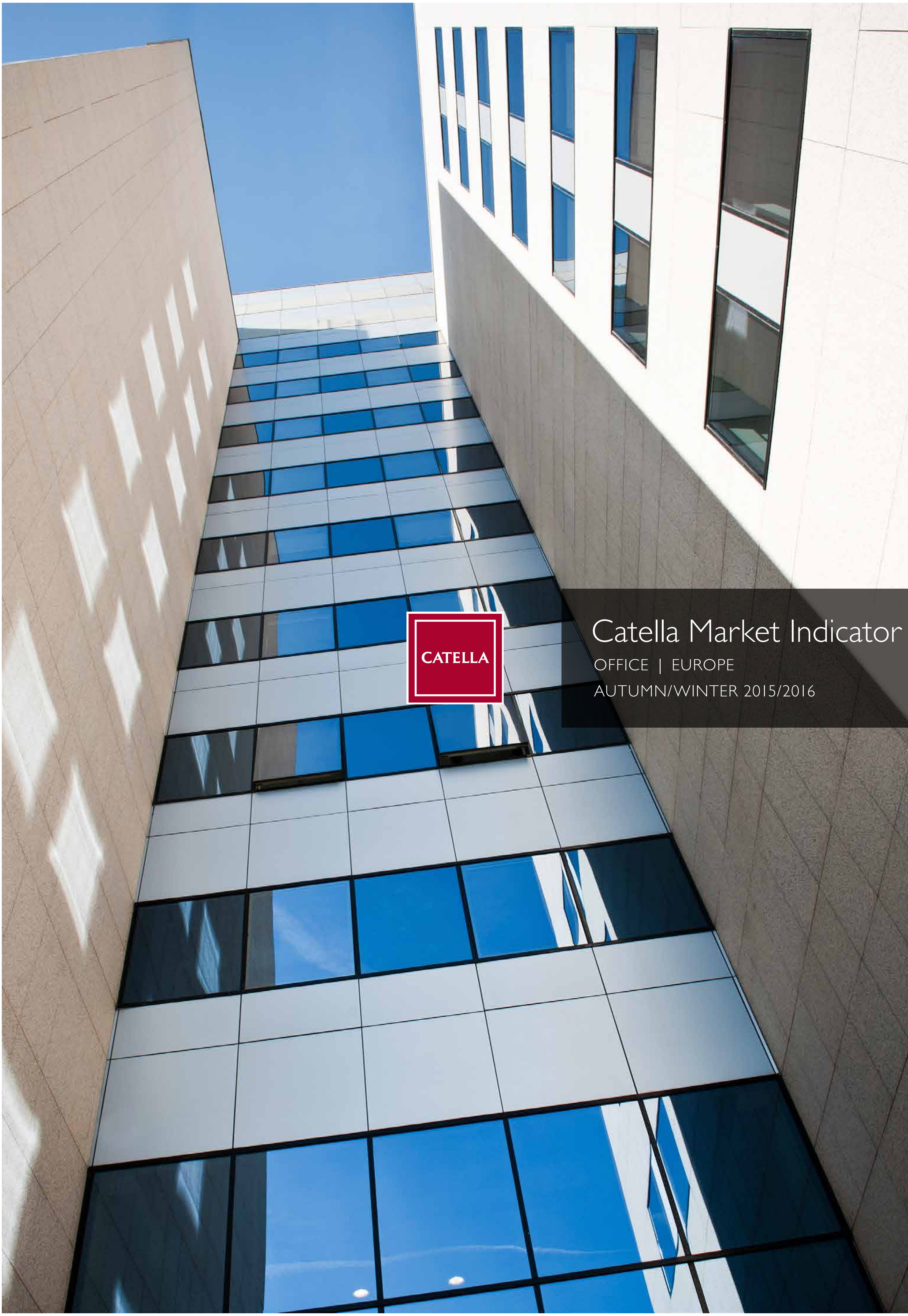


CATELLA

Catella Market Indicator

OFFICE | EUROPE

AUTUMN/WINTER 2015/2016

Contents

Definitions and Sources

Prime yields

The yield for a property of the highest quality specification in a prime location within the area. The property should be 100% let at the market rent at the time, to blue-chip tenants, with leasing term typical for prime property within that market. The yield should reflect net income received by an investor, expressed as a percentage of total capital value.

Stock

Total volume of existing office floorspace in net sqm. of a defined location/area. Office floorspace includes completed, let and vacant office buildings/spaces.

Prime rent

Prime rent represents the top open-market rent that can be achieved for a notional office unit (sqm.) per month. The unit itself has to feature highest quality and is to be situated in the best location of the local market.

Sources

The main sources are Catella local branches and the inhouse research team. Additional sources are indicated where used.

Stability in times of increasing volatility

DEAR READERS,

The world has seen many changes since our last Market Indicator appeared in autumn 2014. In terms of the real estate sector, these changes have been highly positive. The number of transactions is up; rents are rising. Property prices are rising, and vacancy rates are falling. Business is booming, to use a familiar economic expression. By the middle of the year, it was clear that this process of recovery had become firmly rooted in most European countries. However, not everything is completely rosy in the economic-political garden. Since the start of the summer, the generally positive situation has been overshadowed by debates about Greece and Ukraine, the outlook for the EU and the euro, the much discussed downturn in the world economy triggered by economic turbulence in China and its stock market crash and, last but not least, by the immense influx of refugees Europe is currently confronted with.

Here is our opinion: we do not expect them to have any major impact on property prices in the short term, except, perhaps, on the level of surveys. The cornerstone of our forecasts is and still remains our analysis of the capital markets in the USA and Europe.

We expect that interest rates in the USA will rise slowly by the end of 2015 in contrast to Europe, where we expect no immediate movement. What was generally a reason to avoid investing in real estate has no bearing on the current market cycle. Demand from investors for property will continue to rise, and, as a result, returns will continue to fall. In such conditions, investors are willing to accept "relative" losses in returns due to higher interest costs and lower returns on purchases. In addition to this, more capital than ever is flooding into Europe as new sources of capital in Asia and the Middle East turn their attention to the continent's markets.

Our latest market report Catella Market Indicator Office 2015/2016 contains a host of other interesting insights generated by our market analysis:

- Changes in yields: out of a cohort of 33 markets, only one displays rising yields, Oulu in Finland. Sixteen locations have seen no changes, while another 16 register falling yields. The highest yields are currently being generated by Warsaw, Rotterdam and Lyon, while London's West End and Stockholm have the lowest yields.
- Changes in rents: in the 33 markets under observation, we see stable top-level rents in 17 of them, while we expect figures to increase further in the remaining 16. Madrid will top the table, followed by London.
- We believe that the volume of transactions in Europe will reach a maximum of EUR 65 billion by the end of 2015, the third-highest annual figure since 2001.
- Looking at the situation from a risk/return perspective, London and Warsaw bookend the investment spectrum.
- Between now and 2019, Madrid will generate by far the highest total return (TR).

We hope you enjoy the reading we have prepared for you.

Yours sincerely,

Thomas Beyerle
Group Head of Research

CATELLA

Catella – Providing high-end market analysis

Catella is a financial advisor and asset manager specialised in property, fixed income and equities. We have a leading position in the property sector and a strong local presence in Europe. Our property advisory services comprise three service areas: Sales and Acquisitions, Debt and Equity, and Research and Valuation.

Catella provides high-end market analysis products and services for the property market. We use our perspectives from the financial markets and experience from investment banking to create truly forward-looking research.

Read more at catella.com

Why invest in Europe?

Towards a broad-based cyclical recovery in the European economies in the 2015–2016 period

Global growth has slowed down in the spring and summer of 2015, and the IMF downgraded their forecast for the world economy from 3.5% in April to 3.3% in July 2015. Economic performance is currently split between the world's largest and second-largest economies – the USA and China – with the USA experiencing a phase of gradual improvement in GDP growth, whilst China is in the midst of an economic downturn. The slowdown of the Chinese economy is an effect of its ongoing economic transformation process: from an investment- and export-driven economic climate towards one driven by domestic demand and household consumption. In addition, the rapid debt accumulation that has been taking place in recent years – with the country now facing a total debt to GDP ratio of over 280% – is also worsening the slowdown and reducing the central government's ability to intervene in the economy and reverse the trend. This recent trend of quickly rising debt levels is, however, not unique to China; private debt has increased significantly in several other emerging economies over the past few years.

The slowdown in China – official data places 2015 GDP growth at around 7% but alternative data indicates it may be closer to 5% – has resulted in commodity prices that have been falling since the peak in 2011 and in a drop in Chinese imports. This drop has, in turn, especially affected emerging economies that are rich in resources. Russia and Brazil are experiencing a recession as are several other commodity exporters in Asia, Africa and Latin America. As a result of the economic slowdown and government interventions, China has experienced turbulence on both the stock and forex markets in summer 2015.

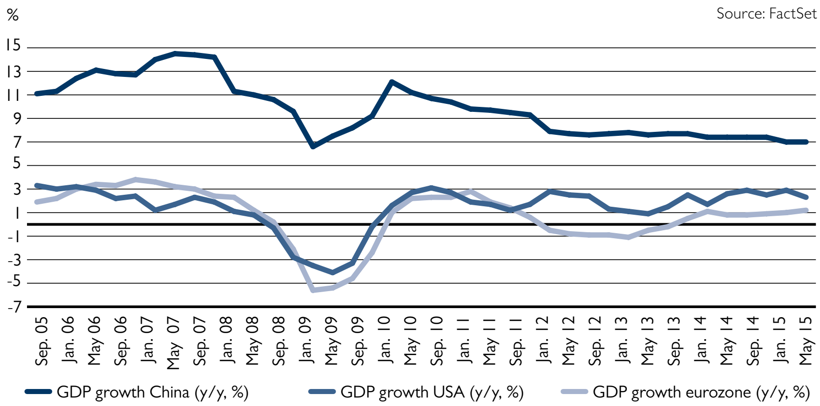
With the USA facing impending economic constriction, the different economic situations in the USA and China have created substantial capital outflows from the emerging economies. Catella expects this development to continue to hamper global growth and to increase volatility on the global financial markets from 2015 through 2016.

The European economy is in a phase of cyclical recovery due to historically low interest rates, spare capacity in the labour markets and low commodity prices. Although recovery is expected to be slow and gradual, the economic upswing is broadly visible throughout the entire region. The economy is now in a situation where after seven years of stagnation households and companies have strong opportunities for consumption and investment. In the longer term, however, a sustainable recovery will depend on the region's experiencing positive export development – a development that may be hampered by the slowdown in the emerging economies.

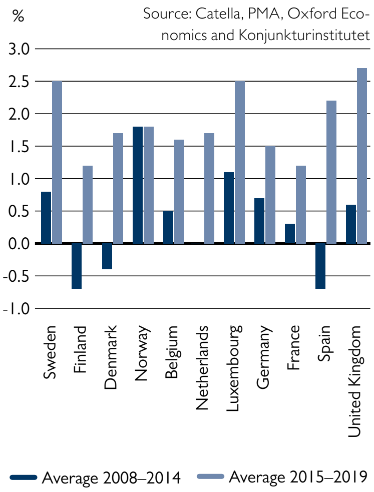
Among the European countries economic growth is expected to be strongest in Sweden, Luxembourg, Spain and the UK, with an annual GDP growth during the 2015–2019 period ranging from 2 to 2.5%. Private consumption is expected to be an important driver in these countries, and the economies will witness annual employment growth of about 1% during this period.

As GDP growth in the European economies improves, Catella expects interest rates to increase gradually from the current historical low, although it is expected that the ECB will continue to stimulate the European economy

GDP GROWTH, QUARTERLY GROWTH (Y/Y, %)



GDP GROWTH, AVERAGE ANNUAL GROWTH



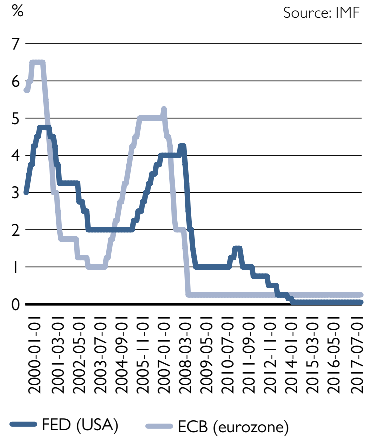
throughout 2016. On their own the US and European economies cannot serve as sustainable drivers of the world economy. In addition, they have a limited ability to stimulate growth through fiscal and monetary policy. All in all, Catella expects the current slowdown and the increasing financial turbulence in the emerging markets to push the global economy towards a mild economic downturn in 2017. The European markets are benefiting from this development and are facing demand for investment opportunities. Europe is and will continue to be a 'hard to miss' target for investors.

