EUROPEAN OFFICE MARKET

2018 EDITION

RESEARCH

BNP PARIBAS REAL ESTATE

Real Estate for a changing world

CONTENTS

The engine of growth is firing for European real estate in 2018

At global level, GDP growth is expected to reach 3.8% in 2018 compared to 3.6% in the previous year. This expected improvement should follow the good momentum of 2017. Most economic indicators are well above their long-term averages in the advanced countries, especially in the US and the Eurozone. Germany and France seem likely to exceed their potential growth by far, leading to high levels of job creation not seen for a decade. Meanwhile, activity in emerging countries is set to speed up, notably led by India and Brazil. Activity in the UK shows a respectable robustness given the geopolitical context, in particular thanks to exports and parities of the pound against other major currencies. Nonetheless, because of imported inflation and uncertainties around Brexit, private consumption and investment may again negatively impact economic growth. All in all, the peaking of global activity may be the theme of 2018.

There are other key economic drivers to watch out for in real estate markets. First of all is inflation. With the upturn in prices for raw materials and dynamic economic activity, inflation is set to stabilise in 2018 (1.6% in the Eurozone, 2.7% in the UK and 2.0% in the US) after the sharp increases recorded last year. Stronger inflation matters to real estate because rental income increases with inflation through lease indexation, particularly in continental Europe. Central bank policies remain crucial. The Federal Reserve will certainly pursue its monetary tightening cycle given positive US activity. The Bank of England may increase its base rate before end 2018 although this will depend on the economic and political situation. In the Eurozone, the ECB plans to scale back quantitative easing and in return, very likely leave its refinance rate at 0% in 2018. The overall consequence of all these economic developments is that 10-year interest rates will begin an upward trend from 2018 onwards. Nonetheless, their levels are expected to remain still moderate, partly due to abundant liquidity and low power of expected inflation in the long-term.

In this respect, most indicators point to positive momentum for the European office market in 2018. We anticipate that most occupier markets will record favourable trends, in vacancy rates, rental values and take-up. Office prime yields will most likely stabilise but average yields will continue to drop because of delay and spread effects. As a result, total returns for offices are expected to be robust again in numerous European cities in 2018. For investors, the main challenge will be to find assets that match their acquisition criteria. For 2018 we are expecting original strategies will be created to harvest more performance, by looking for market opportunities such as emerging locations, added-value assets and speculative schemes.

Richard Malle
PhD, MRICS
Global Head of Research

OFFICES IN EUROPE

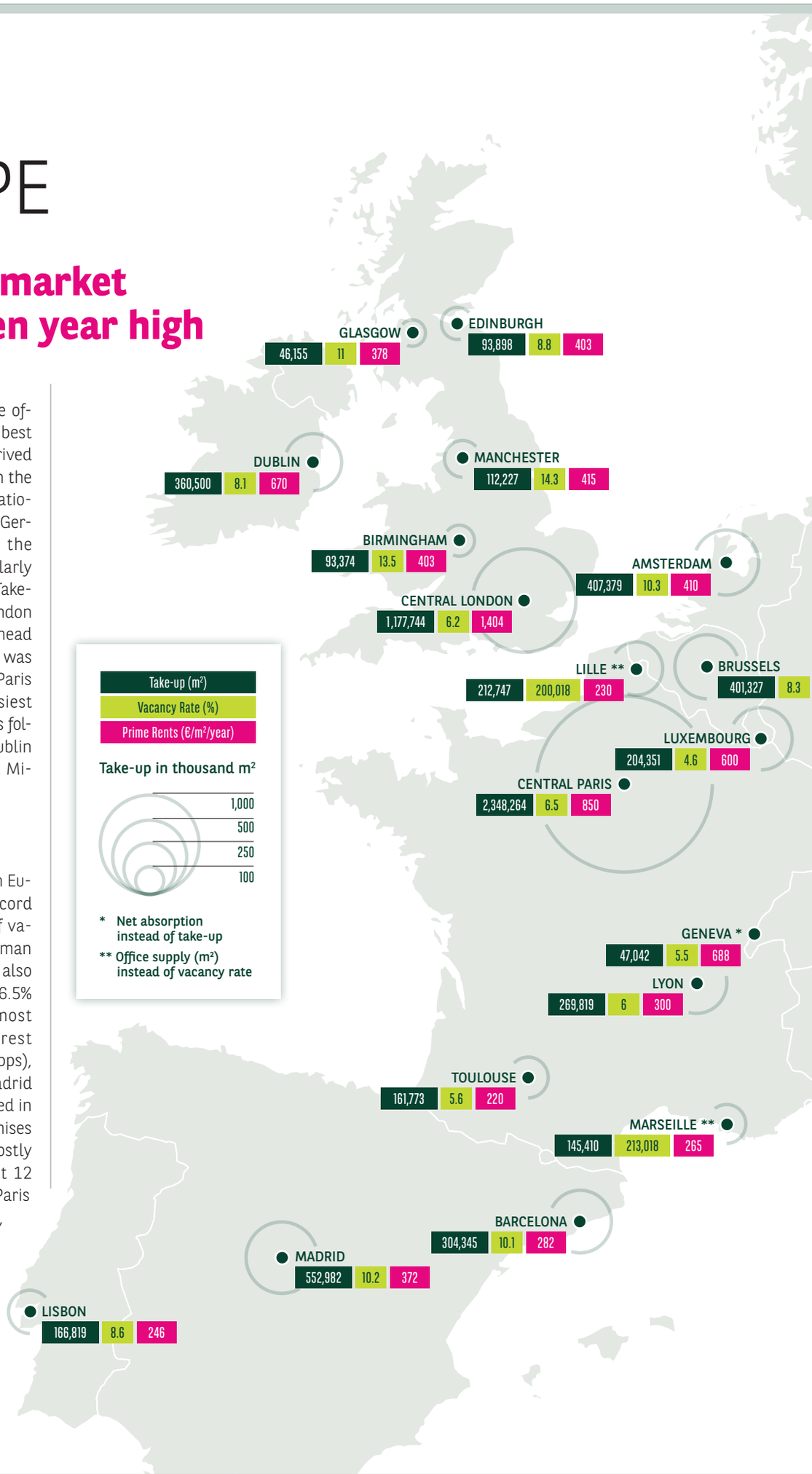
European office market activity is at a ten year high

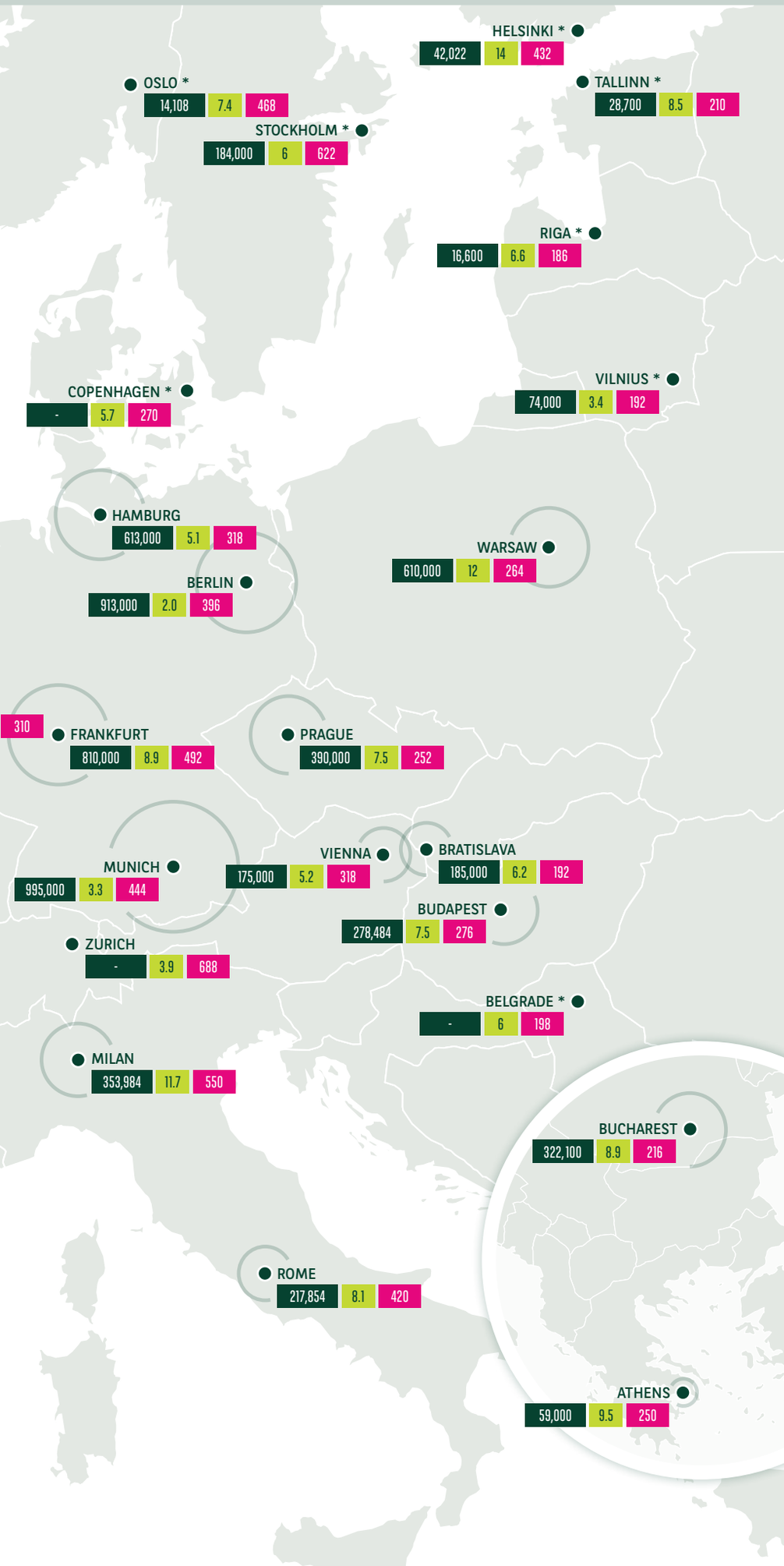
Best take-up volume in a decade

2017 was a very successful year for the office letting market which achieved the best result by far in 10 years. The market thrived in most cities over the year, especially in the 3 largest countries, where large occupational deals boosted the market. Thanks to Germany's good economic performance, the country's 4 main markets were particularly active with a 23% growth over last year. Take-up grew (+11%) over 2016 in Central London where large occupier deals were 55% ahead of average levels. The volume of take-up was much higher than last year in Central Paris (+9%), where large units were the busiest segment in 2017. Most European markets followed this healthy trend, particularly Dublin (+45%), Warsaw (+30%), Madrid (+29%), Milan (+20%) or Amsterdam (+16%).

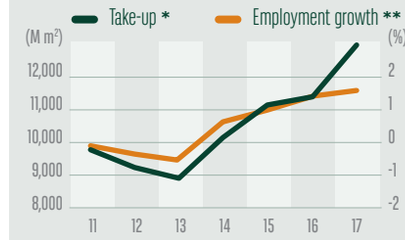
Vacancy contraction in Europe pushing up prime rental values

The average vacancy rate shrunk again in Europe in 2017 and attained all-time record lows in several markets. The volume of vacant space dropped in the 4 largest German markets (-16% over Q4 2016). Vacancy also contracted in Central Paris, reaching 6.5% (-30 bps over 1 year ago) but the most important drop was seen in Bucharest (-410 bps), followed by Warsaw (-300 bps), Amsterdam (-230 bps), Lisbon and Madrid (-160 bps). In contrast, vacancy increased in Central London with 6.2% of vacant premises (+50 bps vs. last year). Prime rents mostly increased across Europe over the last 12 months. Rental values rose in Central Paris with € 850/m²/year, in Berlin (+16%, €396/m²/year), Brussels (+13%, €310/m²/year), and Milan (+12%, €550/m²/year), whereas they slightly decreased in Central London.





European Office Demand



2016	2017	
11,558,060	12,989,689	+12%

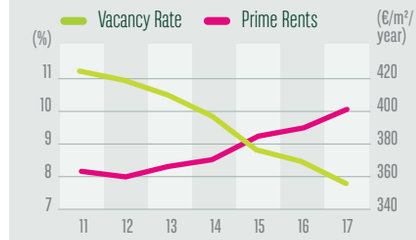
Take-up (m²)

Office take-up in the main European cities reached nearly 13 million m², a rise of +12% compared to 2016.

* 30 cities - ** Eurozone

European office prime rent and vacancy

(40 cities)



2016	2017	
8.5	7.8	-70bp

Vacancy Rate (%)

392	402	+3%

Prime Rents (€/m²/year)

The vacancy rate continued to diminish on average in the main European cities, supported by the combination of growing take-up and low level of completions.

INVESTMENT MARKET

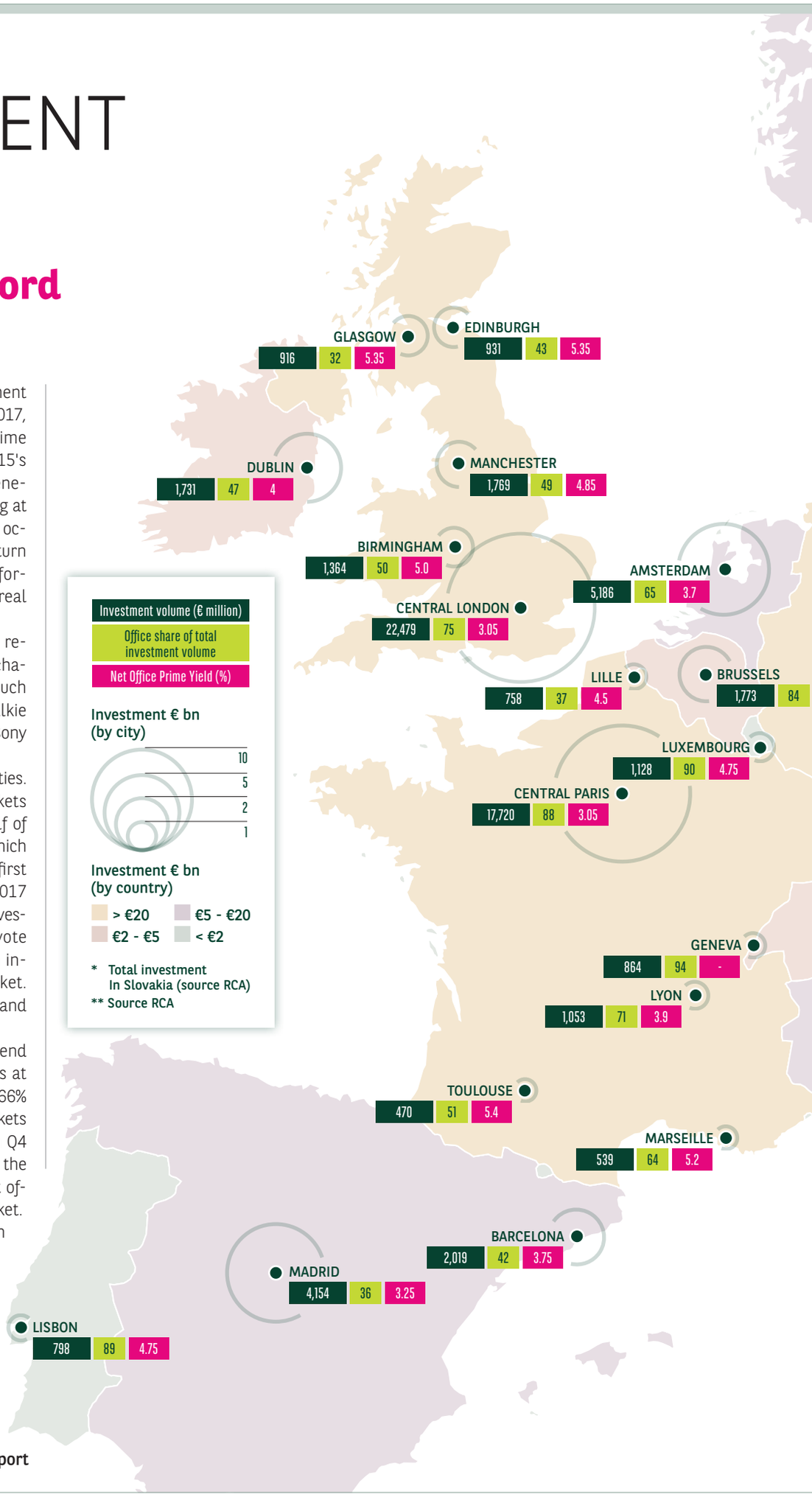
New all-time record for investment

The total commercial real estate investment volume in Europe reached €253bn*** in 2017, 10% above 2016's result. This is an all-time record year for the market, exceeding 2015's high of €245bn. This year the market benefited from all of real estate's engines' firing at the same time: improving economy, better occupational rates and plenty of money. Upturn in the European economy and the performance of the occupier markets fostered real estate's appeal as an investment.

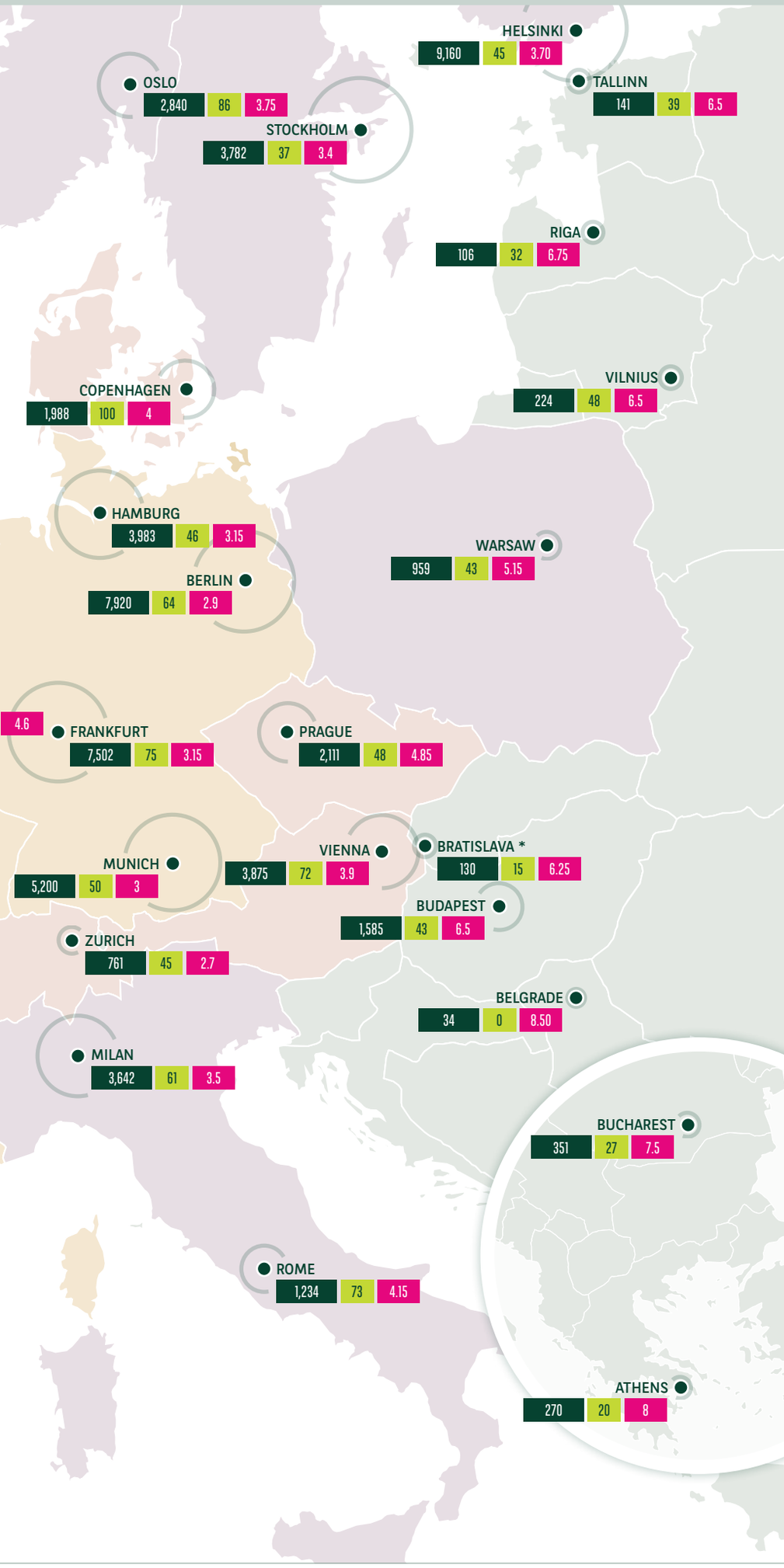
With 43% of the volume invested, offices remain the investor darling. This year was characterised by the sale of trophy assets such as Cœur Défense in Paris, the Walkie-talkie and the Cheesegrater in London, also the Sony Center in Berlin.

2017's performance was led by German cities. The total of the 4 leading German markets puts them at the top overall. Almost half of the volume were mega deals (>€100m), which is a record. Central London is back to the first place of the European city ranking in 2017 with €16.8bn (+45%) invested in offices. Investors' earlier concern about the Brexit vote seems to have evaporated, since foreign investors continued to dominate the market. Central Paris is back to the second place and remained steady against 2016 (-1%).

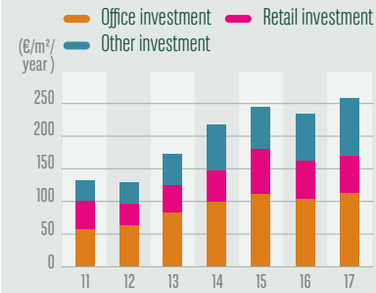
Office yields continued their downward trend throughout Europe, reaching historic lows at the end of 2017. Prime yields stood at 4.66% in Q4 2017 on average among the 40 markets analyzed in this report, 35 bps down on Q4 2016. Berlin's prime office yield fell below the 3.0% mark, to hit 2.9%. This is the lowest office yield achieved in the European market. Key to this development is the expectation of further strong rental growth. This is followed by Munich (3.0%), Paris (3.05%) and Madrid (3.25%). In the post Brexit vote reaction, London office yield rose marginally, but this failed to gain traction and has since stabilized as the market activity improved.



*** In the countries monitored in this report



Commercial real estate investment volume
in Europe



— 2016 —	— 2017 —	
229,950***	253,459***	+10%

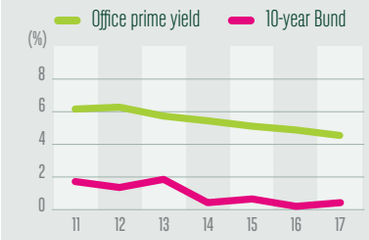
Total investment (countries)

116,616	123,028	+5%

Total investment (cities)

Full year volumes increased significantly in 2017 with €253bn invested across Europe.Central London is back to square one of the office investment market with €16.8 bn invested, followed by Central Paris.

European Office prime yield vs 10-year Bund



— 2016 —	— 2017 —	
4.96	4.66	-30bp

Prime yield (%)

Office prime yields continued their fall during 2017 recording new lows.

