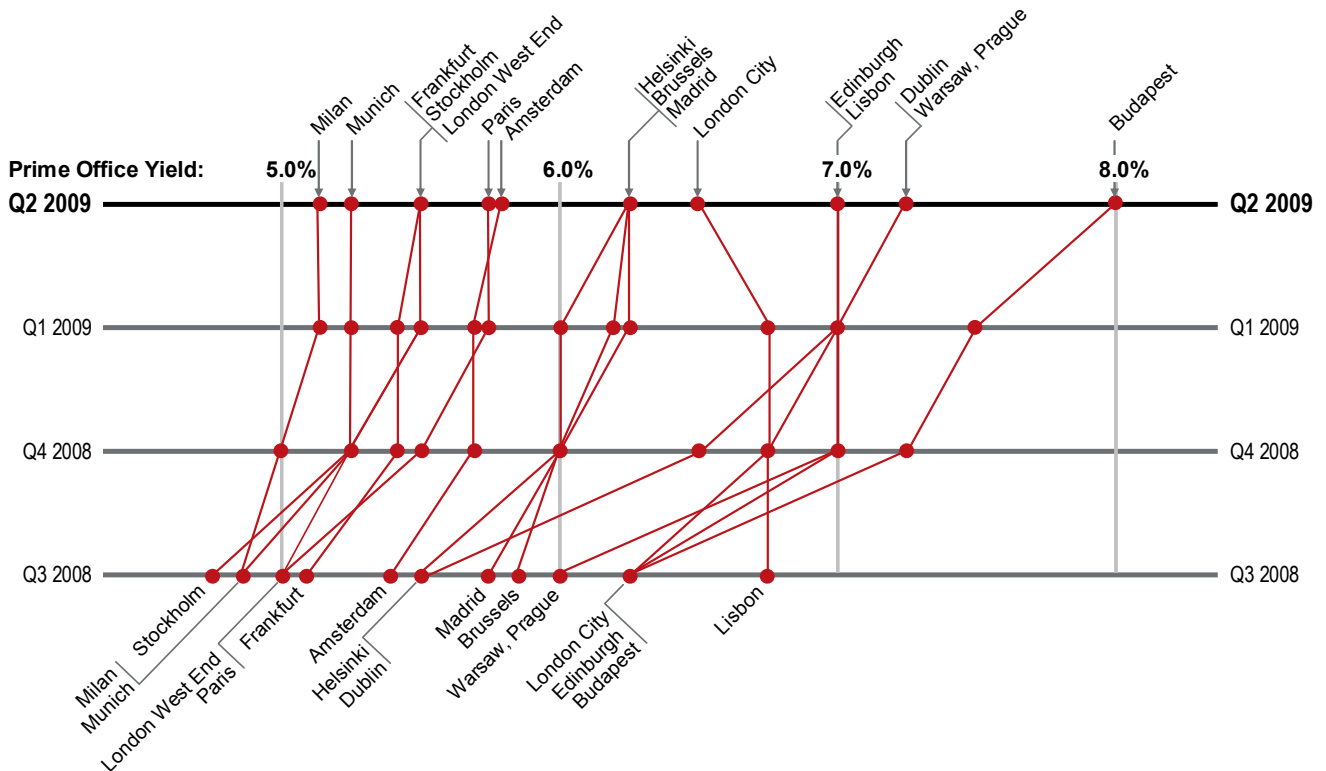


Prime Office Yields Hold in Major Markets

Prime European Office Yield Movement Q3 2008–Q2 2009 (Selected Markets)



Source: Jones Lang LaSalle 2009

Notes: Jones Lang LaSalle's prime yield represents the best (i.e. lowest) "rack-rented" yield estimated to be achievable for a notional office property of the highest quality and specification in the best location in a market, as at the survey date. The property should be let at the prevailing market rent to a first class tenant with an occupational lease that is standard for the local market. The prime initial net yield is quoted, i.e., the initial net income at the date of purchase, expressed as a percentage of the total purchase price, which includes acquisition costs and transfer taxes.

In the first quarter of the year we noted that yield decompression had begun to slow or stabilise in several markets. Our latest tracker shows this process continuing into Q2 2009. Yields held in around half the 46 surveyed markets, a similar number to Q1 2009; however, many of those markets, which saw yields stabilise in Q1 2009 recorded some further decompression. This means that almost all markets have now seen some outward yield movement during the first half of 2009. There were nine markets, which have put together two consecutive quarters of stable yields (Berlin, Munich, Stuttgart, Edinburgh, Birmingham, Leeds, Manchester, Rome and Oslo). Added to this group are two markets, London City and

Glasgow, which have now seen prime yields edge inwards by 25bps and 50bps respectively. Whilst these two markets had seen some of the largest outward movements in prime yields since the peak in Q2 2007, 30 of the 46 markets have now seen outward yield movements in at least three of the last four quarters.

