CATELLA

Catella Market Indicator

OFFICE | EUROPE

AUTUMN/WINTER 2014/2015

Contents

Definitions and Sources

Prime yields

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

Stock

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

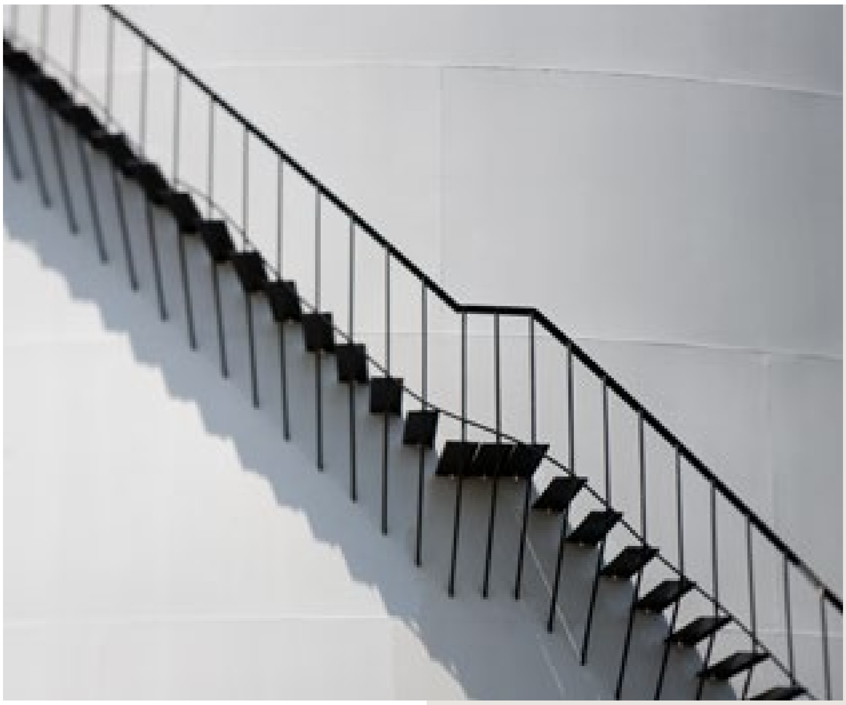
Prime Rent

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

Sources

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

Another robust year ahead



THE COMING YEAR, 2015, will be one of transformation in European real estate markets. It would, of course, be right to say that no two years are alike. The past six years contained a phase in 2009–2011 of slight growth after the shock of Lehman, best described as stagnation or abidance. Then suddenly, but not surprisingly, we observed three extraordinary years of booming investment markets in 2012–2014. More money than ever tried to find its way into European real estate, and there were new sources of capital from the Middle East and Asia. On closer examination, it was not only the traditional investment centres of London and Paris being sought by these global investors, and Spain became a focal point for those that understand opportunistic investments in real estate. The Baltics are on the target list for Russian and Ukrainian investors, while Germany is still labelled the safest place in Europe. The Nordics offer an interesting opportunity, and Scandinavian and Finnish money represents around 15% of all investable capital in Europe in 2014. Analysis shows that the European real estate markets represent, in the broader view, a place for all investor categories: core, value-add and opportunistic. Our analytical look at investments over recent years shows, on a broad base, activity by reasonable, strategically driven investors with a healthy level of equity capital. This can, of course, be expressed in a more colloquial way: there has been a lack of unusual investment stories since the last peak in 2007.

The boom will continue – that's our projection for the next 12 months. This may require explanation, particularly since rises in interest rates are predicted – perhaps mid-2015 by the Fed and then maybe followed by the ECB. We are factoring in this possibility, but the reaction of European real estate markets will be lagged, and the massive flow of money into real estate would not immediately come to an end. From the fundamental view, the markets we cover still have a lack of new office space. Prime rents will show a slight increase, while vacancy rates in most of the reviewed markets will decline.

Nevertheless, the economic environment for the next 12 months in Europe will face a slight decrease in GDP growth and an expected stagnation of consumer activity. Despite this, we predict another robust year for the European economy – the expected stimulus programmes by national governments in 2014 and 2015 will lead to a fairly stable environment for the European real estate industry.

Thomas Beyerle
Group Head of Research

Why invest in Europe?

From Emerging Markets to Europe

Between 2002 and 2008, globally active multi-asset managers underweighted the European continent in the search for above-average returns, and moved their investment activities to highly promising emerging markets (BRIC countries: Brazil, Russia, India and China).

Since 2009, this investment doctrine has changed substantially, particularly when it comes to real estate. Europe has received a substantial overweighting, ultimately driven by a clearly emerging new understanding of risk and by a dramatic change on global capital markets.

Currently, global real estate markets are benefiting hugely from the relaxed (expansive) monetary policy of the US Federal Reserve System (Fed) and of the European Central Bank (ECB). For multi-asset managers, there appears virtually no alternative to real estate as an investment category. A long-term, more restrictive, monetary policy, particularly in conjunction with the interest-rate increases that we are expecting for the first time in 2015, will therefore substantially encourage the real estate asset category.

The spectre of a euro crisis

The image of Europe as a location for investments suffered greatly when the euro crisis flared up. Looking back now, it becomes clear that the extent of the presumed instability of the euro was highly exaggerated in the media. In particular, the theory of a soft European currency cannot be upheld when developments are analysed more closely. The euro and Europe, as an investment location, are currently once again enjoying investor trust, also particularly due to the problems of emerging countries. This is expressed in the risk premium on bond returns of the sovereign securities of so-called European-crisis countries. Their risk premium compared to allegedly safe securities, such as German sovereign bonds, has reduced considerably. This is an indication that investors once again have greater faith in the monetary policy of the ECB, and thus in the euro. A further future reduction in the spreads between crisis countries and Germany is to be expected.

Europe – a stable location for investment in the long term

Where does this assessment come from? Europe, as an investment location, must be described as a hard-to-miss target for international investors since the European real estate market currently represents a third of the global investment spectrum. But this on its own does not justify the positive assessment. Europe today is more of an economic region than a continent, and as a result of the European integration process, the individual countries are closely interlinked culturally, politically and economically.

Due to the benefits of European integration, Europe offers a solid and thus stable investment basis in the long term.

A comparison of European countries

In response to the question "Why invest in Europe?", there are currently barely any counter-arguments demonstrated by the activities of investors from the Middle East or Asia. But despite this positive picture, the step of tactical asset allocation at country and/or location level is considerably more difficult to answer. Rating and scoring models are frequently used in valuations of European investment locations, and Catella also draws on a comprehensive analytical approach. The valuation model is explicitly future-oriented, meaning that the calculations include both expectations regarding influencing parameters and the historical data base. The Northern European countries (Norway, Sweden, Finland and Denmark) dominate the ranking; Germany, the United Kingdom, France and the Benelux countries occupy the middle range; and Spain occupies the lower end.

While the Baltic States, in particular, suffered a considerable loss in economic output due to the financial crisis, annual growth rates of more than 3% of gross domestic product (GDP) are expected in the future.

Even for countries such as Spain, we are expecting that structural reforms will take effect and that growth rates will stabilise at a positive low level. Critical observers may note that this view of the future is subject to considerable uncertainty.

We counter this by saying that the economic situation improved in almost all countries between 2012 and 2014. We regard stabilisation of the European economy at a level just below 2% GDP

CATELLA VALUATION MODEL – OVERVIEW OF THE RESULTS

Country	Priority	Internal rating	Rating Moody's	Rating Fitch	Rating S&P's	External ratings
Norway	1	●	Aaa	AAA	AAA	Prime Grade
Sweden	2	●	Aaa	AAA	AAA	Prime Grade
Finland	3	●	Aaa	AAA	AAA	Prime Grade
Denmark	4	●	Aaa	AAA	AAA	Prime Grade
Germany	5	●	Aaa	AAA	AAA	Prime Grade
United Kingdom	6	●	Aa1	AA+	AAA	High Grade
Netherlands	7	●	Aaa	AAA	AA+	High Grade
France	10	●	Aa1	AA+	AA	High Grade
Belgium	11	●	Aa3	AA	AA	High Grade
Estonia	13	●	A1	A+	AA–	Upper Medium Grade
Latvia	14	●	Baa1	A–	A–	Lower Medium Grade
Lithuania	15	●	Baa1	BBB+	A–	Lower Medium Grade
Spain	18	●	Baa2	BBB+	BBB	Lower Medium Grade

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

growth as realistic for 2015. The GDP trend is reflected in the labour markets, and for Spain in particular the situation remains dramatic. However, the Baltic States can be seen as role models, and their unemployment rates have declined substantially. We assume that the levels for the individual countries will stabilise in a corridor between 5% and 10% in the coming year.

An analysis of the demographic trends for individual countries also results in a differentiated picture. Whereas the Scandinavian countries, the United Kingdom and the Benelux countries are posting substantial increases, Spain and the Baltic States are battling outward migration tendencies.

There are currently intensive discussions at national and international level on the debt of individual member states. Whereas Keynesians in particular view debt-financed programmes as a good instrument to boost economic activity, the EU policy is one of debt reduction to combat the euro crisis.

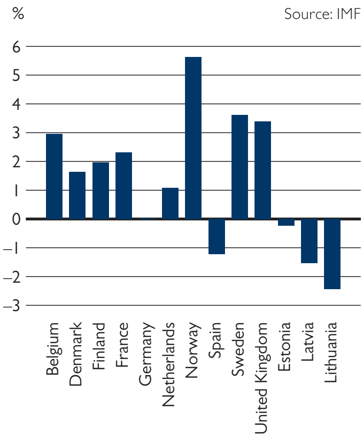
However, it should be noted that the debt level of a country cannot be taken as the sole cause of its economic problems, as impressively demonstrated using the example of Spain. Whereas Spanish debt is below 70% of GDP, Belgium, France, the Netherlands and the United Kingdom have substantially higher debt levels. Even Germany's debt is at the Spanish level. Despite this, Spain has substantially greater difficulty in refinancing itself on the capital markets. This said, it is not economic criteria alone that are important for investment in the real estate market.

Other important factors are indicators of corruption, democracy and, particularly, transparency of markets. An analysis of the Corruption Perception Indices (CPI) in 2013 from Transparency International reveals a well-known picture.

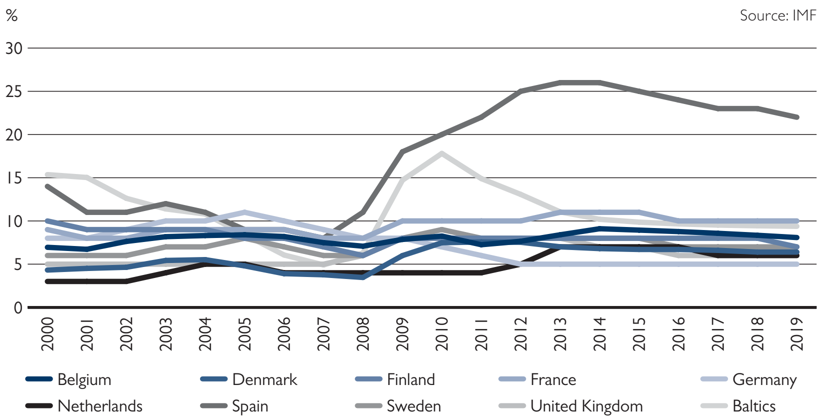
Whereas the Northern European countries, led by Denmark, are seen as particularly low in corruption, Spain and the Eastern European economies are affected substantially or often by corruption. A similar picture arises for the assessment of democracy in these countries.

