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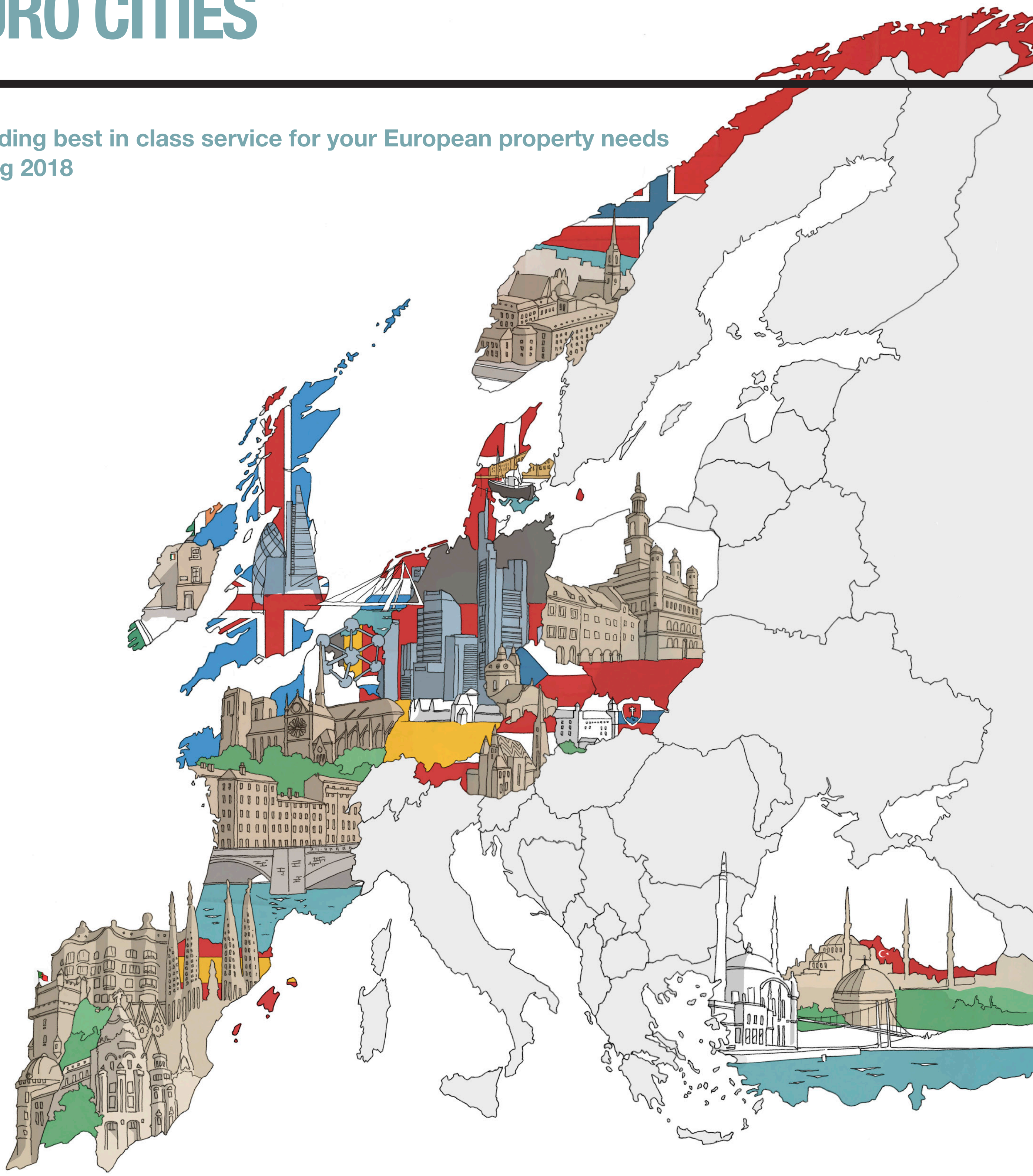
Spring 2018



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GERALDEVE

INTRODUCTION

Welcome to the third edition of Gerald Eve's European property market research. Following the expansion of our network in 2017, we can now offer clients market expertise in 16 countries across Europe.

2017 was a year of political uncertainty in Europe. Multiple elections took place and, importantly, there was the matter of resolving the final form of Angela Merkel's new government, which will have impacts on both Germany and the European Union. The ongoing Brexit negotiation remains a key topic as businesses await detail about what the situation will be once the UK leaves the EU in 2019. Firms continued to consider locations instead of, or in addition to, London, such as Paris, Frankfurt, Dublin and Luxembourg. It is likely that the lack of supply and low levels of development in these cities will limit occupier choice and ultimately have an impact on rents.

Property investment markets remained robust across Europe. There are large volumes of capital looking to find a home, creating competition amongst investors and further compression in cap rates. Indeed, many locations across Europe are reporting a tightening of cap rates to 2008 levels. Investors continue to target offices and logistics, but are also increasingly looking to alternative investments such as residential, hotels or care homes.

We hope that you find this report useful with location or investment decisions across Europe in this ever-changing landscape. Amongst the uncertainties there are also several opportunities. Markets continue to evolve and we are seeing technology impact on our daily lives as well as the way in which real estate is utilised. We must try to remain that one step ahead and take advantage of these changes to not only improve our investment decisions but also create an inviting environment in which to live and work.

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Market reports

OVERVIEW

2017 was a year of uncertainty and political risk, but with an improved economic outlook, Europe can look to 2018 with optimism. Concerns over possible far right election wins in the Netherlands, France and Germany proved unfounded, whilst in France, the landslide election win of a centrist pro-reform, pro-business president was a major positive.

However, despite a brighter outlook, there are some warning signals in the real estate world, such as historically low yields, a lack of investible stock, and rising interest rates, which were not evident a year ago. There is also the significant reshaping of real estate, driven by advances in technology, and the consequent changes in social and demographic behaviour.

European Offices

Offices

Despite the uncertainty throughout 2017, notably the ongoing Brexit negotiations, Europe is enjoying a consistent pattern of positive economic growth in most countries, along with falling unemployment rates and rising real wage growth. This was reflected in the office sector by high levels of leasing activity, and whilst uncertainty is expected to increase in 2018, demand for office space is expected to remain robust, with positive rental growth set to continue.

The majority of markets are expected to see another strong year for office-based employment growth which will drive the demand for letting activity. In London however, although employment growth is expected to continue, the uncertainty surrounding Brexit will likely limit this. London also faces a potential exodus of occupiers, particularly from the finance & banking sector, to continental Europe or Ireland. In the short term, international occupiers will defer some space decisions as they wait for greater clarity about future trading arrangements between the UK and EU.

A comparison of rental growth across the EU shows largely positive rental growth across Europe, with declines in Norway and Turkey, due to a weakening exchange rate, and the UK.

The development of new technologies continues to have a huge impact in the way we live and work, and is ultimately affecting occupier's decisions on letting space. Increasingly, occupiers are looking for shorter, more flexible leases.

This has led to the growth of the serviced office sector, which will continue to rise throughout 2018, and in particular in cities which are hubs of innovation and brainpower such as London, Paris, Amsterdam, Berlin, Frankfurt, Barcelona, Copenhagen and Dublin. Technology firms themselves, particularly SME's which have grown in line with the rise in self-employment levels, will be a key driver of office demand as a user of space in its own right. The media & tech sector across Europe eclipsed both the finance & banking, and professional service sector in 2017, and this is expected to continue in 2018.

With rising construction costs, restrictions on bank lending arising from tighter regulation, a sense of caution among lenders, and uncertainty about the outlook, development levels in most of the major cities have fallen, with the volume of space currently under construction representing less than 5% of existing stock. This will likely mean that the high levels of pre-letting activity seen in recent years is set to continue.

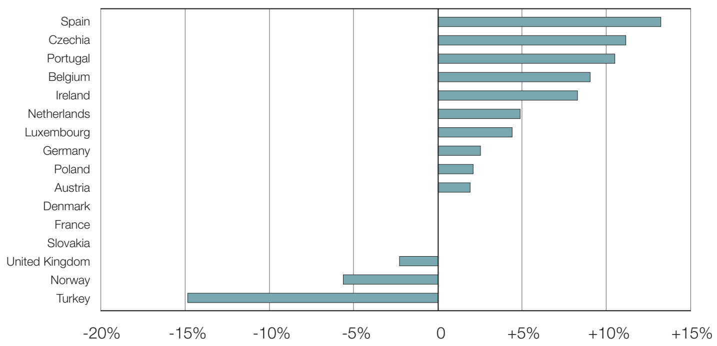
The lack of new space coming to the market, while older stock continues to be withdrawn for refurbishment, demolition or conversion to other uses such as residential or hotels, will lead to a further decrease of overall availability.

In terms of investment, prime yields are still compressing across most cities in Europe, with many reporting that prime yields are well below previous peaks set prior to the 2008 global financial crisis. However, despite pricing concerns and the potential impact of rising interest rates, investors are still willing to compete for high quality assets in major core markets.

The lack of development activity across Europe could lead to increased rental growth, and in an environment where interest rates are less supportive, it will be income and rental growth that drive total returns. The greatest rental growth has been reported in Europe's periphery, notably Spain and the Czech Republic, whilst the core markets have seen more modest growth.

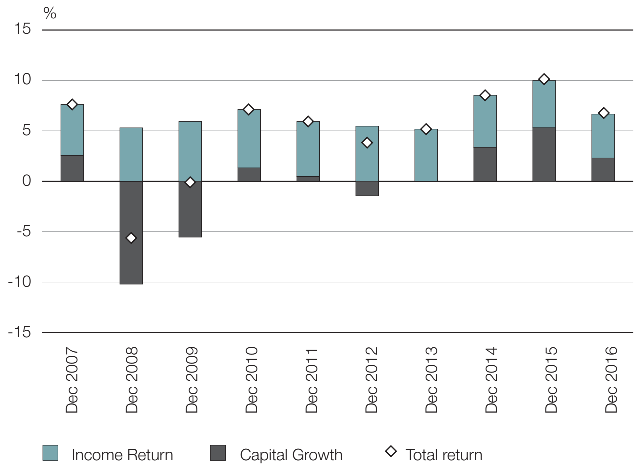
European office rental growth in 2017 (%)

Source: Gerald Eve



European office investment performance (%)

Source: MSCI



European Logistics

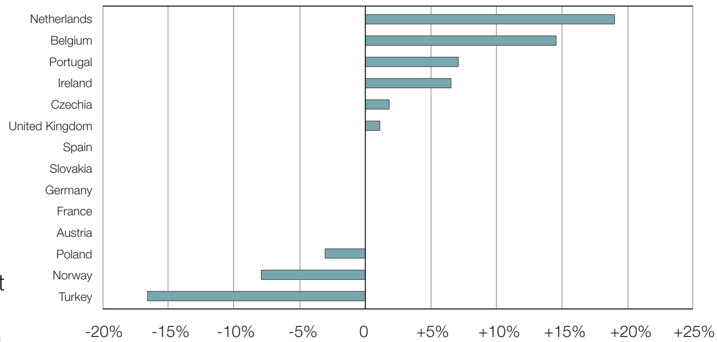
Logistics
The logistics sector has undergone substantial structural change, driven by the growth in online retailing and the need to reduce home delivery times. As a result, the sector has seen significant levels of development across Europe in recent years, as well as positive rental growth.

The merging of online retailers looking for physical outlets and traditional retailers strengthening their online channels and restructuring their warehousing footprint, has created increasingly high levels of demand for industrial space. As a result, despite a significant volume of construction in 2017, almost all of the new space has been let.

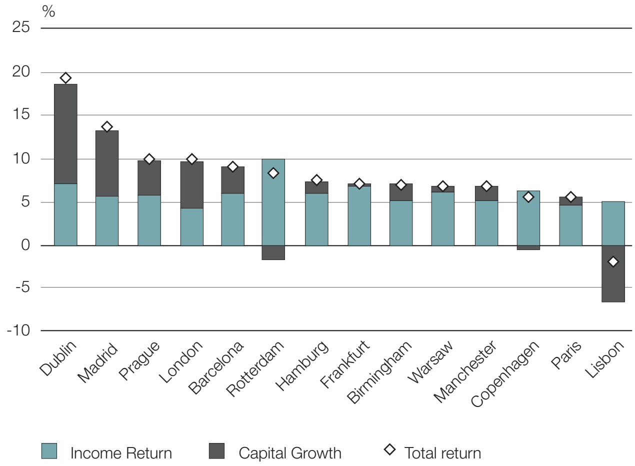
Over recent years, internet retail sales have grown and are forecast to increase further. However, whilst the UK is the most saturated market in terms of online use with 88% of the population using the internet daily and 83% making an online purchase in 2016, internet use is less common on the continent where only 55% of people made an online purchase. This suggests that outside the UK, there is the potential for other major European countries to catch up in terms of internet use, which would likely facilitate increased growth in online retail sales. This is positive for logistics as e-tailers typically require up to three times the warehouse space that a normal bricks and mortar retailer requires, as well as a greater need for urban or last mile logistics.

Demand for warehouses will continue to be strong both in the markets with the highest level of online retailing such as the UK, France, Germany, Netherlands, and Sweden as well as developing markets such as Spain and Italy. Demand will be both for large-scale regional centres as well as small urban last-mile delivery warehouses.

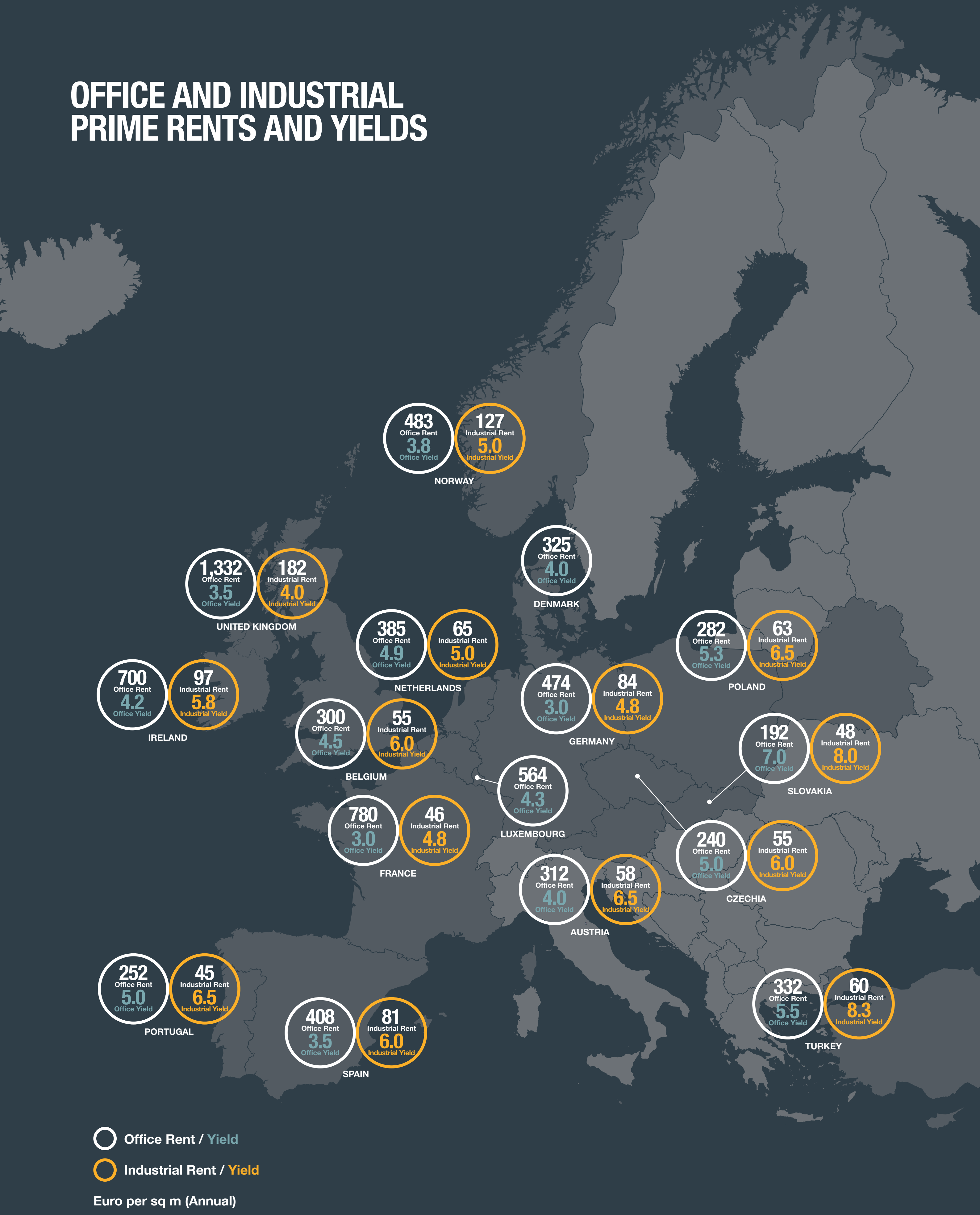
2017 Logistics rental growth by country (%)
Source: Gerald Eve



