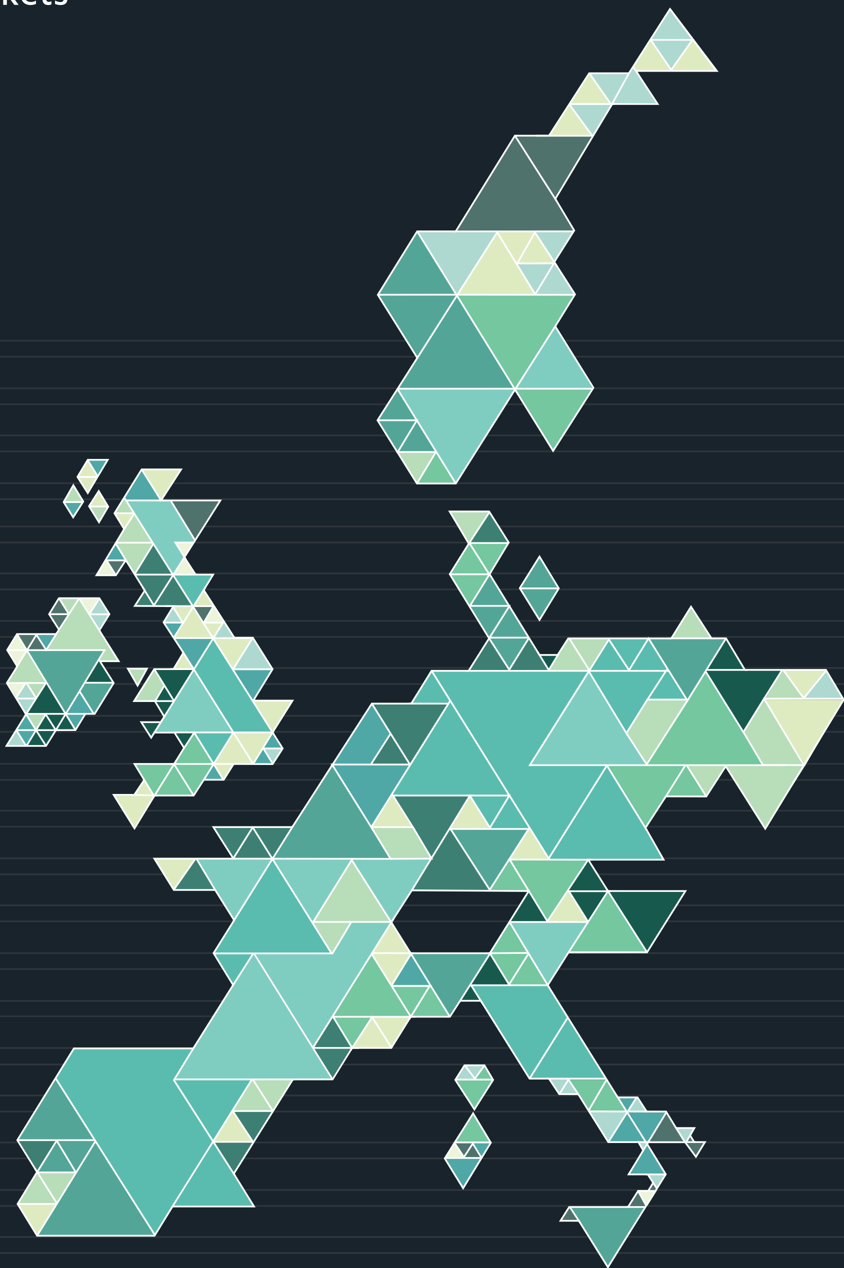
EURO CITIES

Analysis of the
European property markets

Spring 2020



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INTRODUCTION

At a time when cross-border investment is high up the economic and political agenda, Gerald Eve continues to expand and strengthen its international alliance, offering clients a best-in-class service across Europe, North America and beyond.

Warning lights are flashing over several key parts of the world economy. Tensions between the US and China continue to weaken global trade, with China's problems compounded by the impact of the coronavirus outbreak. Closer to home, trade negotiations between the UK and EU are underway, albeit with an end-of-year deadline and opening positions that look set to generate plenty of heated discussion. Trading relationships are being hammered out against a backdrop of structural shifts in the way we live and work, and uncertainty is the order of the day.

Despite these pressures, commercial real estate retains its allure to investors. Demand for offices remains high – particularly new space that can be used as part of talent recruitment and retention strategies – while changing consumer behaviour continues to drive occupier and investor appetite for logistics warehouses throughout Europe.

To capture the on-the-ground feelings behind the data, this edition of Euro Cities is the first to feature a new sentiment survey. Capturing the thoughts and opinions of investors, occupiers, developers and brokers across the continent, the results give a fascinating insight into where real estate professionals think the future of the sector lies.

We hope you find this report both useful and interesting, Gerald Eve and our international alliance partners remain available to help you make better real estate decisions.

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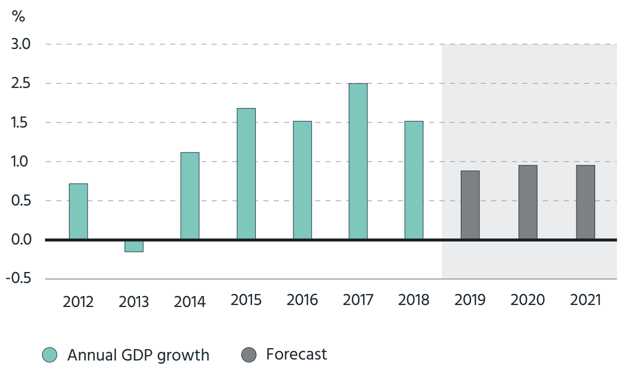
OVERVIEW

Economy

The European economy has entered a period of subdued growth with GDP growth expected to be 1.1% in 2019, its weakest year since 2013. Trade policy uncertainty, the future relations between the UK and the rest of the EU, compounded by structural shifts, such as changing consumer preferences in the car industry and the damage already caused to trade integration, are likely to dampen growth and inflation in the euro area over the next few years.

European real GDP growth
Source: European Commission, Gerald Eve



European unemployment rate
Source: European Commission, Gerald Eve

Labour markets in Europe have so far remained strong, and the unemployment rate fell to 7.46% in June 2019, which is below its pre-crisis level. This has fuelled robust wage growth across the continent and allowed domestic demand to expand at a relatively strong pace. The European labour market is expected to remain relatively favourable.

However, as changes in the labour market situation usually lag developments in economic activity, the potential for further increases in employment has become more limited, particularly in the underperforming manufacturing industry where labour hoarding has taken place in some countries.

Inflation across Europe was on a downward trend over 2019. In line with subdued economic growth and under the assumption of moderately declining oil prices as well as subsiding external and industrial price pressures, inflationary pressures should remain muted over the next three years. Inflation in the euro area is expected to be 1.2% in 2020, with a slight increase to 1.3% in 2021

There are a number of risks which could weaken the outlook for the European economy. Firstly, any deviation from the status quo in terms of trading relations between the UK and the EU is expected to have a significantly negative effect on economic growth, particularly in the UK. Secondly, recession in the manufacturing sector could have an impact on the services sector, affecting confidence, net job creation, domestic demand, growth expectations and ultimately resulting in worse growth outcomes.

The economic tensions between the US and China are taking their toll on global investment, manufacturing and trade. However, policy stimuli in a number of major economies, as well as resilient labour markets, should limit the depth of the global slowdown. Global GDP growth (excluding the EU) is forecast to decrease from 3.8% in 2018 to 3.2% in 2019.

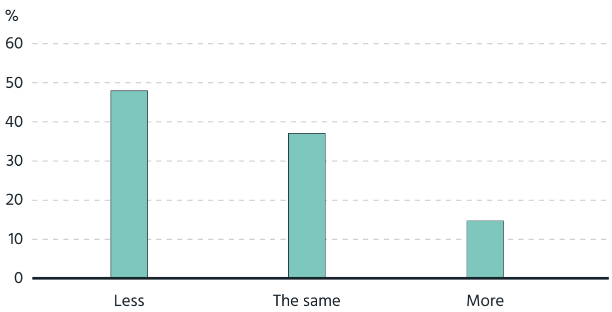
More positively, international trade tensions could be resolved more quickly than assumed in response to easing measures in China. In in the euro area, the fiscal policy stance could also turn out more expansionary than currently envisaged, boosting further growth.

When asked, the majority of the respondents from our survey (71%) claimed that low economic growth will provide the greatest risk to their business in 2020. GDP growth is strongly correlated with real estate total return, which makes the subdued economic forecast over the next three years a strong indicator of limited yield contraction and rental growth.

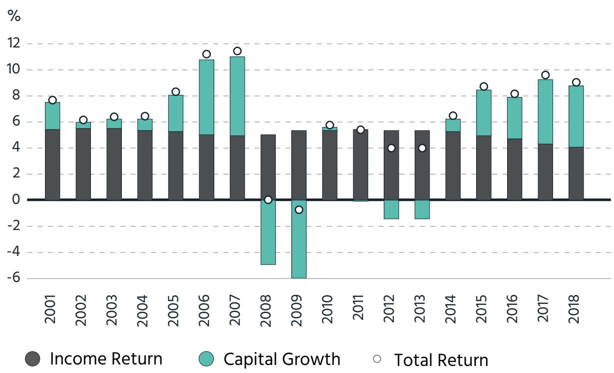
Commercial Real Estate

2019 investment activity in Europe was down compared to the record levels seen in 2018. However, rather than a fall in investor sentiment, the reduction is largely due to a lack of available opportunities in the market.

Will you invest more, or less in the UK after Brexit?
Source: Gerald Eve Survey of investor intentions, February 2020



European real estate investment performance
Sources: MSCI, Gerald Eve



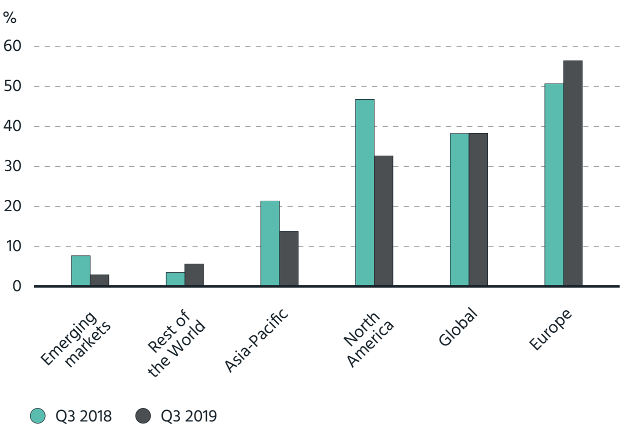
In the UK, the significant political and economic uncertainty created by Brexit has led to a growing disconnect between the pricing expectations of buyers and sellers, resulting in a more pronounced reduction in investment activity than in mainland Europe. Respondents to our survey on European investor intentions indicated that after Brexit, investment levels in the UK will drop further, with almost half of the participants claiming that they would invest less in the UK. Only 15% said that they would invest more following the country's exit from the European Union.

For the last four years, European real estate has performed well, recording an average total return of 8.7%, with a higher return recorded in only 2006 and 2007 over the last two decades. Capital growth has been the main driver behind these returns, with European capital values increasing by 4.9% in 2017, and 4.7% in 2018.

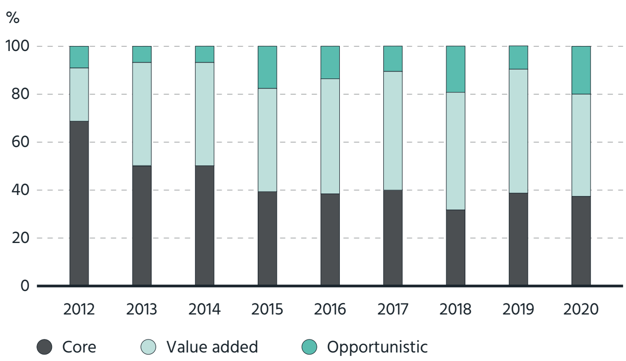
European yields are likely to have reached a floor. This and limited rental growth anticipated over the next few years means investment returns across Europe will be weaker from 2019 onwards. The search for income-producing assets will be a key driver of the market and investors will be typically buying to hold.

Despite the weaker outlook, Preqin recently reported that investor appetite in European real estate increased in the 12 months to September 2019, with almost 60% of global private real estate investors targeting European markets over the next year, which suggests that demand will be relatively strong in 2020.

Regions targeted by private real estate investors
Source: Preqin, Capital Economics



European real estate investment strategy
Source: INREV, Capital Economics



With greater levels of risk in the market, there will be significant competition for prime stock and grade A assets in the best locations will continue to attract multiple bids from investors with core strategies that are looking for security.

We expect core markets such as Germany, UK, France, and the Netherlands will attract the most interest. Some investors will seek diversification across sectors and geographies, and be attracted to the markets which are being positively affected by structural changes, such as logistics, data centres, healthcare and living sectors. Other investors will look closely at economic output and be attracted to markets with the strongest GDP growth forecasts.

INREV announced that they expect an increase in opportunistic investor strategies in 2020, as less risk-averse investors look for value add opportunities through new construction, refurbishment and re-purposing. The decline in retail capital values will present some of these opportunities, especially in the countries with higher consumer spending such as the UK, Germany and France.

Office

Occupier demand for office space will remain strong with Oxford Economics reporting positive office-based employment growth in the Eurozone over the next five years. The competition for the best talent has also meant occupiers are increasingly targeting quality space as part of their recruitment and retention strategies.

There are significant structural changes in the way that we work which has led to the rise of flexible working, with the development of new technology making this possible. As a result, the serviced office sector has been increasing its proportion of office space across the major cities.

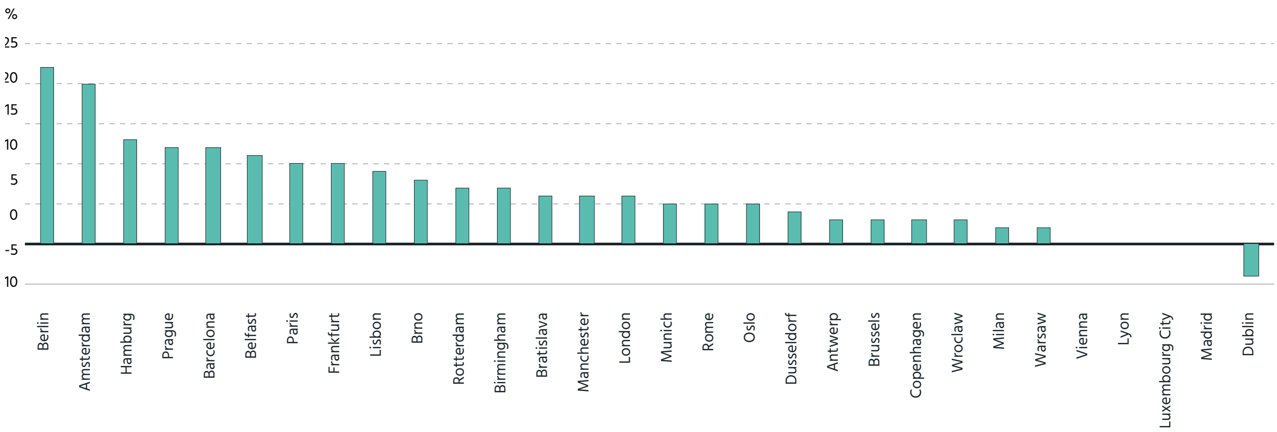
In recent years, demand has largely been driven by the media and technology sector in recent years, but the occupier profile in 2019 was more balanced and the finance and banking sector took a larger proportion of space.

Over the last 12 months, the strongest rental growth for prime offices occurred in Berlin which reached €468 per sq m, a 22% increase on 2018. There was also strong growth achieved in Amsterdam (20%), Hamburg (13%), Prague (12%), and Barcelona (12%). Dublin was the only market where prime rents declined.

Availability is low across most markets in Europe, and in particular grade A buildings in central locations. Occupiers have turned their attention to the development pipeline in order to secure the best space. The number of new schemes expected over the next two years is high compared to recent years, however nearly half of this space has already been taken, and much of the remaining space will likely be let before completion.

2019 office rental growth

Source: Gerald Eve



Retail

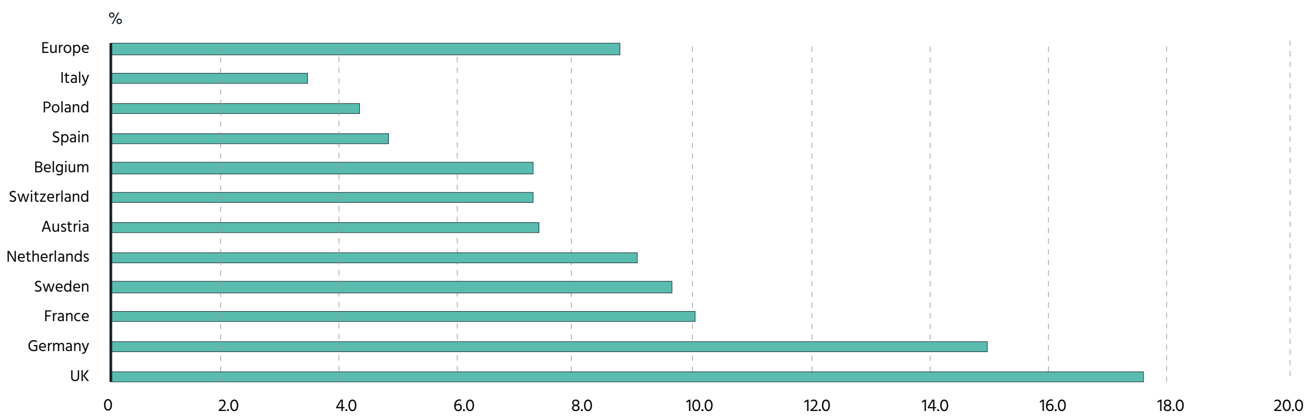
The performance of the retail sector across Europe will continue to be affected by the further growth of online shopping. In northern and western Europe, cultural factors such as high credit card usage and a digitally literate consumer base will foster further internet spend. As at the end of 2018, the UK has the highest proportion of online shopping at 17.8%, whilst Germany (15.1%), France (10.1%), Sweden (9.7%) and the Netherlands (9.1%) were also high users. Countries in Southern and Eastern Europe, such as Spain, Poland and Italy have a much lower proportion of online transactions at 4.1%, 3.7% and 3% respectively.

