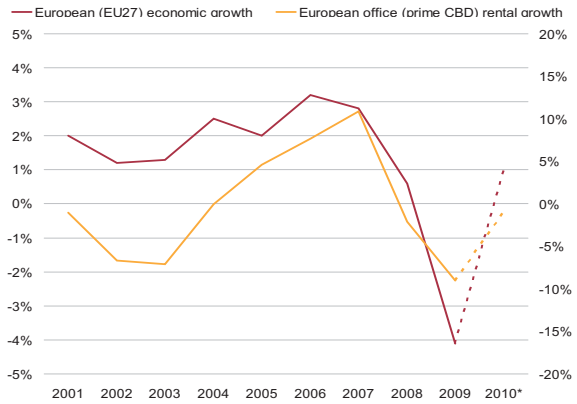
European Office Markets

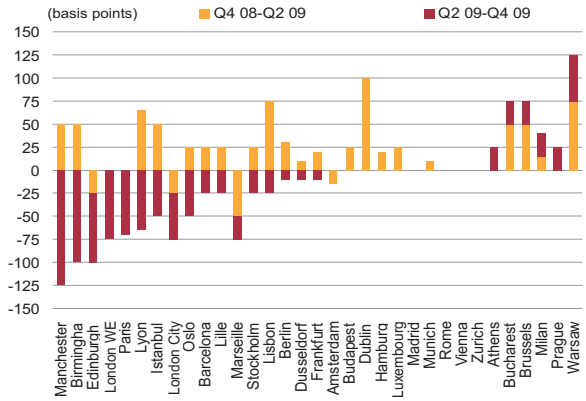
Spring 2010

Rental growth will slowly recover in 2010



Source: Savills Research / * Forecast

Prime yields are hardening



Source: Savills Research

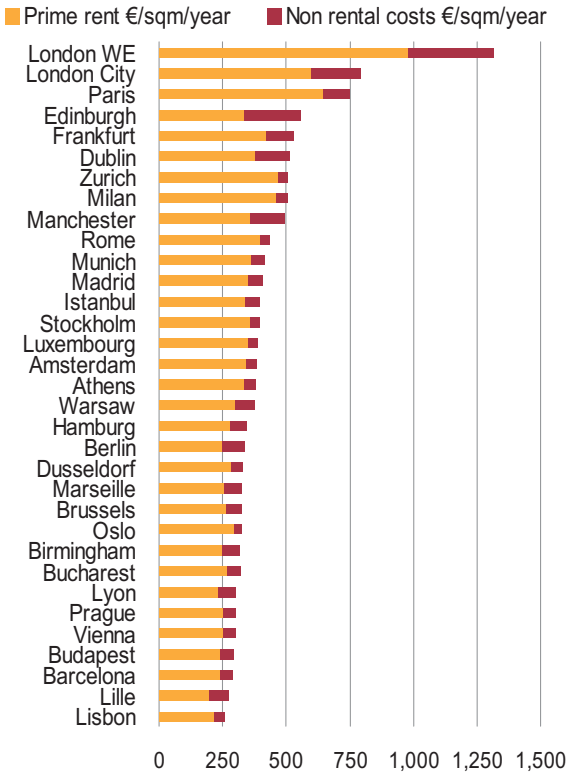
"Take-up picked up in most locations during the second half of the year, with some locations showing strong figures during the final quarter of 2009. Thanks to restricted development, rents started to stabilise and even increased in few European cities. This trend should spread to most locations during 2010. "

Lydia Brissy - European Research

- Take-up increased by 18% between the first and the second half of 2009 and surged by 25% (q-o-q) during the final quarter of the year. In many locations covered in the report, the share of large transactions increased significantly throughout the year. On the other hand, the large amount of office supply offered at competitive price is a real opportunity for office occupiers seeking to control costs.
- In spite of restricted development activity and recovering demand, availability is on the rise in most cities often fuelled by recent office completions. The average vacancy rate is at 9.9%, up from 9.0% six months ago and from 8.1% at the end of 2008. According to our 6-month outlook survey, supply is expected to increase further in 67% of the CBD locations.
- Rental growth remained negative but the decline is slowing. Our first estimations suggested that Prime CBD rents dropped by -9.0% pa in Q1 2010, against -10.5% in Q3 2009. Average rents are projected to continue to fall over the next six months for 37% of the markets surveyed while 60% expect rents to stabilise. At the end of 2010, the average annual CBD rental growth will reach 0%.
- Renewed interest from investors combined with the lack of product on the market started to put some downward pressure on yields in many European cities since the middle of last year. Still, on average across Europe, prime CBD yields moved out by around 4 basis points. The gap between prime and secondary yields is widening.

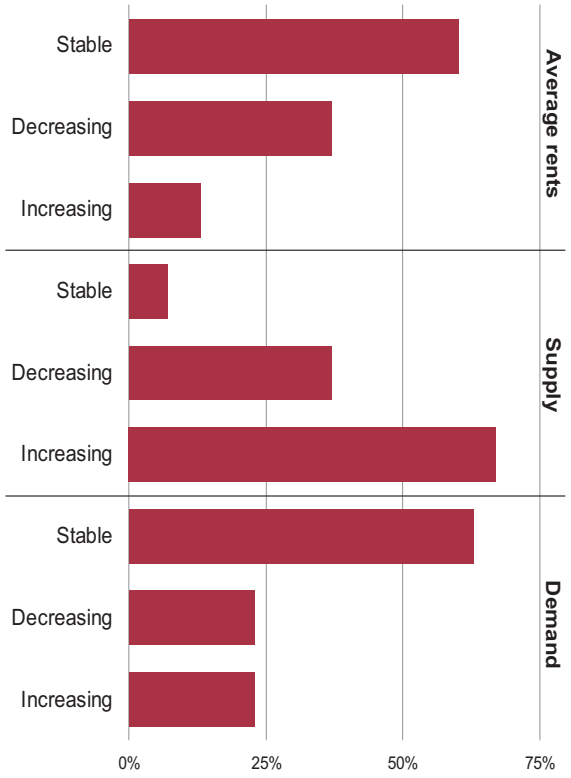
Comparisons

Prime CBD occupancy costs



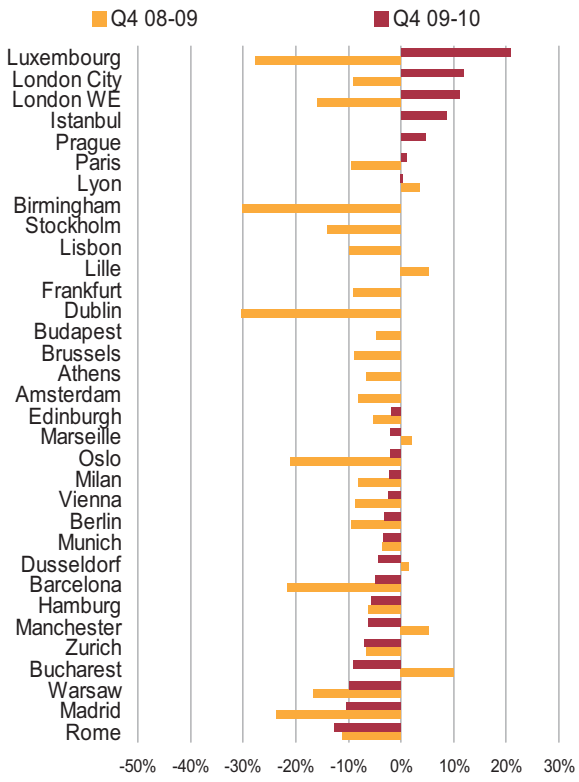
Source: Savills Research

6-month outlook is more optimistic



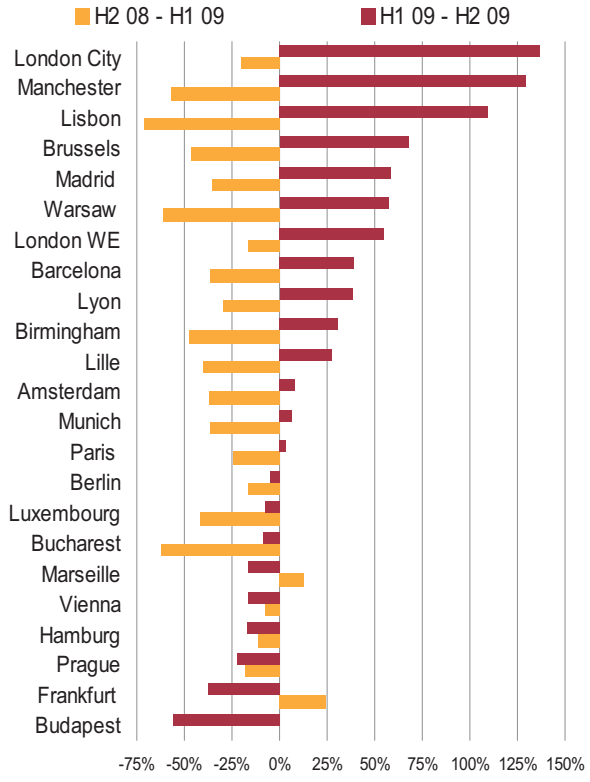
Source: Savills Research

Annual prime rental growth and forecast



Source: Savills Research

Letting activity is recovering



Source: Savills Research

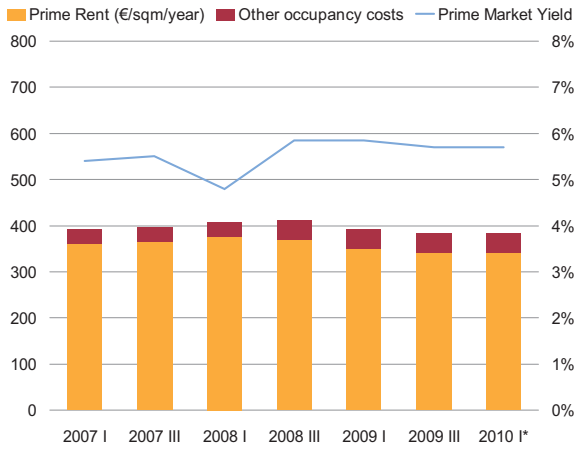
Amsterdam, Athens, Barcelona

Amsterdam

In 2009, take-up in Amsterdam amounted to 200,000 sqm, 50% lower than the previous year. Demand rose slightly throughout the year, notably during the final quarter with 80,000 sqm transacted. The two largest letting deals were concluded in the South Axis, which accounted for 23% of the annual take-up. Nearly half of the transactions were in offices exceeding 2,000 sqm and a large part of demand came from the service industry.

