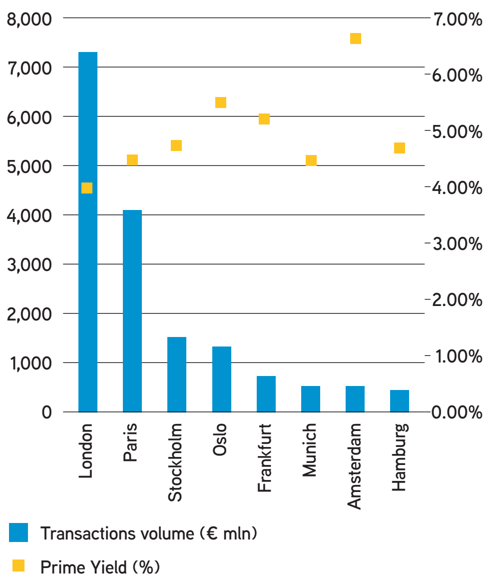
EMEA

OFFICE REPORT

TOP OFFICE INVESTMENT MARKETS H1 2012



Source: Colliers International, RCA

Corporates remain cash rich, but wracked by uncertainty regarding the outlook.

ECONOMIC OVERVIEW

The first half of 2012 was overshadowed by continued economic stagnation across Europe, on the back of uncertainty regarding the future structure of the Eurozone. GDP in the European Union fell by 0.2% in Q2 2012, on both a quarterly and annual basis. Quarterly growth was recorded in Germany (0.3%), the Netherlands (0.2%) and Sweden (1.4%); however, France stagnated with zero growth, whilst both Italy and the UK saw a quarterly decline of -0.7%.

Across the Middle East, political and economic uncertainty continues to translate into poor performance in local real estate markets with low demand from both tenants and investors.

OCCUPATIONAL OVERVIEW

Looking at prime office rents across the EMEA key markets the story is very mixed. Rents at the top end did remain broadly unchanged over the period, but in most markets this has been on the back of limited supply, with demand generally very soft. Business confidence across Europe is pointing downwards, which does not bode well for the next year or so of activity.

Broadly speaking prime rents in core Europe remained stable, and in some cases still saw small rises. Germany notably saw rises in the markets of Dusseldorf, Stuttgart and Munich. Demand for office space was driven mainly by IT and consulting companies in all key markets, while occupiers from manufacturing sector remained strong in Munich and Stuttgart. It remains to be seen; however, how well activity in Germany continues to hold up as its major trading partners continue to struggle.

It was noticeable that rents in some major markets have fallen back. Geneva saw a marginal fall, with the strong Swiss Franc proving a problem for the economy. Whilst the main CEE markets Prague and Warsaw both saw falls, predominantly on the strength of the supply pipeline coming through – their occupational markets do remain fairly active.

A further weakening of the headline grabbing markets of Athens, and Cairo was noticeable. Additionally prime rents in Madrid fell back marginally, down 2%.

Corporates remain cash rich, but wracked by uncertainty regarding the outlook. That said there are always winners and losers even when the overall picture is flat. For example, manufacturers continue to be the key tenants in German cities such as Munich and Stuttgart, with this sector of the German economy continuing to motor.

INVESTMENT OVERVIEW

The first six months of 2012 saw a lower recorded volume of investment transactions across Europe in comparison to the same period of 2011 (-13%). The lion's share of the activity remained concentrated in the core Western European markets, with the UK attracting the highest volumes of capital – much of it fleeing the eurozone and the Middle East. High investment volumes were also recorded in Sweden and Norway, with demand driven mainly by domestic investors in these cases.

In Central and Eastern Europe the volume of deals dropped, it is, however, expected to rebound later in the year – with a number of large transactions in the pipeline.

Prime yields across the majority of our monitored EMEA office markets remained unchanged in the first half of 2012.

Prime yields in the main French and German office markets remained stable. Whilst after minor upward shifts in the second half of 2011 yields in regional UK markets also remained steady throughout the first half of 2012.

A minor compression of prime yields was recorded in Stockholm and Antwerp (-25bps), as well as in Brussels and Zurich (-10bps).

Marginal upward shifts took place in weak markets struggling with low occupational demand and low or non-existent investment activity: Athens (+25 bps), Milan, Madrid (+15 bps) and Rome (+10 bps). The largest increase was recorded in Lisbon (+50 bps).