The UK is Europe's most mature online market, and demand for physical retail stores has fallen significantly. In the 12 months to December 2019, capital values declined by over 11.5% according to MSCI. This was driven by significant negative rental growth, and yield softening.

However, there are more positives for the sector across mainland Europe than in the UK, such as stronger expectations of economic growth in certain countries, lower levels of property taxes, and different lease structures. With rents in some markets linked to turnover, continental European landlords have better visibility on how retail businesses are performing.

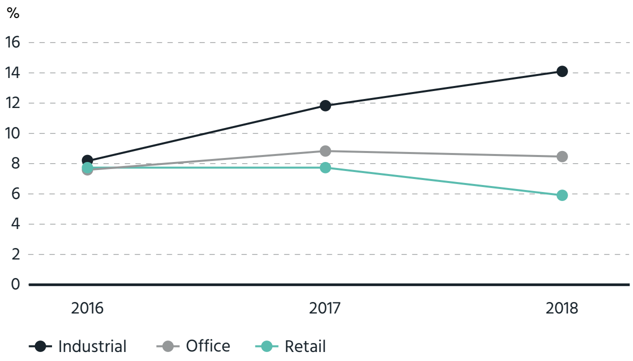
Percentage of online retail transactions by country (2019)

Source: Retailresearch.org, Gerald Eve



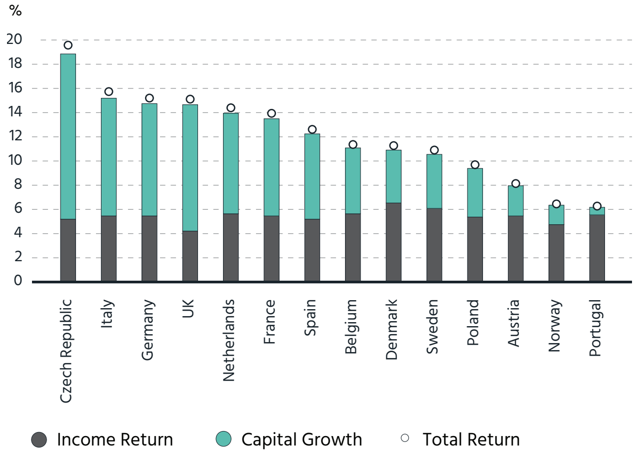
European total return by sector

Sources: MSCI, Gerald Eve



Industrial annual total return by country

Source: MSCI, Gerald Eve



Industrial

Whilst the retail sector has suffered from a drop in occupier and investor demand following the rise in e-commerce, the logistics sector across Europe has profited, with rises in rental values, and yield hardening in recent years. Since 2016, European total returns have increased significantly for industrial property, with an average total return of 14.2% in 2018. This compared to the retail sector which has seen returns weaken over the same period.

In the year to December 2018, industrial total returns were strongest in the Czech Republic at 19.7%, followed by Italy (15.9%), Germany (15.3%), and the UK (15.2%).

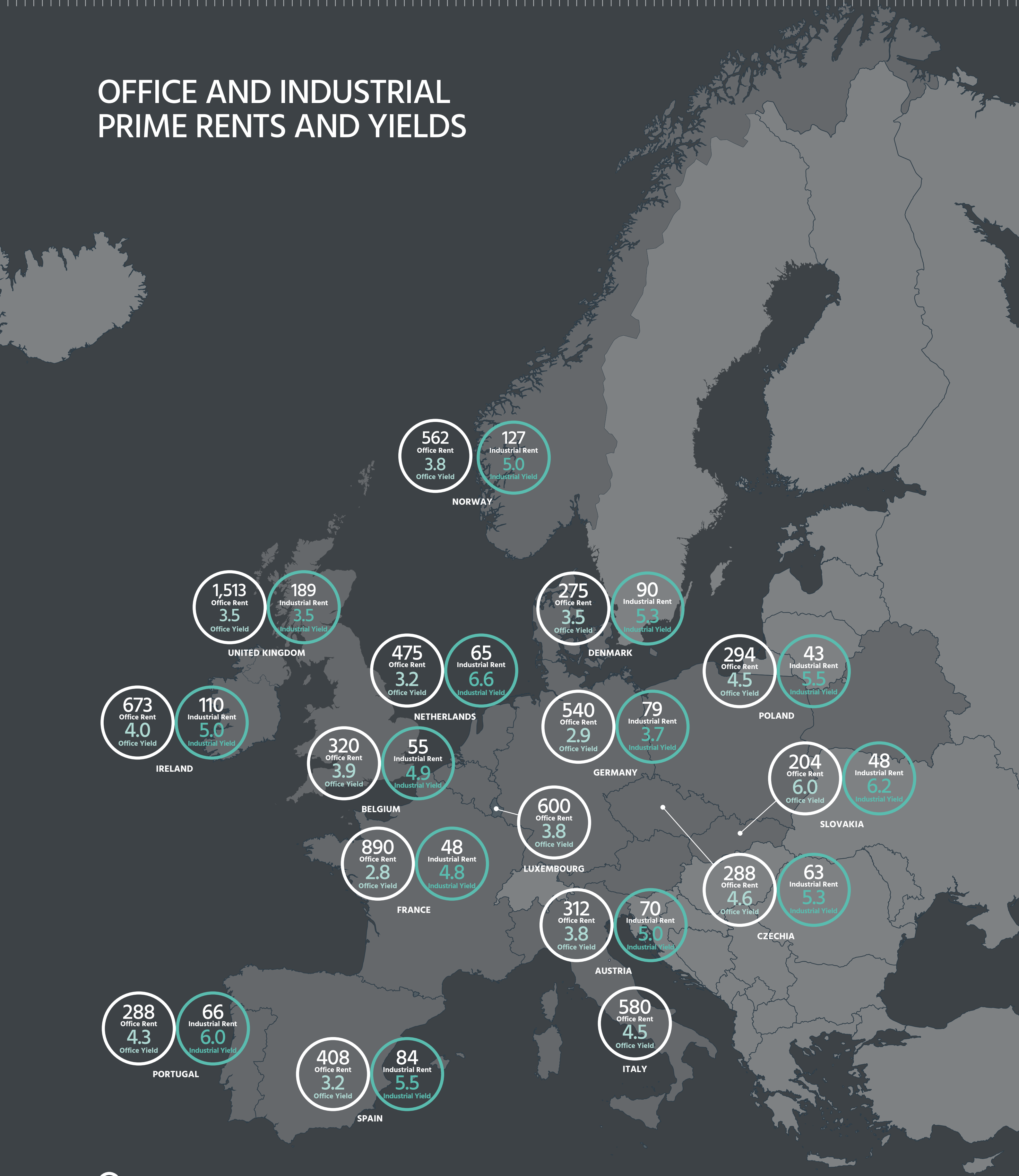
Austria, Norway and Portugal recorded little capital value growth according to MSCI, and as a result, their total return for the year was significantly less at 8.2%, 6.5% and 6.3% respectively.

The industrial market is more than just logistics with manufacturing still an important source of occupier demand. Over the next few years, the drivers behind occupier demand will be affected by the subdued European economic outlook and rising operating costs. Some markets with weaker manufacturing output such as Germany and the Netherlands, could see a fall in occupier activity.

Although the implementation of robotics has increased in warehouses, human presence is still key, therefore locations with strong labour availability are driving industrial location preferences. The low unemployment rates recorded across Europe have increased the importance of this factor. Locations such as the north-east of England, the Czech Republic, and the south of Italy, are becoming more attractive for developers.

The availability of industrial space has fallen with the overall availability rate now below 5%. This supply-demand dynamic will lead to further rental growth over the next 12 months, particularly in supply-constrained locations such as London, Dublin and Barcelona.

OFFICE AND INDUSTRIAL PRIME RENTS AND YIELDS

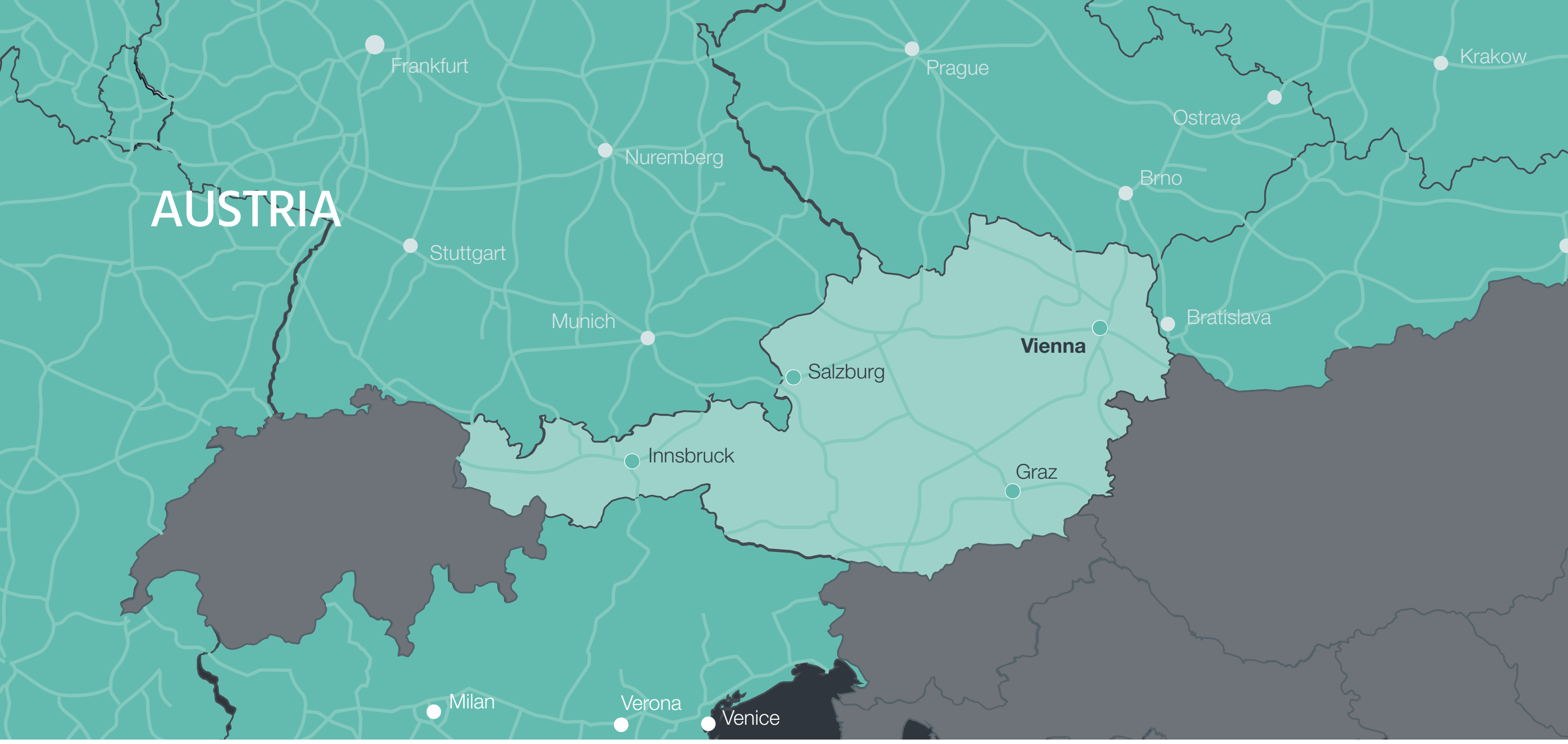


Office Rent / Yield

Industrial Rent / Yield

Euro per sq m (Annual)

AUSTRIA



COMMENTARY

The strong economic growth that Austria has been experiencing since 2016 started to diminish in 2019 due to a fall in business investment as well as a decline in goods and service exports. This meant that the overall contribution of trade to GDP growth was negative. The decrease in exports is visible across most sectors, however manufactured goods has been significantly affected by the weaknesses in the German automotive sector. The lack of growth forecast in the German, and global, means that the outlook for Austria also remains subdued.

Employment growth has remained resilient in 2019, however, a decrease in the number of job vacancies suggests that the jobs market may already have peaked. As the economy is set to cool, employment growth is expected to decrease while the unemployment rate is set to stabilise at 4.6%. As a result, wage growth will rise more moderately, in line with the lower GDP and inflation growth prospects.

Public debt is expected to continue its downward path and to decrease from 74.0% of GDP in 2018 to 67.2% of GDP by the end of 2020. This mainly reflects the favourable development of interest expenditures and the successful divestment of impaired assets.

Austria's office market will remain stable over the next 12 months, despite a recent drop in occupier demand. Leasing activity fell to 220,000 sq m in 2019, and is expected to fall again in 2020 to approximately 180,000 sq m.

Following a high number of development completions in 2018, only 42,000 sq m of new office space delivered in 2019. However, this will pick-up in 2020, with a further 160,000 sq m set to complete over the next 12 months.

Despite a lack of investible stock, investment transactions increased in 2019. National and international investors continue to show great interest in Austria's office market, and with a high volume of development completions in the pipeline, investment levels are expected to grow further in 2020 and 2021.

Austria's logistics market is still on the rise, due to the growing e-commerce sector. The focus in this asset class is concentrated in the greater Vienna area and the secondary cities and surroundings of Graz and Linz, where 350,000 sq m of new logistics space will be completed by the end of 2020.

The main customers for the current dynamic developments are e-commerce, last-mile, and parcel logistics. Consequently, the Industrial Campus Vienna East, for example, has established itself as Austria's largest industrial and logistics centre, where both the new parcel centre of Post System logistik and the DHL freight centre are being developed.

Amazon has already moved into a strategic distribution centre at the Vienna North Logistics Centre in 2018, further distribution centres in the greater Vienna area are being planned. Investor demands on the Austrian industrial and logistics market are rising in line with the trend. Above all, modern logistics areas are increasingly perceived as a sustainable investment opportunity.

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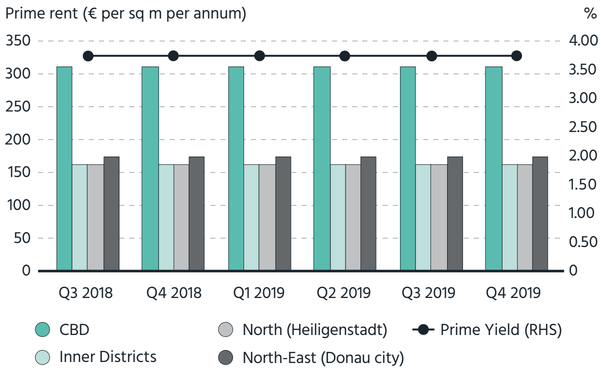
VIENNA

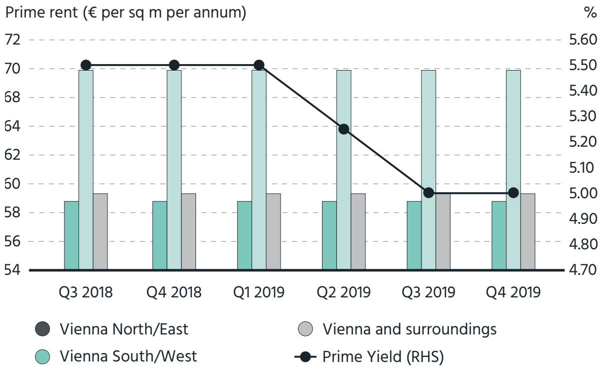
Offices – Prime rents & yields



Outlook

Occupier demand	↗	Availability	↘	Prime rents	→
Development supply	↘	Investor activity	↗	Prime yields	→

Logistics – Prime rents & yields



Outlook

Occupier demand	↗	Availability	↗	Prime rents	→
Development supply	↗	Investor activity	↗	Prime yields	↘

BELGIUM

COMMENTARY

Belgium's economic growth was weaker in 2019 than in previous years due to a reduction in household consumption growth. However, rising disposable income should support this from 2020 onwards, paving the way for domestic demand to become the sole growth engine over the next few years.

The job market should continue developing favourably thanks to recent measures to lower labour costs. Employment growth is forecast to remain strong at 1.3% in 2019 and decelerate gently to 0.9% in 2020 and 0.8% in 2021. The unemployment rate is expected to decrease from 5.5% in 2019 to 5.3% in 2021.

The contribution of Belgium's exports to GDP growth is projected to turn negative in 2020 as a result of subdued world trade growth, whilst imports are expected to be bolstered by stronger domestic demand.

Belgium's debt-to GDP ratio decreased to 99.5% in 2019, which was mainly due to a fall in interest spending. However, public debt is forecast to rise again to 99.6% in 2020 and to 100% in 2021 due to increasing deficit projections and relatively high stock-flow adjustments.

Antwerp's office market saw a 15.5% decline in leasing activity in 2019 due to a lack of large transactions. However, take-up was still above the ten-year average and expected to remain robust over the next few years. The strength of occupier demand was reflected in the delivery of two large office schemes, Link and Post X, which were both fully let on completion. As a result, a small increase in prime rents is expected in 2020 to €165 per sq m.

The availability rate remains low at 7.8% and expected to remain at that level due to the lack of developments currently under construction.

In Brussels, significant activity from the public sector drove take-up to its highest volume over the last decade. Serviced offices have also been driving demand and leased 46,500 sq m across nine deals.

Whilst occupier demand has been strong in the logistics market, with letting activity increasing by 9% in 2019, the retail sector continues to struggle. Footfall is down 25% on 2017 in Antwerp's main shopping street, Meir. Retail availability rate has reached 16%, and some iconic brands are preparing to leave the Schuttershofstraat, the "Fashion-street" of Antwerp.

However, despite all the negative headlines, retail take-up across Belgium in 2019 was the second highest over the last decade, with Shopping centres particularly active, increasing by 32%.

Investor sentiment has been positive in 2019 with €4.8 billion transacted over the last 12 months. The majority of investment was for office property, which accounted for 54% of sales, followed by retail (15%), and logistics (7%). The amount of money targeting the market, particularly offices and logistics, means that investment volumes are expected to increase in 2020, and yields harden slightly.

