BNP PARIBAS REAL ESTATE

Real Estate for a changing world

RESEARCH

AUGUST 2020

EUROPEAN LOGISTICS MARKET

THE LOGISTICS MARKET IS PROVING RESILIENT AND ATTRACTIVE

-3%

LOGISTICS TAKE-UP FOR WAREHOUSES OVER 5,000 SQM

TAKE-UP

Following record volumes of transactions for 3 years in a row, 2020 will inevitably show a decline in take-up. However, the logistics market showed good resilience during the crisis as market fundamentals remain healthy with low vacant space and strong demand boosted by e-commerce.

- Logistics has become clearly crucial and visible to everyone as key to provide basic needs.
- During Q2, take-up dropped almost everywhere during lockdown, apart from Poland and the UK, the latter boosted by more than half a million sqm taken up by Amazon in various British sites.
- Vacant space is expected to increase, but the pre-crisis low supply levels prevented downward pressure on rents in Q2.
- Negotiations are likely to lead to more incentives rather than a major decline in headline rents.

-3%

INDUSTRIAL & LOGISTICS INVESTMENT IN EUROPE

INVESTMENT

Though the investment market maintained high volumes, it clearly declined in Q2. However, investor appetite is not fading as logistics represents a safe, stable and attractive asset. Prime yields remained stable in Q2 and show no sign of decompression.

- €13.9 billion during H1 2020. Q1 was the highest first quarter recorded in the last 15 years (€9.5bn), offset by a low Q2 (€4.4bn) during lockdown.
- The industrial and logistics market accounts for 13.7% of total commercial real estate, gaining market shares against other asset classes.
- Prime yields hit their historical low in Q1 and stabilized in Q2 at 3.7% in Germany and 4% in France, the UK and the Netherlands.

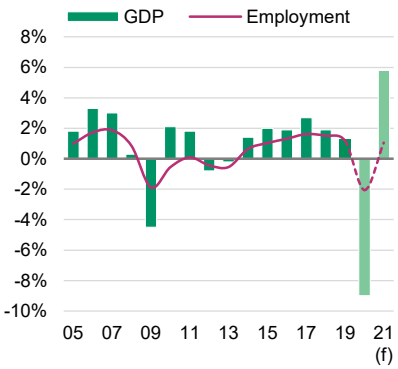
Vincent Robion
Head of Research - Logistics Europe

A SYMMETRIC SHOCK LED TO A GLOBAL RECESSION AND AN ASYMMETRIC REBOUND

-9%

GDP GROWTH EUROZONE - 2020

GDP and Employment growth in the Eurozone



At the end of 2019, economists around the world were sure about one thing: 2020 should be a year of continuity, even better than 2019 as the systemic risks faced by the global economy (mainly Brexit and the trade war between the US and China) began to diminish. The emergence of COVID-19 at the beginning of 2020 took the world by surprise with its virulence, delivering a shock just as the global economy had begun to stabilise.

The first impacts of the pandemic were a disruption to the supply chain and a decrease in domestic demand following the restrictions imposed by governments. The lockdown measures introduced by European governments have global implications that are still difficult to fully measure. Indeed, as activity and demand effectively stopped overnight, companies were pushed towards unknown horizons, forcing governments to take unprecedented steps to protect jobs and incomes.

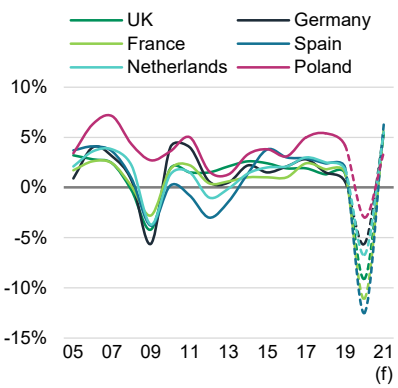
The first economic data available since the easing of lockdown have been very positive. We have seen a strong rebound from the supply side and the beginning of momentum on the demand side. However, the recovery is not secure yet as it depends on the sustainability of demand.

The short-term impact of the pandemic on the labour market seems inevitable and predictable, with bankruptcies and lay-offs in almost every sector, yet the longer-term picture is still unclear. The extent of the rebound in the employment market will have major consequences for the sustainability of the recovery. By autumn, the main support schemes will have ceased or been restructured, and unemployment rates may increase dramatically across Europe. Consequently, most countries are bringing forward increased spending to reflate economies and prevent a destabilising rise in unemployment.