AMSTERDAM

Accelerating demand is widening occupier and investor interest out from the prime areas

Occupier demand is now outstripping supply

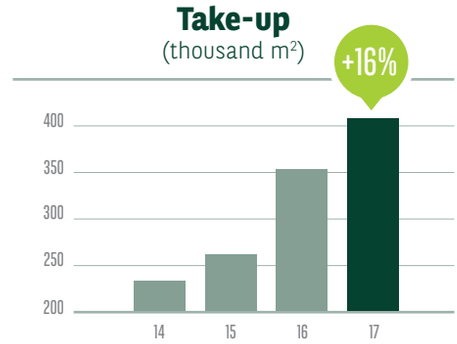
The Netherlands' strong economic fundamentals continue to translate to increased activity in the office occupier market. Amsterdam's (+16% y-o-y) high take-up, together with the transformation of outdated and vacant stock, is causing a decline in both absolute volume of the office stock and vacancy levels (-230 bps). Vacancy levels in prime office locations are moving towards supply mismatch with demand, reversing the situation of recent history. Secondary office sub-markets are benefitting from that scarcity in prime locations with improved take-up. Prime rent levels increased further (+6% compared to 2016) because of reduced modern office availability. The European Medicine Agency will relocate to Amsterdam in the wake of the Brexit. This will attract suppliers and clients from the medical sector which will further increase the demand for offices. However, the scarcity of suitably sized modern office space is driving office users to look for alternative locations outside Amsterdam, which will eventually lead to reduced take-up in the core areas unless development reactivates.

The Amsterdam investment market continues to outperform

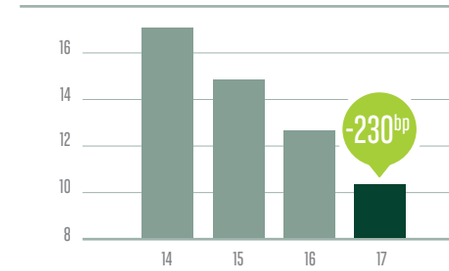
Commercial real estate investment volumes in Amsterdam showed a strong increase in 2017 (+70% on 2016). After a historic high in 2016 (€3bn), the investment market outperformed in 2017 to a new high of €5.2bn. Nearly 65% of the volume was invested in offices which showed an increase of 50% to €3.4bn. Improving economic and office occupier market conditions attracted foreign investors, which now account for 73% of total investment volume.

The largest deals were signed for prime office locations and involved both new and renovated office properties. Due to a lack of prime investment products, the investment volume is expected to shift toward alternative asset classes and other locations.

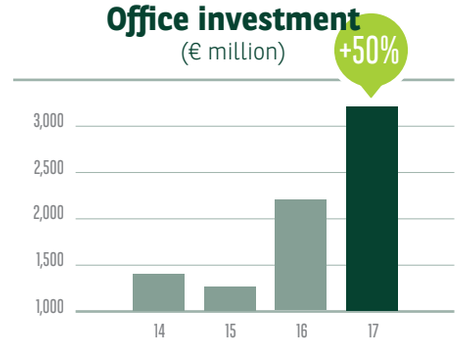
Take-up
(thousand m²)



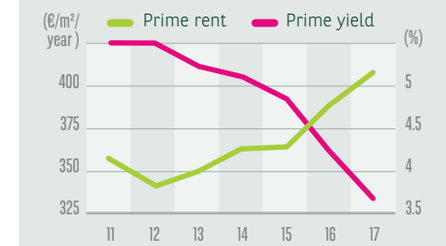
Vacancy rate
(%)



Office investment
(€ million)



Prime office: rents & yields



Main office transactions - letting & sales

Occupier	Space (m²)	Building-address	Submarket
European Medicines Agency	38,750	Antonio Vivaldistraat	South Axis
Alliander	25,000	Basisweg 10	Sloterdijk
B.Amsterdam	12,000	Johan Huizingalaan 400	Riekerpolder

Main office transactions - investment

Buyer	Price (€ m)	Building-address	Submarket
Amundi	500 (1)	Atrium	South Axis
RJB Group	310 (1)	The Valley (2)	South Axis
Hannover Leasing	165 (1)	The Cloud	Amstel

(1) Estimated - (2) Mixed use property, approx 45% of total area is office

Source : BNP Paribas Real Estate

ATHENS

Athens' office market continues on a path of improvement

Vacancy rates have decreased in Athens

The office market in Greece substantially contracted in the past due to constant pressures that the economy has been experiencing.

This smaller market base has had positive effects. In 2017 the very best Grade A offices showed marginal increase in terms of rental levels compared to 2016, as an outcome of the reduction in supply. Lack of new development projects resulted in the take-up of existing quality stock coming with a marginally higher rent.

Vacancy rates in the top three office locations in Athens have decreased over the last two years with both Grade A and B stock exhibiting an increasing take-up trend.

The overall office sector has been flat with low transaction volumes. Nonetheless the pricing situation is more settled. Rents in prime office locations have been stable ranging between €96 and €240/m²/year with incentives including prolonged escalation periods and rent free periods.

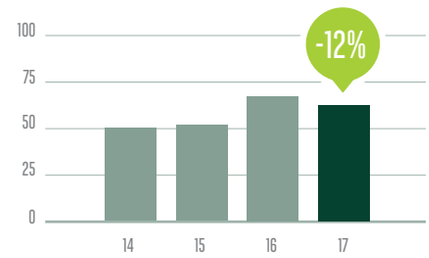
Investors are creating new value in existing properties

The improvement in conditions in the office market has also revitalized investment interest both in new developments and in the acquisition of properties with good tenants by institutional investors such as real estate investment companies.

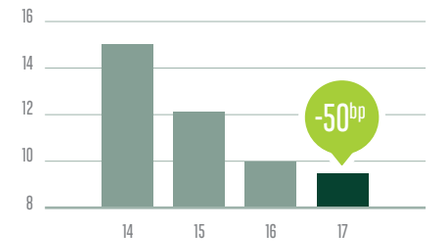
The market has been affected by the lack of suitable products, so the renewed interest prompted some interesting initiatives including refurbishment works, restructuration of old buildings and new constructions.

The two major real estate investment companies invested a total of €172.3m. in the domestic market during 2017: NBG Pangaea invested €71m. for the acquisition of two projects in big boxes (Hyper Market with commercial zones) while Grivalia acquired nine properties (office, hotels, Big Boxes) in excess of €101m.

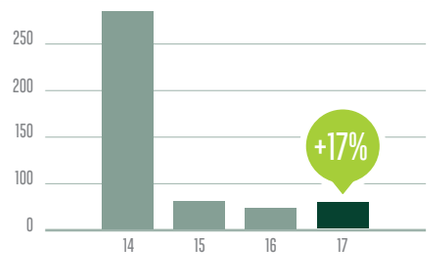
Take-up
(thousand m²)



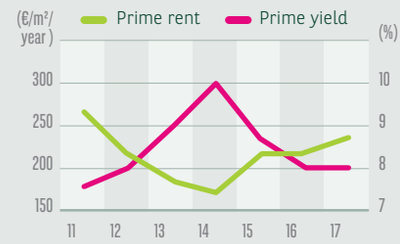
Vacancy rate
(%)



Office investment
(€ million)



Prime office: rents & yields



Main office transactions - letting & sales

Occupier	Space (m²)	Building-address	Submarket
LARCO	2,200	20 Fragkoklissias Maroussi	North Suburbs
EURONAV	2,300	Spirou Patsi & Athinon ave Athens	North Suburbs
CREDICOM	1,254	24 Kifissias ave Maroussi	North Suburbs

Main office transactions - investment

Buyer	Price (€ m)	Building-address	Submarket
Grivalia	27.5	340, Syngrou Avenue, Kallithea	South Suburbs
Trastor	2.1	Archirodon Building	North Suburbs
Individual Investor	5.4	Proto Thema HQ - Marousi	North Suburbs

Source : BNP Paribas Real Estate

BARCELONA

Barcelona's office market brushes aside political uncertainties with increased activity

Take-up recovered following a subdued summer to post a rise over 2016

Take-up in 2017 amounted to 304,345 m², up 6% on 2016. This rise is mainly due to a high level of activity during the first half of the year, which was the best six-month period since 2007. Following a subdued summer, demand in Q4 was dynamic again. Office take-up came in at 69,263 m², which represented an increase of 80% on Q3 2017. Nevertheless, a fall of 18% is noted in comparison with Q4 2016.

Around 80% of the deals recorded over the last quarter were either extensions within the same building or relocations to larger facilities.

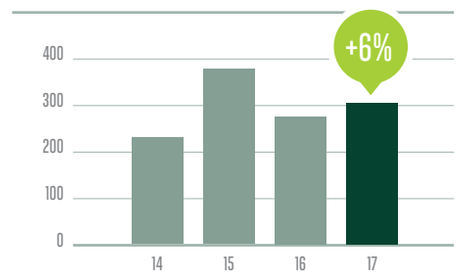
Vacancy stood at 10.1% at the end of Q4, down 130 bps compared to Q4 2016 and is a considerable decrease over the last few years.

The rental trend continued to point upwards during the fourth quarter of the year, reaching an average of €15.10/m²/month; an annual increase of 5.0%. The average rent in the city's prime zone (the upper part of Diagonal) reached €23.50/m²/month with maximum rents climbing to €25/m²/month in prime buildings.

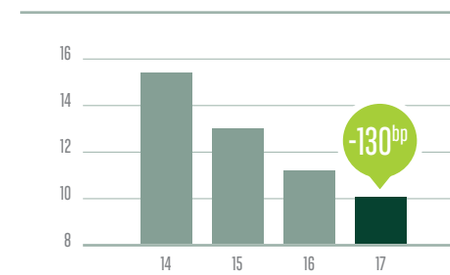
Investment Resilience in Catalonia

The unforeseen political events that took place in Catalonia at the end of the year did not slow down investment in the Barcelona office market, as purchase volume increased by 59% compared to 2016. Investment eventually reached €851m, even though several operations were cancelled due to the added uncertainty. The appeal of Catalan real estate consequently remains intact.

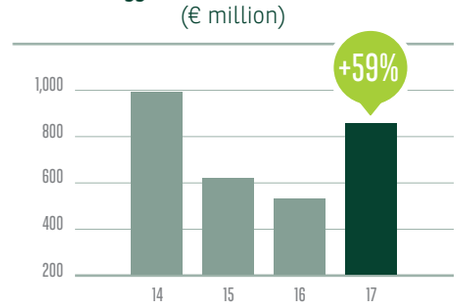
Take-up
(thousand m²)



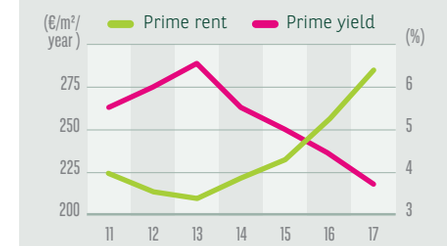
Vacancy rate
(%)



Office investment
(€ million)



Prime office: rents & yields



Main office transactions - letting & sales

Occupier	Space (m²)	Building-address	Submarket
Laboratorios Esteve	11,861	Foc 69, Tower Marina	Decentralised
Amazon	10,241	Tánger 76, Tower Luxa Silver	Decentralised
Shibsted	10,200	Ciutat de Granada 150	Decentralised

Main office transactions - investment

Buyer	Price (€ m)	Building-address	Submarket
Merlin Properties	149	Agbar Tower [1]	Decentralised
Catalana Occidente	106	Edificio Amazon	Decentralised
Grupo Catalana Occidente	99	Luxa Barcelona	Decentralised

[1] Agbar Tower, Avenida diagonal 211

Source : BNP Paribas Real Estate

BELGRADE

Third year in row of take-up increase in Belgrade with strong construction activity fuelling the supply

Most of the new projects are located in New Belgrade

The first half of 2017 saw expansion of the Belgrade office stock with the delivery of two modern office projects in New Belgrade CBD zone, totalling nearly 24,500 m². The 3rd phase of the office project GTC 41 was completed representing approximately 10,000 m², as well as the 1st phase of the Sirius project at over 14,500 m². Total modern office stock including Grade A and B at the end of H1 2017 amounted to 689,500 m² marking a 4% annual increase. The new office projects meant that construction activity remained strong during H2 2017 and will roll forward into 2018.

Further developments are underway, predominantly in New Belgrade. Thanks to the completion of several office projects in 2017 for nearly 30,000 m², the total modern office stock of Grade A and B offices grew above 700,000 m².

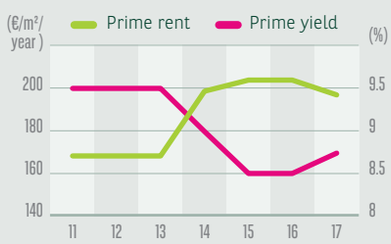
New occupation and relocations were the main drivers of market activity during 2017. The IT sector remained most active business sector for office demand followed by call centres.

In 2017, the vacancy rate for office space Grade A and B declined to 7%. Although developments are coming to market, there is the possibility of additional reduction due to high demand.

Rental levels remained stable compared to the second half of 2016. Prime asking rents for Grade A office buildings in CBD zone vary from €15 to €17/m²/month, while Grade B rental levels are ranging between €9 and €12/m²/month.

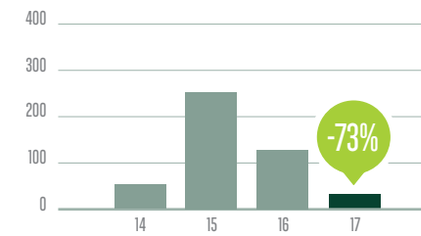
The investment market remains healthy with the major purchase coming from GTC who acquired the office building BBC (17,900 m²) in New Belgrade.

Prime office: rents & yields



Vacancy rate
(%)

Total investment *
(€ million)



Office pipeline under construction

Project/Investor	Space (m²)	Building-address	Submarket
Deneza	2,650	New Belgrade	BC
Business Garden / AFI	16,000	City Center	CBD
Usce Tower 2 / MPC	22,000	New Belgrade	BD
N House	10,700	Block 21/New Belgrade	BD
Green Heart / GTC	46,000 (1)	New Belgrade	BD
Roaming office building	4,500	Belgrade	BD
Skyline / AFI	30,000	Belgrade	CBD
Zigel House / Trgomen	5,500	Vracar/Belgrade	CBD

Source : BNP Paribas Real Estate

**2017 : estimation* (1) Renovation+new

BERLIN

No end in sight to the Berlin boom

Berlin's office market is stronger than it has ever been

The Berlin office market remained on its historic growth path and set a new record for take-up at 913,000 m². It benefited from an increase in major deals over 10,000 m² which accounted for almost 28% of take-up. Due to the extreme shortage of space available, these are almost exclusively limited to pre-lets in project developments. The volume of vacant space reduced drastically in the last year by around 28% and the 392,000 m² left available is less than half the current annual take-up. For some time now demand for larger space has only been able to be satisfied by project developments. The vacancy rate is on the cusp of falling below its current 2% mark.

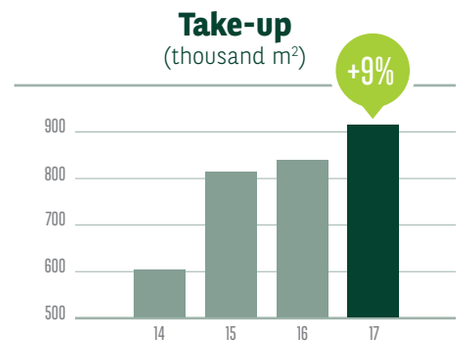
The rapid fall in the vacancy rate and low availability of space resulted in a sharp rise in rents across most locations and segments. The top rent in Potsdamer Platz / Leipziger Platz has climbed by a remarkable 16% to €396/m² and the average rent across the overall market has risen by 22% to €230/m².

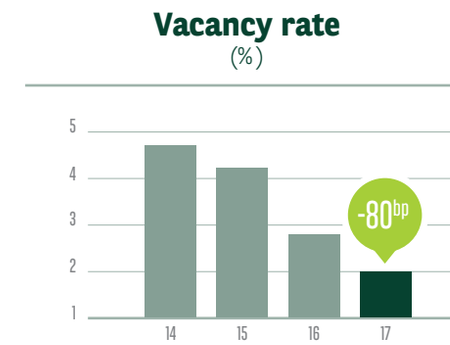
Number one again for investment turnover

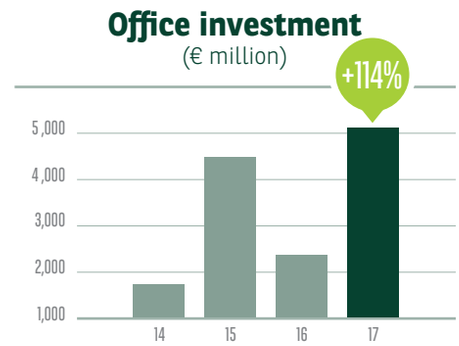
With a transaction volume of €7.92bn, the capital again achieved an extraordinary result and was number one among all of the major German cities. 2017 was a year of dynamic growth with an increase in turnover of almost 46% compared to 2016; no other location recorded a similar level of growth.

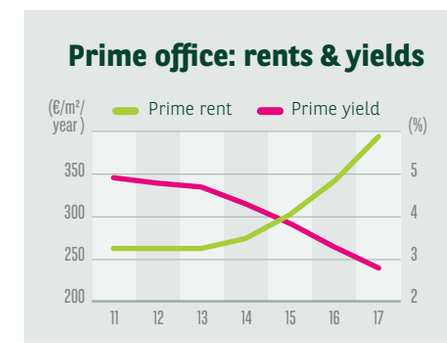
Office properties are the outright number one choice among the asset classes with a share of 64% in the transaction volume and around 20 basis points above their long-term average.

The huge demand, particularly from foreign investors, has intensified the competition for the remaining supply. It is therefore not surprising that yields have fallen further. The net prime yield for office properties has fallen below 3% for the first time and is currently 2.90%, the lowest ever achieved in Western Europe for offices.









Main office transactions - letting & sales

Occupier	Space (m²)	Building-address	Submarket
BImA (1)	47,300	Puschkinallee	Mediaspree
BImA (1)	15,200	Schöneberger Ufer	Tiergarten
Factory Berlin	14,000	Lohmühlenstrasse/Jordanstrasse	Tempelhof/Neukölln (2)

Main office transactions - investment

Buyer	Price (€ m)	Building-address	Submarket
Madison (3)	1,110	Sony Center	Potsdamer Platz (4)
Norges	425	Axel Springer headquarters	Checkpoint Charlie (5)
Blackstone/Quincap (6)	330	Axel-Springer-Passage	Checkpoint Charlie (5)

(1)Institute for Federal Real Estate - (2)Tempelhof/Neukölln/Steglitz - (3)Madison International Realty/Oxford Properties
(4)Potsdamer Platz / Leipziger Platz - (5)Checkpoint Charlie / Spittelmarkt - (6)Blackstone/Quincap Investment

Source : BNP Paribas Real Estate

BIRMINGHAM

Birmingham sees acceleration in take-up alongside a revitalised investment market

Record year for Birmingham office take-up

Following a below average start to the year, the Birmingham office market saw demand pick up pace over H2 2017, with several large lettings pushing the H2 2017 total to 70,290 m². The strength of demand over H2 2017 meant that the Birmingham office market finished the year at record take-up levels of 93,374 m².

The largest letting of the year saw the Government Property Unit (GPU) agree terms for the entire 22,203 m² at 3 Arena Central, a new scheme under development and due for completion in 2020. Other key lettings included serviced office provider Regus taking a total of 10,154 m² across The Crossway (7,061 m²) and The Lewis Building (3,093 m²), and PWC extending their previous pre-let at One Chamberlain Square to occupy the entire scheme (a further 5,447 m²).

Despite such strong levels of demand, vacancy has risen slightly over the year to stand at 13.5%. A significant proportion of demand was focused on new schemes yet to enter supply figures, whilst the city also saw the delivery of a handful of refurbishments.

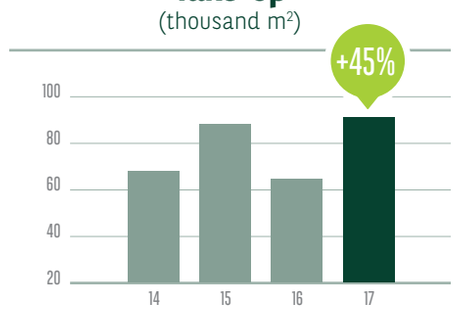
Looking ahead, 2018 will see 40,546 m² of new stock delivered, all of which has been let prior to completion, whilst 2019 will see the speculative delivery of 3 Snowhill and Two Chamberlain Square, totaling 52,050 m². With strong city fundamentals and the planned delivery of HS2 acting as a draw for occupiers, demand levels should be sufficient to absorb much of this new stock.

Investment volumes rebound following a dip in 2016

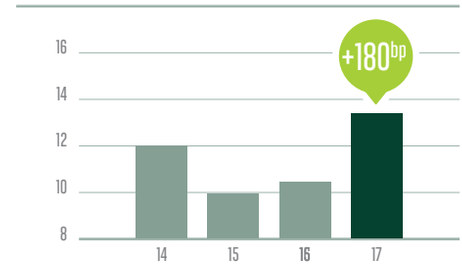
Following a slowdown in the wake of the UK Referendum, 2017 recorded a rise in investor activity with volumes reaching €677 m, 31.8% above the levels witnessed in 2016. The largest deal of the year saw HSBC's (HAIL) acquisition of six buildings at Brindleyplace for £265m, reflecting a yield of 6.00%. Prime yields in the city have decreased to stand at 5.00% at Q4 2017 reflecting an improvement in market conditions and sentiment, after increasing 25bps over the start of the year.

Constant Exchange Rate (Q4 2017 average) €/£: 1.1271

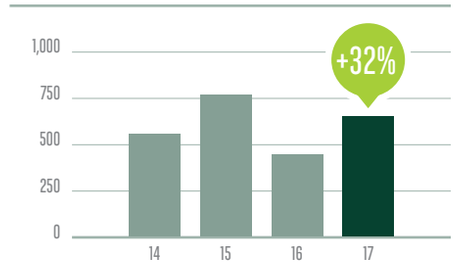
Take-up
(thousand m²)



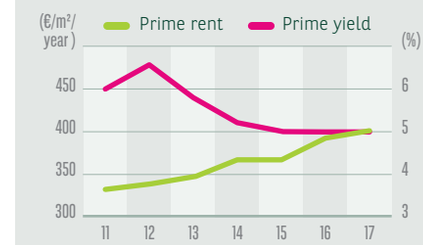
Vacancy rate
(%)



Office investment
(€ million)



Prime office: rents & yields



Main office transactions - letting & sales

Occupier	Space (sq ft)	Building-address	Submarket
Government Property Unit	239,000	3 Arena Central	City Centre
Regus	76,000	The Crossway	City Centre
PWC	58,600	1 Chamberlain Square	City Centre

Main office transactions - investment

Buyer	Price (£ m)	Building-address	Space (sq ft)
HSBC (HAIL)	265	Brindleyplace	470,000
Kier Property	36	19 Cornwall Street	133,000
West Midlands Pension	26	2 St Philips Place	63,400

Source : BNP Paribas Real Estate

BRATISLAVA

Major developments underway to meet occupational demand

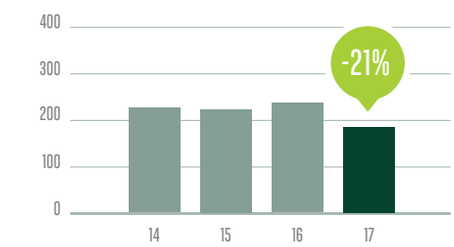
Lowest vacancy rates ever recorded in the market

As a result of solid occupier activity, vacancy rates dropped to historically low levels towards the end of 2017 (6.2%). In 2017 around 85,000 m² were added to the stock. New supply should rise in 2018 to around 120,000-140,000 m², with an approximate 50% of the projects to be completed this year already pre-leased. Major new completions in 2017 included Panorama II (25,000 m²), ČSOB HQ in the Zuckermandel project (20,000 m²) and Zuckermandel Hill Side, all three projects were developed by J&T Real Estate. Total leasing activity in 2017 reached 185,000 m², which is a 25% drop compared to 2016. IT and professional services are key drivers of occupier demand. Rental levels increased during 2017 by about €0.50 y/y, they are expected to remain broadly stable.

