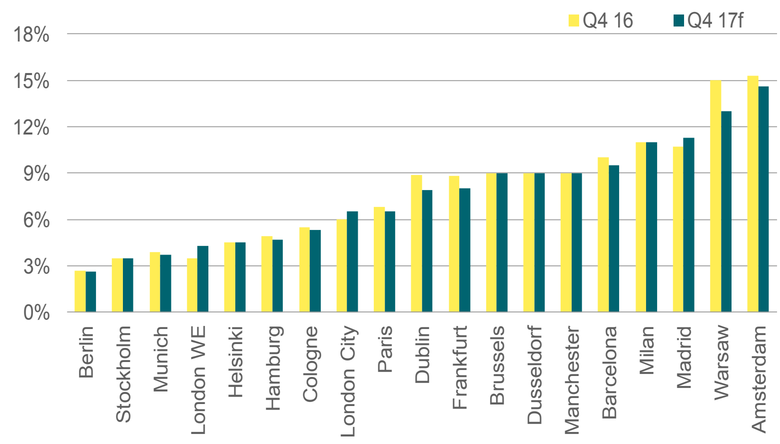
Market report
European Offices

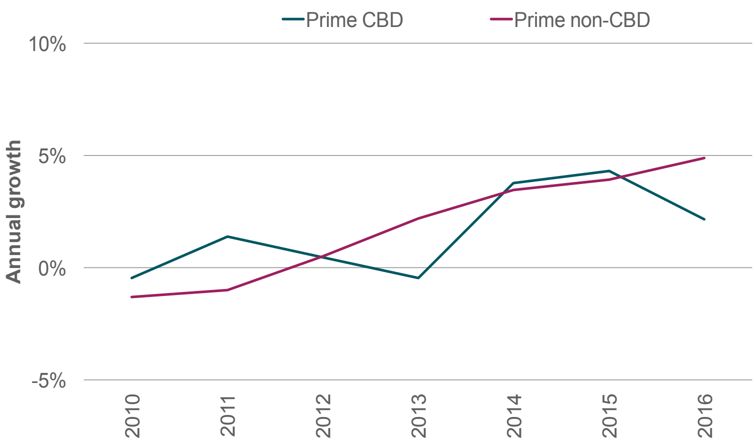
December 2016

GRAPH 1
Vacancy rate 2016-2017 Vacancy rate will continue to decline towards the end of 2017



Graph source: Savills

GRAPH 2
CBD vs. non-CBD rental growth Further rental growth expected in non-CBD locations



Graph source: Savills

SUMMARY

Limited supply of high quality space across Europe

■ Office demand will continue to grow, nevertheless we expect the overall take-up level in 2017 to end up around 13% down compared to 2016 as a result of limited supply in half of the European cities we cover.

■ So far, Brexit has had no impact on take-up levels across mainland Europe. In the UK however, businesses have adopted a "wait and see" approach. In 2017, we may see London tenants inserting break clauses into long-term leases in London City and London WE to offset the uncertainty surrounding Brexit.

■ The level of office completions is 9% down on last year, which was already 16% lower than in 2014. The average vacancy rate in Q3 fell to 7.9%, down from 8.45% in Q3 2015. We expect to see a rebound of development activity of 25% in 2017 but since most is already pre let, the vacancy rate will continue to decrease and reach 7% at the end of next year.

■ Prime CBD rents grew an average of 2% yoy, from the 4% growth recorded in Q3 2015. The overall rental growth will continue to slow since more supply will come onto the market. We forecast an average prime CBD rental growth of 0.5% yoy at the end of 2017.

"The average vacancy rate will continue decreasing in 2017 to 7% in spite of a spike of 25% in development activity." Lydia Brissy, Savills European Research

Mixed economic sentiment

In a shaky financial and political backdrop, the European economy has shown some good signs of resilience. Preliminary estimates from Eurostat suggest that the Eurozone grew by 0.3% in Q3, in line with Q2. Falling unemployment levels, rising consumer spending and low inflation rates continue to offset negative factors hindering growth. Quantitative easing by the European Central Bank is contributing to lower interest rates and expectations of improving credit conditions. Economic growth in Europe is expected to continue at a steady pace with Oxford Economics EU GDP growth at 1.6% in 2017.

Economic concerns relating to the Brexit referendum appear to have been exaggerated. The UK's consumer confidence index has returned to pre-referendum levels, partly thanks to strong wage growth and low inflation. However, talks of a 'hard Brexit' have resulted in UK growth prospects being cut to 1.9%. But in Italy, the recent referendum defeat of Prime Minister Matteo Renzi sounds poses another threat on the political and economic stability in Europe.

Meanwhile, the Economic Sentiment Indicator (ESI) increased by 1.4 points in both the euro area (to 106.3) and the EU (to 106.9). According to the European Commission, the most noticeable increases in the ESI were in Spain (+2.6), Germany (+1.6), Italy (+1.5) and the Netherlands (+1.0).

Business expansion driving demand

High levels of office demand were recorded during the third quarter of the year. Total take-up in our survey area reached 2.53m sq m, which is down 1% compared to the level recorded in Q3 2015 but 7% above the 5-year quarterly average. This brings the total take-up figure since the beginning of the year 1.9% higher than during Q1-Q3 2015.

Significant falls in take-up levels in Barcelona (-59%), Brussels (-44%) London City (-33%), Paris CBD (-29%), Manchester (-28%) and Dusseldorf (-25%) were counterbalanced by considerable rises in take-up in Vienna (144%), Paris La Defense (81%), Cologne (73%) and Hamburg (58%).

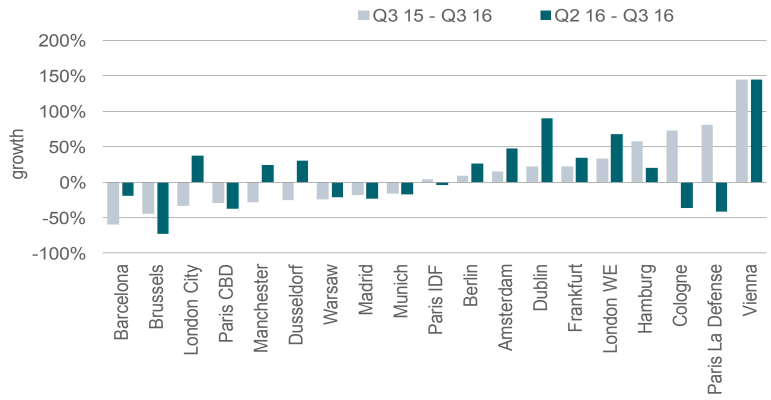
> "In 2017, prime rental growth will be stronger in non-CBD locations since suburban areas offer newly developed large-scale office premises which are scarce in most CBDs." Lydia Brissy, Savills European Research

So far, Brexit has had no impact on take-up levels across mainland Europe. First because it remains too soon for companies to make moving plans based on yet unpredictable outcome of the Brexit. Second because the financial sector has not been a particularly strong driver of demand so far this year. In the UK, however following the Brexit vote, occupiers put off making any decisions regarding lease renewals preferring a "wait and see" approach, which has resulted in a general lower level of take-up.
In most European cities, sharp increases in take-up are generally driven by large scale deals, notably in cities such as Frankfurt, Paris La Defense, Vienna or Madrid which offer some well-located development schemes to pre-let. On the other hands end of the spectrum, with the exception of UK cities, lower letting volume is generally explained by a shortage of large size and high standard office premises.

