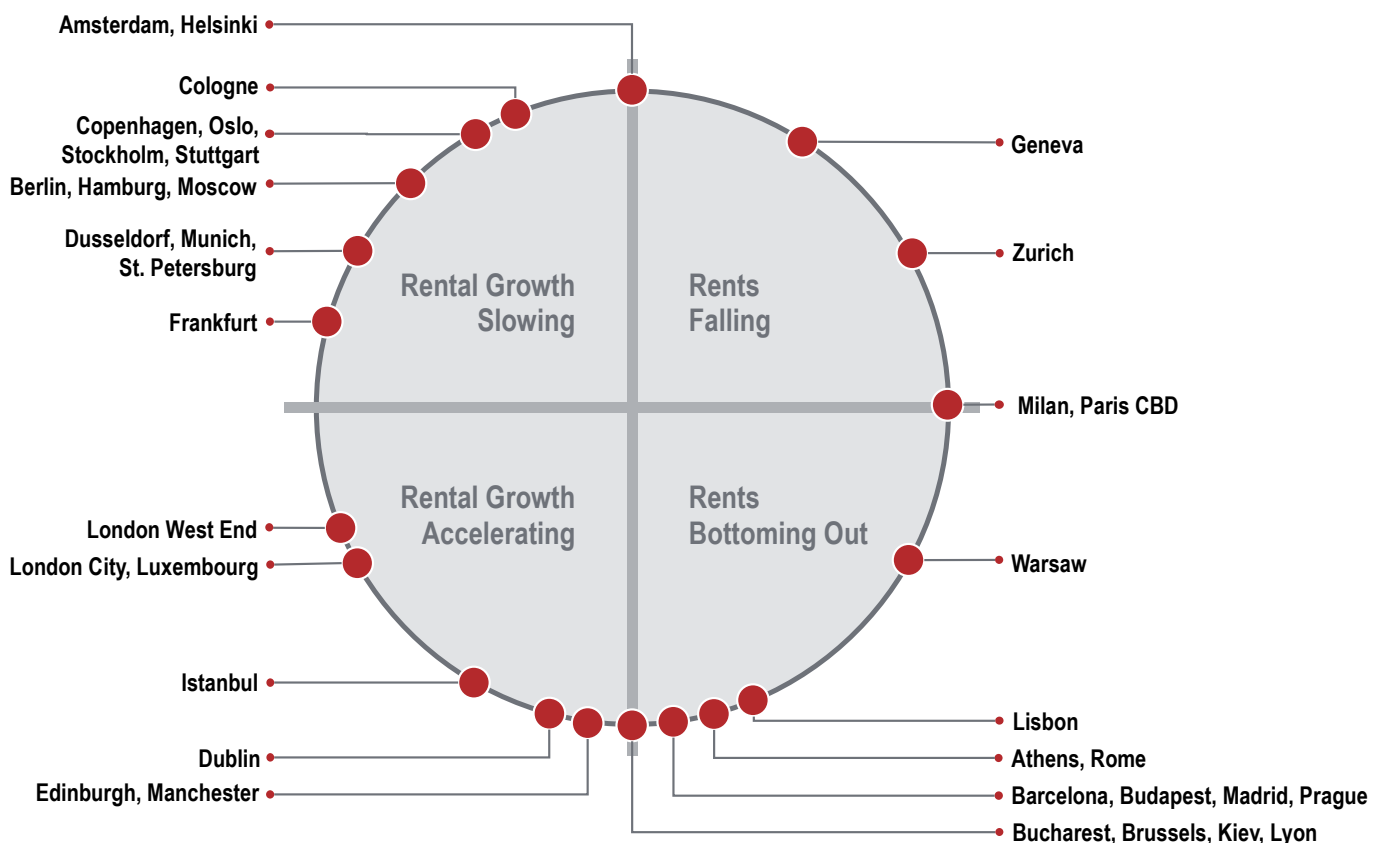


European office sector recovery continuing – Divergence in speed and strength remains

- European Office Rental Index decreases q-o-q
- Aggregate European leasing volumes 6% down on Q2
- Completions picking up – vacancy static



Source: Jones Lang LaSalle IP, October 2013

The clock diagram illustrates where Jones Lang LaSalle estimates each prime office market is within its individual rental cycle as at end of September 2013.

Markets can move around the clock at different speeds and directions. The diagram is a convenient method of comparing the relative position of markets in their rental cycle. Their position is not necessarily representative of investment or development market prospects. Their position refers to prime face rental values. Markets with a "step pattern" of rental growth do not tend to follow conventional cycles and are likely to move between the "hours" of 9 and 12 o'clock only, with 9 o'clock representing a jump in rental levels following a period of stability.

