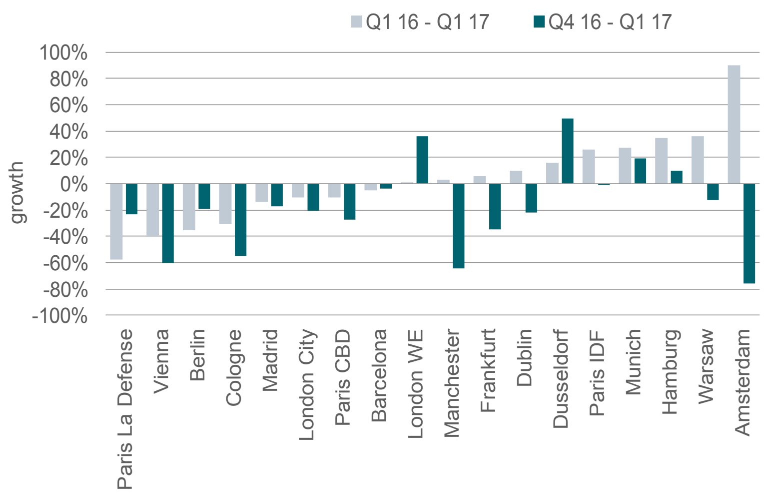
Market report
European Offices

June 2017

GRAPH 1

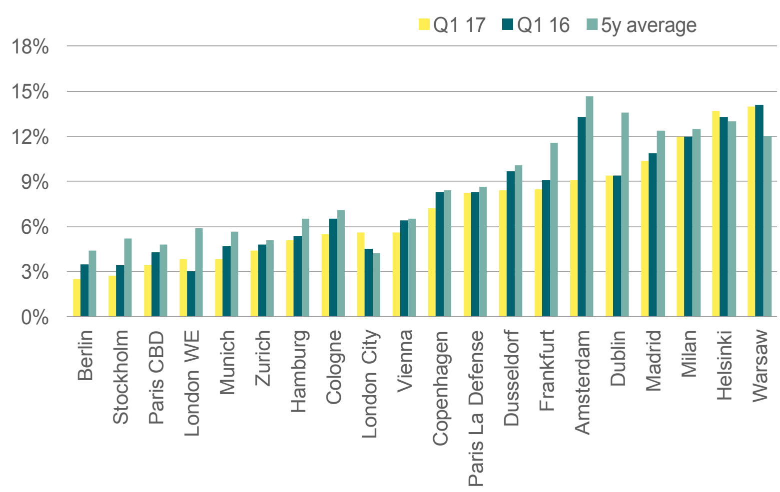
Take-up Q1 17 Decline in take-up was mainly the result of limited options for occupiers



Graph source: Savills

GRAPH 2

Vacancy rates In the majority of our markets the Q1 17 vacancy rate was the lowest registered since 2008



Graph source: Savills

SUMMARY

Core tightens but room to grow outside of the CBD

■ Falling unemployment rates and business expansion are leading demand across Europe. Companies, who had previously been putting off making relocation decisions until the economy stabilised, are now moving to modern offices in central locations. Lack of good quality space continues to be an issue across markets.

■ Prime CBD rental growth has slowed but remains positive with the average prime CBD rent growing 2.5% year-on-year. Non-CBD rents are being pushed up as tenants search for alternative locations outside of the CBD where the average year-on-year rent grew 3.5%. By the end of 2017, CBD rental growth will stabilise across the majority of markets.

■ Downward shifts in vacancy are starting to filter into increased development activity, particularly in peripheral areas where there is a greater availability of land. Over the next two years the development pipeline will rise by 8% pa in 2017 and 10% pa in 2018 across our survey area.

■ The average vacancy rate is the lowest since the financial crisis and it is unlikely we will see the rates rising to the peak levels seen in 2008.

"The rate of rental growth is slowing in the CBD but still growing in non-CBD locations."

Alice Marwick, Savills European Research

Renewed economic optimism

There is a feeling of renewed optimism surrounding the European economy with inflation above 1% after a considerable time below zero and the unemployment rate falling. In Q1 2017, Oxford Economics saw EU GDP improve and forecasts 1.8% GDP growth in 2017 and 1.6% growth in 2018.

Consumer prices in the euro area increased 1.9% year-on-year in April; an increase from the 1.5% recorded in March. The Economic Sentiment Indicator (ESI) rose furthest in the largest euro area economies of Germany (+1.8), Italy (+1.4) and France (+1.2) thanks to confidence across all sectors. However, rising inflation across Europe may put a dampener on consumer spending, yet wage growth and decreasing unemployment will ensure that private consumption grows at a steady pace.

The EU-28 unemployment rate fell to 8.0% in March 2017, down from 8.7% in March 2016 and significantly below the 11% peak levels seen in 2011. The largest yoy falls in our survey area were seen in Spain (20.3% to 18.2%) and Ireland (8.3% to 6.4%).

European Union leaders breathed a sigh of relief with the defeats of anti-EU populist candidates Geert Wilders in the Netherlands and Marine Le Pen in France. The German elections, the Greek government's deal with its creditors and the UK's impending Brexit negotiations will likely dominate the political headlines in the upcoming months and years.

Demand

Total take-up in our survey area reached 2.46m sq m, a 4% increase on the same period last year and a 9% increase on the five-year average. Business expansion continues to drive demand. Companies, who had previously been putting off making relocation decisions until the economy stabilised, are now moving to modern offices in central locations to attract and retain talent. As mentioned in our previous reports, lack of good-quality space has been an issue across prime locations and this does not appear to be waning.

Strong yoy take-up growth in Amsterdam (90%), Warsaw (36%) and Hamburg (35%) offsets steep falls in Paris La Defense (-58%) Vienna (-40%) Berlin (-35%) and Cologne (-31%). The decline in take-up was mainly the result of limited options for occupiers rather than declining demand. Discrepancies between the German cities due to falling development completions in Berlin and Cologne led to take up levels falling yoy and falling below the five year average. Deliveries into Dusseldorf, Frankfurt and Hamburg counterbalanced the fall in take up levels.

> "Increasing demand and tight supply have pushed CBD rents up 7.5% and non-CBD rents up 6% over the five-year average." Alice Marwick, Savills European Research

While London City has seen office take-up fall 11% yoy, Manchester has seen a 3% rise in take-up. In Paris, the Paris CBD and Paris La Defense have seen the Q1 take up level fall 5% and 30% respectively below the five year average. Paris IDF on the other hand has seen take up rise 26% yoy and 18% above the five year average. Tech companies in Paris for example will be pushed out to the Fringe where there are more development opportunities.

The TMT sector and companies requiring flexi-working is also driving up demand across Europe. Co-working spaces such as Hubs and We-Works are appealing not only to start-ups and freelancers, but increasingly to larger companies looking for a small business space in prime locations. Spain, Germany, France, the UK, Italy, the Netherlands and Belgium are particularly popular countries for co-workers and co-working spaces.

