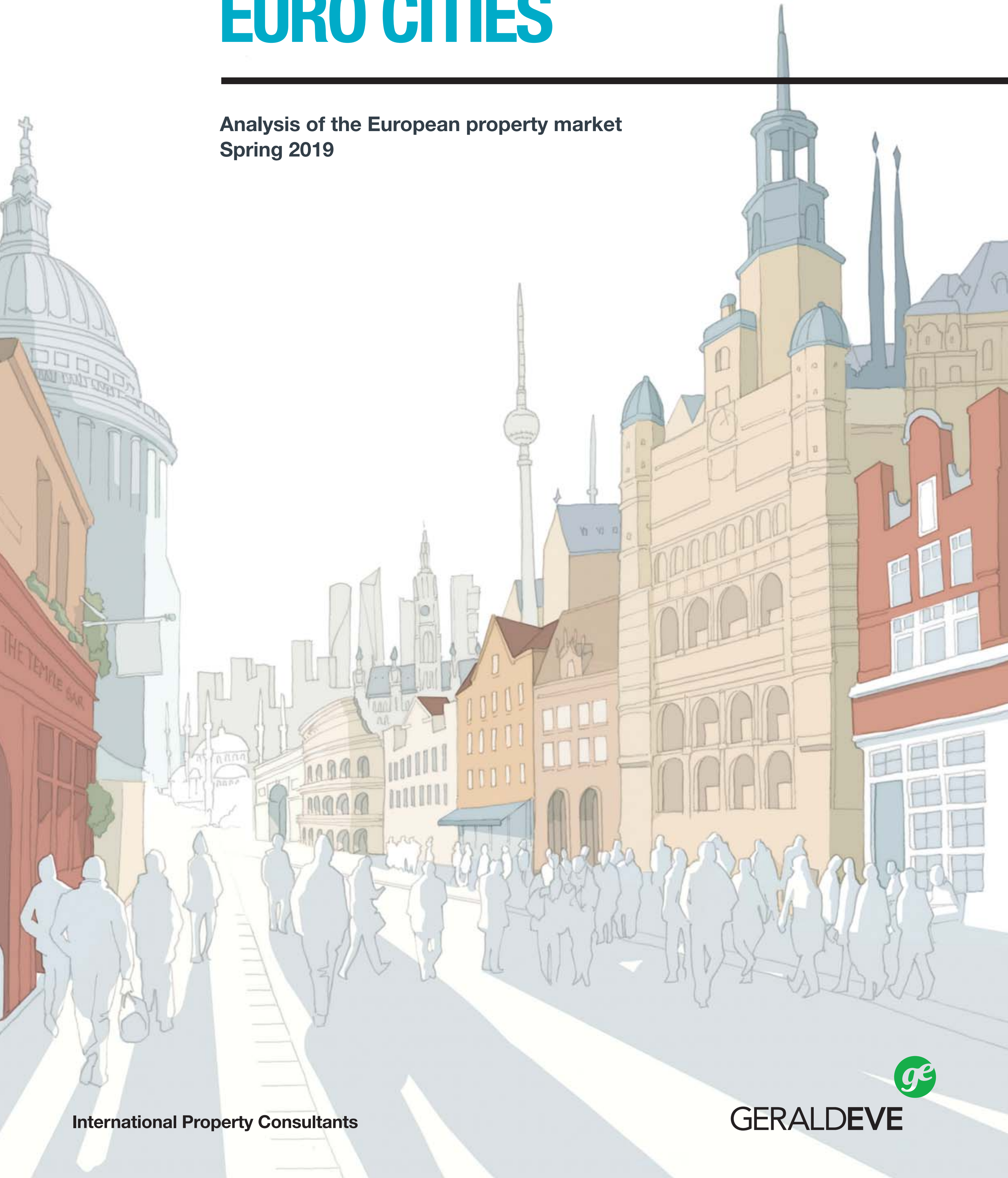
EURO CITIES

Analysis of the European property market
Spring 2019



International Property Consultants

GERALDEVE

INTRODUCTION

Welcome to the 2019 edition of Gerald Eve's Euro Cities report.

Gerald Eve continues to expand and strengthen its international alliance to offer our clients a best-in-class service. At the time of writing, Brexit has not come to a conclusion, with no agreement on the withdrawal deal by the British parliament. This has rightly caused concern in many European countries and we have seen lowered growth rates and heightened talk of recession.

There is also unrest with the 'gilet jaunes' protests in France, strikes in Portugal and disagreements between various EU members. This is set against the backdrop of global uncertainty as relationships between Russia, the USA, and China worsen and the threat of protectionism and potential trade wars escalate.

Despite all of the above, demand for good quality office space remains high, driven by the expansion of the media and technology sector. Industrial properties are also in high demand across Europe, with changing consumer shopping habits leading to an increase in e-commerce, at the expense of the retail sector.

We hope that you find this report both useful and interesting, and in this ever-changing environment where opportunities need to be grasped, we remain available to assist with your international property needs.

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Market reports

OVERVIEW

Economy

The growth of the European economy continued to be weak in comparison to previous years, and whilst economists thought this could potentially accelerate towards the end of 2018, the sluggish performance of the German economy, which almost fell into recession in the second half of 2018, dashed any hopes of this.

Oxford Economics believe that the eurozone slowdown is being partially driven by transitory factors, namely the German auto industry and more recently the 'gilet jaunes' protests in France, and as a result, some recovery will be seen. However, leading indicators still suggest that momentum in the eurozone remains weak moving into 2019, and GDP is forecast to expand by only 1.5%.

The growth in GDP in 2019 will largely be driven by an increase in household spending. The recovery in eurozone labour markets continues but, with the unemployment rate down to a decade-low of 7.9%, the pace of job creation is now slowing. Consumer spending weakened in 2018 as households felt the impact of rising inflation on disposable incomes, but lower inflation this year should provide a welcome boost to real incomes.

Additionally, the fall in the unemployment rate should add an upward pressure on wage growth which will provide further support to household spending.

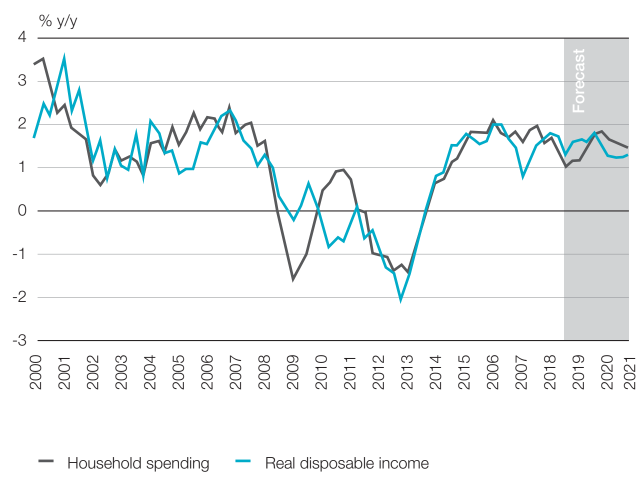
2019 will also see further growth in fixed investment. Spending on machinery and equipment should continue to be supported by tight capacity and ongoing improvement in bank lending flows to non-financial firms. Activity in construction and real estate is also picking up strongly across many countries, further boosting total investment.

Eurozone exports were hit hard in 2018 by the worsening global environment, with risks posed by rising protectionism and a potential trade war with the US affecting sentiment and orders. In addition, the troubles in the car industry have also exacerbated the impact, especially in Germany. However, there seem to be signs of stabilisation in global trade volumes, and the lagged impact from the strong euro appreciation in 2017 should fade.

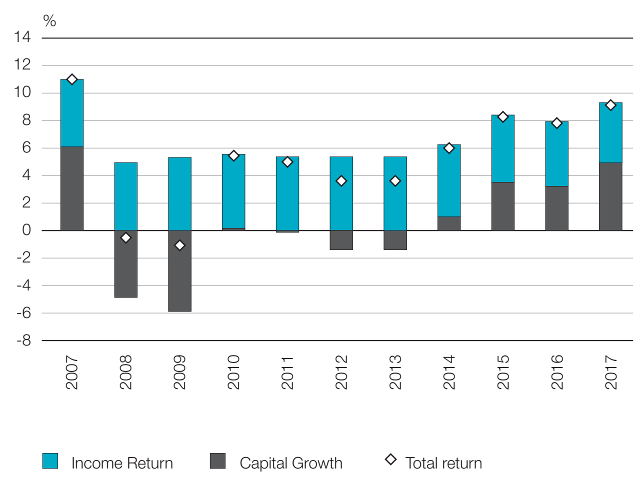
However there are various downside risks which could impact investor sentiment. Potentially interest rates could rise more aggressively than expected, which would put an upward pressure on yields.

The potential of rising interest rates, combined with the fact that we are now late in the property cycle, has amplified the need for secure, long-term income. As a result, many investors will trade capital growth, which is limited, for rental stability and growth.

Eurozone: Consumption and real income
Sources: Oxford Economics, Haver Analytics



All property European investment performance
Sources: MSCI, Gerald Eve

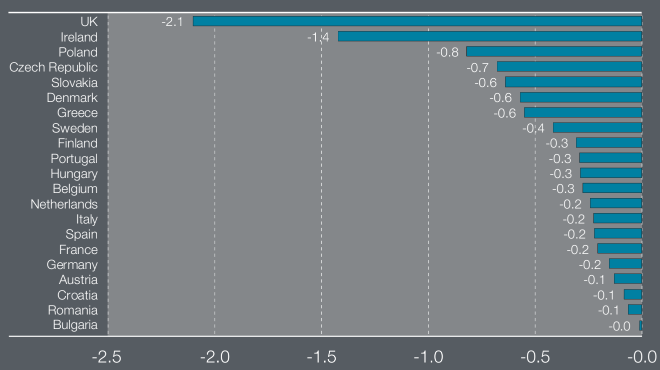


Brexit

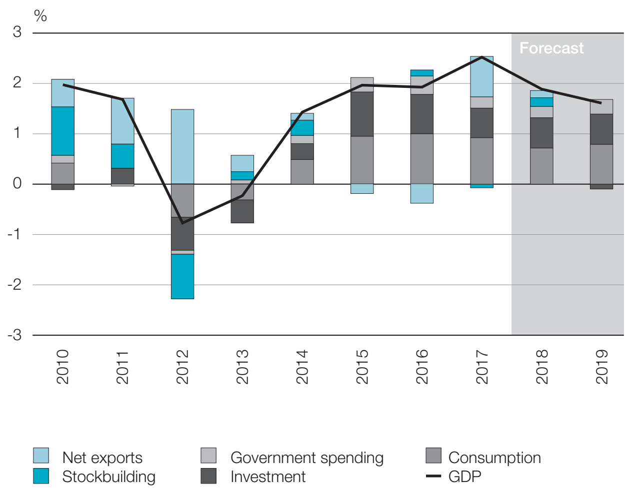
Eurozone GDP growth of 1.5% assumes the successful implementation of the withdrawal agreement, meaning that after the UK formally leaves the EU in March 2019 there is then a 21-month transition period where trading arrangements remain unchanged. However, there is an increasingly large risk that the process is derailed by the UK parliament failing to approve the deal.

In the scenario where no deal can be agreed (and put through UK Parliament), additional trade frictions and a sizeable depreciation of sterling would cause a significant slowdown in the UK economy, and to a lesser extent, other EU countries.

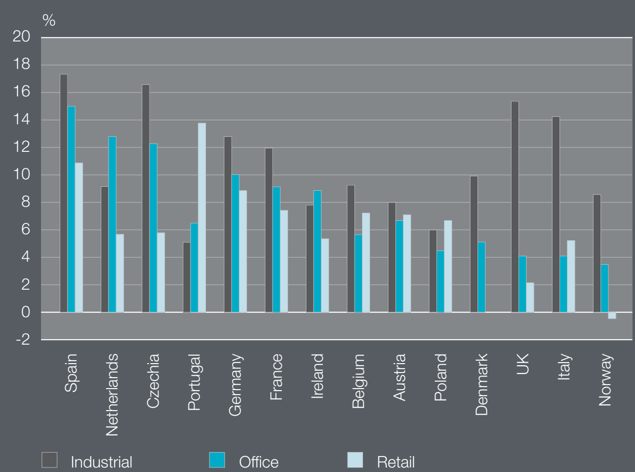
Europe: Impact on GDP of 'no deal' Brexit
Source: Oxford Economics



Eurozone: Contributions to GDP growth
Source: Oxford Economics



Total return by sector
Sources: MSCI, Gerald Eve



Offices

Despite the weakening expansion of the economy, occupier sentiment for office space across Europe remains positive with similar levels of leasing activity expected this year. Oxford Economics forecast an additional 2.8 million office-based jobs created over the next five years within the European Union (excluding the UK), which will help maintain a strong demand for new space.

The continued expansion of the media and technology sector continues to be one of the main drivers of leasing activity for many European markets with Oxford Economics forecasting a 1.6% rise in EU-28 technology sector employment in 2019.

Occupiers continued demand for office flexibility will lead to greater growth in the serviced office sector across Europe. As well as more flexible leases, and the ability to take space almost instantly, serviced offices at the top end of the market have put a lot of emphasis on improving the user experience of the occupier, which includes the refinement of wellness programmes and provision of an expanded range of employee services and amenities. The improved package offered from this sector will lead to more occupiers abandoning traditional office space, and ultimately increasing the demand for serviced offices.

In 2018, there was a flight to quality from occupiers, as real estate more than ever before, was used to attract and retain the best talent. As a result, there is currently a short supply of prime grade A office space across most of Europe's leading cities. It has also led to an increasing level of pre-letting activity, with many of Europe's largest developments now becoming fully let on completion.

Industrial

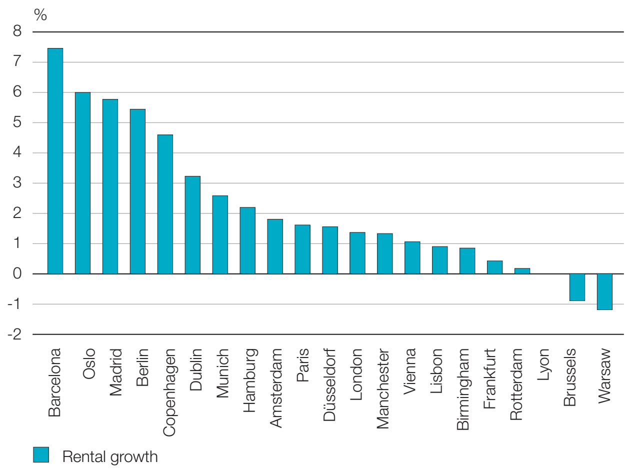
Industrial assets have been the best performing over the last 12 months in terms of investment performance, with an increasing level of demand coming from both occupiers and investors. The growth of online shopping across Europe has been the main driver of demand with occupiers focussing on last mile logistics.

Demand in 2019 is expected to increase, with the online sale of groceries becoming increasingly more viable due to increased supply chain efficiency, improved automation and temperature-controlled last mile storage. The UK has already seen the benefit of this, with company's such as Deliveroo able to set up "dark kitchens", where the production of meals as well as the transport is outsourced to the logistics operator.

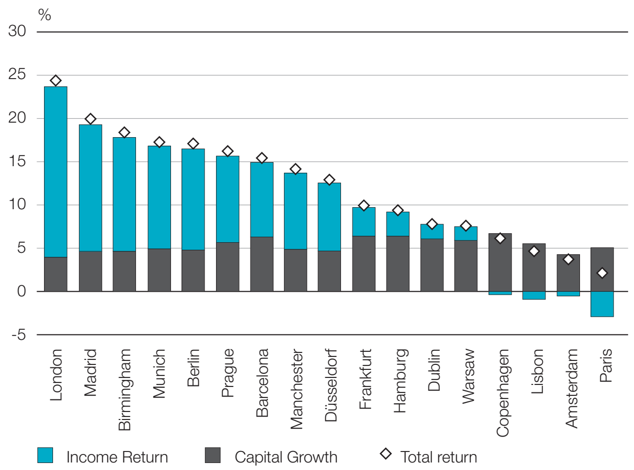
Smaller industrial units are also becoming more popular and will add to the demand for space in 2019. The growth of this segment has largely been driven by an increasing level of demand coming from small and medium-sized companies, but these units are also far more suited to city logistics operations, where space is more limited, than larger units.

A combination of increased demand for industrial units, and limited available land for development, has resulted in a fall in the overall availability rate making it more difficult for occupiers to find the suitable space. Likewise, transaction volumes may also reduce due to a lack of available stock, and as a result prime yields will continue to fall in the most competitive markets, as well as further rental growth being achieved this year.

