

Q2 2009

Contacts

DTZ Research

Karine Woodford

Head of Real Estate Strategy
+44 (0) 20 3296 2306
karine.woodford@dtz.com

Magali Marton

Head of CEME Research
+33 1 49 64 49 54
magali.marton@dtz.com

Martin Davis

Head of UK Research
+44 (0) 20 3296 2304
martin.davis@dtz.com

Global Corporate Services

James Maddock

Head of EMEA
+44 (0) 20 3296 3353
james.maddock@dtz.com

Leasing activity

Take-up

- Occupier markets across Europe continued to deteriorate in Q2 09, with take-up falling significantly below the levels registered during the same period last year. On an annual basis, the most substantial falls were registered in Luxembourg (-81%), Dublin (-70%), Moscow (-68%), Warsaw (-62%), Kyiv (Kiev) (-62%) and Madrid (-60%). By contrast, there were some signs of recovery in the Central London market – initially the hardest hit – with occupier demand rising considerably over the quarter. This was reflected in a 60% increase in leasing volumes in Central London, due mostly to heightened activity in the City, where take-up grew by 135% in Q2. This uplift was driven by improving sentiment due to tenant perception that the pace of economic contraction is easing and the current rental cycle is close to its trough.
- In general though, leasing activity across Europe continues to be driven by cost reduction and space rationalisation, with demand mainly concentrated on smaller premises around 1,000 sq m in size.

New supply & availability

- Availability continued to rise across the region in Q2 with the average availability ratio* reaching 9.4%, up from 6.3% at the end of Q2 08. The considerable increase in availability was due to a combination of weak occupier demand and a surge in supply of new space (as well as second-hand space as tenants released surplus space back onto the market). Bucharest and Luxembourg saw the most significant increases in availability, with the availability ratio jumping from 6.9% to 12% and from 2.8% to 6.3% respectively. In Bucharest, availability is expected to continue to increase in the second half of the year - a further 190,000 sq m of space is scheduled to be delivered to the market before year-end, the majority of which will be located in the northern part of the city.
- Other markets that have witnessed a dramatic increase in available office space over the past 12 months include Moscow, Kyiv (Kiev), Dublin, Prague and Budapest. More moderate increases in availability were recorded in Paris, Stockholm, Rome, Milan and in the main five German markets of Frankfurt, Munich, Berlin, Dusseldorf and Hamburg.
- Most impending speculative office schemes in Europe have now been delayed or cancelled completely. Consequently construction activity is expected to slow progressively as current developments reach completion. This should help to stabilise rents more quickly once occupier demand returns.

Prime rents

- In view of rising availability and weak demand, widespread rental declines across Europe in Q2 came as no surprise. However, the rate of decline appears to be easing somewhat with prime European rents falling on average by 4.7% in Q2 compared to a decline of 6.2% in the first three months of the year*. In London City, where rents have declined by an average of 7% in each of the previous five quarters, an incremental fall of 2% was recorded in Q2.

*Based on 27 European markets

- Similarly, in London's West End, prime rents eased only marginally over the quarter. As in London City, this could mark the end of sharp decline in rental values in this cycle, as leasing activity is beginning to improve and growth in availability is easing.
- By contrast, significant corrections in prime rents were registered in those markets where rents have been slower to respond to changing market conditions. For example, the Paris CBD office market, which up until now has held relatively steady, saw a significant fall in prime rents of close to 20%, as the difficult economic climate spurred companies to cut costs, including reviewing their space requirements. Similarly, in Istanbul, prime rents came under pressure as occupiers sought to renegotiate their contracts or move to premises with lower rents as the economic slowdown gathered pace.
- On a more positive note for occupiers, the current climate – in which investors are focusing on the quality and the length of the income stream – is presenting tenants with good opportunities to secure rent reductions, more flexible lease terms and other incentives as landlords look to avoid being left with vacant space on their hands.

Table 1

Key stats, Q2 2009						
Market	Take-up 2008, sq m	Take-up H1 2009, sq m	Change in stock, Q2 2008 - Q2 2009, %	Availability ratio, %	Prime rents, EUR/sqm/mth	Change in prime rents Q2 2008 - Q2 2009, %
London (WE)	175,723	54,775	1.8	8.7	85	-27.3
Paris (CBD)	297,400	103,800	0.0	4.8	55	-19.5
Geneva	28,170	68,600	1.7	2.7	54	-2.0
Moscow	1,300,000	200,000	21.0	19.2	53	-55.0
London (City)	349,120	129,098	4.8	12.4	46	-26.7
Luxembourg	252,000	29,346	7.5	6.3	40	0.0
Frankfurt	501,000	220,000	1.3	13.9	35	-12.5
Rome	110,000	25,000	0.2	6.1	32	-2.6
Dublin	224,500	46,500	4.3	19.1	31	-39.0
Stockholm	142,500**	-28,313**	1.0	11.0	32	-13.0
Oslo	152,000**	-247,000**	0.0	7.0	30	-28.0
Madrid	476,000	106,000	2.0	7.3	30	-6.0
Amsterdam	323,000	102,000	n/a	n/a	28	0.0
Kyiv (Kiev)	165,000	48,000	12.5	15.5	25	-59.0
Istanbul (European CBD)	39,486**	13,745**	3.0	4.6	25	0.0
Warsaw	459,791	87,414	11.0	5.7	25	-22.0
Bucharest	287,000	60,000	28.3	12.1	23	-11.5
Prague	260,334	97,228	13.5	10.1	22	2.3
Brussels	507,464	107,586	1.9	11.0	22	-7.0
Budapest	330,289	182,985	11.3	18.0	18	-5.3

