BUSINESS BRIEFING

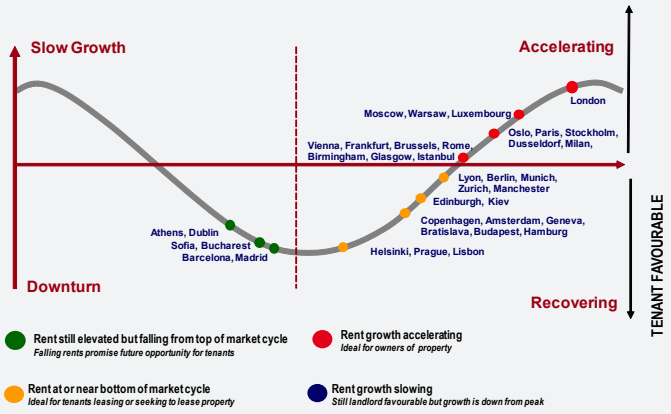
CUSHMAN & WAKEFIELD®

BANKING SECTOR

MAY 2011 | A CIS PUBLICATION

CONTENTS

EUROPE CBD OFFICE MARKET CYCLE



Source; Cushman & Wakefield, Global Research Group

EXECUTIVE SUMMARY

- Activity by banks has been encouraging over the past year with overall take up across Europe 20% above the 5 year average figure. A polarisation remains across different countries, however.
- Discussions are continuing on both national and international levels regarding the scale and breadth of banking legislation. One objective is to regulate in a consistent manner to prevent the emergence of "friendly" markets.
- The bail-outs in Greece, Ireland and Portugal have dominated the European economy over the past six months. Any future restructuring of this bail-out and other sovereign debt could have a significant effect on banks carrying the debt as well as a knock on effect across Europe.
- Chinese banks are continuing to expand throughout Europe, identifying opportunity in a developed but currently undersupplied lending market with cautious local competition. A reverse trend is also seen as European and US based international banks are active in Asia. Russian banks are also a new entrant to the Asian markets.

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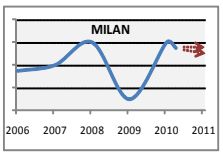
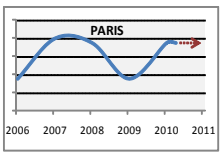
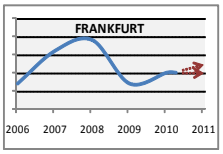
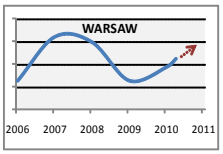
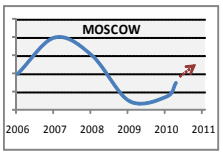
RENT WATCH
Rent Trends In The Key Financial Centres

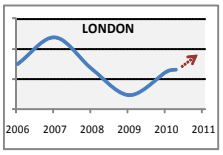


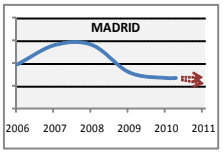












MARKET ACTIVITY – OFFICE TAKE UP BY BANKS

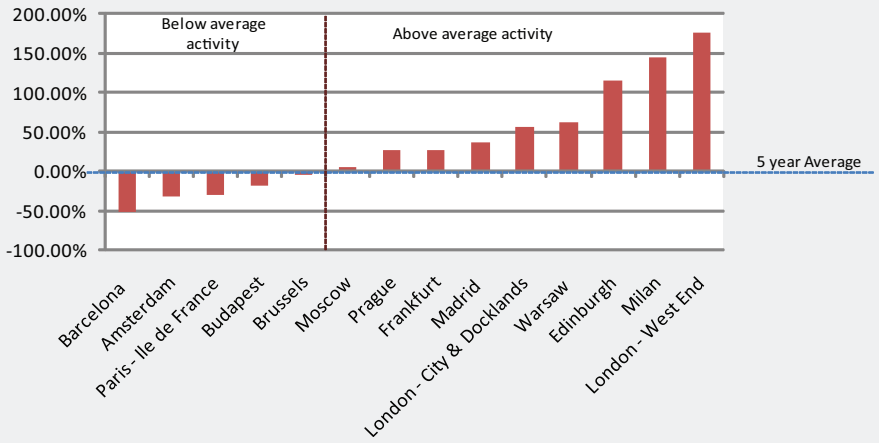
Banking take up over the past year (April 2010 – March 2011) has been positive and just over 20% above the 5 year average indicating significant real estate activity in the banking sector. With just over 1 million sq.m of space transacted, activity levels are recovering from the low points witnessed in 2009 and 2010 when less than half that amount was let.

