Research Programme

Investment Property Forum
European Consensus Forecasts of Prime Office Rents

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Survey of European Office Market Rental Forecasts November 2018

This research was funded and commissioned through the IPF Research Programme.

This Programme supports the IPF's wider goals of enhancing the understanding and efficiency of property as an investment. The initiative provides the UK property investment market with the ability to deliver substantial, objective and high-quality analysis on a structured basis. It encourages the whole industry to engage with other financial markets, the wider business community and government on a range of complementary issues.

The Programme is funded by a cross-section of businesses, representing key market participants. The IPF makes a contribution to the Programme and gratefully acknowledges the support of these sponsoring organisations:

Key Points

For the second survey of 2018, 18 contributors provided forecasts for some or a majority of the 30 locations covered by this research. There were insufficient forecasts for Athens to permit inclusion of data and analysis on this occasion. All forecasts were generated within six months of the survey date (24 October 2018).

2018

- Average rental growth expectations for the current year continue to vary considerably – from 8.1% for Berlin (7.2% in May) to -1.5% for the City of London (from -3.0% previously). With a majority (21) of market forecasts improving over the six months since the last survey, the 2018 mean forecast across all 29 locations reported has risen to 3.3% (from 2.6%).

- The greatest improvement was demonstrated by Stockholm, rising by more than 3.5%, to 7.2%, followed by Barcelona, up 3.2% to 7.5%. After Berlin (8.1%), the next highest average forecast growth rate is recorded by Madrid (7.9% from 7.1%).

- The average 2018 growth rate has improved by 1.0% or more in 11 locations, including both central London markets.

- Yearly absolute growth projections exceed 5% in eight markets, including Lisbon, Oslo, Milan and Amsterdam in addition to those already identified.

- Weaker growth expectations have been recorded in eight locations, the highest being Moscow and Paris La Défense, down 1.1% to 2.0% and 0.9% to 2.1% respectively.

2019

- Average annual growth forecasts next year range between -1.9% for London's City offices (previously -2.9%) to 6.7% for Moscow (4.7% in May). With only two negative forecasts (the other being London's West End, at -0.9%), the mean for all locations has risen to 2.2%, with 14 markets expected to outperform this average.

- There are, however, some considerable differences of opinion amongst survey contributors for individual locations, with uppermost and lowest forecasts ranging by 14.0% in the case of City of London growth (from -8.5% to 5.5%) followed by Madrid (13.8%) with a further five markets where spans of 10% or more have been registered.

- Compared to six months ago, the current survey shows a slight growth in confidence in 16 markets (the increase for Moscow, of 1.9%, being the exception, with the remainder averaging an improvement of c. 0.5%). Weaker forecasts, with falls of up to 0.6%, were recorded for most of the peripheral Eurozone locations.

- Nine markets are forecast to grow by 3.0% or more next year, including all four German locations (from 3.0% for Munich to 5.4% for Berlin). The strongest growth rate, of 6.4%, is derived from six forecasts for Moscow, with a range of 10.5% between highest and lowest individual projections.

Key Points

2020

- Forecasts for 2020 are positive in all but two locations, the exceptions being Warsaw and London City, at -1.2% and -0.2% respectively, with the latter falling by almost 100 bps over the last six months.

- The average for all markets now lies at 1.4% (1.2% in May). Fifteen locations are expected to exceed this figure, including six where growth of 2.0% or more may be achieved (comprising Amsterdam, Frankfurt, Moscow, Munich and Madrid in addition to Berlin).

- Below average forecasts persist, however, for the four CEE locations, as well as the three UK markets.

Three-year Average Growth Rates

- The mean weighted forecast of annual growth rates for all markets has risen to 2.3% from 1.9% per annum. Sixteen locations are currently projected to outperform the average, with 10 potentially growing by over 3.0%, led by Berlin and Madrid at 5.8% and 5.1% per annum respectively (both having averaged 4.8% in May).

- Annualised averages for only five centres softened over the period since the last survey, the weakest (Brussels) falling by less than 20 bps.

- The three-year averages for central London offices represent the only sub-zero annualised growth rates but in both instances have continued to improve, to -1.2% and -0.1% % per annum (from -2.6% and –2.9% six months ago) for the City and West End respectively.

Five-year Outlook

- Over the five years, to 2022, the rolling average growth rate has risen to 1.9% from 1.7% per annum previously. Forecast averages range from 0.0% for London City (from 0.2% in May), to 4.1% for Berlin, from 3.2% previously, with Madrid now 3.8% (from 3.5% per annum in May).

- Of the 15 markets forecast to deliver above-average growth, these include all four German cities and both Paris and Spanish centres. Stockholm is the best non-Eurozone market for rental growth over five years, at 2.8% per annum (from 2.1%), followed closely by Oslo (also 2.8%, from 2.5% previously).

