

EMEA

INDUSTRIAL MARKET SNAPSHOT

SEPTEMBER 2017

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 increasingly 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.

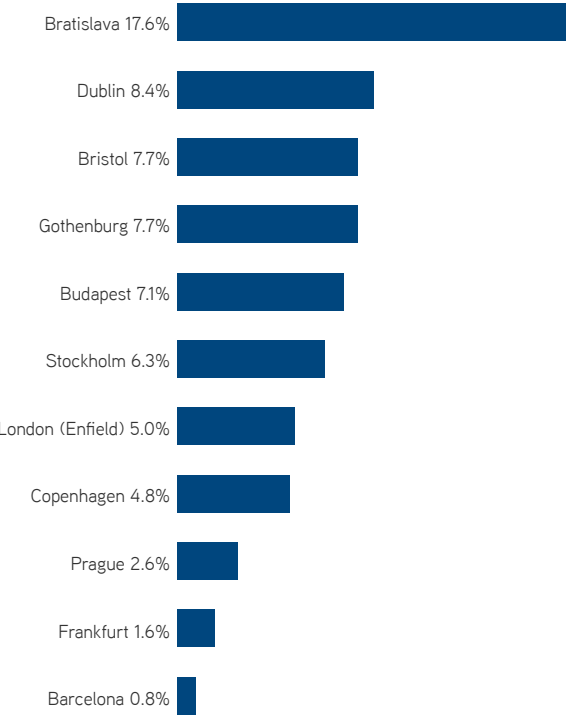
Pre-lets and build-to-suits remain the main catalyst for new development, particularly in the larger bracket size (20,000+ sq m). There are pockets of speculative development where supply is most constrained, but usually not on the scale required to alleviate the shortage of good quality stock. Developers 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)	◀▶	6.30	(+0.8%)	▲	3.70%	(-0.2%)	▼
Birmingham	6.90	(+3.8%)	▲	6.60	(no change)	▲	3.60%	(-0.8%)	▼
Bucharest	4.00	(no change)	◀▶	4.00	(no change)	◀▶	2.00%	(no change)	◀▶
Budapest	5.00	(no change)	▲	3.80	(+7.1%)	▲	4.20%	(-3.9%)	▼
Frankfurt	6.90	(no change)	◀▶	6.40	(+1.6%)	◀▶	3.00%	(no change)	◀▶
Hamburg	6.50	(no change)	◀▶	5.80	(no change)	◀▶	n/a		◀▶
Istanbul	5.30	(no change)	▼	5.30	(no change)	▼	21.00%	(+2.0%)	▲
London	11.20	(no change)	▲	10.70	(+5.0%)	▲	3.50%	(-0.1%)	▼
Madrid	3.20	(no change)	◀▶	5.30	(no change)	▲	4.30%	(-0.1%)	▼
Moscow	4.80	(no change)	◀▶	4.80	(no change)	◀▶	9.20%	(-1.8%)	▼
Munich	6.90	(no change)	▲	6.90	(no change)	▲	2.40%	(+0.3%)	◀▶
Paris	n/a			4.60	(no change)	◀▶	n/a		
Prague	4.30	(+6.3%)	◀▶	4.00	(+2.6%)	◀▶	4.10%	(+0.5%)	◀▶
Rotterdam	5.40	(no change)	◀▶	5.40	(no change)	◀▶	n/a		◀▶
Stockholm	11.20	(+18.2%)	▲	7.40	(+6.3%)	▲	5.00%	(no change)	◀▶
Venlo	n/a			3.30	(no change)	◀▶	n/a		▼
Warsaw	5.00	(no change)	◀▶	4.00	(no change)	◀▶	7.40%	(+1.0%)	◀▶