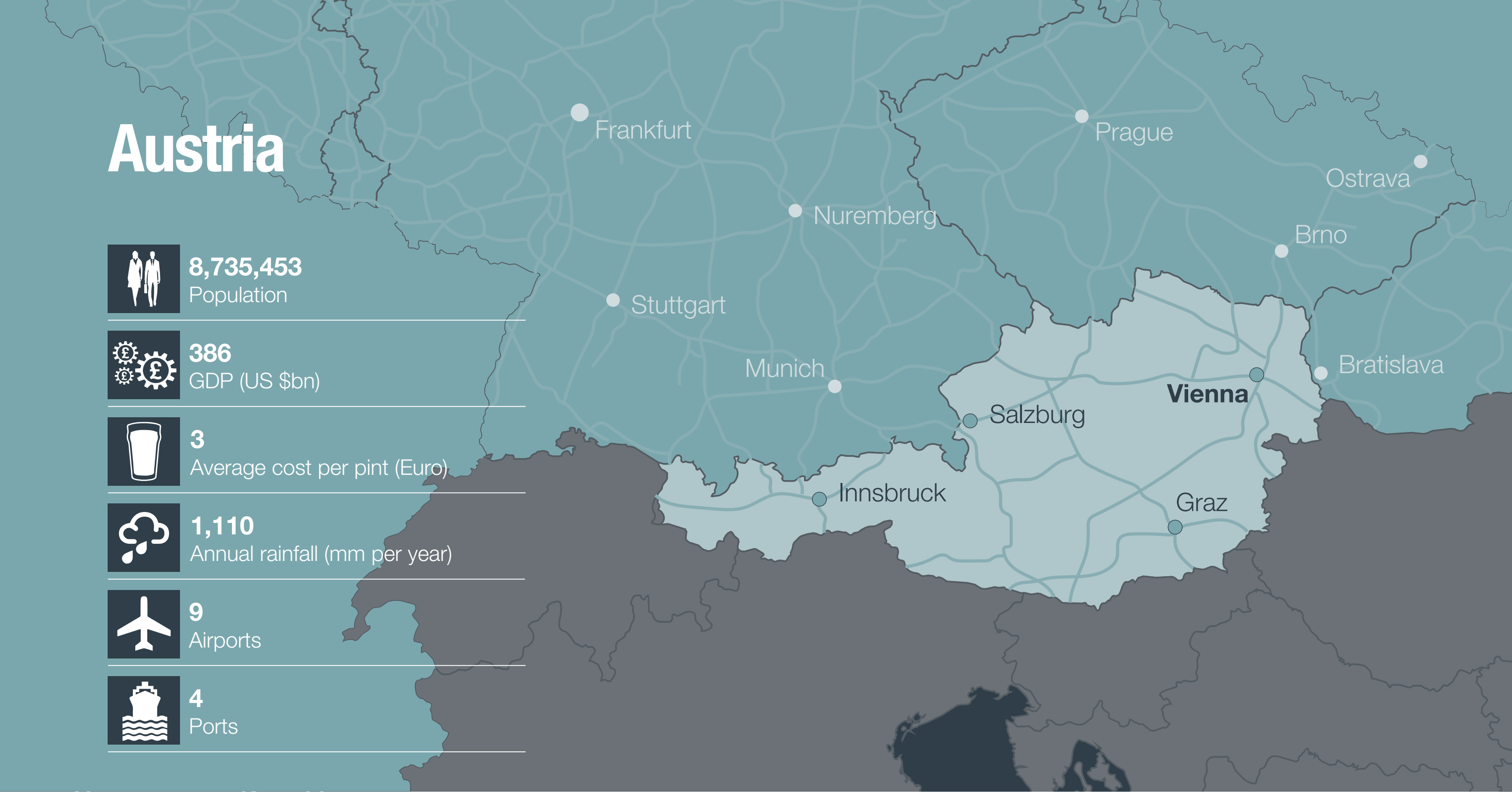
Logistics total return by city (%)
Source: MSCI



OFFICE AND INDUSTRIAL PRIME RENTS AND YIELDS



Austria



8,735,453
Population

386
GDP (US $bn)

3
Average cost per pint (Euro)

1,110
Annual rainfall (mm per year)

9
Airports

4
Ports

Commentary

Austria has a favourable economic outlook, with the positive GDP growth in 2017 expected to continue at the same rate over the next two years. The pick-up in private consumption, triggered by tax reforms in 2016, has given new impetus to investment, and further strengthened domestic demand.

Exports have also enjoyed increased growth in 2017, resulting in a far more positive contribution to overall GDP growth. With both a robust domestic and external demand, Austria's economic outlook is encouraging.

Over the next two years, growth is expected to maintain its momentum, with a slight slowdown in domestic demand offset by stronger external trade. This is driven by an improved outlook for the world economy in general, as well as that of Austria's East European neighbours. This improvement in export growth should stimulate further investment in machinery and equipment, whilst construction investment is also supported by continuing strong immigration increasing housing demand.

The positive economic activity has led to a rise in employment and as a result, the unemployment rate is reversing its trend and dropping for the first time in several years. However, despite the increase in office based employment, rents for prime offices in Vienna have remained stable, whilst rents in peripheral locations have seen a slight increase. Overall office availability is expected to rise with over 300,000 sq m of new space to be delivered in 2018, following the 165,000 sq m built in 2017.

Availability for the logistics sector in Austria has also increased, which was largely due to the development completions at Logistics Centre Vienna North and the newly established Industrial Campus Vienna East, developed and managed by DLH, close to Vienna's main International Airport. The level of development is being driven by further interest from the rise of e-commerce business, and a strong focus on last mile delivery.

Investment in Austrian commercial real estate remains strong and overall transaction volumes in H1 2017 were up 80% on the previous six months, the majority of which were transacted in Vienna. German and Austrian investors have been the most active, and accounted for over half of the capital entering the market. German funds accounted for the two largest transactions of the year, Allianz Real Estate's purchase of The Icon Vienna office development, and Deka's purchase of Austria's tallest office building, DC Tower. The strong market fundamentals mean that commercial properties in Austria are also becoming more attractive to investors from North America and Asia as well.

Office space in Vienna is in high demand in particular, and with limited development activity, prime yields have declined throughout 2017 to 4%. Meanwhile for logistics centres, interest has mainly come from German and English funds, although Asian funds have recently begun to enter the market.

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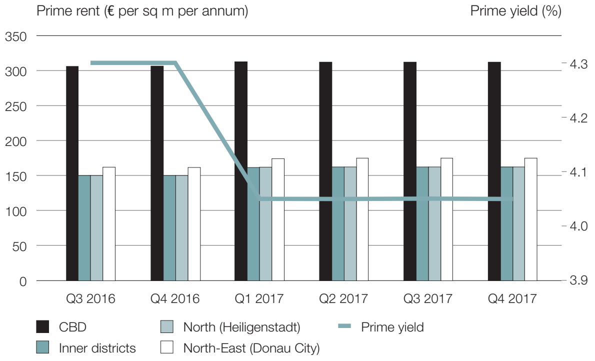
Vienna

OFFICES

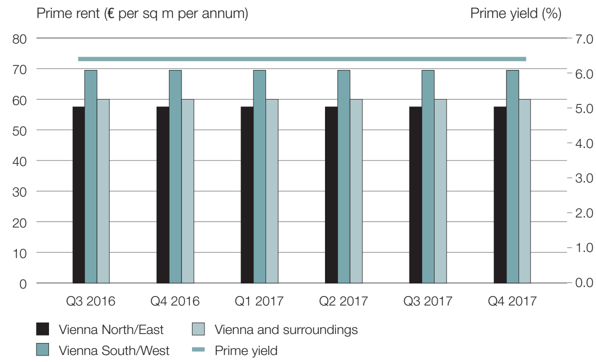
Prime rents and yields



2018 Outlook			
Occupier demand	↗	Investor activity	↗
Development supply	↗	Prime rents	→
Availability	↗	Prime yields	↘

LOGISTICS

Prime rents and yields



2018 Outlook			
Occupier demand	↗	Investor activity	↗
Development supply	↗	Prime rents	→
Availability	↗	Prime yields	→

Belgium

11,429,336
Population

466
GDP (US $bn)

1,75
Average cost per pint (Euro)

847
Annual rainfall (mm per year)

5
Airports

3
Ports

Commentary

Overall the Belgium economy improved in 2017, with GDP expected to have grown by 1.7%, compared to 1.2% in 2016. The improvement is largely down to an increase in European trade activity as well as robust domestic demand.

In 2018, consumer spending is expected to grow, as a new collective wage agreement comes into effect and the job market continues to develop favourably. As a result, the unemployment rate is expected to continue to decline, even though it is already at its lowest point for five years.

With an improved labour market, households are expected to use a large part of the additional income and even their savings to increase consumption. However, headline inflation, which is expected to rise in 2018 as a result of higher energy prices, could limit purchasing power.

On the back of an improved labour market, the office market in Antwerp has been in high demand from occupiers, with the 2017 take-up volume reaching its highest level in 10 years. This included several big transactions, notably Antwerp Police's relocation to the new Post-X buildings.

The office market in Brussels however has been somewhat subdued in 2017, accounting for only 37% of national take-up. Despite low availability, weaker occupier demand has meant that there are no significant development schemes in the pipeline. However there are some institutions of the European Union which will look for new premises in 2018, which could act as a catalyst to the market.

Leasing activity for Antwerp logistics has been slightly more subdued recently with larger deals few and far between. However new projects (a.o. in Willebroek) and the news of a development project in the Port of Ghent is a positive for the region.

Demand remains strong for Antwerp's retail assets, which achieved a take-up volume above the five year average in 2017. Despite this, the vacancy rate remains quite high compared to other European cities at 13%, and as a result, there were no large retail developments in 2017. Similarly, Brussels also has a high vacancy rate of 10.1%, meaning there were no new developments there either in 2017.

Retail take-up in Brussels also exceeded the five year average, with the majority of lettings located out of town.

Investor sentiment remains high with almost 3.9 billion euros invested in Belgium real estate markets in 2017, which is equal to the 2016 investment volume. Of the main sectors, demand was strongest for offices, which accounted for 50% of transactions, while demand for retail units decreased. The impact of low interest rates drove yield movement across most markets, however this is expected to stop in 2018.

Prime assets remain in high demand, particularly from local investors which can achieve attractive yields through sale & leasebacks, long-term agreements and partnerships with developers.

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Antwerp

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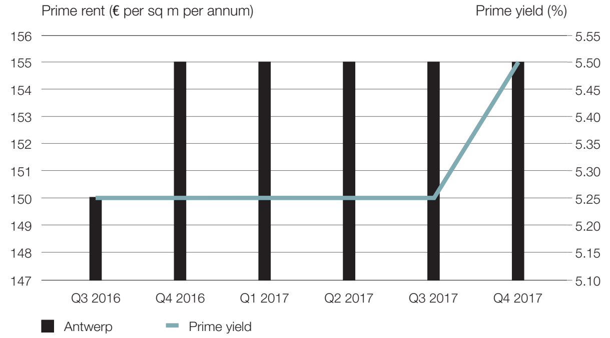
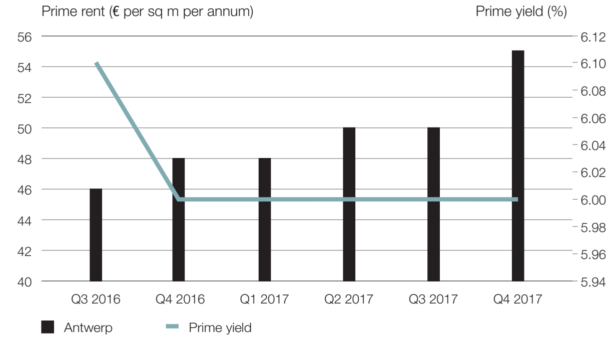
Prime rents and yields



2018 Outlook			
Occupier demand	→	Investor activity	→
Development supply	↗	Prime rents	↗
Availability	→	Prime yields	→ ↘

LOGISTICS

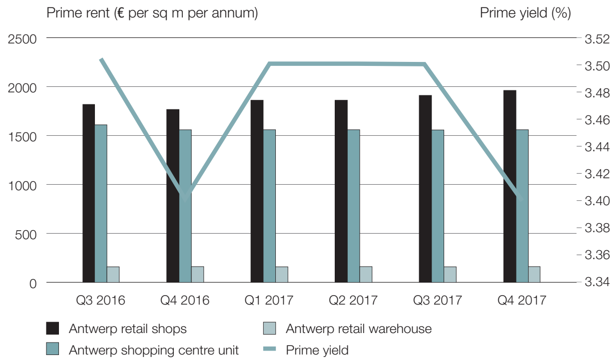
Prime rents and yields



2018 Outlook			
Occupier demand	↗	Investor activity	→
Development supply	↗	Prime rents	→
Availability	↗	Prime yields	→

RETAIL

Prime rents and yields

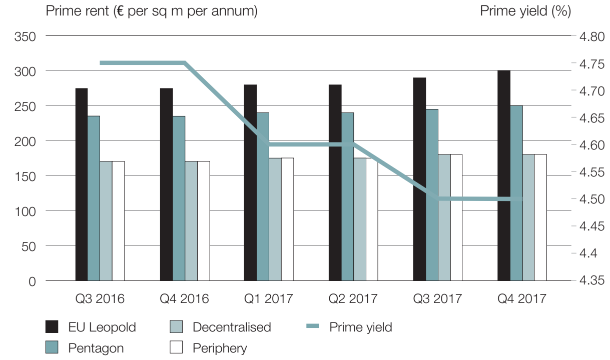


2018 Outlook			
Occupier demand	→	Investor activity	→
Development supply	→	Prime rents	↘
Availability	↗	Prime yields	→

Brussels

OFFICES

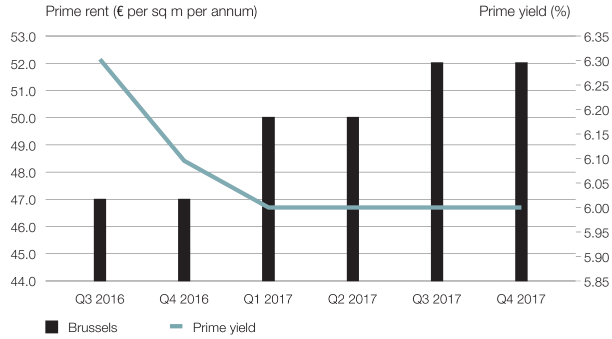
Prime rents and yields



2018 Outlook			
Occupier demand	→	Investor activity	→
Development supply	↗	Prime rents	↗
Availability	→	Prime yields	→ ↘

LOGISTICS

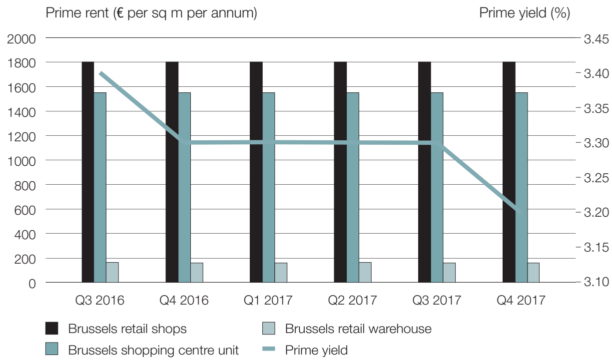
Prime rents and yields



2018 Outlook			
Occupier demand	↗	Investor activity	→
Development supply	↗	Prime rents	→
Availability	↗	Prime yields	→

RETAIL

Prime rents and yields



2018 Outlook			
Occupier demand	→	Investor activity	→
Development supply	→	Prime rents	↘
Availability	↗	Prime yields	→

Czechia

10,618,303
Population

193
GDP (US $bn)

1
Average cost per pint (Euro)

677
Annual rainfall (mm per year)

18
Airports

2
Ports

Commentary

Driven by strong domestic and external demand, the Czech economy grew by 4.5 % in 2017. However, this will ease in 2018 with only 3.6% growth expected, as labour supply constraints hinder further employment growth.

The growth in exports, seen in 2017, is expected to continue over the next few years due to the strength of global trade and the solid outlook of Czechia's main trading partners. However, the impact of this will likely be offset by an increase in imports, which are forecast to grow at a faster rate.

Overall employment levels continued to grow in 2017, however this is likely to slow down with unemployment already at its lowest level on record. The unemployment rate is expected to reach 3.6% in 2017, having fallen from 4% in 2016. As a result, real wages are forecast to increase strongly in the short and medium term, boosting household consumer spending.

Inflation is expected to continue to rise throughout 2018, and has already been reflected in increased food and services prices. Meanwhile, the appreciation of the Koruna against the Euro, following the Czechia National Bank's decision in April to remove the exchange rate floor against the euro, is tempering inflationary pressures on imported goods and services.

There remains a high demand for office space across the Czechia, particularly from serviced office and media & tech occupiers, which continue to be the most active in the market.

As a result office availability remains low. Due to a lack of availability, occupiers looking for new space have to turn to pre-lets, meaning that most of the buildings currently under construction have already been let.

There are a number of schemes under construction in the heart of Brno, brought on by the development of former brownfield sites. Likewise in Prague where several development completions in 2017 eased the supply squeeze. This is set to continue in 2018, as a number of significant developments in the wider city centre will complete.

The development of logistic warehousing has also increased, particularly in Brno where a number of well-established development companies, are seeking to expand their national portfolio to the Moravian region. This is also evident in Prague where developers are continuing to build new industrial parks as well as expanding old ones. However, as the number of suitable sites near the highways decreases, developers are forced to extend their focus to the smaller, regional parks.

Strong institutional and private investors continue to actively seek out opportunities to invest, and are largely focussed on both logistics and retail parks. There were several significant transactions in Prague in particular, whilst the office market also remains attractive to investors from various backgrounds as well as local investors.

