RESEARCH

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AUGUST 2024

EUROPEAN LOGISTICS MARKET

LOW MOMENTUM IN TAKE-UP YET SOME SIGNS OF IMPROVEMENT IN CAPITAL MARKETS

TAKE-UP

-5%

LOGISTICS TAKE-UP FOR WAREHOUSES OVER 5,000 SQM

(H1 2024 vs H1 2023)

Below its 5-year average, the market is sluggish. Occupier concern about cost control in a still weak economy inhibits expansion.

Market fundamentals remain healthy despite rising supply in some countries. The lack of new developments remains supportive of rental growth in prime sectors although weaker demand offsets its momentum.

- **Take-up decreased by 5%** in H1 2024 to reach just 8.8 million sqm in the 6 leading European countries.
- **GDP growth started to pick up in the Euro area** at the beginning of the year from +0.5% in 2023 to +0.8 % forecast in 2024.
- **Prime rents rose by 5.2% in the last 12 months** in a panel of 48 markets in 21 countries, but overall, the market slowdown resulted in slower rental growth over the past 6 months.
- **The vacancy rate in Europe rose to 5.9%** in H1 2024. The lack of new developments still contribute to rental growth in prime sectors.

INVESTMENT

+6%

INDUSTRIAL & LOGISTICS INVESTMENT IN EUROPE

Strong repricing helped the market to find its way back to moderate growth in some markets.

Yield decompression is effectively drawing to a close and stabilization was recorded in most countries over the past two quarters.

- **Industrial and logistics investment increased by 6%** in Europe during H1 2024 to reach €16bn at mid-year.
- **Prime yields rose by 2 bps during Q2 2024** in Europe and by 4 bps over the past 6 months.
- **Logistics prime yields are expected to stabilize throughout Europe by H2**. This reflects the anticipated downward changes in interest rate policy over the second half of 2024.

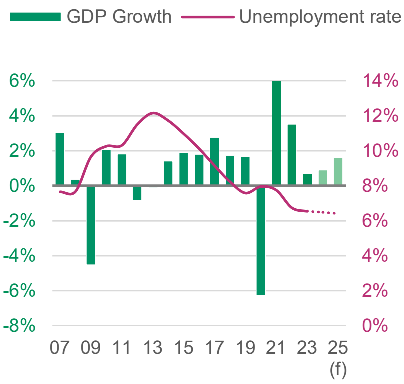
Vincent Robion
Head of Research - Logistics Europe

ECONOMIC RECOVERY UNDERWAY

+0.8%

GDP GROWTH
EURO AREA – 2024

GDP and Employment growth in the Eurozone



European economies returned to growth in the first half of 2024 after stagnating in 2023. The increase in economic activity has been in part driven by declines in inflation, which have boosted household purchasing power and consumer confidence. However, households remain cautious and are increasing their savings at the expense of big-ticket purchases. **Alongside high interest rates and heightened geopolitical uncertainty, this has weighed on demand for goods and therefore activity in the manufacturing sector.**

The relative strengths and weaknesses in the services and goods sectors have been reflected in the economic growth rates of Europe's largest economies. For example, Spain has seen the fastest growth since the start of the year, as record tourism levels have driven expansion in the services sector. By contrast, a weak manufacturing performance has weighed heavily on economic growth in Germany, where the recovery to date has been less convincing.

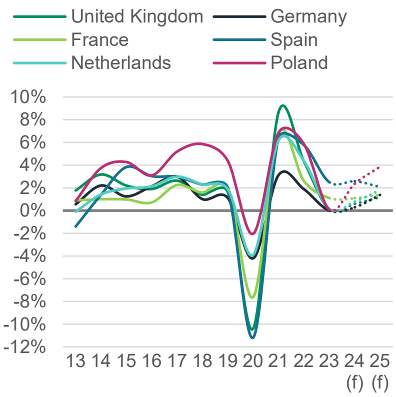
We expect economies to recover over the next couple of years, driven by a combination of factors supportive to economic growth, including real wage gains, reduced savings and economic uncertainty boosting consumer spending over the next year, and various economic stimulus. Overall, we expect the eurozone economy to grow by 0.8% y/y in 2024 and 1.6% y/y in 2025. At the country level , we expect Spain (2.8% and 2.1%) to see the swiftest growth this year and next, supported by a strong labour market and investment fuelled by Next Generation EU funds. We expect Italy (1.0% and 1.4%), France (1.3% and 1.4%) and the UK (1.0% and 1.3%) to underperform Spain, but still recover steadily over the next couple of years. Meanwhile, Germany's (0.1% and 1.3%) industrial sector now faces stronger headwinds than in the past, which is likely to slow its recovery.

