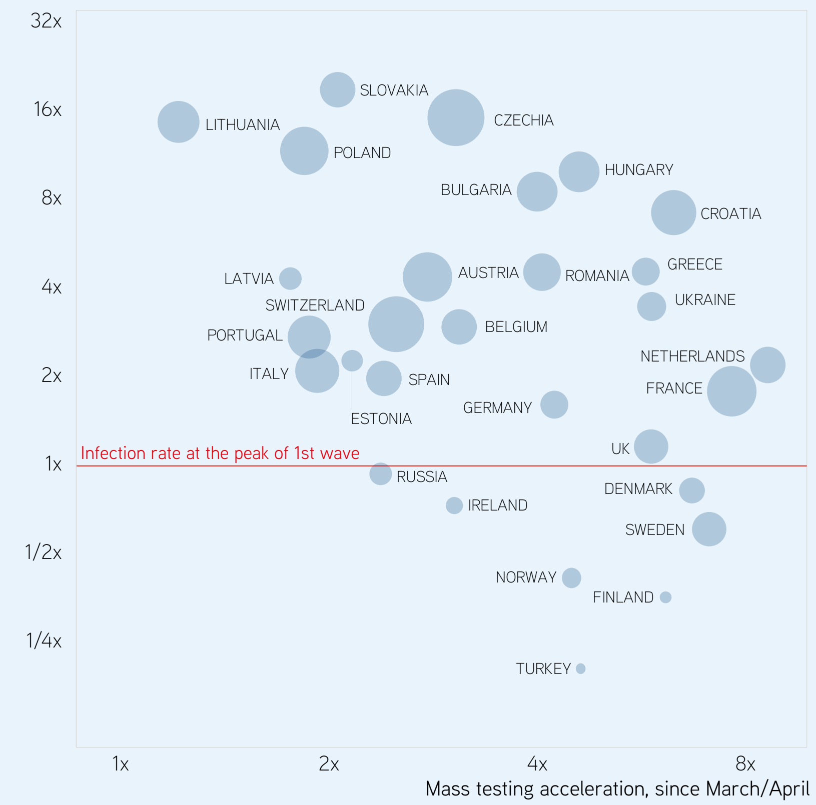
EMEA

CITY OFFICES

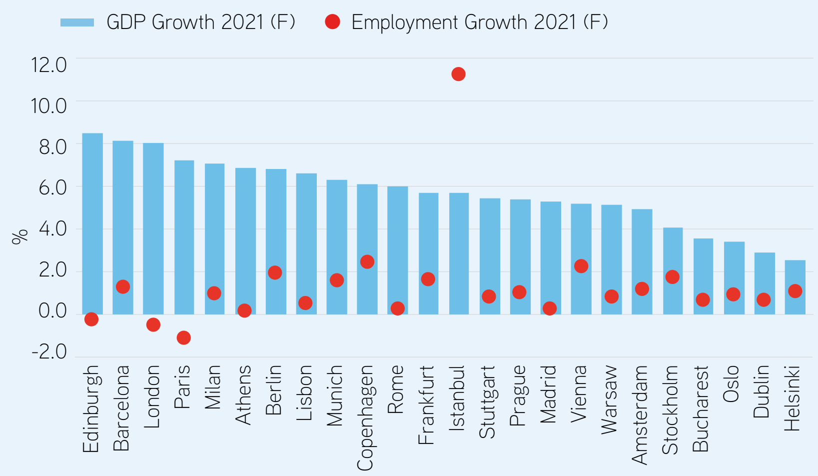
QUARTER 3 | 2020

FIGURE 1:
COVID-19: SECOND-WAVE NATIONAL INFECTION RATES AND TESTING CAPACITY
NOVEMBER 11, 2020



Bubble size represents weekly infections per 100,000.

FIGURE 2:
EMPLOYMENT AND GDP GROWTH,
% YEAR-ON-YEAR,
2021 FORECAST



Sources: Figure 1: Colliers International, Worldometers, ECDC | Figure 2: Colliers International, Oxford Economics

THE ROAD TO RECOVERY

With recent news of a breakthrough in the availability of a COVID-19 vaccine coming sooner than expected, the economic recovery has received a significant shot in the arm, globally and in Europe. With the Pfizer and BioNTech vaccine to start distribution by Christmas, and likely to be 90% effective, this paves the way for national and European governments to get on top of the pandemic going into the new year. Despite reservations around distribution and management of vaccinations, with multiple alternative vaccine options undergoing late-stage development and testing globally, this will support a broader European economic recovery in the year ahead. Additionally, the recent US Election result, whilst still being contested, also points to a period of greater global stability, with reduced trade and tariff uncertainty likely to follow.