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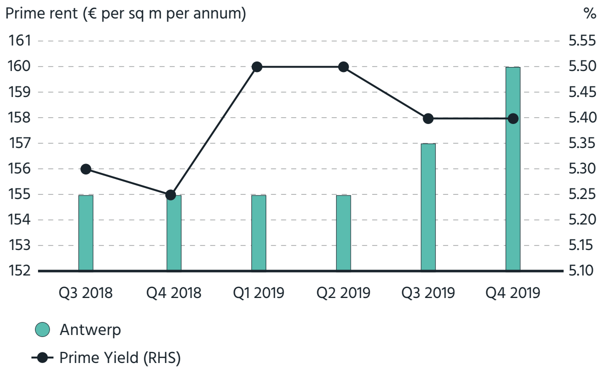
ANTWERP

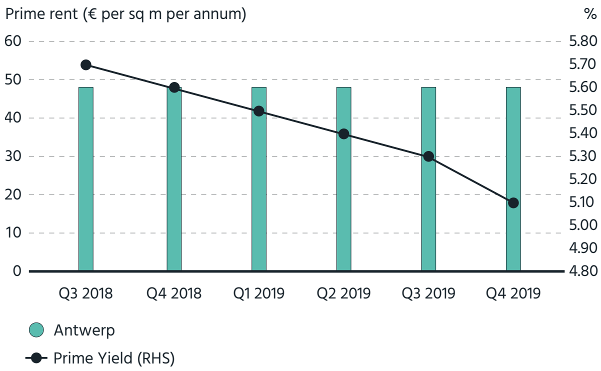
Offices – Prime rents & yields



Outlook

Occupier demand	↗	Availability	→	Prime rents	→↗
Development supply	↗	Investor activity	→↗	Prime yields	→↘

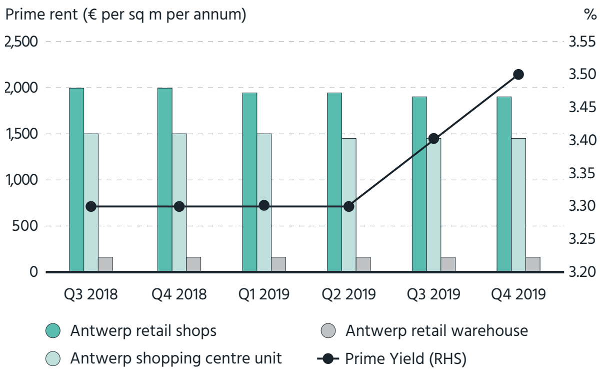
Logistics – Prime rents & yields



Outlook

Occupier demand	→	Availability	→	Prime rents	→
Development supply	→	Investor activity	→↗	Prime yields	↘

Retail – Prime rents & yields

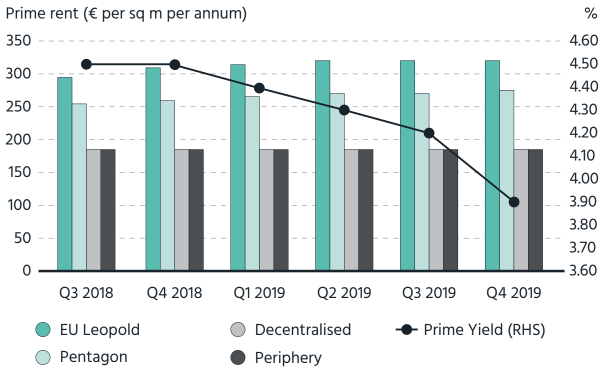


Outlook

Occupier demand	↘	Availability	→	Prime rents	↘
Development supply	→	Investor activity	→	Prime yields	↗

BRUSSELS

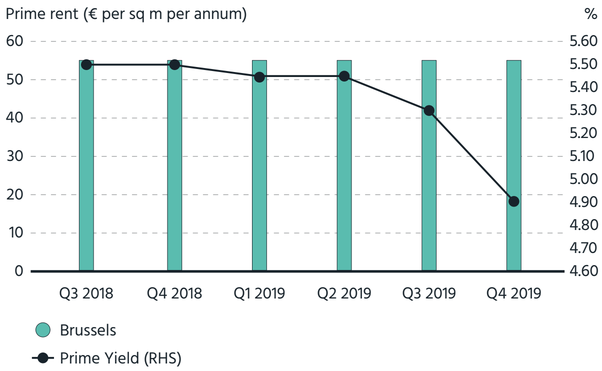
Offices – Prime rents & yields



Outlook

Occupier demand	→	Availability	→	Prime rents	→↗
Development supply	→	Investor activity	↗	Prime yields	↘

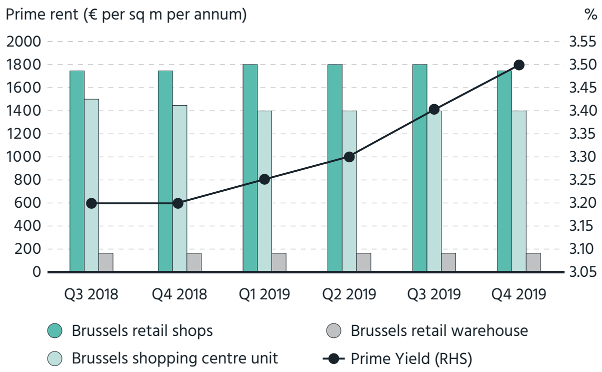
Logistics – Prime rents & yields



Outlook

Occupier demand	→	Availability	→	Prime rents	→↗
Development supply	→	Investor activity	→↗	Prime yields	↘

Retail – Prime rents & yields



Outlook

Occupier demand	↘	Availability	→	Prime rents	↘
Development supply	→	Investor activity	→	Prime yields	↗

CZECHIA

COMMENTARY

Czechia's economic growth slowed to 2.5% in 2019, from 3% in 2018. Whilst a tight labour market, strong wage growth and robust consumer confidence will continue to support household consumption over the next few years, the slowdown in economic expansion is expected to continue with GDP forecast at 2.2% in 2020, and 2.1% in 2021.

Whilst the automotive industry remains resilient, other manufacturing sectors have witnessed a significant drop in economic activity. As manufacturing sentiment is rather weak, new orders have been declining throughout 2019. As imports are expected to grow more slowly than exports due to weaker investment and production, the trade balance will likely remain positive over the next two years.

Government debt is forecast to further decrease to around 30% of GDP by 2021, similar to levels last seen in 2008.

Czechia's job market remains very tight and companies are still struggling to fill job vacancies. Unemployment is at very low levels at 2.1% in 2019, and only a slight increase is expected over the next two years to 2.2% in 2020 and 2.3% in 2021.

The office market reflects this and continues to be in high demand. In 2019, several large development schemes were delivered, and the demand for high quality new space resulted in an increase in prime rents. This demand for offices from both occupiers and investors is expected to continue in 2020.

In Brno, the office market remained robust in 2019, with occupiers keen to lease new, high-quality space. Throughout the year, 52,000 sq m was delivered across six schemes, Vlněna office park A/B offering 19,100 sq m, and ZET.office offering 19,000 sq m. Another 50,000 sq m of new office space is expected to be delivered in 2020. Due to the high development activity, the overall availability rate increased to 11.7% in 2019.

Prague's office market has also been active, with 51,800 sq m of new space delivered over the last 12 months. Notable developments include ČSOB HQ. II (30,000 sq m) in Prague 5, Praga Studios (10,600 sq m) in Prague 8, and Mayhouse (7,300 sq m) in Prague 4.

Positive investor sentiment continues to grow in the South Moravian region, and a number of developers are expanding their capacity, for example, Prologis Park Brno (68,000 sq m) and Panattoni Park Brno (106,000 sq m). These schemes will draw demand from occupiers and as a result prime rents are expected to rise.

A recent lack of development activity in the logistics market has meant there's not been enough available space to satisfy demand. Currently the availability rate is at 2%. As a result, developers have started to show more interest in brownfield sites. This could help ease the transport and logistics issues in and around Prague in particular.

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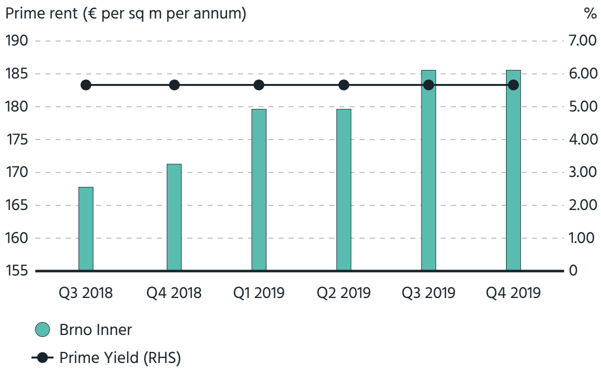
BRNO

Offices – Prime rents & yields

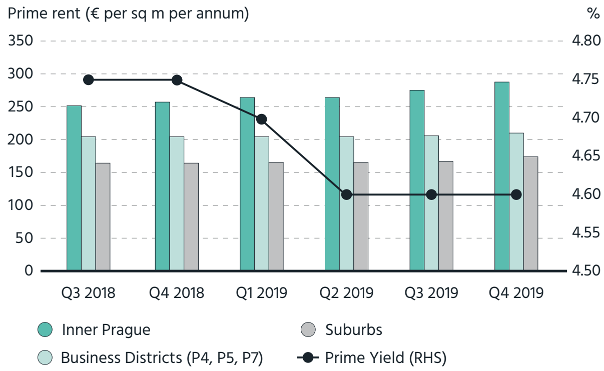


Outlook

Occupier demand	→	Availability	↗	Prime rents	→
Development supply	→	Investor activity	→	Prime yields	→

PRAGUE

Offices – Prime rents & yields

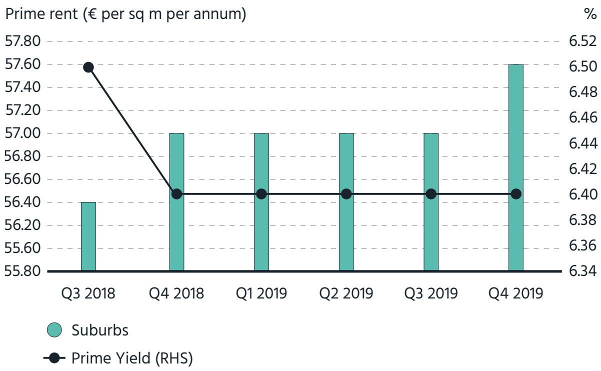


Outlook

Occupier demand	→	Availability	↗	Prime rents	↗
Development supply	↗	Investor activity	→	Prime yields	→

BRNO

Logistics – Prime rents & yields

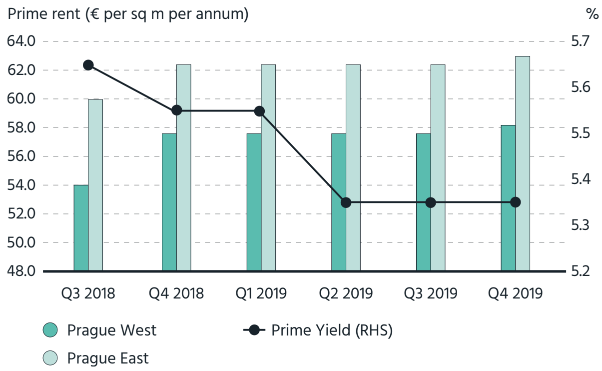


Outlook

Occupier demand	→	Availability	→	Prime rents	→
Development supply	→	Investor activity	→	Prime yields	→

PRAGUE

Logistics – Prime rents & yields



Outlook

Occupier demand	→	Availability	↘	Prime rents	↗
Development supply	→	Investor activity	→	Prime yields	→

DENMARK

COMMENTARY

A significant increase in Denmark's industrial production and exports provided impetus for positive GDP growth. The rise in production is largely due to the favourable industrial specialisation of Danish industry, which has so far proven to be less sensitive to the slowdown in the world economy.

Despite the economy's expansion, the labour market was slightly weaker in 2019, falling from 1.8% in 2018 to 1.3% in 2019. Although employment growth has eased, the unemployment rate will remain stable, with a slight decline from 4.9% in 2019 to 4.7% by 2021.

Danish exports grew throughout 2019 and were driven almost entirely by two sectors; pharmaceuticals and wind turbines. By contrast, import growth has been subdued, reflecting both the negative base effect of the shipping acquisition in 2018 and weak car imports in 2019, due to the introduction of new emission standards last year.

Public gross debt is set to continue falling gradually from 34.2% of GDP in 2018 to 31.7% of GDP in 2021.

The real estate market in 2019 was generally driven by continued low interest rates, and investors believe they can achieve higher returns in property than other asset classes.

Investor sentiment remains positive in Denmark's office market, with €2.1 billion transacted across 2019, accounting for 29% of all investment activity. The majority of transactions have been in Copenhagen, as investors are targeting prime, well-located office properties in the capital where the risk is lower.

Historically high occupational frequency in the Danish workforce and low unemployment, together with continued stable economic growth, has created a strong demand for office space. As a result, the availability rate remains at 6% in Copenhagen, and slightly higher for the rest of the country.

There is great demand for warehousing and especially logistics properties in Denmark as the companies are looking for increased storage capacity and production. This demand for logistics and industrial properties has led to a shortage of properties with modern facilities within the segment, with the availability rate now as low as 1.9 %.

€588 million of industrial and logistics properties transacted in 2019, representing 8% of all investment activity. Whilst the demand from investors remain strong, there are a lack of sellers in the market, which is limiting activity.

Denmark's retail market continues to be challenged by the changing of consumer shopping habits, which is reflected in the rising availability rate from 5.4% in the 2018, to 6.3% in 2019. As a result, investment activity decreased by 42% in 2019, with only €1.15 billion transacted. The drop-in investor demand has led to an increase in prime yields, and further softening is anticipated over the next few years.

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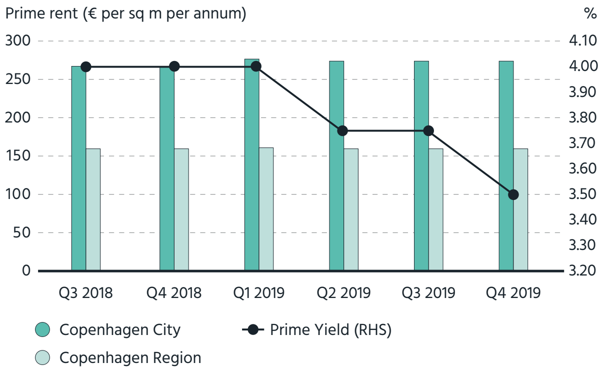
COPENHAGEN

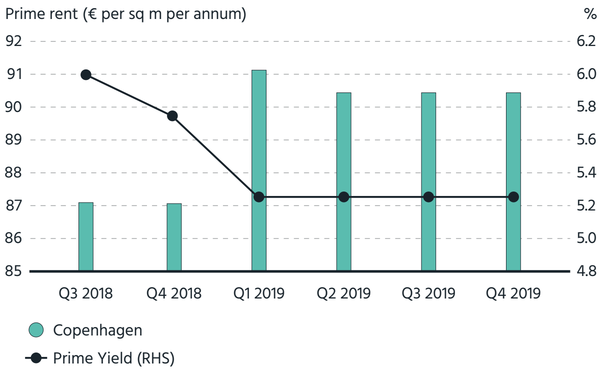
Offices – Prime rents & yields



Outlook

Occupier demand	→	Availability	→	Prime rents	↗
Development supply	↗	Investor activity	↗	Prime yields	→

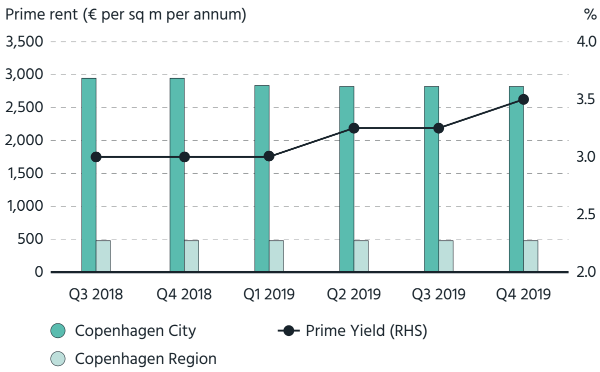
Logistics – Prime rents & yields



Outlook

Occupier demand	→	Availability	→	Prime rents	→
Development supply	↗	Investor activity	↗	Prime yields	→

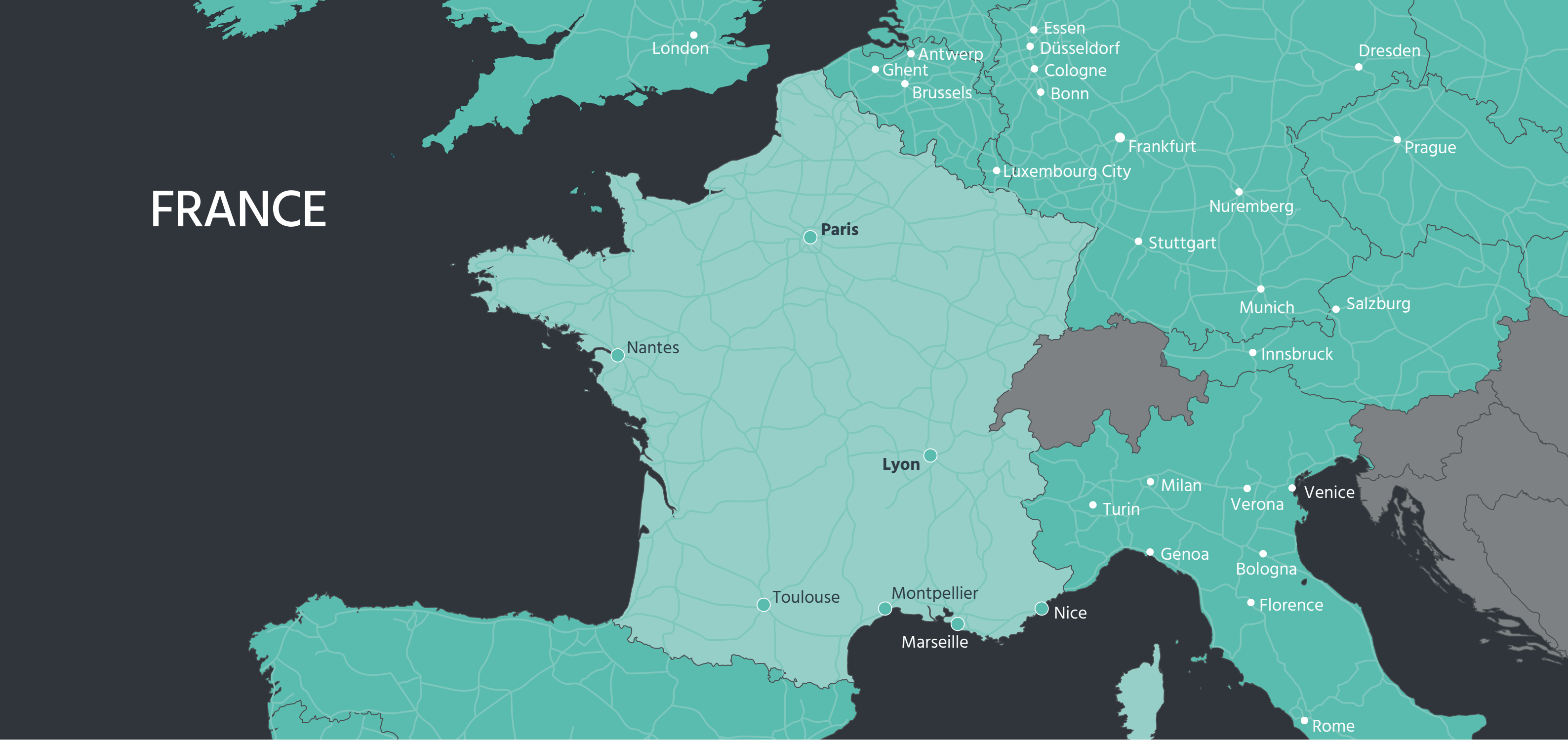
Retail – Prime rents & yields



Outlook

Occupier demand	↘	Availability	↗	Prime rents	↘
Development supply	↘	Investor activity	↘	Prime yields	↗

FRANCE



COMMENTARY

Following a deterioration at the end of 2018, economic sentiment and consumer confidence indicators have been improving and have stabilised above their historical means. However, rising external uncertainties are set to weigh on net trade and the external sector is not expected to provide any support to growth over the forecast horizon. As a result, GDP growth will weaken over the next few years from 1.4% in 2019 to 1.2% in 2021.

