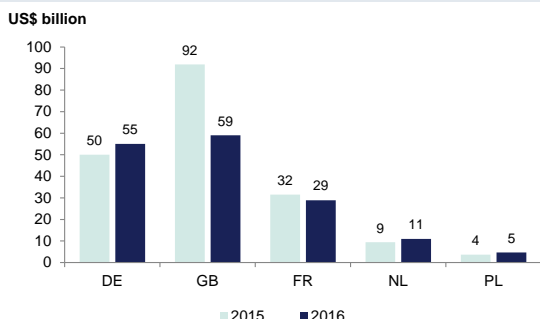


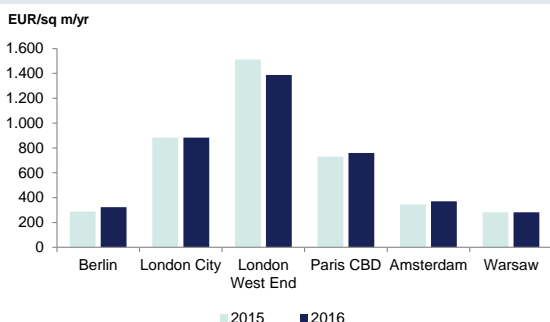
Major Commercial Real Estate Markets in Europe 2016 and outlook 2017

Commercial Real Estate Investment



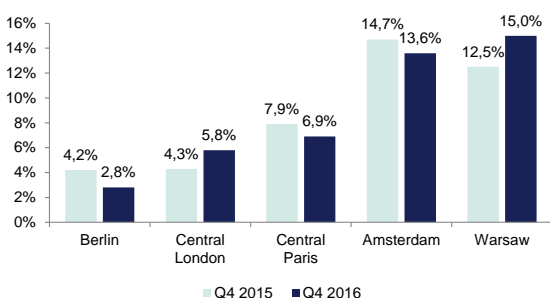
Source: Jones Lang LaSalle, illustrated by NORD/LB Sector Research

Office: Prime Rent



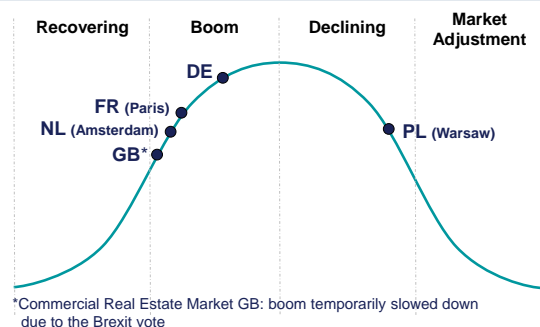
Source: Jones Lang LaSalle, illustrated by NORD/LB Sector Research

Office: Vacancy Rate



Source: BNP Paribas Real Estate, illustrated by NORD/LB Sector Research

Office: Real Estate Cycle 2016



Source: NORD/LB Sector Research

Brexit vote in the UK affected European Investment Volume

For the full year 2016, the total investment volume in Europe fell 9 percent to USD 229 billion in comparison to the previous year. Excluding the decrease of 36 percent of UK's investment volume, the total volume increased 6 percent year-on-year. Despite the fall in the UK, the country remained Europe's largest investment market in 2016, with USD 59 billion. Germany recorded the second best result, with USD 55 billion and 10 percent increase year-on-year. France was placed third, with roundly USD 30 billion. However, its investment volume fell notably by 8 to 21 percent according to various players on the real estate market. The investment volume of the Netherlands and Poland developed very well, with an increase by 17 percent respectively 29 percent year-on-year. Overall the uncertainty due to political upheaval remained high, but the European market held robustly.

Stable European office market in 2016

The office property market in Europe remained vibrant in the last year. The weight of global capital put further downward pressure on yields for prime office properties in the selected markets. The lack of prime assets capped the investment volume at the end of 2016. The regional economic growth and the positive trend in the local labour markets, especially in the main cities, strengthened the demand for office space. The selected office property markets developed as follows: Germany's capital has the largest stock of office space among the national Big 7. Therefore the development of Berlin's office property market is a sustained sign for Germany as a safe haven for investments in office properties. In 2016 the activities continued with high pace and demand. Thus, the prime rents climbed steadily and vacancy rates decreased. The office property market in the UK slowed down temporarily. However, the prime rents in London City and West End kept the first place in comparison to other European metropolises in 2016. Paris continued its good performance of the office property market and still recorded an accelerating rental growth. Vacancy rates dropped to a low level. Amsterdam showed a noteworthy good performance in 2016. As London and Paris, this market still attracted international investors in a great measure. Steady growth for prime assets in Amsterdam could be seen, with robust demand and tight supply. The economic recovery of Poland affected the office property market in Warsaw, with high construction activities. The prime rent level of Warsaw was comparable to Hamburg and Brussel.

Boom of the office property markets went on in 2016

A sentiment with caution on the commercial real estate markets could be seen in 2016. However, office properties as the most popular asset class boomed in Europe. Transactions in the major European cities remained attractive for international occupier and investors. The country-specific parameters remained the main driver for the activities on the occupier market. Therefore please see the specific position enclosed. Poland (Warsaw) showed a strong development pipeline in 2016, with effect on vacancy rates of older office properties and rising supply of newly completed modern office space in prime locations (oversupply).

