

European Commercial - May 2025

Q
SPOTLIGHT
Savills Research

European Office Development



● Pipeline ● Conversions ● Viability

Q1 2025 take up rose 4% YoY

Average European office vacancy rates edged up by 10 bps during Q1 2025, reaching 8.4%, while average prime rents grew by 4.5% YoY.

Economic overview

Eurozone GDP growth accelerated to 0.4% q/q in Q1, helped by a broad-based upturn in Germany, France and Italy. Composite PMIs remain in positive territory, although weaker than during the start of the year, supported by a recovery in the manufacturing sector. Oxford Economics economic growth forecast for 2025 has been cut to 0.8%, with growth of 1.0% expected in 2026. Central Eastern Europe and Southern Europe are expected to perform the strongest of the major European economies in 2025-26.

Eurozone inflation remained stable at 2.2% in April and Oxford Economics anticipates inflation will fall to 1.9% in 2025 and 1.8% in 2026, and subsequently for the European Central Bank to deliver one final interest rate cut to 2.00% in June 2025. Further actions from the ECB will depend on the impact of tariffs and fiscal stimulus on inflation and growth.

Germany's radical fiscal spending plans will act as a boost to stagnant growth in Europe's largest economy, with up to €1 trillion of government funds allocated for infrastructure and defence spending over the next decade. However, investors are still cautious of the implications of more relaxed fiscal rules and a structural increase in national debt levels.

President Trump announced a pause to the 90-day reciprocal tariffs implemented in April 2025, with the EU expected to negotiate and respond accordingly. Given that around two-thirds of European office take up in 2024 was underpinned by the banking & finance, professional services and technology sectors (which are more directly associated with service sector demand), we expect the overall impact of tariffs on office leasing demand will be limited. However, there are further downside risks, including weaker global demand, increased trade tensions and extended supply chain

disruption.

