EXECUTIVE SUMMARY

- **ECONOMY:** The EEA30 saw GDP slump by -7.1% (Y/Y) by the end of H1. The lockdown-induced economic contraction has been most noticeable in Q2, which saw a Q/Q drop of -12.2%, with the hospitality and tourism industries most impacted. While a Q3 uptick in activity is putting markets on track for a rebound in growth in 2021, pre-crisis challenges remain. US-China Trade-War tensions, Brexit transition negotiations and the mid-to-long-term management of the pandemic and its impact will shape European economies and their rate of growth for years to come.

- **EUROPE’S SERVICES AND MANUFACTURING PMIs:** As a result of national lockdowns, the Eurozone (EZ) services PMI score fell to 12.0 in April. Moreover, European (manufacturing) PMI indicators also slowed, but to a much shallower level. By Apr’l, the EZ’s PMI fell to 33.4, with Spain, Russia, Italy and France falling to 30.8, 31.3 and 315 respectively. By June, the UK, France, Italy and Denmark had already moved back into expansionary mode, with France and Italy leading the way, both scoring 52.3.

- **TAKE-UP:** While EMEA’s rolling 12-month take-up was down -8.6% Y/Y, activity over H1 2020 remained ahead of the same period a year ago. This 3.6% growth came with additional demand for servicing online retail being activated as our home delivery requirements soared during the COVID-19 lockdown.

- **DEVELOPMENT PIPELINE:** By June, space under active construction (UAC) had risen by only a marginal 1.8% (H/H), as many speculative developments were mothballed in the wake of COVID-19, or at least delayed or revised. This is expected to influence (negatively) upon future take-up volumes, especially in supply-bottleneck markets. The marginal increase in active construction was also the result of large development projects completing during the first half of 2020. While Istanbul (-81%), Dusseldorf (-76%) and Stuttgart (-67%) saw the largest (H/H) declines, little impact was seen in relation to their current vacancy rates - particularly Istanbul, which saw vacancy move in by -376 bps, further signifying demand severely outweighs new and available supply.

- **VACANCY:** The weighted average vacancy rate for Europe remains a very low 3.7% - stable on Q1, and only a 10 bps increase on Q4 2019. This reflects that vacancy rates are bottoming out, with just 36% of markets recording vacancy contractions in H1 2020, compared to 45% in H1 2019.

- **OCCUPIER CONDITIONS:** Landlord-favourable markets continue their prevalence across markets, but as of H1 2020 they were matched by neutral market conditions - both represent a 41% share of markets surveyed. This reflects an easing of landlord-favourable dominance of 515% in H1 2019. The outlook for the next 12 months depicts these conditions will remain largely stable although there may be a ceding of landlord conditions in some markets. Low vacancy, a lack of quality new availability and strong growth in e-commerce will be counterbalanced by broader economic uncertainty.

- **RENTAL PERFORMANCE:** City-warehouse prime rents grew in 19% of the locations monitored during H1 2020. Some 17% of markets saw rents for logistics and distribution markets grow, primarily due to expansionary e-commerce demand. Overall, rents remained largely stable. This is set to continue for the next 12 months, bar core locations where rental growth is expected, albeit at a slower pace.

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### KEY METRICS IN MAJOR EMEA CITIES: H1 2020

