EUROPEAN PROPERTY MARKET BRIEF

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Spring 2017

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Contents

GERALDEVE

Introduction

Welcome to the second edition of Gerald Eve's European Property Market Brief.

We currently live in interesting times – poltically, economically and socially – which to some can be exciting and to others alarming. Property markets have followed this trend over the past year.

This can make for difficult conditions in which to make property decisions, be it as an occupier considering investment in new or existing premises, or as a developer trying to determine the right location, size and characteristics for development opportunities, or as an investor attempting to assess risks, qualify pricing and create strategies.

The political upheavals throughout 2016 have created a dramatic back-drop to the property market and have been directly responsible for some of the shifting sands: for example, as a result of the referendum result in June when the UK voted to leave the European Union, the pound depreciated sharply and although has recovered some value, it was still down by more than 13% against the euro at the end of 2016 compared with where it was at the start. Whilst not wholly responsible for the fluctuations in our property market dynamics and performances, the ongoing uncertainty about what will happen next creates lots of questions in occupiers', developers' and investors' minds.

It also creates opportunities. Continuing the example of the UK referendum, the "exit" result means that businesses located in Britain who rely on the rights they enjoy by being inside the EU may have to relocate to remain within the EU. As a result, cities like Dublin and Paris are already seeing demand from some businesses signalling their relocation from London and others like Frankfurt and Amsterdam may see opportunities to capture some displaced demand too. The depreciation of the pound – and indeed the euro – as a result of the referendum outturn has also fuelled an increase in interest in UK and European property from overseas investors – particularly from the Far and Middle East – who now see greater value in Europe particularly as their yuan/won/dirham/dollars now buy them more.

Looking forward, there are further elections and potential referendums across Europe as well as the renegotiation of the relationship between the UK and Europe. All of this perpetuates the uncertainties in European property markets which good quality research can help to mitigate.

We hope that you'll find our research useful to help you navigate through these risks and recognise the opportunities. Working with our colleagues across Europe and reporting on 12 countries and 24 different cities, the collective knowledge and insight of over 800 property professionals have provided not only their expert analysis of each market but hard data that puts markets in context on a consistent basis to help you assess both the opportunities and the risks in these interesting times.

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Gerald Eve European property escalator

The Property Escalator indicates the relative position of the property market (office and logistics) in each European location, based on current and future movement of prime rents.

	OFFICES	LOGISTICS
CURRENT INCREASE FUTURE INCREASE	Antwerp Amsterdam Barcelona Belfast Berlin Birmingham Brno Paris Manchester	Barcelona Birmingham Brno Manchester Prague Upper Silesia
CURRENT STABLE FUTURE INCREASE	Brusels Düsseldorf Frankfurt Luxembourg Lyon Munich Rotterdam Vienna	Frankfurt London Lyon Warsaw
CURRENT INCREASE FUTURE STABLE / DECREASE	Madrid Prague	Antwerp Belfast Dublin
CURRENT STABLE/DECREASE FUTURE STABLE	Dublin London Upper Silesia	Amsterdam Berlin Brussels Düsseldorf Istanbul Munich Rotterdam Vienna
CURRENT STABLE FUTURE DECREASE	Warsaw	
CURRENT DECREASE FUTURE DECREASE	Istanbul	

More information can be found in the glossary

Office rents (per sq m per annum)

Location	Prime headline rent per sq m
London West End	€1,365 (£1,184)
Paris CBD	€780
Dublin 2/4	€646
Luxembourg CBD	€540
Frankfurt	€462
Manchester City Centre	€422 (£366)
Munich	€420
Birmingham City Centre	€403 (£350)
Istanbul Levent	€401 ($432)
Amsterdam South Axis	€375
Madrid CBD	€360
Berlin	€336
Düsseldorf	€318
Vienna CBD	€306
Lyon Part-Dieu	€280
Warsaw CBD	€276
Brussels EU Leopold	€275
Barcelona	€255
Belfast	€217 (£188)
Prague Inner	€216
Rotterdam	€195
Brno	€167
Upper Silesia	€162
Antwerp	€155

Logistics rents (per sq m per annum)

Location	Prime headline rent per sq m
London Park Royal	€179.90 (£156.10)
Dublin	€102.00
Munich	€84.00
Istanbul Esenyurt	€83.50 ($90.00)
Barcelona	€81.00
Birmingham	€80.64 (£70.00)
Manchester	€74.44 (£64.60)
Berlin	€74.40
Düsseldorf	€73.20
Frankfurt	€72.00
Vienna South / West	€69.90
Warsaw Inner City Zone 1	€64.80
Amsterdam	€62.50
Rotterdam	€61.00
Brno Suburbs	€54.00
Prague East	€51.00
Antwerp	€48.00
Brussels	€47.00
Belfast	€46.52 (£40.40)
Lyon Est	€46.00
Upper Silesia	€43.20

GERALDEVE

AUSTRIA

Economy

Economic performance

Following an unexpected acceleration in Q3 2016, estimates of Austria's economic performance in 2016 anticipate a slightly higher result for the full-year than expected – 1.5% compared with the 1.4% expected by the Austrian Central Bank. Household consumption is expected to report strong expansion for 2016 as household incomes grow on the back of the recently implemented tax reforms and low inflation environment. Investment has also improved in 2016, partly as a result of new environmental requirements for cars causing investment in more efficient vehicle replacement.

Confidence indicators

Austrian consumer confidence rallied in December 2017 according to the index produced by Fessel-GfK: the index improved from -9 in November to -4 in December – the highest level since March 2013 – as a result of a marked improvement in consumers' sentiment about the current and future economic situation as well as their employment status.

Businesses feel similarly optimistic: the January measure of the Bank Austria Manufacturing PMI was 57.3, up from December's 56.3 and the highest level since early 2011, driven by optimism about output levels, new orders, purchasing activity and jobs growth.

Economic outlook

Austria's economy is expected to continue to grow at levels similar to that expected to be reported for 2016: GDP growth is forecast at 1.6% for 2017 and 1.6% for 2018. This will be driven largely by domestic consumer activity – albeit inflationary pressures are likely to slow the rate of growth slightly – and investment, although both will be more subdued than in previous years.

Property market indicators

Investment activity

Estimated at over €2.5 billion, Austrian investment activity fell back somewhat in 2016 following an exceptionally strong €4 billion for 2015 although 2016 volumes were still high in the historic context. Interest remains focussed on Vienna and investors remain particularly interested in office assets. However, 2016 also saw a marked increase in investment in hotel assets and one of the largest transactions for the year – Swedish hotel-specialist investor Pandox's acquisition of NH Hotels Vienna Airport and Salzburg City hotels as part of a Europe-wide portfolio – was completed in Q4 2016. Overseas investors have remained interested in Austrian property in 2016. German investors remain active in its neighbour's property investment market and are the largest overseas players in Austrian property investment.Yields have continued to compress in 2016 with shifts inward across asset classes and locations.

Property outlook

Driven by both domestic and overseas investors, investment activity in 2017 is expected to remain strong and several large deals – particularly forward purchases – signed in 2016 will complete in early 2017. Volumes will also be boosted by several large transactions on properties which are due to come to market in 2017 including DC Tower 1, a trophy office property in Vienna's CBD. Yields are expected to continue to sharpen although the rate of compression, particularly for prime assets, is expected to slow.

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Other factors

2016 Presidental election

In December 2016, the Austrian presidential election re-run was won by centrist-left independent candidate and former leader of the Green party Alexander Van der Bellen, defeating the far-right Freedom Party of Austria candidate Norbert Hofer. The new Austrian president is supportive of the European Union and advocates European federalism. In his acceptance speech he vowed to be an "open-minded, a liberal-minded and first of all a pro-European federal president of the Republic of Austria".

Although largely ceremonial, the presidency does have some powers including the dissolution of parliament – which was mooted as a course of action that a victorious Hofer could take to prompt further inroads into the control of the country by the Freedom Party of Austria. With Van der Bellen's victory, Austria is seen as avoiding such turmoil and maintaining a more stable environment – politically, socially and economically – and as such, little impact is likely on Austria's position as a highly attractive business location.

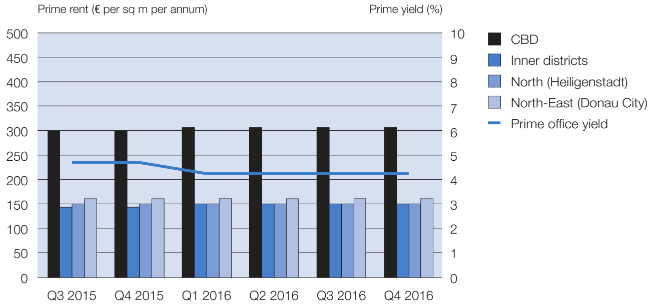
Government business "packages" 2016/2017

During 2016 and into 2017, the Austrian Government has implemented or announced a series of assistance packages designed to encourage domestic and foreign investment in Austria including direct funding to support small-to-medium-sized enterprises' investment in expanding their businesses, extending policies designed to facilitate inward immigration of specialised and highly qualified employees to Austria and a future roll-out of 5G digital infrastructure. This also includes amendments to capital depreciation taxation to allow an accelerated rate of depreciation or an incremental tax credit to encourage investment in material assets (with the exception of buildings and vehicles).

AUSTRIA – Vienna

OFFICES

Prime rents and yields



Market outlook

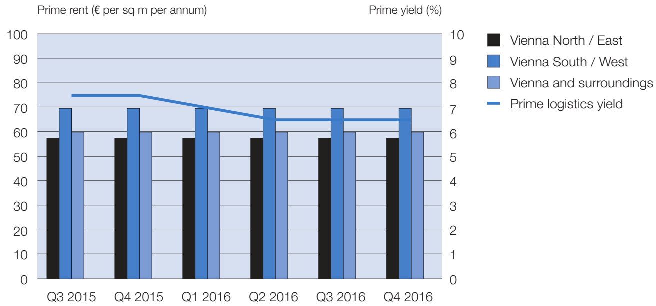
Expectation of market activity movement to Q2 2017			
Occupier demand	↗	**Investor activity**	↗
Development supply	↗	**Prime rents**	↗
Availability	→	**Prime yields**	↘

Market comment

Following high volumes of take-up in 2016, occupational demand for Viennese office space will remain strong and is expected to increase. Following a subdued 2016 and with availability low, development supply is also expected to increase with all office construction projects in Vienna expected to complete in 2017 and 2018. Additionally, investment in Viennese offices has been increasing strongly as has the presence of international Investors from UK, USA and Asia which is likely to continue to grow.

LOGISTICS

Prime rents and yields

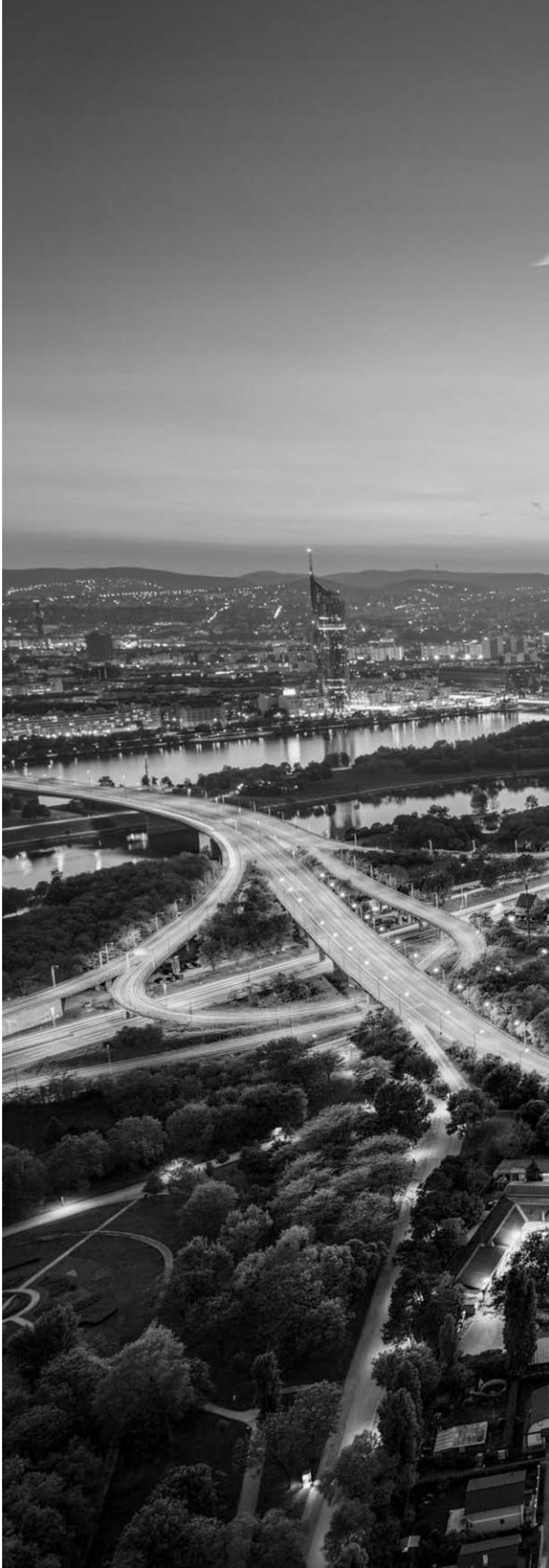


Market outlook

Expectation of market activity movement to Q2 2017			
Occupier demand	→	**Investor activity**	↗
Development supply	→	**Prime rents**	→
Availability	↗	**Prime yields**	↘

Market comment

Occupier demand for Viennese logistics property remains keen with interest from national and international logistics players expected to increase. However, supply is still limited due to a lack of available land plots for logistics developments as a result of high land values. A speculative development of 25,000 sq m high-quality warehouse space started in Q4 2016 in north Vienna and has attracted significant interest from 3PLs. Increasing investor interest in Viennese logistics assets is growing particularly from German and British investors.