CITY	COUNTRY	LOCAL MEASURES	CBD AVERAGE NET RENT	SIX MONTH CHANGE (%)	ANNUAL CHANGE (%)	CBD PRIME YIELD (%)	SIX MONTH SHIFT (BPS)	ANNUAL SHIFT (BPS)
Tirana	Albania	eur/sq m/month	15.5	0.0	-8.8	14.00%	0.00	0.00
Vienna	Austria	eur/sq m/month	18.5	2.8	2.8	3.50%	0.00	0.00
Antwerp	Belgium	eur/sq m/month	10.4	0.0	0.0	7.00%	-25.00	-25.00
Brussels	Belgium	eur/sq m/month	15.0	0.0	0.0	6.00%	-10.00	-10.00
Sofia	Bulgaria	eur/sq m/month	9.0	0.0	0.0	9.00%	0.00	0.00
Zagreb	Croatia	eur/sq m/month	12.5	0.0	0.0	9.00%	0.00	0.00
Prague	Czech Republic	eur/sq m/month	15.5	-3.1	-3.1	6.50%	30.00	0.00
Copenhagen	Denmark	dkk/sq m/month	108.3	0.0	0.0	5.00%	0.00	0.00
Cairo	Egypt	usd/sq m/month	21.8	-0.2	-5.4	9.00%	0.00	-200.00
Tallinn	Estonia	eur/sq m/month	13.4	0.8	1.5	7.50%	0.00	-30.00
Bordeaux	France	eur/sq m/month	13.5	0.0	1.5	6.50%	0.00	0.00
Lyon	France	eur/sq m/month	18.8	0.0	0.0	6.00%	0.00	0.00
Marseille	France	eur/sq m/month	15.9	0.0	0.0	6.15%	0.00	0.00
Paris	France	eur/sq m/month	62.0	2.6	2.6	4.50%	0.00	0.00
Berlin	Germany	eur/sq m/month	19.0	0.0	-2.6	5.00%	0.00	0.00
Düsseldorf	Germany	eur/sq m/month	23.0	2.2	7.0	5.20%	-5.00	-5.00
Frankfurt	Germany	eur/sq m/month	30.0	0.0	0.0	5.20%	0.00	0.00
Hamburg	Germany	eur/sq m/month	22.0	0.0	0.0	4.70%	0.00	0.00
Munich	Germany	eur/sq m/month	27.5	1.9	4.2	4.50%	0.00	0.00
Stuttgart	Germany	eur/sq m/month	19.0	8.6	15.2	5.40%	0.00	0.00
Athens	Greece	eur/sq m/month	13.0	-7.1	-7.1	7.75%	25.00	50.00
Budapest	Hungary	eur/sq m/month	12.5	0.0	0.0	7.75%	0.00	0.00
Dublin	Ireland	eur/sq m/month	20.0	0.0	0.0	7.50%	0.00	-25.00
Milan	Italy	eur/sq m/month	40.0	0.0	-1.5	5.50%	15.00	15.00
Rome	Italy	eur/sq m/month	29.0	0.0	0.0	5.85%	10.00	10.00
Riga	Latvia	eur/sq m/month	12.0	0.0	0.0	8.00%	0.00	0.00
Vilnius	Lithuania	eur/sq m/month	13.5	3.1	3.1	8.50%	0.00	0.00
Amsterdam	Netherlands	eur/sq m/month	17.8	0.0	4.1	6.65%	15.00	15.00
Oslo	Norway	nok/sq m/year	3,250.0	0.0	1.6	5.50%	0.00	0.00
Warsaw	Poland	eur/sq m/month	22.2	-1.8	-1.3	6.50%	25.00	0.00
Lisbon	Portugal	eur/sq m/month	15.2	1.4	-2.8	8.00%	50.00	50.00
Bucharest	Romania	eur/sq m/month	15.0	0.0	0.0	8.00%	-25.00	0.00
Moscow	Russia	usd/sq m/month	75.0	10.3	29.3	9.50%	0.00	0.00
Saint Petersburg	Russia	usd/sq m/month	33.0	3.8	-3.2	10.00%	-100.00	-100.00
Jeddah	Saudi Arabia	sar/sq m/year	934.0	n/a	-15.1	n/a	n/a	n/a
Riyadh	Saudi Arabia	sar/sq m/year	1,130.0	-5.8	-13.1	10.00%	0.00	-50.00
Belgrade	Serbia	eur/sq m/month	15.5	6.9	6.9	9.00%	0.00	0.00
Bratislava	Slovakia	eur/sq m/month	11.0	-3.9	-4.3	7.50%	0.00	0.00
Madrid	Spain	eur/sq m/month	23.5	-2.1	-2.1	5.90%	15.00	40.00
Stockholm	Sweden	sek/sq m/year	4,600.0	2.2	2.2	4.75%	-25.00	-25.00
Geneva	Switzerland	chf/sq m/month	54.2	-1.5	-1.5	4.25%	0.00	25.00
Zurich	Switzerland	chf/sq m/month	40.0	0.0	0.0	4.00%	-10.00	-10.00
Istanbul	Turkey	usd/sq m/month	28.7	-7.7	7.6	7.00%	0.00	0.00
Kyiv	Ukraine	usd/sq m/month	23.0	-11.5	-11.5	12.00%	0.00	0.00
Abu Dhabi	United Arab Emirates	usd/sq m/month	30.5	-8.0	-18.6	n/a	n/a	n/a
Dubai	United Arab Emirates	usd/sq m/month	32.9	-8.1	-13.2	10.00%	0.00	-70.00
Belfast	United Kingdom	gbp/sq ft/year	12.5	0.0	0.0	6.25%	0.00	0.00
Birmingham	United Kingdom	gbp/sq ft/year	21.0	0.0	0.0	6.00%	0.00	25.00
Bristol	United Kingdom	gbp/sq ft/year	24.0	0.0	0.0	6.25%	0.00	25.00
Edinburgh	United Kingdom	gbp/sq ft/year	21.0	0.0	0.0	6.00%	0.00	0.00
Glasgow	United Kingdom	gbp/sq ft/year	23.0	0.0	0.0	6.00%	0.00	15.00
London – City	United Kingdom	gbp/sq ft/year	48.5	0.0	0.0	5.25%	0.00	0.00
London – West End	United Kingdom	gbp/sq ft/year	80.0	3.2	3.2	4.00%	0.00	0.00
Manchester	United Kingdom	gbp/sq ft/year	22.0	0.0	7.3	6.00%	0.00	25.00