<table>
<thead>
<tr>
<th>CITY</th>
<th>TAKE-UP</th>
<th>VACANCY</th>
<th>PRIME RENT</th>
<th>PRIME RENT</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>LSM CHANGE [BPS]</td>
<td>6M</td>
<td>%</td>
<td>CITY WAREHOUSING</td>
</tr>
<tr>
<td></td>
<td>12M OUTLOOK</td>
<td>€/SQM/MONTH</td>
<td>12M</td>
<td>OUTLOOK</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>12M</td>
<td></td>
</tr>
<tr>
<td>Barcelona</td>
<td>-40.9%</td>
<td>2.60</td>
<td>7.0</td>
<td>5.4</td>
</tr>
<tr>
<td>Birmingham</td>
<td>-14.3%</td>
<td>1.50</td>
<td>7.6</td>
<td>6.4</td>
</tr>
<tr>
<td>Bucharest</td>
<td>102.5%</td>
<td>7.00</td>
<td>4.0</td>
<td>4.0</td>
</tr>
<tr>
<td>Budapest</td>
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<td>4.9</td>
</tr>
<tr>
<td>Frankfurt</td>
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<td>6.5</td>
</tr>
<tr>
<td>Hamburg</td>
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<td>6.3</td>
</tr>
<tr>
<td>Istanbul</td>
<td>408.9%</td>
<td>16.9</td>
<td>4.9</td>
<td>4.9</td>
</tr>
<tr>
<td>London</td>
<td>-52.8%</td>
<td>2.70</td>
<td>13.8</td>
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</tr>
<tr>
<td>Madrid</td>
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<td>5.5</td>
</tr>
<tr>
<td>Moscow</td>
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<td>3.10</td>
<td>4.2</td>
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<tr>
<td>Munich</td>
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<td>2.00</td>
<td>10.5</td>
<td>7.2</td>
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<tr>
<td>Paris</td>
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<td>n/a</td>
<td>7.5</td>
<td>5.4</td>
</tr>
<tr>
<td>Prague</td>
<td>0.2%</td>
<td>2.30</td>
<td>4.9</td>
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</tr>
<tr>
<td>Rotterdam</td>
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<td>6.3</td>
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</tr>
<tr>
<td>Stockholm</td>
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<td>4.50</td>
<td>9.5</td>
<td>7.5</td>
</tr>
<tr>
<td>Vanlo</td>
<td>-55.3%</td>
<td>n/a</td>
<td>4.6</td>
<td>4.4</td>
</tr>
<tr>
<td>Warsaw</td>
<td>-6.6%</td>
<td>7.16</td>
<td>4.9</td>
<td>4.9</td>
</tr>
</tbody>
</table>

*UK industrial data relate to the region.*
Eurozone: Following a sharp GDP fall in Q1, monthly figures show that economic activity contracted most severely in April, coinciding with the onset of lockdown measures in most European countries. As of July, sentiment indicators continue to improve, with several countries PMI score painting to expansionary activity after the April trough. All major economies are back on track. The recovery path will be mixed as markets adjust to a new normal, and governments configure how best to support national economies and employment levels without putting public debt levels at unsustainable, high-risk levels. There is also the concern over the summer spike in cases, and how the COVID-19 virus will be contained with the onset of winter, while keeping production facilities as open and functional as possible. The agreement between European Union leaders for the EU €750 billion stimulus package to help pull their economies out of the worst recession in memory, will go some way to supporting the growth effort, whilst tightening the financial bonds holding the 27 nations together. This is an important step forward for the EU-Bloc as it negotiates a new budget to start in 2021, coinciding with the UK transitioning out by the end of 2020.

Eurozone GDP fell by over 20% (M/M) in April, the largest monthly decline ever recorded. Encouragingly, May’s data, showed a 18% (M/M) increase in GDP, and June figures were up around 8%. Nonetheless, the UK economy will record its largest annual drop in GDP in modern history this year (-10.9%), followed by its largest annual increase (+10.3%) in 2021. The official unemployment rate (4.4%) remains near a four-decade low but has seen outward movement of exactly half.

Germany: Consequences of lockdown actions, falling incomes, supply-chain disruptions and temporary closures of carmakers’ factories, saw industrial production fall by -25% (Y/Y). Factory orders were down -37% in April. While Europe’s “unlocking” saw output and orders recover a little, they were still down -29% M/M. Germany expects a 6% plunge in economic output in 2020 (after a 4% fall last year) before a rise of over 5% in 2021.

France: GDP contracted by 5.3% in Q1, as the national lockdown cut consumption by -5.6%, a pillar of domestic growth. Business investment (-10.5%) and exports (-6.1%) also fell, and GDP for 2020 is expected to hit pre-crisis levels until later in 2022. To combat economic contraction, and particularly safeguard employment, over €0.5 trillion has been injected into the economy by the French government.