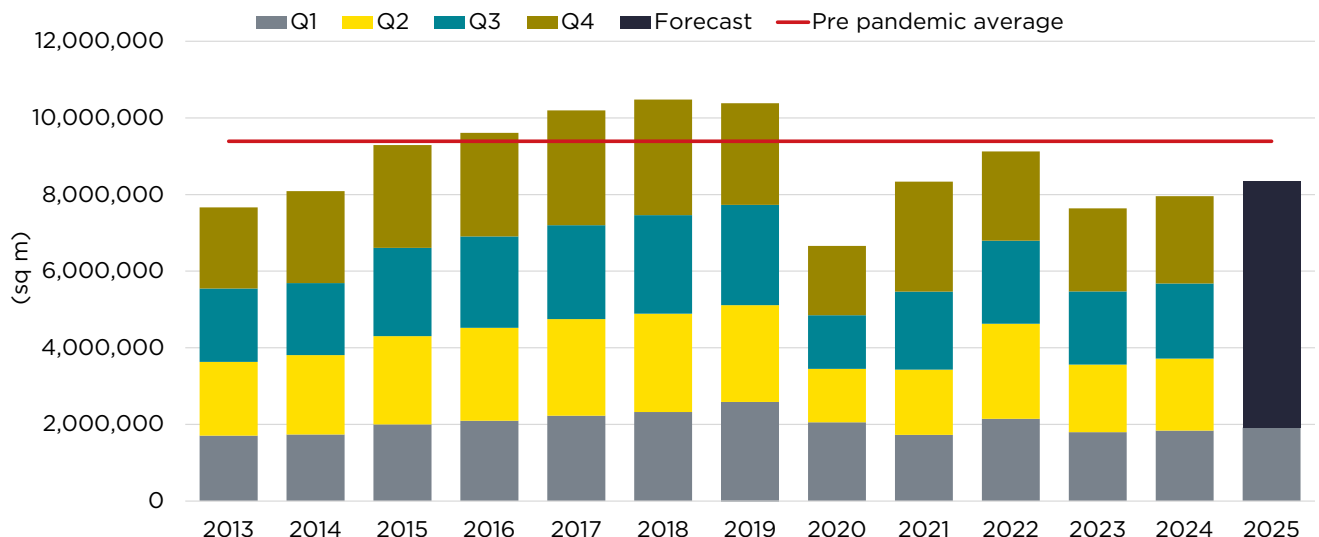
Occupational market

Q1 2025 European office take-up volumes reached 1.9m sq m, increasing by 4% YoY, although this remains 9% below the pre-pandemic Q1 average. Given a solid start to 2025, Savills forecasts a 5% increase YoY.

Over the past 12 months, Prague (+41%), Dublin (+29%) and London City (+26%) performed the strongest against the previous five-year average. German top 6 cities have dragged down the European average, although reported a stronger first quarter of 2025 with an average 13% YoY increase. Dublin has rebounded with four consecutive quarters of stronger performance. In London City, La Défense, and Madrid, take-up levels are back in line with pre-pandemic norms.

Among the notable outliers, Prague saw a remarkable 41% increase in leasing

Chart 1: European office take up (sq m)



Source: Savills

activity, while Frankfurt defied the broader downward trend seen across Germany. The latter set a record high for Q1 office leasing, driven by two major transactions from Commerzbank and ING.

Average European office vacancy rates edged up by 10 bps during Q1 2025, reaching 8.4%, although this appears to be stabilising after several years of gradual increases. Vacancy is rising primarily in peripheral locations, while CBD locations remain considerably more resilient.

Dublin continues to record the highest vacancy rate at 17.5%, but with no further increases over the past two quarters, the market appears to be at a turning point.

The largest quarter-on-quarter increases were seen in Germany, where Munich (+150 bps to 7.5%) and Frankfurt (+120 bps to 12.3%) rates rose on a quarterly basis as second hand space returned to the market.

Meanwhile, London City (-70 bps to 7.2%) and Copenhagen (-50 bps to 6.6%) saw the most substantial decreases QoQ.

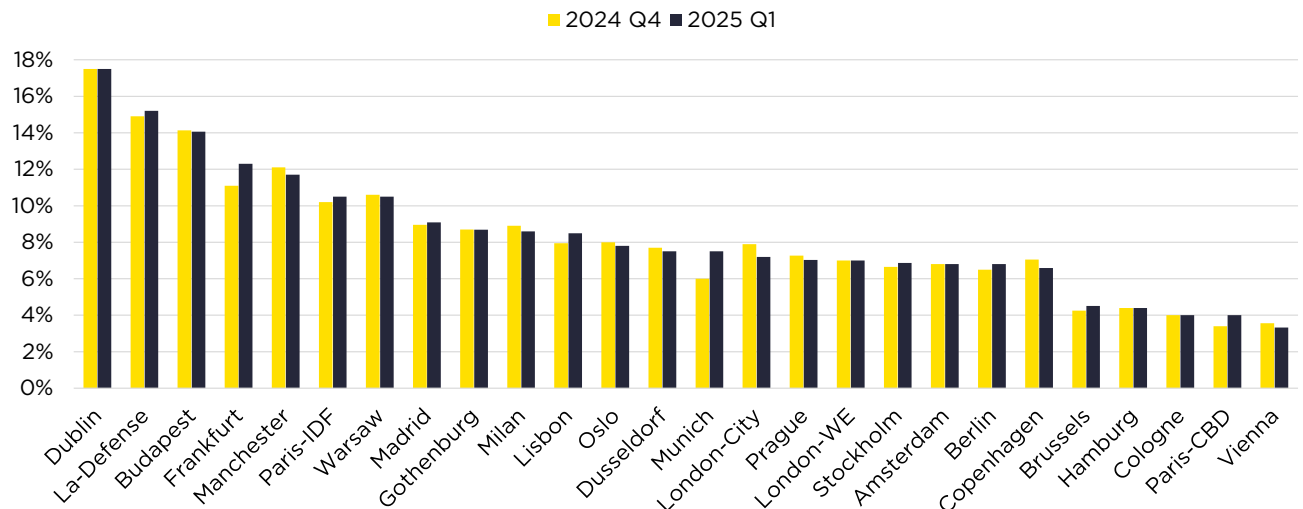
Average prime office rents rose by 4.5% over the past twelve months, driven by supply-side shortages of best-in-class stock. London West End, Cologne and Paris-CBD saw increases of 21%, 21% and 18%, respectively.

