# EUROPEAN REAL SnapShot!

Advisory Real Estate / Spring 2015

Current developments in the key real estate markets in Europe

**Special focus: Data Centres**

cutting through complexity

# Content

# Trends in the European Property Investment Market

Thank you for your interest in KPMG's Real SnapShot!. This publication gives you an overview and insight into the developments under way in the real estate markets across Europe.

A transaction volume of EUR 213bn was recorded in the European real estate investment market over the past year, its highest level since the start of the financial crisis in 2007 and a respectable increase of 13% compared to 2013. For the second year in succession, the volume of transactions in Europe grew more strongly than in the USA or the Asia-Pacific region. Cross border capital inflows are driven by the supply of good investment, a flagging economic environment in Asia and high prices for investment properties in the USA.

As was already noted in the previous Real SnapShot!, the high transaction volumes have been driven mainly by global investors. In 2014, non-European investors invested EUR 65bn in European properties. This is 6% more than was invested by this group in 2007, the year before the crisis.

The sheer volume of capital targeting European real estate is leading to yield compression and a strong overall return is anticipated for 2015 building further on 2014.

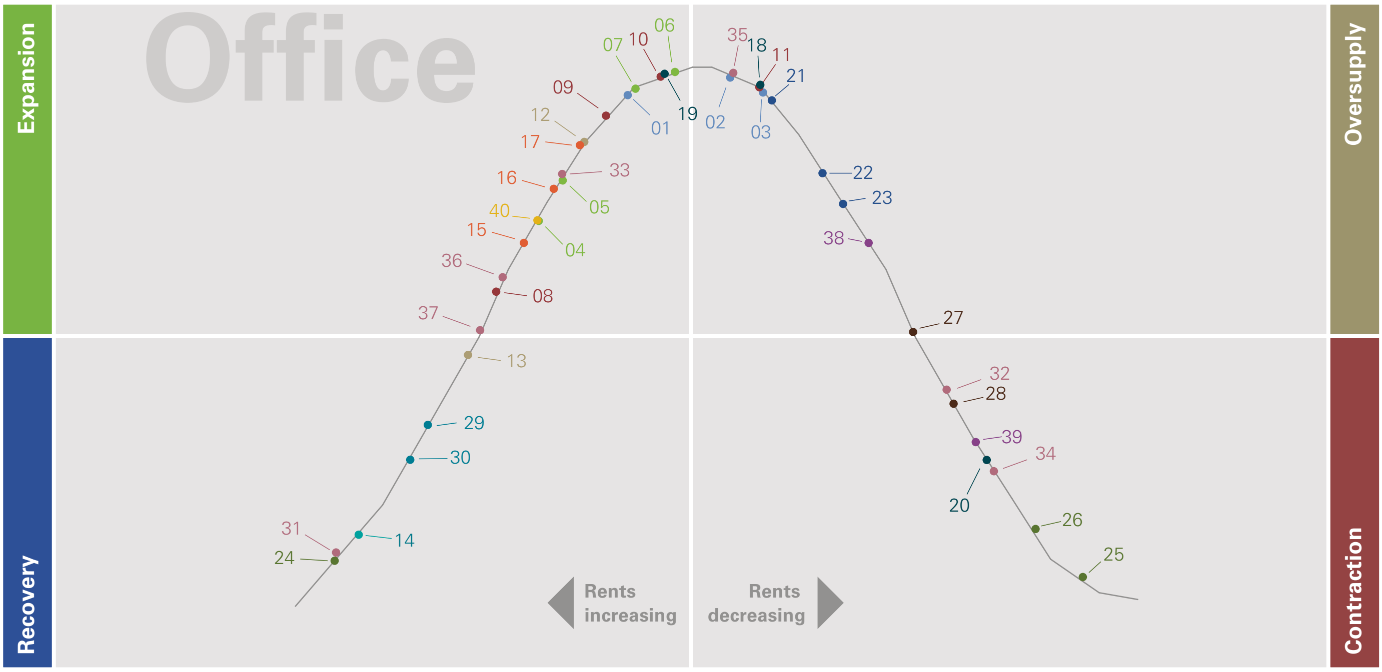
As well as an increased volume of investments in the direct investment market, in Europe a high level of activity can also be seen in the field of non-performing loans. Real Capital Analytics believes that property loans with a nominal value of nearly EUR 60bn have been sold over the past year.

Office properties have enjoyed the most popularity with around 44% of total direct investments in property. They are followed by investments in retail premises, at 22%. Residential and industrial properties each accounted for an 11% share.

Compared to 2013, the strongest increases in volumes invested were seen in hotel investments (+30%) and industrial premises (+27%).

The UK remains by far the most important investment market in the European region. Investments here stood at EUR 69bn, which corresponds to a share of almost 30% of the overall European property investment market. Investment volume growth of 16% was recorded compared to 2013. Transaction activity was again concentrated around London, with almost EUR 32bn or 47% of total nationwide investment activity. However, other cities in the UK such as

**Market Cycle Office**




Source: KPMG Qualitative Market Assessment

**Germany**
01 Berlin CBD
02 Munich CBD
03 Frankfurt CBD

**UK**
04 Edinburgh
05 Manchester
06 London West End
07 London City

**Nordic Region**
08 Copenhagen
09 Oslo
10 Stockholm
11 Helsinki

**The Netherlands**
12 Amsterdam South Axis
13 Other G4

**Belgium**
14 Brussels

**Luxembourg**
15 Station District
16 Luxembourg's CBD
17 Kirchberg

**France**
18 Lyon
19 Paris CBD
20 Paris La Défense

**Switzerland**
21 Basel CBD
22 Zurich CBD
23 Geneva CBD

**Austria**
24 Vienna
25 Salzburg
26 Innsbruck

**Italy**
27 Milan
28 Rome

**Spain**
29 Barcelona
30 Madrid

**CEE**
31 Budapest
32 Warsaw
33 Bucharest
34 Zagreb
35 Prague
36 Bratislava
37 Belgrade

**Russia**
38 Sankt-Petersburg
39 Moscow Centre

**Turkey**
40 Istanbul

Manchester, Glasgow and Bristol are also now observing a significant influx of investor funds.

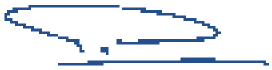
In Germany, Europe's second largest investment market, the volume of transactions, with an investment volume of EUR 45bn, reduced slightly by 1% compared to 2013. This fall in transaction activity can be explained by base effects. 2013 was characterised by an exceptionally high level of residential portfolio transactions.

In France too, an increasing volume of transactions can be seen again, with a total of EUR 25bn, a significant increase of 31%. This growth is mainly due to transaction activity in the capital, Paris. The Paris metropolitan region accounted for almost three quarters of the total French transaction volume and, compared to 2013, has registered exceptional growth of 44%.

In the previous Real SnapShot! we noted that the real drivers of growth on the European property investment market were the peripheral markets. Much foreign capital continues to flow into Spain and the transaction volume was 134% higher Y-o-Y. In contrast, transaction activity in Italy is losing momentum. Compared to 2013, the transaction volume was only 5% higher, which is attributable to the stagnant outlook for growth in the Eurozone's third largest economy. In Ireland, the volume of transactions increased again, by 89%.

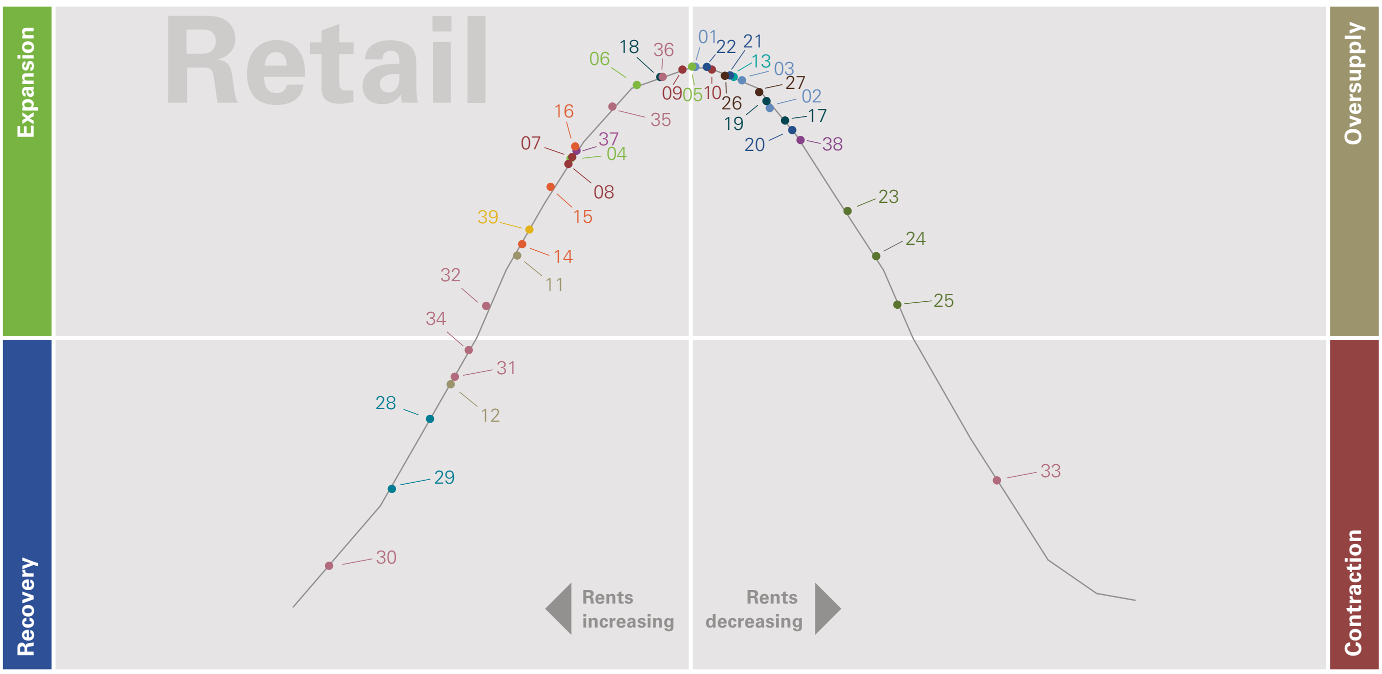
At its meeting on 22 January 2015, the European Central Bank decided to purchase Eurozone government bonds valued at EUR 60bn each month (Quantitative Easing). This measure should be reflected in lower financing costs, which will add further impetus to the European real estate market. This measure is also putting the Euro exchange rate under pressure, which will tend to increase the relative attractiveness of Euro investments.

2015 is widely anticipated to build further on the growth seen throughout 2014. This optimism is being dampened by uncertainties in the political landscape: geopolitical tensions in Ukraine and in the Middle East; renewed turbulence in financial markets because of opposing monetary policy in the major economies; and insufficient implementation of structural reforms. These risks while hard to quantify should not be overlooked when considering the outlook for investment trends in 2015 and beyond.



Stefan Pfister
Partner, Head of Real Estate Europe / EMA

**Market Cycle Retail Highstreet**




Source: KPMG Qualitative Market Assessment

**Germany**
01 Frankfurt
02 Munich
03 Berlin

**UK**
04 Edinburgh
05 London (West End)
06 London (City)

**Nordic Region**
07 Copenhagen
08 Stockholm
09 Oslo
10 Helsinki

**The Netherlands**
11 Amsterdam
12 Other G4

**Belgium**
13 Brussels

**Luxembourg**
14 Avenue de la Gare (Station District)
15 Grand Rue
16 Rue Philippe II

**France**
17 Lyon
18 Paris
19 Marseille

**Switzerland**
20 Basel
21 Zurich
22 Geneva

**Austria**
23 Innsbruck
24 Salzburg
25 Vienna

**Italy**
26 Milan
27 Rome

**Spain**
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**CEE**
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31 Warsaw
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36 Prague

**Russia**
37 Sankt-Petersburg
38 Moscow

**Turkey**
39 Istanbul

# Office property improves but residential suffers in 2014

### Macroeconomic Overview

Given the modest global recovery driven by world trade and low oil prices, GDP in the Eurozone increased by 0.2% in Q3 2014 and is expected to rise slightly by 0.2% in Q4 2014. The IMF estimates 0.8% growth in GDP for 2014 and forecasts growth of 1.2% for 2015.

In France, strong performance in manufacturing output, market services and energy production helped Q3 activity to grow by +0.3% (higher than the expected 0.1% growth). In contrast, the construction market softened with activity in both building and civil engineering decreasing. This effect had a direct negative impact on the unemployment rate.

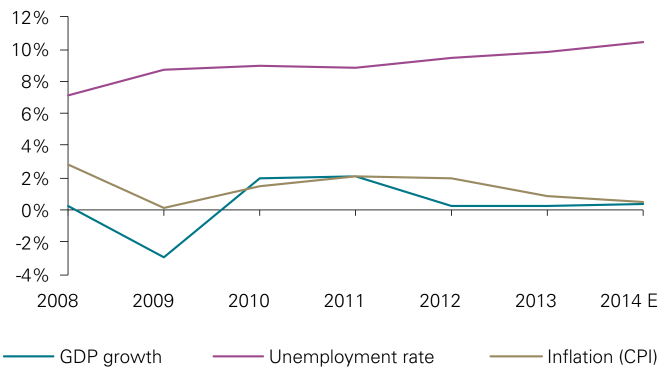
In this context, INSEE forecasts a modest 0.1% increase in GDP for Q4 2014 and 0.9% growth in GDP for 2015. The top three main challenges France will face in 2015 are economic growth, unemployment and the risk of deflation.

Given weak growth prospects and the decline in the construction sector, there appears to be little prospect of job creation. Unemployment grew by 0.3 percentage points between Q2 and Q3 2014, reaching 10.4%. INSEE expects the situation to worsen and is forecasting a rise of 0.2 percentage points in the unemployment rate by mid-2015.

On the other hand, inflation reached its lowest level since 1990. In November 2014, energy inflation was negative and consumer prices rose by only 0.3% Y-o-Y. INSEE forecasts an inflation rate close to 0.0% by mid-2015 and expects the French economy to grow by 0.4 percentage points in Q2 2015 due to the depreciation of the Euro and the fall in oil prices.

There was a slight recovery in purchasing power, which increased by +1.2% in 2014. This increase was mainly due to slower growth in the tax burden (2.0% in 2014 compared to 4.2% in 2013) and faster growth in earned income (1.3% in 2014 compared to 0.9% in 2013).

**Economic Indicators**




E – estimate
Source: INSEE

The cost of borrowing also decreased in 2014, reaching record lows. The rate for 10-year French government debt dropped to 0.65% (1.15% 6 months ago) and the Euribor 1-year rate decreased slightly, reaching 0.23% (February 2015). This trend facilitated access to liquidity for investors through attractive pricing conditions, especially in the real estate investment market.

Notwithstanding the foregoing, real estate investment activity returned to record levels in 2014 due to numerous large deals which underpinned the market. In Q4 2014, EUR 7.9bn was invested and over 2014 as a whole, EUR 22.6bn was invested in mainstream commercial real estate, resulting in 19.6% growth compared to 2013[1].

### Office Market

Office property remained investors' preferred asset class, accounting for 64.6% of investment in the market in 2014.

The office market performed strongly in 2014. Driven by an increasing number of large transactions, investments grew by 50.5% over the year, reaching EUR 14.6bn.

The Greater Paris region remained the most attractive region for investors, representing 74.0% of overall investment in office properties completed in 2014. The Paris CBD reached an unprecedented level of investment with EUR 6.5bn invested and accounted for 44.5% of total investment in office properties.

During 2014, the number of large transactions in the office market increased by 28.0% in the Greater Paris region, making it the fastest growing market in the country. Lone Star's acquisition of the emblematic Coeur Défense in La Défense for EUR 1.0bn remains the largest transaction of 2014. Q4 2014 also saw the acquisition of La Madelaine for EUR 452m by Norges Bank from Blackrock. Crédit Agricole Assurances acquired Explorer in Massy for EUR 347m and 32-38 Rue Blanche was acquired by Oxford properties for EUR 268m. Credit Agricole Assurance acquired 46.0% of Campus Cristal alongside EDF, who took a 34% stake. The acquisition valued Campus Cristal at EUR 300m. The number of small and medium-sized transactions also increased over the year, with 8% growth. Small transactions (< 500 sq. m) also showed strong growth (of 17.0%).

In line with the office investment market, the letting market also recorded a strong performance in 2014. Total letting volumes in the Greater Paris region reached 2.1m sq. m at the end of December, representing an increase of 13.0% Y-o-Y. The letting market experienced a strong Q4 2014 with 568,000 sq. m let, offsetting a disappointing Q3 2014, where volumes declined by 30.0%.

[1] Mainstream commercial real estate includes office, retail and industrial properties

In 2014, the Paris CBD experienced 17.0% growth in the number of transactions executed compared to 2013, representing take-up of 378,000 sq. m. La Défense performed exceptionally well, with growth of 123.0%, representing take-up of 235,000 sq. m. Neuilly-Levallois also performed well with growth in take-up of 39.0% in 2014.

This strong performance can be explained by the high number of large deals (> 5,000 sq. m), which accounted for 40.0% of total transaction volumes (825,000 sq. m) in the Greater Paris region. 62 large deals were recorded in 2014, representing growth of 12.7% compared to 2013.

In Q3 2014, three major deals were recorded. SNI Group let 20,000 sq. m in the A9B building (Paris 13th), Mondial Assurance let 18,000 sq. m in Eurosquare 2 (Saint-Ouen, Greater Paris) and Webedia let 7,000 sq. m in the Libertis building (Levallois). In Q4 2014, Axa IM leased 26,000 sq. m in the new Majunga Tower (La Défense) and the Bank of France leased 5,600 sq. m in the Eqho Tower, joining KPMG, which leased 40,500 sq. m in the tower in Q2 2014.

As at 1 January 2015, immediate supply in the Greater Paris region had grown by by 25.0%, reaching 4.0 million sq. m. This growth was driven mainly by Paris, the Western Crescent and the outer rim area, which respectively accounted for 21.0%, 26.0% and 29.0% of overall immediate supply in the Greater Paris region. Immediate supply in La Défense rose slightly, from 401,000 sq. m at the end of 2013 to 409,000 at the end of 2014, after the completion of numerous buildings (including the D2 Tower and the Majunga Tower).

The vacancy rate in the Greater Paris region remained relatively stable, at 7.6% in 2014 (7.4% in 2013). Nevertheless, geographical and qualitative disparities remain significant. While La Défense is facing a 12.0% vacancy rate, Paris CBD's vacancy rate stands at only 5.6%. New and refurbished offices accounted for only 23.0% of the total supply, which remained stable compared to 2013.

**Prime Office Yields**

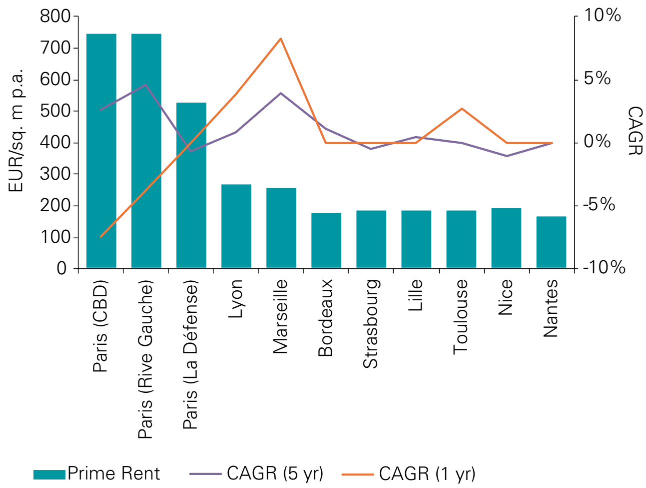
| | | Q3 2014 | Q2 2014 | FY 2014 | 10 Year High | 10 Year Low |
|---|---|---|---|---|---|---|
| Paris | CBD | 4.0% | 4.0% | 4.3% | 5.9% | 3.8% |
| | Riche Gauche | 5.0% | 5.0% | 5.0% | 6.5% | 4.5% |
| | La Défense | 6.0% | 6.0% | 6.3% | 6.8% | 4.5% |
| Provincial | Lyon | 5.8% | 5.8% | 6.0% | 7.3% | 5.8% |
| | Other | 6.3% | 6.3% | 6.3% | 8.0% | 6.3% |

Source : Cushman and Wakefield

In the Paris CBD, prime rents stood at EUR 750 per sq. m p.a., a 10.0% decrease compared to 2013. La Défense's prime rents remained at previous year's levels (EUR 530 per sq. m p.a.), whereas average weighted rents for both new and used offices declined Y-o-Y reaching EUR 415 per sq. m p.a. and EUR 340 per sq. m p.a. respectively.

In the regions, prime office rents remained stable in the 12-month period ending 31 October 2014. The associated yields also remained stable over the same period.

**Prime Office Rents**




Source: Cushman and Wakefield

## Retail Market

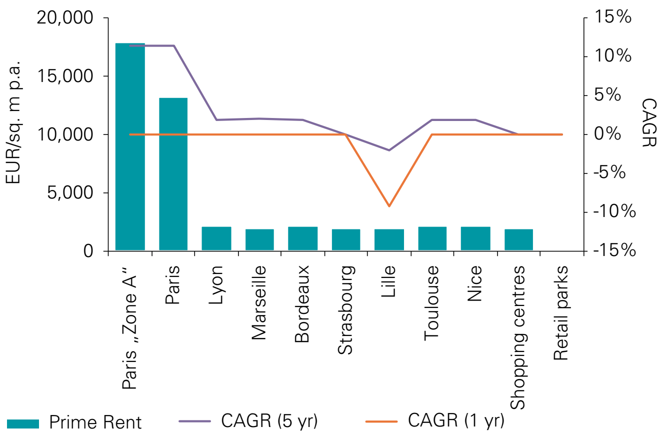
Despite a weak Q3 2014 in which only EUR 413m was invested in French retail assets, 2014 ended with record investment levels (EUR 6.1bn invested) driven by strong performance in Q2 (EUR 2.65bn invested). The acquisition of nine high-end buildings in the Paris CBD by Chelsfield/ The Olayan Group, an investment fund based in Saudi Arabia, from the Italian real estate group Risanamento for EUR 1.2bn remains the largest transaction of 2014.

2014 was also a strong year for shopping centres: during the first nine months of 2014, investment in shopping centres reached EUR 3.0bn (compared to EUR 1.3bn invested in 2013) accounting for over 70.0% of investment. The number of high street store deals was significant, accounting for 55.0% of total transaction volumes.

However, whilst prime locations remain highly sought after, demand in secondary locations is declining.

# France

Prime Retail Rents for High Street Shops




Source: Cushman and Wakefield

Given growing demand and scarce supply, prime retail rents continue to rise in the best locations, including the Champs-Elysées, which reached record rent levels in 2014 (EUR 20,000 per sq. m p.a. excluding VAT and charges). In the regions, prime retail rents reached EUR 2,100 per sq. m in Marseille, EUR 2,200 per sq. m in Bordeaux and Lille and EUR 2,800 per sq. m in Lyon (excluding VAT and charges). The vacancy rate continued to increase for secondary locations and rents either remained constant or declined in secondary locations, especially in small and medium-sized regional cities.

Prime yields were stable on a Q-o-Q basis in all locations and across all retail segments.

**Prime Retail Yields**

| | | **Q3 2014** | **Q2 2014** | **Q1 2014** | **FY 2013** | **10 Year High** | **10 Year Low** |
|---|---|---|---|---|---|---|---|
| High street retail | Paris | 3.50% | 3.50% | 3.75% | 3.75% | 6.00% | 3.50% |
| | Lyon | 4.75% | 4.75% | 4.75% | 5.00% | 6.50% | 4.75% |
| | Marseille | 5.00% | 5.00% | 5.00% | 5.25% | 6.50% | 4.75% |
| | Bordeaux | 5.00% | 5.00% | 5.00% | 5.25% | 6.75% | 4.75% |
| | Strasbourg | 5.00% | 5.00% | 5.00% | 5.00% | 6.50% | 5.00% |
| | Lille | 5.00% | 5.00% | 5.00% | 5.00% | 6.75% | 4.75% |
| | Toulouse | 5.00% | 5.00% | 5.25% | 5.50% | 6.75% | 4.75% |
| | Nice | 5.00% | 5.00% | 5.50% | 5.50% | 6.50% | 4.75% |
| Shopping centres | Paris region | 4.50% | 4.50% | 4.75% | 5.00% | 5.50% | 4.00% |
| Retail parks | Paris region | 6.00% | 6.00% | 6.00% | 6.25% | 7.25% | 5.00% |

Source: Cushman and Wakefield

## Residential Market

At the end of November 2014, the number of existing homes sold over the previous twelve month period was estimated at 707,000 units, which is stable compared to November 2013; however, drilling down on these results the number of sales had decreased, by 4.0% in the last three months of the period. Prices of existing homes also decreased by 1.2% Y-o-Y, with apartments experiencing an even greater decline of 1.8% (existing houses declined by 0.8% Y-o-Y).

Overall prices in the market for existing homes in the Greater Paris region stagnated between Q2 and Q3 2014. However, there were significant differences in pricing trends between asset classes. Prices of existing homes increased by 1.6% while prices of existing apartments decreased by 0.8% between Q2 and Q3 2014.

