



EMEA

CAPITAL FLOWS

QUARTER 3 | 2018



FIGURE 1:
GLOBAL OIL PRICES,
ANNUAL GROWTH
2000-2009

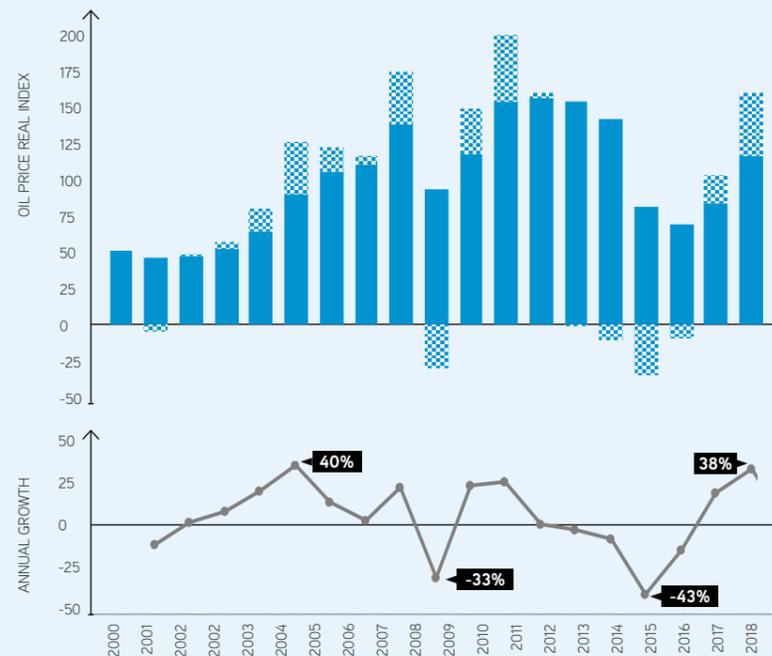


FIGURE 2:
INDUSTRIAL PRODUCTION
INDEX VS GDP GROWTH
Q/Q, 2Q 2004 TO 2Q 2018
IN THE EU28

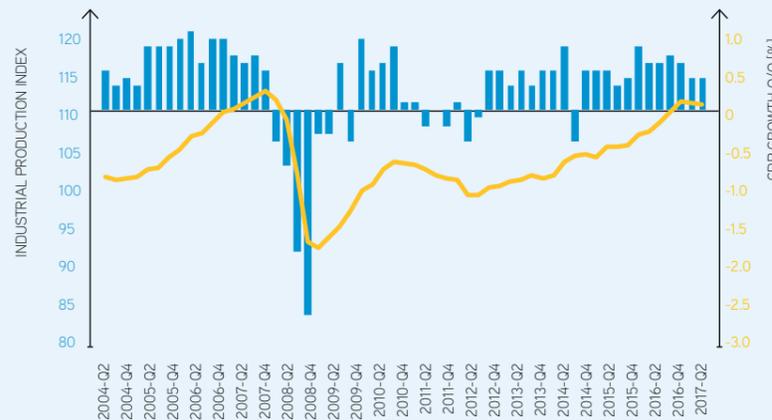
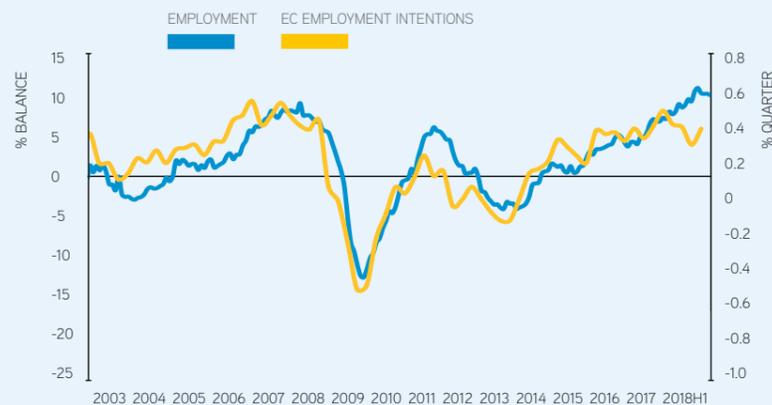


FIGURE 3:
EUROZONE:
EMPLOYMENT &
EMPLOYER INTENTIONS



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

MACRO CONTEXT

Re-shaping Global Trade

2018 has been another positive year for global economic growth, which has been good for real estate markets. Yet as the year comes to a close, all signs point to a re-shaping of global economies, and to a degree global real estate markets, in response to ongoing global trade disputes, oil price rises, the final tapering of QE, a more recent rapid bond-yield shift led by the US and a subsequent impending rise in interest rates.

On a positive note the US, Canada and Mexico have now agreed terms on their new USMCA pact (Nafta 2.0) which will help to stabilise trade/the economies of North America. But the ongoing US - China dispute is of greater global significance and looks set to rumble on for some time. Short-term this will dent global economic growth and devalue the Yuan. The likely mid-term result is a re-globalisation of Chinese trade, spurring the creation of an Asian trading bloc, partly underway via President Xi Jinping's 'One Belt, One Road' economic policy. China's trading partners in East and Southeast Asia will reap the positive benefits of this shift. President Trump's goals of preserving America's global technological pre-eminence and re-shoring manufacturing jobs are unlikely to be realised, but economic growth in the US is forecast to remain solid.