European country ratings and interest rate news

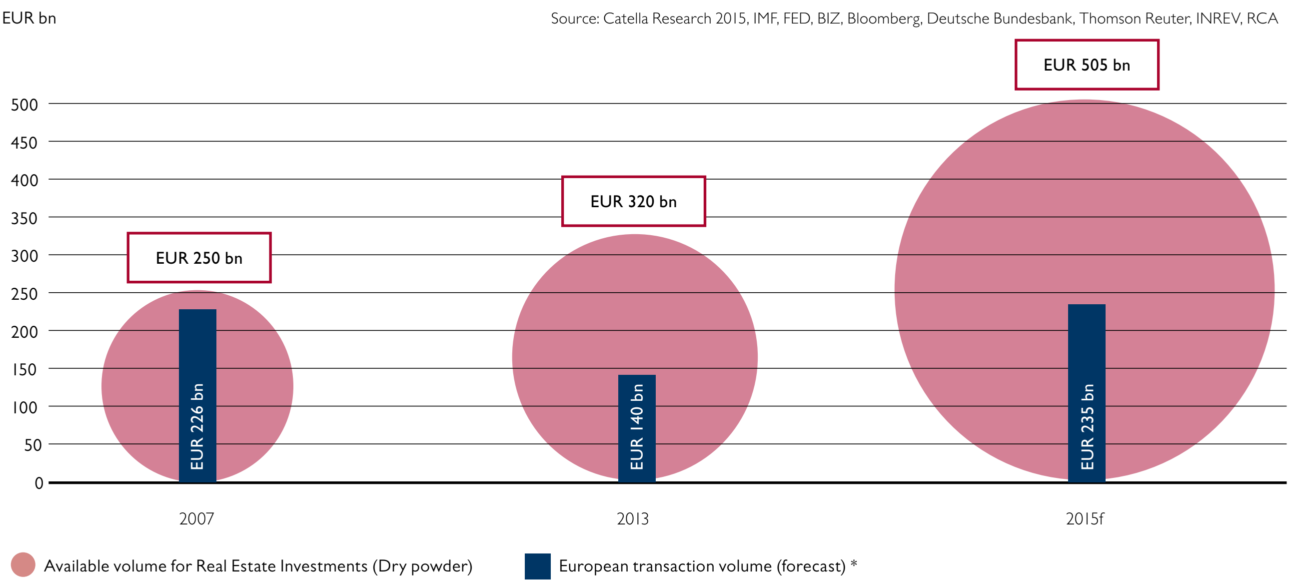
The high demand in real estate markets continues to be encouraged by the central banks' expansionary interest rate policies. However, a significant change in demand in response to interest rates being revised upwards is considered unlikely. The Fed's actions currently suggest it is moving away from its low interest rate policy. The ECB will most likely retain its monetary stimulations for the coming 12–18 months. Catella Research is nonetheless of the opinion that not even moderately restrictive monetary stimuli will noticeably affect demand for European real capital. The theory of behavioural economics can provide us with an explanatory pattern. In comparison to the bond markets, Europe's office markets (in the cities, at least) are still so attractive that capital will continue to flow into them. An investor therefore consciously takes into account the possibility of a 'relative' loss of returns caused by greater interest rate expenses.

The attractiveness of the European markets is likewise being steadily supported by a rise in the capital going into real estate investments. According to Catella's observations, the amount of declared capital of real estate investors across all asset classes totals around EUR 500 billion, which correlates to double the amount of capital from the pre-crisis days. Of course every proclamation of wanting to invest in real estate does not necessarily end with revenue for the potential investor; however, this figure indicates how attractive real estate is as an asset class, especially given that the volume of transactions has further increased.

MAIN REFINANCING RATE ECB VS. FED.



European transaction volume vs. available capital



* All property types: office, retail, industrial, hotel, residential

Country ratings as the basis for investments

Catella Research regularly analyses the investment climate in Europe's core markets. Its valuation model is future oriented, allowing not only expectations regarding the influencing parameters but also historical data to be incorporated into its calculations. As was the case in the last market report, the northern European countries once again dominate. Germany, the United Kingdom and the Benelux countries are ranked in the middle, with the countries in southern Europe bringing up the rear in terms of quantiles. It should, however, be noted in this context that there are the first signs of tangible growth in Spain on the back of the far-reaching economic reforms implemented there. The Spanish labour market will also benefit from this. Spain currently has an official unemployment rate of just under 25%. This is expected to have been reduced to 15 % by 2020. Even so, the country's economic problems continue to result in negative population growth. In contrast, the Scandinavian countries will report substantial population growth.

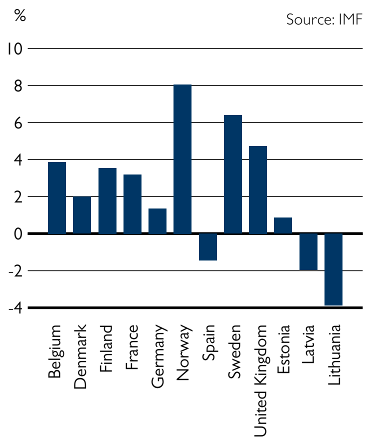
The Baltic states have been able to significantly improve their position on the basis of strong economic fundamentals. Meanwhile, the French are facing a significant drop in their position within Europe.

CATELLA VALUATION MODEL – OVERVIEW OF THE RESULTS

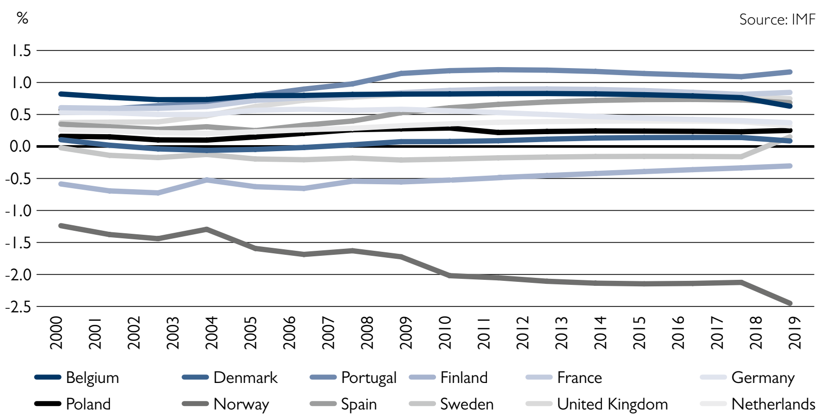
Source: Catella Research, Moody's, Fitch, S&P

Country	Priority	Catella rating	Rating Moody's	Rating Fitch	Rating S&P's	External ratings
Norway	1	●	Aaa	AAA	AAA	Prime Grade
Sweden	2	●	Aaa	AAA	AAA	Prime Grade
Finland	3	●	Aaa	AAA	AAA	Prime Grade
Denmark	4	●	Aaa	AAA	AAA	Prime Grade
Germany	5	●	Aaa	AAA	AAA	Prime Grade
Ireland	6	●	Baa1	A–	A+	Lower Medium Grade
Netherlands	7	●	Aaa	AAA	AA+	High Grade
Belgium	8	●	Aa3	AA	AA	High Grade
Estonia	9	●	A1	A+	AA–	Upper Medium Grade
United Kingdom	10	●	Aa1	AA+	AAA	High Grade
Poland	11	●	A2	A–	A	Upper Medium Grade
Lithuania	12	●	Baa1	A–	A–	Lower Medium Grade
Latvia	13	●	A3	A–	A–	Lower Medium Grade
France	14	●	Aa1	AA	AA	High Grade
Italy	15	●	Baa2	BBB+	BBB–	Lower Medium Grade
Spain	16	●	Baa2	BBB+	BBB	Lower Medium Grade
Portugal	17	●	Ba1	BB+	BB	

POPULATION GROWTH 2013–2019



GENERAL GOVERNMENT NET DEBT (% OF GDP)



Why invest in real estate?

Strong rental growth in Madrid and London

Strong investor demand is driving down returns all over the region. Yields in prime locations outside the UK are expected to bottom out around or below 4% in 2017, while prime yields in London will bottom out just above 3%. In addition, an increasing share of the transaction volume is based in secondary locations due to the lack of liquid core assets.

The turnaround of the economic cycle in 2017 is expected to generate higher risk in property cash flows, to lower investor willingness to take chances and to cause a decline in credit availability; this confluence of events will then generate higher prime yields. However, interest rates are expected to remain low, and European property will remain attractive in relation to other asset classes, which means that the uptick in returns will be moderate.

Urbanisation is a global megatrend that is expected to gain even more momentum in the coming years. International productivity is significantly higher in metropolitan areas than in smaller cities and rural areas. European metropolises are expected to increase their importance as the main economic drivers during the coming years.

Office rental growth is strongly correlated with GDP growth. From 2015 to 2019, strong tenant demand and a limited new supply are expected to keep annual office rental growth at an average of around 2 to 3% in Stockholm, Brussels, Amsterdam, Luxembourg and Frankfurt. Economic recovery in Spain is expected to continue over the next few years, and during the period from 2015 to 2019 prime office rents are expected to grow by around 7% on average. Simultaneously, in London the rental market is expected to be strong, with an annual average growth of about 5 to 6% in West End and City.

Asset allocation

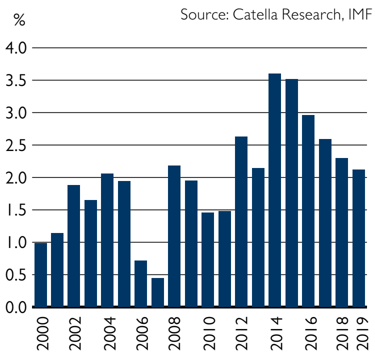
Taking the situation as outlined into account, the question is what weighting should be given to the asset category of office real estate in the institutional portfolio: the returns for office real estate can be interpreted using clear explanatory patterns and are, to a certain degree, subject to psychological influences. In addition, economic developments do not have as much of an influence here as they do on share and commodity investments. Real estate therefore stands out thanks to relatively stable cash flows, low volatility and considerable potential for diversification due to low correlation.

The greatest potential in terms of returns on purchase can currently be found in the European cities Warsaw, Rotterdam, Brussels and Amsterdam, which are still offering yields on purchase well in excess of 5%. Investors in the Polish capital Warsaw can even achieve yields of almost 6%. The returns in Germany's top cities are currently in the range of 4 to 4.5 percentage points. London remains an attractive option, and as a result, real estate is sold there at prices up to 28 times a property's annual rent.

This is the highest price level in Europe, and this is not likely to fall significantly in the medium term. In addition, the volatility of returns is taken into account as a key risk component of real estate investments. The greatest degree of volatility for Warsaw is estimated to take place between 2000 and 2019. This comes as no surprise if we consider the city's strong returns potential. In terms

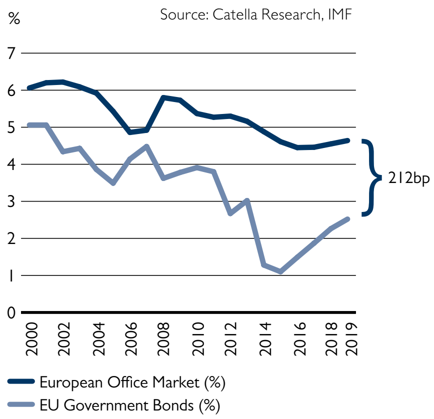
YIELD SPREAD – EUROPEAN OFFICE MARKET VS. EUROPEAN GOVERNMENT BONDS

Source: Catella Research, IMF



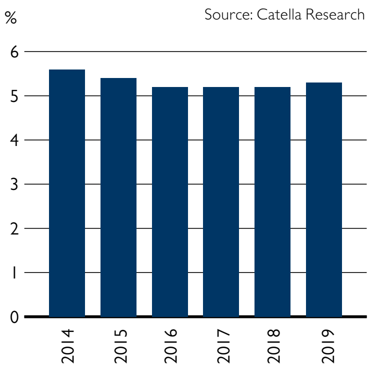
YIELDS FOR EUROPEAN OFFICE MARKETS VS. EUROPEAN GOVERNMENT BONDS

Source: Catella Research, IMF

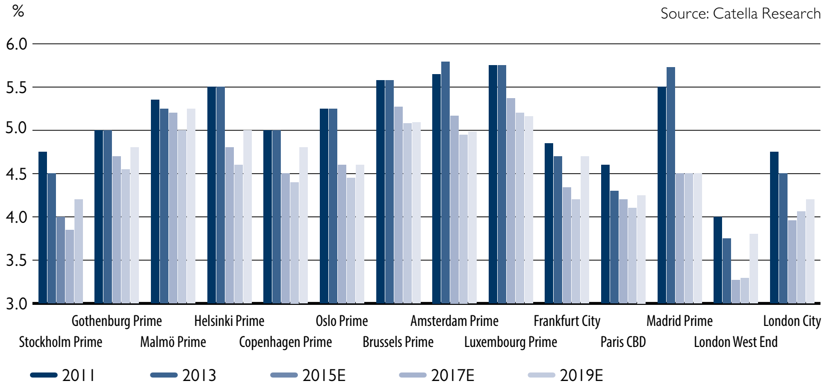


EUROPEAN OFFICE INVESTMENT (INCOME RETURN)

Source: Catella Research



YIELDS IN EUROPEAN OFFICE MARKETS



of model theory, it is surprising to see London's volatility among the top third of the countries considered. Based on the Sharpe ratio (SR), the most attractive investment location is Rotterdam, followed by Brussels, Amsterdam and Warsaw. The Sharpe ratio (also known as the reward-to-variability ratio) is a ratio of an investment opportunity's returns potential to its risks. Cities in Germany and Scandinavia occupy the positions in the middle of the table, while Paris and London are ranked last in this context.

In the context of portfolio construction according to Markowitz, Catella also examines the correlations between investment centres. This allows investors to diversify wisely on the basis not only of asset categories but also of individual locations. The current correlation matrix for selected office locations in Europe is shown below.

