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EMEA

Industrial & Logistics **Hubs**

Q2 2023

Executive Summary

General economy

Europe's macro-economic situation and its outlook are being formed by a myriad of, in some cases opposing, forces. On a positive note, Europe managed to muddle through H1 without an acute energy shortage and has avoided a severe recession that was widely anticipated.

So far this cycle, labour markets have demonstrated resilience, which has contributed to stabilising consumer expenditure. On the flip side, restrictive monetary policy is weighing negatively on economic activity. The PMI for the eurozone (EZ) improved somewhat from 46.7 to 47.1 in September. The slight up-tick ends a streak of four consecutive declines in the composite PMI, but it remains firmly in contraction territory. The overall picture remains rather bleak on economic growth and adds to concerns that the EZ economy may contract in the second half of 2023. Preliminary figures from Oxford Economics suggest that economic growth in the EEA30 region will remain weak in 2023 and 2024, with only 1.1% growth expected.

Geopolitical uncertainty remains a downside risk, as do higher oil prices. Not least due to their influence on inflation. While the ECB's latest move to increase interest rates in September is being viewed by many as the last one in the current cycle, the jury remain out. It will be several months before the inflation, interest rate and economic picture can be viewed with more certainty.

Industrial & logistics market

Demand for high quality logistics space remains strong across EMEA due to the general maturing of the market, along with a lack of modern and efficient space that meets high ESG criteria.

Nearshoring strategies within various industries, triggered by rising global supply-chain tensions and costs, have direct consequences for the logistics markets across Europe. Yet despite this, online retail sales remain the key driver of growth in the logistics industry.

Overall take-up volumes for logistics space across EMEA has come down from the heights seen during the pandemic. Aggregate figures do however mask differences between markets. In most markets where take-up is softening, it is demand related, meaning that weak economic growth is putting a brake on leasing activity. A low level of take-up can also be supply related, in that the availability of space is scarce or fails to meet occupier criteria.

Despite higher land and construction costs, development completions in EMEA were up 4.9% in Q2 (y/y) and 8.7% in H1 2023 (y/y). A shortage of land for development is a common theme in many markets, particularly in densely populated cities, where competition is intense from other sectors such as housing. In addition, stricter legislation aiming at protecting greenfield land has caused a surge in demand for centrally located brownfield sites that can accommodate new buildings.

The occupational market remains favourable towards landlords in most markets. Rental growth continues to be positive, often beating medium term inflation targets, with very low vacancy rates for core product in core locations.

Our outlook suggests further rental growth for city-warehouses in 70% of markets, and in 68% of markets for larger logistics and distribution space. Rents are forecast to stabilise in 30% of markets over the next 12 months, caused by a combination of speculative development activity and subletting of space by occupiers.

Key Metrics In Major EMEA Industrial Hubs: Q2 2023

I&L HUB	Take-up 12M rolling ['000 sqm]	Take-up 12M change [%]	Vacancy Current [%]	Vacancy 12M change [bps]	Vacancy 12M outlook	Prime Rent City WH Current [€/sqm/mth]	Prime Rent City WH 12M change [%]	Prime Rent City WH 12M outlook	Prime Rent Log&Dist Current [€/sqm/mth]	Prime Rent Log&Dist 12M change [%]	Prime Rent Log&Dist 12M outlook
Barcelona	727	-8.9	2.1	-87	↔	7.8	+6.9	↑	6.5	+13.0	↑
Birmingham*	913	-16.1	3.7	+87	↑	11.8	+12.5	↑	10.5	+14.2	↑
Bucharest	350	-11.9	4.0	-200	↔	4.7	+9.3	↑	4.5	+4.7	↑
Budapest	673	+8.4	8.6	+218	↑	5.5	0.0	↔	6.5	+38.3	↔
Frankfurt	519	-45.8	1.5	-150	n/a	9.5	+3.8	↑	7.6	+4.1	↑
Hamburg	691	-23.7	n/a	n/a	n/a	8.7	+6.1	↑	7.4	+8.8	↑
Istanbul	174	-62.7	6.1	-30	↓	7.4	+1.9	↔	7.4	+1.9	↔
London*	268	-32.9	4.7	+119	↑	23.0	+25.7	↑	19.9	+15.1	↑
Madrid	1,043	+4.0	6.5	-295	↑	6.6	+1.5	↑	6.3	+5.9	↑
Milan	1,209	-20.2	2.0	0	↓	5.4	+8.3	↑	n/a	n/a	n/a
Munich	305	-23.3	0.1	-9	n/a	11.2	+2.8	↑	8.5	+11.8	↑
Paris	685	-48.9	n/a	n/a	n/a	n/a	n/a	n/a	5.8	+16.6	↑
Prague	466	-37.0	1.6	+111	↔	8.0	+6.7	↔	7.0	+7.7	↔
Rotterdam	350	+91.9	3.9	n/a	↓	7.9	+11.9	↑	7.5	+12.4	↑
Stockholm	n/a	n/a	n/a	n/a	↑	10.2	-2.3	↔	7.4	-4.6	↓
Venlo	139	+2.7	0.9	+86	↓	6.3	+30.5	↑	5.8	+27.3	↑
Warsaw	887	-27.7	5.6	+233	↔	4.6	+24.3	↑	4.6	+24.3	↑

*UK industrial data relates to the region

Sources: Colliers

Market Overview: Demand

Occupier requirements

Demand for prime logistics space remains strong across EMEA due to the general maturing of the market, along with a lack of modern and efficient space that meets high ESG criteria. Occupier demand primarily targets major European conurbations and important infrastructure hubs, attributable to growing demand from retailers and last-mile logistics operators seeking to streamline their commodity flows and service e-commerce demand.

