BNP PARIBAS REAL ESTATE

Real Estate for a changing world

RESEARCH

FEBRUARY 2020

EUROPEAN LOGISTICS MARKET

STRONG INVESTOR APPETITE AND GOOD RESILIENCE IN THE OCCUPIER MARKET IN 2019

-11%

LOGISTICS TAKE-UP FOR WAREHOUSES OVER 5,000 SQM

TAKE-UP

After several years of new records achieved across Europe, the occupier market adjusted down in 2019 constrained by a shortage of supply in the main markets. Demand remains robust, driven by strong online sales, resulting in historically low vacancy rates and supporting rental growth.

- All major countries recorded a slowdown in activity although take-up levels are still high
- Market fundamentals are healthy and prospects positive overall
- Supply is still insufficient to meet end user requirements even with new developments
- Rents increased for the second year in a row. Prime rents rose by 4.5% in 2019 across the 23 cities looked at across Europe

+3%

INDUSTRIAL & LOGISTICS INVESTMENT IN EUROPE

INVESTMENT

The investment market maintained a high level of demand in 2019. After several years of intense activity, products are becoming scarce in some markets. The imbalance of the current supply and demand will have a further impact on yields.

- Supply is too scarce to meet active demand entirely across all risk profiles
- Prime yields compressed further in Europe with Germany lowest at 3.7%
- The yield spread between offices and logistics is still attractive
- The fundamentals for logistics clearly remain favourable compared to other mainstream asset classes

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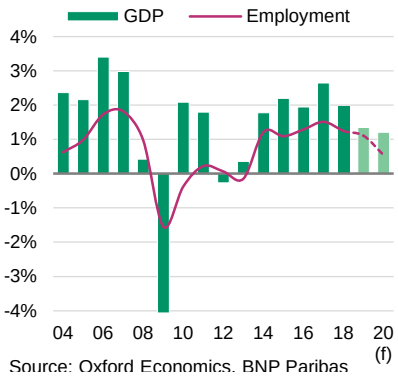
A RESILIENT ECONOMY WITH SOME UNCERTAINTIES ON TRADE AND MANUFACTURING

+1.2%

GDP EUROPE 2020

GDP and Employment growth in Europe*



Source: Oxford Economics, BNP Paribas

*Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Luxembourg, Netherlands, Norway, Poland, Portugal, Romania, Spain, Sweden Switzerland, UK,

Though the global economy's growth outlook is lower, it is enjoying a period of stabilization created by the improvement in manufacturing, following relative calm in trade disputes. Nonetheless, the scale of protectionism now established is large enough to affect the global supply chain and, therefore, the relative GDP growth in the different regions. In addition, both the Chinese stimulus and US fiscal boost are fading, and the recent pandemic in China could slow growth in trade further.

It is against this backdrop that European economies, many that have material dependency on global trade, continue to operate. The Eurozone (+1.2%) economy slowed in 2019, while the UK (+1.4%) remained stabled. Despite the slowing economy we do not expect a recession in Europe. Instead, European nations are likely to see growth rates converge again albeit at lower levels for the near term.

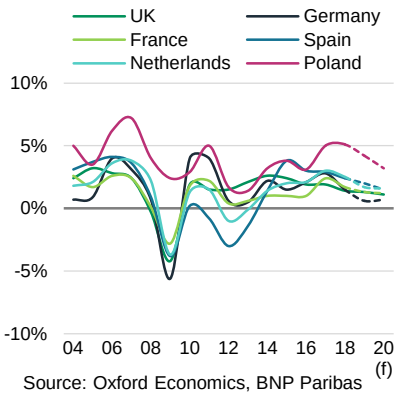
The bright spot in growth is domestic demand. It is becoming the principal engine for European economies and is fuelled by robust labour markets. Sustained expansion is indicative of the strength of the service sector that accounts for over 60% of employment and more insulated from trade disputes. Unemployment rate below its pre-crisis level in many countries, together with low inflation, means real wage growth is occurring again, supporting domestic demand.

