EXECUTIVE SUMMARY

- **ECONOMY**: By the end of 2019, what was the EU27 (EU28-UK) saw GDP growth weaken to 1.4%, down 0.6% on 2018. Increasing divergence between robust activity in the service sector and a struggling manufacturing sector became apparent over the year, denting GDP growth. Looking ahead, 2020 GDP forecasts for the EU27 and UK are also weaker at 0.8%. With the UK now exiting the EU, there will be one less country contributing to EU output, creating major budgetary considerations for both parties. So continued political-economic uncertainty will prevail as both parties negotiate on a trade deal. The ongoing tariff wars between the US and China, and the recent Coronavirus outbreak are likely to dampen growth further.

- **EMPLOYMENT**: The labour market remained resilient in 2019, expanding by 1.6% y/y, but employment growth is clearly slowing. 2020 will see employment growth of around 1%, but with falling working population levels, the war for talent in Europe will continue to ramp up. Europe really has reached a tipping point when economic expansion will need to be driven by higher productivity, and not rely on the model of previous cycles - employment growth. That said, full employment and tight labour markets are likely to busy wages and higher household disposable incomes, sustaining domestic demand - key for economic growth.

- **TAKE-UP & PRE-LEASING**: The 12-month rolling take-up for EMEA offices remained steady during 2019, declining by only -1.5% (y/y). While employment growth has sustained demand for office space, low availability and contracting vacancy rates have limited take-up. Furthermore, reduced availability of quality space is forcing occupiers’ into taking more pre-let agreements. In Budapest for example, 31% of all leasing transactions in 2019 were pre-let agreements. Across major EMEA cities, pre-lease activity has grown as occupiers continue to absorb large proportions of new developments coming to market in the next 24-36 months. For many occupiers it has meant pushing their searches for new space as far forward as three years. The higher quality space on offer via new developments, which can support wellness and higher ESG standards, is also playing a big part in transitioning occupiers to new space.

- **NEW DEVELOPMENT & PIPELINE**: As of year-end 2019, the development pipeline for EMEA reached 17.1m sq m, up 20.1% from year-end 2018. This increase will naturally aid take-up levels against a tightening vacancy backdrop, but the gradual cooling of economic growth means developers need to maintain a balance between speculative and demand is supporting large amounts of development, but capital is at risk of being too eager if new space does not conform to changing market needs, especially around wellness and flexibility.

- **VACANCY**: The weighted vacancy rate average across EMEA was 5.3% in Q4 2019, down from 5.9% at year-end 2018. This represents the ninth consecutive quarter where vacancy has fallen. Geographically, the lowest vacancy rates are in Germany, where Berlin’s vacancy is 1.2%. Looking ahead, vacancy rates will remain tight, and our analysis projects that 41% (22) of all markets surveyed will see vacancy rates decrease in the next 12 months.

- **RENTAL GROWTH**: The EMEA rental index grew by 3% Y/Y in 2019. Markets performing strongest for prime rents Y/Y included Warsaw, Frankfurt, Berlin, Cologne and Budapest. With little availability relief across the board, rental growth will likely continue throughout 2020, as landlords maximise strong and favourable market fundamentals. Over 60% of markets are set to see prime headline rental uplifts, with only 3% seeing any reprieve.

