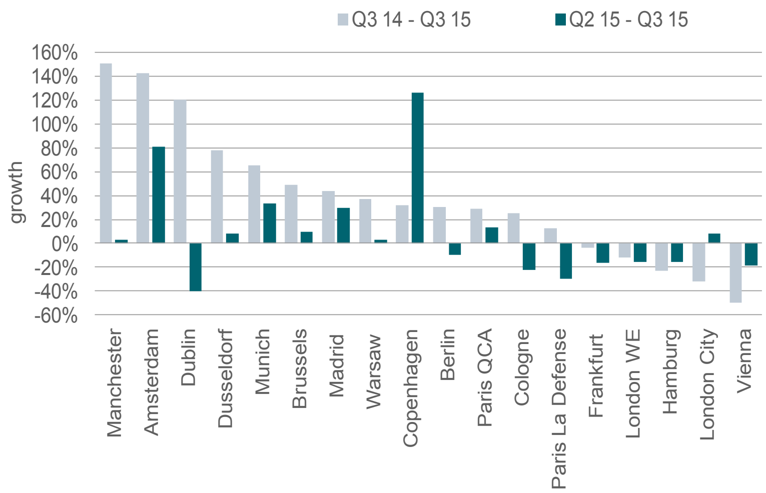
Savills World Research
European Commercial

Market report
European Offices

December 2015

GRAPH 1

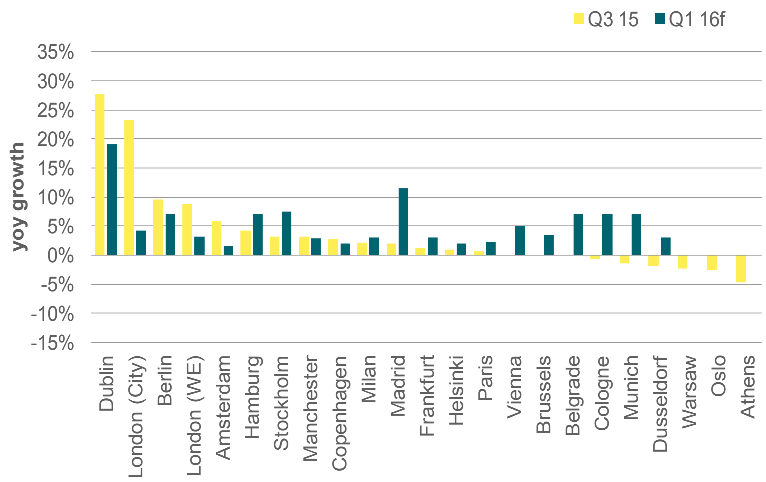
Take-up Q3 15 Higher take-up levels in most markets



Graph source: Savills

GRAPH 2

Prime CBD rental growth Tenant demand for prime properties drives rents up



Graph source: Savills

SUMMARY

Take-up increased by 21% yoy in Q3

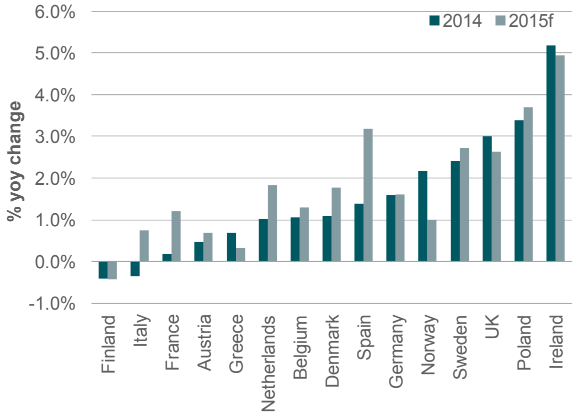
- The third quarter of 2015 showed a positive trend in demand for good quality office space in the European cities we analyse. Take-up in Q3 was 11% above the 5-year average and was more than 35% up on last year in half of the markets.
- There is evidence in at least a quarter of our markets that incentives for prime office space are going down. Overall rent free periods account for about 9.1% of the total lease period, down from 11.1% in Q3 14 and 13% in Q3 13.
- The average vacancy rate has been falling consistently since 2010 and Q3 2015 saw the lowest vacancy rate since 2008 – a sign that the markets are recovering. We expect supply to go down further in 70% of our markets.
- Good quality space is becoming more expensive as demand strengthens and occupiers, seeking value for money space, are looking beyond the CBD, where rents are also increasing. Prime non-CBD rents increased by 4.5% yoy in Q3 15 compared to 3.6% in the CBD.

"Stronger competition for prime properties is pushing incentives down"

Eri Mitsostergiou, Savills European Research

GRAPH 3

GDP growth Despite external headwinds economic outlook is improving



Graph source: Oxford Economics

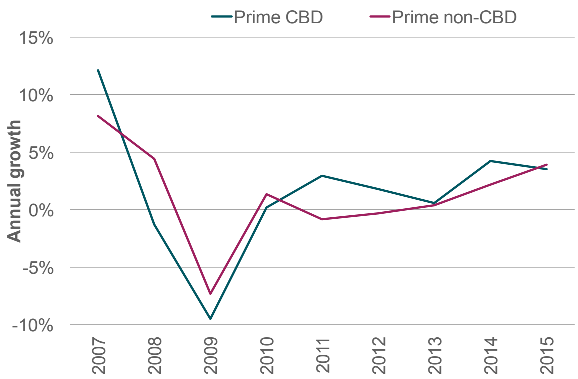
Economy

As Europe continues along the path to recovery, the unemployment rate across the EU-28 fell to 9.5% in August 2015 compared to 10.1% in August 2014. In August, Greece secured a third bailout of €85bn and has calmed fears of a possible exit from the eurozone, which dominated the headlines in the first half of the year.

Among the larger Member States, activity is forecast to be dynamic in Poland, the UK and Spain with GDP growth rates of 3.7%, 2.6% and 3.2% respectively; growth rates well above the EU average.
The slowdown in China does not appear to be affecting European growth as a whole given that the financial markets in China are somewhat closed and China accounts for about 3% of EU exports. The slowdown may however affect German exports considering 50% of EU exports to China come from Germany, and China is one of the largest importers of German cars. Furthermore, the recent Volkswagen scandal may affect the German automobile industry and the reputation of German branded goods.

GRAPH 4

CBD vs non-CBD Rental growth is picking up beyond the central locations



Graph source: Savills

"European office take-up has picked up significantly in 2015 pushing availability to a six year low" Eri Mitsostergiou, Savills European Research

The European Central Bank has stated it is ready to extend quantitative easing (QE) beyond next year in order to see inflation move closer to 2% over the medium term. According to Trading Economics, consumer prices in the eurozone fell for the first time in six months by an annual 0.1% in September, pushed down by energy prices and matching preliminary estimates. The consumer confidence indicator decreased in the euro area by 0.6 points to -7.7, while it remained generally stable in the EU (-0.2 points to -5.7) compared to September.

