Global office markets still posting solid fundamentals
Latest research from Colliers International features 172 office markets

August 29, 2008 - Boston, MA– Despite the year long volatility shown in financial markets around the world, many office markets continue to post solid fundamentals. That’s the conclusion from the latest Colliers Global Office Real Estate Review. This report has been expanded yet again and now features 172 office markets across the globe making it the most comprehensive publication of its kind.

While demand for office space was below the record pace witnessed for much of 2005-2007, the first half of 2008 was back to trend in many markets. Much of Asia Pacific, Central & Eastern Europe, Latin America and the Middle East continued to register robust leasing conditions with lower vacancies and higher rents. Only major financial centers in Western Europe and North America reported signs of weakness. To date, developing economies remain largely unfazed, and continue to show solid growth and a healthy appetite for office space. A similar pattern exists for office building sales, with investment volumes holding up in Asia Pacific but down in much of Europe and North America. Looking forward to the latter half of 2008 and 2009 office markets in all regions are expected to become more subdued as the global economy slows and lenders remain cautious.

EUROPE, MIDDLE EAST, AFRICA/EMEA
Many European, Middle Eastern and South African office markets continued to post moderate growth in the first half of 2008, although considerable differences now exist. Numerous Western European markets are now characterized by rising vacancy and a corresponding softness in rents, while most Central and Eastern European markets continue to demonstrate robust leasing conditions with few exceptions. Not surprisingly, Middle Eastern office markets continue to show few signs of slowing. South African markets are still registering lower vacancy rates and higher rents. The average EMEA vacancy rate declined again in the first half of 2008, down 10 basis points to average 6.6%. EMEA cities posting a sizable decrease in vacancy included Doha, Johannesburg, Oslo, St. Petersburg and
Zagreb. Despite a lessening in demand, construction stayed relatively robust in many centers. Dubai continued to lead the region (and the world), with 42.0 million square feet currently under construction. Other EMEA markets registering relatively high levels of construction activity include; Paris, Moscow, St. Petersburg, Kyiv, Doha, Sofia and London’s City submarket. With a growing number of faltering economies the second half of 2008 could see the first increase in months of the year. London City rents fell 6.8%, while Paris dropped 5.2% and Frankfurt registered a 7.4% decline. However, several Central & Eastern European and Middle Eastern markets experienced impressive rental growth, with Abu Dhabi, Bratislava, Doha, Dubai, Kyiv, Moscow, St. Petersburg and Warsaw all seeing rents increase by over 10% since year-end 2007. With the latest increases and decreases, the top three cities for office occupancy costs in the EMEA region are London, Moscow and Kyiv.

ASIA PACIFIC
The Asia Pacific region posted uneven results during the first half of the year with the regional vacancy rate decreasing by 20 basis points to register 7.9%. This decrease, however, was after the region’s vacancy rate jumped by a full percent in 2007. The drop in vacancies during the first half of the year were largely the result of most Australian, Chinese and New Zealand markets reporting substantial lower vacancies compared with that reported at the beginning of the year. Most major financial centers such as Hong Kong, Singapore, Tokyo, Shanghai and Sydney, however, showed more vacancy than six months ago with Hong Kong the only exception with a 20 basis point decline. Perth again posted the region’s (and world’s) lowest vacancy rate of just 0.3%. Office rents within the region generally maintained an upward trend with just three exceptions. Tokyo, Singapore and Seoul all registered declines in rents ranging from 3% to 19%. The Asia Pacific region remains characterized by high levels of office construction with Beijing, Delhi, Guangzhou, Seoul and Shanghai all with at least 10 million square feet of construction currently underway totaling 99 million square feet. On the demand side, most economies across the region are expected to continue posting very high growth rates, although not at levels witnessed for the past several years. In a ranking of highest occupancy costs (average Class A gross rents), Hong Kong took top spot, both within the region and the world at $214.00 USD per square foot, with Tokyo second in the region (6th spot worldwide) at $129.00 USD per square foot.
UNITED STATES/CANADA
The US office market turned decidedly weaker in the first half of 2008 as companies gave back space and economic conditions worsened. Combined with relatively high levels of construction the overall vacancy rate increased 60 basis points to average 13.2%. Rents began to reflect weakness in the general economy with downtown leasing rates up marginally, while suburban lease rates held steady. Looking forward, office space fundamentals are sure to weaken as new supply is anticipated to stay relatively high for the next six to twelve months and demand is expected to remain subdued well into next year. Business confidence is unlikely to return before financial markets show more stability keeping decision-makers cautious and perpetuating a “wait-and-see” attitude. Financial services and all sectors related to the housing industry will remain key sources of weakness in the coming months, and particular attention needs to be applied to the labor market, specifically “white collar” employment. With a relatively uncertain business environment, the office space market is highly unlikely to show any signs of expansion until well into 2009. Canadian markets, by comparison, continued to show growth, albeit modest by recent standards. Vacancies continued to drift lower; however, rents began to show signs of weakening in the face of a slowing Canadian economy. Midtown Manhattan continued to hold the top spot for North American office occupancy costs with average Class A rents at $97.00 USD per square foot.

