EMEA

CITY OFFICES

QUARTER 3 | 2018

FIGURE 1:
RENTAL GROWTH
PRIME RENTS | *left*

SECONDARY RENTS | *right*

Click here for our office rent & occupier conditions map

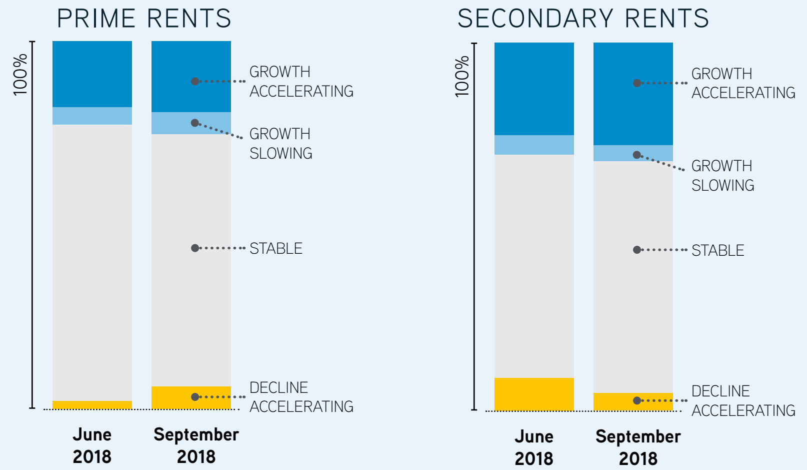


FIGURE 2:
AVERAGE 6 MONTH SHIFT IN VACANCY RATES | *left*

EVOLUTION OF OCCUPIER CONDITIONS | *right*

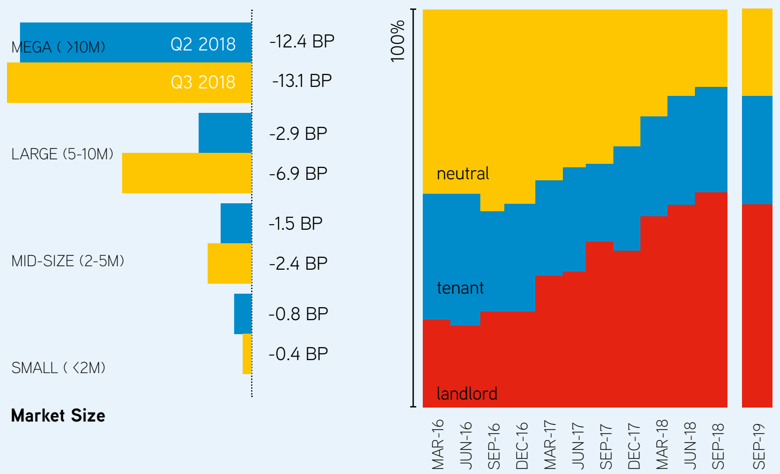
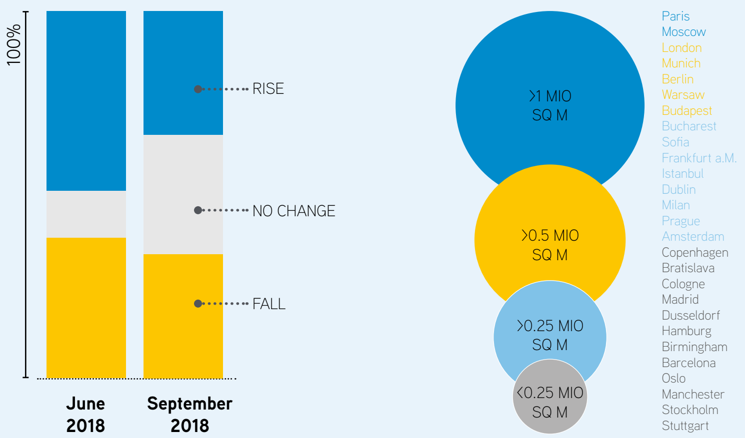


FIGURE 3:
CHANGE IN TOTAL SPACE UNDER CONSTRUCTION | *left*

SPACE UNDER ACTIVE CONSTRUCTION | *right*



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

RENTS REMAIN STABLE IN MOST MARKETS

The majority of markets recorded no change in rents in Q3, with 68% of prime stock and 63% of secondary stock reporting stable rent positions. A number of locations continued to see rental growth (20% of prime and 29% of secondary), reinforcing that pressure on rents remains on the upside for a sizeable number of markets. Among those with the fastest growing rents, Iberia did well: Barcelona and Madrid made the top-ten list with y/y growth of 11% and 9% respectively, as did Lisbon (14%) and Porto (8%). Stockholm, which enjoys some of the highest rents in EMEA, continued to defy gravity, growing 8% y/y.

