

CEE Offices

Central & Eastern Europe

H1 2008

Market Overview

While occupier markets in Western Europe have begun to feel the impact of slowing economic growth, demand for office space in Central and Eastern Europe has remained resilient in the first half of 2008.

Take-up in H1 2008 was strong, but could not keep up with the increasing level of completions, resulting in negative absorption.

Even though the overall vacancy rate increased slightly – the Central European capitals saw a further tightening from 6.5% to 6.1%. In Southeastern Europe vacancy increased by 200 bps to 6.3%.

Declining vacancy rates in some CEE markets have resulted in upward pressure on rents.

Solid economic growth is forecast in most parts of Central and Eastern Europe (CEE) in 2008, despite the global economic slowdown and lower economic growth in the Eurozone and U.S. Yet most countries in the CEE region are forecast to achieve slightly lower growth rates this year, suggesting that growth in CEE is being slightly affected by the global financial climate.

The primary effect of the global credit crunch going forward is that property markets will be driven by market fundamentals and not – as in the last several years – by yield compression.

The short-term effect of the global economic slowdown on CEE office markets seems to be limited. Solid economic growth combined with more new supply coming onto the market should continue to drive office demand and keep occupier markets healthy. Because real estate markets today are global – and talks about a longer lasting worldwide economic slowdown are intensifying - a more significant impact on economic growth and office demand in the region is not unrealistic.

Based on the results of our H1 2008 economic and real estate market analysis, the occupier markets in CEE remain healthy.


One of the historic characteristics of the CEE office markets is that they have been supply driven. Based on pipeline figures we expect to be delivered in the next 1-2 years, a new wave of office space is likely to come onto the markets. For some of the smaller markets (e.g., Sofia), this could cause an imbalance resulting in a change from supply- to demand-driven market conditions. Price competition between developments is a realistic scenario in these markets.

Of note, office pipelines in some markets (e.g., Prague) have fallen as investors and developers become more cautious. While this continues to limit take-up in some markets, it also might allow some smaller markets with substantial office pipelines to avoid becoming flooded with new office space. Assuming continued economic growth, the extent to which office pipeline is completed in the next few years will have a strong effect on the direction of many office markets in the region.

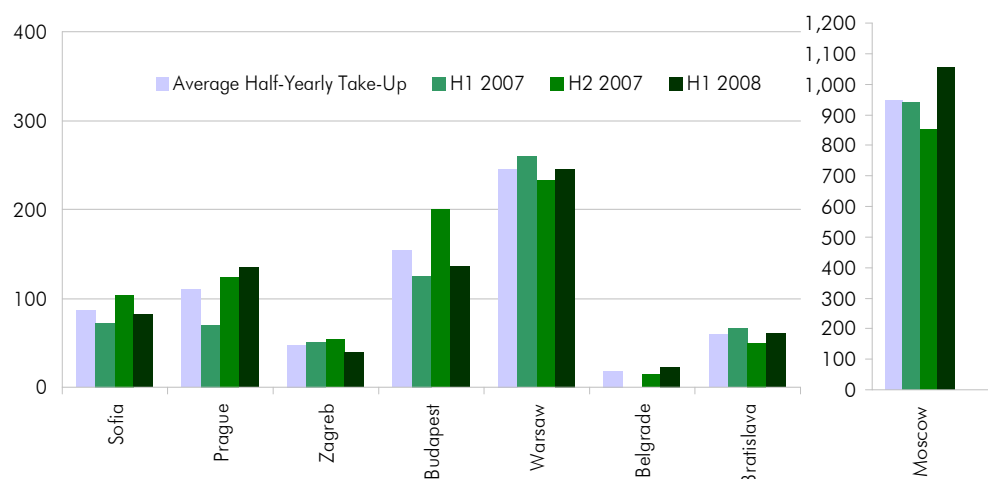
H1 2008 AT A GLANCE

Take-up 

Vacancy Rate 

Prime Rents 

CEE OFFICE TAKE-UP



Source: CB Richard Ellis

This report focuses on the capital city office markets in CEE, as monitored by the CB Richard Ellis offices in this region. Specifically, this report looks at Belgrade, Bratislava, Bucharest, Budapest, Moscow, Prague, Sofia, Warsaw and Zagreb. A special section of the report is dedicated to Kyiv – one of the new emerging markets in the CEE region.