BELGIUM

Economy

Economic performance

According to the National Bank of Belgium (NBB), the Belgian economy grew by 0.4% in Q4 2016 compared with 0.2% in Q3 2016 and has been fuelled by modest increases in private consumption, net exports and business investment. This represents growth of 1.2% for the full year 2016, slightly behind 1.5% in 2015, but are in line with expectations for 2016 performance which were revised downwards in the second half of 2016 from the NBB's Spring expectations of 1.6%.

Confidence indicators

Consumer confidence has strengthened considerably in January 2017: following three consecutive rises, the NBB's indicator climbed to its highest level since May 2011. Households are far more optimistic about their personal financial situations, are less concerned about unemployment and are particularly buoyant about the outlook for the economy as a whole.

Similarly, the NBB's business confidence index also strengthened in January 2017 for the fourth consecutive month. Services businesses in particular are feeling more optimistic as are manufacturers and construction firms. Demand expectations improved across nearly all industries.

Economic outlook

Belgium's economy is expected to continue growing at slightly improved rates of 1.4% in 2017 and 1.6% in 2018 as a result of gradually strengthening domestic demand supported by improving labour market conditions and household income levels. Investment is also expected to grow in both 2017 and 2018.

Property market indicators

Investment activity

Investment activity in Belgian commercial real estate again reported strong results in 2016, with volumes falling back slightly on the exceptional €4.3 billion in 2015 to around €3.9 billion in 2016. Whilst transactions remained focused on Brussels – accounting for 65% of investment volume – and offices and retail – representing 53% and 29% of deals in 2016 – large deals were spread across different sectors and geographies including the acquisition of the Médiacité retail centre in Liege for €250 million by CBRE Global Investors, who were advised by Group Hugo Ceusters-SCMS.

The keen investor interest has meant that prime yields have continued to harden across many markets in 2016, particularly in core locations where a lack of appropriate investment assets is putting further downward pressure on yields.

Property outlook

Investor appetite for Belgian property is expected to remain strong into 2017. As a result yields may continue to compress further, particularly in the offices sector. Investors have also expressed a willingness to take some degree of risk to achieve a higher return, including acquiring assets with voids, looking at redevelopment of poorer-quality assets and considering forward-funding of development and looking at assets in non-core locations.

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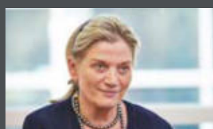

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Other factors

EU-Canada trade pact and Wallonia referendum, October 2016

Negotiations for a free trade agreement between the EU and Canada – known as CETA – were completed in August 2014 but because all 28 member states are required to sign and ratify the treaty, it could not be enacted until each country had gained their approval.

Shortly before the treaty was due to be signed, Belgium declared that it was unable to sign as assent is required by all regional governments and the French-speaking Wallonia region, which is led by centre-left parties which are in opposition in the federal parliament, rejected the agreement in its current form. The refusal by Wallonia to allow signature threatened to derail the entire treaty and its application to all 28 members of the EU.

The disagreement was resolved in late October with the Belgian regional parliaments allowing full powers to be given to the Federal Government on 28 October 2016. Belgium's Minister of Foreign Affairs signed on behalf of his country the following day and on the next day, the CETA treaty was signed by Canadian Prime Minister Justin Trudeau, President of the European Council Donald Tusk, President of the European Commission Jean-Claude Juncker and Slovak Prime Minister Robert Fico.

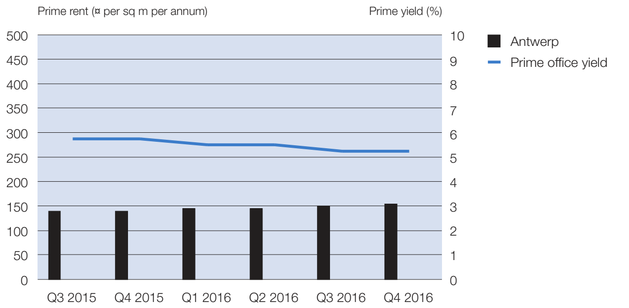
The European Parliament approved the deal on 15 February 2017 and CETA can be provisionally applied from April 2017 whilst awaiting its ratification by Canada, the European Union and its member states.

The incident with CETA and Wallonia's objections threatening to derail the lengthy process to agree the pact is being seen as an indicator of the difficulties to be faced by the UK when attempting to secure agreement for any trade deals with the EU. Whilst there are likely to be differences in the process, it does give food for thought on the length, compexity and threats to this highly complex task ahead.

BELGIUM – Antwerp

OFFICES

Prime rents and yields



Market outlook

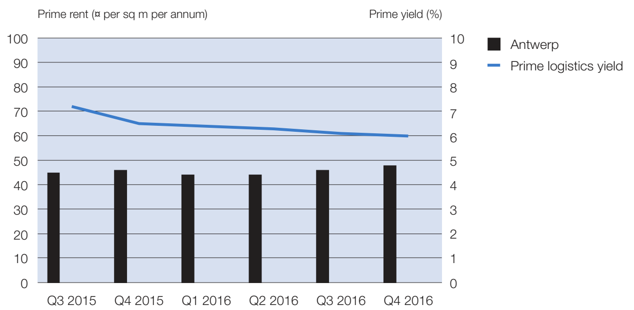
Expectation of market activity movement to Q2 2017			
Occupier demand	→	**Investor activity**	→
Development supply	↗	**Prime rents**	↗
Availability	↘	**Prime yields**	↘

Market comment

Occupier take-up of Antwerp office space strengthened in 2016 to exceed 130,000 sq m for the year, the strongest volume since 2012. On the supply side, several large office schemes were delivered in 2016 and there are more scheduled – including several conversions – to complete in 2017. Office availabillity in Antwerp is currently at 9.9%.

LOGISTICS

Prime rents and yields



Market outlook

Expectation of market activity movement to Q2 2017			
Occupier demand	↗	**Investor activity**	↗
Development supply	→	**Prime rents**	→
Availability	→	**Prime yields**	↘

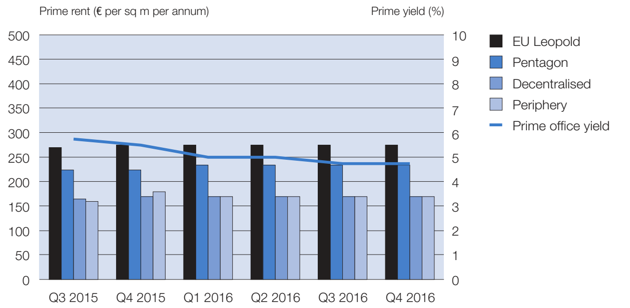
Market comment

Take-up of Antwerp logistics was broadly stable compared with 2015 but occupier demand is expected to grow over the next several years, driven in part by growing requirements to fulfil ecommerce needs. Development supply has predominantly been for build-to-suit space as occupiers demand new buildings to meet modern logistics needs.

BELGIUM – Brussels

OFFICES

Prime rents and yields



Market outlook

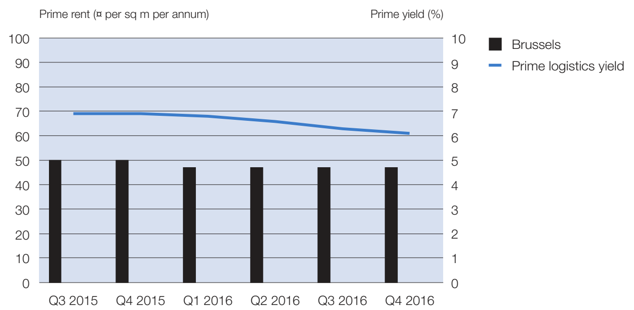
Expectation of market activity movement to Q2 2017			
Occupier demand	→	**Investor activity**	→
Development supply	→	**Prime rents**	↗
Availability	→	**Prime yields**	↘

Market comment

Take-up of Brussels office space grew significantly in 2016 and overall volume of floorspace acquired during the year was up around 24% on 2015. However, there is currently a shortage of available good-quality office space in Brussels which has spurred developments, particularly in the Quartier Nord. An increase in the supply of new speculatively-built office is expected to be delivered in 2017.

LOGISTICS

Prime rents and yields



Market outlook

Expectation of market activity movement to Q2 2017			
Occupier demand	↗	**Investor activity**	↗
Development supply	↘	**Prime rents**	→
Availability	→	**Prime yields**	↘

Market comment

Take-up for Brussels logistics space grew strongly in 2016 and overall volumes were up by around 25% compared with 2015. On the supply side, development remains focused on bespoke build-to-suit requirements rather than speculative space, which is the case for most parts of Belgium.

CZECHIA

Economy

Economic performance

The Czech economy expanded by 0.2% in Q4 2016, a somewhat muted end to the year and slightly behind expectations. Growth for the year was therefore 2.3% for 2016, compared with 4.6% for 2015 and less than the 2.4-2.5% expected. The moderation in growth was largely as a result of weakened investment activity as the completion of EU funding programmes meant overall investment fell. However, the main driver of this still robust growth was household consumption, supported by a strong labour market and wage growth.

Confidence indicators

Consumer confidence remains high: according to the Czech Statistics Office, its business cycle survey in January 2017 reached a joint record high of 111.0 (last seen in January 2016), up from 108.7 in December 2016 and well above the long-term average of 100. Consumers feel optimistic about expectations for their own situation and the wider economy.

Business confidence also appears to be strong: the January Manufacturing PMI by IHS Markit reached a twelve-month high of 55.7 in January, up from 53.8 in December 2016, reflecting improvement in manufacturers' sentiment about current output, new orders and job creation.

Economic outlook

Czech economic growth is expected to reach 2.6% in 2017 and 2.7% in 2018, fuelled by growth in investment as the new programme of EU funded projects begins and funds are drawn down. Household consumption is expected to moderate slightly but the greatest risks to the Czech economy come from concerns over uncertain growth in export markets.

Property market indicators

Investment activity

SOLD

Investment activity in Czech property reached a record high in 2016 with more than €3.7 billion transacted during the year. This figure was boosted by several very large transactions including GIC's acquisition of the P3 portfolio of logistics units, Deka's purchase of The Park office building in Prague and CEFC's acquisition of the Florentinum office asset also in Prague.

Indeed investor interest remained keenest for properties in Prague. Investors' favoured assets remained offices and retail, although the purchase of the P3 portfolio has meant that 2016 saw the highest volume of industrial assets ever transacted in Czechia.

Yields continued to fall in 2016 reaching record lows across asset types and locations.

Property outlook

2017 is expected to see continued investor interest in Czech property and particularly focused on office and retail assets with industrial's exceptional volume in 2016 unlikely to be repeated. Whilst Prague assets remain attractive, investors are expected to look up the risk-curve for higher-yielding assets in more regional locations. There is still some scope anticipated for yields to continue to compress albeit at a slower rate given the current low level.

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Other factors

National legislative election 2017

Czech voters are expected to be voting in a national legislative election when all 200 members of the Chamber of Deputies will be elected with the leader of the resulting government becoming Prime Minister.

The country is currently governed by a centre-left coalition of the Czech Social Democratic Party (ČSSD) which won the most seats – whose leader Bohuslav Sobotka is Prime Minister – ANO 2011 which one the second most seats – whose leader Andrej Babiš is currently First Deputy Prime Minister – and the Christian Democrats (KDU–ČSL) – whose leader Pavel Bělobrádek was Deputy Prime Minister. Whilst serving together, the coalition have agreed to increase pensions, welfare payments and the minimum wage which has helped to maintain growth.

Despite having served in coalition since 2013, the ČSSD and ANO are likely to be the two main contenders to battle to form a majority government in the upcoming election. Alternatively they may seek to form an coalition but with alternative partners.

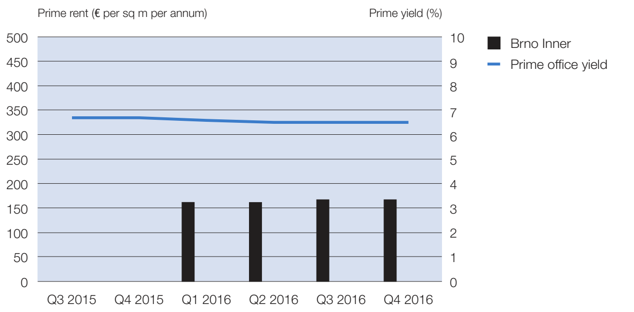
Opinion polls have almost consistently put ANO as the party most likely to win government and in October 2016, its prospects were boosted when ANO won the most votes in regional elections.

Czechia's economic trajectory will be informed in part by which of the parties secures control of the country, as witnessed by a dispute in early 2017 over how to use the surprise government surplus for 2016 of 62 billion Czech crowns. The centre-left ČSSD has suggested holding the surplus over into 2017 to fund public spending whilst the more conservative ANO advocates for paying down government debt.

CZECHIA – Brno

OFFICES

Prime rents and yields



Market outlook

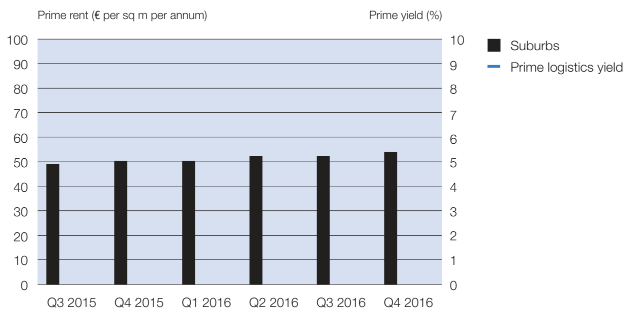
Expectation of market activity movement to Q2 2017			
Occupier demand	↗	**Investor activity**	↗
Development supply	→	**Prime rents**	↗
Availability	↘	**Prime yields**	→

Market comment

Occupiers seeking office space in Brno face a decreasing supply of available grade A premises. Whilst there are new developments currently under construction, this space is not due to be delivered until 2018 or later which means that the lack of prime premises is expected to continue through 2017.

