DTZ Research

Property Times
European Logistics
Exports drive recovery

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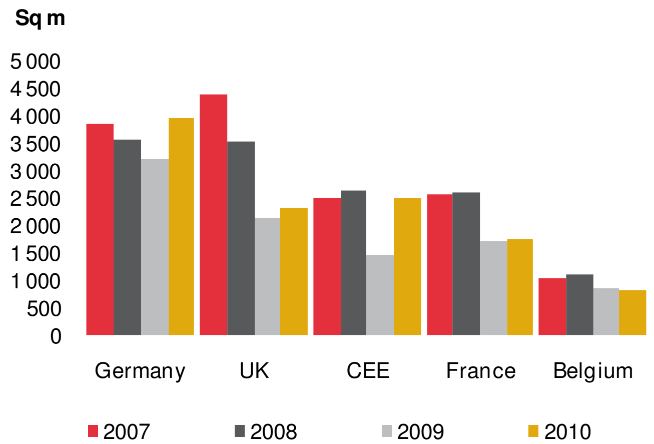
- The European logistics market has benefitted from a more favourable economic environment. Although the recovery has not been at the same pace across the region, Germany currently leads the pack. The second most significant GDP increases are forecast in the CEE and Nordic region.
- Even though uncertainty remains over the speed of the European recovery and the sustainability of growth in consumer spending, it seems the worst is now behind us. Take-up for 2010 increased by an average of 20% in four of the five top markets (UK, Germany, France and CEE), with Belgium as the exception, where the take up remained stable (Figure 1).
- European logistics represents the sector with the highest Fair Value Index score at 54, meaning that more markets are priced at or above Fair Value than below.
- Investment volumes began to recover as €7.6 billion transacted during the year, a 27% increase on 2009. However, the share of logistics transaction volumes among all asset classes remains low.
- Speculative development dried up in 2010 as occupational demand focused on built-to-suit schemes. Vacancy rates are still high across Europe, close to 20% in some countries. There is still a large supply of poor quality buildings available, maintaining downward pressure on rents.
- Prime rents should stabilise in 2011, before a small increase in 2012 in core markets. However, prime logistics rental growth is forecast to remain below the long term trend over the forecast period with an annualised average of 1% between 2011 and 2015.

Figure 1

Take-up in selected countries in Europe (000's sq m)



Source: DTZ Research

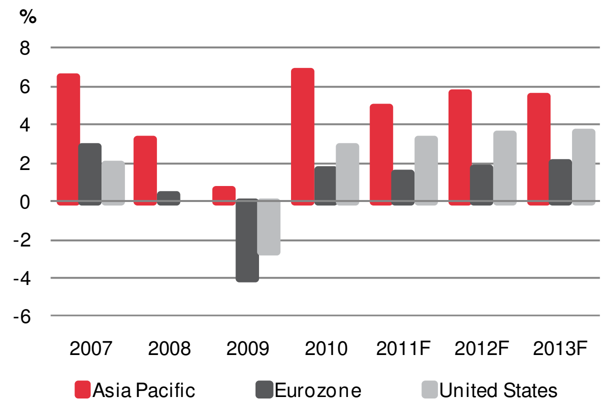
Economic overview

The European logistics market has benefitted from an improvement in the wider European economy, even if the recovery has become somewhat two-paced. Re-stocking and a recovery in manufacturing have played a crucial role in driving occupier demand.

- As the worst impacts of the financial storm begin to subside, fiscal and monetary policy responses to the crisis are driving the pattern of recovery across Europe. Although European aggregated GDP numbers demonstrate growth in 2010 with 1.7%, it is well behind the US with 2.9% and Asia Pacific with 6.8% (Figure 2).
- European aggregate recovery is dominated in the largest part by monetary policy. Low interest rates throughout the Euro region have split performance between strong and weak. The main side effect of low interest rates is a low exchange rate. This Europe wide low exchange rate has boosted performance in Europe's big manufacturers. Germany in particular has benefitted from this as restocking begins around the globe along with investment in capital goods. The German export driven economy is benefitting from low interest rates as other Eurozone member states continue to struggle, despite the stimulus of low base rates.
- German GDP bounced back in 2010 and posted 3.5% growth in 2010 as global demand for German goods grew and exchange rate movements increased their competitiveness. Although the German 2010 recovery was strong, this followed significant falls in 2009. However, forecasts for 2011 have German growth slipping back from the forefront as the Nordics and CEE markets take over as the strongest growing markets of Europe (Figure 3).
- The driving force continues to be exchange rates. Neither the Nordics nor the CEE's are part of the Eurozone, enabling control over monetary policy and hence, exchange rates. Neither region has particularly high levels of national debt requiring austerity measures or large issues of government debt.
- Differing patterns of activity are clearly demonstrated in Figure 4. The developed economies saw the largest fall, along with the smallest bounce-back, while the developing and CIS economies saw the smallest downturn and the largest bounce-back.

Figure 2

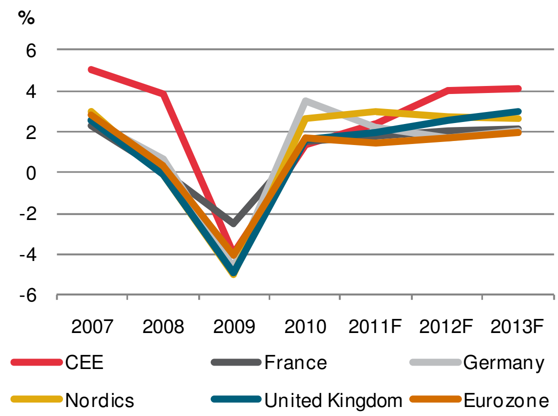
GDP growth 2007-2010 and forecasts 2011-2013



Source: Oxford Economics

Figure 3

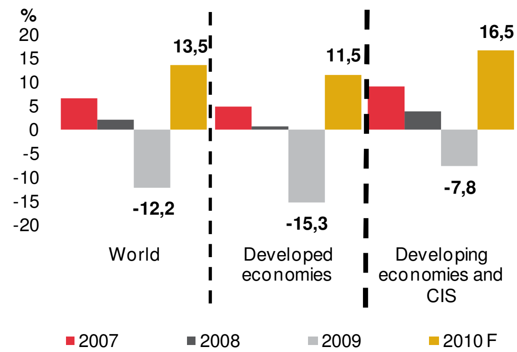
GDP growth and growth forecasts in selected European countries



Source: Oxford Economics

Figure 4

Merchandise exports by region, 2007-2010



Source: WTO

Economic overview

- Although manufacturing has captured all the headlines as the main driver of the current recovery, consumer spending also displayed the first signs of a recovery in 2010. Retail sector performance dominates the distribution sector as this area provides the largest translation of activity from demand to take-up (Figure 5).

- Some markets, particularly the less indebted, witnessed a strong consumer spending recovery in 2010. This is one area that is expected to fully expose the difference between European markets as the recovery progresses.

- High levels of national debt combined with poor economic performance are anticipated to act as a drag on many European retail markets. Many of the southern European markets are facing a difficult period as government spending is cut through public sector job losses and pay cuts. This is anticipated to have a significant impact on the retail sector as consumer spending is forecast to bear the brunt of austerity measures.

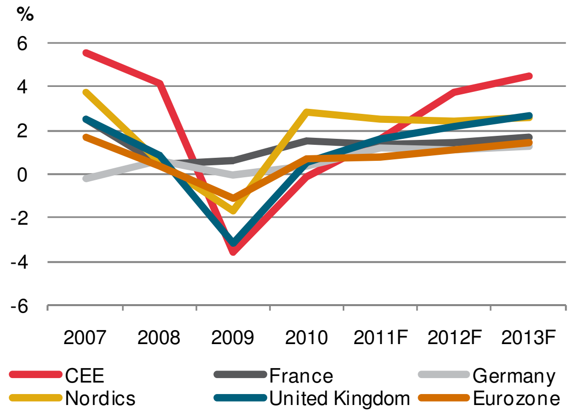
- Unsurprisingly, recovery and long term performance of consumer spending is strongest in Germany, the Nordics and CEE economies. All of these markets have recovered well due to three main reasons: they have been subject to favourable exchange rates, they have limited public debt and they are not anticipated to be making any significant spending cuts (Figure 7).

- One area that is becoming increasingly important is internet retailing. Although we are used to retail sector occupiers dominating the distribution market, a growing significance of the internet shopping sector continues to drive growth.

- Although industrial production levels are returning to pre-crash levels of growth, it is clear that retail and distribution are taking over as drivers of employment across Europe. Employment levels in the production and construction levels have trended towards decline throughout the decade, while retail and distribution employment levels have seen overall growth (Figure 6).

Figure 5

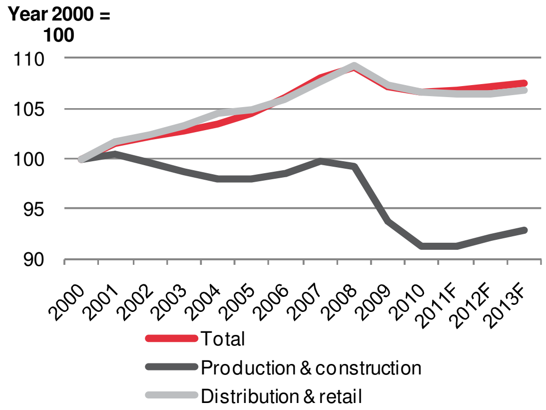
Consumer spending in selected European countries



