

Quick Stats

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

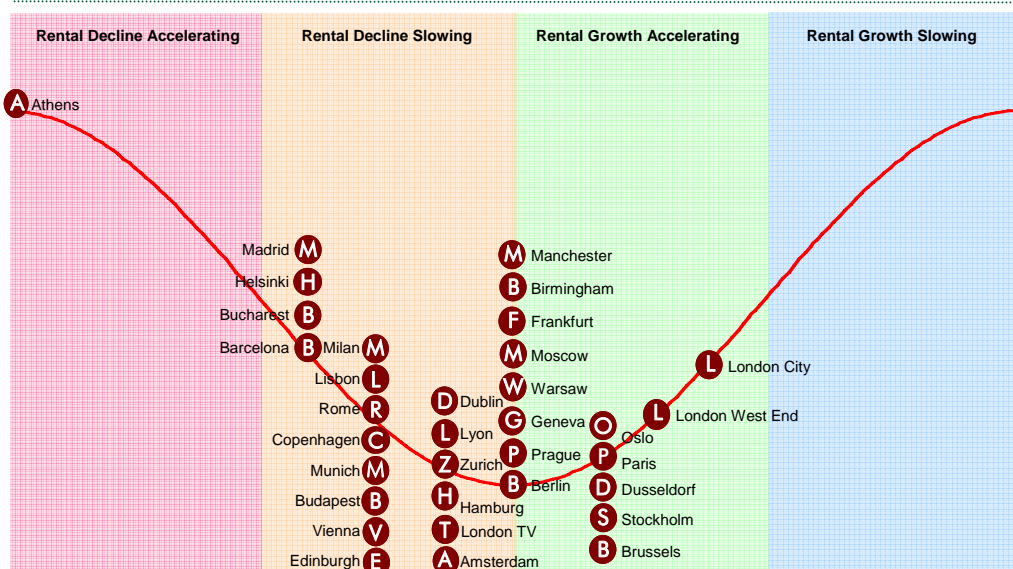
Hot Topics

- 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.
- Development activity remains low, and strategic occupational requirements over the next two years will be highly choice-constrained.

OVERVIEW

- **Occupier activity still subdued due to economic outlook; leasing levels stable**
The uncertain short-term economic outlook is continuing to restrain corporate decision-making, and occupiers remain concerned with rationalisation and space-efficiency measures. As a result, aggregate take-up was virtually unchanged compared with Q1. Demand patterns are also highly localised: Paris and Moscow accounted for over a third of the leasing activity this quarter.
- **Occupiers' choice of office space is starting to diminish as vacancy levels ease back**
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. Occupiers in some markets will need to act more quickly to secure a deal as the level of available space continues to decrease.
- **Supply will tighten further as development completions in 2011-12 will fall to levels similar to those seen in the mid-1990s**
The subdued nature of this development cycle, and the scale of the impending drop in development completions in 2011-12, are becoming increasingly clear. Completion levels will be very low over the next two years, producing supply shortages in some markets. Corporate will need to plan ahead, and consider taking pre-lets in some markets.
- **Rental growth occurring in more European markets, but only in prime areas**
Prime rents are broadly stable across Europe this quarter as occupier demand remains constrained. The EU-27 index rose by a further 0.4% over the quarter which brings the year-on-year change to -1.2%. However, rental growth is only occurring at the top end of the market and patterns of rental change within markets are becoming more complex. It will require clearer signs of economic recovery for rental increases to become more widespread.

