

Quick Stats

	Change from	
	Q4 08	Q1 08
Rent	↓	↓
Vacancy Rate	↑	↑

Hot Topics

- Worsening economic conditions across Europe continue to force rationalisation of space usage
- Expectation of further contraction in demand is encouraging increased landlord flexibility
- Looser supply conditions expand tenant choice, but increase difficulty of sub-letting surplus space

OVERVIEW

• **Falling take-up forcing landlords into greater lease flexibility**

Take-up in the first quarter of 2009 across the main Western European markets was down by around a third on both a quarterly and annual basis. With recessionary conditions expected to erode tenant demand further during the year, landlords are becoming increasingly flexible on lease length and are offering increased incentives.

• **Supply conditions loosening, giving occupiers expanded choice in many markets**

The CB Richard Ellis EU-27 vacancy rate index has risen from a low of 6.7% in Q1 2008 to the current level of 7.8%. In some cities, including London and Prague, the vacancy rate has increased by over four percentage points in the past year, providing occupiers with a greater choice of buildings. While rising supply and greater landlord flexibility may make it harder to sub-let space, there are opportunities for companies looking to rationalise space and particularly for those who are in a position to relocate to non-core submarkets.

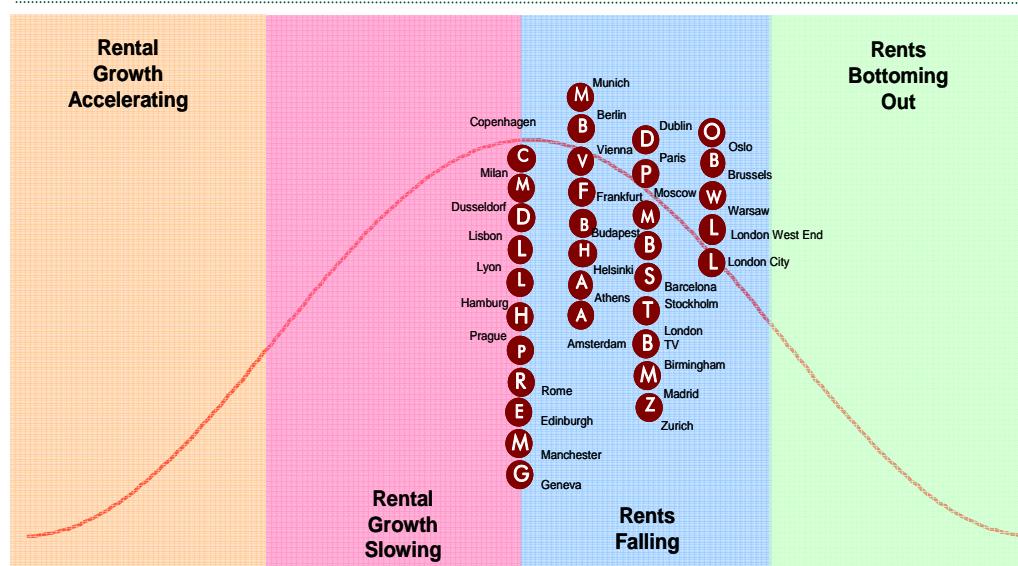
• **Rental costs trending down at an increasing rate**

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 widespread falls in the major markets, with London and Madrid particularly prominent, and CEE markets such as Warsaw and Budapest also seeing large adjustments. Even in those markets where rents remained stable, such as Frankfurt and Milan, longer rent-free periods and other incentives are being granted and it is increasingly possible to negotiate shorter leases.

• **Development completions peak in 2009 in most markets as new starts dry up**

Delivery of development schemes initiated in the boom period will continue through 2009. For occupiers, this will mean a greater choice of good quality office space, particularly as a high proportion of the pipeline is speculative. New completions are expected to drop in 2010 as developers increasingly suspend projects that are not already under construction. The opportunities this presents for occupiers will depend in part on the relative timing of new completion and existing lease commitments. Early planning and good timing are vital.