Supply reached 1.1 million sqm at the end of 2009, reflecting a 15.9% vacancy rate. The Southeast and West areas account for 50% of the total supply.

Due to the widening imbalance between supply and demand, headline rents decreased slightly over 2009, while at the same time incentives did go up significantly and could be up to 25%, depending on the situation.

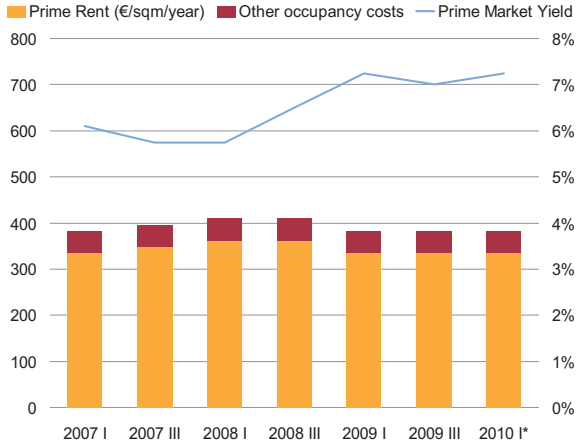


Source: Savills Research / * First estimations

Demand → **Supply** ↗ **Rents** →

Athens

The ongoing crisis has caused a slowdown in leasing activity with longer decision making and negotiation periods. Occupiers are trying to benefit from the weaker market conditions by renegotiating their current leases at lower rents or by looking for higher quality space to relocate to. Demand is still supported by the need for rationalisation; therefore most enquiries are large-scale and still hard to satisfy. The availability of prime properties remains unchanged, while more vacancies are noticed in smaller buildings and secondary locations. Devlopement has also slowed down significantly, especially large scale projects, which are hard to finance. Prime rents dropped on average by 5.5% but we do not expect to see any further significant fall due to the limited supply of good quality space. More significant rent corrections are expected in the secondary segment of the market, which is going to experience declining demand.



Source: Savills Research / * First estimations

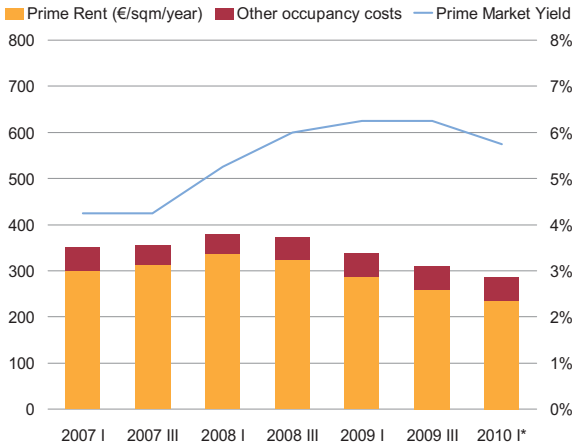
Demand ↘ **Supply** ↗ **Rents** →

Barcelona

The gross office take-up reached 248,000 sqm in 2009, representing a fall of 30% compared to 2008. However, there has been a steep recovery in demand during the last quarter when almost 40% of the annual take-up was transacted. This high quarterly growth was many backed by a number of large deals closed during the latter part of the year.

The weak economic climate is having a strong impact on company cost structures. Therefore tenants are giving priority to saving on rents which has become the most determining factor when looking for a new location. The flexibility of landlords aiming to stimulate demand together with increasing supply continue to put downward pressure on rental values.

The prime CBD rent currently stands at €20/sqm/month, which is a quarterly fall of 7% and a drop of 28% compared to the peak of the cycle.



Source: Savills Research / * First estimations

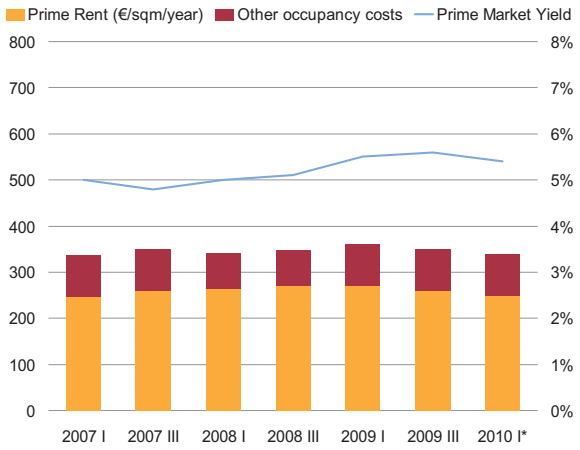
Demand → **Supply** ↗ **Rents** ↘

Berlin, Birmingham, Bucharest

Berlin

In 2009, 541,700 sqm of office space and thus approx. 22% less than in 2008 were transacted in the German capital. Both prime and average rents contracted further during the past months. On average throughout the year the prime rent stood at €248/sqm/year compared to €274/sqm/year in 2008. The average rent reached €131/sqm/year after €144/sqm/year in 2008. However, the drop down in rents and the decrease in take-up did not accelerate during the second half of 2009. Despite the weak letting performance the vacancy rate decreased slightly to 7.8%.

As speculative development completions will pick up in 2010 and 2011, rents will likely remain under pressure. Moreover, given the continuously challenging situation we do not expect that take-up in 2010 will exceed 2009's total.



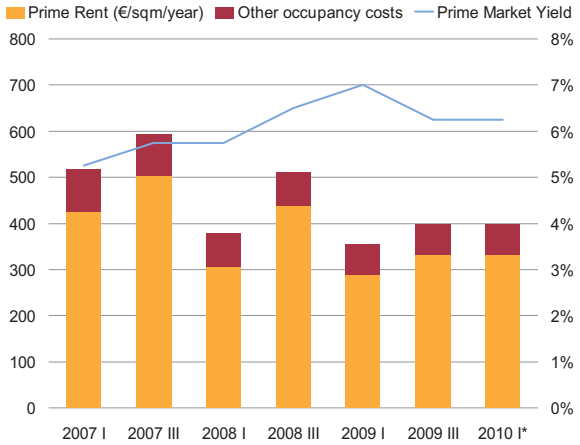
Source: Savills Research / * First estimations

Demand → **Suplly** ↗ **Rents** ↘

Birmingham

Take-up in 2009, in the prime core, reached 300,763 sqft. (Wider CBD take-up totals 461,280 sqft). 52% of space in the prime core was Grade A. Looking at the size band of take-up in the first half of 2009, there has been an above average proportion of deals at the sub-10,000 sqft bracket reflecting a bias towards the smaller end of the market.

Due in part to tenant returns, total supply increased in the last quarter of 2009 and now stands at 1.9 m sqft. The current vacancy rate is now 17.6%. On a positve note, with the development pipeline peaking, this should be the last significant increase in the current cycle. The dominant business sector in 2009 was the Public Sector accounting for 40% of take-up. The highest rent achieved in 2009 was £28/sqft/year.



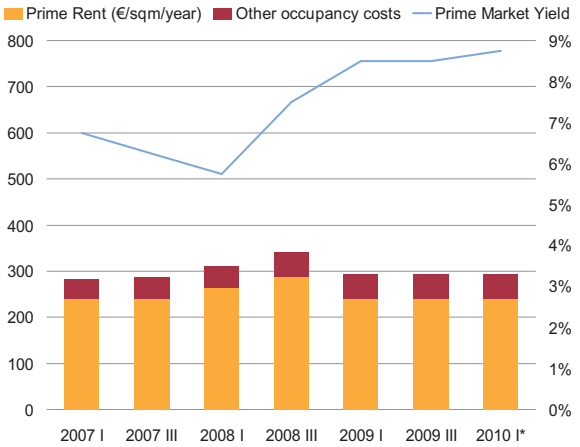
Source: Savills Research / * First estimations

Demand ↘ **Supply** ↗ **Rents** →

Bucharest

Weak demand as a consequence of the economic crisis has hit the Bucharest office market in a period of rapid growth, leading to a large oversupply of modern space. As hardly any new developments have been started since the outbreak of the crisis in mid-2008, supply will be lower than projected in 2009 and 2010, thereby easing pressure on vacancy rates. Rents have dropped significantly with prime rents falling to €18-20/sqm/month. Market activity is mainly driven by contract renegotiations, companies relocating and relocations aimed at reducing rental space. A smaller number of companies are grabbing the opportunity to relocate to the CBD at the current veryfavourable rates.

Demand will remain weak at least until the second half of 2010, but as supply drops, average vacancy rates will not increase significantly in 2010, nor will rents fall significantly below 2009 levels.



