

MARKET PULSE

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SIOR® EUROPEAN REGIONAL CHAPTER

SIOR EUROPEAN SURVEY - SPRING 2024

INTRODUCTION

SIOR has conducted a survey of its European membership to assess the outlook for the office and logistics markets. The survey considers supply, demand, and rental growth for prime space, as well as the opportunities and challenges highlighted by our respondents. Other themes include the impact of technology and respondents' business focus for 2024.

OVERVIEW

by Dan Francis, Head of Research, Carter Jonas

"Our survey illustrates the strength of demand for high quality office and industrial property, contrasting with a shortage of supply in many locations. This imbalance creates many opportunities, particularly when we consider the redevelopment potential for obsolete stock across a myriad of buoyant property sectors.

Technology will be key in shaping the future of our industry, and the positivity expressed by many respondents bodes well for the future."

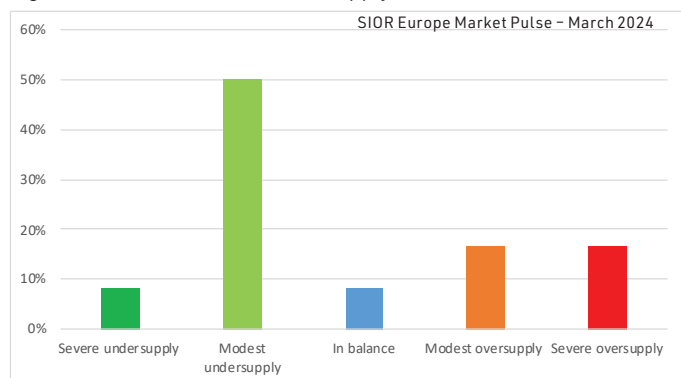
OFFICE SECTOR

Market trends

The demand / supply balance for prime office stock varies considerably according to location, with respondents reporting a range of conditions from severe undersupply to severe oversupply (see Figure 1).

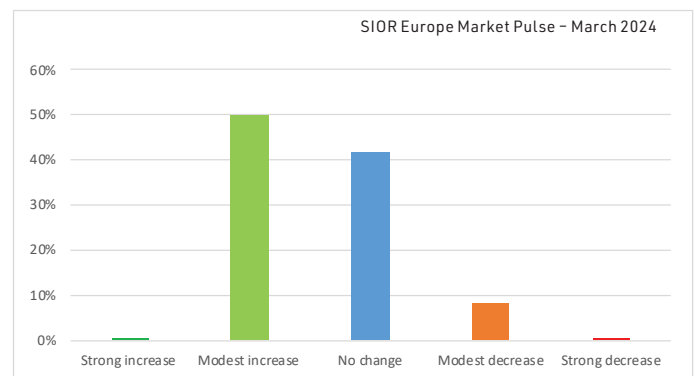
The most common position is one of modest undersupply, reported by 50% of respondents. This includes many of Europe's largest office markets such as Frankfurt, London, and Paris. However, a third of respondents report an oversupply (either modest or severe).

Figure 1 – Prime office demand / supply balance



50% of respondents expect demand for prime space to rise relative to supply over the next 12 months, with the remaining 50% expecting no change. Those expecting a rise in demand are focussed on markets where supply is already tight, which will put further upward pressure on rents. Indeed, 50% of respondents expect a modest rise in prime rents during 2024, with 42% expecting no change, and a small proportion (8%) expecting a modest fall (see Figure 2).

