

# CEE Offices

## Central & Eastern Europe

Year end 2007

Approximately 2.5 million sq m of modern office space was completed in the capital cities of the CEE markets during 2007. As a result office stock grew by 17%.

Net absorption was again higher than the level of development completions which resulted in an even lower overall vacancy of 6.0% at the end of the year.

The increase in prime rents in Moscow and Warsaw could be a precursor for other central European markets with limited vacancy.

### MARKET OVERVIEW

While economies around the world suffer from the belief that growth rates will significantly decrease, expectations for economic growth in Central and Eastern Europe remain strong. Some of the countries in the region however saw their GDP growth forecasts for 2008 adjusted slightly downwards.

Manufacturing is expected to be the key driver of this sustained growth. The spin off for the services sector will however be significant with regional differences over time. The implications of this growth for the real estate markets have been witnessed since 2002. We expect this trend to continue in 2008.




The services sector in most of the CEE countries will continue to grow with growth rates ranging from 0.5 up to 3.0% per year until 2010. Unemployment is at a low level in most countries and is expected to decrease further. This might constrain growth in the take-up of office space in the expanding services sector. The spin-off effects on the real estate markets are clear. As a result of the growing demand for office space, vacancy rates are still decreasing.

However the growing number of speculative developments is causing this trend to slow. After years of relatively flat rents, prime rents in some of the CEE markets are under strong upward pressure as a result of this low supply. Given the turmoil on the European investment market this is an interesting change. Occupier market fundamentals strengthen and reduce the possible impact on prices in some countries around the region.

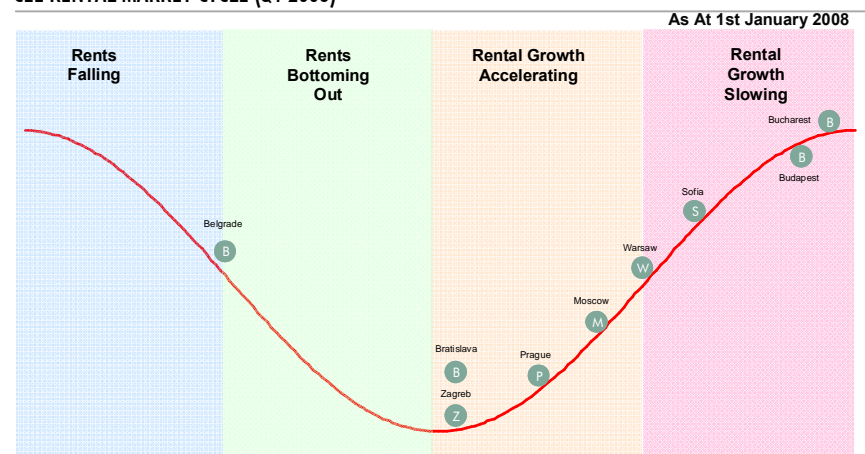
Due to the high level of completions the regions sub markets are evolving rapidly. This results in a broader range of alternatives with different prices. Most of the out-of-town markets see significant levels of completions and development pipelines. As a result CB Richard Ellis expects increasing polarisation of rents between city centre and decentralised locations.

In addition more and more occupiers are interested in office space in secondary cities in the CEE region. This is caused by the expansion of existing occupiers in the region. Other reasons are increasing prices and the lack of office supply in capital cities and limited workforce availability.

### 2007 OFFICE MARKET AT A GLANCE

- Take-up 
- Vacancy Rate 
- Prime Rents 

### CEE RENTAL MARKET CYCLE (Q1 2008)



Markets do not necessarily move along the curve in the same direction or at the same speed. The rental cycle reflects the trend in net effective rents, taking into account leasing incentives

Source: CB Richard Ellis

This report focuses on the nine capital city office markets in CEE, as monitored by the local CB Richard Ellis offices in this region. Specifically, this report looks at Belgrade, Bratislava, Bucharest, Budapest, Moscow, Prague, Sofia, Warsaw and Zagreb.

**STOCK & COMPLETIONS**

The office stock in the nine capital cities comprised ca. 17.7 million sq m of modern office space as of the end of 2007. This is a 17% year on year (y-o-y) increase. One of the markets that showed the largest absolute increase in office stock was Moscow with an addition of almost 1.5 million sq m. This was almost 60% of the total office completions in the region in 2007. The level of completions in 2007 in Bucharest (+182%), Moscow (+140%), Bratislava (+99%) and Budapest (+67%) were remarkable compared to the long term average (2002-2006).

Compared to the level of completions since 2000 we expect to see continued above-average delivery of office space in the next two years in the CEE region.