LOGISTICS

Prime rents and yields



Market outlook

Expectation of market activity movement to Q2 2017			
Occupier demand	↗	**Investor activity**	↗
Development supply	→	**Prime rents**	↗
Availability	→	**Prime yields**	→

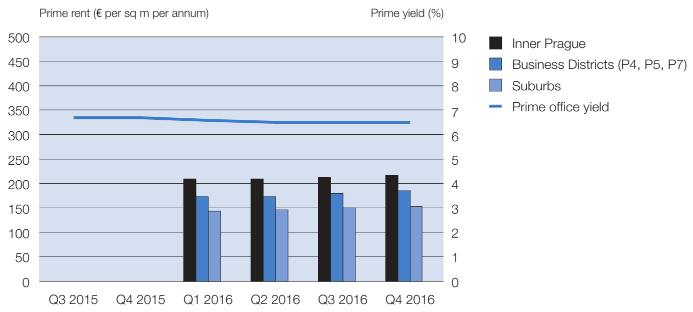
Market comment

Brno remains one of the main hubs for logistics activity in Czechia, highly attractive due to its strong transport links to Eastern Europe. Demand for logistics space in Brno is expected to strengthen in 2017 with ecommerce a key driver of demand. However, on the supply side, the City of Brno is still without an approved spatial plan, which is causing problems with the delivery of new projects.

CZECHIA – Prague

OFFICES

Prime rents and yields



Market outlook

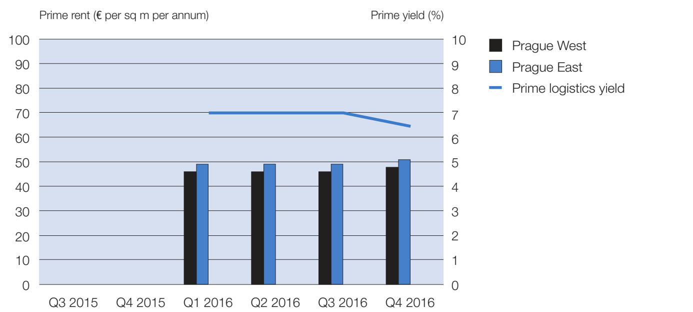
Expectation of market activity movement to Q2 2017			
Occupier demand	↗	**Investor activity**	↗
Development supply	↗	**Prime rents**	→
Availability	↗	**Prime yields**	→

Market comment

Occupier take-up of Prague office space continued to strengthen in 2016; new supply, however, was historically very low. These dynamics have combined to produce low availability rates which has driven the start of rental growth in 2016. New speculative office developments are currently under construction in Prague with the completion of several major projects expected in late 2017and early 2018

LOGISTICS

Prime rents and yields



Market outlook

Expectation of market activity movement to Q2 2017			
Occupier demand	↗	**Investor activity**	↗
Development supply	↗	**Prime rents**	↗
Availability	↘	**Prime yields**	↘

Market comment

Demand for logistics space in Prague has continued to strengthen in 2016, with ecommerce requirements a key driver. New locations are evolving with the completion of the D8 highway with connection to Germany highly attractive to logistics occupiers. Whilst development has been largely characterised by build-to-suit schemes, speculative development is growing. Availability remains low and is driving rental growth.

FRANCE

Economy

Economic performance

France's economic recovery has continued in the latter half of 2016 with French statistical office INSEE reporting 0.4% growth in Q4 2016, following 0.2% in Q3. For the whole of 2016, this means French GDP grew by 1.1%, in line with 1.2% for 2015 but marginally lower than the 1.4% expected. Growth has again been driven by increases in consumer demand but also in business investment. Export growth also accelerated but there was also a fall in government spending.

Confidence indicators

In January 2017, INSEE's consumer confidence index rose again to reach the long-term average of 100 for the first time since November 2007. This optimism has been fuelled by improvements in expectations about individuals' financial situations, savings capacity and unemployment concerns as well as seeing their future personal financial situations in a more positive light. Businesses are also optimistic with the INSEE's French business climate composite indicator broadly stable at 104 in January 2017.

Economic outlook

The French economy is expected to continue to grow over the next several years with GDP growth expected to improve to reach 1.4% in 2017 and 1.7% in 2018, largely fuelled by growth in business investment, particularly in the construction sector. Export growth is also expected to remain relatively strong and growth in imports is expected to slow in 2017 as household consumption slows marginally also. In the longer term context, forecasts for 2017 and 2018 are amongst the strongest rates of growth over the past decade.

Property market indicators

Property performance

Following total return of 11.9% to the end of 2015, MSCI reports that annualised total return for French property to the end of the first half of 2016 was broadly stable at 11.2%, driven by strong capital values growth and a marginal increase in rental values. All three commercial property classes reported total returns in double digits with industrial remaining the strongest performing sector at 13.2%.

Investment activity

Investment activity in 2016 remained strong and reported a total of close to €30 billion, in line with 2015. Offices, particularly those in the Ile-de-France, remain the most highly transacted asset type in 2016, attracting over half of all investment. Whilst French investors represent the majority of purchasers, overseas investors continue to view the French investment property market favourably and 2016 has seen not only continued interest from existing foreign players but also the debut of capital from new sources such as South Korea.Yields continued to sharpen in 2016 reaching record lows across asset classes and locations.

Property outlook

Investor interest remains strong and may even be elevated as overseas investors in particular seek out assets in resilient, stable European property markets. Prime locations will remain core targets for investors although the ongoing lack of appropriate investment stock may drive interest in non-prime locations as well as funding developments in key locations. Yield compression will slow further in 2016 as there is little room for further contraction for prime properties and investor interest in secondary assets will be weighed against perceived risk in an environment on ongoing uncertainty.

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Other factors

French presidential election 2017

On 23 April 2017, the first round of the French presidential election will be held. Should no candidate win an outright majority – which is highly unlikely – a second round will be run between the two highest placed candidates. The field is currently very wide with 11 individuals running in the elections. Frontrunners to move to the second round are the centre-right Republicans candidate Francois Fillon, newly-formed social liberal party En Marche!'s Emmanuel Macron and far-right National Front leader Marine Le Pen.

Opinion polls have consistently shown that Le Pen is likely to be one of the candidates moving to the second round. National Front's recent resurgence has been bolstered by strong showings in municipal, departmental and European elections. Which other candidate Le Pen will face remains to be seen but polls show that she is expected to lose. Regardless as to who wins the election, there are significant shifts in the left, centre and right of French politics which may shape its future.

Land tax system

The redefinition of the land tax system (taxe foncière) is now in place and the new land value grid is now defined after two years in order to clarify the cadastral value of each property (up to 2016, the taxation administration used to calculate the land tax based on a land value dating from 1970).

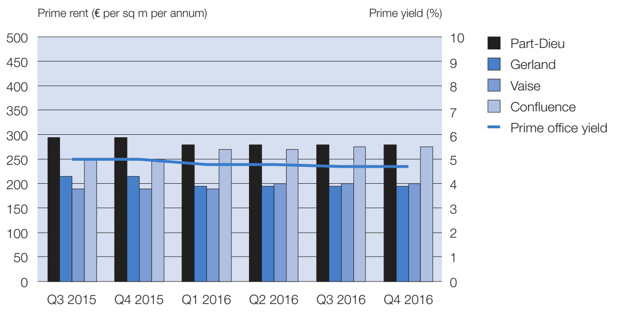
The new land value base mean a significant increase in the land tax of properties based in city centres while at the same time, modern properties in out-of-city-centre locations should see their landtax decreasing.

Overall, the new system will mean an increase of overall land tax. However, in order to avoid dramatic change, the French Government has agreed to make this tax reform happen progressively in a ten-year timescale.

FRANCE – Lyon

OFFICES

Prime rents and yields



Market outlook

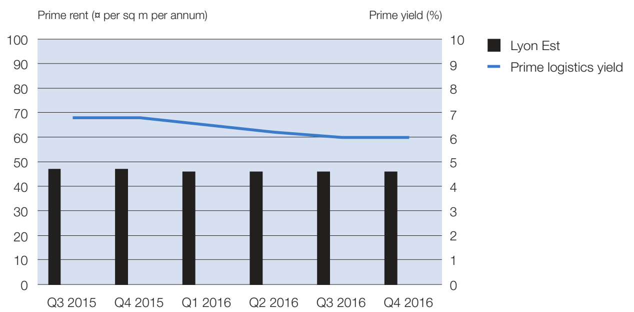
Expectation of market activity movement to Q2 2017			
Occupier demand	→	**Investor activity**	↗
Development supply	↗	**Prime rents**	↗
Availability	↗	**Prime yields**	↘

Market comment

Occupier take-up of Lyon office space remained broadly stable in 2016 compared with 2015 and was reported at 286,000 sq m for the year. The largest occupier transaction for office space in 2016 was telecommunications operator Orange taking a 26,000 sq m of new space in Part-Dieu. Availability in the Lyon market is now constrained, particularly in the CBD, but on the supply side, several large office schemes are under development and are scheduled to be delivered in 2017.

LOGISTICS

Prime rents and yields



Market outlook

Expectation of market activity movement to Q2 2017			
Occupier demand	→	**Investor activity**	↗
Development supply	→	**Prime rents**	↗
Availability	→	**Prime yields**	→

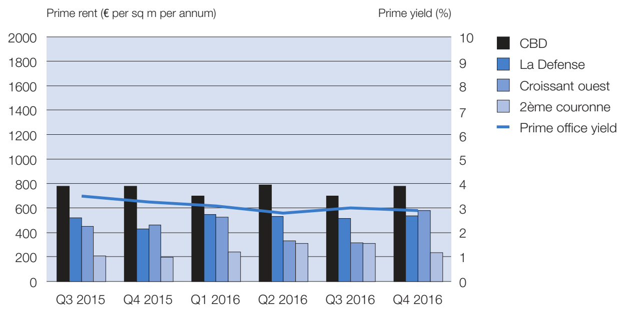
Market comment

Lyon remains a key logistics market for France and occupier activity in 2016 reached 320,000 sq m, slightly lower than for 2015. The largest transaction in 2016 was for a 46,000 sq m unit for German retailer Lidl. Availability in the Lyon area remains constrained with little development supply expected in the short term.

FRANCE – Paris

OFFICES

Prime rents and yields



Market outlook

Expectation of market activity movement to Q2 2017			
Occupier demand	↗	**Investor activity**	→
Development supply	↗	**Prime rents**	↗
Availability	↘	**Prime yields**	→

Market comment

At 2.4 million sq m, occupier take-up in the Ile de France market recorded its strongest performance since 2012. The market is now highly constrained in terms of availability of grade A office space which may mean take-up volumes could be subdued in 2017. Construction is slowly restarting with deliveries expected in mid-2017. Office yields are now under 3% for the best-in-class assets in Paris CBD on long leases and investors are now looking at assets further up the risk curve, notably speculative development albeit in core locations such as Paris and Croissant Ouest.

GERMANY

Economy

Economic performance

The German Statistics Office reported that the German economy grew by 0.4% in the last quarter of 2016, marginally missing expectations of 0.5%. This meant that the GDP growth for the full year came in at 1.9%, slightly ahead of the 1.7% seen in 2015 and also the 2016 average for the Eurozone as a whole at 1.8%.

Q4 2016 saw strong government spending growth and modest increases in consumer spending.

Confidence indicators

Consumers are feeling broadly positive: GfK's forward looking consumer confidence indicator pushed upwards in February to return to the all-time high reached in September 2016. Consumers appear to be optimistic about economic expectations as well as the continued strength of the labour market and income expectations.

Businesses have moderated their position slightly but are still broadly positive: the IFO Institute's German business situation index continued to improve in January 2017 and businesses are more positive about their current situations than any time since early 2012 although expectations of the next six months have fallen back slightly.

Economic outlook

The German economy is expected to grow by 1.6% in 2017 and 1.8% in 2017, driven by robust labour market dynamics, improving wages and household spending. Government spending is also expected to remain high as is Investment. Export demand is expected to grow as foreign demand picks up but there are downside risks in the longer term with the possible threat of trade barriers with key trading partners potentially affecting exports in the future.

Property market indicators

Investment activity

Investor appetite for German commercial property remained strong in 2016 although volumes fell back slightly to just under €53 billion compared with the exceptional €55 billion in2015. This fall is not as a result of waning investor interest but is due to the lack of investment grade stock available in the market. Yields across asset classes and locations sharpened further or remained stable in 2016.

Investors remain highly focussed on office assets – which enjoy strong market fundamentals including low vacancy rates, strong occupier demand and increasing rents – and retail, particularly portfolios. Interest in industrial property has grown strongly in 2016 with investors drawn to the attractiveness of logistics property in particular with a shortage of available property and the higher returns achievable.

Property outlook

Investment in German commercial property is expected to remain strong in 2017 although it is likely to be less than seen in 2016 as the investment options available continue to be constrained. Yield compression is likely to continue to slow but both overseas and domestic investors are expected to remain interested in German commercial property as the return on German assets looks favourable compared with other asset types – especially bond yields which are expected to see yields remain low over the next several years – and compared with other countries.

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Other factors

German federal election 2017

Germans will go to the polls to vote for its government and Chancellor in a federal election, most likely to be held in September 2017 and at the latest by 22 October 2017. Incumbent Chancellor and leader of the centre-right Christian Democratic Union (CDU) Angela Merkel declared her intention to seek a fourth term in November 2016 and had led polls by a healthy margin as voters saw little alternative to the existing regime.