Labour market conditions have loosened considerably over the past couple of years which has shifted wage bargaining power away from workers. This has started feeding through to slower wage growth, albeit gradually. Alongside measures of labour market tightness, various forward-looking indicators such as inflation expectations and PMI services output prices also point to slower wage growth in the coming quarters. Therefore, as the pass-through from wage pressures cools, we expect services and headline inflation to trend downwards in 2025.

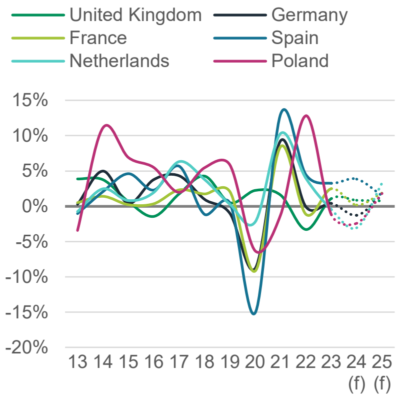
The fall in inflation bodes well for retail sales in Europe which has started to increase again across the continent. For 2023 it was highest in Spain (+2.5%) the only country with positive growth in retail sales, supported by a strong tourism. For the rest of the countries the rate of fall has improved significantly in the United Kingdom (-1.6%), Germany (-1.9%), Netherlands (-1.6%) France (-1.9%) and Poland (-0.6%), even if growth remains negative. Over the next few years, we expect growth to turn positive in most countries as the high level of inflation subsides and interest rate comes down boosting consumer spending.

Pulling all this together, the near-term outlook, remains uncertain, but the general mood is one of optimism with expectation for positive growth, lower interest rates and robust labour market.

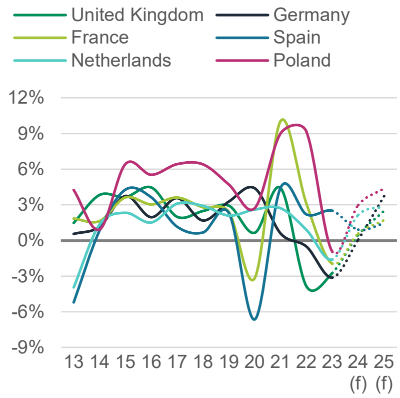
GDP growth
(year-on-year change)



Manufacturing Output
(year-on-year change)



Retail Sales
(year-on-year change)



Source: Oxford Economics, BNP Paribas

BELOW ITS 10-YEAR AVERAGE, THE MARKET IS SLUGGISH

-5%
TAKE-UP
(H1 2024 vs H1 2023)

± 5.9%
VACANCY RATE
(Q2 2024)

Letting markets have generally held up well despite weak economic growth. In H1 2024, the market decreased by 5% versus H1 2023. Demand has been lagging and most countries recorded a slow start to the year. In 2024, economic growth is expected to remain positive, but the occupier market will struggle to reach their 10-year average levels.

New Supply remains constrained by land scarcity. The latter is occurring because the allocation of land is increasingly regulated in most European countries.

Vacancy rates have risen over the past 12 months to a European average of 5.9% as a result of moderate demand. Vacancy rates remain generally low between 2% and 8% depending on the market.

Rents continue to increase in Europe but at a slower rate, by around 5.2% over the past 12 months. For more than 10 years, rents were very stable. The sharp increase in recent years reflects growth acceleration in the logistics industry, in addition to increased construction costs and rising price of land.

In Q2 2024 rents stabilized. The drop in demand has been easing the tension created by structurally low supply.

In **Germany**, after a cautious start to the year, the market picked up in Q2 2024, particularly outside the main logistics hubs. The weak economy continues to have a slowing effect on demand. The lack of available space remains a limiting factor in some markets, which in turn has been supporting rental growth.

