WHAT'S NEXT | EMEA

PREVAIL & PROSPER:

A view on what's next for the EMEA investment market

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Executive Summary

Establishing where markets are at as a result of this global pandemic has been like wading through a sea of fog over the last six months. The initial and very deep 'lock-down induced' economic and market shocks that have been endured globally have been followed by a swift return to growth over the summer months, almost universally.

As of today, despite the threat of a rise in the R-rate driving localised market lockdowns, the fog is lifting and the impact has been largely as expected. That doesn't mean we're back to where we were, by any means, as COVID-19 has accelerated numerous structural trends that were developing before the pandemic: agile working, omni-channel retailing, digitisation and a much greater adoption of 'Proptech' to manage, view and transact on assets and portfolios. It will take years for some 'traditional' elements of our economies to get back to par, if ever, with business sectors, real estate asset types, city and national markets recovering at different speeds and in very different ways.

While the recovery is on track, the current investment market feels somewhat like 'wading through treacle' as one investment agent put it. Treacle is a bit like marmite, it is very bitter-sweet. Which sums up the state of the situation pretty well – there will be a bitter pill to swallow for some, especially current owners of assets at the distressed end of the spectrum; much sweeter for those set to prosper with assets that have recently appreciated in value on the sale-side, and of course those with dry powder looking to strike deals at more favourable pricing levels.

Some 95% of investors surveyed by Colliers in September expect the European investment market to stabilise in the next 12 months, and we are forecasting a mid-case rebound in activity in Q4 of €70 billion, up to a best-case scenario of €100 billion. It certainly looks like we have passed the nadir in Q3, which would mean that activity in 2020 is only down by around 15% y/y. A considerable feat, all things considered.

The major positive is that momentum is back in the market as of September, as big-ticket assets and portfolios for sale add much greater liquidity to the European market. Pricing has already adjusted over the course of Q2 and Q3, and many markets point to a further adjustment in the next 12 months as the rest of the fog starts to lift. For our own outline view on how specific markets and sectors match up to investment opportunities by strategy, we have outlined these in the table below.

Table 1: Where to buy: location/sector strategies

Sector	Stable (Core)	Short-term flux (Core-plus)	Big Opportunity (Value-Add)	Upcoming (Opportunistic)
Offices	London, Paris, German7 Amsterdam Copenhagen Stockholm, Oslo	Dublin Warsaw Helsinki Prague UK Regions	London Paris Milan Madrid *Flex	Decentralised locations
Retail Grocery	All major cities		Decentralised locations	
Retail Parks	All major cities			
Retail Shopping Centres	Dusseldorf Berlin Vienna Warsaw	Non central shopping centres (car-based, grocery anchor)		All major city center assets
Residential (BTR, PRS, Affordable)	Germany, Nordics, Netherlands, UK, Dublin, Milan, Paris		Madrid	Warsaw Prague
Hotel/Hospitality	Too early to tell, but southern Europe will be a big area of distress/ opportunity			

Summary points: by sector

INDUSTRIAL AND LOGISTICS

Industrial and logistics is the top pick with almost all investors shifting their allocation to this sector. Many large deals now coming to market are I&L portfolios, with an estimated €3bn worth launched in Q3.

The defensive nature of I&L, and the key demand drivers for big box logistics, cold storage and data centres is buoying demand while availability continues to diminish. These strong fundamentals are supporting rental growth in core locations, and even some yield compression. This is driving core prices up by around 20% since the end of Q2; value-add I&L assets and portfolios have increased in price by around 10%.

The structural demand drivers and tight supply/demand fundamentals of this sector point to further rental growth in core locations over the next 12-24 months.

OFFICES

The reverse has been seen for offices, with core-plus and value-add pricing moving out by up to 20%, depending on the market, but core pricing remains tight with limited movement in pricing. Headline rents are being buoyed by incentives, but limited vacancy in most markets is limiting price movements.

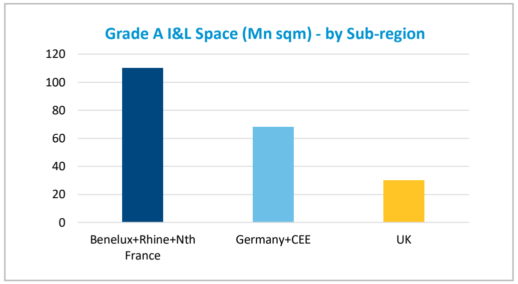
Mid-term, the use of offices is adjusting as occupiers shift to an agile working model, yet this model differs by company. Most occupiers are reconsidering how their workplace portfolio will function in the future, but a core office HQ is here to stay for the majority alongside the adoption of third spaces and home working.

The definition of core, however, is likely to tighten to become a high-tech, ESG-relevant spec asset, in a very accessible location with a flexible footprint and fit-out. These assets will maintain their position as key in driving company revenue as the client-facing centre of the brand, as a place to collaborate and drive company culture.