ECONOMY

EEA30 GDP (EU27 + the UK, Switzerland and Norway) grew by a positive 8.9% in Q3 (Q/Q) according to Oxford Economics, supporting a broader rebound in H2 2020 and a return to economic growth in 2021. Yet there is still much uncertainty over the future path of economies - notably the looming Brexit transition negotiations and the mid-to-long-term management of the pandemic. Easing lockdown measures and managing the 'winding down' of European stimulus and furlough packages, represent significant challenges for the real economy in 2021. It will be a year of mixed fortunes, but the light at the end of the tunnel is getting much brighter, with EEA30 GDP expected to grow by 4.9%.

EMPLOYMENT

Major European cities have been hit hard in 2020, especially those that are dependent on tourism and/or driven by centralised, high-density office populations reliant on public transport. However, it appears the large-scale national furlough packages have continued to keep unemployment levels in check. By Q3-end, employment growth was down by only -1.4%. The 2021 forecast for employment growth looks promising at +0.8%, but also points to the fact that a full recovery will take until the end of 2022. As we know, the tech-focused sectors will recover quickest, including health and life sciences, impacting city take-up levels.

FIGURE 3:
CHANGE IN 12 MONTH ROLLING TAKE-UP
BY % OF MARKETS

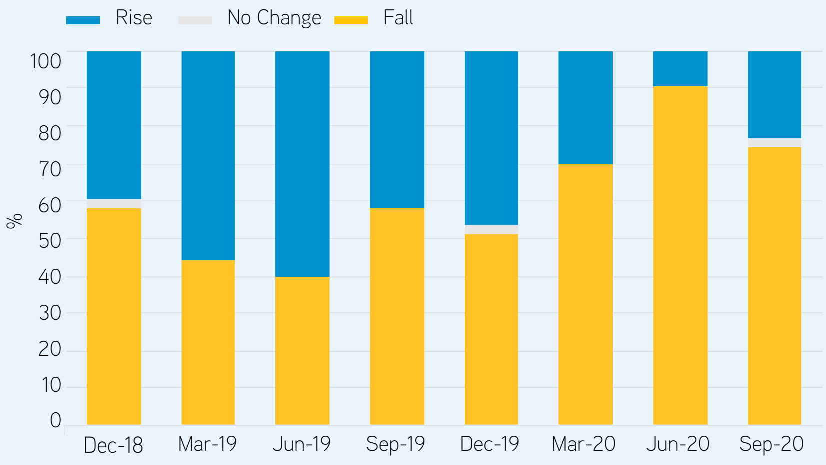


FIGURE 4:
GREY-SPACE SPECTRUM: THE RISK OF SUB-LEASING,
2021-2022

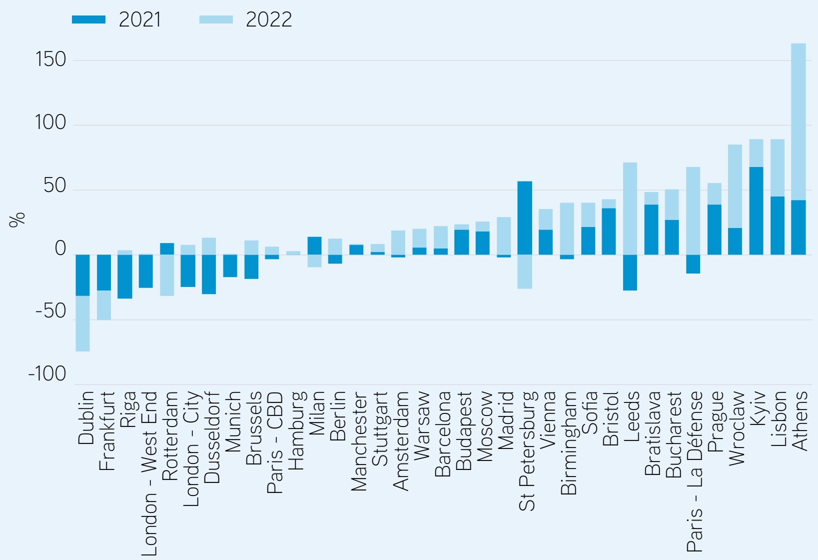
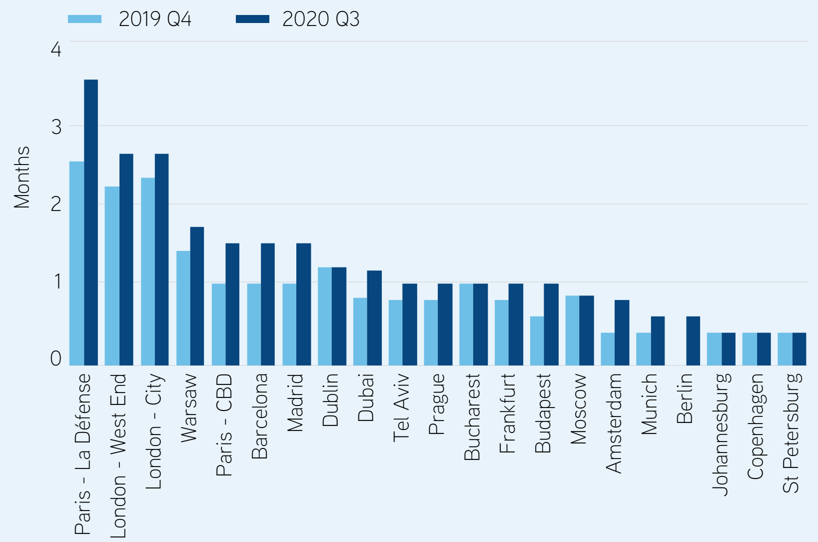


FIGURE 5:
CHANGE IN TYPICAL RENT FREE PERIOD
MONTHS PER YEAR



Click here for our latest Office Rent Map

Sources: Figure 3: Colliers International | Figure 4: Colliers International | Figure 5: Colliers International

TAKE-UP & PRE-LEASING

The (rolling 12-month) take-up figure for the year is now down by -30% Y/Y, which is a further decline from H1's -17.2%. On a positive note, the Q3 (Q/Q) figure has bounced back by +8.6%, signalling returning confidence to the markets. While overall occupier activity has slowed, there are certainly occupiers out there taking full advantage of the situation, notably the TMT, pharmaceuticals, financial services, or the "crisis-resistant public sector" - which has accounted for around half of the total take-up of space in Berlin.

