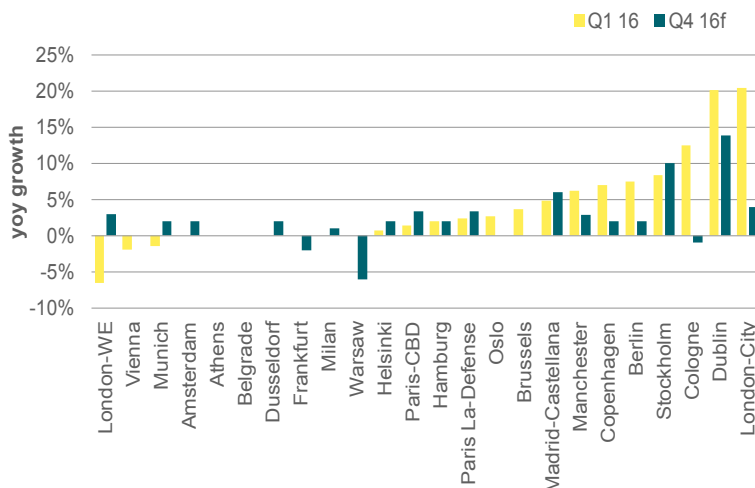


# Market report European Offices

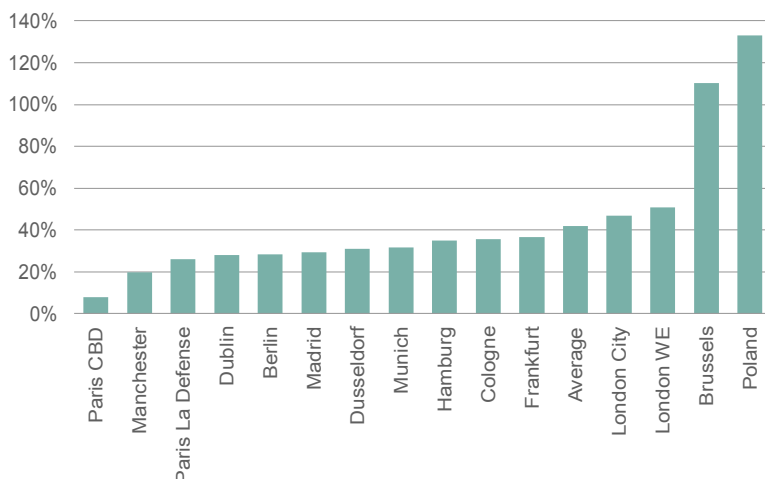
June 2016

GRAPH 1  
**Prime CBD rents** Strong bias of demand in the prime segment puts upward pressure on rents



Graph source: Savills

GRAPH 2  
**Completion vs take-up\*** Supply will remain tight in spite of development rebound



Graph source: Savills / \* 2016 pipeline as % of 5-year average take-up

## SUMMARY

### Relative homogeneity in all markets

Overall office demand remained strong in Q1 16 but eventually take-up was restrained by the lack of good quality supply, especially in CBD locations. Suburban areas have benefited from this tight supply market situation. Tenants sometimes have no other choice other than to extend their existing leases.

Office take-up is increasingly driven by business expansion which explains the growing demand for small and medium sized office floor space in various cities.

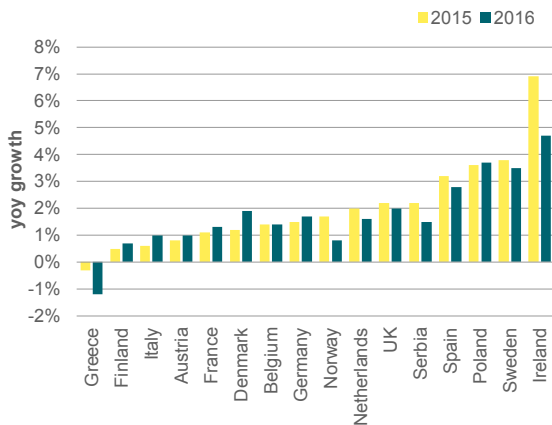
Limited office development combined with strong levels of take-up dried up supply across Europe. Although the office pipeline suggests a rebound in development activity (22%) this year, it will not be sufficient to meet the demand in most European cities.

Strong bias of demand in the prime segment is still putting upward pressure on prime rents. Prime CBD rents grew an average of 4.9% yoy, up from the 3.4% growth recorded in Q1 2015. In non-CBD locations prime rents also increased by 2.9% yoy on average.



“Strong rebound in development activity expected this year will not be sufficient to meet the demand in most markets.” Lydia Brissy, Savills European Research

**GRAPH 3**  
**GDP growth** Expected to reach 1.8% at year-end despite headwinds



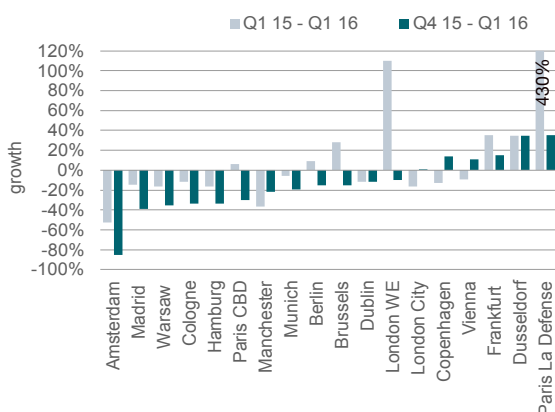
Graph source: Oxford Economics

→ **Q1 16 started on a strong note**

The European economy is now entering its fourth year of recovery and the Eurozone economy began the year on a high note. According to preliminary estimate from the European Commission GDP grew by 0.6% in Q1 qoq from 0.3% the previous quarter, the third best quarterly outturn since 2010. For the whole year Oxford Economics expect the European economy to grow by 1.8% and by 2% in 2017.