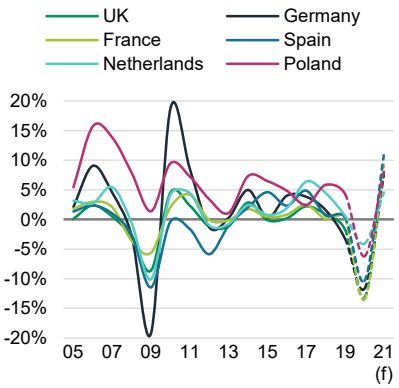
We anticipate an asymmetric rebound with the US growing faster than both Japan and the broader Eurozone economy. In Europe, Germany should outperform other countries in the region as its lockdown was only partial, and its fiscal policy should be more effective in sustaining the momentum. In contrast, the recovery in Spain and Italy could be dragged down by a combination of heavier pre-crisis public deficits and indebtedness, a higher share of tourism in GDP and a greater prevalence of small and medium-sized companies. While the UK is open for business, the threat of a second wave of the virus in the months ahead could weigh further on its nascent economic recovery.

Ultimately, the coming months will be crucial for the global economy, and household confidence will be one of the key drivers.

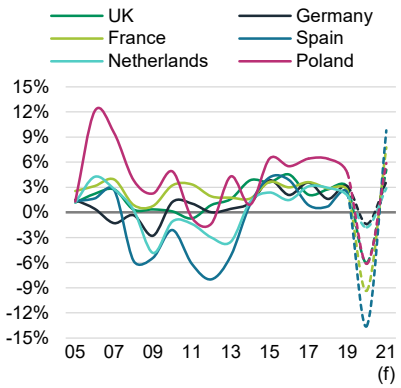
GDP growth
(year-on-year change)



Manufacturing output
(year-on-year change)



Retail sales
(year-on-year change)

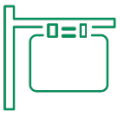


Source: Oxford Economics, BNP Paribas

E-COMMERCE SUSTAINS MARKETS DISRUPTED BY THE COVID-19 PANDEMIC

-3%

TAKE-UP
(H1 2020 vs H1 2019)



±5%

VACANCY RATE
(H1 2020)

Take-up for warehouses over 5,000 sqm dropped by just 3% in the 21 European cities monitored by BNP Paribas Real Estate during H1 2020. Following record volumes of transactions for 3 years in a row, 2020 will inevitably show a decline in take-up. However, the logistics market showed good resilience during the COVID crisis as market fundamentals remained healthy with low vacant space and strong demand boosted by e-commerce plus the necessity of providing essential supplies during lockdown.

E-commerce, more than ever, is the key driver of the logistics market benefiting from strong growth across Europe, +13% forecast in 2020. Acceptance of e-commerce as a shopping channel was boosted by the restrictions in place during lockdown in most countries. Changes in consumer behaviour will help increase the penetration of e-commerce in markets where this has been limited so far, further boosting demand for logistics space.

Supply will increase despite slowdown in the construction of new warehouses. Supply drying up over the past two years whilst demand stays sharp means there is a major imbalance in the market. The crisis is affecting all businesses and some will be downsizing or shut down. Although this may see some premises released back to the market, there is no major risk of oversupply.

Following two years of substantial growth, prime rents remained stable overall in H1, caught between economic slowdown on the one hand, low supply and strong demand on the other. Currently the impact on rents from COVID disruption is negligible, but with release of space into the market, we expect more incentives and an overall downward pressure on rents to appear.

Occupier demand in the UK has proven extremely resilient, Q2 reaching the highest quarterly figure on record. The market was boosted by short-term COVID-related deals and mostly by online retail representing nearly 40% of take-up over the first half of 2020. Amazon alone took over 550,000 sqm during H1 2020. Prime rents remained stable during Q2 and likely to stay unchanged in the forthcoming months, with probably more rent-free periods.

In Germany, the occupier market was much more subdued in the second quarter with export-led industries particularly affected by the crisis. This was largely compensated by strong demand from the e-commerce sector. Take-up remained high even though the volume dropped by 17% compared to the record volume in H1 2019. Rents remained stable overall, and even increased in Frankfurt, Cologne and Düsseldorf because of transactions signed in speculative developments at well-located logistics parks.