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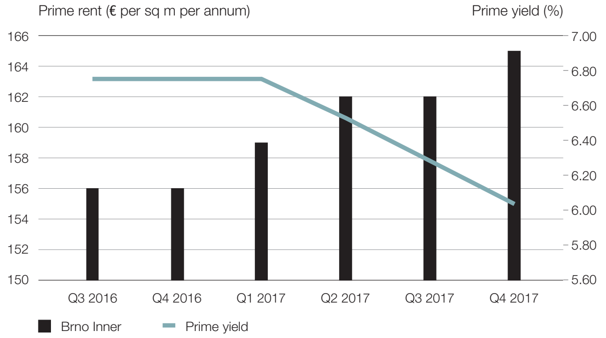
Brno

OFFICES

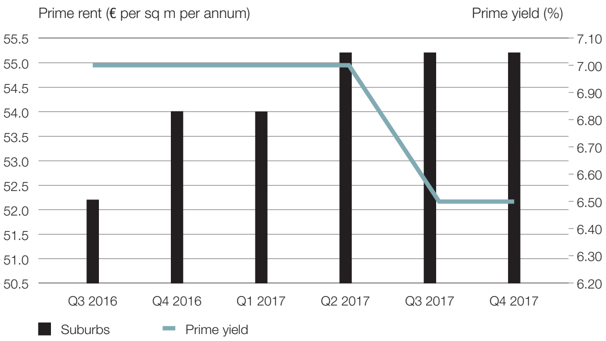
Prime rents and yields



2018 Outlook			
Occupier demand	→	Investor activity	↗
Development supply	↗	Prime rents	↗
Availability	↗	Prime yields	→

LOGISTICS

Prime rents and yields

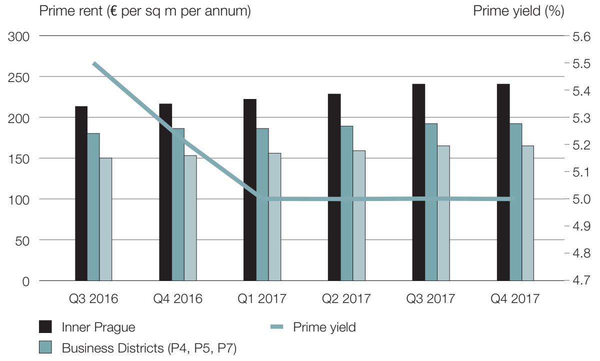


2018 Outlook			
Occupier demand	↗	Investor activity	↗
Development supply	↗	Prime rents	↘
Availability	↗	Prime yields	→

Prague

OFFICES

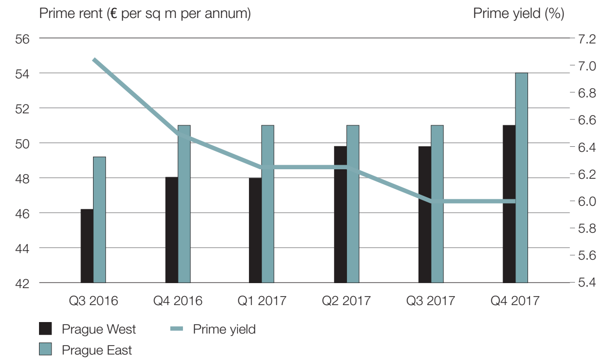
Prime rents and yields



2018 Outlook			
Occupier demand	→	Investor activity	↗
Development supply	↗	Prime rents	↗
Availability	→	Prime yields	→

LOGISTICS

Prime rents and yields



2018 Outlook			
Occupier demand	↗	Investor activity	↗
Development supply	↗	Prime rents	↗
Availability	→	Prime yields	→

Denmark

5,733,551
Population

306
GDP (US $bn)

5
Average cost per pint (Euro)

703
Annual rainfall (mm per year)

23
Airports

159
Ports

Commentary

Denmark's economy continued to grow in 2017, and real GDP is forecast to expand further over the next two years.

Private consumption continued to expand, supported by steady employment and disposable income growth. Recent policy measures are also expected to boost household demand, including the reduction of car taxes from October 2017 and payments to households due to the reform of the voluntary early retirement scheme in 2018. Many households will also benefit from property tax repayments in 2019, since property tax was excessively collected since 2011 due to flaws in the existing property valuation system.

Positive employment growth is forecast to remain with the unemployment rate set to decline further, leading to some sectors suffering from labour shortages, notably in the construction industry.

Price pressures have been subdued in recent years due to the steep fall in oil prices. Consumer prices were flat in 2016 but they are expected to rise gradually between 2017 and 2019. This pick-up is supported by increasing wages and the less negative contribution of energy prices.

The positive outlook for the Danish economy is continuing to have a strong influence on the regional office markets. The high level of leasing activity, combined with limited development, particularly in the CBD, has led to a fall in the overall office vacancy rate.

Compared to other low-risk asset classes, Copenhagen prime offices continue to offer strong positive income returns. This, combined with the expectation of increased occupier demand, fuelled by employment growth, will strengthen cash flows in this segment, and is drawing interest from foreign investors.

Following a period of limited activity, the Danish industrial market is becoming increasingly popular as an investment destination for international capital. This is linked to the growing saturation of the traditional target sectors in Denmark, such as offices, retail and residential, but also due to increased confidence and the still relatively attractive achievable yields on industrial assets.

The recent improvement in rental levels is expected to be sustained in the short term as the relatively healthy demand continues to face a tight pipeline. Appetite for prime grade investment stock should remain strong, and may even trigger further development activity.

The increase in consumer spending has benefitted the retail market and as a result, prime yields remain at a low level. Strøget and Købmagergade are the primary high streets in Copenhagen and are still experiencing a high demand for prime retail space. Prime rents have reached an all-time high, driven by the lack of availability, however this may also force retailers to consider alternative sites creating further rental growth in neighbouring streets.

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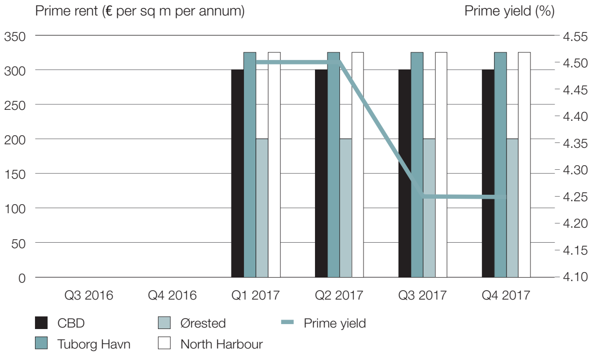
Copenhagen

OFFICES

Prime rents and yields

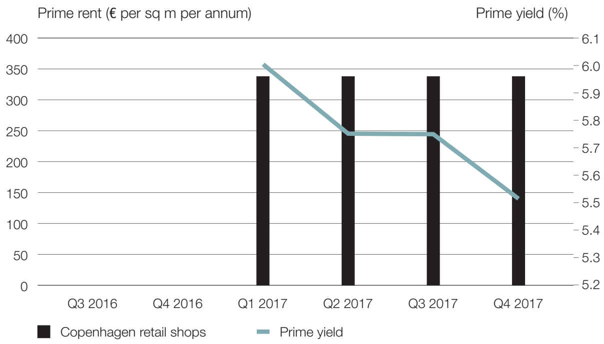


2018 Outlook

Occupier demand	↗	Investor activity	↗
Development supply	↗	Prime rents	→
Availability	→	Prime yields	↘

RETAIL

Prime rents and yields



2018 Outlook

Occupier demand	↗	Investor activity	↗
Development supply	→	Prime rents	↗
Availability	→	Prime yields	→

France

64,979,548
Population

2,465
GDP (US $bn)

5
Average cost per pint (Euro)

867
Annual rainfall (mm per year)

211
Airports

268
Ports

Commentary

The French economy has shown significant improvement following the election of President Emmanuel Macron. The President has already shown his determination to oversee significant infrastructure projects, notably the Grand Paris Métro, currently one of the largest developments in Europe, and the 2024 Olympics. France could also benefit from the impact of Brexit, with numerous global occupiers potentially ready to leave London for the French capital.

Overall economic activity accelerated sharply in 2017, with corporate investment boosted by the over-amortisation scheme, a fiscal incentive for firms to invest. Household investment has also expanded at a substantial pace, recovering strongly after several years of contraction.

In 2018, import growth is expected to ease slightly, after three strong years, in line with slower domestic demand growth. However, exports are forecast to gradually recover, following a period of low growth in 2016. As a result, the contribution of net exports is expected to gradually become less negative.

Unemployment is expected to continue to decline over the next two years, however the rate of decline is likely to ease as the effect of past cuts to the labour tax fades. A tighter labour market situation will gradually lead to positive wage growth, which in turn will stimulate a rise in inflation in 2018, and again in 2019.

The positive economic outlook has resulted in an increased level of occupier demand for office space, and ultimately increased rents in most markets, as well as a decrease in rent free incentives. This demand should remain throughout 2018, however the lack of developments currently under construction could restrict letting activity.

In Paris, the office market recorded the highest level of letting activity in 2017 with 2.6 million sq m leased. In Lyon, annual take-up reached 263,000 sq m, with NEXTDOOR's 9,000 sq m pre-let, the most significant.

For international investors who focus on gateway cities, Paris remains one of the top three European cities to invest in, along with Berlin and London. Capital comes from all quarters of the globe, including increasingly from Asia. As a result, the Paris office market remains one of the most expensive in Europe, with prime yields at 3%.

Pricing has not deterred investors, although a lack of good quality stock remains a barrier and is limiting transaction volumes. Currently investors are having to wait on speculative developments and will potentially need to look outside greater Paris. This could lead to further development opportunities in cities such as Marne la Vallée or St Quentin en Yvelines.

Lyon is experiencing a similar problem, with only 900 million Euros transacted in 2017. A lack of available assets is limiting transactions and the demand supply dynamic has resulted in yield hardening throughout 2017.

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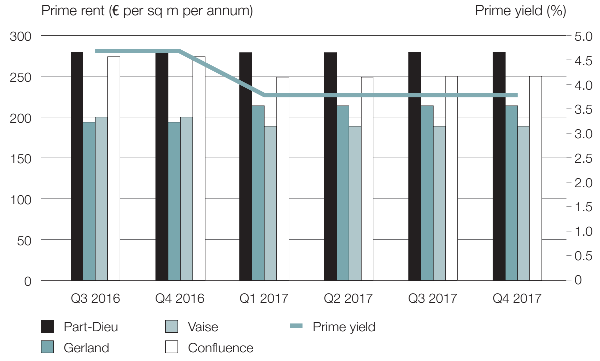
Lyon

OFFICES

Prime rents and yields

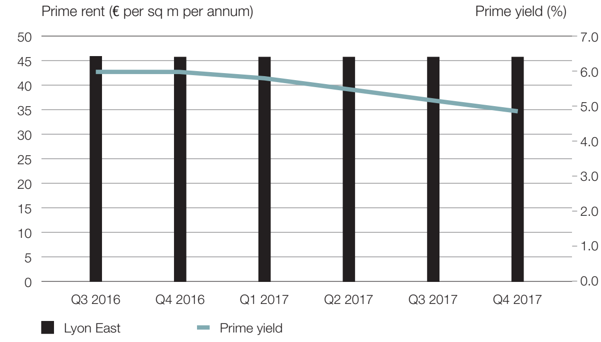


2018 Outlook

Occupier demand	→	Investor activity	↗
Development supply	→	Prime rents	↗
Availability	→	Prime yields	↘

LOGISTICS

Prime rents and yields

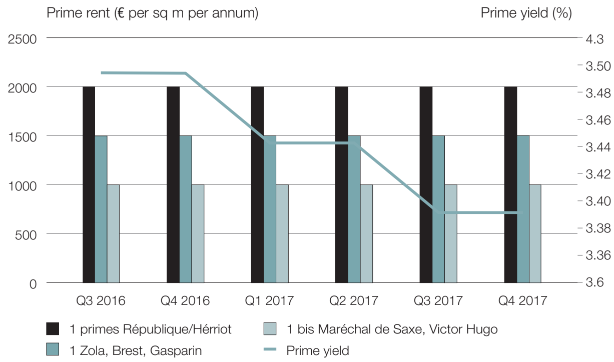


2018 Outlook

Occupier demand	→	Investor activity	↗
Development supply	→	Prime rents	→
Availability	→	Prime yields	→

RETAIL

Prime rents and yields



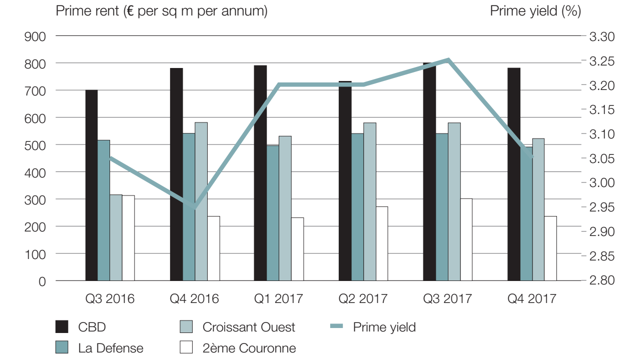
2018 Outlook

Occupier demand	→	Investor activity	↗
Development supply	→	Prime rents	→
Availability	→	Prime yields	→

Paris

OFFICES

Prime rents and yields

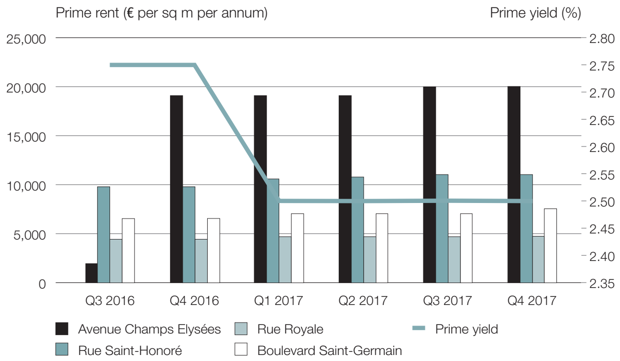


2018 Outlook

Occupier demand	↗	Investor activity	↗
Development supply	↗	Prime rents	↗
Availability	→	Prime yields	→

RETAIL

Prime rents and yields



2018 Outlook

Occupier demand	→	Investor activity	↘
Development supply	→	Prime rents	↗
Availability	→	Prime yields	↗

Germany

82,114,224
Population

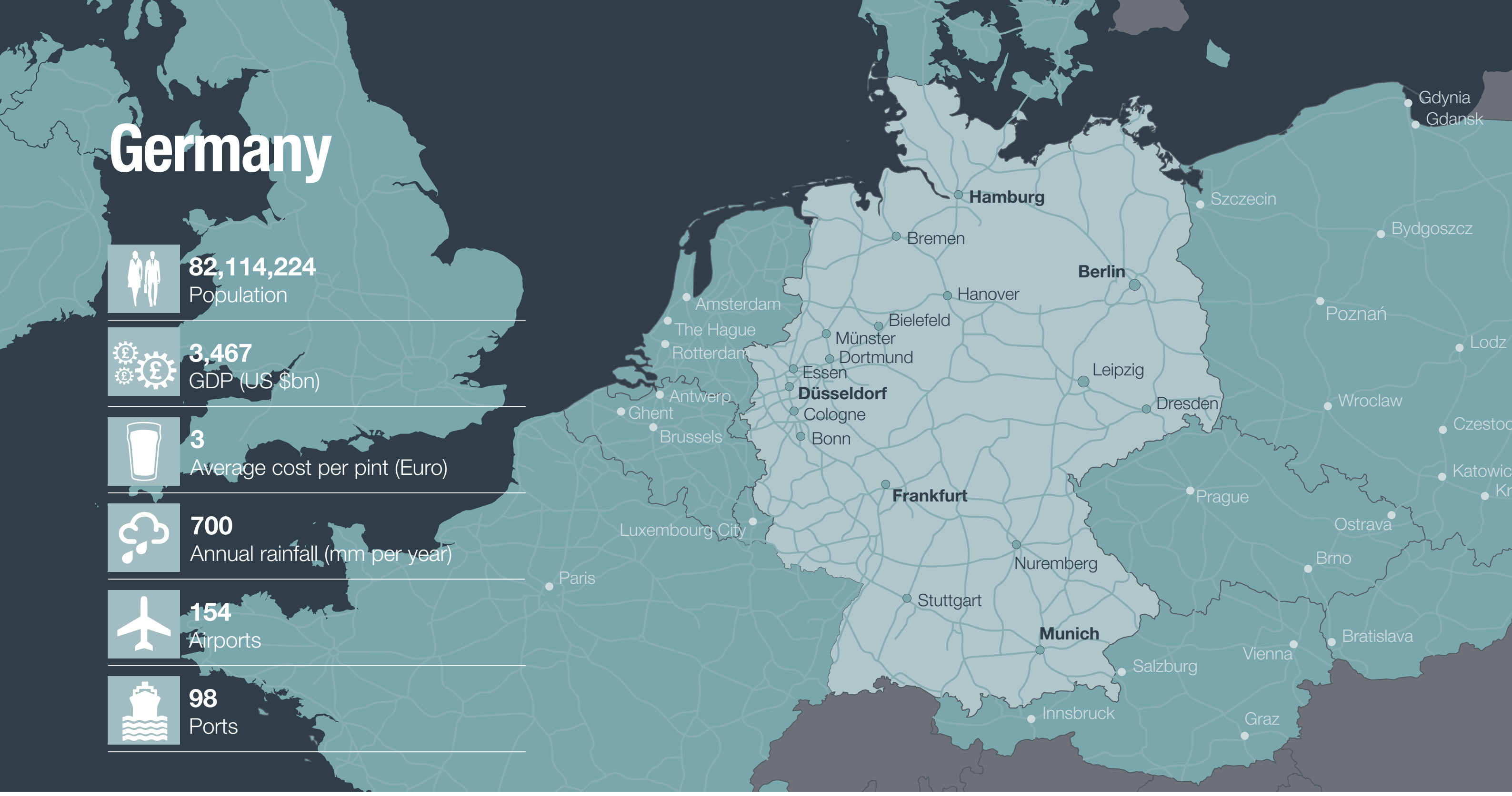
3,467
GDP (US $bn)

3
Average cost per pint (Euro)

700
Annual rainfall (mm per year)

154
Airports

98
Ports



Commentary

Economic sentiment remains positive with Germany's GDP growing at a steady rate in 2017, driven mainly by exports and private consumption. The country's strong labour market and a recovery in the euro area should lead to continued growth in GDP.

Employment levels have continued to rise and resulted in a further decline in the unemployment rate. As the unemployment rate falls, businesses will find greater difficulty in filling vacancies which will lead to a stronger rise in both nominal and real wage growth over the next few years. This will further improve household consumer spending.

Despite recent growth, the overall economy in Berlin is less optimistic with a relatively high unemployment rate and only a moderate income level in the city. Land in the city is becoming scarce, and consequently there is a movement of people and companies towards the outskirts of the city.

Dusseldorf on the other hand has a strong economy, driven by the high number of headquarters located in the city, its international airport and the international trade fair. The economy is also strong in Frankfurt, which is benefitting from significant levels of inward migration. Brexit might also accelerate this over the next few years, if banks move a large number of employees out of London.

These fundamentals were reflected in office take-up as Frankfurt achieved a record high in 2017. High occupier demand came from a number of large German occupiers, who transferred labour towards Frankfurt from other cities. With a strong development pipeline in the city, the high leasing activity is expected to continue.

Berlin also has a high number of developments under construction, however with high demand for space and low availability, pre-letting activity has increased and most of the new development space to complete in 2018 has already been let. Dusseldorf, Hamburg and Munich are also suffering from low availability due to a combination of high take-up eroding existing supply, and a lack of new developments.

Logistics property remains in high demand across Germany, with most of the major markets suffering from a supply shortage. However the lack of available land has so far prevented larger development schemes from happening, which has further driven up prime rents and increased pricing.

The increase in consumer spending has resulted in a higher demand for retail assets, particularly in Munich, Hamburg and Dusseldorf. However, demand has dropped slightly in Berlin and there has been a slight shift towards smaller retail units. Significantly, plans for a shopping centre project near Ku'Damm were recently cancelled.

