EUROPEAN LOGISTICS MARKET
Property Report Q4 2017
EXECUTIVE SUMMARY

The leading logistics occupier markets have all now accomplished historic volumes of transactions. First the UK and Germany in 2016. In 2017, France, the Netherlands and Spain concluded the year with all-time highs stimulated by a favourable economic backdrop plus strong demand from e-commerce and the retail sector.

The investment market achieved new record levels outperforming offices and retail despite an overall lack of high grade assets. Market drivers include GDP growth, new entrants such as Asian investors, large corporate deals and further yield compression.

- **Logistics take-up for warehouses over 5,000 sqm: +9% in 2017 vs 2016**
  - Retail and e-commerce contributed to market growth in most countries.
  - Supply remained tight and new development barely keeps up with demand.
  - Rents increased by 2% in 2017.

- **Industrial and logistics investment: €40 billion, +62% in 2017 vs 2016**
  - Historic industrial and logistics investment volumes boosted by corporate deals and portfolio transfers.
  - Investor interest for logistics is not fading.
  - Prime yields are at their lowest level and further compression can still be anticipated in some countries reflecting the lack of investment products.

Vincent Robion
Head of Research - Logistics Europe
February 2018
The global economic recovery is in full swing and is expected to gain significant momentum in 2018. BNP Paribas forecasts that the world economy will increase by 3.7% in 2018 and this will be broad-based with growth in the advanced economies reaching 3.2%. At the Eurozone level, economic growth is forecast to be 2.4% in 2018 having posted at 2.7% in 2017. The UK, after a period of strong performance, is beginning to slow and likely to see growth of 1.5% in 2018. This however will pick up in 2019.

What is different in this recovery is that growth is more universal and faster across European nations. The fastest growth can be found in the CEE with Romania posting growth of 7% in 2017. Poland is expected to increase by 3.5% in 2018 and 2.7%/5 in 2019. Despite the smaller economies growing strongly, acceleration in the big countries such as Germany (2.6%) and the Netherlands (2.4%) is really important for the overall health of the European economy.

Recent gyrations in the equity markets are a foretaste of one of the issues that is likely to appear over 2018: volatility. With restored growth comes the prospect of high inflation, followed by normalisation of monetary policy. We believe that central banks will begin to raise policy rate in 2018.

The US is likely to raise rates, two or three times, further this year, in combination with reduction in its balance sheet. However the hike is expected to be at a slower pace. Moreover, European long term rates are likely to remain under upward pressure as they are pulled up by US interest rate. We envisage interest rates on German 10yr bund, the benchmark for European governments, to be above 1% by the end of the year.

Domestic demand is playing an important role in the current European growth story, and remains a key driver of the on-going economic expansion in most countries. BNP Paribas expects consumption to grow at around 2% over the next few years. A development that is positive for the logistics sector in European real estate.

Retail sales growth has been heavily correlated with the economy. The expansion in e-commerce as a channel for retail sales yields further channels to link the fortunes of the logistics market to the national economies. According to e-commerce Europe, on-line sales in Europe are likely to reach 10% growth in 2018, providing further boost to the logistics sector.

Manufacturing, the historic client base of logistics, remains important too. Industrial output in the European Union increased steadily over 2018 and currently stands at 4.8% pa as at December 2017.
Take-up for warehouses over 5,000 sqm recorded another significant increase of 9% in 2017 in the 21 cities regularly monitored by BNP Paribas Real Estate. The volume of transactions increased for the third year in a row, contributing to a 50% growth over the past five years. This can be attributed to several market drivers. First, the logistics market is following the upturn of European economies, further pulled by world economies in 2017. GDP growth has been revised upwards in the major European economies during the year, supported by domestic demand, manufacturing output and international trade. Another strong market driver is the sustained growth in internet sales, more specifically e-commerce activities, boosting demand for large warehouses. This sector is expected to further increase by at least 10% in 2018.