Overall, office demand is now driven by business expansion and desire to adopt new work style in order to

GRAPH 3

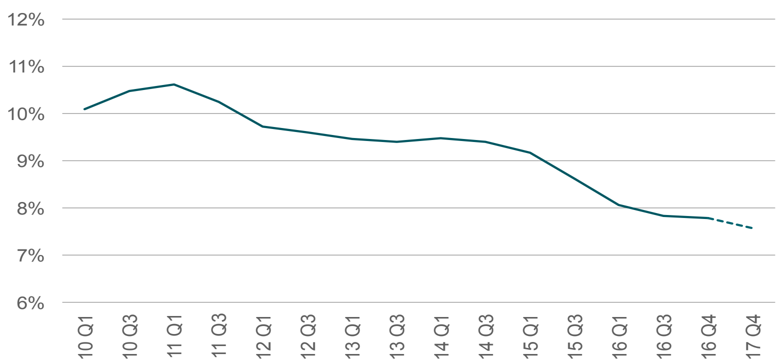
Take-up Q3 16 Total take-up is 7% higher than the 5-year average



Graph source: Savills

GRAPH 4

Average vacancy rate Vacancy rate will continue to decline before stabilising



Graph source: Savills

attract young talent and to retain older workers. This is particularly true in tech-attractive cities such as Amsterdam and Dublin.

Lack of supply becoming critical

The level of office completions is 9% down on last year, which was already 16% lower than in 2014. This combined with growing demand is significantly reducing office supply in Europe. Vacancy rates have fallen in the majority of our survey areas. The average vacancy rate in Q3 fell to 7.9%, down from 8.45% in Q3 2015. The tightest markets in terms of supply are relatively unchanged from previous quarters with Berlin, Munich, London WE, Paris CBD, Stockholm and Zurich recording vacancy rates below 5%. At the other end of the spectrum, Amsterdam, Helsinki and Warsaw have the highest average vacancy rates, above 12%.

In core countries, office supply has reached pretty much the same nadir with the pre-crisis levels and the situation is becoming critical for companies who need to relocate. They sometimes have to postpone their plans if they do not want to move out to suburban locations. In peripheral markets however, office supply is still above the levels recorded in 2007-2008 but vacancy rates shrunk further than average with Madrid seeing a fall of 188 bps.

Although office supply is decreasing in nearly all CBD locations covered in this report, since occupier demand is strongly focused on ideally located high standards premises, secondary premises can remain available on the market for quite some time. This is why we are still seeing a growing number of office conversions in residential units or in alternative assets such as senior residences and student notably in Brussels, Dusseldorf, Oslo, Stockholm and Helsinki.

Prime rental growth decelerating

The growing demand for high quality offices in prime and CBD areas and the shortage in supply pushed up the achievable rental level. Prime CBD rents grew an average of 2% yoy, from the 4% growth recorded in Q3 2015. We believe the deceleration of the rental growth is mainly due to the lack of new premises on the market which is restraining letting activity in the prime segment of the market.

Disparities between countries are slowly fading, notably between Core and Periphery and double digit rental growth nearly vanished with the exceptions of Stockholm (19.6% yoy) and Berlin (12.1% yoy). Few cities witnessed negative annual prime rental growth including Paris la Defense (10.2%), Zurich (6.5%) and Paris CBD (3.2%), Vienna (1.9%) and London WE (0.6%).

In non-CBD locations, prime rents increased by 4% yoy on average which is again explained by the lack of available premises in CBD locations, which drives more competition for good properties in non-CBD areas.

Landlords continue to hold the upper hand when negotiating rents and lease lengths. With the exception of Dublin, average lease lengths across our survey area remain unchanged from 2015, however the level of incentives granted are falling.

OUTLOOK

Vacancy rates are still expected to fall

■ The European economy is forecast to continue growing, but at a moderate pace of 1.6% in 2017. Inflation is set to pick up further and expected to reach 1.6% in 2017, meanwhile energy prices have started edging up. This will affect private consumption which is forecast to increase by 1.5% next year, down from 2% expected at year-end. However, the labour market will continue to recover and private consumption will remain the driving force of growth.

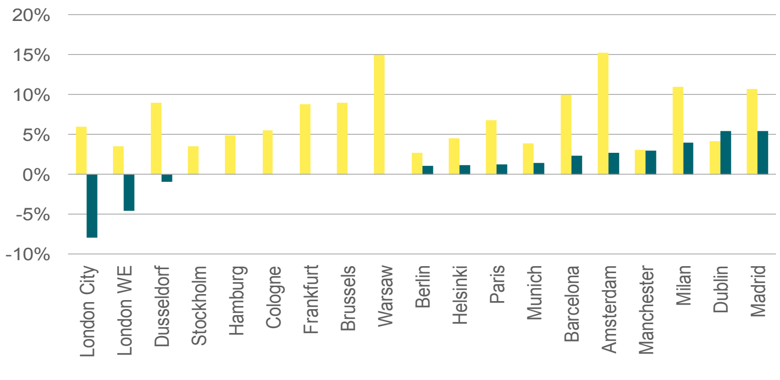
■ The main downsize risk comes from the political arena, the still unknown outcomes of the Brexit, Donald Trump's election in the US and recently Matteo Renzi's referendum defeat, all gave ground to populist parties and threaten Europe while damaging business and consumer confidence. Results of elections in France and the Netherlands will be key.

■ Based on the overall office pipeline, we expect to see a rebound of development activity of 25% in 2017 compared to -9% anticipated at year-end. Yet we are still far from an over-supply situation. Around 2.5m sq m of office space are in the pipeline for 2017, of which many projects are already pre-let. This is why we expect the average vacancy rate will continue to drop and reach 7% in Q4 2017.

■ We expect office demand will continue to grow backed by decreasing unemployment and growing business expansion. Nonetheless, half of the markets we cover in this report are and will remain constrained by tight supply situation. This is why we expect the overall take-up level in 2017 to end up around 13% down compared to 2016. In 2017 we may see London tenants inserting break clauses into long-term leases in London City and London WE to offset the uncertainty surrounding Brexit.

