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MarketView

EMEA Industrial & Logistics

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October 2011

Quick Stats

	Change from Q1 2011	Change from Q210
Rent	↓	↓
Yield	↓	↓

Hot Topics

- Further evidence of market polarisation stemming from tenant preferences for modern prime space
- Investment activity in the sector has been resilient, with interest rising particularly in Germany and CEE

OVERVIEW

- **Demand indicators reflect loss of economic momentum**
  Economic activity across Europe slowed sharply in Q2 and indicators relevant to the industrial and logistics market - such as new orders and industrial production – have been distinctly mixed recently. Amid heightened economic uncertainty, key short-term indicators are likely to remain volatile for a while yet.

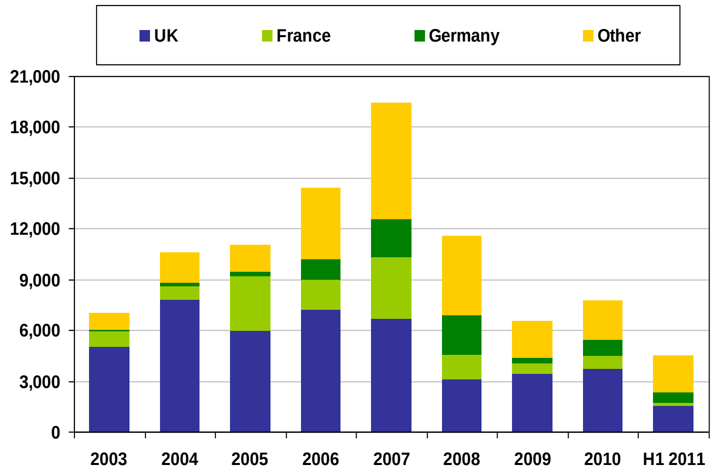
- **Leasing velocity stabilising after strong growth in 2010**
  Aggregate take-up has stabilised in the first half of this year, although patterns of activity still vary widely at individual market level. Occupiers in many markets are taking advantage of a period of rental weakness to upgrade to more modern warehouse space.

- **Rents continuing to flatline**
  Prime rents are broadly flat, leaving the CBRE EU-15 industrial rent index around 7.5% lower than at its mid-2008 peak. Rents are under downward pressure in Southern Europe and parts of fringe CEE, while Germany and the Nordic region are the main areas of growth.

- **Continental Europe increases its share of the industrial investment market**
  Supported by the sector's high income yield characteristics, the investment market for industrial and logistics assets grew in the first half of the year, totalling nearly €4.5bn as against €3.8bn in the second half of 2010. The UK remains the largest single component, but with a much-reduced share. Investment activity in Germany and CEE is showing clear signs of increasing.

- **Yield movement stalls**
  Prime industrial and logistics yields have seen little change in the first nine months of the year, falling by an average of only 13 basis points over this period. In the main centres of activity in Western Europe, prime yields are stable in the 7-7.75% range while there continue to be isolated areas of yield contraction in CEE.

European industrial and logistics investment turnover (€m)



ECONOMIC BACKGROUND

Evidence from Q2, and subsequent revisions, indicate a significant loss of momentum in the European economic recovery. Eurozone GDP rose by 0.2% in the second quarter, compared with 0.8% in the first, and subsequent turbulence stemming from the sovereign debt crisis does not suggest a near-term improvement. The stronger areas of the European economy include the Nordics and parts of CEE where several countries saw growth exceeding 1% in Q2. Conversely much of Southern Europe, as well as the UK and some of the fringe CEE markets are seeing much lower rates of growth.

In similar vein, industrial new orders declined in June and July, although they remain higher in year-on-year terms. By contrast industrial production rose slightly in July, led by capital goods and durable consumer goods. With a heightened level of economic uncertainty affecting production and inventory decisions, key short-term indicators are likely to remain volatile for a while yet.

OCCUPIER ACTIVITY

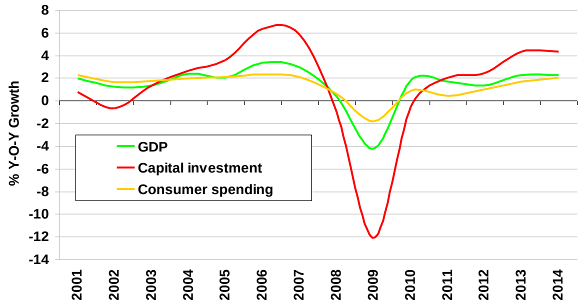
Following strong growth in 2010, aggregate take-up stabilised in the first half of this year, although patterns of activity still vary widely at individual market level. Relative to the second half of last year, strong increases in Warsaw, Budapest and to a lesser extent Paris contrast with continuing decline in Dublin, Amsterdam, Rotterdam and Prague.

