

PROPERTY

FINANCIAL TIMES **SPECIAL REPORT** | Monday October 5 2009

www.ft.com/property-october-2009



Banks hold the key

INSIDE: Changing attitudes among UK lenders
PLUS: Round-up of conditions in Europe's main financial districts

IN ASSOCIATION WITH
FT
FINANCIAL
TIMES

MEETING THE CHALLENGES OF TODAY
BUILDING THE HORIZONS OF TOMORROW

REAL ESTATE

7th annual Central & Eastern European Real Estate Quality Awards for performance & achievement in 2009

21ST OCTOBER 2009 7th CEEQA launch/business leaders breakfast:
Through the Looking Glass • AleGoria Warsaw

3RD MARCH 2010 CEE Insight Forum futures group debate:
World Class Warsaw • Warsaw Royal Castle

7th CEEQA Gala Dinner & Ceremony
Warsaw Royal Castle

SPONSORS & PARTNERS

DTZ **CUSHMAN & WAKEFIELD** **ECE** **PANATTONI EUROPE** **Westimmo**

BUSINESS JOURNAL **GOwarsaw.eu** **REP** **BUDAPESTER ZEITUNG THE BUDAPEST TIMES** **IBP REAL ESTATE** **bne** **MERIDIEN** **TRINITY**

MAIN SPONSORS
COLLIERS INTERNATIONAL **CTC** **JONES LANG LASALLE** **TRINITY**

Green Sponsor

www.ceeqa.com

Property

In This Issue



At least the worst is over

EUROPEAN FINANCIAL CENTRES Property markets across Europe's financial districts have come under unprecedented pressure, as key banking and financial services tenants have shed jobs and vacated space. In a package of articles by **Daniel Thomas**, **James Wilson** and **Mark Mulligan**, we look for signs of health among financial occupiers in London, Paris, Frankfurt, Madrid and Barcelona **Pages 4-5**, with expanded version on FT.Com



Pockets of affluence help lift gloom

UK RETAIL SECTOR After the turmoil in the retail property market in late 2008 and early 2009, Andrea Felsted finds conditions are stabilising, especially for prime sites **Page 6**

Skyscrapers still towers of strength

ARCHITECTURE After September 11, the future of the skyscraper seemed more threatened than at any time in its century-old history. But these tall structures just keep coming back, writes **Edwin Heathcote** **Page 7**

Spotlight on role of governments

STATE AID This month the Irish government set out its plan to take over €77bn of impaired property loans from the country's five main lenders. **Anousha Sakoui** looks at this and other government bail-outs, and asks



what effect they have had on property markets and property-backed financing. www.ft.com/property-october-2009

Front page photograph: banks hold the key to UK market Dreamstime

Contributors

Daniel Thomas
Property Correspondent

Andrea Felsted
Retail Correspondent

Edwin Heathcote
Architecture Critic

Mark Mulligan
Madrid Correspondent

Anousha Sakoui
Capital Markets Reporter

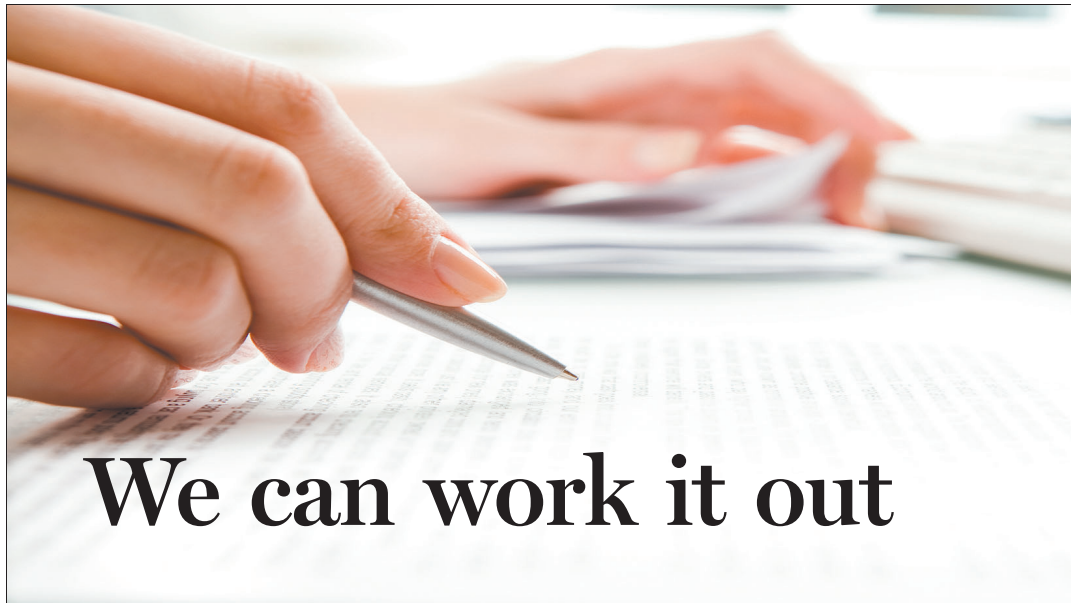
James Wilson
Frankfurt Correspondent

Andrew Baxter
Commissioning Editor

Steven Bird
Designer

Andy Mears
Picture Editor

For advertising details, contact: **Luwam Fessahaye** on +44 207 873 3226, fax: +44 207 873 3098, e-mail: luwam.fessahaye@ft.com



BANKS

Lenders in the UK are looking hard at their problem real estate loans, writes Daniel Thomas

After a period of introspection, some of the largest banks that lent to the UK real estate sector during the good years are beginning to work on problem loan books.

