Corporate Real Estate: Investment and EU Cities

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Foreword

RICS members in Europe are highly qualified professionals working internationally to support businesses, governments and society as a whole. Covering the whole spectrum of the property sector, they are uniquely placed to anticipate trends, deliver best practice to the industry and as such, bring confidence to the market.

Following a first publication entitled ‘Corporate Real Estate: Global Cities and Investment’ released at MIPIM in March 2012, RICS Europe’s network and key members in 13 EU cities have joined forces to deliver this European edition based on valuable market intelligence.

In times of uncertainty and the deepening Eurozone crisis, buyers and investors are no longer just concentrating on those cities that attract a high level of international demand but are also considering other complex aspects. With this publication, RICS seeks to share part of its members’ professional expertise in the field of corporate real estate and analyse which factors are currently determining companies’ location and investment decisions in some prime cities within the European Union.

Given the importance of real estate in business, not just in terms of the visual representation of the company but also in terms of investment, I trust that this paper will demonstrate the value of RICS members’ professional expertise to the industry.

Across the real estate world, whether in the fields of corporate real estate, facilities management, real estate valuation or agency and brokerage, the property profession is well recognised as a fundamental ‘added value’ service provider to corporate operations. RICS will continue to work closely with real estate service providers, other bodies and stakeholders, regulators and governments around the world to raise the level and promote the value of the profession.

Best regards,

Liliane Van Cauwenbergh
Managing Director, RICS EMEA

Introduction

Corporate occupiers, as demand-drivers for commercial and industrial real estate development and management, are central to the economic success of a city and country and play a key role in the way a city functions and grows.

As significant 'end-users' for service providers, it is critical for the real estate profession to understand the dynamic, evolving challenges and opportunities occupiers face in ensuring they are located in prime space for their businesses, in a building meeting their requirements and accessible through modern and efficient urban infrastructure.

What encourages or deters a company from investing in a particular city? The list of possible influencing factors is endless, and some, such as the exchange rate or the wider global economy, will no doubt be out of a particular city's control. However, there is a suite of key factors normally within a city or country's remit, and if each factor is addressed in a holistic and coherent way, global businesses may be more likely to locate, bringing the benefits of wider investment and employment.

This report highlights the influence of various strategies adopted by major European cities to respond to the crisis and to the changing economy: the crisis is often seen as an opportunity to clean-up the economy and a return to fundamental and real values. Cities are reassessing their strategies and are looking for stable and sustainable growth, while paying more attention to their international image and attractiveness to business and qualified international workforce.

A higher sense of dialogue is needed between major occupiers and investors, property professionals and public authorities. The current corporate focus on consolidation, cost-cutting, productivity and flexibility will undoubtedly have some impact on the urban fabric: some cities are already pioneers in the redevelopment of unsuitable office stock for housing, retail or leisure purpose.

In a similar way, real estate professionals must understand the evolving trends among corporates in the countries in which they operate, to position themselves 'ahead of the curve' and to operate in a truly strategic role. It is the property experts who can add value to these global corporates through supporting their strategic location and facilities management strategies, negotiating with city authorities and offering local expertise.

This paper represents a scoping exercise among some of RICS' key stakeholders in Europe – members and other professionals - through a number of local discussion forums organised by RICS EU Policy and Public Affairs and RICS national offices across Europe.

It is not intended to represent an exhaustive study of location and relocation drivers, but will be a platform for further in-depth research, policy and best practice for RICS.

Thomas Jézéquel
EU Policy and Public Affairs officer

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Background

In 2012, RICS convened a number of roundtable discussions in a selection of EU cities in which it operates.

Participants at each city discussion included a combination of senior management of major corporate occupiers (e.g. Directors of Property, Heads of Real Estate), service providers (often RICS members) from real estate firms and other property professionals. The participants based their discussions on the same set of topics, which included:

// why they chose to locate in that specific city/city-region;

// their city's relationship with the rest of the country and region;

// whether there were any real market constraints to locating in the city;

// existing or emerging best practice in the way that real estate service providers were working with occupiers in that location.

The same set of discussion questions were used at each roundtable and an audio recording was taken to capture accurate notes. All points included in this report from the roundtables are non-attributable and do not necessarily reflect the consensus views of the participants.

Each city page in this report includes a set of economic and demographic data to provide a wider context to the anecdotal evidence. The sources for the data are set out below:

Data Set	Source
Population 2011 (Urban area)	*Eurostat*
GDP Growth 2011 (national %)	*Eurostat*
Unemployment rate 2011 (regional)	*Eurostat*
Annual Inflation rate August 2012 (national %)	*Eurostat*
Vacancy rate Q2 2012	*Jones Lang Lasalle*
Average CBD Office Rent (p sqm pa) Q2 2012	*Cushman & Wakefield*
RICS Rent expectation Q2 2012 (net balance %)	*Taken from the quarterly RICS Global Commercial Property Survey*
Liveability ranking	*Taken from the Economist Intelligence Unit's 2012 Global Liveability Survey*

RICS city roundtables and dates held

London // 7 December 2011
Frankfurt // 13 February 2012
Budapest // 5 June 2012
Amsterdam // 25 June 2012
Brussels // 28 June 2012
Milan // 5 July 2012
Paris // 11 July 2012
Warsaw // 12 July 2012
Madrid // 16 July 2012
Barcelona // 17 July 2012
Helsinki // 14 August 2012
Rome // 4 September 2012
Dublin // September 2012, compiled from market research and individual interviews.

Key findings

// One common trend is the great difficulty to access finance. Banks have virtually ceased to lend money for investment and only major international firms can get access. In some cities investment activity has virtually come to a standstill, meaning hardly any new construction projects or refurbishment activities are taking place. This happened quite sudden.

// The global financial crisis has had a major effect causing investors and occupiers to postpone decisions. The decision-making process has become extremely difficult and many economic actors are waiting to see how the crisis will develop.

// However there is also a virtuous effect of the crisis in the form of a clean-up of the real estate market, with less speculation, and a return to fundamentals and real values.

// The need for more transparency, professionalism and common standards was affirmed in each city, especially in the field of green ratings and codes of measurement.

// Occupiers all over Europe are focusing on consolidation, cost-cutting, productivity and flexibility: demand is high for a more efficient workplace allowing new ways of working and reducing the need for space.

// Corporate Real Estate professionals are under pressure to deliver creative solutions to suit requirements in cities where landlords' expectations and quality of real-estate stock are still lagging behind international standards.

// The demand for sustainable buildings varies across Europe. While green buildings are requested by international investors and are the only choices considered in Northern and Western Europe, markets in Eastern and Southern Europe are slowly picking up and still suffer from a lack of A-rated buildings to suit occupiers' requirements.

// Urban planning and strategies at the local authority level greatly influence the choices of occupiers since they affect the way they can operate in a market. Efficient public transport, connectivity to other secondary cities and quality of life were mentioned as important drivers of investment attraction and retention of high-skilled labour.

// Greater levels of dialogue are needed between occupiers, the real-estate profession and local authorities in order to boost synergies and deliver the ideal urban fabric and regulatory framework to allow for a sustainable growth. In order to be successful as a city, government and policy decision makers need to consistently monitor how easy it is for businesses to locate in their city and make decisions accordingly.

// RICS members, in their roles as service providers for corporate occupiers, increasingly and consistently deliver added value to businesses within their corporate real estate strategies.

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Population	**1,482,287**
GDP Growth 2011 (national %)	**1**
Unemployment rate 2011 (local)	**4.4**
Annual Inflation rate August 2012 (national %)	**2.6**
Vacancy rate Q2 2012	**15.5**
Average CBD Office Rent (p sqm pa) Q2 2012	**270**
RICS Rent expectation	**-62**
Liveability ranking	**26**

Amsterdam // The Netherlands

Overview

// The Netherlands are still doing relatively well at EU level, with less financial problems and more flexibility and ability to adapt to the new economic situation. They are still seen as a safe haven for international investors.

// Amsterdam remains the cultural and financial hub of the Netherlands and has been growing slightly quicker than other Dutch large cities.

// Amsterdam benefits from an excellent quality of infrastructure and public transport and is very well connected at the European and international level (high speed train connections, and Schiphol airport being one of Europe's main hubs).

// One of the most striking points on the Amsterdam market is the high vacancy rate (18%), with 8 million m² currently unoccupied. This high vacancy rate creates expertise in terms of redevelopment and refurbishment, with pilot projects for reconversion of obsolete commercial real estate to e.g. student housing.

// Large pension funds have played a crucial role at the start of the crisis in absorbing the shock of the crisis and to ensure a continuity of investment. The tendency is now to consolidate the industry, with the absorption of smaller banks and pension funds by the bigger players.

