

Investor Refurbishment Cost Guide European Cities

JUNE 2021





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Introduction



“

There are many reasons behind a decision to refurbish a building, but the efficient, economic, and timely delivery of any project must start with a well-defined scope of the proposed work and a reliable budget. More often than not, it's this initial cost assessment that determines whether the project is viable or not.

It has to take proper account of the proposed design, the unique nature of the site and access to it, as well as preferred quality standards and mandatory compliance requirements. It must also reflect the appetite for risk and the commercial conditions

in the markets where the work is to be bought. With changing labour markets, supply chains and material costs, it's essential to start planning the project budget at the earliest opportunity.

The cities in this guide have been chosen because of their investment volume and potential for growth. I hope the wealth of our data and the local market analysis will help you shape your future investments in Europe.

JOHN ATKINS

Managing Director, Head of EMEA Project Management

WHAT'S ON THE MINDS OF INVESTORS?

The case for refurbishment



“Extending a building’s life is sustainable and provides a great value for the investment. Refurbishments can be planned for key reasons, namely acquisitions and disposals”



“A strong commitment to ESG strategies by investors and occupiers is key to achieving long-term asset value, delivering more sustainable offices with green building certification, such as LEED and BREEAM”



“In the wake of COVID-19, investors can use refurbishment to meet the changing expectations of the returning workforce and tenant requirements.”



“Improving asset quality can boost value and rental growth, and secure longer-term leases”



“It’s all about diverse portfolio strategy; refurbishments are a value-add tactic for investors”



“Investors need to keep vacancy rates low, even in markets with supply shortages”



“Are tax and government incentives available to supplement the budget?”

Establishing a benchmark cost for different levels of refurbishment is an important starting point. Every project is unique and comes with its own set of variables, but enough real information from the marketplace is a good basis for reliable benchmarking data, Key factors in setting cost are:



The finished quality and market appeal of new space

The extent of the work carried out and the quality of materials and components is clearly key. Big decisions like introducing air conditioning systems or raised floors will have an immediate impact on the budget, as will adding amenities like bike racks and showers.



The balance between cost and return

The scheme quality will be constrained by the achievable rent in local markets. Why spend more if it doesn't deliver any better return?



The extent of structural work

Spatial constraints like floor to ceiling heights may limit market appeal, but major structural interventions can impact on cost or even the viability of the project.



A holistic view

If the remainder of the building is in poor condition or it's likely to be a candidate for redevelopment in the mid-term, committing to an extensive refurbishment may not be considered value for money.



Executive Summary

There are wide variations in refurbishment costs across the 15 cities in our study and it would be easy to conclude that this is simply a reflection of local market conditions and working practices.

At the same time there are common themes across these different markets. We highlight four.

Material shortages causing price hikes...

Right now there is an unprecedented spike in material prices happening all across EMEA. COVID-19 has interrupted manufacturing and distribution. At the same time, perhaps paradoxically, major state-funded infrastructure projects in China, the USA and other developed nations have drawn heavily on an already meagre inventory, causing prices to rise sharply and lead times to become extended, especially for core materials like steel.

Mitigation is possible where building designs and material specification are flexible enough to tolerate substitutions or late change, and where project timelines permit resequencing to accommodate delivery delays. Early and active engagement with the supply chain offers a good opportunity to manage these shortages and dampen or eliminate unexpected shocks to the budget.



*As markets become more international to accommodate global companies, the level of **specification and quality** are the top cost drivers. **75% of the cities reported specification quality as the dominant cost factor.***

Traditionally, London projects led in terms of **high-quality specification**, but the major cities across Europe now deliver a range of comparable projects. Material choice and availability are most influential in driving up the cost of high-end projects.

In some locations, the premium attached to imported materials contributes to pricing, so understanding the supply chains in local markets is important to achieving good value. In Oslo for example, which is already considered a high-cost location, materials are more expensive than elsewhere in continental Europe because shipping costs are driving import costs even higher. There are other examples too: higher rents in Copenhagen drive demand for higher standards of specification and build quality compared with the remainder of Denmark. In Dublin, demand for raw materials is also pushing up refurbishment costs.

In competitive locations, refurbishment projects need to stand out in order to compete. This means better finished, higher specified, more expensive projects. In London and Madrid, achieving the specification quality needed to compete successfully is the number one cost driver.



***Labour costs and access to skilled labour** is a key cost driver in 25% of the cities. **Shortages of skilled labour** are a widely-reported issue, with lack of capacity and reduced mobility across the construction sector.*

The Nordic locations report this as particularly problematic, especially combined with the high cost of living and a low-level of legal, non-domestic workers. General constraints on cross-border movement during the COVID-19 pandemic may well have exacerbated this issue.