GRAPH 6

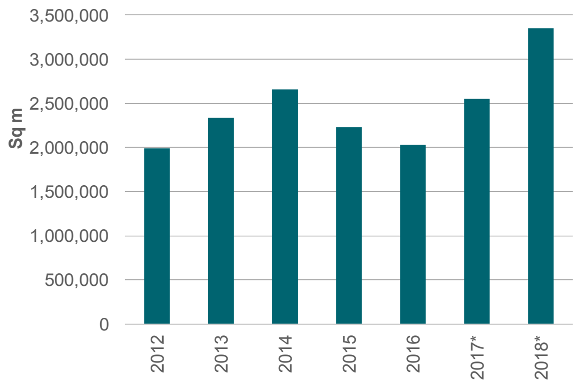
Prime CBD year-on-year rental growth Rental growth will continue to slow



Graph source: Savills

GRAPH 7

Development pipeline A rebound in development activity is anticipated



Graph source: Savills/*Forecast

European city review

Amsterdam

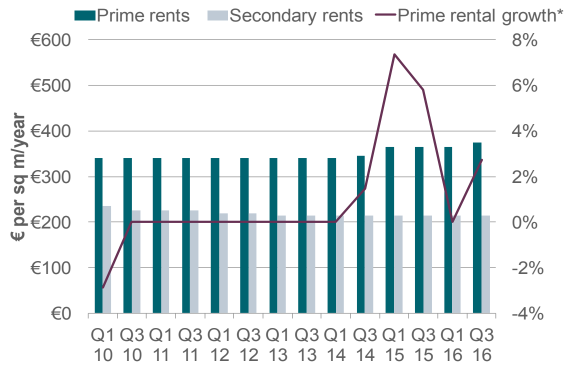
Demand for office space in the Amsterdam agglomeration, including Amstelveen and Diemen, remained high and reached 269,100 sq m in the first three months of 2016. Construction of new offices is focused in the South Axis and from 2017-2020 another 135,000 sq m of office stock will be added to this area, a significant part already pre-let. New leases by Oracle, Palo Alto, Facebook, Netflix, TakeAway and Booking and other companies in Tech, Media and Telecom (TMT) shows the continuing interest of this sector for the Dutch capital. The city centre remained the number one occupier destination accounting for 23.1% of all take-up, followed by Southeast (18.0%) and Teleport/Sloterdijk (12.1%). Forecasts for 2017 are positive, as occupier demand is strong and availability is dropping. The one threat for further increasing take-up is the low availability in the core markets in Amsterdam.

2017 outlook Take-up: **up** Supply: **down** Prime Rents: **up**

*Annual change

GRAPH 8

Amsterdam



Graph source: Savills

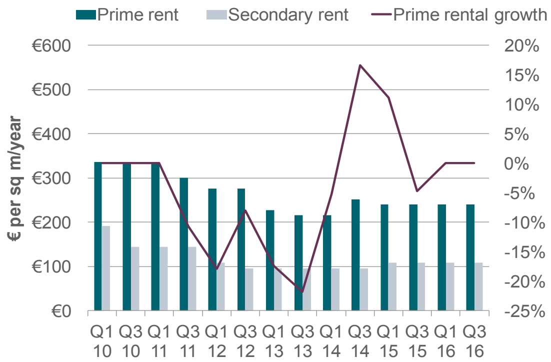
Athens

Demand for offices in Athens is still frail and mostly driven by firms willing to relocate to offices of better quality, situated in prime locations, as well as multinational companies with a plan of entering the Greek market, capitalising on the benefits of a prospective future economic recovery. At present, the submarkets which concentrate the interest of prospective tenants for Grade A, B offices are primarily Athens North and the prime thoroughfares of the CBD. The vacancy rate is falling and is currently estimated at circa 6%-8% for Grade A and 15%-18% for Grade B buildings. Achievable rents have remained stable and are higher for prime properties in the CBD, in the order of €16-€20 per sq m/month. In the second most attractive submarket (Athens North) prime properties are leased for €9-€13 per sq m/month, although recent deals in the area regarding Grade A buildings were signed at €14-€15 per sq m/month.

2017 outlook Take-up: **up** Supply: **stable** Prime Rents: **up**

GRAPH 9

Athens



Graph source: Savills

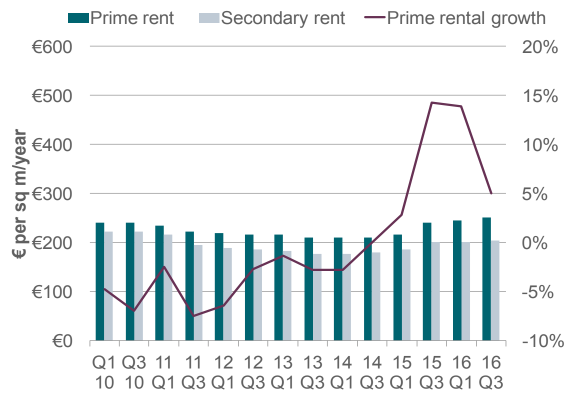
Barcelona

The beginning of 2016 could have benefited from the extraordinary level of activity from the previous year, although the summer season affected Q3 data. A decrease in demand mainly concerns companies looking for offices between 300-600 sq m, not only due to the low interest in demand, but also due to the shortage of surfaces adapted to their requirements. The vacancy rate maintains its downward trend. The Barcelona market closed Q3 at 10%, with reductions in supply volumes in all market zones except the periphery, which grew 7% compared with the previous quarter. This shortage is more obvious in high quality product in central locations which has accounted for the largest take-up volume in the historic series. Demand again shows interest in the pre-let option, mainly for office sizes above 5,000 sq m. The imbalance between supply and demand has caused a general increase in rents. The average closing rents until September showed a 3% yoy increase. Achievable rental values, boosted by the closing rental growth, have increased 4% on average.

2017 outlook Take-up: **up** Supply: **down** Prime Rents: **up**

GRAPH 10

Barcelona



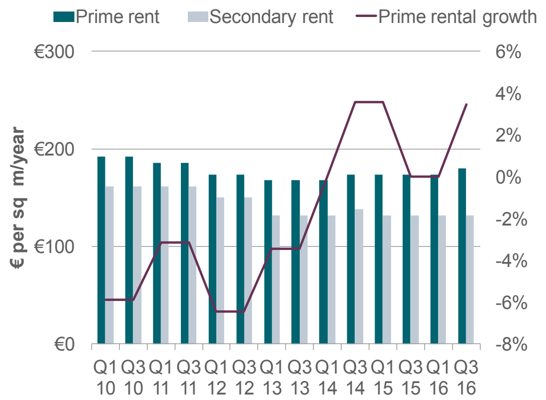
Graph source: Savills

Belgrade

There is approximately 800,000 sq m of GLA of office space in Belgrade. The majority of office stock is located in New Belgrade which is the most preferable location for doing business because of its accessibility, large number of modern office buildings and also its potential for new developments. By the end of H1 2017, total office stock will increase by mire than 31,000 sq m of GLA with completion of first phase of Sirius office building and ninth building within airport city complex.
Rents for Grade A office space in prime locations in Q3 2016 noted a slight increase when compared to Q1 2016, ranging from €15 per sq m/month, while the estimated office yield ranged from 9.25%-9.75%.
Belgrade has become very attractive to foreign companies interested in founding and outsourcing offices, but still falling behind other CEE and SEE centres with the supply of Grade A office space. This trend where demand is superseding the supply has been present for years, and is a big stimulus for new projects.