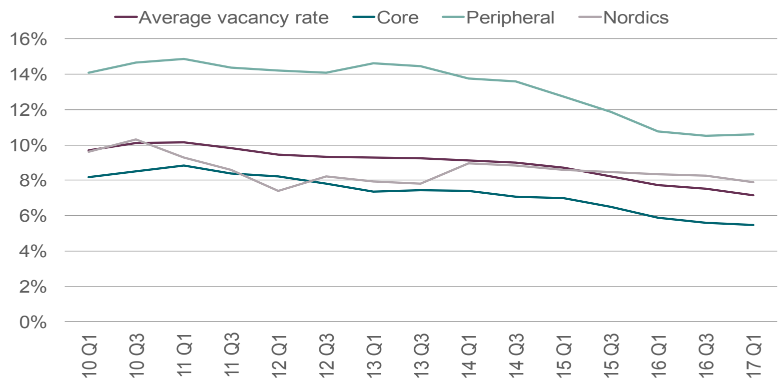
Supply

The vacancy rate has again fallen in all but three of the markets in our survey area with only Helsinki, London West End and London City seeing an increase in the vacancy rate year-on-year. In the majority of our markets, the Q1 vacancy rate was the lowest registered since the financial crisis thanks to business expansion and falling unemployment levels.

The average vacancy rate in our survey area fell 60 bps yoy with Copenhagen and the German markets seeing the vacancy rate falling by more than 100 bps yoy. Amsterdam saw the biggest fall, falling 420 bps yoy thanks to a 90% increase in office demand compared to Q1 2016. The tightest markets in terms of supply are unchanged from previous quarters with Berlin (2.5%), Stockholm (2.75%) and Paris CBD (3.43%) registering the lowest vacancy rates. It is unlikely the vacancy rate in these cities will ever rise again to levels seen in the aftermath of the financial crisis.

GRAPH 4

Average vacancy rate Vacancy rates have fallen below the 5-year average



Graph source: Savills/core=UK,DE,FR,peripheral=ES,IT,IR,GR,Nordics=NO,FI,SW,DK

Development

High quality office buildings are still scarce, which is causing concern for tenants who require good quality offices in the CBD. Conversion projects have added to the lack of supply with outdated office buildings being converted into residential buildings. Downward shifts in vacancy are starting to filter into increased development activity, particularly in peripheral areas where there is a greater availability of land. From the stock currently under construction (delivery 2017, 2018), about 44% is already pre-let with an increasing number of occupiers, especially the ones with larger requirements now looking into pre-letting space in buildings under development or planned.

Rents

For the third consecutive year, rental growth has slowed across the majority of our markets but remains positive with the average prime CBD rent growing 2.5% yoy across our survey area.

Rental growth was above the five-year average in 80% of the markets in our survey area and double digit growth above the five-year average was recorded in 70% of our markets. In the core markets, the average core yoy rent rose by a moderate 1.2% compared to 5% in Q1 16. In the peripheral markets rental growth was higher at 5% pa, down from 8% in Q1 16. The Nordics have seen mixed results with Stockholm recording a 19% yoy increase in rental growth and Copenhagen and Helsinki saw rental increases of 4% and 1% respectively whereas Oslo saw no movement. Unlike the core and peripheral markets, rental increases in the Nordics do not appear to be slowing.

Notable increases in Berlin (23%), Athens (15%) and London WE (11%) were offset by rental declines in Zurich (-11%), Paris La Defense (-9%), London City (-8%) and Paris CBD (-7%). By year end the markets seeing the most dynamic rental increases will see a slowdown in rental growth.

Non-CBD locations for tenants were seen as a palliative solution in terms of more economic space, however, lack of space in the CBD is pushing rents up in non-CBD locations as well. The average non-CBD rent increased 3.5% yoy, with Berlin recording double digit rental growth in both CBD and non-CBD and only Zurich and Dusseldorf recording yoy negative rental growth in both the CBD and non-CBD.

Incentives

The average lease length remained stable across our survey area whereas rent-free incentives appear to be lessening compared to Q1 2016. Only London WE and London City saw their rent-free periods increase whereas Berlin, Frankfurt, Hamburg, Munich reduced slightly and Amsterdam saw the rent-free period cut by one third compared to the previous year.

OUTLOOK

Lack of good quality space will continue to be an issue to tenants

■ Following the defeat of the anti-EU parties in the Netherlands and France, the downside risks to the European economy are considered marginal. An improving labour market and ultra-easy monetary policy support the domestic economy and uncertainties from the UK elections and upcoming Germany elections appear to be minimal.

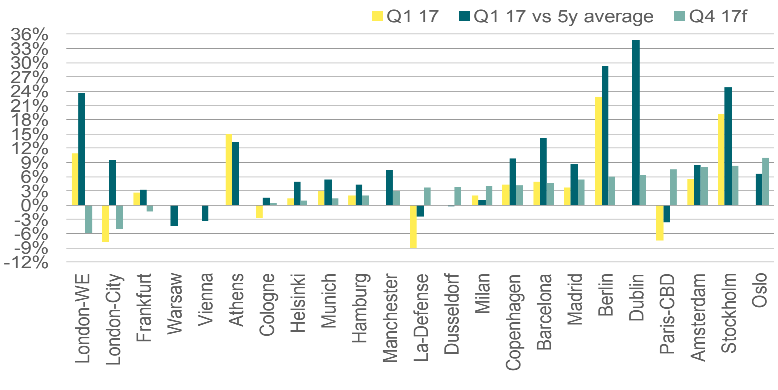
■ As new supply comes onto the market, we will see prime rents stabilising in most markets. Developers will also focus their renovation plans on turning Grade B into Grade A but in B locations. Over the next two years, we forecast the development pipeline rising by 8% pa in 2017 and 10% pa in 2018 in the 15 markets across our survey area.

■ By year end, CBD rental growth will stabilise across the majority of the markets in our survey area. Only Oslo and Paris CBD are expecting rental growth to outstrip the five-year average and cities that have been ahead of the rental cycle (London WE, London City and Frankfurt) may see a fall in rents.

■ New locations will become popular with cost conscious tenants who are being priced out of CBD and non-CBD locations. Co-working and flexi working spaces will continue to be a popular short-term solution amongst larger companies who require business space in prime locations.

GRAPH 6

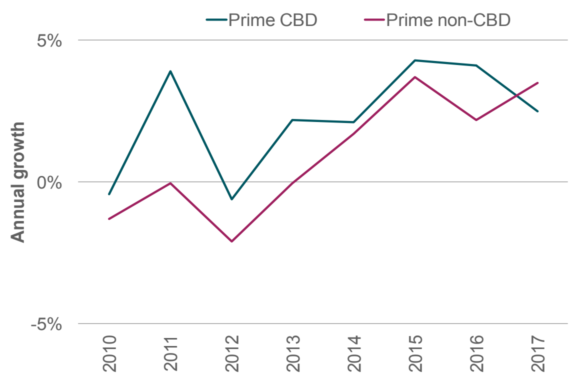
Prime CBD year-on-year rental growth Rental growth will continue to slow



Graph source: Savills

GRAPH 7

CBD vs. non-CBD Lack of space is pushing up rents in non-CBD locations



Graph source: Savills

European city review

*Annual change

Amsterdam

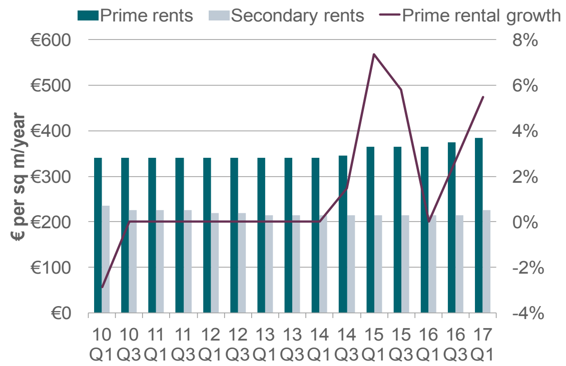
Demand for office space in the Amsterdam agglomeration, including Amstelveen and Diemen, remained high and reached 72,780 sq m in the first months of 2017, up 90.1% yoy. By far the largest transaction concerned Alliander leasing an extra 18,500 sq m in the Teleport building at Teleport-Sloterdijk which is currently being renovated. New leases by Uber (10,000 sq m), Netflix (960 sq m), Trivago (900 sq m) and other companies in Tech, Media and Telecom (TMT) shows the continuing interest of this sector for the Dutch capital. Southeast was the number one occupier destination with 30.7% of all take-up, followed by Teleport/ Sloterdijk (27.0%) and the city centre (13.9%).