The availability and quality of the existing building stock** is a significant cost driver. **The predominance of older buildings especially in heritage centres means there are many more constraints to overcome. It costs more to adapt older buildings to meet the functional, spatial and technological demands of today's occupiers.

Site logistics and narrow streets in older or historic parts of cities influence costs greatly. In Milan for example, city centre refurbishment projects are 20-30% more expensive due to the local logistics restrictions. In Amsterdam our team lists **building type, location and regulatory upgrade requirements** as the three most important factors affecting cost. Amsterdam is more expensive to build in compared to other locations in the Netherlands because of the canal network and local infrastructure.



Regulatory compliance and local tax** both feature as a key cost drivers. **Upgrading existing buildings to comply with current standards can take a significant part of the refurbishment budget.

Regulatory frameworks continue to evolve and are likely to become more demanding as carbon reduction targets become mandatory. In Paris for instance the ambition to improve the thermal efficiency of buildings is a key refurbishment cost driver. In Oslo a 25% tax on all goods and services, hikes up costs in an already expensive city.



75%

of the cities reported the level of specification and quality as the dominant cost factor



The top three cost drivers

in Europe are the level of specification and quality, labour costs and quality of existing stock



The quality of specification

needed in order to compete with the market is critical for London and Madrid



Skilled labour shortages

is a widely-reported issue



Refurbishments in the Milan city centre sites are

20-30%

more expensive due to the local logistics restrictions



Typical composition of costs across four refurbishment options

USING LONDON AS AN EXAMPLE

OPTION A
Minor works



OPTION B
Internal refurbishment



OPTION C
Refurbishment and remodelling



OPTION D
Major remodelling



■ Demolition ■ Substructure ■ Superstructure ■ Finishes ■ M&E Services ■ Prelims / OH&P ■ Contingency

Cities Overview



15 EUROPEAN CITIES

01 AMSTERDAM

02 BERLIN

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05 DUBLIN

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15 STOCKHOLM



Amsterdam

Office leasing activity has struggled in the first quarter of 2021, registering only 32,900 sq m, 70% down from a year ago and roughly 30% below the trough in Q2 and Q3 in 2020.

Demand was largely driven by business services and computers and hi-tech services – representing 33% of total take-up. Despite many businesses continuing to adopt a wait-and-see approach to future commitments, there is little evidence to suggest that size distribution of requirements has changed from previous years.

Pre-COVID-19, the vacancy rate was trending down to below 3.5%. By Q1 2021, the overall vacancy rate had risen 2.6 percentage points to 5.8%. We expect this figure will rise further in 2021 before dropping in 2022.

Prime rents have remained stable at €455 sq m per annum. The expected increase in vacancy indicates further slight rental decline in 2021.

TOP 3 COST DRIVERS

1 Level of specification

2 Ease of access/working

3 Existing building stock



€440-675

Minor works



€1,450-2,000

Refurbishment and remodelling



€1,100-1,650

Internal refurbishment



€1,850-2,500

Major remodelling

Rates in Euros (€). Costs based on rate per m². Exchange rate £1 = €1.12

“

Amsterdam is a challenging city to work in due to the layout of the canals and overall city infrastructure.”

RENIER DU PLESSIS
PROJECT AND COST MANAGEMENT,
THE NETHERLANDS



Prime rent
€455
per sq m per annum



Prime yield
3.00%



Annual take up
221,300
(m²)



Vacancy rate
5.79%



Office based employment
647,000
year average



GDP (2015 prices)
\$182bn

Our latest figures Q1 2021. GDP and office-based employment source – CBRE Macro House View



Berlin

The Berlin office market continues to recover. A total of 190,000 sq m was transacted in Q1 – a 61% increase when compared with the corresponding quarter in 2020. The public and financial sectors were the main drivers of demand representing a combined total of 62% of total take-up.

While the vacancy rate rose 1.5 percentage points compared to the previous year to 2.7%, the speed of increase has slowed significantly. The office market continues to be constrained by a lack of high-quality office space – reflected in the large development pipeline, where over 1.8m sq m of office space is due to complete in the next two years with over 62% already pre-let. There is clearly continued appetite for high-quality assets and we therefore expect the vacancy rate will drop to pre-COVID-19 levels by 2022.

Prime rents have remained stable quarter-over-quarter but have risen 2.6% year-over-year to reach €38.50 sq m per month. Over the next five years, we expect to see growth of approximately 1.1% pa.

TOP 3 COST DRIVERS

1 Level of specification

2 Labour costs

3 Regulation



€550-800

Minor works



€2,000-2,750

Refurbishment and remodelling



€1,650-2,100

Internal refurbishment



€2,650-3,500

Major remodelling

Rates in Euros (€). Costs based on rate per m². Exchange rate £1 = €1.12

“

Berlin is a dynamic market with great potential for major refurbishment projects.”

