

EUROPEAN LOGISTICS & INDUSTRIAL

UPDATE

H1 2023



KEY TAKEAWAYS

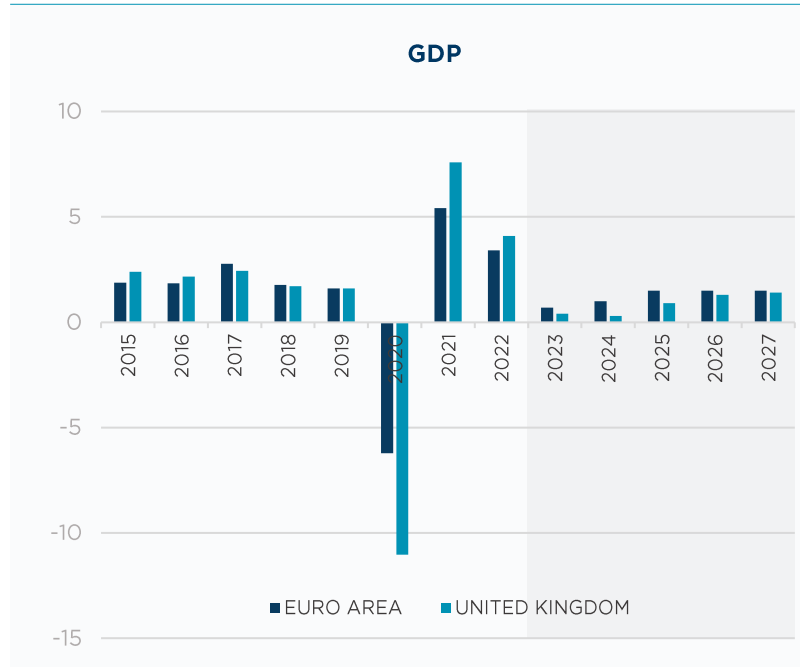
- Having reached a record peak in mid-2022, European **occupier take-up has slowed in H1 2023** as economic uncertainty continues to nag business and consumer confidence. Many larger markets are now returning to take-up levels in line with pre-pandemic averages, albeit take-up remains well above the typical pre-pandemic levels in a number of smaller markets.
- **Availability of appropriate logistics and industrial space remains constrained** despite marginal increases in availability rates in some markets
- **Rental growth continues**, although is starting to show signs of slowing in some markets. Headline rental levels are expected to continue to grow, but occupier incentives are starting to become more considered
- **Investment volumes have continued to fall in H1 2023** as investors await new pricing levels to stabilise. Following rapid decompression, **yields have started to slow in their outward movement**. Activity is starting to return as new product is being brought to market and as investor conviction in the sector remains strong.
- As economic uncertainty continues to dog business and consumer confidence, **we anticipate that occupier activity will remain subdued over the remainder of 2023 and into early 2024** before rallying as businesses feel more optimistic. Availability will remain constrained as developers slow their speculative deliveries. Rental growth is expected to slow in 2024 and beyond, albeit will remain in positive territory across European markets.