Constraints and risks

// It becomes more and more difficult to attract companies in one of the cities composing the Randstad (Amsterdam, The Hague, Rotterdam and Utrecht). Local decision makers are fighting among themselves which works counterproductive at the international level.

// The large financial industry in Amsterdam will have to adapt to the new economic climate and to the need to consolidate its operations, which will have an impact on the Corporate Real Estate market.

// Labour cost and regulation as well as higher taxes could deter occupiers from investing in the Netherlands. On the other hand, the Netherlands enjoy the second highest productivity rate of all Europe.

// Rising sea levels could mean high risks in the long term. The Netherlands will have to double the amount they currently spend to keep the water management system in good shape, whereas 30% real estate value stock is located below sea level. This can defer investment, as e.g. U.S investors refuse any asset located below sea level.

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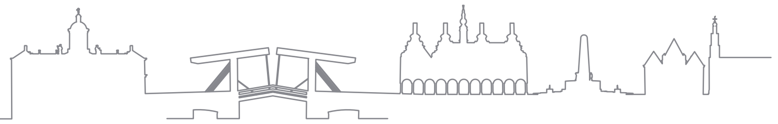

Opportunities and best practices

// Bigger firms are relocating to the new business areas (e.g. Zuidas) in newer and more efficient buildings. Occupiers are trying to consolidate their operations and reduce their real estate footprint to adapt to a more flexible work style.

// One of Amsterdam's competitive advantages is a highly qualified and adaptable workforce, easy in its international approach and often speaking at least three languages. Regional universities are highly attractive to foreign students but also to international companies wishing to tap in this knowledge pool. Amsterdam is seen as a city where the quality of life is high and where it is easy to settle as an expatriate.

// The planning system is highly efficient and was reformed after the crisis to shorten the procedure.

// The Netherlands enjoy a high sense of dialogue, especially for the protection of environment.

// Amsterdam benefits from high quality buildings: Amsterdam is by far the number one city in terms of cold and heat storage. This technology reduces the carbon footprint of a building by 60 to 70% and is widely spread in the city, with 1500 buildings benefiting from such installations, becoming systematic in new buildings and extended at the district scale in new developments.

// The Netherlands are one of the best locations in Europe in terms of internet access, being a continental hub and a connectivity gateway for the European internet: this attracts international IT firms such as Microsoft and Google.

// Rather than spreading outwards, Amsterdam still intends to make more intensive use of the inner city areas. By keeping the city compact it can make more efficient use of energy and transport.

Client-Service provider interface

// Occupiers now systematically ask for an energy rating of buildings. But end-users need to be educated in terms of use of energy, with a focus on the level of comfort and not on the energy cost, since energy labels focus on the theoretical use of the building.

// Because of the high vacancy rate, occupiers are incentivised (price cuts, rent-free periods) by landlords to enjoy the current availability and affordability of space.

// Big occupiers tend to increasingly outsource and centralise their real estate operational management, but the strategic planning remains in-house.

// Occupiers' requirements are shifting from parking place to public transport connectivity.

Summary and Recommendations

// Amsterdam benefits from its situation in one of the countries least affected by the global financial crisis. The Netherlands are considered as a safe market with excellent conditions to do business.

// As occupiers are looking to consolidate their activities and maximise their efficiency in their use of space, the high vacancy rate on the Amsterdam market is not expected to decrease. This will be a challenge in terms of urban redevelopment in the coming years, with innovative and sustainable solutions needed.

// Competition between cities of the Randstad seems counterproductive and not relevant for international occupiers who do not necessarily differentiate between these cities. Amsterdam and the other Randstad area cities should invest more in public relations and sell themselves at the international level while concentrating on joint efforts and a general approach rather than on internal competition.

Barcelona // Spain

Overview

// Barcelona is not a global city but a network city, focusing on certain specialisations, such as fashion, tourism and an extremely active retail sector which constitute important drivers of growth. International Retail investors tend to locate preferably in Barcelona when they enter the Spanish Market. Neglected during the Franco era (1939-1975), Barcelona benefitted tremendously from the Olympic Games of 1992, where for the first time the public sector and the private sector were fully aligned.

// Barcelona, as the rest of Spain, suffers from regulatory and taxation uncertainties causing insecurity and caution from investors. Despite much interest in relocating to better buildings or to locate for the first time in Barcelona, investors are stalling their decisions. However, the city council is one of the few in Spain to be solvent and is in one of the best economical conditions in Spain, contrary to the wider region of Catalonia.

// Barcelona is not a financial hub and is a stable market with no significant booms or falls and less permeability to economical cycles. Much of the investment is in R&D (medical, pharmaceutical, chemical, sport consultancy) and there is no single dominant sector in the city in terms of Real Estate footprint , which reduces the risks. 50% of new start-ups in Spain are located in Barcelona, mainly in the medical, sports and creative sectors.

Constraints and risks

// Lack of Class A or B green buildings in the city is a real threat for investment, as occupiers looking for this type of product do not find them on the market of Barcelona. The lack of bank finance hinders this kind of developments or redevelopment in the coming years. Much of the office stock in the Central Business District dates from the 1992 Olympic year and is becoming obsolete.

// Although it benefits from excellent inner-city infrastructures and, recently, from an excellent high-speed train connection to Madrid, Barcelona is not very well connected and lacks a strong intercontinental airport.

// As in the rest of Spain, the level of English remains a key challenge for international occupiers. As in Madrid, many competent and multilingual workers seek jobs outside of Spain and companies suffer from a lack of continuous in-house education of their workers, making job retention harder.

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Population	4,440,629
GDP Growth 2011 (national %)	0.4
Unemployment rate 2011 (local)	19.2
Annual Inflation rate August 2012 (national %)	2.2
Vacancy rate Q2 2012	13.6
Average CBD Office Rent (p sqm pa) Q2 2012	216
RICS Rent expectation	n.a
Liveability ranking	34

Opportunities and best practice

// Barcelona benefits from one of the most positive images at the global level: It is one of the most visited cities in Europe and is often top-ranked in terms of quality of life. According to a study launched by an occupier having 120 offices in the world, Barcelona is the second city where people want to live and work. This is a key factor for attracting southern European Headquarters for a number of European and international companies, as well as attracting and retaining a highly qualified international workforce drawn by the high quality of life.

// The port of Barcelona is gaining importance in terms of cruises, a growing market, but competes with Valencia for industrial activities.

// The city authorities have provided long term planning with new areas well connected to the metro system and with an excellent availability of space. Inner Connectivity is not a problem for occupiers since most of the city is reachable within 25 minutes. Proximity to clients is then seen as a given, and therefore not a specific requirement.

Client / Service provider interface

// The office market lacks transparency, which is a strong disadvantage in terms of future development. Businesses looking into locating in Barcelona lack clear and reliable information in terms of rents, yields, vacancy rate, real space, etc. This also hinders redevelopment as real values are very uncertain.

// Occupiers are now looking for a different type of workplace and have smaller space requirements. Grade A quality real estate in the centre has a vacancy rate of under 5% compared to a city average of 14%. Obsolete buildings are being vacated. Large companies privilege new business areas where they benefit from affordable rent and larger spaces.

// Most of the commercial real estate portfolios in prime locations in Barcelona are owned by banks, which lack expertise in terms of property management. Occupiers expect Facility Management up to European Standard but the profession is still focused on cost-cutting.

// Occupiers are currently distributed over the entire city, but the authorities are trying to form clusters around high added value sectors. Efforts directed to new business areas, clusters and new types of activities (R&D for mobile network) are expected to pay off in the mid-term.

Summary and recommendations

// Barcelona benefits from an excellent international image as a very liveable city and as an increasingly recognised knowledge centre.

// More transparency is needed on the office market and international property professionals should increase collaboration to bring more certainty and standardisation on the market.

// The 1992 Olympics have considerably contributed to the rebirth of Barcelona, but the office stock built 20 years ago is now becoming obsolete and in serious need of refurbishment.

Population	**1,885,319**
GDP Growth 2011 (national %)	**1.8**
Unemployment rate 2011 (local)	**16.9**
Annual Inflation rate August 2012 (national %)	**2**
Vacancy rate Q2 2012	**11.1**
Average CBD Office Rent (p sqm pa) Q2 2012	**285**
RICS Rent expectation	**-52**
Liveability ranking	**28**

Brussels // Belgium

Overview

// The main driver of property investment in Brussels are the European Institutions and associated agencies, occupying 1.7 million m² and employing around 30,000 civil servants, with an additional 30,000 highly qualified workers gravitating around and occupying up to 800,000 m² (estimation). The global footprint of the EU presence could be estimated being between 25 to 30% of the commercial property market in Brussels.