JOHANNES ABT
PROJECT AND COST MANAGEMENT, GERMANY



Prime rent
€462
per sq m per annum



Prime yield
2.65%



Annual take up
741,000
(m²)



Vacancy rate
2.74%



Office based employment
783,000
year average



GDP (2015 prices)
\$158bn

Our latest figures Q1 2021. GDP and office-based employment source – CBRE Macro House View



Copenhagen

As in other markets, the pandemic has brought substantial new challenges for businesses in Copenhagen. Many companies have been forced to adapt to new ways of working, specifically remote working and this will have future implications on how occupiers approach location decisions.

The likelihood that some employees will want to preserve this flexibility means that the dynamics of space markets will change as occupiers decide how to approach their future portfolio strategy.

Over the last 12 months, this has already had an impact on the market, with vacancy levels rising but not uniformly. For example, overall vacancy levels have risen from 7.7% in Q1 2020 to 10.0% in Q1 2021. More specifically, vacancy has been rising in peripheral submarkets, but this trend may change if employees decide to relocate outside of the city centre.

Rental levels remained stable through 2020 but increased 2.6% year-over-year in Q1 2021 reaching DEK1,950 sq m pa. Rental levels are expected to remain stable for the remainder of 2021 but are forecast to grow at approximately 2.3% pa over a five-year period.

TOP 3 COST DRIVERS

1 Level of specification

2 Existing building stock

3 Regulation



€350-600

Minor works



€1,750-2,500

Refurbishment and remodelling



€1,300-1,850

Internal refurbishment



€2,400-3,300

Major remodelling

Rates in Euros (€). Costs based on rate per m². Exchange rate £1 = €1.12

“

Rents in Copenhagen are higher than the rest of the country, generating higher demands for quality space.”

DAN BINDERUP
PROJECT AND COST MANAGEMENT, DENMARK



Prime rent
€261.99
per sq m per annum



Prime yield
3.50%



Annual take up
N/A
(m²)



Vacancy rate
10%



Office based employment
347,000
year average



GDP (2015 prices)
\$137bn

Our latest figures Q1 2021. GDP and office-based employment source – CBRE Macro House View

Düsseldorf

Take-up in Q1 2021 totalled just under 54,000 sq m, 56% down from the same period in 2020. Occupier demand for prime assets is largely confined to core central areas, where a total of 88% of take-up was leased in the Düsseldorf city area. The professional sector continues to be the key driver of demand representing 50% of take-up in the city area.

Supply in the city remains tight, with a shortage of high-quality office buildings in central locations. For example, of the remaining 166,000 sq m of office space due to complete in 2021, a total of 66% is already pre-committed. This trend continues for the following two years where 49% is pre-let in 2022 and 63% in 2023.

The lack of supply continues to support rental levels, where in 2021, we are forecasting that prime rents will increase 5.3% and over the next five years they will grow at approximately 2.2% pa.



€550-800

Minor works



€2,000-2,750

Refurbishment and remodelling



€1,650-2,100

Internal refurbishment



€2,650-3,500

Major remodelling

Rates in Euros (€). Costs based on rate per m². Exchange rate £1 = €1.12

TOP 3 COST DRIVERS

1 Level of specification

2 Regulation

3 Labour costs

“

Düsseldorf is seeing a trend in converting department stores into office space.”

JOHANNES ABT
PROJECT AND COST MANAGEMENT, GERMANY



Prime rent
€342
per sq m per annum



Prime yield
2.90%



Annual take up
225,400
(m²)



Vacancy rate
7.92%



Office based employment
234,000
year average



GDP (2015 prices)
\$53bn

Our latest figures Q1 2021. GDP and office-based employment source – CBRE Macro House View



Dublin

Take-up in the Dublin office market in Q1 2021 was extremely low, particularly in comparison to the same quarter last year before the onset of the pandemic and lockdown. In total, less than 4,000 sq m of office leasing activity was recorded during Q1 2021 with only 13 transactions signed during the three-month period.

Dublin had entered the COVID-19 crisis with strong market fundamentals – the vacancy rate stood at a low of around 5.0%. As would be expected during a period of weak leasing demand, the vacancy rate has since increased: the rise to the current 9.6% is primarily the result of the rising volume of second-hand space.

The lack of activity in the office leasing market has placed downward pressure on rental levels, which have declined 10% year-over-year reaching €630 sq m per annum. We expect a significant rebound in office leasing activity in the second half of 2021 and anticipate that rents will resume positive growth in 2022.

TOP 3 COST DRIVERS

1 Level of specification

2 Labour costs

3 Ease of access



€440-675

Minor works



€1,450-2,000

Refurbishment and remodelling



€1,100-1,650

Internal refurbishment



€1,850-2,500

Major remodelling

Rates in Euros (€). Costs based on rate per m². Exchange rate £1 = €1.12

“

Dublin has seen a significantly high level of construction inflation over the past 5-7 years.”

