

Quick Stats

	Change from	
	Q4 09	Q1 09
Rent	↑	↓
Yield	↓	↓

Hot Topics

- Economic recovery across Europe remains patchy, and more severe austerity measures will need to be implemented in some countries. For now, office demand is mostly being driven by corporate rationalisation and consolidation.
- Stable headline rents secured by significant incentive packages still on offer in many markets. Incentives expected to fall as market strengthens this year.
- Although development starts remain low, reactivation of schemes will be a key issue to monitor over the remainder of the year.

OVERVIEW

• Demand reflects uncertain economic picture in Europe

European markets showed a slight reduction in take-up this quarter compared with the end of 2009. However, the severe slowdown in activity which characterised much of last year has eased. Rationalisation activity continues to drive most markets but there is emerging evidence of genuine expansion demand, particularly in London and Paris.

• Overhang of development completions continues to increase vacancy

The aggregate European vacancy rate is rising but the rate of increase is now slowing: the EU-27 index stands at 9.8%. Vacancy is thought to be close to its peak in many markets where developers took prompt action to stem the flow of developments and where demand is also starting to stabilise. Vacancy is actually falling in London and Paris in the wake of improved demand.

• Development completions remaining low for the next two years; signs that construction volumes may rise later in the year

Project finance remains difficult to secure for speculative developments and new deliveries will therefore remain subdued this year. The pipeline is even lower in 2011 and in many markets is less than half the 2010 figure. The situation remains dynamic, however. There is evidence, particularly in Central London, of improved conditions encouraging developers to revisit mothballed schemes. As more markets start to improve towards the end of the year, there is the potential for more widespread reappraisal of development schemes across Europe.

• Rental growth in London and Paris drives index to first quarter of growth since mid-2008

The EU-27 rent index registered a 1% increase in the first quarter of 2010. Rents have rebounded strongly in both the City and West End markets in London, and more moderately in Paris. The majority of markets remain stable with demand yet to recover sufficiently to boost rents. Only a handful of markets continue to see further falls, most notably Spain, where rents are expected to soften for the rest of the year.

EMEA Rental Cycle, Q1 2010



The rental cycle is intended to show the trend in net effective rents. Markets are positioned in relation to their own cycle and do not necessarily move along the cycle in the same direction or at the same speed as other markets.

OFFICE RENTS

The CB Richard Ellis office rent index for the EU-27 area registered the first quarterly increase (1.0%) since mid-2008. The year-on-year change remains negative at -5%.

The up-tick this quarter reflects a highly-concentrated pattern of rental growth, with only London and Paris seeing any clear signs of increase in Western Europe. London City saw the largest increase at almost 10% over the quarter and this was coupled with a fall in the level of incentives. Elsewhere most markets in Europe showed no change in rents this quarter. This included cities such as Amsterdam, Brussels, Milan and most of the German markets. Prime rents in Dublin also leveled off this quarter – the first sign of stability since mid-2008. Only a handful of markets - notably Spain and Denmark - saw any further decreases. For Spain, at least, falls are forecast to continue for the rest of 2010.

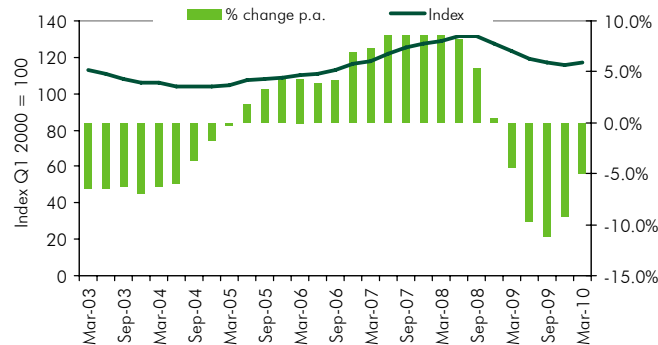
Overall in Europe the demand-supply balance is beginning to shift at local and indeed submarket level. While landlords are still offering significant incentive packages to secure tenants, this is expected to change during the course of the year as the markets readjust.

OFFICE TAKE-UP

Patterns of leasing activity in the main European office markets reflect the uncertain and uneven picture of economic growth across Europe. Most cities saw a reduction in gross take-up in the first quarter of 2010 compared with the final quarter of last year, but the severe slowdown in activity which characterized most of 2009 appears to be over. Almost all markets including Madrid, Brussels, Warsaw and Moscow are showing stronger demand than a year ago. There has also been a remarkable turnaround in the Central London letting market over the past year, triggered by near-record levels of activity in the City financial district.