The combination of large occupier demand and the transformation of outdated stock pushed supply further down to around 636,000 sq m. The corresponding vacancy now stands at 9.2% for the agglomeration and lowest availability rates can be found in the city centre (3.4%) and the core area of the South Axis (3.3%).

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

GRAPH 8

Amsterdam



Graph source: Savills

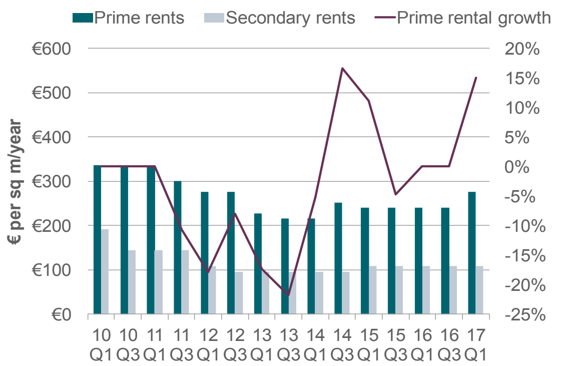
Athens

Demand in the Athens office market mainly derives from the relocation of firms to prime properties, combined with cost rationalisation as rents are at attractive levels. Also, demand is partly driven by the concentration of previously spatially dispersed divisions of firms under the same room again with the aim of cost rationalization. The Athens North is the most important submarket in terms of size and attractiveness and from 2016 onwards we have observed an upward trend. Rents range between €10 per sq m/ month and €14 per sq m/month while recently high-end offices have been leased at approximately €15-16 per sq m/month. Vacancy has decreased and lies between 3-5% for Grade A suites while for Grade B and inferior suites it remains at higher levels (12-14%). The Athens CBD disposes a limited supply of Grade A offices, therefore vacancy has stabilised below 5% while for Grade B and inferior quality suites vacancy remains at a high level (c.20%) due to the age and poor quality of the stock available.

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

GRAPH 9

Athens



Graph source: Savills

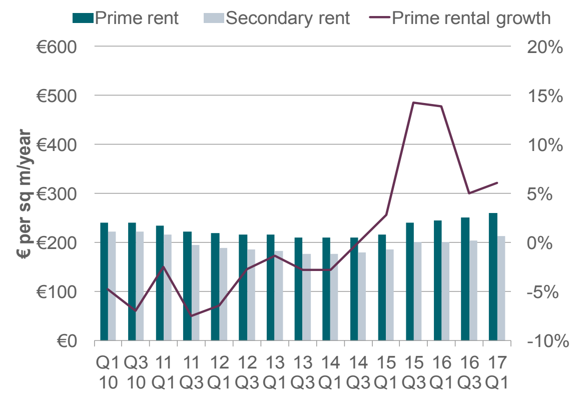
Barcelona

In Q1 2017, the vacancy rate in Barcelona dropped to 9.8%, the lowest level recorded over the last nine years. The scarcity in supply and quality buildings has several consequences. Firstly, promoting pre-lets and turnkey projects. Secondly, 12 buildings are planned to be developed in Barcelona between 2017 and 2018. NBA district concentrates 80% of the new office buildings and it is the preferred district by Tech companies. Take-up in the first three months of the current year reached 76,600 sq m, representing a decrease of 5.2% compared to the first quarter of 2016. This result remains in line with the 4-year quarterly average. However, it must be noted that Q1 2017 is the sixth consecutive quarter in which over 100 deals have closed. The achievable prime rent stands now at €261 per sq m/year while the average rent currently stands at €152 per sq m/year, which reflects an increase of 5.05% in comparison to the same period in 2016. Looking forwards, Savills expects achievable rents to increase by 3.2% by the end of 2017, while take-up is estimated to exceed the figures of 2016 that reached 300,000 sq m.

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

GRAPH 10

Barcelona



Graph source: Savills

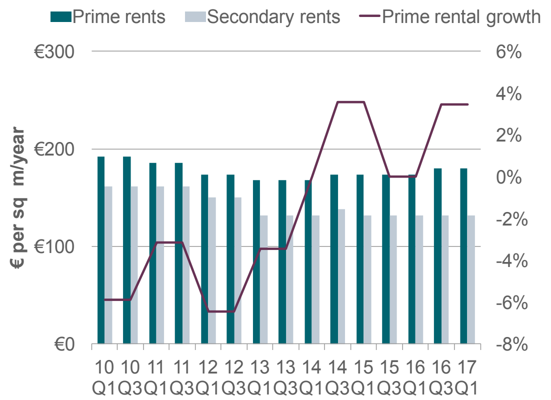
Belgrade

In Q1 2017, the total office stock reached level of 809,200 sq m of GLA. Around 70% of total stock was Class A stock and remaining 30% was Class B stock. The vacancy rate reached the lowest level since 2009 and it dropped from 10% to 8.5%, while Class A premises located in New Belgrade CBD area have less than 2% vacancy rate. Prime yields for modern office space range between 9%-9.5%. In comparison to the previous period, the prime CBD and non-CBD rents remained constant with no changes for Class A and B office buildings, ranging from €14–€16 per sq m/month for Class A premises, while asking rents for Class B also remained stable ranging from €8–€14 per sq m/month. Regarding the office stock in the Belgrade downtown, due to construction density and limited land availability, Belgrade's city centre has seen very few office market developments in recent years. Several refurbishments of existing buildings have increased the availability of modern office space. The city centre comprises less than 200,000 sq m of office space stock. As a consequence, New Belgrade still presents a major development hub for new offices.

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

GRAPH 11

Belgrade



Graph source: Coreside

Berlin

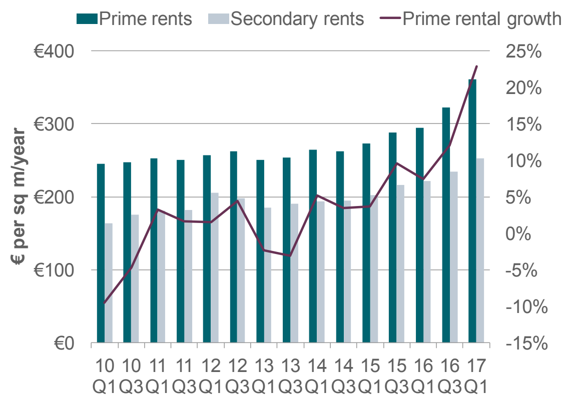
Despite rising demand, the take-up of 185,200 sq m in Berlin's office market represented a decrease of 35% compared with the corresponding period last year. However, this was also the strongest quarter in terms of take-up on record. To satisfy current demand would require annual completion volumes of 300,000 to 350,000 sq m and such figures were last achieved at the start of the 1990s. The current pipeline indicates completion volumes of 212,600 sq m in 2017 and 267,500 sq m in 2018. Only 50,000 sq m of the planned completion volume remains available.