Overall, the European logistics market has been thriving even though supply remained scarce in most places across Europe. Take-up doubled in Paris to reach a historic level nearing the 2 million sqm threshold. It also doubled in Madrid and in Düsseldorf and reached record volumes in the Dutch market of Breda and Venlo during 2017. Following an outstanding pace of activity in 2016, demand for logistics weakened but remained strong in 2017.

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 still high in most countries and the favourable financing conditions and low interest rates are still encouraging occupiers to consider this alternative solution.

After two years of general stability rents evolved slightly, growing by 2% in Europe during 2017. Over the past five years, prime headline rents rose by 7% in the main European markets whilst between 2012 and 2017 inflation increased by just 3.8%.

Down by just 9%, Germany recorded its second highest volume of transactions with 5.5 million sqm of transactions in 2017. This downward trend is mostly reflecting the variation of large deals from one year to another rather than a loss in demand. Indeed, the market remained dynamic in all industrial sectors and in all market segments.

New supply is scarce and users still turn to build-to-suit solutions. Owner-occupier solutions accounted for more than 40% of take-up in 2017. Prime rents have stabilized year-on-year in most markets.

In France the volume of transactions reached yet another record year over 4 million sqm. The French logistics market was boosted by a stronger economic environment and a greater visibility since the presidential elections. The market was supported by demand from large distributors in the food industry and e-commerce. Turnkey deals accounted for nearly 2 million m² in 2017. Grade A supply stabilized with few developments underway, whilst prime rents range from €53-56 in Greater Paris to €42-47 in the regions.

The UK market remained dynamic with 2.8 million sqm taken up in 2017. Demand for logistics space remained relatively healthy during 2017, whilst it was down from the extraordinary levels seen in 2016. This was in line with the volumes recorded in 2014 and 2015. Whilst some occupiers are still struggling to find suitable available space, some others seem to have rationalised their expansionary plans due to the recent political and economic uncertainties. Retailers and third-party logistics providers accounted for the largest share of the market.

In the Netherlands, take-up doubled in one year to reach a historic volume of 2.2 million sqm in 2017. The market was supported by a strong economy with 3.0% GDP growth in 2017 and a significant increase in exports. The market was particularly concentrated in the South Netherlands, in the regions of Breda and Venlo.

In Spain, take-up rose by 6% in the three main markets to reach over 1.3 million sqm in 2017. This represents the highest volume ever recorded in Spain. Take-up doubled in Madrid over last year boosted by strong domestic demand and large transactions including a turnkey deal for 120,000 sqm in Marchamalo.

In the Czech Republic and Poland, e-commerce and distribution for retailers remain the principal market driver. Low vacancy rates in Poland (5.1%) and the Czech Republic (4.2%) have been a motivator for new development schemes and build-to-suit.

Take-up - Warehouses over 5,000 sqm
Net prime rents - warehouses over 5,000 sqm

- High point (Since 2010)
- Prime rent
- Secondary rent

%
The sale of major portfolios and large corporate deals generated outstanding volumes of investment over €40bn during 2017. Indeed, the investment market for industrial and logistics premises increased by 62 % in 2017, skewed by the sale of a single deal for more than €12bn euros. This impacted on most European countries with record volumes achieved in the major markets.

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. During the last 18 months, new entrants such as Asian investors have shown a great interest to the logistics market. Logistics prime yields reached their lowest level in most countries but are still well above the 10-year government bonds which bottomed out to historic lows in 2016. Logistics prime yields remain attractive compared to other assets.

The UK market increased sharply with €12.2 bn invested in 2017, up 80 % on 2016, despite the scarcity of products and a context of political and economic uncertainties. The market was greatly impacted by the sale of logistics platforms and large portfolios. Logistics prime rents remained fairly stable during the year whilst prime yields stabilised in the main hubs to 4.5 % in London and the South East and 4.75 % in Birmingham.

