

# **KEY POINTS**

- > Demand for I&L space continues to be bolstered by the positive economic fundamentals. Confidence within the European industrial sector reached a six-year high in July, just shy of its pre-financial crisis peak.
- > E-commerce remains a key source of demand. Amazon will add no less than 1.2 million sq m of fulfillment space across Europe this year, the largest amount on record. Similarly, Alibaba is scouting for new locations in the UK and continental Europe.
- > E-commerce is gaining market share outside Northern Europe too, as exemplified by Amazon's recent investments in Southern Europe (Madrid, Barcelona, Milan, Rome and Turin's regions).

- > Sub-5% vacancy rates are increasingly the norm, with larger requirements (20,000+ sq m) mostly satisfied by build-to-suits. There are pockets of speculative development, but generally limited in scale.
- > Rental growth was more widespread in the first six months of 2017, stretching beyond Western Europe to CEE markets. Bratislava saw the highest increase in headline rents for prime distribution space (+17.6%). Significant uplifts were recorded in the UK (South-East & South-West) & Ireland (Dublin), Sweden, Denmark, Warsaw, Prague and Budapest.
- > There is more interest in new formats like "tower-sheds" and "beds-and-sheds" (mixed-use developments integrating logistics) and new schemes are being proposed. With unemployment edging down across Europe, availability of labour is an inc reasingly important factor in site selection.

## **MARKET OVERVIEW**

The European industrial and logistics real estate market continues to benefit from a positive economic environment. Eurozone's GDP grew by 2.1% y-o-y in Q2, from 1.9% in Q1. The European Commission's industrial confidence indicator for EU's 28 member states is now close to its pre-crisis peaks.

Demand is robust across the board – Prologis reported their highest demand level for H1 in 10 years and e-commerce is an increasingly important driver. Amazon will add no less than 1.2 million sq m of e-fulfilment space this year – the highest annual total on record – mostly in the UK, Germany and Poland. Amazon is also expanding in Southern Europe where e-commerce sales growth is expected to outpace other regions this year (18% vs 13.5%)

After taking space in the UK and Czech Republic (through it logistics partner 4PX Express), Alibaba is reported to be looking for a second warehouse in the Midlands, UK, and to be scouting other locations in Europe along the new "Silk Road" rail route.

Pre-lets and build-to-suits remain the main catalyst for new development, particularly in the larger bracket size (20,000+ sq m). There are pockets of speculative development where supply is most constrained, but usually not on the scale required to alleviate the shortage of good quality stock. Developers generally remain cautious and wait for new builds to be let before launching new phases.

# **Key Metrics** in the top 17 EMEA Markets [H1 2017]

City	Warehouse Rent [sq m/ €/ month] (6M Local Currency Change)		Outlook (12M)	Logistics & Distribution Rent [sq m/ €/ year] (6M Local Currency Change)		Outlook (12M)	Vacancy Rate (6M Change, %)		Outlook (12M)
Barcelona	3.50	(no change)	<b>√</b> ▶	6.30	(+0.8%)	<u> </u>	3.70%	(-0.2%)	▼
Birmingham	6.90	(+3.8%)	<b>A</b>	6.60	(no change)	<b>A</b>	3.60%	(-0.8%)	•
Bucharest	4.00	(no change)	<b>4</b>	4.00	(no change)	<b>4</b>	2.00%	(no change)	<b>◆</b> ▶
Budapest	5.00	(no change)	<b>A</b>	3.80	(+7.1%)	<b>A</b>	4.20%	(-3.9%)	•
Frankfurt	6.90	(no change)	<b>4</b>	6.40	(+1.6%)	<b>♦</b>	3.00%	(no change)	<b>4</b>
Hamburg	6.50	(no change)	<b>♦</b>	5.80	(no change)	<b>⋖</b> ▶	n/a		<b>4</b>
Istanbul	5.30	(no change)	•	5.30	(no change)	•	21.00%	(+2.0%)	
London	11.20	(no change)	<b>A</b>	10.70	(+5.0%)	•	3.50%	(-0.1%)	•
Madrid	3.20	(no change)	<b>♦</b>	5.30	(no change)	•	4.30%	(-0.1%)	•
Moscow	4.80	(no change)	<b>♦</b>	4.80	(no change)	<b>◄</b> ▶	9.20%	(-1.8%)	•
Munich	6.90	(no change)	<b>A</b>	6.90	(no change)	•	2.40%	(+0.3%)	<b>4</b>
Paris	n/a			4.60	(no change)	<b>⋖</b> ▶	n/a		
Prague	4.30	(+6.3%)	<b>♦</b>	4.00	(+2.6%)	<b>◄</b> ▶	4.10%	(+0.5%)	<b>4</b>
Rotterdam	5.40	(no change)	<b>♦</b>	5.40	(no change)	<b>♦</b>	n/a		<b>(</b>
Stockholm	11.20	(+18.2%)	<b>A</b>	7.40	(+6.3%)	<b>A</b>	5.00%	(no change)	<b>4</b>
Venlo	n/a			3.30	(no change)	<b>♦</b>	n/a		•
Warsaw	5.00	(no change)	<b>⋖</b> ▶	4.00	(no change)	<b>⋖</b> ▶	7.40%	(+1.0%)	<b>4</b>

