dusseldorf's office take-up increased significantly by 84% y-o-y. The strongest demand came from business services, which accounted for 20% of the total take-up, followed by insurance with 16% and manufacturing in third place with 11% each. Munich suffered the highest losses, with -56% drop in leasing volumes y-o-y and registering the weakest quarter since 1997.

European office take-up



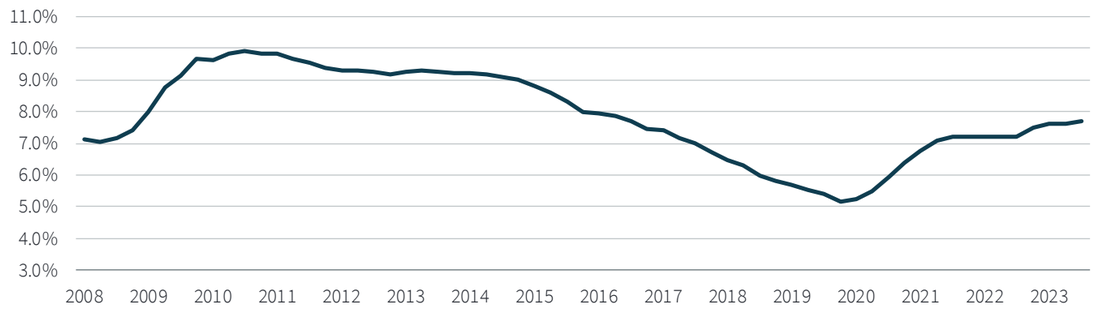
Office supply

European office vacancy has increased slightly from 7.6% in Q2 2023 to 7.7% in Q3 2023. However, supply dynamics continue to be tight. This has been perpetuated by market-wide planning postponements and construction delays, underpinned by the challenging financing environment. Increases in vacancy (lower than 100 basis points) were recorded in Dusseldorf, Edinburgh, Lyon, Rotterdam and the Hague.

Completions totaled 826,000 sqm in Q3 2023, the lowest volume since Q1 2019. Barcelona (126,000 sqm) and London (118,00 sqm) accounted for the largest office space delivered, followed by Paris (96,000 sqm) and Berlin (71,000 sqm).

Faced with rising construction and finance costs, labour shortages and low investor confidence, many developers are delaying decisions to start new office schemes or pause construction, especially speculative new-build projects.

European office vacancy



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

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

Atalanti Angelopoulou
Associate Director
EMEA Office Research
+44 (0)20 708 75644
a.angelopoulou@jll.com

About JLL

For over 200 years, JLL (NYSE: JLL), a leading global commercial real estate and investment management company, has helped clients buy, build, occupy, manage and invest in a variety of commercial, industrial, hotel, residential and retail properties. A Fortune 500 company with annual revenue of $20.9 billion and operations in over 80 countries around the world, our more than 103,000 employees bring the power of a global platform combined with local expertise. Driven by our purpose to shape the future of real estate for a better world, we help our clients, people and communities SEE A BRIGHTER WAY℠. JLL is the brand name, and a registered trademark, of Jones Lang LaSalle Incorporated. For further information, visit jll.com.