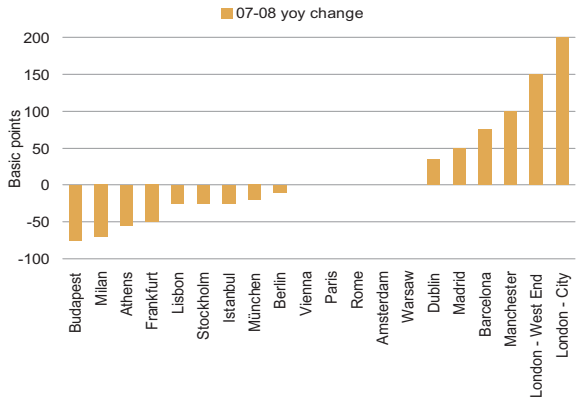
European Office Markets

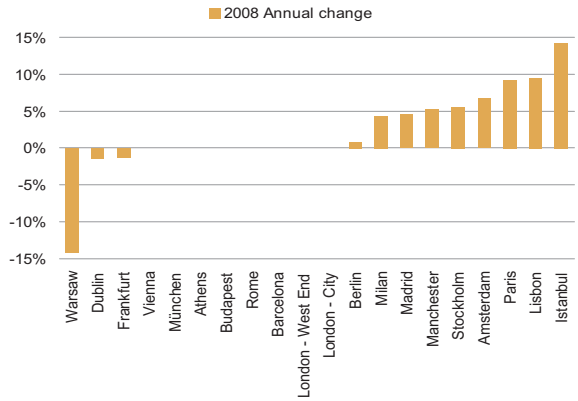
Winter 2008

2007 - 2008 yields changes



Source: Savills

Rental growth forecast



Source: Savills

"Overall occupier demand remained unchanged in spite of the turmoil in the financial market. The investment market also remains remarkably dynamic however its pace of activity during 2008 is likely to slowdown."

Lydia Brissy - European Research

- Occupier markets have not felt yet the impact of the turbulence in the global financial markets and take-up levels in most European centres is still on the rise.
- However, with a one in three chance of recession of the US economy the EU services confidence indicator declined markedly in November. This uncertainty may lead to a slowdown in demand in 2008.
- Vacancy rates have dropped further in the study area and they currently average at around 8.3%. On the one hand healthy market fundamentals have supported new development starts, on the other hand tighter lending policy should hold back construction activity. Therefore we expect demand and supply to remain in balance in 2008.
- Prime CBD rents continue to accelerate in most markets but at decelerated pace since the end of the year.
- Yield compression has slowed down significantly since 2007 Q4 and we have noted an outward shift in some markets. We expect investors to apply higher yield premiums for secondary markets and markets with lower future rental growth potential.
- The impact of the subprime crisis has remained relatively limited on the overall investment activity although in some markets, some investors have adopted a "wait and see" position.
- Financial restrictions will reduce the number of investors in the market providing more opportunities to the most competitive, notably equity funds.

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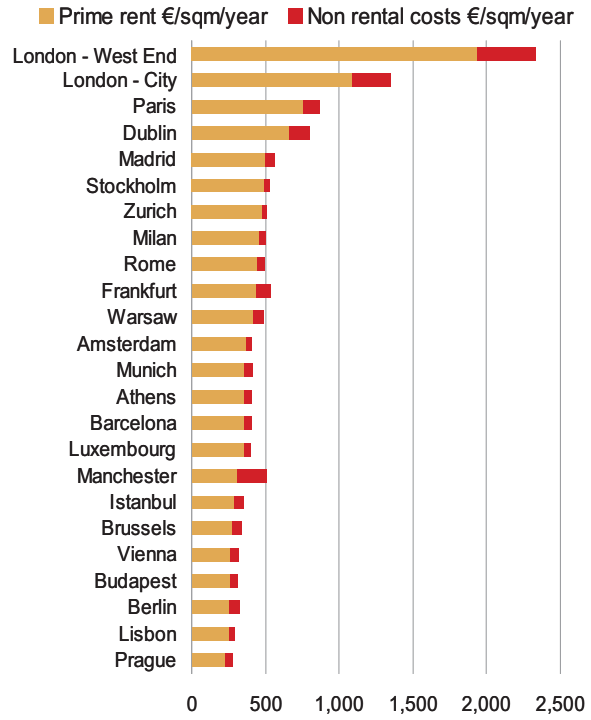
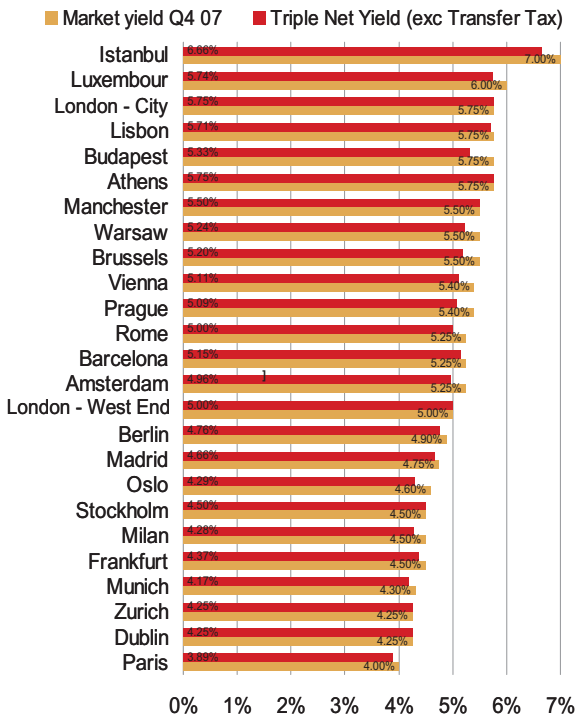
Comparisons

