EUROPEAN LOGISTICS MARKET

Q3 2023

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INTERNATIONAL RESEARCH
October 2023

BNP PARIBAS REAL ESTATE

Real Estate for a changing world

LOGISTICS WAREHOUSING MARKET IN EUROPE

LOGISTICS IN A NUTSHELL

MARKET FUNDAMENTALS REMAIN HEALTHY

Take-up decreased significantly in 2023 in the leading European countries. The manufacturing sector feels the effect of slower demand and new orders weakening. However, market fundamentals remain healthy with vacancy rates below 4% in most countries and the lack of new developments still contribute to rental growth in prime sectors.

SLOWDOWN IN 2023 FOR LOGISTICS INVESTMENT

2023 experienced significant slowdown in investment. It is the result of rapid adjustment in the macro financial environment with bond yield expansion and rising interest rates. Yield decompression isn ow slowing down in most European countries. This could unlock investment activity in the next quarters.

ECONOMIC RESILIENCE IS FADING

After a slightly positive first half-year, eurozone activity is likely to stall in the second half-year.

The labour market should also lose momentum. However, the extent of this decline and an increase in the unemployment rate should be relatively limited given persistent recruitment difficulties.

THE RATE HIKE CYCLE IS COMING TO AN END

The further weakening of economic activity and lower inflation that we expect to see by the end of this year should prompt the Fed, like the ECB and the BoE, to stop raising their policy rates. However, a further tightening cannot be ruled out.

STRONG POTENTIAL OF GROWTH FOR ONLINE SALES

Online accounts for 11% of total retail sales in Europe. There are great differences between countries though, with northern European countries tending to have greater share. Changing shopping habits is a structural demand driver for warehousing space. As online shopping grows, so does reverse logistics, increasing the space needed.

THE CHOICE OF LOCATION REMAINS PARAMOUNT

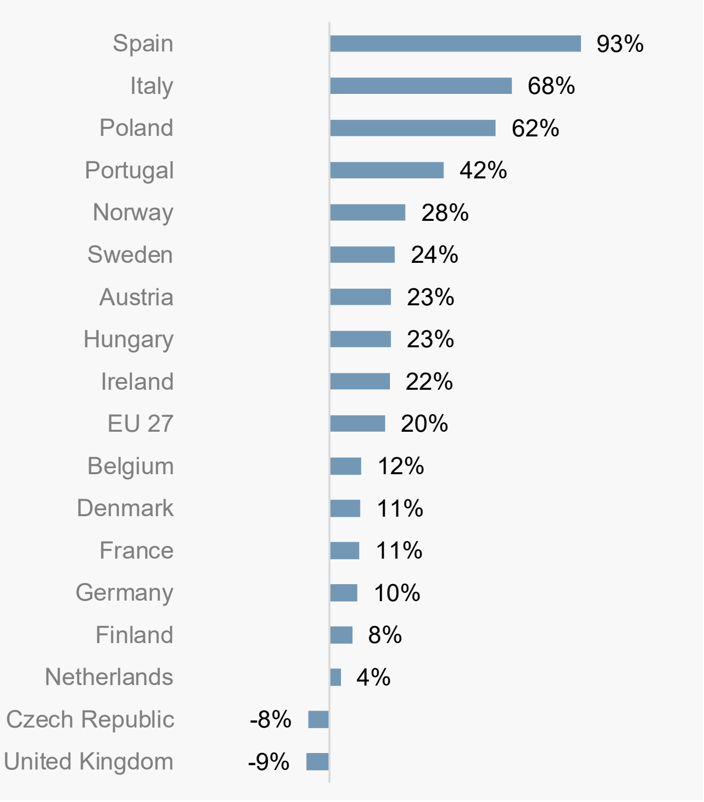
As retailers develop omni-channel solutions, the choice of location for last mile delivery along with regional delivery network is of fundamental importance. The main challenge faced with both is land availability.