Occupiers in a number of markets are taking advantage of a period of rental weakness to upgrade from outdated space to more modern warehouse buildings. This is accentuating the polarisation of the leasing market and focussing demand on a segment where supply is limited. Developers' margins are still being squeezed by low rents and short leases but we are seeing an uptick in pre-let development activity, including interest from core-plus investors to participate in pre-let development. Major third-party logistics operators are active, with FM logistics currently under offer in France for a major sale and leaseback and DHL under offer to forward sell their first direct development project in Leipzig, Germany.

RENTS AND YIELDS

With prime rents remaining flat across the sector, the CBRE EU-15 industrial rent index remains around 7.5% lower than at its peak in mid-2008, but only 0.2% down over the past 12 months. An increasing proportion of leasing activity is migrating towards better quality modern space in many markets, so that the average rental level on completed transactions is likely to be rising more strongly than the index as a whole and certainly more than that for secondary assets.

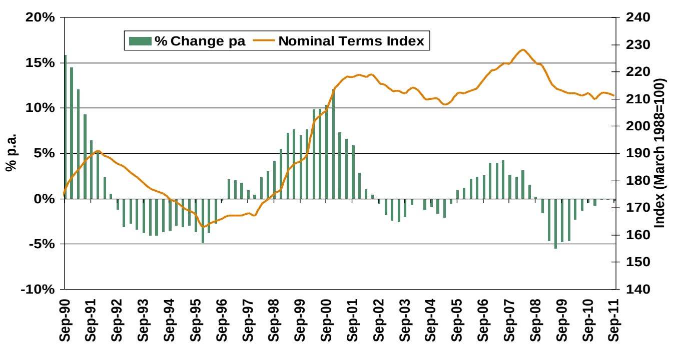
Key Economic Drivers, EU-27, 2001-14



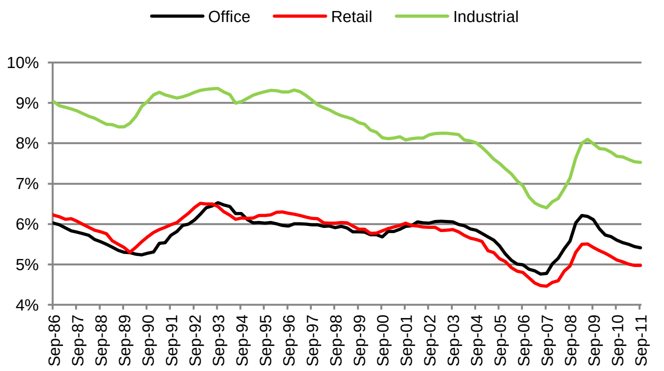
Source: Oxford Economics, September 2011

Warehouse / Logistics Take-up, Selected locations (Year-on-year % change)

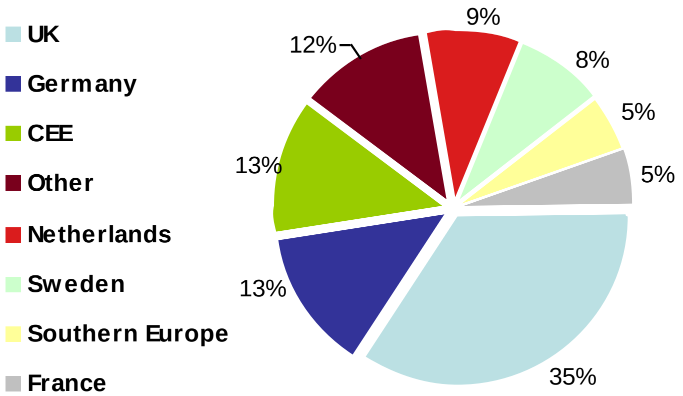
EU-15 Industrial Rent Index



EU-15 Prime Yield Indices



Industrial Investment by Market, H1 2011



Key Investment Transactions, 2011

Market/City	Buyer	Price €m
Prague, Czech Republic	AEW Europe / Tristan Capital	300.0
Various, France	GLL Real Estate Partners	177.0
Paris, France	Carval Investors, France SAS	93.0
Castle Donington, UK	Aprirose REI	79.9
Tilburg, Netherlands	Deka Immobilien	26.2

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The markets that are seeing continued downward pressure are mostly concentrated in Southern Europe - principally Spain and Greece, but also Portugal and Ireland - as well as some of the smaller CEE markets. Rents are stable in most of the core markets of France, Belgium and the UK, with some growth starting to emerge in parts of Germany, the Netherlands and the Nordic markets.

