Real Estate
for a changing
world

AT A GLANCE H1 2023

MAIN OFFICE MARKETS IN EUROPE

SUBDUED LETTING ACTIVITY IN H1 2023

Credit: AdobeStock_506938933_Grand Warszawski

With many large occupiers having made property decisions in 2022, the challenging economic backdrop is concentrating attention on cost control, reducing letting activity as a result. Occupiers continue to focus on quality over quantity, widening the gap between assets in the most coveted districts and secondary locations.

TAKE-UP

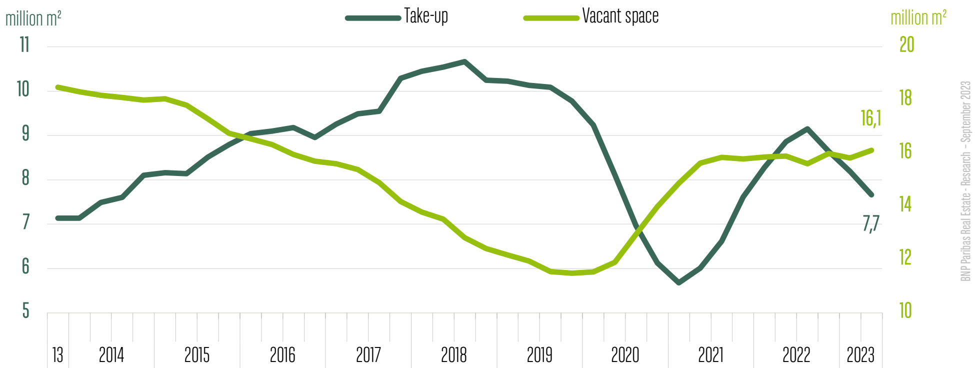
Letting in the 15 main European office markets achieved 7.66 million sqm (rolling year volume), a 14% decrease over Q2 2022. Reduced activity in the large floorplate segment lies behind most falls as many occupiers for this unit size made their locational decisions in the last financial year (2022) or put on hold.

The four main German markets suffered from a weaker national economy as shown by the H1 2023 take-up amounting to 912,000 sqm (-30% y.o.y). Berlin (262,000 sqm, -28%) remained the leading German market, followed by Munich (237,000 sqm, -39%). Despite a 26% decrease y.o.y, Hamburg's take-up volume at 223,000 sqm remained close to its 10-yr average. Frankfurt's take-up reached 190,000 sqm (-21% y.o.y), dragged down by the lack of major deals above 10,000 sqm closed over the first half of the year.

Take-up in Central Paris was down by 24% on last year, representing 708,000 sqm. The large-unit segment (> 5,000 sqm) was the most affected by the slowdown with 21 deals transacted (amounting to 224,000 sqm) vs. 29 deals in H1 2022 (337,700 sqm). However, some recovery may occur in H2, with large deals expected to be signed.

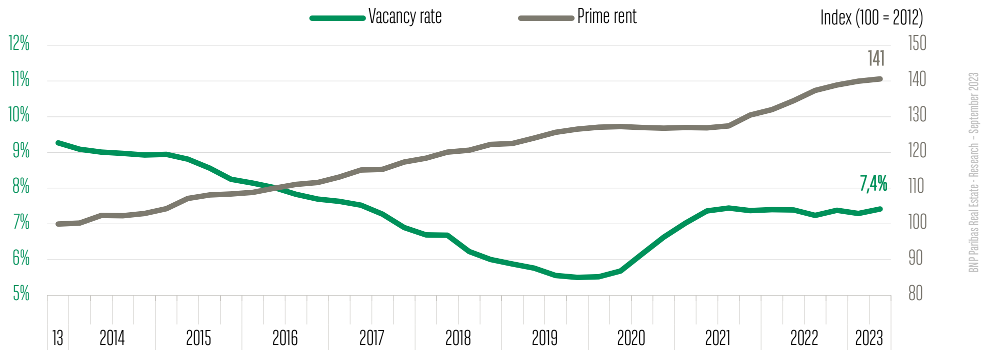
Office cycle (rolling year)

Europe - 15 cities



Office prime rent & vacancy rate

Europe - 15 cities



Following a good start to the year, letting activity in Central London slowed in Q2 resulting in a 30% drop over H1 (410,100 sqm). Banking and Finance was the most active sector over the past 6 months accounting for 23% of market share, directly followed by Professional Services at 22%.

