BNP PARIBAS REAL ESTATE

Real Estate
for a changing
world

FEBRUARY 2023

EUROPEAN LOGISTICS MARKET

RESILIENCE FOR EUROPEAN LOGISTICS MARKETS

-10%

LOGISTICS TAKE-UP FOR WAREHOUSES OVER 5,000 SQM

(2022 vs 2021)

TAKE-UP

The logistics market in Europe proved resilient despite a difficult political and economic environment. Low vacancy rates and limited land availability continue to push rents up and magnified by construction costs.

- **Take-up decreased by 10% in 2022** in the six leading European countries.
- **It maintained a high level** above the 5-year average despite the difficult economic backdrop.
- Market fundamentals are healthy with vacancy rates below 4% in most countries.
- **Prime rents increased by 12.1%** over the last 12 months in Europe, notably supported by strong growth in the UK, Poland and the Czech Republic.

-19%

INDUSTRIAL & LOGISTICS INVESTMENT IN EUROPE

INVESTMENT

Rental growth prospects remain attractive to investors. Consequently, capital markets recorded strong volumes across Europe despite the slowdown at the end of 2022 as prices adjusted.

- **Industrial and logistics reached €56 bn invested in 2022**, greater than the annual average between 2017 and 2020.
- Despite a strong year overall, **Q4 experienced strong slowdown** in investment.
- It is the result of **rapid adjustment in the macro financial environment** with bond yield expansion and rising interest rates.
- **It created pricing uncertainty with yield decompression** in most European countries.

Vincent Robion
Head of Research - Logistics Europe

THE THREAT OF DEEP RECESSION IS FADING

+0.2%

GDP GROWTH
EUROZONE – 2023

After a year 2022 characterized by an inflationary shock and a bond crash, **2023 may start with a marked slowdown in activity**. There are roll over factors from 2022 that may dampen output:

- The invasion of Ukraine by Russia may continue to shape energy and commodity prices. Its main impact in 2023 is to impose energy transition costs that may act as a drag on output

- The reopening of the Chinese economy following abandonment of zero-Covid will take time to feed into the global economy, particularly through supply chains

- Monetary tightening from the main central banks is likely to sustain over 2023 with no loosening

Despite the current uncertainties, **we expect only a limited recession in Europe**. Indeed, the limited rise in unemployment, the support from fiscal policy in many European countries and the need to invest in the context of the energy transition should limit the economic shock.

The recession should then be followed by a moderate recovery as the various shocks start to ease.

Overall, we should have a mild recession in Europe in 2023 (-0.5%) as the rebound in H2 will not be strong enough to compensate for the slowdown.

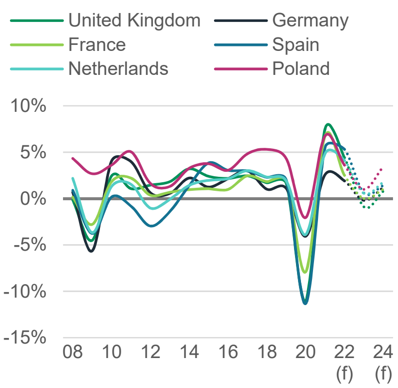
It seems highly likely that for the Eurozone, 2023 will bring an easing in headline inflation, a contraction in GDP and a peak in the ECB's policy rates.

The strength of the employment data reflects a degree of resilience in the economy in the face of the multiple shocks. Indeed, the robust performance of the job market, a key stronghold against the inflationary shock, was confirmed as the unemployment rate slipped to historical lows. Job creation is slowing as employers sacrifice vacancies before actual jobs.

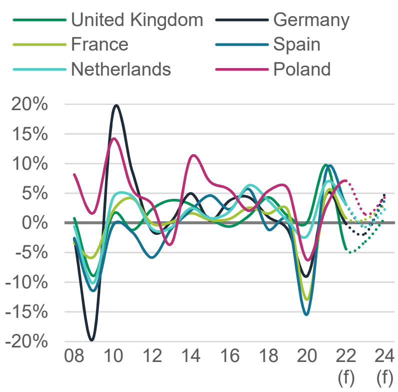
The contribution of energy in the global rise of prices is decreasing. Supply disruptions arising from the war in Ukraine and post pandemic economic adjustment created significant inflationary pressures in energy and commodity prices that may unwind over 2023.

