

EMEA Industrial & Logistics, Q3 2015

Europe's logistics markets keep firing on all cylinders

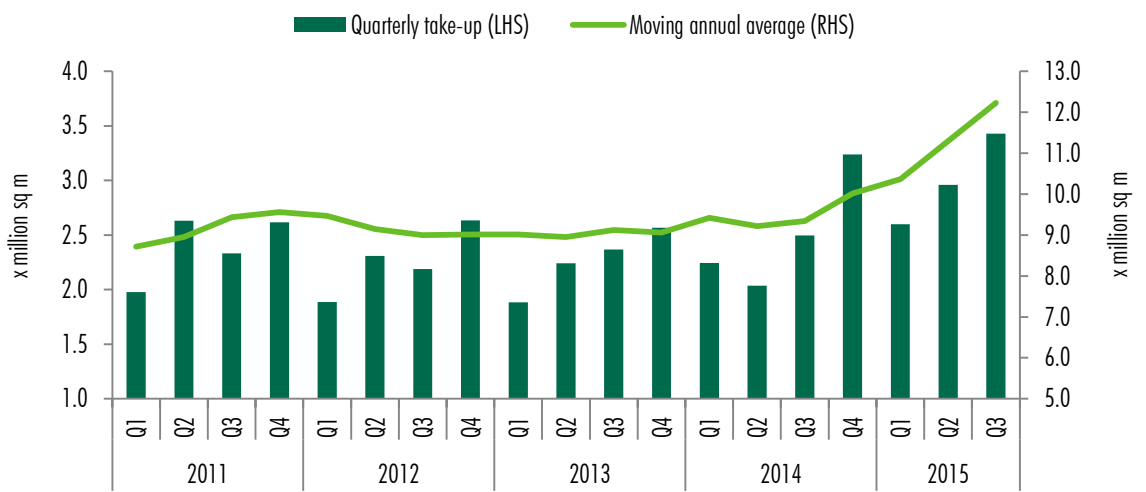
▲ EMEA Logistics Take-up
+37.4% y-on-y

▲ EMEA Prime Rent
+1.39% y-on-y

▼ EMEA Prime Yield
-59 bps y-on-y

▲ EMEA Capital Values
+10.75% y-on-y

Figure 1. EMEA logistics take-up (aggregate of 30 key hubs)



Source: CBRE Research, October 2015

HEADLINES

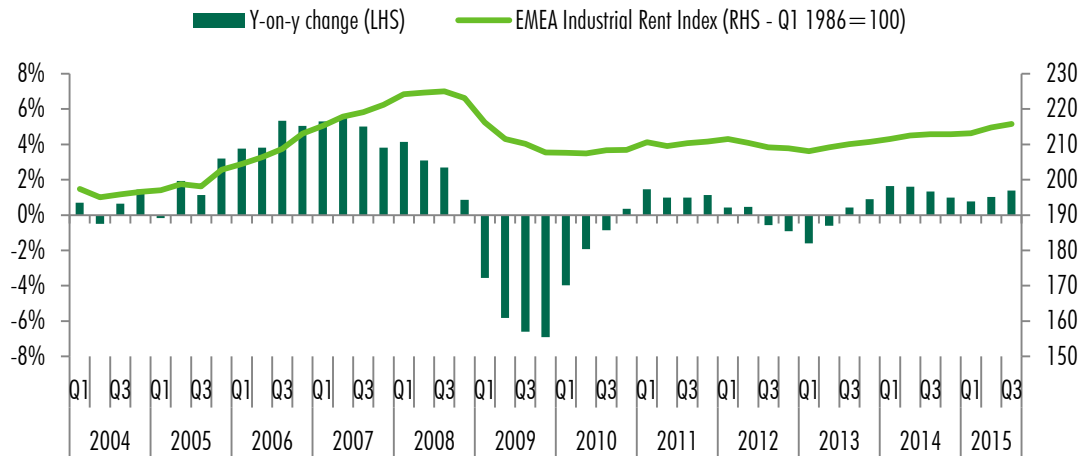
- Record quarter for take-up of logistics space
- Occupier demand driven by search for economies of scale and supply chain optimisation
- Construction pipeline remains robust, but is not leading to a widening market
- Rental growth has strengthened but remains modest and patchy
- Yields in Central and Southern Europe have moved in considerably