Changes in average growth forecasts between May and November 2018 are detailed in the table in Appendix 1.

Prospects for 2018

The average growth rate across the 29 markets surveyed (Athens once again omitted due to the receipt of fewer than five forecasts) rose from 2.6% in May to 3.3% currently. Some 13 locations are projected to match or exceed this average, with all but three forecast to grow by 4.0% or more. The spread of average growth rates across all centres for the current year has widened marginally, to 10.3% from 9.6% six months ago.

Eurozone confidence rising

With the exception of Vienna, all 2018 rental growth forecasts are positive within Eurozone locations, ranging from -0.2% for the Austrian capital to 8.1% for Berlin, where Cushman & Wakefield report a vacancy rate of under 2.0% and a construction pipeline equivalent to around 5% of the total stock.

The 2018 Eurozone growth rate is 3.6%, against a median of 3.2%. Higher than average growth is expected in nine markets, including three of the four German centres (with Munich at 4.0% and Frankfurt at 4.2%, whilst the Hamburg projection is 3.4%) and the three Iberian markets. These are also expected to deliver relatively strong increases, with Madrid at 7.9% (from 7.1% previously), Barcelona at 7.5% (from 4.3%) and Lisbon at 5.4% (from 4.8%).

Of other locations where average forecasts have improved over the previous survey, Budapest, Prague and Warsaw have experienced increases of between 1.6% and 1.2%, from relatively weak May averages, followed by Milan, up 1.1% to 5.3%.

Compared to six months ago, forecast averages for seven of the 21 markets lying within the Eurozone (excluding Athens) declined, with falls ranging between 0.1% (Luxembourg) and 0.9% (Paris La Défense). Of the other five markets, only Vienna (down 0.7%) is likely to deliver sub-zero growth. Average growth rates for Dublin, Brussels, Paris CBD and Munich remain positive and are projected to increase by between 1.9% and 4.0% over 2018 despite these falls.

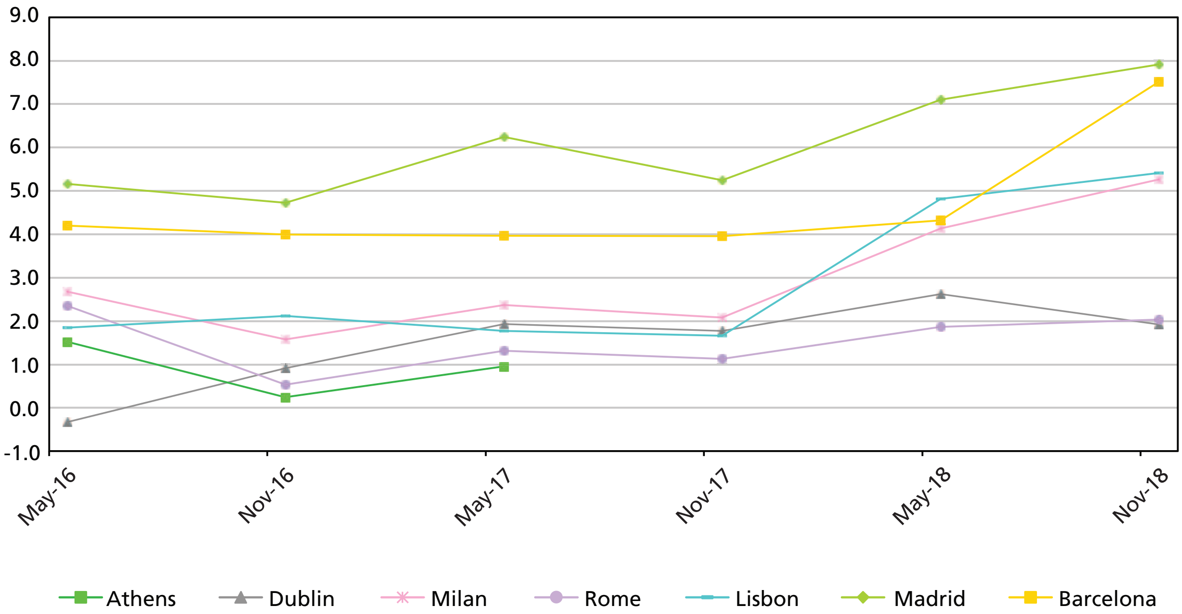
The widest forecast range was recorded by Helsinki (11.0% from 7.9% previously), based on 14 returns. The closest consensus between individual contributors arose in the Luxembourg forecasts (the seven forecasts received lying between 0.0% and 2.3%).