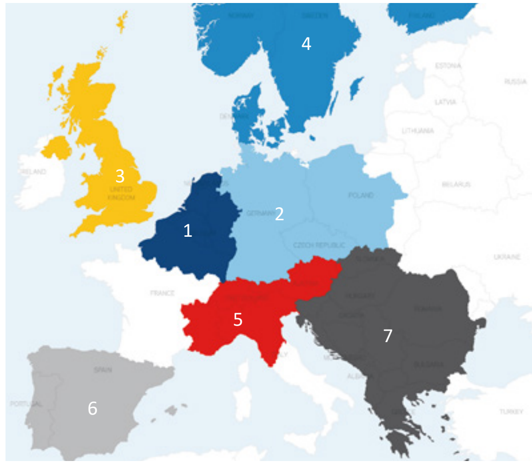
The pricing of these assets should be in-line with current values, relative to the economic density generated by the city they are in. In this regard, London and Paris are at the apex, as one would expect, but most city office rents look in-line with economic density. In fact, some markets such as Manchester and Dusseldorf look under-priced.

Where to buy: I&L sub regions

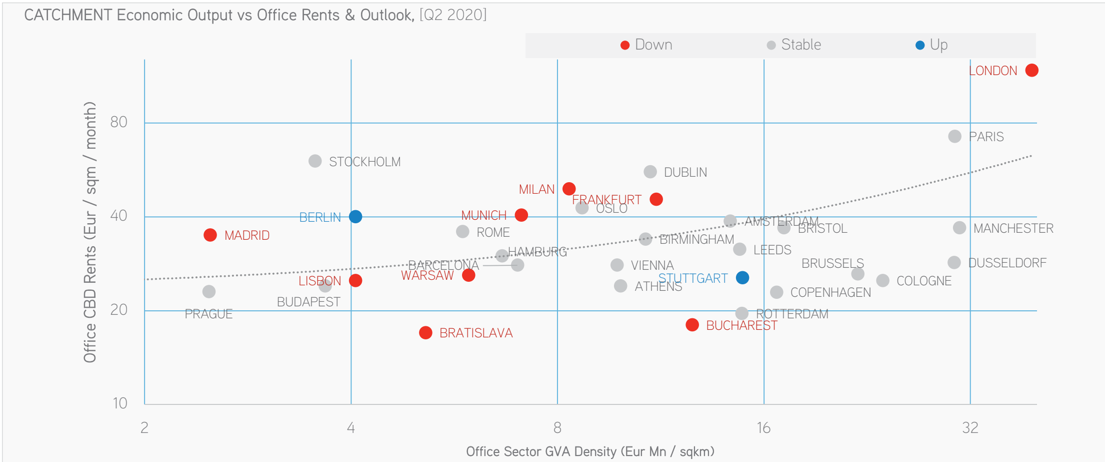
1. Benelux, Rhine-Ruhr & Ile-de-France
2. Germany & Core CEE
3. United Kingdom (England)



4. **Nordics** (Denmark, Sweden, Norway, Finland)
5. **Alpine** (Italy, Switzerland, Austria, SW France)
6. Iberia (Spain, Portugal)
7. South-east Europe



Office rents vs economic density: long-term pricing correlation



HOSPITALITY

The European summer is not what many in the hospitality business had hoped for, **with occupancy down by 50% on this time last year.** Investment volumes have rescinded over the course of 2020, and with further uncertainty over travel restrictions for another twelve months until a vaccine is established, produced and distributed, **it will be longer before the hospitality sector truly hits the bottom. Demand will bounce back eventually, but this is a real test as to who can prevail in the interim with cash levels and government support thinning out.**

For the private equity houses looking at opportunities, Q4 2020 and Q1 2021 could start to see many interesting opportunities emerge across Europe, not just in the more distressed summer destinations. In the meantime, budget 3-star hotel operations continue to be robust, especially those supporting car-dependent business travel. Some hotels offer the potential for (short-term) re-use as flexible office space, although is most likely a short-term solution. There may be potential for some operations to provide quasi-fractional options in cities where agile working impacts commuting patterns.

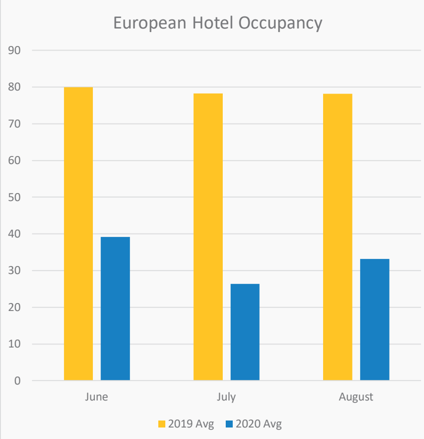
RETAIL

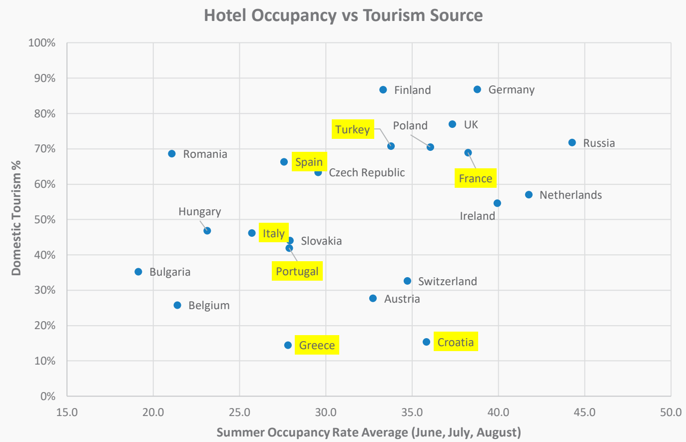
Retail has already been impacted by the rise of e-commerce, but physical retail space remains an important part of the omni-channel marketing and purchase journey.

