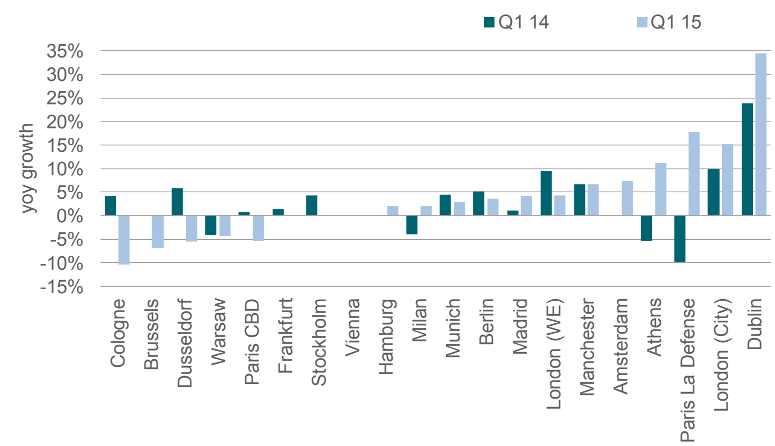
Market report
European Offices

May 2015

GRAPH 1

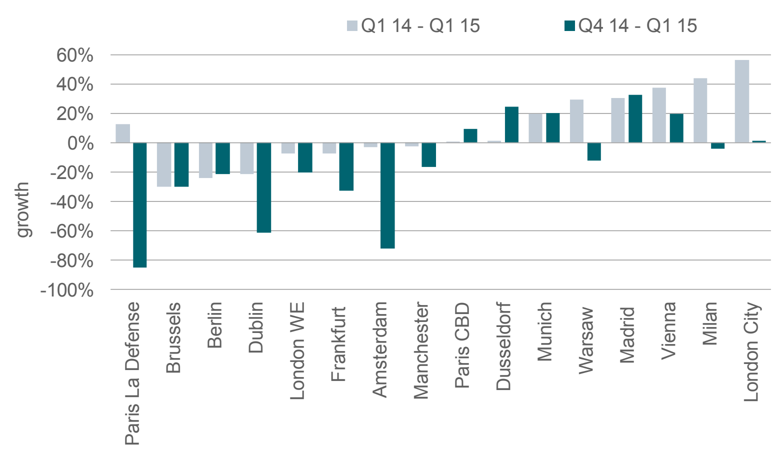
Prime CBD rental growth Rents are rising in recovering markets



Graph source: Savills

GRAPH 2

Take-up Q1 15 was restrained by tight supply of Grade A space



Graph source: Savills

SUMMARY

Lowest vacancy since 2009

■ The European economy has entered a path of recovery with GDP forecasted to achieve the highest rate of expansion since 2011 at 1.7%. Falling oil prices should aid certain business segments while low inflation is helping household budgets.

■ Take-up volume in Q1 2015 was similar to the same period last year at about 1.9m sq m. Letting activity is being restrained by the lack of availability of large, high specification office space in the best locations, leading to lower take-up in some cities at the beginning of the year.

■ Overall availability of office space continues to drop and may soon reach 2007/8 levels. In Q1 the average vacancy rate was 9.37%, down from 9.49% in Q4 14. Development completions are expected to pick up by 15% next year.

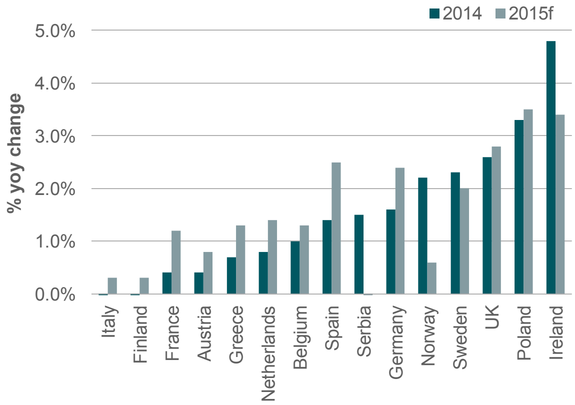
■ Prime CBD rents in the recovering markets and prime non-CBD rents in the markets with the tightest supply of quality space have experienced the most significant rental growth rises in Q1 2015. The average prime CBD rent increased by 3.4% yoy.

"Improved financing conditions and some large-scale pre-lets will lead to more development activity."

Eri Mitsostergiou, Savills European Research

GRAPH 3

GDP growth Economic outlook is improving



Graph source: Oxford Economics

> "Certain non-CBD locations have benefited from tight supply in the CBD leading to positive rental growth"
> Eri Mitsostergiou, Savills European Research

Economy

The economic outlook for the European Union looks positive since GDP is expected to grow in every country in the European Union in 2015. Annual GDP growth in the EU is forecast to increase to 1.7% in 2015 and 2.1% in 2016. The European Commission is forecasting growth of 1.3%, which would be the euro area's best year since 2011. The positive outlook for the EU economies has been due to the sharp fall in oil prices, the depreciation of the euro against the dollar, the Quantitative Easing programme, and the EU Investment Plan. The EU Investment Plan will unlock public and private investments in the real economy of at least €300 billion over the next three years.

Consumer prices fell 0.3% year-on-year in February for the third time in a row and inflation should be 0.2% in 2015 compared to 0.34% in 2014. Negative inflation rates since December have raised concerns the eurozone would suffer from an extended period of deflation. However, many EU officials have argued that the eurozone is not in deflation and the fall in prices is due to the fall in oil and food prices as opposed to a drop in price levels. The falling oil prices should aid economic growth with retailers, travel and industrial companies gaining the most from the decreasing prices. Furthermore, falling oil prices should reduce household energy prices putting more money back into households.

Unemployment in the European Union fell to 9.7% in Q1 2015 compared to 10.5% with Austria and Germany recording the lowest rates of unemployment. Spain and Greece continue to record worryingly high levels of unemployment with unemployment figures being recorded at 23.4% and 26% respectively. Greece continues to dominate the headlines with fears of a debt default and an exit from the euro zone continuing to unsettle the markets.

In line with the improved economic outlook, in March the Economic Sentiment Indicator (ESI) improved in both the euro area (by 1.6 points to 103.9) and the EU (by 0.9 points to 106.1), continuing the upward trend observed since the beginning of 2015. The improvement in euro area sentiment was fuelled by brightening confidence among consumers, but confidence also improved among managers in retail trade, services, construction and, particularly, industry. Amongst the largest euro-area economies, the ESI rose significantly in Italy (+2.4), Germany (+1.8), Spain (+1.7) and, somewhat less markedly, the Netherlands (+0.9). In France, the headline indicator increased only marginally (+0.4). On the other hand ESI deteriorated in the largest non-Euro countries Poland (-0.4) and, particularly, the UK (-2.7).