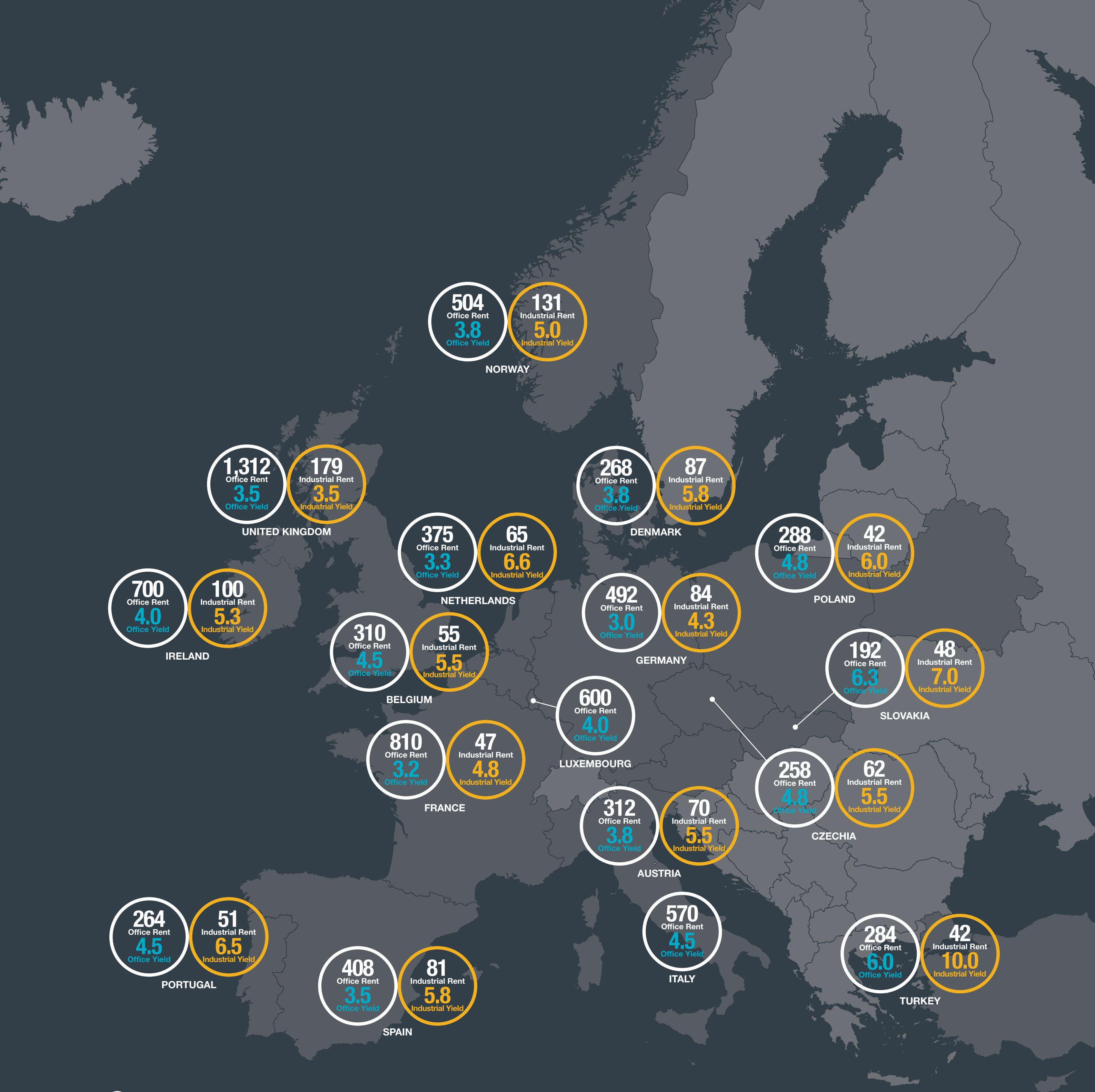
Office rental value growth, 2017
Source: MSCI, Gerald Eve



Industrial investment performance, 2017
Source: MSCI, Gerald Eve



OFFICE AND INDUSTRIAL PRIME RENTS AND YIELDS

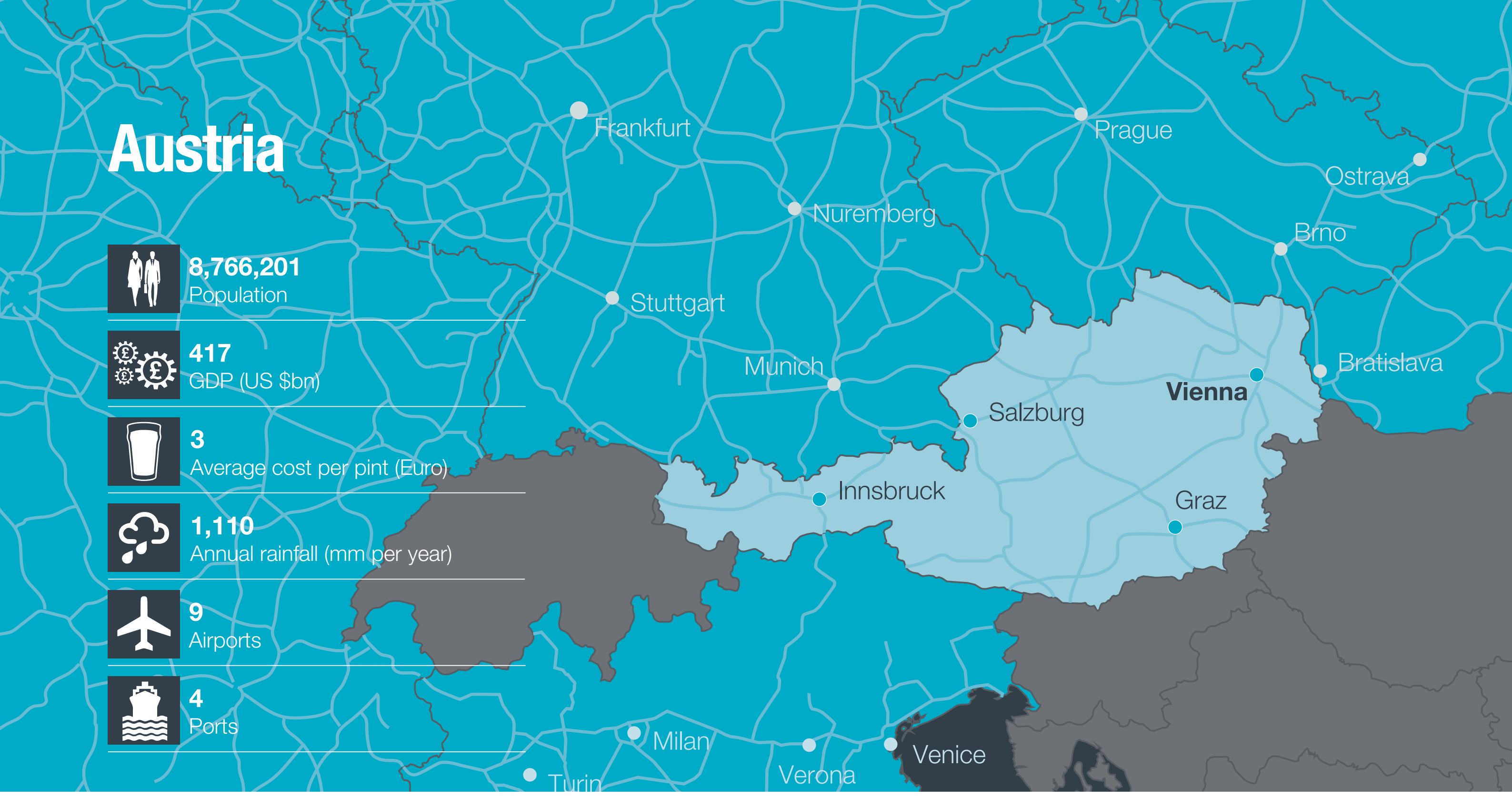


Office Rent / Yield

Industrial Rent / Yield

Euro per sq m (Annual)

Austria



8,766,201
Population

417
GDP (US $bn)

3
Average cost per pint (Euro)

1,110
Annual rainfall (mm per year)

9
Airports

4
Ports

Commentary

Austria's strong economic performance in 2017 carried on into the first half of 2018 and as a result, overall GDP growth is expected to reach 2.9%, a slight increase on the previous year. The main driver behind this growth has come from strong domestic demand, thanks to a rise in consumer spending. This was due to favourable labour market conditions and increasing wages. In addition, after several years of subdued growth, the construction sector rebounded in 2017 and has remained firm in 2018.

The second half of 2018 was not quite as strong however, due to a slight reduction in demand from international markets. Against the backdrop of the weaker economy in the Eurozone and the growing uncertainty in the economic environment, a further slowdown in the domestic rate of expansion is expected.

Overall, GDP growth is forecast in 2019 and 2020 to grow more moderately at 2.0% and 1.8%, respectively.

Annual employment levels continued to grow throughout 2018, leading to a fall in unemployment. However, whilst employment is still expected to grow, the rate of increase will begin to slow down in 2019 and 2020, in line with the broader economy. Overall the unemployment rate is forecast to fall from 4.8% in 2018, to 4.4% in 2020.

The office market is expected to remain stable as we move through 2019, although a slight decrease in occupier demand is anticipated.

A number of development schemes in Vienna were delivered in 2018, adding a further 230,000 sq m of new space to the market, however this rate of activity will drop in 2019, with only 40,000 sq m of new space expected to be completed over the next 12 months. Despite the fall in activity, investor sentiment remains strong for offices in Vienna, particularly from international investors, with increasing interest coming from the UK, USA and Asia.

The logistics market continues to be on the rise in Austria, and this trend is expected to continue throughout 2019. Development activity continues to grow in the greater Vienna region, as well as in the secondary cities of Graz and Linz. Developers have been encouraged by the strong demand from investors, as well as the rate of leasing for new high quality grade A space.

There has also been an increase in e-commerce activity, and as a result, Amazon is about to start its first warehouse in the greater Vienna area with further warehouses to follow in 2019 and 2020. This rise in e-commerce activity has been driven by increasing wages and strong domestic demand.

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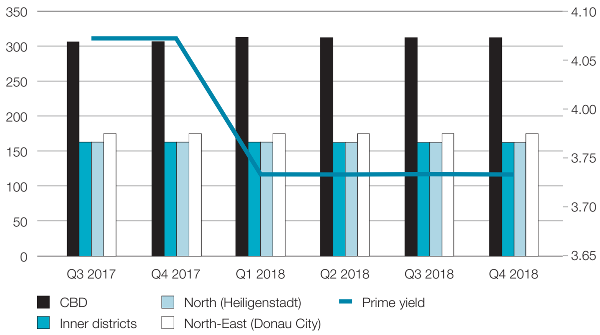
Vienna

OFFICES

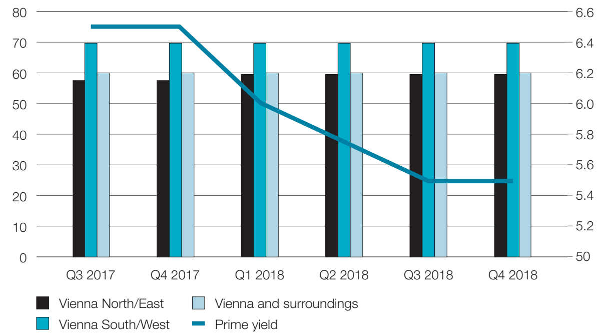
Prime rents and yields



2019 Outlook			
Occupier demand	↘	Investor activity	→
Development supply	↘	Prime rents	→
Availability	↘	Prime yields	↘

LOGISTICS

Prime rents and yields



2019 Outlook			
Occupier demand	↗	Investor activity	↗
Development supply	↗	Prime rents	↗
Availability	↗	Prime yields	↘

Belgium

11,562,784
Population

493
GDP (US $bn)

2
Average cost per pint (Euro)

650
Annual rainfall (mm per year)

5
Airports

4
Ports

Commentary

GDP growth in Belgium grew by 1.5% in 2018, however despite positive net exports, a combination of weaker household spending and public consumption growth are forecast to impact the economy negatively, with GDP growth expected to be down to 1.2% by 2021, in line with the euro area in general.

The current unemployment rate is low compared to recent history, at 6.2%, however this differs significantly between regions; for example, in Flanders where the rate is low, through to Wallonia and Brussels where the rates are high. This is largely a result of accessibility. Consumer confidence is also reported to be at its lowest level for over two years.

Investment's contribution to GDP growth is also expected to reduce slightly. This slowdown is on the back of lower capacity utilisation and weakening exports.

The main risks to the Belgium economy over the next few years are largely external, due to being a small open economy. These risks include the potential impacts from a slowdown in demand in Belgium's main trading partners.

The Belgium office market has been performing relatively well recently. In Brussels, the office sector recorded its lowest availability rate since 2007 (8%), although the delivery of a number of speculative developments could see this increase in 2019. Leasing activity in Brussels was a little subdued in 2018, although serviced offices such as Regus, Space and WeWork have become more active and this could lead to an increase in demand for space.

Occupier sentiment for offices in Antwerp is also strong with further high levels of leasing activity expected in 2019. The demand for new space is highlighted by the developments Link, and Post X (130,000 sq m) which are almost fully let before completion. Because of this demand, the availability rate is low at 8.7%, and expected to remain at this level.

Investor appetite for offices is strong, with transaction volumes reaching their highest levels over the last decade during 2018.

The Belgium logistics market is underperforming however, with companies such as WDP, Montea, VGP, and M&G Real Estate, focussing their activities abroad. Leasing activity has been low, as a result of mobility issues, high labour costs, and strict regulations on night work. Despite this, Alibaba plans to open a large distribution centre close to Liège airport, which will provide a significant boost for the market.

Retail property has also had an underwhelming year with weaker demand leading to an increase in overall availability. As a result, we've seen prime rents across city centres begin to fall. Investment volumes remain high however, due to the sale of three large shopping centres; namely Docks Bruxsel, Rive Gauche and W Shopping.

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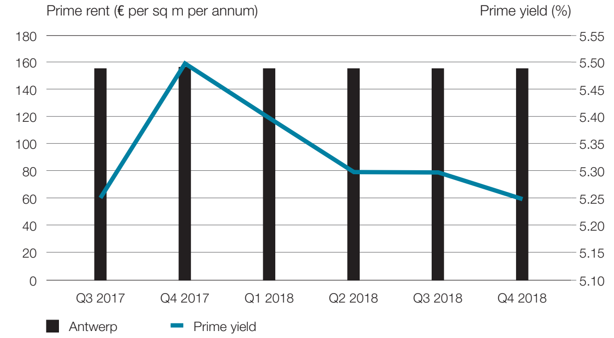
Antwerp

OFFICES

Prime rents and yields

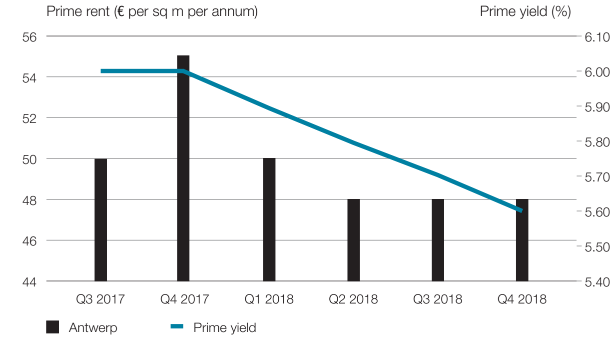


2019 Outlook

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

LOGISTICS

Prime rents and yields

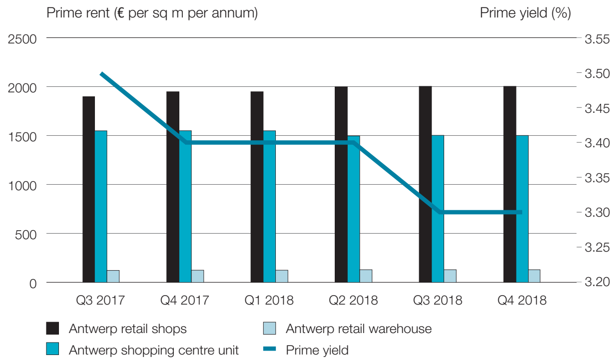


2019 Outlook

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

RETAIL

Prime rents and yields



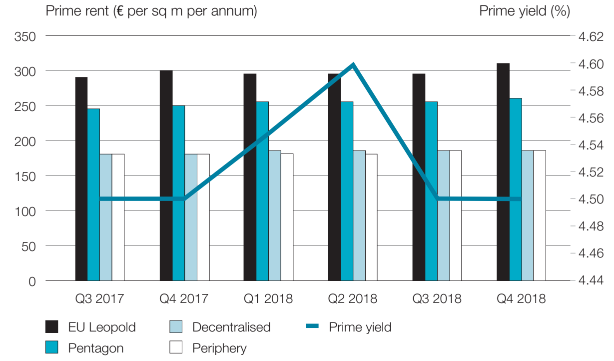
2019 Outlook

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

Brussels

OFFICES

Prime rents and yields

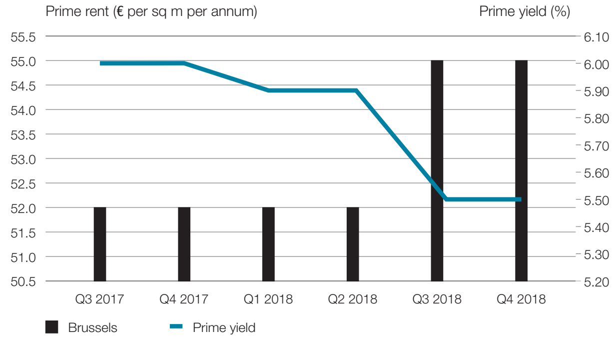


2019 Outlook

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

LOGISTICS

Prime rents and yields

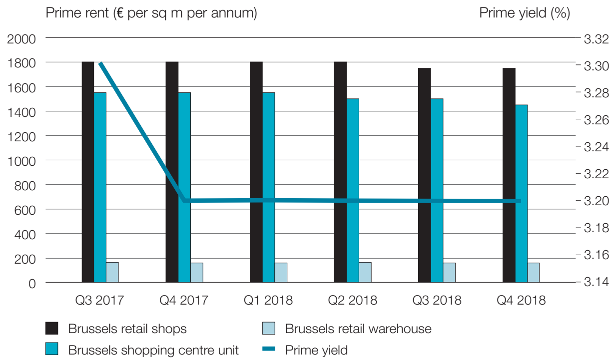


2019 Outlook

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

RETAIL

Prime rents and yields



2019 Outlook

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

Czechia

10,630,589
Population

216
GDP (US $bn)

1
Average cost per pint (Euro)

677
Annual rainfall (mm per year)

18
Airports

2
Ports

Commentary

An increase in domestic demand meant that the Czech Republic economy grew by 3.0% in 2018, which was a slight decrease on 2017, the country's highest growth in a decade at 4.3%.