// International presence remained in Brussels, with up to 500 corporate headquarters. Tax cuts allowing to deduct equity invested in the company allow businesses to generate profits while paying low taxes.. No massive relocations of companies to other countries were observed on the market.

// Brussels is very well connected by train and road to major EU cities such as Paris, Amsterdam, London and Frankfurt. Housing is very affordable by European standards, and the comfort of life and wide diversity of high qualified jobs available attracts a multinational workforce.

// There have been no important newcomers on the occupier side on the Brussels market. Very few new developments are expected in the imminent future, due to the threat of buildings being put on the secondary market.

Constraints and risks

// A high vacancy rate (50%) occurs in new buildings (no older than 5 years) who were too expensive to attract tenants who are trying to reduce their capital and operational expenditure.

// There are big differences between the Central Business District and the periphery. In times of boom, vacancy rates are going down everywhere, but in time of contraction the decentralized districts and periphery are not considered by investors and occupiers.

// Transportation inside Brussels is cited as the main risk for the Brussels market. Only a few axes within the city are easily accessible by public transport, while the city is one of the most congested in the world.

// Globally, Belgium has one of the highest tax levels in Europe. Along with cumbersome social security rules and bilingual administration rules, investors are deterred from locating in Brussels.

// The complicated planning process and the influence of frequently changing politicians and civil servants are permanent threats on new developments. Political instability and elections also tend to regularly freeze building permits deliveries.

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Opportunities and best practice

// High vacancy rates provoke reconversions and refurbishment, when older buildings having lost their tenants are not competitive anymore. The Brussels region offers subsidies to owners to promote reconversion of obsolete office stock to residential, as demographic pressure in Brussels is already high and expected to grow in the coming years.

// Many companies left the CBD to the periphery for tax reasons, but are currently coming back to Brussels for transportation reasons. New sustainable objectives were pushed to dramatically decrease the number of company cars (popular for tax reasons until recently), and parking space and to focus on areas easily accessible by public transport in the centre of the city, while offering attractive packages to employees who accept not to drive to work.

// The airport was previously handicapped by congestion and lack of connections. New infrastructure work in the last few years will make good projects in this area more attractive to companies not currently located in the region.

// Particularly good and diverse linguistic skills are a pull factor for investors looking for a good pool of talent. High class e-commerce services recently settled in the city.

// The EU Commission is now looking into a diversification of its presence in Brussels, which would increase the dynamism of currently less attractive districts. But in the context of pressure on public finance and tighter EU budgets, this could only be achieved through private investment based on the guarantee that the EU would rent the buildings.

Client / Service provider interface

// During the crisis, many tenants preferred renegotiating their lease for more favourable terms. One of the newest trends is a drop of prices for newer buildings, and occupiers willing to vacate older, non efficient buildings.

// The Brussels regional authorities have in the past reduced the possibilities to develop new office buildings in the city and were trying to concentrate offices around train stations.

// Sustainable ratings for buildings are a major request from occupiers and investors. Energy efficient buildings are more and more taken into consideration. This trend has been observed for the last five years, and is now very strong.

// Belgian and regional regulations are highly complicated and specific, with a high degree of uncertainty.

Summary and Recommendations

// Brussels is an international city with a highly-qualified multilingual workforce attracted by the opportunities offered by the European Institutions and the jobs linked to their presence in Brussels.

// Brussels' public transport infrastructure is obsolete and underfunded, and occupiers pay much attention to where a building is located. Only a few axes within the city are easily accessible by efficient and modern public transport. However, Brussels is extremely well connected at the international level thanks to its airport and excellent train connections to London, Paris, Amsterdam and Frankfurt.

// Brussels is one of the most congested cities in Europe and suffers from complex and scattered decision making processes at the commune level. This could be a major threat for mid-term development as Brussels is expected to gain 200.000 inhabitants by 2020.

// High tax levels and complex rules have deterring effects on investors and international occupiers looking into the European Market. Local expertise and contacts are a condition for investors looking to locate in this market.

Population	**2,475,737**
GDP Growth 2011 (national %)	**1.6**
Unemployment rate 2011 (local)	**8.8**
Annual Inflation rate August 2012 (national %)	**5.7**
Vacancy rate Q2 2012	**21.3**
Average CBD Office Rent (p sqm pa) Q2 2012	**252**
RICS Rent expectation	**-29**
Liveability ranking	**50**

Budapest // Hungary

Overview

- // The past growth of global presence in the Budapest market was partly due to the changing national economy and the need to catch up and to have more modern know-how and finance to service the new post-communist national market. One of the drivers of demand following the democratic transition and progress towards a market economy was competition within the business services sector (banks, law firms, retail, insurance).
- // Budapest, and Hungary as whole, has witnessed a major shift in the property market. Whereas a decade ago, the driver was low cost manufacturing and assembly, the sector of back-office and services since started to increase. Due to the crisis, there is very low demand for new shared services centre, but a very good development of these centres once established.
- // Hungary has suffered from the financial crises and its economy remains very fragile. Investors are stalling their decisions but not necessarily pulling out of the country.
- // Due to difficulty in financing major projects, companies are turning more and more to the leasing market and most new developments have stopped. New opportunities have come up on the secondary market outside the Budapest region, with end users vacating their premises, resizing or downsizing.
- // Today, Budapest is competing at the regional level with Polish secondary cities and can be seen as having lost, for the time being, its competition with Warsaw as the Eastern European business hub. Budapest also used to be very attractive for regional activities in various segments but is now behind in terms of regional and international competitiveness.

Constraints and risks

- // Budapest is globally perceived by international occupiers as suffering from political instability. Numerous constitutional, legal and fiscal changes and disputes with the EU and the IMF since the 2010 elections have deterred investment decisions and have branded Hungary as an uncertain market.
- // The financial sector's interest has been absent from the market for the last 6 months. The crisis is obviously one of the reasons, with a global decline in demand, but in all likelihood, this sector has also exhausted its expansion possibilities in Budapest and the Central European financial centre has become Warsaw.
- // Availability of land appears good, but problems arise when taking into consideration the connection to infrastructure networks. Suppliers can usually provide utilities in a very short time-frame, but will always provide the developer with the longest time-frame possible (5 to 6 months) to avoid any risk. This has to be taken into account at the planning level.
- // Corporate taxes recently implemented by the government (2010) and comparatively high property taxes could mean that Budapest gets branded as a "high tax city", which would deter global firms from investing in the market. Budapest's competitive advantage in terms of labour cost could disappear when high taxation is taken into account.
- // Transportation is an issue outside of Budapest and is currently not acceptable in terms of quality and frequency.

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Opportunities and best practice

- // The crisis is also seen as an opportunity to locate in Budapest, thanks to a weak Forint which has lost 30% of its value compared to the Euro since 2010 and to a comparative advantage of 5% in terms of wages compared to other countries in the region.
- // Buildings and land are often quickly available, depending on size and the environmental procedures which are shorter and faster for important projects.
- // The Budapest market is very well supplied and positioned in terms of real estate, with high quality buildings located around the ring.
- // One of Budapest "Unique Selling Points" is that it remains very competitive in terms of rents on a pan-European basis with rates comparable to secondary cities in Poland, in a context where more and more pressure will be put on occupational costs.
- // Budapest is globally praised by international investors as a city with excellent infrastructure and top quality properties, commercial as well as residential. Quality of life, cultural life, and education are important factors to attract and retain expatriate workers permanently or for many years.
- // Budapest's geographical position plays an important role in investors' decisions: expansion in the manufacturing sector is driven by the fact that companies can service the Central European region, the Balkan and sometimes the Middle-East.

Client / service provider interface

- // Pressure on financing means that Corporate Occupiers and Developers need to work together to access funds, in joint financial packages of leasing/owning.
- // The sector of Facilities Management is particularly underdeveloped compared to Western Europe, with only a handful of companies able to deliver services according to international standards. The current tendency is for in-house work, with only areas such as security or cleaning being outsourced.
- // In terms of other property professionals, Budapest is sufficiently supplied, with most of the big consultancy firms present in the market for years.

Summary and Recommendations

- // Economic and political uncertainties in Hungary are at the top of occupiers concerns.
- // Those portfolios of properties which have been developed over the last 10 to 15 years will need to be maintained and refurbished, and concerns about tenant retention and quality of management are fundamental.
- // Budapest may not have concentrated enough on its office stock in a recognisable urban environment: main locations are purely functional and well connected, but the quality in terms of lifestyle and environment have been neglected. Buildings tend to maintain their quality if the overall office environment is more comprehensive.
- // The suburbs of Budapest are often difficult to reach via public transport, due to a policy of trying to contain urban sprawl and consequently not expanding the transport grid. The lack of quality and frequency of public transport has an adverse effect on locating business.
- // The Danube should be commercially repositioned to allow mixed use development along its still underutilised banks.

