

INDUSTRIAL & LOGISTICS SNAPSHOT



Stable occupier market

The European industrial and logistics market continues to be characterized by constrained availability of high quality warehouse and distribution space. Despite this, prime logistics rents remained stable in the vast majority of markets in the first half of 2015. Speculative development returned to the UK and Sweden, as well as, to a smaller degree, to the main CEE markets of Poland, Czech Republic and Slovakia.

The supply of quality product remains limited in the **UK**, and this fact combined with increased demand, has led to an increase in rents across all locations for prime stock in H1 2015. Due to the acute shortage of Grade A stock and a similar increase in demand for second-hand space, we are seeing secondary rents increasing almost faster than prime rents. For the next 12 months we foresee prime rents continuing to increase. Moreover improved occupier demand is leading to a significant amount of speculative space under construction.

The first half of 2015 turned out to be particularly strong for **Ireland**, where take-up was three times higher than in the similar period of 2014. Sales constituted almost 80% of take up; there is still value in this market as prices come off a very low base. While no rental changes were recorded in the first six months of this year, we expect prime rents to increase in the coming months.

The availability of good quality space remains very low in all major **German** logistics markets and the development pipeline is still constrained. Despite this, prime rents remained stable in H1 2015, with exception of Munich where slight growth was recorded (+2.3%) and a further upward trend is expected. As many wealthy municipalities around Munich are reluctant to allow industrial development, we can expect further decline in the availability of space.

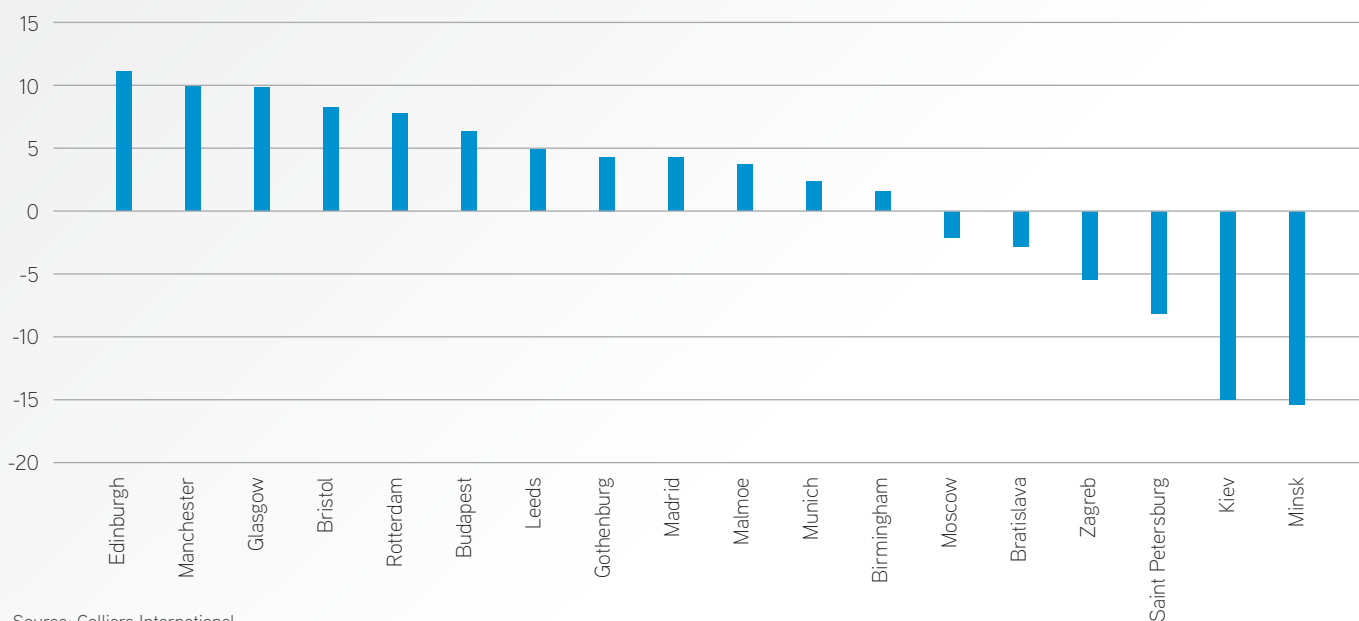
The Dutch logistics market is also seeing lack of modern supply in key locations. In this situation, many occupiers choose to build their own premises. However, thanks to an improved economic outlook and higher availability of financing, an increasing number of developers have decided to build speculatively. The other notable trend is the increasing demand for smaller premises around large cities, in particular from the e-commerce sector. The rental rates remained stable in most locations, with some growth recorded in Rotterdam (+7.9%).

In **Sweden**, prime rental increase were recorded in Gothenburg (+4.3%) and Malmoe (+3.8%). After strong growth in 2014, prime rents in Stockholm flattened in the first months of 2015. However, as the demand remains strong, we anticipate rental growth in the second half of the year. A further increase in prime logistics rents is expected also in Gothenburg. Strong demand and limited availability have encouraged developers to start up new projects; two major developments, currently under way, stand out - a logistics hub in Rosenberg (Stockholm) and the Port of Gothenburg Logistics Park.

In **Southern Europe**, the logistics rents in Madrid's prime areas started a slight recovery trend (+4.2%). The supply of high quality logistics units is very scarce, leaving many occupiers' requirements impossible to meet. Inevitably increased competition for a limited supply will drive rental growth. The highest demand is for space between 1,000 and 5,000 sq m, in Coslada and San Fernando. The lack of available large premises pushed down the average transaction size to ca. 8,000 sq m. We expect development activity in the next two years to be limited to turn-key projects.