Private consumption seems to have been the main driver of growth this quarter again still fuelled by low energy prices, easy monetary policy and improving labour market. In march, the average unemployment rate across the European Union dropped to a seven-year low of 8.8% from 8.9%

**GRAPH 4**  
**Take-up** Markets are constrained by very scarce level of good quality supply



Graph source: Savills

“Strong bias of demand in the prime segment in which supply has dried up, will continue to put upward pressure on prime rents until this end of the year.” Lydia Brissy, Savills European Research

the previous month and 9.7% last year. The labor market will continue to improve; Oxford Economics anticipate the unemployment rate to reach 8.6% next year.

In line with the improved economic outlook, in April the Economic Sentiment Indicator (ESI) improved in both the euro area (by 0.9 points) to 103.9 and the EU (by 0.5 points) to 105.1 after three consecutive months of decline. This is mainly thanks to services, consumers and construction where confidence improved markedly. The EU industry confidence remained broadly stable while in the retail trade and financial services sectors it fell.

In March the European Central Bank delivered a bigger than expected package of measures to stimulate the Eurozone economy, cutting its main refinancing by 5 basis points to -0% and expanding its massive bond-buying program subsequently been revised downwards. Following a year of zero inflation, consumer prices are expected to rise in 2016 by just 0.1% and by whereas in December they were 1.3% in 2017.

On a less positive note, geopolitical tensions may still hinder economic recovery. Spain remains in a political stalemate after months of failed attempts to form a coalition government and the refugee crisis has increased tensions between European nations. The recent agreement with Turkey is not guaranteed to stem the flow of refugees and some European nations are uneasy about extending the Schengen visa free movement to Turkey. The United Kingdom’s EU referendum will be held on June 23rd and although the “IN” campaign is currently leading the polls, the outcome is still uncertain. A vote to leave the EU will have a significant impact on the economies of the UK and Europe.

**Demand restrained by the lack of supply**

In spite of an overall positive economic climate, the letting activity during the first quarter of the year did not expand as expected. The total take-up in our survey area reached 1.75m sq m which is 1% lower than the figure registered in Q1 2015. Locations that recorded the strongest take-up growth include Paris la Defense (430%), Frankfurt (35%), Dusseldorf (35%), Brussels (28%) and London WE (10%) while at the other end of the spectrum Amsterdam, Manchester, Hamburg, Warsaw and London City recorded respectively -53%, -37%, -17% and -17%.

In most CBD areas covered in the report, office demand is restrained by the quantity and the quality of the supply. Where the supply is really too limited with a vacancy rate below the 5% threshold including London WE (3%), Berlin (3.5%), Stockholm (3.5%), Paris CBD (4.3%), Munich (4.5%) and London City (4.7%), tenants sometimes have had no other choice than extending their existing leases. The alternative is to move outside the city centre. This explains the upswing of letting activity in some surrounding areas. The shortage of demand also the growing number of pre lettings.

Office demand is increasingly driven by business expansion which explains the growing demand for small and medium sized office floor space in various cities. The TMT remains a key sector for office demand both in terms of letting volume and in terms of the quality of space needed. Although it remains relatively limited another trend worth mentioning is the growing demand for co-working/flexible/sharing offices as witnessed by the growing number of companies specialised in this type of office space. WeWork for example, has already opened 11 locations in London, two in Amsterdam, one in Berlin early this

year and they plan to open another site in Paris before the end of the year.

### Development rebound expected in 2016

Since development completions dropped by 16% in 2015 and letting activity over the past 12 months has remained dynamic, the level of supply continued to decrease rapidly in Europe. The average vacancy rate across our survey area stands at 8.1% (from 8.4% in Q4 2015) which is the lowest rate since the final quarter of 2008. There is still some discrepancy between vacancy rates across European cities yet office supply is drying up in nearly all cities with only three exceptions, Warsaw (180bps qoq), Copenhagen (20bps) and London WE (10bps). Whereas in Paris la Defense, Frankfurt and Milan the vacancy rate lost 139bps, 110bps and 100bps respectively over the previous quarter.

Strengthening property fundamentals and improved financing conditions have triggered a growing appetite for speculative schemes amongst developers. Based on the overall office pipeline, we expect to see a rebound of development activity of 22% by the end of the year compared to -16% recorded last year. Some 2.7 sq m of office space are planned for the year which represents about 42% of the average 5-year take-up across Europe. Nevertheless, since many projects are already pre-let, up to 63% in Berlin, we believe this will still remain insufficient to meet the demand in most cities with the exception of Warsaw and Brussels. In Brussels however, some of the old office stock is converted into

alternative types of property.

### Still a landlord-friendly market

Strong polarisation of demand in the prime segment is still putting upward pressure on prime rents in spite of the limited letting activity due to scarce prime space. Prime CBD rents grew an average of 4.9% yoy, up from the 3.4% growth recorded in Q1 2015. The overall rental growth is more evenly spread across European cities. Less double digit growth were recorded than in the previous years in London City (20.4%), Dublin (20.1%) and Cologne (12.7%) and very few cities witnessed negative annual prime rental growth including London WE (-6.5%), Vienna (-1.92%) and Munich (-1.45%).

In non-CBD locations prime rents also increased by 2.9% yoy on average. This is less than in the CBD's and less than last year which is quite surprising considering the growing demand recorded this quarter. The demand for B locations is more a palliative solution rather than a true motivation, for which they are not prepared to pay high rents.