Average office lease incentives have remained stable across European office markets, remaining at 13% of lease value for the last three quarters, with lease incentives in London City and West End falling. Following the decline in vacancy rates, we anticipate landlords will reduce incentives for new leases and therefore tenants must act faster to secure high quality, new stock on the current terms.

Fitout costs continue to rise, so more occupiers are opting to extend their current

lease and for new leases, landlords have increased their fitout contributions. Many occupiers signing new leases are asking for a three year break option, although few are opting to activate the clause.

Chart 2: European office vacancy rates (%)



Source: Savills

Development pipeline

2026 development completions forecast for 10 year low.

Development pipeline

The total volume of European office development completions rose by 5% YoY in 2024 to reach 3.8m sq m, although this was still 11% below the five year average. Given a number of German developers reported insolvencies last year, this was 13% below the level that was expected to complete, with a number of completion dates pushed into 2025.

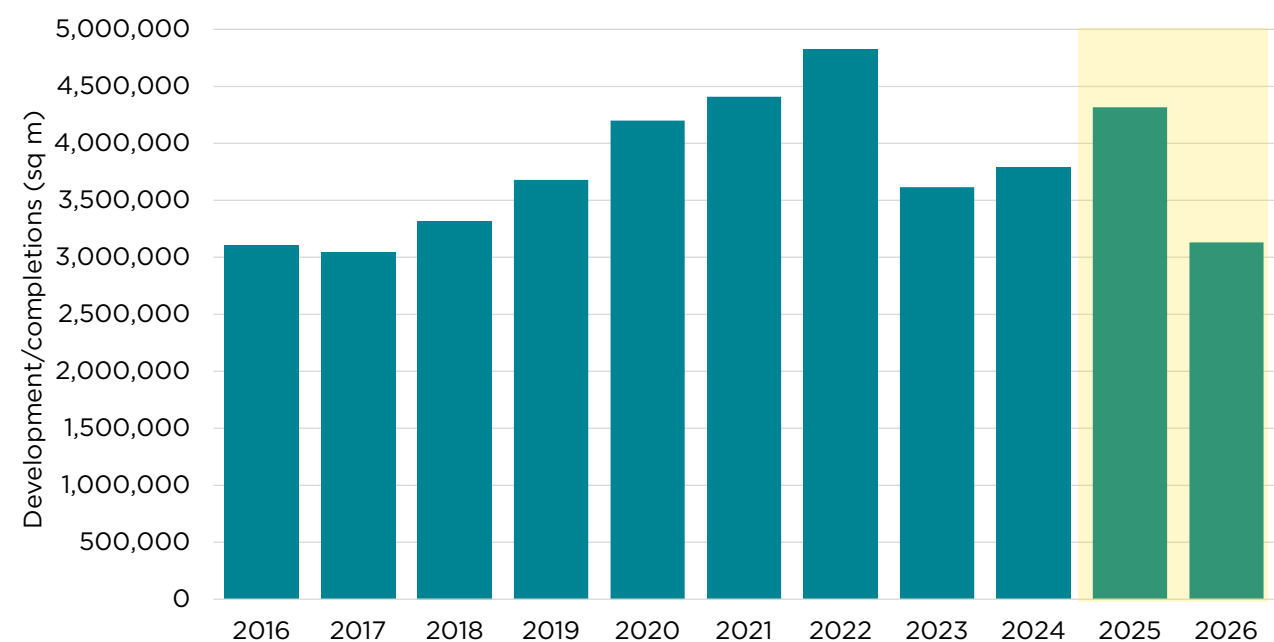
Savills forecast that European office development completions will rise to 4.3m sq m during 2025, before falling to 3.1m sq m in 2026, which would reflect the lowest annual level of completions since 2017. More importantly, the proportion of speculative deliveries as a percentage of total stock has dropped by half over the last three years to only 1.6%. Increasingly, new schemes are becoming let before completion, reducing the options available to occupiers and adding upward pressure on prime rents.

