RESEARCH

2012

EUROPEAN LOGISTICS & INDUSTRIAL

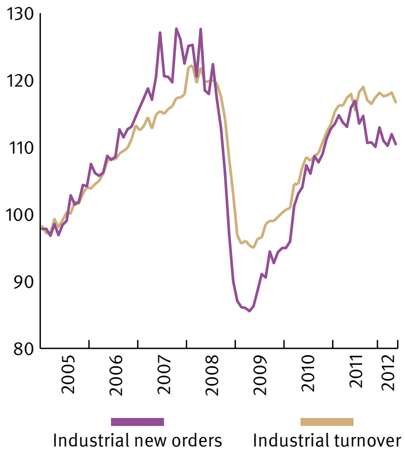
Market report

Knight Frank

HIGHLIGHTS

- While the economic uncertainty in the Eurozone has had an impact on occupier demand in the logistics and industrial sector, prime rental levels have been supported by low volumes of new supply. Prime logistics rents have remained broadly unchanged in the majority of European markets since the start of 2011.
- Investment volumes have eased, with around €5.2 billion of industrial and logistics property transacted in Europe during H1 2012, 24% less than in the same period of 2011. Nonetheless, a number of large portfolio transactions have been seen in the UK, France and Germany, as several major property owners have adjusted their holdings in core markets.
- Speculative development activity continues to be scarce across Europe, with developers remaining reluctant to commence new schemes without pre-lets in place. As a result, occupiers with large space requirements have increasingly needed to consider built-to-suit options.

Figure 1
European Union industrial activity indicators
Index, 2005=100



Source: Eurostat

Table 1
Logistics Perfomance Index – Top European countries

European rank	Global rank	Country	Score
1	3	Finland	4.05
2	4	Germany	4.03
3	5	Netherlands	4.02
4	6	Denmark	4.02
5	7	Belgium	3.98
6	10	UK	3.90
7	11	Austria	3.89
8	12	France	3.85
9	13	Sweden	3.85
10	15	Luxembourg	3.82
11	16	Switzerland	3.80
12	20	Spain	3.70
13	22	Norway	3.68
14	24	Italy	3.67
15	25	Ireland	3.52
16	27	Turkey	3.51
17	28	Portugal	3.50
18	30	Poland	3.43

Source: World Bank, 2012
The LPI scores 155 countries on their logistics "friendliness", based on a world survey of international freight forwarders and express carriers.

Market overview

The continued difficulties of the Eurozone have affected activity in all sectors of the economy, including those that drive demand for industrial and logistics property. Industrial new orders in the Eurozone have fallen since the middle of 2011, while retail sales in the first half of 2012 have been consistently below the levels recorded twelve months earlier.

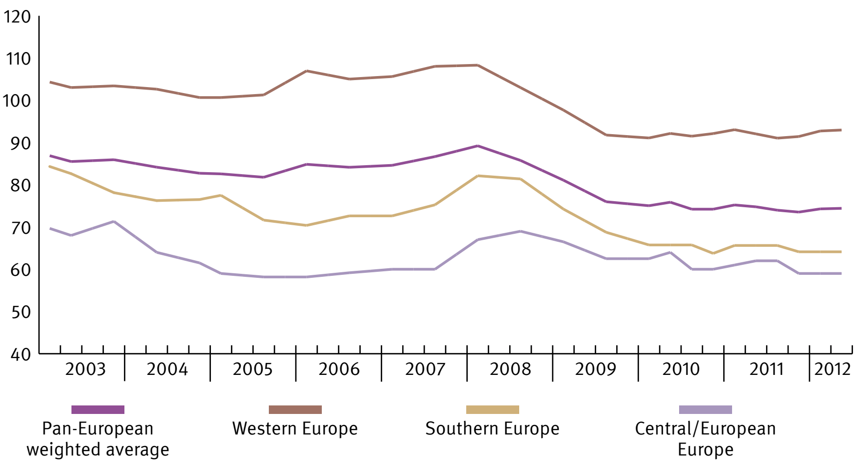
Sentiment among logistics and industrial occupiers has been subdued in the first half of 2012, leading to reduced leasing activity in many markets. Nonetheless, demand for space has still generally outstripped supply, as development activity has remained at a very low level. There is a complete lack of speculative development in many European markets, forcing a number of occupiers with large space requirements to pursue built-to-suit options in the absence of readily available good quality stock.

