EXECUTIVE SUMMARY

• Supply shortages impacted demand for industrial and logistics space in the second half of 2018, and there was a significant decline in gross take-up – 52% of markets surveyed reported a decline in demand in H2 2018 compared with only 40% during H1 2018. There are pockets of speculative development that will continue to boost activity in sought-after areas, and average deal size is growing, but we could be witnessing signs that the current macroeconomic environment is impacting demand.

• Construction of new projects on a speculative basis is on the rise, particularly in markets with strong demand. In the UK, the East Midlands is witnessing the fastest growth in speculative activity in the country with around 3 mn sq ft of space currently under construction. The Midlands industrial and logistics market is enjoying very buoyant demand, mainly driven by the continued demand from the online sector, including not only the usual behemoths such as Amazon, but also new entrants to the market who are clustering around parcel hubs as customer demand for late night online shopping and next day delivery requires ease of access.

• Pre-letting activity continued unabated in 2018. In Frankfurt pre-leases accounted for a record 71% of total take-up in 2018 (eight of the ten largest contracts). In Prague 47% of logistics space under active construction by end 2018 (203,933 sqm) was pre-let. In some markets, pre-lets accounted for some of the largest transactions in the final quarter, such as in Budapest, where there was a pre-let agreement for 18,800 sqm.

• Owner-occupation is increasingly a larger component of activity with major occupiers starting their own construction projects rather than waiting for developers to build speculatively. In Bucharest, a major retailer opened a 120,000 sqm facility in the west of the city, with part of it subleased to other occupiers. In Ontígola, on the border of Madrid metropolitan area and the province of Toledo, a major retailer is opening a warehouse (34,000 sqm) to support the expansion of its omnichannel operation around the capital.

• Although more cities are noticing slight rises in vacancy rates, the overall percentage of markets experiencing pressure on vacancy is still higher than vice versa. Plus, the largest markets still display extremely constrained availability, with several cities with rates at 3% (in Frankfurt), or below: 2.9% in Greater London, 2.5% in Barcelona, 2.4% in Budapest, 2.3% in Aarhus, 1.9% in Vilnius, and 1.4% in Munich and Riga by year-end.

• Regarding rents, city warehouses are experiencing greater traction – the top performers over the 6 months to end H2 2018 were Hamburg and Frankfurt (both 15%), Northampton (12%), Munich (8%) and Prague (6%). In the logistics and distribution space, the top performers were Belgrade (25%), Northampton (8%), Dusseldorf and Cologne (both 6%) and Greater London (5%).
## KEY METRICS IN MAJOR EMEA CITIES: H2 2018

