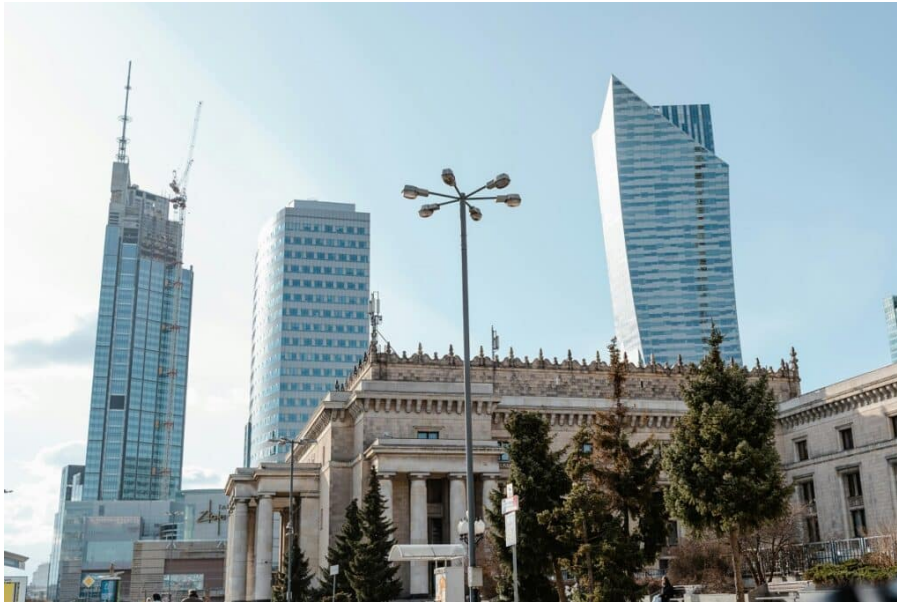


Savills: European prime office yield softening slows

1 year ago



European prime office yields moved out by an average of 5 basis points to 4.90% during Q1 2024, down from a 17 bps increase in the previous quarter, as yields begins to stabilise, according to [Savills](#).

Copenhagen (+25 bps), Manchester (+25 bps), Barcelona (+15 bps), Milan (+15 bps), Madrid (+15 bps), Berlin (+10 bps), Cologne (+10 bps) and Hamburg (+10 bps) all saw yields softening during the quarter, contributing to European prime office yields moving out by an average of 155 bps in the two years since Q1 2022, indicating an average yield impact on capital values of -31%.

The international real estate advisor says that, consequently, Madrid offices now appear under-priced, with their yields at the end of Q1 sitting at 4.90%, given the relatively higher sovereign bond yields pre-2022, and their resilient rental growth prospects. The core markets of Berlin, Amsterdam, Munich and Paris CBD appear fairly priced, relative to pricing during 2017-21, given the extent to which yields have decompressed over the last two years. Conversely, Bucharest and Copenhagen appear in fully priced territory.

Tristram Larder, Head of European Capital Markets at Savills, comments: "After a painful outward shift in yields we are starting to see some stabilisation. As valuations play catch up we expect the bid ask spread to narrow and buyers will begin to dip their toes back in the water. Volumes should then tick up, albeit from a low base. The occupational markets in core locations continue to perform very well underlining the continued bifurcation between prime and secondary and the occupational and investment markets."

Mike Barnes, Associate Director in Savills European commercial research team, adds: "Analysing market pricing on a fundamental basis, European offices in general remain in fair-value territory. However, the

minor outward prime office yield movement in Q1 2024 has been offset by higher government bond yields and therefore, a further capital value adjustment of -8% is required for average prime European offices to be in line with their fundamental values, although the picture is more nuanced when you consider individual cities.”