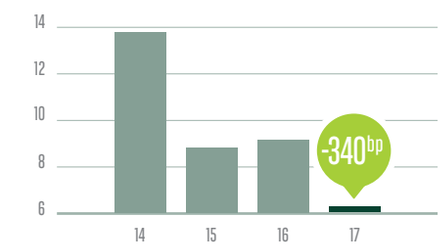
Yield compression in line with investment demand in the region

Prime yields moved in by about 250 bps during 2017 to 6.25% in line with the development in the region. The office investment volume reached around €76m in 2017 representing 15% of the total investment volume in the country.

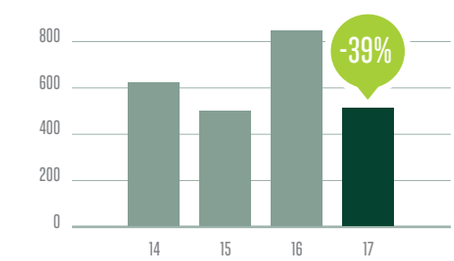
Take-up
(thousand m²)



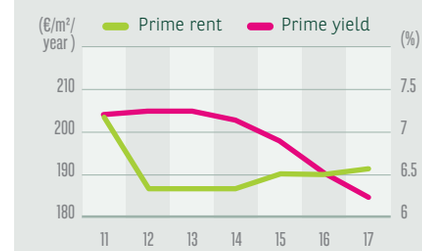
Vacancy rate
(%)



Total investment*
(€ million)



Prime office: rents & yields



Major completions in 2017

Completion	Space (m²)	Building-address	Developer
2017	25,000	Panorama Business II	J&T Real Estate
2017	20,000	ČSOB HQ Zuckermandel	J&T Real Estate
2017	9,500	Stein2Offices	AMW

Main office transactions - investment

Buyer	Price (€ m)	Building-address	Space (m²)
REICO	36	Park One	12,800
Capital Markets	7	CEOP	5,600

Source : BNP Paribas Real Estate

**Total investment In Slovakia (source: RCA)*

BRUSSELS

Limited supply pushed up the prime rents

Take-up above the 5-year average

At 401,300 m², the full year take-up for Brussels exceeded the symbolic 400,000 m² mark. Improvement in Q4's take-up volume (113,600 m²) was the big factor in the end result. Although lower than than 2016, total take-up remains 4% above the 5 year-average.

The corporate sector accounted for 68% of total take-up. The public sector ended the year with 128,900 m² of take up and was marked by the absence of transactions from European institutions.

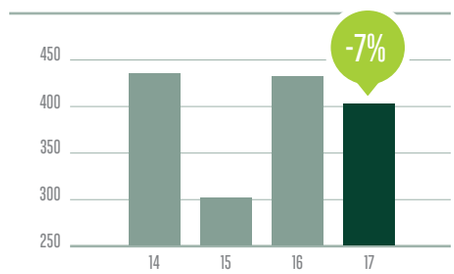
At the end of 2017, vacant space amounted to 1,107,000 m² reflecting an overall vacancy rate of 8.3% in Brussels and its periphery. The decline of availability continues to be driven by the combination of low level of speculative completions plus the conversion of buildings to other urban uses. Nonetheless there are some large projects due for delivery such as "The Manhattan Centre" (47,613 m² - North District) and "Atenor's The One" (29,254 m² - Leopold district) that are expected by 2019.

Although rental growth overall is mostly flat, the market recorded an increase in prime rental values to €310/m²/year, due to the scarcity of prime supply. Average rents remained stable at €158/m²/year.

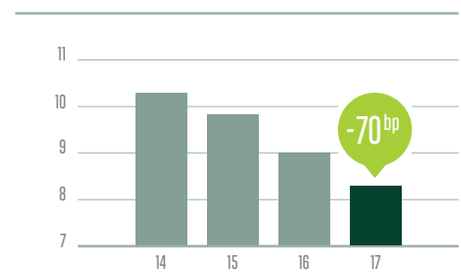
The lack of available product is leading to further compression in yields

In 2017, the commercial real estate investment volume in Belgium amounted to €3,182 bn of which 48% were invested in the Brussels office market. Korean investors were particularly active with 2 large transactions, the main being the acquisition for €248m of 60% of the Engie Tower in the North district by the JV between Samsung Asset Management and Hyundai AM. Despite strong interest in the investment market and significant capital inflows, investors still face a lack of available products. This imbalance contributed to a further compression in the prime yields and suggests a further decline in the coming quarters. At the end of 2017, the office prime yield in Brussels stood at 4.60%.

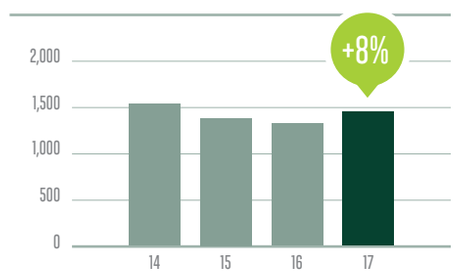
Take-up
(thousand m²)



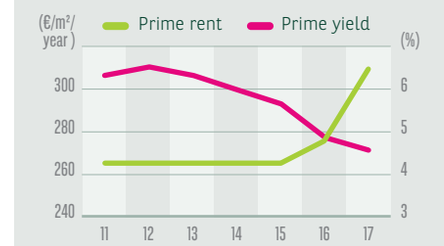
Vacancy rate
(%)



Office investment
(€ million)



Prime office: rents & yields



Main office transactions - letting & sales

Occupier	Space (m²)	Building-address	Submarket
INAMI - RIZIV	32,400	Galilée - Avenue Galilée	North
EMS [1]	22,855	Blue Star - Rue du Planeur	Decentralised North-East
Beobank	22,000	Quatuor - Boulevard Baudouin	North

Main office transactions - investment

Buyer	Price (€ m)	Building-address	Submarket
Samsung [2]	248	Engie Tower - Boulevard Simon Bolivar	North
Hana Asset [3]	210	Meeûs 8 - Square de Meeûs	Leopold
POBA	122	Brederode -Rue de Brederode	City-Centre

[1] Ecole des Métiers de la Sécurité - [2] Samsung Asset Management JV Hyundai AM
[3] Hana Asset Management JV Hanwha I&S JV Kiwoom Securities

Source : BNP Paribas Real Estate

BUCHAREST

The Bucharest market remains highly attractive to occupiers

Record volume of office take-up

The confidence amongst companies, reflected in the growth of the market, raised total take-up in 2017 to 322,000 m², which was the best performance since 2007. The newly established multinationals plus the relocation of IT&C companies and service provider companies in brand new buildings triggered take-up at historic levels.

Renewals and renegotiation totalled approximately 86,000 m² similar to the annual levels recorded in the last 3 years. The level of renewals might decrease in favour of relocations as tenants are taking advantage of rising supply to consolidate and increase the quality of their offices.

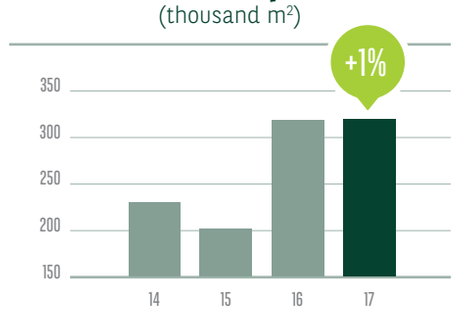
Forecasts do not show obvious changes in vacancy over the short term as many projects for completion in 2018 are already preleased in various proportions. From 2019 the availability of Grade A offices will increase as a high level of projects under construction will be delivered and relocation of tenants that committed for preleases in 2016-2017 will surrender their old space.

After a temporary reduction in the tempo of completions (122,000 m²) in 2017, the new supply for 2018-2019 is estimated at approximately 500,000 m². Under these circumstances, the office market looks to remain tenant friendly in the medium term. The pressure of newly completed space will be reflected in the total occupancy costs as the practice of offering incentive packages to attract or retain tenants remains common.

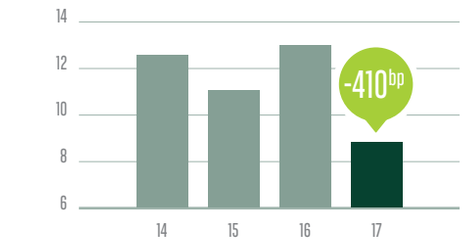
High expectations for 2018 investment

The investment volume for 2018 is expected to exceed €1bn, 10% more compared to 2017. Several large size office projects are currently under negotiation while the new supply for 2018 will offer good quality investment products. The yield level on the office sector is expected to slightly decrease across 2018 because of active demand coming mostly from foreign investors. New investment funds are likely to commit to transactions in 2018 increasing the confidence in the local market.

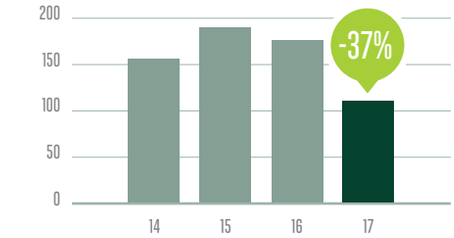
Take-up
(thousand m²)



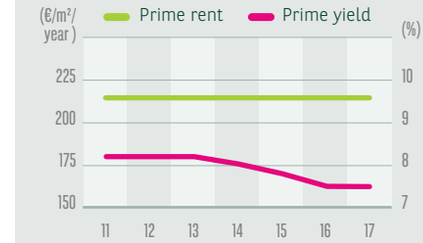
Vacancy rate
(%)



Office investment
(€ million)



Prime office: rents & yields



Main office transactions - letting & sales

Occupier	Space (m²)	Building-address	Submarket
ING Bank	19,000	Expo Business Park	Central-North
Amazon	13,555	Globalworth Campus	North
IBM	12,000	The Bridge	Central-West

Main office transactions - investment

Buyer	Price (€ m)	Building-address	Submarket
Globalworth	38	Green Court C	North
Hili Properties	30	Art BC 7	North
Topmost Investments	~17	Polona 68 BC	Central

Source : BNP Paribas Real Estate

BUDAPEST

New development boom

A high volume of net take-up is encouraging construction

Office take-up reached 278,500 m² in 2017 indicating a stable, strong demand on the occupier side. There were 14 lease agreements over 3,000 m² signed, and pre-lease agreements still dominated the market. The most active tenants were the banks and financial companies, which represented 22% of the transactions.

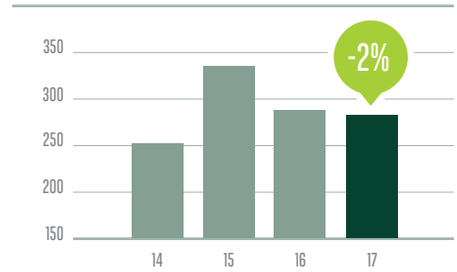
The vacancy rate for Grade A and B offices continued to follow a downward trend, and stood at 7.5% at the end of 2017, representing the lowest rate ever recorded. The availability of prime office space continued to drastically reduce in key office submarkets such as the CBD, Central Buda and South Buda.

A high volume of new developments is, however, expected for completion in 2018 and 2019. Approximately 450,000 m² of Grade A office area is going to be available in Budapest in the next few years, and although most of the new schemes are already pre-let, the new supply is going to put pressure on rents.

Office investment into its 2nd year of good results

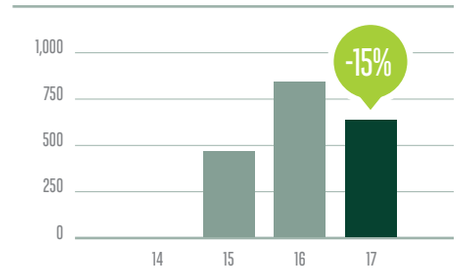
The commercial real estate investment market continued to show strong activity in 2017. The annual investment volume reached the record level registered in 2016 with office properties accounting for 43% of the total investment volume. Local as well as foreign investors showed great interest. Foreign investors created 56% of the total volume and new players entered the market. The average transaction size has increased indicating a growing investor appetite for prime properties. Prime office yields dropped to 6.50% and are expected to stay low.

Take-up
(thousand m²)

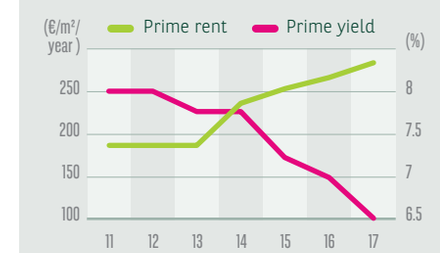


Vacancy rate
(%)

Office investment
(€ million)



Prime office: rents & yields



Main office transactions - letting & sales

Occupier	Space (m²)	Building-address	Submarket
Fundamenta	10,300	Hillside Offices	Central Buda
confidential	8,000	Promenade Gardens	Váci Corridor
confidential	6,000	Skylight City	Non Central Pest

Main office transactions - investment

Buyer	Price (€ m)	Building-address	Submarket
Corpus Sireo	54	Eiffel Palace	Central Pest
OTP Prime	50	Nokia Skypark	Central Pest
OTP Prime	circa 43	Váci Greens B	Váci Corridor

Source : BNP Paribas Real Estate

COPENHAGEN

Strong demand in both occupier and investment markets

The appeal of modern facilities lies behind take-up gains

The Copenhagen office market is structurally changing as modern facilities and flexible jobs are tenants' main concern. Infrastructure is also important as tenants are looking for properties close to transport facilities and surrounded by an attractive and well-established environment. These requirements are being met by landlords through renovated offices and by new built office properties. Demand is strong enough to see vacancy in Copenhagen drop to about 5.7%, in line with the decline in unemployment. Demand is being focused by small and medium sized businesses on flexible office facilities where they can expand quickly. Large corporations are building big headquarters to accommodate staff. The combination of the two ensured that rents increased last year to DKK 2,100/m²/year (€280/m²/year). Rental growth may slow though if current development projects are added to. Copenhagen offers several new large urban development areas, many of them near the city centre, where industrial areas are being transformed into residential and modern offices.

2017 is one the strongest years ever for the investment market

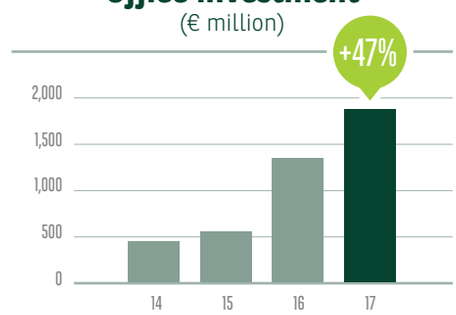
The transaction volume broke records in 2017 with an estimated €12bn in total up from €9bn in 2016. Office investment volume was approximately €2bn for Denmark with Copenhagen accounting for €1.3bn. The high level of demand for property acquisition resulted in a downward pressure on yields. The prime office yield in Copenhagen lost 25 bps over the year to reach 4.00% at the end of 2017.

Investment : source RCA
Constant Exchange Rate
(Q4 2017 average) €/DKK: 0.1344

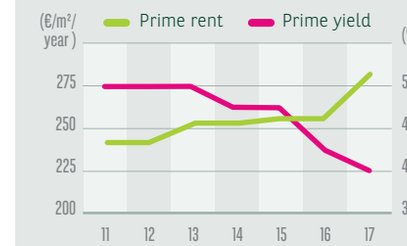
Net absorption
(thousand m²)

Vacancy rate
(%)

Office investment
(€ million)



Prime office: rents & yields



Main office transactions - letting & sale

Occupier	Space (m²)	Building-address	Submarket
Nets	21,802	Klausdalsvej, Ballerup	Office
Unity	3,155	Niels Hemmingsensgade, Copenhagen	Office
Ascendis Pharma	7,339	Tuborg Havnevej, Hellerup	Office

Main office transactions - investment

Buyer	Price (€ m)	Building-address	Submarket
Wihlsborg	242	Property portfolio in Copenhagen	Office
The Danish Building [1]	146	Osvald Helmuths Vej	Office
Danish Doctors Pension Fund	121	Property portfolio in Copenhagen	Office

[1] The Danish Building and Property Agency

Source : BNP Paribas Real Estate

DUBLIN

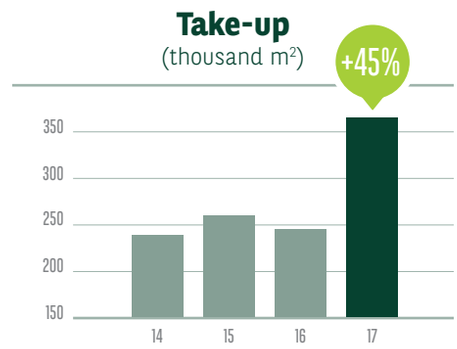
Dublin's market still supported by an economy that remains the fastest growing in the EU

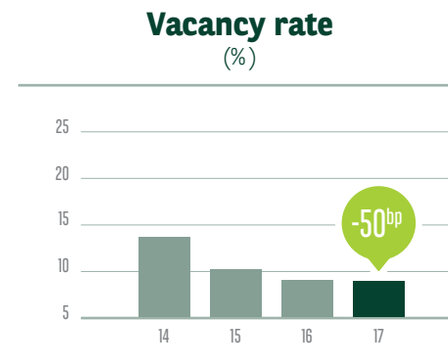
Occupier market sees highest level of letting activity on record

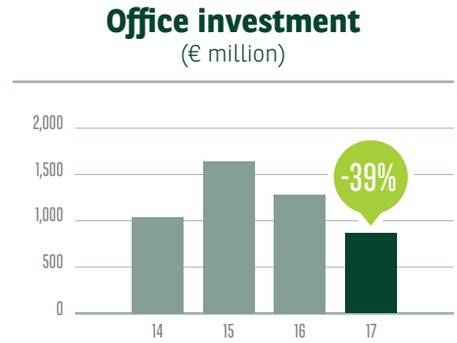
2017 was the strongest year on record for the Dublin office lettings market with around 360,000 m² of space taken for the year as whole. The market is supported by a number of key factors: most notably the strength of economic growth and the continued expansion of employment, particularly in the higher value adding sectors of TMT, financial services and professional services.
Demand for space from TMT sector in Q4 was almost 50% of total take-up with the largest deal of the year being Microsoft's HQ (equating to almost 40,000 m² of headquarter space in Dublin's south suburbs).
The active supply pipeline is also a key factor supporting demand giving occupiers much sought after choice after a number of years of limited supply. This is particularly evident in the CBD locations, with Dublin 2 and 4 seeing the greatest amount of new space completed and also accounting for the largest proportion of space occupied in 2017. Prime rental growth was strong in 2017. The prospects for the Dublin market remain very positive for 2018.

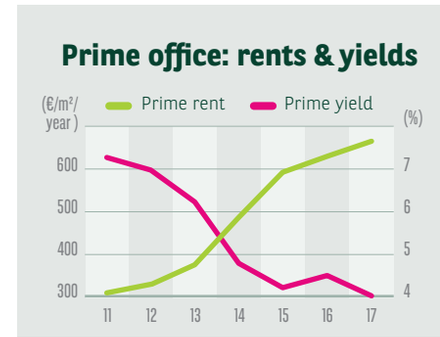
Investment turnover remains above the 10-year average

Irish Investment market turnover reached €2.3 bn in 2017. Office investment accounted for almost 40% of that total, with competitive bidding for prime office opportunities resulting in yield compression. A lack of assets of scale, particularly in the first half of 2017, limited activity at a time when there is considerable demand for Dublin office assets from international investors. There is no evidence that investor or office occupier confidence in the Dublin market was negatively impacted by the Brexit process in 2017, as was a concern at the beginning of the year. Deals completed in the first half of 2017, such JP Morgan's forward funding purchase of Capital Dock (a new Kennedy Wilson development underway in Dublin's south docklands) gave a clear positive signal about the Dublin market and set the tone for the rest of 2017.
The prospects for the market remain very positive for 2018, with a number of large transactions expected to boost the share of office investment in overall investment market turnover.









Main office transactions - letting & sales

Occupier	Space (m²)	Building-address	Submarket
Microsoft	37,100	South County Business Park	Dubin 18
Facebook	15,800	The Beckett, East Wall Road	Dublin 3
AIB	14,100	Block H, Central Park	Dubin 18

Main office transactions - investment

Buyer	Price (€ m)	Building-address	Submarket
Spear Street Capital	145	Cherrywood Business Park	Dublin 18
Irish Life	116	13-16 City Quay	Dublin 2
Confidential	45	21 Charlemont	Dublin 2

(1) North Docks, Dublin 1

Source : BNP Paribas Real Estate

EDINBURGH

Record take-up levels amidst increasingly constricted Grade A supply

Historic take-up levels, boosted by public and financial sector activity

2017 saw take-up within the Central and West Edinburgh office market reach record levels of 93,898 m². The public and financial sectors were key drivers of demand over the year. The Government Property Unit (GPU) agreed the largest deal of the year, pre-letting the 17,651 m² New Waverley scheme, whilst incumbent occupiers Aberdeen Standard Investments and State Street Bank both relocated within the city, agreeing terms for 6,206 m² and 6,094 m² respectively.

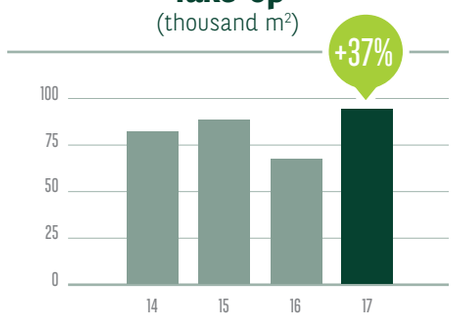
Despite such strong levels of demand, vacancy has risen slightly over the course of 2017 to stand at 8.8%. This does, however, sit substantially below the city's long-term average. This rise in vacant supply follows the release of secondary stock, including State Street Bank's existing office on Ferry Road (10,140 m²) alongside the addition of under construction schemes The Mint Building (5,788 m²) and 2 Semple Street (2,982 m²).

Recent speculative development has been especially lacking in Edinburgh, with developers adopting a cautious attitude in the wake of the political and economic uncertainty of the past few years. The delivery of The Mint Building and 2 Semple Street in 2018 will bring much needed Grade A supply to the city. Reports also indicate that Hermes is progressing speculatively with a slightly larger scheme Capital Square (11,389 m²), although completion is not due until H1 2020.

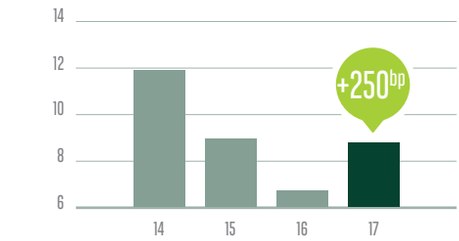
Forward Funding Deal Boosts Investment Volumes

Investment levels fell 19.6% below 2016 levels, with volumes reaching €401m. Legal & General Property were behind the largest transaction of the year, acquiring the New Waverley scheme for £105.7m subsequent to the GPU's pre-let earlier in the year. This represents L&G's fourth funding deal for a new UK Government hub following deals in Bristol, Cardiff and Liverpool. Following a slight outward movement to 5.50% over the start of 2017, prime yields have since moved in to stand at 5.35% reflecting an improvement in market conditions, although this is still marginally above the pre-UK referendum level of 5.25%.