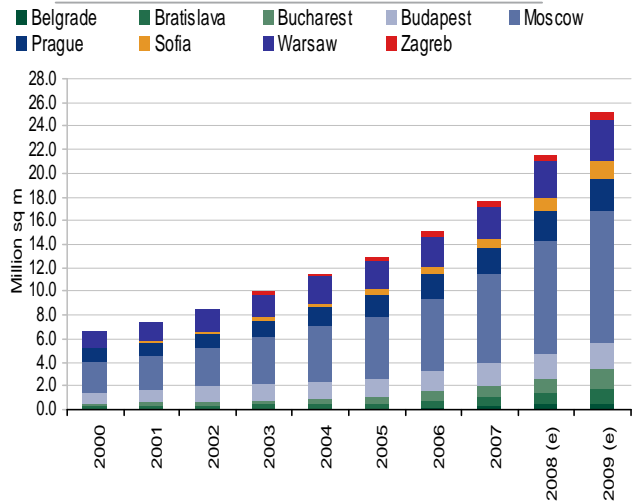
**DEMAND**

In line with the high level of completions take-up as well as net absorption were high in 2007. Total take-up reached a level of almost 3.4 million sq m; a 12% increase on 2006 levels. The three cities that showed the most significant y-o-y increase are Bratislava (+41%), Budapest (+30%) and Moscow (+24%). Compared to the long term average (2002 - 2006) again Moscow (+95%), Bratislava (+79%), Budapest (65%) and Sofia (+61%) performed above average.

Even though take-up registered a new record in the CEE region in 2007, take-up suffered from the limited supply in some of the capital cities. Net absorption was again higher than the level of development completions which resulted in an even lower overall vacancy at the end of the year.

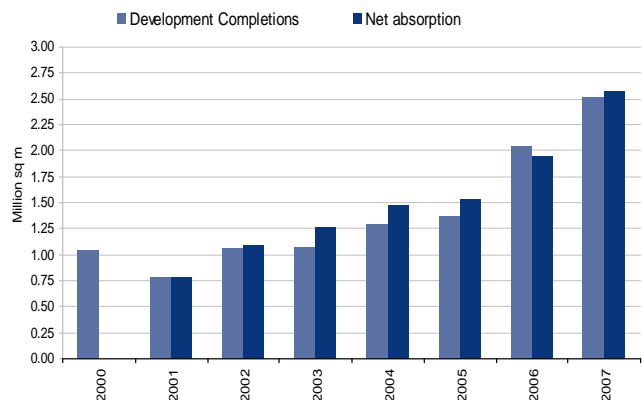
\*(net absorption relates to ((occupied stock t+1)-(occupied stock t=0))