In the past 12 months, the overall amount of incentives granted to tenants reduced quite significantly, now representing 7.7% of the total lease period from 10% last year, but at the same time the average fixed lease length increased from 67.5 months last year to 70.8 in Q1 2015. In view of the supply shortage, some tenants are tending to sign longer leases especially if they can get negotiate a better rent. ■

## OUTLOOK

### Under bright sky with clouds

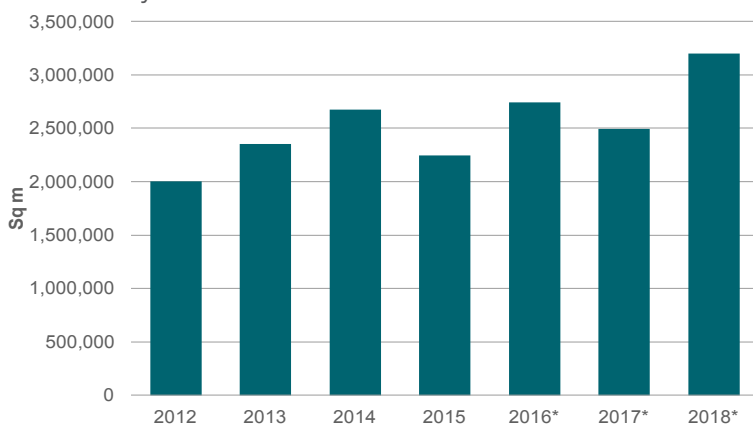
■ In spite of the positive economic results recorded so far this year, concerns over the future pace of recovery persist. First, the positive impact of low energy price and less austere fiscal position is likely to weaken. Second, export growth will most likely remain fragile due to weakness in emerging markets especially if the Euro does not fall further. Third, the risk of debt default of peripheral countries has not yet stemmed. Last but not least, political risks are rising as Euroscepticism and nationalistic political parties are growing.

■ In half of the markets covered, we expect take-up to grow until the end of the year and in very few cities office demand is likely to decline, notably in Warsaw, London City, Manchester and Munich. Office demand will remain fuelled by business expansion. According to Oxford Economics, sectors that will show the strongest employment growth across Europe in 2016 will be Administrative & support activities (2.5%), Professional, scientific & technical activities (2.4%) and Information & communication (2%).

■ In spite of the high level of development completions expected this year, we predict that average vacancy rates will go down or remain stable in 71% of our markets. The new supply will be easily absorbed by the strong demand and it will be extremely short-lived especially since the level of office pipeline planned for 2017 is 9% down on 2016.

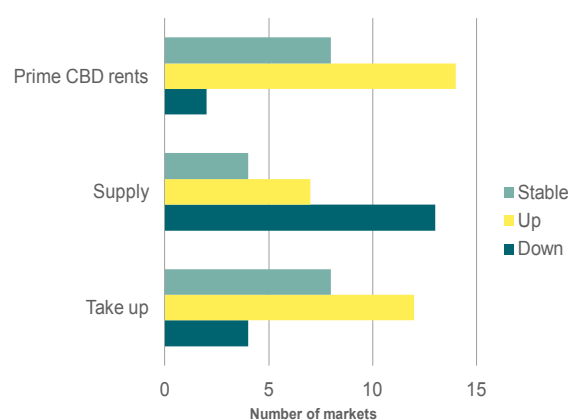
■ In 92% of our markets we expect rental growth. As development completions will increase, upward pressure on prime rents will ease. On average we forecast an average prime CBD rental growth of 2.1% yoy at year-end, down from the strong 4.9% yoy recorded this quarter. Dublin (13.9%) and Stockholm (10%) will top the league followed by Madrid (6%), London City (4.0%) and Paris CBD (3.5%).

GRAPH 6 **Development pipeline** A 22% rebound expected in 2016 will be easily absorbed



Graph source: Savills / \*Pipeline

GRAPH 7 **Outlook\*** Strong demand, tight supply will push the average prime CBD rent up 2.1%



Graph source: Savills/\* 6-months

# European city review

## Amsterdam

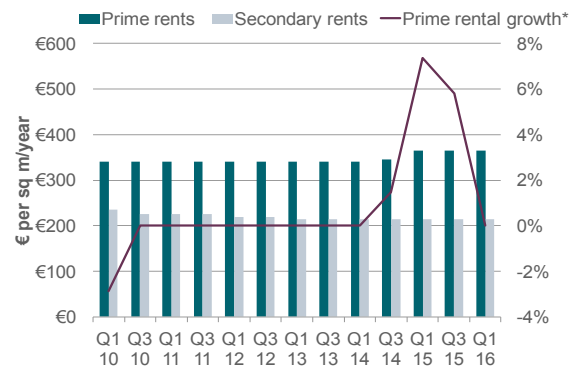
Demand for office space in the Amsterdam agglomeration, including Amstelveen and Diemen, was rising throughout 2015 and reached close to 400,000 sq m. Take-up in Q1 2016 started somewhat slow and totalled 26,400 sq m. The largest transaction concerned The Office Operators (TOO) who let 2,600 sq m in the South Axis. This follows a general trend in the Netherlands and especially in Amsterdam of growing office demand coming from companies offering co-working/flexible/sharing office space.

Furthermore, other companies who have recently moved include Wework (2 offices), HNK (2 offices), and Flexoffiz (3 offices), not to mention Regus (12 offices in Amsterdam, Amstelveen and Diemen). Strong take-up and increasing levels of outdated office stock transformed into other type of properties have dragged down the level of supply to well below 935,000 sq m. The average vacancy rate stands at 13.3%.

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

\*Annual change

GRAPH 8 Amsterdam



Graph source: Savills

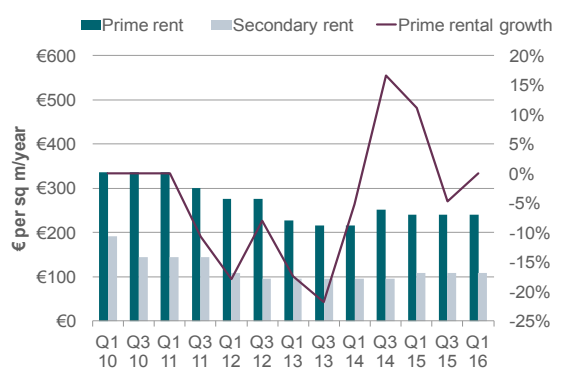
## Athens

The total Grade A and B office stock in Athens is estimated at 2.2-2.4m sq m. The main submarkets are the CBD and its periphery, the Athens North, the Athens South and the Athens West. Demand for offices in Q1 2016 remained at low levels with prospective lessees eyeing on progress made with the bailout program evaluation. Demand was still mostly driven by firms following rationalisation policies. At present, the submarkets which concentrate the interest of prospective lessees for Grade A, B offices are firstly

Athens North and the CBD. The vacancy rate is reducing and is currently estimated at circa 6%-8% for Grade A and 15%-18% for Grade B buildings. Achievable rents have remained stable and are higher for prime properties in the CBD, in the order of €16-€20 per sq m/month in the CBD while in the second most attractive submarket (Athens North) prime properties are leased for €9-€13 per sq m/month, although recent deals in the area were signed at €15 per sq m/month.

