European Commercial - November 2023

SPOTLIGHT
*Savills Research*

# European Office Occupancy Rates

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• Occupancy rates • Sector trends • Outlook

# Office occupancy rates continue to rise.

The average European office occupancy rate has increased from 55% in February 2023, to 57% in September 2023, behind the pre-pandemic average of 70%.

**How have we measured occupancy rates?**

Savills Research has analysed office occupancy rates, based on the average number of workers as a percentage of the office's maximum capacity, over the course of a working week 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 September 2023, and attendance is based on one user's access card per day.

**How has occupancy changed between February 2023 and September 2023, and where is office occupancy the highest?**

The average European office occupancy rate recorded a modest increase since February 2023, rising from 55% to 57%.

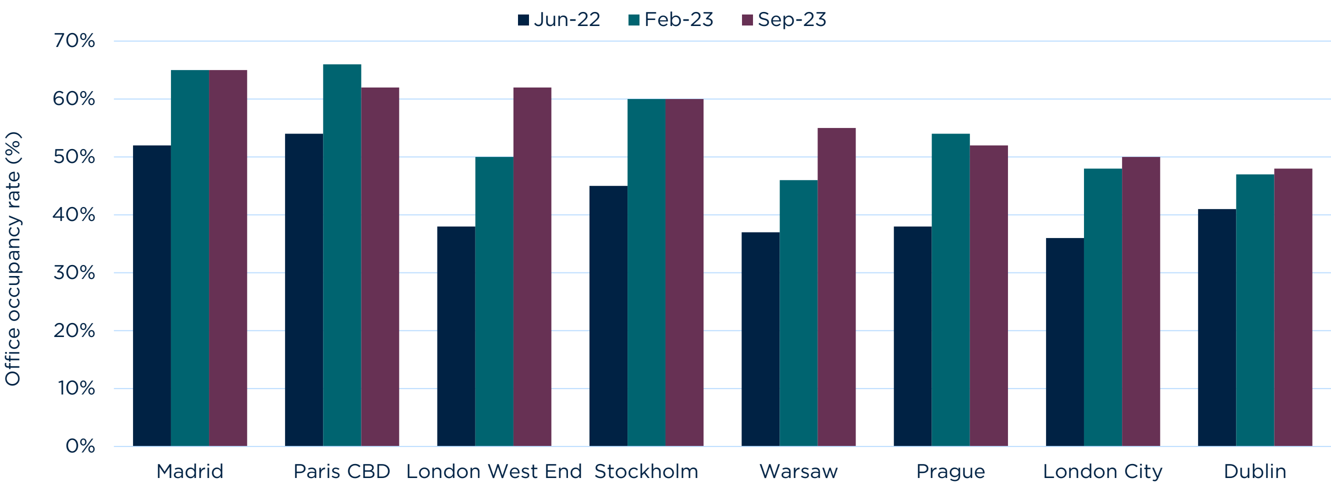
Among the largest increases were London West End, rising from 50% to 62%, supported by the Finance sector (see feature), along with increased tenant demand for office space in mixed-use locations. Warsaw also marked an increase from 46% to 55%, reflecting more demand for CBD locations, although some Tech companies continue to offer space for sublease.

Madrid (65%) overtook Paris CBD (62%) as the market with the highest European office occupancy level, with both cities supported by a high proportion of city centre living, good transport infrastructure and lower public transport costs. Stockholm remained at 60% occupancy, whilst Prague (52%), London City (50%) and Dublin (48%) recorded little change.

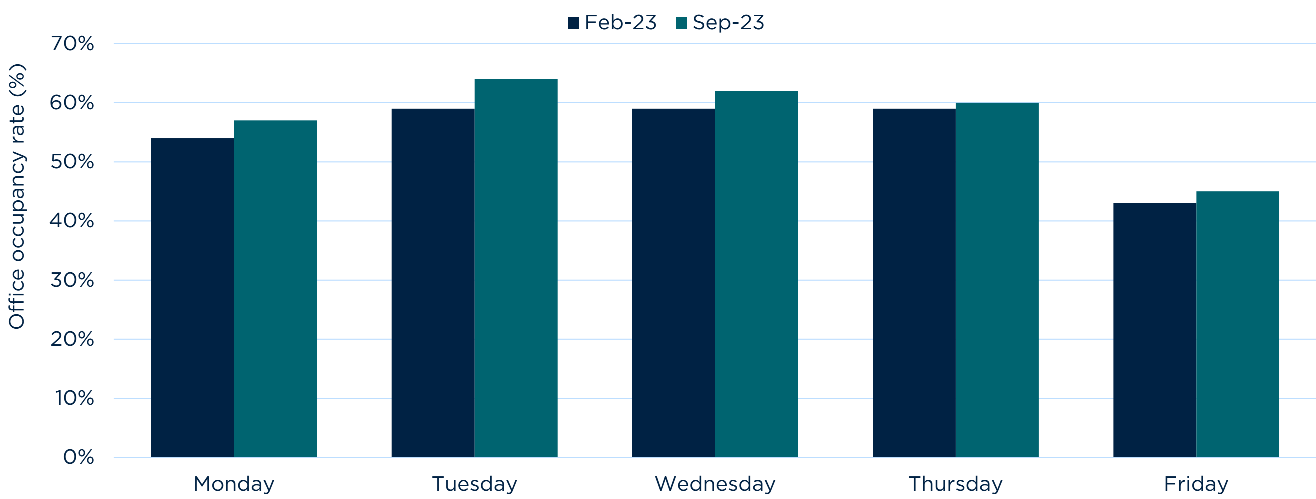
**Which days are workers attending the office and how is this changing?**

The data indicates that average European occupancy rates have increased across all days, with Tuesday the most popular day to work in the office, at 64% occupancy. This is important, as occupiers will have to manage the peak to trough occupancy throughout the course of the week. Given the preference for remote working on Fridays, we do not expect headline occupancy rates to rise to the levels recorded pre-pandemic and so, how the level of peak occupancy changes will provide a better indicator for the structural/ remote-working impact on office demand.

