EMEA

CITY OFFICES

QUARTER 1 | 2019

FIGURE 1:
RENTAL GROWTH
PRIME RENTS *| left*

SECONDARY RENTS *| right*

Click here for our
office rent & occupier conditions map

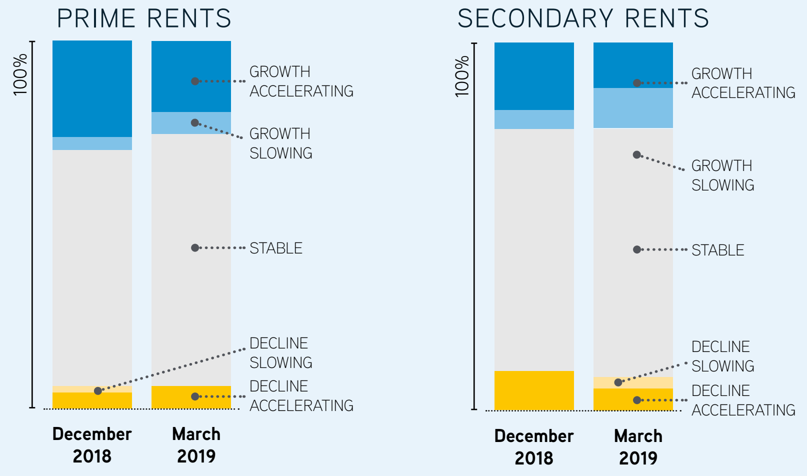


FIGURE 2:
AVERAGE 3 MONTH SHIFT IN VACANCY RATES *| left*

VACANCY GROWTH *| right*

*City size is based on population catchment.

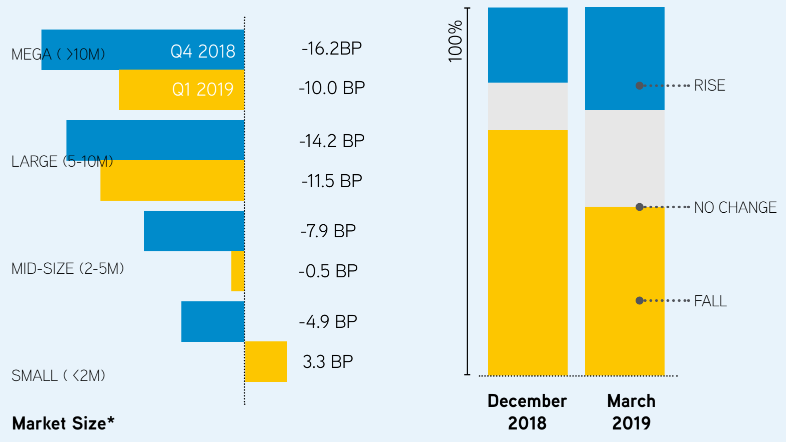
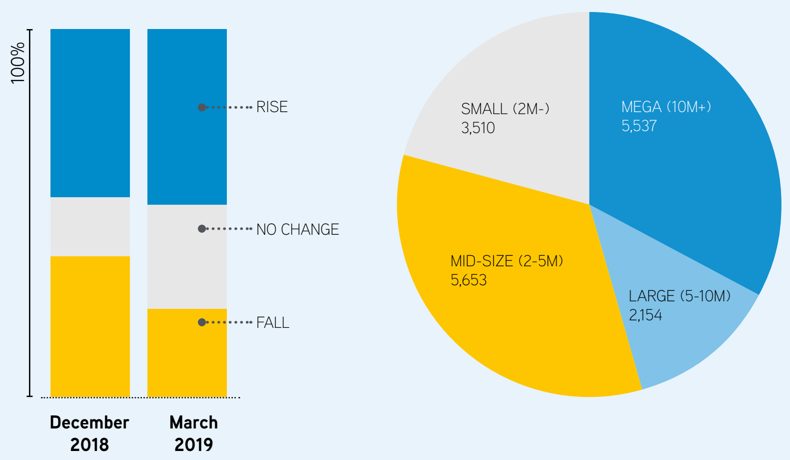


FIGURE 3:
CHANGE IN TOTAL SPACE UNDER CONSTRUCTION *| left*

SPACE UNDER ACTIVE CONSTRUCTION Q1 '19*
BY MARKET SIZE [SQM]
| right

*City size is based on population catchment.



