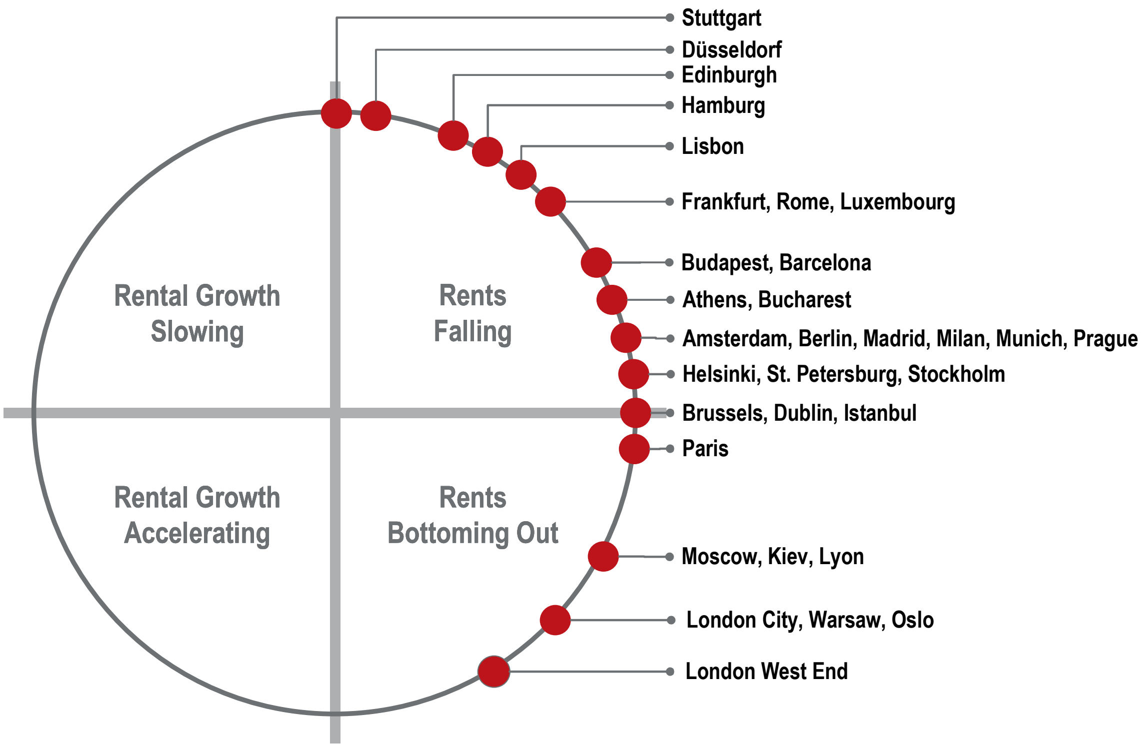
JONES LANG LASALLE

*Real value in a changing world*

# /pulse/

## European Office Property Clock - Q3 2009

# Prime Office Rents Stabilise - Supply/Demand Imbalance Widens




This diagram illustrates where Jones Lang LaSalle estimates each prime office market is within its individual rental cycle as at end September 2009. Markets can move around the clock at different speeds and directions. The diagram is a convenient method of comparing the relative position of markets in their rental cycle. Their position is not necessarily representative of investment or development market prospects. Their position refers to prime face rental values. Markets with a "step pattern" of rental growth do not tend to follow conventional cycles and are likely to move between the "hours" of 9 and 12 o'clock only, with 9 o'clock representing a jump in rental levels following a period of stability

Prime face rental levels stabilised in the majority of European markets in Q3 2009. The European Prime Office Rental Index based on the weighted performance of 24 markets decreased by only 0.8% over the quarter. Nevertheless prime rents across Europe now stand on average 16% below the level recorded one year ago representing a rental decline not seen on record before. Prime rents decreased further in Dublin (-11.1%), Madrid (-6.3%), Prague (-4.5%) and Barcelona (-4.4%). However, headline rents remained at Q2 levels in 16 markets including London and Paris. In those cities with stabilising rental levels landlords are offering increasingly incentives to attract tenants. Most markets on the Q3 European office clock now gather around 3 o'clock indicating highest rental falls in their cycle and proceeding towards rental stabilisation with limited further rental decreases expected at this point.

