BNP PARIBAS
REAL ESTATE

RESEARCH

EUROPEAN LOGISTICS MARKET

Property report
Q2 2013

CONTACTS

EUROPEAN LOGISTICS COVERAGE

FRANCE
Christophe Prioux
christophe.prioux@bnpparibas.com
+33 (0)1 47 59 21 67

GERMANY
Oliver Wissel
oliver.wissel@bnpparibas.com
+49 30 884 65 171

UNITED KINGDOM
Nick Waddington
nick.waddington@bnpparibas.com
+44 (0) 121 234 6869

SPAIN
Thierry Bougeard
thierry.bougeard@bnpparibas.com
+34 93 301 20 10

Alberto Larrazabal
alberto.larrazabal@bnpparibas.com
+34 91 454 99 90

NETHERLANDS
Peter Sagius
peter.sagius@bnpparibas.com
+31 20 305 97 20

POLAND
John Palmer
john.palmer@bnpparibas.com
+48 50 120 38 21

IRELAND
Peter Flanagan
peter.flanagan@bnpparibas.com
+353 1 661 1233

OTHER LOCATIONS

Austria
Greece
Russia
Serbia
Slovakia
Sweden
Turkey

Please contact
Florence Hesse
florence.hesse@bnpparibas.com

RESEARCH

Christophe Pineau
Head of International Research
christophe.pineau@bnpparibas.com

Vincent Robion
Senior Analyst
vincent.robion@bnpparibas.com

BNP PARIBAS REAL ESTATE

EXECUTIVE SUMMARY

Signs of recovery are gradually taking shape

The logistics occupier and investment markets regained some vigour during the first half of 2013, despite a weak economic environment in Western Europe. This recovery is still fragile and remains differentiated across Europe.

The occupier market is still held-up by scarce prime supply

- GDP is still weak in the EU15 and is expected to decline by just 0.3% in 2013. However, business sentiment is improving and most indicators are looking up. GDP is forecast to increase by 1% in 2014.
- After a drop in 2012 in most warehousing markets, take-up increased strongly in Germany, the UK and the Netherlands during H1 2013. The weak economic situation in France impacted on the logistics market and raised cautiousness among logistics players.
- The lack of grade A warehouses continues to restrain most markets, thus resulting in large build-to-suit deals.
- Rents stabilised but the reduction in incentives already recorded could lead to some increase in rental values in prime areas over forthcoming quarters.

Investors keep focused on the main markets

- Industrial investment has been particularly healthy during the first half of 2013 in the main markets including France, Germany, the UK, Sweden and the Netherlands where investors are actively looking outside the office sector.
- In other European locations including Spain, Portugal and Italy, industrial investment bottomed out.
- Prime yields stabilised in most countries, between 6.5% and 6.85% in the main German cities, and stood between 7% and 7.25% in the regional UK cities, in the Netherlands, Belgium and France.

Vincent Robion – September 2013

EUROPEAN ECONOMIC INDICATORS ARE LOOKING UP, CONFIDENCE IS IMPROVING

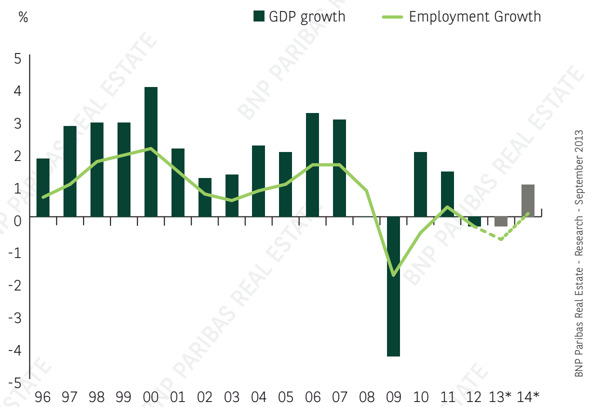
After a difficult end to 2012 and beginning of 2013, economic performance in the core non-Eurozone economies is beginning to show signs of improvement. In the Eurozone, sentiment is starting to stabilise. Recent survey data from the European Commission, particularly the consumer confidence indicators, has also shown signs of broad based improvement. Also the latest PMI composite index for the Eurozone exceeded the 50 point mark for the first time since January 2012, indicating that the underlying economies are on course to improve in the coming quarters.

Recently released hard data has shown strong growth in some of the core European economies. Indeed, in Q2 2013, the recovery gathered momentum in the UK (+0.7%) with a broad based level of growth in all sectors. This suggests that the economy is likely to see a relatively good level of growth for overall 2013 (+1.1%). Performance in the Eurozone also improved in Q2 (+0.3%), following six consecutive quarters of contraction. Although the economic improvement was widespread, growth remains polarised.

Alongside deepening contraction in the Southern countries, France (+0.5%) and Germany (+0.7%) surprised on the upside with genuine increase, albeit the overall first half was still below what we had expected at the beginning of the year. Furthermore the latest soft data suggests that the second half of the year is only likely to see a stabilisation in the Eurozone. As such our expectation for economic performance in Western Europe overall has deteriorated somewhat for 2013 where we are now expecting a decline of 0.3% compared to a growth of 0.1% in our previous assessment. We re-affirm our 2014 (+ 1.0%) outlook.