Investor sentiment remains strong in the major markets, particularly for office and residential. This was reflected by significant yield reduction across all sectors in each city. In the short term, a lack of available stock in Hamburg and Munich, particularly for office stock, could limit sales and reduce overall transaction volumes.

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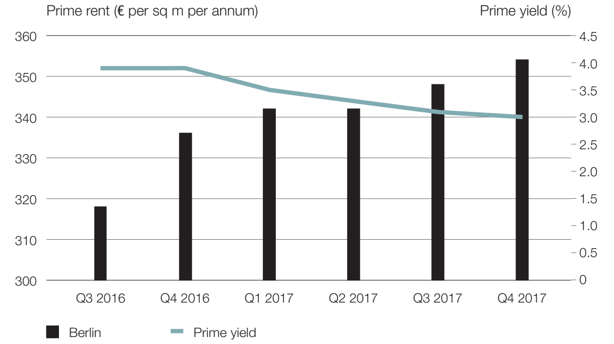
Berlin

OFFICES

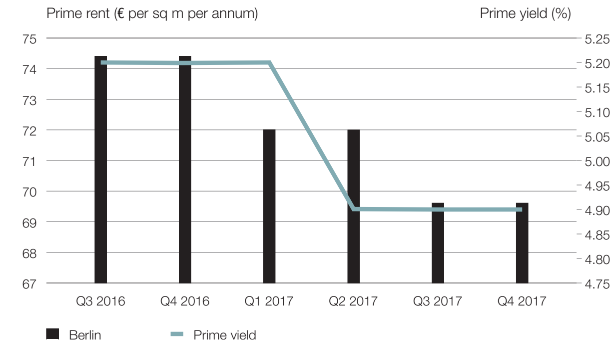
Prime rents and yields



2018 Outlook			
Occupier demand	↗	Investor activity	→
Development supply	↗	Prime rents	↗
Availability	↘	Prime yields	↘

LOGISTICS

Prime rents and yields



2018 Outlook			
Occupier demand	↗	Investor activity	↗
Development supply	↗	Prime rents	→
Availability	→	Prime yields	→

RETAIL

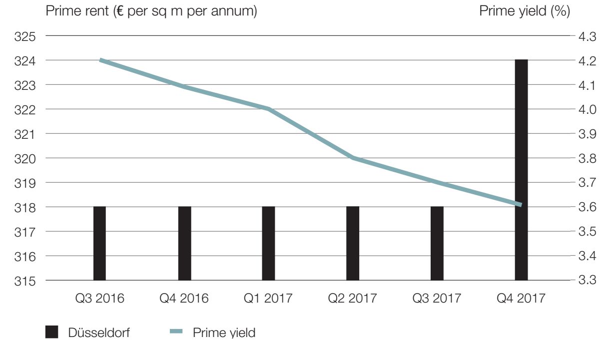
Prime rents and yields

2018 Outlook			
Occupier demand	→	Investor activity	↘
Development supply	↘	Prime rents	↘
Availability	→	Prime yields	→

Düsseldorf

OFFICES

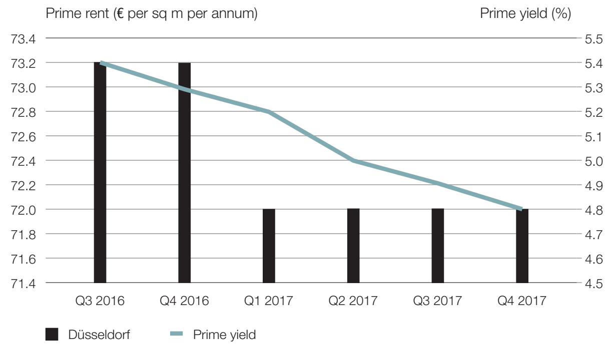
Prime rents and yields



2018 Outlook			
Occupier demand	↗	Investor activity	↗
Development supply	→	Prime rents	→
Availability	→	Prime yields	→

LOGISTICS

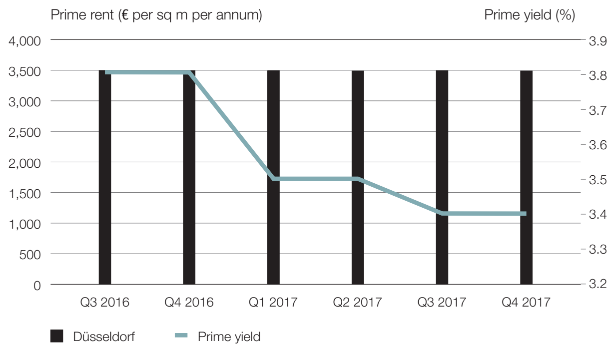
Prime rents and yields



2018 Outlook			
Occupier demand	↗	Investor activity	↗
Development supply	→	Prime rents	↗
Availability	↘	Prime yields	→

RETAIL

Prime rents and yields

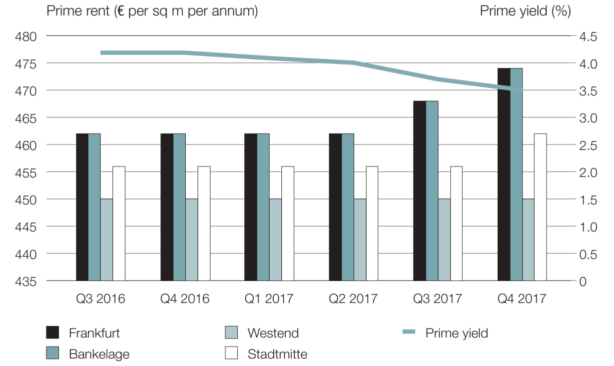


2018 Outlook			
Occupier demand	→	Investor activity	↘
Development supply	↘	Prime rents	→
Availability	→	Prime yields	→

Frankfurt

OFFICES

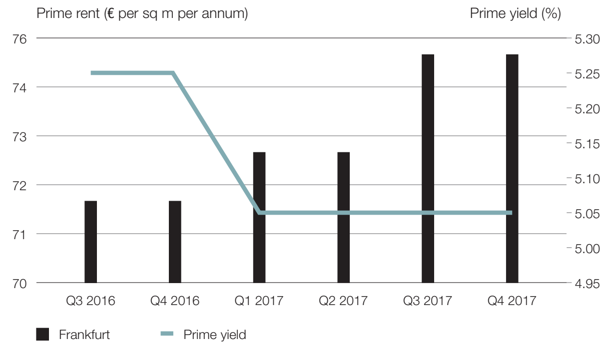
Prime rents and yields



2018 Outlook			
Occupier demand	↗	Investor activity	↗
Development supply	↗	Prime rents	→
Availability	↘	Prime yields	↘

LOGISTICS

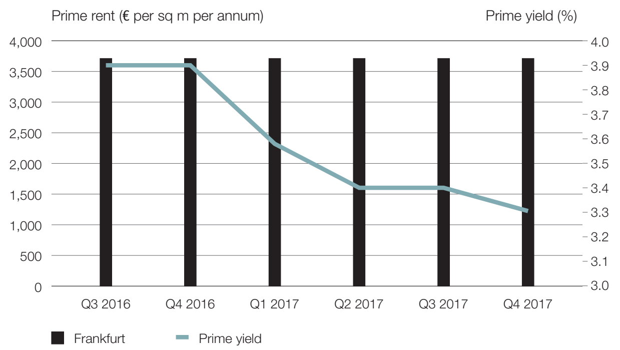
Prime rents and yields



2018 Outlook			
Occupier demand	↗	Investor activity	↗
Development supply	→	Prime rents	→
Availability	↘	Prime yields	→

RETAIL

Prime rents and yields

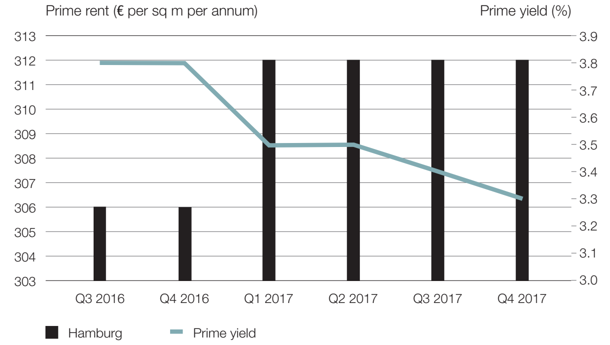


2018 Outlook			
Occupier demand	↘	Investor activity	↘
Development supply	→	Prime rents	→
Availability	→	Prime yields	→

Hamburg

OFFICES

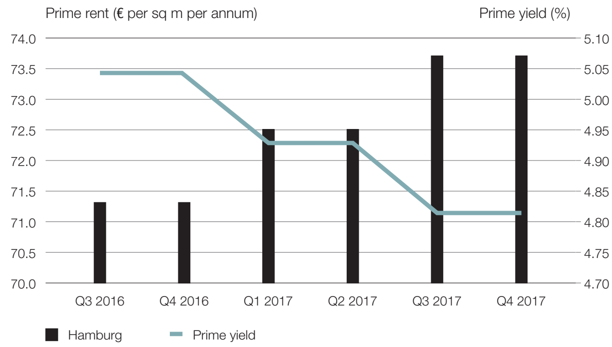
Prime rents and yields



2018 Outlook			
Occupier demand	↗	Investor activity	→
Development supply	→	Prime rents	→
Availability	→	Prime yields	↘

LOGISTICS

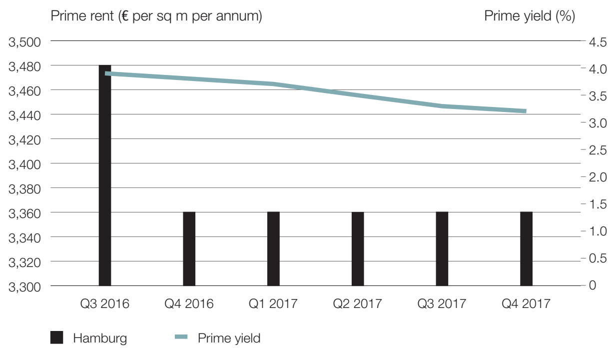
Prime rents and yields



2018 Outlook			
Occupier demand	→	Investor activity	↗
Development supply	→	Prime rents	→
Availability	→	Prime yields	↘

RETAIL

Prime rents and yields

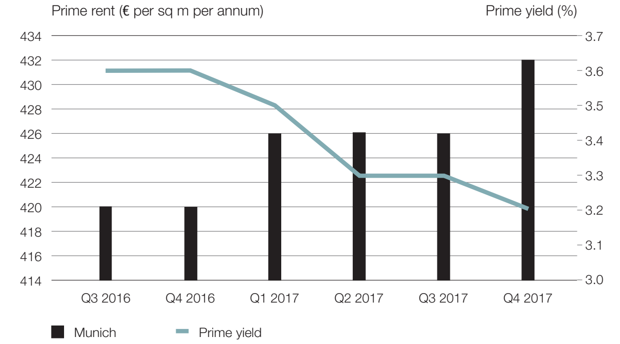


2018 Outlook			
Occupier demand	↘	Investor activity	↘
Development supply	↘	Prime rents	→
Availability	→	Prime yields	→

Munich

OFFICES

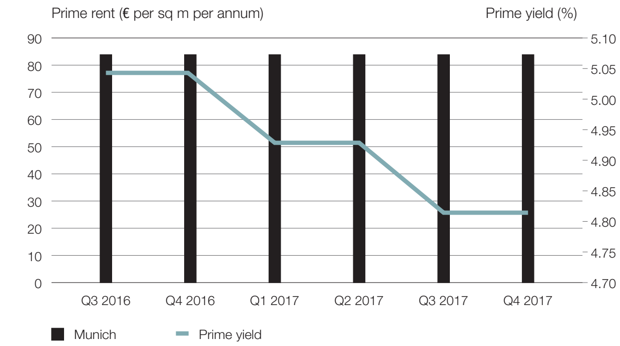
Prime rents and yields



2018 Outlook			
Occupier demand	↗	Investor activity	↘
Development supply	→	Prime rents	→
Availability	↘	Prime yields	↘

LOGISTICS

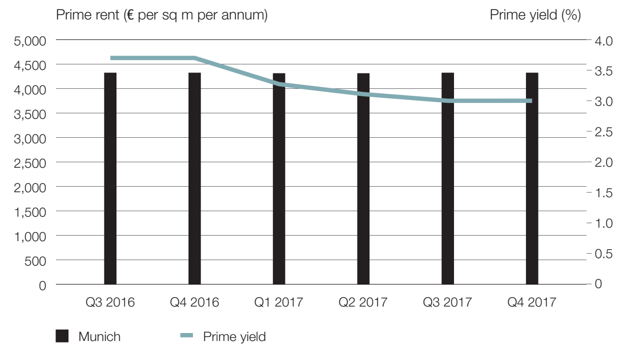
Prime rents and yields



2018 Outlook			
Occupier demand	↗	Investor activity	↗
Development supply	→	Prime rents	→
Availability	↘	Prime yields	↘

RETAIL

Prime rents and yields



2018 Outlook			
Occupier demand	↘	Investor activity	→
Development supply	↘	Prime rents	→
Availability	→	Prime yields	→

Ireland

4,761,657
Population

294
GDP (US $bn)

5
Average cost per pint (Euro)

1,118
Annual rainfall (mm per year)

11
Airports

36
Ports

Commentary

Ireland's GDP grew at an above average rate in 2017, and was largely driven by private consumption and construction investment. This is expected to continue to drive growth over the next few years.

Unemployment levels have fallen and are expected to continue to decline and reach 5.3% by the end of 2019. The strong increase in employment, particularly in full-time employment, is expected to support the further increase in real wages. This combined with subdued inflation, is expected to boost consumer spending in the short term.

Inflation rose slightly in 2017, due to increasing energy prices and services. However, currency depreciation in the UK, from which Ireland has significant imports, lowered the price of many goods, and offset the increases in the price of services.

Occupier sentiment for office space is positive, and in Dublin, 2017 office take-up reached 346,000 sq m across 251 deals, which is the highest amount recorded in a single year. This was largely driven by a flurry of pre-letting activity, with occupiers demonstrating their confidence in the market, and committing to new grade A space.

This pre-letting phenomenon, which saw significant buildings leased in their entirety, has not occurred in previous cycles. As a result, prime rents in the CBD and south suburbs have witnessed significant growth over the last 12 months.

The logistics market in Dublin has continued to perform well in 2017 with take-up reaching 2.7 million sq ft, which is on par with 2016. The majority of activity has taken place in south west Dublin, where there is more availability. Prime rents have now reached sufficient levels where construction of new stock is feasible once more.

For retail, 2017 was another positive year. The recent increase in consumer spending has led to a rise in retail sales, which have continued to trend upwards, predominantly in prime city areas. The most active occupiers expanding were the clothing/fashion and food and beverage sector with names like Victoria's Secret, Smiggle, Dr Martens, Hotel Chocolat and The Ivy, all opening new stores.

There has also been significant levels of redevelopment and the expansion of well located shopping centres, driven by a strong increase in rental growth in prime locations. This is expected to continue in 2018.

The outlook for the Dublin investment market remains positive with continued domestic and international demand throughout 2017. Investors view the city as a good location for stable income, and tenant demand from growing companies remains healthy. The city has developed a strong niche as a tech hub and its airport is exceptionally well-connected to the UK and US. It is also viewed as one of the cities likely to benefit from occupier relocation as a result of Brexit.

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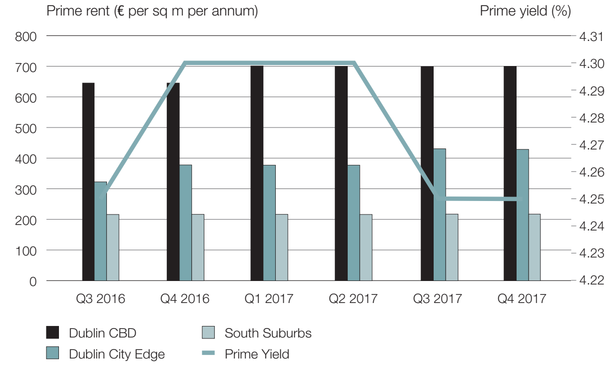
Dublin

OFFICES

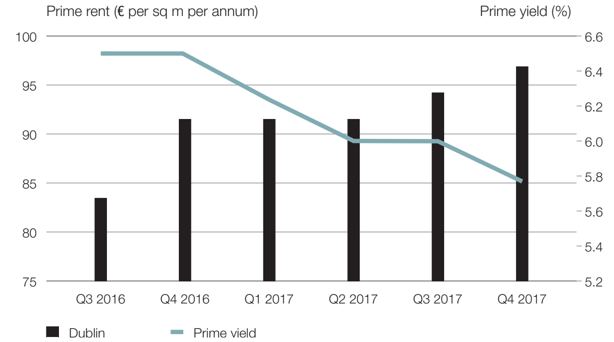
Prime rents and yields



2018 Outlook			
Occupier demand	→	Investor activity	↗
Development supply	→	Prime rents	↗
Availability	→	Prime yields	→

LOGISTICS

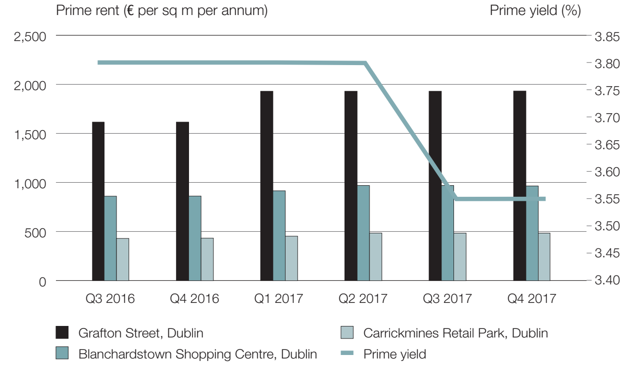
Prime rents and yields



2018 Outlook			
Occupier demand	↗	Investor activity	↗
Development supply	↗	Prime rents	↗
Availability	↘	Prime yields	↘

RETAIL

Prime rents and yields



2018 Outlook			
Occupier demand	↗	Investor activity	→
Development supply	↗	Prime rents	↗
Availability	→	Prime yields	→

Luxembourg

583,455
Population

60
GDP (US $bn)

3
Average cost per pint (Euro)

934
Annual rainfall (mm per year)

1
Airports

0
Ports

Commentary

Luxembourg's economy grew slightly below the long term average in 2017. However, GDP growth is expected to increase in 2018, as private consumption continues to recover following a weak performance in the first half of 2017.