Dublin // Ireland

Overview

// Dublin is by far Ireland's largest city, with 40% of the population living in the Greater Dublin Area. The population is currently around 1.8 million and is expected to reach 2.1 million in 2020. The International Financial Services Centre handles over €1 trillion of trade each year, and Dublin is home to many international financial institutions including CitiBank and technology companies such as Amazon, Google, Ebay, LinkedIn, Twitter and Dell.

// Dublin's economy has suffered as a consequence of the global, European and Irish economic downturn. Unemployment in Dublin has risen from 11% in the first quarter of 2010 to 13.1% in the same quarter of 2012, against a nationwide unemployment rate of 14.7%. Unemployment growth has been most severe in the construction sector. Dublin generates almost half of all goods and services produced in Ireland and half of all of Ireland's taxation revenue.

// There are 20 universities or institutes of technology in Dublin, including Trinity College Dublin, Ireland's oldest university and University College Dublin which is Ireland's largest university. In 2012, Dublin City University was named by the Times Higher Education as one of the top 100 new universities in the world and by Quantity Surveyors as one of the top 50 universities under 50 years old in the world.

Constraints and Risks

// As a small, open economy, Ireland has been vulnerable to international financial uncertainty. The Irish economy has gone through a severe period of recession following the economic growth of the Celtic Tiger period. While Dublin has fared better than the other regions of Ireland, unemployment and out-migration have hit the capital hard. Dublin is heavily dependent on foreign direct investment for employment in the financial services sector and technology.

// There is significant oversupply of certain property types in Dublin, most significantly office-space. With little new developments starting, Dublin may soon experience an over-supply of older stock with pockets of under-supply of the most modern office accommodation.

// The planning system has been criticised in recent years, with poor zoning decisions and weak land-use management. The transport system, including the DART light-rail and the LUAS metro have received recent investment and upgrade, but Dublin remains a largely car-dependent city.

// The upward-only rent review clause has been made illegal for new contracts since 2010; however, it is still in place for existing leases which tend to be very long. This has created a two-tier commercial property market with new tenants receiving significantly more favourable rental terms than existing tenants. Lease lengths have been shortening in recent years, presenting more favourable terms to new tenants.

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Population	**1,804,156**
GDP Growth 2011 (national %)	**0.7**
Unemployment rate 2011 (local)	
Annual Inflation rate August 2012 (national %)	**2**
Vacancy rate Q2 2012	**19.7**
Average CBD Office Rent (p sqm pa) Q2 2012	**307**
RICS Rent expectation	**-18**
Liveability ranking	**46**

Opportunities and best practice

// Dublin is a well-placed city which is already home to many of the world's most important and dynamic corporations. There are a large number of European and US firms in Dublin, and connections to the US and continental Europe are easy.

// The growth of the Dublin-Belfast Corridor through upgraded motorway network and direct railway line has brought the 1.8 million people of Dublin within an hour's travel from the 580,000 population of Greater Belfast. Three airports serve the Dublin-Belfast corridor which is home to nine universities.

// Dublin is considered as having one of Europe's youngest and best educated workforces. The current government's strategy of positioning Ireland to become the best small country in which to do business by 2016, will undoubtedly benefit Dublin.

// In recent years, Dublin has become a hub for international software, IT, financial and business services investment. As the European home of many global, Dublin has a very strong international and multi-lingual workforce. In recent months, PayPal, for example, recently located 1,000 new jobs in Dublin, to deal with customers who speak 14 languages. This is part of a growing hub of international firms locating in the International Financial Services Centre, the 13th leading financial centre in the world, according to The Banker publication. In 2010 Dublin was in the top quartile of most liveable cities in the world. Since 2011, IBM, LinkedIn, Amazon and others have expanded their Dublin investment leading Dublin to earn the title of the Internet capital of Europe.

Client-Service provider interface

// Dublin is home to most of the global real estate agencies as well as indigenous property companies. This gives international investors the best of both worlds – international best practice as well as local knowledge.

// Dublin agents are familiar with the demands of international clients and many have built up significant skills in managing the growth of inward investors into Ireland.

Summary and Recommendations

// The Irish economy is going through a painful recession, but Dublin remains the home of many of the world's largest and most dynamic companies, attracted by Dublin's positive demographics, international connections and positive tax regime. Dublin accounts for 40% of all jobs in Ireland, and over 50% of all Irish tax. It remains Ireland's economic powerhouse.

// Transport and planning decisions have left Dublin with a poor land-use system, but clustering of businesses in the Docklands and the International Financial Services Centre have resulted in Dublin becoming one of the world's most internationally connected cities.

// The low corporate tax rate (12.5%, less than half of the Eurozone average) has seen many US and global firms open their European offices in Dublin, and their continued presence is largely dependent on the retention of the current Irish and international taxation regimes. The Irish corporation tax regime is under pressure from the EU institution as some member states push for the creation of a pan-European business tax system in the framework of a Eurozone fiscal union, which could diminish the attractiveness of the Irish regime. This is being fiercely resisted and Ireland continues to monitor US policy on changes to the taxation of off-shore trading.

Population	**2,531,970**
GDP Growth 2011 (national %)	**3**
Unemployment rate 2011 (local)	**7**
Annual Inflation rate August 2012 (national %)	**1.9**
Vacancy rate Q2 2012	**13.4**
Average CBD Office Rent (p sqm pa) Q2 2012	**408**
RICS Rent expectation	**19**
Liveability ranking	**18**

Frankfurt // Germany

Overview

// Despite having just 700,000 inhabitants, Frankfurt is the centre of the Rhine-Main region, which has a population of 5.5 million people. The presence of approximately 200 banks located in the city make Frankfurt a major financial hub, and because of the 'pull' of the European Central Bank which is located in the city, virtually all of the significant European financial services providers are also present.

// The city is well served by transport infrastructure connections and is recognised as an entry point to Europe for international firms. The city's digital infrastructure is also excellent, with occupiers identifying its internet connectivity as a major pull factor to locate in the city.

// Germany's polycentric profile creates high competition within the core "BIG 7" cities in Germany. Frankfurt has one of the most volatile real estate markets in Germany, but still compares favourably as a very stable one if considered at an EU or international level.

// Although a financial services provider cannot generally provide a national service for all of Germany solely from Frankfurt, the city does provide an excellent hub location. However, higher rents in Frankfurt and in its top tier competitor cities are encouraging some corporate occupiers to decentralise and base appropriate operations in tier two cities.

Constraints and risks

// Corporate occupiers within the financial services sector dominate the Frankfurt office market. As a result this highly specialised city in financial services has a reasonably volatile real estate market compared to the rest of Germany as its performance is directly linked to the performance of the financial service sector.

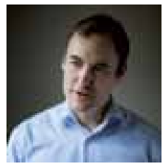
// Diversification of the city is difficult given the comparable larger cities which dominate other sectors. Despite its good reputation among international staff based there, the city is still struggling to position itself as an attractive city for German workers to live and for other non-financial business services to locate.

// One of the concerns of corporate occupiers is the potential effects of an EU tax on financial services. This has generated uncertainty in predicting its impact on the future performance of the Frankfurt property market: will more regulators demanding more commercial space outweigh the potential reduction in occupancy from investment banks?

// Investment needs to be made to refurbish and upgrade the significant stock of office space in poor condition to current building standards.

// The historically slow planning process in Germany is resulting in insufficient residential space being available in the city centre and delays to much-needed infrastructure upgrades.

Contact



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Opportunities and best practice

// Frankfurt has a number of big anchor tenants which support widespread clustering and spin-off services. While the effects of the EU transaction tax are difficult to predict there may be opportunities in real estate terms to host larger government regulatory bodies which may expand as a result of the new EU tax.

// Real estate transfer taxes have increased from 3.5% to 5% across Germany, but Frankfurt has retained a 3.5% rate, showing a business-friendly approach from the city government.

// Businesses commonly outsource their back office functions to neighbouring countries with lower wages, such as Romania or the Czech Republic.

// German landlord and tenant law is generally sympathetic to the tenant, where it is a relatively simple and transparent process to renegotiate leases.

// Sustainability is high on the agenda for tenants (and therefore landlords). The quality of new builds is very high and generally adheres to the highest standards of energy efficiency. Inefficient, low quality buildings do not tend to be refurbished, with new buildings in prime areas replacing outdated ones.

Client - service provider interface

// Real estate service providers locating in Frankfurt can service 90% of the German financial services occupiers from the city, so proximity of clients is an advantage.