Logistics and Distribution Rent Change

[June 2017 vs December 2016]

Bratislava 17.6%

Bristol 7.7

Gothenburg 7.79

Budanest 7.19

Stockholm 6.3%

London (Enfield) 5.0%

Copenhagen 4.8%

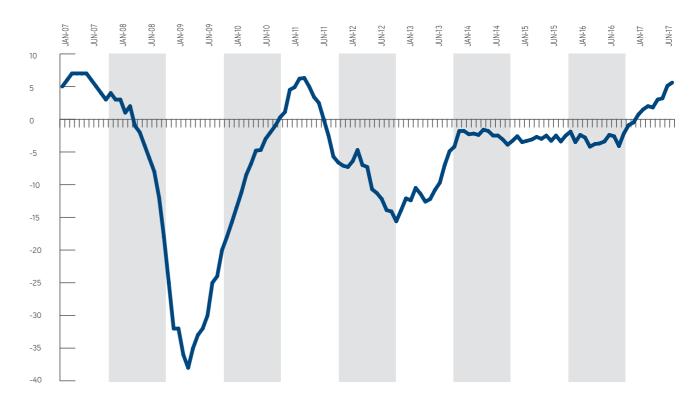
Frankfurt 1.6%

Barcelona 0.8%

SOURCE: COLLIERS INTERNATIONAL

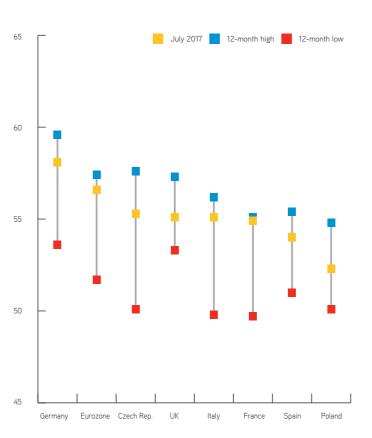
SOURCE: COLLIERS INTERNATIONAL

#### Industrial Confidence in the EU



SOURCE: COLLIERS INTERNATIONAL

### PMI Manufacturing Surveys\*



\* >50 denotes expansion, <50 denotes contraction SOURCE: COLLIERS INTERNATIONAL

Approaches to speculative development vary by geography. In Spain, particularly in Madrid, there is now more appetite for risk, while in the UK, there are signs of a slowdown partly due to funding difficulties and Brexit uncertainty. CEE is seeing its fair share of speculative development, mostly in Slovakia and the Czech Republic. In Germany, the lack of development sites continues to constrain new supply.

Voids continue to fall, with sub-5% vacancy rates increasingly the norm in established Western markets like London (3.5%), Frankfurt (3%) or Barcelona (3.6%), but equally in traditionally less land-constrained CEE markets like Prague (4.0%) and Budapest (4.20%, down from 9.70% a year ago). This means market conditions tend to increasingly favour landlords.

Rental growth was more widespread in the first six months of 2017. Bratislava was the star performer - prime headline distribution rents grew 17.6%. Significant uplifts were recorded in the UK (led by Bristol, +7.7%) & Ireland (Dublin, +8.6%) Sweden (Gothenburg, +7.7%; Stockholm, +6.3%) and Denmark (Copenhagen, +4.8%). Rental growth is also starting to show through in CEE hubs like Budapest (+7.1%) and Prague (+2.6%), although developers remain flexible on incentives.

In the next 6-12 months, further rental growth is expected in the UK, Nordics, Iberia and some core and regional German markets, plus some supply-constrained markets in CEE, notably Budapest.