Inflation is likely to stay around 1% in the Eurozone with the UK experiencing an uptick in inflation at 1.5% to 1.8% over 2020-2021. A prolonged subdued inflation outlook means that there is little pressure to move interest rates upwards.

Safety seeking behaviour from investors with growth worries means that long-term interest rates are back in negative territory in core countries such as Germany. **With resumption of asset purchases in 2019, monetary policy will remain supportive for longer.** Central banks will work to ensure that credit availability remains viable for companies to help them expand.

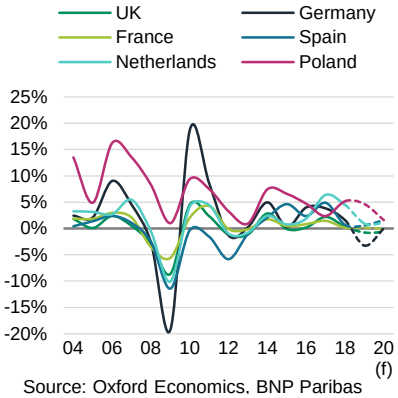
The growth outlook across Europe remains positive, albeit low, and differentiated. Systemic risk in the global economy seems to be greatly reduced meaning the focus is back on domestic economic agendas. European nations are considering supporting central banks, by introducing growth-enhancing fiscal measures in 2020 to support the domestic sector. Nonetheless we think growth will slow further in 2020 before beginning to rise again.

GDP growth
(year-on-year change)



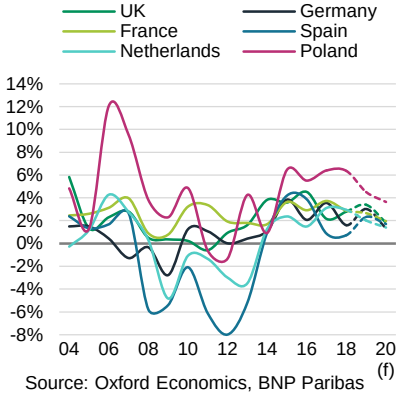
Source: Oxford Economics, BNP Paribas

Manufacturing output
(year-on-year change)



Source: Oxford Economics, BNP Paribas

Retail sales
(year-on-year change)



Source: Oxford Economics, BNP Paribas

SUPPLY ISSUES IMPOSED A SLOWER LOGISTICS MARKET IN 2019 EVEN THOUGH DEMAND REMAINS SOLID

-11%
TAKE-UP
(2019 vs 2018)

±5%
VACANCY RATE
(2019)

Take-up for warehouses over 5,000 sqm dropped by 21% in the 21 European cities monitored by BNP Paribas Real Estate during 2019. Aside from the deceleration of the European economy, the chronic lack of supply for large units is constraining a number of markets. This is particularly evident in Germany and France where some demand shifted to outside the main hubs. Brexit also impacted UK activity.

Demand is fuelled by ecommerce and tempered by low supply, the latter exacerbated by limited speculative development. On-line sales continue to make an impact with annual growth of 12% to 14% per year. Supply is insufficient overall to meet end-user requirements; it is particularly lacking for XXL warehouses. Access to land has also become more and more complicated across Europe as administrative requirements have tightened, limiting options for new schemes. This has resulted in low vacancy of around 5% as a European average.

The scarcity of skilled labour is a significant factor taken into account in end users' implementation strategies. This is particularly evident in European regions with low unemployment rates. Overall, the unemployment rate in Europe reached 6.5% in 2019 and is expected to further decline to 6.3% in 2020. Low unemployment is increasingly influential in occupier decisions on where to locate, and also for developers assessing the cost and time within which they can deliver buildings.

After years of stability, rental growth started to pick up in 2018 (+3.9%) and again in 2019 by 4.5%. Limited new supply and low vacancy in most market drove this. This has been particularly evident in land-constrained locations.

Take-up in Germany remained high overall, although decreased in some of the main hubs that are constrained by a lack of modern space. As a result, prime rents increased over the past twelve months. Overall, the market continued to be dynamic as many companies have been shifting to smaller locations outside the traditional hubs, where there is still sufficient supply.

