

Quick Stats

	Change from	
	Q2 11	Q3 10
Rent	→	↑
Yield	↓	↓

Hot Topics

- The growing uncertainty stemming from the sovereign debt crisis coupled with continually weak economic data are undermining occupiers' confidence in many markets
- Rental growth has lost momentum in the current economic climate, with only Moscow recording robust growth
- Supply erosion has halted in London and the vacancy rate rose for the first time in two years

OVERVIEW

• Leasing activity stable, but widespread signs of occupier sentiment weakening

Aggregate take-up across the European office markets was roughly stable in the third quarter, both on a quarterly and annual basis. Demand patterns remain irregular however, with falls in a number of cities like Frankfurt and Milan counterbalanced by notable upturns in Paris and London. Across all markets, there is mounting evidence that occupier sentiment is deteriorating in response to the weaker economic outlook.

• Vacancy levels edge up slightly 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. This primarily reflected increases in a number of large markets such as London, Frankfurt and Madrid. Conversely, the vacancy rate has continued to trend downward in Moscow, and to a lesser extent, in Paris. Within each market, a growing proportion of vacant space is concentrated in inferior quality buildings as occupiers upgrade and release poorer quality space back onto the market.

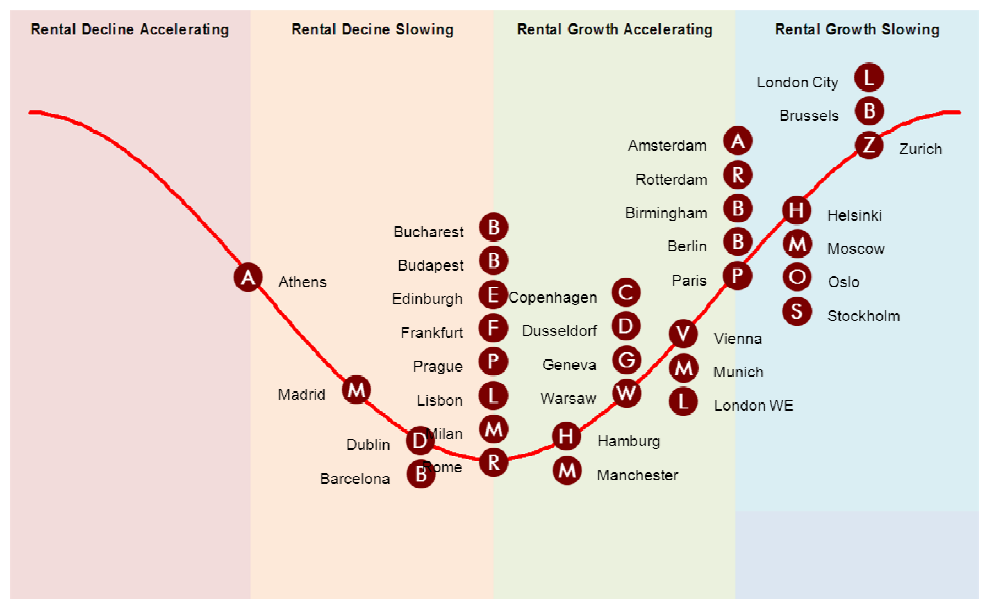
• Prime rents flat for the second consecutive quarter

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, but showed nonetheless an annual increase of 1.8%. Moscow was one of the few markets to buck the trend and saw prime rents rise by 9.5% on a quarterly basis. Despite the softer rental growth outlook, the polarisation of rents between prime and secondary buildings is expected to continue.

• Completions close to their cyclical lows and to stay subdued for a while

Most markets are seeing very low levels of new additions at this point of the development cycle, with total completions in 2011 in Western Europe expected to run close to the levels seen in the mid-90's. With few exceptions, aggregate completions are expected to remain low also through 2012. 2013 is unlikely to bring any major change, reflecting the weakness of current starts as development finance remains restricted and rental signals for development have weakened.

EMEA Rental Cycle, Q3 2011



OFFICE RENTS

As in the previous quarter, rental growth stalled across Europe over the third quarter of the year. The CBRE EU-27 Office Rent Index indeed rose by a mere 0.1% on a quarterly basis but nonetheless showed a year-on-year increase of 1.8%.

Moscow is one of the few markets which continued to see positive rental momentum. Prime rents in the Russian capital rose by a further 9.5%, marking the fourth consecutive quarter of rental increase. Copenhagen, Vienna and Hamburg also recorded increases, albeit far smaller. Elsewhere prime rents were static, and even in markets with stronger fundamentals, rental growth has flattened. In some instances, expectations of further growth have also been revised downwards, in light of the increased downside economic risks.