However, in January 2017, former President of the European Parliament Martin Schulz was announced as the candidate for the leftist Social Democratic Party (SPD) which is the first opposition party in the Bundestag. Although the SPD has struggled in elections over the past several years, opinion polls since his candidacy was announced have reported the SPD gaining significant ground on the CDU with the gap narrowing from as much as 15 points to pull level in February 2017. One of the elements mooted as being attractive to voters is Schulz's status as a relative outsider to German domestic politics, a position that previously may have seen him hamstrung, but in this period of so-called "populist" movements having significant impact on politics could act as a positive and appeal to voters disillusioned with existing politicians and parties.

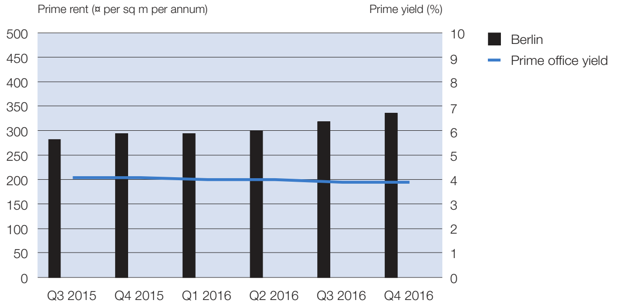
Also seeing a strengthening of popularity in the polls is the far-right Alternative for Germany (AfD) party; although there is little expectation that it could displace one of the two leading parties – the CDU or the SPD – AfD is expected to win parliamentary seats for the first time.

The incumbent CDU has a difficult task ahead if it is to secure the Chancellorship and resume its role in government: it faces a resurgent SPD which appears to have galvanised around its new leader who has popular appeal as well as the turmoil within the CDU itself as members fail to agree on issues such as the current position with regard to welcoming refugees to Germany.

GERMANY – Berlin

OFFICES

Prime rents and yields



Market outlook

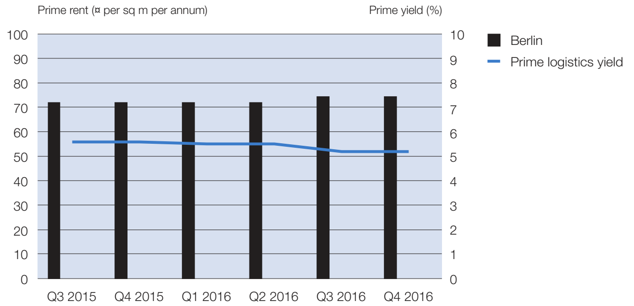
Expectation of market activity movement to Q2 2017			
Occupier demand	↗	**Investor activity**	↗
Development supply	↗	**Prime rents**	↗
Availability	↘	**Prime yields**	↘

Market comment

Occupier demand for Berlin office space was exceptionally strong in 2016 and reached a new record high of 865,000 sq m, surpassing the record result of 2015 by 3%. At the end of 2016, the office vacancy rate in Berlin was very low at around 3% which has put upward pressure on rents. In 2017, a similarly high level of occupier demand is anticipated with more than 800,000 sq m is expected to be taken up during the year.

LOGISTICS

Prime rents and yields



Market outlook

Expectation of market activity movement to Q2 2017			
Occupier demand	→	**Investor activity**	↗
Development supply	→	**Prime rents**	→
Availability	→	**Prime yields**	↘

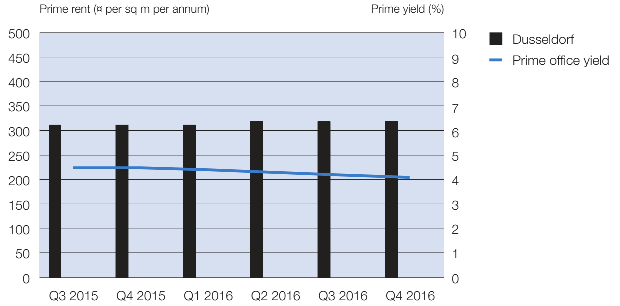
Market comment

Occupier demand for Berlin logistics space fell back somewhat in 2016 with total take-up for the year recorded at 420,000 sq m, down 8% on volume for 2015. However, this still puts Berlin as one of the most significant logistics property markets in Germany and with a shortage of good quality space, prime logistic rents in Berlin slightly increased during 2016.

GERMANY – Dusseldorf

OFFICES

Prime rents and yields



Market outlook

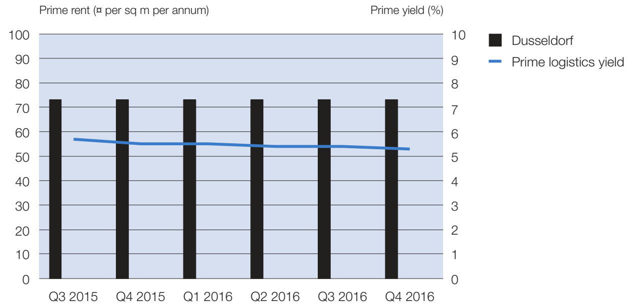
Expectation of market activity movement to Q2 2017			
Occupier demand	↗	**Investor activity**	↗
Development supply	↗	**Prime rents**	↗
Availability	→	**Prime yields**	↘

Market comment

After a very strong 2015, occupier demand for Düsseldorf office space fell back slightly in 2016, recording 375,000 sq m for the year and 8% down on 2016 but significantly above the ten-year average. At the end of 2016, the Düsseldorf office vacancy rate stood at 8%, slightly lower than in 2015 which means that occupiers' choices will be more constrained, particularly as demand is expected to remain high.

LOGISTICS

Prime rents and yields



Market outlook

Expectation of market activity movement to Q2 2017			
Occupier demand	→	**Investor activity**	↗
Development supply	→	**Prime rents**	→
Availability	→	**Prime yields**	→

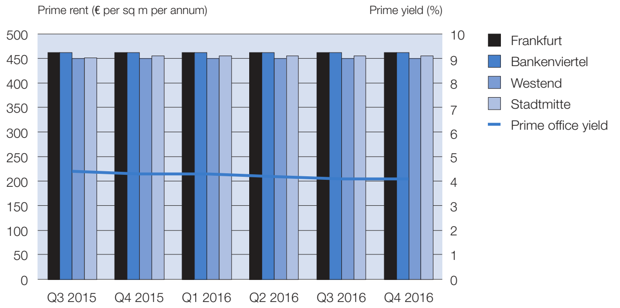
Market comment

Demand for logistics space in the Düsseldorf region remained strong and recorded 345,000 sq m of lettings and sales to occupiers, broadly in line with the level reported for 2015. The prime logistics rental level in the Düsseldorf region remained stable in 2016.

GERMANY – Frankfurt

OFFICES

Prime rents and yields



Market outlook

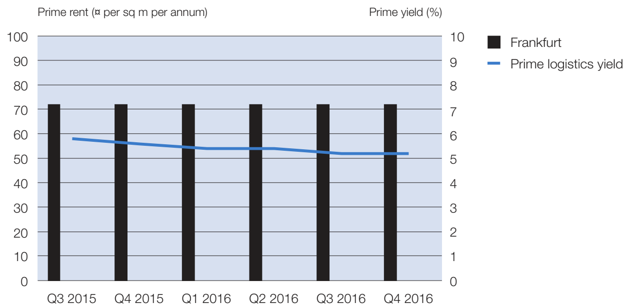
Expectation of market activity movement to Q2 2017			
Occupier demand	↗	**Investor activity**	↗
Development supply	→	**Prime rents**	↗
Availability	↘	**Prime yields**	↘

Market comment

Occupier demand for Frankfurt office space grew strongly in 2016: take-up was recorded at 540,000 sq m for the year, up 38% compared with 2015. At the end of 2016, the Frankfurt office vacancy rate stood at 10.2%, slightly lower than at the end of 2015 when it was 10.9%. 2017 is expected to see similarly high levels of occupier demand which over the longer term may indeed be supported by businesses choosing to locate or relocate in Frankfurt as a result of the UK's withdrawal from the EU.

LOGISTICS

Prime rents and yields



Market outlook

Expectation of market activity movement to Q2 2017			
Occupier demand	→	**Investor activity**	↗
Development supply	→	**Prime rents**	↗
Availability	→	**Prime yields**	↘

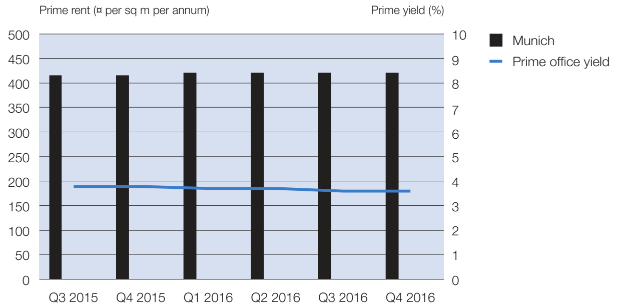
Market comment

Occupier demand for the Frankfurt/Rhine-Main region logistics market closed 2016 with a take-up of 575,000 sq m of lettings and sales to occupiers. In comparison with 2015, this represents an increase of 20%. Prime logistics rents in the Frankfurt/Rhine-Main region remained stable through 2016.

GERMANY – Munich

OFFICES

Prime rents and yields



Market outlook

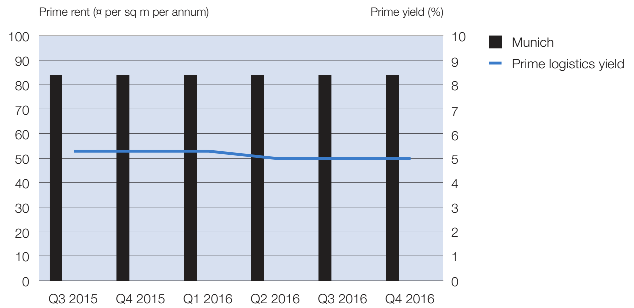
Expectation of market activity movement to Q2 2017			
Occupier demand	↗	**Investor activity**	↗
Development supply	→	**Prime rents**	↗
Availability	↘	**Prime yields**	↘

Market comment

Occupier take-up of Munich office space was exceptionally strong in 2016 with the highest volume of take-up recorded since 2011. At 785,000 sq m, take-up was up 3% compared to 2015. On the back of this strong occupier activity, the vacancy rate fell back to just 4.3% at the end of 2016. Demand is forecast to remain strong into 2017 and volumes are expected to be recorded at a similarly high level.

LOGISTICS

Prime rents and yields



Market outlook

Expectation of market activity movement to Q2 2017			
Occupier demand	↗	**Investor activity**	↗
Development supply	→	**Prime rents**	→
Availability	→	**Prime yields**	↘

Market comment

Occupier demand for Munich region logistics space increased significantly in 2016: total take-up for the year was recorded at 340,000 sq m of lettings and occupier sales, up 50% compared with 2015. Prime logistic rents in the Munich region remained stable through 2016.

IRELAND

Economy

Economic performance

The Irish economy was one of the strongest performing countries in the EU in 2016 at 4.5%, driven by continuing rises in domestic demand – supported by a strongly improving labour market – and government spending as well as strong exports growth. Comparison to 2015's official growth rate of 26.3% is complicated by the fact that 2015's exaggerated growth was due to the reclassification of multinational companies or their assets as being resident in Ireland; actual growth is put at closer to 5.5% for 2015.

Confidence indicators

According to the KBC Ireland/ESRI Consumer Sentiment Index, Irish consumer confidence rallied in January 2017, albeit after declines in four of the previous five months. Consumers feel broadly more positive about their own financial and employment situations as well as the economy as a whole and have signalled intentions to continuing buying into 2017.

Business sentiment too is positive: both the Investec Services Purchasing Managers' Index and Investec Manufacturing Purchasing Managers' Index have rallied to report strong demand and an expected increase in business activity in the near future.

Economic outlook

The Irish economy is expected to continue to grow– albeit at a somewhat slower pace than is expected for 2016. The EU's forecasts put growth at 3.4% for 2017 and 3.3% for 2018, driven by domestic consumption but with strong investment expected also. Although they have been downgraded slightly since the UK referendum result, these forecast growth rates are amongst the strongest in the EU.

Property market indicators

Property performance

Total returns for Irish property moderated in 2016 compared with 2015; according to MSCI, total return for all property was 12.4% down from 25.0% in 2015. Capital value growth slowed to 7.4% in 2016 as opportunities for yield compression waned and as rental growth slowed but still reported a strong 7.4%. Much of the slowdown has come from the offices sector which, whilst still enjoying healthy growth rates, could not match the extraordinary growth seen in 2014 and 2015. Industrial property saw the strongest returns at nearly 20% and rental growth of more than 10% for 2016.

Investment activity

The total Irish property investment volume in 2016 was €4.5 billion, up over 20% on 2015 and in line with the record volume in 2014. This volume was boosted by a number of very large deals for single assets including deals for the Blanchardstown Town Centre shopping centre, the Liffey Valley Shopping Centre and One Spencer Dock office scheme. Retail was the sector of choice in 2016 accounting for more than half of all investment volume. Overseas investors – particularly from Germany and the US – have been highly acquisitive in 2016 as well as strong activity from domestic investors. Despite the pick-up in activity, yields have remained broadly stable in 2016 with focus on income return opportunities.

Property outlook

2017 is likely to see a more moderate volume of investment due to the ongoing shortage of investment-grade opportunities. Some assets that have been transacted over the past several years may well be brought back to the market as investors look to release value in the environment of capital value increases.

