CB RICHARD ELLIS

MarketView

EMEA Offices

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Q1 2011

Quick Stats

	Change from Q4 10	Change from Q1 10
Rent	↑	↑
Yield	↓	↓

Hot Topics

- Activity slowed down as London recorded a two-year low in take-up. Cost-cutting still an important driver but more businesses seeking to expand
- Rental dualism between prime and secondary stock becoming more evident as prime rents pick-up
- Lack of prime space becoming increasingly evident where demand is stronger. Lower completions set to produce further shortages over the next two years

OVERVIEW

• Demand still patchy across Europe with take-up down both q-o-q and y-o-y

Take-up in Europe fell by 20% on the previous quarter, but was also 14% lower compared with the same period last year. The decline partly reflects seasonal effects but also slower activity in key markets such as London and Moscow. Encouragingly, in some cities, there are emerging signs that demand is increasingly driven by a genuine need for more space.

• Vacancy down for the first time since the onset of crisis

The vacancy rate edged down to 10.3% from 10.5%, as a majority of cities recorded declines in the first quarter. With completions running at historically low levels and projected to stay subdued for a while, vacancy rates in Europe appear to be at or past their peak and may soon start to trend downwards.

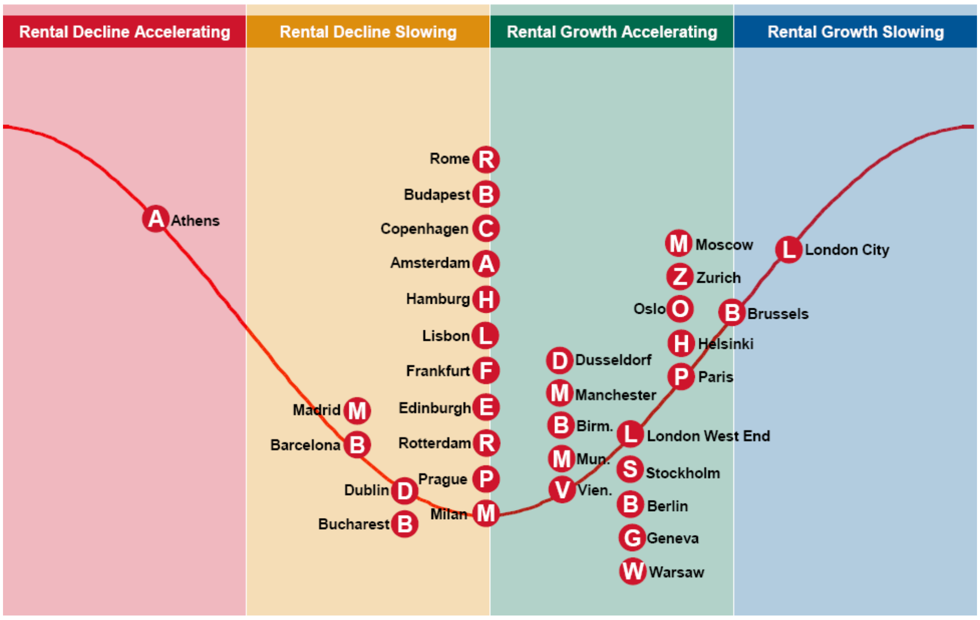
• Rents stable, with little sign yet of general recovery

The CB Richard Ellis EU-27 rent index rose by 0.8% in the first quarter of this year, producing an annual increase of 2.6%, both figures almost identical to those recorded in the previous quarter. Several of the major markets are seeing strengthening growth, but a significant number are still at or approaching the bottom of their rent cycle.

• New development starts remain low except in isolated instances

With development finance still very restricted, there is little evidence of any increase in new office starts, even in markets that have seen relatively strong value growth. There are a few exceptions, notably London and Warsaw, where new starts showed signs of picking up in Q1 but in general the level of new completions will be very low over the next two years.