Employment levels increased in 2017, and this is expected to continue over the next two years, as strong economic momentum should support stable employment creation. Local employment in particular has increased significantly, and as a result has reduced the unemployment rate, which is forecast to reach 6% by the end of 2019.

Inflation, which was 0% in 2016, is expected to rise to 2.1%, mainly as a result of oil price fluctuations. As these effects dissipate, underlying price pressures, including from real wage increases, should drive a further rise in the headline inflation rate over the next two years.

Occupier demand for offices in Luxembourg City remained strong throughout 2017. The impact of Brexit is already being witnessed, and in 2017, numerous companies, particularly from the finance & banking sector, have begun to move part of their operations out of London and into the City.

Despite a relatively low availability rate, Luxembourg City currently has a limited development pipeline. As a result, there has been an upward pressure on prime rents, which saw them reach 565 Euros per sq m in 2017.

Investor demand remained strong in 2017, with overall investment volumes exceeding 1 billion Euros once again. Transactions were mainly driven by active institutional and private investors.

Demand is high in Luxembourg, as investors see a clear opportunity as a result of Brexit and as the city is a hub for distribution of investment products within Europe and worldwide. The City is a platform for the financial industry that is considered an entry point to Europe for a lot of investors.

In addition to its strong financial sector, the country is also growing its economy with major investments in industrial sites, data centres and logistics.

The high level of investment activity in recent years has diminished available stock for 2018, and with little development activity, prime office yields have fallen in the City to 4.3%. Value-add and opportunistic buyers will be challenged to find new opportunities in 2018, while core investors will have to adapt to lower yields.

While prime yields are low for one of Europe's smaller markets, there is the potential that they could reduce further, for example prime buildings in key districts such as Kirchberg or Cloche d'Or are priced at 4.4% and in secondary locations in the suburbs, 5-6.75%.

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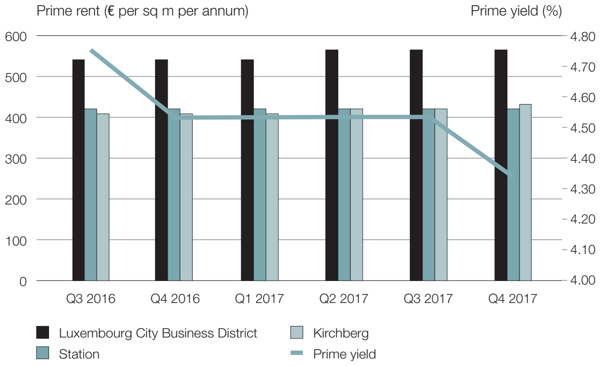
Luxembourg City

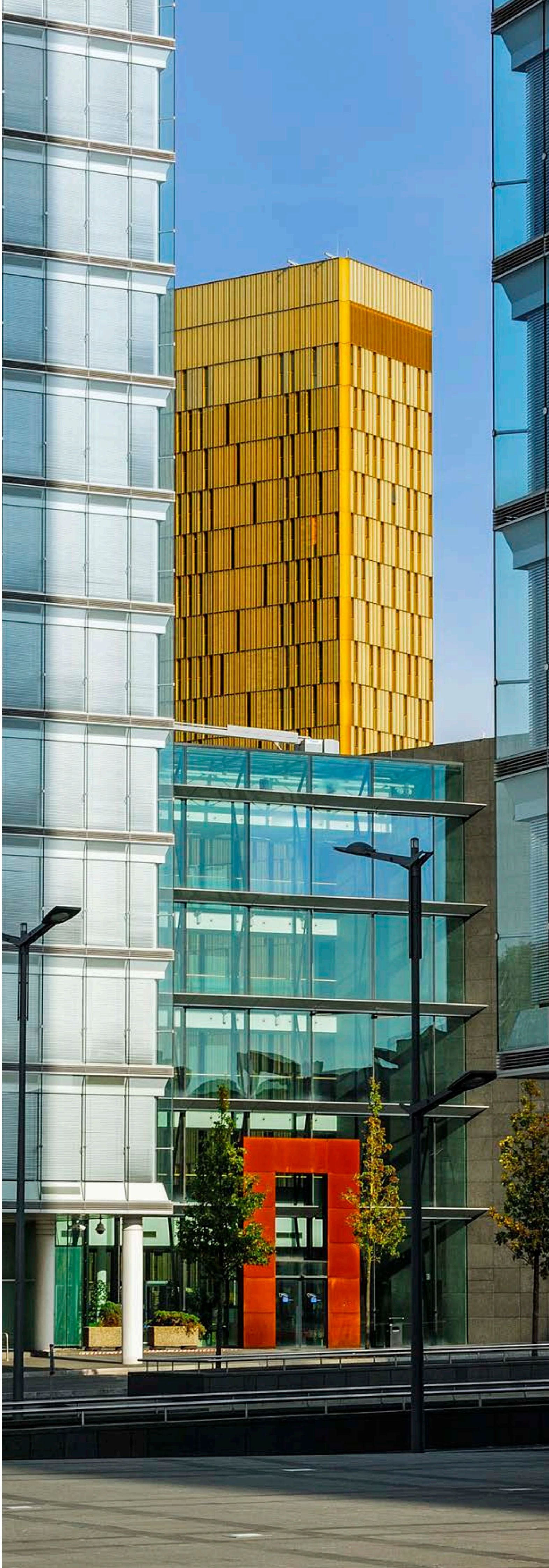
OFFICES

Prime rents and yields



2018 Outlook

Occupier demand	↗	Investor activity	↗
Development supply	↘	Prime rents	↗
Availability	↘	Prime yields	↘



Netherlands

17,202,968
Population

826
GDP (US $bn)

3.5
Average cost per pint (Euro)

862
Annual rainfall (mm per year)

17
Airports

17
Ports

Commentary

GDP grew steadily throughout 2017, which is expected to continue over the next couple of years. Domestic demand is strong, with household consumption, investment, and government consumption the main drivers.

Despite a slight easing in employment growth over the next two years, employment levels will reach a new record high and as a result, further drive down the unemployment rate. While recent wage growth has been subdued, the reduction in unemployment will see this begin to pick up and lead to greater household consumer spending.

As higher wages and prices weigh on international price competitiveness, export growth will begin to reduce. Imports are set to be driven by buoyant domestic demand, thus limiting the growth contribution of net exports driving this expansionary phase.

After much speculation about possible relocations as a consequence of Brexit, Amsterdam is emerging as one of the cities expected to benefit. The arrival of the European Medicines Agency, related suppliers and clients and a number of smaller related corporations, are likely to form a solid basis for continued demand for office space in the years ahead.

Domestic office demand is increasing and there remains a distinct preference for Amsterdam's allure over other Dutch cities. This attraction relates to the advantages of both physical infrastructure in the capital and access to a large pool of suppliers, clients and talent.

The cities strong market dynamics were reflected in take-up volumes, which exceeded 2016 by 4.4%. Demand for office space in Amsterdam is still higher than in the country's other cities. In 2017, 36% of all take-up was concentrated in Amsterdam.

The Rotterdam economy is linked tightly with the performance of the harbour and therefore depends substantially on international trade. As the global economy is growing and as forecasts are positive, this immediately reflects in the local GDP and employment figures. Consequently the GDP for Rotterdam grew by 1.4%, considerably more than the 0.9% for the Netherlands as a whole and even slightly more than the 1.3% growth seen in Amsterdam.

Amsterdam is one of the last of Europe's core cities to turn around after the financial crisis. However the oversupply of office space in the metropolitan area has gradually reduced to a vacancy rate below 10%, and as a result, there has been significant yield compression in 2017.

However, investors see opportunities for further yield decline in the greater Amsterdam area, as rents are rising faster than most other European cities.

There is also strong investor demand in Rotterdam's real estate market, and the total investment volume has reached record levels recently. Since 2014, there has been an upturn in the investment market and investor confidence in the Rotterdam office market has recovered.

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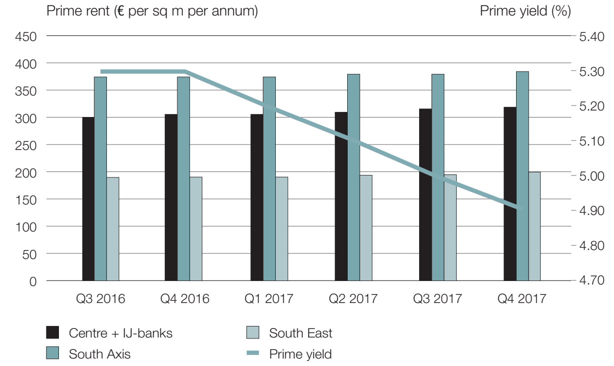
Amsterdam

OFFICES

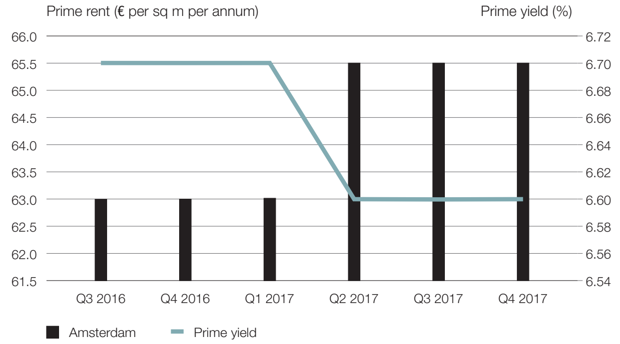
Prime rents and yields



2018 Outlook			
Occupier demand	↗	Investor activity	↗
Development supply	→	Prime rents	↗
Availability	↘	Prime yields	↘

LOGISTICS

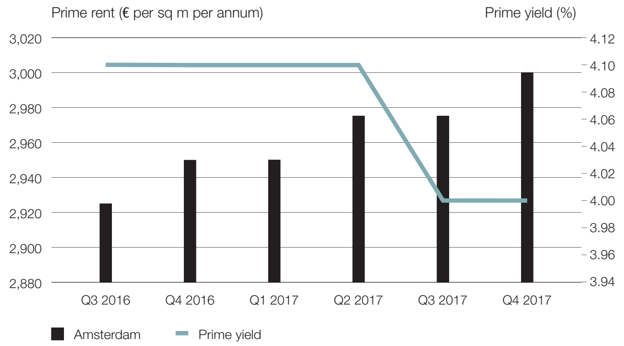
Prime rents and yields



2018 Outlook			
Occupier demand	↗	Investor activity	↗
Development supply	↗	Prime rents	↗
Availability	↘	Prime yields	↘

RETAIL

Prime rents and yields

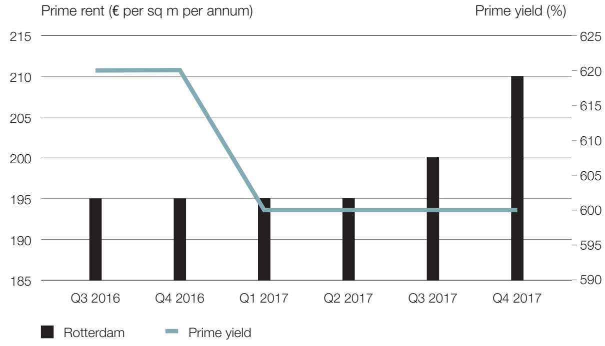


2018 Outlook			
Occupier demand	↗	Investor activity	↗
Development supply	→	Prime rents	↗
Availability	↘	Prime yields	↘

Rotterdam

OFFICES

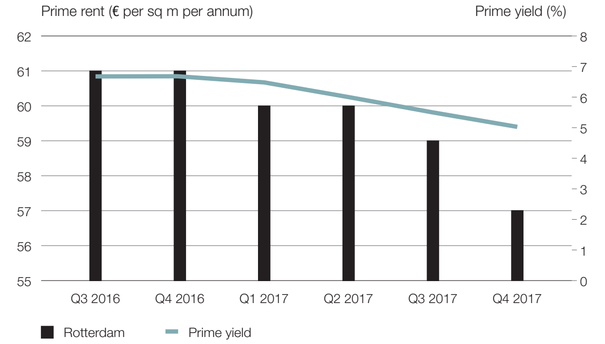
Prime rents and yields



2018 Outlook			
Occupier demand	↗	Investor activity	↗
Development supply	→	Prime rents	↗
Availability	↘	Prime yields	↘

LOGISTICS

Prime rents and yields



2018 Outlook			
Occupier demand	↗	Investor activity	↗
Development supply	↘	Prime rents	↗
Availability	↘	Prime yields	↘

Norway

5,305,383
Population

410
GDP (US $bn)

8
Average cost per pint (Euro)

1,414
Annual rainfall (mm per year)

37
Airports

83
Ports

Commentary

The Norwegian economy remains strong. After the slowdown caused by cuts in oil-related investments and activity in the end of 2013, Norway has seen significant recovery. It has largely been driven by expansionary fiscal policy, reduced interest rates and a supporting governmental investment activity based on income from the National Pension Fund.

There has also been a strengthening in the export sectors, brought on by the weak exchange rate for the Norwegian Krone. As a result, overall GDP grew by 1.8% in 2017, and is expected to grow at a higher rate over the next two years.

The unemployment rate is forecast to decrease due to a greater emphasis on recruiting talent from outside the typical labour market. As a result, growth in real wages is expected to increase by 3.1% in 2018 and 3.9% in 2019.

Oslo has witnessed high levels of leasing activity, and as a result, the office vacancy rate has fallen and expected to drop below 7% by the end of 2018. In core markets, such as Oslo's CBD, the vacancy rate is now as low as 5%.

Despite the high demand from occupiers for new space, current development activity remains low, with only 100,000 sq m to be delivered each year, over the next few years. To add to this, a significant amount of office space is being lost from the market and converted to other use types, mostly to residential. As a result, availability will likely continue to fall, creating an upward pressure on prime rents.

The growth in e-commerce will continue to drive demand for logistics assets in close proximity to Oslo. Properties of a high standard, with cross-docking capabilities and high eaves are always in demand, however finding tenants for less attractive logistics assets can be difficult. As a result, rents will likely remain flat in the eastern corridor, running from Gardermoen, Oslo Airport, to Vestby south of Oslo.

Retail activity in Oslo remains high, exemplified by the movement of new high-end retailers into Oslo´s high streets, e.g. Balenciaga, and St. Laurent which recently moved into Nedre Slottsgate, Oslo´s most prestigious shopping street. Other luxury brands are also meant to be looking at a possible relocation.

The city is currently in a process of pedestrianising several streets, which should have a positive effect for retailers in the city. However, the sector is still facing uncertainty, brought on by the increasing activity of online retail, which likely will influence rents and occupier demand in the future.

Investor sentiment is strong in Norway with 9 billion euros transacted in 2017, the second highest volume on record. The majority of deals (60%) took place in Oslo region, with the office sector the most active.

Financing, both through banks and the bond market, has been increasingly more accessible during 2017 and this trend is expected to continue in 2018. Prime yields, which are at record lows, are not expected to move in 2018. Therefore any capital growth in the market will be driven by rents rather than yields.

Norway
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Norway
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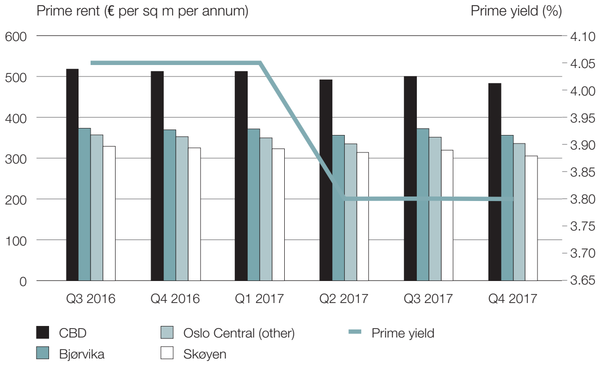
Oslo

OFFICES

Prime rents and yields

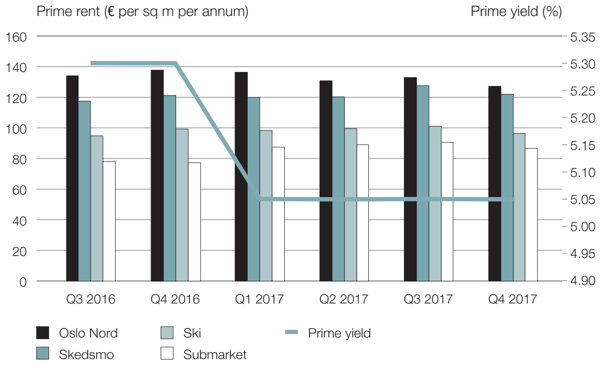


2018 Outlook

Occupier demand	↗	Investor activity	↗
Development supply	→	Prime rents	↗
Availability	↘	Prime yields	→

LOGISTICS

Prime rents and yields



2018 Outlook

Occupier demand	↗	Investor activity	↗
Development supply	↗	Prime rents	→
Availability	→	Prime yields	→

Poland

38,170,712
Population

470
GDP (US $bn)

2
Average cost per pint (Euro)

600
Annual rainfall (mm per year)

38
Airports

12
Ports

Commentary

Poland's GDP growth was 4.6% in 2017 and expected to be between 3.9 - 4.5% over the next two years. This will be driven by strong domestic demand with private consumption supported by favourable a labour market.

Employment levels are expected to ease however, brought on by a lowering of the retirement age. However, unemployment rates are not a record low, which has led to a forecast of increased wage growth. As a result, the rise in real wages will lead to an increase in inflation over the next two years.

While exports are expected to continue expanding, strong domestic demand and in particular higher investment and a slight appreciation of the Zloty are projected to lead to a fast increase in imports. As a result, the contribution of net exports to growth is set to stay negative over the next two years.

The strong economic fundamentals were reflected by occupiers' desire for new office space. In Warsaw, take-up volumes reached 830,000 sq m. With the demand for new space increasing, particularly from the finance & banking, and media & tech sectors, leasing activity in 2018 could exceed this figure.

As a result of high leasing activity, overall availability decreased, despite the delivery of 309,000 sq m of new office space through development. With fewer developments set to complete in 2018, the overall availability rate in Warsaw is set to decline further, however a number of schemes are scheduled to be delivered in 2019 and 2020 which will ease the supply squeeze.

