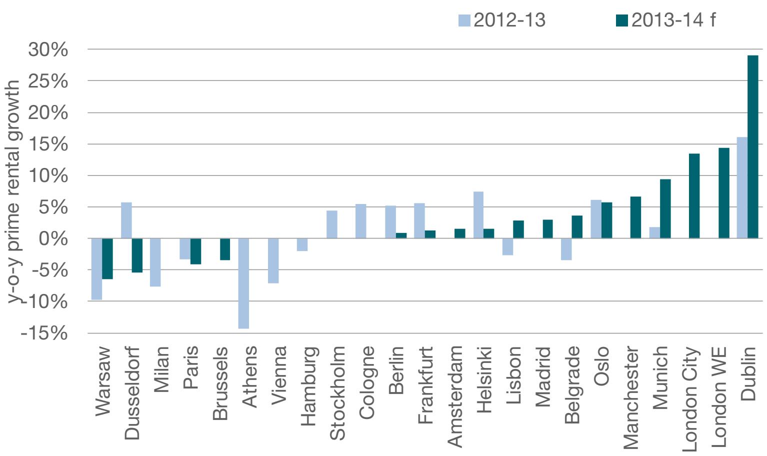
Savills World Research
European Commercial

Market report
European Offices

September 2014

GRAPH 1

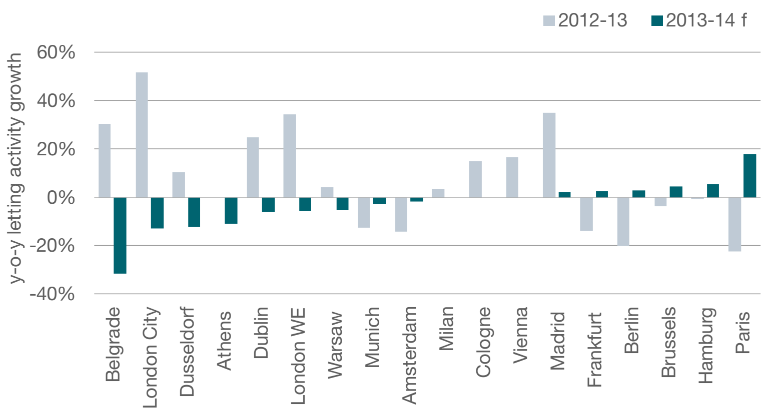
Prime CBD rental growth Positive or stable in most markets



Graph source: Savills / *forecast

GRAPH 2

Take-up change No firm recovery trend yet



Graph source: Savills / *forecast

SUMMARY

Rents grow due to supply shortage

■ The gradual improvement of the Euro zone economy at the beginning of the year came to a halt again in Q2 14, with Italy falling back into recession, stagnation in France and negative GDP growth in Germany.

■ Total take up in our survey area reached 3.9m sq m which is in line with the level in H1 13. Y-o-y the letting activity picked up strongly in Dublin (58%), Paris (24%) and London City (20%) although it dropped by about 20% each in Warsaw, Vienna, Dusseldorf and Frankfurt. While tenant demand remains focussed on high quality but cost efficient space it is increasingly restricted by supply constraints in prime areas.

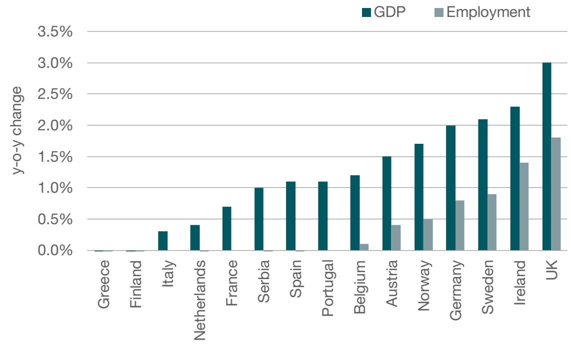
■ As a result of stable demand and falling completion levels, the average vacancy rate has fallen further to 9.6%.

■ Prime rental growth was higher than expected at 4% on average. This was mostly down to very strong performances in Dublin, London City and Munich where leasing dynamics are not representative for the whole survey area. Secondary rents posted some of the strongest growth in the past quarters at 2.4%, but this was again mostly due to rising rents in the three markets mentioned before.

"Rents are growing strongest where supply is constrained and business sentiment is positive." Julia Maurer, Savills European Research

GRAPH 3

GDP and employment annual growth forecast for 2014 The positive sentiment is still fragile



Graph source: Oxford Economics

> "While the mood across the whole survey area is gradually improving, there is an increasing polarisation between established international business centres and the other markets" Julia Maurer, Savills European Research

Economy

The first half of 2014 saw relatively little change in the economic fortune of the Euro zone. GDP growth was 0.9% y-o-y in Q1 14, and stagnated in Q2 mostly due to weaknesses in the three largest economies, Germany, France and Italy. Several other countries, including Spain and the Netherlands saw positive growth.
The external sector and business investment slowed while government and domestic consumption increased. Industrial production posted a mixed picture, it stayed stable y-o-y in June but on a monthly basis fell by 0.3% (following a 1.1% contraction in May).

On the positive side, the unemployment rate in the Euro area decreased further to 11.5% in June, the lowest value since September 2012, but still close to the region's record high of 12%. The polarisation between core (eg Germany 5.1%) and periphery (eg Spain 24.5%) persists although Spain and Portugal both recorded the largest decreases.

The annual inflation in the Euro zone stood at 0.5% in June, but there is again a significant variation. It stands at 1.5% in Austria compared to deflationary status in Greece (-1.5%). The ECB therefore decreased the interest rate further to the record low of 0.15% in June. In addition, it cut the deposit rate - the rate banks receive for parking funds at the ECB - from 0% to -0.1% hoping to stimulate lending by making it costly for banks to hold deposits at the ECB.

Demand

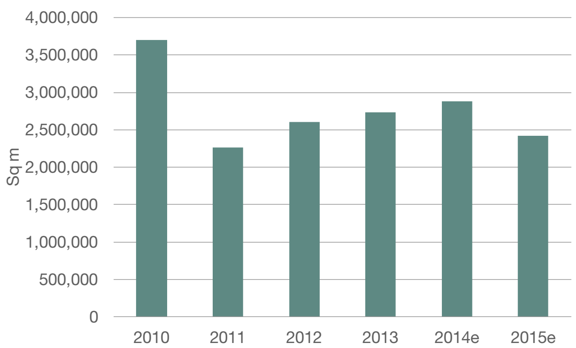
Take up in H1 14 was broadly in line with the level in H1 13 (+1.7%) although Vienna, Warsaw, Dusseldorf and Frankfurt recorded a drop of about 20% in demand. On the other hand, Paris (24%), London City (21%) and Dublin (58%) all saw a very strong increase of activity driven by improving business confidence and on-going job creation. The majority of markets (67%) are now above or in line with the 5-year average, most evidently so again Dublin and London City but also Brussels and London West End.