Prospects for 2018

Of the "peripheral" economies most severely affected by the global financial crisis, only Dublin (at 1.9%, reflecting a 0.7% fall over six months) and Rome (up 0.2% to 2.0%) are predicted to underperform the 3.6% average growth projection, whilst Milan rents may achieve up to 5.3% growth (an increase of 1.1% from the last survey).

Rental growth rates in the two Spanish centres continue to improve. With strong take up, resulting in very limited availability of prime space in Barcelona's central business district (reported to be in the order of 1.5% overall by Cushman & Wakefield), combined with minimal development activity (c. 9,500 m2 currently under construction), these have been significant factors in driving up rents by a further 3.1% in that city since May.

Figure 1: Peripheral Eurozone Economies Weighted Growth Forecasts 2018



With the exception of Prague (3.8%), central and eastern European locations (comprising Vienna, Warsaw and Budapest) are predicted to deliver below average growth, at -0.2%, 1.2% and 2.9% respectively.

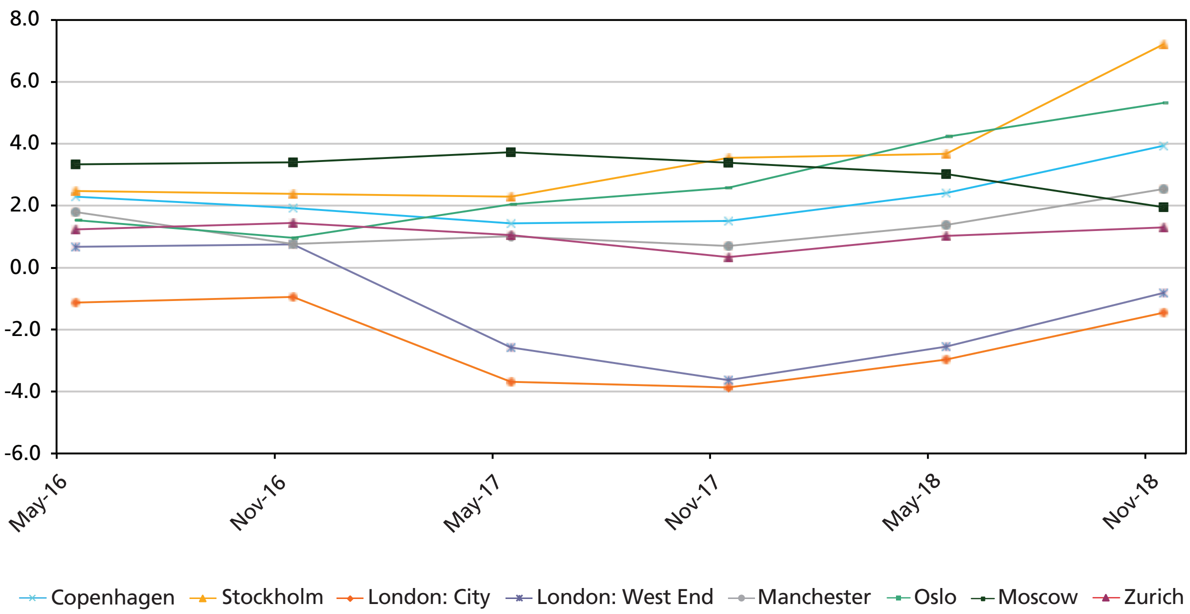
Prospects for 2018

Outside the Eurozone

The range of growth rates lies between -1.5% for London City to 7.2% for Stockholm (formerly -3.0% and 3.7%), compared to an average forecast of 2.5% across this disparate group of city markets. Positive growth continues to be reported for all but the two central London locations, with above-average growth forecast for Oslo (5.3% from 4.2%) and Copenhagen (3.9% from 2.4%) in addition to the Swedish capital, whose considerable improvement is discussed later.

The rate of decline has continued to slow in both central London markets and the Manchester average has risen to 2.5% (from 1.2% in May). Of the two remaining non-Eurozone locations, the Zurich forecast has risen to 1.3% (previously 1.0%) but Moscow is now projected to deliver 2.0%, from 3.0% six months ago.