In line with the Greater Paris region, the regional market experienced a decrease in prices of 0.8% in Q3 compared to Q2 14 and a decrease of 1.2% Y-o-Y. The decline in prices was driven primarily by existing apartments rather than by existing houses. There were still large disparities in prices between the major regional cities over the period Q3 2013 – Q3 2014, with Rouen experiencing a decline of 8.4%, Caen recording a 7.7% decline and Clermont-Ferrand declining 6.0%. However, the cities of Nantes (+2.0%) and Amiens (+8.2%) recorded strong performances.

In Paris, prices decreased by 1.9% between Q2 and Q3 2014. The median price per sq. m reached EUR 8,110 in September 2014.

The market for new housing recorded a soft performance over the past year. Sales decreased by 11.5% in Q3 2014 compared to Q3 2013. The decline was more significant in the individual housing market (-24.8%) than in the collective housing market (-10.0%).

Prices for new housing remained stable in France (-1.0% Y-o-Y) despite large disparities between cities over the period between Q2 2013 and Q2 2014. While prices in Montauban (-9.1%), Le Havre (-8.8%) and La Réunion (-5.0%) declined, Marseille (+4.5%), Nantes (+5.2%) and Chateauroux (+8.7%) saw prices for new homes increase.

The supply pipeline of new housing remained stable Y-o-Y at 105,000 units.

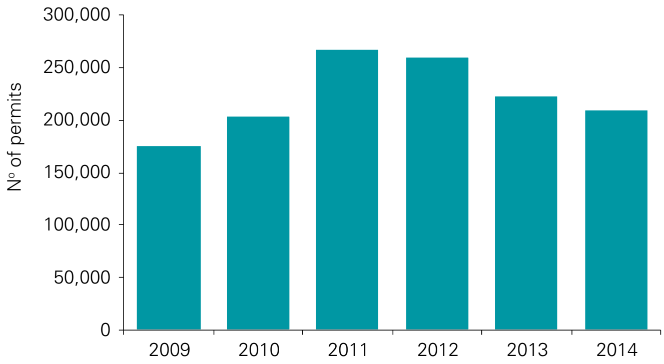
**% Change in House Prices (Existing Homes)**

| | Apartments Q3 2014 compared to Q2 2014 | Apartments Q3 2014 compared to Q3 2013 | Houses Q3 2014 compared to Q2 2014 | Houses Q3 2014 compared to Q3 2013 |
|---|---|---|---|---|
| France | -0.9% | -1.8% | -0.3% | -0.8% |
| Paris region | -0.8% | -1.6% | 1.6% | -0.5% |
| Provincial | -1.1% | -1.8% | -0.7% | -0.8% |

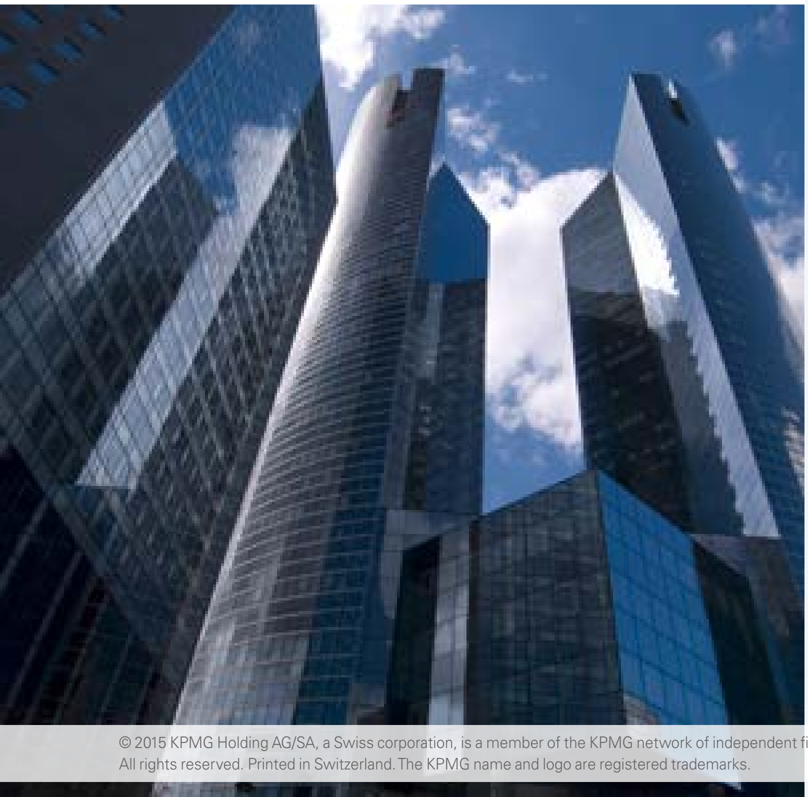
Source: Notaires de France and INSEE

According to the Bank of France, the volume of new housing loans for households has started to rise again due to low interest rates, reaching EUR 10.0bn in November 2014 (EUR 9.1bn in August 2014). In November 2014, fixed interest rates for long-term credit dropped to 2.7% (compared to 3.05% in June and 3.2% in March 2014).

**Buidling Permits for Apartments**




Source: SOeS



## Data Centres

France is the third largest market for data centres in Europe and the seventh largest in the world, with 137 data centres representing a total of 310,000 sq. m. The attractiveness of the French market can be explained by the relative low price of electricity in France. Whilst the average price of electricity in the EU is 20.0 cents / kWh, the price in France stood at 15.6 cents in September 2014. However, there are significant disparities in investment levels across different geographical markets. 50% of the data centres in France are located in the Greater Paris region, especially to the north of Paris, due to the relatively low cost of land and the relatively high density of corporate clients.

OVH.com, the leading French and European data centre operator, raised EUR 267m in debt finance in December 2014 to support its investment and growth plans. The operator currently owns 14 data centres across France.

Moreover, the French market is strongly supported by the public sector, which accounted for 55% of total data centre revenues in 2014. The public sector accounts for only 5% to 10% of data centre revenues in the UK, Germany and the Netherlands.

In 2013, a total of EUR 4.3bn was invested in the French data centre market. Data centre properties have attracted real estate investment players, who view them as an alternative asset class for investment and a way to diversify revenues. One of the main players in the French data centre property market is the American private real estate investment firm Colony Capital. It has invested EUR 450m over the past five years and in 2012, together with Alcatel, it created the DATA4 Group, an owner, developer and operator of carrier-neutral, multi-tier data centres.

Banks and insurance companies are also important players in the market as they typically own and manage their own data centres. Crédit Agricole Immobilier owns one data centre near Chartres (14,000 sq. m), which hosts the servers of Crédit Agricole S.A. and its subsidiaries.

Key transactions this year included the acquisition by Digital Realty (an American data centre specialist) of three data centres in the Greater Paris region from Bouygues Immobilier for EUR 60m, representing a total of 8,700 sq. m. Digital Realty already owned 22,000 sq. m of data centres in Saint-Denis before this transaction.

Recent investments in the provinces include Adista CieNum's investment of EUR 1.2m to open its fifth data centre based near Nancy. In Q3 2014, Interxion bought a data centre totalling 5,700 sq. m data centre from SFR near Marseille for EUR 20.0m.

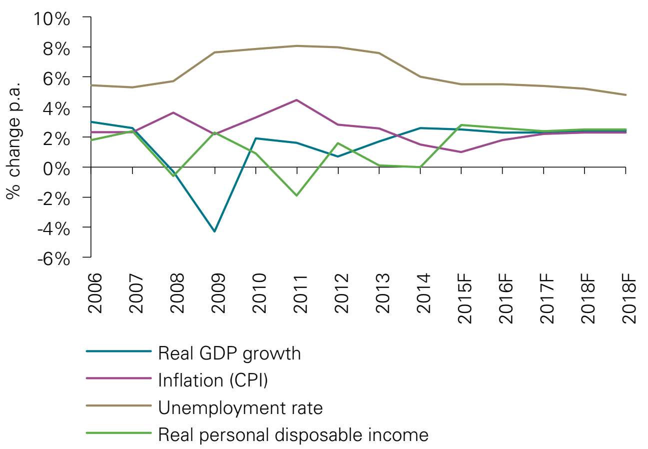
# United Kingdom

# Confidence and competition for UK real estate

### Macroeconomic Overview

Estimates from the Office for National Statistics (ONS) suggest GDP grew by 0.5% in the last quarter of 2014, up 2.7% compared with Q4 2013[1]. Opinion is mixed as to whether this drop from 0.7% growth in Q3 2014 represents a temporary loss of momentum or the onset of a more permanent slowdown. The services sector continues to dominate, with the contraction in growth in the last quarter resulting from typically volatile industries such as construction and mining. However, whilst the UK remains among the best performing of the major economies in 2014, the international economic climate and upcoming UK election pose for an uncertain first half of the year.

**Economic Indicators**




F – forecast
Source: Economist Intelligence Unit

In the face of deflation and slow growth, the European Central Bank has commenced Quantitative Easing (QE) in the Eurozone. The impact of this remains uncertain but one upside is likely to be a renewed confidence in the markets. It is also expected to have a positive impact on the European real estate market, with property appearing an attractive asset and the weakening Euro having the potential to draw in investment from outside of the Eurozone. Indeed this could divert sovereign wealth fund investors away from London.[2] Further uncertainty has been generated by political instability, and the election of anti-austerity party Syriza in Greece could threaten the integrity of the whole Eurozone market, particularly if Greece clashes with Germany or goes as far as exiting the shared currency. As the UK's main trading partner, the ongoing Eurozone crisis is the main constraint to longer term UK growth.

There is also uncertainty on home soil, with the upcoming General Election potentially stalling the economy in the short-term. Though too close to call it seems unlikely there will be a clear majority in the next government, which in turn may benefit the property market as drastic policy changes, in areas such as tax and foreign investments, will be difficult to pass. A bigger concern for investors is the looming question of an EU referendum, meaning political uncertainty is a theme investors in UK real estate will be able to debate for some time to come.

Inflation remains at an all-time low, "reflecting the impact of lower food, energy and import prices and some continued drag from domestic slack".[3] In addition, a reduction in global oil prices resulting from changes in supply is set to keep these rates low for some time. Though, as Chancellor George Osborne was keen to highlight in a recent tweet, this is not as much of a concern as the deflation experienced in the Eurozone, stating that low inflation is "welcome news with family budgets going further & economic recovery starting to be widely felt". Indeed, in conjunction with accelerating wage growth and rising employment, this means that real employment incomes per capita, and subsequently total household incomes, are set to rise for the first time in five years. However, wage growth remains low relative to historical averages and much of the recent rise in employment has been concentrated in lower-skilled occupations.[4] Furthermore as the inflation rate continues to hover concerns continue to build about the potential for deflation closer to home.

### And back to the Real Estate!

The UK real estate market continues to deliver growth through 2014, however, currency movements are having an increasing impact so the GBP equivalent has been given below where relevant.

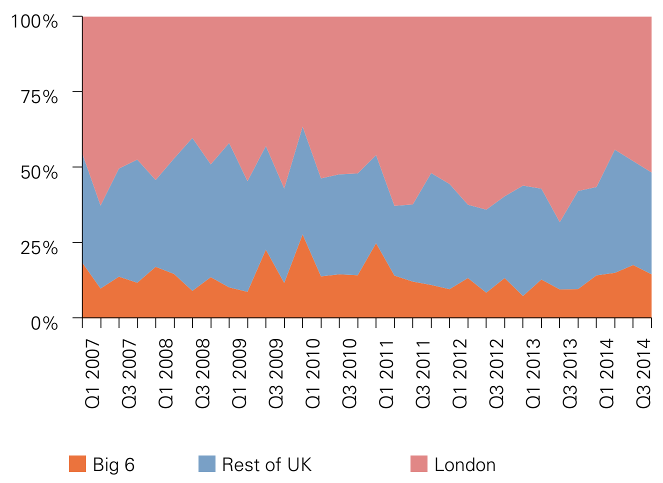
In 2014 the UK market delivered 21% growth (15% in GBP) on the strong transaction volumes seen in 2013[5]. Continued high demand from overseas investors is combining with further improvements in economic sentiment to drive forward a resurgent market both in terms of investment and occupier activity. Furthermore, this activity is no longer limited to London with the UK's regional markets also delivering strong growth.

With EUR 19.5bn (GBP 15.4bn) of CRE volume transacted in Q4 2014, the UK market delivered in excess of EUR 14bn (GBP 11bn) in three out of four quarters in 2014. While Q4 2014 was the only quarter not to show significant growth versus the prior year period, it should be noted that Q4 2013 was a bumper quarter and the H2 2014 results actually delivered growth (EUR 9.8%, GBP 3%) compared with H2 2013.
London continues to enjoy its top ranking, based on volume, amongst the European markets, and while UK regional activity is increasing it still received half of the UK's total

[1] GDP Preliminary Estimate Q4 2014, Office for National Statistics
[2] European Capital Trends, Real Capital Analytics
[3] November 2014 Inflation Report, Bank of England
[4] November 2014 Inflation Report, Bank of England
[5] Commercial real estate includes office, retail and industrial properties

transactional volume in H2 2014 (down from 62% Y-o-Y). The improved economic sentiment has bolstered the regional occupier market and the subsequent rising rents, combined with attractive yields, is drawing investor interest to the regions. In addition, investors have moved towards the opportunistic and value-add ends of the spectrum as competition for assets in the capital has pushed values up and yields down.

**Commercial Real Estate – Transaction Volume Composition**




Source: Real Capital Analytics, rcanalytics.com

53% of UK investor activity was cross-border in 2014 (up from 43% in 2013). This continues to be dominated by US-controlled capital, although Asia and Middle East investors remain a key source of inbound global capital. As the European markets become more attractive as a result of quantitative easing, and the US seeks to attract Chinese investment, it will be interesting to see where cross-border capital is directed in the year ahead.

The London market is dominated by overseas investment (65%) and the transactions are largely dominated by major global investors with sizeable balance sheets. However, for the same reasons that domestic investors are being drawn to the regions, so too are overseas investors. For example, London attracted 71% of Sovereign Wealth Fund investment in Europe (38% of global SWF investment), although Bristol also featured on the top SWF targets in Europe and globally. Well-located regional cities such as Birmingham, Manchester and Glasgow are also benefiting from this changing sentiment and the current investment into regional infrastructure, such as HS2, is likely to further enhance this as we move into 2015.

## Office Market

Supply remains a key theme as investor and occupier appetite for prime office space continues to rise. Economic growth and improving business confidence is fuelling a ripple effect, as interest is no longer restricted to London. Strong activity is expected to continue throughout 2015 in all markets based on space under offer and economic drivers.

Development, especially speculative, continues to be limited in the key markets, though there are clear signs that accessing finance has become easier. Accessing development opportunities is also challenging as the volume of investors seeking value add opportunities increases daily.

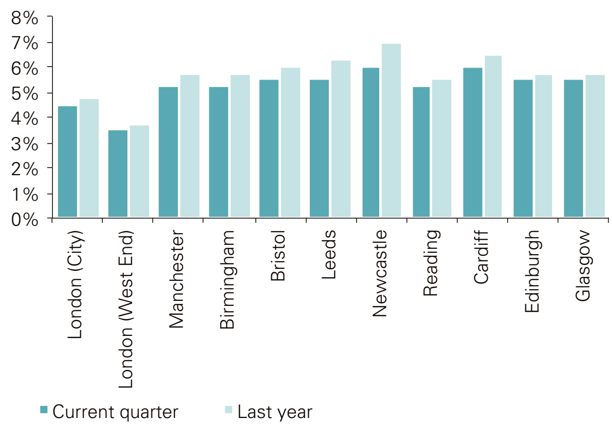
Despite these supply issues, transaction volumes continue to climb and 2014 finished on a high with quarterly transactions reaching EUR 11.8bn (GBP 9.4bn). As a result Q4 2013 and 2014 represent the highest quarterly volumes seen since Q2 2007. Total transaction volume is almost back at 2007 levels reaching EUR 33.8bn (GBP 27.2bn) versus EUR 39.7bn (GBP 26.8bn) in 2007.

Access to investment opportunities remain limited by supply, driving investors beyond the London markets and leading to yield compression across the sector.

Yields across the country continue to tighten, further signs of the ripple beyond London. The only key submarket that remained stable (H2 vs H1) was the West End of London which remains at a 10 year low of 3.5%, down from 3.75% at December 2013.

Outside London key submarkets are all seeing prime yields of 5.5% and below, with the exception of Newcastle and Cardiff (6%). As yields continue to shorten a number of key submarkets have moved close to their 10 year low with Reading only 50bps above and Manchester, Birmingham and Leeds all 75bps above.

**Prime Office Yields (net) – Q4 2014**




Source: Cushman and Wakefield

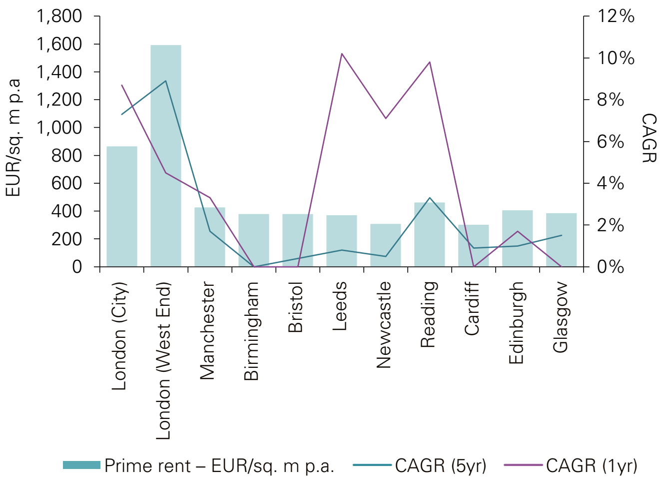
According to Cushman and Wakefield, central London leasing activity 2014 reached 12.4 million sq. ft, the highest volume since 2007.

## United Kingdom

Activity is translating to higher rents with growth in the City reaching 8.7% over the last twelve months. Rents in the West End of London remain the highest in the country at EUR 1,595[6] per sq. m though growth has slowed to 4.5% (8.9% over 5 years).

Outside London demand and take up is increasing with Leeds (10.2%), Reading (9.8%) and Newcastle (7.1%) all seeing a major increase in rental growth during 2014.

**Prime Office Rents – Q4 2014**




Source: Cushman and Wakefield

### Retail Market

After a slight dip at the end of 2014, consumer confidence appears to be stabilising, and the increase in disposable income resulting from reduced food and oil prices and a continued low base rate can only benefit the non-food retail sector in 2015. Further store rationalisation is occurring but demand remains high and the development market is picking up, whilst sites released by food retailers will be refurbished for the non-food sector. Convenience stores are also benefiting as consumer behaviour moves away from the “one-stop shop” weekly supermarket trip to local smaller stores. Short-term factors of the general election and EU referendum may have a stalling effect but overall the outlook for the year is positive.

Shopping centres have dominated retail investment with the UK leading the way for activity in Western Europe in 2014. Investors across the spectrum are seeking to deploy capital in this market, with sovereign wealth funds, institutional investors, REITs and overseas investors all active and a number of new buyers entering the market. Despite this activity, yields have maintained a healthy gap between the super prime and tertiary assets, and as yields harden further we may see opportunity funds targeting newer markets. As a result of structural changes in the retail sector, shopping has become more about providing a unique customer experience, with malls that engage with technology and provide both retail and leisure activities increasing in popularity.

The Central London market also continues to thrive, with GBP 2.5bn invested in 2014[7], demand higher than ever and supply at record lows. Both investors and occupiers are looking beyond the traditional luxury streets such as Bond Street, with neighbouring Dover, Mount and Conduit Streets seeing some of the highest growth in rental values over the last year.[8] This is both due to lack of supply and a search for better value. Twenty-four international retailers opened their first UK stores in London in 2014, marginally down on the previous year although this is more a lack of supply issue than weakening demand.[9] This imbalance between stock and demand continues to push rents up and put downward pressure on prime yields.

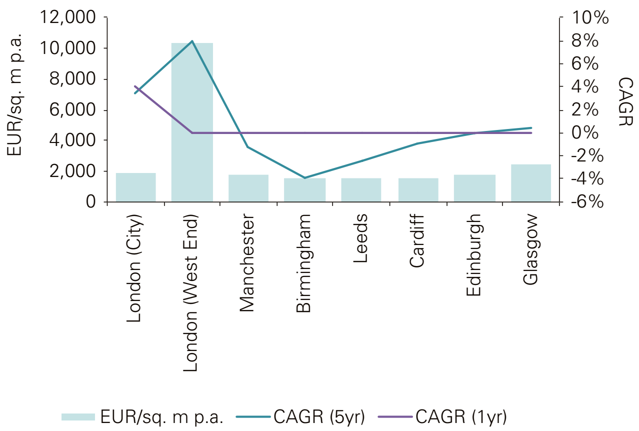
With most investors looking to deploy large amounts of capital, the smaller lot sizes on the high streets have had a more subdued year. However, as the occupier market picks up in the regions investment activity is increasing, albeit focused for now in the dominant well-located towns. The DTZ Property Retail Health Index, which uses economic data, socio-demographic characteristics and retail property information, predicts that aside from London, Surrey, Solihull and Oxfordshire are likely to be the healthiest retail

[6] Marketbeat Office Snapshot Q4 2014, Cushman and Wakefield

[7] Spotlight: Central London Retail Q1 2015, Savills
[8] Central London Retail Health Check, December 2014, Colliers International
[9] Spotlight: Central London Retail Q1 2015, Savills

locations in five years' time.[10] Berkshire, Cheshire, Worcestershire, Northamptonshire and Shropshire are also "retail hotspots to watch". Further downward yield movement is expected for the prime high streets and dominant regional towns and cities, with the gap between prime and secondary yields narrowing. Rental growth is spreading beyond London and the South East and investors looking for value and rental opportunities are likely to look to the regions in 2015. However underperforming high streets are likely to lose out to out-of-town schemes, and further polarisation is expected between the top and bottom ends of the market.

**Prime Retail Rents – December 2014**




Source: Cushman and Wakefield

## Residential Market

UK house prices continued to rise in 2014, a year that has witnessed much speculation about the possibility of pricing bubbles. While average UK prices have shown the strongest growth since the global financial crisis the underlying trends across the regions and buyer groups are essentially masked and an overall softening of the growth rates is expected as we move through 2015.

### Increased confidence leading to increased activity but demand is showing signs of slowing

As discussed above, 2014 has seen an improving economy, a strengthening labour market which, combined with government incentives, have all worked to support the housing markets. Provisional numbers from HMRC show that the UK Annual Property Transactions Count increased by 14% to approximately 1.22 million residential transactions in 2014. However, against this growth the December RICS Residential market Survey shows buyer enquiries declining for a sixth consecutive month.

### Financial constraints remain a key limiting factor with competing Government initiatives taking effect

Volatility has been embedded in the residential market since the financial crisis. Credit conditions tightened immediately following the crisis; mortgage approvals fell, the number of available products also fell and the average deposit requirement has increased significantly as lenders have pushed for a lower loan-to-value ratio.

[10] Retail Therapy: European Market Commentary 2014/15, DTZ

Concerns regarding affordability remain, largely driven by the increasing mismatch between wages and house price inflation, and not helped by the higher deposits now required. Confidence has been muted, to some extent, by concerns around future interest rate increases. 2014 has seen much speculation as to when rates will rise and given the long-term nature of residential investment this will remain a key consideration despite expectations for interest rises being pushed out as inflation hovers ever closer to zero.

The Government approach has been to support affordability through its Help to Buy scheme. The scheme enables people to buy a home priced up to GBP 600,000 with a deposit of as little as 5%. There are 3 options under the scheme:

- Help to Buy: equity loan – the government lends up to 20% of the value of a new build home
- Help to Buy: mortgage guarantee – will run until 2016 and enables lenders to offer homebuyers 80%-95% mortgages
- Help to Buy: NewBuy – aims to help buyers who have a deposit of at least 5% to buy a new-build home

According to the Department for Communities and Local Government in the first twenty one months of the Help to Buy: Equity Loan Scheme (to 31 December 2014) it contributed equity loans of GBP 1.75bn, facilitating the acquisition of 41,533 properties. The majority (83%) of these purchases were made by first time buyers.

For the Help to Buy: NewBuy scheme only 54 homes were purchased, bringing the total to 5,588 since its launch in March 2012. While HM Treasury[11] reports that in the first year of the Help to Buy: mortgage guarantee the scheme supported GBP 4.5bn across 30,269 mortgages. Again the majority (79%) were purchases by first time buyers.

In contrast, another Government initiative, the introduction of the Mortgage Market Review (MMR) by the FCA in April this year, appears to be having a negative impact on the number of mortgage approvals as approvals fell to a 17-month low in November 2014[12].

The rules aim to prevent reckless lending by requiring tougher checks on affordability, with lenders required to consider outgoings as well as incomes.

The seasonally adjusted figures from the Bank of England show that approvals fell in spring of 2014 as the new rules came into effect before recovering over the summer and dipping again as we moved into the autumn.

### Changes to stamp duty have yet to make themselves felt

New rules which came into effect on 4 December 2014 mean that homebuyers no longer pay a flat rate of tax on the whole price of a property, but a tiered rate on the elements of the total price that fall into each tier. This change reduces the tax payable on most properties under GBP 1 million but will lead to higher tax charges for those above this amount.

### Finally the lack of supply is a further limiting transactional growth

Lack of supply remains high on the agenda for Government, especially with regards to affordable housing. However, supply in certain areas is also being impacted by cross-border demand, especially in London, as well as longer ownership periods. Demographic changes, the UK's aging population, and the increase in buy to let investors are expected to continue to reduce available stock.