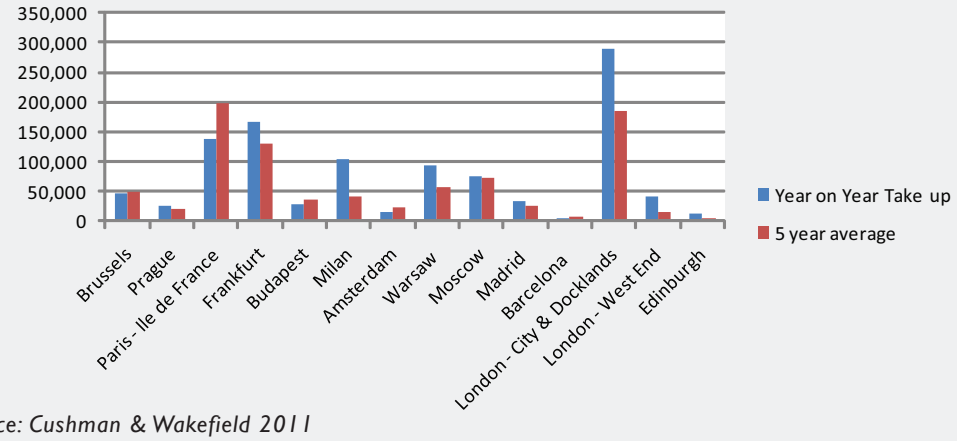
The primary banking centres of London (City & Docklands), Paris and Frankfurt continue to dominate the market in terms of banking take up, accounting for just over 55% of total banking take up within Europe* over the past year. London (City & Docklands) was the most active over the last 12 months, recording almost 300,000 sq.m of banking take up (largely due to the large UBS pre-let of 65,000 sq.m in Q3 2010 and JP Morgan's acquisition of the 97,545 sq.m former Lehman Bros. building in Q4 2010), which accounted for 27% of the overall European total.

Interestingly, both Warsaw and Prague have seen banking take up move comfortably above the 5 year average. Prague saw take up just over 25% higher than the 5 year average, whereas Warsaw has seen banking take up rise almost 63% higher than the 5 year average. Warsaw is establishing itself as the regional banking hub for Central and Eastern Europe and this is highlighted by the prevailing rising trend in banking take up over the past five years.

**Europe is classified as the 15 cities from which C&W collect banking data*

ANNUAL BANKING TAKE UP COMPARED TO THE 5 YEAR AVERAGE (SQ.M)





Source: Cushman & Wakefield 2011

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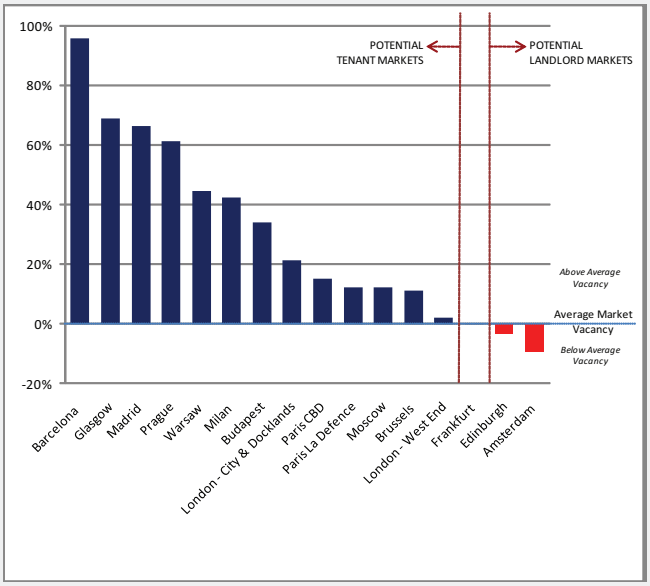
KEY LEASING DEALS