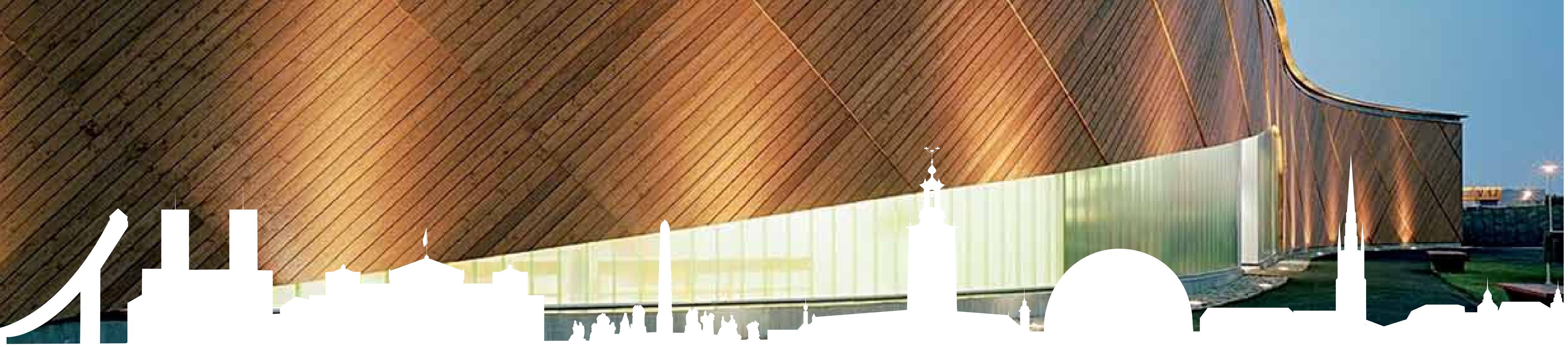
// Because of the tenant-friendly landlord and tenant law, service providers have to facilitate a very close relationship between both parties to guarantee occupancy rates.

Summary and recommendations:

// The overwhelming dominance of the financial services industry has both positive and negative implications for the attractiveness of Frankfurt as a location for corporate occupiers and in terms of its competitiveness as a city.

// City leaders need to build on Frankfurt's triumph as an international hub for financial services and maximise the potential attractiveness of the city to corporate occupiers arising from its excellent digital infrastructure, tenant-friendly leasing agreements and lower real estate transfer costs.

// Frankfurt city leaders and planners attempting to increase the attractiveness of the city to new businesses will need to focus on; upgrading the office market stock, improving infrastructure, increasing the availability of residential property, encouraging more German workers to the city, exploring ways of bringing back office functions back to the city and carefully monitoring the city impact of the EU transaction tax on financial services.



Population	**1,279,685**
GDP Growth 2011 (national %)	**2.7**
Unemployment rate 2011 (local)	**6.9**
Annual Inflation rate August 2012 (national %)	**3.1**
Vacancy rate Q2 2012	**9.7**
Average CBD Office Rent (p sqm pa) Q2 2012	**360**
RICS Rent expectation	**n.a**
Liveability ranking	**8**

Helsinki // Finland

Overview

// Finland is politically stable, financially strong and one of the few EU countries to be only moderately by the Global Financial Crisis. However, the Finnish economy is dependent on exports, making the country somewhat reliant on international economic development. Having the euro currency is seen as an advantage in comparison to other Nordic countries.

// The Helsinki region has a strong position in the Finnish economy as it accommodates 25% of the population and over 30% of jobs. The Helsinki region is a unified economic area as it has a diverse economic structure. Its strengths lie in IT, high tech, high standard industrial design and environmental technology sectors.

// Helsinki is geographically well located in the region, and offers corporations a central location in the Northern European context. It is well connected to Central Europe, Baltic countries and Russia, and has well-functioning flight connections to Asia.

// Domestic institutions, especially pension funds and insurance companies, play a dominant role in the property investment market, making it a stabilising factor in the market.

Constraints and risks

// The small size of the market is seen as the biggest challenge by corporations, which can make Finland an unattractive business environment for some organisations. Furthermore, Helsinki is seen as quite a remote location from the core of the EU. It often takes more than a day to make a business trip from elsewhere in Europe.

// Finnish language is difficult for non-natives, although English is widely spoken in Finland. Culturally the Finnish society is not seen as easy to access for foreigners, but this is gradually changing.

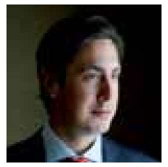
// The Northern climate is often considered as a negative. Climate conditions impact the practices and costs of real estate management, such as owners' responsibilities in maintaining their real estate (i.e. maintenance of outdoor areas and winter maintenance).

// Labour costs are considered high as well as the total income tax ratio, which is similar to other Nordic countries – due to the extensive supply of public welfare services. Corporate taxation is also stricter than, for example, in Baltic countries.

// Most office premise lease contracts are indefinite, which is considered as peculiar by some foreign firms.

// The planning process in an area with an established regional plan takes typically one year. In the Finnish planning system, local authorities have extensive powers to make independent decisions in land-use and planning matters. Coordination of land use is hindered by competition between municipalities and a dispersed municipality structure.

Contact



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Opportunities and best practice

// The well-functioning commercial property market and extensive space supply lower the threshold for investment and location decisions. There are plenty of available commercial premises to carry out high-quality construction that will generate activity.

// Helsinki has a well-functioning and reliable public infrastructure, good public transportation connections, high-quality schools, extensive supply of public and private services and good international connections. These advantages make Helsinki an efficient and attractive environment for business and living.

// Preparedness for weather conditions is at a very good level, and even the most exceptional conditions do not disrupt the city's every day business and social activities.

// Despite relatively high labour costs, industrial production in Finland gets credit for its cost-efficiency, know-how of industrial design and process planning, as well as the ability to stay on schedule.

// The regulatory framework is transparent and clear. It is possible to set up an office in Helsinki with minimal or no barriers. Finland's flexible labour law, as well as contract practices, lower the threshold for setting up an office and make it easier to restructure and downsize operations, if necessary.

Client – service provider interface

// Service supply in real estate has internationalised rapidly during the last decade. At the same time, the professionalism and availability of services have increased for both real estate transactions and facility management.

// Users' needs are usually well served in terms of location and space decisions through e.g. demand surveys, feasibility studies, analysing location and space options, as well as service supply analysis.

// Market and contract practices and processes in the real estate market are well established, transparent and clear. Agreement structures are simple and contracts are usually rather short, supported by the transparent legislation.

// Ownership of real estate is typically organised through mutual real estate companies, which is a flexible and efficient form of ownership and management of a property. For foreign players it is, however, an unfamiliar arrangement requiring familiarisation and local advice.

Summary and recommendations

// A small population and market area, as well as special cultural and climate conditions create specific challenges for Finland. On the other hand, the quality of life is considered as very high and competitive, and the society's stability and security are among the highest in the world.

// The commercial property market is well-functioning and there are numerous existing supply and development possibilities, which lower the threshold for location decisions. Commercial property supply in the Helsinki region is diverse. Supply is scarce only in prime office and retail premises in the Helsinki Central Business District.

// If a company wants to open a branch in Finland, it will, almost without exception, locate in the Helsinki region. The diverse economic base of Helsinki supports various companies' business opportunities in the region – the market does not depend on only one industry.

// The risks related to indefinite contracts can be effectively managed with terms of notice and defining the minimum terms for contract periods. In practice, indefinite lease contracts often last long.

Population	**12,317,800**
GDP Growth 2011 (national %)	**0.8**
Unemployment rate 2011 (local)	**10.2**
Annual Inflation rate August 2012 (national %)	**2.6**
Vacancy rate Q2 2012	**5.5**
Average CBD Office Rent (p sqm pa) Q2 2012	**732**
RICS Rent expectation	**10**
Liveability ranking	**55**

London // United Kingdom

Overview

// London remains one of the dominant global capital markets. The UK real estate market, particularly in London, is one of the most competitive in the world. Capital is speedily invested in low risk arenas in times of global uncertainty and consequently there is currently significant foreign investment in London.

// The current period of higher unemployment in the UK has made labour retention easier and reduces staff poaching, though higher unemployment is not necessarily resulting in increased availability of appropriately skilled staff.

// There is competition throughout mainland Europe and within the UK to attract and retain new employers. In the UK the Government prefers grants for up-skilling staff but not for capital investments while in mainland Europe the opposite is true.

// While the costs of setting up business in the UK are relatively high, the country benefits from a high degree of transparency, so companies can quickly assess overall costs and make decisions accordingly.

// London, as one of the world's centres for capital markets and a major metropolis, is attractive to senior staff who are happy to be based in the city.

// There is concern among businesses that Government tweaking of regulatory policies may affect the desirability of London as a long-term base for a Headquarter premises by making it a more expensive city to locate.

