CB RICHARD ELLIS
MarketView

EMEA Office Occupier

www.cbre.eu/research
Q4 2009

Quick Stats

	Change from Q3 09	Change from Q4 08
Rent	↓	↓
Vacancy Rate	↑	↑

Hot Topics

- The market still favours occupiers as landlords are reluctant to lose tenants and risk voids. Large occupiers who represent significant parts of a landlord's portfolio are in a particularly strong position to negotiate
- The UK came out of recession in Q4 and all European economies, bar Spain, are expected to grow in 2010. Unemployment remains a widespread concern with labour markets likely to take longer to recover
- The conversion of office buildings into hotel and residential space is helping to insulate some markets against sharp rises in vacancy

OVERVIEW

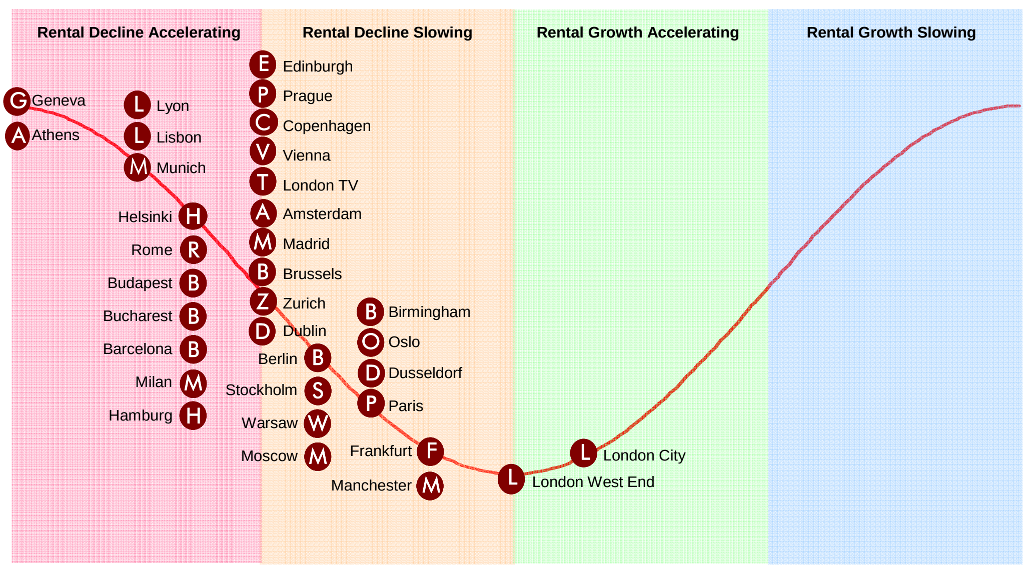
- **Uneven take-up patterns reflect tentative economic recovery**
  European leasing activity was 30% lower in 2009 compared with the previous year. However, the second half of the year was stronger than the first, and Q4 was the most active quarter of the year, strongly driven by Paris and London. London in particular is showing the clearest signs of sustainable demand growth. Elsewhere demand patterns are irregular at individual market level, reflecting the tentative nature of economic recovery. Most markets should see demand stabilise or improve slightly in 2010.

- **Consolidation remains a key motive for tenant activity**
  Cost-cutting and rationalisation, as opposed to expansion, remain the key drivers of tenant activity in a large number of markets, sometimes associated with relocation into cheaper buildings or districts. Opportunities remain to negotiate more favourable terms although, particularly in markets that are well-advanced in the cycle, these may be short-lived and therefore need to be executed soon.

- **Large strategic requirements will become harder to satisfy from existing stock**
  While vacancy levels have generally continued to rise, the availability of large, high-specification buildings in core central areas remains very limited in many markets. Completion of new development stock will slow this year and even more so next year, so those corporates looking to meet large-scale strategic building requirements will encounter more limited choice and may increasingly need to secure space on a pre-let basis.

- **Headline rents stabilising but substantial incentive packages still available**
  Rents continue to fall but the rate of decline is slowing, down to just 1% in the final quarter of last year. Landlords in many markets are still offering sizeable incentive packages in order to secure tenants. We expect more markets to shift in landlords' favour over the coming year, and the gap between headline and effective rents to narrow.

EMEA Rent Cycle, Q4 2009



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.