LATIN AMERICA
The Latin America region continued its remarkable run of strength, with still lower vacancies and higher rents across almost all markets. The regional office vacancy rate fell by 170 basis points during the first half of 2008 to average 2.1%, with Lima once again posting a decidedly lower vacancy rate. Rents were generally higher across the region, with Bogota in particular seeing a strong surge in asking rates. Office construction remains concentrated in Bogotá, Mexico City and Sao Paulo with 29.0 million square feet currently underway. For these three cities this represents a 118% increase from construction underway at the end of 2007, and may spell relief in the coming months for tenants currently unable to find office premises. Rio de Janeiro took top spot as the most expensive office market in the region with average Class A gross rents of $90.00 USD per square foot.
GLOBAL INVESTMENT SALES

Far fewer office buildings traded hands in the first six months of 2008 relative to the corresponding period in 2007. Prices moved lower as capitalization rates/yields shifted higher in all regions of the world. The well-documented credit crunch, combined with a more sluggish global economy, put a considerable damper on investment sales with investors pulling back and lenders tightening underwriting standards. “Deleveraging” across almost all asset classes including real estate put considerable downward pressure on prices, as banks across the globe struggled to strengthen their respective balance sheets and prepare for a period of illiquidity. Office fundamentals also started to waiver in the face of weakened demand particularly from the financial services sector. While the global trend was down, regional differences were apparent. Asia Pacific fared considerably better than either the Americas or Europe. Global office investment fell by 60% (-41% excluding portfolio sales) during the first half of the year, falling from $268.6 billion a year ago to $108.0 billion during the first six months of 2008, however, a number of Asia Pacific markets posted substantial volume increases. Japan in particular saw office transactions increase by 103%, followed by Hong Kong up 86% and Singapore up 58%. China did, however, register a drop of 16%. Within Europe, Spain and The Netherlands saw office transactions increase by 77% and 14% respectively, while Germany, the UK and France all witnessed significantly less investment sales activity. London in particular saw office transactions fall 64%. The most active office investment sales market in the world remained the US, however, sales volume dropped by 69% to $28.6 billion. Canada also saw a significant drop off in office sales. With a slowdown in the global economy and the re-pricing of debt, an upward movement in capitalization rates/yields was witnessed in many markets. Key financial centers were particularly hard hit during the first six months of the year, with London’s West End submarket registering a dramatic outward movement in cap rates. At mid-year West End cap rates averaged 6.00% compared with 4.75% at the end of 2007. Paris and Frankfurt also saw cap rates increase, rising by 100 and 37 basis points respectively. In Asia Pacific cap rate movements were more mixed. In Tokyo cap rates increased by 40 basis points, while Sydney yields were up by 110 basis points. By comparison, Singapore cap rates were up just five basis points and Hong Kong up 17. In North America, New York’s Midtown Manhattan market saw
cap rates jump 100 basis points, while in Canada, downtown Toronto cap rates increased by 30 basis points. Going forward cap rates are expected to drift higher as fundamentals weaken and credit markets remain fragile.

The report can be read in full here:

About Colliers International
Colliers Macaulay Nicolls Inc. (CMN) operating as Colliers International is a leading global real estate services company that provides a full range of services to real estate users, owners and investors worldwide. Colliers operates in 293 offices in 61 countries. Services include brokerage, property management, hotel investment sales and consulting, corporate services, valuation, consulting and appraisal services, mortgage banking and research. Colliers International is a worldwide affiliation of independently owned and operated companies. Find out more at www.colliers.com

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