Apart from London, business services accounted for about a third of demand in most of the markets covered in the survey. Thanks to a couple of large-scale deals, the financial and insurance sector increased its share to on average 19% from 12% in 2013. The sector was particularly strong in London City and Amsterdam. The TMT sector had a mixed performance in H1 14, it reached on average 15% of total take up compared to 19% in 2013. While it accounted for almost a third of activity in London West End, it fell to 7% in Paris.

Regarding the deal size, there were slightly more smaller deals than in 2013 (85% compared to 82%) although the variation between markets is considerable. In Paris, about a fifth of deals is in the size band of more than 5,000 sq m compared to only about

GRAPH 4

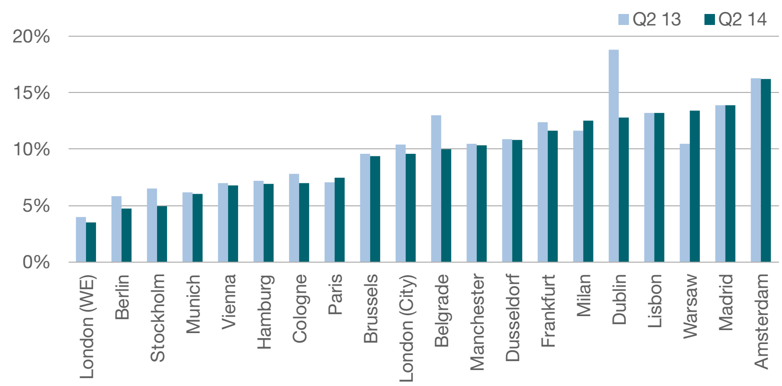
Development completions in Europe Stable at a low level



Graph source: Savills

GRAPH 5

Vacancy rates falling in most markets and increasingly concentrated in secondary stock and locations



Graph source: Savills

1-2% in the German cities or Madrid.

Supply

The average vacancy rate across the markets covered in the survey stood at 9.6% at the end of H1 14, compared to 10.1% in H1 13. Q2 14 also marks the fifth consecutive quarter where vacany across European office markets has fallen. On the other hand, the variation between markets continues to be high, as vacancy is below 5% in Berlin, London West End and Stockholm. In almost half of the 20 markets, including all markets in the periphery, it is still above 10%.

The vacancy rate is also coming down in markets where take up has been rather sluggish, particularly in the CBD areas. New developments have been limited over the last few years and had to have high pre-let levels in most cases as a prerequisite for bank funding. As businesses are beginning to feel more confident, demand is focussed on new built or refurbished offices that can be used flexibly. The result is that vacancy is very much concentrated in secondary space and locations. Only in a few markets where either demand is strong (eg Dublin) or supply very limited (eg Munich) also locations outside the CBD are becoming more established.

Supply will further be limited by slowing development activity across European markets. On average, completions will increase by about 7% this year compared to 16% in 2013. Markets with stable demand levels and/or where financing is most easily available will see the highest rise in completions, particularly Frankfurt (88%) and Berlin (54%). On the other hand, Madrid (-85%) and Stockholm (-36%) will see the largest drop.

Rents

Prime CBD rental growth at 4% on average (compared to -0.6% in H1 13) indicated that the improved business sentiment is being reflected in tenant demand for Grade A space which is increasingly met by insufficient supply. Dublin (33%) and London City (27%) posted the highest increase while overall rental growth was positive in almost three quarters of the markets covered in the survey. In the European periphery, Madrid is leading the way with 3% prime rental growth forecast at the end of the year (1% in Q4 13). While business confidence is slowly improving, completion levels have fallen strongly over the past years meaning that Grade A supply in the CBD is limited. The prime Lisbon and Athens markets are moving in the same direction, while Milan is still seeing some further rental corrections.

As mentioned before, in the strongest markets also secondary CBD locations are benefitting (eg Dublin, London City, Munich) but also on average, rental growth has been relatively robust here, at 2.4% in H1 14. On the other hand, prime rents outside the CBD have either faded or did not move. Once again, only in Dublin and London as well as in Berlin was there a notable growth.

OUTLOOK

Increasing polarisation between the best performing markets and the rest

■ The economic recovery and thus business sentiment is still fragile and could halt again as GDP figures in Q2 have shown. The forecast for this year is 1.1% growth and much will depend on the Euro zone's ability to further tackle its structural problems as well as the looming deflation.

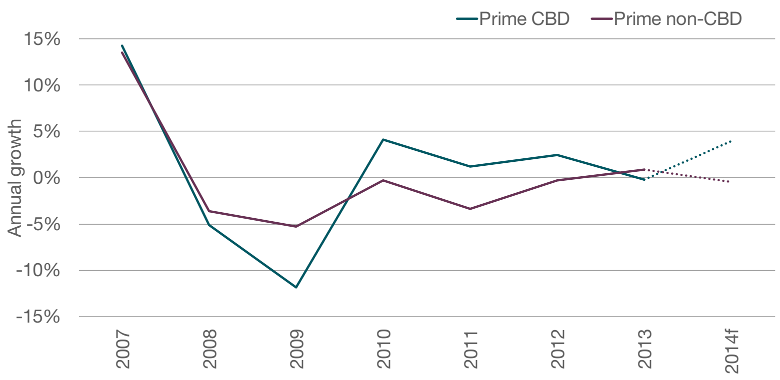
■ Take up across European markets should be broadly in line with last year's level to reach 8.3m sq m in total, although only Paris and Lisbon will see a stronger increase in activity. In any case, occupiers will continue to focus on efficient, sizeable space in the best/ most accessible locations.

■ The average vacancy rate should continue to decrease, to below 9.5% at the end of the year. Although on average completion levels will increase by about 6% in 2014, they have actually dropped in several markets, including Madrid, Paris, Stockholm and London West End. Only the German cities are seeing a significant rise in new developments. Vacancy will remain very much concentrated in the unrefurbished, secondary stock while it should be at only about 5% in the CBD of most markets.

■ We expect prime CBD rents to grow by 3.4% on average this year, mostly driven by Dublin (29%), the London markets (West End 14%, City 13%) and Munich (9%) where there is an ongoing mix of stable demand and constraint of Grade A supply. Secondary rents are stabilising across most markets and should see some modest growth in the strongest locations, first of all Dublin but also London City and Paris.

GRAPH 6

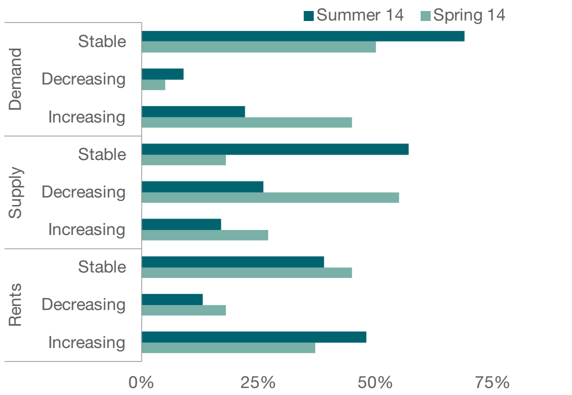
CBD vs non-CBD prime rental growth Non-CBD on recovery path due to shortage in CBD locations



Graph source: Savills

GRAPH 7

Survey outlook Improved rental outlook thanks to good start to the year



Graph source: Savills

European city review

Amsterdam

Office take-up in H1 14 stood at 105,000 sq m, 4.5% below the H2 13 level. The insurance and financial sector accounted for the highest share with 35% of the total, partly due to ING bank signing 24,500 sq m deal in the southeast area, followed by the traditionally strong business services (23%).