EMEA Rental Cycle, Q1 2011



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

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OFFICE RENTS

Prime rents in Europe continue to post modest growth, but with little sign of a generalized acceleration or indeed a particularly clear geographic pattern. The CB Richard Ellis EU-27 rent index rose by 0.8% in the first quarter of this year, producing an annual increase of 2.6%, both figures almost identical to those recorded in the previous quarter. While the general picture is one of rental stability, therefore, the absence of strong economic momentum is delaying a more convincing recovery.

The main EMEA office markets are split between those where prime rents are at or approaching the bottom of the cycle and those where rents have seen some measure of recovery. The first group includes Frankfurt, Amsterdam, Milan and Prague none of which saw any change in prime rent levels this quarter. Few markets are still seeing absolute decline in prime rent levels and for most of those that are - including Madrid, Barcelona and Lisbon - the pace of decline has eased considerably. The clear exception is Athens where rents are falling sharply in a weakening economy.

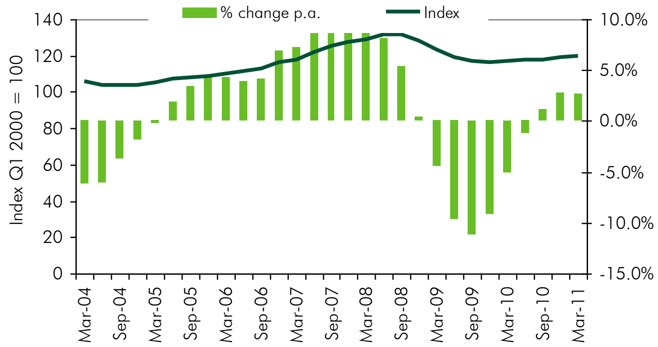
In the group of cities where rents are rising, some - such as London, Paris and Stockholm - had been growing through much of 2010 and in some cases may be entering a period of slower growth. Others - such as Munich, Berlin and Geneva - had seen little if any growth last year and are only now starting to see positive rental momentum.

OFFICE TAKE-UP

Demand for office space remains patchy across Europe. Aggregate take-up in the main European cities totaled 2.4 million sqm in the first quarter, down by over 20% on previous quarter. Although this is partly due to seasonal effects, take-up was also 14% lower compared with the same quarter last year, with London, Brussels and Moscow registering substantial y-o-y falls. In contrast other office markets, such as Warsaw, Milan, Dublin and Frankfurt all showed an improvement in take-up compared with last year, but in some cases this was caused by large one-off deals.

In those markets such as London and Warsaw, where strong demand has quickly eroded existing supply, pre-lets are increasingly seen as the only viable option to accommodate the needs of larger occupiers. In Warsaw for example, pre-lettings accounted for nearly one-third of take-up in the first quarter of the year. Equally notable, in some cities such as Paris and the Nordic markets, we are starting to see more demand coming from businesses seeking to increase, rather than reduce, occupied space. This trend is expected to strengthen over the year, particularly in those markets enjoying stronger economic fundamentals.

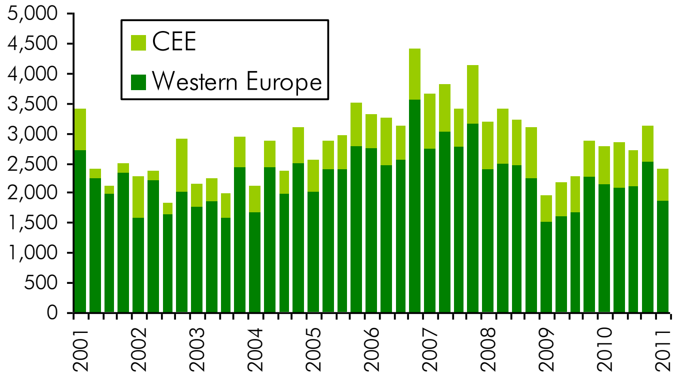
EU-27 Office Rent Index



EU-27 Office Rent Index

	Q1 2010	Q4 2010	Q1 2011
Index (Q1 2000 = 100)	117	119	119
Quarter-on-Quarter (% Change)	1.0	0.7	0.8
Year-on-Year (% Change)	-5.0	2.8	2.6