Occupier sentiment in Poznan is also positive, as the volume of space taken in 2017 exceeded 80,000 sq m. The high level of leasing activity is expected to continue in 2018, particularly as a number of development schemes will deliver new space to the market. As a result of the increased availability, prime rents could possibly decrease in the medium term.

Occupier demand for logistics space in Warsaw is high, with 950,000 sq m leased in 2017, and a similar level expected in 2018. The improved infrastructure, including the development of new roads and an expressway junction, has created perfect locations for developers to build. However, most developers are holding off for a pre-let before confirming a project.

As the high demand from occupiers continues, the overall availability rate will continue to fall and put upward pressure on prime rents, particularly in the key locations in Warsaw.

The logistic market in Poznan is also popular, although the lack of labour force in the region is a deterrent to some occupiers. As a result some tenants have left the region which has led to a slight increase in the vacancy rate.

Investment volumes reached a record high in 2017, with 4.6 billion euros transacted. Despite interest in all commercial assets, the logistics sector is the most sought after. As a result, further yield compression is expected in 2018.

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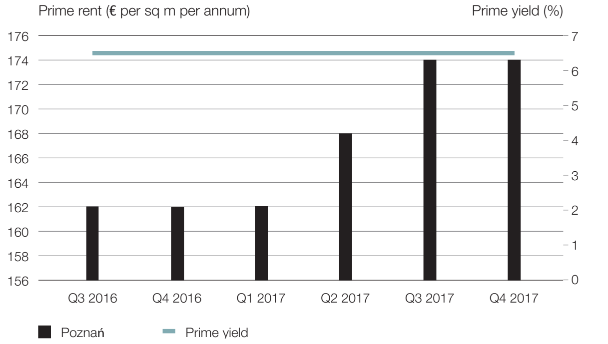
Poznan

OFFICES

Prime rents and yields

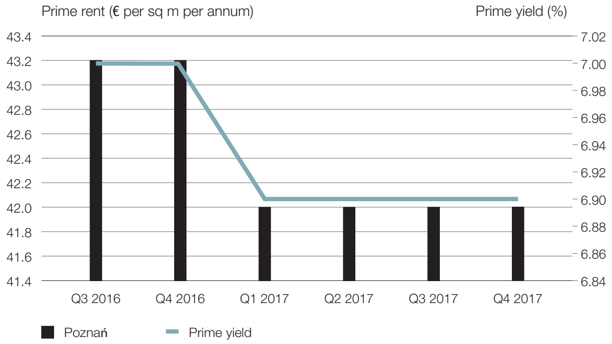


2018 Outlook

Occupier demand	↗	Investor activity	→
Development supply	↗	Prime rents	→
Availability	↗	Prime yields	→

LOGISTICS

Prime rents and yields



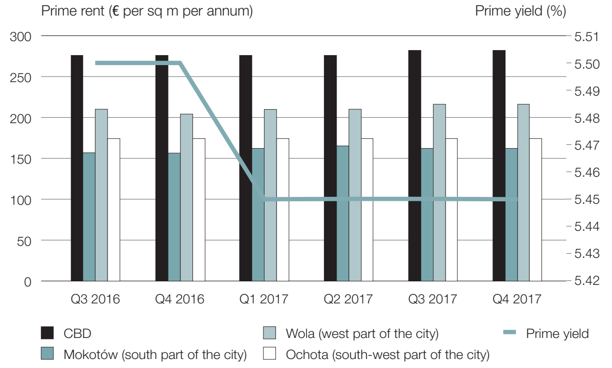
2018 Outlook

Occupier demand	→	Investor activity	→
Development supply	→	Prime rents	→
Availability	↗	Prime yields	→

Warsaw

OFFICES

Prime rents and yields

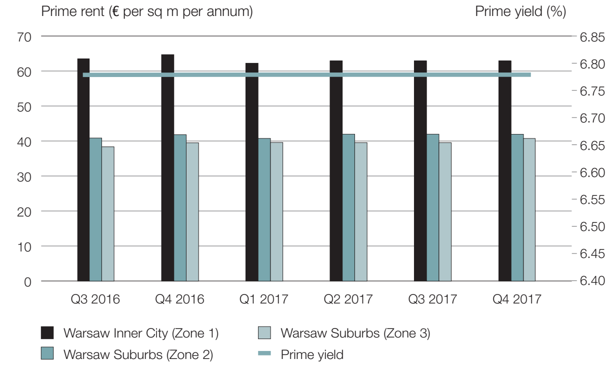


2018 Outlook

Occupier demand	→	Investor activity	→
Development supply	↘	Prime rents	↗
Availability	↘	Prime yields	↘

LOGISTICS

Prime rents and yields



2018 Outlook

Occupier demand	→	Investor activity	↗
Development supply	→	Prime rents	↗
Availability	↘	Prime yields	↘

Portugal

10,329,506
Population

205
GDP (US $bn)

2
Average cost per pint (Euro)

838
Annual rainfall (mm per year)

11
Airports

11
Ports

Commentary

The Portuguese economy recovered well in 2017, with GDP growing at around 2.6%. the increase was largely driven by investment and exports, while private consumption growth continued to slow. The rate of GDP growth is expected to slow in 2018, despite the increase in the exports of goods, private consumption, and tourism.

The level of employment grew by 1.6% in 2017, due to rises in labour-intensive services related to tourism and in construction. However despite this increase, overall wage growth remained subdued, as most of the job openings were in sectors with low-skilled profiles and lower-than-average salaries. As a result, the overall unemployment rate fell in 2017 to 8.9%, and further decreases are expected in 2018.

In 2017, inflation increased by 1.5%, with a similar level expected in 2018. This could further increase in 2019, reflecting the impact of tourism on accommodation services and moderate wage growth.

Occupier demand for Lisbon offices remains high, with take-up volumes reaching 167,000 sq m in 2017, a 16% increase on the previous year.

Overall availability has dropped in recent years with a vacancy rate of 8% recorded at the end of 2017. As a result, a number of significant pre-lets have been signed on development projects. As a result, a lack of new space will be available to the market when these schemes complete, and combined with a high level of leasing activity, overall availability is expected to continue to fall in the short and medium term. This supply-demand dynamic will lead to further rental growth across all types of office space.

In terms of logistics, the sector has begun to show signs of recovery during 2017, with an increased level of occupier activity. As a result of this increase, prime rents have begun to move and reached 45 Euros per sq m by the end of the year. An increased level of interest from investors has also led to a decrease in yields to 6.5% from 7% at the beginning of the year.

The retail sector in Lisbon has also demonstrated signs of recovery in 2017, driven by tourism, and the strong dynamism of high street shops in the main location of Lisbon, namely Chiado, Avº da Liberdade and Baixa. As a result, prime rents increased across all retail types in 2017 as well as some yield compression to 4.5%.

Positive investor sentiment remained strong and in 2017, the Portuguese investment market enjoyed its most successful year in the last decade in terms of transaction volumes. Over the course of the year, 1.9 Billion euros transacted.

Foreign investors were the most active in the market, and in particular, Chinese investors, with the acquisition of the LOGICOR portfolio from Blackstone. South African investors were also prevalent in the retail sector. Overall, foreign investors accounted for 75% of all transactions.

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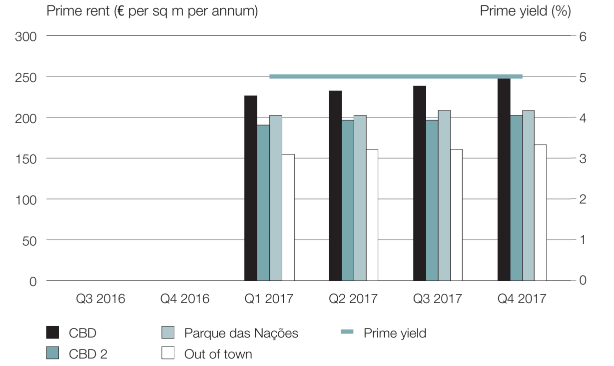
Lisbon

OFFICES

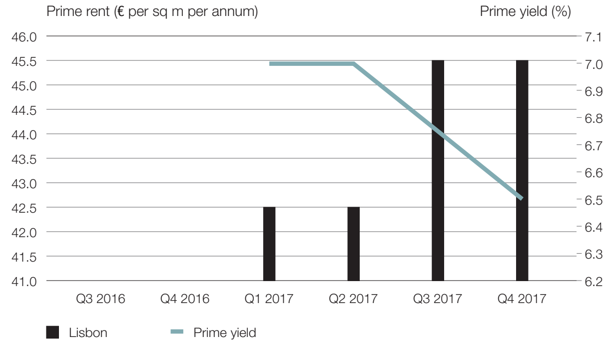
Prime rents and yields



2018 Outlook			
Occupier demand	↗	Investor activity	↗
Development supply	↗	Prime rents	↗
Availability	↘	Prime yields	→

LOGISTICS

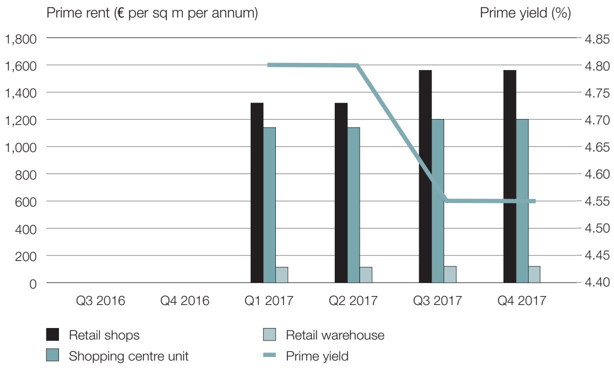
Prime rents and yields



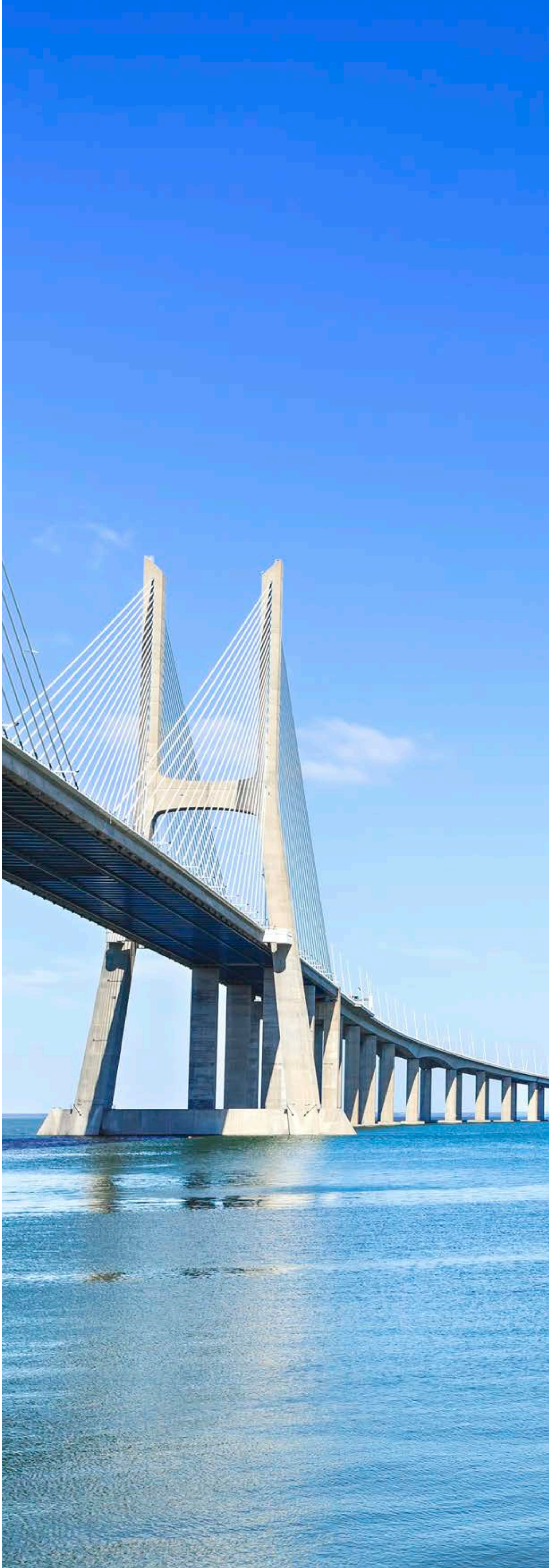
2018 Outlook			
Occupier demand	↗	Investor activity	↗
Development supply	→	Prime rents	↗
Availability	↘	Prime yields	→

RETAIL

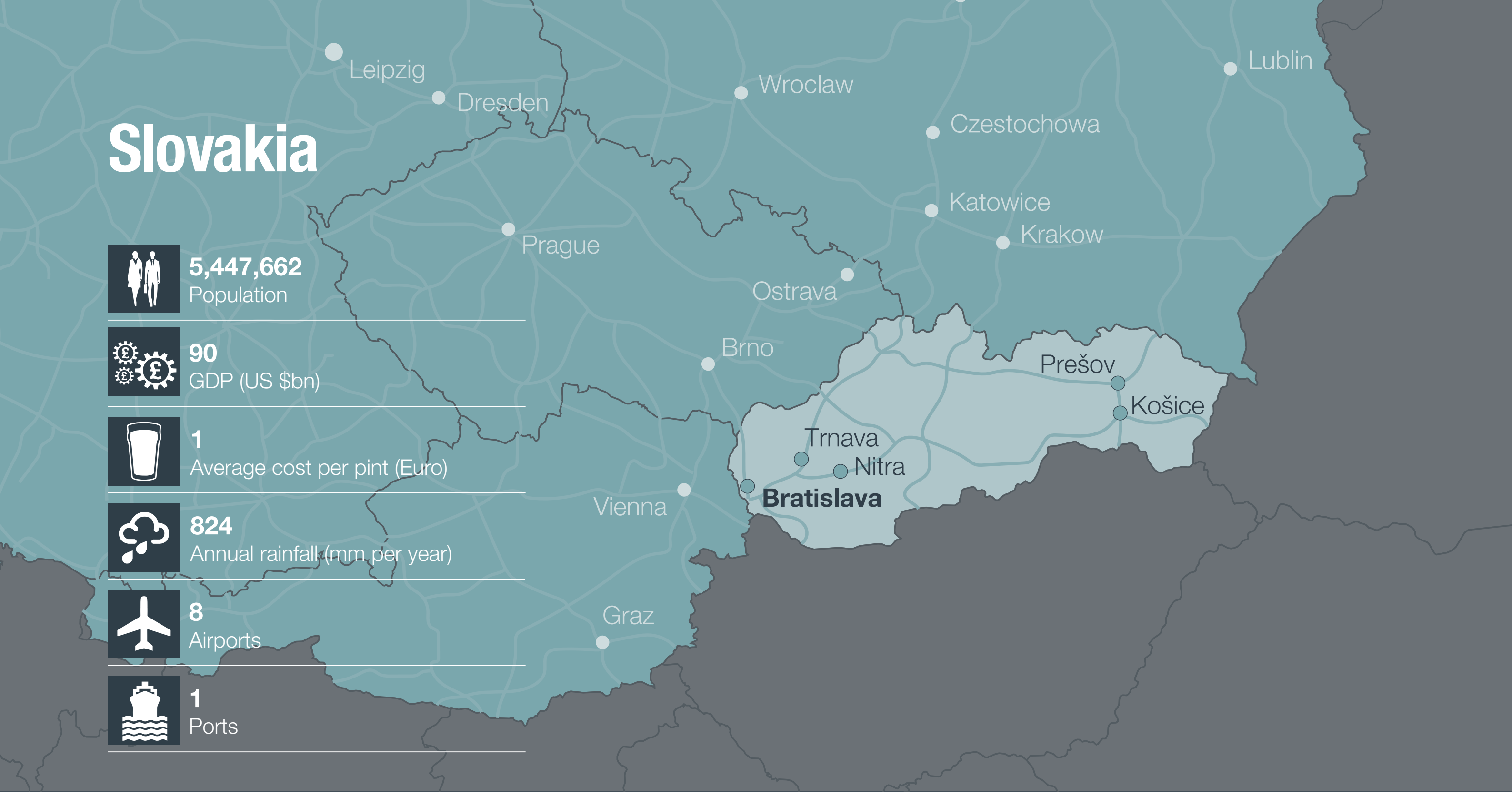
Prime rents and yields



2018 Outlook			
Occupier demand	↗	Investor activity	↗
Development supply	→	Prime rents	↗
Availability	↘	Prime yields	→



Slovakia



- **5,447,662** Population
- **90** GDP (US $bn)
- **1** Average cost per pint (Euro)
- **824** Annual rainfall (mm per year)
- **8** Airports
- **1** Ports

Commentary

Slovakia's economy is expected to continue to grow at a healthy rate over the next two years, largely driven by an increase in household spending. Private consumption will benefit from an increase in employment levels, real wages and buoyant consumer sentiment.

As the labour market continues to grow, overall unemployment levels are expected to fall, to potentially below 7% by the end of 2019. Employment gains are likely across all sectors, and the tightening of the labour market along with increasing labour shortages in some sectors and regions will lead to an increase in wage growth.

Increases in inflation are expected to continue throughout 2018, with accelerating food and services prices contributing to the rise.

As well as a robust economic outlook, occupier demand for new office space in Bratislava remains high. However despite this, the city is suffering from a lack of good quality stock, which is restricting leasing activity.

2017 did witness a number of development completions, which brought 43,000 sq m of new stock to the market. This is likely to double in 2018, with almost 90,000 sq m expected to be delivered. However, with availability of grade A stock in such high demand, occupiers have taken to signing pre-lets on the development space, meaning that 40% of the new space has already been taken, limiting the impact of the developments on availability. As a result, prime rents could potentially rise in 2018.

The number of development schemes under construction, which have already been let, could represent an opportunity for institutional investors. Due to the current lack of such prime assets, this could lead to further yield compression in 2018.

The logistics market in Slovakia continued to be in high demand in 2017 for both occupiers and investors, and this is set to continue in 2018. One of the main drivers of demand is due to the highly successful automotive industry, especially with Jaguar Land Rover announcing plans to open its first production plant in continental Europe, in Nitra, by the end of 2018.

