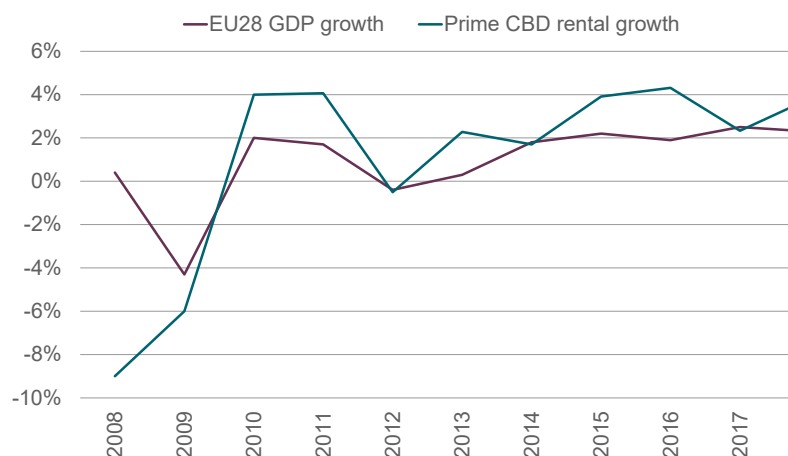


Market report

European Offices

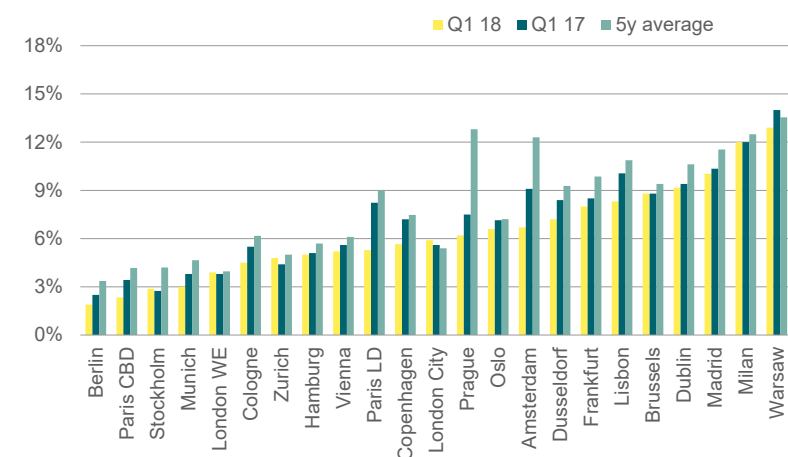
May 2018

GRAPH 1
EU28 GDP growth Office rental growth ahead of GDP growth



Graph source: Oxford Economics/Savills

GRAPH 2
Vacancy rate Q1 18 Below five-year average across all markets



Graph source: Savills

SUMMARY

Business expansion has been restrained by lack of supply

■ Prime CBD rents are on average 4% higher year-on-year and 2% above the 2007-2010 rental peak. Rental growth is slowing as fewer markets are seeing double digit growth compared to previous years.

■ Lack of affordable good quality space has pushed tenants into non-CBD locations where rents are rising fast. Non-CBD rents are on average 70% lower than the CBD and rents have risen 5.6% yoy and are 8% above the five-year average.

■ The average vacancy rate across our survey area fell 82 bps year-on-year to 6.4%. Few markets have a vacancy rate above 10.0% and just under one third of the markets are seeing the vacancy rate fall below 5.0%. Supply will continue to remain tight until 2020 at the earliest.

■ The total take-up across our survey area in Q1 2018 reached 2.6m sq m; slightly below the same period last year. Despite business expansion, take-up volumes were restrained as a result of limited options for occupiers.



“The volume of deliveries is not enough to meet current demand so tenants are

looking at another two years of supply shortage.” Alice Marwick, Savills European Research

→ EU growth remains stable

The Eurozone economy decelerated in Q1 2018 from 0.7% in Q4 2017 to 0.4%, caused in part by temporary factors such as industrial action and cold weather. Nevertheless, EU growth is set to remain stable overall thanks to the falling unemployment rate which at 8.7% is the lowest since 2009. In April, consumer confidence unexpectedly rose from 0.1 in March to 0.4 in April according to Reuters and business activity continued to rise into Q2 2018, albeit modestly compared to the start of the year.