Central London markets have the highest proportion of speculative office development in the pipeline as a percentage of stock. London West End's prime rental and capital values are the highest in Europe,

where developers are still able to meet their required returns. Berlin's deliveries are against a backdrop of lower vacancy rates, whilst Poland's stronger economic growth is supporting new demand for office space, as evidenced by Warsaw's 36% YoY increase in take up during Q1 2025.

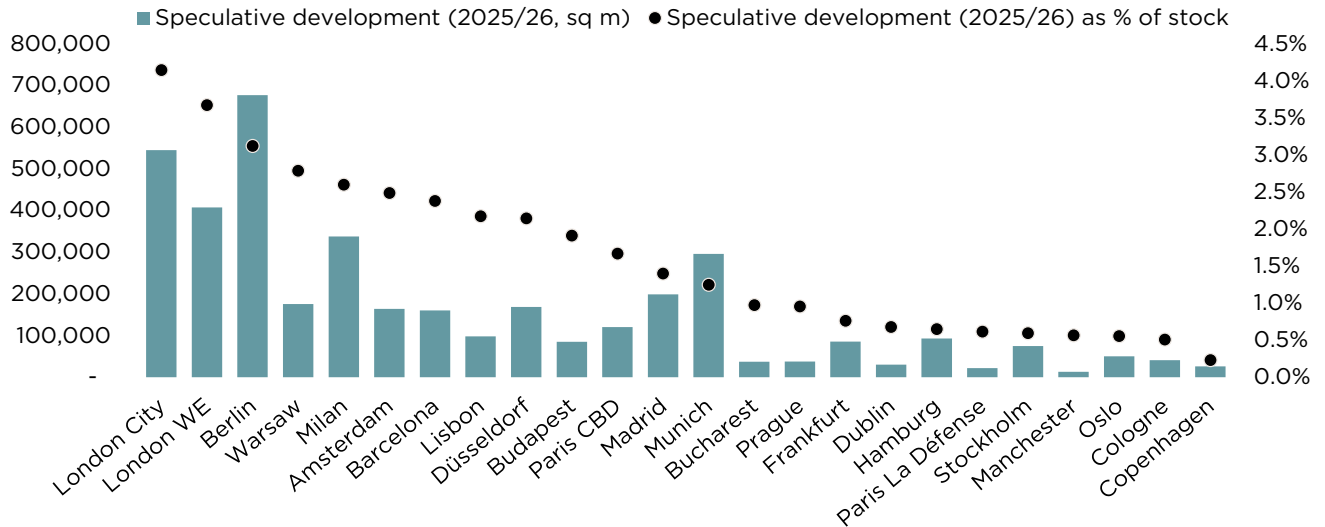
Given a limited speculative pipeline, and the supply of prime stock increasingly scarce, we believe this will support prime rental growth across major European markets over the next two to three years.