The French occupier market is slowing down. Grade A supply stabilized with the few developments underway. Overall though, the French market continues to suffer from a scarcity of large vacant schemes. This is particularly evident in Lyon where there is good demand. While transactions are still concentrated in the traditional North/South axis, there is a shift towards the Atlantic Arc following the thriving economic development of cities including Nantes and Bordeaux.

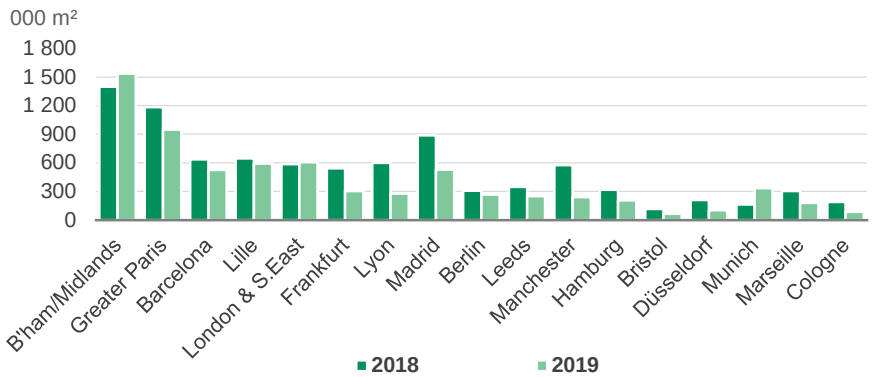
The UK occupier market dropped by 19%, maintaining a good level of activity given the extent of the economic and political uncertainty in 2019. Birmingham/Midlands remained the largest single market in Europe and reached record levels of transactions in 2019. Whilst supply continued to be tight, prime rents increased to £7.5 in Birmingham and £7.25 in Manchester as occupiers sought well-located assets to support their supply chains.

In Poland, the occupier market stayed particularly strong in 2019, which is remarkable considering the outstanding levels of transactions in 2017 and 2018. Given the impressive volume of new developments over the past two years, the vacancy rate rose to 7.4%. Prime rents have been stable in most markets, ranging from €41 and €45 in the main logistics hubs.

In the Netherlands, all the major occupier markets recorded high volumes of transactions in 2019 and low vacancy rates of around 3.4% nationwide. Prime rents have been stable throughout the year, except in Venlo, which continued to catch up, rising to €52.

The Spanish occupier market is slower after 5 years of vigorous activity. There is good momentum in demand particularly for near city locations. Barcelona and Valencia were boosted by large transactions while demand in Madrid shifted towards smaller units, closer to the city for last mile purposes. Supply is tight in Barcelona and Valencia, with vacancy rates still below 3%. In Madrid, the market is easing with new developments on the way and a vacancy rate of 5.6%.