It is already apparent that vacancies will fall further and rental growth will continue. The prime rent has now reached €28.80 per sq m/month and is expected to reach the €30 mark during the course of the year. The average rent increased by 1.9% compared with the previous quarter to €16.30 per sq m/month and by 7.9% compared with the corresponding period last year. The vacancy rate fell by 20 basis points compared with the previous quarter to 2.5% and, owing to the continued high demand, will approach the 2% mark during the course of the year. In view of the sustained interest, we expect take-up this year to reach 850,000 sq m.

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

GRAPH 12

Berlin



Graph source: Savills

Brussels

The Brussels take-up stood at around 70,000 sq m, taking into account only pre-lets and extensions. This is in line with the 5 year average of 72,000 sq m. Taking into account also renewals and transactions for own occupation, total take-up stood at around 125,000 sq m. The most notable transaction was the pre-letting of 22,000 sq m by Beobank in the north district in Befimmo's Quattuor project. Take up in the Louise district as well as in the decentralised district was very week (decrease of respectively 21% and 35% yoy).

Prime rents in Brussels can be found at the Schuman Roundabout and the Square de Meeus in the European district standing at €285 per sq m per year, and will remain stable the coming months. The average rent stands around €165 per sq m per year. Vacancy in the Leopold district dropped from 10% to below 5% in Q1 2017. In the next coming months, it is expected to increase slightly as several speculative developments are being developed (Treesquare, Belliard 65, Montoyer 25, Guimard 9 and The One). The vacancy of the whole Brussels market stands at around 9.2%. Vacancy in the periphery remains high at 21%.

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

GRAPH 13

Brussels

Graph source: Savills

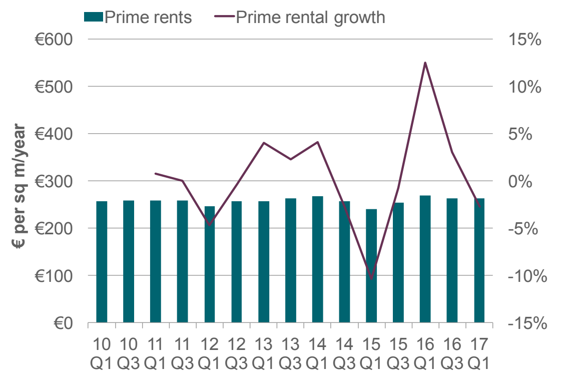
Cologne

The limited availability in Cologne city centre was a decisive factor in the decline in take-up in the first quarter of 2017. Take-up of office space totalled 52,000 sq m, representing a decrease of 14.4% compared with the corresponding quarter last year. The City submarket accounted for around a third of take-up in the first three months of the year, which is approximately in line with average figures from recent years. Consequently, the scarce supply is creating a strong position for landlords, who are able to offer fewer incentives and select the best tenant from a number of prospective occupiers. Meanwhile, companies seeking suitable office space must allow significantly longer lead times and potentially consider dividing themselves across several locations. On the one hand, we are seeing a trend towards longer lease terms, in some cases 10 or 15 years, since office occupiers are anxious to secure suitable space for as long as possible. On the other hand, there is a noticeable focus on new development projects. The pipeline for potential projects is above average, with 111,000 sq m planned for 2017.

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

GRAPH 14

Cologne



Graph source: Savills

Copenhagen

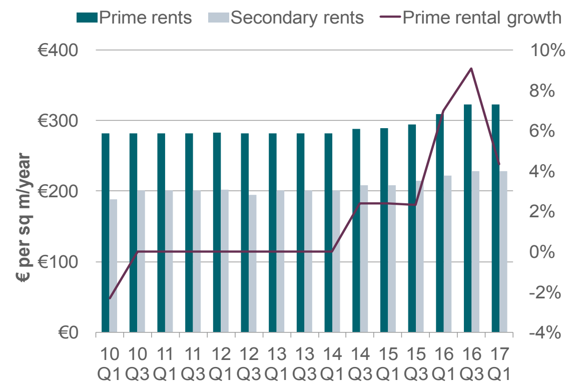
Office take-up in Copenhagen city was high throughout 2016, and prospects are that take-up levels will continue to be high through 2017. The increase in take-up is motivated by companies expanding thanks to decreasing unemployment in the capital area. Unemployment is expected to decrease further in 2017. Also, it should be noted that conversion of older and outdated offices to residential or hotel use continuously contribute to reduce office vacancy in Copenhagen city. Consequently, we expect a further reduction of office vacancy where we witnessed a decline of approximately one percentage point in 2016.

In central Copenhagen, rental activity is mainly driven by smaller companies that seek office leases of approximately 500 sq m. These facilities are usually located in older city properties where the gross rent level typically is in the range 1,500-2,000 DKK (€202-€269) per sq m/year. Larger leases are usually found in newer properties and located in the harbour areas and Ørestad, where the gross rent levels usually are higher in the level 2,000-2,500 DKK (€269-€336) per sq m/year. Rental demand for larger leases is also increasing.

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

GRAPH 15

Copenhagen



Graph source: Nybolig Erhverv

Dublin

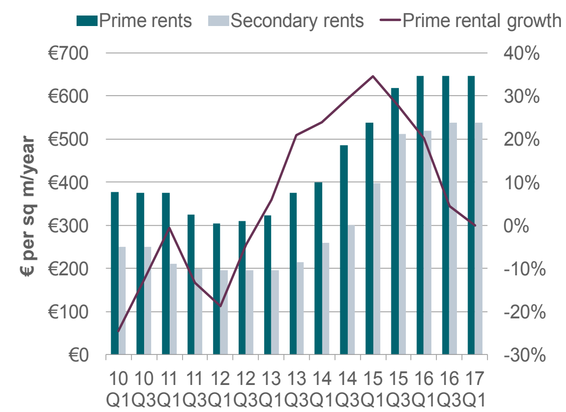
Strong growth in office based employment is continuing to generate robust demand for business space in Dublin. Almost 60% of the net new jobs created in the capital in the last year are in office dominated sectors with Finance, Insurance and Real Estate (FIRE), Professional Services and Information and Communications Technology (ICT) now accounting for one quarter of all employment. Gross take-up of 49,315 sq m was recorded in the first three months of 2017. Although this is 22% down on the Q4 2016 total, it is 9% up on last year's Q1 figure and 26% up on the Q1 average over the last eight years.

The overall vacancy rate edged up from 9% in Q4 2016 to 9.4% in Q1 2017 - the first quarterly rise since Q3 2014. However, with demand remaining solid this increase derives entirely from expansion in the total stock; Net development activity outstripped net absorption to leave an additional 19,303 sq m of overhanging space. Nonetheless net absorption should exceed net completions over the remainder of the year causing the falling trend in vacancy rates to reassert itself. Headline rents have remained static in the 12 months to Q1. However this conceals some hardening of net effective rents as tenant incentives have tightened.