Source: Oxford Economics

Figure 6

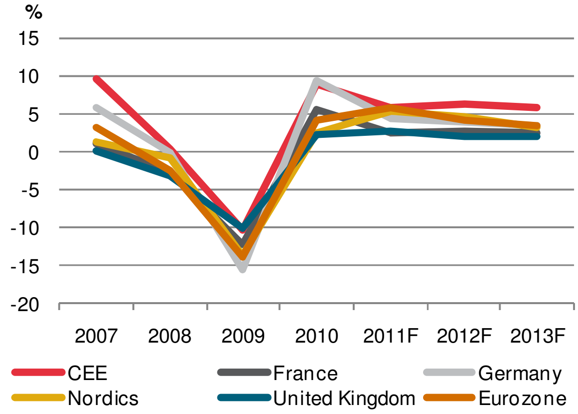
Employment rates in Europe by sector



Source: Oxford Economics

Figure 7

Industrial production in selected European countries

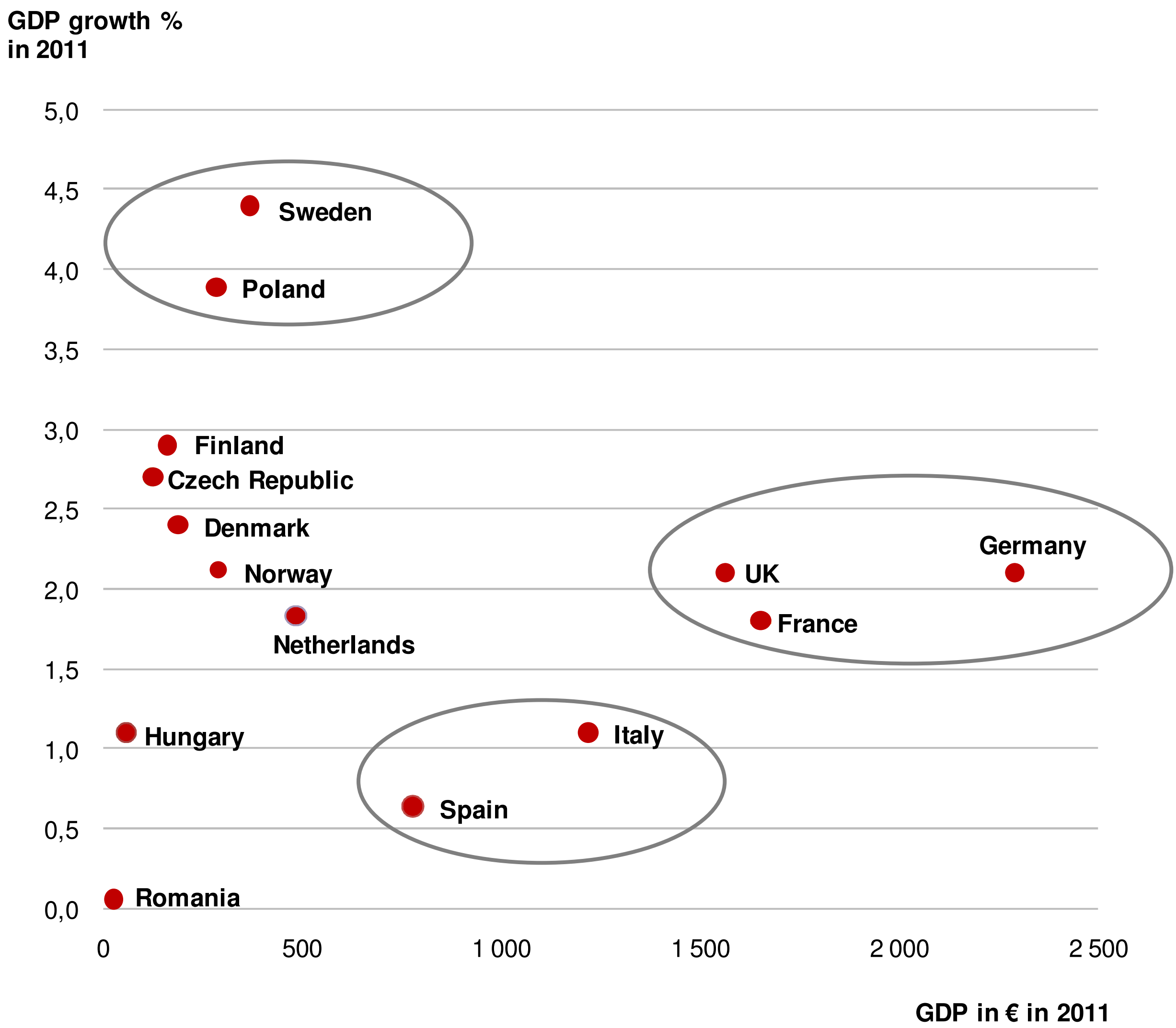


Source: Oxford Economics

Economic overview

Figure 8

Gross Domestic Product in 2011 – Value in € and growth in %



Source: Oxford Economics

- Figure 8 represents the GDP volume and its growth expected in 2011. The major economies – the UK, France and Germany – will see their GDPs growing 1.8% and - 2.1%, respectively in 2011. Poland and Sweden are expected to register two of the biggest GDP increases in 2011, while Spain, Romania, Italy and Hungary will still lag the economic recovery with GDP growth of below 1.2%.

- The Nordics and CEE countries – except Hungary and Romania – appear to be the most attractive economies in terms of GDP growth in 2011.

Ports & airports

- There are over 1,000 seaports in Europe handling 3.5 billion tons of cargo per annum. About 700 of these ports handle less than 1 million tons each, and there are only 11 ports in Europe which handle more than 50 million tons (Figure 9). Rotterdam is the most important port in Europe with 387 million tons handled in 2009; it is also the only European port which is in the world top 20 ports.

- Based on the most recent figures provided by ESPO (European Sea Ports Organization) traffic, compared to the same period in 2009, rose 7.1% between January and September 2010. This increase contrasts with the 11.9% decline registered in 2009.

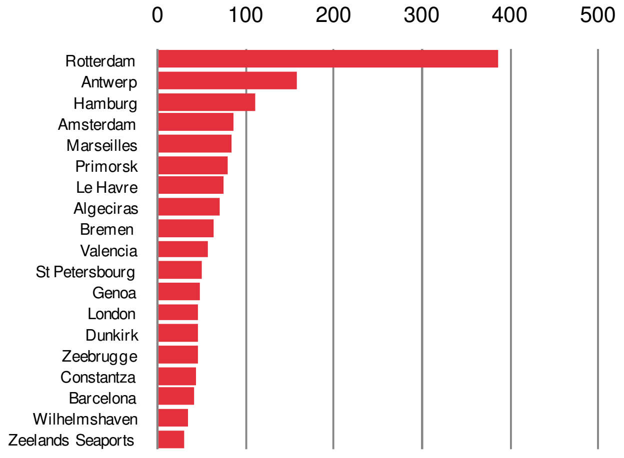
- Among the most important ports in Europe, Le Havre is the only one to have posted a decrease in activity between Q1 and Q3 2010, with a decline of 2.3%. The largest increases were registered for Rotterdam (13.4%) and Antwerp (13.2%).

- Based on the latest figures published by ACI (Airport Council International), European aviation continues to recover. In 2010, air freight increased 18.7%. This rebound of freight activity is in line with the global trend, as ICAO (International Civil Aviation Organization) indicated that global cargo, measured in freight-ton kilometres, posted a jump of 18.9% in 2010 following a sharp decline of 11% in 2009. The jump in cargo traffic is mainly linked to a sharp rebound in global trade, which resulted in its largest increase in three decades.

- In October 2010, the five main European airports: Frankfurt, Paris, Amsterdam, London Heathrow and Luxembourg reported an increased cargo volume (between 15% and 25%). This followed an average decline of 13.5% in 2009 (Figure 10).

Figure 9

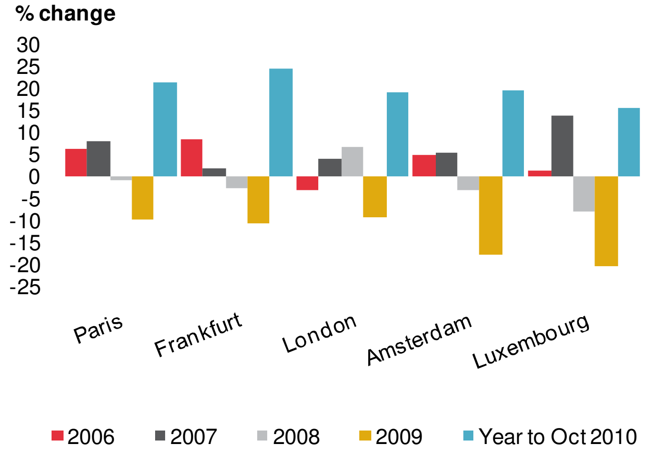
Top 20 European ports in 2009



Source: Other Port Authorities

Figure 10

Cargo traffic – five main European airports



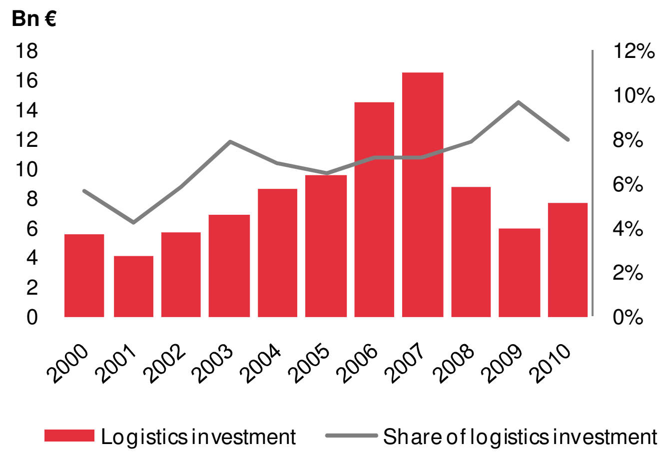
Source: Airports Council International

A small rebound in the logistics investment market in Europe lead by the UK and Nordic countries

- 2010 logistics investment volumes reached €7.6 billion, posting an increase of 27% from 2009 (Figure 11). As expected, the recovery of the logistics investment market is on track, but at a slow pace and slower than the global market which registered a rise of 53% during the same period.
- The share of the industrial and logistics assets in global investment volumes remains close to 8% in 2010 after peaking at 10% in 2009.
- Logistics investment volumes are still highest in the UK, with an investment volume close to €3.3 billion, representing 43% of European deals during 2010 (Figure 12). Strong performance of the UK market is mainly linked to several portfolio purchases such as the Dunhill portfolio (five prime warehouses) sold by AEW for €143 million, Lojix Portfolio bought by London & Stamford's for €95 million and the Westcore Portfolio sold to Hermes REIM for €93 million.
- After the UK, the Nordics are the second most active region, with an investment volume close to €1.1 billion in H2 2010 and €1.5 billion for the year. Following Sweden in H1 2010, Norway recorded some record levels of investment in H2 2010. Storebrand has bought a portfolio of four modern logistics buildings located in the prime area of Oslo around €190 million.
- The German investment market remains dynamic with a volume above €1.1 billion, compared to only €400 million in 2009, while activity in the French market remains subdued.
- The main players, Prologis, AMB soon to merge, Goodman, and some German funds (Union Investment and Commerzreal), are now coming back to a market which remains constrained by a lack of opportunities.