Source: CB Richard Ellis

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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	-5.3	-5.3	3 - 5	3 – 6
Belgium	Brussels	€ 265.00/sq m/annum	265	0.0	-3.6	-11.7	3/6/9	1/yr secured
Bulgaria	Sofia	€ 15.00/sq m/month	180	-6.3	-11.8	-17.8	3 - 5	1 – 3
Croatia	Zagreb	€ 16.80/sq m/month	202	0.0	-4.0	-4.0	5	2
Czech Republic	Prague	€ 21.00/sq m/month	252	0.0	-8.7	-8.7	5	1 – 5
Denmark	Copenhagen	DKR 1,700/sq m/annum	228	-1.4	-8.1	-8.1	3 -6 or 5 -10	0
Finland	Helsinki	€ 318.00/sq m/annum	318	-3.6	-11.7	-11.7	3 – 5	0
France	Lyon	€ 230.00/sq m/annum	230	-8.0	-8.0	-8.0	3/6/9	3 – 6
France	Marseille	€ 250.00/sq m/month	250	0.0	0.0	-16.7	3/6/9	6 – 9
France	Paris	€ 720.00/sq m/annum	720	-4.0	-10.0	-15.3	3/6/9	6 – 12
Germany	Berlin	€ 20.00/sq m/month	240	0.0	-9.1	-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	-2.1	-4.2	-4.2	5 + 5	5 – 6
Germany	Munich	€30.00/sq m/month	360	-3.2	-4.8	-4.8	5 + 5	6 – 9
Greece	Athens	€33.00/sq m/month	396	3.1	3.1	3.1	12 + 4	1
Hungary	Budapest	€20.00/sq m/month	240	0.0	-11.1	-11.1	3 – 5	6 –8
Ireland	Dublin	€ 376.00/sq m/annum	376	-12.6	-39.6	-44.1	10	21
Israel	Tel Aviv	$23.00/sq m/month	189	2.2	-8.0	-34.3	3 – 5	0
Italy	Milan	€520.00/sq m/annum	520	0.0	-5.5	-5.5	6 + 6	6
Italy	Rome	€ 420.00/sq m/annum	420	0.0	-4.5	-4.5	6 + 6	6
Luxembourg	Luxembourg City	€ 40.00/sq m/month	480	0.0	0.0	0.0	3/6/9	1/yr secured
Netherlands	Amsterdam	€ 330.00/sq m/annum	330	0.0	-2.9	-2.9	5 + 5	12-18
Norway	Oslo	NKR3,000/sq m/annum	362	0.0	-14.3	-33.3	3 – 5	0 – 6
Poland	Warsaw	€ 23.00/sq m/month	276	0.0	-23.3	-34.3	5	3-12
Portugal	Lisbon	€ 19.50/sq m/month	234	-2.5	-4.9	-4.9	5	3 – 6
Romania	Bucharest	€ 19.50/sq m/month	234	-2.5	-9.3	-11.4	5	2.5
Russia	Moscow	US$ 850.00/sq m/annum	594	-5.6	-43.3	-50.0	3 - 5	0 - 6
Russia	St Petersburg	US$ 750.00/sq m/annum	524	0.0	-38.5	-43.4	3	0 – 2
Serbia	Belgrade	€ 15.00/sq m/month	180	-6.3	-14.3	-28.6	5	3
Slovak Republic	Bratislava	€17.00/sq m/month	204	0.0	-5.6	-5.6	5	3 - 8
Spain	Barcelona	€ 252.00/sq m/annum	252	-2.3	-16.0	-25.0	5	4
Spain	Madrid	€ 354.00/sq m/annum	354	0.0	-24.4	-27.2	3 - 5	3
Sweden	Stockholm	SEK 4,000/sq m/annum	391	0.0	-4.8	-9.1	3 – 5	3 – 6
Switzerland	Geneva	SFR 850.00/sq m/annum	573	0.0	3.7	0.0	5	3
Switzerland	Zurich	SFR 850.00/sq m/annum	573	-4.5	-8.6	-10.5	5	1 - 3
Turkey	Istanbul	US$ 40.00/sq m/month	335	0.0	-11.1	-11.1	3 – 5	1
UAE	Dubai - DIFC	AED 37.16/sq m/annum	819	0.0	-27.3	-27.3	3	2
UK	Birmingham	£ 27.00/sq ft/annum	328	0.0	-10.0	-16.9	10	24- 36
UK	Edinburgh	£ 28.00/sq ft/annum	340	0.0	-3.4	-3.4	10	36
UK	Glasgow	£ 27.00/sq ft/annum	328	-5.3	-5.3	-5.3	10	36
UK	London City	£ 43.50/sq ft/annum	529	3.6	-18.7	-33.1	10	30 - 33
UK	London West End	£ 80.00/sq ft/annum	972	0.0	-17.9	-33.3	10	21
UK	Manchester	£ 28.50/sq ft/annum	346	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