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

GRAPH 16

Dublin



Graph source: Savills

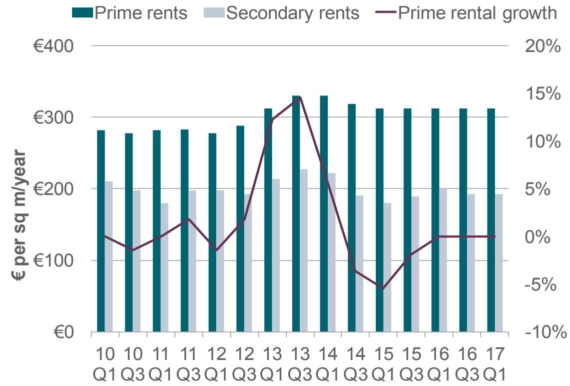
Dusseldorf

With take-up of 107,800 sq m in the first quarter of 2017, Düsseldorf's lettings market registered growth of 16% compared with the corresponding quarter last year. The financial sector dominated the office lettings market in the first quarter of the year, accounting for approximately 40% of take-up. In contrast with other cities in Germany, the high demand in Düsseldorf is complemented by a relatively large pipeline of development sites across the city. These development projects are now waiting to be taken up by appropriate tenants. Furthermore, there is also a series of refurbishments in progress, which will satisfy more short-term demand. It seems highly probable that vacancies will fall further over the course of the year. Approximately 158,000 sq m of office space will be completed in Düsseldorf in 2018, of which more than 136,000 sq m, or more than 85%, is already pre-let. For 2019, we expect a completion volume of approximately 195,000 sq m. More than one fifth of this is already pre-let. The prime rent remained stable compared with both the previous quarter and the corresponding quarter last year at €26 per sq/month. The average rent currently stands at €14.90 per sq m/month.

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

GRAPH 17

Dusseldorf



Graph source: Savills

Frankfurt

At 121,600 sq m, take-up in the Frankfurt office market in the first quarter was above the five-year average and 5.5% higher than in the first quarter of 2016. This was also achieved without a single deal above 10,000 sq m, whereas four deals were completed in this size category last year. Nevertheless, the first three months may represent a prelude to an overall above-average year in 2017.
In addition to Brexit-related demand from major investment banks, there is further demand in the form of major requirements from companies already based in Frankfurt, particularly banks and law firms. A further and increasingly significant factor driving demand is leasing activity from new players such as fintechs and co-working providers. Despite the high vacancy rate for the Frankfurt market as a whole, however, availability of modern/high-quality space in good locations is becoming significantly scarcer. The vacancy rate fell by 170 basis points compared with the first quarter of 2016 to 8.5%. The prime rent rose to €39 per sq m/month and the average rent increased by 5% to €18.70 per sq m/month. We expect take-up for 2017 to reach at least 500,000 sq m.

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

GRAPH 18

Frankfurt

Graph source: Savills

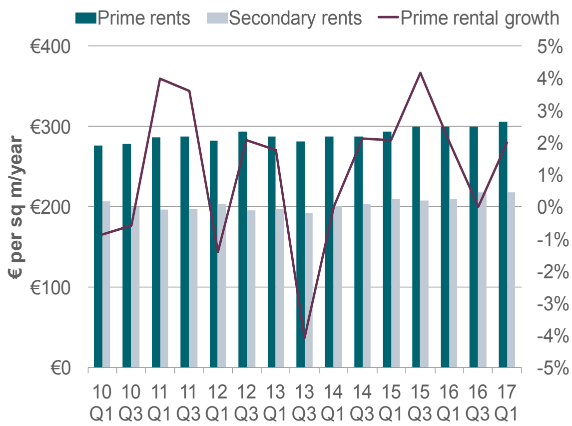
Hamburg

The office market set the trend for 2017 in the first quarter with take-up of more than 152,000 sq m, reflecting an increase of almost 41% compared with the first quarter of 2016. Following the financial crisis, many companies postponed major decisions on whether to expand their office space or to relocate in order to step back and assess the durability of the recovery. They exhausted internal resources and leased space in neighbouring areas. Now, they have faith in the economy and decision-makers are often seeking high-quality offices and locations that project the right image in order to satisfy the aspirations of their personnel.
This demand is not being satisfied by new-build projects. The 145,000 sq m that will come to the market in 2017 is largely reserved and the projected completion volumes for 2018 and 2019 stand at just 80,000 sq m per year. At the same time, the vacancy rate fell to 5.1% and will break below the 5% mark during the course of the year. The consequence of greater requirements, increased construction costs, the preference for central locations and the increasing supply shortage, particularly in the City and City South submarkets, is higher rents.

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

GRAPH 19

Hamburg



Graph source: Savills

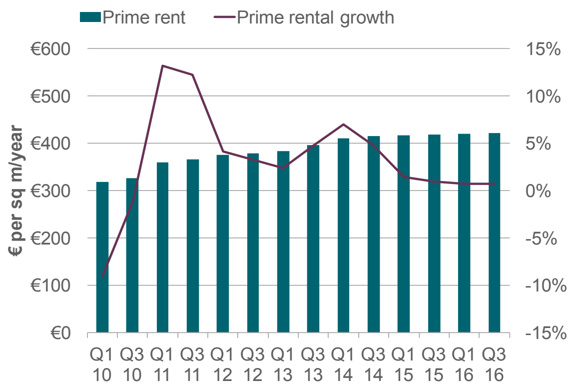
Helsinki

Demand for office space is gradually recovering. Annual net take-up turned positive in 2016 after being negative for many years. Demand has remained solid and smaller office spaces are much sought after. Despite the increase in demand, new office construction, move to more efficient premises and new ways of working will increase the vacancy rate, especially in the older office stock. Oversupply polarizes the market and creates downward pressure for rents of less attractive premises in secondary locations. Vacant space has increased and will increase along with strong new construction. There are some 200,000 sq m of new office space or redevelopment projects under construction in the metropolitan area. Plenty of conversions are in the pipeline but the option to convert outdated spaces into another use is limited and processes take long time. The dominance of Helsinki CBD is pronounced with strongest performance and outlook for rental growth more positive than any other submarket. Upper quartile of CBD new leases increased up to an all-time peak. Well located prime premises with flexible contracts attract tenants.

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

GRAPH 20

Helsinki



Graph source: Realia

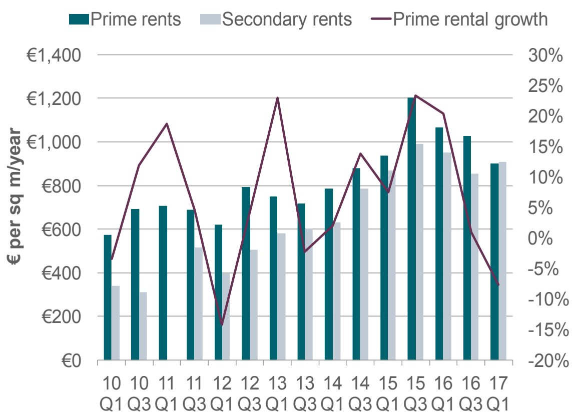
London City

The City of London office market appears to be in good shape with above average take-up, a low vacancy rate and stable rents. Take-up for Q1 reached 1.5m sq ft (139,000sq m), which is 11% down on this point last year, but 18% up on the long-term average for the first quarter. Professional services have accounted for the greatest proportion of rents at 24%, followed by the Retail & Leisure sector at 17% and the Tech & Media sector at 16%. Total City supply stood at 6.9m sq ft at the end of March, equating to a vacancy rate of 5.5%, up on this point last year by 110bps, however still down on the 10-year average by 110bps. At the end of Q1, the average prime rent in the City is £72.08 per sq ft (€915 per sq m), which is down on 2017 by 7%, but 18% up on the 10-year average. The average grade A rent is currently £60.59/sq ft (€770 per sq m), which has fallen by 1% on 2016 but up on the 10-year average by 23%. The average months rent free on a 10-year lease has risen from 20 in Q4 2016 to 22 for Q1 2017, which is the highest it has been since Q3 2013 and we anticipate this trend to continue over the next 12 months.