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Other factors

Business relocation from the UK

Following the UK's decision to leave the EU, businesses are considering the prospect of being outside the EU if they are based in the UK and the implications of this to their ongoing operations. This is particularly acute for foreign banks who rely on the "passporting" rights – that is, the right to offer financial services to the wider European Economic Area – they currently enjoy by being located in the UK. Should these rights be eroded, this will likely mean some businesses relocating to remain within the EU.

Dublin, along with other locations, is considered as a potential significant beneficiary of this displacement, particularly for US banks for whom continuing to have a common English-speaking environment is attractive; some are apparently already making contingency plans for potential relocation. British bank Barclays announced in January 2017 that it was planning to expand its operation in Dublin should it be unable to continue to offer its services in London following the UK's exit from the EU.

In addition, lawyers and other business services providers like accountants and auditors could also benefit from the UK exit by not only advising businesses on their entry into the Irish market but also as a result of the increase in business with more clients to serve.

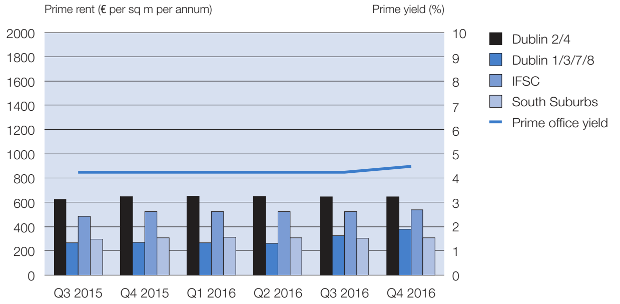
The Irish Government and development agencies are actively seeking to present Ireland as an attractive alternative to the UK. On Budget Day on 11 October 2016, the Finance Minister announced the extension of a tax relief programme designed to help foreign businesses move staff to Ireland to the end of 2020 as part of an official "Getting Ireland Brexit Ready" programme.

However, the capability of Dublin and Ireland to capitalise on this displaced demand will depend on its ability to deliver not only a sound business environment but also appropriate commercial property, skilled labour and adequate housing to attract businesses and staff.

IRELAND – Dublin

OFFICES

Prime rents and yields



Market outlook

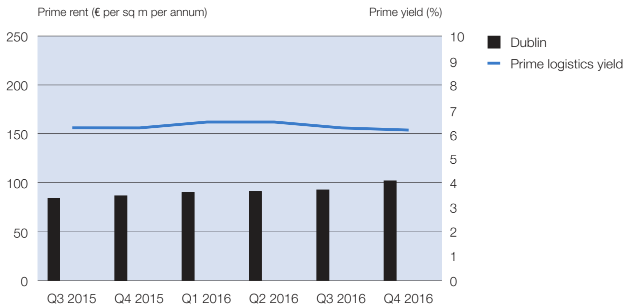
Expectation of market activity movement to Q2 2017			
Occupier demand	↗	**Investor activity**	↗
Development supply	↗	**Prime rents**	→
Availability	↗	**Prime yields**	→

Market comment

Occupier take-up for Dublin offices recorded another strong volume in 2016 at 262,770 sq m. Whilst falling just short of the 2015 total, this was partly due to a lack of supply of stock currently available. The current supply/demand imbalance has led to this cycle's first significant pre-lettings of single-let large office schemes. The strong demand and lack of available supply has led to the increases in rental levels for grade A/grade B refurbished property. Demand is expected to remain strong and prime rents stable over the next several years.

LOGISTICS

Prime rents and yields



Market outlook

Expectation of market activity movement to Q2 2017			
Occupier demand	→	**Investor activity**	→
Development supply	↗	**Prime rents**	→
Availability	→	**Prime yields**	→

Market comment

Occupier activity remained strong in 2016 with take-up volume reaching 250,000 sq m. Availability of large grade A units in prime locations is constrained. However, with rental levels rising across the market, particularly for newly built space, some developers will be building speculative units once again in 2017 following a hiatus during the recession years.

LUXEMBOURG

Economy

Economic performance

Following a subdued Q1, Luxembourg economic activity gained momentum as 2016 progressed and is expected to have delivered slightly improved growth of 3.8% for the year, compared with 3.5% in 2015. Government spending and household demand have been strong drivers of growth in 2016 as has the export market. Inflation has been stable in 2016 which has in turn meant that wages have increased only marginally. However, a rebound in prices – as a result of increases in oil prices – has already triggered a 2.5% mandatory inflation of wages and it may continue in 2018, further driving household income and spending.

Confidence indicators

Following turbulence during 2016, consumer confidence ended 2016 at the highest level since February 2002. The Banque Centrale du Luxembourg consumer confidence survey fell back slightly in January 2017 but still remains elevated compared with the recent past and the current reading of 10 was last seen in October 2007.

Also businesses have similarly reported more optimistic feeling: manufacturers and construction businesses have both recorded broadly positive sentiment for the future although there is some concern over future orders amongst manufacturers although both groups are positive about future employment expectations.

Economic outlook

Luxembourg is expected to enjoy some of the strongest growth in Europe with expectations of 4.0% growth in 2017 and 3.9% in 2018. This improved activity will be supported by household spending in 2017 and sustained through the two years by a recovery in external markets which will mean growth in exports.

Property market indicators

Investment activity

Investor interest in Luxembourg as a destination for capital increased again in 2016 with the market reporting its highest volume of transactions – just over €1 billion – since 2007. Offices remain the asset of choice for investors acquiring Luxembourg properties although there has been a substantial interest in the alternatives sector in 2016.

Increasing competition for prime assets meant that yields fell even further in 2016 to reach new historic lows: prime office yields for Luxembourg City CBD now stand at 4.5%.

Occupier demand for office space remains strong and although there has been an improvement in available supply due to the delivery of new office buildings and the return of existing space to the market, availability is expected to remain constrained into 2017.

Overseas investors – particularly French, German and Middle Eastern investors – confirmed their interest in Luxembourg investment property in 2016 and accounted for more than 80% of investment volumes for the year.

Property outlook

The attractive economic outlook for the Grand Duchy accompanied by the strong property market fundamentals and the relative stability of the Luxembourg market will mean that investor interest will remain keen into 2017. Prime CBD offices will remain at the top of investors' list and as competition for relatively scarce assets continues to be keen, yields may see some further compression over the short term.

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Other factors

Structural reforms and government policy

The Luxembourg Government, under the EU National Reform Programme, has implemented a series of structural reforms to improve the use of its citizens' existing skills, reduce structural unemployment – such as encouraging higher participation rates particularly amongst women – and reduce barriers to labour mobility.

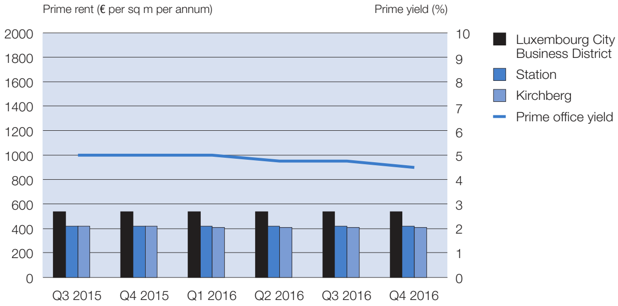
The Government has also sought to bolster investment in research and development, particularly through its own spending on key projects but also by incentivising private investment which has suffered a substantial drop during the economic crisis, particularly amongst the financial and insurance sectors.

In addition, the Government has shifted towards an expansionary fiscal policy stance since levels of debt and interest rates are low. New fiscal targets are expected to make the tax system more growth and equity-friendly while incentivising for growth-enhancing spending on R&D and infrastructure.

LUXEMBOURG – City

OFFICES

Prime rents and yields



Market outlook

Expectation of market activity movement to Q2 2017			
Occupier demand	↗	**Investor activity**	↗
Development supply	↘	**Prime rents**	↗
Availability	↘	**Prime yields**	↘

Market comment

Occupier demand for Luxembourg offices finished 2016 strongly with over 200,000 sq m taken up during the year. However, development supply has slowed in 2016 and the estimated pipeline for 2017 is half of that delivered in 2016. Prime rents are under upward pressure in both the CBD and peripheral districts. Occupier demand remains strongly driven by corporates, especially those involved in banking and finance, followed by European institutions and local government departments.

NETHERLANDS

Economy

Economic performance

The Dutch economy grew by 0.5% in Q4 2016, according to Statistics Netherlands (CBS), broadly as a result of rises in exports and household consumption. GDP in the Netherlands has now been expanding for 11 consecutive quarters, making the Dutch economy one of the most resilient in Europe. GDP growth for the year 2016 was 2.1%, meaning it was one of the strongest growing economies in Western Europe. This is broadly in line with the 2.0% reported in 2015

Confidence indicators

Consumer and business confidence levels have both continued to improve in early 2017 with both reaching highs not seen since 2007/2008. Consumer confidence in particular is buoyant with the January 2017 survey by the CBS improving further to +13, its highest level since mid-2007. Consumers are particularly optimistic about the future for both their own financial situations and the economy as a whole.

Businesses are also similarly confident about the future: the Statistics Netherlands index of producer confidence amongst manufacturers reached +6 in January 2017, the highest level since March 2008. Manufacturers also reported production and order books all improving.

Economic outlook

The economic outlook for the Netherlands is broadly in line with the result for 2016: GDP is forecast to grow by 2.0% in 2017 and by 1.8% in 2018. The most significant driver of growth will be household demand, supported by employment and wage rate growth. Exports are expected to continue to grow albeit slightly behind growth in imports but there is also risk to the export market reporting weaker demand.

Property market indicators

Property performance

The Dutch property investment market improved again in 2016 with total returns growing from 8.5% in 2015 to 11.4% at year-end 2016. Capital values continued to grow reporting a healthy 6.2% rise in 2016, compared with 3.0% in 2015. Performance continued to be driven by strong returns in the residential sector which represents a larger component of investor portfolios than in most European countries. Offices remain the strongest performing commercial property asset class.

Investment activity

Investment volumes in 2016 reached a record peak of more than €13 billion. Offices remain the most sought-after asset class and several large portfolios and single-let assets were transacted in 2016. Investment in logistics assets also grew, driven by increasing investor interest as the shift to online retail is seen as a long-term boon to the occupational dynamics in the sector. In contrast, investment volumes for retail property were markedly down in 2016 but particularly as a result of a lack of available investment-grade product. Yields continued to fall across asset classes and locations in 2016.

Property outlook

As a relatively safe haven for capital, Dutch commercial property will remain high on the acquisition list for both domestic and overseas investors. However, a continuing scarcity of investment grade product may drive yields to even tighter levels which in turn may encourage opportunistic investors who bought into Dutch property during the past several years to release assets and realise the returns. In the hunt for returns, investors may be more interested in alternative asset classes in 2017 than before as alternative property types become more understood and represent long-term income opportunities.

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Other factors

Dutch General Election, March 2017

On 15 March 2017, Dutch voters go to the polls in a general election to elect the 150 members of the House of Representatives. It is the first of a series of national elections across Europe in 2017 and following the so-called populist surprise results in the UK referendum on EU membership and the US presidential election in 2016, is seen as a bellwether to the current liberal order of Europe's existing political parties and candidates.

Currently leading opinion polls is the Dutch far-right Party for Freedom (PVV) led by Eurosceptic Geert Wilders. As part of his campaigning, Wilders has pledged to close the Netherlands' borders and leave the euro and the EU.

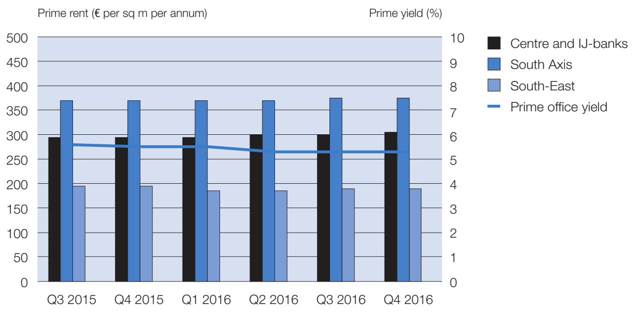
However, the likelihood that the PVV will become the ruling party and Wilders will take office as Prime Minister is seen as unlikely: polls put the expected number of seats that the PVV will secure at 29 seats of the 79 to form a coalition government. Incumbent Dutch Prime Minister Mark Rutte ruled out a coalition between his People's Party for Freedom and Democracy (VVD) and the PVV; opinion polls put the VVD's likely share of the House at just 25 seats.

Should the PVV secure the largest number of seats but fall short of a clear majority, such is the polarising nature of the party's position that it may struggle to form a stable coalition with less than four other parties – or at all. Should any cooperative arrangement fall apart – which is a real potential risk – the Netherlands will likely find itself back at the voting box shortly after this latest election.

NETHERLANDS – Amsterdam

OFFICES

Prime rents and yields



Market outlook

Expectation of market activity movement to Q2 2017

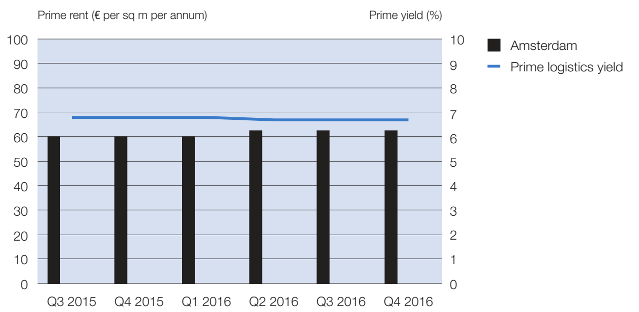
Occupier demand	↗	**Investor activity**	→
Development supply	→	**Prime rents**	↗
Availability	↘	**Prime yields**	↘

Market comment

Occupier demand for Amsterdam office space remained strong in 2016. As a result, available supply was further depleted and vacancy rates, particularly in core Amsterdam submarkets, have fallen further: since 2012, vacancy has almost halved from around 13% to just over 7% in 2016. As a result, rents have either held firm or seen modest increases in Amsterdam during 2016.