Source: EHL Immobilien Gmbh / * First estimations

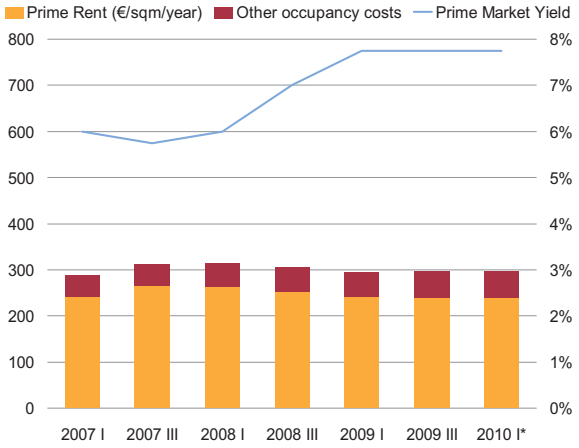
Demand → **Supply** ↘ **Rents** →

Budapest, Brussels, Dublin

Budapest

The negative trend experienced by the Budapest office market in the first half of the year continued into the second half of 2009. Weak demand has resulted in vacancy rates rising. As virtually no foreign companies are entering the Hungarian market or expanding operations here, the lion's share of all new leasing contracts is made up of relocations within the city. In most cases the leased area is reduced substantially when relocating. Only a few developments were started in 2009, meaning that supply will fall drastically in 2010 and even more in 2011.

The weak status of the office market will not change within the next 12 months. In late 2010, the total lack of deliveries is likely to lead to a stabilisation of rental levels, followed by a fall in vacancy rates reflected by a slight rise in rents in 2011. This will apply in particular to properties in the medium price range that provide good value for money.

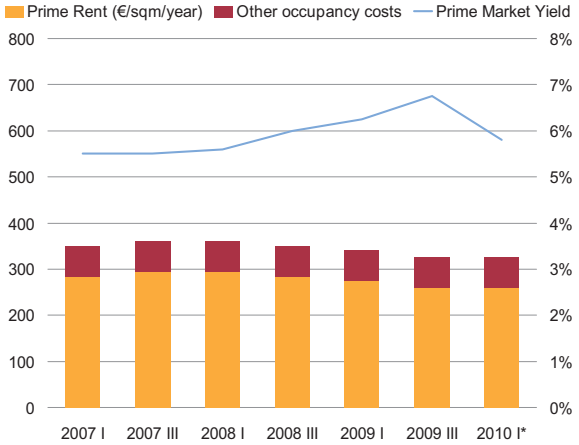


Source: EHL Immobilien Gmbh / * First estimations

Demand ↗ **Supply** ↘ **Rents** →

Brussels

The letting market in Brussels surged in activity during the last quarter due to the confirmation that Electrabel-Suez would let 75,000 sqm in the Fortis Real Estate development in the North District 'North Light-Pole Star'. Marking one of the largest letting transactions in the last five years, as well as increasing Q3 – Q4 activity up by 165%, Q4 activity in Brussels led to a total end-year result of 343,600 sqm surpassing initial forecasts of 250,000 sqm. Activity however remained strong enough for rents in the outer-CBD to increase compared to the outer-CBD. Prime rents in the Periphery remained at €165/sqm/yeaar unchanged from 2008 whilst top quartile rents only fell by -1.52% to €162.5/sqm/year. In the CBD, prime rents have performed quite weakly during 2009 dropping on average by -6.3% whilst top quartile rents fell -1%. The vacancy rate is now at 11.8% up from 11.5% at the end of Q3 2009.



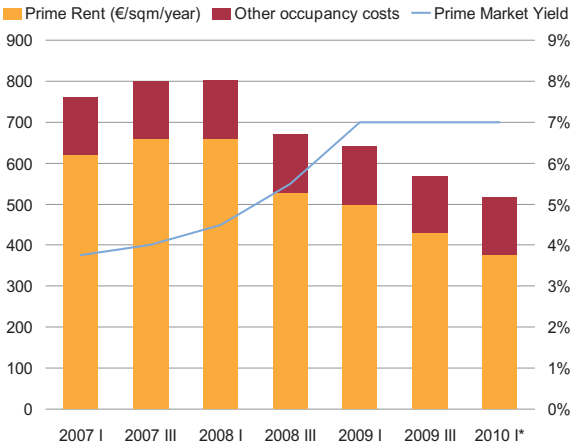
Source: Savills Research / * First estimations

Demand ↘ **Supply** ↗ **Rents** →

Dublin

Starting from a very low point in Q1 2009, the Dublin office market continued to see a slight improvement over the remainder of the year. Take-up in 2009 was 70,000 sqm compared to 200,000 sqm in 2008. The ecommerce and IT sectors were the main drivers of new demand with an increasing level of interest from shared services and insurance users. Rents continued to decline, with prime city rents now stabilising at approximately €375/sqm/year, down from peak levels of about €575/sqm/year. The vacancy rate increased during H2 2009, as new buildings were delivered.

The vacancy rate is expected to peak in early 2010 at around 20% overall but in the prime city centre it should be about 15%, while in the suburbs it could reach 30%. Office supply is not expected to decline in the short term, though the quality of vacant stock is likely to decline as tenants pick off the better quality stock.



Source: Savills research / * First estimations

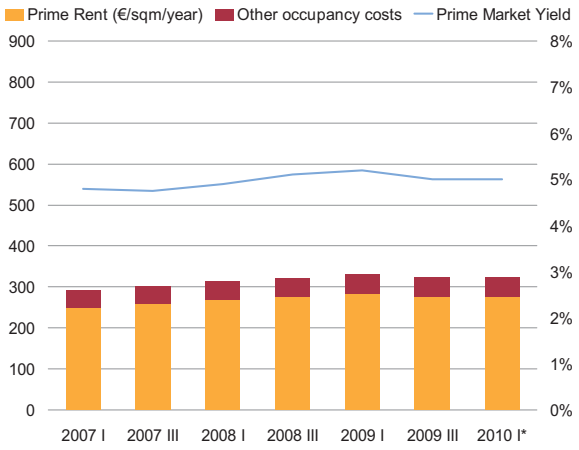
Demand ↗ **Supply** ↗ **Rents** →

Dusseldorf, Edinburgh, Frankfurt

Dusseldorf

The Dusseldorf office market was rather ambiguous in 2009. On the one hand it suffered by far the sharpest decline in take-up of the five large German office markets; on the other hand nowhere else in Germany did rents remain that stable. Just 202,000 sqm of office space was let last year, which marks a decrease in excess of 52% compared to 2008. However, as quite a considerable portion of the transactions took place in the range in excess of €240/sqm/year, the prime rent remained constant at €282/sqm/year. The average rent likewise remained unchanged at €162/sqm/year. This is mainly due to the fact that approximately 20% of 2009's total take-up was transacted in the banking district and the city centre.

As several major letting transactions are currently under negotiation the beginning of 2010 is likely to be slightly better than 2009. However, we do not expect a strong recovery in the market.



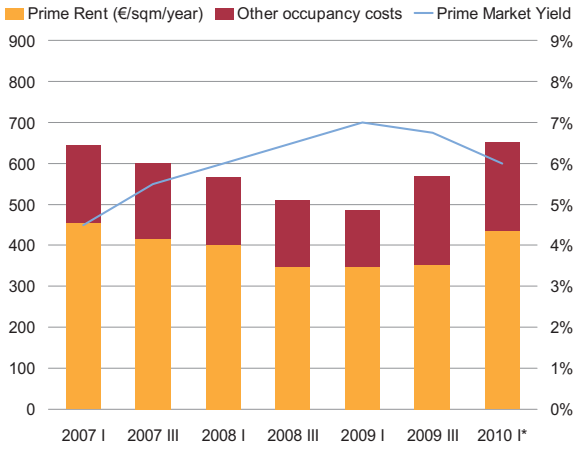
Source: Savills Research / * First estimations

Demand → **Supply** ↗ **Rents** ↘

Edinburgh

Recession continued to stalk the Edinburgh office market in the second half of 2009, with take-up identical to the first half at around 246,000 sqft. This brought the full year total to just under 500,000 sqft, well down on the previous year's total of 661,000 sqft. On the supply side, vacant space rose from 2.8 million sqft at the end of June 2009 to 3.2 million sqft at the end of December. While some of this rise was due to tenant returns, the bulk of it was due to the delivery of the final few speculatively developed projects in the city's pipeline.

The development pipeline is now severely constrained. Even against a background of below average levels of tenant demand this will be enough to deliver a steady fall in the level of availability over the next three years. As demand begins to recover towards its long run average level (as it is forecast to from 2011), the fall in vacancy levels will accelerate.

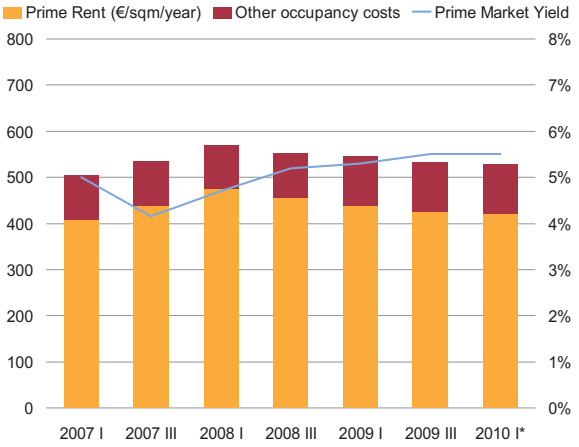


Source: Savills Research / * First estimations

Demand → **Supply** → **Rents** ↘

Frankfurt

The Frankfurt office market experienced a very sharp decline in take-up during the second year-half of 2009. In total, 355,000 sqm and thus approx. 29% less than in 2008 was transacted during last year. The banking district accounted for almost 44% of the transacted volume and hence represented the most active submarket. Although the finance sector had been severely hit by the downturn, companies from this sector surprisingly continued to rent new premises even in 2009. As much as a third of the total transacted volume was generated by this segment. The prime rent continued its downward trend but did not fall as sharply as during the first half of the year. At year-end it stood at €420/sqm/year. Due to the banking district's extremely high share of the total transaction volume the average rent increased during the second half of 2009. At the end of the year €228/sqm/year had been achieved.