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

GRAPH 9 Athens



Graph source: Savills

## Belgrade

New Belgrade is still the most preferable location for doing business, because of its great potential for the development of new projects as well as for the modern office space that is offering. Rents for Grade A office space in prime locations in Q1 remained at the same level, when compared to 2015, ranging between €14-€16.50 per sq m/month. The strongest take-up of office space is expected in H2 2016 when delivery of five modern office buildings is to be completed – second phase of GTC

41 project, fourth phase of Airport city, Sirius office building, Navigator office building and Societe Generale Headquarters. The total office stock is currently at approximately 770,000 sq m and it will increase with more than 60,000 sq m by the end of 2016. Belgrade is still falling behind other CEE and SEE centres with the supply of Grade A office space. This trend where demand is superseding the supply is present for years, and it is a big stimulus for new projects.

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

GRAPH 10 Belgrade



Graph source: Coreside

### Berlin

The Berlin office market is characterised by scarce level of office supply of space with still (extremely) small number of development projects in the pipeline. Consequently, rents are rising once again. The prime rent rose by 7.5% compared with the corresponding quarter last year to €24.50 per sq m/ month, while the average rent gained 8.6% and reached €15.10 per sq m/month. The vacancy rate declined by 10bps compared to 2015 and currently stands at 3.5%. Despite the increasingly scarce supply of office space, take-up rose by 9% compared with the corresponding

quarter last year to 240,900 sq m. However, in view of the supply shortage, it is evident that tenants are tending to prolong existing leases and make more efficient use of existing space. While around 226,000 sq m of new office space will be completed in 2016, 63% of this is already pre-let. The pipeline for the following year comprises around 200,000 sq m of new office space. As a result, rents will continue to rise for the foreseeable future while the vacancy rate is likely to fall below 3%.

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

GRAPH 11

### Berlin



Graph source: Savills

### Brussels

In Q1 2016, take-up totalled 57,098 sq m, 28% more compared to Q1 2015 and 40% under the 5-year annual average of 94,000 sq m. Some large ongoing transactions should be finalised in the coming months. Office demand has been predominantly driven by corporate sector (91%) and focused on small size segment. The number of conversions of office buildings into alternative type of properties is growing. Over the last 5 years, more than 560,000 sq m of office space has been converted. Additionally development activity is restricted therefore vacancy in the

Leopold district dropped from 11% in 2007 to 5.5% in Q1 2016. In the upcoming months, it is expected to continue decreasing due to few speculative developments and due to the upcoming transactions by EU administrations in the Black Pearl, Merode and Square de Meeus buildings. The average rent decreased slightly to €140 per sq m/year. The highest rent was signed in the Schuman Roundabout in the European district at €285 per sq m /year. We expect the prime rent to remain stable for the next coming months.

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

GRAPH 12

### Brussels



Graph source: Savills

### Cologne

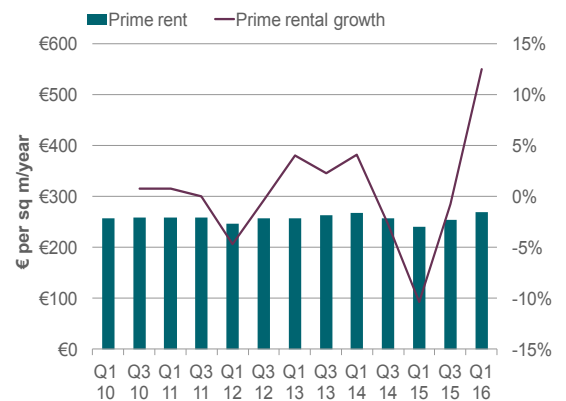
The supply of space above 1,000 sq m in Cologne city centre is very limited. Faced with a lack of alternatives, many occupiers are extending their existing leases. Occupiers requiring more space often have only four options: higher rent, lesser quality of space, poorer location or dividing their space across several floors or locations. The vacancy rate currently stands at 6.5%. Developers completing (speculative) projects are benefiting from this supply shortage. This model has been particularly successful in the Ehrenfeld submarket, which is currently benefiting from the scarce supply in Cologne city centre. Ehrenfeld

registered 20 small and large deals in the first quarter and accounted for almost 20% of take-up in the first three months of 2016. The submarket impresses with its sound infrastructural connections and is popular with media and advertising agencies owing to its vibrant urban quarters. The rents of €12-€14 per sq m/month are moderate compared with the city centre. As way of comparison, the prime rent in the Cologne market increased by 2.3% qoq to €22.50 per sq m/month. However, in the remainder of the year, a slight decline of the prime rent is expected.

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

GRAPH 13

### Cologne



Graph source: Savills

## Copenhagen

Letting demand continues to grow as a result of various issues. The Greater Copenhagen area continues to outperform the average Danish GDP growth, and since 2009 the total number of private jobs has increased by almost 10,000 jobs and is currently at the 2008 level. Demand is mainly focused on either newly built facilities or the very large refurbished older stock.

Letting demand is increasing especially in central Copenhagen where companies prioritise an easy commute for employees. Outside

central Copenhagen office demand remains limited however companies seeking new facilities often focused on locations close to the future metro stations, along the Cityring metro line which will be inaugurated in 2019. Limited development in the central locations of Copenhagen indicates that letting demand may spread to surrounding areas within the next 12-18 months.