With house building starts totalling 139,000 in the 12 months to September 2014 set against annual completions of 117,070 for the same period this new supply is welcomed.

### Political uncertainty

It would be remiss to not consider for a moment our forthcoming elections. 2014 has experienced uncertainty caused by the Scottish referendum which led to a wait-and-see policy. While we expect the same policy to apply to cross-border investors the impact is likely to be focused on London and regardless of the outcome, activity should pick up once the political environment settles. The UK's financial press has drawn attention to the short selling of property companies exposed to a downturn in London's housing market by a number of hedge funds. As the political debate continues to include discussions around mansion taxes it is clear that London will bear the brunt of any such initiative and this, combined with the SDLT changes, the introduction of capital gains tax on foreign owners of property and not forgetting the impact of currency fluctuations, are expected to reduce demand for the high end residential market, at least in the short term.

### So what does this mean for pricing?

Although all UK regions saw annual price rises in Q1-3 2014, London actually lost its top spot with Scotland (12%), Northern Ireland (10%) and the South East (9%) exceeding the 8% growth that London delivered across the first 3 quarters of 2014 as the ripple effect from the capital increases confidence across the county and London homeowners seek to take advantage of the value gap in the surrounding regions.

[11] Help to Buy: mortgage guarantee scheme Quarterly Statistics
[12] November 2014 Inflation Report, Bank of England

## Data Centres

With the digitalisation of society and companies increasingly looking to outsource their data and utilise cloud storage, data centres are on the rise. Still very much a niche sector in the UK, competition versus more traditional real estate sectors means that yields for the best assets can be very attractive for investors. Furthermore, occupiers tend to prefer longer leases with potentially high rents, thus providing income security for investors looking to diversify. With certain tax reliefs available through capital allowances and research and development, data centres can be attractive assets for investors.

However, the sector is not without its drawbacks. With high running costs and specialist knowledge required to understand the needs of occupiers, this is unlikely to be a sector investors can dabble in. With location of these assets driven by access to power and fibre network as opposed to more traditional location factors this is just one example of the level of commitment required to understand the market and the product, and investors are having to be flexible in their approach to assets.

Some may also be deterred by the concerns over their environmental impact given the huge power requirements. However, the government's introduction of a new climate change agreement for the industry in July 2014 side-stepped other green taxes and agreed efficiency targets that won't hinder the UK industry's competitiveness against foreign rivals. This has also brought stability to environmental policy for the sector and may encourage confidence in the UK market. Thus, in the UK we have seen some investors opting to enter the market with a limited exposure, while others in Europe have hired specialists to focus on the sector.

The long-term outlook is also difficult to predict, and fast-paced changes in technology are likely to change the needs of occupiers over time. CBRE reported an upturn in transactions in 2014 for the London market, though this has been dominated by smaller sales and there has been a shift in customer demand towards smaller units.[13]

A high density of Western Europe's data centres are located in the UK, largely owing to London's financial market. Regional assets are generally focused in well-connected cities such as Birmingham, Manchester and Newcastle, with Slough being the main hub in the south east outside of London. As the economic environment improves and businesses focus on IT and securing data, 2015 could be a good year for data centres. However, it is likely that the specialist investors who have built up a strong presence in the market and relationships with occupiers will be the ones to benefit from this.

Finally, with Cyber security at the top of the agenda for many the question of "in-house versus outsource" raises the possibility for increasing numbers of large corporate moving to establish their own on-site data centres within their head quarters.

[13] European Data Centres Q3 2014 Market View, CBRE

# Rising rents and yield compression

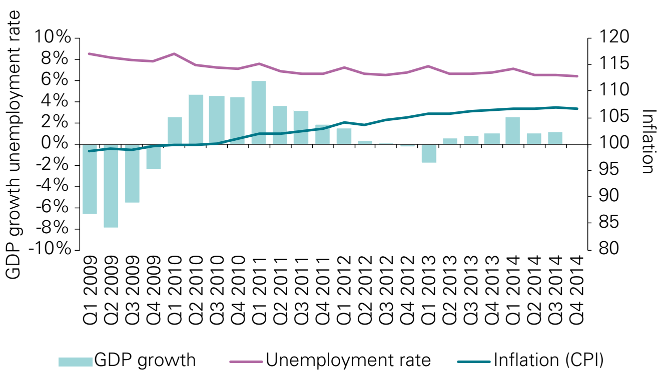
## Macroeconomic Overview

Following a surprisingly good start in the first quarter of 2014, the German economic situation has clearly dampened during the course of the year. In the third quarter of 2014, the German economy narrowly avoided a recession.

Overall, real gross domestic product (GDP) rose by 1.5% in 2014 compared to 2013. For 2015, Deutsche Bank assumes economic growth of 1.0%; the German Institute for Economic Research (DIW) predicts that GDP will grow by 1.4%.

The principal driver for growth in 2015 will once again be the domestic economy, aided by a robust employment market. According to the Allensbach Institute, people's expectations for 2015 are optimistic.

**Economic Indicators**



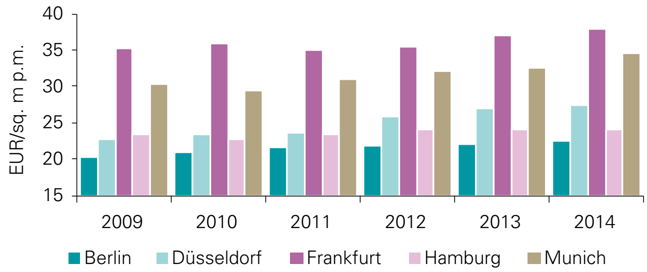

Source: Destatis

The real estate sector seems unaffected by the geopolitical unrest and crises abroad. (Foreign) investors still look on Germany as a "safe real estate haven", particularly in times of crisis.

## Office Market

Prime rents in the office sector followed the positive trend of recent years. With a rise of around 6.2% compared to 2013 to EUR 34.50 per sq. m (2013: EUR 32.50), prime rents in Munich have reached their highest level in the last ten years. A rise in prime rents was also observed in Berlin, Düsseldorf and Frankfurt am Main. It was only in Hamburg that rents stagnated at a level of EUR 24.50 per sq. m.

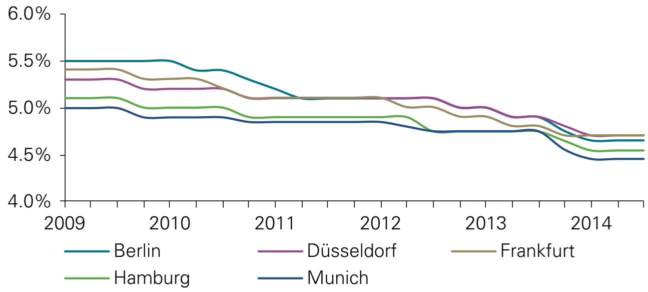
**Prime Office Rents**




Source: Thomas Daily

In the first three quarters of 2014, office space take-up in the top 5 locations totalled around 1.7m million sq. m, a slight decrease of 2.3% compared to the same period in 2013. In Düsseldorf (-17.6%) and Frankfurt am Main (-21.6%), clear reductions in take-up of space were registered because of a lack of large-scale lettings. In contrast, in Hamburg and Berlin there was a clear increase in space take-up, of 20.2% and 17.0% respectively. Hamburg was ahead of Frankfurt am Main with around 372,000 sq. m of space taken up.

**Prime Office Yields**




Source: CBRE

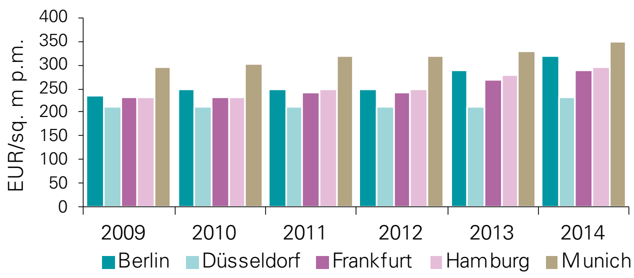
In the third quarter of 2014, a reduction in prime yields was seen compared to 2013. This decrease was very noticeable in Berlin and Munich, with falls of 25 basis points to 4.65% and 30 basis points to 4.45% respectively. In Düsseldorf and Frankfurt am Main, prime yields are 4.7% and in Hamburg 4.55%. Due to an excess of demand, investors are increasingly falling back on good office properties in second tier locations.

Up to the end of Q3 2014, close to EUR 13bn was invested in office property (+52% compared to the same period in 2013). This is around 51% of total investment volume.

## Retail Market

Prime rents in retail increased in all top 5 locations in 2014. Berlin led the field with a rise in rent of 10.3% compared to 2013.

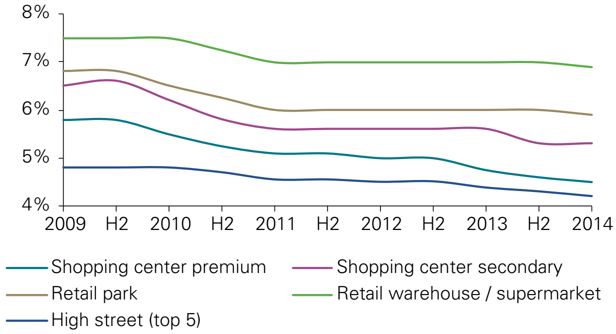
### Prime Retail Rents




Source: Brockhoff

Due to limited availability, prime yields continued to fall in the first half of 2014. Prime yields for high street properties dropped by 10 basis points to 4.2%.

### Prime Retail Yields by Type of Use




Source: CBRE

With tight supply of core-properties in the top 5 locations and a positive climate in the retail trade sector, investors are becoming increasingly interested in well-positioned properties in second tier cities as well as in properties with value-add potential. Top agents assume that prime yields will stabilise or fall slightly further. Lower yields are also anticipated in the non-core sector.

### Residential Market

The investment market for residential property was characterised by sales of large residential portfolios, such as the sale of the DeWAG portfolio to Deutsche Annington (11,500 housing units) for EUR 970m, or the sale of the DGAG portfolio (18,000 housing units) to the BUWOG Group for EUR 892m. The merger of Deutsche Annington with GAGFAH also caused a sensation.
According to price statistics from the German Real Estate Association (IVD), average asking prices have risen less dynamically nationwide in cities of all sizes than in previous years. The increase in rent for existing apartments amounted to 2.1% according to IVD in 2014. The same trend is also apparent in relation to lettings in new buildings. In cities with over 500,000 inhabitants, rents rose less strongly, at 4.8%, than in 2013 (5.9%). In smaller towns and cities, rents rose by 2.9% (3.9% in 2013). High demand for owner-occupied apartments due to favourable financing options, is named as one of the reasons for this trend. In 2014, prices for home ownership increased in both existing homes and new buildings (existing apartments +4.5%; new-build apartments +5.1%). In the large cities, the average price increase amounted to 9.3% for existing apartments.

The highest asking rents per square metre are achieved in Munich, at approximately EUR 14.51 (+5.1%). Asking rents per square metre in Berlin and Hamburg were EUR 10.42 (+2.7%) and EUR 11.38 (+1.9%) respectively at the end of 2014.

## Data Centres

Demand for data centres and their services is growing continuously all around the world. Data traffic doubles approximately every two years. Surveillance operations by foreign secret services also encourage internet providers to store their data in domestic data centres. This attracts the interest of investors, including institutional investors.

In the US, data centres are already seen as a separate asset class. In Germany they are still a niche product. Data centres are specialized and complex buildings. A high load bearing capacity for heavy racks as well as raised floors for high levels of ventilation and high ceiling heights are required. Further specific structural requirements include increased fire protection measures, bulletproof glass and security gates. Energy efficiency and sustainability are also essential, as electricity costs are high.

Location requirements are also different from those for "standard" asset classes. Discrete locations in proximity to transformer stations and access to internet mains are preferred. Only few locations are worth considering. According to US-based company Broadcom, there are about 200 suitable locations in Germany in total. The most favoured location in Germany is Frankfurt am Main. About two thirds of German data centres are located in this region. This popularity is because of two major data transmission lines and the world's busiest internet hub.

According to the Data Centre Risk Index published by Cushman and Wakefield, Germany is amongst the most attractive locations for data centres worldwide. In particular, its high internet bandwidth capacity and low rate of inflation, as well as the stable political systems, all contribute to Germany's high ranking.

Given the right circumstances, data centres can be a very attractive investment class: they offer high and long-term income streams, yields range between 7% and 10% with comparatively low cash-flow risk because tenants tend to sign long-term lease contracts. Moreover, there is hardly a single user that would want to give up its (rare) location. If it did, a number of providers would be willing to take over the premises.

[12] European Data Centres Q3 2014 Market View, CBRE

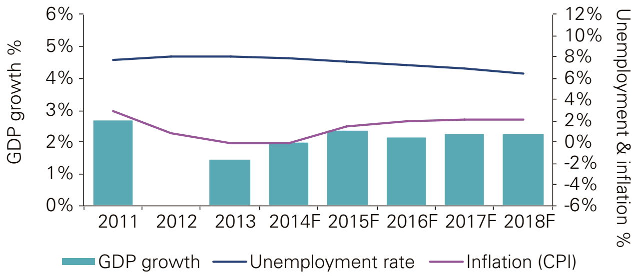
# Strong demand for prime office

## Macroeconomic Overview

### Sweden

GDP: Steady growth in GDP expected after 2014.
Inflation: Expecting above zero inflation after late 2014.
Employment: Job creation is expected to improve steadily.
GDP has been growing steadily, with growth of 2% in 2014 from 1.5% in 2013 and unemployment declining to 7.8% from 7.9 % over the year. Overall, the Swedish economy is booming; however, there remain risks due to weaker external demand from the Eurozone coupled with a stronger Krona in 2015. Consumer spending increased by 1.3% Q-o-Q, leading to growth in imports and, as a result, a negative impact on net foreign trade.

**Economic Indicators**




F – forecast
Source: Economist Intelligence Unit

### Norway

GDP: GDP growth is expected to decline in 2015.
Inflation: Expected to be lower than in 2014.
Employment: Expected to be largely stable.
The Norwegian economy is expected to grow strongly. The country's export market has declined considerably due to falling oil prices; however there has been continued demand from the US, the UK and the Eurozone. Consumer spending is expected to grow mainly due to rising incomes, improving confidence and stabilizing house prices.

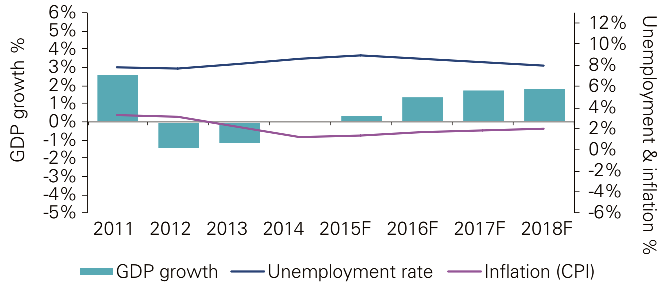
**Economic Indicators**


F – forecast
Source: Economist Intelligence Unit

### Finland

GDP: Accelerating growth expected in 2015.
Inflation: Expected to remain stable.
Employment: Expected to remain stable.
The economy showed 0.2% Q-o-Q growth in Q2 2014, following a contraction of 0.3% in Q1 2014, when consumer growth declined by 0.4%. Industrial growth has slackened and exports to Russia also declined because of the ongoing crisis with Ukraine. It is anticipated that economic recovery will be delayed until 2015 due to the adverse domestic and external conditions.

**Economic Indicators**

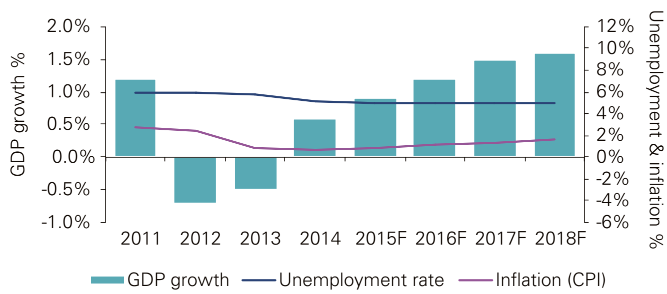



F – forecast
Source: Economist Intelligence Unit

### Denmark

GDP: GDP growth gradually improving.
Inflation: Restrained but with upward pressure likely in Q4.
Employment: Unemployment is likely to fall.
With the adoption of the new methodology for calculating national accounts across the EU (ESA 2010), the Gross Domestic Product figures (which Statistics Denmark originally estimated as having contracted by 0.3% Q-o-Q in Q2) now show 0.2% growth. Investment and exports declined by 1.0% and 0.8% respectively. Expansion is expected in all sectors with consumer spending, investment and industrial production contributing to the recovery.

**Economic Indicators**




F – forecast
Source: Economist Intelligence Unit

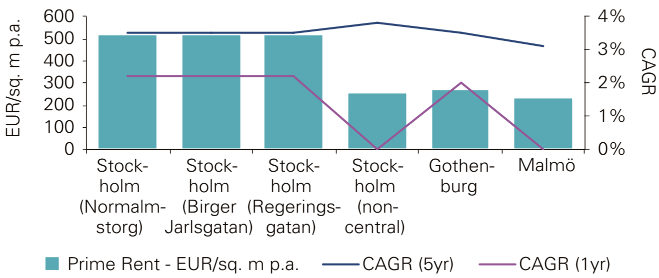
# Nordic Region

## Office Market

### Sweden

With a rising employment rate, the Swedish office market remained healthy over the third quarter of the year. Demand for good quality space remains strong, particularly in Stockholm CBD and prime suburban markets, and prime rents are expected to come under upward pressure into 2015. Investment activity was strong over the quarter, with volumes in Q3 2014 increasing by 50% compared to same quarter last year. Suburban office districts such as Stockholm's CBD, Central and Solna continue to be the preferred locations for occupiers and accounted for a substantial proportion of lettings.

**Prime Office Rents – September 2014**

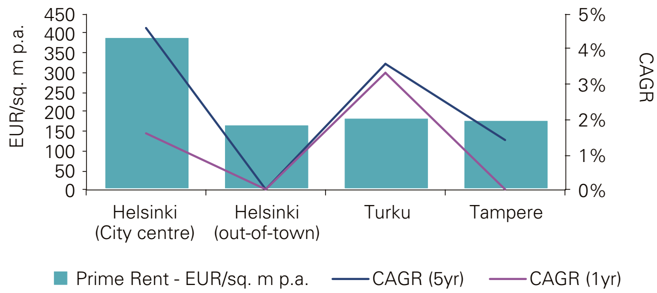



Source: Cushman and Wakefield

### Finland

Finland's office market remained optimistic over the third quarter of the year, with improved investment and major transactions. The principal challenge for the market remains the high level of available vacant space, and this is leading to downward pressure on rents. Overall supply levels continue to decrease, whilst investment in Finland's office market has doubled compared to same period last year, taking the 2014 figure to around EUR 650m. Finland's office market is expected to remain polarized, with activity focused on prime locations, particularly in the Helsinki Metropolitan Area.

**Prime Office Rents – September 2014**




Source: Cushman and Wakefield

### Norway

The office market witnessed significant growth in Q3 2014, as the labour market and the economic outlook remain strong. Demand remains high for high quality space in prime locations, and a major hurdle in the market continues to be the lack of prime assets available for investment. Investment in office space in Norway rose by 81% compared to Q2, to a figure of EUR 743m.

**Prime Office Rents – September 2014**

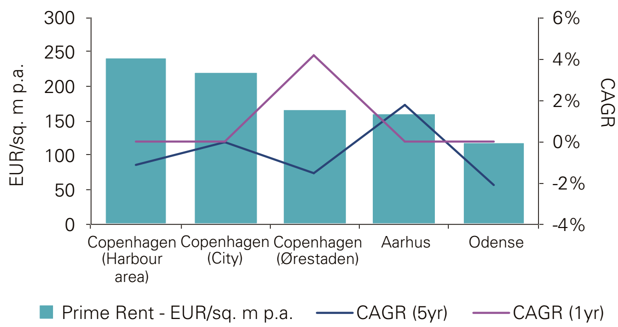
| Market (Submarket) | Prime Rent – EUR /sq. m p.a. | CAGR (5yr) | CAGR (1yr) |
|---|---|---|---|
| Oslo | 592 | 9.90% | 6.70% |

Source: Cushman and Wakefield

### Denmark

After a positive rebound at the start of the year (H1), growth has slowed as a result of low employment and the sluggish recovery from the financial crisis. Because of demand for relocations to high-quality, well-located and efficient office properties, Denmark has witnessed strong and steady demand from occupiers in prime locations. Refurbishments and reconfigurations are also leading to a supply of modern and efficient offices. Office trading volumes in Q2 were unchanged, with offices attracting the highest level of investment across the whole property sector. Many single-asset transactions with domestic investors in and around Copenhagen also helped to maintain the momentum.

**Prime Office Rents – September 2014**



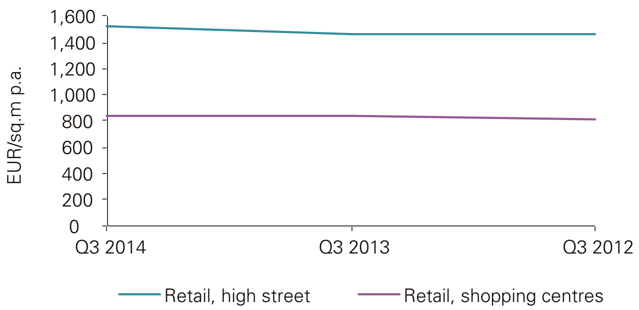

Source: Cushman and Wakefield

## Retail Market

### Sweden

Demand for retail premises remains high, with average prime rents in shopping areas remaining at SEK 7,800 per sq. m p.a. Prime yields have come down across the retail sectors compared to Q3 2013. Despite the slowdown, consumer spending and retail sales are expected to remain positive, underpinned by job growth coupled with low inflation.

**Prime Retail Rents – September 2014**

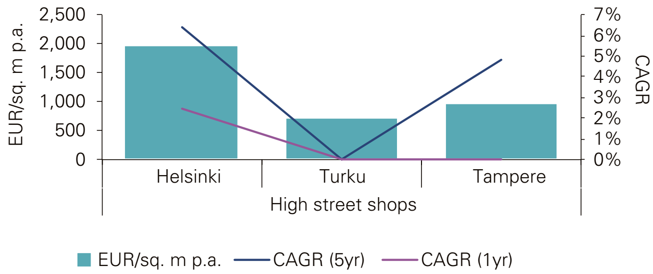



Source: Cushman and Wakefield

### Finland

Retail sales in Finland fell by 1.6% in August 2014 despite growth in wages and lower unemployment. Demand from domestic and international occupiers remains strong for prime high street locations and shopping centres. In retail investment, trading slowed in Q3 2014, with a fall to EUR 80m worth of assets traded; however, some major deals are expected in Q4. Overall, commercial real estate investment activity accelerated significantly, with almost EUR 1.5bn worth of deals transacted.

**Prime Retail Rents – September 2014**

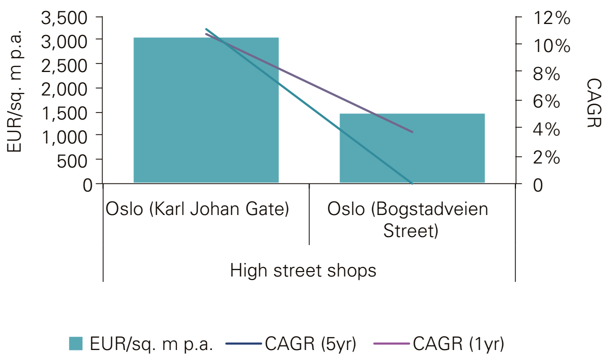



Source: Cushman and Wakefield

### Norway

Retail sales in Q3 fell by 0.8%. Despite low consumer spending, demand from international brands for prime locations in major cities continues. Investment activity rose in Q3 with an increase of EUR 153m in retail assets traded. Retail in the Norwegian commercial real estate market accounted for only 11% of trading volumes, against an average of 18.4% in previous years. Prime rents are expected to increase slightly but steadily in top locations, despite slackening economic growth

**Prime Retail Rents – September 2014**

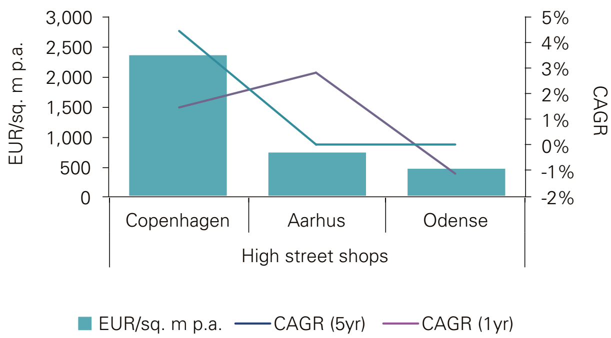



Source: Cushman and Wakefield

### Denmark

The market was largely stable in Q3, with prime rents unchanged on the previous three months. However, on a Y-o-Y basis there was growth on high streets and in prime shopping centres in Copenhagen. The need to reduce borrowing is holding back household spending, but low inflation could play a positive role in encouraging growth in spending.