GDP and Employment growth in the Eurozone

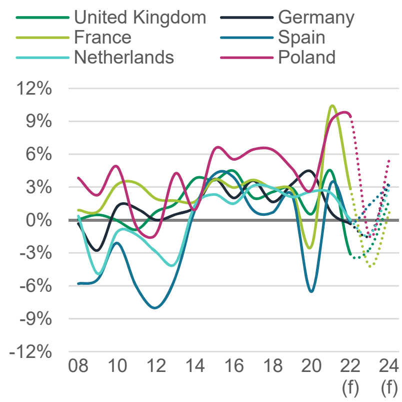
GDP growth
(year-on-year change)



Manufacturing output
(year-on-year change)



Retail sales
(year-on-year change)



Source: Oxford Economics, BNP Paribas

ABOVE ITS 5-YEAR AVERAGE, THE MARKET IS HOLDING UP WELL DESPITE AN ECONOMIC SLOWDOWN

-10%
TAKE-UP
(2022 vs 2021)

± 3.5%
VACANCY RATE
(Q4 2022)

In 2022, the market decreased by 10% in the 6 leading European markets. The total volume of 27.0 million sqm compares well with the exceptional volumes recorded in 2021.

Sufficient economic growth existed in 2022 to ensure good performance in occupier markets. Take-up of space declined in some countries but not everywhere.

Demand for space increased from tenants looking for efficiency gains. Many seek to get units in their network in the right locations to increase delivery speed to customers.

Structural changes in consumer spending patterns continue to raise e-commerce penetration rates. It means the need for logistics space remains ongoing.

Supply drying up over the past three years while demand stayed sharp means there is major imbalance in some markets.

Construction times and availability of land dictate the market balance in areas where the vacancy rate is well below the European average of 4%.

New developments are still insufficient to meet demand, yet few speculative developments are launched.

In Germany, the logistics market was particularly dynamic in 2022, just below the 8 million mark and well above the 6 million average achieved between 2017 and 2020. Slowdown in momentum in H2 mainly stemmed from a lack of supply, which is becoming more noticeable in the sub-centres. Massive increase in construction costs led to significant rental growth in Hamburg, Munich, and Cologne during 2022.

The UK occupier market decreased by 19% in 2022 but maintained a solid dynamics after the exceptional volumes recorded last year. Take-up reached 4.9 million sqm fuelled by the structural growth of e-commerce and supply chains. The acute shortage of new units supports strong rental growth in the UK.

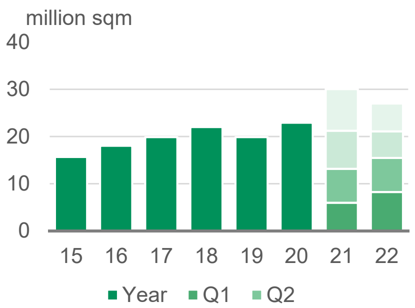
In Poland, take-up decreased by 21% but reached 4.5 million sqm in 2022, its second highest volume ever recorded. The market remained dynamic but started to lose momentum in the second half of the year. Low vacancy rates and rising costs started to exert pressure on rents. Prime rents increased sharply stepping up in the main logistics hubs from €41-€44 to €49-€59 during 2022. In Warsaw I the prime rent soared to €117.

In France, take-up declined by just 13% to reach 3.9 million sqm in 2022. Strong demand for large warehouses gave an extra boost to the market in early 2022, though activity was more steady in the second half. Supply remains scarce in most markets leaving the vacancy rate at its lowest ever level of below 3%. Competition between occupiers for high quality buildings remains sharp, implying some prospects for rental increases in prime locations.

In the Netherlands, take-up increased by 3% to 3.6 million sqm in 2022. The market is holding up well despite restrictions for new developments. As a result, the market for new warehouses is becoming tighter and tenants turn to good quality second hand properties. Robust demand and low availability are still putting pressure upward on rents.

