BNP Paribas Real Estate publishes its annual European Office Market report

2012 may record a level of investment volume close to 2011

According to the annual European Office Market report published by BNP Paribas Real Estate (available only in English), from August 2011, European public debt crisis put a halt to the European economic recovery.
The consequences for the European office market of the year’s events are significant and varied. The net absorption recorded across Europe stayed at a low level, in line with the weak economic growth. Due to difficulties in financing, developers and investors have now substantially reduced the level of building starts over the past couple of years. As a result, the few deliveries recorded in 2011 enabled vacancy rates to continue to decline slowly, overall, in Europe. Modern space supply across Europe continuously diminished, slightly pushing up prime rents in most markets. At the same time supply of secondary offices stayed high or even increased, reaffirming the two-speed markets across Europe.

Office market: Vacancy rates stabilised at high levels in Europe

Throughout the 37 cities* analysed in this report, total take-up volume in 2011 was nearly unchanged compared to last year’s level at 11.9 million m². Indeed, our Western European Office Take-up Index remained stable despite some signs of slowdown that occurred in the year’s final quarter. Demand was particularly resilient in the major Western European markets where Central Paris nearly broke through the 2 million m² threshold and the German cities achieved higher take-up levels than in 2010. Thanks to some large deals, increases were also recorded in Milan and Rome. Central London fell back following last year’s very good performance whilst Brussels, Amsterdam, Vienna, Madrid and Barcelona struggled to perform in 2011 recording take-up volumes far below their five-year averages.

One of the most notable trends observed in 2011 was an overall stabilisation in vacancy rates.
Two thirds of the European cities recorded a vacancy rate above 10%. Overall, though vacant space remained fairly stable, the volume of new supply was cut back in most markets and second hand office space increased. Consequently, prime rents in European markets remained stable on average during 2011.

Investment market 2011: Euro crisis puts the brakes on recovery
The investment market recovery has lost momentum as the crisis in the Euro area has stepped up. While 2011 started positively, activity during the second half dropped
compared to the same period in 2010. With approximately € 63.6bn invested during 2011, the investment volume in the 37 markets analysed in this report increased by 11% compared to the previous year.

**Offices remained by far the most favoured** asset but its share of the total investment volume has decreased from 64% to 60% between 2010 and 2011. Conversely, retail investment volume that represented 15% of the total in 2010 picked up to 22%. Investors also remained highly focused on prime assets fuelling the gap between prime and secondary markets.

The average office prime yield moved out by 11bp between 2010 and 2011. In 16 markets, office prime yields continued to move down between 2010 and 2011 with Saint Petersburg recording the largest decrease (200 bp, basic point). Eight markets recorded increases between 5bp and 50bp while office prime yields in the 13 remaining markets stayed unchanged throughout 2011.

Due to the financial and economic uncertainties that will persist, outcomes for 2012 are blurred. **However, there is still a great amount of capital to be placed in prime real estate which should maintain investment volumes during 2012.**

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**About BNP Paribas Real Estate**

BNP Paribas Real Estate is a leading international real estate provider, 1st in Continental Europe in terms of results according to the Property Week annual ranking 2011 (and the 2nd player in Europe). It offers to its clients a comprehensive range of services that span the entire real estate lifecycle: property development, transaction, consulting, valuation, property management and investment management.

BNP Paribas Real Estate has local expertise on a global scale through its presence in 29 countries (15 wholly owned subsidiaries and 15 alliances) across Europe, India and Middle East with 3,400 employees in about 150 offices. BNP Paribas Real Estate is a subsidiary of BNP Paribas.

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