All these factors and other influencing parameters have been used to construct the rankings for the different countries. In addition, the ratings of the three major rating agencies were used as a plausibility check. The internal results tally with the external ratings.

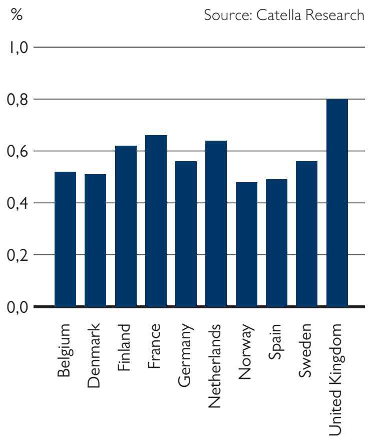
POPULATION GROWTH 2013–2019



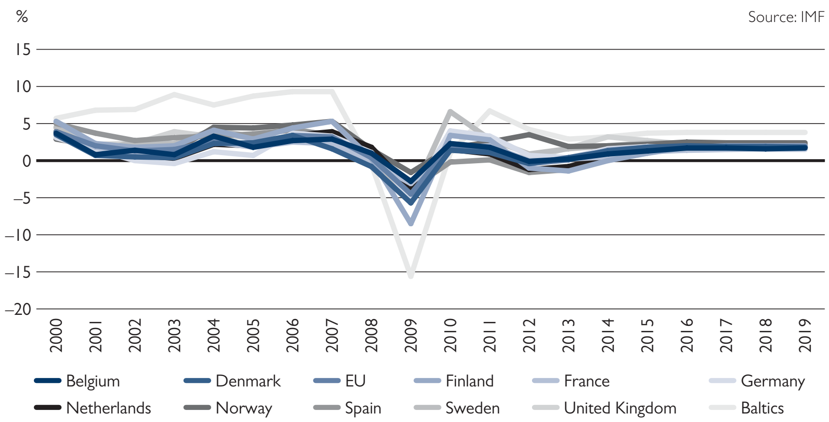
UNEMPLOYMENT RATE



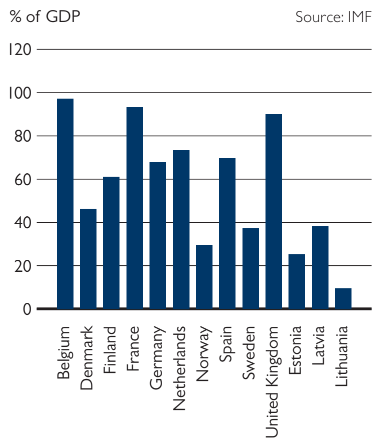
REAL ESTATE TRANSPARENCY LEVEL



GDP GROWTH



GOVERNMENT GROSS DEBT AVERAGE 2013–2019



Why invest in real estate?

Theoretical considerations

Why is it beneficial to invest your assets at all in real estate? According to the diversification calculation of modern portfolio theory by H M Markowitz – a Nobel Prize winner in economics, the possible investment spectrum to choose from should be as broad as possible. But this, of course, is merely an argument for investing in real estate in the first place. The benefits of this asset category compared to others are often neglected. As tangible assets, real estate investments implicitly include protection against inflation, and the investment category is also categorised by low volatility and the generation of a continuous cash flow.

ECB interest rate policy

As can be seen in the figure (main refinancing rate), the ECB has constantly reduced the interest rate at which commercial banks can take up central bank money. This form of expansive monetary policy results in falling bond interest rates for government securities of the member states (10-year government bonds). Against the backdrop of the current stabilisation process of the European economy, it cannot be assumed that the ECB will opt for substantially more restrictive monetary policy. Rather, further unconventional monetary policy measures (quantitative easing) are more likely, which will result in falling bond interest rates.

Potential investment volumes

To avert the risk of focusing too much on theoretical aspects, attention should be paid to the current developments. The capital volume of European real estate investments in 2014 has more than doubled compared to the year before the crisis, to more than EUR 525 billion.

The European real estate market, in particular, is increasingly becoming a focus for globally active investors. This development is down to a mix of reasons, the main one of which, in addition to expansive monetary policies, is the weak performance of the bond markets, particularly the interest on stable long-term investments.

Risk return profiles

How about the European office market? To answer this question, the individual metropolitan regions are depicted using a return-risk diagram. It should be noted beforehand that a decision for or against an investment location ultimately has to be taken on the basis of the individual's risk preferences.

The risk return chart shows the correlation between average expected return 2014–2019 and the predicted risk level for the same 5-year period, in the different investment centres. The risk premium is not simply based on volatility; but also includes aspects such as liquidity and transparency. Obviously, the returns in London, Paris and also Munich tend to be described as low in a European comparison, but these markets are characterised by a certain degree of stability.

Investment centres like Madrid, Barcelona and Amsterdam are viewed as highly attractive from yield perspectives.

The country ranking in the first part of this report is therefore merely an indicator of the economic performance of a country.

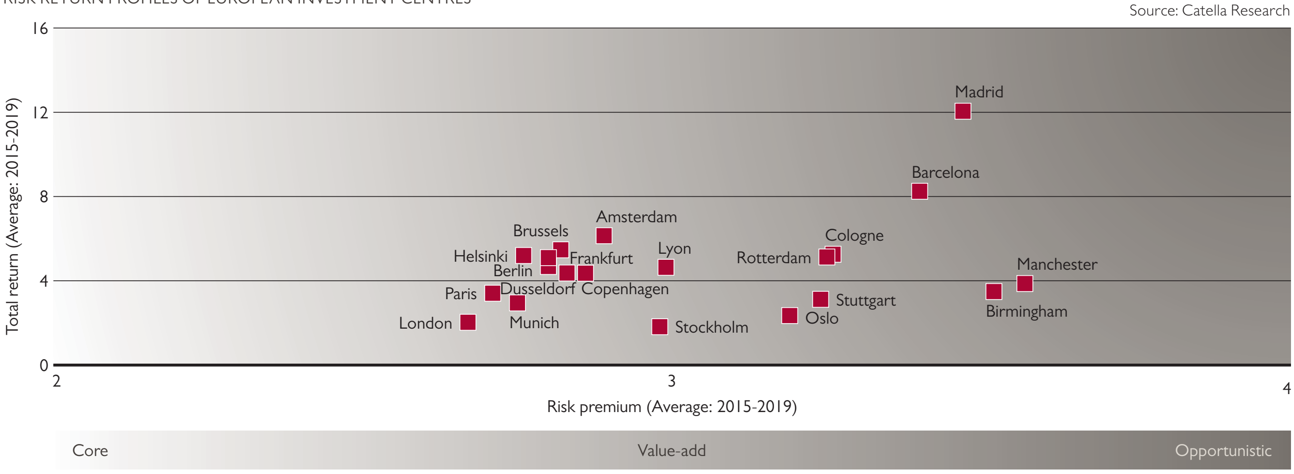
Risk-averse investor types should opt for the countries with strong economies. For investors that have a higher risk

CORRELATION COEFFICIENT OF EUROPEAN INVESTMENT CENTRES

City	Brussels	Copenhagen	Helsinki	Lyon	Paris	Berlin	Cologne	Dusseldorf	Frankfurt:	Hamburg	Munich	Stuttgart
Brussels	1,00	0,87	0,71	0,80	0,87	0,63	0,79	0,60	0,72	0,65	0,64	0,52
Copenhagen	0,87	1,00	0,72	0,93	0,89	0,52	0,81	0,48	0,65	0,67	0,61	0,58
Helsinki	0,71	0,72	1,00	0,55	0,88	0,51	0,60	0,74	0,81	0,74	0,82	0,54
Lyon	0,80	0,93	0,55	1,00	0,72	0,63	0,91	0,52	0,55	0,69	0,52	0,68
Paris	0,87	0,89	0,88	0,72	1,00	0,59	0,73	0,70	0,85	0,77	0,81	0,59
Berlin	0,63	0,52	0,51	0,63	0,59	1,00	0,80	0,83	0,71	0,87	0,74	0,82
Cologne	0,79	0,81	0,60	0,91	0,73	0,80	1,00	0,74	0,76	0,85	0,71	0,83
Dusseldorf	0,60	0,48	0,74	0,52	0,70	0,83	0,74	1,00	0,89	0,91	0,94	0,79
Frankfurt	0,72	0,65	0,81	0,55	0,85	0,71	0,76	0,89	1,00	0,88	0,90	0,77
Hamburg	0,65	0,67	0,74	0,69	0,77	0,87	0,85	0,91	0,88	1,00	0,88	0,88
Munich	0,64	0,61	0,82	0,52	0,81	0,74	0,71	0,94	0,90	0,88	1,00	0,70
Stuttgart	0,52	0,58	0,54	0,68	0,59	0,82	0,83	0,79	0,77	0,88	0,70	1,00
Amsterdam	0,80	0,91	0,44	0,70	0,68	0,69	0,77	0,39	0,56	0,62	0,39	0,57
Rotterdam	0,88	0,94	0,64	0,87	0,83	0,54	0,72	0,43	0,60	0,61	0,53	0,50
Oslo	0,50	0,79	0,41	0,84	0,61	0,35	0,72	0,26	0,43	0,54	0,31	0,61
Barcelona	0,72	0,65	0,20	0,49	0,49	0,55	0,52	0,20	0,37	0,33	0,18	0,22
Madrid	0,65	0,54	0,26	0,44	0,48	0,50	0,42	0,23	0,34	0,32	0,21	0,16
Stockholm	0,90	0,83	0,87	0,46	0,86	0,65	0,70	0,66	0,72	0,74	0,64	0,57
Birmingham	0,49	0,70	0,54	0,61	0,66	0,29	0,54	0,26	0,52	0,51	0,32	0,51
London	0,53	0,74	0,62	0,69	0,72	0,44	0,63	0,42	0,60	0,64	0,46	0,66
Manchester	0,48	0,73	0,51	0,69	0,62	0,30	0,61	0,25	0,50	0,50	0,30	0,58

Source: Catella Research

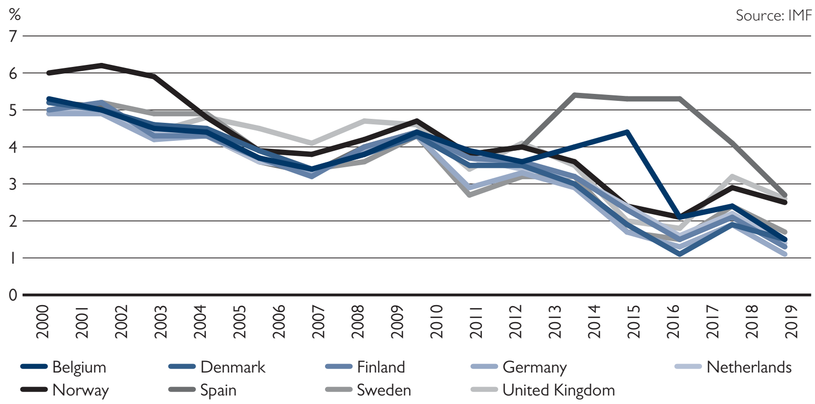
RISK RETURN PROFILES OF EUROPEAN INVESTMENT CENTRES



tolerance and favour higher returns, Spain and the Baltic States are seen as investment opportunities, even though the sizes of these investment markets differ considerably. Nevertheless, return and risk should not be the only aspects taken into account in the construction of a real estate portfolio. Rather, correlations of individual returns for real estate investments should be considered. German office locations have a high correlation with each other (correlation coefficient almost 1) and thus offer barely any potential for diversification.