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

KEY INDICATORS

Country	City	Prime Office Rent Local	€/sq m/annum	Last 3 Months (%)	Last 12 Months (%)	From peak* (%)	Typical lease length (yrs)	Rent Free Period (months)
Austria	Vienna	€ 22.25/sq m/month	267	0.0	-1.1	-5.3	5	3 – 6
Belgium	Brussels	€ 285.00/sq m/annum	285	7.6	3.6	-5.0	3/6/9	1/yr secured
Bulgaria	Sofia	€ 14.50/sq m/month	174	-1.7	-14.7	-20.6	3 - 5	1 – 3
Croatia	Zagreb	€ 16.50/sq m/month	198	-1.2	-2.9	-5.7	5	3
Czech Republic	Prague	€ 21.00/sq m/month	252	0.0	-4.6	-8.7	5	1 – 5
Denmark	Copenhagen	DKR 1,675/sq m/annum	225	0.0	-4.3	-9.5	3 - 6 or 5 - 10	0
Finland	Helsinki	€ 318.00/sq m/annum	318	0.0	-6.5	-11.7	3 – 5	0
France	Lyon	€ 230.00/sq m/annum	230	-6.5	-8.0	-8.0	3/6/9	4.5 - 9
France	Marseille	€ 250.00/sq m/month	250	0.0	0.0	-16.7	3/6/9	3 – 6
France	Paris	€ 770.00/sq m/annum	770	2.7	2.7	-9.4	3/6/9	4 – 12
Germany	Berlin	€ 20.00/sq m/month	240	0.0	0.0	-11.1	5 + 5	6 – 12
Germany	Frankfurt	€ 38.00/sq m/month	456	0.0	0.0	-2.6	5	6 – 9
Germany	Hamburg	€ 23.00/sq m/month	276	0.0	-4.2	-4.2	5 + 5	5 – 6
Germany	Munich	€ 29.50/sq m/month	354	0.0	-4.8	-6.3	5 + 5	6 – 9
Greece	Athens	€ 33.00/sq m/month	396	0.0	3.1	3.1	12 + 4	1
Hungary	Budapest	€ 20.00/sq m/month	240	0.0	0.0	-11.1	3 – 5	6 – 8
Ireland	Dublin	€ 376.00/sq m/annum	376	0.0	-22.5	-44.1	10	21
Israel	Tel Aviv	\$22.00/sq m/month	221	2.3	0.0	-37.1	3 – 5	0
Italy	Milan	€ 520.00/sq m/annum	520	0.0	-1.9	-5.5	6 + 6	6
Italy	Rome	€ 420.00/sq m/annum	420	0.0	-2.3	-4.5	6 + 6	6
Luxembourg	Luxembourg City	€ 40.00/sq m/month	480	0.0	0.0	0.0	3/6/9	1/yr secured
Netherlands	Amsterdam	€ 330.00/sq m/annum	330	0.0	0.0	-2.9	5 + 5	12-24
Norway	Oslo	NKR3,200/sq m/annum	402	6.7	6.7	-28.9	3 – 5	0 – 6
Poland	Warsaw	€ 23.00/sq m/month	276	0.0	-4.2	-34.3	5	3-12
Portugal	Lisbon	€ 19.50/sq m/month	234	0.0	-2.5	-4.9	5	3 – 6
Romania	Bucharest	€ 19.50/sq m/month	234	0.0	-2.5	-11.4	3 - 5	4
Russia	Moscow	US\$ 850.00/sq m/annum	715	2.9	-12.5	-48.6	3 - 5	0 - 6
Russia	Sr Petersburg	US\$ 800.00/sq m/annum	654	0.0	6.67	-41.9	3	0 – 2
Serbia	Belgrade	€ 15.00/sq m/month	180	0.0	6.2	-28.6	5	3
Slovak Republic	Bratislava	€ 17.00/sq m/month	204	0.0	0.0	-5.6	5	3 - 8
Spain	Barcelona	€ 240.00/sq m/annum	240	-2.4	-11.1	-28.6	3 + 2	4
Spain	Madrid	€ 336.00/sq m/annum	336	-3.5	-11.1	-30.9	3 + 2	3
Sweden	Stockholm	SEK 4,100/sq m/annum	431	2.5	1.2	-6.8	3 – 5	3 – 6
Switzerland	Geneva	SFR 850.00/sq m/annum	645	0.0	3.7	0.0	5	3
Switzerland	Zurich	SFR 850.00/sq m/annum	645	0.0	-5.6	-10.5	5	1 - 3
Turkey	Istanbul	US\$ 40.00/sq m/month	355	0.0	0.0	-11.1	3 – 5	1
UAE	Dubai - DIFC	AED 34.37/sq m/annum	886	-7.5	-17.8	-32.7	3	2
UK	Birmingham	£ 27.00/sq ft/annum	355	0.0	-3.6	-16.9	10	36- 48
UK	Edinburgh	£ 27.50/sq ft/annum	362	0.0	-3.5	-5.2	10	36
UK	Glasgow	£ 27.00/sq ft/annum	355	0.0	-5.3	-5.3	10	36
UK	London City	£ 50.00/sq ft/annum	658	6.4	16.3	-23.1	10	24 - 27
UK	London West End	£ 85.00/sq ft/annum	1,118	0.0	6.3	-29.2	10	18-20
UK	Manchester	£ 28.50/sq ft/annum	375	0.0	0.0	0.0	10	36

