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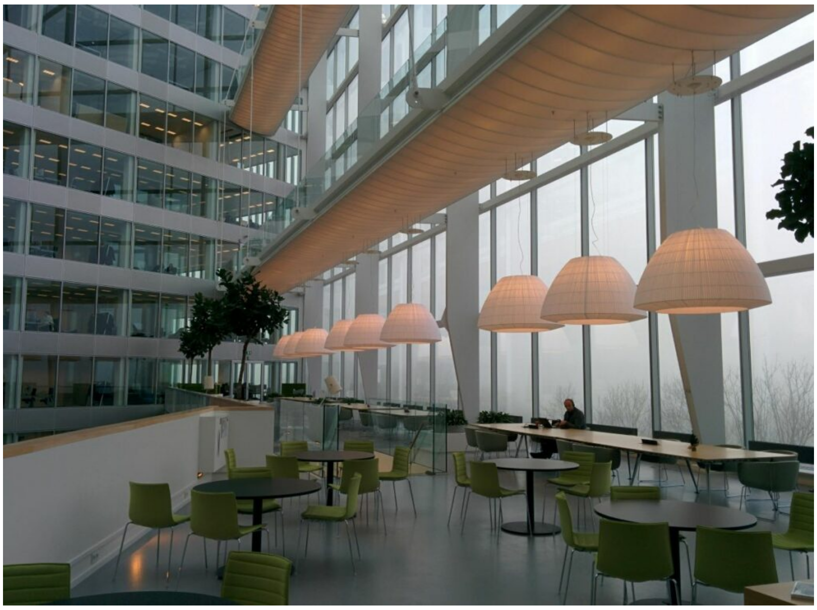
Q2 European office demand 9% up YOY, boosted by banking and finance; UK takes larger share of office investment

2 years ago



European office take up reached 1.6 million sq m in Q2 2024, a 9% increase on the same period last year, according to Savills, taking H1 2024 take-up to 3.7 million sq m, a 5% increase on H1 2023, although down 7% on the five-year average. H1 2024 European office investment transactions reached €14.1bn, down 21% YoY. The UK continued to dominate activity, with a 29% share of European office investment volumes, above its five year average of 24%.

European office take-up

According to Savills, cities that reported take-up over the five-year average in H1 include Prague, Lisbon, London City, Barcelona and Madrid with 45%, 40%, 25%, 11% and 9% respectively (figure 1).

The international real estate advisor says that European office vacancy rates rose marginally from 8.6% to 8.8% during Q2 2024, partially due to the return of some secondary stock to the market. Core markets continue to record the lowest vacancy rates, with Paris CBD and major German cities remaining under 6%. Average European prime office rents have increased by 2.4% over the past twelve months.

In terms of take-up by sector, Savills says that in H1 2024 the banking, insurance and finance sector took the highest share of leasing activity at 25%, up from 17% in H1 2023, largely benefiting large European financial centres, including the City of London, where it rose to 34% from 26%. Professional and business services sector was the second busiest group, however activity reduced to 22% in H1 2024 from 28% in H1 2023 due to a large number of requirements being largely satisfied in 2023, followed by the tech sector at

13%.

Christina Sigliano, EMEA Head of Global Occupier Services Director at Savills, comments: “Overall, office leasing activity across Europe so far this year is up on the same period last year, although there are some variations between cities. Some of this is due to a lack of suitable stock, with many tenants renewing their existing tenancies rather than settling for space that isn’t well-connected with established amenities and good sustainability credentials. For this type of space we are often also seeing longer leases being taken, as occupiers who are able to secure prime space are choosing to commit for a longer term. Others are being driven more by corporate strategies: some firms have temporarily reduced their office footprint while they await more favourable economic conditions, and some more permanently in order to align with new working arrangements.”

European office investment

Savills also reports that high interest rates continue to restrict European office investment transactions. H1 2024 European office investment transactions reached €14.1bn, down 21% YoY, and down 60% against the five year H1 average of €36bn. The UK continued to dominate activity, with a 29% share of European office investment volumes, above its five year average of 24%, driven by a faster initial price adjustment and attractive yields for cash buyers. European average prime office yields remained stable quarter-on-quarter at 4.9% during Q2 2024. Vienna office yields moved out by 25 basis points which, along with a 50 basis point outward movement in Paris La-Défense, comprised the only markets recording a notable yield movement during the quarter. Since Q1 2022, prime office yields have moved out by an average of 157 bps.

Taking this into account, Savills says that overall European offices remain in fair-value territory*, although Oslo (4.75%) and Madrid (4.90%) appear the most underpriced markets relative to sovereign bond yields. At the other end of the spectrum, Lisbon, Bucharest and Copenhagen have observed relatively little prime yield movement compared to sovereign yields. The gap between average market yield and calculated yield has remained stable on a quarterly basis.

James Burke, Director, Global Cross Border Investment at Savills, says: “We are now beginning to see in the data the correlation between where office capital values have adjusted most significantly and the markets where investment volumes are beginning to recover. Data shows that Spain and Norway office investment volumes appear closest to their five year average during H1 following more significant price adjustments. Across markets, there remains a gap in buyer-seller expectations, although this appears to be gradually closing, with both buyers and sellers adjusting their pricing ambitions.”