Investment gained momentum in 2018, boosted by the automation needs in manufacturing and the surge of public investment supported by EU funds. Wage dynamics and consumer confidence boosted private consumption, while increases in public salaries lifted public expenditure. Conversely, net exports and inventories contributed negatively to year-on year growth. These dynamics are expected to continue through 2019.

The Czech Republic has a small open economy, making it highly dependent on external factors. During 2018, weak external demand coupled with exchange rate appreciation had an impact on economic growth, and these factors will continue to pose a risk in the near term.

The economic outlook for Brno is positive; it's the second largest city in the Czech Republic, and therefore has a robust labour supply. It is also part of the South Morava region, whose potential expansion is attractive to new businesses and investors.

The office market reflects this and continues to be in high demand. In 2018, 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 2019.

The South Moravian region continues to draw investor interest into logistics warehouses. Currently, the availability rate is as low as 4.7%, although this could soon rise with a number of developers planning to expand their capacity in this region. For example Prologis Park Brno (68,000 sq m), Panattoni Park Brno (106,000 sq m), and CTPark Vyskov (25,000 sq m). These schemes will draw demand from occupiers and as a result prime rents are expected to rise.

The real estate market in Prague continues to be strong as a result of increased demand, combined with significant economic growth. Over the last five years, as well as an increase in demand for property (specifically industrial or office projects), there has been little development activity. This is partly due to specific bureaucratic regulations in the Czech Republic, but also due to a lack of developer appetite in recent years, and as a result prime rents have increased. New space is on the way however, and in 2019 Prague will see the delivery of a number of schemes, including Palmovka Open Park, and Penta project by Deloitte.

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 an incredibly low 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.

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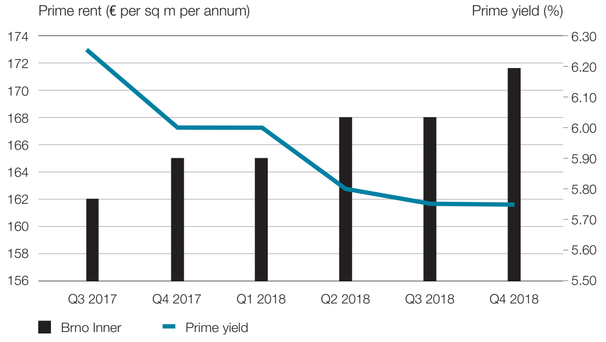
Brno

OFFICES

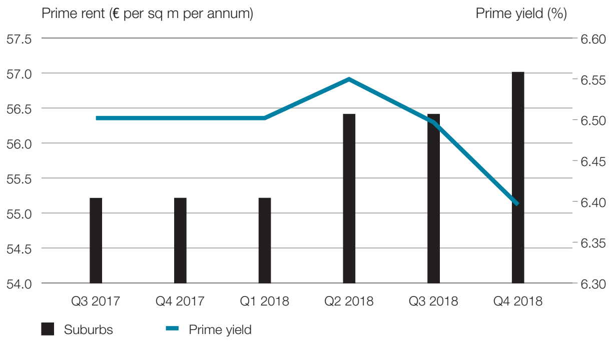
Prime rents and yields



2019 Outlook			
Occupier demand	↗	Investor activity	↗
Development supply	→	Prime rents	↗
Availability	↘	Prime yields	→

LOGISTICS

Prime rents and yields

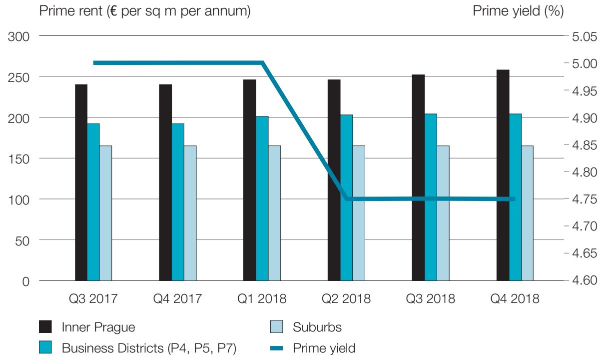


2019 Outlook			
Occupier demand	↗	Investor activity	↗
Development supply	→	Prime rents	↗
Availability	↘	Prime yields	→

Prague

OFFICES

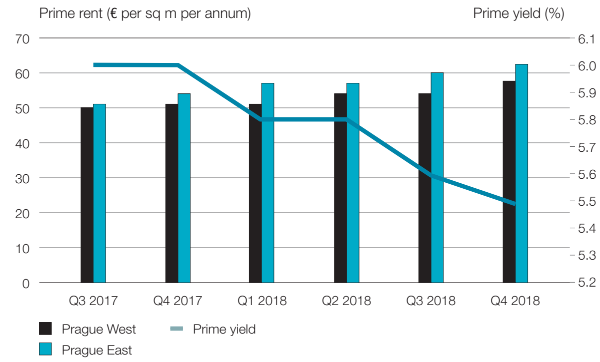
Prime rents and yields



2019 Outlook			
Occupier demand	↗	Investor activity	↗
Development supply	↗	Prime rents	→
Availability	↘	Prime yields	→

LOGISTICS

Prime rents and yields



2019 Outlook			
Occupier demand	↗	Investor activity	↗
Development supply	→	Prime rents	→
Availability	↘	Prime yields	↘

Denmark

5,775,224
Population

325
GDP (US $bn)

6
Average cost per pint (Euro)

703
Annual rainfall (mm per year)

23
Airports

159
Ports

Commentary

After reaching a decade high of 2.3% in 2017, GDP growth reduced to 1.2% in 2018. This slowdown is primarily due to temporary factors, including notably poor weather conditions which negatively affected agricultural production. Over the next two years, GDP is expected to grow by 1.8% in 2019 before slowing down to 1.6% in 2020 due to the weakening of growth in Denmark's main export markets.

Despite a gradual tightening of the labour market, employment growth is expected to remain robust over the next few years. The labour force, which is projected to continue expanding largely thanks to past pension and labour market reforms, should help sustain the trend. Over the next few years, employment growth is expected to outpace the growth of the labour force, so the unemployment rate should continue to fall gradually to 4.7% in 2020.

In 2018, demand for centrally located office space has increased which is reflected in growing market rents and also a large increase in transaction volumes. The increasing demand can be explained by growing employment and consequently, a low unemployment rate of 3.9%. If the economic development continues, the market for office space will continue to become more attractive. The heightened levels of demand for office space has in turn driven the required yield down.

The interest in storage and logistics properties near large cities and close to the main roads has increased throughout 2018, largely due to an increase in e-commerce. Logistics centres are used as middle storage stations where packages change transporter before the packages are delivered to a pick-up place or to the recipient.

The growing interest in logistics properties has also affected the market rent, which has increased, and the required yield, which has compressed. Throughout 2019, investment activity is expected to increase in order to respond to the increased demand.

Consumer confidence is at a high level and Danish households' economies are in good shape. As a result, consumer spending has increased over the last couple of years, which has had a positive effect on the retail sector. However, there has been a slight increase in the vacancy rates, due to consumers purchasing more online. The increasing vacancy rate is expected to drive down the prime rents and drive up the required yield to compensate for the additional risk.

The final quarter of 2018 was affected by increased financial uncertainty, as evidenced in the stock and bond markets, and also in the Danish property market, where fewer buildings transacted. The decreased transaction volumes can be seen as an indication of a more risk-averse attitude from investors in a market where prices in general are high. As a result, transaction volumes are expected to remain low throughout 2019.

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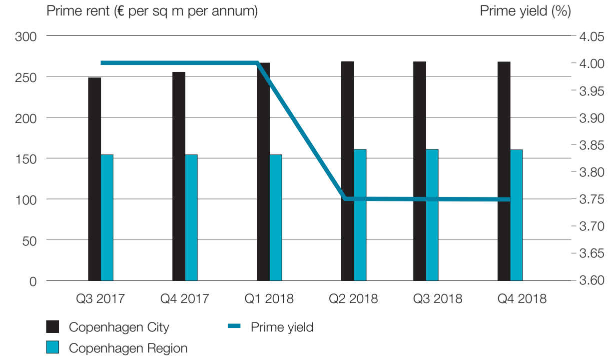
Copenhagen

OFFICES

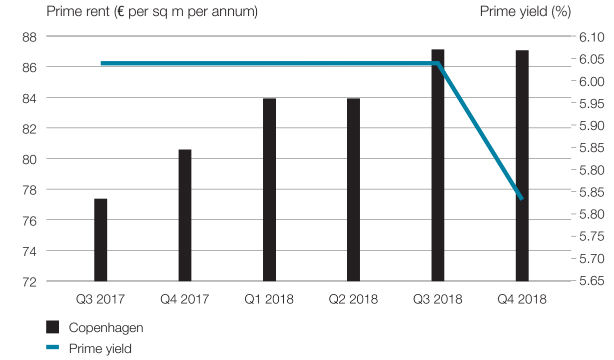
Prime rents and yields



2019 Outlook			
Occupier demand	↗	Investor activity	→
Development supply	↗	Prime rents	→
Availability	→	Prime yields	→

LOGISTICS

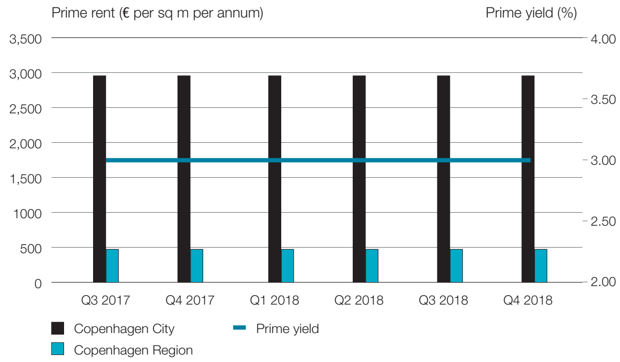
Prime rents and yields



2019 Outlook			
Occupier demand	↗	Investor activity	↗
Development supply	↗	Prime rents	↗
Availability	→	Prime yields	→

RETAIL

Prime rents and yields



2019 Outlook			
Occupier demand	↘	Investor activity	↘
Development supply	→	Prime rents	↘
Availability	→	Prime yields	↗

France

65,480,710
Population

2,583
GDP (US $bn)

6
Average cost per pint (Euro)

867
Annual rainfall (mm per year)

211
Airports

268
Ports

Commentary

2018 closed with the "gilets jaunes" protests which will likely have deducted at least 0.1% from GDP growth in Q4, and as a result, the annual GDP growth is expected to be around 1.5%. However, tax cuts and lower inflation look set to fuel a marked recovery in consumption this year and lead to 1.6% growth in GDP in 2019, with consumer demand rising by 1.4%.

The package announced by President Macron in response to the protests will support disposable income and purchasing power, which were already set to rise strongly this year due to cuts in unemployment insurance contributions and lower housing taxes that came into force in Q4 last year, easing inflation (due to lower oil prices) and a still-strong labour market. This will bolster private consumption next year.

Having enjoyed high volumes over the last 18 months, exports are expected to slow down over the next few years, as global demand growth loses momentum, external uncertainty rises, and past euro appreciation makes itself felt. As a result, net exports are expected to be neutral in 2019 and 2020.

The Paris office market in 2018 was driven by strong occupier demand in inner Paris, together with low availability, especially in the CBD. The main source of demand came from serviced offices, and in particular, WeWork and Spaces. There was also an increased level of demand brought on by the potential implications of Brexit, with companies such as BOA, EBA, J.P.Morgan, and HSBC looking to relocate staff outside the UK.

There has also been a flight to quality in 2018, with businesses such as Nestlé, Lacoste, Danone, Orange, and AXA, looking for modern and well located buildings, in order to attract and retain the best talent. This increasing level of demand, combined with a lack of availability, will keep an upward pressure on prime rents. Occupiers might also be forced to look at the secondary market (la Defense or the west crescent), if they're unable to find space to satisfy their real estate needs.

Despite the reputation, the greater Paris retail market continues to be challenged by online shopping, with e-commerce continuing to become more popular. As a result, investor sentiment for traditional retail has declined, with the notable exception of high street retail where exceptional deals at Champs Elysée were concluded in 2018. The Apple building was bought for 600 million Euros by BVK, and Norges bought the Nike building for 613 million Euros, reflecting a yield of 2.5% and 2.7% respectively.

Occupier sentiment in Lyon continues to be positive for office space, and in 2018 almost 33,000 sq m was let. The market saw a number of large deals signed, notably Engie, EDF and Bobst which all took over 10,000 sq m. A new top office rent of 300 Euros per sq m was also set in 2018, in a recently refurbished historic building known as Grand Hôtel-Dieu, at Presqu'Île. This demand for office space is expected to continue throughout 2019.

Investment volumes in Lyon reached 1.2 million Euros in 2018, with the majority of transactions for offices (85%).

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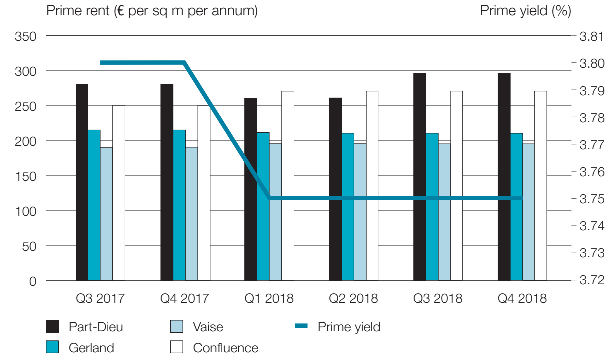
Lyon

OFFICES

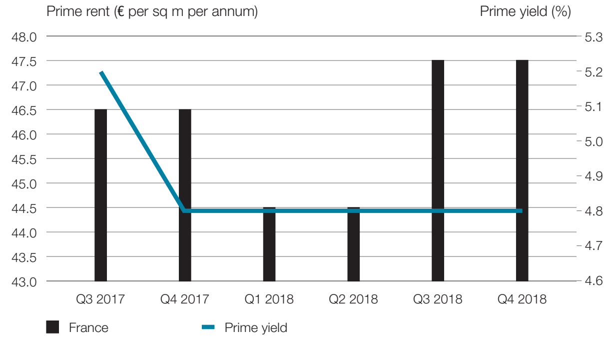
Prime rents and yields



2019 Outlook			
Occupier demand	↗	Investor activity	↗
Development supply	↗	Prime rents	↗
Availability	→	Prime yields	→

FRANCE LOGISTICS

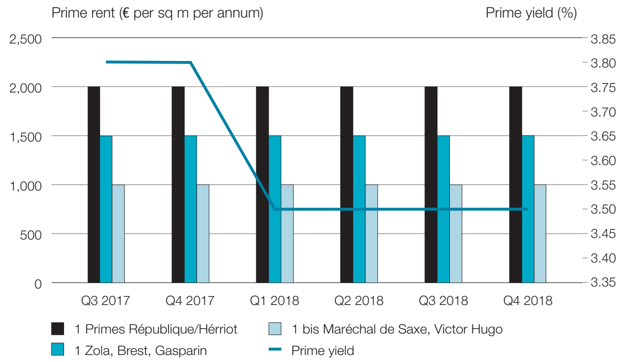
Prime rents and yields



2019 Outlook			
Occupier demand	↗	Investor activity	↗
Development supply	↗	Prime rents	→
Availability	↗	Prime yields	→

RETAIL

Prime rents and yields

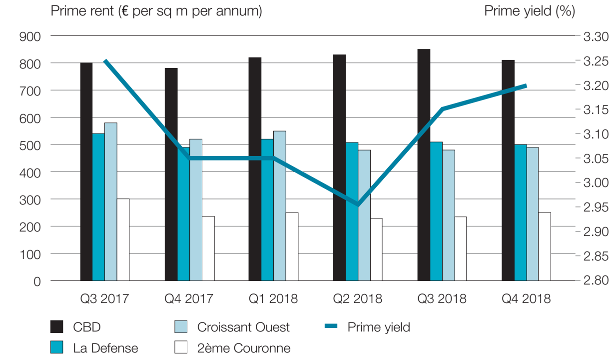


2019 Outlook			
Occupier demand	→	Investor activity	↘
Development supply	→	Prime rents	→
Availability	→	Prime yields	→

Paris

OFFICES

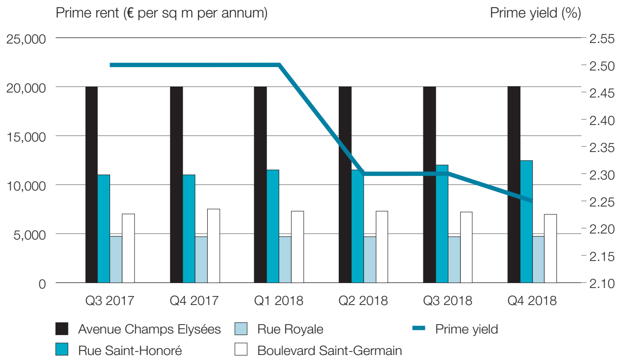
Prime rents and yields



2019 Outlook			
Occupier demand	→	Investor activity	→
Development supply	↗	Prime rents	→
Availability	→	Prime yields	↘

RETAIL

Prime rents and yields



2019 Outlook			
Occupier demand	→	Investor activity	→
Development supply	→	Prime rents	→
Availability	→	Prime yields	→

Germany

82,979,100
Population

3,677
GDP (US $bn)

3
Average cost per pint (Euro)

700
Annual rainfall (mm per year)

154
Airports

98
Ports

Commentary

Industrial production in Germany appears to have had a very poor Q4. Output fell substantially in November after a weak October and, as a result, the economy was almost in recession in H2. Order books and the labour market still look strong, but overall GDP growth in Q4 was 0.0%. This means the total GDP growth in 2018 was 1.4%. A similar level of growth is anticipated in 2019.