PAUL MURPHY
PROJECT AND COST MANAGEMENT, IRELAND



Prime rent
€630
per sq m per annum



Prime yield
4.00%



Annual take up
63,939
(m²)



Vacancy rate
9.61%



Office based employment
291,000
year average



GDP (2015 prices)
\$151bn

Our latest figures Q1 2021. GDP and office-based employment source – CBRE Macro House View



Frankfurt

Take-up in the first quarter of 2021 increased 26% year-over-year to 76,900 sq m – a strong result despite the apparent challenges. Both the manufacturing energy and public sector performed strongly representing a combined total of 42% of total take-up.

As in other markets, many occupiers have adopted a wait-and-see attitude, and this has led many to default to lease extensions. Occupiers in Frankfurt are displaying a similar approach, where lease renewals are 10% higher than a year ago equalling around 50,000 sq m.

In H2 2021, we expect the leasing market to recover strongly. Early evidence suggests this is already in progress, with around 80% of the space due to complete next year already pre-let. Nevertheless, we expect vacancy levels to remain stable until 2022 by which time occupiers should have greater clarity as to their future workplace needs.

TOP 3 COST DRIVERS

1 Level of specification

2 Labour costs

3 Regulation



€550-800

Minor works



€2,000-2,750

Refurbishment and remodelling



€1,650-2,100

Internal refurbishment



€2,650-3,500

Major remodelling

Rates in Euros (€). Costs based on rate per m². Exchange rate £1 = €1.12

“

Frankfurt offers a lot by way of office buildings, so refurbished office buildings are often designed top-notch to stand out from the competition.”

JOHANNES ABT
PROJECT AND COST MANAGEMENT, GERMANY



Prime rent
€528
per sq m per annum



Prime yield
2.90%



Annual take up
346,300
(m²)



Vacancy rate
7.11%



Office based employment
802,000
year average



GDP (2015 prices)
\$218bn

Our latest figures Q1 2021. GDP and office-based employment source – CBRE Macro House View



Hamburg

Office take-up totalled 114,000 sq m in Q1 2021, up by 18% on the previous year. The uplift in leasing activity is largely the result of two public sector deals totalling around 27,000 sq m. Take-up in the 2,500 to 5,000 sq m segment has increased and now represents almost a quarter of the overall total market share.

The vacancy rate has remained relatively stable throughout the pandemic, hovering around 2.9% and we expect it to remain stable at around this low level in 2021.

The prime rent remained stable at €32.50 per sq m per month over the year and this stability gives an insight into the future direction of the market in 2021. We expect rental growth will resume in 2022 and will grow at around 1.8% pa over the next five years.



€550-800

Minor works



€2,100-2,850

Refurbishment and remodelling



€1,650-2,100

Internal refurbishment



€2,750-3,600

Major remodelling

Rates in Euros (€). Costs based on rate per m². Exchange rate £1 = €1.12

TOP 3 COST DRIVERS

1 Labour costs

2 Existing building stock

3 Local taxation

“

Hamburg is a very ecologically sensitive city with a lot of historical buildings so refurbishments need to be sympathetic to the historic nature of the city.”

JOHANNES ABT
PROJECT AND COST MANAGEMENT, GERMANY



Prime rent
€390
per sq m per annum



Prime yield
2.75%



Annual take up
336,400
(m²)



Vacancy rate
7.11%



Office based employment
473,000
year average



GDP (2015 prices)
\$126bn

Our latest figures Q1 2021. GDP and office-based employment source – CBRE Macro House View



Helsinki

Companies remain cautious when making decisions around their future office footprint. As a result this, we expect that leasing activity will be subdued in 2021, as corporates continue to monitor the progress of vaccination programmes and subsequent unlocking of the economy.

The main strategic adaptations we are seeing from corporates in the Helsinki market are: 1) sign short-term lease extensions, 2) sublet smaller office spaces and 3) increased use of flexible offices. This will in turn have a short-term impact on office markets, where we expect vacancy to rise while rents remain broadly stable.

In 2021, we expect occupiers will shift their focus towards enhanced agility and more distributed working patterns. This will include increased use of flexible office space, although this aspiration may be limited by the fact that flexible offices currently only represent 1.3% of total stock.

TOP 3 COST DRIVERS

1 Desired quality-level

2 Master plan & other regulations for the area/plot/building

3 Cyclical situation



€350-600

Minor works



€1,450-2,000

Refurbishment and remodelling



€1,100-1,650

Internal refurbishment



€1,850-2,500

Major remodelling

Rates in Euros (€). Costs based on rate per m². Exchange rate £1 = €1.12

“

The limited availability of skilled labour in Helsinki and high domestic labour costs drive costs up for this location.”