The Economic Sentiment Indicator (ESI) remained unchanged in the euro area (at 112.7 points) and is stable across the EU (-0.3 points to 112.3).

On the political agenda, Italy was without a government two months after the general election failed to produce an overall majority for any party and it remains to be seen when and how it will overcome this political deadlock. Ongoing industrial action in France has been causing disruption for the transport industry. Reforms by Emmanuel Macron foresee months of continued disorder as his party dispute with rail workers, civil servants, Air France staff and utility workers, however spurred on from his successful labour reforms in 2017, Macron has no plans to back down.

Strong demand - but where is the space?

The continued fall in unemployment across the EU led to strong office demand across our survey area in the first quarter of the year. In Q1 2018, the total take-up in our survey area reached 2.8m sq m which is 2% above the same period in 2017 and 2% above the five-year quarterly average. However, strong polarisation remains between markets with Manchester, Vienna and Paris CBD experiencing exceptionally strong annual take-up increases of 110%, 69% and 49% respectively. These markets are also seeing the quarterly take-up exceed the five-year average. On the other end of the spectrum, Amsterdam, Brussels and Paris La Defense saw annual take-up levels fall 74%, 19% and 23% respectively, these markets also saw the Q1 take-up fall well below the annual and five-year average.

“Tenants are becoming more flexible in their demands in order to remain in their preferred location.” Alice Marwick, Savills European Research

Across our survey area, the increase in demand from business expansion has been restrained by lack of supply. This has been a recurring theme since 2016 and does not show any signs of waning in the upcoming months and years. The volume of deliveries is not expected to meet demand until 2020 at the earliest so tenants are due for another two years of landlords holding the upper hand, tight supply and limited incentives.

Discrepancies between markets remain unchanged with the core markets seeing the average vacancy rate fall below 5%, and more markets seeing the vacancy rate falling to all time lows of 3% or lower such as Berlin (1.9%), Paris CBD (2.3%), Stockholm (2.9%) and Munich (3.0%). The greatest year-on-year decreases in available space were noted in Paris La Defense (-294bps) and Amsterdam (-240bps) due to a pick-up in leasing activity across these markets last year. Until late 2015, Paris La Defense and Amsterdam were experiencing vacancy rates of above 10%. In Q1 2018, the Paris La Defense vacancy rate is already 104bps below the European average and the Amsterdam vacancy rate is only 34bps above the European average.

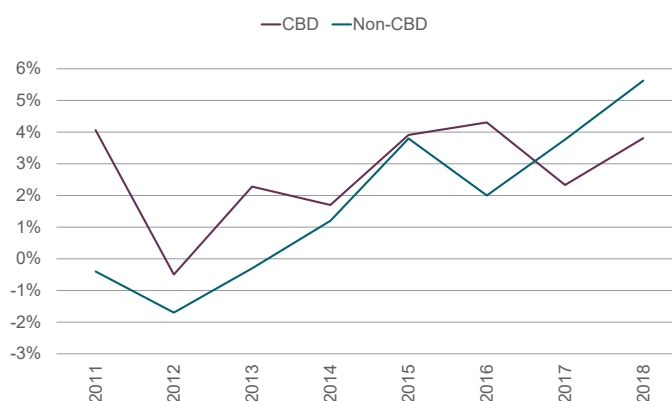
However, it is not all bad news for occupiers. In the ever-changing office environment, tenants are adapting and we are seeing an increase in the rise of the footloose occupier. Limited supply and rising rents have resulted in occupiers becoming more flexible in their demands; tenants are more willing to move from their preferred location within the core for a better building and cheaper rent in secondary locations.

Co-working spaces becoming the new norm

In the core markets, mainly in London City and London West End, limited supply has led to a substantial increase in the number of pre-lets, particularly among the Tech and Serviced Offices sectors.

The evolution of the Tech industry has been changing in recent years and start-ups that were seen as risky are now stable companies looking for quality space in prime locations and are turning to serviced office providers for short term space. While serviced office providers didn't make as much of an impact to Q1 take-up volumes as previously anticipated, we expect the number of pre-lets to serviced offices will drive the market throughout the rest of the year. In London for example, WeWork is not only the largest occupier

GRAPH 4
CBD rental growth Rising rents pushing tenants out of the CBD



Graph source: Savills

but is also the largest landlord with 35 offices in total. WeWork has expanded rapidly in recent years with over 75 offices across Europe. Outside of London, Berlin and Paris have seen the greatest expansion of WeWork with seven and six offices respectively which will offer short-term solutions to the chronic shortage of available space in prime locations.