**Prime Retail Rents – September 2014**




Source: Cushman and Wakefield

# Nordic Region

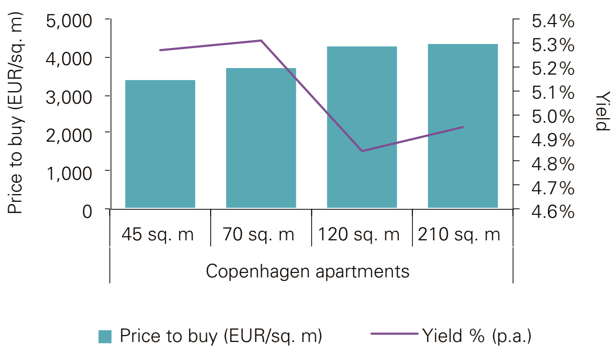
## Residential Market

### Denmark

Copenhagen has seen apartment prices remaining stable, with upward price movement for smaller apartments. In Copenhagen, rental yields have hardly changed over the past two years.

Yields on apartments in the city are moderate. Because of past price increases and strict rental controls, rental yields have also been low elsewhere in Denmark. Apartments of 120 sq. m yield 4.84%. Apartments of 50 sq. m yield 5.27%.

**Price and Yield % (p.a.) – April 2014**

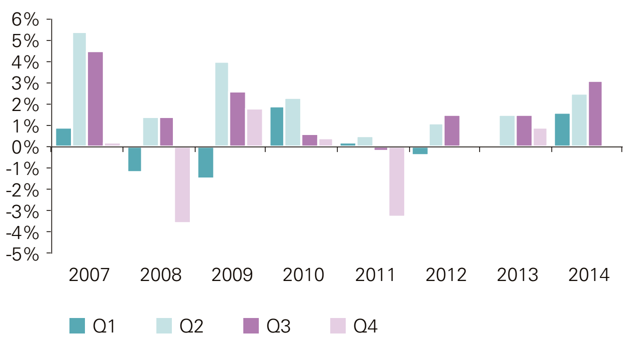



Source: Global property guide

### Sweden

Residential property prices continue to increase in Sweden, and rose by 7% Y-o-Y during Q3 2014 compared to Q3 2013. Increases in prices have been reported in 11 out of 21 counties in recent quarters, with the largest increase reported in Gortland County, of 6%, followed by Kronoberg County of 5%. Falls in prices were reported in 8 counties, with the largest decrease observed in Blekinge County, of 6%.

**% Change in House Prices**

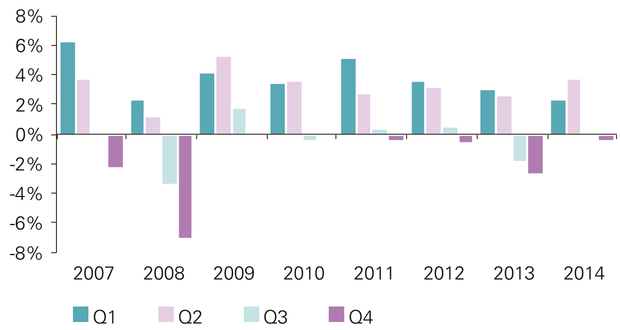



Source: Statistics of Sweden

### Norway

After a sharp drop over the previous quarter, house prices gradually increased in Q4 2014, by 5.8% overall. Average residential prices in 2014 were 2.7% higher compared to the previous year. The highest increase in house prices was seen in Northern Norway, with an increase of 5%, while Stravanger was the only region which recorded a decrease in house prices of 1.9%.

**% Change in House Prices**

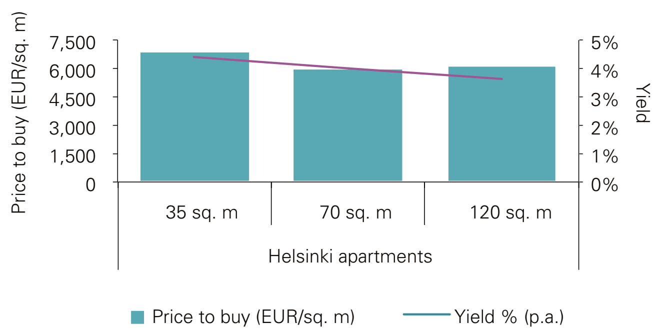



Source: Statistics of Norway

### Finland

In 2014, prices of dwellings in existing apartment blocks and terraced houses fell by 2.6% Y-o-Y for the country as a whole. The average price per square meter of existing dwelling was EUR 2,147 across the country as a whole – EUR 3,474 in Greater Helsinki and EUR 1,626 elsewhere. The market witnessed lower gross rental yields owing to a rise in sale prices coupled with stable rents.

**Price and Yield % (p.a.) – August 2014**




Source: Global property guide

# Foreign investors boost growth on the Dutch investment market

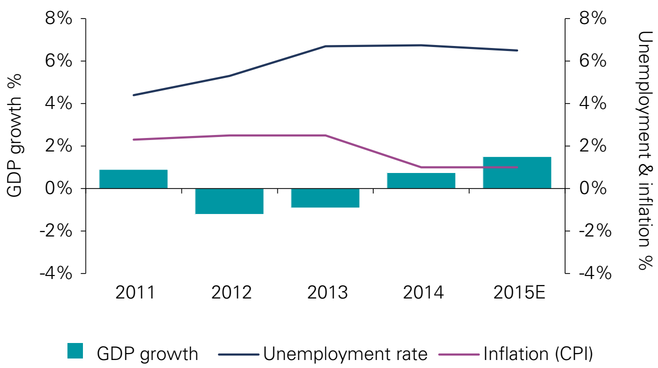
## Macroeconomic Overview

In 2014, gross domestic product grew for the first time in three years. It realised growth of 0.75%, in line with expectations. For 2015, growth of 1.50% is expected.

The recovery of the Dutch economy will continue in the coming years. Anticipated growth depends on the scenario, but annual growth between 0.75% and 2.5% is likely. The risks associated with these estimates are mainly downwards. The ongoing, negative combination of low growth and low inflation in the Eurozone could temper both investment and consumption.

However, the Dutch economic recovery will continue in 2015. Factors driving growth include strengthening household consumption and rising corporate investment. For the first time in years, Dutch household consumption was once more above the Eurozone average. Still, exports will be the main driver for recovery. World trade is increasing and the Netherlands is positioned as a strong competitor, resulting in growth in the export volume of more than 4% for both 2014 and 2015.

**Economic Indicators**




E – estimate
Source: Centraal Plan Bureau

The Dutch labour market continues its modest recovery. The growth in the economy is giving rise to an increase in productivity and demand for labour. In 2015, the majority of the increase in production will result in higher productivity, because companies still have capacity to improve both their labour utilization and their financial position after the crisis. The supply side of the labour market is also having a positive impact on economic growth. Fewer people are withdrawing from the labour market as a result of disillusionment. Nevertheless, the number of people not participating in the labour market remains relatively high. The average unemployment rate is expected to fall from 6.75% in 2014 to 6.50% in 2015.

Inflation is both stable and low, at 1%. Increases in rents are an important component of inflation. In 2015, inflation will continue to be suppressed by modest economic growth, high unemployment levels and lower oil and commodity prices. The depreciation of the Euro against the dollar can only compensate for this to a certain extent.

There are several unpredictable factors in the recovery of the Dutch economy. Global GDP and world trade volumes have a direct impact on the ability of the Dutch economy to grow. Also, low inflation can turn into deflation when economic growth is slow. However, the decline in the unemployment rate, which came sooner than expected, gives cause for optimism. Further improvements in the labour market could have a positive effect on spending and could boost the economy.

## Office Market

In 2015, Dutch companies will continue to be drawn towards the four major cities in the Netherlands (Amsterdam, Rotterdam, The Hague and Utrecht). In 2014, total take-up in the office market rose by 1.2% compared to total take-up in 2013.

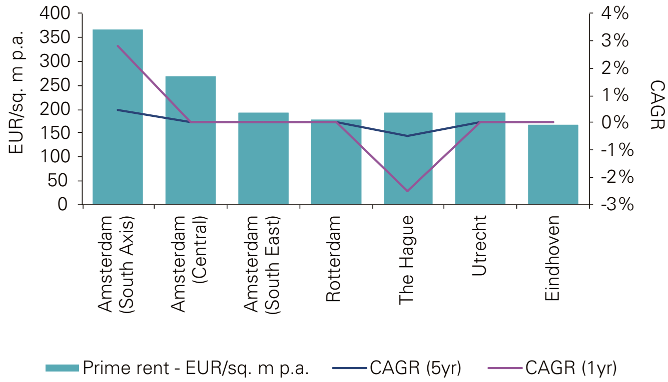
In the Dutch office market, four trends can be seen at present. First of all, employee preferences are changing. They want a workspace that suits how they work. Large open floors with shared social areas are popular. Secondly, organizations are focussing more and more on efficiency and reducing the amount of office space they need. They retain a fixed amount of office space which is necessary to keep their operations up and running. These locations are characterized by being situated in the larger cities and easily accessible by public transport. In 2014, take-up in the G4 cities was 40% of total take-up in the Netherlands.

The third trend is the decrease in employees' commitment to their offices. They are looking for alternatives, like working at home or in flexible offices.

Finally, organizations have shorter time horizons and therefore contracts are becoming shorter. Because supply is plentiful, corporates are renegotiating their leases or looking for another office on better terms. Direct returns are under pressure, usually because incentives have to be granted.

## The Netherlands

**Prime Office Rents – September 2014**




Source: Cushman and Wakefield

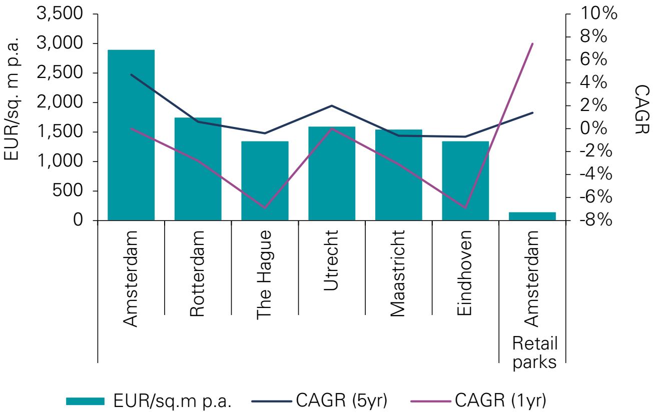
Compared to 2013, the average rent per square metre fell by 0.9% to EUR 132.00 p.a. (excluding incentives). Take-up increased by 1.2% to 1,064,000 sq. m. Amsterdam topped the Dutch office market again, with rents starting at EUR 75.00 per sq. m and rising to EUR 420.00 per sq. m. The Amsterdam region is expected to polarise even more in 2015. Rents will increase even further in the prime location at the Amsterdam South-Axis, but in the Amsterdam suburbs they are likely to fall to EUR 60.00 per sq. m. Never before has there been such a wide rental gap between the cheapest and most expensive office space.

The total volume of investment exceeded EUR 10bn in 2014. Office space, although struggling with some structural issues, contributed 39% of the total transaction volume. The total is almost double the amount invested in the Dutch property market in 2013 (EUR 5.6bn). The number of transactions of more than EUR 50m is worthy of note: it rose by 92% in 2014.

## Retail Market

The retail market in the Netherlands has been stable: rents remain under pressure, except in Amsterdam and Utrecht; Amsterdam is still the most popular location; the occupier market is driven by international retailers; supply has been rising in secondary cities (non G4); there is a lack of supply in the best locations; and outside the top 20 cities, shopping areas are shrinking because of high vacancy levels.

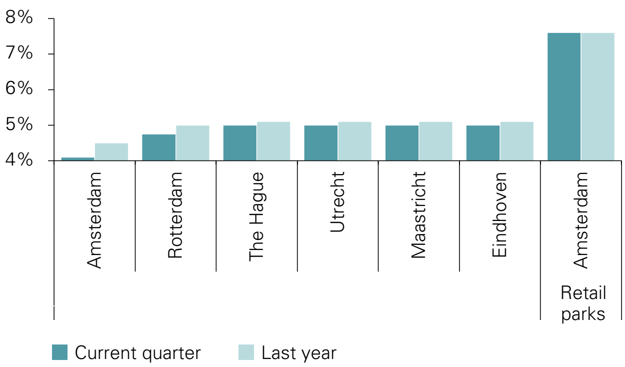
**Prime Retail Rents – September 2014**




Source: CBRE and Cushman and Wakefield

Consumer spending will increase as a result of the anticipated continuing economic recovery. Global retailers still want a presence in the Dutch market, dominating high streets in the big cities.

**Prime Retail Yields (Gross) – September 2014**

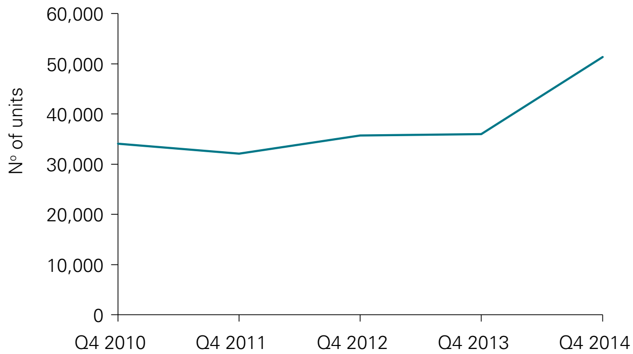



Source: DTZ Zadelhoff, CBRE, JLL, Colliers

## Residential Market

In terms of sales, 2014 was a very good year for the residential market in the Netherlands. Sales rose by 39.4% compared to 2013.

**Residential Sales**




Source: Kadaster

Transaction prices per square metre also increased in 2014. They rose by 3.2%, with apartments boosting the average with an increase of 4.6%. In the last quarter of 2014, there was no fall in asking prices for the first time since 2009.

In 2015, the government will end the temporary tax exemption for gifts from parents to their children. These donations were exempted from tax if the recipients used the money either to repay their mortgage or to buy residential property.

### Portfolio transactions

Trading volumes on the residential market also increased. The figures were exceptional. As much as 26% of all transactions on the Dutch real estate market, or EUR 2.6bn, related to investments in the residential market. Foreign investors dominated the market, accounting for 65% of the total volume. American capital contributed 27% of the volume of deals, leaving behind the Germans, traditionally the most important foreign investors, with 14% of the total volume.

Belgium

# Stability

## Macroeconomic Overview

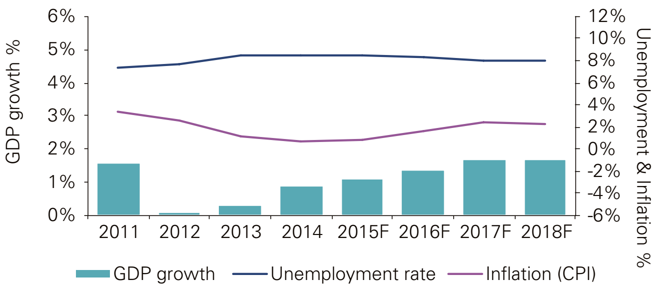
According to the Belgian National Bank, Belgium's GDP grew by 1.8% in 2011 before stagnating in 2012 and 2013 (0.1% contraction in 2012 followed by a 0.2% increase in 2013).

The Belgian economy grew by 1.1% in 2014 and is expected to grow by a further 1.4% in 2015, driven by sustained private investment growth and industrial production.

Uncertainties in the Eurozone are a risk and may limit growth in the next few quarters. Due to increasing concerns about the overall economy and labour market, consumer confidence fell to a 12 month low in October 2014. However, there appears to be an ongoing improvement in corporate investments. Consumer spending and corporate investments grew Y-o-Y by 0.3% and 4.4% respectively during Q2 2014.

Inflation remains low (0.7% in 2014), ahead of a minor rebound expected in 2015 (0.9% forecast in 2015).

**Economic Indicators**




F – forecast
Source: Economist Intelligence Unit

Unemployment levels increased slightly in 2013 (8.4%), stabilized in 2014 and will begin to decrease slightly from 2015 onwards.

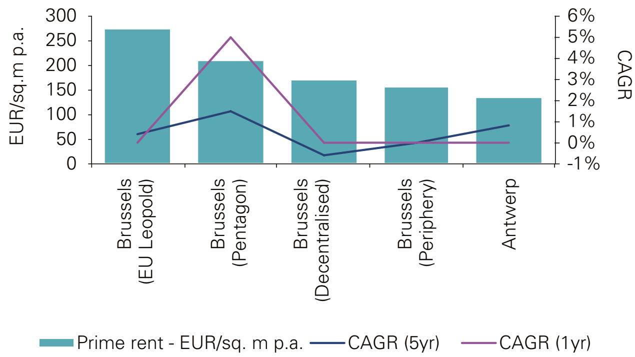
General and regional elections took place in 2014. The result is a centre-right coalition in power, with a French-speaking liberal as a prime minister, poised to initiate and push ambitious reforms.

## Office Market

The Brussels office market can be divided into 7 segments: Pentagon, South, North, Leopold, Louise, Decentralized and Periphery.

The focus remains on high-quality space in CBD districts, particularly in the Leopold EU district, which saw 30% of all take-up this quarter. High-quality office space in popular CBD locations remains scarce and vacancy rates are still polarized. Take-up reached an average 75,000 sq. m in Q3, with a marked decrease in midsized deals between 2,500 and 5,000 sq. m.

**Prime Office Rents – September 2014**




Source: Cushman and Wakefield

Prime rents remain unchanged at EUR 275/sq. m p.a. in Brussels, taking no account of incentives given by landlords who are often flexible in negotiating with new potential tenants or renegotiating existing contracts, depending on the quality and location of buildings and on the duration of leases.

Although lettings activity in this quarter declined moderately overall, with 332,000 sq. m of lettings activity so far, trends in the office sector are positive.

Vacancy rates remain low in CBD locations but are higher in out-of-town locations.

Brussels, where most of the office investment in 2014 took place, is quickly making a comeback on the global map. However, office investment activity fell short of the Q2 result. With a 53% fall Q-o-Q, investment volumes have dropped to just EUR 385m. There were a number of medium-sized transactions in Q3, including GLL Real Estate Partner's acquisition of the 23,600 sq. m Platinum office building in CBD Louise for EUR 91m.

Brussels is fast becoming a favourite with investors both domestically and internationally, with a primary focus on CBD locations. Prime office yields are holding firm in central locations but beginning to soften in peripheral areas. Yields are benefiting from the level of demand and remain stable around 6% for premium products in top locations.

Investment in the Belgian office market has fluctuated from one quarter to the next, but demand for prime assets in central locations is increasing sharply. There is still a high volume of secondary space available in peripheral areas, but this is difficult to let.

### Retail Market

The retail property market in Belgium is divided into three sectors: high streets in the major cities, shopping centres and retail warehousing.

Prime rents remain static, with possible downward pressure on some high streets. This downward pressure on prime rents is also seen in secondary locations. This downward pressure on high street rents makes the market tenant-friendly. Continuing pressure on retailer profits has led to weak demand for new space, even in top locations. Larger letting deals demonstrate that the future is positive for the retail warehouse and shopping centre segments.

**Prime Retail Yields- September 2014**

| | | Current quarter | Last year |
|---|---|---|---|
| High street shops | Brussels | 4.3% | 4.4% |
| | Antwerp | 4.4% | 4.4% |
| | Liege | 5.3% | 5.3% |
| | Ghent | 4.5% | 4.6% |
| | Bruges | 4.7% | 4.7% |
| | Hasselt | 4.9% | 4.9% |
| Shopping centres | Belgium | 5.4% | 5.4% |

Source: Cushman and Wakefield

Prime yields in the premier high streets of Brussels are down to 4.25% and 4.5% in Ghent. Yields for shopping centres and retail warehouse properties remain unchanged at 5% and 6% respectively; however, the downward pressure remains and continues in the markets of Brussels, Ghent, Antwerp and Bruges, with yields of 4% common.

Fewer deals were identified in prime locations, whereas retail warehouses and shopping centres are being let more easily. However, these transactions generally take longer to complete (especially as legal obstacles are affecting large-scale shopping centre projects, such as Uplace and Mall of Europe at the Heysel).

With approximately EUR 148m worth of retail assets traded in Q3, retail investment activity seemed to be picking up slightly compared to the previous three months. Retail market activity was driven entirely by small-scale high street deals.

The acquisition of the Ring shopping centre in Kortrijk by Wereldhave Belgium (from Redevco) for approximately EUR 40m was the largest transaction of the quarter. Vastned Retail bought the H&M store on Veldstraat in Ghent for around EUR 25m (at a yield of 3.9%).

The high street lettings market remained under constant pressure in the last quarter of the year despite a pick-up in economic and sales growth (retail sales grew by 2.1% in August). Investment market activity, is however, expected to improve, with a number of large transactions in the pipeline.

### Residential market

The Belgian housing markets are showing signs of weakening, due to the introduction of strict banking criteria and a worsening economy, even if interest rates remain attractive for prospective purchasers. The measures that have been announced will have a negative effect that will manifest itself more clearly in 2015, affecting the number of transactions as well as prices.

Belgian real estate prices have been stagnant over the last few years. Since 2011, apartment prices have risen faster than general inflation. House prices, on the other hand, have not kept up with inflation. Prices for detached houses have dropped in real terms in the past few years. Adjusted for inflation, house prices fell by 0.8% in the last quarter compared to 0.9% in the previous quarter. Last year's average inflation rate stands at -0.5%.

**% Change in House Prices**

| Year | Q1 | Q2 | Q3 | Q4 |
|---|---|---|---|---|
| 2008 | 1.7% | 1.8% | 2.0% | -2.1% |
| 2009 | -2.1% | 0.6% | 2.4% | 1.1% |
| 2010 | 0.9% | 1.1% | 2.6% | -0.3% |
| 2011 | 1.3% | 0.1% | 3.0% | 0.0% |
| 2012 | -3.5% | 3.6% | -1.4% | -2.1% |
| 2013 | 2.2% | 6.4% | 0.0% | -2.0% |
| 2014 | -4.8% | 7.1% | 0.0% | 0.0% |

Source: Statistics Belgium

## Belgium

Gross rental yields for apartments in Brussels remained steady, ranging from around 4.56% to 5.53%. Yields for houses range from 4.46% to 5.01%.

In an interesting development, the yield on larger properties has fallen. The yield on smaller property is generally higher.

According to the latest survey by Global Property Guide, prices per square metre (sq. m) for apartments and houses in the prime districts of Brussels have shown a hike. This survey also observed a rise in the rents for houses in selected localities.

The high cost of transactions for purchasers of residential property also discourages investors in Belgium.

**Belgium Residential Market – May 2014**

| | | Price EUR/sq. m | |
|---|---|---|---|
| | Yield (p.a.) | to buy | Monthly rent |
| **BRUSSELS – Apartments** | | | |
| 60 sq. m | 4.9% | 3,256 | 13.17 |
| 75 sq. m | 5.2% | 2,875 | 12.36 |
| 90 sq. m | 4.9% | 2,787 | 11.39 |
| 120 sq. m | 5.5% | 2,420 | 11.15 |
| 200 sq. m | 4.6% | 3,083 | 11.71 |
| **BRUSSELS – Houses** | | | |
| 150 sq. m | 5.0% | 2,918 | 12.19 |
| 250 sq. m | 4.5% | 2,769 | 10.28 |

Source: Global property guide

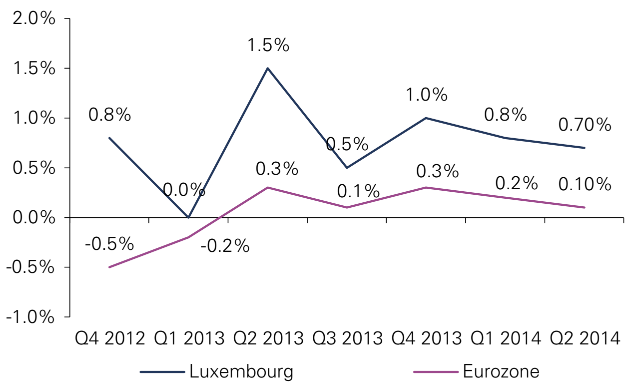
In September 2014, according to the latest figures from the National Bank of Belgium, the total number of dwelling permits issued decreased by 8.74% Y-o-Y to 3,758.

# A constantly evolving market supported by a stable environment

## Macroeconomic Overview

During Q2 2014, Luxembourg's GDP grew at a slower rate than during Q1 2014. The main reasons for the slowdown in activity were a decrease in inflation due to lower global demand, the partial loss of VAT from the e-commerce sector and several savings measures that are expected to take effect in the coming quarters.

**GDP Growth (quarterly % change)**




Source: STATEC (November 2014)

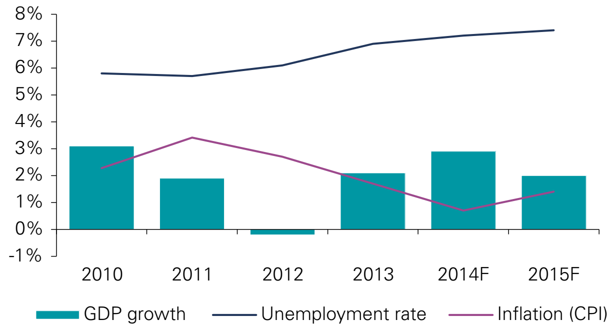
For the full year 2014, GDP growth in Luxembourg is expected to reach 2.9%, compared to 0.8% in the Eurozone. Luxembourg's GDP growth is, however, expected to slow to 2.0% in 2015 despite an anticipated recovery across the Eurozone.

