

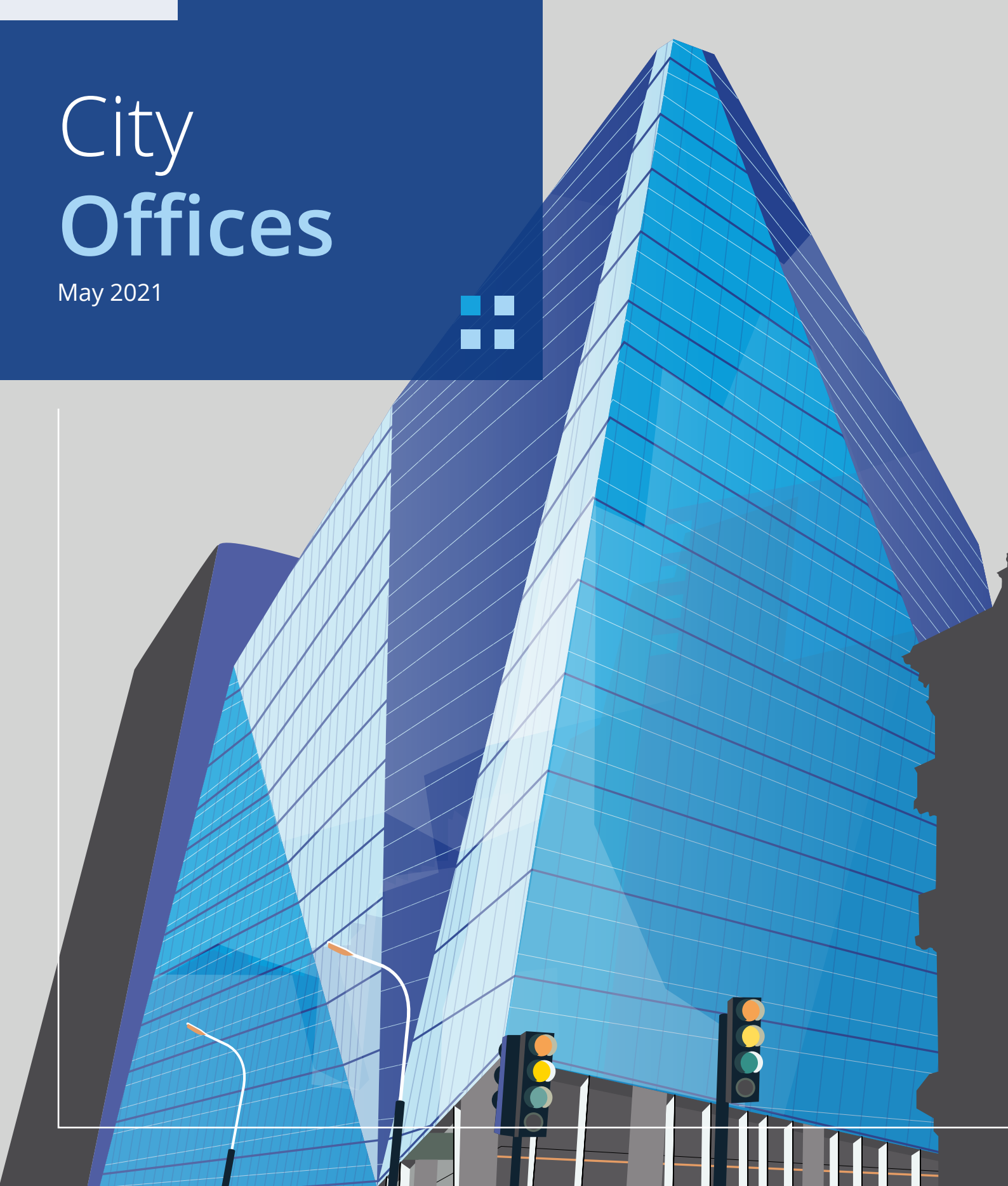


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EMEA

# City Offices

May 2021



## Key Trends

**GDP recovery is on for 2021** but has been pushed back by a third wave, with Q1 GDP set to be marginally negative. GDP growth forecasts for 2021 across **the EEA30 is set to reach just below +1%**, so getting back to par will not be reached until late 2022, where growth is expected to reach around +4.4%. However, momentum is expected to build from Q2 2021 onwards as inoculation rates improve.

**Vaccination roll-out is picking up speed, with around 25% of national populations inoculated** (with at least one jab), meaning those most at risk have been vaccinated. However, this masks a divergent range of inoculation rates with Israel and the UK significantly ahead with 60%+ and 48% of their respective populations treated, compared to only around 10% in Latvia, Bulgaria and Russia.

**Employment growth looks weak in 2021**, supported by extended fiscal support. **Only 0.02% growth in employment is forecast for 2021**, with growth not expected to pick up until 2022. **Public services, tech, financial-focused, health and life sciences sectors are the most stable and recovering quickest**, and this is feeding through into city take-up levels.

