



Real value in a changing world

Corporate Real Estate in *changing times*

Pressure, priorities and outlook

Dr Lee Elliott
Head of Occupier Research, EMEA
15 October 2009



Agenda

1. Economic and market context
2. Corporate response to date
3. 8 trends that will shape CRE activity today and tomorrow

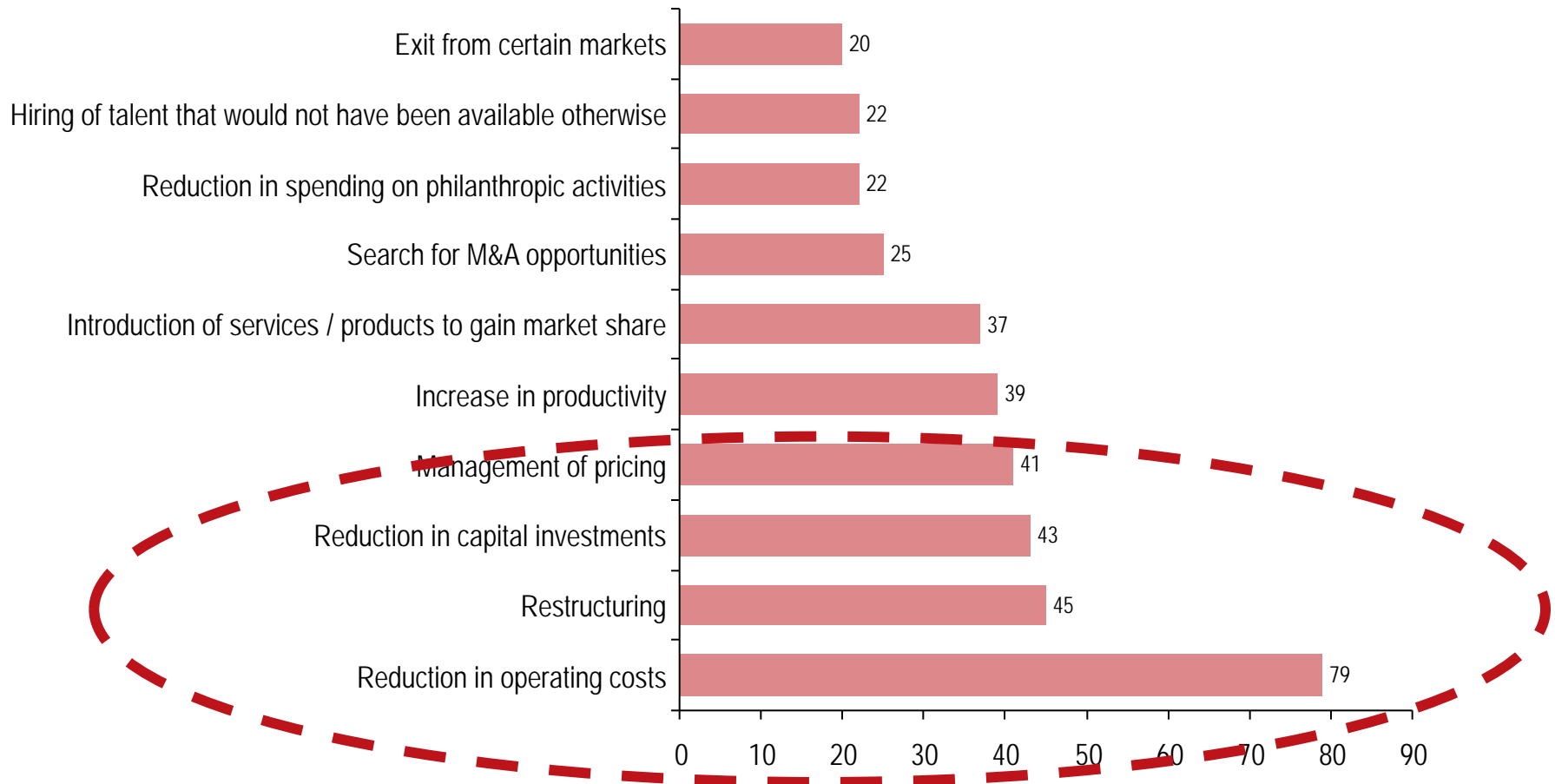
An unprecedented economic environment

- Synchronised and deep recession
- Near collapse of the banking system
- State intervention in abundance
- Credit markets frozen
- Fiscal stimulus and interest rates set at historic lows
- Precipitous falls in asset prices
- Rapidly rising unemployment

