CB RICHARD ELLIS
MarketView
EMEA Offices
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Q1 2009

Quick Stats

	Change from	
	Q4 08	Q1 08
Rent	↓	↓
Yield	↑	↑

Hot Topics

- Occupiers continue to rationalise their space usage as economic conditions worsen across Europe
- Subdued take-up levels expected to persist as corporates delay or shelve new real estate commitments
- Many tenants seeking increased flexibility in their lease terms, and renegotiating shorter contracts
- Following significant yield increases, rents are now contributing to capital value decline in most European markets

OVERVIEW

• Take-up weakens as economic contraction intensifies across Europe

Take-up in the first quarter was universally weak and is expected to undershoot last year's levels in many markets, in some cases by significant margins. Corporate expansions are scarce, and rationalisation and cost-cutting are now the key factors driving the leasing market.

• Vacancy levels rising as occupiers in many markets seek to sublet space

The volume of vacant space is increasing almost everywhere. In addition to weaker take-up, substantial amounts of speculative development space are adding to stock in some markets. Significantly, we are now also seeing signs of more corporate occupiers attempting to sublet excess space.

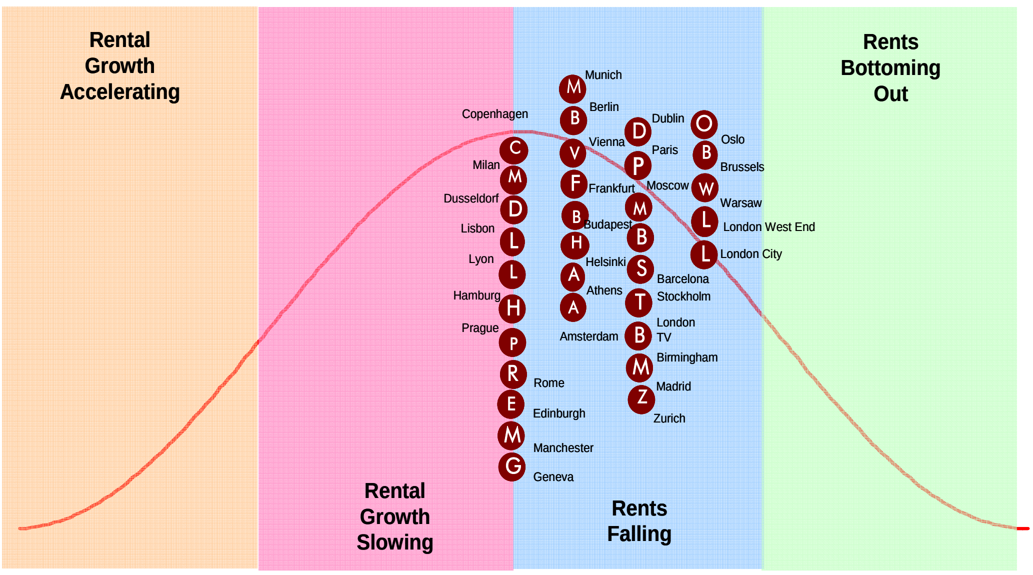
• New development starts have virtually ceased

Weak demand and tight restrictions on the availability and terms of development finance mean that new construction starts have virtually ceased. However, completions continue to increase in many markets, including London. The precise timing of delivery of the current pipeline over the next one to two years will have a substantial bearing on local market balances.

• Rental falls accelerating and becoming more widespread

The CB Richard Ellis EU-27 office rent index fell by 3.6% in Q1 and is down by 6.5% from its peak. This reflects falls in most markets, with London and Madrid particularly prominent, and CEE markets such as Warsaw and Budapest also seeing large adjustments. Rents remain stable in a few key cities such as Frankfurt and Milan, but even here rent-free periods and other incentives are increasing and shorter leases are being negotiated.