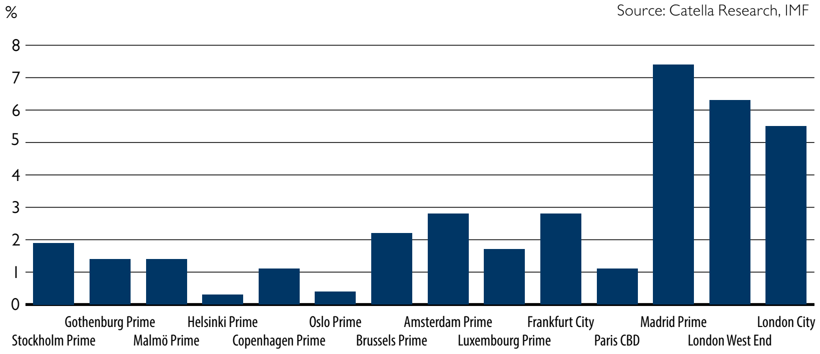
There is an average correlation coefficient of 0.65. This profile takes into account the top returns on the one hand and the risk values for volatility, market fungibility, liquidity, market transparency and currency effects on the other. This essentially confirms the picture already suggested in our examination of returns on purchase. London and Paris are safe locations with relatively low yield potential. Germany's top cities are likewise considered to be low risk, although significantly higher returns can be achieved here. Amsterdam, Brussels and Warsaw

CORRELATION COEFFICIENT OF EUROPEAN INVESTMENT CENTRES

	Brussels	Copenhagen	Helsinki	Lyon	Paris	Berlin	Cologne	Dusseldorf	Frankfurt	Hamburg	Munich	Stuttgart
Brussels	1.00	0.89	0.79	0.91	0.91	0.66	0.81	0.62	0.73	0.67	0.74	0.57
Copenhagen	0.89	1.00	0.80	0.96	0.91	0.59	0.83	0.55	0.72	0.71	0.67	0.63
Helsinki	0.79	0.80	1.00	0.81	0.91	0.77	0.82	0.81	0.84	0.86	0.86	0.76
Lyon	0.91	0.96	0.81	1.00	0.91	0.62	0.91	0.61	0.76	0.73	0.70	0.68
Paris	0.91	0.91	0.91	0.91	1.00	0.78	0.88	0.76	0.86	0.85	0.85	0.74
Berlin	0.66	0.59	0.77	0.62	0.78	1.00	0.81	0.97	0.92	0.94	0.95	0.89
Cologne	0.81	0.83	0.82	0.91	0.88	0.81	1.00	0.82	0.92	0.89	0.86	0.85
Dusseldorf	0.62	0.55	0.81	0.61	0.76	0.97	0.82	1.00	0.92	0.94	0.97	0.86
Frankfurt	0.73	0.72	0.84	0.76	0.86	0.92	0.92	0.92	1.00	0.96	0.94	0.91
Hamburg	0.67	0.71	0.86	0.73	0.85	0.94	0.89	0.94	0.96	1.00	0.94	0.93
Munich	0.74	0.67	0.86	0.70	0.85	0.95	0.86	0.97	0.94	0.94	1.00	0.84
Stuttgart	0.57	0.63	0.76	0.68	0.74	0.89	0.85	0.86	0.91	0.93	0.84	1.00
Amsterdam	0.87	0.94	0.77	0.90	0.87	0.60	0.77	0.53	0.71	0.69	0.62	0.63
Rotterdam	0.91	0.95	0.78	0.89	0.89	0.55	0.73	0.49	0.67	0.64	0.61	0.53
Oslo	0.64	0.86	0.68	0.85	0.78	0.44	0.77	0.43	0.66	0.65	0.49	0.65
Warsaw	0.75	0.92	0.59	0.90	0.74	0.33	0.71	0.28	0.52	0.50	0.39	0.49
Lisbon	0.65	0.78	0.40	0.73	0.59	0.22	0.54	0.11	0.40	0.36	0.23	0.36
Barcelona	0.84	0.74	0.52	0.68	0.71	0.46	0.53	0.37	0.52	0.42	0.49	0.32
Madrid	0.71	0.64	0.49	0.54	0.66	0.47	0.44	0.38	0.49	0.43	0.46	0.29
Stockholm	0.90	0.86	0.90	0.85	0.94	0.74	0.78	0.70	0.78	0.78	0.80	0.68
Birmingham	0.52	0.73	0.59	0.68	0.69	0.37	0.59	0.33	0.56	0.56	0.38	0.57
London	0.61	0.79	0.77	0.76	0.81	0.57	0.72	0.56	0.73	0.74	0.59	0.76
Manchester	0.55	0.76	0.63	0.73	0.71	0.43	0.67	0.39	0.62	0.61	0.43	0.66

Source: Catella Research

RENTAL GROWTH IN EUROPEAN OFFICE MARKETS, AVERAGE ANNUAL GROWTH



are especially strong in terms of returns. The highest yields of just under 6% can be achieved in Warsaw, albeit coupled with similarly high risks.

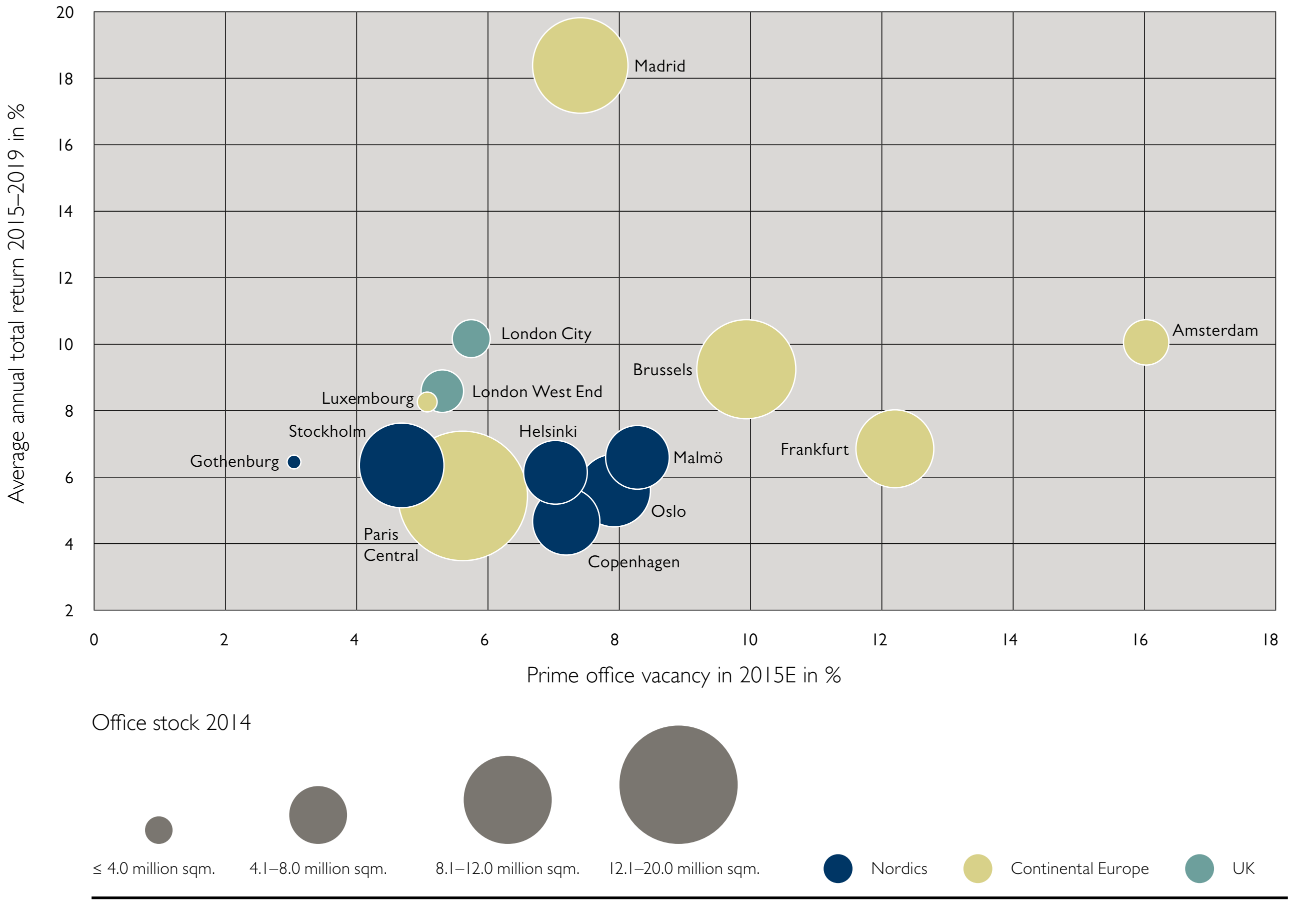
Among the main European office markets in the forecast, prime offices in Madrid stand out with a significantly stronger rise in total return than other markets. Prime offices in Madrid are expected to show an average annual total return of over 18% from 2015 to 2019. This development is mainly due to Spanish economic recovery, which generates strong recovery on the rental market.

For the other European prime office markets, the risk premium is positive because markets with higher vacancies are also expected to have higher rises in total return. Apart from Madrid, the markets that are performing the best are London, Amsterdam, Brussels and Luxembourg, with an annual expected average rise in total return in the range of 8 to 10% for the 2015–2018 period. As the lion's share of the yield shift is now behind us, rental growth is expected to be the main driver of total return during the second half of 2015 and all of 2016.

	Amsterdam	Rotterdam	Oslo	Warsaw	Lisbon	Barcelona	Madrid	Stockholm	Birmingham	London	Manchester
	0.87	0.91	0.64	0.75	0.65	0.84	0.71	0.90	0.52	0.61	0.55
	0.94	0.95	0.86	0.92	0.78	0.74	0.64	0.86	0.73	0.79	0.76
	0.77	0.78	0.68	0.59	0.40	0.52	0.49	0.90	0.59	0.77	0.63
	0.90	0.89	0.85	0.90	0.73	0.68	0.54	0.85	0.68	0.76	0.73
	0.87	0.89	0.78	0.74	0.59	0.71	0.66	0.94	0.69	0.81	0.71
	0.60	0.55	0.44	0.33	0.22	0.46	0.47	0.74	0.37	0.57	0.43
	0.77	0.73	0.77	0.71	0.54	0.53	0.44	0.78	0.59	0.72	0.67
	0.53	0.49	0.43	0.28	0.11	0.37	0.38	0.70	0.33	0.56	0.39
	0.71	0.67	0.66	0.52	0.40	0.52	0.49	0.78	0.56	0.73	0.62
	0.69	0.64	0.65	0.50	0.36	0.42	0.43	0.78	0.56	0.74	0.61
	0.62	0.61	0.49	0.39	0.23	0.49	0.46	0.80	0.38	0.59	0.43
	0.63	0.53	0.65	0.49	0.36	0.32	0.29	0.68	0.57	0.76	0.66
	1.00	0.97	0.83	0.88	0.84	0.83	0.76	0.85	0.76	0.79	0.79
	0.97	1.00	0.78	0.87	0.82	0.85	0.77	0.88	0.73	0.74	0.73
	0.83	0.78	1.00	0.89	0.76	0.49	0.44	0.64	0.88	0.91	0.92
	0.88	0.87	0.89	1.00	0.91	0.64	0.49	0.69	0.74	0.73	0.77
	0.84	0.82	0.76	0.91	1.00	0.71	0.57	0.58	0.72	0.60	0.73
	0.83	0.85	0.49	0.64	0.71	1.00	0.93	0.70	0.49	0.45	0.51
	0.76	0.77	0.44	0.49	0.57	0.93	1.00	0.62	0.52	0.46	0.52
	0.85	0.88	0.64	0.69	0.58	0.70	0.62	1.00	0.59	0.71	0.60
	0.76	0.73	0.88	0.74	0.72	0.49	0.52	0.59	1.00	0.92	0.97
	0.79	0.74	0.91	0.73	0.60	0.45	0.46	0.71	0.92	1.00	0.94
	0.79	0.73	0.92	0.77	0.73	0.51	0.52	0.60	0.97	0.94	1.00

