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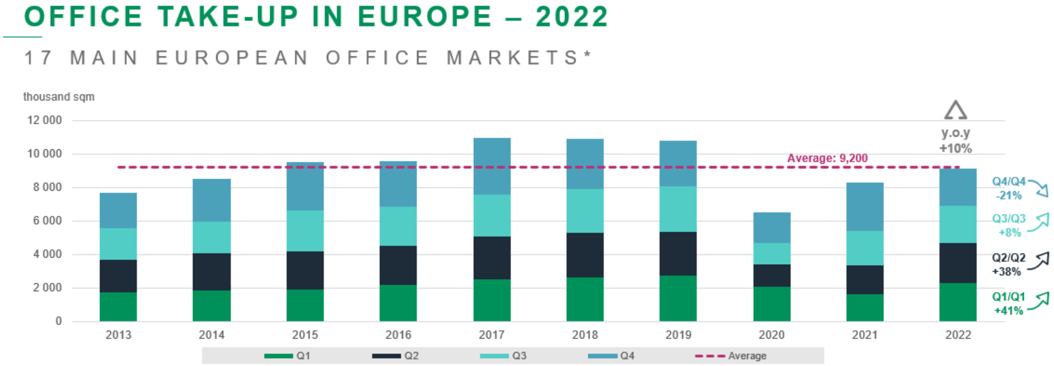
PRESS RELEASE

OFFICES IN EUROPE: DECORRELATION BETWEEN OCCUPIER AND INVESTMENT MARKETS

Office take-up back to historical levels in 2022

After a promising end to 2021, recovery was confirmed for the European office market in 2022: occupiers' growing demand for sustainable buildings that address CSR issues and offer facilities adapted to hybrid work styles continues to drive rental demand. All told, annual take-up for the 17 main markets came in at 9.169 million sqm, up 10% vs 2021. This figure brought it back in line with the long-term average.
Rental activity was particularly resurgent in Dublin (+63% vs 2021), Warsaw (+48%), Central London (+45%), Milan (+28%) and Madrid (+26%).

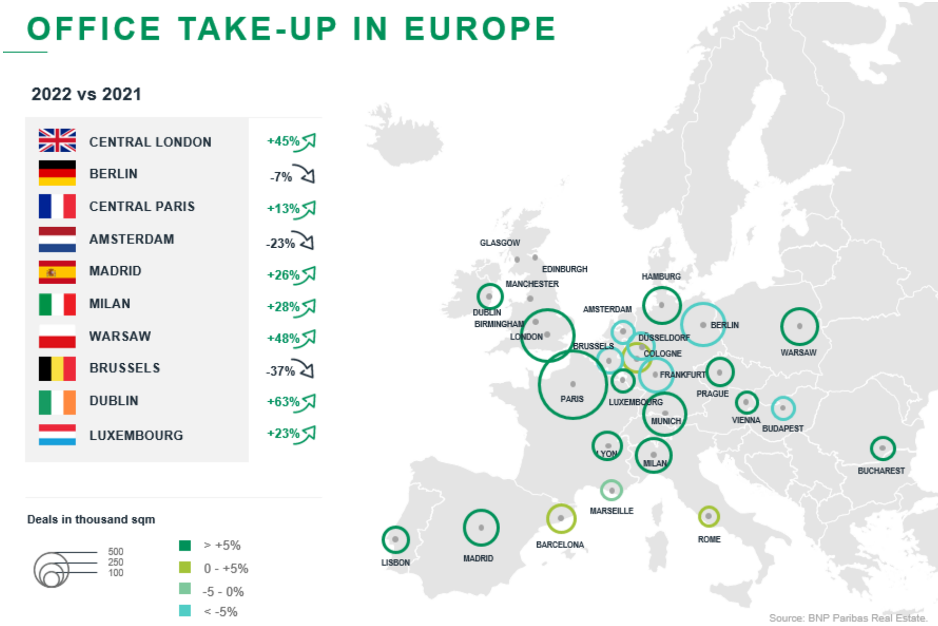


**17 main European markets: Amsterdam, Barcelona, Berlin, Brussels, Dublin, Cologne, Düsseldorf, Frankfurt, Hamburg, Central London, Luxembourg, Madrid, Milan, Munich, Central Paris, Rome, Warsaw.*

More generally, take-up across 26 European markets followed a similar growth trajectory of +11% in 2022 compared to the previous year, finishing with an annual volume of 11 million sqm.

Post-Covid rebound losing momentum

Unlike the very buoyant first half of the year, the second half of 2022 saw take-up slow in several European markets, suggesting a weakening of the post-Covid rebound. The six main German markets (Berlin, Cologne, Frankfurt, Düsseldorf, Hamburg, Munich) show a decline in rental activity: in Q4 2022, letting volumes were almost 30% lower than the 10-year average for the last quarter.