Rental growth continues upwards

Across our survey area, prime CBD rents are on average 4% higher year-on-year and 2% above the 2007-2010 rental peak. Fewer markets have seen double digit rental growth compared to previous years, yet the peripheral markets who have been behind in the rental cycle have been experiencing the strong rental growth which is likely to continue in the upcoming months. Lack of good quality stock remains a problem in the periphery and we will likely see rental growth surge across these markets as tenants compete for the limited quality assets available. Only Paris La Defense (-3%), London WE (-19%) and Zurich (-7%) have seen yoy falls in prime CBD rents.

Regarding the CBD, the only cities where rents are still significantly cheaper (more than 20%) than the previous peak are Athens (23%), Barcelona (29%), Madrid (29%) and Warsaw (43%). Elsewhere, cities which have significantly surpassed their previous rental peak are Stockholm (+44%), Berlin (+32%) and Oslo (+20%).

Non-CBD rents seeing faster rental increases than other locations. The rise in prime CBD rents and limited space

available has pushed tenants out to non-CBD locations where rents are on average 70% lower. However, non-CBD locations are seeing rents rising at a faster pace; non-CBD rents have risen 5.6% yoy and are 8% above the five-year average.

Who will be affected by the increase in rents?

The increasing rents outside of the CBD will harm small to medium sized companies who will be unable to absorb the higher rents. Until rental corrections occur, we will continue to see a spike in non-CBD rents and these types of tenants are being pushed into secondary locations.

Few deliveries have come onto the market and tenants are being forced to wait, or move into sub standard, older office buildings which is becoming less attractive to tenants. Furthermore, older offices will soon need to comply with government regulations regarding energy; in Amsterdam for example, regulations require that as of 2023, office buildings will need to have at least an energy label of C. Therefore, older office buildings are becoming less favourable unless they are refurbished. ■

OUTLOOK

More tenants are turning to serviced office providers for prime space

■ Political risks come from ongoing Brexit negotiations which continue to dominate news headlines. Until there is more clarity regarding how the UK will exit the EU, it is difficult to accurately predict how businesses and the property market will react. The results of the Italian election show that the rise of populism and anti-establishment parties is far from over.

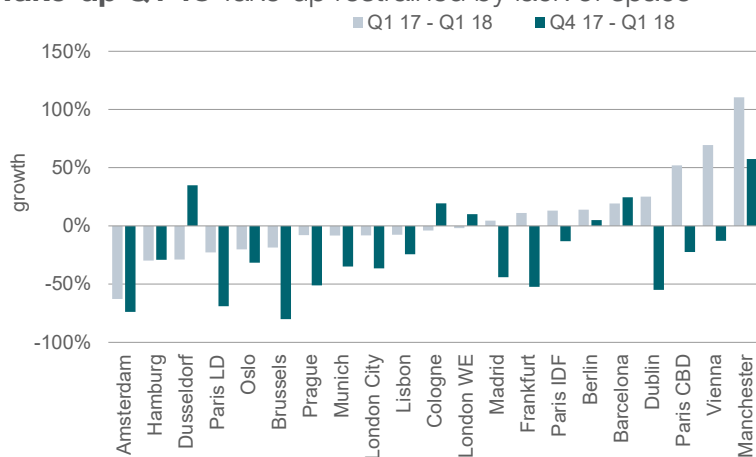
■ Rents will continue to rise faster in non-CBD locations as tenants, despite willing to pay over and above for their preferred space, will be unable to find suitable office property in the CBD. Serviced office providers will continue to cushion the blow of lack of space and provide short term solutions for clients in need of prime space in central locations.

■ Savills expects office demand will continue to grow due to falling unemployment and continued business expansion yet this will be challenging due to the limited office supply. We expect take-up to be roughly in line with last year's level.

■ According to our forecasts, the average vacancy rate will fall between 30-40bps next quarter. The average vacancy rate across our survey area will likely fall below 6.2% led by the continued squeeze in the German markets, Sweden and the Netherlands.

