

EUROPEAN LOGISTICS MARKET

Property Report H1 2017

RESEARCH



**BNP PARIBAS
REAL ESTATE**

Real Estate
for a changing
world

➤ EUROPEAN LOGISTICS COVERAGE

Logan SMITH

Head of Logistics, Senior Director
logan.smith@bnpparibas.com

Anita SIMAZA

Director European logistics
anita.simaza@bnpparibas.com

➤ RESEARCH

Vincent Robion

Head of Research – Logistics Europe
vincent.robion@bnpparibas.com

EXECUTIVE SUMMARY

The logistics market is thriving boosted by a favourable economic backdrop stimulating exports, retail sales and consumer spending. The sale of major portfolios in Germany generated outstanding volumes of investment during the first half of 2017. Prime yields continued to decline, even though they have had already bottomed-out to their lowest level. Expectations across Europe in the forthcoming quarters point towards a return to more average level of investment and further yield compression.

➤ Take-up: +22% in H1 2017 vs H1 2016

- Spain and the South Netherlands recorded the highest growth in Europe this semester.
- Retail and e-commerce contribute to market growth in most countries.
- Supply remains tight and new development barely keeps up with demand.
- Rents evolved only marginally.

➤ Yet again, strong industrial and logistics investment boosted by portfolio transfers

- €15.8 bn invested in warehouses in H1 2017, above the historical volume recorded in H1 2015
- Investor interest for logistics is not fading
- Prime yields stabilized or declined to their lowest point reflecting the lack of investment products
- There is still some space for yield compression, particularly in secondary markets

Vincent Robion - September 2017



➤ GROWTH EXPECTED FOR MOST EUROPEAN ECONOMIES IN THE NEXT TWO YEARS

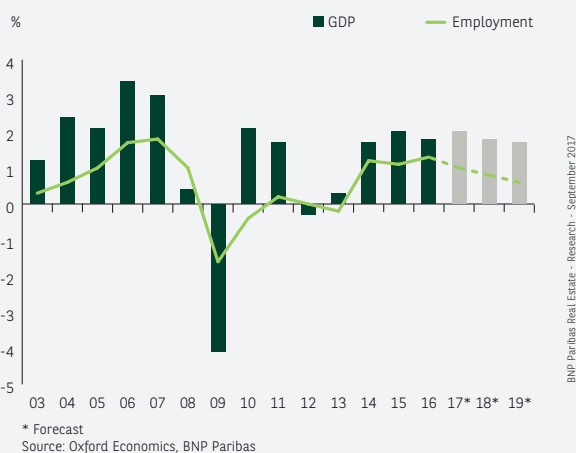
Growth in the Eurozone economy accelerated in the second quarter with GDP growing by 0.6%, from 0.5% in the first quarter. The strength of the Eurozone economy has surprised many, after a series of electoral events across the continent; most of which were expected to affect both business and consumer confidence. However, with growth expanding for 17 consecutive quarters confidence remains strong and unemployment at a nine-year low (9.1%). Things are looking up.

The missing piece of the jigsaw is a sustained level of inflation and wage growth. While a prolonged period of loose monetary policy has ushered in asset price inflation, both wage and general price inflation have been broadly moderate in the Eurozone (1.3%). However there have been signs of accelerating inflation in some countries such

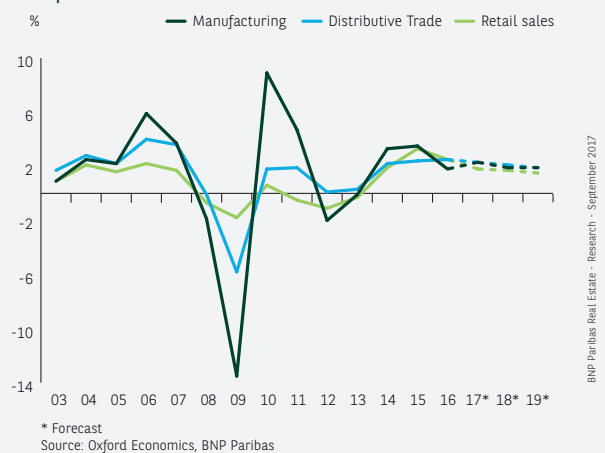
as the UK (2.6%), Germany (1.6%) and Spain (1.7%). This is counter balanced by a much weaker inflation in other core countries such as France (0.7%). The mixed picture in this regards is likely to stay in the minds of central banks when considering tightening monetary policy this year.

The outlook is for continued economic expansion over the next two years, supported by a broader improvement in the labour market and confidence. We expect the strongest growth, in the main economies, to be seen in Spain (+3.3%), Ireland (+5.1%), and Germany (+2.0%) in 2017. These levels of growth will soften slightly in 2018, as central banks begin to contemplate the normalisation of monetary policy.