Unemployment levels in France declined in 2019 and are expected to continue falling, albeit at a slower pace, over the next few years.

Consumer spending is expected to increase, boosted by rising wages, falling unemployment and inflation, and supportive fiscal measures. Stronger consumer spending will partially compensate for the slowdown in investment over the next few years.

After a strong contribution to economic activity in 2018, net exports' contribution to GDP growth is set to be broadly neutral over the next few years. Imports are projected to accelerate in line with domestic demand, while export growth, which slowed in 2019, is expected to remain rather flat as external demand loses momentum.

Investor sentiment in the French property market remain positive with €36 billion transacted over the last 12 months.

In Lyon, transaction volumes totalled €2.5 billion, with investors largely targeting offices, which accounted for 55% of sales. Notably ADIA sold a combined 38 retail and office properties for over €600 million.

Investors have also been drawn to Paris, which according to PWC and Urban Land, is the most attractive city across Europe for investment, due to its upcoming Olympic games, but also the ongoing project of Grand Paris.

A significant amount of money is now targeting the French capital, with a particular focus to invest in development in the greater Paris region, where yields are still above 5%, and have limited risk. Some funds are also targeting land which can be developed over the long term. The occupier market in Paris has also been robust, with 2.3 million sq m leased in 2019. Whilst this is slightly down on 2018, it is still above the long-term average.

Occupier demand has also been strong in Lyon, with take-up reaching 440,000 sq m over the last 12 months. Occupiers are targeting quality which has resulted in a high level of pre-letting activity. As a result, a new development in Part-Dieu (80,000 sq m) is 75% let already, despite its completion date not scheduled until 2022.

The logistics market is highly sought after, however finding suitable land for development is becoming increasingly more difficult. Occupiers and investors are targeting larger buildings, between 50,000 sq m-100,000 sq m. as a result, prime yields have hardened.

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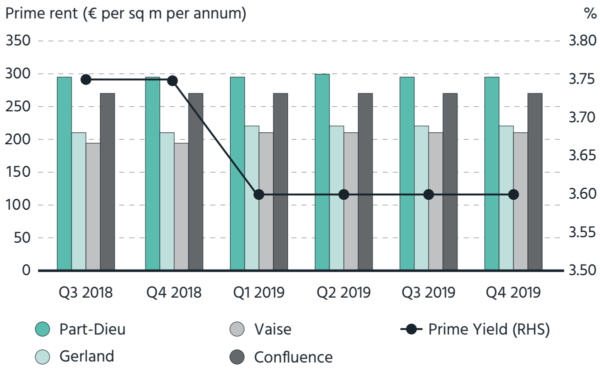
LYON

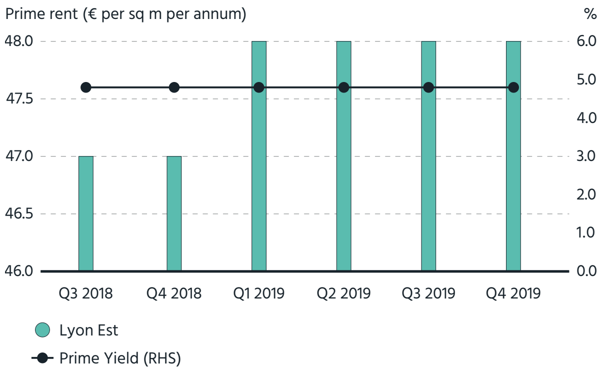
Offices – Prime rents & yields



Outlook

Occupier demand	↗	Availability	→	Prime rents	↗
Development supply	↗	Investor activity	→	Prime yields	→

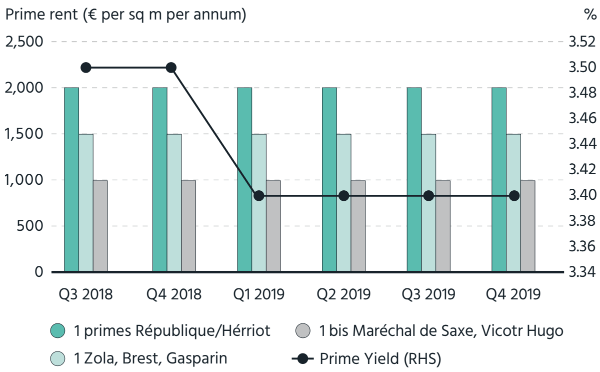
Logistics – Prime rents & yields



Outlook

Occupier demand	→	Availability	→	Prime rents	↗
Development supply	↗	Investor activity	↗	Prime yields	→

Retail – Prime rents & yields

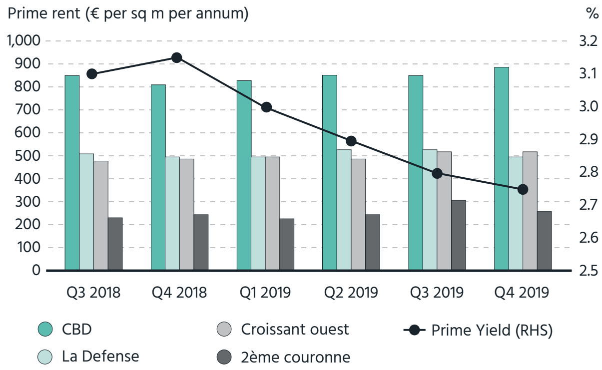


Outlook

Occupier demand	→	Availability	→	Prime rents	→
Development supply	→	Investor activity	→	Prime yields	→

PARIS

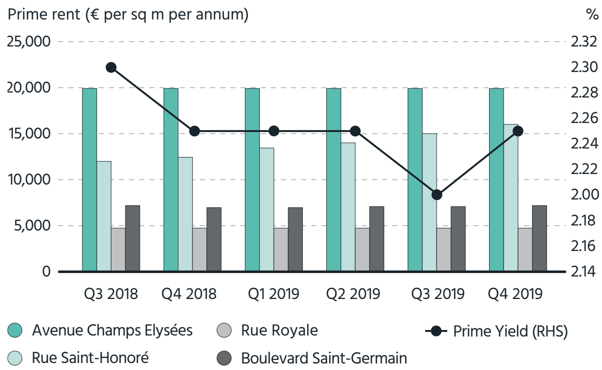
Offices – Prime rents & yields



Outlook

Occupier demand	↗	Availability	→	Prime rents	↗
Development supply	↗	Investor activity	↗	Prime yields	→

Retail – Prime rents & yields



Outlook

Occupier demand	→	Availability	→	Prime rents	→
Development supply	→	Investor activity	→	Prime yields	→

GERMANY

COMMENTARY

German manufacturing declined in 2019 due to reductions in the car manufacturing sector, which has a high share of output and a complex value chain and is undergoing a structural transformation. The production of combustion engine vehicles is being scaled down and relocated abroad. At the same time, equipment manufacturers are suffering from the impact of trade conflicts on investment demand. However, whilst GDP grew only slightly (0.5%)in 2019, this is set to increase over the next two years.

Germany's labour market has so far remained robust with record high employment and increasing wages. However, the number of overall hours worked stagnated in the first half of the year and the hiring appetite of firms has eased. Nevertheless, job creation is expected to remain positive, albeit only slightly, and job losses in the manufacturing sector are expected to be modest.

In Berlin, occupier demand for office space has been high, and as a result there is almost no availability inside the S-Bahn-Ring. However, there is a large development pipeline, with over 2 million sq m currently under construction, which is more than 10% of Berlin's total office stock. Investor activity has also been strong with record levels of transaction activity.

Last mile logistics is also becoming more popular in Berlin. Amazon in particular have opened a number of city hubs to serve the increasing consumer demand. Airport BER also nears completion, which will further boost Berlin as a logistics region.

The retail sector in Berlin also remains active. Despite the slight drop in sales, a number of shopping centres are being delivered, the most recent being the East Side Mall.

Dusseldorf office demand remains high and as a result the availability rate is falling, particularly for larger spaces. Logistics are also becoming more attractive, and 2019 saw a number of speculative schemes begin construction. Retail in Dusseldorf continues to struggle however, with high street rents slightly declining due to an increase in vacancies.

In Frankfurt, a number of large developments in the CBD are scheduled to complete over the next three years, offering more availability to occupiers. Whilst Brexit hasn't caused as many relocations to Frankfurt as was anticipated, inward migration from the rest of Germany has been significant, and as a result, much of the new space is expected to be let before completion.

Logistics around Frankfurt is largely focussed in the peripheral regions of the Rhein-Main-Region, with rents expected to remain flat over the next 12 months. Retail rents could fall however, with declining sales in recent years.

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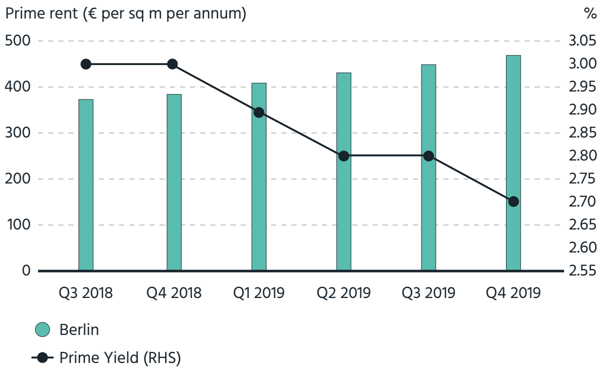
BERLIN

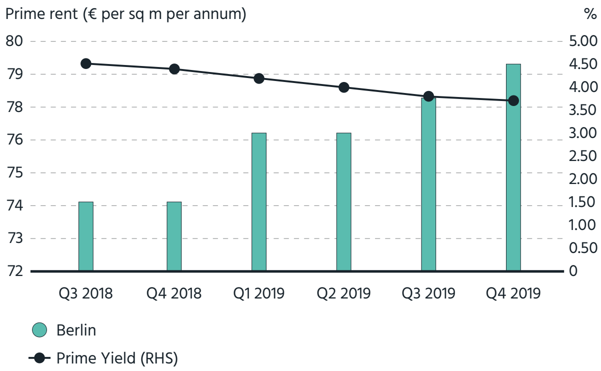
Offices – Prime rents & yields



Outlook

Occupier demand	↗	Availability	→	Prime rents	↗
Development supply	↗	Investor activity	↗	Prime yields	↘

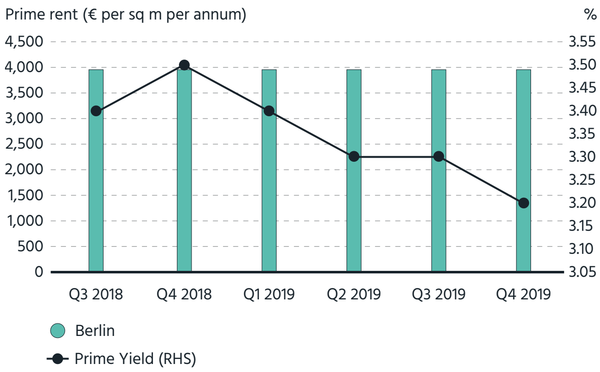
Logistics – Prime rents & yields



Outlook

Occupier demand	↗	Availability	→	Prime rents	→
Development supply	↗	Investor activity	→	Prime yields	↘

Retail – Prime rents & yields

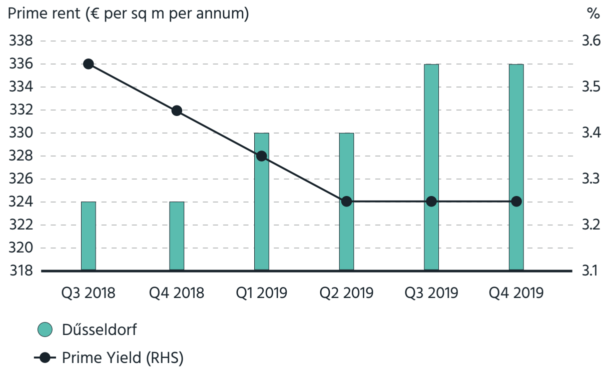


Outlook

Occupier demand	↘	Availability	↗	Prime rents	→
Development supply	↘	Investor activity	↘	Prime yields	↗

DÜSSELDORF

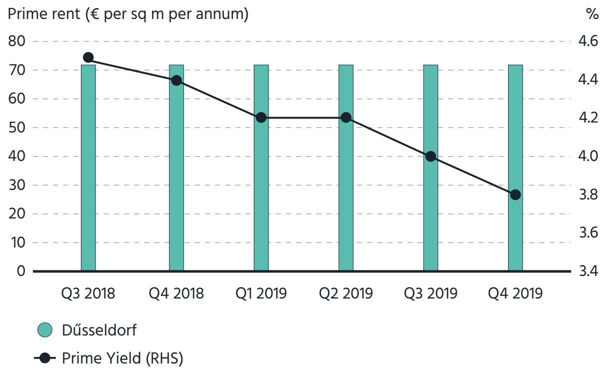
Offices – Prime rents & yields



Outlook

Occupier demand	↗	Availability	↘	Prime rents	↗
Development supply	→	Investor activity	→	Prime yields	→

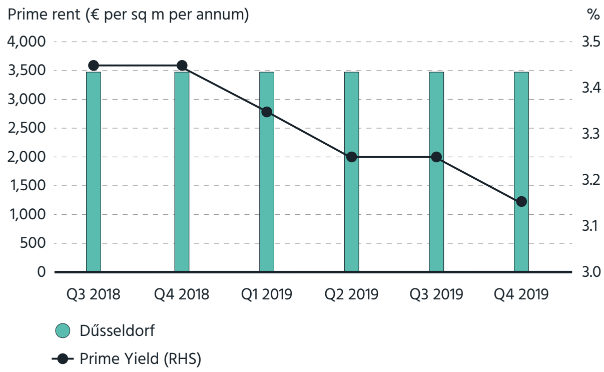
Logistics – Prime rents & yields



Outlook

Occupier demand	↗	Availability	→	Prime rents	→
Development supply	→	Investor activity	→	Prime yields	→

Retail – Prime rents & yields

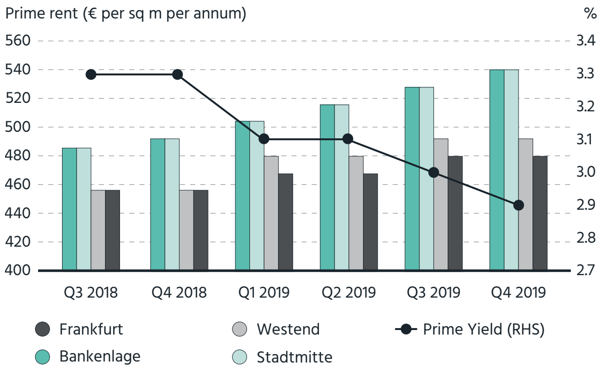


Outlook

Occupier demand	↘	Availability	↗	Prime rents	→
Development supply	→	Investor activity	↘	Prime yields	↗

FRANKFURT

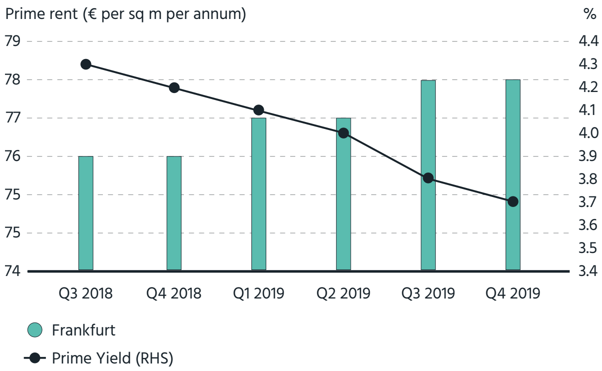
Offices – Prime rents & yields



Outlook

Occupier demand	↗	Availability	↘	Prime rents	↗
Development supply	↗	Investor activity	↗	Prime yields	↘

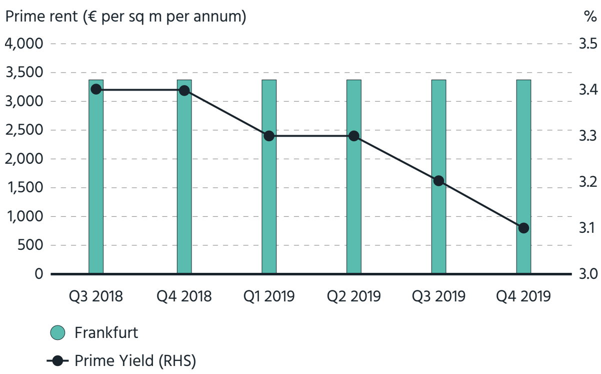
Logistics – Prime rents & yields



Outlook

Occupier demand	↗	Availability	→	Prime rents	→
Development supply	→	Investor activity	→	Prime yields	→