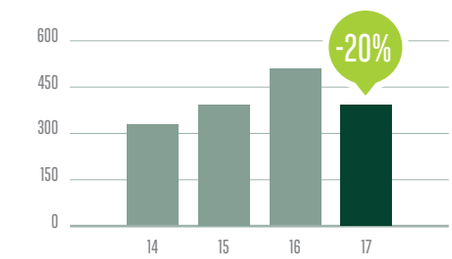
Take-up
(thousand m²)



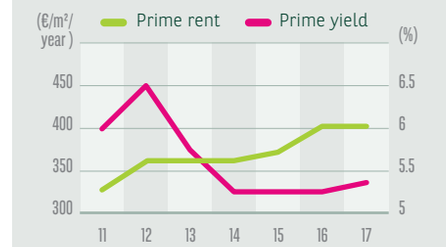
Vacancy rate
(%)



Office investment
(€ million)



Prime office: rents & yields



Main office transactions - letting & sales

Occupier	Space (sq ft)	Building-address	Submarket
Government Property Unit	190,000	New Waverley	City Centre
Aberdeen Standard Investments	66,800	10 George Street	City Centre
State Street Bank	65,600	Quartermile 3	City Centre

Main office transactions - investment

Buyer	Price (£ m)	Building-address	Space (sq ft)
Legal & General Property	106	New Waverley	190,000
Al Rashad & Sons Group	68	20 Castle Terrace	180,000
GLL Real Estate Partners	47	1 Exchange Place	120,400

Source : BNP Paribas Real Estate

Constant Exchange Rate (Q4 2017 average) €/£: 1.1271

FRANKFURT

Frankfurt's market gains from letting and sales in its large office unit stock

Large contracts lead to a massive surge in take-up

The Frankfurt office market continued the upward trend of the past two years in an impressive manner in 2017. At 810,000 m², it exceeded by 47% last year's good result to post the second best take-up for Frankfurt. Partly responsible for growth in take-up are large contracts upwards of 10,000 m² that increased considerably and more than doubled their relative share (27%) compared to the previous year.

The reduction in vacancies observed for a number of years now, picked up speed in 2017. The decline rate of 12% over the year left the volume of vacancies at 1.38 million m². Consequently the vacancy rate fell to 8.9% for the overall market. The very positive demand of the past two years is also reflected in rental price development. The prime rent increased by almost 7% within a year to €492/m². The top and average rents in individual office market locations show a clear upward trend.

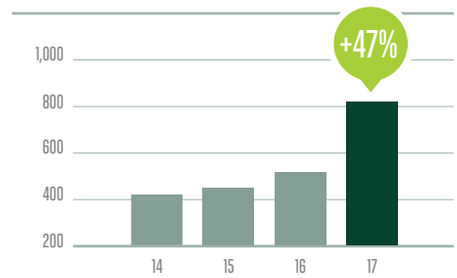
Second-best investment turnover of all time

The Frankfurt investment market has really stepped up a gear. With a transaction volume of €7.5 bn, last year's excellent result was exceeded by 12% to achieve the second-best result of all time. And in single deal transactions a new high was set in 2017 at €6.29 bn.

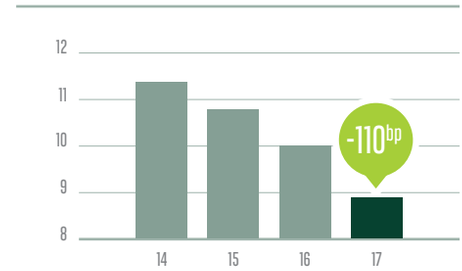
Frankfurt is the focal point for office investment, and nothing about that changed in 2017. Around three-quarters of the transaction volume was invested in this asset class, which roughly corresponds to the long-term average. Frankfurt benefits from having more large-unit properties in the banking centre than in most other German cities.

The strong demand is also reflected in the development of prices. Net prime yields in all asset classes dropped again considerably in the past year. For office properties, they have fallen by 65 basis points to 3.15% at present.

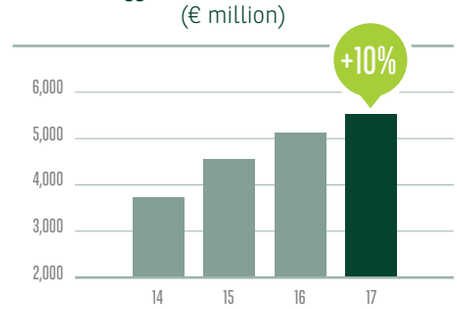
Take-up
(thousand m²)



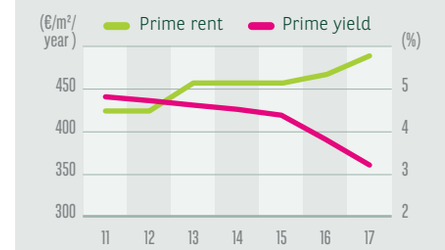
Vacancy rate
(%)



Office investment
(€ million)



Prime office: rents & yields



Main office transactions - letting & sales

Occupier	Space (m²)	Building-address	Submarket
DB AG [1]	52,600	Europa-Allee	Inner City
Deutsche Bundesbank	51,400	Mainzer Landstrasse	Banking District
Helaba [2]	27,500	Kaiserleistrasse	Kaiserlei

Main office transactions - investment

Buyer	Price (€ m)	Building-address	Submarket
Deka	775	Tower 185	Inner City
Amundi	>300	Grand Central Frankfurt	Inner City
GEG German Estate Group	280	Japan Center	Banking District

[1] DB AG (two contracts over 29,700 m² and 22,900 m²) - [2] Helaba Landesbank Hessen-Thüringen

Source : BNP Paribas Real Estate

GLASGOW

Occupier activity dips but investment volumes rise

Subdued occupier activity propped up by the public sector

Whilst Birmingham and Edinburgh posted record take-up levels for 2017; Glasgow's fortunes were more subdued. Take-up reached 46,155m², a 28% fall on 2016 and 18.9% below the five-year average.

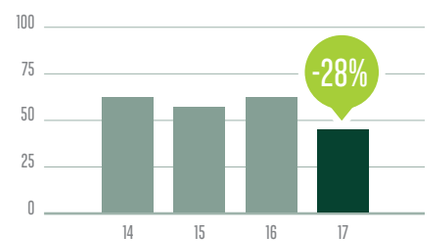
Despite the relatively subdued level of take-up, the city did record some larger deals. This was led by the public sector with Scottish Courts & Tribunals Service taking 7,479 m² at the recently refurbished 3 Atlantic Quay and Student Loans Company leasing 3,800 m² at 450 Argyle Street. In positive news, 2018 is already recording heightened demand. Once again the public sector is the driving force with The Department for Work and Pensions agreeing terms for 7,897 m² at 1 Atlantic Quay in January and February witnessing HMRC's agreement to pre-let 17,372 m² at the 1 Atlantic Square scheme. With demand subdued, the release of secondary stock pushed up vacancy over the course of the year from 9.3% at Q4 2016 to 11.0% at Q4 2017. This is, however, still substantially below the city's long term average and the post-financial crisis peak of 16.8% in 2012.

Looking ahead, there are currently no major speculative schemes planned, with developers remaining cautious in the face of political and economic uncertainty. If demand improves over 2018, this should have a positive impact on vacancy levels which in turn should support prime and secondary rental levels in the city going forward.

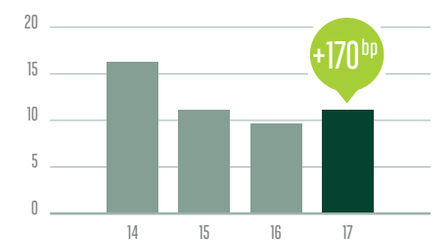
Improved investor activity boosted by overseas players

Following a relatively weak 2016, in 2017 investment volumes have risen by 36.8% to total €293m. Overseas investor interest in Glasgow drove some key investments over the year with Korean asset manager Multi Asset Global Investments acquiring 122 Waterloo Street for £66m in the largest deal of the year. As was the case in Edinburgh, the start of 2017 saw yields move out by 25bps to 5.50% reflecting weaker investor sentiment and market conditions. At Q4 2017, prime yields subsequently moved in to stand at 5.35% following improving market conditions, although this is still marginally above the pre-UK referendum level of 5.25%.

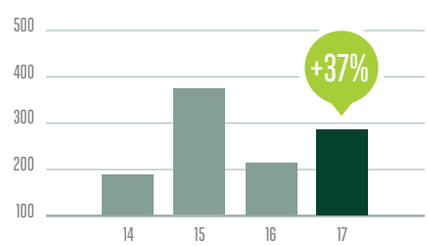
Take-up
(thousand m²)



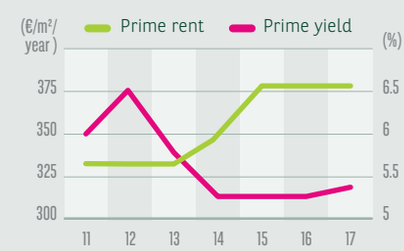
Vacancy rate
(%)



Office investment
(€ million)



Prime office: rents & yields



Main office transactions - letting & sales

Occupier	Space (sq ft)	Building-address	Submarket
Scottish Courts & Tribunals Service	80,500	3 Atlantic Quay	City Centre
The Student Loans Company	40,900	450 Argyle St	City Centre
Mott MacDonald	34,500	St Vincent Plaza	City Centre

Main office transactions - investment

Buyer	Price (£ m)	Building-address	Space (sq ft)
Multi Asset Global Investments	66	122 Waterloo Street	155,000
PonteGadea Immobiliaria	49	147 Buchanan Street	83,600
Wirefox Investments Ltd	44	Capella, 5 Atlantic Quay	117,000

Constant Exchange Rate - (Q4 2017 average) €/£: 1.1271

Source : BNP Paribas Real Estate

HAMBURG

Hamburg vacancy at a 15-year low

Record take-up result in Hamburg

The Hamburg office market had one of its best years ever in 2017. With 613,000 m² taken up, it rose by almost 13 % on the previous year, thereby setting a new record. The year's biggest contracts have resulted from two new build projects; one for Olympus totalling 34,500 m² in Centre South, and the other for the Gruner + Jahr publishing group at 34,000 m² in HafenCity.

In view of the strong demand, the vacancy declined by 13% from 2016's figure to 707,000 m². Such a low level was last seen in 2002 and mean the vacancy rate in the fourth quarter was 5.1 %.

The prime rent on the Hamburg office market rose again by 2% over the course of the year, coming to €318/m². At €179/m², the average rent for the market as a whole has remained almost stable, attributable to the limited supply of modern office space.

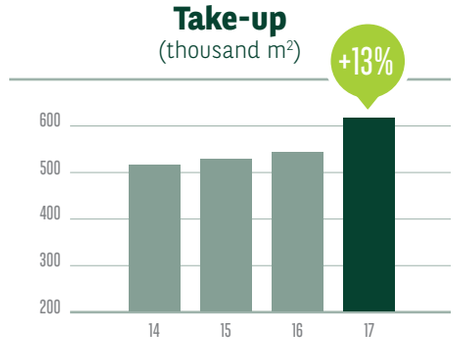
Supply limitation is resulting in investment volume falls

The Hamburg investment market was unable to continue the strong momentum of previous years in 2017, recording a transaction volume of €3.56 bn, which represents a decline of almost 25% as against 2016. There is a lack of available product in almost every segment, meaning that noticeably fewer properties were sold overall than in previous years.

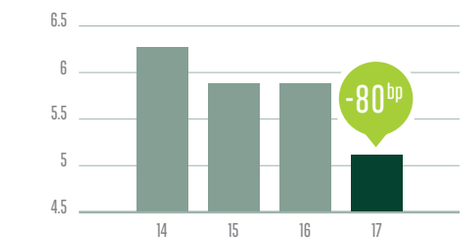
Office properties are still the main asset class being purchased in the investment volume. At almost 46% though, it marks a notable decline and they no longer dominate the ranking to the significant extent that they did in the previous year, when they achieved the second highest volume ever.

The persistently strong demand for offices is coming up against a limited supply, particularly in the core segment. It means that net prime yields fell further over the course of the year. As at year-end, yields of 3.15% are encountered with premium-segment office properties, which are 25 basis points lower than twelve months ago.

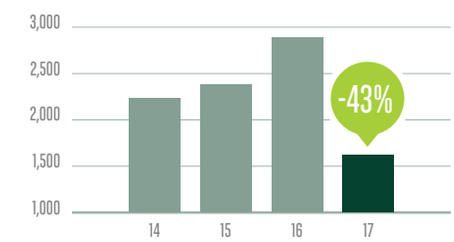
Take-up
(thousand m²)



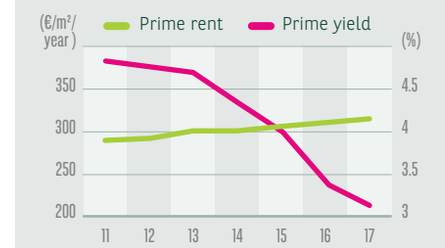
Vacancy rate
(%)



Office investment
(€ million)



Prime office: rents & yields



Main office transactions - letting & sales

Occupier	Space (m²)	Building-address	Submarket
Olympus Germany	34,500	Heidenkampsweg/ Wendenstrasse	Centre South
Gruner + Jahr	34,000	Am Hannoverschen Bahnhof	HafenCity
University of Hamburg	19,700	Überseering	Centre North

Main office transactions - investment

Buyer	Price (€ m)	Building-address	Submarket
Patrizia	>160	Hafen City Gate - Am Sandtorkai	HafenCity
Deka	>80	Campus Tower	HafenCity
Triuva	85	K1 - Kaiserkai	Hafencity

Source : BNP Paribas Real Estate

HELSINKI

A strong demand for prime assets boosts the market

Prime rents have increased in the Helsinki CBD area

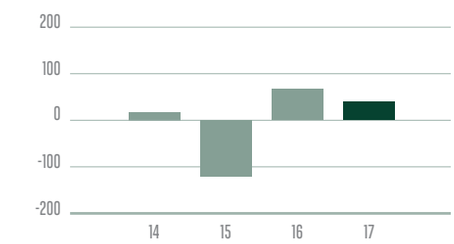
In the Helsinki Central Business District (CBD) the office rent levels of new lease agreements increased last year. The renovation of old office premises pushed up the supply of good quality office space in the Kamppi district and CBD area. In addition, the demand for good quality office premises located around transport nodes has risen due to the economic upturn. These drivers lie behind the increased prime rents of the CBD area. Moreover, new offices are seeing increased prime rents in some other submarkets such as in the Pitäjänmäki district. As a consequence, the gap between the rental levels of prime and secondary office properties has widened in the Helsinki Metropolitan Area (HMA).

Six office properties that comprise a total of 40,000 m² of new space will be constructed in the HMA during this year. For example, Technopolis Plc is expanding its campuses in the Aviapolis area and in the Salmisaari district. NCC's Fredriksberg's first phase is also set to be completed this spring in the Vallila district of Helsinki. Therefore the supply for modern office space will increase in the HMA area.

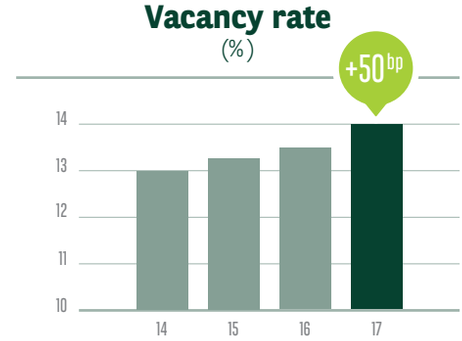
The rising demand for prime properties is seeing decrease in office yields

Prime office yields declined again last year with Helsinki CBD properties now below 4%. In the autumn, many transactions made for core properties in the city centre were bought by foreign investors. It is the rising demand for prime properties among the international investors that has lowered yields in the prime areas. One of the major office transactions made in the Helsinki CBD area came when the refurbished office at Kasarmikatu 21 was sold to CNP Assurances. In addition, yield levels have decreased in the prime office submarkets such as Keilaniemi district in Espoo. Again overseas investors lay behind key transaction deals in Espoo. A fund managed by Deutsche Asset Management in Germany bought from Exilion two of the three office buildings and a parking facility in the Keilaniemi district, a property known to the public as Nokia's former head office. The transaction price was €164 million (€5,290/m²), making the initial yield approximately 4.65%.

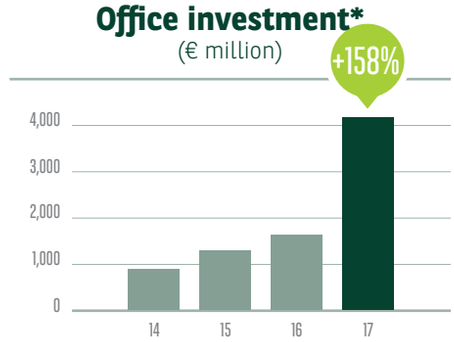
Net absorption
(thousand m²)



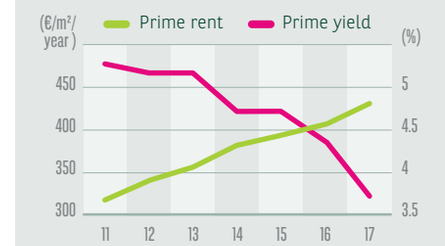
Vacancy rate
(%)



Office investment*
(€ million)



Prime office: rents & yields



Main office transactions - letting & sales

Occupier	Space (m²)	Building-address	Submarket
Accountor Holding Oy	11,000	Keilaniementie 1	Keilaniemi
Wärtsilä Oyj Abp	11,000	Hiililaiturinkuja 2	Salmisaari
Fortum Corporation		Keilalahdentie 2-4	Keilaniemi

Main office transactions - investment

Buyer	Price (€ m)	Building-address	Submarket
Fund managed (1)	164	Keilalahdentie 2-4	Keilaniemi
Schroder Nordic Real Estate Fund	150	Many	Many
Regenero (2)	74	Keilaniementie 1	Keilaniemi

(1) Fund managed by Deutsche Asset Management - (2) Regenero (HGR Property Partners Oy & YIT Oyj)

**Total investment In Finland (source: RCA)*

Source : BNP Paribas Real Estate

LILLE

An excellent occupational market reinforces Lille's position as a leading French market

Take-up surpasses 200,000 m² again

Lille metropolis reinforced its position as a commercial real estate stronghold by consolidating its 2nd position in the French Regions after Lyon. For the 2nd year in a row the market climbed over the 200,000m² mark. As with last year the districts of Lille, Villeneuve d'Ascq and Grands Boulevards, were the big winners as they represented more than 75% of total volumes.

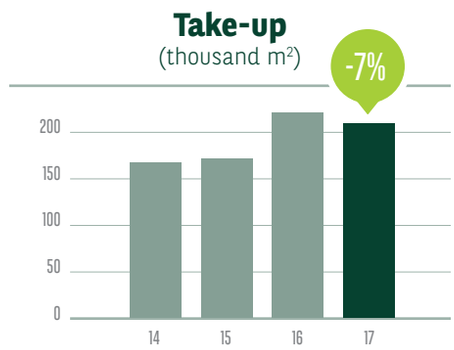
Vacant supply is maintained at a moderate level at 237,300 m² (-7% over 2016). Major building developments are on the agenda for 2019-2020: "Le Triptic" at the heart of Lille, "Upline" in Villeneuve d'Ascq and "Shake", a 30,000 m² mixed-use building at Euralille.

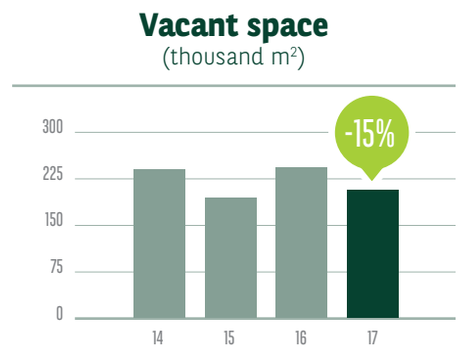
In Lille and Euralille, average rental values range from €140 to €210/m²/year and the asking rent for some new buildings located in prime locations reaches €230/m²/year. Rents range from €110 to €160/m²/year in other districts of the metropolis.

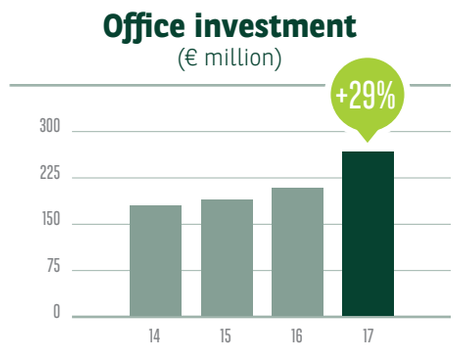
A new record for investment in Lille energized by pre-completion sales

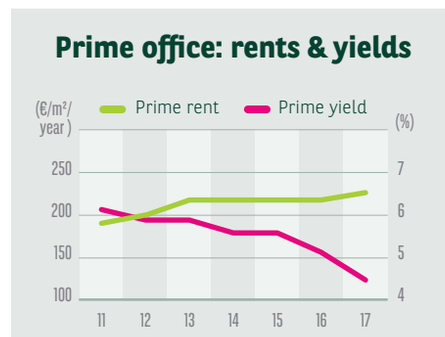
With €284m invested in 2017, the investment market in Lille reached an all-time high having increased by 29% compared to 2016. Most of the deals were signed in Lille Centre and Villeneuve d'Ascq as these two districts represented 60% of invested volumes.

Sales before completion amounted to €167m, 59% of invested volumes and a rise of 89% compared to 2016.









Main office transactions - letting & sales

Occupier	Space (m²)	Building-address	Submarket
IT-CE	8,903	Helios	Villeneuve d'Ascq
Capgemini technology services	8,480	Greentech	Euratechnologies
Société Générale	7,440	Conex	Lille Centre

Main office transactions - investment

Buyer	Price (€ m)	Building-address	Submarket
Unofi	27	Greentech	Euratechnologies
Foncière des Régions	20	Helios	Villeneuve d'Ascq
Foncière de l'Érable	17	Tourcoing gare	Roubaix - Tourcoing

Source : BNP Paribas Real Estate

LISBON

Portugal's economic growth is leading to full office market recovery

Business expansion and creation is the key factor in Lisbon office market's success

The total of 166,819 m² gives Lisbon the highest figure for take-up since the record year of 2008. The lowest availability rate for years at 8.6%, is an outcome of take-up volumes growing by 16% over 2016 and reflects business momentum in the city.

The good performance of Lisbon's office market derives from stable economic growth with recovery in the labour market. Portugal's increased exposure on the international stage and the focus given to entrepreneurship have been instrumental in the creation of new businesses. The good development in the country's economic growth is strengthening the confidence of investors, business owners and consumers.

One factor lying behind expansion of new businesses is that many are adopting new working styles because millennials represent a high proportion of the Lisbon workforce. The real estate effect of this is being expressed in the conversion of old buildings (such as warehouses) into modern office space.

Portugal's investment market is drawing in a wider range of international investors

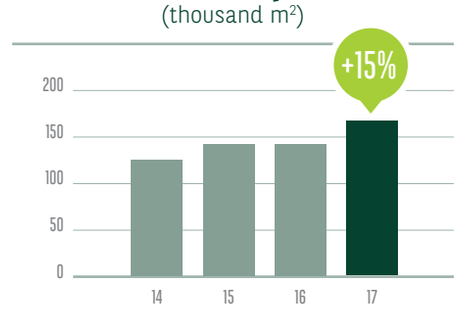
2017 was one of the best post-crisis years for the Portuguese real estate investment market with nearly €2bn spent, representing a 38% increase in total volume over 2016.

The domestic market registered more than fifty commercial deals, with an average value of around €35 million per operation.

The Lisbon market registered a total investment volume of €815m, with offices playing a major role with €728m recorded.

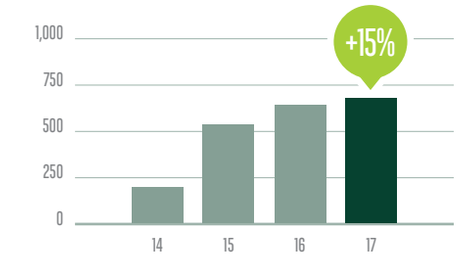
International investors are the main buyers in the market representing 85% of the total amount, with the origin of purchasers widening to include countries such as China and the United States.