Supply increased slightly in H1 14, with an overall availability of 16.3% in the wider agglomeration. The city centre and the South Axis have the lowest supply at 6.6% and 8.7% respectively, with further downward pressure expected in these markets.

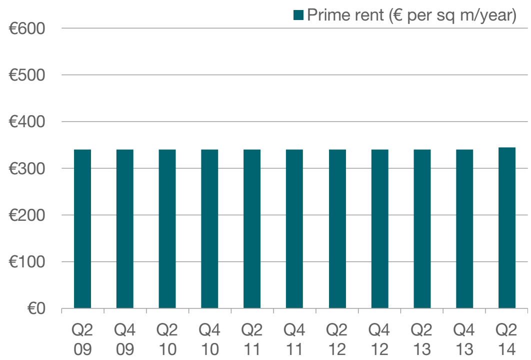
Prime rents are moving upwards, as tenants are focusing on prime markets where vacancy is already low. In Q2 14 prime rents stood at €345 per sq m/year while secondary rents have continued to decline and are as low as €90 per sq m/year in areas with high vacancy and low demand.

We expect the polarisation between prime and secondary occupier markets to continue while demand will stay stable for this year as tenants remain focused on cost reduction.

6-month outlook* Demand: **stable** Supply: **stable** Rents: **increasing**

GRAPH 8

Amsterdam



Graph source: Savills

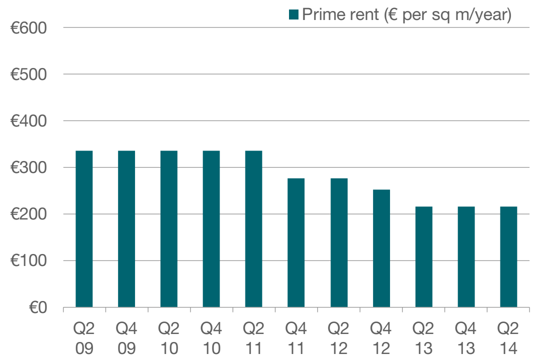
Athens

Over the past few years the majority of companies have completed their consolidation plans through relocations and renegotiations. This year the few outstanding requirements for large scale, good quality premises are difficult to satisfy as the market has dried out from this type of product. New development activity is non existent and vacant space is concentrated in smaller and older buildings. The average Grade A-B vacancy is above 20% but much higher for secondary locations and properties. In prime locations Grade A space availability is still below 10%. This is polarising the market with rents stabilising for the prime locations but still feeling downward pressure in areas with higher availability. Average prime office rents are in the region of €15/sqm/month. We expect this year's take-up levels to be in line or somehow lower than last year's, on the one hand due to downsizing and on the other hand due to the lack of good premises for consolidation.

6-month outlook Demand: **stable** Supply: **stable** Rents: **stable**

GRAPH 9

Athens



Graph source: Savills

Belgrade

Office take-up in H1 14 recorded a decline of ca 65% in comparison with the year before and reached 13,000 sq m. It included about 20 transactions with the average deal size being 650 sq m. The expected vacancy rate at the end of 2014 will most probably hit the lowest level in the last five years, at about 10%. This will have a strong impact on the future development pipeline, as several local and regional developers announced the commencement of new projects as of the beginning of 2015.

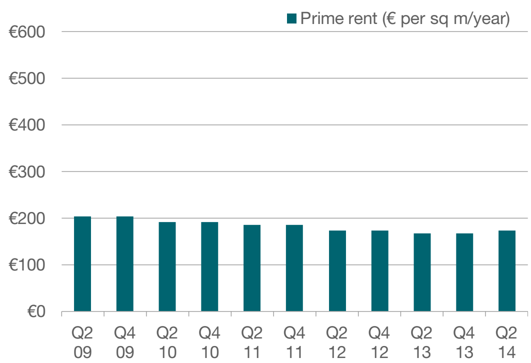
The total office stock in the 1H 14 remained at the level of approximately 720,000 sq m. In comparison with other capital cities in CEE and SEE, the current office stock in Belgrade is still very scarce.

Compared with last year, Grade A and B rents in H1 14 recorded a modest decrease. The average prime CBD rent was €174 per sq m/year (+3.57% yoy). Rental values are expected to be stable till the end of 2014.

6-month outlook Demand: **stable** Supply: **increasing** Rents: **stable**

GRAPH 10

Belgrade



Graph source: Coreside

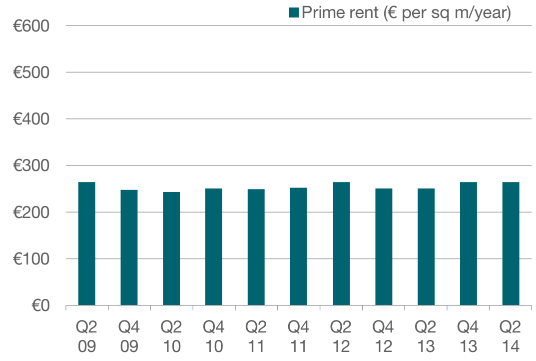
Berlin

Take-up in the first half year totalled 362,200 sq m, representing a decline of 0.6% compared with the same period last year. The prime rent rose by 5.3% to €22.00 per sq m/month and the average rent by 7.0% to €12.70 per sq m/month while the vacancy rate fell by 110 basis points to 4.7%. There was particularly high demand in the City West submarket, which accounted for 10% of take-up in the first half year; the highest proportion since 2010. The peripheral submarkets also increased their share of take-up from 20% to 24% year-on-year. The slow but steady rental growth, which is likely to continue in the second half of the year, has also increasingly attracted the attention of speculative developers. Project developments without high shares of pre-lettings have been limited in the past due to low availability of bank loans but private investors and private-euqity funds are filling this gap now. Until year end, we expect take-up to reach a level of some 700,000 sq m which will be slightly above previous year's level. In terms of vacancy rates, a further decrease to a level of 4.5% is likely.