STOCK & COMPLETIONS

The modern office stock in the nine capital cities as of the end of q2 2008 was ca. 19.5 million sq m. This is a 9% increase on year-end 2007 figures. Moscow was – again – leading with an addition of almost 781,000 sq m over this period – and 43% of total capital city office completions in CEE in the first half of 2008. Bucharest, Warsaw, Prague and Budapest saw office completions in a range from 120,000 – 140,000 sq m. Proportional growth of stock was highest in Bucharest (+14%), Sofia (+11%) and Moscow (+10%).

DEMAND

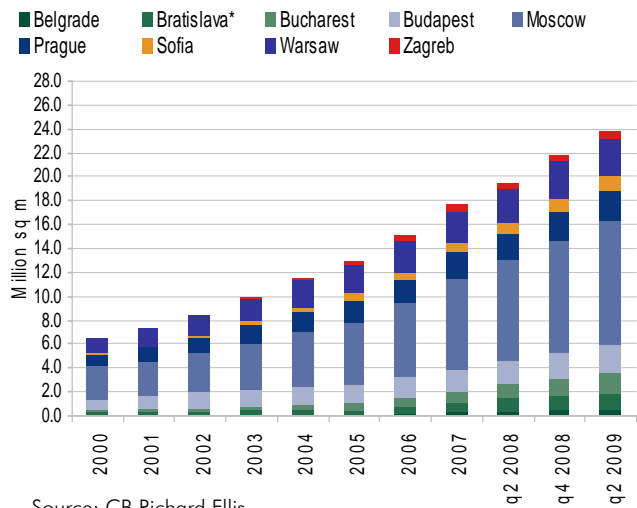
While occupier markets in Western Europe have begun to feel the impact of slowing economic growth, demand for office space in CEE has remained resilient. In line with the increasing level of completions, take-up was high in the first half of 2008 – 56% of the 2007 total – reaching almost 1.9 million sq m. Take-up was strong, but could not keep up with the increasing level of completions, resulting in negative absorption. Prague, Belgrade (both +23%) and Moscow (+11%) showed the highest proportional increases compared to their half-yearly averages. The figures for the rest of the markets were unchanged.

Historically, office markets in CEE have been strongly supply driven. This might change due to significant pipelines in some markets – both in absolute terms and relative to current stock. But as a result, take-up could become less restricted by development completions and may result in higher take-up volumes. Even though take-up in the first half of 2008 was high, it remained restricted by low vacancy rates in some of the larger office markets in the region.

* Due to increased transparency, stock for Bratislava increased slightly. In the next edition all historic time series will be amended.

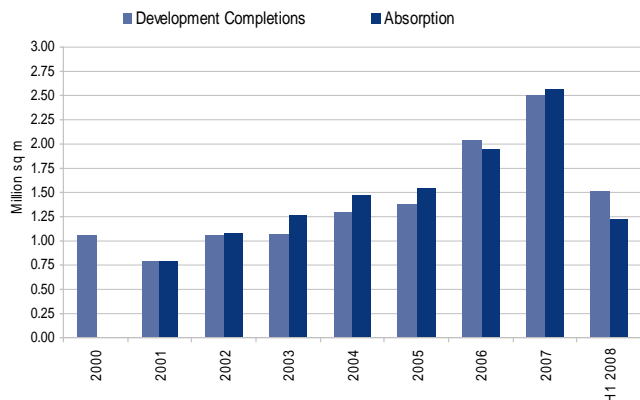
** Absorption relates to ((occupied stock t+1)-(occupied stock t=0))

CEE OFFICE STOCK (2000 – 2009)