Figure 2: Non-Eurozone Centres Weighted Average Growth Forecasts 2018

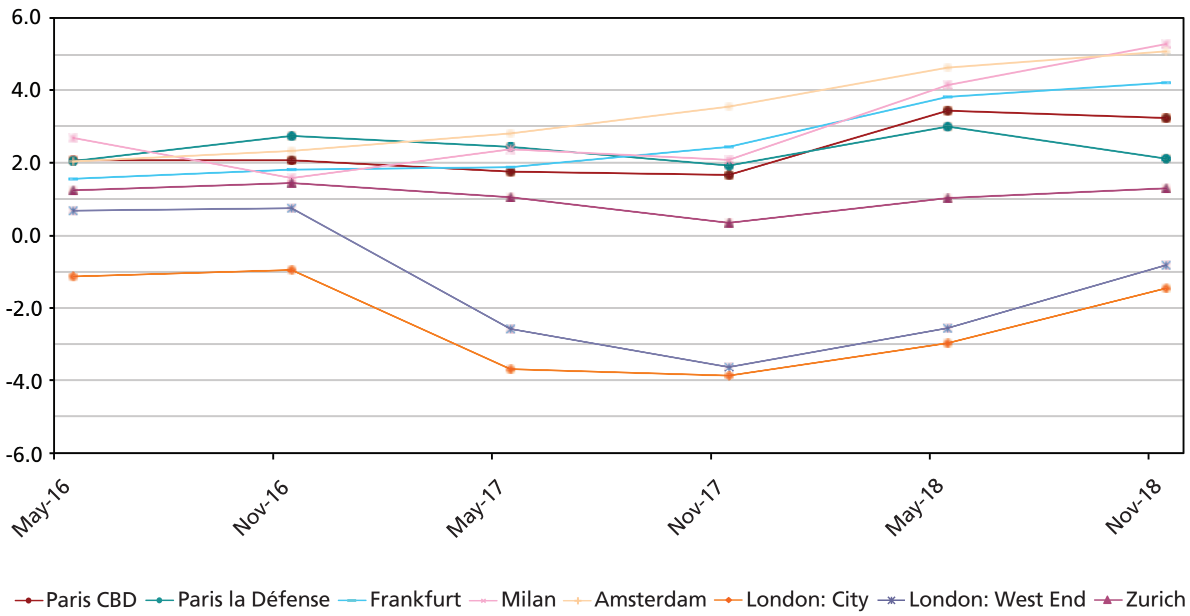


Prospects for 2018

Financial centres

Milan (5.3%) and Amsterdam (5.1%) continue to lead this group, followed by Frankfurt (4.2%) and the Paris CBD (3.2%) maintaining the running order that has broadly been sustained throughout the period commencing May 2016 when 2018 growth was first forecast, with the latter three being likely beneficiaries of Brexit-driven relocations from London. Whilst the average growth rate of 2.4% across the eight markets in this categorisation has continued to improve over previous surveys (1.8% in May and 0.6% a year ago), this still lags the current pan-European average of 3.3%.

Figure 3: Financial Centres Weighted Average Rental Growth Forecasts 2018



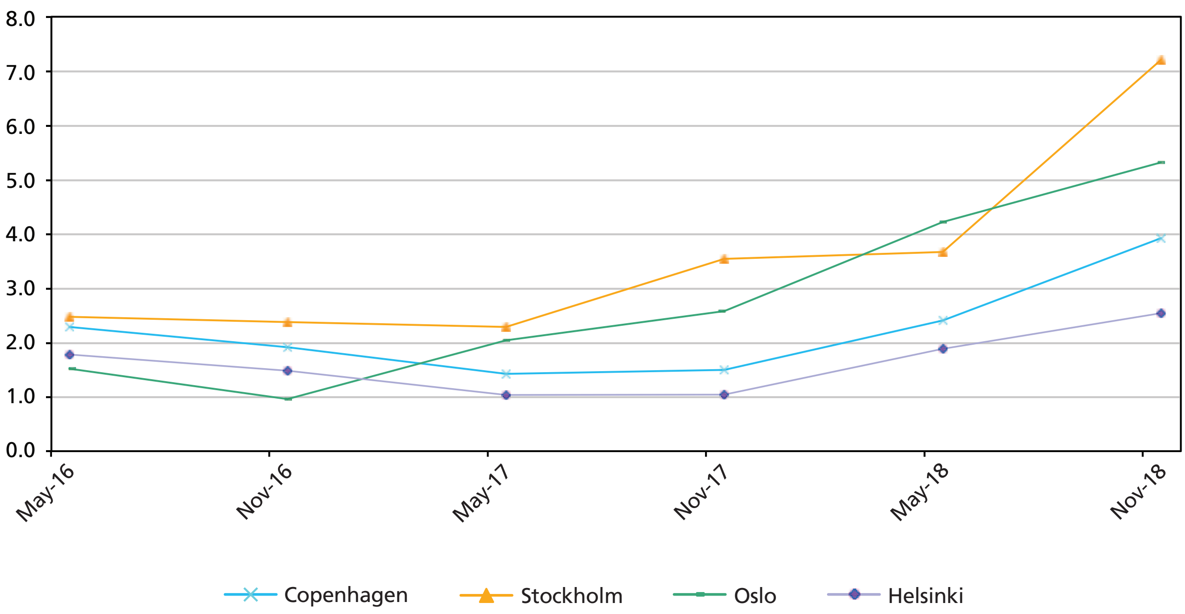
Growth rates for the two central London markets continue to underperform other locations, although rental values psm are significantly higher. Whilst 2018 growth expectations were maintained immediately following the June 2016 referendum, the subsequent weaker sentiment, recorded in 2017, has yet to reverse sufficiently to match the earlier forecasts.