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



Office Take-up ('000s sq m)

	Q1 2010	Q4 2010	Q1 2011	Q-on-Q Change	Y-on-Y Change
Brussels	151	170	43	-75%	-72%
London	404	414	212	-49%	-48%
Dublin	24	46	48	4%	100%
Frankfurt	58	109	80	-27%	38%
Madrid	89	92	75	-18%	-16%
Paris	505	531	613	15%	21%
Moscow	377	264	219	-17%	-42%

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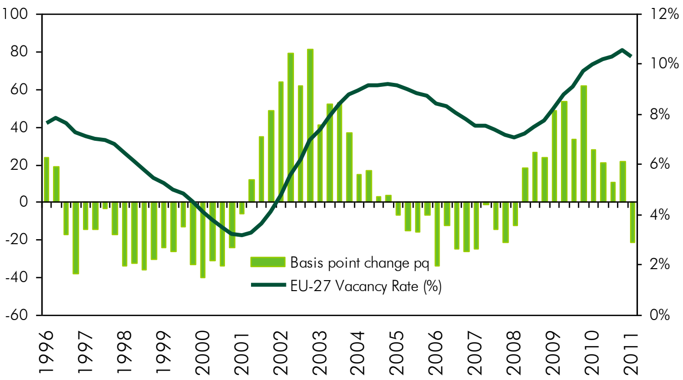
EU-27 Vacancy Rate Index

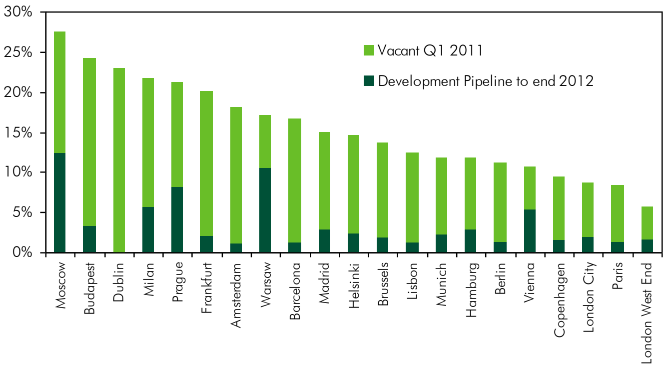


Office Vacancy Rates (%)

	Q1 2010	Q4 2010	Q1 2011
London	6.7	5.5	5.1
Paris	6.8	6.8	7.0
Madrid	10.5	12.3	12.1
Barcelona	12.7	14.6	15.3
Frankfurt*	16.8	18.4	18.0
Berlin	10.1	10.2	9.9
Amsterdam	17.0	17.1	17.0
Dublin	23.0	23.8	23.0
Milan	8.9	9.4	9.3

*Historic revisions to the Frankfurt series in Q1 2010.

Vacant Space & Two-year Pipeline as % of Stock



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

	2011	2012
Amsterdam	56	26
Berlin	227	74
Frankfurt	204	91
London	166	259
Madrid	195	192
Paris	527	341

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OFFICE VACANCY

The aggregate vacancy rate in Europe edged down this quarter from 10.5% to 10.3%, after having increased steadily since the end of the 2007. In spite of the modest levels of take-up, most European markets saw vacancy declining in the first quarter. Supply is continuing to trend firmly downward in Central London, for example, particularly the West End, where vacancy fell by almost a full percentage point. Frankfurt also saw vacancy decline for the first time since the end of 2009, with prospects of further falls to come by the end of the year. Substantial reductions were recorded in Dublin, Copenhagen, and a group of CEE markets including Moscow, Bucharest and Kiev. Supply also appears to be stabilizing in Amsterdam and Brussels, where vacancy has been declining, albeit marginally, for two consecutive quarters.

With completions running at historic low levels and projected to remain subdued for a while, vacancy rates across Europe appear to be close to, or already past, their peak and could soon start trending downward. Only a small number of cities, including Lisbon, Madrid and Barcelona are likely to see further rises throughout 2011 due to a combination of higher development and weak demand prospects. Generally, as completions dry up and occupiers continue to upgrade and consolidate into new premises, vacancy is increasingly concentrated in older or poorly-located buildings. This is further accentuating the polarization of rents between prime and secondary stock.