Real estate bankers believe that the market is entering a new phase in terms of the workout of problem loans, although most do not expect to see the sort of mass disposals of property that caused such distress in the early 1990s.

There is no doubt that the banking sector holds the keys to the market, sometimes literally and certainly figuratively.

The scale of the problem is undeniable, particularly among the large Scottish and Irish banks. There are almost £225bn of outstanding loans to UK property, according to research by De Montfort University in Leicester, although some estimates have the figure as high as £300bn.

Lloyds, carrying the loans that HBOS aggressively made during the boom, has around £60bn outstanding to the commercial property and construction sectors. The Royal Bank of Scotland, meanwhile, is estimated to have a UK commercial property loan book of about £50bn.

Given that level of exposure, neither can afford to be too hasty, without damaging their own businesses. Both banks have been

expanding teams dealing with such problems, with more than 200 staff now said to be working on Lloyds' distressed loans alone.

For the borrowers that have seen the value of their assets fall sharply – sometimes lower than the debt and often breaching loan-to-value (LTV) covenants – the good news is that banks are still reluctant to take aggressive action. Borrowers, although likely to face renewed pressure to correct loans in breach at higher costs, are mostly being supported, as long as they pay interest.

Nick Robinson, managing director of real estate corporate banking at Lloyds, said recently that the strategy remained to work with borrowers for as long as possible. Both Lloyds and RBS say more than 90 per cent of their customers are still in control of their loans.

Refinancing is clearly a point of risk for borrowers whose loans are worth more than the property. No one yet has come up with a solution to bridge the finance gap between the conservative LTVs on offer for new lending, and the high LTVs that are prevalent on existing loans coming up for refinancing. A recent paper compiled by the Property Industry Alliance estimated this funding gap could be as much as £120bn.

Where necessary, however, banks have been willing to roll over loans instead of pushing them into default, although borrowers often have to pay higher rates of interest. There is also talk of trying to offload some debt to other lenders, or distribute it through the still moribund securitisation market.

But, now that the workout teams are in place, the stabi-

lisation of property values could push the agenda forward. Some see a property market recovery as a precursor to banks beginning to dispose of properties where the loan is in default.

Few properties are being pushed on to the market from banks, although one of the largest so far, the 1m sq ft Silverburn shopping centre in south Glasgow, was put up for sale last month, and more are expected before Christmas.

Plenty of investors are keen to help banks with problem loans, with scores of companies ranging from Grosvenor to Great Portland Estates said to be in talks with banks.

For these, opening up the

Refinancing is clearly a point of risk for borrowers whose loans are worth more than the property

supply of property from the banking sector is a major investment strategy, although all report that it is a slow process.

Manish Chande, senior partner at Mountgrange, the real estate fund manager, says: "We still don't know if some of these loans are going to be locked up for a generation, or put into the market. There has been much talk about joint ventures and sales, but little sign of activity, although it appears they are now sorting out their books."

Richard Stanley, European director of Jones Lang LaSalle, which is selling the £250m Silverburn shopping centre, says banks are taking "a much calmer stance"

compared with the early 1990s, but the climate was changing. He says: "It has taken a long time to get to grips with the magnitude of the issues but we are moving to a new phase."

Stephen Eighteen, head of property in the global restructuring group at RBS, confirmed last month that the bank was reducing its exposure to real estate by disposing of "non-core" holdings – mainly loans based on overseas property – although some UK assets were also included.

He stressed there would be no fire sales. Controlled selling does appear to be becoming more acceptable, however.

Jonathan Thompson, head of real estate at KPMG, says the UK banks are broadly implementing a multi-year turnaround strategy. "There is a five-year view to recover as much money as they can from their loan book. They are talking to third-party investors, but also creating a new business structure to exit where they can," he says.

British Land is one of the many public and private companies to have offered banks help injecting equity or providing asset management skills. Chris Grigg, chief executive, says banks will not hurry deals: "Our sense is they have a lot still to do. In due course, one imagines that they will sell or joint venture but we don't expect that to happen particularly quickly."

Reits (real estate investment trusts) are keen to use their tax-efficient structures to help banks offload properties backed by loans in default, although private companies are also keen to help.

Adding uncertainty to the situation, there is still no



Figuring it out: banks have been expanding teams dealing with problem property loans Dreamstime

way of knowing if there will be any effect on attitude towards loans in breach because of entry into the government's asset protection scheme. It should not, in theory, affect behaviour. The Irish government's bank rescue plan could also have an impact.

RBS and HBOS represent a sizeable chunk of outstanding real estate debt, so naturally the focus is on them, but the problems are far wider spread, with particular worries about the more aggressive stance that could be taken by overseas banks. Unlike domestic groups, these could have few reservations about dumping property.

Mr Stanley of Jones Lang LaSalle says: "I think the fire sales will be from the less well-capitalised banks, as well as the banks without a UK agenda or loyalty."

While the banks are mostly being helpful to borrowers, the other important question is how quickly mainstream lending will return to commercial property for new investment.

Lending to the commercial property market remains subdued, which continues to curtail any sudden increase in the volumes being traded in the investment market.