Take-up
(thousand m²)

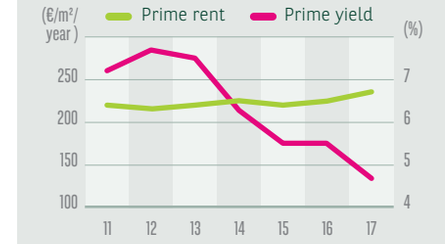


Vacancy rate
(%)

Office investment
(€ million)



Prime office: rents & yields



Main office transactions - letting & sales

Occupier	Space (m²)	Building-address	Submarket
VDA	12,000	Building Sorel, Street D. Luís I	Zone 4 (1)
Group WPP	9,178	Av. 24 de Julho	Zone 4 (1)
Abreu Advogados	5,800	Avenida Infante D. Henrique	Zone 4 (1)

Main office transactions - investment

Buyer	Price (€ m)	Building-address	Submarket
Explorer Investments	115	Silcoge Portfólio (3)	Several Locations
Pension Fund EDP	101	EDP Headquarters (4)	Lisbon city
Signa Capital (2)	65	Building Entreposto (5)	Lisbon city

(1) Historic Zone - Zone 4 - (2) Signa Capital / Square Asset Management - (3) several locations (4) Av. 24 de Julho, Lisbon (5) Praça José Queirós

Source : BNP Paribas Real Estate

CENTRAL LONDON

London's office market is resilient in the face of ongoing uncertainty surrounding EU negotiations

Take-up is being sustained by large sized leasing transactions

The expectation for 2017 was for a reduction in occupier and investment activity because of Brexit uncertainty. Instead the market exhibited signs of resilience. Take-up reached 12.68m sq ft (1.17m m²) in 2017, an 11% rise on 2016 and above the 10-year average. Strong leasing activity was primarily driven by an increase in deals over 100,000 sq ft (9290 sq m) registering a 55% rise over the average for this class; the largest deal in 2017 being the 469,000 sq ft (43,600 m²) preletting of 21 Moorfields, EC2 to Deutsche Bank. Conversely, deals within the <5,000 sq ft size category registered a 50% drop on its average. A higher proportion of tenant space entering supply and 8.03m sq ft (746,000 m²) of development completions in 2017 caused a rise in vacancy; however this was only marginal rising by 43 bps during 2017 to 6.15%.

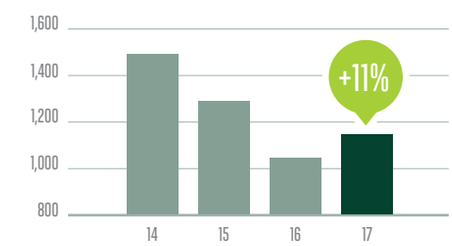
With landlords generally unwilling to increase incentives further, prime rents in the majority of Central London markets reported annual declines. Competition from large occupiers contributed to the softer falls witnessed in prime rents in the City and Midtown. The submarkets of Paddington and North of Oxford Street (Nox) reported rises which has upheld average rents across the West End.

Investor interest remains strong from Asia

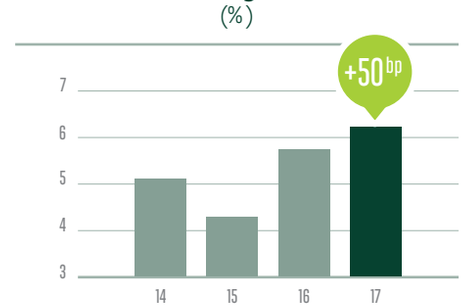
A total of £14.88bn (€16.77bn) was invested into the central London office market in 2017, a 45% rise on 2016 and in line with the 5-year average. The majority of investors during the course of 2017 were from the Asia Pacific region. Key deals included the acquisition of 20 Fenchurch Street, EC3 by LKK Health Products Group, a Chinese investor, for £1.28bn (€1.44bn) and the acquisition of The Leadenhall Building, EC3 by CC Land, also Chinese, for £1.15bn (€1.3bn). The uncertainty surrounding Brexit negotiations seem to be low on the list of risk factors for overseas purchasers who see Central London as low risk and providing long term income in comparison to other global cities.

Constant Exchange Rate
(Q4 2017 average) €/£: 1.1271

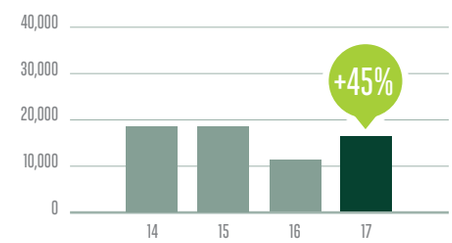
Take-up
(thousand m²)



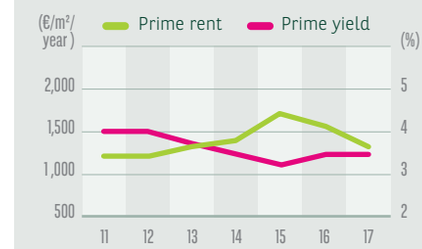
Vacancy rate
(%)



Office investment
(€ million)



Prime office: rents & yields



Main office transactions - letting & sales

Occupier	Space (sq ft)	Building-address	Submarket
Deutsche Bank	469,000	21 Moorfields, EC2	City
Dentsu Aegis	310,000	1 Triton Square, NW1	West End
WeWork	283,450	2 Southbank Place, SE1	Southbank

Main office transactions - investment

Buyer	Price (£ m)	Building-address	Submarket
LKK Health Products Group	1,283	20 Fenchurch Street, EC2	City
CC Land	1,150	122 Leadenhall Street, EC3	City
WeWork	580	Devonshire Square Estate, EC2	City

Source : BNP Paribas Real Estate

LUXEMBOURG

All indicators are green for the Luxembourg office market

Office demand above the long term average

The demand for office space ended the year again exceeding the 200,000 m² mark. Over the course of 2017, 204,400 m² were let or sold in the Luxembourg office market that remained 10% above the 5-year average (188,300 m²).

The character of leasing activity changed over the year. Office take-up was boosted in H1 by large deals emanating from corporates and public entities. In contrast, activity in H2 was mainly supported by smaller transactions above 1,000 m² and a lower level of transactional volume.

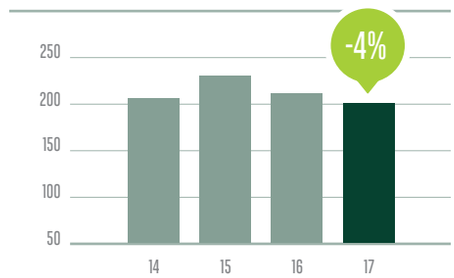
At the end Q4 2017, office vacancy in Luxembourg stood at 4.6%, representing an immediate supply of 169,200 m². The vast majority of office sub districts experienced decline in availability reaching historic lows for some of them. In the Kirbergh area, the vacancy rate decreased sharply from 3.2% to 1.6% thanks to sustained demand.

The focus of demand for quality office space meant that prime rental values for Grade A office spaces continued their upward trend and currently stand at €600/m²/year in the City Centre.

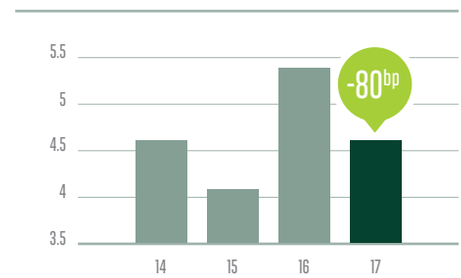
Best performance of the decade for the investment market

For the eighth year in a row, the commercial real estate investment volume in Luxembourg increased and ended the year at a level of €1.125bn – Its best performance recorded over the past 10 years. As usual, the investment activity was largely dominated by the office segment which accounted for 90 % of total investment volume. Prime yields recorded a small compression to 4.70% for office building with standard lease terms.

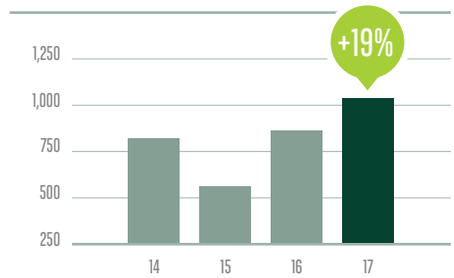
Take-up
(thousand m²)



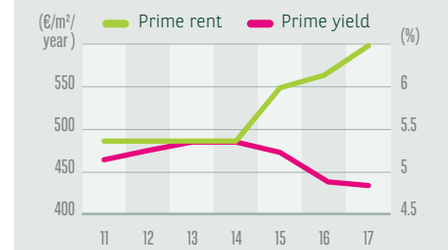
Vacancy rate
(%)



Office investment
(€ million)



Prime office: rents & yields



Main office transactions - letting & sales

Occupier	Space (m²)	Building-address	Submarket
POST LU	18,000	Mercier - 20 Rue de Reims	Station
European Investment Bank	14,486	38th JFK Avenue	Kirchberg
Amazon	13,804	Lighthouse	Kirchberg

Main office transactions - investment

Buyer	Price (€ m)	Building-address	Submarket
Allianz	178	Vertigo - Rue Eugène Ruppert	Gasperich
La Luxembourgeoise	120	Lighthouse One Tower [1]	Kirchberg
Commerzbank	117	Gravity - Rue Edward Steichen 25	Kirchberg

[1] Lighthouse One Tower - Blvd Pierre Frieden Luxembourg

Source : BNP Paribas Real Estate

LYON

Lyon strengthens its leading position in the French Regions

The letting market is driven by mid-size units (1,000 to 5,000 m²)

With 270,000 m² of take-up in 2017, the Lyon market remained very active despite a slight dip compared to 2016 that was mainly due to the lack of transactions over 5,000 m². 2016 saw 3 deals for units over 10,000 m², whereas the largest lease in 2017 was for 6,000 m² signed by the Ministère de la Justice (Ministry of Justice) in Gerland district.

The supply of new offices plummeted in 2017 to reach 185,000 m², 15% less than a year ago. The shortage of new supply is particularly vivid at La Part Dieu where new buildings are not expected to arrive for two to three years. In contrast sufficient new supply will be available very soon in other districts such as Gerland, Confluence and Carré de Soie.

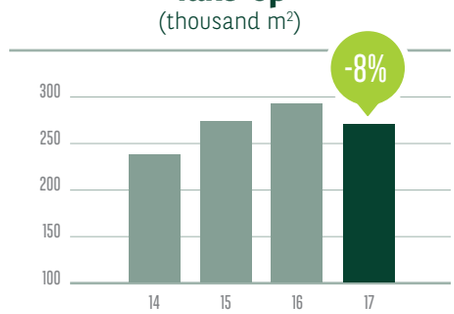
Rental values are mostly on the rise, especially in the La Part Dieu district.

Investment market acceleration is spreading interest beyond the La Part Dieu district

The commercial real estate investment market performed really well in 2017. The purchase of offices totalled €750m in 2017, a 20% rise compared to 2016. Two very large deals led the market, including the acquisition of the New Deal building complex by Deka Immobilien for more than €100m. The German investor made a resounding come-back to the Lyon market after several years of absence. Funds (26%) and insurance companies (23%) were the main players of the market last year.

Yields are still declining with a record-low yield of 3.90% at La Part Dieu district. The shortage of buildings for sale and rent in this business district encouraged investors to look more carefully at other districts.

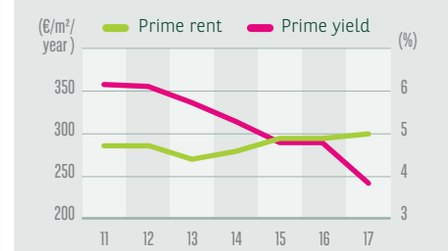
Take-up
(thousand m²)



Vacancy rate
(%)

Office investment
(€ million)

Prime office: rents & yields



Main office transactions - letting & sales

Occupier	Space (m²)	Building-address	Submarket
Medicina	5,736	Bioparc - lot C	Hôpitaux / Lyon 8ème
Nextdoor	5,408	Silex 1	Part-Dieu
GRT GAZ	5,297	Oxaya	Gerland

Main office transactions - investment

Buyer	Price (€ m)	Building-address	Submarket
ACM / FDR	154	Silex 1 & 2	Part-Dieu
Deka	> 100	Le New Deal	Lyon 07
Sogelym dixence	71	New Age	Part-Dieu

Source : BNP Paribas Real Estate

MADRID

The public sector played a key role in Madrid's massive take-up increase

Best take-up result since 2007

With 552,982m² of take-up in 2017, the Madrid office market increased by 28.7% compared to 2016, reaching its highest point since 2007. Q4 2017 was extremely dynamic with lettings amounting to 223,448 m², up 79% on Q4 2016 and 153% on Q3 2017. Demand from public authorities played an important role in take-up. The deal struck by the Inland Revenue (Ministerio de Hacienda) at no.15 Calle Mateo Inurria (17,480 m²) and those signed by the Madrid Regional Council at no.31 Calle Albarracín (19,727 m²) and at no.5 Ramírez de Prado (14,600 m²) are among the largest transactions of the final quarter.

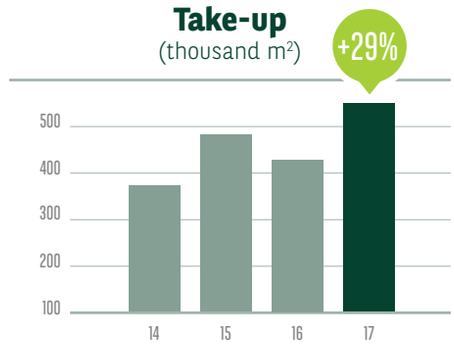
The vacancy rate stood at 10.2%, declining over the year due to the high demand from the creation of new businesses. The scarcity of new developments entering the market, particularly those with available floor space, means the vacancy rate continues to be under pressure.

The average rent in the Madrid and its area of influence rose during the fourth quarter of the year by 7.7% over Q4 2016, reaching €17.60/m²/month (€16.40/m²/month in Q4 2016). Moreover, the prime rent increased by 6.9% year-on-year, currently standing at €31/m²/month vs. €29/m²/month in 2016.

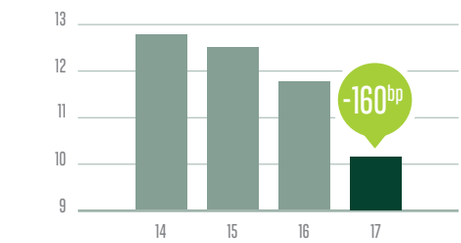
Lower investment due to lack of product

Investment volumes in the Madrid office market stood at around 1,502 million euros in 2017, a slight decrease over 2016 due to the lack of product. Funds were the main buyers with 31% of purchases. After buying large assets in 2014 and 2015, SOCIMIs slowed down the pace of their acquisitions and are focused on the management of their assets. They aim to increase returns by using CAPEX and increasing the occupancy rate of properties or by improving the quality of tenants. Transactions from these companies are expected to resume in 2018.

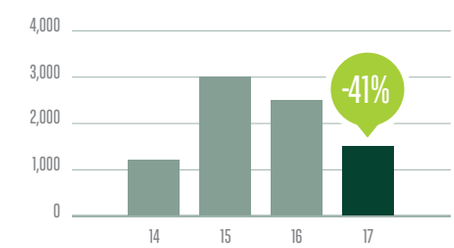
Take-up
(thousand m²)



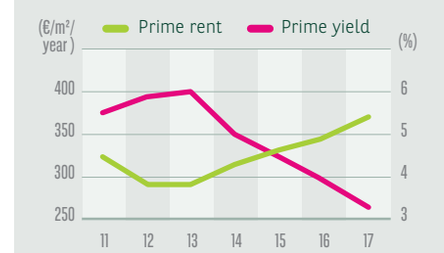
Vacancy rate
(%)



Office investment
(€ million)



Prime office: rents & yields



Main office transactions - letting & sales

Occupier	Space (m²)	Building-address	Submarket
Comunidad de Madrid (1)	19,727	Albarracín Nº 31	Decentralised
Intervención General del Estado (1)	17,480	Mateo Inurria Nº 15	Centre
Ministerio de Hacienda (1)	15,141	Manuel Cortina Nº 2	Centre

Main office transactions - investment

Buyer	Price (€ m)	Building-address	Submarket
Zaphir Group (2)	103	Avenida de Manoteras 20	Decentralised
UBS	83	Plaza Santa Barbara 2	CBD
GMP	72	Manuel Cortina 2	Centre

(1) Public sector - (2) Zaphir Group, Tristan Capital Partners

Source : BNP Paribas Real Estate

MANCHESTER

Manchester's strong take-up performance continues

Take-up surpasses 100,000 m² for the fourth year running

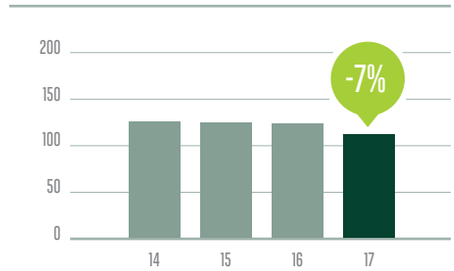
For the fourth year running Manchester recorded take-up levels of over 100,000 m². 2017 did, however, represent a slight fall on previous years with the annual total reaching 112,227 m², a 7.4% decline on 2016. As was seen in the other UK cities, the public sector was behind the largest deal of the year with the Department for Work and Pensions agreeing terms for 7,191 m² of Grade A space at 2 St Peter's Square. There are also rumours that the Government Property Unit is in line to take a substantial letting or pre-let in the city in 2018. 2017 also saw Manchester benefit from the rise in demand from flexible office providers with co-working giant WeWork committing to its first UK site outside London by taking 5,574 m² at No.1 Spinningfields.

Despite strong levels of demand, vacancy rose 330bps over the year to stand at 14.3%. This rise was largely driven by the delivery of a number of new speculatively developed schemes over the course of the year. Manchester has seen a fairly substantial development cycle in recent years, the largest of the regional UK cities. Looking ahead, 2018 will see a fall back in speculative deliveries which should allow much of the existing speculatively developed stock to be absorbed.

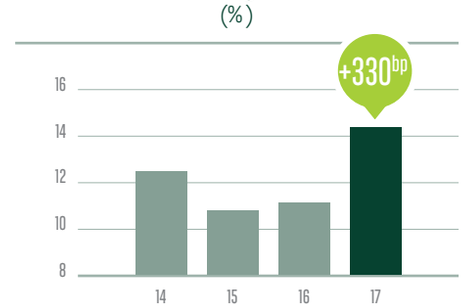
Increased domestic investor activity boosts investment volumes

Investment volumes rose by 19.7% in 2017 to reach €876m. This rise in investment was driven by the return of UK investor demand following a lull in 2016. The largest acquisition of the year involved Schroder REIM's purchase of No.1 Spinningfields for £200m, reflecting a net initial yield (NIY) of 5.00%, followed by Royal London's acquisition of 3 Hardman Square which recorded an NIY of 4.90%. As with the other UK cities, 2017 saw a slight outward movement in prime yields following weaker market conditions and investor sentiment. Yields have subsequently seen some compression at end-2017 to stand at 4.85%.

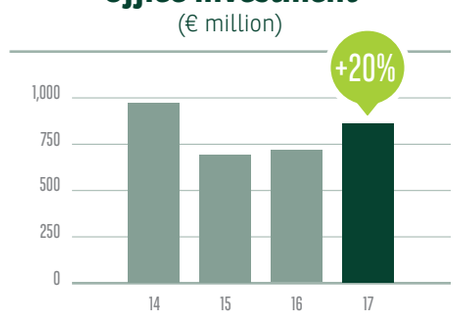
Take-up
(thousand m²)



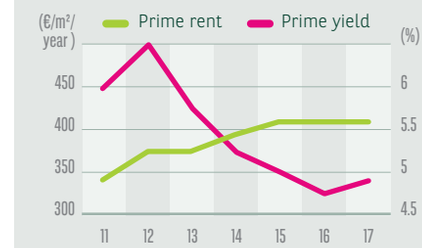
Vacancy rate
(%)



Office investment
(€ million)



Prime office: rents & yields



Main office transactions - letting & sales

Occupier	Space (sq ft)	Building-address	Submarket
Department for Work & Pensions	77,400	2 St Peter's Square	City Centre
Clyde & Co	69,000	Royal Exchange	City Centre
WeWork	60,000	No. 1 Spinningfields	City Centre

Main office transactions - investment

Buyer	Price (£ m)	Building-address	Space (sq ft)
Schroder REIM	200	No. 1 Spinningfields	300,000
Royal London Asset Management	107	3 Hardman Square	178,000
Castlebrooke Investments	66	CIS Tower, Miller Street	388,500

Source : BNP Paribas Real Estate

Constant Exchange Rate - (Q4 2017 average) €/£: 1.1271

AIX/MARSEILLE

Recovery in Marseille's letting and investment market

Large transactions reduced the supply of modern offices by a third

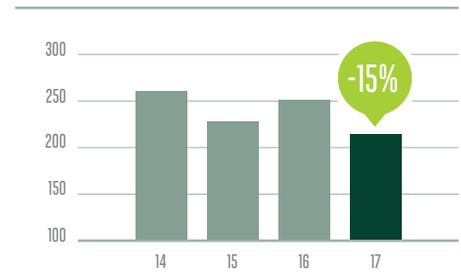
After a disappointing 2016, take-up in Marseille rebounded sharply in 2017 (+31%) thanks to the come-back of occupational deals. The city area benefitting the most from this is the Euroméditerranée district, flourishing with 55,500 m² of take-up in 2017 compared to only 15,300 m² in 2016. Vacancy showed annual decline in 2017 (-16%) as large transactions consumed the stock of available premises. This drop is even sharper in the segment of new offices (-33%). A lack of new supply is a risk for 2018 as modern premises are preferred by major occupiers. Speculative deals are returning on the market, as exemplified by "Eko Active" and "Castel Office" in Euroméditerranée, plus "Green Corner" and "Les Carrés du Golf" in Aix-en-Provence.
Rental values remain steady in all districts. Incentives given by landlords are now the main adjustment variable in the market.

One very large deal dominates the investment market

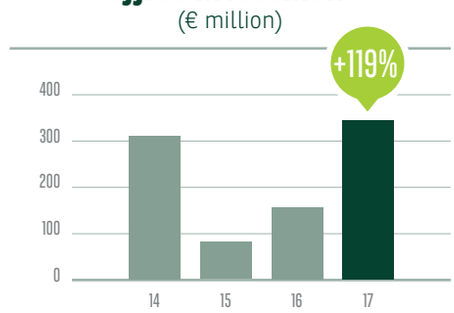
The market increased by 119% with €345m invested in the Aix-Marseille urban region in 2017. The market accelerated thanks to six deals for more than €10m including the purchase by Amundi of the "Les Docks" building in Euroméditerranée for €231m. Foreign investors were back in Marseille in 2017 with the acquisition of "Cap Joliette" by Deutsche Asset & Wealth Management. The Marseille prime office yield fell to 5.20% compared to 5.75% in 2016.

