Press Cutting

Client: DCAM

Publication: Logistics Business

Date: May 2017

Onward and Upward

Logistics real estate has become a plum target for investors as e-commerce and automation transform the business landscape in urban areas across Europe. *Paul Hamblin* takes the temperature.

The logistics sector is set for another year of growth across European markets driven by strong tenant and investor demand despite ongoing political uncertainty – that's according to research undertaken by BNP Paribas Real Estate. The boost has been driven in part by the rising need for e-commerce solutions and their impact on last-mile logistics as urban property of suitable type and location becomes harder to find.

Logan Smith, Head of Logistics for BNP Paribas Real Estate's International Investment Group says: "European logistics has been particularly dynamic despite ongoing economic and political uncertainties. Germany, France, and the UK recorded double digit growth during 2016, while the industrial and logistics investment market experienced yet another strong year, enabling further yield compression. Looking ahead, investor and occupier demand is expected to remain strong, and we are closely monitoring structural changes to supply chains posed by e-commerce and new models of retailing."

Retail has been a significant driver. It accounted for 40-60% of logistics take-up across Europe's major markets in 2016, with growing, structural synergies between retail and logistics set to continue to drive demand across the continent. This has led to renewed investor interest in central European countries, particularly Poland, and also Spain, and a renewed focus on speculative development.

Part of Griffen's facility in Wellesbourne, UK

Griffen Capital's Rui Nobre

Raimund Paetzmann, E-commerce and Real Estate Advisor to Delin Capital Asset Management, echoes this view, and sees only growth ahead. "Although many of Europe's online markets are maturing, I still believe we will see sustained, double digit growth across the Europe. Of course, some of the categories best suited to e-commerce have reached high levels of saturation, such as books, music and entertainment, but at the same time we have moved from the uncharted waters of the early online days to a situation where many consumers are very familiar and comfortable with buying online, opening opportunities for new product groups.

"In addition there are a number of countries that have been slower to adopt e-commerce and where huge potential remains, such as Italy and Spain, plus the growing consumer markets of Central and Eastern Europe, where Poland, the Czech Republic and Slovakia are already strong online markets."

Delin's 58,000 sqm Roosendaal, Netherlands development, recently pre-let to Lidl

Griffen Capital CEO Rui Nobre acknowledges the trend but sounds a note of caution where parts of Europe are concerned. "Both occupier and investor demand keeps growing in tandem with the surge in ecommerce and the implications for the sector as one of the primary benefactors of the change underway," he says. He goes on to warn about the dangers of treating European territories as a single entity: "Different markets are accelerating at different paces dependant on the overall development of the infrastructure and its ability to expediently support the delivery and return process. Markets that have the developed infrastructure versus those that are still in a development cycle – Western vs some Eastern Europe countries, for example – are likely to see greater rental growth prospects close to large population conurbations."

BNP Paribas says that all European markets saw a strong increase in demand from businesses serving the retail sector, which accounted for over 50% of take-up in France and Germany. However, with a lack of speculative development to keep pace, they report that 2016 also saw a trend towards increased owner-occupier deals, which accounted for nearly half of all transactions in France. Rui Nobre offers: "Speculative construction is continuing for so long as the supply lags demand. Limited owner-occupier deals are being done." Andrew Smith, Strategy Director at LondonMetric Property, agrees: "We will continue to see owner occupier deals but do not expect this to be significantly different to what we have seen historically - we don't envisage a significant increase in desire from occupiers to hold assets on balance sheets."

Paetzmann sees it slightly differently : "Due to high exponential growth rates in ecommerce real estate is one of the biggest challenges for expansion projects, because with all the zoning and planning involved it remains a long lead time product. In order to optimize processes, large occupiers approach the market with Build-to-Suit project requirements. Some of them are done with developers and investors, but if necessary they are ready to them on their own balance sheet."

Andrew Smith adds that "New builds will be more bespoke to satisfy more specific occupier requirements."

The political importance of the UK logistics and manufacturing sectors, as demonstrated by the government's

A CGI of LondonMetric's new DC for Eddie Stobart in Dagenham, UK

commitment to the new International Advanced Manufacturing Park for Nissan UK that has been designated as a Nationally Significant Infrastructure Project by the government, was also highlighted by BNP Paribas. The planned 150 HA-park in Sunderland, adjacent to what is already Europe's most productive car plant, will see 3m sq ft of logistics space delivered in the coming years.

Hugh White, Head of National Investment at BNP Paribas Real Estate, said: "While e-commerce is undoubtedly one of the biggest drivers of demand, these 'Superplants' with sector specific supplier parks are increasingly relevant demand drivers, offering manufacturers the opportunity to realise efficiencies through the supply chain by clustering all of their key suppliers around them."

Overall, BNP Paribas Real Estate research found that Germany saw take-up increase by 17% on 2015, reaching a record 6.1m sq m to sit well above the 10-year average, while France and the UK saw take-up increase by 12% and 10% to 3.6m sq m and 3.3m sq m, respectively.

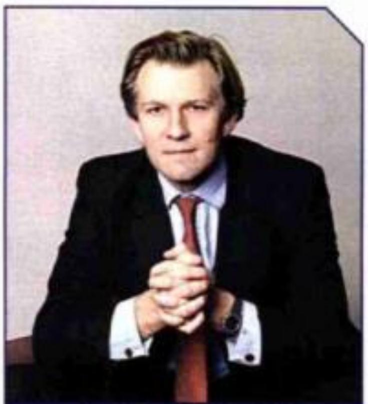
Birmingham saw the largest take-up volume out of all European cities with over 1,200 sq m of space taken, an increase of 22% on 2015, demonstrating a vote of confidence in the UK following the EU referendum and in line with a trend towards notable activity in regional hubs seen across Europe. In France, this was seen in a decline in the volume of transactions by 25% in the Greater Paris region and a shift towards territories outside of the North-South axis.

Andrew Smith of LondonMetric

BNP Paribas Real Estate found 2016 saw investment volumes reach €25bn across Europe. Despite an overall decline in the first three quarters of the year, Q4 saw the second highest quarterly volume ever recorded with more than €9bn of investment. Prime yields declined in most countries but stayed well above 10-year government bonds.

The UK was the largest logistics and industrial investment market with volumes reaching €6.8bn, despite a decline of 9% on 2015, accounted for by a lack of available product. Andrew Smith predicts: "Highly constrained supply will continue to push rental growth and rents will continue to catch up for recent rental growth. We expect mid-box product (50-100k sf) to outperform in core locations as occupiers compete for limited stock. This is particularly the case for urban/last mile logistics. Land values and competing land uses are driving rents in certain locations."

All agree that current growth is sustainable given the demand/supply issues. Raimund Paetzmann concludes: "The focus is on proximity to customer and optimised transportation costs, rather than optimised real estate costs with remote locations."



Hugh White of BNP Paribas