Figure 2 – Expected prime headline rental change in 2024 - offices



Opportunities and challenges for the office sector

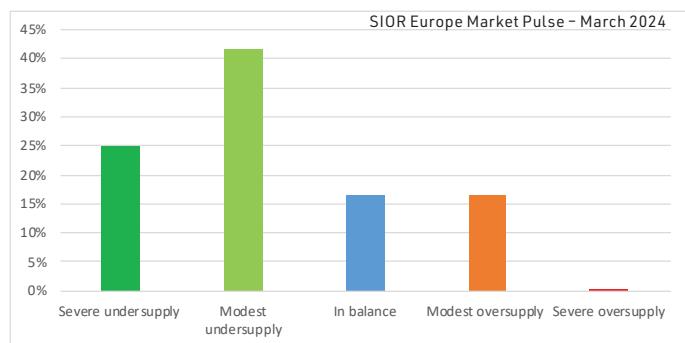
- The limited availability of prime stock, and of stock with large floorplates in particular, means reduced choice for occupiers in many locations, driving up occupancy costs.
- The drive to recruit and retain the brightest and the best people means a continued flight to quality, with many occupiers choosing to vacate suburban or out-of-town space in favour of smaller, prime city centre buildings. As a result, many suburban markets are already offering more availability, lower rents, and greater tenant incentives. However, 2024 should see availability begin to bottom out in some of these locations.
- Quality is key, with demand focussed on prime office buildings that are ESG compliant, technologically integrated, and offer up-to-date amenities.
- For secondary office space, there is a growing trend towards either refitting to acceptable ESG compliance ratings, or conversion to other uses, including hotels or residential.
- There is a growing realisation that levels of remote working are highly sector-specific, and corporates are increasingly assessing the productivity implications.

LOGISTICS SECTOR

Market trends

The survey suggests that a shortage of prime available logistics space is a key issue across many European markets, with 25% of respondents reporting a severe undersupply and 42% suggesting a modest undersupply. A minority of respondents see their market as either in balance or modestly oversupplied (see Figure 3).

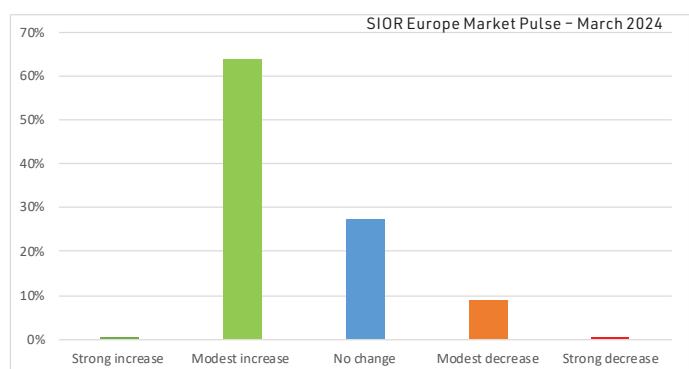
Figure 3 – Prime logistics demand / supply balance



This undersupply should continue during 2024, with half of respondents expecting no change in the prime demand/supply balance, a third expecting demand to increase further relative to supply and only 17% expecting to a softening of demand relative to supply.

Prime rents are likely to rise in 2024, with 64% of respondents expecting a modest increase (although no respondents foresee a strong increase). 27% expect no change, with a small minority expecting a decrease (see Figure 4).

Figure 4 – Expected prime headline rental change in 2024 - logistics



Opportunities and challenges for the logistics sector

- The influence of e-commerce will rise further and 'last mile' units for urban delivery is a key growth area.
- Occupier demand in the open storage and self-storage markets will continue to be very strong.
- In some locations, sluggish economic growth is beginning to affect the logistics market which had been resilient post Covid.
- Development remains challenging, with a severe shortage of sites noted across many key locations, together with planning constraints and difficulties in obtaining an energy supply in some markets. Viability is also more challenging due to a combination of high financing and construction costs, plus the need to factor in more ESG compliance.

These trends will mean more emphasis on refurbishing existing stock, which is increasingly vulnerable to obsolescence.

