RESEARCH

EUROPEAN

Logistics & Industrial Market Report **2014**

MARKET OVERVIEW | INVESTMENT MARKET | OCCUPIER MARKET SNAPSHOTS

MARKET OVERVIEW

Improved economic activity in the Eurozone should help to boost occupier demand for logistics and industrial space in 2014.

The European economy emerged from recession in 2013, and consensus forecasts suggest that Eurozone GDP will grow by just over 1% in 2014. The recovery has been largely led by the manufacturing sector, as European exporters have benefitted from increased demand from faster-growing economies such as the US. However, more modest improvements have been seen in the service sector, which is also an important driver of logistics market demand.

Although sentiment has improved, many developers and occupiers active in the logistics and industrial sector remain cautious. As a result, new construction continues to be driven mainly by built-to-suit activity, with speculative development remaining scarce in most markets. This has led to shortages of prime space in many key locations.

The lack of new supply has supported prime rents in most markets in recent quarters, while modest rental growth has been noted in some sought-after locations in countries such as the UK and Germany. Knight Frank's European Prime Logistics Rent Index, calculated from rental levels in 17 key markets, remained virtually unchanged during 2013. Prime rents appear to be stabilising in markets which have been hard-hit in recent years, such as Spain and Portugal, but rents for secondary logistics space have continued to come under downward pressure in these markets.

The rapid growth of online retailing is an increasingly important driver of change in the logistics sector. According to forecasts from Forrester Research, European online retail sales will increase from €112 billion in 2012 to €191 billion in 2017, representing a compound annual growth rate of 11%. This structural change is creating a wave of demand for new types of logistics facilities, including huge e-fulfilment centres at the heart of national and regional distribution networks, local delivery centres serving individual cities and returns processing centres.

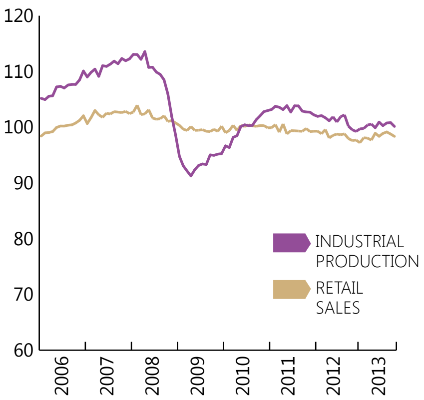
Many of the largest development projects currently underway across Europe are linked to the growth of internet retailing; for example, Zalando's logistics centre at the Regiopark in Mönchengladbach, Germany, is currently being expanded into what will be the largest dedicated e-commerce logistics centre in Europe, with total space of 134,000 sq m on completion.

Another long-term driver of change in the sector is the continuing shift in activity towards the east, as logistics operators seek to build efficient distribution networks and to benefit from reduced labour and property costs in Central and Eastern Europe (CEE). This is demonstrated by Amazon's recent announcements that it plans to add to its existing network of 25 distribution sites across Europe by opening two new distribution centres in the Czech Republic and three in Poland. All of these are planned to open in 2014, with around 100,000 sq m of space each, and will primarily serve the German market.

FIGURE 1

European Union industrial market drivers

Index, 2010=100

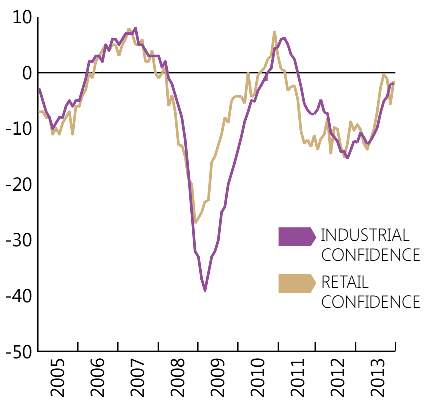


Source: Eurostat

FIGURE 2

European Union confidence indicators

Balance of positive/negative responses (%)