In Germany, industrial and logistics investment nearly doubled the latest record set in 2015 to reach €9.2 bn in 2017. Portfolio sales accounted for just over two thirds of total investment with some major transactions involving pan-European platforms including the sale of Blackstone’s logistics platform LogiCor and the acquisition of Geneba Properties by Frasers Centrepoint (FCL) of Singapore. After a strong compression that started in 2015, yields have further decreased to 4.5 % in the main markets.

In France, the investment market amounted €4.4 bn in 2017 boosted by corporate deals accounting for €2 bn. It is worth noting that if we exclude corporate deals, investment for distribution warehouses still increased by 16 %, illustrating the return of business confidence following the presidential elections. The prime yield decreased below 5 % for the first time in France to 4.9 %.

In the Netherlands, industrial and logistics investment doubled to €2.8 bn in 2017, representing 17 % of total commercial real estate investment. The market was supported by large pan-European portfolio deals (LogiCor, Gramercy, Geneba). The scarcity of products in the Dutch market is exerting a downward pressure on yields. The prime yield declined to 5.35 % in Amsterdam and 5.0 % in Venlo.

In Spain, investment exceeded €1 bn, up 12 % on 2106. The market continued to be thriving, following the massive rebound in 2015 and 2016. Strong investor demand continued to push yields down to 5.9 % in Madrid and 5.85 % in Barcelona.

In Poland, investment activity for industrial and logistics went up by more than 40 % to €1.2 bn and the prime yield stabilised at 5.5 % in Warsaw. In the Czech Republic, after a strong activity in 2015 and 2016 supported by portfolio transfers, industrial and logistics investment naturally adjusted down to €450 million in 2017.

**EUROPEAN INDUSTRIAL AND LOGISTICS INVESTMENT REACHED NEW RECORD LEVELS**

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NET PRIME YIELDs IN Q4 2017 – WAREHOUSES OVER 5,000 SQM

Net prime yields - warehouses over 5,000 m²
## OCCUPIER LOGISTICS MARKET - WAREHOUSES OVER 5,000 SQM

<table>
<thead>
<tr>
<th>City</th>
<th>Take-up (000 m²)</th>
<th>Variation y-o-y (%)</th>
<th>Rents (€/sqm/year) Prime</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>2017</td>
<td>2016</td>
<td></td>
</tr>
<tr>
<td>Greater Paris</td>
<td>1,922</td>
<td>976</td>
<td>97%</td>
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<tr>
<td>Birmingham</td>
<td>1,099</td>
<td>1,303</td>
<td>-16%</td>
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<tr>
<td>Madrid</td>
<td>828</td>
<td>342</td>
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<tr>
<td>London &amp; South East</td>
<td>826</td>
<td>630</td>
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<tr>
<td>Frankfurt</td>
<td>555</td>
<td>493</td>
<td>13%</td>
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<tr>
<td>Venlo-Venray-Eindhoven</td>
<td>504</td>
<td>298</td>
<td>69%</td>
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<tr>
<td>Breda-Moerdijk-Roosendaal*</td>
<td>443</td>
<td>178</td>
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</tr>
<tr>
<td>Lyon</td>
<td>432</td>
<td>483</td>
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</tr>
<tr>
<td>Lille</td>
<td>427</td>
<td>393</td>
<td>9%</td>
</tr>
<tr>
<td>Barcelona</td>
<td>381</td>
<td>521</td>
<td>-27%</td>
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<tr>
<td>Düsseldorf</td>
<td>373</td>
<td>193</td>
<td>93%</td>
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<tr>
<td>Manchester</td>
<td>369</td>
<td>423</td>
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</tr>
<tr>
<td>Prague</td>
<td>360</td>
<td>368</td>
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<tr>
<td>Bristol</td>
<td>337</td>
<td>437</td>
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<tr>
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<td>292</td>
<td>242</td>
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<tr>
<td>Marseille</td>
<td>273</td>
<td>149</td>
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<td>466</td>
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<td>Munich</td>
<td>192</td>
<td>191</td>
<td>1%</td>
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<td>Leeds</td>
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<tr>
<td>Rotterdam*</td>
<td>66</td>
<td>134</td>
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<tr>
<td>Amsterdam*</td>
<td>24</td>
<td>72</td>
<td>-67%</td>
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</table>