The refugee crisis has caused tensions between European nations as countries struggle to cope with the influx of refugees arriving from the Middle East and Africa. Germany's decision to temporarily install border controls with Austria threatens the Schengen agreement as countries cannot rule out a suspension of the free border movement. The refugee crisis and recent attacks in Paris have also caused a surge of support for right-wing, anti-immigration parties across the continent.

Positive trend in demand

The economic recovery is well underway across Europe, which has in turn increased demand for office space over the past three quarters of the year. Total take-up in our survey area was close to 2.4m sq m; in line with Q2 and 21% higher than Q3 2014. The positive trend of the past few quarters has led to an overall recovery of leasing volumes, which are now 11% above the 5-year average. According to our estimates, the full year should end up 10% above last year's level.

Value for money

Amsterdam and Dublin saw office take-up increase by 142% and 120% respectively, driven by some large scale deals in the TMT sector in Amsterdam and an expanding ICT and professional services sector in Dublin. Leasing activity in London WE, London City, Vienna and Hamburg witnessed double digit falls in yoy take-up due to high volumes achieved in the last few quarters. Weaker activity has also been observed in the markets of Oslo and Helsinki due to the dependence of the Norwegian economy on oil investment and the weak economic conditions of the Finnish economy.

Tenants are looking for high-quality space in the locations that offer best value for money. Where this is not possible they commit to some future developments and refurbishments through pre-lets. The recent rise in prime CBD rents has meant that some tenants are seeking more value for money in non-CBD locations in most markets where prime rents can be between 15% (Amsterdam) and 47% (Madrid) lower compared to the previous high, although in some cities they are catching up fast e.g. Vienna, Brussels, Berlin; they are only 1-3% lower. Prime CBD achievable rents are still about 12% below the previous high on average. Regarding the CBD, the cities where rents are still cheap (over 10% below last high) in the CBD are Athens (-60%), Warsaw (-46%), Madrid (-42%), Belgrade (-24%), Frankfurt (-25%), Paris La Defense (-12%) and Oslo (-11%).

Overall in Q3, the average prime CBD rent across our survey area grew 3.6% yoy; up from the 3.15% growth for the 12 months to the end of Q2. London City and Dublin saw prime CBD rental increases of 23% and 28% respectively compared to the same quarter the previous year. The most significant falls in prime CBD rents were seen in Greece (-4.8%), Warsaw (-2.3%) and Oslo (-2.6%).

The most dynamic markets are also seeing double digit rental growth in secondary CBD properties. Since Q1 2013, Dublin CBD has seen quarterly secondary rental growth increase by roughly 36% yoy, and London City by 23%. In Q3 2015, Frankfurt (12.2% yoy) and Berlin (11.1%) have also witnessed significant increase in the secondary CBD. One third of the cities across our survey area saw little or no rental growth yoy in secondary CBD properties.

Rising demand is squeezing availability

The average vacancy rate across our survey area fell to 8.4% yoy. The average vacancy rate has been falling consistently since 2010, and Q3 2015 saw the lowest vacancy rate since 2008. Discrepancies between markets remain high, with the highest vacancy rates recorded in Helsinki, Milan and Amsterdam with 13.4%, 13% and 14.8% respectively and the lowest vacancy rates were Berlin, London WE and Manchester with 3.6%, 2.7% and 3.7 % respectively.

In Q3, the highest decreases in the availability of space compared to the previous year were noted in Dublin (3.4 percentage points) and London City (3.1 pp) due to significant pick up in leasing activity and a drop in new supply. Development activity has not yet picked up significantly in Europe. According to our estimates, 2015 will see a lower volume of office completions in Stockholm, London, Dusseldorf, Frankfurt and Cologne compared to 2014, while the office construction activity in the remaining markets surveyed will be higher compared to the year before. Overall this year, we expect the total volume of completions to be up 4% from 2014.

Incentives are going down

As a result of higher competition for high quality space we have seen a decline in the level of rent incentives in 25% of our markets, while 50% saw no change. The most significant changes were noted in Madrid (3 months from 5), Brussels (6 months from 9) and Milan (12 months from 18). In Paris CBD the number of rent free months has increased from 6 to 9, alongside an increase of the length of a typical lease from 36 to 72 months. Standard contracts have also become longer in London M25 and Dublin. The markets where the rent free period accounts for more than 10% of the total leasing period are Paris, Brussels, London and Milan. Overall rent free periods account for about 9.1% of the total lease period, down from 11.1% in Q3 2014 and 13% in Q3 2013.

Leasing deals remain more popular than owner occupation, and, with the exception of a few large tenants with big cash reserves, the majority of businesses across our survey area prefer to invest their cash reserves in their core business than own their space. In Germany however, low interest rates have incentivised mid-sized and non-profit institutions with large cash reserves to buy instead of leasing properties. Property strategies might need to adjust to changing IFRS standards, which will require rental liabilities to be shown on balance sheet, however have not yet observed any trend.

We foresee rental incentives remaining fairly stable in 2016 and then, as landlords will be less inclined to incentivise tenants, we may see rent free periods decrease across cities in our survey area in 2017. While CBD locations remain favourable, we may start to see more tenants moving towards non-CBD locations as they offer better value for money. This should push non-CBD rents up in the upcoming years.

OUTLOOK

Positive outlook despite external headwinds

■ The recovery of the European economy, while not spectacular is continuing, despite weaker economic growth in the third quarter of the year. Some political instability in Greece and Portugal and the impending elections in Spain have again put the periphery in the spotlight, but the expansionary monetary policy, a weak euro and cheap oil should continue to support the recovery. Focus Economics consensus panel forecasts a 1.5% GDP growth for the eurozone in 2015 and 1.7% in 2016.

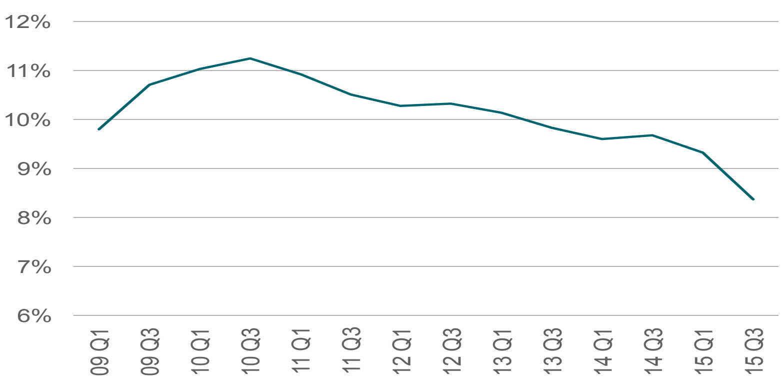
■ External headwinds such as the repercussions of the recent acts of terrorism in Paris as well as the deceleration in China and the volatility it causes in financial markets and exports, represent downside risks to the economic outlook. This may have an impact also on business confidence creating some uncertainty and delays in property-related decisions. For the moment, our expectations for 2016 remain positive. In more than 60% of our markets we anticipate demand to increase, whilst we believe it will not change significantly in the rest.

