Briefing note
Pre vs post GFC* occupier trends
March 2014

Big vs small - Large requirements seeking suitable space

■ Large requirements have been a characteristic of most of the markets during the crisis underpinned by corporate consolidation needs. Occupiers have been rationalising their property portfolios, downsizing but also concentrating their operations under one roof. Between 2007 and 2010 the share of large deals (number of deals>1,000 sq m) of the total take up in our survey area increased by 18% on average to account for 26% of all transactions.

■ Nevertheless, total take-up has dropped by almost one third over the period 2007-2013 as demand for small and medium size offices (deals up to 1,000 sq m) has been weaker. Small and Medium enterprises have been suffering from the economic crisis, their growth has been hindered and many faced insolvency. As a consequence their share of leasing activity fell by 6% since 2007.

■ Lately the share of large-scale deals has been falling in most markets, which is the combined result of two parameters. On the one hand there is an increasing scarcity of high quality, large-scale offices in good locations to satisfy outstanding large requirements. On the other hand the existing needs for space are mainly driven by relocation/consolidation needs rather than new enquiries, which are mostly still to emerge with the economic recovery.

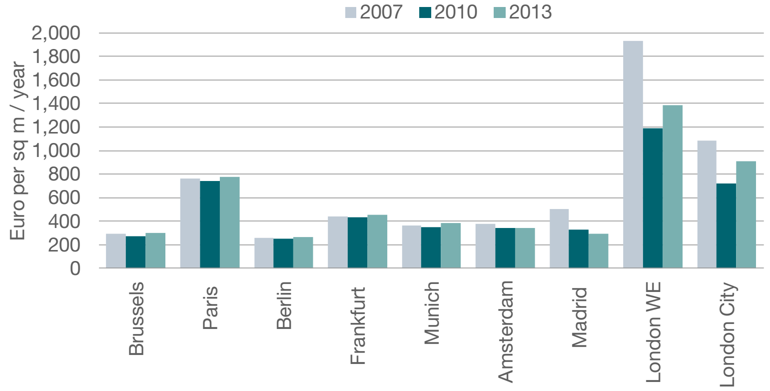
■ Between 2007 and 2013 the average size of deal increased by 4% from 1,015 sq m to 1,055 sq m, with the steepest changes noted in London (20%), Berlin (11%), Paris (9%) and Madrid (8%).

CBD vs Fringe - Cost and quality of accommodation key parameters

■ In a tenant's market occupiers have become more selective as well as more cost conscious in their property choices. Between 2007 and 2010 the proportion of take-up in the best

GRAPH 1

Pre vs Post GFC prime CBD rents are the same in almost all locations of our survey area*



Graph source: Savills / *Brussels, Paris, Berlin, Munich, Frankfurt, Amsterdam, Madrid, London West End and City

SUMMARY

Scarcity of quality space in the CBDs

■ Take-up in the end of 2013 was still 30% below pre-crisis levels. We expect leasing activity this year to be in line with last year. The ability of the markets to satisfy large-scale enquiries will determine the end-year volume. A clear positive trend in take-up is subject to firm economic recovery, return of business financing and job creation.

■ In the middle of the crisis (2010) the share of large-scale deals had climbed up by 18% to account for a quarter of all signed leasing transactions. In the end of 2013 their share of take-up was back to pre-crisis levels (22%) mainly due to the scarcity of suitable accommodation. The average deal size increased from 1,015 sq m in 2007 to 1,055 sq m in 2013.

■ Cheaper rents in CBD locations during the crisis attracted more occupiers pushing up its share of take-up to 40% in 2010 compared to 33% in 2007. As fringe locations are competing with rising incentives and higher availability of modern space compared to the CBD, occupiers are gradually returning to non-CBD locations. In 2013 the fringe accounted for 64% of take-up compared to 60% in 2010. Ongoing refurbishment projects in the CBDs will create some new supply of modern space in prime locations.

■ In the end of 2013 the average prime CBD rent in our area was 15% below 2007 levels. By the end of 2014, we expect the average prime CBD rent to rise by 4%. Prime non-CBD rents are 47% lower than CBD and 5% lower compared to 2007. We predict that prime non-CBD rents should remain broadly stable during 2014.