In the **UK**, the market bottomed out in Q2 2023 and has been picking up since then. Take-up increased in H1 2024 supported by strong demand from the Food & Beverages industry and continued logistics demand in the Midlands in particular. Supply is stabilizing after ticking up for two years. There is still a lack of speculatively developed new units.

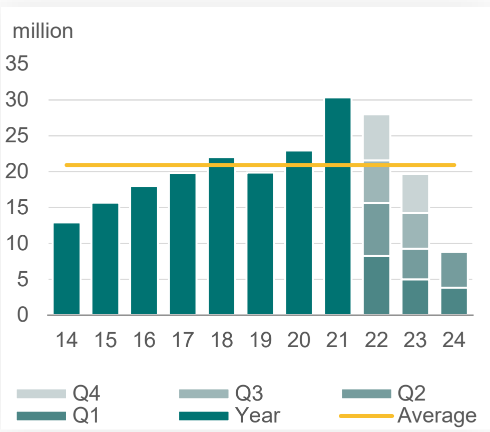
In **France**, market slowdown in H1 2024 has been unsurprising as the economy remained slow. Demand dropped significantly in Greater Paris, Marseille and Lyon with well below average levels of transactions. Lille and Orléans on the other hand concentrated nearly half of France's transaction volume during the half of the year. Overall, land is becoming scarce, and the lack of supply has become recurrent in some markets. The vacancy rate in France reached 4.1% at mid-year.

The **Netherlands**, like most European countries, is recording a slow start in H1 2024. High land prices and development costs are inhibiting new developments. Low availability is still putting pressure upward on rents.

In **Spain**, after a slow start to the year, the Spanish market bounced back in Q2 2024 maintaining a good volume of transactions, particularly in Madrid and Valencia. Vacancy rates eased just 5.4% in Barcelona and at 8% in Madrid, whilst supply remained tight in Valencia. Prime rents stabilized in Barcelona and Valencia but increased in Madrid during Q2 2024.

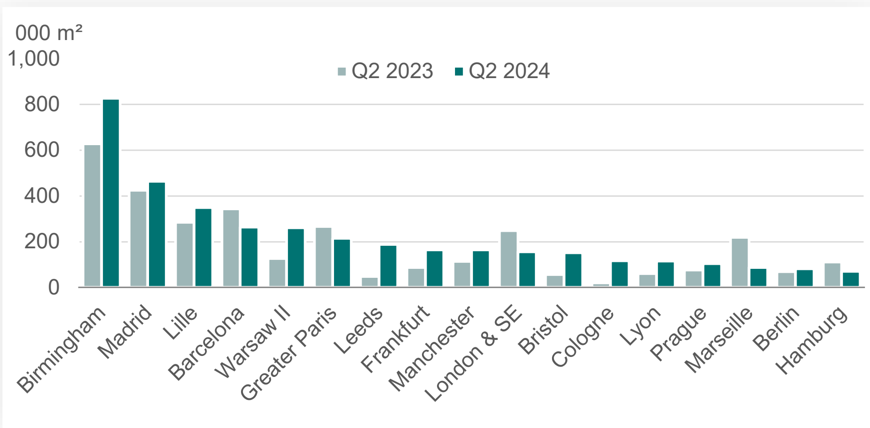
In **Poland**, the occupier market picked up in Q2 2024 after a slow start in Q1. The vacancy rate remained at around 8% and prime rents stabilized. A noticeable trend is the sharp decrease in the share of new construction projects launched on a speculative basis.

Take-up - 6 countries*



(*France, Germany, Netherlands, Poland, Spain, UK)

