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# How COVID-19 determines the European office transaction market

The transaction volume of office real estate in Europe (including the UK) remained relatively stable in the first half of 2020 at a total of around €39.7 billion despite the ongoing corona pandemic. However, the volume is declining in the countries with long lockdown phases, which were heavily affected by COVID-19. The sharpest declines are in countries such as Portugal (-74%), the UK (-46%) and Ireland (-41%). In Italy and Germany, however, the volume of transactions increased by 19% and 15% respectively compared to the same period of the previous year. This is mainly due to the still high sales volume of the first quarter and numerous large transactions with long lead times or due diligence phases. Catella Research has analysed the European office real estate market in a total of 37 locations in 18 countries.

Prof. Dr. Thomas Beyerle, Head of Research Catella Group, comments: "The development of office rents and yields shows that the European office markets continue to offer good prospects for investors despite major changes caused by the corona pandemic due to the very good diversification potential and a heterogeneous yield and rental structure. Office properties with the rating "Core" or "Trophy" will become even more in focus for investors with long-term investment perspectives due to COVID-19. The quality of the tenant structure in terms of creditworthiness and sector is also becoming increasingly important. Nevertheless, secondary locations should be considered in a strategic portfolio investment due to lower volatility and stronger regional and local market relevance".

Here are further results of our analysis:

- The average prime office rent for all 37 markets rose to currently €34.90 per sqm compared to €33.40 per sqm in the first half of 2019, which represents an increase of almost 5%.
- The most expensive office market remains London West End at €111.00 per sqm. The lowest prime rents are still found in the Baltic cities of Vilnius, Riga and Tallinn.
- The strong yield compression of recent years has lost momentum. The average net prime yield for all markets is currently 4.12%, which represents a decline of only -12 basis points.
- The lowest yields below the 3% mark and thus the most expensive investment markets in Europe are found in the German top 5 markets and Paris. Some Finnish markets and the Baltic States offer very attractive yield opportunities.
- Due to the current COVID-19 pandemic, with still high uncertainty about the further course of the infection, a 6-month trend reversal can be observed on many markets. While in our analysis of the previous year none of the 37 office markets showed a decline in prime office rents (< -3%), we see slightly declining forecast figures for a total of 17 office markets by the end of 2020. The majority of the markets will thus stagnate at the same level.
- A reversal in terms of net prime yields can be observed in the majority of cities. In 20 of the total of 37 markets, an increase is forecast by the end of the year (> 5.0 basis points), while stable yields are expected to continue in the remaining markets.

The complete study can be downloaded here:

# Press Release



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