Sources: Figure 1: Colliers International | Figure 2: Colliers International | Figure 3: Colliers International

PRIME AND SECONDARY RENTS LARGELY STABLE

The majority of markets recorded no change in rents in Q1 2019, with 69% of prime stock and 70% of secondary stock reporting stable rent positions. The percentage of markets reporting growth remained in the double digits for both prime and secondary stock; however, prime stock has lost some momentum relative to the previous quarter: 18% of the EMEA markets monitored saw rental growth accelerate in Q1 2019, against 27% in Q4 2018. Secondary stock performance still remains behind prime (13% of markets reported growth). The percentage that saw declines remained in the single digits for both prime (6%) and secondary (7%) stock, with the latter improving from the previous quarter, when 10% of markets witnessed declines.

If this trend consolidates during the next few quarters, it will signify the closing stages of rental growth we anticipated back in H1 2018, as demand growth starts to cool.

OCCUPIER CONDITIONS REMAIN FAVOURABLE TO LANDLORDS

When looking at changes in vacancy overall, there are signs that the continued contraction in vacancy rates is coming to a close. Within the 'mega' (population catchments of over 10 million) and large (population catchments of 5-10 million) EMEA markets, where demand continues to be robust, the rate of vacancy contraction depicts a clearer signal that vacancy rate falls have started to slow down.

In the mid-size (2-5 million population) category, Q1 2019 figures highlight a more pronounced vacancy contraction trend, having practically stopped altogether. Across the smaller cities surveyed (population catchments of up to 2 million), the vacancy shift reversed in Q1 2019, with rates increasing overall and representing a 8.5 bps swing in activity.

There is a logic to this trend with the larger sized cities continuing to expand economically and in terms of the demand for space under their own steam, while smaller and less independent cities (and often more volatile in terms of their response to smaller demand and supply shifts), illustrate clearer signs of cooling demand.

However, despite this vacancy trend shift, the majority of markets (53%) remained landlord-favourable in Q1 2019. A position that has been established following a steady evolution towards landlord-favourable conditions over the last few years.

SUPPLY SLOWLY LOOSENING UP AS PIPELINE DEVELOP-MENT ACCELERATES

Q1 2019 data on active space under construction indicates that pipeline levels across EMEA are slowly picking up. Almost half of all markets (47%) reported an increase in development pipelines in Q1 2019, compared to 44% in Q4 2018. Only 23% of EMEA markets saw a fall in the pipeline, down from 37% the previous quarter.

Markets continue to respond to low vacancy and demand growth, notably in Germany where Berlin, Frankfurt, Munich and Stuttgart all saw rises in the amount of office space under active construction in Q1. In Amsterdam, the city municipality announced plans to add 500,000 sqm+ of office space in the coming years to satisfy very high demand.

OUTLOOK

Supply shortages will continue to push occupiers into taking on pre-lets of the office pipeline in many markets, driving a supply-side response. Yet this development response needs to be incrementally managed as very low unemployment rates / reduced labour pools mean many economies are running at close to full capacity.

The eurozone unemployment rate fell to 7.7% in March (down from 7.8% in February), the lowest recorded since September 2008. In the UK, the unemployment rate reached a record 3.9% in Q1, the lowest seen since 1975. Meanwhile, in the Nordics, unemployment is currently at around 4% in some countries, notably Denmark and Norway. And in the economies of Eastern Europe, several countries are running close to full capacity. In Czechia, job vacancies have continued to rise at the beginning of this year and are now 50% higher than the number of unemployed. The unemployment rate is expected to go down to 2.8% this year.

Unsurprisingly, GDP growth in the eurozone reached only 0.4% in Q1 2019, a sure sign that European economies are cooling.

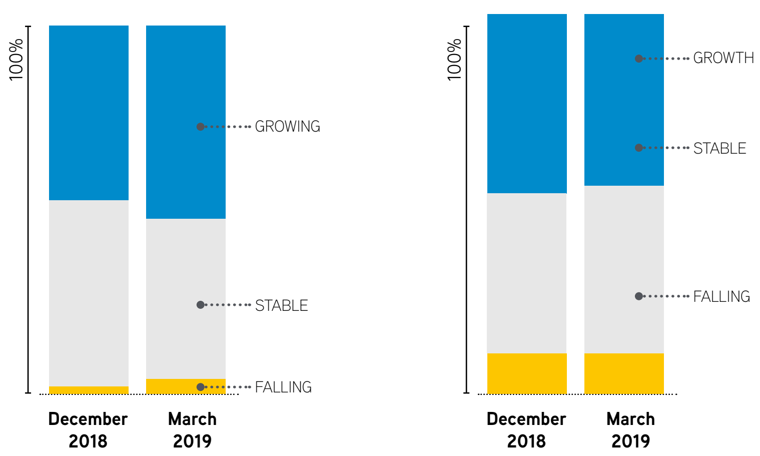
Against this backdrop, the majority of EMEA markets surveyed in this report (51%) think that prime rents will expand in the year ahead (up from 48% of markets in Q4 2019). Only 5% of EMEA markets now forecast rental declines in prime stock, compared with 3% in the previous quarter.