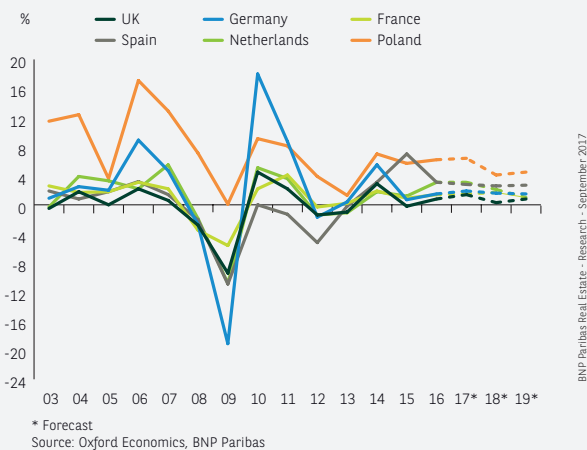
GDP and employment growth in Europe



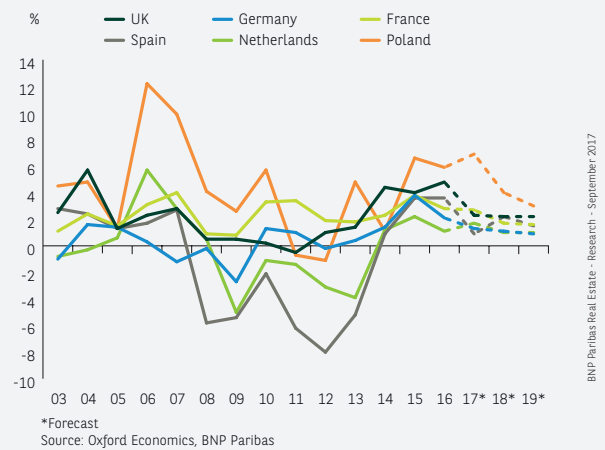
Distributive trade and manufacturing output in Europe



Manufacturing output (year-on-year change)



Retail sales (year-on-year change)



▶ TAKE-UP: ROBUST ACTIVITY IN H1 2017

European logistics has been particularly dynamic in H1 2017 despite a context of economic and political uncertainties in the leading countries at the beginning of the year

Take-up for warehouses over 5,000 sqm grew by 22% in H1 2017 compared to H1 2016 in the 21 cities regularly followed by BNP Paribas Real Estate. Besides stable activity in the two leading regions, namely Greater Paris and the Midlands, the market for warehouses over 5,000 sqm was particularly buoyant in Madrid and in the South Netherlands; in the surroundings of Breda in the South West and Venlo in the South East. This can be largely attributed to positive economic momentum with good levels of exports, retail sales and consumer spending.

Supply is still barely keeping pace with demand, especially for large units. Speculative projects remain limited and are not sufficient to offset the demand for new warehouse space. As a result, demand for owner-occupier deals is high in most countries and the still favourable financing conditions and low interest rates are encouraging occupiers to consider this alternative solution.

Rents remained fairly stable in Europe. Only marginal changes have been recorded in some markets but overall rents for warehouses have not evolved dramatically over the past two years.

Germany is the largest occupier market in Europe boosted by the strong activity in its manufacturing industry and demand from logistics providers. For the third year in a row, the German market reached yet again the 2.5 million sqm threshold of transaction of warehouses taken up in mid-year. The tight situation on the supply side resulted in strong demand from owner-occupiers for build-to-suit solutions.

In France, demand for logistics premises remained robust to reach 1.56 million sqm taken up in H1 2017. Even though the market declined by over 20% compared to the record numbers achieved in H1 2016, activity picked-up in Lille and Marseille and stayed strong in Greater Paris.

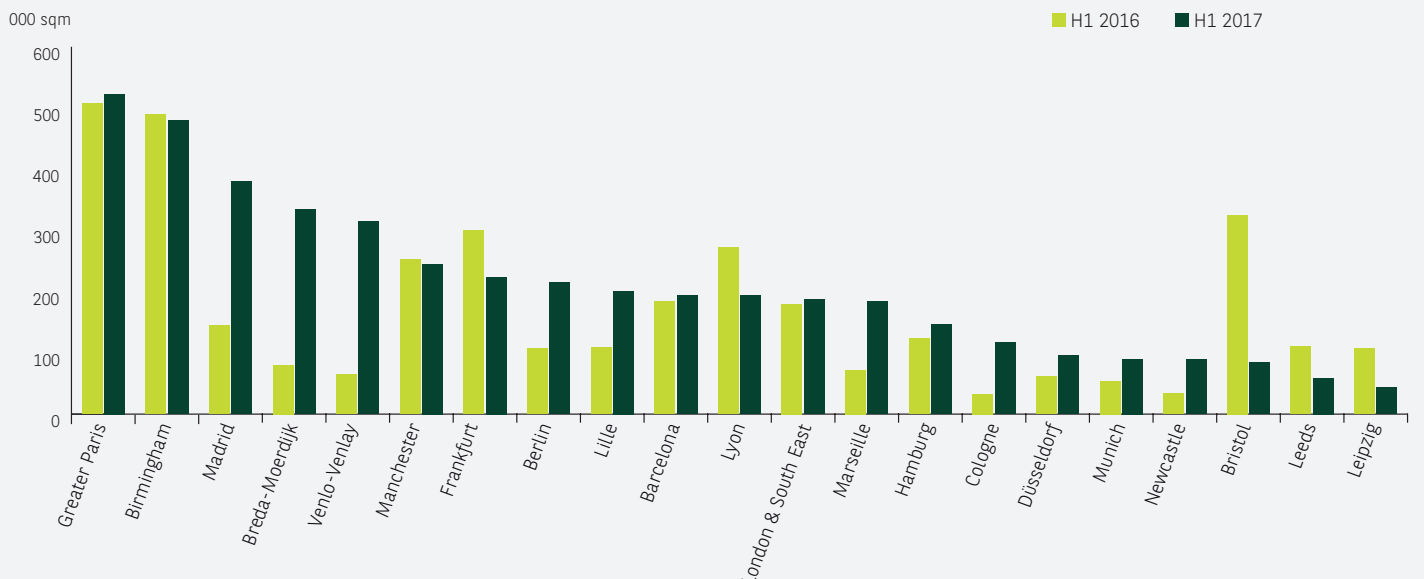
In the UK, the market has been slowing down in line with the economic slackening. Take-up decreased to 1.2 million sqm in H1 2017 (-14% compared to H1 2016). The manufacturing sector accounted for the largest share of take-up boosted by the automotive sector, with some major transaction in the outskirts of Birmingham.