INVESTMENT MARKET

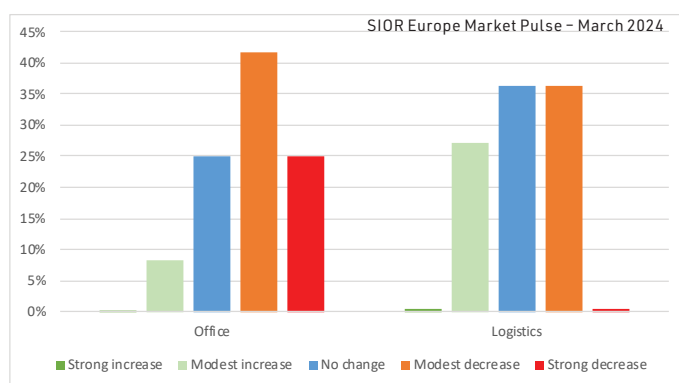
Values

Two thirds of respondents think that office capital values will fall in 2024, including nearly a quarter of respondents who expect a significant fall. Most of the remainder (25%) expect no change.

The outlook for the logistics sector is more buoyant, reflecting the more robust picture in the occupational market, although views are mixed, with a relatively equal distribution between those expecting a modest increase, no change, and a modest decrease.

Expectations for capital growth are illustrated in Figure 5.

Figure 5 – Expected capital value change in 2024



KEY INVESTMENT MARKET DRIVERS

- Interest rates are seen as key to the volume of transactions, with investor confidence expected to increase once the European Central Bank and other national central banks start to lower rates, particularly for debt-backed investors.
- However, there is still a significant weight of equity globally looking to invest in European real estate. International investors will be increasingly looking for opportunities and are preparing for a wave of non-performing loans and distressed properties. However, traditional market players such as private equity funds are currently not investing heavily in real estate, and open-ended funds will continue to experience liquidity issues this year.
- Investment opportunities will start to emerge in the office market as institutions accept more realistic values and write downs.
- Logistics will remain the most sought after asset class in 2024, buoyed by further growth in e-commerce and further increases in rental and capital values.
- ESG will be a key driver, with one respondent noting that the emphasis on the social aspect will be particularly important. Investors should take opportunities to refurbish buildings to high ESG standards.

THE IMPACT OF TECHNOLOGY

Our survey asked whether technology such as AI was perceived as being a threat or an opportunity. Slightly over half (54%) of respondents perceive technology as a benefit, whilst 46% are neutral on this issue, and no respondents perceive technology as a threat.

We also asked for views on potential impacts:

Market impacts

- Technology should increase the efficiency of firms, meaning some may require fewer office staff, resulting in downsizing. However, tools such as AI will create totally new roles, and some firms may actually increase in size. In the logistics sector, some secondary locations where recruitment is currently a problem may become more attractive if technology reduces staffing requirements. All this will create additional market churn.
- As AI expands as a sector and becomes increasingly sophisticated, fast-growing businesses will be spun out of university and private research, thereby increasing demand for serviced and conventional office space.

Implications for the real estate industry

- Routine administrative activities will increasingly be undertaken using technology, thereby reducing operating costs and human error.
- More data will be available more rapidly, increasing market transparency and liquidity.
- Although emerging web-based tools could replace some elements of the work currently undertaken by brokers, real estate is still a "people business" and market participants will still want to exchange ideas and have personal contact.

BUSINESS FOCUS IN 2024

Respondents were asked about the focus of their business in 2024. On a positive note, 38% stated expansion would be a focus, despite the current economic uncertainties, with one respondent noting that market downturns enable them to remain agile and close to the market. However, 23% of respondents stated cost reduction as a focus.

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The SIOR European Regional Chapter has members across 25 countries.

The SIOR European Chapter expresses its great appreciation to Dan by Dan Francis, Head of Research at Carter Jonas, who led this report and all the members across Europe who contributed their valuable insights.

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CHAPTER

The background of the entire poster is a photograph of the Brandenburg Gate in Berlin at night. The gate is illuminated with warm lights, and its quadriga is clearly visible. Overlaid on the image are large, expressive brushstrokes in the colors of the German flag (black, red, and gold). The word "BERLIN" is written in large, white, blocky capital letters across the middle of the image, with the brushstrokes passing behind and through the letters.

BERLIN

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