■ We predict that average vacancy rates will go down in 77% of our markets next year. This is most likely going to translate to an increase in prime asking rents. Indeed we believe that prime CBD rents will increase in more than half of our markets while prime non-CBD rents should remain stable in the majority of them. As availability of good-quality spaces will be limited, we therefore expect to see an upward pressure on prime rents, which could reach up to 5% yoy on average by Q4 2015.

■ We forecast an average prime CBD rental growth of 5.1% (high scenario) next year across our markets. We expect Dublin (19.1%), Madrid (11.5%) and Stockholm (7.5%) to top the league, followed by key German cities (7%).

GRAPH 6

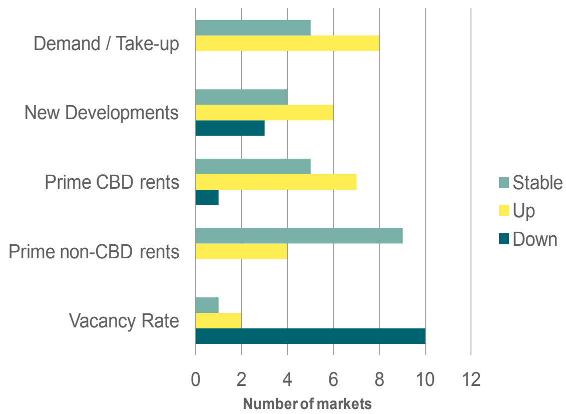
Average European vacancy rate The average vacancy rate is in decline



Graph source: Savills

GRAPH 7

Outlook Average vacancy rates will drop further in most markets



Graph source: Savills

European city review

Amsterdam

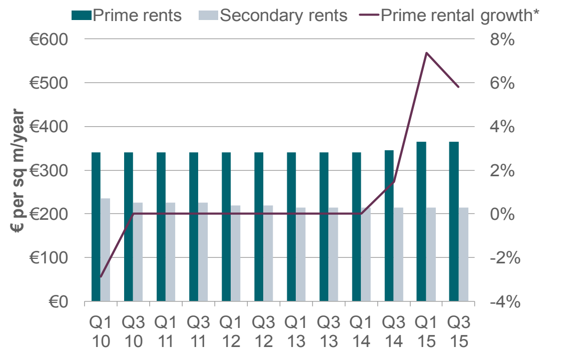
Demand for office space in the Amsterdam agglomeration, including Amstelveen and Diemen, has been rising throughout the year. Take-up in Q3 totalled over 90,000 sq m and included the purchase by Chipsoft of a 20,000 sq m office building at Teleport/Sloterdijk and the 13,500 sq m lease by booking.com in the city centre. Booking.com alone leased over 30,000 sq m in total in the last four years in Amsterdam and is an example of the large occupier activity within the TMT sector. As large signings took place in the city centre and at Teleport/Sloterdijk, they were also the two areas providing for the largest share of take-up: both around 26%. The South Axis, Southeast and West were responsible for 14%, 12% and 12% respectively. As more outdated office stock was transformed to other uses, supply decreased further to 1.05 million sq m, resulting in an availability rate of 14.7%. The city centre and the South Axis have the lowest supply with 7.3% and 6.6% respectively. Savills expects occupier demand in Amsterdam to increase, bringing the vacancy rates further down.

End-year outlook Take-up: **up** Supply: **down** Prime Rents: **stable**

*Annual change

GRAPH 8

Amsterdam



Graph source: Savills

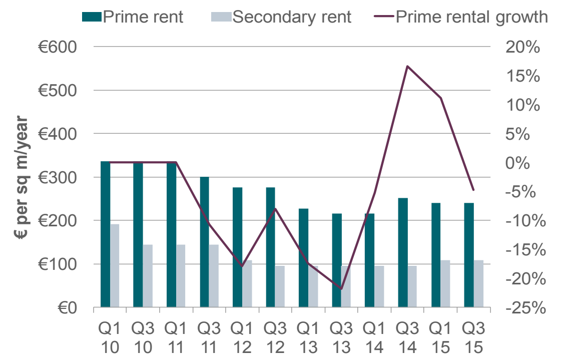
Athens

The stock for grade A and B offices in Athens could be considered as ageing and limited (2.2m – 2.4 sq m) after 6 years of economic crisis while it also comprises apartments converted into offices.
Athens North and the CBD, maintain their position by offering stock of higher quality and are considered as more privileged locations, constituting the majority of the take-up.
In the Athens CBD (11% of total stock for grade A, B) supply for office space is rather fixed, with rental levels for grade A offices lying within the range of €204-€240 per sq m/year and with vacancy for grade A buildings remaining below 10%. In the periphery of the CBD (Mid-town), rental levels for grade B and of inferior quality office space range between €72-€96 per sq m/year while vacancy currently stands between 13%-15%. In Athens North rental levels currently lie within the range of €108–€156 per sq m/year, with vacancy rates being below 10% for grade A offices while for grade B being above 15%.

End-year outlook Take-up: **stable** Supply: **stable** Prime Rents: **stable**

GRAPH 9

Athens



Graph source: Savills

Belgrade

According to our research, New Belgrade remained the most preferable location for doing business during 2015. Rents for Class A office space at prime locations in Q2 and Q3 remained at the same level, when compared to Q1 2015, ranging between €168-€198 per sq m/year. The strongest take-up of office space in 2015 was in the second quarter, recording a triple value compared to the same period last year and reaching a level of approximately 30,000 sq m.
The total office stock in 2015 has increased by new developments, and is currently at a level of approximately 770,000 sq m of GLA. In comparison with other capital cities in CEE and SEE, the demand for office space in Belgrade is still superseding the supply. This trend is present for years and it has led to the development of new Class A office space. Currently, there are five projects under construction with more than 62,000 sq m of GLA, to be delivered within the next two years.

End-year outlook Take-up: **up** Supply: **up** Prime Rents: **stable**

GRAPH 10

Belgrade

Graph source: Coreside

Berlin

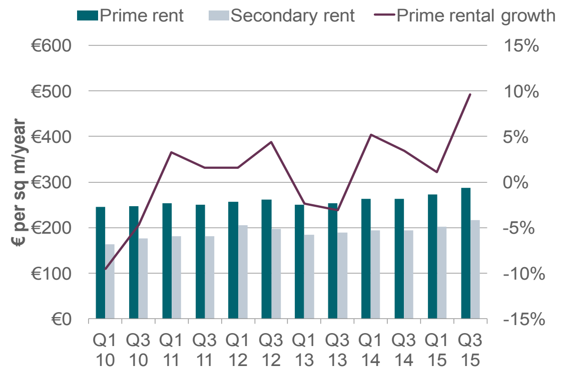
Office take-up during the first three quarters of 2015 stood at 647,400 sq m (+20% yoy). Take-up over the last 12 months totalled 865,200 sq m (+6% compared with the 12-month take-up to the end of Q2 15). The prime rent rose by 9.6% yoy to €288 per sq m/month while the vacancy rate fell by 100 bps yoy to 3.6%.

