

Quick Stats

	Change from	
	Q1 10	Q2 09
Rent	↑	↓
Yield	↓	↓

Hot Topics

- Incentive packages are beginning to contract in some markets as rents stabilise.
- There are concerns in many European economies over government debt levels and the possible impact of austerity measures on economic growth and real estate markets.
- The Nordic economies have more positive economic fundamentals, reflecting lower levels of government debt. By contrast, Spain remains in recession and continues to suffer very high rates of unemployment.

OVERVIEW

• Leasing levels stable. Paris and Moscow account for over a third of office take-up this quarter

The uncertain economic outlook is continuing to restrain occupier demand, with take-up virtually unchanged this quarter compared with Q1. Leasing activity across Europe continues to be heavily driven by rationalization and space-efficiency measures, with only sporadic signs of expansion demand.

• Vacancy levels ease back slightly over the quarter

There are indications that the rise in vacancy that has been a feature of the past two years may now be starting to stabilise. Vacancy levels have already peaked, or are now trending downwards, in some markets including London. In others, including Madrid, Amsterdam and Frankfurt as well as some CEE markets further increases are apparent.

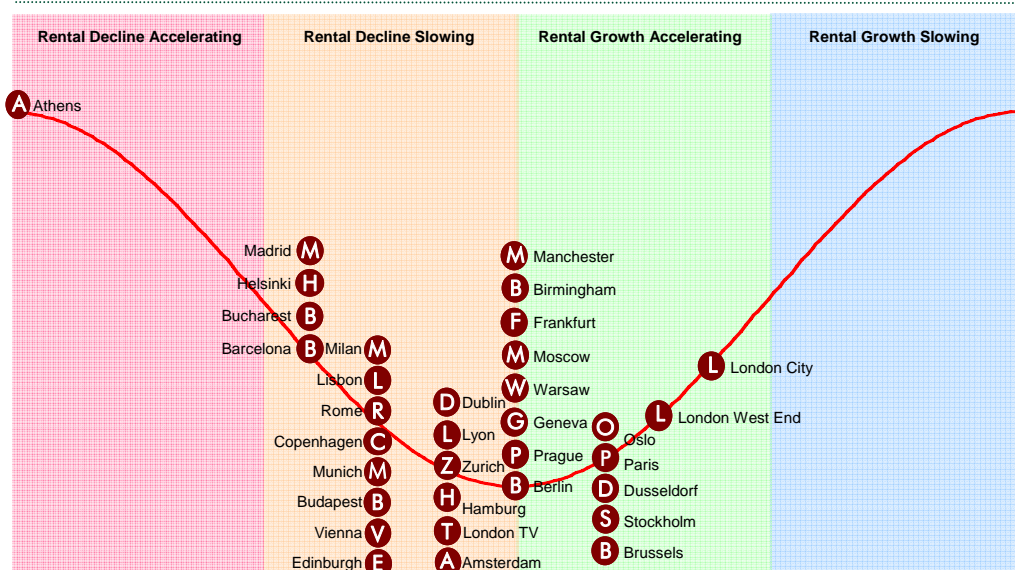
• Development completions for 2011 and 2012 on a par with mid-1990s level in Western Europe

The subdued nature of this development cycle, and the scale of the impending drop in development completions, are becoming increasingly clear. Completion levels will be very low over the next two years, producing supply shortages in some markets.

• Rental growth occurring in more European markets, but only in prime areas

Prime rents were broadly stable across Europe this quarter as occupier demand remained constrained. The EU-27 prime rent index rose by a further 0.4% over the quarter which brings the year-on-year change to -1.2%. However, rental growth is generally only occurring at the prime end of the market, and patterns of rental change within markets are becoming more complex.

EMEA Rental Cycle, Q2 2010



NB. Markets do not necessarily move along the curve in the same direction or at the same speed. The rental cycle is intended to display the trend in net effective rents

OFFICE RENTS

Prime rents were broadly stable across Europe this quarter as occupier demand remained constrained. The EU-27 prime rent index rose by a further 0.4% over the quarter, bringing the year-on-year change to -1.2%.

Rents remained stable in the majority of markets with notable increases in the City of London (6.4%) and Oslo (6.7%). Paris, Stockholm and Moscow also saw rental growth this quarter of around 2 – 3%.

Growth in the Nordic markets reflects a stronger economic outlook than in much of the rest of Europe but also a lack of modern CBD office space in some markets. Indeed, with the exception of London, the prime rental growth witnessed thus far tends to reflect market conditions at the top end of the market, and in a small geographic area, rather than representing a city-wide trend. It will require clearer signs of economic recovery for rental increases to become more widespread both across and within markets.