Take-up - Warehouses over 5,000 sqm



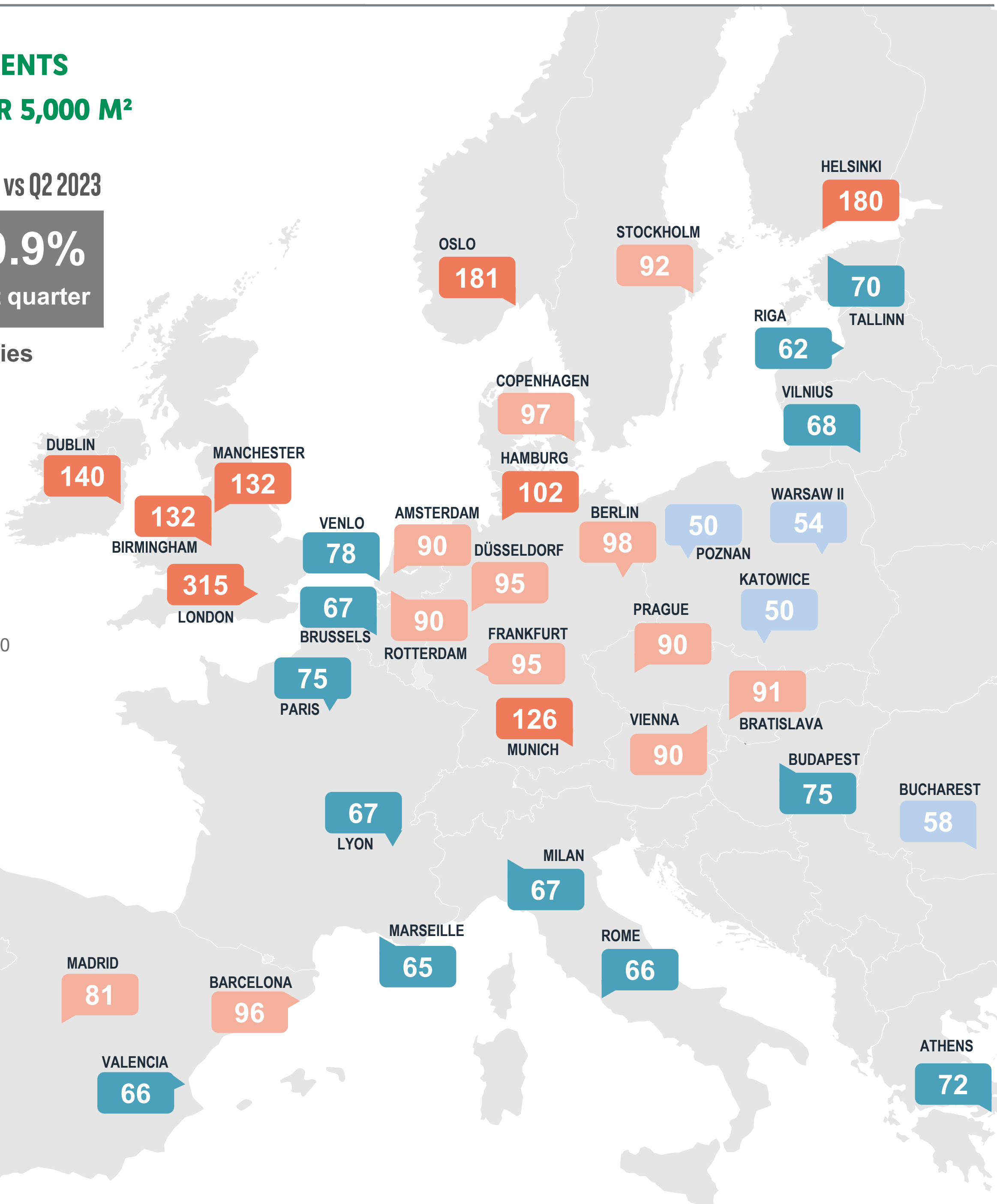
Source : BNP Paribas Real Estate Research