EMEA Rent Cycle, Q1 2009



NB. Markets do not necessarily move along the curve in the same direction or at the same speed.
The rental cycle is intended to display the trend in net effective rents

Source: CB Richard Ellis

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OFFICE RENTS

For the first time in the current cycle the EU-27 office rent index is falling on both a quarterly and an annual basis. The index has fallen by 3.6% since the end of 2008 driven strongly by London and Madrid, and by some of the key CEE markets also falling substantially. A steeper decline in the index was prevented by rents remaining stable in a few key markets such as Milan, Rome and Frankfurt.

Occupiers across Europe are looking at ways to cut costs because of the uncertain economic outlook, although most are reluctant to relocate unless there is a significant saving against current overheads. Many are opting to extend their current leases and pro-actively renegotiate terms. In Paris, for example, occupiers are able to renegotiate leases when the passing rent has increased by 25% from the initial rent due to indexation. In a number of instances landlords are having to offer longer rent-free periods and other incentives to attract tenants.

As a result prime rents are coming under severe pressure in a number of locations. Several markets have seen quarterly falls of 10% or more including London, Madrid, Dublin, Moscow and Budapest.

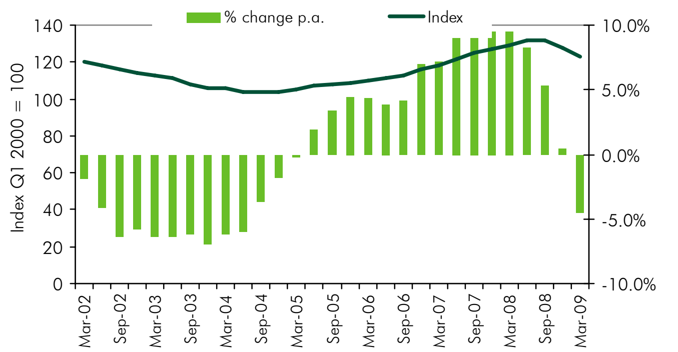
OFFICE TAKE-UP

The pattern of leasing activity in the first quarter was dominated by deteriorating short-term economic prospects and resultant occupier caution across all markets. Property requirements to accommodate genuine corporate expansion are scarce, and such activity as is occurring stems largely from cost-cutting or rationalisation. Take-up in the first quarter was universally weak and is widely expected to undershoot last year's levels in many markets, in some cases by significant margins.

London and Madrid in particular had very slow starts to the year, with leasing activity substantially below recent years' levels. Here, and in a number of other key markets including Brussels, Dublin and Amsterdam, current leasing volumes are well below the typical levels recorded over the past ten years. Even in markets that fared relatively better in the first quarter, such as Paris and Frankfurt, take-up was boosted by a small number of isolated large deals, with core underlying demand clearly weaker.

The general occupier caution underpinning these trends has also contributed to an increasing tendency to reconfigure terms with existing landlords. In some cases where the cost differentials justify it, such as Frankfurt and Stockholm, it has also resulted in a growing interest in relocating to cheaper decentralized districts.

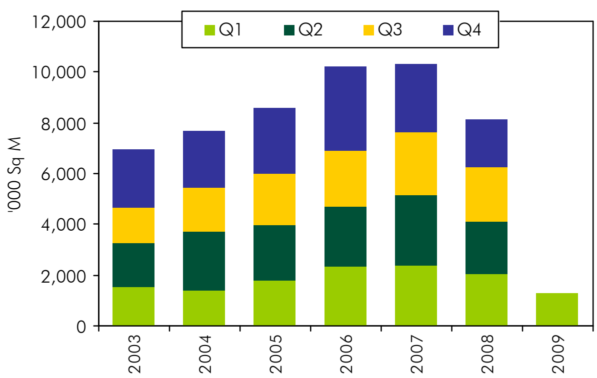
EU-27 Office Rent Index



EU-27 Office Rent Index

	Q1 2008	Q4 2008	Q1 2009
Index (Q1 2000 = 100)	129	128	123
Quarter-on-Quarter (% Change)	1.4	-3.0	-3.6
Year-on-Year (% Change)	9.5	0.5	-4.5

Aggregate Office Take-up – Major 15 Markets



Office Take-up (000s sq m)