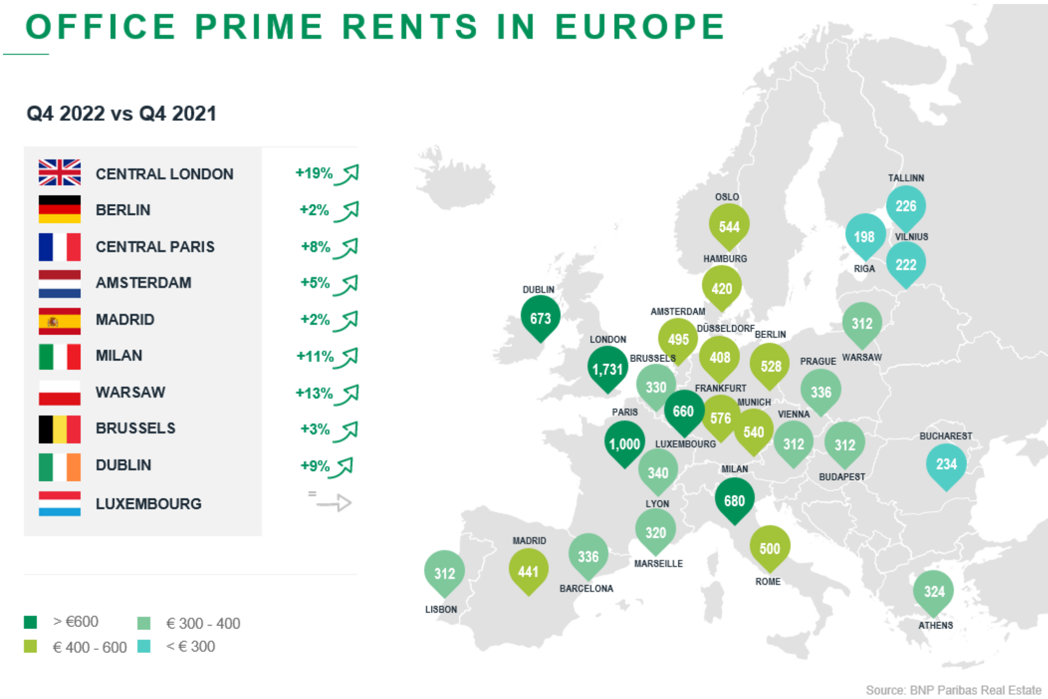


Prime rents are held up by demand for quality

"With hybrid working patterns becoming more entrenched, occupiers are looking for the most established central districts and flexible, modern buildings. The office is becoming an essential corporate tool, whether to attract and retain talent by maximising occupier wellbeing, provide optimal facilities to encourage team production or to fulfil environmental ambitions and limit energy consumption. This appetite for central and prime assets is supporting the growth of prime rents in almost all markets", comments Laurent Boucher, President of BNP Paribas Real Estate Advisory Europe 7.

The biggest increases over 2022 were in **Central London** (+19%), **Warsaw** (+13%), **Milan** (+11%) and **Dublin** (+9%).

"We note contrasting patterns. On the one hand, new assets in the most sought-after areas are experiencing a continuous increase in rents. On the other hand, second-hand assets or those located in secondary areas may increasingly suffer from occupiers' lack of interest", adds Laurent Boucher.



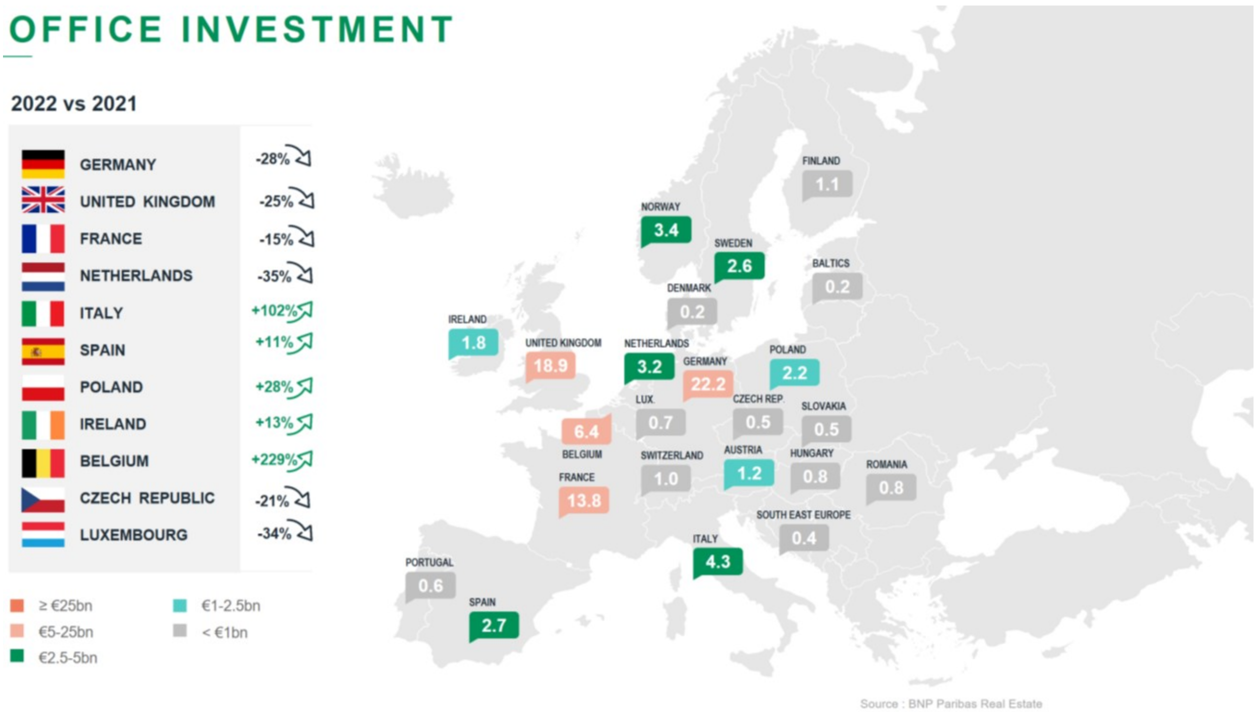
Vacancy rate remains stable and controlled