<table>
<thead>
<tr>
<th>CITY</th>
<th>PRIME RENT CITY WAREHOUSE RENT</th>
<th>PRIME RENT LOGISTICS &amp; DISTRIBUTION</th>
<th>VACANCY</th>
<th>TAKE-UP</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>€/SQ.M./MONTH 6M CHANGE 12M OUTLOOK</td>
<td>€/SQ.M./MONTH 6M CHANGE 12M OUTLOOK</td>
<td>%</td>
<td>(SQ M)</td>
</tr>
<tr>
<td>Barcelona</td>
<td>4.50 0.0%</td>
<td>6.75 0.0%</td>
<td>2.50 -26</td>
<td>257 20.7%</td>
</tr>
<tr>
<td>Birmingham (West Midlands)*</td>
<td>7.45 3.4%</td>
<td>6.46 0.0%</td>
<td>4.60 -30</td>
<td>531 0.9%</td>
</tr>
<tr>
<td>Bucharest</td>
<td>4.15 1.2%</td>
<td>4.15 1.2%</td>
<td>4.00 200</td>
<td>242 675.6%</td>
</tr>
<tr>
<td>Budapest</td>
<td>5.00 0.0%</td>
<td>4.75 0.0%</td>
<td>2.38 -112</td>
<td>214 -35.7%</td>
</tr>
<tr>
<td>Frankfurt</td>
<td>8.00 15.1%</td>
<td>6.50 1.6%</td>
<td>3.00 -10</td>
<td>320 -19.5%</td>
</tr>
<tr>
<td>Hamburg</td>
<td>7.50 15.4%</td>
<td>6.00 0.0%</td>
<td>n/a n/a</td>
<td>237 0.7%</td>
</tr>
<tr>
<td>Istanbul</td>
<td>4.80 0.0%</td>
<td>4.80 0.0%</td>
<td>13.90 -10</td>
<td>140 206.7%</td>
</tr>
<tr>
<td>London (Greater London)*</td>
<td>13.66 1.9%</td>
<td>12.42 4.6%</td>
<td>2.90 -50</td>
<td>234 -26.0%</td>
</tr>
<tr>
<td>Madrid</td>
<td>4.25 0.0%</td>
<td>5.50 0.0%</td>
<td>4.20 60</td>
<td>352 -16.3%</td>
</tr>
<tr>
<td>Moscow</td>
<td>4.05 -4.3%</td>
<td>4.05 -4.3%</td>
<td>5.90 -150</td>
<td>795 22.4%</td>
</tr>
<tr>
<td>Munich</td>
<td>10.00 7.5%</td>
<td>7.00 0.0%</td>
<td>1.40 -47</td>
<td>116 -2.0%</td>
</tr>
<tr>
<td>Paris</td>
<td>7.50 0.0%</td>
<td>4.58 0.0%</td>
<td>n/a n/a</td>
<td>n/a n/a</td>
</tr>
<tr>
<td>Prague</td>
<td>4.75 5.6%</td>
<td>4.00 0.0%</td>
<td>3.92 123</td>
<td>260 124.7%</td>
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<tr>
<td>Rotterdam</td>
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</tr>
<tr>
<td>Stockholm</td>
<td>10.14 0.0%</td>
<td>8.51 0.0%</td>
<td>5.00 -150</td>
<td>n/a n/a</td>
</tr>
<tr>
<td>Venlo</td>
<td>4.58 0.0%</td>
<td>4.17 0.0%</td>
<td>n/a n/a</td>
<td>65 -74.0%</td>
</tr>
<tr>
<td>Warsaw</td>
<td>5.00 0.0%</td>
<td>4.00 0.0%</td>
<td>5.11 -210</td>
<td>632 -2.6%</td>
</tr>
</tbody>
</table>

*UK industrial data relate to the region

Sources: Colliers International
FIGURE 1:
INDUSTRIAL PMI MANUFACTURING SURVEYS
CURRENT, 12-MONTH HIGHEST 12-MONTH LOWEST

FIGURE 2:
INDUSTRIAL PRODUCTION INDEX VS GDP GROWTH Q/Q, 3Q 2004 TO 3Q 2018 IN THE EU28

FIGURE 3:
UNEMPLOYMENT RATES BY COUNTRY 2018-2020 AND Y/Y GDP GROWTH, 2018/2017

Sources: Figure 1. Colliers International, Markit | Figure 2. Colliers International, OECD, IMF | Figure 3. Colliers International, Oxford Economics
MACROECONOMIC OVERVIEW

2018 proved a challenging year for the European manufacturing economy and rising protectionism loomed large. Growing concerns about trade tensions between the US and China are dampening the outlook across the world, and the eurozone hasn’t been immune to deteriorating sentiment. IHS Markit’s manufacturing PMI fell to 49.3 in February 2019 - from 50.5 registered in January – below the contractionary mark of 50 for the first time since June 2013. This indicates that manufacturers are cautious about future expectations, particularly after the disruption seen in the automobile sector last year. In 2018, the European car industry was affected by a regulatory overhaul of diesel engines, falling demand from China and concerns about possible US tariffs.

Regarding GDP growth, the eurozone reached 1.8% on an annualised basis after a weak fourth quarter (+0.2% q/q), whilst the unemployment rate, at 7.9% in December, marked its lowest level since 2008. The strong job performance is sustaining consumer sentiment and spending power, supporting private demand. Germany narrowly avoided a recession in H2 2018, with 2018 GDP growth reaching 1.5% y/y, the same as in France, whilst the UK displayed slightly weaker growth of 1.4% y/y.