	Q1 2008	Q4 2008	Q1 2009	Q-on-Q Change	Y-on-Y Change
Brussels	106	107	55	-49%	-48%
London	275	378	101	-73%	-63%
Dublin	44	33	10	-70%	-77%
Frankfurt	98	103	136	32%	39%
Madrid	135	84	45	-46%	-67%
Berlin	86	112	77	-31%	-10%
Paris (Ile de France)	585	486	439	-10%	-25%
Moscow	354	476	300	-37%	-15%

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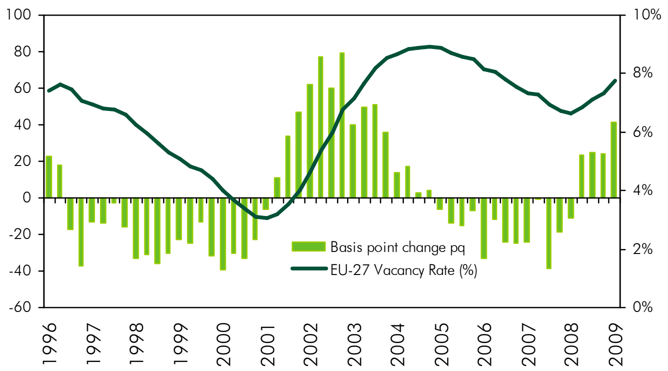
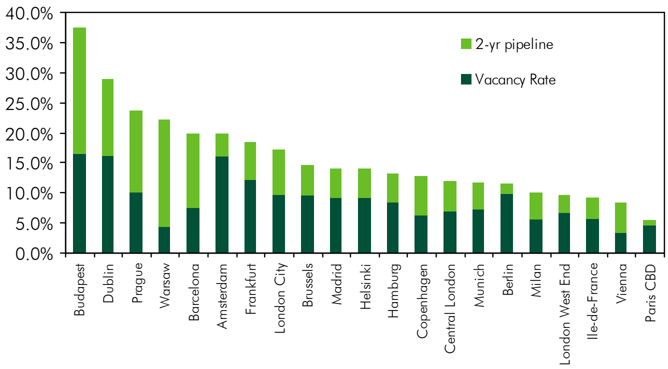
EU-27 Vacancy Rate Index



Office Vacancy Rates (%)

	Q1 2008	Q4 2008	Q1 2009
London	3.0	5.4	7.0
Paris (Ile de France)	4.6	5.2	5.6
Madrid	6.9	8.5	9.2
Barcelona	5.8	7.3	7.6
Frankfurt	12.4	12.0	12.2
Berlin	9.5	9.7	9.8
Vienna	4.9	3.8	3.4
Oslo	4.3	5.0	5.2
Prague	5.9	9.0	10.0

Vacant Space & Two-year Pipeline as % of Stock



Development Pipeline ('000 sq m)

	2009	2010
Amsterdam	108	147
London	555	423
Frankfurt	298	439
Madrid	363	189
Paris (Ile de France)	1063	792
Berlin	169	147

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OFFICE VACANCY

The EU-27 office vacancy rate index rose by 41 basis points this quarter to 7.76%. This is the largest quarterly increase in the current cycle, contributing to an annual change of 114bps. This was partly driven by an increase of over 1.5 percentage points in the Central London vacancy rate as new schemes completed in both the City and West End markets.

Vacancy is increasing in almost all cities, for a number of reasons. First there are far fewer companies looking to expand their occupation. Second there are new developments coming onto the market which have not been pre-let (including London and Madrid) and finally many corporates are trying to sublet space to cut costs as they reduce headcount.

Contrasting with the general trend, a handful of markets saw vacancy rates falling or remaining stable this quarter. However, this was mostly confined to smaller CEE markets such as Bratislava where availability tends to be more volatile.

In most markets supply is tighter for better quality buildings and in CBD areas compared with elsewhere. For example, the vacancy rate for Grade A space in Moscow is appreciably lower than the 20% market average. The prime districts in Barcelona and Prague remain more constrained than any other submarket, and similarly in Paris the vacancy rate in the core district is nearly a full percentage point lower than the market average.