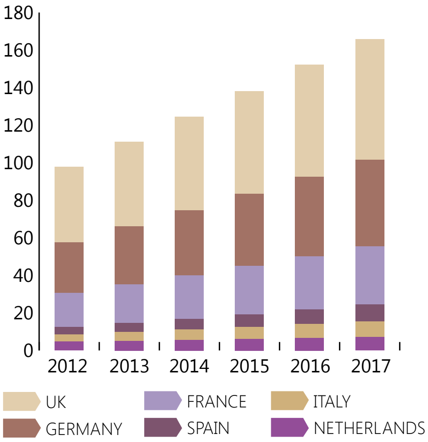


Source: European Commission

FIGURE 3

Online retail sales forecasts – selected Western European countries

€ billion

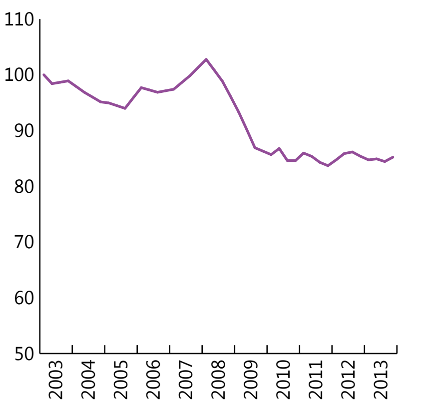


Source: Forrester Research

FIGURE 4

European prime logistics rent index

Index, Q1 2003=100



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

European Logistics Map

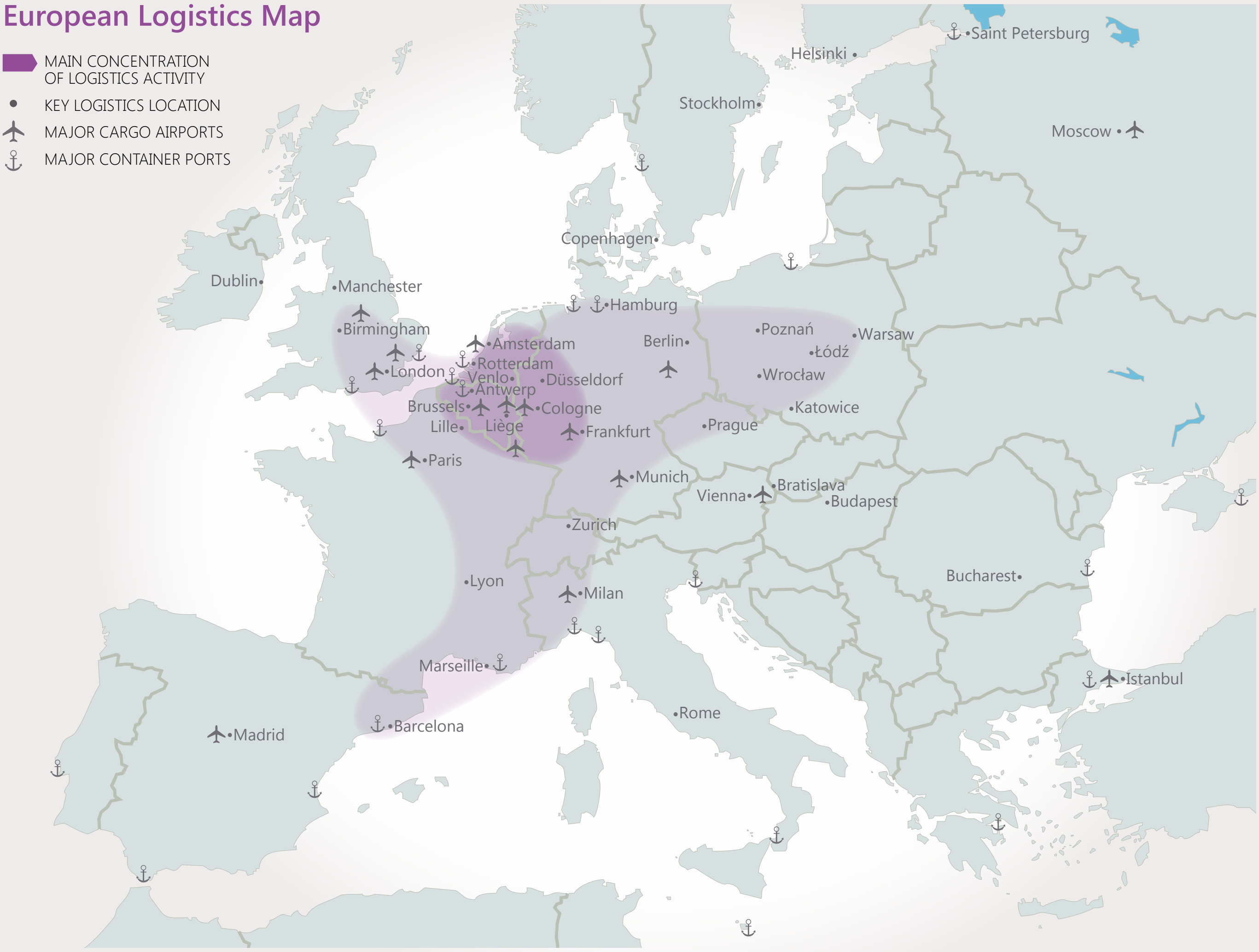


TABLE 1

Notable logistics and industrial investment transactions, 2013

Date	Property	Location	Vendor	Buyer	Price
Q1	Prologis/NBIM joint venture (195 properties)	Pan-Europe	Prologis	Prologis/Norges Bank IM	€1.2 billion
Q2	SEGRO/PSP Investments joint venture (34 properties)	Pan-Europe	SEGRO	SEGRO/PSP Investments	€974 million
Q2	LondonMetric portfolio (11 properties)	UK	LondonMetric/ Green Park Investments	Prologis/Norges Bank IM	€290 million
Q1	Clarice Fund (70 properties)	Italy	Europæiske Ejendomme	GWM Group	€220 million
Q4	Two light industrial portfolios (46 properties)	UK	Europa Capital/ M7 Real Estate	M&G Real Estate	€168 million
Q3	Schroder portfolio (6 properties)	Germany	Schroders	Prologis	€163 million
Q2	Heggstadmoen (7 properties)	Trondheim, Norway	Reitan Eiendom	Oslo Pensjonsforsikring/ OC Holding/Reitan Invest/Bai	€121 million
Q2	Kolven 2	Helsingborg, Sweden	Tribona	ICA Fastigheter	€108 million
Q3	Next Distribution Centre	Rotherham, UK	Tritax Assets	Legal & General	€99 million
Q3	John Lewis Distribution Centre	Milton Keynes, UK	Gazeley	Aviva Investors	€83 million
Q2	Logistikzentrum Netrada	Hanover, Germany	Netrada Europe	Verdion	€80 million
Q1	Tomilino Warehouse Complex	Moscow, Russia	GHP Group	BIN Group	€73 million
Q3	H&M Distribution Centre	Poznań, Poland	Invesco Real Estate	WP Carey	€64 million

Source: Knight Frank/Real Capital Analytics