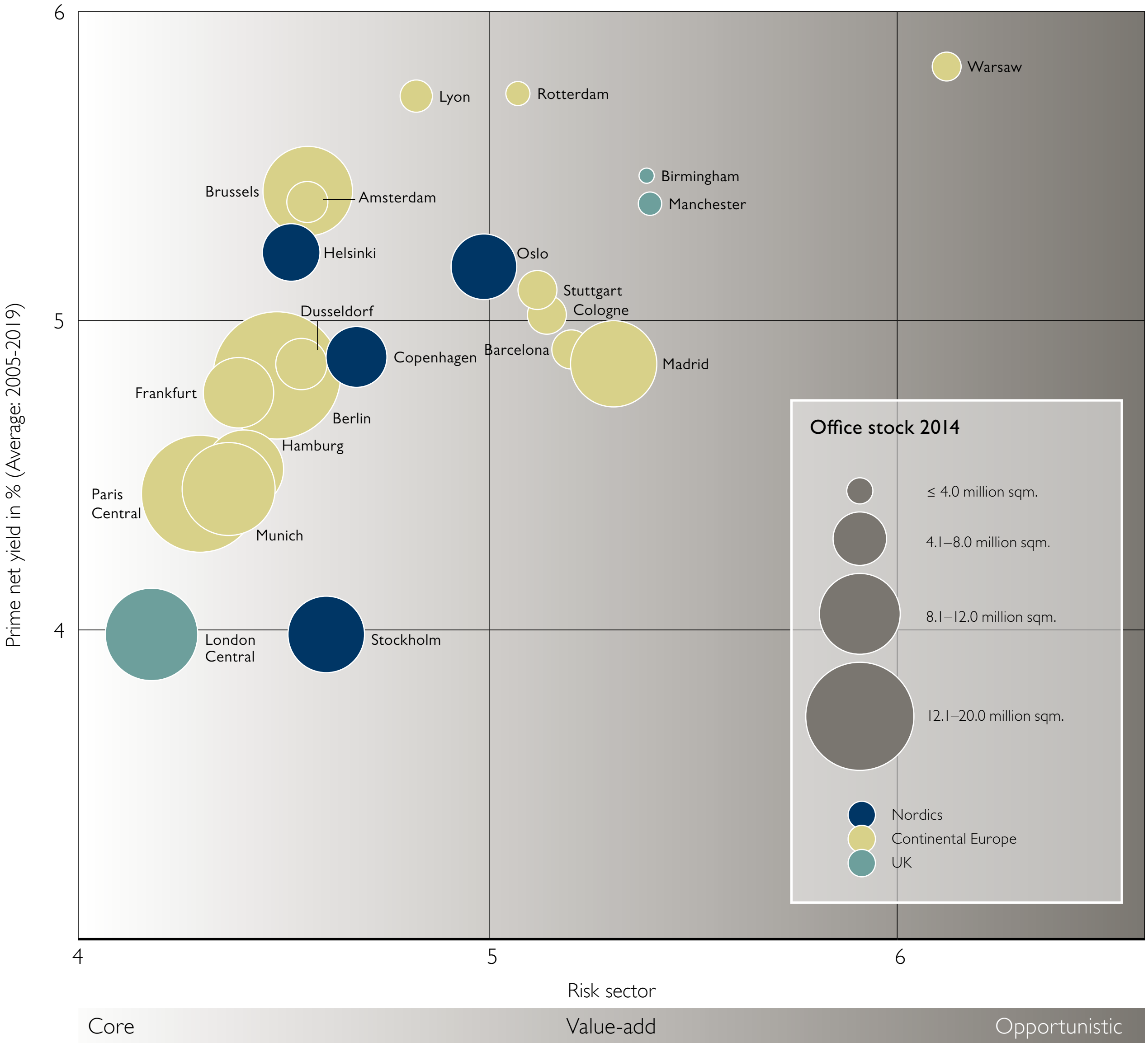
Forecasted total return 2015E–2019 (expected) vs. office vacancies

Source: Catella Research

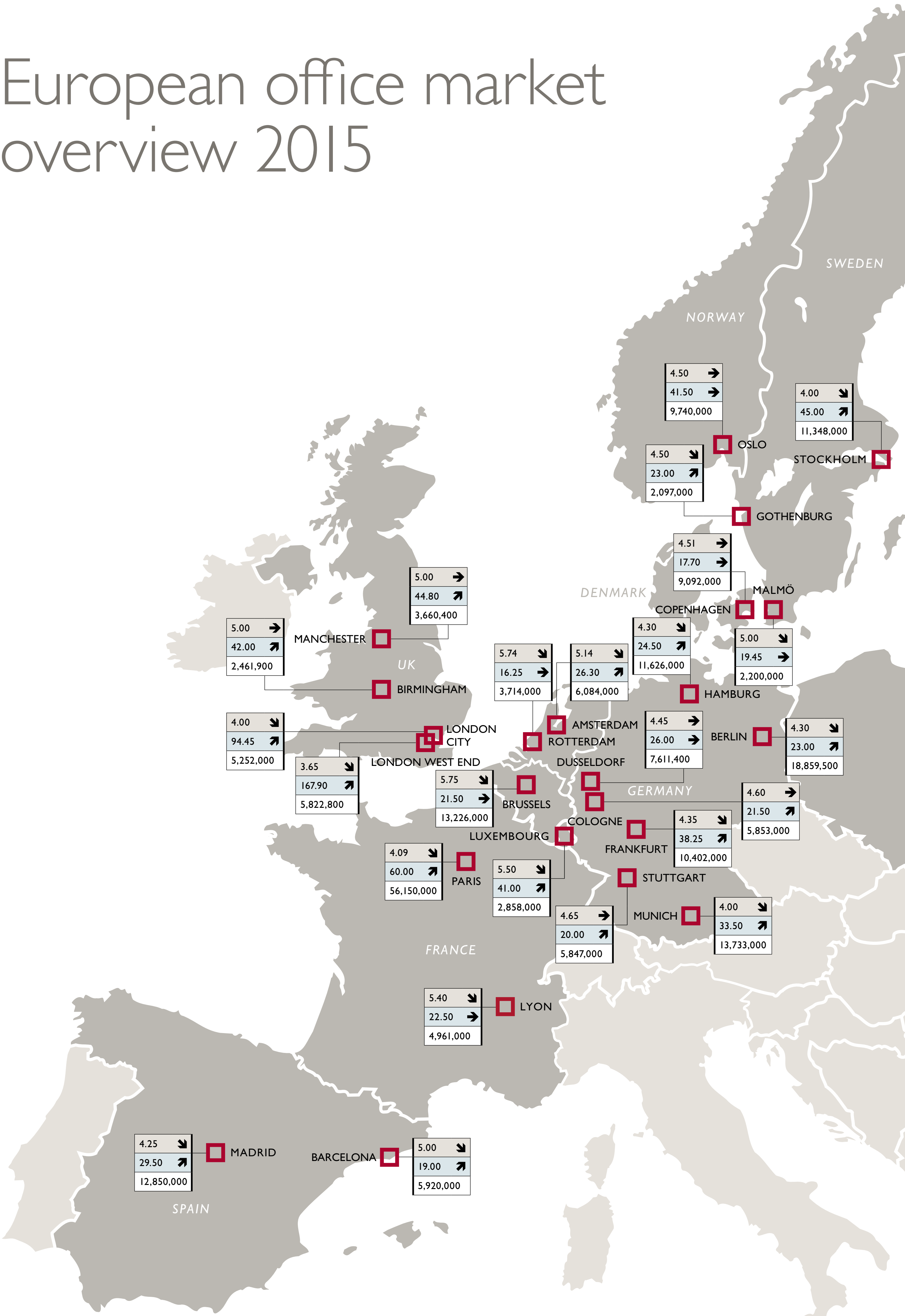


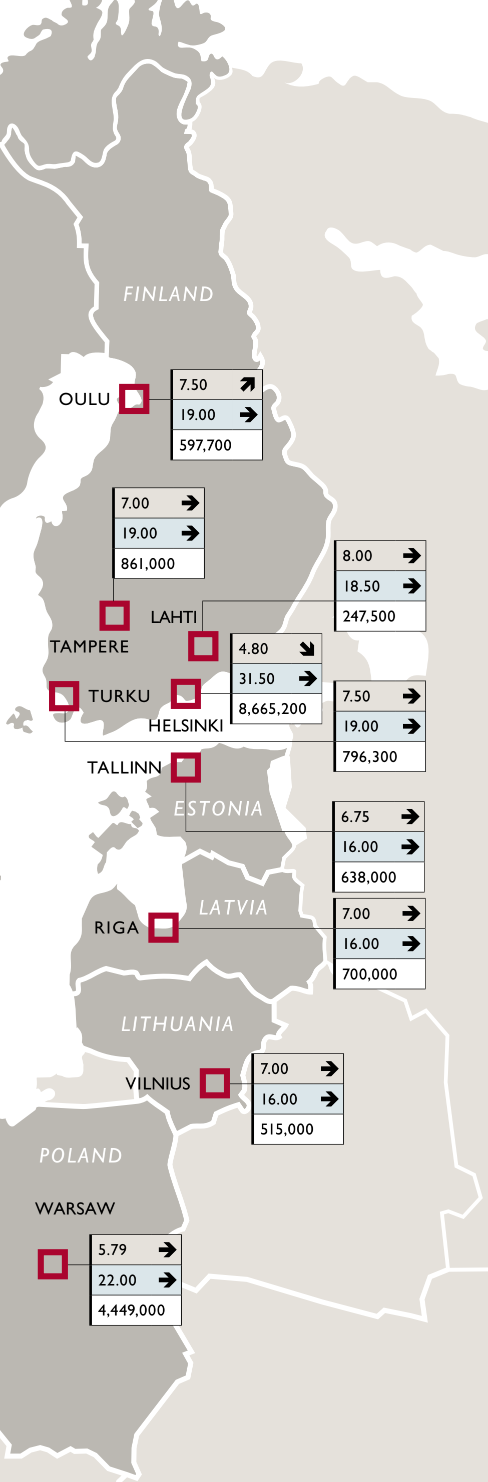
Risk return profile of European investment centres

Source: Catella Research



European office market overview 2015





Prime yields

33 locations	1	↗
	14	→
	18	↘

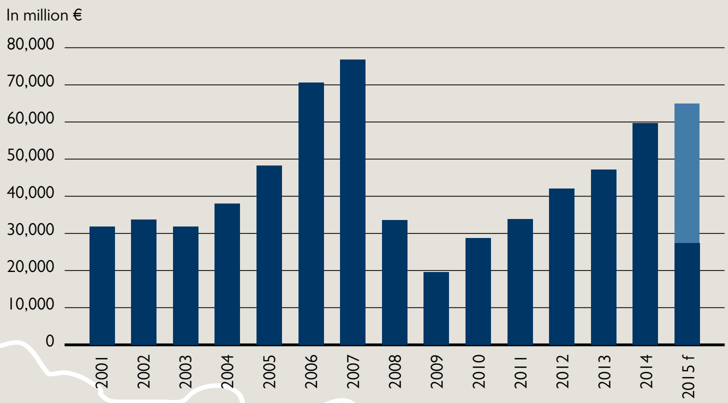
Due to high demand for prime assets, the yields in most European locations are forecasted to decrease further. In addition to this, the yield gap between prime and secondary is expected to narrow.

Prime rents

33 locations	17	↗
	16	→
	0	↘

Limited class-A stock and a lagging development pipeline in prime locations are the main reasons for growing or stable prime rents in the medium-term. Decreasing prime rents in European locations are not forecasted.

Office transaction volume



European real estate already improved in the first half of 2015 and benefits from increasing interest of domestic and cross-border investors. Especially cross-border investors contributed more than half of total office volume. With a strong start of the year, the second half is well on its way to exceed the investment level of the previous year. Thus, Catella Research estimates an office transaction volume between EUR 60 – 65 billion in selected European cities* by the end of this year. Furthermore, strong demand for higher yields and opportunities will persist and investors are increasingly looking for acquisitions outside the core markets.

* Calculated office transaction volume of following European locations: Brussel, Copenhagen, Tallinn, Helsinki, Turku, Tampere, Oulu, Lahti, Paris IDF, Lyon, Berlin, Cologne, Dusseldorf, Frankfurt, Hamburg, Munich, Stuttgart, Vilnius, Oslo, Luxembourg, Amsterdam, Rotterdam, Madrid, Barcelona, Stockholm, Malmö, Gothenburg, London City, London West End, Birmingham, Manchester, Warsaw

Prime office yield, net %

Prime office rent, EUR /sqm. per month

Office stock

→ Forecast 6 months

Plenty of room for yield contraction

ALTHOUGH THE BALTICS was worst hit during the crisis, it has been one of the fastest growing regions in the EU for the better half of the last decade, while the EU as a whole has stagnated. The Baltics GDP growth was 3.3% in 2013 and 2.5% in 2014. The weak external conditions such as the Russia-Ukraine conflict, stagnation in the EU and economic decline in Finland will continue to hold down the pace of the GDP growth. The GDP growth, driven mostly by domestic consumption, is expected to land near 2.0% in 2015. The GDP growth is likely to pick up again in 2016 along with the anticipated economic improvement of the main trade partners.

Despite of the fact that the Baltics have generally stood out with solid inflation rates as compared to the rest of the EU, since 2014 the inflation rates have plummeted due to energy related commodities pricing. Nevertheless, the inflation rate was in line with rest of the eurozone in 2014 – 0.4%. The inflation is likely to decrease further to around 0.1% in 2015.

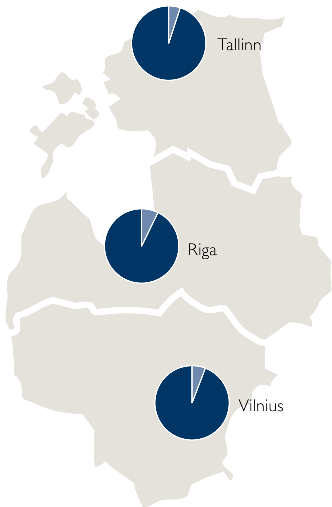
The declining unemployment across the Baltics has led to a wage increase, which in turn has driven the private consumption growth. The structural unemployment remains the key issue to decrease the level of unemployment in the future.

The Baltics commercial property markets have been rather active from 2H 2012 onwards in terms of transaction volume, which amounted to around EUR 500 million in 2013 and 2014. However, with multiple large-scale transactions closed during the first half of the year and several yet in the pipeline, 2015 is expected to show a solid growth in the transaction volume.

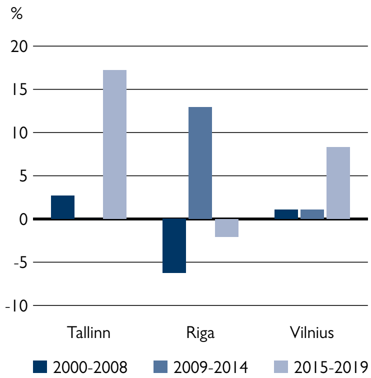
Local investors as well as investors from Nordic and CIS countries dominate the market. In general, there is considerably more capital available on the market than suitable projects to match it. The majority of the main local investors are actively seeking for investment opportunities. There has also been increasing interest among investors from CIS countries over the past year. Interest among Nordic private investors has somewhat declined.