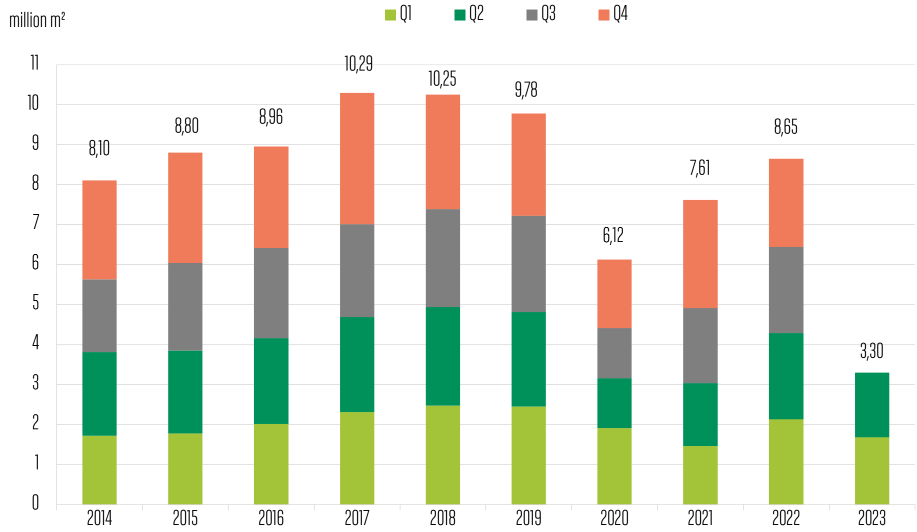
Take-up continues to expand in Madrid (260,000 sqm, +8%) while in Milan, volumes declined in H1 (192,000 sqm, -25%) but remained in line with the long-term average.

Reduced take-up volumes also occurred in Dublin (-27%) and Warsaw (-29%).

The Brussels office market recorded a 25% increase over 6 months (163,000 sqm) boosted by one mega deal (36,500 sqm for the European Commission, North Light building).

Office take-up

Europe - 15 cities



3.30 M SQM

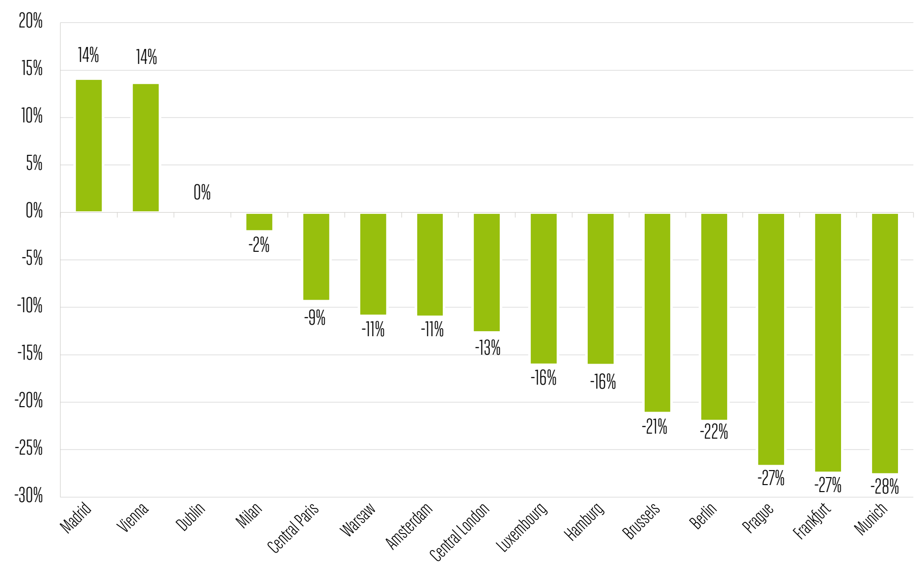
TAKE-UP IN H1 2023 IN THE 15 MAIN OFFICE MARKETS