Despite the economic drawbacks of Q1, **take-up has maintained the momentum** in activity witnessed at the end of 2020, particularly in locations bolstered by the lifting of restrictions and clearer signs of economic recovery. Markets with the most encouraging 12-month rolling take-up volumes in Q1 have been Cologne (+21.3%), Barcelona (+18.3%) and Bratislava (+18.1%). Further confidence is echoed in the number of transactions in the larger-sized deal brackets with the level of pre-letting activity also remaining strong. **This growth in take-up is not universal, however, so the**

**re-gearing or extension of existing leases continues to dominate take-up activity across EMEA.**

Further confidence is echoed in the level of pre-let agreements signed. Increasing numbers of **requirements are in motion to secure the “best-in-class” product**, with Grade A space needing to fulfil an expanded list of ‘post-COVID’ and ESG criteria. Many of these enquiries are being fielded years in advance of projects completing, highlighting a growing bifurcation between the availability and performance of Grade A and non-Grade A space.

**Despite “grey-vacancy” rising in 2020, it is slowly plateauing**, with many markets seeing drop-offs of around 5-15% q/q. Equally, occupiers have taken advantage of this “ready-for-occupation” space. London alone absorbed saw 150,000 sq ft of grey-space absorbed in Q1.

**Market vacancy** may have been on the rise generally, but some markets have seen a reduction in vacancy levels during Q1, notably Manchester (-66bps), Riga (-94bps), Cologne (-16bps) and Vienna (-30bps). Cologne’s -16bps contraction in vacancy mirrored a +13% increase in take-up q/q - fuelled by three large Public Sector deals. Overall, vacancy has remained below 10%, and thus below post-GFC levels. Although the expectation is for vacancy to rise slightly in the year ahead, further growth in take-up and delays or even reductions to active pipelines will mean that further rises in vacancy will be short-lived.

**During Q1, prime headline rents have held firm**, with 83% of markets recording stable prime rent conditions by Q1-end. Even markets reporting rents for secondary space have registered growing stability, with 79% now reporting stable secondary rental levels. However,

this is counterbalanced by high levels of incentives, although incentives levels have also started to plateau. We expect to see net rental values of second-hand stock come under downward pressure.

Looking ahead, it is notable that **the 12-month outlook for occupier conditions have shifted significantly** as of end-Q1. The expectation is that **landlord-favourable markets’ share will diminish to just 8% in 12 months’ time - their lowest share in our index to date.** 2021 represents a significant window of opportunity for occupiers to act upon incentivised market conditions before the new cycle kicks.

As a two-tier market becomes more evident, we expect to see many innovative examples of obsolete office space being re-positioned and/or re-purposed as many landlords are reluctant or unable to refit/refurb existing stock under current market conditions. This will become part and parcel of the rebalancing of cities, as they work towards a more sustainable and ESG conscious future.

## Key Metrics In Major EMEA Cities: Q1 2021

CITY	Take-up 12M rolling [sq m]	Take-up 12M change [%]	Vacancy Current [%]	Vacancy 6M change [bps]	Vacancy 6M outlook	Prime rent Current [€/sq m/mth]	Prime rent 6M change [%]	Prime rent 6M outlook
Abu Dhabi	n/a	n/a	45.0	0	↓	22.0	-3.7	↔
Amsterdam	203	-12.4%	7.0	78	↑	38.8	7.5	↔
Berlin	823	9.6%	2.0	59	↑	41.8	4.8	↔
Birmingham	22	-55.5%	9.4	87	↑	36.3	0.0	↔
Bucharest	207	-3.3%	14.3	300	↑	18.0	0.0	↔
Budapest	328	-1.4%	9.0	90	↑	23.0	0.0	↔
Copenhagen	n/a	n/a	9.2	0	↔	23.5	2.4	↑
Dubai	n/a	n/a	40.0	0	↔	33.6	-6.0	↑
Dublin	65	-60.8%	10.5	200	↑	55.8	0.0	↓
Frankfurt	340	3.2%	7.2	-50	↑	45.0	-1.1	↓
Istanbul	111	4.7%	29.9	57	↑	28.1	-5.7	↓
London - City	238	-10.0%	8.7	270	↑	76.2	0.0	↓
London - West End	160	-25.4%	6.9	161	↑	126.1	0.0	↓
Madrid	272	-13.7%	10.5	150	↑	34.0	-2.9	↓
Milan	246	-12.9%	9.4	20	↑	49.2	0.0	↓
Moscow	1,260	1.4%	8.5	124	↔	63.9	0.0	↔
Munich	482	-14.2%	4.0	86	↑	40.0	-1.2	↓
Paris	1,051	-13.0%	7.7	130	↑	75.0	3.4	↔
Prague	354	6.2%	7.6	62	↔	22.5	-2.2	↔
Stockholm	n/a	n/a	6.0	25	↔	61.0	-1.3	↔
Vienna	205	13.3%	3.9	-50	↑	28.0	0.0	↔
Warsaw	579	-4.9%	11.4	180	↑	24.5	-2.0	↓

Source: Colliers

# Macroeconomic Overview

## Economy

While GDP for the EEA30 fell by -5.8% in 2020 (y/y), 2021 will see some early signs of recovery with GDP forecasted to reach just shy of +1%, before fully returning to pre-COVID economic levels in late 2022 - where GDP is forecasted to reach +4.4%, y/y. Risks to achieving these forecasts remain high, with some major European economies still in, or re-entering, restrictive lockdowns. Despite a momentary relaxation of restrictions in Q1, the "third wave" of COVID could mean the GDP growth is at best flat, if not slightly negative at -0.5% q/q.