Retail – Prime rents & yields

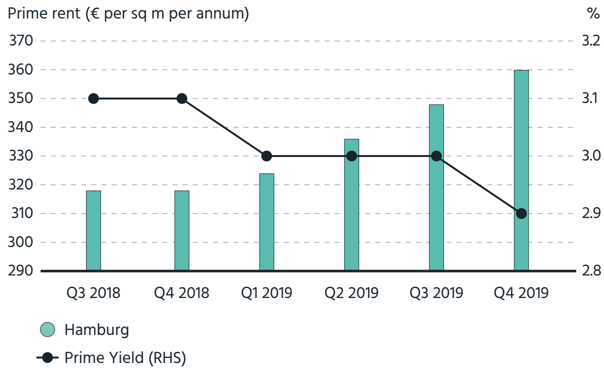


Outlook

Occupier demand	↘	Availability	↗	Prime rents	→
Development supply	→	Investor activity	↘	Prime yields	↗

HAMBURG

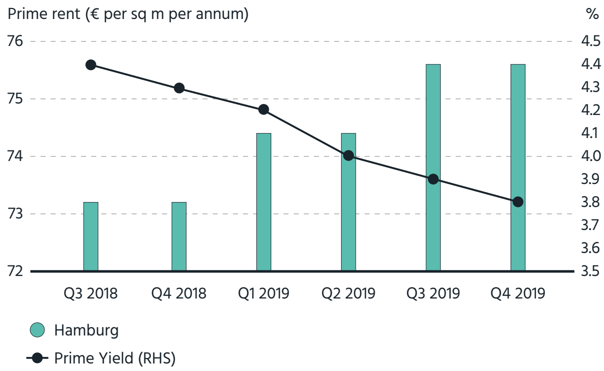
Offices – Prime rents & yields



Outlook

Occupier demand	→	Availability	→	Prime rents	→
Development supply	↗	Investor activity	→	Prime yields	→

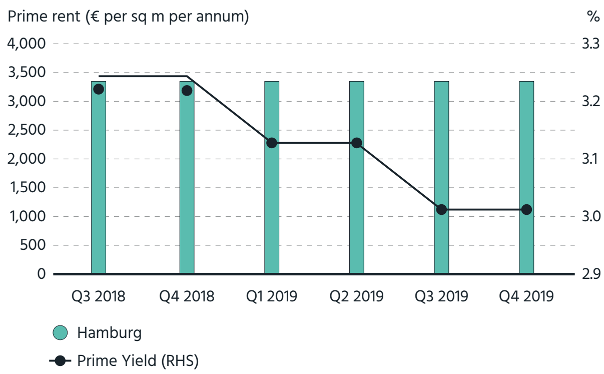
Logistics – Prime rents & yields



Outlook

Occupier demand	→	Availability	→	Prime rents	→
Development supply	→	Investor activity	→	Prime yields	→

Retail – Prime rents & yields

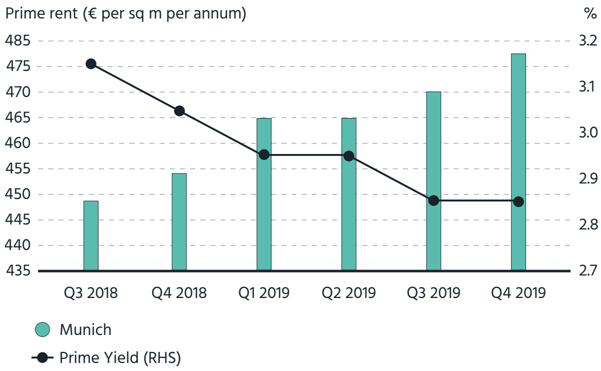


Outlook

Occupier demand	↘	Availability	↗	Prime rents	→
Development supply	→	Investor activity	→	Prime yields	→

MUNICH

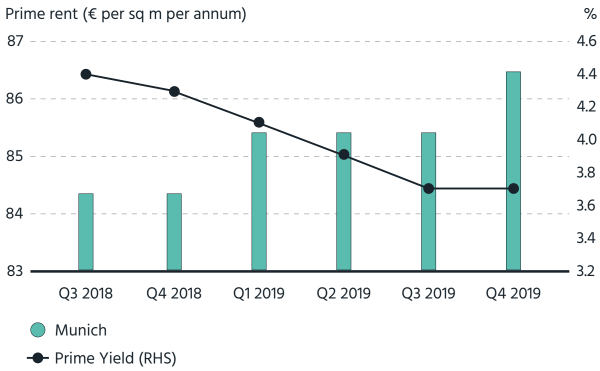
Offices – Prime rents & yields



Outlook

Occupier demand	↗	Availability	→	Prime rents	↗
Development supply	→	Investor activity	↗	Prime yields	→

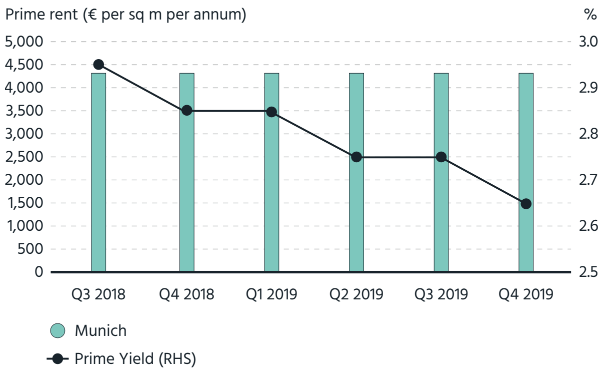
Logistics – Prime rents & yields



Outlook

Occupier demand	→	Availability	→	Prime rents	→
Development supply	→	Investor activity	→	Prime yields	→

Retail – Prime rents & yields



Outlook

Occupier demand	↘	Availability	↗	Prime rents	→
Development supply	→	Investor activity	→	Prime yields	→

IRELAND

COMMENTARY

The Ireland economy enjoyed strong positive growth in 2019, driven by a 5.8% increase in consumer spending, strong Foreign Direct Investment (FDI) and exceptional export performance. Positive employment growth has also continued, and as a result, the unemployment rate reached a 12-year low of 4.8% in December 2019.

Brexit will affect future GDP growth. In particular, Irish exports will be negatively impacted by the expected slowdown in UK growth and currency fluctuations.

The Dublin Office Market continued its strong performance in 2019, with leasing activity reaching 309,066 sq m. The main driver of demand has come from the technology, creative and digital sectors, with Salesforce, LinkedIn, Amazon, and Facebook, all signing large pre-lets. This activity is likely to continue in the early part of 2020 at least, with Slack, Google and other significant technology companies committing to more space.

Brexit could have an impact on office demand, with some occupiers choosing to relocate from London. The high demand seen from the serviced office sector in recent years, is expected to ease slightly.

Dublin witnessed strong take up in its logistics market in 2019, reaching 332,362 sq m, a 9% increase on 2018, with most of the activity focused in South West Dublin. Occupiers are targeting Grade A space, which is in short supply. As a result, prime rents are now €110 per sq m for the best stock.

Prime retail rents in Ireland remain stable. In spite of Brexit uncertainties, consumer confidence remains high with retail sales trending upwards in terms of value and volume. Food and Beverage and the beauty sector continued to experience strong growth with Five Guys opening four new restaurants, and P.F. Changes and Leon taking space in the high end Dundrum Town Centre.

Some of the larger retail groups have reported strong Irish sales figures in 2019, such as the Inditex Group, H&M Group and JD Sports. Next opened a new flagship store on one of Dublin's prime high street locations - Henry Street, while Mango and Hollister signed to take space in the one of the Capital's best out of town centres - Blanchardstown Centre.

Planning permission was granted to extend and develop an additional 60,000 sq m of retail warehousing, neighbourhood retail, food and beverage outlets at The Park Carrickmines in South Dublin.

However, uncertainty remains for the future of department stores; House of Fraser, Debenhams and Arcadia Group have all indicated they are to close a substantial amount of their stores across the UK and Ireland.

Investment transaction exceeded €7.3 billion in 2019, a record high for Ireland. This was boosted by the sale of Green REIT to Henderson Park for approx. €1.5 billion.

Overseas investors, such as Corum and Union Investment, continue to dominate the Irish Investment market. PRS was the most dominant asset in 2019, accounting for 22% of total sales.

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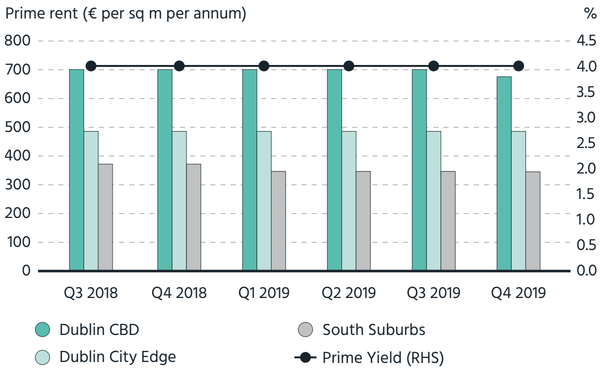
DUBLIN

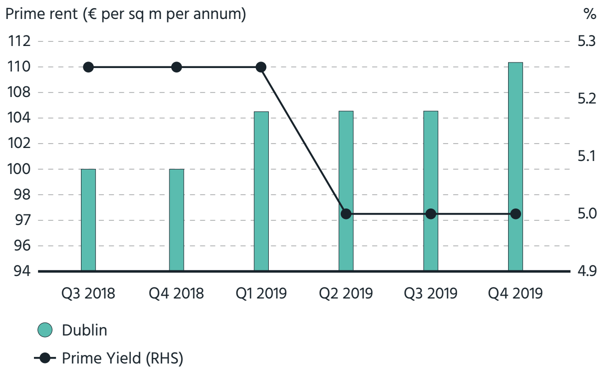
Offices – Prime rents & yields



Outlook

Occupier demand	↗	Availability	→	Prime rents	→
Development supply	→	Investor activity	→	Prime yields	→

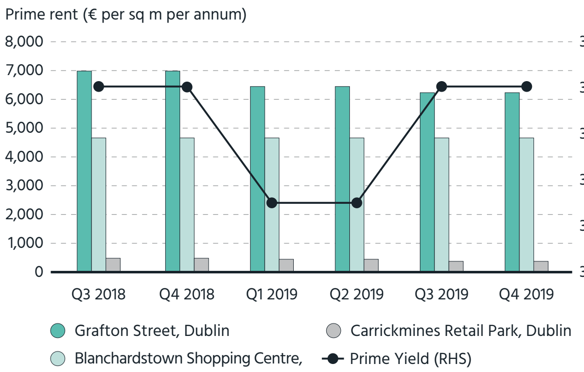
Logistics – Prime rents & yields



Outlook

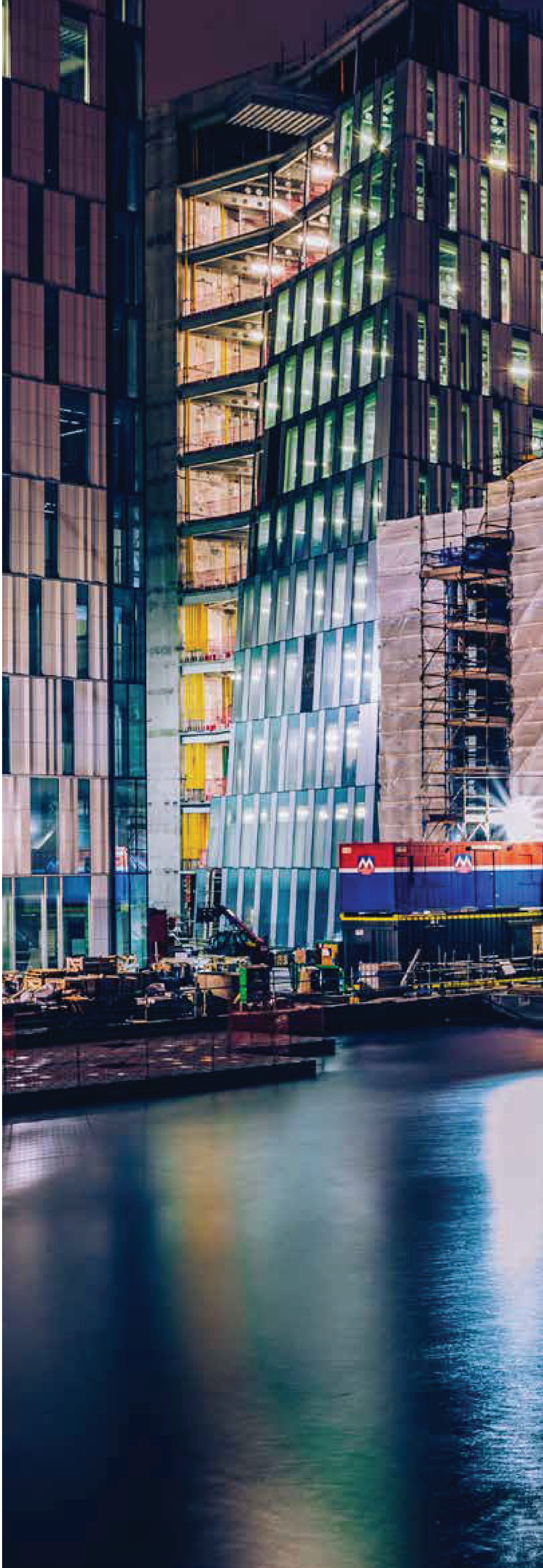
Occupier demand	↗	Availability	→	Prime rents	↗
Development supply	→	Investor activity	→	Prime yields	→

Retail – Prime rents & yields



Outlook

Occupier demand	↘	Availability	→	Prime rents	↘
Development supply	→	Investor activity	→	Prime yields	↘



ITALY

COMMENTARY

The rate of expansion for Italy's economy has been easing since the beginning of 2018, and in 2019 GDP growth was only 0.2%. This was a result of weakening manufacturing, with leading indicators suggesting that an imminent output recovery is unlikely. In addition, there are growing signs that the weakness in the manufacturing sector has started to spread to services. In 2020, real GDP is set to rise by 0.4%, thanks in part to the presence of two more working days, and in 2021, real output is expected to grow at 0.7%.

The job market has remained resilient in the face of the recent economic slowdown. However, latest labour market data point to a deterioration. Falling labour productivity is likely to prompt employers to cut jobs or resort to short-time working schemes, as indicated by the rising number of workers covered by the wage guarantee fund (Cassa Integrazione Guadagni).

The government headline deficit is expected to remain stable at 2.2% of GDP in 2019. Government revenues are set to benefit from a still resilient labour market and from several changes in the tax regime introduced with the 2019 budget. In 2020, the government deficit is projected to rise to 2.3% of GDP, due to the introduction of the minimum income and early retirement schemes, which will start showing their full yearly cost from 2020, further increasing government spending.

In 2021, the government headline deficit is expected to increase further to 2.7% of GDP due to several measures included in the 2020 draft budget, including a further reduction of the tax wedge on labour and stronger support to public and private investment.

The office markets across Italy have remained relatively robust, with leasing activity in both Rome and Milan high, particularly for high quality space. The high levels of take-up are expected to continue in 2020, with several pre-lets recently agreed. There is also more flexibility in the market to accommodate coworking environments, which are popular across the country.

As a result of this high demand, prime rents in Rome's CBD-Centre zone, and across Milan, are expected to rise, with prime yields remaining flat.

Investment activity continues to be strong in Italy with the 2019 transaction volume up on 2018. This was largely due to the logistics sector, which is in high demand from local, and overseas investors. The retail sector has experienced a slight slow down on 2018 with investor interest shifting to other sectors, such as offices, hotels, and logistics

In 2020 investment flows for alternative asset classes such as new forms of housing (student housing, senior housing, co-housing, multi-family, etc.) could be more dynamic.

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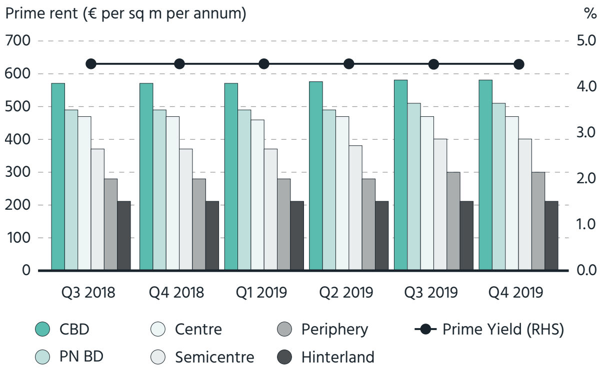
MILAN

Offices – Prime rents & yields

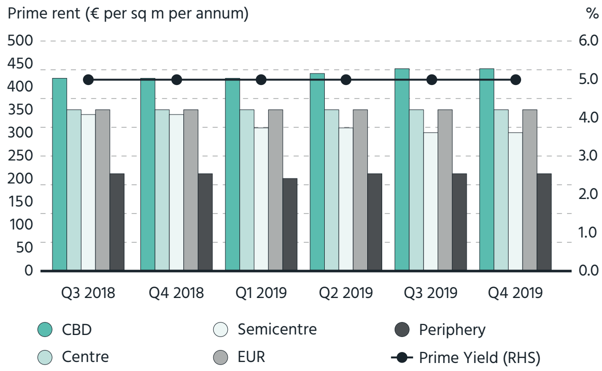


Outlook

Occupier demand	→	Availability	→	Prime rents	→
Development supply	→	Investor activity	→	Prime yields	→

ROME

Offices – Prime rents & yields



Outlook

Occupier demand	→	Availability	→	Prime rents	→
Development supply	→	Investor activity	→	Prime yields	→

LUXEMBOURG

COMMENTARY

The Luxembourg economy expanded by 2.6% in 2019, which was a slight slowdown on 2018 where GDP growth was 3.1%.

GDP growth was mainly supported by private consumption. The contribution from non-financial services exports improved after weakening somewhat in recent years, which was most likely due to exceptional transactions by foreign-owned, non-financial corporations operating in Luxembourg.

Employment grew by 3.7% in 2019, which is the country's highest growth rate since the global financial crisis, however job creation is expected to ease in 2020 and 2021.

The general government surplus is expected to decline to 2.3% of GDP in 2019, from 2.7% of GDP in 2018. In 2019, total revenues are projected to increase sharply underpinned by direct taxes and to a lesser extent by indirect taxes. Revenues from current taxes on income and wealth are expected to post a strong increase, in particular as revenues from corporate taxes have increased substantially, partly thanks to the introduction of the automatic tax declaration, which accelerates revenues collection.

Luxembourg's debt-to-GDP ratio fell to 19.6% in 2019, from 21.0% in 2018. It is expected to decline further over the next few years as a favourable snowball effect will counterbalance the impact of the new debt issuance to finance the projected deficits of the central government.

Occupier demand for new space remains high across Luxembourg, with the office take-up volume totalling 265,000 sq m in 2019, a record high for the country. This represents a year on year increase of close to 8%.