Prospects for 2018

Nordics

The three Scandinavian markets within this geographic area are all projected to exceed the European average in 2018, led by Stockholm (7.2%), which is experiencing an exceptionally tight letting market due to limited development activity. At the end of Q2, the CBD vacancy rate was under 2.5% with only a similar pipeline of new stock under development.

Figure 4: Nordic Centres Weighted Average Rental Growth Forecasts 2018



The Oslo average growth rate also improved over the period since the last survey (to 5.3%). Although the vacancy rate is not as acute as in the Swedish capital (at around 6.5%), overall take up in the year to date represents almost double the amount under construction. Combined with an improving outlook for GDP growth and declining unemployment, demand for is sustaining the upward pressure on rents.

Average growth of 3.9% for 2018 is currently forecast for Copenhagen offices (from 2.4% previously). This is due to a lack of any development activity within the core adding to a vacancy rate of less than 6.0%. Helsinki, at 2.5% (from 1.9% in May) remains the weakest Nordic market, although a fall in the vacancy rate in Q3 to around 6.0% is reflected in the improving prospects for this location, as further strengthening of domestic demand is anticipated in the near-term.

Expectations beyond 2018

2019 and 2020 Outlook

As in the May survey, only the two central London office markets are forecast to deliver negative growth next year, with Warsaw replacing London West End as a sub-zero growth location in 2020. The 2019 average forecast across the 29 centres surveyed has improved slightly (to 2.2% from 2.0%) with the range of averages lying between-1.9% for the City of London (previously -2.9%) and 6.7% for Moscow (from six forecasts).

For next year, growth rates have improved in 16 locations over the period since the May survey, with 13 weaker. The biggest decline is c. 60 bps for Barcelona, whilst the largest increase is just under 100bps for London City. Above average growth is projected for 14 locations, with nine predicted to increase by 3.0% or more, including all four German cities (from 3.0% for Munich to 5.4% for Berlin), as well as Amsterdam (3.1%) Paris la Défense (3.5%), Stockholm (3.6%) and Madrid (5.1%).

The 2020 forecasts point to average growth rates of between -1.2% (Warsaw) and 4.0% (Berlin), both improvements over the May average forecasts. The all centres average of 1.4% has risen by some 20 bps. The three UK markets forecasts continue to lie below the average, at between -0.2% for London City and 1.0% for Manchester. Weaker than average growth is also anticipated in a further 10 locations, including all four CEE markets , as well as Zurich, Dublin, Rome, Luxembourg, Milan, Brussels and Helsinki.

The table in Appendix 1 records market averages for each of the three individual years of the consensus forecast as well as the three and five-year averages, discussed on page 2 and below.

Three- and Five-year Average Forecasts

The three-year rolling average growth rate forecast for the 29 locations analysed has improved to 2.3% from 1.9% per annum in May. Individual forecasts continue to include negative growth projections for the central London markets (at -1.2% for the City and -0.1% for the West End, from -1.7% and -0.8% previously) with Warsaw (previously -0.3%) now flat.

Twenty-four of the 29 three-year annualised forecasts have improved since May (by 1.5% in the case of Stockholm (to 4.0% per annum) and 1.0% for Berlin (to 5.8%). Marginal falls, of under 20 bps or less, were registered in Vienna, Brussels and Helsinki, with Rome and Luxembourg being virtually flat.

Over five years, the rolling average growth rate has improved slightly, to 1.9% per annum (from 1.7% in May). All average forecasts remain positive, ranging between 0.0% per annum for London City offices and 4.1% for Berlin. Of the 15 locations that may exceed the average, these include three forecasts of over 3.0%, with Moscow (3.3%) and Madrid (3.8%) following Berlin. In the six months since the last survey, forecasts have improved in 24 markets, led by Berlin, with an increase of 85 bps, followed by Stockholm, up 77 bps to average 2.8% per annum. A further four market averages rose by 50 bps or more, comprising Barcelona, Moscow, Warsaw and Budapest. Of those locations recording marginally weaker growth averages, these were confined to falls of between 3 and 16 bps.

Table 1 (Appendix 1) also details the three- and five-year annualised growth rates for individual market consensus forecasts derived from the current and May surveys.

Conclusions

Expectations have continued to improve for each of the comparable periods, with the 2018 average for the 29 markets surveyed rising by almost 70 bps to 3.3% as 21 of the individual locations registered higher averages than previously reported in May. Despite the imminence of Brexit, the central London market forecasts have improved by between 150 and 170 bps (City and West End respectively).