Even in the context of weaker rental growth, the polarisation between prime and secondary rents is expected to continue, reflecting the growing shortage of prime buildings and the abundance of second-hand space released by occupiers in some markets.

OFFICE TAKE-UP

In the third quarter, aggregate take-up across the European office markets was roughly stable compared with both the previous quarter and the same period last year. However, demand patterns remain irregular at city level, highlighting the continuing economic volatility and regional divergences in performance.

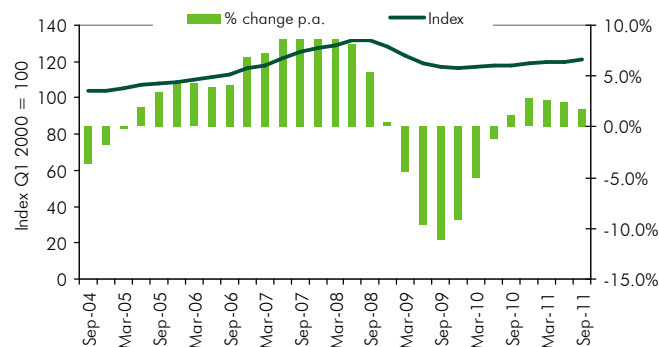
The majority of cities saw leasing volumes fall on a quarterly basis, although to varying extents. Frankfurt, Milan and Prague are among the cities which recorded the sharpest declines. In virtually all these instances however, the year-to-date figure is in line with or even higher than the corresponding one last year. By contrast, after having weakened in Q2, both London and Paris saw take-up soaring by 26% and 46% respectively over the last quarter, although in London's case it remained 20% lower than last year's levels. Vienna, Brussels and Warsaw also strengthened.

However, even where increases occurred, these were predominantly driven by a small number of large deals and in many cases the number of lettings completed actually fell. While seasonal effects must also be taken into account, there are clear signs that occupier sentiment has turned in many markets as fears of a new recession have built up over the summer. Against this backdrop, many occupiers are looking to postpone major real estate decisions and extend existing leases to avoid costly relocations. This is likely to constrain take-up levels for the foreseeable future.

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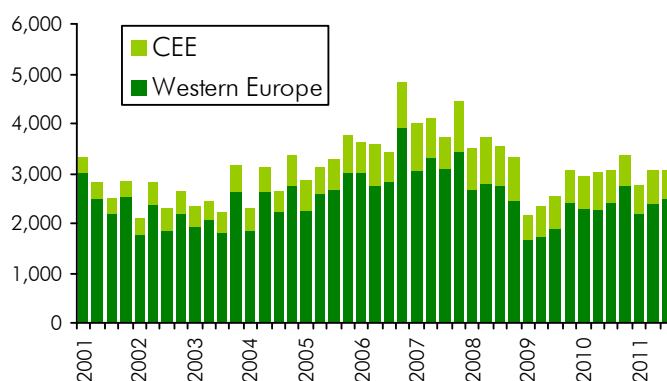
EU-27 Office Rent Index



EU-27 Office Rent Index

	Q1 2011	Q2 2011	Q3 2011
Index (Q1 2000 = 100)	120	120	121
Quarter-on-Quarter (% Change)	0.9	0.0	0.1
Year-on-Year (% Change)	2.8	2.4	1.8

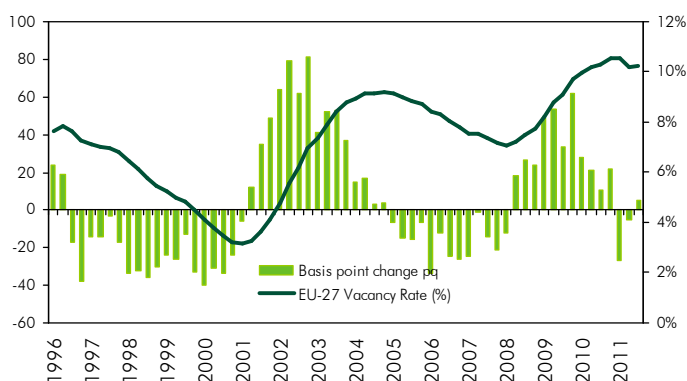
Aggregate Office Take-up ('000s sq m), 2001-11



Office Take-up ('000s sq m)

	Q1 2011	Q2 2011	Q3 2011	Q-on-Q Change	Y-on-Y Change
Brussels	43	72	105	46%	43%
London	212	203	256	26%	-20%
Dublin	49	34	43	27%	44%
Frankfurt	80	150	86	-43%	-34%
Madrid	76	86	78	-9%	7%
Paris	628	541	788	45%	49%
Moscow	219	295	261	-11%	-22%

EU-27 Vacancy Rate Index



OFFICE VACANCY

In aggregate terms, vacancy levels increased marginally over the third quarter. The CBRE EU-27 Vacancy Rate Index rose by 5 bps from 10.20% to 10.25%, interrupting two consecutive quarters of decline. This supports our view that, while vacancy has peaked, reductions in supply will be slow.