Brexit

As a broader degeneration of globalised trading into regional blocs emerges, this could strengthen the hand of the European trade bloc in negotiations with the UK. That said, it is highly unlikely the UK will crash out of the EU come March in a 'no-deal' Brexit - it will be too damaging for both the UK and European economies.

Volatility will surge in the run-up to decision time in March 2019, generating sterling related opportunities in the short-term. Over the mid-term, the most likely result of negotiations is a 'Chequers-lite' deal, but with a transition period that could last for many years.

Economic Impact

The likely long-term economic impact of Brexit on the UK averages out to an annual 0.5% pa reduction in GDP. Sterling should also gradually recover closer to its long-term level of around \$1.45 to \$1.50. The impact on European economic output remains uncertain, not least because of the broader global challenges at play, but a similar drop in output may be realised. This is now visible in European PMI readings, the EU28 industrial production index, employment intentions and GDP forecasts - all of which are showing signs of cooling. Although the last 12-month period has seen sustained occupier demand for commercial real estate in Europe, declining labour capacity - the Eurozone rate was down to ca. 8% in mid-2018 - is starting to hinder corporate expansion. Coupled with rising input costs, notably via higher oil prices and pressure on wages, the cost of doing business is becoming more challenging.

All-in-all, 2019 looks set to bring a heady mix of conflicting factors. A drop in equity values also looks highly probable. Rising bond yields are going to put property yields under pressure, but primarily in the US/North America where rates are going to move faster. The UK will move next, as it is ahead of the European cycle, but neither market will move as extensively as the US in the next 12 months. Additionally, economic growth will continue to support occupier markets.



GLOBAL INVESTMENT FLOWS

At a global scale, investment transactions year-to-date (YTD) depict a continuation of the trend witnessed at end 2017. Asian markets continued to witness expansionary investment activity, far outstripping volumes in the Americas and EMEA.

The Americas, dominated by the US, which have remained flat. EMEA has seen volumes decline by around 10% year-on-year (y/y), but that is an improvement on much weaker Q1 results which were almost 30% down y/y.

If the remainder of 2018 plays out as it has done in previous years across each region, AsiaPac will be by far the busiest market. The Americas will be at the same levels seen in 2017, while EMEA - as expected at such a late stage of the cycle - will be down

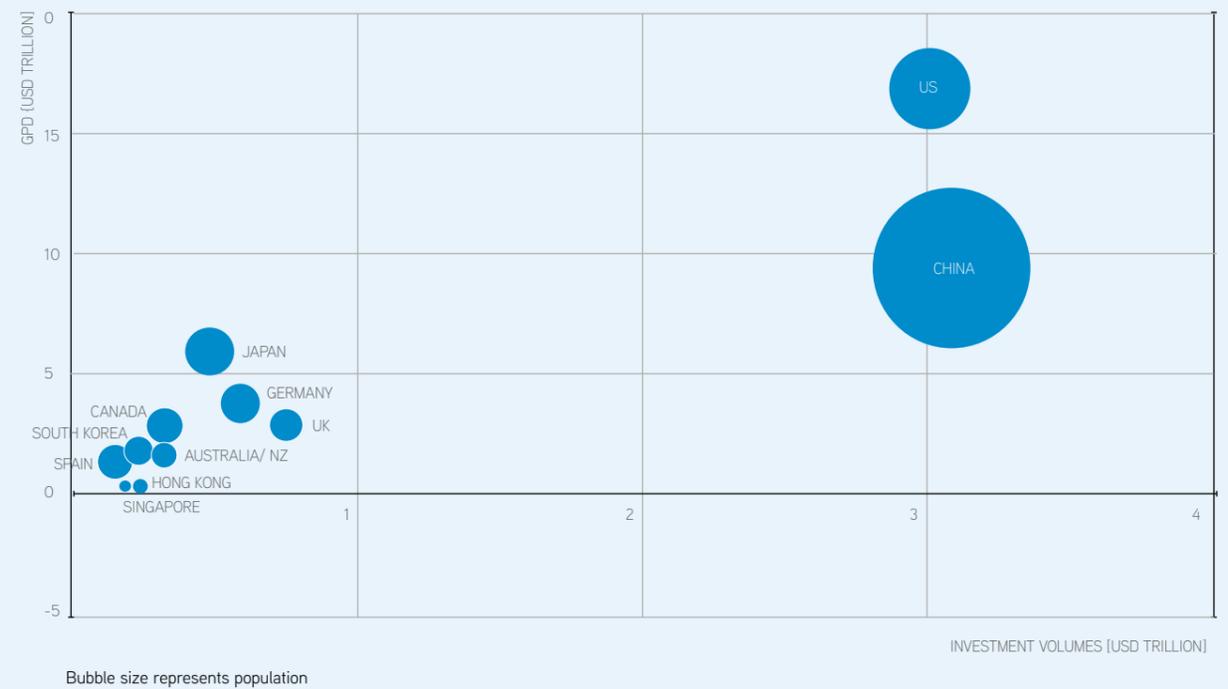
by around 10% on 2017 volumes as current (high) pricing, lack of product and political uncertainty cause some investors to stand on the sidelines.