Prime total occupancy costs



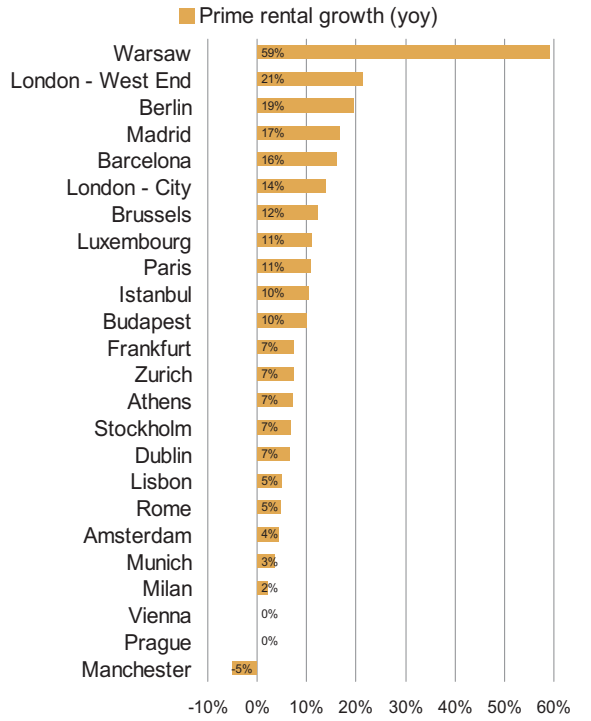
Source: Savills

Prime market and triple net yields



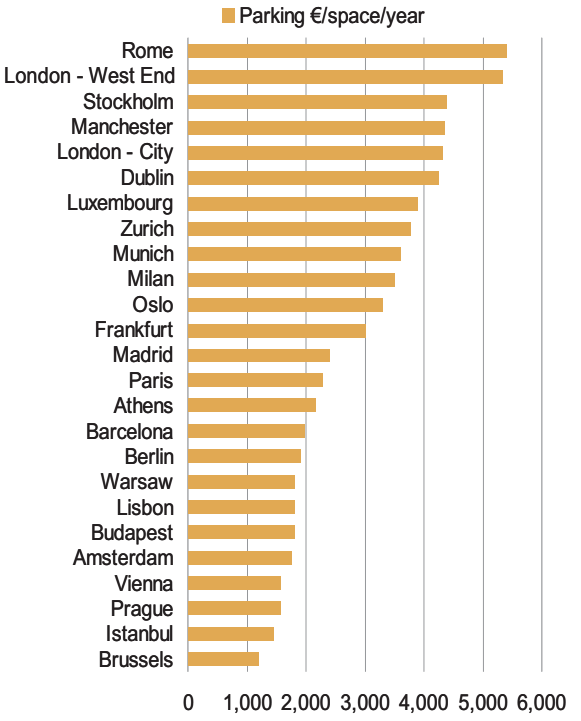
Source: Savills

Prime rental growth (2007-2008)



Source: Savills

Parking costs



Source: Savills

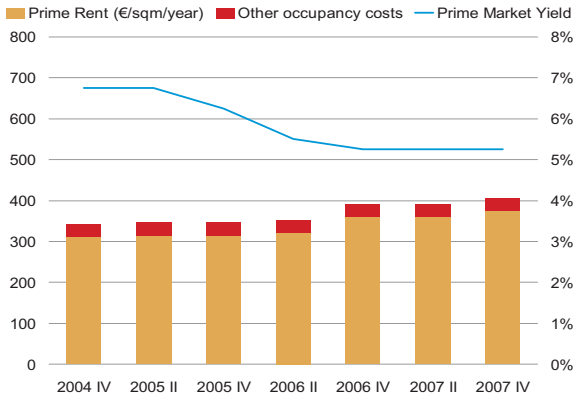
Amsterdam, Athens, Barcelona

Amsterdam

Letting market is stabilising at high level of turnover, fuelled by a continuing economic growth. Prime product remains scarce, especially in prime locations and this undersupply will not be released before the first development completions in 2008/2009. This may keep take-up volumes artificially low.

Tight market conditions put pressure on prime rents, which have increased by over 7.5% compared to last year. At the same time, incentives decreased. In non-CBD districts, where vacancies are still high, rental values are supported with incentives up to 15% of the rent.

Shortages in the investment market, combined with low rents, resulted in prime initial yields tightening further, to 4.75%. Considering the slightly higher interest rates and the current uncertainty in the financial markets, we do not expect yields to decrease any further.



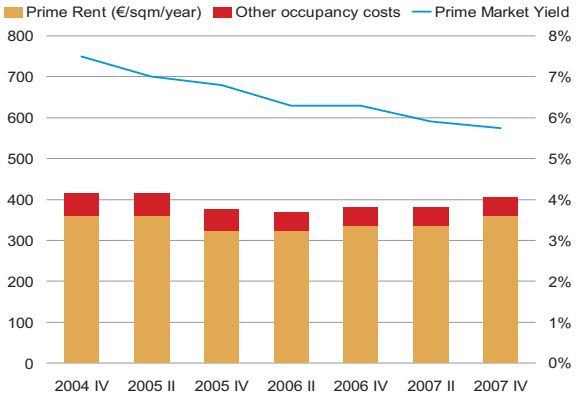
Source: Savills

Demand	stable
Supply	decreasing
Rents	increasing

Athens

Take-up last year in Athens dropped slightly mainly due to the lack of the type of accommodation in demand - large, modern buildings. So take-up of accommodation >1,000sqm was in the region of 140,000 and mainly comprises purpose built buildings for owner-occupiers and pre-lets of buildings under development. Second hand turnover is limited. Thus vacancy rate for the prime submarkets is stable at around 6.7%. Rental growth pursued some modest increase of around 3% for the quarter.

The investment market activity is driven by both local and international investors. The average size of the deals is in the region of 12-15 million with larger deals to exceed €30 million. The lack of available prime product has further narrowed the yield gap between prime and secondary assets. Prime yields range between 5.75% - 6.25%.



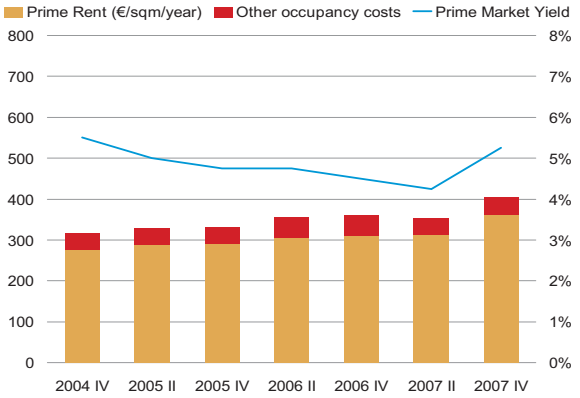
Source: Savills

Demand	increasing
Supply	stable
Rents	increasing

Barcelona

Demand remained strong in 2007, the Barcelona office market maintained the high levels of take-up of the past 3 years, thus confirming the current situation of stability in occupational demand. Modern supply remains limited and future projects to be delivered over the next 12-24 months will only partially make up for the current deficit in availabilities, notably in City Fringe and Out-of-Town locations. The scarcity in supply together with dynamic demand are resulting in continued growth in rents.