Figure 11

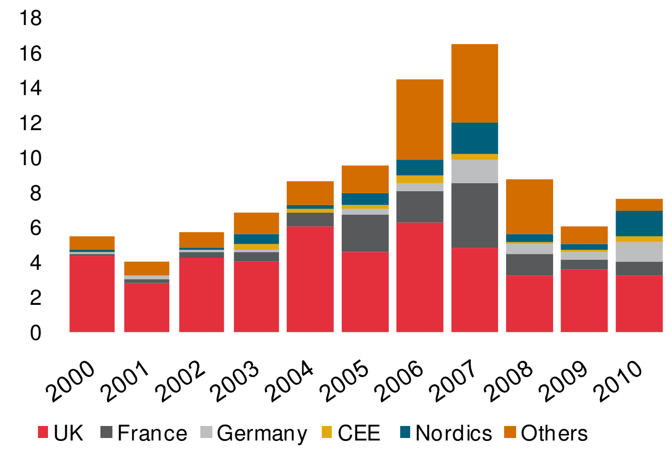
European investment activity in logistics



Source: DTZ Research

Figure 12

Logistics investment volume in Europe



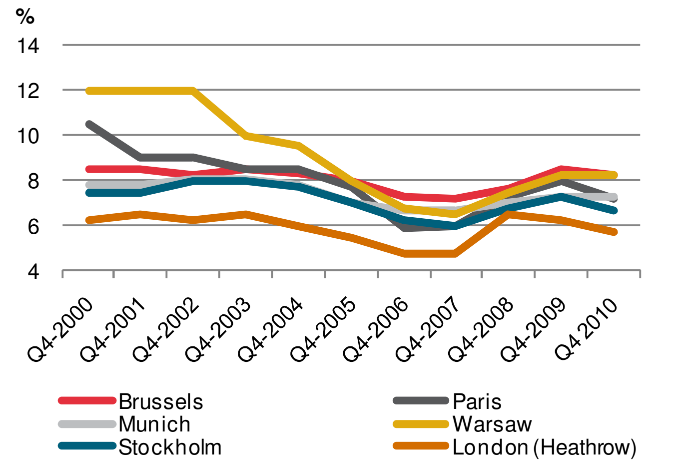
Source: DTZ Research

A slight compression of prime yields is expected in 2011

- The downturn in the logistics investment market has had an impact on prime yields over the past three years. From their lowest point at the end of 2007, prime yields have gone up constantly as aversion to logistics assets grew (Figure 13).
- The correction of logistics prime yields started at the end of 2007 for the UK market, with prime yields moving from bottom in Q2 2007 to their peak in Q2 2009. A similar trend played out across Continental Europe, albeit with a small lag. After reaching their peak at the end of 2009, between 7.25% and 8.50%, prime yields have started to compress by 25 to 80 basis points in Paris, Stockholm and Brussels and have stabilised in Germany and the CEE markets.
- Looking forward, prime yield compression already witnessed in the core market should spread across Europe with a marginal yield movement of 25 basis points each year in 2011 and 2012. Yields are anticipated to maintain a low volatility, sustaining the perception of logistics as a defensive asset class.

Figure 13

Logistics prime yields in Europe, 2000-Q4 2010



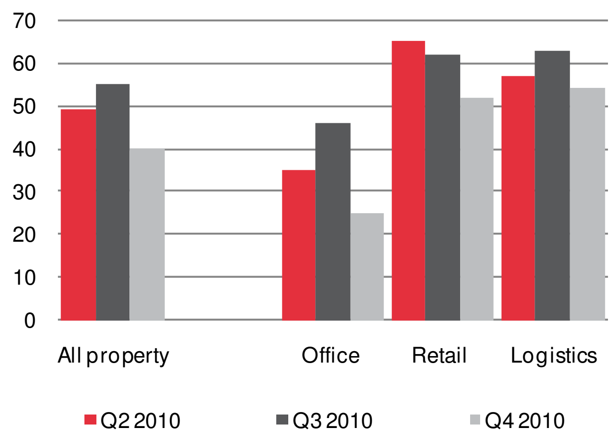
Source: DTZ Research

Fair Value

- Based on our Fair Value analysis, logistics remains the most attractive sector with an index score of 54 compared to 52 for retail and only 25 for offices (Figure 14). More than 21 of the 27 European logistics markets covered by our Fair Value Index are currently attractively priced. The map on page 9 shows the scale of the yield shift between 2011 and 2015.
- The number of European logistics markets currently identified as HOT (under-priced by more than 5% compared to the risk-adjusted return) has increased in the 4th quarter 2010 to reach eight markets from seven in the third quarter.
- Logistics markets are performing strongly in the Fair Value ranking for several reasons. Firstly, capital growth is expected as yield compression lags behind the other two major sectors. Secondly, a higher proportion of returns are paid through income, providing reasonable returns in a period of limited yield compression. Thirdly, currently limited investor demand means that yields remain historically high.
- A wide range of attractive markets across Europe have been identified in Q4 2010. Antwerp, Brussels and Barcelona - where we expect a large increase in rents combined with a strong recovery in capital values over the next five years. Manchester has posted the most important upgrade of the quarter, moving from the eighteenth place of our ranking to the eighth position. Its attractiveness is explained by a low level of the risk free yield and an expected annualised capital growth of around 4% per year between 2011 and 2015.
- Some opportunities can also be found in the emerging CEE markets, like Prague (classified as HOT) and Warsaw (WARM). Bucharest and Budapest are currently classified as COLD as forecast rent and yield movements of the over the next 5 years fail to deliver returns strong enough to compensate for the given risks in those markets (Table 1).
- Amongst the most mature markets, the German (Hamburg and Frankfurt) are classified as HOT while the French (Greater Paris Region, Lyon, and Marseille) are still in the WARM category.

Figure 14

Fair Value Index – Europe



Source: DTZ Research

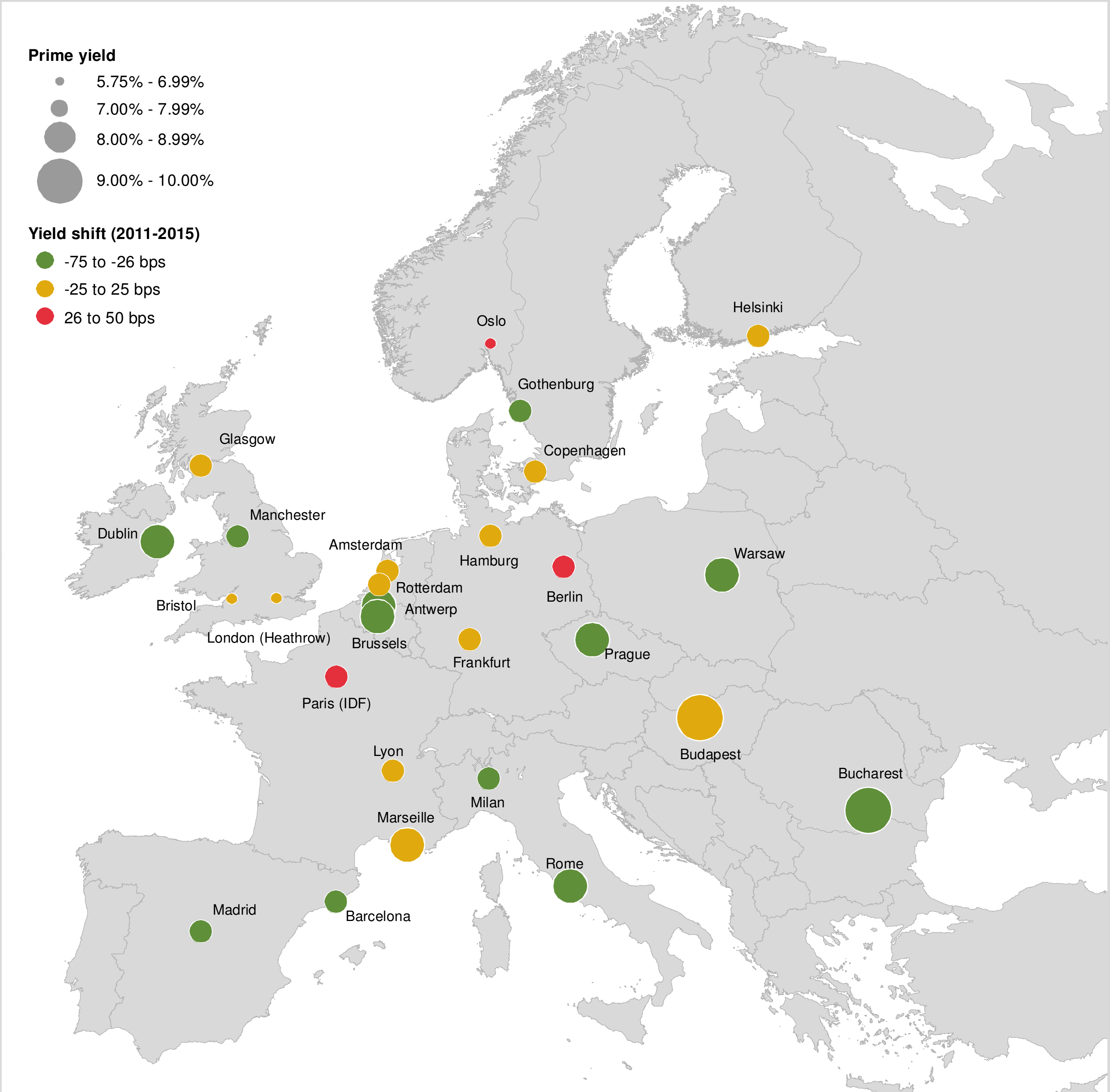
Table 1

Fair Value Classifications – Key Industrial Markets Q4 2010

Category	Market	Under/over valuation
HOT	Brussels	-12%
	Antwerp	-11%
	Manchester	-8%
	Prague	-8%
	Hamburg	-6%
	Barcelona	-6%
WARM	Madrid	-1%
	Milan	0%
	Rotterdam	1%
	Warsaw	1%
	Helsinki	1%
	Greater Paris Region	1%
COLD	Glasgow industrial	6%
	Heathrow industrial	6%
	Dublin industrial	6%
	Bucharest industrial	8%
	Budapest industrial	14%
	Oslo industrial	14%

Source: DTZ Research

Map 1
Prime industrial yields in Europe (Q4 2010) and yield shift expected in 2011-2015



Source : DTZ Research, ESRI

Occupier market – European market overview

Positive trend in European logistics with CEE and Germany leading the recovery

- The economic crisis has had a significant impact on the logistics market over the past three years, with a strong decrease in occupational demand throughout the region. However, the economic recovery that started in 2010 has begun to have a positive impact on take-up levels throughout Europe as occupiers begin to look to expansion.

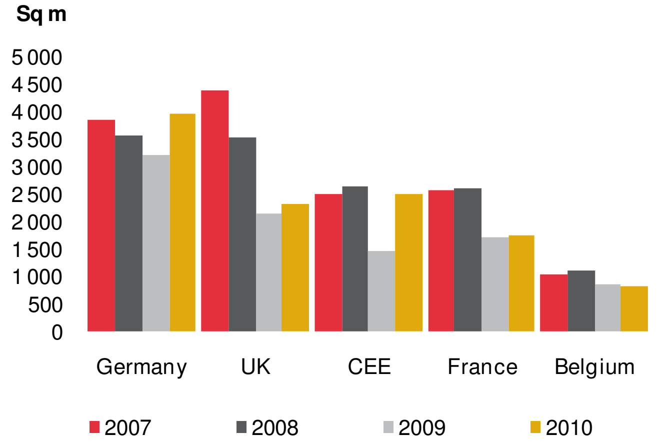
- In 2009, most industrial companies and 3PLs reduced their space requirements; but now many are coming back to the market. However, most are unwilling to compromise on either functionality or location of the building, leaving built-to-suit as the only real option for many occupiers.