In terms of manufacturing, the best performing economy within the ‘big four’ in the Eurozone was France, with a PMI of 51.5 in February, as a more resilient domestic market helped offset weak export demand. Manufacturers saw output increase and new orders return to growth, but exports continued to weaken. Data from Spain was weak (49.9) with the PMI below the 50-mark for the first time in five years, following a reading of 52.4 in the previous month of January. While this may be just a blip, given the strong performance of previous quarters, it highlights that even resilient economies are not immune to the combination of supply chain disruptions, concerns about a no-deal Brexit and a slowdown in global trade. In Italy, the PMI remained deep in the contraction zone at 47.7 – the lowest since 2013. In Italy, the PMI remained deep in the contraction zone at 47.7 – the lowest since 2013. The Italian economy is suffering from both a slowdown in economic activity across Europe and the effects of the political turmoil seen in the second half of last year. On a more positive note, several eurozone economies displayed relatively strong PMIs in January: including Ireland (52.6) and the Netherlands which maintained impressive momentum at 55.1. The UK manufacturing PMI (52.8) was at a three-month low (despite intense stockpiling activity and a drive to cut backlogs ahead of Brexit) in January, as companies remain concerned about exchange rate volatility and rising input costs, in the event of the UK exiting the EU without a deal. Moreover, there was a 0.9% quarterly drop in manufacturing output in Q4, the largest in six years, driven by declines in vehicle and steel production. Car manufacturers Toyota and BMW were the latest automobilists to warn that a disorderly Brexit could put their UK production of cars in jeopardy. Perhaps the greatest impact in terms of sentiment came from the news in February that Honda is planning to close its UK factory in 2021.

Meanwhile in CEE, the Czech Republic (49) and Poland (48.2) witnessed contractionary activity in January but Hungary maintained a very good index of 54. In 2018, industrial production in Hungary grew at nearly 4% - a healthy rate but nevertheless, below the 5%+ rates seen in 2017 before the manufacturing slowdown. Regarding GDP, the CEE economies enjoyed some of the strongest growth rates globally in 2018, with growth in both Poland and Hungary having reached post-crisis highs of around 5% y/y.
**FIGURE 4:**
**UNEMPLOYMENT RATE, MAIN EMEA CITIES, 2018-2020**

**FIGURE 5:**
**TAKE-UP CHANGE IN 12 MONTH ROLLING TAKE-UP**

Sources: Figure 4, Colliers International | Figure 5, Colliers International
MARKET OVERVIEW: DEMAND

Strong employment supports demand but impacts labour supply

Job prospects remained strong in European cities in 2018, but tight labour capacity in Europe is impacting the logistics market. Moreover, Western European logistics operators that used to shift production to Eastern Europe to cut costs, are finding that this is not always a viable option these days.

According to the ILO (International Labour Organization) definition, the unemployment rate reached record lows of 1.4%, 2.4% and 2.5% in Prague, Warsaw and Budapest last year. As the pool of cheap and skilled labour is shrinking fast wages are rising. Poland, for example, hit nominal wage growth of 7.1% y/y in Q418.

Similarly low rates of unemployment are also apparent in western European cities, including Munich and Frankfurt, which witnessed unemployment rates of 2.7% and 3.7% respectively in 2018, followed by Amsterdam (3.9%) and Dublin (4.9%).

Overall, there are labour shortages at every level of the industrial & logistics supply chain, from lorry drivers to temporary staff at e-fulfilment centres across Europe. At some point this will hinder demand growth.

Take-up growing fastest in CEE and Germany

Overall take-up was down in EMEA in H2, with 52% of markets seeing a fall in activity at the end of 2018 - up from 40% in H1. Looking at the 12 month rolling take-up, three of the top 5 fastest-growing markets were in CEE: Bucharest, Krakow and Prague, growing at 221%, 62% and 28% in the six months to end H2. At the other end of the spectrum, the cities displaying the worst declines in the EMEA markets surveyed were Venlo (-47%), Szczecin, Istanbul (both -41%), and Newcastle (-35%).