OCCUPIER DEMAND

The search for economies of scale and a resulting need for large warehouse units is driving take-up growth in Europe further. A wave of mergers and acquisitions is currently rolling through the transport & logistics sector, resulting in a further drive for consolidation and centralization.

Consumption growth in Europe remains the backbone of occupier demand, from which e-commerce fulfilment operations are profiting in particular. An increasing number of these are reaching the critical mass necessary to establish a dedicated site, rather than share accommodation with a traditional operation.

Figure 2. EMEA Industrial Prime Rent Index



Source: CBRE Research, October 2015

Q3 proved to be a record quarter in terms of take-up volume, and many European markets are firmly heading towards a record year.

The structure of occupier demand has largely remained unchanged, with retail-led logistics at the forefront and e-commerce fulfilment playing an increasing role. In CEE markets, logistics operations supporting the automotive industry continue to be a prominent factor as well.

SUPPLY

The development pipeline in Europe has largely remained stable in Q3, which also means that it continues to have a strong impact on market dynamics in a number of locations. This is especially the case in the northern half of the European continent, where markets such as the Netherlands, Germany, Poland and the Czech Republic continue to see large amounts of distribution space added to the stock.

However, the delivery of new schemes is not leading to a widening of market conditions and the amount of speculative development, although increasing, remains limited. In the Czech Republic for example, which in relative terms has one of the biggest development pipelines, net absorption saw a bumper quarter and vacancy actually fell to the lowest level since 2006.

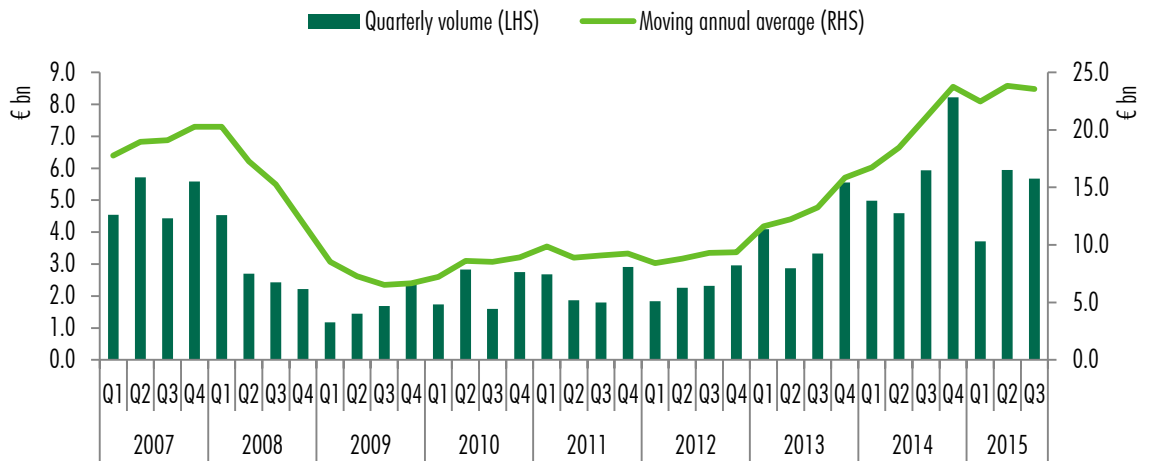
On average, vacancy rates in the main hubs of Europe are still moving between 5 and 7%, with most key hubs experiencing tight conditions for the prime market segment. This has triggered an overflow into secondary properties and locations, although occupier demand for secondary assets is different by nature, as they are often used for temporary surplus storage. This way, sudden obsolescence and structural vacancy can be fended off, but there is a discount in terms of lease length and rental income.