PRIME HEADLINE RENTS
WAREHOUSES OVER 5,000 M²

European average, Q2 2024 vs Q2 2023

+5.2%	+0.9%
vs Q2 2023	Last quarter

48 markets, 23 countries

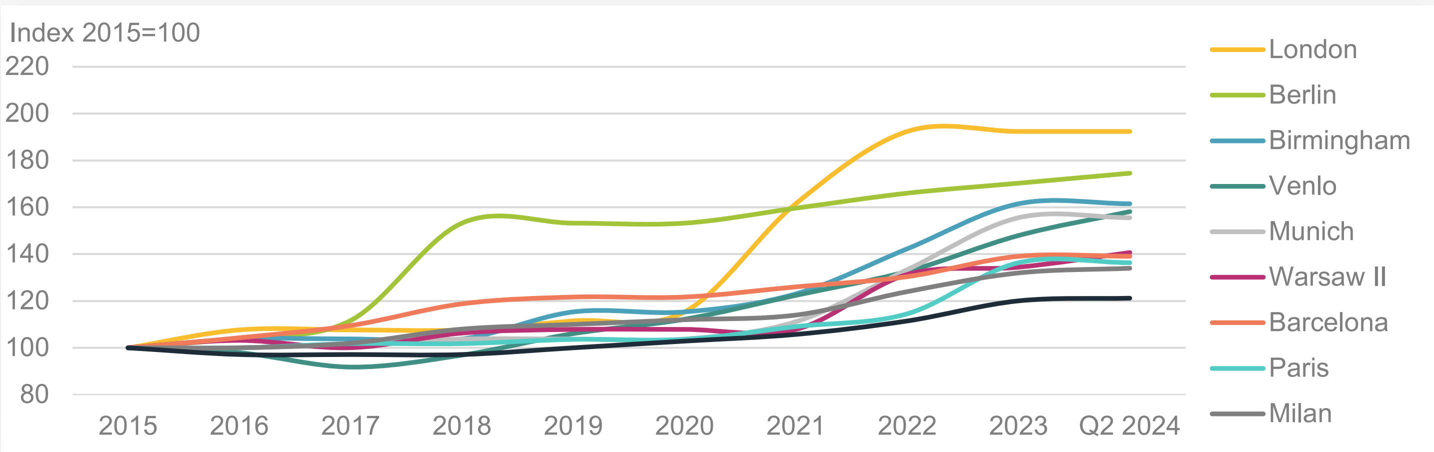


Rents in €/sqm/yr

- ≥ €100
- €80-100
- €60-80
- ≤ €60

1 GBP	€ 1.1722
1 SEK	€ 0.0869
1 DKK	€ 0.1341
1 NOK	€ 0.0864

Prime headline rents



Source : BNP Paribas Real Estate Research

SOME SIGNS OF IMPROVEMENT

+6%

Investment volume (H1 2024 vs H1 2023)

24%

Share of Logistics in Commercial Real Estate

Industrial & logistics investment hit its lowest point in 2023 and is expected to pick up gradually throughout the rest of 2024. This reflects an improvement in financial conditions. The expected drop in central bank key rates in H2 2024 should boost jumbo deals and encourage the return of pan-European portfolios.

Deals may take longer to conclude but demand is starting to knock on the door of some markets: France, Sweden, Germany and the Netherlands.

American investors showed a strong interest in the European market particularly in Germany.

logistics yield rates have stabilized in Europe, on average by 2 bps during the last quarter (+130 bps in the last 2 years). To date, the high point seems to have been reached almost everywhere. However, some further adjustments are expected in certain markets for 2024.

In the **United Kindgom**, the industrial and logistics investment market started 2024 at a slow pace, challenged by increased scarcity of new best-in-class stock and economic uncertainties. The Net prime yields stabilized at 4.5% and is now holding firm, which should help unlock investment activity and initiate the beginning of a recovery.

In **Germany**, the market increased significantly in H1 2024. The pricing adjustment process with the changed interest rate environment is complete in Germany and demand is strengthening. Prime yields remained stable at 4.25% in the main logistics locations.

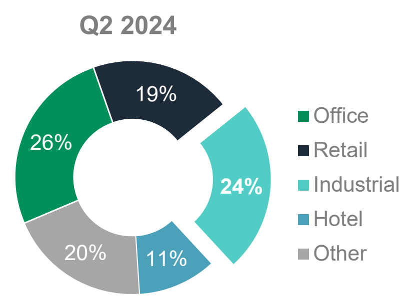
In **France**, Industrial and logistics resisted market decline well compared to retail and offices. The volume of investment increased significantly in H1 2024. Logistics prime yields remained stable at 4.75% in Q2 2024.

In the **Netherlands** the market increased steadily in H1 2024, the capital market seemed to ease with more availabilities for core products. The logistics prime yield remained stable at 4.9% in Q2 2024.

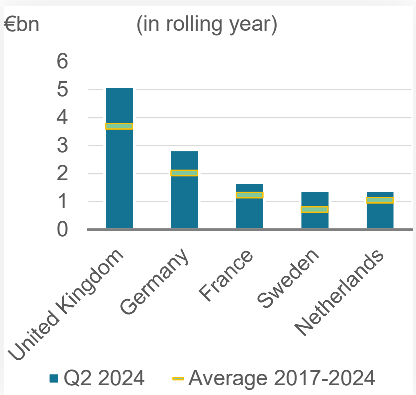
In **Spain**, the volume of investment in industrial and logistics remains robust just below its 10-year average. Like the main European markets, prime yields stabilized at 5.25% in H1.