- Take-up of logistics space bottomed out in the major European markets in 2009 with a y-o-y decrease varying between -10% and -40% (Figure 15). In line with the signs of improvement highlighted in H1 2010, take-up for the 2010 as a whole increased on average by 20% in our five top markets. Belgium was the only market of the top five not to see growth. On the back of a booming economy, Germany and the CEE markets have posted the biggest increases of take-up, 23% and 78%, respectively.

- Even though uncertainties remain over the speed of the recovery in Europe and the sustainability of growth in consumer spending, it seems that the worst is now behind us. That said, vacancy rates remain high across Europe, and in some markets are still in excess of 20%. In the majority of markets, existing supply is concentrated on old and sometimes obsolete logistics space, while occupiers are only interested in grade A units. This dichotomy between demand and supply available in terms of quality has been intensified by the halt of speculative development.

Figure 15

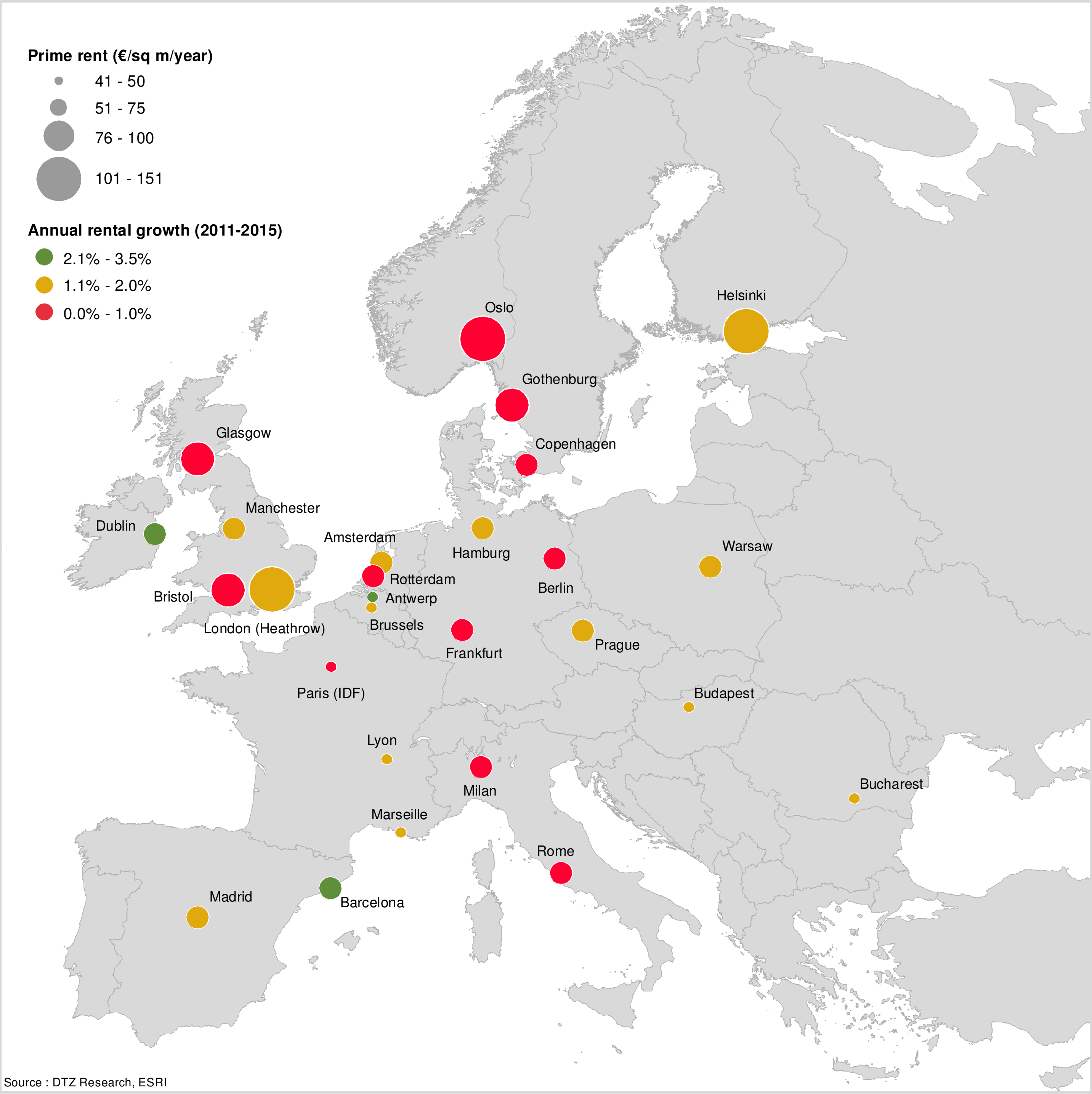
Take-up in selected* countries in Europe in 000 of sq m



Source: DTZ Research

Occupier market – European market overview

Map 2
Prime industrial rents in Europe (Q4 2010) and annual growth expected between 2011 and 2015



Occupier market – European market overview

Prime rents stabilising before displaying limited growth in 2012

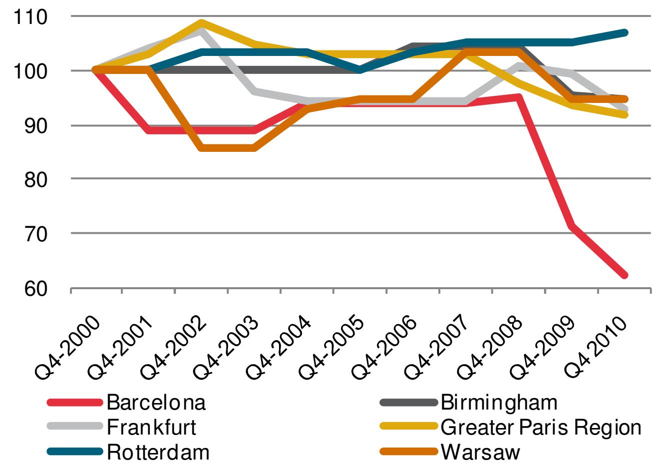
- High levels of supply combined with a slowdown in occupier demand have driven rents down across Europe since 2008. In the most prominent markets the decrease is substantial, with a value decline ranging between 5% and 25% in 2009 (Figure 16).
- By the end of 2010, despite recovering take-up in core European markets, the logistics market is still suffering from an overhang of vacant space and many markets saw further downward movement, or stabilisation at a lower level.
- During the second half of 2010, most markets covered in our analysis have seen prime rents decrease by between -2% and -7%, with the notable exception of Dublin, where rents have continued to drop significantly to reach €70 per sq m from a high of €87 per sq m at the end of 2009.
- The fall in rental values has been more pronounced for Grade B logistics space where the demand from occupiers is limited. Availability has increased dramatically during the past two or three years.

Barcelona and Dublin recover, after huge rental decline

- The European industrial sector remains a step behind office and retail in terms of rental recovery. As well as the recovery lagging behind that of the other major use classes, the magnitude of the recovery will be significantly lower as well. Prime European industrial rents will increase by just over 1% on average per year, compared to 1.9% for retail and 2.5% for the office sector.
- Of course, there are variations across the different markets in terms of rental recovery as well as the timing of the market downturn. With a few exceptions, most European logistics markets will deliver rental growth in 2012 at the earliest. Increases of more than 10% are expected in Antwerp, Brussels, Hamburg, Manchester, Marseille and Prague, with a significant recovery in Dublin and Barcelona – the two markets which have posted the biggest declines over the past three years.

Figure 16

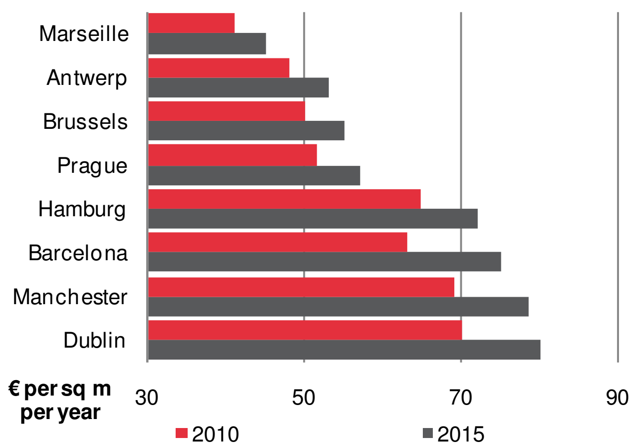
European prime rents, 2000-2010
Base 100 = Q4 2000



Source: DTZ Research

Figure 17

European prime rents, 2010 and 2015, biggest increases



Source: DTZ Research

United Kingdom

Availability continues to fall as limited levels of construction fail to keep pace with demand

- Although occupational demand is evident in the UK, it remains well below historical norms. Take-up during the second half of 2010 came in at approximately 1.2 million sq m, compared to circa 1.4 million sq m in the first half (Figure 18). Take-up of grade A space decreased the most, with only 375,000 sq m let during the final six months compared to 735,000 sq m in the first part of the year. The fourth quarter was the third successive quarter of reductions in grade A lettings. Current grade A take-up levels are around those seen in early 2009.

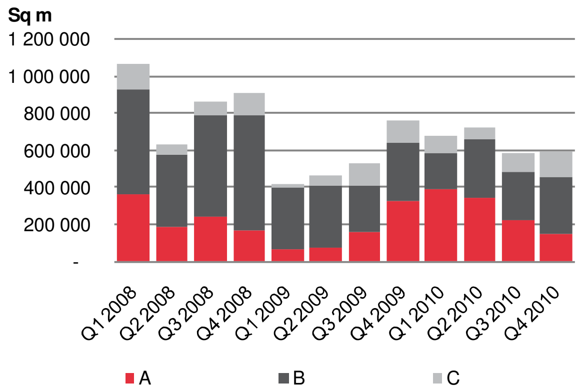
- Although demand was down from previous quarters, it did exceed the delivery of new supply, and second hand space surrendered to the market. Overall availability continued to fall as supply is eroded by general market activity. Grade A space is under higher demand and as a result availability continues to fall. At the end of Q4 grade A availability fell to 3.4 million sq m, down from 4.5 million sq m at the end of 2009. Secondary availability also fell, albeit by a smaller margin to 14.1 million sq m in the fourth quarter of 2010 (Figure 19).

- Faster falls in grade A availability are a result of a lack of speculative construction. Rental values, occupier demand and financing have not recovered to a sufficient extent to stimulate speculative development. Built-to-suits continue to take place, but developers are not yet willing to build without a pre-let.