MID-YEAR SNAPSHOT | INDUSTRIAL | EMEA | 2017 H1 2 colliers.com/emea MID-YEAR SNAPSHOT | INDUSTRIAL | EMEA | 2017 H1 3 colliers.com/emea

# **AROUND THE MARKET**

Speculative development is slowing, partly due to funding difficulties and uncertainty following Brexit. Approximately 3.5 million sq ft of speculative completions are expected this year, a -60% decline on 2016. As a result, the nationwide vacancy is expected to fall further from its current level of 4.7% (all sizes) and 2.2% for big sheds.

### **SPAIN**

Amazon is stepping up its investment in Catalonia and Spain by opening a new 30,000 sq m logistics centre in Catalunya in Martorelles near Barcelona. This is their fourth distribution facility in the region. Amazon is building a 60,000 sq m fulfilment centre near Barcelona's airport and recently opened a Prime Now station in Barcelona's Eixample district.

**GERMANY** 

In technology regions such

as Stuttgart and Munich,

demand from research

and development (R&D)

companies is on the rise

combined with office space.

- most notably for halls

These types of assets/

developments are viewed

more favourably by local

municipalities as R&D can

jobs thus creating higher

commercial tax revenues.

In highly constrained

land markets, this puts

these developments at

an advantage when the

permits arises.

need to fight for planning

generate more higher value

### **SWEDEN**

The Port of Stockholm authority has started construction on a new container port in Norvik, south of Stockholm. The infrastructure will be completed in 2020 and will support the local industrial real estate market and potentially compete with the Port of Gothenburg.

#### **CZECH REPUBLIC**

The Karlovy Vary region has seen significant demand and with further additional deals in process, the region's stock is likely to double by the end of 2018 to around 235,000 sq m. More development is also expected in the in Southern Bohemia and Vysočina regions as new land is made available for industrial use.

### **ROMANIA**

The country is on course to register the highest level of logistics completions on record, with 500,000 sq m of space to be added in 2017. Nonetheless, reflecting strong absorption, the vacancy rate is at a record-low (5% for Romania, 2% for Bucharest).

# **OUTLOOK**

"Tower sheds" and "beds-andsheds" (mixed-use developments integrating logistics) are now more than buzzwords, with tangible interest in these concepts and new schemes coming forward, including plans for a multi-storey warehouse by SEGRO in North London.

Amazon continues to push the boundaries including a patent for an underwater warehouse and pressing ahead with drone deliveries, led by their new research centre in Paris. While many of these ideas may never see the light of day, technology and supply chain innovation is relentless. Providers of industrial real estate must stay on top of these trends in order to meet future occupier expectations. Ondemand warehousing is also a trend to watch, with sites like Stowga in the UK offering flexible warehouse space with no leases attached for short periods of time.

As unemployment rates edge down across most of Europe, labour is becoming an increasingly important factor in site selection, opening up real estate opportunities for regions offering greater availability of labour and skills. This applies to markets as diverse as the UK and Poland. Hungary, for example, is suffering from increasingly acute labour shortages.

Transactional evidence suggests demand from the automotive sector continues to be strong in key automotive hotspots, particularly in CEE. In the mid to long-term, OEMs and suppliers alike face unprecedented challenges as the industry moves away from petrol/diesel. Players unable to recalibrate to this new paradigm are at risk of becoming obsolete and the impacts will be felt across industrial real estate too.

#### **CONTACTS:**

Damian Harrington
Director, Head of Research | EMEA
damian.harrington@colliers.com



Tim Davies
Head Industrial & Logistics Practice Group | EMEA +44 7 714 707 676
tim.davies@colliers.com

#### **CONTRIBUTORS:**

Juliane Priesemeister Information Designer | EMEA Research juliane.priesemeister@colliers.com

€2.3

billion in annual revenue

170
million square meter under management

15,000 professionals

and staff

### About Colliers International

Colliers International Group Inc. (NASDAQ: CIGI; TSX: CIG) is a global leader in commercial real estate services with more than 15,000 professionals operating in 68 countries. With an enterprising culture and significant insider ownership, Colliers professionals provide a full range of services to real estate occupiers, owners and investors worldwide. Services include brokerage, global corporate solutions, investment sales and capital markets, project management and workplace solutions, property and asset management, consulting, valuation and appraisal services, and customized research and thought leadership. Colliers International has been ranked among the top 100 outsourcing firms by the International Association of Outsourcing Professionals' Global Outsourcing for 10 consecutive years, more than any other real estate services firm.

#### colliers.com

Copyright © 2017 Colliers International.

The information contained herein has been obtained from sources deemed reliable. While every reasonable effort has been made to ensure its accuracy, we cannot guarantee it. No responsibility is assumed for any inaccuracies. Readers are encouraged to consult their professional advisors prior to acting on any of the material contained in this report.