It is worth noting, however, that these overall volumes mask big differences in activity within regions. Within AsiaPac, for example, activity is dominated by Chinese Real Estate companies and around 10% of activity overall is a result of these companies' land-banking for housebuilding projects. Equally, activity has been very concentrated on Hong Kong during the first half of 2018 - accounting for more activity than Japan and China combined. Investment into the US and Europe tends to be distributed far wider, and currently accounts for more activity than Japan and China combined.

FIGURE 4:
GLOBAL INVESTMENT VOLUME BY GLOBAL REGION



FIGURE 5:
GLOBAL INVESTMENT VOLUMES VS GDP MAJOR MARKETS



Sources: Figure 4: Colliers International, RCA | Figure 5: Colliers International /RCA/OxfordEconomics

FIGURE 6:
COUNTRY INVESTMENT VOLUMES
 2017- H1 2018 VS. H2 2013 - H1 2018 [ANNUAL AVERAGE]

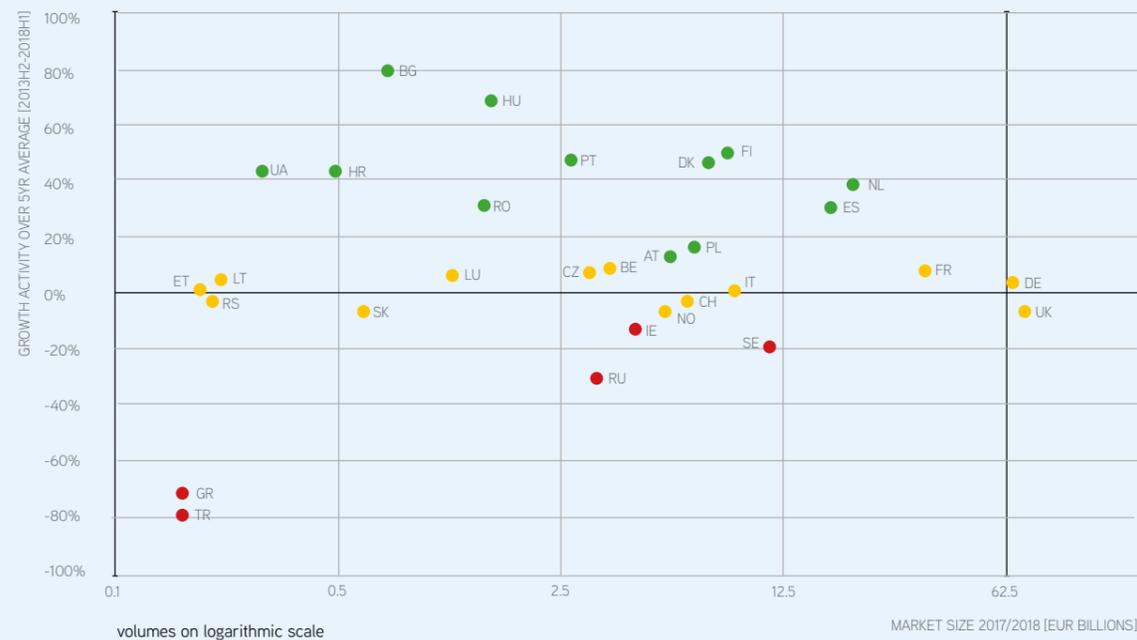


FIGURE 7:
CITY INVESTMENT VOLUMES
 2017- H1 2018 VS. H2 2013 - H1 2018 [ANNUAL AVERAGE]



Sources: Figure 6: Colliers International, RCA | Figure 7: Colliers International, RCA

EUROPEAN INVESTMENT FLOWS

Country Flows

By country, the UK, Germany and France continue to lead on activity overall since 2017, matching their 5-year trading average. Markets slipping down the investment ladder are Turkey, Greece and Russia – none of which is a surprise given recent and ongoing events concerning those markets. Investment in the Republic of Ireland, and more notably Sweden points to a bit of a decline in activity. Irish investment volumes can be misleading due to their more erratic nature - large lot sizes in a small market – but it looks like the downturn in Sweden could be the start of a longer cooling-off period. Low yields, expensive pricing and rising interest rates point to a more challenging environment, until yields start to move out.

There are more markets featuring on the upside. The Netherlands, Spain, Finland and Denmark have all witnessed a big rise in investment, driven by their belated, but rapid economic uplift in recent years (esp. Finland and Spain) and/or significant turnaround in real estate market fundamentals (esp. The Netherlands).

The wave of money looking for yield has also continued to ripple out from the core and support growth in volumes in some of the more peripheral European economies. Bulgaria, Hungary, Portugal and Croatia feature as some of the strongest growth markets YTD in 2018.

City-level Activity

A dive into city-wide investment activity corroborates these country-wide investment trends with Helsinki leading the growth line, closely followed by the likes of Madrid, Amsterdam, Utrecht, Copenhagen, Rotterdam and Brussels. Leipzig also features, representing the shift into the Tier 2 cities of Germany, although Dresden counters this trend. The main growth in German investment activity continues to be in the Big 7 markets, led by Berlin, but with Frankfurt, Düsseldorf and Hamburg all closely behind. In the UK, declines in London-based activity are showing through while UK regional city activity remains flat.