The restricted supply has helped to keep prime logistics rents broadly stable over the last twelve months. The Knight Frank European weighted average prime logistics rent, calculated from rental levels in 17 key markets, stood at €74.42 per sq m per annum in Q2 2012, a modest fall of -0.5% from a year earlier, but over 16% down from its peak in Q1 2008. The largest falls since the height of the market have generally been in the countries that have suffered the most during the Eurozone debt crisis, such as Spain and Ireland, but even in these markets, prime rents have largely stabilised over the last year.

The logistics and industrial property sector continues to be shaped by several significant long term trends, notably the shift of activity towards the eastern part of Europe. This movement is primarily driven by logistics operators aiming to improve efficiency and reduce labour costs, but it is also a consequence of the growing economic power of countries in Central and Eastern Europe, particularly Poland, and the subsequent need for facilities located close to consumers in these markets.

The growing significance of online retailing is also changing the nature of the demand for logistics space. The requirements of online retailers vary greatly, but increasing numbers have sought to establish dedicated e-fulfilment centres configured to meet their own specific needs. Developers able to deliver such bespoke facilities will have increasing opportunities as the market evolves.

Figure 2
European weighted average prime logistics rents
€ per sq m per annum



Source: Knight Frank
Based on an average of prime rents in 17 key logistics markets, weighted by size and market maturity.