*Take-up estimates

## COMMERCIAL REAL ESTATE INVESTMENT MARKET IN EUROPE

<table>
<thead>
<tr>
<th>Country</th>
<th>Commercial real estate investment (€ million)</th>
<th>Industrial investment (€ million) rolling year</th>
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<tbody>
<tr>
<td></td>
<td>2017</td>
<td>2016</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>72,083</td>
<td>58,273</td>
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<tr>
<td>Germany</td>
<td>58,219</td>
<td>52,583</td>
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<tr>
<td>France</td>
<td>26,433</td>
<td>31,922</td>
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<tr>
<td>Netherlands</td>
<td>16,797</td>
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</tr>
<tr>
<td>Italy</td>
<td>11,071</td>
<td>8,964</td>
</tr>
<tr>
<td>Spain</td>
<td>10,727</td>
<td>10,328</td>
</tr>
<tr>
<td>Sweden</td>
<td>10,271</td>
<td>13,684</td>
</tr>
<tr>
<td>Finland</td>
<td>9,160</td>
<td>4,507</td>
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<tr>
<td>Norway</td>
<td>8,770</td>
<td>7,801</td>
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<tr>
<td>Poland</td>
<td>5,141</td>
<td>4,616</td>
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<tr>
<td>Austria</td>
<td>4,800</td>
<td>2,750</td>
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<tr>
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<td>2,170</td>
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<tr>
<td>Portugal</td>
<td>1,997</td>
<td>1,611</td>
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## Net Prime Yields - Warehouses over 5,000 sqm

