

EMEA Industrial & Logistics, Q2 2015

Strong rebound in investment volume

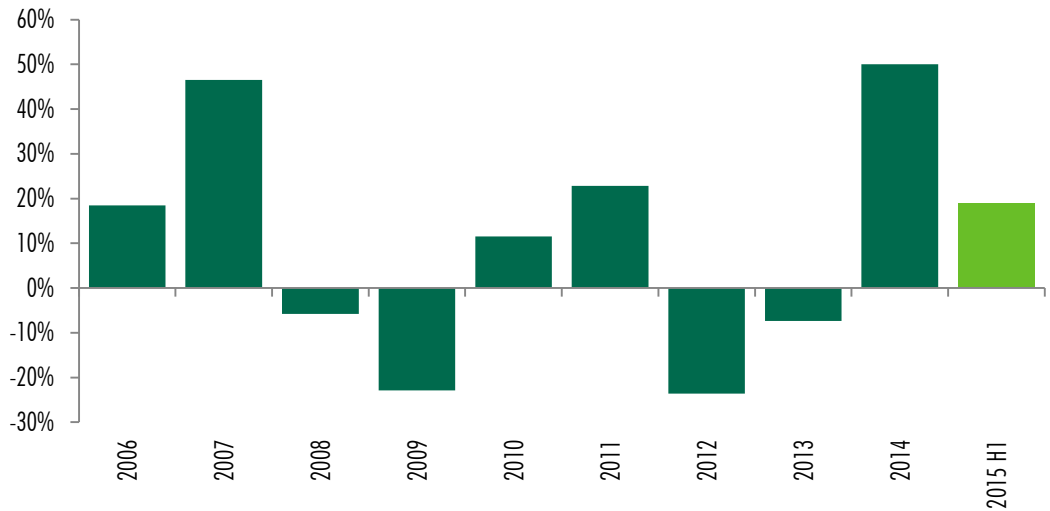
▲ EMEA Key Hubs Logistics Take-up
+18.8% y-on-y

▲ EMEA Prime Rent
+1.23% y-on-y

▼ EMEA Prime Yield
-54 bps y-on-y

▲ EMEA Capital Values
+9.33% y-on-y

Figure 1. Logistics take-up growth in key EMEA hubs (y-on-y growth rate)



Source: CBRE Research

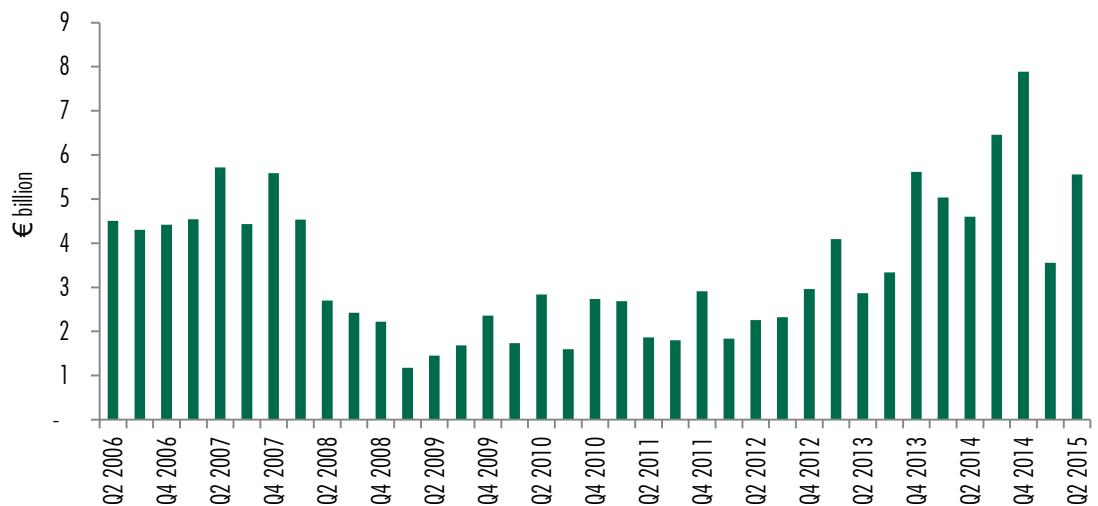
HEADLINES

- Strong rebound in investment activity, delivering a record-high second-quarter volume
- Occupier demand has strengthened further throughout the region due to private consumption and export growth
- The growing construction pipeline is starting to impact vacancy rates and rental growth
- Continuing downward pressure on yields