ILKKA NISKA
PROJECT AND COST MANAGEMENT, FINLAND



Prime rent
€504
per sq m per annum



Prime yield
3.50%



Annual take up
N/A
(m²)



Vacancy rate
12.6%



Office based employment
341,000
year average



GDP
(2015 prices)
\$100bn

Our latest figures Q1 2021. GDP and office-based employment source – CBRE Macro House View



London

In Q1 2021, Central London saw an increase in leasing transactions since the beginning of the pandemic, but despite this, the 1.3m sq ft of office space leased was still subdued at 56% below the 10-year quarterly average.

Unsurprisingly, availability has continued to rise. The current total of just over 25.3m sq ft is the highest since 2004 when supply totalled over 25m sq ft in the aftermath of the dot-com crisis. This has contributed to a rising vacancy rate, which has increased from 8.1% at the end of 2020 to 8.9% in Q1 2021.

Looking forward, over 6m sq ft of office space is under construction and is expected to complete in 2021, with around 54% under offer. Despite this, we expect the vacancy rate will continue to rise across all key submarkets, in particular the City and West End, to 12.0% and 8.1% respectively in 2021. This will place further downward pressure on rents in 2021. Overall, the outlook remains more positive after 2022, where over a five-year period the City will grow at around 1.9% pa and the West End at 2.3% pa.

TOP 3 COST DRIVERS

1 Level of specification

2 Ease of access/working

3 Existing building stock



€440-675

Minor works



€1,750-2,500

Refurbishment and remodelling



€1,300-1,850

Internal refurbishment



€2,400-3,300

Major remodelling

Rates in Euros (€). Costs based on rate per m². Exchange rate £1 = €1.12

“

London forms its own bubble within the UK in terms of industry, economic output and building specification. Market rents exceed other major UK cities driving up specification and costs.”

CHRIS NOON
PROJECT AND COST MANAGEMENT, UK



Prime rent
€1,389.87
per sq m per annum



Prime yield
3.50%



Annual take up
408,041
(m²)



Vacancy rate
8.85%



Office based employment
2,001,000
year average



GDP (2015 prices)
\$480bn

Our latest figures Q1 2021. GDP and office-based employment source – CBRE Macro House View



Madrid

Office leasing activity for the first quarter of 2021 equalled 90,000 sq m which is in line with the previous two quarters. Demand in central areas picked up, where 20,000 of leasing transactions were signed in the CBD and contributed 23% of the total take-up. The consumer services and computers and hi-tech sectors drove demand, representing 40% of take-up in the CBD.

The overall vacancy rate has risen to 11.5% – over three percentage points higher than a year ago. In absolute terms, current vacancy amounts to nearly 1.5m sq m. We expect that leasing activity will marginally tick-up over the coming quarters as vaccination rates continue to improve.

These changes have produced a drop in prime rents of around 2.0%, to €35.50 sq m pm in Q1. In the short term the expected increase in supply will continue to put downward pressure on rents.

TOP 3 COST DRIVERS

1 Level of specification

2 Ease of access/working

3 Regulation



€350-600

Minor works



€1,400-2,150

Refurbishment and remodelling



€1,000-1,500

Internal refurbishment



€2,050-2,800

Major remodelling

Rates in Euros (€). Costs based on rate per m². Exchange rate £1 = €1.12

“

Like London, Madrid is also a bubble within Spain and the economic output and market rents exceed other major Spanish cities, driving up specification and costs.”

MIGUEL ANGEL MARTINEZ
PROJECT AND COST MANAGEMENT, SPAIN



Prime rent
€426
per sq m per annum



Prime yield
3.25%



Annual take up
321,632
(m²)



Vacancy rate
11.59%



Office based employment
1,345,000
year average



GDP (2015 prices)
\$241bn

Our latest figures Q1 2021. GDP and office-based employment source – CBRE Macro House View



Milan

Office take-up for the first quarter of 2021 totalled nearly 69,000 sq m, a drop of 31% compared with the same period in 2020. Manufacturing and energy, as well as the financial sector were the main drivers of demand in Q1, contributing a combined 60% of total take-up.

Over half of the Q1 activity comprised owner-occupied and pre-let operations.

The overall vacancy rate sits at a high of 10.5% – this is nuanced through the submarkets of Milan periphery and Milanofiori, where the vacancy rate stands at 16.5% and 20.5% respectively – we expect these to drop in coming quarters as occupiers appetite to take more space increases. Prime rents are expected to remain stable over 2021, with moderate growth of around 1.2% pa expected over a five-year period.

TOP 3 COST DRIVERS

1 Building typology

2 Site logistics

3 Regulation



€440-675

Minor works



€1,450-2,000

Refurbishment and remodelling



€1,100-1,650

Internal refurbishment



€1,850-2,500

Major remodelling

Rates in Euros (€). Costs based on rate per m². Exchange rate £1 = €1.12

“

Milan has a very dynamic construction market with strong competition keeping costs tight.”