Rising global tensions combined with transportation bottlenecks experienced during the pandemic period have supported nearshoring strategies within various industries. Such relocation decisions have increased demand for logistics space across Europe. Yet despite this, online retail flows remain the key driver of demand in the logistics industry.

In Poland, online retailer Zalando has selected Bydgoszcz and a nearby town for two of its fulfilment centers in the country. One of these buildings, comprising 146,000 sqm, was developed by Panattoni and completed in Q1 2023. In Ireland, IPUT Real Estate received full planning permission for the development of Nexus Logistics Park on the M2 motorway, close to the M50 motorway and Dublin airport. This first phase will comprise 795,000 sqft (73,860 sqm) of logistics facilities across five separate buildings. IPUT has previously delivered Ireland's first net zero logistics building, and the new Nexus scheme will meet equally high sustainability standards.

Occupiers' desire to ensure a faster, more controllable, and cost-efficient handling of goods usually means consolidation of smaller units into fewer, but larger, logistics hubs. These extensive assets typically incorporate advanced warehousing technologies with automated and computerised systems for handling goods and climatic conditions. Sophisticated construction materials and building techniques are used to ensure low operating costs and high ESG-credentials. Such schemes are increasingly common in grocery retailing. For example, in Vilnius, the construction of the 46,000 sqm "Maxima" logistics centre started this spring and is due for completion by the end of 2024. This high-tech temperature-controlled logistics hub is designed to serve the grocery retailer's network of 251 stores across Latvia.

The manufacturing industry is also at the forefront in terms of innovative processes and buildings. The largest deal in Munich in Q2 was the 30,000 sqm expansion of Siemens Mobility's factory in Munich-Allach. The extended building will total 80,000 sqm and hold one of the most advanced locomotive factories in Europe, using the latest technologies like laser welding robots, augmented reality, and 3D simulations with digital twins.

Access to infrastructure in terms of ports, airports, motorways and railway networks is key to any logistics operator. The Lublin region in eastern Poland could become a major logistics hub in the coming years thanks to new infrastructure. The transnational highway network Via Carpatia, connecting Klaipėda in Lithuania with Thessaloniki in Greece will run through the Lublin region. The Polish section of the route is due for completion in 2026. In addition, there are plans to build a cargo terminal at Lublin Airport.

The construction of Bucharest Ring Road is progressing, with the southern portion set to be opened this year or early 2024. This has sparked interest among developers and corporates for the southern parts of Bucharest, which have been largely ignored until now. Similarly, the Rzeszów region, particularly the town Jasionka, in Poland is attracting investor interest due to its proximity to the A4 motorway and the Rzeszów-Jasionka airport and the availability of land for development.

