

European Commercial - August 2022

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SPOTLIGHT
Savills Research

European Office Occupancy



● Occupancy rates ● Occupancy peaks ● Outlook

Occupancy rates continue to recover

What do we mean by office occupancy?

Businesses remain in a period of transition in their return to offices following the pandemic. Savills Research has analysed office occupancy rates based on the average number of office workers over the course of a working week (excludes bank holidays) for a sample of fully let, multi-let office buildings located in the central business district (CBD) of selected European cities. The data is based on Building Management Systems from Savills European Property Management network taken during June 2022.

What are the current office occupancy rates across Europe?

Europe's average office occupancy

rate during June 2022 was 43%, led by Paris CBD (54%), Madrid (52%) and Cologne (47%), according to Savills data. London City remains among the lowest occupancy office market; however, London West End's occupancy rate reflected busier activity levels at 38%. Stockholm (45%), Dublin (41%) and Prague (38%) reflected average occupancy levels.

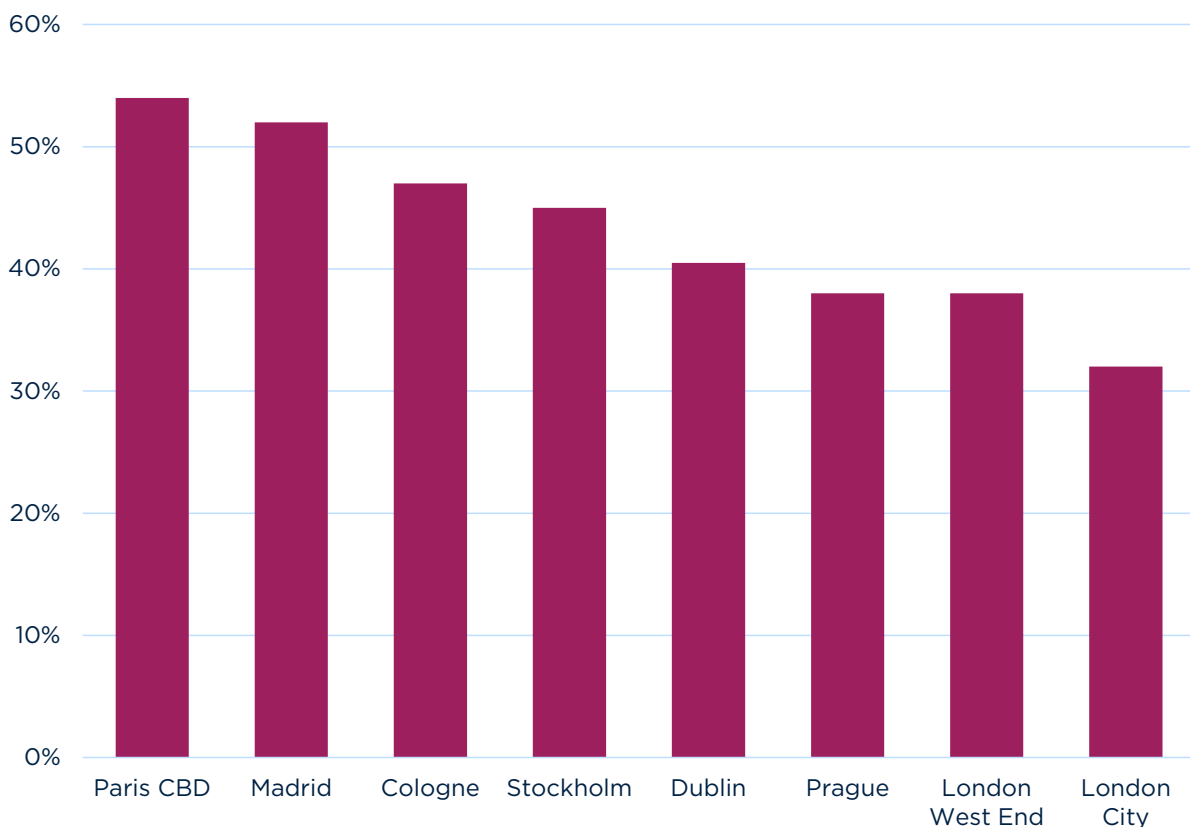
On a global basis, European office occupancy compares similarly with major US cities, although behind major Asia Pacific cities as pandemic restrictions have eased and work from home has not been as widely adopted.

However, there are a number of reasons for variations in occupancy rates at country level. It should be noted that annual leave allowances in France

tend to run from June to May, before workers return to the office in June. Madrid's relatively high occupancy rate may be partially boosted by higher proportions of city centre living, and subsequently shorter commutes to the workplace. In Germany, the proportion of employees working from home prior to the pandemic was lower than across other western European markets, and workplace culture has driven a faster speed of return. Cities with mixed-use environments, along with those cities with a more prominent culture of physical workplace presence, are observing the highest average workplace occupancy levels.