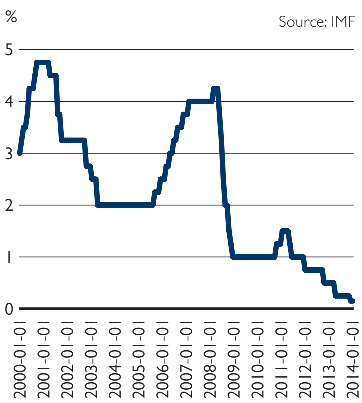
If, however, properties from two different country locations are placed into a joint portfolio, there is scope for diversification (e.g. Dusseldorf and Copenhagen with a correlation coefficient of 0.48 or Helsinki and Barcelona with 0.20). It should be noted that country and investment centre selection, risk return profiles and the potential degree of diversification may not be viewed independently of one another. Only a simultaneous analysis guarantees an optimum portfolio construction for the investor.

RETURNS OF 10 YEAR GOVERNMENT BONDS

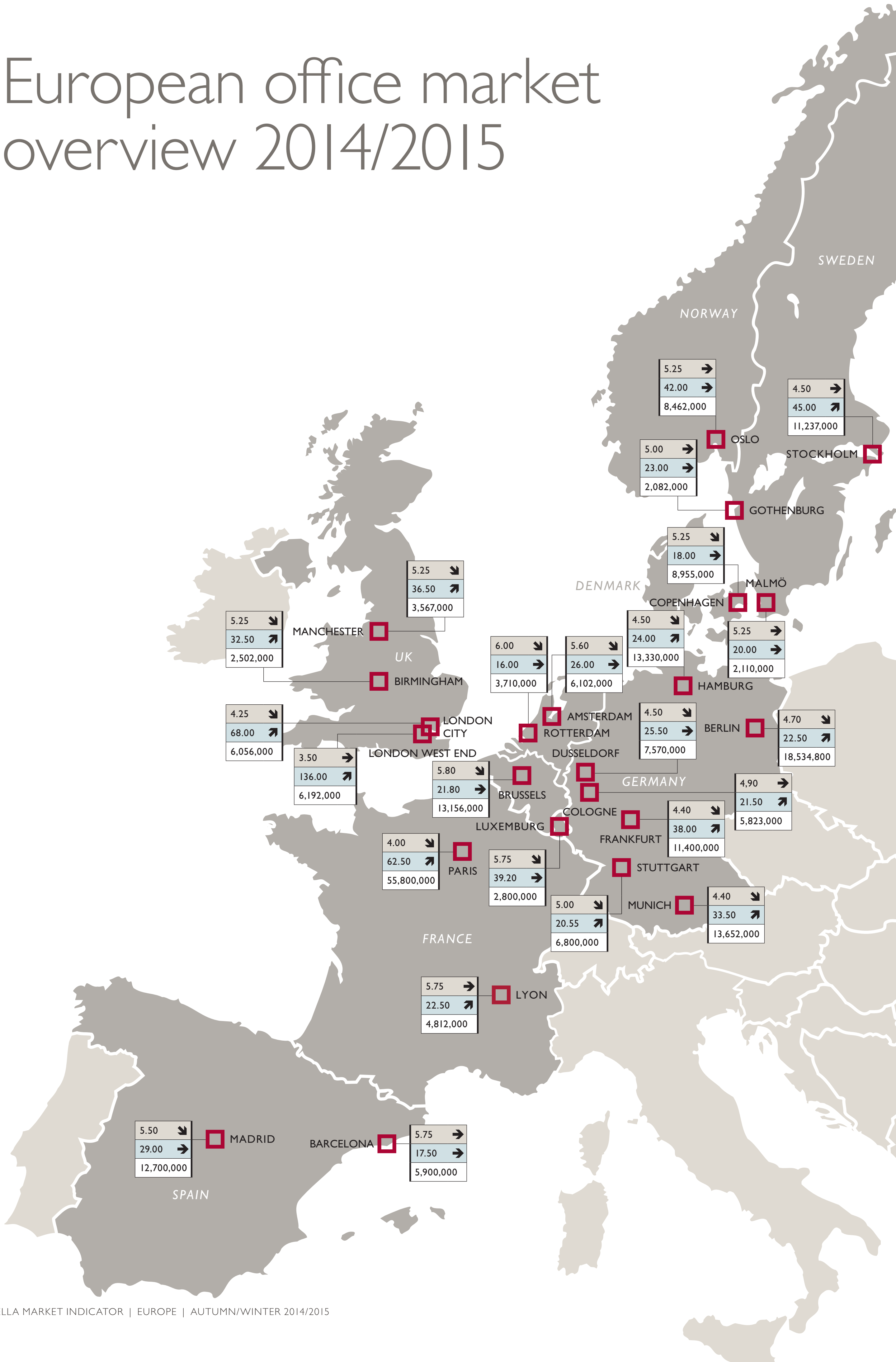


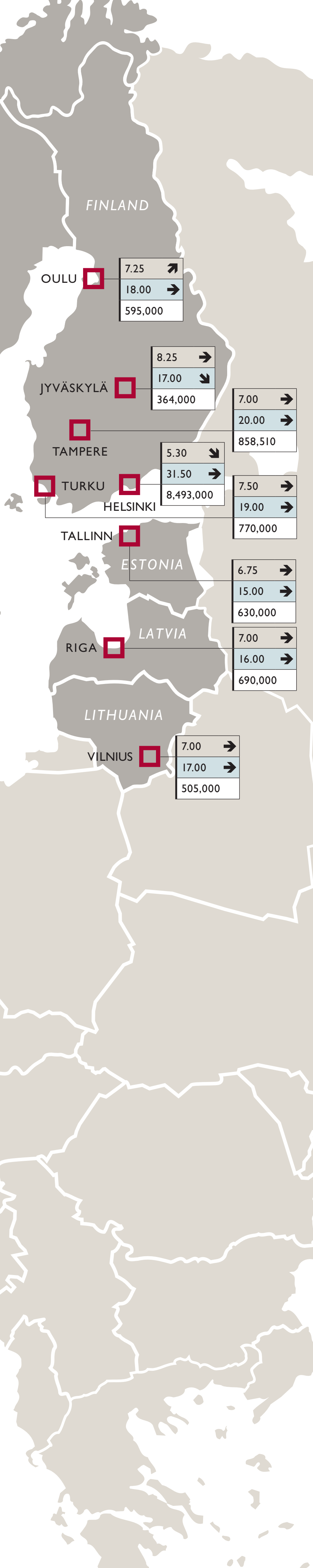
Amsterdam	Rotterdam	Oslo	Barcelona	Madrid	Stockholm	Birmingham	London	Manchester
0,80	0,88	0,50	0,72	0,65	0,90	0,49	0,53	0,48
0,91	0,94	0,79	0,65	0,54	0,83	0,70	0,74	0,73
0,44	0,64	0,41	0,20	0,26	0,87	0,54	0,62	0,51
0,70	0,87	0,84	0,49	0,44	0,46	0,61	0,69	0,69
0,68	0,83	0,61	0,49	0,48	0,86	0,66	0,72	0,62
0,69	0,54	0,35	0,55	0,50	0,65	0,29	0,44	0,30
0,77	0,72	0,72	0,52	0,42	0,70	0,54	0,63	0,61
0,39	0,43	0,26	0,20	0,23	0,66	0,26	0,42	0,25
0,56	0,60	0,43	0,37	0,34	0,72	0,52	0,60	0,50
0,62	0,61	0,54	0,33	0,32	0,74	0,51	0,64	0,50
0,39	0,53	0,31	0,18	0,21	0,64	0,32	0,46	0,30
0,57	0,50	0,61	0,22	0,16	0,57	0,51	0,66	0,58
1,00	0,95	0,81	0,91	0,83	0,72	0,69	0,71	0,76
0,95	1,00	0,72	0,79	0,71	0,82	0,70	0,70	0,69
0,81	0,72	1,00	0,36	0,26	0,47	0,77	0,83	0,88
0,91	0,79	0,36	1,00	0,95	0,67	0,36	0,30	0,36
0,83	0,71	0,26	0,95	1,00	0,58	0,41	0,30	0,37
0,72	0,82	0,47	0,67	0,58	1,00	0,56	0,63	0,52
0,69	0,70	0,77	0,36	0,41	0,56	1,00	0,90	0,96
0,71	0,70	0,83	0,30	0,30	0,63	0,90	1,00	0,92
0,76	0,69	0,88	0,36	0,37	0,52	0,96	0,92	1,00

MAIN REFINANCING RATE



European office market overview 2014/2015





Prime Yields

32 locations	
	1 ↗
	14 →
	17 ↘

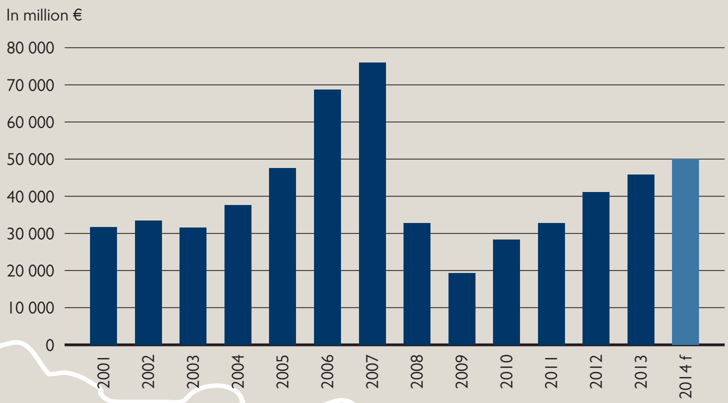
Due to the persisting high demand in most of the locations, the yield is forecasted to decrease or being stable there.

Prime Rents

32 locations	
	14 ↗
	17 →
	1 ↘

A look on the forecast of the prime rents exhibits a contrary trend. Based on the consisting demand and the limited supply, most of the prime rents in the examined locations will rise or will be stable in the future.