6-month outlook Demand: **stable** Supply: **decreasing** Rents: **increasing**

GRAPH 11

Berlin



Graph source: Savills

Brussels

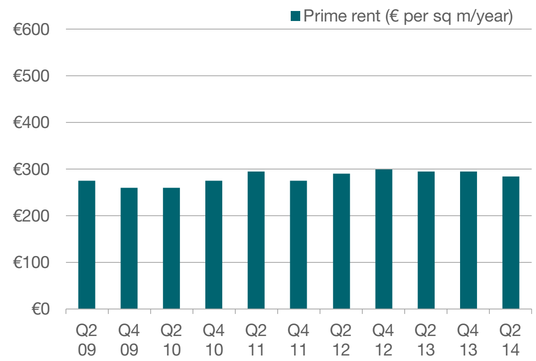
Brussels accounted for approximately 75% of the total Belgian take-up during H1 2014. Brussels take-up stood at 230,000 sq m, 8% above H1 2013 and under way to overpass the 5-year annual average of 335,000 sq m.

During H1, the public sector was very active accounting for 54% of the take-up and leaving the private sector behind with 105,000 sq m (46%). The most notable transaction was the pre-letting by the Flemish Government of 50,000 sq m in the North district. Only 7,000 sq m of new speculative developments have been delivered in Brussels during the first 6 months of the year. This has had a positive impact on the market as the overall vacancy continues to drop for the third year in a row, now standing at 9.5%. The average rent remained relatively stable at €167 per sq m per year if we include take-up from the periphery and at €175 per sq m excluding the periphery. Prime rents in Brussels are found in the European district standing at €285 per sq m per year but are expected to increase in 2014 with the completion of the Black Pearl building and the lack of new office space

6-month outlook Demand: **stable** Supply: **stable** Rents: **increasing**

GRAPH 12

Brussels



Graph source: Savills

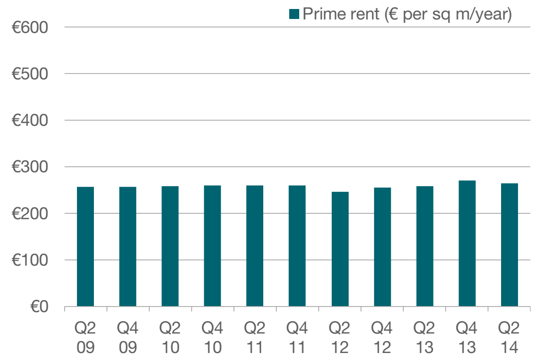
Cologne

Take-up in the first half year totalled 115,000 sq m, which was in line with the same period last year. The prime rent rose by 1.9% to €22.00 per sq m/month while the vacancy rate fell by 80 basis points to 7.0%. The average rent increased by 13.7% to €13.25 per sq m/month which marks the highest increase of all German top 6 markets. The market is characterised by a lack of large space, particularly in the city centre. Just one deal above 2,000 sq m was completed in this area. The remaining activity in the city centre was primarily concentrated in the size segment below 1,000 sq m. Almost half (45%) of overall take-up in the first half year was attributable to the central submarket. If this constraint of supply persists in central locations while demand remains stable, the result will be a reduction in incentives, which currently represent approx. 10% of headline rent. In the sought-after submarkets, Cologne is increasingly becoming a landlord's market at present. Until year-end, we expect rents to increase further and the vacancy rate to decrease slightly. Take-up for the whole year is forecast to reach 270,000 sq m.

6-month outlook Demand: **stable** Supply: **stable** Rents: **increasing**

GRAPH 13

Cologne



Graph source: Savills

Dublin

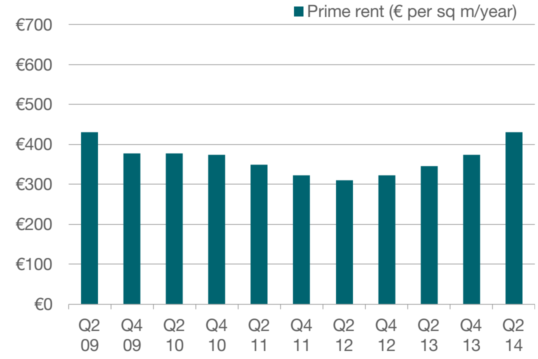
Strong momentum in the office market continued into H1 14 with lettings of 98,087 sq m. With further deals already in the pipeline for later in the year, full-year lettings should reach 160,000 sq m.

Given the strength of the jobs market, strong lettings are translating directly into net absorption, and the vacancy rate has come down from 14.85% to 12.9% over the first six months of 2014. In parallel with the reduction in vacant space, the average quality of the residual available stock is dis-improving, and the availability of Grade A space in the traditional prime market of Dublin 2 is now well below 4%. As no significant development completions are likely until well into 2016, occupiers with large space requirements are increasingly being driven into established office districts in the less central Dublin 4 location, and beyond into suburban locations such as Dublin 18 in the city's southern suburbs.

With strong demand meeting fixed supply, prime rents have been rising very sharply and will continue to do so for the remainder of 2014 and 2015. Indeed, rents are rising for all grades of buildings in all locations.

6-month outlook Demand: **decreasing** Supply: **stable** Rents: **stable**

GRAPH 14
Dublin



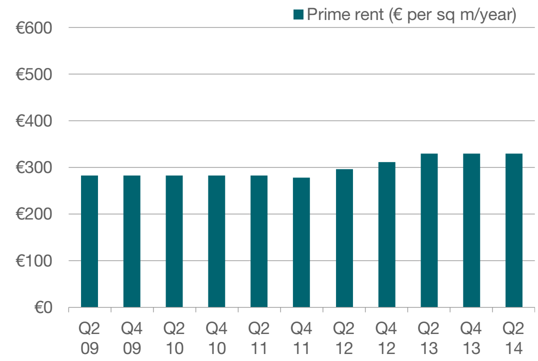
Graph source: Savills

Dusseldorf

Take-up totalled 120,700 sq m, a decrease of 19.7% compared with the same period last year. The prime rent remained unchanged at €27.50 per sq m/month and the average rent increased by 3.7% to €14.70 per sq m/month while the vacancy rate fell by 10 basis points to 10.8%. The low take-up is attributable to a lack of large deals, with no transactions above 5,000 sq m in the second quarter. In addition, landlords are currently being very pro-active and have successfully extended expiring leases in recent months. In the second quarter, letting activity shifted from the peripheral submarkets, such as Ratingen and Düsseldorf North / Airport, to more central locations, such as the Kennedydamm submarket, which accounted for two of the three largest lettings in the second quarter, as well as the Grafenberger Allee and city centre office market areas. Due to the unexpected low take-up figures, the year end forecast needs an adjustment. The primarily stated level of 340,000 sq m is only achievable in case of an unexpected fast closing of a large search. Under these circumstances we expect an adjusted take-up of 300,000 sq m for 2014.