After a quarter of stability, rents fell further in Madrid (-3.5%), Barcelona (-2.4%) and Dubai (-7.5%) this quarter. With poor economic sentiment generating little genuine demand and a high level of supply in all three markets, there is little to prevent further falls taking place, albeit at a slower rate than has been seen recently.

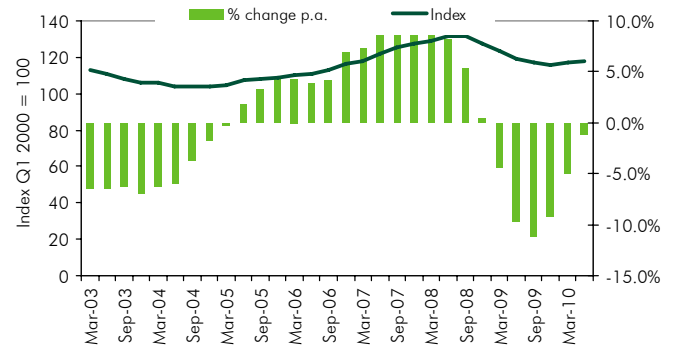
OFFICE TAKE-UP

The uncertain short-term economic outlook is continuing to restrain occupier demand, with take-up virtually unchanged this quarter compared with Q1. However, take-up in the first half of 2010 is a third higher than last year when the European leasing market was at a cyclical low.

Aggregate take-up in Europe totalled 2.8m sq m in Q2, with Paris and Moscow contributing over a third of this. Paris is one of the few markets in Europe where genuine signs of occupier expansion are evident, in addition to relocation activity. By contrast, leasing activity in Moscow is being driven by local companies looking to take advantage of the current market conditions and acquiring second-hand space at a low point in the rent cycle.

Market activity across Europe continues to be driven mostly by rationalization and space-efficiency measures. In general it also comprises large numbers of small to medium-sized transactions, with large-volume deals still relatively scarce. Frankfurt is an exception to this, with more than half of this quarter's take-up being driven by the European Central Bank's acquisition of 104,000 sq m at the former Grossmarkthalle site for its own occupation.

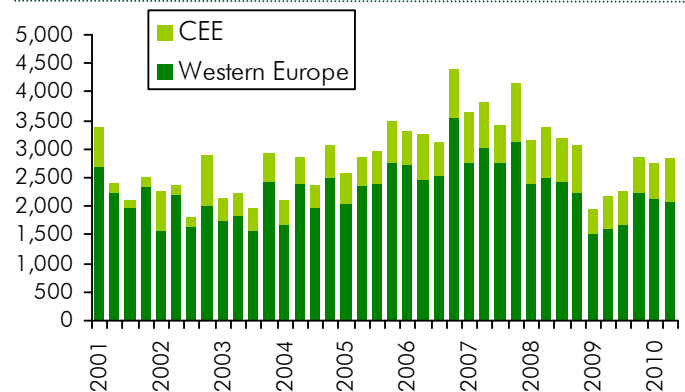
EU-27 Office Rent Index



EU-27 Office Rent Index

	Q2 2009	Q1 2010	Q2 2010
Index (Q1 2000 = 100)	119	117	118
Quarter-on-Quarter (% Change)	-3.5	1.0	0.4
Year-on-Year (% Change)	-9.7	-5.0	-1.2

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



Office Take-up ('000s sq m)

	Q2 2009	Q1 2010	Q1 2010	Q-on-Q Change	Y-on-Y Change
Brussels	72	149	95	-36%	32%
London	155	405	252	-38%	63%
Dublin	23	25	26	3%	10%
Frankfurt	75	58	173	197%	131%
Madrid	62	90	161	79%	160%
Paris (Ile de France)	446	484	560	16%	26%
Moscow	340	377	498	32%	47%

OFFICE VACANCY

In aggregate terms, vacancy levels eased back slightly over the second quarter. This is an indication that the inexorable rise in vacancy that has been a feature of the past two years may now be starting to stabilise. Over the period from early 2008 to Q1 2010, the EU-27 vacancy rate index rose from just over 7% to nearly 10%, but over the most recent quarter fell back below 9.5%.

Within this overall picture, the main markets are split between those where vacancy levels have already peaked or are now trending downwards, and those where further slight increases are anticipated. The first group includes London, where the vacancy rate has been falling for a full year and dropped by half a percentage point in the most recent quarter. Smaller, and possibly temporary, reductions are evident in Paris, Milan and Vienna. Appreciable rises in vacancy are still apparent in Barcelona, Madrid, Amsterdam and Frankfurt as well as some CEE markets. In most of these cases, however, the scale of quarter-on-quarter increase is now diminishing.