Office transaction volume



In 2014 more European real estate markets will benefit of increasing investors demand. By the end of 2014, Catella Research estimates an office transaction volume of approx. €50 billion in selected European cites and achieve an increase of 9% compared to the previous year. The result will be seen as a continuous high demand for prime investments and higher interest from cross-border investors. Catella Research observing increasing acquisitions outside the core markets, on local and regional level.

Calculated office transaction volume of following European locations: Brussel, Copenhagen, Tallinn, Helsinki, Turku, Tampere, Oulu, Paris IDF, Lyon, Berlin, Cologne, Dusseldorf, Frankfurt, Hamburg, Munich, Stuttgart, Riga, Jyväskylä, Vilnius, Oslo, Luxembourg, Amsterdam, Rotterdam, Madrid, Barcelona, Stockholm, Malmö, Goteborg, London City, London West End, Birmingham and Machester.

Prime Office Yield, %

Office top rent, €/sqm. per month

Office stock

→ Forecast 6 months

*Yields in this location are on a gross basis.

Solid growth expected

ALTHOUGH THE BALTICS were worst hit during the crisis, this has been one of the fastest growing regions in the EU for the better half of the past decade, while the EU as a whole has stagnated. GDP growth in the Baltics was 3.3% in 2013. This GDP growth is expected to contract to around 2.3% for 2014 due to declining exports on the back of weak external conditions, such as the Russia-Ukraine conflict, stagnation in the EU and economic decline in Finland. In 2015, GDP growth should accelerate to 2.6% and in 2016 to 3.5%. Domestic consumption will remain the key driver of economic growth.

Although the Baltics having generally stood out with solid inflation rates compared to the rest of the EU, there has been slight deflationary pressure in the region during 2014. Nonetheless, despite recent deflationary months, the full-year outcome should land at around 0.3%. Inflation is expected to increase to 1.4% in 2015 and to 1.6% in 2016.

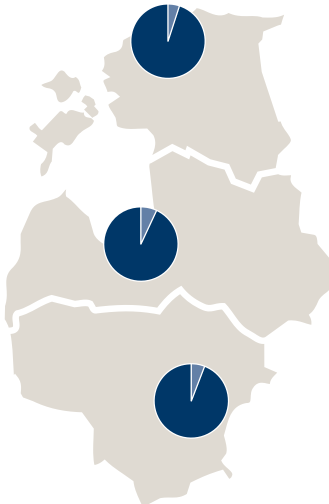
Declining unemployment across the Baltics has led to wage increases, which have in turn driven private consumption growth. Structural unemployment remains the key issue in reducing future unemployment.

Commercial property markets in the Baltics have been rather stable in terms of transaction volume from 2H 2012 onwards. The year-to-date volume currently stands at around EUR 410 million, representing a modest 4% increase compared to the same period a year ago. The full-year transaction volume should amount to more or less the same as in 2013, but considering projects currently in the pipeline, 1H 2015 should witness solid growth. The majority of transactions fall between EUR 1 million and EUR 5 million. The office sector has been most active, representing approximately 35% of the total volume in 2014.

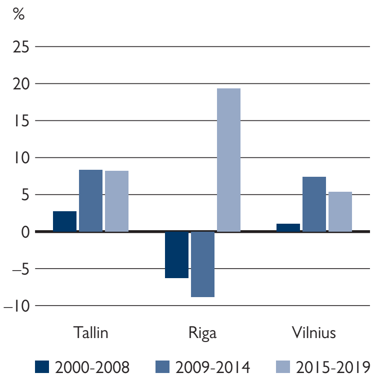
The market is dominated by local investors and by investors from Nordic and CIS countries. In general, there is considerably more capital available on the market than there are suitable projects to match. The majority of the main local investors are actively seeking investment opportunities. There has also been increasing interest among investors from CIS countries over the past year. Interest among Nordic private investors has somewhat reduced. Demand has also been facilitated by cheap and available financing.

There has been substantial yield compression over the past year in the Baltics, and prime office yields in all the capital cities have contracted by approximately 0.5%, this latter mainly due to imbalances in demand and supply, the willingness of banks to lend, and cheap financing. Current prime office yield levels are around 6.75% in Tallinn and 7.00% in Vilnius and Riga.

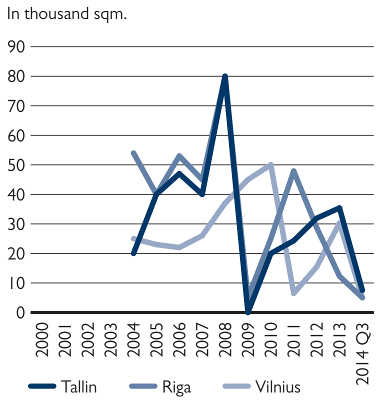
TOTAL OFFICE STOCK IN PROPORTION TO TOTAL VACANCY



GROWTH RATES OF PRIME RENT



OFFICE TAKE-UP VOLUME



LOCATION KEY FACTS, QI–3, 2014

City	Office stock, mn sqm.	Office transaction volume, bn EUR	Prime rent p. m., EUR/sqm.	Prime yield, %	Vacancy rate, %	Take-up, sqm.
Tallinn	0.63	0.055	15.00 ➔	6.75 ➔	5.00	7,500
Riga	0.69	0.030	16.00 ➔	7.00 ➔	7.40	5,000
Vilnius	0.50	0.113	17.00 ➔	7.00 ➔	6.10	5,000

Belgium

Lack of new supply

GROWTH IN THE BELGIAN economy decelerated in the second quarter, to 0.1% (1% y/y) against 0.4% in the first quarter. The slowdown in Q2 2014 seems to have been largely due to a pause in consumer spending, with retail sales slowing after a robust Q1. The Federal Planning Bureau (FPB) expects the economy to increase by 1.1% in 2014. For 2015, the FPB sees economic growth picking up to 1.5% due to private investment and industrial production.

Belgium's very open economy (exports account for around 90% of GDP, compared with just over 50% in Germany and less than 30% in France) means that labour market prospects are linked to export success. Only a slightly decrease of the unemployment rate is to be expected for the coming years as improvement in export growth will be gradual. The current unemployment rate remains at 8.5%, and employment creation should drive this figure down in 2015, to a rate of 8.3% by the end of the year.

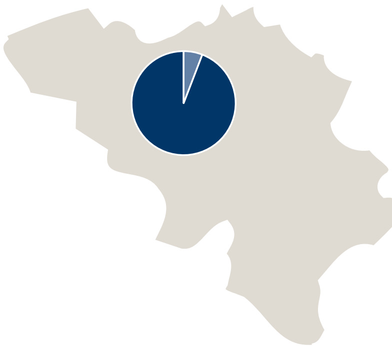
Consumer confidence fell once again in October, to a 12-month low, due to rising concerns about overall economic conditions and the labour market, as well as disappointing news from Belgium's main trading partners. But consumer spending should grow by 1.2% this year, picking up to 1.3% in 2015.

Office investment volumes diminished in Q3 after a strong first half in 2014. From Q1–Q3 2014, office transactions totalled to EUR 1.4 billion. Though there were no big ticket items registered in Q3, there were a number of mid-sized transactions, including GLL Real Estate Partner's acquisition of the Platinum office building in CBD Louise for EUR 90 million. Brussels is a focus for domestic and international investors, with a primary emphasis on CBD locations. Prime office yields remain static in central locations, at a current level of 5.80%. A further decline of prime yield is forecast due to increasing demand for prime assets in central locations.

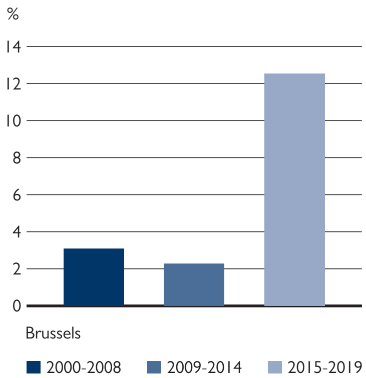
Take-up volume reached an average of approximately 70,000 sqm in Q3, with a marked decrease in mid-sized deals between 2,500 sqm and 5,000 sqm, as many tenants are choosing to renegotiate the terms of their existing leases. From Q1–Q3 2014, take-up volume reached 310,000 sqm. By the end of 2014 an increase of 10–20% over 2013 take-up is forecasted, with a volume between 375,000 sqm and 400,000 sqm. Corporate demand is beginning to regain some momentum, accounting for two-thirds of take-up this quarter, although a more sustained period of economic recovery will be needed before confidence returns. Tenant focus remains on quality space in CBD districts, particularly the Leopold EU district, which saw 30% of all take-up this quarter.

Supply of new grade A offices in CBDs is still lacking due to a low construction rate in recent years. Secondary space in peripheral areas is difficult to let.

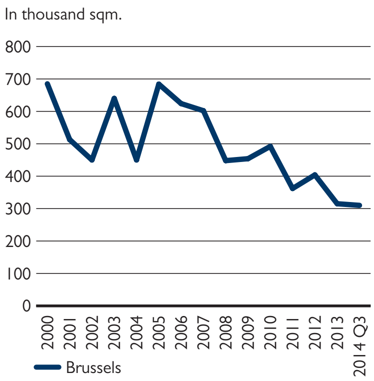
TOTAL OFFICE STOCK IN PROPORTION TO TOTAL VACANCY



GROWTH RATES OF PRIME RENT



OFFICE TAKE-UP VOLUME



LOCATION KEY FACTS, Q1–3, 2014

City	Office stock, mn sqm.	Office transaction volume, bn EUR	Prime rent p. m., EUR/sqm.	Prime yield, %	Vacancy rate, %	Take-up, sqm.
Brussels	13.16	1.360	21.80 ➔	5.80 ↘	6.30	310,000

Another robust year

TOTAL OFFICE STOCK IN PROPORTION TO TOTAL VACANCY

GDP EXPANDED 0.4% in the third quarter from the previous quarter, in seasonally and working-day adjusted terms. This figure was a slight decrease compared to the 0.6% recorded in the second quarter. The Q3 result was driven by deterioration in both domestic demand and the external sector of the economy. The Danish economy is expected to grow 0.9% by the end of 2014 and to accelerate further in 2015, to 1.6%. This expansion is expected to be broad-based, with consumer spending, investment and industrial production all contributing to the recovery. Nevertheless, demand from the euro zone remains the main risk to growth.

Consumer spending continued to recover, with an acceleration to 0.5% q/q in Q2 (following 0.1% in Q1), in contrast to investment and exports which declined by 1.0% and 0.8% respectively. Consumer prices were relatively stable in the third quarter, with a modest 0.5% y/y increase in September, following a similar growth rate in August.