Take-up -Warehouses over 5,000 sqm



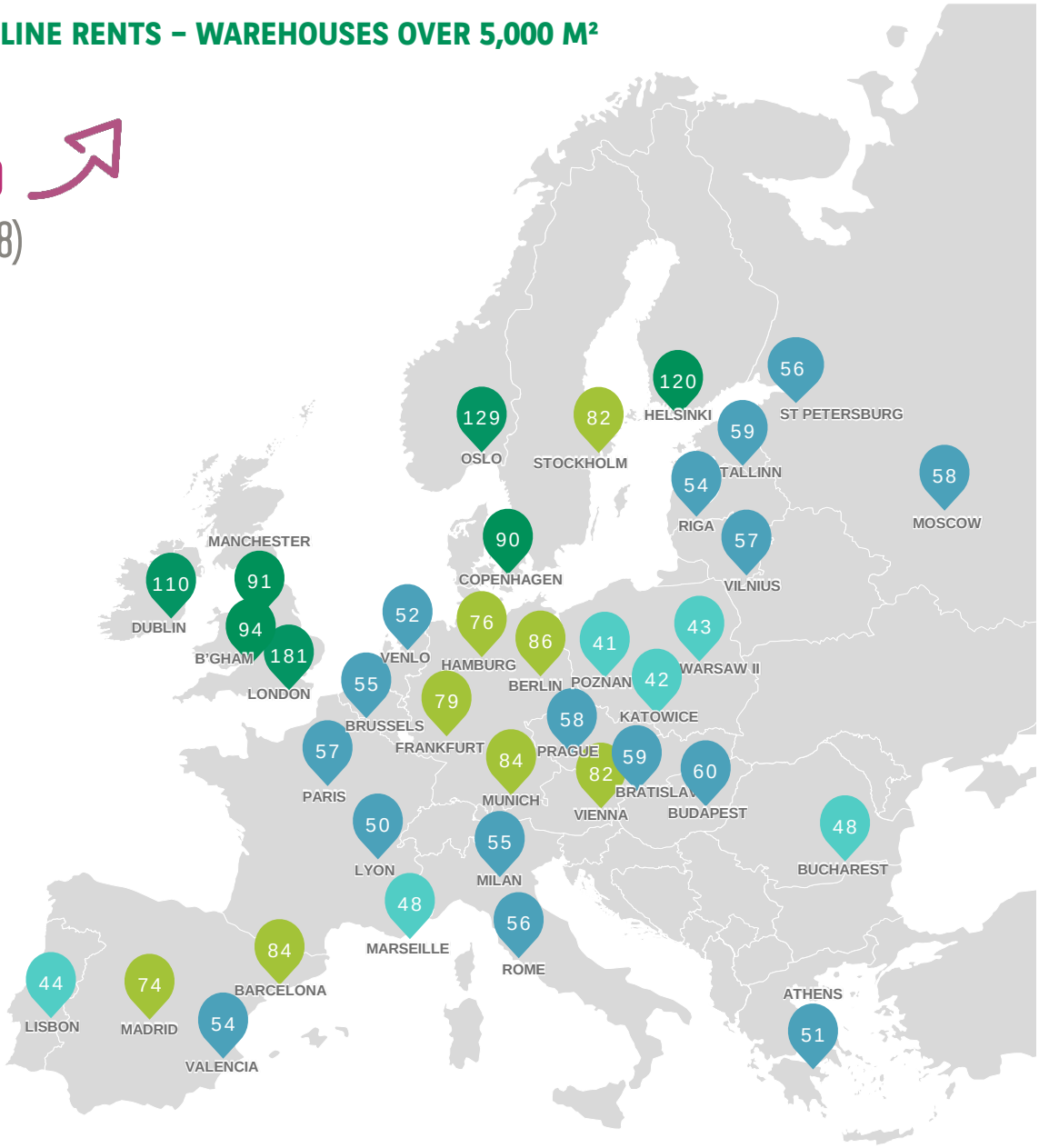
PRIME HEADLINE RENTS – WAREHOUSES OVER 5,000 M²

+4.5%
(2019 vs 2018)

