EUROPEAN LOGISTICS MARKET

Q1 2024

RESEARCH, MAY 2024

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LOGISTICS WAREHOUSING MARKET IN EUROPE

LOGISTICS IN A NUTSHELL

MARKET FUNDAMENTALS REMAIN HEALTHY

- Take-up decreased by 25% in Q1 2024 across the leading European countries. The manufacturing sector still feels the effect of weak demand and exports have been slowing down.
- Market fundamentals remain healthy with vacancy rates below 5% in most countries. The lack of new developments remains supportive of rental growth in prime sectors although weaker demand offsets its momentum.

YIELD DECOMPRESSION IS DRAWING TO A CLOSE

- Industrial and logistics investment hit a low point in Q1 2024, decreasing by 4% in Europe as a whole compared to Q1 2023. Yet, the volume of investment rose in a number of individual countries, an encouraging trend for the rest of the year.
- Yield decompression is effectively drawing to a close and stabilisation was recorded in most countries during the first quarter 2024. This should unlock investment activity in 2024.

THE GLOBAL ECONOMIC ACTIVITY STRENGTHENS

- Economic activity in the Eurozone is expected to gradually pick up over the course of 2024, buoyed by improving household purchasing power and falling interest rates.
- Consequently, the upside risk to the European economy lies with domestic demand. Downside risks to growth in the Eurozone are mainly in the industrial sector, where export activity reduced over winter.

INFLATION REMAINS ON A DOWNWARD TREND

- Inflation continues to decline in the euro area, expected to fall temporarily below 2% in the second quarter. On a year-on-year basis, the harmonised index of prices in the euro area fell by 0.2 points to 2.4% in March.
- The consensus expects the ECB to start reducing rates in June, bringing the deposit rate back to 3.75% by the end of the year.

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.

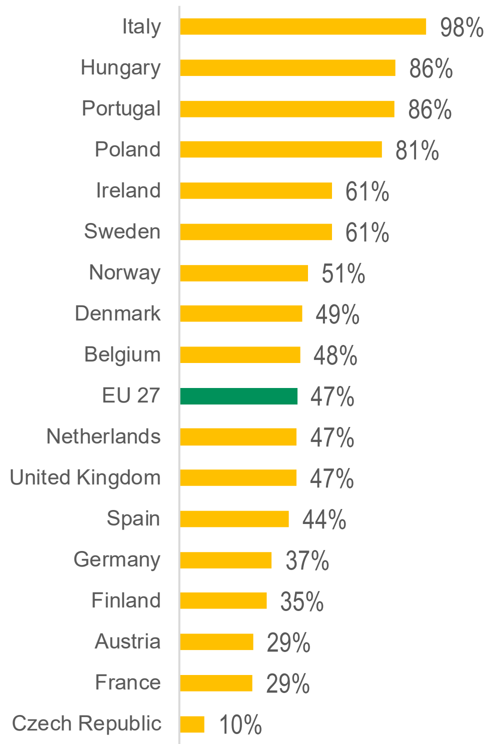
THE CHOICE OF LOCATION REMAINS PARAMOUNT

- 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.