EUROPEAN LOGISTICS & INDUSTRIAL ECONOMIC INDICATORS

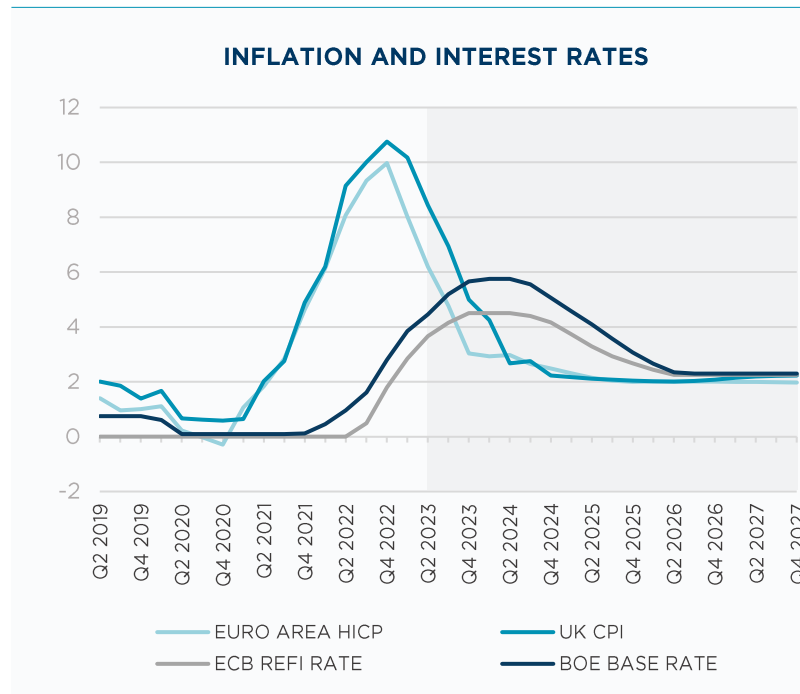
Following the widespread economic 'bounceback' after the Covid-19 pandemic, **economic growth slowed significantly in 2022 and remained weak, albeit positive, in H1 2023**. In the first half of the year, GDP growth for the Euro area was recorded at 0.1% and 0.1% for Q1 and Q2, with the UK at 0.1% and 0.2% respectively. Although modest, these outturns were actually more positive than had been anticipated. Most major European economies – including the UK, France, Poland, Spain, Italy and Sweden – have so far narrowly avoided falling into technical recession, although two quarters of negative economic growth have been experienced in Germany (in Q4 2022 and Q1 2023 before reporting 0.0% in Q2 2023) and the Netherlands (Q1 and Q2 2023).

Inflation rates across Europe have started falling from their recent peaks in late 2022 but price increases continue, albeit at a slower rate. Falling energy and fuel costs have significantly contributed to the slowdown but increasing wages and persistent inflation for core essentials – such as basic food – mean that consumer spending remains under pressure. Consumers and businesses also face higher borrowing costs as **central banks have continued to ratchet up base rates to try to curb inflation**. Our view is that it seems increasingly likely the European Central Bank will pause its hiking strategy after September, while there is more uncertainty if the Bank of England will deliver an additional rate hike beyond the one expected in September.

As inflationary pressures ease and borrowing costs start to fall, **economic growth is expected to start to improve over the next several years** albeit will be lower than in the pre-pandemic period as consumers and businesses gradually recover from the pressures of the past several years.



Source: Cushman & Wakefield Research, Moody's Analytics (Forecasts relate to C&W Baseline Scenario – August 2023)

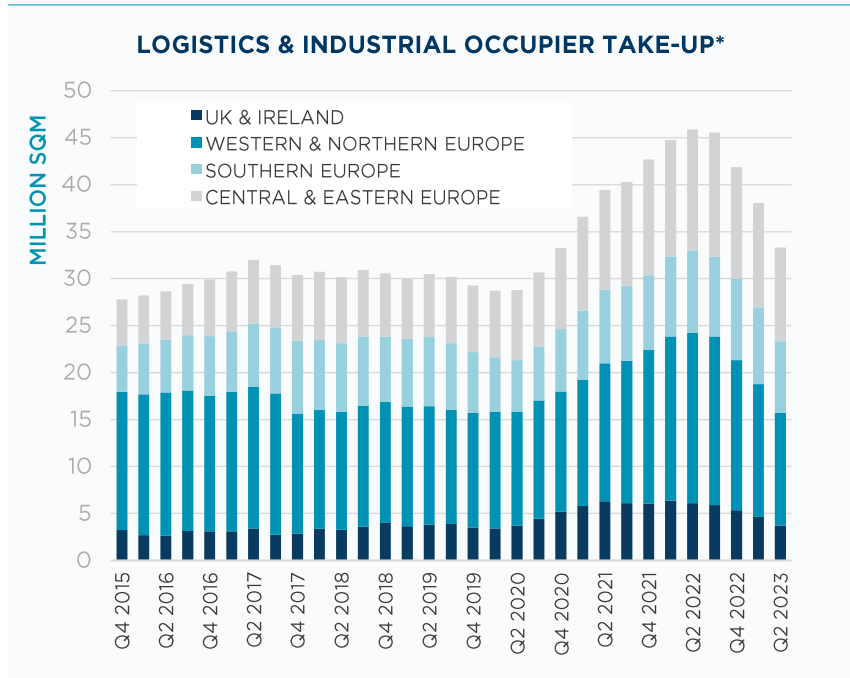


Source: Cushman & Wakefield Research, Moody's Analytics (Forecasts relate to C&W Baseline Scenario – August 2023)