European logistics and industrial investment increased by 33% in 2013.

INVESTMENT MARKET

A total of €17.4 billion was invested in European logistics and industrial property during 2013.

Investment volumes in the sector were 33% up on the previous year in 2013; a stronger increase than was recorded in either the office or retail sectors. With all commercial property sectors seeing low rental growth across most of Europe, the comparatively high income returns offered by logistics property have appeared increasingly attractive to investors.

The three largest logistics investment markets – the UK, Germany and France – continued to account for the majority of transactional activity, albeit with a reduced share of the overall market. These countries collectively saw 57% of European investments in 2013, compared with 69% in 2012. The decrease came as investors widened their geographical focus beyond core Western European markets, resulting in improved activity in the Nordics, the CEE area and Southern Europe.

Two major pan-European joint ventures were formed during 2013, providing a significant boost to investment volumes. Prologis European Logistics Partners (PELP), a venture between Prologis and Norges Bank Investment Management, was officially closed in March. PELP initially acquired a pan-European 195-property portfolio, which had been wholly owned by Prologis, for €1.2 billion, before purchasing a portfolio of eleven warehouses in the UK from LondonMetric for £248 million (c.€290 million).

Similarly, SEGRO and Canada's PSP Investments formed the €974 million SEGRO European Logistics Partnership (SELP) in June 2013. SELP is due to complete the acquisition of €472 million of logistics assets and development land in Germany, Poland and France in Q2 2014, from funds managed by Tristan Capital Partners and AEW Europe.