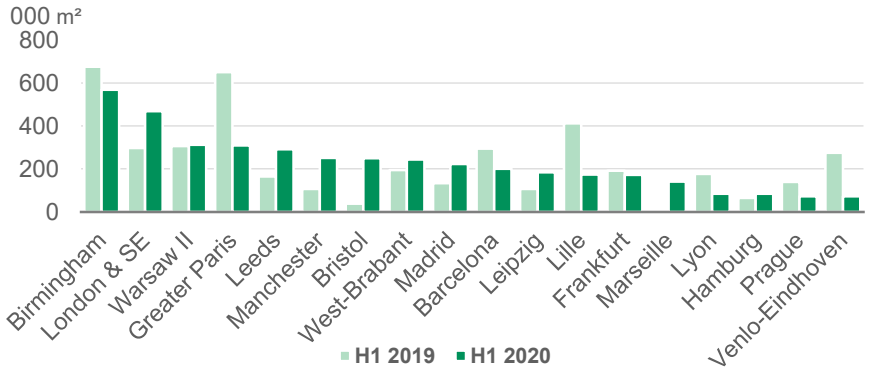
In France, the occupier market has been slowing down. This stems from the economy slowing since Q4 2019 and the fact that most major retailers have completed their first phase of supply-chain transformation. Although the entire market is entering a period of uncertainty due to the COVID 19 crisis, the logistical needs of large companies are still very evident and the conclusion of some large transactions is expected by the end of the year.

In the Netherlands, following a strong Q1 due to some very large deals, activity slowed down significantly in Q2. Most new leases were put on hold due to COVID and take-up is expected to drop in 2020. Overall, take-up declined by just 13% in H1 2020 compared to H1 last year. The market remained active and rents stable.

Unsurprisingly, after two exceptional years 2018 and 2019, **the Spanish market dropped by 19%. Nevertheless, market activity was still dynamic in H1 2020** despite lockdown that was one of the toughest in Europe. In Madrid, the market outperformed the volume of take-up recorded in H1 last year boosted by a deal signed by Amazon for 75,000 sqm. Vacancy rates remain low in Barcelona (2.4%) and Valencia (3.2%).

In Poland, after a strong Q1, the volumes achieved in Q2 were even higher, enabling a record volume of transactions in H1. The market was boosted by XXL turnkey developments for e-commerce and from the manufacturing sector. Some large deals were signed during Q2 including a turnkey rental for 200,000 sqm in the West of Poland. The vacancy rate decreased slightly to 6.9%.