The volume of office investment has reached record levels, approaching €2 bn. The lack of liquidity and the growth in interest rates following this summer's financial crisis has slowed down the investment activity during the second part of the year. Within this framework, prime yields are beginning to increase after years of constant compression, reaching levels ranging from 5% and 5.5%.



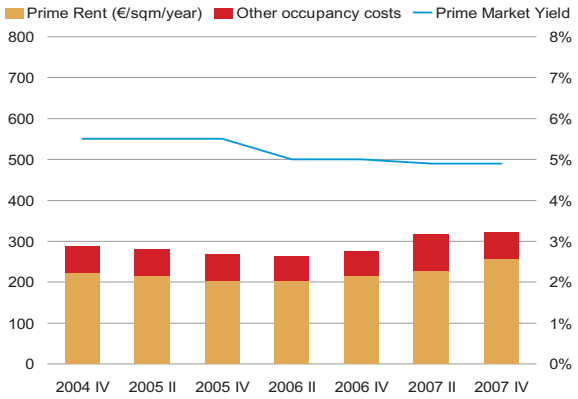
Source: Savills

Demand	stable
Supply	increasing
Rents	increasing

Berlin, Brussels, Budapest

Berlin

The 2007 letting activity in Berlin recorded a 9% decrease after a particularly slow start-up at the beginning of last year. We have noticed structural changes in the office demand; Technology, pharmaceuticals and biotechnology have now become established market segments and have radiation effects on new sectors, particularly in advertising and media, which become more dynamic sectors, representing 22% of the transaction volume. Additionally, the stake of local government and authorities is showing a significant decline. Therefore, lettings of small office units were predominant. A slight rise in nominal top rents for modern office space has been noticed. Prime rent stands at €261/sqm/year although still 40% of all deals are transacted at around €120/sqm/year. Prime yields went down from 5% to 4.9% under the market pressure.



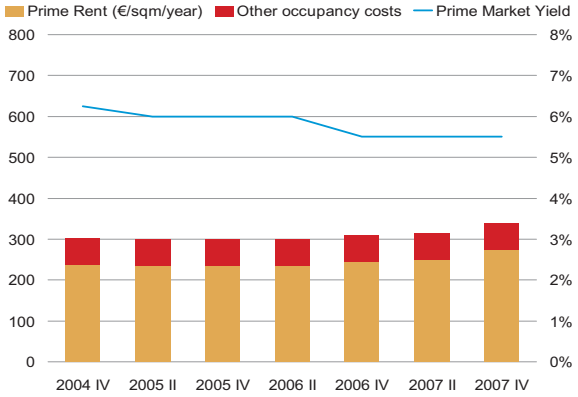
Source: Savills

Demand	increasing
Supply	decreasing
Rents	increasing

Brussels

Tenant demand for office space in Brussels has picked up strongly in 2007 It remains heavily based towards Grade A space located in the CBD. Financial Services companies and the Public Sector continue to drive demand in core locations, while other corporates prefer to be in the periphery due to lower rents and better car parking ratios.

Availability of space has continued to fall, we estimate that the vacancy rate is now at 8.5%. Office supply is likely to continue to drift downwards over the next 18 months. There is now a clear shortage of Grade A space in core centers and this is starting to put upward pressure on rents, which had been stable for a while. In suburban office markets there is still a good supply of space. As a result, we do not expect rents to rise in the immediate future in secondary locations.



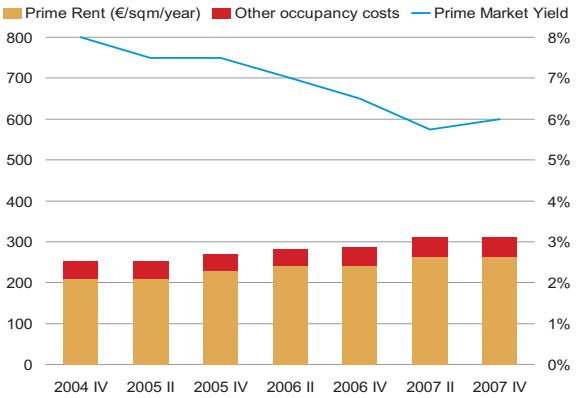
Source: Savills

Demand	increasing
Supply	decreasing
Rents	increasing

Budapest

The occupational activity has been very strong and has kept pace with the high levels of new supply on the market. Significant lettings included companies such as Pannon GSM, European Social Fund, IBM, Morgan Stanley, Citibank and Nokia. Due to good level of absorption, the vacancy has not been affected significantly despite the high level of office completion.

The investment market has reacted more slowly to the credit squeeze than in western countries and remained healthy over the year. Given the number of transactions under negotiation, we anticipate an overall turnover of €1.1 billion for the whole year. However, investors and banks are taking a more cautious and careful approach to assets and highly geared buyers will face difficulties. Evidence is now building of yield adjustment.



Source: Savills

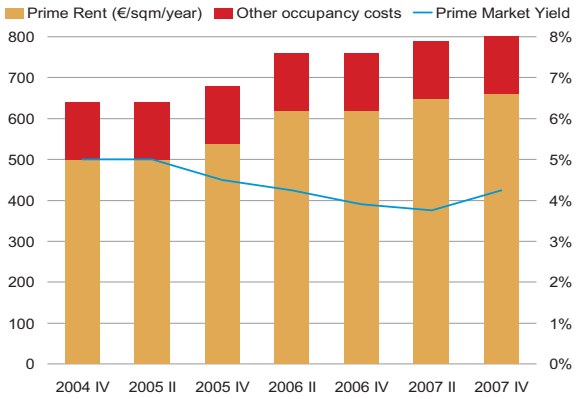
Demand	increasing
Supply	increasing
Rents	stable

Dublin, Frankfurt, Istanbul

Dublin

Take-up of modern office space increased by 37% last year to reach 297,000 sqm, which is the highest level ever recorded. Demand from a number of large occupiers was significant. With residential developers turning their interests from residential activity to office sector, new supply could increase in the long-term. Completion levels are expected to be strong in 2008, with 185,000 sqm of space expected to be delivered. Prime rents are expected to end the year close to €650/sqm.