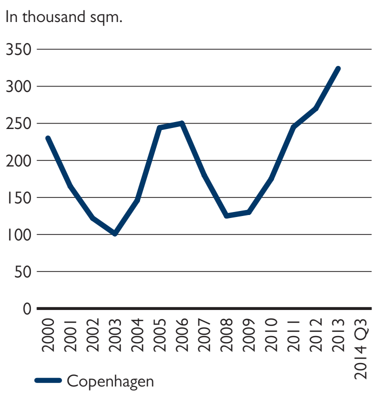
Labour market conditions have been gradually improving. However, structural issues remain, and part of the recent fall in unemployment can be attributed to an increasing number of people leaving the labour market. The unemployment rate has decreased over recent years, to a current level of 5.2%.

Investment activity mainly comprised small single-deal transactions by domestic investors. Up to the third quarter, the office transaction volume reached approximately EUR 800 million. With a share of 60% of total commercial transaction volume, office properties were in the main focus for investors. Prime office yields currently remain at 5.25%, and are stable compared to the past year. Investor demand for prime assets is high, but is striking at limited supply.

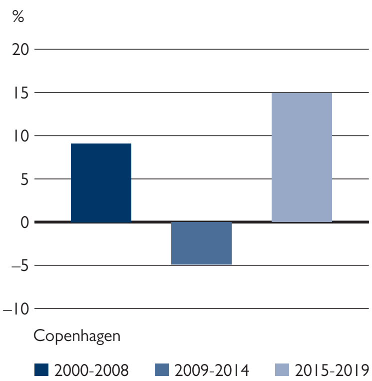
The occupier demand was robust and sustained over the quarter, driven by moves to-high quality, well-located and efficient office properties. We expect increasing activity in Copenhagen's CBD, especially for smaller office units in the range 100–300 sqm. Supply of new office buildings and refurbishments in prime locations increased compared to recent years. Supply of office space In Copenhagen's secondary locations exceeds demand. Vacancy rates for Copenhagen's city submarket offer a capability for rental growth.

As demand for office space also increases, the wide availability of development sites in the prime markets should ensure that high-quality supply levels will be able to cover demand. Thus, a strong rent increase for the next five year of approximately 15% is forecast.

OFFICE TAKE-UP VOLUME



GROWTH RATES OF PRIME RENT



LOCATION KEY FACTS, QI–3, 2014

City	Office stock, mn sqm.	Office transaction volume, bn EUR	Prime rent p. m., EUR/sqm.	Prime yield, %	Vacancy rate, %	Take-up, sqm.
Copenhagen	8.95	0.806	18.00 ➔	5.25 ➘	9.90	–

Foreign investors looking beyond prime objects

FINLAND'S GDP HAS BEEN DECLINING continuously since the second half of 2012. GDP will probably contract in 2014 for the third consecutive year and, due to the sanctions on Russia, a modest pickup in GDP is not expected until well into 2015. The estimated growth in GDP this year is –0.5%. In 2015, growth will accelerate to 0.3%, and to 1.2% in 2016. The contraction in exports is linked to the ongoing restructuring of the industrial sector. Diminishing cost-competitiveness has depressed both exports and domestic output that competes with imports.

Private consumption will recover only slowly, and consumption growth will remain sluggish throughout the forecast period. Household purchasing power will not improve in real terms until 2016, and growth in private consumption will therefore be based partly on a decline in the savings ratio. The period of low inflation will continue. The weak employment situation and a moderate rise in negotiated wages will subdue price and cost growth in 2014 and 2015. Inflation, measured using the harmonised index of consumer prices, will be 1.2% in 2014, accelerating in 2015 to 1.3% as indirect taxation tightens.

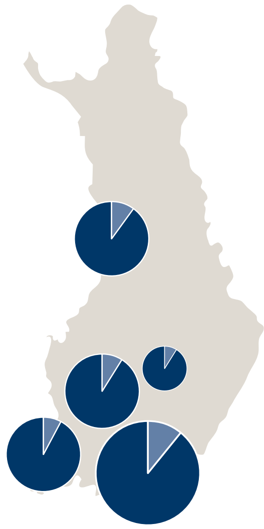
Despite of the modest economic growth, the transaction volume has grown substantially this year.

By the end of July property transactions in the amount of EUR 1.5 billion were made, which is approximately 50 per cent more than in the same period of the previous 3 years. The year to date (September) transaction volume lies currently at 3.2bn euro. One of the largest transactions by the end of September was Certeum's acquisition of various assets from Sponda and Varma for a total value of approximately EUR 920 million. The upward trend that started in 2011 seems to continue throughout the year, and the transaction volume is expected to rise clearly above the level of previous years to EUR 4 billion, which would be the highest level since the boom in 2000's. Buyers involved in the largest transactions completed in early 2014 were mostly foreign investors. Foreign investors continue to be very selective, but have again started to look beyond prime objects in the Helsinki Metropolitan Area to large diversified portfolios elsewhere in Finland.

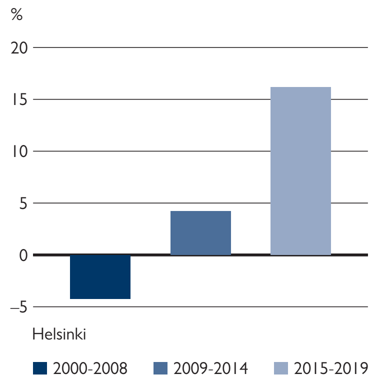
The share of portfolio transactions in the transaction volume have risen up to almost 70 per cent and the share of transactions made outside the Metropolitan Area to over 50 per cent in early 2014. The euro and a stable operational environment make the Finnish property market attractive to many buyers. In addition, Finnish properties offer attractive yields compared to their European counterparts.

The yield of prime office properties in the Helsinki CBD dropped 0.2 percentage points to 5.3 per cent being now at the same level with the prime retail yield. The yield declined in key office districts of the Helsinki Metropolitan Area, such as Ruoholahti and Keilaniemi. Apart from these, yields have mostly remained unchanged according to Catella's view. Economic challenges keep investors on their toes, even though the ease of obtaining financing and increase in purchase activity would favour an even wider decrease in yields.

TOTAL OFFICE STOCK IN PROPORTION TO TOTAL VACANCY

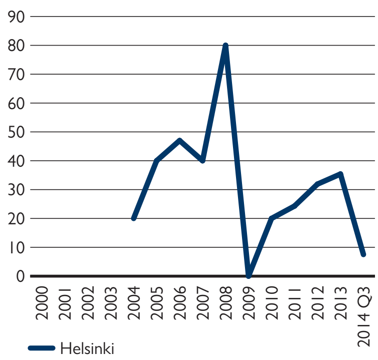


GROWTH RATES OF PRIME RENT



OFFICE TAKE-UP VOLUME

In thousand sqm.



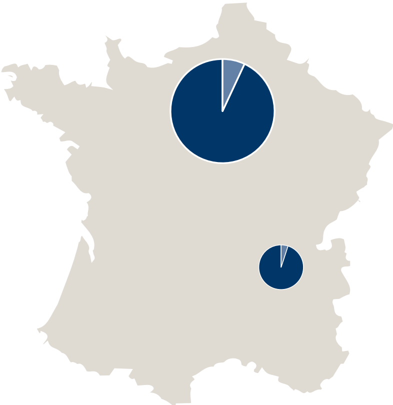
LOCATION KEY FACTS, QI–3, 2014

City	Office stock, mn sqm.	Office transaction volume, bn EUR	Prime rent p. m., EUR/sqm.	Prime yield, %	Vacancy rate, %	Take-up, sqm.
Helsinki (Metropolitan area)	8.49	1.578*	31.50 ➔	5.30 ➘	12.10	9,000
Turku	0.77	0.020*	19.00 ➔	7.50 ➔	8.60	–
Tampere	0.86	0.050*	20.00 ➔	7.00 ➔	9.40	–
Oulu	0.60	0.010*	18.00 ➔	7.25 ➚	10.50	–
Jyväskyla	0.36	–	17.00 ➘	8.25 ➔	9.50	–

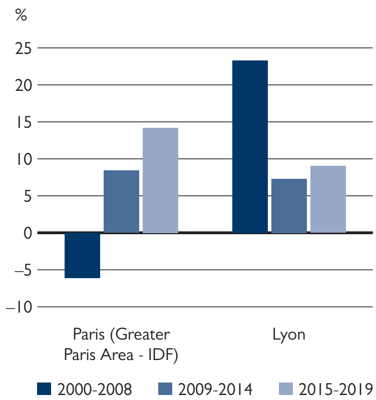
*Total commercial transaction volume (office, retail, hotel, logistic).

Investors appetite for core properties is still high

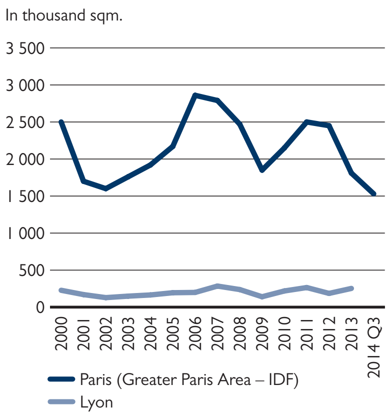
TOTAL OFFICE STOCK IN PROPORTION TO TOTAL VACANCY



GROWTH RATES OF PRIME RENT



OFFICE TAKE-UP VOLUME



THE FRENCH ECONOMY continues to underperform the rest of the euro zone, with growth stagnant for the second consecutive quarter in Q2. A slight increase is now expected for the second half of the year, with growth at around 0.4% for 2014 as a whole, driven by positive consumer and government spending. France's recovery in H2 seems to focus on export growth.

French firms continue to delay spending due to squeezed profit margins, deflationary pressures and high indebtedness. Furthermore, low external competitiveness and decreasing demand from the rest of the euro zone and emerging markets is diminishing output in more export-orientated industries. Improving external demand, a weaker euro and positive domestic consumer spending should push French businesses. Thus, demand for French exports should also recover, growing by 3.3% in 2015.

Compared to most countries of the euro zone, the unemployment rate in France remained relatively tough, at around 10%. The unemployment rate will remain at the same level in 2015. The French economy is expected to gain some momentum in next year, mainly due to modest positive growth of consumer spending and investment. The new agreement between the government and the business community will reduce taxes and create new jobs. Nevertheless, coordinated reform is needed to ensure higher growth in the medium term.

Office investment activity diminished in Q3 after a strong first half of 2014. Thus, the office transaction volume in Paris totalled EUR 8.7 billion from January to September. Paris CBD profited from the sale of mixed-use properties such as Le Madeleine for EUR 425 million. No major transactions were registered in La Défense, but other submarkets developed more dynamically throughout the year, particularly the northern suburbs. The decline in Q3 will be temporary, due to some significant office investments that are currently under agreement.

Investor appetite for core properties in the Paris investment market is still high, although there is a lack of high-quality office buildings in the most popular destinations. Some sought-after trophy assets could achieve yield rates below 4%, but these remain extremely rare on the Paris market. Prime assets currently amount to 4.0% in the CBD.

With a take-up volume of 1,530,000 sqm by the end of Q3 2014, the Paris office letting market achieved a stable volume. Nevertheless, the take-up level fell in Q3 due to a lack of large lettings and longer times to finalise negotiations while tenants seek the best landlord incentives. In addition, leasing incentives are the best key to attract tenants. High-quality refurbished office spaces with good transport connections are the most sought after, such as WBD, with a strong increase in take-up since the beginning of the year.