European logistics map

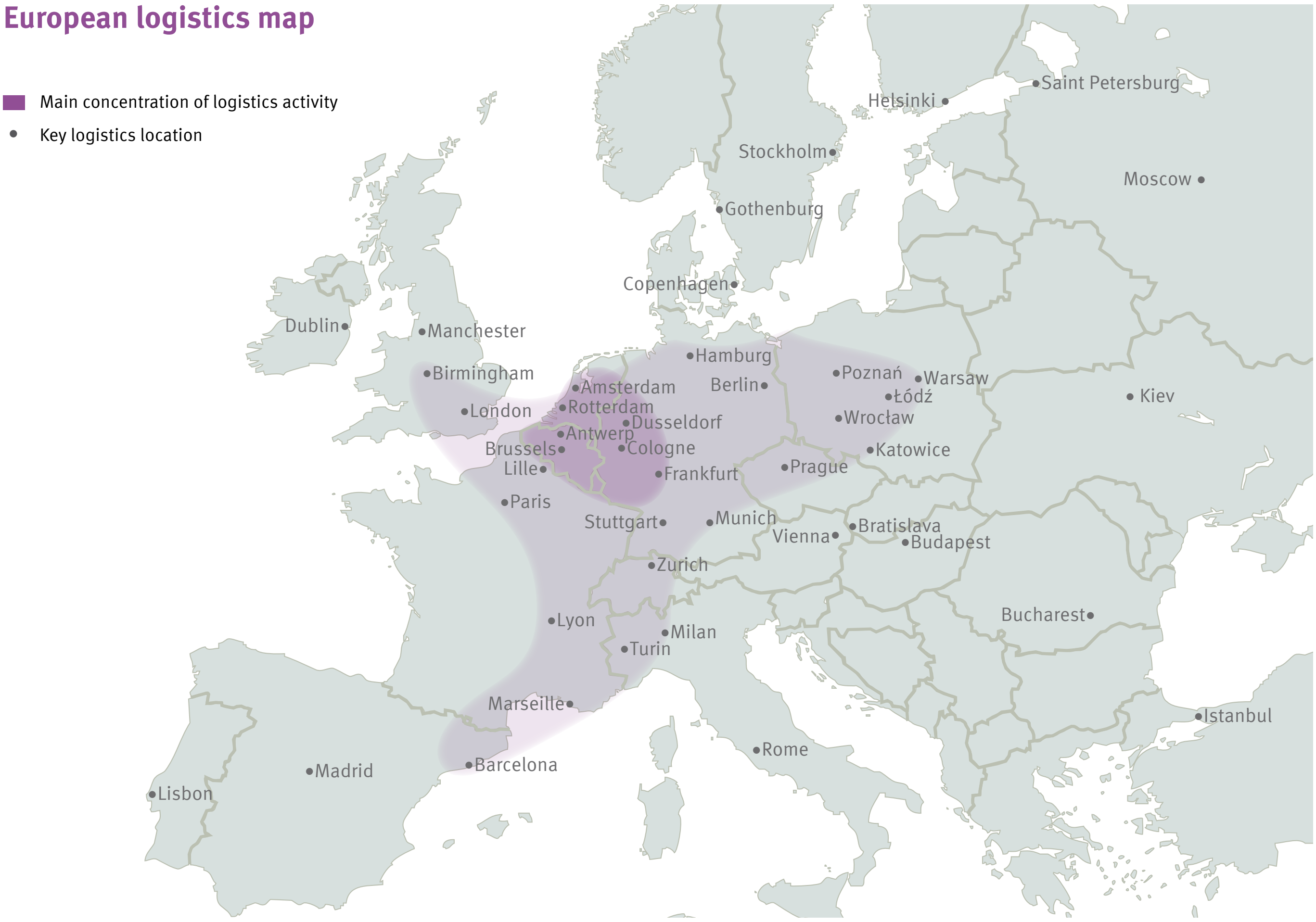


Table 2
Notable recent investment transactions

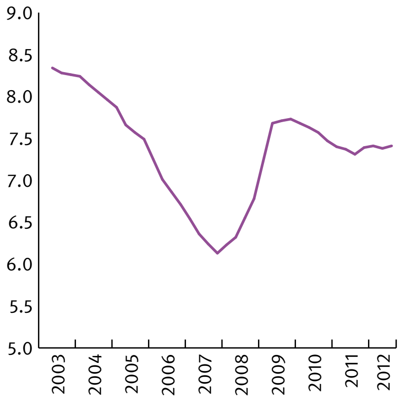
Date	Property	Location	Vendor	Buyer	Price	Initial yield
Q3 2012	FdR Portfolio	France (8 locations)	Foncière Europe Logistique	Segro	€161 m	8.4%
Q2 2012	Triangle Portfolio	UK (18 locations)	London & Stamford	Blackstone	€321 m	6.9%
Q2 2012	Segro Portfolio	UK (4 locations)	Segro	Harbert	€254 m	6.7%
Q2 2012	Pushkino Logistics Park	Moscow, Russia	PLP Holding	Raven Russia	€162 m	11.5%
Q2 2012	Prologis German Portfolio	Germany (6 locations)	Prologis	Tristan Capital Partners/ Alpha Industrial	€138 m	n/a
Q2 2012	Lake Side Portfolio	Netherlands (8 locations)	Van de Ven	Warehouses De Pauw	€105 m	7.8%
Q1 2012	UKLF Portfolio	UK (12 locations)	Hermes/Legal & General/LaSalle	Moorfield/Segro	€377 m	6.4%
Q1 2012	Teal Portfolio	UK (13 locations)	Prologis	Blackstone	€259 m	7.7%
Q1 2012	Prologis Polish Portfolio	Poland (4 locations)	Prologis	Hines REIT	€98 m	n/a
Q4 2011	VGP CZ II Portfolio (80% stake)	Czech Republic (6 locations)	VGP	Curzon Capital Partners	€135 m	n/a