- Uncertainty, lack of confidence, survival instincts to the fore

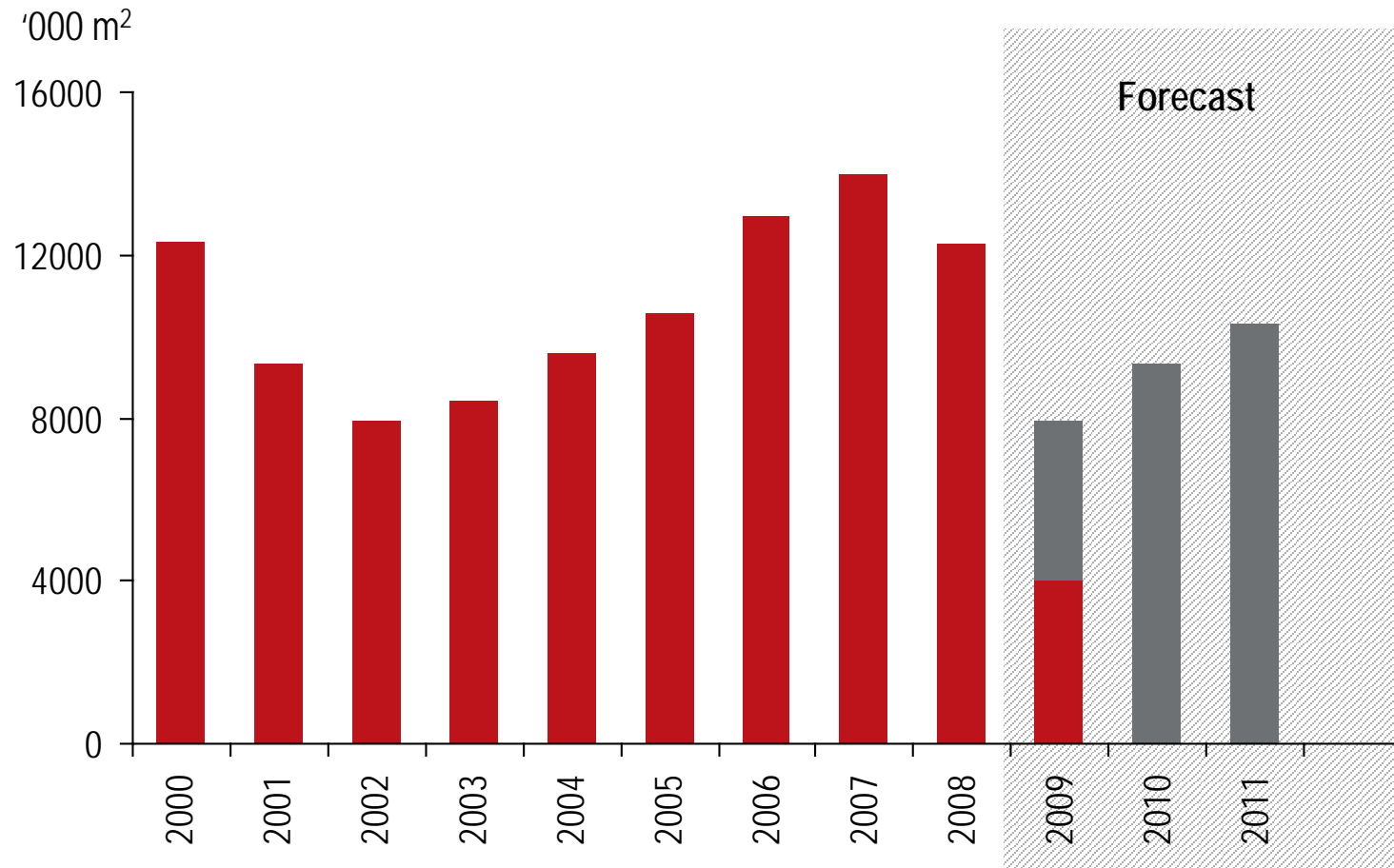
Occupier response has been strong & wide-ranging