Market activity across Europe is being supported by a large number of small to medium-sized transactions. While rationalization and space-efficiency remain strong motives for this, there is evidence of genuine expansion demand starting to become a more important driver. So far this is most noticeable in London and Paris but is likely to become more widespread as the year goes on. With occupier activity expected to gain some momentum in more markets across Europe annual take-up is likely to be roughly in line with, or slightly above, the 2009 total.

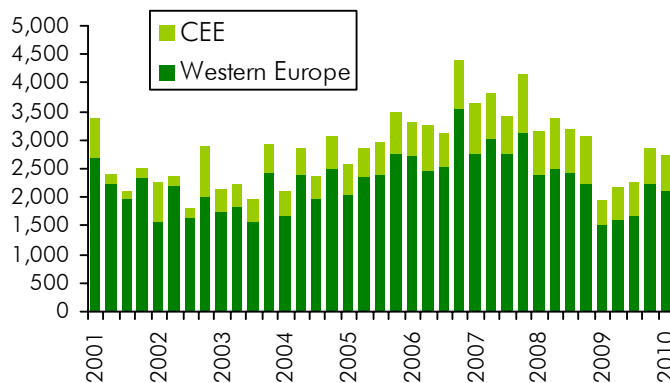
EU-27 Office Rent Index



EU-27 Office Rent Index

	Q1 2009	Q4 2009	Q1 2010
Index (Q1 2000 = 100)	123	116	117
Quarter-on-Quarter (% Change)	-3.5	-0.9	1.0
Year-on-Year (% Change)	-4.4	-9.2	-5.0

Aggregate Office Take-up ('000s sq m), 2001-10



Office Take-up ('000s sq m)

	Q1 2009	Q4 2009	Q1 2010	Q-on-Q Change	Y-on-Y Change
Brussels	55	257	149	-42%	171%
London	102	331	405	22%	296%
Dublin	10	20	25	-26%	143%
Frankfurt	143	61	58	-5%	-60%
Madrid	45	150	90	-40%	101%
Paris (Ile de France)	412	609	472	-23%	15%
Moscow	256	375	375	0%	47%

OFFICE VACANCY

Vacancy continues to rise across Europe but the rate of change appears to be slowing. The EU-27 index rose by 21 basis points this quarter to 9.8%, with increases taking place in Brussels, Amsterdam, Moscow, Madrid and Barcelona.

At aggregate level vacancy is expected to increase slightly further in the coming months as the overhang of development completions, started before the downturn, completes. However, vacancy levels in the main markets including Paris and Madrid are considered to be close to their peak. In many, development starts ceased earlier and demand is now stabilising, if not improving.

In a few markets, most notably London and Paris, vacancy rates have already begun to fall following an increase in demand. In others, including Warsaw and Budapest, vacancy has fallen slightly following the addition of new, pre-let stock to the market.

Patterns at submarket level continue to vary and there are considerable differences in the degree of choice for occupiers depending on their own locational flexibility and price gradients in particular local markets.

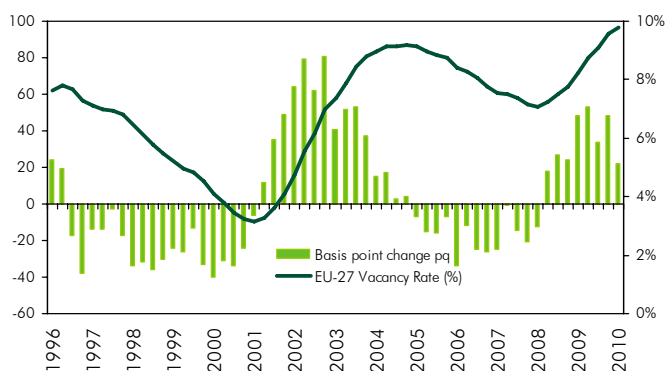
OFFICE DEVELOPMENT PIPELINE

Speculative development has fallen sharply and project finance for new schemes remains difficult, though not impossible, to secure. The level of new completions will therefore remain subdued in the short term and the forecast for completions in 2010 is lower than was expected at the end of last year. Across the major markets, completions due this year amount to less than 2% of existing stock.

The expected level of completions is lower still in 2011, with many markets expected to see less than half the volume of space completing than is due this year. In many cases projected completion levels for 2011 continue to fall compared with previous expectations for the year – for example Barcelona and Amsterdam, where developers are still delaying projects until local markets strengthen.