ALBERTO COMINELLI
HEAD OF PROJECT MANAGEMENT, ITALY



Prime rent
€600
per sq m per annum



Prime yield
3.10%



Annual take up
249,381
(m²)



Vacancy rate
10.54%



Office based employment
1,214,000
year average



GDP (2015 prices)
\$397bn

Our latest figures Q1 2021. GDP and office-based employment source – CBRE Macro House View



Munich

Market activity remained subdued in the first quarter, although there were signs of improvement. Take-up reached approximately 99,000 sq m – 45% below the figure in the same quarter a year ago. Looking at individual sector contributions, the manufacturing and energy and the computers and hi-tech sectors outperformed and contributed 44% to the total take-up figure.

The supply of high-quality office space remains limited and this is pressuring occupiers to pre-let space. In Q1 2021, 75% of the space delivered to the market was pre-let and we expect this trend to continue for the remainder of the year, where a further 250,000 sq m is expected to complete with 57% of this space currently pre-committed. Developers remain active in Munich, indicating a belief that demand will soon return as occupier appetite remains strong for prime buildings.

The overall vacancy rate remains low despite increasing by 1.2 percentage points over the year, to 4.1%. This is still below the five-year average of 3.5%. A year into the pandemic and rents have so far remained stable at €39.50 sq m per month, although landlords are offering expanded incentives.

TOP 3 COST DRIVERS

1 Level of specification

2 Labour costs

3 Regulation



€575-850

Minor works



€2,000-2,750

Refurbishment and remodelling



€1,700-2,200

Internal refurbishment



€2,650-3,500

Major remodelling

Rates in Euros (€). Costs based on rate per m². Exchange rate £1 = €1.12

“

Munich typically has demanding tenants with high standards in building services and fit-out quality.”

JOHANNES ABT
PROJECT AND COST MANAGEMENT, GERMANY



Prime rent

€474

per sq m per annum



Prime yield

2.55%



Annual take up

477,100

(m²)



Vacancy rate

4.16%



Office based employment

927,000

year average



GDP (2015 prices)

\$289bn

Our latest figures Q1 2021. GDP and office-based employment source – CBRE Macro House View



Oslo

Take-up in Oslo declined 4% versus the same period a year ago. Demand has picked up in central areas, where take-up in the CBD increased 18% year-over-year and 74% quarter-over-quarter. Although geographic trends are not fully-formed, the trend towards CBD areas outperforming secondary and more peripheral submarkets is strengthening.

The supply side of the office market will loosen, with vacancy set to rise. This is already apparent as the vacancy rates increased from 5.6% at the beginning of 2020 to 7.0% a year later. We expect occupiers to continue to balance decisions to extend current leases, with consideration of their future workplace strategy, with the result that the vacancy rate rises by a further 0.5-1.0 percentage points in 2021.

Rents were trending down in H1 2020, but picked up the second half to NOK5,700 sq m pa and have remained stable in 2021. We expect rents to resume growth at around 2.1% pa over the next five years.

TOP 3 COST DRIVERS

1 Labour costs

2 Materials

3 Permits and applications



€440-675

Minor works



€1,850-2,300

Refurbishment and remodelling



€1,400-1,950

Internal refurbishment



€2,200-3,000

Major remodelling

Rates in Euros (€). Costs based on rate per m². Exchange rate £1 = €1.12

“

Oslo is known for being one of the most expensive cities in the world. This also applies to the cost of construction.”

MARCO SAVOLAINEN
PROJECT AND COST MANAGEMENT, NORWAY



Prime rent
€568.28
per sq m per annum



Prime yield
3.25%



Annual take up
626,890
(m²)



Vacancy rate
7.04%



Office based employment
279,000
year average



GDP (2015 prices)
\$112bn

Our latest figures Q1 2021. GDP and office-based employment source – CBRE Macro House View



Paris

The market has struggled to maintain its pre-pandemic momentum, with lockdown induced measures severely denting office activity.

In the first quarter of 2021, take-up totalled around 327,000 sq m, 30% down on the same quarter of 2020. The computers and hi-tech and manufacturing and energy sectors were the main drivers of demand, representing a combined 29% of total take-up.

Availability continues to increase, albeit at a moderating pace. Vacant space rose 3% compared with the previous quarter to nearly 3.8 million in Q1 – although there are wide discrepancies between geographical areas. The trend was less severe in core CBD locations so, for example, in Paris Western Crescent grade A vacant space remained stable quarter-over-quarter, whereas in the submarket of Paris 14-15, grade A vacant space increased 57% over the same period.

The impact of these changes on rents varies depending on size-band and location. Core prime rents have started to come under downward pressure lately, but we expect rents to recover to see growth of around 2.1% pa over a five-year period.