The 1.9% drop in industrial output in November was broad-based and something of a surprise. The strongest impact was in investment goods, which were most likely affected by geopolitical uncertainty. While the brunt of the temporary production cuts in the automotive sector has faded, the latest car association data suggest that a full rebound will take some months. But demand is still solid, with manufacturing orders increasing and backlogs of work at very high levels.

Although Berlin is still lacking behind the other big cities in Germany, from an economic perspective, it is catching up. More and more companies, especially from abroad, are looking at taking space in Berlin. Whilst the city is largely dominated by the administrative and service economy, there is an increasing level of demand coming from the media and technology sector.

The office market in Berlin has been restricted by a lack of availability, particularly in the inner city. There are more developments on the outskirts, for example in Adlershof, but the majority of this space is being taken by serviced offices. More developments in the centre will be delivered over the next two years, however the demand for space is so high that the majority of these have already been pre-let. As a result, prime rents are increasing.

Düsseldorf is also approaching full occupancy in the office sector, while rents are still in a sidewards trend. Retail however, remains an anchor in the city, as it still attracts a lot of foreign tourists looking for a high class shopping experience.

The office market in Frankfurt continues to be in high demand, which has resulted in low availability of suitable quality space for tenants. Serviced offices have also been active here and taken a large amount of space in new developments, further decreasing the availability rate. Brexit will also potentially increase demand further, as more banks have let speculative office space in the CBD/Bankenlage.

Hamburg is also suffering from a lack of good quality space to appease current demand. The type of occupiers looking for new space is getting more diverse, as industrial companies are locating their head offices in Hamburg. There is a however a large development pipeline which will deliver new space to the market over the next few years which in turn will help the dynamics.

Munich is still the city with the highest GDP per capita, and its prospects remain strong. The only noted downward trend is the low vacancy for housing, which could lead to a reduction of potential workers, as high living costs make it more and more unattractive. Logistics however are still the most sought-after asset class in Germany, and in particular in Frankfurt, given its role as a transport hub in central Germany.

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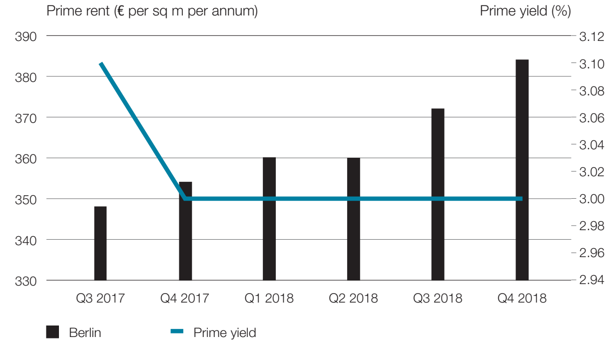
Berlin

OFFICES

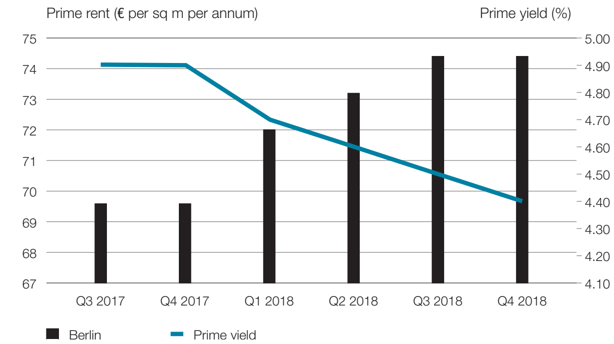
Prime rents and yields



2019 Outlook			
Occupier demand	↗	Investor activity	↗
Development supply	↗	Prime rents	→
Availability	↘	Prime yields	→

LOGISTICS

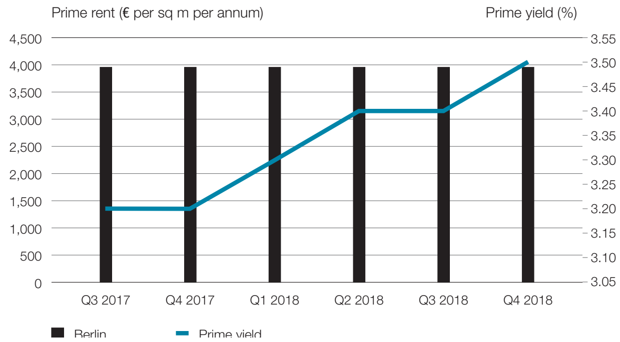
Prime rents and yields



2019 Outlook			
Occupier demand	↗	Investor activity	→
Development supply	→	Prime rents	→
Availability	→	Prime yields	↘

RETAIL

Prime rents and yields

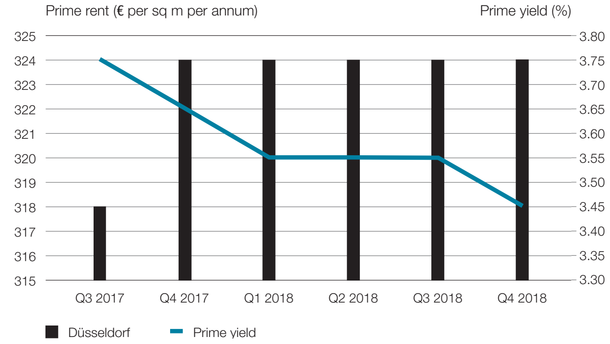


2019 Outlook			
Occupier demand	↘	Investor activity	↘
Development supply	→	Prime rents	→
Availability	→	Prime yields	→

Düsseldorf

OFFICES

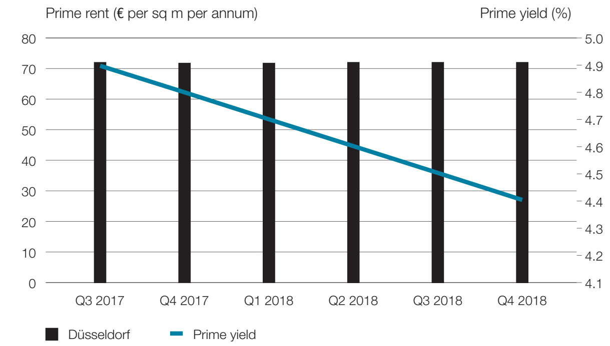
Prime rents and yields



2019 Outlook			
Occupier demand	↗	Investor activity	→
Development supply	↗	Prime rents	→
Availability	↘	Prime yields	→

LOGISTICS

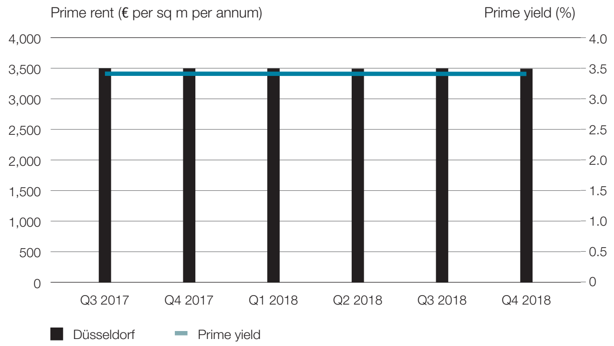
Prime rents and yields



2019 Outlook			
Occupier demand	→	Investor activity	↗
Development supply	→	Prime rents	→
Availability	→	Prime yields	↘

RETAIL

Prime rents and yields

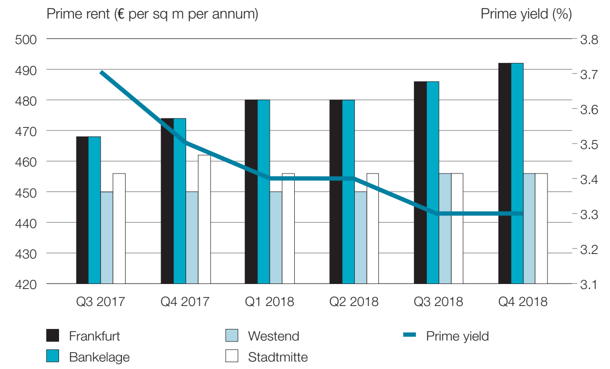


2019 Outlook			
Occupier demand	↗	Investor activity	↗
Development supply	↗	Prime rents	→
Availability	→	Prime yields	→

Frankfurt

OFFICES

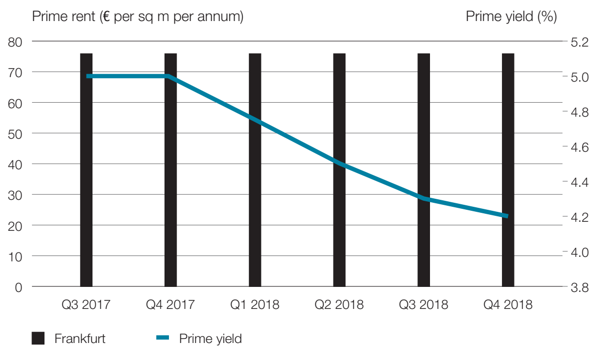
Prime rents and yields



2019 Outlook			
Occupier demand	↗	Investor activity	↗
Development supply	↗	Prime rents	↗
Availability	↘	Prime yields	→

LOGISTICS

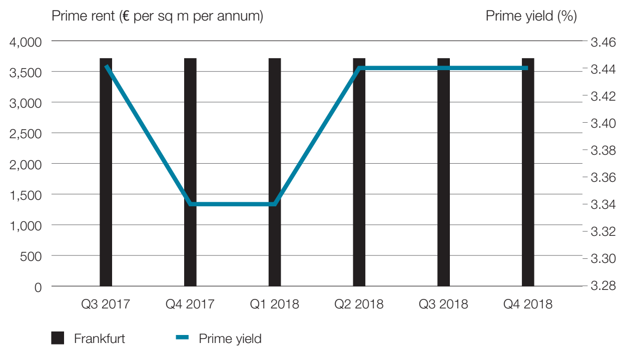
Prime rents and yields



2019 Outlook			
Occupier demand	↗	Investor activity	↗
Development supply	↘	Prime rents	→
Availability	↘	Prime yields	↘

RETAIL

Prime rents and yields

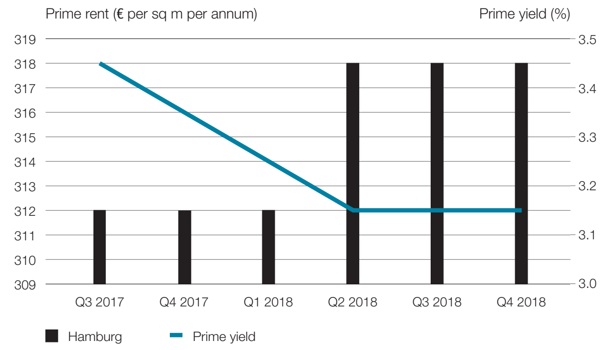


2019 Outlook			
Occupier demand	→	Investor activity	→
Development supply	↘	Prime rents	→
Availability	→	Prime yields	→

Hamburg

OFFICES

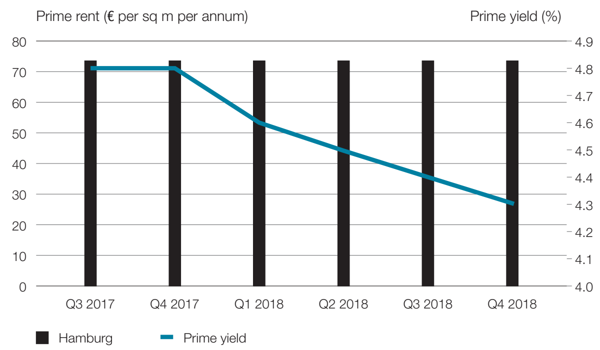
Prime rents and yields



2019 Outlook			
Occupier demand	→	Investor activity	→
Development supply	↗	Prime rents	↗
Availability	→	Prime yields	→

LOGISTICS

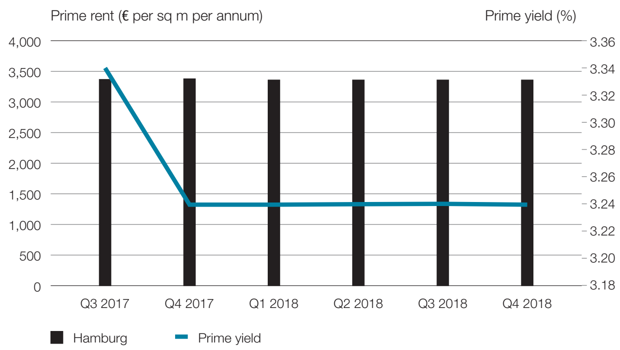
Prime rents and yields



2019 Outlook			
Occupier demand	↗	Investor activity	↗
Development supply	→	Prime rents	↗
Availability	↘	Prime yields	↘

RETAIL

Prime rents and yields

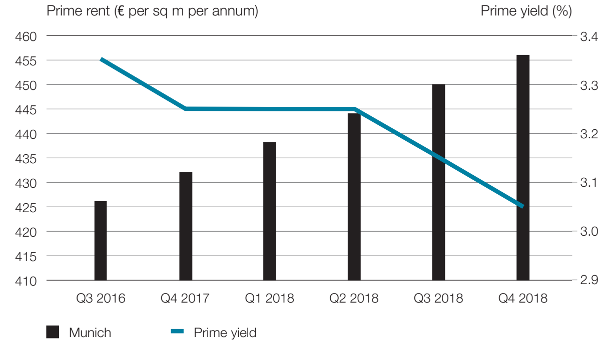


2019 Outlook			
Occupier demand	→	Investor activity	→
Development supply	↘	Prime rents	→
Availability	→	Prime yields	→

Munich

OFFICES

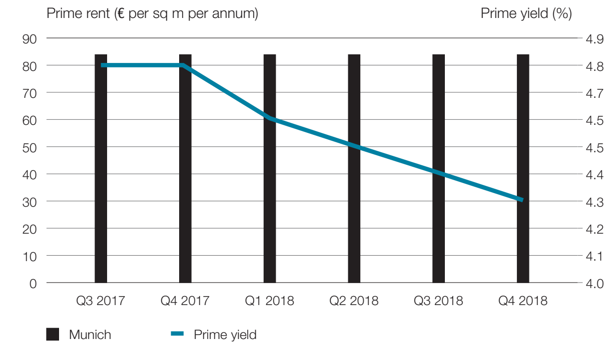
Prime rents and yields



2019 Outlook			
Occupier demand	↗	Investor activity	→
Development supply	↗	Prime rents	↗
Availability	↘	Prime yields	→

LOGISTICS

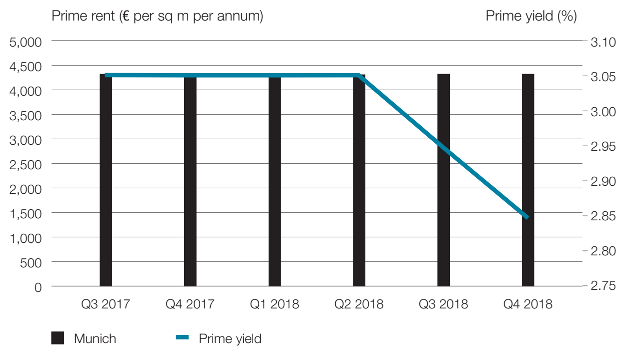
Prime rents and yields



2019 Outlook			
Occupier demand	→	Investor activity	↗
Development supply	→	Prime rents	→
Availability	→	Prime yields	↘

RETAIL

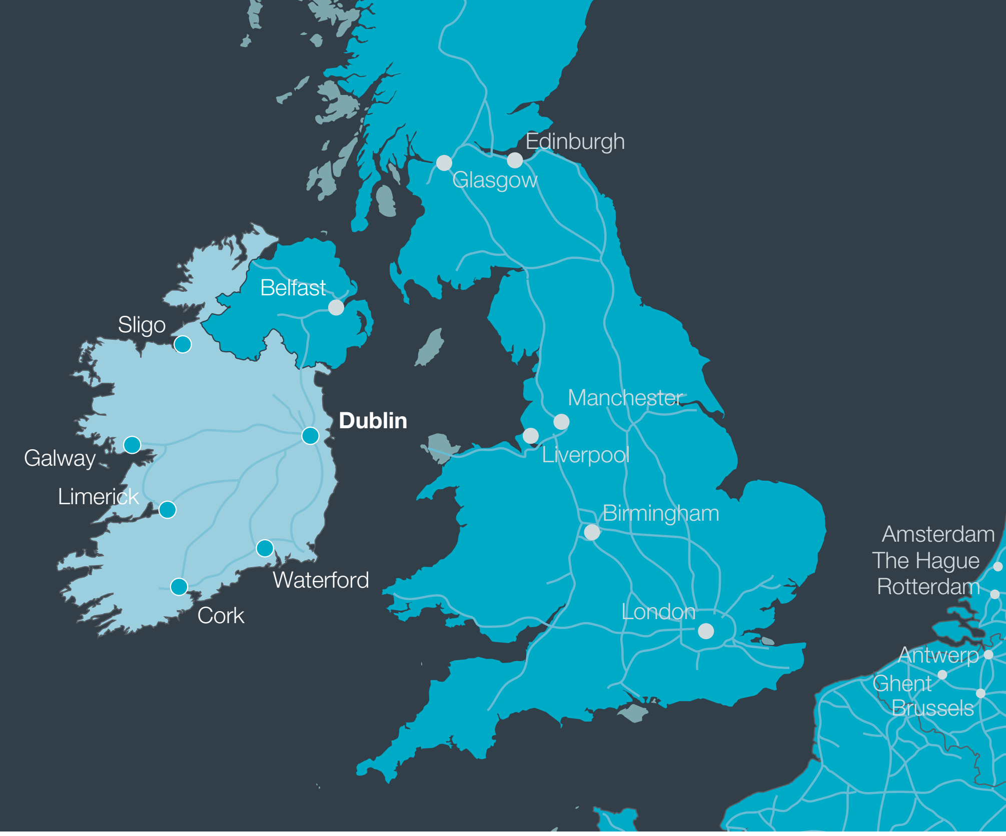
Prime rents and yields



2019 Outlook			
Occupier demand	→	Investor activity	→
Development supply	→	Prime rents	→
Availability	→	Prime yields	→

Ireland

4,803,748	Population
334	GDP (US $bn)
5.50	Average cost per pint (Euro)
1,118	Annual rainfall (mm per year)
10	Airports
49	Ports