Jones Lang LaSalle's blended European yield now stands at 6.10%, 10bps higher than at Q1 2009 and 100bps higher than at Q2 2008. The Western European component remained stable over the quarter at 5.70% whilst the Central and Eastern European component moved out 70bps to 10.40%.

Although the pace of yield decompression has slowed in 2009 compared with 2008, the overall picture across the continent remains uneven. Some of those markets showing most recent stability in prime yields, such as those in the UK, have experienced the largest peak to trough movements, whilst others, such as German markets have seen the smallest corrections. Others, such as Dublin continue to see a steady and consistent decompression, whilst others, for example Budapest, are seeing the rate of outward movement increasing.

Although there is diversity around the continent, in the last quarter prime yield movements showed some national bias. After a stable quarter Q1 2009 German and Dutch markets saw yields tick out again, whereas Spain, France and the UK have seen the greatest stability.

The relative stabilisation of prime yields has reflected an improvement in investor sentiment relating to a narrow range of prime assets. Both London and Paris have seen increasing levels of investor interest for the best assets in the best locations and with secure income both in terms of lease length and covenant strength. The level of interest is such that strong levels of competitive bidding are now common for these assets. Despite the continued lack of new debt in the market, the weight of capital targeting this narrow band of prime assets now outweighs available product, putting downward pressure on prime yields.

Although current market activity provides evidence of prime yield levels (something which had been in short supply) it masks the continued illiquidity of secondary assets. Driven primarily by sentiment, secondary yields have continued to move out in 2009 with little sign of any stabilisation, with trading remaining extremely thin and where the bid ask spreads still remain wide.

Summary

Prime yields are on hold in many core markets driven by an investment rally for prime well-let assets. The extent to which this rally will continue will determine whether yields stabilise at current levels, and even correct back in marginally, or if there is more outward movement to come.

Although the pace of yield decompression in this cycle has been the fastest correction on record, to date it has not been the deepest, with most prime yields now above historic averages but remaining below historic maximums.

Stabilising or even hardening yields has occurred in parallel with weakening occupational markets. Take up levels continue to be down on historic averages, headline rents are under continued downward pressure and incentives are increasing. Investors' focus

on long leases and strong covenants means that competitive bidding for these assets may not fully recognise the extent of weakness in the occupier base. Time will tell if further signs of weakness in occupational markets will translate into continued yield movements in the second half of the year.

Prime Office Yield Change

	BP change Q-o-Q (Q1 2009–Q2 2009)		BP change Y-o-Y (Q2 2008–Q2 2009)	
Europe	10	↑	100	↑
Western Europe	-	↔	75	↑
Central and Eastern Europe	70	↑	340	↑
Amsterdam	10	↑	55	↑
Athens	75	↑	150	↑
Barcelona	-	↔	100	↑
Berlin	-	↔	50	↑
Brussels	5	↑	50	↑
Bucharest	50	↑	280	↑
Budapest	50	↑	225	↑
Dublin	25	↑	250	↑
Düsseldorf	10	↑	50	↑
Edinburgh	-	↔	100	↑
Frankfurt/M	10	↑	70	↑
Hamburg	5	↑	50	↑
Helsinki	25	↑	115	↑
Lisbon	-	↔	50	↑
London City	-25	↓	75	↑
London West End	-	↔	100	↑
Luxembourg	-	↔	50	↑
Lyon	-	↔	105	↑
Madrid	-	↔	100	↑
Milan	-	↔	40	↑
Moscow	100	↑	450	↑
Munich	-	↔	50	↑
Oslo	-	↔	75	↑
Paris	-	↔	100	↑
Prague	25	↑	150	↑
Rome	-	↔	40	↑
Rotterdam	10	↑	70	↑
St. Petersburg	100	↑	500	↑
Stockholm	-	↔	85	↑
Warsaw	25	↑	150	↑

Jones Lang LaSalle surveys prime yields in 46 office markets across Europe. The 30 markets listed above represent a selection from that list.

Contact:

John Gardiner
Associate Director
EMEA Research
London
+44 (0)20 7852 4924
john.gardiner@eu.jll.com

Petra Blazkova
Head of Capital Markets Research
EMEA Research
London
+44 (0)20 3147 1175
petra.blazkova@eu.jll.com

www.joneslanglasalle.eu

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