In Spain, take-up rose by more than 84% to reach over 660,000 sqm in H1 2017. This merely represents the highest volume ever recorded in mid-year. The market in Madrid was particularly dynamic boosted by some large transactions over 40,000 sqm (Amazon, DSV, Transaher).

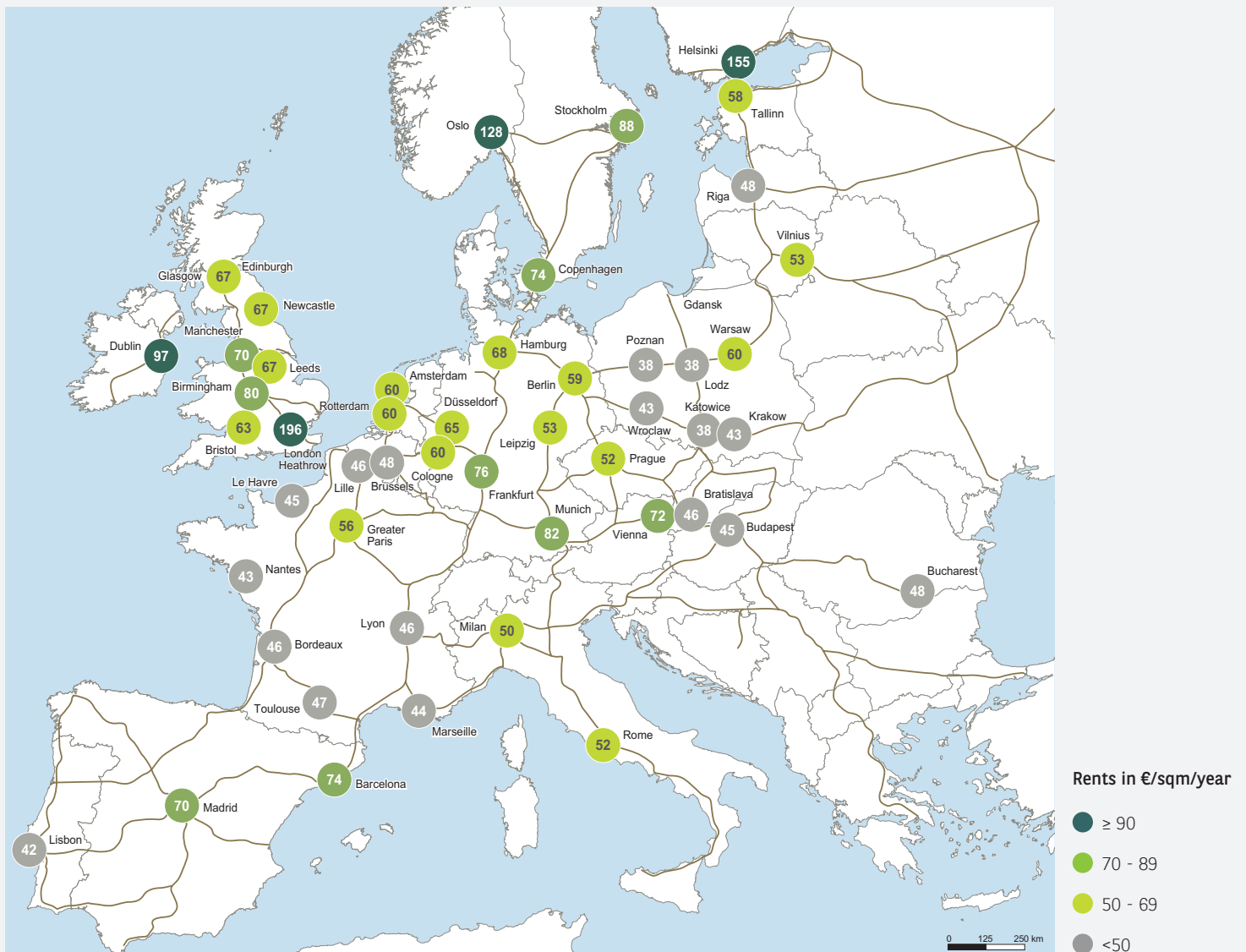
In the Netherlands, the volume of take-up exceeded in six months the annual volume reached in 2016. The market is boosted by strong economic indicators and significant growth in exports.