Amsterdam, Berlin, Manchester, Pilsen and Moscow were in the top 10 fastest-growing markets in terms of demand in the second half of 2018. The slowdown in manufacturing did not make a dent on activity in cities like Bucharest, where warehouse leasing activity reached around 306,000 sqm in 2018, (+21% y/y). Activity was focused on new zones and specifically the northern area, although the traditionally more active west of the city remained popular.

Average deal size is growing, and demand is becoming more polarised, split between large >10,000 sqm warehouses and quite small units. This trend became apparent in Vienna, where most of the demand in 2018 shifted towards smaller areas in the 700-1,500 sqm band. With the rise of e-commerce, new forms of warehouses are entering the market, from very large warehouses located in the peripheral logistics zones to small ‘last mile’ units close to the main consumption centres.

For example, in Frankfurt (where take-up reached 650,000 sqm in 2018, exceeding the 5-year average by 5%), transactions in the floor space band above 10,000 sqm accounted for over 50% of total activity, and five deals surpassed the 20,000 sqm mark. Equally, in Stuttgart, eight leases were closed in this size band accounting for 36% of total take-up, a larger share than any other floor space category. In Madrid, the rise in e-commerce activity has paved the way for a surge in demand of floor spaces above the 50,000 sqm-mark, with activity taking place in areas further and further away from the city centre. Warehouses being developed to support expanding omnichannel operations have started to appear on the border of the Madrid metropolitan area with Toledo, in Ontígola.
**FIGURE 6:**
**VACANCY RATES CURRENT**

- **Market Size**
  - MEGA (>10M)
  - LARGE (5-10M)
  - MID-SIZE (2-5M)
  - SMALL (<2M)

<table>
<thead>
<tr>
<th>Market Size</th>
<th>H1 2018</th>
<th>H2 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>MEGA (&gt;10M)</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>LARGE (5-10M)</td>
<td>-23.1 BP</td>
<td>-23.0 BP</td>
</tr>
<tr>
<td>MID-SIZE (2-5M)</td>
<td>-6.3 BP</td>
<td>11.6 BP</td>
</tr>
<tr>
<td>SMALL (&lt;2M)</td>
<td>-7.9 BP</td>
<td>-1.6 BP</td>
</tr>
</tbody>
</table>

**FIGURE 7:**
**AVERAGE SHIFT IN VACANCY RATES**

- **(6 MONTH BASIS POINT CHANGE), BY MARKET SIZE**

<table>
<thead>
<tr>
<th>Market Size</th>
<th>H1 2018</th>
<th>H2 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>MEGA (&gt;10M)</td>
<td>-231 BP</td>
<td>-23.0 BP</td>
</tr>
<tr>
<td>LARGE (5-10M)</td>
<td>-6.3 BP</td>
<td>11.6 BP</td>
</tr>
<tr>
<td>MID-SIZE (2-5M)</td>
<td>-7.9 BP</td>
<td>-1.6 BP</td>
</tr>
<tr>
<td>SMALL (&lt;2M)</td>
<td>-4.1 BP</td>
<td>0.6 BP</td>
</tr>
</tbody>
</table>

**FIGURE 8:**
**DEVELOPMENT PIPELINE**

- **CHANGE IN SPACE UNDER CONSTRUCTION**

<table>
<thead>
<tr>
<th></th>
<th>H1 2018</th>
<th>H2 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rise</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>No Change</td>
<td>-231 BP</td>
<td>-23.0 BP</td>
</tr>
<tr>
<td>Fall</td>
<td>-231 BP</td>
<td>-23.0 BP</td>
</tr>
</tbody>
</table>

**Sources:** Figure 6. Colliers International | Figure 7. Colliers International | Figure 8. Colliers International
MARKET OVERVIEW: SUPPLY

Vacancy compression is easing

The second half of 2018 saw vacancy rise in 18% of markets over the second half of 2018. Concurrently, the percentage of markets where vacancy fell reached 38% in H2 2018 vs 40% in H1 2018. Interestingly, only 45% of markets predicted vacancy falls at the end of 2018 - compared to 56% at the end of June. Equally, Figure 7 shows that vacancy is indeed easing in places, notably in large and smaller cities. Within larger cities, vacancy rates grew +11.6 basis points (bps) in the 6 months ending December 2018, despite a 6.3 bps contraction 6 months earlier. Medium-sized and mega-markets continued to see vacancy rates harden further, by 1.6bps and 23 bps respectively.