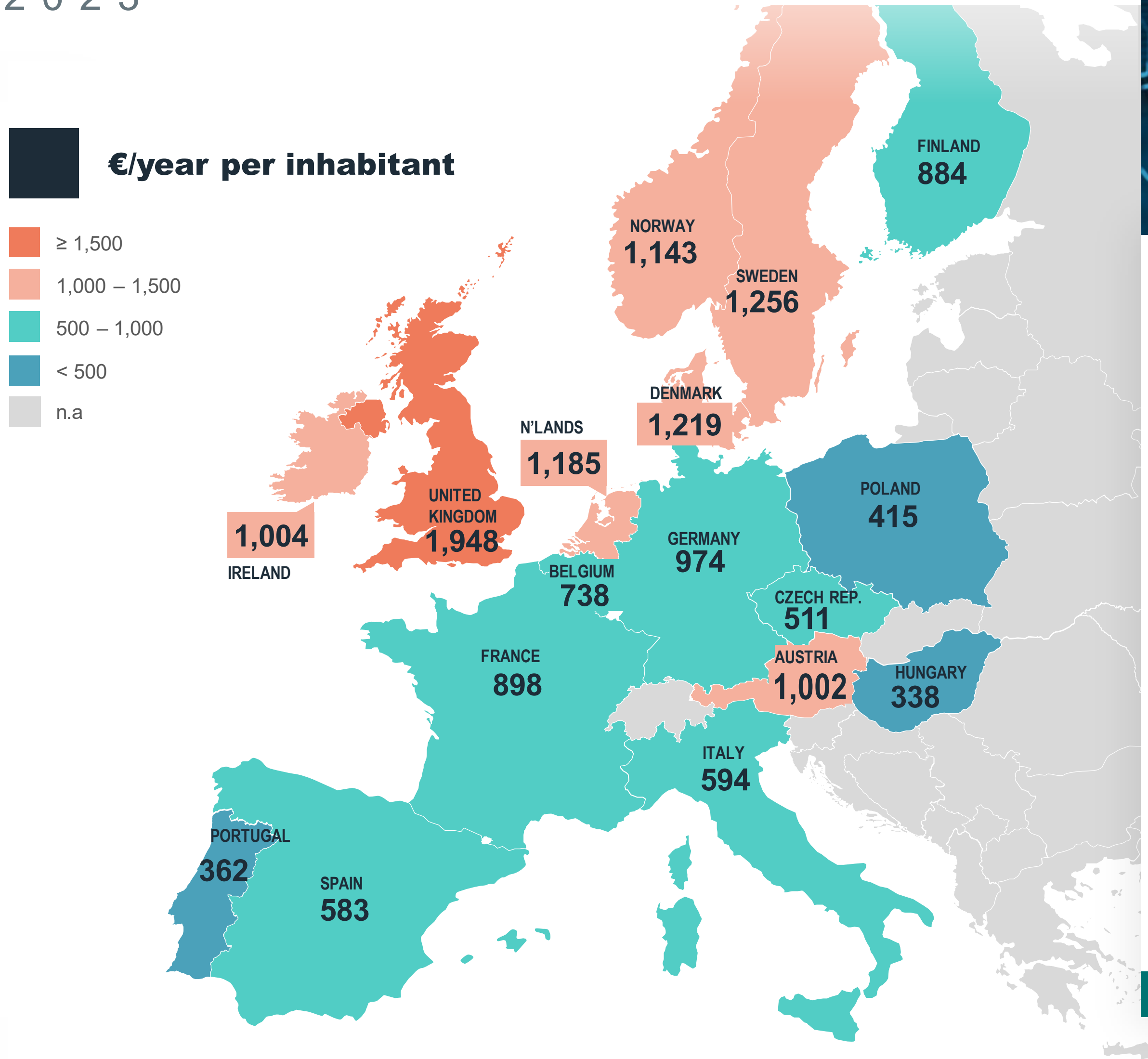
ONLINE SALES OF GOODS PER CAPITA IN 2023

MARKET STEADY IN 2023

Growth of online sales of goods per capita in 5 years (2023 vs 2019)



€/year per inhabitant



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- The volume of online goods sales dropped 5% in 2022 reflecting the crisis in household purchasing power. It remained flat in 2023 (-0.1% vs 2022) but, structurally, online sales still offer strong potential for growth.
- Northern European countries account for the highest sales online per capita and the lowest rates of growth.
- 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.

Source : BNP Paribas Real Estate

LOGISTICS OCCUPIER MARKET IN EUROPE

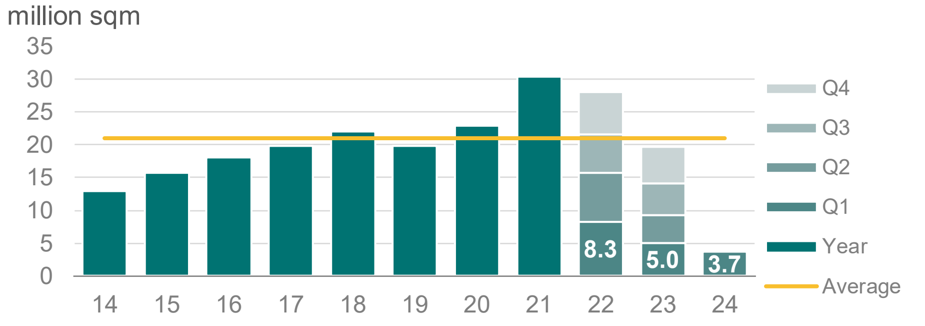
TAKE-UP IN 6 COUNTRIES: -25% (Q1 2024 VS Q1 2023)