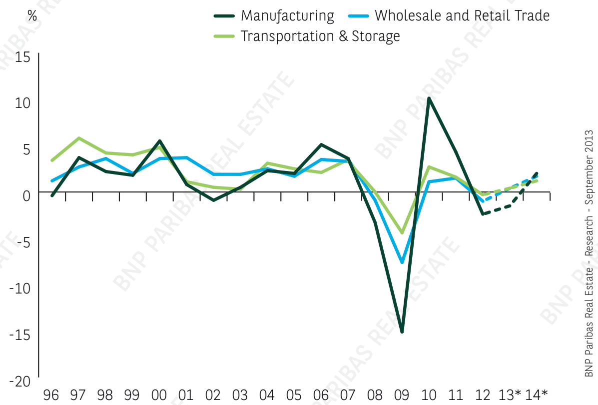
The volume of Eurozone exports in Q2 2013 (+1.65%) has been supportive of overall growth, albeit modestly, following two consecutive quarters of decline. Moreover the sharp fall in the level of order books, in recent years, has now begun to stabilise on the back of improving new orders. This suggests that export growth could accelerate in the coming quarters. But with improving confidence among European consumers and the weakening emerging markets, export growth could be the strongest in the countries that are more focused on intra-European trade such as Spain.

GDP and employment growth in the EU 15



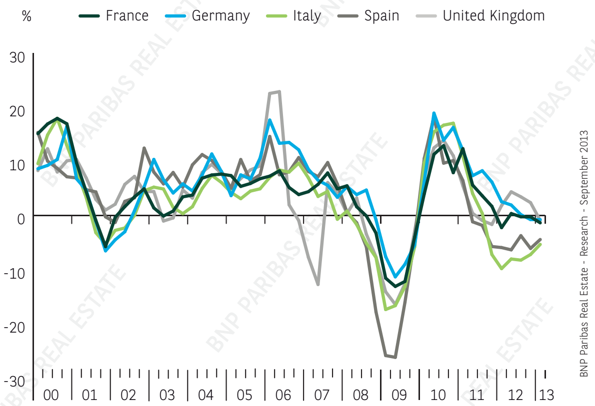
* Forecast
Source: Eurostat / BNP Paribas Real Estate

Distributive trade and manufacturing output in the EU 15



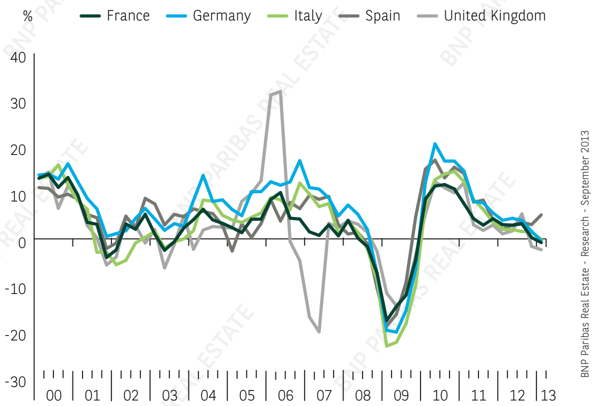
* Forecast
Source: Oxford Economics / BNP Paribas

Imports
(year-on-year change)



Source: Eurostat

Exports
(year-on-year change)



Source: Eurostat

TAKE-UP IS PICKING UP BUT PRIME SUPPLY IS STILL LACKING

The volume of transactions increased significantly in Q2 2013 (+21%) compared to the previous quarter in the main European logistics markets, Germany, the UK, France, Spain and the Netherlands. Overall, take-up is picking up in a still weak but strengthening economic environment. The logistics activity was upheld by the two largest single markets, Germany and the UK, which have been amongst the most resilient economies of the EU 15. In France, the logistics market has been declining since the peak recorded in 2011, hampered by the deterioration of the economy.

The economic uncertainties that have been prevalent over the past few years prevented speculative developments. It generated a shortage of prime warehouses, even in the strongest economies where confidence is just strengthening after an uneasy start in the year. This stimulated demand for owner-occupier solutions throughout Europe as an alternative to the scarcity of new warehouses in the best locations. The lack of availabilities of prime products is still an impediment to growth in a number of markets, but the positive signs in most economic indicators may stimulate new developments in the forthcoming quarters.

Rents remained stable in most European countries during the first half of 2013. However, initial signs indicate a reduction in incentives by owners, which could lead to an increase in rents in prime European locations where availabilities are scarce.

The **German market** showed a strong resilience during the first half of 2013 considering the slackening of the economy at the beginning of the year. Take-up increased by 17% compared to the volume of transactions recorded last year during the first half. The good performance of the market was widespread throughout the country. It concerned all size bands and broad demand came from various business sectors, thus proving a solid market trend. At the end of the summer, the increased confidence in the German economy, boosted by a healthy consumer climate and excellent export figures, will definitely contribute to a lively market in the second half of the year.

In the **UK**, take-up rose by 12% between H1 2013 and H1 2012 boosted by large design-and-build deals including Marks & Spencer (84,000 m²) in London and Travis Perkins (65,000 m²) in Warrington. Some small scale speculative developments are underway but not sufficient enough to create an increase in supply. Rents have been static but a downward trend in incentives has been noticeable as a result of a strong occupational market.