Clear variance in speed and nature of response across sectors



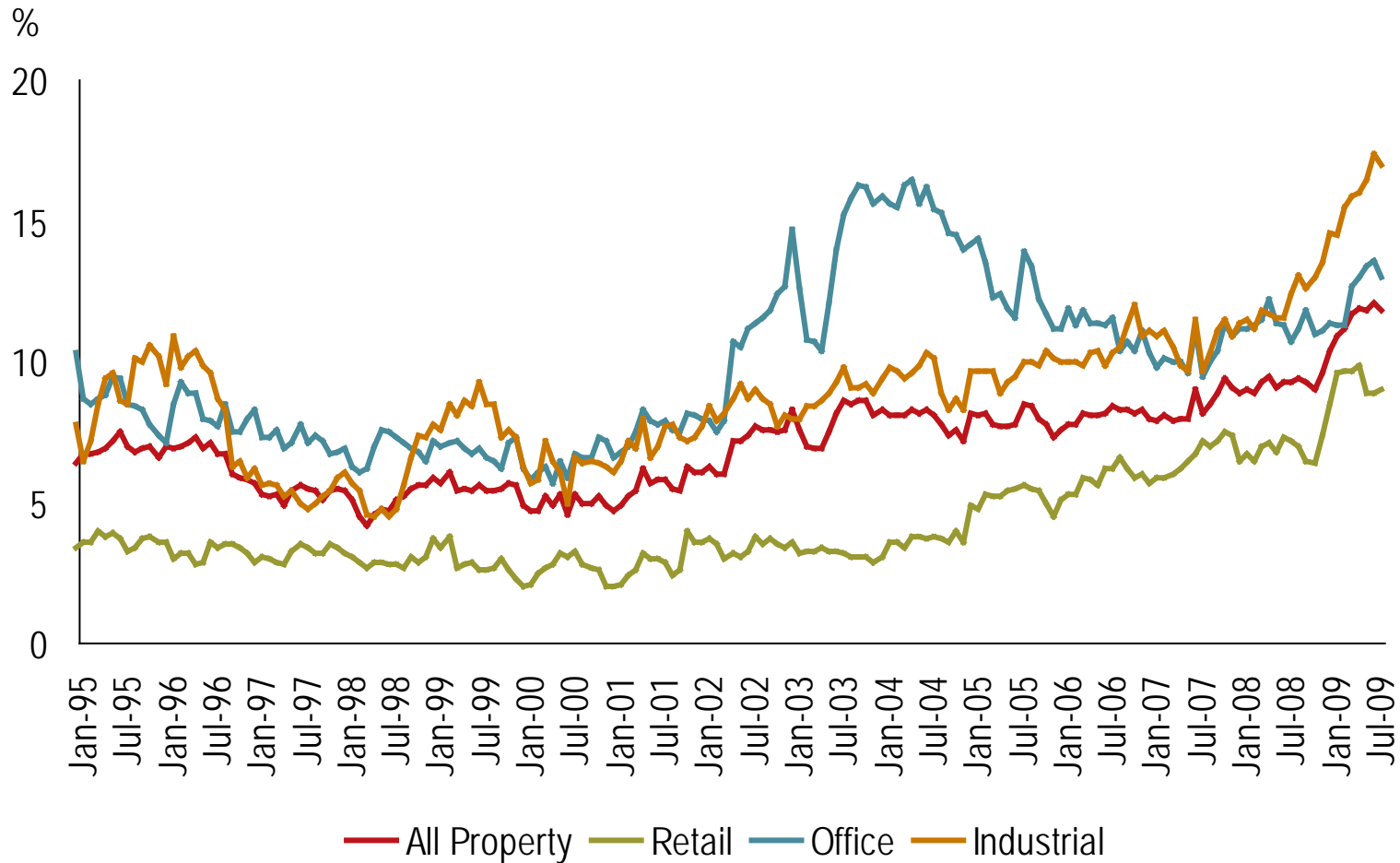
Source: McKinsey Quarterly, August 2009

The brakes have been applied to transactional activity



Source: Jones Lang LaSalle, September 2009

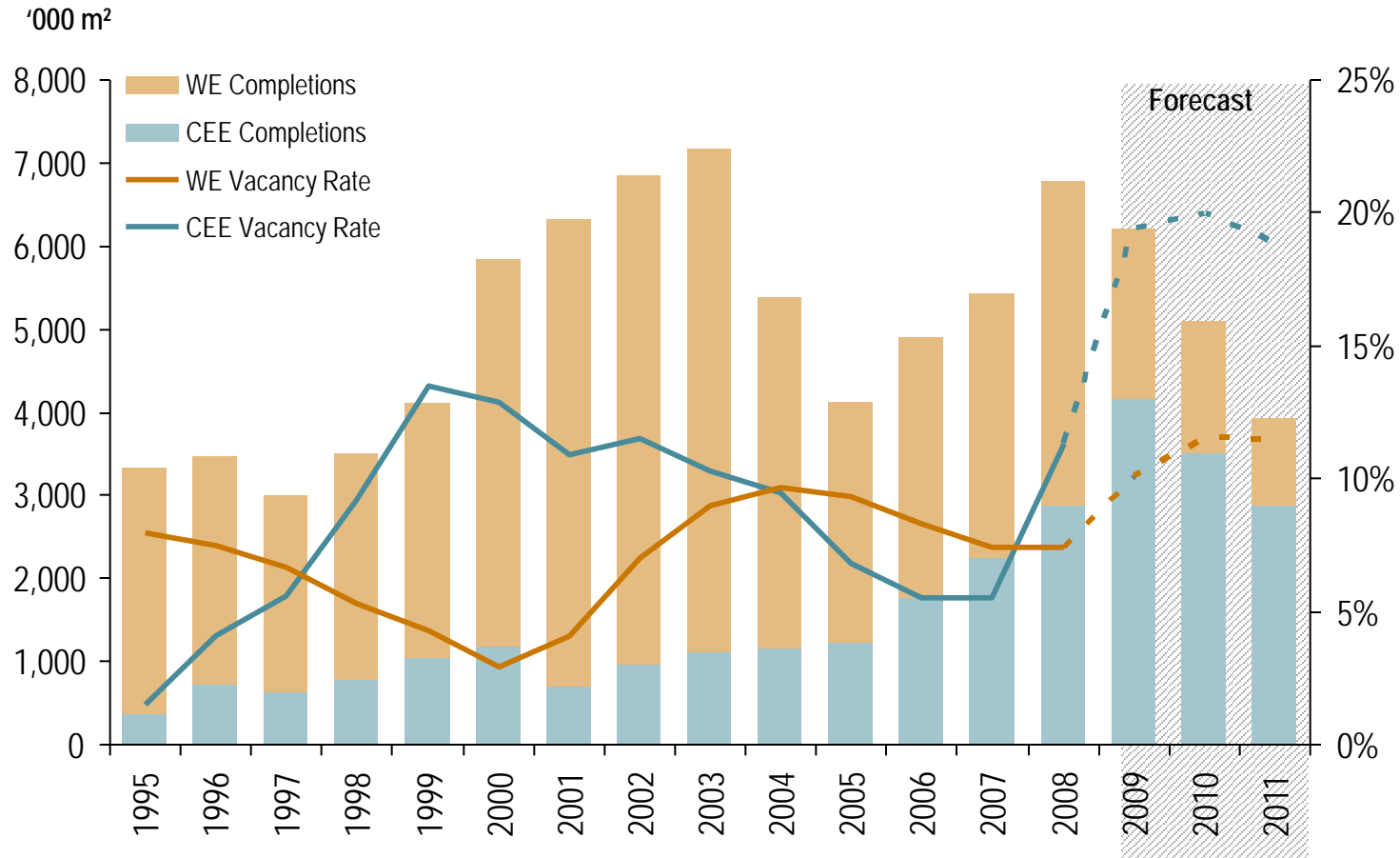
Vacancy rates high across all sectors ...



Source: Jones Lang LaSalle, IPD

...and across the entire continent

Future office supply prospects, Q2 2009

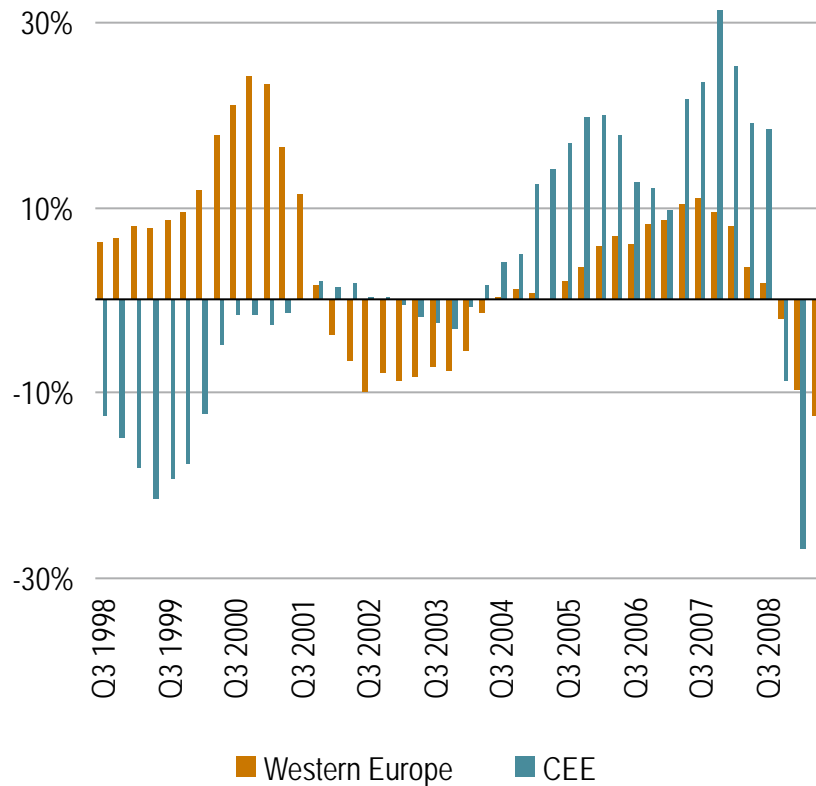


Source: Jones Lang LaSalle Research, July 2009

Western Europe: Amsterdam, Barcelona, Berlin, Brussels, Dublin, Dusseldorf, Edinburgh, Frankfurt, Hamburg, London Luxembourg, Lyon, Madrid, Milan, Munich, Paris, Rotterdam, Stockholm, The Hague, Utrecht
 Central & Eastern Europe: Budapest, Moscow, Prague, Warsaw

Precipitous rental falls have been in evidence...