Constraints and risks

// UK talent is relatively immobile, with many contributing factors including housing supply, attitudes and transport infrastructure affecting people's ability to commute easily. Any company relocating an office or plant between two locations in the UK must consider staff retention and likely re-employment as a constraint (or an opportunity depending on business strategy). This compares unfavourably with the approach of multi-national corporations, who will draw on talent pools around the world and develop them in particular locations.

// Planning consultations on major infrastructure projects, such as Crossrail, are extremely long and make the UK unresponsive to the shorter term attractiveness for businesses.

// The UK's lease system is not very tenant friendly, with unwieldy break clauses, complex leases requiring lengthy negotiation and litigation and rent reviews which have traditionally favoured the investor/landlord rather than entrepreneur/tenant. It is thought the upward only rent review system sometimes disincentivises the UK landlord to drive best practice, efficient buildings and gold class standard of service.

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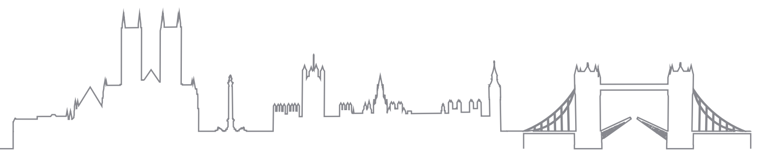

Opportunities and best practice

// The potential to restructure office space requirements around changing work patterns, such as hot-desking, working from home and other places, is significant. Employers and real estate service providers need to embrace and consider the practical consequences and potential cost savings of this.

// The priority for international companies is to find an optimum place to do business. London's pre-eminence in the UK should continue to attract international investment to the country and then connect the resulting benefits with other areas of the UK through investment in transport infrastructure.

Client - service provider interface

// The fact that a number of service providers are global allows occupiers to secure a standard service level across multiple markets. This has created a two tier market between international and national providers.

// To achieve efficiencies from real estate advisory providers, occupiers need to trust the advice of the consultants and use them almost as additional members of the team. This demands a strategic approach to appointing single source providers in each market who can also help simplify the reporting mechanism.

// The facilities management (FM) industry has evolved significantly over the past five years, with an industry standardisation of service delivery, particularly in the areas of reporting and measurement metrics. Part of the success of this has been promoting market incentives to the landlord for the delivery of operational efficiencies. This must be a priority given that the FM provider is the biggest influencer for efficiencies and building best practice on a day-to-day basis.

// Occupiers follow individual streams of best practice with regards to supplier contracts and performance metrics. There is a definite need for the promotion of best practice across the industry.

Summary and recommendations:

// London continues to be one of the world's leading cities in which to do business, particularly in relation to the investment and financial services industry.

// As a major metropolis London offers businesses a wide talent pool of prospective employees and a world class standard by service providers.

// In order to maintain its competitiveness as a location for corporate occupiers London city leaders should consider the challenges of; comparatively high costs of setting up business, the continued requirement for investment in city infrastructure, a historic landlord centric commercial lease structure, and the need to provide assurances to occupiers that future UK government policy will continue to protect London as a suitable location for a headquarters function.

Population	**6,271,638**
GDP Growth 2011 (national %)	**0.4**
Unemployment rate 2011 (local)	**16.7**
Annual Inflation rate August 2012 (national %)	**2.2**
Vacancy rate Q2 2012	**11.2**
Average CBD Office Rent (p sqm pa) Q2 2012	**300**
RICS Rent expectation	**-68**
Liveability ranking	**39**

Madrid // Spain

Overview

// A decade ago, Madrid was an immature market, with 50% of the occupiers located in converted residential buildings where property professionalism was still underdeveloped. This made the sector was open to innovation and new standards.

// Most of the value was created on the residential property market: Corporate Real Estate was never seen as a core asset and did not attract investment. Investment funds were putting the overwhelming majority of their money in residential.

// EU Funds have had a huge influence on the delivery of new modern infrastructure (metropolitan, tramways, high speed rail, hospitals) inside and outside Madrid. However, due to this massive investment in infrastructure, the Communidad of Madrid is currently one of the most indebted in Spain.

// Madrid remains one of the most attractive cities in Europe in terms of quality of life for the expatriate workforce. The high quality of life is a definite plus for occupiers looking to expand their activity in Madrid as they know that the attractiveness to highly-qualified foreign professionals will not be an issue. Madrid benefits from one of the largest proportions of green space in Europe and has improved tremendously in terms of image, with more infrastructure, better walkability and the redevelopment of the historic centre.

Constraints and risks

// The Madrid market is suffering from a freeze in investment in the wake of the great difficulties encountered by major Spanish banks. Austerity measures taken to contain the deficit affect the country's economic perspective and investors' interest and demand for office space has decreased. Lack of finance for projects explains why the overwhelming majority of newcomers on the occupier side choose to lease property.

// Lack of public finance could become a major impediment for investment and location of Corporate Real Estate occupiers: The infrastructure will have to be maintained and the public sector is currently not able to support this cost.

// Although still competitive compared to other important EU markets, Spanish prices of land and rents are considered to be high and investors currently looking at Spain are waiting in expectation of a substantial decrease. The specific structure of the Spanish investment market makes it extremely dependant on foreign investors and banking.

// Sustainability is a pre-requirement, be it only in terms of CSR, for many international occupiers. However, sustainable buildings came very late in the cycle and Madrid, as the rest of Spain, is lagging behind. The Energy Performance of Buildings Directive was ignored for years despite warnings and fines from the EU. Spacious and modern buildings are mostly available in decentralized area, and the Madrid market suffers from a lack of A-rated buildings up to modern standards.

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Opportunities and best practice

// Some occupiers have taken the opportunity presented by the crisis to consolidate their activities and staff in one building with reduced but more efficient space at discounted rents, a trend observed across the EU.

// One of the effects of the debt crisis faced by public authorities is the relaxation of regulations concerning issues such as green belt or historical buildings, which favour development in the short term. Politicians' attitudes towards business has relaxed and there is a greater sense of dialogue.

// The emigration of highly educated young migrants from Spain could be a real risk when the economy recovers. But young Spanish multilingual graduates seeking employment elsewhere in the EU but also in Latin America could become a strength when they come back with an international mindset and new work methods.

// Relocation of businesses from the developing world to the EU could become an important trend if the Euro crisis is solved, with occupiers ready to pay a prime for stability and quality. Call centres in Latin America and North Africa are being brought back for quality and risk issues.

Client / Service provider interface

// The market has become more transparent and professional, which is an asset for attracting end-users. However, the absence of common standards for measurement is a concern for occupiers.

// Occupiers already present in Madrid have some leverage for the coming years and are in no hurry in terms of renegotiation of lease. Landlords are ready to provide more flexibility such as rent-free-rent periods, shorter leases, or assistance to relocate, even for medium-sized space.

// Contrary to what is observed in many EU cities, back office functions have not been decentralised. Access to a qualified English speaking workforce ready to work for a low salary in Spain's secondary cities is very difficult.

// In terms of workplace flexibility, Madrid is very advanced for desk sharing and open space but remains culturally very sceptical of remote working. However workplace mobility and productivity sit at the centre of international occupiers' requirements.

Summary and Recommendations

// The Spanish Corporate Real Estate market suffered from investors focusing on the artificial growth of the residential market. The market currently suffers from underinvestment in the wake of the great economical difficulties encountered by Spain.

// Qualified young Spanish people face massive unemployment, can not count on a satisfactory level of living even when employed, and are therfore leaving the country. The workforce's level of English is one of the top concerns on the occupiers' agenda.

Population	3.115.392
GDP Growth 2011 (national %)	0.4
Unemployment rate 2011 (local)	5.8
Annual Inflation rate August 2012 (national %)	3.6
Vacancy rate Q2 2012	11
Average CBD Office Rent (p sqm pa) Q2 2012	275
RICS Rent expectation	n.a
Liveability ranking	46

Milan // Italy

Overview

// Milan is considerably wealthy, and benefits from a good diversification. Italian global economical statistics do not represent the reality of the city, which is located in the middle of a fully developed and industrial region starting from Turin and ending in Venice. Milan itself is also the crossway and gateway to Italy and its proximity with the Swiss financial market is a strong asset.

// Financial and business services in Milan are still growing; the Chamber of Commerce recorded a 0,5% growth of enterprises based in Milan from 2005 to 2011 on a yearly basis.

// Access to capital is difficult in the current Italian and European context, the key issue being the time needed to get loans approved. Although the new development and brown field development market is running slowly, some key investors are approaching the market from abroad.

// Notwithstanding the impact of world financial crisis, but given the above mentioned growth recorded in financial and business services in Milan, there is a great expectation towards EXPO 2015.

