

*A quarterly report providing a concise overview  
of European Office market trends*



# European Office Outlook 2020

[knightfrank.com/research](https://knightfrank.com/research)



# EUROPEAN OUTLOOK

*Europe remained resilient in the face of geopolitical headwinds in 2019, despite uncertainty dominating the headlines.*

\*\* Forecast assumptions were considered before Covid-19 induced containment measures were implemented across Europe. While this is the case, considerations discussed in the report are relevant and will remain-so in the recovery.

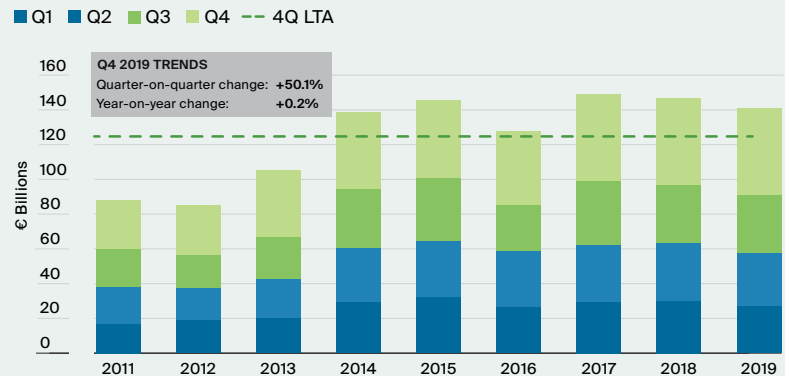
## Europe eases into the post-Brexit transition period

The long-anticipated Brexit deadline was met in January 2020, marking the start of new negotiations between the European Union and the British government and a rethink of funding for the remaining EU-27. The avoidance of a 'no deal Brexit' was welcomed across the continent, with market sentiment supporting the withdrawal agreement. Less Brexit related uncertainty in the beginning of 2020 is expected while the UK remains tethered to the European Union as it undergoes the year-long transition period.

## Investors are looking to real estate in the negative yielding bond environment

In an environment of global uncertainty and low interest rates, as of February 2020, approximately €5.35 trillion or 70% of Eurozone government bonds were negative yielding. As a result, some investors, including those with liability matching requirements, are looking to real estate which offers an income component, with generally lower volatility than equities. If just 1% of these negative government bonds are reallocated to real estate, this would equate to €53.5bn of investment, or the sum of total German and UK Office investment over 2019.

**Fig 1. European office investment volumes**



Source: Knight Frank, Real Capital Analytics

## Germany ranked second globally for office investment in 2019

In 2019, cross border investors were the main driver of investment activity, accounting for 55% or €67bn, up from 51% the year prior. Overall, volumes in 2019 slightly increased year-on-year, up 1% to €127bn, following a particular pick-up in activity over the final quarter. Germany received the most office investment in Europe and second most globally, with €28bn. Markets including Ireland (+118%), Russia (+130%), Czech Republic (+67%), Spain (+65%) Italy (+57%) and France (+14%) all saw substantial annual investment growth in 2019.

We expect investors targeting cheaper debt and relatively liquid, safe-haven markets to continue to look towards Europe over the coming year.

## Weight of demand to support yields over the coming year

Reflecting increased investor appetite, yields compressed on average by 21bps

over 2019. While some of the major German cities are now sub 3%, the average yield across our survey area was 3.94% in Q4 2019. Compared to the negative risk-free rate, relative headroom remains comparative to other locations. Notwithstanding unfolding events with coronavirus, on a return to business as usual basis, we predict continued weight of demand to overall support European yields in 2020. With 85% of the markets in our survey area having now surpassed previous cycle lows, we do not expect broad-scale compression.

## Prime office rents grew by 4.5% on average over 2019

On the occupier side, European Offices had a robust year in 2019. Prime rents across the survey area averaged €547 per sq m per annum in Q4 2019, which was up 4.5% over the year. Cities seeing marked annual rental growth included Berlin (+22%) and Zurich (+12%). Dublin, Madrid, Moscow and Warsaw are the

# MOMENTUM CITIES

*Driving forward real estate markets through education and innovation*

In a lower for longer environment, education and innovation are two tools which can drive growth and help attract and retain the wealth and population needed for well performing real estate markets. The question is where are the growth hotspots?