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OCCUPIER MARKET SUMMARY

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 noticeably.

Leasing activity in **Brussels** rose sharply in Q4. Take-up is still being largely driven by companies' consolidation and rationalisation efforts. Although this is increasingly oriented towards better quality space, it has yet to produce any growth in rents.

The **Dublin** market continues to be driven mainly by small deals under 5,000 sq ft. Reinsurance and life sciences are particularly active sectors. With the focus remaining on cost, a number of tenants are taking the opportunity to restructure leases and reduce their cost base for 2010.

Take-up was very weak in **Frankfurt** in the final quarter of the year with the focus mainly on transactions of small to medium-size deals. There are no speculative schemes due onto the market in 2010 which is expected to stabilise rents.

A two-tier market is developing in **London** as there is a shortage of space over 100,000 sq ft which is putting pressure on rents for large units. In contrast, there is still an ample choice of smaller units of space (0-25,000 sq ft) and competitive rents and significant rent-free periods are still available. A severe lack of new Grade A space in some localities has resulted in above-prime rents being paid in some deals and some firms have been forced to look outside their traditional preferred locations.

Despite a stronger quarter in take-up terms, the **Madrid** market continues to be affected by economic weakness. A high proportion of transactions in the CBD stem from tenant renegotiations on existing space, and new acquisitions are rare. Prime rents remained stable but could yet move lower.

The decentralised markets in **Milan** remain attractive to a range of occupiers, as they offer good quality freestanding buildings or business parks at lower rents than in the historic centre. While rents are static and some downsizing is still occurring, new requirements exist across a range of size brackets.

Weak demand in **Paris** continues to push vacancy rates up. The outer markets are worst affected, partly because a more rapid price-adjustment in the central area has helped to support transaction levels. Take-up is expected to stabilise this year which should ease the downward pressure on rents.

Take-up in the **Vienna** CBD was quite stable, but in the historic core take-up slowed as large corporate and public/semi-public occupiers, such as Schenker, relocated to new projects in other submarkets. We believe that this trend will continue during 2010. The number of speculative schemes due to be delivered in 2010 will force landlords to offer good incentives and is expected to motivate other large occupiers to consider relocating to other submarkets.

Having seen a very quiet first half last year, **Zurich** take-up rose in the final quarter. The main sources of demand are banking, energy, IT and healthcare. Some of the demand is for units over 1,500 sq m driven by companies relocating from abroad for tax reasons.

Rental levels in central **Stockholm** have not fallen as much as most people were expecting a year ago and this may have come as a surprise to tenants who were expecting to take advantage of lower rents. The main reason behind this is an increase in take-up and a considerable amount of office space being converted to hotels.

Increasing office vacancy rates in **Helsinki** continue to create downward rental pressure and the variation in rents between submarkets is increasing. Smaller units are also more in demand due to increased awareness of space efficiency issues and reductions in headcount.

Occupiers in **Copenhagen** continue to look closely at the market for new ways to reduce costs. It is noticeable that the public sector is relocating or expanding into large, older buildings of secondary quality. By contrast many private companies are moving to smaller (often new) offices to secure better quality, more efficient space at lower rents.

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

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Despite weaker demand, the lack of new supply and quality product continues to be the main problem in the **Athens** office market. For example, some large financial institutions are seeking to consolidate in single locations but there are few options available. Most occupiers are viewing 2010 cautiously as a result of macro-economic pressures.

Occupiers in **Budapest** continue to have the upper hand in real estate negotiations: vacancy has been rising in most submarkets, demand remains fragile and there is a continuing need for landlords to be flexible. Rents remain under downward pressure.