OFFICE DEVELOPMENT PIPELINE

In an environment of weakening demand and generally tight restrictions on the availability and terms of development finance, new construction starts have virtually ceased. Deferment of schemes that have not already commenced is becoming commonplace, and construction activity will slow sharply once the current pipelines reach completion. These trends are tending to reduce the total scale of space under construction. However, completions continue to rise in a number of markets and the precise timing of delivery over the next one to two years will have a substantial bearing on local market balances.

In Madrid for example, the pace of construction is likely to slow significantly once the remaining buildings in the Four Towers Business Area are completed; in Amsterdam a number of large buildings under construction will be completed this year, particularly at South Axis. In London schemes totalling 2.1m sq ft completed in the first quarter of this year, which is well over a third of the completions expected in 2009 as a whole. As a result, the volume of space under construction in Central London has dropped sharply since the end of last year.

Country	City	Prime Office Rent Local	€ / sq m/ annum	Last 3 Months (%)	Last 12 Months (%)	From peak* (%)	Prime Office Yield %
Austria	Vienna	€ 23.00/sq m/month	276	-2.13	2.2	-2.1	5.60
Belgium	Brussels	€ 275.00/sq m/annum	275	0.0	-8.3	-8.3	6.25
Bulgaria	Sofia	€ 17.00/sq m/month	204	0.0	-6.9	-6.9	10.00
Croatia	Zagreb	€ 17.65/sq m/month	212	0.9	5.4	0.0	8.50
Czech Republic	Prague	€ 23.00/sq m/month	276	0.0	6.9	0.0	7.00
Denmark	Copenhagen	DKR 1,850/sq m/annum	248	0.0	0.0	0.0	5.75
Finland	Helsinki	€ 350.00/sq m/annum	350	-2.8	0.0	-2.8	5.75
France	Lyon	€ 260.00/sq m/annum	260	0.0	4.0	0.0	7.00
France	Marseille	€ 300.00/sq m/month	300	20.0	39.5	0.0	7.50
France	Paris	€ 780.00/sq m/annum	780	-2.5	-6.0	-8.2	6.25
Germany	Berlin	€ 20.00/sq m/month	240	-9.1	-9.1	-11.1	5.50
Germany	Frankfurt	€ 38.00/sq m/month	456	0.0	-2.6	-2.6	5.40
Germany	Hamburg	€ 24.00/sq m/month	288	0.0	0.0	0.0	5.10
Germany	Munich	€31.00/sq m/month	372	-1.6	-1.6	-1.6	5.00
Greece	Athens	€30.00/sq m/month	360	-6.3	-4.8	-6.3	7.00
Hungary	Budapest	€20.00/sq m/month	240	-11.1	-11.1	-11.1	7.75
Ireland	Dublin	€ 540.00/sq m/annum	540	-13.3	-19.8	-19.8	7.50
Israel	Tel Aviv	$22.50/sq m/month	204	-10.0	-35.7	-35.7	9.00
Italy	Milan	€550.00/sq m/annum	550	0.0	14.6	0.0	6.00
Italy	Rome	€ 440.00/sq m/annum	440	0.0	10.0	0.0	6.00
Luxembourg	Luxembourg City	€ 40.00/sq m/month	480	0.0	0.0	0.0	6.25
Netherlands	Amsterdam	€ 330.00/sq m/annum	330	-2.9	-1.5	-2.9	6.15
Norway	Oslo	NKR3,300/sq m/annum	370	-5.7	-23.3	-26.7	6.85
Poland	Warsaw	€ 28.00/sq m/month	336	-6.7	-15.2	-20.0	6.75
Portugal	Lisbon	€ 20.50/sq m/month	246	0.0	0.0	0.0	7.25
Romania	Bucharest	€ 20.00/sq m/month	240	-6.9	-9.1	-9.1	9.50
Russia	Moscow	US$ 1,200.00/sq m/annum	906	-20.0	-29.4	-29.4	11.50
Russia	St Petersburg	US$ 870.00/sq m/annum	657	-28.7	-30.4	-36.8	15.00
Serbia	Belgrade	€ 16.50/sq m/month	198	-5.7	-13.2	-21.4	10.00
Slovak Republic	Bratislava	€18.00/sq m/month	216	0.0	0.0	0.0	7.25
Spain	Barcelona	€ 282.00/sq m/annum	282	-6.0	-16.1	-16.1	6.50
Spain	Madrid	€ 408.00/sq m/annum	408	-12.8	-16.1	-16.1	6.50
Sweden	Stockholm	SEK 4,100/sq m/annum	375	-2.4	--6.8	-6.8	5.75
Switzerland	Geneva	SFR 820.00/sq m/annum	543	0.0	5.1	0.0	5.25
Switzerland	Zurich	SFR 900.00/sq m/annum	596	-3.2	-5.3	-5.3	4.75
Turkey	Istanbul	US$ 45.00/sq m/month	408	0.0	50.0	0.0	8.50
UAE	Dubai	AED 450.00/sq ft/annum	995	-18.2	0.0	-18.2	8.50
UK	Birmingham	£ 29.00/sq ft/annum	338	-3.3	-10.8	-10.8	7.50
UK	Edinburgh	£ 29.00/sq ft/annum	338	0.0	0.0	0.0	7.25
UK	Glasgow	£ 27.50/sq ft/annum	320	0.0	0.0	0.0	7.50
UK	London City	£ 46.50/sq ft/annum	541	-13.1	-22.5	-28.5	6.75
UK	London West End	£ 87.50/sq ft/annum	1,019	-10.3	-27.1	-27.1	5.50
UK	Manchester	£ 28.50/sq ft/annum	332	0.0	0.0	0.0	7.50