Construction pipelines slow down while supply remains constrained, but there are pockets of speculative development

Average deal size seems to be increasing and as a result supply is most under pressure in floor surface bands above 5,000 sqm. The changing dynamics of the logistics market are forcing operators to resort to increasingly large surfaces in order to streamline operations in strategic locations. This trend is driving demand for large surfaces, although activity seems to be splitting between larger and smaller floor bands with specific requirements for ‘last-mile’ delivery and out-of-town warehouses.

Aside from demand-led requests there are pockets of speculative development appearing. In Cologne, Prologis began the construction of a new 24,000 sqm logistics facility in Pulheim, and is planning a logistics park (55,000 sqm) in Cologne-Niehl. In Düsseldorf, Segro started building the expansion of the Krefeld-Süd logistics park by a further 30,000 sqm, as well as the expansion of the City Parks Düsseldorf business park, where 12,000 sqm of new logistics space will be provided by the end of 2019. Logistics provider DSV started an expansion (11,000 sqm) of its Logistics Distribution centre.

Demand continues to outstrip supply in many locations. In Berlin, availability is quickly decreasing. Hot spots such as GVZ Großbeeren and ‘Brandenburg Park’ in Ludwigsfelde have no capacity. Some areas of the city display potential for logistics operators with large space requirements, notably in the southern area and Schönefeld zone near the western motorway ring.

In the Netherlands, supply is particularly constrained in Tilburg where demand for logistics space far exceeds supply. Developers have recently started plans for several expansion sites located on the edge of the municipality, in Zwaluwenbunders and Wijkevoort. Increasingly, logistics operators are moving to the neighbouring city of Waalwijk. In Venlo undersupply is particularly critical in units above 2,000 sqm, where availability decreased by almost 30% over the past year. Demand for logistics space in the Venlo-Venray region is still growing, in part because Venlo will have the largest inland rail terminal in the country by 2020. This will improve accessibility as the freight and road traffic in and around Venlo is becoming more congested.
Sources: Figure 9, Colliers International | Figure 10, Colliers International
MARKET OVERVIEW: RENTS

City Warehousing Rents

City warehousing rents have largely stabilised across EMEA. In 72% of markets, rents remained stable in H2 2018 – compared to 42% in the first half of the year. This translated in less polarisation between rent categories, but it did not affect the pace of rental rate growth. Only 12% of markets saw rent growth slowing down, compared to 20% the previous quarter.

The top performers in terms of prime rents in the city warehouse space were Hamburg (15.4% growth H2/ H1) Frankfurt (15.1%) and Munich (7.5%). Prime city warehouse rents in Frankfurt stand at €8/sqm/month. In Hamburg, they are currently at €7.50/sqm/ month. With a current vacancy rate of about 1.4%, very little space is currently available in the Munich market and rent levels continue to rise, reaching €10 sqm/month in Q4.

Rents in Dusseldorf stand at €5.75/ sqm/ month. In Cologne, they are currently at €5.50/ sqm and could continue growing after the strongest take-up results in Q318 (248,100 sqm) over the last 5 years. In Copenhagen, vacancy has been steadily declining since April 2012 and is now at 2%, which is a decrease of 0.3 percentage points from a year ago.

Major infrastructure developments are pushing rents upwards in places, for example, in London even future plans are currently propping industrial rents. HS2’s interchange station at Old Oak Common triggered regeneration and rising rents in Old Oak Common and Park Royal, while Crossrail and Crossrail 2 are already impacting rents. Top rents at Park Royal (10,000-30,000 sq ft) have seen a further increase in 2018, to £20 sq ft/year, with a number of Greater London locations in the mid-teens or higher.

Logistics & Distribution Rents

The logistics and distribution sector followed a very similar pattern to rents in the city warehouse market, with 75% of markets enjoying stable rents in H2 2018 vs 57% in H1. However, the outlook is more positive for logistics and distribution space versus their smaller city counterparts. Over H2, Belgrade displayed the strongest rate of growth (+25%) followed by Northampton (8%), Dusseldorf and Cologne (both 6%), Greater London (5%), Copenhagen, Belfast, Manchester, Tilburg and Berlin, all saw rents expand by 4% over H2.