Beyond 2011, the picture is less clear. While current data indicates a further reduction, this has the potential to change as more markets stabilise. Demand conditions generally are not yet strong enough to trigger the start of the next development cycle, but the scale of potential development remains dynamic as many schemes which have been put on hold can easily be restarted. This is beginning to become evident in Central London, where occupier demand is strengthening and rents are now rising. As more European markets improve towards the end of the year, and prospective supply shortages emerge in some areas, there is the potential for more widespread reappraisal or restarting of development schemes.

EU-27 Vacancy Rate Index

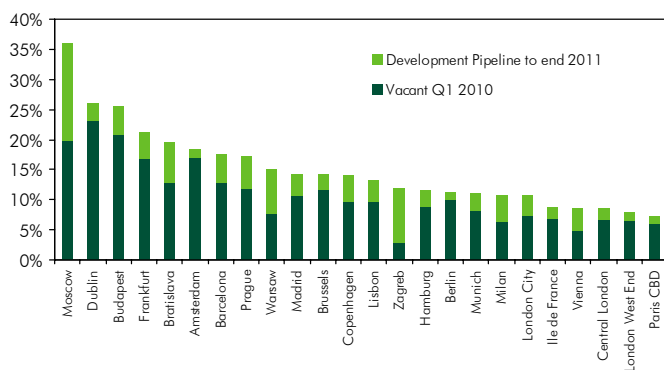


Office Vacancy Rates (%)

	Q1 2009	Q4 2009	Q1 2010
London	7.1	7.1	6.7
Paris (Ile de France)	5.6	6.8	6.8
Madrid	9.2	10.1	10.7
Barcelona	7.6	11.0	12.8
Frankfurt*	16.1	17.2	16.8
Berlin	9.8	9.8	10.1
Amsterdam	17.7	16.0	17.0
Dublin	16.1	23.4	23.0
Milan	5.6	6.2	6.3

*Historic revisions to the Frankfurt series in Q1 2010.

Vacant Space & Two-year Pipeline as % of Stock



Development Pipeline ('000s sq m), Full Years

	2010	2011
Amsterdam	165	36
London (Central)	373	122
Frankfurt	318	232
Madrid	382	227
Paris (Ile de France)	803	445
Berlin	145	75