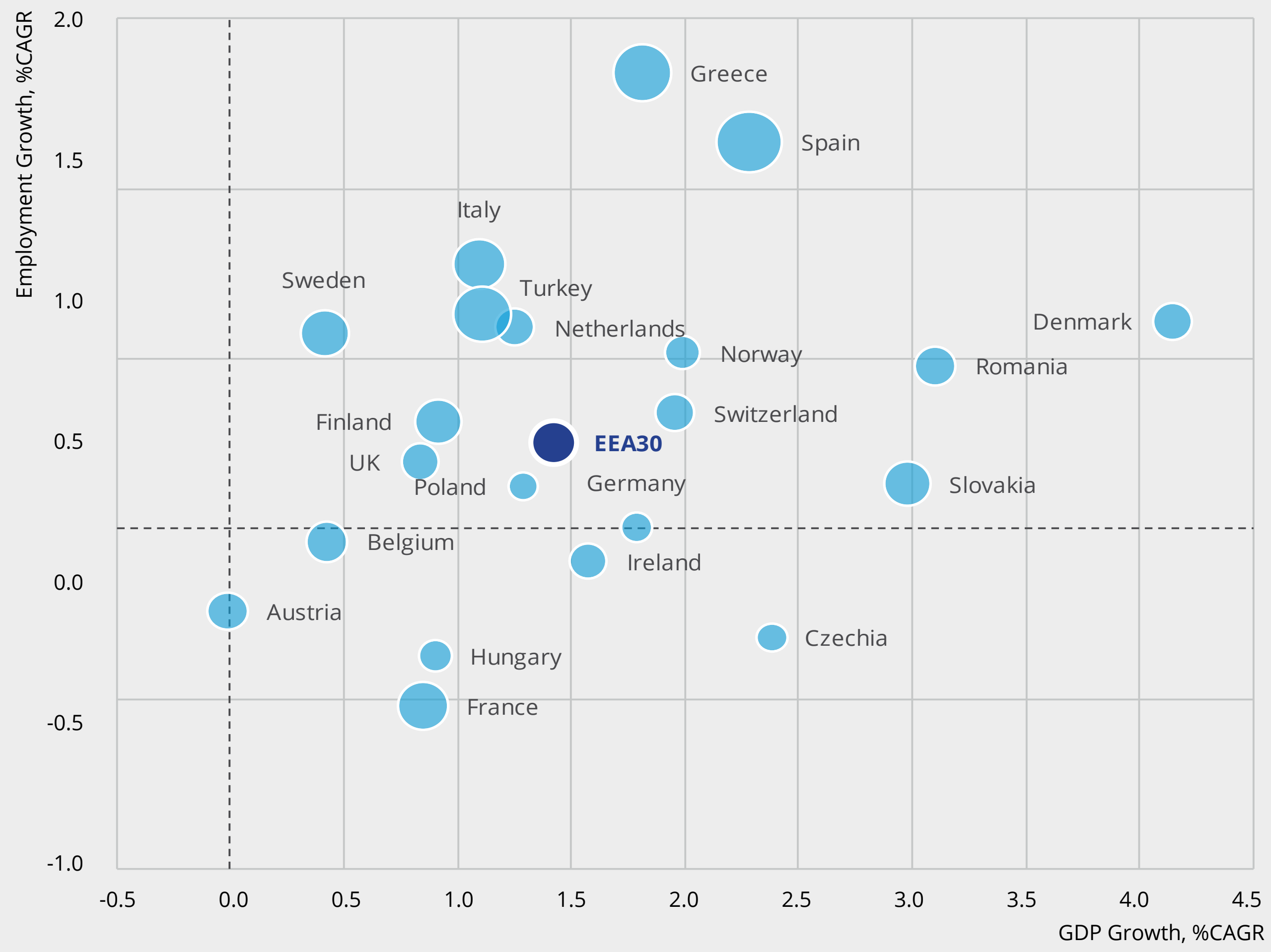
Take-up

On an aggregate level, take-up volumes for logistics space across EMEA has come down from the heights seen during the pandemic and recorded just over 7.0 million sqm in H1 2023. The 12-month and biannual rolling take-up figures reflected the downward trend, indicating y/y declines of -25.1% and -35.1% respectively.

These **aggregate figures do however mask differences in take-up between markets. By mid-year 2023, 75% of markets witnessed falls in take-up levels, while the remaining 25% saw a rise in take-up.** The German top 8 markets recorded a total take-up volume of 907,000 sqm in the first half of the year, which is a 46% decline compared with the same period in 2022. This general decline in activity was primarily observed in a lack of larger deals. In Cologne nearly 90% of all leases were for space up to 5,000 sqm. In Dusseldorf more than 60% of all deals were for smaller units up to 3,000 sqm. A similar trend was seen in Stuttgart where 85% of all deals in H1 were in the <3,000 sqm cohort.

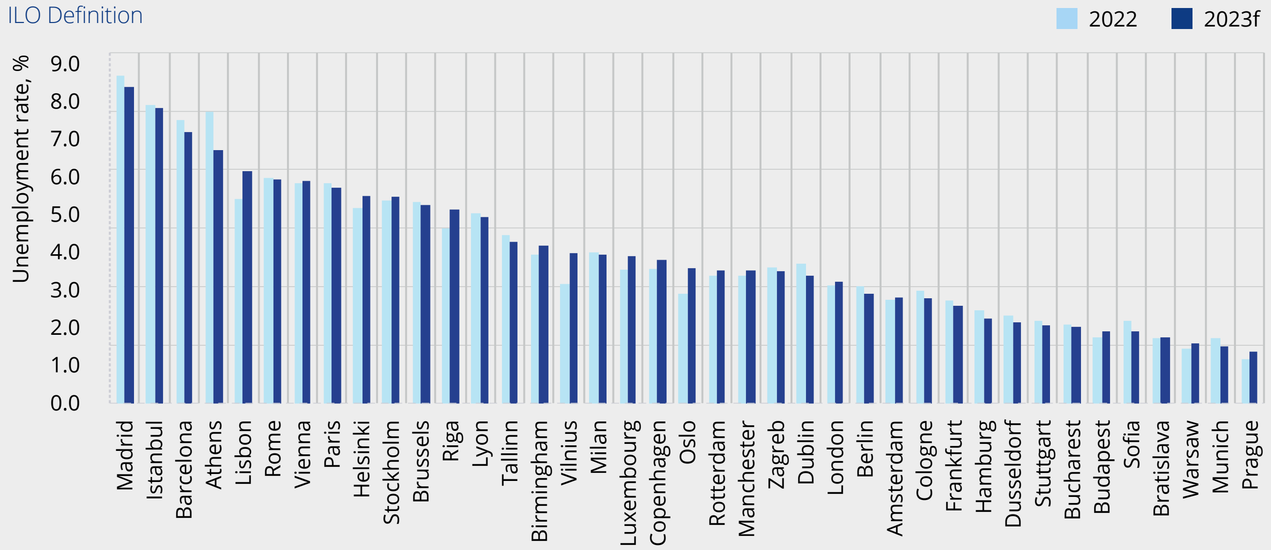
Although the number of large-scale deals has decreased, they have not ceased. The largest contract in H1 was signed in Bitterfeld-Wolfen, north of Leipzig, by a company from the automotive sector securing an 80,000-sqm logistics facility. Furthermore, in Dusseldorf, 32,300 sqm of newly produced logistics in Dormagen was taken by a logistics service provider and a 11,500 sqm lease was signed in Kaarst. Berlin recorded only one letting in excess of 10,000 sqm in H1: a 15,000 sqm subletting by Bär & Ollenroth in the City North submarket.