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

GRAPH 14  
Copenhagen



Graph source: Nybolig

## Dublin

Lettings slowed somewhat to approximately 48,000 sq m in Q1. In part this reflects a vacuum left by the traditional rush to get deals closed before year-end. But it also reflects the difficulty in getting space in a very tight market. With strong jobs creation in Dublin (+4.6% yoy in Q1 2016), the demand for office space looks set to intensify. Lettings are increasingly converting directly into net absorption, and the vacancy rate has come down from 12.3% to 9.4% over the past year. In parallel with the reduction in vacant space the quality of the available stock is dis-improving and the availability of

Grade A space in the traditional prime market of Dublin 2 now stands at just 1.5%. As significant development completions will not happen until well into 2017, occupiers with large space requirements are increasingly being driven into established office districts in the less central Dublin 4 location and suburban locations such as Dublin 18. The current development cycle will see many older buildings demolished and replaced which will cause a temporary reduction in the stock of office space. With strong demand meeting static supply, prime rents have been rising very sharply, and will continue to do so for the remainder of 2016.

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

GRAPH 15  
Dublin



Graph source: Savills

## Dusseldorf

The supply of office space in Düsseldorf is scarce across all size categories and particularly in the city centre. Even office space below 1,000 sq m is becoming increasingly difficult to acquire. In the central locations, the market is threatening to become a landlords' market. However, vacancy rates continue to decline across the entire market. Over the last 12 months, the average vacancy rate has fallen by 120bps to 9.7%.

In line with recent years, law firms are among the largest office demand in the city centre. They accounted for around 15% of take-up over the last twelve months (Q2 14 to Q1 15: 10%). Banks,

on the other hand, are increasingly withdrawing from central locations, often to reduce costs. Total take-up in the first quarter 2016 accounted to 93,000 sq m, representing a plus of 35% compared to the same period last year.

In the first three months of 2016, the prime rent remained unchanged at €26 per sq m/month. Since rents are expected to continue rising and supply is expected to remain scarce, tenants will continue to be more inclined to agree longer lease terms than the standard five years.

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

GRAPH 16  
Dusseldorf



Graph source: Savills

## Frankfurt

The first three months of the year were characterised by a high level of activity, which resulted in take-up of 115,300 sq m (+35.3% compared with Q1 15). Consequently, the first quarter of 2016 was stronger than any single quarter of last year. Furthermore, with requirements totalling more than 250,000 sq m in the market, we expect take-up for the year as a whole to reach significantly more than 400,000 sq m, which would surpass last year's total. However, demand is being driven less by the large requirements previously typical of the Frankfurt market and more by the small and

medium size segments. The vacancy rate declined significantly to 9.1%. Despite the generally high supply of space in 2016, the average rent is expected to show moderate growth. Currently, the average rent is at a level of €19.30 per sq m/month. The prime rent remained stable at €38 per sq m/month and is forecast to do so.

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

GRAPH 17  
Frankfurt



Graph source: Savills

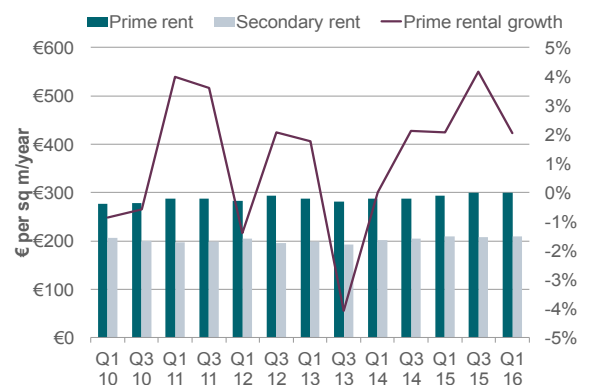
## Hamburg

In view of the high demand and relatively low supply, tenants in the Hamburg office market will have to adjust to further increases in rents in the medium term. The prime rent currently stands at €25 per sq m/month, representing an increase of 2% yoy. The vacancy rate declined by 10 bps compared to last year to stand at 5.4%. The completion volume of approx. 170,000 sq m for the current year is somewhat higher than in previous years but is not sufficient to completely satisfy demand. In the medium to long term, more new development projects are required.

However, when seeking development sites, developers of commercial space are in strong competition with residential developers, who can normally pay higher prices for land. While there are a number of large requirements in the market this year, the scarce supply means that last year's take-up total of 527,000 sq m is unlikely to be reached in 2016. In the first quarter of 2016, the take-up amounted to 108,000 sq m, which is 17% below previous year's level.

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

GRAPH 18  
Hamburg



Graph source: Savills

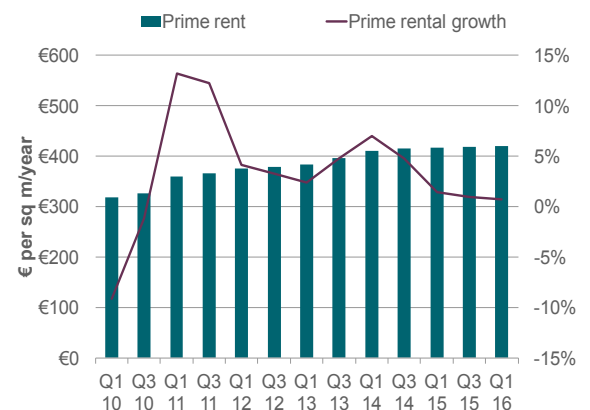
## Helsinki

Office demand is slowly recovering alongside with the gradual economic growth. Take-up grew by 4.5% yoy boosted by the major leases signed recently. Changes in working environment for businesses of all sizes drive demand for office space. Multifunctional shared spaces and a choice of additional services increase rapidly. In recent years, the average annual growth of new or redeveloped office space completed has been circa 100,000 sq m. Rapid office development and demand focused on high quality and efficient premises keeps vacancies high.

In Helsinki CBD, the prime rent is stable while in several submarkets rents have decreased. Tenants remain in a good negotiating position, which is creating pressure on landlords to allow incentives, typically rent-free months and refurbishment in secondary properties. Since demand is mainly focused in the prime segment we expect a slight increase of the prime rent in 2016.