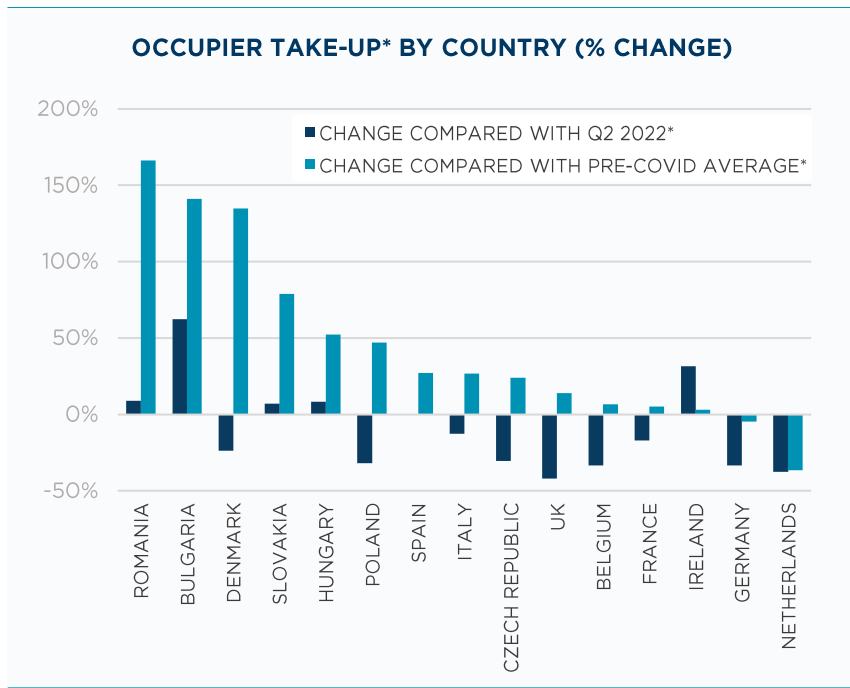
EUROPEAN LOGISTICS & INDUSTRIAL OCCUPIER ACTIVITY

Occupier take-up across European markets has slowed in the past year following the exceptional levels of demand seen during the Covid-19 pandemic. Take-up reached a peak of 45.9 million sqm (four-quarter rolling total) in Q2 2022; since then, **take-up has fallen back by 27% to 33.3 million sqm in Q2 2023**. The slowdown in take-up is partly attributable to lengthening of occupiers' decision-making processes: companies are considering and reconsidering their requirements, especially during this period of economic uncertainty. As a result, deals are either taking longer to complete or are not coming to market as swiftly as in the recent past. However, it is important to note that despite the fall-back in occupier activity compared with recent levels, **the market is still outperforming the pre-pandemic average** annual take-up of 30.0 million sqm per year. Sources of demand particularly are focusing on manufacturing, especially in the CEE countries, driven in particular by businesses' **nearshoring** activities.

Larger markets have been more acutely affected by the slowdown in demand with Germany, Poland, France, the UK and the Netherlands all reporting significant drops in take-up for the four quarters to Q2 2023 compared with Q2 2022. However, nearly all markets remain at or above their pre-pandemic average annual take-up levels; in smaller markets, notably in the CEE, they are significantly higher, suggesting more structural shifts in demand for space in these countries. Take-up in the Netherlands is significantly down on its pre-pandemic average, particularly due an ongoing lack of availability, meaning that, despite high levels of demand continuing, this is unable to be satisfied as new transactions.