The lack of existing stock within the South East of the UK is forcing occupiers to be less location specific when looking for opportunities. Locations along the A1 (M), such as Biggleswade, and the M40 (Banbury and Bicester) are seeing spec-built units quickly leased. Annual rental growth for 100,000+ sq ft sheds in the South East is currently running at 6.4% with 10,000-30,000 sq ft units at 8.1%. Borehamwood, at £15 sq ft/year, tops the South East rents.
The market has followed a clear evolution in the last two years towards a landlord-favourable environment, with 54% of EMEA markets reporting good conditions for landlords in H2 2018 compared to 42% in H2 2016. This was mostly at the expense of tenants (only 10% of 67 markets monitored were tenant-favourable in H2 2018), although the amount of neutral markets also shrunk considerably from 41% to 36% in the same period.

However, there is some evidence that with vacancy easing, rent rises could moderate in the short to medium term. On the other hand, supply remains insufficient to meet end-user requirements despite new developments being built in some geographies.

Overall the fastest-rising sectors in terms of demand seem to come from retail and wholesalers, logistics operators, and transport/distribution providers.

As demand for Grade A warehouses intensifies, rental growth is expected to continue albeit at a slower pace. The market may be strongly in favour of landlords, but margins in the logistics industry are often slim and third party providers / end-users are unlikely to be able to afford continuous rental growth.

Due to constrained supply of larger surfaces in modern facilities, occupiers are resorting to tailor-made solutions, with a particular emphasis on built-to-suit property. Also, demand is growing outside of the main hubs where rents are more affordable and there is greater scope to develop modern, built to suit facilities.

**MARKET OVERVIEW: OCCUPIER CONDITIONS**

**FIGURE 11: EVOLUTION OF OCCUPIER CONDITIONS**

**Sources:** Figure 11. Colliers International
AROUND THE MARKETS

**MANCHESTER** Two large pre-let deals were agreed in 2018, with Amazon taking 360,000 sq ft at M6 Major, in Haydock, and Movianto taking 360,000 sq ft at Haydock Green. Rental levels have continued to rise, with record rents set for both prime and secondary units. Royal Mail’s deal at Mountpark’s, Warrington Omega scheme, achieved £6.25/sq ft/month, a record for Big Shed prime rents. Rental levels on 10,000 – 50,000 sq ft units are now achieving above £7/sq ft/month, as demand continues to outweigh the supply of Grade A warehouses.

**EINDHOVEN** There is growing demand for space in the floor bracket above 2,000 sqm, from not only logistics operators, but increasingly high-tech companies in the supply and manufacturing industry. DHL leased 45,000 sqm in the main logistics business park, GDC Acht, and Dutch grocery delivery start-up Picnic signed a lease for 18,000 sqm in the building located at Achterweg Noord 30–46. The development of the Brainport Industries Campus (almost 200 hectares) should help meet demand, and several companies have already moved in at the campus.

**COLOGNE** The most important transactions in 2018 were the leases signed by logistics services provider Offergeld in Frechen (35,000 sqm), and the contract signed by Grieshaber Logistik in Bedburg (12,000 sqm). Healthy demand is resulting in a rise in speculative development activity, for example Prologis began the construction of a 24,000 sqm logistics facility in Pulheim, and is also planning to start the development of the Prologis logistics park in Cologne-Niehl (55,000 sqm of logistics space).

**FRANKFURT** Logistics service provider ID Logistics rented 38,500 sqm of logistics space in Hammersbach by the logistics service provider ID Logistics and the renting of REWE in Kelsterbach (32,500 sqm) also contributed to this result. The supply of space can barely meet the continuing demand, especially for large-area applications, so new project developments are in demand. For example, contracts concluded in the new construction segment account for almost 71% of the total take-up. Eight of the ten major contracts alone fell into this category.