After a sharp rise during 2020 and early 2021, vacancy rates in the office market have since stabilised. The overall vacancy rate in Europe stood at **7.4%** at the end of 2022, almost stable vs the end of 2021 (+10bp).

As with rents, vacancy levels vary greatly between the most coveted business districts and the suburbs.

Yet investment in offices has fallen significantly

Whereas investment over the first two quarters of 2022 hit record levels, transactions dropped during the third and fourth quarters, responding to the marked increase in financing costs and the consequent readjustment in prices. All told, € 248.3bn was invested in commercial real estate in 2022, i.e. a 14% decline vs 2021. All asset categories followed this trend, but the office sector was hit hardest and fell by 21%, with only € 90.1bn invested in 2022. This decline in office investment in Europe was mainly in larger markets, such as the UK (-25%), Germany (-28%) and France (-15%), while other smaller markets such as Belgium, Italy, Poland, Ireland and Spain performed well in 2022.



Prime office yields continue to expand

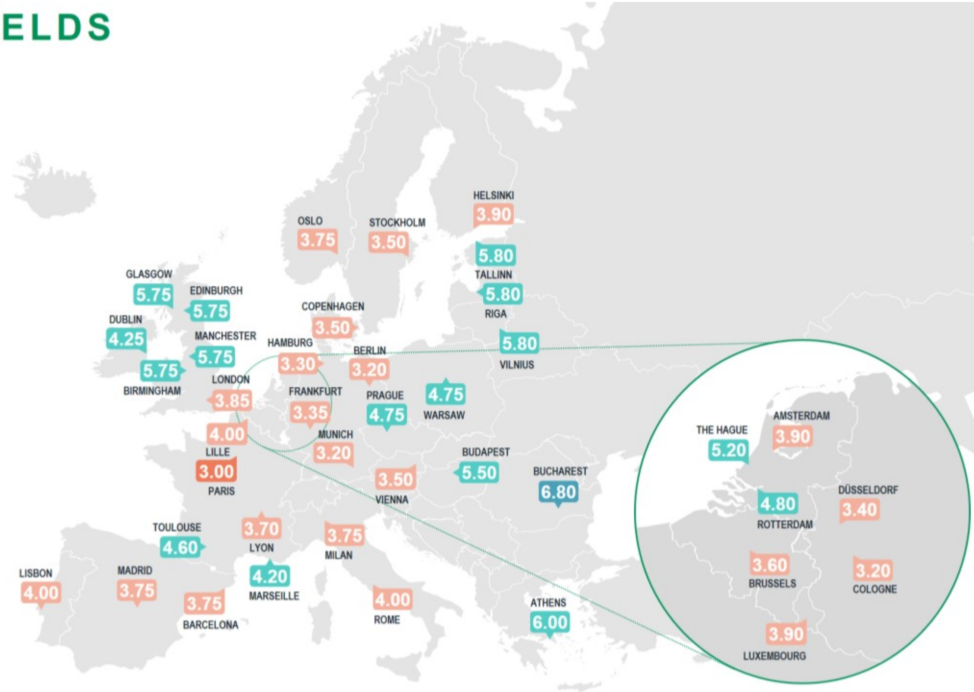
Whereas the second and third quarters of 2022 showed the first signs of yield expansion, the trend was confirmed in Q4 and extended to all European markets. The macroeconomic backdrop, and in particular inflation, has prompted central banks to normalise their monetary policy by increasing their key rates, narrowing the spread with yields and causing the market to rethink the price of real estate assets, particularly offices. “Nevertheless, key interest rates are now certainly close to peaking and should stabilise in 2023, or even fall again at the end of the year”, concludes Laurent Boucher.

PRIME OFFICE YIELDS

Q4 2022 vs Q1 2022

BERLIN	+80bp
PARIS	+30bp
AMSTERDAM	+100bp
MADRID	+65bp
MILAN	+75bp
LONDON	+60bp
LUXEMBOURG	+50bp
BRUSSELS	+35bp
DUBLIN	+25bp
PRAGUE	+75bp
WARSAW	+25bp

≤ 3% · 3-4% · 4-6% · >6%



Source : BNP Paribas Real Estate

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