Source: Savills Research / * First estimations

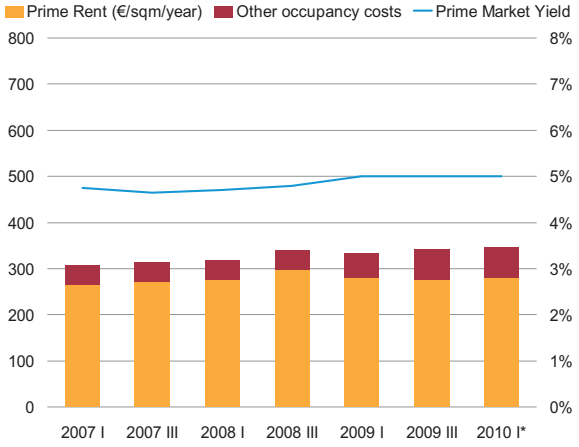
Demand → **Supply** ↗ **Rents** ↘

Hamburg, Istanbul, Lille

Hamburg

Not least due to the city's export dependency the recent economic recession indeed had a major impact on the Hamburg office market. In 2009 just 372,000 sqm of office space was transacted. This marks a decline in take-up of 26% compared to 2008. Although the demand for office space stabilised during the second year-half, 2009's take-up was circa 100,000 sqm below the five year average. Due to the low level of take-up the vacancy rate moved out to 7.5%. The slow down in the letting market led to a drop in the prime rent. At the end of the year it stood at €280/sqm/year and hence approx. 6% below the level of 2008.

With continuously challenging economic circumstances another year of below-average letting performance and rising vacancies has to be anticipated in 2010.

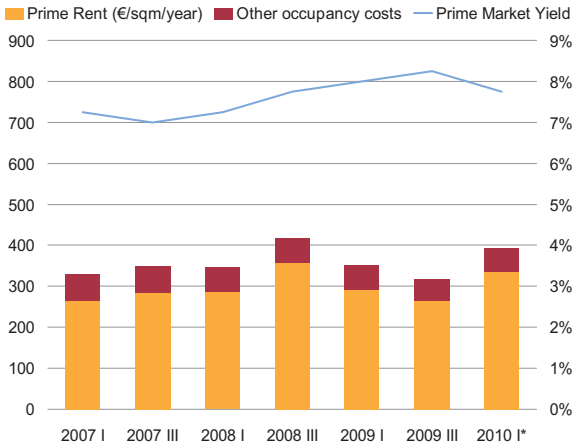


Source: Savills Research / * First estimations

Demand → **Supply** ↗ **Rents** ↘

Istanbul

The economic crisis has affected office demand negatively since the lend of 2008. Fewer deals were signed and decision making process became slower. Because of the economic uncertainty, some companies delayed moving during the first half of last year but gradually, signs of recovery were recorded until the end of 2009. The annual take-up of Grade A space was 85,000 sqm and demand was mainly driven by Telecommunication, IT, Electronic, Insurance and Pharmaceutical sectors. Office stock in Istanbul has reached 2.8 million sqm, of which almost 50% is located in the CBD covering Besiktas, Sisli-Mecidiyeköy, Levent, Maslak regions. The average vacancy rate has risen to 9.1% in Istanbul, while in the CBD, availability is still low (2.4% in Levent) .The prime rent is $35/sqm/month (€335/sqm/year) in Levent- prime CBD while it was $32/sqm/month at the bottom during 2nd quarter of 2009.



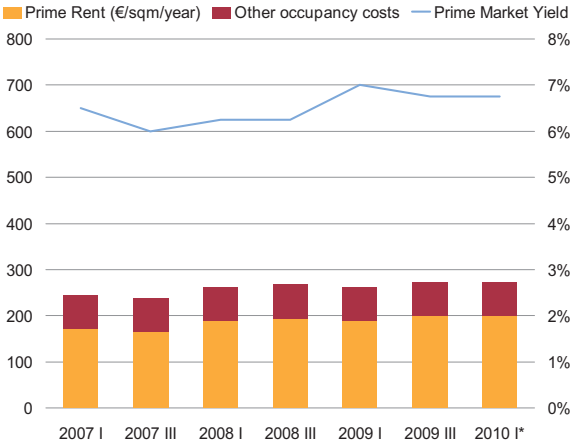
Source: Kuzey Bati / * First estimations

Demand ↗ **Supply** ↗ **Rents** ↗

Lille

In 2009, take-up in Lille amounted to 110,110 sqm, 16.7% down compared to the previous year. However, in line with the trend seen in the French capital, demand strengthened throughout the year and showed an increase of 27.8% between the first and the second half of the year. Take-up was stimulated by an inflow of new office space at competitive prices. Indeed, due to the recent delivery of new office completions, supply increased from 75,217 sqm to 91,609 sqm between the mid and end of year. This large volume of new buildings put downward pressure on rents, reducing the gap between prime and secondary rents. Transactions were mainly concentrated in Villeneuve d'Ascq and in the centre of Lille were most of the new completions were delivered.

As the development pipeline decreased significantly in the past two quarters, we believe supply will decrease during 2010 and rental level should stabilise.



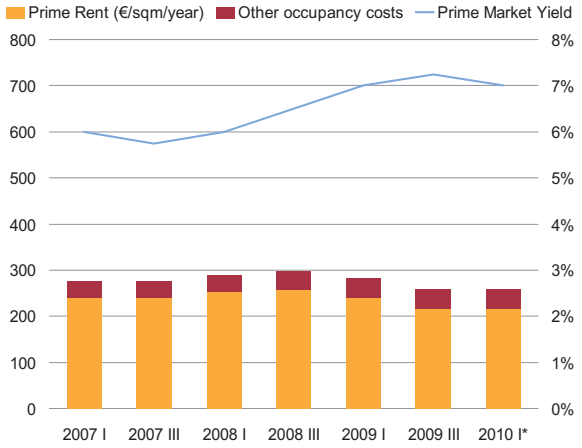
Source: Savills Research / * First estimations

Demand → **Supply** ↘ **Rents** →

Lisbon, London

Lisbon

The best year ever in Lisbon's office market in terms of take-up (2008) has now officially been followed by its worst, with only 115,600 sqm of take-up recorded for the whole of 2009. The already fragile economy has been reflected by companies in the form of downsizing and unwillingness to invest in new office space, and in particular the top end of the market has been affected by a move to prioritise value-for-money over image. Prime rents have weakened again, down to €18/sqm/month and average rent-free periods are now around 6 months, and increasing. There are two positive aspects to this depressed scenario, firstly in the fact that overall vacancy rate is still relatively low at just over 9.5%, and even lower at 6% in the CBD, but also that the very successful letting of the first of the twin 24,000 sqm Colombo office towers shows that demand exists for good quality at the right price.



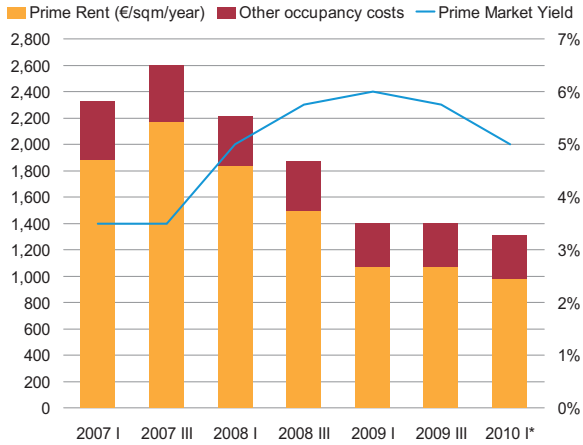
Source: Abacus Property Ltd / * First estimations

Demand → **Supply** ↘ **Rents** →

London WE

Despite a pick up in activity in the last quarter in 2009, take-up was 30% down on the long term average of 3.5 million sqft, reaching only 2.4 million sqft. This pick up in activity gives us some indication there has been a change of sentiment amongst tenants however this will not be enough to push take-up in 2010 to above the long term average. Availability in the West End began to stabilise towards the end of the year and finished at 6.7% (8 million sqft), this is low in comparison to most other UK and European office markets.

We estimate that prime rents fell by 20% during 2009. However, towards the end of 2010 we expect to see a steady rise in prime rents as a result of the West End's restrained development pipeline.



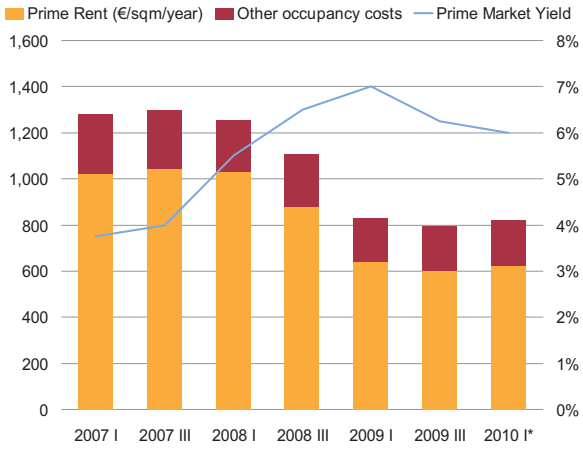
Source: Savills Research / * First estimations

Demand → **Supply** ↘ **Rents** ↗

London City

The City of London office market surprised on the upside in the second half of 2009 with two very strong quarters of take-up. Indeed, the monthly average take-up level more than doubled from 225,000 sqft in the first half of last year to 532,000 sqft in the second half. This brought the total take-up for the year to 4.5 million sqft, marginally ahead of the long term average for this market. The vacancy rate has already begin to fall, ending 2009 at 14.2% overall (well down from its peak of 15.3%). However, this still means that there is nearly 11.5 million sqft of office space being marketed in the City, 56% of which is Grade A.