Source: Cushman & Wakefield Research
* four-quarter rolling total



Source: Cushman & Wakefield Research
* four-quarter rolling total

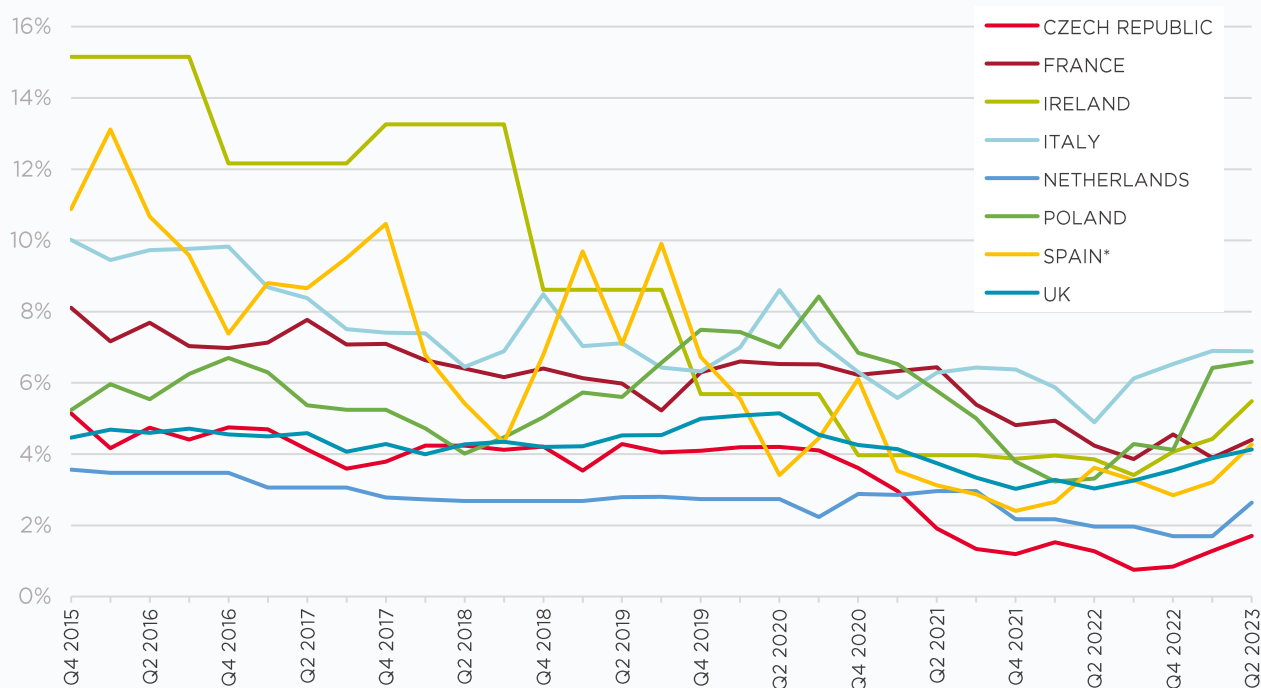
EUROPEAN LOGISTICS & INDUSTRIAL AVAILABILITY

In response to the extraordinary levels of occupier demand through the Covid-19 pandemic and following significant undersupply in the preceding years, developers have engaged in construction programmes across Europe to bring more logistics and industrial space to market, often speculatively, and even in markets where speculative development is rare. Such has been the level of demand that despite this new supply, **availability rates have trended down, reaching new record low levels in 2022.**

With the slowdown in occupier take-up, however, **availability has now started to move out in some markets.** This is as a result of both new supply being delivered as well as existing space being returned to the market. However, even with recent upticks in supply, availability remains at highly constrained levels in most countries, notably the Czech Republic and the Netherlands.

Developers are now considering their pipelines and whether to continue to build speculatively at the previously anticipated scale and pace. As developers slow their delivery to the market in response to falling occupier demand, **availability is likely to remain constrained in the near term.**

LOGISTICS & INDUSTRIAL AVAILABILITY RATES



Source: Cushman & Wakefield Research
*Spain = Barcelona

EUROPEAN LOGISTICS & INDUSTRIAL RENTAL GROWTH

Prime headline rents across Europe have seen exceptional growth over the past several years as a result of the very high levels of demand in an environment on constrained supply. This market imbalance was coupled with increases in build costs (with everything from concrete to steel to labour seeing significant shortages and cost uplifts) and land prices (on the back of developer demand to bring new product to market) albeit prices have been moderating in many markets over the past year. These combined factors have meant that **rental levels have reached new record highs across many European markets.**

Markets which have seen the highest levels of growth over the past five years include locations in the UK, Ireland, Czech Republic, Hungary, Poland and Germany.

Rental growth in the UK and Ireland started earlier than most continental European locations although these have accelerated rapidly in the past 18 months.

In the UK, rents have grown strongly across the entire country with the uplifts particularly steep in London and major metropolitan areas including Manchester and Birmingham as well as key areas in the Midlands, the South East and North West.