Source: Knight Frank/Real Capital Analytics

Figure 3

European weighted average prime logistics yield

%

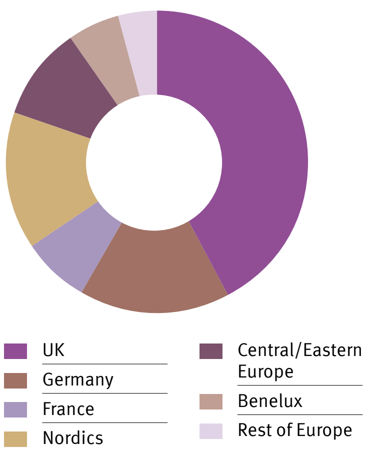


Source: Knight Frank
Based on an average of prime yields in 17 key logistics markets, weighted by size and market maturity.

Figure 4

Destination of European logistics and industrial investments, H1 2012

%



Source: Knight Frank/Real Capital Analytics

INVESTMENT ACTIVITY HAS FOCUSED ON THE CORE WESTERN EUROPEAN MARKETS.

Investment market

Around €12.7 billion was invested in logistics and industrial property in Europe during 2011, representing approximately 11% of the total commercial property investment market. Transaction volumes were up on the previous year by 18%, largely driven by increased activity in Central and Eastern Europe, Germany and Sweden.

The market has, however, experienced a subdued start to 2012, with around €5.2 billion invested in the first half of the year, 24% less than in the same period of 2011. As is the case in all commercial property sectors, uncertainty in the Eurozone has influenced investor sentiment, particularly in peripheral markets.

In H1 2012, investor demand was highly concentrated on core Western European countries, with the three largest markets, Germany, the UK and France, accounting for 66% of total European investment volumes.

Activity in core markets has been boosted by a number of large portfolio deals in recent quarters, as several major property owners have looked to refocus their holdings. For example, Segro has been involved in some large multi-property transactions in the UK and France, as part of a stated strategy to create a lower risk portfolio concentrated on high quality assets in the key transport corridors of the UK and Continental Europe. Prologis disposed of sizeable portfolios in the UK, Germany and Poland, prior to the announcement, in June, that the Prologis European Properties (PEPR) fund would be wound up.

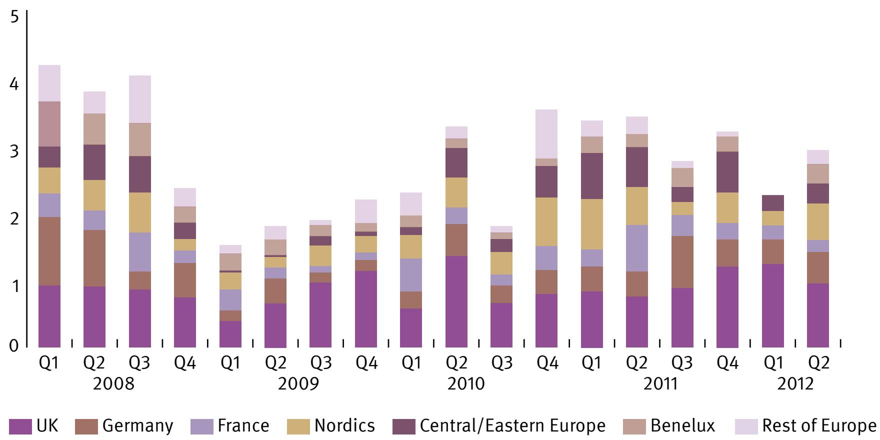
Investment activity in Central and Eastern Europe was subdued in H1 2012, after volumes were boosted in 2011 by VGP's disposal of 80% interests in two separate Czech logistics portfolios, for €300 million and €135 million. However, one of the biggest single-asset deals of 2012 has been in the east, with Raven Russia's acquisition of the Pushkino Logistics Park near Moscow for c.€161 million.

Following a period of yield compression during 2009-10, prime logistics yields have remained essentially flat in most European markets since the start of 2011, albeit there has been a moderate softening of yields in some weaker peripheral markets. The Knight Frank European weighted average prime logistics yield was recorded at 7.41% in Q2 2012, 10 basis points above the level seen in the same quarter of 2011. This movement was a result of prime yields drifting outwards in markets such as Madrid, Lisbon and Milan.