Despite the Q1 setback, sentiment indicators are gaining positive momentum. Composite PMI rose to its highest level over the past eight months in March, crossing into expansionary territory. This reinforces the positive recovery outlook of Q2 and points to stronger growth again in Q3, as vaccination rollouts inoculate larger proportions of the EEA30 population, not just those at high-risk.

## COVID-19 vaccination programme

Despite the mishaps and political posturing, the region has progressed with the vaccination rollout, with inoculation figures hitting around the 25% mark, on average, by the end of the quarter.

By April 17th, the best performers in terms of the vaccination roll-out were Israel, having immunised over 60% of the population, and the UK having inoculated around 48% of the nation, and the majority of those at highest risk.

Challenges concerning the quality and risk of side-effects of certain vaccines have impacted the ease and speed of rollout for other countries, in addition to delays in the distribution of vaccines. Spain and Italy have limited the use of the AstraZeneca vaccine to people aged above 60, while France and Germany also restricted using the shot for the over-55s and over-60s, respectively. This has reduced the inoculation rate of these larger economies, although

Spain is performing better than others. Croatia, Russia, Latvia and Bulgaria are proving to be the European laggards to date at around 10%.

Importantly, for all European nations, records show that all high-risk elements of each national population have been inoculated. For the majority, this now includes those over 70years of age, enabling lockdowns to ease and life to start returning to a greater level of normality in the summer months and beyond. With the UK and Israel having started work on inoculating the under 50s, both countries are looking on course to have vaccinated their respective populations (or at least attempted to inoculate them) by late summer, creating firmer foundations more a more sustained economic recovery.

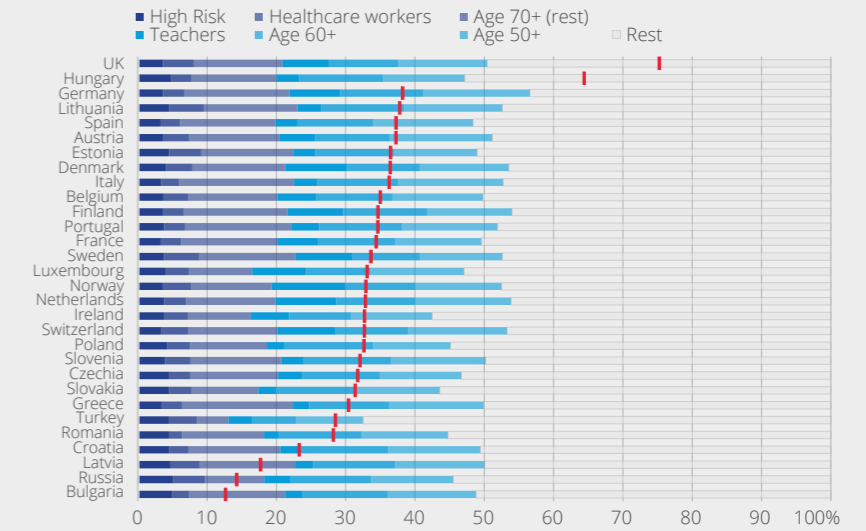
## Employment

Most major European cities' labour markets were hit hard in 2020, with employment levels across the EEA30 down -1.4% y/y. Extended lockdowns have delayed any recovery in Q1 2021, with employment down a marginal -0.1% q/q.

Although extended fiscal support and (multiple) vaccine rollout programmes bolster hopes for a year of renewed confidence and recovery, Oxford Economics forecast for employment growth across the EEA30 is a measly +0.02% (y/y) by end 2021. Employment growth is not expected to significantly recover until end 2022, reaching +1.37% over the year.

Such forecasts depend on the longer-term recovery shaped by the damage done once employment preservation measures are withdrawn, but the impact by sector is becoming clearer. Public services, tech, financial-focused, health and life sciences sectors are the most stable and recovering quickest - having remained resilient throughout the pandemic - helping generate some most welcome momentum in city office take-up volumes.

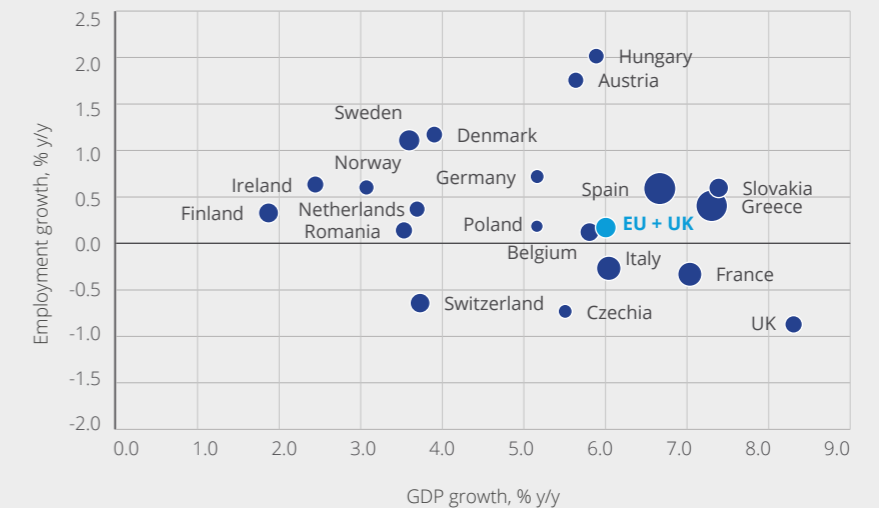
Figure 1: Administered COVID-19 vaccines, % of population, May 5<sup>th</sup> 2021.



