Boulogne-Billancourt, 26 September 2024

PRESS RELEASE

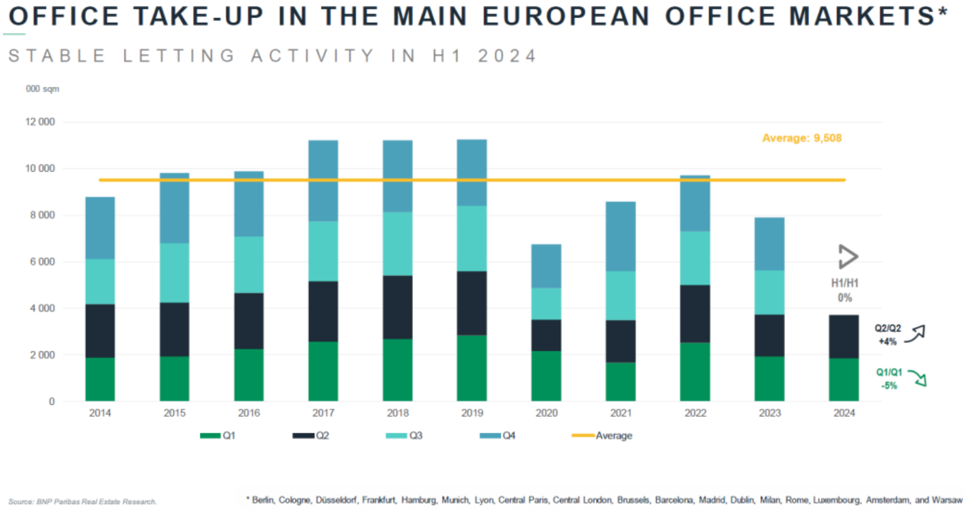
EUROPEAN OFFICE MARKET: RECOVERY IN SIGHT

After glimpses of recovery at the start of 2024, the office market has continued to show encouraging signs. The downward trend in investment has eased, and take-up has stabilised. Improvement in the economic and financial environment should continue to underpin this trend for the rest of the year.

Rental activity stable over 6 months

Despite the ongoing decline in rental activity in Q1 2024 (albeit moderate at -5%), take-up picked up again in the second quarter, rising by 4%. Over the first six months of the year, total volumes were therefore stable compared with last year at **3.73 million sqm across the 18 main European markets*.**

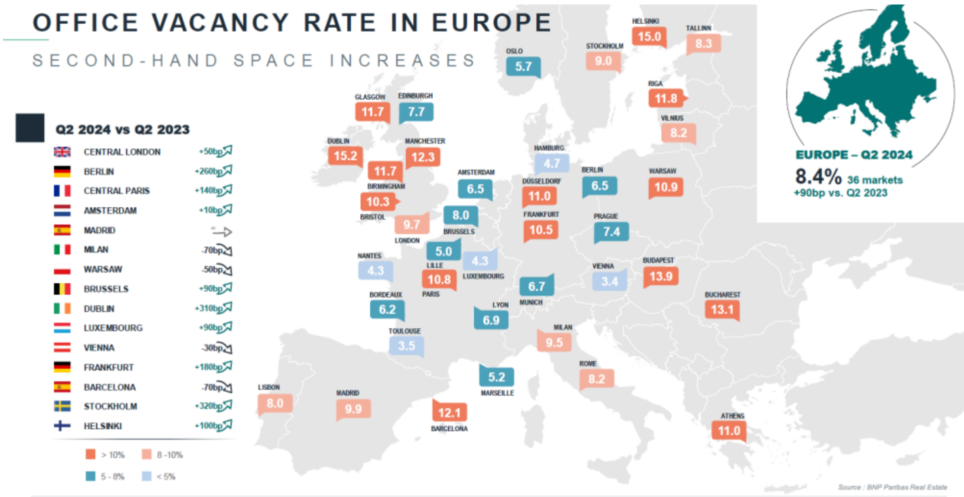
Over the last three months, the biggest increases have been in Dublin (+119% vs. Q2 2023), Düsseldorf (+68%), Barcelona (+35%), Brussels (+44%), Munich (+31%), London (+24%) and Berlin (+14%). The very large transactions (over 10,000 sqm) recorded in these markets have made the difference.



Increase in overall vacancy rate conceals major disparities

At the end of June 2024, the overall vacancy rate in Europe was 8.4%, a rise of 90 basis points year-on-year. This development stems from the growing polarisation observed in certain markets. On the one hand, higher quality assets in the most sought-after sectors continue to find takers, while on the other, lower quality offices or those in outlying locations are increasingly shunned by occupiers.

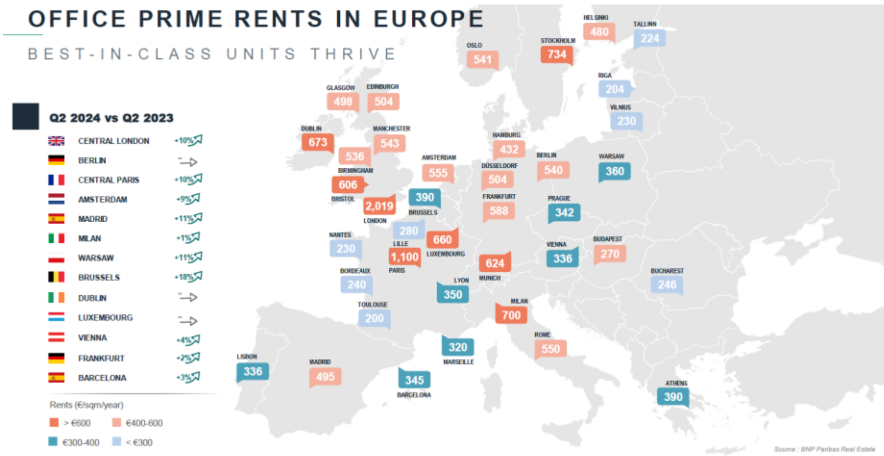
'At the same time, substantial completions in recent quarters have boosted immediate supply in several European markets, such as Berlin (availability stood at 847,000 sqm at the end of June, up 81% year-on-year) and Dublin (completions in H1 2024 alone exceeded the average full-year figure of the last five years)', remarks Argie Taylor, Head of International Investment Group (IIG) for BNP Paribas Real Estate.



