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Asian and European office market rents stabilising

Sydney, NSW (4 March 2010)

London remains at the forefront of the global office market recovery according to a new CB Richard Ellis report which highlights wide differences in the rental outlook for major office markets across the globe.

CBRE's new Global Office Rental Cycle report highlights that almost all real estate markets in Europe and Asia are now seeing rents falling at a slower rate and in some cases stabilising, a trend which is expected to continue as take-up improves and vacancy moderates in 2010. In contrast, most US office markets, with the exception of New York, are further back in the rental cycle and are likely to see further falls in rents.

The CBRE report highlights that the global economic outlook for 2010 is more optimistic than last year and the world economy is expected to return to growth. The strongest growth is expected in Asia Pacific and the weakest in Europe. Despite this, London remains at the forefront of recovery in global office rents. The City of London surpassed expectations for the 2009 year-end by registering prime rents at £43.50 / sq ft / annum and rental growth of 3.5% in Q4 2009, defying forecasts that rents would remain stable.

Ray Torto, Global Chief Economist, CBRE, said: "In Hong Kong and the West End of London, prime rents are thought to have reached the bottom of the cycle at the end of 2009 and are expected to remain stable or start to grow over the next few quarters. Elsewhere across Europe and Asia, some markets continue to see rental falls, for example Paris and Singapore where rents fell by 4% and 10% respectively in the quarter. However, we expect a general slowdown in rental declines as both occupier demand and vacancy rates start to show signs of stabilisation or even some improvement through 2010."

In Sydney, rents continued to fall in the CBD core precinct in Q4 2009, however CBRE Executive Director, Global Research and Consulting, Kevin Stanley said the quarterly rate of decline was now very low.

"Leasing sentiment and enquiries have increased and we've also seen a stabilisation in landlord incentives," Mr Stanley said.

"With no major office space set to come into the market in the short term, we estimate that vacancy is now very close to the forecast peak of the cycle of 8.8%."

Major North American markets continue to lag behind European and Asian counterparts, with CBRE expecting significant rental falls in many cities in 2010 in the face of modest demand. Most notably, Toronto – where rents have fallen by 16% since June – is expected to see a decline in rents over the coming year, driven by increasing amounts of vacant space as tenants relocate to newer buildings. The current tenants market, based on falling rental rates and higher vacancy rates, should have resulted in higher leasing activity; but for the most part corporations are still waiting for further evidence of an economic recovery and have therefore delayed decisions.

"The gap is widening between global office markets as local supply and demand factors are influencing the strength and shape of recovery. Positive economic signs will emerge in 2010 and lead to improved occupier stability. However, overall global prospects remain patchy at present. Demand for office space continues to lag the wider economy and many markets are likely to see further falls in employment before recovery firmly takes hold," Mr Torto concluded.

For more commentary on global and regional trends, view the latest CB Richard Ellis' research at: www.cbre.com

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