The available debt is generally expensive, with large margins over the base rate, high fees and at low LTVs, although this is gradually improving.

German banks have been leading the market, although there are also signs of life among the more cautious UK lenders, such as Abbey, HSBC and Nationwide. Even RBS and HBOS say they will lend to existing customers on a selective basis.

The irony, according to bankers, is that there has rarely been a better time to lend, given low interest rates and high margins, but the risk profile is so constrained that only safe clients borrowing on the best and low-priced properties are finding it easy to secure finance.

The good news is, however, that while the banking sector has much to work out, there are also those busy working out ways to re-enter the property market.

When this will happens is the question, particularly for the market outside prime properties. Banks, be they merciful to existing borrowers or not, are the key to how quickly the mainstream property market will return.

CMBS market: 'a rolling loan gathers no loss'

The packaging and selling of chunks of real estate debt during the boom could be one of the biggest threats to a sustained recovery in the market.

The securitisation of real estate debt was becoming a dominant means of financing investment only in the last few years of the property boom. Unfortunately, this also meant that these commercial mortgage backed securities (CMBS), often sold to hundreds of different investors, were generally made at high loan-to-value ratios.

The subsequent fall in values has left much of this debt in or nearing breach of covenants, but the complicated nature of CMBS makes this a particularly hard problem to tackle.

About \$40bn in loans have been moved into special servicing in advance of default in Europe, according to DTZ, the global property adviser, and this represents a huge headache for the market.

More than 5 per cent of the total CMBS debt outstanding is now in special servicing, it says, and either needs new finance for the existing structure, or properties to be sold to repay the loans.

Refinancing is a particular problem, according to Philip Cropper, executive director of CBRE Real Estate Finance, as few banks are willing to commit new money to covering bad loans.

CBRE predicts that there could be a huge equity gap between the available finance and the funding needed to cover loan defaults. The alternative is to try to secure bondholder consent for a restructuring of the loan or to push out the maturity, but neither is simple, given the numbers of

investors involved and the sometimes opaque paperwork governing loan administration.

Michael Cutteridge, director in corporate finance at DTZ, says: "At present, many investors are attempting to renegotiate the terms of their debt, especially on the CMBS side.

"However, we expect that a significant quorum of overleveraged borrowers will also selectively hand back the keys, in those cases where the potential for restructuring does not exist, or where the long-term profile of the asset's cash flows makes it difficult to realise a positive total return over any type of reasonable holding horizon."

There have already been attempts to roll over some European loans due for refinancing, with one investor summarising the position in an increasingly used phrase, "a rolling loan gathers no loss".

Despite mounting problems in outstanding loans, bankers are hard at work trying to wedge the securitisation market open again to provide finance to the debt-starved property market. A back-to-basics approach for securitisation is being held up as crucial to kick-starting investment.

More than £1bn has been raised since July in the CMBS market, comprising two issues by Tesco and one by Land Securities.

Bankers say it is only a matter of time before the door opens to more of these products, although they caution that the demand is for the sort of very safe products that bear little resemblance to those that were issued during the boom years.

Daniel Thomas

LOCAL EXPERTISE
MEETS GLOBAL EXCELLENCE



EXPO
REAL 2009
Hall B2
Stand 230

Aareal

Reliability, in changing markets.

As one of the leading international property specialists, we are active across three continents. We provide property financing solutions in more than 25 countries as well as a comprehensive range of services for the institutional housing sector including IT services.

Visit us at EXPO REAL 2009 and learn more about our well diversified portfolio. www.aareal-bank.com



Aareal Bank Group

£60m Gap Funding Programme

- Are you a developer with a workspace development opportunity?
- Are you a business looking to expand?
- The Convergence Programme for Cornwall & the Isles of Scilly aims to transform the economy to a high value added one, where knowledge, environment and quality of life underpin sustainable economic growth.
- £60 million is available to gap fund the development of high quality bespoke and speculative private sector workspace projects in Cornwall and the Isles of Scilly which meet the aspirations of the Convergence Programme.

For further information please call
Ian Whale on +44 (0)1872 243777 or John Burton on
+44 (0)1872 243773, or visit the Convergence website
www.convergencecornwall.com



convergence
for economic
transformation



European Regional
Development Fund
Investing in your future



South West RDA

Property | European Financial Centres

The worst may be over but times re

Property markets across Europe's financial districts have come under unprecedented pressure as key banking and financial services tenants have shed jobs and vacated space, writes **Daniel Thomas**.

Demand for shiny new offices has fallen far down the agenda for most of these tenants, although there are signs that certain cities have seen such large declines that a bottom may have been reached.

According to Jones Lang LaSalle's European report on 24 markets, prime office rents declined by 4.6 per cent over the second quarter, compared with the first three months of the year, and are now on average 15.4 per cent lower than a year before. The overall European vacancy rate increased 80 basis points to 9.3 per cent, and is expected to exceed 10 per cent by the end of the year.

Problems are acute across Europe, with fears in particular for cities in emerging economies, as well as Moscow, as overdevelopment has met the downturn in consumer spending. Rents in the Russian capital fell almost a third in the second quarter alone.

Here, the FT covers the key established business districts to look for signs of health among financial occupiers, as well as to see which location has fared best, and where is likely to recover first. London corrected first and fastest, Paris held up much better before a recent dip, and the German cities could still be in denial – or else could emerge almost unscathed. Spanish markets have also seen poor rental performance.