### Key Metrics in Major EMEA Cities: H2 2019

<table>
<thead>
<tr>
<th>CITY</th>
<th>PRIME HEADLINE RENT</th>
<th>VACANCY</th>
<th>TAKE-UP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Abu Dhabi</td>
<td>25.8 -6.5</td>
<td>36.0 400.0</td>
<td>n/a n/a</td>
</tr>
<tr>
<td>Amsterdam</td>
<td>38.8 2.2</td>
<td>4.9 -196.0</td>
<td>146 45.1</td>
</tr>
<tr>
<td>Berlin</td>
<td>40.0 3.9</td>
<td>12.2 -20.0</td>
<td>639 54.3</td>
</tr>
<tr>
<td>Birmingham</td>
<td>36.4 1.5</td>
<td>6.2 -163</td>
<td>25 -39.2</td>
</tr>
<tr>
<td>Bucharest</td>
<td>18.0 0.0</td>
<td>10.3 25.0</td>
<td>177 -0.4</td>
</tr>
<tr>
<td>Budapest</td>
<td>24.0 9.1</td>
<td>5.6 -70.0</td>
<td>393 41.6</td>
</tr>
<tr>
<td>Copenhagen</td>
<td>22.9 0.0</td>
<td>6.6 25.0</td>
<td>n/a n/a</td>
</tr>
<tr>
<td>Dubai</td>
<td>43.0 -4.2</td>
<td>27.0 200.0</td>
<td>n/a n/a</td>
</tr>
<tr>
<td>Dublin</td>
<td>55.8 0.0</td>
<td>6.0 -50.0</td>
<td>137 -28.9</td>
</tr>
<tr>
<td>Frankfurt</td>
<td>45.5 5.8</td>
<td>6.9 -30.0</td>
<td>294 -19.1</td>
</tr>
<tr>
<td>Istanbul</td>
<td>30.3 -3.0</td>
<td>32.3 -130.0</td>
<td>55 -49.3</td>
</tr>
<tr>
<td>London - City</td>
<td>73.8 2.2</td>
<td>5.0 -27.0</td>
<td>314 -3.7</td>
</tr>
<tr>
<td>London - West End</td>
<td>126.5 0.0</td>
<td>4.3 -8.0</td>
<td>179 -27.4</td>
</tr>
<tr>
<td>Madrid</td>
<td>36.0 1.4</td>
<td>8.5 -40.0</td>
<td>260 1.2</td>
</tr>
<tr>
<td>Milan</td>
<td>48.3 0.0</td>
<td>9.9 -5.0</td>
<td>236 28.6</td>
</tr>
<tr>
<td>Moscow</td>
<td>66.8 0.0</td>
<td>5.7 -173.0</td>
<td>845 -20.2</td>
</tr>
<tr>
<td>Munich</td>
<td>41.0 0.0</td>
<td>2.2 50.0</td>
<td>338 -32.3</td>
</tr>
<tr>
<td>Paris</td>
<td>71.7 2.4</td>
<td>4.9 -30.0</td>
<td>954 -6.1</td>
</tr>
<tr>
<td>Prague</td>
<td>23.0 2.2</td>
<td>5.5 92.0</td>
<td>233 -20.3</td>
</tr>
<tr>
<td>Stockholm</td>
<td>60.6 0.0</td>
<td>5.3 50.0</td>
<td>n/a n/a</td>
</tr>
<tr>
<td>Vienna</td>
<td>28.0 0.0</td>
<td>4.6 30.0</td>
<td>92 -22.2</td>
</tr>
<tr>
<td>Warsaw</td>
<td>26.0 18.2</td>
<td>7.8 -70.0</td>
<td>474 7.3</td>
</tr>
</tbody>
</table>

**Sources:** Colliers International
European economic growth slowing as the market enters transition phase

By year-end 2019, the EU27+UK (quarterly) GDP growth rate was a mere 0.2% - the weakest pace in six years – bringing annual growth to an estimated 1.4%. Yet another signal Europe’s economic cycle is peaking, with 2020’s forecast expecting GDP growth will fall to 0.8%. This will be compounded further by Coronavirus outbreak - which is expected to cut global GDP growth by 0.5-1.3%.

Germany’s manufacturing sector, specifically their automotive sector, bore the brunt of Europe’s slowdown in 2019, weighing heavily to the EU’s performance slump. Germany was the second-worst performing economy in 2019, with y/y GDP growth of 0.55%. December’s PMI score (43.7) was well below the EZ’s (46.3). Germany’s strong labour market also slowed to just 0.9% y/y.