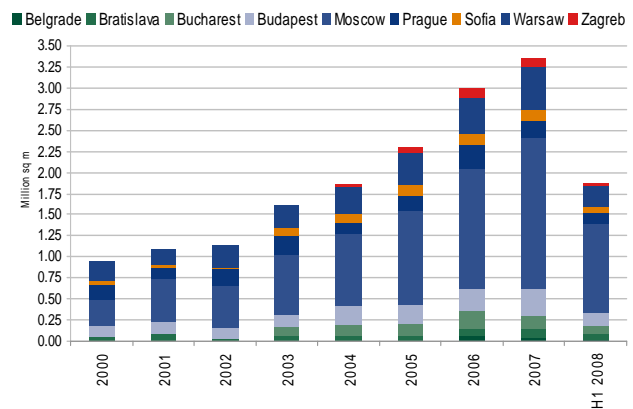
Source: CB Richard Ellis

DEVELOPMENT COMPLETIONS v ABSORPTION (2000 – 2008)**



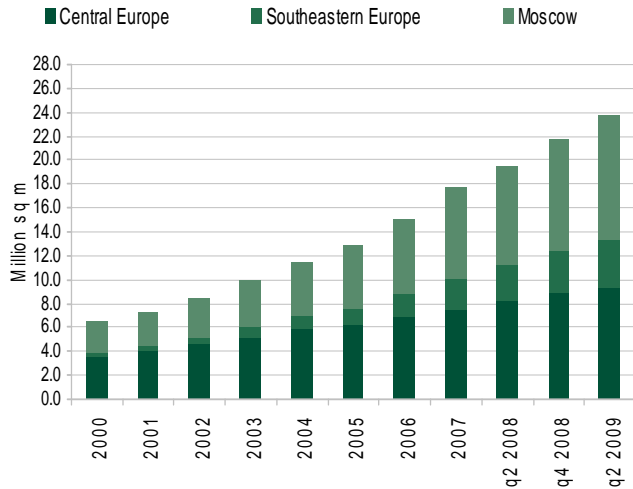
Source: CB Richard Ellis

CEE OFFICE TAKE-UP (2000 – 2008)



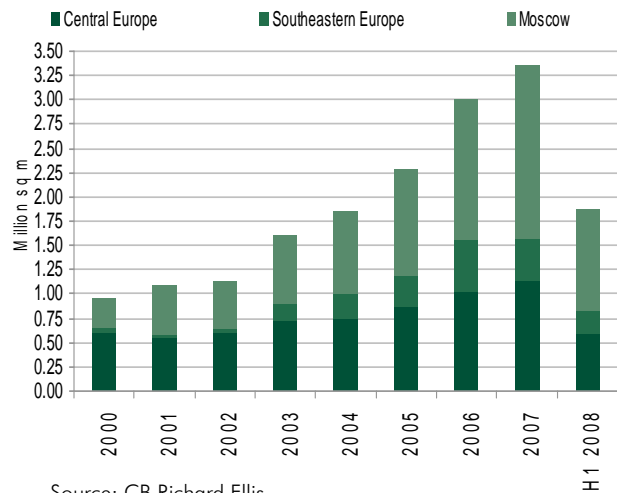
Source: CB Richard Ellis

CEE OFFICE STOCK (2000 – 2009)



Source: CB Richard Ellis

CEE OFFICE TAKE-UP (2000 – 2008)*



Source: CB Richard Ellis

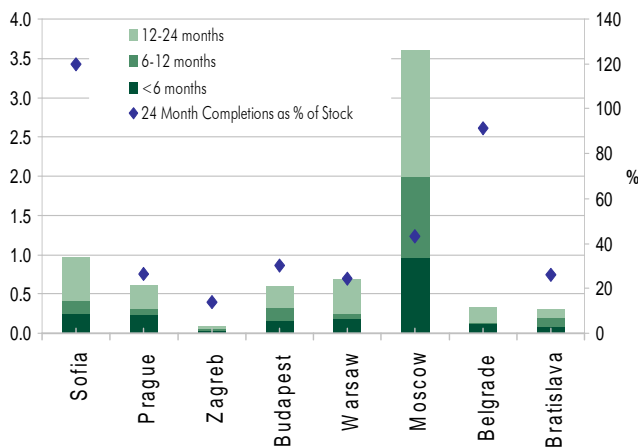
REGIONAL ECONOMIC OUTLOOK 2008-2009

Country	Real GDP growth		Inflation e.o.p.		Interest rate e.o.p.	
	2008	2009	2008	2009	2008	2009
Czech Republic	4.0	4.0	5.0	2.8	3.75	4.0
Hungary	2.4	2.9	3.5	7.50	6.5	
Poland	5.2	4.4	4.2	2.2	6.25	5.0
Slovakia	6.9	6.0	4.0	4.2	3.5	ECB
Bulgaria	5.6	4.8	7.7	5.2	5.25	5.5
Croatia	4.3	4.2	5.0	2.8	6.5	6.5
Romania	5.5	5.0	5.8	4.0	10.0	9.0
Serbia	5.0	5.5	10.0	6.7	17.5	13.0
Russia	7.0	6.2	12.5	10.0	6.0	5.9
Ukraine	5.4	4.6	17.1	9.0	10.3	6.3
EU-15	1.7	1.4	2.8	2.1	n/a	n/a
EU-27	1.8	1.6	3.0	2.2	n/a	n/a

