

Quick Stats

	Change from	
	Q3 09	Q4 08
Rent	↓	↓
Yield	↓	↓

Hot Topics

- Cost reduction and rationalisation remain key drivers for tenants. Expect further quarters of erratic demand patterns as the cycle turns
- Stabilisation in headline rents supported by still-substantial incentive packages
- Development levels will decline this year and, even more markedly, next year which will revive pre-letting activity in some markets

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. Demand patterns were irregular across individual markets, reflecting tentative economic recovery and the heightened impact of the precise timings of large lettings. Most markets should see demand stabilise or improve slightly in 2010.

• Changes of use helping to insulate markets against sharp rises in vacancy

Aggregate vacancy continues to rise but in many markets the rate of increase is slowing. Some markets, including London and Milan, are even seeing vacancy rates start to fall again. Low levels of demand have also prompted office conversions to hotel or residential use in some markets. Vacancy rates in the major cities typically ended 2009 one or two percentage points above their end-2008 levels.

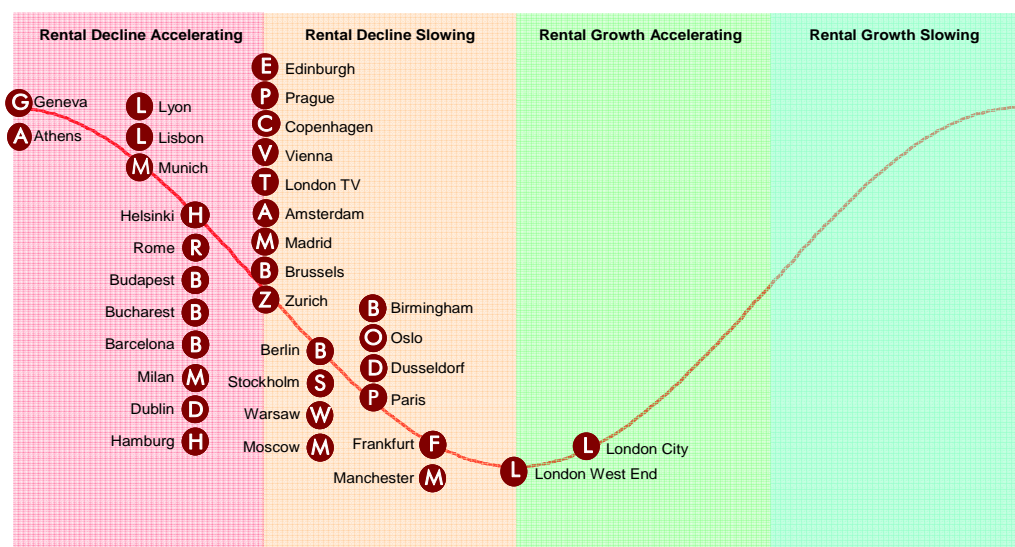
• Development levels falling sharply due to lack of development finance since 2008

The general outlook is for significantly reduced development in 2010 and particularly 2011. Development cycles in many markets peaked in 2009 while others, including Madrid, Milan and Frankfurt, are expected to peak this year. The extent to which this outlook affects market balances depends on the strength of demand recovery, but several markets now look poorly placed to accommodate any demand surges in the next two years without pushing up rents.

• Smaller rental falls in the final quarter, and indications that headline rents are starting to level

Rents continue to fall, but the rate of decline is slowing. The CB Richard Ellis EU-27 office rent index moved down just 1% this quarter, taking the annual change to -9.2%. The rental pattern is very uneven across individual markets. London City rose by 3.5% this quarter while other markets which responded early in the cycle are showing signs of stabilisation. By contrast, some major markets continue to decline including Paris, Moscow, Barcelona and Dublin.

EMEA Rental 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.

OFFICE RENTS

In overall terms, office rents continue to trend downwards, although the pace of decline is easing. The CB Richard Ellis EU-27 index of prime office rents fell by around 1% in Q4 2009, leaving the year-on-year rate of change at -9.2% compared with -11.2% in Q3 2009.

At individual market level, the pattern is uneven with many markets continuing to decline, while others that are further advanced in the rent cycle are seeing headline rents stabilize. Perhaps the most significant shift in the fourth quarter was the rebound in the City of London where rents improved by 3.5%, having fallen in the previous quarter. Among the other major European markets, further falls were recorded in Paris, Munich, Dublin, Moscow, Barcelona and Zurich. In most cases these adjustments were relatively small, although Dublin stands out as still being subject to sharp rental decline.