There is a much more cautious tone in the investment marketplace since August and while deals are being done, the pace of activity has slowed considerably. The expectation is that many investors will "sit on their hands" until later in 2008. As deals have been scarce, there is little evidence of prices having moved out, however, investor's expectations suggest that prices will need to soften before they re-enter the market.



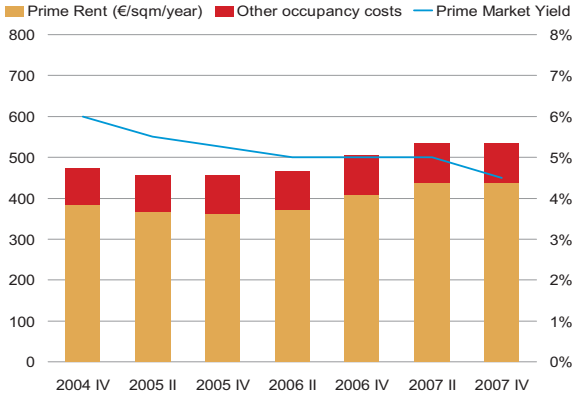
Source: Savills

Demand	increasing
Supply	increasing
Rents	increasing

Frankfurt

Frankfurt office market has continued to show an increasing level of activity during 2007, the result being that take-up reached around 600,000, which represents a 15% rise compared to the previous year. In spite of the financial turmoil, the letting market remained mainly driven by the financial sector and also by consultancy companies. Supply remains very limited notably in prime locations but development pipeline, including major refurbishment suggests a positive evolution until 2009. Due to the current scarcity of supply, rental values continued to grow. Prime rent stands now at €438/sqm/year.

2007 was a new record year; Frankfurt investment volume reached almost 8 billion €. The proportion of foreign leverage buyers decreased in the second half of 2007 whereas the share of German investors, notably big funds and insurance companies rose. During the last quarter of 2007, yields have started to pick up and increased by 35 basic points.



Source: Savills

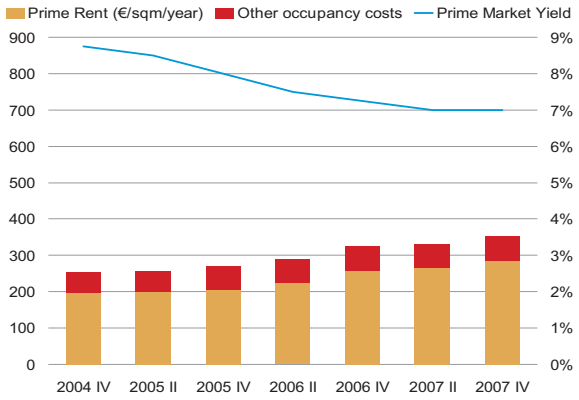
Demand	increasing
Supply	stable
Rents	increasing

Istanbul

Office market activity continued to improve in Istanbul. As a result of high demand, all submarkets have experienced growing rents and falling vacancy rates since 2004. The deceleration of new developments has supported the overall decrease in vacancy rates, which has dropped to 11.9%.

Demand has strengthened over the last few years, especially in CBD, where prime rents have reached €286/sqm/year and increase of rental values is expected to continue. Vacancy of grade A offices in CBD has dropped to almost 1%. Financial corporations and multinational companies are the main drivers of demand on this area.

The investment market activity is still driven by local private investors and companies. Availability of investment product is limited and continues to put downward pressure on yields that dropped to 7%.



Source: Kuzeybati

Demand	increasing
Supply	stable
Rents	increasing

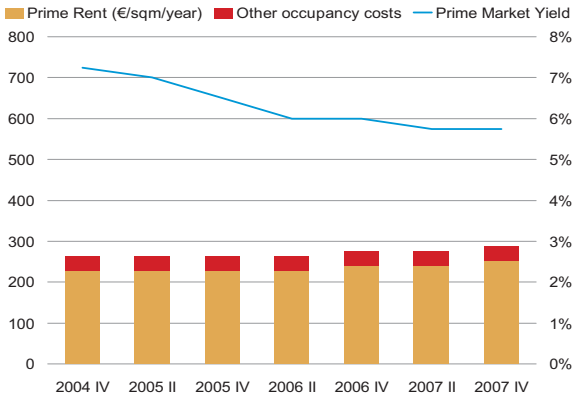
Lisbon, London

Lisbon

2007 has been characterised by a significant increase in market activity and although the upturn in economic growth is only slight, business confidence indexes are rising. Take-up reached a new record, nearly 201,500 sqm, which represents a 25% rise compared to 2006 Average vacancy rate has dropped to around 7.2% from 11,4% the previous year and is likely to fall further, given the lack of speculative office space in the pipeline over the next 18 months.

Prime rents reached €252sqm/month, although there is a clear widening of the gap between prime and secondary rents.

The investment market remains small by international levels, reflecting the lack of prime product. Local funds are active but are still unwilling to accept yields below 6.50%, which therefore largely exclude them from the prime market.



Source: Abacus Property

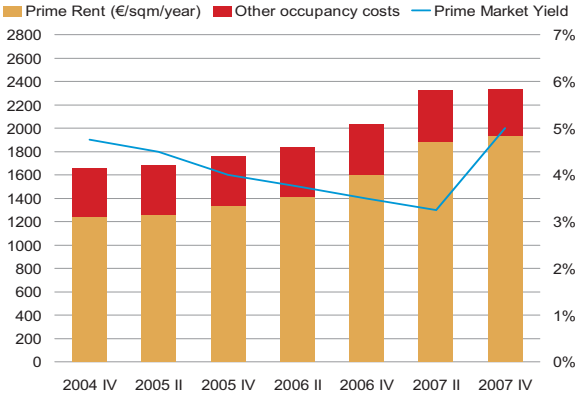
Demand	increasing
Supply	increasing
Rents	increasing

London West End

Take-up in London's West End boomed in 2007, reaching around 500,000 sqm. The majority of space leased was of Grade A quality, with demand dominated by the Legal and Financial Services sectors.

Availability of space remained very low, with the vacancy rate at the end of December 2007 reaching 3.5%. While there is a pick-up in speculative development completions over the next three years we expect the vacancy rate to remain low. The top rent achieved in 2007 in the West End was €1,507/sqm, while the average Grade A rent rose from €667 to €786/sqm over the course of 2007.

