

# PRESS RELEASE

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## DEVELOPERS RETURN TO CEE OFFICE MARKETS

### Increased Demand for Office Space Contributes to Declining Vacancy Rates

**Prague, 4 August 2011** – Central & Eastern Europe’s (CEE) office stock grew modestly during the first half (H1) of 2011, but development completions remain at the lowest level on record, according to the latest data from CB Richard Ellis (CBRE).

Despite a recent increase in development starts across CEE, relatively low levels of completions are expected over the next 12-18 months. Weak occupational fundamentals coupled with continued challenges in securing financing mean that developers have been reluctant to launch new projects.

Although most lenders still require pre-lets in order to finance new developments, a number of speculative projects was registered again after having been absent from most markets in recent years. However, Moscow’s pipeline has remained limited due to new planning regulations, while some markets in South Eastern Europe (SEE) are still facing a shortage of new office space due to projects being delayed.

As a result of limited new office supply and increasing demand, average vacancy rates in CEE (including Eastern Europe (EE)) declined below 14% following a 2% decline since Q4 2010. The majority of this decrease was the result of positive vacancy trends in EE capitals, as net absorption was particularly strong there. Differences in vacancy rates remain significant across the region. Warsaw still has the lowest vacancy rate in the region - slightly above 6% - which has encouraged developers to launch new projects. Belgrade, on the other hand, is still struggling with a vacancy rate close to 24%.

Jos Tromp, Head of CEE Research and Consulting, CBRE, commented:

“Although take-up has been on the rise in most markets, net absorption has remained rather weak or has even turned negative in some cases. These low levels of net absorption can be explained by the increasing share of pre-lets mostly in Prague and Warsaw. Another reason is the limited “new demand”, as a growing element of take-up is generated by relocations.”

Diverging trends in office vacancy rates have resulted in varied prospects for rental growth across the region. Solid rental growth has emerged in Moscow and Kyiv where year-on-year prime rental growth amounted to 20-25% in USD terms; increases in EUR terms were more moderate. Prime rents in Warsaw were up by 13% compared to H1 2010 although increases have slowed down recently. Most other markets have not seen any rental growth over the last 12 months. In fact,

some South Eastern European capitals, such as Sofia and Zagreb, are still coping with downward rental pressure.

The CB Richard Ellis CEE weighted average prime office yield (including EE) compressed further in H1 2011 to 8.8%. This is 52 bps lower when compared to the end of Q4 2010 and is 85 bps down on Q2 2010. Compression was mainly driven by prime yield movement in EE, while prime yields have remained mostly stable in CE during H1 2011.

Total office investment turnover in H1 2011 amounted to €2.2 billion, slightly lower than the €2.5 billion achieved in all of 2010. This figure includes the office part of the CA Immo purchase of Europolis. Russia and Poland have driven investment volumes thus far in 2011. Together, these countries have accounted for over 75% of total investment activity this year.

Investment market liquidity has been on the rise in CEE for several consecutive quarters. Recovery in investment in CEE is among the strongest in Europe as it rises from the low levels recorded at the bottom of the market in 2009.

Jos Tromp added:

“Recovery is mainly visible in the top-tier of the market, while the so-called secondary segment has remained mostly illiquid in the majority of countries. Russia and Central Europe have re-emerged strongly, while Ukraine and Serbia are still waiting for the first transaction to close on the open market. Prague has seen an increase of investment activity as a result and markets such as Budapest are likely to follow suit in H2 2011 on the back of this trend. This increase in activity could lead to some prime yield compression in a wider number of markets in the coming quarters.”

### Largest Single Asset Office Transactions in CEE, H1 2011

Country	City	Name	Size (sq m)	Purchaser	Price
Russia	Moscow	Alfa Arbat Center	47,000	Promsvyaz'nedvizhimost	161 million
Russia	Moscow	Classic Business Center	45,000	Lenmar Capital Inc	98 million
Poland	Warsaw	North Gate	30,000	WestInvest Interselect	103 million
Poland	Warsaw	Zebra Tower	16,000	Union Investment	73 million
Poland	Warsaw	Crowne Square	17,000	Invesco	64 million

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