Chart 3: European office development completions/ pipeline



Source: Savills

Chart 4: Speculative office development pipeline 2025/26

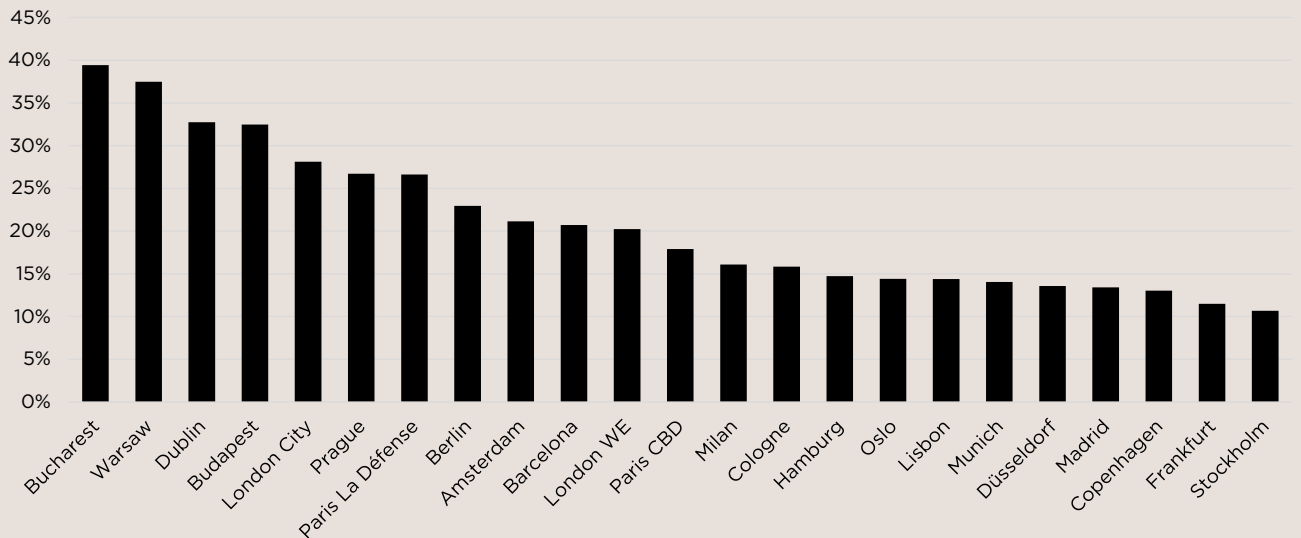


Source: Savills

Where can investors get access to green stock?

Investors continue to seek exposure to greener stock across European cities to maximise fund performance and adhere to fund requirements. CEE markets have the highest proportion of new office stock developed over the last ten years, led by Bucharest (39%), Warsaw (37%), Budapest (32%) and Prague (27%). London City and Dublin's office development has also been strong in recent years. Conversely, Nordic and German cities have recorded lower levels of new development in recent years, given generally tighter planning regulations, with only 10-15% of stock which has been developed in the last ten years.

Chart 5: Stock developed since 2016 as a % of total stock



Source Savills

Development viability

Where is development currently viable, and what needs to change?