-23%

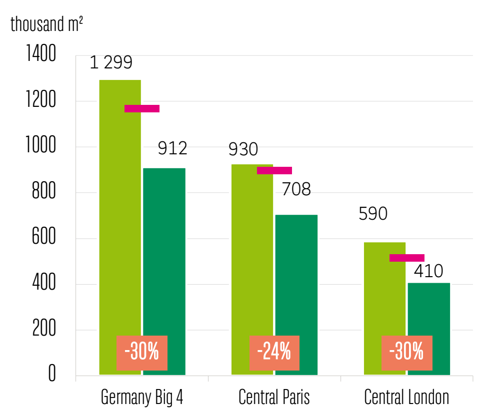
VS. H1 2022

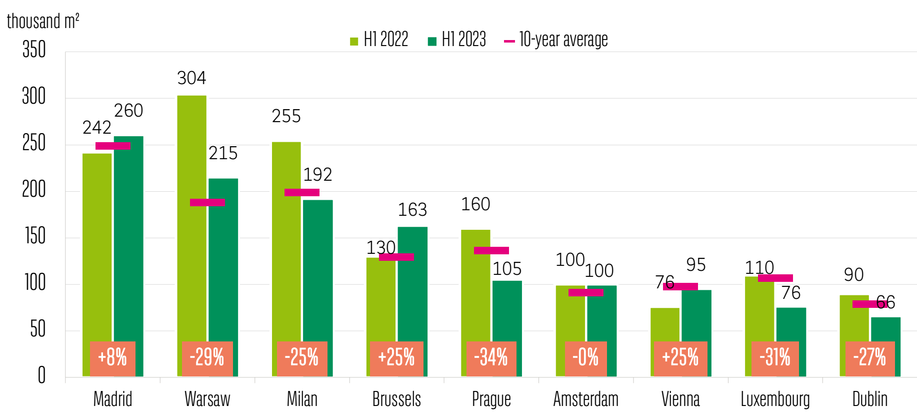
Take-up change (rolling year at 30 June 2023)

Europe - 15 cities



Office take-up





RENTS

Prime rents continue to be supported by two factors: the appeal of high quality buildings in central areas and the limited availability of those units.

Over the past 12 months, London (+12%), Milan (+6%), Amsterdam (+5%) and Berlin (+5%) have seen the most significant increases in values.

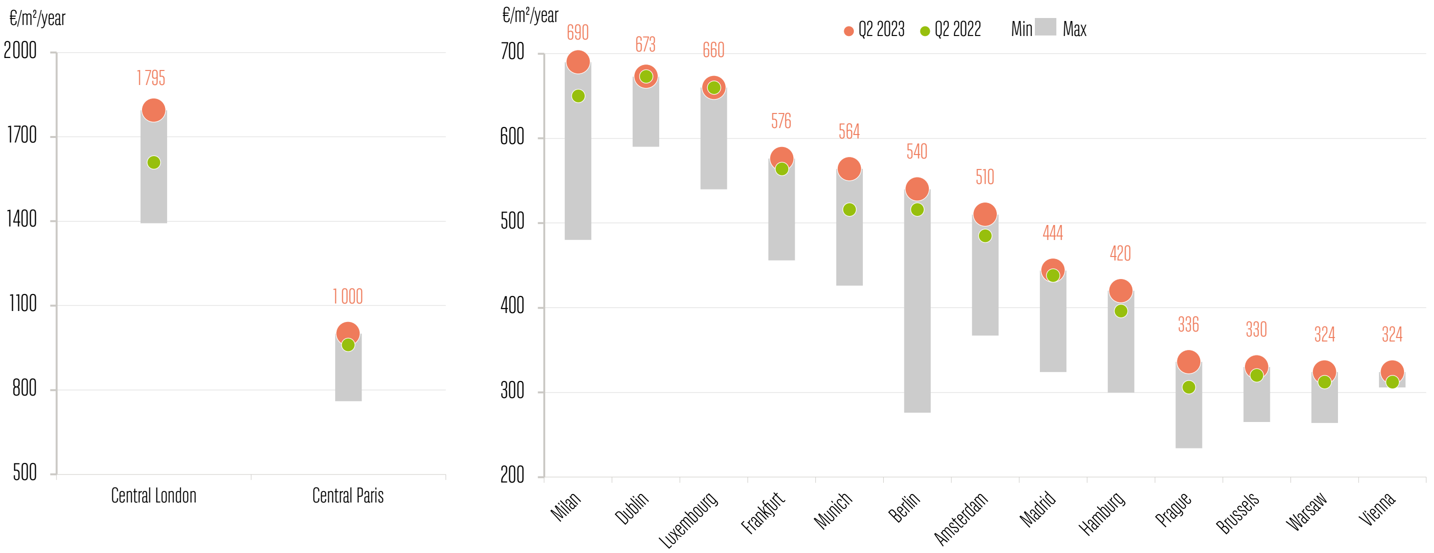
The upward trend in prime rents is likely to continue: we expect further rises (+3% on average) by the end of the year.

