

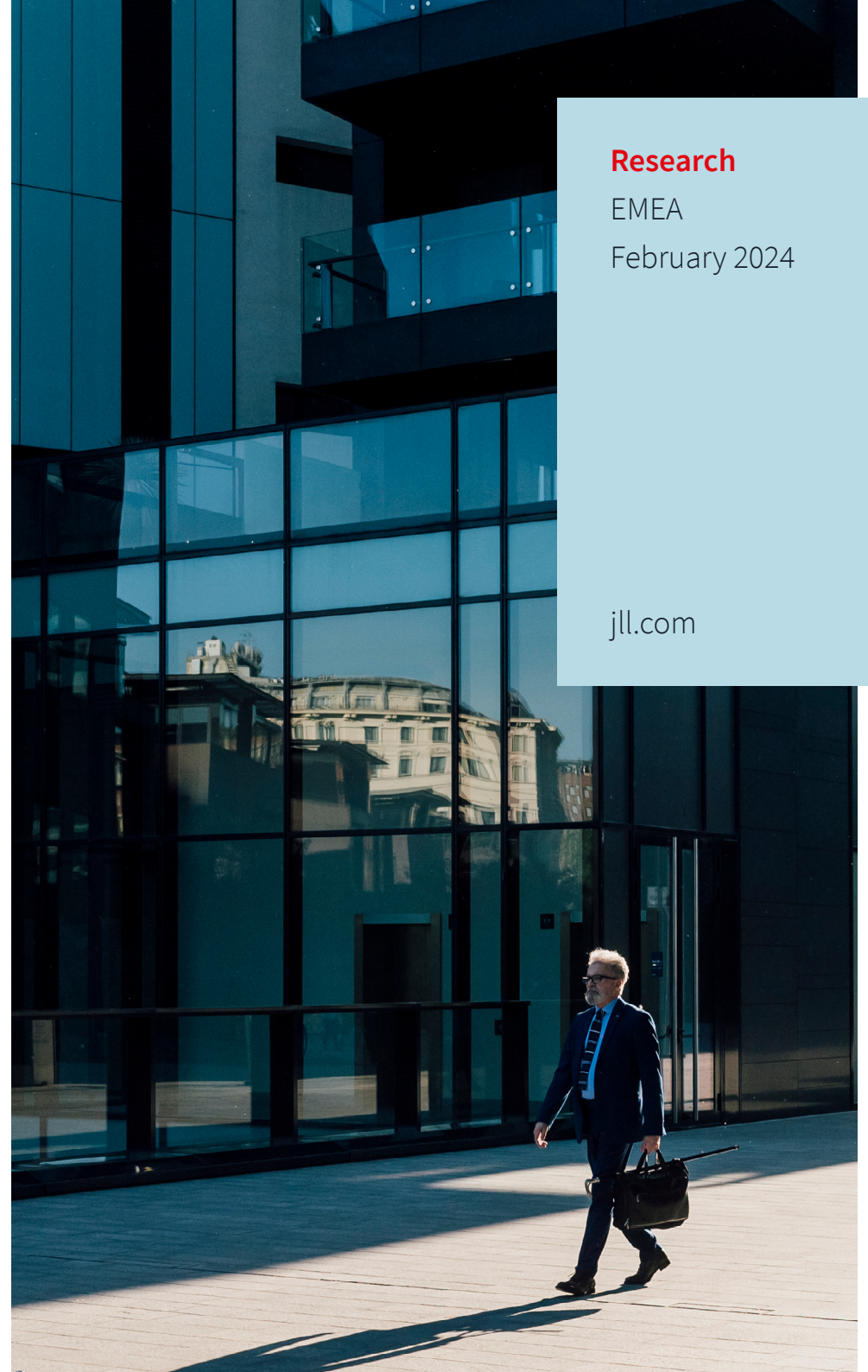
# JLL office property clock Q4 2023

Research

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## Occupational markets show early signs of optimism in Q4 despite continued market cautiousness.