LOGISTICS

Prime rents and yields



Market outlook

Expectation of market activity movement to Q2 2017

Occupier demand	↗	**Investor activity**	↗
Development supply	→	**Prime rents**	→
Availability	→	**Prime yields**	↘

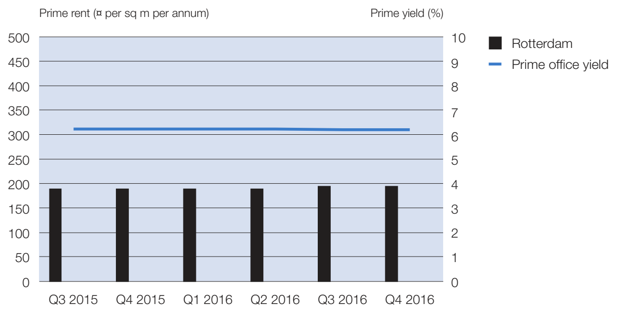
Market comment

Occupier demand for Dutch logistics space remained strong in 2016 but available supply across core markets including Amsterdam remains constrained. As a result, there is upward pressure on rents.

NETHERLANDS – Rotterdam

OFFICES

Prime rents and yields



Market outlook

Expectation of market activity movement to Q2 2017

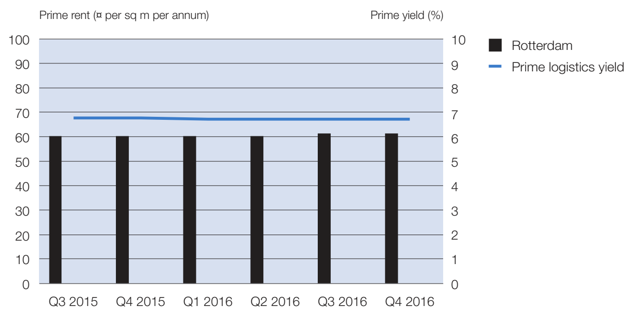
Occupier demand	↗	**Investor activity**	→
Development supply	→	**Prime rents**	↗
Availability	↘	**Prime yields**	→

Market comment

Occupier demand for Rotterdam office space has been primarily focused on the CBD although occupiers have been increasingly looking at more peripheral markets also. However, available supply remains constrained and as a result, office rents in Rotterdam have grown in 2016 by over 2.5%. This is expected to continue in 2017 as the supply/demand imbalance persists.

LOGISTICS

Prime rents and yields



Market outlook

Expectation of market activity movement to Q2 2017

Occupier demand	→	**Investor activity**	↗
Development supply	→	**Prime rents**	→
Availability	→	**Prime yields**	→

Market comment

Supported by its multimodal transport connections – including one of the largest deep-sea ports in Europe – Rotterdam remains a key logistics market for the Netherlands and Europe. Occupier take-up of Rotterdam logistics space remained strong in 2016 although like many other locations, available supply is constrained which is putting upward pressure on rents which increased marginally in 2016.

POLAND

Economy

Economic performance

Economic activity in Poland accelerated in the final quarter of 2016 to an impressive 1.7% growth on the previous quarter. GDP growth for full year 2016 is estimated at 2.8%, meeting expectations but behind the 3.9% seen in 2015. Despite this, Poland's economic growth remains well above the European average. The main driver of growth has been household consumption, supported by improving labour market conditions, low inflation and more government benefits. However, investment has fallen as EU funding programmes have completed and after a period of exceptional investment growth.

Confidence indicators

Polish consumer confidence fell back slightly in February 2017, according to the Thomson Reuters/Ipsos Poland Primary Consumer Sentiment index although remains at an elevated level compared with the longer period since 2012. Consumers' optimism about both their personal financial situations and the economy as a whole improved slightly and remain highly positive.

Business confidence in the future is also positive: the Markit Poland Manufacturing Purchasing Managers Index reached 54.8, its highest level for nearly two years. In addition to improving output, new orders and exports, manufacturers' expectations of future output growth were strongly positive in January 2017.

Economic outlook

The Polish economy is set to rebound in 2017 with growth forecast to reach 3.2% and then stabilise at 3.1% in 2018. Growth will be supported by household demand in 2017 and private investment is expected to grow as domestic and overseas activity picks up.

Property market indicators

Investment activity

Total investment volume in Polish commercial property enjoyed a strong final quarter of the year and meant that overall volumes reached €4.5 billion in 2016, up from €4 billion in 2015. This represents the highest volume since 2006. Warsaw offices remain highly attractive to investors as did retail which continued to attract significant investor interest. Following continuing investor interest, yields have compressed across all asset classes to record lows.

Overseas investors were again highly active in the Polish market and accounted for nearly all transactions. South African investors were highly active in Polish property investment in 2016 and were activity in several of the largest transactions of the year including Redefine's investment in the ECHO office and retail portfolio and Rockcastle Global Real Estate's purchases of Galeria Warminska shopping centre in Olsztyn and a portfolio of two shopping centres in western and central Poland.

Property outlook

Investor interest in Polish property is expected to remain keen in 2017 driven by the strong occupational market fundamentals and the quality of assets available in the market. Overseas interest is expected to remain high, particularly in the search for higher returns but in what is considered a resilient and buoyant economic setting. Yield compression in offices is likely to continue although the largest shifts are likely to be on more regional markets.

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Other factors

Government budget 2017 and country credit ratings

In January 2017, the Polish President Andrzej Duda signed the 2017 government budget into law. The budget has been controversial in that the course it sets means that Poland could exceed the EU's fiscal deficit limit in 2017, risking further tensions between Warsaw and the EU. The Government has forecast a deficit of 2.9% for 2017, banking on increased tax income to fund significantly higher benefits spending and tax breaks. However, with only modest GDP growth expected, this forecast for the deficit means there is little margin for error relative to the EU's limit of 3%.

Also, in September 2016, the European Commission ordered a suspension of a new tax on retailers in Poland; the tax is based on income but small – mostly domestic – retailers are exempt and the tax therefore more significantly affects foreign players particularly supermarkets. This and the new tax on banking activities – which the EC is also investigating – were designed as means of financing the new generous social payments on which the incumbent rightwing Law and Justice (PiS) party campaigned to win Government in late 2015.

Should Poland breach the fiscal deficit limit, the EU could place the country in excessive deficit procedure measures which could threaten billions of euros in development funds allocated to Poland. This could further stifle growth through a lack of investment and job creation.

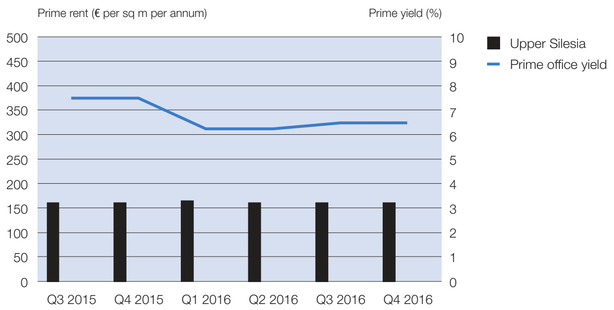
However, the major credit rating agencies have all held or improved their views for Poland. In December 2016, Standard & Poor's raised its outlook from negative to stable. In September, Moody's maintained its view of a stable outlook which it upgraded from negative in May 2016. In January 2017, Fitch affirmed its outlook as stable.

What the economy and therefore the deficit will do will remain to be seen but there are tensions still to resolve for the PiS government.

POLAND – Upper Silesia

OFFICES

Prime rents and yields



Market outlook

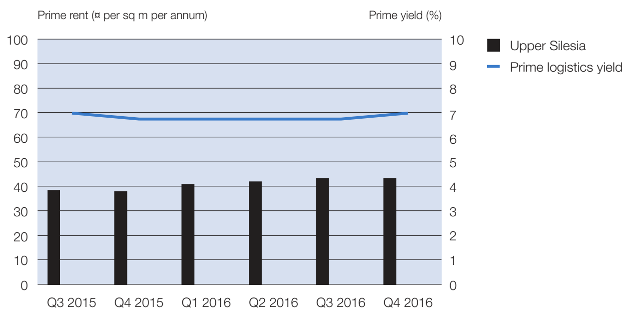
Expectation of market activity movement to Q2 2017			
Occupier demand	→	**Investor activity**	→
Development supply	↗	**Prime rents**	→
Availability	→	**Prime yields**	→

Market comment

2016 was a strong year for the Upper Silesia office market (mainly served by assets located in Katowice), beginning the year with a pre-let agreement of 7,400 sq m for Rockwell Automation in the A4 Business Park in Katowice. The demand for modern office space in Katowice has been generated in the main by the business process outsourcing sector, which is rapidly developing in Poland and has an especially strong impact on regional cities.

LOGISTICS

Prime rents and yields



Market outlook

Expectation of market activity movement to Q2 2017			
Occupier demand	↗	**Investor activity**	→
Development supply	↗	**Prime rents**	↗
Availability	→	**Prime yields**	→

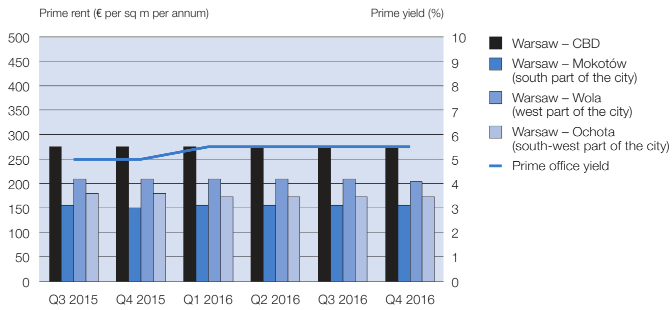
Market comment

Logistics occupier demand in Upper Silesia in 2016 was one of the strongest in the country after the Warsaw region with more than 510,000 sq m leased, of which over 40% was for new lease agreements and expansions. The vacancy rate in the region over the last year remained low at 5.6%. High take-up and new construction will keep vacancy rates down putting upward pressure on rents.

POLAND – Warsaw

OFFICES

Prime rents and yields



Market outlook

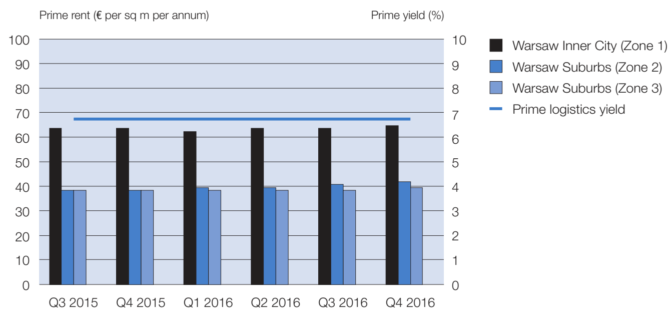
Expectation of market activity movement to Q2 2017			
Occupier demand	→	**Investor activity**	→
Development supply	→	**Prime rents**	↘
Availability	↗	**Prime yields**	↗

Market comment

Occupier demand for Warsaw offices in 2016 was strong with 750,000 sq m transacted, although was marginally lower than for 2015. A large volume of newly developed space was delivered to the market in 2016 which has meant that the vacancy rate for Warsaw offices has continued to rise, reaching 15% at the end of the year. This is putting downward pressure on rents as landlords are motivated to secure tenants for investments.

LOGISTICS

Prime rents and yields



Market outlook

Expectation of market activity movement to Q2 2017			
Occupier demand	→	**Investor activity**	→
Development supply	↗	**Prime rents**	↗
Availability	↘	**Prime yields**	→

Market comment

In 2016, developers returned to the Warsaw logistics market with new projects, some of them speculative. The total new supply of Warsaw logistics totalled 239,000 sq m, nearly all of it in the suburbs of the city. Vacancy rate in all three zones has fallen and in all locations availability of logistics space is less than 7%. Average rental rates remain low, but are under upward pressure.

SPAIN

Economy

Economic performance

The Spanish economy continued its strong growth through 2016 to record 0.7% in Q4 2016 and 3.2% for 2016 as a whole, in line with the 3.2% seen in 2015. These results put Spain as one of the strongest performing Western European nations in 2016. Domestic demand has been the key driver of growth in 2016 supported by strong employment increases and moderate wage growth. Exports also rallied during the year with the trade balance in positive territory for the first time since the economic recovery began in 2014.

Confidence indicators

In November and December the Centro de Investigaciones Sociológicas Spanish Consumer Confidence Index rose strongly and reached 100.7. However, in January the index fell marginally to 98.3, largely due to concerns about the current situation.

Business confidence is also buoyant. IHS Markit Spain Services PMI fell slightly in January 2017 but still signalled improving new business demand and employment growth. Similarly, the IHS Markit Spain Manufacturing PMI also reported strong increases in output, new orders and employment which reached its highest level since July 1998. Both indicators report strongly positive sentiment about the future.

Economic outlook

Spain's economic growth is expected to moderate somewhat in the next several years with GDP growth expected at 2.3% in 2017 and 2.1% in 2018. Household consumption, employment and real income growth are expected to slow over the period but investment and are forecast to strengthen.

Property market indicators

Investment activity

Investor activity in Spain in 2016 remained strong following the exceptional volumes reported in 2015. Overseas investors have again been the dominant force with almost 70% of 2016 investment coming from non-domestic capital. European and in particular US investors have been the most active in 2016.

Retail maintained its position as the most in-demand asset type for investors and some of the largest deals of the year to date have been for shopping centres. Offices – particularly in Madrid and Barcelona which account for the majority of office investment transactions – have also been highly sought after.