While corporate occupiers are beginning to emerge again with jobs beginning to be safe, it will be a while before large office moves are back on the agenda for most. This means both supply and demand are expected to continue to depress rents, even if the worst of the decline has now been seen.

City of London

The City of London office market has corrected the first and fastest of all European capitals, which has led to hopes that the worst of the impact from the financial crisis is now over, writes **Daniel Thomas**.

There are still very mixed signals, and on the face of it, conditions remain difficult. Jones Lang LaSalle, the consultancy, estimates that vacancy levels have reached about 9.4 per cent in the City. This is projected to rise to as much as 14 per cent before the end of the downturn, partly because tenants are subletting unused space but also because a supply of new, small buildings is coming through.

The City has experienced a fall in prime rents of about half on a net basis, according to King Sturge, the property consultancy.

However, digging beneath this, there are signs of hope, particularly after the letting of Watermark Place to Nomura, the Japanese investment bank, which removed one of the City's largest empty buildings.

Many predict that the terms of this letting will mark the bottom of the market for this sort of office scheme. Nomura is not expected to have to pay any rent for six years, although it will pay for some of the fit-out costs of the building, and even after the rent-free period it will pay less than £50 per sq ft.

Owners of the few new rival buildings can see hope again, given that there is very little quality office space in the market.

John Forrester, head of the UK for DTZ, the property consultancy, says activity has increased significantly in the past six months, and predicts that tenants are beginning to make decisions in fear of being left behind in a market where good office space is diminishing.

James Beckham, head of City investment at King Sturge, says: "Business confidence has returned during the year and having chosen to defer decisions firms are now willing to take on new space. This has coincided with rents hitting the bottom of their cycle with incentives from landlords at historic highs. As a result there has been a resurgence of tenant activity."

Neil Prime, head of the English markets group at Jones Lang LaSalle, describes the City as a two-tier market, where rents for the best and largest buildings are stabilising or even increasing but everything else is still falling.



He says rent-free periods are now contracting again for the good new buildings, although he admits that the amount of secondary space is still a worry. The saving grace of the market this time has been less development compared with the last recession, he adds.

Mr Prime says there is effectively no supply between 2012 and 2014, despite numerous tenant lease expiries, which means that developers that can find funding should think about starting soon.

Others are more cautious, however, expecting occupiers to continue to be pressured by adverse operating conditions. Francis Salway, chief executive of Land Securities, does not see the company beginning to develop any of its buildings with planning consent in the near future.

There is also the problem of the overhang of secondary space in non-core locations.

However, what is not in doubt is that, having gone through a terrible 18-month period, the market is at last returning to some sense of business as usual. The worst having been experienced, the outlook for London offices in the medium term is surprisingly strong.

Paris

Compared with markets across the channel, the downturn in Paris offices has lagged behind, which created a flattering impression in the early months of the property downturn last year but has meant steeper falls more recently.

Values of offices fell for the first six months of 2009 by 6.1 per cent, according to the IPD French property indicator, which includes more than 1,400 commercial properties worth around €31.5bn, writes **Daniel Thomas**.

The two dominant segments of the Paris market, the central business district (CBD) and La Défense, fell particularly hard, by 9.4 per cent and 8.1 per cent respectively, as sentiment shifted away from areas most affected by financial woes.

This drop in investment values reflects the underlying sharp fall in occupancy rates. Overall, almost a tenth of office space is now

'Headline rents in the Paris CBD have now fallen by around 20 per cent from their peak'

empty in the city, with clear signs that rents have deteriorated.

Christian de Kerangal, managing director of IPD France, says: "In the course of the first half-year, the decrease of capital values has accelerated across all sectors. At the same time, and as expected, rental levels have weakened over the period under review, while vacancy rates have increased indiscriminately."

Local agents report that some areas, and some buildings, have fared better than others.

Savills, the property con-

sultancy, says re-pricing has occurred but not to the same extent as in the UK, with prime yields at about 6 per cent.

Prime property in Paris, it says, is benefiting at the expense of secondary.

Tony McGough, director of economic forecasting at DTZ, says rents in the CBD have fallen sharply, while La Défense rents have not yet recorded declines. He takes this as a positive sign for the CBD, particularly as supply remains tight.

"Headline rents in the CBD have now fallen by about 20 per cent from their peak, suggesting the market is in quite an advanced stage of the correction, with limited scope for further falls," says Mr McGough. "A further positive for the CBD market going forward is the low availability ratio in the prime core, reflecting inelastic supply."

The La Défense occupier market, he says, has been supported by low levels of vacancy, and better than expected take-up in the first half of the year. This, however, could mean that there are risks of further falls to come in a still weak business climate.

The differences between the two business areas mean that agents see the Paris CBD office market as nearing a fair investment value. The yield correction has lagged that in London, but even so the trough in values appears close given the rapid adjustment of rents, according to DTZ.