The investment market saw a record level of transactions over the first three quarters of 2007. However, quarter four's total was below average due to the credit crunch. This brought the total for the year to just over £8.1bn. We estimate that yields softened by around 100bp over the course of the year.



Source: Savills

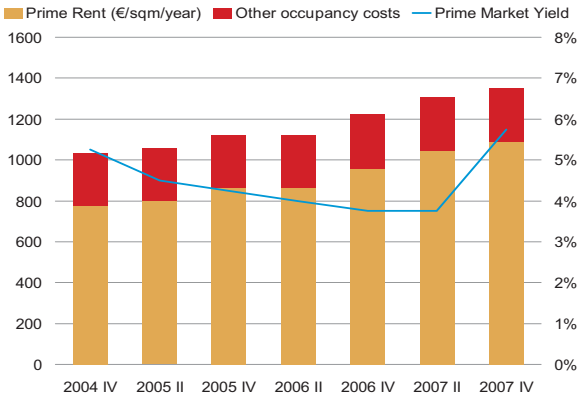
Demand	increasing
Supply	decreasing
Rents	increasing

London City

Demand remained strong in the City of London in 2007, despite the credit crunch. The total take-up for 2007 was up to 600,000 sq m, 63% of which was Grade A. The majority of the take-up was by the professional sectors, accounting for 41% of the total.

Despite a pick up in development completions in 2007, the vacancy rate in the City of London continued to fall. At the end of 2007 the City vacancy rate stood at 5.7%, down from 8.3% a year ago. The top rent achieved in 2007 was €818/sqm, with the average Grade A rent rising to €614/sqm.

Turnover in the City investment market remained strong in 2007, totaling €13bn. The second half of the year was markedly quieter than the first due to the credit squeeze. We estimate that yields softened by over 100bp in the second half of the year, reaching around 5.25-5.5%.



Source: Savills

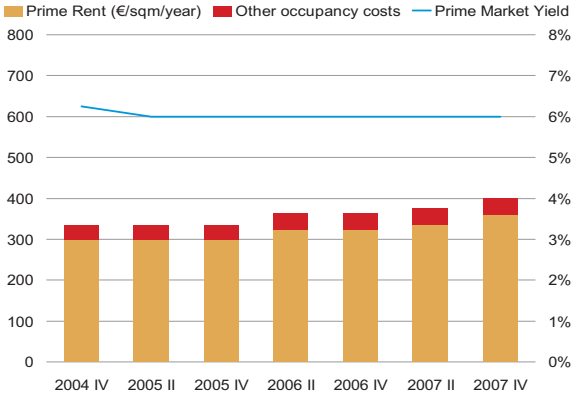
Demand	increasing
Supply	decreasing
Rents	increasing

Luxembourg, Madrid, Manchester

Luxembourg

Demand for office space increased sharply in the Luxembourg market during 2007. During the first half of the year, the occupier market has been driven government and semi government willing to consolidate under one roof. Surprisingly, the financial sector led the market activity during the second part of the year. Strong demand have further reduces the office supply. Consequently, the vacancy rate fall down slightly below 4%, compared to 5% in 2006.Due to limited supply, prime rent continued to increase and reached €360/sqm/year although such level of rent is not representative for the average.

Investment in Luxembourg is increasingly appealing to international investors, as such; investment turnover reached a new record level last year. Office deals still account for the large majority of all investment. Prime yields remained stable, around 6%.



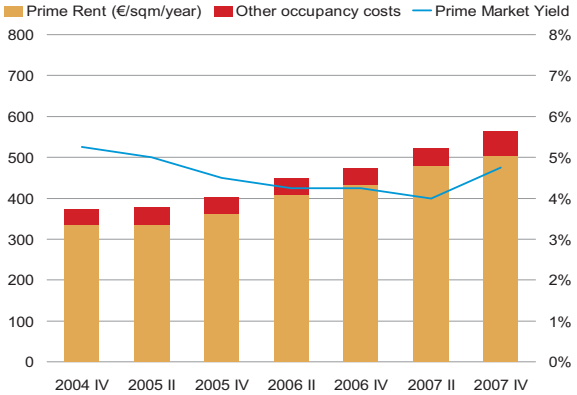
Source: Savills

Demand	stable
Supply	stable
Rents	increasing

Madrid

In spite of an activity slow down in the summer season, to be related to the credit squeeze, the Madrid office market ended 2007 registering historic highs. Total take-up was close to 900,000 sqm, representing a 74% rise compare to 2006. The vacancy rate was 5.7%, which indicates a slight recovery with regards to the third quarter, still show downward trend on an annual basis. Consequently to the shortage of available supply, pre-lettings have been a key element to the letting market health. However the market pressure continued to pull the rents upward.

The investment market has reached a new record in spite of slowing down activity noticed since the summer. Some investors postponed their acquisitions to 2008; however equity buyers and those with pre-arranged credit agreements remain active, while operating in a less competitive market. Yields have gone from 4.25% to 4.75%.on an annual basis.



Source: Savills

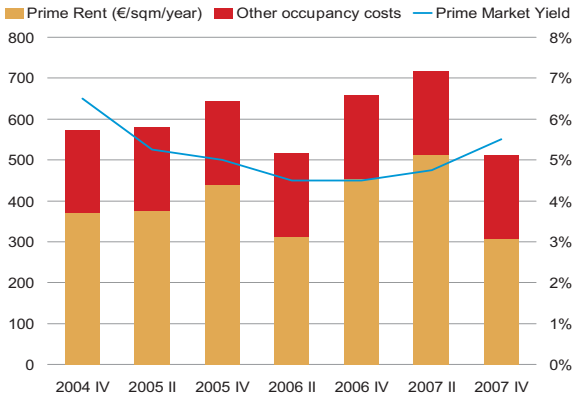
Demand	increasing
Supply	stable
Rents	increasing

Manchester

Demand for office space remained strong in Manchester in 2007. Take-up reached 82,300 sqm at the end of the year. Total supply is currently 16.1 m sqm. Supply has increased by 5% and now stands at 1.6 m sq ft. The vacancy rate is now 12.5%. However, Grade A supply still only makes up 28% of total supply, although this is worth keeping an eye on as this figure will begin to climb again in the next 6-12 months as development completions start to filter into the supply figures.

There is still upward pressure on rents on small Grade A units.