OFFICE DEVELOPMENT PIPELINE

With development finance still very restricted, there is little evidence of any pick up in new office starts, even in markets that have seen relatively strong value growth. There are a few exceptions - notably London and Warsaw where new starts showed signs of picking up in Q1 - but even here this is not solely driven by conventional forms of development finance, with significant contributions of overseas equity involved.

The general pattern of development activity across the major European markets shows a drop of over 20% in expected completions in 2011 compared with last year. Thereafter there is a small group of cities - including London and Warsaw but also Hamburg, Vienna, Milan and Stockholm - where completions are set to rise in 2012, but generally the pattern is one of little change in comparison with this year. Indeed there are several markets including Paris, Berlin, Brussels and Amsterdam where a further significant drop in completion levels is likely. The resultant squeeze on new supply in core districts is likely to produce growing interest in refurbishment activity, and further pre-lets, as pressure grows from corporates faced with a reduced choice of new buildings.

KEY INDICATORS

Country	City	Prime Office Rent Local	€ / sq m/ annum	Last 3 Months (%)	Last 12 Months (%)	From peak* (%)	Prime Office Yield %
Austria	Vienna	€ 23.50/sq m/month	276	2.2	5.6	0.0	5.25
Belgium	Brussels	€ 285.00/sq m/annum	285	0.0	7.6	-5.0	6.25
Bulgaria	Sofia	€ 14.00/sq m/month	168	0.0	-5.1	-23.3	9.50
Croatia	Zagreb	€ 16.00/sq m/month	192	0.0	-4.2	-8.6	8.30
Czech Republic	Prague	€ 21.00/sq m/month	252	0.0	0.0	-8.7	6.50
Denmark	Copenhagen	DKR 1,675/sq m/annum	225	0.0	0.0	-9.5	5.25
Finland	Helsinki	€ 360.00/sq m/annum	360	3.4	13.2	0.0	5.40
France	Lyon	€ 245.00/sq m/annum	245	4.3	-0.4	-2.0	6.25
France	Marseille	€ 250.00/sq m/month	250	0.0	0.0	-16.7	6.15
France	Paris	€ 830.00/sq m/annum	830	3.7	10.7	-2.3	4.75
Germany	Berlin	€ 22.00/sq m/month	264	4.8	10.0	-2.2	5.20
Germany	Frankfurt	€ 38.00/sq m/month	456	0.0	0.0	-2.6	5.10
Germany	Hamburg	€ 22.50/sq m/month	270	0.0	-2.2	-6.2	4.90
Germany	Munich	€30.00/sq m/month	360	1.7	1.7	-4.7	4.80
Greece	Athens	€28.00/sq m/month	336	-12.5	-15.1	-15.1	6.75
Hungary	Budapest	€20.00/sq m/month	240	0.0	0.0	-11.1	7.50
Ireland	Dublin	€ 345.00/sq m/annum	345	0.0	-8.2	-48.7	7.25
Israel	Tel Aviv	$28.00/sq m/month	251	3.7	21.7	-20.0	7.50
Italy	Milan	€520.00/sq m/annum	520	0.0	0.0	-5.5	5.50
Italy	Rome	€ 420.00/sq m/annum	420	0.0	0.0	-4.5	5.75
Luxembourg	Luxembourg City	€ 40.00/sq m/month	480	0.0	0.0	0.0	6.00
Netherlands	Amsterdam	€ 330.00/sq m/annum	330	0.0	0.0	-2.9	5.25
Norway	Oslo	NKR3,200/sq m/annum	411	0.0	6.7	-28.9	5.50
Poland	Warsaw	€ 26.00/sq m/month	312	4.0	13.0	-25.7	6.25
Portugal	Lisbon	€ 18.50/sq m/month	222	-2.6	-5.1	-9.8	7.00
Romania	Bucharest	€ 19.50/sq m/month	234	0.0	0.0	-11.4	8.75
Russia	Moscow	US$ 950.00/sq m/annum	671	5.6	11.8	-44.1	10.50
Russia	St Petersburg	US$ 800.00/sq m/annum	565	0.0	0.0	-39.6	12.00
Serbia	Belgrade	€ 14.50/sq m/month	174	0.0	-3.3	-30.9	9.50
Slovak Republic	Bratislava	€17.00/sq m/month	204	0.0	0.0	-5.6	7.25
Spain	Barcelona	€ 228.00/sq m/annum	228	-2.6	-7.3	-32.1	5.75
Spain	Madrid	€ 318.00/sq m/annum	318	-1.8	-8.6	-34.6	5.75
Sweden	Stockholm	SEK 4,300/sq m/annum	480	0.0	7.5	-2.3	5.00
Switzerland	Geneva	SFR 880.00/sq m/annum	676	3.5	3.5	3.5	4.5
Switzerland	Zurich	SFR 950.00/sq m/annum	730	5.6	11.8	0.00	4.40
Turkey	Istanbul	US$ 40.00/sq m/month	339	0.0	0.0	-11.1	8.50
UAE	Dubai - DIFC	AED 280.00/sq ft/annum	579	0.0	-20.0	-49	8.25
UK	Birmingham	£ 28.50/sq ft/annum	347	0.0	5.6	-12.3	6.00
UK	Edinburgh	£ 27.50/sq ft/annum	335	0.0	0.0	-5.2	6.00
UK	Glasgow	£ 27.00/sq ft/annum	329	0.0	0.0	-5.3	6.00
UK	London City	£ 55.00/sq ft/annum	670	0.0	17.0	-15.4	5.25
UK	London West End	£ 92.50/sq ft/annum	1,127	5.7	8.8	-22.9	4.00
UK	Manchester	£ 29.00/sq ft/annum	353	0.0	1.8	1.8	6.00