David Bourla, head of research in Paris for Cushman & Wakefield, says data

FISHER GERMAN
CHARTERED SURVEYORS

FOR SALE

INDUSTRIAL ESTATE - STAFFORDSHIRE

- Approx 6.89 ha (17 acres)
- Approx 4025sq m of buildings let and producing £174,200 pa
- Additional caravan storage business with turnover of £80,000 pa
- Allocated employment site with potential for further development

Joint Agents: **A R Argyle FRICS 01283 538222** **A R Argyle**

01785 220044 www.fishergerman.co.uk

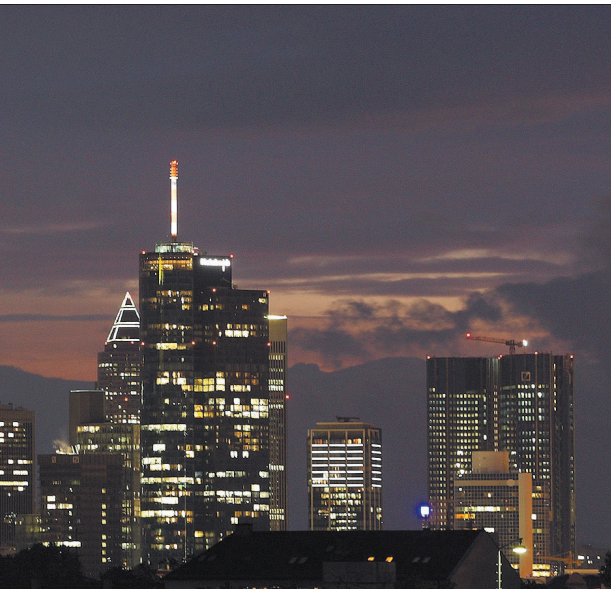
uscommercial INTERNATIONAL PROPERTY CONSULTANTS

FOR SALE

PRIME 300+ ROOM HOTEL IN ROME, ITALY
WITH CONFERRING AND LEISURE FACILITIES.

For Details: info@uscommercial.biz
Tel: +44 207 193 3883
Tel: +39 06 955 578 33

remain hard across the continent



Frankfurt at night: the lights have not gone out in Germany's key financial centre

Getty Images

and banking districts. "No marked downward changes in the rental prices for high-grade premises in very good areas are to be anticipated," it says.

But prime rents are still well below the €50 or more of a decade ago.

The decline in letting in Frankfurt has been lower than in Germany's other big office markets.

Still, its performance in the first half of the year would have been much worse without one headline deal. The letting of Dresdner Bank's former headquarters – a 166m high, aluminium-clad building known colloquially as the Silberturn – was at the centre of the city's biggest lease deal for two decades. Deutsche Bahn, the state railway company, has signed for 72,000 sq m of space and will occupy the skyscraper – which was Germany's tallest when it was completed in 1978 – in 2011 after a renovation.

Consolidation of office space is definitely a theme for companies in the Frankfurt area, Mr Mallucci says.

While caution is still the watchword, he notes signs of "a return of confidence". He talks of three big companies that, six months ago, were putting off any consideration of office needs. Now they are starting to look and consider.

Madrid/Barcelona

On the northern fringes of metropolitan Madrid, four new state-of-the-art skyscrapers soar between 220 and 250 metres into the air, dwarfing most other structures in Spain, writes Mark Mulligan.

Built on re-zoned land previously owned by Spanish football club Real Madrid, the 45- to 56-storey towers have redefined the capital's skyline and consolidated its northern districts as the financial and business hub of the city.

Municipal authorities and letting agents enthusiastically promote the "Cuatro Torres" as among the most exclusive new commercial real estate in Europe. Although the timing of their inauguration could not be worse, the buildings were conceived in response to a severe shortage of prime office spaces of 1,000 sq m or more.

For now, however, downsizing and corporate failure has depressed demand in this segment and made finding lessees for the floors not

taken by proprietary occupiers and other pre-signed tenants a monumental headache for owners and property agents.

With the Spanish economy tipped to contract by more than 4 per cent this year, and little prospect of a quick recovery, demand for office space is likely to remain soft at least until the end of 2010, say most sector analysts.

First-half take-up rates for all office space in Madrid fell about 60 per cent year-on-year, according to Savills.

It expects total absorption this year of 225,000 sq m, less than half of last year's take-up. Vacancy rates, meanwhile, are creeping up towards double digits, from a low in the latest cycle of 6 per cent.

Reflecting this, one of the four new towers, owned by Spanish insurer Mutua Madrileña, is completely vacant.

With 57,000 sq m of prime office space, it looks set to become the arena for a rental price war in the Span-

ish capital, according to sector specialists.

A similar, though not as lofty, office tower development on the highway between central Barcelona and its main airport also has would-be tenants sharpening their bargaining tools. "When you have three or four towers that are exactly the same or with similar space, one next to the other, then you know that it is a good time to push for discounts," says Ian Cassidy, head of the Barcelona office of Savills.

Whereas two years ago, prime properties in Madrid were fetching rents of up to €41 per sq m, wily would-be tenants are now negotiating down to below €30. In Barcelona, meanwhile, prime rents have dropped from about €24 to €20 over the same period.

Income yields – which have climbed from about 4.25 per cent to 6.5 per cent since the 2007 financial crisis erupted – are unlikely to shift much more, according to Edward Parrelly, head of research at property consul-

tancy CB Richard Ellis in Madrid.

Despite the dramatic drop in property prices, sales remain elusive, with transaction volumes down heavily. Financing remains tight and expensive, with potential buyers being asked to put up 40 per cent or more of the sale price.

Supply, however, remains restricted. Banks and other creditors that have acquired commercial property through debt-for-asset deals and wound-up funds are reluctant to depress prices further by releasing all their stock at once.