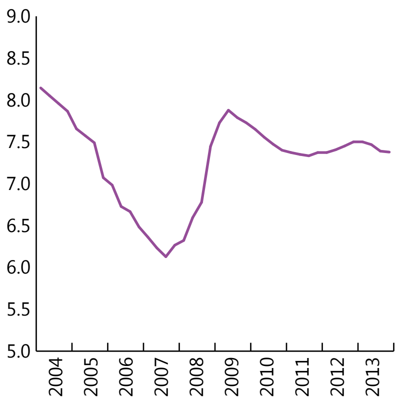
Prime yields remained relatively stable in most European markets over the course of 2013, although competitive bidding for the limited available prime stock in the UK and Germany caused yield compression in these markets. The intense competition for prime assets has caused some investors to move up the risk curve; in the UK, for example, demand has strengthened for assets offering short and medium term income.

Largely as a result of yield compression in the UK and Germany, Knight Frank's European Weighted Average Prime Logistics Yield, based on an average of yields in 17 key markets, moved inwards by 12 basis points during 2013, to 7.39%. Following outward yield movements in 2011 and 2012, prime yields appear to have stabilised in peripheral markets such as Spain and Italy, while yields have hardened in Ireland.

FIGURE 5

European weighted average prime logistics yield

%



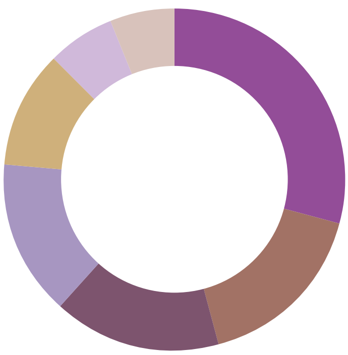
Source: Knight Frank

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

FIGURE 6

Destination of European logistics and industrial investments, 2013

%



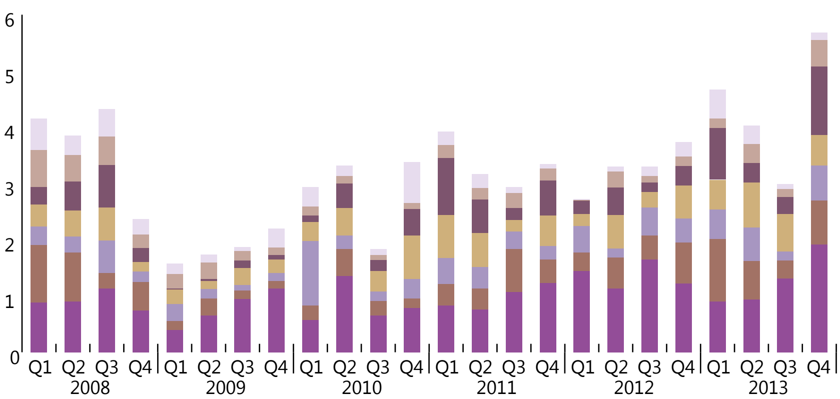
UK	29.2%
GERMANY	16.6%
CENTRAL/EASTERN EUROPE	16.0%
NORDICS	14.6%
FRANCE	11.1%
BENELUX	6.4%
REST OF EUROPE	6.0%

Source: Knight Frank/Real Capital Analytics

FIGURE 7

European logistics and industrial investment volumes

€ billion



Source: Knight Frank/Real Capital Analytics

OCCUPIER MARKET SNAPSHOTS

The availability of space in the Dutch logistics market is polarised, as there is a shortage of high quality space in the most sought-after locations, but an excess of poorer quality vacant warehouses in less desirable areas. Prime rents were generally stable throughout 2013 and are as high as €85 per sq m per annum in locations close to **Amsterdam's** Schiphol airport.

Demand for space remained relatively healthy in the Belgian logistics market during 2013, with the **Brussels-Antwerp** axis being the main focus of activity. However, developers remain cautious and a lack of new projects coming to the market has led to shortages of available good quality space in most prime locations.

Leasing activity in the Romanian industrial and logistics sector was subdued during 2013. Very little new space has been delivered to the market recently, as developers are unwilling to commence new projects unless a tenant has been secured. Demand for space is strongest in locations to the west of **Bucharest**.

The Irish logistics market had a very strong 2013, with occupier demand being healthiest along the N7 corridor, south west of **Dublin**. Prime logistics rents were stable at €65 per sq m per annum during 2013, but may start to rise in 2014. There has been a growing trend for companies to consider the owner-occupation of space, as industrial buildings are currently available at sales prices that are significantly lower than the cost of design-and-build projects.