As a result of the high occupier demand, overall availability declined in 2017. This is expected to continue to fall in 2018 despite a number of significant developments of which the delivery brings the total stock figure for modern industrial and warehouse space to exceed 2 million sq m, for the first time.

The investment market was also active in 2017, and with strong interest coming from Asian investors, particularly from China, prime yield compression is expected in 2018. In 2017, Chinese investors bought Prologis Park in Galanta, which houses major household name tenants Tesco and Samsung. German funds are also showing increasing interest in the Slovakian market with several transactions being completed in the second half of 2017.

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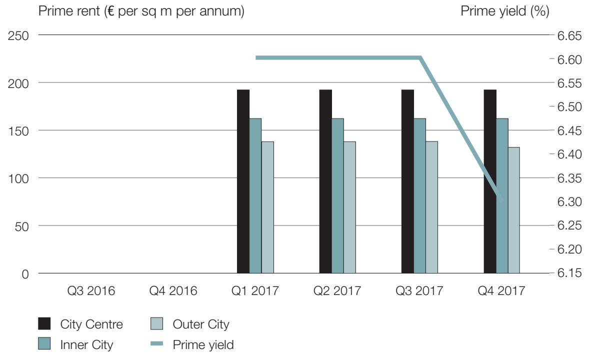
Bratislava

OFFICES

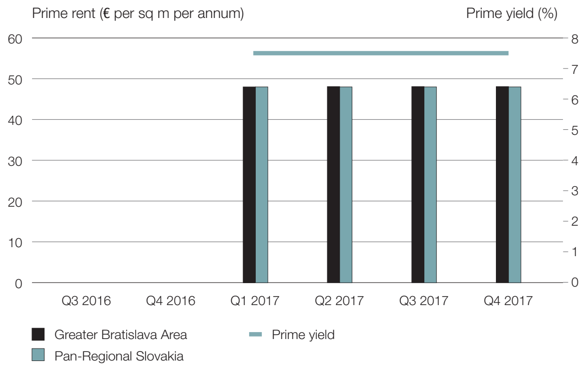
Prime rents and yields



2018 Outlook			
Occupier demand	→	Investor activity	↗
Development supply	↗	Prime rents	→
Availability	↗	Prime yields	→

LOGISTICS

Prime rents and yields



2018 Outlook			
Occupier demand	↗	Investor activity	↗
Development supply	↗	Prime rents	→
Availability	↗	Prime yields	↘

Spain

46,354,321
Population

1,232
GDP (US $bn)

2
Average cost per pint (Euro)

636
Annual rainfall (mm per year)

66
Airports

105
Ports

Commentary

The Spanish economy has grown higher than the European Union average, despite the negative impact of the Catalonian political uncertainty. However the political outlook is now looking more stable and it's likely that in 2018, the economy will remain strong in Barcelona and in Catalonia.

Overall GDP growth is expected to ease over the next two years. While private consumption will remain the main driver, a slowdown is expected in the pace of job creation as well as a slowdown in other factors such as household disposable income, and the decrease in oil prices.

Although employment growth is set to ease, the unemployment rate will continue to fall to about 14% by 2019, and as a result, a gradual rise in wage growth is expected over the next two years.

Inflation is expected to moderate, due to fluctuations in the price of oil, and the appreciation of the euro. However, this will likely increase again in 2019 as oil prices stabilise.

Occupier demand is expected to continue to increase in the Madrid office market, as long as unemployment continues to decrease and rents remain fairly stable, which have only shown small increases in the outer areas. The office availability rate remains stable at 11%, although there are significant variations between CBD and outer areas.

In Barcelona, occupier demand for offices has been high in the new business area due to the new supply of grade A office space, however demand did ease as we moved through 2017 due to the tensions between the Catalan and Spanish governments. However this situation has begun to stabilise which could lead to an increase in letting activity in 2018.

Barcelona continues to remain attractive to overseas companies and investors, due to the low rents compared to similar cities around Europe.

The occupier demand for Barcelona logistics will also be influenced by what will happen in Catalonia in the near future. Currently availability is low, and if the political situation remains stable, the vacancy rate will continue to drop and the construction of new logistics units could resume.

The retail sector in Barcelona has performed well in 2017 which has led to an increased demand for larger higher quality units, particularly as current availability remains low in key shopping areas.

Both international and domestic investors are expected to remain active, mostly due to lack of other investment opportunities with similar yield potential. Office investment demand will, in general, continue to be limited to Madrid and to a much lesser extent, Barcelona. The smaller secondary cities, such as Málaga, Valencia, Bilbao, Santander or San Sebastián show more attractive yields, but draw less attention.

Despite the lack of available assets, overall transaction volumes in Spain reached 5.3 billion euros in 2017, exceeding the 4.3 billion euros achieved in 2016. As a result of the high demand, prime yields have compressed across most asset classes.

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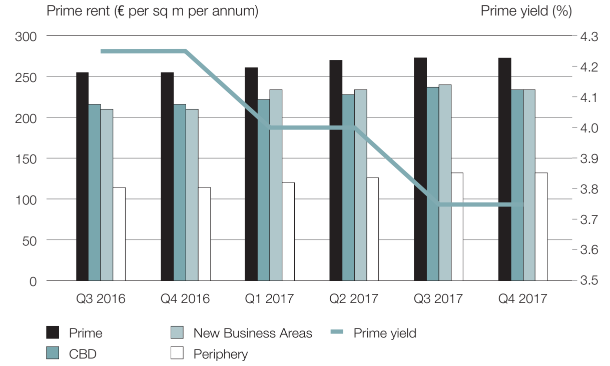
Barcelona

OFFICES

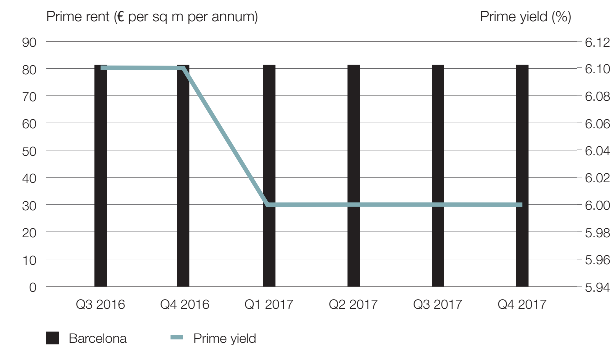
Prime rents and yields



2018 Outlook			
Occupier demand	↘	Investor activity	↘
Development supply	→	Prime rents	↘
Availability	→	Prime yields	→

LOGISTICS

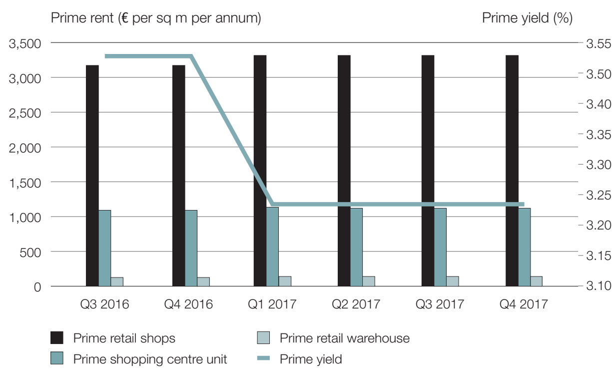
Prime rents and yields



2018 Outlook			
Occupier demand	→	Investor activity	↘
Development supply	→	Prime rents	↘
Availability	→	Prime yields	→

RETAIL

Prime rents and yields

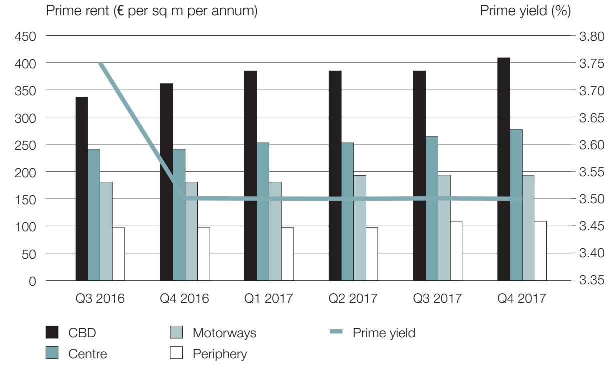


2018 Outlook			
Occupier demand	↗	Investor activity	↗
Development supply	→	Prime rents	↗
Availability	↘	Prime yields	↘

Madrid

OFFICES

Prime rents and yields



2018 Outlook			
Occupier demand	↗	Investor activity	↗
Development supply	↗	Prime rents	↗
Availability	↘	Prime yields	→

Turkey

80,745,020
Population

858
GDP (US $bn)

3
Average cost per pint (Euro)

593
Annual rainfall (mm per year)

63
Airports

50
Ports

Commentary

The Turkish economy registered strong growth in 2017, driven by an increase in foreign demand, construction activity and a range of government policies, from expansionary fiscal policy to credit guarantees and the loosening of macro-prudential regulations.

The outlook for the business sector is also encouraging, following the surge in construction investment and high wage growth. Industrial production has expanded at an increasing rate since the beginning of 2017 and this expansion is broadening out from foreign-demand exposed sectors to more domestically-oriented sectors.

This broadening and strengthening of industrial production is expected to finally flow over into renewed investments into machinery and equipment.

However, despite the positive economic picture, occupier and investor sentiment in real estate, particularly for office units, is less encouraging. The volatility of exchange rates, and high inflation and unemployment rates, are ultimately negatively affecting the rental market.

The improvement in the Turkish economy should have a positive impact on investment activity in the logistics market. Demand in the sector is expected to remain robust in 2018 regardless of the volatility in the exchange rates and uncertainties in the business environment.

Occupier demand for retail is also subdued although as prime rents have fallen, opportunities have been created for retailers to expand, following a significant period of store consolidations.

Much more flexibility on lease incentives such as rent free periods and fit-out contributions were observed in the market. New shopping centres with low occupancy levels even offer pure turnover rents for a limited time up to one year.

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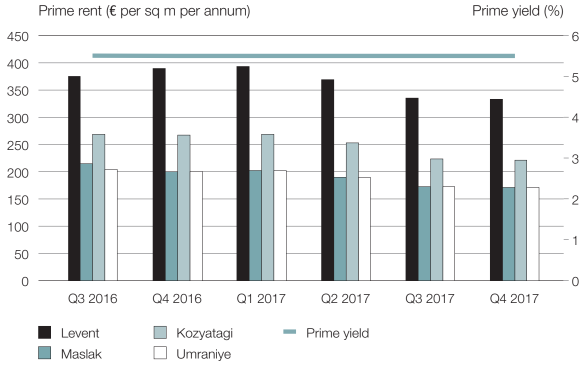
Istanbul

OFFICES

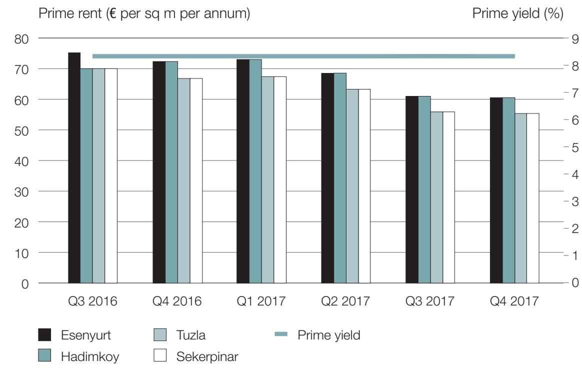
Prime rents and yields



2018 Outlook			
Occupier demand	→	Investor activity	↘
Development supply	→	Prime rents	↘
Availability	↘	Prime yields	→

LOGISTICS

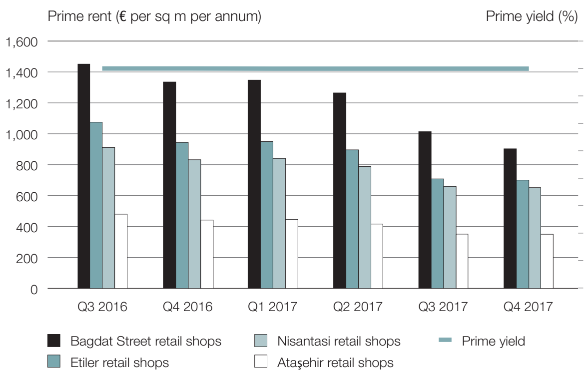
Prime rents and yields



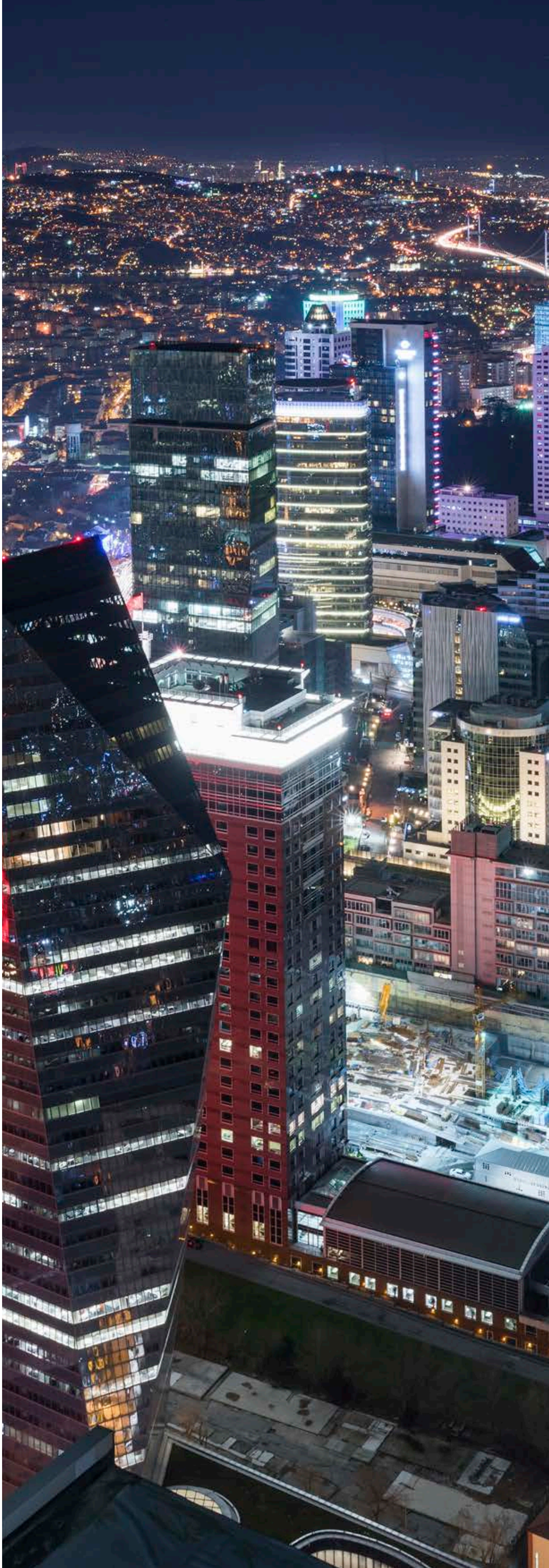
2018 Outlook			
Occupier demand	→	Investor activity	↗
Development supply	→	Prime rents	→
Availability	↘	Prime yields	→

RETAIL

Prime rents and yields



2018 Outlook			
Occupier demand	↗	Investor activity	↗
Development supply	→	Prime rents	↗
Availability	↘	Prime yields	↘



United Kingdom

66,181,585
Population

2,619
GDP (US $bn)

3
Average cost per pint (Euro)

1,220
Annual rainfall (mm per year)

126
Airports

391
Ports

Commentary

Despite initial resilience following the referendum in June 2016, UK economic growth slowed in 2017 and is expected to reduce further over the next two years. This is largely a consequence of the decline in private consumption growth, and the squeeze on real disposable incomes as nominal wage growth fell below consumer price inflation. Consumer prices rose sharply in 2017 following the 2016 depreciation of sterling.

Business investment also remains relatively subdued, as a result of heightened uncertainty. This is likely to continue as many firms are willing to continue to defer investment decisions until more clarity on the market is revealed.

In Belfast, the political uncertainty following the collapse of the Stormont Executive has been running for over a year with the prospect of the restoration of the devolved institutions as remote as ever. Continued austerity measures are putting further pressure on government spending. One local measure being considered to help fill the gap is an increase in business rates and reduction in the various reliefs and exemptions available to rate payers.

If implemented, we expect this to be a barrier to rental growth across all sectors.

The agreement reached by the EU and the UK Government enabling Brexit negotiations to move onto the second phase is encouraging, but the detail of how a hard border will be avoided remains to be seen. We expect the picture to become clearer during 2018 regarding what implications this will have on cross border trade and future trade relations with other EU member states.

The fall in the value of sterling has made Northern Ireland a more attractive tourist location and 2017 saw record visitor numbers.

This is helping spur a hotel boom within Belfast with further growth in visitor numbers expected in 2018.

The Belfast office market performed well through 2017, with take-up on par with 2016. The lack of new developments has led to a decrease in overall availability, particularly of grade A stock, and as a result, further rental growth is expected in 2018.

Likewise in the logistics sector, second hand space continues to dominate the market due to a severe lack of new high-quality purpose build space available. However demand for space remains high, and the weakened value of sterling helped manufacturers and exporters generate record sales for 2017.

On the UK mainland, while concerns remain over London and the possible exodus of occupiers, many of the regional markets remain optimistic. Recently there's been a shift in attitudes towards the regional cities, particularly favouring Manchester and Birmingham. Occupiers are increasingly seeing them as a viable place to occupy premises and pay lower rents.

UK regional markets are no longer just back-office destinations, they are well connected, and a nice place to live and bring up your family with cheaper occupational costs. As a result, a growing number of large consultancies and banks have continued to relocate to those locations.