Commentary

Overall, 2018 was a good year for the domestic economy as consumer spending grew by 4.6% in the first nine months but weakened on the latter part of the year due to growing economic uncertainty. Employment growth is yet to show any sign of slowing and the unemployment rate stood at 5.3% in December 2018, an 11 year low. Whilst positive employment growth is expected to continue in 2019, GDP growth will be weaker than in recent years as the economy is now close to capacity.

The Dublin office market had another record year of take-up in 2018, with leasing volumes reaching 369,522 sq m, a 6% increase on 2017. Occupiers are targeting quality in order to attract and retain the best talent, and as a result there has been high levels of pre-letting over the last 12 months. The media & technology sector in particular has been active, with Google, LinkedIn, and Hubspot all taking significant amounts of space. In addition, Facebook signed the largest ever letting for the Dublin/Irish market, when it signed a 81,000 sq m pre-let at the AIB Bankcentre Scheme in the Dublin 4 district. WeWork has also signed for approximately 32,000 sq m across five buildings with more deals expected in 2019.

Pre-letting activity is likely to continue in the early part of 2019, especially as Amazon and other tech companies are close to agreeing terms on additional space. Brexit could have an impact on the office market depending on the outcome of the current negotiations with either full or shadow relocations already either threatened or mooted by affected companies in the UK. Signs of a two tier market are emerging with international and domestic occupiers displaying differing abilities to pay prime rental levels.

The industrial market in Dublin performed steadily in 2018 with good levels of transaction activity. Take-up for last year reached 269,000 sq m which was 14% higher than 2017. The greatest level of activity was focused in South West Dublin region. Occupier demand for Grade A stock is strong, however there is a lack of availability currently. As a result, prime rents reached 9.50 per sq ft for new units.

In 2018, prime retail rents in Ireland remained stable. In spite of Brexit uncertainties, consumer confidence remains high, and in particular the food and beverage and the beauty sector accounted for over 50% of deals.

UK retailers expanded their business presence in Dublin throughout the year, and notably, The Ivy opened its first restaurant in Dublin on the ground floor of a new office scheme in the Dublin 2 district.

3.6 billion Euros of Irish property traded in 2018 across 256 transactions. The largest transactions included the sale of Heuston South Quarter for 175m Euros, Dublin Landings to Triuva for 164m Euros and The Grange, Stillorgan to Kennedy Wilson for 161m Euros.

Dublin remains the key location for investors, and in particular from overseas. Demand for PRS is likely to remain strong in 2019 and continued interest in the office and logistics markets is expected. Brexit however could have negative consequences as people assess the implications of any political decisions.

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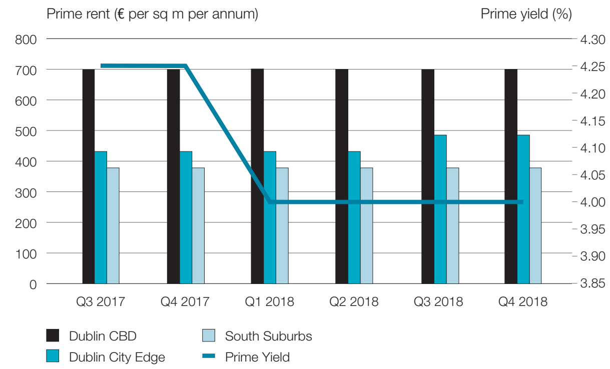
Dublin

OFFICES

Prime rents and yields

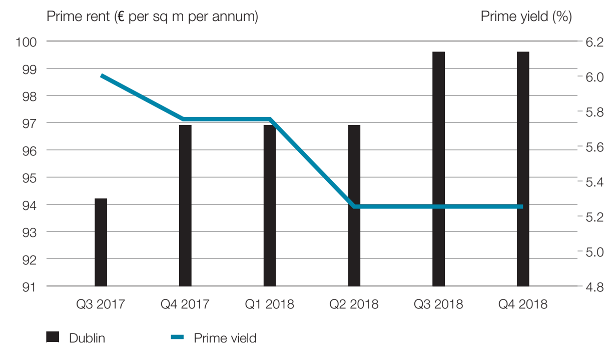


2019 Outlook

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

LOGISTICS

Prime rents and yields

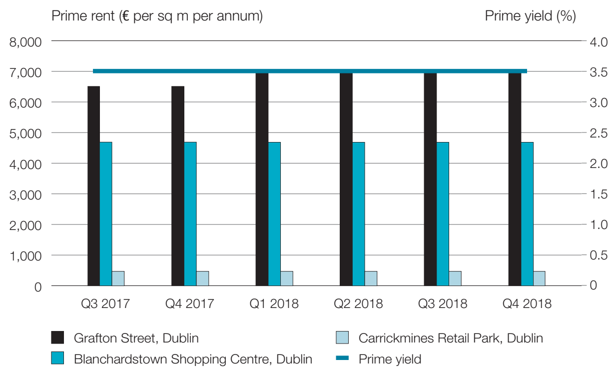


2019 Outlook

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

RETAIL

Prime rents and yields



2019 Outlook

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

Italy

59,216,525
Population

1,935
GDP (US $bn)

5
Average cost per pint (Euro)

832
Annual rainfall (mm per year)

78
Airports

311
Ports

Commentary

Despite overall GDP growth of 0.9% in 2018, the Italian economy was actually in recession by the end of the year. However, the moderation in domestic financial market stress and the stabilisation in some indicators, such as employment and the composite PMI, should set the stage for a marginal increase in GDP in 2019. But the risks remain clearly on the downside and the recession could drag on into H1 2019, particularly if eurozone growth continues to disappoint. For 2019 as a whole, GDP growth is expected to be only 0.3%.

The Government approved the 2019 budget, sending domestic bond yields sharply lower. The deficit for 2019 is now projected at 2% of GDP (previously 2.4%), thereby preventing the European Commission from launching an Excessive Deficit Procedure. However, the modifications to the plan will amount to little, with most of the original expenditure measures simply postponed until 2020 and offset by a large VAT increase in 2020-21, which if implemented could substantially undermine already mediocre GDP growth.

Overall employment levels remained flat in the second half of 2018, with the unemployment rate hovering just above 10.5%. However, 2019 inflation is expected to average around 0.9%, which should help with growth in real incomes.

In the property market, occupier sentiment remains strong for the right property, with high quality products in demand in both Rome and Milan. This has been reflected in the continued positive net absorption recorded in the market. The office market in Rome has attracted particular attention from corporate administration occupiers. There is also an increasing level of demand coming from serviced offices, which looks set to continue in 2019.

The industrial sector in Rome continued to grow, with leasing volumes increasing in 2018 by 7.6%. This was largely driven by an increasing level of demand for logistics buildings.

Investment volumes in 2017 exceeded 11 billion Euros, and 2018 volumes are expected to be at a similar level, with investor attention focused on the retail and office sector. Transaction volumes for logistics centres actually declined in 2018, however this was due to a lack of availability rather than demand.

Rental growth is expected to grow positively in 2019, particularly for logistics centres, the demand for which is being driven by substantial growth in the online retail market. This will continue to draw attraction from investors and overall transaction volumes are expected to grow in 2019.

Investor sentiment for alternative asset classes such as the hotel market or new forms of housing (student housing, senior housing, co-housing, etc.) is also increasing, and as a result, overall transaction volumes are expected to rise.

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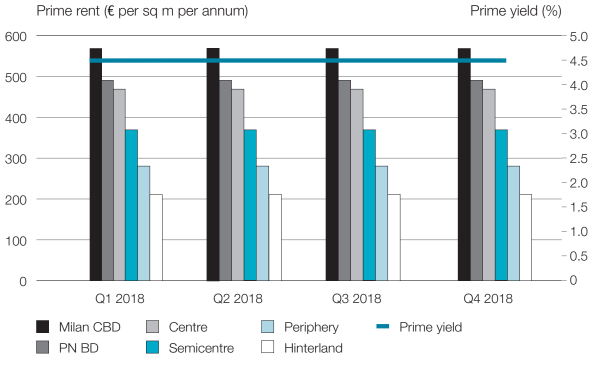
Milan

OFFICES

Prime rents and yields



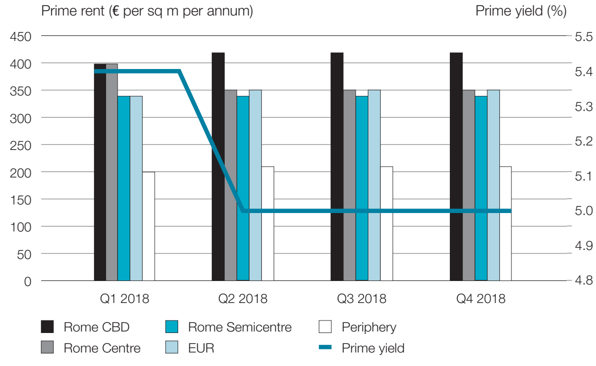
2019 Outlook

Occupier demand		Investor activity	
Development supply		Prime rents	
Availability		Prime yields	

Rome

OFFICES

Prime rents and yields



2019 Outlook

Occupier demand		Investor activity	
Development supply		Prime rents	
Availability		Prime yields	

Luxembourg

596,992
Population

62
GDP (US $bn)

3
Average cost per pint (Euro)

934
Annual rainfall (mm per year)

1
Airports

0
Ports

Commentary

The Luxembourg economy is regaining momentum following weaker GDP growth of 1.5% in 2017, having grown by 3.1% in 2018, driven mainly by private consumption and investment.

Overall employment growth increased by 3.8% in 2018, compared to 3.4% in 2017, meaning the unemployment rate continues to decline. This improvement in the labour market should benefit private consumption, while disposable income is set to receive a boost from taxation reforms and a new wage indexation applied from August 2018. Private investment should also receive support from continuing corporate tax reductions, favourable financing conditions and high levels of capacity utilisation.

The international financial sector, traditionally Luxembourg's main growth engine, was still profitable, despite subdued growth and recent developments in global financial markets. Bank lending dropped in the first quarter of 2018 and net investment inflows into funds slowed in the second quarter. While growth is set to continue, the moderation in the external environment has weakened growth prospects for financial services, as well as for the economy as a whole.

With the momentum of foreign trade expected to ease over the next few years, economic growth is set to be supported mainly by domestic demand. In time, as employment gains become smaller and the impact of tax reforms fade away, domestic demand will also lose some of its lustre, and could limit GDP growth going forward.

In the property market, a combination of strong, continuous demand from occupiers for new space, and a lack of construction in the development pipeline, resulted in an upward pressure in prime rents and lower vacancy rates.

Leasing activity continued to be strong in 2018, supported by the strength of the underlying economy. Whilst there has already been some relocations from the UK, the full impact of Brexit has yet to be realised, and could result in further demand over the next few years.

Due to the lack of available space, especially in the CBD and business districts, occupiers have been forced to locate to the peripheral markets, which as a result have seen an increase in leasing activity. The delivery of a number of buildings in Cloche d'Or, resulted in an increase in take-up towards the end of the year, including notable deals for Deloitte, Alter Domus and several Government agencies.

Investor sentiment also remained strong throughout 2018, as Luxembourg continues to attract new institutional investors. Over 2 billion Euros were transacted throughout the year, with half of that coming in the final quarter of the year.

However, due to the lack of office development recently, office investment opportunities remain few, which has resulted in further pressure on prime yields and the migration of investors to peripheral markets.

The transactions which completed in 2018 mostly involved larger buildings, with fewer opportunities for value-add and opportunistic buyers. Core investors continue to adapt to lower yields.

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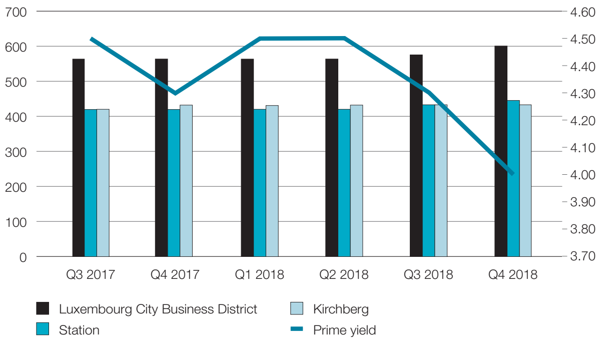
Luxembourg City

OFFICES

Prime rents and yields



2019 Outlook			
Occupier demand	→	Investor activity	→
Development supply	→	Prime rents	→
Availability	→	Prime yields	→

Netherlands

17,132,908
Population

826
GDP (US $bn)

2
Average cost per pint (Euro)

862
Annual rainfall (mm per year)

17
Airports

24
Ports

Commentary

The Netherlands economy continued to grow steadily in 2018 with GDP growth reaching 2.8%. However, leading indicators and a weaker external environment suggest that the pace of growth is likely to moderate over the next few years, with GDP growth forecast to be around 2.4% in 2019, and 1.8% in 2020.

Developments in the labour market have been favourable and consumer confidence remains high as a result. Together with higher energy consumption due to weather conditions, this led to a strong increase in private consumption during 2018. Increasing household disposable income, on the back of rising employment and wages, is set to drive solid but somewhat lower consumption growth over the next few years.

Employment levels grew rapidly in 2018, resulting in an unemployment rate of 3.7%, and this is expected to fall further in 2019. Despite this decline, wage growth has so far been moderate at just below 2.5%, although wage costs are expected to increase at a faster rate due to increasing social contributions. Lower-than-expected wage growth would be a downside risk for the economic outlook, as it would hold back private consumption.

In terms of real estate, occupier demand for office space in Amsterdam has remained strong throughout 2018, and as a result, the overall availability rate has decreased over the last 12 months in the core Amsterdam submarkets, such as the city centre, the Southeast area, the South Axis, and the West area. Since 2016, the overall office availability rate has fallen from 7% to 4.7% by the end of 2018. This has led to an upward pressure on prime rents over this period.

In Rotterdam, office space demand has largely been concentrated in the city centre, notably in the Brainpark, and in the Alexander district. Because of this demand, the availability of office space has fallen over the last 12 months, to 797,000 sq m.

Investor activity remained strong throughout 2018, although the allocation of capital has shifted. Typically the office market has had the largest share of total investment, however during 2018 it has been surpassed by the residential market. The reason for this is largely down to a lack of available office stock rather than a drop in sentiment. Despite this, the Dutch market will continue to be popular with international investors.