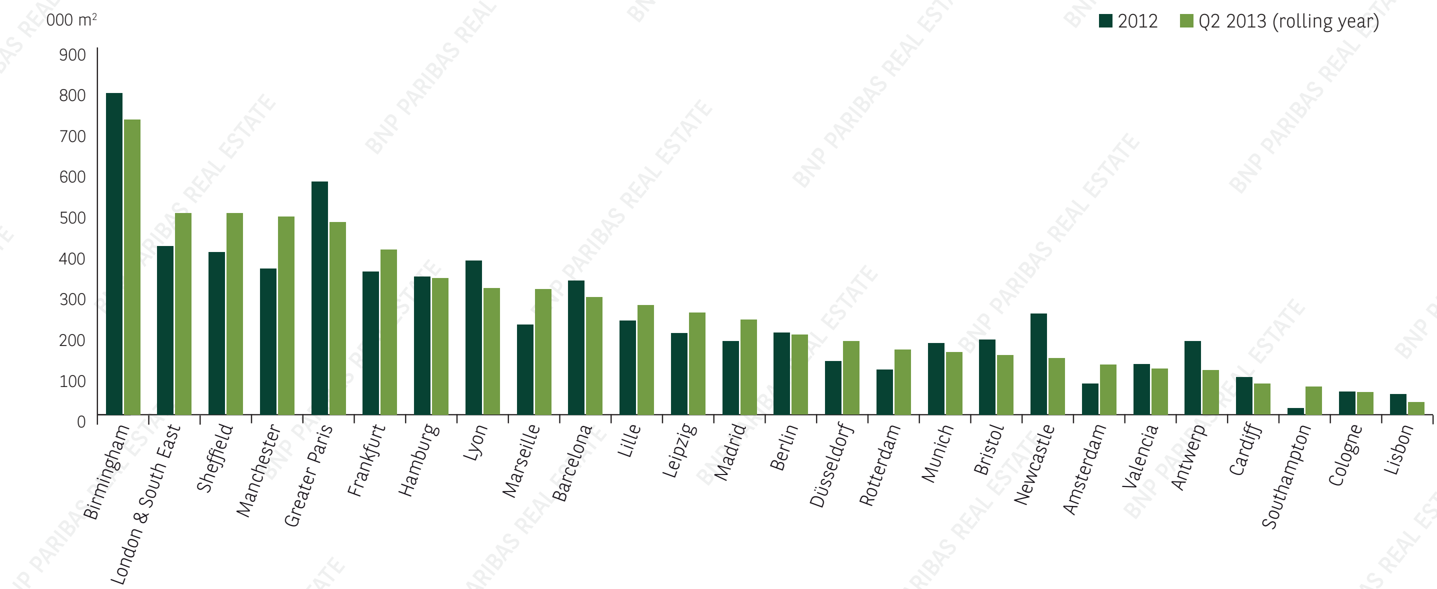
Unlike in Germany and the UK, market trends in **France** reflected the lack of confidence in most sectors of the economy. Take-up for warehouses over 5,000 m² decreased by 18% during the first half. The market activity was particularly low in Greater Paris which recorded its lowest volume of transactions in 10 years. The first signs of economic improvements are expected to help the market to return to growth in 2014 after a period of wait-and-see by logistics players.

In **Spain**, take-up increased by 6% during the first half of 2013 boosted by strong activity in Madrid. The absence of new deliveries is still affecting the market and the lack of prime logistics space is starting to be significant in Barcelona. As a result, occupiers are seeking modern product at affordable values. In this context, rents still display a downward trend.

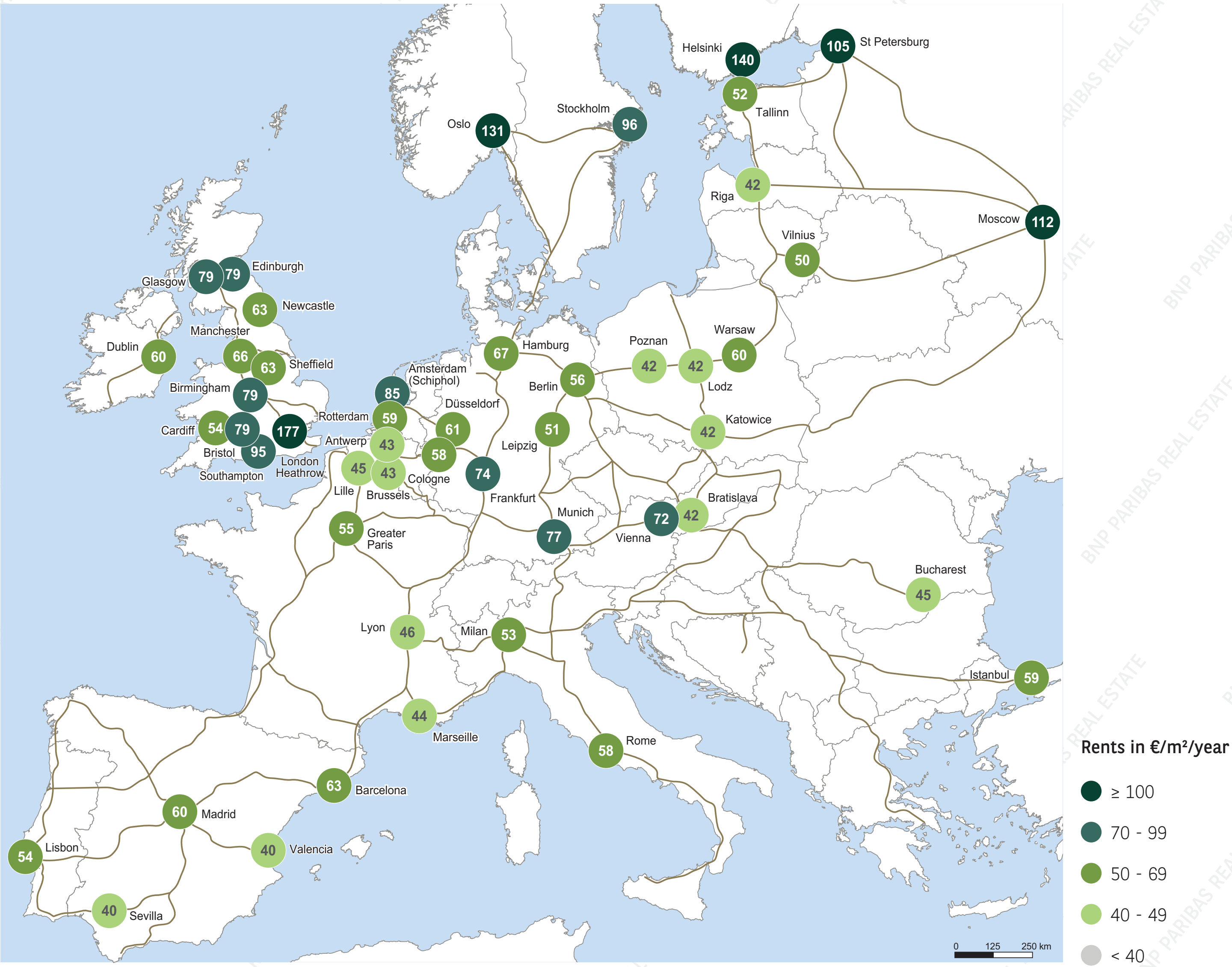
In **Poland**, developers are still avoiding construction of speculative projects. As a result, the build-to-suit is still dominating the market. The largest deal was a built to suit for Castorama involving a distribution centre of 50,000 m² to supply their DIY shops across the whole of Poland. Rents continued to be globally stable but a decline in vacancy rates in most Polish parks has resulted in a slight upward pressure on rental values.