Average rates for the current year lie between -1.5% for London City and 8.1% for Berlin, with the range of forecast being 8.8% and 9.1% respectively and above the median for those markets surveyed.

With the exception of four locations in 2019 and five in 2020, individual market averages are expected to fall year-on-year, broadly repeating the pattern of the May survey. However, the level of decline is less in 21 instances in 2019 and 16 in 2020, reflecting the influence of strengthening near-term forecasts.

Appendix 1

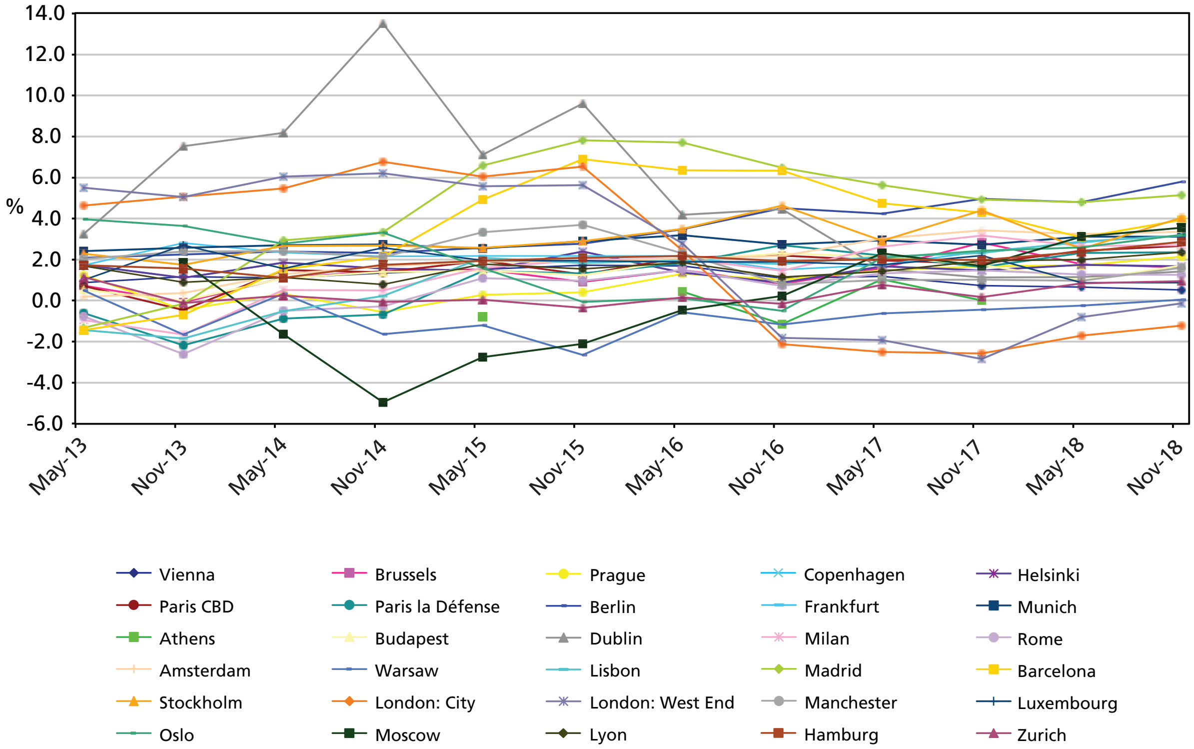
Mean weighted rental value growth forecasts – May 2018