Take-up –Warehouses over 5,000 sqm



PRIME HEADLINE RENTS – WAREHOUSES OVER 5,000 M²

European average

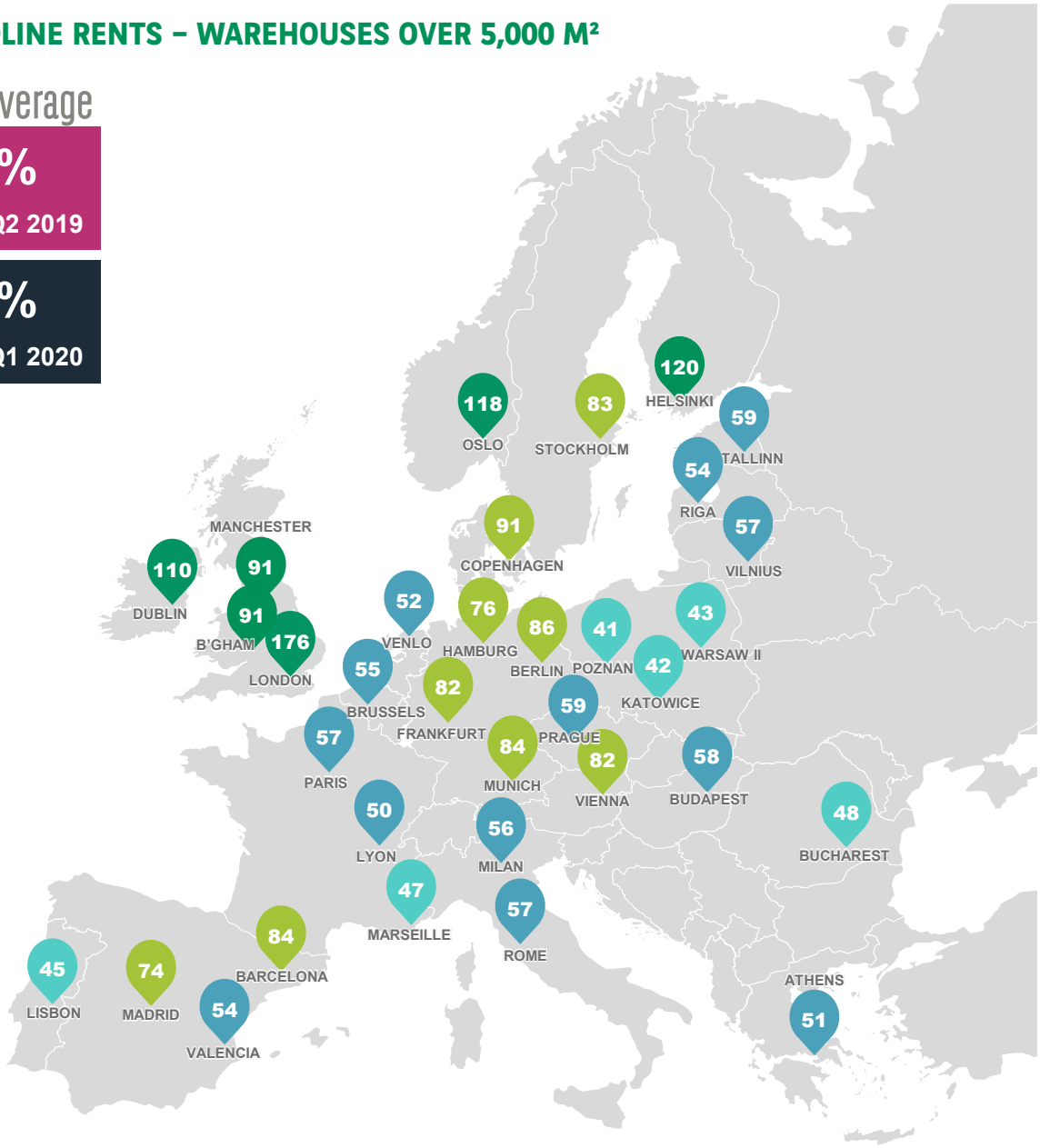
+1.7%
Q2 2020 vs Q2 2019

+0.4%
Q2 2020 vs Q1 2020

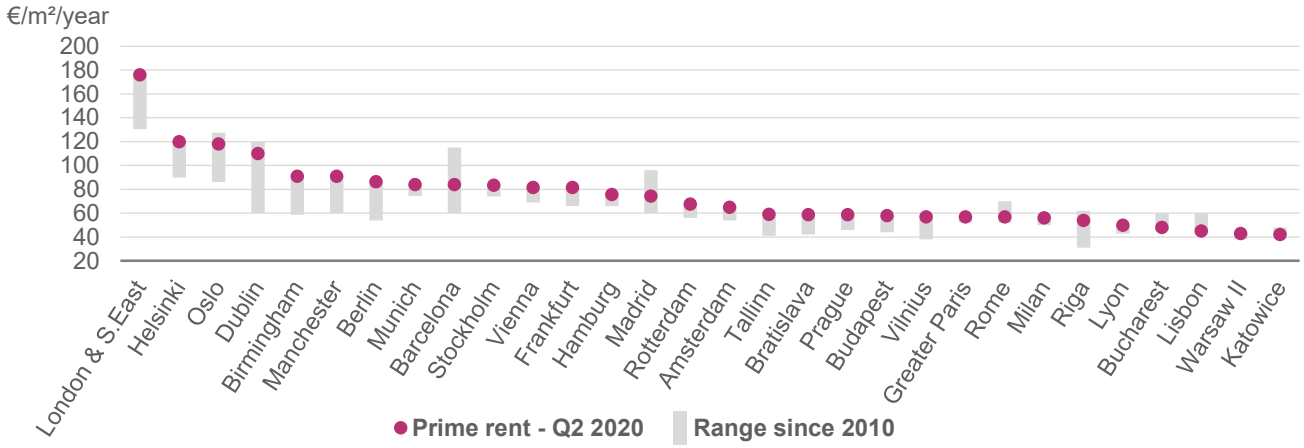
Rents in €/sqm/year

- ≥ €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



INDUSTRIAL & LOGISTICS INVESTMENT STABLE THANKS TO A STRONG Q1

-3%

Investment volume (H1 2020 vs H1 2019)