Take-up
(thousand m²)

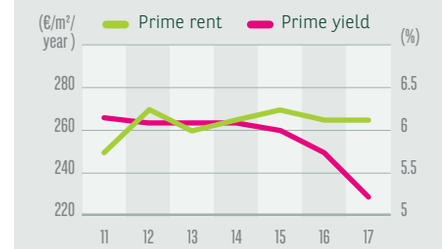
Vacant space
(%)



Office investment
(€ million)



Prime office: rents & yields



Main office transactions - letting & sales

Occupier	Space (m²)	Building-address	Submarket
Conseil Régional	24,286	Euromed Center [1]	Euroméditerranée
BNP Paribas Lease group	14,064	Corail	Euroméditerranée
SNCF - INFRA	5,138	Triangle St Charles	Marseille Centre

Main office transactions - investment

Buyer	Price (€ m)	Building-address	Submarket
Amundi	231	Les Docks	Euroméditerranée
Deutsche Asset [2]	> 45	Cap Joliette	Euroméditerranée
Ciloger	24	Parc Cezanne 1	Pays d'Aix

[1] More specifically "Hermione" and "Floreal" (Euromed Center) [2] Deutsche asset & Wealth management

Source : BNP Paribas Real Estate

MILAN

One of the highest take-up volumes ever seen in Milan

Supply shortage is seeing new development projects in key districts

With nearly 354,000 m² taken up, 2017 was the second best year ever for the office market in Milan, up 20% on 2016. Only 2015 recorded higher yearly volumes (370,000 m²), but take-up in that year involved two exceptional sized pre-lets by Allianz and Generali in CityLife district.

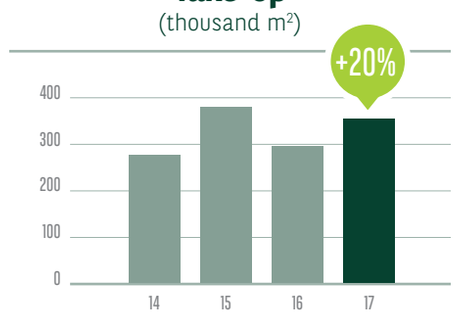
In contrast the activity of 2017 was spread over different submarkets, with major take-up increases in the CBD Duomo, the Centre and the Semicentre. Despite an undeniable appeal of the district, low supply in the CBD Porta Nuova led to reduced take-up. Indeed, the interest for the two CBDs remained strong and resulted in an increase in prime rents at the end of 2017: €550/m²/year vs. €490/m²/year in 2016 in the CBD Duomo and €500/m²/year vs. €480/m²/year 12 months ago in the CBD Porta Nuova.

This interest in central submarkets led to a decrease in vacancy in the CBD Duomo, the CBD Porta Nuova and the Centre to very low levels (around 2-4%). Current supply of Grade A spaces in these districts is decreasing the mostly sharply and now totalls 25,000 m². The general lack of good quality office spaces available has convinced developers to launch renovation projects of the existing stock, as the quality of the building is the main driver (together with location) for tenants in relocating.

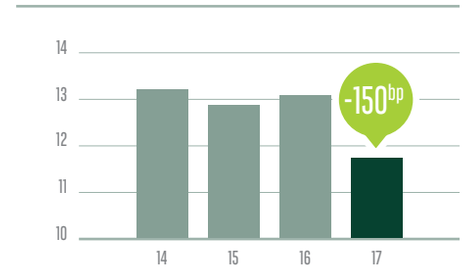
Investors are looking to other areas in Milan for value

The Milan investment market also performed really well in 2017: €3.6bn (+ 17% on 2016). It included €2.2bn invested in offices (mainly in the CBD Duomo) out of a total of €3.9 billion recorded for offices in Italy. Given the scarcity of core office products in the center of Milan, investors also focus on secondary locations that have good access. These value add deals offer higher yields and are the focus of business plan to asset manage the property. This has led to yield compression in areas like the Center, Semi center and Bicocca. In contrast prime net yields remained stable over 2017 at 3.50% in the CBD Duomo and at 3.75% in the CBD Porta Nuova.

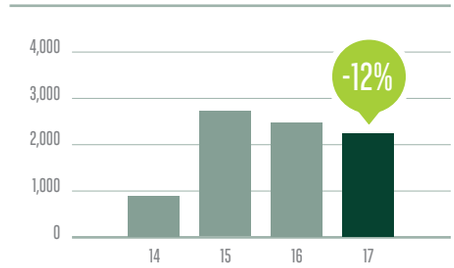
Take-up
(thousand m²)



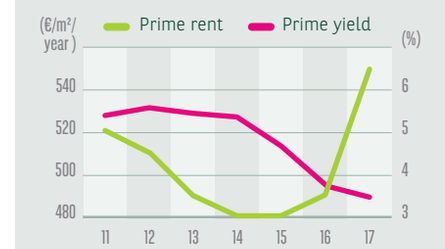
Vacancy rate
(%)



Office investment
(€ million)



Prime office: rents & yields



Main office transactions - letting & sales

Occupier	Space (m²)	Building-address	Submarket
Amazon	17,532	Viale Monte Grappa, 3/5	CBD Porta Nuova
Agos Ducato	14,700	Viale Fulvio Testi, 280	Periphery
Prysmian	12,000	Via Privata Chiese, 6	Periphery

Main office transactions - investment

Buyer	Price (€ m)	Building-address	Submarket
IdeA FIMIT Sgr / Ippocrate Fund	272	Foro Buonaparte 31 - 35	CBD Duomo
Kryalos - York	160	Palazzo 5 ENI [1]	Hinterland
Kryalos SGR (Allianz)	143	Kensigton Portfolio [2]	Mixed Portfolio

Source : BNP Paribas Real Estate

[1] Palazzo 5 ENI - San Donato Milanese - [2] Kensigton Portfolio - Via Melchiorre Gioia, 26 - Bastioni di Porta Nuova 21

MUNICH

In an already excellent market Munich exceeds all expectations

Munich is booming with a new take-up record

With take-up of 995,000 m², the capital of Bavaria fell just short of the million mark in setting its new record. A very high share of owner-occupier deals (20%) had a positive impact on the take-up volume. Here in particular, two deals involving BMW for 100,000 m² and 60,000 m², which make up almost 80% of the owner-occupier deals, need to be mentioned.

The increase in take-up for the fourth year in a row accelerated the reduction in an already declining volume of vacant space. It reduced 20% within one year and now totals 683,000 m², which is the lowest level in the past 16 years. The vacancy rate in the overall market has also fallen to 3.3 %. The widening gap between supply and demand has resulted in an increase in rents across the board. The prime rent, which is currently €444/m², has risen by almost 3%.

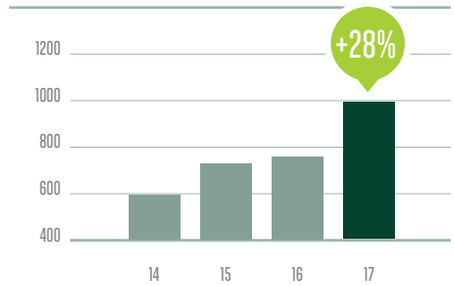
Inadequate supply putting a brake on the investment market

With a transaction volume of €5.2bn in 2017 the Munich investment market fell short of the previous year's extraordinary result by 18%. However, viewed over the longer term, this is still a very respectable result which is a good one third above the long-term average. The fall is not due to a lack of investor interest, but primarily to an inadequate supply of large sized core properties.

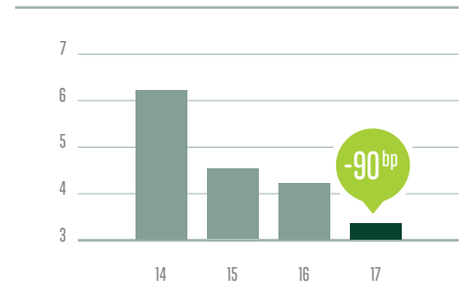
The share of office investments was down by 50%. Although they still represented the most important type of acquisition, they achieved the lowest figure for the last six years. Here too, there is a shortage of large sized new-build projects in top locations.

The continued strong demand from investors is encountering, particularly in the core segment, an increasingly limited supply, is further intensifying competition for sought-after properties and resulted in an increase in prices. This development is being seen in all market segments and locations and affecting yields. The net prime yield for office properties has fallen by 30 basis points in the last 12 months and is currently 3.00%.

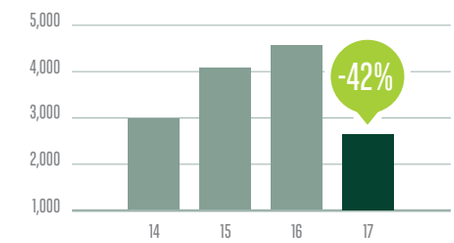
Take-up
(thousand m²)



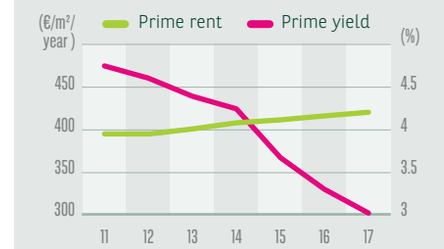
Vacancy rate
(%)



Office investment
(€ million)



Prime office: rents & yields



Main office transactions - letting & sales

Occupier	Space (m²)	Building-address	Submarket
BMW	100,000	Schleissheimer Strasse	Remaining Municipal Area
BMW	60,000	Lilienthalallee	Remaining Municipal Area
MEAG MUNICH ERGO [1]	23,500	Am Münchner Tor	Centre Fringe North

Main office transactions - investment

Buyer	Price (€ m)	Building-address	Submarket
Rock Capital	250	Hofmann Höfe	Remaining Municipal Area
Allianz Real Estate	240	Kap West	Remaining Municipal Area
BlackRock	> 200	Kustermann Park	Centre Fringe South

[1] MEAG MUNICH ERGO Asset Management

Source : BNP Paribas Real Estate

NICOSIA

Cyprus is seeing new office developments to accommodate expanding local and new International companies

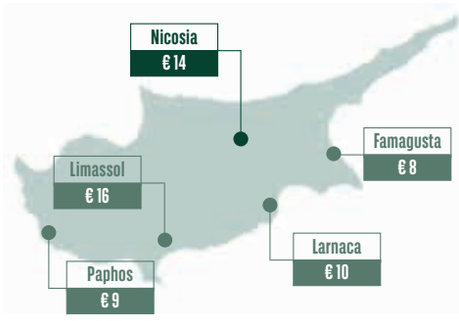
Increasing demand for Grade a office premises

Nicosia, being the capital and financial centre of Cyprus, is home to the public sector and most of the large businesses operating on the island. Traditionally, office space in Cyprus is found in the old common type multi-storey buildings which are mainly located in the heart of the cities. However, in recent years a trend for decentralisation began to occur. During 2017, the office market in Cyprus remained stable. In 2018, Grade A offices will be sought-after that are found in decentralised areas.

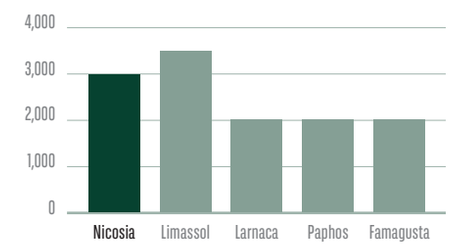
Government incentives are stimulating investment

The investment activity for 2017 is correlated to the incentives given by the government which seems to have attracted both foreign and local investors. The opportunity to obtain a passport has attracted many foreign buyers all over Cyprus (especially in Limassol and Paphos). In addition, tax incentives led to an increase in sales in the second half of 2017. The Cyprus real estate market has historically been divided into two submarkets. On the one hand the major urban centres of Nicosia, Limassol and Larnaca primarily driven by local demand and on the other hand, the seaside resort areas of Paphos and Famagusta mostly driven by foreign demand. Traditionally, the Cyprus property market is dominated by the residential sector, with the island's geography and historical reasons partly dictating the dynamics of the various submarkets. However, the trend of development companies in recent years is the construction of office facilities intended mainly for the multinational companies attracted by the island. Grade A offices appealed to foreign investors and the prime yield reached 5.5% in 2017. In 2018 the economy's performance is expected to continue accelerating and support the investment market.

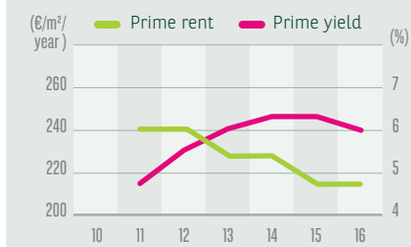
Grade A offices - Rents
(€/m²)



Grade A offices - Price
(€/m²)



Prime office: rents & yields



Main office transactions - letting & sales

Occupier	Space (m²)	Building-address	Price (€ m)
Tasos Papadopoulos & Associates Law Office (1)	1,900	Griva Digeni Avenue	€14/m²
Head Offices Department of Land & Survey (1)	1,400	Griva Digeni Avenue	€14/m²
Alfa Building / Eurobank 4th Flr	500	Pindarou Street	€13/m²
Political Party-Simahia Politon-Ground Floor (2)	315	Limassol Avenue	€11/m²
Allianz Insurance Company (3)	140	Themistokli Dervi	€10/m²

Office pipeline under construction

Developer	Space (m²)	Building-address	Submarket
Karyatides	2,560	Iosif Hadjiosif Avenue	Strovolos
Athienitis	5,500	Strovolou & Ilia Venexi Ave	Strovolos

(1) Tofarco-Jason Building - (2) Vision Tower Building - (3) LZ Building

Source : BNP Paribas Real Estate

OSLO

Strong property and economic conditions result in an outstanding transaction year

Oslo's office supply situation is improving

Since the oil price bust in 2014, Oslo office market has struggled with its supply situation. The restructuring of companies, leading to vacant space and subletting of premises, negatively affected Oslo's office market, particularly in rental prices. The response of recent years has been to reduce stock through office conversion to residential.

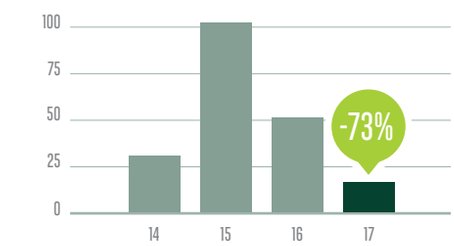
The improving Norwegian economy over 2017 caught up with the conversion process with an improvement in the occupational situation through more letting transactions. It is testament to the changing supply situation in Oslo that the vacancy rate which was at a record high of around 8.6%,in 2015 had by Q2 2017 fallen to about 7.5%. The overall vacancy rate fell just above 7% by end of 2017 and is expected to continue to fall, lower still in Oslo city centre.

It is likely to create an unexpected supply shortage of modern space in the near future, particularly in the core city centre area of Oslo. This is affecting rents positively, which are growing again; the prime rent posted at €468 in 2017.

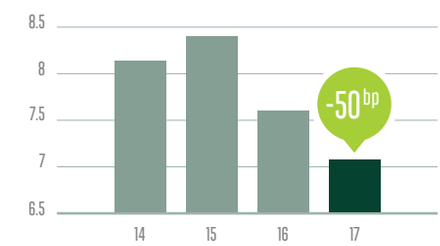
Foreign investors have renewed interest in the Oslo office market

Norway saw transaction volume for the year reach NOK 88 billion. The volume is nearly 10 billion higher than 2016 and the number of transactions reached a record high of 340, crushing the previous record set last year of 285. Office buildings dominated total volume with roughly NOK 43 billion or 50% of total volume. Oslo accounted for 50% of the total volume in 2017 and secondary markets such as Trondheim and Stavanger enjoyed a notable surge in transaction velocity. Foreign investment is a significant contributor to activity with 20% of the transaction volume came from overseas, up from 11% in 2016, but below 2015 figures at 33%. Renewed appeal of Norway to foreign investors is seeing yield contraction in the office sector with the office yield running at 3.75%.

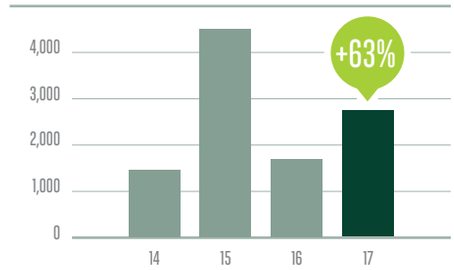
Net absorption
(thousand m²)



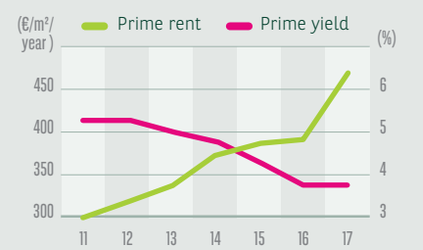
Vacancy rate
(%)



Total investment
(€ million)



Prime office: rents & yields



Main office transactions - investment

Buyer	Price (€ m)	Building-address	Yield
SBB i Norden	470	Dronning Eufemias Gate 30	3.90%
KLP Forsikring	182	Dronning Eufemias Gate	n/a
Entra Eiendom	167	Lakkegata 53	n/a
Mustad Property	131	Lilleakerveien 2F	n/a
NRP Finans	128	Middelthuns Gate 29	4.40%

Investment: RCA - Constant Exchange Rate (Q4 2017 average) €/NOK: 0.1040

Source : BNP Paribas Real Estate

CENTRAL PARIS

Office take-up and investment volumes maintain high levels in 2017

Healthy occupier market led by an increase in large unit transactions

The Central Paris office market confirmed its rude health in 2017: take-up came in at 2,348,260 m² finishing the year 10% up on 2016. The key driver of transactions was units over 5,000 m, up 25% in volume terms compared to last year. The small and medium-sized unit segment remained solid with a high level of deals and represents 56% of the take-up.

The office market of Paris Region was driven this year by Paris Inner City and the Inner Rim. The Central Business District of Paris rose 7% over the year before, well above its long-term average. This buoyancy has been driven by the Etoile district, up 23% over the year. After a very robust year in 2016, La Défense performed in line with its 10-year average.

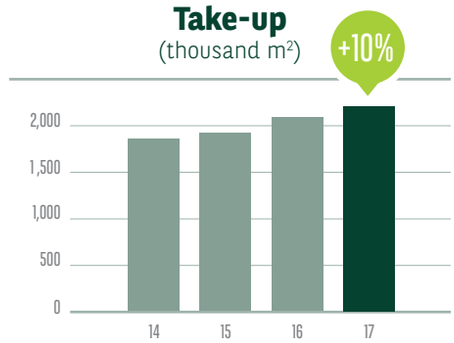
The vacancy rate in Central Paris decreased over 2017 to 6.5%. With 16.1% of premises unoccupied, Péri-Défense has the highest vacancy while Paris Inner City is the lowest at 3.0%. Immediate supply as of December 2017 stood at 3.2 million m², including 24% of new offices. The prime CBD rent increased to €850/m²/year in 2017.

Robust investment in offices powered by some huge deals

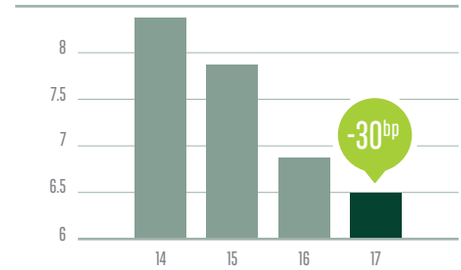
Investment in offices in Central Paris came in at € 15.6bn in 2017, remaining steady over 2016. Offices were by far the favourite asset as they represented nearly 89% of total invested volumes. Even though four deals over €600m were signed in 2017, including Ecowest bought by a Middle-East investor, the flagship deal was the acquisition by Amundi of Coeur Défense for € 1.8bn at La Défense. The Western Crescent is still the top district for investment, while Paris outside CBD flourished and saw investors spilling over to it, for both core and speculative assets. Conversely, Paris CBD showed a significant decline in 2017 due to the lack of supply.

At the end of Q4 2017, the 10-year OAT stood at 0.8%. Nevertheless, it should rise to 1.5% by the end of 2018. Consequently property yields will be under less downward pressure in 2018, especially in certain districts, such as Paris non-CBD and the Inner Rim. The prime yield in Paris CBD may narrow from 3.05% at end 2017 to 3 % in 2018.

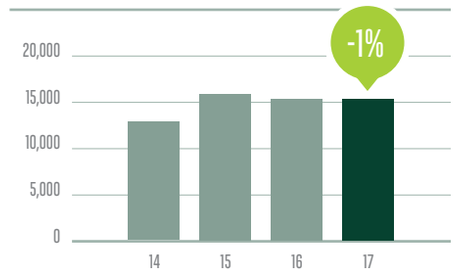
Take-up
(thousand m²)



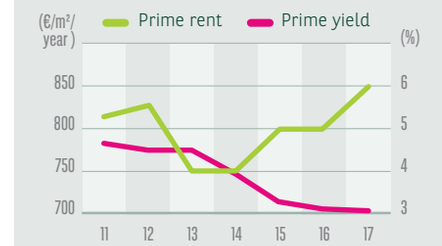
Vacancy rate
(%)



Office investment
(€ million)



Prime office: rents & yields



Main office transactions - letting & sales

Occupier	Space (m²)	Building-address	Submarket
NATIXIS	89,650	Duo (51 rue Bruneseau, Paris 13)	Paris 12/13
ORANGE SA	57,000	Bridge [1]	Boucle Sud
SNCF	43,000	Campus SFR [2]	1ère Couronne Nord

Main office transactions - investment

Buyer	Price (€ m)	Building-address	Submarket
AMUNDI	1,800	Cœur Défense	La Défense
AGC / EDF	681	Ecowest	Neuilly / Levallois
AMUNDI / PRIMONIAL	575	Tour Hekla	La Défense

Source : BNP Paribas Real Estate

[1] Bridge (117 Quai du Président Roosevelt, Issy les Moulineaux)
[2] Campus SFR (12 rue Jean Philippe Rameau, Saint Denis)

PRAGUE

Strengthening occupier demand and rising rents support the office investment

Rents continue rising on the back of a strong occupier market

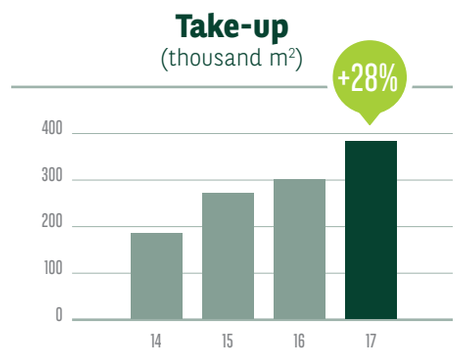
Prague continues to attract strong occupier demand. Take-up reached record levels in 2017 exceeding 390,000 m² in net terms, up 28% year on year. Occupier demand is forecast to remain strong in 2018, in line with the continued positive economic outlook supporting company expansions. Prime headline rents recorded a 5% growth over past year and are likely continue rising during 2018 from the current level of €252/m²/year.

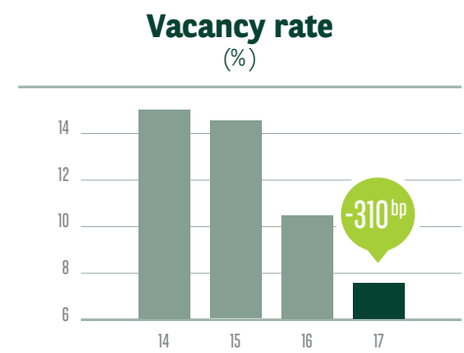
After the completion of 146,000 m² in 2017, new supply is expected to rise further in 2018 to more than 200,000 m². Nevertheless, around half the office space under construction is pre-leased and available space is expected to be absorbed quickly by the market upon completion. Vacancy rates have dropped to 7.5% during 2017. They are likely to rise slightly during 2018 as supply increases.