Occupier demand is largely being driven by both the financial and public sectors, with the largest single transaction attributed to the European Courts of Justice in the third quarter of the year. Demand from state departments is expected to continue in 2020, as well as appetite from the public sector for the acquisition of real estate and development land.

Investment activity remains strong in Luxembourg, with transaction volumes expected to reach €1.7 billion in 2019. As at Q3 2019, Korean investors have been the most active in the market, accounting for 12% of total investment. One of the largest transactions of the year was acquired with Korean funds with the purchase of the recently built Deloitte Head office building in Cloche d'Or. This transaction set the lowest registered net initial yield to date at 3.75%.

High investment activity is expected to continue in 2020, due to the performance of the Luxembourg economy, the strength of occupier covenants and the positive yield differentials obtained in Luxembourg relative to neighbouring European markets.

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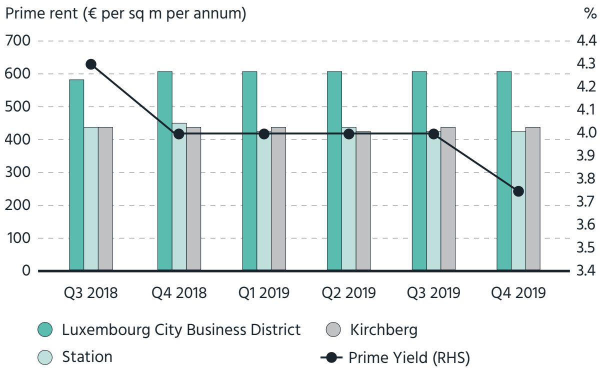
LUXEMBOURG CITY

Offices – Prime rents & yields



Outlook

Occupier demand	↗	Availability	↘	Prime rents	↗
Development supply	→	Investor activity	↗	Prime yields	↘

COMMENTARY

Economic momentum in the Netherlands remained relatively solid in 2019, with GDP increasing by 1.7%. This was primarily driven by domestic demand as well as strong exports. Net exports are expected to contribute negatively to growth over the next two years, and as a result, GDP growth is set to slow to 1.3% in both 2020 and 2021. The Dutch economy has grown positively for 21 consecutive quarters, which is one of the longest periods of unbroken growth since the 1900s.

The labour market remains at its highest level since the global financial crisis, with employment growing by 1.8% over the last 12 months. As a result, the low unemployment rate across the Netherlands is now translating into higher wage increases, contributing to rises in household disposable income and thereby fuelling private consumption. This is also supported by fiscal measures that lower the tax burden on labour income from 2020 onwards.

The headline budget balance is 1.5% of GDP in 2019, and government expenditure is expected to continue rising in 2020 following recent expansionary budget decisions relating to pensions and climate change, housing and youth care, on top of higher spending on infrastructure and defence.

Government debt is forecast to fall below 50% of GDP in 2019 and to decline further to 47.1% in 2020 and 45.6% in 2021. Further reprivatisation of financial institutions may further lower the debt level in the years ahead.

With high levels of employment, the office market across Amsterdam has been in strong demand, and there are plans to build 500,000 sq m of new office space by stimulating land allocation and market developments for offices. Land allocation for offices is not only possible through tenders, but also directly, based on the hardship clause, as happened for the construction of the new EMA office, (European Medicines Agency). The municipality wants to apply this clause more often for the establishment of international and European head offices, creative industry and media, life sciences & health and technology and telecom.

Amsterdam also wants to support initiatives from market parties. The city uses urban planners, project managers and other experts for new office developments and thus helps developers with building and redeveloping offices, as seen in the Arenapoort, Amstel III and Sloterdijk Center areas. The overall availability rate in Amsterdam has halved in four years from 18% in 2015 to 8.8% in 2019.

Logistics properties are in high demand from investors, however the availability of new prime locations is relatively limited, which has restricted investment volumes, and the supply and demand imbalance, has led to historically low prime yields.

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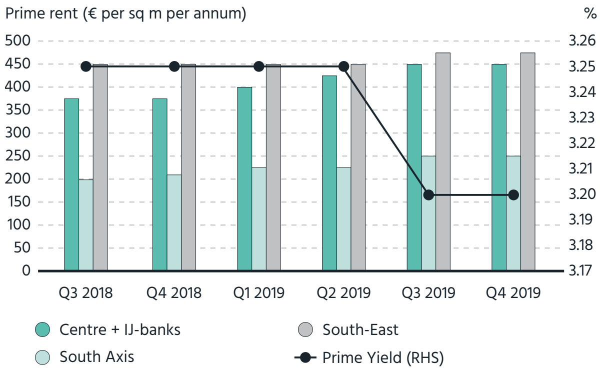
AMSTERDAM

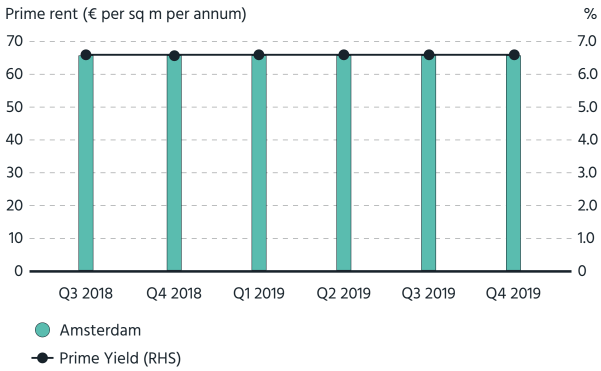
Offices – Prime rents & yields



Outlook

Occupier demand	↗	Availability	↘	Prime rents	↗
Development supply	↗	Investor activity	→	Prime yields	↘

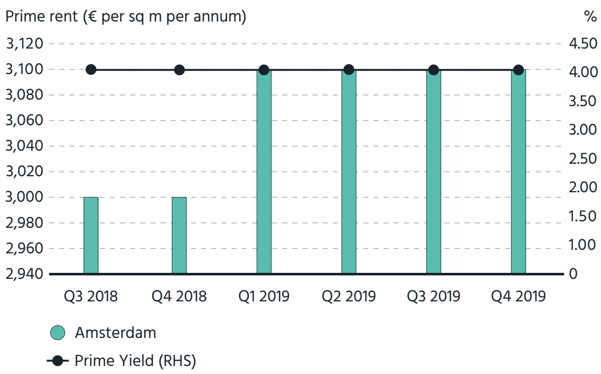
Logistics – Prime rents & yields



Outlook

Occupier demand	→	Availability	→	Prime rents	→
Development supply	→	Investor activity	→	Prime yields	→

Retail – Prime rents & yields

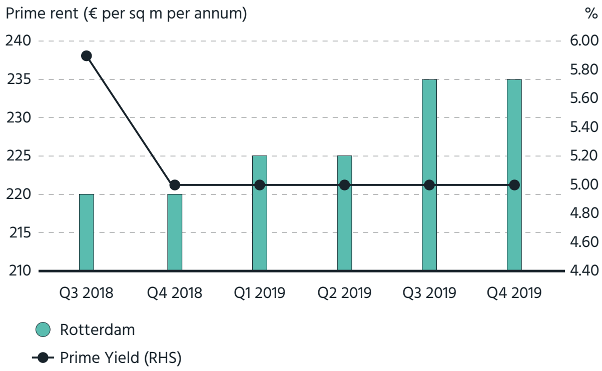


Outlook

Occupier demand	→	Availability	→	Prime rents	→
Development supply	→	Investor activity	→	Prime yields	→

ROTTERDAM

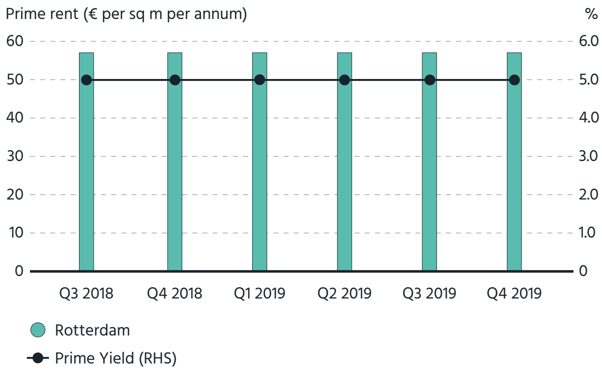
Offices – Prime rents & yields



Outlook

Occupier demand	→	Availability	↘	Prime rents	↗
Development supply	→	Investor activity	→	Prime yields	↗

Logistics – Prime rents & yields



Outlook

Occupier demand	→	Availability	→	Prime rents	→
Development supply	→	Investor activity	→	Prime yields	→

NORWAY

COMMENTARY

The Norwegian economy grew by 2.5% in 2019, which was largely driven by a surge of investment in the extraction and transportation sectors. In 2020, a return to a lower rate of investment growth is expected to be more than offset by higher growth of oil and gas exports as well as continued strong household spending. Overall, real GDP growth is forecast to accelerate to 1.9% in both 2020 and 2021.

Solid economic growth, a weak krone and an underlying inflation persistently above the 2% inflation target, triggered Norges Bank's Executive Board decision on 18 September to raise its key policy rate for the fourth time in a year, by 25 basis points to 1.5%.

The economy will receive less support from government spending in 2020 as the budget expects the structural non-oil deficit to narrow. The budget anticipates a fiscal impulse of -0.2% of GDP, resulting in a structural non-oil deficit of 7.6% of mainland GDP and spending of oil revenues equivalent to 2.6% of the sovereign wealth fund's assets (Government Pension Fund Global).

Domestic risks to the outlook mainly stem from the uncertainties in the property market and the historically high household debt levels leaving households vulnerable in the event of interest rates rises or a steep fall in house prices. A sustained increase in the debt burden indicates that financial imbalances have been building up. This is one of the most important vulnerabilities in the Norwegian financial system, which is however mitigated by the significant capital and liquidity buffers held by Norwegian banks.

There is still a high demand for office space in the CBD and central office area in Oslo, and as a result, grade A space is limited, and rents have increased by 9% throughout 2019.

Serviced offices, and co-working hubs have continued to be popular with occupiers in Oslo, and a combination of improved public infrastructure, and less cars, the office environment in Oslo has improved significantly. This is reflected in the fall in the overall vacancy rate to 4%.

In the office clusters, west and northeast of the central areas, there are more diversified submarkets where rental growth has been slightly less between 5-6% in 2019, and a higher vacancy rate between 5.5-7%.

The development pipeline is strong in Oslo with a number of schemes scheduled to deliver in 2020. This will help ease the squeeze and increase the availability rate.

Whilst there remains some demand for logistics properties, the sector's growth in the last few years appears to be easing. As a result, positive rental growth isn't expected to be as strong in 2020, and 2021 as in previous years.

Like many European countries, consumer shopping habits are changing with more people preferring to shop online than visit the store. Consequently, retail vacancies have increased, and rental growth is expected to be negative in 2020.

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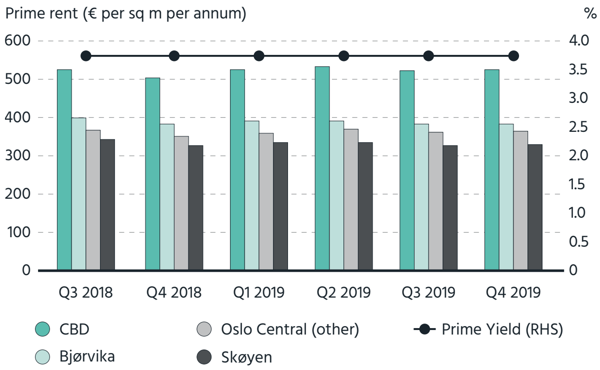
OSLO

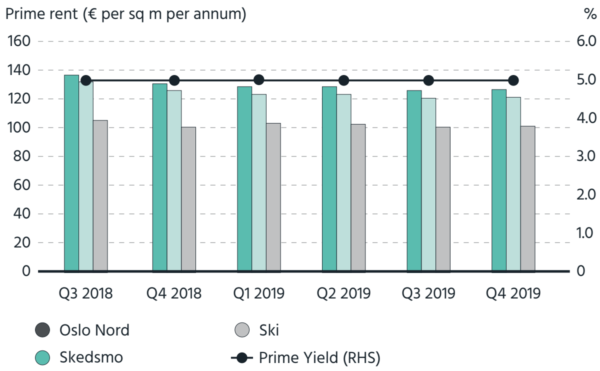
Offices – Prime rents & yields



Outlook

Occupier demand	→	Availability	→	Prime rents	→
Development supply	→	Investor activity	→	Prime yields	→

Logistics – Prime rents & yields



Outlook

Occupier demand	→	Availability	→	Prime rents	→
Development supply	→	Investor activity	→	Prime yields	→

POLAND

COMMENTARY

Favourable labour market developments and strong consumer confidence were key factors in driving GDP growth to 4.1% in 2019. However, a slowdown in investment growth, and exports mean weaker GDP growth is forecast at 3.3% in 2020 and in 2021. Public investment growth will ease due to problems in completing certain large infrastructure projects, whilst export growth is projected to slow from previous years due to the weakening in world trade.

The demand for labour will remain solid and combined with planned increases in public sector wages and a substantial rise in the minimum wage in 2020, is expected to keep average wage growth close to 8% until 2021.

Office occupier demand in Wrocław, remains robust despite a rise in the availability rate. The increase was a result of a number of developments which completed throughout 2019, such as Vastint's Business Garden (80,000 sq m). The overall vacancy rate is now at 10%, but is expected to fall over the next 12 months. Occupier demand for high quality has led to a high level of pre-letting activity throughout 2019, and is expected to continue in 2020. As a result, the prime rent has increased to €15 per sq m.

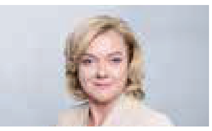
Demand for logistic space in Wrocław is also high, with the availability rate at 5%, despite 430,000 sq m of new space delivered to the market in 2019. However, over the next 12 months, further development schemes will be delivered and could result in a slight increase in availability. The key occupiers in the region are the logistics companies and distributors serving mainly the needs of the southern Poland and German markets. In 2019 the region recorded the highest demand since 2017, at 590,000 sq m.

Investor demand in Wrocław remains strong, with prime buildings often sold in portfolios to funds originating from destinations such as South Korea, Czechia and Western Europe. Offices were in high demand in particular with multiple transactions completed and purchased by the international funds, such as ISOC Group or Credit Suisse.

Occupier demand for office space in Warsaw is also strong, reflected in the high level of pre-letting activity. With almost 800,000 sq m of space under construction, over half has already been leased. 2020 will see the delivery of The Warsaw Hub, The Unit, Skyliner and Varso (the tallest building in CEE). The availability rate is currently at its lowest level since 2012 at 7.8%.

Developers have also been active in the logistics market with 330,000 sq m recently delivered, and a further 470,000 sq m is under construction. There is an increase in the city logistics and last-mile delivery projects launched and completed by developers, in particular in the southern part of the city. On the demand side, the most active players are still logistics operators and distribution companies, in particular from the electronics and FMCG sectors.

Investment activity remained robust throughout 2019, driven by CEE and Asian investors showing signs of increasing willingness to acquire properties in Poland. The most popular assets were office and industrial projects not only in Warsaw, but also in regional cities. Warsaw remains the most sought after, and due to the high demand, further yield compression is anticipated in 2020.



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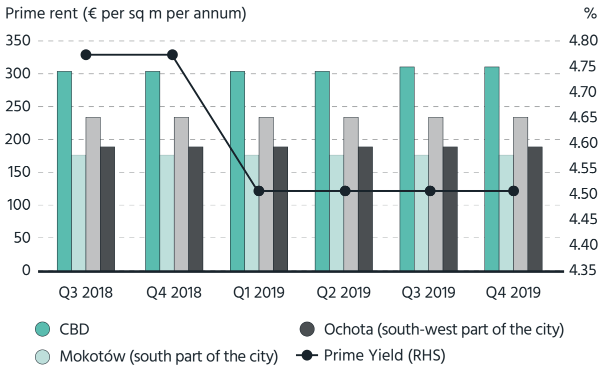
WARSAW

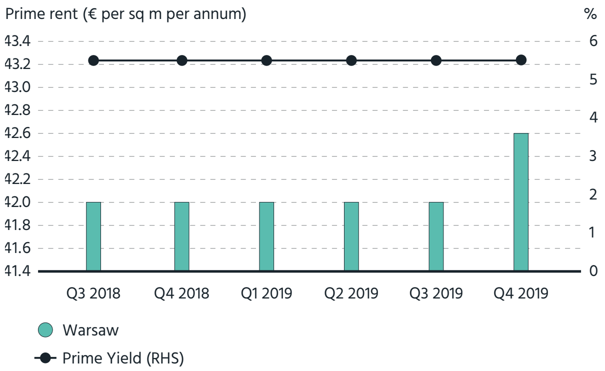
Offices – Prime rents & yields



Outlook

Occupier demand	→	Availability	→	Prime rents	→
Development supply	↗	Investor activity	→	Prime yields	↘

Logistics – Prime rents & yields

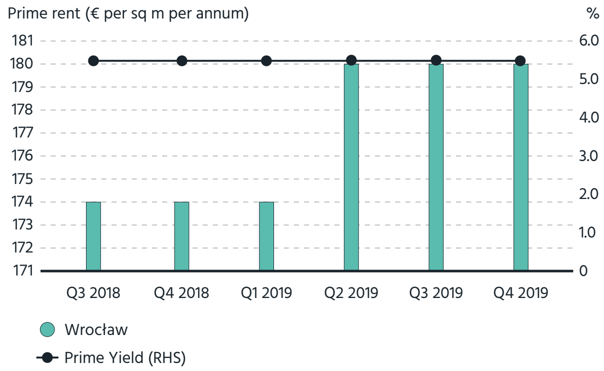


Outlook

Occupier demand	→	Availability	↗	Prime rents	→
Development supply	↗	Investor activity	↗	Prime yields	↘

WROCŁAW

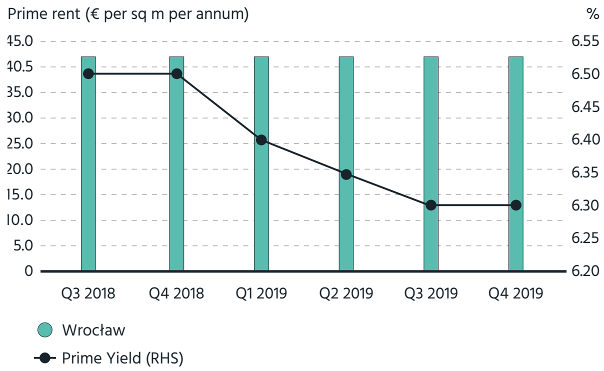
Offices – Prime rents & yields



Outlook

Occupier demand	→	Availability	↗	Prime rents	→
Development supply	↗	Investor activity	→	Prime yields	↘

Logistics – Prime rents & yields



Outlook

Occupier demand	→	Availability	↗	Prime rents	→
Development supply	→	Investor activity	→	Prime yields	↘

PORTUGAL

COMMENTARY

The Portuguese economy continued to be strong and grow positively, despite the weak external environment. GDP rose by 2.0% in 2019 and is expected to expand further by 1.7% in both 2020 and 2021.