2017 outlook Take-up: **up** Supply: **down** Prime Rents: **up**

GRAPH 11
Belgrade



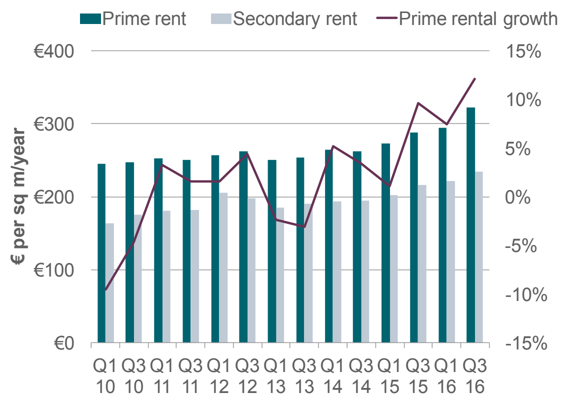
Graph source: Coreside

Berlin

Berlin is currently a case study of what it means when the negotiating power in the office market is clearly in favour of landlords. Some of the most sought-after office space in the capital is no longer offered on the market by the owner at a fixed rental. Instead, interested parties are made to apply for the space with a rental bid.
With a vacancy rate of just 2.9%, this practice will further accelerate the already sharp increase in rental levels. The prime rent at the end of September stood at almost €27 per sq m/month and will break this threshold over the coming months. Prime rental growth in 2016 is expected to total 12%, representing an unprecedented annual increase in the reunified Berlin. The average rent is also growing rapidly and both trends are expected to continue next year.
For occupiers, this means an extreme supply shortage to which they should be paying attention, in some cases, several years before a planned relocation or expansion in order to successfully lease suitable space.

2017 outlook Take-up: **down** Supply: **down** Prime Rents: **up**

GRAPH 12
Berlin



Graph source: Savills

Brussels

Brussels accounted for approximately 49% of the total Belgian take-up during Q3 2016. Brussels take-up stood at 46,493 sq m versus 60,712 sq m in Q3 2015. However, take-up in the Brussels office market in 2016 YTD has already exceed the 2015 level thanks to a strong second quarter (136,249 sq m).
Vacancy in the Leopold district dropped from 11% in 2007 to 4.5% in Q3 2016. The long-term, vacancy rate is expected to continue decreasing due to few speculative developments and the attractiveness of the area. The vacancy of the whole Brussels market fell to 9.3% in Q3 2016. Vacancy in the periphery remains high (>21%) while it remains stable in the decentralised districts (ca. 13%).
Office stock remains stable around 13.1m sq m, but the conversion of office buildings to alternative uses such as senior residences and residential units is a well-established trend in the Brussels office market and is expected to continue in the near future. Over the last 5 years, more than 560,000 sq m of office space have been converted.
The average rent in Brussels (excluding the periphery) stands between €155 and €165 per sq m/year.

2017 outlook Take-up: **up** Supply: **stable** Prime Rents: **stable**

GRAPH 13
Brussels

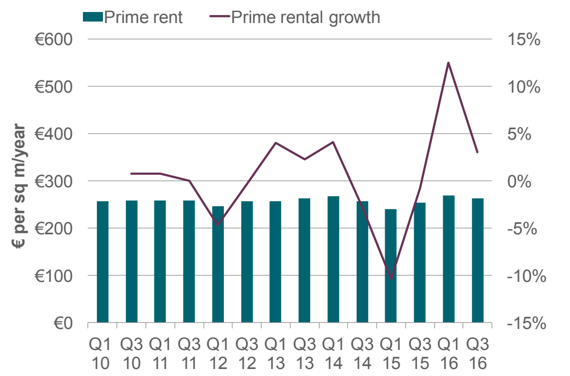
Graph source: Savills

Cologne

An unusually high number of lettings to the public sector accounted for an increase in take-up of approximately 11% compared with a strong corresponding period last year and raised the likelihood of a new record annual take-up by the end of the year. The public sector, namely the City of Cologne, was also responsible for one of the largest deals in the third quarter (approximately 13,200 sq m in Mülheim/Kalk).
However, lettings of more than 10,000 sq m remain the exception and are becoming increasingly difficult in view of the shortage of appropriate space. In the City submarket in particular, only smaller lettings can now be completed. Availability of larger office space is also limited in other submarkets, however, and the very small number of speculative developments dictates that this will not change for the foreseeable future.
In view of this set of circumstances, we expect the vacancy rate to fall further and rents to continue their upward trend. As per previous months, rents in the mid-price segment are likely to show stronger growth than prime rents.

2017 outlook Take-up: **down** Supply: **down** Prime Rents: **up**

GRAPH 14
Cologne



Graph source: Savills

Copenhagen

The letting demand for office facilities located in Copenhagen city remains intensive. Especially smaller and medium-sized companies seeking facilities in the size 500 sq m-2,000 sq m are the force driving the demand.
The letting absorption in the first half of 2016 has been exceedingly high, and we expect it will continue throughout 2017. Larger companies are primarily interested in modern domicile-like facilities. This property type is meanwhile rare in central Copenhagen, where the office stock is characterised by older office properties. However, the newer office properties located in the city centre represent some of the market's highest gross rent levels, which can reach up to DKK2,650 (€365) per sq m/year.
The letting market in Copenhagen city is strong and experiencing considerable prosperity and we expect continuously increasing rent levels over the next 12 months.
In Aarhus, letting activity is increasing which is mainly due to increasing letting demand. The demand is especially driven by companies, which, based on long-term business prosperity seek larger facilities with a modern layout.

2017 outlook Take-up: **stable** Supply: **down** Prime Rents: **up**

GRAPH 15
Copenhagen

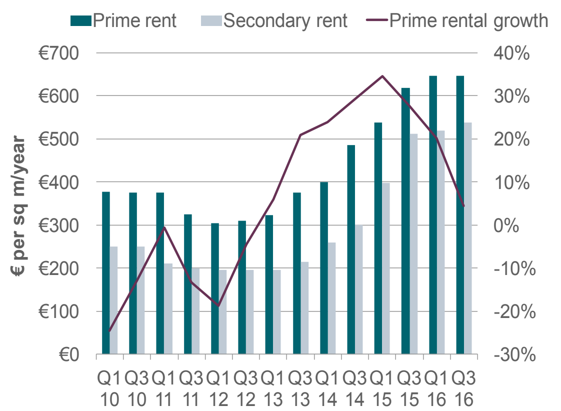
Graph source: Nybolig Erhverv

Dublin

Strong growth in office based employment is continuing to generate robust demand for business space in Dublin. Reflecting this, gross take-up exceeded 76,000 sq m in Q3, a 22% increase on last year. Coupled with the fact that significant space is now being withdrawn for redevelopment, Dublin's vacancy rate has fallen further and now stands at around 9.0%. With vacancy rates below their equilibrium level – which for Dublin has traditionally been 12-15% – headline rents have risen by a further 4.4% over the past twelve months and currently stand at approximately €645 sq m. Although the supply pipeline is functioning again and significant space is now under construction, a development lag means the vast majority of this won't be available until at least 2018. Therefore rents are unlikely to be threatened over the medium term. Although Brexit has added an additional layer of uncertainty to the economic outlook, concerns about this should not be overplayed. While it is likely to impact negatively on sectors heavily exposed to the UK markets, such as agribusiness and tourism, the office markets in Ireland's major cities could potentially benefit by picking up displaced demand from UK occupiers.