Change in Prime Rents pa



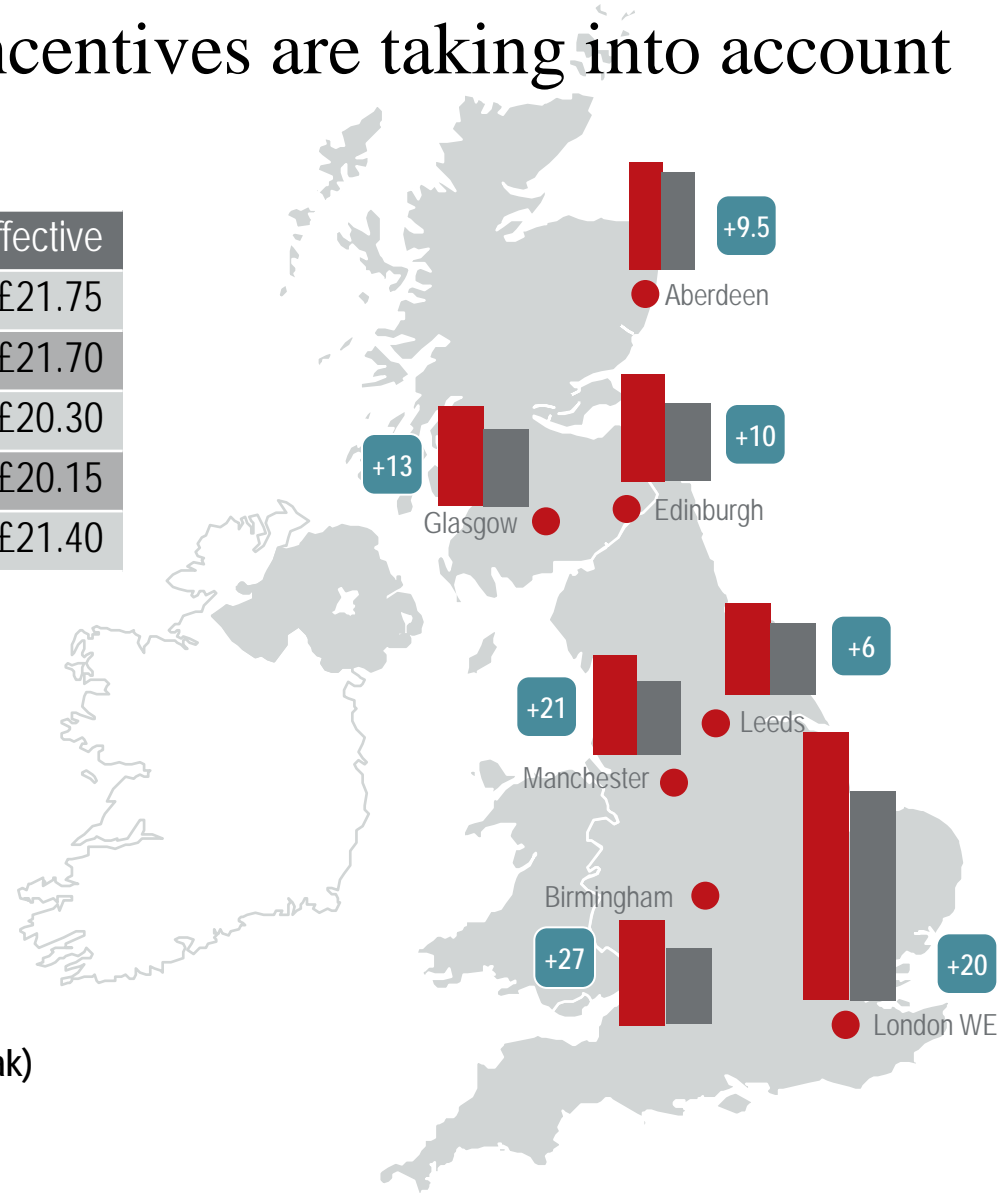
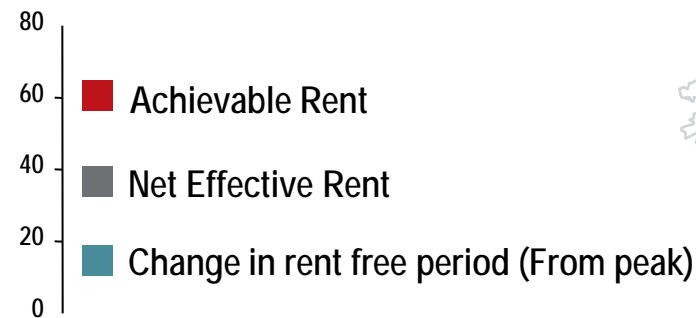
Source: Jones Lang LaSalle Research, August 2009

	% change YoY to Q2 2009	% change QoQ to Q2 2009
London West End	-31.8	0
Warsaw	-27.3	-4.0
London City	-28.0	-7.2
Madrid	-22.7	-10.0
Brussels	-7.0	-0.0
Dubai	-47.7	-25.0
Paris	-15.7	-6.7
Milan	-12.3	-4.8
Stockholm	-11.4	-2.5
Frankfurt	-2.7	-2.7
Amsterdam	1.5	0
Istanbul	-6.2	0