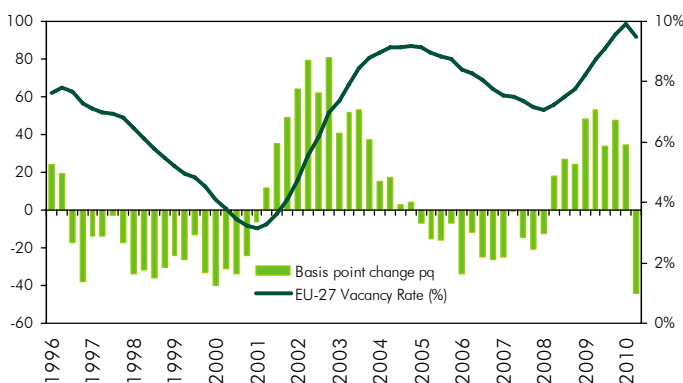
Even where this is not the case, the distribution and quality of vacant space is often uneven. In some markets with structurally high vacancy rates, such as Frankfurt and Amsterdam, much of the vacant space is in poor quality buildings in inferior locations. Vacancy levels for this kind of space could remain high, even as rental growth on high quality CBD space gains momentum.

OFFICE DEVELOPMENT PIPELINE

The subdued nature of this development cycle, and the scale of the impending drop in development completions in 2011-12, are becoming increasingly clear. Across the main Western European markets, new office development completions will have totalled around 15 m sq m in the four years 2007-10, which compares with almost 17.5m sq m over the period 2000-03. Completions levels are expected to fall dramatically next year and to remain low through 2012. At only around 2m sq m per year in each of 2011 and 2012, completions in the main group of Western European markets are expected to be running at levels barely higher than those recorded in the mid-1990s.

The pattern of 2010 completions at individual city level reflects the shape and timing of market rent cycles. In markets that saw early and substantial rental declines – principally the UK and Spain – development starts responded, and completions are expected to be far lower in the second half of this year than in the first. Elsewhere patterns are more variable, with rising completions in the second half (for example in Paris and some of the German markets) continuing to affect vacancy levels.

EU-27 Vacancy Rate Index

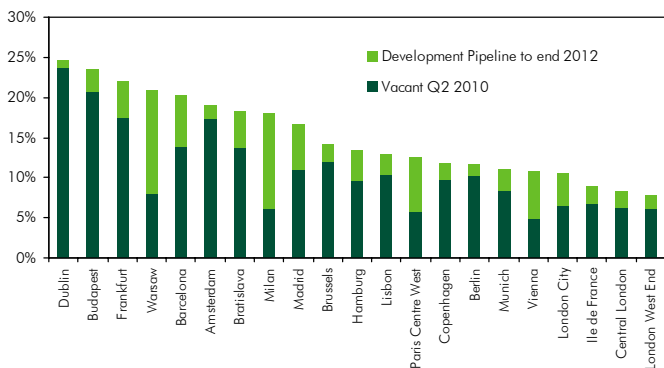


Office Vacancy Rates (%)

	Q2 2009	Q1 2010	Q2 2010
London	7.7	6.7	6.3
Paris (Ile de France)	6.0	6.8	6.8
Madrid	9.8	10.6	11.0
Barcelona	8.4	12.8	13.8
Frankfurt*	16.6	16.8	17.4
Berlin	9.7	10.1	10.1
Amsterdam	16.3	16.8	17.4
Dublin	20.8	23.0	23.6
Milan	5.9	6.3	6.1

*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	48
London (Central)	367	121
Frankfurt	327	228
Madrid	423	136
Paris (Ile de France)	783	465
Berlin	157	101