Demand for warehouse space in Germany was buoyant in 2013, driven mainly by logistics operators and retailers, particularly those active in the growing e-commerce sector. Availability is limited in most key locations and prime rents are currently highest in **Frankfurt** and **Munich**, at €6.50 per sq m per month.

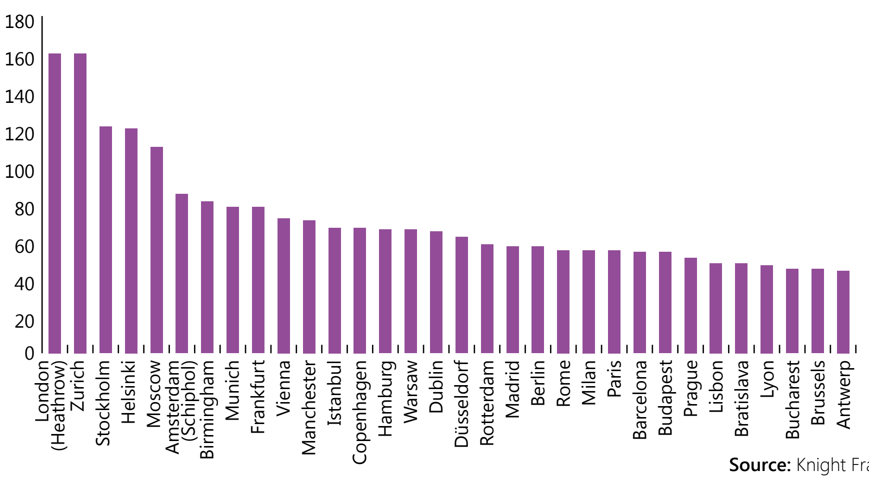
After several slow years, occupier activity is gradually improving in the **Madrid** logistics market. Fashion companies, online retailers and pharmaceutical occupiers are among those most actively seeking space, with demand being strongest around the Corredor de Henares and Avenida de Andalucía. Prime rents have stabilised at €4.75 per sq m per month, and are expected to remain at this level throughout 2014.

There is currently an acute shortage of high quality new space in the UK market, which has left landlords with the upper hand in their negotiations with tenants. Incentive levels declined sharply during 2013 and there was evidence of headline rents starting to increase. A modest level of speculative development has returned to the market, with a number of large units currently under construction in the **Midlands** and the **South East**. Prime rents are highest at Heathrow, west of **London**, at £12.50 per sq ft per annum (c.€160 per sq m per annum).

FIGURE 8

Prime logistics rents

€ per sq m per annum



Source: Knight Frank

The take-up of warehouse space in **Moscow** amounted to a record high of 1.3 million sq m in 2013, helping to keep vacancy rates at very low levels. In contrast with most other European markets, the majority of new development projects are commenced on a speculative basis, albeit developers will attempt to secure tenants while construction is still at an early stage and may then adapt schemes to suit the tenants.

Activity in the French logistics market was fairly subdued in 2013, with modest leasing volumes seen in the **Paris** and **Lyon** regions. However, elsewhere along the key north-south distribution corridor, take-up was boosted by several large owner-occupier and turnkey transactions in the **Marseille** and **Lille** markets, most notably involving Castorama in St-Martin-de-Crau (77,000 sq m) and GIFI at Sin-le-Noble (74,000 sq m).

The Czech industrial market saw robust take-up in 2013, with manufacturing companies being an important source of demand, particularly those from the automotive industry. Development activity in 2014 may be boosted significantly by Amazon's plans to open two large new distribution centres near **Prague** airport and **Brno**.

The Austrian market is characterised by steady but moderate occupier demand. Built-to-suit solutions are currently most attractive to logistics tenants seeking new space, with development land being relatively inexpensive in areas surrounding cities such as **Vienna** and **Graz**.

Logistics leasing activity has remained healthy in Poland, with occupier demand being strongest for units with good road transport connections in well-established regions such as **Warsaw**, **Lower Silesia**, **Upper Silesia**, **Wielkopolska** and **Central Poland**. There are three major projects under construction for Amazon, which are scheduled for completion in Q3 2014 and will between them total over 320,000 sq m. Panattoni and Goodman are constructing separate projects for Amazon near **Wrocław**, while Panattoni is also developing a scheme near **Poznań**.

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