Sources: Colliers, Oxford Economics, ourworldindata.org

Figure 2: Country GDP & employment forecast 2021, as at December 2020

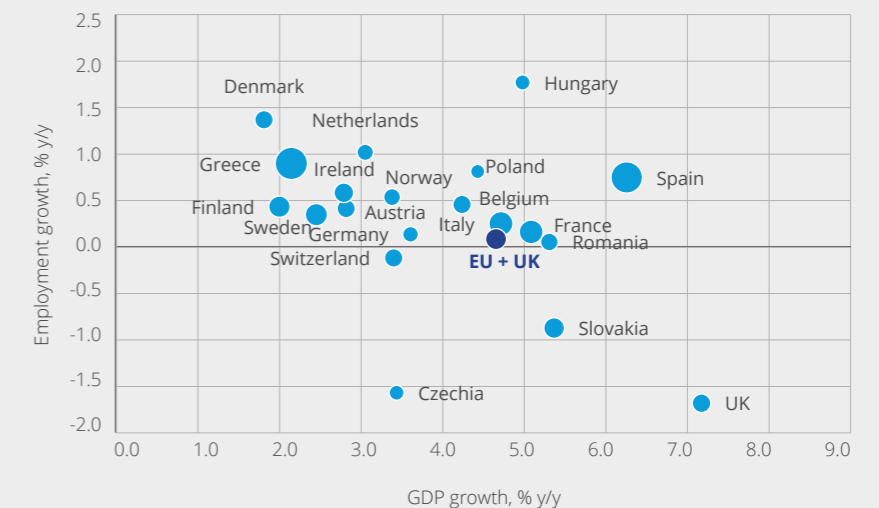
Bubble size represents unemployment rate (\*ILO Unemployment rate definition).



Sources: Colliers, Oxford Economics

Figure 3: Country GDP & employment forecast 2021, as at March 2021

Bubble size represents unemployment rate (\*ILO Unemployment rate definition).



Sources: Colliers, Oxford Economics

## Market overview: Demand

### Take-up

While 2020's total take-up volumes were down -38% y/y, the year ended with momentum building during Q4 when take-up volumes were up +16% q/q. This momentum has continued, particularly in markets bolstered by renewed confidence in the economy and the lifting of restrictions – enabling a return to on-site inspections. Markets with the most encouraging Q1 (12-month) rolling take-up volumes have been Cologne (+21.3%), Barcelona (+18.3%) and Bratislava (+18.1%).

In London, our Q1 2021 data indicates there are 130 active requirements, totalling over 3 million sq ft. Around 50% of these occupiers are likely to commit to increasing their footprints, of which 30% are from the financial sector, and 27% are tech occupiers.

That said, aside from growth momentum witnessed across markets, the re-gearing or extension of existing leases continues to dominate take-up activity. Some highprofile examples include - Slaughter and May, Euler Hermes, Rabobank and Lendlease: all favouring lease renewals or extensions at their existing premises in London. The renegotiation of Credit Suisse in Atrium 2 (7,500 sqm) in Warsaw is another prime example.

While the pure-letting performance for Q1 shows volumes are still down in many markets, on balance, they are at least moving in the right direction. For example, in Berlin, 193,000 sqm was let, reflecting a circa 60% increase (y/y), exceeding the 10-year average by 23% - this was aided by several large leases over 10,000 sqm. Similarly, in Paris-CBD larger deals over 5,000 sqm marked a competitive comeback, with 13 deals over this size completing in Q1 2021 compared to just 23 for the whole of 2020. Stuttgart's Q1 tally saw a total of 63 transactions signed.

### Pre-leasing

Further confidence is echoed in the level of pre-let agreements signed. In Sofia, pre-leases accounted for 40% of Q1 volumes, with notable transactions including the pre-lease signed by Robert Bosch (2,479 sqm) and Proxiad (1,200 sqm). In Moscow, new supply coming to market is already 83% pre-let.

Another example is in London, where law firm Allen & Overy have entered early discussions with JV partners British Land & GI Pte over what could be the biggest office leasing deal in the city since the onset of the pandemic at the One Broadgate redevelopment for over 300,000 sq ft. Another example is Bytedance's (TikTok) recent announcement of a new HQ at Helical's Kaleidoscope in Farringdon, London's Mid-town district, at a top rent of £90 psf. This is typical of a more optimistic view of the market adopted by tenants in the UK capital during Q1.

### Sub-letting

Released "grey-space" has been a key factor in rising vacancy, albeit varying geographically. In Frankfurt, around 11% of vacant space is offered as sub-let. Both Prague and Budapest's offering is approximately 70,000 sqm; Budapest's offer creates circa 2% "grey-space" vacancy.

On a positive note, the level of sublet space is slowly plateauing, as Figure 5 shows, with many markets seeing drop-offs of around 5-15% q/q. By year-end 2020, London's tenant-release space was at a nine-year high, up +75% (2.3m sq ft) y/y – and increased again in January (+370,000 sq ft), the highest release of space since June 2020. By March 2021, only an additional 30,000 sq ft has come to market.