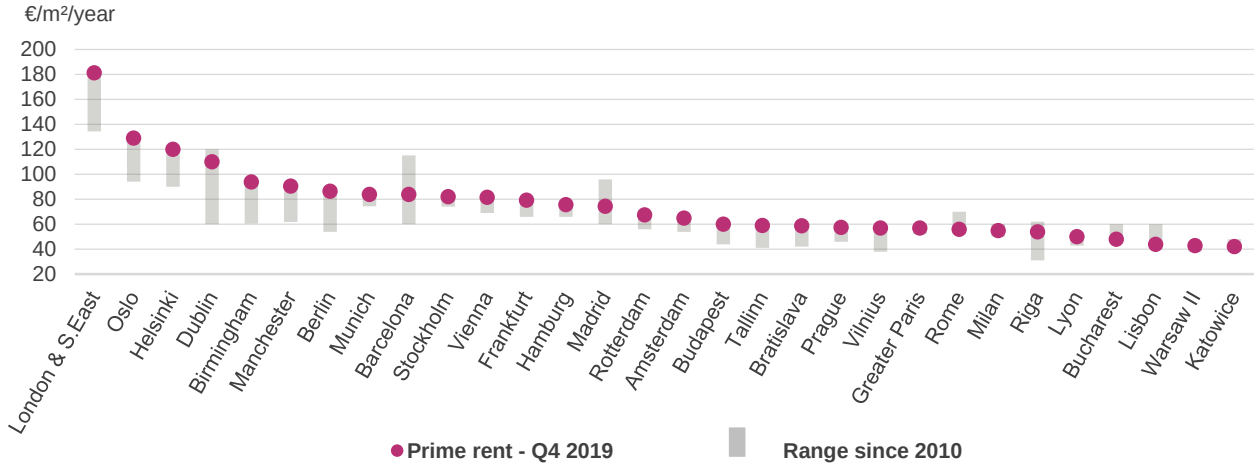
Rents in €/sqm/year

- ≥ €90
- €70-90
- €50-70
- < €50

1 GBP = EUR 1.162
1 SEK = EUR 0.094
1 NOK = EUR 0.099
1 DKK = EUR 0.134
1 RUB = EUR 0.142



Prime headline rents



INVESTORS ARE STRUGGLING TO SOURCE THE LOGISTICS PRODUCTS THEY ARE CLEARLY WILLING TO PAY FOR

+3%

Investment volume (2019 vs 2018)

13.5%

Share of Logistics in Commercial Real Estate

Industrial and logistics investment rose by just 3% to €38.3 billion during 2019. The market is still thriving after several years of intense activity and despite the scarcity of products in some markets. A reality of Europe is that there is simply insufficient properties on the market for every buyer.

The depth of investor demand is very good across all risk profiles from core to opportunistic. The origin of capital is wide and global, and the macro environment favourable for real estate with government bond yields at historic lows and negative in some countries.

Prime yields compressed between 25 and 50bps across Europe. A general downward trend is occurring with some markets reaching historic low levels, particularly in Germany at 3.7%. It is now officially recording for the first time ever, a lower yield than the UK. The biggest compression was in France and the Czech Republic at 75bps.

The yield spread between offices and logistics is still attractive, whilst the fundamentals for logistics clearly remain favourable compared to other mainstream asset classes. In the current low growth environment, investing in a sector where the principal structural demand driver, e-commerce, is growing by double digits per year is very attractive.

In the UK, the investment market slowed down in 2019 reflecting the lack of clarity regarding Brexit throughout the year. Low availability of prime logistics assets contributed to maintaining pricing pressure with prime yields standing at 4.0%. Investment is expected to pick up in 2020 due to good occupier dynamics and more political stability.

Germany is the most attractive market in continental Europe. The logistics investment volume increased by 5% in 2019, even though logistics products are scarce in the major hubs. Following the sharp compression seen since 2016, the prime yield continued to drop to 3.7% in 2019.

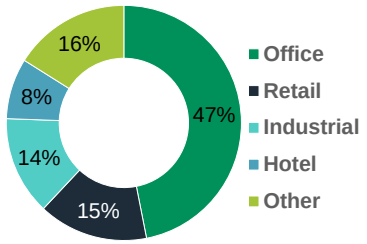
In France, 2019 was a record breaking year, stimulated by historic low in 10-year government bonds. The prime yield dropped to its lowest level at 4.0% in Q4. Given the high demand for logistics and competitive pricing against other asset classes, yields are expected to further decline in the forthcoming months

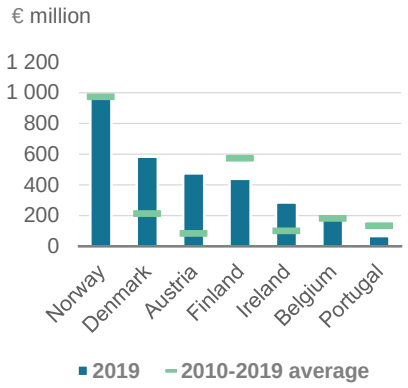
The Dutch industrial and logistics investment is unsurprisingly slowing down in 2019 after two outstanding years. This asset accounted for 26% of total commercial real estate investment in the Netherlands. Yields decreased to 4.4% in Venlo.