Figure 1: Industrial-based GDP & employment growth forecast: 2023-2025 [bubble size represents unemployment rate]



Source: Colliers, Oxford Economics

Figure 2: Unemployment rate, main EMEA cities, 2022-2023f, ILO Definition



Sources: Colliers, Oxford Economics

Market Overview: Demand

Take-up *(continued)*

Markets experiencing significant declines in take up in H1 include Vilnius (-63%), Warsaw (-41%), Paris (-39%) and Poznan (-38).

In most markets where take-up is softening, it is demand related, meaning that weak economic growth is putting a brake on leasing activity. Low levels of take-up can also be supply related, in that the availability of space is scarce or fails to meet occupier criteria. This is currently putting a brake on activity in certain Dutch markets, particularly in Eindhoven.

On the other side of the spectrum, 25% of the market saw take-up improving in H1. Some notable markets were Szczecin (+57% rolling annual growth), Rotterdam (+42%), Tilburg (+41%), Birmingham (+33%) and Amsterdam (+31%). Rotterdam saw take-up rise from 170,000 sqm in H1 2022 to 195,000 sqm in H1 2023, the largest single deal being Logwise Group's signing of 53,000 sqm in Hellevoetsluis. Birmingham has seen steady demand for mid-box units, between 30,000-99,999 sqft (2,787-9,290 sqm) in H1. Included in this size band is Nuovo Foods' lease for 85,000 sqft (7,897 sqm) at Cygnus 6 in West Bromwich.

Another mid-box deal saw Connect Fulfilment Services take 64,000 sqft (5,946 sqm) at WS2 Industrial Estate in Walsall on a 10-year term, while at the smaller end of the size bracket Fablink UK signed 49,000 sqft (4,552 sqm) at Air 50 in Wolverhampton on a 15-year lease.

Momentum in Manchester's industrial market has slowed over the past 12 months after witnessing the most active two years on record, during 2021 and 2022. Activity continues in the mid-box size band between 40,000 sqft (3,720 sqm) and 60,000 sqft (5,570 sqm). Trafford Park remains an active market in this size range with lettings including hydraulic equipment supplier HYVA taking 45,000 sqft (4,180 sqm) at Churchill Point and FPS Distribution taking 40,000 sqft (3,720 sqm) at Empire 40 on Fifth Avenue on a 15-year lease.

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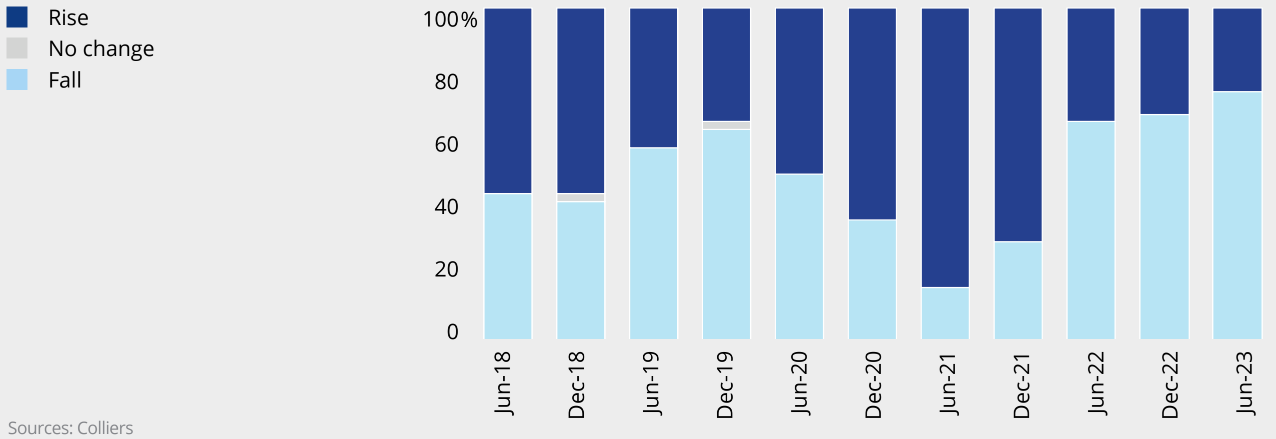
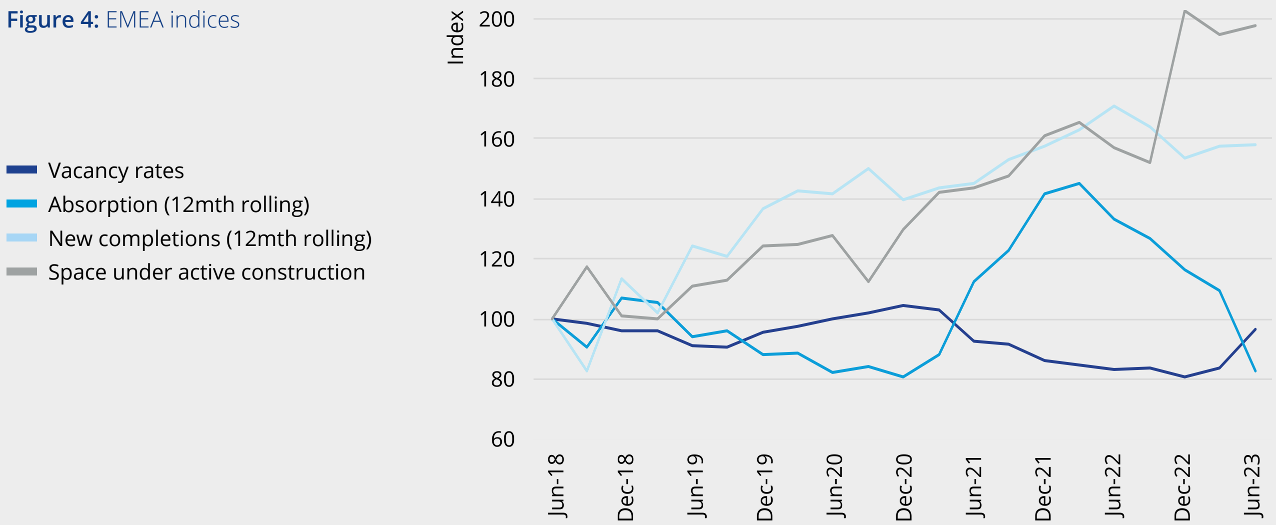
Figure 3: Change in 12 month rolling take-up by % of markets