- UK industrial and distribution rents remain under downward pressure as a general weakness in demand fails to deliver occupier growth. Almost all regions reported a lack of inward investment; consequently, local market churn remains the main source of demand. However, the continual erosion of supply is moving the market more in favour of landlords, particularly at the prime end of the spectrum. Limited appetite for speculative construction is creating competition for remaining high-quality space. Generally, rents fell in 2010, but there are some early signs of a rental recovery. Northampton and Manchester are ahead in the rental recovery cycle (Figure 20).

Figure 18

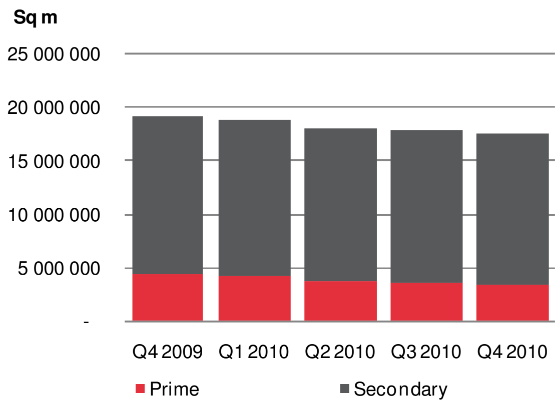
Aggregate regional take-up in UK



Source: DTZ Research

Figure 19

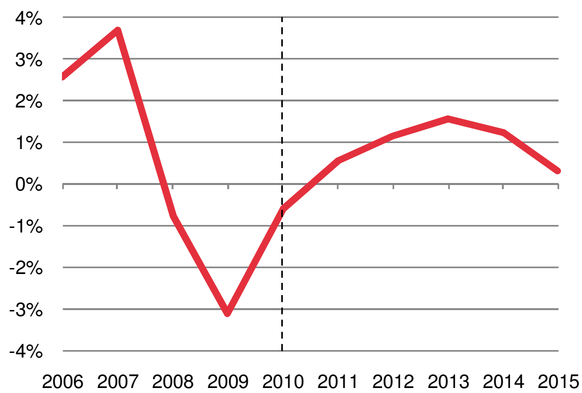
National availability by grade



Source: DTZ Research

Figure 20

DTZ prime industrial annual rental growth



Source: DTZ Research

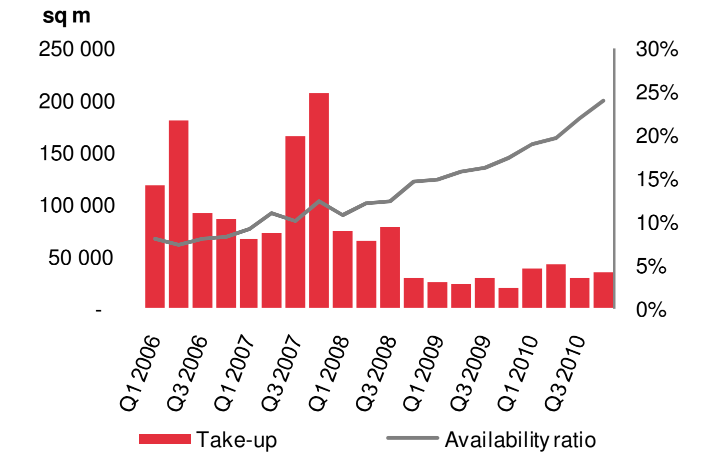
Ireland

Notable rebound in activity in 2010, but high vacancy rates keep rents under pressure

- There were more signs of recovery in the Dublin industrial market in the second half of the year, with total take-up reaching 144,000 sq m for the whole of 2010. This is an increase of 47% over 2009. While the uplift in activity for the year as a whole reflects a welcome change in direction, it remains deeply negative relative to the annual average level of transactions over the past decade (Figure 21).
- 2010 saw active demand in the market largely dominated by pharmaceutical companies, with a strong performance by food and agriculture-related businesses.
- Despite improving levels of take-up, the supply of available warehouses has continued to increase, reaching a record level of 972,000 sq m of immediately available supply and a vacancy rate close to 24%, up from 17.3% at end of 2009. As in H1 2010, the ongoing release of second hand space to the market has outweighed take-up during the year. This vacancy rate is likely to face additional upside pressure in 2011 due to risks of further facility closures, consolidations and downsizing by firms.
- With no new development activity in the industrial market during the fourth quarter of 2010, the supply currently under construction stood at 7,300 sq m. This compares to activity levels in the region of 134,000 sq m on average during the past decade.
- 2010 witnessed increased downward pressure on rents following a combination of weak demand and elevated levels of supply. Prime quoting rents now stand at approximately €70 per sq m, down from €97 per sq m at the end of 2009 (Figure 22). We expect rents to stabilise during 2011 before a 2012 recovery at the earliest.

Figure 21

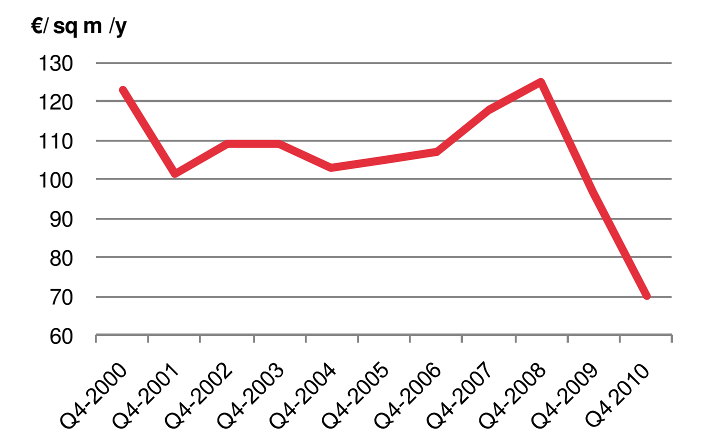
Take-up & availability ratio in Ireland



Source: DTZ Research

Figure 22

Prime rents in Dublin



Source: DTZ Research

Focus on selected countries

Belgium

Improved take-up in H2 2010, and rents are expected to grow in the medium term

- 2010 ended on a relatively positive note, with a total of 440,000 sq m of take-up recorded during the second half of the year. Take-up during the whole of 2010 reached 829,000 sq m, more than 8% above the decade's average of 762,600 sq m.

- The final quarter of 2010 brought changes in the distribution of occupational activity in the Belgian industrial market (Figure 23). While take-up in Brussels (including Brabant) and Wallonia has risen once more, results in Flanders have been severely impeded by the Mechelen-Willebroek submarkets failure to sustain the strong activity demonstrated over the previous three quarters.

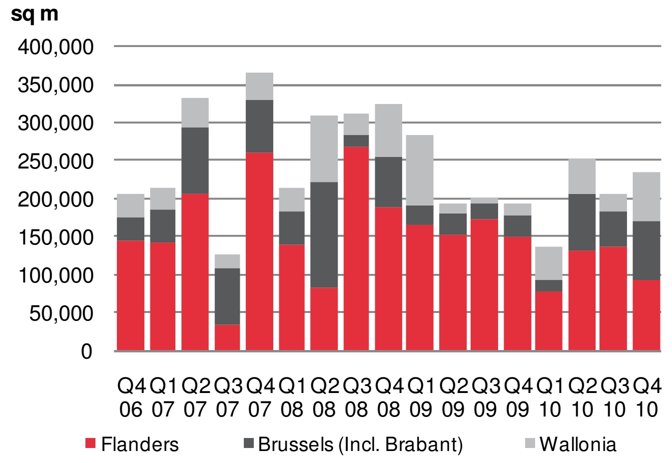
- The rebound in activity in both Brussels (including Brabant) and Wallonia could be a sign of a longer term trend with potential logistics developments including the Trilogiport project in Liège and the BILC in Brussels.

- Occupiers tend to prefer premises which are tailored to their needs, while owners are unlikely to build unless they can find tenants guaranteeing long-term occupation.

- Despite this level of take-up, rental values continued to decline in the second part of 2010 with prime rents currently around €45 per sq m in Antwerp and €50 per sq m in Brussels (Figure 24). A slight increase – between 3% and 4% – is expected in these two markets by the end of 2011 and the beginning of 2012, due to shortages of new or grade A buildings.

Figure 23

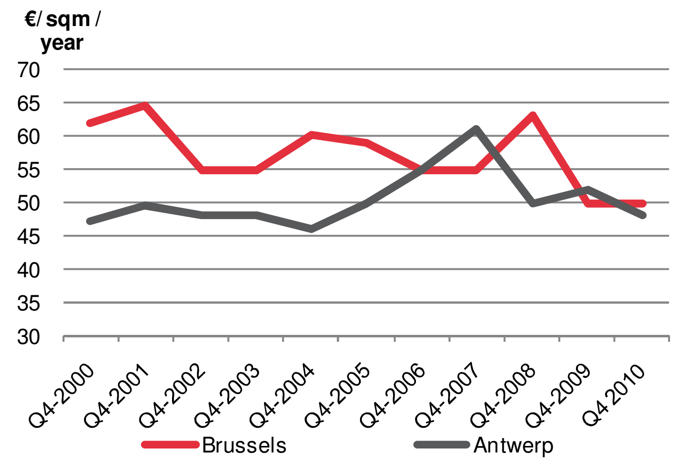
Aggregate regional take-up in Belgium



Source: DTZ Research

Figure 24

Prime rents in Belgium



Source: DTZ Research

Focus on selected countries

France

Recovery in the Greater Paris region and a slowdown in secondary markets

- The French warehouse market remained stable from 2009 activity with take-up of 1.7 million sq m in 2010, a level equal to that seen in 2009. Results for the Greater Paris region may be positive (+42% year on year) thanks to a major return of deals above 20,000 sq m, but results for regional markets are mixed (Figures 25). With a take-up of 247,000 sq m, the Nord Pas-de-Calais region hauled itself to second place in the ranking of French logistics markets. Usually the top market after the Greater Paris region, the Lyon market saw a sharp fall in transactions in 2010 (-36%) with take-up of 231,000 sq m, whereas immediate supply reached a disappointing record of 607,000 sq m. Transactions in Marseille fell sharply with take-up of barely 62,000 sq m. Vacant supply rose again in 2010 to more than 188,000 sq m.

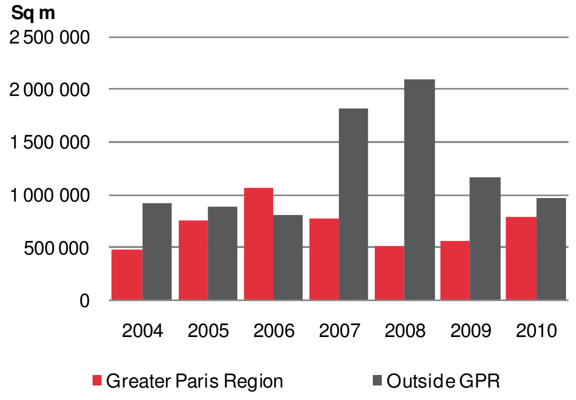
- Immediately available warehouse supply increased by 27% over the year and now stands at 3 million sq m. This increase is due to the release of second-hand space rather than to the completion of new developments, as in Lyon where the vacancy rate is now over 15% (Figure 26).