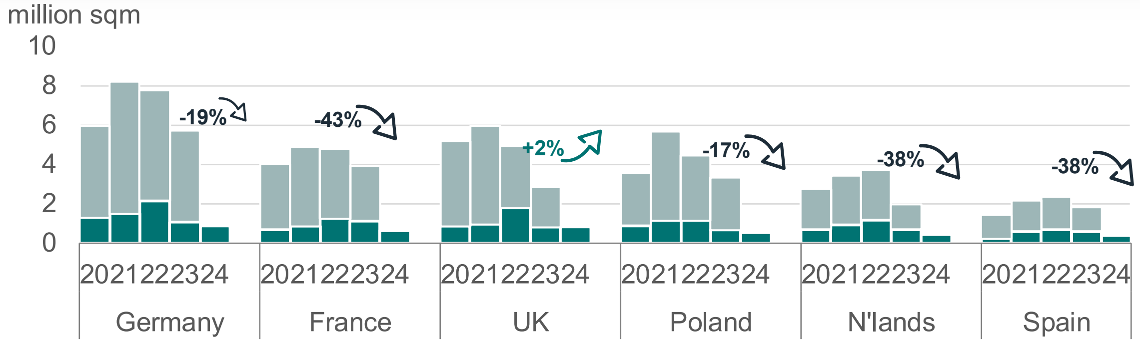
BELOW ITS 5-YEAR AVERAGE, THE MARKET IS SLOWING DOWN

- In Q1 2024, the market decreased by 27% in the leading European markets compared to Q1 2023. Demand has been lagging and most countries recorded a slow start to the year.
- Logistics markets were boosted by e-commerce and food retailers over the past five years. Given the economic uncertainties and slow growth in the main European economies, weaker expansion is occurring here.
- The manufacturing sector still feels the effect of weak domestic demand and exports have been slowing down. Consequently, it is not surprising to see some signs of market slowdown in most countries.
- The risk of oversupply remains limited even though vacancy rates have been increasing in some markets. Overall, these remain low at sub 5% in most European countries.
- The lack of new products and increasing pressure on land availability continue to create an upward trend in rents.

COUNTRY PROFILES IN Q1 2024

- In **Germany** the volume of transactions dropped significantly in Q1 2024. The economic downturn that has persisted for several quarters has become, with some delay, noticeable for the first time. ESG requirements and the scarcity of new products are still putting pressure on rents.
- In the **UK**, the market bottomed out in Q2 2023 before picking up during the second half of the year. Take-up stabilised in Q1 2024 compared to Q1 last year supported by strong demand from the Food & Beverages industry.
- Like most European countries, **Poland** recorded a slow start at the beginning of the year. Prime rents stabilised to €51.6/sqm/yr in Warsaw II and €50.4 in Poznan and Central Poland.
- In **France**, the logistics occupier market remained quite resilient during 2023 in a context of weak economic growth and high inflation. Market slowdown in Q1 2024 is unsurprising as the economy remains slow. Overall, land is becoming scarce, and the lack of supply has become recurrent in some markets. The vacancy rate in France is at 3.3%.
- In the **Netherlands**, following two years of buoyant lettings, the market slowed sharply in 2023 reflecting lower economic activity and the lack of good quality supply. Like most European countries, it experienced a slow start in Q1 2024. Low availability is still putting pressure upward on rents.
- In **Spain**, the market recorded a slowdown in Q1 2024 compared to Q1 2023 but still maintained a good volume of transactions, particularly in Madrid. Unlike most European countries, the Spanish economy has expanded, and GDP growth is forecast to increase by 2.0% in 2024.