KEY LEASING DEALS BETWEEN OCTOBER 2010 AND MARCH 2011 INCLUSIVE

CITY	SUBMARKET	ADDRESS	TENANT	DEAL TYPE	SIZE (sq.m)	Date
London	City & Docklands	25 Bank Street	JP Morgan	Owner occupation	97,545	Q4 2010
Frankfurt	Europaviertel/ Messe	Theodor-Heuss-Allee 2	ING Diba	New Lease	38,731	Q4 2010
London	City & Docklands	Building B1, King's Cross Central	BNP Paribas	Owner occupation	32,515	Q4 2010
Moscow	ZAM	Letnikovskaya ul., 2 bld. 4	Bank Otkrytie	Owner occupation	25,038	Q4 2010
Moscow	CTY	Krasnogvardeyskiy 1-y pr., vl. 15 (site 13)	VTB	Owner occupation	16,000	Q1 2011
Milan	Edge of Centre	Ferrante Aporti - Block B	State Street Bank	New lease	9,700	Q4 2010
Madrid	M-30	Isabel Colbrand, 4	BBVA	New lease	8,900	Q1 2011
London	City & Docklands	One Canada Square	HSBC	New lease	7,633	Q4 2010
Moscow	NOV	Olimpiyskiy prosp.,12/16	Credit Europe Bank	New lease	7,620	Q1 2011

Source: Cushman & Wakefield 2011

CURRENT MARKET VACANCY IN RELATION TO THE 5 YEAR AVERAGE



Remaining lack of high quality supply in a number of locations across Europe has seen the trend of owner occupation continue. Both Moscow and London in particular are suffering from a lack of suitable, high quality space, and it highlights a strategy of the banks to secure the space they require by choosing the owner occupation option. Interestingly, none of the more significant deals recorded between October 2010 and March 2011 were pre-let agreements, which accounted for two of the largest transactions seen during the middle of 2010. With prime rents now starting to rise in a number of locations across Europe (London, Paris, Frankfurt, Warsaw, Moscow), tenants are not be able to lock in value through a pre-let in the same way as this strategy permitted 6-9 months ago.

Although the last six months has not seen as many large transactions as noted in the previous half year, the number of transactions above 5,000 sq.m has risen, reflecting an increasing level of activity within the banking sector.

LONDON – WATCH THIS SPACE

Considerable political and regulatory uncertainty remains regarding the UK Government's intentions toward the banking sector. This will remain at least until it has responded to the recommendations from the Independent Commission on Banking, which is expected in September this year. One of the main issues within the report will be the possible splitting of investment and retail banking operations within UK banks. The intention is to provide a higher degree of security within British banks by separating the more riskier elements of investment banking and high street retail banking. So it is still very much a case of watch this space for the UK banks and this means that many retain a cautious and conservative approach to business, investment and strategy – including real estate.

Retail banking in the UK continues to see some change with Metro Bank opening a further four branches in and around London, and some of the large food retailers, most notably Tesco, preparing to enter the retail banking market offering current accounts and mortgages in addition to its existing range of financial products. Tesco is expected to be the first food retailer to offer current accounts.

WILL THEY, WON'T THEY?

Actual trading performance in the banking sector has been solid over the last year with many of the larger global banks recording encouraging results. But with the announcement of significant profits and significant bonus packages comes the criticism and pressure from governments and international organisations alike. Proposals for new regulation, legislation and taxation designed to curb perceived risky practice and excessive remuneration has led to threats from banks that they will relocate to more favourable locations.

With no bank as yet having announced firm intentions to leave their HQ in London or any other key financial hub, are these empty threats? Relocation may be a very real consideration for banks, but regulators are facing pressure from governments to standardise legislation that would negate any advantage one country may have over another. For example, the International Monetary and Financial Committee is lobbying to see Basel III regulations on capital requirements apply equally in the USA and Europe. Options to relocate to a more friendly banking location may become limited.

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ALL EYES ON GREECE – WILL THE GREEKS NEED A HAIRCUT?

While the bail-outs of Greece and Ireland and likely bail-out of Portugal helped to stabilise the turbulent 2010 financial markets, all eyes are now on Greece: With Greek sovereign debt set to hit 150% of the (shrinking) annual GDP and a second request for an extended payback term of the IMF-EU bail-out cash, some are speculating that all Greek debt will need to be restructured either through a write-down "haircut" or rescheduled repayments.