A limited number of logistics hubs, such as Budapest and Moscow, are still showing double-digit vacancy rates, but the market has tightened here too. In Moscow, a strong drop in rental prices has triggered a spike in demand.

RENTS

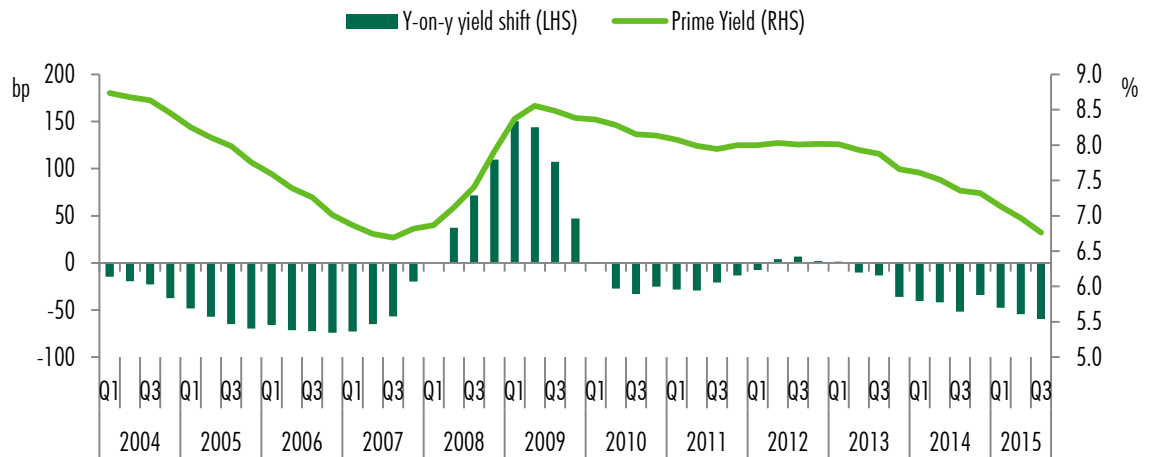
Rental growth in EMEA has strengthened compared to previous quarters, but remains at a modest level. Growth is patchy and in fact remains concentrated on locations where new development is more difficult to realise, most importantly the UK. In many other markets, rents have stayed put. In locations with a strong development pipeline competition for tenants and ongoing yield compression are leading to more aggressive asking rents, which is hampering rental growth.

Figure 3. European industrial investment volume



Source: CBRE Research, October 2015

Figure 4. EMEA Weighted Average Industrial Prime Yield



Source: CBRE Research, October 2015

In Poland, a substantial level of rent incentives has become customary, leading to a profound gap between headline and effective rents, despite a strong occupier demand and low vacancy rates.

at a record high of nearly €6 bn. France, for example, recovered from a weak first half of the year and also Germany and Spain continued to deliver a high investment volume.

INVESTMENT

Industrial investment fell back considerably on a quarterly basis, mostly the result of a quarterly sawtooth pattern in the UK, the market that is responsible for 40% of total investment in Europe. The pattern is caused by the closing of large portfolio deals; the quarterly number of transactions has in fact remained stable and the moving quarterly average for Europe has stayed

YIELDS

The downward pressure on industrial yields is continuing and previously higher yielding markets such as France, Italy and Central European markets have moved in more clearly in Q3. The weighted average yield for EMEA has now dropped below 6.8% and in most markets previous lows have now been reached or even passed, most notably in Germany.