There has been a substantial yield compression over the last year in the Baltics. The prime office yields in all capital cities have contracted by approximately 0.5%. This is mainly due to imbalances in demand and supply, banks' willingness to lend and cheap financing. The current prime office yield levels are around 6.75% in Tallinn and 7.00% in Vilnius and Riga.

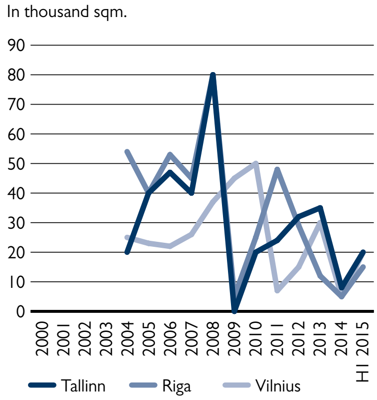
TOTAL OFFICE STOCK IN PROPORTION TO TOTAL VACANCY



GROWTH RATES OF PRIME RENT



OFFICE TAKE-UP VOLUME



LOCATION KEY FACTS AS OF H1 2015

City	Office stock, mn sqm.	Office transaction volume, bn EUR	Prime rent p. m., EUR/sqm.	Prime yield, %	Vacancy rate, %	Take-up, sqm.
Tallinn	0.64	0.060	16.00 →	6.75 →	5.00	20,000
Riga	0.70	0.015	16.00 →	7.00 →	7.40	15,000
Vilnius	0.52	0.027	16.00 →	7.00 →	6.10	20,000

→ Forecast 6 months

Belgium

Strong demand in office sector

THE EUROZONE maintained a steady pace of growth over the last several months, despite the renewed uncertainty regarding the position of Greece within the currency union. Belgium followed the pack, with growth below but close to the eurozone average at 0.3% q/q in the first quarter of 2015, on the back of improving consumer spending. After an unpredictable 2014, Belgium`s economy has been growing this year, with GDP growth of 1.2% by the end of the year and a rise towards 2% by 2017.

Consumer confidence has increased since the start of the year, to the highest level in four years and significantly above the historical average. Private consumption is expected to grow by 1.8% in 2015 and 2016.

In 2015 export growth will be a little weaker, due to the effect of a strong Q2 2014. A faster development of advanced economies and a weaker euro will push up in the second half of 2015 and the start of 2016.

The office investment market in Brussels diminished in Q2 after a strong first quarter in 2015. From Q1-Q2 2015, office transactions totaled EUR 529 million. Compared to the same period of 2014 this is a decrease of 25%. There is strong interest from international investors in Brussels, especially from the UK, investing EUR 148 million in office properties. Total cross-border investments account for 72% in H1 2015 and have been continuously growing since 2012. But even national investors, e.g. Public Listed REITs, are strong players on the market with an amount of 25%, underpinned by the largest single acquisition of "Gateway" for EUR 140 million by Befimmo SCA.

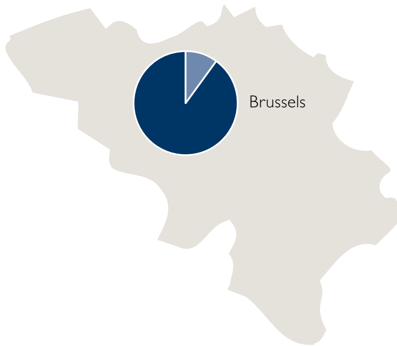
The strong activity in the office sector results in decreasing prime yields over the quarter to a current level of 5.75%. The office investment market is developing positively, with prime yields decreasing further while investors remain attracted to Brussels prime assets.

Brussels office take-up volume is underperforming in H1 2015 compared with the same period of the previous years. The main cause is the uncertainty of the future of the euro.

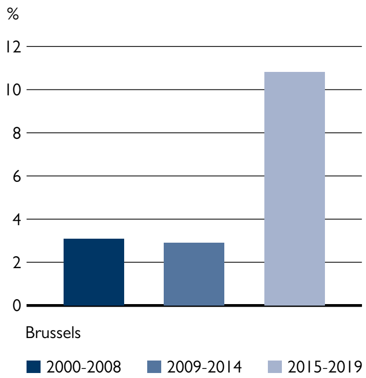
With a current take-up volume of 143,000 sqm., this means a decrease of 40%. The occupier market has picked up slightly in Q2 after a weak start to the year. Many occupiers decide to hold back relocation decisions until the business market has regained more certainty. The majority of take-up activity was comprised of lettings under 5,000 sqm., with tenants focusing on Brussels periphery submarkets due to their wider availability of office space.

In Brussels, the vacancy rate compressed over the quarter and now stands at around 10.2%. Decline in vacancy is a result of a growing trend of converting office buildings to residential. Prime rents are expected to remain stable until certainty returns to the business markets.

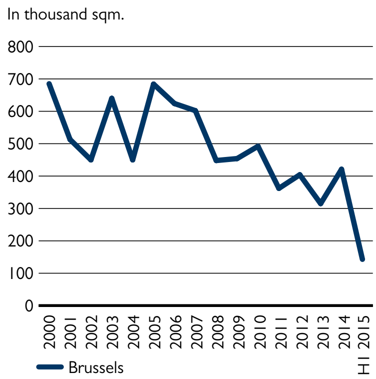
TOTAL OFFICE STOCK IN PROPORTION TO TOTAL VACANCY



GROWTH RATES OF PRIME RENT



OFFICE TAKE-UP VOLUME



LOCATION KEY FACTS AS OF H1 2015

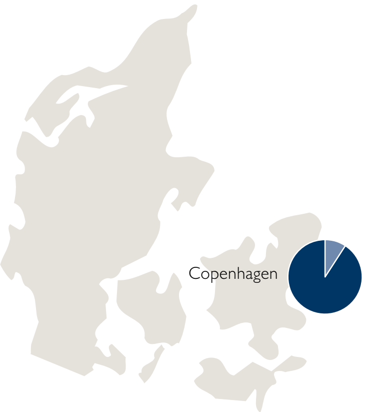
City	Office stock, mn sqm.	Office transaction volume, bn EUR	Prime rent p. m., EUR/sqm.	Prime yield, %	Vacancy rate, %	Take-up, sqm.
Brussels	13.22	0.529	21.50 ➔	5.75 ➘	10.20	143,000

➔ Forecast 6 months

Denmark

Growing interest beyond prime locations

TOTAL OFFICE STOCK IN PROPORTION TO TOTAL VACANCY



THE DANISH ECONOMY grew by 0.5% q/q in the first quarter of the year and marked an acceleration on Q4 2014 of 0.3%. GDP growth is steadily improving, mainly driven by consumer spending. A growth of 1.6% at the end of the year is forecast.

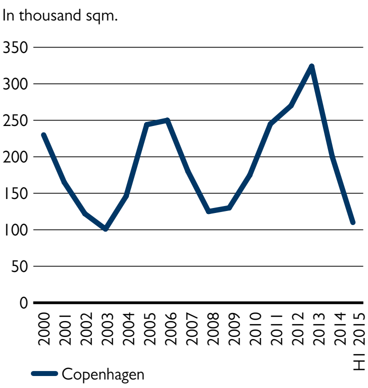
Consumer spending was a key driver of growth as it expanded by 0.7%. Subdued inflation (0.7% in June) and steady rises in consumer confidence are expected to spur further growth in consumer spending in particular after a decent 0.7% q/q expansion in Q1. Furthermore, downside risks from the Russia-Ukraine conflict and uncertainty surrounding Greece's future in the eurozone are both subsiding and exports are expected to continue to pick up pace, driven by improvements in world trade and supported by the weaker krone.

Office investment volume in Copenhagen slowed in Q2 2015 after a strong start of the year. In H1 2015 investment volume in Copenhagen totals EUR 493 million, a slight decrease of 8% compared to the same period of last year. The main drivers on the market are institutional as well as real estate companies focusing on well-located office properties, likely in Copenhagen`s CBD and Harbour submarket. Cross-border activity in Denmark currently amounts to 28% and marks the highest result of the previous three years. Nevertheless, Sweden and Finland still remain the top-investors on the Danish investment market with EUR 127 million respectively EUR 30 million.

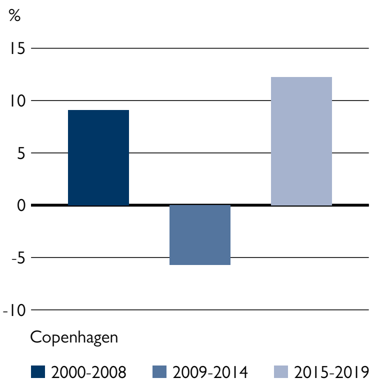
Core office properties are limited, so investors are increasingly seeking for secondary locations, albeit financing conditions are more restrictive for these. Prime office yields currently remain at 4.51% and decrease by 24 basis points compared to Q2 2014. However, prime yields are not likely to come under pressure in the short term. The Danish investment market is expected to increase due to ongoing positive performance of the economy and solid conditions of the economy of the year. Office properties remain the preferred target among investors.

Take-up levels in Q2 decreased from the subdued amount registered in the previous quarter. In H1 2015 total take-up volume amounts 110,000 sqm. Copenhagen's City continues to be one of the more sought-after submarkets in the country, although other areas also attracted occupier interest. One notable deal that closed in Q2 was Egmont's new lease of just under 7,600 sqm. of office space in Copenhagen East. While demand for office space remains robust, the shortage of well-located Grade A space is limited. Secondary offices are seeing more attention; however, is still at a very low level. The supply of high-quality spaces is limited, while outdated stock is still prevalent on the market.

OFFICE TAKE-UP VOLUME



GROWTH RATES OF PRIME RENT



LOCATION KEY FACTS AS OF H1 2015

City	Office stock, mn sqm.	Office transaction volume, bn EUR	Prime rent p. m., EUR/sqm.	Prime yield, %	Vacancy rate, %	Take-up, sqm.
Copenhagen	9.09	0.494	17.70 ➔	4.51 ➔	9.40	110.000

➔ Forecast 6 months

Finland

Office investment volume increasing at record speed

THE FINNISH ECONOMY has started the year on a weak basis, falling back into recession after suffering a second consecutive decline in GDP in Q1. Although expecting to mark the end of the recession that Finland has undergone for the past three years, the projected growth rate of 0.3% for this year reflects the enduring weakness in the economy. Forecast growth will rise moderately to 1.0% in 2016 and continue to pick up slowly to to reach 2.0% in 2019.

The weak performance is mainly a result of the Russian economy with ongoing structural problems in the country`s export sector as well as the strong depreciation of the euro. Growth prospects for Russia remain negative due to the EU's export bans, a weaker rouble and lower oil prices.

The Finnish office investment market picked up in the first half of 2015 with a total investment volume of EUR 765 million, which is approximately 158% more than in the first half of 2014. The rise in activity is mainly due to the increased opportunities in the lending market for international investors and the stability of the Finnish real estate market, resulting in growing interest and demand for core assets. Demand is focused on prime targets and large properties, big portfolios and properties with stable tenant bases. Since 2013 Finland has recorded continuous growth of cross-border investments and currently achieves a new record high of 37%, mainly driven by Swedish and German investors. The majority of all investors are institutional, e.g. Deka Immobilien, Union Investment, AMF or Amundi Real Estate.

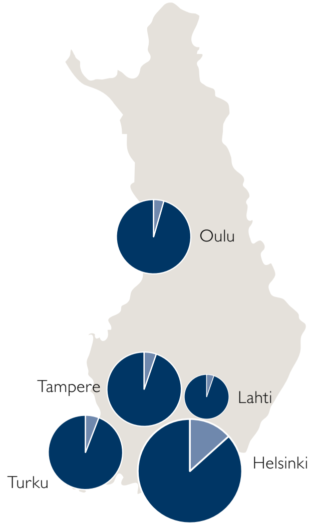
This improving development is underpinned by Union Investment's acquisition of the Ernst & Young office building in Helsinki for EUR 93.3 million at the beginning of the year. The Helsinki metropolitan area still remains the top destination for both international and national investors and achieves a total office volume of EUR 642 million in H1 2015.

The yield for prime office properties in Helsinki CBD currently stands at 4.80%, a drop of 20 basis points compared to the previous year. Due to limited supply of core properties and solid demand, prime yields in Helsinki may decrease further over the remainder of 2015. In growth centres, the investment markets have mainly relied on local operators, portfolio buyers and domestic residential and serviced housing funds. Foreign investors have bought many big portfolios which have lots of properties in the growth centres.

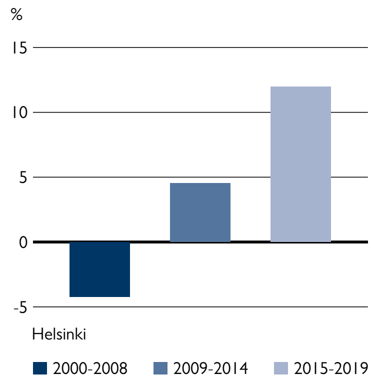
With a range of options available to occupier demand it firmly remains focused on modern, flexible and efficient space to the detriment of older office space in secondary locations. The popularity of areas such as Keilaniemi and Aviapolis in the Helsinki Metropolitan Area endures as these continue to offer tenants choice of accommodation. Rents in Helsinki CBD and Ruoholahti remained stable even during the poor economic conditions in the spring. The prime rent in the CBD area is EUR 31.50/sqm., while there are individual peaks of EUR 35.00/sqm. In the area just outside the CBD, the prime rent has remained around EUR 23.50/sqm. and in Ruoholahti, around EUR 22.00/sqm.