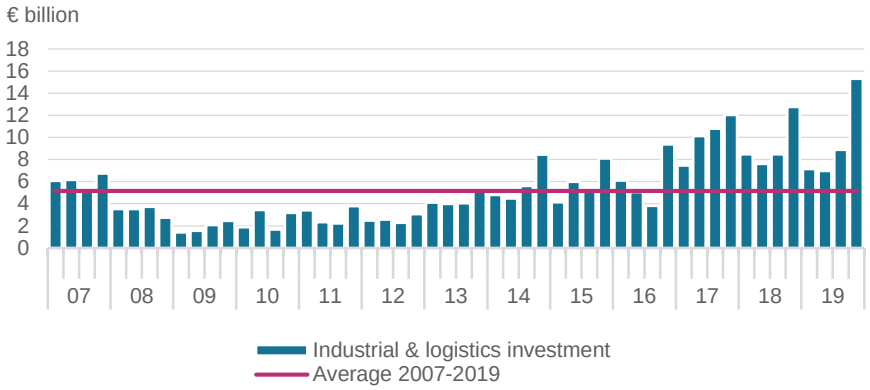
Industrial and logistics investment in Poland dropped in 2019, clearly an outcome of the exceptional activity recorded in 2018. Investor appetite remained steady but product availability is substantially shrunk. Prime logistics assets were typically traded at 6.00% – 6.25% with several exceptional large long-terms deals for e-commerce tenants were signed between 5.0% and 5.40%.

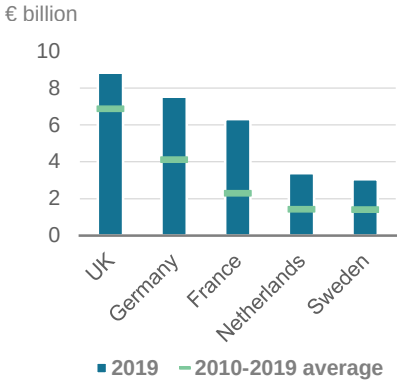
In Spain, industrial & logistics investment increased by 40% in 2019. A solid occupier market has been supporting demand for logistics assets. The shortage of products and strong demand led to further yield compression, down 40bps to 4.9%.

Investment volume (€ billion)