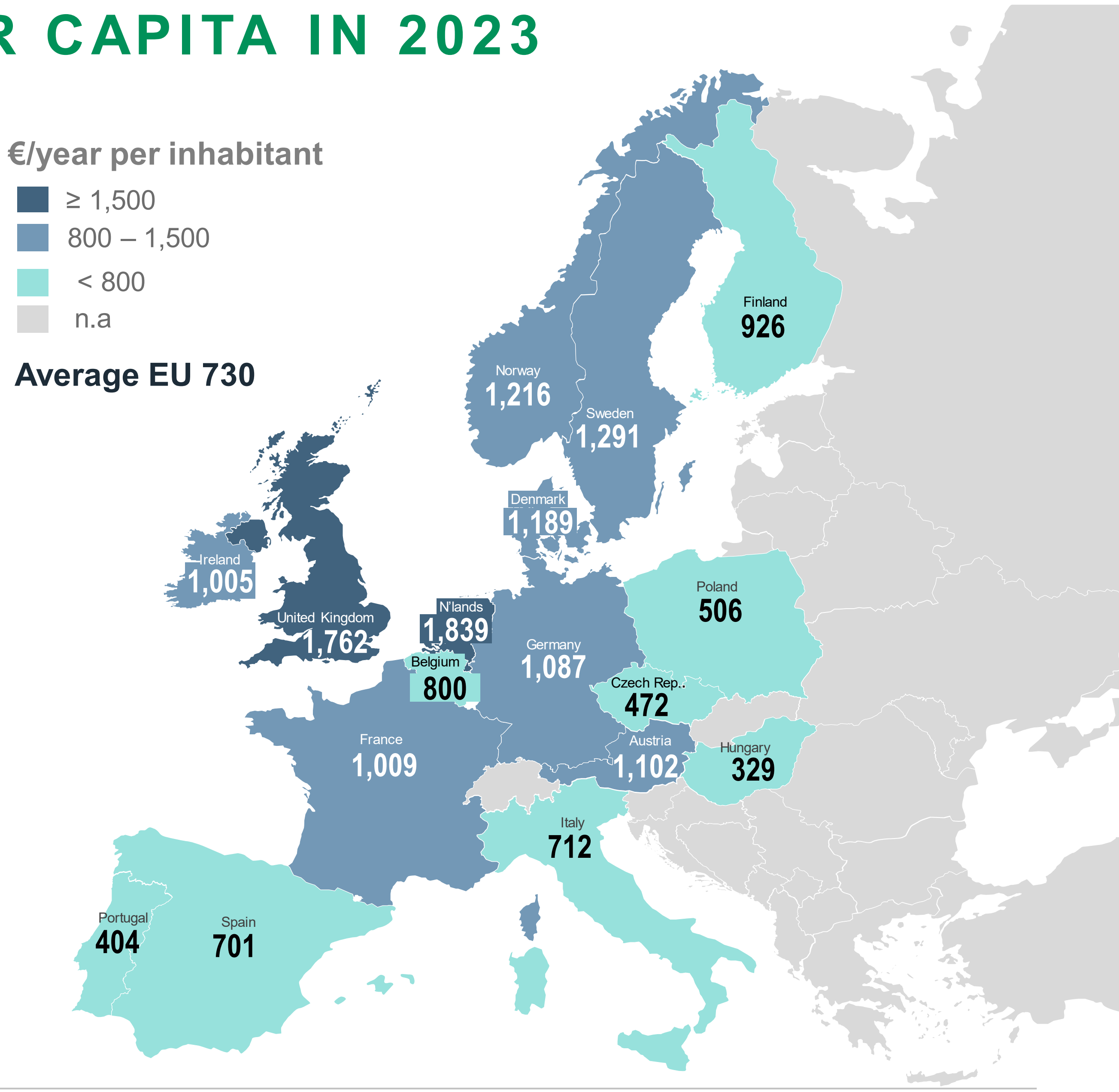
ONLINE SALES OF GOODS PER CAPITA IN 2023

MARKET SLOWDOWN IN 2023

- Northern European countries account for the highest sales online per capita and the lowest rates of growth.
- A British person buys goods online worth €1,762 a year.
- Covid triggered a change in shopping behaviour. Shoppers turned to internet sales and traditional retailers developed internet solutions for their customers. Both factors contributed to an increase in e-commerce sales.
- In Southern and Central European countries, the number of people shopping online is well below the European average, but also showing some of the highest rates of growth.

Growth of online sales of goods between 2020 and 2023





Source: BNP Paribas Real Estate analysis Eurostat and PMA data, August 2023

LOGISTICS OCCUPIER MARKET IN EUROPE

TAKE-UP IN 6 COUNTRIES: -36% (9M 2023 VS 9M 2022)

Below its 5-year average, the market is slowing down

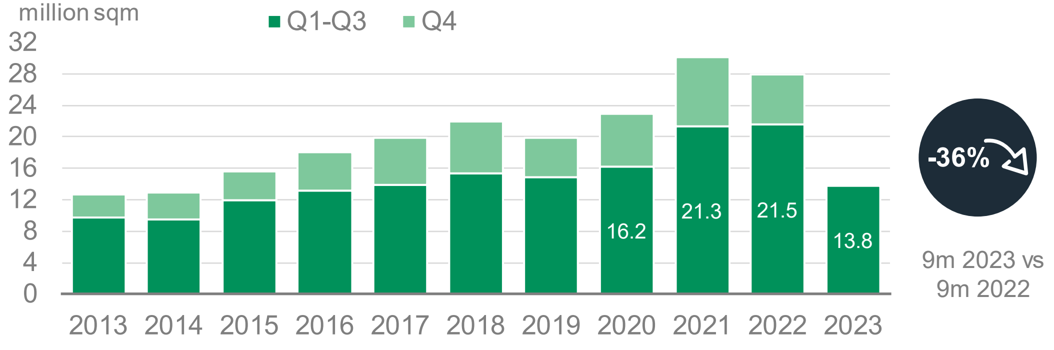
- Over the 9 months of 2023, the market decreased by 36% in the leading European markets. This is compared with the exceptional volumes recorded in 2021 and 2022.
- Sufficient economic growth existed in 2022 to ensure good performance in occupier markets. In 2023, the manufacturing sector felt the effect of slower demand and new orders weakening.
- Structural changes in consumer spending patterns continue to raise e-commerce penetration rates.