A new era for British politics, paving the way for new cross-border trading-relationships

By the end of December 2019, uncertainties surrounding the UK General Election result soon washed away, as Boris Johnson’s “landslide” majority boosted Sterling, improved sentiment, and spurred appetite for UK CRE investment - December’s total spend soared to £9.4bn, up on November’s £3.2bn. GDP rose marginally by 0.1% y/y, as domestic demand remained resilient despite low retail sales. UK employment remained robust, reaching 17%, and by January 2020, wages finally surpassed pre-GFC levels. In 2020, workers should benefit from looser fiscal stances, supporting firmer household spending power.

Macron’s fiscal influence begins to falter

Macron’s fiscal policy moderately stimulated the French economy in 2019, but falling inventories dampened growth, while public sector pension disputes weighed heavily on household spending. 2019 GDP was 1.2%, with 2020 forecasts expecting a cut to 0.9%, as the Coronavirus outbreak threatens to hinder activity further. France’s 2019 employment growth (y/y) was at 0.9%, but 2020 projections cut this to 0.6%.

Italy remains the EZ’s weakest economy, growing by only 0.35% in 2019 - their worst performance since 2013 – and as ongoing political disruption continues, combined with low employment intentions and poor productivity, Italy will be positioned vulnerably in 2020, with GDP forecasts expecting further stagnation.

Nordic economies, benefiting from active workforces and resilient domestic demand, all grew in 2019; Sweden (1.2%), Finland (1.6%), Denmark (2.1%) and Norway (1.2%). However, even these strong economies are not immune to global and European slowdowns. By year-end 2020, estimates expect further contractions. Norway is the exception, growing by 2.3%.

In Central and Eastern Europe (CEE), 2019 GDP growth remained positive for Czechia, Hungary and Poland, but growth rates are diminishing, as direct exposure to German manufacturing - especially the automotive sector – and diminishing labour pools, are likely to drag on 2020 outputs.
Employment and wage growth remain strong across EMEA but expected to slow

Unemployment rates across major European cities (Figure 4) for 2019 remained very low, with some cities running close to full capacity by year-end. By year-end 2019, the EU30’s (EU27 + the UK, Switzerland and Norway) average unemployment rate stood at 5.9% - at end 2018 it was 6.4%. Notable cities experiencing employment growth were Zagreb (9.2%), Liverpool (+4.2%), Manchester (3.4%), Madrid (2.7%), Dublin (2.7%).

This was encouraging from an overall demand perspective, as employment growth is clearly a key driver of office take-up. Take-up across Europe robust, but large variance in activity by city due to supply constraints

Across the markets surveyed, contrasting rolling annual (take-up) totals were apparent. Bristol was top, with growth of +52.7%, followed by Paris, Rotterdam, Berlin and Milan. Conversely, St Petersburg was the worst performing market, declining by -53.2%. London-Southbank, Athens, Moscow, Vienna and Birmingham indicated similar declines - ranging from -18% to 28%.

Limited availability of space in most EMEA markets has impacted take-up levels, yet the 12-month rolling take-up figure for 2019 was down only -1.5% on 2018. Equally, the second half of 2019 saw take-up rise 2.5% on H1 2019, despite a cooling of employment and economic growth. Our survey of markets suggests that there is considerable latent demand for new, modern space, so any new projects coming to market are largely pre-let, especially in markets suffering from very low vacancy rates. In the City of London, for example, Verisk Analytics and Canopius both signed +50,000 sq ft pre-let agreements in Q4 2019. In Bristol, British Telecoms (BT) signed a pre-let agreement for over 200,000 sq ft at Assembly Bristol.