13.5%

Share of Logistics in Commercial Real Estate

Industrial and logistics investment declined by just 3% to €13.9 billion during H1 2020. Q1 was the highest first quarter recorded in the last 15 years (€9.5bn), but offset by a low Q2 (€4.4bn) caused by lockdown.

From an investment point of view the logistics and Industrial sector remains a bright spot, as demand for space is solid from sectors that are beneficiaries of the COVID crisis. Even so, we anticipate lower investment volumes in the industrial sector due to the obstructions to deal negotiations.

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

Prime yields reached historic low levels in Q1 2020 and stabilized in most countries during Q2. These are likely to stay stable across Europe in the forthcoming months. We expected to see increased divergence in the performance of different logistics segments, but there is hardly any evidence of price adjustments. In any case, repricing will depend more on how marginal the fundamentals are: location, state of the building and prevailing rental conditions.

In the UK, Industrial and logistics investment has inevitably been subdued compared to pre-crisis. Far from absence of demand, a key factor behind the Q2 slowdown is lack of suitable investment opportunities. Prime yields have stabilized at 4% and are likely to remain unchanged over the rest of the year.

In Germany, the logistics investment market continued to thrive in H1 despite the COVID crisis and the scarcity of products in the major hubs. Prime yields stabilized at 3.7% and there are no sign of decompression.

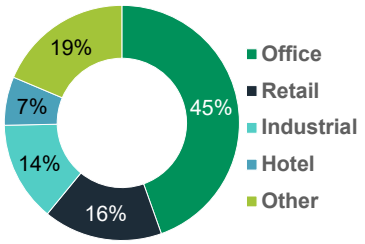
The market was particularly dynamic in France, almost exclusively boosted by large portfolio deals, whilst it was clearly at a standstill during lockdown. Investor appetite remains strong and investment volumes are likely to reach the good levels recorded in 2017-2018 as activity regains traction. Similar to the main European markets, there is no sign of yield decompression in the short term.

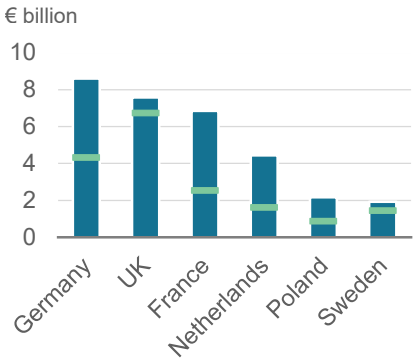
In the Netherlands, Industrial and logistics investment declined by 10% in H1. The market was particularly active in Q1, but investors have been increasingly cautious since the COVID crisis and investment volumes dropped in Q2. Given current negotiations, activity is expected to pick up again in Q3.

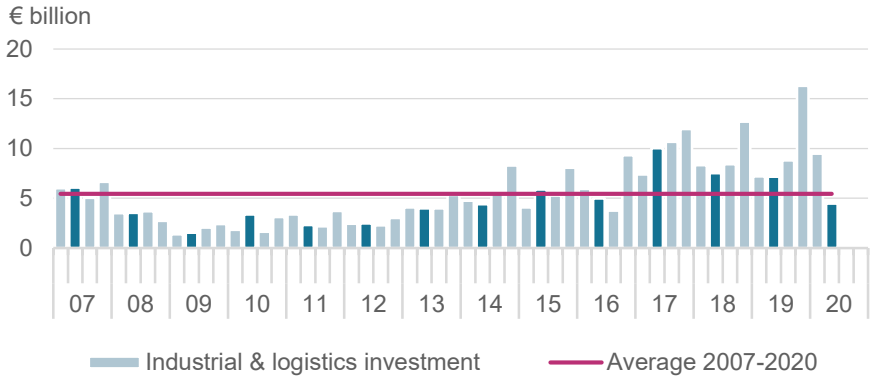
In Spain, after two years with outstanding volumes of investment, the market slowed down in H1 2020. However, given current negotiations, the market could reach yet again the €1bn threshold in 2020.