The latest city mobility challenges and retailer insolvency do point to an acceleration of lower priced retail space and growth in the use of turnover rents. **Outside of the grocery and convenience element, this is likely to push the retail sector through a big, final pricing reset with the need for retailers and owners to find common ground on acceptable terms that encapsulate turnover rents and the role of physical space in the omni-channel transaction process. While the initial point of purchase has become increasingly online, with fulfilment handled in the logistics chain, the physical store performs a critical role in building a brand and 'showrooming' in addition to supporting click-and-collect and traditional retialing functions.**

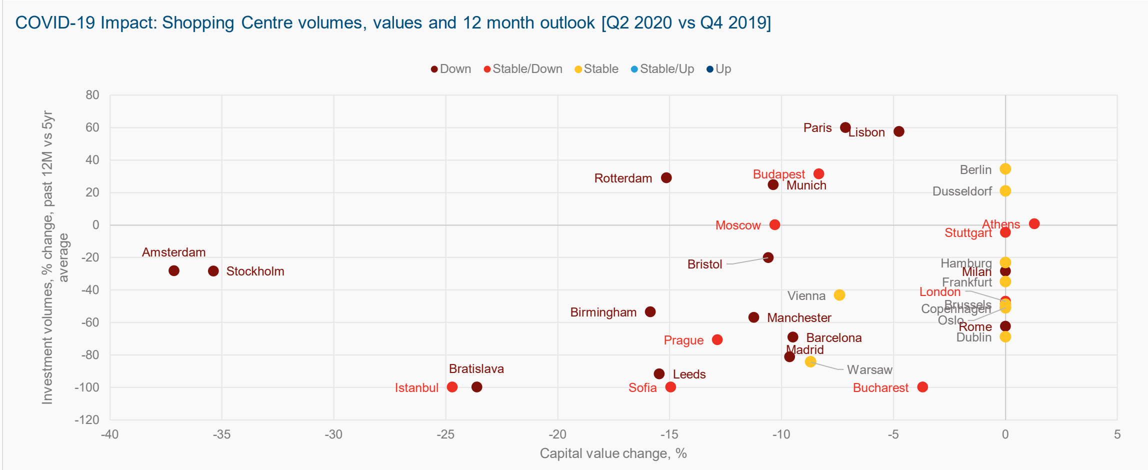
Shopping centres have taken a big hit as footfall has dried up, and the value outlook for the next 12 months looks very weak across Europe, especially in the bigger cities as this adjustment is ongoing. Meanwhile, appetite continues to grow for retail parks, especially those that can support a reconfiguration that allows logistics facilities to be built on site, supporting click and collect in the retail park units and broader distribution to the local catchment.

Hotel occupancy trends: a disappointing summer





Retail shopping centre values & volumes: feeling the impact



RESIDENTIAL

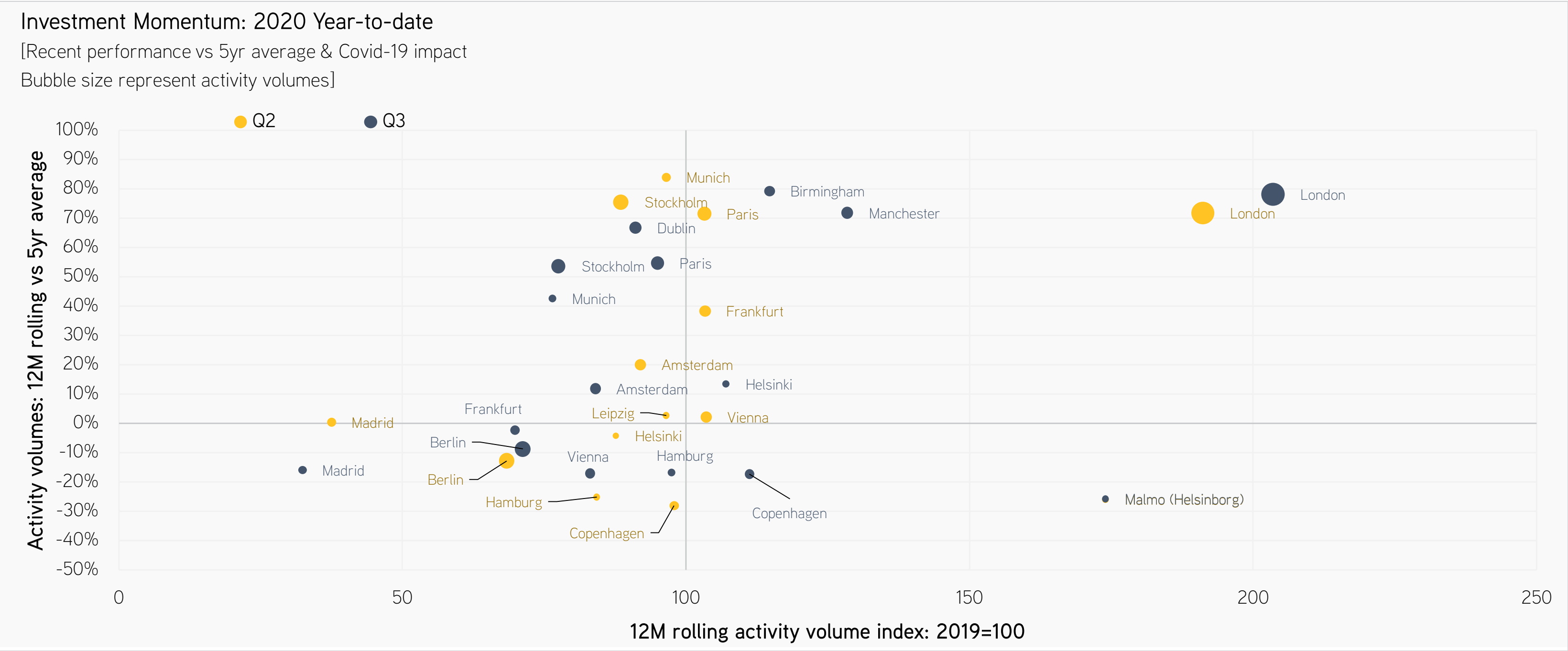
Residential has proven to be most resilient to date, with investment demand increasing as funds increase their assets under management (AUM) weightings to this sector. The London and UK markets seem to have been buoyed by the re-distribution of Hong Kong funds in Q2 and Q3 of this year.

