Office Snapshot

H2 2013
EMEA

European economy gathering speed

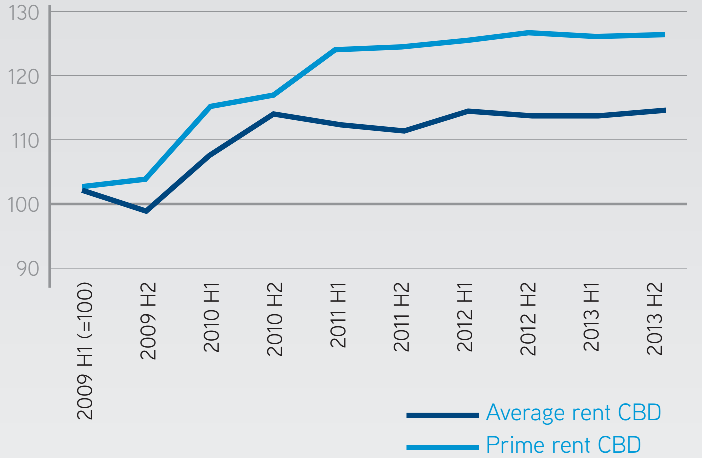
According to the latest purchasing manager indices, the European economy looks to have turned a corner in 2013 and is positioned for further recovery in 2014. With the exception of France, the major European economies are stable or growing. Weakness in France (47.3) continues to be offset by German strength (55.0), led by manufacturing. Italy is stable (50.0), but Spain is showing considerable strength (53.9), with its highest PMI reading in 6 years. Of the peripheral economies, Ireland is also making substantial progress (58.6) in line with the UK economy (58.8) which continues to improve substantially. Service sector performance has surprised to the downside, but has been offset by manufacturing; hence further rental recovery across office markets remains slow. The fortunes of the CEE countries are also improving linked as they are to the Eurozone with Poland benefiting. The Russian economy may have also turned a corner in 2013 and 2014 is looking stronger both through its external trade with improving US and European economies as well as through stronger domestic consumption and a rebound in business investment.

Focus of rental growth shifting

In Western Europe, improved economic outlooks and localised shortages of good quality, centrally-located space, has resulted in prime rent increases in London's key submarkets (West End and City), Amsterdam, and in several German cities (Frankfurt, Hamburg, Munich, Berlin). Improving economic and business confidence looks set to provide a basis for further increases in the next 12 months, particularly in the UK. In contrast, economic uncertainty in France continues to weigh negatively on occupier sentiment and Parisian office rents, which declined marginally.

No increases were observed across Scandinavia, except Oslo. While prime rents continued to soften in Spain in H2 13, a stabilisation in rental rates is anticipated in 2014. This is a trend likely to be repeated across the largest business centres of Southern Europe (Milan, Madrid, Barcelona and Lisbon), as national economies continue to heal and confidence improves.

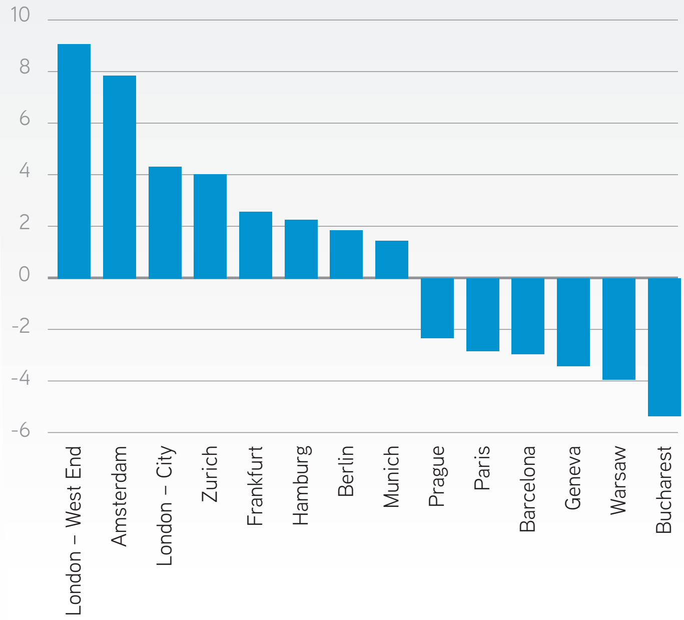
Prime vs Average CBD Rent



Cities included:
London West End, London City, Paris, Frankfurt, Munich, Amsterdam, Brussels, Vienna, Madrid, Warsaw, Stockholm, Berlin, Lisbon, Barcelona.