Although it is far from clear what the full implications of the congestion charge will be, it is felt that the City Centre will benefit in the long term due to its public transport connectivity.



Source: Savills

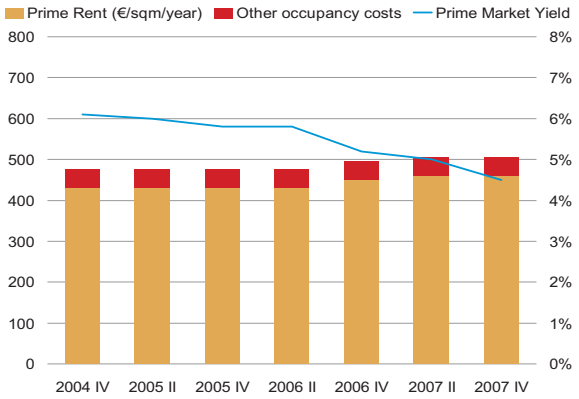
Demand	stable
Supply	increasing
Rents	stable

Milan, Munich, Paris

Milan

Having been fundamentally stable over most of 2007, occupier demand experienced a significant increase in the final quarter, in terms of the amount of space under request, as well as in terms of the number of occupiers searching fro new or alternative premises. Demand continues to focus mainly on units ranging from 500 to 1,500 sqm The Milan market is characterised by a number of development schemes under completion now and in the coming years. Such schemes are very significant both in terms of their overall size but also because of the quality of space and of the overall scheme. However, despite this input of additional space, rental levels continue to remain stable as a whole although a small degree of growth has been seen in some sectors.

The market continues to attract investor interest with yields remaining low or experiencing further, albeit very limited, contraction.



Source: Savills

Demand	stable
Supply	increasing
Rents	stable

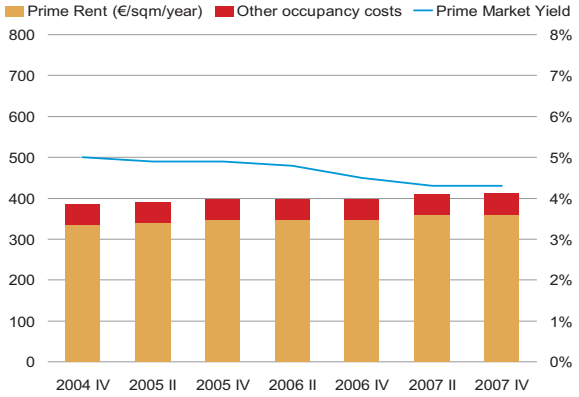
Munich

In spite of a slow activity start during the first half of last year, the Munich office market showed strong dynamism in 2007. Take-up totalled 747,500 sqm at the end of last year, which is an increase of 16.3% compared to 2006. Tenant demand still focuses on inner city submarkets.

Due to strong demand, office supply decreased. Consequently, the vacancy rate dropped significantly from 8.10% in 2006 to 7.30% at the end of last year. We except it could further fall under the 7% threshold in the short term under maintained level of letting dynamism.

Healthy market activity further pull prime rents upward to €360/sqm/year.

During the last quarter of 2007, yields started to show upswing, from 4.25% to 4.30%.



Source: Savills

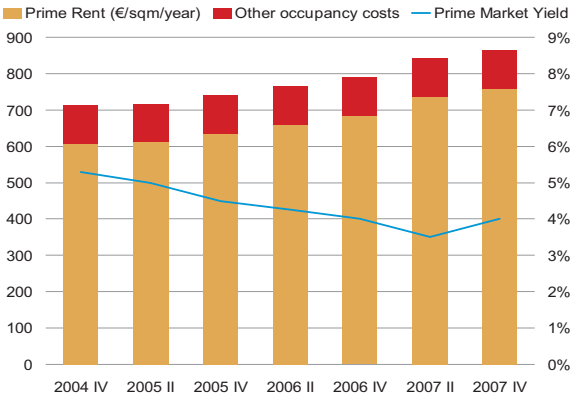
Demand	increasing
Supply	stable
Rents	increasing

Paris

Strengthened by good economic and financial results, Parisian companies accelerated their external and organic growth process. Take-up during 2007 amounted to 2.6 million sqm, a high level which reveals however a 9% decrease compared to the previous year. Transaction volume was characterized by strong geographical disparity due to local shortages of immediate supply. Maintenance of a strong letting activity led to a new drop of the availability of around 3%. Acceleration pace of development starts should provide the market with new opportunities and soften the pressure in some areas.

The market recorded further rental growth and the hardening level of incentives granted.

The investment market in France remained buoyant and reached €28.8 million at the end of 2007. Yields seem to have stabilised since the 2nd half of 2007.



Source: Savills

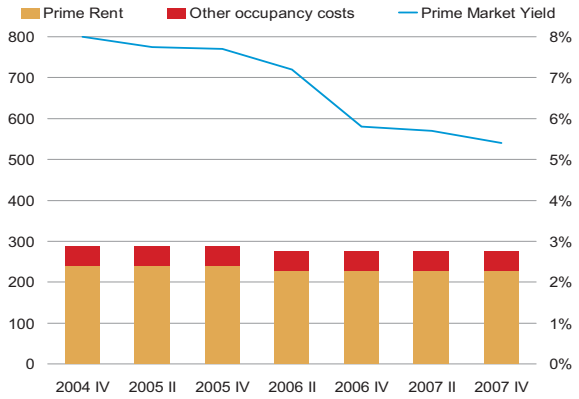
Demand	increasing
Supply	decreasing
Rents	increasing

Prague, Rome, Stockholm

Prague

Office take-up in Prague for 2007 was approx. 170,000 sqm that is 25% lower than the previous year. The letting activity is expected to increase during 2008 and Q1 is already showing more demand Around 215,000 sqm have been completed during the year 2007. Due to the increasing amount of speculative supply towards the end of last year, vacancy rate grew slightly to 6.5%. Rents have remained stable through out 2007 and are expected to continue to do so.

The investment market remained quite dynamic until the middle of 2007 but experienced significantly less activity since the fourth quarter due to effects of the credit crunch. Investors are taking cautious and conservative approach as a result of the uncertainty caused by the financial conditions and there is reduced number of highly leveraged investors on the market. Prime yields for the best products reached 5.0% and are expected to rise slightly due to market situation.