Demand in **Kiev** is being driven by upgrades rather than expansion. Due to a severe undersupply of quality space prior to the crisis, many occupiers have started to take advantage of significantly lower rents to relocate and improve their offices. Even newly-delivered shell and core buildings (which in theory should be hard to let under present market conditions) are finding tenants. Dramatic cost-cutting exercises in the financial and insurance sectors led to a 70% fall in the amount of space leased by these sectors compared with a year ago.

Take-up remains relatively healthy in **Moscow**, with demand emerging in all size ranges. Nevertheless cost reduction remains a key driver of activity across all business sectors. As a result rents moved lower and tenants are demanding a higher level of landlord fit-out.

In Q4 2009 renegotiations made up 39% of total leasing activity in **Prague**. The slowdown in take-up pushed overall vacancy rates up by over three percentage points last year to 12%. However, locations with good public transport such as Smichov-Andel and Pankrac-Budejovicka and the city centre remain more in demand and there is noticeably less stock on offer.

Letting activity in **Warsaw** has increased, although it remains low by historic standards, and around a quarter of activity in the third quarter was lease renegotiations. Prime rents are expected to stabilise soon and demand is expected to recover as there are signs of large enquiries coming into the market.

Approximately 390,000 sq m of new internationally recognisable Grade A office accommodation will be delivered to the **Abu Dhabi** market during 2011. Although this huge amount of space will be delivered in a relatively short time period, it is expected that take-up will be strong as international tenants move from poor quality accommodation within the market, and new entrants seek high quality offices in the capital.

Leasing activity in **Casablanca** in 2009 has reduced and the average unit size has also fallen due to occupiers' inability to finance expansion. Occupiers are also more interested in finished products rather than shell and core products. The outsourcing and offshore sectors were dominant during the year due to governmental incentives for newly adapted office suites.

Q4 2009 witnessed a surge in occupier interest and activity as office market conditions in **Dubai** moved in tenants' favour, with landlords increasingly willing to offer incentives in the form of longer rent-free periods alongside lower face rents. The difference between rents in older buildings and newer, higher quality buildings continued to narrow, forcing landlords in non-prime locations to reduce their rents more aggressively.

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Smaller and less financial: occupier patterns respond to recession

Corporate property needs are, in many cases, being driven by a reduction in headcount and budget cuts. This has resulted in some distinct changes in the pattern of demand during the course of 2009. The average unit-size being leased fell across office markets in Europe as occupiers attempted to save costs and utilize space more efficiently. There is widespread evidence of this in Paris, Moscow and Munich, but also in smaller, less developed markets such as Kiev, Casablanca and Bahrain. At the same time, however, larger companies which are actively managing their property requirements and consolidating office space are driving sporadic demand for large units. This was apparent in Brussels, Vienna and Athens in the final quarter of the year.

There has also been a notable shift towards a more balanced pattern of take-up by sector. The financial services sector typically accounts for a large share of activity in Western Europe, but this was hardest hit by the global crisis. In most cases it remains the dominant sector but a greater share of take-up is now attributable to a range of sectors, including pharmaceuticals, FMCG and IT. In general these sectors have not experienced significant staff reductions and it is also notable that mergers and acquisitions in the high-tech sector, as seen in Munich, are contributing to an increased proportion of activity.

…And legal practices are changing the way they occupy space

Major legal practices are changing the way in which they occupy office space. Historically viewed as having a very "traditional" approach to office layouts, with a high proportion of cellular offices, many practices are introducing more modern, open-plan environments. Whilst this does deliver some cost savings, it also requires investment in new systems and processes. The principal benefits are seen as being improved communications and efficiency, increased staff satisfaction, and a better alignment of the working environment with the culture and values that leading firms are trying to promote within their organizations. It is important to recognise that the drive towards open plan working environments has not been about space reduction.

Changes are typically more successfully implemented when the opportunity arises to move to new premises, with strong leadership and a clear corporate vision. Where these factors are absent, and if management has no real mandate for change, a new office environment is unlikely to achieve its objectives. There is now plentiful evidence that new working environments are not hindering staff retention or attraction, and that senior fee earners have not left their companies in droves but have stayed to be part of progressive and innovative firms who value their staff and the diversity of the generations they employ. It will be interesting to see whether, over time, these "new" environments become the norm rather than the exception in what is still one of the more traditional sectors of the business community.

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