Office: Market Trends 2017

	Germany	UK	France	Netherlands	Poland
Demand	↗	→	↗	↗	↗
Supply	↘	→	↘	↘	↗
Vacancy Rate	↘	→	↘	↘	→
Prime Rent	↗	→	↗	→	→
Prime Yield	↘	→	↘	↘	↘
Investment Volume	→	→	→	→	→

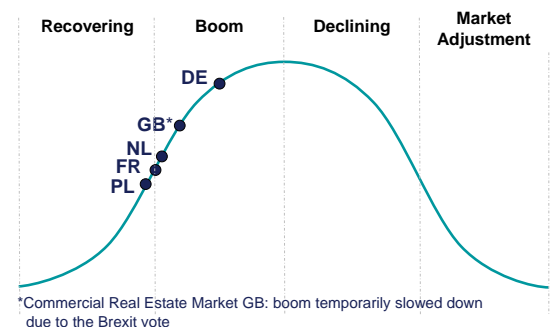
Source: NORD/LB Sector Research

Retail: Prime Rent



Source: Cushman & Wakefield, illustrated by NORD/LB Sector Research

Retail: Real Estate Cycle 2016



Source: NORD/LB Sector Research

Retail: Market Trends 2017

	Germany	UK	France	Netherlands	Poland
Demand	→	→	↗	↗	→
Supply	→	→	→	→	→
Vacancy Rate	→	→	↘	↘	→
Prime Rent	→	→	→	→	→
Prime Yield	↘	→	→	→	→
Investment Volume	→	→	→	↗	→

Source: NORD/LB Sector Research

Reference of source

- BNP Paribas Real Estate:** Main Office Markets in Western Europe at a glance Q4 2016; Let's Talk Retail November 2016
- Colliers:** Office Market Poland H1 2016
- Cushman & Wakefield:** Office and Retail Market Snapshot DE, GB, FR, NL, PL Q4 2015 and 2016; A Snapshot of the Polish Real Estate Market 2016, Property Times Warsaw Office H1 2016
- Jones Lang LaSalle:** Global Market Perspective Q1 2017; Office Property Clock Q4 2016
- NORD/LB Economics:** Strategy View January 4, 2017 (in German)
- Real Capital Analytics:** Europe Capital Trends 2016

Ongoing high cross-border demand in 2017 forecasted

A volatile and changing environment, due to the upcoming elections in Germany, France and the Netherlands and continuing negotiations on the Brexit, is expected in 2017. Furthermore, the high cross-border demand for prime office properties associated with yield compression will continue. Prime rents already reached a very high level. Therefore the selected countries should be tracked differently over the present year, with a positive trend overall. An addition of just under 6 million sq m office space to the European market is expected for 2017. Therefore the development pipeline will be more significant in the present year, concentrated in Paris and Berlin, and others.

Robust European retail market in 2016

The major European retail markets proceeded very well in 2016, with respect to retail sales and despite international uncertainties. The consumer sentiment is positive. Retail prime yields in Europe's core markets remained under pressure. Furthermore, prime rents still varied across Europe. The selected retail property markets developed as follows: Germany benefited from a good employment situation and a strong domestic demand, which boosted the retail sales. A relatively stable rent level was recorded. On UK's retail property market international retailers showed an increased level of caution following the Brexit vote, but the occupational demand remained strong with a positive impact on retail sales. London West End was still very high in price, followed by Paris as the second most expensive occupier market. Paris continued a stable performance, despite negative effects from the summer terrorist attacks. It remained an active and highly requested retail market in 2016, with stable prime rents. In the Netherlands demand for prime assets was still strong. International retailers focused on their expansion with flagship stores in shopping centers and at high street locations in the dominant cities. Amsterdam remained the most attractive shopping destination across the Benelux countries. In Poland, steady private consumption and positive trends in employment bolstered the building activities of new schemes, with a focus on Warsaw and other key metropolises.

Dynamic trend in retail will continue in 2017

Retail sales are expected to remain robust, strengthened by international tourism. Therefore trading activities in the major retail markets will proceed satisfactorily. The mixture of online strategy and local presence at a prime location becomes more and more important for international retailers. For example, the UK and the Netherlands are countries with a very active electronic commerce. As shown enclosed, little change of the indicators for the retail market is expected in 2017.

Outlook for Commercial Real Estate in Europe 2017

The high demand for European Commercial Real Estate will exist in 2017 further on. ECB's monetary policy will be determinative for investment decisions. The level of interest rates is forecasted to remain unchanged in 2017. Policy issues, with upcoming elections in Germany, France and the Netherlands, will influence the conditions on the commercial real estate markets. Local imbalances of prices shall not be excluded. Yield compression is expected to persist. Germany will remain a safe haven for investments in commercial properties this year long, on the strength of its macroeconomic conditions.

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Editorial deadline

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