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

GRAPH 21

London City



Graph source: Savills

London West End

A positive first quarter of 2017 saw above average take-up, strong headline rents and the vacancy rate remain low. Take-up in Q1 reached 1.05m sq ft (97,000 sq m), 1% above Q1 2016 and 10% above the 10 year average. The Tech & Media sector continues to drive take-up in the West End accounting for 22% of Q1's take-up, followed by the Professional Services sector (19%) and the Insurance & Financial Services sector (16%). Supply has remained fairly stable in the West End so far in 2017, standing at 4.63m sq ft (430,000 sq m) at the end of Q1. This equates to a vacancy rate of 3.8%, its third month at this level and 50bps below the 10 year average.

While headline rents have held strong in the West End, upward pressure continues to be placed on the level of incentives being offered to tenants. The average months rent free on a 10 year lease moved out to 18 in Q1 2017 compared to the average of 13 in Q1 2016.

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

GRAPH 22

London West End

Graph source: Savills

Madrid

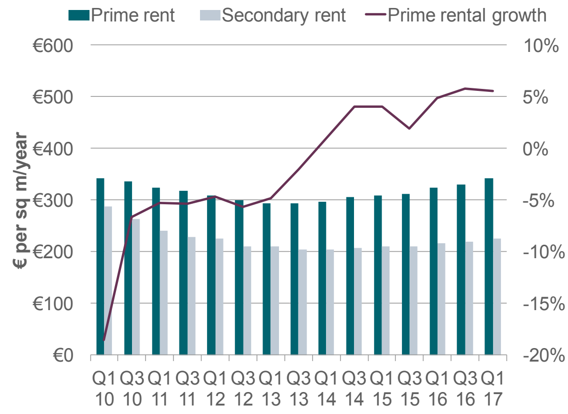
No megadeals were signed in the first quarter of 2017 resulting in a modest take-up volume. The 116,000 sq m signed in Q1 17 represent a yoy 10% decrease. The lettings side appears stable although the constant increase seen since the end of 2013 has stopped, standing at 3% below Q1 16 levels. Regarding the average deal size, we have seen a slight increase of 1% with regards to the average 2016 surface size.

The vacancy rate has remained stable despite the weakening of the occupier indicators activity. This is due to the change of use of some assets as well refurbishment works forecasted in the short term.

Nevertheless, the weighted average closing market rent has reached €192 per sq m/year for the first time since 2011, showing a 13% yoy growth. Rental increase excludes only a few areas in the periphery. Growth signs in the closing values have supported an increase in all the theoretical values. The prime CBD stands in Q1 17 at €342 per sq m/year, only 32% below the latest peak.

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

GRAPH 23
Madrid



Graph source: Savills

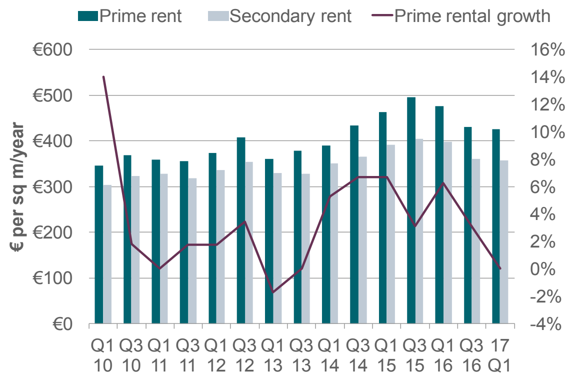
Manchester

Take-up reached 202,289 sq ft (18,793 sq m) during the first quarter with around two thirds of this space being below the 5,000 sq ft size band. Demand for smaller units remains strong and stable.
Manchester currently has 504,000 sq ft (46,823 sq m)of available Grade A office space, 9% below the level at the end of 2016.
The economy of Manchester is estimated to have grown by 2.9% during 2016, an impressive performance given the result of the EU referendum, and well above the UK average of 1.8%.
Manchester is expected to see faster office based employment growth over the next five years than Greater London and all of the key UK regional cities.

Grade A rents have remained steady over the last 12 months at circa £34 per sq ft (€420 per sq m). Rental pressure continues to develop on good quality refurbished space across the city.
The refurbishment market has made up 62% of the total take-up in Manchester over the last 10 years, making it a significant sector in the Manchester property market.

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

GRAPH 24
Manchester



Graph source: Savills

Milan

The Milan office sector has been characterised by several large leasing transactions including the recent lease by Versace Group from Generali of circa 8,000 sq m. The company relocated from Via Montenapoleone to a building in Porta Nuova district. In addition, Microsoft relocated from the periphery of Milan to a new building of circa 9,000 sq m owned by Coima SGR and located in the proximity of Porta Nuova.

Occupiers are consolidating their positions in modern buildings, especially in the CBD and peripheral areas, in good environmental contexts and Grade A quality spaces.
Prime rent in the Milan CBD are at €500 per sq m/year with some additional space for growth at the end of Q2 2017 as we are expecting to reach €520 per sq m /year, whilst Grade B spaces in Milan's periphery are in the region of €220 per sq m/year.

A further point to note is that the scarce availability of Grade A spaces have facilitated the increase of pre-let transactions: one example is Amazon, moving from Stazione Centrale area to a 17,500 sq m building, currently under major refurbishment, on the edge of

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

GRAPH 25
Milan

Graph source: Savills

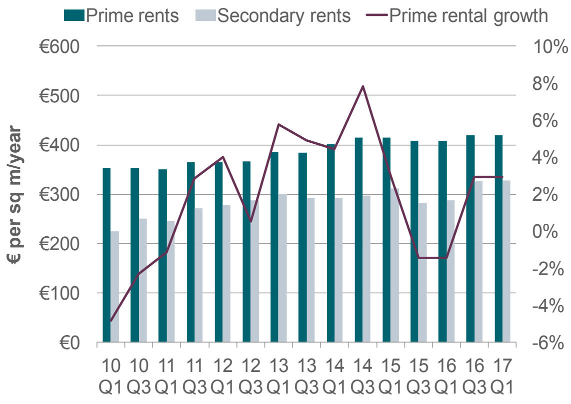
Munich

Despite the supply shortage, the Munich office market enjoyed a very strong first quarter of 2017. The take-up of 238,500 sq m was almost 35% higher than in the first three months of last year. The significantly above-average start to the year is partly attributable to five deals above 10,000 sq m. The vacancy rate fell by 0.9 percentage points year on year to 3.8% and is significantly lower again within the city boundaries. The completion volume of 175,000 sq m for this year is moderately below the five-year average (185,000 sq m) and will do little to relieve the strain in the market with more than three quarters of the new-build space already pre-let. The outlook is somewhat better for 2018 and 2019 with significantly more than 200,000 sq m of new space due to come to the market in each year. Parts of eastern Munich, such as Haidhausen and Bogenhausen, currently offer development potential. In Bogenhausen, the Bavaria Towers are approaching completion and will provide 60,000 sq m. Additional developments are in progress on the Temmler site, in the Werksviertel district near the Ostbahnhof railway station and on St. Martins-Straße.