In some markets, the lack of availability has been mitigated by strong supply-side responses. Frankfurt has seen increased development activity, which was up by 11.6% y/y, with the rolling pipeline development total increasing by 20.8%. CEE markets have also seen substantial growth in pipelines with Bucharest and Budapest representing q/q growth of 57% and 25%. Further afield, London-Midtown, Kyiv and Abu Dhabi had the biggest growth (q/q), representing +271%, +130% and +118%. In Paris, the lack of prime CBD office availability has also resulted in pent-up demand rippling outwards to the inner and outer-suburbs. Take-up is expected to follow a similar trend in 2020, as vacancy rates continue to restrict occupier options, and pipelines fail to meet demand levels.
Vacancy continues to tighten across Western Europe

By year-end 2019, 57% of markets saw a decline in vacancy, which was up 5% from Q3. At a market size level (based on population size), large and small sized markets had the largest h/h declines, with changes of -13 and -11 bps. Rotterdam (-271), Amsterdam (-196), Birmingham (-163), and Warsaw (-70) saw some of the largest declines. Yet, despite major supply-side responses in Berlin, Frankfurt and Paris, vacancy rates have barely moved, indicating their severe supply-side shortages.

Conversely, Wroclaw (+320), London-Docklands (+170) and Prague (+92) saw vacancy rates move out, as new developments completed, with Abu Dhabi experiencing a 400-bps shift - the largest shift across EMEA h/h in 2019.

Space under construction in large and mid-sized markets fell behind mega and small

With vacancy and availability remaining constrained, developers have instigated strong supply-side initiatives to increase their office and speculative development pipelines. Across EMEA, space under active construction (UAC) by Q4 2019 reached 18,250m sq m - increasing 18.6% y/y.

With vacancy bottlenecks featuring in markets like Paris, Berlin and Munich, significant supply-side responses have been implemented to relieve tightening availability in prime CBD locations. In Paris, y/y development pipelines grew by 12.7%. In Berlin, where vacancy is as low as 1.2%, the total pipeline grew by 71%. Munich, however, shrank -7% y/y, which will likely impact Munich’s 2020 take-up volumes.

London’s West End pipeline totalled 432,000 sq m by year-end 2019, up 63.1% on 2018’s 265,000 sq m. The City of London pipeline totalled 609,000 sq m - up 8.1% on 2018. London South- Bank also expanded 88% y/y. London’s Mid-town pipeline however, decreased by 67%. Other significant increases occurred in Lisbon (476%), Bristol (217%) and Abu Dhabi (118%), with Prague, Dusseldorf, Madrid and Milan experiencing y/y declines of -29%, -47%, -36% and -25%.

Low levels of availability likely to remain in 2020, even if macro-economic conditions worsen

By year-end 2020, even if economic conditions worsen, volumes of new supply coming online - particularly in cities like Munich, Paris, Berlin, and Stockholm - will have little effect on vacancy and overall availability. In cities like Munich, which are already demonstrating supply-side responses, are unlikely to see any dramatic changes in availability due to strong, latent occupier demand and when vacancy is already tight at 2.2%. We anticipate markets in the lower-left quadrant (figure 10, overleaf) will maintain landlord-favourable conditions in 2020, where availability, relative to absorption, is restricted to a maximum of five years and vacancy rates sit below 8%.
Occupeer conditions remain landlord favourable, but some shifts are apparent

Throughout 2019, landlord-friendly conditions increased their market share to 59% (Q4 19), up from 52% (Q4 18).

Wend the clock back to 2017 and it is very visible that landlord-favourable markets have increased by over 20%. In some cases, this trend is expected to continue. In London, for instance, despite growing development activity across the major office sub-markets, the certainty brought about by the UK election in December is seeing demand pick-up, with an expectation conditions will shift from neutral to landlord in 2020. Rents are expected to increase as a result.

Prime Rents continue to grow, but expected to cool in 2020

At end Q4 2018, 16 markets (28%) experienced rental growth acceleration, but this cooled to just 12 markets (21%) as of Q4 2019. Conversely, markets witnessing slowing rental growth increased to eight (14%), up from two markets (3%) in Q4 18. Notable markets seeing high levels of rental growth include Warsaw and Frankfurt, where rents expanded by 18.2% and 5.8% over the year. The pressure on the market in Frankfurt has resulted in maximum lease lengths increasing from 10 to 15 years and minimum lease lengths shifting from 3 to 5 years. While we expect prime rental growth to continue across most markets in 2020, rates of growth are likely to be slower.