Despite the improving economic outlook across most European countries on the back of stimulus packages and governmental interventions, business sentiment is improving only cautiously. Corporates continue to undergo rigid restructuring processes and their focus has been on lease renewals in the last quarter. After a short-run recovery in Q2 when total European take-up improved by 19% after an extremely weak first quarter, gross take-up did not follow an upward trend and stayed stable with slightly below 2.2 million sqm from July to September. Compared to the first three quarters of 2008 however, European office demand is 34% lower so far this year and stands nearly 30% below the 5-year average. This stabilisation in overall European demand has been backed by some markets that registered increasing take-up over the quarter, including some larger markets like Milan (+75%), London (+64%) and Moscow (+17%). However some major markets, namely Paris and Stockholm, continue to see further declining demand.

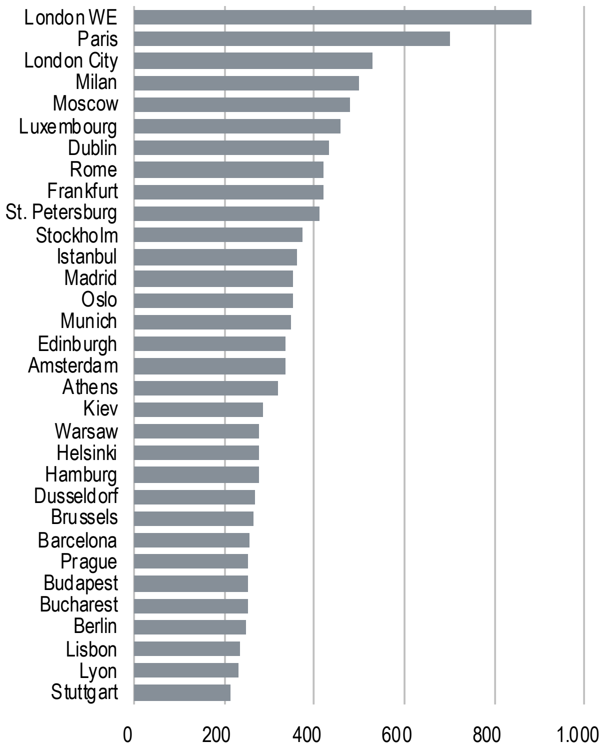
Construction activity is on the decline and completion volumes are expected to decrease over the next few years. However, projects started before the recession continue to be delivered with 5.6 million sqm been completed in the first three quarters of this year. New completions combined with declining space requirements continue to drive up the European vacancy rate, which increased further over the quarter to 9.7% – a 50bps increase on Q2 2009. Vacancy in particularly is an issue in the CEE region, where the average vacancy rate increased by nearly 1,000bps over the last 12 months to 15.6% - an all time high. This oversupply is partly caused by the downturn of the Moscow market, but Budapest, Prague and Warsaw have also seen substantial increases in vacant office space. With an increase of 200bps to 9.2% over the last year Western Europe also faces a supply-demand imbalance. Significant completions and weak demand caused negative net absorption of more than half a million square meters for the first time since 2003. The most significant growth in vacancy rates over the quarter were recorded in Amsterdam (+170bps to 14.6%), Warsaw (+140bps to 7.1%) and Barcelona, The Hague, Moscow and Budapest (all up 110bps). Vacancy rates in Europe range now from 21.8% in Dublin to 4.1% in Luxembourg. Though declining, overall Europe remains well supplied with 2.5 million sqm due for completion by the end of the year, with one-third of this in CEE, particularly Moscow. Given the fragile prospects on the demand side, vacancy levels are expected to rise further and significant amounts of sub-let space will leave rents under pressure.