Prime rents still on the rise

"Structural changes in working habits continue to challenge demand for office space, with occupiers focusing on upgrading to top-quality assets in easily accessible locations. This preference for quality over quantity continues to underpin the extraordinary rise in prime rents in most European cities", adds Argie Taylor.

Over one year, the strongest growth has been in Brussels (+18%), Madrid and Warsaw (+11%), with London and Paris just behind (+10%). Overall, across the 18 main European markets, prime rents have risen by an average of 6.4%.

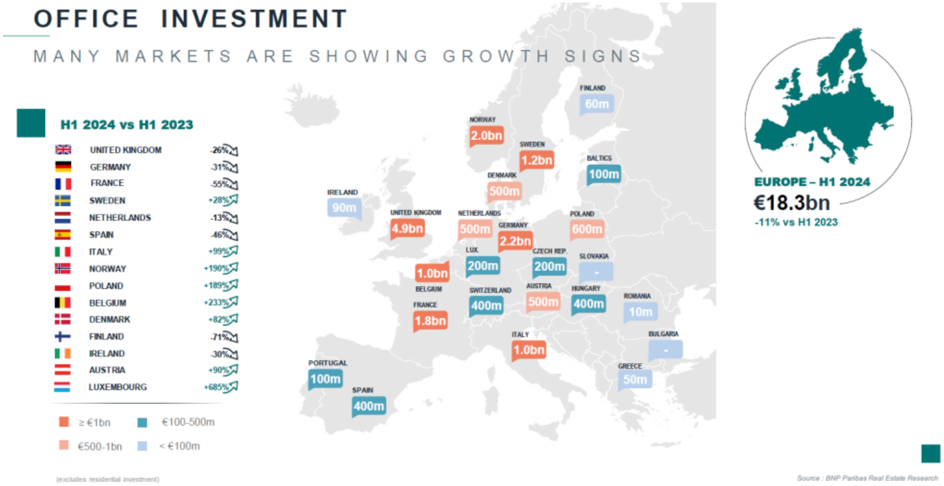


Investment in offices: the decline is slowing

Investment in commercial real estate, which slowed considerably in 2023, is now gradually recovering, with € 74.7bn allocated in H1 2024 across all asset categories, up 7% on H1 2023. The value adjustments made, combined with improved yield prospects and lower borrowing rates, are beginning to have an impact.

The office market, with **€18.3 billion invested**, accounts for only 24% of total investment in Europe, a much lower proportion than in 2019 (47%), reflecting the continued wait-and-see stance of investors with respect to this asset category.

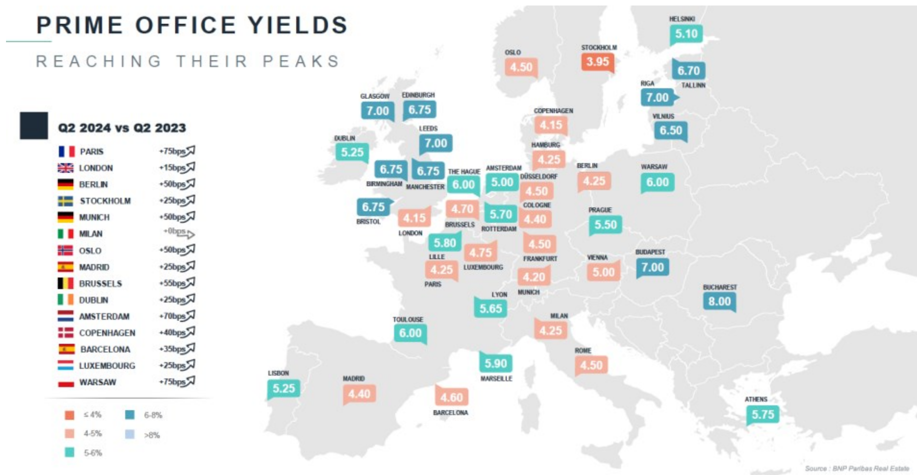
''Investment in the three main European markets (UK, Germany and France) has fallen over H1 but is set change with the return of larger office deals in markets. In the meantime there have been remarkable increases in the Nordics (Norway: +190%, Denmark: +82%, Sweden: +28%), as well as in Italy (+99%), Poland (+189%), Belgium (+233%) and Luxembourg (+685%) which suggest the returning confidence in the sector, which will only be magnified with fallen interest rates", observes Argie Taylor.



Prime office yields appear to have peaked

After climbing for more than 18 months, prime yields in Europe's major cities stabilised in Q2 2024 compared with the previous quarter thanks to an improved macroeconomic backdrop and lower borrowing rates.

The prime yield in Stockholm (3.95%) has been the lowest among office markets over the past year, followed by London's West End (4.15%), Paris CBD and Berlin (4.25%). As the market gradually recovers and key interest rates are expected to fall, real estate yields are likely to settle.



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