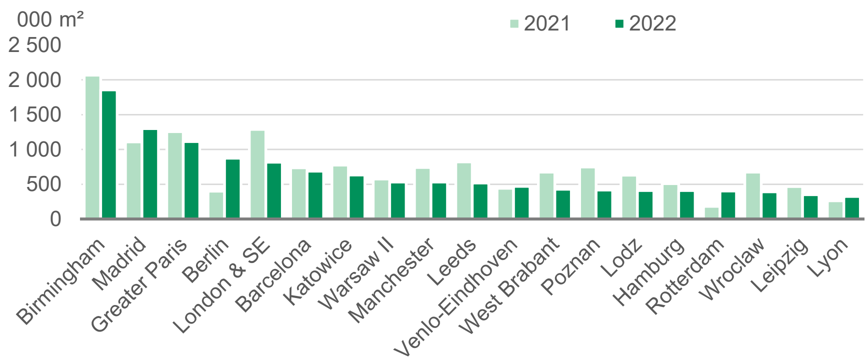
In Spain, take-up increased by 8% to 2.3 million sqm. The market hit another historic record volume of transactions in 2022 and achieved one of the strongest performance in Europe. Activity was stimulated by e-commerce and food retailers. Low vacancy rates are creating the conditions for rental growth.

Take-up – 6 countries*



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

Take-up –Warehouses over 5,000 sqm



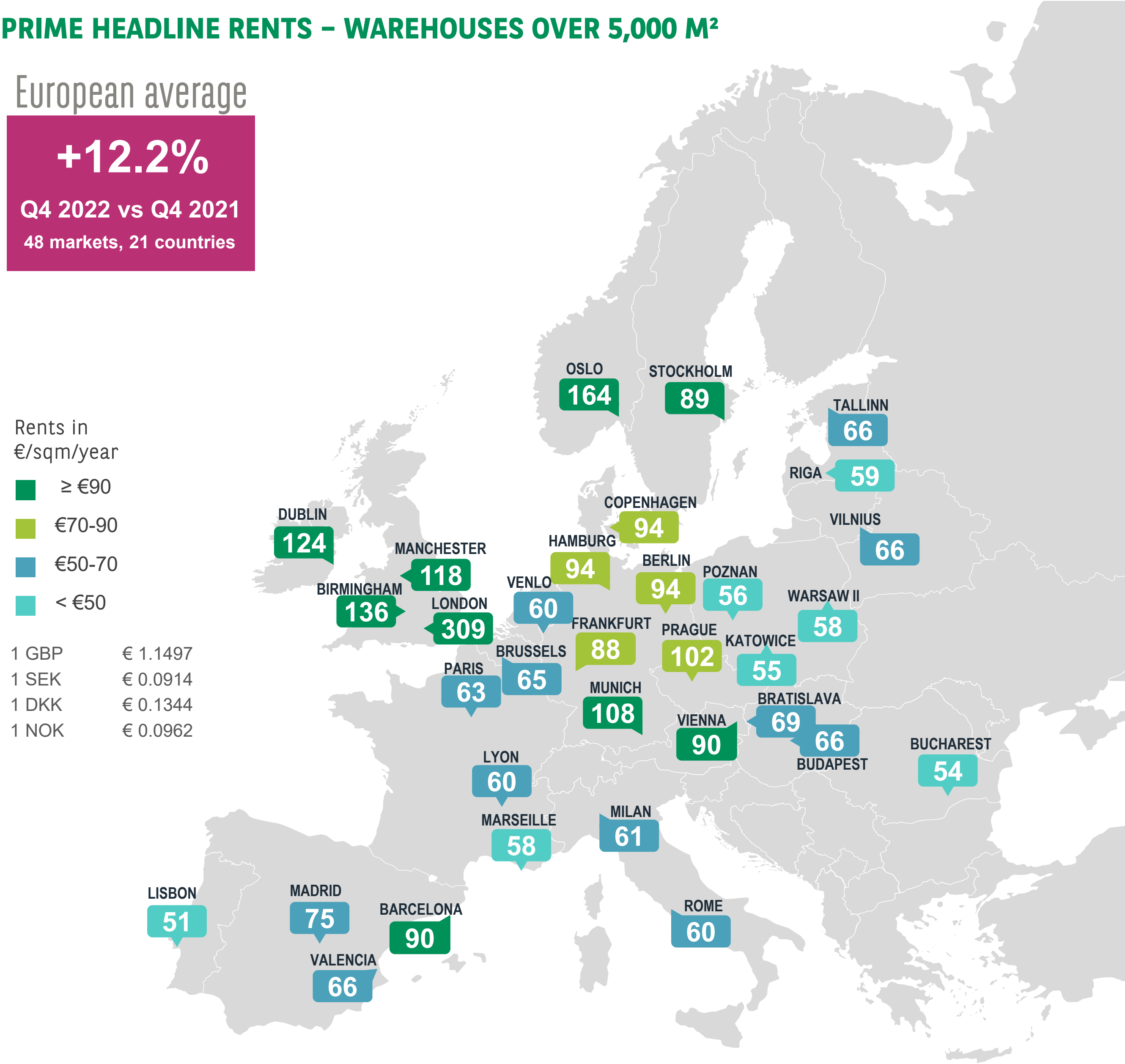
PRIME HEADLINE RENTS – WAREHOUSES OVER 5,000 M²

