Press Release

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European Office Space 2020/2021: Few Transactions, Stable Rents and Yields

After 12 months of pandemic, many office spaces in European locations are being used below average. Within the scope of a Europe-wide survey, Catella Research comes to the conclusion that the transaction volume in Europe (including the UK) is also declining. In 2020, office space with a volume of 83.5 billion euros was transacted. In the countries heavily affected by COVID-19, some of which had long lockdown phases, the volume declined more significantly. Ireland (-69%), Luxembourg (-55%) and Sweden (-49%) recorded the strongest declines. In Norway and Belgium, the transaction volume rose by 38% and 30% respectively compared to the same period last year. Catella Research analysed a total of 38 European office property markets.

Prof. Dr. Thomas Beyerle, Head of Reseach, Catella Group, comments: "The price development was able to largely escape the negative trend in the letting markets and investment volumes: Since mid-2020, both prime rents and yields have remained almost unchanged despite a moderate increase in vacancies, illustrating the still high investor interest."

Further results:

- The average prime office rent for all 38 markets is almost unchanged compared to H1 2020 at +0.59%, even though there were some more dynamic price movements.
- The most expensive office market remains London West End at €108.00/sqm. The lowest prime rents are in the Baltic cities of Vilnius, Riga and Tallinn.
- The strong yield compression of recent years has subsided. At 4.12%, the average net prime yield for all markets is exactly the same as in the last analysis.
- The lowest yields below the 3% mark, and thus the most expensive investment markets in Europe, are found in the German top 7 markets. Some Finnish markets and the Baltic states offer attractive yield opportunities.
- Despite the current challenges posed by the COVID 19 pandemic, a trend reversal in rental prices is only expected in just under 30% of the office markets. We only see slightly declining forecast values (> 3.0 basis points) in 9 office markets by the end of 2021. The majority of markets will stagnate at a constant level.
- Due to the continuing high demand for modern core buildings, net prime yields should remain stable overall over the year. Only 3 of the 38 markets are forecast to increase by the end of the year (> 5.0 basis points), while yields in the remaining markets are expected to remain stable.

The market players are encountering a differentiated situation. On the one hand, there are existing leases that continue to run, but will be up for grabs in the coming years. On the other hand, there are new lettings, which will be met with a continuing low volume of new construction. Office properties with a "core" or "trophy" rating will become even more of a focus for investors with long-term investment prospects due to COVID-19. The quality of the tenant structure in terms of creditworthiness and sector will also become increasingly important. Secondary locations should be considered in a strategic portfolio investment due to lower volatility and stronger regional and local market reference. With regard to the vacancy indicator, Catella Research sees a spatial differentiation: here, value-enhancing locations in the CBD areas or at central transport hubs with a low volume of new construction, there, a developing latent base vacancy in the "Grade B / decentralised" property structure.

The complete study can be downloaded here:
https://www.catella.com/en/germany/research

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