Prime rent in Paris currently amounts to EUR 62.50/sqm per month and will further increase in the medium term.

Office supply was stable during 2014 due to decreasing demand and a lack of new completions. There is a risk that high-quality office space supply in Paris will become rare in the short to medium term.

The letting market in Q4 is a good way towards regeneration, although it will be difficult to achieve the ten-year average of 2,300,000 sqm of office space.

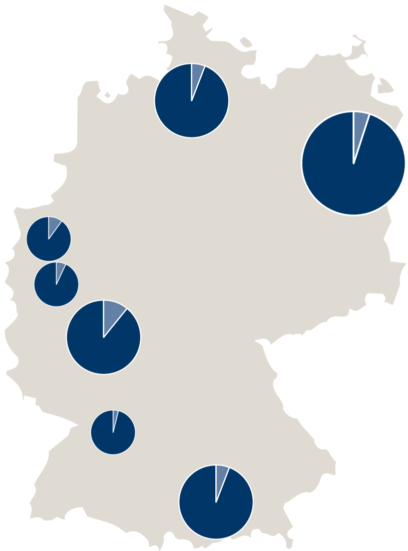
LOCATION KEY FACTS, Q1–3, 2014

City	Office stock, mn sqm.	Office transaction volume, bn EUR	Prime rent p. m., EUR/sqm.	Prime yield, %	Vacancy rate, %	Take-up, sqm.
Paris	55.80	8.700	62.50 ↗	4.00 ↘	7.10	1,530,000
Lyon	4.81	–	22.50 ↗	5.75 →	5.30	–

Germany

Secondary locations in the focus of investors

TOTAL OFFICE STOCK IN PROPORTION TO TOTAL VACANCY



THE GERMAN ECONOMY accelerated to an impressive 0.8% in Q1 2014, after 0.4% in Q4 2013. Following this strong start, activity slowed somewhat due to a loss of momentum in manufacturing and construction. The Ifo Business Climate Index for industry and trade rose in November to 104.3 points, from 103.2 in the previous month. Assessments of the current business situation are slightly more favourable that last month, and expectations for the months ahead are also brighter. Strong private consumption and a vigorous service sector will ensure solid growth for the rest of the year. GDP growth of 1.8% to 2% is expected for 2014, followed by further gentle acceleration for 2015.

Germany's labour market is in very good shape. Overall employment rose 1.1 %, considerably more than the economy as a whole. Among the office-related sectors, providers of business services and information and communication companies posted particularly high growth rates, at 1.9% and 3.0%, while the financial sector had to undergo a fall in employment of 0.2 % over the year. All in all, Sweden (79.8%), Germany (77.1%) and the Netherlands (76.5%) have the highest employment rates of all EU 28 countries.

The credit market in Germany is also relaxed, and lending to domestic companies and privates has been increasing since 2011.

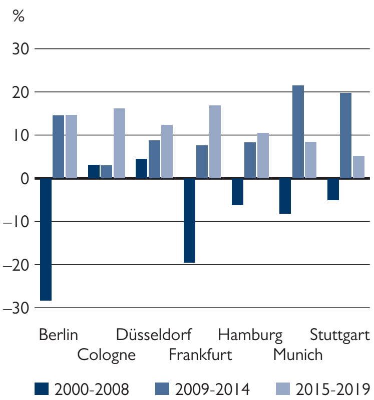
There is no deceleration of lending in sight. Interest rate levels are still historically low, and current interest rates establish favourable financing for investments.

With an office transaction volume of EUR 11.73 billion, Q1-Q3 2014 saw the best result since 2007. In total, the German commercial investment market reached a volume of EUR 25.5 billion, which corresponds to an increase of 34% compared to the previous year. Office properties still remain the key sector for both foreign and domestic investors, followed by retail acquisitions with a volume of EUR 6.63 billion.

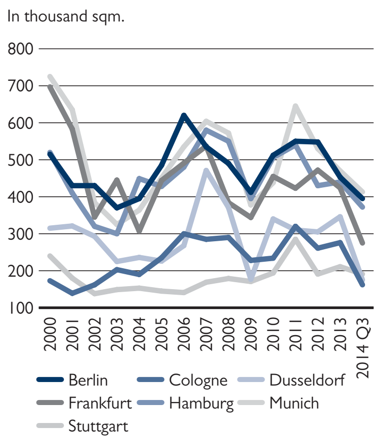
Again, foreign investors were an important driver, achieving a 46% market share in commercial transactions; actually much more than in the previous year (32%). The largest single foreign acquisition was the purchase of a 50% share of the CentrO shopping centre, with a volume of EUR 535 million. Large portfolio transactions continued to increase, to a total share of 32%.

The perfect storm has already reached German B locations, and current demand even focuses on so-called B grade properties characterised by good upgrade potential in class A cities. Over the coming quarters, the changed risk assessment among investors will be expressed in a flurry of redevelopment and refurbishment projects. It will also be mirrored by a yield drop of 100 basis points in class A cities and by 90 basis points in class B cities. In the coming 12 months, we expect to see a dynamic increase in the number of planning permissions in the commercial property sector, especially for so-called mixed-use properties.

GROWTH RATES OF PRIME RENT



OFFICE TAKE-UP VOLUME



LOCATION KEY FACTS, Q1–3, 2014

City	Office stock, mn sqm.	Office transaction volume, bn EUR	Prime rent p. m., EUR/sqm.	Prime yield, %	Vacancy rate, %	Take-up, sqm.
Berlin	18.53	1.200	22.50 ↗	4.70 ↘	5.50	394,600
Cologne	5.82	0.238	21.50 ↗	4.90 →	7.10	162,000
Dusseldorf	7.57	0.921	25.50 →	4.50 ↘	10.90	175,800
Frankfurt	11.40	1.550	38.00 ↗	4.40 ↘	12.45	275,000
Hamburg	13.33	1.450	24.00 ↗	4.50 ↘	6.50	372,000
Munich	13.65	2.050	33.50 ↗	4.40 ↘	6.60	413,100
Stuttgart	6.80	0,507	20.55 ↗	5.00 ↘	4.30	191,000

Luxembourg

Germany the main investor in office sector

LUXEMBOURG'S ECONOMY is expected to grow by 2.8% by the end of 2014, outpacing the majority of the euro zone. This robust result is due to private consumption and business investments. GDP growth 2.3% is forecast for 2015, due to the negative impact of fiscal tightening that will be implemented to offset a loss of VAT revenue in e-commerce.

Consumers will benefit from rising real incomes and a low inflation rate of 1.1% at the end of the year, which should support ongoing spending growth. Household spending increased at a robust rate this year on the back of ongoing population growth and supportive fiscal policy. Business investment, driven predominantly by the services sector, is expected to deteriorate slightly, with a neutral contribution to growth. As a result of this stagnant activity, employment growth should remain modest and youth unemployment is unlikely to fall markedly from its current high levels.

The economy is expected to significantly outperform the rest of the euro zone over the coming years as a result of ongoing rises in population, supportive fiscal policy and the strength of the Duchy's dominant financial sector.

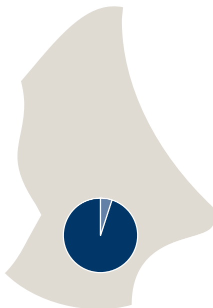
Office investment totalled EUR 490 million for Q1–Q3 2014, a robust volume boosted by the Q3 sale of the Galerie Kons mixed-use office project (EUR 150 million) in the Station submarket. Investors have sustained a strong appetite for high-quality, well-let buildings in the central business districts, with a notable rise in activity from syndicated private investors as well as HNWIs. With a series of large-scale deals anticipated as 2014 closes, the Luxembourg office investment market is a good way towards reaching a volume above EUR 700 million and exceeding the result of 2013. The main investment drivers were foreign investors, especially from Germany with a share of 45% of total transaction volume, followed by Belgians with 36%. Local investors contributed only 5%, marking the lowest level since 2007. Prime yields in prime districts could decrease in 2015 if strong activity is maintained.

Letting take-up reached over 63,000 sqm in Q3, with the Kirchberg and Cloche d'Or submarkets capturing the most take-up, although the latter area saw such high demand due to PwC's owner-occupation of 27,000 sqm at Crystal Park, and indeed, this was the standout deal of the quarter. In the nine-month period, take-up totalled to 129,800 sqm. However, activity largely comprised transactions of smaller floorplates of less than 2,500 sqm, as the availability of larger, high-quality spaces in good locations is rare.

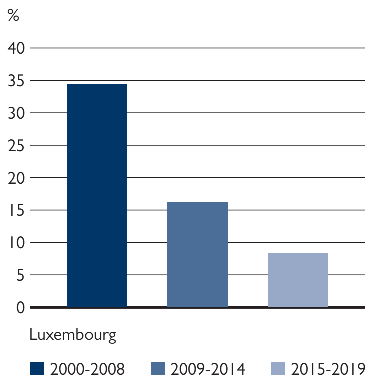
Supply levels were stable, with the prime CBD and Kirchberg districts maintaining low vacancy rates. The decentralised submarkets face higher availability, and tenant demand is focused on city-centre buildings.

Luxembourg's office market is expected to see a strong year-end finish. The persistent lack of speculative development, combined with already-low levels of available supply in the city centre, is set to keep competition elevated. Prime rents are expected to come under upward pressure with the arrival of certain new office developments in the CBD that could command higher rates than previously seen.

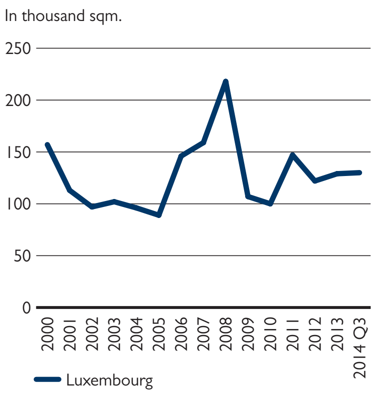
TOTAL OFFICE STOCK IN PROPORTION TO TOTAL VACANCY



GROWTH RATES OF PRIME RENT



OFFICE TAKE-UP VOLUME



LOCATION KEY FACTS, Q1–3, 2014

City	Office stock, mn sqm.	Office transaction volume, bn EUR	Prime rent p. m., EUR/sqm.	Prime yield, %	Vacancy rate, %	Take-up, sqm.
Luxembourg	2.80	0.490	39.20 →	5.75 ↘	5.30	129,800

Netherlands

Market indicators show stability

AFTER CONTRACTING IN Q1, the Dutch economy rebounded by 0.7% q/q in Q2, driven by strong exports. Exports will be the main driver, and companies are still optimistic about their export orders, and, as foreign demand resumes its upward trend, solid export growth is forecast through H2 2014 and into 2015. Overall, GDP growth of 0.7% in 2014, accelerating to 1.3% in 2015, can be expected.