European average

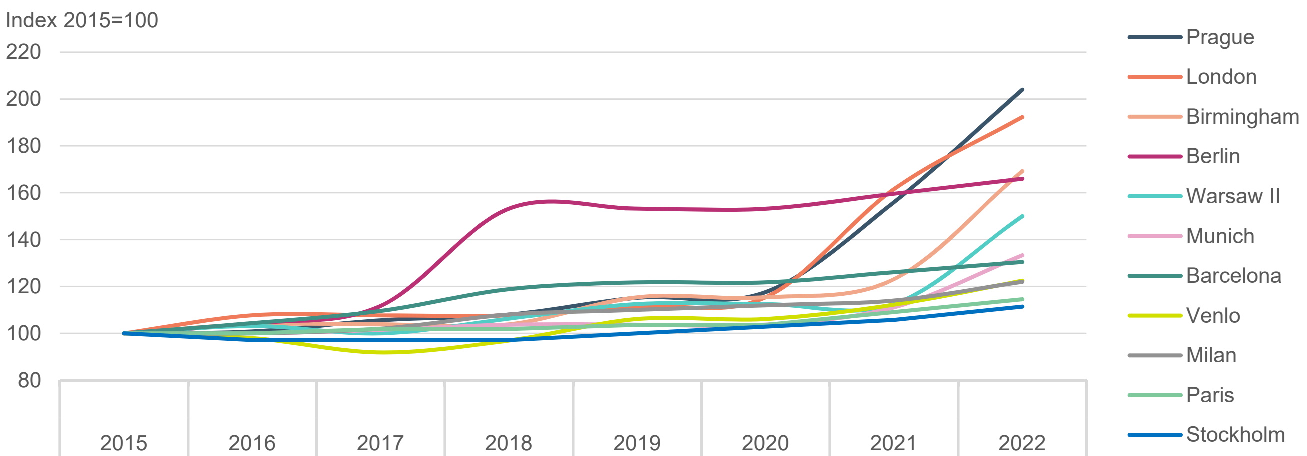
+12.2%

Q4 2022 vs Q4 2021

48 markets, 21 countries



Prime headline rents



INDUSTRIAL AND LOGISTICS INVESTMENT RECORDED ITS SECOND HIGHEST LEVEL EVER ALTHOUGH THE MARKET IS CLEARLY SLOWING

-19%

Investment volume (2022 vs 2021)

22%

Share of Logistics in Commercial Real Estate

The volume of investment declined by 19% in 2022 although it reached €56 bn, nearly €15bn greater than the annual average between 2017 and 2020.

After 5 years of outstanding investment volumes, the market continues to attract buyers. However, the investment market is challenged by increasing scarcity of stock, plus big changes in the macroeconomic and financial backdrop over 2022.