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

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MARKET SUMMARIES

Take-up in **Amsterdam**, halved as compared to the same period last year. Activity is still primarily driven by space rationalization and consolidation, with Capgemini for example recently announcing plans to reduce occupied space. Supply of quality office space in prime locations is tightening but this has not yet translated into rental growth as prime rents remain flat at €330/sq m/year.

Leasing activity in **Brussels** slowed down in the first quarter. The "flight to quality" continues, particularly in the suburbs, with tenants looking to take advantage of lower rents to secure modern and more efficient space. Vacancy has stabilised and so rents.

Take-up in **Dublin** almost doubled this quarter as compared to the same period last year. Activity continues to be driven by small lettings thought some larger occupiers, mainly foreign multinationals, are also taking advantage of cheap rents to secure quality office space. With completions finally coming to a halt, vacancy declined slightly but announced job cuts in the banking sector could bring some more surplus office accommodation to the market, pushing vacancy upwards again. Rents are stable at €345/sq m/year.

In **Frankfurt**, take-up was 38% higher than previous quarter. Quarterly results were partly influenced by one large transaction in the airport market. Vacancy declined for the first time since the beginning of 2010 but prime rents were unchanged at €38/sq m/month.

Take-up across Central **London** fell to 2.3m sq ft in the first quarter. This represents a fall of 49% from Q4 2010 and a similar fall compared with the same period a year ago. Availability dipped further, particularly in the West End, where prime rents rose to £92.50/sq ft/year. Rental values remained static elsewhere. Following the surge in prime rents seen in 2010, the rate of rental growth is predicted to slow somewhat in 2011, notably in the City where rents have bounced 17% y-o-y.

Take-up in **Milan** increased sharply in the first quarter of the year. Ongoing consolidation in the banking sector is underpinning activity but at the same time is triggering an inflow of second hand space back onto the market. Availability of high quality space in the historical centre on the other hand remains tight and rents seem to have stabilized recently. The construction of a new scheme in close proximity to the historic centre is attracting tenants' interest.