Table 1. EMEA Industrial Rents & Yields

Country	City	Local Rent Currency Measurement	Industrial Rents				Industrial Yields				
			Prime Rent (Local Currency Measurement)	Prime Rent (€/Sq/M/Annum)	Change on Quarter (%)	Change on Year (%)	Change from Trough (%)**	Prime Yields (%)	Change on Quarter (bps)	Change on Year (bps)	Change from Trough (bps)**
EMEA Industrial Index					0.5	1.4	4.0	6.8	-20.3	-59.5	-179.1
Austria	Vienna	€ per sq m pm	4.85	58.20	0.00	1.04	1.04	6.50	-15.00	-60.00	-115.00
Belgium	Brussels	€ per sq m pa	48.00	48.00	4.35	4.35	9.09	6.25	-50.00	-60.00	-135.00
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	0.00	3.57	3.57	6.50	-25.00	-50.00	-225.00
Denmark	Copenhagen	DK per sq m pa	425.00	56.96	0.00	0.00	0.00	6.25	0.00	-75.00	-175.00
Estonia	Tallinn	DK per sq m pa	4.80	57.60	0.00	0.00	12.94	8.00	0.00	0.00	-25.00
Finland	Helsinki	€ per sq m pm	144.00	144.00	0.00	4.35	27.43	6.25	0.00	-50.00	-115.00
France	Lille	€ per sq m pa	44.00	44.00	0.00	0.00	0.00	6.25	-25.00	-50.00	-125.00
France	Lyon	€ per sq m pa	46.00	46.00	2.22	2.22	4.55	6.25	-25.00	-50.00	-125.00
France	Marseille	€ per sq m pa	43.50	43.50	0.00	0.00	6.10	6.25	-25.00	-50.00	-125.00
France	Paris	€ per sq m pa	60.00	60.00	0.00	3.45	20.00	6.25	-25.00	-50.00	-200.00
Germany	Berlin	€ per sq m pa	4.60	55.20	0.00	0.00	2.22	5.20	-40.00	-80.00	-230.00
Germany	Dusseldorf	€ per sq m pa	5.40	64.80	0.00	3.85	3.85	5.20	-40.00	-80.00	-205.00
Germany	Frankfurt	€ per sq m pm	6.20	74.40	0.00	0.00	5.08	5.20	-40.00	-80.00	-205.00
Germany	Hamburg	€ per sq m pm	5.70	68.40	0.00	0.00	1.79	5.20	-40.00	-80.00	-205.00
Germany	Munich	€ per sq m pm	6.50	78.00	0.00	0.00	4.84	5.20	-40.00	-80.00	-205.00
Greece	Athens	€ per sq m pm	3.00	36.00	0.00	-7.69	0.00	11.70	0.00	170.00	0.00
Hungary	Budapest	€ per sq m pm	4.50	54.00	0.00	0.00	0.00	8.75	-25.00	-50.00	-75.00
Ireland	Dublin	€ per sq m pm	72.50	72.50	3.57	11.54	20.83	6.50	0.00	-75.00	-300.00
Italy	Milan	€ per sq m pm	50.00	50.00	0.00	4.17	4.17	6.50	-50.00	-100.00	-160.00
Italy	Rome	€ per sq m pm	52.00	52.00	0.00	0.00	0.00	6.50	-50.00	-100.00	-160.00
Latvia	Riga	€ per sq m pa	4.50	54.00	0.00	5.88	20.00	8.50	0.00	-50.00	-100.00
Lithuania	Vilnius	ILS per sq m pm	4.50	54.00	0.00	0.00	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	5.85	-10.00	-40.00	205.00
Netherlands	Rotterdam	€ per sq m pa	75.00	75.00	0.00	0.00	11.94	5.85	-10.00	-40.00	-150.00
Netherlands	The Hague	€ per sq m pm	70.00	70.00	0.00	0.00	7.69	8.55	-20.00	-45.00	-45.00
Netherlands	Utrecht	€ per sq m pm	70.00	70.00	0.00	0.00	7.69	5.85	-10.00	-40.00	-205.00
Norway	Oslo	€ per sq m pa	1200.00	136.87	0.00	0.00	20.00	5.50	0.00	-70.00	-225.00
Poland	Warsaw	€ per sq m pa	4.00	48.00	0.00	0.00	0.00	6.50	-50.00	-50.00	-225.00
Portugal	Lisbon	€ per sq m pa	3.25	39.00	0.00	0.00	0.00	7.00	-50.00	-175.00	-250.00
Romania	Bucharest	€ per sq m pa	3.80	45.60	0.00	0.00	0.00	8.75	0.00	-125.00	-175.00
Russian Federation	Moscow	\$ per sq m pa	70.00	62.71	-22.22	-45.10	0.00	12.75	0.00	150.00	-125.00