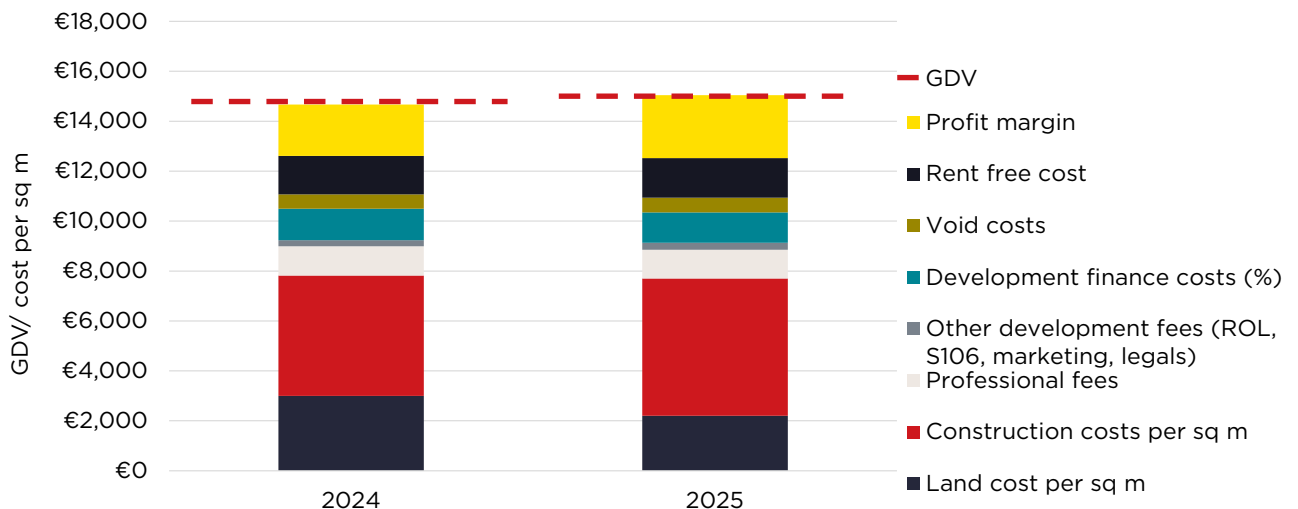
Rental growth is starting to improve viability for new developments across core European markets as development costs begin to stabilise. In the last year, we have seen average European prime office rents grow by over 4%, against stabilised prime yields, raising gross development values. This is against a backdrop of marginally lower development finance costs, land value adjustments and signs of stabilising construction costs.

In the City of London, development viability remains challenging, especially for those who acquired land at the top of the previous cycle. Viability will improve as land values continue to rebase to reflect the ongoing challenge of cost inflation, development finance and soft yields. These wider market conditions are anticipated to improve going forward, which will further help development viability in the City of London.

For selected core European markets with higher rents, developers are now able to secure their minimum profit margin if they can acquire land at favourable price points. Paris and Munich are among the cities where capital values are beginning to support new development. However, in non-core cities where blended achievable rents are below €500 per sq m, and prime yields have rebased into the mid 4's, capital values do not stack up for new schemes to take place. At these levels, developers would generally need to see circa 25 bps yield compression or circa 10% rental growth before new developments will become commercially viable.

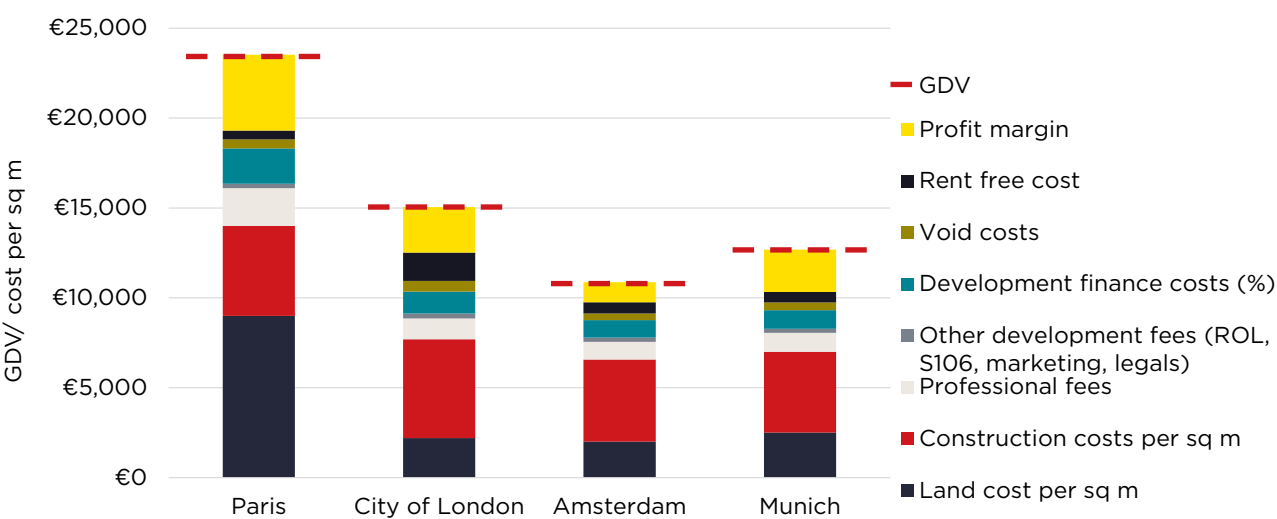
Tender price inflation is expected to average 3% per annum over the next five years according to the BCIS, providing developers with a more normalised outlook, although the introduction of tariffs on steel may have a knock on effect to overall tender prices.