Italy: Italy entered 2020 as the Eurozone’s weakest economy, and it has been one of the hardest hit countries by COVID-19, given the very strict national lockdowns imposed and a reliance on tourism to support the national economy. GDP is expected to fall by -9.3% (Y/Y) in 2020, with unemployment rising to 10.4% by H1. Yet the fall in employment remains a major concern, as unemployment reached 9.4% at end H1.

UK: GDP fell by over 20% (M/M) in April, the largest monthly decline ever recorded. Equally, May’s data, showed a 18% (M/M) increase in GDP, and June figures were up around 8%. Nonetheless, the UK economy will record its largest annual drop in GDP in modern history this year (-10.9%), followed by its largest annual increase (+10.3%) in 2021. The official unemployment rate (4.4%) remains near a four-decade low but has seen outward movement of exactly half.

Japan: As Figures 2 and 3 show, there is an expected upturn in industrial output, GDP, and employment growth in 2021, with the manufacturing sector far less impacted by the contraction in services. Equally, the rapid transfer of spending in retail to online, has been a boon for the logistics and transportation sector in terms of activity, if not profit. The automotive sector also remains a major concern, as the industry grapples with a structural shift in demand for cars, and the need to accelerate electric and hybrid production. Car production levels (and sales) have hit some of the lowest levels on record for a number of European countries during 2020.

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Availability of labour is crucial for maintaining active production lines, and is a key driver of domestic and consumer demand. Unfortunately, COVID-19 has impacted heavily on current employment growth in major cities. The EEA30’s unemployed population grew by 24.5% (Y/Y) by H1 2020 and Figure 4 visualises cities experiencing this negative impact.

Eurozone domestic consumption in Q2 also made a negative -8.51 contribution to GDP, particularly for the automotive industry. However, many occupiers have now looked to diversify. For example, in the UK, while this year marked the lowest annual output for car manufacturing since 1954, notable manufacturers; Aston Martin, Rolls Royce, Nissan and Jaguar/Land Rver, began using existing operations as bases for production of PPE equipment in order to preserve domestic demand.

While EMEA’s rolling 12-month take-up was down -8.4% (Y/Y), Q2 2020 growth was exceptional at almost 6.5 million sqm, following a subdued Q1 of 1.78 million sqm (down -74% Q/Q). Q1 figures showed occupiers favoured re-gears, rather than expansions, as the outbreak of COVID-19 pushed many occupiers into “defensive” stances. While take-up in Q1 was low, by end H1-end 2020, 47% of markets had seen an increase in take-up; up 11% on H2 2019. Take-up was particularly strong in mega-cities, which saw the weighted vacancy rate (H/H) move inwards by -20.06%. Such movement is attributable to growing take-up for last-mile logistics operations actively seeking to serve significant growth in e-commerce demand.

However, a limiting factor, is the lack of suitable stock in such locations. Stalling demand is often the result of restricted availability, with latent demand building-up. In Germany, and other markets, the lack of suitable supply (especially in size bands >10,000 sqm) is initiating supply side responses. In Frankfurt, 303,000 sq m was under active construction (UAC) at the start of the year, which had fallen to 73,000 sqm by end Q2 as 227,900 sq m was completed. Although vacancy moved in from 3.7% to 3.1%, take-up remained down -56% Y/Y. Furthermore, the lack of large units available for lease was reflected in the fact that Wayfair’s 37,000 sq m let, was the only deal over 20,000 sq m in H1.

Finally, many occupiers also feel existing stock lacks modern specification incorporating automation, robotics and ESG requirements. In Rotterdam, more new-build developments are coming online, with built-to-suit models being the favoured method of construction as a result. This is also true in other regions across Europe, such as the “Golden Triangle” in the UK, where developers have increased BTS developments.
EMEA’s active pipeline of I&L space increased in the last year by 7.8%, with 34% of markets indicating an increase in space under active construction (UAC) by June 2020.