While residential has been robust to date, there are concerns as to how defensive it will be, given the risk of higher unemployment on those most likely to be renters. Hence investors are increasingly building their AUM in European residential with a focus on affordable Build-to-Rent (BTR) and Private Rented Sector (PRS).

The bifurcation of the US housing market from the "have's" capable of buying homes in remote locations, pushing up localised house prices outside of the city…. To the "have not's", struggling to make ends meet and satisfy their rental commitments is an extreme example of how housing markets have been impacted by the pandemic.

While there has been a notable shift in demand for 'Zoom-Towns' outside of central areas, we don't anticipate such a clear trend emerging across Europe. It seems a little premature to think a broader distribution of working populations is going to be sustainable, where it requires a regular long commute. It's not very agile to be living too far away from the focus of core office - collaborating with colleagues and working with clients.

Residential investment momentum: major city destinations



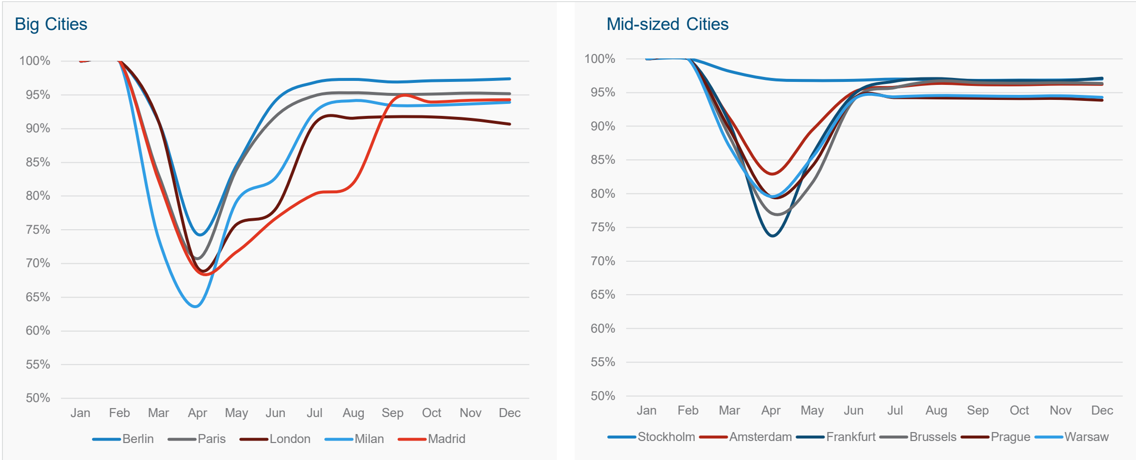
Summary Points

While prevailing will be a real challenge for many existing owners, especially those in the retail and hospitality sectors, investors remain primed ready for opportunities in all real estate sectors on a selective basis.

Having fewer people in the centre of cities every day is clearly having a high impact on city economies, especially in the low-tech ancillary retail and hospitality sectors which will need to downsize. Any resulting pricing adjustment will of course have a broader impact on values as competing use pressure diminishes. Despite this, people travelling to the centre for core client-facing and collaborative activities will likely see this as an opportunity to enjoy the retail, events and hospitality on offer once markets make it through COVID, but a positive re-configuration of cities is inevitable.

Cities will need to adapt as they always have, but economic output and value is likely to redistribute, rather than be lost as markets recover. This will create an opportunity for the redevelopment of assets in cities to support changes in the way we work and live. With an increased focus on supporting communities and neighbourhoods, this in itself will create more energy-efficient and sustainable cities to match the increasing shift to ESG-based strategies that the majority of the investment community has adopted.