Yields continue to harden in an environment of scarce investment-grade product. Given the strong occupational demand and constrained availability, investors are also interested in properties where there are asset management opportunities and more regional locations where returns are higher.

Property outlook

Given the expectations of robust economic performance and the strong property market fundamentals, investor interest in Spanish commercial property will continue in 2017. Overseas investors seeking opportunities to deploy capital in resilient markets in particular will continue to seek out opportunities. Further yield compression is likely as a result of high investor interest albeit investment volumes may fall back as a lack of available investment-grade product curtails activity.

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Other factors

Spanish real estate investment trusts

The proliferation of Spanish real estate investment trusts (SOCIMIS) is expected to increase in the next several years. The real estate market in general, and in particular, listed real estate companies, have once again drawn the interest of investors, given the low return offered by other types of assets, the reasonable risk profile of the underlying business and the recent economic recovery of Spain.

SOCIMIS offer investors an attractive way to gain exposure to the real estate sector with certain advantages for the shareholder.

In addition, the Alternative Stock Market (MAB) has created a subsegment for a new vehicle called "SOCIMIS in development", for those with more than 30% of their assets in land or liquidity. The measure will make these types of companies attractive to developers because of their tax advantages while offering transparency to potential investors.

Torre Agbar building sale

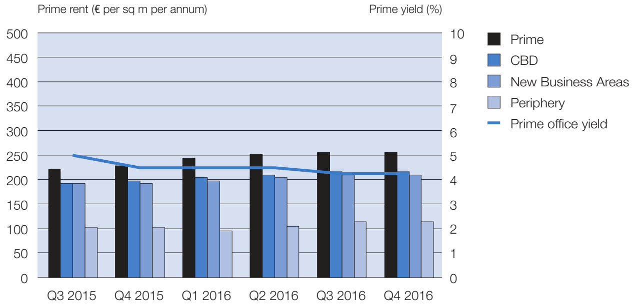
In January 2017, the Torre Agbar building, one of the most iconic buildings in Barcelona, was acquired by Merlin, the largest Spanish REIT for €142 million, representing a capital value of €3,775 per sq m. MERLIN will be investing approximately €15 million to convert the building from hotel to office use for multiple tenancy. Merlin is targeting annual rental revenues of €10.3 million on the building, representing an yield of c.6.5% after completion of works.

With this acquisition, Merlin will increase its exposure to Barcelona in its office portfolio, which moves from 17% to 19%, and significantly expands its presence in prime and CBD areas of Barcelona, which will now represent 40%.

SPAIN – Barcelona

OFFICES

Prime rents and yields



Market outlook

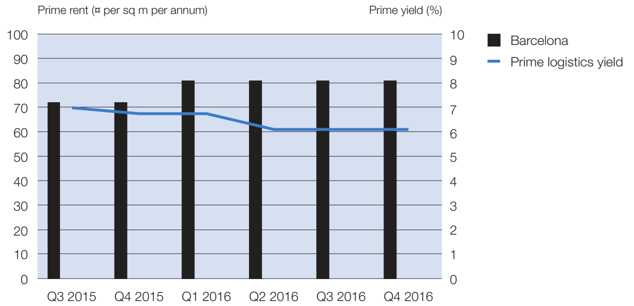
Expectation of market activity movement to Q2 2017			
Occupier demand	↗	**Investor activity**	↗
Development supply	→	**Prime rents**	↗
Availability	↘	**Prime yields**	↘

Market comment

Occupier activity in 2016 for Barcelona office space was strong in 2016. However, availability has continued to fall in 2016 and there is now a signficant shortage of available office space as units larger than 3,000 sq m. The continuing economic recovery and shortage of supply is expected to continue to put upward pressure on rents which have grown by around 10% in 2016.

LOGISTICS

Prime rents and yields



Market outlook

Expectation of market activity movement to Q2 2017			
Occupier demand	↗	**Investor activity**	↗
Development supply	↗	**Prime rents**	↗
Availability	↘	**Prime yields**	↘

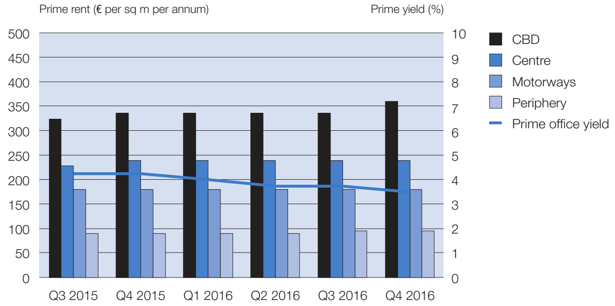
Market comment

Occupier take-up of Barcelona logistics space increased in 2016 compared with 2015. The average logistics vacancy rate is very low at around 4% and there is now a shortage of logistics warehouse space, especially in the first and second rings of the city. Given this strong demand and constraint of supply, logistics rental levels are holding steady across all areas of Barcelona but face upward pressure. Investor interest in Barcelona warehouses – particularly land assets – remains strong.

SPAIN – Madrid

OFFICES

Prime rents and yields



Market outlook

Expectation of market activity movement to Q2 2017			
Occupier demand	↗	**Investor activity**	↗
Development supply	↘	**Prime rents**	→
Availability	→	**Prime yields**	→

Market comment

Occupier demand for Madrid offices remained robust in 2016 although volumes were down on 2015 and have yet to return to levels last seen before the economic downturn. The vacancy rate in Madrid continued to fall in 2016, particularly in the CBD and there is a shortage of available supply of grade A space in particular. This is putting further upward pressure on rents which have already increased by over 7% in 2016.

TURKEY

Economy

Economic performance

In December 2016, the Turkish Statistical Institute reported on national economic activity to Q3 2016 using calculation methods to bring it in line with European and international standards. As a result, it showed the Turkish economy as larger than previously estimated but also somewhat more fragile and less globally integrated.

It also showed a larger slowdown in growth than anticipated: in Q3 2016, Turkish GDP fell by -1.8% compared with Q3 2015; the last time the Turkish economy shrank was in Q3 2009. The greatest factors driving this fall were declines in household consumption, exports and investment but government spending rose strongly.

Confidence indicators

Consumer confidence has been stubbornly low over the past two years albeit rallying slightly in January 2017 when the Turkish Statistical Institute reported an uplift in its consumer confidence index, as a result of consumers' more positive sentiment towards their financial situations and the economy as a whole.

Business confidence in Turkey has, however, deteriorated with the Central Bank's Real Sector Confidence Index falling to 97.0 in January and reaching the lowest figure since December 2009, particularly as a result of declining orders volumes and jobs growth.

Economic outlook

Turkish GDP growth is expected to strengthen to reach 2.8% in 2017 and 3.2% in 2018, supported by household consumption. Turkey could also benefit from a further depreciation of the lira boosting exports but this could also drive inflation higher.

Property market indicators

Investment activity

SOLD

The Turkish investment property market has been broadly dominated by domestic investors but international investors have been more active of late. In 2016, however, volumes were subdued with concerns about the stability of the country and the region having played on international investors' minds and diversification of assets into other countries has been on the agenda for Turkish investors.

Although there has been little transactional evidence, sentiment suggests that yields have moved out across sectors and locations.

Property outlook

Those investors in the market for Turkish property are likely to remain focused on prime assets and with significant development supply due to come to the market, will consider investing in development sites or forward funding of developments to secure best-quality assets.

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Other factors

July 2016 coup attempt

The failed coup attempt of 15 July was one of the most unexpected events to happen in recent years, but Turkey has overcome this turbulence without lasting damage to its politics or economy. As a result of the coup attempt, the Grand National Assembly of Turkey approved a bill declaring a state of emergency, which was extended for the second time in January 2017.

Terrorist attacks continue to be high on the agenda. A cross-border operation between Turkish military and Syrian opposition fighters against ISIS militants in northern Syria, was launched in August 2016 and, in December 2016, Turkey, Russia and Iran made on a joint declaration to find a solution in Syria, which will have positive impact on concerns about homeland security.

In December 2016, the Justice and Development Party together with the Nationalist Movement Party presented a constitutional amendment package focusing on the introduction of an executive presidency which will be put to a referendum on 16 April 2017 with polls suggesting it will be very close.

Relationship with Russia

Following the downing of a Russian fighter jet by Turkey in November 2015, Russia imposed a series of sanctions against Turkey and Turkish businesses, imposed restrictions on Russians visiting Turkey and issued a travel warning against Russian tourists visiting Turkey.

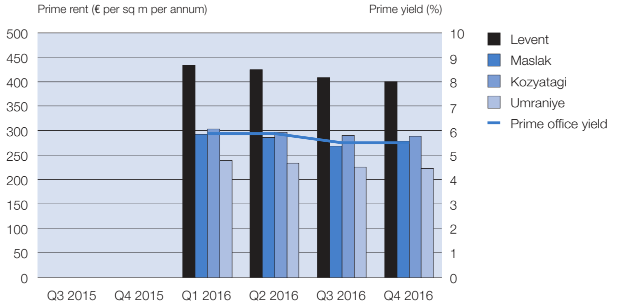
In June 2016, following President Erdogan's expression of regret over the downing of the aircraft and productive conversations between Erdogan and Russian President Vladimir Putin, Russia officially lifted the travel restrictions on Russian citizens visiting Turkey and ordered normalisation of trade ties between the two countries.

With tourism accounting for more than 10% of Turkish GDP, this is no doubt of significant relief to Turkish businesses – particularly hotel and leisure businesses – which have suffered huge drops in trade with the loss of Russian visitors.

TURKEY – Istanbul

OFFICES

Prime rents and yields



Market outlook

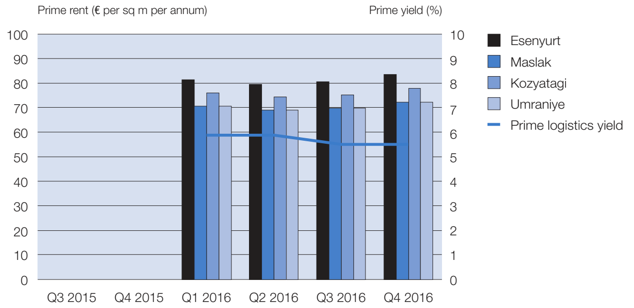
Expectation of market activity movement to Q2 2017			
Occupier demand	↘	**Investor activity**	→
Development supply	→	**Prime rents**	↘
Availability	↗	**Prime yields**	↘

Market comment

Occupier activity in Istanbul offices slowed through to the end of 2016, in part due to concerns over the attempted military coup in July 2016; the market was broadly characterised by smaller and medium-sized office transactions. Supply, however, continued to increase with several new developments completing in 2016 as well as the release of , secondhand space. As a result, the availability rate for grade A office space has increased to 26%. Rental levels have therefore been discounted by landlords seeking income on their investments.

LOGISTICS

Prime rents and yields



Market outlook

Expectation of market activity movement to Q2 2017			
Occupier demand	→	**Investor activity**	↗
Development supply	↗	**Prime rents**	→
Availability	→	**Prime yields**	→

Market comment

Istanbul's primary logistics locations are in Hadımköy and Esenyurt on the European side and Tuzla on the Asian side; nearby Gebze, Çayırova and Dilovası in Kocaeli province to the east of Istanbul are also important to Turkish logistics. In the medium term, occupational demand is expected to be driven by logistics operators seeking build-to-suit projects developed according to a tenant's exact specifications. As such, speculative warehouse development remained stable during 2016 and is expected to be limited going forward.

UNITED KINGDOM

Economy

Economic performance

Despite concerns of a slowdown following the result of the EU referendum in June 2016, the UK economy actually saw activity accelerate in the second half of 2016 and GDP as a whole grew by 2.0% for the year. This is in contrast to the expectations that 2016 growth could be as weak as just 1%.

Growth was driven by strong performance from the services sector – particularly consumer and business & financial services – albeit with disappointing results from manufacturers. Driven by rising prices of imports due to a sharp depreciation of the pound, inflation is up to 1.6% in December 2016, the highest level since July 2014.

Confidence indicators

Following a dip in confidence in mid-2016, indicators in late 2016 and early 2017 show services businesses continued to expand and expectations improve, according to IHS Markit/CIPS UK Services PMI data. Manufacturers are also positive with the January 2017 Markit/CIPS UK Manufacturing PMI showing output and new orders growing at their fastest rate since mid-2014.

Consumer confidence has also rallied towards the end of 2016 and into early 2017: the GfK Consumer Confidence Barometer shows that whilst still in negative territory, consumers are far more positive in January. 2017 than they were immediately following the vote.

Economic outlook

Following the surprisingly strong outturn for 2016, many forecasters have revised their expectations for the UK economy in 2017 upwards. In early February 2017, the Bank of England raised its expectations for 2017 even further to 2.0% – a far cry from its previous 2017 forecast in August 2016 of 0.8% – and 2018 to 1.6%.

Property market indicators

Property performance

The UK commercial property market delivered positive total returns across all major sectors in Q4 2016, according to MSCI, albeit at markedly lower levels than for 2015. Overall, 2016 total return for all property was recorded at 3.5%, down from 13.1% in 2015. Returns were down particularly as a result of capital value declines in both retail and offices, driven as a result of concerns about property pricing following the EU referendum result, especially for City offices where the market feels there may be the most concern around occupational demand in the future.

Investment activity

Overall property investment activity again fell in 2016 although saw volumes rally in Q4: CoStar's 2016 Investment Review reports 2016 investment volumes at £48.9bn, down 27% on 2015, although close to the same number of deals.

In the months leading up to the referendum, there was a slowdown in deal completion as investors took a 'wait-and-see' approach to the EU referendum. Following the vote, this pause in activity continued into Q3 as the market recalibrated for the uncertainty that the result brought.