It means the need for logistics space remains ongoing even though slower economic growth is clearly impacting most European markets.

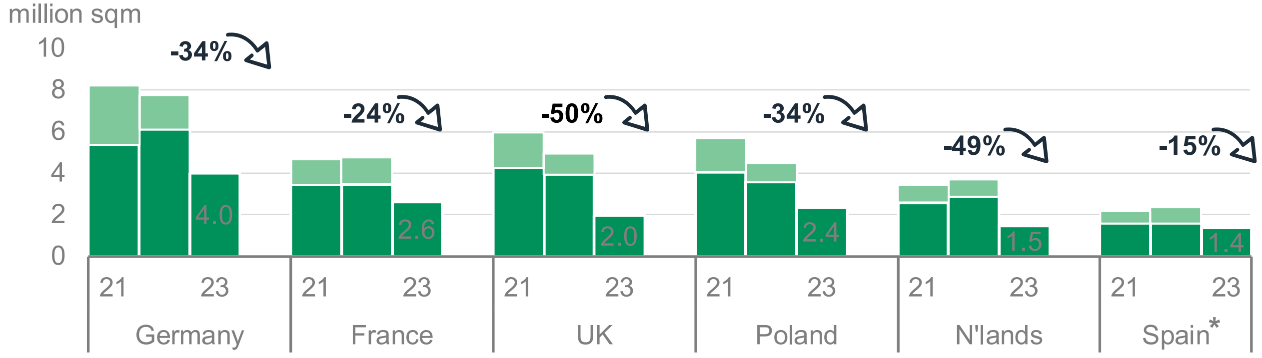
- Supply drying up over the past three years while demand stayed sharp means there is major imbalance in some markets.
- Construction times and availability of land dictate the market balance in areas where the vacancy rate remains well below the European average of 5%.
- New developments are still insufficient to meet demand, yet few speculative developments are launched.

Country profiles over the 9 months of 2023

- In **Germany** demand is relatively subdued compared to the record years 2022 and 2023. A massive increase in construction costs in 2022 had led to significant rental growth. It continued in 2023 as ESG requirements and the scarcity of new products are still putting pressure on rents.
- In the **UK**, like most European countries, take-up decreased significantly after the exceptional volumes recorded last year. The Q3 take-up does, however, represent a 15% quarterly increase and could suggest that the market has already bottomed out.
- In **Poland**, after a slow start at the beginning of the year, take-up increased significantly in Q3 2023. Prime rents rose slightly by 2% during Q3 to €51.6/sqm/yr in Warsaw II and €50.4 in Poznan.
- In **France**, the market has been slowing down reflecting the economic backdrop and rental growth. Demand for XXL warehouses and build-to-suit solutions dropped significantly. Supply is scarce in most markets leaving the vacancy rate at 3.4%. Competition for high quality buildings stays sharp, implying further prospects for rental increases in prime locations.
- Following two years of buoyant activity, the market is trending downward reflecting lower economic activity and the lack of good quality supply. Low availability is still putting pressure upward on rents.
- In **Spain**, the market maintained a good volume of transactions. After strong rental growth in 2022, the main Spanish markets have recorded stabilization in prime rental values as supply has loosened since the beginning of the year.



Take-up – 6 countries (France, Germany, Netherlands, Poland, Spain, UK)