Domestic demand is expected to remain a strong contributor to economic growth due to a substantial rebound in investment. Both private consumption and investment are expected to remain the major growth drivers in 2020-2021, albeit at a diminishing pace. The expected moderation in private consumption is linked to the recent slowdown in job creation.

Investment is facing a decline in business sentiment, particularly in the industrial sector, but looks set to benefit from the absorption of EU funding over the forecast horizon. On the supply side, the strong performance in services and construction should continue to offset the weak industrial performance.

Employment growth has slowed down and wage growth picked-up since the beginning of 2019, as the slack in the labour market has declined substantially. This is expected to have a positive impact on labour productivity and to slightly weaken the growth in unit labour costs over the next few years.

The public debt-to-GDP ratio is set to continue declining from 122.2% in 2018 to 119.5% in 2019, 117.1% in 2020 and 113.7% in 2021, mainly due to continuous primary surpluses and favourable growth–interest rate differentials.

The office market in Lisbon has remained stable in 2019, mainly due to a lack of availability. This combined with the strong demand from occupiers has maintained an upward pressure on prime rents across the city. Due to the lack of space, occupiers that need to move due to lease events, have either turned to second-hand space, or signed a pre-let on space currently under construction. This trend is likely to continue in 2020 and in 2021.

There has been a significant lack of logistics development activity in recent years and as a result, there is extremely low levels of suitable stock to accommodate the changing dynamics of the market. However, the development pipeline has started to increase, with a number of large projects arriving in the market in 2020. Portugal has also seen the "build to suit" solution return to the market.

Although shopping centres and retail parks have seen strong levels of leasing activity over the last 12 months, the future of the sector remains unknown due to the growing trend of online shopping. However, high street retail in the best locations are performing well, mainly as a reaction to the strong demand from tourism.

Despite fears of a significant drop in transactions, the investment market was strong in 2019. The positive sentiment from investors was reflected in the yield compression for assets in core markets, which are of limited supply.

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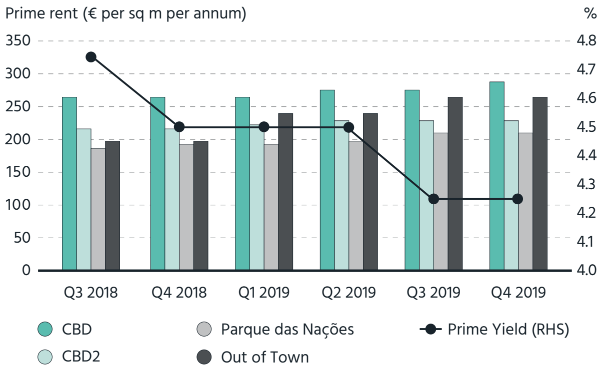
LISBON

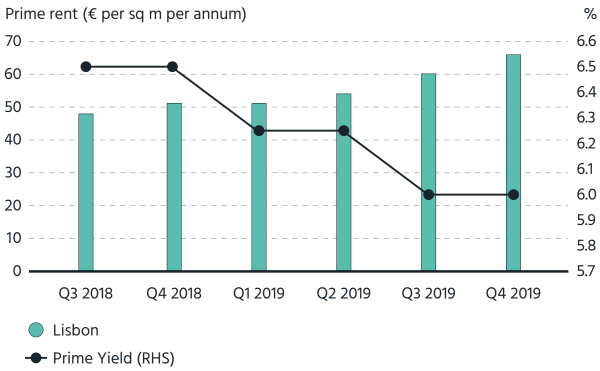
Offices – Prime rents & yields



Outlook

Occupier demand	↗	Availability	↘	Prime rents	↗
Development supply	↗	Investor activity	→	Prime yields	→

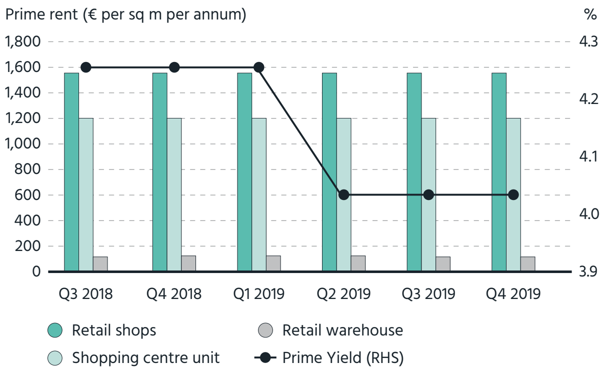
Logistics – Prime rents & yields



Outlook

Occupier demand	↗	Availability	↘	Prime rents	↗
Development supply	↗	Investor activity	↗	Prime yields	→

Retail – Prime rents & yields



Outlook

Occupier demand	→	Availability	→	Prime rents	→
Development supply	→	Investor activity	→	Prime yields	→

COMMENTARY

After Slovakia's economy expanded by 4.0% in 2018, GDP growth was weaker in 2019, growing by only 2.7% with similar rates of 2.6% in 2020 and 2.7% expected in 2020 and in 2021. On the back of strong wage increases and record low unemployment, private consumption will continue to be a significant source of GDP growth over this period, whilst weaker demand in key EU trading partners is projected to take its toll on exports.

After years of strong employment growth, the rate of job creation eased throughout 2019. The unemployment rate is forecast to decrease slightly to a new record low of 5.9% in 2019 and to hover around this rate throughout 2020-2021. While the positive effect from job creation on household disposable income is expected to fade, strong wage growth should prop up earnings and incomes.

The general government debt-to-GDP ratio is forecast to remain on a declining path, thanks to the pace of nominal economic growth. It is projected to decline to 48.1% this year, 47.3% in 2020, and 46.9% in 2021.

The office market in Bratislava has remained active in 2019, as occupiers have been drawn to high quality space. The majority of grade A space are located in the BA I and BA II districts (37% and 35% accordingly), the same districts have been targeted by developers for new schemes which will be delivered over the next couple of years.

Sustainability remains a key driver of demand in Slovakia and driving higher rents and longer leases. Currently there is around 28 buildings (574,500 sq m), which accounts for 30% of total stock, which are certified with either LEED or BREEAM, and there are a further four buildings going through the process of certification. Green certification allows developers to attract tenants and cut operating costs, as well as allows tenants to enjoy greater productivity and well-being of their employees.

The high demand from occupier for good quality office space has led to a steep rise in the development pipeline. Currently there's 210,500 sq m of new office space under construction, which will be delivered over the next three years.

The Slovakian industrial market is dominated by five investors, namely ProLogis, CTP, CNIC Corporation Limited, Pointpark Properties and Palmira Capital. Together, these investors account for 59% of the total market share.

142,000 sq m of additional industrial premises are currently under construction, with the majority of schemes located in Kosice (44%), Nitra (34%) and Trencin (14%) regions.
The majority of the logistics market is in Bratislava (57%), although the Western part of the country is also popular with it strategically located and well connected by D1, D2 and R1 highways. Sered is also becoming an increasingly more targeted area, and in 2019 44,300 sq m of new space was delivered by PNK.

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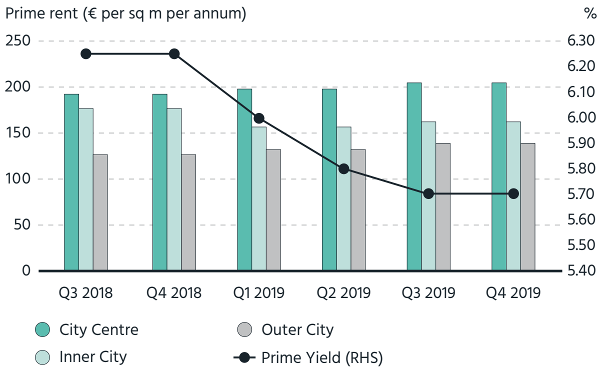
BRATISLAVA

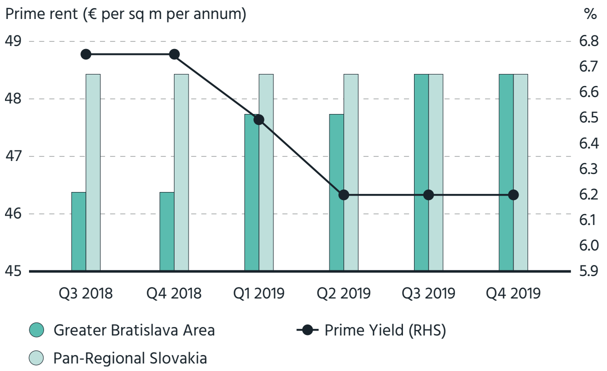
Offices – Prime rents & yields



Outlook

Occupier demand	→	Availability	↗	Prime rents	↘
Development supply	↗	Investor activity	→	Prime yields	↘

Logistics – Prime rents & yields



Outlook

Occupier demand	→	Availability	↗	Prime rents	→
Development supply	↗	Investor activity	→	Prime yields	↘

SPAIN

COMMENTARY

The Spanish economy expanded by 1.9% in 2019, and with private consumption growing at its slowest pace since 2014, and the consumption of durable goods particularly weak, GDP growth is expected to reduce further to 1.5% in 2020, and 1.4% in 2021.

Whilst consumption has been weaker, wages have increased, resulting in a sharp rise in the saving rate. This may indicate that households are increasing their level of precautionary savings amid growing uncertainty.

Private consumption growth is expected to recover slightly as households' financial position improves and some of the temporary factors limiting car sales gradually fade away. Still, consumption is expected to grow below real disposable income over the forecast horizon, resulting in a continued recovery in the household saving rate.

Import growth has been low over the last 12 months, partly reflecting weak demand for durable and investment goods. The import intensity of final demand is expected to gradually increase as demand for durable and capital goods recovers, resulting in higher import growth going forward. Exports are forecast to continue growing moderately, amid trade tensions and weak global growth. As a result, the contribution of net exports to growth is expected to diminish but remain positive.

The office market in Barcelona continues to be robust, with strong demand coming from the media and technology sector.

A number of schemes are set to complete in 2020, however, demand for new space is so high, that the majority of this space will be taken before completion.

A combination of high occupier demand, and few development completions in 2019 has meant the availability rate in prime locations has fallen to less than 2%.

The availability of logistics space is also low at 2%, with units around 8,000 sq m in particular demand from occupiers. As a result, prime rents, which increased in 2019, are expected to grow further over the next 12 months.

The retail sector continues to struggle in Barcelona. Apart from the two main shopping streets, Passeig de Gràcia and Portal de l'Angel, where strong occupier demand remains, the rest of the city including is in decline.

The property market in Madrid has been active in 2019, albeit slightly less than in 2018, mainly due to lack of attractive investment opportunities, and not because of a drop in investor sentiment. Hotel and logistics investment have been the most sought after, and we expect that to continue in 2020.

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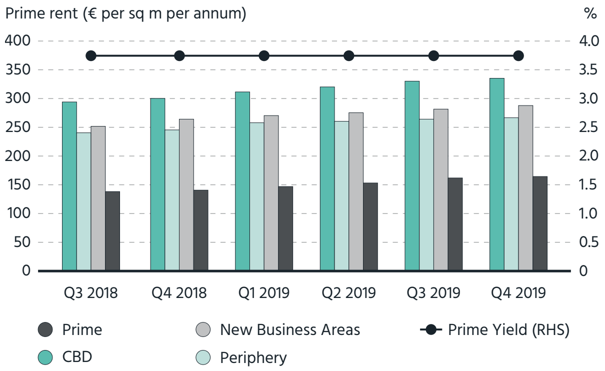
BARCELONA

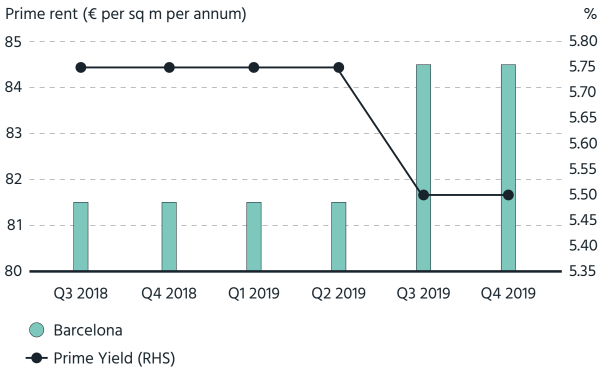
Offices – Prime rents & yields



Outlook

Occupier demand	↗	Availability	→	Prime rents	→
Development supply	↗	Investor activity	↗	Prime yields	→

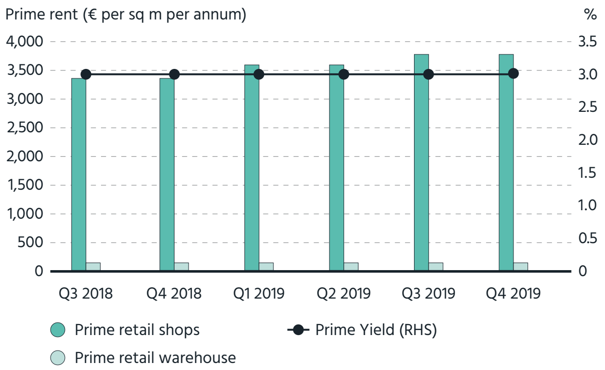
Logistics – Prime rents & yields



Outlook

Occupier demand	↗	Availability	↘	Prime rents	↗
Development supply	→	Investor activity	→	Prime yields	↘

Retail – Prime rents & yields

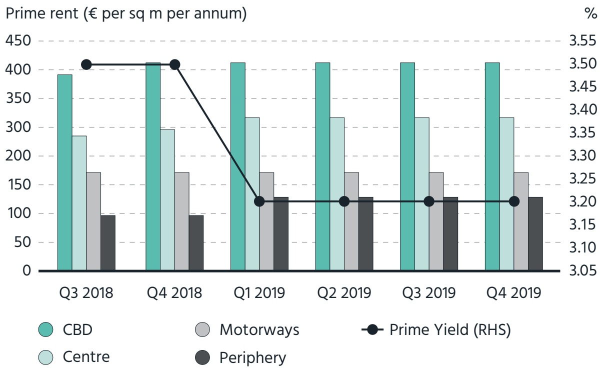


Outlook

Occupier demand	↘	Availability	↗	Prime rents	→
Development supply	↘	Investor activity	↘	Prime yields	→

MADRID

Offices – Prime rents & yields



Outlook

Occupier demand	→	Availability	→	Prime rents	→
Development supply	→	Investor activity	→	Prime yields	→

UNITED KINGDOM

COMMENTARY

UK GDP grew by 1.3% in 2019, in line with 2018, which was the weakest since the financial crisis. The UK left the EU on 31st January 2020 and, with it likely to prove impossible to negotiate a trade deal before the end of the year, we expect the two sides to either extend the transition period or concoct a political fudge which has the same effect. This would prevent trade frictions being introduced while talks are ongoing. We assume the UK and EU ultimately strike a free trade agreement which does not fully take effect until the start of 2023.

A combination of an increase in wage growth and a cooling in inflationary pressures meant that real wage growth accelerated in 2019. Increasing evidence that labour market strength is fraying means that wage growth is expected to stabilise just above 3%. But inflation is likely to continue to slow, helped by the recent appreciation of sterling. Firmer income growth in 2018-19 enabled households to engage in some modest rebuilding of their balance sheets, but the savings ratio remains very low. After rising by 1.2% in 2019, we expect consumer spending to grow by 1.6% in 2020 and 2.2% in 2021, as household spending power steadily strengthens.

UK exporters have struggled, with the slowdown in global growth more than offsetting any gains from a weaker pound. Growth in world trade averaged 5.4% a year in 2018-19, but we expect it to average just 2.9% a year in 2020-21 as the impact of greater trade protectionism continues to weigh down. And we expect an ‘orderly’ Brexit outcome to mean that sterling is 5.2% higher on a trade-weighted basis in 2020 than 2019, eroding competitiveness.

Whilst investment activity remained remarkably buoyant in the two years following the Brexit referendum, UK office transactions reduced by 37% on 2018. This drop off in activity is the result of a growing disconnect between pricing expectations of buyers and sellers, with those looking to buy a property expecting a greater discount in price due to the increased level of risk brought on by the current market conditions. The largest drop-offs were in London and the regional UK cities, falling by 30% and 36%, respectively, whilst activity in the South East has declined by only 10%.

There is still plenty of capital available to target the industrial sector, and the investor view of the occupier market is still relatively positive. Industrial rental growth expectations are stronger than for offices and retail, particularly for the supply-constrained multi-let segment. However, protracted political and economic uncertainty has generated a more conservative and demotivated set of potential buyers that are more cautious in their attitudes towards covenants.

Investment into UK retail property has fallen every quarter since Q3 2016. Investor confidence in the sector is very low while high profile administrations and CVAs dominate retail headlines. The retail investment assets that have traded have mostly been brought to market by institutions who are generally overweight in retail, with supermarkets proving to be the most traded segment by these type of vendors.