GDP Impact: big cities have felt a much greater economic impact than mid-sized



The redistribution of city economies ...and value

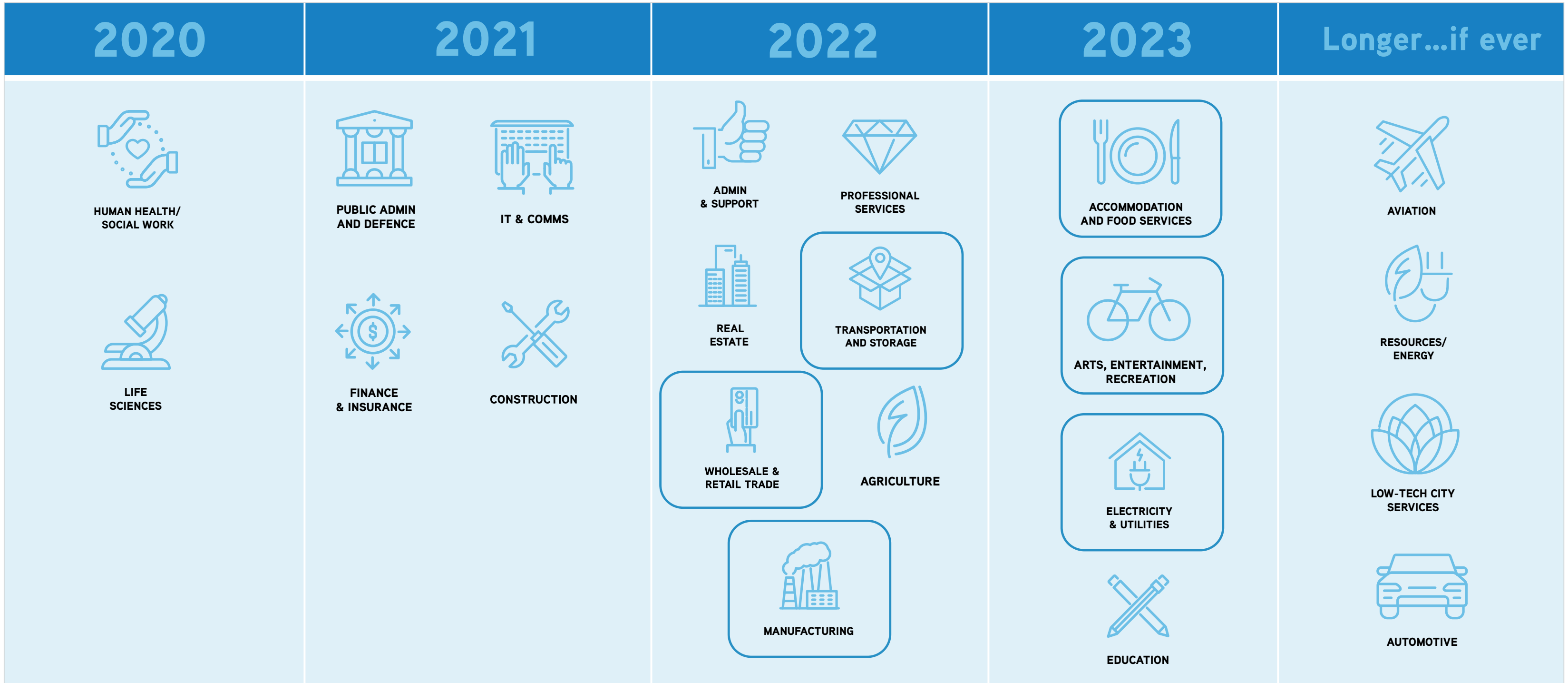
Macro-economic trends and outlook

BUSINESS SECTOR IMPACT: THE K-SHAPED RECOVERY

A long-term view of FDI into Europe shows the market will most likely be at its lowest ebb since pre-2003 when FDI was first recorded, and almost half of the level of FDI seen in 2019. It simply highlights the extent to which occupier decisions have been put on hold until the future for many businesses becomes clearer, and there is an identifiable K-shaped recovery happening depending upon the business sector.

There is clearly a diversified impact with retail services/hospitality not expected to recover until 2023 - thus a drag on national and city economies dependant on it. Whereas health, public administration and what could be broadly aggregated as the ‘high-tech’ or value-add services of IT, comms, finance & insurance, and scientific/life sciences sectors are due to bounce back within the next year. Professional services operate at a lag, although the lawyers and accountants are undoubtably busy, but low-tech services and manufacturing don’t get back until 2022/23….and some of these jobs and sectors may never come back to the same levels. In particular, major structural changes in the energy and automotive sectors had already begun pre-COVID, while city centre low-tech services and the aviation industry are on for a significant reset as the world shifts to a new normal.

The K-shape: when sectors get back to parity



Source: Colliers/OxfordEconomics/ National statistics offices

THE NATIONAL ECONOMIC IMPACT: THE 'SWOOSH'

National economies across Europe function in many different ways, subject to the business sectors that drive them and the ways in which national governments have decided to manage the pandemic via a balance of lockdowns and stimulus. This has generated a clear immediate impact on national economies and employment, and we can see those countries more dependent on retail and hospitality have suffered a deeper initial impact - Italy, Spain, Portugal, France and the UK have been some of the worst hit during Q2 2020. The DACHS and Nordic regions, the Netherlands and Poland have been the least impacted.

Whilst Q2 2020 ploughed the depths, most markets started to recover in June this year generating an almost immediate large, but 'partial-V' or 'Swoosh' rebound. But a rebound to positive annual economic and employment growth will not happen until 2021.

Even then, the multi-speed recovery is even more telling when it comes to getting back to parity, as outlined in Table 2 below. If we look at the period 2021 to end 2023 we can see the overall economic recovery reversion takes from Q4 2020, in resource rich Norway, out to Q2 2022 in Spain and Italy, with other major economies somewhere in between. The impact on unemployment and household spending is even more marked, with consumption/household income levels not expected to get back to parity until the end of 2022 for Italy and Spain. The more positive DACHS, Nordic & core-CEE markets will see spending revert back to par at almost the same time as the economic recovery.