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

GRAPH 19  
Helsinki



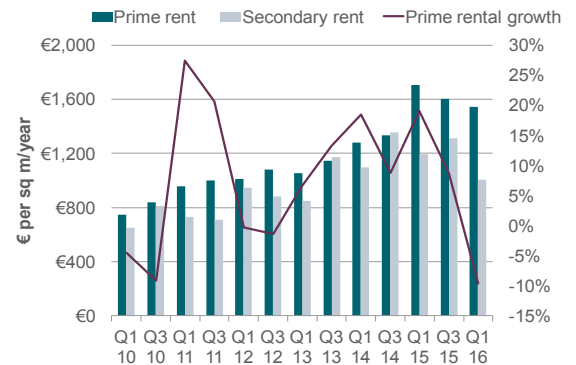
Graph source: Realia

### London West End

Q1 2016 take-up in the West End reached 1.04m sq ft, 10% above the 947,509 sq ft of take-up recorded in Q1 2015 and 15% above the long term average. The strong start to the year appears to defy predictions that the looming EU referendum and current economic uncertainty would dampen demand. However, with the referendum drawing closer, it seems likely that Q2 will experience the forecasted drop in demand, as key decision makers wait for the outcome of June 23rd. Indeed, the amount of supply under-offer appears to provide an indication of this, falling 29% from

703,176 sq ft at the start of the year to 500,315 sq ft at the end of Q1. There continues to be a restriction on supply in the West End, with availability at the end of Q1 2016 standing at 3.54m sq ft, equating to a vacancy rate of just 3%. The vacancy rate looks set to remain at around this level for the remainder of the year with only a further 859,423 sq ft of speculative space due to be added to the supply pipeline from 2016 completions. West End rents already at record levels are forecast to experience only slight growth in 2016.

GRAPH 20 London West End



Graph source: Savills

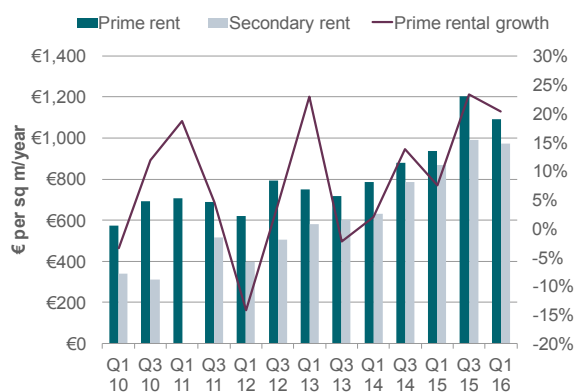
**End-year outlook** Take-up: **up** Supply: **stable** Prime Rents: **up**

### London City

So far this year, 1.7m sq ft has been transacted in the City in the first quarter, which although is 16% down on this point last year; it is 35% up on the long-term average amount for Q1. The Insurance & Financial services sector have accounted for the majority of take-up so far this year at 27%, followed by the Tech & Media sector at 12%. At the end of Q1 2016, total City supply stood at 5.5m sq ft. This equates to a vacancy rate of 4.5%, which in historic context is low, down on the long term average of 9.7%. We have seen rents continue to gently rise throughout the first quarter of this year.

Four consecutive years of above average completions are expected to arrive within the City, with the greatest amount anticipated for 2016 at a total of 5m sq ft, of which 2.2m sq ft is already pre-let. In fact, 27% of the future development and refurbishment pipeline is already pre-let, a trend which we expect to continue as larger occupiers are forced to look into the future to guarantee their property requirements are successfully satisfied. Looking forward we do however anticipate the vacancy rate to remain low in historic context, but gently rise, due to take-up returning to average levels.

GRAPH 21 London City



Graph source: Savills

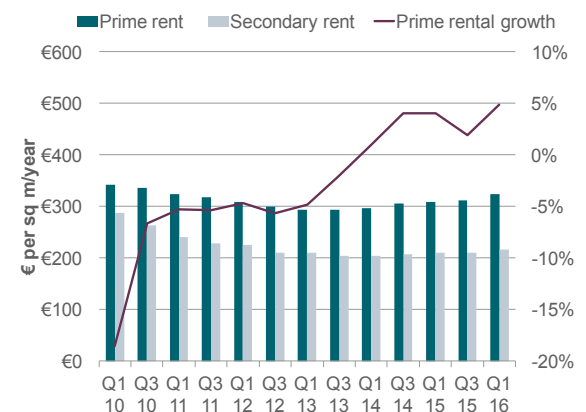
**End-year outlook** Take-up: **down** Supply: **stable** Prime Rents: **up**

### Madrid

With an increase of 40% in take up, 2015's results invited optimism. Although these numbers were strongly influenced by eight mega deals (>10,000 sq m) that accounted for 25% of the total letting volume, without them, the historical series would still be following a growth trend. So far, 2016 has maintained high levels of demand, registering a similar number of closed deals compared to Q1 15. At the end of Q1 16, the vacancy rate remains in a state of decline following five consecutive quarters of decline in the level of office availability. Subsequently, this has resulted in an imbalance between supply and

demand leading first in an increase of rental values for the best buildings in prime locations, second in an increasing demand for office space outside of the M-30 ring road. For the first time since the crisis, the periphery has experienced higher trading volume than the urban area; accounting for half of the take-up. Madrid's average rent declined slightly compared to the previous year as a result of increased activity outside of M-30. Despite this change, the achievable prime rent in the CBD continues to grow in response to the growing interest in quality product compounded with the already low supply of alternative products that meet expected standards.

GRAPH 22 Madrid



Graph source: Savills

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



## Manchester

Take up reached 196,533 sq ft in the city centre during Q1 2016, which is in line with the long term average level for Q1. However, take up was down on both the level recorded during Q1 2015 and the five year average. The key deal during Q1 2016 was to Squire Patton Boggs, who pre-let 28,000 sq ft at No.1 Spinningfields, whilst Arups took 16,000 sq ft of Grade A space at 4 Piccadilly Place. Insurance & Financial Services was the most active business sector during Q1, accounting for 22% of take up, followed closely by the TMT sector. Take up for the TMT sector rose from 14,000 sq ft during

Q4 2015, to 40,000 sq ft during Q1 2016. Availability of Grade A space in the city centre rose by 229,000 sq ft to 415,000 sq ft due to One New Bailey, XYZ Spinningfields and 101 Embankment all set to practically complete in the next six months. During Q1 2016, Squire Patton Boggs took space at £33.50 per sq ft, the only deal over the £30 per sq ft mark. This accounted for 15% of total take up, though most space was let between rents of £15.00 and £19.99 per sq ft (42%). Looking forward, Savills expect prime rents to reach £35.00 per sq ft by the end of 2016.