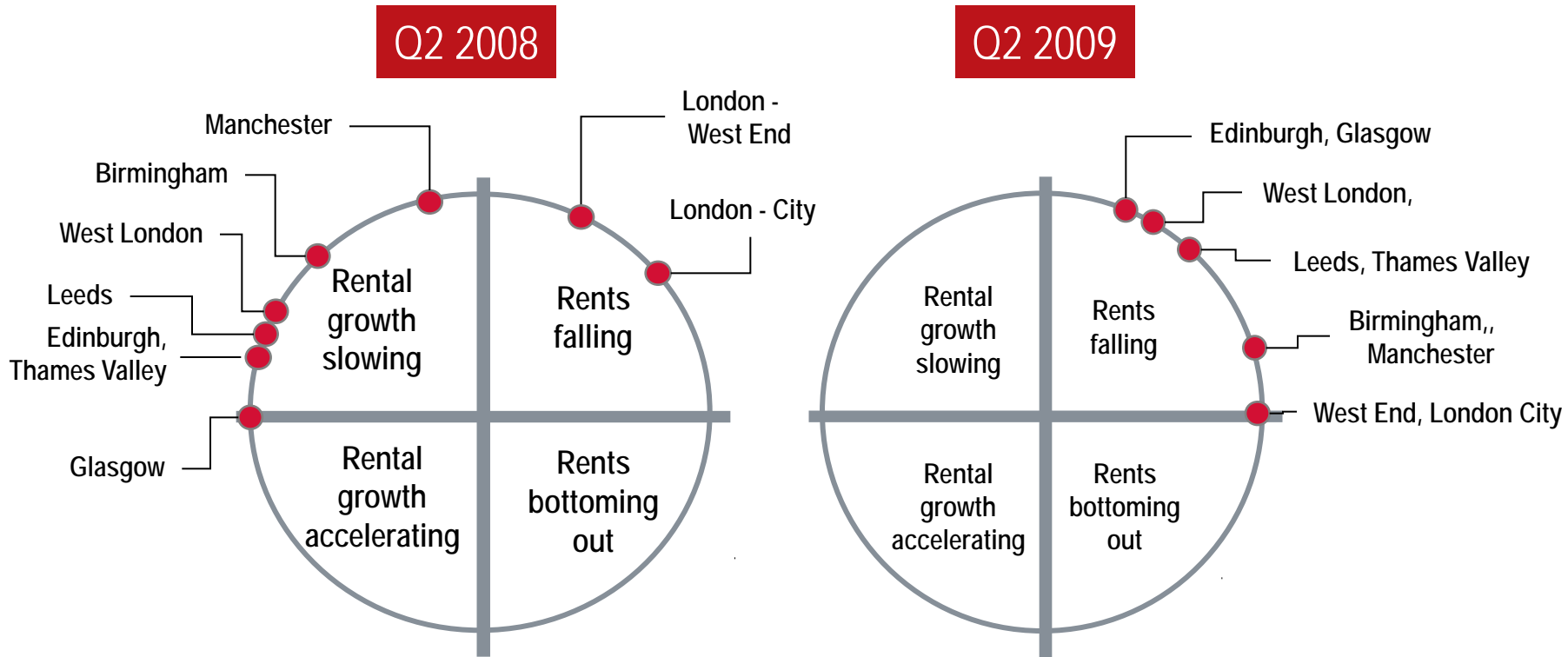
.. particularly when incentives are taking into account

UK Rental Map, Q2 2009

	Achievable	Net Effective
Edinburgh	£29.00	£21.75
Glasgow	£28.00	£21.70
Manchester	£28.00	£20.30
Leeds	£26.00	£20.15
Birmingham	£29.50	£21.40



Theoretically creating a window of opportunity



Note:

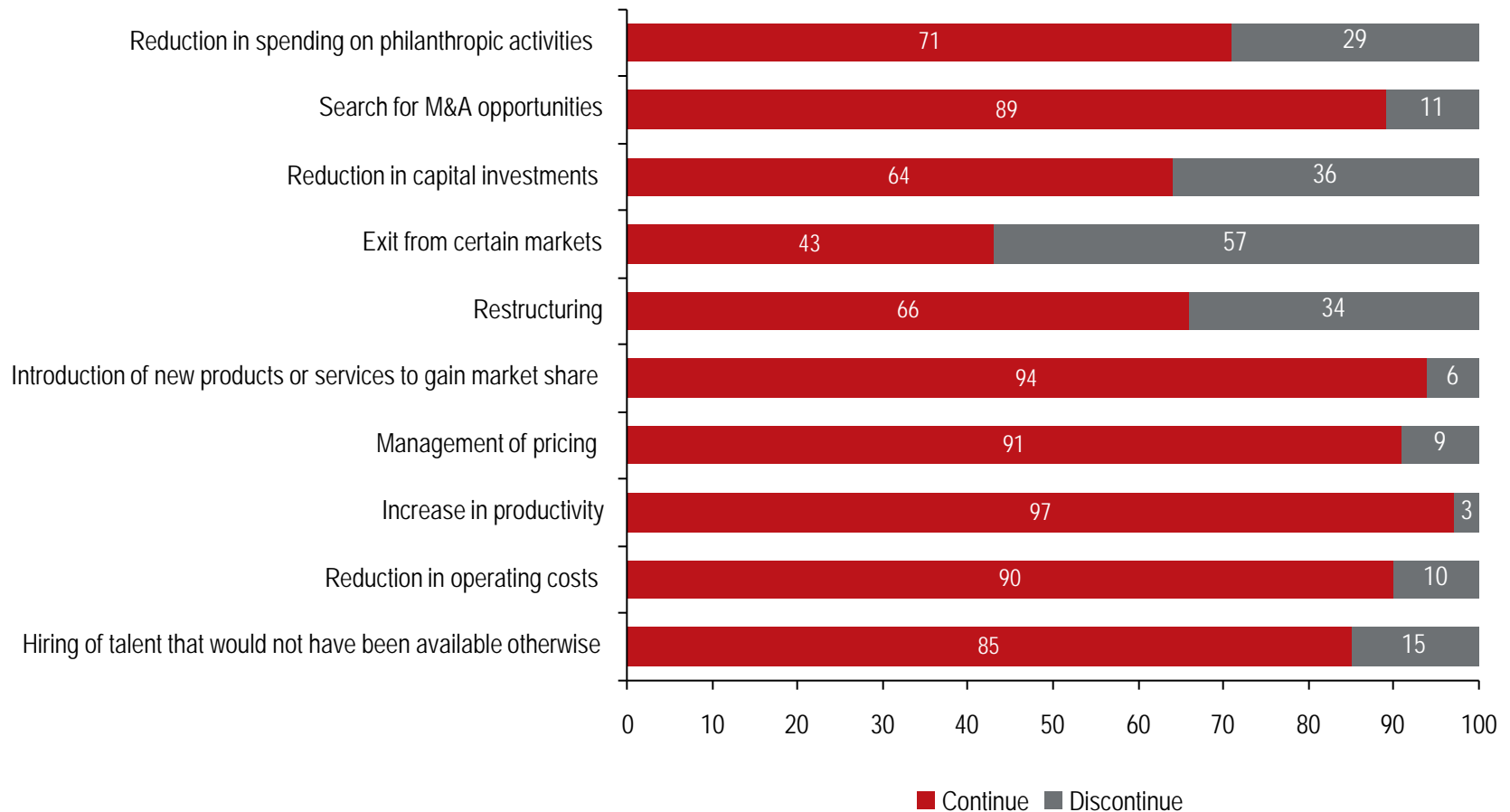
- This diagram illustrates where Jones Lang LaSalle estimated each prime office market is within its individual rental cycle as at end June 2008 and 2009
- Markets can move around the clock at different speeds and directions.