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	-1.1	-5.3	5.55
Belgium	Brussels	€ 285.00/sq m/annum	285	7.6	3.6	-5.0	6.25
Bulgaria	Sofia	€ 14.50/sq m/month	174	-1.7	-14.7	-20.5	10.00
Croatia	Zagreb	€ 16.50/sq m/month	198	-1.2	-2.9	-5.7	8.30
Czech Republic	Prague	€ 21.00/sq m/month	252	0.0	-4.5	-8.7	6.85
Denmark	Copenhagen	DKR 1,675/sq m/annum	225	0.0	-4.3	-9.5	5.25
Finland	Helsinki	€ 318.00/sq m/annum	318	0.0	-6.5	-11.7	6.00
France	Lyon	€ 230.00/sq m/annum	230	-6.5	-8.0	-8.0	6.30
France	Marseille	€ 250.00/sq m/month	250	0.0	0.0	-16.7	6.50
France	Paris	€ 770.00/sq m/annum	770	2.7	2.7	-9.4	5.10
Germany	Berlin	€ 20.00/sq m/month	240	0.0	0.0	-11.1	5.40
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	0.0	-4.8	-6.3	4.90
Greece	Athens	€ 33.00/sq m/month	396	0.0	3.1	3.1	6.75
Hungary	Budapest	€ 20.00/sq m/month	240	0.0	0.0	-11.1	7.75
Ireland	Dublin	€ 376.00/sq m/annum	376	0.0	-22.5	-44.1	7.50
Israel	Tel Aviv	\$22.00/sq m/month	221	2.3	0.0	-37.1	9.00
Italy	Milan	€ 520.00/sq m/annum	520	0.0	-1.9	-5.5	5.75
Italy	Rome	€ 420.00/sq m/annum	420	0.0	-2.3	-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	5.65
Norway	Oslo	NKR3,200/sq m/annum	402	6.7	6.7	-28.9	6.25
Poland	Warsaw	€ 23.00/sq m/month	276	0.0	-4.2	-34.3	6.60
Portugal	Lisbon	€ 19.50/sq m/month	234	0.0	-2.5	-4.9	6.75
Romania	Bucharest	€ 19.50/sq m/month	234	0.0	-2.5	-11.4	9.50
Russia	Moscow	US\$ 875.00/sq m/annum	715	2.9	-12.5	-48.5	11.00
Russia	Sr Petersburg	US\$ 800.00/sq m/annum	654	0.0	6.67	-41.9	13.00
Serbia	Belgrade	€ 15.00/sq m/month	180	0.0	-6.3	-28.6	10.00
Slovak Republic	Bratislava	€ 17.00/sq m/month	204	0.0	0.0	-5.6	7.50
Spain	Barcelona	€ 240.00/sq m/annum	240	-2.4	-11.1	-28.6	6.00
Spain	Madrid	€ 336.00/sq m/annum	336	-3.5	-11.1	-30.9	6.00
Sweden	Stockholm	SEK 4,100/sq m/annum	431	2.5	1.2	-6.8	5.25
Switzerland	Geneva	SFR 850.00/sq m/annum	645	0.0	3.7	0.0	5.00
Switzerland	Zurich	SFR 850.00/sq m/annum	645	0.0	-5.6	-10.5	4.60
Turkey	Istanbul	US\$ 40.00/sq m/month	392	0.0	0.0	-11.1	8.50
UAE	Dubai - DIFC	AED 34.37/sq m/annum	886	-7.5	-17.8	-32.7	8.25
UK	Birmingham	£ 27.00/sq ft/annum	355	0.0	-3.6	-16.9	5.75
UK	Edinburgh	£ 27.50/sq ft/annum	362	0.0	-3.5	-5.2	6.00
UK	Glasgow	£ 27.00/sq ft/annum	355	0.0	-5.3	-5.3	5.85
UK	London City	£ 50.00/sq ft/annum	658	6.4	16.3	-23.1	5.50
UK	London West End	£ 85.00/sq ft/annum	1,118	0.0	6.3	-29.2	4.25
UK	Manchester	£ 28.50/sq ft/annum	375	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



Tenants in the **Amsterdam** market continue to look for cost savings on existing premises. With stable take-up dominated by small-unit transactions, prime rents remain static. The ABN Amro-Fortis Bank merger may bring further surplus space to the market in the coming months.

While take-up dropped in the **Brussels** market in Q2, it is evident that more tenants are now looking seriously into the possibility of relocating. The favorable terms available currently are also prompting companies to upgrade towards more efficient buildings in terms of space and energy costs. Prime rents rose and are expected to remain broadly stable over the remainder of the year.

Leasing activity in **Dublin** remained consistent in Q2 particularly for well-located city centre properties. Demand continues to be driven by smaller requirements of less than 500 sq m, with software companies prominent, but there is also increasing demand for medium size requirements of between 1,000 – 2,000 sq m. With the market vacancy rate still over 20%, the overhang of existing space will be slow to erode.

The pattern of take-up in **Frankfurt** is still highly susceptible to the timing of specific large deals, but other indicators suggest a period of stabilisation. Demand for good quality space in core locations is stable, and prospective shortages of this type of space will provide support for prime rents at their current level.

Tightening vacancy in **London** has strengthened the position of landlords, and this has been reflected in a rise in rental values and a trimming of incentives. Leasing levels weakened in the second quarter. This reflects the limited number of large deals as several large requirements have been satisfied in the last year. Rents are seeing upward pressure in most parts of the market.