// Milan benefits from an excellent quality of life and lifestyle and is highly attractive to tourists and expats. It can also count on good universities going through consolidation and an internationalisation process which would guarantee a great pool of skilled workforce in the future.

Constraints and Risks

// International investors struggle to understand the Italian planning system. Nevertheless, the largest developments made in Italy are made by international investors, acting closely with main international and Italian banks.

// Milan's Corporate Real Estate market is characterised by a significant oversupply. The city centre of Milan will experience increasing vacancy rates for the next three to four years. Important reconversion and redevelopment are needed but some sizeable historical buildings could remain unoccupied as they can not be refurbished easily.

// Milan needs a planning revolution. The lack of a big financial district like in Paris and London creates the need to look for clusters. Key market players and local developers are working with Milan authorities to define a strategy to allow the transformation to take place and develop new buildings.

// Most of the development is initiated by private developers, while in other countries development is mainly financed by national and local governments, who supply the infrastructure, arrange zoning and provide amenities.

Opportunities and best practice

// The new metro lines will make the periphery more accessible in the coming years, which should have an effect on relocations.

// The city centre of Milan will experience an important process of reconversion and redevelopment in order to contain the increasing vacancy rate. Key market players from the insurance and bank sector are, cautiously, already planning some major moves.

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// Occupiers are looking for cost cuttings and green standards but the decision-making process has considerably lengthened. B- and C-level buildings are no longer considered by tenants anymore. More requirements are now put on efficient, flexible and energy saving buildings: this puts pressure on space which can be dramatically reduced.

// Corporate occupiers are torn between two choices: high profile and prestigious locations in the centre, or more efficient buildings outside the centre, but well connected to the underground system. Top 10 financial institutions are consolidating their locations, going from multiple locations to a more efficient and flexible building in the periphery.

// The fashion industry is one of the biggest assets of Milan, playing an important role in the valorisation of the CBD. Although the industry itself does not have a large footprint, it agglomerates many occupiers in the creative sector, and increases the attractiveness of the city in the eyes of international investors.

// The fashion industry could also have a great influence in terms of development schemes: instead of being close to competitors and cluster, they try to be pioneers and "brand" a new area where they can be an anchor for suppliers, artists, etc. This is also true for major international companies who request their advisors to identify an area where they can leave a recognizable footprint.

Client / service provider interface

// In the recent past specialised Corporate Real Estate courses started to be provided at university level in Italy and different post-degree courses, also recognized by RICS, in Milan as well as in other Italian cities, are available.

// Law firms are almost exclusively concentrated in the CBD, because they need to have a face to face with their clients. For representative reasons, they prefer a central location in historical buildings, making rent-price a less decisive factor.

// Corporate occupiers know what they are looking for, working with detailed lists of requests. They are also more conscious about their leverage on the market, forcing landlords to make concession and working together with advisors to find proper solutions.

Summary and recommendations

// Milan and its region remain one of the richest economic areas in the EU. But the Italian economic perspectives have an impact on the way investors perceive risks.

// Milanese authorities should reassess their strategy and face the need of a CBD with modern buildings, in order to be more competitive in the eyes of international occupiers currently looking for prime space inside the city limits.

// Expo 2015 should be exploited by the Milanese authorities as a great opportunity to invest in the city infrastructure and to be an accelerator of urban renewal processes. The event is expected to contribute to positioning Milan as a new cultural, research and creativity hub in Europe.

// The insufficient presence of public authorities in large scale developments is a key issue for the city. Private and public operators are expected to increase their cooperation through Private-Public-Partnerships.

Population	6,507,783
GDP Growth 2011 (national %)	1.7
Unemployment rate 2011 (local)	8.6
Annual Inflation rate August 2012 (national %)	2.2
Vacancy rate Q2 2012	6.8
Average CBD Office Rent (p sqm pa) Q2 2012	560
RICS Rent expectation	-58
Liveability ranking	16

Paris // France

Overview

// Most of the French commercial real estate market is concentrated in Paris, due to the specificities of the French centralised model. Ile de France (Paris region) still remains one of the most attractive European markets for international investors looking for stability and low risk. Paris is not concentrated on a particular sector and benefits from a high diversity of firms which minimises the risks.

// Compared to the previous major crisis of 1993, there is no significant oversupply phenomenon. Construction has almost stopped since 2008 and there was not much speculation before. Reactions are also much quicker on the side of the banks, which means less oversupply. The Real Estate profession has considerably evolved and is today more professional and transparent than 20 years ago.

// The French economy is affected by the crisis and potential new investors remain prudent, preferring to postpone or avoid any real estate decision.

Constraints and risks

// With some of the biggest occupiers (banks, insurance, media), trade unions have become part of the decision making process, especially for large space operations. Employees have a say in decisions, which increases the length of the process.

// Green is now compulsory for new buildings. However, frequent changes in regulation play a destabilising role. No application decree has been issued to regulate the existing building stock, and the public authorities are conscious that not much can be asked in the current financial situation.

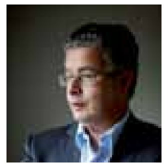
// Paris suffers from a bad connection to its main airport. Generally occupiers consider infrastructure as a real problem in terms of rationalism and quality.

// The State plays an important role in terms of decision making for retail and industrial locations and often intervenes directly in the process.

// In the framework of the Grand Paris strategy, all periphery municipalities wish to attract a service economy and do not consider the real economical factors and the need to attract light industry. Corporate Real Estate advisors and consultants often perceive a gap between public authorities' expectations and the reality of the market.

// Paris is less and less seen as a city where you can live and work. House prices are not related anymore to average income and even the higher middle-class is struggling to settle in Paris. This could cause problems for availability of workforce. Safety is a real subject with firms leaving the area developed around the Stade-de-France.

Contact



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Opportunities and best practice

// The general trend on the Paris market for big occupiers is to rationalise and consolidate to obtain a better price in new buildings.

// The law is currently considered to be favourable to the tenant. Leases are not renegotiated at the price of the market, and the "law on commercial leases" dates from 1953.

// In the periphery, best practices show excellent developments when a coherent environment is provided (housing, retail, entertainment, and industrial good infrastructure) with sometime a larger occupier as a "locomotive". This is illustrated by the case of Eurodisney in the Paris' periphery with a leading industry "branding" a territory.

// The Facilities Management profession is more structured compared to 10-15 years ago and is now able to bring technical solutions, also in terms of energy efficiency.

// French universities are planning to consolidate around newly created consortiums called PRES (Pôle de recherche et d'enseignement supérieur) with a worldwide attractiveness potential. It will help the occupiers to take decisions to be close to knowledge pools.

Client / Service provider interface

// Occupiers are becoming stronger and can renegotiate during the lease period. Landlords are adapting by providing incentives such as price-cuts, rent free periods, refurbishment, or accompanying measures in case of move.

// This gives a high leverage to occupiers, as Landlords are slowly realising that it is hard to have a single tenant.

// Decision-making factors are today more based on facts on the occupier side as well as on the landlord / investor side: there are more questions asked, and more long term thinking in terms of location. This can be considered as a virtuous effect of the crisis.

// Occupiers have fewer perspectives with less cash flow, less flexibility and more regulation: they want a clearer vision on the real cost of real estate, which only Corporate Real Estate professionals can provide. They need coherence, team synergies, and one single location. The profession should focus on common interests but suffers from a lack of tools.

// Landlords are reluctant to shape a building to a particular occupier since it would lead to significant redevelopment costs upon departure.

Summary and recommendations

// Despite the prevailing economic uncertainty, Paris remains a core market for international investors in the EU and suffers less from a lack of financing than other EU cities. The fundamentals of the market are good.

// Landlords must adapt to a new economic reality and accept multi-occupiers in their buildings. Occupiers are cautious and look to consolidate and reduce their operating costs.

// High cost of life and pressure on the housing market push the workforce to live further and further from Paris whereas transport infrastructure is increasingly insufficient.

// The "Grand Paris" scheme is expected to have a deep impact on the market at mid-term but much uncertainty remains.

Population	3,695,148
GDP Growth 2011 (national %)	0.4
Unemployment rate 2011 (local)	8.9
Annual Inflation rate August 2012 (national %)	3.6
Vacancy rate Q2 2012	6.3
Average CBD Office Rent (p sqm pa) Q2 2012	340
RICS Rent expectation	n.a
Liveability ranking	49

Rome // Italy

Overview

// At the macro-economical level, Italy is in a recession, suffering from the debt crisis and experiencing considerable reforms. This is seen as a risk for investors, who are looking into other safer markets.

// As the administrative capital of Italy, Rome's office market is dominated by public administration, law firms, consultancies, lobbie agencies and international organisations. These organisations must have an office in the city centre and constitute a captive market, ready to lower their expectations in terms of quality of the building. There is no real Central Business District in Rome, which is characterised by mixed-use areas.