6-month outlook Demand: **decreasing** Supply: **decreasing** Rents: **decreasing**

GRAPH15
Dusseldorf



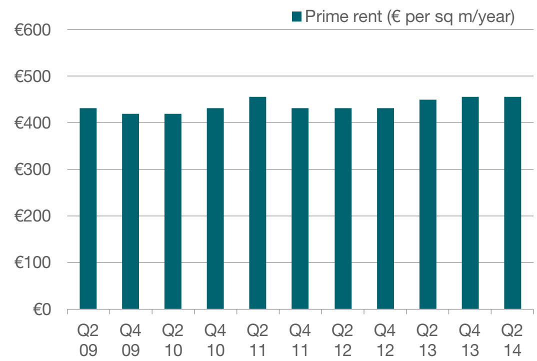
Graph source: Savills

Frankfurt

Take-up in the first half year totalled 163,500 sq m, representing a decline of 18% compared with the same period last year. The prime rent rose by 1.3% to €38.00 per sq m/month while the vacancy rate fell by 80 basis points to 11.6%. The average rent decreased by 1.4% to a level of €17.50 per sq m/month. Therefore, Frankfurt is the only of the German top 6 markets that suffered a loss compared to previous year's level. With no deals above 5,000 sq m in the first half year (with the exception of the Deutsche Bank letting), letting activity was primarily concentrated in the smaller size segment. Some 45% of take-up was attributable to deals below 1,000 sq m (H1 13: 29%). Supply is available in all price segments, leading to strong competition for new tenants in Frankfurt, which is increasingly reflected by incentives in the prime segment. In the second quarter, these ranged from 5-10% of headline rent. Until year-end, we expect rents to move sideways while the vacancy rate is forecast to decrease further by some 20 basis points. The expected take-up for the whole year is 450,000 sq m which will be in line with previous year's level.

6-month outlook Demand: **stable** Supply: **stable** Rents: **stable**

GRAPH16
Frankfurt



Graph source: Savills

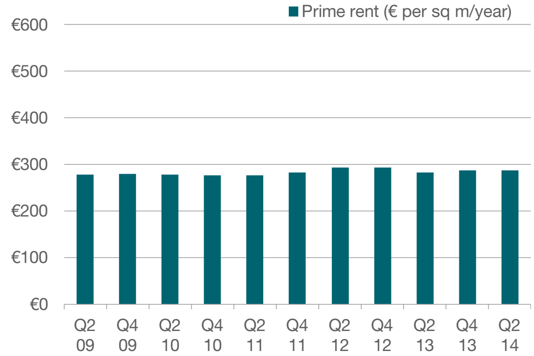
Hamburg

Take-up in the first half year totalled 219,200 sq m, an increase of 1.5% compared with H1 13. The prime rent rose by 2.1% to €24.00 per sq m/ month and the average rent by 4.9% to €13.40 per sq m/month while the vacancy rate fell by 30 basis points to 6.9%. The good performance is primarily attributable to the high take-up in the city centre which witnessed numerous deals in the small and medium size segment. However, large contiguous space remains rare in the city centre in the short term. Overall, the city centre accounted for a quarter of take-up in the first half year. However, the two largest deals in the second quarter, each above 10,000 sq m, took place in the City North and Altona submarkets. Consequently, these two submarkets followed behind the city centre with shares of 15% and 13% of take-up respectively, although the figure for City North was principally attributable to one deal. As we expect good demand for the remainder of the year, the take-up for 2014 is forecast to reach 450,000 sq m which will be slightly above previous year's level but below the ten year average of 465,000 sq m.

6-month outlook Demand: **increasing** Supply: **stable** Rents: **stable**

GRAPH 17

Hamburg



Graph source: Savills

Helsinki

The downward trend in the economy is reflected in the occupier market with decreasing demand on the one hand and oversupply of space on the other. Businesses are looking to use their space more efficiently while the signing of new leases can take considerable time.

The vacancy rate for the Helsinki Metropolitan Area stands at 12.7% although regional variation is high.

In the CBD demand has been stable although several relocations here have increased the amount of vacant space at least temporarily.

Prime CBD rents stand at €412 per sq m/year which is an increase of about 6% y-o-y.

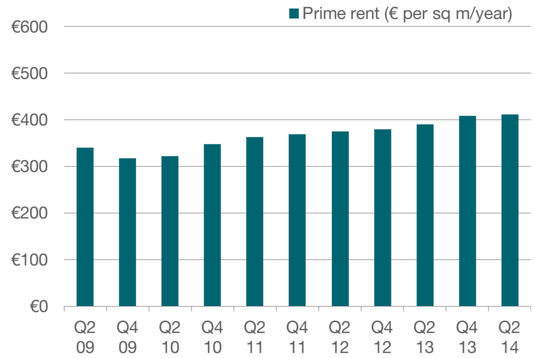
The oversupply of office space and the weak economic outlook are putting pressure on landlords to be flexible in relation to the demands of tenants, especially in the case of non-core properties.

For the remaining of 2014 we expect the sentiment in the office market to remain subdued. Office construction is anticipated to remain at a low level for quite a long time.

6-month outlook Demand: **stable** Supply: **increasing** Rents: **stable**

GRAPH 18

Helsinki



Graph source: Realia

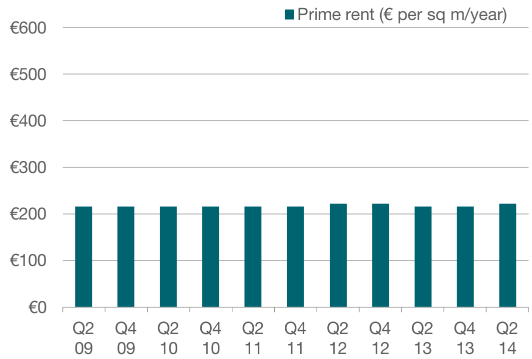
Lisbon

There has been a clear increase in demand for offices since the start of the year but it has not really translated into increased take up, with only 40,000 sq m absorbed in the first half of the year. After three or four years of cutting back on staff numbers and expenditure in general, many of Lisbon's office occupiers are now looking at business plans for the next few years with some optimism, and one of the important factors driving demand is the intention to use an office relocation as a motivational tool. There are a number of very significant requirements in the market, which may bring total 2014 take up to over 100,000 sq m. Vacancy rates are slowly coming down from just over 13% overall, with the Parque das Nações finally under 10% after several years of oversupply but the Western Corridor continues to be the poorest sub market with 23% vacancy. Prime rental values are steady at € 18.50 per sq m/month, and average CBD rental values at € 13-14 per sq m/month, but with an upturn in the economy and construction at a standstill, there is a real possibility of rental growth in 2015.

