RESEARCH

AT A GLANCE Q4 2022

MAIN OFFICE MARKETS IN EUROPE

LETTING ACTIVITY RETURNED TO ITS LONG-TERM AVERAGE IN 2022

Occupier demand remained lively in 2022 despite challenging environment: letting volumes are back to their 10-year average in most of main European markets. The year-end showed the first signs of normalization in activity while the post Covid rebound seems to be fading. The demand is currently driven by an increasing focus on quality over quantity.

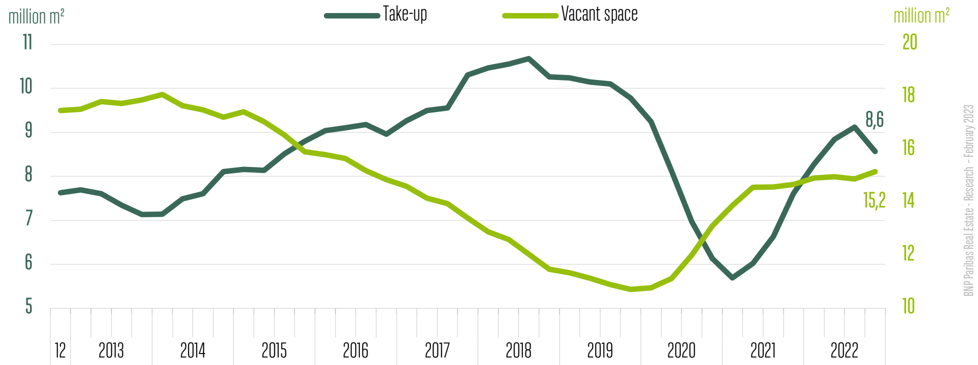
TAKE-UP

Letting volumes in the 15 main European office markets amounted to 8.56 million sqm at the end of 2022, which represents a 12% increase relative to 2021, despite a noticeable slowdown in Q4 (-20% vs Q4 2021).

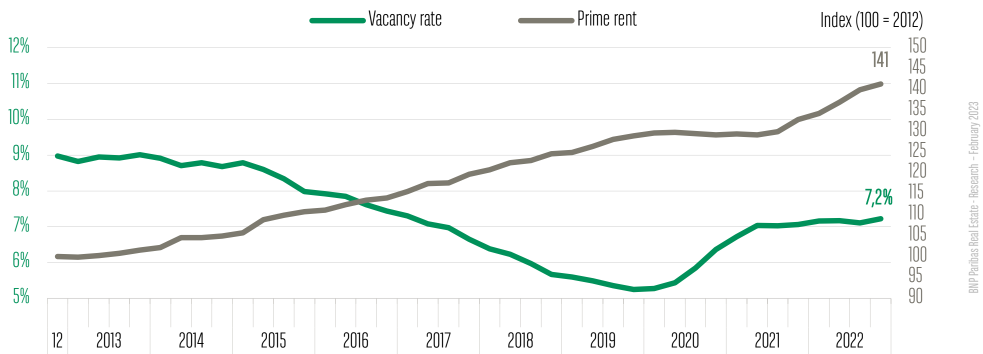
The four main German markets proved resilient, reaching 2,545,000 sqm in 2022 (+1% y.o.y). This result, in line with the 10-year average, conceals different trends at city level. Berlin (773,000 sqm, -7%) remains the leading German market. Munich (746,000 sqm, +13%) and Hamburg (554,000 sqm, +16%) managed to maintain high levels, in contrast to Frankfurt (472,000 sqm, -12%) which suffered from a Q4 well below the long term average (-39% vs. Q4 2021).

Take-up in Central Paris was up to 13% on last year, representing 1,909,000 sqm, in line with the 10-year average. The large-unit segment (> 5,000 sqm) was buoyant with 57 deals transacted (representing 685,600 sqm) vs. 51 deals in 2021 (495,698 sqm). 2022 marked the return of very large transactions (> 40,000 sqm) with two emblematic deals, signed by the French Development Agency in Paris 13 (Evolution, 46,955 sqm) and the Ministry of Interior in Saint-Denis (Campus Maxwell, 46,000 sqm).