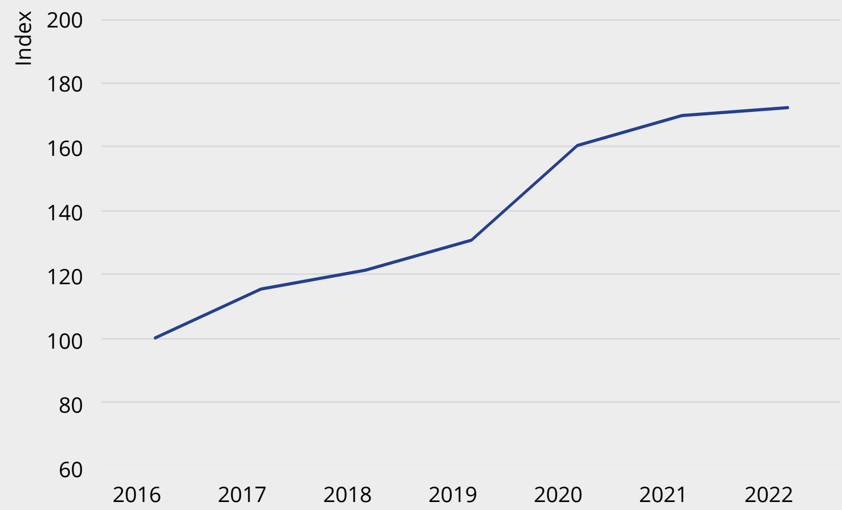
Sources: Colliers

Figure 4: EMEA indices



Sources: Colliers

Figure 5: Composite e-commerce index



Sources: Colliers

Market Overview: Supply

Availability

The overall vacancy rate across EMEA has remained broadly stable over the last two years. Despite the recent slowdown in take-up, the vacancy rate has increased only slightly from 3.1% in Q2 2022 to 3.6% in Q2 2023. Some 61% of markets have recorded a rising trend in vacancy rates over the last half year while 15% have seen availability coming down. The largest declines in vacancy rates (bps) were tracked in Barcelona (-94) and Madrid (-81). Meanwhile Budapest and Poznan recorded particularly large outward shifts of 462 and 398 bps respectively.

Munich recorded a take-up of around 99,800 sqm in H1, taking its vacancy rate further down from 0.19% to 0.10% - the lowest rate in EMEA. Other markets with particularly low vacancy rates include Brno, Vienna, Tilburg, Vilnius, Gdansk and Venlo.

Vienna's vacancy rate below 0.5% is unlikely to change in the coming months, as the development pipeline to a large extent is pre-let. One example it the 52,000 sqm VGP Park Laxenburg south of Vienna, due for completion Q3 2024 and currently 56% pre-let.

By contrast, Lisbon has a 15% vacancy rate - the highest quotation across EMEA. Availability is particularly high along road A33 on Tejo's South Shore. Notable development projects in the region include Merlin's 225,000 sqm Lisboa Park (PLLN) in Castanheira do Ribatejo and Olicargo's 25,000 sqm scheme in Azambuja - the company's 4th distribution center in Portugal. No other markets have reported vacancy rates above 9% by mid-year 2023.

Madrid, Wroclaw and Szczecin all have vacancy rates in the range 6-7% which allows larger players to expand their footprint. Examples from the Wroclaw region include Amazon's two BTS facilities totalling more than 213,000 sqm, the 200,000 sqm Prologis Park Wrocław V, and Panattoni's Wrocław Campus 39 (200,000 sqm). Since the beginning of 2022, the Chinese fast fashion giant Shein has taken more than 100,000 sqm in the Lower Silesia area distributed across several sites. Despite the high level of development in this part of Poland, it still benefits from a high availability of land and relatively low rents.