Table 2: National economies - timing of reversion to economic parity

Country	Peak	Q4 2020		Q1 2021		Q2 2021		Q3 2021		Q4 2021		Q1 2022		Q2 2022		Q3 2022		Q4 2022	
		Eco	Con	Eco	Con	Eco	Con	Eco	Con	Eco	Con	Eco	Con	Eco	Con	Eco	Con	Eco	Con
Norway	Q4 2019																		
Poland	Q1 2020																		
Sweden	Q1 2020																		
Austria	Q4 2019																		
Czechia	Q4 2019																		
Denmark	Q4 2019																		
Hungary	Q4 2019																		
Germany	Q3 2019																		
UK	Q4 2019																		
Netherlands	Q4 2019																		
Finland	Q3 2019																		
Ireland	Q1 2020																		
Belgium	Q4 2019																		
France	Q3 2019																		
Italy	Q4 2019																		
Spain	Q3 2019																		

Source: Colliers/OxfordEconomics
*nominal figures

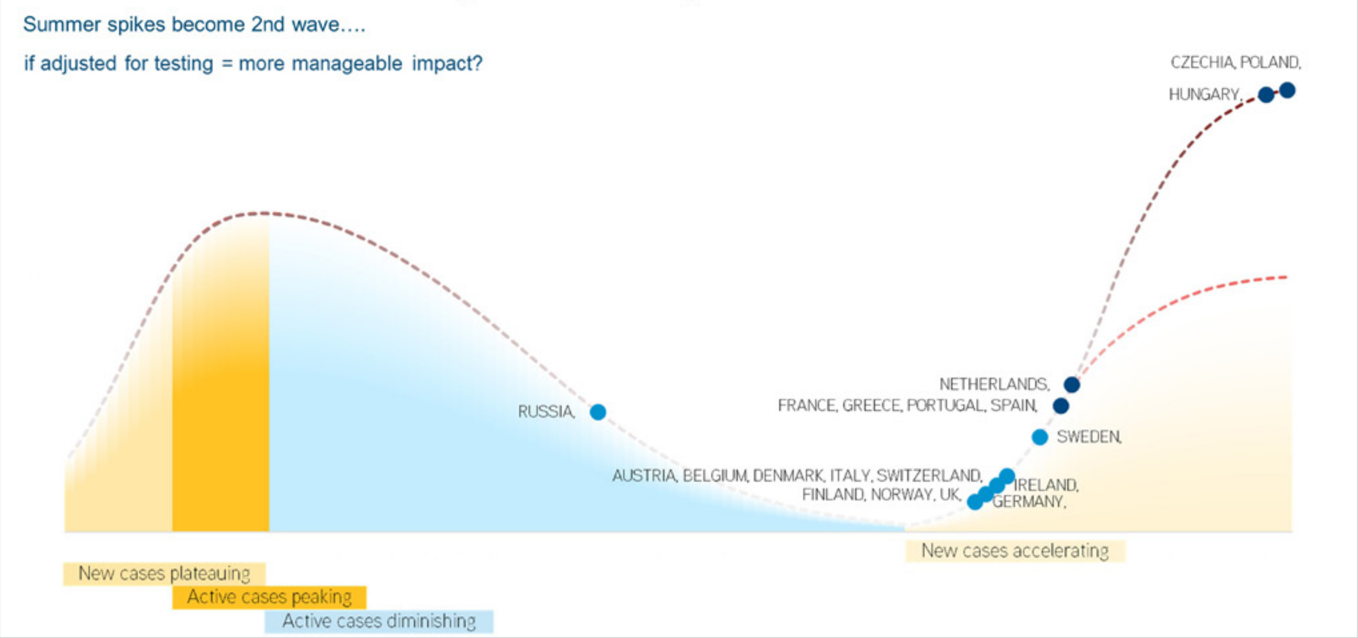
THE COVID CURVE: MANAGING THE SECOND WAVE

Given the likelihood that a vaccine for COVID-19 will not be available en-masse until H2 2021, the pressure is on national governments to manage any localised spikes in active cases while keeping the economy open and ticking over. Thankfully, most major European governments have had time to plan and adjust in preparation for the winter season, and many either have embedded support mechanisms in place, and/or have extended their support into 2021. The UK recently announced its shift to a more focused employee support scheme, reflecting more targeted policies that have been brought in by many national European governments. Hopefully this will mitigate against a much starker rise in unemployment, so as not to delay any broader economic/consumption recovery in due course.

The return of people from summer holidays, schools going back and more people getting back to the office has created an inevitable rise in cases across Europe, but this does need to be put into context. Firstly, whilst there are many higher numbers of active cases relative to the first wave, testing levels are now significantly higher - on average four times higher than during the first wave of infections in March/April and May. By adjusting these figures relatively to the first wave, we can see that most countries have got a hold on infection rates. For the likes of the UK, Spain, Netherlands and France that have exercised new lockdown measures, these appear to be pre-emptive strikes in stemming localised contagion. The exceptions to this rule are Poland, Czechia and Hungary - but second-wave infection rates are currently much higher as there were very few initial cases in these countries, given the immediate lockdown measures that were put in place in March.

This may lead to a marginal second 'mini-dip' in economic output in some countries over the winter months, but with cases laready shown to be easing in some of these countries there are positive signs that a second economic dip will be very short-lived. That said, maintaining the economic recovery which is at a fragile early stage, will be a critical balancing act. More stimulus measures may be brought forward, especially when considering that the cost to the public purse of rising unemployment claimants could be the same as an extended, more focused furlough program.