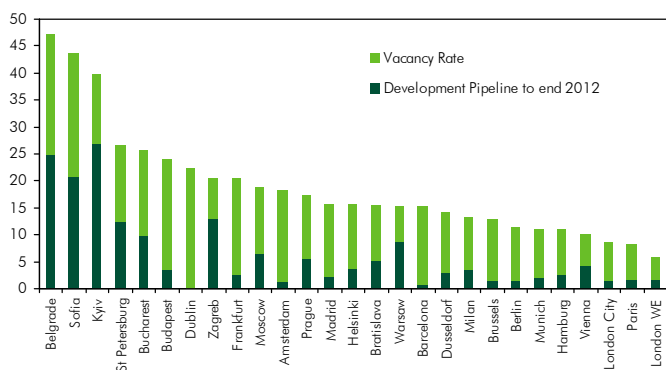
The uptick in vacancy principally reflected increases in a number of major European office markets like Frankfurt and Madrid. Also London recorded the first increase in two years and the vacancy rate returned to above 5%. Of those markets which saw vacancy levels decline, Moscow recorded one of the largest reductions. So far in 2011, the vacancy rate here has dropped by 420 bps to 12.5%. Some smaller CEE markets posted equally sizeable falls, but still from relatively high initial levels. Meanwhile, vacancy has continued to tighten in Paris, albeit marginally.

Office Vacancy Rates (%)

	Q1 2011	Q2 2011	Q3 2011
London	5.1	4.9	5.2
Paris	6.9	6.7	6.6
Madrid	12.1	12.9	13.3
Barcelona	15.3	14.7	14.5
Frankfurt	18.0	17.6	17.8
Berlin	9.9	9.7	9.8
Amsterdam	17.0	17.5	17.0
Dublin	22.9	22.8	22.5
Milan	9.3	9.5	9.9

The aggregate market figures often mask substantial shifts in the quality and geographical distribution of vacant space. In many markets, occupiers' "flight to quality" combined with the limited influx of new space, is gradually eroding the supply of modern, well located stock. In Paris for example, the share of new supply in total has shrunk by nearly 5% since the end of 2009 to 23% and it is even tighter in core locations. This also means that an increasing proportion of vacant space is concentrated in inferior quality buildings, as occupiers vacate older premises for new ones.

Vacant Space & Two-year Pipeline as % of Stock



OFFICE DEVELOPMENT PIPELINE

Most European office markets are seeing very low levels of new completions at this point of the development cycle and many recorded virtually no new additions during the third quarter. As a result, at 2.1 million sq m, total completions in Western Europe are forecasted to be nearly 45% lower in 2011 compared with their 2009 peak and to be running at levels close to those seen in the mid-90's. A similar volume of new deliveries is expected in 2012, with only a small number of cities, notably London, Milan and Warsaw likely to see increases.

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

	2011	2012
Amsterdam	25	61
Berlin	250	101
Frankfurt	203	120
London	152	278
Madrid	175	140
Paris	541	513

The thin development pipelines continue to reflect the weakness of new starts. Except for a few isolated instances, there is hardly evidence of any pick up in the levels of new construction, reflecting the still tight lending conditions and weak rental and value growth prospects. Even in places like London, where there has been a higher level of interest in new development, developers' sentiment appears to have weakened. This, combined with the growing difficulties in securing pre-lets in a weaker demand environment, could further delay the beginning of the next development cycle. Recent data show that completions could increase marginally in 2013, but a clear upturn is unlikely until economic fundamentals improve and lending conditions ease somewhat.