While the release of space is perceptibly negative, some occupiers are taking advantage of the ready-for-occupation space on more cost-effective rents and terms – in Q1, around 150,000 sq ft of sub-leasing space was absorbed by occupiers in London.

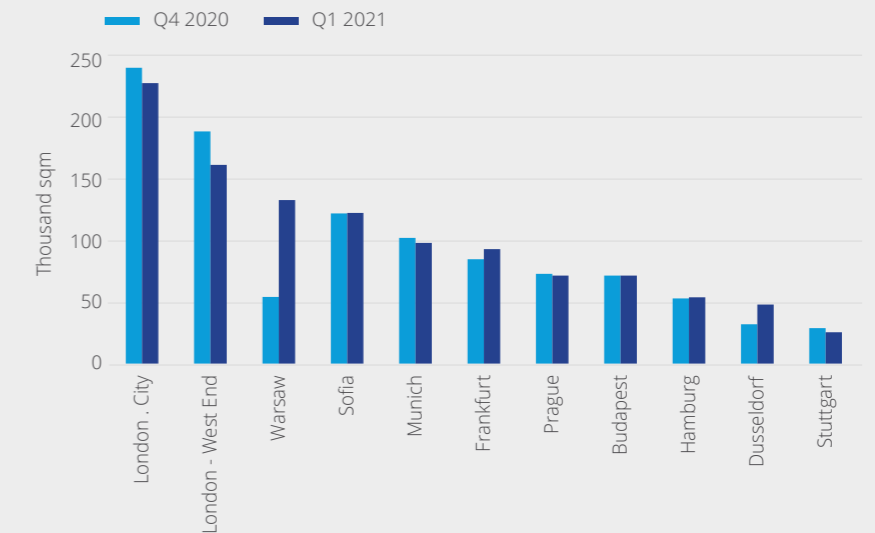
“Aside from growth momentum witnessed across markets, the re-gearing or extension of existing leases continues to dominate take-up activity.”

Figure 4: 12 month rolling take-up changes, by market

<-20%	<-10%	<0%	0%<	10%<	20%<
Paris La Defense Dublin Birmingham London - West End Manchester Budapest	Rotterdam Dusseldorf Munich Madrid Paris Milan Amsterdam Sofia	London - City Warsaw Bucharest Brussels Rome	Stuttgart Moscow Vilnius Frankfurt Istanbul Riga Prague Leeds Hamburg Berlin	Vienna Bratislava Barcelona	Cologne

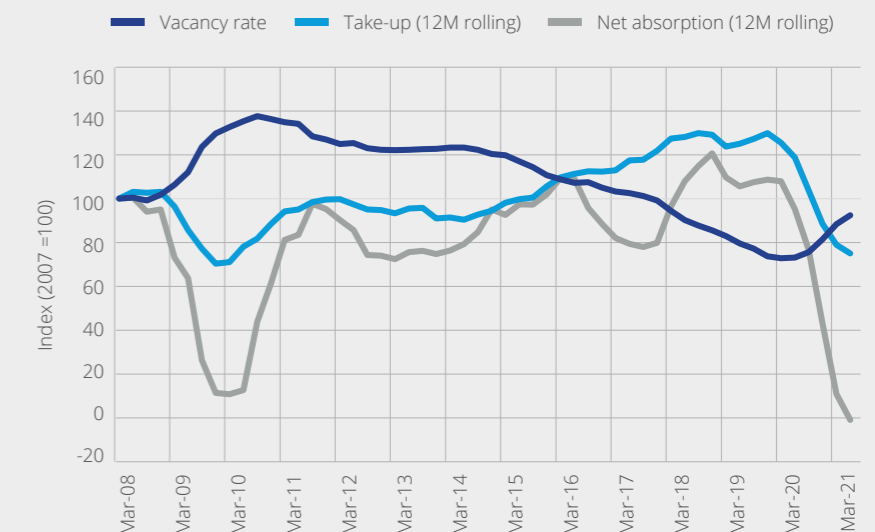
Source: Colliers

Figure 5: Sub-letting offer



Source: Colliers

Figure 6: Market indices, 2007 =100



Source: Colliers



# Market overview: Supply

## Vacancy & availability

Unsurprisingly, vacancy has risen in the last twelve months. However, bar over-supplied locations, the movement has been manageable, remaining below the levels immediately post-GFC and below 10%. Some markets have already seen corrections by Q1-end, notably: Manchester (-66bps), Riga (-94bps), Cologne (-16bps) and Vienna (-30bps). Cologne's -16bps movement mirrored a +13% increase in take-up q/q - fuelled by three large Public Sector deals accounting for 60% of their total Q1 volumes (78,000 sqm).