To look more closely at this, we analysed 110 European cities; all capitals and additional cities with a minimum population of 250,000 and positive forecast population growth. For each city we collected innovation and education variables and used factor analysis to determine an innovation score between 1 (low) and 10 (high). This analysis was overlaid against an investment score based on variables ranging from transaction volumes to pricing and liquidity.

Plotting these cities against their innovation and investment scores, we have identified cities that have the requisite factors to drive momentum and support long term real estate performance.

These leading innovative cities include many of the usual suspects for real estate investment, including London, Paris and Amsterdam, as well as Barcelona and Spain and key German cities. This indicates that these already established

real estate markets are underpinned by long term, robust, growth factors.

Regional UK university cities, as well as eastern European cities like Bucharest, were also amongst those considered the most innovative. Bucharest enjoys universities noted for tech and employs circa 40,000 tech workers in the city

across a multitude of occupiers ranging from Amazon to Oracle and EA games. This research echoes what tech occupiers are looking for in cities; an educated workforce, with good universities able to work closely with industry to innovate and monetise research.

**Fig 2. European cities with an above average score for innovation and education**



Source: Knight Frank

remaining European cities in our survey area to have not yet surpassed their previous cycle peak rents, providing headroom for growth.

Higher rents were supported by declining vacancy rates, which fell by 0.30% to 6.25% in Q4 2019. Considering

the lack of available supply, take-up was down slightly (-1% y-y) in Q4 2019. Despite this, on a local scale, markets including Milan (+59%), Moscow (+51%), Bucharest (+20%) and Berlin (+14%), saw increased take-up over the year to Q4 2019. Should coronavirus resolve in relatively short order, we expect

momentum to continue to drive rents and vacancy, while being mindful of a downside risk for any locations where the effects of coronavirus becomes more protracted.

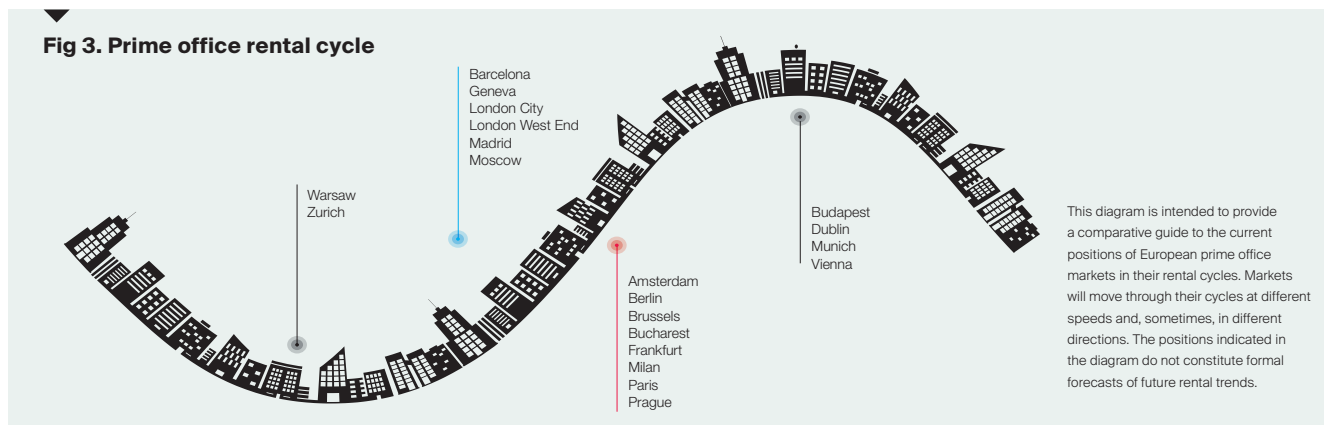
# EUROPEAN MARKET INDICATORS

The average European Office yield fell 21bps year-on-year in Q4 2019.