Leasing activity in **Milan** is heavily focussed on small units of between 150-1,000 sq m. A number of companies are actively considering relocation to decentralised or semi-central locations, suggesting that the traditional resistance to moving away from the prime historic core has eroded. This reflects a stronger focus on space efficiency and occupational costs, something that is also giving rise to widespread, and mostly successful, negotiations of existing lease terms. Prime rents are stable.

Gross take-up in **Madrid** rose in Q2, but mostly as a result of company relocations, often to cheaper areas of the market. This reflects a high incidence of leases signed at the peak of the market coming up for renewal. Net take-up remains very weak and, with the economy and labour market still fragile, this is likely to remain the case. Prime rents fell slightly during the quarter, with fewer deals completed in this segment of the market.

The drop in **Paris** rents over this cycle is starting to stimulate demand for small and medium-sized units. At the large unit end of the market this is tempered by continuing economic uncertainty, and tenant incentives for this type of space remain high. The limited supply of good quality stock is supporting prime rents and corporates will face a constrained choice over the next two to three years.

In **Zurich**, the key decentralised submarkets of Zurich West and Zurich North have risen in importance in recent times. This reflects high demand, mainly from financial institutions, for affordable large units, which are in limited supply in the CBD. Local demand is still heavily driven by the need for cost reduction, and rents remain static.



The **Copenhagen** market is characterised by moderate demand and rising availability. Occupiers generally have a wide choice of good quality buildings in the CBD, Orestad and Harbour areas which dominate the leasing market. The volume

of office space due to be delivered to the market this year will continue to skew the market in the occupier's favour. This is likely to subdue rental growth across the market in the short term.

Prime rents in **Helsinki** remained static over the quarter, and the period of steepest drop is clearly over. Nevertheless, the level of supply in the market is sufficient to prevent any upward momentum, despite Finland's relatively good economic fundamentals.

Vacancy rates in **Oslo** may edge up slightly over the remainder of the year, but the momentum in the leasing is still sufficient to push rents upwards. Further slight increase is expected over the remainder of the year.

There has been a sharp drop in vacancy levels for prime space in central **Stockholm** and tenant choice is becoming more constrained. Rents edged up this quarter and we expect further increase during the second half of 2010, along with a reduction in the level of incentives. Many landlords are also looking to move from yearly indexation, which has been the norm, to quarterly indexation and it is likely that this will become market practice in the future.



In **Athens**, changes to landlord and tenant law is working in occupiers' favour by reducing termination notice periods and break penalties. Demand remains weak, as many sectors look to cut costs and downsize, notably the telecoms and automobiles industries.

Vacancy levels in **Bucharest** have edged higher as a result of a substantial level of new completions. Demand is strong from companies seeking new space or relocating from inefficient buildings, but the average size of deal is falling. Demand is dominated by international companies, mostly in the financial sector. Pre-letting activity is on the increase, as is the popularity of the North area of the city.

Reduced development activity in the **Budapest** market has led to a slight reduction in vacancy, indicating that it may have stabilised after rising from 12% to 21% over the previous two years. Demand looks to be starting to recover, led by the high-tech and telecoms sectors and prime rents are expected to remain stable for the rest of the year.

Vacancy dipped in **Moscow** in Q2, but is expected to rise further in response to the high volume of development completions scheduled for the latter part of this year. Barring a surge in leasing activity, rental growth will be subdued.

Prague has seen negative net absorption so far this year, as most leasing activity has been churn and replacement. Prime rents are stable across the market but, with sufficient space available in most locations, are not expected to increase in the short term.

The **Istanbul** office market was quite active in the first and second quarters, as several leasing transactions were concluded particularly by multinational corporations. New entrants to the market generally prefer the European side of Istanbul. Office requirements mostly range between 300-2,500 sq m but demand for larger buildings is also healthy, partly as a result of pharmaceutical companies' relocation plans



There are many international occupiers seeking new office accommodation to expand and/or consolidate their operations in **Abu Dhabi**, but most are deferring decisions until there is adequate Grade A stock available to compete for their requirements.

However, many new developments scheduled for delivery in 2011 have been delayed to 2012. It is therefore likely that rents will stabilise quickly for Grade A offices in as tenants will have a more limited choice of options in the short term.

Demand from international and local occupiers in **Dubai** increased through Q2 due in part to business growth, but also because of curtailed activity during 2009 as occupiers were forced to consolidate and cut costs. It is seen as a good time to upscale or upgrade, as Dubai rents continue to fall. The more progressive landlords are responding with further incentives to encourage the stronger covenants to take space. Strata-title buildings continue to bear the brunt of the downward rental pressure.

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

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