Global monetary policy normalisation took interest rates back to their pre-GFC level in under six months. The risk premium substantially reduced with steep increases in 10-year bond rates. The rapid reset created pricing mismatches between buyers and sellers with logistics the most exposed of all real estate sectors. The investment freeze lead to rapid decompression in logistics yields.

There may be still more decompression to come, at least until interest rate rises cease, which most forecast groups think will occur by mid 2023. Much of the yield decompression for prime units may have already occurred though for more marginal secondary units, pricing is likely to stay subject to extensive negotiation over 2023.

The UK industrial and logistics investment (€14.4 bn in 2022) market witnessed sharp drop (-32%) in investment volumes of over a third compared to 2021. The decline stems from unsuccessful negotiations and units being pulled from the market. Prime yields decompressed by 175 bps in 2022.

In **Germany**, industrial and logistics reached a historic volume of investment (€10.1 bn) boosted in Q1 by large deals. Prime yields decompressed by 85 bps in 2022 with further decompression expected in 2023.

In **France**, the market's strong dynamics meant only a small decline of 6% occurred to €6.4 bn. Logistics prime yields shifted by 60 bps to 3.80% in 2022 and are likely to further decompress in 2023.

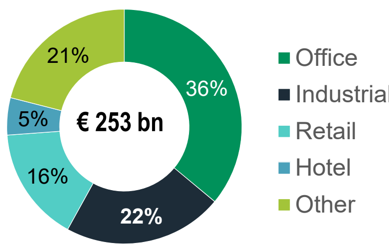
In the **Netherlands**, market activity was good across most of the year until Q4 when it was caught in the backwash affecting the sector. Momentum slowed substantially in Q4 creating an annual fall. Prime yields decompressed sharply by 150 bps. Given demand strength yield adjustment may unlock investment in the first half-year 2023.

Italy also posted a record volume last year increasing by 28%, because of portfolio deals. Yield decompressed by 40 bps to reach 4.4%.

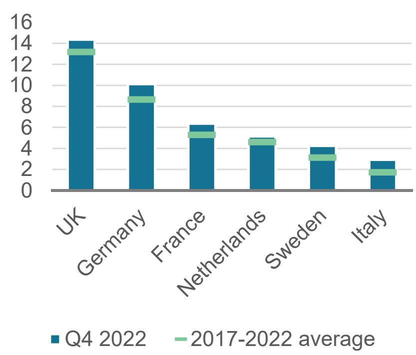
In **Spain**, investment dropped by 40% in 2022, but still was above the 5-year average. The market decline in Q4 led to decompression in the prime yield for big boxes of 95 bps in 2022.

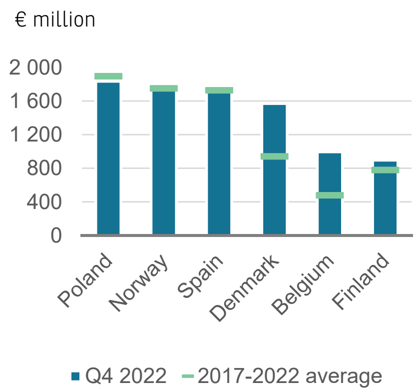
In **Poland**, following a record volume last year, activity slowed down by 16% during 2022. The market settled at €1.8bn, around its annual average recorded since 2017.