OCCUPIER DEMAND

With private consumption remaining the engine of growth in Europe, increasing exports from the Eurozone are now also fuelling industrial occupier demand. As a result, take-up of warehousing space continued to grow in the second quarter, albeit at a lower overall pace. A particular strong performer was the Netherlands, recording a record-high H1 take-up volume, but the G3 markets Germany, France and the UK, as well as the CEE markets, also reported robust growth rates. The picture in southern Europe was more stable, with take-up in Italy virtually unchanged (y-on-y) and opposite pictures for Madrid and Barcelona in Spain.

Figure 2. European industrial investment volume



Source: CBRE Research

While still facing difficult conditions, Russia is showing encouraging signs, with Moscow reporting a y-on-y take-up growth of 44% and a rapidly decreasing construction pipeline.

As in the first quarter, 3PLs were the most active occupiers across the region, but retailers are also exercising a strong demand for distribution space. This is driven by the growth in private consumption across Europe, which is also reflected in a growing demand for e-commerce fulfilment centres. Occupier demand in the CEE markets is, by contrast, more industrially driven, with particularly the automotive sector responsible for take-up growth in Polish, Czech, Slovak and Romanian hubs.

AVAILABILITY

Increased occupier demand has led to a slight decline in logistics vacancy across the region, although the growing development pipeline is halting the downward trend in a number of markets. On average, vacancy rates in the main hubs of Europe are moving between 5 and 7%, with tighter market conditions prevailing in especially the UK. Higher vacancy is to be found in Spanish hubs and in the CEE hubs of Moscow, Warsaw and Budapest, which are recording double-digit rates of just above 10%.

DEVELOPMENT

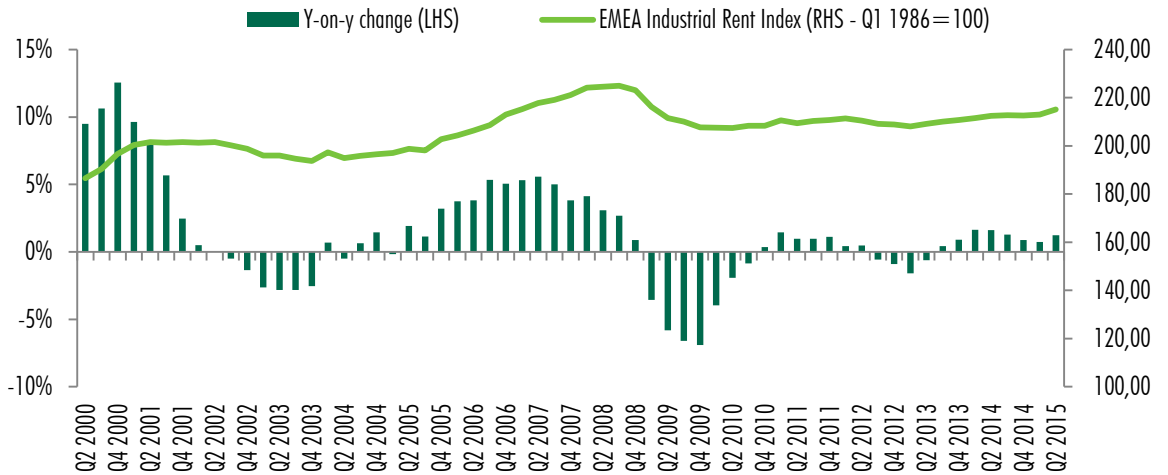
In reaction to tight supply and strong investor demand, the development pipeline across Europe has gained weight. In particular the Czech Republic and Poland are now facing a substantial pipeline in certain locations. The Netherlands has also seen a strong growth in development, which is concentrated in the south of the country.