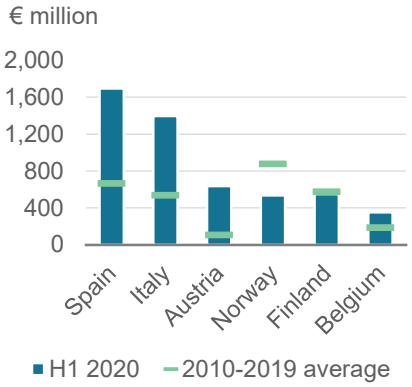
In Poland, Industrial and logistics investment increased sharply H1 2020 thanks to several portfolios acquired by investors from China, Singapore and South Africa. The market benefits from strong drivers including low labour costs and the strategic positions of units especially along the German border.

Investment volume (€ billion)









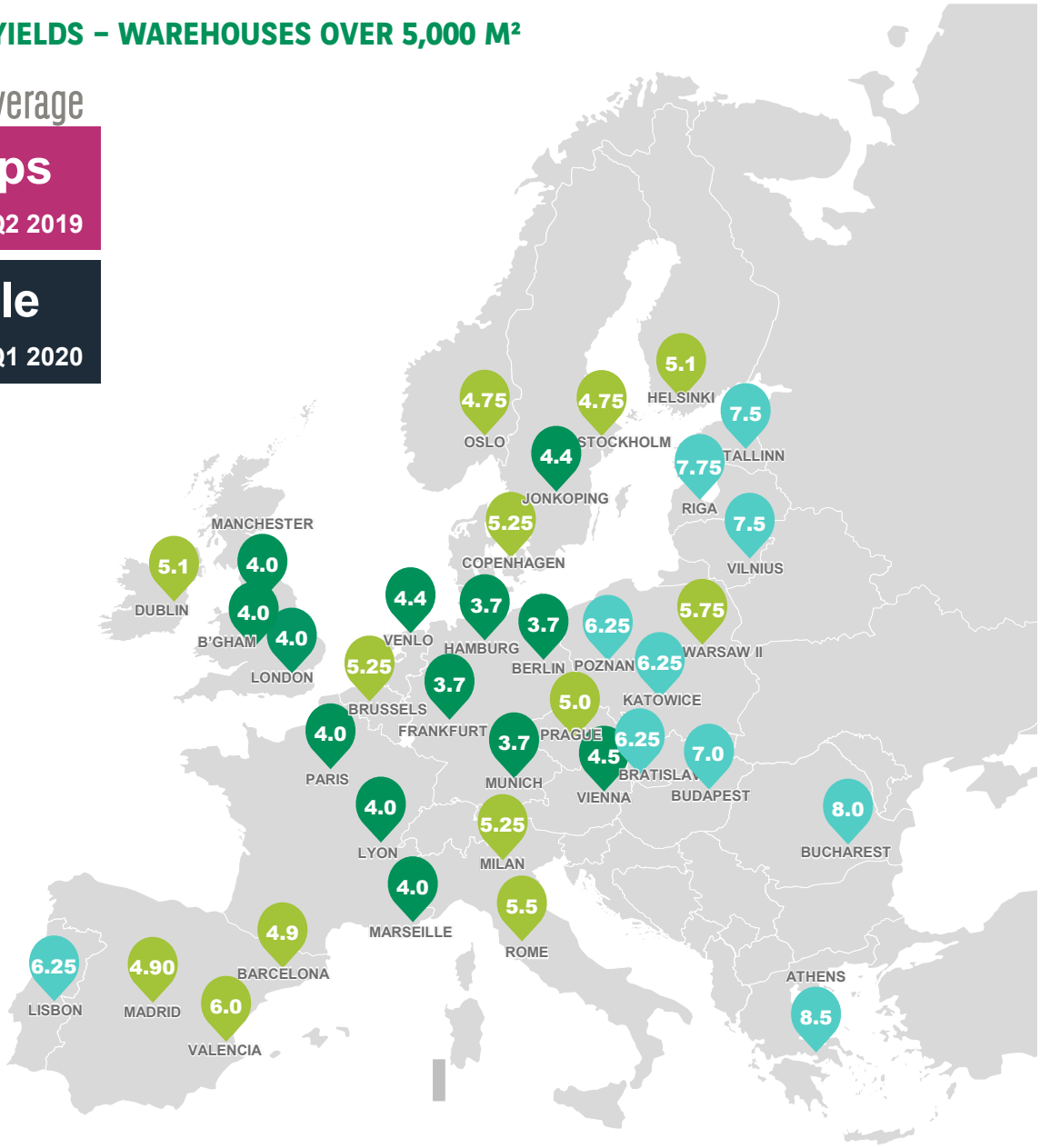
NET PRIME YIELDS – WAREHOUSES OVER 5,000 M²