Still, most European locations struggle to match growing demand. While nearly half of the markets (49%) expect vacancy to remain stable in the coming year, 16% of markets expect a further drop in vacancy levels.

Development activity

Despite higher land and development costs, the volume of logistics space under active construction (UAC) in Europe rose by another 12.2% (y/y) in H1 2023. Completions in EMEA were up 4.9% in Q2 (y/y) and 8.7% in H1 2023 (y/y).

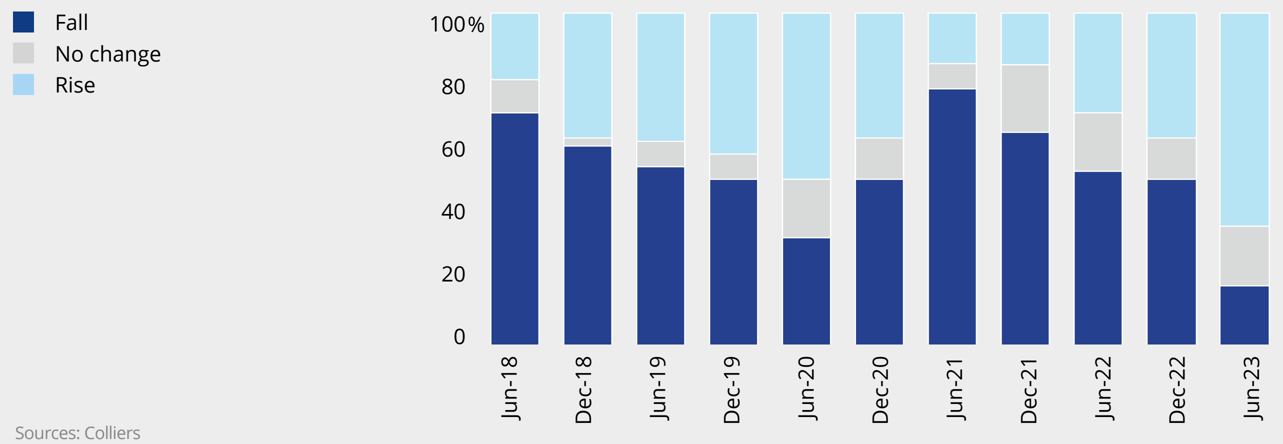
The UK was a leading market in H1 in terms of new supply, with 6.5 million sqm UAC, including 780,650 sqm of speculative supply to be delivered by the end of this year. Although momentum in the UK's logistics market has slowed over the past 6-12 months, most UK markets remain well balanced from a supply/demand perspective.

Poland has been particularly extensive in recent years, supporting pan-European and domestic demand growth with increasing supply levels. In H1 2.6 million sqm of logistics space was completed nationwide in Poland, an 8.0% increase on the previous year. The Masovian region remains the leading Polish market in terms of new supply. Large-scale schemes in the pipeline include P3 Warsaw I (83,000 sqm), CTPark Warsaw South in Mszczonów (67,500 sqm) and CTPark Warsaw West (61,000 sqm). The second largest market - Katowice/Silesian - is not far behind in terms of construction activity. Another dynamic Polish market is the Lubuskie region near the German border. Up until now BTS (built-to-suit) schemes have dominated which has led to a very low vacancy rate in the region. Yet, with the arrival of some major developers the number of speculative schemes has increased. Two such projects are the 106,200 sqm CTPark Iłowa and the 81,400 sqm CTPark Sulechów.

A shortage of land for development is a common theme in many markets, particularly in densely populated areas near cities, where competition is intense from other sectors such as housing. In addition to a general lack of land there is also a growing debate in many markets on how to protect greenfield land from development with respect both to the local community and the environment. In the Netherlands there is a general concern in the broader society to allow additional large-scale logistics units, particularly in areas that already have a high concentration of such buildings. In North Brabant, new XXL distribution centres are now only permitted within existing logistics corridors.

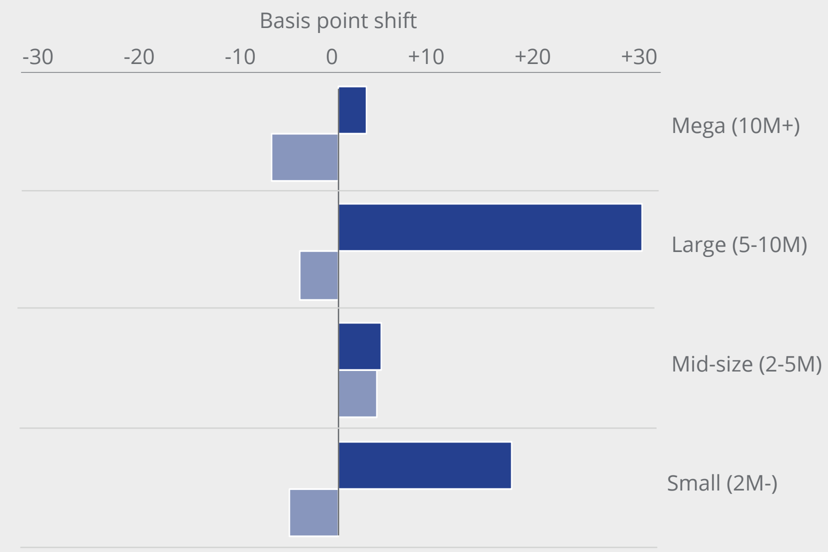
New, stricter legislation recently implemented in France to protect greenfield land has led to a surge in demand for brownfield sites that can accommodate new buildings. One large-scale developer who is increasingly turning to brownfield land is Panattoni. South of Paris, in the municipality of Moissy-Cramayel, they are developing a 12,000 sqm speculative state-of-the-art light industrial park on a site previously occupied by a concrete factory and a building material warehouse. In Finland, Logicenters is developing a 29,000 sqm warehouse on a brownfield site in Tampere. This speculative development is Logicenter's first major brownfield project in the Nordics and it is due for completion in late 2024.