- The diagram is a convenient method of comparing the relative position of markets in their rental cycle.
- Their position is not necessarily representative of investment or development market prospects.
- Their position refers to Prime Face Rental Values

Source: Jones Lang LaSalle

But the opportunity is yet to be realised

Occupier responses starting to change

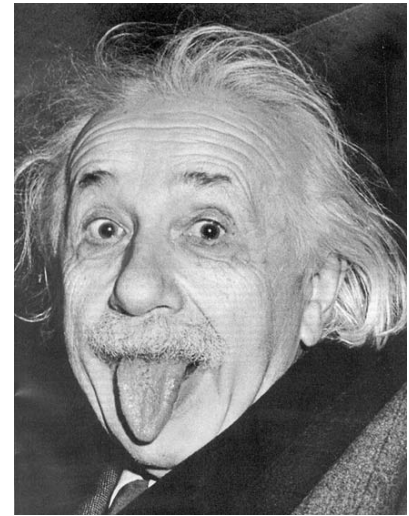


Source: McKinsey Quarterly, August 2009


A Need for Change

“**Insanity**: doing the same thing over and over again expecting different results.”

– Albert Einstein

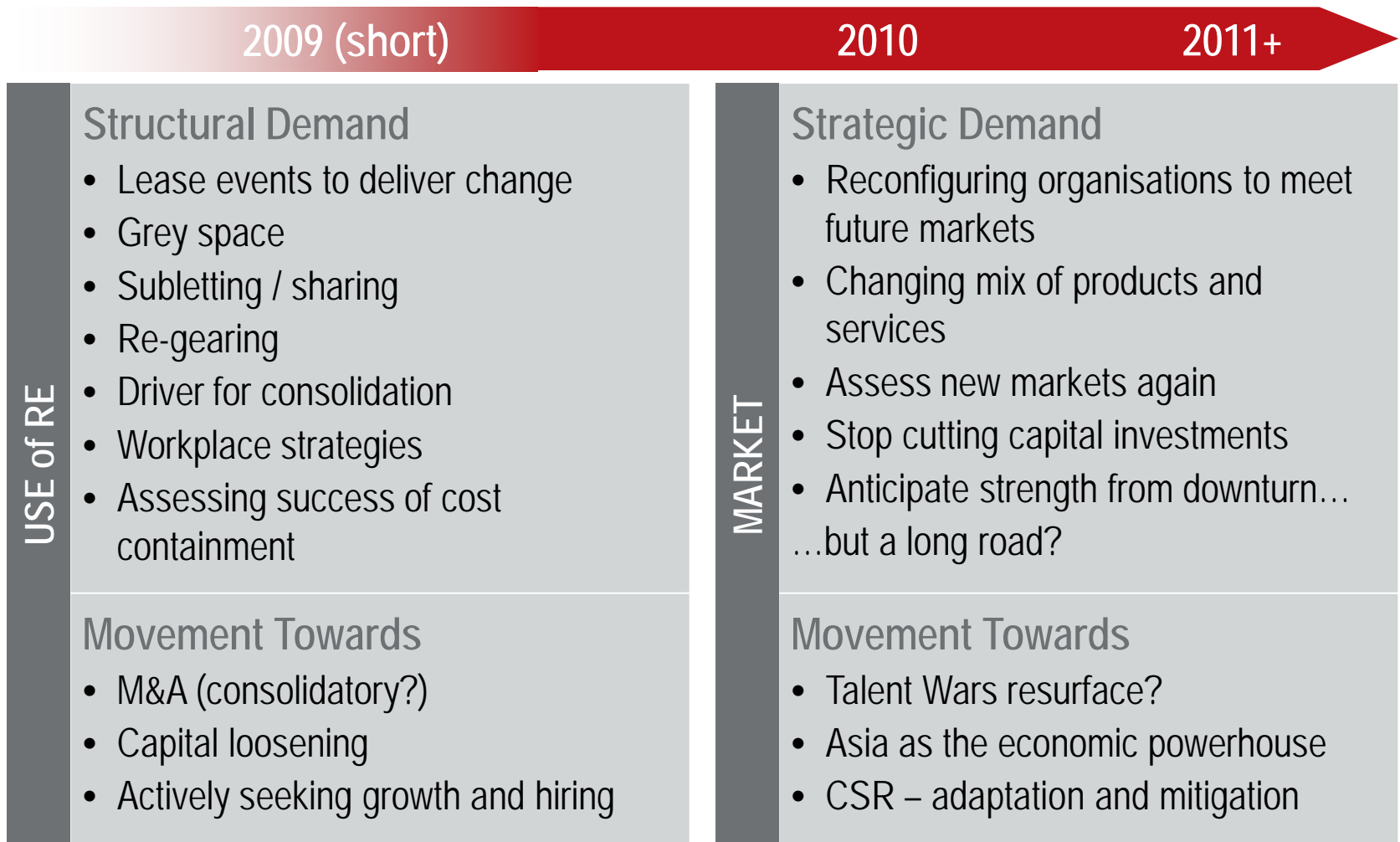


Areas of change



	Trend		
Organisational Structure	Decentralised	Hybrid	Centralised
Reporting Alignment	Administration	HR	Finance
Customer Interface	Execution	Relationship	Strategic
Decision Authority	No Mandate	Partial	Clear Mandate
Portfolio Influence	Exceptions	All	
Process Management	Departmentalised	Integrated	
Implementation	Insourced	Outsourced	
Infrastructure Management	Passive	Active	
Structural Lead	Functional	Geographic	Relationship
RE Strategy Development	Passive	Active	
Performance Metrics	None	service/financial	Balanced scorecard

1. A shift from defence to opportunism



2. Churn and change will be key drivers

- Consolidation
 - Integration
 - Upgrading of space
 - Working space harder
-
- Expansionary growth will not be the driver for the foreseeable future

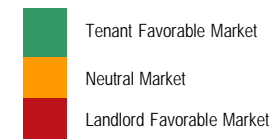
3. It's all about **COST** and will be so forever more

TIME

Short Term....	Medium Term....	Long Term...
"QUICK WINS"	"BUSINESS REVIEW"	"STRATEGIC ALIGNMENT"
<ul style="list-style-type: none"> ▪ Lease events ▪ Service charge Audit ▪ Consolidate/relocate 	<ul style="list-style-type: none"> ▪ Demand profiling ▪ Alternative Work styles ▪ FM Outsourcing 	<ul style="list-style-type: none"> ▪ Corporate Real Estate policy ▪ Optimise Resources ▪ Efficient use of capital
<p>QUICK SAVINGS £</p>	<p>BIG SAVINGS ££</p>	<p>LONG TERM COST AVOIDANCE £££</p>