The unemployment rate in Luxembourg is forecast to be 7.2% for 2014 and is expected to increase to 7.4% in 2015. Domestic employment is anticipated to rise by 2.1% in 2014 and then grow by ca. 2.0% in the following year. During H1 2014, the number of bankruptcies in Luxembourg declined by nearly 30% compared to H1 2013.

While the hotel and catering and the construction sectors experienced a reduction in job losses, the administrative and support service, ICT, trade and manufacturing industries suffered more job losses in 2014 than in 2013.

During Q2 2014, inflation continued to slow, driven by the decline in global energy prices, food prices and lower rises in some regulated prices and taxes. The latest revised forecasts anticipate inflation of 0.7% and 1.4% in 2014 and 2015, respectively. This revision is partly explained by the fall in the oil price per barrel (of USD 25 by the end of Q3 2014 compared to the end of Q1 2014) and a downward adjustment in anticipated inflation.

**Economic Indicators**




F – forecast
Source: STATEC (November 2014)

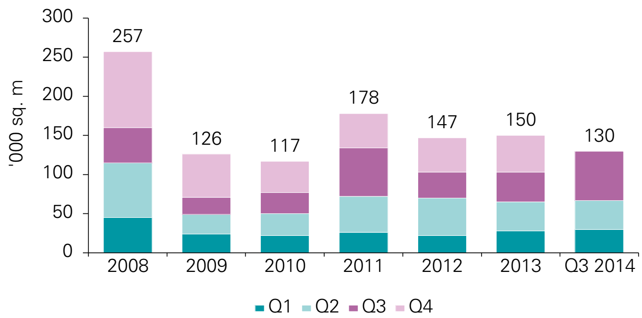
According to a recent survey, consumers in Luxembourg believe that it was a good period to buy big-ticket items. The reason for this is the arrival in January of the VAT hike, which increases inflation expectations for 2015. However, this positive sentiment has not yet materialized in automobile or housing sales figures.

## Office Market

During Q3 2014, Luxembourg office take-up expanded considerably by 87% Y-o-Y (a 70% increase compared to the previous quarter). According to Jones Lang LaSalle, take-up over the first nine months of 2014 amounted to 129,810 sq. m, which is 26% higher than a year ago. There was as much activity in Q3 2014 as in H1 2014.

According to INOWAI Property Partners, there were 219 take-up transactions in the first three quarters of 2014 (a 30% increase compared to 2013).

**Annual Evolution of Office Take-Up**




Source: STATEC (November 2014)

## Luxembourg

Banking and financial services contributed to 48% of year-to-date take-up in 2014. The main transaction was the letting of 27,000 sq. m to PWC in Gasperich, the largest office deal in Luxembourg since 2008. Other noteworthy lettings included 8,843 sq. m let to the European Investment Bank in Kirchberg and 5,500 sq. m taken by ATOZ in the Airport area.

The Kirchberg plateau, the Airport area and Gasperich experienced the highest transaction volume in 2014. Activity in the CBD and the Station area was lower, despite being traditionally the two most dynamic districts.

**Largest Lettings in Luxembourg Q1 2014 – Q3 2014**

| Date | District | Building | sq. m | Tenant |
|---|---|---|---|---|
| Q3 2014 | Clôche d'Or | Ban de Gasperich | 27,000 | PwC |
| Q2 2014 | Kirchberg | President B | 8,843 | European Investment Bank |
| Q1 2014 | Kirchberg | IEK Eolis | 3,387 | E-Commerce |
| Q2 2014 | Airport | Daidalos | 2,967 | Deloitte |
| Q1 2014 | Airport | Daidalos | 2,944 | Cargolux |
| Q3 2014 | Strassen | Edison 7 | 2,720 | BIL |
| Q1 2014 | Station | Central Plaza | 2,540 | Société Générale |
| Q3 2014 | Kirchberg | President A East | 1,911 | European Investment Bank |
| Q2 2014 | Bertrange | Atrium – Emporium | 1,808 | Baloise Insurance |
| Q2 2014 | Airport | Findel Golf F6 | 1,780 | Northern Trust |

Source: JLL

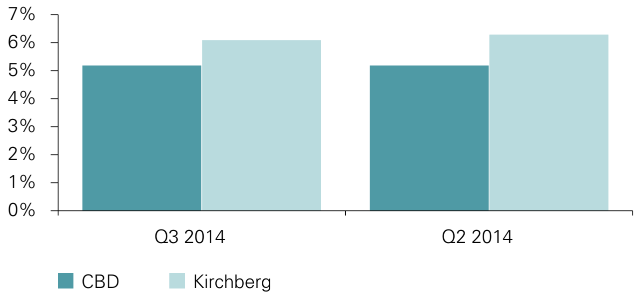
As a result of the increase in overall letting activity, the vacancy rate in Luxembourg's office market shrank to 4.6% in Q3 2014.

By district, the vacancy rate in Kirchberg declined by 60 bps to 1.1%. By way of comparison, the vacancy rate decreased slightly in the CBD (from 3.7% in Q2 2014 to 3.6%) and in the Station district (from 1.9% in Q2 2014 to 1.6%).

In terms of speculative completions, ca. 15,300 sq. m are expected to be completed in the next 15 months: the Campus Contern Colibri (2,909 sq. m remaining) in the Periphery, the Royal 20 in the CBD (5,200 sq. m), the Wallis in the Station district (4,096 sq. m) and the One-on-One in the CBD (3,079 sq. m). Non-speculative completions in Q4 2014 include the new KPMG headquarters in Kirchberg.

In Q3 2014, the prime yield in the Kirchberg district decreased by 0.2% compared to the previous quarter and is now at 6.1%. Conversely, the prime yield in the CBD remained stable at 5.2% over the same period.

**Prime Yields by District – Q3 2014**




Source: JLL, Cushman and Wakefield

The prime office rent in the CBD now stands at EUR 46.0 per sq. m per month, which represents a 9.5% increase compared to the previous quarter (EUR 42.0 per sq. m).

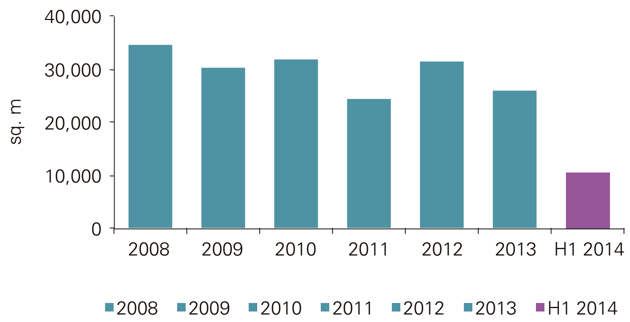
In Q3 2014, the investment market continued to grow, with a volume of EUR 185m (a 14% increase Q-o-Q). The 2014 year-to-date volume amounted to EUR 505m, which is 45% higher Y-o-Y. The largest deals were the acquisition of the Galerie Kons (Station area) by AXA Belgium for EUR 150m and the sale of the Centre Etoile (CBD) to Real IS for EUR 28m.

Reports of the prime office yield ranged between 4.6% and 5.5%. However, it is clear that the trend in Luxembourg is downwards, in line with other European cities.

## Retail Market

In H1 2014, there were 41 take-up transactions (a 17% increase compared to H1 2013), for a total of ca. 12,500 sq. m (9% increase compared to H1 2013).

**Retail Take-up**




Source: JLL, Cushman and Wakefield

Demand was focused on locations such as the CBD, Station area and Belval, with only the best parts of the best streets boasting active interest. Landlords and tenants remain cautious and carefully check their income in order to detect any real slowdown.

Luxembourg's retail investment market is usually characterized by rare and opportunistic transactions and is dominated by private, wealthy Luxembourgers.

**Largest Lettings in Luxembourg 2014**

| Date | Address | sq. m | Tenant |
|---|---|---|---|
| Q1 2014 | 18-22, Rue du Brill, Foetz | 2,000 | AS Adventure |
| Q2 2014 | Listo, 1-3 Um Mierscherbierg, Mersch | 1,115 | Hifi International |
| Q1 2014 | Rue du Luxembourg, Sandweiler | 920 | Plum'Art |
| Q1 2014 | 54, Grand Rue | 900 | Guess |
| Q2 2014 | Belval Plaza I, Esch-sur-Alzette | 725 | Piocheur |
| Q2 2014 | 5-7, Rue de l'Alzette, Esch-sur-Alzette | 665 | Carrefour |
| Q1 2014 | 30, Grand Rue | 519 | Tally Weijl |
| Q1 2014 | 57, Avenue de la Gare | 390 | Carrefour |
| Q2 2014 | 91, Rue de l'Alzette, Esch-sur-Alzette | 348 | Butlers |
| Q1 2014 | 36, Avenue de la Gare | 330 | Ulla Popken |

Source: Cushman and Wakefield

Q1 2014 witnessed three investment retail deals; the largest included the mixed-use Rosenstiel in Grand Rue, a retail park (11,000 sq. m) in Howald and a high street unit in Esch-sur-Alzette. In terms of volumes traded, these transactions represented EUR 55m. No noteworthy investment transaction was reported in Q2 2014.

**Largest Investment Transactions in Luxembourg 2013-2014**

| Date | Property name | sq. m (retail) | Price (EUR m) | Price / sq. m |
|---|---|---|---|---|
| Q2 2013 | Galerie Auchan Kirchberg | 12,500 | 125.0 | 10,000.0 |
| Q3 2013 | Knauf Center | 26,000 | 96.5 | 3,711.5 |
| Q1 2014 | Howald Retail Park | 11,505 | 30.0 | 2,607.6 |
| Q4 2013 | Hornbach | 12,000 | 25.5 | 2,125.0 |
| Q4 2013 | Sternberg House | 2,532 | 16.0 | 6,319.1 |
| Q1 2014 | Rosenstiel | 2,600 | n.a. | n.a. |

Source: Cushman and Wakefield

## Residential Market

### Investment

Reported transaction prices for existing apartments showed a 3.5% increase during Q2 2014 Y-o-Y. In parallel, prices for apartments under construction increased by 3.8% over the same period.

Average asking prices for the whole of Luxembourg during Q2 2014 were EUR 3,734 per sq. m for houses and EUR 4,619 per sq. m for apartments (Y-o-Y increases of 4.1% and 5.5% respectively). Average asking prices for houses and apartments were EUR 687,280 and EUR 418,736, respectively.

In terms of the type of house or apartment, the major price increases were for large houses of more than five rooms (16% increase Y-o-Y) and studios (33% increase Y-o-Y).

Average advertised areas were 184 sq. m for houses and 91 sq. m for apartments.

During Q2 2014, the average asking price for a house in Luxembourg City was EUR 5,000 per sq. m (2.5% increase Y-o-Y), the average price for an apartment was EUR 6,429 per sq. m (13.4% increase Y-o-Y).

### Rental

Average advertised rental prices in Luxembourg during Q2 2014 were EUR 2,324 per month (EUR 12.55 per sq. m) for houses and EUR 1,290 per month (EUR 19.24 per sq. m) for apartments.

During Q2 2014, Luxembourg City accounted for 17% of house rental offers and 44% of apartment rental offers. The average asking rent for a house in Luxembourg City was EUR 3,099 per month (EUR 15.32 per sq . m) and for an apartment was EUR 1,515 per month (EUR 22.99 per sq. m).

## Data Centres

The rise of new global trends such as e-commerce, cloud computing, dematerialization, e-archiving, big data and the digital economy has seen the development of a new real estate asset class in the form of data centres.

Over the last decade, data centres have become a key component for a large amount of business across different industries. The main users of these data centres now include, among others, companies from the financial, e-commerce, biotechnological and entertainment and media sectors.

Aware of the great potential of this business, in 2009 the Luxembourg Government started an important investment programme of EUR 100m in order to attract major clients and become a key actor on the European ICT market. The programme aimed at developing front-line connectivity networks and data centre deployment.

As a result, Luxembourg counted 15 data centres by early 2010 and over 20 in 2013, of which the majority offer Tier III and IV design service levels. Following this market trend, many companies now offer data centre services in Luxembourg with highly advanced security, cooling, energy supply systems and a complete set of related services.

The investment market in Luxembourg has seen Dimension Data, a major ICT company, acquire NextiraOne, a business solutions provider with operations across Europe, including Luxembourg.

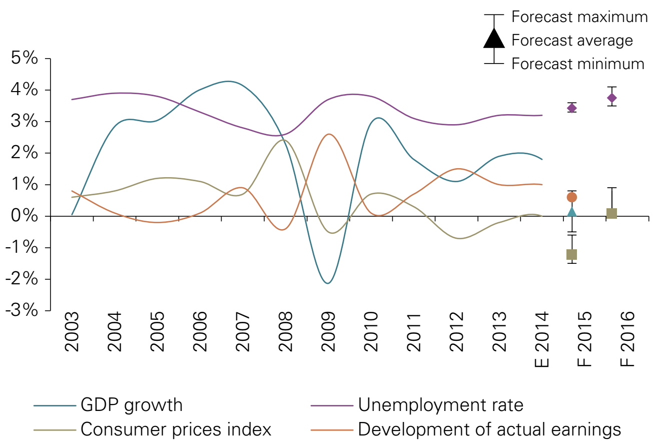
# Scrapping of the Euro / Franc exchange rate control – a double-edged sword for real estate

## Macroeconomic Overview

As expected, economic researchers have revised their growth forecasts for Switzerland downwards following the Swiss National Bank (SNB)'s scrapping of the Euro / Franc exchange rate control. Recent forecasts are for a strong but relatively short-term negative economic impact, although forecasters expect to see slightly positive GDP growth of 0.2% on average for 2015 (down from 1.8% in 2014). However, recent GDP growth forecasts range from –0.5% to +0.8%. The breadth of this range reflects the difference in opinions amongst economists over future economic trends in Switzerland. The appreciation of the Swiss Franc is predominantly affecting the export industry, tourism and retail, and is therefore having a negative impact on the economy as a whole.

The downturn in GDP growth is, however, being marginally offset by the healthy global economic climate and low oil prices. Average growth forecasts of 0.8% for Switzerland for 2016 also remain considerably below potential growth.

**Macroeconomic Indicators**




E – estimate
F – forecast
Source: BAKBasel, Credit Suisse, KOF, Seco, UBS and KPMG

## Office Market

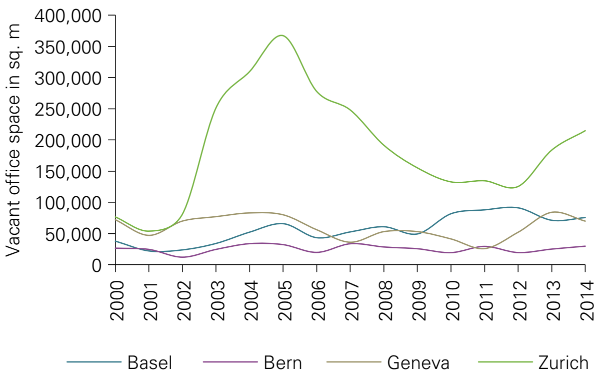
Demand for office space has recently remained relatively stable. An analysis of employment trends in the typical office branches shows that annual growth rates remained consistently above 2% between mid-2011 and mid-2013.

However, there has since been a steady decline in office employment growth, which fell from 1.55% at the end of 2013 to 0.79% in Q3 2014. A further economic slowdown in response to the SNB's shock scrapping of the exchange rate control at the beginning of the year must be expected. This is being particularly felt by the already hard-hit office market and especially by export-based companies, thus demand for premises is expected to weaken further. The scrapping of the exchange rate control will strengthen the position of tenants in the market ("tenant market").

Despite the downturn in construction activity in the office market, there is still a clear surplus of new supply. The annual volume of approved new office space reached CHF 2bn at the end of October 2014. Whilst planning of new office space has been regressive or stagnated in the commercial zones of the major and medium-sized centres, there has been a slight rise in the planned supply pipeline volume in regions outside of these areas.  Despite the considerable reduction in the volume of approved space since its peak in 2011, office construction activity remains high. This is due to the fact that the planned supply pipeline volume remains high, and that numerous projects planned during the boom years 2011/2012 are now expected to come onto the market after delays caused by insufficient pre-letting rates.

The volume of vacancies in the four major urban office markets reached 390,000 sq. m in 2014, a 7% increase on 2013. A historical comparison shows that the volume of vacancies in the Basel and Bern office markets has remained relatively stable, whilst vacancy rates in Geneva and in Zurich in particular are volatile. Between 2013 and 2014, the highest rises were observed in Bern (+19%) and Zurich (+17%). Conversely, a reduction in the volume of vacancies was registered in Geneva (-17%).

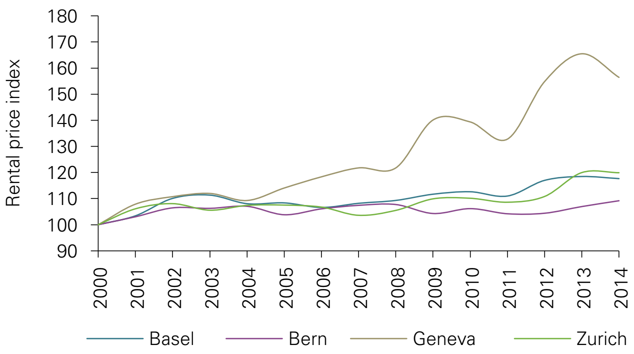
**Office Vacancy Trends in the Major Centres**




Source: City Statistical Offices and KPMG

In contrast to 2013, the sustained imbalance between supply and demand in the office market in 2014 was evident from the lower asking rents. However, asking rents only give a flavour of the reality. This is because in the current market climate they include premises in premium quality properties or locations, but do not reflect the increased willingness of landlords to make concessions in terms of pricing. Current asking rents tend to gloss over the existing situation in the letting market.

**Rental Price Index for Office Premises in the Major Centres**

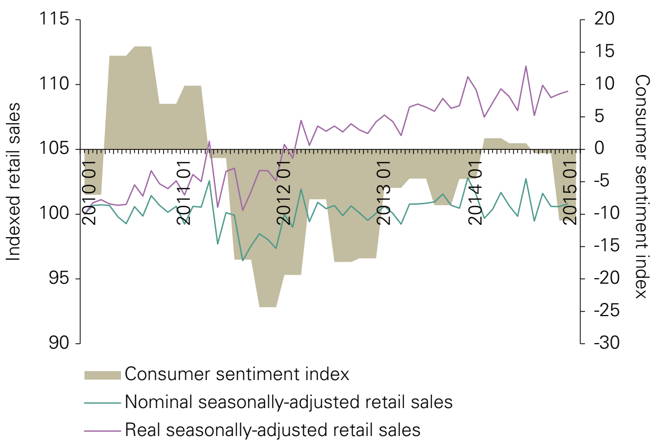



Source: W&P

## Retail Market

As in 2013, nominal retail sales stagnated, with growth of only 0.7% Y-o-Y. Reasons for this include negative inflation, a deterioration in consumer sentiment and the continued tendency towards shopping tourism abroad. As in 2013, nominal food sales grew by 1.5% and, at -0.2%, growth in non-food sales was negligible.

**Retail Sales and Consumer Sentiment**




Source: BFS

Shopping tourism, triggered by the Euro's poor performance in the past few years, has become a major burden for Swiss retail.

The SNB's shock scrapping of the exchange rate control has further encouraged Swiss consumers to shop in locations close to its borders. This in turn is leading to a rise in the volume of purchasing power lost to the neighbouring countries, Germany, Austria, Italy and France. Before the SNB introduced the exchange rate control in 2012, local retailers reduced their prices to counteract the strong Franc and to tackle the loss in purchasing power to foreign countries. Coop and Migros have already announced further price cuts on numerous products since the exchange rate control was scrapped.

In addition to shopping tourism, online retail is proving to be a major challenge for over-the-counter retail. The growth in online sales of 8% was much more dynamic than over-the-counter retail in Switzerland in 2014; nevertheless, E-commerce's penetration of the Swiss market is still relatively low, accounting for only around 5% of total retail sales.

With the exception of Mall of Switzerland, which propelled the volume of approved new retail space upward in 2012/2013, the planned supply pipeline of retail space has been on a steady downward path for a number of years. Credit Suisse quoted a supply pipeline volume of approved retail space of around CHF 380m as at October 2014; a reduction of 36% compared to the year before. Following years of expansion, there is now a clear tendency towards saturation in the retail market. Along with the numerous challenges the retail industry is now facing, investors are more cautious in their activity in this real estate segment.

Rents for retail space have fallen across Switzerland over the past year and further reductions are expected in 2015. This downturn in prices is being driven primarily by rental price falls in peripheral locations. The attractiveness of such locations is reducing due to the growth in online sales and, increasingly, the strength of the Swiss Franc.

Central areas continue to function as flagship locations for major fashion and luxury retail brands and it can therefore be assumed that rents in such locations will continue to rise further.

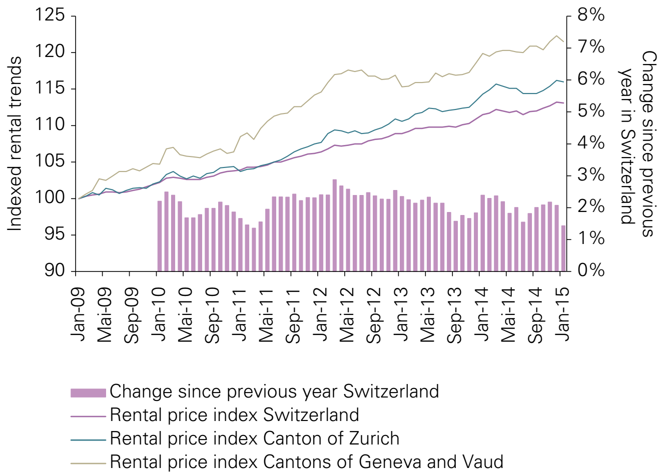
## Residential Market

The slightly higher mortgage interest rates in conjunction with regulatory controls such as the tightening of the anti-cyclical capital buffer and the self-regulation of banks are helping to calm the market for condominium apartments. This is evident from the reduction in the number of private households switching from renting to home ownership (substitution effect) and, overall, is having a stabilising effect on demand for rental apartments.

The supply pipeline of rental apartments has been high, making it possible to reduce some of the surplus demand from the last few years. The supply index for rental apartments is increasing across Switzerland and is currently in the region of 5.7%, a 5-year high; the supply index in 2013 was only 4.6%. The index has also risen Y-o-Y in the four major centres analysed. The lowest supply index of 3.6% was observed in Zurich and Geneva, and the highest, of 4.7%, was recorded by Bern. The supply of housing has also grown in the medium-sized cities and their agglomerations, with approximately 13% growth in supply in 2014.

According to Homegate.ch and ZKB[1], quality-adjusted asking prices for rental apartments increased by 2.1% across Switzerland between 2013 and 2014, a rise of 0.3 percentage points. The highest price rises were observed in the Cantons of Lucerne (3.6%), Vaud and Geneva[2] (3.2%). Conversely, a -0.1% fall in rents was observed in the Canton of Thurgau.

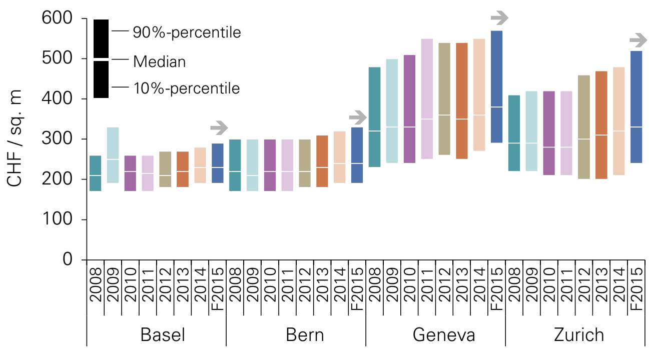
**Quality-adjusted rental Price Index**




Source: Homegate.ch, ZKB and KPMG

The economic slowdown due to the strength of the Franc should lead to a reduction in net inward migration and therefore to a reduction in demand for rental apartments. Combining this with an expansion in supply, we expect to see a slight rise in the volume of vacancies and a stabilisation of rents.

**Asking rents for Residential Space in the Major Centres**




F – forecast

Source: KPMG

[1] The index measures the monthly, quality-adjusted change in rents agreed for lettings of new and second-hand apartments.
[2] Rental price trends in the Cantons of Vaud and Geneva are analysed using a shared sub-index.

## Data Centres

Investment in data centres have become an attractive niche segment in the USA. Worthy of mention is Digital Reality Trust, an investment vehicle for investments in data centres with a market capitalization of more than USD 9bn. This vehicle was created by Calpers, the largest US pension fund, and the private equity firm GI Partners in 2001. Very little institutional capital has flowed into data centres in Switzerland so far. Reasons for this could be the lack of knowledge and expertise, potential risk clusters or limited alternative use potential.

According to Broadgroup, the total area of data centres operated by external suppliers[3] in Switzerland in 2013 was estimated at around 150,000 sq. m. Within Europe, Switzerland has the sixth largest area provided by external suppliers. Only the United Kingdom, Germany, France, the Netherlands and Spain offer more. The density of data centres[4] in Europe is only higher in Ireland, which reinforces the importance of Switzerland as a location for data centres.