The market activity is dominated by two sectors. The information and communication sector accounts for more than a third of take-up during the year to date. Together with companies from the service sector, these two sectors of the economy account for 60% of overall take-up. The demand from these two sectors is mainly focused on only a few micro locations. This is especially true for Kreuzberg, where take-up and rents strongly increased over the past twelve months.

The recent developments are also expected to continue into the fourth quarter. Both prime and average rents should rise further until the end of the year. Take-up is likely to surpass the 800,000 sq m mark, making 2015 the strongest year in terms of take-up since 2012.

End-year outlook Take-up: **stable** Supply: **down** Prime Rents: **up**

GRAPH 11
Berlin



Graph source: Savills

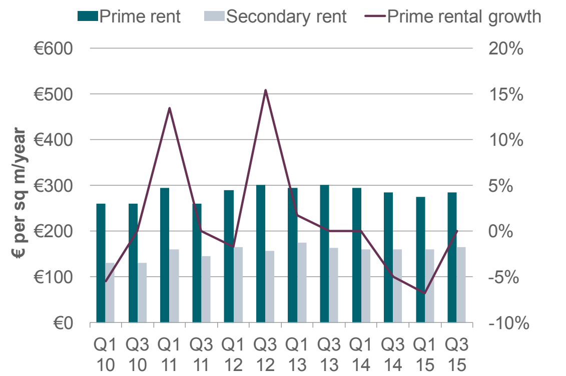
Brussels

Office take-up in Brussels by Q3 2015 stood at 205,000 sq m. This is 27% lower compared to last year due to the fact that few large lettings occurred. 83% of all transactions were below 1,000 sq m. However, we expect several large transactions to be closed in the near future, such as a 25,000 sq m transaction by the European Commission. Two significant pre-lettings occurred during the summer months. One was the pre-letting of 10,000 sq m by the OCMW/CPAS of Schaerbeek in the Silver building (decentralised area), a building which was vacant for several years. Next to that, there was the pre-letting by KPMG of 13,000 sq m in the Passport Building, a second project on Brussels airport (periphery).

Only 37% of the lettings occurred in the CBD district due to the lack of large transaction by Belgian or European administrations. This is also reflected by the fact that corporates were responsible for 77% of the total take-up by Q3 2015. Vacancy is continuing to drop and is around 5% in the CBD district. Outer-CBD vacancy is also declining thanks to reconversion projects and new letting transactions. Prime rents in Brussels are to be found at the Schuman Roundabout in the European district standing at €285 per sq m/year.

End-year outlook Take-up: **down** Supply: **stable** Prime Rents: **stable**

GRAPH 12
Brussels



Graph source: Savills

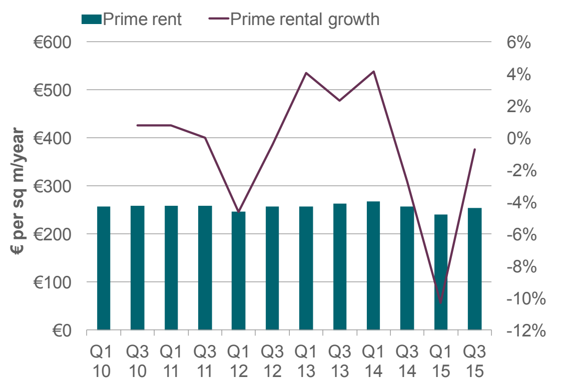
Cologne

Office take-up during the first three quarters of 2015 stood at 205,200 sq m (+29% yoy). Take-up over the last 12 months totalled 271,500 sq m (+4% compared with the 12-month take-up to the end of Q2 15). The prime rent fell by 0.7% yoy to €255 per sq m/year while the vacancy rate fell by 20 bps yoy to 6.6%.

Availability of new development sites in Cologne is limited. Following Zürich Versicherung's decision to locate to MesseCity, there will further land reserves be raised for new build offices in the popular Deutz district. Initial construction on MesseCity for Zürich could prove a catalyst for further developments. Supply on the Cologne market is rather limited at the moment, especially in the medium price segment. In 2015, some 72,000 sq m of office space has come to the market which is nearly completely pre-let. The last existing larger space reserves were let during the course of this year. This net absorption has resulted in a further decline in the vacancy rate. For the total year 2015, take-up will definitely meet the 10-year average of 265,000 sq m and may exceed that figure in case one major contract will be signed this year.

End-year outlook Take-up: **Stable** Supply: **down** Prime Rents: **up**

GRAPH 13
Cologne



Graph source: Savills

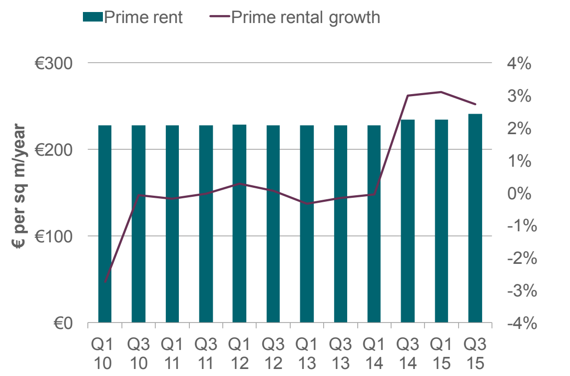
Copenhagen

Over the past 12 months letting demand for office facilities in Copenhagen has grown significantly which has prompted an increase in letting volume. The central areas of Copenhagen are experiencing increased letting demand. The rise in demand is linked to the positive development in the capital with a large net influx of people and creation of new jobs. Employment in the capital area has now reached a level close to that at the beginning of 2008. Consequently office vacancy is generally decreasing and is in Q3 estimated to be 7.5% which is 1.3 percentage points lower than the level in Q3 2014. The average Copenhagen rent levels have increased over the past year, and we expect to see a further upward movement over the next 12-18 months. Efficient space utilisation is becoming increasingly important to office tenants. Companies relocate to offices which allow for optimisation of space as this usually entails a 25-30% reduction in required office space. These relocations often represent a significant rent reduction for the companies, especially if they move from more expensive facilities. The modern and flexible office space is usually located outside the city centre in the greater Copenhagen area.

End-year outlook Take-up: **stable** Supply: **down** Prime Rents: **up**

GRAPH 14

Copenhagen



Graph source: Nybolig

Dublin

Economic recovery is resulting in very strong jobs growth in Dublin (+2.9% yoy in Q2 2015).

At the same time, the general trend has been for a gradually higher proportion of office based employment within this total. In particular the office based sectors of professional services and ICT are growing strongly which has led to rapid growth in gross letting of Dublin office space.

Increasingly, gross take-up is feeding through to net absorption. This is because, compared with the crisis period, an increasing proportion of lettings are accounted for by expansions and new entrants. This, and the fact that significant space is now beginning to be withdrawn for redevelopment, means that the vacancy rate is falling quickly and now stands at 10.5%. However, this overall figure conceals the fact that there is currently very little availability of Grade A office space in prime locations within the CBD.

