EMEA Office Occupier

Quick Stats

	Change from	
	Q2 11	Q3 10
Rent	→	↑
Occupier choice	↑	↓

Hot Topics

- Signs of occupier confidence waning amid the heightened economic downside risks and weaker growth outlook
- Shortage of large, modern accommodation starting to emerge as completions levels fall to record lows
- Slowing or flattening rental growth signalling end of cycle in many cities?

Market Talking Points

- Companies go sustainable: issues and recommendations
- Supply-side changes challenge execution of occupier strategies

OVERVIEW

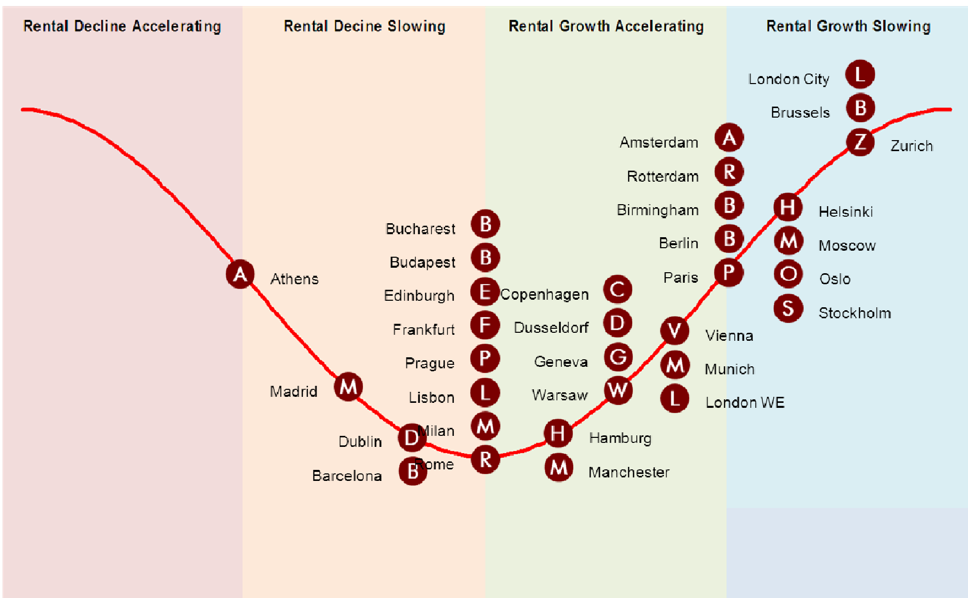
- **Leasing levels stable, but widespread signs of occupier sentiment weakening**
  Aggregate take-up across the European office markets was essentially stable in the third quarter, both on a quarterly and annual basis. Demand patterns remain uneven however, with falls in a number of markets like Frankfurt and Milan counterbalanced by notable upturns in Paris and London. Many occupiers are responding to the growing economic uncertainty by putting on hold major decisions, or rolling over existing leases when lease expiry approaches.

- **Vacancy ticked up again**
  After having declined for two consecutive quarters, the CBRE EU-27 Vacancy Rate Index rose marginally (+5 bps) from 10.20% to 10.25% in Q3. Supply levels grew in London for the first time in two years and Frankfurt and Madrid also recorded increases. Many companies are opting for modern and more functional buildings when relocating, which means that much of the newly-vacant space is of poor quality.

- **Limited volume of completions to restrict occupier choice of high-quality buildings**
  Most markets are seeing little new space coming through at this point of the development cycle, and total completions will be very subdued this year as a result. With few exceptions, recent data also show that the development picture will not change much in 2012 and 2013. As a result, occupier choice of high-quality buildings is expected to become increasingly scarce, especially in core office districts. In some instances, this has begun to spark growing interest for alternative office locations.

- **Rental growth has flattened out in Europe**
  As in the previous quarter, most European markets saw no change in prime rents over the third quarter. The CBRE EU-27 Office Rent Index rose by just 0.1% as a result. Moscow was one of the few markets to buck the trend and saw prime rents rise by 9.5% over the quarter. Even if the economic recovery halts, conditions at the prime-end of the market are expected to become increasingly landlord-favourable in some cities given the growing shortage of new supply. For inferior quality space space, landlords are generally still prepared to offer highly competitive terms, and this is unlikely to change any time soon.