*Total of Madrid + Barcelona + Valencia

LOGISTICS PRIME RENTS

STRONG RENTAL GROWTH IN 2023

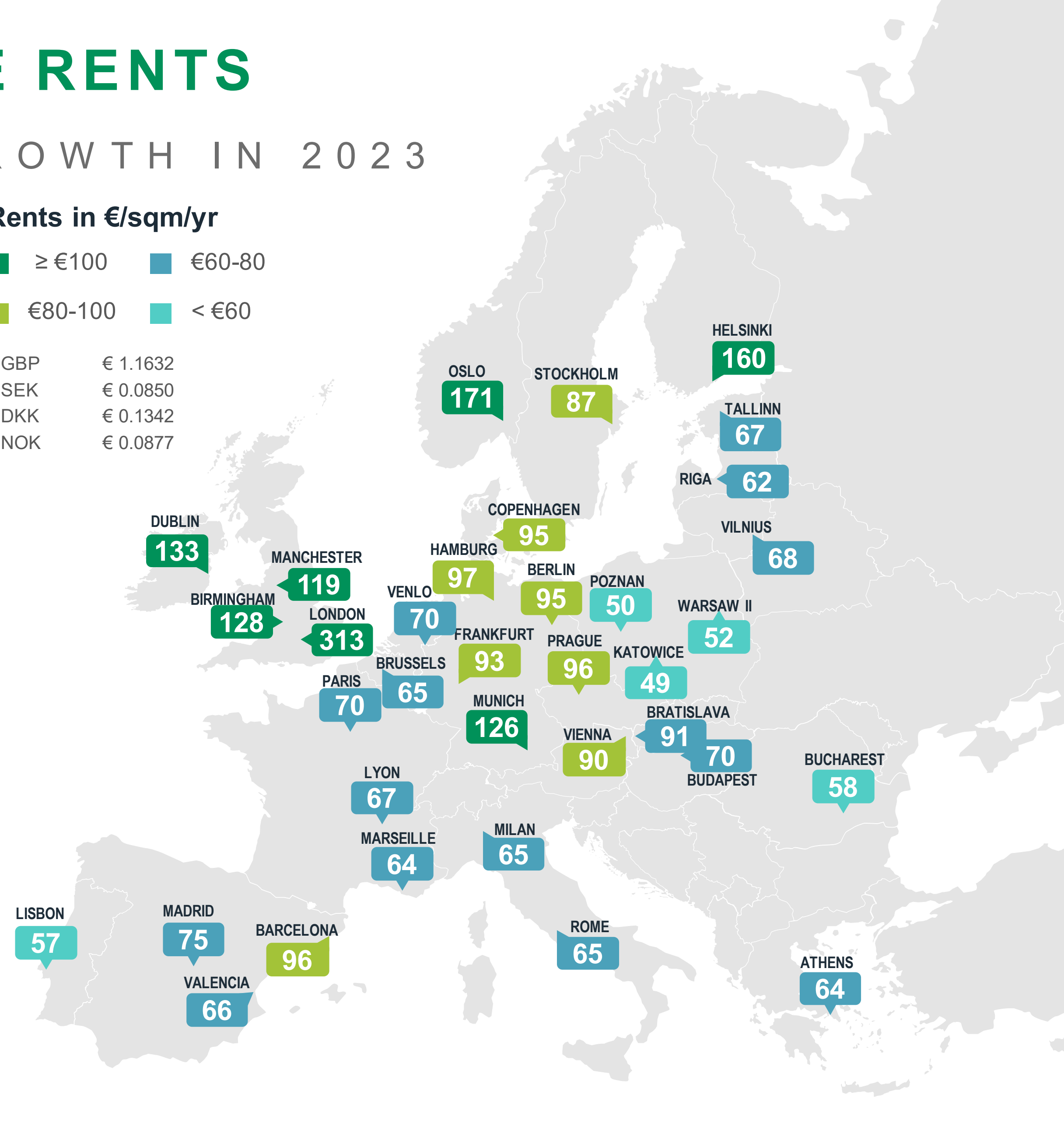
Q3 2023 vs Q3 2022

FRANKFURT	+6%
BERLIN	+5%
BIRMINGHAM	+14%
LONDON	=
PARIS	+11%
VENLO	+12%
MADRID	=
BARCELONA	+10%
WARSAW II	+10%
PRAGUE	=
MILAN	+8%
STOCKHOLM	+7%
OSLO	+15%

Rents in €/sqm/yr

≥ €100 | €60-80 | €80-100 | < €60

1 GBP	€ 1.1632
1 SEK	€ 0.0850
1 DKK	€ 0.1342
1 NOK	€ 0.0877



Source: BNP Paribas Real Estate Research.