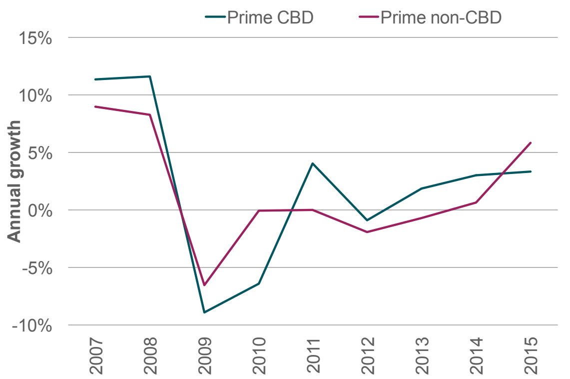
Demand

The gradual improvement of economic and business sentiment since the beginning of this year has not been strong enough to drive significant increases in overall office demand. In Q1 2015 office take-up across our survey area was on par with the same period last year but down 20% compared to Q4 2014, with Q4 being historically one of the stronger quarters of the year.

Nevertheless, overall figures hide significant differences amongst cities. London City recorded an increase in take-up of 56% compared to Q1 2014 with

GRAPH 4

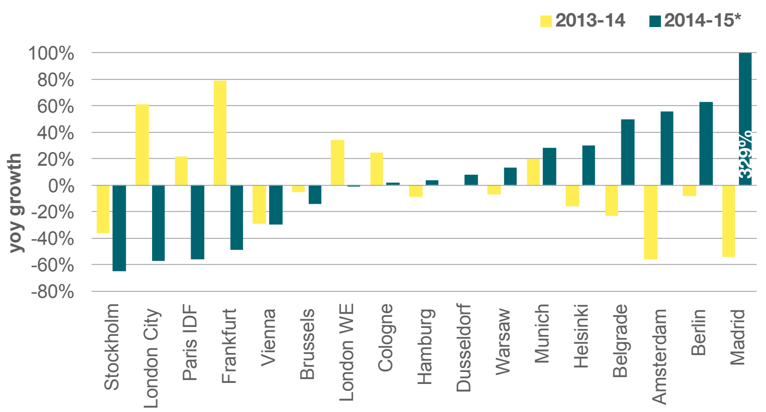
CBD vs Non-CBD prime rental growth Non-CBD districts performing well



Graph source: Savills

GRAPH 5

Development completions 2014-15 More speculative construction expected



Graph source: Savills /*forecast

record-breaking take up levels expected for 2015. Milan, (44%), Vienna (38%), Madrid (30%), Warsaw (29%) and Munich (20%) also recorded high increases as several large office floor spaces or buildings have been taken-up
At the opposite end of the spectrum, Brussels (-30%), Paris (-26%), Berlin (-24%), Dublin (-21%) and Cologne (-12%) recorded double-digit drops in letting volumes. In these five cities the market was mainly driven by small and medium size transactions since the beginning of the year. Letting activity has been restrained by the lack of large, well located, high quality office space. The supply of such has dried up due to low development activity combined with the consolidation and rationalisation process of companies during the economic downturn.

Supply

In terms of supply, the average vacancy rate in Q1 was 9.37% down from 9.49% in Q4 2014 - vacancy rates have not fallen this low since 2009 and may soon fall to 2007/2008 vacancy levels. The lowest vs highest vacancy rates continue previous trends with the lowest vacancy rates being recorded in London West End (3.8%), Berlin (4.3%) and Stockholm (5.75%), and the highest vacancy levels were recorded in Athens (18.5%), Amsterdam (16.1%) and Warsaw (13.4%).

With development completions still limited in almost all office locations many European cities appear to be undersupplied. This year is expected to see a 9% drop in development completions, however construction activity is slowly picking up and we expect completions to increase by 15% in 2016. This is driven by improved financing conditions for speculative schemes in good locations as well as by some large-scale pre-lets.

Rents

In terms of rental growth, the overall prime annual CBD rental growth slowed down slightly this quarter from 4% in Q4 14 to 3.4% yoy. This can be explained by the scarcity of prime office space in some key European CBDs, which has constrained the letting activity in the prime segment. On the contrary rental growth in prime non-CBD locations where available space is often numerous, has surged from 3.4% at the end of last year to 5.8% yoy in Q1 15. Non-CBD locations that have benefited from rising demand exhibiting double digit prime rental growth include Vienna (24.4%), Paris (17.8%) and Berlin (12.2%).

Athens, Dublin and London City experienced double digit rental growth in both Prime and Secondary CBD locations. Dublin continued to see over 28% yoy rental growth for the third quarter in a row in prime, secondary and prime non-CBD locations highlighting the improved business outlook and demand for office space. On the other hand Dusseldorf (-5.5% CBD) and Cologne (-10.3% CBD) saw some rental corrections across their office segments.

OUTLOOK

Improving demand will underpin rental growth

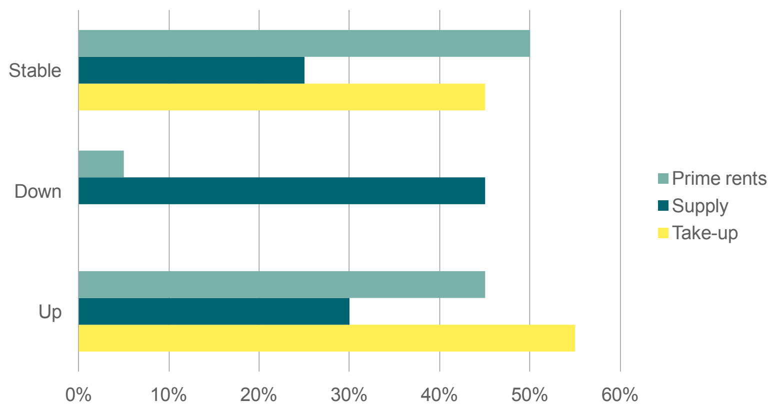
- The economic outlook for Europe is improving, supported by the weaker euro, lower oil prices and easing fiscal austerity, while the bond-buying program launched by the ECB is also expected to revive the economy further.

- The latest forecasts by the Focus Economics Panel (April) are more optimistic, and analysts expect the Eurozone economy to expand by 1.3% this year. Despite the headwinds caused by Greece's cash crisis and the political ambiguity caused by regional and national elections in Europe this year, the rising exports and improved household spending power should continue to underpin business and consumer sentiment.

- Our expectations regarding demand in our survey area are positive. We predict stable or rising take-up in all our markets, which reflects a rise of at least 5% in total leasing volumes by the end of the year. Supply is expected to go up to about a third of our markets due to a gradual pick up in development activity, but in the remaining markets availability will be under pressure. This should lead to further positive prime rental growth, particularly in the German cities, London, Madrid and Dublin.