// International companies and the financial sector mostly maintain secondary offices and representations, with their main operations in Milan. Nevertheless, Rome attracts sectors such as pharmaceutical, health Care, utilities, IT and Investment funds.

Constraints and risks

// The quality of the buildings is a concern, as it is difficult for occupiers to find Class A green buildings as well as a flexible workspace. The office stock mainly consists of listed buildings with limited possibilities and higher costs in terms of refurbishment, redevelopment or expansion. Landlords have more incentives to convert vacant buildings in the centre for more profitable residential, retail or hotel use, sectors where international investors, especially from the BRICS, are more willing to invest.

// Occupiers are looking for solutions around the city centre but major moves are hindered by employees concerns in terms of commuting. Rome's public transport network is considered as insufficient and the city is considerably congested. Occupiers willing to relocate to the outskirts often have to take the costs of shuttles for employees into consideration. Some occupiers have been leaving the city centre because of structural issues and inconveniences due to the number of demonstrations regularly blocking access to offices around the Government and Parliament buildings.

// Administrative processes are long and uncertain and often discourage developers and companies willing to locate in Rome in a new building. The Superintendency for Heritage has however relaxed some of its rules to avoid blocking developments for too long for archaeological excavations.

Opportunities and best practices

// Due to the configuration of the city centre with very narrow congested roads, the municipality has introduced a dissuasive congestion pricing scheme in 2001. Occupiers willing to locate in the centre try to avoid costs for them and for their employees by finding buildings just outside the limit of this zone, the largest restricted one in Europe after London.

// Access to a highly qualified and English speaking workforce is not an issue in Rome, which attracts students from the centre and south of Italy. The Roman way of life and the unique architectural heritage, green areas and low risk are extremely attractive to Italians as well as to expats and most importantly to international CEOs willing to overlook some of the city's shortcomings.

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// Rome needs a new and identifiable business area, well connected by public transport. Hopes are placed on the new Tiburtina area, connected to Milan with a new high speed train expected to reduce the trip to 2 hours and 30 minutes. A major bank invested €300 million in 2011 to build its new Headquarters there. However, the building stock located around the station is somewhat insufficient and structural constraints could prevent new developments.

Client / Service provider interface

// Rome was until recently a very stable market with very low take-up compared to other major EU cities and no important peaks or falls in terms of rent. In a move to reduce its debt, the Italian government and associated administrations are consolidating their portfolio and many buildings have been and will be put on the market. Furthermore, the rents paid by public administrations have been cut by 15% by law which will have an influence on the market.

// International Corporations with different real estate cultures are challenged to find the right building. Rome suffers from a lack of international development funds and remains a very local market. However, it is also less dependent than Milan on international finance. Occupiers prefer postponing their relocation decisions and only large multinational companies are able to associate with developers and international funds to build their own buildings.

// The biggest trend in landlord-occupiers relationships is, as on most EU markets, rent renegotiations. Private landlords have started to offer incentives in terms of free rent and refurbishment. Also, they are fully aware that they operate in an occupier's market. Institutional landlords however do not always have this flexibility.

// Data centres and call centres for business support tend to be more and more located in the south of Italy where the workforce is qualified and cheaper than in Rome and where risks are perceived to be lower than in India.

Summary and Recommendation

// Rome suffers from a mismatch between demand and supply. Many corporate occupiers are willing to locate or relocate their activities in Rome but can not find prime buildings up to international real estate standards. Despite particular constraints and heavier costs for the refurbishment of central historical locations, Rome's market will have to adapt to new requirements in terms of quality space and flexibility if Rome is to progress from its current "secondary location" status for corporate occupiers compared to Milan.

// Moves by Public Authorities to consolidate their real estate stock and minimize their costs will be the main drivers of the Roman market for the years to come.

// Traffic and public transport infrastructure are one of the main concerns for occupiers, who are looking for well connected areas and not necessarily attracted by new developments outside the city without sufficient access and a potential to trigger conflicts with trade unions.

Warsaw // Poland

Overview

// Poland is well perceived by occupiers, who see the country as a safe bet within the wider region. Warsaw is mentioned as a good secondary market after core locations such as Paris and London. However, Warsaw is also affected by the crisis, and there are limitations in terms of banking finance, affecting the appetite of investors.

// The corporate real estate market in Warsaw can be seen as a submarket of the German market. 95% of the capital is foreign. The market therefore lacks national investors and has a high dependence on foreign capital.

// Poland benefits from its strong network of cities able to attract specialised services. Business services centres started in Warsaw but are moving to secondary cities due to high competition in terms of salaries and tax cuts. This could bring additional vacancies to the market. The demand for low quality office space is disappearing.

Constraints and Risks

// The financial market is limited and very volatile: it is hard to have any certainty until the signature. BASEL III requirements could have an impact on financing in Poland given that 70% of the banking system is foreign. Banks may have to take out money from Poland to meet solvency requirements

// Public infrastructure is seen as insufficient, although improving. It is still trailing behind needs due to a prevailing preference towards car use. The suburbs are not well connected to the city centre but the situation is changing thanks to EU investment. However, the first wave of EU funds has dried out and no new financing is expected until 2015 for infrastructure. Increasing road congestion in Warsaw pushes companies to promote public transport by lowering parking place ratios in office buildings.

// Planning permit processes are very slow, up to two years. Only 30% of the city is covered by zoning. The authorities are preparing masterplans and are trying to delay all processes until everything is ready.

// Lack of transparency and standards are a problem in terms of pricing: there are no common standards for measurement. The market itself is not transparent enough, with no access to real yields or rents. All is based on anecdotal sources.

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Population	2,726,829
GDP Growth 2011 (national %)	4.3
Unemployment rate 2011 (local)	7.9
Annual Inflation rate August 2012 (national %)	4
Vacancy rate Q2 2012	7.4
Average CBD Office Rent (p sqm pa) Q2 2012	318
RICS Rent expectation	-3
Liveability ranking	71

Opportunities and Best practice

// Occupiers are increasingly splitting their leases in different parts: long term, mid term and floating. The nature of work has shifted to projects, with flexible teams vacating the space when the project is over. Hot desking, work-from-home and work shifts are being implemented.

// International companies are relocating from India to Eastern Europe and especially Warsaw because of quality and risks. Work productivity is going up and Poland is becoming a hub for Business Process Outsourcing (BPO) and shared service centres. Due to the time difference, Indian companies are also shifting their back office to Europe to service the European market. Within Europe, Poland is ideally located.

// More and more specialised services, such as IT, are shifting towards Poland, with more sophisticated services relocating from Western Europe. This should increase following the shift of EU funding to R&D. This will mean a move to smaller units (below 50 people) concentrating in clusters, with very specific requirements.

// Polish youth is multilingual and Warsaw is highly attractive for young workers from Scandinavia, Central and Eastern Europe. Occupiers know that their BPO can count on 10 to 30 languages. Quality of life is rated well by occupiers, in terms of housing, safety and cultural life. But expats distinguish between Warsaw and smaller Polish cities, which pushes international companies to stay in Warsaw.

Client / Service provider interface

// A gap between landlords' and occupiers' expectations can be observed. Buyers are very conservative and demand a discount in terms of risk.

// Landlords now focus more on the financial stability of tenants as global companies, not only locally in Poland, since a potential instability will affect the future moves in terms of lease extension, options, etc.

// The city centre is reshuffling: older assets in the city centre will see vacancy rate grow, since large scale construction are entering or have entered the market in the CBD. Landlords will be under pressure to lower headlines rates.

// International occupiers request green buildings and are ready to pay more, mainly for Corporate Social Responsibility reasons. They expect a discount if a building is not sustainable. Newer projects with geothermal energy to cool and heat the building could bring 50% less service charges and be very attractive to local occupiers.

// Flexibility has become one of the occupier's top requests in terms of lease (subletting, reassignment, and several break options). They need possibilities to reduce the office space. Companies look to maximize their efficiency.

Summary and Recommendations

// Landlords on the market must adapt to international occupier's requirements in terms of flexibility and new ways of working.

// Public infrastructure is still an issue for occupiers, concerned about increasing congestion in Warsaw. This must be addressed by the city's authorities. Furthermore, Warsaw is still lagging behind in terms of green buildings whereas it is becoming a systematic requirement for international occupiers.

// Strong secondary cities such as Gdansk, Krakow, Lodz, or Wroclaw are competing with Warsaw to attract international investors and Warsaw is not competitive anymore in terms of rents and salary costs for low-skill industries.

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Please note that the content of this report does not necessarily reflect the consensus views of any of the roundtable discussions and each of the events was held on a non-attributable basis. These companies did not necessarily take part in each individual round table but were represented in at least one city

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