In the Czech Republic and Poland, e-commerce and distribution for retailers is the main demand driver contributing to market growth. Low vacancy rates in Poland (5.9%) and the Czech Republic (4.0%) have been a motivator for new development schemes and build to suit.

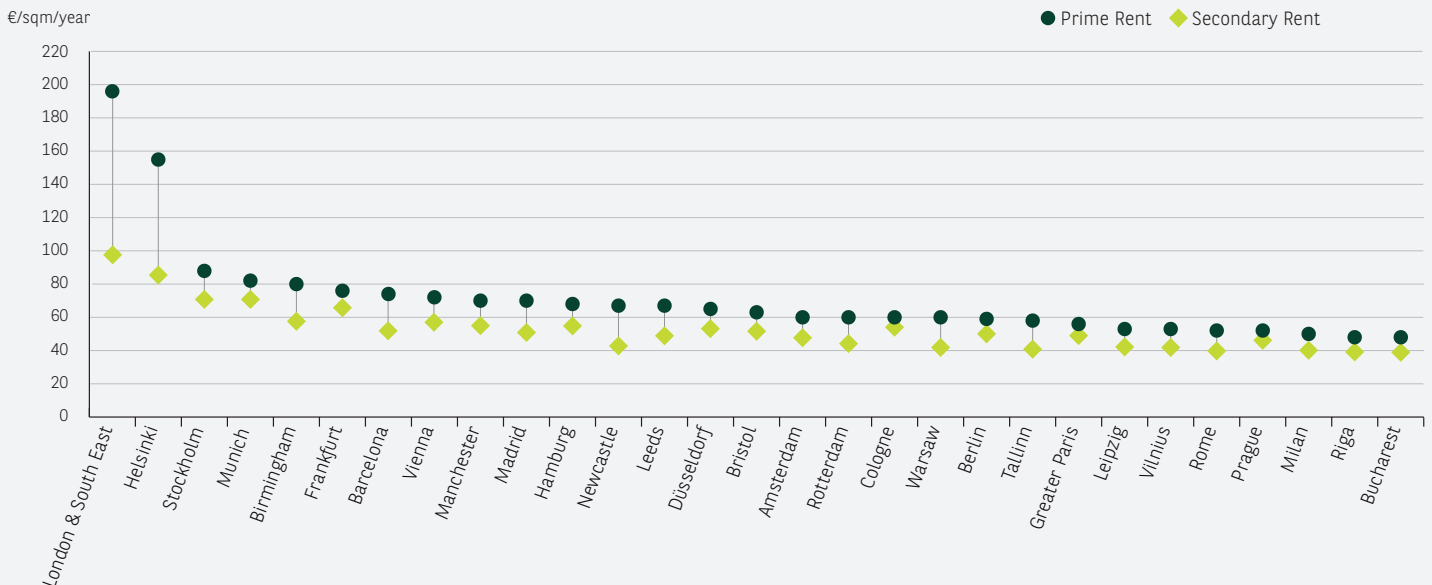
Take-up - Warehouses over 5,000 sqm



PRIME RENTS IN Q2 2017 – WAREHOUSES OVER 5,000 SQM



Prime rents - Warehouses over 5,000 sqm



► STRONG MOMENTUM FOR INDUSTRIAL AND LOGISTICS INVESTMENT

Investors continue to show strong interest for the logistics market. Indeed, the investment market for industrial and logistics premises increased by 10% during H1 2017. During the same period, European investment in offices decreased by 10% and retail by 7%. For the first time ever, the German industrial and logistics investment market recorded higher volumes than in the UK.

Financial liquidity remains abundant and, besides pure players, the logistics market is attracting investors who continue to consider logistics assets to extend their portfolio offer. Logistics prime yields reached their lowest level in most countries but are still well above the 10-year government bonds which bottomed out to historical lows in 2016. Logistics prime yields remain attractive compared to other assets.

Germany was the largest industrial and logistics investment market in Europe with **the volume recorded in the first half of 2017 well exceeding the annual historical levels of the past few years.** It is simply the highest record volume ever recorded. Portfolios accounted for 76% of total investment, including the sale of Hansteen and Logisor portfolios. After a strong compression that started in 2015, yields have stabilized at 4.9% in the main markets.

The UK market increased significantly (+18% on H1 2016) to €4.5 bn invested despite the scarcity of products and a context of political and economic uncertainties. Logistics prime rents remained fairly

stable during the year whilst prime yields stabilised in the main hubs to 4.75% in Birmingham and London and the South East.

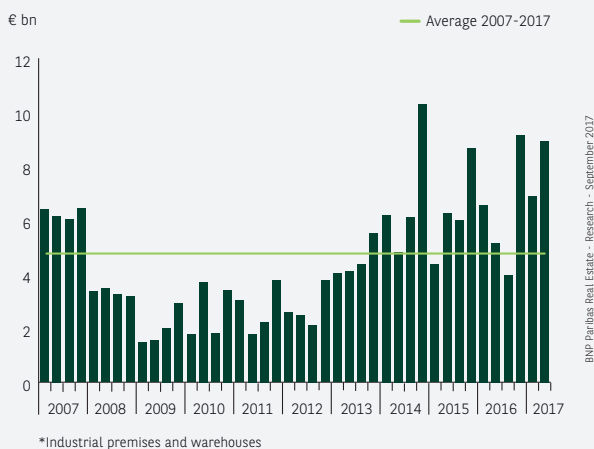
In France, the market weakened during the first half of the year reflecting a period of uncertainties surrounding the presidential elections. With the return of business confidence, the second half of the year is expected to be much more dynamic. The prime yield continued to contract to 5.25% in Greater Paris and Lyon.