GRAPH 6

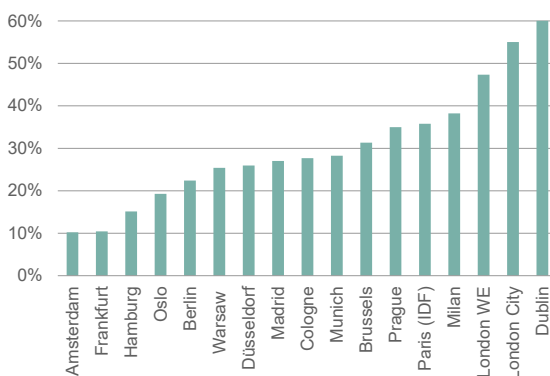
Take-up Q1 18 Take-up restrained by lack of space



Graph source: Savills

GRAPH 7

2018 pipeline vs. 2017 take-up Supply will remain tight



Graph source: Savills

Key office indicators

Prime¹ CBD rents², letting data in Q1 18

City	National GDP growth 18*	National employment growth 18*	City GDP growth 18*	Prime rent	Prime rental growth ³ Q1 17- Q1 18	Take-up growth ⁴ Q1 17- Q1 18	Vacancy rate Q1 18	<p>Note 1: Prime rents refer to modern office space, minimum 1,000 sq m</p> <p>Note 2: All costs are in euros per sq m/year</p> <p>Note 3: Rental growth is annual and calculated in local currencies</p> <p>Note 4: Take-up growth is annual</p>
Amsterdam	2.5%	2.1%	2.1%	400	3.9%	-62.8%	6.7%	
Athens	1.6%	2.8%	2.1%	288	4.3%	n/a	11.0%	
Barcelona	2.9%	2.2%	2.8%	288	10.3%	19.3%	7.0%	
Berlin	2.4%	1.3%	2.8%	394	9.0%	13.9%	1.9%	
Brussels	1.7%	1.2%	1.5%	300	5.3%	-18.6%	8.8%	
Bucharest	4.8%	-0.3%	4.6%	222	0.0%	n/a	n/a	
Cologne	2.4%	1.3%	1.9%	263	0.0%	-4.0%	4.5%	
Copenhagen	2.0%	1.3%	2.8%	329	2.1%	25.1%	5.7%	
Dublin	3.1%	5.8%	3.5%	678	5.0%	25.1%	8.4%	
Dusseldorf	2.4%	1.3%	2.2%	324	3.8%	-28.9%	7.2%	
Frankfurt	2.4%	1.3%	2.7%	480	2.6%	11.1%	8.0%	
Hamburg	2.4%	1.3%	2.3%	306	0.0%	-29.8%	5.0%	
Helsinki	2.4%	1.6%	2.9%	436	n/a	n/a	n/a	
Lisbon	2.2%	1.4%	2.3%	252	10.5%	-7.6%	8.3%	
London WE	1.8%	0.4%	2.0%	1,201	10.7%	-1.9%	3.9%	
London City	1.8%	0.4%	2.0%	972	-19.4%	-8.2%	5.9%	
Luxembourg	3.6%	2.2%	3.6%	564	n/a	n/a	4.5%	
Madrid	2.9%	2.2%	3.4%	378	12.5%	4.5%	10.0%	
Manchester	1.8%	0.4%	2.1%	414	0.0%	110.4%	10.6%	
Milan	1.5%	1.1%	2.1%	550	10.0%	n/a	12.0%	
Munich	2.4%	1.3%	3.0%	429	2.1%	-8.2%	3.0%	
Oslo	2.2%	1.1%	2.5%	539	8.3%	-20.2%	6.6%	
Paris CBD	2.1%	0.9%	2.0%	783	7.4%	52.0%	2.3%	
Paris La Defense	2.1%	0.9%	2.0%	483	-3.0%	-22.8%	5.3%	
Prague	3.7%	1.5%	4.7%	252	2.5%	-7.9%	6.2%	
Stockholm	2.8%	1.3%	3.1%	702	12.9%	n/a	2.8%	
Vienna	2.5%	1.7%	1.3%	306	0.0%	69.0%	5.2%	
Warsaw	4.2%	0.3%	3.7%	276	4.5%	5.9%	10.8%	
Zurich	2.4%	1.0%	2.3%	558	-6.6%	0.0%	4.8%	

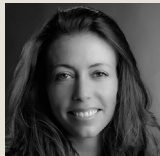
Source: Savills /Oxford Economics forecast/Crosspoint Romania/GEM Finland/EHL Austria/Nybolig Erhverv Denmark/Malling Norway

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