Investment volume in Europe -2022

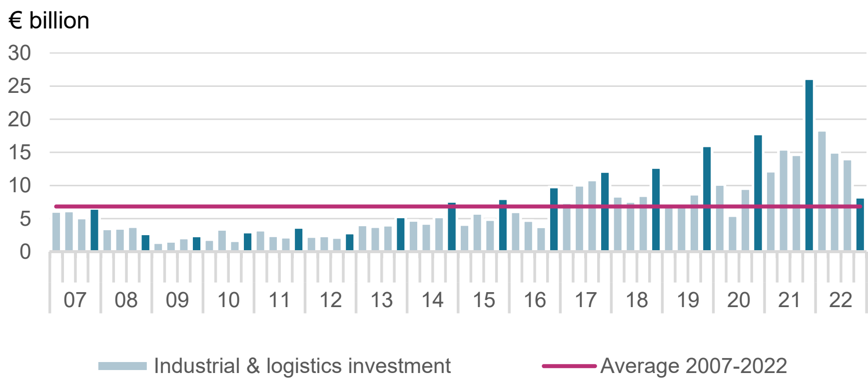


Industrial & logistics investment – 2022





Industrial & logistics investment volume in Europe



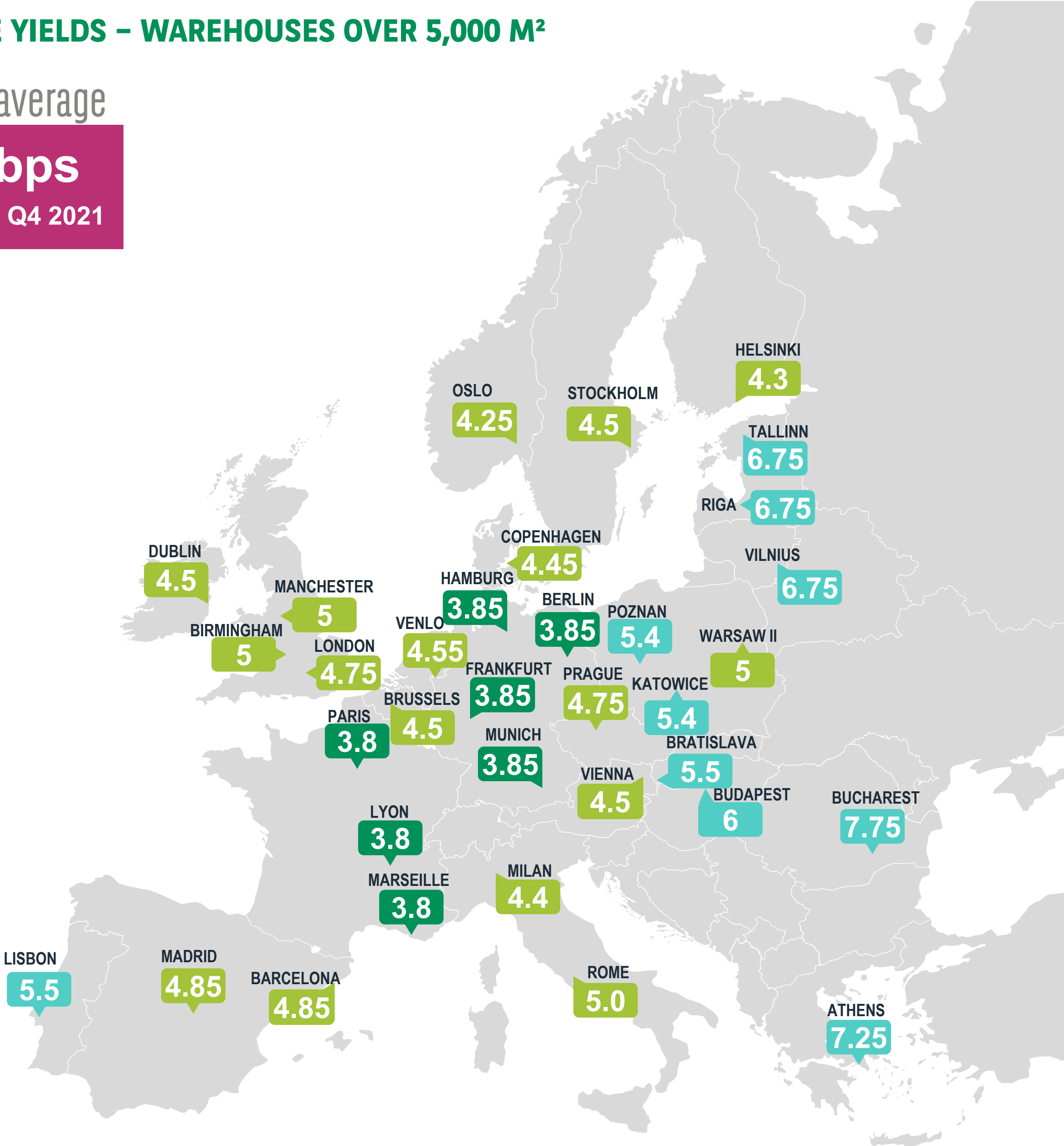
NET PRIME YIELDS – WAREHOUSES OVER 5,000 M^2