Despite broader uncertainty about the depth of the Spanish recession, investors are counting on a relatively slim development pipeline to work in their favour.

This should also help Mutua Madrileña fill its new tower before the shine wears off.

These four articles appear in expanded form at www.ft.com/property-october-2009

indicate that France should see a less severe downturn in 2009 than the majority of its European peers. But, pointing to an annual GDP fall estimated at 3 per cent, he predicts a further weakening of occupier demand.

Prime rents are under pressure, according to Cushman & Wakefield, falling to €660 per sq m in Paris' CBD, as tenants negotiate better lease terms with more attractive incentives.

A predicted lack of supply next year might help correct this, however. Indeed, many hope that the market might not have much further to fall, given signs that France is less severely affected than many of its European neighbours.

Frankfurt

Frankfurt's property market professionals are surprisingly optimistic about the city's prospects in spite of the inevitable upheaval that the deep banking crisis has caused in Germany's financial capital, writes James Wilson.

With turnover in the office rental market down significantly in the first half of the year – by anything between 15 and 30 per cent, depending on how the boundaries of the city market are understood – there is obvious cause for concern.

Investment in the city has fared even worse, falling by two-thirds. Daniel Gedack, Savills' managing director of office agency in Germany, says difficult times are not yet past. "Before the end of 2010 people should not think about recovery," he says.

At the same time the pre-

ceding years had such a high level of market activity that the current decline is not a reason to despair.

Sentiment in the market is also coloured by a belief that other cities – home and abroad – have fared much worse in the crisis and that Frankfurt's resilience will result in a relatively smooth rebound.

"It seems like the downsizing in Frankfurt has hardly hit the property requirements of the banks – it has been not as severe as in London for example, perhaps due to the type of business done in Frankfurt.

"There are a lot less structured finance products worked on here," says Marcus Lemli, head of leasing and capital markets for Germany at Jones Lang LaSalle.

There is also a sense that the damage to financial institutions in other German cities – such as Munich, Düsseldorf and Hamburg, each of which is home to banks that have lost billions of euros – may presage a greater consolidation of Frankfurt's role as the country's main financial centre.

Marco Mallucci, director of office agency at the Frankfurt office of Savills, says: "No one really thinks Frankfurt as a financial centre will lose ground. In fact we expect it to benefit."

Vacancy rates have risen to about 13-14 per cent, according to BNP Paribas, which also says prime rents in the city have slipped 7 per cent since the middle of last year, to about €35 per sq m in Frankfurt's Westend



SAVINGS
3.5%



BONDS
4.2%



PROPERTY FUND
£££££

**It's time you looked at a
PROPERTY FUND**

- Invest from £1,000
- Profit from the Distressed Market
- Safe and Hassle Free

Heritage Capital Property Funds take advantage of the distressed property market to give you hassle free investments which could return in excess of 50% in the next 3-5 years.

FIND OUT MORE TODAY: Can you afford not to?

www.heritagecapitalinvest.co.uk



01932 500 280

Property



Westfield story: the west London shopping centre has been forced to cut service charges, following pressure from some of its big retail tenants

Pockets of affluence help lift gloom

SECTOR VIEW UK RETAIL

Andrea Felsted finds that there are fewer problems in store

After the turmoil in the retail property market in late 2008 and early 2009 – when a string of high profile names such as Woolworth went under – conditions are stabilising.

The quarter rental date of

July 1 passed without any further significant tenant failure, encouraging some observers to believe that retail property may be emerging from the downturn.

“We think the worst is over,” says Martyn Chase,

Europe, Middle East and Africa head of retail at DTZ, the property consultancy.

According to a DTZ survey across a number of the UK's top 20 shopping centres, vacancy rates have fallen by more than 25 per cent since January.

“My sense is that the timing for securing the best deals from landlords has probably passed and, by the end of the autumn, vacancy rates will be starting to approach more historic levels,” says Hugh Radford, head of retail agency at DTZ.

Guy Thomas, head of leasing at Lend Lease, asset managers for five shopping centres in the UK, including Bluewater in Kent, says he has seen a pick-up in inquiries from retailers about taking space, although this has yet to translate into a rise in lettings.

“The background noise over the past three months or so is certainly on the increase,” he says.

Guy Grainger, head of retail at Jones Lang LaSalle, says activity has picked up, as retailers wanted to open before Christmas.

“But while conditions may be stabilising for prime sites, they remain difficult in secondary locations. There are also worries about certain sectors of the retail market.

Mr Grainger says that value brands such as New Look and Primark are faring well, although others are still finding trading difficult.

Nick Symons, retail director at Savills, adds: “In the core top-50 UK locations, you could probably suggest now that vacancy rates are beginning to stabilise.

“I think that where we are still seeing a lot of supply is the secondary towns and the secondary centres.”

Malcolm Dalglish, chairman of retail at CB Richard

Ellis, the property consultancy, says that while it is difficult to generalise about retail property, there is no question that the more affluent market towns, cathedral cities and big city centres have, on the whole, been less affected by the downturn and increase in unemployment.

Demand has also held up for sites in the West End of London. Footfall to the West End has been boosted by tourists from the US, continental Europe and the Middle East.

Mr Dalglish says landlords are still able to let properties in the most desirable locations for rents similar to those available 18 months ago, although it is likely that they will have to

‘The timing for securing the best deals from landlords has probably passed’

include a 12-18 month incentive package.