Source: UniCredit Group, Experian

* Central Europe as used in this publication consists of Bratislava, Budapest, Prague and Warsaw. Southeastern Europe consists of Belgrade, Bucharest, Sofia and Zagreb. Eastern Europe consists of Kyiv and Moscow.

PROJECTED OFFICE COMPLETIONS (000s sq m)



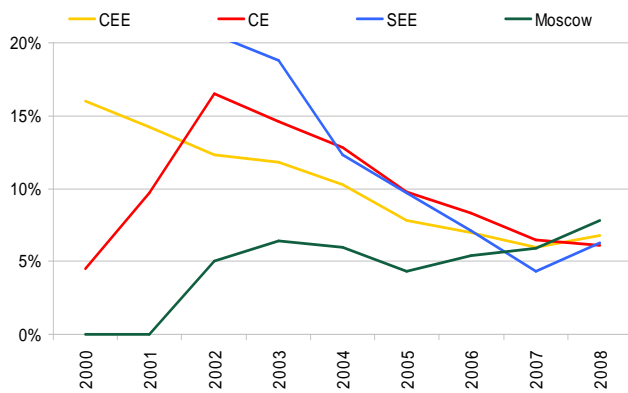
Source: CB Richard Ellis

Special focus: Ukraine - Kyiv

Kyiv's real estate market is driven by strong real growth in the Ukrainian economy. With little exposure to the global credit crunch so far, this growth is expected to moderate somewhat. The spin-off in terms of demand for office space has been clear. Rents have escalated rapidly due to this strong demand and a limited supply of high quality office space. Rental increases remain realistic, but probably at a slower pace. Market fundamentals are not expected to change in the short term. Office developments will enter the market but are expected to be insufficient to meet strong demand.

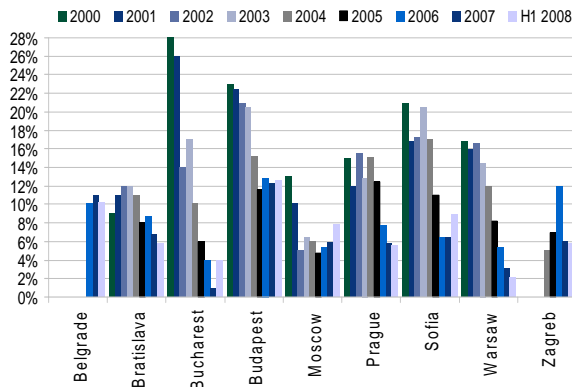
Ukraine has four other cities (Kharkiv, Dnipropetrovs'k, Odesa, Donets'k) with over 1m in population that have already drawn interest from international occupiers, developers and investors. One of the major issues affecting the Ukrainian real estate market is the lack of transparency, a difficulty for international companies interested in doing business there.

CEE VACANCY RATES BY SUB-REGION (2000-2008)



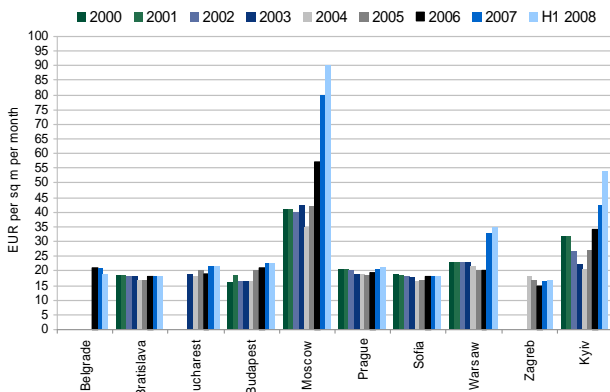
Source: CB Richard Ellis

CEE OFFICE VACANCY BY MARKET (2000 – 2008)



Source: CB Richard Ellis

CEE PRIME OFFICE RENTS BY MARKET (2000 – 2008)