Space UAC has only risen by 1.8% since the end of 2019, as many new completions were added to the market, but this growth has been subdued – exacerbated by COVID-19 - as many developers have mothballed speculative developments, or at least delayed or revised new projects. We expect this to influence (negatively) upon future take-up volumes and future availability – putting further pressure on vacancy.

By location, Munich saw the largest increase in space UAC during the first half of 2020. It had reached 248,800 sq m as of end June, up 652% from only 33,100 sq m in December 2019. Hamburg (+186%), Bratislava (+68%), Poznan (+57%) and Berlin (+55%) posted the next largest increases in new space under construction. Other markets recorded declines in their UAC pipeline, indicating a number of projects were completed during the first half of 2020. While Istanbul (-81%), Dusseldorf (-76%) and Stuttgart (-67%) saw the largest declines in space UAC, little impact was seen in relation to their current vacancy rates - particularly Istanbul, which saw vacancy actually move in by -376 bps. This further signifies how demand severely outweighs new and available supply in many markets.

If we look at changes in vacancy by city size, it shows that the biggest contractions in vacancy have been in the mega-cities (based on population size), moving in by 20 bps since the end of 2019. These cities are most in need of solutions to support increasing levels of e-commerce demand, especially throughout the COVID-19 pandemic, where finding suitable I&L space to support last mile logistics remains very challenging. Particularly when identifying distribution and fulfilment centre options near the urban core.

By H1 2020, EMEA’s overall (average weighted) vacancy rate had continued to (slightly) loosen to 3.7% - but this is only a 10 bps increase on H1 2019. Across EMEA, exactly 50% of markets indicated outward movement, with just 36% experiencing contractionary movement. With 50% of markets indicating outward movement in the year-to-date, and 20% of markets expecting vacancy to move out in the next 12 months, we expect occupier conditions to moderate. Only 10% of markets expect vacancy to fall further to mid-2021.
Overall, prime headline rents remained largely stable during H1, with 67% of markets recording no change. Growth accelerated in 19% of markets, which was only down by 3% from H1 2019, indicating that despite economic cooling, coupled with the outbreak of COVID-19, market fundamentals remained largely in favour of landlords.

However, and certainly in the coming months, our forecasts indicate rental growth will slow down, notably outside of the core European markets, with only 13% of markets projecting growth acceleration. The markets with the fastest growing rents for city-warehouses in H1 2020 included: Dublin (12%), Athens (10%), Gdansk (9%) and Krakow (9%). Vienna (-4%), Vilnius (-4%), Riga (-2%) and Warsaw (-2%) were at the other end of the spectrum, showing mild rental declines (H/H) in 2020.

For logistics and distribution space, there were a number of high-growth markets for prime rents over the first half of 2020. The top markets for logistics and distribution rental growth included Warsaw (up 22.5%), Prague (up 21.3%), Dublin (up 12.0%) and Stockholm (up 11.8%). That said, stable rental conditions surpassed city-warehouses, accounting for 77% of markets – a 12% increase on H2 2019. Like city-warehouses, the outlook for rental growth is slowing, with 83% of markets expecting stable rents in the year ahead. Only 12% are now expecting rental growth over the next 12 months, down on H1 2019’s 24%.

Occupier conditions remain in favour of landlords, but by H1 2020 their share had fallen to 41%, dropping below 50% for the first time since H1 2018. Given that neutral conditions have an equal share of markets (41%), as opposed to a shift toward tenant-friendly conditions, a stable rental regime is supported across the board. Yet core markets with low vacancy/availability of suitable, modern grade-A facilities still pose the right fundamentals for rental growth.

Given the market’s strong demand growth fundamentals, it continues to be an attractive sector for investors. Developers are trying to offset the lack of quality availability with an uptick in both built-to-suit and speculative developments, especially in locations which have been largely untapped. This ranges from the southern part of Bucharest, or within the UK’s East Midlands market, where the availability of development plots has bolstered activity for design and build pre-let developments around key locations such as Northampton.