In line with the general easing in the pace of yield change, prime industrial and logistics yields have seen little change in the first nine months of the year, sharpening by only 13 basis points over this period. Yields in the main German centres have continued to see downward pressure, reflecting increased investment activity in this market. Elsewhere among the main centres of activity in Western Europe, prime yields remain stable in the 7-7.75% range while there continue to be isolated areas of yield contraction in CEE, for instance in Moscow and Budapest.

INDUSTRIAL INVESTMENT

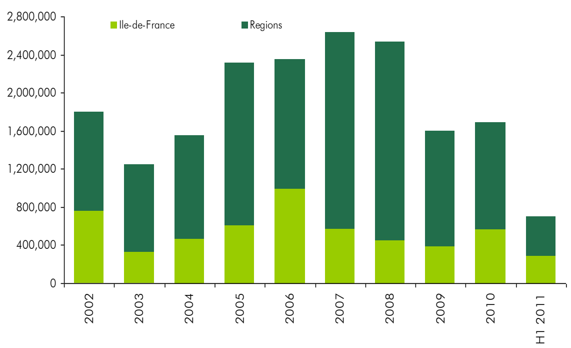
The general background for real estate investment in the first half of the year was one of renewed caution, and a clear focus on core assets in the strongest and most liquid markets. Across all asset types, investment activity totalled around €54.8bn, down from €63bn in the second half of 2010.

The investment market for industrial and logistics actually grew in the first half, totalling nearly €4.5bn compared with €3.8bn in the second half of 2010. The sector therefore continues to represent 8-9% of the aggregate European investment market. The pattern of investment in the sector so far this year reflects wider trends: weakening appetite for the UK and Southern Europe and stronger demand in CEE, Germany and parts of the Nordics. The UK still represented the largest single component of activity, but its 35% H1 share compares with an average of nearly 50% over the previous two years. CEE rose to 13% compared with an average of around 5% in recent years, mainly as a result of the purchase of the VGP portfolio in the Czech Republic by AEW/Tristan Capital.

With turnover approaching €600m, Germany is also seeing growing interest, producing a first half share of 13% compared to a more typical 8-9% over recent years. Around two-thirds of the purchaser base was itself German, but the dealflow also included development funding commitments by Goodman Property Investors who are delivering two new units for Amazon's occupation, totalling approximately €100m. Further evidence of institutional appetite and of more direct partnering in the sector is provided by Allianz Real Estate's allocation of €470m to the sector, via a JV with Prologis, to invest in core logistics assets.