The construction volume in Russia has declined notably, on the other hand, which is expected to have a positive impact on market dynamics. In the UK and Ireland, the development potential at key locations appears to be insufficient, also due to competition from other property sectors. Not surprisingly, rental growth is most clearly visible in these markets.

INVESTMENT

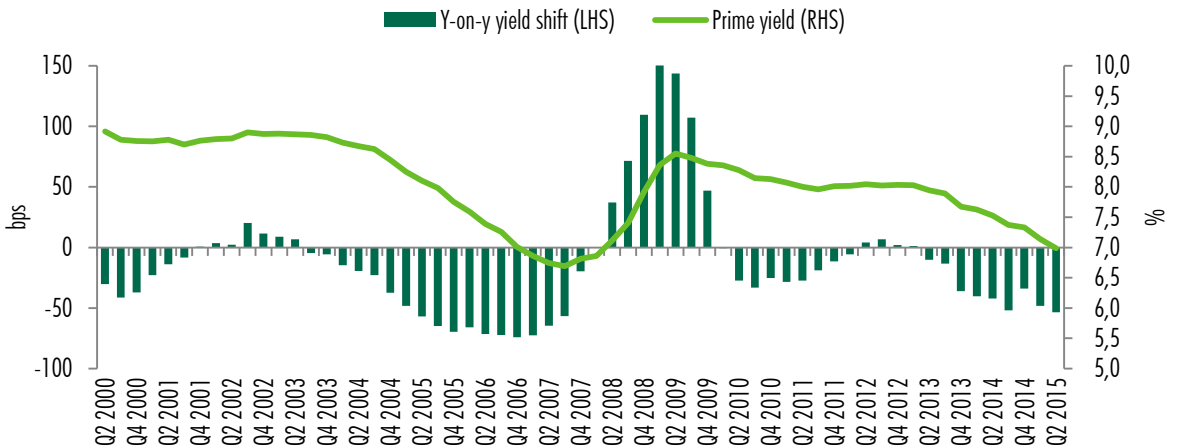
Whereas the industrial investment volume in the first quarter fell back somewhat, the second has seen a strong rebound and actually delivered the best second quarter ever recorded for EMEA industrial properties. The total investment volume reached EUR 6.1 bn, but the weight of investment was unevenly spread across the region, with an emphasis on north-western Europe.

Figure 3. EMEA Industrial Prime Rent Index



Source: CBRE Research

Figure 4. EMEA Weighted Average Industrial Prime Yield



Source: CBRE Research

The UK continues to stand out in terms of market activity and was alone responsible for 40% of the total volume. Germany, Sweden, Finland, the Netherlands and Spain also reported strong quarterly figures. France and the CEE markets stayed behind, but lack of suitable product appears to be the main reason for that.

RENTS

Despite the growing pipeline, rental growth in EMEA ticked up but remains at a modest level, and mainly concentrated in the UK and Ireland. A few upticks were noted elsewhere too,

but in most locations industrial rents have stayed put throughout the second quarter. The rental drop in Russia appears to have halted, on the other hand.

YIELDS

The downward path of industrial yields is continuing and previously higher yielding markets such as France, Italy and Central Europe are now moving in more clearly. The weighted average yield for EMEA has now dropped below 7% and in many markets previous lows have been reached or overtaken.

