

# Briefing note Prime office rent incentives

May 2013

## Rental incentives in Europe

■ The deteriorating economic and business environment since the beginning of the financial crisis has led to a sharp decline in occupier demand across Europe. Landlords have reacted to this in a variety of ways, with some markets seeing large falls in headline rents. Landlords have also reacted by increasing rental incentives, either to keep headline rents stable, or just to retain or attract tenants.

■ Our comparison of the rent free periods offered between 2008 and 2013 (for prime CBD space) shows that on average discounts have increased by 21% across Europe. Indeed, the number of rent free months on offer has tripled in Athens, Paris, Madrid and Amsterdam. At the other end of the spectrum incentives have dropped in most of the German markets and London over this period.

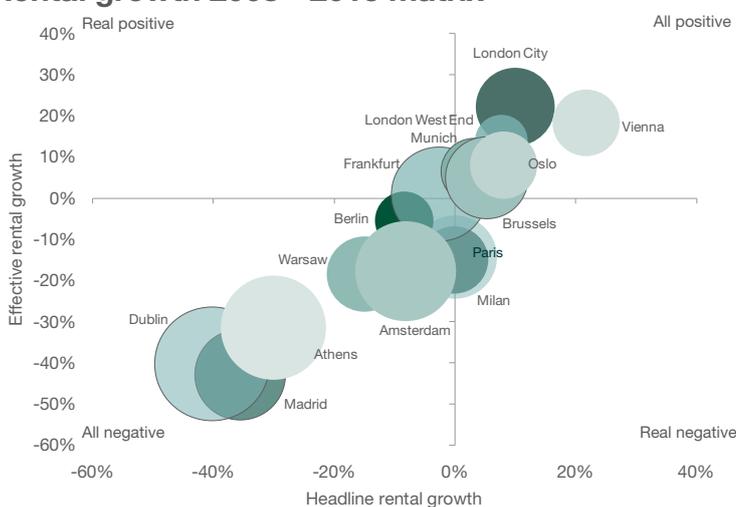
■ The share of rent free months over the total lease period is currently highest in Milan (25%), and the two Parisian markets at 21% each, followed by London City and Dublin at 20%. Athens, where prime headline rents have fallen significantly over the past five years (-30%), only offers a 2% discount. Some safe-haven markets such as Oslo, Stockholm, Munich, Berlin are only offering a 5% discount each. On average rent free concessions for prime CBD space account for about 11% of the total rental period across our survey area.

■ Table 1 shows that it is not necessarily the markets perceived as the weaker ones that give the highest concessions. London City and Paris, which are widely perceived as the strongest European office markets at the moment, offer some of the highest available discounts at about 20%.

TABLE 1  
**Rental concessions 2013**

	Rent free months	Discount*	Effective rental growth 2008-2013
Amsterdam	21	15%	-17.8%
Athens	3	2%	-31.4%
Berlin	3	5%	-5.4%
Brussels	9	8%	4.9%
Dublin	12	20%	-40.2%
Frankfurt	5	7%	1.0%
Hamburg	6	10%	-3.4%
Lisbon	6	10%	-9.5%
London City	24	20%	22.2%
London West End	12	10%	14.0%
Madrid	6	17%	-42.8%
Milan	18	25%	-14.3%
Munich	3	5%	6.6%
Oslo	3	5%	8.1%
Paris CBD	7.5	21%	-15.0%
Paris La Defense	15	21%	-13.8%
Stockholm	3	5%	NA
Vienna	4	7%	18.4%
Warsaw	7	12%	-18.4%

GRAPH 1  
**Rental growth 2008 - 2013 matrix\***



Graph source: Savills / \*size of bubble 2013 vacancy rate projection

\* As a percentage of rent free months over a typical lease period for prime CBD office space.

→ **Effect on rental growth**

■ The matrix in Graph 1 compares headline with effective rental growth, which includes the effect of rental incentives.

■ At the top, Vienna (22%), London City (10%) and West End (8%) have all seen robust headline rental growth, which has also been reflected in the growth in effective rents. As incentives have fallen relatively strongly in the two London markets, effective rents have grown faster than headline rents by 12% (City) and 6% (West End).

■ The markets that have experienced rental falls in both headline and effective rents are clustered in the "all negative" quadrant of the matrix. The three peripheral markets Madrid, Athens and Dublin have experienced above 30% headline rental losses since 2008. A significant rise in incentives in Madrid has translated into a 43% drop in effective rents.

■ The effect of incentives is most distinctive in the rental pattern of Paris CBD and La Defence, Milan and Amsterdam. In each of these markets, the increase in discount means that effective rents have fallen by about 10% more than headline rents since 2008.

**What drives incentives?**

■ Incentives reflect landlord and tenant confidence in the market. In markets where vacancy rates have increased over the past five years, rental discounts have also increased (Warsaw, Madrid, Milan, Paris, Amsterdam). In Berlin, Munich and

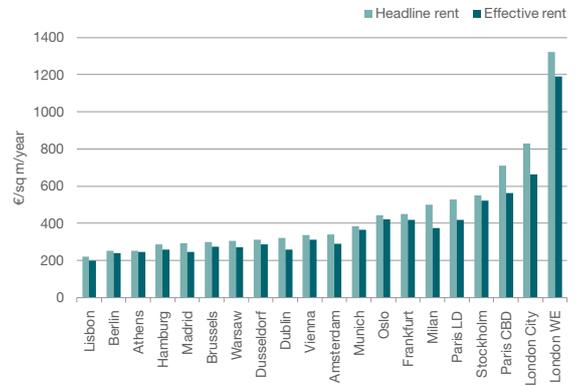
Frankfurt where the vacancy rate has fallen, rental incentives are down as well. At the same time rent free periods are also shrinking in London, where despite the fact that availability has marginally increased since 2008, the outlook for the market is positive.

■ From the comparison of the 20 European markets, a division between mature and immature markets becomes clear. In the first group which includes London, Paris and Dublin, landlords tend to sustain their headline rents through longer rent free periods reflecting the market anticipation of a recovery in the short to medium term. On the other hand, troubled and immature markets such as Athens and Lisbon do not offer the highest discounts, as the market correction has been quite severe in real terms.

■ Overall, incentives seem to be determined by the combination of different market indicators (availability, demand, confidence) as well as individual local characteristics: Incentives are therefore a good indicator of the general market sentiment.

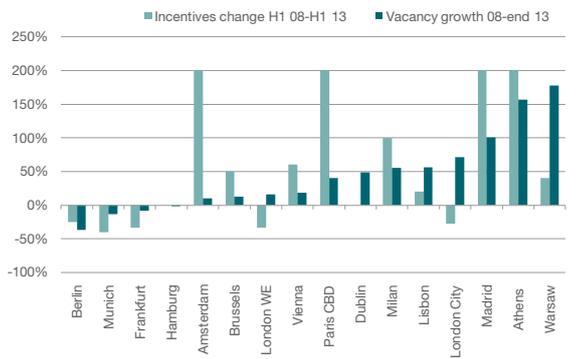
■ Given the improved take-up levels in about half of the locations surveyed in Q1 13, this could herald the beginning of a reduction in rental incentives, with a positive impact on real rental growth in these locations. The outlook is particularly positive for London, Vienna, Brussels, Warsaw which have all experienced above 20% increases y-o-y. On the other hand we do not expect the situation to change significantly in the locations with weak demand and rising availability. ■

GRAPH 2 **Headline vs effective prime rents 2013**  
London has the highest rents



Graph source: Savills

GRAPH 3 **Incentives vs availability 2008-2013**  
Higher discounts where vacancy rises



Graph source: Savills

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