TOP 3 COST DRIVERS

1 Regulation

2 Existing building stock

3 Level of specification



€350-600

Minor works



€1,650-2,100

Refurbishment and remodelling



€1,200-1,750

Internal refurbishment



€2,000-2,750

Major remodelling

Rates in Euros (€). Costs based on rate per m². Exchange rate £1 = €1.12

“

Paris is ungoing a period of change to improve the quality of the real estate. This is impacting the scope of refurbishment works needed and associated costs.”

YANNICK BELDAME
PROJECT AND COST MANAGEMENT, FRANCE



Prime rent
€930
per sq m per annum



Prime yield
2.75%



Annual take up
1,260,371
(m²)



Vacancy rate
6.41%



Office based employment
2,709,000
year average



GDP
(2015 prices)
\$770bn

Our latest figures Q1 2021. GDP and office-based employment source – CBRE Macro House View



Stockholm

Occupier appetite for high quality office space in Stockholm's leasing market remains strong. Take-up in Q1 2021 increased 62% versus the same quarter in 2020 with initial signs indicating that corporate demand is slowly resuming.

The vacancy rate has fallen from its peak in Q4 2020, declining 1.4 percentage points to 5.6%. The gap between CBD and peripheral submarkets is widening. For example, the Q1 vacancy rate in the CBD sits at 5.0%, whereas in Kista-A it is much higher at 12.8%.

Prime rents declined 7.5% year-over-year reaching SEK7,400 sq m pa. Rental levels in prime locations are expected to hold up better than secondary assets in peripheral areas, and we expect prime rents to increase at a rate of 4.1% pa over the next five years.

TOP 3 COST DRIVERS

1 Labour costs

2 Materials

3 Logistics in city area complicated, limited hauling hours



€350-600

Minor works



€1,750-2,200

Refurbishment and remodelling



€1,300-1,850

Internal refurbishment



€2,100-2,800

Major remodelling

Rates in Euros (€). Costs based on rate per m². Exchange rate £1 = €1.12

“

The increase in international tenants in Stockholm is driving the need for higher quality specifications in buildings.”

TIMO LOMAN
PROJECT AND COST MANAGEMENT, SWEDEN



Prime rent
€722.10
per sq m per annum



Prime yield
3.40%



Annual take up
N/A
(m²)



Vacancy rate
5.66%



Office based employment
541,000
year average



GDP (2015 prices)
\$177bn

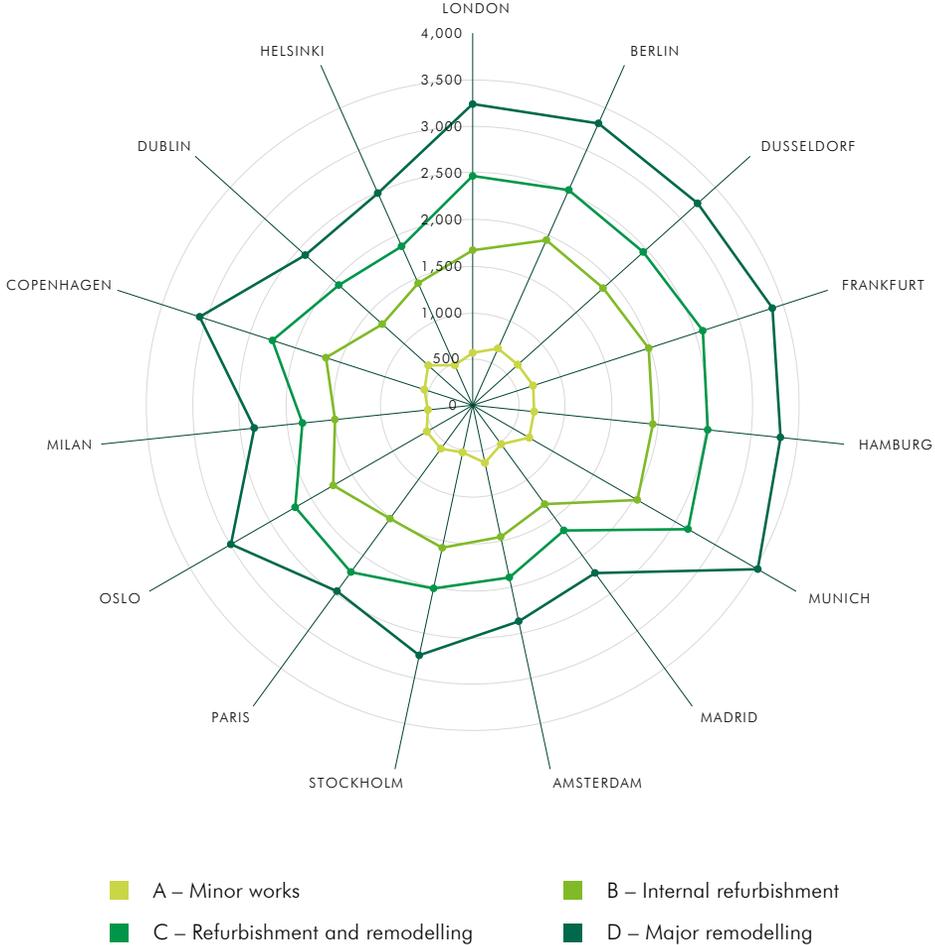
Our latest figures Q1 2021. GDP and office-based employment source – CBRE Macro House View