6-month outlook Demand: **increasing** Supply: **stable** Rents: **stable**

GRAPH 19

Lisbon



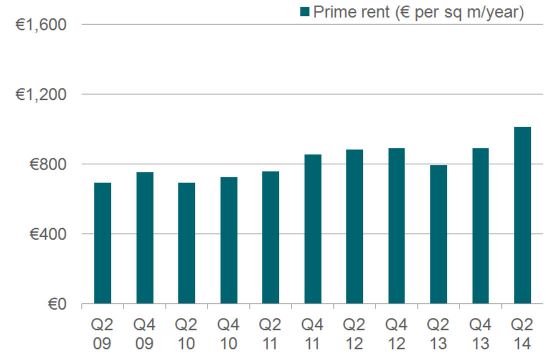
Graph source: Abacus

London City

Take up reached 311,000 sq m in H1 14, an increase of 21% compared to H1 13. The rise in number of transactions at 32% was even more pronounced, with a total of 246 in H1. The preference for Grade A space remained prominent at 81% partly due to the easing economy which has allowed occupiers to place more emphasis on properties' practical benefits as opposed to it's cost effectiveness.
The insurance and financial services sector accounted for the highest share of take-up (26%), followed by the professional sector (16%) and TMT (13%).
Despite the increase in take up, supply rose through H1 due to large developments nearing completion. It reached 856,000 sq m as of June 2014, giving a vacancy rate of 9.6%. We forecast the vacancy rate will fall to 7.4% during H2 due to stable demand and few developments scheduled to enter the market in 2015.
City rents signal a market that is benefitting landlords more with the prime rent rising to £80 per sq ft/year compared to £66 per sq ft/year in H1 13. We expect the supply-driven rental recovery to continue, albeit at a slower pace than previous recoveries.

6-month outlook Demand: **stable** Supply: **decreasing** Rents: **increasing**

GRAPH 20
London City



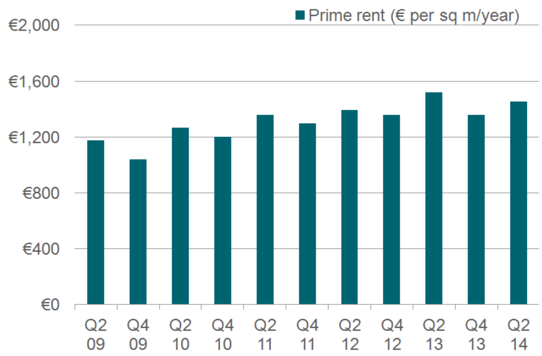
Graph source: Savills / constant 2009 prices

London West End

Take up in H1 14 reached 195,000 sq m, 18% ahead of long-term H1 average levels. Y-o-y, take up decreased slightly by 5% but the number of transactions (188) are still significantly ahead of the 130 recorded in H1 13. The preference for smaller units remain, 71% of all transactions so far this year are on units <10,000 sq m. The TMT sector continues to dominate and accounted again for the highest share (28%) of take up. Interestingly, the Insurance & Financial services sector, who over a 10-year period accounted for, on average 11.5% of take-up, made up 15% of take-up in H1, the highest share since 2007. The vacancy rate has fallen to 3.5%, its lowest level since December 2007. This has resulted in a pick-up in pre-letting activity, H1 2014 has seen 26,500 sq m in 8 pre-lets, we expect this trend to continue in to H2 as supply in the West End will remain tight due to restrained levels of speculative development pipeline. The prime rent in Q2 14 was £115 per sq ft/year, 4% below the level in Q2 13.

6-month outlook Demand: **stable** Supply: **stable** Rents: **increasing**

GRAPH 21
London West End



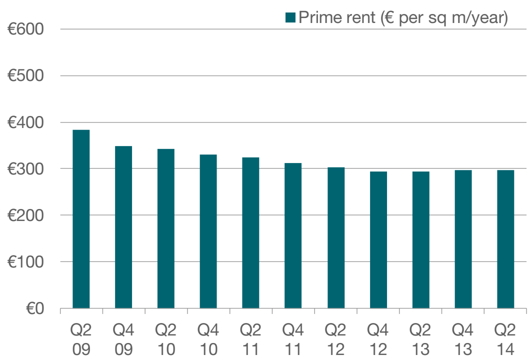
Graph source: Savills / constant 2009 prices

Madrid

Q2 take up was slightly over 80,000 sq m, 37% above the historically lowest level in Q2 13. The number of deals increased by 15% in both Q2 and H1 y-o-y which shows that demand is recovering albeit at a slow pace.
Occupiers still prefer the city centre, 62% of deals have been signed here in Q2. Sharp rental adjustments and the availability of high-quality space after extensive refurbishments are attracting businesses back to the centre, while other businesses which are already located there are taking advantage of the ideal conditions to relocate within the centre.
The vacancy rate stands at 14%, reflecting the imbalance between demand and supply, although the situation is much healthier in the CBD and some more peripheral office markets.
Prime CBD rents have stayed stable at €297 per sq m/year although there have been several deals signed above this level. This still concerns only some specific buildings and cases and cannot yet be regarded as the beginning of a new growth phase. For year end we expect prime rents in the Castellana axis to increase slightly given the increasing shortage of available space.

6-month outlook Demand: **increasing** Supply: **stable** Rents: **increasing**

GRAPH 22
Madrid



Graph source: Savills

Manchester

The office market witnessed a significant increase in take-up in H1 14, ending the quarter at just over 74,000 sq m, 82% up on the same period last year. With a number of known requirements in the market, we expect 2014 to end the year at circa 102,000 sq m, 27% up on 2013 and 26% up on the long term average.

Based on current demand, there is less than one year's worth of Grade A supply in the market. With a large amount of lease events coming up over the next 36 months, one of the big questions for the city is where will the 'suitable space' come from to meet demand?

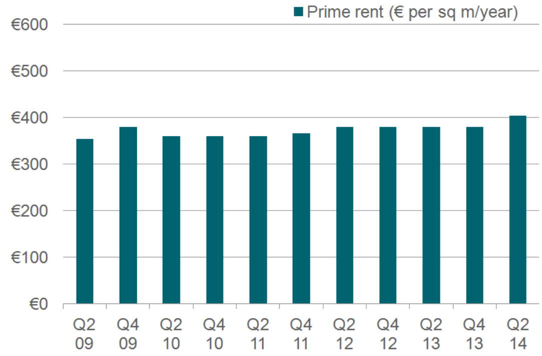
Given the renewed demand in the city and the improving economic conditions, there is great potential for those investors and developers with well located sites. There is a potential for 74,000 sq m of developments to come through over the next three years. While this looks substantial, to put it into context, the 10 year average grade A take-up is 35,000 sq m.

The highest rent achieved in 2013 was £30 per sq ft at 3 Hardman Square. In 2014 rents have now reached £32 per sq ft at Spinningfields and we expect headline rents to increase by 3.2% per annum over the next five years.

6-month outlook Demand: **increasing** Supply: **decreasing** Rents: **stable**

GRAPH 23

Manchester



Graph source: Savills

Milan

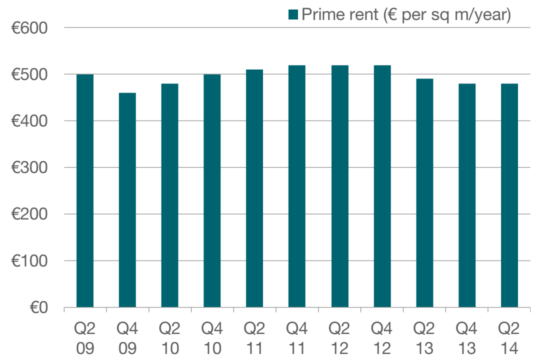
The total office stock is curently estimated at ca 13m sq m including Grade A, B and C offices in the entire metropolitan area. However, the office supply is characterised by the ongoing redefinition of its prime office locations, with developments and refurbishments happening outside the CBD, throughout Miland and its satellite towns. While 2013 has seen signs of recovery in the level of development completions, projections for 2014 are downsized again. Pipeline developments are completed and new projects are not undertaken in the current financial climate. The vacancy rate which currently stands at about 12.5% should stabilise this year.