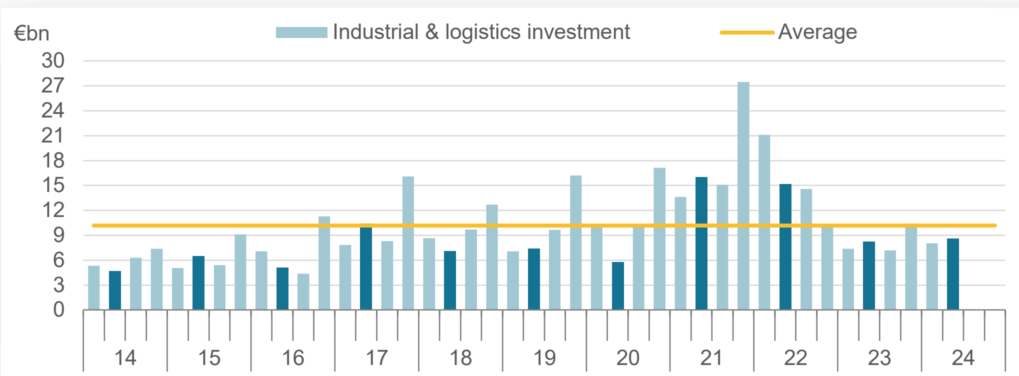
In **Poland**, Investment volumes improved over Q2 reflecting better sentiment in the market. Q2 will probably be seen by end 2024 as a market turning point. The prime yield stabilized at 6% in Q1 2024.

Investment volume in Europe



Industrial & logistics investment





*Industrial premises and warehouses

Source : BNP Paribas Real Estate Research

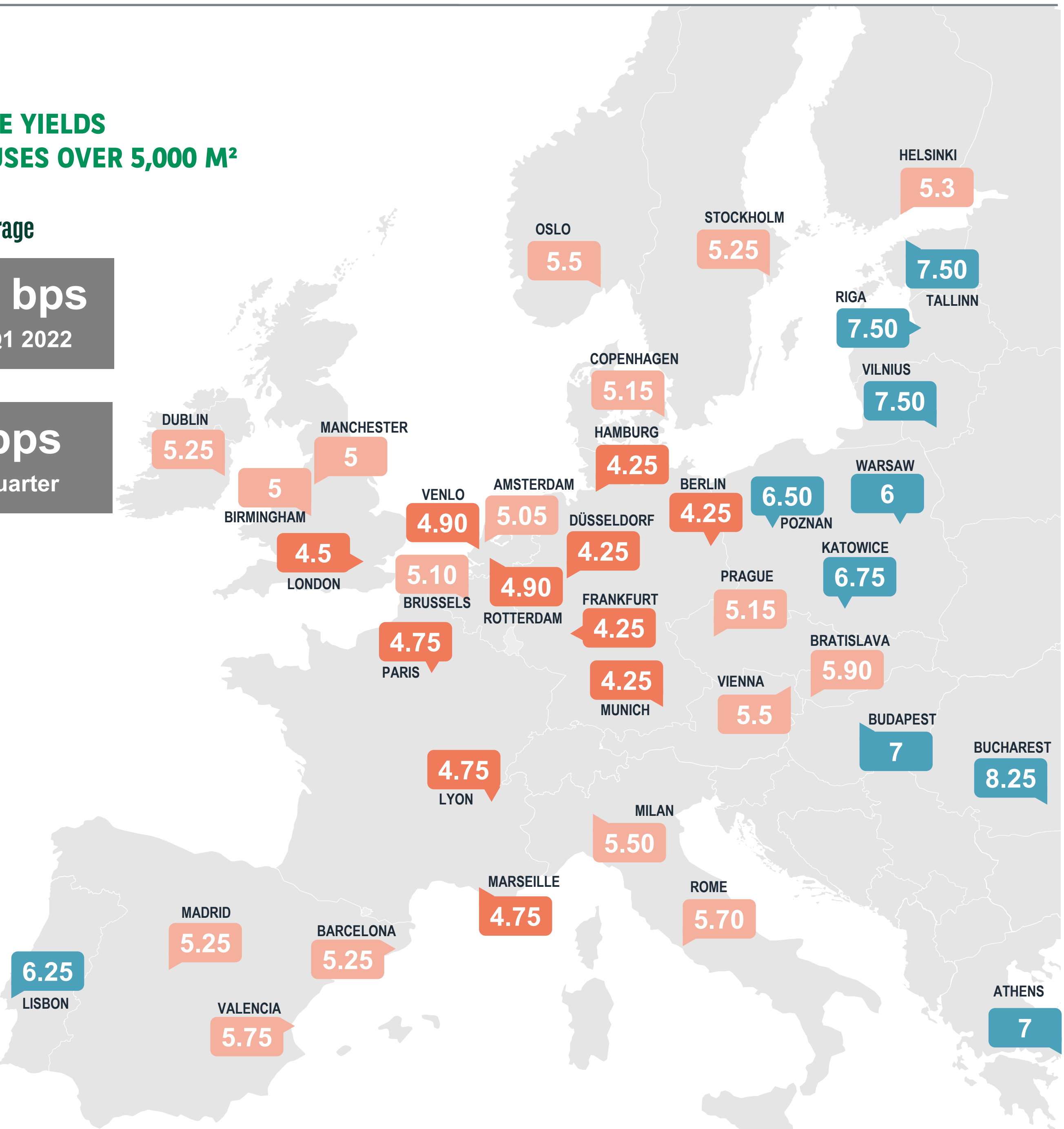
NET PRIME YIELDS
WAREHOUSES OVER 5,000 M²