In the **Netherlands**, the volume of transactions rose by 40% in H1 2013. The market has been particularly lively in the province of North Brabant and Limburg, boosted by new developments and competitive values compared to Amsterdam and Rotterdam.

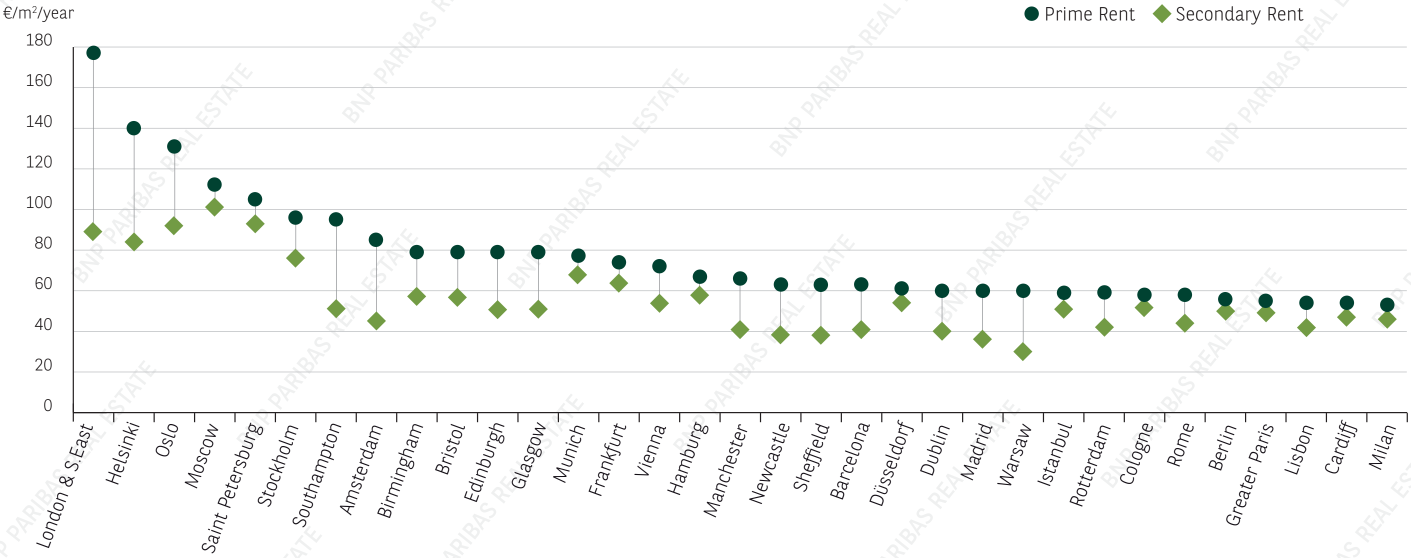
Take-up - Warehouses over 5,000 m²



PRIME RENTS IN Q2 2013 - WAREHOUSES OVER 5,000 M²



Prime rents - Warehouses over 5,000 m²



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INDUSTRIAL INVESTMENT REMAINS DIFFERENTIATED ACROSS EUROPE

The industrial and logistics sector kept a similar share of total real estate volume, representing some 9% of the total real estate investment volume in Western Europe. This sector seems increasingly attractive in France, Germany and the Netherlands where volumes are back to pre-crisis levels. In Spain, Italy and Portugal, industrial investments have been particularly low for the past 18 months representing only a marginal share of their total investment.

Risk aversion prevails. Nevertheless, some investors are starting to adopt opportunistic strategies and start to look outside the office sector. The limited supply of prime assets (high quality buildings in top locations rented with long leases) is still the main challenge in investment activity.

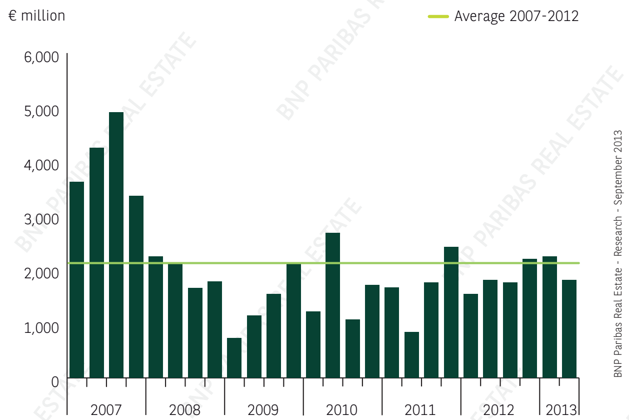
Industrial investment in **Germany** reached its second highest amount ever recorded, just slightly below the 2007 top level. Demand was widespread across the country and formed a broad spectrum of investor interest in all size classes and both single deals and portfolio transactions. Prime yields remained unchanged ranging from 6.50% and 6.85% in the main German markets.