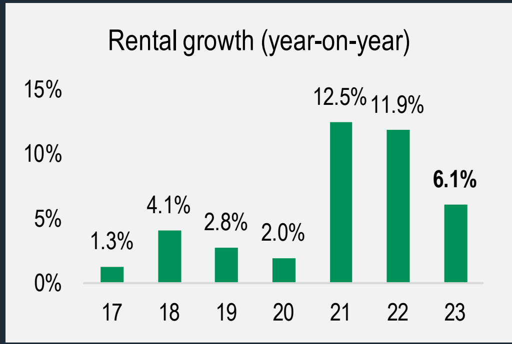
EUROPE – Q3 2023

+6.1%

vs Q3 2022

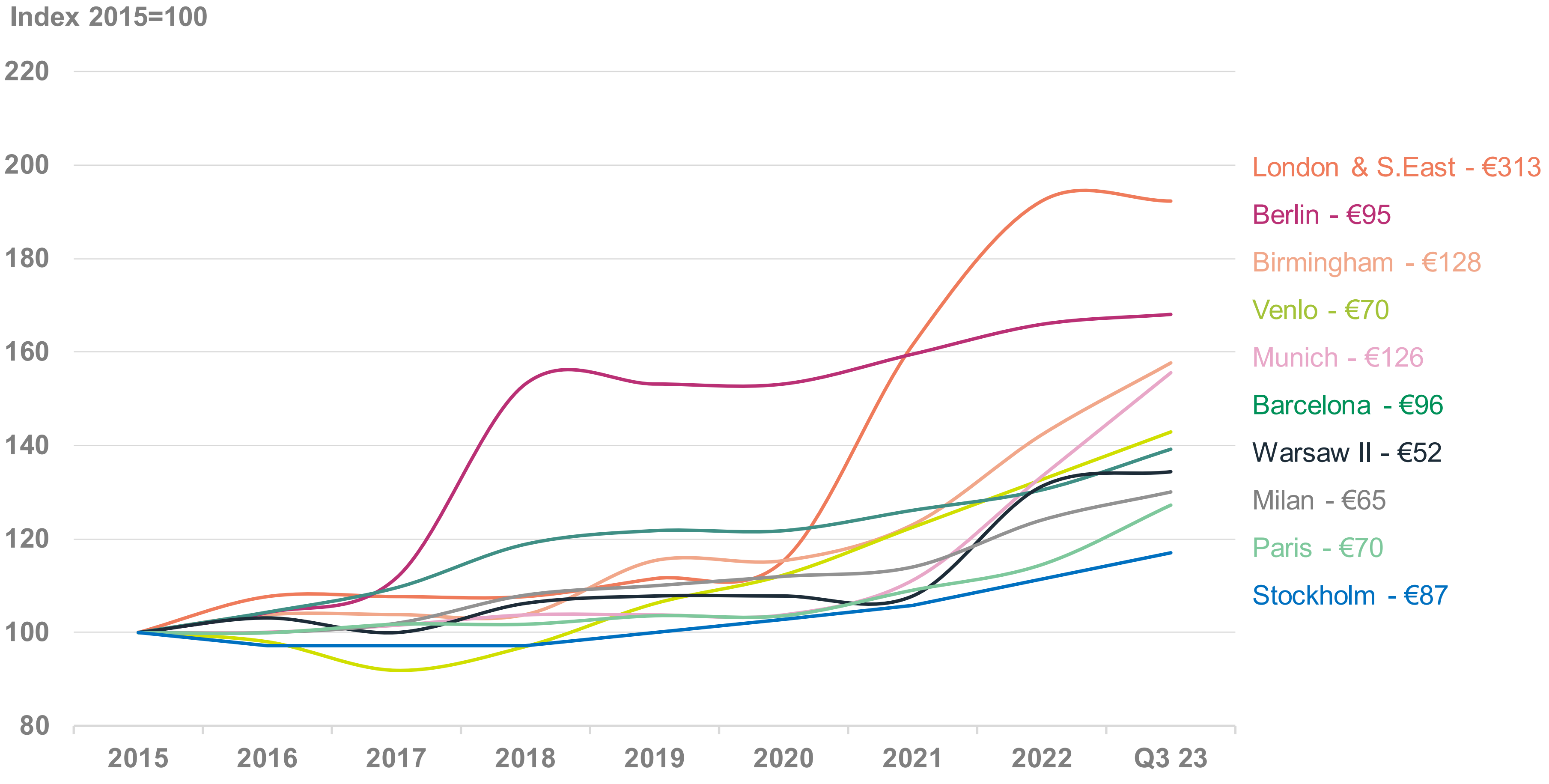
Prime rents are weighted by GDP levels

48 markets, 21 countries



LOGISTICS PRIME RENTS

MOST CITIES CONTINUE TO SEE RENTAL GROWTH



Tight demand and limited supply continue to put upward pressure on rental growth

- Prime rents rose by 6.1% (y-o-y) in Q3 2023 in a panel of 48 markets covering 21 countries.
- The vacancy rate remains well below 5% in most markets and steady demand is sufficient to push rents upwards.
- Consequently, most cities continue to see rents expand though there are some exceptions.
- The strong rental growth recorded in the UK, particularly in London, over 2022 is now slowing down.
- Inflation, rising construction costs as well as the shortage of land are contributors to rental growth. They also mean that even if pace of rental increase may taper in some places, absolute prices are unlikely to fall.