Office cycle-rolling year Europe (15 cities)



Office prime rent & vacancy rate Western Europe (15 cities)



Central London exceeded expectations with letting volumes amounting to 1,157,000 sqm, rebounding by 45%. Professional services occupiers were most active during 2022 accounting for 28% of market share, the Finance sector follows at 21% and Technology, media and communication at 15%.

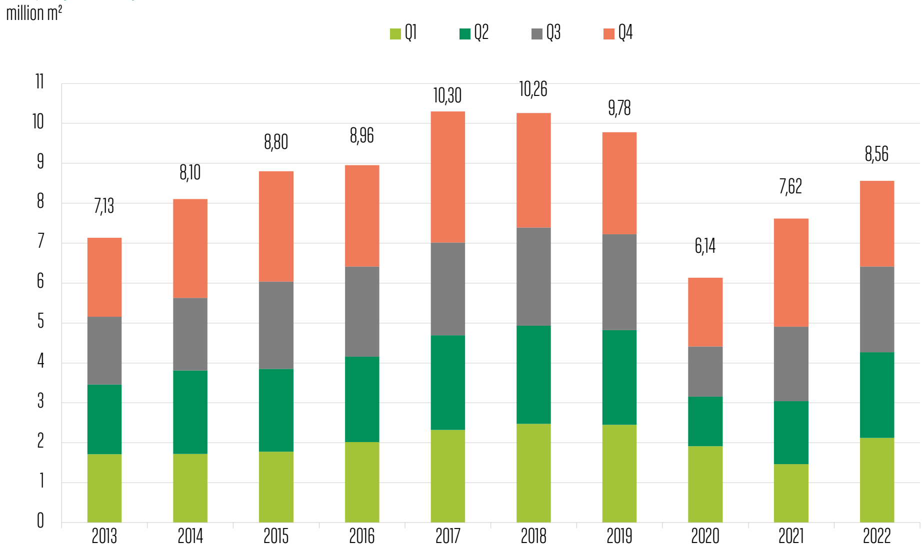
Thanks to an impressive upturn (248,000 sqm, +63%), take-up in Dublin was back to the 10-year average level. A good momentum also benefited to Warsaw (+48%), Milan (+28%) and Madrid (+26%).

At the other end, the market continued to lag behind in Amsterdam (-23%) and Brussels (-28%).

Overall, a greater focus on quality over quantity characterizes the occupier market. Letting activity should remain resilient in 2023 and display a new equilibrium in volumes.

Office cycle-rolling year

Europe (15 cities)



8.56 M SQM

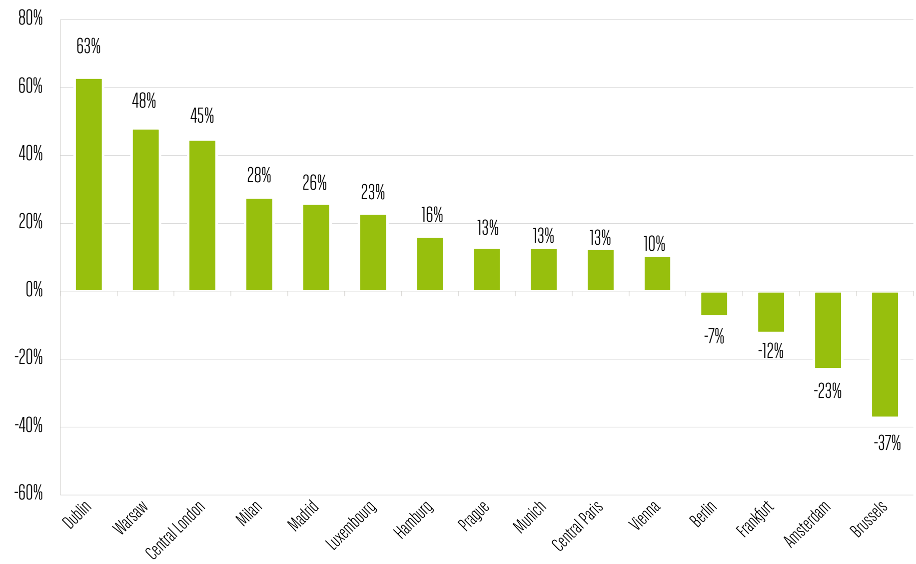
TAKE-UP IN 2022 IN THE 15 MAIN OFFICE MARKETS