**MADRID** Investment and development activity enjoyed a significant rise in 2018 with demand far exceeding supply particularly for large warehouses above 50,000 sqm. During the second half of the year, Logisfashion, the logistics operator of fashion retail brand Inditex, signed a pre-letting agreement for 30,000 sqm of space in Ontígola, and Invesco let a 15,000 sqm unit to food retailer Mercadona (also in Ontígola) and a 14,000 sqm warehouse in San Fernando to car manufacturer Hyundai.
RIGA
Stock absorption almost doubled in 2018 compared to 2017 and this pushed vacancy to 1.3%. It is expected that in 2019 industrial stock will be complemented by twice the amount of leasable area than in 2018, however no significant increase in vacancy is expected as industrial areas are highly coveted. Food retailer LIDL has announced plans to relocate their main office/warehouse with requirements of 20,000-25,000 sqm.

OSLO
Demand for larger warehouses far exceeds supply at the moment. Colliers has learnt that Amazon is considering a move into the Norwegian market, and a player of this size would have a significant impact on current availability. Furthermore, online grocery retailer kolonial.no announced plans to relocate their main office/warehouse with requirements of 20,000-25,000 sqm.

MUNICH
The leases signed by Rewe Digital in Feldkirchen (10,000 sqm) and JXLutz in Foring (8,800 sqm) were among the most significant transactions in 2018. Almost 80% of take-up was generated in the northern outskirts of Munich (North-West and North-East Outskirts submarkets). With a current vacancy rate of about 1.4%, very little space is currently available on the Munich market and rent levels continue to rise as a result.

STUTTGART
Take-up of 300,400 sqm was registered in 2018, representing a decline of 24% y/y. Aurelis Real Estate in Böblingen leased 19,000 sqm of warehouse and office space to a well-known automobile group. Other important contracts were concluded by Schneider Logistik in Geislingen an der Steige (12,520 sqm) and by the logistics service provider Schmalz+Schrö, which signed a rental agreement for around 13,400 sqm of storage space in Frickenhausen.

BERLIN
Berlin recorded take-up of 422,500 sqm in 2018 and is thus at the level of the previous year. More than half of take-up was accounted for by requirements of larger than 10,000 sqm, and five deals even went over the 20,000 sqm mark. This included the leases signed by sport and fashion retailers Decathlon (40,000 sqm) and DefShop (20,000 sqm), both located in the southern periphery.
OUTLOOK

The eurozone economy is currently displaying a growing dichotomy between resilient domestic demand, supported by strong employment, and an industrial outlook weakened by rising external risks. Logistics is tightly linked to consumer spending and the current economic landscape remains benign, with strong employment supporting private demand across the board in EMEA. Oxford Economics’ central scenario maintains that downside risks will not prevail and a recovery is widely expected to unfold over the second half of this year. But if the current industrial headwinds were to last for a prolonged period, it could result in job losses and thus in-turn impact domestic demand.

The negative economic impact on the eurozone from a ‘no-deal’ Brexit would be unevenly distributed across manufacturing sectors. In addition to the UK, the German automotive sector incorporating its CEE supply chain, would face considerable strain.

In CEE, a risk for the relatively open (high trade volumes vs GDP), CEE economies is that global growth falls over a precipice. Certain leading indicators suggest that conditions may be deteriorating. Against this backdrop, the logistics property market is showing some signs of cooling, and demand did indeed fall in a greater percentage of markets in H2 2018 than it did in H1, although it remains to be seen whether this was an outlier, since short and medium term rental growth prospects remain positive amid tight supply conditions.

Moreover, the logistics market is undergoing important shifts that continue to spur demand, due to the implementation of new technologies needed to increase efficiencies / ease pressures on profit margins. Automation is already a staple of the market in some geographies, like the Netherlands, Nordics and Germany, where labour shortages and ongoing demand from a strong consumer market with fast changing habits are forcing logistics operators to sharpen their competitive profile.

In these mature markets the obsolescence of the building stock, as well as the difficulty in adapting old warehouses to automation and digitisation is creating opportunities.

The big picture is that the growth outlook across Europe is positive but has become more challenging due to both external (trade wars) and internal (political risks) factors. Fortunately, the optimistic perspective is that these challenges are already being tackled, so there is a scope for an upside to the outlook.
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