Unlike the occupier market, the logistics investment market in **France** has been very lively during the first half of the year. Though pure logistics players continued to be very active, the return of opportunistic players has been noticeable over the past few months. Thanks to this buoyant investment activity in France, prime industrial yields decreased by more than 15 bp reaching 7.15% in Paris and the French regions.

In the **Netherlands**, the logistics market performed well considering the weak economic situation. The industrial investment market, which accounted for 13% of the total real estate investment, has been driven by a strong activity in the port of Rotterdam and Schipol Airport. Prime yields stabilised at 7.0%.

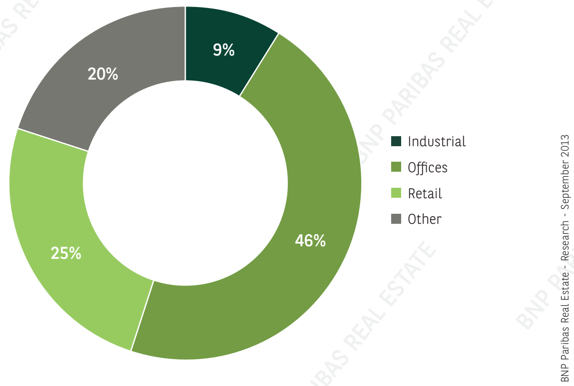
In the **UK**, industrial investment remained a steady component of overall investment volume. Very little speculative development and space shortages mean that distribution warehouses have appealed as an investment in the last two quarters. Volumes are unlikely to decline but neither will they greatly increase.

Industrial* investment volume
5 countries: France, Germany, Italy, Spain, UK



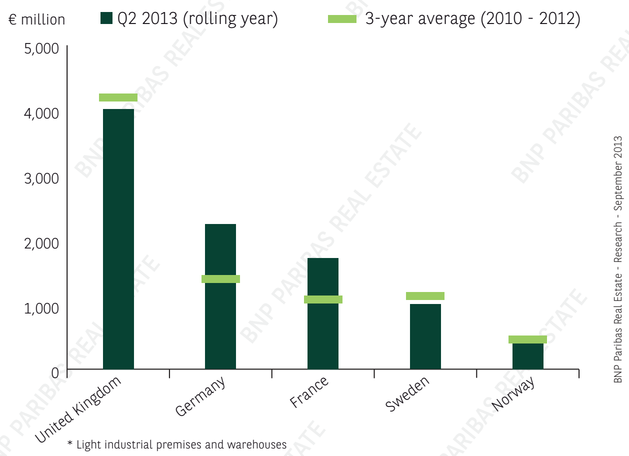
*Light industrial premises and warehouses

Commercial real estate investment volume
Western Europe*



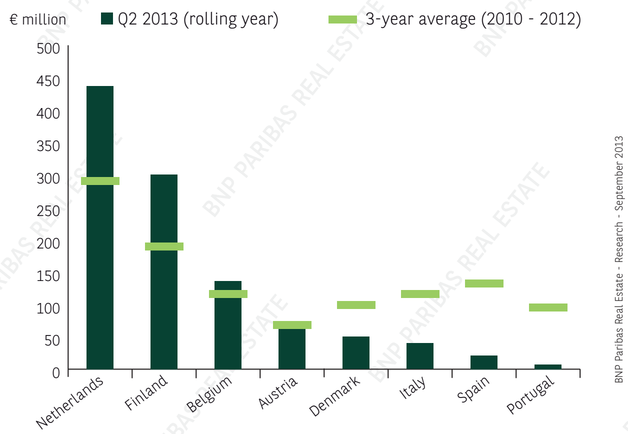
*Austria, Belgium, Denmark, Finland, France, Germany, Italy, Luxembourg, Norway, Portugal, Spain, Sweden, Netherlands, UK