**Prime Office Rents and Rental Change Q3 2009**

| | EUR / sqm pa | % Q-o-Q | | % Y-o-Y | |
|---|---|---|---|---|---|
| **Europe** | | -0.8 | ↓ | -16.0 | ↓ |
| Amsterdam | 335 | 0.0 | ⇔ | 0.0 | ⇔ |
| Athens | 318 | -11.7 | ↓ | -30.3 | ↓ |
| Barcelona | 258 | -4.4 | ↓ | -17.3 | ↓ |
| Berlin | 246 | 0.0 | ⇔ | -6.8 | ↓ |
| Brussels | 265 | 0.0 | ⇔ | -7.0 | ↓ |
| Bucharest | 252 | -4.5 | ↓ | -16.0 | ↓ |
| Budapest | 252 | -2.3 | ↓ | -4.5 | ↓ |
| Dublin | 431 | -11.1 | ↓ | -31.0 | ↓ |
| Dusseldorf | 270 | 0.0 | ⇔ | 0.0 | ⇔ |
| Edinburgh | 336 | -1.6 | ↓ | -1.6 | ↓ |
| Frankfurt | 420 | 0.0 | ⇔ | -5.4 | ↓ |
| Hamburg | 276 | 0.0 | ⇔ | -2.1 | ↓ |
| Helsinki | 276 | -4.2 | ↓ | -5.0 | ↓ |
| Istanbul | 360 | 0.0 | ⇔ | -25.0 | ↓ |
| Kiev | 287 | 0.0 | ⇔ | -61.1 | ↓ |
| Lisbon | 234 | -4.9 | ↓ | -11.4 | ↓ |
| London City | 530 | 0.0 | ⇔ | -25.0 | ↓ |
| London West End | 883 | 0.0 | ⇔ | -30.2 | ↓ |
| Luxembourg | 456 | 0.0 | ⇔ | -5.0 | ↓ |
| Lyon | 230 | 0.0 | ⇔ | -8.0 | ↓ |
| Madrid | 354 | -6.3 | ↓ | -27.6 | ↓ |
| Milan | 500 | 0.0 | ⇔ | -12.3 | ↓ |
| Moscow | 479 | 0.0 | ⇔ | -63.2 | ↓ |
| Munich | 348 | 0.0 | ⇔ | -4.9 | ↓ |
| Oslo | 354 | -7.7 | ↓ | -33.3 | ↓ |
| Paris | 700 | 0.0 | ⇔ | -15.7 | ↓ |
| Prague | 252 | -4.5 | ↓ | -8.7 | ↓ |
| Rome | 420 | -2.3 | ↓ | -6.7 | ↓ |
| St. Petersburg | 410 | -14.3 | ↓ | -42.9 | ↓ |
| Stockholm | 372 | -2.6 | ↓ | -13.6 | ↓ |
| Stuttgart | 216 | 0.0 | ⇔ | 2.9 | ⇧ |
| Warsaw | 276 | -4.2 | ↓ | -30.3 | ↓ |

**Note:** 1. Prime Office Rent represents the top open-market rent that could be expected for a notional office unit of the highest quality and specification in the best location in a market, as at the survey date (normally at the end of each quarter period). The rent quoted normally reflects prime units of over 500 m² of lettable floorspace, which excludes rents that represent a premium level paid for a small quantity of space 2. Q-o-Q and Y-o-Y rental change is based on the local currency.

**Prime Office Rents Q3 2009** (EUR / sqm pa)




**Contacts:**

**Hela Hinrichs**
National Director
EMEA Research
Hamburg
+49 40 350011 237
hela.hinrichs@eu.jll.com

**Oliver Kummerfeldt**
Senior Research Analyst
EMEA Research
Hamburg
+49 40 350011 226
oliver.kummerfeldt@eu.jll.com

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