With development activity starting to pick up, construction pipelines improving slightly, and more speculative space coming to market, there are early signs that pressure on availability is loosening up across EMEA. While landlord favourable conditions will continue well into 2021, demand and supply-side imbalances will gradually be addressed, tilting markets away from being landlord favourable.
AROUND THE MARKETS

NORTH WEST Demand for large distribution warehouses intensified in 2020 when compared to the same period a year ago. The largest transaction was a 24,000 sq m warehouse lease at Trade Port West. Several new developments have been delivered this year. Vitaluck has opened their second warehouse of 80,000 sq m at Trade Port East and with the addition of the new building, they now house a total of 160,000 sq m of distribution space in the cross-border e-commerce hotspot.

VENICE Supply of industrial and logistics space in Venice is at its lowest level in years. Demand for logistics space in the Veneto-Venin region is still high, despite the COVID-19 crisis. Jan Krediet, a 3PL-er, has leased approx. 12,000 sq m of warehouse space at Trade Port East. The second largest lease was 13,200 sq m, recorded in Pfungstadt. Demand for large distribution space has also increased over the past year, as existing stock often fails to meet all occupiers ESG, automation, robotic and storage requirements, and the needs of fast-growing e-commerce demand.

FRANKFURT Due to COVID-19, the second quarter was recorded. Overall, the reluctance of occupiers to make decisions is noticeable, for example in the City South submarket. The largest lease concluded - both of which were signed before the lockdown. The largest transaction in Q2 was a 4,600 sq m lease, by a confidential client at Panattoni Park, Pruszków IV. Vacancy at Q2-end 2020 was characterized by lower demand for modern warehouse space, with around 237,700 sq m transacted in Q2, compared to 306,200 sq m in Q4 2019. The largest transaction in Q2 was a 43,600 sq m lease, by a confidential client at Panattoni Park, Pruszków IV. Vacancy at Q2-end 2020 has decreased significantly (up 6.1%) from Q1 reaching 7.2%.

BUCHAREST Gross take-up decreased by around 25% in H1 2020 - down to around 137,000 sq m – which is nearly three times lower than the figure seen in H1 2018. That said, the market remains vibrant, with some logistics activities still driving ahead with expansion and new projects. E-commerce is driving demand – however, pipelines have been accordingly scaled back, with speculative developments placed on hold until clearer economic conditions appear. The market vacancy rate is thus in balance, estimated to stay in the 7-8% range in 2020, but up on the 5% rate seen last year.

MADRID In Q1, absorption reached 132,000 sq m which is 20% lower than Q1 2019. The lack of large letting transactions resulting from limited availability. The largest transaction of the first half of the year was Wayfair’s 17,700 sq m lease, shortly before the lockdown. The second largest was 12,500 sq m, recorded in Prunellat.

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WARSAW The city, comprising 3 warehouse zones, remains the largest market for modern warehouse space in Poland. At the end of H1 2020, the total supply here amounted to approximately 464,600 sq m, with developers having delivered an additional 75,000 sq m of space in the second half of 2020. Most of this new space – H1 2020 – was delivered in the second quarter. Overall, Q2 2020 was characterized by lower demand for modern warehouse space, with around 237,700 sq m transacted in Q2, compared to 306,200 sq m in Q4 2019. The largest transaction in Q2 was a 43,600 sq m lease, by a confidential client at Panattoni Park, Pruszków IV. Vacancy at Q2-end 2020 has decreased significantly (up 6.1%) from Q1 reaching 7.2%.

WEST MIDLANDS The Midlands accounted for the largest share (36%) of UK take-up volumes, with 6m sq ft taken up over H1 2020, on deals exceeding 85,000 sq ft. This represents a 32% increase in activity over the first half of the year. The East Midlands region took the lion’s share of activity (18%) as the availability of development plots bolstered activity for design and build pre-lets. The West Midlands sub-region recorded circa 13m sq ft of take-up in H1 2020. Activity has been driven by the growth of online commerce, with strong demand from parcel couriers and 3PLs servicing online retailing and the grocery sector, which is expected to remain (strong) in the coming months.