GRAPH 6

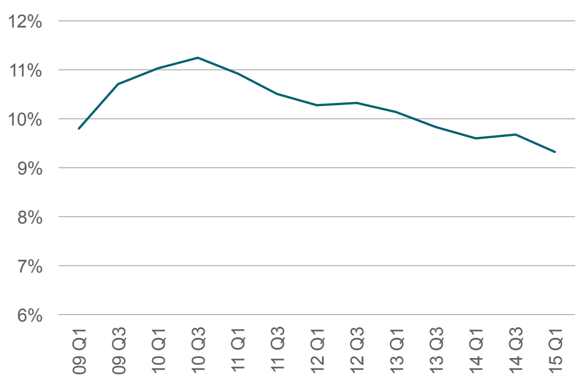
End-year outlook 2015 Positive predictions



Graph source: Savills

GRAPH 7

Average vacancy rates are at their lowest since 2009



Graph source: Savills

European city review

Amsterdam

Demand for office space in the agglomeration of Amsterdam, totalled just over 40,000 sq m in Q1 15. As Amsterdam is attractive for all national and international headquarters, we do foresee occupier activity to increase further in the course of the year.

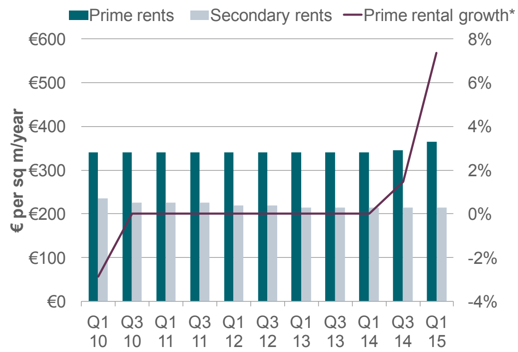
Demand is fairly spread over the city with six different areas each accounting for 10-20% of take-up. The business services sector was responsible for just over 50% of take-up, followed at a distance by the TMT sector accounting for 20.1% of demand. Availability decreased slightly to 1.14m sq m, however the stock also diminished in size, leaving vacancy at a stable 16.1%. The city centre and the South Axis have the lowest supply with 8.1% and 7.9% respectively and supply remains under downward pressure in these markets. The South Axis prime rent has increased to €365 per sq m per year as vacancy here remains low and the newly delivered buildings are very much in demand. Starting rents within Amsterdam can be as low as €80 per sq m per year in markets with high vacancy levels and high competition.

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

*Annual change

GRAPH 8

Amsterdam



Graph source: Savills

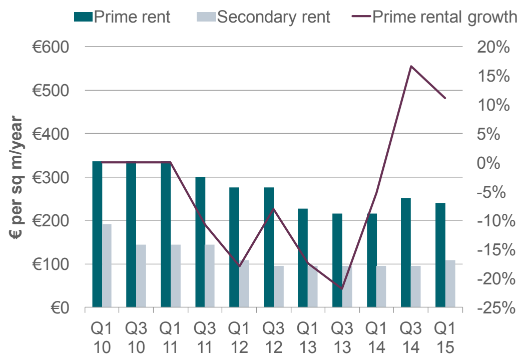
Athens

The Athens office market is running its seventh consecutive year of recession with demand being low and vacancy rates maintaining high levels. As a result, new developments have stalled. In the second quarter of 2014, Greece's economy began to expand again, as private consumption strengthened and net exports grew. Consequently, we have observed a deceleration of this downward trend and particularly during the second half of the year we have observed signs of stabilisation. The main driver of demand has been the relocation of firms into more attractive spaces, in terms of quality, location and size, due to the more affordable rental levels. Athens' CBD rental levels for grade A' offices lie within the range of €204-240 per sq m/year with vacancy for grade A' buildings remaining below 10% due to the limited stock available. Despite the positive signs observed in 2014, uncertainty on the direction of policies that will be designed and implemented by the newly elected Greek government, as part of the debt speed of the recovery, may impair the

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

GRAPH 9

Athens



Graph source: Savills

Belgrade

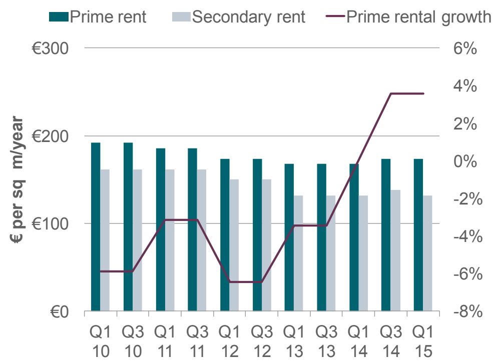
New Belgrade remained the most preferable location for doing business with 83% of transactions recorded during 2014. Rents for Class A office space in prime locations in the first quarter of 2015 remained at the same level when compared to 2014 ranging between €168-198 per sq m/year. The estimated office yield ranged from 9.25-9.75%.

The strongest take-up of office space in 2014 was in the final quarter recording a double value compared to the same period last year and reaching level of approximately 20,108 sq m. Total office stock in the H2 of 2014 has increased with new developments . In comparison with other capital cities in CEE and SEE, the demand for office space in Belgrade still supersedes the demand. In comparison with last year, the level of rents in the H1 of 2015 for A and B class recorded a modest increase. Rental values are expected to stagnate through the first quarter of 2015. Yields have been generally quite stable in the previous periods and were ranging at the level of 9.25% for prime CBD space and 9.75% for secondary locations.

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

GRAPH 10

Belgrade



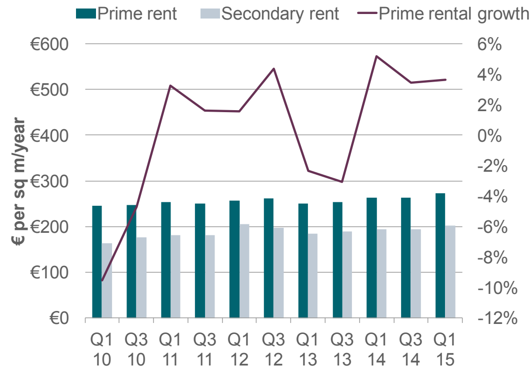
Graph source: Coreside

Berlin

Office take-up in the first quarter of 2015 totalled 171,300 sq m, representing a decrease of 24.6% compared with the same quarter last year. The prime rent rose by 1.3% to €273.60 per sq m/year while the vacancy rate fell by 40bps to 4.3%. Demand in Q1 was very high but this did not translate into an increase in take-up as only two large deals were completed. By far the largest deal was the letting of 22,000 sq m to Rocket Internet in the GSW office tower in Kreuzberg. Companies from the information and communication sector remain one of the largest demand groups in the Berlin office market. The second largest letting of more than 5,000 sq m came from the public sector, another key sector for the German capital. However, the majority of take-up was attributable to deals in the small and medium size segments. We are also increasingly seeing developers venture into speculative developments in appealing locations outside of the CBD, such as near the main railway station and the future Mercedes-Benz Arena. With a number of large deals in the pipeline around the main railway station, for example, take-up for the year is likely to exceed 700,000 sq m once again. The vacancy rate is expected to rise moderately for the first time since 2007 by the end of the year.