Occupiers' main priority in the short term continues to be economic savings (rental levels and operational expenses), thus quality and location remain important with a focus on Grade A, new or refurbished premises. Generally, rental levels are expected to fall slightly further this year but with a different magnitude in some sub-markets where new and refurbished space is entering the market but is not matched by a similar level of demand.

6-month outlook Demand: **stable** Supply: **stable** Rents: **decreasing**

GRAPH 24

Milan



Graph source: Savills

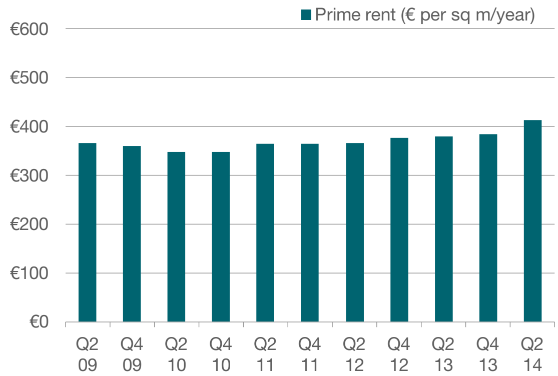
Munich

Office take-up in the first half year totalled 318,300 sq m, representing a decline of 4.5% compared with the same period last year. The prime rent rose by 8.8% to €34.50 per sq m/ month while the vacancy rate fell by 20 basis points to 6.0%. No lettings above 10,000 sq m were completed in the second quarter. While the letting activity was characterised by smaller deals, particularly in the city centre submarkets, the largest deals of the second quarter took place in the peripheral submarkets, such as outskirts north and the surrounding region. Despite the deals in the peripheral submarkets, the average rent rose significantly. At the end of June, this stood at €15.84 per sq m/ month; an increase of 6.9% year on year. Take-up for the whole year is expected on previous year's level (2013: 606,100 sq m). In terms of vacancy, a significant decrease in the remainder of the year is rather unlikely. This is because most of the vacant space in the peripheral submarkets is structural vacant. In contrast, the central submarkets are characterized by natural vacancy.

6-month outlook Demand: **stable** Supply: **stable** Rents: **increasing**

GRAPH 25

Munich



Graph source: Savills

Oslo

The Norwegian economy has shown mixed signals so far this year, and future growth in employment has been revised downwards. Nevertheless, the rental market within the Oslo office sector has proven healthy and stable. Vacancy in the Oslo area is currently at 7.5%, and expected to fall during 2014, mostly due to negative net supply of office in Oslo. The vacancy in the CBD is approx. 4.7%.

The market expects rents to push further upwards in attractive areas, and remain fairly stable in the more peripheral areas.

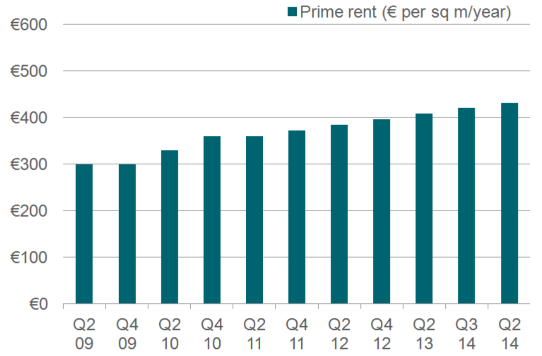
Prime rents in the CBD stand at NOK 3,600 per sq m/year. Centrally located and attractive offices achieve rent levels in the range of NOK 2,500-3,000 per sq m/year. On the other hand, older, ineffective space at less attractive areas achieve approx. NOK 900 per sq m/year. Large office tenants focus increasingly on modern premises close to public transportation.

The demand for modern and efficient offices is predicted to remain solid for the coming years, whereas the demand for less attractive offices with second rate location will fall even further in the coming years.

6-month outlook Demand: **stable** Supply: **stable** Rents: **increasing**

GRAPH 26

Oslo



Graph source: Heilo / constant 2009 prices

Paris

With take up standing at 1.1m sq m in H1 14, the rental market posted a 28% growth y-o-y, with the strongest second quarter registered since 2007. The Western Crescent captured 32% of the leasing market, followed by Paris Centre West (21%) and the CBD (17%). La Defense registered the sharpest increase in activity as it offers the refurbished, large scale floors currently in demand by big companies. After a break in 2013, the return of large-scale transactions is significant, there have already been five transactions >30,000 sq m compared to three for the whole of 2013.

The public sector accounted for a couple of large scale transactions, mainly in Inner Paris, while the private sector was mainly in the Inner and Outer Suburbs.

The immediate supply of stock in IDF decreased slightly to 3.8m sq m at the end of Q2 14. Given the low development pipeline and the significant share of pre-lettings, the available stock will decrease further.

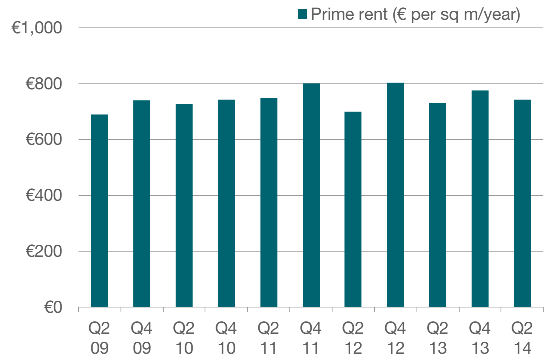
Prime and average rents decreased slightly to €743 per sq m/year and €303 per sq m/year respectively.

Since the economic crisis, tenants have become more cost aware and generally more demanding in their negotiations.

6-month outlook Demand: **increasing** Supply: **decreasing** Rents: **stable**

GRAPH 27

Paris



Graph source: Savills

Stockholm

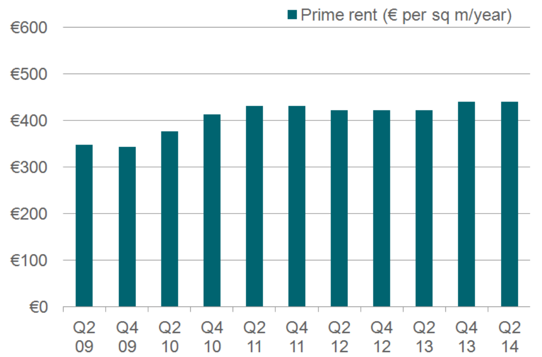
In spite of a relatively healthy recovery of the Swedish economy, tenants have remained hesitant. Letting processes still take a significant amount of time, even for the best available premises. Market rents have nonetheless remained stable and increased in the areas close to the CBD. The trend of relocating from the CBD to cheaper, suburban locations continues and includes three out of the four major banks. This trend will result in large vacancies, primarily in the CBD. However, these relocations are spread out in time and are also slowed by the need to refurbish most of these premises completely. Larger tenants will still have options to review on the market, which could give them leverage in renegotiation processes.