<table>
<thead>
<tr>
<th>City</th>
<th>Q4 2017</th>
<th>Q4 2016</th>
<th>Variation y-o-y (%)</th>
</tr>
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<tbody>
<tr>
<td>Amsterdam</td>
<td>5.35%</td>
<td>5.60%</td>
<td>-25</td>
</tr>
<tr>
<td>Athens</td>
<td>11.00%</td>
<td>11.50%</td>
<td>-50</td>
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<tr>
<td>Barcelona</td>
<td>5.85%</td>
<td>6.00%</td>
<td>-15</td>
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<tr>
<td>Belgrade</td>
<td>9.75%</td>
<td>10.25%</td>
<td>-50</td>
</tr>
<tr>
<td>Berlin</td>
<td>4.50%</td>
<td>5.20%</td>
<td>-70</td>
</tr>
<tr>
<td>Birmingham</td>
<td>4.65%</td>
<td>4.70%</td>
<td>-5</td>
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<tr>
<td>Bordeaux</td>
<td>4.90%</td>
<td>7.00%</td>
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<tr>
<td>Bratislava</td>
<td>7.00%</td>
<td>7.25%</td>
<td>-25</td>
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<tr>
<td>Bristol</td>
<td>5.25%</td>
<td>5.15%</td>
<td>10</td>
</tr>
<tr>
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<td>6.25%</td>
<td>6.50%</td>
<td>-25</td>
</tr>
<tr>
<td>Bucharest</td>
<td>8.50%</td>
<td>8.75%</td>
<td>-25</td>
</tr>
<tr>
<td>Budapest</td>
<td>8.00%</td>
<td>8.50%</td>
<td>-50</td>
</tr>
<tr>
<td>Cologne</td>
<td>4.50%</td>
<td>5.10%</td>
<td>-60</td>
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<tr>
<td>Copenhagen</td>
<td>6.50%</td>
<td>6.50%</td>
<td>0</td>
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<tr>
<td>Dublin</td>
<td>5.50%</td>
<td>6.00%</td>
<td>-50</td>
</tr>
<tr>
<td>Düsseldorf</td>
<td>4.50%</td>
<td>5.10%</td>
<td>-60</td>
</tr>
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<td>Frankfurt</td>
<td>4.50%</td>
<td>5.10%</td>
<td>-60</td>
</tr>
<tr>
<td>Greater Paris</td>
<td>4.90%</td>
<td>5.50%</td>
<td>-60</td>
</tr>
<tr>
<td>Hamburg</td>
<td>4.50%</td>
<td>5.10%</td>
<td>-60</td>
</tr>
<tr>
<td>Helsinki</td>
<td>6.00%</td>
<td>6.60%</td>
<td>-60</td>
</tr>
<tr>
<td>Katowice</td>
<td>6.00%</td>
<td>6.00%</td>
<td>0</td>
</tr>
<tr>
<td>Leeds</td>
<td>5.75%</td>
<td>5.75%</td>
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</tr>
<tr>
<td>Leipzig</td>
<td>4.90%</td>
<td>5.70%</td>
<td>-80</td>
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<tr>
<td>Lille</td>
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<td>5.60%</td>
<td>-70</td>
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<td>Lisbon</td>
<td>6.75%</td>
<td>7.00%</td>
<td>-25</td>
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<tr>
<td>Lodz</td>
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<td>7.00%</td>
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<tr>
<td>London &amp; South East</td>
<td>4.50%</td>
<td>4.75%</td>
<td>-25</td>
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<td>Lyon</td>
<td>4.90%</td>
<td>5.60%</td>
<td>-70</td>
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<tr>
<td>Madrid</td>
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<td>4.90%</td>
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<td>Marseille</td>
<td>4.90%</td>
<td>5.60%</td>
<td>-70</td>
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<tr>
<td>Milan</td>
<td>5.75%</td>
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<td>Newcastle</td>
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<td>Oslo</td>
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<tr>
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<td>Prague</td>
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<tr>
<td>Riga</td>
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<td>8.50%</td>
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<td>5.40%</td>
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<td>Tallinn</td>
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<td>8.25%</td>
<td>-25</td>
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<tr>
<td>Venlo-Venray-Eindhoven</td>
<td>5.00%</td>
<td>5.50%</td>
<td>-50</td>
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<tr>
<td>Vienna</td>
<td>5.80%</td>
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<tr>
<td>Vilnius</td>
<td>8.00%</td>
<td>8.50%</td>
<td>-50</td>
</tr>
<tr>
<td>Warsaw</td>
<td>5.50%</td>
<td>5.50%</td>
<td>50</td>
</tr>
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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 each 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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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
1050 Brussels
Tel.: +32 2 280 59 59

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

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

LUXEMBOURG
Avenue J.F. Kennedy 44
1855 Luxembourg
Tel.: +352 26 26 06 06

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

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

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

PORTUGAL
Tel.: +351 21 312 7000
1123 Budapest,A Building
117-119 Vaci ut.

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

DANISH REPUBLIC
Tel.: +45 33 33 14 49
1123 Budapest
A Building
117-119 Vaci ut.

DENMARK
Tel.: +45 33 33 14 49
1123 Budapest
A Building
117-119 Vaci ut.

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

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

MIDDLE EAST / ASIA

UAE
8 Connaught Place, Central,
Square,
25/F Three Exchange
Tel.: +971 44 248 277
P.O. Box 7233, Dubai
Building n° 1, 7th Floor
Emaar Square

MOROCCO
Tel.: +212 22 653 44 00
Bucharest 011665
Street n°40-44
Banul Antonache

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

Alliances*

ALGERIA
NORTHERN IRELAND
AUSTRIA
PORTUGAL
CYPRUS
SERBIA
DENMARK
SWEDEN
ESTONIA
SWITZERLAND
FINLAND
TUNISIA
Greece

Contacts

EUROPEAN LOGISTICS COVERAGE

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

Anita SIMAZA
Director European Logistics, Investment
anita.simaza@bnpparibas.com

Olivier WISSEL
Director European Logistics,
Letting & Sales
olivierwissel@bnpparibas.com

RESEARCH

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