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

GRAPH 11
Berlin



Graph source: Savills

Brussels

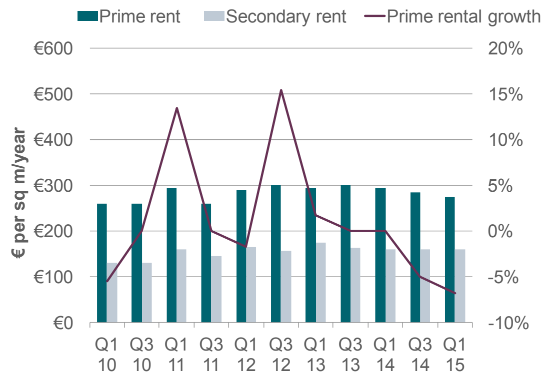
Brussels accounted for approximately 70% of the total Belgian take-up during Q1 2015. The Brussels take-up stood at 44,000 sq m, 40% below Q1 2014 and 50% under the 5-year annual average of 94,000 sq m. During Q1, the public sector was almost inactive accounting for only 9%, far away from the corporate sector (91%). No big notable transactions occurred.

Due to, among others, the recent speculative developments of the Merode building (12,800 sq m) and the Black Pearl building (11,900 sq m), vacancy in the Leopold district slightly increased to 6.3% coming from 6% in Q1 2014. Both the Merode and the Black Pearl are however in advanced negotiations with a single tenant, which will impact positively the vacancy rate of the district. The vacancy of the whole Brussels market increased slightly from 9.4% to +/- 10%.

The average rent decreased slightly at €141 per sq m/year if we include take-up from the periphery and at €153 per sq m excluding the periphery. Prime rents in Brussels are found at the Schuman Roundabout in the European district standing at €285 per sq m/year, and will remain stable the coming months.

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

GRAPH 12
Brussels



Graph source: Savills

Cologne

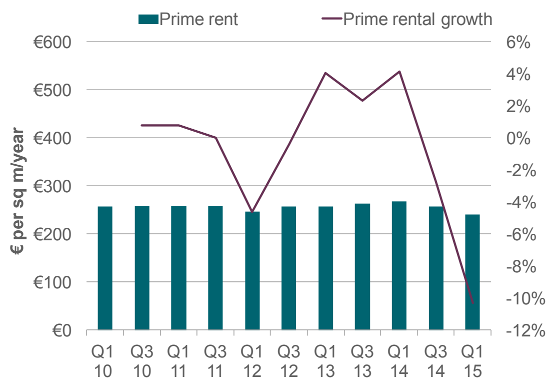
Office take-up in the first quarter of 2015 totalled 50,800 sq m, representing a decrease of 12.4% compared with the same quarter last year. The prime rent declined by 10.3% to €240 per sq m/year while the vacancy rate fell by 20bps to 7.4%.

Between January and March, eight transactions for more than 1,000 sq m were completed, although only one of these was above 5,000 sq m. Large contiguous space is now rare. However, while such space is scarce and owner-occupiers in particular normally prefer new-build, there are only few (speculative) developments in the Cologne market. Developers are currently profiting from such market conditions by agreeing long-term leases on attractive terms. Furthermore, much of the space vacated over the last three months requires modernisation or is unattractive. This is benefiting owners of attractive space.

In view of market conditions, we expect rents to recover again by the end of the year. With a number of large outstanding requirements in the market, particularly from the public sector, take-up is also likely to improve further over the course of the year to reach the 250,000 sq m mark.

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

GRAPH 13
Cologne



Graph source: Savills

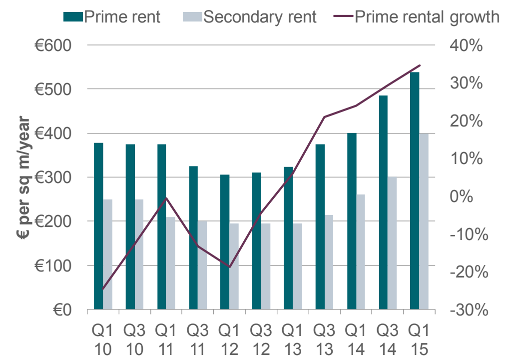
Dublin

Ireland was Europe's fastest growing economy in 2014 with GDP expanding by 4.8% in the year - the sharpest rate of increase since 2007. Both net exports and domestic demand grew strongly in the year, the latter recording growth for the first time in seven years. This has fed through to employment growth of 1.5% in Ireland in 2014 with half of all new the jobs being added in Dublin. These new jobs have led to a sharp increase in the demand for office space in Dublin with over 244,000 sq m taken up in 2014 – the highest recorded take-up since 2007. At the same time, the supply of office space has effectively remained fixed since 2010 with little or no new development. This has pushed vacancy rates in the capital down from 24% in 2011 to 12.7% in Q4 2014. Within this overall figure, vacancy rates for the best space in the most prime locations are now down to low single digits. As a result of this demand/supply imbalance, prime office rents increased by 35.7% in 2014 and are expected to grow by a further 28% in 2015.

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

GRAPH 14

Dublin



Graph source: Savills

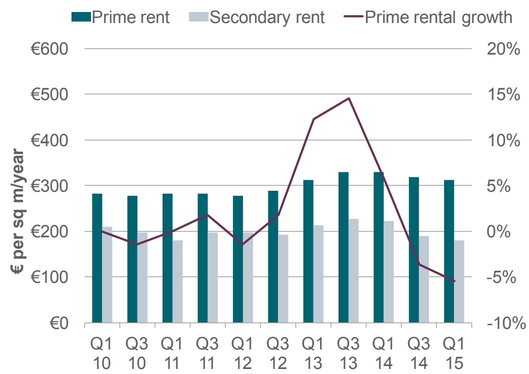
Dusseldorf

Office take-up in the first quarter of 2015 totalled 69,000sq m, representing an increase of 1.5% compared with the same quarter last year. The prime rent declined by 5.5% to €312 per sq m/year while the vacancy rate rose by 10bps to 10.9%. Aside from four larger deals, letting activity in Q1 was largely characterised by lettings in the small office segment. More than half of transactions completed were for less than 500 sq m. The four largest lettings, each above 4,000 sq m, were all outside of the City submarket. The Düsseldorf North / Airport and Seestern office submarkets were particularly strong, each accounting for 17% of take-up. Take-up in the Seestern district in Q1 was greater than that for the whole of last year, although this was principally attributable to one major letting. The Düsseldorf North /Airport submarket has proven attractive owing to its favourable location between the city centre and the airport. In terms of take-up, this year is likely to see an increase. With a number of large requirements in the market, the forthcoming quarters will register higher take-up figures. Based upon these requirements, take-up for the whole year is likely to exceed last year's figure of 237,000 sq m.