2017 outlook Take-up: **stable** Supply: **up** Prime Rents: **up**

GRAPH 16
Dublin



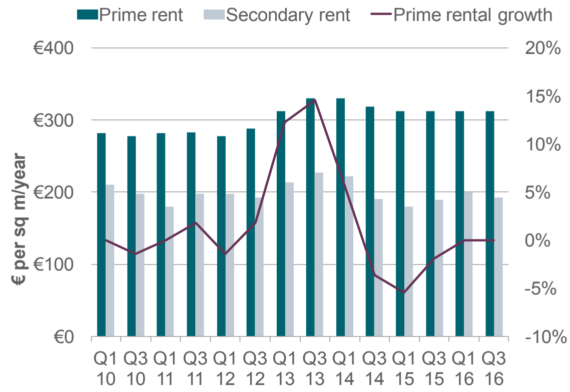
Graph source: Savills

Dusseldorf

Düsseldorf stands out among the top six markets. The state capital of North Rhine-Westphalia is the only city to register a decline in take-up during the year to date. Nevertheless, the vacancy rate has fallen moderately, particularly due to demolitions and changes of use. This, along with the upgrading of many existing properties, has resulted in the average rent increasing by more than 6% year on year to approximately €14.90 per sq m/month. In contrast, the prime rent has remained at €26.00 per sq m/month and has little potential to grow. Düsseldorf's Seestern district has been noticeably enhanced. Many properties have new owners or asset managers and are now being refurbished or converted. The conversion of old office buildings to residential use alone is likely to lend positive impetus to the location. Some owners have also combined to launch a local initiative, holding joint events for occupiers, for example. Going forward, the submarket is expected to become increasingly popular with companies seeking inexpensive office space. Seestern is already the sixth strongest submarket in Düsseldorf in terms of take-up during the current year.

2017 outlook Take-up: **down** Supply: **stable** Prime Rents: **stable**

GRAPH 17
Dusseldorf



Graph source: Savills

Frankfurt

Following a strong third quarter, the Frankfurt office market registered an increase in take-up to the end of September compared to the corresponding nine months last year. With a number of large deals outstanding heading into the fourth quarter, take-up is even likely to breach the 500,000 sq m threshold for the first time since 2012. The British decision to leave the European Union has had no impact on this trend. There have been no known lettings based upon the Brexit to date. Such decisions will presumably only be made once there is a clear picture of how the exit will look.

Meanwhile, the consolidation in the banking sector continues. Commerzbank has recently announced several thousand job cuts and other firms are reducing their workforce, too. Whether this trend can be cushioned by attempts to establish Frankfurt as a centre for fintech remains to be seen. However, it is noticeable that new office concepts and co-working spaces have yet to take root in Frankfurt, which is surely inhibiting the relocation of innovative companies and startups to the city.

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

GRAPH 18
Frankfurt

Graph source: Savills

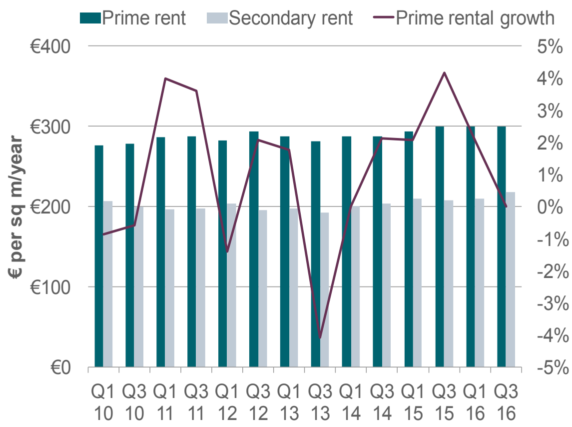
Hamburg

The office supply shortage also reached a pinnacle in Hamburg in the third quarter. The vacancy rate fell by a further 20 basis points to 5.3%. In keeping with most other cities, offices larger than 3,000 sq m in central locations in particular exhibit scarcely any short-term availability. In developments, too, such space is almost completely pre-let. Existing tenants of such accommodation would, therefore, be well advised to consider extending their leases. Even if they do so, however, they should expect an increase in rent.

With the negotiating position of owners likely to increase further, both the prime and average rent are expected to continue their upward trajectory. While the completion volume this year and for the next two years is expected to be higher than during the last five years, the already high pre-letting rates are likely to prevent this from noticeably relieving the strain in the market.

2017 outlook Take-up: **down** Supply: **down** Prime Rents: **up**

GRAPH 19
Hamburg



Graph source: Savills

Helsinki

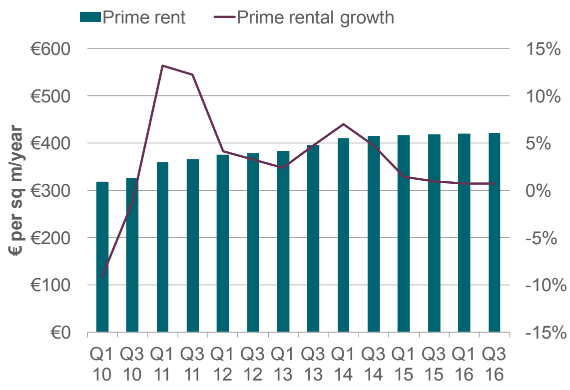
Office supply will increase due to newer buildings coming onto the market and by the enhanced use of space and new ways of working. Due to demolition or conversion, some 65,000 sq m of office space has recently disappeared and 60,000 sq m is under conversion in the HMA according to KTI statistics. The volume of demolitions and conversions is not enough to reduce the vacancy rate significantly, even if net take-up indicates growth. New or renovated premises are preferred by tenants. Changes in working environments drive demand for office space.

Preference for multifunctional shared spaces and a choice of additional services has been increasing rapidly. High vacancy rates and competition for tenants has created pressure on landlords to allow incentives or to accept lower rents. Previously uncommon rent-free months have become more common. Flexibility in lease terms is even more important than rent reductions. Rents of new leases have turned to growth. In attractive locations, rental levels of good quality space have increased while average rents have remained stable.