The Helsinki Metropolitan area is still facing a relatively high vacancy rate of 13.4%. However, vacancy levels vary across submarkets, for example in CBD and in Leppävaara, while the headline rents have been gradually creeping up since March 2014.

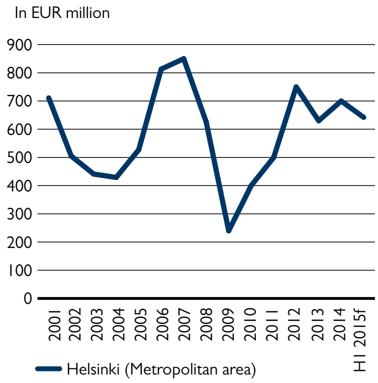
TOTAL OFFICE STOCK IN PROPORTION TO TOTAL VACANCY



GROWTH RATES OF PRIME RENT



OFFICE TRANSACTION VOLUME



LOCATION KEY FACTS AS OF H1 2015

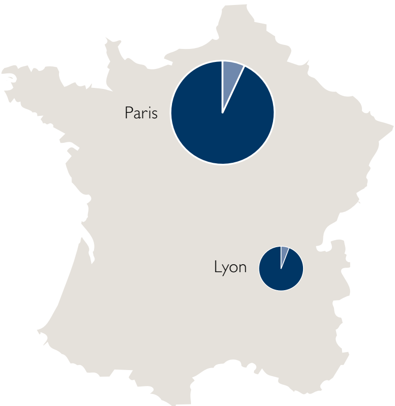
City	Office stock, mn sqm.	Office transaction volume, bn EUR	Prime rent p. m., EUR/sqm.	Prime yield, %	Vacancy rate, %	Take-up, sqm. *
Helsinki (Metropolitan area)	8.67	0.642	31.50 ➔	4.80 ➘	13.38	–
Turku	0.80	0.032	19.00 ➔	7.50 ➔	5.90	–
Tampere	0.86	0.080	19.00 ➔	7.00 ➔	5.40	–
Oulu	0.60	0.020	19.00 ➔	7.50 ➚	4.60	–
Lahti	0.25	0.047	18.50 ➔	8.00 ➔	5.50	–

➔ Forecast 6 months

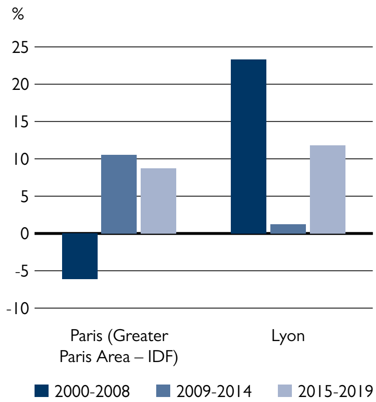
* There is no office take-up volume for Finland available.

Solid growth during the year

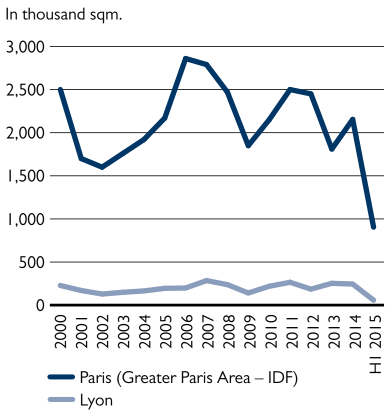
TOTAL OFFICE STOCK IN PROPORTION TO TOTAL VACANCY



GROWTH RATES OF PRIME RENT



OFFICE TAKE-UP VOLUME



THE FRENCH ECONOMY improves in the opening quarter of 2015 with GDP growth of 0.6%, which means a significant improvement compared with the growth rates of 2014. The growth in Q1 was the strongest rise observed in the eurozone. Private consumption was the main driver of growth, up by 0.9%, but the rise in consumption is still fragile, especially since the unemployment rate is historically high (10.4%) and is not expected to improve significantly before 2016. In addition to this, monthly spending data show that growth in consumer spending lost momentum over the course of Q1. It seems unlikely that the Q1 strength will be maintained. Nevertheless, GDP growth is expected to moderate after a strong Q1 but remain solid during the year, with 1.1% and 1.3% in 2016. The economy is expected to continue to be driven by domestic demand, with exports muted due to persistently low external competitiveness, which will only partly be offset by the weaker euro.

French inflation fell sharply in the early stages of this year, but has since recovered somewhat to 0.3% in May, mainly as a result of a lower annual energy inflation rate. Although past economic weakness and the highest unemployment rate since early 1999 suggest that underlying inflationary pressures will remain weak, the harmonized consumer price inflation is expected to rise from 0.3% this year to 1.0% in 2016.

In the first half of 2015 the French office investment market amounts to EUR 5.5 billion, which means a decrease of 20% compared to H1 in 2014. The second quarter of the year has been especially weak, with a drop by 47%, due to a lack of some large deals which arose in Q2 2014. Transactions for office properties remain the most sought after asset class in France. Île-de-France is the top destination for investors, accounting for 85% of all office investments in H1 2015, with a total volume of EUR 4.7 billion (-36% year-on-year). Paris has even seen a slight decline in activity by cross-border investors in H1 2015 and currently achieves a share of 45% (47% in H1 2014), mainly driven by US investors with approximately EUR 1.3 billion.

With limited supply in core locations, there is growing appetite for assets in the designated development zones near the Paris city limits such as Clichy-Batignolles or Rive Gauche, so investors are shifting their focus of interest to other inner-suburb markets. Office properties with redevelopment potential are expected to see increasing demand.

Paris' take-up volume in H1 2015 amounts to 915,000, a decrease of 22% compared with the same period in 2014. The lower volume is due to a lack of larger lettings as many occupiers increasingly prolong their lease contracts. Nevertheless, the total number of lettings was even slightly above last year`s level due to solid demand in the smaller and medium-sized segments. The lack of Grade A office spaces in core markets is unlikely to be solved in the short to medium-term. Overall, the available supply is relatively stable with a vacancy rate at 7.3% in Île-de-France.

In the first half of the year, the office market is still feeling the impact of the negative economic development of the previous quarters. But the expected upturn in the economy suggests that take-up volume may recover in the second half of 2015 with a forecast full year take-up of 2 million sqm.

LOCATION KEY FACTS AS OF H1 2015

Source: Immostat/MBE Conseil/Catella Property France

City	Office stock, mn sqm.	Office transaction volume, bn EUR	Prime rent p. m., EUR/sqm.	Prime yield, %	Vacancy rate, %	Take-up, sqm.
Paris (IDF)	56.15	4.650	60.00 ➚	4.09 ➘	7.30	915,000
Lyon	4.96	0.198	22.50 ➔	5.40 ➘	6.10	58.000

➔ Forecast 6 months

Cross-border activity still rising

THE GERMAN ECONOMY expanded at a solid pace in Q1, although the rise of GDP of 0.3% is well below that in Q4 2014 at 0.7%. The slowdown reflects companies running down their inventories. The Ifo Business Climate Index for German trade and industry rose to 108.0 points in July from 107.5 points in the previous month. Business expectations were also somewhat more optimistic after having declined for three consecutive months. The near term outlook remains positive, so GDP growth is expected to pick up to 2.4% in 2015 and then 2.1% in 2016.

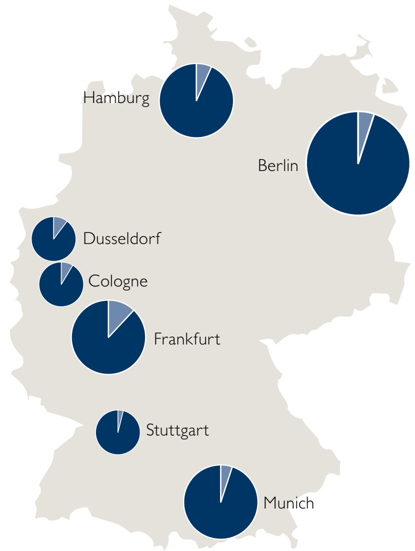
The recovery will continue to be driven mainly by domestic demand over the next couple of years. In the near future, this will partly reflect the boost to real incomes from the plunge in the oil price and current low unemployment rate of 6.2%.

Germany is not expected to be significantly affected by uncertainty in the short term and may benefit from safe haven effects. It will therefore attract increased levels of investment.

During the first half of 2015 Germany recorded its most successful half year volume since 2007 as the investment market continues to strengthen. In total, investors placed EUR 18.8 billion in commercial properties, an increase of 16% compared to H1 2014. Office properties still remain the key sector for investors, who placed nearly half of the total commercial volume in office properties.

Cross-border investors increased investment by 58% with a total volume of EUR 5.4 billion. Furthermore, 90% of cross-border investors remain interested in the biggest 7 German cities with a reduced interest in new allocations in other markets compared to 2014. Thus,

TOTAL OFFICE STOCK IN PROPORTION TO TOTAL VACANCY

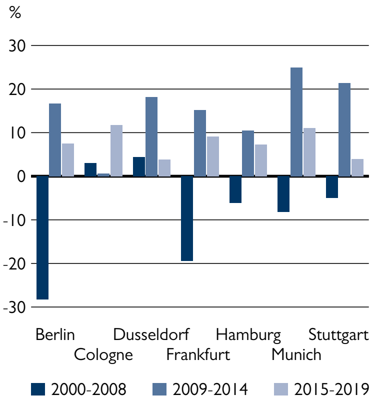


Berlin, Frankfurt and Munich were the top destinations of foreign capital in 2015, each with volumes above EUR 1.0 billion. Office volumes suggest the top 7 "A" cities in Germany are receiving the most interest as their market share has increased from 70% in H1 2014 to 85% in H1 2015. However, the number of 2ND tier locations across Germany in play increased significantly compared to 2014. This signifies an increased interest in investments across the country, a development which is spurred by domestic investors.

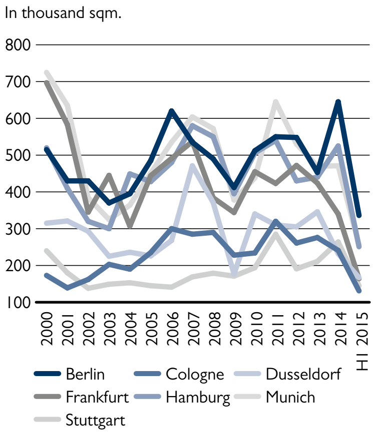
Business activity is steadily improving, with a growing number of firms looking at expansion strategies. A combination of stable letting volumes in the small-scale segment and even a number of large-scale deals has pushed take-up volume to 1.27 million sqm. This result is up by 9% compared to H1 2014.

The availability of space in the top-5 cities is at its lowest level and declined marginally in Q2, driven primarily by high letting activity and low speculative completion, while in Frankfurt the decline in vacancy was driven by refurbishments and conversions. Developers are still cautious but development activity is steadily improving, boosted by healthy demand for pre-let opportunities.

GROWTH RATES OF PRIME RENT



OFFICE TAKE-UP VOLUME

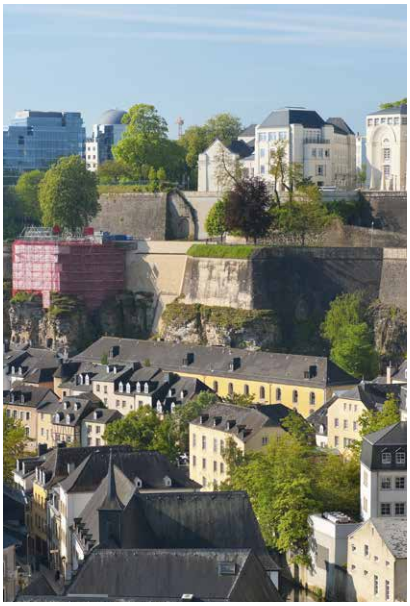


LOCATION KEY FACTS AS OF H1 2015

City	Office stock, mn sqm.	Office transaction volume, bn EUR	Prime rent p. m., EUR/sqm.	Prime yield, %	Vacancy rate, %	Take-up, sqm.
Berlin	18.86	1.370	23.00 ↗	4.30 ↘	5.00	335,840
Cologne	5.85	0.340	21.50 ↗	4.60 →	8.70	131,000
Dusseldorf	7.61	0.390	26.00 →	4.45 →	10.56	166,800
Frankfurt	10.40	2.582	38.25 ↗	4.35 ↘	12.00	164,000
Hamburg	11.63	0.937	24.50 ↗	4.30 ↘	7.10	251,000
Munich	13.73	1.609	33.50 ↗	4.00 ↘	5.10	256,000
Stuttgart	5.85	0.468	20.00 ↗	4.65 →	4.10	145,000

→ Forecast 6 months

Yield compression going forward



RECENT GROWTH FIGURES have been revised significantly upwards recently and show Luxembourg growing at a much faster rate than expected, at a rate of 5.6% last year and 4.9% in the first quarter of this year. GDP expansion in 2015 overall is forecast at 2.6% and is then expected to stay at the same level in 2016.

Domestic demand has been an important contributor to growth, with both investment and government expenditure growing by more than 4% in the last quarters. Looking ahead, growth in domestic demand should ease a little, as a rise of two percentage points in the VAT rate is likely to weigh on household consumption in the medium-term. Public spending is also likely to grow more modestly over the coming quarters.