The development pipeline is fairly limited and very much focused on the northern suburbs. The majority of the pipeline is fully let, but the number of speculative projects is increasing. However, the northern suburbs 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.

6-month outlook Demand: **stable** Supply: **increasing** Rents: **stable**

GRAPH 28

Stockholm



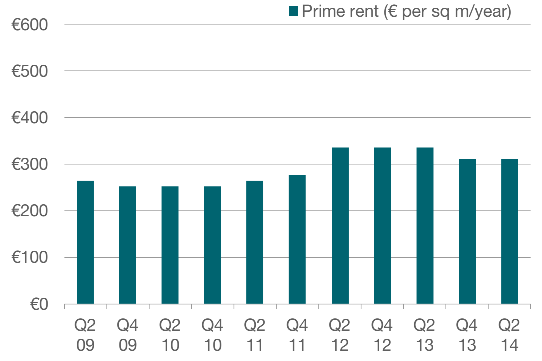
Graph source: Savills / constant 2009 prices

Vienna

In H1 14 the performance of the office market was relatively modest. Take-up amounted to roughly 100,000 sqm, which is a slight decrease compared to H1 13. The market was dominated by small to medium-sized transactions between 250 and 2,500 sqm. However, the lack of bigger transactions is not to be misconstrued as a lack of interest to relocate, but rather as a lack of suitable office space in the needed size.
Since completions have decreased continuously in the last few years, companies with a need of 5,000 sqm or more, that are willing to relocate to a newly built property, face fewer options and often are not able to find the best suited space, thus delaying their plans. On the other hand this opens up new possibilities for used, though extensively refurbished office space.
In 2014, completions will reach an estimated record low of 120,000 sqm, these projects are already extensively pre-let. The vacancy rate will remain stable at approx. 6.6%. Prime rents in the newly refurbished prestigious buildings in the CBD are €312 per sqm/year. Take-up is expected to reach last year's level of approx. 280,000 sqm total.

6-month outlook Demand: **stable** Supply: **decreasing** Rents: **stable**

GRAPH 29
Vienna



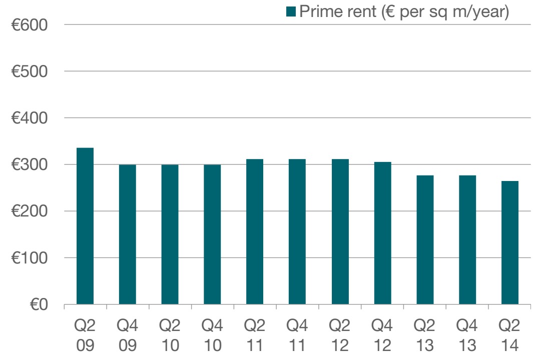
Graph source: EHL

Warsaw

Lease extensions and renegotiations accounted for 36% of total take up in H1 14, while the share of pre-lettings was only 7%. We still expect that pre-letting activity will pick up and reach the long-term average of 23%. by year-end. Taking into account the ongoing transactions, including some consolidations that should finalise by year-end, the total letting activity may reach 600,000 sq m in 2014.
Business and consumer services created over 34% of demand, followed by the manufacturing industry and the financial and insurance sector at 13% each. The average deal size was about 900 sq m across the whole market and 750 sq m in the city centre.
Availability exceeded 574,400 sq m, resulting in a vacancy rate of 13.4% (13.6% in the city centre).
Development activity remains high with over 600,000 sq m currently under construction, 45% of which is located in the city centre. Building permits are granted for another 240,000 sq m of office space where construction will start once pre-lease agreements are signed.
Prime rents in the best buildings in the core of the city centre are stable at €264 per sq m/year but can fall to €240 per sq m/year outside of this.

6-month outlook Demand: **stable** Supply: **increasing** Rents: **decreasing**

GRAPH 30
Warsaw



Graph source: Savills

Key office indicators

Prime[1] CBD rents[2], letting data in Q2 14 and projections for Q4 14

City	National GDP growth 14*	National employment growth 14*	Prime rent Q2 14	Prime rental growth[3] Q2 13-14	Prime rental growth[3] 2013-2014	Take up growth H1 13-14	Take-up growth 2013-14	Vacancy rate Q2 14
Amsterdam	0.4%	-0.7%	345	1.5%	1.5%	5%	-2%	16.3%
Athens	-0.1%	-0.6%	216	0.0%	0.0%	NA	-11%	NA
Belgrade	1.0%	-0.3%	174	3.6%	3.6%	-68%	-32%	10.0%
Berlin	2.0%	0.8%	264	5.2%	0.9%	-1%	3%	4.7%
Brussels	1.2%	0.1%	285	-3.4%	-3.4%	8%	5%	9.4%
Cologne	2.0%	0.8%	264	1.9%	0.0%	0%	0%	7.0%
Dublin	2.3%	1.4%	430	33.1%	29.1%	58%	-6%	13.2%
Dusseldorf	2.0%	0.8%	330	0.0%	-5.5%	-20%	-12%	10.8%
Frankfurt	2.0%	0.8%	456	1.3%	1.3%	-18%	3%	11.6%
Hamburg	2.0%	0.8%	288	2.1%	0.0%	2%	5%	6.9%
Helsinki	-0.1%	-0.4%	412	5.7%	1.5%	NA	NA	12.7%
Lisbon	1.1%	0.0%	428	2.8%	2.8%	NA	29%	13.2%
London WE	3.0%	1.8%	1,555	-4.2%	14.4%	-5%	-6%	3.5%
London City	3.0%	1.8%	1,082	27.5%	13.5%	21%	-13%	9.6%
Madrid	1.1%	-1.0%	297	1.0%	3.0%	-14%	2%	13.9%
Manchester	3.0%	1.8%	433	6.7%	6.7%	82%	27%	10.3%
Milan	0.3%	0.0%	480	-2.0%	NA	NA	NA	12.5%
Munich	2.0%	0.8%	414	9.0%	9.4%	-5%	-3%	6.0%
Oslo	1.7%	0.5%	428	5.6%	2.8%	NA	NA	NA
Paris	0.7%	0.0%	743	1.8%	-4.1%	24%	18%	7.5%
Stockholm	2.1%	0.9%	528	4.4%	0.0%	NA	NA	5.0%
Vienna	1.5%	0.4%	312	-7.1%	0.0%	-23%	0%	6.8%
Warsaw	3.3%	1.1%	264	-4.4%	-6.5%	-20%	-5%	13.4%

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

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

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