So why are we beginning to see the signs of some urgency to acquire space amongst the City's larger businesses? The answer is clearly related to the state of the development pipeline. Over the period 2010-13 there is an average of less than 1million sqft/year of speculative development completions programmed.



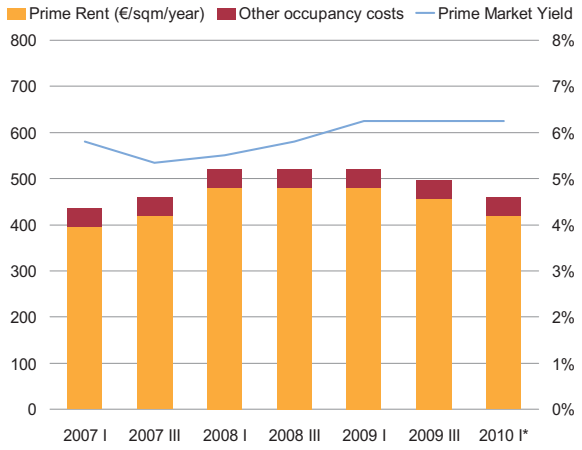
Source: Savills Research / * First estimations

Demand ↗ **Supply** ↘ **Rents** ↗

Luxembourg, Lyon, Madrid

Luxembourg

Total take-up during 2009 in Luxembourg was weak and reached approximately 114,000 sqm. Compared to 2008, take-up fell by 32% and by 14% compared to the five-year average. The market dynamics are less buoyant than in its heyday with some significant supply and demand imbalances. The largest drops in activity, compared to 2008 were noticeable in the Kirchberg (-70%), CBD (-66%), Station (-57%) whilst activity increased in the Periphery (+47%) and the Decentralised (+14%). Rents overall have been much harder to analyze given the fewer letting transactions in the market. Based on transactions during 2009, prime rents now stand closer to €420/sqm/year representing a decrease of 12.50% compared to a year previous. In 2009, new deliveries, of which 80% were speculative, totalled almost 166,000 sqm and due to this, the current vacancy rate has risen from 2.05% at the end of 2008 to 5.34% today.



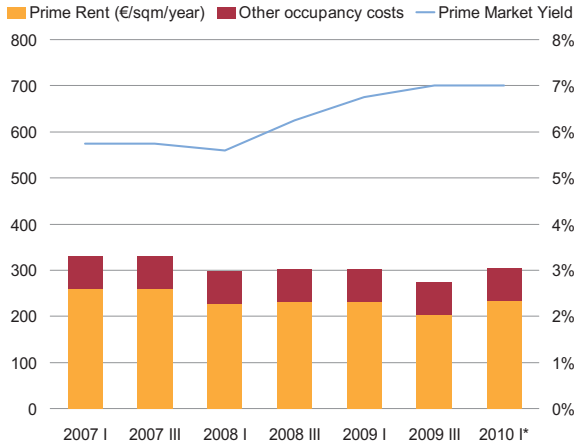
Source: Savills Research / * First estimations

Demand ↘ **Supply** ↗ **Rents** →

Lyon

In 2009, around 159,600 sqm was leased in Lyon. This represents a decline of 20.2% compared to the previous year. In spite of this weak result, take-up improved significantly during the second half of the year (38.6%). Demand was mainly driven by small and medium size companies whereas large office end-users were very quiet. Due to low take-up but also to the still significant level of completions, supply increased reflecting a vacancy rate of 7.25% at year-end 2009 against 5.90% in July. The weak letting performance combined with the increasing availability had a downward impact on rental values. The prime rent in Lyon stands at €235/sqm/year.

With continuously challenging economic circumstances and a still large office pipeline, another year of low letting performance and rising vacancies is anticipated in 2010.

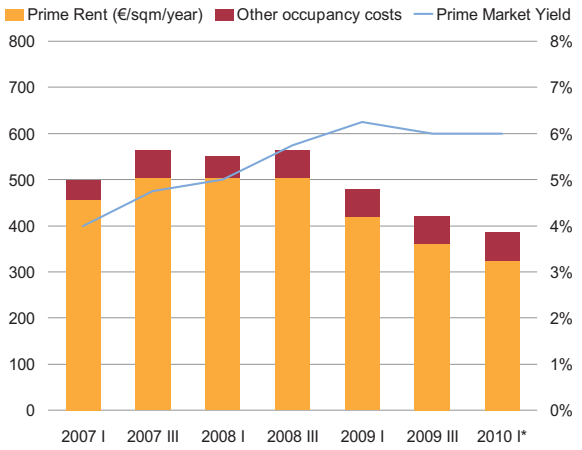


Source: Savills Research / * First estimations

Demand → **Supply** ↗ **Rents** →

Madrid

Gross take-up in Madrid exceeded expectations, reaching 315,000 sqm. Fourth quarter figures accounted for 46% of the annual take-up, in part due to the "end-of-year effect", which generally urges to resolve pending business matters. On the other hand, the final decision on several large requirements which had been roaming the market for the past months, have taken place simultaneously. The five largest deals of the year, all closed in the final quarter of the year; represent 21% of the annual take-up. Despite having crossed the 300,000 sqm threshold, the annual volume represents a 35% decrease from previous year's levels. The delays on new completions and several new owner-occupied headquarters have not been able to slow down the increase in available space. Rents continue on a decreasing trend. Prime rents have settled between €28-29/sqm/mth, although one-off deals were closed on slightly higher rents.



Source: Savills Research / * First estimations

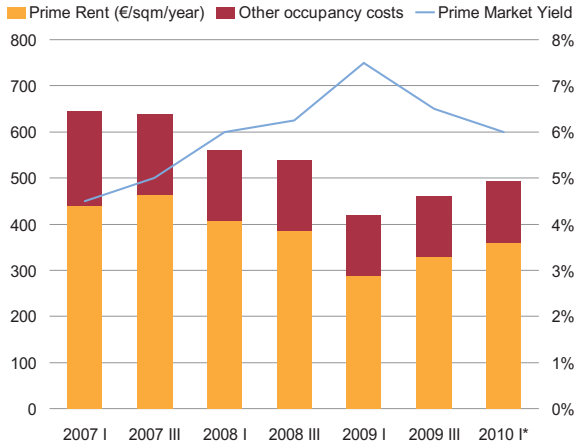
Demand ↘ **Supply** ↗ **Rents** ↘

Manchester, Marseille, Milan

Manchester

Take-up up in 2009 totalled 781,531 sqft. Enquiry levels fell; however, there is still a steady trickle of occupier activity. After increasing quarter on quarter, due predominantly to the number of development completions, supply has now started to decrease, falling by 10% over the last quarter and now stands at 2 million sqft. Grade A supply accounts for 48% of the total. The vacancy rate stands at 11%.

While we expect tenant demand to recover in line with the UK economic recovery, the supply-side is likely to remain debt-constrained for some time. As a result we expect the vacancy rate, particularly of Grade A stock, to fall quite sharply from late 2010 to early 2011. The constrained amount of new development cshould help minimise potential falls in rents. There will be below average levels of take-up in 2009 and 2010, thereafter, rents will stabilise and rent free periods should begin to decrease, before beginning to recover in 2011.



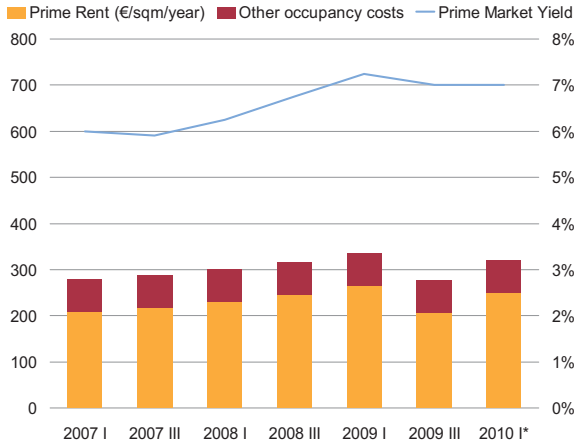
Source: Savills Research / * First estimations

Demand → **Supply** ↘ **Rents** →

Marseille

The letting activity in Marseille remained remarkably steady in 2009 given the economic downturn. Take-up totalled 66,000 sqm which represents a 13.7% increase compared to 2008. However, demand weakened throughout the year, decreasing by 16.7% between the first and the second half of the year. Demand was motivated by the delivery of new office buildings which had been scarce for the past years. As a result, the share of large transactions and pre-lettings was significant. Due to the large amount of completions, the vacancy rate moved out from 4.8% to 6.1% between July and December. Prime rents remained stable during the year and currently stand at €255/sqm/year.

As the development pipeline is relatively restrained over the next two years we believe that the letting market will stabilise in 2010.