Figure 5

European logistics and industrial investment volumes

€ billion



Source: Knight Frank/Real Capital Analytics

Occupier market snapshots

Occupier demand in Belgium continues to be strongest in the "Golden Triangle" between **Antwerp**, **Brussels** and **Ghent**, although leasing activity in this region has been restricted by the limited availability of prime logistics space. Developers remain unwilling to commence new projects unless they have secured a tenant.

Take-up levels in the **Bucharest** logistics market remain fairly subdued. Recent development activity in Romania has been largely restricted to built-to-suit projects, albeit modest amounts of speculative space have been delivered in **Timisoara** and **Ploiesti** during the last 18 months.

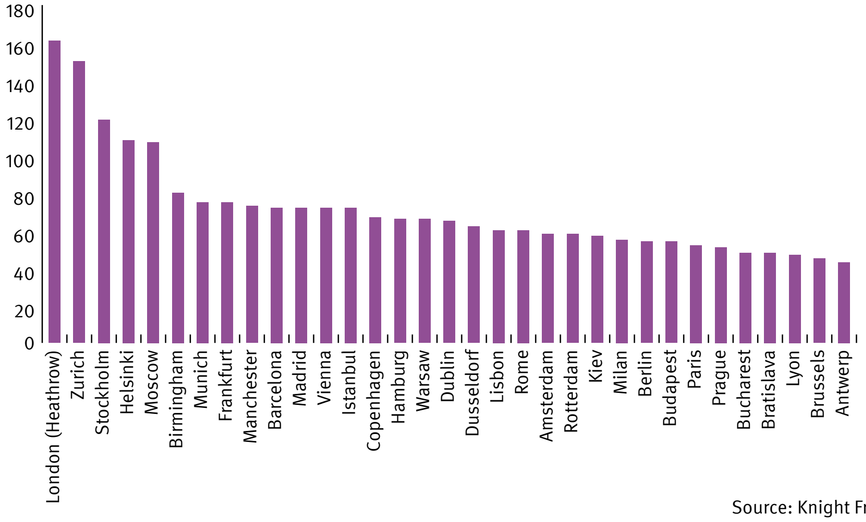
The take-up of warehouse space in **Dublin** during H1 2012 was boosted by BWG Foods' leasing of c.22,000 sq m at Kilcarberry Business Park; the largest deal in the market for several years. Vacancy rates have continued to edge upwards as significant amounts of second hand space have been released back to the market. However, there is a limited availability of large prime units in Dublin.

Leasing activity in the UK market softened in H1, although there was an increase in the demand for space stemming from the automotive industry. There are supply shortages in a number of key locations, causing a moderate increase in design-and-build activity. However, most occupiers still prefer to seek second hand space, as it offers more affordable rents and flexible lease terms. Speculative development is scarce, but a small number of modestly-sized schemes are under construction in the Greater **London** area.

After falling significantly in 2009-10, prime logistics rents have remained stable in the **Madrid** market since the start of 2011. However, rents could yet come under renewed downward pressure over the next 12 months, with the weakness of the Spanish economy continuing to suppress occupier demand.

Development activity in the Russian market has increased markedly in response to an acute shortage of available space. The class A vacancy rate in **Moscow**, which fell below 1% in 2011, has begun to gradually increase,

Figure 6
Prime logistics rents
€ per sq m per annum



Source: Knight Frank

and is expected to rise above 2% by the end of 2012. Class A rents are currently stable at US$130-135 per sq m per annum.

Demand for logistics space in Germany has remained relatively healthy, albeit there has been a moderate slowing of leasing activity in the first half of 2012, following a strong 2011. With very little speculative development taking place, the availability of space is low in most of the country's key logistics hubs. Prime rents are currently highest in the **Munich** and **Frankfurt** markets at €6.25 per sq m per month.