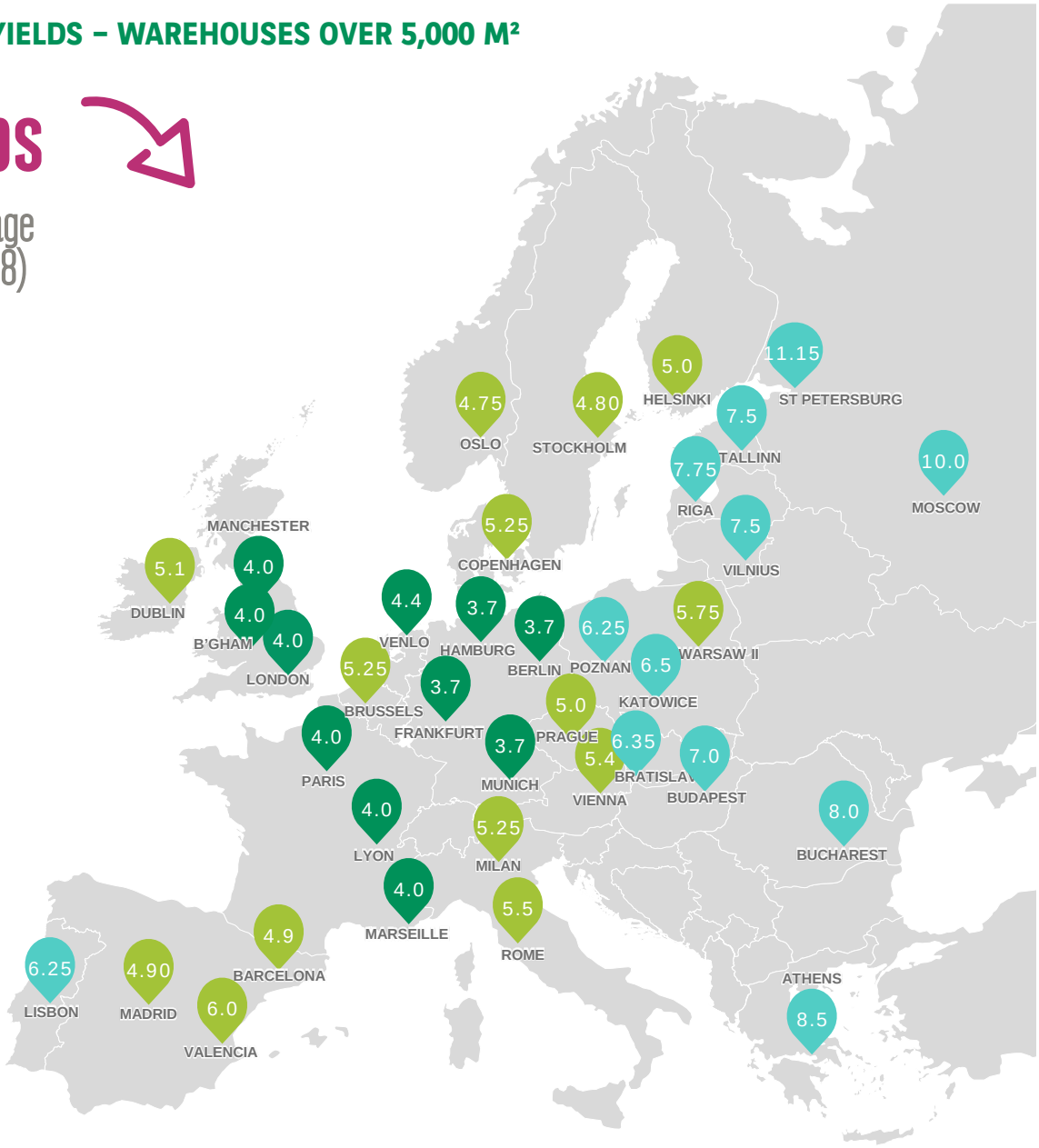


NET PRIME YIELDS – WAREHOUSES OVER 5,000 M²

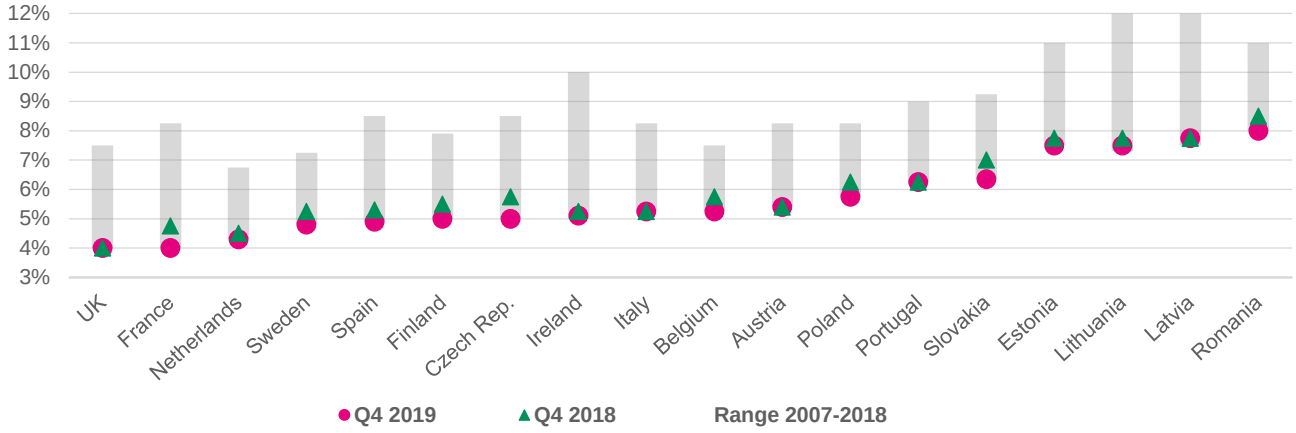
-30 bps

Europe average (2019 vs 2018)