## Q4 2019 PRIME RENTS, YIELDS AND OUTLOOKS

CITY	OFFICES		LOGISTICS		SHOPPING CENTRES		HIGH STREETS	
	PRIME RENTS (€/SQ M/YR)	PRIME YIELDS (%)	PRIME RENTS (€/SQ M/YR)	PRIME YIELDS (%)	PRIME RENTS (€/SQ M/YR)	PRIME YIELDS (%)	PRIME RENTS (€/SQ M/YR)	PRIME YIELDS (%)
Amsterdam	475 ▶	3.00 ▶	85 ▲	4.10 ▶	N/A	N/A	3,000 ▶	3.00 ▶
Barcelona	336 ▲	3.75 ▼	82 ▶	4.75 ▼	600 ▶	4.50 ▶	3,480 ▶	3.50 ▶
Berlin	468 ▲	2.75 ▼	96 ▲	4.25 ▼	1,380 ▶	3.75 ▶	3,900 ▶	2.50 ▶
Brussels	320 ▶	4.00 ▼	55 ▶	5.25 ▼	1,650 ▶	4.25 ▲	1,800 ▶	3.75 ▲
Bucharest	216 ▶	7.00 ▶	48 ▶	8.00 ▶	N/A	N/A	840 ▶	7.00 ▶
Budapest	300 ▶	5.25 ▶	50 ▶	7.00 ▶	N/A	N/A	1,440	5.50 ▶
Dublin	673 ▶	4.00 ▶	105 ▶	5.25 ▶	3,500 ▶	4.50 ▶	7,000 ▶	3.75 ▶
Frankfurt	540 ▶	2.75 ▶	N/A	N/A	N/A	N/A	N/A ▲	N/A
Geneva	644 ▲	2.75 ▼	184 ▶	4.75 ▶	1,049 ▶	4.25 ▶	3,680 ▶	3.75 ▶
London	1,399 (WE) ▲ 882 (City) ▲	3.50 (WE) ▶ 4.00 (City) ▶	195 ▶	4.00 ▶	N/A	N/A	10,949 ▼	3.00 ▲
Madrid	372 ▶	3.50 ▼	66 ▶	4.75 ▼	600 ▶	5.00 ▶	3,600 ▶	3.25 ▶
Milan	600 ▲	3.40 ▼	55 ▲	5.25 ▼	920 ▲	5.25 ▲	12,000 ▲	2.75 ▶
Moscow	715 ▶	9.75 ▼	70 ▲	11.75 ▼	3,149 ▶	10.00 ▼	N/A	N/A
Munich	438 ▶	2.60 ▶	84 ▶	3.90 ▼	N/A	N/A	4,400 ▶	2.90 ▶
Paris	865 ▲	2.75 ▼	58 ▶	4.25 ▼	1,800 ▶	4.00 ▶	20,000 ▶	2.90 ▶
Prague	276 ▲	4.00 ▶	57 ▲	5.00 ▶	2,760 ▶	4.75 ▶	2,760 ▶	3.50 ▶
Vienna	312 ▶	3.50 ▶	78 ▲	5.15 ▼	1,920 ▶	4.10 ▶	7,200 ▶	3.20 ▶
Warsaw	300 ▶	4.50 ▼	60 ▶	6.00 ▼	1,200 ▶	4.75 ▶	N/A	N/A
Zurich	810 ▲	2.00 ▶	230 ▶	5.00 ▶	1,380 ▼	4.50 ▲	8,280 ▼	2.00 ▶

Source: Knight Frank Research. All yields are in local convention, net yields are in red.



### European Research

#### Victoria Ormond

Partner, Capital Markets Research  
+44 20 7861 5009  
victoria.ormond@knightfrank.com

#### Antonia Haralambous

European Research Analyst  
+44 20 3866 8033  
antonia.haralambous@knightfrank.com

### Europe

#### Richard Laird

Partner, Capital Markets  
+44 20 7861 1663  
richard.laird@knightfrank.com

#### Mike Bowden

Partner, Capital Markets  
+44 20 7861 1546  
mike.bowden@knightfrank.com

#### Caroline Bathgate

Head of European Valuations  
+44 20 7861 1287  
caroline.bathgate@knightfrank.com

#### Colin Fitzgerald

Head of International Occupier Services  
+44 20 7629 8171  
colin.fitzgerald@knightfrank.com

**Knight Frank Research Reports are available at [knightfrank.com/research](https://knightfrank.com/research)**



Knight Frank Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide including developers, investors, funding organisations, corporate institutions and the public sector. All our clients recognise the need for expert independent advice customised to their specific needs. Important Notice: © Knight Frank LLP 2020 This report is published for general information only and not to be relied upon in any way. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no responsibility or liability whatsoever can be accepted by Knight Frank LLP for any loss or damage resultant from any use of, reliance on or reference to the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank LLP in relation to particular properties or projects. Reproduction of this report in whole or in part is not allowed without prior written approval of Knight Frank LLP to the form and content within which it appears. Knight Frank LLP is a limited liability partnership registered in England with registered number OC305934. Our registered office is 55 Baker Street, London, W1U 8AN, where you may look at a list of members' names.