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

GRAPH 26

Munich



Graph source: Savills

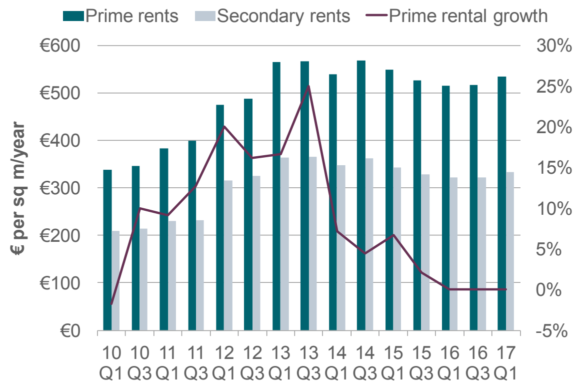
Oslo

Office market rents increased slightly in central Oslo during 2016, and the increase carried into Q1 2017 with low construction activity the likely reason for this. The vacancy in central Oslo is low and stable, and low construction volume is expected to keep vacancy low during the rest of 2017. Net supply of office space will be slightly negative in 2017 due to relative low building activity and high conversion to other use (mainly residential). The construction activity is expected to increase in the next few years. Office market demand has picked up as several large tenants are looking for new premises. The increase in demand is primarily in the forward market with tenants aiming at a relocation in the period 2017-2020. This causes significant competition between developers with new projects. In the coming year, we may see a further reduction in vacancy rate, however, as large tenants tend to initiate new construction, the supply is will likely in 2018/2019. This will stabilise rents and vacancy in the longer term. The downside risks are reduced growth in employment and more focus on space reduction and surplus net space.

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

GRAPH 27

Oslo



Graph source: Malling

Paris CBD

Paris continues to be the prime target of tenants, with a total take-up of 333,900 sq m in Q1 2017, showing an annual increase of 41%.

The market is characterised by a decline in the segment of transactions under 1,000 sq m (-7%), but is nevertheless consolidated by mid-size areas (+ 25%) and above all by transactions exceeding 5,000 sq m.

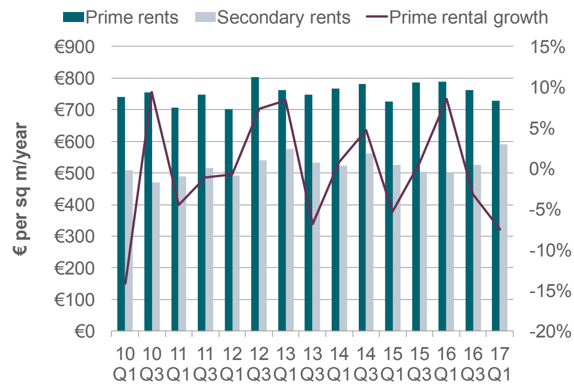
The CBD continues to perform well with a transacted volume of 91,200 sq m. This is a respectable result given the scarcity of available supply in these central districts which are in high demand. The surprise came from the Paris 12-13 sector with a take-up equal to 103,900 sq m. Of note is the XXL signing of the 90,000 sq m Natixis bank on the Tours Duo in the 13th district with delivery scheduled for 2020.

The market remains under pressure with a vacant volume of 572,000 sq m. The CBD concentrates 40% of available stock and has a vacancy rate among the lowest in Paris (3.4%). The scarcity of supply, particularly of new stock, is weighing heavily on the Parisian market. In Q1 2017, the average new rent increased, especially in the central sectors.

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

GRAPH 28

Paris CBD



Graph source: Savills

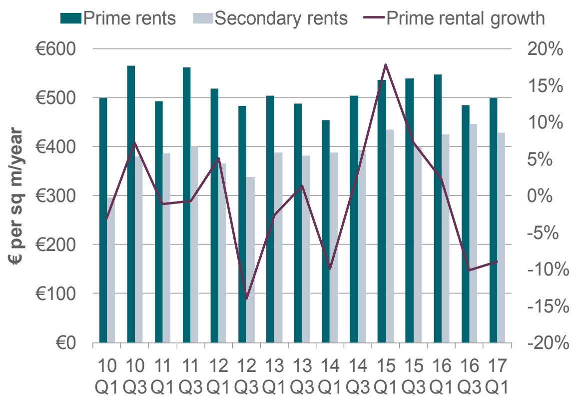
Paris La Defense

In Q1 2017 only 31,700 sq m of take-up was recorded in La Defense, a figure just under the five-year average of 32,160 sq m. Not enough to boost the market, the only signing of >5,000 sq m - the leasing of Orange Business Service of 17,600 sq m in the Cœur Defense building – balances the figures for this sector. Nevertheless, this result must be put into perspective, as the first quarter of 2017 was poor in comparison to its record in 2016, in which four signed leases of more than 5,000 sq m were recorded. With regards to immediate supply, the downward trend begun in 2016 has intensified further in 2017, with 294,000 sq m available. The vacancy rate is at 8.2% compared to the rate of 9% in the preceding quarter. In the course of the year, the share of new supply has halved. Only 41,000 sq m is new and/or restructured property, accounting for 14% of the immediate supply. Growth in rental values remained stable in Q1 2017. The average second-hand rent remains stable at €428 per sq m/year, whilst the average rent for new properties is estimated at €455 sq m/year. Growth in new average rent should however be treated with caution in light of low availability.

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

GRAPH 29

Paris La Defense



Graph source: Savills

Stockholm

The corporate sector in Stockholm is strong and labour shortage is critical in many sectors, with the shortage figures being the highest for the last eight years. The strong growth has led to a strong demand for office space. The vacancy rate in Stockholm CBD reached an all-time low in Q4 2016 at 2.5% and in Q1 vacancy rates increased marginally by 25bps to 2.75%. The scarcity of office space in combination with a high demand has led to rapidly increasing market rents. Prime rents in Stockholm CBD are currently stand at SEK 6,200 (€644) per sq m/year; a growth of 20% in the last twelve months. Market rents have not only increased in the CBD area, but in most of the office sub-markets in central parts of the city as well. Forecast for the remainder of 2017 and 2018 is positive, with an upward pressure on market rents and vacancy rates remaining low.
The development pipeline in the inner city is fairly limited and consists mainly of redevelopments. The office stock in the inner city will decrease in 2017 due to large conversions of office space to hotel premises. New construction is mainly focused in the northern suburbs of Stockholm and a large amount of office space will be added to the market in the coming two years.

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

GRAPH 30

Stockholm

Graph source: Savills

Vienna

The rising share of deals in high-quality new construction projects has led to an increase in average rents from €13.75 per sq m/month to €14.30 per sq m/month. Further increase of the average rents is expected until end of 2018, as the market supply is increasing significantly. Prime rents remain stable below €26 per sq m/month.