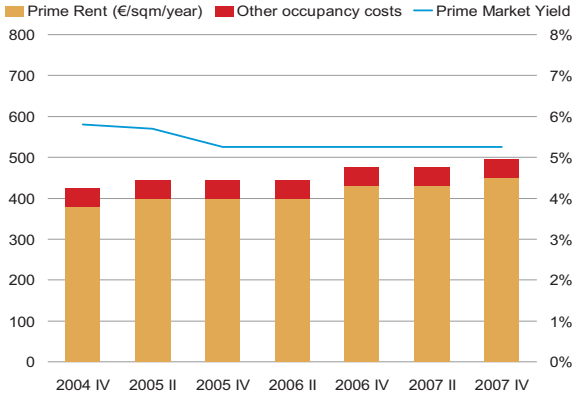
Source: CPB Immobilientreuhand

Demand	increasing
Supply	increasing
Rents	stable

Rome

The Rome office market remains very stable in all areas. Occupier activity continues to demonstrate a fundamentally low level of activity in the area. Reflecting this, prime market rental levels remain stable overall, and they lack any of the primary factors, which would normally underlie rental movement in either direction. A small degree of rental growth has been seen, although this relates to prime locations and prime quality premises.

The market continues to attract the interest of investors of range different types. In practice, however, a restricted supply of quality investment product continues to limit the amount of activity seen on the market place. Thus, although the downward pressure on yields persists, the quantity of investment transactions closed remains relatively low.



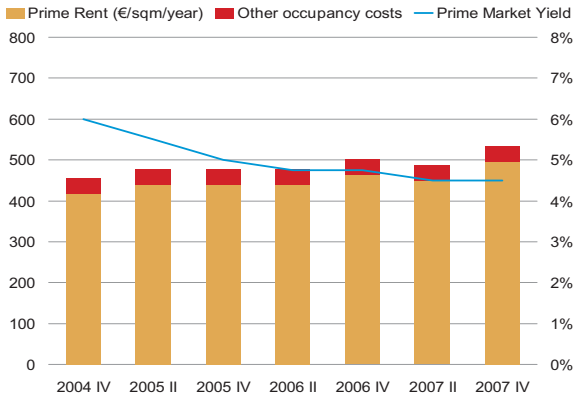
Source: Savills

Demand	stable
Supply	stable
Rents	stable

Stockholm

Demand increased during 2007 mainly as result of companies' expansion and many tenants have relocated from older buildings to modern buildings. Completions during last year have been very low and quite a few old buildings are currently undergoing refurbishments. Modern premises on large floor plates in the CBD are scarce as well as smaller prime units. In 2007 market rents increased significantly across all office segments in Stockholm and vacancy rates have continued to fall.

The Swedish turnover has remained high during 2007 (approx SEK 140 Billion), though somewhat lower than in 2006. Prime yields reached a level just under 4.5% early in 2007. Recent evidence indicates that yields are rising for secondary objects. The lack of comparable is making difficult to estimate the effects from the financial turmoil on the prime segment. The rising lending rates have had the effect that financial leverage cannot be achieved for CBD properties.



Source: Savills

Demand	stable
Supply	stable
Rents	increasing

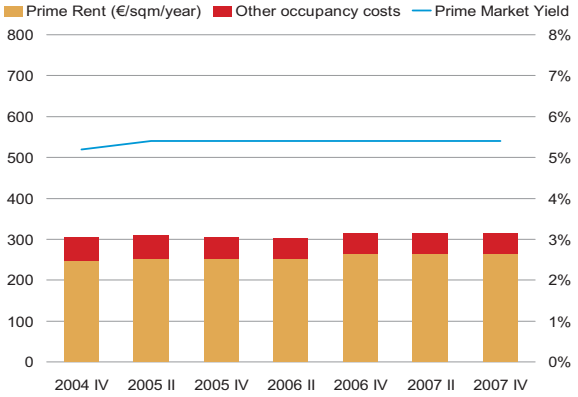
Vienna, Warsaw, Zurich

Vienna

The Vienna office occupier market has been very strong in 2007 and reaches a record level. The volume of transactions during 2007 totalled 330,000 sqm, which is a 3% increase compared to the previous year. Demand was mainly derived from relocations rather than extension. The public sector has lost its role as a driving force of demand. Largest lettings were signed by financial institutes or pharmaceutical companies. Additionally, international companies have expanded their Vienna-based regional headquarters for CEE.

Office completions have been limited to 190,000 sqm. Expansion of the underground grid has inspired major development activities near the Danube waterfront. Vacancy rate stood at 6%. Rents increased slightly.

Investors' interest for the Vienna market further growing; 2.6 billion were invested during 2007, which is a 24% rise compared to 2006. Yields remained widely unchanged.



Source: CPB Immobilientreuhand

Demand	increasing
Supply	decreasing
Rents	stable

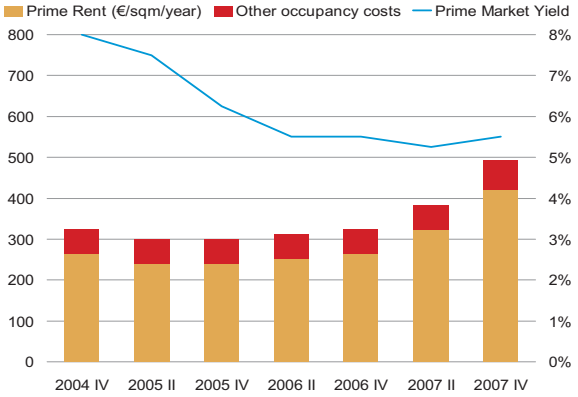
Warsaw

Demand for modern offices has recently dramatically increased underpinned by outsourcing service companies. Take-up during 2007 increased by 20% compared to the previous year, to reach 492,000 sqm. Most of the letting deals were concentrated in the CBD.

Strong demand led to limited supply in most popular areas, notably in the CBD. The vacancy rate reached historically low level of 3.1% however the high level of development in the pipeline – 900,000 sqm to be completed by 2010 – could release the situation.

As a result, prime office rents continued to grow in all location but notably in the CBD.

During the second part of 2007, yields went up from 5.25% to 5.50%.