INDUSTRIAL & LOGISTICS INVESTMENT IN EUROPE

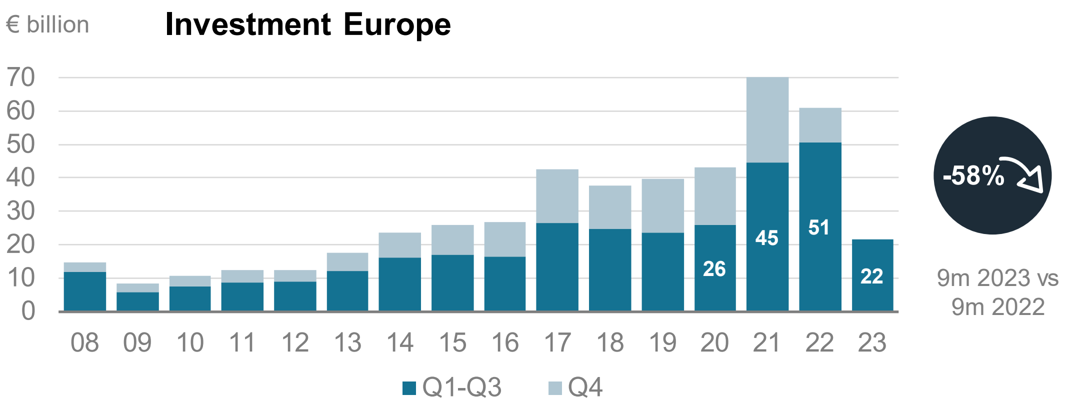
ACTIVITY AT A 5-YEAR LOW

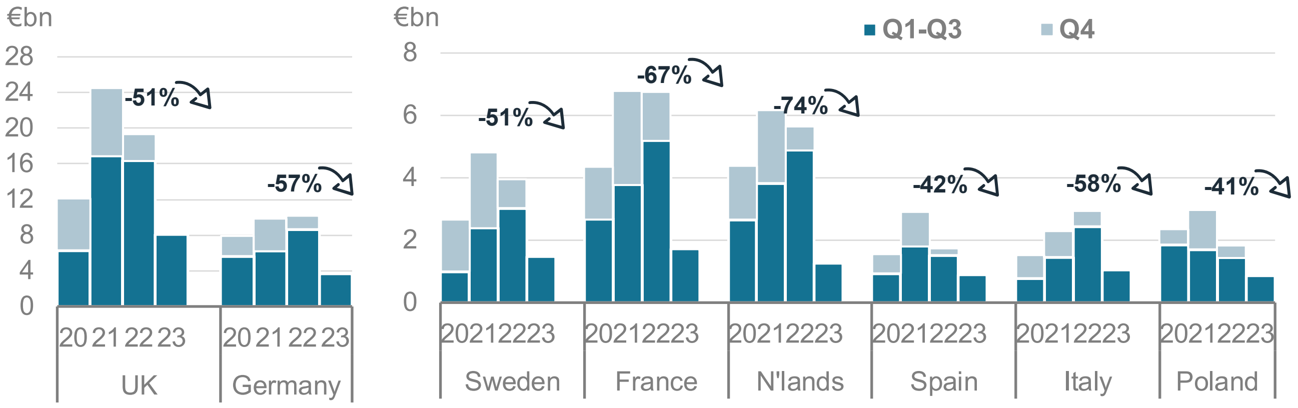
European logistics markets are still adjusting but strong repricing should help to unlock the market in 2024

- **After 5 years of outstanding investment volumes, the market clearly slowed in 2023.** Since September 2022, uncertainties in the financial markets created by rising interest rates have led to tougher negotiations and wait-and-see positions.
- **Industrial and logistics remains a good performing sector** supported by strong fundamentals including low vacancy rates and the prospect of rental growth across Europe.
- Global monetary policy normalisation took interest rates back to their pre-GFC level in under six months. The risk premium substantially reduced with steep increases in 10-year bond rates. The rapid reset created pricing mismatches between buyers and sellers, with logistics the most exposed of all real estate sectors. The investment freeze led to rapid decompression in logistics yields.
- **Stabilisation of logistics prime yields is expected throughout Europe** in the next quarters. This will reflect the changes in interest rate policy as terminal rates are reached in 2024. Much of the yield decompression for prime units has already occurred though for secondary units, pricing is likely to stay subject to extensive negotiation over 2023 and 2024.

Country profiles over the 9 months of 2023

- The **UK** industrial and logistics investment market witnessed a sharp drop prompted by increasing scarcity of stock and economic slowdown. Prime yields decompressed sharply in 2022. Repricing is nearly complete, prime yields reaching 4.5% in London in Q3 2023.
- In **Germany**, investment dropped to its lowest level in 8 years after reaching a historical high in 2022. Prime yields (4.10% in Q3) have once again risen slightly in the wake of further interest rate hikes by the major central banks.
- In **France**, investment dropped but it appears that repricing is almost complete. This could result in stronger activity in the forthcoming quarters. Logistics prime yields shifted over the past year to 4.5% in Q3 2023 and is expected to reach 4.75% by the end of the year.
- In the **Netherlands**, the market in industrial and logistics dropped significantly in 2023. Logistics prime yield correction was amongst the earliest and the highest in Europe. The decompression slowed down to 4.85% in Q3 2023. Given demand strength yield adjustment may unlock investment.
- In **Poland**, Industrial and logistics remains the country's strongest performing market sector with its total investment volume amounting to more than €844m in 2023 over 9 months. Yield decompression is softening to 5.5% in Q3 2023.
- In **Spain**, the volume of investment in industrial and logistics has already reached its ten-year average, despite the low level recorded in Q3. Prime yields decompressed by 130 bps since the beginning of 2022 to reach 5% in Q3 2023.