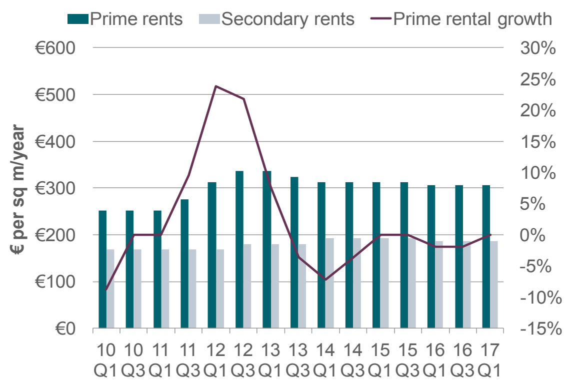
Take-up remains stable, even if the letting performance in Q1 2017 levels are only at 36,000 sq m, compared to 50,000 sq m in Q1 2016. Forecasts for 2017 still point to a letting volume close to the record high of 2016 in Vienna due to the continued strong demand.

The market supply will increase significantly after H1 2017. Deliveries amounted to 160,000 sq m in 2017 and will reach 330,000 sq m in 2018. The attractive newly developed office properties include Denk Drei, ORBI Tower, QBC building parts 3+4, Austria Campus and the Icon Vienna.
The vacancy rate is projected to drop to 5.4% by mid-2017, but will then rise again due to new deliveries.

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

GRAPH 31

Vienna



Graph source: EHL

Warsaw

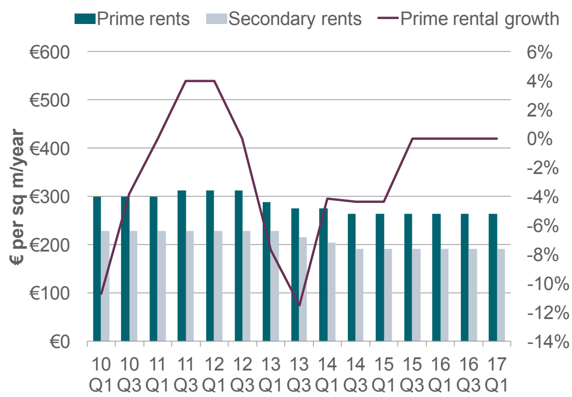
The office occupier market was strong with almost 194,000 sq m of gross take-up registered during the first three months of 2017; 37% higher when compared to the same period last year and over a quarter of the total volume year-on-year.

Over 84,200 sq m of office space across 10 buildings was delivered to the market in Q1 leaving another 236,000 sq m to be delivered throughout 2017. The total volume of new supply in 2017 is expected to be ca. 20% lower than in 2016, however development activity across Warsaw remains high at almost 757,000 sq m. Over 60% of development activity takes place in the city centre.
The vacancy rate across the city decreased by 0.2 pp to 14% quarter-on-quarter. A vacancy of 13.1% was recorded in central locations, whereas in non-central the rate was higher at 14.7%. The vacancy rate is expect to decrease slightly by year end as vacant space is being absorbed by office tenants.

Rents in Warsaw are stable at ca. €22-€23 per sq m per month in the best buildings in the CBD and up to €15 per sq m per month in outside of the city centre.

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

GRAPH 32
Warsaw



Graph source: Savills

Zurich

For the fourth consecutive quarter the vacancy rate has continued its downward trend in Q1 2017. It now stands at 4.4 % and while there is no shortage of smaller office of up to 500 sq m larger spaces become rare. However, some submarkets especially in the Zurich North area towards the airport still suffer from oversupply of office space due to high levels of new construction in this area.

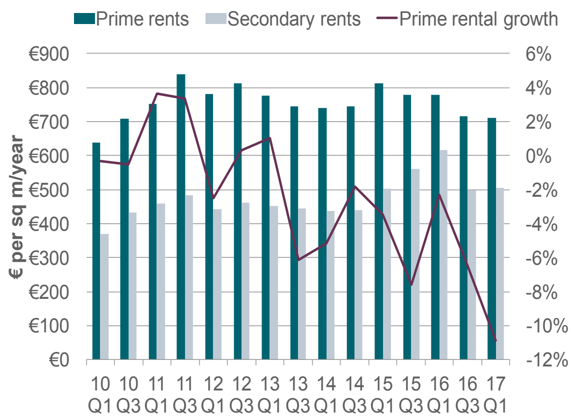
While traditionally demand for office space in Zurich is driven by the financial sector we see a broadening of the demand side. Especially the technology sector is developing well.

The highlight is the opening of the largest research centre outside of the US by Google in Zurich. We also see an influx of international hotel operators seeking locations in Zurich, however, they find it difficult to identify suitable properties.

Despite the low vacancy rate occupiers remain price sensitive. Prime rents have fallen in recent quarters but stabilised in Q1 2017. Overall the Zurich office market remains remarkably stable.

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

GRAPH 33
Zurich



Graph source: FPRE/H&B Real Estate

Key office indicators

Prime[1] CBD rents[2], letting data in Q1 17

City	National GDP growth 17*	National employment growth 17*	City GDP growth 17*	Prime rent	Prime rental growth[3] Q1 16-17	Take-up growth[4] Q1 16-17	Vacancy rate Q1 17
Amsterdam	1.7%	1.6%	1.8%	385	5.5%	90.1%	9.20%
Athens	-0.5%	1.4%	0.4%	276	15%	n/a	n/a
Barcelona	2.8%	2.0%	2.0%	261	6.1%	-5.2%	10.0%
Belgrade	2.4%	n/a	n/a	180	3.4%	n/a	10.0%
Berlin	1.8%	0.4%	1.7%	361	22.9%	-35.1%	2.5%
Brussels	1.4%	0.9%	1.8%	285	0.0%	-44.3%	9.3%
Cologne	1.8%	0.4%	1.2%	263	-2.7%	-30.9%	5.5%
Copenhagen	1.6%	1.0%	2.4%	323	4.3%	n/a	7.2%
Dublin	3.9%	1.4%	2.7%	646	0.0%	9.7%	9.4%
Dusseldorf	1.8%	0.4%	-1.4%	312	0.0%	15.9%	8.4%
Frankfurt	1.8%	0.4%	1.6%	468	2.6%	5.0%	8.5%
Hamburg	1.8%	0.4%	1.7%	306	2.0%	34.5%	5.1%
Helsinki	2.8%	-0.1%	1.3%	426	1.4%	n/a	13.7%
London WE	1.8%	0.2%	2.4%	1530	10.9%	1.0%	3.8%
London City	1.8%	0.2%	2.4%	902	-7.7%	-10.7%	5.6%
Madrid	2.8%	2.0%	3.1%	342	5.6%	-14.1%	10.35%
Manchester	1.8%	0.2%	2.0%	425	0.0%	3.0%	9.0%
Milan	0.8%	0.8%	1.5%	500	2.0%	n/a	12.0%
Munich	1.8%	0.4%	1.5%	420	2.9%	27.5%	3.8%
Oslo	1.0%	0.4%	2.2%	534	0.0%	13.6%	7.1%
Paris CBD	1.3%	0.8%	1.6%	729	-7.5%	-10.7%	3.4%
Paris La Defense	1.3%	0.8%	1.6%	498	-9%	-57.8%	8.2%
Stockholm	3.5%	0.5%	3.3%	652	19.2%	n/a	2.75%
Vienna	1.4%	1.1%	1.1%	306	0.0%	-40.0%	5.6%
Warsaw	2.9%	0.7%	4.0%	264	0.0%	36.4%	14.0%

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

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

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