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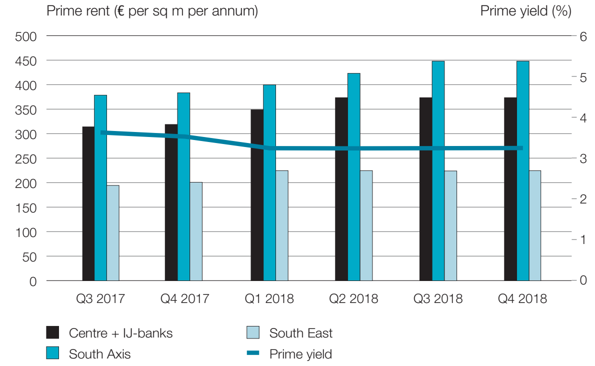
Amsterdam

OFFICES

Prime rents and yields

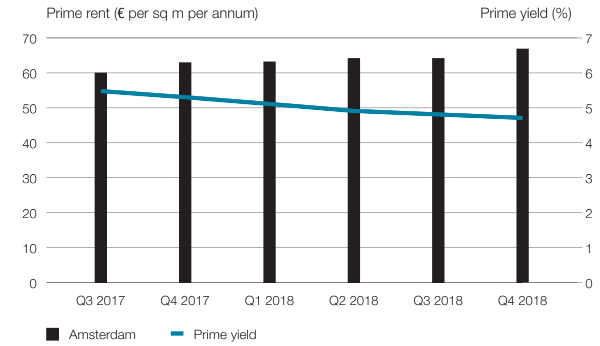


2019 Outlook

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

LOGISTICS

Prime rents and yields

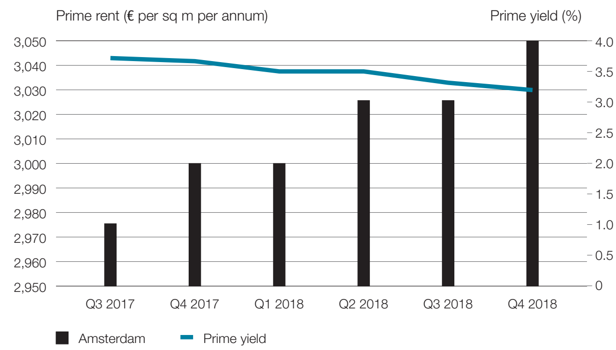


2019 Outlook

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

RETAIL

Prime rents and yields



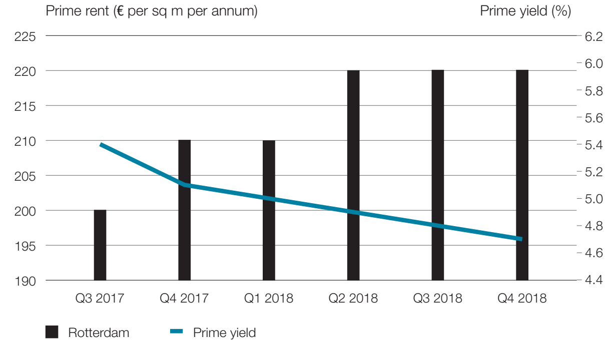
2019 Outlook

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

Rotterdam

OFFICES

Prime rents and yields

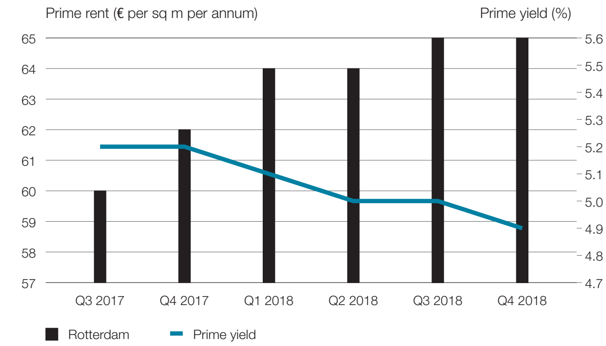


2019 Outlook

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

LOGISTICS

Prime rents and yields



2019 Outlook

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

Norway

5,400,915
Population

399
GDP (US $bn)

8
Average cost per pint (Euro)

1,414
Annual rainfall (mm per year)

37
Airports

83
Ports

Commentary

GDP growth in 2019 is forecast to be around 2.2%, which will largely be driven by strong oil investment on the continental shelf. Mainland growth will be underpinned by robust consumption growth, as the tight labour market and a strong economy feed into higher wages and household spending.

Inflation has remained at the two-year high of 3.5% reached in November. Norwegian inflation continues to be affected by the sharp increase in electricity prices owing to the unusually dry summer which increased the cost of hydropower energy. Inflation is likely to moderate in 2019 as elevated energy prices ease, with the annual CPI measure falling back towards the Norges Bank's target of 2% by the end of the year.

Indicators for the final quarter of last year (such as Statistics Norway's monthly GDP indicator) point to strong activity in the economy, but with some upside risk. Sentiment remains elevated, with the PMI in Q4 2018 comfortably in 'expansion' territory, indicating that the economy moved into 2019 with plenty of momentum.

The office market in Oslo has performed well, with strong positive rental growth seen over the last couple of years, and this is expected to continue throughout 2019. The rise in rental values has been due to a combination of; strong growth both in office employment and underlying economic conditions; an increase in overall office demand which has reduced vacancy rates in most central areas, and, a continuing lack of available high quality office space.

There has also been an increase in the number of car-free streets, and removal of car parking spaces making these areas more aesthetically pleasing, as well as having good access to public transport. This has also helped increase prime rents in the city centre.

An increasing demand for logistics centres around Oslo has led to a fall in the availability rate to a record low at around 6.5%-7%. However, the positive rental growth seen in the office sector hasn't been achieved yet. The market has also become highly segmented with interest from both occupiers and investors in older buildings, with low ceilings and outdated standards, significantly lower than new, higher quality buildings.

E-commerce continues to grow ever more popular in Norway and as a result, an increasing amount of pressure and risk is applied to the traditional retail sector. Several shops have closed in 2018, and have not been replaced with new tenants. As well as the impact of increased online shopping, the introduction of car-free zones and lack of parking spaces may also be having an impact.

However, strong brands are still looking for good exposure and there are more flagship stores being built. Jimmy Choo, Moncler and Valentino have all opened new stores in Nedre Slottsgate over the last year.

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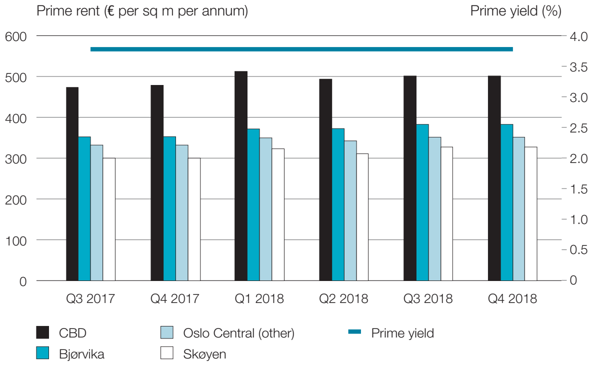
Oslo

OFFICES

Prime rents and yields

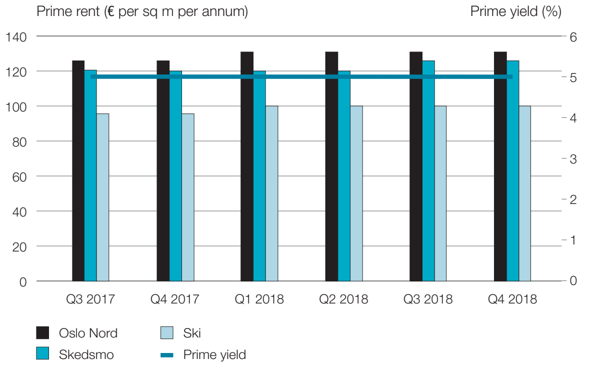


2019 Outlook

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

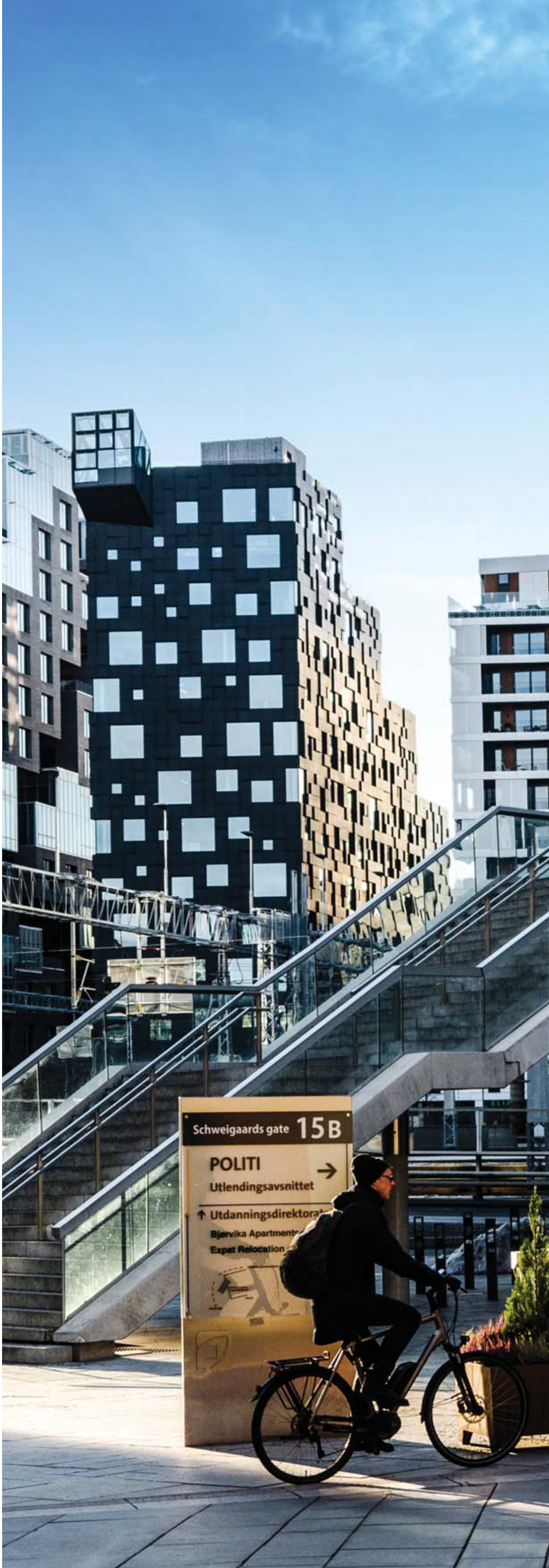
LOGISTICS

Prime rents and yields



2019 Outlook

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



Poland

38,028,278
Population

527
GDP (US $bn)

2
Average cost per pint (Euro)

600
Annual rainfall (mm per year)

38
Airports

12
Ports

Commentary

The Polish economy has performed well in recent years resulting in higher than expected GDP growth of 5.1%. This is a result of greater private consumption and favorable labour conditions, and resulted in S&P, one of the three largest rating agencies in the world, recognising the strong, sustainable development of the country.

The agency also drew attention to the decline in public and foreign debt, and as a result, Poland is the first country in almost a decade that has been promoted in the FTSE Russell index to the group of developed markets and is now among the 25 most developed economies in the world. These changes may be one of the factors helping to attract new inward investment into Poland.

Wroclaw is the third largest office market in Poland and is also one of the fastest growing. In 2018, total office space in Wrocław exceeded 1 million sq m, a 16% increase in stock on 2017, and this is set to rise further, with 160,000 sq m currently under construction.

Whilst there is an increasing level of demand for office space from a number of business sectors, namely media & technology, finance & banking, and serviced offices, overall availability remains low and is restricting lettings. However, a number of schemes will be delivered in the first half of 2019 and help ease the supply strain.

Demand for logistics space in Wrocław continues to grow and resulted in a 23% increase in letting activity in 2018. This demand for space has led to a slight increase in rental levels, despite a rise in the availability rate, brought on by recent development completions.

Office and industrial properties in regional cities such as Wrocław are becoming increasingly appealing to international buyers, particularly from Germany, USA, UK, and also from China and Korea. The strong demand from the media & technology sector for offices, and, growing e-commerce demand for logistics space, combined with a big consumer market and well educated staff, continues to draw international funds to invest in Wrocław.

In Warsaw, demand for office space remains high, with 850,000 sq m leased in 2018. The development pipeline is also active, with 720,000 sq m currently under construction, the highest volume of development recorded in the city. Whilst the majority of this space will be delivered by the end of 2020, currently there is a lack of available space.

Warsaw is the largest industrial market in Poland, and in 2018, almost 1 million sq m of warehouse space was leased, resulting in a fall in the vacancy rate to 7.1%.

Investors and developers have been focused on city logistics projects and new multi-tenant parks near the recently opened expressways around the city. As a result, approximately 260,000 sq m was delivered in 2018, with a further 190,000 sq m currently under construction.

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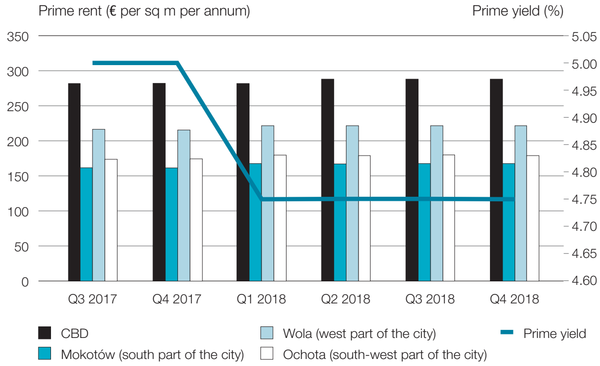
Warsaw

OFFICES

Prime rents and yields

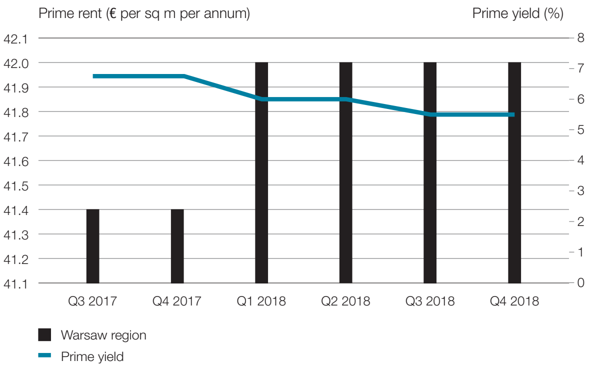


2019 Outlook

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

LOGISTICS

Prime rents and yields



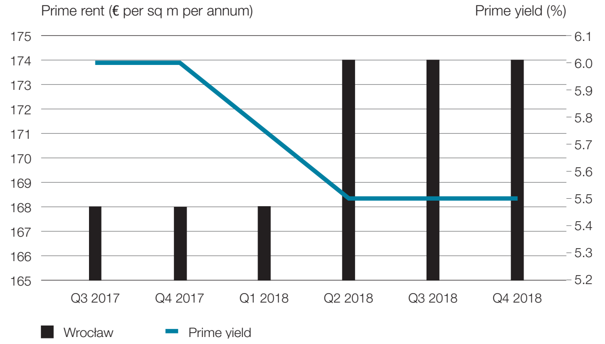
2019 Outlook

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

Wrocław

OFFICES

Prime rents and yields

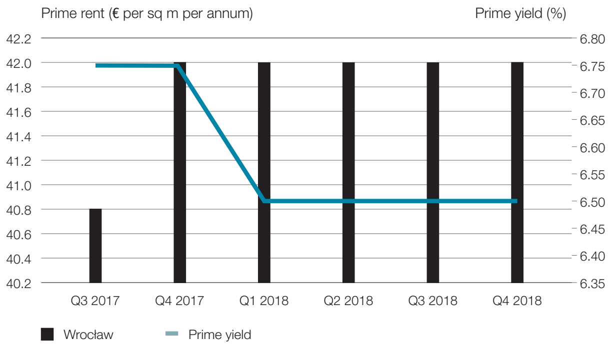


2019 Outlook

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

LOGISTICS

Prime rents and yields



2019 Outlook

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

Portugal

10,300,000
Population

218
GDP (US $bn)

2
Average cost per pint (Euro)

838
Annual rainfall (mm per year)

11
Airports

11
Ports

Commentary

The Portuguese economy remained strong in 2018 with GDP growing positively by 2.2%, although this is expected to slow down in 2019 and 2020 as net exports weaken.

Whilst the labour market recovered strongly in 2018, resulting in a fall in the unemployment rate to 6.6%, job creation will slow down over the next few years. This is a result of increasing signs of supply constraints in some market segments and the maturing economic cycle. Accordingly, the average annual rate of unemployment is set to decrease at a slower pace to 6.3% in 2019 and 5.9% in 2020. This is set to spur labour productivity while wages are projected to gradually accelerate, supported by the unfreezing of career progressions in the public sector and a reduction in labour market slack.

Occupier sentiment for Lisbon offices continues to be positive with take-up reaching 206,428 sq m in 2018, representing an increase of 21% over 2017. The volume of lettings, including a number of pre-lets signed over the last 12 months, resulted in a drop in the availability rate to 4.5%. Whilst this appears quite high compared to other European cities, the majority of this space is in older buildings which are not attracting interest from occupiers. As a result, leasing activity is expected to drop slightly in 2019 due to a lack of new, higher quality space, in the market. There are a number of developments under construction which will ease this supply squeeze, however these will not be delivered until 2020.

The logistics market continued to be one of the strongest performing sectors across Portugal in 2018, driven by the increase in online shopping. Occupier demand for new logistics space increased throughout the year and resulted in an increase in prime headline rents, as well as yield compression. This trend is expected to continue in 2019 with further positive rental growth predicted.

The retail market in Portugal also performed well, reaching record high rental values for high street shops in Lisbon's main shopping location, Chiado, Avº da Liberdade and Baixa. The strength of the retail market continues to be driven by the growth in tourism, as well as the increase in private consumption. The demand for retail outside the high street also led to rental increases for retail centres, and shopping centres, as well as prime yields reaching a record low at 4.25%.