KEY INDICATORS

Country	City	Prime Office Rent Local	€ / sq m / annum	Last 3 Months (%)	Last 12 Months (%)	From peak* (%)	Prime Office Yield %
Austria	Vienna	€ 22.25/sq m/month	267	0.0	-3.3	-5.3	5.60
Belgium	Brussels	€ 265.00/sq m/annum	265	0.0	-3.6	-11.7	6.25
Bulgaria	Sofia	€ 14.75/sq m/month	177	-1.7	-13.2	-19.2	10.00
Croatia	Zagreb	€ 16.70/sq m/month	200	-0.6	-5.4	-4.6	8.30
Czech Republic	Prague	€ 21.00/sq m/month	252	0.0	-8.7	-8.7	7.00
Denmark	Copenhagen	DKR 1,675/sq m/annum	225	-1.5	-9.5	-9.5	5.50
Finland	Helsinki	€ 318.00/sq m/annum	318	0.0	-9.1	-11.7	6.00
France	Lyon	€ 246.00/sq m/annum	246	7.0	-1.6	-1.6	6.35
France	Marseille	€ 250.00/sq m/month	250	0.0	-16.7	-16.7	6.50
France	Paris	€ 750.00/sq m/annum	750	4.2	-3.8	-11.8	5.25
Germany	Berlin	€ 20.00/sq m/month	240	0.0	0.0	-11.1	5.50
Germany	Frankfurt	€ 38.00/sq m/month	456	0.0	0.0	-2.6	5.30
Germany	Hamburg	€ 23.00/sq m/month	276	0.0	-4.2	-4.2	5.00
Germany	Munich	€ 29.50/sq m/month	354	-1.7	-4.8	-6.3	4.90
Greece	Athens	€ 33.00/sq m/month	396	0.0	3.1	3.1	6.50
Hungary	Budapest	€ 20.00/sq m/month	240	0.0	0.0	-11.1	8.00
Ireland	Dublin	€ 376.00/sq m/annum	376	0.0	-30.4	-44.1	7.50
Israel	Tel Aviv	\$26.00/sq m/month	231	13.0	15.6	-25.7	n/a
Italy	Milan	€ 520.00/sq m/annum	520	0.0	-5.5	-5.5	5.75
Italy	Rome	€ 420.00/sq m/annum	420	0.0	-4.5	-4.5	5.75
Luxembourg	Luxembourg City	€ 40.00/sq m/month	480	0.0	0.0	0.0	6.00
Netherlands	Amsterdam	€ 330.00/sq m/annum	330	0.0	0.0	-2.9	5.90
Norway	Oslo	NKR3,000/sq m/annum	374	0.0	-9.1	-33.3	6.25
Poland	Warsaw	€ 23.00/sq m/month	276	0.0	-17.9	-34.3	6.75
Portugal	Lisbon	€ 19.50/sq m/month	234	0.0	-4.9	-4.9	6.75
Romania	Bucharest	€ 19.50/sq m/month	234	0.0	-2.5	-11.4	9.50
Russia	Moscow	US\$ 850.00/sq m/annum	629	0.0	-29.2	-50.0	12.00
Russia	St Petersburg	US\$ 800.00/sq m/annum	592	6.7	-8.0	-41.9	15.50
Serbia	Belgrade	€ 15.00/sq m/month	180	0.0	-9.1	-28.6	10.00
Slovak Republic	Bratislava	€ 17.00/sq m/month	204	0.0	-5.6	-5.6	7.50
Spain	Barcelona	€ 246.00/sq m/annum	246	-2.4	-12.8	-26.8	6.00
Spain	Madrid	€ 348.00/sq m/annum	348	-1.7	-14.7	-28.4	6.00
Sweden	Stockholm	SEK 4,000/sq m/annum	410	0.0	-2.4	-9.1	5.50
Switzerland	Geneva	SFR 850.00/sq m/annum	597	0.0	3.7	0.0	5.25
Switzerland	Zurich	SFR 850.00/sq m/annum	597	0.0	-5.6	-10.5	4.60
Turkey	Istanbul	US\$ 40.00/sq m/month	355	0.0	-11.1	-11.1	8.50
UAE	Dubai - DIFC	AED 37.16/sq m/annum	868	0.0	-11.1	-27.3	8.50
UK	Birmingham	£ 27.00/sq ft/annum	326	0.0	-6.9	-16.9	5.75
UK	Edinburgh	£ 27.50/sq ft/annum	332	0.0	-3.4	-5.2	5.85
UK	Glasgow	£ 27.00/sq ft/annum	326	0.0	-5.3	-5.3	5.75
UK	London City	£ 47.00/sq ft/annum	568	8.1	1.1	-27.7	5.50
UK	London West End	£ 85.00/sq ft/annum	1,028	6.3	-2.9	-29.2	4.25
UK	Manchester	£ 28.50/sq ft/annum	345	0.0	0.0	0.0	5.75

* Figures indicate degree of change from the highest rent recorded in the previous three years, and current level



Most companies in **Amsterdam** are looking for cost benefits in existing locations, rather than looking to relocate. Many are renegotiating with landlords and handing back surplus space in return for an extended commitment, and sublet space has increased.

Q1 take-up in **Brussels** was well above the corresponding quarter last year, mainly driven by occupiers consolidating premises into one modern building. There have been a number of such moves recently, particularly from the decentralised area to the periphery (e.g. Rockwell Automation). Tenants are increasingly aware that the current favourable market conditions will not last indefinitely and sense that the time to move, or renegotiate, is imminent.

Leasing activity in **Dublin** is gradually improving, particularly for high-quality space, and rents appear to be stabilising after a precipitous fall. Vacancy levels remain static as the final schemes are delivered that were speculatively built in the last development cycle. New requirements are emerging across a range of size categories, which should translate into leasing deals in the next six months.

Prime **Frankfurt** rents have barely moved in this cycle and remained unchanged in Q1. Many corporates - particularly in the banking, legal and IT sectors - are active in seeking early lease renewals close to the bottom of the market. The level of vacancy in well-specified class A buildings remains low.

Take-up rose in **London** in Q1, strongly driven by the City financial district where it reached near-record levels. The rising incidence of larger deals is a key factor in this: there were nine deals of over 100,000 sq ft in Q1. Banking and finance accounted for 40% of take-up in the first quarter, which is well above trend. This more positive leasing market is also contributing to the rapid erosion of supply: there is increasingly limited choice for major occupiers seeking large floorplates as the amount of new space to be delivered through 2011 is low.

Leasing levels in **Milan** remain weak, and more organisations are considering relocating from the historic centre to the better semi-central and peripheral locations such as Sesto San Giovanni and San Donato. Demand is spread across a number of sectors and mostly focussed on smaller units of between 150 – 1,000 sq m, with an emphasis on cost containment. Prime rents remain stable.

Prime rents in **Madrid** have continued to edge down. Quarterly take-up remains volatile and much of the activity comprises deals arising from relocations, with very few producing positive net take-up. Prime rent levels are therefore expected to come under renewed pressure.