Inflation is expected to remain well below 1% in 2015, before rising towards 2% in 2016 because of stronger domestic demand and the weaker euro.

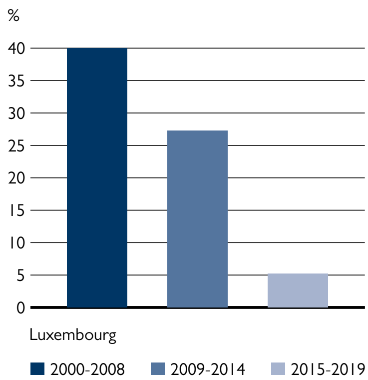
Office investment was stable over the quarter, sustained by Luxembourg's low interest rates on offer and liquid prime market. Office investments totaled EUR 471 million in the first half year of 2015, an increase of 50% compared to H1 2014. The office sector in particular is an attractive option for foreign and domestic investors, although activity is still driven by core product in the best markets. However, the wider availability of funding should help promote interest in secondary or higher risk assets going forward.

As already seen in the previous year, cross-border investors are still the main market driver, with a share of 64% in the first half of 2015. German investors slowed down their activities towards the previous year and currently only placed EUR 58 million. At the same time, the Sovereign Wealth Fund ADIA from the United Arab Emirates acquired the Royal Hamilius office building as partial interest for EUR 139 million. Due to robust investment activity, prime yields could see further hardening across Luxembourg`s submarkets (CBD, Station, City) and strong investor competition.

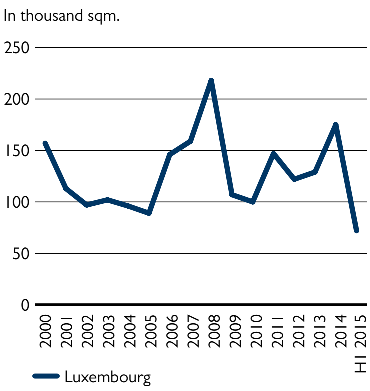
Luxembourg`s office letting market reached 72,000 sqm. in the first half and is mainly driven by two major transactions, which combined nearly 25,000 sqm. by the European Commission. Thus, take-up volume increased by 20% compared to the same period of last year. These significant deals will help to lift total office take-up volumes for the year and surpass any previous year-end total. In addition, ongoing demand from financial institutions and business services will drive activity forward and help to reach robust take-up volumes.

Availability in the Cloche d'Or submarkets has come down considerably, and sustained demand from other occupier types has maintained the downwards pressure on vacancy rates. Quality space is becoming increasingly scarce, which in turn is expected to boost more development projects to satiate demand. Luxembourg is on its best way to achieve one of the strongest years for the office occupational market.

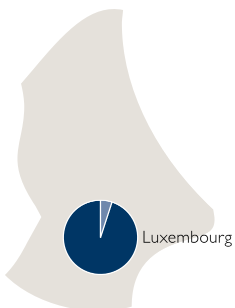
GROWTH RATES OF PRIME RENT



OFFICE TAKE-UP VOLUME



TOTAL OFFICE STOCK IN PROPORTION TO TOTAL VACANCY



LOCATION KEY FACTS AS OF H1 2015

City	Office stock, mn sqm.	Office transaction volume, bn EUR	Prime rent p. m., EUR/sqm.	Prime yield, %	Vacancy rate, %	Take-up, sqm.
Luxembourg	2.86	0.471	41.00 ↗	5.50 ↘	5.10	72,000

➔ Forecast 6 months

Limited supply in prime stock

GDP GROWTH IN Q1 stood at 0.4% - half of the growth recorded in the three final months of 2014. Q1 was the fourth consecutive quarter of positive GDP expansion. The latest data point to another quarter of positive growth in Q2 and an expansion in the Dutch GDP in 2015 overall to 1.5% and then 1.7% in 2016.

Both consumer and business confidence rose strongly in May and June of this year. The low oil price in the latter part of 2014 and early 2015 should leave Dutch inflation averaging around 0.6% in 2015. Exports are still benefiting from the weaker euro and, given the subsiding risk of a Grexit, further improvements are unlikely in the short to medium terms.

Overall, in the next few years it is unlikely that the Dutch economy will achieve the rates of growth it enjoyed prior to the financial crisis. Uncertainty due to ongoing bailout talks between Greece and its international creditors as well as a further slowdown in the main emerging economies are the key risks to growth in the Netherlands.

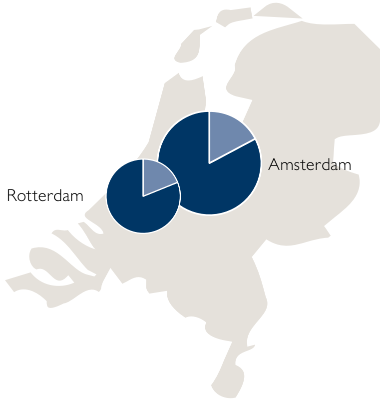
The Netherlands has also seen a substantial increase in the office investment market, totalling EUR 1.3 billion, which means an increase of 11% compared to the first six months of 2014. However, this year is mainly driven by retail transactions with EUR 2.3 billion due to large portfolio transactions.

A shift in capital towards Europe has attracted the cross-border investors both from within Europe and also from the USA. US-based investors have been the largest buyers of Dutch office properties since the end of 2013 and account for EUR 407 million in the first half of 2015. Overall, the amount of cross-border investors decreased from 81% in H1 2014 to 58% in H1 2015, which is mainly due to substantial restraining activity of German investors. Amsterdam still remains the top destination for both domestic and foreign investors accounting for 64% of total office volume. With limited supply of prime stock and high demand at the prime end of the market, there is also growing appetite for assets in 2ND tier locations.

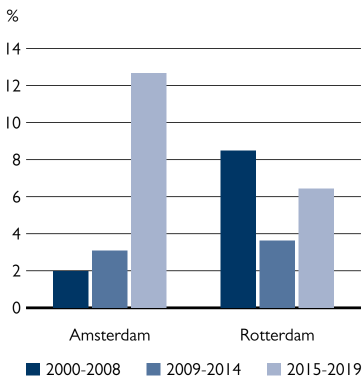
The occupier market is gradually improving and higher take-up volumes are anticipated for H2 2015 as firms reconsider expansion plans, especially in the Randstad area.H1 2015 take-up volume in Amsterdam and Rotterdam totaled approximately 123,000 sqm., a decrease of 24% compared to H1 2014. Modern, multifunctional buildings in core areas are favoured, although some secondary locations have witnessed healthy levels of occupier activity in recent months.

Vacancy rates in prime office locations are falling and are now stabilising in some secondary locations as demand improves. Prime rents were largely unchanged in Q2, with some rental growth being seen in the central area and Amsterdam and Rotterdam, while secondary rents increased in the Amsterdam submarkets.

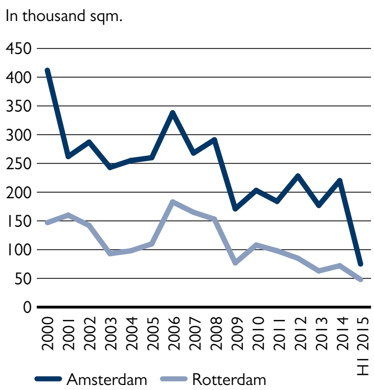
TOTAL OFFICE STOCK IN PROPORTION TO TOTAL VACANCY



GROWTH RATES OF PRIME RENT



OFFICE TAKE-UP VOLUME



LOCATION KEY FACTS AS OF H1 2015

City	Office stock, mn sqm.	Office transaction volume, bn EUR	Prime rent p. m., EUR/sqm.	Prime yield, %	Vacancy rate, %	Take-up, sqm.
Amsterdam	6.08	0.826	26.30 ➚	5.14 ➘	17.30	75,000
Rotterdam	3.71	0.246	16.25 ➔	5.74 ➘	17.20	48,000

➔ Forecast 6 months

Norway

Foreign investors aim at secondary locations

AFTER A PICK-UP to 0.9% q/q in Q4 14, the Norwegian economy slowed to just 0.2% in Q1 15. Falling exports (despite a weak krone) and fixed investment have been the main drags on growth. The consumer sector meanwhile picked up but is likely to be hit by knock-on effects from the ongoing slowdown in the corporate sector. Indeed, the effects of the plunge in global oil prices are expected to continue to unwind gradually, with further reductions in investment and employment in the petroleum sector. Rising unemployment, increasing inflation and weak wage growth as well as negative retail sales in April and May suggest that households are unlikely to provide the same impetus to growth as they did in recent quarters. Growth in household spending is expected to slow very gradually, to a still decent 1.9% in 2015 and 1.7% in 2016. The Norwegian economy is expected to decelerate to 0.8% in 2015 and then pick up to 1.2% in 2016. Further fall in oil prices and high household debt are the main risks to this forecast.

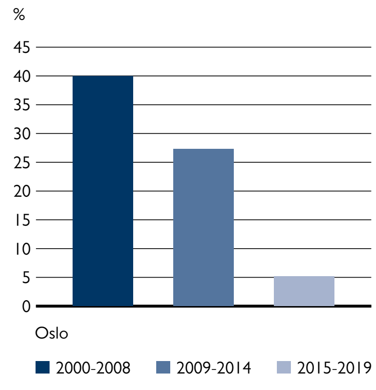
The office sector remains a top target for investors, mainly due to favourable financing conditions and low interest rates, but also due to stable income returns. In the first six months of 2015 in total EUR 2.8 billion were placed in Norwegian office investments, a significant increase of 586%, respectively EUR 2.4 billion, which marks the highest H1 volume in history. Approximately 25% of total Norwegian office volume was placed in Oslo (EUR 700 million), double the amount compared to the same period of the previous year. Most of the demand is centred on core areas in Oslo, opportunities are increasingly limited in these locations and this, combined with high capital values, is forcing some investors to consider 2ND tier cities. This is putting pressure on secondary yields, with the yield gap to prime is expected to narrow.

While local funds and institutions still dominate market activity, there has been a steady improvement in demand from cross-border investors in recent quarters. In H1 2015 foreign investors achieve a share of 74% investing in office properties across the country. On the other hand, cross border proportion in Oslo only achieved 37%. Thus, the development towards 2ND tier locations is underpinned by cross border activity targeting more and more attractive opportunities. Take-up volumes have been relatively subdued in the first half of 2015, with leasing activity being affected by the structure of lease lengths and expiration timings. Occupier demand has also faltered, with lease negotiations taking longer and landlords being forced to offer lower rents and generous incentive packages to secure tenants. Some occupiers are taking advantage of the weak leasing environment and falling rents and are looking to upgrade/relocate from older space to more modern office space.

The development pipeline for 2015 is robust - particularly in Oslo - with a number of Grade A buildings to be completed. This is expected to increase the office vacancy rate in the short term. Prime rents will mainly remain stable, possibly with some modest declines. From 2016 onwards however, development activity will be much lower.

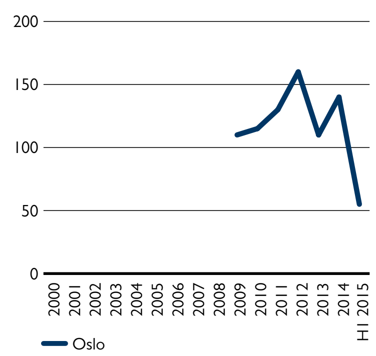
TOTAL OFFICE STOCK IN PROPORTION TO TOTAL VACANCY

GROWTH RATES OF PRIME RENT



OFFICE TAKE-UP VOLUME

In thousand sqm.



LOCATION KEY FACTS AS OF H1 2015

City	Office stock, mn sqm.	Office transaction volume, bn EUR	Prime rent p. m., EUR/sqm.	Prime yield, %	Vacancy rate, %	Take-up, sqm.
Oslo	9.74	0.700	41.50 ➔	4.50 ➔	6.30	55,000

➔ Forecast 6 months

Spain

Improving demand and increasing prime rents

SPAIN REMAINS ONE OF EUROPE´S fastest growing economies with q/q growth in Q2 at 1.0% – the third best result in the EU behind the Czech Republic and Poland. Economic growth is broad-based, with investment continuing to grow at a particularly fast rate, followed by consumer spending. Subdued inflation (0.0% in July after a year of deflation), led by a fall in energy costs and quantitative easing by the ECB combined with gradual improvements in the labour market, boosted consumer sentiment in Spain. Spain is on track for one of the strongest economic performances in recent years. Although it is unlikely that GDP growth will reach the rates seen in 2005-2007, growth estimates have been revised upwards and currently point to a 3.3% expansion this year.

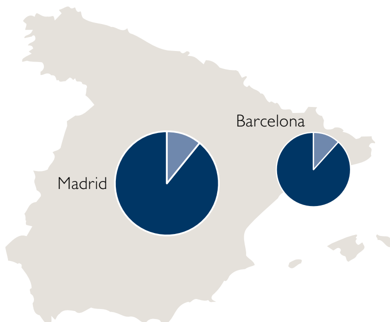
Consumer spending has exceeded expectations since mid-2014 as it is expected to expand by 3.4% this year.

Spanish exporters are benefitting from rising demand in the eurozone. There are positive structural changes boosting Spanish exports, namely increasing embedment of Spanish manufacturing into the European supply chains. Furthermore, capacity utilisation is moving closer to pre-recession levels, thus prompting firms to expand investment.