While the Greek government is adamant this will not happen and revised bail-out terms may indeed enable a workable solution, the ever more risk averse financial markets are already anticipating this eventuality: 10 year bonds are trading at 15.5% yields while 2 year bonds are changing hands at over 25%. This is not sustainable and could effectively close the bond market to the Greek government as a method of accessing capital, one of the terms of the bail-out last year.

A write-down of 50% - 60% on the sovereign debt could lead to a virtual collapse of the banking sector in Greece with significant knock-on effects for international banks exposed to the country, notably German banks with nearly €20 billion exposure. Given the potential ramifications, this level of write-down seems unlikely. Nevertheless, even a less severe "haircut" or other forms of restructuring will hit the exposed Greek and international banks. This will undoubtedly have an impact on future decision making in the banking real estate sector. Domestic and international banks in Greece are likely to consolidate and restructure while any serious write down in Greek debt held elsewhere could cause significant losses forcing a return to the caution and inaction seen in 2009 and 2010. There is also the risk that a restructuring will have a knock-on effect on Ireland and Portugal bringing them also closer to restructuring and heightening the uncertainty and indecision for banks both operationally and in terms of their real estate needs.

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PROFILE – KAZAKHSTAN

Key indicators	2010	**2011**
Real GDP growth (%)	7	**5.3**
Consumer price inflation (av; %)	7.1	**8.2**
Budget balance (% of GDP)	-2.6	**-2.5**
Current-account balance (% of GDP)	3.1	**3.1**
Short-term T-bill rate (year-end; %)	1.4	**1.5**
CBD Office Rent / sqm p.m.	n/a	**$45**

(c) Economist Intelligence Unit 2011

Steve Brown of Cushman & Wakefield's newest Alliance Partner, Veritas Brown, is put under the spotlight.

VERITAS BROWN CUSHMAN & WAKEFIELD

Veritas Brown is an independently owned and operated member of the Cushman & Wakefield Alliance

Why is Kazakhstan on the radar screen? Kazakhstan is an emerging market with large reserves of fossil fuels and other natural resources. It was the first ex-Soviet state to receive an investment grade credit rating and while it was badly hit by the global economic crisis, demand for oil and commodities has driven the economy forwards: The latest published Government figure notes countrywide economic expansion of 6.9% for the period January to April 2011. Conscious of a reliance on natural resources, the government has initiated a strategy of diversification, encouraging development across sectors. The market for funding this investment is therefore likely to be significant, offering opportunities to the banking sector.

What's going on in the banking sector? ATF Bank have resumed business following restructuring, although with ongoing complications. Overall, banks are generally posting healthy first quarter profits, and are actively seeking business. Al-Hilal Bank, the first Islamic Bank in Kazakhstan, has opened branches in Astana, Almaty and Shymkent, benefitting from a clean platform to commence business and highlighting the ongoing and increasing interest in Middle Eastern investment in the country. EBRD and IFC are both major banking and investment partners for the region and are looking to invest heavily over the medium term with local and international cooperation. The Russian owned Sberbank has also recently increased activity.

What about the real estate markets and recent deals? CBD rents are currently $45 per sq.m per month. Due to limited quality stock and increased demand we expect an increase over the next two quarters. Vacancy rates are currently 18.6% for Class A and 16% for Class B, which will reduce due to limited stock coming onto the market. HSBC recently acquired 3,000 sq.m, Russian Sberbank purchased a 10,000 sq.m business centre for its own occupation in the CBD for an undisclosed price and there are other international players looking in the market indicating a healthy level of activity.

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FROM EAST TO WEST AND WEST TO EAST

In the November 2010 briefing we noted the influx of Chinese banks to Europe. One of the first movers was the Industrial and Commercial Bank of China (ICBC) which opened offices in London, Moscow, Luxembourg and Frankfurt. ICBC has now announced a further five offices will open in the next year in Paris, Amsterdam, Brussels, Madrid and Milan. We believe Asian banks continue to see opportunity in the established but under supplied markets of Europe where they currently have little exposure and where they perceive the domestic competition to be weakened.