** Net absorption

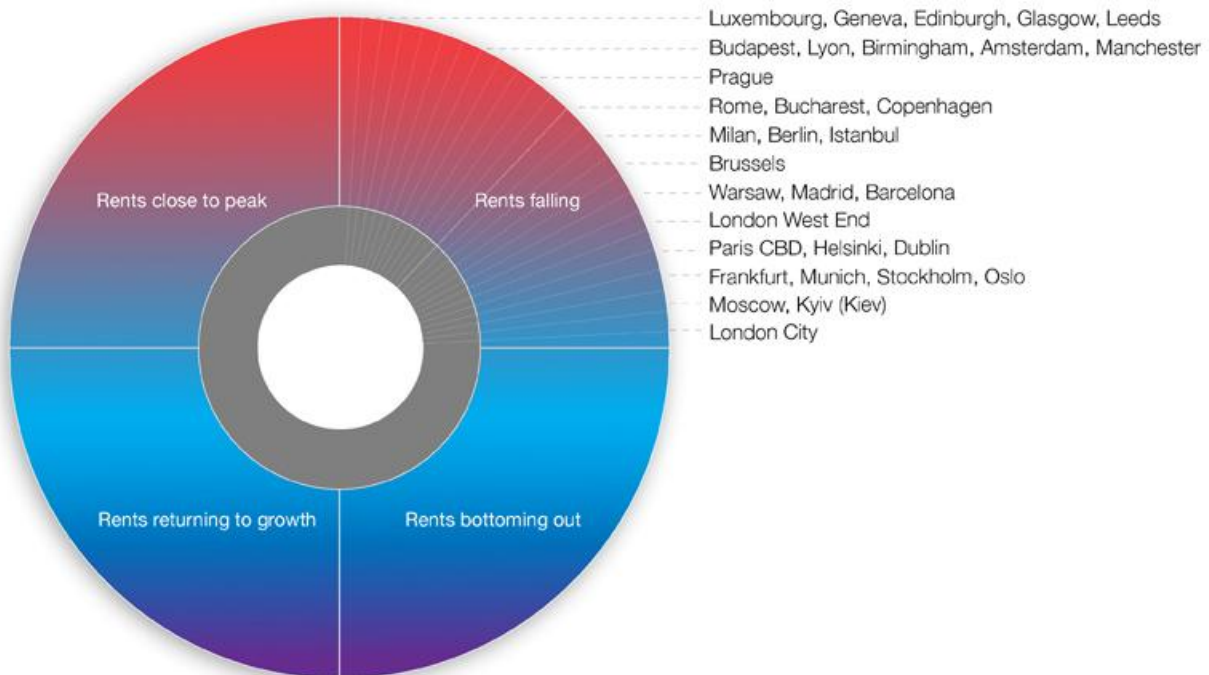
Source: DTZ Research

Outlook

- Although there appear to be some early signs of improvement in economic and business sentiment across Europe, a significant number of occupiers are still firmly focused on cost reduction and space rationalisation, which means that any significant recovery in demand is still some way off. Consequently, prime rents can be expected to remain under pressure in the second half of the year.
- However, the pace of rental decline is expected to start easing in markets such as London City, London's West End, Paris CBD, Oslo, Helsinki CBD, Prague CBD, Frankfurt and Munich. These markets are characterised by either returning demand or restricted supply and this is helping to stabilise rental levels. The rental outlook for markets such as Moscow, Kyiv (Kiev), Dublin, Madrid and Brussels remains on the downside, as weak demand collides with a considerable overhang of available space.

Figure 1

European Office Rental Cycle – Short Term Outlook



Source: DTZ Research

Disclaimer

This report should not be relied upon as a basis for entering into transactions without seeking specific, qualified, professional advice. Whilst facts have been rigorously checked, DTZ can take no responsibility for any damage or loss suffered as a result of any inadvertent inaccuracy within this report. Information contained herein should not, in whole or part, be published, reproduced or referred to without prior approval. Any such reproductions should be credited to DTZ.

© DTZ August 2009