European average

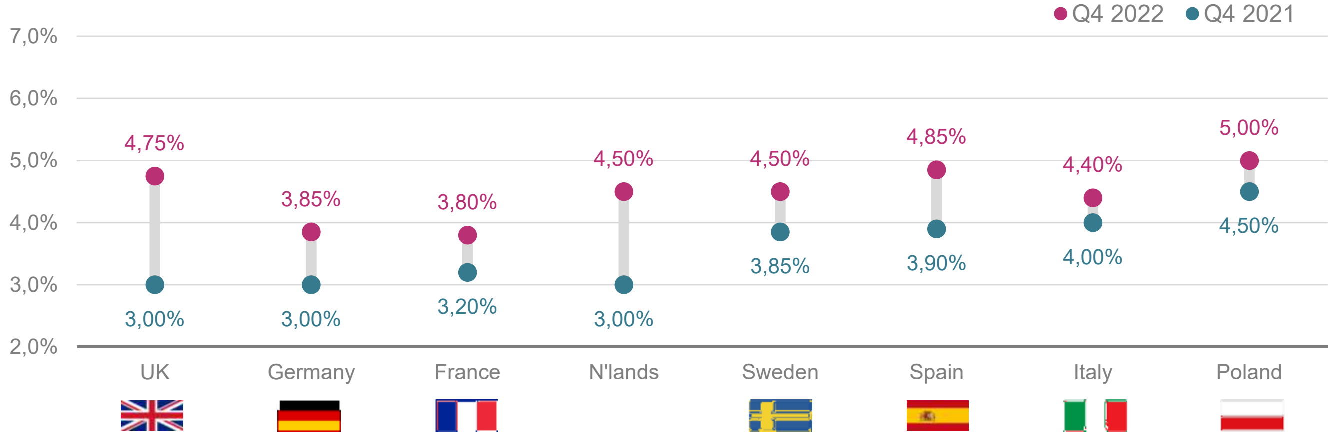
+60 bps

Q4 2022 vs Q4 2021

- < 4%
- 4%-5%
- > 5%



Net prime yields



Occupier logistics market - Warehouses over 5,000 sqm

City	Take-up (000 sqm)			Rents (€/sqm/yr)	
	2022	2021	Variation y-o-y (%)	Q4 2022	Q4 2021
Birmingham	1,850	2,070	-11%	136	99
Madrid	1,300	1,110	17%	75	75
Greater Paris	1,110	1,260	-12%	63	60
Berlin	880	400	120%	94	90
London & South East	820	1,290	-36%	309	260
Barcelona	690	740	-7%	90	87
Katowice	630	780	-19%	55	42
Manchester	530	740	-28%	118	96
Warsaw II	530	580	-9%	58	43
Leeds	520	820	-37%	98	87
Venlo	470	440	7%	60	55
West Brabant	430	670	-36%	60	55
Poznan	420	750	-44%	56	41
Hamburg	410	510	-20%	94	79
Lodz	410	630	-35%	55	43
Rotterdam	400	180	122%	73	68
Wroclaw	390	670	-42%	59	44
Leipzig	350	470	-26%	62	56
Dublin	320	260	23%	124	117
Lille	270	380	-29%	50	46
Frankfurt	190	740	-74%	88	85
Total 21 Markets	**12,920**	**15,490**	**-17%**		