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

GRAPH 15

Dusseldorf



Graph source: Savills

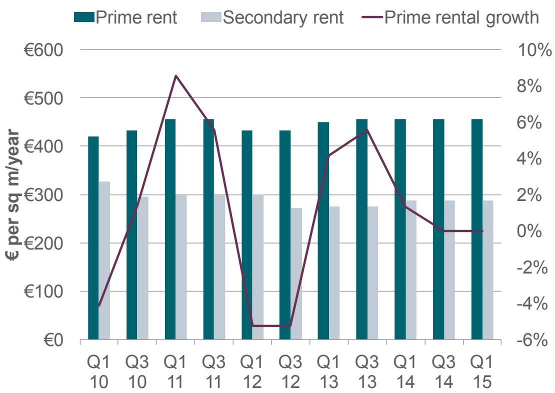
Frankfurt

Office take-up in the first quarter of 2015 totalled 82,000 sq m, representing a decrease of 7.3% compared with the same quarter last year. The prime rent remained unchanged at €456 per sq m/year while the vacancy rate fell by 40bps to 11.4%. Had it not been for a large owner-occupier deal, a staple of the Frankfurt market, take-up in the first quarter would have been significantly lower. The acquisition of 32,000 sq m on Windmühlstraße by Deutsche Vermögensberatung accounted for approximately 40% of total office take-up. Owing to the withdrawal of more than 100,000 sq m from the market, the vacancy rate declined by 40bps compared with the corresponding quarter last year to stand at 11.4%. However, the prime and average rents remained unchanged at €456 per sq m/year and €210 per sq m/year respectively. With a number of larger requirements currently in the market, higher take-up figures are expected in the forthcoming quarters. These requirements are not only focused on central locations but also extend to peripheral office submarkets, which are once again in increasing demand as back office locations against a background of improving economic conditions. Take-up for the entire year is likely to reach around 400,000 sq m.

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

GRAPH 16

Frankfurt



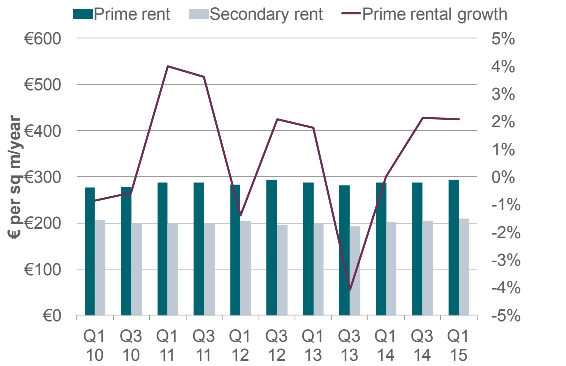
Graph source: Savills

Hamburg

Office take-up in the first quarter of 2015 totalled 120,600 sq m, representing an increase of 15.7% compared with the same quarter last year. The prime rent rose by 2.1% to €294 per sq m/year while the vacancy rate fell by 90bps to 6.1%.
The buoyant market activity in the fourth quarter of last year continued in the first three months of 2015. Once again, large owner-occupier transactions at the start of the year drove high take-up in the Hamburg office market, the largest of the three transactions coming from the public sector. Indeed, owner-occupier deals accounted for more than 40% of overall office take-up in the first quarter. Last year, these accounted for just over 15% of take-up; a high figure itself.
The breadth of the Hamburg market has also improved. This is reflected in the high level of activity in the medium size segment between 1,000 sq m and 3,000 sq m. There were 21 deals in this size segment in the first quarter (Q1 14: 15 transactions).
Take-up is also expected to remain high in the coming months. With a number of large outstanding requirements in the market, take-up is likely to come very close to the 500,000 sq m mark by the end of the year. Rents are also expected to at least maintain their current levels.

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

GRAPH 17
Hamburg



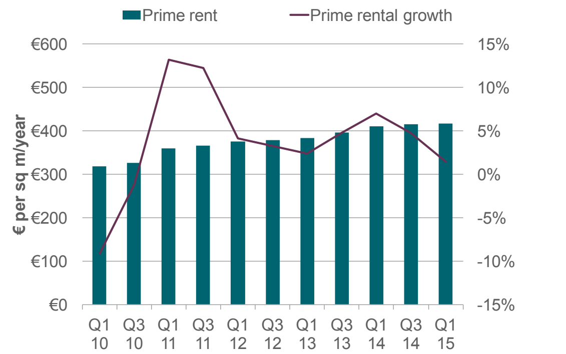
Graph source: Savills

Helsinki

Divergence between office submarkets continues. The supply of office premises has increased rapidly in recent years through new developments. Office vacancy rates currently range close to 12.5% in the Helsinki Metropolitan Area as office construction has continued to be much brisker than in the rest of Finland, which partly explains the lower occupancy rate. In December 2014 there was ca. 104,000 sq m of new or redeveloped office space under construction.
The rental market has remained subdued due to the long-standing weak economic situation combined with restructuring and uncertainty. The user companies focus their activities on efficient cost management and they are looking for high-quality, customised new or renovated efficient premises. Different incentives such as rent-free periods, stepped rents and refurbishments are usually offered.
Helsinki CBD has a dominant status as a prime market area and its position in relation to other submarkets is emphasised in a weak economic cycle.
In general, rental levels in new lease agreements outside the Helsinki city centre have slightly decreased. The passing rents have remained quite stable.

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

GRAPH 18
Helsinki



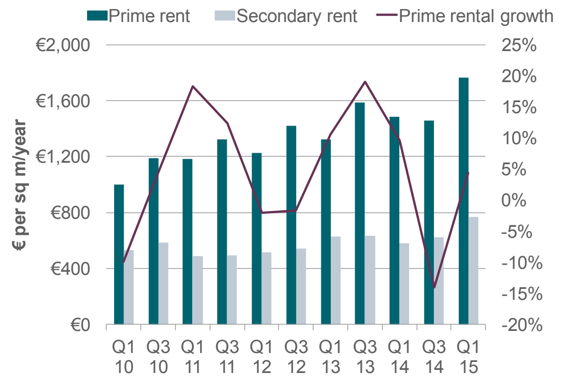
Graph source: Realia

London West End

Following the strong leasing activity seen in the West End office market last year, where total take up was 390,000 sq m almost reaching pre-crisis levels of 465,000 sq m, Q1 2015 has witnessed a slowdown in take-up. Despite the strong start to the year where take-up was up by 18% in January and February on the same period last year, March was down by 45% on March 2014. This brings take up in Q1 2015 to 74,000 sq m, which is down by 7% on Q1 2014. The majority of transactions have been within the 1,000 sq m size, accounting for 83% of Q1 take up. It would be plausible to suggest that this trend will continue due to the growth of small to medium sized businesses. We expect there to be a slight rise in supply, which is currently at 372,000 sq m, with a vacancy rate equating to 3.3%. An anticipated 167,000 sq m of speculative new developments and refurbishments scheduled to complete this year. A record reported rent of €2721.15 per sq m/year was achieved in March 2015. Average grade A rent for Q1 currently stands at €1191.42 per sq m/year, while the average prime rent has risen on this point last year by 17%, currently standing at €1705.64 per sq m/year of speculative new developments or refurbishments.