Figure 6: Vacancy rate changes, by % of markets



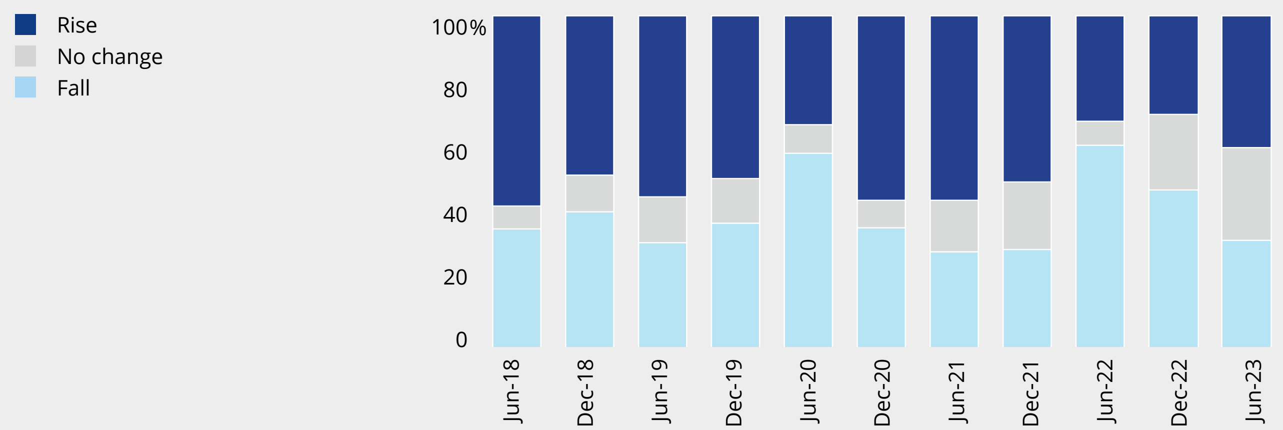
Sources: Colliers

Figure 7: Average shift in vacancy rates (6 month basis point change), by market size



Sources: Colliers

Figure 8: Changes in space under active construction (UAC), by % of markets



Sources: Colliers

Market overview: pricing & occupier conditions

Rental performance

Although there has been an increase in the number of markets witnessing a stabilisation in rents over the last six months, rents have continued to rise in more than half of markets. Key underlying parameters are higher financing and construction costs, a shortage of land for development and supply-demand imbalances in the high-quality segment. City warehouse prime rents grew in 57% of the locations monitored. A similar share, 56% of markets, indicated rising rents for larger logistics and distribution facilities. However, despite this upward trend, the share of markets where rental growth accelerated in H1 were 30% less compared to six months ago, indicating that a stabilisation in rental development may be underway.

Markets with the fastest y/y growth for city-warehouses included: Bratislava (+23.0%), Manchester (+22.0%), Milton Keynes (18.2%), Warsaw (+17.9%) and Venlo (+15.4%). At the other end, Athens recorded a y/y decline of -25.0%, alongside Prague (-5.9%) and Pilsen (-1.5%) who take the podium for the three largest declines seen.

The rental growth rate has been faster (y/y) for larger logistics and distribution space with some exceptional performances registered in Amsterdam (+53.8%), Athens (+50.0%), Budapest (38.3%), Gdansk (+28.8%) and Bratislava (+28.4%). Other markets have seen annual rental declines for larger units, notably Amsterdam Schiphol (-5.9%), Aarhus, Lisbon (-5.6%), Brno (-5.5%) and Poznan (-5.4%).