However, in more remote towns and locations, rents may have fallen up to 40 per cent from their peak and any deals taking place require substantial financial incentives.

While there are some signs of improvement, there is no doubt that the downturn has strengthened retailers' hands, and weakened those of landlords.

Landlords have been generally willing to talk about granting monthly rents, although more recently there has been a hardening of terms being asked by some property owners.

Some of Britain's biggest landlords have also agreed a plan to cut costs by up to 20 per cent and pass

these savings on to retailers.

Westfield has been forced to cut service charges, following pressure from some of its big retail tenants. Some store groups had refused to pay part of their charge in the wake of an increase in fees just days after the west London shopping centre opened.

While retailers may not be failing at the rate they were at the turn of the year, concerns remain.

Allied Carpets, the flooring retailer, went into administration in July. In a process known as a pre-pack administration, 51 of the company's stores were sold immediately to Allied Carpets Retail, a new company set up in partnership with the collapsed retailer's management.

But administrators failed to find a buyer for the rump of the retailer, and 142 Allied stores have closed, with the loss of 850 jobs.

Lombok, the furniture retailer, was also bought out of pre-pack administration by a private equity-backed consortium.

According to Begbies Traynor, the business recovery specialist, the second quarter of this year saw the rate of growth in the number of companies with “critical problems” slow. In the retail sector, the increase was only 17 per cent, compared with the first quarter.

The growth in the number of retailers showing financial distress has also slowed, at only 10 per cent quarter-on-quarter. But Begbies Traynor says that the equivalent year-on-year increase in the second quarter was 74 per cent.

“We are probably over the worst, but there is a long way to no-man's land on the edge of the battlefield,” says Nick Hood, a partner at Begbies Traynor.

Budapest Business Region

Budapest
The Central European
Hub of Innovation

Visit Us at Expo Real 2009
Stand A1. 432

www.bbr.hu | info@bbr.hu

Skyscrapers are still towers of strength



Edwin Heathcote
ARCHITECTURE

Eight years ago the future of skyscrapers seemed more in doubt than at any time in their century-old history.

The destruction of the Twin Towers using airliners piloted by former engineering student Mohammed Atta and others was a deliberate attack on an architecture that had come to represent western liberal capitalism.

The very name, the World Trade Center, embodied an idea of internationalism and placed Manhattan firmly at the centre of a seemingly unstoppable new world order.

The attacks killed 3,000 people, but they were as much symbolic as visceral, an assault on the modern metropolis.

The rebuilding process was fraught and emotional. Should there be no new buildings, only memorials? A park? A landscape of memory? Or should the city rebuild, even higher, in defiance of terror, in defence of freedom?

The new tower, conceived by Daniel Libeskind, would be 1776ft tall, an embodiment of liberty and would be known as the Freedom Tower.

In time, the title was dropped – perhaps it would have been too obvious a magnet for another attack. Later, the ambition and the architecture itself were dropped, and what will rise now will be a model of corporate compromise, crowning arguably the world's most visible and controversial construction site.

The new tower, bland and unambitious, has been designed by Skidmore, Owings and Merrill (SOM), the big US architecture and engineering firm.

It is, then, a great irony that the same architects have completed the greatest skyscraper of our age, not in New York, not in the firm's home city of Chicago, the birthplace of the skyscraper, but in that new symbol of the failures of a capitalism based on boom and bubble, Dubai.

It appears that December has been set as the opening date for the Burj Dubai, by far the world's tallest building at more than 800m (an astonishing 300m taller than the Taipei 101 tower which previously held the record).

If skyscrapers have largely descended into a

competition merely to differentiate themselves from each other, Burj Dubai is an elegant and compelling structure.

Built as a series of bundles which taper as the building rises (a structural device to give the building stability in strong winds) the tower spirals up to an impossibly fine crown and now dominates Dubai in a way in which, perhaps, no other building in the world can claim to monopolise the skyline.

It is a persistent irony that the biggest skyscrapers take so long to build that – almost inevitably – they can be conceived only in a boom and are completed only in a bust.

It is a model that saw the Empire State Building and Chrysler Building open in the Great Depression; the World Trade Center open during the 1970s oil crisis and at the moment when New York became bankrupt; and the Petronas Towers in Kuala Lumpur opening in the midst of the Asian banking crisis.

But those skyscrapers just keep coming back. Europe's tallest is under construction in London.



Renzo Piano's Shard of Glass on the south side of London Bridge promises radically to transform the south London cityscape. At 310m and 72 storeys it will be nearly twice as tall as Lord Foster's Gherkin, still the city's most innovative and seductive skyscraper.

And the Shard is not alone – planning permission has been granted for a surprising number of towers in and around the City of London.

These include Gerald Ronson's 37-storey Heron Tower, by architects Kohn Pedersen Fox, the same designers' "Helter Skelter" and Rafael Viñoly's "Walkie Talkie". Adding a number of tall residential towers, the city's skyline is going through its most tumultuous change in half a century.

Manhattan too, so stunned by the terrorist attacks, has proved resilient. Innovative residential towers by the world's most inventive architectural minds have appeared or are scheduled to start rising, most notably residential towers by Herzog & de Meuron and the Office for Metropolitan Architecture (OMA).

However, Jean Nouvel's exquisite design for a slender tower beside the Museum of Modern Art (MoMA) – which would have risen as high as the Empire State Building – now looks like being reduced in height by nervous planners.