	Year weighted average rental growth forecast						Rolling 3-year average		Rolling 5-year average	
	2018		2019		2020					
	Nov. 2018	May. 2018	Nov. 2018	May 2018	Nov. 2018	May. 2018	Nov. 2018	May 2018	Nov. 2018	May 2018
Vienna	-0.2	(0.5)	0.7	(0.8)	1.0	(0.7)	0.5	(0.6)	1.0	(0.6)
Brussels	2.4	(2.7)	1.4	(1.5)	1.1	(1.2)	1.6	(1.8)	1.5	(1.6)
Prague	3.8	(2.4)	1.8	(1.8)	0.9	(0.9)	2.1	(1.7)	1.4	(1.4)
Copenhagen	3.9	(2.4)	1.9	(2.2)	1.7	(1.8)	2.5	(2.1)	2.2	(1.8)
Helsinki	2.5	(1.9)	1.2	(1.7)	1.3	(1.6)	1.7	(1.7)	1.8	(1.9)
Lyon	2.9	(2.4)	2.7	(2.3)	1.6	(1.3)	2.4	(2.0)	1.8	(1.5)
Paris CBD	3.2	(3.4)	2.9	(2.2)	1.9	(1.7)	2.7	(2.4)	2.1	(1.9)
Paris la Défense	2.1	(3.0)	3.5	(2.7)	1.5	(1.3)	2.4	(2.3)	2.2	(1.8)
Berlin	8.1	(7.2)	5.4	(4.8)	4.0	(2.5)	5.8	(4.8)	4.1	(3.2)
Frankfurt	4.2	(3.8)	3.6	(3.0)	2.0	(1.7)	3.3	(2.8)	2.6	(2.3)
Hamburg	3.4	(3.2)	3.3	(2.8)	1.9	(1.2)	2.9	(2.4)	2.4	(1.9)
Munich	4.0	(4.3)	3.0	(3.0)	2.4	(2.1)	3.1	(3.1)	2.6	(2.5)
Athens*	na	(na)	na	(na)	na	(na)	na	(na)	na	(na)
Budapest	2.9	(1.3)	1.3	(1.0)	1.0	(0.7)	1.7	(1.0)	1.5	(1.0)
Dublin	1.9	(2.6)	1.6	(1.7)	0.8	(-0.8)	1.4	(1.1)	0.6	(0.4)
Milan	5.3	(4.1)	2.1	(2.6)	1.1	(1.3)	2.7	(2.7)	2.1	(2.0)
Rome	2.0	(1.9)	1.1	(1.2)	0.9	(1.0)	1.3	(1.3)	1.3	(1.1)
Luxembourg	0.6	(0.7)	1.0	(1.4)	1.0	(0.4)	0.9	(0.9)	1.0	(1.0)
Amsterdam	5.1	(4.6)	3.1	(3.3)	2.0	(1.8)	3.4	(3.2)	2.5	(2.4)
Oslo	5.3	(4.2)	2.7	(2.6)	1.7	(1.1)	3.2	(2.6)	2.8	(2.5)
Warsaw	1.2	(0.0)	0.2	(0.2)	-1.2	(-0.9)	0.0	(-0.3)	0.9	(0.4)
Lisbon	5.4	(4.8)	2.4	(2.5)	1.8	(1.4)	3.2	(2.9)	2.3	(2.2)
Moscow	2.0	(3.0)	6.7	(4.7)	2.2	(1.8)	3.5	(3.1)	3.3	(2.7)
Madrid	7.9	(7.1)	5.1	(5.3)	2.4	(2.1)	5.1	(4.8)	3.8	(3.5)
Barcelona	7.5	(4.3)	2.8	(3.3)	1.5	(1.6)	3.9	(3.1)	2.9	(2.3)
Stockholm	7.2	(3.7)	3.6	(2.8)	1.4	(1.1)	4.0	(2.5)	2.8	(2.1)
Zurich	1.3	(1.0)	1.0	(0.9)	0.6	(0.6)	0.9	(0.8)	1.2	(0.8)
London: City	-1.5	(-3.0)	-1.9	(-2.9)	-0.2	(0.8)	-1.2	(-1.7)	0.0	(0.2)
London: West End	-0.8	(-2.5)	-0.9	(-1.2)	0.5	(1.0)	-0.1	(-0.8)	0.5	(0.7)
Manchester	2.5	(1.4)	1.4	(0.7)	1.0	(0.9)	1.6	(1.0)	1.2	(1.1)

Previous survey figures in brackets
*Fewer than 5 forecasts received for this market