Commercial real estate investment market

Country	Commercial real estate investment € million			Industrial & logistics investment € million		
	2022	2021	Variation y-o-y (%)	2022	2021	Variation y-o-y (%)
United Kingdom	64,700	80,080	-19%	14,370	21,130	-32%
Germany	54,140	64,140	-16%	10,140	9,890	3%
France	27,880	27,730	1%	6,380	6,820	-6%
Sweden	15,590	22,790	-32%	4,250	5,160	-18%
Spain	12,870	10,010	29%	1,750	2,920	-40%
Netherlands	11,300	14,120	-20%	5,150	6,160	-16%
Italy	10,850	8,660	25%	2,920	2,280	28%
Norway	8,630	15,520	-44%	1,800	3,620	-50%
Belgium	8,540	3,090	176%	990	450	120%
Finland	5,690	4,460	28%	900	920	256%
Poland	5,600	5,720	-2%	1,830	2,980	-39%
Ireland	3,880	3,250	19%	450	990	-55%
Portugal	2,730	2,000	37%	580	40	1350%
Austria	2,600	2,810	-7%	320	490	-35%
Czech Republic	1,660	1,680	-1%	420	610	na
Romania	1,300	930	40%	120	290	-59%
Other European countries	15,110	22,100	-32%	3,190	3,640	-12%
Total Europe	**253,070**	**289,090**	**-12%**	**55,560**	**68,390**	**-19%**

Net prime yields – Warehouses over 5,000 sqm

Country	Net prime yield		
	Q4 2022	Q4 2021	Variation Y-o-Y (bps)
Austria	4.50%	4.00%	50 bps
Belgium	4.50%	4.15%	35 bps
Czech Republic	4.75%	4.00%	75 bps
Denmark	4.45%	4.25%	20 bps
Estonia	6.75%	6.75%	0 bps
Finland	4.60%	3.90%	70 bps
France	3.80%	3.20%	60 bps
Germany	3.85%	3.00%	85 bps
Greece	7.25%	7.50%	-25 bps
Hungary	6.00%	6.75%	-75 bps
Ireland	4.50%	3.75%	75 bps
Italy	4.40%	4.00%	40 bps
Latvia	6.75%	6.75%	0 bps
Lithuania	6.75%	6.75%	0 bps
Netherlands	4.50%	3.00%	150 bps
Norway	4.25%	4.00%	25 bps
Poland	5.00%	4.50%	50 bps
Portugal	5.50%	5.25%	25 bps
Romania	7.70%	7.75%	-5 bps
Spain	4.85%	3.90%	95 bps
Sweden	4.50%	3.85%	65 bps
United Kingdom	4.75%	3.00%	175 bps

DEFINITIONS

LETTING & SALES

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

- A property is deemed to be "taken up" only when contracts are signed or a binding agreement exists.
- Pre-let refers to take-up that was either in the planning or construction stage.
- All deals (including pre-lets) are recorded in the period in which they are signed.
- Contract renewals are not included
- Sales and leasebacks are not included as there had been no change in occupation.
- Quoted take-up volumes are not definitive and are consequently subject to change.

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

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

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

New supply: all building restructuring that adds to the existing stock. These are analysed according to progress.

- **Completed new supply**: buildings on which construction work is finished.
- **Under construction**: buildings on which construction has effectively begun. Prior demolition work is not taken into account.
- **Planning permission granted**: authorisation to build obtained, generally booked after settlement of third party claims.
- **Planning permission submitted**: planning permission requested, being processed.
- **Projects**: identified intention of a building operation for which no request has been filed.

Speculative / Non speculative developments:

- **Speculative**: construction launched without prior rental or sale to the occupier.
- **Non-speculative**: construction launched after partial or complete sale or rental to an occupier.

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

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

INVESTMENT

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

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

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

Portfolio: group of several assets located in different places.

ASSET TYPES & LOGISTICS

Warehouses: buildings intended for storage, distribution or packaging.

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

Logistics: the process of planning, implementing, and controlling procedures for the efficient and effective transportation and storage of goods, and related information from the point of origin to the point of consumption. Includes inbound, outbound, internal, and external movements.

Supply chain: all the elements in the process of supplying a product to a customer. The chain begins with the sourcing of raw materials and ends with the delivery of finished merchandise to the end-user. It embraces vendors, manufacturing facilities, logistics service providers, distribution centres, distributors, wholesalers, other intermediaries, etc.

Supply chain management: Encompasses the planning and management of all activities involved in sourcing and procurement, conversion, and all logistics management activities.

LOCATIONS

(JANUARY 2023)

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