European average

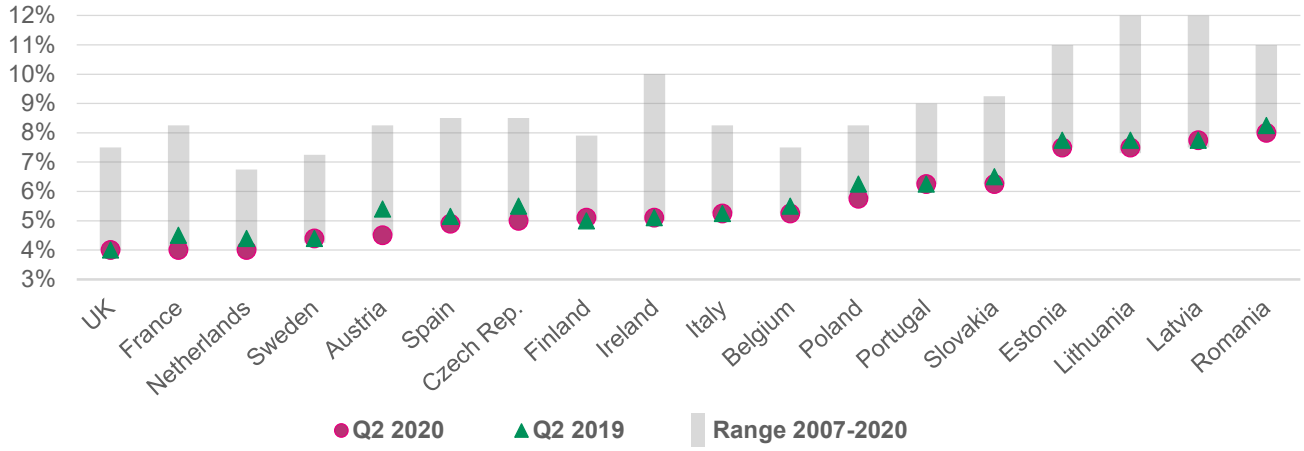
-25 bps
Q2 2020 vs Q2 2019

Stable
Q2 2020 vs Q1 2020

≤ 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)	
	H1 2020	H1 2019	Variation y-o-y (%)	Q2 2020	Q2 2019
Birmingham	570	680	-16%	91	91
Greater Paris	310	650	-52%	57	56
London & South East	470	300	57%	176	176
Lille	170	410	-59%	46	46
Madrid	220	130	69%	74	74
Barcelona	200	290	-31%	84	82
Venlo-Venray-Eindhoven	70	280	-75%	52	50
Munich	40	50	-20%	84	84
Rotterdam	230	110	109%	68	68
Frankfurt	170	190	-11%	82	78
West-Brabant	240	190	26%	54	54
Lyon	80	180	-56%	50	50
Berlin	50	140	-64%	86	86
Leeds	290	160	81%	76	73
Manchester	250	110	127%	91	85
Hamburg	80	70	14%	76	74
Amsterdam	40	140	-71%	65	65
Marseille	140	10	1300%	47	45
Prague	270	140	93%	59	58
Düsseldorf	50	60	-17%	72	65
Cologne	30	20	50%	67	65
Bristol	250	40	525%	94	94
Total 22 Markets	**4,220**	**4,350**	**-3%**		