On the supply-side, there have been no significant office completions since 2010 and this, combined with growing demand, has been driving explosive rental growth at this point in the cycle.

End-year outlook Take-up: **up** Supply: **down** Prime Rents: **up**

GRAPH 15

Dublin

Graph source: Savills

Dusseldorf

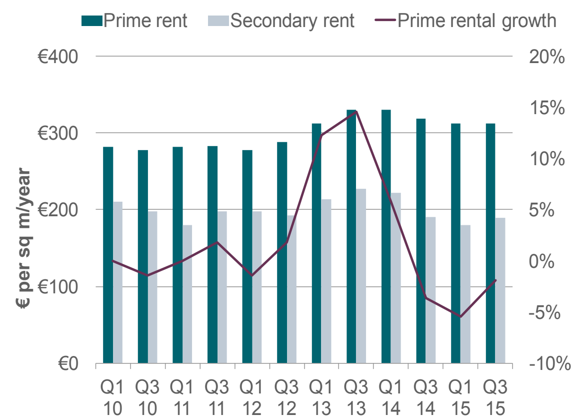
Office take-up during the first three quarters of 2015 stood at 279,000 sq m (+53% yoy). Take-up over the last 12 months totalled 334,300 sq m (+17% compared with the 12-month take-up to the end of Q2 15). The prime rent fell by 1.9% year on year to €312 per sq m/year while the vacancy rate fell by 60 bps yoy to 10.2%.

Two large deals, in Seestern and Medienhafen, account for take-up growth of more than 50%. Seestern is once again becoming increasingly popular with occupiers. The district offers large amounts of recently modernised space at attractive rents to tenants. Furthermore, many landlords have now started to let smaller unit sizes, appealing to a variety of occupiers in the small and mid-sized segments. In addition to one major deal, a number of leases on large and various smaller units are on the verge of completion. High demand is also registered in the city centre, but differently to Seestern, the availability is rather low. During the remainder of the year, no further material changes in rental levels or the vacancy rate are expected. Overall, take-up for the year is expected to total around the 350,000 sq m mark.

End-year outlook Take-up: **up** Supply: **down** Prime Rents: **stable**

GRAPH 16

Dusseldorf



Graph source: Savills

Frankfurt

Office take-up during the first three quarters of 2015 stood at 286,000 sq m (+15% yoy). Take-up over the last 12 months totalled 408,000 sq m (-1% compared with the 12-month take-up to the end of Q2 15). The prime rent rose by 1.3% yoy to €462 per sq m/year while the vacancy rate fell by 20 bps yoy to 11.4%. Following the period of consolidation in the financial sector, demand in the Frankfurt office market is expected to be lower over the long term, resulting in lower take-up compared to the long-term average. Furthermore, more than 300,000 sq m of new office space is scheduled to come to the market over the next two years, which will further intensify competition for potential new tenants. More than half of this space is still available to let. In the medium term, landlords need to offer more incentives to prolong existing lease contracts or to attract new tenants. Furthermore, rents will come under pressure for both CBD locations as well as secondary locations. Therefore, Frankfurt will more and more develop in the direction of a tenant market.

End-year outlook Take-up: **stable** Supply: **down** Prime Rents: **up**

GRAPH 17

Frankfurt

Graph source: Savills

Hamburg

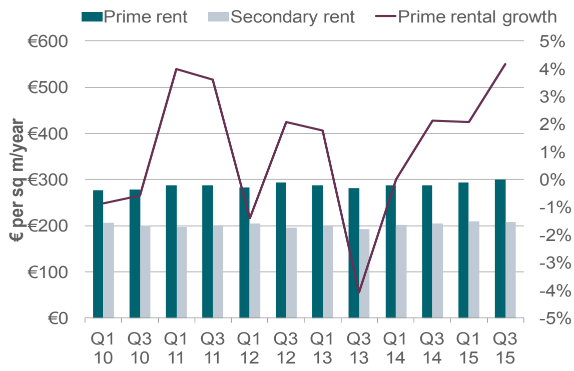
Office take-up during the first three quarters of 2015 stood at 356,200 sq m (-1% yoy). Take-up over the last 12 months totalled 508,100 sq m (-6% compared with the 12-month take-up to the end of Q2 15). The prime rent rose by 4.2% yoy to €300 per sq m/year while the vacancy rate fell by 70 bps yoy to 5.9%.

The City submarket accounted for around one third of take-up while a further third was attributable to nearby surrounding submarkets such as City South and Altona. The submarkets close to the city centre represent particularly interesting alternatives since there is still available supply in these areas. In the City submarket, on the other hand, there is a significant shortage of space, which is increasingly allowing landlords to somewhat reduce incentives. The pipeline for the fourth quarter is very strong. Consequently, it is not unrealistic that take-up will reach the 500,000 sq m mark by the year end, which would be slightly above the ten-year average (470,000 sq m).

End-year outlook Take-up: **stable** Supply: **down** Prime Rents: **stable**

GRAPH 18

Hamburg



Graph source: Savills

Helsinki

Office market fundamentals show the same trend since 2011 where supply and vacancy increase while take-up decreases and rents remain almost flat. The harsh reality of the current divergence between office submarkets will be maintained. Modern efficient premises in attractive locations have generally held up well, with the weakening confined to secondary market in less central locations. Output of new office space has been quite brisk comprising a total area of some 72,000 sq m completed in 2014 and some 145,000 sq m to be completed in 2015.

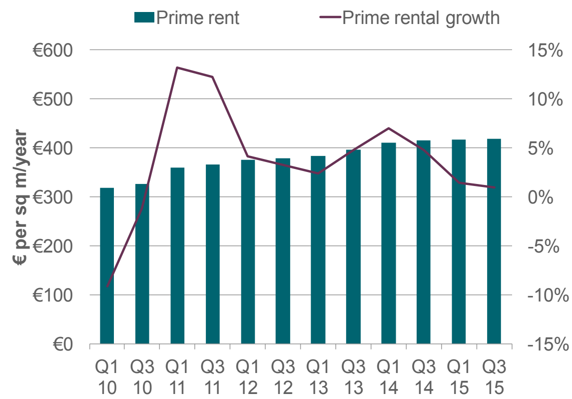
Current vacancy rates exceed 13%. Completions with subdued demand and decreasing take-up contributed to vacancy increase. Even if take-up volumes have fallen, leasing activity has increased slightly, although based on relocations and lease renewals. Several occupiers concentrate operations in one location increasing rotation. More efficient space use is achieved both by reducing work stations and available space. Multi-mode office environments and unnamed workstations are becoming more common.

Prime rents have continued to increase slightly in Helsinki CBD, while in other areas rents are barely holding. Oversupply puts pressure on landlords to offer incentives in order to sign new tenants.