KEY INDICATORS

Country	City	Prime Office Rent (Local Measure)	€ / sq m/ annum	Last 3 Months (%)	Last 12 Months (%)	Change from Trough* (%)	Prime Yield (%)
Austria	Vienna	€23.75/sqm/month	285.00	1.06	5.56	6.74	5.25
Belgium	Brussels	€285.00/sqm/annum	285.00	0.00	0.00	7.55	6.25
Bulgaria	Sofia	€13.50/sqm/month	162.00	-3.57	-5.26	0.00	9.35
Croatia	Zagreb	€15.90/sqm/month	190.80	0.00	-2.15	0.00	8.30
Czech Republic	Prague	€21.00/sqm/month	252.00	0.00	0.00	0.00	6.50
Denmark	Copenhagen	DKK1725.00/sqm/annum	231.82	1.47	2.99	2.99	5.00
Finland	Helsinki	€366.00/sqm/annum	366.00	0.83	12.27	15.09	5.40
France	Lyon	€280.00/sqm/annum	280.00	0.00	21.74	21.74	6.00
France	Marseille	€250.00/sqm/annum	250.00	0.00	0.00	0.00	6.00
France	Paris	€830.00/sqm/annum	830.00	0.00	7.79	15.28	4.50
Germany	Berlin	€22.00/sqm/month	264.00	0.00	4.76	10.00	5.10
Germany	Frankfurt	€38.00/sqm/month	456.00	0.00	0.00	0.00	5.00
Germany	Hamburg	€23.00/sqm/month	276.00	2.22	2.22	2.22	4.90
Germany	Munich	€30.00/sqm/month	360.00	0.00	1.69	1.69	4.80
Hungary	Budapest	€20.00/sqm/month	240.00	0.00	0.00	0.00	7.25
Ireland	Dublin	€323.00/sqm/annum	323.00	0.00	-14.10	0.00	7.50
Israel	Tel Aviv	\$32.00/sqm/month	286.23	0.00	18.52	42.22	8.00
Italy	Milan	€520.00/sqm/annum	520.00	0.00	0.00	0.00	5.25
Italy	Rome	€420.00/sqm/annum	420.00	0.00	0.00	0.00	5.80
Luxembourg	Luxembourg City	€40.00/sqm/month	480.00	0.00	0.00	0.00	6.00
Netherlands	Amsterdam	€338.00/sqm/annum	338.00	0.90	2.42	2.42	5.35
Norway	Oslo	NOK3500.00/sqm/annum	444.31	0.00	9.38	16.67	5.20
Poland	Warsaw	€26.00/sqm/month	312.00	0.00	4.00	13.04	6.25
Portugal	Lisbon	€18.50/sqm/month	222.00	0.00	-2.63	0.00	7.50
Romania	Bucharest	€19.50/sqm/month	234.00	0.00	0.00	0.00	8.50
Russia	Moscow	\$1150.00/sqm/annum	857.19	9.52	31.43	35.29	8.75
Russia	St Petersburg	\$800.00/sqm/annum	596.30	0.00	0.00	6.67	11.50
Serbia	Belgrade	€14.70/sqm/month	176.40	-0.34	-2.00	1.38	9.50
Slovak Republic	Bratislava	€17.00/sqm/month	204.00	0.00	0.00	0.00	7.25
Spain	Barcelona	€225.00/sqm/annum	225.00	-1.32	-5.06	0.00	5.75
Spain	Madrid	€312.00/sqm/annum	312.00	0.00	-5.45	0.00	5.75
Sweden	Stockholm	SEK4400.00/sqm/annum	477.47	0.00	4.76	10.00	4.75
Switzerland	Geneva	CHF900.00/sqm/annum	738.59	0.00	5.88	9.76	4.50
Switzerland	Zurich	CHF900.00/sqm/annum	738.59	0.00	5.88	5.88	4.20
Turkey	Istanbul	\$43.00/sqm/month	384.62	0.00	7.50	7.50	7.75
UAE	Dubai	AED280.00/sqft/annum	611.61	0.00	-6.67	0.00	8.12
UK	Birmingham	£28.50/sqft/annum	356.18	0.00	3.64	5.56	6.00
UK	Edinburgh	£27.50/sqft/annum	343.68	0.00	0.00	0.00	6.00
UK	Glasgow	£27.00/sqft/annum	337.43	0.00	0.00	0.00	6.00
UK	London City	£55.00/sqft/annum	687.36	0.00	4.76	30.95	5.00
UK	London West End	£92.50/sqft/annum	1156.02	0.00	8.82	15.63	4.00
UK	Manchester	£29.00/sqft/annum	362.43	0.00	1.75	1.75	5.50

* Figures indicate degree of change from the lowest rent recorded since 2009 to the current level.



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 pushed 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 27% ahead q-o-q. As in 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.

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 reached 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 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 quality, 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/sq m/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 occurred mainly in the City Centre, 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.

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

For more information regarding this MarketView, please contact:

Richard Holberton
 Director, EMEA Research
 CBRE
 St Martin's Court
 10 Paternoster Row
 London EC4M 7HP
 +44 20 7182 3348
richard.holberton@cbre.com

Bruno Berretta
 Analyst, EMEA Research
 CBRE
 St Martin's Court
 10 Paternoster Row
 London EC4M 7HP
 +44 20 7182 3101
bruno.berretta@cbre.com



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.

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