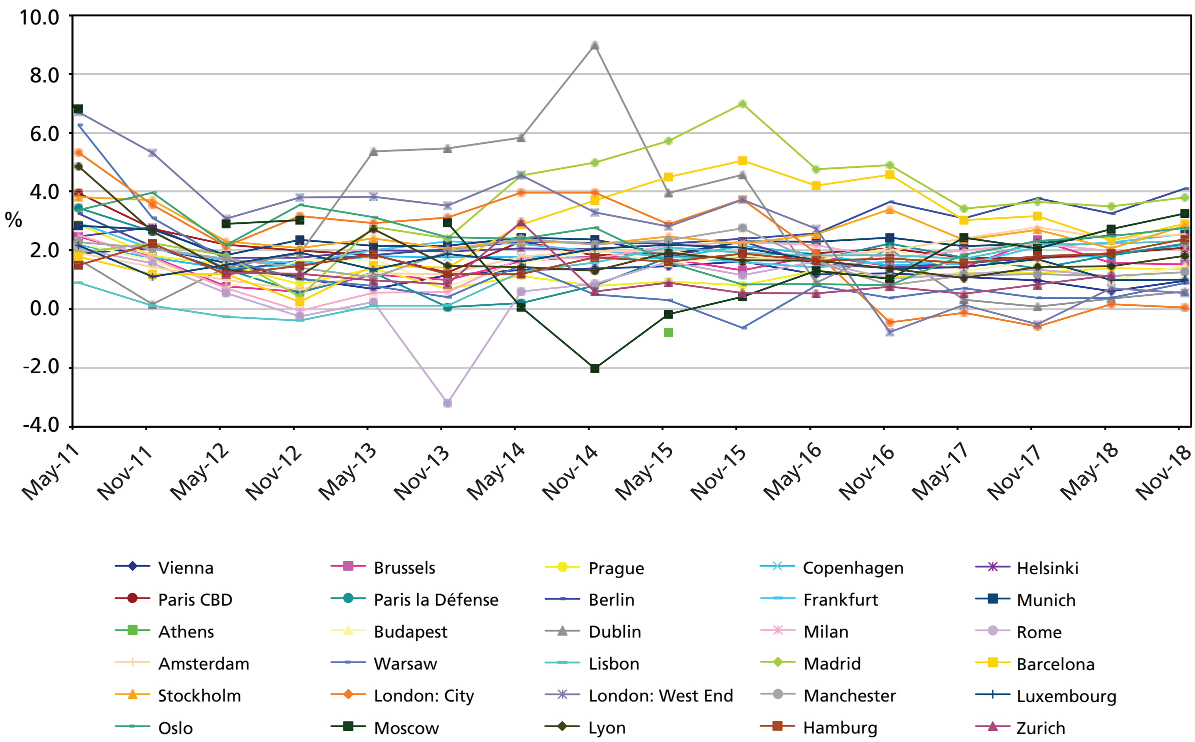
APPENDIX 2

Figure 5: Rolling Three-year %age Weighted Average Rental Growth Forecasts



APPENDIX 3

Figure 6: Rolling Five-year %age Weighted Average Rental Growth Forecasts



Acknowledgement and Notes

Forecast Contributors

IPF thanks all participants in the survey for contributing rental data to the November 2018 European Consensus Forecasts, including the following organisations:

Aberdeen Standard Investments, AEW, Allianz Real Estate GmbH, Aviva Investors, Barings, BNP Paribas Real Estate, Capital Economics, CBRE, CBRE Global Investors, CoStar, Cushman & Wakefield, Danish Property Federation, DWS, Grosvenor, Invesco, JLL, LaSalle Investment Management and Real Estate Strategies

Notes

The IPF European Consensus Forecasts survey currently focuses on office rental value growth in major cities. It is not possible to assemble sufficient forecasts of all sectors across all European countries to produce a meaningful consensus of views, although our ambition is to extend and improve the scope of the survey.

In addition to the rental value forecasts, we run a consensus survey of forecast IPD European total returns by sector. The samples provided for this survey were once again insufficient to permit publication, as fewer than five forecasts were received for each sector/territory. We aim to produce a full release of this data at a future date, once the number of responses has grown to five or more.

The Data

This latest survey collected prime office rental forecasts for 30 centres for the calendar years 2018, 82019 and 2020. We request a three-year average forecast for 2018-2020 where individual years are not available, as well as a five-year average for 2018-2022. The survey requested both the percentage annual rental growth rates and also the year-end rent levels. The growth forecasts provided by each organisation are analysed to provide weighted average ('consensus') figures for each market. Figures are only aggregated and reported for office markets for which a minimum of five contributions are received.

The **definition of market rent** used in the survey is **"achievable prime rental values for city centre offices, based on buildings of representative size with representative lease terms for modern structures in the best location." Prime** in this case **does not mean headline** rents taken from individual buildings but, rather, rental levels based on market evidence, which can be replicated. All figures included in the survey are required to have been generated by formal forecasting models. This report is based on contributions from 18 different organisations (fund/investment management houses and property advisors).

Consensus forecasts further the objective of the Investment Property Forum to enhance the understanding and efficiency of the property market. The IPF is extremely grateful for the support those organisations that contribute to this publication, which is only possible thanks to the provision of individual forecasts.

The IPF welcomes new contributors for future surveys, so that the coverage of the market can be widened. If your organisation wishes to contribute to future surveys, please contact Pam Craddock, IPF Research Director at pcraddock@ipf.org.uk, tel. +44 (0)20 7194 7925.

Contributors receive a more detailed set of statistical outputs than those shown in Appendix 1 – for each office centre, the sample size, median and range of rental values are also provided.

Acknowledgement and Notes

Disclaimer

The IPF Survey of Independent Forecasts for European Prime Office Rents is for information purposes only. The information therein is believed to be correct, but cannot be guaranteed and the opinions expressed in it constitute our judgment as of the date of publication but are subject to change. Reliance should not be placed on the information and opinions set out therein for the purposes of any particular transaction or advice. The IPF cannot accept any liability arising from any use of the publication.

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