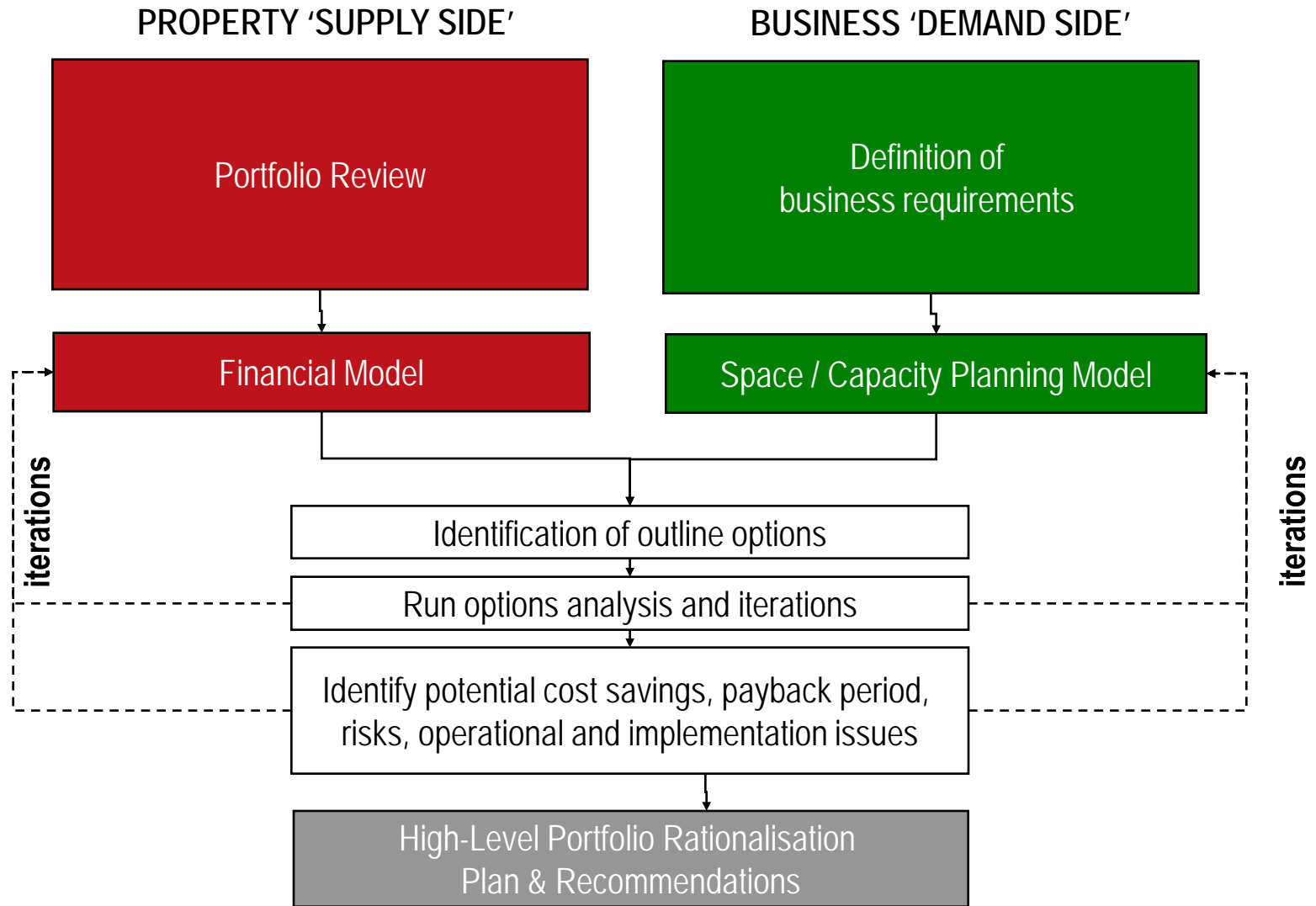
SAVINGS

4. Working the market will not be enough



MARKET	TIMELINE					COMMENTS
Hamburg	2009	2010	2011	2012	2013	Over 100,000 sq m of speculative space brought to market during 2009 which will push vacancy rates from current 7.6% to peak at around 10% by 2011.
Helsinki	2009	2010	2011	2012	2013	Development activity has decreased significantly but the market will still see an influx of approximately 120,000 sq m of office space over the next year. We anticipate rental falls for all sub-markets with the exception of the CBD
Leeds	2009	2010	2011	2012	2013	Given the weak demand we expect rents to fall over 2009 and landlords to offer increasingly competitive deals. With no new space under construction in Leeds city centre, we expect a shortage of Grade A space during 2011.
Lisbon	2009	2010	2011	2012	2013	Q2 take-up down 47% y-on-y and rents in the CBD market dipped by 10% over the quarter. Landlords responding with improved incentive packages. Further downward rental pressure anticipated until 2012.
London City	2009	2010	2011	2012	2013	Rents have now seen the majority of falls anticipated for the calendar year. While take-up will remain subdued, modest improvement is expected as some take action to secure space at compelling terms.
London West End	2009	2010	2011	2012	2013	We expect further rental movement in favour of the occupier, albeit at a more modest pace than previously. While encouraging that demand increased this quarter we expect the trend to be downwards this year and next.
Luxembourg	2009	2010	2011	2012	2013	Take-up rallied over Q2 suggesting occupier caution is subsiding. Vacancy rates jumped on account of speculatively delivered space but remain low ensuring that sustained tenant favourable market not anticipated.
Lyon	2009	2010	2011	2012	2013	As new projects are halted we could well see a shortage of new quality premises within 3 years. Occupiers remain price sensitive and prime rents will continue to fall in 2009, before stabilising in 2010.
Madrid	2009	2010	2011	2012	2013	Market testing on the increase and many occupiers making plans for medium term activity. Choice increases over remainder of the year, peaking in H2 2009 but will moderate thereafter.
Manchester	2009	2010	2011	2012	2013	As supply increases throughout H2 2009, we expect further rental declines. In general, we expect incentives to remain stable for the next 12 to 18 months but there could be significant variation between deals.
Milan	2009	2010	2011	2012	2013	Vacancy rates stand at 8% with a third of all vacant space classified as Grade A. The development pipeline is generally stable with some projects due for completion in 2010 now postponed. Rents under downward pressure.
Moscow	2009	2010	2011	2012	2013	After steep falls, prime rents are expected to stabilize at the end of 2009. We still expect a large volume of completions in 2009-2010, which means vacancy is likely to reach 22% over the next 12 months.