Despite the fall in activity, 2018 will be another strong year for investment into Europe. Whether similar levels of investment can be sustained in 2019 remains to be seen. An analysis of capital flows in terms of who is buying, what they're buying, and where, points to a market very much in transition. Equally, occupier markets are being increasingly shaped by structural/ disruptive market forces leading to an ongoing distribution of capital away from traditional offices and retail, as modern mixed-use, residential and a variety of alternative uses come to the fore.

AROUND THE MARKETS

DUBLIN There was a steady volume of transactional activity at lower values, as the banks continue to deleverage loans, and assets contained within previous loan sales are recycled into the market. The presence of new investors signalled a dynamic environment, and new participants included KanAM, AGC, Meyer Bergmann, Tischman Speyer, CommerReal, Oxley, La Francaise Partners and Thor Equities, among others. However, Dublin is now a mature market where opportunistic investment is evolving towards value-add strategies that seek to maximise income generation from existing assets.

LONDON Investment activity picked up in Q2 2018 after a very slow start to the year. Transaction volumes rose to £7.1 bn in Q2, the best quarterly performance in a year and up 60% from a disappointing Q1. Investment volumes also returned to a level which is above the 10-year average of £5.3 bn. Overseas capital remains the main source of financing, accounting for roughly 60% of all investment in 2018, of which Far Eastern investors remained the dominant force, while Middle Eastern and US investors were more cautious than in previous years. A number of large deals took place at the start of H2 2018, led by NPS of Korea's £1.2 bn purchase of a 840,000 sq ft office building at 40 Shoe Lane.

MANCHESTER is on course to reach £1 bn worth of investment for the fifth year running, following a record 2017 (£1.6 bn). The alternative/mixed-use segment of the market accounted for over 50% of all investment volumes in the year to date, up from 21% in 2017. The largest deal was the £200 mn purchase of 350 PRS units by L&G, followed by Secure Income REIT's acquisition of Manchester Arena for £102 mn at 5.6% IY (Initial Yield). The market was dominated by domestic capital, with overseas investors accounting for just 10% of all investment volumes. UK institutions were the main investor type, with over 50% of all transaction volumes.

PARIS Investments in Île-de-France reached €9.1 bn in H1 2018, an increase of 69% y/y, of which Paris totalled nearly € 5 bn. Investment activity in H1 2018 was driven by the large transactions, with 28 transactions of more than €100 mn, including the acquisition by Blackstone of two buildings to be built in the 'Chapelle international' development in Paris' 18th arrondissement, Generali's acquisition of the Heart 'Marais and Flive' developments in the 3rd arrondissement, and Sogecap's acquisition of the Kosmo development in Neuilly-sur-Seine. Prime yields remained low, between 3% and 3.25% in Paris CBD, and between 3.25% and 5% in the first periphery sectors.

BERLIN The Berlin investment market reported transaction volumes well above the long-term average in H1 2018. Office property remained the most popular asset class among investors, accounting for 47% of transaction volumes. As usual, asset managers were particularly active among the buyer groups, followed by open-ended real estate funds and opportunity funds / private equity funds. Since the turn of the year, gross initial yields have reached a new historic low. Office and retail assets are currently claiming yields of 3.2%. A transaction volume of around € 6 billion is forecast for 2018.

FRANKFURT The investment market is riding high on the back of positive performance in the rental market, combined with a low interest-rate environment. Transaction volumes of just under € 3.2 bn in the H1 2018, marked an increase of almost 50% compared with H1 2017. Several major transactions, including the purchase of the Gallileo high-rise by Capitaland Commercial Trust from Singapore, contributed to this result. In the course of the second quarter, international investors increased their share of the buyer side - from around 40% in Q1 2018 to around 60% in Q2 2018. Due to continuing high demand, the yields remain low, although yield compression did not continue in the second quarter of 2018.

STOCKHOLM Yield compression continued in Q2 2018, when compared to Q1 2018. Average yields for Q2 purchases reached 4.05%, in comparison to 4.52% the previous quarter. The most important transaction in terms of size was a residential project in Alby, at 108,542 sqm and a price of SEK 1,673 mn (yield 3.57%). The buyer was D. Carnegie, a residential real estate developer, and the seller was Byggmästare Anders J. Ahlström. Regarding commercial real estate investment, total transaction volumes in Stockholm in Q2 2018 stood at SEK 12,029 mn, of which 41% were invested in the office sector.

WARSAW Total investment volumes amounted to €3.24 bn, and yields remained stable in H1 2018. Poland leads the CEE region in terms of volume, diversity and liquidity. Investor demand remains strong across all asset classes, particularly portfolio retail deals. The market noted high activity among new investors, with names including Griffin Real Estate, EPP, Revetas and Goldman Sachs, Employees Provident Fund and Globalworth. The retail sector accounted for 60% of the total investment volume (€ 1.9 bn), with the office sector accounting for 30% (€0.9 bn). The industrial sector recorded €0.34 bn of transaction volume.