- ≤ 4.5%
- 4.5%-6%
- > 6%



Net prime yields



Occupier logistics market - Warehouses over 5,000 sqm

City	Take-up (000 sqm)			Rents (€/sqm/yr)	
	2019	2018	Variation y-o-y (%)	2019	2018
Birmingham	1,540	1,400	10%	94	84
Greater Paris	950	1,180	-19%	57	56
London & South East	610	580	5%	181	175
Lille	590	640	-8%	46	46
Madrid	530	890	-40%	74	74
Barcelona	520	640	-19%	84	82
Venlo-Venray-Eindhoven	360	380	-5%	52	48
Munich	340	160	113%	84	84
Rotterdam	320	310	3%	68	68
Frankfurt	300	540	-44%	79	76
West-Brabant	300	420	-29%	54	54
Lyon	280	600	-53%	50	47
Berlin	270	310	-13%	86	86
Leeds	250	350	-29%	75	75
Manchester	240	570	-58%	91	81
Hamburg	210	320	-34%	76	72
Amsterdam	200	230	-13%	65.0	65
Marseille	180	300	-40%	48	46
Prague	140	360	-61%	58	54
Düsseldorf	100	210	-52%	69	65
Cologne	90	190	-53%	65	61
Bristol	70	120	-42%	97	94

Commercial real estate investment market

Country	Commercial real estate investment € million			Industrial & logistics investment € million		
	2019	2018	Variation y-o-y (%)	2019	2018	Variation y-o-y (%)
United Kingdom	59,950	72,930	-18%	8,820	10,330	-15%
Germany	73,440	61,540	19%	7,530	7,200	5%
France	41,470	34,940	19%	6,320	3,520	80%
Netherlands	12,980	18,100	-28%	3,380	4,580	-26%
Sweden	13,320	9,250	44%	3,060	1,860	65%
Spain	10,730	10,200	5%	1,850	1,320	40%
Poland	7,650	7,320	5%	1,430	1,940	-26%
Italy	12,240	8,660	41%	1,430	960	49%
Norway	8,940	8,700	3%	990	1,840	-46%
Austria	4,340	3,250	34%	480	120	300%
Finland	4,670	7,610	-39%	440	490	-10%
Czech Republic	3,120	2,550	22%	370	570	-35%
Ireland	4,700	2,550	84%	290	120	142%
Belgium	4,190	4,320	-3%	210	250	-16%
Romania	1,020	960	6%	120	60	100%
Portugal	3,040	2,650	15%	70	140	-50%
Other European countries	16,140	18,200	-11%	1,500	2,010	-25%
Total Europe	**281,940**	**273,730**	**3%**	**38,290**	**37,310**	**3%**

Net prime yields - Warehouses over 5,000 sqm

Country	Net prime yield		
	2019	2018	Variation y-o-y (bps)
Austria	5.40%	5.40%	0 bps
Belgium	5.25%	5.75%	-50 bps
Czech Republic	5.00%	5.75%	-75 bps
Denmark	5.25%	6.00%	-75 bps
Estonia	7.50%	7.75%	-25 bps
Finland	5.00%	5.50%	-50 bps
France	4.00%	4.75%	-75 bps
Germany	3.70%	4.05%	-35 bps
Greece	9.50%	9.50%	0 bps
Hungary	7.00%	7.75%	-75 bps
Ireland	5.10%	5.25%	-15 bps
Italy	5.25%	5.25%	0 bps
Latvia	7.75%	7.75%	0 bps
Lithuania	7.50%	7.75%	-25 bps
Netherlands	4.30%	4.50%	-20 bps
Norway	5.25%	5.25%	0 bps
Poland	5.75%	6.25%	-50 bps
Portugal	6.25%	6.25%	0 bps
Romania	8.00%	8.50%	-50 bps
Slovakia	6.35%	7.00%	-65 bps
Spain	4.90%	5.30%	-40 bps
Sweden	4.80%	5.25%	-45 bps
United Kingdom	4.00%	4.00%	0 bps

6 BUSINESS LINES in Europe

A 360°vision

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