KEY MARKET DATA, Q3-2011		PRIME INDUSTRIAL RENT		% CHANGE		PRIME INDUSTRIAL YIELD
Country	City	Local	€ / sq m/ annum	Last 3 months	Last 12 months	%
Austria	Vienna	€4.85 per sq m pm	58.20	-1.02	0.00	7.25
Belgium	Brussels	€46.00 per sq m pa	46.00	0.00	4.55	7.00
Bulgaria	Sofia	€4.00 per sq m pm	48.00	0.00	-11.11	11.50
Croatia	Zagreb	€5.90 per sq m pm	70.80	0.00	-1.67	9.50
Czech Republic	Prague	€4.75 per sq m pm	57.00	0.00	0.00	8.25
Denmark	Copenhagen	DKK 475.00 per sq m pa	63.68	0.00	0.00	7.75
Finland	Helsinki	€128.40 per sq m pa	128.40	1.10	12.63	7.10
France	Paris	€90.00 per sq m pa	90.00	0.00	0.00	7.15
Germany	Berlin	€4.50 per sq m pm	54.00	0.00	-2.17	6.75
Germany	Dusseldorf	€5.30 per sq m pm	63.60	0.00	1.92	6.50
Germany	Frankfurt	€6.00 per sq m pm	72.00	1.69	1.69	6.50
Germany	Hamburg	€5.70 per sq m pm	68.40	1.79	1.79	6.50
Germany	Munich	€6.20 per sq m pm	74.40	0.00	-3.13	6.50
Greece	Athens	€4.00 per sq m pm	48.00	-15.70	-33.33	9.00
Hungary	Budapest	€4.50 per sq m pm	54.00	0.00	0.00	8.75
Ireland	Dublin	€65.00 per sq m pa	65.00	0.00	-20.73	9.50
Israel	Tel Aviv	$13.00/sq m/month	107.59	0.00	15.56	10.00
Italy	Milan	€55.00 per sq m pa	55.00	0.00	-3.51	7.75
Italy	Rome	€60.00 per sq m pa	60.00	0.00	0.00	7.75
Netherlands	Amsterdam	€72.00 per sq m pa	72.00	2.81	2.81	6.90
Netherlands	Rotterdam	€70.00 per sq m pa	70.00	4.48	4.48	6.90
Norway	Oslo	NOK 1000.00 per sq m pa	128.52	0.00	0.00	6.50
Poland	Warsaw	€5.00 per sq m pm	60.00	0.00	0.00	7.75
Portugal	Lisbon	€3.50 per sq m pm	42.00	0.00	-7.89	8.50
Romania	Bucharest	€4.10 per sq m pm	49.20	0.00	-1.20	10.25
Russia	Moscow	$130.50 per sq m pa	93.11	3.85	22.73	11.00
Serbia	Belgrade	€4.50 per sq m pm	54.00	0.00	0.00	12.00
Slovak Republic	Bratislava	€4.25 per sq m pm	51.00	0.00	0.00	8.50
Spain	Barcelona	€66.00 per sq m pa	66.00	0.00	0.00	9.00
Spain	Madrid	€66.00 per sq m pa	66.00	0.00	-8.30	8.25
Sweden	Stockholm	SEK 700 per sq m pa	76.51	0.00	0.00	7.50
Switzerland	Geneva	CHF 260.00 per sq m pa	212.98	4.00	13.00	5.75
Switzerland	Zurich	CHF 140.00 per sq m pa	114.68	0.00	0.00	6.80
Turkey	Istanbul	$7.00 per sq m pm	57.94	7.69	27.27	10.50
Ukraine	Kiev	$6.25 per sq m pm	51.73	0.00	0.00	15.00
UAE	Dubai	AED 25.00 per sq ft pa	50.53	0.00	0.00	12.25
UK	Birmingham	£5.25 per sq ft pa	62.58	0.00	0.00	6.85
UK	Glasgow	£6.00 per sq ft pa	71.52	0.00	0.00	7.25
UK	London – Heathrow	£12.5 per sq ft pa	149.00	0.00	0.00	6.50
UK	Manchester	£5.75 per sq ft pa	68.54	0.00	0.00	7.00

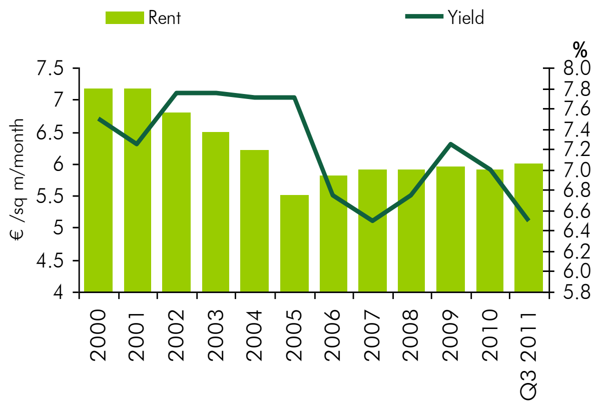
France Logistics Take-up (Sq m)



Prague Prime Industrial Rent and Yield

Milan Prime Industrial Rent and Yield

Frankfurt Prime Industrial Rent and Yield



FRANCE

Economic uncertainty has had a tempering effect on the level of leasing activity, and has also led to a preponderance of deals motivated by cost-cutting. Take-up levels for large logistics units totalled just under 700,000 sq m in the first half, of which the Paris region accounted for around 40%. Outside Paris, the Rhone Corridor accounted for the largest single component, with 22% of take-up. The market is being mainly driven by customised turnkey schemes with supermarkets a prominent source of demand. As a result, available supply remains high and is deteriorating in quality. A number of significant schemes are under negotiation but, with rents stable, there is little incentive for speculative development.

CZECH REPUBLIC

The Prague market remains robust, with rents holding firm through the first nine months of the year. Total leasing activity was significantly higher in H1 2011 than in the previous six months, although activity remains dominated by renegotiations rather than new lettings. Nevertheless the vacancy rate has been declining for over a year and stood at 10.5% at mid-year. Vacancy is expected to decline further as most of the new space under construction is already pre-leased.

ITALY

The prime rent in the Milan market dipped to €55 per sq m per annum in the second quarter, but held firm in the third and is not expected to decline further. First half take-up is estimated at close to 500,000 sq m. There is rising demand for medium-sized and large units, driven mainly by corporate consolidation and cost-reduction imperatives. Third party logistics providers are the most active occupier group. There is almost no speculative development and build-to-suit is a growing trend among occupiers who do have expansion requirements. Vacancy levels for secondary space are expected to rise further as occupiers upgrade into new build-to-suit premises.