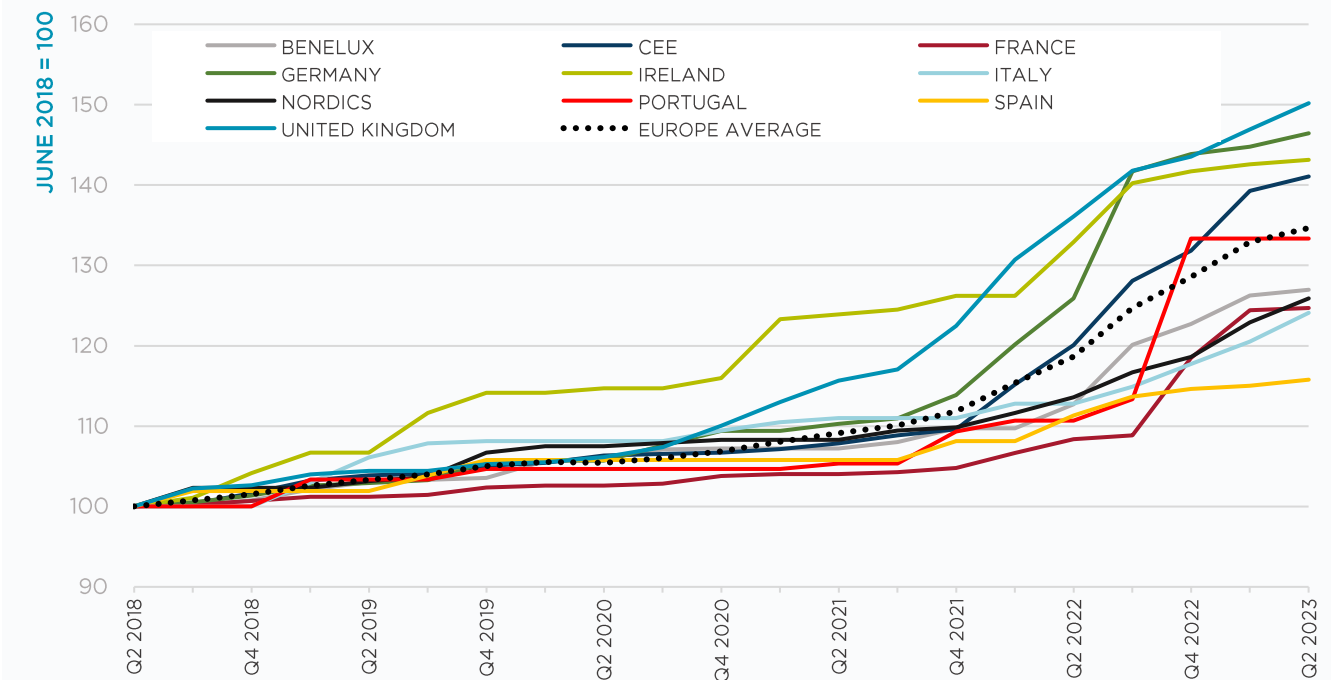
Across CEE countries, rental growth has been particularly strong, with some locations such as key cities and major industrial areas seeing rents nearly doubling in the past five years.

However, **rental growth has started to show signs of slowing:** in the twelve months to Q2 2023, prime logistics rental growth averaged 13.8% across European markets, compared with 15.2% to Q4 2022. During the first half of 2023, prime logistics rental growth averaged 4.8% growth in the six months since Q4 2022, compared with 8.5% for the six-month period between Q2 2022 and Q4 2022.

Whilst slowing from the recent exceptionally high levels, the current rental growth of 13.8% for the year to Q2 2023 is still markedly above the pre-pandemic five-year average rental growth rate of 2.5% per annum.

[CLICK HERE FOR MORE INFORMATION](#)