EMEA Rental Cycle, Q3 2011



CBRE

KEY INDICATORS

Country	City	Prime Office Rent Local	€ / sq m/ annum	Last 3 Months (%)	Last 12 Months (%)	Typical lease length (yrs)	Rent Free Period (months)
Austria	Vienna	€23.75/sqm/month	285.00	1.06	5.56	5	3-6
Belgium	Brussels	€285.00/sqm/annum	285.00	0.00	0.00	3/6/9	1 year secured
Bulgaria	Sofia	€13.50/sqm/month	162.00	-3.57	-5.26	3-5	1-3
Croatia	Zagreb	€15.90/sqm/month	190.80	0.00	-2.15	3-5	3
Czech Republic	Prague	€21.00/sqm/month	252.00	0.00	0.00	5	1 to 5
Denmark	Copenhagen	DKK1725.00/sqm/annum	231.82	1.47	2.99	3-5 (tenant) /5-10 (landlord)	0
Finland	Helsinki	€366.00/sqm/annum	366.00	0.83	12.27	3-5	None
France	Lyon	€280.00/sqm/annum	280.00	0.00	21.74	3/6/9	4.5-6
France	Marseille	€250.00/sqm/annum	250.00	0.00	0.00	3/6/9	3-6
France	Paris	€830.00/sqm/annum	830.00	0.00	7.79	3/6/9	4.5-12
Germany	Berlin	€22.00/sqm/month	264.00	0.00	4.76	5+5	3-6
Germany	Frankfurt	€38.00/sqm/month	456.00	0.00	0.00	5	6-9
Germany	Hamburg	€23.00/sqm/month	276.00	2.22	2.22	5+5	5-6
Germany	Munich	€30.00/sqm/month	360.00	0.00	1.69	5+5	6-9
Hungary	Budapest	€20.00/sqm/month	240.00	0.00	0.00	3-5	6-8
Ireland	Dublin	€323.00/sqm/annum	323.00	0.00	-14.10	10	24
Israel	Tel Aviv	$32.00/sqm/month	286.23	0.00	18.52	3-5	0
Italy	Milan	€520.00/sqm/annum	520.00	0.00	0.00	6+6	8-9
Italy	Rome	€420.00/sqm/annum	420.00	0.00	0.00	6+6	6
Luxembourg	Luxembourg City	€40.00/sqm/month	480.00	0.00	0.00	3/6/9	1.5
Netherlands	Amsterdam	€338.00/sqm/annum	338.00	0.90	2.42	5+5	12-36
Norway	Oslo	NOK3500.00/sqm/annum	444.31	0.00	9.38	3-5	0-6
Poland	Warsaw	€26.00/sqm/month	312.00	0.00	4.00	5	5-6
Portugal	Lisbon	€18.50/sqm/month	222.00	0.00	-2.63	5	6-9
Romania	Bucharest	€19.50/sqm/month	234.00	0.00	0.00	3-5	3-5
Russia	Moscow	$1150.00/sqm/annum	857.19	9.52	31.43	3-5	0-3
Russia	St Petersburg	$800.00/sqm/annum	596.30	0.00	0.00	3	0-2
Serbia	Belgrade	€14.70/sqm/month	176.40	-0.34	-2.00	5	3
Slovak Republic	Bratislava	€17.00/sqm/month	204.00	0.00	0.00	5	3-8
Spain	Barcelona	€225.00/sqm/annum	225.00	-1.32	-5.06	3+2	4
Spain	Madrid	€312.00/sqm/annum	312.00	0.00	-5.45	3+2	3
Sweden	Stockholm	SEK4400.00/sqm/annum	477.47	0.00	4.76	3 or 5	3-6
Switzerland	Geneva	CHF900.00/sqm/annum	738.59	0.00	5.88	5	3
Switzerland	Zurich	CHF900.00/sqm/annum	738.59	0.00	5.88	5	1-3
Turkey	Istanbul	$43.00/sqm/month	384.62	0.00	7.50	3-5	1-2
UAE	Dubai	AED280.00/sqft/annum	611.61	0.00	-6.67	3	2
UK	Birmingham	£28.50/sqft/annum	356.18	0.00	3.64	10y with 5 y break	36-42 if 10y, 24 mo. if 5y break
UK	Edinburgh	£27.50/sqft/annum	343.68	0.00	0.00	10	33
UK	Glasgow	£27.00/sqft/annum	337.43	0.00	0.00	10	24-27
UK	London City	£55.00/sqft/annum	687.36	0.00	4.76	10	21-24
UK	London West End	£92.50/sqft/annum	1156.02	0.00	8.82	10	16-18

MARKET SUMMARIES

Many tenants in **Amsterdam** are looking to re-gear contracts by handing back surplus space in return for a longer commitment. This often provides a wider opportunity to renegotiate terms to achieve savings. Demand is stronger for core office areas and vacancy there is tightening faster as a result. Prime rents moved ahead slightly to €338/sq m/annum.