Russian Federation	St Petersburg	\$ per sq m pa	72.00	57.90	-25.77	-48.57	0.00	13.75	0.00	113.00	-325.00
Serbia	Belgrade	€ per sq m pm	4.50	60.00	11.11	11.11	11.11	11.50	-50.00	-50.00	-150.00
Slovak Republic	Bratislava	€ per sq m pm	4.00	48.00	0.00	0.00	9.59	7.75	-15.00	-25.00	-100.00
South Africa	Johannesburg	€ per sq m pm	62.00	54.96	0.00	0.00	3.33	8.75	0.00	25.00	-225.00
Spain	Barcelona	€ per sq m pm	6.25	75.00	0.00	4.17	4.17	6.50	0.00	-125.00	-150.00
Spain	Madrid	€ per sq m pm	5.00	60.00	0.00	0.00	0.00	6.50	0.00	-125.00	-175.00
Sweden	Gothenburg	SEK per sq m pa	675.00	72.99	-6.90	-10.00	3.84	5.75	0.00	-25.00	-185.00
Sweden	Stockholm	SEK per sq m pa	900.00	97.32	0.00	0.00	0.00	5.75	0.00	-25.00	-200.00
Switzerland	Geneva	CHF per sq m pa	200.00	183.42	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	7.50	80.62	-3.23	-3.23	36.36	7.50	0.00	-25.00	-400.00
Ukraine	Kyiv	\$ per sq m pm	4.50	48.37	0.00	-20.35	0.00	16.00	0.00	0.00	-100.00
United Arab Emirates	Abu Dhabi	AED per sq m pa	900.00	219.52	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	131.27	0.00	6.38	100.00	10.50	0.00	0.00	-250.00
United Kingdom	Edinburgh	£ per sq ft pa	6.50	94.95	8.33	8.33	8.33	6.00	0.00	-100.00	-200.00
United Kingdom	Glasgow	£ per sq ft pa	6.75	98.60	3.85	3.85	12.50	7.00	0.00	-25.00	150.00
United Kingdom	London	£ per sq ft pa	14.00	204.50	0.00	12.00	12.00	4.50	0.00	-40.00	-325.00
United Kingdom	Manchester	£ per sq ft pa	5.95	86.91	0.00	0.00	8.18	5.75	0.00	-75.00	-260.00

Source: CBRE Research, October 2015

OUTLOOK

2015 will prove to be a record year in terms of take-up, as retail logistics operations continue to profit from stronger consumption in Europe and their scale of operations continues to grow. It should be noted, therefore, that a strong growth in transaction size, rather than the number of leasing transactions, is driving take-up growth.

The market is expected to see more emphasis on last mile solutions, ideally modern parcel hubs around the big cities. Not only occupiers, but also investors are now attracted by these assets. Not too long ago, they were deemed largely unfit as institutional investment product due to their specific lay-out, low site coverage and small ticket size. A strong drop in yield levels for this type of assets is now reflecting increased investor appetite, as the necessity of these properties for e-commerce supply chains is being acknowledged.

The fundamentals for further rental growth remain in place, although the development pipeline is relieving pressure in many continental markets, particularly the Czech Republic, Poland and the Netherlands. In tight markets with limited development potential, rental growth continues to be a visible feature, most notably the UK and Ireland.

Although yields have declined considerably, the gap for prime industrial yields in EMEA is still relatively wide, not only related to government bond yields and yields for other real estate asset classes, but also compared with prime yields in other global regions.

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