While there are broader indications of headline rents starting to level out, landlords in many markets are still having to offer sizeable incentive packages in order to secure tenants. This is likely to be a short-lived phenomenon in markets where conditions are shifting more in landlords' favour, such as London, but for the time being differences between headline and net effective rents remain large.

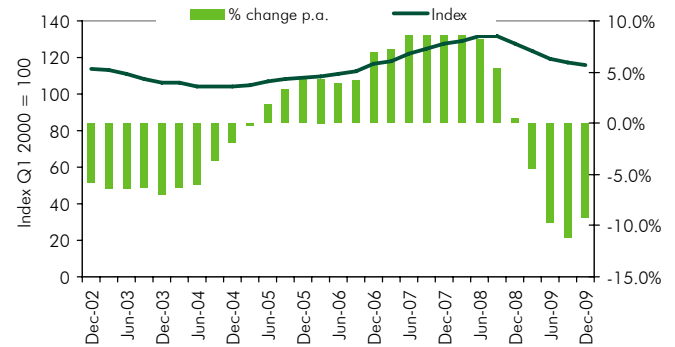
OFFICE TAKE-UP

Generally the second half of 2009 was stronger in take-up terms than the first half. The fourth quarter was the most active of the year, with the major markets of Paris and London seeing big increases. However, in annual terms aggregate leasing levels were still around 30% down on 2008.

At individual market level, take-up patterns in the major cities are somewhat erratic at present, reflecting the tentative economic recovery and the heightened impact of the precise timing of large lettings. In some markets that saw improved leasing activity in the final quarter, such as Madrid, this often resulted from one-off factors. These include a desire to complete before the year-end, corporate rationalisation aimed at cutting costs, or small and medium-sized firms moving to take advantage of recent rental falls.

London is perhaps the only major market in which a clear acceleration in take-up this year looks in prospect. Elsewhere, take-up is expected to stabilise or see modest improvement. Initially this will be underpinned by high levels of "churn", whereby tenants rationalise or consolidate without increasing their overall space occupation. Later, clearer signs of economic recovery are likely to give rise to genuine increases in space requirements.

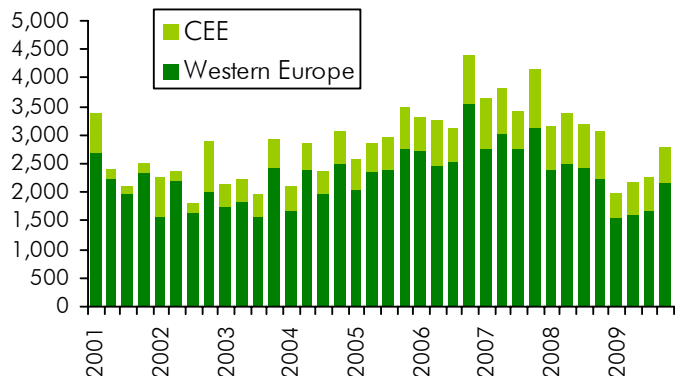
EU-27 Office Rent Index



EU-27 Office Rent Index

	Q4 2008	Q3 2009	Q4 2009
Index (Q1 2000 = 100)	128	117	116
Quarter-on-Quarter (% Change)	-3.0	-1.6	-1.0
Year-on-Year (% Change)	0.5	-11.2	-9.2

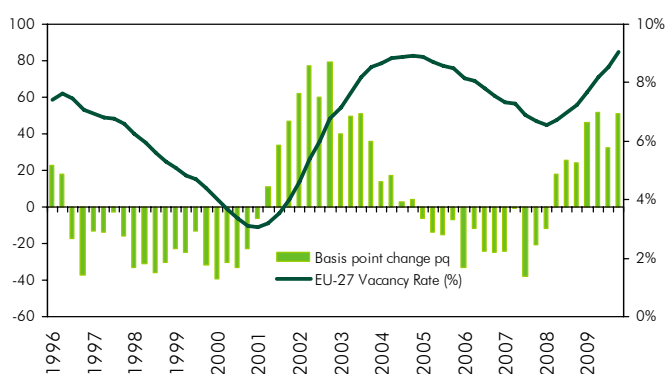
Aggregate Office Take-up ('000s sq m), 2001-09