In the Netherlands, the industrial and logistics market reached nearly €1.1 bn, representing 18% of the total volume of commercial real estate. The prime yield was recorded at 5.6% in Amsterdam and 5.4% in Rotterdam, Breda and Venlo. The scarcity of products in the Dutch market is exerting a downward pressure on yields.

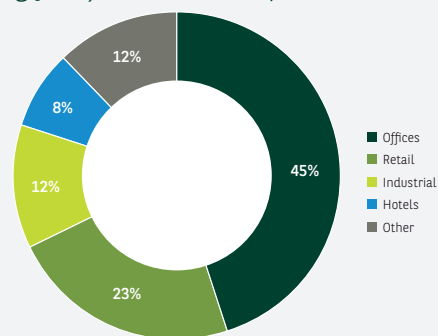
In Spain, the market continued to be thriving following the massive rebound in 2015 and 2016. The volume of industrial and logistics investment remained high with €480 million reached in H1 2017. Strong investor appetite continued to push yields down to 5.9% in Madrid and 5.85% in Barcelona (-65 bp compared to H1 2016).

In Poland, investment activity for industrial and logistics was particularly slow after a record year 2016 and the prime yield stabilised at 5.5% in Warsaw. In the Czech Republic, after a strong activity at the end of 2016 supported by portfolio transfers, industrial and **logistics investment was mainly concentrated in Prague** in H1 2017.

Industrial* investment volume in Europe

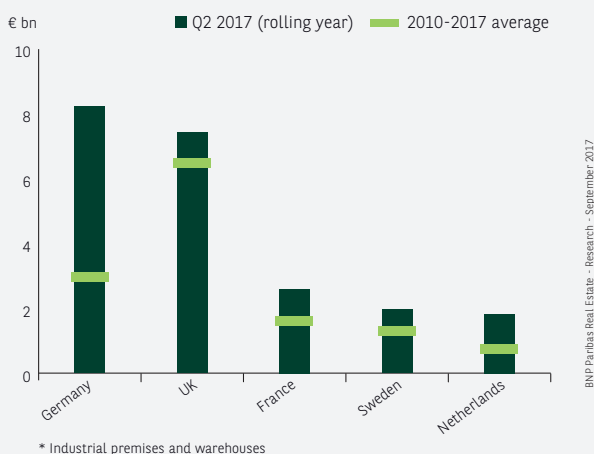


Commercial real estate investment volume in H1 2017 (rolling year) Western Europe*

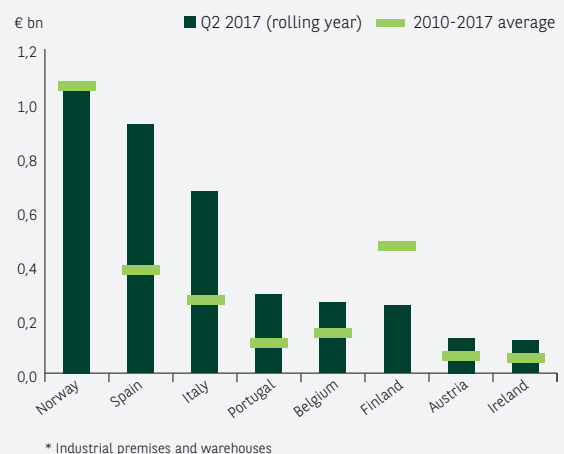


* Austria, Belgium, Denmark, Finland, France, Germany, Italy, Ireland, Luxembourg, Norway, Portugal, Spain, Sweden, Netherlands, UK