## Chart 1: European office occupancy rates by city




## Chart 2: European average daily occupancy rates




**Source:** Savills

# Feature: occupancy rates by sector

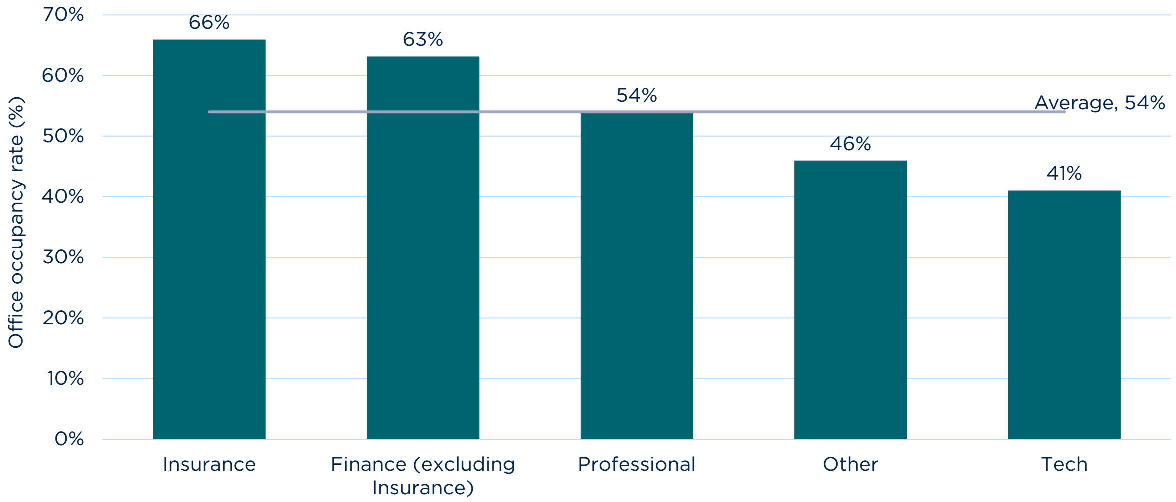
Andrew Barnes, Central London Tenant Representation and Mike Barnes, European Research, analyse the sector trends impacting office occupancy rates.

Using Central London as a case study, there is a clear differential in occupancy rates split by sector. At 66%, Insurance has the highest average office occupancy rate, and largely remains a face-to-face market. In Finance (excluding Insurance), a high proportion of private equity and investment management employees based in the West End attend at least four days a week, raising the sector's occupancy rates to 63%. Strong tenant demand continues to apply upward pressure on rents in prime locations.

Professional services appear largely in line with the average, boosted by accounting firms and management consultancies, whilst some law firms have introduced more hybrid working styles. Banks have been slower to return to the office, as they begin to shift to mixed use locations, reflecting operations-based roles working remotely.

Tech companies currently have the lowest average occupancy rates, at 41%. Tech should, however, be considered within separate occupier subgroups- US headquartered companies and UK/ European headquartered companies. UK/ European companies are generally observing higher occupancy rates, for example, some fast-growth, UK-headquartered AI companies are reporting over 85% occupancy rates and are subsequently seeking to upsize. Clearly, there are cyclical factors which have been well documented around tech layoffs following lower levels of corporate fundraising, resulting in surplus office space. But there is also a structural impact, as US HQ companies look to right-size their office portfolios to reflect hybrid working practices.

**Chart 3: Central London office occupancy rates by sector**




**Source:** Savills

## What next? Are occupancy rates beginning to peak?

Looking forward, we expect average European office occupancy rates will begin to stabilise around the 60% mark, as companies and employees find an equilibrium that works for them. Many US headquartered businesses have increased pressure on employees to increase office attendance during Q3 2023, although any evidence of a significant increase remains limited. This reflects a tight employment market as employers are still seeking to offer flexible terms to attract and retain staff. Should we see a significant weakening in employer hiring sentiment and companies substantially reduce headcount, then we may begin to see the rise of 'presenteeism' return among employees.

Interestingly, average office occupancy rates across the major US cities remain around the 30-35% level (when measured on a comparable pre-pandemic 70% occupancy basis to Europe, source: Kastle Systems), reflecting the longer average commute lengths, lower proportion of commutes by public transport and more flexible employment market compared to Europe.

Occupier demand continues to intensify for well-connected, good-quality office space in mixed-use locations, in order to attract and retain employees. Amid construction delays and a shortage of prime stock, occupiers will have to compete for the best space, supporting prime rental growth.

**Savills Commercial Research**
We provide bespoke services for landowners, developers, occupiers and investors across the lifecycle of residential, commercial or mixed-use projects. We add value by providing our clients with research-backed advice and consultancy through our market-leading global research team.


## Offices

**Andrew Barnes**
Central London Tenant Advisory
+44 (0) 20 7409 9969
andrew.barnes@savills.com

**Rebecca Webb**
EMEA Cross Border Tenant Advisory
+44 (0) 7977 759 124
rebecca.webb@savills.com

## Property Management

**Tim Bretten**
Cross Border Property Management EMEA
+44 (0) 161 244 7763
tbretten@savills.com

## Research

**Mike Barnes**
European Offices
+44 (0) 207 075 2864
mike.barnes@savills.com