Office Take-up ('000s sq m)

	Q4 2008	Q3 2009	Q4 2009	Q-on-Q Change	Y-on-Y Change
Brussels	107	70	258	270%	142%
London	378	250	330	32%	-13%
Dublin	33	25	20	-20%	-40%
Frankfurt	103	79	61	-22%	-40%
Madrid	84	55	150	174%	78%
Paris (Ile de France)	481	371	550	48%	14%
Moscow	467	402	375	-7%	-20%

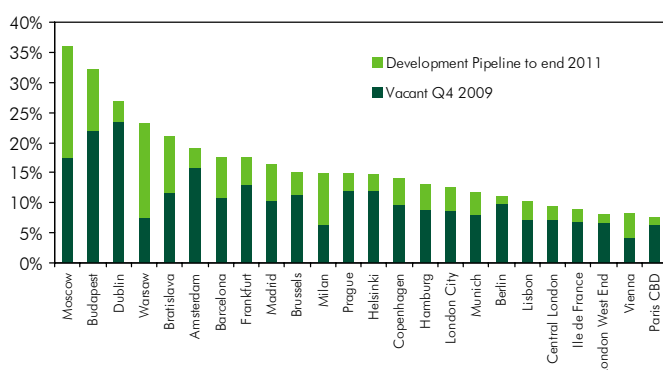
EU-27 Vacancy Rate Index



Office Vacancy Rates (%)

	Q4 2008	Q3 2009	Q4 2009
London	5.3	7.2	7.1
Paris (Ile de France)	5.2	6.4	6.8
Madrid	8.5	10.5	10.2
Barcelona	7.3	9.6	10.9
Frankfurt	12.0	12.8	12.9
Berlin	9.7	9.8	9.8
Amsterdam	15.3	16.3	15.9
Dublin	15.4	21.6	23.4
Milan	5.5	6.3	6.2

Vacant Space & Two-year Pipeline as % of Stock



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

	2010	2011
Amsterdam	160	61
London (Central)	382	87
Frankfurt	330	227
Madrid	500	212
Paris (Ile de France)	778	420
Berlin	165	58

OFFICE VACANCY

The EU-27 vacancy rate index rose to 9% in the final quarter. Most of the major markets saw further increases in vacancy, typically rising by up to half a percentage point, although Dublin and Barcelona posted larger increases, as did Budapest and Prague. In some cities - London, Milan, Madrid and Amsterdam - vacancy rates fell in Q4, and in the case of London this is the second consecutive quarterly fall. In annual terms, vacancy rates in the major cities mostly ended 2009 one to two percentage points above their end-2008 levels.

In several markets current vacancy rates remain lower than, or very close to, previous cyclical peaks recorded in the early to mid 1990s and the 2003-4 period. These include some, such as, London and Paris, where vacancy rates are now either falling or showing only moderate rises. Equally it includes others, such as Hamburg and Barcelona, where vacancy rates are still rising quite strongly and where either weak absorption levels or increasing development completions (or both) could yet push vacancy levels above previous peaks.

In some markets, such as Stockholm, the period of weak demand has produced a growing incidence of changes of use from offices to hotel or residential use. Combined with reductions in future development pipelines, this may partially insulate vacancy levels from continuing demand weakness.

OFFICE DEVELOPMENT PIPELINE

Markets differ in the profiles of their development cycles, but the general trend is for significantly reduced levels of development completions this year and particularly in 2011. There are several cities expected to see higher levels of completions this year than in 2009, including Milan, Madrid, Frankfurt, Munich and Stockholm. By contrast London and Paris, having peaked last year, have entered a period of much-reduced completions.

The almost complete lack of major new development starts since early 2008, reflecting restrictions in the availability of development finance, will produce sharper and more widespread falls in completion levels in 2011. While a few markets - mainly in CEE - are expected to see further rises in completions in 2011, most are expected to see sizeable reductions. In some of the largest markets, notably London and Paris but also including Amsterdam, Madrid and Munich completions are expected to be barely half their 2010 levels.

The extent to which this outlook affects market balances clearly depends on the strength of local demand recovery, but several markets now look poorly placed to accommodate any demand surges in the next two years without pushing up rents for large high-quality units.