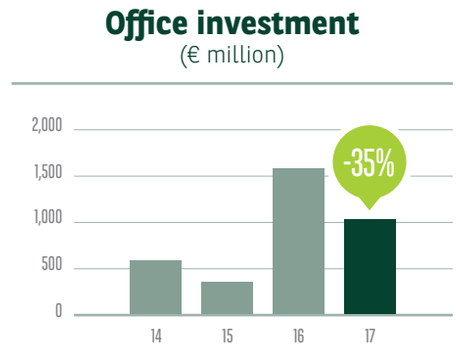
Yield compression to continue in 2018 supported by investor demand and rental growth

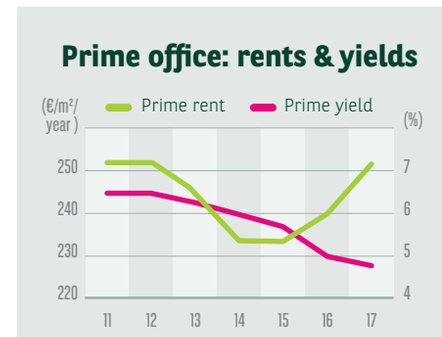
Prime yields decreased further during 2017 by about 150 bps to around 4.85% at the end of the year and are likely to compress again on the back of sustained investor appetite. Offices will be the most traded asset class in the capital this year. In 2017, offices concentrated 41% of invested volumes in Prague. Sourcing prime product may become challenging, although several prime assets are currently in negotiation stage. Opportunities lie in the core plus and value-added sector. Major investment transactions of offices included the acquisition of Škodův Palác by GLL in the city centre. The Blox occupied by Amazon in Prague 6 by the Lebanese CFH Group and Oasis Florenc by Corpus Sireo.

Recent investment activity demonstrates that a very diverse pool of capital is targeting the Czech market with a number of new investors concluding their first investments in the country. We have seen equity coming to Czech Republic from previously unrepresented countries, which shows the appeal of the local market. Local equity also continues to actively target real estate and newly established investor funds are joining the existing cohort of investors.









Main office transactions - letting & sales

Occupier	Space (m²)	Building-address	Submarket
Moneta Money Bank	21,500	BB Centrum A	Prague 4
Amazon	12,500	Rustonka 1	Prague 8
Renegotiation of KPMG Česká republika	11,000	KMPG Office Centre	Prague 8

Main office transactions - investment

Buyer	Price (€ m)	Building-address	Submarket
GLL	93	Škodův Palác	Prague 1
CFH Group	69	The Blox	Prague 6
Corpus Sireo	63	Oasis Florenc	Prague 8

Source : BNP Paribas Real Estate

RIGA

Strong demand from occupiers and investors for modern offices

Exceptionally high demand for large and quality office space

Large new and well-arranged offices were in huge demand in 2017. Units that are fully furnished and meet the international standards of energy and efficiency met are so sought after that pre-lease at early construction stages became is a market feature of 2017. Place Eleven (15,000 m²), for instance, was completely leased before its completion in 2017.

Typical medium sized tenants such as service centre operators, financial sector and IT companies, who are in search of new locations, must lower their expectations due to the lack of suitable supply. New occupiers must now wait for appropriate large vacant premises (typically above 3,000 m²) to come onto the market.

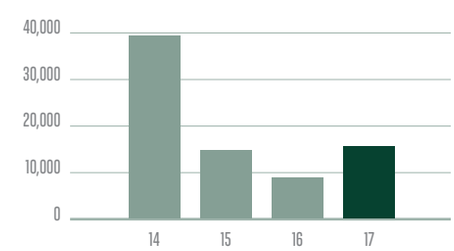
Prime rents increased from €180 to €186/m²/year in 2017 due to the slow stock growth, which provides landlords with a greater advantage in lease negotiations with tenants.

A number of big premium offices will come onto the market within the next few years, including Z Towers, Business Garden Riga, Jaunā Teika Teodors & Henrihs offices and others, totalling more than 150,000 m². The exact impact of this large volume of newly available offices is still unpredictable, although a slight increase in the vacancy rate may be expected in the upcoming years.

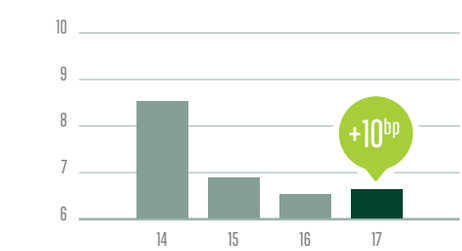
Good investment activity reduced Riga's office yield premium

Total transaction volume in Riga exceeded €100m in 2017, with office sales accounting for more than 30% of all investments. Even though yields decreased significantly over the recent years, the gap with Western European levels remains attractive. Average yields for prime office assets remain at around 6.5-6.75%. With vast growth of office supply, office sales should constitute a major part of the investment market in the near future.

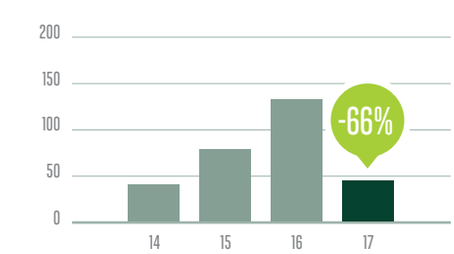
Net absorption
(m²)



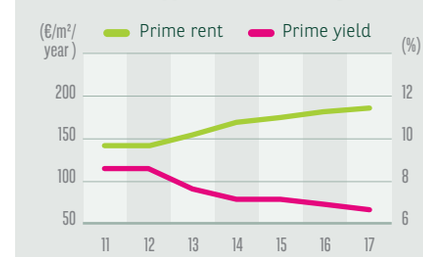
Vacancy Rate
(%)



Office investment
(€ million)



Prime office: rents & yields



Main office transactions - letting & sales

Occupier	Space (m²)	Building-address	Submarket
Accenture	4,000	Jauna Teika	CBD
DNB Bank ASA clients service centre	2,800	Jauna Teika	CBD
BTA	2,700	Place 11	CBD

Main office transactions - investment

Buyer	Price (€ m)	Building-address	Submarket
Baltic Horizon	21	Vainodes I office building	Non CBD
Lords LB	17	Preses nams	CBD
Private investor	n/a	Ostas skati	Non CBD

Source : BNP Paribas Real Estate

ROME

Rome's property market is benefitting from increasing interest

A historic year for take-up in Italy's capital city

Rome reached a historic level of take-up in 2017, confirming the healthy trend of demand already recorded in the city in 2016. 217,800 m² (+60% on 2016) of office were let last year, including one significant transaction of 43,000 m² signed in Q4 by an important Italian corporate. The huge improvement in activity shows the renewed confidence in the Roman market.

In 2017 the most dynamic submarkets by space absorbed were the CBD (+100% on 2016) and the Core Eur (+28%). The exceptional result of Eur Torrino is solely due to the aforementioned corporate deal.

Over 2017, rents increased for prime buildings in all submarkets except for the Periphery. The CBD rose from €400 in 2016 to €420/m²/year in 2017; Centre from €380 to €400/m²/year; Core Eur from €330 to €340/m²/year and Semi-centre from €360 to €370/m²/year.

On the supply side, the vacancy rate of the city decreased from 8.8% in Q4 2016 to 8.1% at the end of 2017. In the CBD the vacancy rate remained stable compared 2016 at 4%, with less than 10,000 m² of grade A space currently available. For the Centre and the Greater Eur vacancy rates stand at 4.8% and 6.2% respectively with a decreasing trend compared to the previous year.

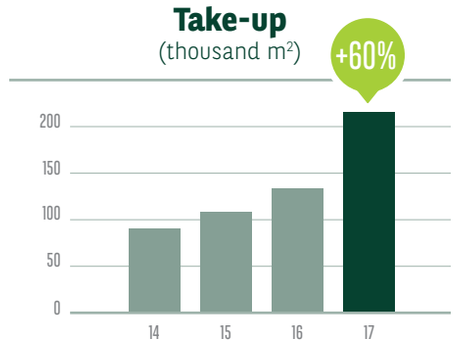
Investor interest is being hampered by limited product availability

Investment volumes in Rome reached nearly €1.2bn, a 22% decrease on 2016 but still slightly above the ten-year average.

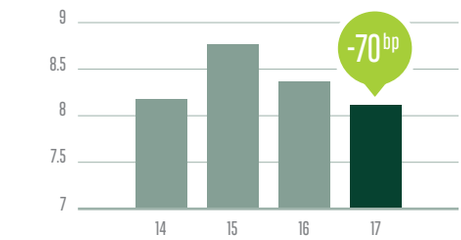
Investment in offices reached approximately €900m, 73% of total volumes, a share well above the ten-year average. In absolute terms, office volumes represent a decrease over 2016 but that is not due to a lack of interest, which is strong and increasing. It is lack of product opportunities that meet international investor requirements that is resulting in subdued investment.

Office prime net yields contracted slightly at 4.15% in the CBD submarket in Q4 2017 after four consecutive quarters of stability at 4.20%. Values in Greater Eur and in Core Eur remained unchanged at 5.50% and 4.75% respectively.

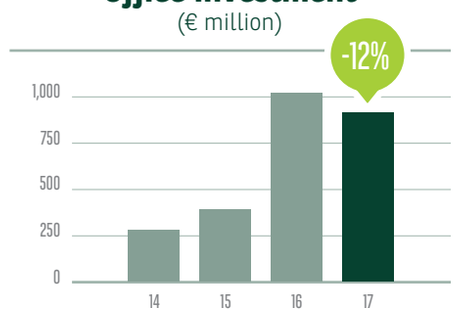
Take-up
(thousand m²)



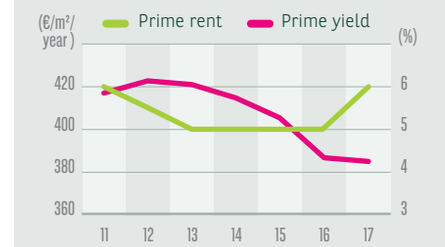
Vacancy rate
(%)



Office investment
(€ million)



Prime office: rents & yields



Main office transactions - letting & sales

Occupier	Space (m²)	Building-address	Submarket
Eni	43,000	Viale Giorgio Ribotta	Greater Eur
Engineering Ingegneri informatica spa	22,285	Piazzale dell'agricoltura, 24	Greater Eur
IBM	15,600	Via Luigi Stipa corner Via Portuense	Periphery & Out of GRA

Main office transactions - investment

Buyer	Price (€ m)	Building-address	Submarket
IDeA FIMIT Sgr [1]	415	Scarpellini Portfolio [2]	Mixed Portfolio
Amundi RE / Nexus 1	126	Tolentini [2]	CBD
Amundi RE / Nexus 1	81	Europarco [3]	Greater Eur

[1] IDeA FIMIT Sgr/York Capital/Tristan and others - [2] Mixed addresses in Rome - [3] Viale Giorgio Ribotta, 11

Source : BNP Paribas Real Estate

STOCKHOLM

A strong December contributes to a robust transaction year in 2017

Yields and rental values reach record levels

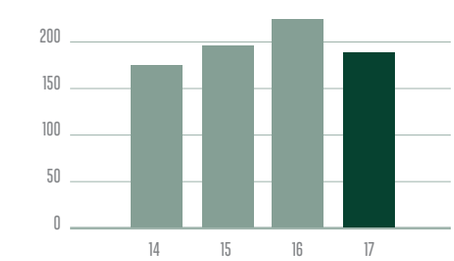
The upward trend of market rents in the Stockholm area is continuing. In Stockholm CBD, market rents have increased to SEK 6,100/m²/year (€622/m²/year). Newsec estimates that the top rents in the CBD lie around SEK 7,100/m²/year (€725/m²/year), and several property owners are reporting rents above these levels. The high rent levels are a consequence of the high demand together with the low supply of newly built modern premises in Stockholm CBD. The market rent is expected to go on rising through 2019 with yields kept suppressed.

The investment market* remains buoyant in Sweden

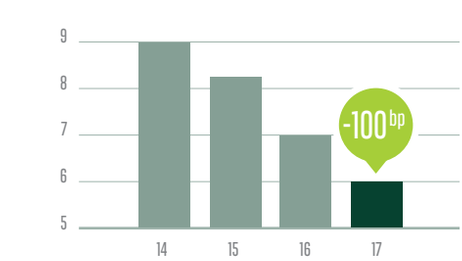
A strong month of December in the transaction market helped the final Swedish volume for 2017 to reach SEK 147.5bn (€15 bn) (for transactions over SEK 40 million). The total transaction volume for the year is lower than the previous year's record volume of SEK 201 billion (€20.5bn), but at the same level as in 2015. Geographically the Stockholm market dominates with 37% of the transaction volume. Only a few office deals were signed in Stockholm CBD over the last years as this submarket is mainly held by long-term institutional investors. Therefore only a few CBD properties are for sale every year. In December the largest office transaction in Stockholm took place when Humlegården acquired Stockholm Dykaren 10 and Stockholm Härden 16 from Länsförsäkringar for SEK 2bn (€204m).

** including residential*
Constant Exchange Rate
(Q4 2017 average) €/SEK: 0.1021

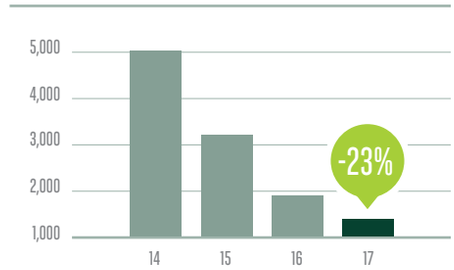
Net absorption
(thousand m²)



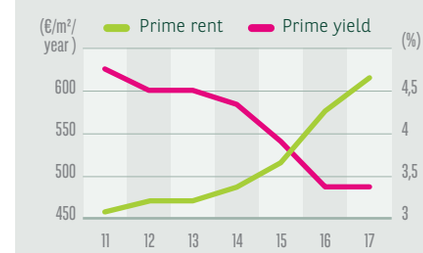
Vacancy rate
(%)



Office investment
(€ million)



Prime office: rents & yields



Main office transactions - letting & sales

Occupier	Space (m²)	Building-address	Submarket
Swedbank	16,500	Järnvägsgatan 12	Sundbyberg
Skolverket	13,800	Svetsarvägen 16	Solna Business Park
Tyréns	12,000	Folkungagatan 44	Inner city

Office pipeline under construction

Completion	Space (m²)	Building-address	Submarket
2019	42,000	Järva 2:2 (Kapplöpningen)	Solna
2020	40,000	Scandinavian Life Science	Hagastaden
2019	30,000	Solna United	Arenastaden

Source : BNP Paribas Real Estate

TALLINN

Activity in Tallinn's office market was high with a strong demand from occupiers and investors

The record amount of new deliveries expected will be mostly absorbed by the market

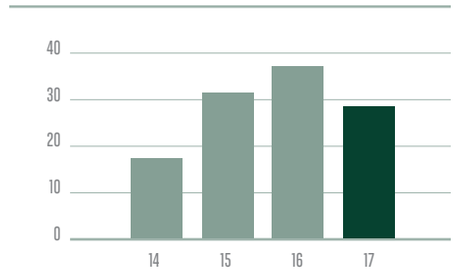
Deliveries of new office buildings amounted to 23,500 m² in 2017, which was significantly fewer than in recent years. However, a significant number of new office buildings are under construction. About 70,000 m² is expected to be completed this year, mostly in H2 2018, with the largest project being "Maakri quarter" in CBD at over 18,700 m². 2018 should thus see the highest completion figure of the decade and it would be more but for postponement of some large projects to 2019. The quality of new office buildings also continues to improve especially with regards to energy efficiency.

In the medium term, rapidly increasing construction prices will put pressure on developers and will start limiting supply. At the moment demand is sufficient to absorb most of the new supply, so much so that office rent rates have been stable for a few years and are expected to remain so in 2018. Prime rent stands at €210/m²/year. Positive economic conditions continue to fuel office demand along with Tallinn's increasing population. Grade A offices between 150 and 300 m² are the most sought-after offices, with vacancy for prime properties below 5%. Demand for Grade B is lower but can still be considered strong. Vacancy rates might increase slightly in the second half of the year.

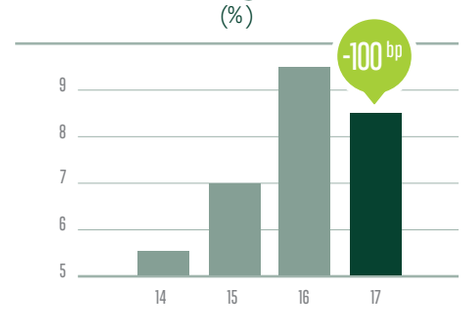
Strong investment demand is resulting in yield compression

Both domestic and international real estate funds show strong interest in Tallinn's real estate market. Three office buildings changed owners during 2017. High demand and the low interest rate environment have put downward pressure on yields. Prime office yields have been decreasing at a steady pace every year since 2009 and currently stand at 6.50 - 6.75%. Yield compression is expected to continue but a large gap will remain with yields in Western European countries.

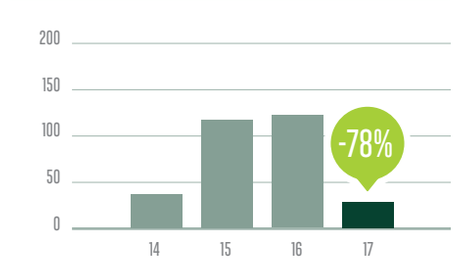
Net absorption
(thousand m²)



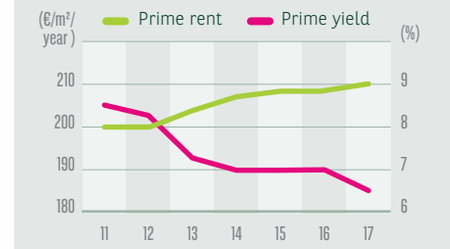
Vacancy rate
(%)



Office investment
(€ million)



Prime office: rents & yields



Office pipeline under construction

Completion	Space (m²)	Building-address	Submarket
Tele2	2,000	Ülemiste City	Lasnamäe
Eesti Meedia	8,000	Fausto in the Zelluloosi Quarter	CC
Eesti Raudtee	3,000	PLKV Invest in the Telliskivi Quarter	Põhja-Tallinn

Main office transactions - investment

Buyer	Price (€ m)	Building-address	Submarket
Colonna	15	Hobujaama 4, Tallinn	CBD
N/a	6	Parnu 18, Tallinn	CBD
Colonna	6	Narva 4, Tallinn	CBD

Source : BNP Paribas Real Estate

TOULOUSE

Toulouse maintains its momentum

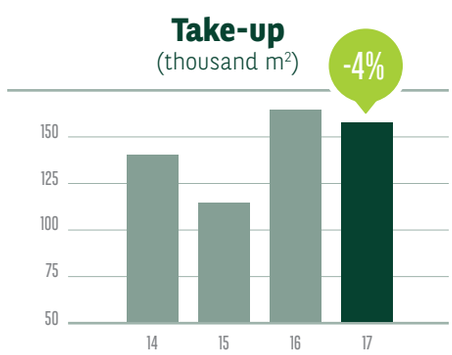
The good occupational market is encouraging developments that include speculative projects

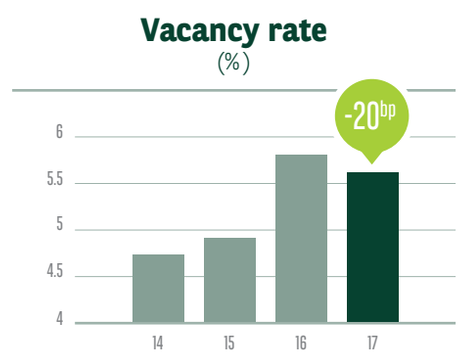
After performing really well in 2016, the Toulouse market kept the same pace with 162,000 m² of take-up. Owner-occupier deals were as important to take-up as they were in 2016 and the market was driven by eight transactions of more than 5,000 m², including 4 located in the city of Blagnac. Supply of new offices is increasing but still insufficient to meet the demand, as it only stood at 17% of the total availability. Completions will follow a steady pace in the coming years. The second building of "B Park" in Balma and two speculative operations of 6,000 m² in the Equinox projects in Colomiers are expected in 2019. The "Air Envol" project in Blagnac, spreading over 16,500 m², the "Alpha Bravo" project in Toulouse for 16,000 m² divided into four buildings and the "Neofis" operation in the park of Basso Cambo could be completed in 2020.

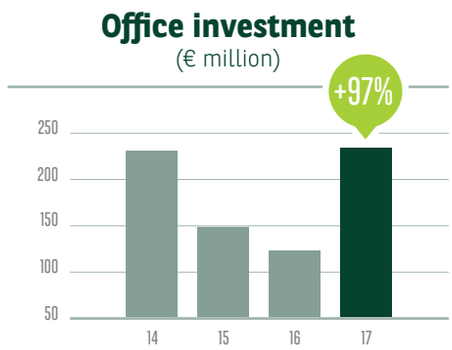
A slight increase was seen in office rents. Asking rents reach €195/m²/year in the city centre, with the "Riverside" and "Elipsys" deals, which are the current references for new offices. Additionally, second hand rents can be higher than €200/m²/year for good quality well located assets.

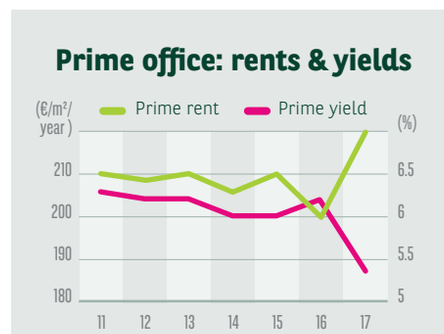
Domestic investors are the major factor in the strong increase in office investment

The investment market in Toulouse jumped by 97% to reach €238m. The market was driven by seven deals for more than €10m, including the purchase of "Golf Park" in Toulouse by Primonial for €100m. With the exception of the acquisition by KanAm Grund of "Le Totem" for €18.5m, all investment operations were made by French investors. Yields went below 6% for the first time to reach 5.40%.









Main office transactions - letting & sales

Occupier	Space (m²)	Building-address	Submarket
Spherea test & services	9,602	Av. du General Eisenhower	Toulouse Sud-Ouest
Airbus Group	8,396	Galaxia	Toulouse Ouest-Blagnac
Crédit Agricole	7,500	Le 244	Toulouse Sud-Ouest

Main office transactions - investment

Buyer	Price (€ m)	Building-address	Submarket
Primonial	100	Golf park	Toulouse Centre
Foncia Pierre Gestion	23	Verdauja	Balma
La Francaise AM	20	Le Colombo	Balma

Source : BNP Paribas Real Estate

VIENNA

New investment record and good prospects for the occupier market

Low office take-up in 2017 will yield to more activity in 2018

Office take-up in Vienna in 2017 was significantly weaker than in previous years, totalling approximately 175,000 m². However, the outlook for 2018 is good, as many deals are currently under negotiation and some large scale lettings are expected. The vacancy rate decreased from 5.8% in 2016 to 5.4% in 2017, but is expected to increase again in 2018, due to new office properties coming onto the market. Prime rental values remain stable at a high level, amounting to €26/m²/month. The CBD average rent is approximately €19.5/m²/month.

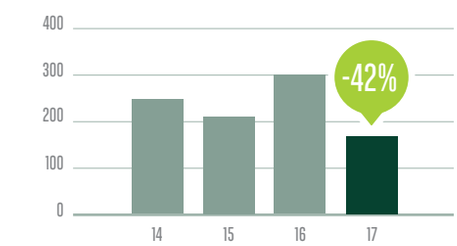
The office market in Vienna will see major office properties added to the stock, as many schemes are under construction. 2017 saw some completions, for instance ORBI Tower, QBC and Europlaza Phase 6. The key office buildings due in 2018 are THE ICON VIENNA and Austria Campus; over half of the space has already been pre-leased.