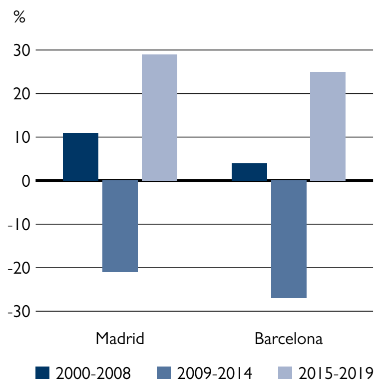
The office investment market continued to perform positively in the first half of 2015, with a total volume of EUR 1.24 billion, which means an increase of 45% compared to H1 2014. The demand on the Spanish real estate market is high, both from local and foreign investors. In addition to that, the competition among investors for core assets is strong and leads to a continuous increase of capital values as well as decreasing prime yields in top locations such as Barcelona and Madrid. Furthermore, 61% of office investment volume corresponds to Madrid and thus underpins the status as capital and top destination in Spain. The limited opportunities in these locations is forcing some investors with higher return requirements to target opportunities in other submarkets, apart from prime, where yields are higher and the competition for stock is not as intense. Large local REITs continue to be key players in the market, and are an important driver of activity and investment volumes. Further yield compression is forecast due to growing demand in prime locations and decreasing supply.

The majority of the occupier demand remains focused on Grade A space in Barcelona and Madrid, with many tenants still looking for opportunities to upgrade to higher quality and more efficient office buildings. Indeed, a growing number of tenants is willing to pay premium rents to secure the best space. As a signal of growing confidence amongst occupiers, there has been greater appetite for larger floorspaces in recent quarters, particularly in Barcelona. The availability of Grade A space is declining however, and vacancy rates continued to fall in both markets in the second quarter. While there is a limited number of speculative office projects, the potential development/refurbishment pipeline is strengthening and developers are increasingly willing to consider projects for quality office space. A number of older existing buildings in the CBD submarkets are expected to be refurbished in the near future. The office market is expected to improve further in H2 2015. Core occupier markets will continue to outperform, although the lack of stock is expected to hamper activity, with demand focusing on 2ND tier cities and well-located secondary markets.

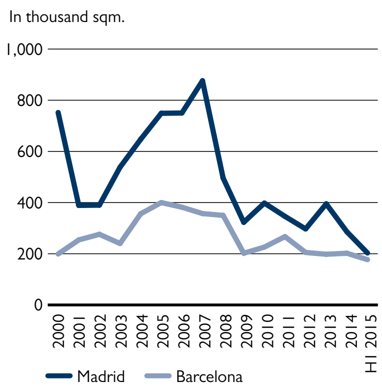
TOTAL OFFICE STOCK IN PROPORTION TO TOTAL VACANCY



GROWTH RATES OF PRIME RENT



OFFICE TAKE-UP VOLUME



LOCATION KEY FACTS AS OF H1 2015

City	Office stock, mn sqm.	Office transaction volume, bn EUR	Prime rent p. m., EUR/sqm.	Prime yield, %	Vacancy rate, %	Take-up, sqm.
Madrid	12.85	0.756	29.50 ↗	4.25 ↘	11.10	203,000
Barcelona	5.92	0.281	19.00 ↗	5.00 ↘	11.90	177,000

➔ Forecast 6 months

Lack of core assets drive yields down

THE SWEDISH ECONOMY expanded by 1.7% in 2014, with a particularly strong performance seen in the last quarter of the year (0.8% q/q). Growth was 1% q/q in Q2, propelled by solid retail sales, positive net exports and an uptick in industrial production. The Swedish economy is expected to grow by around 3.0% annually in 2015-2016.

The industrial sector increased in March, April and May and is set to strengthen further on the back of an improving economy in the eurozone. Migration to Sweden's main cities is driving residential construction, while commercial development, especially in retail, is also rising.

Exports are expected to grow during coming quarters due to improving demand of the economies in Europe. Growth prospects for the Swedish economy are healthy, with private consumption and investment expected to be the key drivers of continuing growth.

The office investment market in Sweden totaled EUR 2.1 billion in the first half of 2015 which means a decrease of 15% compared to H1 2014 due to a muted volume in Q2 2015. The limited supply of core properties is boosting higher trading volumes and yields for prime office properties are very low at a current level of 4.04% in Stockholm`s prime locations. Institutional investors and Public Listed REITs are the main driver on the market. Stockholm remains the top destination for office investments, comprising 43% of total office volume and thus far ahead of Malmö and Gothenburg. Nevertheless, the largest single-property office transaction took place in Solna with the purchase of a multi-tenant building by Klovern AB for EUR 130 million.

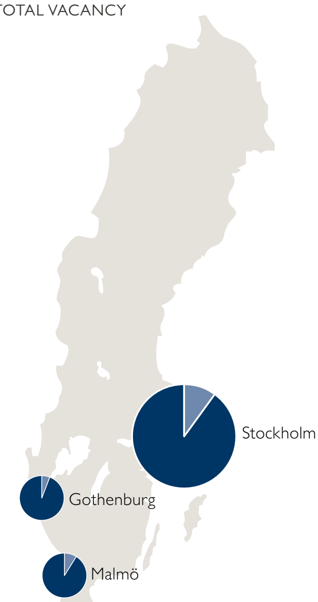
The office market was still dominated by domestic investors during the first half of 2015. However, there is a high level of interest from foreign investors, and Blackstone made a large acquisition

in July of a portfolio that consisted for the most part of office properties.

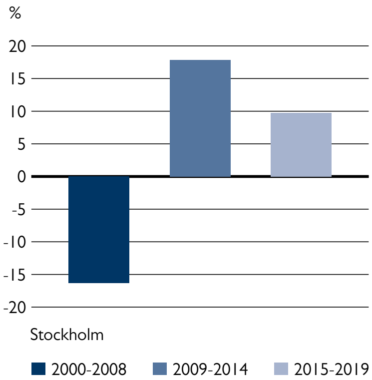
The occupier market is focused on quality space in the central areas of Stockholm, although some more peripheral areas such as Solna are seeing rising levels of interest as they can offer the much sought-after space that expanding companies are looking for. The development pipeline has picked up during recent years. However, tenant demand is strong and the projects will see diminishing availability. Most new office developments are expected to be pre-let before construction is complete. All of these factors will contribute to an imbalance between demand and supply and thus will support rental growth which is expected to rise.

The outlook for the Swedish real estate market is positive. Pricing for the CBD is close to an all-time high and so opportunities in 2ND tier locations are more and more in the focus of investors in order to attain value-add and opportunistic investments.

TOTAL OFFICE STOCK IN PROPORTION TO TOTAL VACANCY

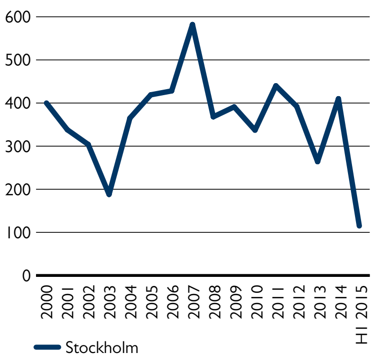


GROWTH RATES OF PRIME RENT



OFFICE TAKE-UP VOLUME

In thousand sqm.



LOCATION KEY FACTS AS OF H1 2015

City	Office stock, mn sqm.	Office transaction volume, bn EUR	Prime rent p. m., EUR/sqm.	Prime yield, %	Vacancy rate, %	Take-up, sqm.
Stockholm	11.35	0.892	45.00 ↗	4.00 ↘	10.20	115,000
Malmö	2.20	0.048	19.45 →	5.00 ↘	9.00	–
Gothenburg	2.10	0.229	23.00 ↗	4.50 ↘	6.00	–

→ Forecast 6 months

United Kingdom

Continuous high demand despite low yield levels

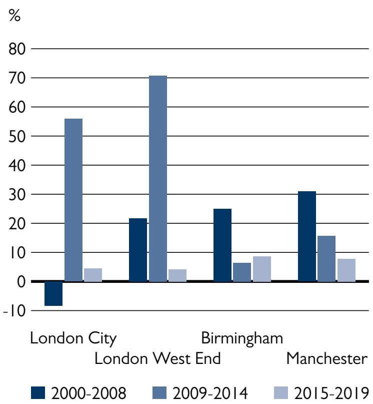
GDP GROWTH IN THE UK picked up to 0.7% q/q in Q2 following the slower growth of 0.4% in Q1 2015. The key services sector maintained its strong performance whilst the manufacturing sector continued to struggle, with a decline of 0.3% at the end of the quarter. Growth is set to remain domestically driven, with net trade unlikely to make a contribution this year due to the strong pound and robust growth of domestic consumption. A number of factors combine to encourage UK household spending – subdued inflation, a significant fall in unemployment, and a resulting return of real wage growth; alongside a better access to bank credit. The UK is expected to outperform all Western European countries except Sweden, Spain and Ireland in terms in terms of a forecasted GDP growth of 2.8%.

Office investment volume in the United Kingdom showed continued growth in the first half of 2015. Currently at EUR 18.3 billion, it is up 25% on last year`s mid-year volume. Thus, the UK remains well ahead of Germany and France as Europe`s most liquid investment market. London, in particular, is the top destination for capital. With a transacted volume of EUR 9.8 billion in the office market, Central London has just recorded its most active mid-year volume after 2007, suggesting that record low yields are not deterring buyers. The availability of Grade A stock in prime locations is very tight, and is driving demand for secondary assets and shorter income stock. Overseas investors are continuing to dominate the UK office market and were responsible for 70% of investment in the first half of 2015. London remains by far the biggest cross-border investment market in Europe and continues to account for the lion's share of foreign investment in UK property, at 87% in H1 2015.

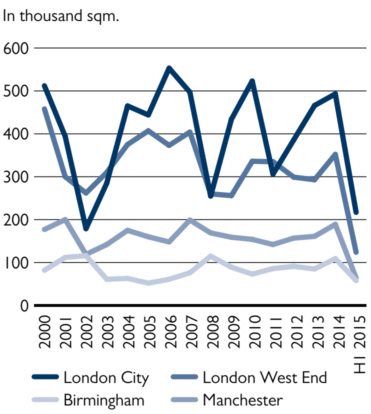
Leasing activity in key regional business markets such as Birmingham and Manchester has picked up strongly as more firms are looking to expand. Interest in these markets is also being helped by the migration of demand from the more expensive and supply-constrained locations in the South East. While development activity is improving, most office markets still have an undersupply of good quality Grade A stock, which is leading to falling vacancy rates, tighter incentives and increasing rents.

The office sector is forecast to be the strongest performer in 2015, led by the Central London market. While Central London yields are at a historic low, future performance is expected to be largely driven by rental growth. There is still room for further rental growth and yield compression in regional markets due to strengthening fundamentals. Good quality properties in 2ND tier markets are expected to have the best prospects for capital growth.

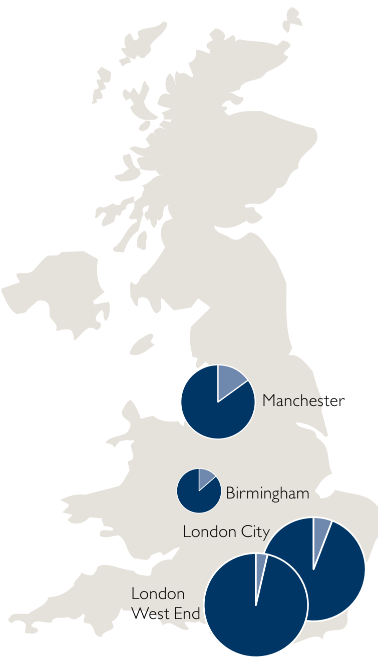
GROWTH RATES OF PRIME RENT



OFFICE TAKE-UP VOLUME



TOTAL OFFICE STOCK IN PROPORTION TO TOTAL VACANCY



LOCATION KEY FACTS AS OF H1 2015

City	Office stock, mn sqm.	Office transaction volume, bn EUR	Prime rent p. m., EUR/sqm.	Prime yield, %	Vacancy rate, %	Take-up, sqm.
London City	5.25	4.776	94.45 ↗	4.00 ↘	5.84	216,900
London West End	5.82	2.412	167.90 ↗	3.65 ↘	3.79	123,890
Birmingham	2.46	0.359	42.00 ↗	5.00 →	13.80	58,000
Manchester	3.66	0.396	44.80 ↗	5.00 →	15.10	64,100

→ Forecast 6 months

Catella
HQ: Birger Jarlsgatan 6, Stockholm
info@catella.com

catella.com

Contacts

CATELLA EUROPE
Dr. Thomas Beyerle
Group Head of Research
+49 69 310 19 30 0
thomas.beyerle@catella.de

BALTICS
Martin Kolga
Research
+37 2 52 58 378
martin.kolga@catella.ee

DENMARK
Bent Bjerring
Research
+45 3393 7593
bent.bjerring@catella.dk

FINLAND
Ella Sperling
Research
+358 10 5220 218
ella.sperling@catella.fi

FRANCE
Monique Benisty
Research
+33 1 56 79 79 79
monique.benisty@mbeconseil.com

GERMANY
Andreas Slupik
Research
+49 211 527 00 0
andreas.slupik@catella.de

SPAIN
Álvaro Martín-Simo
Research
+34 91 411 74 96
alvaro.martinsimo@catella.es

SWEDEN
Arvid Lindqvist
Research
+46 8 463 33 10
arvid.lindqvist@catella.se

UK
Stephanie McMahon
Head of Research, Strutt & Parker
+44 20 7629 7282
stephanie.mcmahon@struttandparker.com