The **Brussels** office market was boosted by a large letting completed by the European Commission in the Leopold area but many corporate occupiers are instead opting to stay put and renegotiate their leases in the current uncertain economic climate. The large deal helped push the overall availability down by roughly 50 bps to 11.5%. Prime rents remained stable.

The **Dublin** office market continued to record healthy levels of occupier demand in Q3, with take up ahead 27% q-o-q. Similar to previous quarters, activity was driven by IT and computing companies and was mainly focussed on central locations. The vacancy rate has continued its downward trend, but at 22.5%, remains high. Prime rent was stable at €323/sq m/annum and with virtually no space currently under construction, it is unlikely to slip further from this level.

Frankfurt take-up in the third quarter was over 40% lower than the previous quarter but also weakened on annual basis. In this context, the vacancy rate edged up again to 17.8% after having temporarily decreased in Q2. Although the aggregate vacancy remains high, the lack of relocation options in core locations is starting to generate growing occupier interest in less central areas providing for a wider choice of space. Prime rents are unchanged at €38.00 /sq m/month.

London saw its strongest quarter in terms of take-up since the beginning of the year, with virtually all submarkets recording an increase in overall transaction levels on the previous quarter. Vacancy levels however rose slightly for the first time in two years to 5.2% from 4.9%. Rental growth remained flat with City and West End prime rents unchanged at £55.00/sq ft/annum and £92.50/sq ft/annum respectively.

Leasing activity weakened in **Milan** during the third quarter of the year. The low levels of take-up, combined with the flow of space released by occupiers back onto the market, have pushed the total vacancy rate up close to 10% despite the absence of new completions. Prime rents are unchanged at €520/sq m/annum.

Madrid recorded relatively robust levels of activity this quarter despite the summer lull. Many occupiers are taking advantage of relatively cheaper CBD rents to move from the suburbs to more central locations. The vacancy rate rose further, surpassing 13% in spite of the limited volume of new completions. Prime rents stayed stable and, at €312/sq m/annum, appear to have reached their bottom.

Quarterly take-up in **Paris** was boosted by two large deals completed by Carrefour and SFR in Paris suburbs. Meanwhile, the total vacancy rate has continued to drift downwards to 6.6%, reflecting the current low volumes of speculative completions. While the growing shortage of high-quality space continues to underpin rents in central locations, some downward pressure has been noted across outer office districts.

Despite weaker occupier activity in Q3 in **Rome**, year-to-date up is running well above the corresponding 2010 levels. The Computer & Hi-Tech sector was the main contributor to quarterly take-up. Meanwhile, the local public sector has announced plans to rationalise its space needs which could ultimately result in some central offices being vacated.

In the third quarter, take-up in **Vienna** rose by 33 % to approximately 80,000 sq m, of which notably 60% was accounted for by deals larger than 1,000 sq m. Prime rents ticked up marginally while the vacancy rate stabilised at around 5.8%. However, supply levels could increase soon given the considerable amount of space currently under construction.

The **Zurich** leasing market continues to be dominated by space consolidation and replacement activity. Take-up rose during the quarter, but the increase was insufficient to offset the impact of new stock additions on the availability rate that edged up slightly to 4%.

The **Copenhagen** office market has lost some of the strong momentum seen in H1, with indicators pointing towards a slowdown in leasing activity in Q3. Much of current demand continues to come from occupiers relocating to more efficient and modern offices. Prime rents increased marginally over the quarter but there are risks that rental growth may stall in the current economic climate. For the same reasons, downward pressure has started to resurface across secondary locations.

Leasing activity strengthened in **Helsinki**, driven by continuing occupiers' upgrading. Interestingly, the size of requirements appears to have increased, reflecting companies' desire to consolidate their offices in one single larger building for cost-saving purposes.

Supply declined further to 11.7%, but is likely to increase given the sizeable development pipeline. This will further weaken leasing prospects for non-prime buildings.

Prime rents in **Oslo** were stable over the quarter but some further moderate rental growth is anticipated towards the end of the year. Vacancy was also broadly stable at around 6.5%, but the expected pick-up in completions next year will cause a sharp increase in supply levels.

Supply of good, well-located buildings in **Stockholm** is limited and should remain so until development activity resumes on a more significant scale. Prime rents have levelled off this quarter after having increased by nearly 5% over the last 12 months.

Bucharest saw take-up slowing during Q3. Activity was driven by the IT&C sector and was mainly concentrated in the CBD and North-Pipera areas. On the supply side, vacancy has continued shrinking, albeit modestly, to 16% and is expected to fall further due to the reduced development pipeline. Prime rents remained stable.

Supply growth has significantly slowed in **Budapest** throughout 2011, reflecting the halt in speculative construction. Despite strong take-up in Q3, the overall vacancy rate increased marginally and remains high at above 20%. Rental values are unchanged on previous quarters.