In Stockholm, 12,000 sqm of office space was signed by the Swedish International Development Cooperation Agency in Ursvik, Sundbyberg, and in Budapest, Vodaphone secured a pre-let agreement, signalling their confidence to the market, for 14,140 sqm at the Budapest One P2 scheme. Global tech companies like Netflix and TikTok are making the most of increasingly tenant-favourable occupier conditions, securing (favourable) terms in prime locations in London and Dublin, respectively.

For many the struggle is to find quality stock. In London's South Bank submarket, there is only one unit under construction: MiddleCaps' "Southworks" scheme (circa. 65,000 sq ft), which is due for completion in March 2021. While there is a potential 1.4m sq ft of deliverable space in the pipeline up to 2023, nothing else is imminent. This is subduing take-up further, especially in Barcelona where only 4,000 sqm of new space has been completed to date in 2020.

VACANCY & SUB-LEASING

Vacancy has crept up steadily since the beginning of the year. On average, vacancy stood at 5.5% at the end of Q4 2019, but by Q3-end it had reached 6.3%; movement of 76 basis points.

The release of grey-space is a key factor in the rise in vacancy levels, and this will play out differently in European cities over the next two years, as highlighted by Figure 4. For example in Sofia, where there is a high probability of an increase in vacancy from the release of space in the next two years, the release of sub-lease space into the market has increased vacant Grade A space by 3-5% as of end Q3.

The release of grey-space is the start of a process that will better define core and non-core office space. As occupiers adjust their ways of working, office footprints will alter in terms of the amount of core and non-core (third/flexible) office space required alongside home working. We expect overall vacancy will stay under 10% for the vast majority of markets as the trend plays out over the next couple of years, but this headline figure will mask what will be a clear bifurcation between very low vacancy core space and high vacancy non-core options.

RENTAL GROWTH

By Q3-end, our forecasts indicate over 63% of markets expect prime headline rents to stabilise, with only 34% expecting declines in the next twelve months. That said, landlord-friendly markets are set to diminish further over the next 12 months, providing an opportunity for occupiers to capitalise on growing incentives being utilised by landlords to maintain headline values and encourage take-up, rather than discount headline rents.