Source: CB Richard Ellis

VACANCY

Following a period of sharp and continuous declines in vacancy, overall regional vacancy (CEE) showed its first increase since 2000, to a level of 6.8%. The main driver behind this increase is Moscow – where supply has increased by over 200,000 sq m since the end of 2007. Five of the nine CEE office markets showed declining vacancy rates, resulting in (even) tighter market conditions. Warsaw remains the most striking example, with a further decline from 3.1% to 2.1%. On the other hand, markets like Bucharest (1% to 4%)* and Sofia (6.5% to 8.9%) showed increases as a result of significant amounts of development completions. Budapest and Belgrade still have the highest vacancy rates in the region, even though Belgrade’s city-wide vacancy rate fell by 80 bps.

On a sub-regional level an interesting pattern became visible. Even though the overall vacancy rate increased slightly – the Central European capitals saw a further tightening from 6.5% to 6.1%. In Southeastern European capitals vacancy increased by 200 bps to 6.3%.

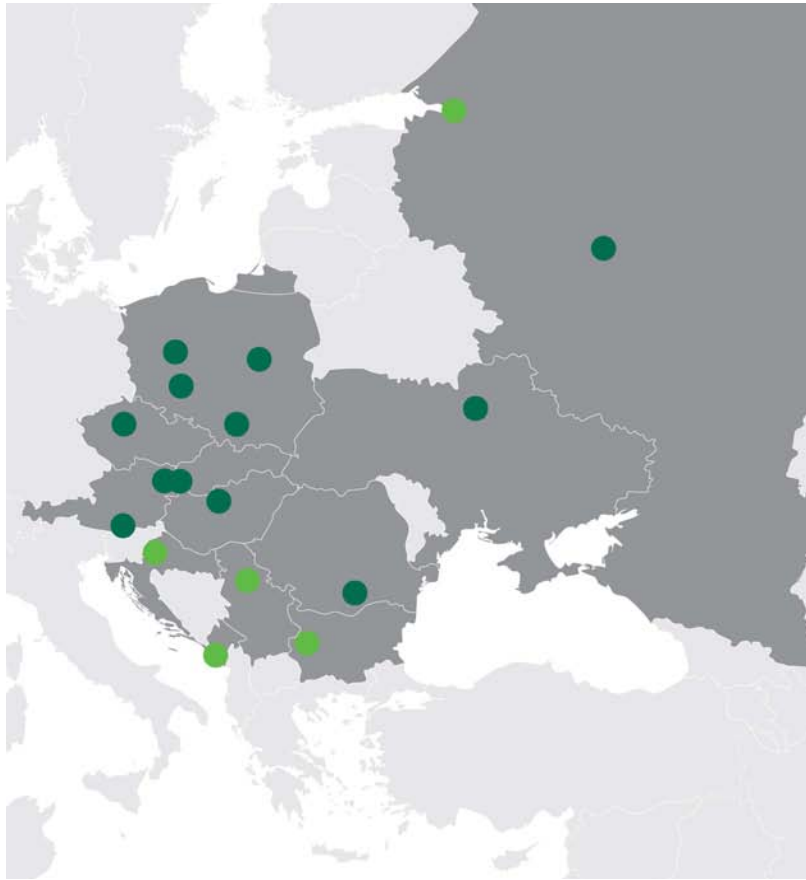
Pipeline figures remain high – but have declined recently in some of the countries. This can be explained in part by the fact that real estate markets in CEE are dominated by international investors and (to a lesser extent) developers, thereby showing the effect of tighter lending conditions on the development market in the region. In addition, developers and investors have become aware that the timing and quality of their developments are becoming more crucial in some of the markets.

RENTS

Declining vacancy rates in some CEE markets have resulted in upward pressure on rents. Due to time lag and the immaturity of certain markets, rents have been slow to increase. Following significant growth in 2007, rents in Moscow (+13%), Kyiv (+27%) and Warsaw (+6%) showed further increases compared to rents at year-end 2007. As a result of limited supply in Prague’s City Centre, prime rents increased by 5%. It seems that markets with limited available supply, strong take-up and limited pipelines have good prospects for increased rents. On the other hand, smaller markets with significant pipelines (under construction) are less resilient. For example, Belgrade faced a period last year of relative oversupply and declining prime rents as a result.

*** Due to both increased transparency and development completions).

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