Occupier conditions & outlook

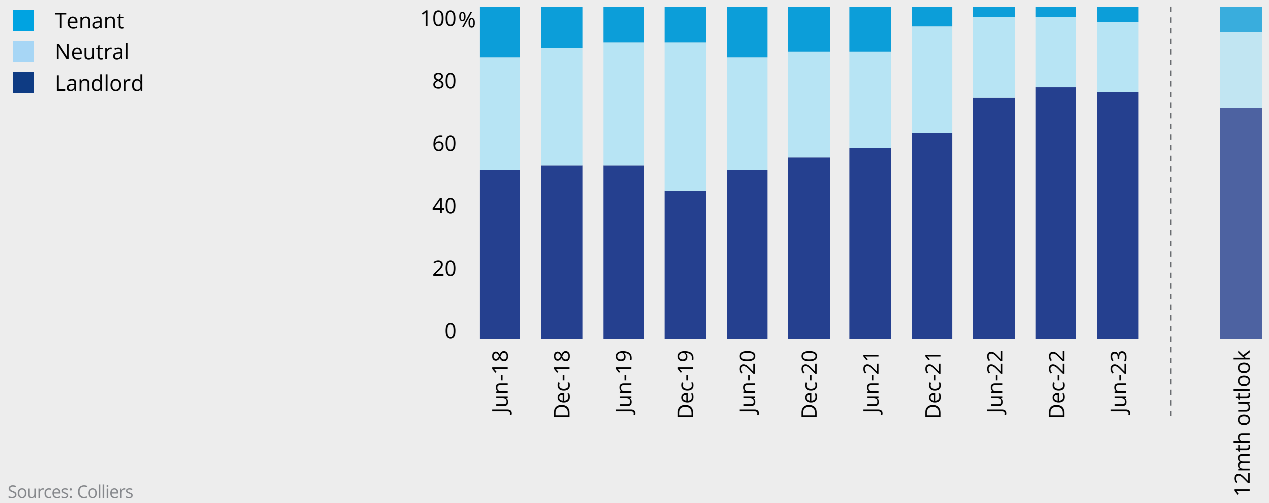
Despite slowing industrial output across Europe and a weakening economic/consumption outlook, market conditions for industrial&logistics remains in favour of landlords. By end of Q2 landlord favourable conditions held the majority market share (73%).

As more speculative space comes to market, vacancy rates should begin to loosen. However, demand/ supply-side imbalances will require a significant correction for occupiers to push back on landlord dominance. Until additional new supply completes, and latent occupier demand cools, competition for space will continue to ramp up – keeping most markets firmly landlord-favourable. According to our latest 12-month outlook, landlord-oriented conditions should continue across the majority (68%) of EMEA markets by mid-2024.

Markets that are expected to transition from landlord favourable conditions to either neutral or tenant-friendly conditions are Pilsen, Vilnius, Lisbon, Gothenburg and Malmo.

Our outlook suggests further rental growth for city-warehouses in 70% of markets, and in 68% of markets for larger logistics and distribution space. That said, rates of rental growth are expected to slow. Of the remaining markets, 30% expect rents to stabilise over the next 12 months - for both city-warehouse and logistics and distribution facilities.

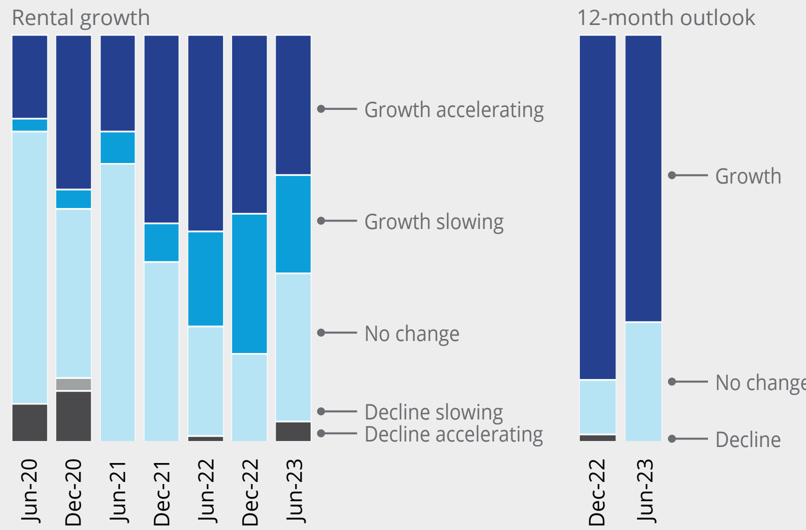
Figure 9: Evolution of occupier conditions, by % of markets



Sources: Colliers

Figure 10: Prime rents:

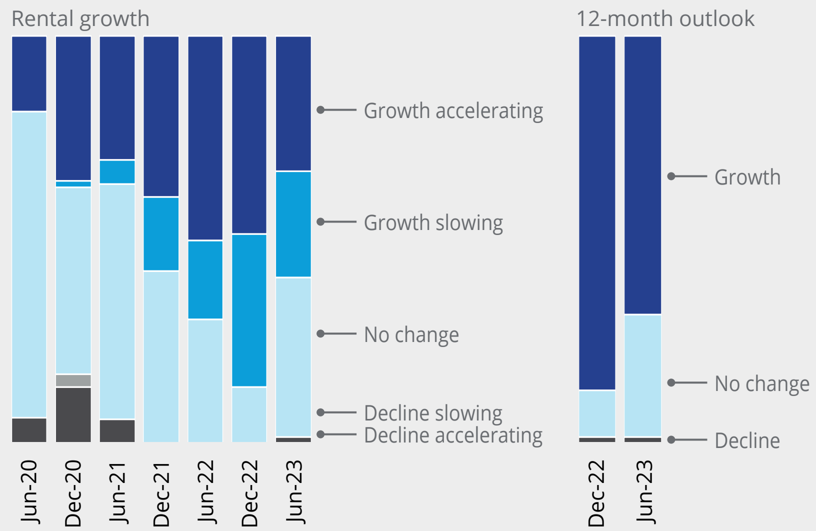
City warehousing, by % of markets



Sources: Colliers

Figure 11: Prime rents:

Logistics & distribution, by % of markets



Sources: Colliers

For more information

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