- Rental value correction continued in 2010 with adjustments of between €1 and €4 depending on the market, and in the four main markets in particular (Figure 27). This readjustment has been seen only in areas where supply is abundant. For large buildings, when occupier choice is limited to one or two options, landlords have held rental values. According to our forecasts, prime rents should begin to rise from 2011 in the Greater Paris region (mainly due to falling levels of vacant new supply) and in Marseille, but not before 2012 in the Lyon market.

- In 2010, some 864,000 sq m of new warehouses over 10,000 sq m were completed. There are still some huge projects to be launched from 100,000 sq m to 150,000 sq m but, given the current economic climate, these are unlikely to be developed on a speculative basis.

Figure 25

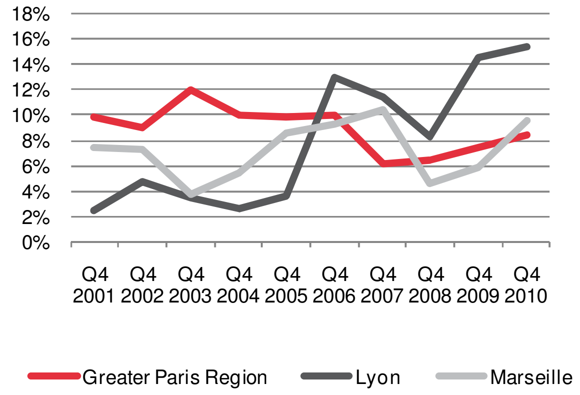
Take-up in France



Source: DTZ Research

Figure 26

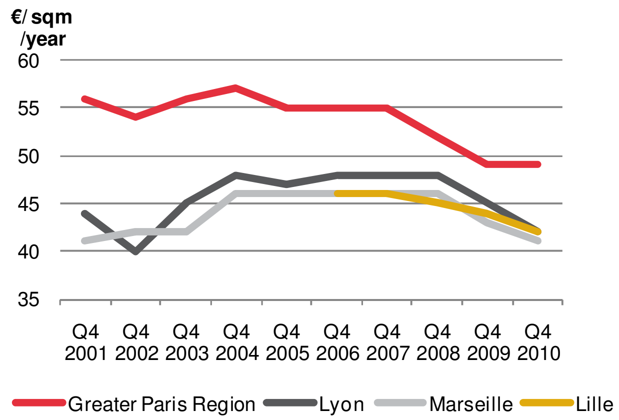
Vacancy rates in France



Source: DTZ Research

Figure 27

Prime rents in France



Source: DTZ Research

Focus on selected countries

Germany

Growing take-up and the first signs of speculative construction.

- Take-up of industrial and logistics space in 2010 totalled 3,968,000 sq m - making this the best year since 2004. Compared to 2009, the market registered an increased take-up of 23%. Companies from the transport/logistics service sector were the main source of demand, followed by retail/wholesale and manufacturing.

- The total take-up outside the top five markets (Berlin, Dusseldorf, Frankfurt, Hamburg and Munich) throughout 2010 reached 2,380,000 sq m, an increase of 22% from 2009. In the same period, market activity registered a rebound with take-up of 1,588,000 sq m, the highest volume since 2004 (Figure 28).

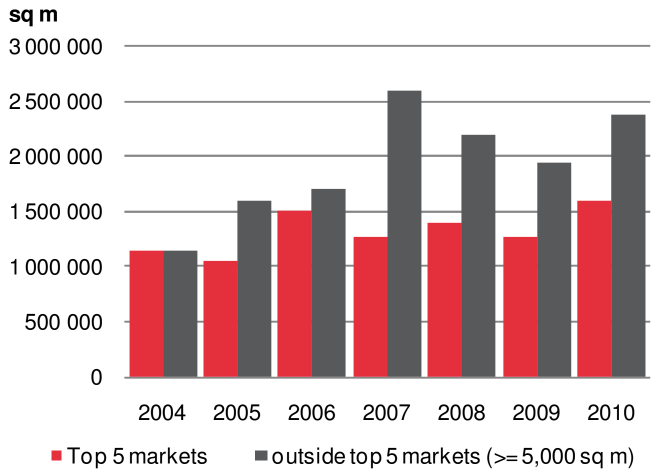
- Speculative construction activity is still subdued. Developers and investors hold options on land or have bought land in the past but are marketing the opportunities on a built-to-suit basis. However, towards the end of 2010, developers' confidence began recovered enough to begin speculative construction. For example, Gazeley has started a 20,000 sq m warehouse near Karlsruhe with 25% of the scheme pre-committed.

- During the second half of 2010, headline rents in the five major markets in Germany remained unchanged. At the beginning of 2011, headline rents of modern logistics space stand at €74 per sq m in Munich and at €68 per sq m in Frankfurt, making these two regions the most expensive in Germany. Headline rents in the other three top German markets are between €59 (Berlin) and €65 (Hamburg). Outside the top five regions, the level of rents is lower and ranges between €46 per sq m and €58 per sq m (Figure 29).

- In the short term, prime rents in Frankfurt and Hamburg are expected to increase by 4% and 2% respectively. In the medium term (five years), Hamburg has the most attractive profile with a forecast increase of 11% from now through to 2015, compared to 4% and 5% in Berlin and Frankfurt respectively.

Figure 28

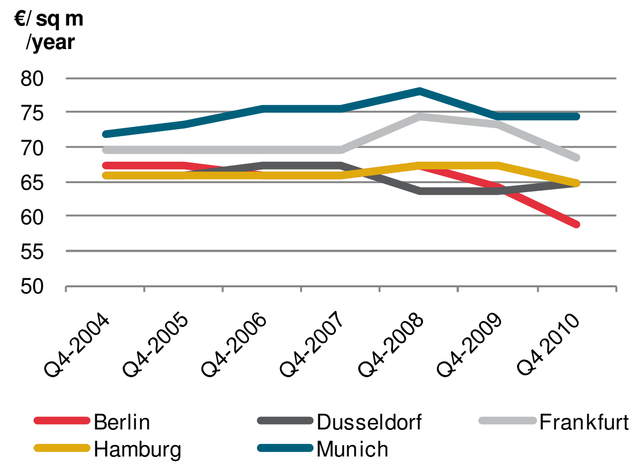
Take-up in Germany



Source: DTZ Research

Figure 29

Prime rents in Germany



Source: DTZ Research

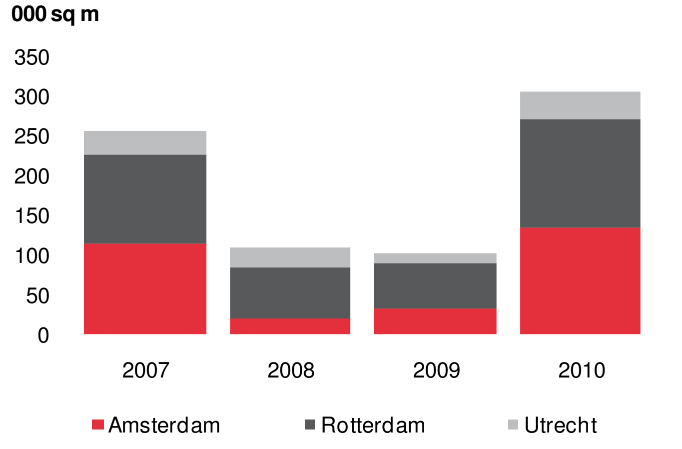
The Netherlands

The strong market recovery in 2010 is expected to continue into 2011

- With a total stock of 15 million of sq m, 60% of which are grade A buildings, the Dutch logistics market is one of the largest in Europe. Superficially, the trends driving the logistics property market in 2010 appear similar to those in 2009, with declining take-up and an increasing supply. Viewed quantitatively, the situation may well appear unchanged, but the story behind the figures is different.
- Since 2007, the Dutch logistics market has been suffering from a significant decrease in activity. Take-up in the main three city regional markets of Amsterdam, Rotterdam and Utrecht dropped from 257,000 sq m in 2007 to 89,000 sq m in 2009.
- A strong recovery during the fourth quarter 2010 resulted in a total annual take-up of new lease transactions of about 512,000 sq m (national level). This figure is closer to the long-term average take-up, of approximately 550,000 sq m, than we have been for some time
- Approximately 66% of take-up was within the top 15 leasing deals in the Netherlands, which explains a large average transaction size. The regions around Amsterdam, Rotterdam and Utrecht together absorbed approximately 307,000 sq m (Figure 30). We expect the strong occupier market of the last months in 2010 to continue in 2011.
- Rents have remained stable, but signs of a decrease in some segments have been observed, with rents in Amsterdam falling to €65 per sq m at the end of 2010 from €70 per sq m in 2009 (Figure 31). No rental growth is expected in 2011 before a slight increase between 1% and 4%, depending on the location, in 2012 at the earliest.

Figure 30

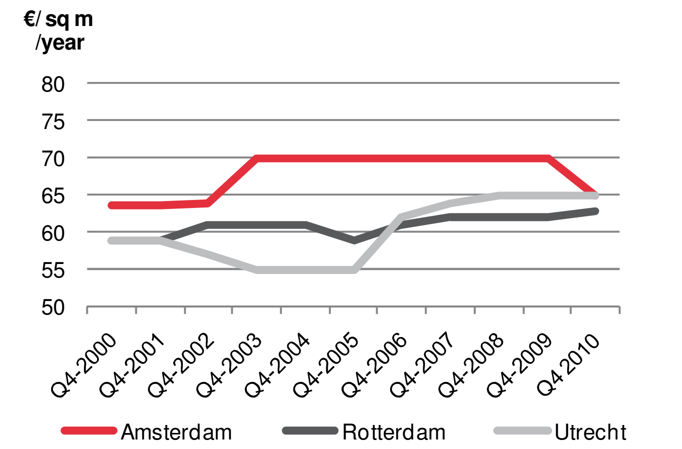
Take-up in main city regions in the Netherlands



Source: DTZ Research

Figure 31

Prime rents in the Netherlands



Source: DTZ Research

Focus on selected countries

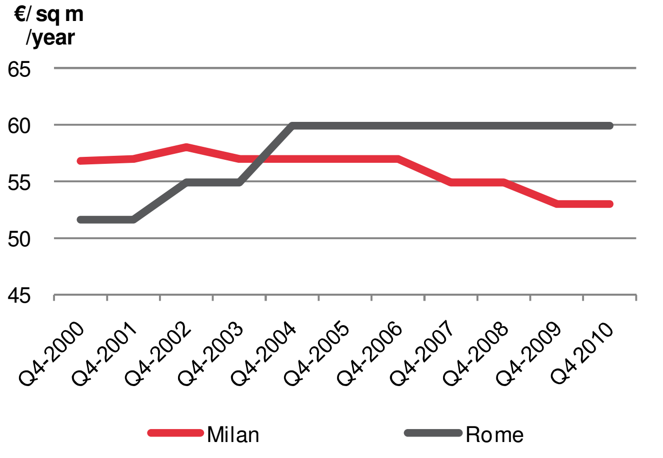
Italy

A small increase in take-up and rental recovery expected in Milan for 2012

- Total logistics take-up in 2010 reached 600,000 sq m, compared to just 200,000 sq m for the first six months of 2010. Despite the sudden glut of activity during the second half of 2010, take-up remains below the long-term annual average. Market activity has been dominated by the leasing of existing buildings and, analysing take-up distribution by sector, the majority was taken by logistics operators and parcel courier companies.
- In 2010, 350,000 sq m of new logistics space completed, mostly on a built-to-suit or owner-occupier basis. Speculative activity continues to be subdued, and the low volume of construction activity implies a -15% decrease in vacancy rates. At the end of 2010, supply of existing buildings reached about 720,000 sq m.
- Prime rents remained stable during 2010 (Figure 32). For the Milan market, no rental increase is expected before 2012, while rents in Rome should remain stable.