European Office Occupational Market

The recovery of the European office sector continues, with the outlook improving alongside improvements in economic sentiment and growth. Conditions remain diverse, with markets moving at varying speeds. While the London office market is witnessing a rapid increase in momentum, the German and Nordic centres, while continuing to perform, are experiencing decreasing momentum. Conditions in Paris are impacted by on-going headwinds on the economic side that have left their mark on the Q3 results – for the city, but also on key regional aggregates. The Southern European centres as well as the CEE markets have reached, or are close to, the bottom of the cycle.

Office rents

Aggregate prime European office rents could not sustain the quarterly upward trend started at the beginning of the year. Over the quarter, the European Office Rental Index decreased by 1.1% as a result of rental decline recorded particularly in Paris (-7.2%), but also in Milan (-4.2%), Prague (-2.4%) and Barcelona (-1.4%). These rental reductions are a reflection of weak demand levels and cost-consciousness from occupiers. The contrasting prime rental increases in London (+2.6%), Munich (+1.6%) and Frankfurt (+1.5%), based on a combination of healthy demand and a shortage of quality stock, were not able to offset these falls. Prime rents in all other Index markets remained stable. Over the year, prime office rents stand now 1.4% lower than a year ago. With markets across all 4 quadrants, Jones Lang LaSalle's Office Clock continues to mirror the significant divergence across the region. For the remainder of the year, rental growth is forecast to be limited on aggregate. However, London is expected to outperform, with on-going strong demand for quality space. The German centres as well as Oslo and Stockholm could see further growth, though momentum is slowing. Prime rents in Paris are expected to remain stable, and are not forecast to increase until mid-2014. At the same time, markets with still challenging economic conditions such as the Southern European centres, or markets with supply issues such as Warsaw, could see slight rental reductions.

Office demand

European office leasing volumes softened slightly on aggregate over the quarter and over the year (-6% and -9% respectively). As a result, take-up in the first three quarters of 2013 is now 4% below volumes seen in Q1-Q3 2012 and 6% below the 5Y average for the Q1-Q3 period. Over the quarter, occupier activity fell slightly in both Western Europe and Central and Eastern Europe (CEE) (by -6% and -5% respectively).

Results in Western Europe were heavily impacted by high activity in the London market, where take-up in the first three quarters of 2013 has already exceeded FY2011 and FY2012 results by 16%. However, this has not been able to offset another weak quarter in Paris, where occupiers are deferring leasing decisions, renegotiating on existing leases or scaling down requirements. Activity in Germany remained healthy with quarterly take-up increasing in Dusseldorf and Hamburg, while Q3 was somewhat less busy in

Berlin, Frankfurt and Munich. In contrast, leasing activity in Southern Europe (Milan, Barcelona, Madrid), as well as in Lyon, and the Dutch markets remained subdued. In the CEE region, Warsaw continues to see strong momentum on the leasing side, with improvements also evident in Budapest, while quarterly volumes in Moscow and Prague were around historical averages.

Despite on-going challenges in some markets, occupier sentiment has improved markedly compared to the end of last year. Occupiers do however remain vigilant and improving sentiment does remain prone to external shocks. Cost-efficient space in key inner-city locations remains in demand, though is often scarce. Where this product is not available or where cost pressures remain to the fore, occupiers seem to prefer renegotiation on existing leases rather than making compromised decisions. For the remainder of the year, leasing activity is forecast to improve, with the FY2013 results expected to remain slightly under 2012 volumes.

Annual net absorption in Q3 totalled ca. 2.2 million sq m, 10% below the previous quarter and around 35% below the level seen in Q3 2012.

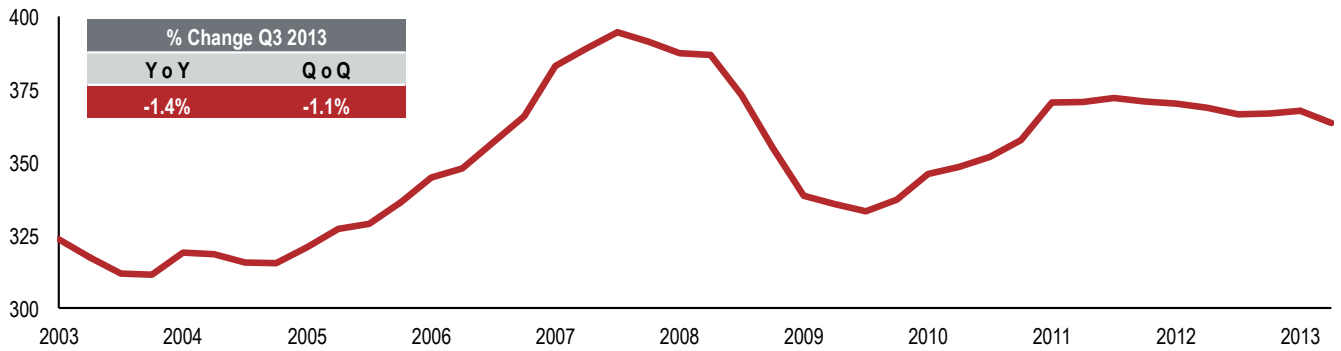
Office supply

Over the quarter, the majority of index markets (14 of 24) registered decreases in vacancy, led by Budapest (-100bps), Amsterdam and Utrecht (both -90bps). Increases were registered in 9 Index markets, led by Rotterdam (+50bps). Overall, vacancy rate changes of more than +/-50bps points were the exception. As in past quarters, changes in vacancy cancelled each other out leaving the aggregate rate for the region static at 9.7% for the third consecutive quarter.