2017 outlook Take-up: **up** Supply: **stable** Prime Rents: **up**

GRAPH 20

Helsinki



Graph source: Realia

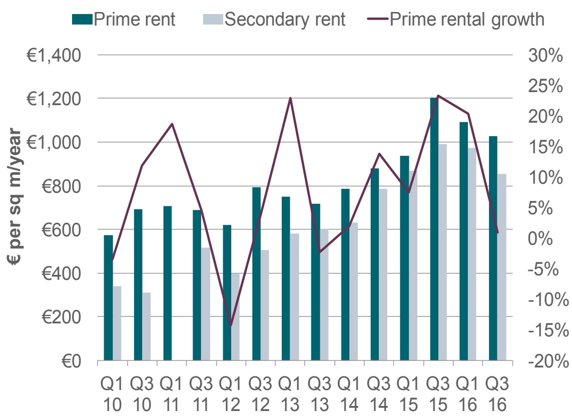
London City

4m sq ft has been transacted in the City in the first three quarters of 2016, which although is 32% down on this point last year, it is only 9% down on the 10-year average for take-up to the end of Q3. The 12-month rolling take-up figure is 5.6m sq ft, which is still 15% up on the long-term average. Following the referendum result, we expect the Banking sector to be the hardest hit as questions around ‘passporting’ will combine with pre-existing challenges such as ringfencing. It is important to note this sector has only accounted for 5.5% of central London take-up since the start of 2010 and therefore should not impact take-up figures significantly. At the end of 2016 Q3, total City supply stood at 6.8m sq ft, of which Grade A supply represented 90%. This equates to a vacancy rate of 5.5%, which in historic context is low, down on the 10-year average of 6.6%. We have seen rents continue to gently rise throughout this year. The top rent achieved in the City has been topped again with £107.00 per sq ft achieved in the Leadenhall Building when Kames Capital acquired the 43rd floor (6,965 sq ft). The average Grade A rent for the City has also continued to rise, currently at £60.50 per sq ft.

2017 outlook Take-up: **down** Supply: **up** Prime Rents: **stable**

GRAPH 21

London City



Graph source: Savills

London West End

Despite the shock EU referendum decision occupiers have continued to commit to office space in the West End with take-up in Q3 2016 totalling 1.33m sq ft. This brought 2016’s total take-up at the end of Q3 to 3.20m sq ft, in line with the same point in 2015 and 15% above the long-term average. While take-up is set to decrease in the final quarter of the year, total annual take-up in 2016 is still on course to exceed the long-term average of 3.6m sq ft.

The West End saw supply increase 2% from 3.9m sq ft at the end of Q2 2016 to 4m sq ft at the end of Q3 2016. However, despite the increase the vacancy rate still remains at just 3.3%. Looking forward with 46% of 2017’s development and refurbishment completions already pre-let, the constriction on supply in the West End looks set to continue.

The average prime rent at the end of Q3 2016 was £108.63 per sq ft, 2% above 2015’s average prime rent of £106.98 per sq ft. The average Grade A rent at the end of Q3 2016 stood at £77.13 per sq ft, 6% above 2015’s average Grade A rent of £73.07 per sq ft. The average Grade B rent has also increased rising 7% from £53.64 per sq ft in 2015 to £57.26 per sq ft at the end of Q3 2016.

2017 outlook Take-up: **down** Supply: **up** Prime Rents: **stable**

GRAPH 22

London West End

Graph source: Savills

Madrid

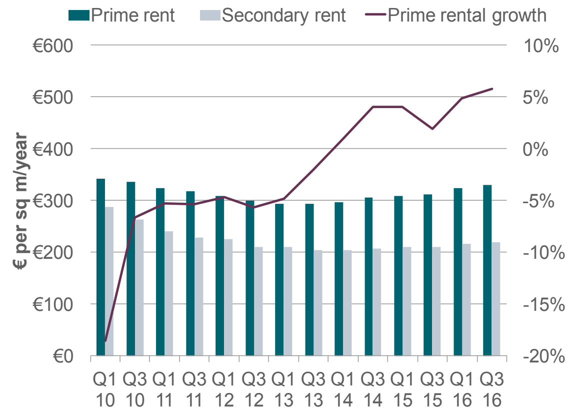
The accumulated gross take-up volume between January and September is close to the same period last year, although Q3 has been the third consecutive quarter without megadeals registered. Excluding megadeals from the analysis, the market shows a clear growth trend. The yoy evolution of take-up and number of deals <10,000 sq m shows increases of 28% and 14% respectively. The supply remains in a downward trend, although over the next two years around 210,000 sq m are expected to come onto the market from both new developments and refurbishment projects.

It is important to highlight the positive impact of new and renovated buldings on the demand due to the average size of offices larger than the average take-up space per deal signed. The average gap between closing rents in exclusive buildings was €5, which is higher in the best city locations and less evident in the periphery. The growing demand for high quality offices in prime and CBD areas and the shortage in supply have pushed up the achievable rental level. The third quarter closed at €330 per sq m/month, which represents a yoy growth of 6%.

2017 outlook Take-up: **stable** Supply: **up** Prime Rents: **up**

GRAPH 23

Madrid



Graph source: Savills

Manchester

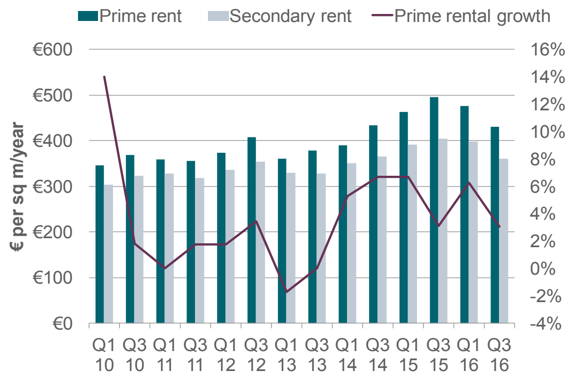
Take-up in Q3 2006 reached 261,605 sq ft, the best quarter so far this year. The total for the first three quarters of the year totalled 668,001 sq ft, which is in line with the long term average However, take up was down on both the level recorded during Q3 2015 and the five year average. The key deal during Q3 2016 was to Freshfields, who pre-let 81,000 sq ft at One Old Bailey.

The Professional sector was the most active business sector during the first three quarters of the year, accounting for 28% of take up, followed closely by the TMT sector. Take up for the TMT sector rose from 40,000 sq ft during Q1 2016 to 140,000 sq ft during Q3 2016. Looking forward, Savills expect prime rents to reach £35 per sq ft by the end of 2016, a 3% rise on the top rent recorded during 2015.

2017 outlook Take-up: **stable** Supply: **stable** Prime Rents: **stable**

GRAPH 24

Manchester



Graph source: Savills

Milan

The occupational market in Milan is active, but still on a "selective basis". Occupiers consolidate their positions in modern buildings, especially in the CBD and first peripheral areas, in good environmental contexts and Grade A quality spaces.

Supply for modern assets and related office spaces is scarce and prime rents are sustained by the imbalance reaching €500 per sq m/year. Ongoing developments in Milan include the Symbiosis Project developed by Beni Stabili SIIQ in the southern periphery of Milan with circa 40,000 sq m currently under construction and due for completion by 2018. The Bocconi Campus developed by Bocconi University in the historic area, one of the top ranked economic and business universities worldwide, is scheduled to open in 2019. The other submarkets within Milan are characterised by Grade B space with average rents between €220 per sq m/year in the periphery and €280 per sq m/year in the centre.