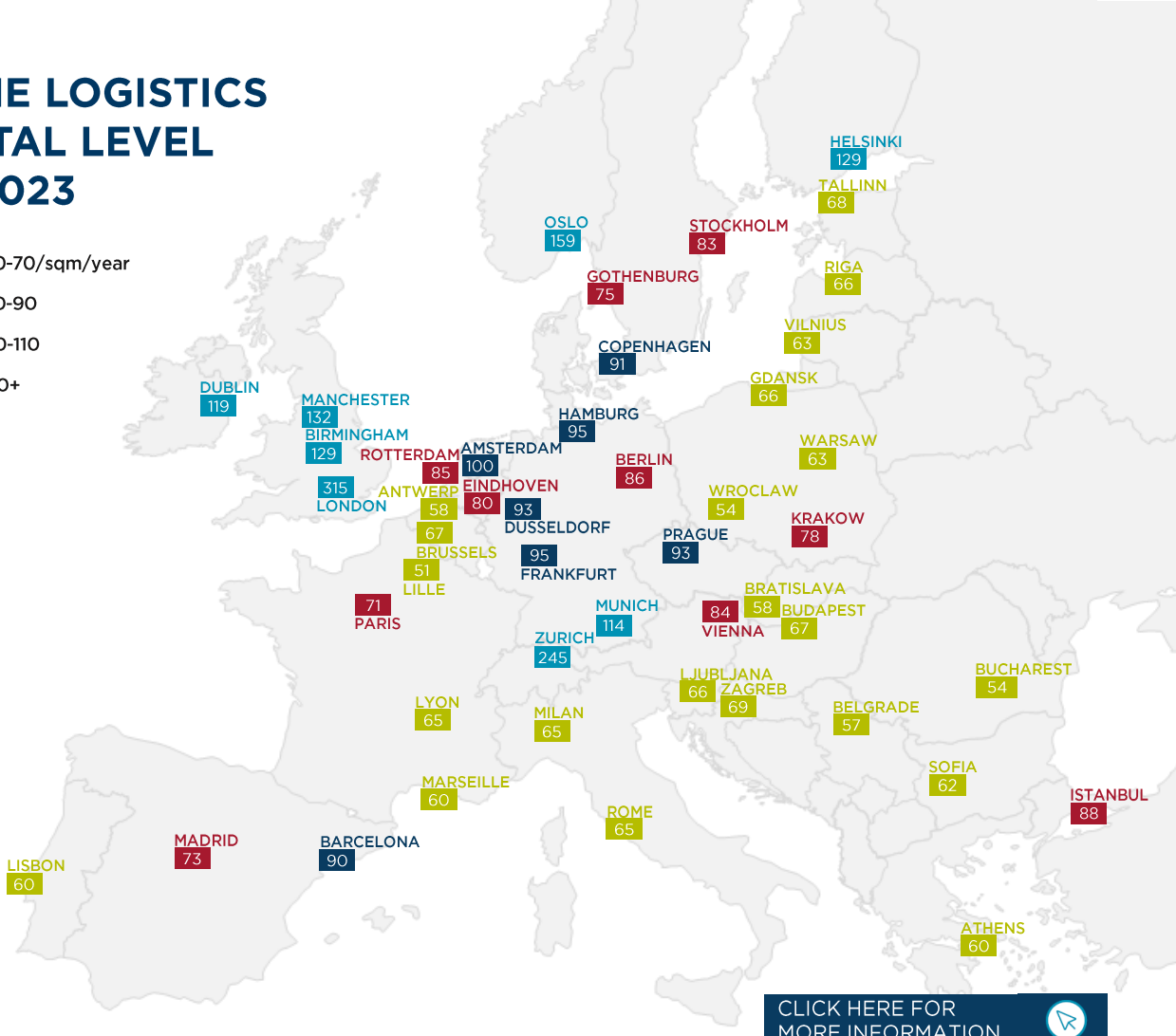
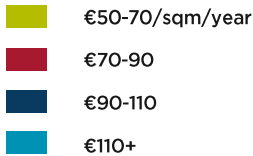
PRIME LOGISTICS HEADLINE RENTAL GROWTH BY COUNTRY



Source: Cushman & Wakefield Research

EUROPEAN LOGISTICS & INDUSTRIAL RENTAL GROWTH

PRIME LOGISTICS RENTAL LEVEL Q2 2023



Source: Cushman & Wakefield Research
 Exchange rates (average for Q2 2023): EUR-GBP = 0.86; EUR-DKK = 0.86; EUR-SEK = 11.72; EUR-NOK = 11.65; EUR-CHF = 0.98; EUR-USD = 1.09

Rental levels across European markets are either at or close to new record highs at end Q2 2023. Many locations have seen rents in the last twelve months increase by more than 10% and in some areas, particularly in the CEE, by significantly more. For example, in Poland, rental growth has accelerated significantly since the beginning of 2022 and, in the twelve months to Q2 2023, many locations have seen rents grow by more than 20%.