The supply of new space in key inner-city locations remains low and such space continues to be sought-after. This is supporting prime rents for example in Paris and is driving some rental growth, particularly in markets such as London, the core German cities and the Nordic capitals. However, with expansionary demand forecast to remain weak, and occupiers seeking efficiency gains if not further cost savings, the release of second-hand space will keep vacancy rates close to current levels for the remainder of the year and throughout 2014.

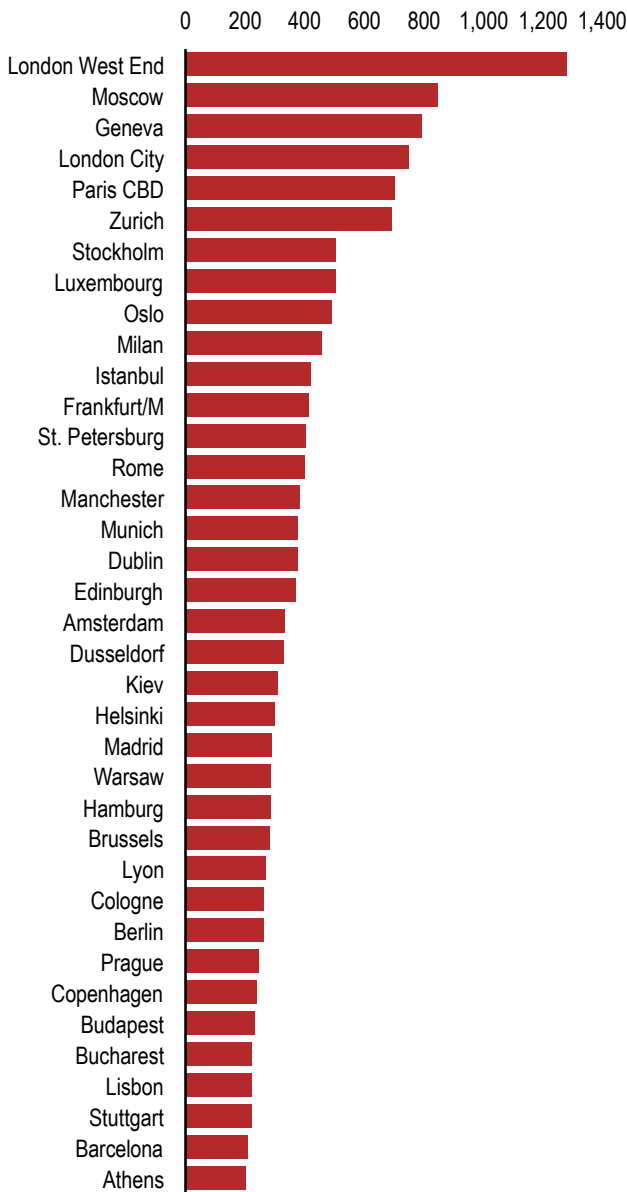
Office completions continue to improve but remain at low levels. After volumes hit a record low in Q2, office completions nearly doubled over Q3 (+84%) and reached 1.3 million sq m. This was driven by additions in big European markets such as Paris, London, and Moscow. Looking ahead, the Q3 results could indicate a turning point after nearly 10 quarters of below-average volumes. Expected completions for Q4 2013 see a 15% increase to Q3, bringing the FY2013 results to 4.3 million sq m – 12% above FY2012 volumes, but still 20% below the 5Y average. Completions are forecast to increase further in 2014, however more than 50% of the space expected to complete until 2014 is already pre-let or is for owner-occupation.