Industrial* investment volume
Western Europe



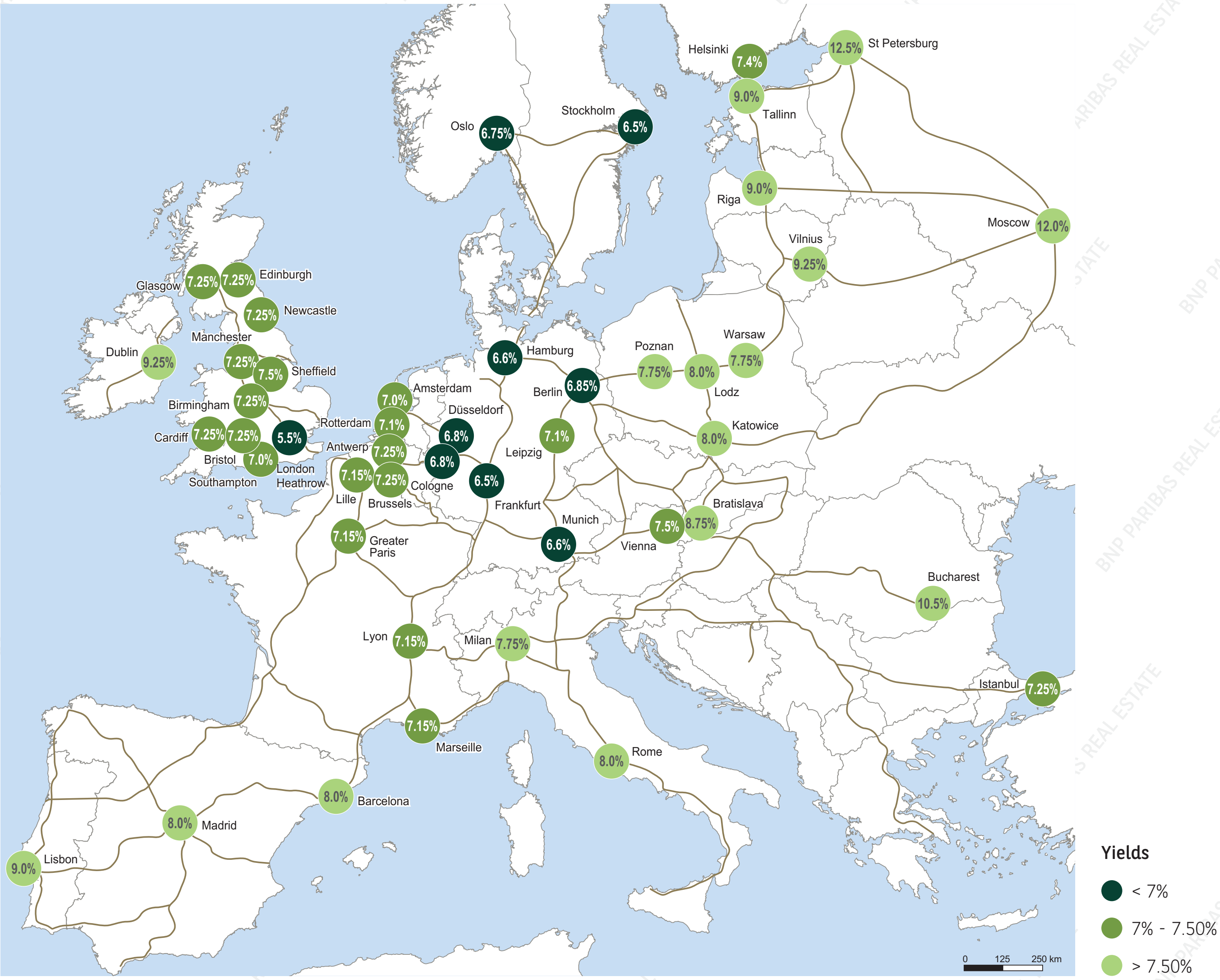
* Light industrial premises and warehouses