However, despite these recent uplifts in rental levels, many locations in CEE countries are still competitively priced relative to nearby markets in Western & Northern Europe. Many Southern European locations are also similarly competitive despite recently having experienced significant rental growth.

In many markets, **we are also starting to see more conversations around tenant incentives** albeit agreements still

tend to be specific to each property and transaction.

Landlords are also starting to be creative with tenant incentive packages and are in some cases including amortised fit-out as well as more traditional rent-free periods. Broadly, whilst headline rents are expected to continue to increase, landlords may start to offer tenants more by way of incentives as landlords look to secure income in an environment of slowing occupier demand.

EUROPEAN LOGISTICS & INDUSTRIAL INVESTMENT MARKET

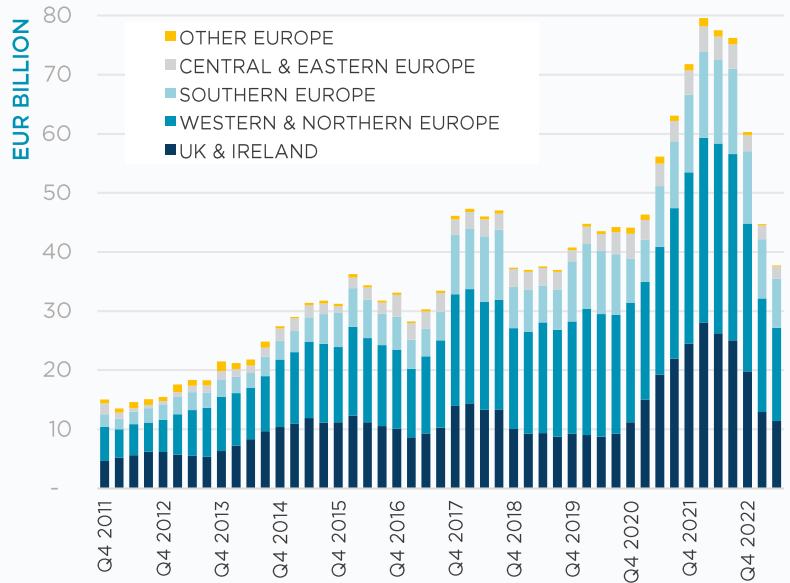
Investment volumes have fallen significantly from their record high seen in 2022. The dramatic upswing in investor activity through 2021 and H1 2022 was fuelled by the exceptional occupier market conditions, including strong rental growth, as well as the relatively attractive return profile compared with other asset classes. As a result, investment volumes and capital values soared whilst prime investment yields compressed significantly: in major markets, prime yields typically fell by close to or more than 100bps between 2019 and Q1 2022.

However, with the softening economic sentiment and outward movement in interest rates and financing costs, activity has slowed dramatically as investors have been awaiting pricing to stabilise. As a result, **investment volumes in H1 2023 have fallen by -63% compared with H1 2022**. On a rolling four-quarter basis, industrial investment volumes for Europe were recorded at **€37.7 billion at end Q2 2023**, markedly down from the nearly €80 billion transacted in the year to Q1 2022 but are now broadly in line with the average annual volume in the pre-pandemic period.

Pricing has moved out sharply since Q1 2022 and some major markets have seen yield decompression in excess of 130bp to end Q2 2023. In the months following the end of Q2 2023, pricing has continued to move out, albeit in some markets at a slower rate of decompression than over the past twelve months.

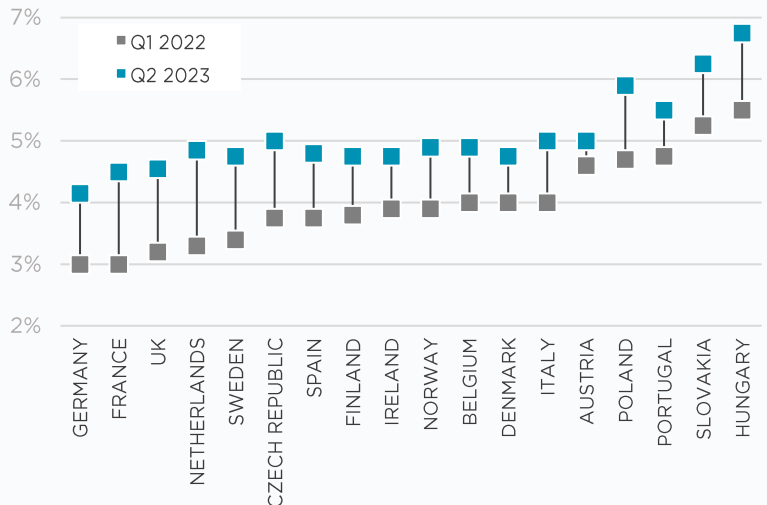
Now, as we progress towards year end, **markets and pricing are showing signs of stabilising** and activity is once again restarting. More product is being brought to market and we expect volumes to start improving as many investors retain conviction in the sector with many securing or ringfencing capital specifically for deployment into logistics and industrial assets.