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

GRAPH 23

### Manchester



Graph source: Savills

## Milan

The Italian occupational market is recovering, but the recovery is mainly confined to prime locations with tenants seeking the best lease terms, quality upgrades or strategic relocations. Milan represents the most attractive location in Italy for companies looking for new and prestigious office spaces to rent since it is the second most populous city and the main industrial, commercial and financial centre of the country. Occupier demand is concentrated in the Historic CBD and Porta Nuova district for Grade A properties. Supply is scarce for these products and prime

rents are sustained by the imbalance. Prime rents remain stable at €490 per sq m/year. The other submarkets within Milan are constituted by Grade B space with average rents between €220 per sq m/year in the periphery and €260 per sq m/year in the semi centre. The development pipeline is still low since only two projects have been completed - Porta Nuova and Citylife. The main development under construction is the Symbiosis Project by Beni Stabili Siiq in the south of Milan with circa 40,000 sq m due for completion by the end of 2017.

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

GRAPH 24

### Milan



Graph source: Savills

## Munich

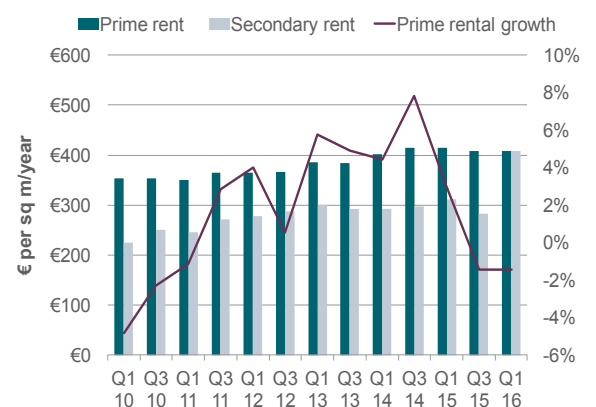
Demand in the Munich office market continues to significantly exceed supply. The vacancy rate across the entire market currently stands at just 4.7%. In the city centre and indeed the entire area inside the main ring road (Mittlerer Ring), the vacancy rate is much lower at below 2%. In view of the supply shortage, take-up this year could be slightly lower than last year's total. In the first quarter of 2016, 177,000 sq m have been taken-up, representing a decrease of 5.5% compared to the same period last year. Tenants have now recognised the strained market situation and are

already planning with longer lead times. In the short term, they will only find space of a similar quality to their existing offices at a higher rent or space at a similar rent in a poorer location. The prime rent remained unchanged at €34 per sq m/month. While the completion volume in 2016 will be the highest since 2010 at 223,400 sq m, this will be insufficient to satisfy demand. The scarcity of development sites raises the question in the medium term of how sufficient office space can be provided in future.

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

GRAPH 25

### Munich



Graph source: Savills

### Oslo

Since last autumn, vacant space has been reduced by 24,000 sq m to 840,000 sq m, which corresponds to a vacancy rate of 8.7 %. This is mainly due to a slow but steady growth in demand and low net construction volumes. Additionally, there is an increasing volume of the old office stock converted into residential properties. This is mainly due to the high house prices and demanding office tenants. All these drivers will result in an increased absorption of space over the coming years, and therefore, we believe the vacancy rate

will decrease for the rest of 2016. The prime Oslo office rent is unchanged (NOK 3 800 per sq m). Our forecast for 2016 is that the rent levels in the west fringe areas will experience further decline. The oil service industry is still announcing cutbacks, and as a result, companies are willing to sublet significant parts of their office space. This puts pressure on competing vacant properties in the area. For the rest of Oslo the demand is good and we expect the rent level to remain stable.

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

GRAPH 26

### Oslo



Graph source: Heilo

### Paris CBD

In Q1 2016, take-up totalling 103,324 sq m, showing an annual increase of 6% on a record high level achieved in Q1 last year. Office demand is mainly driven by the medium sized office segment which increased by 26% yoy. Smaller office spaces have also seen strong growth (29%). At the other end of the spectrum, only one large transaction was signed in Q1 with the letting of Shiseido in the 8th district of 7,390 sq m. Growing demand has had a negative knock on effect on supply which has been in decline over the last few years and currently stands at 292,000 sq

m. Thus the vacancy rate continues to decline and currently stands at 4.3%. New office supply is limited and represents only 14% of the current existing stock (41,000 sq m). Large office space in the CBD is also becoming increasingly scarce. The prime rent is currently at €736 per sq m/year, showing a quarterly drop of 6.5%. This decrease doesn't show the market trend but is the result of the lack of large and prime transactions. On the contrary, the average rent has seen a slight increase of 1.7% to €358 per sq m/year. The amount of incentives granted to tenants are decreasing.

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

GRAPH 27

### Paris CBD



Graph source: Savills

### Paris La Defense

La Defense market underwent a remarkable economic recovery in Q1 2016. The level of take-up reached 74,396 sq m, equaling a record which has not been recorded since Q1 2009. This is mainly due to four large deals exceeding 5,000 sq m which included Deloitte (31,000 sq m in Majunga Tower) and IMS Health (11,000 sq m in D2 Tower). Demand mainly focused on new office buildings accounting for 73% of the letting volume. The level of supply which currently stands at 310,000 sq m has dropped rapidly since the beginning of the year due to growing take-up. Since Q3 2015, the vacancy rate has been

declining and is currently at 8.3%. Most of the supply is made of old office buildings and we believe this situation will continue in the future due to the limited office pipeline for the next two years. The lettings in new office space have had a positive impact on the prime rent which increased by 2.43% and currently stand at €548 per sq m/year. Secondary rents remain stable and stand at €414 per sq m/year.