After a strong performance in H2 2011, the French logistics market has seen reduced take-up in H1 2012. While the Greater **Paris** region remains the main focus of occupier demand, regional market activity in 2012 has been boosted by Amazon's decision to lease c.40,000 sq m at **Sevrey** in the Burgundy region.

There is a limited development pipeline in the Czech Republic, which is helping to keep prime rents stable. While the Greater **Prague** area has taken a large share of leasing take-up in recent quarters, current development activity is spread around the country, with some of the bigger schemes under construction being in logistics hubs such as **Brno**, **Pilsen** and **Ostrava**.

In the Dutch market, the availability of prime logistics space has diminished as a result of low levels of new development. Demand is strongest for high quality space, but a large amount of the vacant stock in the Netherlands is in older properties that do not meet the requirements of modern occupiers. Demand is primarily focused on **Rotterdam** and **Amsterdam**, but alternative logistics hubs in the south of the country, such as **Breda**, **Tilburg** and **Venlo**, also continue to attract attention.

Over the last year, the **Warsaw** logistics market has been characterised by limited development activity, steady demand and stable rents. A number of significant improvements to Poland's road and rail infrastructure are due to be completed over the next few years, which should help to support the growing importance of the country as one of Europe's key logistics locations.

SPECULATIVE DEVELOPMENT ACTIVITY REMAINS SCARCE ACROSS EUROPE.

RESEARCH

Americas
USA
Canada
Caribbean

Australasia
Australia
New Zealand

Europe
UK
Austria
Belgium
Czech Republic
France
Germany
Hungary
Ireland
Italy
Monaco
Poland
Portugal
Romania
Russia
Spain
Switzerland
The Netherlands
Ukraine

Africa
Botswana
Kenya
Malawi
Nigeria
South Africa
Tanzania
Uganda
Zambia
Zimbabwe

Asia
Cambodia
China
Hong Kong
India
Indonesia
Macau
Malaysia
Singapore
South Korea
Thailand
Vietnam

The Gulf
Bahrain
UAE

Newmark Knight Frank Global

United Kingdom
Charles Binks
Head of Logistics and Industrial
+44 (0) 20 7861 1146
charles.binks@knightfrank.com

Chris Bell
Managing Director, Europe
+44 (0) 20 7861 1145
chris.bell@knightfrank.com

Andrew Sim
Head of European Investment
+44 (0) 20 7861 1193
andrew.sim@knightfrank.com

Nick Powlesland
Head of European Valuations
+44 (0) 20 7861 1283
nick.powlesland@knightfrank.com

Matthew Colbourne
Senior Analyst, International Research
+44 (0) 20 7861 1238
matthew.colbourne@knightfrank.com

Belgium & Northern France
Didier Delobel
+32 2 548 05 60
didier.delobel@be.knightfrank.com

Czech Republic
Premysl Chaloupka
+420 224 217 217
premysl.chaloupka@cz.knightfrank.com

Germany
Lutz Hahn
+49 69 556633 99
lutz.hahn@de.knightfrank.com

Ireland
Richard Bielenberg
+353 (0) 1 662 3255
richard.bielenberg@ie.knightfrank.com

Netherlands
Siem-Jan Vos
+31 20 707 3000
s.vos@nlrealestate.nl

Poland
Magdalena Czempińska
+48 22 596 50 50
magdalena.czempinska@pl.knightfrank.com

Romania
Mihai Păduroiu
+40 21 380 85 85
mihai.paduroiu@theadvisers.ro

Russia & Ukraine
Viacheslav Kholopov
+7 495 981 0000
viacheslav.kholopov@ru.knightfrank.com

Spain
Alejandro Galán
+34 91 577 39 93
alejandro.galan@es.knightfrank.com

Knight Frank Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide including developers, investors, funding organisations, corporate institutions and the public sector. All our clients recognise the need for expert independent advice customised to their specific needs.

Knight Frank Reports are also available at www.knightfrank.com