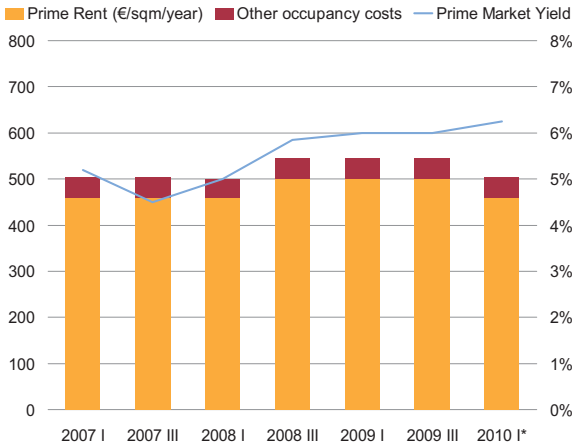


Source: Savills Research / * First estimations

Demand ↗ **Supply** ↘ **Rents** →

Milan

In 2009, take-up dropped by 54% in Milan compared to 2008. However letting activity increased throughout the year mirrored by a rise of 30% in the transacted volume between the first and the second half of the year. Demand was mainly driven by the Advertising / Marketing sector representing 1/4th of the total take-up in 2009 followed by the IT / Technology industry (17%). A number of well-connected new developments have contributed to strengthen the appeal of Milan's peripheral and out-of-town areas. In the city's historical centre, a change of use to residential is often seen as the most feasible alternative for the older, less efficient office stock. Office rental levels, which used to be very stable, finally registered a downturn at the end of the year. The outlook for 2010 remains one of limited activity at least in the first half, with the amount of space under demand now actually having fallen below the amount of space being transacted.



Source: Savills Research / * First estimations

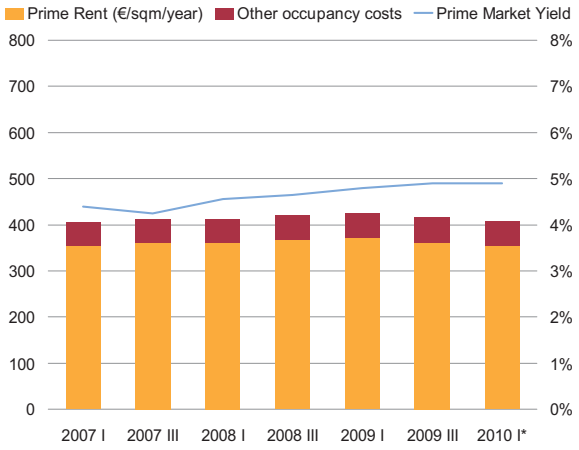
Demand → **Supply** ↗ **Rents** →

Munich, Oslo, Paris

Munich

The weakness in transactions that prevailed in the first half of 2009 continued throughout the rest of the year. Hence, the total transacted volume dropped by about a third compared to the previous year. A total of 518,400 sqm of office space was transacted in the Bavarian capital. The last fall of similar dimension had been recorded in 2002 when take-up had dropped by approx. 40%. Although the major part of office schemes completed during the past months were pre-let, vacancies increased markedly owing to the overall weak letting performance. At the end of the year approx. 7.9% of the office space in Munich was unoccupied. Consequently, prime as well as average rents decreased.

With new office completions rising this year and the likely consequences of the recession we expect a continuing decrease in rents and another rise in vacancies in 2010.



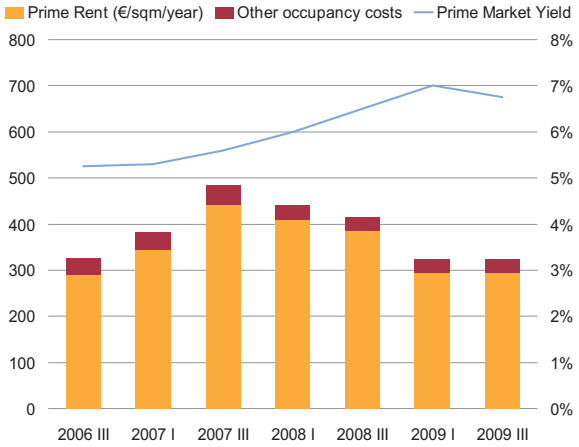
Source: Savills Research / * First estimations

Demand → **Supply** ↗ **Rents** ↘

Oslo

The Norwegian economy has developed better than predicted one year ago. The international downturn appears to have levelled off, and the financial markets are starting to recover slowly. This is good news for the Norwegian economy which has been hit less by the recession compared to the other Nordic countries. Office rents in Oslo declined by 10-20% during 2009, but the decline was at a slower pace during the second half of the year. During the final quarter, rents decreased by only 2% and we expect a similar trend during Q1 2010.

Prime rents within Oslo CBD are NOK2450/sqm/year whereas prime rents in non-CBD locations range between NOK2000-1500/sqm/year. We believe that rents will stabilise during 2010 and then hopefully improve somewhat in 2011.



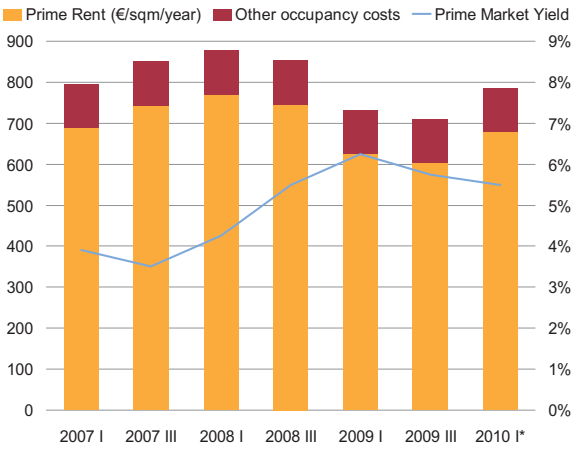
Source: Heilo Eindom AS / * First estimations

Demand ↘ **Supply** ↗ **Rents**

Paris

Fuelled by numerous large deals (+220% in volume), the letting activity in Ile-de-France increased by 48.3% during the final quarter of 2009 to circa 550,000 sqm. Still, the take-up at year-end 2009 showed an annual decrease of 23.5%, with 1.8 million sqm transacted. While extending their real estate cost cutting strategies month after month, occupiers are continuously vacating office space. The available supply went up by 6% last quarter and currently stands at 3.6 million sqm (+32.0% y-o-y). The vacancy rate reached 7.2%. A few large transactions hauled the Ile-de-France average rent up to €318/sqm/year during Q4 2009. The amount of incentives on offer still represent around 1.5 months per fixed year of the lease.

We believe that take-up in 2010 will be similar to the level recorded last year and supply will continue to rise. Overall rents will continue to fall although prime CBD rent are likely to stabilise in early 2010.



Source: Savills Research / * First estimations

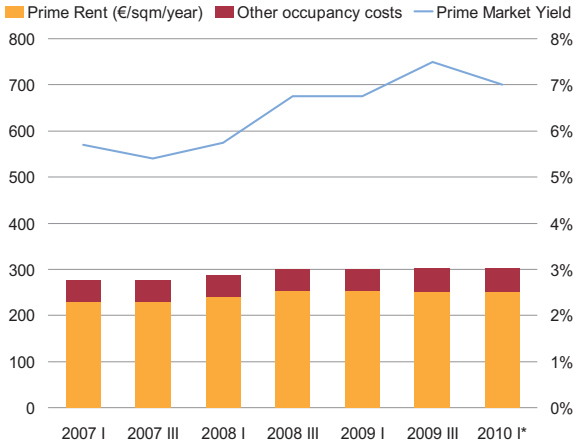
Demand → **Supply** ↗ **Rents** →

Prague, Rome, Stockholm

Prague

Although affected by the global economic crisis, the Prague office market has performed better than many other markets in the CEE/SEE region. 2009 saw a decrease in occupier demand due to consequences of the economic crisis. If the economic recovery continues in 2010 it is expected that occupier demand will start increasing as well. A significant increase in the amount of office space available for sub-lease was recorded during 2009. The total take-up for the full year of 2009 has been approx. 230,000 sqm including lease renegotiations, lease renewals and pre-purchases for owner-occupation. The total supply at the end of 2009 was approx. 150,000 sqm.

We estimated that supply for 2010 will be only approx. 54,000 sqm due to the lack of speculative development in the pipeline thus vacancy rate will slowly decrease.



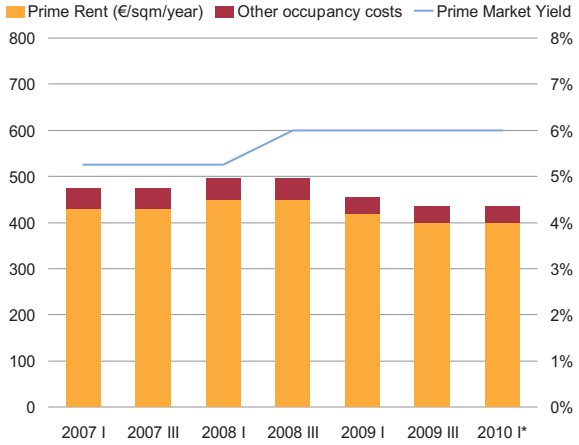
Source: EHL Immobilien Gmbh / * First estimations

Demand ↗ **Supply** ↘ **Rents** →

Rome

Take-up in the Rome office market remains low, both in the private and public sectors. As a result of the market and economy-driven fall in demand, asking rents are being adjusted in a downwards direction, having fallen gradually during 2009 to the current prime rent of €400/sqm/year. Rental levels are expected to continue to move downwards in 2010. The use of incentives is also more frequent now and these can include a contribution to fit-out costs, rent-free periods and stepped rents. Occupiers remain focused on units falling within the 500-1,500 sqm bracket for the private sector. Within the public sector, although this type of tenant accounts for a lower number of transactions, the typical area absorbed by these occupiers tends to grow to between 3 - 10,000 sqm.

The outlook for 2010 includes a low level of take-up and rental movement continuing in the same downward direction.