Despite a good market outlook, investors remain cautious in terms of investments in data centres. An investor-operator model lends itself well to investments in data centres. In such instances, the institutional investor performs the role of the owner of a data centre and receives a standard market rental income from the operator (external supplier). Sale-and-leaseback models have a similar purpose, i.e. the institutional investor acquires an "in-house" data centre and is guaranteed a long-term rental income from the seller; the institutional investor has the opportunity to diversify its portfolio; and the external supplier and seller of an "in-house" data centre can release capital for investment in further expansion or in its core business. As marketability improves, it may be possible to introduce new investment vehicles with a focus on data centres, or to position data centre operator bonds through the capital market in Switzerland. In view of Switzerland's appeal as a data centre hub and the rapid advance of digitalization, this niche segment has an interesting investment profile.

[3] The data centre landscape in Switzerland can be divided into two categories: the classic "in-house" data centres, i.e. data centres which are operated by companies in their own premises for their own purposes; and the growing number of specialist suppliers (external suppliers) whose core business is the operation of data centres.
[4] Defined as the total area of data centres per capita operated by external suppliers.

# Surging demand for properties in prime locations

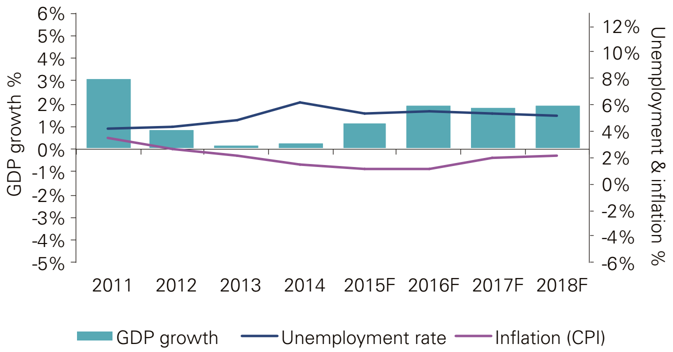
## Macroeconomic Overview

The Austrian economy faced a slight decline in growth in the last quarter of 2014, resulting in moderate annual growth rate of 0.3%. The sluggish growth in the Eurozone and the negative effects of the Ukraine crisis put a damper on growth rates and caused some downward revisions. However, a decrease in commodity prices and the depreciation of the Euro are expected to lead to a rise in exports, and therefore strengthen Austria's economy in the coming year. Economic activity has been particularly dynamic in Germany, Austria's most important trading partner. The outlook for 2015 and 2016 therefore reveals a more favourable picture, with forecast growth rates of 1.2% and 2.0% respectively.

Prices are expected to grow only moderately, because it is anticipated that consumers will be more sceptical. Low inflation and higher income growth, boosted by the economic recovery, will lead to continuous growth in real disposable household incomes. Real private consumption is therefore projected to grow by 1% in 2015.

After a slight deterioration in unemployment rates in 2014 caused by a cut in manufacturing, employment levels are expected to remain stable throughout the review period, with growth rates stabilizing at around 5.4%.

**Economic Indicators**




F – forecast
Source: Economist Intelligence Unit

Inflation rates are expected to fall slightly and so will remain below the 2% target. Current forecasts assume that in the next two years inflation will be 1.1% and 1.2% respectively. Upward adjustments might be necessary depending on the effectiveness of the ECB bond-purchasing programme and its direct impact on the Austrian economy.

As international real estate investors traditionally focus on Vienna as a location, our report mainly sheds light on Vienna rather than on smaller provincial capitals.

## Office Market

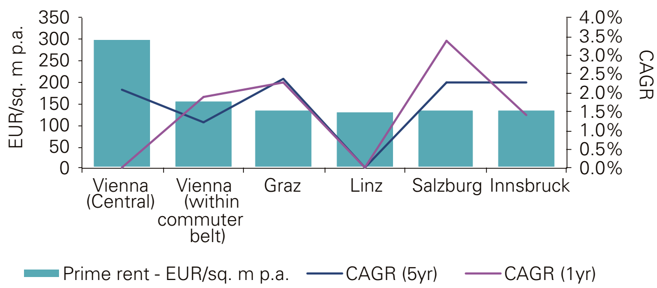
The office market in Austria faced a shortage in supply during 2014 due to the low level of completions in 2013. Rental revenues in Vienna have increased substantially and demonstrate a considerable increase compared to previous quarters. All space currently under construction already has a pre-let agreement in place and landlords can fill vacant office properties without using incentives. The vacancy rate therefore reveals a stable picture and is expected to decrease slightly in 2015 due to the high pre-letting rates and the high levels of owner-occupancy in the new space being released onto the market (for example, major projects around the main railway station).

Demand for office units in the city centre with excellent infrastructure and access to the metro is expected to rise, whilst offices in lower quality locations are becoming less and less popular.

Prime rents for offices in Vienna city centre have been increasing since the beginning of 2014 and stood at ca. EUR 25.75 / sq. m p.m. by the end of the year. Other locations have also recorded rising rents for office buildings, reaching EUR 14.90 / sq. m p.m. in quality locations and EUR 13.25 / sq. m p.m. in average locations. High quality office developments in good locations are expected to generate rents of around EUR 28.00 / sq. m p.m.

Prime rents in the main cities (Linz, Salzburg, Innsbruck and Graz) remained stable, ranging between EUR 11.00 / sq. m p.m. and EUR 15.00 / sq. m p.m.

**Prime Office Rents – September 2014**




Source: Cushman and Wakefield

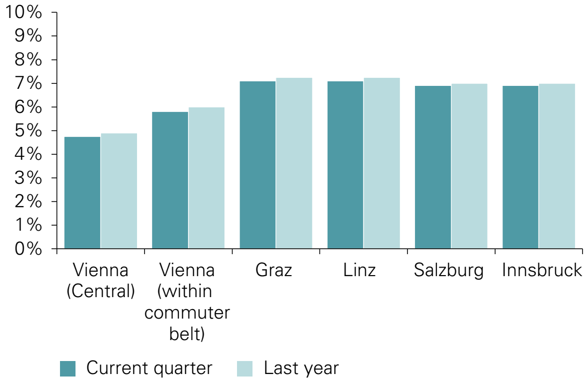
Transaction volumes in the investment market increased by 24% in 2014 compared to 2013, with two thirds being invested in Vienna. The value of transactions in 2014 totalled more than EUR 2bn. High demand from German institutional and private investors in particular contributed to the strong upward trend in the Austrian market.

# Austria

Since capital market interest rates remain very low and investment in shares involves substantial uncertainty and risk, real estate still offers a very stable investment. Modern office properties in high quality locations and long lettings to highly creditworthy tenants are the preferred investment.

The excess demand in the prime segment has led to a slight increase in prices for office properties in Vienna. Prime properties are currently traded at a yield of approximately 4.75%, whilst properties outside the prime segment yield of around 6%. It is expected that the prime segment could come under upward pressure in 2015, as competition will become more intense.

**Prime Office Yields (Gross) – September 2014**




Source: Cushman and Wakefield

## Retail Market

Austria is one of the most popular destinations for international retailers and is currently ranked Number 4 worldwide. The luxury market in particular is experiencing a strong upward trend, with many investors targeting prime properties in Vienna. In 2014 a significant number of international brands and restaurant chains, such as GAP, Massimo Dutti, and Hard Rock Café located their business in the capital.

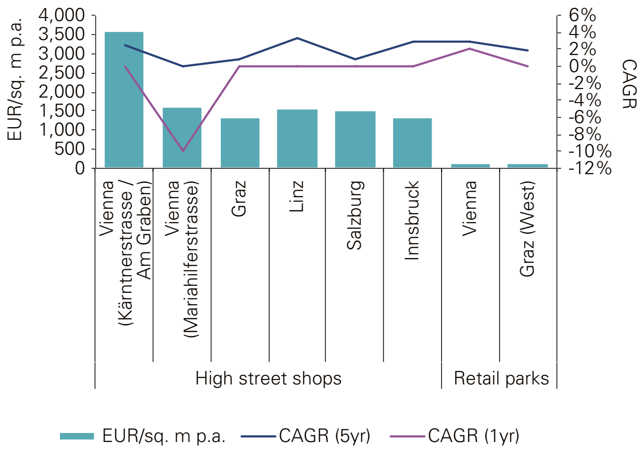
In 2014 and 2015, 60,000 sq. m of new shopping mall retail space will be released onto the market, most of it pre-let. Changes in average rents are only moderate, whilst prime rents have increased substantially as a result of rising demand for properties in the luxury segment.

In contrast to the positive trend in the prime segment, shopping streets in B and C locations are faced with declining demand and increasing vacancy rates as cheap retail chains become established. High quality locations and modern and refurbished space are therefore vital to achieve the necessary footfall.

High Street: this segment has made strong progress over the past year and this is expected to continue in the future. Prime locations such as Kohlmarkt, Kärtner Strasse or Graben are in constant high demand and represent an important and leading shopping metropolis in Europe. Prime rents have risen consistently and currently stand at EUR 400.00 / sq. m p.m., whilst lettings of smaller units have generated high-end rents of as much as EUR 500.00 / sq. m p.m. The increase in rents has been caused primarily by the full occupancy of the "Golden Quarter" (Tuchlauben), which has attracted many international luxury brands. With no substantial completions being released onto the market in the near future, these locations are expected to generate sustainable rents in the coming years.

Prime locations in the other provincial capitals have become increasingly important and demand for these locations is still solid.

**Prime Retail Rents – September 2014**




Source: Cushman and Wakefield

Prime yields for high street retail stand at 4.1% – 4.5% in Vienna, and 5.0% – 5.25% in Graz, Innsbruck, Linz and Salzburg.

Shopping Centres: it is expected that construction of shopping centre space will increase significantly during 2015 and that this will affect competition in central locations.

Newly completed projects, such as the "Citygate" shopping mall, the "Auhof Center" and "EKZ" at the main railway station, have all been very successful with high pre-letting rates. The new malls are a threat not only to high streets but also to existing malls, which will face fierce competition in the market. Also, the redevelopment of "Mariahilfer Strasse" into a pedestrian area might have a negative impact on the success of "Bahnhofcity Westbahnhof".

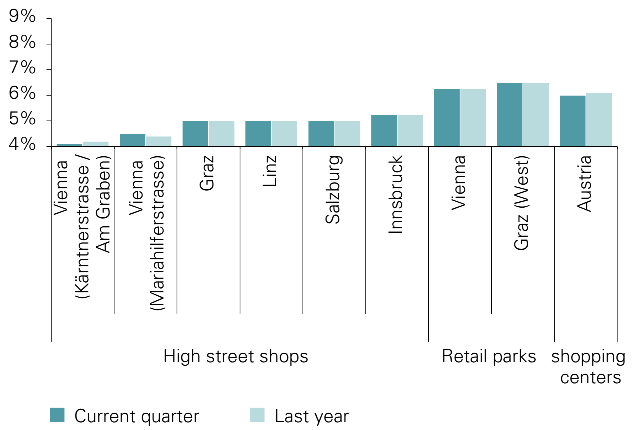
The outlook for prime rents is stable, with a slight upward trend in primary and secondary locations, whilst rents in

peripheral locations are expected to decline slightly in 2015. Prime rents stand at approximately EUR 110.00 / sq. m p.m. Prime yields have remained stable in the last two quarters at 6.00%, and are not expected to change significantly in the near future.

Retail parks: investors in this market are focusing on modernizing and improving existing space. High densities and the limited availability of planning permission is having a negative impact on investment activity in this segment. Those developments which are taking place are made up primarily of expansions of existing sites, such as "Frauenkirchen" (Burgenland).

Prime rents in Vienna stand at around EUR 12.00 / sq. m p.m. and those in other provincial capitals at EUR 11.00 / sq. m p.m.

**Prime Retail Yields (Gross) – September 2014**




Source: Cushman and Wakefield

**Residential Market**

There is steady demand in the residential market in both the owner-occupied and rental sectors. Location is still the critical factor in determining a property's saleability. As prices have risen significantly in recent years, there is currently a huge supply of premium residential properties. Prices are not expected to rise as fast as in the past; however, there may be a slight price increase in high quality locations. Despite low yields, the residential market in Vienna is still a very attractive location for investors and owner-occupiers.

In Vienna, the average purchase price stands at around EUR 3,750.00 / sq. m and is not expected to change during 2015. Purchase prices in the 1st district can reach EUR 28,000.00 / sq. m in top locations. In other Austrian provinces, prices stand at EUR 1,600.000 – 3,300.00 / sq. m.

## Italy

# Investments underpinned by foreigners

### Macroeconomic Overview

After an initial uplift at the start of the year, the economy has been slowing down since Q2 2014.

At the year-end the contraction in GDP is expected to be around 0.2% – 0.3%, whilst marginal growth is forecast for 2015 (0.8%) and +1% is expected from 2016.

**Economic Indicators**

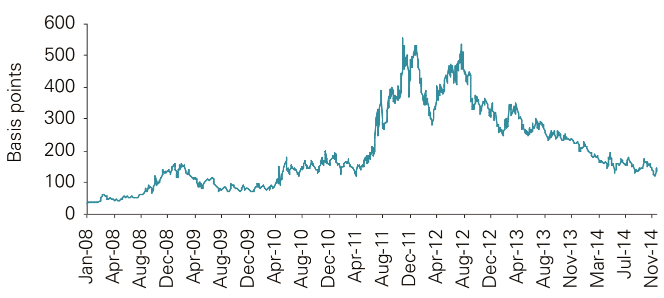

F – forecast
Source: International Monetary Fund, October 2014

The unemployment rate is still high (12.5%), especially among younger workers. However, the recently approved reform of Italy's labour market could be the dawn of the recovery.

Household consumption expanded by 0.1% at year-end and has recorded growth since 2010.

Having been under pressure during Q3 2014, the yield spread between Italian government bonds and the German bund had fallen to 140 basis points at year-end, providing evidence of stable investor optimism in the country's immediate future.

**Yield Spread Italian Government Bond / German Government Bond**




Source: Market data provider

The general weakness of the economy has not diminished investor appetite for the real estate sector, and it appears that the market is moving away from its crisis levels.

In this context, the recently approved "Sblocca Italia" decree comprises two important measures for growth in the sector. The first simplifies regulatory requirements in order to make SIIQs (listed real estate companies) more flexible and harmonises them with Italian real estate funds. The second is aimed at reducing the tenant-friendly conditions of the Italian market by modifying the legal framework for lease contracts.

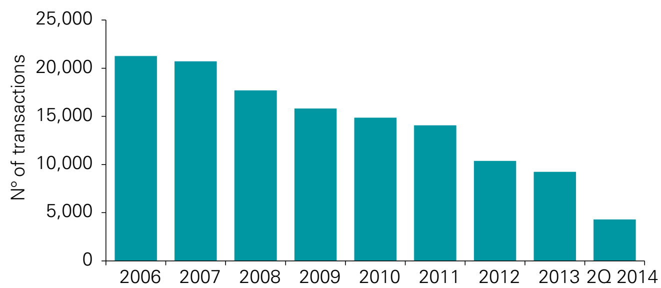
Approximately EUR 1bn was invested in real estate in Italy during Q3 2014, representing a Q-o-Q increase of 5.5%, and more than 16% on an annualized basis.

### Office Market

Despite still suffering from the macroeconomic environment especially in terms of financing constraints, the office market remains active and is driven by foreign investors in particular.

Number of transactions amounted to 4,316 in Q2 2014.

**Number of Office Transactions**




Source: Agenzia del Territorio

Quality, in terms of location and tenant profile, has definitely been the main deal driver, accentuating the impact of the lack of suitable product and driving increased competition in the market.

The two main markets are at different points in the cycle, with Milan showing a continuous recovery and Rome constrained by a lack of opportunities inhibiting market activity.

In Milan, investment volumes benefited from a small number of significant transactions in Q3 2014 which brought the total to EUR 360m. The main reported deals concerned the sale of an asset let to Credit Suisse and bought by the Qatar Investment Authority for EUR 110m, and the acquisition of two assets held by the Calvino Portfolio, purchased by Cerberus from the "Atlantic 2 – Bernice" fund managed by IDeA FIMIT SGR.

Lettings activity grew in Q3 2014, driven by two large lease contracts signed by the consultancy firms E&Y and Boston

Consulting Group, which took ca. 23,200 sq. m in the CBD. Lettings for the year are expected to outperform 2013.

Prime yields stand at 5.6% for the city centres and 7.5% in the fringe areas. Due to intense competition for prime assets, yields are expected to fall further, and this remains the primary obstacle to a wider recovery.

Prime rents are following a similar trend and, with tenants focusing on reducing property costs, rents amount to EUR 480/sq. m p.a. with incentives at around 10% of rent.

**Office Market Highlights – Milan**

| | Q3 2014 | Q2 2014 | Q3 2013 | 2013 |
|---|---|---|---|---|
| Investments (EUR m) | 360 | 158 | 4 | 1,354 |
| Office market share | 92% | 93% | 0% | 59% |
| Take-up (sq m) | 54,000 | 93,000 | 60,000 | 232,000 |
| Prime rents (EUR/sq. m p.a.) | 480 | 490 | 500 | 490 |
| Prime yields | 5.60% | 5.75% | 5.60% | 5.75% |
| Vacancy rate | 12.9% | 12.7% | 12.1% | 12.3% |

Source: BNP Paribas Real Estate Research

In Rome, transactions consisted mainly of small units (<500 sq. m), with only two noteworthy deals recorded: the acquisition of the Atlantic portfolio, sold by the asset manager IDeA FIMIT to a fund managed by Cordea Savills SGR (Cerberus) and the purchase of a fully let office by Prelios SGR.

Lettings activity confirmed the greater EUR district as the most sought-after area, representing around 34% of total take-up, but office areas in more central districts are becoming attractive again.

This trend is confirmed by the deal signed by the "Il Sole 24Ore" editorial group, which took ca.1,000 sq. m in the EUR district, and by the lease of 3,000 sq. m in the city centre signed with the public sector.

Overall the lack of attractive assets has put yields under pressure, recording a fall of 20 bps in Q3 2014 compared to their 2013 level.

Prime rents are stable at EUR 400.00/sq. m p.a. in the city centre, with a limited reduction in the EUR district (EUR 315.00/sq. m p.a.).

**Office Market Highlights – Rome**

| | Q3 2014 | Q2 2014 | Q3 2013 | 2013 |
|---|---|---|---|---|
| Investments (EUR m) | 85 | 7 | 357 | 1,153 |
| Office market share | 77% | 100% | 24% | 49% |
| Take-up (sq m) | 17,700 | 12,700 | 20,700 | 159,800 |
| Prime rents (EUR/sq. m p.a.) | 400 | 400 | 400 | 400 |
| Prime yields | 6.00% | 6.20% | 6.10% | 6.20% |
| Vacancy rate | 8.9% | 8.5% | 7.8% | 7.6% |

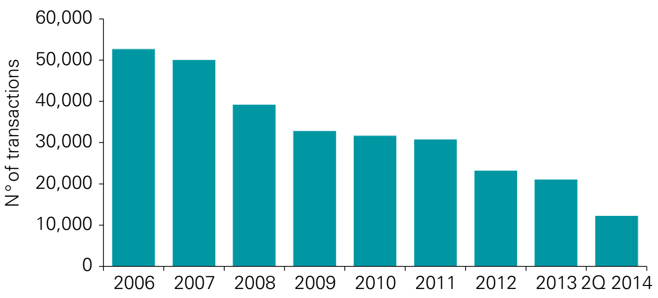
Source: BNP Paribas Real Estate Research

## Retail Market

The extended retail sales crisis has discouraged any upswing in the real estate market, which continued its downward trend despite being traditionally the most attractive market in Italy.

In Q2 2014 there were 12,327 transactions (down 0.4% compared to Q3 2013), for approximately EUR 1.2bn of investment. However, this does not mean that interest in the sector is declining, but rather that more time is taken to complete investments.

**Number of Retail Transactions**




Source: Agenzia del Territorio

Nevertheless, high street rents (around EUR 8,000 / sq. m p.a.) have increased by 13% compared to their 2013 level and shopping centre rents remain stable at around EUR 800 / sq. m p.a. This reveals that the deterioration in Italy's economic growth prospects has not changed retailers' general sentiment towards the country, which remains positive.

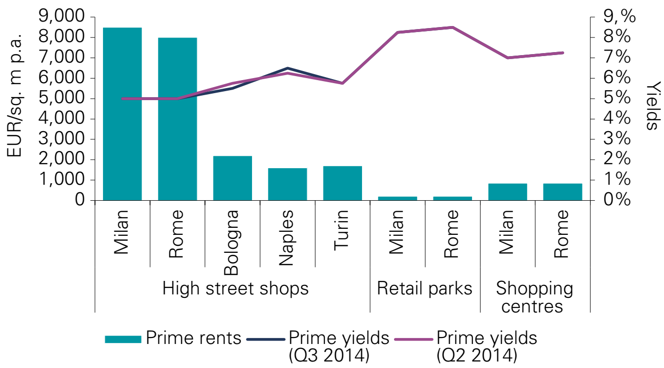
Occupier and investor focus has not changed: appetite is mainly for stable income-generating retail schemes and high street locations. Development activity remains limited and carefully targeted.

In this context, the third quarter has been characterized by two major deals. The first was the 50% disposal of a primary shopping centre in Rome ("Roma Est"), acquired by GIC (Government of Singapore) from CBREGI for approximately EUR 200m; the second was the 90% acquisition of the "Le Terrazze" shopping centre in La Spezia, purchased by Union Investments from Sonae Sierra for more than EUR 100m.

The acquisition of three retail schemes in Venice, Brindisi and Verona by the Italian pension fund ENPAM also demonstrates that, though foreign investors remain the main players, with a number of cross border players keen to enter the market, Italian players still have an appetite for suitable opportunities.

Overall, prime yields have remained stable over the past quarter.

**Prime Retail Rents and Yields – September 2014**

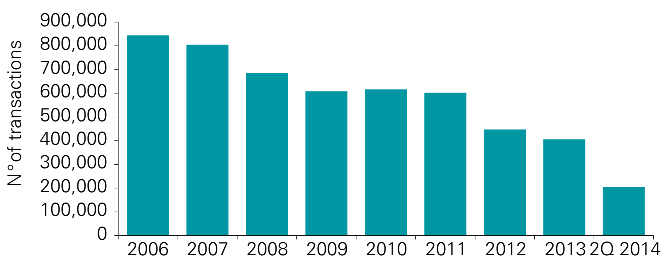



Source: Cushman and Wakefield

## Residential Market

The residential market crisis appears to be subsiding, showing a positive trend with transactions amounting to approximately 206,000 in Q2 2014 (+1.4% compared to Q2 2013).

**Number of Residential Transactions**



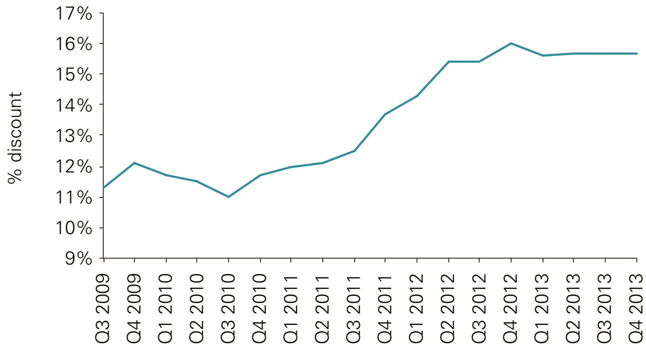

Source: Agenzia del Territorio

This change in sentiment is also confirmed by the real estate mortgage market, particularly the rising demand for new mortgages which increased by 14% in the period Jan-Nov 2014 compared to the same period in 2013; the average amount lent is around EUR 126,000.

This new demand is mirrored by supply which, after suffering from more than thirty months of deep downturn, showed distinct signs of recovery. November 2014 achieved the highest level of loans since April 2012, with loans up to EUR 1m recording a 1% increase Y-o-Y.

The average discount requested by purchasers remains stable, at around 16% of the initial price asked by sellers.

**Average Discount to initial Price proposed by Sellers**




Source: Agenzia del Territorio

## Data Centres

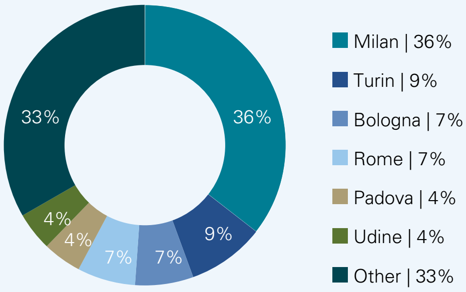
Data centres have particular characteristics compared to other industrial buildings. Above all, they require fibre optic connections and a power supply which is not readily available everywhere, and they are subject to location constraints, since they must be located in areas which are not subject to natural events (floods, earthquakes etc.), distant from railways and airports, and there must be no hazardous industries nearby (refineries, gas storage, nuclear power plants etc.).

Data centres are currently considered as a reliable and steady alternative property investment, which does not follow conventional economic cycles.

There are a number of factors driving this: first is the fact that many companies have taken the decision to consolidate their collection of server rooms and data centres into centralized regional sites, coupled with the relatively recent exponential growth of cloud based solutions which require more data centre infrastructure to support their services.

Currently in Italy there are approximately 45 data centres in operation.

**Data Center Locations, Italy**




Source: KPMG

Operators in the European market still see the sector as a secondary market, but recent transactions demonstrate a growing interest in the development of technology centres.

In this context, although not yet a large market, Italy has shown the first signs that it is expanding.

Italian telephone operators are investing heavily in data centres, following the European and global trend. Telecommunications companies such as Telecom Italia and Fastweb have announced investments in data centres, whilst the recent opening of a large data centre in Rome is evidence of the interest in this niche market.