Chart 6: City of London office development stack (EUR per sq m)



Source: Savills

Chart 7: Indicative European office development stack by city (2025)



Source: Savills



Themes and outlook

Comprehensive refurbishments

Where new development is not yet viable, we are seeing more landlords comprehensively refurbish existing stock in good locations. In Amsterdam, landlords have improved EPC ratings by adding solar panels and LED lighting to improve lettability and adhere to building regulations. Prime newbuild rents continue on an upward trend, which could reach €600 per sq m this year, enough to secure sufficient profit margins for developers.

In Madrid, 70% of the new supply in 2025/26 will come from refurbishment projects, reflecting an ongoing shift in 2024 when refurbishment activity exceeded new build. 73% of the office space under refurbishment is located in Madrid's most central districts as renovation of the most outdated properties is required to address the pressing need to bring quality spaces to the market in prime locations.

An additional factor influencing developer sentiment is the depth of investor demand for larger lot sizes as part of the developer's exit strategy. Savills EME Investor Sentiment Survey 2025 shows that investor demand for €100m+ lot sizes is still recovering slowly, which will likely hold back development starts. However, as we see interest rates fall through the year, we expect investors' appetite for larger lot sizes will increase, as debt remains accretive to returns.

Conversion of office to student

Across Europe, some municipalities have relaxed planning regulations in traditional office locations in recent years, with more landlords now looking to deliver mixed use development schemes in commercial zones.

Zoning is clearly a significant factor for developers seeking to undergo a change of use scheme. In UK, Southern European and CEE markets, student use is zoned under commercial space, which generally faces lower levels of rental regulation than multifamily. Local authorities and municipalities are becoming more open to mixed-use schemes to reposition existing office space to provide student accommodation, whilst maintaining local employment.

There are several technical requirements that office buildings must fulfil for developers to be willing to undertake a conversion to student housing. Firstly, developers are looking for scale, with a minimum of 150 beds, or circa 4,500 sq m- redeveloping standing schemes can save circa 10-15% on total build costs. Secondly, the shell of the building needs to attract sufficient natural lighting for student living. And finally, the location needs to be in fairly close proximity to metro/train stations, with a number of fringe-CBD schemes earmarked for a change of use, given higher office vacancy rates and rising student rental values.

We are seeing more opportunities emerge for value add/ opportunistic developers to convert well-positioned, older offices to student accommodation, with many lenders willing to lend up to 60% LTV. Clearly, there are challenges around health/safety regulations, utilities/ infrastructure and HVAC systems which require local expertise and should be analysed on a case-by-case basis.

Conclusion/ Outlook

Higher construction costs have squeezed the development pipeline, and competition amongst occupiers for the best space will intensify over the next 2-3 years as the deliveries of prime space become scarce. Leasing demand continues to recover, with occupiers looking for high quality stock in prime CBD locations, and as a result, we believe vacancy rates have peaked, which will support rental growth throughout 2025/26.

Development has become viable again in selected core European office markets, supported by rental growth, and stable yields. Outside these core markets, landlords are refurbishing their existing space in order to deliver good quality space to the market, and ensure their buildings meet sustainability regulations.

As we see interest rates fall further through 2025 we expect signs of prime yield compression towards the end of 2025, supporting viability of new office developments outside core markets.



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.

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