This increase may be more substantial in the CBD for modern units. Elsewhere rental values may weaken as slower take-up takes a toll on average rents, especially second-hand assets or units located in more peripheral areas which increasingly suffer from a lack of occupier interest.

+5%

AVERAGE VARIATION IN PRIME RENTS Y.O.Y.

Office prime rents



VACANCY

Empty space remains at a reasonable level. The overall vacancy rate stood at 7.3% at the end of H1, stable compared to the same period last year.

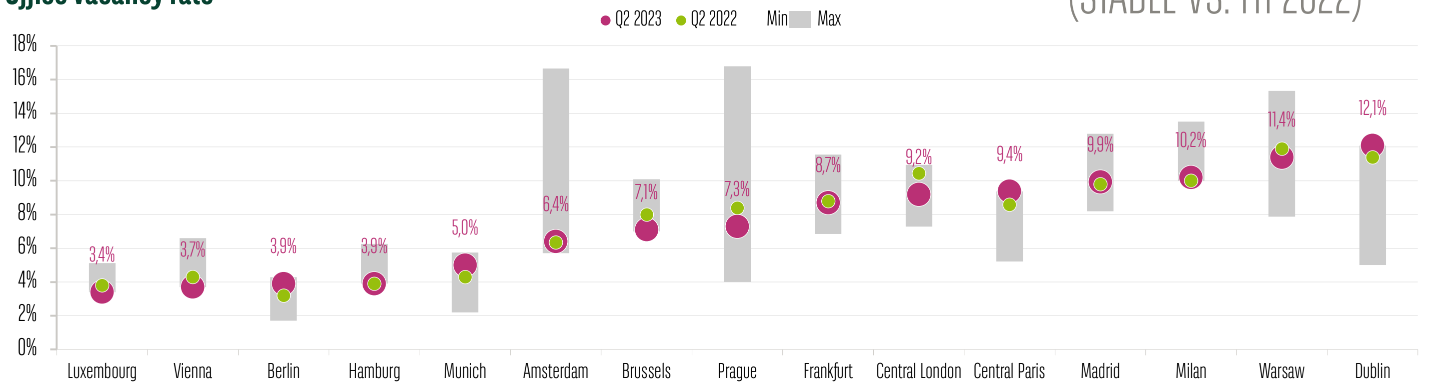
Trends vary between markets: Berlin, Central Paris and Dublin experienced a moderate rise while in Central London, the vacancy rate markedly declined.

Within the main European markets, contrasting patterns are also visible between districts. In the most-sought-after districts, availability remained very low (such as 2.1% in Paris CBD, 2.9% in Berlin CBD, 6% in London West End). In contrast, vacancy climbs in many peripheral office districts. This dichotomy highlights the requirement put on buildings by occupiers for central locations and transport connectivity.

7.3%

VACANCY RATE IN THE 15 MAIN EUROPEAN MARKETS (STABLE VS. H1 2022)

Office vacancy rate



GLOSSARY

BNP Paribas Real Estate is working on producing indicators which are as comparable as possible. This is a complex issue, due to cultural differences from market to market. Nevertheless, as we aim to actively contribute to the transparency of the markets, we have highlighted those definitions and indicators which are strictly comparable, so that our readers can understand what the indicators mean.

Furthermore we have decided to adopt the PEPCIG1 definitions, on which most of the following indicators published by BNP Paribas Real Estate are based. Other indicators are from INREV2 and from BNP Paribas Real Estate.

Central Business District average rent is the average of each of the last four quarters' average headline rent in the CBD. Each quarterly average rent is weighted by the surface of each lease signed during the quarter, in either new or second-hand premises. The definition of CBD corresponds to local conventions.

Completions represent the total amount of floor space that has reached practical completion and is occupied, ready for occupation or an occupancy permit where required has been issued during the survey period.

Central London includes the following districts: West End, Midtown, City, Docklands, Southbank, Western Fringe and Northern Fringe.

Central Paris includes the following districts: CBD, Paris out of CBD, La Défense, Western Crescent and Inner Rim.

Core Investment Vehicles target returns at 11.5% and lower, with gearing level up to 60% of Gross Asset Value.

Closed Ended Fund is a vehicle that has a targeted range of investor capital and a finite life.

Development Pipeline represents the total amount of floor space for all developments under construction and/or schemes (including major refurbishments) that have the potential to be built in the future through having a secured level of planning permission but remain unimplemented at the survey date. It includes all proposed new buildings, those constructed behind retained facades and buildings (or parts of buildings) undergoing a change of use to offices.