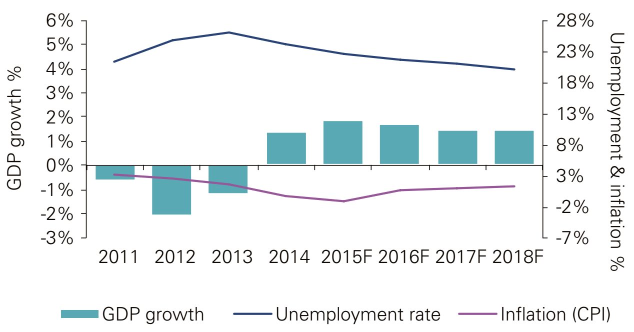
This is also made clear by the acquisition of 80,000 sq. m by Data4 from Nabucco RE S.r.l.; this space will be dedicated to the development of the largest IT facility in Italy, comprising more than 10 dedicated buildings.

# Economic growth as a driver for real estate

## Macroeconomic Overview

GDP: Growth expected to accelerate.
Inflation: Declined during Q2 2014 but is expected to increase gradually during 2015.
Employment: Gradual improvement expected.
The Spanish economy continued to accelerate gradually, with 0.6% Q-o-Q growth in Q2 2014 and improved exports and investment. Net exports showed a significant improvement over the quarter, with anticipated 4.7% growth in 2015 compared to 3.5% in 2014. Consumer spending is seen as a driver for growth, whilst reduced inflation and unemployment are increasing disposable household income. Household spending is forecast to expand at a solid but more gradual rate, with 2.2% growth expected in 2014 and 2.3% in 2015.

**Economic Indicators**

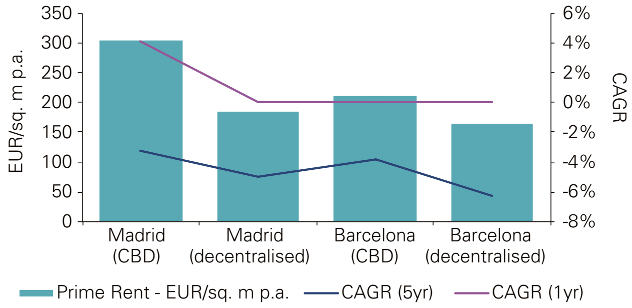



F – forecast
Source: Economist Intelligence Unit

## Office Market

The Spanish office market displayed a positive trend, with improving economic growth and consumer sentiment. The country also saw huge investment and transaction activity during Q3 2014. In the investment market, Barcelona saw a 46% Y-o-Y increase whilst Madrid lagged behind. On the supply side, Madrid remained steady during Q3 and currently stands at 12.3%. Medium to large firms opt for the city centre, whilst smaller companies continue to prefer lower grade buildings in the CBD where prices are lower. Letting activity in Q3 2014 was dominated by consolidations and relocations.

**Prime Office Rents – September 2014**

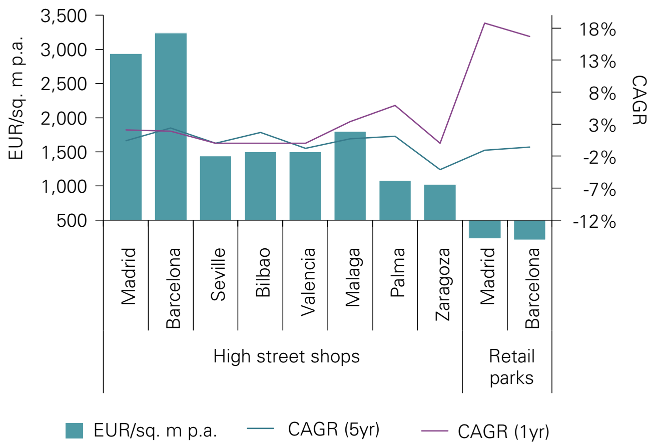



Source: Cushman and Wakefield

## Retail Market

Growth in retail sales remains modest despite the return of consumer confidence and a pick-up in consumer spending. There is strong demand from international retailers on the Spanish retail market as well as from domestic operators. Prime high street rents have been on the rise across the country, especially in Barcelona's top shopping streets. Retail parks have also shown increased activity from occupiers over the year and rents have been rising steadily. A total of EUR 677m worth of retail assets were traded in Q3 2014. Increased demand for prime high street properties may therefore place rents under upward pressure.

**Prime Retail Rents – September 2014**



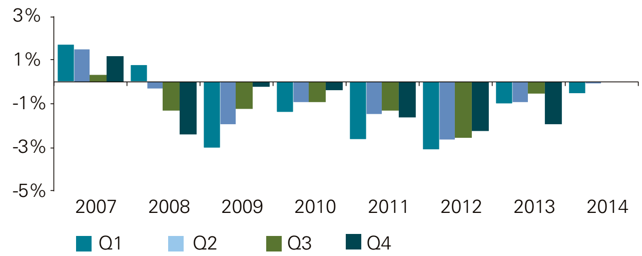

Source: Cushman and Wakefield

# Spain

## Residential market

A fall in unemployment combined with a reduction in debt and a slight rise in net wealth contributed to the modest rise in house prices in the first half of 2014. Residential prices rose by 0.8% in Q2 2014. However, the number of mortgages approved in Spain decreased by 13.7% in the first half of the year compared to 2013. New housing stock decreased by around 13% between 2009 and 2013.

**House Price % Change**




Source: Banco de España

# Investment activity increasing again in most markets within the CEE region

### Macroeconomic Overview

The Central and Eastern European region experienced some cautious growth in the course of 2014, and this pace of growth is expected to accelerate further in the coming years. However, prospects remain slightly uncertain as a result of the ongoing Ukrainian crisis which has hit investor sentiment and consumer confidence, and could have a knock-on effect far beyond the region.

Global oil prices have fallen sharply over the past six months and have now dropped below USD 50 per barrel for the first time since 2009, resulting in revenue shortfalls in many energy-exporting countries. The reasons behind this significant fall are twofold – weak demand (slower economic growth in Europe and China) coupled with surging US production and the US "shale boom" and a switch away from oil to other alternative fuels. Falling oil prices – which lower gasoline prices significantly – should boost consumer consumption and could help economic growth, but there is a flipside as plunging oil prices are likely to cause deflation in the Eurozone.

The EU and the US have introduced sanctions on Russia in line with its role in destabilizing Ukraine. The sanctions, along with a global decline in oil prices, have sent the rouble tumbling – it has lost more than a fifth of its value against the dollar since the start of 2014 – and brought the Russian economy to the edge of recession.

Inflation was expected to remain at record lows in 2014 across the CEE countries. Most central banks in the region adopted low interest rates to increase demand for consumer borrowing and to encourage consumer spending. In Poland, the benchmark rate is currently on hold at 2% following a 0.5% cut in September 2014. The Czech National Bank plans to extend its weak-koruna policy well into 2016 to tackle low inflation, while Hungary's central bank has cut its key interest rate each month for two years to a record low of 2.1%. These steps are in line with the European Central Bank, which has introduced a series of rate cuts since May 2014 to stimulate economic growth and to prevent the Eurozone from sliding into deflation.

As in previous years, economic growth in the Central and Eastern European region is broad ranging.

The best performers in 2014 are expected to be announced as Poland, Hungary, and Slovenia with 3.3%, 3.0% and 2.8% GDP growth respectively, followed by Romania, the Czech Republic and the Baltic States, which are projected to grow by 2.8%, 2.4% and 2.3% respectively. The weaker performers are expected to be Serbia and Croatia, with declines of 1.8% and 0.8%.

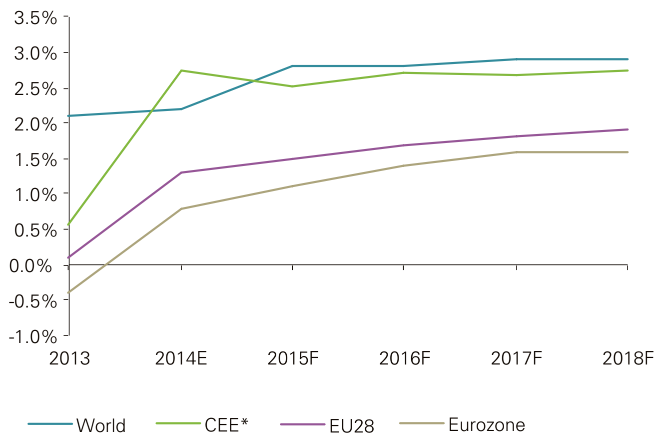
**Real GDP Growth Rate**

| | 2013 | 2014E | 2015F | 2016F | 2017F | 2018F |
|---|---|---|---|---|---|---|
| World | 2.10 | 2.20 | 2.80 | 2.80 | 2.90 | 2.90 |
| EU28 | 0.10 | 1.30 | 1.50 | 1.70 | 1.80 | 1.90 |
| Eurozone | -0.40 | 0.80 | 1.10 | 1.40 | 1.60 | 1.60 |
| CEE* | 0.57 | 2.74 | 2.52 | 2.70 | 2.68 | 2.74 |
| Baltics** | 3.30 | 2.30 | 3.00 | 3.70 | 3.80 | 3.60 |
| BGR | 1.07 | 1.50 | 1.70 | 2.90 | 3.30 | 3.50 |
| CRO | -0.94 | -0.80 | -0.30 | 1.20 | 1.40 | 1.50 |
| CZE | -0.71 | 2.40 | 2.30 | 2.40 | 2.20 | 2.30 |
| HUN | 1.54 | 3.00 | 2.40 | 2.60 | 2.50 | 2.60 |
| POL | 1.55 | 3.30 | 3.20 | 3.80 | 3.70 | 3.50 |
| ROM | 3.52 | 2.80 | 2.90 | 3.90 | 4.00 | 4.20 |
| SRB | 2.59 | -1.80 | -0.40 | 3.60 | 4.00 | 4.20 |
| SVK | 1.43 | 2.20 | 2.50 | 2.90 | 2.70 | 2.70 |
| SVN | -0.98 | 2.80 | 2.20 | 1.80 | 2.30 | 2.60 |

E – estimate
F – forecast
* = average of Czech Republic, Hungary, Poland, Slovakia and Slovenia
** = average of Estonia, Lithuania, Latvia
Source: Economist Intelligence Unit, January 2015

Slovenia and the Czech Republic are expected to recover very soon from their recession in 2013.

**GDP Growth (%), Global Outlook**




E – estimate
F – forecast
* = Czech Republic, Hungary, Poland, Slovakia, Slovenia
Source: Economist Intelligence Unit, January 2015

According to the Economist Intelligence Unit, the EU28's compound GDP growth rate should average 1.8% over the next three years. GDP growth in the CEE region is anticipated to outperform the forecasts for the EU, at an average of 2.7% between 2016 and 2018.

## Investment

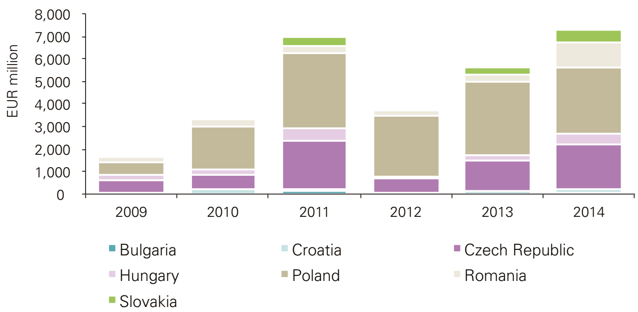
Until 2014/15, the geopolitical environment in Europe had not weakened investment activity within the CEE region, with the exception of Russia, where investment volume halved Y-o-Y compared to 2013.

The continued development and growth of CEE investment relies heavily on favourable occupancy trends across the different sectors in all countries.

Recent forecasts show that this positive trend should also continue in 2015, with no signs of a slow-down. Investor demand proved to be strong during 2014 and investment volume reached close to EUR 7.3bn, which is approximately 30% higher than 2013.

The strong growth in investment activity is driven mainly by the low interest environment, improved economic conditions and better availability of financing.

**Total Real Estate Investment Transactions**

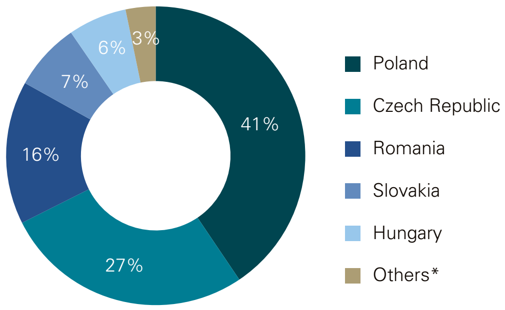



Source: CBRE, JLL

European institutional investment funds are still focusing on the two most dominant markets: Poland and the Czech Republic. These two markets have the highest volume of investment of the CEE countries, with 41% and 27% respectively. However, some smaller markets which offer higher yields than the top performers of Warsaw and Prague began to witness an increased appetite for investment in 2014.

According to recent data, all the CEE countries under analysis outperformed their 2013 results except for Poland and Croatia. Romania continued to grow rapidly, doubling the investment volume compared to last year and consequently, it has become the third most dynamic market in the region. Hungary and Slovakia also grew significantly, by 69% and 72% respectively.

**CEE Investment Market by Country, 2014**




Source: CBRE, JLL

During 2014, approximately half of the investment volume within the CEE region was realized in the office segment, followed by retail (32%) and then the industrial segment (21%). Hotels were the least favoured by investors, representing only 5% of all the investment volume. Belgrade and Sofia still have the highest yields in the region, while the lowest yields were registered in Warsaw and Prague.

**Indicative Yields and Q-o-Q Change, Q3 2014**

| | Prime office | Change | Prime retail* | Change |
|---|---|---|---|---|
| Belgrade | 9.50% | → | 8.50% | → |
| Bratislava | 7.00% | → | 7.00% | → |
| Bucharest | 7.75% | ↘ | 8.00% | ↘ |
| Budapest | 7.25% | ↘ | 7.00% | → |
| Prague | 6.00% | → | 6.00% | → |
| Sofia | 9.00% | ↘ | 9.25% | → |
| Warsaw | 6.00% | → | 5.90% | → |
| Zagreb | 8.30% | → | 8.25% | → |

Source: CBRE, Cushman and Wakefield
*Note: Shopping centre

Prime office yields decreased by 25 bps in Budapest, Bucharest and in Sofia in Q3 2014. Other countries remained relatively stable.

Lack of available prime products and a decreasing yield environment are increasingly causing investors to focus on non-core assets and markets.

## Office Market[1]

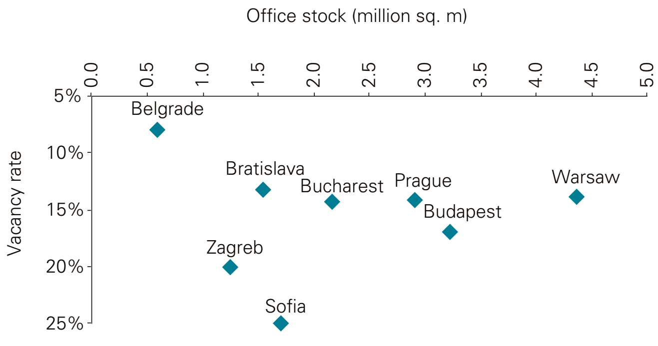
Despite the recent upward trend in the supply of new office space in the region, there were also some notable decreases recorded in some CEE markets. However, this appears to be due to relative inactivity, rather than a change in the direction of travel of the supply trend, and high levels of completions due in early 2015.

Strong occupier markets combined with low levels of new supply during the third quarter are leading to decreases in vacancy levels in most markets in the region. However, there are a number of projects in the pipeline for the coming quarters, and this will compensate for the slowdown in completions in Q3.

Rents in prime locations remained largely stable in most markets and tenants remained in a strong negotiating position, with good incentive packages offered by landlords. The highest rents for prime CBD properties can be found in Warsaw (EUR 22.00 – 24.00/sq. m/month) followed by Budapest, Bucharest and Prague (EUR 18.50 – 21.00/sq. m/month). Bratislava, Sofia, Zagreb and Belgrade are less expensive (EUR 13.00 – 16.00/sq. m/month).

Vacancy rates were stable or decreased in all markets during Q3 2014, with the exception of Warsaw, where a slight increase was recorded due to the large amount of speculative office space delivered.

**Office Supply and Vacancy Rate, Q3 2014**




Source: JLL

The average vacancy rate in the region ranged between 8% and 25%. The highest proportion of empty space was registered in Sofia (25%) followed by Zagreb (20%), whereas the lowest were in Bratislava (13%) and Belgrade (8%).
We are also witnessing a rich pipeline of new developments, with 90,000 sq. m of new office space scheduled to be handed over by the end of 2014 in Warsaw.

[1] At the time of our research, official data was only available up to Q3 2014.

A further 640,000 sq. m of office space is still under construction. The amount of new stock handed over in 2014 exceeds 2013 levels. Demand remains strong, with more intense pre-letting activity in the last quarters, representing 20% of new take-up. However, demand could not keep up with the large volume of new completions during the year, hence the vacancy rate increased slightly and stood at 13.8% in the third quarter of 2014. Prime rents are expected to remain stable in the short term in 2015, but slight downward pressure is anticipated due to increasing supply.

Q3 2014 saw very strong demand from tenants in Prague. Gross take-up was 76% higher compared with the same period in 2013. However, approximately half of this take-up was renewals. Currently there are 290,000 sq. m of new office space in the pipeline, but during Q3 2014, not one new building was handed over. Compared to 2013 there were nearly twice as many new completions, the largest volume since 2009. As demand was strong with no new completions, the vacancy level decreased in Q3 2014. Rents were stable during this period, but there is a very healthy supply pipeline and this may put slight downward pressure on rental prices in some locations.

During Q3, there was only one new office completion (32,000 sq. m) in Bratislava, and by the end of the year, an additional 4,500 sq. m was planned to be handed over. The amount of new office space completed exceeded the previous year by approximately 30%. The current development pipeline is 78,000 sq. m, which consists almost exclusively of sustainable buildings. Demand during Q3 was driven mainly by renewals, accounting for approximately 67% of all transactions. There was a slight decrease in the vacancy rate, which now stands close to 13%. It is expected that there will be an increase in the absorption rate, which would lead to a further decline in vacancy rate. Prime headline rents remained stable over the quarter and no significant change is expected in the near future.

Demand during Q3 was lower in comparison to the strong Q2 activity in Budapest. Letting transactions reached almost 100,000 sq. m, of which 50% were renewals, 30% were new leases and 20% were expansions or pre-lettings. The level of new supply between January and September was close to 50,000 sq. m, which is 65% more than new supply in the whole of 2013, but the speculative pipeline remains sparse. The vacancy rate continued to decrease in Q3, reaching 17%. Average rents did not change during Q3 and are expected to remain stable; however, a reduction in incentive packages is forecast for the medium term.

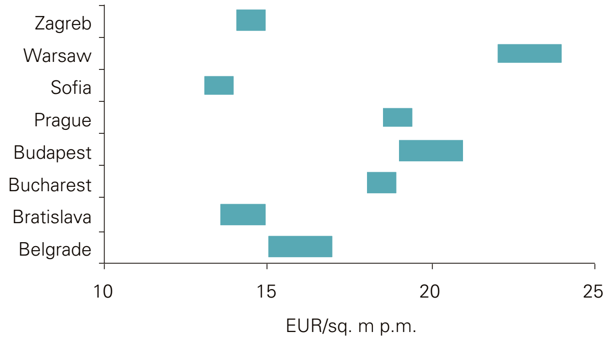
Demand also remained strong in Bucharest during the second half of 2014. Gross take up during the third quarter was close to 64,000 sq. m. Three small office projects were completed during this period, adding 7,000 sq. m of new space to the market, and an additional 70,000 sq. m was expected to be handed over by the end of 2014. Due to the low level of new supply in Q3, the vacancy level decreased slightly, but it is expected that it will increase again as the new stock is handed over. The market remains tenant-driven, with stable rental levels and no significant change is expected in the short term.

There is relatively low demand in the Zagreb office market. Market activity was driven mainly by the relocation of existing tenants and renewals of existing leases; hence, net take-up was quite low. Due to the difficult economic situation, tenants remained very price-sensitive and it is expected that rents will stagnate in the medium term. There is a pipeline of 80,000 sq. m of new office space, which might push up the already high vacancy rate.

There are several developments underway, but until Q3, there was no new supply of modern office space in Belgrade in 2014. There are two speculative projects in the pipeline for 2015 with a total area of 12,670 sq. m. Occupier demand was strong in Q3, with gross take-up reaching approximately 18,000 sq. m, of which 80% was new or pre-lettings. The average vacancy level was stable and stood at approximately 8%; however, vacancy in modern office buildings in the downtown area was close to zero. Rents for class "A" properties increased during this period due to the limited availability of modern office space.

During the first half of 2014 in Sofia, 37,000 sq. m of new modern office space was delivered to the market. Occupier activity was strong during the first six months, with an increased pace of absorption compared to the same period in 2013. However, it is expected that the total number of transactions will be similar to 2013. Expansion of existing tenants remained the most significant driver of demand (37%), followed by renewals and relocations, which represented more than half of the transactions. Due to strong demand, there was a slight increase in rents across the prime category. However, due to increased supply, the vacancy rate remained stable during this period.

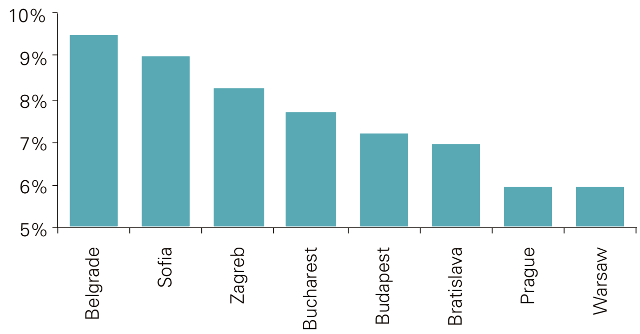
**Prime Office Rents, Q3 2014**




Source: JLL, Cushman and Wakefield

There was a slight increase in the rental level for prime office properties in Belgrade and Sofia due to the shortage of available space. Other markets remained stable during Q3.

**Prime Office Yields, Q3 2014**




Source: CBRE, Cushman and Wakefield

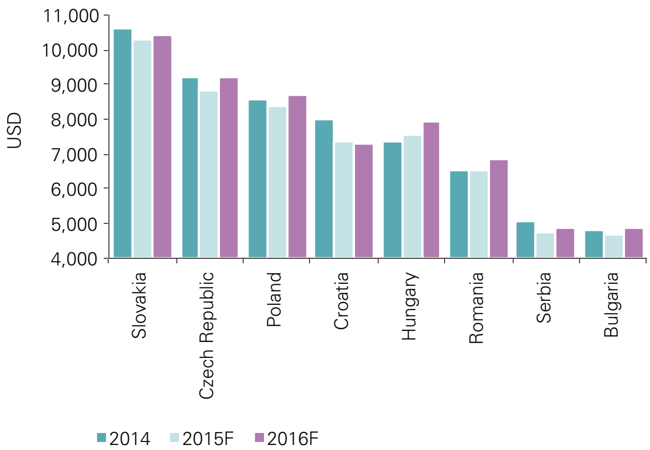
In 2014, office investment became even more popular among investors than it was in 2013. The share of office investments increased by almost 10% in 2014 compared to 2013. A slight downward yield adjustment was observed for prime office buildings in Bucharest, Budapest and Sofia during the second half of the year.

Warsaw and Prague are still the most sought-after destinations in the region, the lowest yield levels being 6%. Yields range from 7% to 7.75% in Bratislava, Budapest and Bucharest. Investors perceive Sofia and Belgrade as the riskiest locations in the region, with yields of 9% and 9.5% respectively.

## Retail Market[2]

As confidence returned to the retail sector, it triggered a rise in new developments across the region. Overall there is a positive outlook for prime retail rents across the region, both for high street and traditional shopping centres, due to the continued increase in turnover. Despite the geopolitical tension in the region, retail investment sentiment has also been improving. With the rise of mobile technology and e-commerce demand, a degree of change is expected to occur in some retail store layouts.

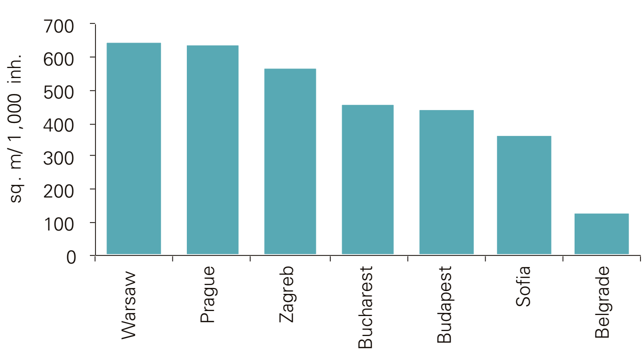
**Private Consumption per Capita**




F – Forecast
Source: CBRE, Cushman and Wakefield

Retail sales were up in almost all countries in the CEE due to higher real wages and falling unemployement. Based on the forecasts of the Economic Intelligence Unit, changes in private consumption per capita will vary across the region. In the case of Slovakia, the Czech Republic, Poland, Croatia, Serbia and Bulgaria, a slight decrease is forecast for 2015 with a positive adjustment coming in 2016. Constant decline in the next two years is expected only in the case of Croatia.

**Shopping Center Density**




Source: JLL, Colliers International

Not suprisingly, Warsaw and Prague have the highest shopping centre densities of the capital cities analysed, followed by Zagreb, Bucharest and Budapest. The lowest density was recorded in Belgrade.