End-year outlook Take-up: **stable** Supply: **up** Prime Rents: **stable**

GRAPH 19

Helsinki



Graph source: Realia

London West End

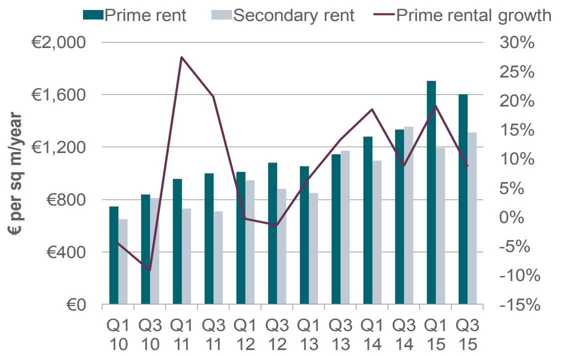
Total take-up in the West End reached 290,000 sq m at the end of Q3 2015. This matches the high level of take-up seen at this point in 2014 and is 25% up on the long term average. There continues to be a strain on supply in the West End Market with Supply at the end of Q3 2015 standing at 300,000 sq m. This equates to a vacancy rate of 2.7%.

The lack of floor space and resulting level of competition have placed an upward pressure on rents, with the average grade A rent for the West End standing at €1058 per sq m/year, a 2% increase on 2014. Prime West End rents have experienced a similar level of growth, rising by 4% from €1514 per sq m/year to €1584 per sq m/year. We forecast the West End to experience average annual rental growth per year of 2.7% for grade A, and 3.5% for prime for the next four years. The current strain on West End supply should be alleviated somewhat by the 280,000 sq m of new space that we anticipate will be brought to the market in 2016.

End-year outlook Take-up: **stable** Supply: **down** Prime Rents: **up**

GRAPH 20

London West End



Graph source: Savills

London City

The Madrid office occupational market consolidates signs of recovery. Accumulated gross take-up by quarter witnessed consecutive increases above 20%, reaching 40% in Q3. Importantly, mega deals registered in the last few months have contributed to this strong growth. However, deals above 10,000 sq m which also took place in 2013 and 2014 didn't show the same upward trend seen so far in 2015.

The positive growth in the number of deals which appeared at the end of 2013 notably reduced average contracted floor area. An important change is that this reduction is now much more linked to the optimisation of spaces rather than adjustments in staff.

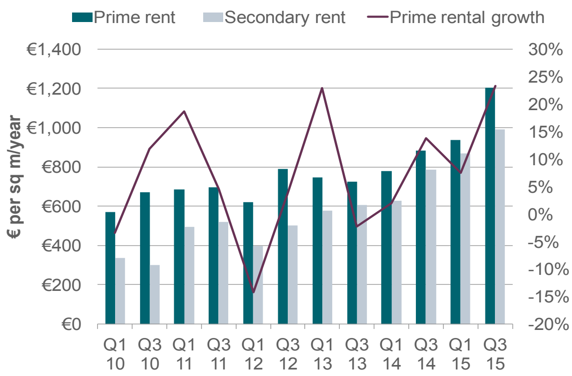
The vacancy rate trend stayed low closing September at 12.4%, signifying the third consecutive fall since the beginning of the crisis. The CBD area stays strong standing at around 5%.

The reactivation of demand and the decrease in the supply are pressing rental levels up for the best properties in the best locations. This increase is expected to spread in concentric circles throughout the rest of the market.

End-year outlook Take-up: **down** Supply: **down** Prime Rents: **up**

GRAPH 21

London City



Graph source: Savills

Madrid

The Madrid office occupational market consolidates signs of recovery. Accumulated gross take-up by quarter witnessed consecutive increases above 20%, reaching 40% in Q3. Importantly mega deals registered in the last few months have contributed to this strong growth. However, deals above 10,000 sq m which also took place in 2013 and 2014 didn't show the same upward trend seen so far in 2015.

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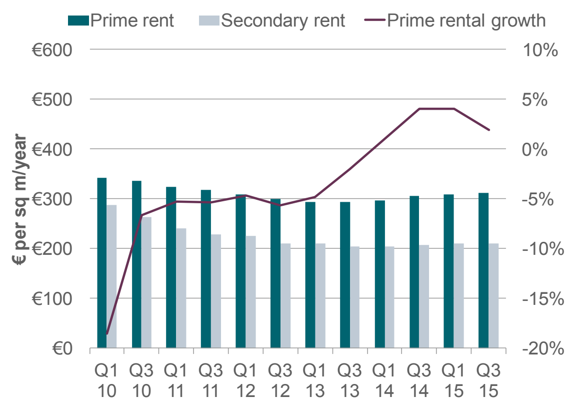
The reactivation of demand and the decrease in the supply are pressing rental levels up for the best properties in the best locations. This increase is expected to spread in concentric circles throughout the rest of the market. In the short term, it is expected in the CBD adjacent area and the rest of the urban area, in the middle term in the inner periphery and in the long term in the outer periphery.

End-year outlook Take-up: **up** Supply: **down** Prime Rents: **up**

GRAPH 22

Madrid



Graph source: Savills

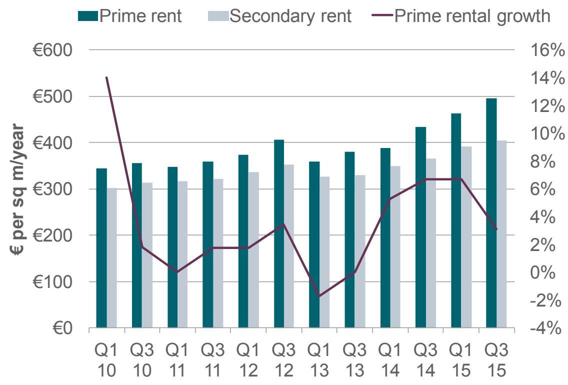
Manchester

Following a period of significant office development throughout 2006–2008 Manchester has experienced a continued erosion of Grade A supply. This has accelerated dramatically during the course of 2014 and early 2015. The completion of One St Peters Square in 2014 added approximately 25,000 sq m of new Grade A accommodation to the supply of stock however it is anticipated this will be predominantly let by the end of 2015. With continued pressure on supply, we estimate that the total Grade A availability in the CBD has now fallen below 46,000 sq m for the first time since 2007. This figure is even lower for the best quality space, and we estimate that there is currently only 24,000 sq m of the best quality space available in the market. We anticipate a further reduction in the level of availability throughout the remainder of 2015 and early 2016. Looking ahead, we expect that the availability of the best quality space will remain restrained, even with the increased number of planned completions. This will continue to put upward pressure on prime rents, and our latest forecast is that the top rent in central Manchester will reach €554 per sq m/year by the end of 2019.