GERMANY

Take-up rose in the first half of this year in comparison with the same period in 2010, partly reflecting the fact that a number of speculatively-built schemes in the Rhine-Main region have secured tenants. The acceleration in demand is linked to earlier strong expansion in the German economy which has now slowed, with growth of only 0.1% in the second quarter. Despite this prime rents have edged upwards, partly because the availability of good quality space is expected to shrink further.

MARKET BRIEFING

Amsterdam saw a quiet first-half of the year, with take-up nearly 20% lower than in the same period last year. Occupiers are increasingly favouring new and modern warehouses in the western area of the port over other, often unsuitable, accommodation in the older port area. Prime rents have edged up to €72/sq m/annum.

The **Belgian** logistics market has witnessed a significant upturn in leasing activity since the start of the year. Logistics tenants continue to show a preference for modern and efficient storage space, as recently exemplified by a number of large transactions involving both retailers and logistics providers. With vacancy rates having started to decline, downward pressure on lease rates has eased and the position of landlords is strengthening.

The **Budapest** industrial market was buoyed by a series of large transactions towards the start of the year and recorded the strongest take-up since 2008 in the first quarter. Despite weaker activity in the second quarter, the aggregate vacancy rate declined slightly reflecting the absence of new completions, but remains high at 21.4%. Prime rents are stable and should remain so in the coming quarters.

The strong economic and trade linkages with two of the most resilient economies in Europe (Germany and Sweden) should provide some support to the industrial and logistics sectors in **Copenhagen.** However, this has not yet translated into an increased flow of transactions and there are no signs of rental growth. Net rents for modern, well-located logistics properties in the Copenhagen Region are in the range of DKK 450-475/sq m/annum.

Although the **Dublin** industrial market continues to be characterised by high levels of supply, a shortage of modern logistics properties is starting to emerge in some of the most sought-after locations such as the N7/N81 corridor. This is further accentuating the polarisation between rent levels for modern and second-hand space, for which very advantageous terms are still being offered. Prime rents remain stable at approximately €65/sq m/year.

Occupier sentiment in the **Helsinki** industrial and logistics markets has improved markedly, supported by the rebound in industrial production and exports. This, combined with high pre-let and occupancy rates for well located new logistics premises, has triggered a noticeable upturn in development activity since the beginning of the year.

Take-up in **Lisbon** was exceptionally high in Q2 2011 but this was largely attributable to one large pre-let transaction. In fact, underlying demand for logistics properties remains subdued in line with the country's economic prospects. Prime rents are stable and appear closer to their cyclical low.

Demand for logistics space in **Madrid** continues to be depressed by the high level of economic uncertainty hanging over the Spanish economy and it is unlikely to improve significantly until the economic picture stabilises. Vacancy is still rising, but prime rents seem to have levelled off recently although further slippage is possible.

The supply of modern logistics premises in **Moscow** has continued to shrink throughout the first half of the year from 7% to 3%, due to a combination of healthy demand and low completion rates. Declining availability has been matched by an increase in prime rents, that are currently around \$135/sq m/annum compared with \$115-120/sq m/annum as of the end of 2010.

The competitive letting market in **Oslo** is keeping rental rates under pressure and there has not been any sign of a pick-up in prime rents so far. These typically vary between NOK 700 – NOK 1,000/sq m/annum. Demand remains focused around the north and south corridors and along major arterial roads.

Rotterdam's industrial market has been characterised by modest levels of leasing activity in the first part of the year. Looking forward, the renovation of the port area close to the inner city may attract occupiers' interest and trigger a "new for old" shift of smaller tenants in those areas. Prime rents have edged up to €70/sq m/annum.

Demand in **Vienna** is mainly focused on well-located warehouses in proximity to the city, and there is growing demand also for medium-large sized units (4 - 8,000 sq m). Meanwhile, speculative construction has gradually resumed and new projects are being launched or reappraised. Prime rents are broadly stable but may soften somewhat as new supply hits the market.

The **Warsaw** industrial market has continued to strengthen throughout H1 2011, with take-up nearly 70% higher than in the same period in 2010. However, absorption of existing stock is slow and the total vacancy rate, while declining, remains high at just below 20%. As a result, there appears to be little scope for prime rental growth in the short-term and pressure on net effective rents is likely to persist.

The **Zurich** industrial occupier market appears to have been little affected by the strong Swiss Franc so far and continues to enjoy a high degree of stability. Average rents for storage and production space are in the range of CHF 90 - 140 / sq m/annum.

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