No new shopping centres were handed over in Warsaw during 2014. However, the city and its conurbation have the lowest shopping centre density of all the larger Polish cities and the strongest purchasing power, and therefore all the major players in the market (developers, retailers and investors) focus on the capital city. Two new projects were initiated during this period as well as some extensions to existing schemes. Altogether, 64,000 sq. m total lettable area is scheduled to open in 2015. Due to constant high demand from retailers, the vacancy rate in modern shopping centres remains very low (1.6%). Rents in shopping centres remained stable during this period and no changes are expected in the short to mid-term.

Only one retail park was handed over in the Czech Republic (4,000 sq. m lettable area) and an additional two centres were scheduled to open by the end of 2014. Currently, more than 110,000 sq. m of retail space is under construction in the Czech Republic, of which 26% will be delivered in Prague. Demand in the Czech retail market has been improving, but retailers are mainly interested in prime shopping centres, and so secondary schemes are increasingly lagging behind. Overall, it is expected that rents will remain stable, with slight upward pressure in the best locations.

Slovakia experienced growth in retail sales during Q3 2014, and overall sentiment within the retail market has improved. As a consequence, retailers are showing more dynamism in expanding and opening new stores. The capital Bratislava has attracted a number of international retailers, which have usually expanded into several shopping malls across the city. By contrast, high streets in Bratislava are not as attractive for famous brands as shopping centres. One new shopping centre was opened in 2014 with 53,000 sq. m lettable area and three further schemes are in the pipeline and expected to open in 2015. Rents in prime locations are expected to remain stable.

The stock of shopping centres in Budapest remained unchanged in 2014. The current trend is to refurbish existing shopping malls and improve their tenant mix. Conditions in the retail market continued to improve in the second half of the year and retail sales remained on an upward trend throughout 2014. International retail brands showed interest in opening new stores, but only in the best locations. Rental levels were stable, with slight upward pressure in the prime category.

[2] At the time of our research, official data was only available up to Q3 2014.

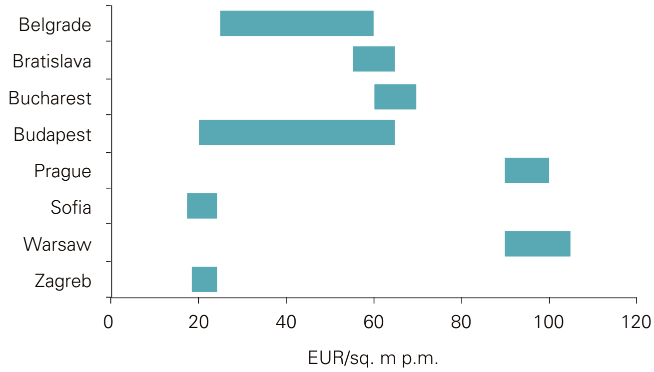
One new shopping centre was handed over in Bucharest in Q3 2014, with a total lettable area of 25,000 sq. m. An additional 160,000 sq. m of new supply is in the pipeline for 2015 and 2016. Retail sales improved during the first 8 months of 2014 compared to the same period in 2013. Confidence is slowly coming back to the market and developers are starting to plan new projects. Retailers are focusing mainly on better-performing shopping centres, and so there is a large gap between prime and secondary schemes, with this trend not expected to change. Rents for prime shopping centres remained stable over the quarter and no changes are expected in the short term.

There was no additional shopping centre supply in Zagreb during 2014. The capital is considered to be oversupplied as a result of the significant delivery of modern shopping centre space since 2007. The last major completion was a retail park of approximately 31,000 sq.m just south of Zagreb, which was handed over in May 2014. One positive sign for the Croatian market is that retail sales contiunue to grow; there was a 2.1% increase in November 2014 compared to the same month in 2013. Retailers are currently trying to relocate to the better performing centres, resulting in an increasing gap between prime and secondary centres. Rents remained largely stable during 2014.

Retail market activity is on the up in Belgrade; however, tenants face difficulties when they try to secure units in prime retail schemes. Currently there are only three modern shopping centres in the Serbian capital; due to limited supply there is a very low vacancy level. As a consequence, an increasing number of retailers are considering renting areas in retail parks. In order to meet this increased demand, two retail parks were completed in 2014 with total lettable area of nearly 20,000 sq.m, and another is in the pipeline for 2015. Average shopping centre rents for prime properties remained stable.

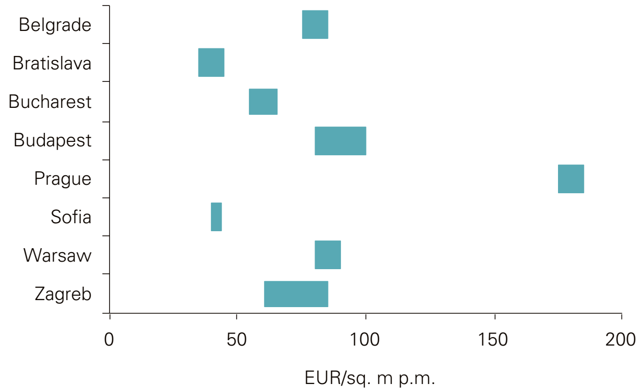
Three new shopping centres were scheduled to open in Sofia by the end of 2014, with a total lettable area close to 116,000 sq.m. Demand remained strong in well-established malls, and so the average vacancy rate in such buildings was as low as 3%. Retailer optimism remained positive, with plans for further expansion. However, due to a lack of available space in modern shopping centres, retailers are focusing increasingly on high street locations. During the first half of 2014, rents in prime shopping centres and high street locations increased slightly. It is expected that the new supply of shopping centre space will place rents under downward pressure.

**Prime Rent in Shopping Centers, Q3 2014**




Source: JLL

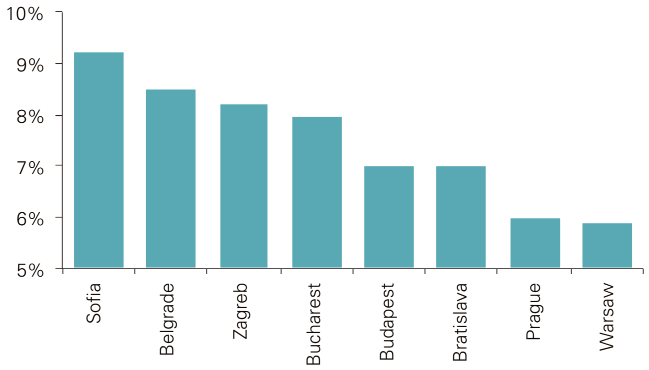
**Prime Rent in High Streets, Q3 2014**




Source: JLL

Prime rents remained stable in the CEE region during the third quarter of 2014, but the outlook is now positive due to increases in retail sales in most markets. Rental levels remain at their highest in Prague and Warsaw, both in shopping centres and in high street locations. The lowest average prime rents in shopping centres were registered in Zagreb and Sofia. In the case of high street rents, Sofia and Bratislava were the least expensive in the region.

**Prime Retail Yields, Q3 2014**




Source: CBRE, Cushman and Wakefield

Prime retail yields remained largely stable during Q3 2014. The only exception was Bucharest, which experienced a slight decrease in yield due to improving market conditions.

## Residential Market

Due to the perceived economic recovery across the region and the increasing availablity of financing, with better conditions, most residential markets experienced an upturn during 2014. The number of transactions increased and there remains a slight upward pressure on prices in some locations.

The second half of 2014 was a good period in the residential market in Poland. In the period up to the third quarter, 17,800 units were launched, of which 16,900 units were sold, signalling optimistic expectations in the housing market. In Q3 2014 approximately 4,000 units were sold in Warsaw, which is a 6% increase over the previous quarter. Average prices for all units in Q3 2014 remained more or less in line with Q2 2014 figures.

The residential market appears to be stabilizing in Prague. In the first half of 2014, the number of construction projects increased by 9% compared to the same period in 2013. However, in 2014 the prices of new apartments and villa housing developments saw a decrease of 4.0% compared to 2013.

After six consecutive years of decline, the residential market in Budapest started to recover in 2014. Furthermore, the expectation is that this trend will continue into 2015. The price of pre-owned dwellings is forecast to rise by 0.7%, and in the case of newly built apartments by approximately 1%.

After several years of decline in residential prices, the market is now turning the corner in Romania. In line with a slowly improving economy, asking prices for Bucharest apartments maintained a relatively stable improvement in 2014. Apartment prices resumed an upward trend, with an increase of 1.5% on Q4 2013 figures, but still far behind the levels registered in 2008.

Bratislava has by far the most expensive house prices in Slovakia, approximately double the average provincial prices. The average house price in Bratislava remained stable in the first three quarters in 2014 but was still down slightly on 2013.

The Croatian residential market is still suffering. Declining house prices and low transaction numbers are evident. In Zagreb the average price of apartments fell by 3.7% during 2014. However on the Adriatic Coast the price of apartments declined by only 0.5% during 2014, which suggests that demand on the coast is more resiliant.

The housing market in Bulgaria is recovering and this trend is expected to continue into 2015. The second half of 2014 saw significant growth of activity in Sofia. Sales of residential properties increased in the capital by approximately 15% compared to 2013.

Belgrade has Serbia's most expensive and active housing market. The residential market experienced lower demand during the previous years as a result of tighter loan conditions and the recent elimination of subsidized housing loans. However, signs of positive trends are becoming more evident. A recent joint venture between the city of Belgrade and Eagle Properties has put the city back in the spotlight thanks to the extensive mixed-use "Belgrade Waterfront" project. This project will fully remodel the old Belgrade river-front with residential and commercial developments. The project has already commenced and is due for completion by 2020. This also coincides with Serbia's potential EU entry, which could further help to revive the residential property market in the next few years.

## Data Centres

Global technology is changing dramatically on all fronts, creating increasing demand for data centre space in the CEE region.

The data centre market in CEE has been evolving, but the market is still not as saturated as in Western Europe; there are relatively few well regarded players and the markets are highly fragmented.

Considering total commercial data centre space capacity, Poland is – as in previous years – expected to be the largest data centre market in the CEE, followed by Hungary and the Czech Republic.

Most of the data centres in the region are built-to-suit facilities, developed by their current owners and users, who are mainly telecommunications companies and banks.

It is estimated that the total floor area of data centres providing hosting, co-location and cloud services to third parties in the whole region amounts to approximately 60,000 sq. m, with almost one third of it located in Budapest.

### Poland and Hungary leading the way

In terms of size, the main cities of the CEE region still lag behind the Tier 1 data centre markets of Western Europe, namely London, Paris, Amsterdam and Frankfurt, where demand is generated primarily by large financial institutions and telecommunication companies. However, Warsaw and Budapest are now also being considered as key data centre hubs in CEE.

Warsaw – and to some extent Krakow – are developing dynamically due to the growing trend towards outsourcing IT facilities, but commercial data centres in Poland are usually small in size (up to 1,000 sq. m).

Budapest is not yet considered a Tier 1 market; however, due to its geographical location, at the telecommunications crossroad between Western Europe and Asia, and because it has sufficient data centre capacity, it is an important gateway and can now compete with Tier 2 data centre locations in Western Europe.

### Key market players

The region's key player is Deutsche Telekom (and its subsidiary T-Systems), which has the largest single data centre not only in Hungary but in the region, with an estimated floor area of 15,000 sq. m, located in Budapest.

In 2014 T-Systems also acquired GTS Central, Europe's 13,000 sq. m data centre portfolio, comprising 14 data centres across the region, for a price of EUR 550m.

Besides the data centres, the deal included a facility in Budapest at which Deutsche Telekom provides a 100 gigabit ethernet capacity to CERN (European Organization for Nuclear Research).

The CERN@WIGNER project in Budapest – with the largest data transmission capacity in Europe – was inaugurated in June 2013 and it now hosts CERN's computing resources, 500 servers, some 20,000 computer cores and 5.5 petabytes of storage capacity.

In Budapest there are three or four projects in the pipeline each year, but due to the capital-intensive nature of these developments we do not expect any significant new supplies to reach the market in the near future. In the past six years, only Invitel's 1,500 sq. m data centre facility took any phisical form.

The British firm TelecityGroup is also becoming an active player in the region, acquiring both 3DC in Bulgaria and the Polish company PLIX, thereby adding two data centres to its existing portfolio.

### Outlook for the CEE region

Major factors influencing the data centre market in the CEE region remain changes in energy prices, the level of demand for data centre services, the amount of data transferred across networks and the growing popularity of cloud based services.

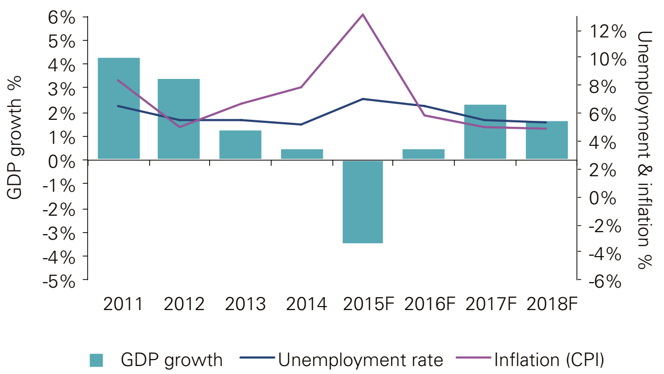
In November 2014, Cisco Systems released its updated Global Cloud Index (GCI) report and estimated that global data centre traffic will treble by 2018, and that 76% of data centre traffic will be acounted for by cloud services by 2018. From a regional perspective, Cisco predicts that up to the end of 2018, the Middle East and Africa region is expected to have the highest cloud traffic growth rate (54% CAGR), followed by the Central and Eastern European region with a 39% CAGR growth rate.

# In the grip of political uncertainty

## Macroeconomic Overview

GDP: Contraction expected throughout 2015.
Inflation: Likely to rise further due to the weakening rouble and negative growth.
Employment: A drop in employment is expected for 2015.
Political uncertainty as a result of the Ukraine conflict, along with western sanctions, has led to Russia's GDP growth flat lining in Q3 2014. The free fall in global oil prices is also exerting pressure on the economy, taking a toll on exports and government revenues. The declining rouble has led to high inflation, which has resulted in volatility in the manufacturing sector. The ongoing tightening of monetary policy is expected to increase borrowing costs and hinder consumption, leading to a decline in private consumption in 2015. In the coming quarter, it is anticipated that overall investment in fixed assets will be constrained by tight credit. These adverse conditions are expected to be partially offset by an anticipated rise in domestic activity because of a weak rouble, which may also help Russia increase its exports.

### Economic Indicators

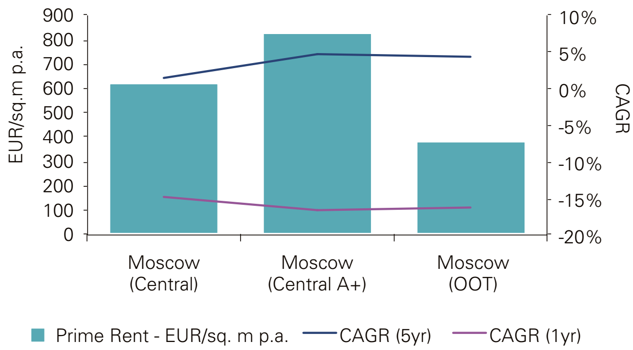



F – forecast
Source: Economist Intelligence Unit

## Office Market

The market has become entirely tenant-led as a consequence of Russia's ongoing political uncertainty, coupled with new completions reaching a 5-year peak. Office demand is driven by cost-cutting through staff redundancies or rationalization of space. Prime yields in Russia are coming under sharp upward pressure, with figures rising across Moscow and St. Petersburg in particular. A high supply pipeline is expected to give rise to persistent subdued demand for office.

### Prime Office Rents – December 2014

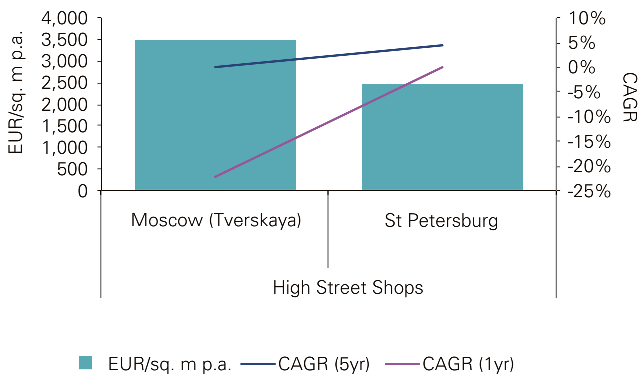



Source: Cushman and Wakefield

## Retail Market

The geopolitical unrest surrounding the Ukrainian conflict and the associated international trade sanctions have had a negative impact on the retail sector and the wider economy. Subdued investment activity, in the context of these geopolitical and economic events, is expected to lead to a softening of prime yields. The slide in the rouble is eroding margins for retailers selling international brands and this is leading to heightened uncertainty. However, some local brands such as Magnit, X5, Verniy, Sportmaster, and a few international brands, are viewing the scenario as an opportunity, as rents fall, to expand their store portfolios and find space in the best malls. Many others are exiting the market.

### Prime Retail Rents – December 2014

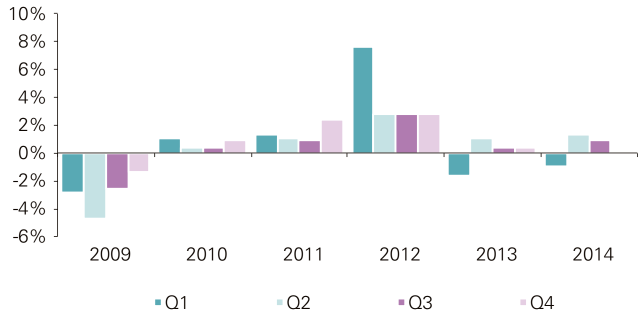



Source: Cushman and Wakefield

## Residential Market

Sanctions on Russia have brought the outflow of capital from the country to a halt, leading to affluent Russians investing their cash in properties in Moscow. This trend has helped drive a 14.8% rise in apartments for sale in the third quarter of 2014 compared to the same period in 2013. Prices of apartments for resale in Moscow fell by 2.13% during the year to Q1 14, or 8% adjusted for inflation, but in Russia as a whole the price index for resale apartments rose by 3.11% Y-o-Y. In Q3 approx. 590,000 sq. m of new-build affordable housing development was available and 85-87 million sq. m of residential space was planned for 2014, an all-time record high for Russia.

**House Price % Change**




Source: Cushman and Wakefield

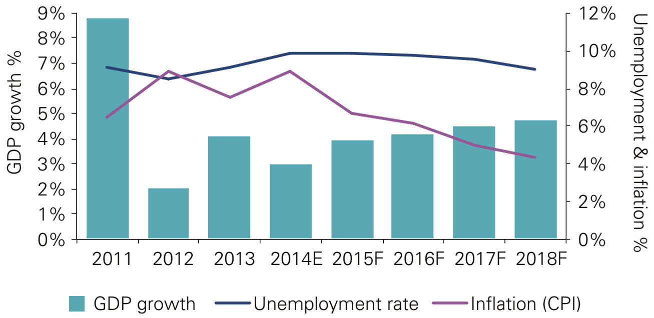
# Turkey

# Economic upward trend

### Macroeconomic Overview

GDP: Slower but decent growth in 2014 followed by an escalation in 2015. Expected growth of around 4% this year.
Inflation: Expected to fall gradually from the second quarter peak with upside risks due to monetary easing.
Employment: Likely to remain stable in 2015.
Although the economy contracted in Q2 2014 for the first time in two years, this followed a robust rebound of 1.8% Q-o-Q in Q1 2014. Turkish economic growth accelerated 0.4% in Q3 2014 over the previous quarter. The economy is expected to continue to rebalance towards exports in Q4 2014, with domestic demand anticipated to decelerate due to tight credit conditions, elevated inflation (8.9% in September) and lower confidence.

**Economic Indicators**

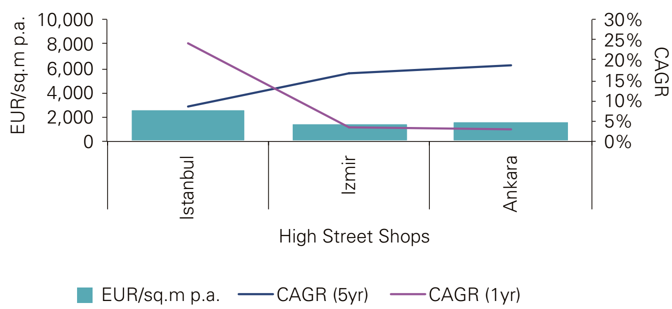



F – forecast
Source: Cushman and Wakefield

### Retail Market

High streets continued to remain of strategic importance for retailers seeking to expand in the third quarter. Retailers' entrance and expansion strategies were supported by the new shopping centre space added to the market in Q3 2014. Approximately 117,500 sq. m of new shopping centre GLA was added to the market in the same quarter, rising moderately from the same period last year. Local and international retailers continued to expand in shopping centres by either opening new stores or adding separate entrances for different concepts in their current stores
The investment market remained relatively quiet during the quarter due to lack of trading of retail assets. No significant changes were observed for prime yields for retail real estate in Q3 2014.

**Prime Retail Rents – September 2014**

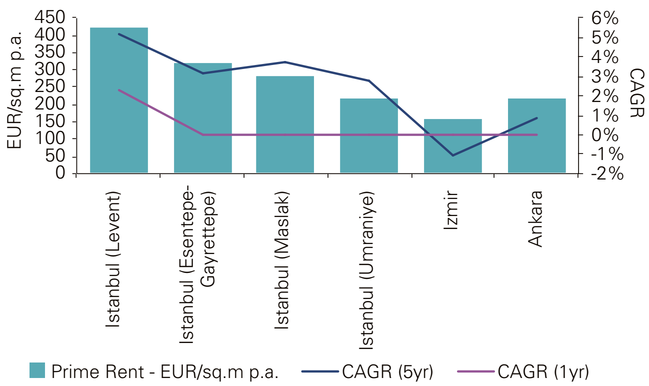



Source: Cushman and Wakefield

### Office Market

The Turkish office market witnessed an upward trend in Q3 2014, with increased activity in the occupier sector, which further supported the healthy development pipeline. Rising demand and improving confidence spurred market growth during the quarter. Rental levels remained largely stable and new development schemes continued to offer alternatives to investors. With increasing lettings activity, the number of office property deals in Turkey is expected to be 15% higher in 2014 than in 2013.

**Prime Office Rents – September 2014**

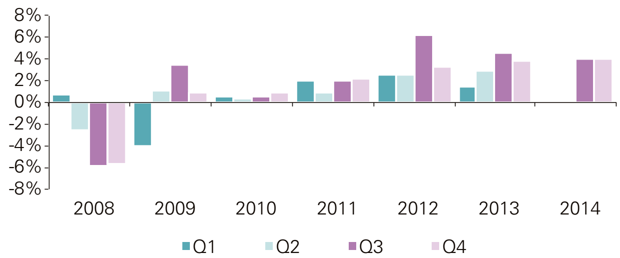



Source: Cushman and Wakefield

### Residential Market

Turkey's property market is on a steady. House prices in Turkey remained stable during the period 2011-2013, but grew by 4% Q-o-Q in Q3 2014; a similar rate of growth was recorded in Q4 2014. Residential prices in the country have seen double digit rises since September 2013. According to a survey by Global Property Guide, apartments in the attractive Besiktas district are more expensive than elsewhere in Istanbul, with prices of just over EUR 5,000 per sq. m for the largest apartments. A 120 sq. m apartment in Besiktas yielded a return of around 4.93% in March 2014, compared to 6.6% two years ago.

**House Price % Change (Turkey)**




Source: Reidin

# All-encompassing Real Estate Advisory from one Source

The challenging and increasingly complex real estate markets require a clear focus and a flexible strategy. Our real estate team is involved in every stage of the asset and investment lifecycle, working with all levels of stakeholders throughout the real estate industry. Whether your focus is local, national, regional or global, we can provide you with the right mix of experience to support and enhance your needs and ambitions. We provide informed perspectives and clear solutions, drawing on our experience from a variety of backgrounds including accounting, tax, advisory, banking, regulation and corporate finance. Our client focus, our commitment to excellence, our global mindset and consistent delivery build trusted relationships that are at the core of our business and reputation.

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- Structuring and execution of transactions (Lead Advisory)
  - Asset deals: Acquisition and disposal of properties and portfolios
  - Share deals: Mergers, spin-offs, IPOs, private placements
- Arrangement of indirect investments, such as funds or trusts
- Fund raising for specific projects
- Debt advisory

### Investment Advisory

- Investment advisory for national or international indirect real estate investments
- Structuring of real estate investments within portfolios
- Qualitative and quantitative analysis of investment products
- Monitoring and investment controlling, portfolio performance measurement

### Strategy/Organization

- Strategy development and implementation
  - Business planning/business modelling
  - Corporate/public real estate management
  - Asset and portfolio management
- Analysis of organization and processes; organizational development, internal control system (ICS)
- Performance management/MIS/investment monitoring
- Risk management and financial modelling

### Valuation/Due Diligence

- DCF-valuations of properties and real estate portfolios or companies
- Independent valuation reports for financial statements
- Valuations for acquisitions or disposals
- Feasibility studies and valuation of real estate developments
- Transaction-focused due diligence and process management
- Major Project Advisory

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