FIGURE 6:
EVOLUTION OF OCCUPIER CONDITIONS
BY % OF MARKETS

Click here for our latest Office Occupier Conditions Map

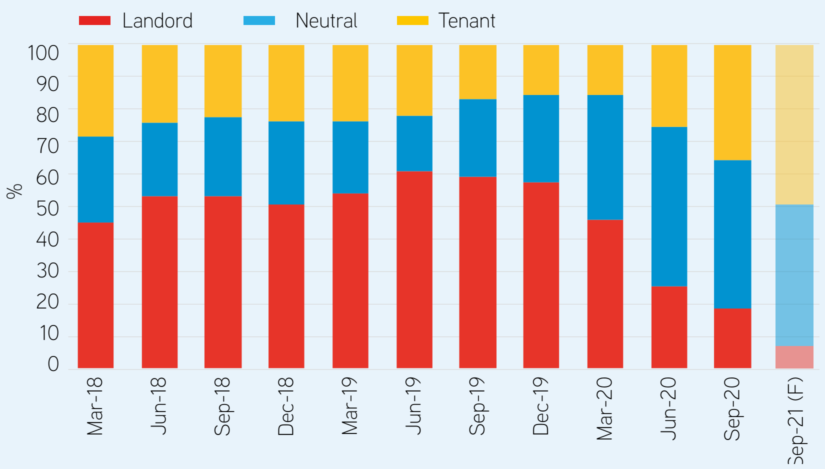


TABLE 1:
RENTS, VACANCY & OCCUPIER CONDITIONS GENERAL 2021 OUTLOOK

	PRIME RENT CBD			SECONDARY RENT CBD		VACANCY RATE		OCCUPIER CONDITIONS	
CITY	EUR/ SQM/MTH	6M %CHANGE	OUTLOOK	EUR/ SQM/MTH	OUTLOOK	%	OUTLOOK	CURRENT	OUTLOOK
Abu Dhabi	22.9	-11.2	▼	14.5	▼	45.0	▲	Tenant	Tenant
Amsterdam	38.8	-1.7	▶	31.7	▶	6.2	▲	Landlord	Neutral
Berlin	39.9	-2.8	▶	31.6	▶	1.4	▲	Neutral	Neutral
Birmingham	33.9	-2.6	▶	23.1	▶	8.5	▲	Neutral	Neutral
Bucharest	18.0	0.0	▶	14.0	▼	11.3	▲	Neutral	Tenant
Budapest	23.0	-4.2	▶	16.0	▶	8.1	▲	Neutral	Tenant
Copenhagen	22.9	0.3	▲	15.7	▶	7.6	▶	Landlord	Tenant
Dubai	35.9	-11.8	▼	34.2	▼	40.0	▲	Tenant	Tenant
Dublin	55.8	0.0	▼	47.5	▼	8.5	▲	Tenant	Tenant
Frankfurt	45.5	-0.9	▼	32.5	▼	7.7	▲	Neutral	Tenant
Istanbul	29.9	-5.8	▼	13.0	▼	29.3	▲	Tenant	Tenant
London - City	71.3	-4.4	▼	59.0	▼	6.0	▲	Neutral	Neutral
London - West End	118.0	-5.0	▶	88.5	▼	5.3	▲	Neutral	Neutral
Madrid	35.0	-2.8	▼	27.5	▼	9.0	▲	Tenant	Tenant
Milan	49.2	-5.0	▼	37.3	▼	9.3	▶	Tenant	Tenant
Moscow	64.1	-5.8	▼	22.2	▼	7.3	▲	Tenant	Tenant
Munich	40.5	-2.1	▼	31.5	▶	3.1	▲	Neutral	Neutral
Paris	72.5	-14.0	▶	60.0	▶	6.5	▲	Neutral	Tenant
Prague	23.0	-11.6	▼	15.5	▶	7.2	▲	Landlord	Neutral
Stockholm	59.9	4.4	▶	43.4	▶	5.8	▶	Neutral	Neutral
Vienna	28.0	0.0	▶	19.0	▼	4.4	▲	Tenant	Tenant
Warsaw	25.0	-9.3	▼	20.5	▼	9.6	▲	Neutral	Tenant

Sources: Figure 6: Colliers International | Table 1: Colliers International

FOR MORE INFORMATION

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