Industrial* investment volume
Western Europe

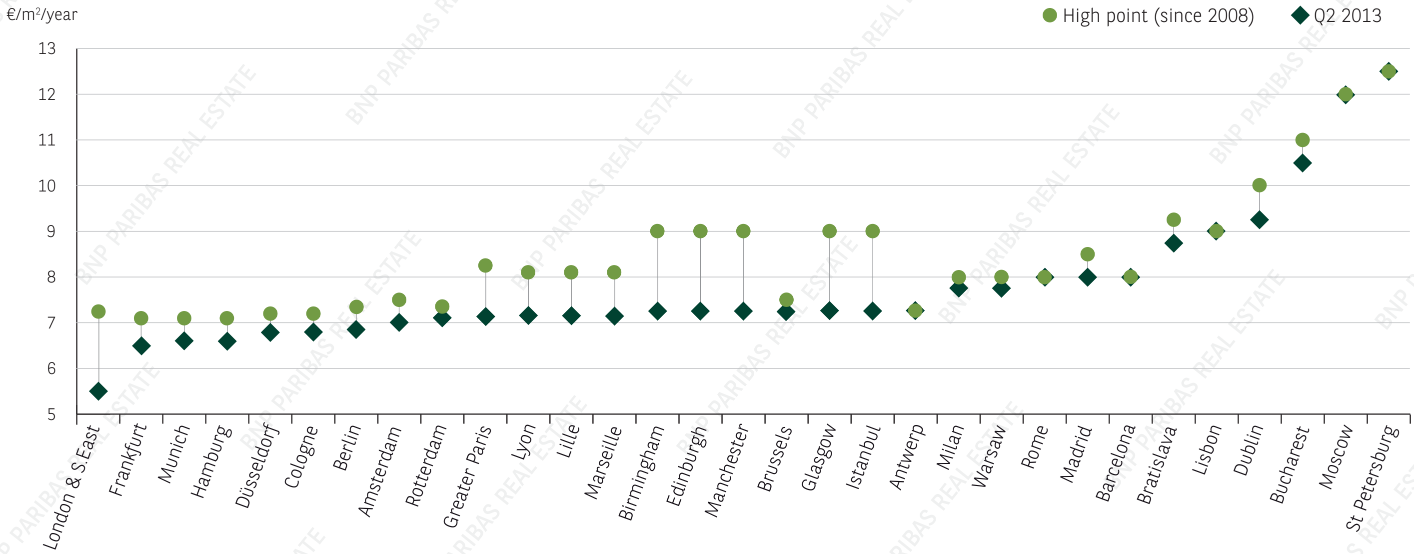


* Light industrial premises and warehouses

NET PRIME YIELDS IN Q2 2013 - WAREHOUSES OVER 5,000 M²



Logistics - net prime yields



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OCCUPIER LOGISTICS MARKET - WAREHOUSES OVER 5,000 M²

City	Take-up (m²)						Rents (€/m²/year)		
							Prime		Secondary
	Q2 2013 (rolling year)	Q2 2012 (rolling year)	Variation y-o-y (%)	H1 2013	H1 2012	Variation y-o-y (%)	Q2 2013	Q2 2012	Q2 2013
Birmingham	723	851	-15%	328	393	-17%	79	73	57
Greater Paris	472	1 259	-63%	252	352	-28%	55	53	49
London & South East	494	570	-13%	316	235	+34%	177	165	89
Sheffield	494	287	+72%	275	179	+53%	63	63	38
Lyon	310	329	-6%	97	165	-41%	46	45	42
Manchester	486	416	+17%	319	191	+67%	66	70	41
Frankfurt	405	359	+13%	211	157	+34%	74	74	64
Barcelona	289	256	+13%	63	104	-39%	63	72	41
Hamburg	335	350	-4%	116	120	-3%	67	67	58
Newcastle	139	257	-46%	82	192	-57%	63	63	38
Lille	269	211	+27%	78	40	+97%	45	44	43
Madrid	233	228	+2%	177	124	+42%	60	76	36
Berlin	196	238	-18%	127	132	-4%	56	56	50
Leipzig	250	230	+9%	161	111	+45%	51	51	42
Bristol	146	222	-34%	70	108	-35%	79	82	57
Antwerp	109	167	-35%	0	71	-100%	43	43	37
Munich	154	191	-19%	33	55	-40%	77	74	68
Marseille	308	209	+47%	114	27	+325%	44	44	41
Düsseldorf	180	112	+61%	88	39	+126%	61	61	54
Cardiff	76	135	-44%	61	76	-21%	54	63	47
Cologne	55	85	-35%	34	36	-6%	58	58	52
Lisbon	31	59	-47%	0	20	-100%	54	60	42

Constant Exchange rates £/€ = 1.1757

REAL ESTATE INVESTMENT MARKET - WESTERN EUROPE

Country	Total real estate investment € million			Industrial* investment € million					
	Q2 2013 (rolling year)	Q2 2012 (rolling year)	Variation y-o-y (%)	Q2 2013 (rolling year)	Q2 2012 (rolling year)	Variation y-o-y (%)	H1 2013	H1 2012	Variation y-o-y (%)
United Kingdom	40,663	34,891	+17%	4,008	4,603	-13%	2,045	2,115	-3%
Germany	29,018	21,988	+32%	2,233	1,547	+44%	1,331	851	+56%
France	19,070	19,190	-1%	1,712	1,071	+60%	655	350	+87%
Sweden	11,484	11,265	+2%	1,000	1,207	-17%	506	754	-33%
Norway	6,081	5,342	+14%	483	587	-18%	213	304	-30%
The Netherlands	3,244	5,019	-35%	436	256	+71%	270	130	+108%
Italy	2,465	3,239	-24%	40	151	-73%	26	0	-
Spain	2,105	1,996	+5%	21	153	-86%	0	32	-100%
Austria	1,900	1,730	+10%	70	50	+40%	20	30	-33%
Finland	1,790	1,810	-1%	300	158	+90%	292	66	+344%
Belgium	1,727	1,649	+5%	136	129	+5%	46	54	-14%
Luxembourg	417	366	+14%	4	2	+74%	1	2	-67%
Portugal	279	198	+41%	7	10	-25%	1	2	-19%
Total	**120,245**	**108,683**	**+11%**	**10,451**	**9,922**	**+5%**	**5,404**	**4,689**	**+15%**

*Light industrial premises and warehouses
Constant Exchange rates £/€ = 1.1757

NET PRIME YIELDS - WAREHOUSES OVER 5,000 M²

City	Net prime yields		
	Q2 2013	Q2 2012	Bp variation
London & South East	5.50%	6.00%	-50
Stockholm	6.50%	6.50%	0
Frankfurt	6.50%	6.50%	0
Munich	6.60%	6.60%	0
Hamburg	6.60%	6.60%	0
Oslo	6.75%	6.75%	0
Düsseldorf	6.80%	6.80%	0
Cologne	6.80%	6.80%	0
Berlin	6.85%	6.85%	0
Southampton	7.00%	7.00%	0
Amsterdam	7.00%	7.00%	0
Greater Paris	7.15%	7.15%	0
Lyon	7.15%	7.30%	-15
Lille	7.15%	7.30%	-15
Marseille	7.15%	7.30%	-15
Rotterdam	7.10%	7.10%	0
Leipzig	7.10%	7.10%	0
Birmingham	7.25%	7.25%	0
Bristol	7.25%	7.25%	0
Edinburgh	7.25%	7.25%	0
Glasgow	7.25%	7.25%	0
Manchester	7.25%	7.25%	0
Newcastle	7.25%	7.25%	0
Istanbul	7.25%	7.25%	0
Cardiff	7.25%	7.00%	25
Antwerp	7.25%	7.25%	0
Brussels	7.25%	7.25%	0
Helsinki	7.40%	7.40%	0
Vienna	7.50%	7.75%	-25
Sheffield	7.50%	7.50%	0
Warsaw	7.75%	8.00%	-25
Milan	7.75%	7.60%	15
Poznan	7.75%	8.00%	-25
Barcelona	8.00%	7.75%	25
Madrid	8.00%	8.00%	0
Rome	8.00%	7.80%	20
Katowice	8.00%	8.00%	0
Lodz	8.00%	8.00%	0
Bratislava	8.75%	8.50%	25
Lisbon	9.00%	8.25%	75
Tallinn	9.00%	n.a.	n.a.
Riga	9.00%	n.a.	n.a.
Dublin	9.25%	9.50%	-25
Vilnius	9.25%	n.a.	n.a.
Bucharest	10.50%	10.50%	0
Moscow	12.00%	n.a.	n.a.
Saint Petersburg	12.50%	n.a.	n.a.

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GLOSSARY

The numerical data used by BNP Paribas Real Estate for its statistics feature all the information at the group's disposal when compiling them. These statistics may change according to new information brought to our knowledge that is often confidential to begin with.