Prime European Office Rental Index



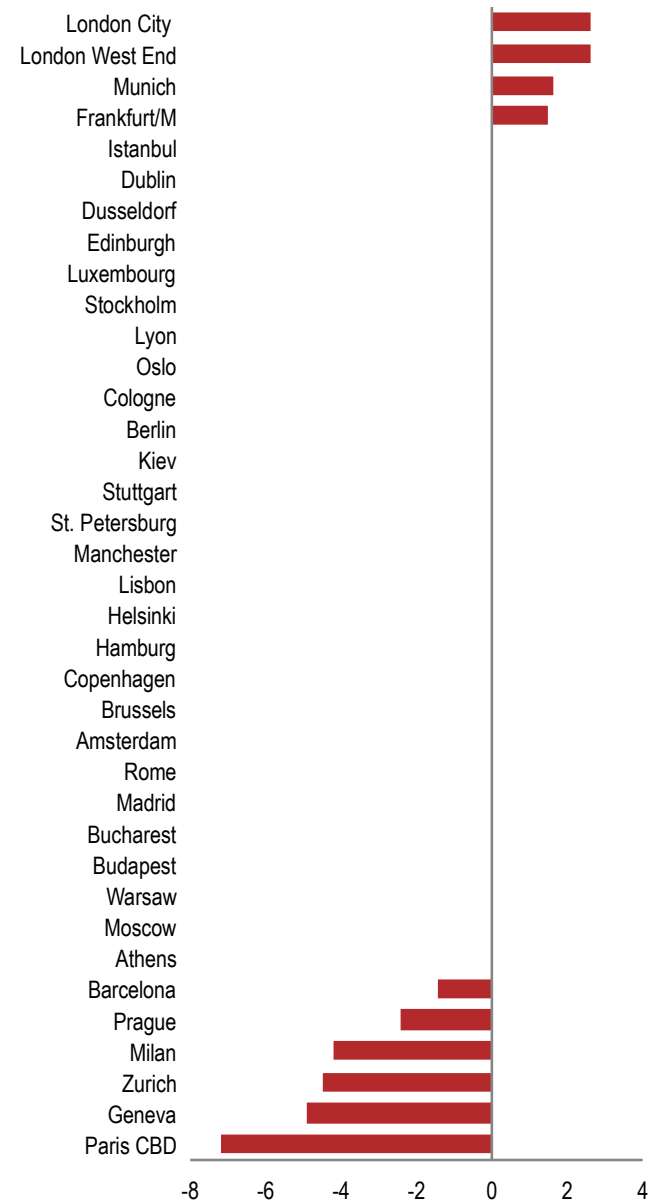
Weighted Nominal Rental Trend, 1980 = 100
 Source: Jones Lang LaSalle

Prime Office Rents Q3 2013 (EUR / sqm pa)



Source: Jones Lang LaSalle

Prime Office Rental Change Q3 2013 (% Q-o-Q)



Note: Q-o-Q rental change is based on the local currency.
 Source: Jones Lang LaSalle

Definitions

Prime Rent

Represents the top open-market rent that could be expected for a notional office unit of the highest quality and specification in the best location in a market, as at the survey date. The rent quoted normally reflects prime units of over 500 m² of lettable floorspace, which excludes rents that represent a premium level paid for a small quantity of space. The Prime Rent reflects an occupational lease that is standard for the local market. It is a face rent that does not reflect the financial impact of tenant incentives, and excludes service charges and local taxes. The Prime Rent represents Jones Lang LaSalle's market view and is based on an analysis/review of actual transactions for prime office space, excluding any unrepresentative deals. Where an insufficient number of deals have been made for prime office space, an assessment of rental value is provided by reference to transactions generally in that market adjusted accordingly to equate to prime.

Take up

Take-up represents floorspace acquired within a market for occupation during the survey period (normally three-monthly). A unit is registered as taken-up when a legally-binding agreement to acquire the unit has been completed. Take-up includes floorspace leased and sold for occupation, and the pre-lettings of floorspace in course of development or prior to the start of construction.

Annual Net-Absorption

Represents the change in the occupied stock within a market during one year. Net Absorption is calculated on the basis of "top-down" estimates of occupied stock derived by subtracting vacant office stock from the total office stock of that market. Mothballed stock, i.e. floorspace held vacant and not being offered for letting, usually pending redevelopment or refurbishment, is excluded

Vacancy Rate

The Vacancy Rate represents immediately vacant office floorspace, inclusive sub-lettings, in all completed buildings within a market as at the survey date (normally at the end of each quarter period), expressed as a percentage of the total stock.

Completions

Completions represent floorspace completed during the survey period (normally annually and projected forward by three years) within a market. Completions include both new development and refurbished accommodation that has been substantially modernised. An office is regarded as complete when the developer will undertake no further work until a tenant/occupier is secured. In the majority of instances this means that all main services are completed and suspended ceilings and light fittings are installed. Some developments are considered to be completed when they reach "shell-and-core" condition where the accommodation is to be marketed in that state.

Future completions

Represents the total floorspace of new and refurbished developments, either pre-planned, planned or under construction, that are expected to complete in a given year or the remainder of a current year (e.g. at Q1 2012 for Q2+Q3+Q4 2012). The total volume contains developments of high completion probability which are usually already under construction, have obtained building permits/authorisation, or are considered for other reasons highly likely to be completed.





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The Jones Lang LaSalle Office Property Clocks – Q3 2013

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