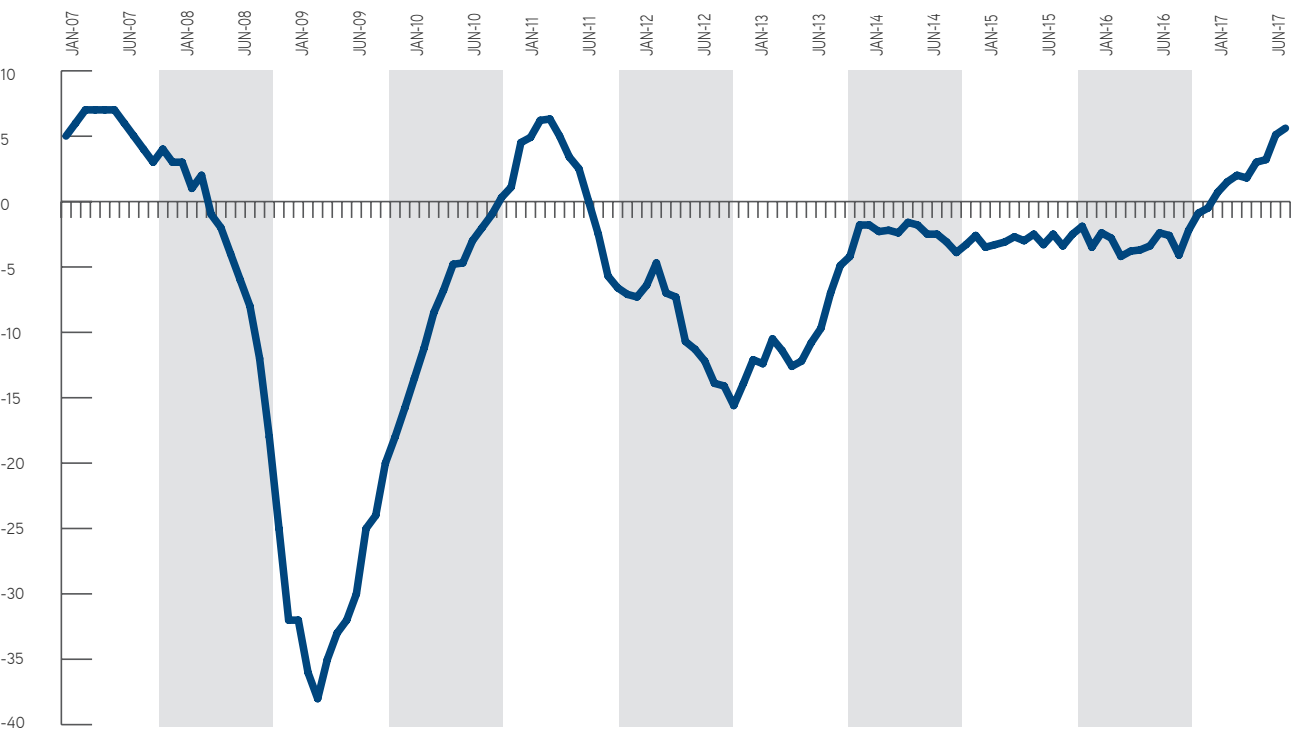
SOURCE: COLLIERS INTERNATIONAL

Logistics and Distribution Rent Change [June 2017 vs December 2016]



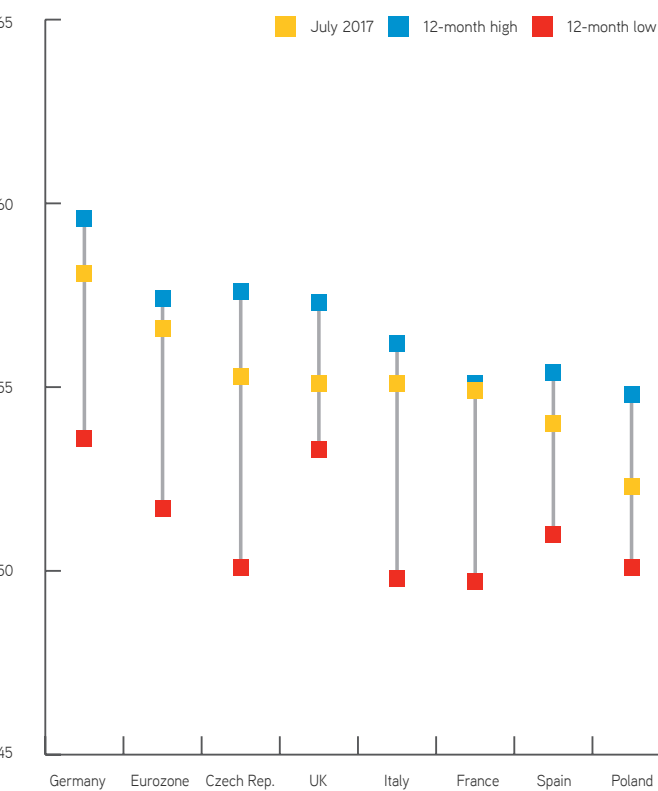
SOURCE: COLLIERS INTERNATIONAL

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.

AROUND THE MARKET



OUTLOOK

"Tower sheds" and "beds-and-sheds" (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. On-demand 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.

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€2.3

billion in
annual revenue

170

million square meter
under management

15,000

professionals
and staff

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