FIGURE 8:
CROSS-BORDER CAPITAL BY SOURCE

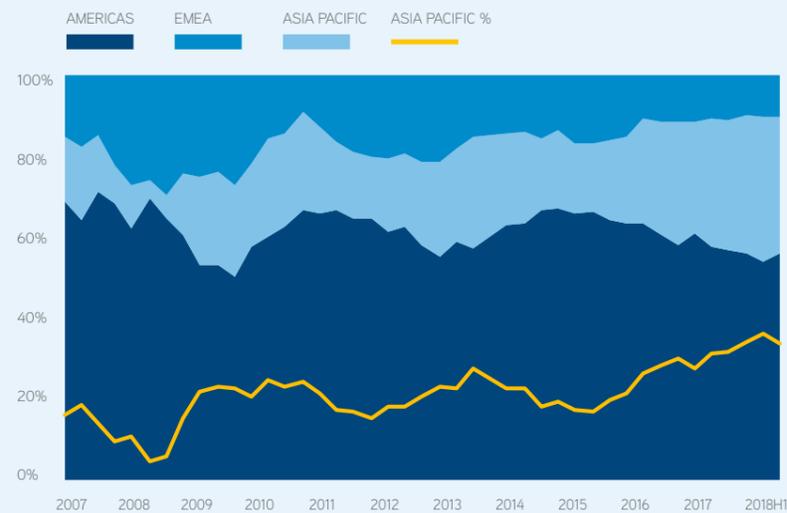


FIGURE 9:
ASIAN CAPITAL IN EUROPE BY SOURCE

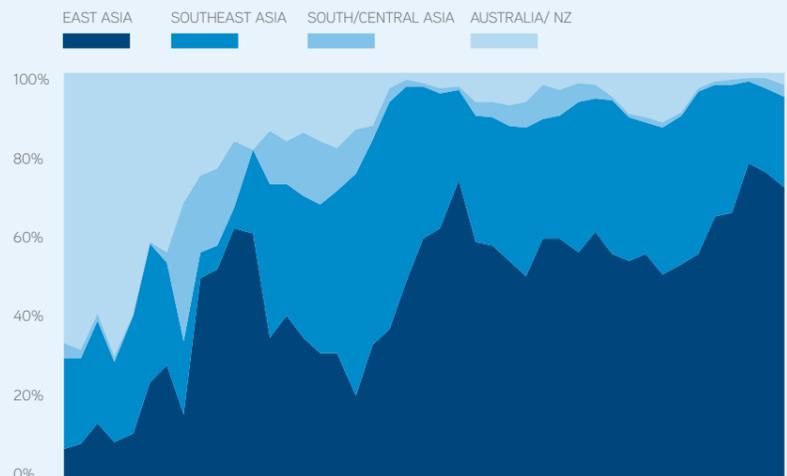
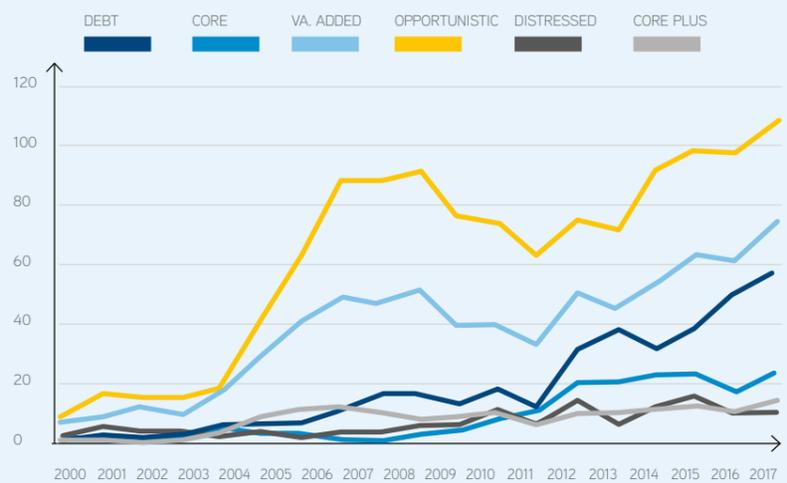


FIGURE 10:
GLOBAL 'DRY POWDER' BY STRATEGY



Sources: Figure 8: Colliers International, RCA | Figure 9: Colliers International, RCA | Figure 10: Colliers International, Prequin

EUROPEAN ACTIVITY - SOURCES OF CAPITAL

Although North American and European funds and fund managers have been consolidating significantly and increasingly dominating global and European activity over this investment cycle, we now have a more balanced position between cross-border and domestic capital, with each accounting for 50% of activity YTD.

The Rise of Asian Capital

But when we review cross-border activity we can see a rapid rise in the market share of Asian Capital – from sub-15% in 2015 to over 30% today. The composition of this capital is also rapidly changing. Back in 2008 the Australian funds dominated, before things took their well-known dip. Chinese, Hong Kong and Singaporean capital was then very much at the forefront of activity as the market picked up between 2012-2015.

Singaporean capital remains very acquisitive, but Chinese buying activity has been curtailed by capital controls with Korean capital taking over the reins for core product in the traditional property sectors. We are also starting to see a re-emergence of Australian and Japanese capital make bidding in-roads into the market.