Unemployment has fallen for three consecutive months, to 6.7% in July. Rising economic activity and improving business confidence will lead to an increase in hiring, although the pace of jobs growth may be limited by firms waiting to see an improvement in productivity. Furthermore, the current low inflation rate of 1.0% – which is a result of a large amount of spare capacity and negative energy inflation – will push consumer spending power.

Dutch office investment activity increased in Q3, pushing the total volume to approximately EUR 1.55 billion to the end of September. Indeed, the second-largest portfolio deal in the office sector since the economic downturn was completed during the quarter; Lone Star's acquisition of a secondary portfolio of 32 assets around the country for EUR 385 million. A majority of investors are still focusing on the Amsterdam market for core products. But the supply of prime products is getting scarce, and investors are increasingly searching for alternative office assets and portfolios.

The stable investment activity instigated prime-yield hardening across the majority of submarkets in Amsterdam as well as in the other major cities. Investor demand has been increasing significantly over the past few years and should remain high. The lack of good core products may push investment volumes back.

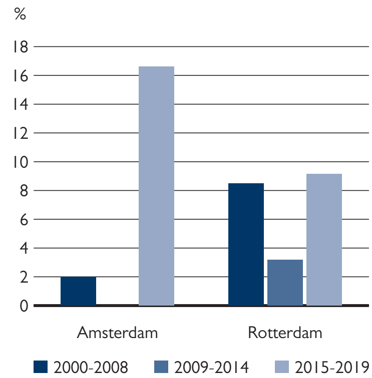
Occupier demand was steady over the first three quarters of the year, with sustained demand contingent on the availability of high-quality, space-efficient office supply in well-connected areas. Larger cities, such as Amsterdam, The Hague and Rotterdam are performing well and are registering healthy take-up activities. Even though some large letting deals were registered in Amsterdam, the majority of lettings took place in smaller segments of less than 2,000 sqm. Large office spaces are rare in the market and difficult for tenants to obtain.

Vacancy rates increased in the country, to an average of approximately 14.0%. The proportion of available outdated or deteriorated supply is increasing, so the gap between occupier demand preference and the quality of vacant supply is widening. The supply of office space in the prime business locations is low, and completions are limited. The supply of low quality in secondary locations is expected to increase.

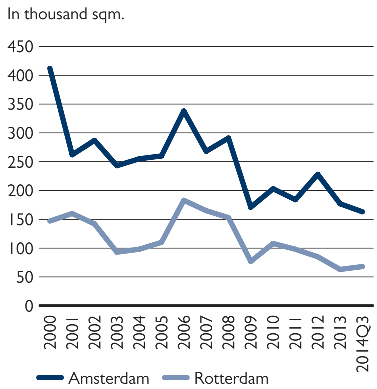
The Dutch office market is forecast to achieve a strong year-end, and should exceed the volume of the previous year. Prime rents are expected to stay stable, although landlord incentives are decreasing.

TOTAL OFFICE STOCK IN PROPORTION TO TOTAL VACANCY

GROWTH RATES OF PRIME RENT



OFFICE TAKE-UP VOLUME



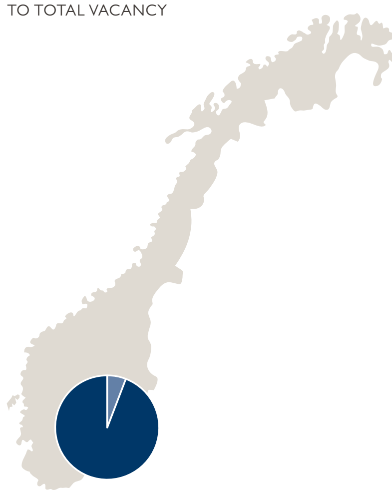
LOCATION KEY FACTS, Q1–3, 2014

City	Office stock, mn sqm.	Office transaction volume, bn EUR	Prime rent p. m., EUR/sqm.	Prime yield, %	Vacancy rate, %	Take-up, sqm.
Amsterdam	6.10	1.220	26.00 ➔	5.60 ➘	17.50	163,300
Rotterdam	3.71	0.093	16.00 ➔	6.00 ➘	17.20	68,000

Norway

Healthy demand and increasing prime rents

TOTAL OFFICE STOCK IN PROPORTION TO TOTAL VACANCY



TOTAL GDP ROSE in the third quarter by a seasonally adjusted 0.7% over the previous period, undershooting the revised 1.4% increase tallied in the second quarter. Total GDP was dragged down by slower expansion in petroleum activities and ocean transport. Total exports faltered on the back of subdued external demand for oil, with a knock-on effect on investment, which contracted by 0.8% y/y. While supply and demand pressures pushing down the global price of oil are expected to persist and weigh on the oil industry, investment in mainland Norway is expected to enjoy more favourable conditions, underpinned by rising demand from the US and the UK plus a weaker krone.

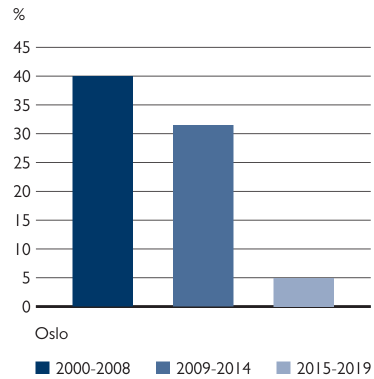
Resilient domestic demand is expected to offset weaknesses in the oil sector. Consumer spending is expected to increase due to rising incomes, improving confidence and stabilising house prices. Following a period of strong growth in the petroleum sector, some moderation is expected in 2015 due to falling global oil prices on the back of lower demand from China and a rise in unconventional oil from the US. Investment in oil is expected to rebound markedly in 2017 with the development of two new oil fields.

Solid expansion is expected this year, although slower than previously anticipated due to the weakening oil sector. Decreasing global oil prices, high household debt and sluggish growth in the euro zone are the main risks to growth. However, the economy's strong fundamentals – including large current-account and government-budget surpluses, and modest public debt levels – protect it from external shocks.

Investment activity increased considerably in Q3 and reached a total transaction volume of EUR 1.33 billion by the end of September. While activity was healthy, the lack of investable prime assets remains a major deterrent to even more robust levels of investment, particularly as buyers remain selective about the product they choose. The factors keeping the market stable are low interest rates as competition from banks increases, and the wider availability of credit. Further, several funds will soon reach exit periods, which should trigger further requirements in the market.

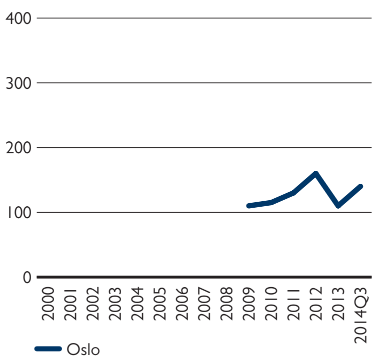
Norway's office market continued to benefit in Q3 from a robust labour market and positive economic growth. Healthy demand and low office completion volumes helped to push prime rents upward in the more centrally-located office clusters in Oslo. Secondary rents have seen little movement, as often these locations are not in focus for tenants/companies. Occupiers are consistently focused on high-quality, well-located office properties, or space upgrades to better quality. The supply level should stabilise as property landlords seek refurbishments to meet occupier demand. Speculative office developments are relatively low compared to previous years, and the development pipeline currently focuses on Oslo fringe submarkets. Letting activity in Oslo primarily comprised lettings above 5,000 sqm. Prime rental growth in Oslo in Q3 2014 should stabilise towards the end of the year.

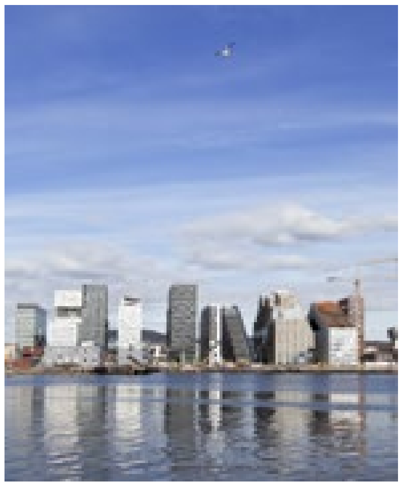
GROWTH RATES OF PRIME RENT



OFFICE TAKE-UP VOLUME

In thousand sqm.





LOCATION KEY FACTS, Q1–3, 2014

City	Office stock, mn sqm.	Office transaction volume, bn EUR	Prime rent p. m., EUR/sqm.	Prime yield, %	Vacancy rate, %	Take-up, sqm.
Oslo	8.46	1.330	42.00 ➔	5.25 ➔	6.20	140,000

Significant presence of international investors

THE SPANISH ECONOMY grew for four consecutive quarters, in Q3 and Q4 2013 and in Q1 and Q2 2014, and is accelerating further, according to strong PMI surveys. After four years of robust export growth, domestic demand is coming to the fore.

GDP in the first quarter reached 0.37%, which represents a 1.5% increase in the inter-annual rate. GDP in the second quarter remained stable at 0.5%. GDP forecasts and confidence indices for Spain continue to improve. Growth of around 1.5% was predicted at the close of 2013. At present, the first half of 2014 having passed, growth forecasts vary between 1.1% and 1.4%, confirming the favourable bearing that the Spanish economy has taken over the past year. Even though the main macroeconomic fundamentals are growing, we have to be cautious because of the high unemployment still registered in the country (24.0%).

This improvement has not gone unnoticed by international investors who, in addition, are anticipating record minimum real estate prices. Nonetheless, market conditions show a scarcity in the supply of prime assets and a lack of immediate response on the part of the occupier market to the macroeconomic improvement. The latter will begin to respond at the close of 2014, when the recovery is on a surer footing.

Office investment in the Spanish market reached a volume of EUR 1,900 million (September 2014), a 90% of increase over last year. These investments, however, were centred on acquisitions in Madrid and Barcelona.

Retail assets took the greatest share in 2014, founded on 20 shopping centre deals amounting around EUR 2,000 million in a number of Spanish cities representing 91% of retail investment. This result has doubled both the amount and the number of operations for full-year 2013.

There was also hotel activity in 2014, with EUR 711 million invested. The main acquisitions were made in Andalusia (Marbella), Madrid and Barcelona. Nevertheless, there was a very slow start to the industrial investment market across Spain.

Prices have increased for the best assets, resulting in yield compression. The yield for prime offices has gone from 5.8% to 5.5% in Madrid and from 6% to 5.75% in Barcelona over the past quarter. Prime shopping centres stand at 5.50%, along with 7.00% for retail warehousing parks. The prime yield for logistic is around 8.50% in Madrid and 8.00% in Barcelona.

SOCIMIS began to make a number of acquisitions during the first half of 2014, but greater volume is anticipated for the second half of 2014 and the whole of 2015. The main vendors during 2014 so far are banks and their estate agencies, as well as some companies in the real estate sector.