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

KEY INDICATORS

Country	City	Prime Office Rent Local	€/sq m/ annum	Last 3 Months (%)	Last 12 Months (%)	From peak* (%)	Typical lease length (yrs)	Rent Free Period (months)
Austria	Vienna	€ 23.00/sq m/month	276	-2.13	2.2	-2.1	3 - 5	3 - 6
Belgium	Brussels	€ 275.00/sq m/annum	275	0.0	-8.3	-8.3	3/6/9	1/yr secured
Bulgaria	Sofia	€ 17.00/sq m/month	204	0.0	-6.9	-6.9	3 - 5	1 - 3
Croatia	Zagreb	€ 17.65/sq m/month	212	0.9	5.4	0.0	5	0
Czech Republic	Prague	€ 23.00/sq m/month	276	0.0	6.9	0.0	5	1 - 3
Denmark	Copenhagen	DKR 1,850/sq m/annum	248	0.0	0.0	0.0	3 + 3 or 5 + 5	0
Finland	Helsinki	€ 350.00/sq m/annum	350	-2.8	0.0	-2.8	3 - 5	0
France	Lyon	€ 260.00/sq m/annum	260	0.0	4.0	0.0	3/6/9	3 - 6
France	Marseille	€ 300.00/sq m/month	300	20.0	39.5	0.0	3/6/9	6 - 9
France	Paris	€ 780.00/sq m/annum	780	-2.5	-6.0	-8.2	3/6/9	6 - 12
Germany	Berlin	€ 20.00/sq m/month	240	-9.1	-9.1	-11.1	5 + 5	3 - 9
Germany	Frankfurt	€ 38.00/sq m/month	456	0.0	-2.6	-2.6	5	3 - 9
Germany	Hamburg	€ 24.00/sq m/month	288	0.0	0.0	0.0	5 + 5	5 - 6
Germany	Munich	€ 31.00/sq m/month	372	-1.6	-1.6	-1.6	5 + 5	3 - 9
Greece	Athens	€ 30.00/sq m/month	360	-6.3	-4.8	-6.3	12	1 ½
Hungary	Budapest	€ 20.00/sq m/month	240	-11.1	-11.1	-11.1	3 - 5	5 - 7
Ireland	Dublin	€ 540.00/sq m/annum	540	-13.3	-19.8	-19.8	20	24
Israel	Tel Aviv	\$22.50/sq m/month	204	-10.0	-35.7	-35.7	3 - 5	0
Italy	Milan	€ 550.00/sq m/annum	550	0.0	14.6	0.0	6 + 6	3 - 6
Italy	Rome	€ 440.00/sq m/annum	440	0.0	10.0	0.0	6 + 6	6
Luxembourg	Luxembourg City	€ 40.00/sq m/month	480	0.0	0.0	0.0	3/6/9	1/yr secured
Netherlands	Amsterdam	€ 330.00/sq m/annum	330	-2.9	-1.5	-2.9	5	14
Norway	Oslo	NKR3,300/sq m/annum	370	-5.7	-23.3	-26.7	5 - 8	0 - 3
Poland	Warsaw	€ 28.00/sq m/month	336	-6.7	-15.2	-20.0	5	1 - 3
Portugal	Lisbon	€ 20.50/sq m/month	246	0.0	0.0	0.0	5	0 - 6
Romania	Bucharest	€ 20.00/sq m/month	240	-6.9	-9.1	-9.1	5	1
Russia	Moscow	US\$ 1,200.00/sq m/annum	906	-20.0	-29.4	-29.4	5	0 - 6
Russia	St Petersburg	US\$ 870.00/sq m/annum	657	-28.7	-30.4	-36.8	3	0 - 2
Serbia	Belgrade	€ 16.50/sq m/month	198	-5.7	-13.2	-21.4	5	3
Slovak Republic	Bratislava	€ 18.00/sq m/month	216	0.0	0.0	0.0	5	Up to 3
Spain	Barcelona	€ 282.00/sq m/annum	282	-6.0	-16.1	-16.1	5	3
Spain	Madrid	€ 408.00/sq m/annum	408	-12.8	-16.1	-16.1	3 + 3 or 5 + 5	2 - 5
Sweden	Stockholm	SEK 4,100/sq m/annum	375	-2.4	-6.8	-6.8	3 - 5	3 - 6
Switzerland	Geneva	SFR 820.00/sq m/annum	543	0.0	5.1	0.0	5	3
Switzerland	Zurich	SFR 900.00/sq m/annum	596	-3.2	-5.3	-5.3	5	3
Turkey	Istanbul	US\$ 45.00/sq m/month	408	0.0	50.0	0.0	3 - 5	1
UAE	Dubai	AED 450.00/sq ft/annum	995	-18.2	0.0	-18.2	3	1 - 2
UK	Birmingham	£ 29.00/sq ft/annum	338	-3.3	-10.8	-10.8	10	24
UK	Edinburgh	£ 29.00/sq ft/annum	338	0.0	0.0	0.0	10	24
UK	Glasgow	£ 27.50/sq ft/annum	320	0.0	0.0	0.0	10	30
UK	London City	£ 46.50/sq ft/annum	541	-13.1	-22.5	-28.5	10	27 - 30
UK	London West End	£ 87.50/sq ft/annum	1,019	-10.3	-27.1	-27.1	10	18 - 24
UK	Manchester	£ 28.50/sq ft/annum	332	0.0	0.0	0.0	10	36