Table 1. EMEA Industrial Rents & Yields

Country	City	Local Rent Currency Measurement	Industrial Rents				Industrial Yields				
			Prime Rent (Local Currency Measurement)	Prime Rent (€/SqM/Annum)	Change on Quarter (%)	Change on Year (%)	Change from Trough (%)**	Prime Yields (%)	Change on Quarter (BP)	Change on Year (BP)	Change from Trough (BP)**
EMEA Industrial Index					1.0	1.2	3.7	6.9	-15.4	-53.6	-156.2
Austria	Vienna	€ per sq m pm	4.85	58.20	0.00	1.04	1.04	6.60	-20.00	-55.00	-100.00
Belgium	Brussels	€ per sq m pa	46.00	46.00	0.00	0.00	4.55	6.75	0.00	-50.00	-85.00
Croatia	Zagreb	€ per sq m pm	5.00	60.00	0.00	-5.66	0.00	9.25	0.00	-25.00	-50.00
Czech Republic	Prague	€ per sq m pm	4.35	52.20	2.35	2.35	3.57	6.75	-25.00	-75.00	-200.00
Denmark	Copenhagen	DK per sq m pa	425.00	56.96	0.00	0.00	0.00	6.25	-50.00	-125.00	-175.00
Estonia	Tallinn	DK per sq m pa	4.80	57.60	0.00	6.67	12.94	8.00	0.00	-25.00	-25.00
Finland	Helsinki	€ per sq m pm	144.00	144.00	4.35	4.35	27.43	6.25	-25.00	-75.00	-115.00
France	Lille	€ per sq m pa	44.00	44.00	0.00	0.00	4.76	6.50	-25.00	-50.00	-100.00
France	Lyon	€ per sq m pa	45.00	45.00	0.00	0.00	3.45	6.50	-25.00	-50.00	-100.00
France	Marseille	€ per sq m pa	43.50	43.50	0.00	0.00	6.10	6.50	-25.00	-50.00	-100.00
France	Paris	€ per sq m pa	60.00	60.00	0.00	0.00	20.00	6.50	-25.00	-50.00	-175.00
Germany	Berlin	€ per sq m pa	4.60	55.20	0.00	0.00	2.22	5.60	-20.00	-65.00	-190.00
Germany	Dusseldorf	€ per sq m pa	5.40	64.80	0.00	3.85	3.85	5.60	-20.00	-65.00	-165.00
Germany	Frankfurt	€ per sq m pm	6.20	74.40	0.00	0.00	5.08	5.60	-20.00	-65.00	-165.00
Germany	Hamburg	€ per sq m pm	5.70	68.40	0.00	0.00	1.79	5.60	-20.00	-65.00	-165.00
Germany	Munich	€ per sq m pm	6.50	78.00	0.00	0.00	4.84	5.60	-20.00	-65.00	-165.00
Greece	Athens	€ per sq m pm	3.25	39.00	0.00	0.00	0.00	10.00	0.00	0.00	0.00
Hungary	Budapest	€ per sq m pm	4.50	54.00	0.00	0.00	0.00	9.00	0.00	-50.00	-50.00
Ireland	Dublin	€ per sq m pm	70.00	70.00	0.00	12.90	16.67	6.50	0.00	-150.00	-300.00
Italy	Milan	€ per sq m pm	50.00	50.00	4.17	4.17	4.17	7.00	-25.00	-75.00	-110.00
Italy	Rome	€ per sq m pm	52.00	52.00	0.00	0.00	0.00	7.00	-25.00	-75.00	-110.00
Latvia	Riga	€ per sq m pa	4.50	54.00	0.00	5.88	20.00	8.50	-25.00	-50.00	-100.00
Lithuania	Vilnius	ILS per sq m pm	4.50	54.00	0.00	4.65	8.43	9.00	0.00	0.00	-25.00
Netherlands	Amsterdam	€ per sq m pa	75.00	75.00	0.00	0.00	11.94	5.95	-5.00	-55.00	-195.00
Netherlands	Rotterdam	€ per sq m pa	75.00	75.00	0.00	0.00	11.94	5.95	-5.00	-55.00	-140.00
Netherlands	The Hague	€ per sq m pm	70.00	70.00	0.00	0.00	7.69	8.75	-25.00	-25.00	-25.00
Netherlands	Utrecht	€ per sq m pm	70.00	70.00	0.00	0.00	7.69	5.95	-5.00	-55.00	-195.00
Norway	Oslo	€ per sq m pa	1200.00	136.87	0.00	0.00	20.00	5.50	-25.00	-70.00	-225.00
Poland	Warsaw	€ per sq m pa	4.00	48.00	0.00	0.00	0.00	7.00	0.00	-10.00	-175.00
Portugal	Lisbon	€ per sq m pa	3.25	39.00	0.00	0.00	0.00	7.50	0.00	-150.00	-200.00
Romania	Bucharest	€ per sq m pa	3.80	45.60	0.00	0.00	0.00	8.75	-50.00	-125.00	-175.00
Russian Federation	Moscow	\$/ per sq m pa	100.00	80.42	0.00	-25.93	0.00	12.75	0.00	175.00	-125.00