SOURCE: COLLIERS INTERNATIONAL

Prime rent growth, H2/H1 2013



Interestingly, the focus of rental growth seems to have shifted from the east to west. In Central and Eastern Europe, the major markets of Moscow and Warsaw have seen a reversal in fortunes in the cities that led rental growth in Europe amid the Eurozone crisis up until end 2012. Prime rents in Warsaw fell in mid-2013 due to sustained high levels of construction activity, whilst in Moscow rents have started to flatten due to falling economic growth rates and more cautious occupiers. No rental increase is forecast in these markets or the other main commercial centres in the region (Prague, Budapest, Kyiv and Bucharest) over the next 12 months. In some cases, there may be a further mild softening in rents in the year ahead, notably in Prague and perhaps Warsaw.

Signs of North/South risk differentials easing

In H2 13 the first signs of an easing of the North/South risk divide have appeared. While prime office yields hardened further in "safe-haven" cities such as London, Frankfurt and Berlin, resurging interest in peripheral economies, notably Spain, has contributed to yield compression in both Madrid and Barcelona. In CEE, Moscow was the only major market that saw yield compression over the same period.

Looking forward, the overall picture is increasingly one of yield stability although a tiered European market will undoubtedly remain. Generally, expectations of a gradual hardening of monetary policy will provide a plateau beyond which yields are unlikely to fall. In established, safe-haven markets prime yields are already at or approaching, historical lows so limited change is anticipated in these markets. In markets still grappling with the effects of the Eurozone financial crisis/austerity, recent confirmation of economic improvement and stronger leasing markets appears to have provided two of the crucial conditions necessary for a further hardening in yield pricing. Although debt and financing conditions are slowly improving, restricted debt availability/pricing will minimise the extent to which yields can harden in the more peripheral ('Tier 2 and 3') markets of Europe, particularly with an impending rise in interest rates somewhere down the line. Whilst this will continue to act as a drag on pricing and transaction volumes, notably in the more peripheral markets (by location and product) of the region in 2014, investors search for yield and product is likely to counter-balance this trend.

In summary, we anticipate limited movements in yields across Europe. Oslo, Copenhagen and Amsterdam are among the cities expected to see some inward movement in yields in the next 12 months.

