At a glance

MAIN OFFICE MARKETS IN WESTERN EUROPE

Q3 2015

EUROPEAN OFFICE MARKETS SHOW MAJOR IMPROVEMENTS

- Since the beginning of 2015, Eurozone economic activity has improved and has been sustained by the fall in energy prices and the weaker euro. Yet this recovery is still fragile: European countries must face a downturn in global growth, prompted by the slowdown of emerging economies. The labour market is picking up modestly and employment growth should slowly recover in 2015 (+0.8%) in the Eurozone. Germany, Spain and the UK show good prospects in job creation for 2015-2016. In Italy and France, the recovery in the job market should gain impetus over the same period, though at a softer pace.

- Office take-up in our 14 European cities showed good performance over the last nine months, increasing by +3% on 2014 for the same period. The volume of transactions amounted to almost 5 million m², which is the best 9-month result since 2008. During Q3 2015, office take-up rose significantly in the German cities, Central Paris and Madrid. In contrast Central London, Brussels and Milan have lost momentum compared to Q3 2014. Small and medium sized deals are currently the main engine for growth in European letting activity, the share of transactions below 5,000 m² has picked up over the last nine months from 69% to 75%.

- The decrease in the average vacancy rate accelerated with a drop of 60 bp over the last twelve months; all of our 14 cities showed falls but each at different pace. In Central London, Berlin and Munich, the vacancy rate continued to reduce, reaching historic lows. Dublin shows the most drastic fall in the vacancy rate, which has now almost halved over the last two years. In Milan and Madrid, the reduction in vacant space was very modest, coming from high levels. Overall, the amount of new office completions should not reverse the current downward trend in vacancy rates.

- Combined with strong occupier demand for office premises in the CBDs, the low level of available space triggered further rental growth. In Dublin, London and Madrid, the competition for Grade A space continued to produce double-digit growth in prime rents. German cities are experiencing softer progress in rental values whilst in the remaining cities rents were stable.

Julien Scarpa
Office analyst
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 rate observed over the quarter.

Exchange Rate from £ into € for investment volumes for each quarter is the average rate 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.

Opportunist 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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