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	-5.3	-5.3	5.65
Belgium	Brussels	€ 265.00/sq m/annum	265	0.0	-3.6	-11.7	6.25
Bulgaria	Sofia	€ 15.00/sq m/month	180	-6.3	-11.8	-17.8	10.00
Croatia	Zagreb	€ 16.80/sq m/month	202	0.0	-4.0	-4.0	8.50
Czech Republic	Prague	€ 21.00/sq m/month	252	0.0	-8.7	-8.7	7.00
Denmark	Copenhagen	DKR 1,700/sq m/annum	228	-1.4	-8.1	-8.1	5.50
Finland	Helsinki	€ 318.00/sq m/annum	318	-3.6	-11.7	-11.7	6.00
France	Lyon	€ 230.00/sq m/annum	230	-8.0	-8.0	-8.0	6.40
France	Marseille	€ 250.00/sq m/month	250	0.0	0.0	-16.7	7.00
France	Paris	€ 720.00/sq m/annum	720	-4.0	-10.0	-15.3	5.50
Germany	Berlin	€ 20.00/sq m/month	240	0.0	-9.1	-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	-2.1	-4.2	-4.2	5.00
Germany	Munich	€ 30.00/sq m/month	360	-3.2	-4.8	-4.8	4.90
Greece	Athens	€ 33.00/sq m/month	396	3.1	3.1	3.1	6.25
Hungary	Budapest	€ 20.00/sq m/month	240	0.0	-11.1	-11.1	8.00
Ireland	Dublin	€ 376.00/sq m/annum	376	-12.6	-39.6	-44.1	7.50
Israel	Tel Aviv	\$23.00/sq m/month	189	2.2	-8.0	-34.3	9.00
Italy	Milan	€ 520.00/sq m/annum	520	0.0	-5.5	-5.5	5.85
Italy	Rome	€ 420.00/sq m/annum	420	0.0	-4.5	-4.5	5.85
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	-2.9	-2.9	6.15
Norway	Oslo	NKR3,000/sq m/annum	362	0.0	-14.3	-33.3	6.75
Poland	Warsaw	€ 23.00/sq m/month	276	0.0	-23.3	-34.3	6.75
Portugal	Lisbon	€ 19.50/sq m/month	234	-2.5	-4.9	-4.9	7.00
Romania	Bucharest	€ 19.50/sq m/month	234	-2.5	-9.3	-11.4	9.50
Russia	Moscow	US\$ 850.00/sq m/annum	594	-5.6	-43.3	-50.0	12.00
Russia	St Petersburg	US\$ 750.00/sq m/annum	522	0.0	-38.5	-43.4	16.00
Serbia	Belgrade	€ 15.00/sq m/month	180	-6.3	-14.3	-28.6	10.00
Slovak Republic	Bratislava	€ 17.00/sq m/month	204	0.0	-5.6	-5.6	7.50
Spain	Barcelona	€ 252.00/sq m/annum	252	-2.3	-16.0	-25.0	6.25
Spain	Madrid	€ 354.00/sq m/annum	354	0.0	-24.4	-27.2	6.25
Sweden	Stockholm	SEK 4,000/sq m/annum	391	0.0	-4.8	-9.1	5.75
Switzerland	Geneva	SFR 850.00/sq m/annum	573	0.0	3.7	0.0	5.25
Switzerland	Zurich	SFR 850.00/sq m/annum	573	-4.5	-8.6	-10.5	4.75
Turkey	Istanbul	US\$ 40.00/sq m/month	335	0.0	-11.1	-11.1	8.50
UAE	Dubai - DIFC	AED 37.16/sq m/annum	819	0.0	-27.3	-27.3	8.50
UK	Birmingham	£ 27.00/sq ft/annum	328	0.0	-10.0	-16.9	5.75
UK	Edinburgh	£ 28.00/sq ft/annum	340	0.0	-3.4	-3.4	6.00
UK	Glasgow	£ 27.00/sq ft/annum	328	-5.3	-5.3	-5.3	5.85
UK	London City	£ 43.50/sq ft/annum	529	3.6	-18.7	-33.1	6.00
UK	London West End	£ 80.00/sq ft/annum	972	0.0	-17.9	-33.3	4.75
UK	Manchester	£ 28.50/sq ft/annum	346	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 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



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.

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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 continues to narrow, forcing landlords in non-prime locations to reduce their rents more aggressively.