

PRESS RELEASE

CONTACT:

EUROPEAN OFFICE SUPPLY RESTRICTED UNTIL AT LEAST 2013

- Central London Bucks Trend with Office Completions Set to Rise - - Lack of Prime Space to Drive Increase in Refurbishment and Pre-Letting Activity -

London, 15 July, 2011 – New office completions in major European markets could fall by over 30% in 2011 compared with 2010 and could decline further in 2012 as the low level of construction starts during the economic crisis feeds through into reduced levels of new office space, according to a new report by CB Richard Ellis (CBRE).

The credit crunch and ensuing economic crisis in 2008 had a major impact on office development activity and reshaped development pipelines across Europe. The shortage of available debt and uncertain economic environment prompted many developers to downscale or delay planned projects. As a result, new office completions in major European markets will experience a sharp contraction in the next two years and will remain subdued throughout 2013.

With European capital still highly selective and supply of prime stock set to tighten in some markets there is scope for further yield compression to reflect this mismatch. Although there is limited investor appetite for secondary products, the increasing shortage of prime investment opportunities may lead some buyers to move further along the risk-return spectrum and consider buildings other than prime locations. Equally, as we move into a supply constrained market, occupiers with strategic requirements may increasingly consider taking pre-lets to secure the space they need.

European office development in the main Western European markets in 2011 is predicted to fall by one third compared to 2010, and by over 40% on the market peak recorded in 2008. While the longer term development pipeline is still difficult to measure at this point, preliminary forecasts for 2013 point to only a modest pickup of 12% on 2012 development levels. This will leave office development completions at nearly 50% lower than at their peak in 2008.

London is one of the few major European office markets where the recovery in property values and rents has reignited substantial interest in new development and conditions are in place for a relatively quick recovery. Central London in particular is predicated to see completions in 2013 triple compared to 2011 and could rise further in 2014 when a number of tower office schemes are due to complete in the City of London.

Paris is also beginning to see signs of a revival in the office development cycle, with a number of speculative development schemes recently started in the Western Crescent, Inner Rim and the construction of 63,000 square metre Majunga Tower in la Defense, which is expected to complete in 2013.

CB Richard Ellis Press Release

However, most European cities are expected to see a particularly sharp year-on-year reduction in office development completions, including Barcelona (-69%), Amsterdam (-66%), and Madrid (-50%). The correction will be particularly prominent in 2012, which represents the low point of the development cycle. Office completions in the main Western European cities are expected to decline to 1.8 million sq m - a fall of 21% on 2011 levels.

Despite recent improvement in the occupier market, the lack of development funding remains one of the main factors hindering a pick-up in new construction. The supply of development finance remains restricted, as banks focus on reducing their overall exposure to troubled property loans and repairing their balance sheets. In some markets this is generating growing interest in refurbishment activity. This represents an effective alternative to redevelopment or new construction and activity is increasing in a number of cities such as Paris where the volume of renovated space rose by 36% over Q1 2011.

Bruno Berretta, EMEA Research & Consulting Analyst, CB Richard Ellis, commented:

“The delivery of new office space across Europe in the next two years will be limited as many markets approach the end of the current development cycle and this period of low completions may well continue beyond 2012, reflecting the current reduced levels of starts and shortage of available development finance. London stands out as one of the few major office markets where developer interest in new construction is growing and conditions are in place for a speedy recovery in office development.

“However in some markets, high vacancy rates, often combined with lack of rental increase, have the potential to further delay the start of a new office development cycle, which in some cases is unlikely to occur before 2015-2016.”

Office development completions in Western Europe, 1988-2013

ENDS

About CB Richard Ellis

CB Richard Ellis Group, Inc. (NYSE:CBG), a Fortune 500 and S&P 500 company headquartered in Los Angeles, is the world's largest commercial real estate services firm (in terms of 2010 revenue). The Company has approximately 31,000 employees (excluding affiliates), and serves real estate owners, investors and occupiers through more than 300 offices (excluding affiliates) worldwide. CB Richard Ellis offers strategic advice and execution for property sales and leasing; corporate services; property, facilities and project management; mortgage banking; appraisal and valuation; development services; investment management; and research and consulting. Please visit our Web site at www.cbre.com.