- Figures indicate degree of change from the highest rent recorded in the previous three years, and current level
- The information in this publication should only be referred to as a guide for general market characteristics
- Symbols: + = tenant option, / = break, - = range for lease length



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.

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



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 a cost-effective due to the fact that the landlord carries most of the fit-out costs.



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.

Many of the occupiers in **Budapest** are looking to cut 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.

With several large office developments in the pipeline offering attractive terms and conditions, occupiers in **Zagreb** have the opportunity to benefit from the fierce competition between developers who are trying to pre-let space. This competition also gives occupiers opportunities to reach better terms in their existing space should they not want to re-locate. Occupiers are also far less willing to commit to long lease terms.



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.

The vacancy rate in **Pretoria** is still the lowest in the country due to demand from national government. Rents may rise because of increasing development costs.

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MARKET TALKING POINTS

Sale & Leasebacks

Last year nearly 20% of the investment transactions that completed across Europe were sales by corporate vendors. Starved of traditional sources of capital by reluctant banks, corporate treasurers are increasingly prepared to overlook falling asset values and focus on the more favourable comparison with the opportunity and/or actual cost of capital. In previous recessions corporate disposals were regarded by some as the last resort of the desperate. Now, however, the corporate market accepts sale and leasebacks as a sound and competitive way of releasing idle capital, and much of the activity we are now seeing is from sound global businesses with investment grade ratings. It is becoming more widespread too: the UK and Germany remain the largest markets but Italy and Spain in particular have grown in importance partly because of multi-property sales by banks in both countries. We regard this as an enduring trend: corporates across all business sectors continue to express interest in executing sale and leaseback transactions and several significant portfolios are likely to come to the market this year.

Lease negotiations

In an environment where asset values and investment returns are falling, landlords are under pressure to preserve cash flows and, in some cases, are becoming increasingly concerned by the risk posed by impending tenant lease expiries and break options. These are driving landlords to offer increased incentive packages to secure or retain tenants, thus avoiding unexpected voids and remarketing costs. Landlords are also becoming increasingly flexible on lease length and terms. Tenants who have an opportunity to vacate and are actively prepared to consider doing so are in a particularly strong position. They may actually be pleasantly surprised at the cost and quality of the alternative accommodation available; and at the very least, making the threat of relocation credible to the landlord places them in a strong position.

Outlook for the CEE

Central and Eastern Europe has seen a sharp economic slowdown as global trade weakens and the outlook for industrial production deteriorates. This follows years of strong outputs and record GDP growth. Although take-up held up in 2008 compared with Western Europe, several governments are now struggling with external debt (including the Baltics, Hungary and Ukraine) and the shift in sentiment is likely to impact employment figures. This must be coupled with the fact that in the majority of cases the constraints on supply have been much looser in the CEE than in Western Europe, suggesting that there may be substantial increases in vacancy rates to come. Moscow already serves as an example of how quickly vacancy can increase when demand fails to keep pace with development in a rapidly expanding market. In the longer term most of the CEE cities still have a structural undersupply of good quality modern office space. However, in the short term rental values will continue to fall as a result of high vacancy and severe economic strain.

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