East Asia has now supplanted the Gulf once more in the race for outlandish towers. The twisting, slender and surprisingly subtle Shanghai Tower by Gensler is under construction and, at 127 storeys, will be among the world's tallest.

Most unusual, though, is another OMA tower. The recent announcement of the MahaNakhon Tower in Bangkok, by OMA's Ole Scheeren, destined to be that city's tallest skyscraper, has been causing ripples as other projects collapse.

The 77-storey, 313m tower will contain a blend of hotel, commercial and residential accommodation but its main innovation is in the way lead architect Ole Scheeren allows the architecture to decay back into the cityscape below.

The usual Thai tower pattern accommodates parking at its base (underground parking is

Tall storeys: how Ole Scheeren's 77-floor, 313m MahaNakhon Tower in Bangkok will look

made too expensive by a high water table) which disengages the building from the street, effectively killing the streetscape at its base.

The MahaNakhon begins to fragment into a series of planes and smaller blocks as it reaches the ground, creating a busy, active landscape of urban engagement which can house a wide range of cafes and restaurants to enliven the streetscape.

Unusually, the proposal envisages a decay and fragmentation running through the building, which appears to become

infected by the chaos and unpredictability of the streets and the city below.

The building itself is an extruded box of the type familiar from the Twin Towers but its perfection is eroded, pixelated, as if something had smashed through it.

It is an extraordinary image which brings us right back to the indelible image of the collapsing towers.

Skyscrapers, despite the threats and despite the exhortations of the green movement and often, the lack of economic logic, seem to be here to stay.

East Asia has now supplanted the Gulf once more in the race for outlandish towers

TóPARK, the Monaco of Central Europe

The Walker and Williams Investment Group (WWIG) has become widely known in the past few years, primarily in connection with TóPARK, a sophisticated city centre project which is the most significant development in Central Europe in terms of scale and complexity. TóPARK, built on 180 hectares at the western edge of Budapest, is one of the few developments in the region which are well positioned for success even in this time of crisis. Both construction and leasing are carrying on without interruption, and the project has drawn considerable professional recognition from the beginning. In the 13 years it will take to complete the project, 1.2 million square meters of leasable area will be built at a cost of EUR 2.4 billion. The initial stage will be handed over in October 2010.

The group concentrates on independent urban and city centre projects with budgets exceeding one billion euros, such as WWIG's biggest current development, the TóPARK city centre in Hungary.

The project is being built in the most dynamically developing part of Hungary, the suburbs immediately west of Budapest, an area bounded by three motorways. This region of exceptional economic potential has not yet had any adequately high-quality, affordably priced real estate products to satisfy market demand. TóPARK is therefore considered a strategic product that will satisfy this claim.

This complex project includes an office park, the region's largest shopping mall, an EXPO exhibition centre that will serve as a venue for international exhibitions, flats to let, an exclusive pedestrian street, a recreation and rehabilitation centre, an outdoor and indoor sports complex, and an educa-



tional and activity centre. Unlike traditional office park developments, TóPARK offers a complete living space. A new city centre is being built where all of the services are close at hand: eating, shopping, entertainment and taking care of everyday business can all be done within arm's reach of workplaces.

All of this is being built on the shore of a 40-hectare lake in a green environment, crafted on a human scale and close to nature.

The cornerstone of the project is the development of the transport infrastructure. An intermodal hub is being built at TóPARK to provide transport for the 40,000 people who will be living and working there. The hub will provide rail and bus transport and a park-and-ride car park for several thousand cars.

"The motto of the Walker and Williams Investment Group is: We create value, develop culture, protect environment", Chairman Farbod Lotfi says. "Naturally, these principles do not exist only on paper; we make every effort to implement them in practice."

WWIG's development, TóPARK is characterised by environmental awareness. The developer is making every effort to use renewable energy sources with the intention of reducing hazardous emissions. Water will be used efficiently and recycled. The project inclu-

des a large-scale tree-planting programme, and electrically operated vehicles will play a large role in internal transport. TóPARK is planned to be fully supplied by renewable energy by 2030. WWIG would like to establish this environmentally conscious investor's mentality as a norm in Hungary.

WWIG pays special attention to the creation and preservation of cultural values. Since 2006, the corporate group has been making significant donations to the Museum of Fine Arts in Budapest to help expand its collections. Furthermore, TóPARK city centre will be providing space for a permanent exhibition of contemporary artworks.

The diversity offered by TóPARK will contribute to the urban development of Budapest by repositioning the entire metropolitan area.

The first stage of the project is currently in the structural engineering phase and will be handed over in October 2010. The entire project will be finished in 2020 and will create a new product in the region.

Real estate developers have recognised the uniqueness of the project from its very beginning, and TóPARK has continued to gather accolades from the profession. For example, it recently won the CNBC Arabiya International Property Award in the Best Mixed Use Development category.

WALKER AND WILLIAMS
INVESTMENT GROUP

EUROHYPO | The leading specialist bank for commercial
real estate and public sector finance

What moves you drives us.

Meet us at EXPO REAL
Hall B2, Booth B2.210

As Europe's leading specialist bank for commercial real estate and public sector finance, our focus is clear – our clients' goals. As their business moves, we move with them by offering insight, advice and tailored financing solutions.

COMMERZBANK 
Group

www.eurohypo.com

a passion for solutions.

**EURO
HYPO**