**CEE OFFICE STOCK (2000 – 2007)**



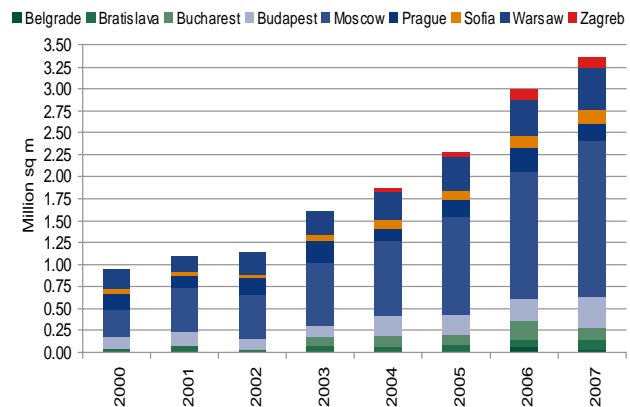
Source: CB Richard Ellis

**DEVELOPMENT COMPLETIONS V NET ABSORPTION\* (2000 – 2007)**



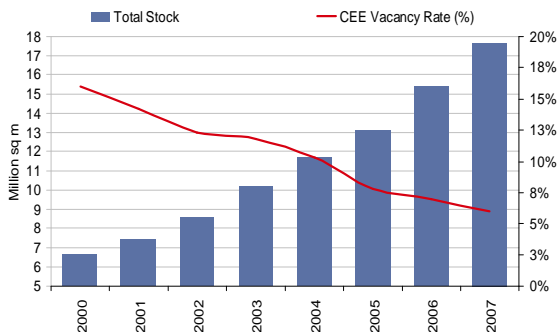
Source: CB Richard Ellis

**CEE OFFICE TAKE-UP (2000 - 2007)**



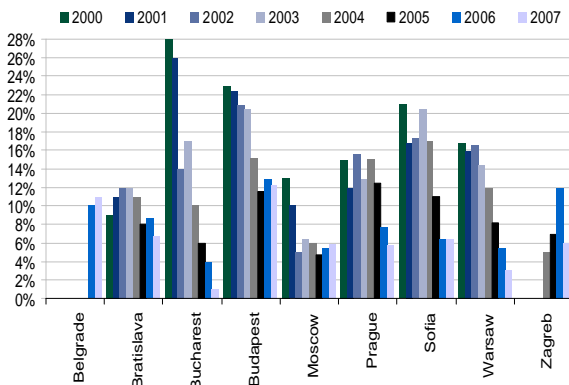
Source: CB Richard Ellis

### CEE OFFICE STOCK AND VACANCY RATES (2000 – 2007)



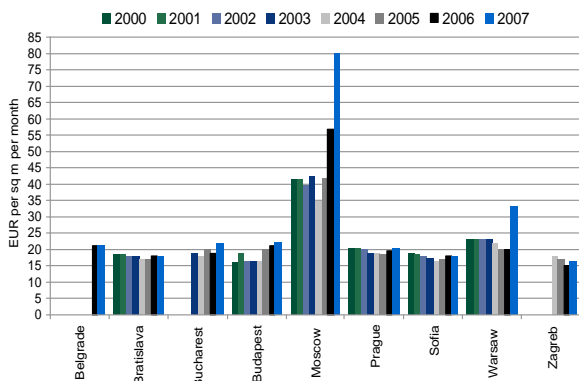
Source: CB Richard Ellis

### CEE OFFICE VACANCY: BY MARKET (2000 – 2007)



Source: CB Richard Ellis

### CEE PRIME OFFICE RENTS: BY MARKET (2000 – 2007)



Source: CB Richard Ellis

### VACANCY

As a result of continued strong demand for office space, average vacancy dropped again to an all time low of 6.0% (-100bp y-o-y). Following a period of sharp reduction in vacancy from 2000 - 2005, the decrease of vacancy rates has continued at a more moderate pace. Most of the capital cities across the region face similar (low) vacancy rates of around 5% - 7%. However there are some significant differences. The Budapest and Belgrade office markets have a vacancy rate of over 10%. Warsaw's vacancy rate amounts to 3%. Bucharest's vacancy is the lowest with only 1% of total modern stock. Looking at rental increases it seems that some of the office markets have reached their natural vacancy rate (NVR) at which rents tend to rise. The general vacancy rates for these capital cities do not show the differences in vacancy among sub-locations. Some inner city locations show upward pressure on rents because of limited supply while for example some non-central locations face rents bottoming out because of growing (future) supply in these sub-locations.

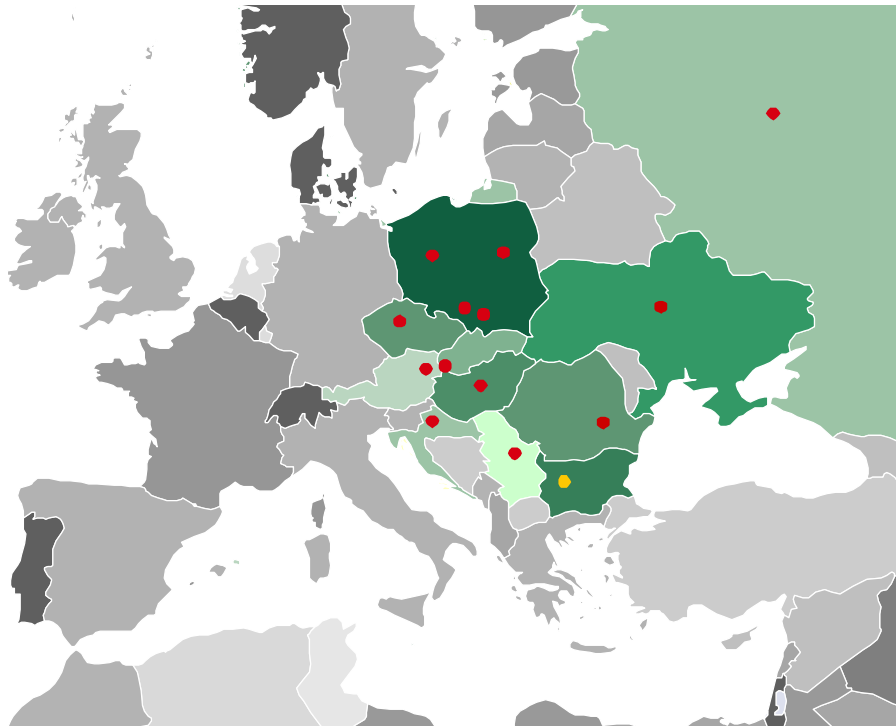
### RENTS

Up to 2006 most of the capital cities in the CEE region had prime rents that were at a level of € 15 – 20 per sq m per month. During the course of 2007 this started to change. Some of the larger and more mature markets have shown rental increases. Moscow (+41%), and more recently Warsaw (43%), have witnessed the most significant y-o-y rental growth in the region, reflecting the fact that they are operating at the lowest vacancy rates in CEE. The reason for the increase in both cities is the limited supply of prime office space in the core locations. The sudden increase of prime rents in Warsaw is even more interesting because of the decline in prime rents in the period 2004 - 2006. The increase in prime rents could be a sign for other central European markets with limited vacancy to follow suit. Bucharest, Budapest and Prague witnessed 16%, 7% and 5% increase respectively in 2007.

### OUTLOOK

Based on the relationship between office stock, historic and expected take-up and future completions we expect rental prospects across the region to be diverse. In the short term the effect of the large development pipeline will be rather limited. In the mid term some smaller markets with significant development pipelines might face a period of flat rents and increasing incentives.

**CB RICHARD ELLIS CEE NETWORK**



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