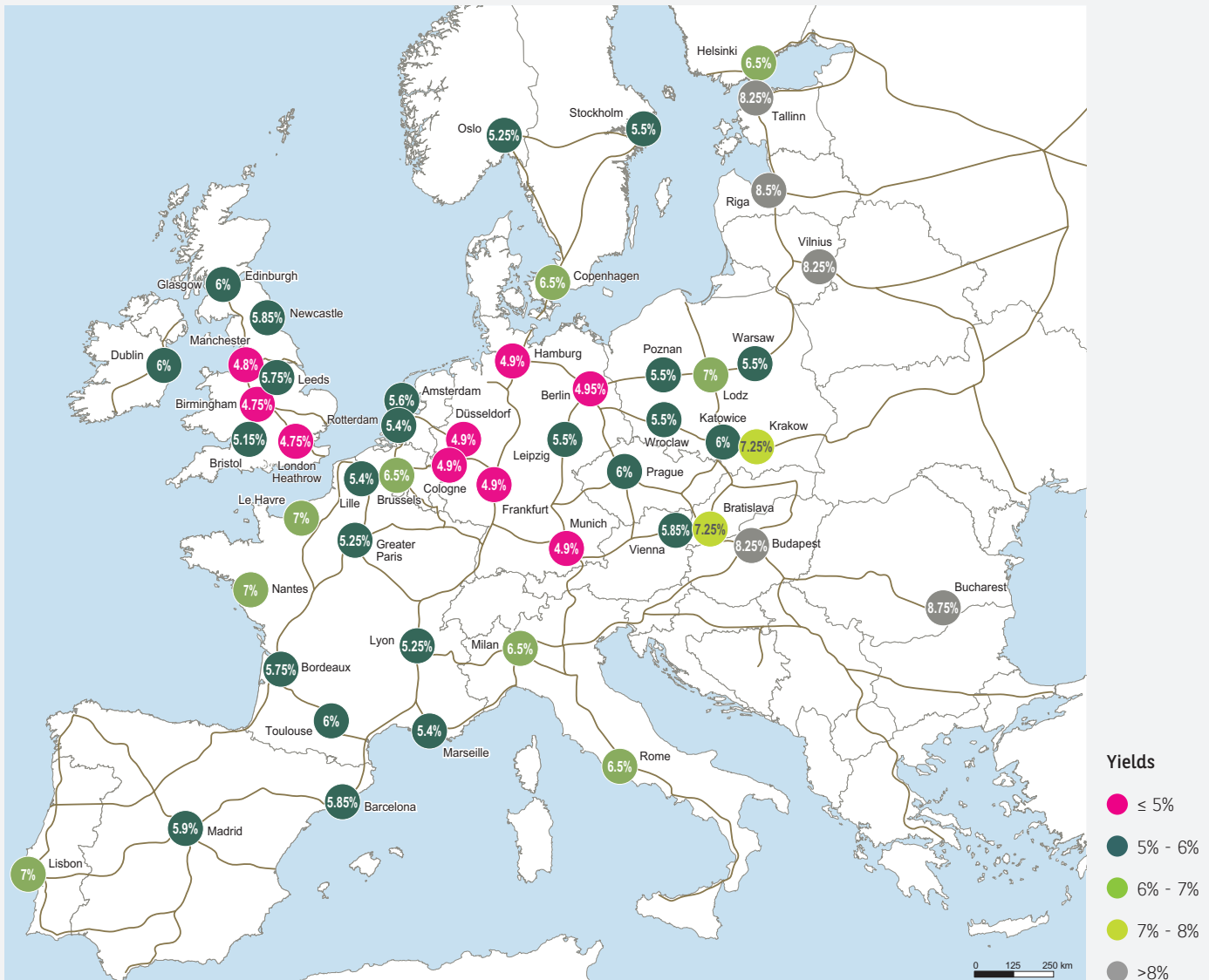
Industrial* investment volume Western Europe



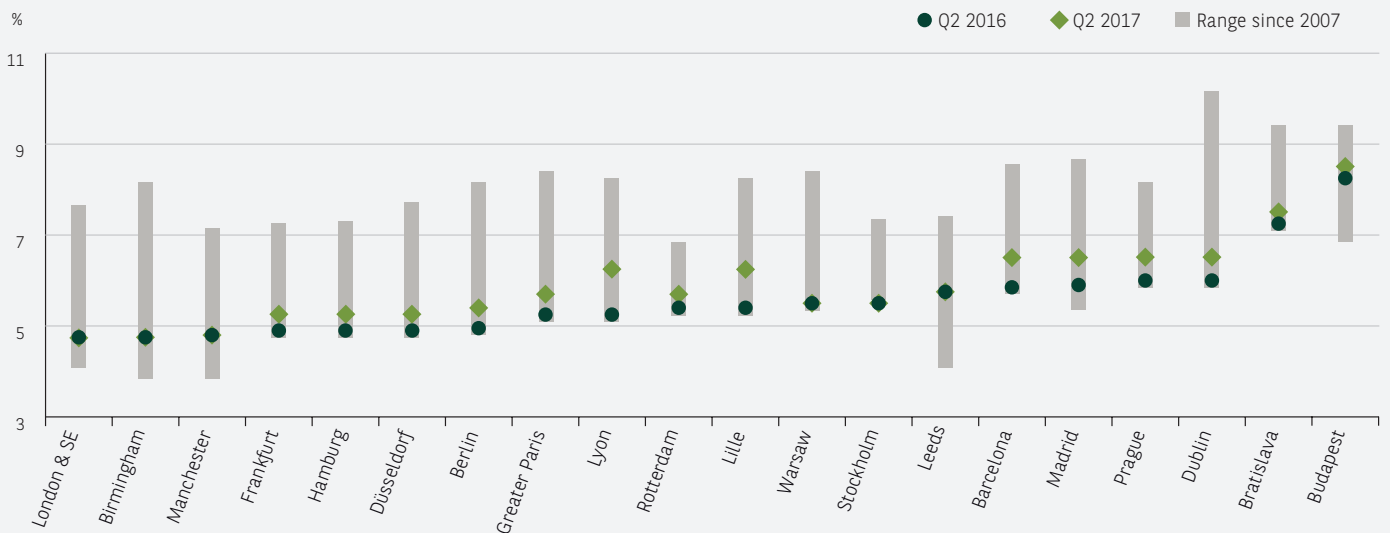
Industrial* investment volume Western Europe



