

# P R E S S   R E L E A S E

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## Slowing World Markets Put the Brakes on Office Costs

### London's West End Remains Most Expensive Office Location in the World

SAN FRANCISCO - (August 15, 2001) – The pace of rental growth in Class A office space has slowed dramatically around the world in the last six months, due largely to corporate reaction to the slowdown in the U.S. and Japanese economies and the meltdown in the worldwide technology sector. The latest update of *Global Market Rents*, CB Richard Ellis Global Research & Consulting's semi-annual survey of occupancy costs for comparable Class A office space in 155 metro areas around the globe, shows total average occupancy costs in US dollar terms declining in 81 out of 153 markets in the survey period. [NOTE TO EDITORS: Two markets have been added in the July 2001 survey: Athens, Greece and Berlin, Germany.] In many cases, especially in Europe, much of the decline in occupancy cost can be attributed to exchange rate fluctuations. That's potentially good news for US corporations planning strategic expansion over the next 12 months but may put a crimp in local real estate investors' and lenders' plans.

For most markets, the downward trend was marked. Less evident was the slide in demand in London's two major office districts – the West End and the City. **London's West End** remains the most expensive office location in the world with total annual average occupancy costs of US\$157.63, a slight increase over the \$156.89 per square foot reported six months ago. Prime rents actually eased back slightly over the three months from March to June 2001, reflecting reduced demand at the top end of the market, but significant further reductions are not currently anticipated. The **City of London** edged up to third most expensive office market in the world in the CBRE survey (\$112.04) despite a slip in total occupancy costs of 46 cents from six months ago (\$112.50). Tokyo's two major markets, the Inner and

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Outer Central office districts slipped further from their positions in January with occupancy costs in the second-ranked **Tokyo Inner Central dropping** to \$124.07 from \$147.05. **Outer Central Tokyo** occupancy costs dropped from \$127.54 to \$109.16 per s.f. per annum.

**California's Silicon Valley**, which in January 2001 became the sixth most expensive office market in the world with a total average occupancy cost of almost \$90 per square foot, was the hardest hit market in North America in the last six months with total occupancy costs slipping to \$68.90 per square foot per annum. However, unlike the situation in London, CBRE expects rents to maintain a downward trend in this market through the end of the year, casting some doubt on whether Silicon Valley will remain in the Top 10 for much longer. Nevertheless, Silicon Valley remains in the Top 10 for the time being, along with San Francisco and Midtown Manhattan.

In fact, **Midtown Manhattan** was one of only two markets in the Top 10 to see occupancy costs increase, albeit slightly. Current occupancy costs for office space in the Manhattan Midtown market average \$64.92 per s.f. compared to \$64.63 six months ago. The other market witnessing an increase was London (West End).

“The depth of the economic slowdown in the U.S. and the speed with which the global technology sector came to a halt has put the brakes on rental growth almost universally,” said Bill Rothe, Senior Executive Managing Director, CB Richard Ellis Global Research & Consulting (phone: 415/733-5501). “While this is bad news for some real estate investors, it is great news for corporate tenants and their cost projections for real estate,” he added.

However, Rothe also pointed out that the pace of rental growth last year in many of the top markets worldwide, especially in North America, was clearly unsustainable and, if such rental growth had continued unchecked throughout this year, many markets were extremely likely to witness a far more catastrophic correction.

### **Europe, Middle East and Africa**

Michael Haddock, Associate Director responsible for Market Analysis in Europe, Middle East and Africa for CB Hillier Parker (the UK arm of CB Richard Ellis), sees uncertainties about the direction of the economy as reason enough to be concerned about the future performance of office markets throughout the region. “However, there are few indications to date that rents are likely to fall precipitously,” says Haddock. He points out that much of the future supply currently under development in markets throughout the EMEA is pre-leased, so there is little reason to believe that vacancy rates will increase dramatically in the short term.

Nick Axford, Head of EMEA Research and Consultancy for CB Hillier Parker, says that the current slowdown in demand throughout EMEA has been crucial for tenants and also for investors in Class A office. “Vacancy rates in most European capitals have been far below the levels required for office markets to operate efficiently,” Axford says. “A rise in vacancy – to between 4% to 6% -- will result in a market far better positioned to accommodate the needs of major corporate tenants and lessens the likelihood of an exodus to more affordable peripheral markets.”