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

OCCUPIER MARKET SUMMARY



Tenants in the **Amsterdam** market continue to look for cost savings on existing premises. Coupled 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 timings 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 organisations 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 negotiations of existing lease terms and some instances of tenants securing favourable

concessions. Prime rents have remained 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.

Leasing activity in terms of take up remains slow in **Rome** for the CBD and the main decentralised location (EUR). However, corporate occupier enquires are showing signs of increasing with a number of US based corporations actively seeking advice in regards to re-gearing leases or relocating.

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 occupiers' 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 leasing is still sufficient to push rents upwards. A further slight increase is expected over the remainder of the year.

There has been a sharp decline 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.

Grade A and B space in **Kiev's** CBD is most in demand as occupiers take advantage of low market rents to upgrade their office space. This is creating increased vacancy in non-central locations, particularly for Grade C space.

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**, 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 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

MARKET TALKING POINTS

Look North: Good Economic Sentiment Reflected in Stockholm and Oslo Office Markets

The Nordic markets have some of the more positive economic fundamentals in Europe, with Sweden in particular benefiting from the strong state of its public finances. With so much concern in the current market over government debt and the impact of austerity measures, these features have attracted much interest over the past few months and have boosted investment levels.

Greater clarity on the economic outlook is putting corporates in a stronger position to make business decisions. Following significant falls, Stockholm and Oslo are now starting to see rental growth on prime property as vacancy rates in central areas either approach their peak or begin to fall. This turnaround is not yet apparent in Copenhagen or Helsinki where vacancy remains high and occupiers continue to have a good choice of high quality space. The high volume of space still due onto the market in both cities is expected to suppress rental recovery, meaning that the window of opportunity for occupiers to secure space at a competitive rate will be longer in these markets.

Global Merger and Acquisition Activity on the Rise: Are you Prepared?

Global merger and acquisition (M&A) activity is on the rise - the announced agreement between Nokia Siemens Network and Motorola, and Kraft's acquisition of Cadbury's earlier in the year, are just two examples of a surge in activity in 2010. Corporate real estate departments (CREs) have a critical role to play in the M&A process. Real estate's role varies depending on deal strategy, but there are universally sound practices that we believe successful CREs follow - before, during and after M&A:

- **Preparation.** Leading organisations go beyond the thought exercise and develop readiness checklists, whether contemplating or preparing for M&A.
- **Portfolio.** Whether acquiring or the acquirer, it helps to have real estate portfolio data in top shape and in a flexible format that enables rapid analysis.
- **People.** Successful CRE teams think about people from several dimensions, assessing their skills, tools and ability to mobilise quickly.
- **Processes.** Process consistency and high performance are hallmarks of successful corporate real estate organisations. It is crucial to understand processes critical to standardise across the new organisation and what is in the best interests of the new entity.
- **Performance.** What does merger success look like and what is real estate's role? No two mergers, or CRE organisations, value or measure the same things. Defining clear targets and goals, then consistently measuring and reporting will help the new entity set priorities and achieve results.

If there is one takeaway from our experience working with dozens of large corporations during M&A it is this: success favours those who are prepared.

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