AtisReal

European *Office* Market - Q4 2005

at a Glance

KEY FACTS IN EUROPE - Q4 2005

A strong performance in Q4 2005 ended a good year for take-up activity in the six main European office markets. Given the softness of the region's economic recovery, demand for office space was often driven by rent differentials.

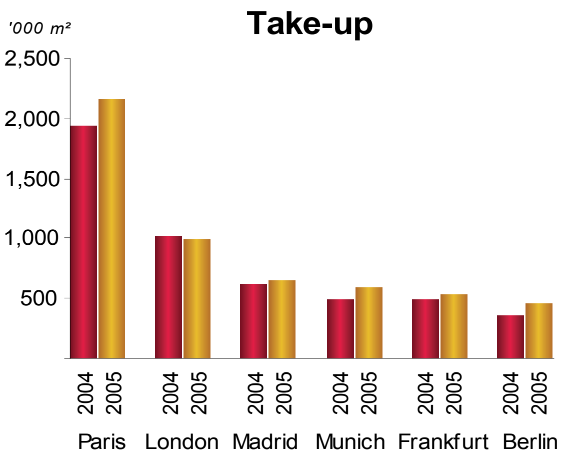
After four years of swelling vacancy rates, available supply has overall finally swung into contraction since end-2004, thanks to this increased take-up and less office completions throughout Europe.

This healthy trend is set to continue in 2006 in line with an expected pick-up in GDP growth across Europe. We forecast take-up to increase or at the very least to remain stable. This activity, combined with a slowdown in the volume of buildings under construction, should bring vacancy rates down further.

Alain Béchade, FRICS - Vice Chairman, Atisreal

KEY FIGURES Main European Market Indicators

	Take Up (m²)			Vacancy Rate (%)			Rents (€/m²/year)			
							Prime Rent			CBD Avg.
	Q4 2005	Full Year 2005	Full Year 2004	**Q4 2005**	Q3 2005	Q4 2004	**Q4 2005**	Q3 2005	Q4 2004	Q4 2005
Paris	**709,000**	**2,165,000**	1,931,000	**5.8**	6.0	6.3	**690**	700	675	**476**
London	**275,000**	**985,000**	1,025,000	**8.4**	10.1	12.3	**1,251**	1,221	1,219	**na**
Madrid	**167,000**	**665,000**	626,000	**9.2**	10.0	11.1	**330**	330	310	**284**
Munich	**133,000**	**586,000**	482,000	**10.3**	10.7	11.3	**342**	342	336	**198**
Frankfurt	**133,000**	**530,000**	490,000	**15.2**	15.0	13.4	**408**	408	408	**230**
Berlin	**109,000**	**464,000**	361,000	**8.3**	8.4	9.6	**246**	246	274	**164**



European office markets continued to improve in 2005

■ **Take-up in 2005** improved on 2004 overall, with activity notably stronger in Berlin and Munich, slightly increasing in Paris, Madrid and Frankfurt, and slightly falling in London. Paris surpassed the 2 million m² mark again, with Q4 2005 alone higher than the full year 2005 for all other European cities but London.

■ 2005 was the first year where all markets (with the exception of Frankfurt) saw **vacancies fall** since 2000.

■ **Prime rents rose** in Madrid and Munich, where supply tightened in the prime districts, as well as Paris. However, while in Madrid rents in all grades of offices increased, in Munich and Paris **rents in second-hand and peripheral locations** continued to struggle, pulling down average rents.

■ **Prime rents** ended the year **stable** on end-2004 in London (in sterling) and Frankfurt, and fell in Berlin, where supply remains high in the city centre. Average rents fell in these markets.

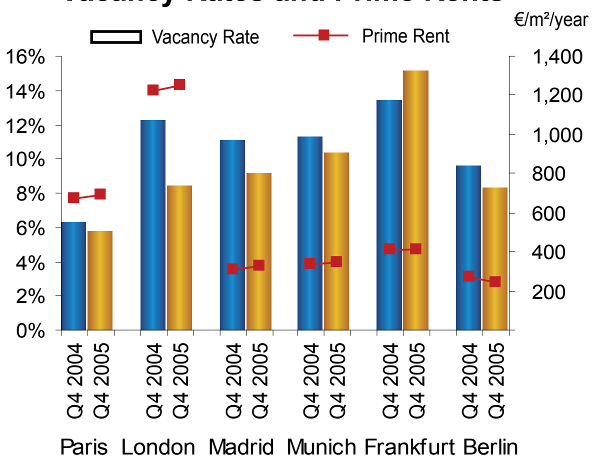
■ **Rent incentives** remain common in all markets, and distort rent data – they averaged 13% of headline rents in buildings larger than 2,000 m² in 2004-2005 in Paris CBD, and 18% in the first periphery. Actual rents can thus be substantially lower than quoted amounts in all markets.