COVID-19 active cases cycle: 28th Sept



NATIONAL ECONOMIC 'MACRO' OUTLOOK/POSITION

In summary, the country macro outlook is depicted in Table 3 below. The table uses a RAG format (Red, Amber, Green) to depict how each nation is positioned across a range of metrics: such as the forecast date of the economic recovery, how well the covid pandemic is being managed at present, the capacity to spend on stimulus and long-term demographics to sustain a broader mid-long term recovery. Those with more green (ideally dark green) elements look much more stable than those with splashes of orange and yellows.

Germany and the Nordic region, especially Norway, Denmark and Sweden look the most appealing countries based on these metrics. **Tech-centric Ireland** also benefits from many positive factors.

The big economies of France and the UK have a positive balance of economic conditions, but the next six months remain uncertain in terms of the management of the pandemic. It will become financially challenging to buoy the economy for any extended period of time, especially in France.

The Benelux and core CEE markets of **Poland and Czechia** look in a good position, provided they can weather the large second COVID-19 wave.Belgium will be more challenged if it needs to continue funding the economy, given its reliance on the EU recovery fund to maintain targeted stimulus measures until end 2020.

At the other end of the spectrum, **Spain** and **Italy** have some difficult years ahead, but this distress will create multiple opportunities for investors engaging in the riskier end of the spectrum.

Table 3: National economic 'macro' outlook/position

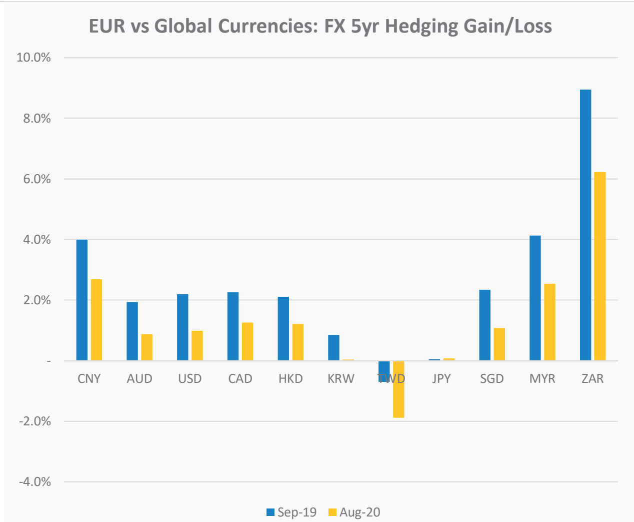
Country	Country	COVID 2nd Wave % of 1st Peak	COVID-19 Economic Recovery Path	Consumer Recovery Path	Long-term Demographics	Government Stimulus/Debt Position	Govnt Debt/GDP 2020f%	Credit Rating (20 = AAA)
Generally Stable, Positive Growth Drivers	Germany	Low	Q2 2021	Q2 2021	Challenging	Positive extension	69	20
	Denmark	Low	Q3 2021	Q1 2021	Good	OK	54	20
	Sweden	Low	Q1 2021	Q4 2021	Good	Embedded	52	20
	Netherlands	Moderate	Q3 2021	Q3 2021	Moderate	Positive extension	70	20
	Ireland	Low	Q4 2021	Q3 2021	Good	Limited	60	16
Positive, but challenges	UK	Low	Q2 2021	Q4 2021	Good	Uncertain	107	16
	France	Moderate	Q4 2021	Q2 2022	Moderate	Positive extension	155	18
	Belgium	Moderate	Q4 2021	Q1 2022	Moderate	Partial Extension	138	18
	Hungary	High	Q3 2021	Q3 2021	Challenging	Limited	77	12
	Czechia	High	Q3 2021	Q3 2021	Challenging	Limited	37	17
	Portugal	Moderate	Q3 2021	Q4 2021	Challenging	Limited	156	12
	Poland	High	Q1 2021	Q1 2021	Problematic	Limited	56	14
Challenging Conditions	Italy	Low	Q1 2022	Q3 2022	Problematic	Partial Extension	174	11
	Spain	High	Q2 2022	Q4 2022	Problematic	Uncertain	139	14

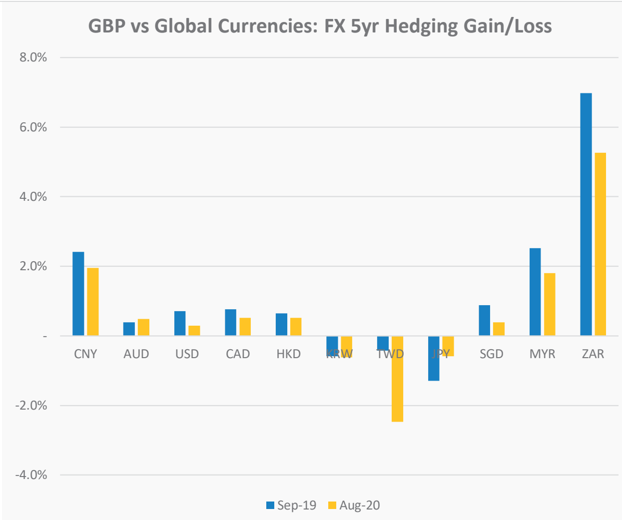
Capital Markets

The events of the past six months have already significantly changed the global interest rate dynamic. The onset of COVID-19, coupled with geopolitical friction between US and China has seen the Euro rise sharply against most major global currencies. The EU27 agreement to create a 750 billion-euro ($855 billion) 'COVID-19' recovery fund, is a sign of improving internal cohesion, and combined with the EU's collectively strong credit rating, this has led to a continued and prolonged euro appreciation and low interest rate regime. The hedging benefits of buying Euro denominated assets may have diminished since the end of 2019, but the region is adopting more of a global safe-haven status, and major European currencies continue to offer a positive gain (for a 5yr cross-currency swap) for a basket of global currencies.