The overall outlook is positive with stable rents and decreasing incentives in the most popular locations due to the high demand vs. low offer.

2017 outlook Take-up: **stable** Supply: **stable** Prime Rents: **up**

GRAPH 25

Milan

Graph source: Savills

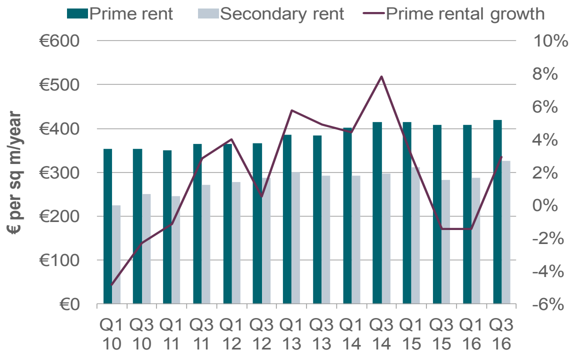
Munich

With scarcely any availability in Munich city centre, companies wishing to expand are increasingly opting to open an additional office on the periphery of the city in addition to their central headquarters in order to progress their expansion plans. While the available supply of existing office stock in these submarkets is also becoming increasingly rare, there is at least new space being developed in such locations. As a result, Munich is increasingly growing outwards.
Landlords are taking advantage of the favourable market conditions to increase rents and reduce incentives. When leases expire in central locations, they are able to select a new tenant. Occupiers themselves, meanwhile, are often striving to extend their leases. In some instances, their plan is to use the time an extension buys them to seek suitable (additional) space in developments.
The surplus demand is likely to result in a further decrease in the vacancy rate over the coming months, lending further momentum to rental growth.

2017 outlook Take-up: **down** Supply: **down** Prime Rents: **up**

GRAPH 26

Munich



Graph source: Savills

Paris CBD

In Q3 2016, take up reached 80,182 sq m, showing an annual decrease of 38%. This result remains below the 5-year quarterly average. However, it must be noted that nearly 311,300 sq m has been transacted since the start of 2016, a slight increase when compared to the same period in 2015 (+1.6%). Despite a lacklustre third quarter, the CBD remains an attractive sector, however adversely affected by a chronic shortage of available supply.
Immediate supply has been on the decline since Q1 2015 reaching 260,000 sq m at the end of Q3 2016. In parallel, the vacancy rate dropped to a new record low of 3.8%.
Most of the supply is made of older office buildings, whilst only 15% of the stock is new or renovated.
This scarcity of supply has several consequences; firstly an increased pressure on new rents and above all, an increased competition from neighbouring districts. As a consequence, the Left Bank of Paris, with a new and quality supply, has performed particularly well, attracting companies in both finance and media sectors. The average rent has increased by 2% in the last year, reaching €705 per sq m/year for newly built properties.

2017 outlook Take-up: **up** Supply: **down** Prime Rents: **up**

GRAPH 27

Paris CBD

Graph source: Savills

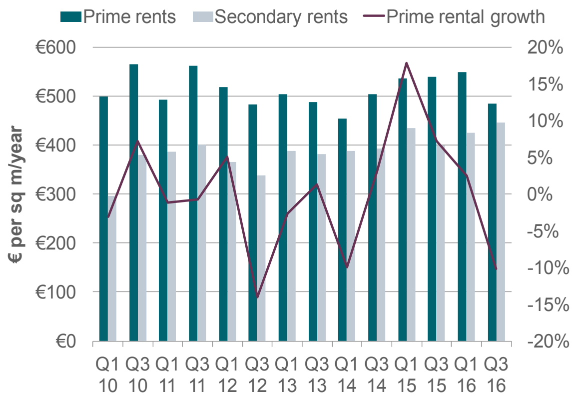
Paris La Defense

57,884 sq m was transacted in La Defense in Q3, bringing the take-up to 231,365 sq m. As a consequence, the market grew by 165% compared to the same period in 2015.
After a bad year in 2015 in terms of transacted volumes, the attractiveness of this sector for large companies was reaffirmed in 2016. Three transactions above 30,000 sq m have been signed since the beginning of the year, one of which being the decision taken by RTE to lease nearly 40,000 sq m of the Window building in Q3.
Following on from the strong market performance, immediate supply has been continually shrinking for the last six consecutive quarters, and is now at 294,000 sq m. Meanwhile, the vacancy rate has dropped to 7.1%. Thanks to this situation, La Defense has finally lost its status of being the go-to market provider.
With regard to rents, the trend is relatively stable. Average rents for new and second-hand property amounted respectively to €481 per sq m/year and €407 per sq m/year.
The prime rent is now at €484 per sq m/year, down from Q3 2015, the RTE lease, signed at €480 per sq m/year weighed heavily in the calculation of the prime value.

2017 outlook Take-up: **up** Supply: **down** Prime Rents: **up**

GRAPH 28

Paris La Defense



Graph source: Savills

Stockholm

The corporate sector in Sweden is strong and demand for office space is high. The vacancy rate in Stockholm CBD reached 3.1% in the third quarter, which is the lowest recorded vacancy rate over the last decade. The scarcity of office space in combination with a high demand has led to rapidly increasing market rents. Prime rents in Stockholm CBD are currently at SEK 5,800 (€582) per sq m/year; a growth of 20% since Q3 2015. Market rents have not only increased in the CBD area, but in most of the office sub-markets in the central parts of the city as well. The forecast for the remainder of 2016 and 2017 is positive, with an upward pressure on market rents and low vacancy rates. The development pipeline in the inner city is fairly limited and consists mainly of redevelopments. The office stock in the inner city will decrease in 2017 due to large conversions of office space to hotel premises. New construction is mainly focused in the northern suburbs of Stockholm and a large amount of office space will be added to the market in the coming two years. The majority of the development pipeline is fully let, but the number of speculative projects is increasing.

2017 outlook Take-up: **up** Supply: **stable** Prime Rents: **up**

GRAPH 29

Stockholm

Graph source: Savills

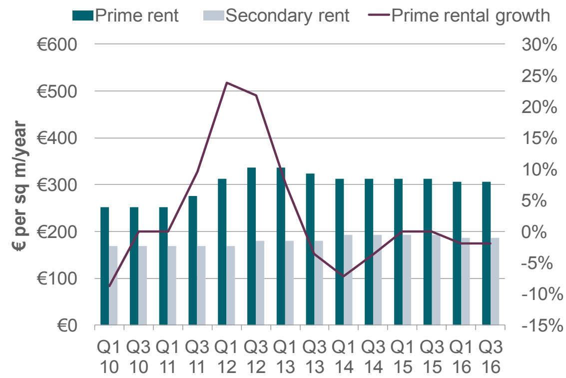
Vienna

The Vienna office market has performed much better in the first nine months of 2016 than in previous years. The increased activity is attributed to the first substantial pre-lets and advanced negotiations for space in the new highly attractive office buildings that will be completed in 2017 and 2018 and will further boost the market. Following a historic low of only 60,000 sq m in deliveries this year, the next two years will see a total of 500,000 sq m of new space. Headline rents for offices in these top properties are mainly ranging between €15 to €20 per sq m/month, and more lettings in this segment will lead to a further increase in the average rent. In the past months average rents have already risen slightly from €13.50 to €14 per sq m/month. The vacancy rate is currently at 6.3% and will decline further despite the high level of deliveries. Many companies have had to postpone planned relocations and expansions in the past years due to the lack of attractive new office space, and thus it is expected that the market will be easily able to absorb the new space.