Conversely, there has been diminishing levels of activity from the MEA region, and from SWFs generally. Yet a surge in oil prices this year could improve their spending power, leading to an increase in buy-side activity in 2019 and beyond.

Looking ahead, we expect a continuation of this shift in capital and perhaps a resurgence from China - although, their

strategies will be in a different guise to that of the last few years. Major global funds will remain active, but for those that consolidated in the last 12-18 months, there may be a reduced level of activity until existing assets and portfolios are asset managed to reflect what they want to hold longer term. At which point we may see some assets coming back to the market.

Dry Powder Strategies

A view of dry powder held across funds globally highlights there is a much greater proportion of opportunistic and value-add capital to be spent. Coupled with the low yields in situ for core assets across European cities, the more risk-capable nature of this dry powder could help determine that future activity is focused on

- higher risk assets/asset repositioning in sub-locations in core city markets (ABBA);
- an increase in development given mid-year office and industrial/logistics trends point to a dearth of new product coming to market in the right locations;
- further investment into less traditional sectors, notably residential/hospitality and healthcare and the range of opportunities they present;
- growth in alternative debt provision.

Impending rate rises will also have an impact on investor strategies, but it is unlikely yields will be materially impacted across Europe over the next 12 months.

FIGURE 12: PRIME RENT INDICES EUROPE

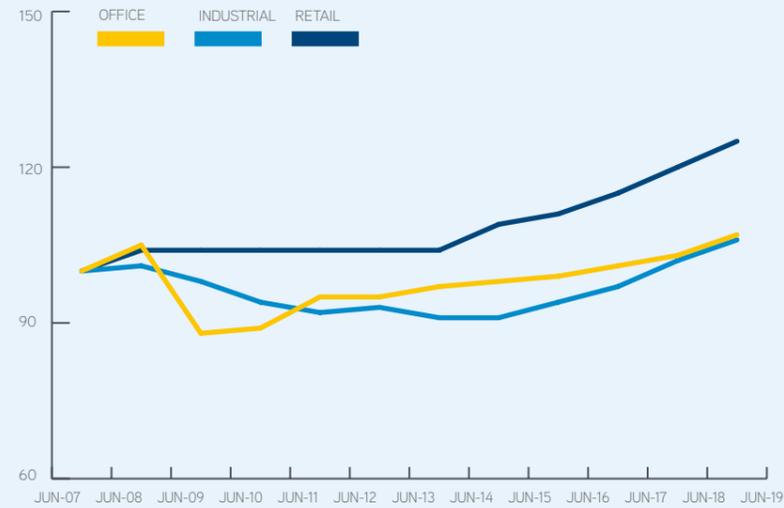


FIGURE 13: INVESTMENT VOLUMES BY SECTOR: RESIDENTIAL EXPANSION

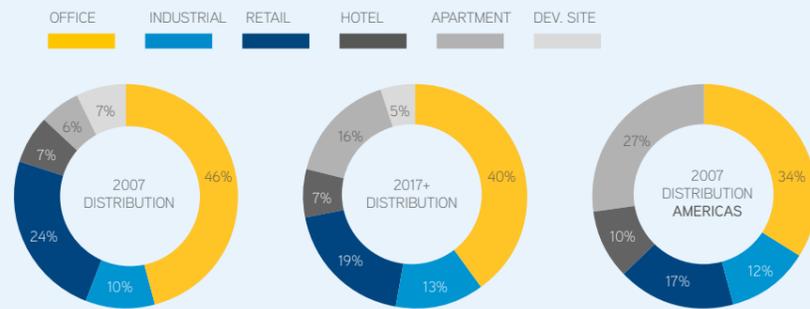


TABLE 1: HEADLINE MARKET RETURNS TO H1 2018

	OFFICES (CBD)			INDUSTRIAL (LOGISTICS)			RETAIL (SHOPPING CENTRES)		
	5yr	3yr	1yr	5yr	3yr	1yr	5yr	3yr	1yr
London	4.5%	-1.5%	0.4%	16.8%	12.0%	27.2%	15.1%	6.5%	16.7%
Birmingham	6.9%	3.7%	5.7%	14.5%	9.9%	11.1%	6.8%	3.1%	-5.9%
Paris	7.9%	9.5%	8.4%	9.2%	11.0%	17.9%	9.6%	10.1%	0.0%
Berlin	21.3%	28.9%	14.1%	12.9%	15.7%	15.9%	5.1%	5.0%	4.9%
Frankfurt	9.8%	10.5%	22.2%	8.3%	9.7%	5.4%	2.5%	2.8%	-1.2%
Munich	6.2%	5.4%	4.5%	10.5%	12.8%	7.7%	8.1%	8.5%	0.0%
Amsterdam	24.8%	28.7%	12.4%	8.5%	17.6%	32.4%	2.7%	4.5%	10.5%
Stockholm	9.2%	12.1%	1.2%	19.2%	26.9%	13.6%	2.8%	2.9%	-3.1%
Copenhagen	6.5%	7.3%	15.5%	9.8%	18.2%	4.5%	11.5%	16.8%	0.0%
Madrid	24.6%	27.1%	19.0%	10.5%	10.2%	12.8%	20.9%	31.4%	28.2%
Milan	11.6%	15.5%	-1.1%	2.0%	3.8%	0.0%	8.3%	11.9%	0.0%
Warsaw	4.6%	9.4%	3.0%	3.1%	4.9%	0.0%	8.9%	9.2%	-0.8%
Prague	6.1%	8.9%	8.7%	4.9%	4.7%	0.0%	14.5%	14.7%	17.4%
Budapest	10.8%	15.3%	20.6%	5.3%	11.1%	7.4%	4.7%	9.9%	4.2%