There is, of course, much volatility between different buildings' occupancy levels, as much of the return to work strategy has been led by operations and

Chart 1: European office occupancy rates, June 2022



Source: Savills

human resources teams on a company-by-company basis. Each occupier's and even manager's attitude to remote working will vary, as observed with much-publicised comments from Tesla's and Twitter's respective CEOs. On the whole, there are no clear differences in the speed of return to the office between the professional services and technology sectors, for example.

How have occupancy levels changed since early 2020?

Savills calculates that average office occupancy rates were in the region of 70-75% prior to the pandemic, reflecting optimum building utilisation; too high and space is being used too intensively which becomes uncomfortable, and too low would indicate underutilised space. When analysing our sample of European

occupancy rates historically, there are three clear trends;

- 1) Office occupancy rates continue on an upward trend in June 2022, and it will take some time before occupancy rates stabilise.
- 2) There is a more limited impact on office occupancy rates with each new variant of the virus.
- 3) The speed of return to the office is becoming faster following each lockdown.

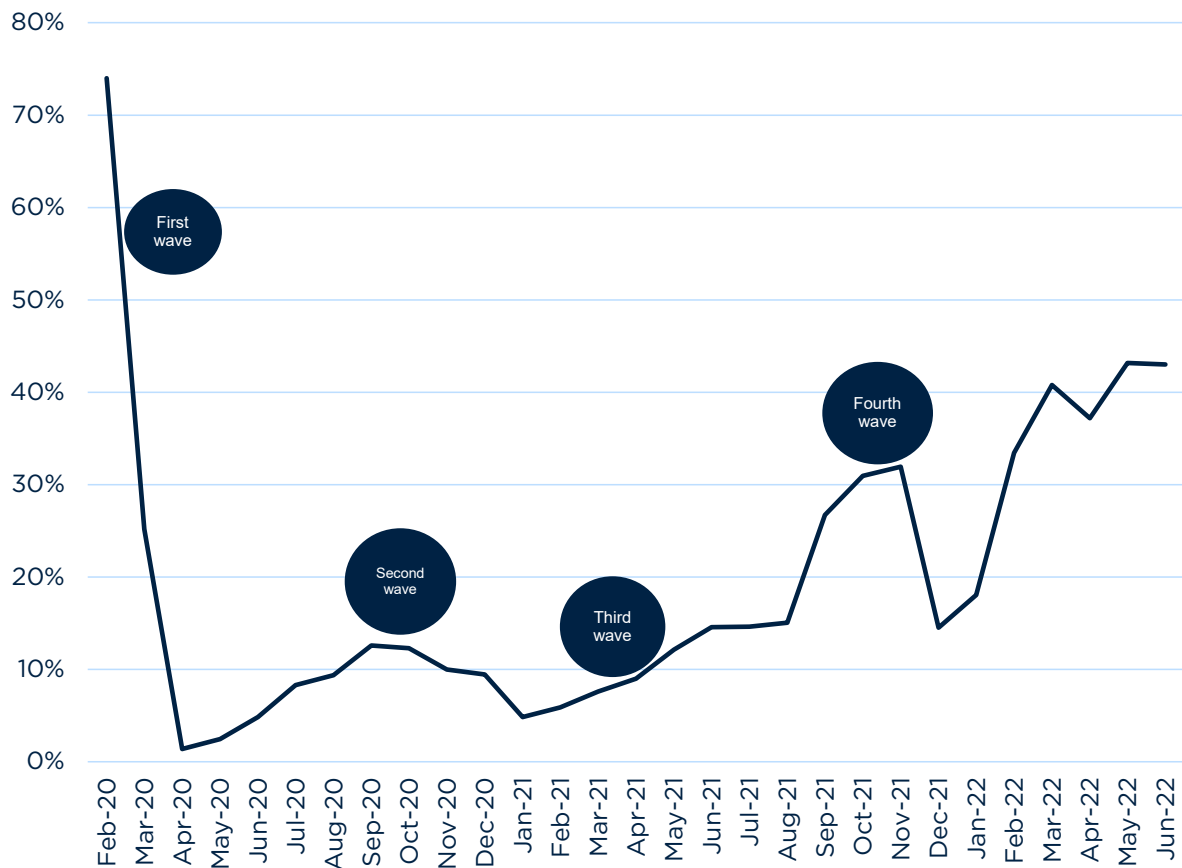
How do office occupancy rates vary throughout the week?

Analysing office occupancy on a daily basis (excluding national holidays), it is clear to see a reduction in occupancy levels on Fridays. In Paris, the average weekly office occupancy rate deviated from an average peak of 61% on

Tuesdays to 42% on Fridays (Chart 3). Across all office markets sampled, Tuesdays and Wednesdays are the days with the highest occupancy levels, with occupancy on Mondays and Thursdays circa five percentage points below. In Madrid, for example, occupancy dropped from 61% on Wednesdays to 36% on Fridays, which may be due to more Madrid-based companies working half days on Fridays.