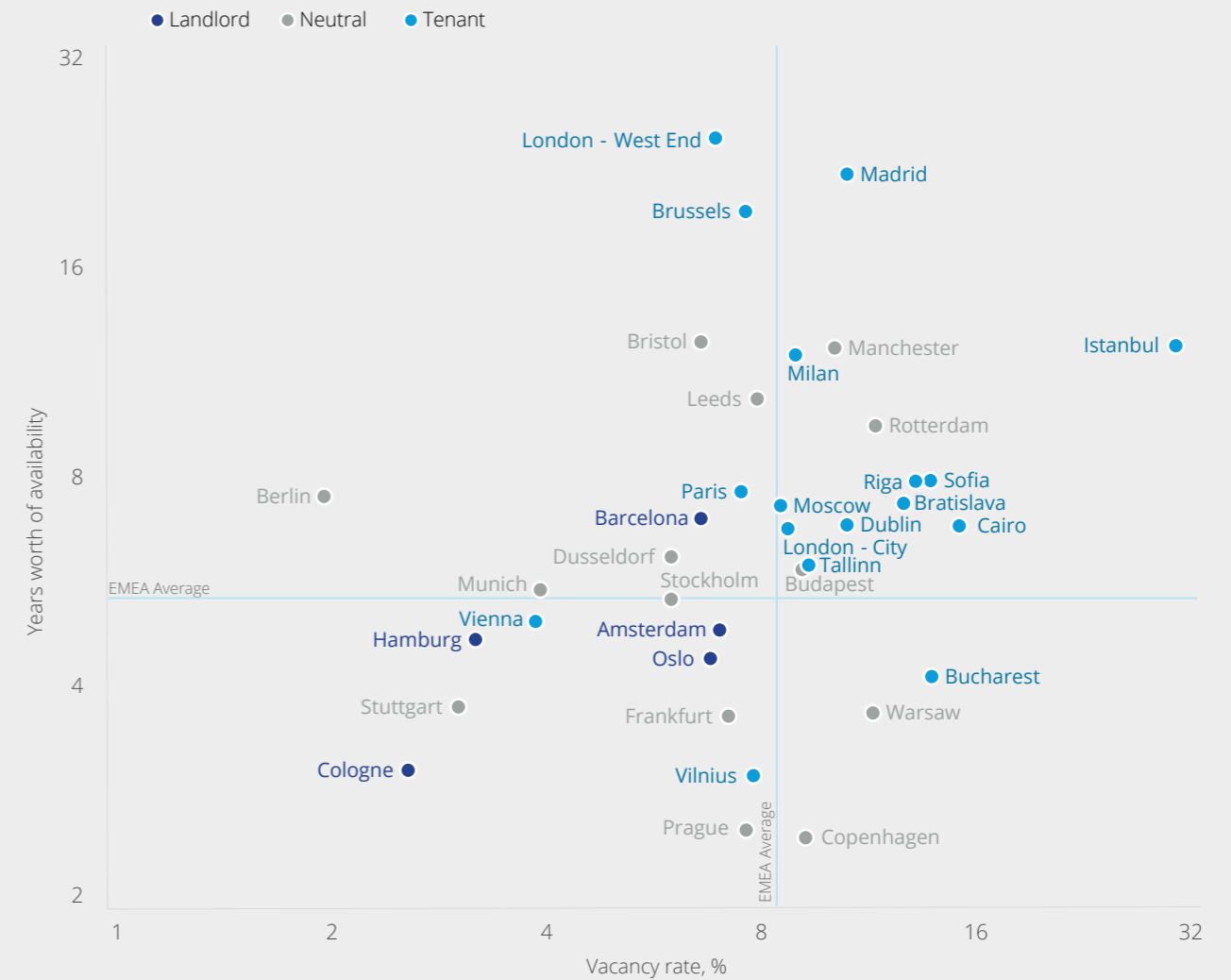
Even though our 12-month forecasts indicate 73% of markets expect further outward movement in 2021, we expect this to be short-lived. Once take-up begins to ramp up, and delays or even reductions to active pipelines show through, vacancy will soon begin falling.

However, we are likely to see growing divergence between the availability and performance of Grade A and non-Grade A space. The proliferation of vacancy and sub-let space is mainly from poorer quality, non-retro-fitted space, and this is expected to expand. Many landlords are reluctant or unable to refit this secondary stock it under current market conditions, with a large proportion of ill-purposed, second-hand stock now offloaded as surplus, sub-let space.

Conversely, many large occupiers are seeking to secure the "best in class" product, with requirements in motion several years in advance of ideal occupation dates, out of fear of missing out due to the scarcity of new, quality product coming to market. This is creating a two-tier market, bifurcating rental values in prime and second-hand stock.