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

GRAPH 19
London West End



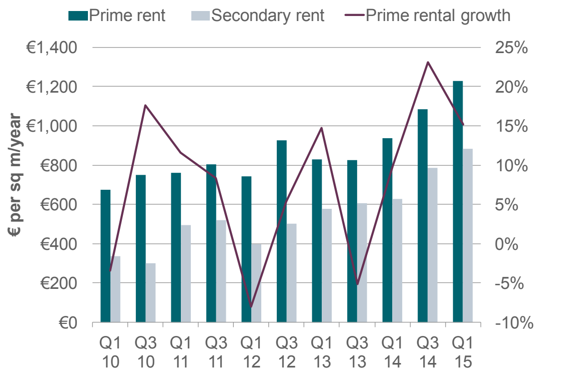
Graph source: Savills

London City

Following on from the record-breaking 762,000 sq m transacted last year, the City office occupational market has continued this consistent level of activity throughout the first quarter. Total take-up at the end of March reached 186,000 sq m, which is 56% up on this point last year. The first quarter of 2014 was a quiet start, however if take-up continues at this rate, we should see consecutive record-breaking levels of take-up within the City. Current supply is 604,000 sq m (giving a vacancy rate of 6.7%), of which 86% is of a grade A standard. The high levels of demand combined with the constraint on supply and the introduction of recent trophy assets such as The Leadenhall Building and 20 Fenchurch Street (Walkie-Talkie), have resulted in rental growth. The top rent achieved in 2014 rose by 19% on 2013 to reach €1228.19 per sq m/year. So far this year, the top rent reached has been €1029.62 per sq m/year, whereas the average grade A rent has risen on 2014 (€720 per sq m/year) by 2.9% to reach €740.59 per sq m/year for the first quarter. Average prime rent at the end of the first quarter remained stable on 2014 levels at €925.78 per sq m/year.

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

GRAPH 20
London City



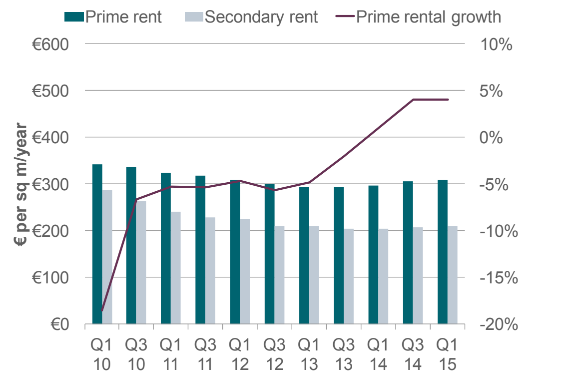
Graph source: Savills

Madrid

Annual gross take-up reached around 375,000 sq m at the end of 2014. It was at a similar level to the previous year (only 2% below), but it is important to remember that the 2013 figure was distorted by the Vodafone lease (50,000 sq m, the largest deal in the historic series). Excluding this from the analysis, the yoy comparison would have been 20% above. Regarding the number of deals, the increase of 23% reflected the recovery in demand. Almost 60% of deals were registered inside the M-30. Vacancy rates closed 2014 at approximately 14% (another peak in the historic series), although the CBD and the strongest business areas registered more healthy levels (between 6-8%).
Q1 15 gross take-up registered 148,000 sq m, representing 30% above the same period in 2014, although two lettings accounted for 27% of the total. On the supply side, a slight decrease has been detected and vacancy rate has fallen to 13.2%. The strength of the CBD area and its surroundings is maintaining the upward trend in rents. Achievable level stood at €309 per sq m/year at the end of Q1 15. It is also important to say that incentives and free rental periods are decreasing.

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

GRAPH 21
Madrid



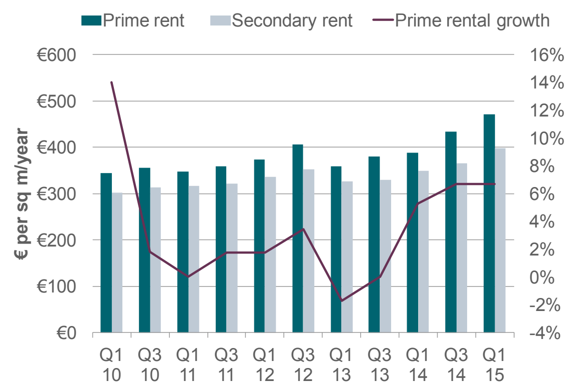
Graph source: Savills

Manchester

The Manchester office market saw a spectacular rebound in tenant demand in 2014, with just under 121,000 sq m of office space leased over the course of that year (a 56% increase on the year before). This made 2014 the third strongest year in the City's history, with tenant demand being driven from all sectors. Part of this strength of demand was driven by an increasing realisation amongst tenants that there is a real shortage of new schemes completing in 2015 and 2016, and this will further exacerbate the shortage of Grade A space in the market (less than 46,000 sq m at the end of 2014). Looking further ahead there are a number of new developments planned that are targeting around €441.27 per sq m/year, though with requirement levels high these will not satisfy all the demand. However, we see the biggest current opportunity in this market as focusing on refurbishment opportunities where the supply of good quality Grade A/B space at around €294-€368 is extremely limited. We are currently projecting that the top rent in Manchester will reach around €514.18 per sq m/year by the end of 2018, well ahead of the previous record level of €470.69 per sq m/year. Investor demand for offices in Manchester will remain strong, though prime yields are not likely to move lower than 4.75%.

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

GRAPH 22
Manchester



Graph source: Savills

Milan

The end of economic contraction has supported business confidence as reflected in the Economic Sentiment Indicator, which has been improving since the end of last year. Milan's office market, during the first quarter of 2015 has confirmed the dynamic trend registered at the end of 2014. The Prime CBD yield has fallen slightly to 5.5% due to the strong interest for prime location and their relative unwillingness.
Take-up in the first quarter of 2015 was only slightly down compared to Q1 14 (-4%) and 44% higher compared to the same quarter last year, totalling about 72,000 sq m.
Comparing with the previous quarter, the rent for a prime location in the CBD is stable at €490 per sq m/year and 2.1% higher compared to Q1 14. Still considering as benchmark the Q4 2014, the vacancy rate has fallen a little to 13%. The development pipeline could deliver more offices this year compared to 2014, but it is still uncertain how much of this space will be actually completed within the year. Demand by owner-occupiers is expected to support activity throughout the year.

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

GRAPH 23
Milan

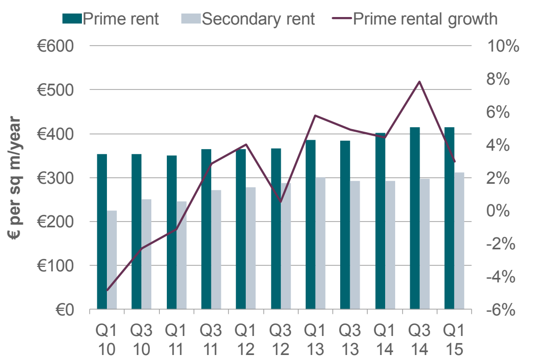
Graph source: Savills

Munich

Office take-up in the first quarter of 2015 totalled 187,200 sq m, representing an increase of 19.7% compared with the same quarter last year. The prime rent rose by 3% to €414 per sq m/year while the vacancy rate fell by 10bps to 5.9%.
The high take-up figures also reflect the return of large deals. There were seven transactions for more than 5,000 sq m in the first quarter alone. In 2014, there were just eleven deals in this size segment throughout the entire year. One of the largest deals in the first quarter was completed in Neuperlach. In contrast with the Arnulfpark district and Theresienhöhe, the location still offers large available space at attractive rents for tenants. Neuperlach also impresses with its good public transport links and ample local amenities. Availability in the city centre, on the other hand, remains low. However, there is a high probability that take-up will exceed the 600,000 sq m mark by the end of the year. Owing to the scarce supply in the city centre, the prime rent is expected to rise slightly over the course of the year. The vacancy rate, on the other hand, is likely to be slowly reaching its lower limit as around a quarter of the vacant space is structural vacancy, which is highly unlikely to be absorbed by the market.