The vacancy rate in **Moscow** dropped further to 12.50% from 13.50% and has fallen by over 4% since the beginning of the year. Leasing activity was particularly strong in semi-central office districts, while there is still little demand for offices in the most peripheral locations. The lack of supply of good quality space in central districts continues to support rental growth, with prime rents having increased for the fourth consecutive quarter to $1,150/sqm/annum (+9.5% q-o-q).

Leasing activity in **Prague** eased in the third quarter, reflecting the dearth of large deals. Despite this, the vacancy rate has edged down slightly to 11.8% but could increase again by the end of the year following the expected delivery of some new schemes. Prime lease rates are stable.

Leasing activity stabilised in **Warsaw** this quarter and was mainly localised in the City Centre as well as South West and Upper South districts. The influx of new supply caused the vacancy rate to increase to around 6.7%, interrupting a sequence of four consecutive quarters of vacancy decline. Prime rents were static but continuing demand-side pressure should produce some further rental growth in the quarters to come.

Many occupiers in **Almaty** have put on hold real estate decisions until the end of the year in the face of the growing economic uncertainty. Activity in Q3 continued to be dominated by small deals and vacancy was roughly stable, as were rental values.

In **Abu Dhabi,** the rising vacancy rate keeps rents firmly under pressure, albeit the rate of rental decline seems to have slowed recently. Many occupiers are considering deferring relocation decisions to 2012, when a considerable amount of new supply will become available. This will increase competition among landlords to secure new tenants, potentially intensifying pressure on rental levels.

Occupier activity was relatively buoyant in **Dubai** and Q3 was marked by a significant upturn in lease enquiries. Much of current demand comes from existing companies either looking to expand their activities or from occupiers located in older areas of the city seeking to move back to more central areas. The Dubai International Financial Centre and 'TECOM' freezones were particularly in demand this quarter, resulting in a sharp reduction in local vacancy rates.

MARKET TALKING POINTS

Companies go sustainable: issues and recommendations

There has been a view that sustainability has dropped somewhat in the corporate agenda in the current economic climate. Although a recent survey carried out by CBRE indicates this is not the case, many companies still struggle to combine profitability with sustainability. Budgetary constraints are not the only reason. Other reasons include, a lack of a clear regulatory framework, appropriate incentives, and discrepancies in international standards. Corporate occupiers equally stress that measures that may work for one company, may not for others, reflecting variations in the usage of property portfolio and building specifications across different sectors. At the same time, many acknowledge that the difficulties in collating real estate data consistently across their portfolio make it difficult to properly asses the benefits of sustainability initiatives and act accordingly. The net result is that the property industry's approach to sustainability too often appears fragmented or inconsistent.

Evidence suggests that changes are typically more successful when sustainability initiatives are fully embedded at all levels of the business and more closely tied to companies' objectives and workplace strategies. Linking policies to precise targets and, promoting and incentivising best practices internally, are important steps towards a higher level of engagement. At the same time, there is a consensus that there is a pressing need to develop more appropriate energy consumption benchmarks through enhanced data collation processes and dissemination of results. In an occupiers' view, a stronger collaboration with landlords is also relevant to the achievement of sustainability targets, ideally through the set-up of ad-hoc working groups involving both landlords and tenants. A key role can be also played by intermediaries which, given their exposure to occupier issues, are uniquely placed to drive changes in the corporate sustainability agenda.

Supply-side changes challenge execution of occupier strategies

Supply levels have peaked and begun to decline across Europe, reflecting the current limited volume of new construction. This process is not uniform, reflecting local variations in individual pipeline and occupier market fundamentals, but generally conditions are in place for supply to decline further in many cities. Not only is the level and degree of occupier choice changing, but also its quality. With fewer new buildings entering the market, supply of modern accommodation is gradually drying up, especially in core central districts where rental costs often remain relatively affordable compared to the pre-crisis period. Shortages of high-quality, well located buildings have emerged in Paris, but also in cities such as Frankfurt and Moscow that feature higher overall vacancy rates. In Frankfurt, limited occupier choice at the prime end of the market is starting to generate growing interest for alternative and more decentralised locations. For those occupiers with tighter location-criteria and able to forward-plan their requirements, pre-lets could represent another viable option.

Conversely, supply of second-hand space is expanding in many cities, as corporates look to move to more functional and cost-effective buildings and release poorer quality space. This change is particularly apparent, for instance, in Milan, where vacant grade B-C space has increased by over 13% since the turn of the year. Generally, this is likely to result in lower landlords rental expectations and generous incentives packages being offered during negotiations.

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