* Figures indicate degree of change from the highest rent recorded in the previous three years, and current level

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MARKET SUMMARIES

Occupiers in **Brussels** are increasingly able to renegotiate lease terms and secure more flexible lease arrangements as landlords come under pressure to secure cash flow. Slowing leasing activity threatens to drive vacancy levels up and rents are under more pressure (down €25/sq m/annum over the year). Corporates are more active in periphery and decentralised locations (55% of Q1 take-up), where occupancy costs are traditionally lower.

It is estimated that the Commerzbank-Dresdner Bank merger will result in a surplus of around 120,000 sq m in central **Frankfurt**, which will encourage occupiers to examine a full range of cost-saving options. Many corporates are renegotiating leases from a traditional five-year term to shorter periods of two or three years. Others are considering relocating to lower cost locations in the periphery, (eg Deutsche Boerse's relocation from Frankfurt to nearby Eschborn). This is unusual in Frankfurt where occupiers have traditionally shown a high degree of locational loyalty despite increasing rent gradients.

Although market rents in **Geneva** are still stable and the vacancy rate is low, the first signs of change are now noticeable. Occupiers, (mainly from the financial sector) are starting to look at strategies to reduce the footprint of their portfolios. Front office CBD locations are being retained but back office functions are increasingly likely to be relocated to lower cost peripheral locations.

Some of the major occupiers in the **Lisbon** market are downsizing or renegotiating current leases in exchange for a new long-term contract (standard term five years). However, occupiers are not yet moving to the periphery markets and HQ relocations remain uncommon. This is because of the relatively small rent differentials across submarkets which therefore don't offset the cost of moving.

Rents are under general downward pressure in **London** against a background of very subdued take-up in the first quarter, particularly for large-volume deals. Secondhand space released by tenants has already contributed significantly to the rise in vacancy levels, and this can be expected to continue.

Flexibility is an important criteria for occupiers in **Luxembourg**. Very few relocations took place in the first quarter as many companies were not ready to sign long term lease agreements even if, in some cases, the financial terms were attractive.