The European Office Prime Rental Index increased during Q4 2023, growing by +1.0% q-o-q and +4.4% y-o-y.



Q4 take-up totaled 2.5 million sqm, up 20% q-o-q and down 6% y-o-y.

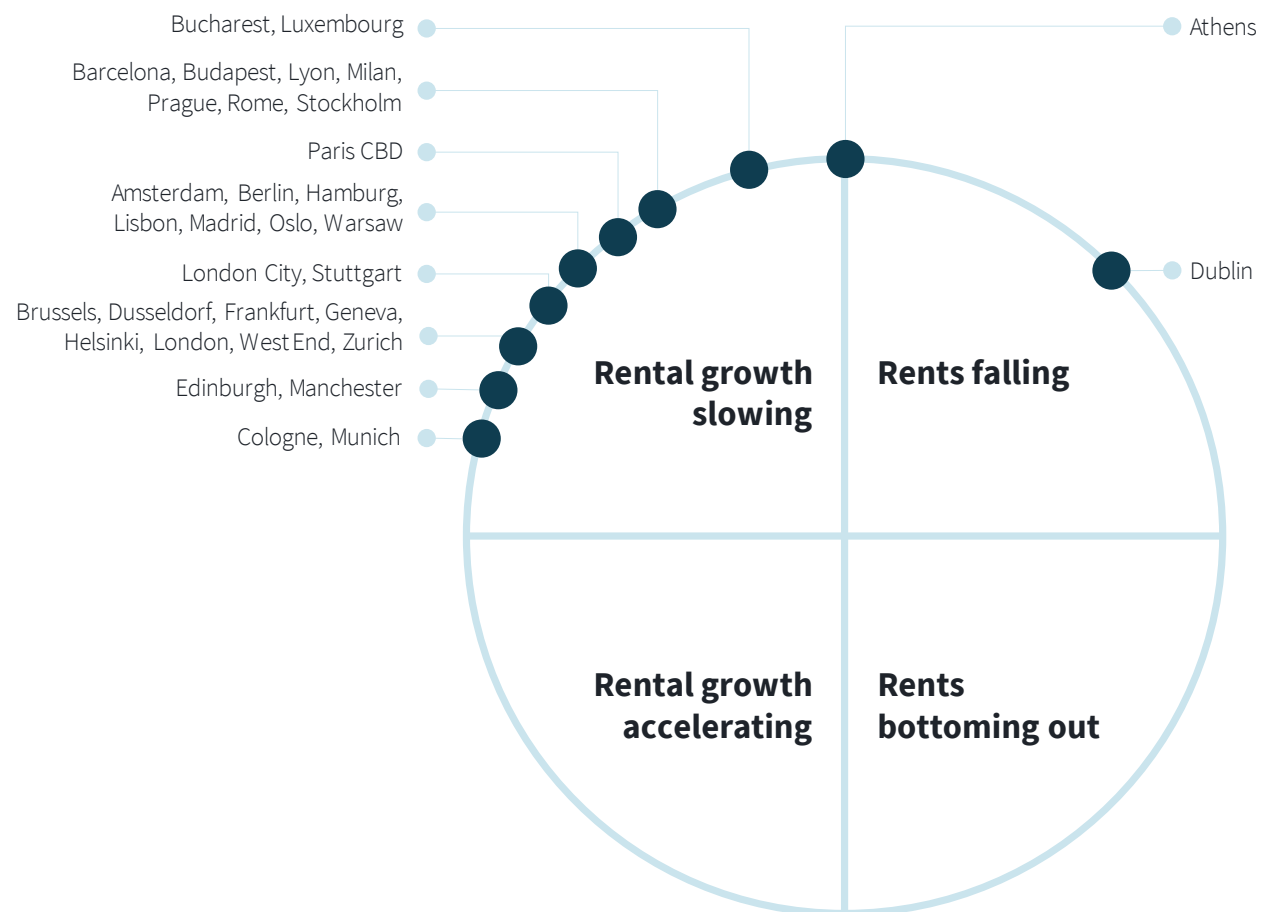


European office vacancy increased q-o-q from 7.7% to 8.0% in Q4 2023, the highest rate since Q1 2016.