LOGISTICS PRIME YIELDS

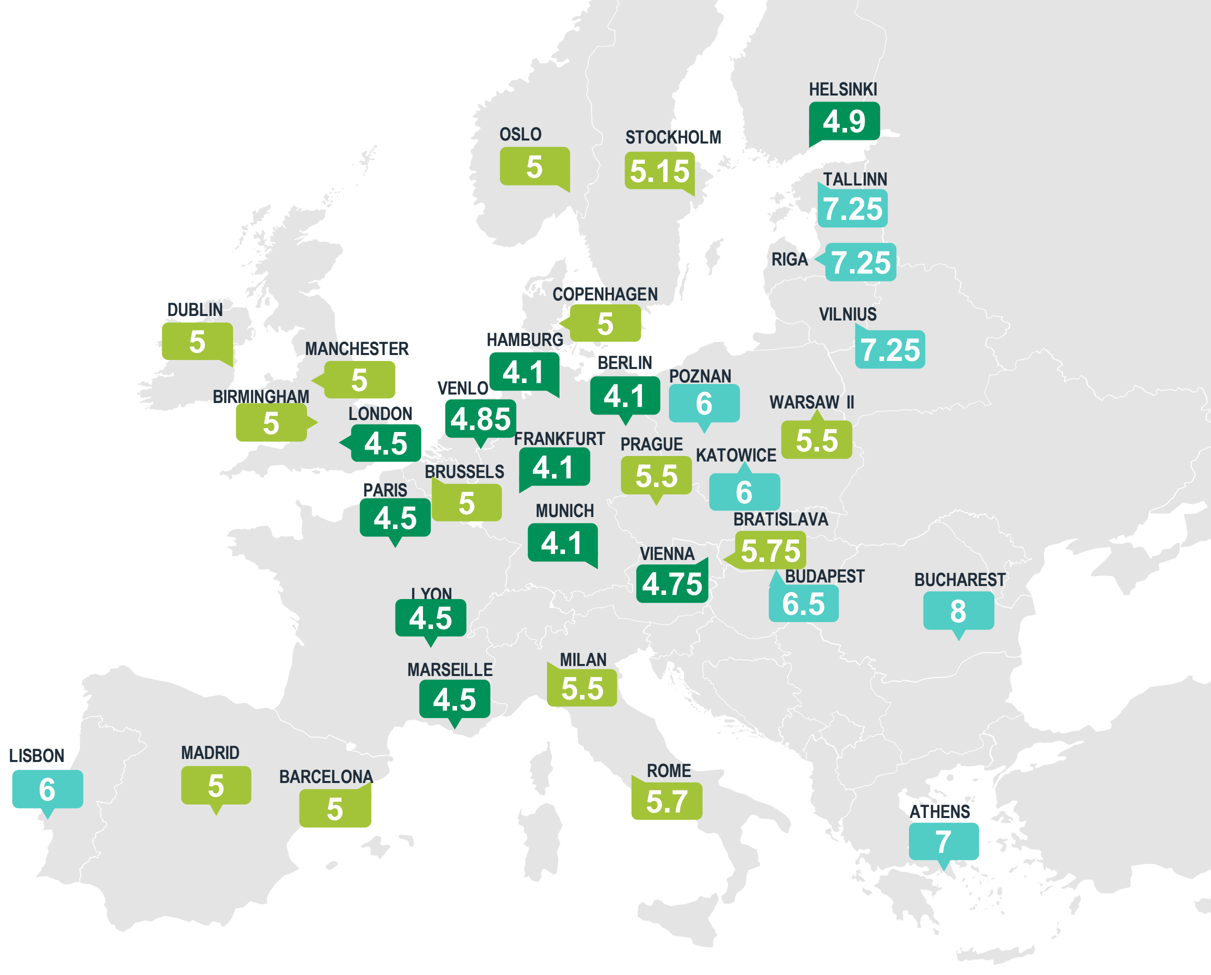
DECOMPRESSION IN MOST COUNTRIES

Q3 2023 vs Q3 2022

GERMANY	+75bp
UK	=
FRANCE	+90bp
NETHERLANDS	+110bp
SPAIN	+80bp
POLAND	+75bp
CZECH REP	+100bp
ITALY	+130bp
SWEDEN	+140bp
NORWAY	+100bp
DENMARK	+75bp
BELGIUM	+85bp
IRELAND	+50bp

< 5% 5% - 6% ≥ 6%

Grade A warehouses (big boxes) for standard lease terms (5 to 15 years)



Source: BNP Paribas Real Estate Research.