Greater demand from international buyers for Vienna's office properties

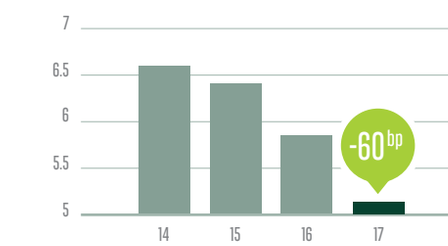
Around €4.6bn was invested in 2017 and the record set in 2015 (approximately €3.6 billion) was already exceeded by Q3 indicating an accelerating market. The volume was mainly driven by eleven transactions above €100m such as DC Tower 1 and THE ICON VIENNA. Office properties were again the strongest segment of the Austrian real estate investment market with almost two thirds of the volume. The interest of international buyers increased and they accounted for approximately 70% of the total volume in 2017.

Prime office yields have fallen from 4.30% to around 3.90% since the beginning of 2016 and are expected to remain stable in 2018.

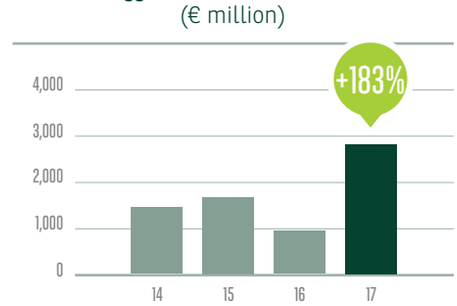
Take-up
(thousand m²)



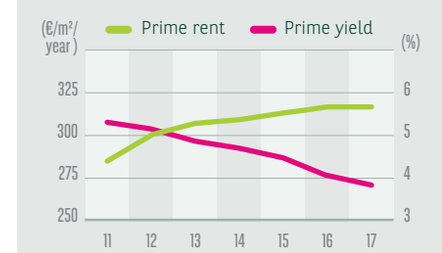
Vacancy rate
(%)



Office investment
(€ million)



Prime office: rents & yields



Main office transactions - letting & sales

Occupier	Space (m²)	Building-address	Submarket
SVA	11,300	1030 Vienna [1]	East
TPA Austria	8,600	"THE ICON" 1100 Vienna [2]	Main Railway Station
Nestle	4,000	"THE ICON" 1100 Vienna [2]	Main Railway Station

Main office transactions - investment

Buyer	Price (€ m)	Building-address	Submarket
PGIM Real Estate	530	"Bank Austria Campus" [3]	Prater / Lasalle Straße
Allianz Real Estate	520	"THE ICON" 1100 Vienna [2]	Main Railway Station
DC Tower 1	340	"DC TOWER 1", 1220 Vienna [4]	Donaucity

[1] 1030 Vienna, Hintere Zollamtstraße 1 - [2] "THE ICON VIENNA" 1100 Vienna, Gertrude-Fröhlich-Sandner-Straße 2
[3] "Bank Austria Campus", 1020 Vienna, Walcherstraße 1, [4] "DC TOWER 1", 1220 Vienna, Donau-City-Straße 7

Source : BNP Paribas Real Estate

VILNIUS

All-time record in the Vilnius office market

Expansion by multinational companies boosted the office market

By the end of 2017 the stock of modern offices in Vilnius stood at around 595,500 m², which remains low relatively to the employment base. Given the good pace of net absorption over the last 5 years, it is evident that there is still huge room for sustainable office stock growth in the city. The most important factor in the office segment over the last 8-10 years is undoubtedly the expansion of SSC (shared service centers), R&D and IT support centres of the multinational companies. Companies such as Lindorff, Barclays, AIG, Nasdaq, Western Union, Danske Bank and many others have chosen to centralize not only their back office/support functions, but also their complex/front office functions such as sales, IT development/engineering, digital marketing, customer service in Vilnius.

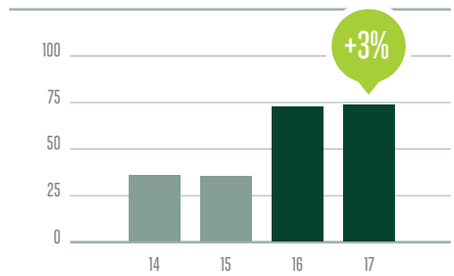
In 2017, the total take-up of modern offices amounted to more than 80,000 m² signalling an all-time record for the Vilnius office market. Around 85% of transactions in 2017 were either relocations or expansions of companies already existing in Lithuania, some of them surprisingly large. Telia signed for 15,000 m² at the beginning of the year, whereas in Q3 Danske Bank signed for premises of the same size. The remaining 15% of transactions were performed by new companies opening offices in Vilnius. Booking.com signed for 4,000 m², while Harbortouch signed for nearly 1,000 m².

Advance lease deals remained typical in the Vilnius office market, with prelets often being signed 6 to 18 months prior to handing over the space.

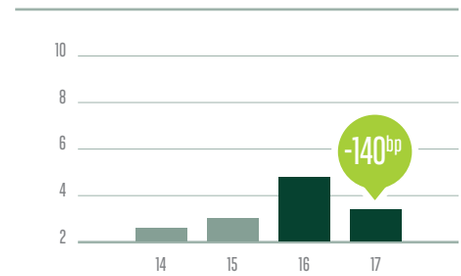
New development plus good investment activity are pushing yields down

2017 was a year of office transactions with nearly half of the total volume taken by this segment. There were five large office transactions made in Vilnius with more than 45,000 m² of leasable office space acquired for more than EUR 100m. The average yields for prime and office assets in 2017 were in the range of 6.5% to 7.25%, with a few prime properties in the pipeline that are currently testing sub 6.0-6.5% .

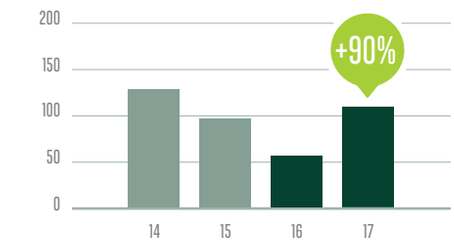
Net absorption
(thousand m²)



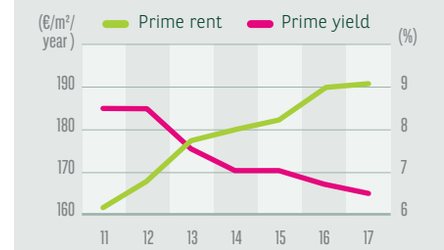
Vacancy rate
(%)



Office investment
(€ million)



Prime office: rents & yields



Main office transactions - letting & sales

Occupier	Space (m²)	Building-address	Submarket
Telia	15,000	S7 II office building	CBD
Danske bank	15,000	S7 III office building	CBD
Booking.com	4,000	Penta office building	Non CBD

Main office transactions - investment

Buyer	Price (€ m)	Building-address	Submarket
Technopolis	32	Penta office building	Non CBD
Eastnine	29	Vertas office building	CBD
Capitalica	n/a	135 office building	Non CBD

Source : BNP Paribas Real Estate

WARSAW

Activity is concentrating in the western fringe of Warsaw's central area

Exceptionally strong occupational demand is keeping pace with supply delivery

2017 take-up topped 610,000 m², recording the second highest figure over the past five years, and greatly outpacing - by 30% - the volume of 2016. Consequently, the vacancy rate reduced by 300 bps to 12% at year end. The most sought-after location by tenants is the central area of the city, particularly its western fringe towards which Warsaw's business centre has been shifting gradually. After a considerably high volume of space delivered in 2016, supply in 2017 went back to sort of levels seen over 2012 – 2015. Supply grew by approximately 280,000 m², pushing the modern office space supply to 5.37 million m² at the end of 2017.

A further 770,000 m² is under construction with delivery scheduled for 2018-2020, of which nearly 75% will open in the central area of Warsaw.

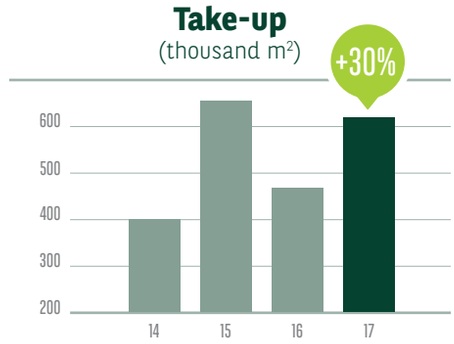
Prime rents for best-in-class assets in the City Centre cluster remained stable between €240 and €264/m²/year. Importantly, due to the improving occupancy rate, the gap between headline and effective rents started to squeeze in the last quarter of 2017. In 2018 demand from tenants and supply offered by landlords may achieve equilibrium.

Muted office investment market after an excellent 2016

Total investment came in around €0.6 bn in 2017, 50% lower than the record high of €1.2bn in 2016. The main reason for fall back is scarcity of high quality products for sale rather than lack of interest in Warsaw offices.

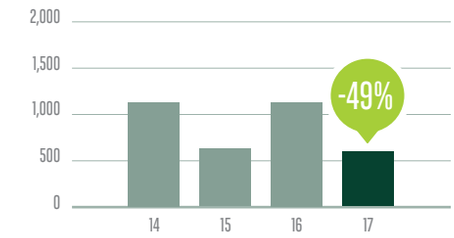
Prime yields for best-in-class office assets compressed slightly to 5.15% at year end. Soft downward pressure is likely to continue over 2018.

Take-up
(thousand m²)

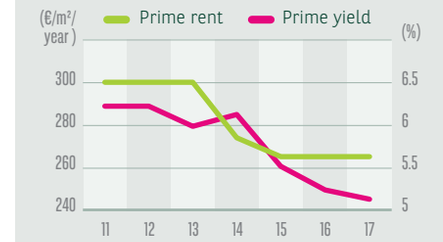


Vacancy rate
(%)

Office investment
(€ million)



Prime office: rents & yields



Main office transactions - letting & sales

Occupier	Space (m²)	Building-address	Submarket
Millennium Bank	18,300	Harmony Office Center (1)	Mokotów
JP Morgan	15,500	Atrium Garden (2)	CBD
Cambridge Innovation Centre	15,000	Varso, Al. Jerozolimskie	CBD

Main office transactions - investment

Buyer	Price (€ m)	Building-address	Submarket
REICO (Ceska Sporitelna)	116.6	Proximo I, Prosta 68	City Centre - West
CA Immo	100	Warsaw Spire B (3)	City Centre - West
Cromwell / Goldman Sachs	45 (estimated)	Prosta Office, Prosta 45	City Centre - West

(1) Harmony Office Center, Żaryna 2A - (2) Atrium Garden, Al. Jana Pawła II 19 - (3) Warsaw Spire B, Pl. Europejski 6

Source : BNP Paribas Real Estate

ZURICH

Economic growth prospects will boost office demand in 2018

Flexible offices will benefit from the recovery of demand

After growing slowly in 2017, demand for offices will increase again in 2018 in the Zurich area. Indeed, thanks to the positive outlook for the Swiss economy, employment will accelerate. Improving confidence in Swiss businesses is likely to result in new demand for office space in the Zurich area. Demand will not be spread evenly among all office sectors though: the units that will benefit the most are flexible offices and premises well connected to public transport. Zurich City and Zug remain the most sought-after locations, closely followed by Zurich West.

Available office space in the Zurich economic area amounted to approximately 750,000 m² in Q4 2017, a fall from the 850,000 m² at the end of 2016. Stock is set to increase with project developments that will add to availability, such as "The Circle" at Zurich Airport.

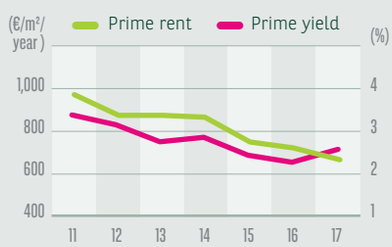
Office investment is back to its average level

The market showed an impressive growth in portfolio deals in 2017. The increased activity in the transaction market is indicative of higher liquidity in the Zurich market; a contrast to previous years. At the same time the purchase of development projects made a major contribution to growth. Net initial yields for Grade A and Grade B office properties in 2017 were 2.70% and 3.50% respectively.

Grade A properties were in most demand in 2017. Owner-occupiers are taking advantage of the pick-up in activity in the transaction market by selling their corporate real estate at high prices. Sales and leaseback transactions, especially in the Grade C office property segment, are an increasing feature of the Zurich investment market.

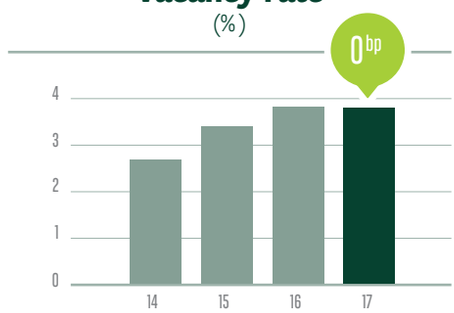
Investment: RCA - Constant Exchange Rate (Q4 2017 average) €/CHF: 0.8602

Prime office: rents & yields



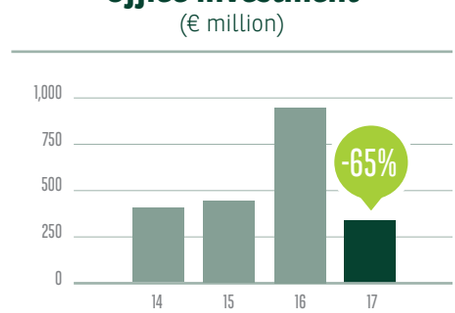
Vacancy rate

(%)



Office investment

(€ million)



Main office transactions - letting & sales

Occupier	Space (m²)	Building-address	Submarket
Sunrise	17,000	Ambassador House	ZH-North
Takeda	10,000	Portikon	ZH-North
Microsoft	3,500	"The Circle at the Airport"	ZH-Airport

Main office transactions - investment

Buyer	Price (€ m)	Building-address	Submarket
Swiss Life	170	Hochhaus zur Palme	ZH-City
Swiss Prime Site	90	BusinessPark	Solothurn

Source : BNP Paribas Real Estate

(1) DEKA Immobilienfond ImmobilienEuropa

OFFICE MARKET

	Take-up (m²)			Vacancy Rate (%)			Prime Rent (€/m²/year)		
	2017	2016	2015	Q4 2017	Q4 2016	Q4 2015	Q4 2017	Q4 2016	Q4 2015
Central Paris	2,348,264	2,143,934	1,955,680	6.5%	6.8%	7.8%	850	800	800
Central London	1,177,744	1,058,627	1,312,881	6.2%	5.7%	4.3%	1,404	1,556	1,648
Berlin	913,000	838,000	814,000	2.0%	2.8%	4.2%	396	342	300
Munich	995,000	778,000	741,000	3.3%	4.2%	4.5%	444	432	426
Frankfurt	810,000	551,000	438,000	8.9%	10.0%	10.8%	492	462	456
Hamburg	613,000	543,000	529,000	5.1%	5.9%	5.9%	318	312	306
Warsaw	610,000	470,000	660,000	12.0%	15.0%	12.5%	264	264	264
Brussels	401,327	433,351	302,718	8.3%	9.0%	9.8%	310	275	265
Madrid	552,982	429,600	482,922	10.2%	11.8%	12.5%	372	348	336
Bucharest	322 100	321,400	202,000	8.9%	13.0%	11.2%	216	216	216
Milan	353,984	298,197	370,317	11.7%	13.2%	12.8%	550	490	480
Prague	390,000	303,520	270,807	7.5%	10.6%	14.6%	252	240	234
Vienna	175,000	300,000	210,000	5.2%	5.8%	6.4%	318	318	312
Amsterdam	407,379	352,449	260,365	10.3%	12.6%	14.7%	410	385	367
Lyon	269,819	292,456	272,590	6.0%	5.9%	6.6%	300	295	295
Barcelona	304,345	288,174	388,000	10.1%	11.4%	12.9%	282	258	228
Budapest	278,484	284,594	337,107	7.5%	9.5%	12.1%	276	264	252
Dublin	360,500	248,500	259,868	8.1%	8.6%	10.2%	670	630	592
Lille**	212,747	228,966	169,186	200,018	234,585	200,977	230	220	220
Stockholm*	184,000	225,000	195,000	6.0%	7.0%	8.3%	622	575	518
Luxembourg	204,351	214,108	229,819	4.6%	5.4%	4.1%	600	564	540
Bratislava	185,000	233,500	220,100	6.2%	9.6%	8.9%	192	190	190
Toulouse	161,773	168,666	115,963	5.6%	5.8%	4.9%	220	200	210
Helsinki*	42,022	74,588	-121,550	14.0%	13.5%	13.3%	432	408	384
Lisbon	166,819	144,765	144,513	8.6%	10.2%	11.1%	246	228	222
Rome	217,854	137,408	108,141	8.1%	8.8%	8.7%	420	400	400
Manchester	112,227	121,219	122,472	14.3%	11.1%	10.8%	415	415	415
Marseille**	145,410	110,593	154,693	213,018	251,882	228,891	265	265	270
Geneva*	47,042	430,344	28,114	5.5%	5.1%	4.9%	688	753	796
Vilnius*	74,000	72,000	34,200	3.4%	4.8%	2.9%	192	190	180
Edinburgh	93,898	68,563	85,006	8.8%	6.4%	8.9%	403	403	366
Athens	59,000	67,000	52,000	9.5%	10.0%	12.1%	250	240	216
Copenhagen*	-	-31,800	23,300	5.7%	7.8%	8.1%	270	255	255
Birmingham	93,374	64,357	90,158	13.5%	11.8%	10.0%	403	390	366
Glasgow	46,155	64,112	55,487	11.0%	9.3%	11.0%	378	378	378
Oslo*	14,108	51,313	101,962	7.4.%	7.6%	8.4%	468	382	378
Tallinn*	28,700	37,000	30,900	8.5%	9.5%	7.0%	210	210	210
Riga*	16,600	9,000	15,800	6.6%	6.5%	6.9%	186	180	175
Zurich	-	-	-	3.9%	3.9%	3.4%	688	731	774
Belgrade*	-	-	-	6.0%	7.0%	5.0%	198	204	204

Source : BNP Paribas Real Estate
**: Net absorption instead of take-up*
***: office supply (m²) instead of vacancy rate*
Constant Exchange Rate (Q4 2017 average) €/£: 1.1271 - €/CHF: 0.8602 - €/SEK: 0.1021 - €/NOK: 0.1040 - €/US$: 0.8492

GLOSSARY

BNP Paribas Real Estate is working on producing indicators which are as comparable as possible. This is a complex issue, due to cultural differences from market to market. Nevertheless, as we aim to actively contribute to the transparency of the markets, we have **highlighted** those definitions and indicators which are strictly comparable, so that our readers can understand what the indicators mean.

Furthermore we have decided to adopt the PEPCIG1 definitions, on which most of the following indicators published by BNP Paribas Real Estate are based. Other indicators are from INREV2 and from BNP Paribas Real Estate.

Central Business District average rent is the average of each of the last four quarters' average headline rent in the CBD. Each quarterly average rent is weighted by the surface of each lease signed during the quarter, in either new or second-hand premises. The definition of CBD corresponds to local conventions.

Completions represent the total amount of floor space that has reached practical completion and is occupied, ready for occupation or an occupancy permit where required has been issued during the survey period.

Central London includes the following districts: West End, Midtown, City, Docklands, Southbank, Western Fringe and Northern Fringe.

Central Paris includes the following districts: CBD, Paris out of CBD, La Défense, Western Crescent and Inner Rim.

Core Investment Vehicles target returns at 11.5% and lower, with gearing level up to 60% of Gross Asset Value.

Closed Ended Fund is a vehicle that has a targeted range of investor capital and a finite life.

Development Pipeline represents the total amount of floor space for all developments under construction and/or schemes (including major refurbishments) that have the potential to be built in the future through having a secured level of planning permission but remain unimplemented at the survey date. It includes all proposed new buildings, those constructed behind retained facades and buildings (or parts of buildings) undergoing a change of use to offices.

German Open Ended Fund is a public vehicle that does not have a finite life, continually accepts new investor capital and makes new property investments. The list of German Open Ended Funds is published by the BVI (Bundesverband Investment und Asset Management e.V.).

Gross Asset Value is the sum of the Gross Capital Value of properties, cash and marketable securities and other (non-operating) assets. Investment volume takes into account all commercial properties BNP Paribas Real Estate is aware of, whose owner has changed during the studied period, whatever the purchasing price. It includes **Office buildings, Retail** (supermarkets, hypermarkets), **Industrial and Logistics** Warehousing and Others (Hotels, Cinema, Leisure, Car Parks, Care Homes, parts of portfolio which cannot be split up by product, and Development Sites in Germany). Quoted investment volumes are not definitive and are consequently subject to change.

Prime Rent/Yield represents the top open-market rent/net yield at the survey date (or in Q4 for annual data) for an office unit:

- of standard size commensurate with demand in each location
- of the highest quality and specification
- in the best location in a market

Initial Gross Yield is defined as Gross income (i.e. income before costs of ownership) over purchase price excluding costs of acquisition.

Initial Net Yield is defined as Net income (or NOI) over purchase price plus all other costs of acquisition.

Investment volume by investor/seller type refers to the following categories: Insurance, Private Investors, Public Sector, Corporates, Property Companies & REITS, Consortium, Funds and Other.

Investment volume by investor/seller nationality refers to the following categories: Eurozone, Non-Eurozone, North America, Other America, Asia, Middle East, Australia, International and Other.

Major Refurbishments represent refurbishments, where building work must involve either structural alteration, and/or the substantial replacement of the main services and finishes. The quality of the floor
space must have been substantially improved from its previous condition so as to offer accommodation of a modern standard – although not necessarily to the standard of a completely new building.

Opportunistic Investment Vehicles target returns in excess of 17%, with gearing levels above 60% of Gross Asset Value. Actual transactions are used in France, Germany and Belgium to support the headline prime rental quoted, but one-off deals, which do not representthe market, are disregarded. In the UK & Spain, if there are no prime transactions during the survey period a hypothetical rent is quoted, based on expert opinion of market conditions.

Space calculation differs in Spain, where figures in m² (Take-Up, Vacancy, Pipeline, Completions) as well as Rental values are based on Gross Letting Area space, contrary to the other main European markets, which use Net Letting Area. In order to make the Spanish figures comparable across all monitored markets, they should be multiplied by 0.82 (NLA = 0.82 GLA). This ratio is applied by BNP Paribas Real Estate to produce international indices and benchmarks.

Take-Up represents the total floor space known to have been let or prelet, sold or pre-sold to tenants or owner-occupiers during the survey period.
It does not include space that is under offer

- A property is deemed to be "taken-up" only when contracts are signed or a binding agreement exists
- Pre-let refers to take-up that was either in the planning or constructionstage
- All deals (including pre-lets) are recorded in the period in which they are signed
- Contract renewals are not included
- Sales and leasebacks are not included as there had been no change in occupation
- Quoted take-up volumes are not definitive and are consequently subject to change.

The breakdown of take-up by business sector is compatible with the European NACE code.

Under Construction represents the total amount of floor space in properties where construction has commenced (on a new development or a major refurbishment) at the survey date. It includes properties for owner occupation, which are reported separately. It does not include sites being cleared for possible development in the future.

Property that is under construction but pre-let or for owner occupation is recorded separately where appropriate.

Value-added Investment Vehicles target returns of 11.5% to 17%, with gearing levels between 30% and 70% of Gross Asset Value.
Vacancy represents the total floor space in existing properties, which are physically vacant, ready for occupation in the next three months (this period covers fit-out time) and being actively marketed at the survey date.

Vacancy includes sublet space (except in Germany), but where possible, vacant sub-let space is recorded separately.
In France, vacancy excludes premises which the owner will renovate only once a lease is signed. Spain only counts immediately available space.

Vacancy Rate represents the total vacant floor space including sublettings divided by the total stock at the survey date (or in Q4 for annual data).

1. Pan-European Property Common Interest Group. This group assembles a wide range of European advisors and investors and major agents.
2. European Association for Investors in Non-listed Real Estate Vehicles.

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A 360° vision

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