Russian Federation	St Petersburg	\$/ per sq m pa	97.00	78.01	7.78	-28.15	0.00	13.75	0.00	125.00	-325.00
Serbia	Belgrade	€ per sq m pm	4.50	54.00	0.00	0.00	0.00	12.00	0.00	0.00	-100.00
Slovak Republic	Bratislava	€ per sq m pm	4.00	48.00	0.00	-5.88	9.59	7.90	0.00	-60.00	-85.00
South Africa	Johannesburg	€ per sq m pm	62.00	54.96	0.00	3.33	3.33	8.75	0.00	25.00	-225.00
Spain	Barcelona	€ per sq m pm	6.25	75.00	4.17	4.17	4.17	7.00	-25.00	-100.00	-150.00
Spain	Madrid	€ per sq m pm	5.00	60.00	0.00	0.00	0.00	7.00	0.00	-100.00	-175.00
Sweden	Gothenburg	SEK per sq m pa	725.00	78.40	-3.33	-3.33	11.54	5.75	0.00	-50.00	-185.00
Sweden	Stockholm	SEK per sq m pa	900.00	97.32	0.00	0.00	0.00	5.75	0.00	-50.00	-200.00
Switzerland	Geneva	CHF per sq m pa	200.00	192.03	0.00	0.00	0.00	5.50	0.00	0.00	-125.00
Switzerland	Zurich	CHF per sq m pa	170.00	163.00	6.25	6.25	21.43	5.50	0.00	0.00	-150.00
Turkey	Istanbul	\$/ per sq m pm	7.75	74.79	0.00	0.00	40.91	7.50	0.00	-50.00	-400.00
Ukraine	Kyiv	\$/ per sq m pm	4.50	43.43	-5.26	-28.00	0.00	16.00	0.00	0.00	-100.00
United Arab Emirates	Abu Dhabi	AED per sq m pa	900.00	219.76	0.00	0.00	0.00	11.00	0.00	0.00	-150.00
United Arab Emirates	Dubai	AED per sq ft pa	50.00	131.41	0.00	11.11	100.00	10.50	0.00	0.00	-250.00
United Kingdom	Edinburgh	£ per sq ft pa	6.50	98.70	8.33	8.33	8.33	6.00	-50.00	-100.00	-200.00
United Kingdom	Glasgow	£ per sq ft pa	6.75	102.50	3.85	3.85	12.50	7.00	0.00	-25.00	150.00
United Kingdom	London	£ per sq ft pa	14.00	212.59	7.69	12.00	12.00	4.50	-10.00	-40.00	-325.00
United Kingdom	Manchester	£ per sq ft pa	5.95	90.35	0.00	0.00	8.18	5.75	-25.00	-75.00	-260.00

Source: CBRE Research

OUTLOOK

Occupier demand is expected to remain solid throughout the second half of 2015 as the economic recovery in Europe appears to be holding ground and consumer confidence has not weakened. The Greek crisis is still posing a risk on the short term while in the longer term, stalling Chinese growth may pose a threat to export, which might particularly impact the automotive sector in CEE.

The fundamentals for rental growth remain in place, although the growing development pipeline is relieving pressure, particularly in markets such as the Czech Republic, Poland and the Netherlands. Prospects for further vacancy decline and rental growth are diminishing at these locations, although the qualitative aspects of occupier demand are playing a crucial role in opting for new schemes. In tight markets with limited development potential, rental growth continues to be a visible feature, but this is mainly limited to the key hubs in the UK.

New development schemes will increasingly feed investor demand as well, as grade A investment product has become truly scarce throughout the region. As the gap with other asset classes and bond rates remains, yields will continue to be under downward pressure. The bandwidth in EMEA yields is gradually narrowing, particularly with yields for southern and eastern European properties moving in more clearly.

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