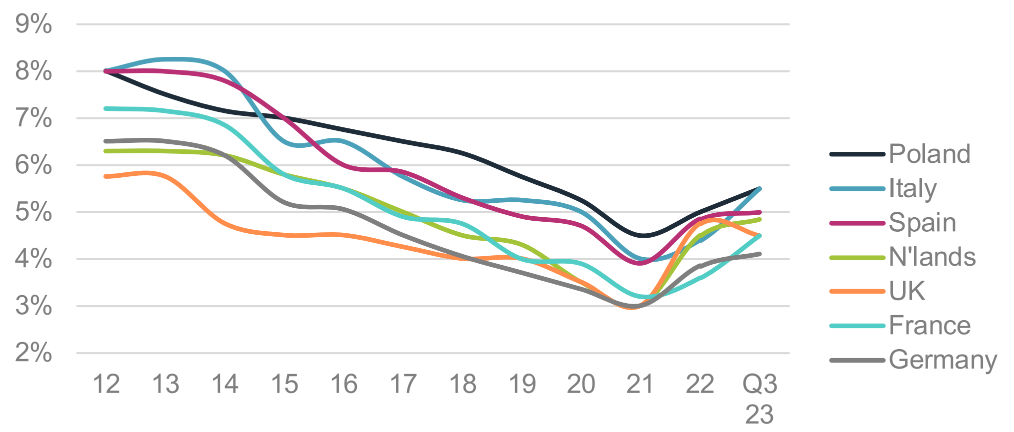
EUROPE – Q3 2023
+75 BPS
vs Q3 2022

47 markets, 23 countries

+15 bps
Q3 2023 vs Q2 2023

LOGISTICS PRIME YIELDS

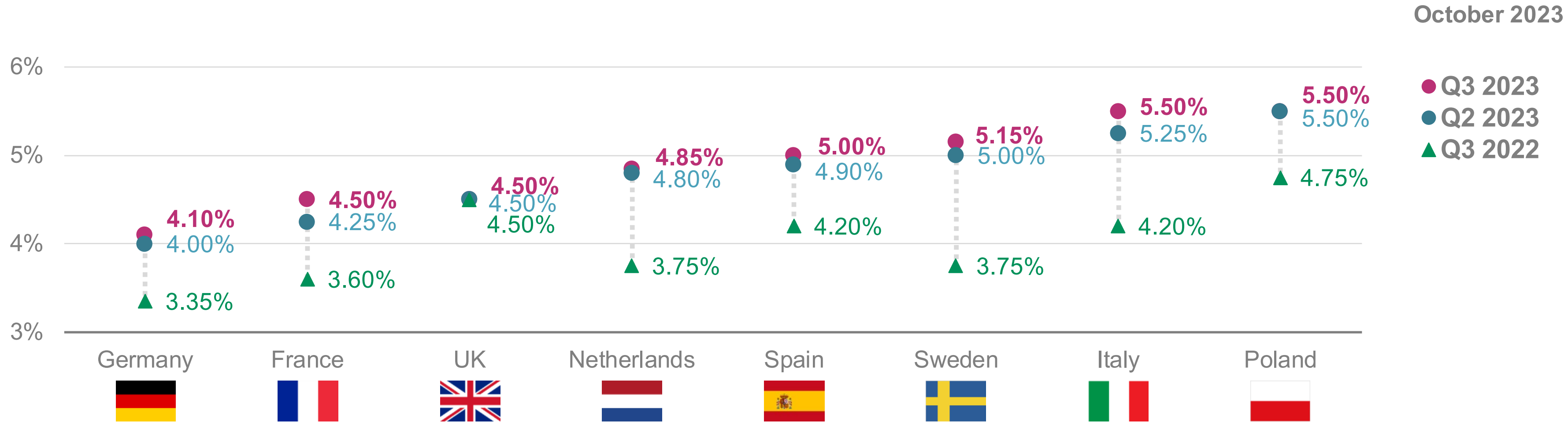
DECOMPRESSION IN Q3 2023 (+15 BPS DURING THE LAST QUARTER)



Logistics prime yields are still decompressing

- Prime yields rose by 45 bps in the past 9 months in Europe (+15 bps over the past quarter).
- Inflationary pressure and subsequent rising long-term government bond yields have led to logistics prime yield expansion.
- Stabilisation of logistics prime yields is expected throughout Europe in the next quarters. This will reflect the changes in interest rate policy as terminal rates are reached in 2024.

Net Prime Yields - Grade A warehouses (big boxes) for standard lease terms (5 to 15 years)



Credit: Shutterstock_99613868 / Alexey Fursov

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(JANUARY 2023)

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