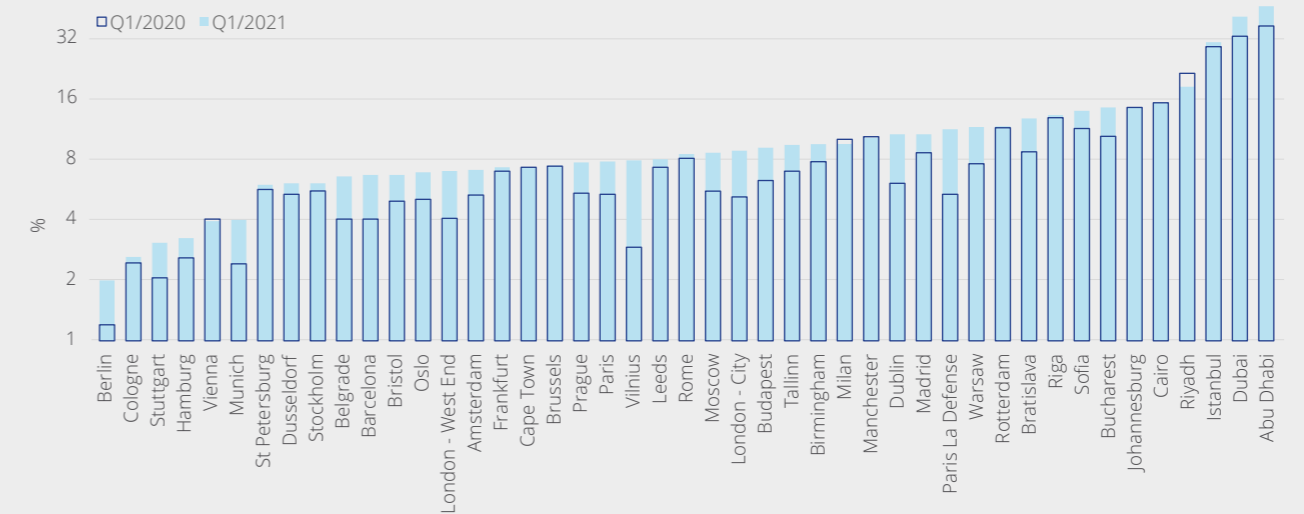
**“Once take-up begins to ramp up, and delays or even reductions to active pipelines show through, vacancy will soon begin falling.”**

Figure 7: Absorption vs. availability



Source: Colliers

Figure 8: Vacancy rate changes, Q1/20 vs Q1/21



Source: Colliers

# Market overview: Costs & occupier conditions

## Rental performance and incentives

Across the EMEA territory, some 83% of markets indicated stable prime headline rents in Q1, increasing from the 71% recorded in Q4 2020. What is perhaps more telling is that markets monitoring secondary space also recorded an increase in stable rent conditions – up from 73% in Q4 2020 to 79% at end Q1 2021.

Contributing to holding headline rents firm is the rising incentive levels which have helped counterbalance the pandemic’s impact. In London – West End & London – City, they have risen again in Q1 to 28 months per (10-year) term and in Prague, increasing from 6.5 months per

term to 7 months (on a typical 5-year term). Others remain flat on Q4, notably Frankfurt and Milan, as Figure 12 shows. However, it appears landlord concessions are beginning to plateau, in line with an uptick in activity and improving economic conditions. Berlin incentives, for example, have now fallen back to pre-COVID-19 terms after a temporary increase to 3-months per term.

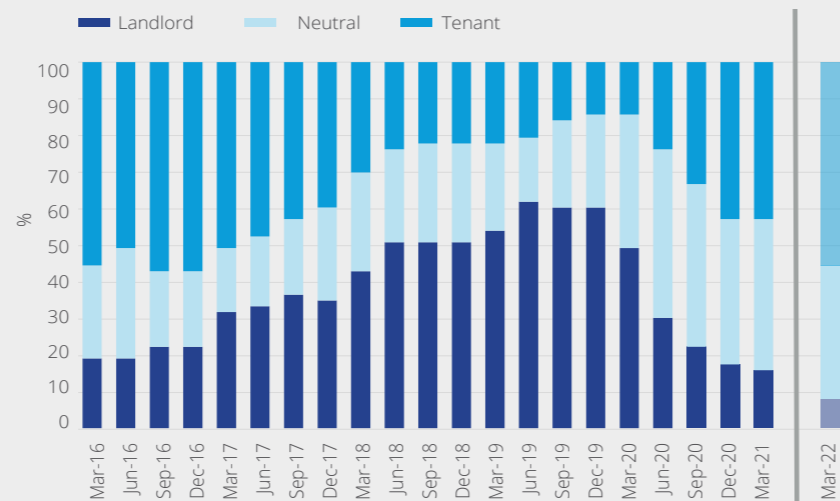
Rental incentives will be key in the years ahead to maintaining occupancy in lower grade stock, particularly in secondary locations. For prime space that “ticks all the occupier’s boxes” we expect to see higher rental premiums with limited incentives.

## Occupier conditions

By Q1-end, 43% of markets remain tenant-favourable, which is no change on year-end. However, our 12-month outlooks predict occupier conditions will push further to being tenant favourable, which now captures 54% of the vote. Landlord-favourable conditions are expected to diminish to just 8% of markets - their lowest share in our index to date. 2021 represents a significant window of opportunity for occupiers to act upon incentivised market conditions before the new cycle kicks. The speed of change in the London market over Q1 provides an indication of how quickly conditions can change, particularly in low vacancy and availability locations.

“Rental incentives will be key in the years ahead to maintaining occupancy in lower grade stock, particularly in secondary locations.”