Source: BNP Paribas Real Estate Research

LOGISTICS PRIME RENTS

STEADY RENTAL GROWTH IN Q1 2024

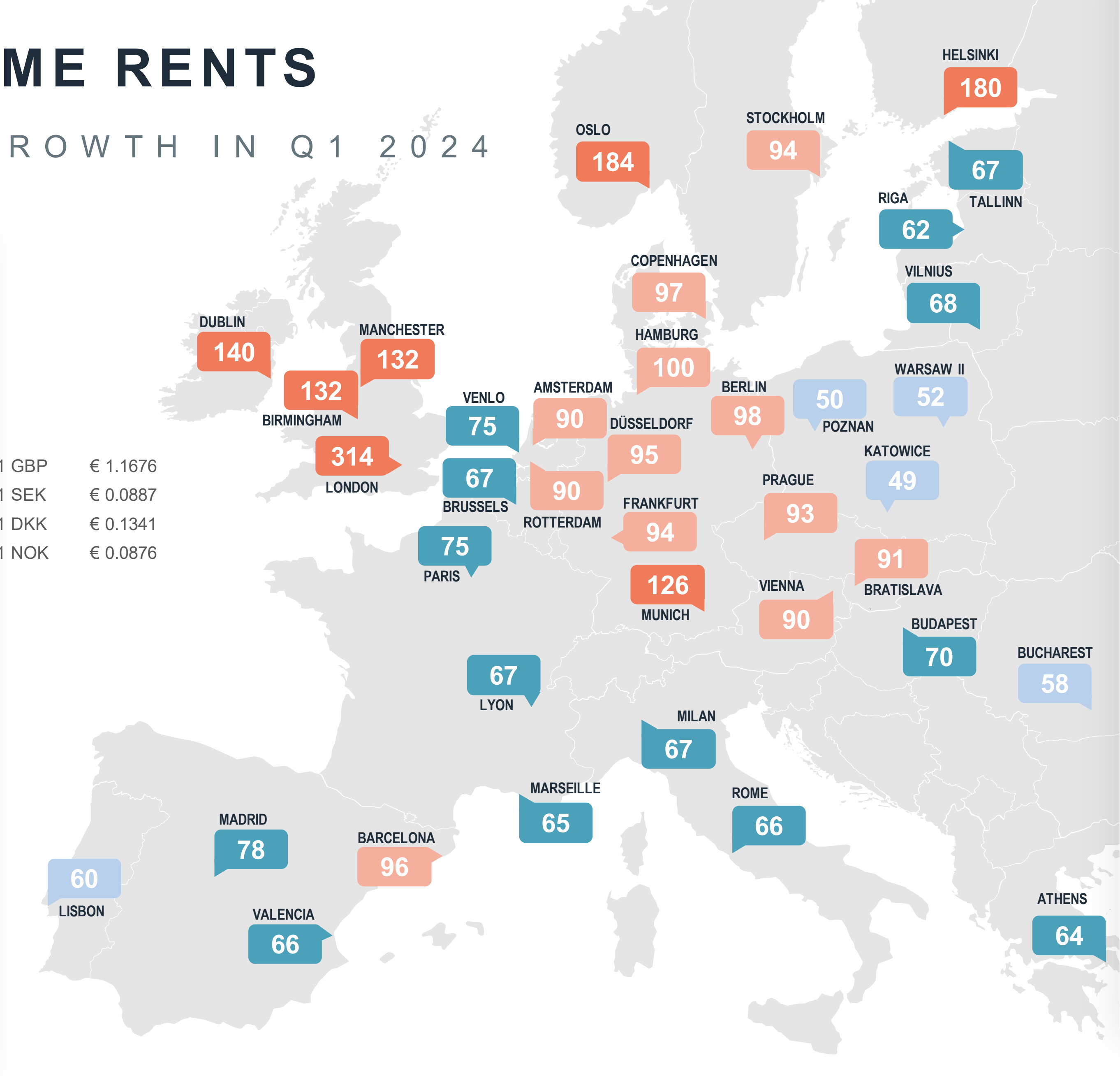
Q1 2024 vs Q1 2023

FRANKFURT	+8%
BERLIN	+5%
LONDON	=
BIRMINGHAM	+11%
PARIS	+19%
VENLO	+11%
MADRID	+4%
BARCELONA	=
WARSAW II	+2%
PRAGUE	-9%
MILAN	+6%
STOCKHOLM	+6%
OSLO	+17%

Rents in €/sqm/yr

- ≥ €100
- €80-100
- €60-80
- ≤ €60

1 GBP	€ 1.1676
1 SEK	€ 0.0887
1 DKK	€ 0.1341
1 NOK	€ 0.0876

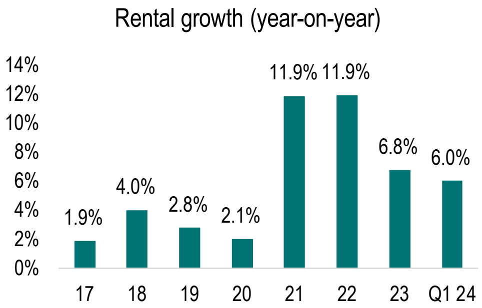


EUROPE Q1 2024

+6.0% vs Q1 2023

49 markets, 22 countries

Rental growth (year-on-year)