Secondary Rents expect further growth in 2020 as pent-up demand spills over

With vacancy rates and availability remaining tight, secondary space has seen rental growth of 3% on average as the spill-over of pent-up demand failing to find space in core CBD markets has rippled out into peripheral city locations. Our data indicates 19% of secondary markets experienced growth acceleration in Q4, up from 5% in Q3. On a y/y basis, secondary markets have also seen the number of markets recording rental declines diminish from 19% in Q4 18 to just 3% in Q4 19. Across EMEA, the markets seeing the highest levels of rental growth were Rome (+24%), Glasgow (+19%), Edinburgh (+18.2%) and Budapest (+14.3%).
EMEA | Q4
Research & Forecast Report | Colliers International

AROUND THE MARKETS

AMSTERDAM | Take-up reached almost 2,293,500 sq m in 2019, which is 21% lower than in 2018. The office market is tightening, as a result of very limited supply, which is particularly affecting the larger offices in the CBD and the South Asia area. Only 462,500 sq m of office space is currently available, equivalent to a vacancy rate of 4.9%. As a result, this pent-up demand is building and spilling out to surrounding grass and suburbs outside Amsterdam, putting upward pressure on rental rates in the periphery. The largest transaction in 2019 was a lease signed by City International, for 314,000 sq m of floor space on the Schinckelgebouw, located in the South Asia.

FRANKFURT | West End vacancy edged into a holding pattern in 2019, ending the year close to 4.3%, which is very much in line with the level recorded at the end of 2018. Demand-was hit however, it was an inconsistent year. Simple sub-let take-up in 2019, absorption was stifled in the final quarter of 2019, below overall levels surprising 2018 numbers. The completion of the Post Building, which is 100% occupied, boosted absorption above 0.5 million sq m for the year. 30% up on the previous 12 months and perfectly in line with the 10-year average. Pre-occupation caution influenced all submarkets in the run-up to year-end, but previous 12 months and perfectly in line with the 10-year average. Pre-occupation caution influenced all submarkets in the run-up to year-end, but

STOCKHOLM | Occupier demand for office space remains very high, especially in the inner city, as virtually no vacancy in office space appears in the outer city. Stockholm Occupiers are finding difficulties finding offices of suitable sizes in the inner city, with a lot of occupancy forced to settle in offices in the northern suburbs. However, this is not alone with the unemployment rate, which is growing. GDP forecasts are at a careful 1.2% for 2020. The largest letting in the fourth quarter was for 22,500 sq m of office space signed by TeliaSonera in Arendalstopen. Sold in a-purgatory owned by Fabege. Approximately 85,000 sq m of office space is likely to be completed in 2020, with the Söder/Sundbyberg area being the focal point for development.

WARSAW | At the end of Q4 2019, supply of modern office space in Warsaw amounted to a total 5.6 million sq m. In Q4 2019, developers delivered a total 20,000 sq m of new office space. The vacancy rate compared q/q and amounted to 7.8%, recording availability of office space amounts approximately 585,100 sq m. Demand of Warsaw decreased q/q and amounted to 302,700 sq m. The Centrum and Wola districts were the most popular in the fourth quarter of 2019. The largest transaction concluded in the fourth quarter of 2019 was the new PKO BP contract in the Czerniaków branch, for 47,000 sq m.

PRAGUE | 2019 was a remarkable year, as the vacancy rate broke through historical barriers and even the end of Q4, it was around 5%. Overall, office stock exceeded 2.07 million sq m at the end of 2019, with approximately 10,700 m2 added during the last quarter. Several major office buildings came online this year. Tableau on Prague 6, Slánka/OFF and Green Point on Prague 5 and the refurbishment of Centrum Venice on Prague 10 – to name a few. Graci take-up in Q4 reached 47,400 sq m, and quarterly net absorption was 14,300 sq m. Annual net take-up was 273,400 sq m. Prime office rents in the CBD stood in the range of €2,050 to €2,750 per sq m/month and enjoyed 5% annual growth driven by the low vacancy seen across the city.