EUROPEAN INDUSTRIAL INVESTMENT VOLUMES*



Source: MSCI Real Capital Analytics, Cushman & Wakefield Research
*four-quarter rolling total

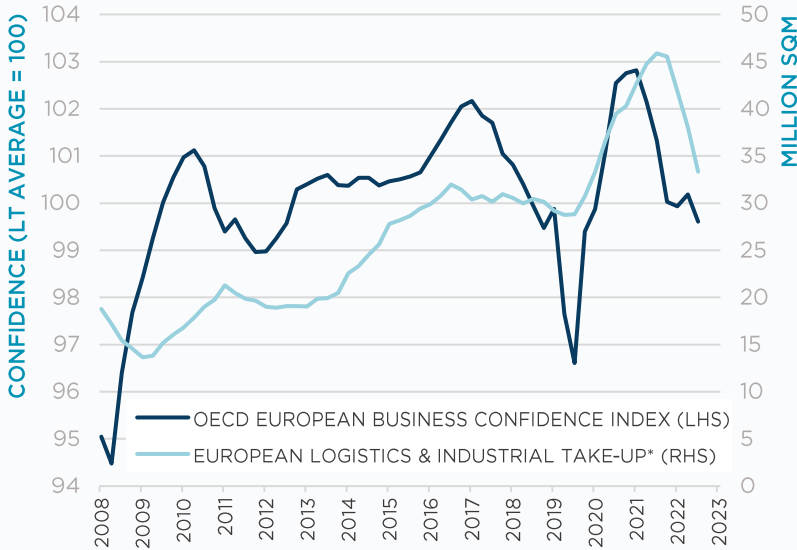
PRIME LOGISTICS INVESTMENT YIELDS



Source: Cushman & Wakefield Research

EUROPEAN LOGISTICS & INDUSTRIAL OUTLOOK

EUROPEAN BUSINESS CONFIDENCE & OCCUPIER TAKE-UP



Source: Cushman & Wakefield Research, OECD
* four-quarter rolling total

As business confidence remains under pressure, occupier take-up will continue to be subdued relative to the volumes seen during the pandemic.

We anticipate that occupier take-up will start to stabilise towards the end of 2023 or the start of 2024 at levels more akin to pre-pandemic volumes.

Whilst developers are actively seeking opportunities to deliver new space, we have started to see a slowdown in speculative development plans. **This will mean that availability will remain constrained**, albeit rates are likely to continue moving out from recent lows.

This continuing constraint as well as ongoing upgrading of real estate stock mean that we expect **all markets we forecast to see upward rental growth** albeit at more modest growth rates beyond 2024. The strongest rental growth is expected in Slovakia, Poland, Hungary, France and the UK.

We anticipate that **investment activity will start to rally towards year end** as pricing levels stabilise and new product is brought to market.

PRIME LOGISTICS RENTAL GROWTH FORECASTS

	2021 (Y/Y % chg)	2022 (Y/Y % chg)	2023f-2024f Avg	2025f-2027f Avg
FRANCE	4.0	17.0	6.8	1.2
GERMANY	5.4	17.7	3.3	1.2
BENELUX	2.4	8.3	4.3	1.1
NORDICS	1.6	8.2	3.9	0.7
CEE	6.9	21.8	6.7	1.9
ITALY	1.8	8.0	3.2	1.4
SPAIN	2.4	6.1	2.6	1.7
UK	13.3	18.1	6.6	2.1
EUROPE AVERAGE	14.5	7.3	5.2	1.6

Source: Cushman & Wakefield Research (Q1 2023 forecasts)

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