Source : BNP Paribas Real Estate

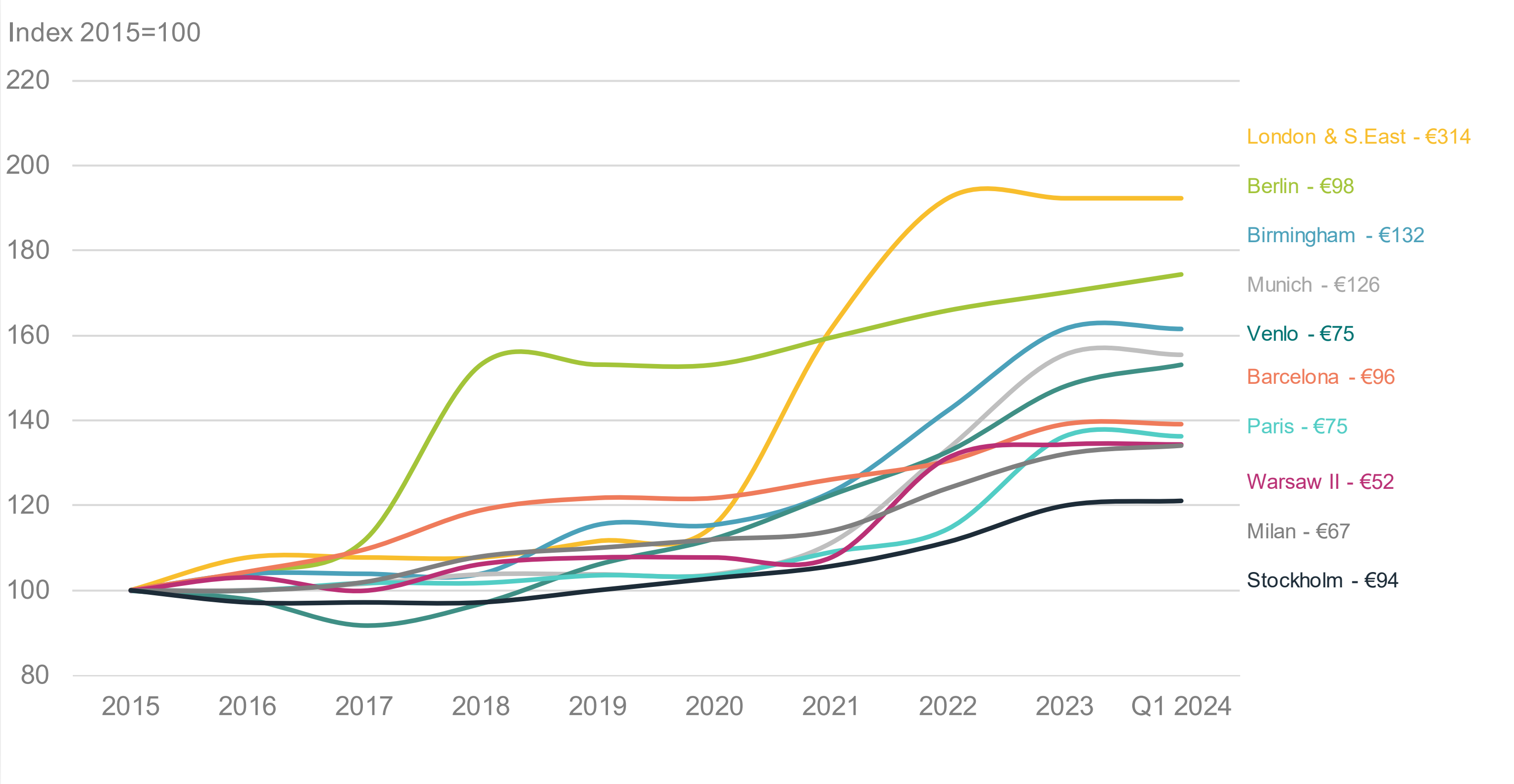
LOGISTICS PRIME RENTS

RENTAL GROWTH IS SLOWING DOWN

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

- Prime rents rose by 6.0% (y-o-y) in Q1 2024 in a panel of 49 markets covering 22 countries.
- The vacancy rate remains low in most markets but demand is slowing down. This is still pushing rents upwards but at a slower rate.
- Some cities continue to see rents expand but overall, the market slowdown in Q1 2024 resulted in limited rental growth during the last quarter.
- The strong rental growth recorded in the UK, particularly in London, over 2022 is slowing down.
- Inflation, rising construction costs as well as the shortage of land are still 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.