Investor sentiment has also been positive across Portugal with transaction volumes reaching 3.3 billion Euros in 2018. This is the highest investment volume recorded in Portugal, and almost doubles the amount which was transacted in 2017. This was largely driven by foreign investors acquiring large portfolios (offices and retail), which represented 74% of all deals.

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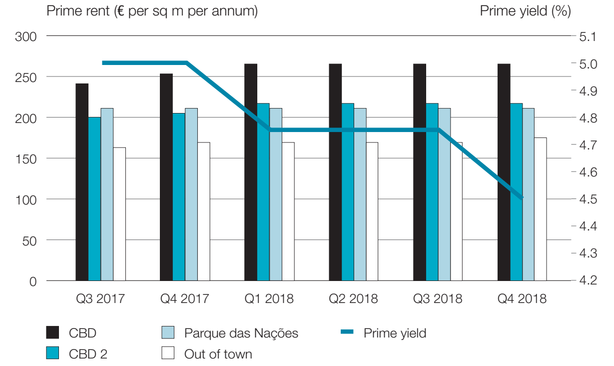
Lisbon

OFFICES

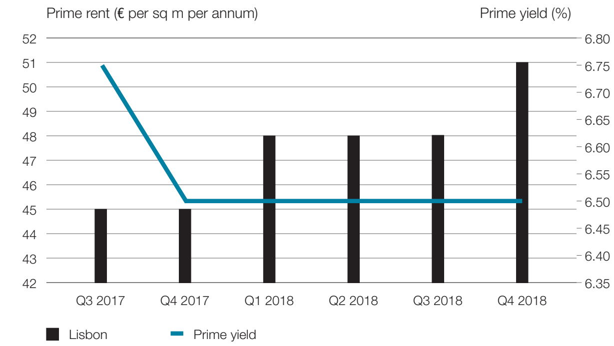
Prime rents and yields



2019 Outlook			
Occupier demand	↗	Investor activity	↗
Development supply	→	Prime rents	↗
Availability	↘	Prime yields	→

LOGISTICS

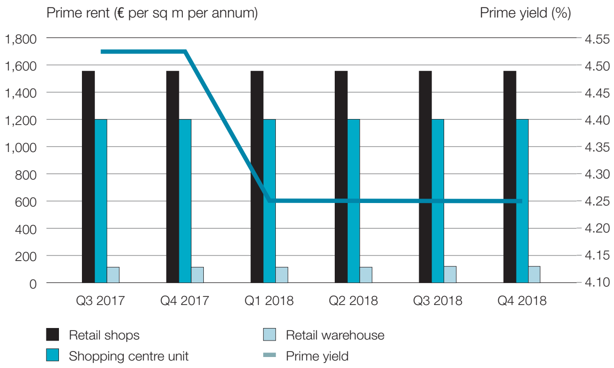
Prime rents and yields



2019 Outlook			
Occupier demand	↗	Investor activity	↗
Development supply	→	Prime rents	↗
Availability	↘	Prime yields	→

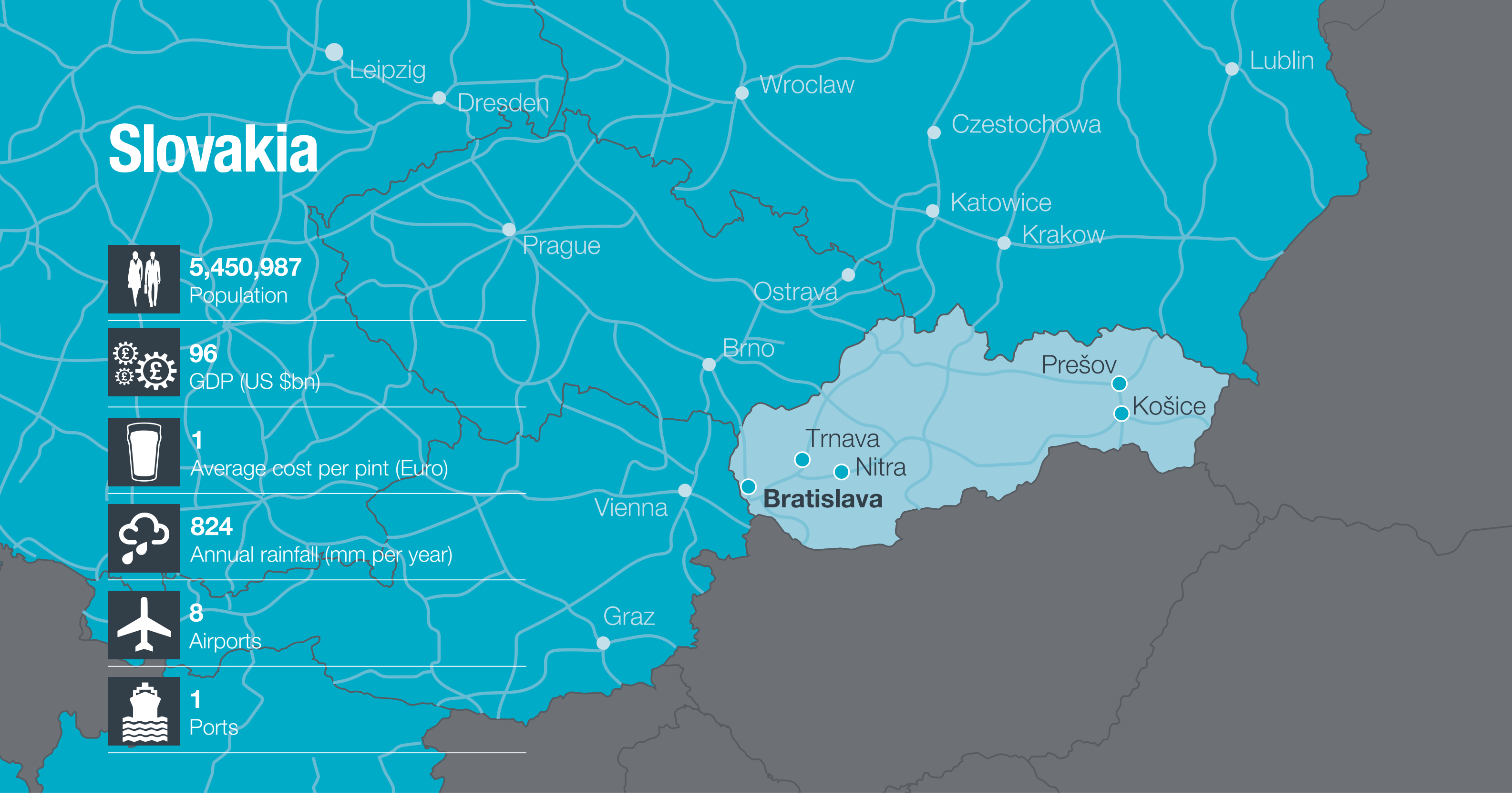
RETAIL

Prime rents and yields



2019 Outlook			
Occupier demand	↗	Investor activity	↗
Development supply	↗	Prime rents	↗
Availability	↗	Prime yields	→

Slovakia



5,450,987
Population

96
GDP (US $bn)

1
Average cost per pint (Euro)

824
Annual rainfall (mm per year)

8
Airports

1
Ports

Commentary

The Slovak economy is expected to continue to be one of the fastest growing economies in the Eurozone with healthy domestic and international demand. Supportive financial conditions together with a positive labour market is expected to drive further demand for office space.

GDP growth is expected to accelerate further to 4.5% in 2019, driven mainly by the expansion of production capacity in the car industry. Consumer demand is expected to benefit from the labour market's improving situation, with increasing growth in both employment and wages.

However, employment growth is likely to decelerate over the next few years as unemployment falls to historic lows and labour shortages become more acute in many sectors. While the positive effect from job creation on disposable income growth is expected to fade, accelerating wage growth will take over as a key source of household income growth.

Occupier demand for new office space continues to increase in Bratislava, and currently there is almost 237,200 sqm of office space under construction. When this space is delivered in 2020, it will increase the amount of grade A space in the city by 13%. However, due to the high demand for new space, the majority of space under construction has already been let, meaning the completion of these schemes will have little impact on the overall availability rate.

The industrial and logistics market across Slovakia continues to be a success with an elevated level of demand from both occupiers and investors. As a result, central and eastern parts of the country have become more popular over the last 12 months, the latter is largely due to the development of Jaguar Land Rover's new plant.
The automotive industry is an important sector of the Slovak economy, making up around 35% of total exports. There are currently three major automotive producers operational in the country; Volkswagen (Bratislava); PSA Peugeot Citroen (Trnava); and Kia Motors (Zilina). Jaguar Land Rover is the latest entry into the market, and is currently testing its operations in Nitra, while the production of the Discovery models is expected to start at the beginning of 2019.

Demand from the automotive industry is not limited to car manufacturers but is extended to the whole supply chain and network. Furthermore there is an increase on the e-commerce and retailers side. The international retailer chain ACTION is opening its first major warehouse and distribution centre, which is approximately 60,000 sq m in size, at P3 Park Bratislava in 2019.

The Slovak industrial market is largely dominated by a number of significant landlords, namely Prologis, P3, CTP, and Goodman, which together hold more than 50% of market share.

There is currently more than 200,000 sq m of industrial and logistics space under construction across Slovakia, with the majority of schemes located in the greater Bratislava area, Trnava, Trencin and Kosice regions.

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Bratislava

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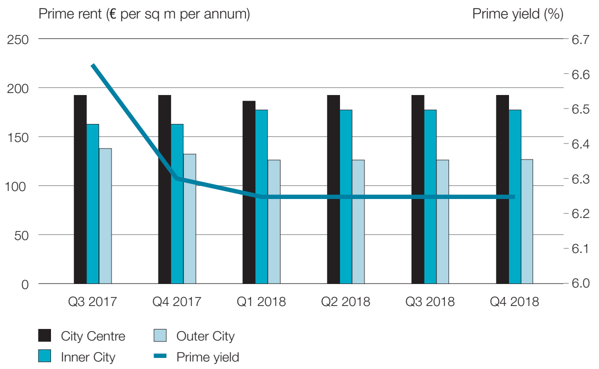
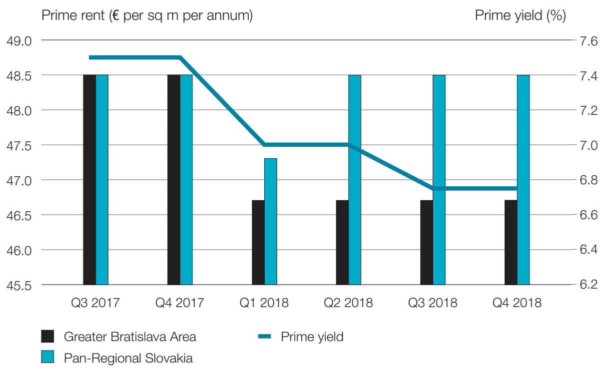
Prime rents and yields



2019 Outlook			
Occupier demand	→	Investor activity	↗
Development supply	↗	Prime rents	→
Availability	↗	Prime yields	↘

LOGISTICS

Prime rents and yields



2019 Outlook			
Occupier demand	→	Investor activity	↗
Development supply	↗	Prime rents	↘
Availability	↗	Prime yields	↘

Spain

46,441,049
Population

1,311
GDP (US $bn)

2
Average cost per pint (Euro)

636
Annual rainfall (mm per year)

66
Airports

105
Ports

Commentary

The Spanish economy remains strong with GDP growth recorded at 2.6% in 2018, its fifth year of expansion. However, the economy has started to show signs of a mild deceleration in 2018, with GDP growth slightly less positive than expected. Together with a downward revision of growth estimates for 2017, this implies a lower growth momentum for 2018 as a whole.

The composition of growth has also been somewhat different than anticipated, with a lower contribution of net exports. The pace of economic activity is projected to remain broadly stable in the second half of 2018, as the entry into force of the measures contained in the 2018 budget is set to provide support to the moderating levels of private consumption.

GDP growth is expected to decelerate further in 2019 to 2.2 %, and 2.0% in 2020. The deceleration is mainly driven by a slowdown in private consumption, as oil prices increase further and pent-up demand is absorbed. However, job expansion remains robust which will lead to an increase in wage growth, as well as the planned increase in the minimum wage, and will therefore continue to support disposable income growth over the next few years.

The office market in Barcelona continues to be a major draw for occupiers, with the quality of life, access to talent, and lower costs, all factors to many companies opting to move to Barcelona. The market has grown significantly since 2014, and this has largely been driven by the increasing level of demand coming from the media & technology sector, and the commitment of major international firms which operate there.

Occupiers have largely been attracted to the decentralised zone over the last 12 months, and this location represents 51% of lettings across the city. Due to the high leasing activity in recent years, the overall availability rate has fallen to 6%, with office space in the prime CBD at 100% occupation. As a result, occupiers are now having to look for temporary space, boosting the demand for serviced offices as an alternative option.

The logistics market in Barcelona is also suffering from a lack of availability, with limited space remaining in close proximity to the port and airport. The rise in e-commerce has increased the demand for this type of industrial space, and as a result there are a number of developments currently under construction. This space is expected to be taken quickly and therefore 2019 take-up volumes are expected to increase on 2018. Demand for retail space will remain stable in the prime zones and first line. The availability of space will continue to be limited, and as a result there will be upward pressure on prime rents in these areas.

Investor sentiment remains strong, particularly in the capital where a number of significant office transactions completed at the beginning of 2019. The Reuben Brothers completed their purchase of Santander's Ciudad Financiera, the headquarters of the Spanish bank. Elsewhere; Zurich closed its acquisition of the Ilunión portfolio, comprising of four office properties, from Blackstone for 163.5 million Euros; LaSalle Investment Management purchased Repsol's headquarters in the Méndez Álvaro area from Royal Metropolitan for 100 million Euros, and Green Oak sold five office buildings to Barings and an unknown buyer for 74.3 million Euros.

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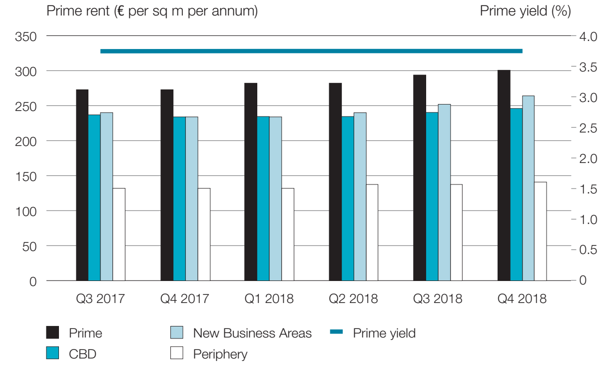
Barcelona

OFFICES

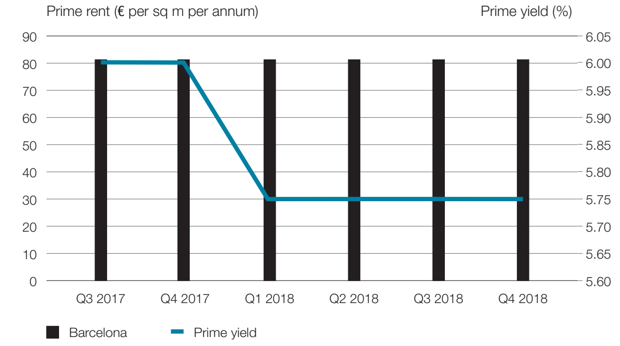
Prime rents and yields



2019 Outlook			
Occupier demand	↗	Investor activity	→
Development supply	↗	Prime rents	↗
Availability	↘	Prime yields	→

LOGISTICS

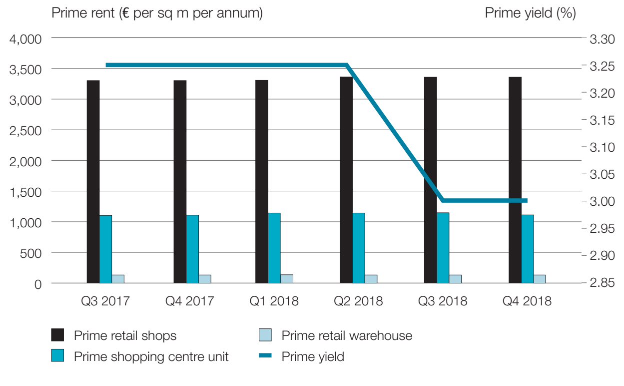
Prime rents and yields



2019 Outlook			
Occupier demand	↗	Investor activity	↗
Development supply	↗	Prime rents	→
Availability	→	Prime yields	↘

RETAIL

Prime rents and yields

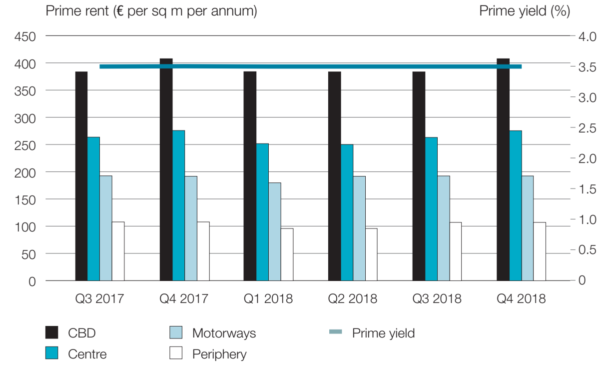


2019 Outlook			
Occupier demand	→	Investor activity	→
Development supply	→	Prime rents	→
Availability	→	Prime yields	↘

Madrid

OFFICES

Prime rents and yields



2019 Outlook			
Occupier demand	↗	Investor activity	→
Development supply	↗	Prime rents	↗
Availability	↘	Prime yields	→

Turkey

82,961,805
Population

858
GDP (US $bn)

3
Average cost per pint (Euro)

593
Annual rainfall (mm per year)

63
Airports

50
Ports

Commentary

Turkey's economy continues to suffer, with the Q4 GDP figure expected to show that the country slipped into recession in H2 2018, driven by the collapse in domestic demand. While activity should recover slightly at the beginning of 2019, overall GDP growth will contract by 1.4% this year, following an estimated average expansion of 2.9% in 2018.