European average

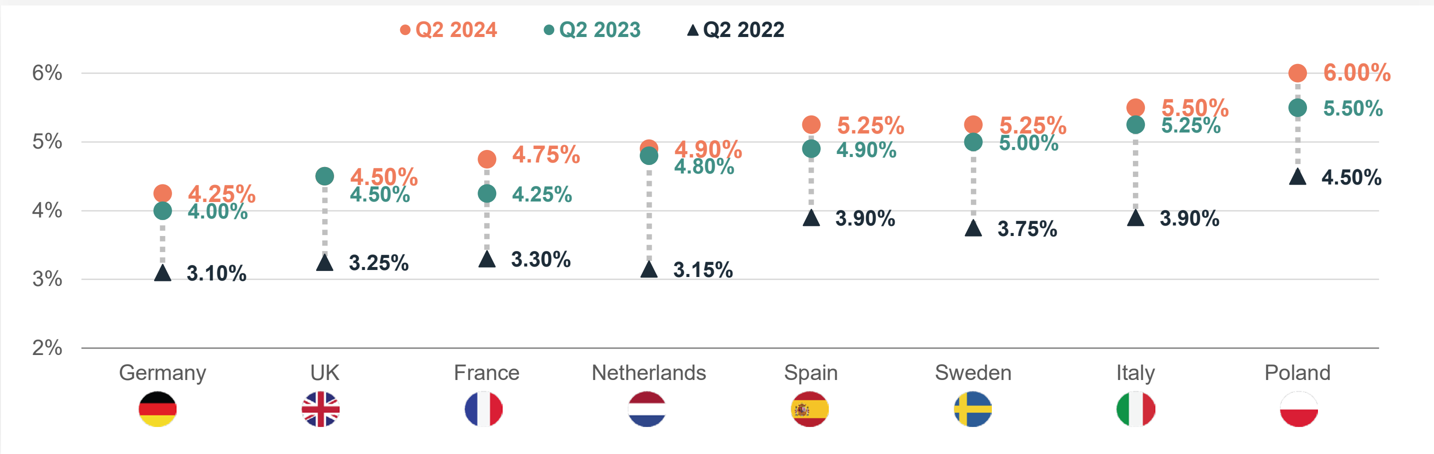
+125 bps
Since Q1 2022

+2 bps
Last quarter

- < 5%
- 5-6%
- ≥ 6%



Net prime yields - Grade A warehouses (big boxes) for standard lease terms (5 to 15 years)



Source : BNP Paribas Real Estate Research

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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Real Estate for a changing world

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(January 2024)

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