Savills Research indicates that Fridays alone account for an average 3.5 percentage point reduction in weekly European office occupancy levels. Thus, occupiers' opportunity to downsize will depend to a large extent on whether they can manage occupancy peaks between Monday and Thursday.

Chart 2: European average office occupancy rates



Source: Savills- historic data reflects Republic of Ireland and UK

What next for occupancy rates?

Occupiers are resuming their occupational decision-making in a shift to higher-quality office space in more centrally located locations in order to attract and retain staff and create a better workplace environment. Employers remain focused on attracting their staff back to the office and in an environment of rising fitout costs, are willing to spend more in order to attract workers back, given that office rent accounts for only circa 10% of total business costs, according to the BCO.

Legislative changes may prove a headwind for Europe’s office landlords as workers are given more freedom to decide where they choose to work. More recently, the Dutch Government have implemented legislation to establish work from home as a legal right, according to Bloomberg. The law forces employers to consider employee requests to work from home as long as their professions allow it, which may

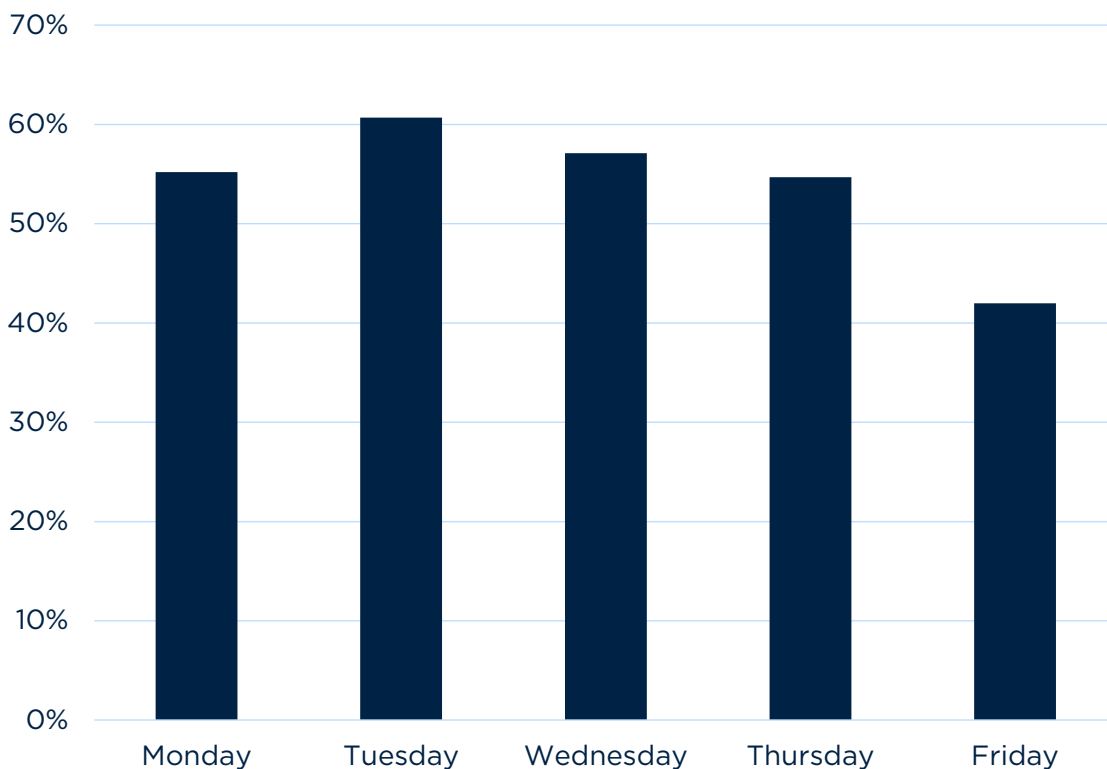
begin to create a divergence between office-based jobs and demand for office space as we observe the rise of the ‘digital nomad’.

A final thought is that if employer hiring sentiment takes a U-turn in a bid to reduce costs, could this mean that workers are more eager to show their faces in the office in order to avoid job cuts at the peril of their colleagues? Could office occupancy rates have a positive relationship with unemployment rates moving forward?

Our analysis still indicates that the return to the office is still gathering pace, albeit attitudes to return to work vary significantly. Savills European Remote Working Impact Analysis (March 2022) indicates an expected 10% fall in demand for office space by 2026 which we still stand by, as managing workplace peaks will become a challenge for those who have significantly

downsized. The larger focus for occupiers is to secure high-quality office space amid undersupplied core office markets and construction delays.

Chart 3: Paris average weekly occupancy rate, June 2022 (%)





Savills Commercial Research

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