5. Failure to plan across the portfolio = plan to fail

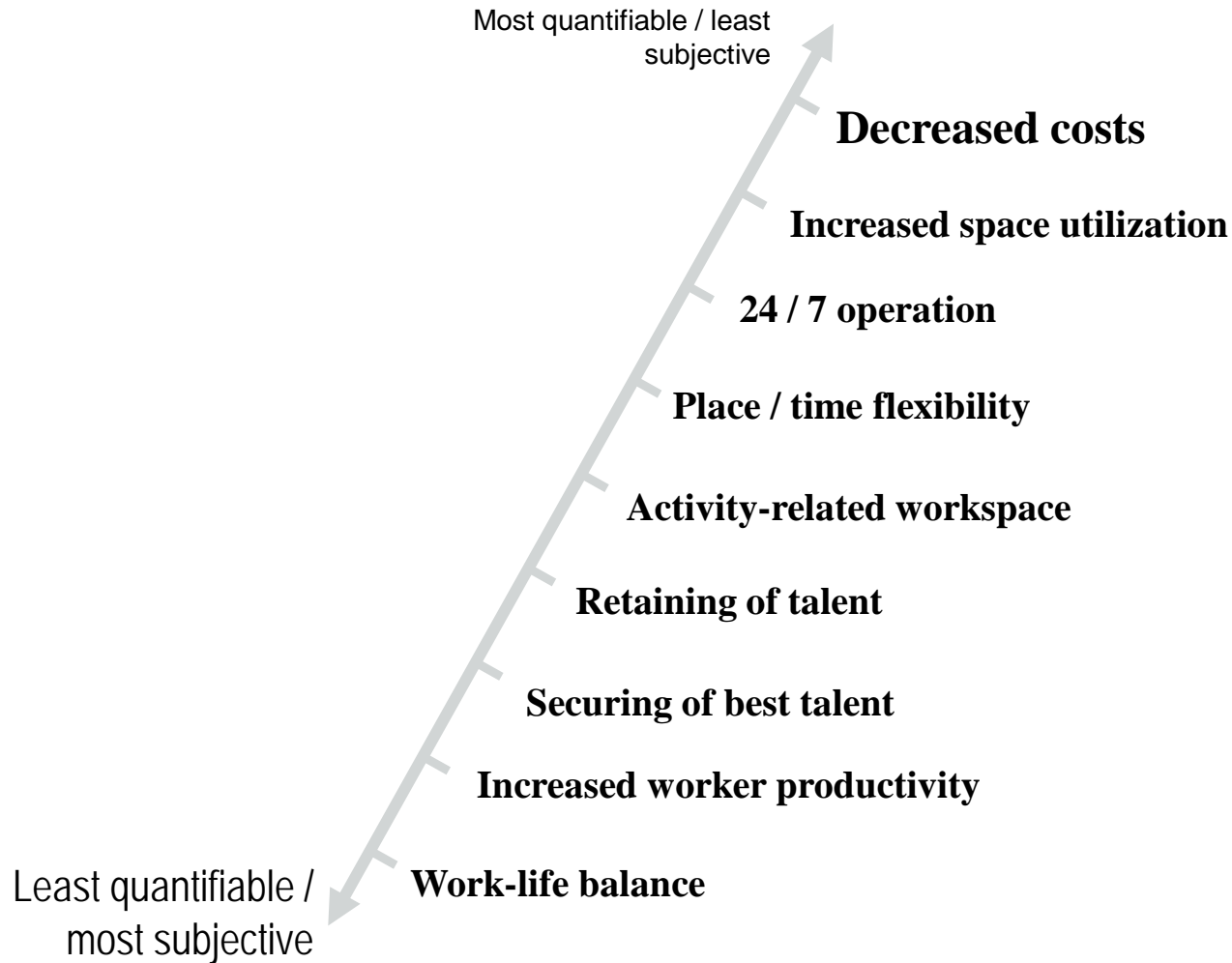


6. Cutting into core space will be necessary

- More cautious tenants than last downturn
- Costs and risks of subletting vs leaving vacant for short term
 - Security, furniture write offs, incentives, provisions
- Avoidance
- Core vs non core
- Understand and work the portfolio
- Landlord conversation
 - Regearing
 - Surrenders
 - Committing to longer leases
 - Serviced office groups

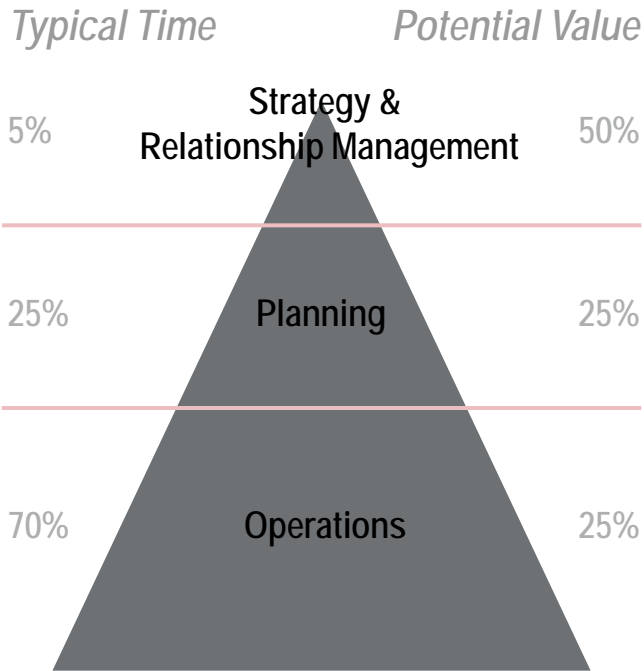


7. Making a stronger case for workplace strategies



8. Changing CRE Skills Set & Focus

Current



Future



Value Added: Financial and Qualitative

Summary

- Unprecedented change & unrivalled market conditions
- Constrained and defensive CRE response to date
- There is a need to do more to make cost saving targets
- Changing the culture of real estate procurement & utilisation key
- More radical and significant CRE response will emerge in 2010
- Workplace will be at the heart of this change



Real value in a changing world

Contact:

Dr Lee Elliott
Head of Occupier Research
EMEA Research
Tel. +44 (0)20 3147 1206
Email: lee.elliott@eu.jll.com