+12%

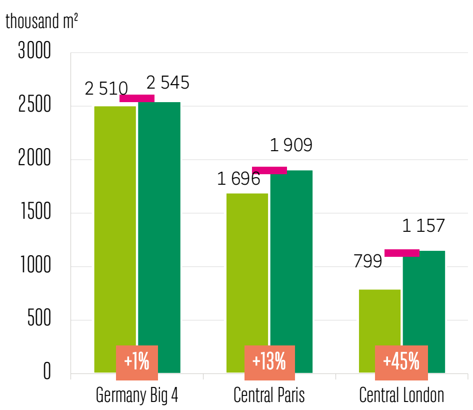
VS. 2021

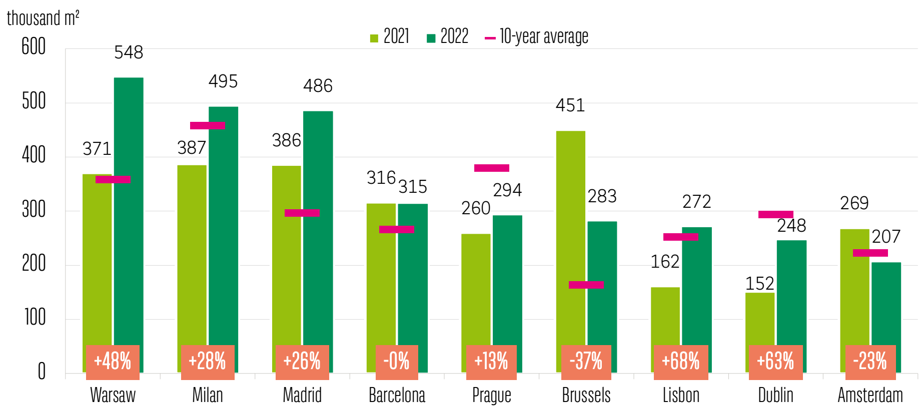
Take-up change—rolling year (on 31 December 2022)

Europe (15 cities)



Office take-up





RENTS

With hybrid working patterns becoming more entrenched, occupiers are looking for the most established central districts and flexible, modern buildings. The very low availability of prime assets and the appeal of high quality buildings located in the most sought-after districts drive values up.

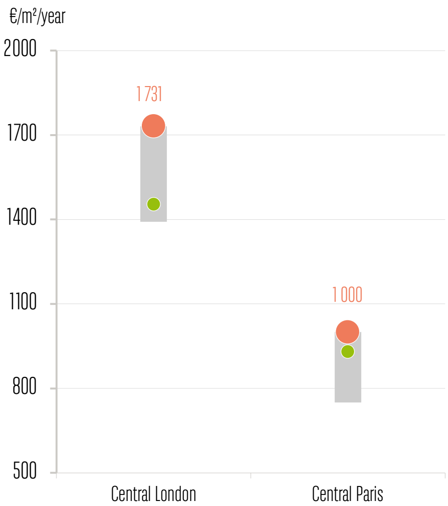
Over the past 12 months, London (+19%), Warsaw (+13%), Milan (+11%) and Dublin (+9%) have seen the most significant increases in values.