Commercial real estate investment market

Country	Commercial real estate investment € million			Industrial & logistics investment € million		
	H1 2020	H1 2019	Variation y-o-y (%)	H1 2020	H1 2019	Variation y-o-y (%)
United Kingdom	21,170	23,840	-11%	2,620	3,740	-30%
Germany	29,370	24,420	20%	3,740	2,670	40%
France	11,900	15,050	-21%	2,070	1,530	35%
Netherlands	4,270	5,120	-17%	1,360	1,510	-10%
Sweden	5,350	5,800	-8%	580	1,700	-66%
Spain	3,530	4,810	-27%	410	570	-28%
Poland	2,920	2,780	5%	1,150	410	180%
Italy	3,770	5,010	-25%	280	310	-10%
Norway	3,320	3,930	-16%	250	620	-60%
Austria	1,000	1,560	-36%	190	0	na
Finland	2,940	2,460	20%	330	220	50%
Czech Republic	580	1,700	-66%	20	140	-86%
Ireland	820	1,140	-28%	60	30	100%
Belgium	3,120	2,190	42%	280	140	100%
Romania	390	300	30%	20	0	na
Portugal	1,640	1,050	56%	20	10	100%
Other European countries	6,890	7,250	-5%	540	750	-28%
Total Europe	**102,980**	**108,410**	**-5%**	**13,920**	**14,350**	**-3%**

Net prime yields - Warehouses over 5,000 sqm

Country	Net prime yield		
	Q2 2020	Q2 2019	Variation y-o-y (bps)
Austria	4.50%	5.40%	-90 bps
Belgium	5.25%	5.50%	-25 bps
Czech Republic	5.00%	5.50%	-50 bps
Denmark	5.25%	5.75%	-50 bps
Estonia	7.50%	7.75%	-25 bps
Finland	5.10%	5.00%	10 bps
France	4.00%	4.50%	-50 bps
Germany	3.70%	3.90%	-20 bps
Greece	9.50%	8.75%	75 bps
Hungary	7.25%	7.00%	25 bps
Ireland	5.10%	5.10%	0 bps
Italy	5.25%	5.25%	0 bps
Latvia	7.75%	7.75%	0 bps
Lithuania	7.50%	7.75%	-25 bps
Netherlands	4.00%	4.40%	-40 bps
Norway	4.75%	4.75%	0 bps
Poland	5.75%	6.25%	-50 bps
Portugal	6.25%	6.25%	0 bps
Romania	8.00%	8.25%	-25 bps
Slovakia	6.25%	6.50%	-25 bps
Spain	4.90%	5.15%	-25 bps
Sweden	4.40%	4.40%	0 bps
United Kingdom	4.00%	4.00%	0 bps

DEFINITIONS

LETTING & SALES

Take-up: represents the total floor space known to have been let or pre-let, sold or pre-sold to tenants or owner-occupiers during the survey period. It does not include space that is under offer.

- A property is deemed to be "taken up" only when contracts are signed or a binding agreement exists.
- 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.
- Quoted take-up volumes are not definitive and are consequently subject to change.

New space: premises that have never been occupied in new buildings.

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

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

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.

Speculative / Non speculative developments:

- **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.

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

- **Average rent**: weighted average of rented area. The average featured is a moving average over three quarters, to smooth out the changes.
- **Prime rent**: represents the top open-market rent at the survey date for a real estate unit and should be representative at around 3 to 5% of the market volume (sqm):
  - of standard size commensurate with demand in each location.
  - of the highest quality and specification.
  - best location in a market.

INVESTMENT

Initial net prime yield: ratio between net income (excl. operating costs) over the purchase price including all acquisition costs.

Prime Yield: net lowest yield obtained for the acquisition of a unit:

- of standard size commensurate with demand in each location.
- of the highest quality and specification.
- in the best location in each market.

Portfolio: group of several assets located in different places.

ASSET TYPES & LOGISTICS

Warehouses: buildings intended for storage, distribution or packaging.

- **Distribution centres**: national or regional used for storage located in the outskirts of cities with good transport connections.
- **Fulfilment centres**: allow additional activities, often automation driven. Typically larger than standard logistics to allow other activities than storage.
- **Cross-dock**: Little storage time. Properties used to unload goods and reassemble / move them directly for outbound distribution.
- **Last mile**: for city distribution. Includes a wide range of warehouses and storage units including older space.
- **Cold storage**: Storage for fresh or frozen products, with thermal insulation and specific equipment as part of the warehouse. Involves higher construction costs.

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.

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.

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