Distribution warehouses above 5,000 SQM



INDUSTRIAL LOGISTICS INVESTMENT MARKET IN EUROPE

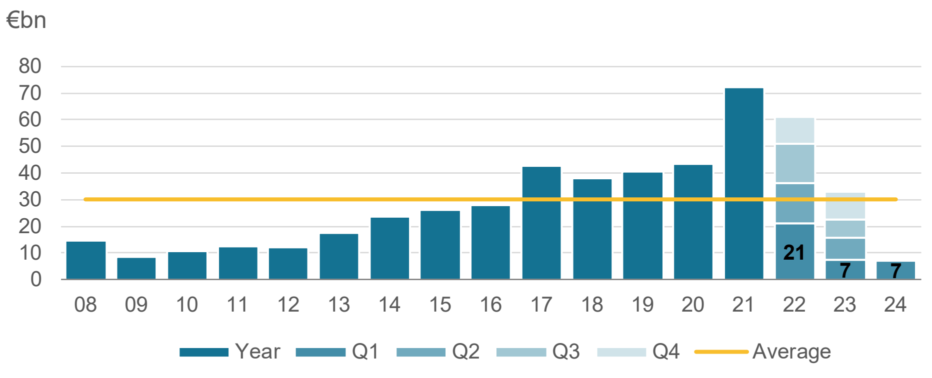
SOME SIGNS OF IMPROVEMENT IN Q1 2024

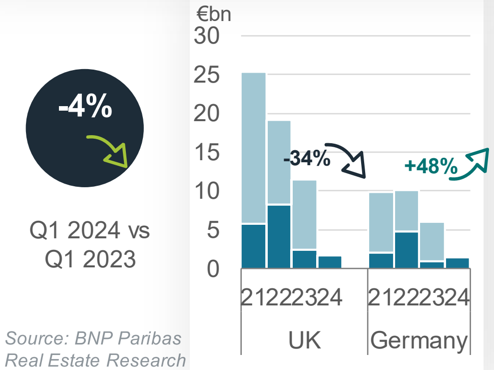
STRONG REPRICING SHOULD HELP TO UNLOCK THE MARKET IN 2024

- After 5 years of outstanding investment volumes, the Industrial & logistics investment market hit its lowest point in 2023. It is expected to pick up gradually throughout 2024.
- Industrial and logistics remains a good performing sector supported by strong fundamentals including low vacancy rates and the prospect of rental growth across Europe.
- Industrial and logistics is maintaining a strong market share against other assets. Investment shifted from 16% in 2017 to 24% of total commercial real estate in Q1 2024.
- Inflationary pressure and subsequent rising long-term government bond yields that had led to logistics prime yield expansion over the past two years are progressively being lifted.
- Logistics yield decompression is effectively drawing to a close in most countries and stabilisation is expected in the next few quarters.
- 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 2024.

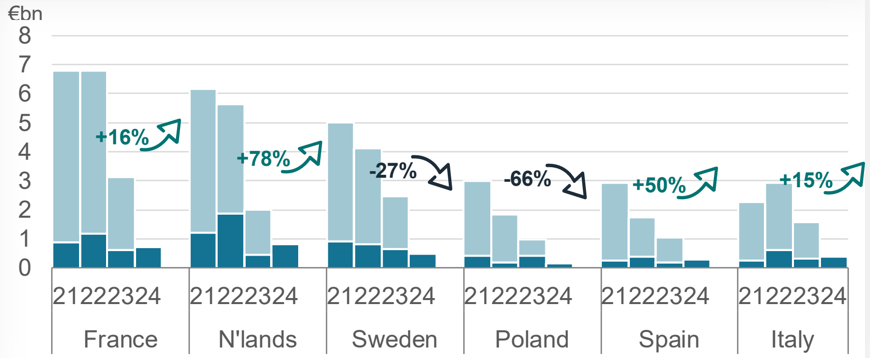
COUNTRY PROFILES IN Q1 2024

- The **UK** industrial and logistics investment market started 2024 at a slow pace, challenged by increased scarcity of stock and economic uncertainties. Net prime yields stabilised to 4.5% in London and 5% in Birmingham and Manchester. Prime yields are now holding firm, which should help to unlock investment and initiate the beginning of a recovery in investment activity this year.
- In **Germany**, the pricing adjustment process with the changed interest rate environment is nearly complete and demand is strengthening. Prime yields stabilized in the first quarter at 4.25% in the main logistics locations.
- In **France**, Industrial and logistics has been resisting market decline well compared to retail and offices. Logistics prime yields remained stable at 4.75% in Q1 2024. It appears that repricing is almost complete.
- In the **Netherlands**, the investment market in industrial and logistics increased significantly in Q1 2024. Prime yield corrections were amongst the earliest and the highest in Europe. Therefore, it is not surprising that the Netherlands is one of the first European countries where decompression may have ceased. The logistics prime yield stabilised at 4.9% in Q1 2024.
- In **Poland**, Industrial and logistics remains the country's strongest performing market sector despite a significant slowdown in Q1 2024 compared to Q1 last year. Yields stabilised to 6%.
- In **Spain**, the volume of investment in industrial and logistics increased significantly in Q1 2024 compared to the same period last year. Like the main European markets, prime yields stabilised at 5.25% in Q1. Repricing is expected to boost the market again in the next quarters.