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

GRAPH 28

### Paris La Defense



Graph source: Savills

### Stockholm

The corporate sector has continued to move in a positive direction throughout 2015, resulting in an increased demand for office space. 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 vacated space, primarily in the CBD area. The vacated space is fairly evenly spread over in time, and should be absorbed without spikes in vacancy rates. Vacancy rates in the City are at historically low levels, which combined with solid demand,

has led to increasing market rents. Modern office space is still scarce and market rents have not only increased in the CBD area, but in most of the office sub-markets in the central parts of the city as well. The development pipeline is fairly limited and very much focused on the northern suburbs, but construction is picking up in other areas. The majority of the pipeline is fully let, but the number of speculative projects is increasing. Competition for tenants in the northern suburbs is fierce due to the vacancy situation in these sub-markets, especially for Kista and Frösunda.

GRAPH 29

### Stockholm



Graph source: Savills

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

### Vienna

The Vienna office market continued its favourable development in Q1 2016 and several large-scale lettings of more than 1,000 sq m were concluded in the first few months. Take-up amounted to 50,000 sq m in Q1 and 230,000 sq m are forecast for the whole year, which is an increase of 15% compared to previous year's total. Another indicator for the positive development is the increasing average rents, which rose for the first time in years from €13-€14 per sq m/month. In the medium term, average rents will increase further as, starting next year, 150,000 sq m of high-quality office

space will come onto the market with expected rents between €15-€20 per sq m/month. These deliveries will boost the office market significantly. However, in 2016 deliveries will reach a new record low of only 60,000 sq m and almost 90% of these are owner-occupied or are already pre-let. As a result, the vacancy rate is declining and currently stands at 6.4%. The scarce supply of new space will also lead to a shift in demand towards refurbished, high-quality office space and several lettings in such properties are currently being negotiated.

GRAPH 30

### Vienna



Graph source: EHL

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

### Warsaw

In Q1 2016, six office buildings totalling 113,100 sq m were added to the market. Developer activity remains high with over 632,000 sq m of office space under construction city-wide, of which 271,500 sq m are located in the city centre in such projects as Warsaw Spire (the tower building) and Q22 with a total office area of 112,900 sq m. The overall vacancy rate in Warsaw increased by 110bps yoy to 14.1% at the end of March 2016 with the lowest vacancy recorded in the East zone (7.0%) and the highest the Upper South zone (17.6%). The highest vacancy rates were recorded in the newest buildings completed between

2014 and Q1 2016 (25%); however, when buildings dated 2012-2013 are taken into consideration the rate drops to 14.7% which is only slightly higher than the city's average. Prime headline rents in the city centre are estimated at €21-€22 per sq m/month and are still under rising downward pressure resulting from a demand shift towards the Fringe of the city centre; however, when the tower buildings are let the pressure is expected to be muted.

GRAPH 31

### Warsaw



Graph source: Savills

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

# Key office indicators

Prime<sup>1</sup> CBD rents<sup>2</sup>, letting data in Q1 16

City	National GDP growth 16*	National employment growth 16*	City GDP growth 16*	Prime rent	Prime rental growth <sup>3</sup> Q1 15-16	Take-up growth <sup>4</sup> Q1 16	Vacancy rate Q1 16	<p><b>Note 1:</b> Prime rents refer to modern office space, minimum 1,000 sq m</p> <p><b>Note 2:</b> All costs are in euros per sq m/year</p> <p><b>Note 3:</b> Rental growth is annual and calculated in local currencies</p> <p><b>Note 4:</b> Take-up growth is annual</p>
Amsterdam	1.6%	1.2%	1.8%	365	0.0%	-53%	13.3%	
Athens	-1.2%	0.5%	-0.8%	240	0.0%	NA	NA	
Belgrade	1.5%	-1.5%	NA	174	0.0%	NA	10.0%	
Berlin	1.7%	0.8%	2.3%	294	7.5%	9%	3.5%	
Brussels	1.4%	1.0%	1.3%	284	3.6%	28%	9.7%	
Cologne	1.7%	0.8%	1.5%	270	12.5%	-12%	6.5%	
Copenhagen	1.9%	-0.3%	2.1%	308	7.0%	-13%	8.3%	
Dublin	4.7%	2.0%	5.1%	646	20.1%	-11%	9.4%	
Dusseldorf	1.7%	0.8%	1.4%	312	0.0%	35%	9.7%	
Frankfurt	1.7%	0.8%	1.7%	465	0.0%	35%	9.1%	
Hamburg	1.7%	0.8%	2.3%	300	2.0%	-17%	5.4%	
Helsinki	0.7%	-0.5%	1.1%	420	0.7%	NA	13.3%	
London West End	2.0%	1.1%	2.7%	1,543	-6.5%	10%	3.0%	
London City	2.0%	1.1%	2.7%	1,093	20.4%	-17%	4.5%	
Madrid	2.8%	2.1%	3.3%	324	4.9%	-15%	10.4%	
Manchester	2.0%	1.1%	1.5%	476	6.3%	-37%	4.3%	
Milan	1.0%	1.1%	1.7%	490	1.0%	-19%	13%	
Munich	1.7%	0.8%	1.6%	408	-1.5%	-5%	4.7%	
Oslo	0.8%	1.0%	1.2%	399	2.7%	NA	8.7%	
Paris CBD	1.3%	0.8%	1.5%	736	1.4%	6%	4.3%	
Paris La Defense	1.3%	0.8%	1.5%	548	2.4%	430%	8.3%	
Stockholm	3.5%	1.9%	4.4%	557	8.3%	NA	3.5%	
Vienna	1.0%	0.9%	1.2%	306	-1.9%	-9%	6.4%	
Warsaw	3.7%	1.2%	4.1%	264	0.0%	-17%	14.1%	

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

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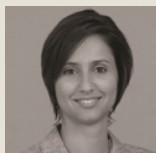
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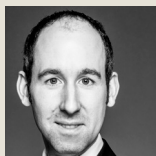


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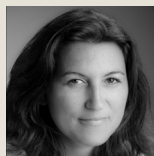
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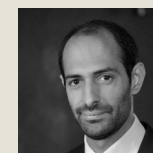
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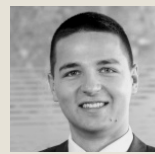
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