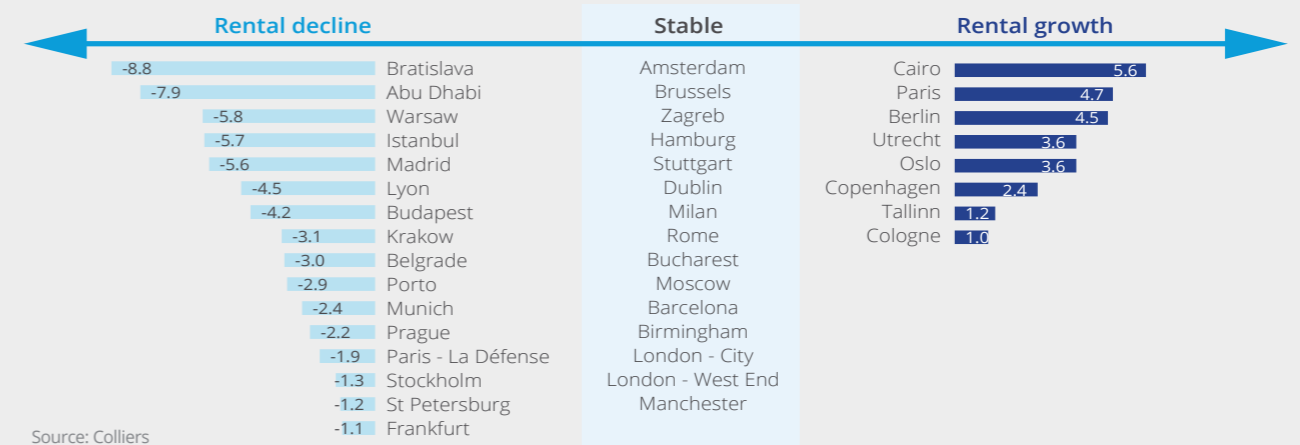
Figure 9: Evolution of occupier conditions, by % of markets



Source: Colliers

[Click here for our latest Office Occupier Conditions Map](#)

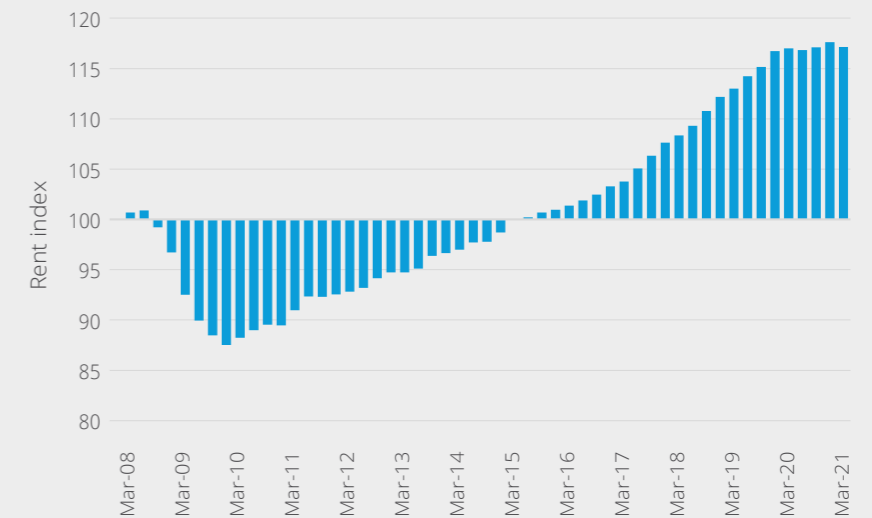
Figure 10: Prime CBD rental growth, year-on-year, by markets



Source: Colliers

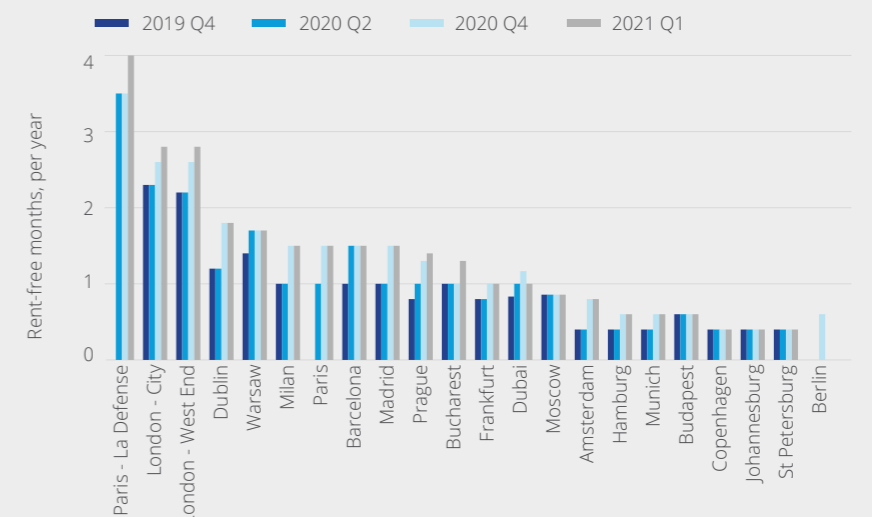
Figure 11: Office CBD rent index, 2007 = 100

[Click here for our latest Office Pricing Map](#)



Source: Colliers

Figure 12: Incentives



Source: Colliers

## New requirements for a new age

The deflection of the idea that the “office is dead” is reflected across many markets, with active requirements increasing week-on-week and new developments filtering into the pipelines.

Although some occupiers are moving towards complete, flexible-working models, new office space requirements are expanding and increasingly driven by an appetite for quality, ESG-amenable product in core locations - near to transport and infrastructure upgrades with high amenity value, capable of attracting skilled talent.

While there is no doubt that the office will remain a pillar of corporates’ strategies and our cities, owners and developers face significant challenges (and costs) associated with tired, out-of-date, and second-hand stock. We expect to see many innovative and interesting examples of how to make the most of the less desirable office space on the market, as cities rebalance towards a more sustainable future.



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