Figure 32

Prime rents in Italy



Source: DTZ Research

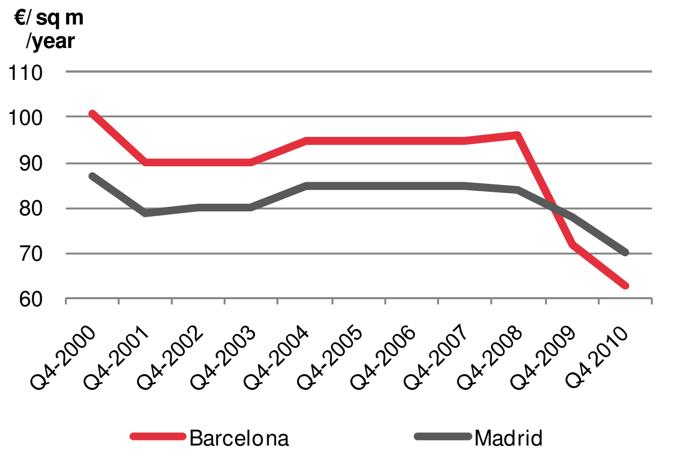
Spain

Positive signs, but the market remains challenging

- 2009 was a difficult year, with a significant slowdown in take-up, especially in Madrid. However, the second half of 2010 saw some positive indicators of a market recovery. In Madrid, take-up reached 323,000 sq m, posting a 70% increase with a vacancy rate close to 8%. In Barcelona, the second half of 2010 was better than the first half with 113,000 sq m of logistics space taken up. This pushes the volume for the entire year to 170,000 sq m. The occupational market remains restricted by a very low level of completions – 57,000 sq m in 2010, but an overall vacancy rate of 12% at the end of the year remains an issue.
- Against this backdrop, prime rents have continued to decline and reached €70 per sq m in Madrid and €63 per sq m in Barcelona (Figure 33). Based on our forecasts, prime rents will stabilise in 2011 before increasing in 2012 to €72 per sq m in Madrid, and €68 per sq m in Barcelona.

Figure 33

Prime rents in Spain



Source: DTZ Research

Focus on selected countries

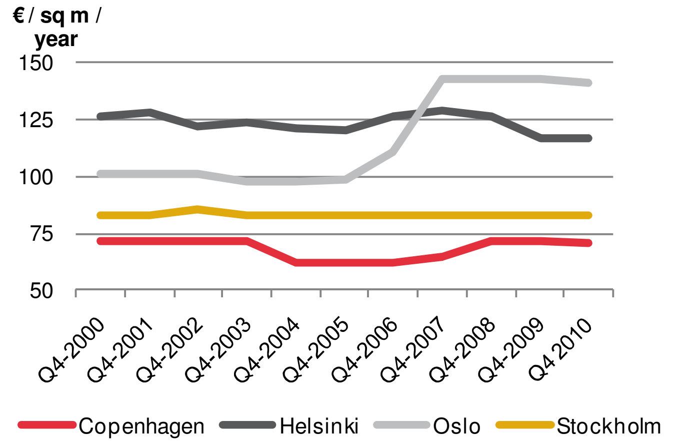
Nordics

Over-performance in the wider economy but a delayed impact on prime rents

- The Nordic region logistics markets are characterised by a strong tradition of owner occupation and built-to-suit deals. The low level of speculative construction has protected the logistics market from oversupply through the period of low demand from logistics and industrial occupiers.
- After a difficult 2009, Nordic region economic growth is expected to outperform the Eurozone with an average GDP for 2011 of 2.6%, compared to 1.6%. Consumer spending and industrial production also point in a positive direction, with Sweden and Norway leading the way.
- In this context, there were no changes in prime rents in the Nordics logistics markets (Figure 34). Rents have remained stable since 2009, between €70 per sq m in Copenhagen, €83 per sq m in Stockholm and €141 per sq m in Oslo.

Figure 34

Prime rents in Nordic countries



Source: DTZ Research

Sweden

- Boosted by real economic improvement, Sweden is expected to lead the recovery in the Nordic region. After falling -18%, industrial production is expected to return to growth with a rise of 9% in 2010 and between 6% and 5% in 2011 and 2012. Consequently, demand by occupiers for logistics space is expected to be more dynamic and is likely to translate to a better level of take-up over the next five years.
- The focus of occupiers is clearly on new grade A buildings, and developers have responded through built-to-suit schemes, which have been the long-time norm in this region. However, issues with oversupply of grade B and C buildings persist.
- After a period of stability, prime rents are expected to rise in 2013 with an increase of 3% to reach levels of €83 per sq m.

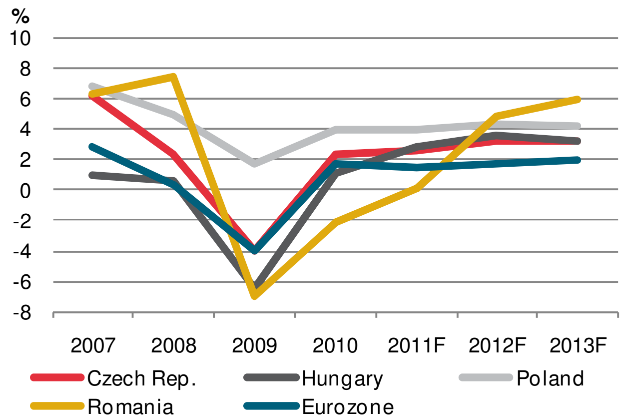
Focus on selected countries

Central and Eastern Europe

- The CEE markets – namely the Czech Republic, Hungary, Poland and Romania – are expected to lead the economic recovery in 2011 and in 2012. Poland continues to outperform Europe with GDP growth close to 4% in 2010 compared to 1.7% in the Eurozone. Although short term forecasts for 2011 in Romania and Hungary remain subdued, medium term forecasts indicate a recovery (Figure 35).
- Consumer spending and industrial production are again showing more positive trends. Industrial production is expected to increase from -10% to +8% in 2010, while on the consumer side, the CEE region will over perform in 2012 and 2013 with an annual increase of over 4%, compared to a modest 1.3% for the Eurozone.
- In the context of an improving economic backdrop, the occupational market has begun to recover. After a long period of decline, CEE logistics rents have stabilised since 2009. Rental values stand between €42 per sq m in Budapest, €48 per sq m in Bucharest, €52 per sq m in Prague and €66 per sq m in Warsaw (Figure 36). These rents are expected to increase first in Prague in 2011 and then more globally in 2012 in Poland, Hungary and Romania.

Figure 35

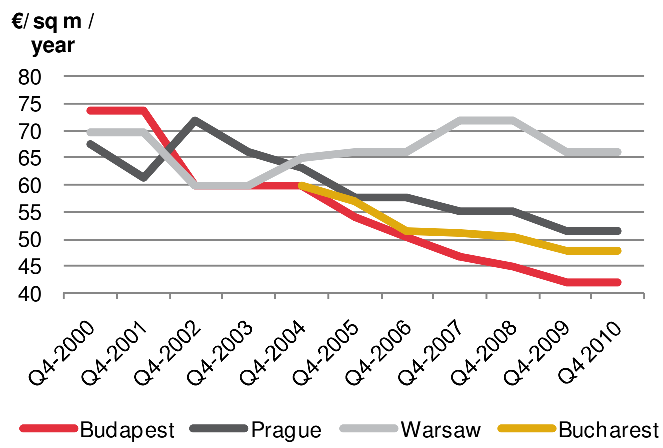
GDP growth (%) in selected countries in CEE



Source: Oxford Economics

Figure 36

Prime rents in CEE



Source: DTZ Research

Focus on selected countries

Poland

Take-up comes back to highest level

- The Polish economy has slowed in recent years, although it remains on an upward trajectory. GDP growth is expected to approach 4% in 2011 and private consumption remains strong – one of the key demand generators for logistics space in Poland.

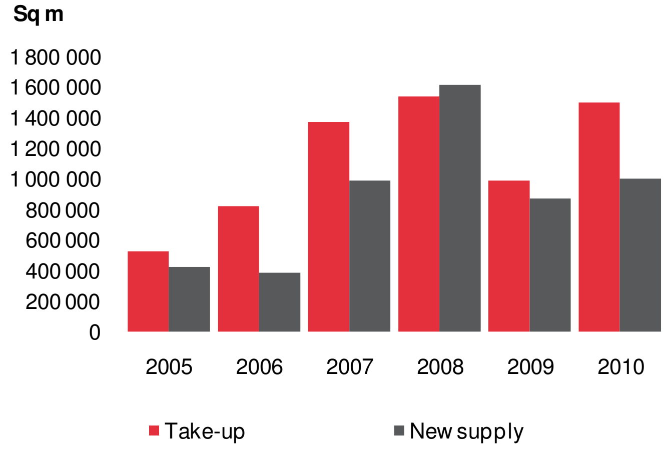
- After a significant slowdown in 2009, demand started to recover during 2010. Industrial production remains one of the strongest areas of economic growth in Poland, creating a significant positive impact on the industrial sector. Total take-up increased significantly in 2010, recording nearly 1.5 million sq m, which is 50% growth over 2009 (Figure 37). The biggest transactions of the second half of the year have been a built-to-suit deal in Central Poland, Fiege in the ProLogis Park Dąbrowa in Upper Silesia and Zelmer in Panattoni Park Rzeszów.

- At the end of 2010, more than 1 million sq m of modern stock was available, an increase of 15% y-o-y. The vacancy rate now stands at 15.3% on a national level, varying from 5% in Tricity to 25% in Warsaw Zone 3. Vacancy rates should gradually decrease as there is limited amount of speculative logistics space under construction.

