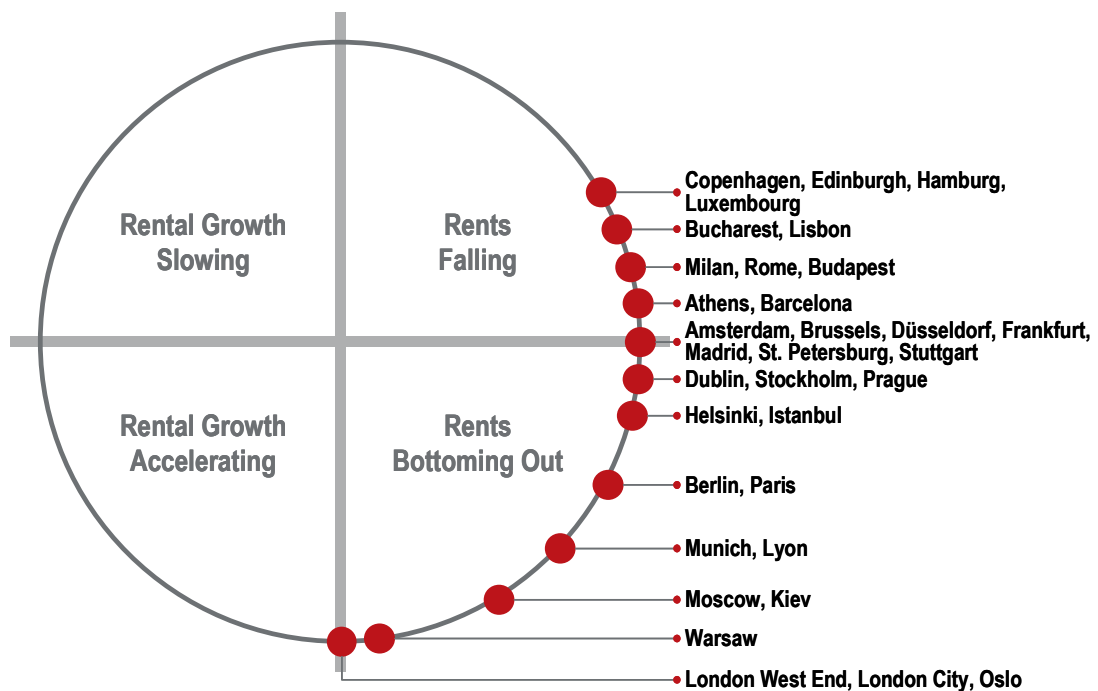


## European occupier markets display signs of cautious optimism



This diagram illustrates where Jones Lang LaSalle estimates each prime office market is within its individual rental cycle as at end December 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

Europe's economies continue to show signs of beginning an economic recovery. However the time lags between the wider economy and the office occupier markets remains evident. Prime office rents continue their stabilisation started in Q3 across the majority of the European markets, however downward pressures remain present and some markets expect their peak rental falls to come. At a regional scale, the European Prime Office Rental Index based on the weighted performance of 24 markets decreased by 0.8% in Q4 2009, after having seen a similar decline in Q3 2009. Prime office rents across Europe now stand on average 13.6% below the level recorded one year ago and 16.8% below the peak seen in Q2 2008. Over the quarter, prime office rents decreased further in nine of the 24 index markets, ranging from -4.3% in Warsaw and -1.7% in Munich. Among those markets were other big German markets such as Frankfurt (-2.9%), Berlin (-2.4%) and Dusseldorf (-2.2%), which have so far been behind the European

cycle. On the other hand, London, which has seen prime rents dropping nearly 35% since the peak, is now the first market to have reached the end of its decline phase and an increasingly confident market suggests rental growth will be proven there in Q1 2010.

While economic prospects improve, labour market fundamentals are weak and remain somewhat based on governmental stimulus. Business confidence across Europe continues to improve from record lows in early 2009 but companies remain cost sensitive. However some companies take the opportunity of low rents and secure prime space or renegotiate leases. Demand for office space increased by 28% over the quarter and reached 2.8 million sq m in Q4, about the same level as in Q4 2008, bringing the annual take-up for 2009 to 9.1 million sq m. However compared to 2008, office demand in 2009 was 26% lower and stands 23% below the five-year average. Overall, 16 of the 24 index markets showed increased

levels of take-up over the quarter led by Amsterdam, Brussels and Madrid though rising from low total levels.