Take-up in **Madrid** was 18% lower than the previous quarter and also significantly lower than in the same quarter of last year. Overall vacancy rate has remained above 12%, despite a very limited pipeline of new completions. Prime rents fell further to €318/sq m/year, and rising incentives are preventing even sharper falls in nominal asking rents.

Take-up in **Paris** rose by 15% compared with the final quarter of 2010, boosted by a 70,000 sq m landmark transaction to Thales in the Gennevillers area. While cost cutting is still a key driver of activity, some SMEs are actually growing and need more space, especially in the IT, consultancy and marketing sectors. Prime rents rose slightly to €830/sq m/year despite the uptick in vacancy.

Prime rents in **Vienna** rose for the third consecutive quarter and reached €23.50/sqm/annum. The vacancy rate edged down slightly this quarter but remains high relative to historic norms as do incentives. The expected reduction in completions level however means that occupiers may find it increasingly difficult to secure large requirements.

The vacancy rate in **Copenhagen** fell sharply this quarter to 7.9%, due to a combination of healthy occupier demand and low completions. The public sector remains a major source of take-up but activity is also increasingly driven by businesses in need of more space. While this general improvement hasn't yet been accompanied by a rise in prime rents, upward pressure is becoming increasingly apparent, especially in the CBD.

In **Helsinki** rental growth remains confined to the prime end of the market, with no noticeable movements in rental values elsewhere. The divergences in rental performances between prime and secondary locations and modern vs. old stock is expected to persist, and possibly intensify, as the year goes on.

Take-up in **Oslo** was slightly down on the same quarter last year. Vacancy is stable and prime rents are expected to increase moderately during 2011 as the lack of supply becomes more apparent.

Prime rents in **Stockholm** were unchanged this quarter, after having risen for three consecutive quarters. A handful of transactions were nonetheless closed at exceptionally high rents. Activity remains tightly focused on modern office space in prime locations and demand for this type of accommodation has increased recently, reflecting the strong momentum in the Swedish economy.

In **Athens**, demand is weakening further with low business confidence and high economic uncertainty leading companies to defer any major real estate decisions. Voids periods are also lengthening. Prime rents are already 15% lower compared to peak levels and all the conditions are in place for further falls throughout 2011.

In **Bucharest**, leasing activity saw a revival in the first quarter of 2011. The vacancy rate remains high but is starting to edge downwards, and the development pipeline has been significantly reduced. Net effective rents have stabilized in central locations, while they are still down in peripheral areas.

Prime rents in **Budapest** were unchanged on previous quarter. Quarterly take-up was low but there are encouraging signs that occupiers' activity could pick up somewhat in the latter part of the year. Vacancy increased slightly and is still above 20% but availability in modern buildings is relatively low.

Prime rents in **Moscow** continued to move ahead in the first quarter as supply declined further despite weak take-up. The local development pipeline remains constrained, meaning that the vacancy rate could ease again. This should support further rental growth in the months to come, but only in core areas.

Warsaw saw one of its highest quarterly take-up levels on record, boosted by exceptionally strong pre-letting activity. Prime rents rose slightly to €26.00/sq m/month and there are expectations that this could increase further given the current tight supply picture and the restricted pipeline.

In **Almaty** rents were stable in the first quarter. Small deals are still driving activity but the average size of office requirements is increasing as more occupiers plan to hire new staff and move to new offices. Voids however remain high.

Occupiers in **Abu Dhabi** have a wide range of office accommodation to choose from and are using their increased bargaining power to upgrade. This movement towards Grade-A accommodation is expected to strengthen as new space comes into the market in 2011 and 2012.

Prime rents continue to ease in **Dubai** as vacancy edges higher. This is encouraging occupiers to move to more central locations and could ultimately lead to some improvement in occupancy rate in those areas. Overall, office stock will continue to growth at a steady pace in the course of 2011, with new development sites such as Business Bay, Jumeirah Lakes Towers, TECOM, Dubai Investment Park and Dubai Silicon Oasis currently under construction.

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
CB Richard Ellis
St Martin's Court
10 Paternoster Row
London EC4M 7HP
+44 20 7182 3348
richard.holberton@cbre.com

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