BUDAPEST | 2019 was an exceptionally active year in terms of deliveries, with the modern office stock growing by a significant 12% or nearly 2.07 million sq m in new deliverable surface. The vacancy rate was at 5.0%, slightly above an average of 4.6% in the four quarters. The largest transaction in 2019 was the pre-lease of the new PKO BP contract in the Czerniaków branch, for 47,000 sq m.

BUCHAREST | 2019 was an exceptionally active year in terms of deliveries, with the modern office stock growing by a significant 12% or nearly 2.07 million sq m in new deliverable surface. The vacancy rate was at 5.0%, slightly above an average of 4.6% in the four quarters. The largest transaction in 2019 was the pre-lease of the new PKO BP contract in the Czerniaków branch, for 47,000 sq m.

DUBAI | Most demand for office space is geared by smaller sized deals, stemming from staff up’s and SME’s who require ready fitted space, aimed of reducing fit-out costs and occupation timelines. Office demand during 2019 was simply concentrated around purpose-built business parks like D3, Media City, Internet City and Emaar Business Park. During 2019, the vacancy rate ranged between 25%–27%, and q/q is expected to increase to 20%–26% by the end of 2020.

LONDON | West End vacancy edged into a holding pattern in 2019, ending the year close to 4.3%, which is very much in line with the level recorded at the end of 2018. Demand-was hit however, it was an inconsistent year. Simple sub-let take-up in 2019, absorption was stifled in the final quarter of 2019, below overall levels surprising 2018 numbers. The completion of the Post Building, which is 100% occupied, boosted absorption above 0.5 million sq m for the year. 30% up on the previous 12 months and perfectly in line with the 10-year average. Pre-occupation caution influenced all submarkets in the run-up to year-end, but previous 12 months and perfectly in line with the 10-year average. Pre-occupation caution influenced all submarkets in the run-up to year-end, but

PARIS | The Ne-Paris office market ends 2019 with a placed demand of 31,500 sq m, 31% lower than the previous year. Following a strong start in 2019, take-up slowed in the second half of the year and quarterly absorption levels fell towards the end of the year. The fourth quarter was rather dynamic with 640,000 sq m sold, half of the total volume of 2.3 million sq m, down 9% year-on-year but in line with the five and 10-year average, it fell short of the previous year’s result by around 11%. Around 794,000 sq m was available for immediate occupation at the end of 2019, reflecting a vacancy rate of 4.9% in Ile-de-France, with a market that remains extremely tight in Paris city (2%).

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OUTLOOK

The combined EU27 and UK GDP growth forecast for 2020 is predicted to be just 0.8%, a growth contraction of -0.4% relative to 2018. Until the UK and EU agree on trade terms for a post-European Union 27, the 2020 forecast is likely to fluctuate until we gain a clearer picture. The 2020 forecast will also be influenced heavily by other issues, like the US-China Trade-War and how European economies manage the Coronavirus going forward. The latter looks set to weaken the growth outlook further.

Despite Europe’s geo-political and macro-economic issues, the office market remains robust, backed by strong market fundamentals. While there continues to be a slight easing in overall demand momentum, and therefore a more stable rent regime across the board, conditions remain highly geared towards landlords. By June 2020 however, we expect the proportion of landlord favourable markets to start fading slightly, after nearly three years of dominance.

Finally, around 60% of markets forecast prime rental increases in the year ahead. Some 36% of markets anticipate rents will remain stable and only 3% predict declines in prime office rents. Most markets surveyed also believe secondary rents will see an uplift throughout 2020 as supply-demand relationships remain tight in the CBD, thus pent-up demand will spill over into secondary space and peripheral office markets. At the extreme level, some occupiers in major markets will be looking for space now, even though they may not move to occupy for another next 3-4 years.