NET PRIME YIELDS IN Q2 2017 – WAREHOUSES OVER 5,000 SQM



Net prime yields - warehouses over 5,000 sqm



► OCCUPIER LOGISTICS MARKET - WAREHOUSES OVER 5,000 SQM

City	Take-up (000 sqm)			Rents (€/sqm/year)	
	H1 2017	H1 2016	Variation y-o-y (%)	Prime Q2 2017	Q2 2016
Greater Paris	523	508	3%	56	55
Birmingham	480	490	-2%	80	80
Madrid	380	144	163%	70	66
Manchester	245	252	-3%	70	70
Frankfurt	224	300	-25%	76	76
Berlin	215	107	101%	59	59
Lille	201	109	85%	46	46
Barcelona	194	183	6%	74	72
Lyon	193	272	-29%	46	45
London & South East	187	180	4%	196	196
Marseille	184	72	155%	44	44
Hamburg	146	124	18%	68	68
Cologne	117	33	255%	60	60
Düsseldorf	96	61	57%	65	65
Munich	90	54	67%	82	81
Newcastle	89	33	168%	67	67
Bristol	84	325	-74%	63	63
Leeds	59	110	-46%	67	67
Leipzig	43	107	-60%	53	53
Rotterdam	19	42	-55%	60	60
Amsterdam	10	12	-17%	60	60
Lisbon	0	29	-	42	42

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► COMMERCIAL REAL ESTATE INVESTMENT MARKET

City	Commercial real estate investment (€ million)			Industrial & logistics investment (€ million)		
	H1 2017	H1 2016	Variation y-o-y (%)	H1 2017	H1 2016	Variation y-o-y (%)
UK	29,757	28,175	6%	4,456	3,772	18%
Germany	26,092	18,376	42%	5,646	1,873	201%
France	7,665	11,805	-35%	646	804	-20%
Netherlands	5,997	4,571	31%	1,081	669	62%
Spain	5,549	4,642	20%	480	592	-19%
Sweden	5,241	6,840	-23%	948	504	88%
Norway	5,224	3,657	43%	825	1,233	-33%
Italy	4,945	3,430	44%	145	194	-25%
Finland	2,520	3,770	-33%	66	492	-87%
Austria	2,300	1,300	77%	50	0	-
Czech Republic	2,271	1,008	125%	246	87	183%
Poland	1,490	2,046	-27%	0	283	-100%
Belgium	1,332	1,409	-5%	153	50	206%
Portugal	1,001	1,345	-26%	287	72	301%
Ireland	734	2,715	-73%	59	35	69%
Luxembourg	414	513	-19%	22	0	-

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➤ NET PRIME YIELDS - WAREHOUSES OVER 5,000 SQM

City	Net prime yields		
	Q2 2017	Q2 2016	Variation y-o-y (bp)
Amsterdam	5.60%	5.80%	-20
Barcelona	5.85%	6.50%	-65
Berlin	4.95%	5.40%	-45
Birmingham	4.75%	4.75%	-
Bordeaux	5.75%	7.00%	-125
Bratislava	7.25%	7.50%	-25
Bristol	5.15%	5.15%	-
Brussels	6.50%	6.75%	-25
Bucharest	8.75%	8.75%	-
Budapest	8.25%	8.50%	-25
Cologne	4.90%	5.25%	-35
Copenhagen	6.50%	6.75%	-25
Dublin	6.00%	6.50%	-50
Düsseldorf	4.90%	5.25%	-35
Frankfurt	4.90%	5.25%	-35
Greater Paris	5.25%	5.70%	-45
Hamburg	4.90%	5.25%	-35
Helsinki	6.50%	7.00%	-50
Katowice	6.00%	6.00%	-
Krakow	7.25%	7.50%	-25
Leeds	5.75%	5.75%	-
Leipzig	5.50%	5.90%	-40
Lille	5.40%	6.25%	-85
Lisbon	7.00%	7.00%	-
Lodz	7.00%	7.00%	-
London & South East	4.75%	4.75%	-
Lyon	5.25%	6.25%	-100
Madrid	5.90%	6.50%	-60
Manchester	4.80%	4.80%	-
Marseille	5.40%	6.25%	-85
Milan	6.50%	6.50%	-
Munich	4.90%	5.20%	-30
Newcastle	5.85%	5.85%	-
Oslo	5.25%	5.50%	-25
Poznan	5.50%	5.50%	-
Prague	6.00%	6.50%	-50
Riga	8.50%	8.75%	-25
Rome	6.50%	6.75%	-25
Rotterdam	5.40%	5.70%	-30
Stockholm	5.50%	5.50%	-
Tallinn	8.25%	8.50%	-25
Vienna	5.85%	6.40%	-55
Vilnius	8.25%	8.50%	-25
Warsaw	5.50%	5.50%	-

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► GLOSSARY

The numerical data used by BNP Paribas Real Estate for its statistics feature all the information at the group's disposal when compiling them. These statistics may change according to new information brought to our knowledge that is often confidential to begin with.

Definitions from A to Z...

Design & Build: construction of a bespoke building for an occupier.

- **Owner-occupier development:** construction of a building for an occupier who has signed a bill of sale on a property still to be built.
- **Lease turnkey:** construction of a building for an occupier who has signed a lease on a property still to be built.