Completions totaled 1 million sqm in Q4 2023, with Milan, London, and Paris accounting for the lion's share of European office completions.

## European offices rental clock Q4 2023



# Economic overview

Inflation continued to fall in the fourth quarter, though the pace of decline has eased as it returns toward its targeted rate. In the Eurozone, CPI fell from 4.3% in September to 2.9% in December, and whilst this was an upward movement from November, the direction of travel is still downward. The median forecast from Consensus Economics has inflation dipping to 2.3% by the end of this year. The decline was steeper in the UK from a higher base, easing from 6.7% at the end of Q3 to 4.0% in December. The UK is forecast to see inflation reach 2.7% by year-end. The major European central banks kept policy rates on hold in Q4, almost certainly marking the end of the recent tightening cycle. With economic performance broadly disappointing over the quarter, the case for cuts strengthened. The year ahead is forecast to be a challenging one, with growth in most economies expected to come in below trend and, in many cases, below that achieved in 2023. Germany is an exception due to a recession in 2023, but even here growth of 0.4% will be weak.



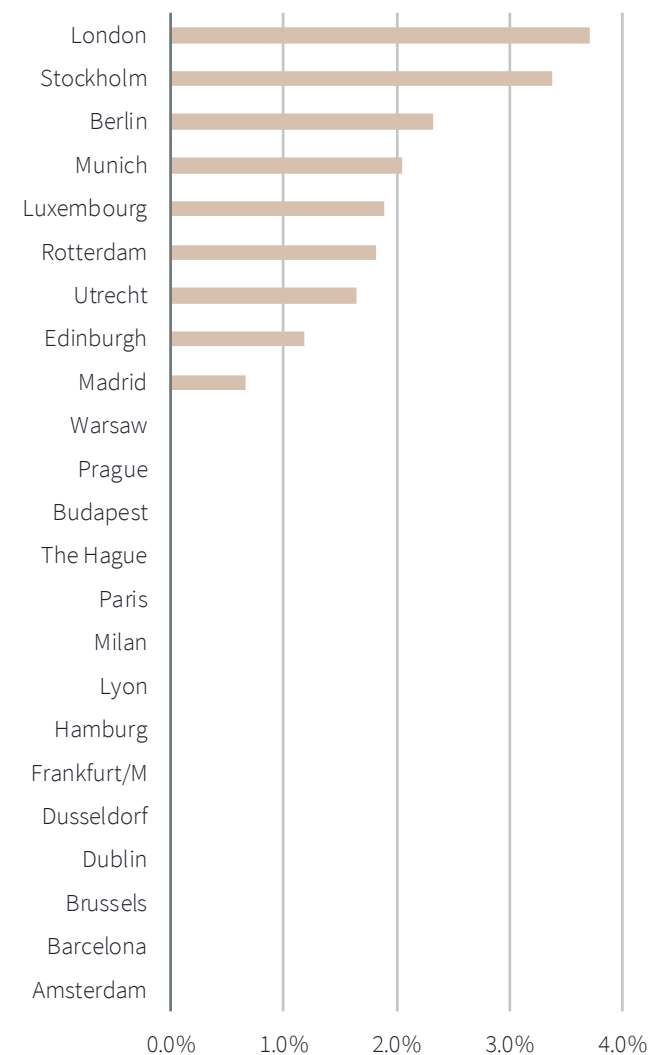
# 01

## Office rents

The European Office Rental Index continued to increase in Q4 2023 (+1.0% q-o-q). At 4.4%, annual European office rental growth also remains well above the 10-year average of 3.8%. Prime rents will likely continue to rise, supporting the case for an exceptionally tight top-end of the market. However, the pace of rental growth is expected to slow down, falling below 3% in 2024.