Source: BNP Paribas Real Estate Research



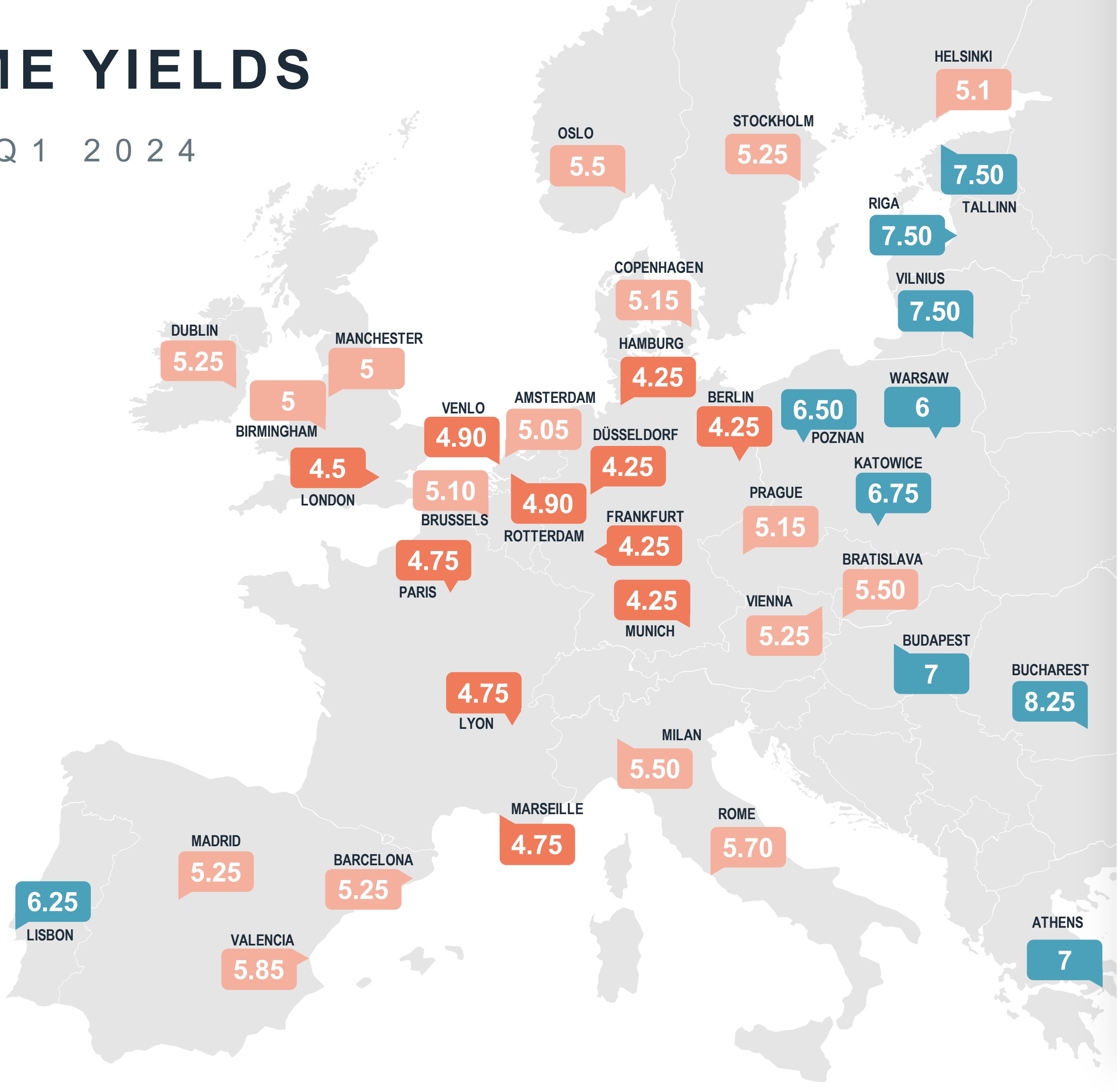
LOGISTICS PRIME YIELDS

STABILISATION IN Q1 2024

Q1 2024 vs Q1 2023

GERMANY	+40bp
UK	-10bp
FRANCE	+115bp
NETHERLANDS	+40bp
SPAIN	+40bp
ITALY	+110bp
POLAND	+100bp
CZECH REP.	+45bp
SWEDEN	+75bp
NORWAY	+100bp
AUSTRIA	+75bp
BELGIUM	+60bp
IRELAND	+50bp