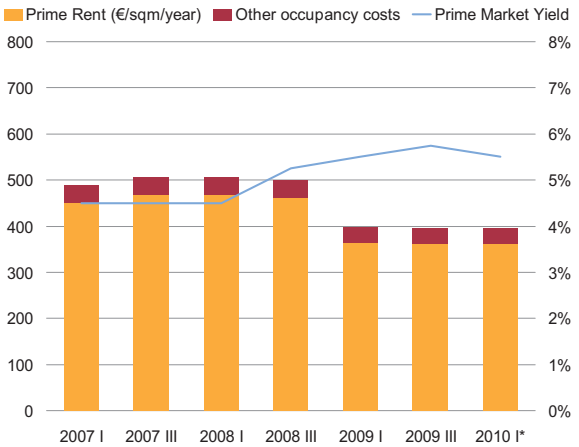


Source: Savills Research / * First estimations

Demand → **Supply** ↗ **Rents** ↘

Stockholm

Letting volumes fell during 2009 and the number of sub-lettings increased. Letting activity picked up slightly in the first quarter, but we expect low or modest letting volumes during 2010. It is reasonable to assume that many companies will review their current need for premises and we expect a continued downward pressure on rents as tenants look for ways to cut costs. The bankruptcy rate, which increased substantially during 2009, will probably remain at high levels during 2010, which could lead to increased vacancies in some markets. Market rents have fallen during the past year in the metropolitan areas and there is a risk that market rents could drop further during 2010. There is also a downward pressure on effective rents as a result of larger incentives in the form of rent-free periods and tenant improvements paid for by landlords, for new lettings and renegotiated leases.



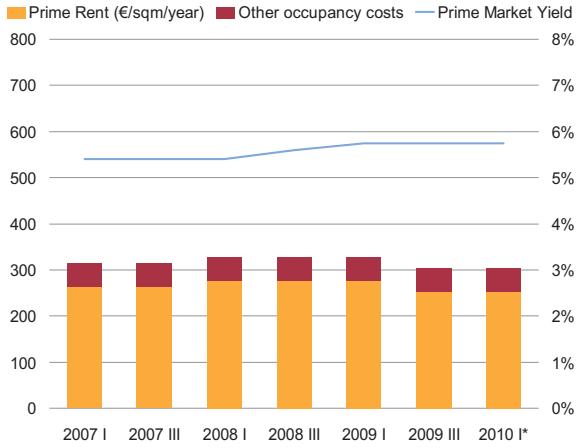
Source: Savills Research / * First estimations

Demand → **Supply** → **Rents** →

Vienna, Warsaw, Zurich

Vienna

Rental activity in Vienna bottomed out in the first half of 2009. In the second half of the year take-up was approx. 100,000 sqm, 30% lower than in the same period of 2008. Average rental levels were stable, but prime rents continued to decline and remained only slightly above €20/sqm/month, approx. 10% below their previous high. Nevertheless Vienna prove to be a very stable market with a marginal rise in vacancy rates to only 5.9% and sustainable good demand for the few new properties that were delivered onto the market in 2009 and 2010. Demand has been focused on the medium and lower price range and derived almost entirely from relocations of companies within Vienna who are consolidating their office occupancy this occasion as a part of general cost-cutting initiatives.



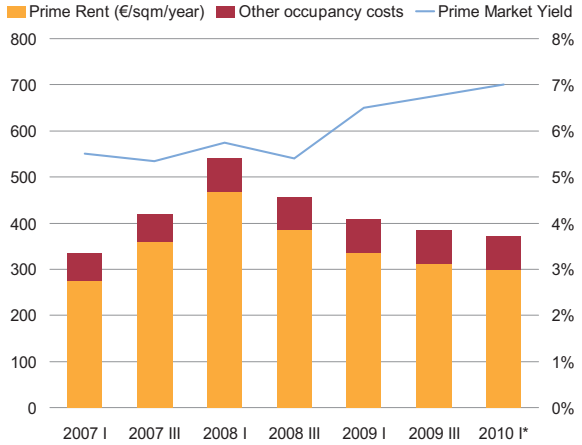
Source: EHL Immobilien Gmbh / * First estimations

Demand → **Supply** ↘ **Rents** →

Warsaw

Total take-up in Warsaw decreased in 2009 by 47% in comparison to 2008 and amounted to 280,100 sqm. While demand decreased dramatically at the beginning of 2009, it showed signs of recovery quarter by quarter. Due to weak demand supply increased; the average vacancy rate in Warsaw increased from 2.9% to 7.3% over the year of 2009. Due to the supply and demand imbalance prime office rents fell in by over 30% in the CBD and by about 20% outside the city centre.

We are currently seeing a recovery in demand and a slight increase in rents, particularly in non central locations. We expect demand to continue to pick up in 2010. CBD rents should to increase slightly in the middle of 2010 and in the 2nd half of the year, while non-CBD rents are expected to strengthen further over the year.

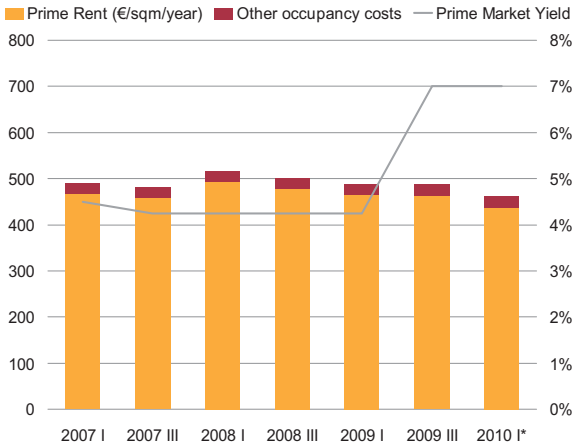


Source: Savills Research / * First estimations

Demand ↗ **Supply** ↘ **Rents** ↗

Zurich

While in general Switzerland has seen an increase in office supply and a limited decline in rents, in the CBD of Zurich the supply of high standard office buildings increased resulting in growing asking rents. However, current rental levels have not increased and remain stable. There is an increase in demand from the financial sector, particularly from foreign organisations setting up in Switzerland, mainly in Geneva, less so in Zurich. Take-up is being driven by consolidation and rationalisation. Class A space over 1,500 sqm is still very difficult to find in the CBD. The vacancy rate remains low, generally for less desirable space. Prime rentals can be considerably higher in the best locations such as the Bahnhofstrasse. Rentals outside the CBD continue to remain stable in the best locations or even decline slightly in other locations due to oversupply.



Source: Michel Racheter & As. / * First estimations

Demand → **Supply** ↗ **Rents** ↘

Office costs and yields

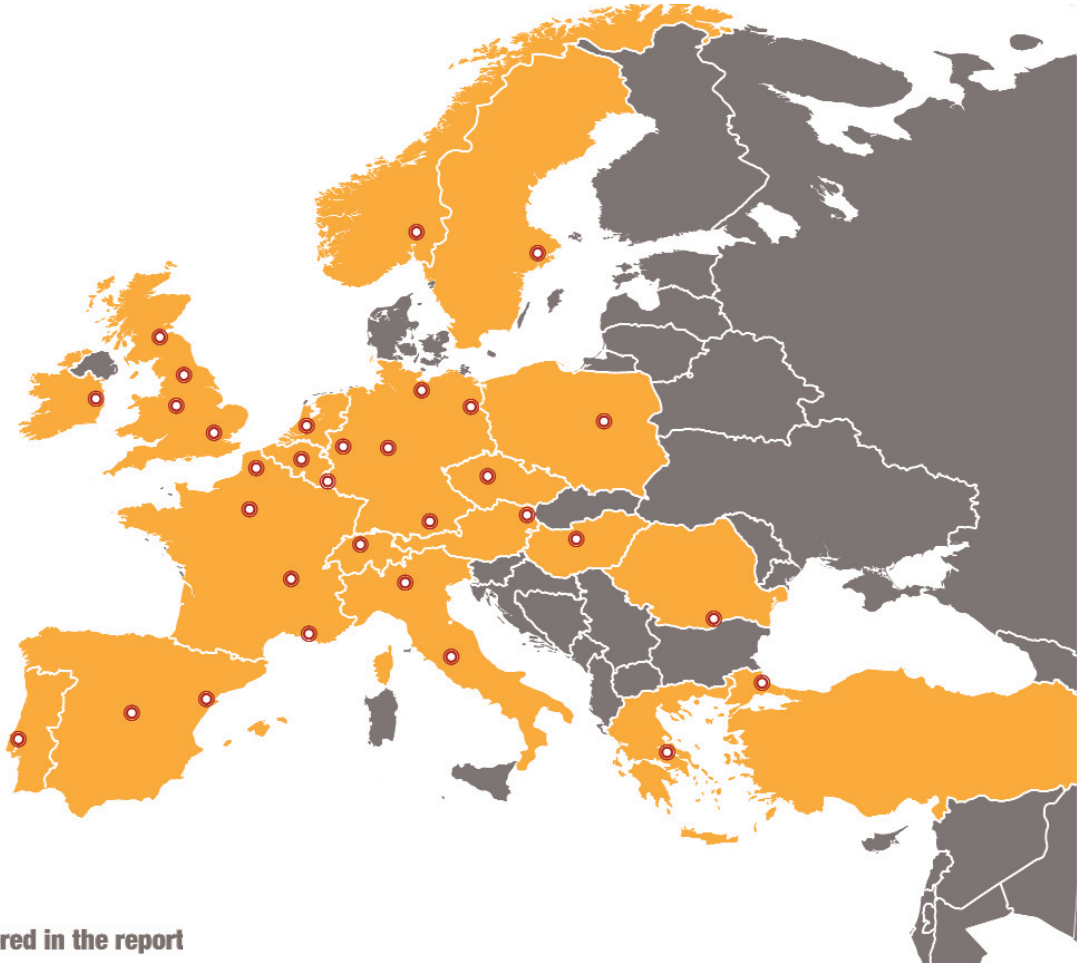
Prime[1] CBD occupancy costs[2] and yields