Rental increases were witnessed in nine of 23 Index markets including London (+3.7% q-o-q), Stockholm (+3.4% q-o-q), Berlin (+2.3% q-o-q), Munich (+2.0% q-o-q), Luxembourg (+1.9% q-o-q), Rotterdam (+1.8% q-o-q), Utrecht (+1.6% q-o-q) and Madrid (+0.7% q-o-q). The remaining 14 markets saw no rental growth in Q4 2023.

**Prime office rental change Q4 2023 (% q-o-q)**





## 02 Office demand

Q4 2023 data points to a slight upward movement in leasing volumes on a quarterly basis. At 2.5 million sqm, Q4 leasing volumes were 20% up from last quarter. However, Q4 was still down on a yearly basis, at -6% on the same quarter last year. In total, 8.7 million sqm of take-up was recorded in 2023, down by 18% on 2022 leasing volumes.

The trend of downsizing for better quality space in central locations continued through the end of the year. The tight market conditions in some CBDs are pushing out demand into other well-connected core fringe locations.

On a yearly comparison, nine markets saw an increase in office demand. These include Luxembourg (+143% y-o-y), London (+59% y-o-y), Dusseldorf (+28% y-o-y), Frankfurt (+24% y-o-y), Barcelona (+11% y-o-y), Milan (+10% y-o-y), Budapest (+10% y-o-y), Hamburg (+5% y-o-y) and Prague (+5% y-o-y). On a full-year comparison, most markets recorded losses in their take-up volumes between 2023 and 2022,

apart from Budapest (+17%), Amsterdam (+6%) and Brussels (+5%).

Like in most European markets, Paris recorded a quarterly increase in leasing volumes in Q4. At 526,000 sqm, Q4 volumes were up by 4% compared to Q3. However, total yearly volumes of 1.9 sqm were still down by 17% compared to 2022 and 12% below the market's 10-year average.

On a yearly basis, demand in Paris was driven by the small space segment (under 1,000 sqm), with 645,700 sqm or 35% of the total 2023 take-up volumes. On the large-scale segment, 56 transactions were recorded in 2023, with 623,200 sqm of leasing volumes. This is down by 28% compared to 2022 and 22% below the 10-year average.

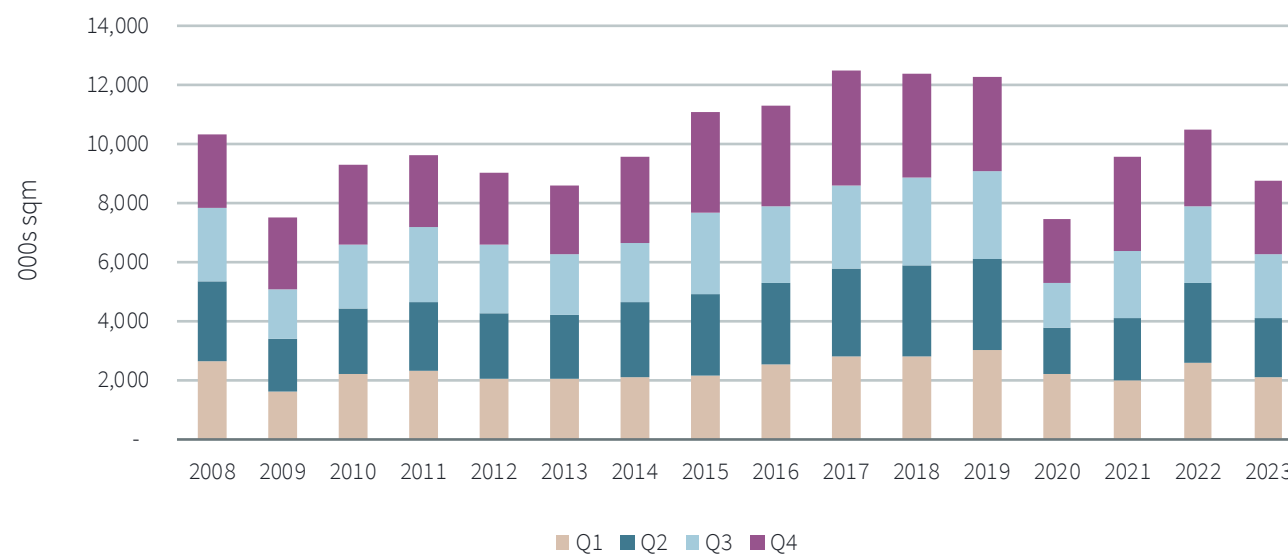
Central London recorded some of the strongest improvements in quarterly leasing volumes. At 315,000 sqm, Q4 leasing figures were 59% up compared to same quarter last year. Annual