Distributive trade: it is measuring the volume of material goods to consumers distributed through retailing and wholesale trade.

Light industrial buildings: individual buildings intended for production or small-scale distribution and able to accommodate all the company departments under one roof.

Logistics: the process of planning, implementing, and controlling procedures for the efficient and effective transportation and storage of goods, and related information from the point of origin to the point of consumption. Includes inbound, outbound, internal, and external movements.

New supply: all building restructuring that adds to the existing stock. These are analysed according to progress.

- **Completed new supply:** buildings on which construction work is finished.
- **Under construction:** buildings on which construction has effectively begun. Prior demolition work is not taken into account.
- **Planning permission granted:** authorisation to build obtained, generally booked after settlement of third party claims.
- **Planning permission submitted:** planning permission requested, being processed.
- **Projects:** identified intention of a building operation for which no request has been filed.

Portfolio: group of several assets located in different places.

Rent: common annual headline rent, expressed per square metre per year, and excluding taxes and charges.

Prime rent: represents the top open-market rent at the survey date for a real estate unit:

- Over 5,000 m² suitable for logistics uses
- Of the highest quality and specification
- In the best location in a market

Secondary rent: represents a market rent at the survey date for a real estate unit:

- Over 5,000 m² suitable for logistics uses
- Of good quality and specification
- In a good location in a market

Second hand premises: premises that have been previously occupied by an occupier or vacant for more than five years.

Speculative / Non speculative operation:

- **Speculative:** construction launched without prior rental or sale to the occupier.
- **Non-speculative:** construction launched after partial or complete sale or rental to an occupier.

Supply chain: all the elements in the process of supplying a product to a customer. The chain begins with the sourcing of raw materials and ends with the delivery of finished merchandise to the end-user. It embraces vendors, manufacturing facilities, logistics service providers, distribution centres, distributors, wholesalers, other intermediaries, etc.

Supply chain management: Encompasses the planning and management of all activities involved in sourcing and procurement, conversion, and all logistics management activities.

Transaction (Take-up): rental or sale to an occupier of a real estate asset, sealed by the signature of a lease or deed, including turnkey and owner-occupier operations. The transaction is only taken into account once any existing conditional clauses have been lifted.

- Pre-let refers to take-up that was either in the planning or construction stage
- All deals (including pre-lets) are recorded in the period in which they are signed
- Contract renewals are not included
- Sales and leasebacks are not included as there had been no change in occupation

Vacant Space: all completed buildings actively seeking rental or sale to occupiers.

Warehouses: buildings intended for storage, distribution or packaging.

Yield:

- **Net initial yield:** ratio between net income (excl. operating costs) and the acquisition price including all acquisition costs.
- **Prime yield:** net lowest yield obtained for the acquisition of a unit:
 - of standard size,
 - of the highest quality and specification,
 - in the best location in each market.

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unsubscribe.mail@bnpparibas.com

6 BUSINESS LINES in Europe

A 360° vision

Main locations*

EUROPE

FRANCE

Headquarters
167, Quai de la Bataille
de Stalingrad
92867 Issy-les-Moulineaux
Tel.: +33 1 55 65 20 04

BELGIUM

Avenue Louise 235
1000 Brussels
Tel.: +32 2 290 59 59

CZECH REPUBLIC

Pobřežní 620/3
186 00 Prague 8
Tel.: +420 224 835 000

GERMANY

Goetheplatz 4
60311 Frankfurt
Tel.: +49 69 2 98 99 0

HUNGARY

117-119 Váci ut.
A Building
1123 Budapest,
Tel.: +36 1 487 5501

IRELAND

20 Merrion Road,
Ballsbridge, Dublin 4
Tel.: +353 1 66 11 233

ITALY

Piazza Lina Bo Bardi, 3
20124 Milano
Tél. : +39 02 58 33 141

JERSEY

3 Floor, Dialogue House
2 - 6 Anley Street
St Helier, Jersey JE4 8RD
Tel.: +44 (0)1 534 629 001

LUXEMBOURG

Axento Building
Avenue J.F. Kennedy 44
1855 Luxembourg
Tel.: +352 34 94 84
Investment Management
Tel.: +352 26 26 06 06

NETHERLANDS

Antonio Vivaldistraat 54
1083 HP Amsterdam
Tel.: +31 20 305 97 20

POLAND

Al. Jana Pawła II 25
Atrium Tower
00-854 Warsaw
Tel.: +48 22 653 44 00

ROMANIA

Banul Antonache
Street n°40-44
Bucharest 011665
Tel.: +40 21 312 7000

SPAIN

C/ Emilio Vargas, 4
28043 Madrid
Tel.: +34 91 454 96 00

UNITED KINGDOM

5 Aldermanbury Square
London EC2V 7BP
Tel.: +44 20 7338 4000

MIDDLE EAST / ASIA

DUBAI

Emaar Square
Building n° 1, 7th Floor
P.O. Box 7233, Dubai
Tel.: +971 44 248 277

HONG KONG

25 /F Three Exchange
Square,
8 Connaught Place, Central,
Hong Kong
Tel.: +852 2909 2806

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Non contractual document - Research department - September 2017

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