Any declines in occupational demand will be counterbalanced by limited supply levels in most markets.

OCCUPATIONAL OVERVIEW

With broad economic stagnation in the EMEA region and no solution for the Eurozone crisis on the horizon, the majority of corporations will continue to take a cautious approach to any leasing activity. However, any declines in occupational demand will be counterbalanced by limited supply levels in most markets, therefore rental values across majority of the markets are expected to remain flat for the best space.

Increases in rental values are expected, however, in the strong markets of London, Stockholm, Munich and Vienna.

The outlook is particularly good for key markets such as London or Munich, which enjoy stable GDP growth above national average, good prospects for local labour markets and therefore stable occupational demand.

A decrease is expected in Swiss markets due to poor demand levels; the strength of the local currency is a key factor impacting tenants' businesses and leasing activity. In weak centres struggling with difficult economic conditions, such as Lisbon or Madrid, a further decline in rents is also expected.

INVESTMENT OVERVIEW

Burdened with economic uncertainty and lack of financing for secondary products investors will continue to aim at prime assets in prime locations only.

The level of investment transactions is expected to stay at current levels with the lack of quality product acting as a break on demand. Activity will continue to be focused on the UK, Germany, France and Nordics. Although a revival is also expected in the CEE region in the latter part of the year.

Prime yields across the vast majority of key EMEA centres are to remain stable, low bond yields in the major economies are tending to offset investors' concerns regarding occupational prospects. Yet declining occupational demand and negative investors' sentiment will be likely to push up prime yields in peripheral markets such as Lisbon and Madrid.

Outside of prime, secondary pricing remains unclear and transaction levels low, maintaining a vicious circle of uncertainty for all but the most opportunistic investor.

PRIME RENTS

▲	▼
London	Cairo
Moscow	Lisbon
Munich	Madrid
Vienna	Dubai
Stockholm	

PRIME YIELDS

▼	▲
Riyadh	Madrid
Abu Dhabi	Lisbon
Dubai	Rome

Falling occupational demand and negative investors' sentiment will be likely to push up prime yields in peripheral markets.

GLOSSARY

Average Class A Net Rent
The average open-market tier of rent that could be expected for a Class A unit of standard size, commensurate with demand (typically 500-1,000 sq m for offices), at the survey date. The figure excludes service charge and taxes, and does not reflect tenant initiatives.

Prime Yield
The yield an investor is prepared to pay to buy a Grade A building, fully-let to high quality tenants at an open market rental value in a prime location, with lease terms commensurate with the local market.

522 offices in 62 countries on 6 continents

United States: 147
Canada: 37
Latin America: 19
Asia Pacific: 201
EMEA: 118

- $1.8 billion in annual revenue
- 116 million square meters under management
- Over 12,000 professionals

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