Central city markets benefit from recovery in financial and consulting sectors

■ A pick-up in demand from **the Consulting and Legal sectors** in all cities covered here (with the exception of Berlin), and **the Financial and Banking sector** in Paris and London, resulted in an overall improvement in office markets in central locations. Rothschild & Cie Banque took up 15,600 m² in the Capital 8 building in Paris, while Deloitte took up 21,000 m² in London's Midtown district, Freshfields Bruckhaus Deringer 12,000 m² in Frankfurt, and McKinsey 12,500 m² in Munich. Frankfurt, whose dependence on the financial sector had hindered its recovery since 2001, attracted a **more varied range of sectors** in 2005, with **IT companies** particularly dynamic, such as T-Systems (17,000 m²). The latter sector remained dominant in Munich (with for instance Pepper Technologies taking up 4,800 m² there), while its share of activity fell in Berlin.

■ The Central London market saw the strongest drop in vacancies throughout 2005, as completions fell every quarter in 2005. The West End enjoyed a good year, while the City slowly improved throughout the year. Take-up in Midtown fell due to a **shortage of good quality available space**, rather than a drop in demand – Madrid's city centre is facing a similar situation.

Vacancy Rates and Prime Rents



■ In Frankfurt and Munich, activity focused on the central districts, where the differential in rents with the periphery was sufficiently small to attract tenants towards the centre. **Renewed confidence** in the Munich market is confirmed by a pick-up in speculative developments.

Peripheral districts benefit from rent differentials in some cities

■ In Berlin, and to a lesser extent Madrid, **a movement towards peripheral markets was driven by a consolidation of public administration offices** (the Federal Restitution Office took up 23,000 m² in the periphery of Berlin, and the Ministry of Environment 13,800 m² in the south decentralised district in Madrid). However, as most demand from the public sector in Berlin will have been satisfied in 2005, overall take-up is likely to fall there in 2006.

■ In Madrid's peripheral districts, where many large buildings have been struggling to find tenants, vigorous take-up activity (thanks to the shortage of good quality large premises in the city centre) and a slower rate of new office completions improved the supply situation.

■ Take-up **activity in greater Paris was driven by rents**, as some tenants from the city of Paris and La Défense continued to relocate and consolidate their offices in **new large buildings** with lower rents in the first periphery (for example Arcelor moved out of La Défense to take up 17,000 m² in Saint Denis, north of Paris). However, rents in the city have been adjusting downwards, so that in 2005 many Parisian tenants in middle-sized offices relocated within the city, rather than moving to the periphery (for instance, the Les Echos newspaper, who originally sought to move out of the CBD towards the periphery, finally decided to take up 7,700 m² in the Centorial building in the CBD).

For further information please refer to our website: **www.atisreal.com**

Atisreal International Research 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 PEPCIG[1] definitions, on which most of the following indicators published by Atisreal are based. Other indicators are from INREV[2] and from Atisreal International Research.

■ **Central Business District average rent** takes into account all the headline rents in the CBD for leases signed during the four quarters ending with the survey period, weighted by the surface of each transaction. The definition of each city's 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.

■ **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.

■ **Exchange Rate from £ into € for rents** is the value observed at the end of the period.

■ **Exchange Rate from £ into € for investment volumes** for each quarter is the average value over that period. Full-year investment volumes in both currencies are made up by adding the four quarters of each year.

■ **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 Fund 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 Atisreal 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 can not be split up by product, and Development Sites in Germany). Quoted investment volumes are not definitive and are consequently subject to change.

■ **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** represents 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.

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

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

■ **Prime Rent** represents the top open-market rent at the survey date 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

Actual transactions are used in France, Germany and Belgium to support the headline prime rental quoted, but one-off deals, which do not represent the 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 Atisreal to produce international indices and benchmarks.

■ **Take-Up** represents the total floor space known to have been let or pre-let, 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 construction stage
- 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 (see separate definition) 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 sub-lettings divided by the total stock at the survey date.

[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.*