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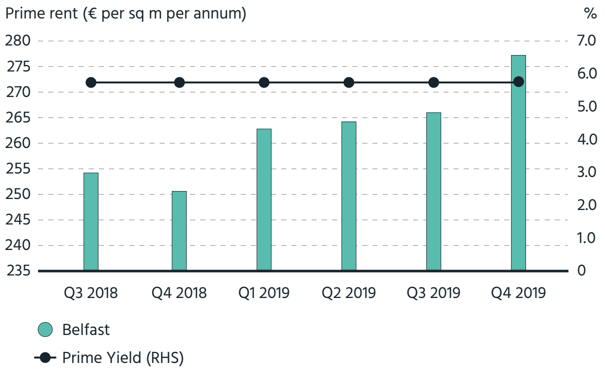
BELFAST

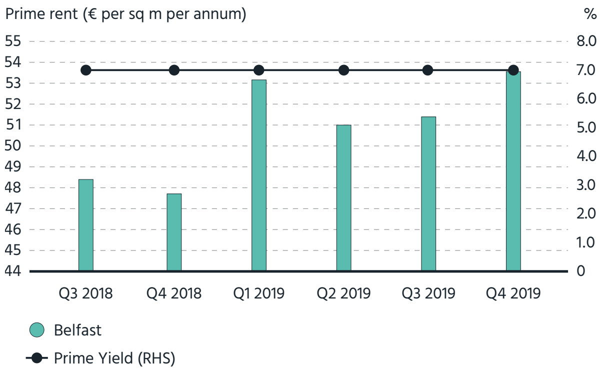
Offices – Prime rents & yields



Outlook

Occupier demand	→	Availability	→	Prime rents	→
Development supply	↗	Investor activity	→	Prime yields	→

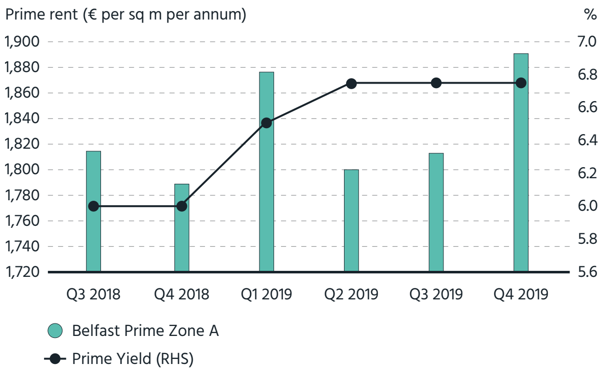
Logistics – Prime rents & yields



Outlook

Occupier demand	→	Availability	↘	Prime rents	→
Development supply	→	Investor activity	→	Prime yields	→

Retail – Prime rents & yields

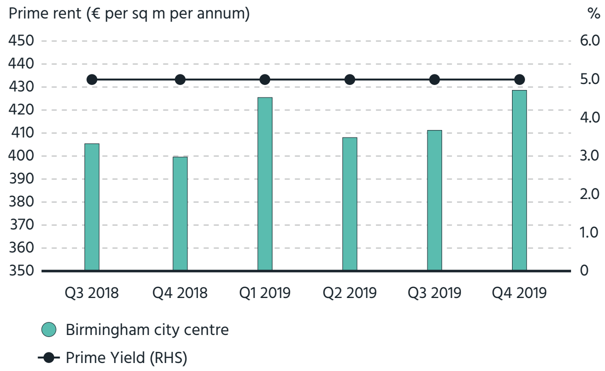


Outlook

Occupier demand	↘	Availability	↗	Prime rents	↘
Development supply	↘	Investor activity	↘	Prime yields	↗

BIRMINGHAM

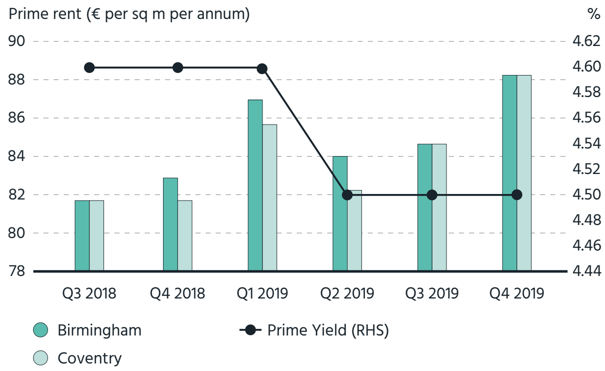
Offices – Prime rents & yields



Outlook

Occupier demand	→	Availability	↘	Prime rents	→
Development supply	→	Investor activity	→	Prime yields	→

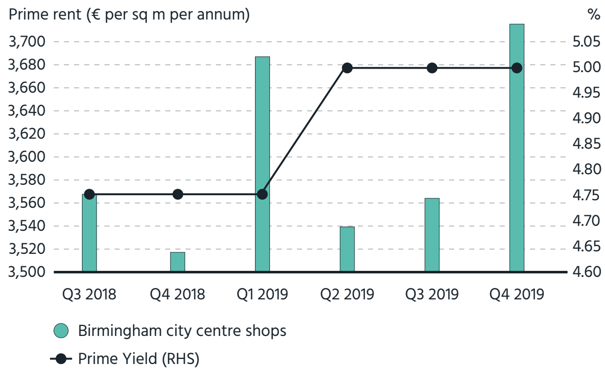
Logistics – Prime rents & yields



Outlook

Occupier demand	→	Availability	↘	Prime rents	↗
Development supply	→	Investor activity	↗	Prime yields	→

Retail – Prime rents & yields

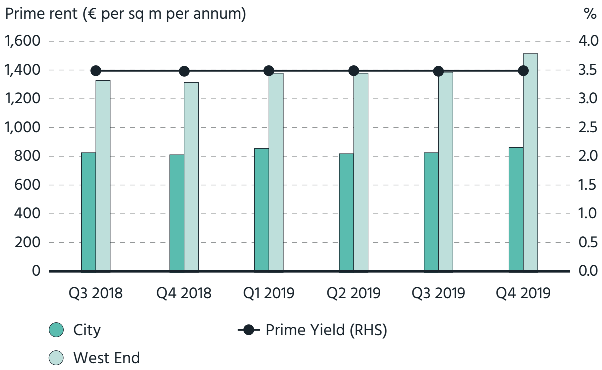


Outlook

Occupier demand	↘	Availability	↗	Prime rents	↘
Development supply	↘	Investor activity	↘	Prime yields	↘

LONDON

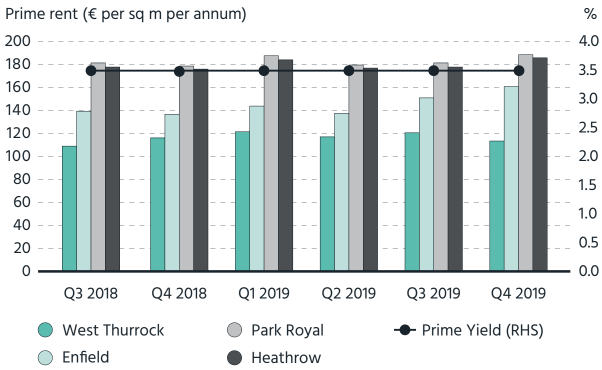
Offices – Prime rents & yields



Outlook

Occupier demand	→	Availability	↘	Prime rents	→
Development supply	→	Investor activity	→	Prime yields	→

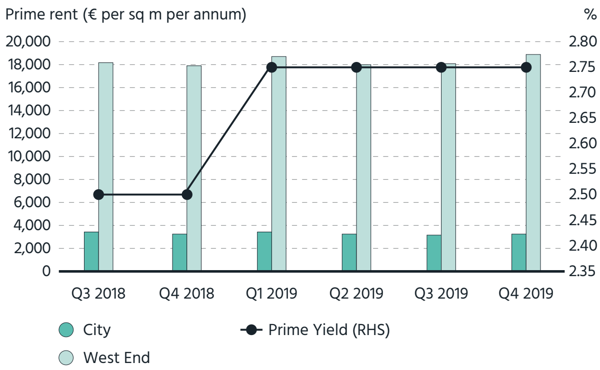
Logistics – Prime rents & yields



Outlook

Occupier demand	↗	Availability	↘	Prime rents	↗
Development supply	↗	Investor activity	→	Prime yields	→

Retail – Prime rents & yields

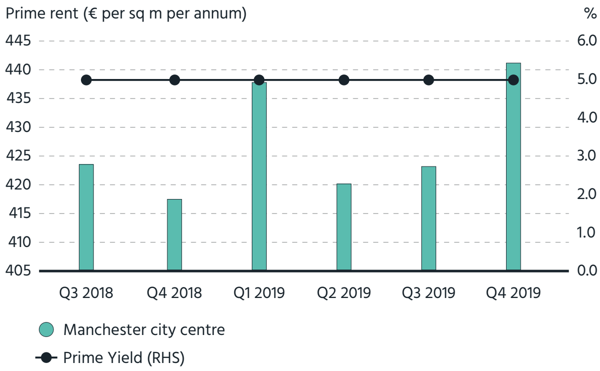


Outlook

Occupier demand	↘	Availability	↗	Prime rents	↘
Development supply	↘	Investor activity	↘	Prime yields	↘

MANCHESTER

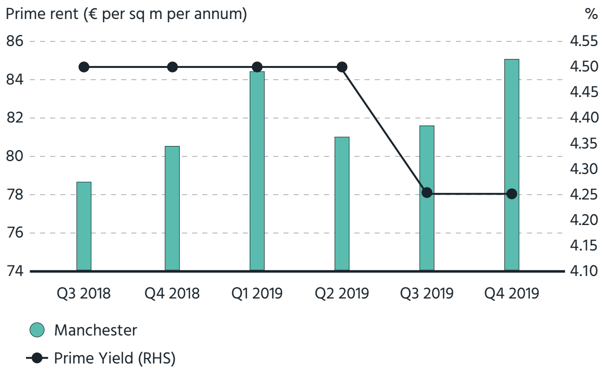
Offices – Prime rents & yields



Outlook

Occupier demand	→	Availability	↘	Prime rents	→
Development supply	→	Investor activity	→	Prime yields	→

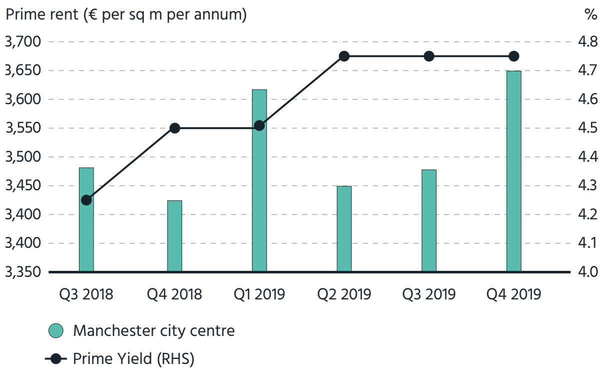
Logistics – Prime rents & yields



Outlook

Occupier demand	↗	Availability	↘	Prime rents	↗
Development supply	↗	Investor activity	→	Prime yields	→

Retail – Prime rents & yields



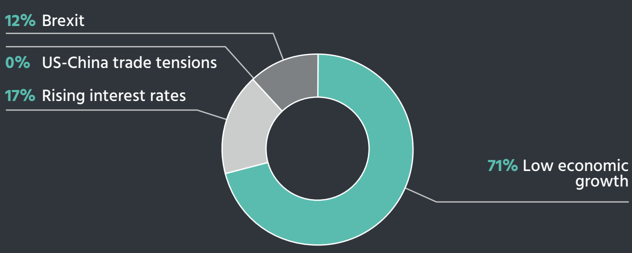
Outlook

Occupier demand	↘	Availability	↗	Prime rents	↘
Development supply	↘	Investor activity	↘	Prime yields	↘

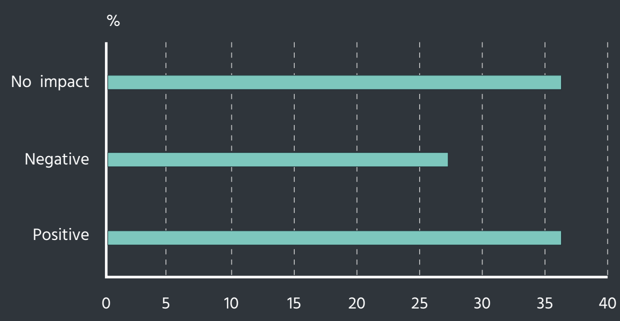
SURVEY OF INVESTOR INTENTIONS

In February 2020 we conducted a survey of our European associates. We gathered opinion on investor intentions and some of the key themes currently affecting the property market across Europe.

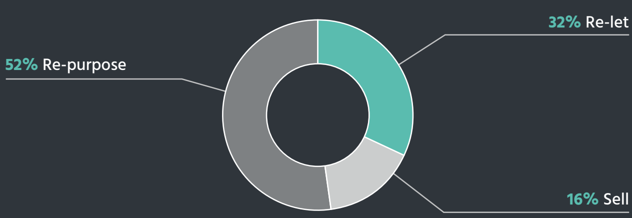
What is the greatest risk to your business?
Source: Gerald Eve



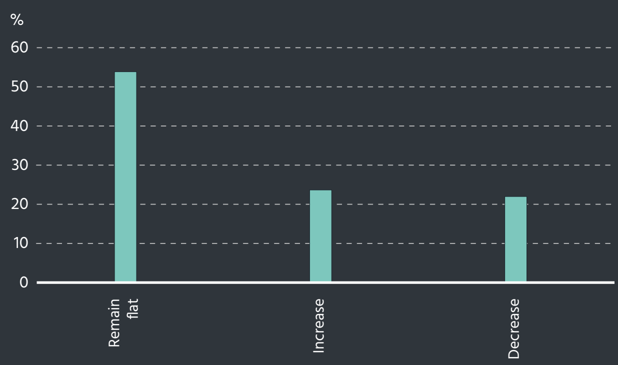
What impact will Brexit have on your business?
Source: Gerald Eve



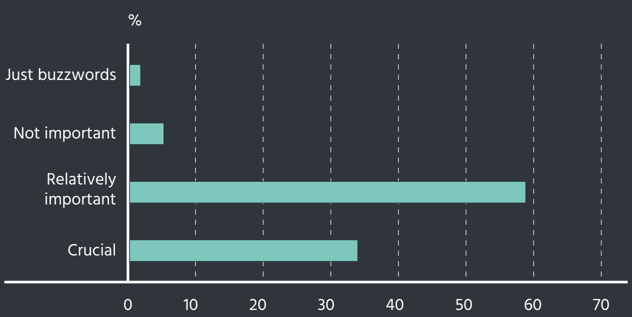
What would you do with an empty retail unit?
Source: Gerald Eve



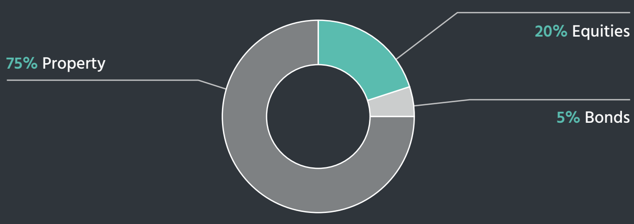
How will all property prime yields perform in 2020?
Source: Gerald Eve



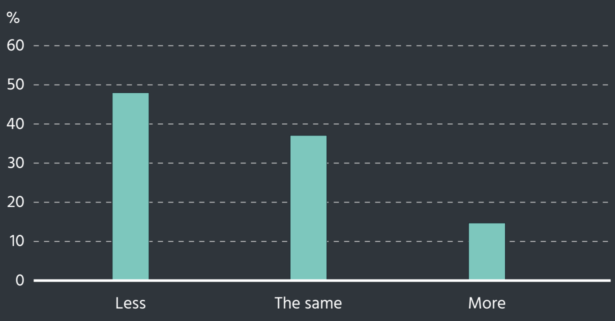
How important is well-being and sustainability to your business?
Source: Gerald Eve



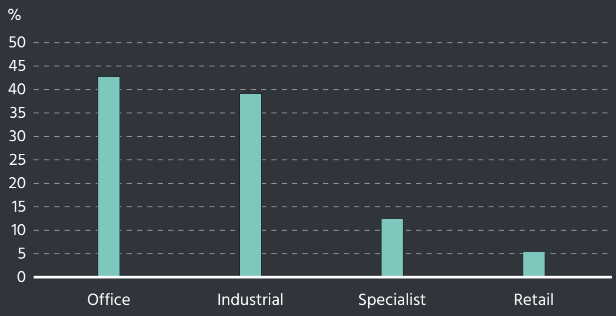
What will be the most attractive investment class at the end of 2020?
Source: Gerald Eve



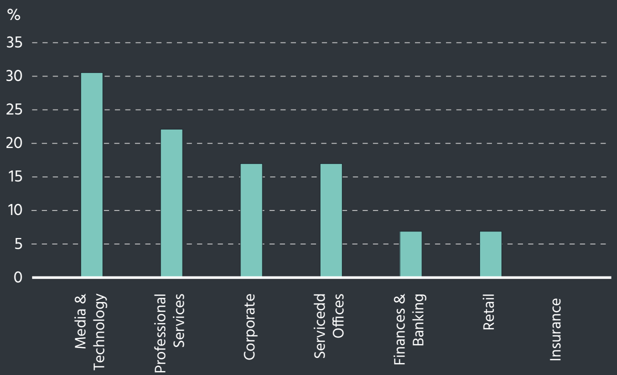
Will you invest more or less in the UK after Brexit?
Source: Gerald Eve



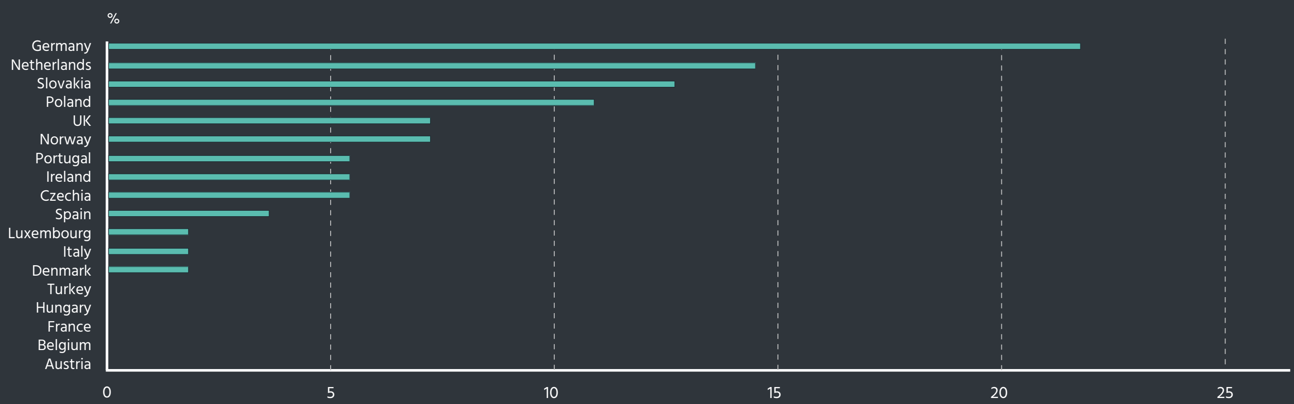
Which sector is the most attractive in 2020?
Source: Gerald Eve



Which office sectors do you expect to be the most active?
Source: Gerald Eve



Excluding your own country, which European country would you choose to invest in 2020?
Source: Gerald Eve



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