The percentage of markets registering a decline was minimal: 7% for prime and 5% for secondary stock, but in the case of prime stock this represented a noticeable increase from the 2% seen in Q2. By contrast, the percentage of markets registering declines in secondary stock went down from 9% in Q2 to 5% in Q3. Only three cities experienced actual q/q decreases in rental rates: Istanbul (-0.4%), London-City (-0.7%) and Stuttgart (-2.1%).

FALLING VACANCY IS GOOD NEWS FOR LANDLORDS

Vacancy decreased in all city categories across EMEA, against a backdrop of strong demand and constrained availability. In mega cities (<10 M), vacancy rates were down -13.1 bps in the 6 months to September when compared to the previous semester. But it was large cities (5-10 M) that experienced the steepest declines at -6.9 bps (previously -2.9 bps).

In a trend consistent with declining vacancy, the market has followed a steady evolution towards landlord-favourable conditions over the last few years. In Q3, the percentage of landlord favourable locations reached 54%, and tenant-favourable markets decreased from 22% in Q2 to 20% in Q3.

PRE-LETTING IS UP, SPECULATIVE DEVELOPMENT DOWN

Weak construction pipelines are affecting many markets in EMEA. Pipeline levels fell considerably in Q3, with just 33% of markets recording pipeline increases against 49% of markets the previous quarter. New supply remains subdued, signalling that developers remain cautious even though there is a majority of markets with very strong underlying fundamentals. Pipelines are being curtailed by rising construction costs, particularly labour costs, while pre-letting is on the rise as occupiers seek higher quality, modern space. New development was strongest in Paris, London and Moscow, followed by Munich and Berlin. Compounding the effect of weak construction pipelines, growing conversion rates of old office space to alternative uses is affecting net supply and pushing down vacancy in some markets. Overall, developers remain cautious despite the bullish outlook for rental rates.

OUTLOOK

Record low unemployment across Western and Eastern Europe will continue to drive demand for office space in 2019 and beyond. The eurozone outlook remains solid, with average unemployment at 8%, the lowest rate since 2008, and GDP forecast to grow 1.8% in 2018 and 2019. Pre-letting activity is on the rise. Frankfurt is a good example, with pre-letting up 105% y/y in Q3 - accounting for 84% of total completed space in the first nine months of 2018.

Lower vacancy is exerting upward pressures on rents. Average vacancy across all the EMEA markets monitored in this report dropped to a very low 6.5% in Q3 2018 (down on 6.7% in Q2 and Q1, and noticeably down on the 7.2% recorded in Q4 2017). German cities saw some of the lowest vacancy rates in EMEA, as low as 1.6% in Berlin, 2.2% in Munich, 2.5% in Stuttgart and 3.1% in Cologne. Even in Frankfurt, with a comparatively high 7.3%, vacancy has followed the same trend, rapidly decreasing, and is now 3.7 percentage points lower than it was in Q1.

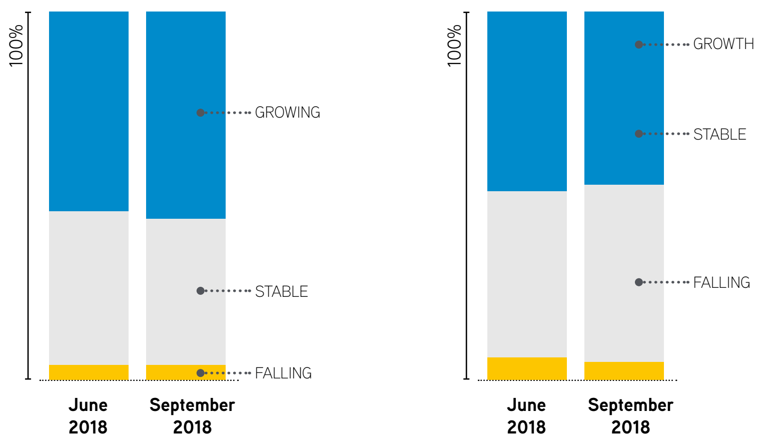
Other markets where vacancy plummeted over the last 18 months included Amsterdam, at 5.7% (a 3.9 percentage points decline) and Budapest, at 6.4% (a 2.8 percentage points decline).

Supply shortages will continue to push tenants into taking space out of the pipeline. Some markets are responding by increasing their pipeline, notably Berlin, Frankfurt, Munich and Stuttgart all of which saw rises in the amount of office space under active construction in Q3. In Eastern Europe, Budapest and Prague have big office developments coming to market from 2020. Although there may be some relief to supply 'bottlenecks', this is unlikely to make a noticeable difference in high-demand markets, especially Germany.

As a result, prime rents are forecast to grow in 57% of the EMEA markets monitored in this report. This percentage goes down to 47% in the case of secondary rents.

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

12 MONTH OUTLOOK SECONDARY RENT *| right*



Source: Figure 4: Colliers International

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