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

GRAPH 24
Munich



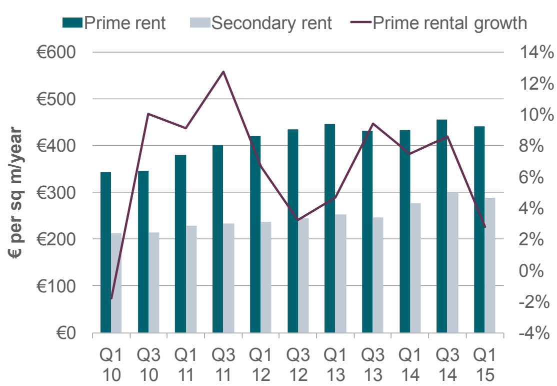
Graph source: Savills

Oslo

In 2014 office rents in Oslo were rising slightly. The rental market has been uneventful in the past year measured by volume, with fewer leases and smaller tenants compared to previous years. Rents, however, have stayed put during 2014. The slowdown in new leases seems to be disconnected from most tenants' current need for space, i.e. tenants in the pipeline seem to have extended their current contracts on short term basis in lieu of signing new space until the economic outlook becomes clearer. The office vacancy is now at historic high levels of 8.9 % representing approximately 840,000 sq m, due to the slowdown in new leases. As the employment outlook is stable, and the volume of conversion and demolition is still high, vacancy is predicted not to increase for the coming two years. The forecast for 2015 is that rent levels in the fringe areas will experience a drop of between 2 % and 10 % from today's levels, while the CBD rents will remain at their current levels. The continuing oil price uncertainty has resulted in a slowdown in the oil and offshore industry, and employee cutbacks have started. Thus, an increase in subletting is expected in the west fringe areas of Oslo where the oil & offshore clusters are located.

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

GRAPH 25
Oslo



Graph source: Heilo

Paris CBD

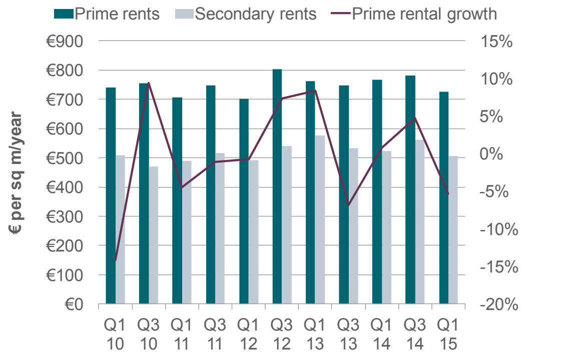
In Q1 2015, market activity concentrated in Paris and particularly in the CBD which totalled 96,200 sq m. The letting activity has been driven by small transactions below 5,000 sq m accounting for 77% of the total take-up in the area. Since the beginning of the year, 11 deals of > 5,000 sq m have been recorded in Q1 2015. At the end of the Q1, the level of immediate supply was 370,000 sq m, which reflects an increase of 1.9% compared to last quarter. Therefore, the vacancy rate has increased and stands at 5.5% compared to 5.4% at Q4 2014. Large office supply exceeding 5,000 sq m totals 450,022 sq m, of which 82.2% is available, 7.9% will be delivered over the course of the year, 5.4% is in the pipeline for 2016 and 4.4% for 2017.

The prime office rent in the area declined by 5.3% over the past quarter and stands at €726 per sq m/year. At the same time, the average rent declined by 1.9% and stands at €506 per sq m/year.

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

GRAPH 26

Paris CBD



Graph source: Savills

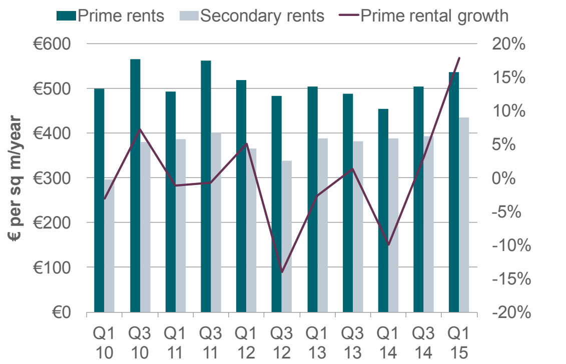
Paris La Defense

In Q1 2015, office take-up in the La Defense totalled 16,900 sq m, which is 12.7% up compared to the same period last year. The number of deals remained unchanged compared to 2014: no transaction > 5,000 sq m has been signed in Q1 2015. In 2015, activity is growing in La Defense, bringing about a destocking. The immediate supply has thus decreased from 11%. Therefore, the vacancy rate has decreased and stands at 10.4% compared to 11.7% in Q1 2014. The improvement of this market goes hand in hand with an upward trend of rent: the prime rent has thus increased to 17.8% compared to the last quarter to establish itself at €535 per sq m/year and the secondary rent rose to 2.1% in order to reach 434€ per sq m/year. The market of La Defense is progressing, supported by frequent and sometimes substantial incentives.

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

GRAPH 27

Paris La Defense



Graph source: Savills

Stockholm

The private sector has developed in a positive direction, but tenants remain cautious on the rental market. Most letting processes still take a significant amount of time, even for the best premises on the market. Despite this behaviour, the market rents have remained stable and are rising in areas close to the CBD zone. The trend of relocating 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 of course results in large coming vacancies, primarily in the CBD area. However, these relocations are spread out in time and should not result in vacancy spikes.

The development pipeline is fairly limited and very much focused on the northern suburbs, but construction is picking up in other areas as well. The majority of the pipeline is fully let, but the number of speculative projects is increasing. However, the northern suburbs such as Frösunda and Kista are facing a much more difficult market as vacancies are rising and could be heading for a weaker rental market in the coming years, at least for the older, existing stock.