In the final quarter 1.7 million sq m of new office space was completed. The annual total of 7.4 million sq m was an increase of 9% over the year and 38% above the five-year average. High completions, in combination with weak demand, forced the European vacancy rate to rise further up to stand at 10.2%, the first time that it reached a double digit vacancy rate since the mid-1990s. Rising vacancy continues to be an issue in both Western Europe and the CEE region with only Stockholm showing a decrease. Vacancy in CEE increased by 80bps over the quarter and 500bps over the year and has reached 16.3% now, with vacancy rates in Moscow ending the year at 19.6%. In Western Europe the rate rose by 50bps to 9.7%. The most significant growth in vacancy was recorded in the Dutch markets, namely Rotterdam (+340bps to 12.8%), Amsterdam (+280bps to 17.4%) and Utrecht (+190bps to 12.8%). Hence it is not surprising that both, annual and quarterly net absorption has turned negative in Europe.

Although the final quarter of the year showed signs of recovering demand, future supply prospects remain a risk for many markets. The supply pipeline for 2010 remains well filled at an EMEA level and whilst economic recovery remains fragile it is likely that vacancy levels remain high, leaving prime rents under pressure.

This quarter the Jones Lang LaSalle clock positions reflect the continuing risk across the region. What is worth highlighting is the extent to which centres have moved in the final quarter, with London, Oslo and Warsaw no longer expecting rental declines and moving firmly towards the “6 o’clock position”. Other markets, however, are still to see the peak in rental reductions. Despite the significant variations between markets, the forward shift seen by the vast majority, and the fact we have seen the first markets at, or near 6 O’clock, shows the extent and speed which markets have moved through their cycles. Despite the continuing economic and property market risks by year end 2010 we can expect certain markets to enter the rental growth phase, well ahead of market expectations made just six months ago.

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## Prime Office Rents and Rental Change Q4 2009

	EUR / sqm pa	% Q-o-Q	% Y-o-Y
<b>Europe</b>		-0.8 ↓	-13.6 ↓
Amsterdam	335	0.0 ↔	0.0 ↔
Athens	318	0.0 ↔	-11.7 ↓
Barcelona	252	-2.3 ↓	-16.0 ↓
Berlin	240	-2.4 ↓	-9.1 ↓
Brussels	265	0.0 ↔	-3.6 ↓
Bucharest	252	0.0 ↔	-16.0 ↓
Budapest	246	-2.4 ↓	-6.8 ↓
Copenhagen	235	-2.8 ↓	-7.9 ↓
Dublin	431	0.0 ↔	-27.3 ↓
Dusseldorf	264	-2.2 ↓	-2.2 ↓
Edinburgh	339	-1.8 ↓	-3.4 ↓
Frankfurt	408	-2.9 ↓	-8.1 ↓
Hamburg	276	0.0 ↔	-2.1 ↓
Helsinki	276	0.0 ↔	-5.0 ↓
Istanbul	360	0.0 ↔	-25.0 ↓
Kiev	293	0.0 ↔	-30.0 ↓
Lisbon	228	-2.6 ↓	-9.5 ↓
London City	545	0.0 ↔	-23.1 ↓
London West End	909	0.0 ↔	-21.1 ↓
Luxembourg	456	0.0 ↔	-5.0 ↓
Lyon	230	0.0 ↔	-9.8 ↓
Madrid	354	0.0 ↔	-26.2 ↓
Milan	500	0.0 ↔	-9.1 ↓
Moscow	488	0.0 ↔	-50.0 ↓
Munich	342	-1.7 ↓	-6.6 ↓
Oslo	350	-3.3 ↓	-31.8 ↓
Paris	700	0.0 ↔	-15.7 ↓
Prague	252	0.0 ↔	-8.7 ↓
Rome	420	0.0 ↔	-6.7 ↓
St. Petersburg	383	-8.3 ↓	-45.0 ↓
Stockholm	361	-2.6 ↓	-9.8 ↓
Stuttgart	210	-2.8 ↓	-2.8 ↓
Warsaw	276	-4.2 ↓	-21.4 ↓

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 m<sup>2</sup> 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 Q4 2009 (EUR / sqm pa)