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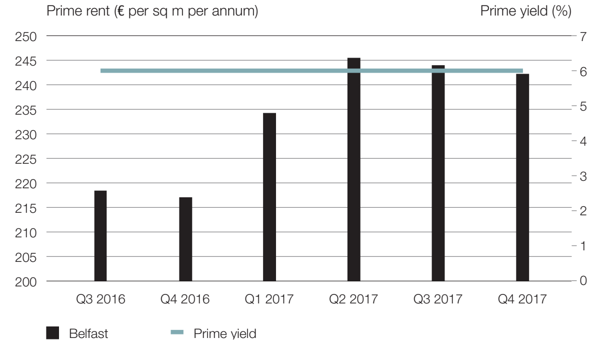
Belfast

OFFICES

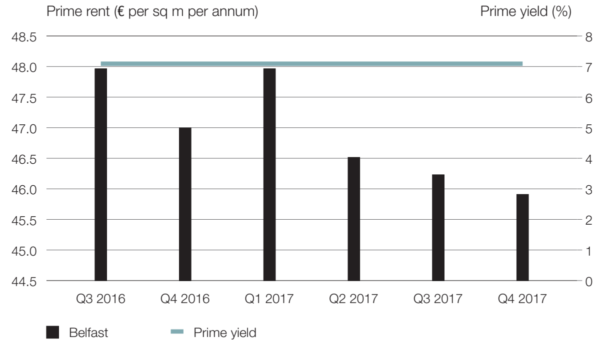
Prime rents and yields



2018 Outlook			
Occupier demand	→	Investor activity	↗
Development supply	↗	Prime rents	↗
Availability	↗	Prime yields	→

LOGISTICS

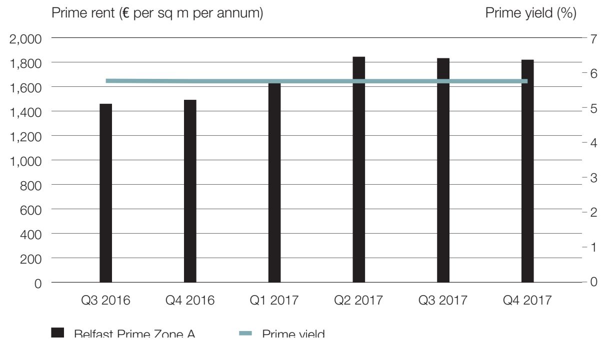
Prime rents and yields



2018 Outlook			
Occupier demand	↗	Investor activity	↗
Development supply	→	Prime rents	↗
Availability	→	Prime yields	→

RETAIL

Prime rents and yields

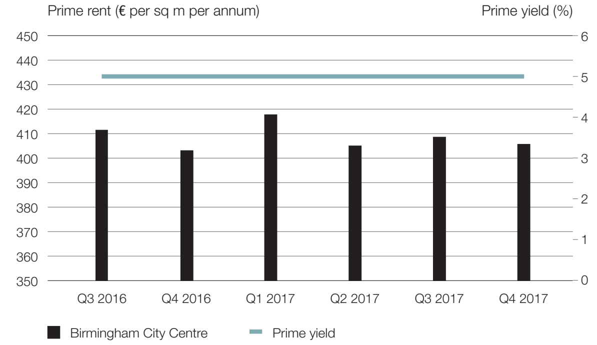


2018 Outlook			
Occupier demand	↗	Investor activity	→
Development supply	→	Prime rents	↗
Availability	↘	Prime yields	→

Birmingham

OFFICES

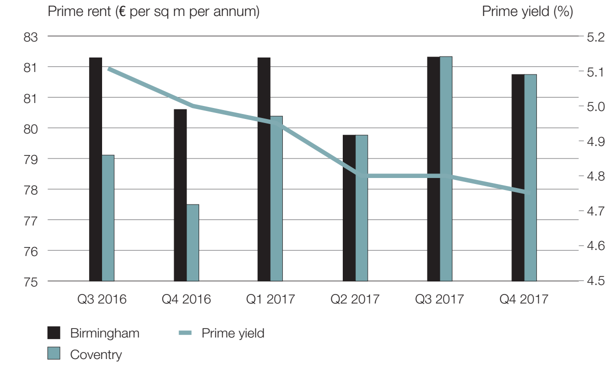
Prime rents and yields



2018 Outlook			
Occupier demand	↗	Investor activity	→
Development supply	→	Prime rents	↗
Availability	↘	Prime yields	→

LOGISTICS

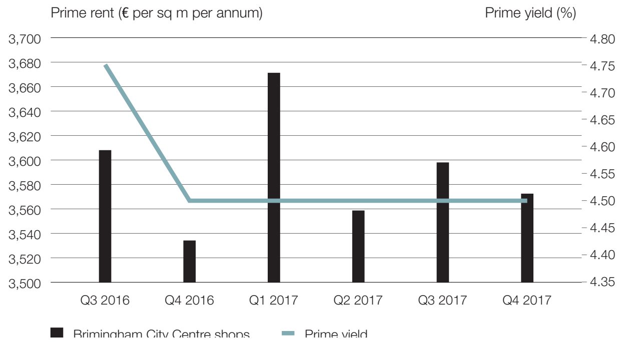
Prime rents and yields



2018 Outlook			
Occupier demand	↗	Investor activity	→
Development supply	↗	Prime rents	↗
Availability	→↗	Prime yields	→

RETAIL

Prime rents and yields

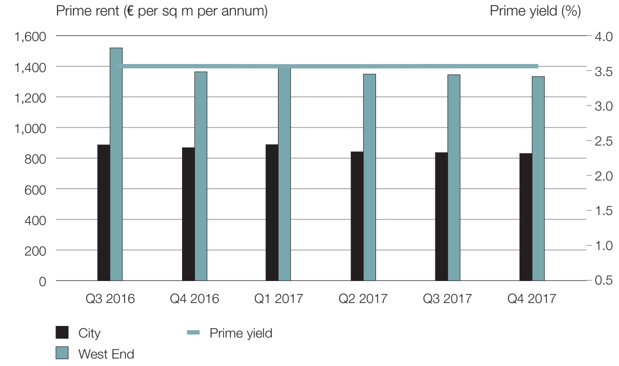


2018 Outlook			
Occupier demand	↗	Investor activity	→
Development supply	→	Prime rents	↗
Availability	↘	Prime yields	→

London

OFFICES

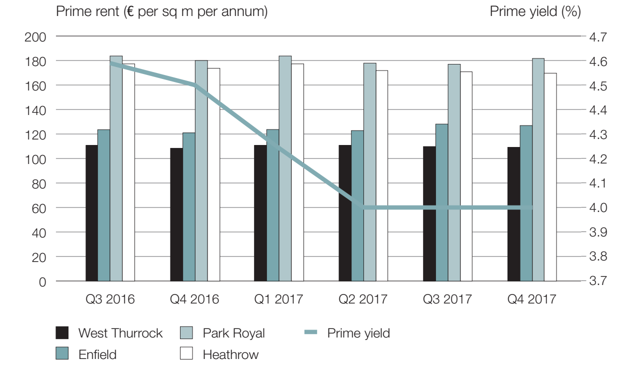
Prime rents and yields



2018 Outlook			
Occupier demand	→	Investor activity	↗
Development supply	↘	Prime rents	→
Availability	↘	Prime yields	↗

LOGISTICS

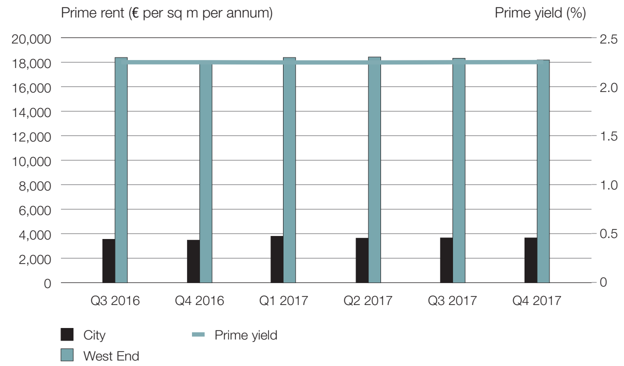
Prime rents and yields



2018 Outlook			
Occupier demand	→	Investor activity	→
Development supply	↗	Prime rents	↗
Availability	→↗	Prime yields	→

RETAIL

Prime rents and yields

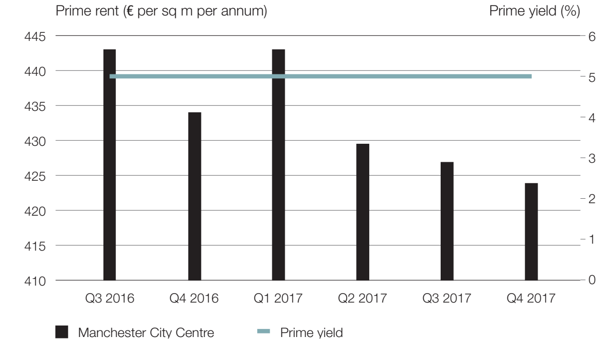


2018 Outlook			
Occupier demand	→	Investor activity	→
Development supply	→	Prime rents	↗
Availability	↘	Prime yields	→

Manchester

OFFICES

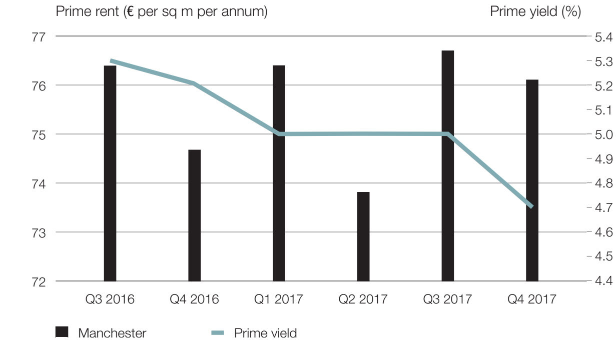
Prime rents and yields



2018 Outlook			
Occupier demand	→	Investor activity	→
Development supply	→	Prime rents	↗
Availability	↘	Prime yields	→

LOGISTICS

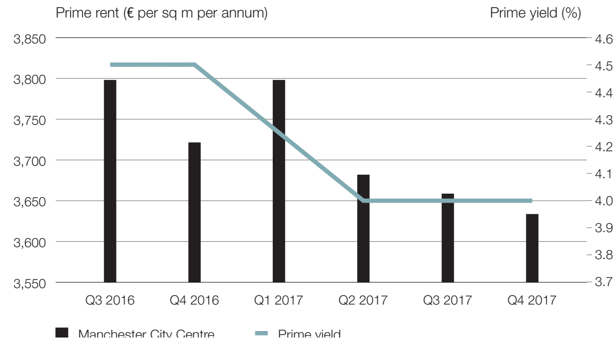
Prime rents and yields



2018 Outlook			
Occupier demand	→	Investor activity	→
Development supply	↗	Prime rents	↗
Availability	→↗	Prime yields	→

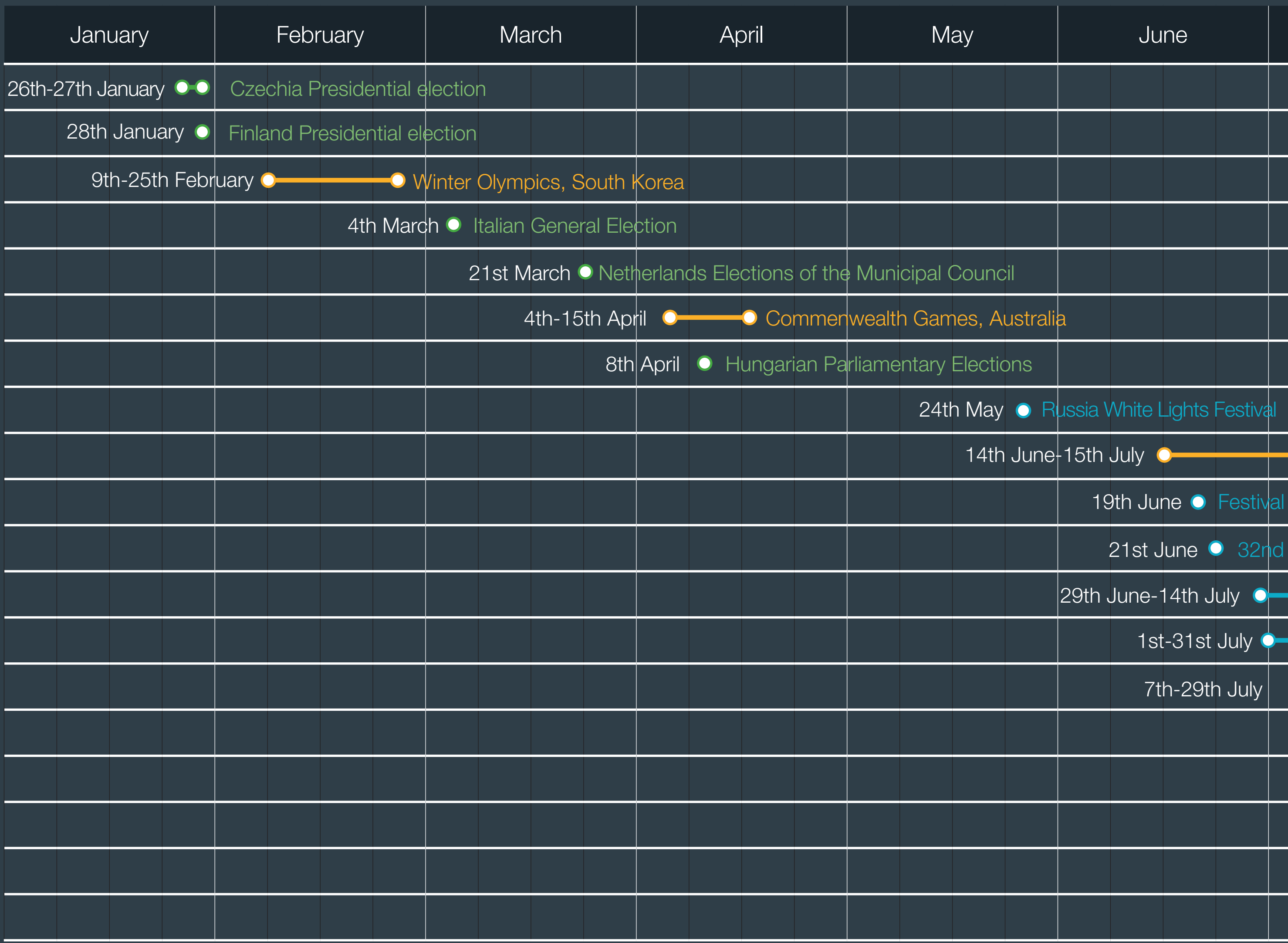
RETAIL

Prime rents and yields

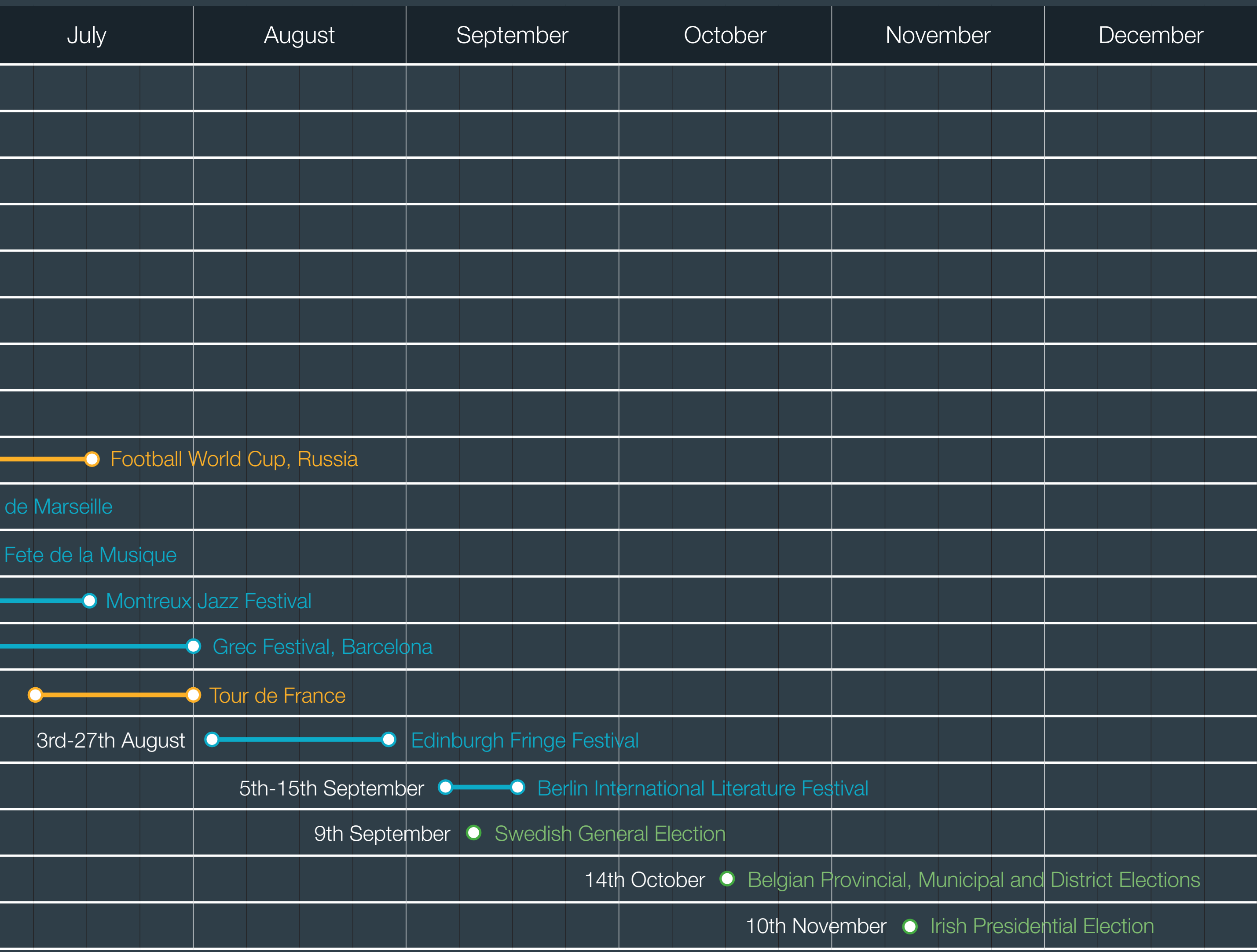


2018 Outlook			
Occupier demand	↗	Investor activity	→
Development supply	→	Prime rents	↗
Availability	↘	Prime yields	→

2018 Events



Political event
Sporting event
Cultural event


July
August
September
October
November
December
Football World Cup, Russia
de Marseille
Fete de la Musique
Montreux Jazz Festival
Grec Festival, Barcelona
Tour de France
3rd-27th August
Edinburgh Fringe Festival
5th-15th September
Berlin International Literature Festival
9th September
Swedish General Election
14th October
Belgian Provincial, Municipal and District Elections
10th November
Irish Presidential Election

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