Exchange Rate from £ into € for rents is the average value observed over the quarter.

Exchange Rate from £ into € for investment volumes for each quarter is the average value over that period. Full-year investment volumes in both currencies are made up by adding the four quarters of each year.

German Open Ended Fund is a public vehicle that does not have a finite life, continually accepts new investor capital and makes new property investments. The list of German Open Ended Funds is published by the BVI (Bundesverband Investment und Asset Management e.V.).

Gross Asset Value is the sum of the Gross Capital Value of properties, cash and marketable securities and other (non-operating) assets.

Investment volume takes into account all commercial properties BNP Paribas Real Estate is aware of, whose owner has changed during the studied period, whatever the purchasing price. It includes Office buildings, Retail (supermarkets, hypermarkets), Industrial and Logistics Warehousing and Others (Hotels, Cinema, Leisure, Car Parks, Care Homes, parts of portfolio which can not be split up by product, and Development Sites in Germany). Quoted investment volumes are not definitive and are consequently subject to change.

Initial Prime Gross Yield is defined as Gross income (i.e. income before costs of ownership) over purchase price excluding costs of acquisition.

Initial Prime Net Yield is defined as Net income (or NOI) over purchase price plus all other costs of acquisition.

Prime Rent represents the top open-market rent at the survey date for an office unit:

- of standard size commensurate with demand in each location- of the highest quality and specification- in the best location in a market

Investment volume by investor/seller type refers to the following categories: Insurance, Private Investors, Public Sector, Corporates, Property Companies & REITS, Consortium, Funds and Other.

Investment volume by investor/seller nationality refers to the following categories: Eurozone, Non-Eurozone, North America, Other America, Asia, Middle East, Australia, International and Other.

Major Refurbishments represents refurbishments, where building work must involve either structural alteration, and/or the substantial replacement of the main services and finishes. The quality of the floor space must have been substantially improved from its previous condition so as to offer accommodation of a modern standard – although not necessarily to the standard of a completely new building.

Opportunistic Investment Vehicles target returns in excess of 17%, with gearing levels above 60% of Gross Asset Value.

Actual transactions are used in France, Germany and Belgium to support the headline prime rental quoted, but one-off deals, which do not represent the market, are disregarded. In the UK & Spain, if there are no prime transactions during the survey period a hypothetical rent is quoted, based on expert opinion of market conditions.

Space calculation differs in Spain, where figures in m² (Take-Up, Vacancy, Pipeline, Completions) as well as Rental values are based on Gross Letting Area space, contrary to the other main European markets, which use Net Letting Area. In order to make the Spanish figures comparable across all monitored markets, they should be multiplied by 0.82 (NLA = 0.82 GLA). This ratio is applied by BNP Paribas Real Estate to produce international indices and benchmarks.

Take-Up represents the total floor space known to have been let or pre-let, sold or pre-sold to tenants or owner-occupiers during the survey period.

It does not include space that is under offer

- A property is deemed to be "taken-up" only when contracts are signed or a binding agreement exists- Pre-let refers to take-up that was either in the planning or construction stage- All deals (including pre-lets) are recorded in the period in which they are signed- Contract renewals are not included- Sales and leasebacks are not included as there had been no change in occupation- Quoted take-up volumes are not definitive and are consequently subject to change.

The breakdown of take-up by business sector is compatible with the European NACE code.

Under Construction represents the total amount of floor space in properties where construction has commenced on a new development or a major refurbishment (see separate definition) at the survey date. It includes properties for owner occupation, which are reported separately. It does not include sites being cleared for possible development in the future.

Property that is under construction but pre-let or for owner occupation is recorded separately where appropriate.

Value-added Investment Vehicles target returns of 11.5% to 17%, with gearing levels between 30% and 70% of Gross Asset Value.

Vacancy represents the total floor space in existing properties, which are physically vacant, ready for occupation in the next three months (this period covers fit-out time) and being actively marketed at the survey date. Vacancy includes sublet space (except in Germany), but where possible, vacant sub-let space is recorded separately.

In France, vacancy excludes premises which the owner will renovate only once a lease is signed. Spain only counts immediately available space.

Vacancy Rate represents the total vacant floor space including sub-lettings divided by the total stock at the survey date.

1 Pan-European Property Common Interest Group. This group assembles a wide range of European advisors and investors and major agents.

2 European Association for Investors in Non-listed Real Estate Vehicles.

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N° ADEME : FR200182_03KLJL