Property outlook

With the market having stabilised, demand for property has become even more keen amongst most investors types – particularly overseas investors who now also have the advantages of pricing shift with the devaluation of the pound – but some have been frustrated by the ongoing paucity of suitable investment-grade product which is likely to constrain volumes in 2017.

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Other factors

UK referendum on EU membership

On 23 June 2016, UK voters went to the polls for a nationwide referendum on the country's EU membership. Following the surprise leave vote, Prime Minister David Cameron resigned and both financial and property markets suffered from high levels of uncertainty and volatility.

The situation has stabilised somewhat and the robust economic results have strengthened investor and business confidence. Attention has now turned to the longer term implications of the decision to exit the EU.

The likely economic impact on the UK will depend largely on what alternative trade and movement of labour agreements are made. In terms of the impact on property, occupier demand from businesses that look to the UK as a safe haven within the EU, but outside the Eurozone, may be most affected as they may choose to locate elsewhere to ensure their trading conditions remain consistent.

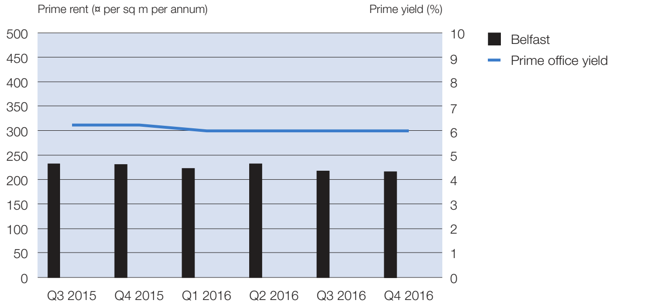
This could most significantly affect the highly-important financial services sector which could threaten London's global dominance as arguably the leading financial centre. This could particularly affect the City of London office market, in terms of occupier demand, vacancy levels and employment. In other sectors, we might expect to see a lack of inward investment from non-European countries – particularly the US, the Far East and the Middle East – seeking to establish a European presence as they bypass the UK as a potential operating location in favour of countries still within the EU.

Since the referendum result, however, major international occupiers such as Apple, Wells Fargo and Facebook, have continued to commit to the UK by completing significant property deals. What the future will mean will be depend largely on the deal agreed. Whether businesses will remain in the UK to "wait and see" or will take the advantage as early movers will no doubt unfold as the situation becomes clearer.

UNITED KINGDOM – Belfast

OFFICES

Prime rents and yields



Market outlook

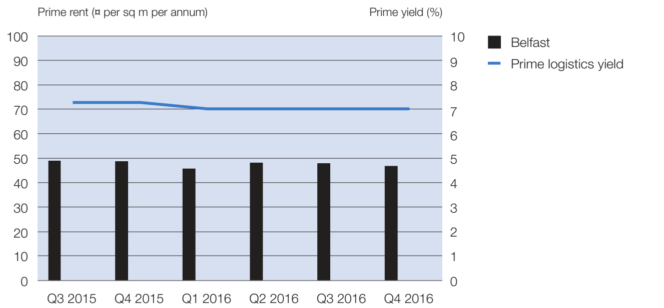
Expectation of market acivity movement to Q2 2017			
Occupier demand	→	**Investor activity**	→
Development supply	↗	**Prime rents**	↗
Availability	↘	**Prime yields**	→

Market comment

2016 saw strong demand and limited supply resulting in record rents being achieved for prime space (although when converted to euros appear to have fallen). With limited new development expected to complete this year, refurbished space is likely to fill the gap. Despite some large requirements still to be fulfilled, 2017 take-up is anticipated to be down on 2016 with rents stabilising. The implications of the UK leaving the Single Market and EU Customs Union will be key issues affecting foreign direct investment and the office market during 2017.

LOGISTICS

Prime rents and yields



Market outlook

Expectation of market acivity movement to Q2 2017			
Occupier demand	→	**Investor activity**	→
Development supply	→	**Prime rents**	→
Availability	↗	**Prime yields**	→

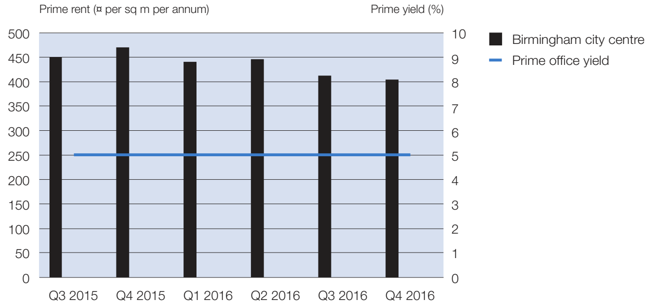
Market comment

Rents increased in 2016 (although when converted to euros appear to have fallen) following strong demand with most of the space being taken as secondhand space. The upside of the referendum result was rising exports (due to a fall in sterling) which could mean opportunities in 2017, especially for locations close to the border with the Republic of Ireland. Requirements for large units continue to be driven by owner occupiers and significant manufacturing space is expected to be brought to the market in 2017.

UNITED KINGDOM – Birmingham

OFFICES

Prime rents and yields



Market outlook

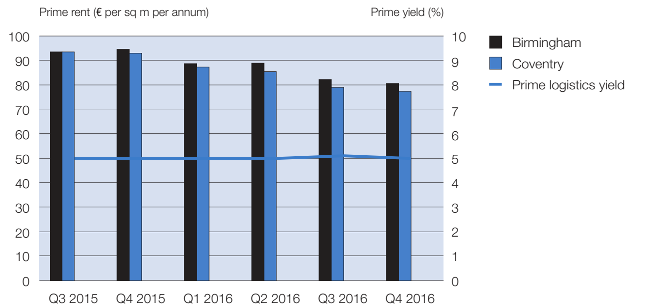
Expectation of market acivity movement to Q2 2017			
Occupier demand	→	**Investor activity**	→
Development supply	↗	**Prime rents**	↗
Availability	↘	**Prime yields**	↘

Market comment

Following a very subdued second half of the year, occupier take-up of Birmingham office space was down on the total for 2015 but still in line with long-term averages. However, availability in the market remains constrained – particularly for good quality space – and with little expected to be delivered beyond 2017, the demand-supply imbalance looks likely to be continue. Rents have continued to grow in 2016 (although appearing to fall when converted to euros).

LOGISTICS

Prime rents and yields



Market outlook

Expectation of market acivity movement to Q2 2017			
Occupier demand	↗	**Investor activity**	↗
Development supply	→	**Prime rents**	↗
Availability	→	**Prime yields**	→

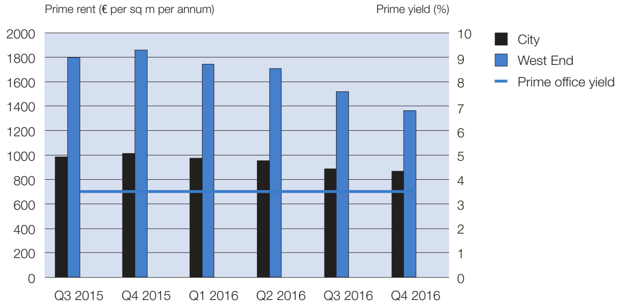
Market comment

The Southern West Midlands continues to attract significant occupier demand and development activity. Rents continued to grow in 2016 (although appearing to fall when converted to euros). Occupier demand in 2016 increased by 17% on 2015. Availability fell to 7.5% in Q4 2016, down from 9.3% in Q4 2015. Investor interest in the region remains high and following a small outward yield shift after the referendum, yields returned to the lows recorded at the start of 2016.

UNITED KINGDOM – London

OFFICES

Prime rents and yields



Market outlook

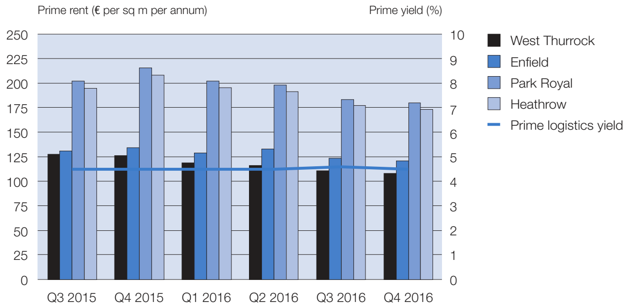
Expectation of market acivity movement to Q2 2017			
Occupier demand	↗	**Investor activity**	→
Development supply	↘	**Prime rents**	→
Availability	→	**Prime yields**	→

Market comment

Occupier demand ended the year strongly as take-up increased by 18% in the final quarter of the year. Overall take-up for the year was 10% up on 2015. Supply steadily rose throughout 2016 as new developments were delivered, but historically, availability rates are low. Prime headline rents in the most expensive submarkets in the West End, including Mayfair and St James's, fell throughout 2016, but City prime rents remained stable (although appearing to fall when converted to euros).

LOGISTICS

Prime rents and yields



Market outlook

Expectation of market acivity movement to Q2 2017			
Occupier demand	↗	**Investor activity**	↗
Development supply	→	**Prime rents**	↗
Availability	→	**Prime yields**	→

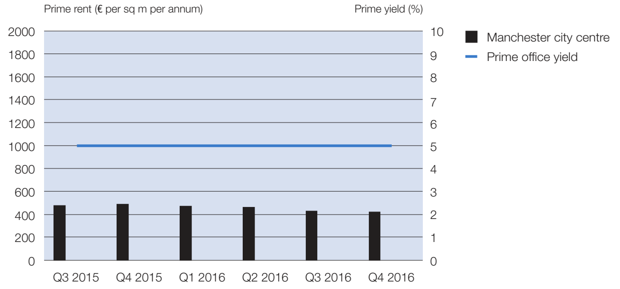
Market comment

Occupier demand for logistics space in London was very strong in 2016 with an increase of 23% on 2015 and marks the highest level since 2006. Activity was particularly high in the East. Development activity has remained strong, with over 260,000 sq m of space completing in 2016, the majority of which was purpose-built. The availability rate has remained low at an average of 5.6% and rents continued to grow (although appearing to fall when converted to euros).

UNITED KINGDOM – Manchester

OFFICES

Prime rents and yields



Market outlook

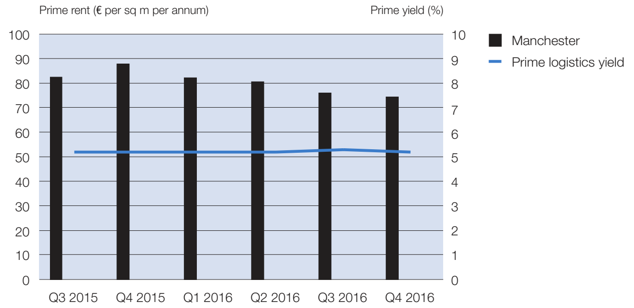
Expectation of market acivity movement to Q2 2017			
Occupier demand	→	**Investor activity**	↗
Development supply	→	**Prime rents**	↗
Availability	↘	**Prime yields**	→

Market comment

Occupier take-up of Manchester office space remained strong in 2016 and total volumes were in line with 2015 and 2014 totals. One of the largest deals in the past five years concluded in 2016 with Swinton Insurance taking 15,300 sq m at 101 Embankment. However, there is a lack of available space, particularly good quality, and, although there is development due to be delivered in 2017, over half the schemes have already been pre-let. Rents in Manchester have continued to rise in 2016 (although appearing to fall when converted to euros).

LOGISTICS

Prime rents and yields



Market outlook

Expectation of market acivity movement to Q2 2017			
Occupier demand	↗	**Investor activity**	↗
Development supply	→	**Prime rents**	↗
Availability	→	**Prime yields**	→

Market comment

Occupier take-up in Greater Manchester in 2016 was over 380,000 sq m, in line with the level in 2015. It remains one of the most active markets in the UK. Developers have responded to this demand and in 2016, around 160,000 sq m of space started construction, most of which was speculative. The new supply was sorely needed as availability had fallen to record lows and rents continued to grow (although appearing to fall when converted to euros).

Glossary

Gerald Eve European Property Escalator
Indication of the relative position of each office and logistics property market based on current and future movement of prime rents, which is determined as follows:

Current prime rent movement
The direction in which prime rents have moved in two of the last three half-year periods. The direction of movement is determined for each half-year (to end-Q2 and end-Q4) for the three preceding periods and the dominant direction of movement is recorded as the current position (for example, rental movement of "stable-stable-increase" would be recorded as "stable" whereas "increase-increase-stable" would be considered "increase"). Where three different directions of movement are observed in each of the three half-year periods, the last direction of movement will be considered the current position.

Future prime rent movement
The direction in which prime rents are expected to move in the next half-year period, as provided by Gerald Eve European property market professionals.

Market outlook
An indication of change in the market that Gerald Eve European property market professionals expect to be experienced over the next half-year period (to end-Q2 and end-Q4).

Prime property types
The following definitions indicate the typical characteristics of each property type considered. Please note that there may be variations on a location-by-location basis and that the following is a guide only.

Offices
Unit of 100 sq m or more at best-quality specification for the area (may include elements such as air conditioning, good ceiling heights, suspended ceilings and raised floors, reception area and passenger lift/elevator).

Logistics
Unit of 5,000 sq m or more at best-quality specification for the area (may include at least 1 door per every 1,000 sq m and at least 10m eaves heights).

Prime rent
Represents the top open-market tier of headline rent that could be expected for a unit of appropriate size, of highest quality and specification and in the best location in a market at the survey date, and let on a standard lease term appropriate for each market.

Prime yield
Represents the best (that is, the lowest) yield estimated to be achievable for a notional property of the highest quality and specification in the best location in each market. The property should be let at the prevailing prime market rent to a first class tenant with an occupational lease that is standard for the local market. The prime net initial yield is quoted (that is, the initial net income at the date of purchase, expressed as a percentage of the total purchase price, which includes acquisition costs and transfer tax).

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