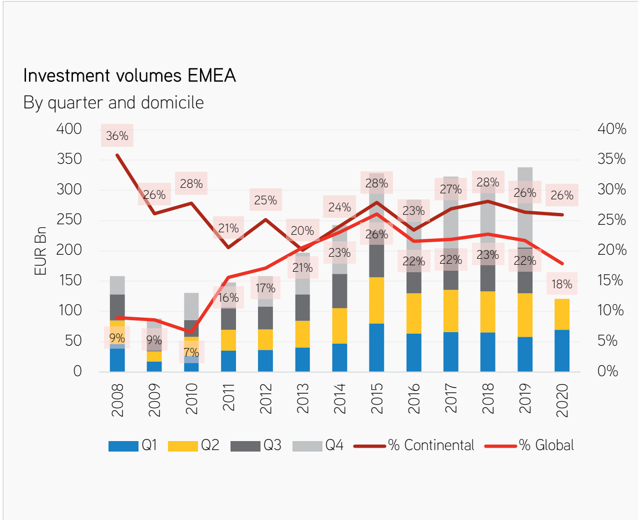
The appreciation of the Euro has re-balanced the hedging benefits of investing in Euro vs other denominated assets, notably GBP, which is leading to some interesting pricing dynamics across European markets – from both an investment and debt perspective. While global cross-border sales are only marginally down by around 4% (from 22% to 18%), inter-regional cross-border activity has remained steady throughout the Q2 and Q3 2020 COVID-dip in activity, with German, French and Swiss investors particularly active.

Interest rates & FX...the appreciating Euro





European activity more continental than global, but cross-border activity remains active



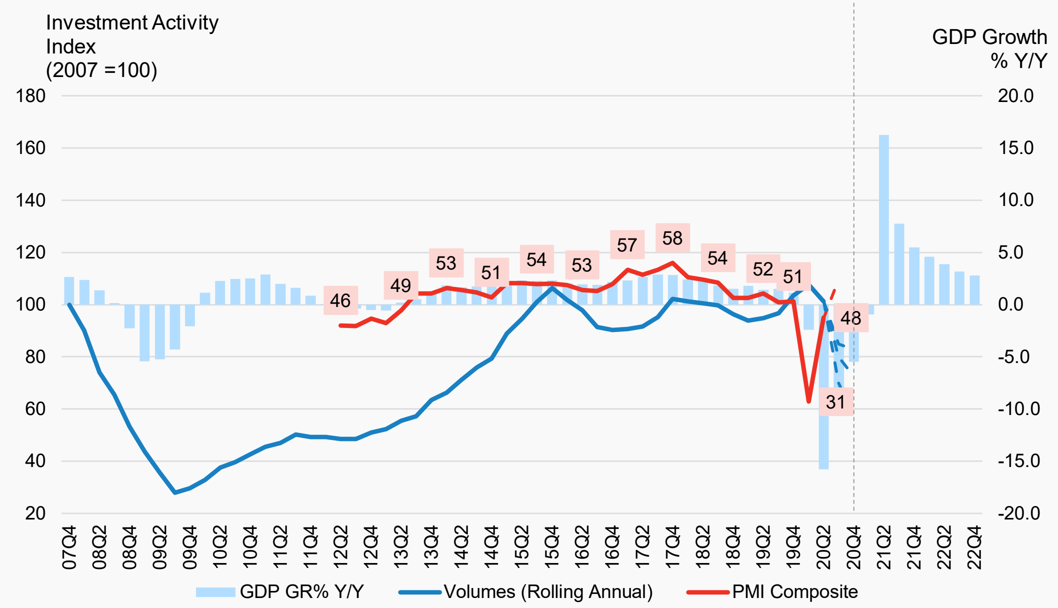
Concluding Points

Overall, YTD activity has been very robust with H1 2020 volumes across EMEA down by only 10% y/y, which compares far more favourably to the 28% declines seen in AsiaPac and the Americas (although AsiaPac recorded a significant quarterly rise in volumes in Q2).

As we enter the final quarter of 2020, it looks more and more likely that Q3 will be the nadir for the EMEA investment market, with bigger deals making a comeback post holidays in September. Q3 volumes could reach EUR 50 billion, matching those of Q2, and with more larger deals coming to market, Q4 could reach up to EUR 100 billion.

This would leave the market down by around 15% y/y which is a good result considering the upheaval brought about by the pandemic.

EMEA Investment volumes vs GDP/PMI: history and outlook



Qrtr+	Best-case	Mid-case	Worst-case
Q1	70	70	70
Q2	50	50	50
Q3	*50	*40	*30
Q4	*100	*70	*40
2020	*270 (-14%)	*22 (-26%)	*190 (-40%)

"95% of buyers think the market will stabilise in the next 12 months"

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