Sources: Figure 12: Colliers International | Figure 13: Colliers International, RCA | Table 1: Colliers International | Table 2: Colliers International

SUMMARY

Sector Preferences

If there is one increasingly clear theme showing through in transaction activity over the last 18 months, it is the expansion of investment into residential-based assets, and to a degree industrial. Industrial activity has risen by 3%. Conversely, retail and office investment has declined, and hotel investment has remained flat. Yet residential investment now accounts for 16% of all activity in the past 18 months, compared to only 6% 10 years ago. North American capital is particularly active in this space, and when reviewing Europe compared to North America (where residential investment accounts for around 27% of total activity), this suggests plenty of room for expansion.

Occupier Cycles

Occupier markets remained largely positive in 2018, and this was reflected in continued growth in European prime rent indices. Strong occupier expansion, low vacancy and limited development pipelines have supported a gradual shift in market conditions to favour landlords, resulting in rental growth/stability across a majority of markets. This has supported growth in capital values and property returns, despite yields being at their cyclical peak.

Offices: Mid-end 2019 is likely to represent the peak of the European office occupier cycle as cooling economic growth and labour capacity constraints curtail corporate expansion. Constrained pipelines will limit any downside in rents, bar markets where supply/demand imbalances persist. Office values and returns should remain sustainable.

I&L: We expect industrial expansion to run for longer, supported by demand for new logistics space from e-commerce distribution. Growth in consumer demand will continue to drive expansion requirements, while very tight vacancy positions support stable or growing rents in 2019 and beyond.

Retail: The shopping centre rental index depicts a picture of strong growth for prime and dominant centres. While other forms of retail, notably the high street, are coming under increasing 'e-pressure' the position for shopping centres looks solid and could improve further as the retail sector re-structures to offload pockets of excess supply/obsolete space.

TABLE 2: YIELD AND RENT 12M FORECAST Q3 2018

	OFFICES (CBD)		INDUSTRIAL (LOGISTICS)			RETAIL (SHOPPING CENTRES)	
	Office Yield	Office Rent	I&L Yield	Warehouse Rent	Log&Dist Rent	TSC Yield	TSC Rent
London	▶	▶	▼	▲	▲	▶	▼
Birmingham	▶	▲	▼	▲	▲	▶	▼
Paris	▶	▲	▶	▶	▶	▶	▶
Berlin	▶	▲	▶	▲	▲	▼	▶
Frankfurt	▶	▲	▶	▶	▶	▶	▶
Munich	▶	▲	▶	▲	▲	▶	▶
Amsterdam	▼	▲	▼	▲	▲	▼	▶
Stockholm	▶	▶	▶	▶	▶	▶	▼
Copenhagen	▶	▲	▶	▲	▲	▶	▶
Madrid	▶	▲	▶	▶	▶	▼	▶
Milan	▶	▲	▶	▶	▶	▶	▶
Warsaw	▶	▶	▶	▶	▶	▶	▶
Prague	▶	▲	▶	▶	▶	▶	▶
Budapest	▼	▲	▼	▲	▲	▶	▲