- Prime rents have remained stable in recent years at the level of €66 per sq m in Warsaw and between €36 and €40 per sq m in regional markets. 2011 appears as a year of stabilisation of rents, before a period of increase, by 3% on annual average, from 2012 to 2014.

Figure 37

Take-up & new supply in Poland



Source: DTZ Research

Ukraine

New completions start to fall

- Clear signs of an economic recovery showed through during the second half of 2010. GDP, industrial production and retail sales all experienced growth by the end of 2010.

- A greater balance between new supply completions and demand was achieved throughout the year as demand saw slight improvement and new supply completions fell dramatically.

- At the end of Q4 2010 the vacancy rate fell to 17.9%, down from the 20.6% seen at the end of 2009. The largest factor in this fall was the lowest level of completions seen during the year since 2007.

- Prime warehouse rents vary between €90 per sq m and €105 per sq m, depending on quality. Although there has been a change in the demand/supply balance, current forecasts are for rents to remain generally unchanged in the short term.

Czech Republic

Small rental increase expected in 2011

- In 2010 overall gross take-up – including renegotiations – of logistics space reached 785,000 sq m, more than twice the level achieved in 2009 (Figure 38). After 2007, 2010 was the second highest year in terms of take-up. The start of the recovery during the first part of the year has not only been confirmed, but has also strengthened. The distribution of take-up is dominated by three submarkets: 41% in Greater Prague, 27% in West Bohemia and 14% in Moravia – Silesia.

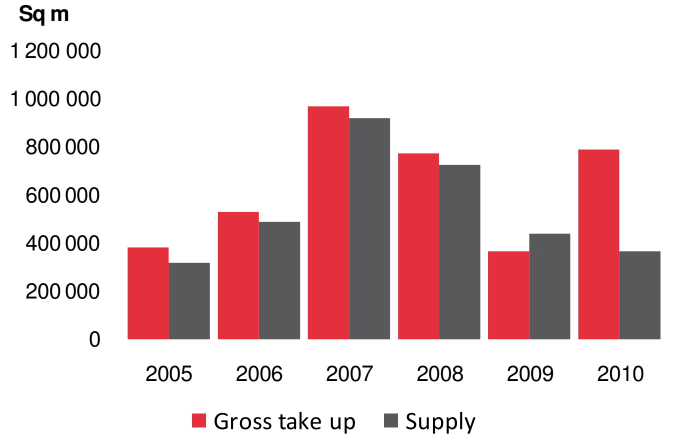
- The Czech Republic benefits from an ideal location from which to manufacture and distribute goods to either Western Europe or CEE. Industrial and logistics companies have also taken advantage of relatively low labour costs as well as a developed road infrastructure. As a result, third-party logistics providers were the sector active sector taking up or renegotiating space in 2010.

- High take-up levels have had an impact on the vacancy rate, while new construction has dropped to 150,000 sq m in 2010 from 442,000 sq m in 2009. As a result, the vacancy rate decreased from 17.3% at the end of 2009 to 10.4% at the end of 2010. The sharpest decrease was recorded in West Bohemia, where the vacancy rate decreased to 9.1% from 26.4% in 2009. In Greater Prague, the trend is similar but to a lesser degree, from 18.2% to 13.2%. Vacancy rates should continue to fall in the next few quarters as logistics space under construction totals only 97,000 sq m and construction will be limited primarily to built-to-suit projects. There has been almost a complete halt of speculative development; most developers are waiting to sign pre-leases before beginning construction.

- Headline rents for modern logistics space remained stable during 2010, at between €43 per sq m and €52 per sq m in Prague and between €41 per sq m and €51 per sq m in other markets. Continuous decreases in vacancy will place upward pressure on rents during 2011, with an annual increase of 2% on average during the next five years.

Figure 38

Take-up & supply in the Czech Republic



Source: DTZ Research

Focus on selected countries

Hungary

Strong occupier activity, but vacancy rates remain high

- After several years of speculative deliveries, 2010 was a year of built-to-suit projects as developers turn off the taps. In 2010, only 68,300 sq m of logistics space was completed, a very low level compared to the annual average of 160,000 sq m completed between 2002 and 2009.

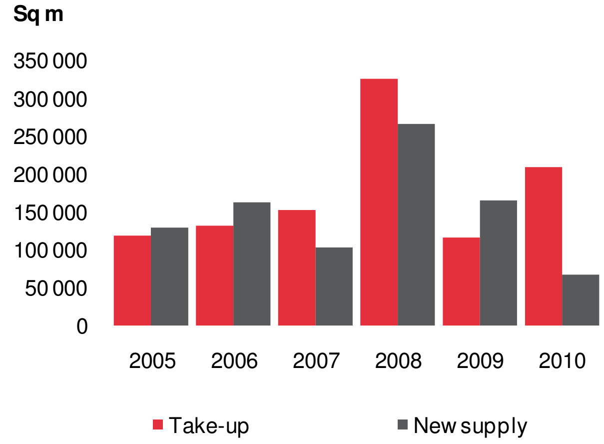
- After a dynamic first half of 2010, with 90,000 sq m taken up, the market has continued to recover, and more than 119,000 sq m of industrial space was leased in H2 2010. The largest lease was signed by Waberer's for 18,500 sq m in the BTS development in the BILK Logistics Park. 2010 take-up reached 210,000 sq m (Figure 39).

- Companies in the light industry/assembly sector were responsible for 34% of annual take-up. The logistics sector took 23%, followed by the retail sector with 18%.

- The vacancy rate at the end of 2010 stood at 19.5%, almost the same as at the beginning of the year (with the lowest level for the Southern submarket at 16%). The vacancy level is higher in city-logistics schemes (26%), while in logistics parks the level is at 19%. This high level of vacancy rates will continue to impact rents, and no growth is expected before 2012.

Figure 39

Take-up & new supply in Hungary



Source: DTZ Research

Romania

Low levels of transactions in a fragmented market

- In the Romanian logistics market, demand has been characterized by small and medium-sized requirements (1,000 to 3,000 sq m). Large retailers and logistics providers have remained quiet but with potential for future growth. Total logistics and industrial take-up for 2010 amounted to 100,000 sq m in Bucharest, the extension of Geodis in Prologis Park, Bucharest A1 with 17,000 sq m. Outside the Bucharest area, take-up reached circa 40,000 sq m, including 85% being transacted in Timisoara by producers of automotive and general goods.

- In 2010, the new class A stock delivered on the Bucharest market amounted to only 25,000 sq m in two distinct projects – the first was the A1 Business Park in the western part of Bucharest developed by Cefin and owned by Valad and in Millennium Logistic Park, and on the southern ring road of Bucharest, developed and owned by the Polish company MLP Group. Other developers remained on stand-by, waiting for pre-lease agreements before beginning construction.

- The instability of the Romanian economy, combined with a low level of demand will continue to put downward pressure in rents, and no increase is forecast before 2012.

Middle East

From Dubai to Abu Dhabi

- According to the Logistics Performance Index ranking produced by the World Bank in 2010, four of the five main logistics markets in the Middle East are in the top 50 of the global ranking (155 countries are covered by this performance index). Compared to the ranking published in 2007, Bahrain and Kuwait have over performed their previous rankings, respectively, to 32nd from 36th in 2007 and to 36th from 44th in 2007. In 24th place, the United Arab Emirates has the highest ranking in the Middle East (Figure 40).

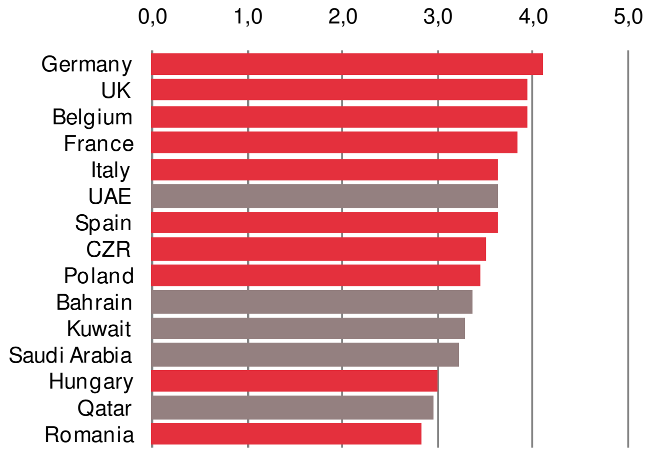
- The Middle East logistics markets are now considered to be strategic due to their location within the major transport hub, as illustrated by the recent agreement between Gazeley and Ceva on two built-to-suit developments (12,000 sq m and 60,000 sq m of logistics space) in Jebel Ali Free Zone in Dubai.

- Dubai is currently the logistics hub for the UAE and the Middle East, with Jebel Ali serving as a main export and re-export logistics zone. With goods coming from Europe, Asia and the United States for distribution around the GCC, Iran and the wider Middle East by road, air and sea. Abu Dhabi has significant potential for development in the medium term due to its underlying wealth and political standing within the UAE. The oil and gas industry as well as the significant infrastructure investments Abu Dhabi is planning to deliver as part of the Abu Dhabi 2030 Plan, such as the new port, expansion of the airport and the new freight rail and highways, will drive this demand.

- The growth of the logistics sector will have a significant effect on demand for warehousing space. Re-exporters as well as third-party logistics suppliers (3PLs) are predominantly seeking warehouse space within free zones. Unlike Dubai, Abu Dhabi does not yet contain any industrial free zones, although Abu Dhabi Airports Company (ADAC) is set to establish a business and logistics park next to the airport, which is planned to operate as a free zone.

Figure 40

Logistics Performance Index – Middle East



Source: LPI published by the World Bank

Definitions

Availability:	Marketed space (usually available to move into within 6 months) that may or may not be vacant.
Availability ratio:	Industrial space currently available as a percentage of stock.
Newly available:	Floor space placed on the open market including both developments within six months of completion and units of second-hand space.
Stock:	The latest commercial industrial floor space statistics (warehouses).
Building grade:	Grade A: newly developed or comprehensively refurbished to new standard, including sublet space in new/refurbished buildings not previously occupied Grade B: buildings of good specification, floor plate efficiency and image usually but not exclusively ten years old or less Grade C: remaining poorer quality stock
Speculative development:	A newly developed or comprehensively refurbished building undertaken without the benefit of a secured tenant.
Development start:	A development in which work has started on the main contract. This usually excludes demolition and site clearance contracts.
Development completion:	A development in which the main contract has been completed, whether this be to shell and core or developer's finish.
Take-up:	Occupational transactions, including the following: (i) industrial buildings let/sold to an eventual occupier that had not been previously recorded as under offer to that occupier (ii) developments pre-let/sold to an occupier (iii) owner occupier purchase of a freehold or long leasehold
Prime rent:	The rent reported being paid, which may not take account of concessions such as rent-free periods, in which case it is known as the effective rent.

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