■ TMT and Distribution and Retail sectors have increased their shares in take-up during the period 2007-2013 from 15% to 19% and from 6% to 9% respectively. We expect the rising importance of these sectors in the economy and in the property market to continue.

*GFC: Global Financial Crisis

locations of the cities (CBD) that we analyse increased by 28% on average to account for 42% of take-up on average. Occupiers took advantage of more attractive rents in the best locations where the average rent (CBD) is still 15% below peak.

■ The situation has changed during 2010-2013, as prime CBD rents have entered a recovery path. The average achieved rent was 5% higher at the end of last year compared to three years ago, with only Madrid still offering discounts. Since 2010 the lack of space and rising rents in the CBD vs supply of modern space and attractive incentives in fringe locations have shifted occupiers towards non-CBD locations.

■ The proportion of take-up in peripheral areas increased on average by 17% over this period to account for almost two thirds of take-up in 2013. The highest changes have been in favour of fringe locations in Amsterdam (+27%) and fringe locations of London City and West End (70%). In Q4 13 prime non-CBD rents were 47% lower than CBD and 5% lower compared to 2007.

■ In Q4 2013 the average CBD vacancy rate was at 6.4%, while the overall vacancy rate was 9.0% and we expect it to fall to 8.7% by the end of 2014.

■ In terms of average achieved rents the Insurance and Financial sector continues to occupy the most expensive buildings and the Public sector the cheapest ones, although in comparative terms all sectors pay about 9% less rent than in 2007.

Take-up by sector - Share of TMT and Distribution rising

■ In terms of take-up by sector, during the period 2007-2013 Distribution and Retail and the TMT sectors have increased their take-up shares from 6% to 9% and from 15% to 19% respectively. The ongoing growth of information and technological innovation and the rapid expansion of e-commerce have underpinned demand from these segments of the economy. At the same time the Insurance and Financial sector share has shown the highest drop from 18% in 2007 to 13% in 2013. The sizeable financial sectors of the European economies were hit by the recession reducing their requirements, while any consolidation moves, which were driven by the need to cut costs have been largely completed between 2007 and 2010.

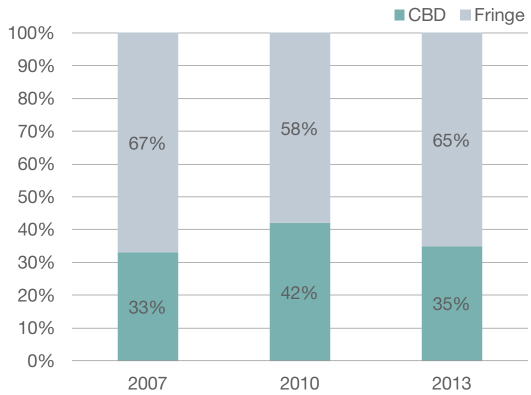
Future demand

■ Based on Oxford Economics forecasts on employment creation, the service sector is expected to grow by 0.8% pa on average over the next five years in the cities we analyse creating about 1.2m sq m of new office demand every year. The expansion of the service sector over the period 2014-2018 will be stronger in London and Madrid at 8% and 5% respectively

■ The TMT sector is predicted to account for more than 20% of new office demand, while Financial and Insurance activities are not expected to expand significantly over this period accounting for only 3% of new office demand.

GRAPH 2

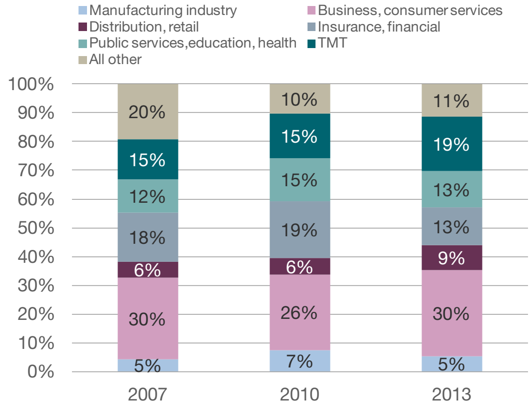
Pre vs Post GFC take-up share of CBD and fringe locations Fringe up again



Graph source: Savills

GRAPH 3

Pre vs Post GFC take-up by sector TMT sector on the rise



Graph source: Savills

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