City	Prime rent	Service charge	Local taxes	Other charges	Parking (per space)	Rental growth[3]	Prime rent 2010 Q4[4]	Prime yields[5]
Amsterdam	340.00	35.00	5.00	2.50	3,250.00	-8.1%	340.00	5.70% (N)
Athens	336.00	33.60	12.10	12.10	2,640.00	-6.7%	336.00	7.25% (N)
Barcelona	240.00	51.00	N/A	N/A	1,920.00	-21.6%	228.00	6.00% (G)
Berlin	248.00	90.00	N/A	N/A	4,200.00	-9.5%	240.00	5.40% (G)
Birmingham	251.00	67.30	N/A	N/A	2,182.00	-30.0%	329.00	6.00% (N)
Brussels	260.00	25.00	20.00	20.00	1,800.00	-8.8%	260.00	6.75% (N)
Bucharest	264.00	54.00	N/A	N/A	1,800.00	10.0%	240.00	8.75% (G)
Budapest	240.00	57.00	N/A	N/A	2,160.00	-4.8%	240.00	7.75% (G)
Dublin	377.00	75.00	65.00	N/A	3,750.00	-30.2%	377.00	7.00% (N)
Dusseldorf	282.00	48.00	N/A	N/A	3,00.00	1.4%	270.00	5.10% (N)
Edinburgh	335.00	77.70	143.50	N/A	2,875.00	-5.1%	317.00	6.00% (N)
Frankfurt	420.00	108.00	N/A	N/A	3,360.00	-9.1%	420.00	5.40% (N)
Hamburg	280.00	66.00	N/A	N/A	3,000.00	-6.2%	264.00	5.00% (N)
Istanbul	335.00	59.80	N/A	N/A	1,206.00	0.0%	380.00	7.75% (G)
Lille	200.00	73.00	N/A	N/A	1,200.00	5.3%	200.00	6.50% (G)
Lisbon	216.00	42.00	N/A	N/A	1,800.00	-10.0%	216.00	7.00% (G)
London City	598.00	77.70	119.60	N/A	3,612.00	-9.1%	670.00	6.00% (N)
London WE	981.00	95.70	239.10	N/A	4,445.00	-15.9%	1,088.00	5.00% (N)
Luxembourg	348.00	28.80	3.60	7.20	3,500.00	-27.5%	420.00	6.25% (N)
Lyon	234.00	70.00	N/A	N/A	1,200.00	3.5%	235.00	6.25% (G)
Madrid	348.00	60.00	N/A	N/A	2,640.00	-23.7%	312.00	6.00% (G)
Manchester	359.00	49.00	85.50	N/A	4,116.00	5.3%	359.00	6.00% (N)
Marseille	255.00	70.00	N/A	N/A	2,000.00	2.0%	250.00	6.50% (G)
Milan	460.00	45.00	N/A	N/A	3,500.00	-8.0%	450.00	6.25% (G)
Munich	360.00	54.00	N/A	N/A	3,600.00	-3.5%	348.00	4.80% (N)
Oslo	294.00	30.00	N/A	N/A	3,324.00	-21.0%	288.00	6.50% (N)
Paris	644.00	73.00	21.30	11.30	3,000.00	-9.4%	650.00	5.30% (G)
Prague	252.00	51.00	N/A	N/A	2,280.00	0.0%	264.00	7.00% (G)
Rome	400.00	35.00	N/A	N/A	4,200.00	-11.1%	350.00	6.00% (G)
Stockholm	359.00	33.90	N/A	N/A	4,928.00	-14.0%	359.00	5.50% (N)
Vienna	252.00	48.00	2.40	N/A	1,620.00	-8.7%	246.00	5.75% (G)
Warsaw	300.00	72.00	N/A	N/A	3,000.00	-16.7%	270.00	7.00% (G)
Zurich	471.00	25.00	N/A	N/A	4,034.00	-6.7%	437.00	4.25% (N)

Note 1: Prime rents and yields refer to modern, minimum 1,000 sqm. fully let, standard leased building
Note 2: All costs are in €/sqm/year
Note 3: Rental growth is annual and calculated in local currencies
Note 4: Projection in €/sqm/year, except for UK cities (GBP/sqft/year), Oslo (NOK/sqm/year), Stockholm (SEK/sqm/year), Zurick (CHF/sqm/year)
Note 5: N=Net, G=Gross

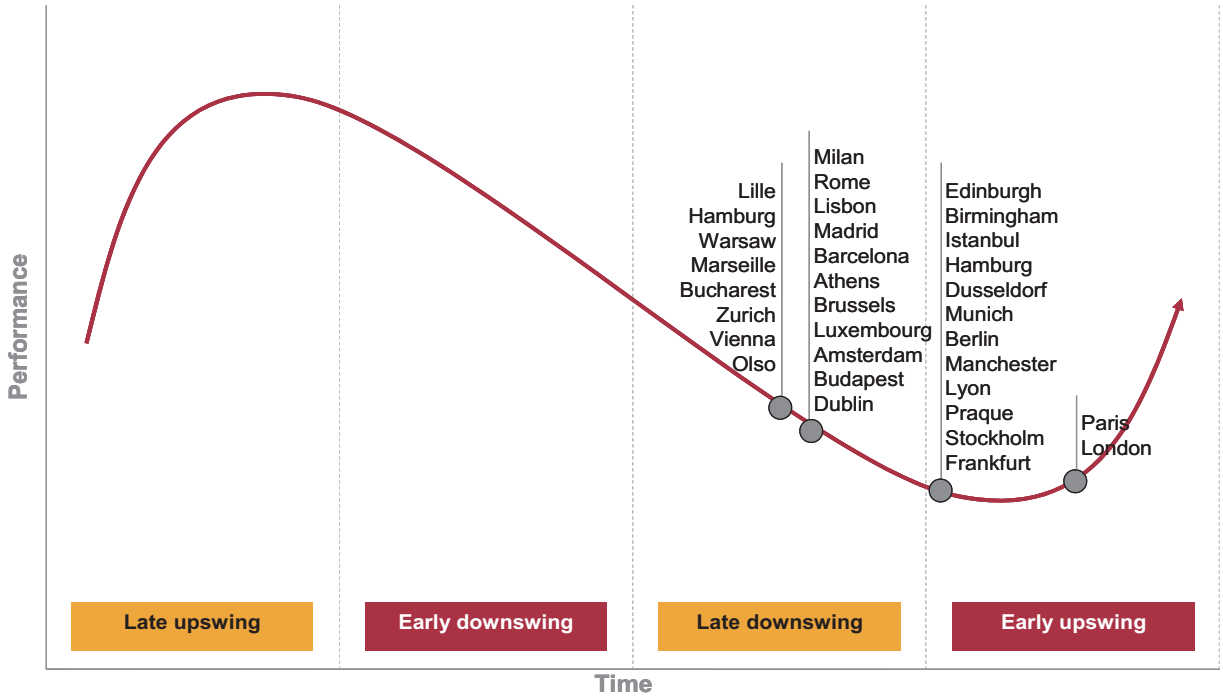
Survey map and office market cycle

Survey Map



Cities covered in the report

European office market cycle



Contacts

For further information please contact

Eri Mitsostergiou
European Research
+30 210 6996311
emitso@savills.com

Lydia Brissy
European Research
+44 20 7016 3776
lbrissy@savills.com

Austria [1]	Alexandra Ehrenberger	a.ehrenberger@ehl.at	+43 (0) 699 1000 4049
Belux	Sheelam Chadha	schadha@savills.be	+32 2 542 40 57
France	Lydia Brissy	lbrissy@savills.com	+33 (0) 1 44 51 73 88
Germany	Benjamin Poddig	bpoddig@savills.de	+49 (30) 726 165 145
Greece	Eri Mitsostergiou	emitso@savills.gr	+30 210 699 6311
Ireland	Joan Henry	joan.henry@savills.ie	+353 (1) 618 1483
Italy	Susan Trevor Briscoe	stbriscoe@savills.it	+39 335 574 7418
Netherlands	Jeroen Jansen	j.jansen@savills.nl	+31 (0) 20 301 2094
Norway [2]	Leif-Erik Halleen	leh@heilo.no	+47 23 00 39 63
Poland	Michal Stepien	mstepien@savills.pl	+48 (0) 22 330 0633
Portugal [3]	Jerry Harris	jharris@abacusproperty.pt	+351 (21)3 170 577
Spain	Gema de la Fuente	gfuente@savills.es	+34 (91) 310 1016
Sweden	Peter Wiman	pwiman@savills.se	+46 (8) 545 85 462
Turkey [4]	Nesil Akman Aybar	nesil.akman@kuzeybati.com.tr	+(90) 212 325 28 00
United Kingdom	Mat Oakley	moakley@savills.com	+44 (20) 7409 8781

In association with:

1. EHL Immobilien GmbH
2. Heilo Eindom AS
3. Abacus Property Ltd
4. Kuzey Bati

Our thanks to the following consultants for their contribution to the publication:

Czech R./Hungary/Romania	EHL Immobilien GmbH	Andrea Dissauer	+43 (0) 1 512 76 90 12
Switzerland	Michel Racheter & As.	Don Mackenzie	+41 (22) 362 00 80

Savills is a leading global real estate service provider listed on the London Stock Exchange. The company established in 1855, has a rich heritage with unrivalled growth. It is a company that leads rather than follows, and now has over 180 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East. A unique combination of sector knowledge and entrepreneurial flair give clients access to real estate expertise of the highest calibre. We are regarded as an innovative-thinking organisation backed up with excellent negotiating skills. Savills chooses to focus on a defined set of clients, therefore offering a premium service to organisations with whom we share a common goal. Savills takes a long-term view to real estate and works hard to invest in long term and strategic relationships and is synonymous with a high quality service offering and a premium brand.

This bulletin is for general informative purposes only. Whilst every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The bulletin is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research. (c) Savills Ltd March 2010

Savills
Research

savills.com/research

savills