The easing in the pace of lending contraction in December, coupled with recently announced measures on the fiscal side, including the larger-than-expected hike in the minimum wage, suggest that the most dramatic phase of Turkey's economic adjustment may have already happened.

The central bank (CBRT) extended its policy 'pause', keeping its policy rate on hold at 24%. The disinflation process has continued, amid the very tight monetary conditions. Given the plunge in activity and the reduced external risks, the CBRT might be inclined to kick-start the process before the March elections, which would erode the support buffer for TRY. Ahead of these local elections, there is a wait and-see attitude across the country, however the commercial market view is a little bit different, as business must go on.

Occupier demand for office space remains stable, with only a slight drop off (4%) in leasing activity in 2018, despite the country's poor economic performance. However, office rental values have fallen by 40% in US Dollar terms, due to the new regulations put in place to protect the Turkish Lira's value on rent contracts. As a result, developers have refrained from entering into new projects, which they see as less viable due to higher vacancy rates and lower rents.

Despite the country's economic performance, the industrial and logistics sector appeared largely unaffected with manufacturing and sales continuing at the same rate. However the retail market has suffered with rental values experiencing a substantial decrease.

A number of retailers have claimed bankruptcy protection which has affected the sector negatively. To help support the retail sector, the Government has taken measures, offering incentives to banks, developers and landlords.

Investment volumes have been subdued. Due to the fall in currency, new regulation orders were introduced in the summer meaning that all lease agreements are to be done on Turkish Lira. As a result the market was impacted negatively, due to the high risk associated with the currency, which ultimately put off foreign investors, and led to local investors delaying decisions until the market becomes more stable.

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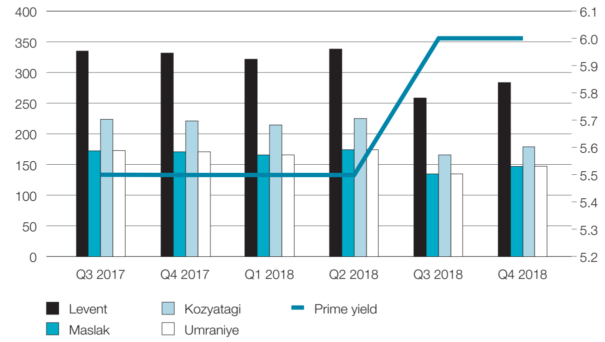
Istanbul

OFFICES

Prime rents and yields

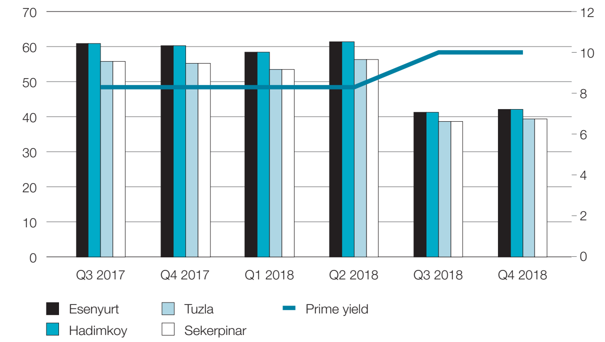


2019 Outlook

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

LOGISTICS

Prime rents and yields

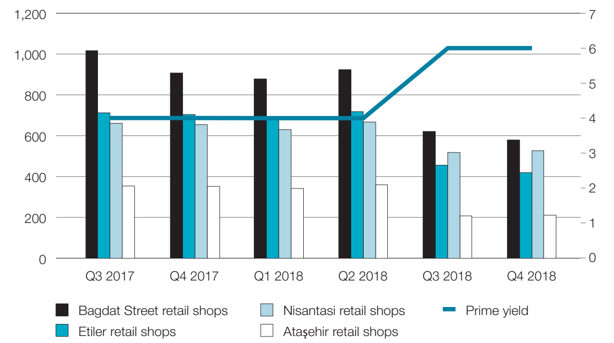


2019 Outlook

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

RETAIL

Prime rents and yields



2019 Outlook

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

United Kingdom

66,959,016
Population

2,622
GDP (US $bn)

4
Average cost per pint (Euro)

1,220
Annual rainfall (mm per year)

126
Airports

391
Ports

Commentary

An increase in household spending power and looser fiscal policy will accelerate GDP growth in 2019 to 1.7%, and 2% in 2020, a slight increase on 2018. This projection assumes an 'orderly' Brexit, which is currently the most likely outcome. However with internal politics in the UK continuing to disrupt and delay matters, there is an increasingly high chance that the UK will leave the EU in a 'no deal' outcome, which will have a substantial negative impact on GDP growth over the next few years.

The economy has suffered a loss of momentum towards the end of 2018, with the composite PMI recorded its lowest since Q3 2016. Manufacturing surveys have reported that firms are engaging in precautionary stock-building to guard against potential supply chain disruptions in the event of a 'no deal' Brexit. But in services, firms have reported that Brexit-related uncertainty has weighed on business-to-business demand.

The office market continues to be robust with occupiers' desire for new, higher quality space resulting in an increase in pre-letting activity. In London, take-up in 2018 reached 1.5 million sq m, its highest level since before the global financial crisis. Leasing activity in the capital was largely driven by the media and technology sector, accounting for 28% of all lettings. The high level of activity seen from this sector reflects the changing nature of occupier employment.

Leasing activity has also been strong across the regional cities, although take-up has largely been skewed by a number of Government lettings as the HMRC consolidates its real estate into a small number of large buildings across the country.

Availability continues to be tight however, and in 2019 will likely restrict leasing activity. As a result, occupiers are increasingly signing pre-lets on new development space, meaning that the majority of new space which is delivered to the market has already been taken. However, building refurbishments are underway, which will help to plug the gap between the limited number of new schemes coming out of the ground and the continued strong demand for Grade A space.

The UK logistics market continued to be strong and 2018 turned out to be the second-highest year on record for occupier take-up.

There are various requirements for logistics space in the market, citing the potential need for additional space due to Brexit uncertainty. However, the majority of these requirements are waiting for further clarity before committing. This could provide a short term boost to occupier demand in 2019, although the broader negative impact on the economy is likely to make this bounce in occupier activity short-lived.

Allied to this is demand from online retailers and those retailers which are rationalising their high street store portfolios and investing in their distribution networks. This could help to keep overall occupier demand elevated at a time of great uncertainty for the wider economy. This demand could soon soak-up the recently-completed speculative space delivered to the market, which in turn could continue to drive positive rental growth, albeit not at the same rate of growth seen over the last few years.

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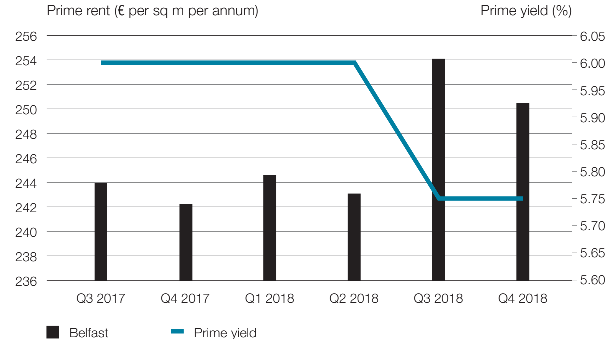
OFFICES

Prime rents and yields



2019 Outlook			
Occupier demand	↗	Investor activity	↗
Development supply	→	Prime rents	↗
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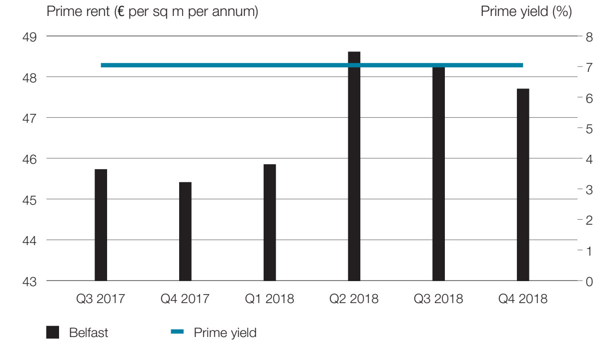
LOGISTICS

Prime rents and yields



2019 Outlook			
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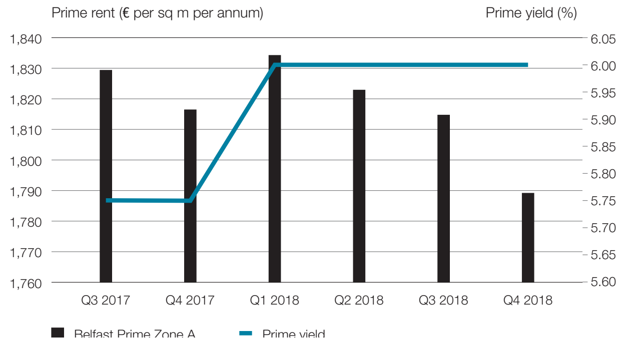
RETAIL

Prime rents and yields

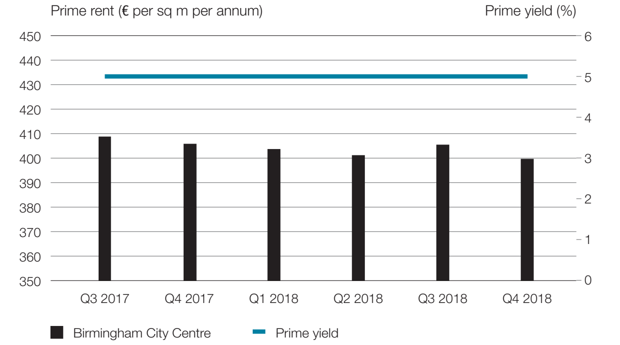


2019 Outlook			
Occupier demand	→	Investor activity	↘
Development supply	→	Prime rents	→
Availability	→	Prime yields	↗

Birmingham

OFFICES

Prime rents and yields



2019 Outlook			
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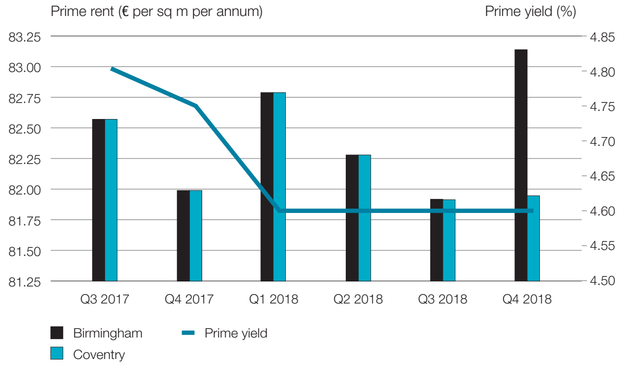
LOGISTICS

Prime rents and yields



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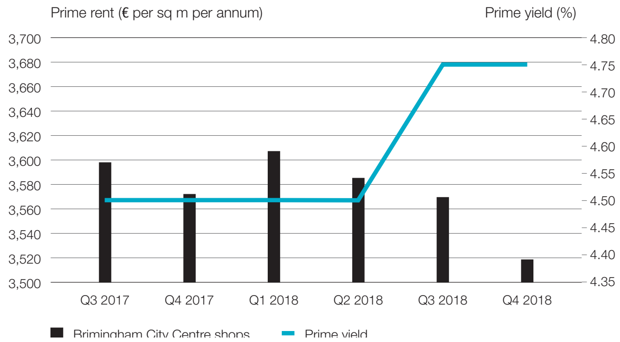
RETAIL

Prime rents and yields

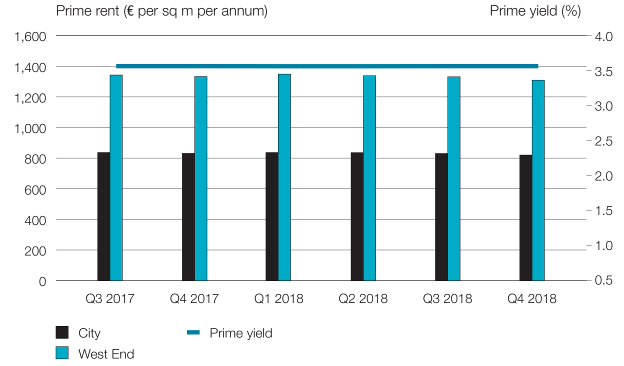


2019 Outlook			
Occupier demand	→	Investor activity	↘
Development supply	→	Prime rents	↘
Availability	↗	Prime yields	↗

London

OFFICES

Prime rents and yields



2019 Outlook

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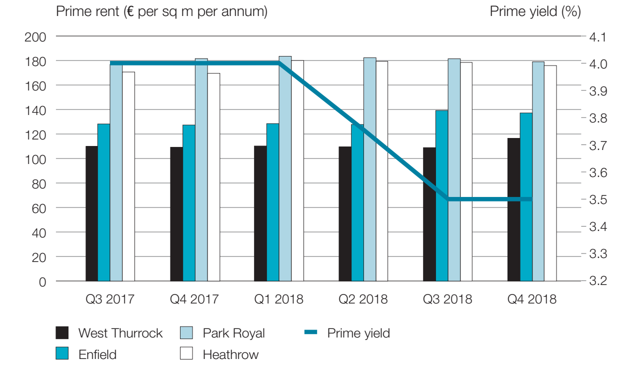
LOGISTICS

Prime rents and yields



2019 Outlook

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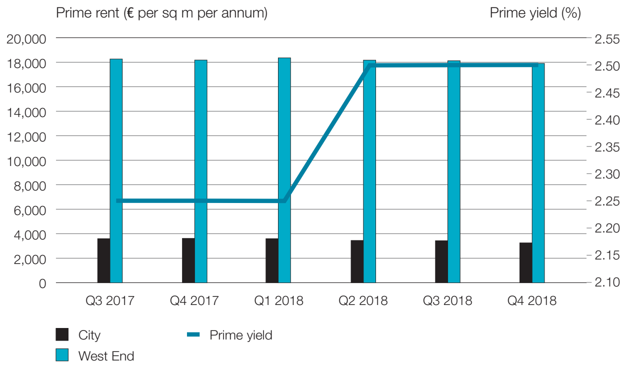
RETAIL

Prime rents and yields



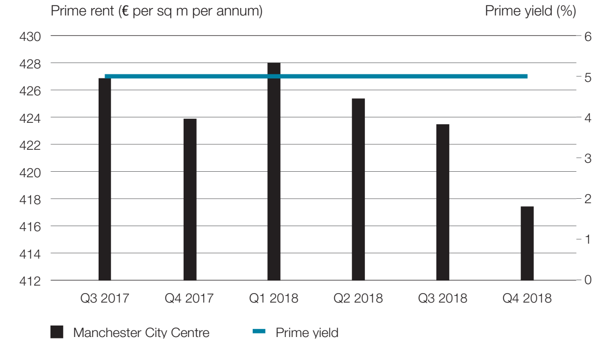
2019 Outlook

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

Manchester

OFFICES

Prime rents and yields



2019 Outlook

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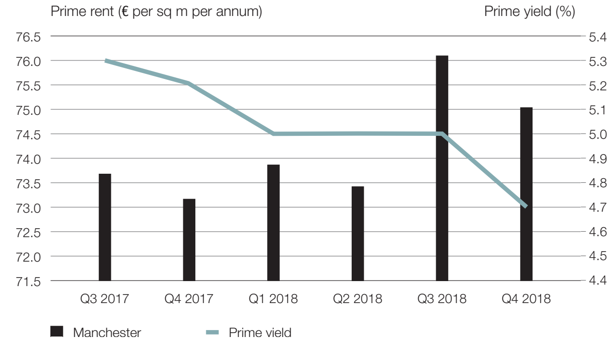
LOGISTICS

Prime rents and yields



2019 Outlook

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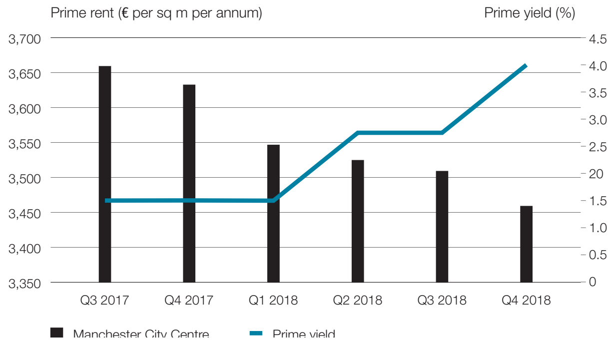
RETAIL

Prime rents and yields



2019 Outlook

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

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