Rents in **Madrid** have fallen by 16% over the past year, but occupiers are mostly staying in situ rather than relocating, and in many cases are offering space for sublet. Whilst companies are more accepting of peripheral locations, they require a greater rental discount to the cost in CBD locations to complete a move.

More organisations in **Milan** are looking to reduce or renegotiate their occupational liabilities by downsizing or subletting. Some companies who committed to new space last year have also been looking to 'hand-back' space or secure a cost reduction. Rent frees have increased to 9 - 12 months on typical lease lengths of 6+6 years and break clauses are also more common but, so far, asking rents are being maintained.

Paris rents are under downward pressure. Some occupiers are offering longer terms to landlords in exchange for better lease terms, particularly when breaks are due. Renegotiations are being driven by Article 145-39, which allows rents to be readjusted to a market rent once the initial rent has increased by more than 25% due to indexation. Relocations remain rare because of the cap-ex involved.

The largest transactions that were due to be executed in Q4 2008 in **Vienna** have been deferred to 2009. However, take-up in Q1 2009 is not far below the average of the past few years. There is now significant pressure on landlords to be flexible when negotiating contracts.

In **Zurich**, demand has declined significantly. Many tenants have put their expansion plans on hold and have started to review their lease contracts. Only a few tenants have started to sublet their premises. Many landlords are not lowering their asking rents but are being more flexible in lease negotiations. Space consolidation is particularly likely within the banking and insurance sector.

Occupiers in **Stockholm** are very uncertain about their future requirements at the moment, and some are prepared to pay a premium to landlords in exchange for short term extensions to their leases. Relocations are still being considered because of the large volume of new office space entering the market in early 2010, especially in the CBD, which remains cost-effective due to the fact that the landlord carries most of the fit-out costs.

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Demand has weakened in **Belgrade** and rents are falling. A significant number of lease agreements are coming close to the end of their first five year period (the first Class A buildings appeared in Belgrade in 2003/2004) and renegotiations will favour tenants. Even some tenants whose lease agreements are not expiring are trying to renegotiate terms.

Most small businesses in **Budapest** are cutting their space requirements but few are relocating. Larger occupiers, however, continue to rationalise property portfolios, signing pre-let or build-to-suit agreements. The overall vacancy rate has fallen this quarter due to the lack of speculative completions but rents remain under pressure given the extensive future pipeline.

Many companies in **Moscow** cannot renegotiate lease terms because typical leases are long with no breaks. In many cases renegotiations are only possible if the lease is nearing expiry. Therefore, there is a large amount of sublet space available (30% of space on offer). Combined with weak demand this has resulted in large rent reductions across the market.

Office leasing activity in **Prague** has dropped significantly compared to last year, but activity still remains surprisingly strong. Negotiations are taking longer and cap-ex is an issue if a parent company needs to approve a move. Building owners are now offering longer rent-free periods and fit-out contributions, but headline rents are stable.

The Class A office market in **Bahrain** remains oversupplied but properties in locations which meet key requirements such as access, parking and pricing are letting quickly at rates similar to 2008. The banking sector, a major driver of the commercial office market, is likely to weaken in Q2, affecting demand.

Active demand has weakened considerably since the turn of the year, and relatively high levels of new supply are coming on-stream throughout **Dubai**. Rental levels have softened across the board but most particularly in strata-title office buildings in areas such as TECOM C or Jumeirah Lake Towers.

Occupiers in older office buildings or residential conversions in **Abu Dhabi** are increasingly withdrawing from pre-commitments to new Grade A space because of the economic uncertainties. The gap between existing and projected occupational costs is not sufficient to drive relocations until the asking rents for these new-builds is reduced further.

Occupiers in **Tel Aviv** are looking to renegotiate their rents at their break options and sometimes even before. Relocations are rare because of the moving costs but a few companies are moving to peripheral locations to reduce their rents.

Demand for space in **Johannesburg** has fallen dramatically in the last quarter. As a consequence, vacancies are beginning to rise and rents have flattened off, with falls likely. Large infrastructure programs, in particular road and rail upgrades for the football World Cup next year, are expected to boost certain areas of the market.

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

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