End-year outlook Take-up: **stable** Supply: **down** Prime Rents: **up**

GRAPH 23

Manchester



Graph source: Savills

Milan

The Italian economy is expected to grow for the first time in four years and national GDP has grown 0.7% by in 2015. Public debt is at an all time high of 133% of GDP, however this is expected to fall from next year. The dynamic trend registered in the Milan office market at the end of 2014 has dwindled slightly prime office rents in the CBD remaining stable at €480 per sq m/year which is a 2.08% increase on the same period last year, and therefore with a consistent real rental growth, given the poor current inflation level at some 0%. The prime non-CBD rents remain unchanged at €380 per sq m/year and the rents in the secondary CBD remain unchanged since Q2 2014 at €310 per sq m/year. With few development completions occurring, we expect rental increases will accelerate in 2016. Compared to Q3 2014, the vacancy rate has risen slightly to an all-time high of 13%. The high vacancy rate is due to the large amount of available stock and new development projects arriving on the market. These concentrate in semi-central external locations which gives potential tenants greater negotiating power so landlords will need to offer rental incentives in order to attract long-term tenants.

End-year outlook Take-up: **stable** Supply: **stable** Prime Rents: **stable**

GRAPH 24

Milan

Graph source: Savills

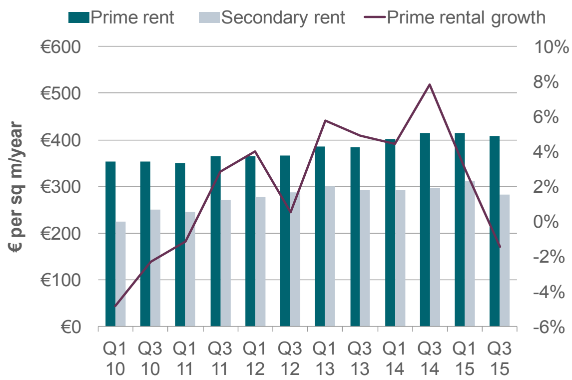
Munich

Office take-up during the first three quarters of 2015 stood at 530,700 sq m (+21% yoy). Take-up over the last 12 months totalled 686,700 sq m (+13% compared with the 12-month take-up to the end of Q2 15). The prime rent fell by 1.4% yoy to €408 per sq m/year while the vacancy rate fell by 110 bps yoy to 4.9%. Companies in the IT and electronics industry were particularly active over the last three months. The four largest lettings were all attributable to the sector, albeit none of these were larger than 10,000 sq m. All four deals were also outside of the city centre. The shortage of space in the centre is becoming increasingly acute since this submarket is particularly affected by a lack of supply. Availability is now so limited that the market is generally lacking in flexibility. For prospective tenants, this means that longer lead times are required. For the total year 2015, the office space take-up is expected to reach 650,000 sq m which is also the long term average.

End-year outlook Take-up: **stable** Supply: **down** Prime Rents: **up**

GRAPH 25

Munich



Graph source: Savills

Oslo

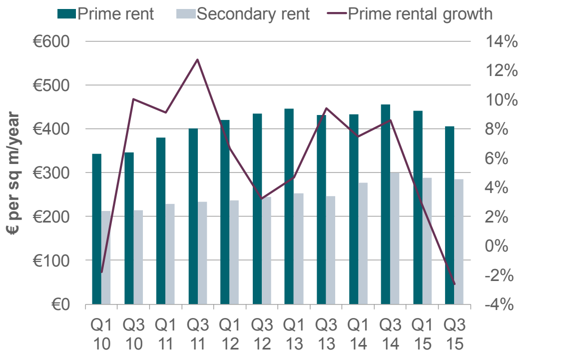
Oslo office rents have trended down marginally in fringe locations and lower-quality buildings. In the west fringe areas of Oslo, with a high density of oil-related businesses, we have observed a decline in rent levels (approximately 7 %). Several of the large oil companies have announced that they are subletting office premises and thus driving the prices down. The prime rent, however, is unchanged and the registered volume of new leases is up from 2014. Despite the fact that we expect a decline in the demand over the coming years, the moderate supply will cause the market to stabilise relatively quickly.

We expect that rents will slightly increase from 2016 as the vacancy declines. The Oslo rental market as a whole is still experiencing lower activity than the 2010-2013 periods. This is explained by expectations of lower economic activity as oil prices have dropped to record low levels. Vacancy in the CBD areas is on average 6 %. We see a further slowdown in the office construction activity and the new office construction volume forecast for the period 2016-2018 is approximately 285,000 sq m. Expectations are that the vacancy rate will stabilise around 9% throughout 2015, drop slightly in 2016 and further in 2017 close to 7.5%.

End-year outlook Take-up: **stable** Supply: **down** Prime Rents: **stable**

GRAPH 26

Oslo



Graph source: Heilo

Paris CBD

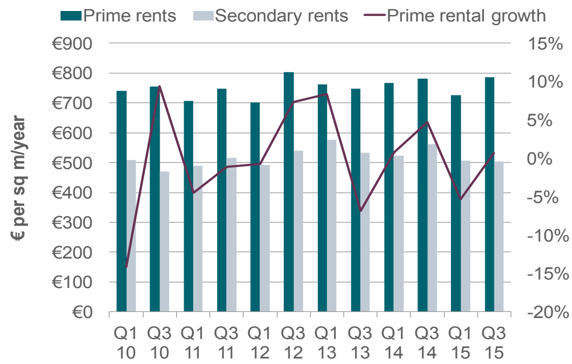
In Q3 2015, office take-up in the Paris CBD totalled 113,142 sq m. This brings the total take-up since the beginning of the year to 311,191 sq m, 7.5% up on last year. Surprisingly, in the same time the share of large transactions (exceeding 5,000 sq m) decreased significantly, from 26% last year to only 13%. This can be explained by the lack of large office space available on the market. This means that letting activity has been mainly fuelled by small and medium size transactions. At the end of the third quarter, immediate supply represented 319,000 sq m, 8.1% down compared to last year. The is the lowest level since Q3 2011. Therefore, the vacancy rate decreased to 4.7%. The prime rent in the area rose by 0.6% over the past year and stands at €787 per sq m/year. At the same time, the average rent rose by 7.1% and stands at €542 per sq m/year.

We expect the prime annual rental growth to be at 2.6% in 2016 thanks to the new and modern office space that should be delivered in the coming months. Indeed future supply exceeding 5,000 sq m totals 160,000 sq m, some of which is of very high standards.

End-year outlook Take-up: **up** Supply: **down** Prime Rents: **up**

GRAPH 27

Paris CBD



Graph source: Savills

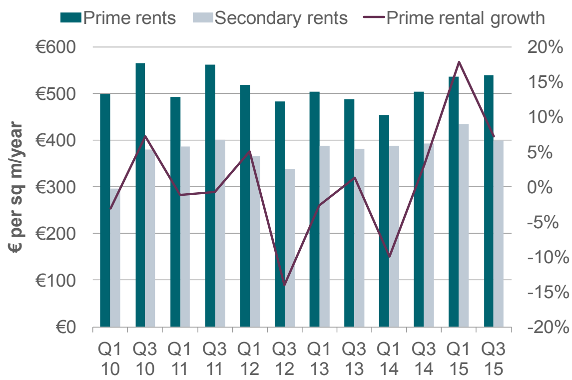
Paris La Defense

In Q3 2015, office take-up in La Defense totalled 30,797 sq m which brings the total turnover since January to 88,547 sq m. This represents a decline of nearly 30% compared to the first three quarters of 2014. La Defense has still not reached its former cruising speed. Letting activity suffers from an increasing scarcity of large transactions, which accounted for 42% of the total take-up against 52% last year. This quarter, only one large transaction was recorded; Sogecap who took 12,000 sq m in the D2 tower. At the end of the Q3, the level of immediate supply was at 397,000 sq m, which reflects a decrease of 6.8% compared to the same period last year. However the vacancy remained relatively stable (10.6%), but for the third consecutive year still above the 10% threshold. Nevertheless, the prime rent rose by 7.2% over the past year and stands at €539 per sq m/year. At the same time, the average rent declined by 8% and stands at €395 per sq m/year. Supply in the pipeline for the next two years totals 170,000 sq m.