Definitions from A to Z...

Design & Build: construction of a bespoke building for an occupier.
- **Owner-occupier development:** construction of a building for an occupier who has signed a bill of sale on a property still to be built.
- **Lease turnkey:** construction of a building for an occupier who has signed a lease on a property still to be built.

Distributive trade: it is measuring the volume of material goods to consumers distributed through retailing and wholesale trade.

Light industrial buildings: individual buildings intended for production or small-scale distribution and able to accommodate all the company departments under one roof.

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.

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.

Portfolio: group of several assets located in different places.

Rent: common annual headline rent, expressed per square metre per year, and excluding taxes and charges.
Prime rent: represents the top open-market rent at the survey date for a real estate unit:
- Over 5,000 m² suitable for logistics uses
- Of the highest quality and specification
- In the best location in a market

Secondary rent: represents a market rent at the survey date for a real estate unit:
- Over 5,000 m² suitable for logistics uses
- Of good quality and specification
- In a good location in a market

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

Speculative / Non speculative operation:
- **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.

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.

Transaction (Take-up): rental or sale to an occupier of a real estate asset, sealed by the signature of a lease or deed, including turnkey and owner-occupier operations. The transaction is only taken into account once any existing conditional clauses have been lifted.
- 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

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

Warehouses: buildings intended for storage, distribution or packaging.

Yield:
- **Net yield:** ratio between net income (excl. operating costs) and the acquisition price including all acquisition costs.
- **Initial yield:** ratio between the net rent before taxes and charges on the date of sale and the selling price (all costs included).
- **Prime yield:** net lowest yield obtained for the acquisition of a unit:
  - of standard size,
  - of the highest quality and specification,
  - in the best location in each market.

INTERNATIONAL COVERAGE FOR LOCAL SOLUTIONS

USA

India

Canary Islands

Hong Kong

Singapore

- Our locations
- Our alliances

MAIN LOCATIONS

ABU DHABI
Al Bateen Area
Plot n° 144, W-11
New Al Bateen Municipality
Street n° 32
P.O. Box 2742 Abu Dhabi
Tel.: +971 44 248 277
Fax: +971 44 257 817

BELGIUM
Boulevard Louis
Schmidtlaan 2 B3
1040 Brussels
Tel.: +32 2 290 59 59
Fax: +32 2 290 59 69

CZECH REPUBLIC
Pobřežní 3
186 00 Prague 8
Tel.: +420 224 835 000
Fax: +420 222 323 723

DUBAI
Emaar Square
Building n° 1, 7th Floor
P.O. Box 7233, Dubaï
Tel.: +971 44 248 277
Fax: +971 44 257 817

FRANCE
Headquarters
167, Quai de la Bataille
de Stalingrad
92867 Issy-les-Moulineaux
Tel.: +33 1 55 65 20 04
Fax: +33 1 55 65 20 00

GERMANY
Goetheplatz 4
60311 Frankfurt
Tel.: +49 69 2 98 99 0
Fax: +49 69 2 92 91 4

HONG KONG
63 /F Two international finance
Center - 8 Finance Street
Hong Kong
Tel.: +852 2909 2806
Fax: +852 2865 2523

HUNGARY
Alkotás u. 53.
H-1123 Budapest,
Tel.: +36 1 487 5501
Fax: +36 1 487 5542

IRELAND
20 Merrion Road,
Dublin 4
Tel.: +353 1 66 11 233
Fax: +353 1 67 89 981

ITALY
Via Carlo Bo, 11
20143 Milan
Tel.: +39 02 58 33 141
Fax: +39 02 3706 9209

JERSEY
3 Floor, Dialogue House
2 - 6 Anley Street
St Helier, Jersey JE4 8RD
Tel.: +44 (0)1 534 629 001
Fax: +44 (0)1 534 629 011

LUXEMBOURG
Axento Building
Avenue J.F. Kennedy 44
1855 Luxembourg
Tel.: +352 34 94 84
Fax: +352 34 94 73
Investment Management
Tel.: +352 26 26 06 06
Fax: +352 26 26 06 26

NETHERLANDS
JJ Viottastraat 33
1071 JP
Amsterdam
Tel.: +31 20 305 97 20

POLAND
Al. Jana Pawła II 25
00-854 Warsaw
Tel.: +48 22 653 44 00
Fax: +48 22 653 44 01

ROMANIA
Union International Center
11 Ion Campineanu Street
6th floor, 1st district
Bucharest 010031
Tel.: +40 21 312 7000
Fax: +40 21 312 7001

SINGAPORE
10 Collyer Quay, #31-01
Ocean Financial Centre
Singapore 049315
Tel.: +65 62 10 12 88
DID: +65 62 10 31 99

SPAIN
María de Molina, 54
28006 Madrid
Tel.: +34 91 454 96 00
Fax: +34 91 454 97 65

UNITED KINGDOM
5 Aldermanbury Square
London EC2V 8HR
Tel.: +44 20 7338 4000
Fax: +44 20 7430 2628

ALLIANCES

AUSTRIA
CYPRUS
ESTONIA
FINLAND
GREECE
INDIA
LATVIA
LITHUANIA
NORTHERN IRELAND
NORWAY
RUSSIA
SERBIA
SWEDEN
SWITZERLAND
TURKEY
UKRAINE
USA

PLEASE CONTACT

Alliances
Bernard Blanco
Tel.: +33 (0)1 47 59 20 84
bernard.blanco@bnpparibas.com

Research
Christophe Pineau
Tel.: +33 (0)1 47 59 24 77
christophe.pineau@bnpparibas.com