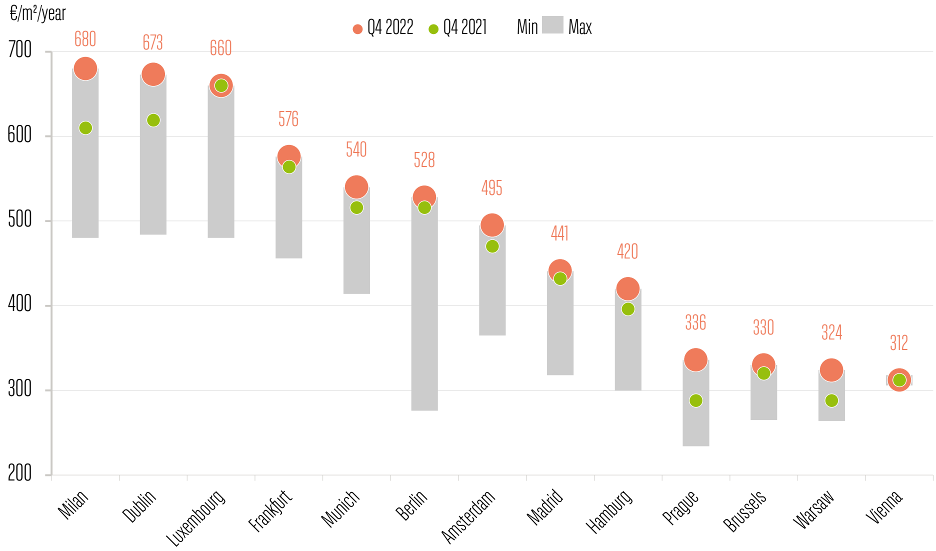
The strong appetite for quality should continue to support the growth of prime rents in 2023 in the main European markets. The polarization of the market is increasing, between new assets in the most sought-after districts and second-hand assets or those located in less coveted areas, which increasingly suffer from occupiers' lack of interest. The consequence is a growing gap between prime rents (continually increasing) and average rents (static or falling) in some markets.

+8%

AVERAGE VARIATION IN PRIME RENTS Y.O.Y.

Office prime rents





VACANCY

The overall vacancy rate stood at 7.2% at the end of 2022, almost stable vs the end of 2021 (+10bp).

While most markets experienced stabilization or even a slight decrease, vacancy increased in some cities over the year, including Dublin (+230 bps) which saw strong completions in 2022.

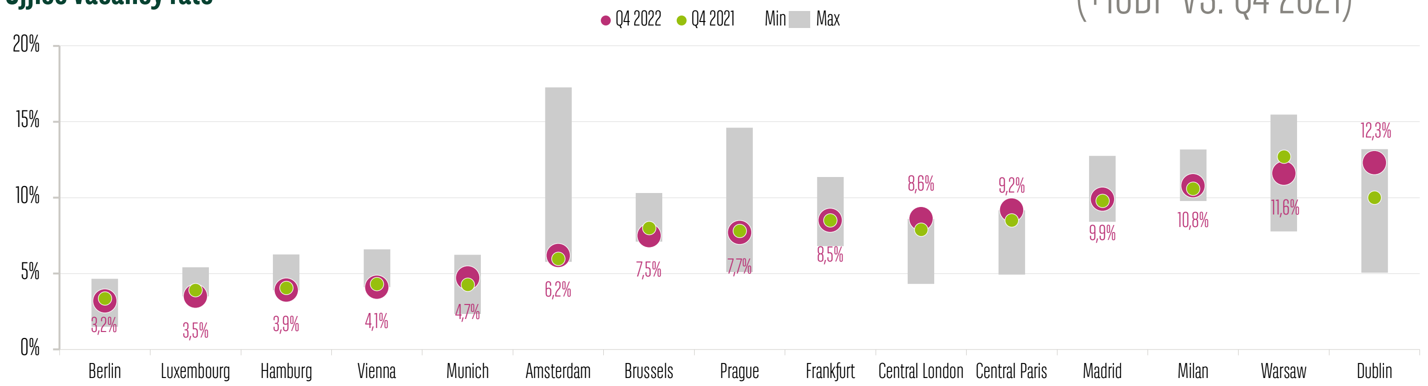
As with rents, most markets are seeing two-speed dynamics, with low availability in central submarkets and in new buildings, and much higher vacancy rates in peripheral office districts.

The introduction across Europe of new regulations on energy efficiency represents a growing risk of vacancy for assets which do not meet Minimum Energy Efficiency Standards (MEES).

7.2%

VACANCY RATE IN THE 15 MAIN EUROPEAN MARKETS (+10BP VS. Q4 2021)

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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