FIGURE 14:
US RATE MOVEMENT
10YR T-BILLS AND FED RATE

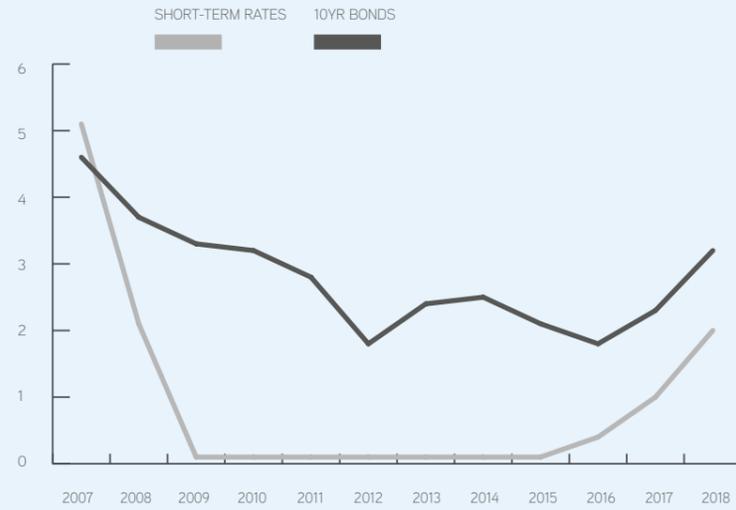


FIGURE 15:
EUROPEAN 10YR BONDS & PRIME YIELDS

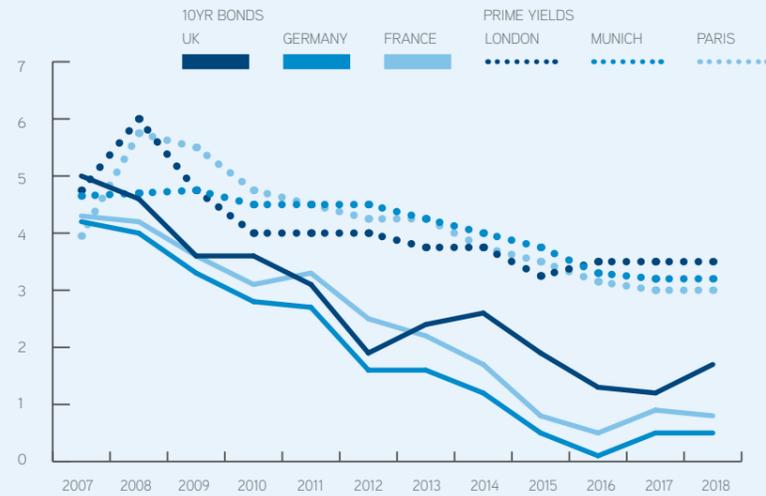
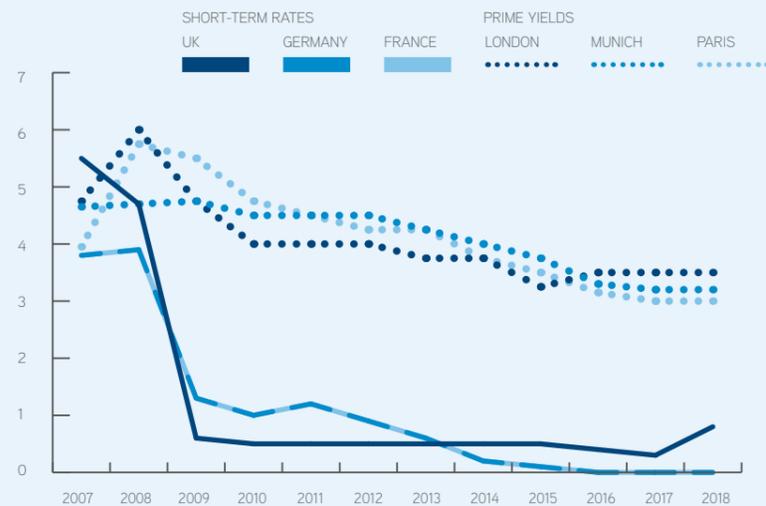


FIGURE 16:
EUROPEAN SHORT-TERM RATES & PRIME YIELDS



Sources: Figure 14: Colliers International, Oxford Economics, Financial Times | Figure 15: Colliers International, Oxford Economics, Financial Times | Figure 16: Colliers International, Oxford Economics

OUTLOOK

The end of the low-rate environment

The recent movement of US 10 year T-bills to 3.23%, German 10yr bonds to 0.6%, and UK Gilts up to 1.65%, signals an end to the excessively low interest rate environment. As the QE tap is switched off and inflation kicks-in, we are likely to see 10yr bond yields move out, followed by subsequent rises in interest rates, led by the US. European rate shifts will be far more benign until 2020, limiting the impact on real estate pricing in the year ahead.

Residential/alternatives provide a way forward

Residential remains a strong growth opportunity. Investment activity in Europe remains limited and is concentrated in only a few countries: Germany, the Nordics, Benelux and UK, suggesting scope for investment growth, with greater upside in France and Spain especially. Residential clearly offers multiple niches, from cradle to grave, and with only €40 billion invested into European student housing, and €32 billion into senior living (ca. 2.8% of total investment activity) both present investment and development opportunities.

Take advantage of disruption

Overnight stays using Airbnb registered accommodation grew by 15-70% y/y across major European cities up to end 2017. This has seen the market share of Airbnb as a percentage of all overnight stays increase to a 10% on average, and we expect it to get closer to 14 or 15%.

This short-stay model is also being adopted by more professional landlords and 'multi-listers', and as a genuine alternative to traditional hotels in many markets, this could help spur investment into PRS or short-stay accommodation.

Offices continue to absorb the lion's share of European investment (40%), despite demand for flex/co-working space having a much greater impact on occupier activity. We-work is now the biggest single occupier in London where smaller lets of <5,000 sqft account for greater market share (around 70% of deals). Some 10% of take-up in Amsterdam is now generated by co/flex-working occupiers, in the German Big 7 it has risen to 7.5% in little over 2 years. In Paris, 238 co-working spaces were in situ at the end of 2017, 80% of which opened in the last 5 years.

Although there are concerns over the covenant strength of some flexible/serviced operators, and there is a potential market over-dependence on them as primary demand sources, co/flex working represents a longer-term shift in how business space will be used and configured. This could shake up investment demand for offices, moving away from the classic, core, long-let asset but will provide many new opportunities via the re-positioning of existing assets as much as the development of the new.

We may have a market in transition, but there are plenty of opportunities to keep investors occupied in the year ahead.

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