ROTTERDAM In Q2 2020, take-up volumes were healthy, helped by transactions such as Odin Distribution leasing 24,000 sq m at the Maasvlakte. However, take-up decreased slightly in Q2 as a result of the COVID-19 crisis, which pushed many occupiers into defensive stances. A rapid recovery is expected in the second half of 2020. Firstly, whilst the supply of industrial and logistics space stabilised in 2019, it has stabilised in 2020. Demand for new industrial space has also increased over the past year, as existing stock often fails to meet all occupiers ESG, automation and robotic requirements, and the needs of fast-growing e-commerce demand.

BERLIN After a strong start to 2020, the market slowed down slightly in Q2, as the COVID-19 pandemic took hold. Düsseldorf H1 2020 was slightly below average, as a total of 56,800 sq m of industrial and logistics space was transacted. The sub-market Limited Sat Rf (the stragglers take-up volumes of all four sub-markets). Most deals were in the 3,000 to 10,000 sq m segment, with only two large leases of over 10,000 sq m concluded – both of which were signed before the lockdown. The largest lease concluded during Q2 included 6,500 sq m of logistics space signed for by a-ecommerce dealer, Flaschenpost, in the City South sub-market. Overall, the reluctance of occupiers to make decisions is noticeable, but demand for logistics properties remains very high. It is expected that some issues have merely been postponed, not withdrawing.

BUDAPEST In Q2 2020, the number of new logistics spaces was high, with 28,420 sq m transacted. The most notable deals included 6,020 sq m at the Evolution scheme at Haydock 525 and data centre company Equinix, deals concluded on speculative warehouses. The pandemic hit the UK, and there were a number of deals concluded on speculative warehouses. The notable ones being Kallagy’s taking 12,500 sq m at Haydock 525 and data centre company Equinix, purchasing 200,000 sq ft at the Evolution scheme in Salford, Manchester.
OUTLOOK

Looking ahead, the GDP 2021 forecast for the EEA30 is a very positive 6.1%, but with very mixed levels of rebound forecast by country, largely reflecting the depth of the economic hit in 2020. Equally, to achieve such a result, the pandemic must be continued to be managed effectively and there is need for a widespread vaccine to enable a return to a new normality. The EU must prepare for an era without the UK and a trade-deal is still yet to be negotiated. This runs concurrently with the US election in November, amidst ongoing US-China “trade war” tensions, which continues to drag on the global and European economy.

Although the record levels of Governmental fiscal stimulus have elevated public debt ratios, a low interest rate environment looks set to stay, mitigating the potential negative downsides to government bond ratings. While there is much uncertainty over the impact that “turning off the furlough taps” will create regarding employment, current forecasts point to a strong rebound in employment, both at country and city level in 2021.

Furthermore, with the exponential growth in e-commerce sales throughout lockdown – which is expected to continue – occupier demand for logistics space will continue to grow, especially for large floorplates capable of integrating automation and robotics in peripheral city zones. In urban-core locations of Europe’s largest cities we expect demand will grow, as occupiers look for space close to consumers. However, supply is limited, so many occupiers will be looking to reuse repurpose existing buildings and other under-performing assets in these locations. Underperforming “big box” retail units and retail parks - which are located advantageously to urban populations – are already being targeted by logistics funds and developers, creating hybrid-solutions to capture growing consumer demand.

Finally, the global pandemic has highlighted the inherent fragilities with global supply-chains. Whilst a large proportion of low-cost production is set to remain in China and South-east Asia, there is a growing case for the gradual re-deployment of resources to nearer-shoring strategies as globalisation comes to a halt. Filling in some of the gaps to be created by a re-structuring of the automotive sector may enhance the need for alternative employment sources.

While occupier conditions have already begun transitioning to a more neutral stance, landlord-favourable markets’ share will stay at around 40% by H1 2021. Overall, the European prime rental index growth will slow, but the large proportion of core markets with low vacancy and limited quality stock will maintain some upward pressure on prime rents in the year ahead.

**Figure 13: Colliers International**

**Sources:** Figure 13: Colliers International

**FOR MORE INFORMATION**

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