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

GRAPH 28

Stockholm

Graph source: Savills

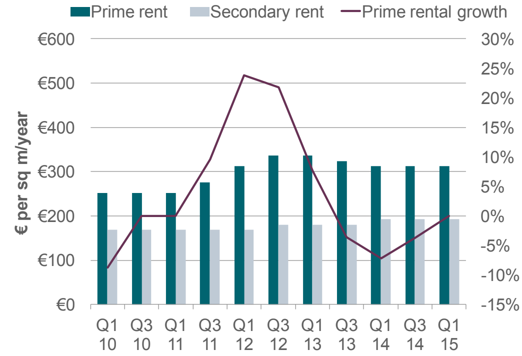
Vienna

After a comparatively modest performance in 2014, a notable increase in take-up is expected in the Viennese office market in 2015. In the first quarter of 2015, take-up amounted to roughly 55,000 sq m and 260,000 sq m are forecast for the whole year; an increase of approximately 20% compared to the previous year.
The positive effects are due to advance lettings in several new large-scale projects. Several high-quality projects will come to the market in 2016/17 and will inspire large transactions above 2,500 sq m. This year, however, deliveries will stagnate at a low level of only 130,000 sq m. The vacancy rate continues to decline slightly and is currently at 6.6%. Rental levels are stable with average rents of €13.5 per sq m and prime rents of €26 per sq m.

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

GRAPH 29

Vienna



Graph source: EHL

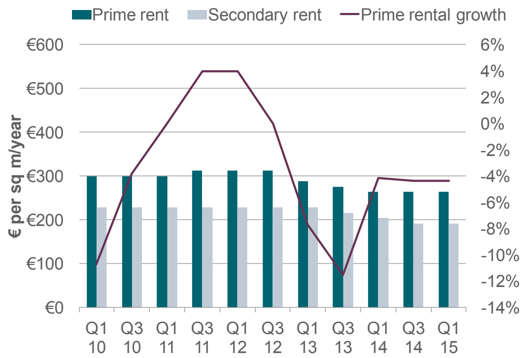
Warsaw

Almost 704,000 sq m of office space was under construction at the end of March 2015. Development in the city centre is now particularly high with almost 274,000 sq m of office space and projects. The other two zones with high development activity are Upper South and South West.
The office stock is expected to exceed 5 million sq m in 2016 (only three years after 4 million was broken), which is another proof the market is accelerating.
Total letting activity in Warsaw in Q1 2015 was almost 168,300 sq m which is the second highest volume of take-up that has ever been recorded in Warsaw during the first three months of the year.
The average vacancy rate in Warsaw increased by 80bps yoy to 13% at the end of March 2015.
Headline rents in the best office buildings located in the heart of the city centre are stable at ca. €264 per sq m/year, but office space in other, non landmark buildings are often offered at below €240 per sq m/year.
As the vacancy rate is expected to increase in the next 24 months, rents are expected to decrease, especially in the city centre.

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

GRAPH 30

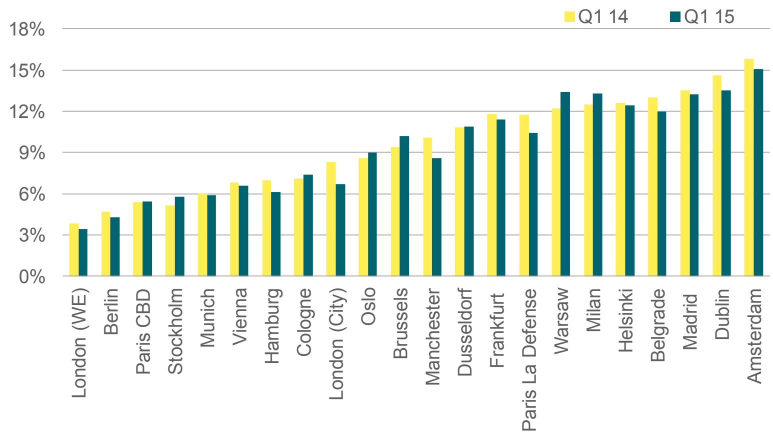
Warsaw



Graph source: Savills

GRAPH 31

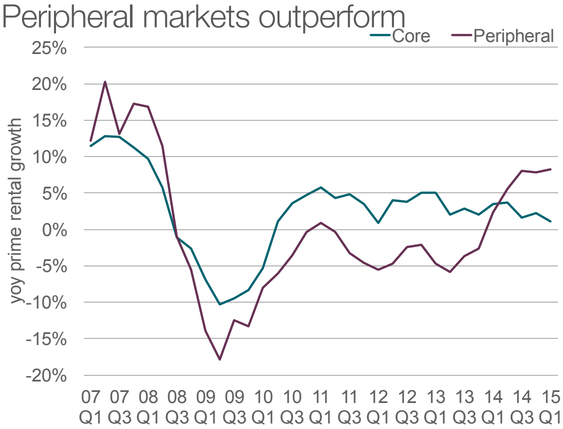
Vacancy rates Q1 2015 Declining in most cities



Graph source: Savills

GRAPH 32

Core vs Periphery CBD rental growth Peripheral markets outperform



Savills, core=D,NL,F,UK,SE,AT,BE, periphery=IT,ES,IRE,GRE, PL,SRB

Key office indicators

Prime[1] CBD rents[2], letting data in Q1 15

City	National GDP growth 15*	National employment growth 15*	City GDP growth 15*	Prime rent	Prime rental growth[3] Q1 14-15	Take-up growth[4] Q1	Vacancy rate Q1 15
Amsterdam	1.4%	0.6%	1.8%	365	7.35%	-3.0%	16.1%
Athens	1.3%	2.3%	1.6%	240	11.11%	NA	18.5%
Belgrade	-1.9%	-0.1%	NA	174	3.57%	8.0%	12.0%
Berlin	2.4%	0.3%	2.6%	274	3.64%	-24.0%	4.3%
Brussels	1.3%	0.5%	1.1%	275	-6.78%	-0.30%	10.2%
Cologne	2.4%	0.3%	2.2%	240	-10.31%	-12.0%	7.4%
Dublin	3.4%	0.6%	2.9%	538	34.50%	-21.0%	13.5%
Dusseldorf	2.4%	0.3%	2.3%	312	-5.45%	1.0%	10.9%
Frankfurt	2.4%	0.3%	2.5%	456	0.0%	-7.0%	11.4%
Hamburg	2.4%	0.3%	2.6%	294	2.08%	16.0%	6.1%
Helsinki	0.3%	-0.1%	0.5%	417	1.46%	NA	12.45%
London West End	2.8%	1.4%	4.0%	1,765	4.35%	-7.0%	3.4%
London City	2.8%	1.4%	4.0%	1,228	15.17%	56.0%	6.7%
Madrid	2.5%	2.8%	2.9%	309	4.04%	30.0%	13.23%
Manchester	2.8%	2.0%	3.5%	471	6.67%	-3.0%	8.6%
Milan	0.3%	0.8%	1.0%	490	2.08%	44.0%	13.%
Munich	2.4%	0.3%	2.4%	414	2.99%	20.0%	5.9%
Oslo	0.6%	0.0%	1.6%	426	2.78%	NA	9.0%
Paris CBD	1.2%	0.0%	1.4%	726	-5.35%	0.21%	5.46%
Paris La Defense	1.2%	0.0%	1.4%	535	17.84%	12.67%	10.43%
Stockholm	2.0%	0.9%	2.6%	512	0.0%	NA	5.75%
Vienna	0.8%	0.1%	0.4%	312	0.0%	38.0%	6.6%
Warsaw	3.5%	1.7%	4.3%	264	-4.35%	29.0%	13.4%

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

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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