Source: Savills

Demand	increasing
Supply	increasing
Rents	increasing

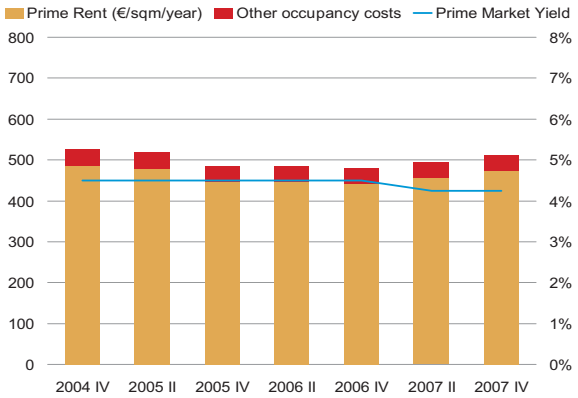
Zurich

Underpinned by good economic situation, demand continues to grow, particularly for grade A office space.

On the supply side, trend is still going downward, especially in secondary markets or in the greater Zurich region for which, demand has increased significantly due to widening rental gap with prime locations.

Strong demand combined with limited supply is putting upward pressure on prime rents which currently stand at €473/sqm/year. However, rents as high as €567/sqm/year as been achieved in prime locations such as Bahnhoffstrasse.

Interest rates have gone up and down, but the trend is expected to be slightly upwards, reducing the yield gap for investors. However foreign investment interest is still high.



Source: Savills

Demand	increasing
Supply	increasing
Rents	decreasing

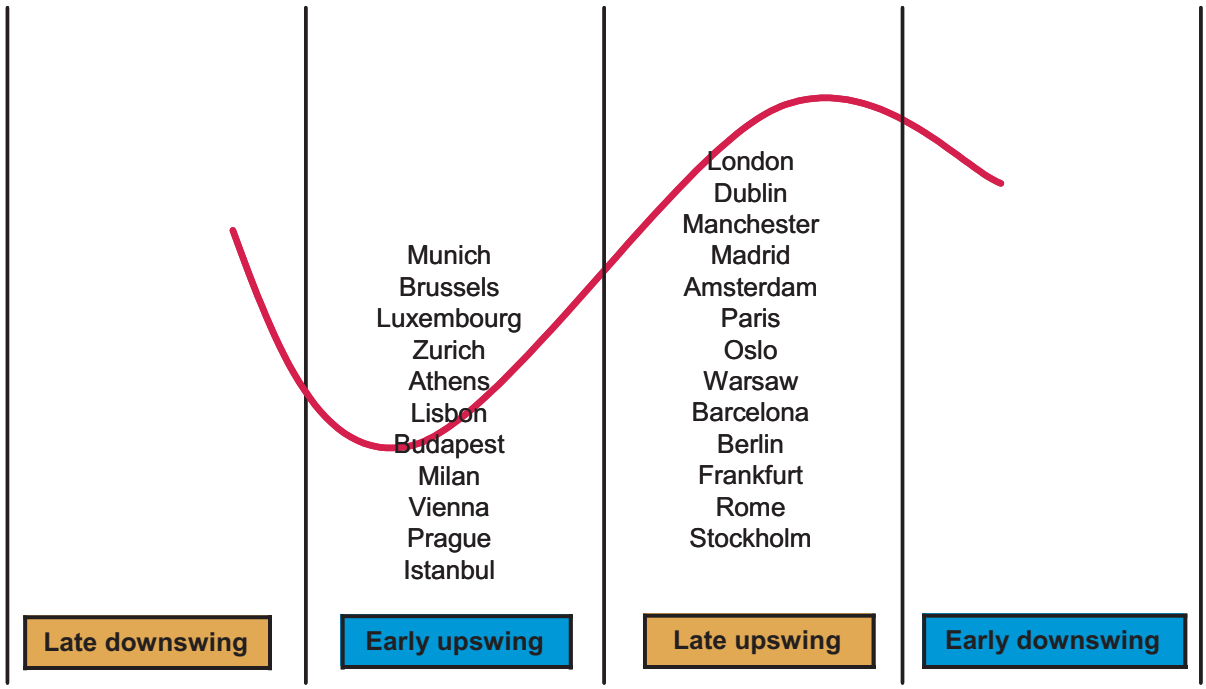
Prime occupancy costs and yields

City	Prime rent	Service charge	Local taxes	Other charges	Total	Parking (per space)	Rental growth (yoy)	Prime Yield
Amsterdam	375	24	5	2.5	407	1,750	4.2%	5.25% (Gross)
Athens	360	34	-	12.5	407	2,160	7.1%	5.75% (Net)
Barcelona	360	43	-	-	403	1,980	16.1%	5.25% (Gross)
Berlin	258	64	-	-	322	1,920	19.4%	4.90% (Gross)
Brussels	275	25	20	20	340	1,200	12.2%	5.50% (Gross)
Budapest	264	48	-	-	312	1,800	10.0%	6.00% (Gross)
Dublin	660	75	65	-	800	4,250	6.5%	4.25% (Net)
Frankfurt	438	96	-	-	534	3,000	7.4%	4.50% (Gross)
Istanbul	286	66	-	-	352	1,440	10.4%	7.00% (Gross)
Lisbon	252	36	-	-	288	1,800	5.0%	5.75% (Gross)
London, City	1,088	102	157	-	1,347	4,322	13.9%	5.75% (Net)
London, West End	1,932	115	286	-	2,333	5,320	21.3%	5.00% (Net)
Luxembourg	360	29	4.8	7.2	401	3,900	11.1%	6.00% (Net)
Madrid	480	60	-	-	540	2,400	11.1%	4.75% (Gross)
Manchester	307	78	125		510	4,350	0.0%	5.50% (Net)
Milan	460	45	-	-	505	3,500	2.2%	4.50% (Gross)
Munich	360	52	-	-	412	3,600	3.4%	4.30% (Gross)
Paris	760	72	22	11	865	2,280	10.9%	4.00% (Gross)
Prague	228	48	-	-	276	1,560	0.0%	5.40% (Gross)
Rome	450	45	-	-	495	5,400	4.7%	5.25% (Gross)
Stockholm	495	-	38	-	533	4,386	6.7%	4.50% (Net)
Vienna	264	48	2.4	-	314	1,560	0.0%	5.40% (Gross)
Warsaw	420	72	-	-	492	1,800	59.1%	5.50% (Gross)
Zurich	473	38	-	-	511	3,780	7.3%	4.25% (Net)

Note 1: All costs are in €/sqm/year

Note 2: Prime rents and yields refer to modern, minimum 1,000sqm, fully let, long lease building

European office market cycle



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