leasing volumes across Central London reached 901,000 sqm, which was marginally below volumes recorded in 2022 (938,000 sqm) and just 5% lower than the long-term annual average of 950,000 sqm. Annual leasing activity was dominated by the banking & finance sector, which accounted for 30% of take-up, with the service industry and professional services sectors accounting for 25% and 18%, respectively.

In the German Big 5 markets, total take-up in 2023 reached 2.2 million sqm. This was down by 24% compared to volumes in 2022. However, quarterly demand levels increased in Munich (+56%), Frankfurt (+36%) and Hamburg (+25%) in Q4. Take-up by sector is very diversified in Germany with just three sectors above 10%: other business services (17.6%), education, health and social (12.3%) and manufacturing (11%).

#### European office take-up



## 03 Office supply

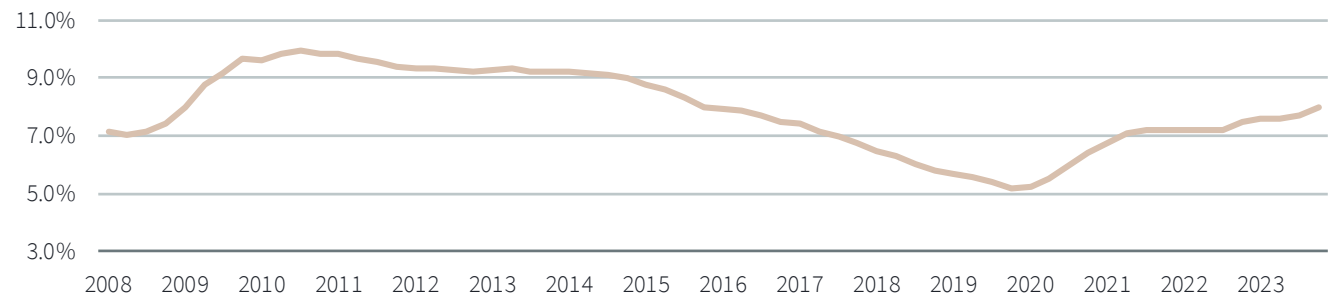
European office vacancy increased to 8.0% during Q4 2023, from 7.7% in the previous quarter and the highest rate since Q1 2016.

17 of the 23 index markets recorded an increase in vacancy during Q4 2023, including Stockholm (+100 bps to 12.5%), Madrid (+70 bps to 10.5%), Amsterdam (+60 bps to 7.5%), Barcelona (+50 bps to 9.8%), Dublin (+50 bps to 14.9%) and Frankfurt (+50 bps to 8.8%). Five markets saw a decrease in available supply, including Rotterdam (-70 bps to 5.2%), London (-50 bps to 9.2%), Amsterdam (-20 bps to 6.8%), Prague (-20 bps to 7.2%), Warsaw (-20 bps to 10.4%)

and Edinburgh (-10 bps to 6.7%). Brussels remained stable.

Completions totaled 1 million sqm in Q4 2023. Milan (125,000 sqm), London (113,000 sqm), Paris (98,000 sqm) and Hamburg (94,000 sqm) accounted for almost half of the office space being delivered in Q4 2023. There are currently more than 6.9 million sqm in the pipeline for 2024, the highest volume in the last 20 years. However, further postponements and construction delays are expected due to still high financing costs and subdued pre-letting activity.

### European office vacancy



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