OFFICE TAKE-UP IN WESTERN EUROPE SIGNIFICANTLY DOWN ON LAST YEAR’S LEVEL

With no improvement in economic activity, office take-up in Western Europe was significantly under last year’s level on a rolling year basis, according to BNP Paribas Real Estate (BNPPRE), the leading property adviser.

On a rolling year basis to Q3 2012, take-up weakened further in the nine Western European cities monitored, dropping by 10%. Central London and Central Paris slowed down the most, whilst German cities performed relatively well. Despite achieving their highest quarterly take-up in 2012 so far, Milan and Madrid remain the weakest markets.

Andrew Cruickshank, international investment director at BNP Paribas Real Estate, commented: “A slight contraction in the average vacancy rate was recorded in Q3 2012. Currently, availability is either stable or decreasing in all cities except Central London, where the delivery of London’s tallest building, the Shard, resulted in a large amount of new supply this quarter. Thanks consistent demand in Germany, the downward trend in immediate supply in German cities continued, despite the higher level of completions on the previous quarter. In addition, office prime rents were steady overall in Q3, with stabilisation achieved in Madrid but a drop in Milan.”

With regards to office investment, this continued to rise on a rolling year basis (+19%) and reached the highest level since Q2 2008. However, there are obvious differences between the main markets. For example, Central London and German cities were clearly driving the activity in Q3 and strong investor demand even led to slight yield compressions in Munich and Hamburg. Investment activity in Paris is holding up well with 20bp decrease in prime yield, unlike Madrid, Milan and Brussels. In Madrid and Milan, in a context of increased risk aversion, the lack of activity was reflected in higher prime office yields.

In Central London, take-up fell by 19% in Q3 2012 on a rolling year basis. Increasing demand from the TMT sector helped the West-End to outperform amongst the key submarkets. On the other hand, the City fell by 15% and the Docklands dropped by 61%. However, London maintains its attractiveness thanks to lower risk aversion and better economic perspectives compared to the Euro area. In Central Paris, office take-up confirmed its slowdown on a rolling year basis to Q3 2012, as it fell by 17%.
“In a context of weaker economic growth, major German office markets continue to perform well and again achieve take-up levels mostly above the long term average,” added Cruickshank.

The average vacancy rate in major Western European office markets started to fall again in Q3 2012: it represented 9.1% vs. 9.3% in Q2 2012 and 9.4% reached a year ago. It is worth mentioning that this positive trend is only ensured by the significant drops recorded in German cities. In the nine major Western European cities, prime rents were stable this quarter with the exception of a slight drop in Milan.

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