2017 outlook Take-up: **up** Supply: **up** Prime Rents: **stable**

GRAPH 30

Vienna



Graph source: EHL

Warsaw

Total office stock now stands at just below 5.02 million sq m, of which 31% is concentrated in the city centre (core and fringe zones) and another 26% is located in the second largest office hub in Warsaw. During the first nine months of 2016, 17 office buildings totalling 378,800 sq m were added to the market. 180,000 sq m in eight buildings were completed in the city centre, with the largest project: Warsaw Spire A by Ghelamco (59,100 sq m). In Q3 2016, only one project was completed – West Station by HB Reavis (28,700 sq m). The first nine months of 2016 with 530,700 sq m of office space let is a very positive sign for the full year forecast. In Q3, the take-up volume was 170,600 sq m, with the biggest transaction in Poland – Publicis Groupe in Platinium Business Park (13,800 sq m). The overall vacancy rate in Warsaw increased by 170 bps yoy to 14.6% at the end of September 2016, but it decreased by 90 bps since the previous quarter. The data for the first three quarters of 2016 shows net absorption of 218,300 sq m, which was one of the best results even considering full year volumes.
Over the next six months, 155,700 sq m over 23 buildings are planned to be developed in Warsaw, with the biggest project being the Business Garden complex by Vastint (54,400 sq m).

2017 outlook Take-up: **stable** Supply: **stable** Prime Rents: **down**

GRAPH 31

Warsaw

Graph source: Savills

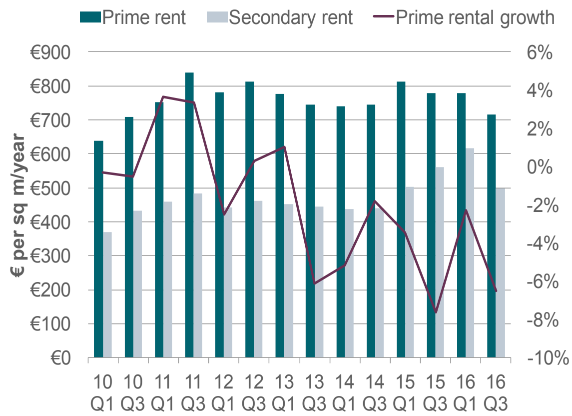
Zurich

The Zurich office market is in a very robust state. The vacancy rate dropped to 4.6 % in Q3 2016. By international comparison it is very low and falls short of the liquidity threshold needed for the market to function well. While firms seeking offices of up to 1,000 sq m in the CBD have a number of options, those looking for larger spaces find only a limited number of options on the market. Despite the limited supply of office space in the CBD, prime rents have eased in Q3 2016 although by international comparison they remain on a relatively high level.
However, large developments in Zurich West and in the airport region have led to oversupply of office space. In these sub-markets, prospective tenants find a good choice of state of the art office spaces in all sizes. Although the increase in office stock has slowed down, it will take some time for the market to absorb the oversupply. Overall the consolidation in the banking sector seen in the last few years is now completed and the Zurich office market has proved to be remarkably stable.

2017 outlook Take-up: **stable** Supply: **stable** Prime Rents: **stable**

GRAPH 32

Zurich



Graph source: FPRE/H&B Real Estate

Key office indicators

Prime[1] CBD rents[2], letting data in Q3 16

City	National GDP growth 16*	National employment growth 16*	City GDP growth 16*	Prime rent	Prime rental growth[3] Q3 15-16	Take-up growth[4] Q3 16	Vacancy rate Q3 16
Amsterdam	1.6%	1.6%	1.8%	375	2.7%	14.9%	12.9%
Athens	-0.5%	1.4%	-0.1%	240	0.0%	n/a	n/a
Barcelona	3.2%	3.0%	3.8%	252	5.0%	-59.3%	10.0%
Belgrade	2.4%	n/a	n/a	180	0.0%	n/a	10.0%
Berlin	1.8%	1.2%	2.0%	323	12.1%	9.2%	2.9%
Brussels	1.4%	0.8%	1.3%	285	0.0%	-44.3%	9.3%
Cologne	1.8%	1.2%	1.3%	263	-0.5%	72.9%	6.0%
Copenhagen	1.6%	2.9%	1.3%	322	4.3%	n/a	7.9%
Dublin	3.9%	2.5%	4.2%	646	4.4%	22.2%	9.1%
Dusseldorf	1.8%	1.2%	1.5%	312	0.0%	-25.1%	9.2%
Frankfurt	1.8%	1.2%	1.7%	468	2.6%	22.7%	8.8%
Hamburg	1.8%	1.2%	2.0%	300	0.0%	57.7%	5.3%
Helsinki	0.9%	-0.4%	1.1%	422	0.2%	n/a	13.4%
London WE	1.8%	1.0%	1.1%	1,347	-5.4%	33.3%	3.3%
London City	1.8%	1.0%	1.1%	1,026	1.2%	-33.0%	3.5%
Madrid	3.0%	2.5%	3.8%	330	5.8%	-18.4%	10.5%
Manchester	1.8%	1.0%	1.5%	431	0.0%	-28.2%	9.0%
Milan	0.8%	1.1%	1.4%	500	2.0%	n/a	11.0%
Munich	1.8%	1.2%	1.7%	420	1.4%	-15.9%	4.1%
Paris CBD	1.3%	1.1%	1.6%	762	-1.9%	-28.8%	3.8%
Paris La Defense	1.3%	1.1%	1.6%	484	-11.4%	80.8%	7.1%
Stockholm	3.5%	1.5%	4.0%	610	19.6%	n/a	3.1%
Vienna	1.4%	1.0%	0.9%	306	0.0%	144.4%	6.3%
Warsaw	2.9%	-0.1%	3.7%	264	0.0%	-23.8%	14.6%
Zurich	1.6%	0.5%	1.5%	689	-6.5%	n/a	4.6%

Note 1: Prime rents refer to modern office space, minimum 1,000 sq m

Note 2: All costs are in euros per sq m/year

Note 3: Rental growth is annual and calculated in local currencies

Note 4: Take-up growth is annual

Source: Savills / *Oxford Economics forecast /Coreside Serbia/Realia Finland/EHL Austria/Nybolig Erhverv Denmark

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