### **Latin America**

Office markets in Latin America and the Caribbean posted lower vacancy rates and stable rents in the first half 2001 despite an overall decline in the region’s economy, according to Liza Him, Research Director for Latin America and the Caribbean, CB Richard Ellis. “São Paulo, Rio de Janeiro and Mexico City all saw active leasing especially in the Class “A” market. For the 12-month period ended July 2001, Lima, Panama and San Juan, Puerto Rico reported rental rate growth averaging 3.2%. In Brazil, demand, along with devaluation of the real (\$R), triggered increased rental rates. However, total occupancy cost decreased 19.2% and 11.3%, respectively in the Rio de Janeiro and São Paulo submarkets over the aforementioned twelve-month period. During this same period, average occupancy cost declined 3.2% in Buenos Aires and. Santiago,” reported Ms. Him.

### **Asia Pacific**

Eleven of the 26 markets surveyed in the Asia Pacific region recorded a drop in prime office rents in the first six months of the year and six markets saw zero growth. However, **Melbourne**, Australia led the world in the last twelve months (7/00 to 7/01) in rental growth with a 46.8% increase in rents. Total occupancy costs for prime space in the city now runs US\$23.73 per square foot per annum. Less marked increases of 25.9% and 21.4% pushed total occupancy costs up in **Shanghai’s** Puxi and Pudong districts over the same period. Office costs in China’s capital, **Beijing**, increased 19.5%.

### **United States**

While the trend in the last six months has shown a decline in office rents throughout the US markets, most markets witnessed overall rental growth over the 12-month period from July 2000 to July 2001. The **Oakland/East Bay, Calif.** market posted the largest percentage increase in occupancy costs in the 12-month period. Occupancy costs in that market leaped 33.2% to \$36.16 per square foot per annum. In comparison, the tech centers of Austin Boston and San Jose/Silicon Valley saw total occupancy costs rise about 20% in the same period.

## Canada

Canada's national real estate market softened during the first half of 2001, mirroring the slowdown in the general economy. Overall vacancy rates climbed slightly over the past six months, from 8.3% to 9.0%. According to Ray Wong, Director of National Research for CB Richard Ellis Canada, three factors characterize the current Canadian real estate market: (1) the relative stability of the Canadian dollar in comparison with the U.S. dollar and certain other currencies has kept the market from declining at the same rates as most U.S. markets; (2) Canada has not been affected as much as some other countries by the decline in the high tech sector; and (3) the amount of sublet space available in the market now accounts for more than a quarter of all available space in Canada, which “reflects CEO's decisions to put on the brakes for expansion and underpins the slightly negative impact on our real estate fundamentals,” said Wong. Wong also pointed out that while overall Downtown Class A occupancy costs have actually increased by approximately 18.2% from US\$18.42 per s.f. in January 2001 to US\$21.77 per s.f. in July 2000, this is due to increased occupancy costs in top-class buildings. Canadian Class A downtown vacancy rates are still low by world standards.

### *Top 20 Most Expensive Cities for Office Space July 2001*

<b>July 2001 Rank</b>	<b>January 2001 Rank</b>	<b>Market</b>	<b>Occupancy Cost July 2001</b>	<b>Occupancy Cost January 2001</b>
1	1	London (West End), England	\$157.63	\$156.89
2	2	Tokyo (Inner Central), Japan	\$124.07	\$147.05
3	4	London (City), England	\$112.04	\$112.50
4	3	Tokyo (Outer Central), Japan	\$109.16	\$127.54
5	5	Hong Kong	\$81.71	\$92.16
6	8	Paris, France	\$80.28	\$84.32
7	6	Mumbai (Bombay), India	\$79.80	\$80.16
8	9	San Francisco (CBD), U.S.	\$71.20	\$73.75
9	13	Silicon Valley (sub.) U.S.	\$68.90	\$87.48
10	12	New York (Midtown), U.S.	\$64.92	\$64.63
11	12	Moscow, Russia	\$61.20	\$62.30
12	14	Frankfurt, Germany	\$60.74	\$58.30
13	11	Seoul, South Korea	\$58.13	\$62.33
14	15	Boston (CBD), U.S.	\$57.90	\$55.36
15	13	Edinburgh, Scotland	\$57.86	\$60.45
16	19	Birmingham, England	\$50.80	\$51.98
17	18	Dublin, Ireland	\$50.80	\$53.04
18	25	Madrid, Spain	\$50.31	\$48.35
19	16	Manchester, England	\$50.03	\$54.85
20	21	Glasgow, Scotland	\$49.39	\$51.61

Source: CB Richard Ellis Global Research & Consulting, *Global Market Rents*, July 2001

*The July 2001 issue of Global Market Rents contains total occupancy cost data for Class A office buildings in 155 major markets monitored regularly by CB Richard Ellis worldwide. For occupancy cost information on your city or to download a full-text version of the publication, visit the CB Richard Ellis web site at [www.cbre.com](http://www.cbre.com).*

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