COUNTRY	CITY	MEASUREMENT	AVERAGE CBD RENT	6 MONTHS CHANGE	Y-O-Y CHANGE	OUTLOOK	PRIME YIELD	6 MONTHS CHANGE (BPS)	Y-O-Y CHANGE (BPS)	OUTLOOK
Albania	Tirana	€/sqm/month	14.0	0%	-9.7%	◀▶	n/a	n/a	n/a	n/a
Austria	Vienna	€/sqm/month	19.0	0%	2.7%	▲	3.50%	0	0	◀▶
Belgium	Brussels	€/sqm/month	15.0	0%	0%	◀▶	6.00%	0	-25	◀▶
Bulgaria	Sofia	€/sqm/month	9.0	0%	0%	◀▶	9.50%	+50	+50	◀▶
Croatia	Zagreb	€/sqm/month	12.0	0%	0%	▼	8.50%	0	0	◀▶
Denmark	Copenhagen	DKK/sqm/month	108.3	0%	0%	◀▶	5.00%	0	0	▼
Estonia	Tallinn	€/sqm/month	13.5	0.7%	0.7%	◀▶	7.50%	0	0	◀▶
France	Paris	€/sqm/month	55.6	0%	-2.5%	◀▶	4.00%	-25	-25	◀▶
Germany	Berlin	€/sqm/month	19.0	0%	0%	◀▶	4.50%	-50	-50	◀▶
Germany	Dusseldorf	€/sqm/month	23.30	-11.7%	-3.7%	▼	5.10%	0	-10	◀▶
Germany	Frankfurt	€/sqm/month	31.5	1.6%	5.0%	◀▶	4.85%	-30	-30	◀▶
Germany	Hamburg	€/sqm/month	22.0	2.3%	0%	◀▶	4.70%	0	0	◀▶
Germany	Munich	€/sqm/month	29.0	0%	3.6%	▲	4.25%	0	-25	◀▶
Germany	Stuttgart	€/sqm/month	18.0	7.1%	11.1%	◀▶	5.20%	0	0	◀▶
Greece	Athens	€/sqm/month	12.0	4.3%	0%	◀▶	8.50%	0	+50	▲
Hungary	Budapest	€/sqm/month	12.5	0%	0%	◀▶	7.75%	0	+25	◀▶
Latvia	Riga	€/sqm/month	12.0	0%	0%	▲	8.00%	0	0	◀▶
Lithuania	Vilnius	€/sqm/month	14.5	3.6%	7.4%	▲	7.75%	-25	-25	▼
Netherlands	Amsterdam	€/sqm/month	18.5	-5.1%	3.9%	◀▶	6.50%	0	-30	▼
Norway	Oslo	NOK/sqm/year	3,550.0	1.4%	5.2%	▲	5.20%	-20	-20	▼
Poland	Warsaw	€/sqm/month	22.6	0%	1.8%	◀▶/▼	6.00%	0	-25	◀▶
Portugal	Lisbon	€/sqm/month	15.4	-0.8%	4.2%	▲	8.00%	0	0	◀▶
Romania	Bucharest	€/sqm/month	14.5	-3.3%	-3.3%	◀▶	8.25%	0	0	◀▶
Russia	Moscow	$/sqm/month	50.3	-0.3%	4.9%	◀▶	8.50%	-50	-50	◀▶
Serbia	Belgrade	€/sqm/month	14.5	0%	-3.3%	◀▶	9.50%	0	0	◀▶
Slovakia	Bratislava	€/sqm/month	11.0	0%	0%	◀▶	7.50%	0	0	◀▶
Spain	Barcelona	€/sqm/month	14.0	-3.4%	-5.1%	◀▶	6.25%	-25	-25	◀▶
Spain	Madrid	€/sqm/month	22.3	-1.1%	-2.2%	◀▶	6.00%	-25	0	◀▶
Sweden	Stockholm	SEK/sqm/year	4,650.0	0%	1.1%	▲	4.50%	0	0	◀▶
Switzerland	Geneva	CHF/sqm/month	49.2	-1.7%	-5.6%	◀▶/▼	4.25%	0	0	◀▶/▲
Switzerland	Zurich	CHF/sqm/month	42.0	3.7%	3.7%	▲	3.80%	0	0	◀▶
Turkey	Istanbul	$/sqm/month	31.6	4.8%	9.3%	▼	7.00%	0	0	◀▶
Ukraine	Kyiv	$/sqm/month	23.0	0%	0%	◀▶/▼	11.00%	0%	0%	◀▶
UK	London City	£/sqft/year	50.0	3.1%	3.1%	▲	4.75%	-50	-50	◀▶
UK	London West End	£/sqft/year	92.5	12.1%	12.1%	▲	3.75%	-25	-25	◀▶
UK	Manchester	£/sqft/year	23.0	0%	0%	▲	6.00%	0	0	◀▶

* CEE rental figures cover all city sub-markets (except Warsaw) and represent an average of A&B class space.

GLOSSARY

Average Class A Net Rent
The average open-market tier of rent that could be expected for a unit of standard size commensurate with demand (typically 500-1,000 sq m for offices), of the highest quality and specification (Grade A) in the best location in the market 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.

482 offices in 62 countries on 6 continents

United States: **140**
Canada: **42**
Latin America: **20**
Asia Pacific: **195**
EMEA: **85**

$2
billion in annual revenue

1.2
billion square feet under management

13,500
professionals and staff

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