Paris demand remains uncertain, but corporates are becoming more likely to complete a deal. Rents continue to decrease overall although not on high-quality well-located space, which is still in short supply due to a lack of new development. More occupiers are therefore considering undertaking projects now, in the knowledge that future stock will be very limited from the end of 2011, and quality space will become scarcer and more expensive.

Due to increasing demand in **Zurich** from incoming companies from abroad (banking, trading, IT, engineering) and a low level of supply, competition is growing for prominent large units in the CBD. The availability of smaller units <1000 sq m is still rising mainly as a result of banks restructuring.



The availability of office space in **Copenhagen** rose further in Q1, although the rate of increase appears to be slowing. Prime headline rents have not fallen markedly, but there is a widening gap between headline and effective rents, with an increasing

number of leases containing an initial rent-free period. There is also a movement towards central locations either from other city locations or the suburbs, with units of under 1,000 sq m accounting for the majority of leases.

Rents are still falling in **Helsinki** and submarket differentials are increasing. Landlords also continue to support the market by offering increased incentives. Many companies, but especially international firms, are looking to re-gear their existing leases.

Take-up rose in **Oslo** in the first quarter. While aggregate office vacancy is increasing, the CBD area appears to be tightening. The prime market has shown stability for several quarters and prime rents are expected to resume growth shortly.

We have seen a shift in the **Stockholm** market over the last month and rental levels could soon start rising in the central area. Landlords are both increasing asking rents and trimming incentives. While there are some requirements for units of over 5,000 sq m, a lot of the larger tenants are just testing the market, and most genuine demand is focussed on the 500 - 1,500 sq m range.



The fragile economic situation is putting pressure on companies to cut costs in **Athens**. The rolling break option in Greek landlord and tenant laws gives tenants the flexibility to leave or renegotiate, and landlords are being increasingly careful to retain good tenants. Demand is mostly focussed on the 400-1000 sq m

size range, with financial services, healthcare and pharmaceuticals among the key sectors. Vacancy levels for prime CBD offices remain low, and rents are currently stable.

Take-up in **Budapest** remains strong, with nearly half of the activity occurring in the largest non-central submarket. Public sector bodies accounted for two of the ten largest deals, with telecoms and high-tech companies also prominent. Some of the non-central districts continue to display high vacancy rates, and many tenants are looking to take advantage of this by starting early negotiations with their landlords at depressed rental levels.

The **Bucharest** vacancy rate is stabilising at around 16% due to stronger take-up and lower levels of new development. Vacancy is lower than this in the CBD and Central areas. Demand is being driven by consumer services and manufacturing/energy, with a strong international presence.

Demand is stable in **Moscow** but the market remains heavily oversupplied with a vacancy rate of 20%. One million sq m is due to complete this year, most of it speculative. This is almost 10% of current stock, so occupier choice will remain wide.

Occupier renegotiations are driving the office market in **Prague**, with particular activity from IT and professional services companies. Rents are stable and expected to remain so. Delayed office schemes mean that very little new space will enter the market this year.

More detailed MarketViews on many of these markets are available at www.cbre.eu

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Abu Dhabi has witnessed renewed occupier interest during Q1 2010 as the market has swung in the tenants' favour. After an initially bullish outlook for 2010 from landlords, they are

increasingly willing to offer incentives and rents have dropped over the quarter for some poorer quality stock. With nearly 400,000 sq m of new internationally recognisable 'Grade A' office space being delivered in 2011, landlords of vacant Grade B buildings are cutting rents more aggressively to secure tenants before this influx of new buildings.

Occupier activity in **Dubai** continued to strengthen in Q1 2010. With availability increasing, many occupiers are expecting landlords to offer greater incentives. However, due to the fragmented nature of Dubai (freezones and non-freezones) occupiers continue to be restricted by licensing regulations on where they can legally operate. Office buildings under strata-title ownership are under increasing rental pressure from increasing supply and modest demand.

The **Istanbul** market became more active in the first quarter. No single sector is dominant in the market but legal and pharmaceutical companies are prominent. Typically units of up to 3,500 sq m are sought, with some call centre operators looking for larger buildings.

Except for a few districts, vacancy rates in **Johannesburg** are rising and rents continue to soften, presenting good opportunities for occupiers to re-gear leases or move to alternative premises. A number of infrastructure projects currently being undertaken (railway line connecting Pretoria, Johannesburg and the international airport and the upgrade of most motorways and airports) will have a positive impact on those areas that lie close to these transport hubs.