End-year outlook Take-up: **up** Supply: **down** Prime Rents: **up**

GRAPH 28

Paris La Defense



Graph source: Savills

Stockholm

The private corporate sector has continued to move in a positive direction. The letting process still takes time and tenants are cautious, but prime space is scarce for certain sizes of premises. The scarcity of modern prime space has put an upward pressure on rents as new supply of refurbished space is limited. Prime rents have moved up in the CBD area, but also on the office clusters in the inner city. The trend of relocation out from the CBD to cheaper locations has continued and three out of the four major banks are in the process of relocating all or some of their staff to suburban locations. This trend has resulted in large coming vacancies, primarily in the CBD area. However, these relocations are spread out in time and should not result in vacancy spikes. The development pipeline is fairly limited and very much focused on the northern suburbs, but construction is picking up in other areas as well. The majority of the pipeline is fully let, but the number of speculative projects is increasing. However, the northern suburbs such as Frösunda and Kista are facing a much more difficult market as vacancies are rising and could be heading for a weaker rental market in the coming years, at least for the older existing stock.

End-year outlook Take-up: **up** Supply: **stable** Prime Rents: **up**

GRAPH 29

Stockholm

Graph source: Savills

Vienna

The Vienna office market continues its favourable development. In the first half of the year, take-up rose slightly by 10% to 110,000 sq m compared to last year's figure. Overall take-up in 2015 is forecast to reach 240,000 sq m. Rents remain stable with prime rents at €312 per sq m/year, the vacancy rate is at 6.5% and will decline further. Deliveries have declined continuously over the past years and reach 130,000 sq m in 2015. Many companies are actively searching for new, modern and large-scale office space, yet cannot find a suitable object at the moment. While take-up will remain stable throughout 2016, it will increase significantly once these objects come on the market. Demand for space in these objects is high and several large-scale tenants are already in negotiations – two to three years prior to completion. Offices stand out due to the high quality of the buildings, many of which have sustainability certificates such as LEED or BREEAM, and the comparably low vacancy rate. Among the biggest office transactions of the year are the sale of the properties space2move and Green Worx to German Union Investment.

End-year outlook Take-up: **up** Supply: **stable** Prime Rents: **stable**

GRAPH 30

Vienna

Graph source: EHL

Warsaw

Over 591,100 sq m of office space was under construction at the end of September 2015, of which almost 89,700 sq m is expected to be completed by the end of 2015. Development activity in the City Centre is now particularly high with Warsaw Spire (the tower building), Q22, Prime Corporate Centre and Atrium 2, not to mention some other, smaller projects. The other two zones with high development activity are Upper South and South West. The office stock is expected to exceed 5 million sq m in 2016, only three years after 4 million was broken, which is another proof that the market is accelerating. Letting activity of the first three quarters of year 2015 reached 608,600 sq m ,which is almost the volume of total take-up in 2014 (612,400 sq m). The most popular locations among tenants were: City Centre with 36% share in total take-up recorded, 29% in Mokotów (Upper South zone) and 13% in the South West zone.

The average vacancy rate in Warsaw decreased by 90 bps yoy to 12.9% at the end of September 2015. The lowest vacancy rates were recorded in the Lower South (7.4%) and in the East (7.5%).

End-year outlook Take-up: **up** Supply: **stable** Prime Rents: **down**

GRAPH 31

Warsaw

Graph source: Savills

Key office indicators

Prime[1] CBD rents[2], letting data in Q3 15

City	National GDP growth 15*	National employment growth 15*	City GDP growth 15*	Prime rent	Prime rental growth[3] Q3 14-15	Take-up growth[4] Q3 15	Vacancy rate Q3 15
Amsterdam	2.0%	1.0%	2.3%	365	5.8%	142.2%	14.8%
Athens	0.3%	-0.3%	0.1%	240	-4.8%	NA	18.5%
Belgrade	2.0%	-0.1%	NA	174	0.0%	NA	10.0%
Berlin	1.6%	0.9%	2.0%	288	9.6%	30.6%	3.6%
Brussels	1.3%	0.8%	1.2%	285	0.0%	49.0%	9.9%
Cologne	1.6%	0.6%	1.2%	255	-0.7%	25.4%	6.6%
Copenhagen	1.8%	1.4%	2.5%	241	2.7%	31.7%	7.5%
Dublin	6.0%	2.6%	6.0%	619	27.6%	120%	10.5%
Dusseldorf	1.6%	0.4%	1.6%	312	-1.9%	77.8%	10.2%
Frankfurt	1.6%	0.5%	1.6%	462	1.3%	-3.9%	11.4%
Hamburg	1.6%	0.8%	1.8%	300	4.2%	-22.9%	5.9%
Helsinki	-0.4%	-0.4%	0.1%	419	1.0%	NA	13.4%
London West End	2.6%	2.3%	3.7%	1603	8.8%	-11.7%	2.7%
London City	2.6%	2.3%	3.7%	1202	23.3%	-32.2%	5.1%
Madrid	3.2%	3.1%	3.4%	312	2.0%	150.9%	12.4%
Manchester	2.6%	1.9%	3.2%	495	3.1%	-100.0%	3.7%
Milan	0.7%	1.3%	1.4%	490	2.1%	65.2%	13.0%
Munich	1.6%	0.5%	2.0%	408	-1.4%	20.0%	4.9%
Oslo	1.0%	0.5%	1.6%	405	-2.6%	NA	9.0%
Paris CBD	1.2%	0.3%	1.5%	787	0.6%	28.6%	4.7%
Paris La Defense	1.2%	0.3%	1.5%	539	7.2%	12.8%	10.6%
Stockholm	2.7%	1.4%	3.5%	514	0.0%	NA	4.4%
Vienna	0.7%	0.2%	0.2%	312	-2.3%	-49.4%	6.5%
Warsaw	3.7%	1.5%	4.4%	258	-4.35%	36.9%	12.9%

Note 1: Prime rents refer to modern office space, minimum 1,000 sq m

Note 2: All costs are in Euros per sq m/year

Note 3: Rental growth is annual and calculated in local currencies

Note 4: Take-up growth is annual

Source: Savills / *Oxford Economics forecast /Coreside Serbia/Realia Finland/Heilo Norway/EHL Austria/Nybolig Denmark

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