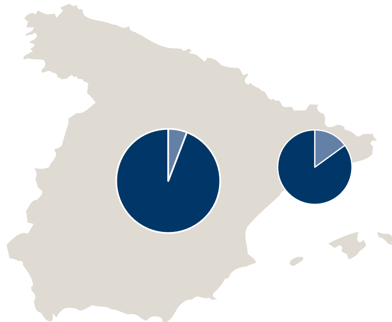
The improved economic climate in Spain, and the expectations for growth in consumption and production, will keep the investment market busy, with a significant presence of international investors. Significant vacancy rates still exist at various sites for office, retail and logistics assets. Occupancy may increase towards the close of 2014, though more probably in 2015, in line with the consolidation of the recovery. There is still some margin for a reduction in prime office and retail yields, which could be seen at the close of 2014.

In debt transactions, the distress funds are interesting in Spain, with important transactions in 2013 (EUR 1.52 billion), and this trend continued in the first half of 2014 (EUR 5 billion) with the Octopus project as the main transaction, purchased by Lone Star and JP Morgan.

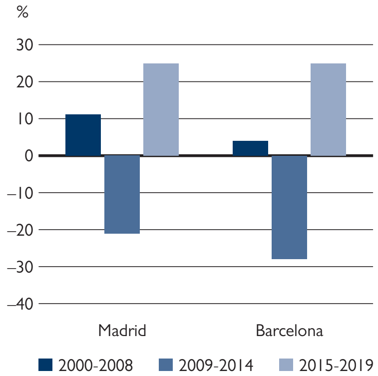
LOCATION KEY FACTS, Q1–3, 2014

City	Office stock, mn sqm.	Office transaction volume, bn EUR	Prime rent p. m., EUR/sqm.	Prime yield, %	Vacancy rate, %	Take-up, sqm.
Madrid	12.70	1.000	29.00 →	5.50 ↘	13.20	290,000
Barcelona	5.90	0.610	17.50 →	5.75 →	14.30	182,000

TOTAL OFFICE STOCK IN PROPORTION TO TOTAL VACANCY

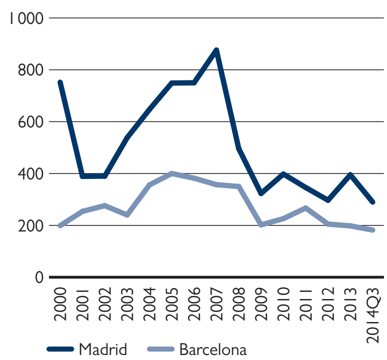


GROWTH RATES OF PRIME RENT



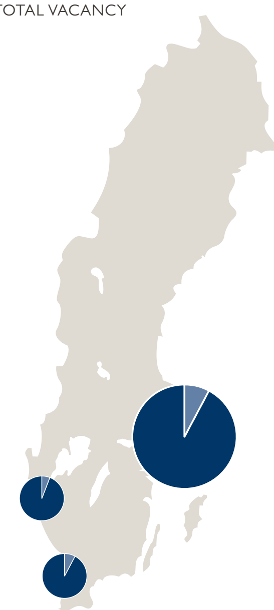
OFFICE TAKE-UP VOLUME

In thousand sqm.



Current yields close to all time lows

TOTAL OFFICE STOCK IN PROPORTION TO TOTAL VACANCY



THE SWEDISH ECONOMY is experiencing a slow recovery and return to pre-crisis industrial output. With headline inflation close to zero, compared to the central bank goal of 2 percent, interest rates are expected to remain low or very low for the coming years.

The main driver of the Swedish economy continues to be the household sector. With a high savings ratio, strong employment growth and a number of years of real wage growth, Swedish private consumption is likely to keep its strong trajectory.

On the real estate markets, the first half of 2014 saw the highest transaction volumes since the first half of 2007. With a slower August, total volume in September stands slightly above SEK 70 billion, and a turnover for 2014 of above SEK 100 billion looks to be within reach.

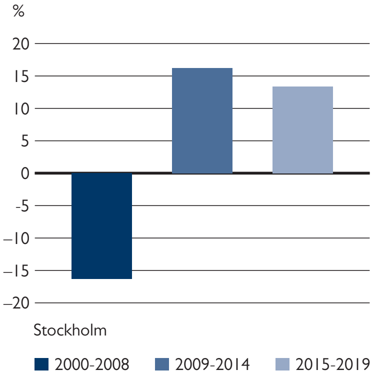
Office properties and other mixed commercial properties are the most actively traded assets on the market, comprising some 60% of transaction volume, but there is liquidity across most asset types and submarkets. On the Stockholm market for office properties, current yields are close to all-time lows in the CBD and most desirable suburban locations. A lack of objects for sale, and actual and expected rental growth, lend support to current yield levels. In the northern suburbs, yields have compressed some 25–75 bps in the past 12 months, but a gap of some 75–125 bps versus pre-crisis yields still remains.

Catella expects yields to keep compressing in the B and C locations as more value-add and opportunistic capital targets Sweden and Stockholm. With rental growth outside A locations still moderate, the major support for lower yields will come from a combination of reduced vacancies and lower risk/liquidity premiums.

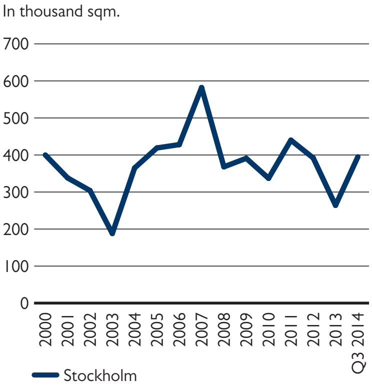
Institutions remain active players in the market, but their share of acquisitions has dropped below 20% in 2014, from more than 40% during 2010 to 2012. At the same time, the improved access to financing has supported acquisitions by listed companies and property funds, and investors in these two groups have been more active than institutional investors.

Foreign buyers have closed transactions totalling SEK 11 billion YTD in 2014, which represents some 15 percent of total investments.

GROWTH RATES OF PRIME RENT



OFFICE TAKE-UP VOLUME



LOCATION KEY FACTS, QI–3, 2014

City	Office stock, mn sqm.	Office transaction volume, bn EUR	Prime rent p. m., EUR/sqm.	Prime yield, %	Vacancy rate, %	Take-up, sqm.
Stockholm	11.23	1.520	45.00 ➚	4.50 ➔	9.00	395,000
Malmö	2.11	0.055	20.00 ➔	5.25 ➔	9.00	45,000
Gothenborg	2.08	0.292	23.00 ➔	5.00 ➔	6.00	120,000

United Kingdom

Yield spreads continue to narrow

THE UK CONTINUES on its positive economic road, with 0.8% GDP growth over the second quarter heralding the economy's return to pre-recession level of output, and overall GDP for 2014 is forecast at 3%.

Further good news for the household pocket is consumer price inflation easing to 1.2% in September and providing little immediate pressure to raise interest rates. Further household confidence is manifesting itself in the housing market, where price growth was 8.4% in the year to August 2014 (Source: Land Registry). That said, wages are consistently lagging behind inflation, and the burden of household debt is still at historically high levels.

Whilst UK manufacturing growth slowed in August, the service sector recorded its fastest growth for almost a year. Such inconsistency is mirrored in confidence surveys, and results in a growing but still-fragile business investment environment.

Turning to the UK commercial property markets, 2013 volumes reached their highest levels since 2006, with over GBP 54 billion transacted (Source: Property

Data). There were some very significant deals in 2013, such as The Broadgate Estate and More London, and as such we haven't expected 2014 volumes to reach the same levels. With a growing weight of money seeking a foothold in the UK, however, GBP 40 billion traded in the first three quarters of the year, and we now have to review these predictions.

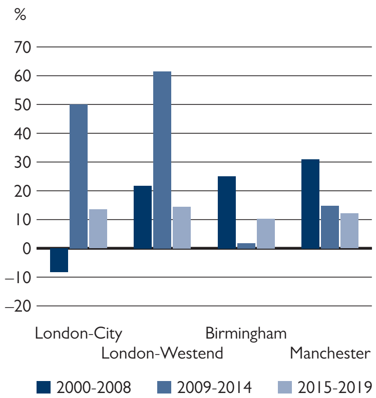
It is well documented that overseas investors have dominated the UK market over recent years, with their proportion of activity reaching 46% in 2013. Although still the largest investor group, with 37% market share, 2014 has witnessed the re-emergence of the UK institutions, with a 30% market share.*

The competition for investment product has resulted in a tightening of prime yields. West End offices have reached 3.5%, shopping centres and retail parks are at 4.5% and 4.75% respectively, and prime distribution is trading at 5.25%. The spread between primary and secondary yields has closed substantially, with investors factoring future rental growth into their projections.

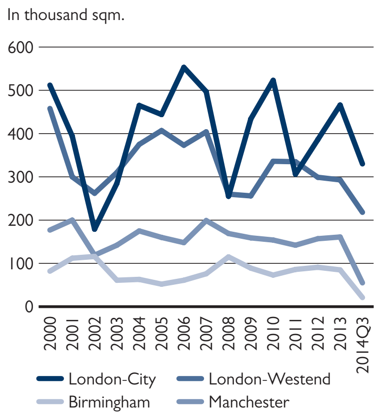
Property yields are best contextualised In a global perspective, with investors seeking safe haven opportunities and looking for performance beyond that of the bond markets. As such, we can anticipate a further narrowing of yield spreads between prime and secondary property over the remaining few months of the year, and overall volumes stretching into the high GBP 40 billions, and perhaps reaching similar levels to 2013 in the final quarter of the year.

*Source: Property Data

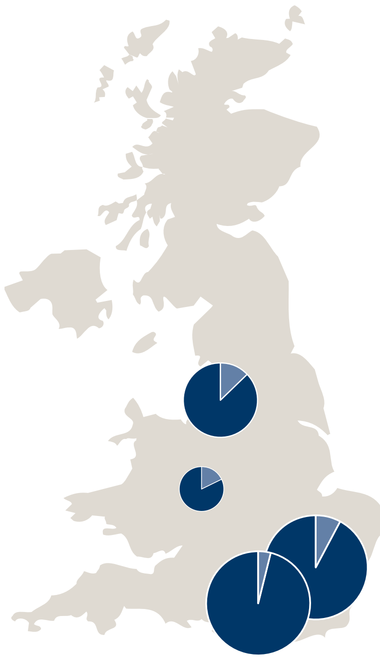
GROWTH RATES OF PRIME RENT



OFFICE TAKE-UP VOLUME



TOTAL OFFICE STOCK IN PROPORTION TO TOTAL VACANCY



LOCATION KEY FACTS, QI–3, 2014

City	Office stock, mn sqm.	Office transaction volume, bn EUR	Prime rent p. m., EUR/sqm.	Prime yield, %	Vacancy rate, %	Take-up, sqm.
London-City	6.05	5.290	68.00 ↗	4.25 ↘	8.65	330,000
London-Westend	6.19	2.973	136.00 ↗	3.50 →	3.90	218,000
Birmingham	2.50	0.603	32.50 ↗	5.25 ↘	22.60	21,000
Manchester	3.56	1.168	36.50 ↗	5.25 ↘	15.40	55,000

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