Secondary rents are forecast to grow in 44% of markets, and fall in 11%, in line with the assumptions seen in the previous quarter.

Although conditions continued to shift in favour of landlords, at 51% of markets covered, we continue to believe that 2019 will represent the peak of the cycle. With many economies now running at full capacity, this suggests demand will start to cool. However, very tight supply-side positions in many markets means it could take a while before we see a reversal in occupier conditions allowing neutral and tenant favourable markets to slowly take back market share.

FIGURE 4:
12 MONTH OUTLOOK PRIME RENTS | *left*

12 MONTH OUTLOOK SECONDARY RENT | *right*



Source: Figure 4: Colliers International

TABLE 1:
EMEA MARKET KEY FIGURES

City	"Prime CBD Office Rent € / sqm / mth"	"Office Vacancy Rate %"	Office Occupier Conditions Indicator
Aarhus	15.6	8.2	Landlord
Abu Dhabi	27.6	32.0	Tenant
Amsterdam	36.7	6.6	Landlord
Athens	22.0	7.0	Neutral
Barcelona	26.5	5.4	Landlord
Belgrade	16.0	3.0	Neutral
Berlin	35.3	1.5	Landlord
Birmingham	34.5	8.2	Landlord
Bratislava	15.3	6.4	Tenant
Bristol	36.6	5.4	Landlord
Bucharest	18.0	10.8	Neutral
Budapest	21.0	7.1	Landlord
Cairo	22.3	14.0	Tenant
Cologne	25.0	2.6	Landlord
Copenhagen	22.3	7.3	Landlord
Dubai	45.4	25.0	Tenant
Dublin	55.8	6.3	Landlord
Dusseldorf	28.0	6.5	Tenant
Edinburgh	35.5	n/a	Landlord
Frankfurt	42.5	6.6	Tenant
Gdansk	15.5	5.4	Landlord
Glasgow	34.0	n/a	Landlord
Hamburg	28.0	3.4	Landlord
Istanbul	31.1	35.1	Tenant
Katowice	14.5	8.8	Landlord
Krakow	15.5	10.1	Neutral
Kyiv	26.7	n/a	Neutral
Leeds	31.4	7.1	Landlord
Lisbon	22.0	6.0	Landlord
Lodz	13.5	7.0	Neutral
London - City	71.6	5.7	Tenant
London - West End	125.4	4.5	Neutral
Lublin	13.0	14.8	Neutral
Madrid	35.0	8.9	Landlord
Manchester	38.7	n/a	Landlord
Milan	47.5	12.0	Tenant
Moscow	66.8	7.9	Neutral
Munich	41.0	1.8	Landlord
Oslo	47.5	5.8	Landlord
Paris	70.0	5.3	Landlord
Paris - La Défense	45.0	4.8	Landlord
Porto	16.5	n/a	Landlord
Poznan	15.5	15.8	Landlord
Prague	22.5	4.4	Landlord
Riga	16.0	5.2	Neutral
Rome	35.0	7.8	Tenant
Rotterdam	19.4	12.2	Tenant
Sofia	16.0	10.1	Landlord
Stockholm	60.1	4.8	Landlord
St. Petersburg	23.1	5.4	Landlord
Stuttgart	23.5	2.2	Landlord
Szczecin	14.0	6.8	Neutral
Tallinn	16.6	7.0	Neutral
Vienna	28.0	5.2	Tenant
Vilnius	16.5	4.8	Landlord
Warsaw	22.0	9.1	Tenant
Wroclaw	15.5	8.5	Neutral
Zagreb	15.0	4.5	Landlord

Source: Table 1: Colliers International

FOR MORE INFORMATION

Peter Leyburn
Head of Cross Border Tenant Representation | EMEA
+44 20 7487 7018
peter.leyburn@colliers.com

Andrew Hallissey
Executive Managing Director – Occupier Services | EMEA
+44 20 7344 6552
andrew.hallissey@colliers.com

Damian Harrington
Director, Head of Research | EMEA
+44 7867 360489
damian.harrington@colliers.com

Juliane Priesemeister
Information Designer | EMEA Research
+31 620 24 17 10
juliane.priesemeister@colliers.com

Istvan Toth
Associate Director | EMEA Research
+44 20 7487 1899
istvan.toth@colliers.com

Beatriz Valle
Senior Analyst | EMEA Research
+44 20 7487 1718
beatriz.valle@colliers.com

Colliers International
50 George Street
London W1U 7GA

Research & Forecasting