It is also notable that there has been significant activity by European and other international banks in the Asia Pacific markets. JP Morgan have pre-committed to expand in Sydney and Lombard Odier and the Spanish bank BBVA have recently taken space in Hong Kong while Barclays Capital, BNP Paribas and Bank of America have all relocated to permit expansion in Singapore. Bank of America, RBS and HSBC have all taken significant space in India. Russia's largest bank Sberbank has become the first Russian bank to expand outside Europe opening an office in India and looking to establish a foothold in China.

While much of this growth and expansion can be attributed to off-shoring of support services, it seems that a number of banks are looking to grow actual banking activities in Asia. Motivation for this is diverse, comprising a desire to balance and diversify European business, access fast growing markets and possibly enjoy a more relaxed banking regulatory environment. Will we see growth in this trend? If only for the first two reasons and the increasing overall focus on Eastern growth, it seems likely that expansion of the banking sector in Asia by both local and international players will continue.

KEY LEASING DEALS BETWEEN OCTOBER 2010 AND MARCH 2011 INCLUSIVE

	CITY	ADDRESS	TENANT	DEAL TYPE	SIZE (sq.m)	Date
China	Beijing		Standard Chartered	Expansion Option	4,500	Q1 2009
China	Hong Kong	2 International Finance Centre	BBVA	-	1,413	Q1 2011
China	Hong Kong	Two Exchange Square	Lombard Odier	-	697	Q1 2011
China	Hong Kong	Standard Chartered Bank Building	Standard Chartered	-	1,208	Q1 2011
Singapore	Singapore	Marina Bay Financial Center Tower 2	Barclays Capital	Relocation / Expansion	23,226	Q1 2010
Singapore	Singapore	Ocean Financial Center	BNP Paribas	Relocation / Expansion	13,935	Q1 2011
Singapore	Singapore	50 Collyer Quay	Bank of America	Relocation / Expansion	11,148	Q3 2010
India	Bangalore	ITPB	Societe Generale	Pre-lease	9,290	Q1 2010
India	Mumbai	Nirlon Knowledge Park	Citibank	Relocation / Expansion	8,910	Q3 2010
India	National Capital Region (NCR)	Unitech Infospace	Bank of America	Relocation / Expansion	23,783	Q2 2010
India	National Capital Region (NCR)	Unitech Infospace	RBS	Relocation / Expansion	27,871	Q2 2010
India	Hyderabad	Mind Space raheja IT Park	HSBC	Relocation / Expansion	18,395	Q3 2010
India	National Capital Region (NCR)	Gopaldas Bhawan	SBER Bank	New Entrant	5,500	Q2 2010

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Our financial institution clients are among the very largest occupiers and owners of real estate. Be it administrative offices, retail branches, customer call centres or storage depots, they can make up a substantial proportion of a financial institution's asset base and require constant management. Good strategic and operational control of the real estate portfolio can therefore make a significant difference to a financial institution's performance.

The desire to control their real estate is made acute by the fact that few sectors have undergone as much change in the past twenty years as banking. The growth of personal banking, the automation of services and the restructuring within the sector have all demanded a fresh look at delivery channels. Many European financial institutions still have a legacy of real estate holdings that were assembled – in terms of both style and location – for a different era.

Cushman & Wakefield can actively help a financial institution to achieve a more productive real estate portfolio.

We do this in the following ways:

- Helping develop a corporate real estate strategy
- Refinancing or sale of assets from the balance sheet
- Reconfiguration of administrative buildings
- Reduction of the retail branch network
- On-going management and valuation services

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In addition to producing regular reports such as global rankings and local quarterly updates available on a regular basis, Cushman & Wakefield also provides customized studies to meet specific information needs of owners, occupiers and investors.

Cushman & Wakefield is the world's largest privately owned commercial real estate services firm with more than 13,000 professionals in 234 offices in 61 countries. In Europe, Middle East and Africa the firm's operations extend to around 2,000 professionals in 37 countries. The firm delivers integrated solutions by actively advising, implementing and managing on behalf of landlords, tenants, and investors through every stage of the real estate process. Cushman & Wakefield also provides valuation advice, strategic planning and research, portfolio analysis, and site selection and space location assistance, among many other advisory services. To find out more about Cushman & Wakefield's service offerings, visit: **www.cushmanwakefield.com**

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