< 5% 5-6% ≥ 6%



EUROPE – Q1 2024

+40 bps vs Q1 2023

48 markets, 23 countries

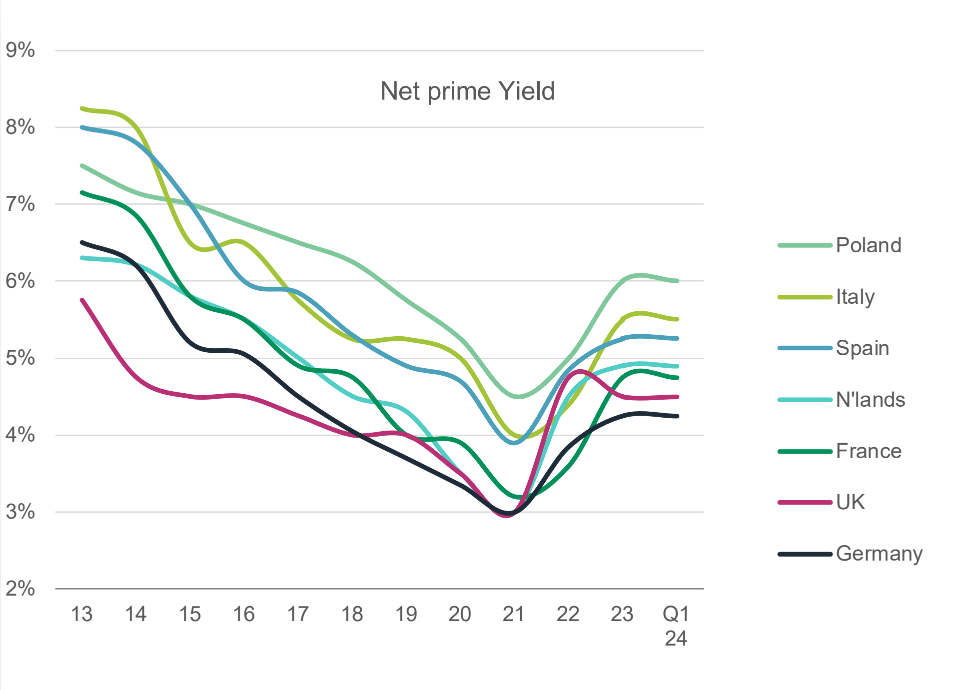
+130 bps
Since Q1 2022

+2 bps
Last quarter

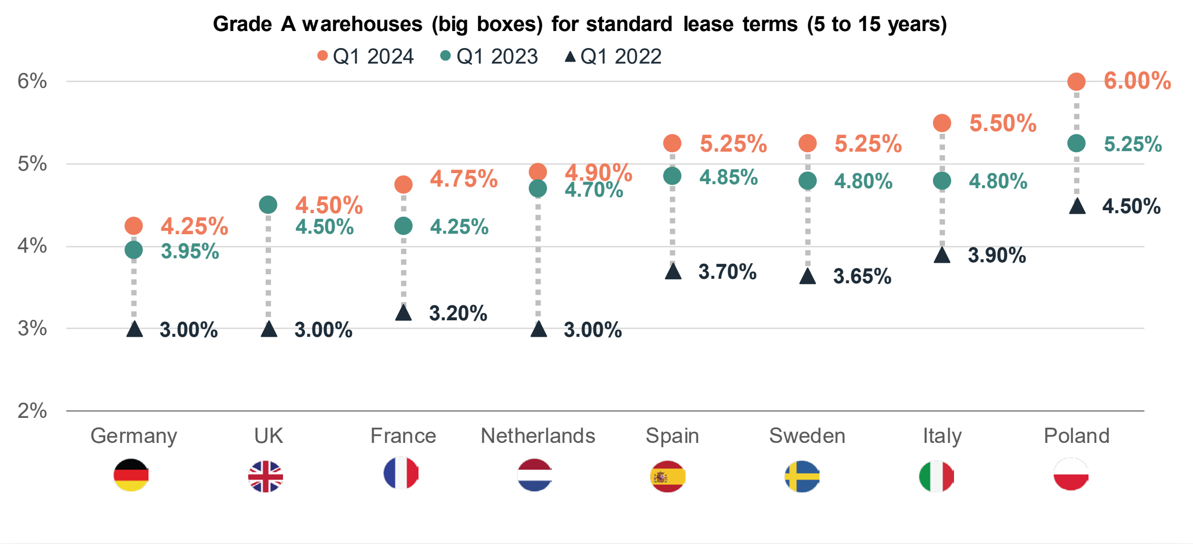
Source : BNP Paribas Real Estate

NET PRIME YIELDS IN EUROPE

STABILISATION IN Q1 2024



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



Logistics prime yields have stabilised in Europe for the first time in 2 years

- Prime yields rose by 2 bps during Q1 2024 in Europe (+2 bps over the past quarter).
- Inflationary pressure and subsequent rising long-term government bond yields that had led to logistics prime yield expansion over the past two years are progressively being lifted.
- Logistics prime yields may stabilise throughout Europe by H2. This reflects the anticipated downward changes in interest rate policy over the second half of 2024.

Sources: S&P, BNP Paribas Economic Research

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