Cost comparisons across Europe

	A – MINOR WORKS	B – INTERNAL REFURBISHMENT	C – REFURBISHMENT AND REMODELLING	D – MAJOR REMODELLING
<i>London</i>	440-675	1300-1850	1750-2500	2400-3300
<i>Berlin</i>	550-800	1650-2100	2000-2750	2650-3500
<i>Düsseldorf</i>	550-800	1650-2100	2000-2750	2650-3500
<i>Frankfurt</i>	550-800	1650-2100	2000-2750	2650-3500
<i>Hamburg</i>	550-800	1650-2100	2100-2850	2750-3600
<i>Munich</i>	575-850	1700-2200	2000-2750	2650-3500
<i>Madrid</i>	350-600	1000-1500	1400-2150	2050-2800
<i>Amsterdam</i>	440-675	1100-1650	1450-2000	1850-2500
<i>Stockholm</i>	350-600	1300-1850	1750-2200	2100-2800
<i>Paris</i>	350-600	1200-1750	1650-2100	2000-2750
<i>Oslo</i>	440-675	1400-1950	1850-2300	2200-3000
<i>Milan</i>	440-675	1100-1650	1450-2000	1850-2500
<i>Copenhagen</i>	350-600	1300-1850	1750-2500	2400-3300
<i>Dublin</i>	440-675	1100-1650	1450-2000	1850-2500
<i>Helsinki</i>	350-600	1100-1650	1450-2000	1850-2500

Rates in Euros (€). Costs based on rate per m². Exchange rate £1 = €1.12
Source: CBRE Cost Consultancy

Cost comparisons across Europe



Figures given here are a mid-point of the upper and lower range.
 Rates in Euros (€). Costs based on rate per m². Exchange rate £1 = €1.12
 Source: CBRE Cost Consultancy

Appendix

SPECIFICATION OF FOUR REFURBISHMENT SCHEMES

A – MINOR WORKS *(3-6 years extended life)*

Strip out existing loose fixtures and fittings and redecorate to a basic standard with allowance for overhauling existing services and plant.

Schemes which involve minimal works and are seen as a short-term lick of paint refurbishment project.

B – INTERNAL REFURBISHMENT *(6-12 years extended life)*

*Refurbishment to developers
CAT A standard with no
structural alterations.*

Strip out existing loose fixtures and fittings and refurbish to a City of London CAT A specification including allowance for full replacement of existing services and plant, new reception, and common area finishes.

Schemes encompassing a complete CAT A refurbishment but encompass no structural or re-cladding works.

C – REFURBISHMENT AND REMODELLING *(10-15 years extended life)*

*Refurbishment to developers
CAT A standard with minor
remodelling of layouts.*

As Option B with minor remodelling of existing core and entrance hall.

Schemes involve CAT A refurbishment and minor remodelling of existing layouts and limited scope of structural alterations and re-cladding.

D – MAJOR REMODELLING *(15+ years extended life)*

*Refurbishment to developers
CAT A standards with major
remodelling of layouts and
new façades.*

As Option B with major structural alteration works, alterations to below ground drainage and new façade treatments.

PROFESSIONAL FEES

Professional fees are often represented as a percentage of the construction costs at the initial budget assessment stages. An allowance of between 10 and 20% of the construction cost, covering architectural design, engineering design, structural design, project management, cost consultancy and specialist consultants (such as acoustics, fire engineering, sustainability etc) should be included in the capital plan.

NOTE

Options A-D and benchmarking data all assume a building of 4/5 levels above ground with a gross internal floor area of 100,000 sq ft. The works relate to the landlord refurbishment scopes and do not allow for any tenant enhancements. The benchmark data excludes professional fees and local taxes and assumes the building does not contain asbestos or other deleterious materials

NOTES AND ASSUMPTION

1. The costs are current and make no allowance for inflation
2. Contractor will be selected by competitive tender
3. Generally, the existing structure is sufficient for the proposed alternations
4. The existing electrical supplies are adequate for the proposed works (no new substation required)
5. The existing drainage can be re-used and will not require complete replacement
6. All options typically assume 100,000 sq ft GIFA
7. Assume low rise ground + 4/5 levels
8. Excludes local Government taxes and charges, professional or other fees, tenant works/enhancements or any costs associated with asbestos or other deleterious materials.

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