Prime rents across major **CEE** markets remained largely stable. Some growth was recorded in Budapest (+6.5%) on the back of improving demand and falling vacancy levels. Rents in the

Logistics & Distribution Six-month Prime Rental Change (%)



key markets of Poland and Czech Republic remain unchanged, while a slight decrease took place in Bratislava, Slovakia (-2.9%). 3PLs continue to play a significant role in occupier activity in Poland and the automotive sector remains the key demand driver in Czech Republic and Slovakia. We are also seeing increased activity of the e-commerce sector. Although development activity remains dominated by pre-leased and build to suit projects, major developers have started construction of a few speculative schemes.

Moving further east, rental decline was recorded in Minsk (-15.5%), Kiev (-14.9%), St Petersburg (-8.3%) and Moscow (-2.2%). Despite economic uncertainty, demand in the Moscow region in H1 2015 recorded a 19% increase year on year. Developers, however, have become more cautious and tend to limit their activity to build to suit projects only.

Strong yield compression throughout Europe

The total investment volume for the industrial and logistics properties in the first half of 2015 reached €10 billion in the EMEA region, representing a 9% year on year increase¹. With €3.8 billion of the capital invested, the UK recorded a 7% increase in comparison with a similar period in 2014 and grabbed 38% of the EMEA market share. The Nordics dethroned Germany as the second largest industrial investment market, with €1.8 billion transacted, equivalent to 18% market share. Germany recorded a slight decrease in comparison with H1 2014 (-7%) and saw €1.5 billion invested in its industrial market. The other top markets were CEE (€661 million), Benelux (€643 million) and France (€567 million).

Investors' appetite and record-low interest rates continued to drive compression of prime logistics yields. In the first six months of 2015 we saw prime yields tightening in more than half of the markets monitored by Colliers International.

Strong yield compression took place in all UK markets, with the sharpest falls (-100 bps) recorded in Manchester, Bristol, Edinburgh and Belfast. Key German markets, with the exception of Berlin and Hamburg, also saw further yield compression, as did the main Dutch logistics locations.

In Scandinavia, which recorded an 85% annual increase in the industrial investment volumes, the main Swedish logistics markets of Stockholm and Gothenburg recorded a slight compression (-25 bps), as did Oslo, the Norwegian capital (-10 bps).

Increased investors' activity in Spanish logistics market, driven mainly by institutional investors and SOCIMIs (Spanish REITs), pushed prime yields in Madrid further down (-50 bps) to 7.00%.

We also saw yield compression in many CEE markets, with the most significant downward pressure (-100 bps) seen in the key logistics locations of Prague, Silesia and Central Poland.

In the next 12 months, further tightening of yields is expected across the Netherlands and UK, as well as in Dublin, Central Poland, Warsaw and Bucharest.

¹ RCA preliminary data

Prime Distribution & Logistics Rents and Yields*

COUNTRY	CITY	MEASUREMENTS	PRIME RENT	6M CHANGE (%)	Y-O-Y CHANGE (%)	OUTLOOK	PRIME YIELD	6M CHANGE (BPS)	Y-O-Y CHANGE (BPS)	OUTLOOK
Austria	Vienna	EUR/sq m/month	4.5	0.0	0.0	▼	6.50%	-75	-125	◄►
Belarus	Minsk	EUR/sq m/month	9.8	-15.5	-15.5	▼	12.00%	-50	-100	▼
Bulgaria	Sofia	EUR/sq m/month	2.5	0.0	0.0	◄►	11.00%	0	0	◄►
Croatia	Zagreb	EUR/sq m/month	4.0	-11.1	-11.1	◄►	10.50%	-50	-50	▼
Czech Republic	Brno	EUR/sq m/month	4.0	0.0	-5.9	◄►	n/a	n/a	n/a	n/a
Czech Republic	Prague	EUR/sq m/month	3.9	0.0	0.0	◄►	7.00%	-100	-100	◄►
Denmark	Copenhagen	DKK/sq m/year	450.0	0.0	0.0	◄►	7.75%	0	0	◄►
Estonia	Tallinn	EUR/sq m/month	4.5	0.0	0.0	◄►	8.00%	-25	-75	◄►
Germany	Berlin	EUR/sq m/month	5.7	0.0	0.0	◄►	6.55%	0	-25	◄►
Germany	Dusseldorf	EUR/sq m/month	5.4	0.0	0.0	◄►	6.40%	-5	-35	◄►
Germany	Frankfurt	EUR/sq m/month	6.5	0.0	0.0	◄►	6.05%	-20	-35	◄►
Germany	Hamburg	EUR/sq m/month	7.0	0.0	22.8	◄►	6.50%	0	-70	◄►
Germany	Munich	EUR/sq m/month	6.8	2.3	3.8	▲	6.00%	-30	-70	◄►
Germany	Stuttgart	EUR/sq m/month	5.7	0.0	-0.9	◄►	6.30%	-20	-70	◄►
Hungary	Budapest	EUR/sq m/month	3.3	6.5	6.5	◄►	9.00%	0	0	◄►
Ireland	Dublin	EUR/sq m/year	70.0	0.0	6.1	▲	7.50%	-100	-100	▼
Latvia	Riga	EUR/sq m/month	3.7	0.0	0.0	◄►	9.00%	0	0	◄►
Lithuania	Vilnius	EUR/sq m/month	4.0	0.0	0.0	◄►	8.75%	-25	-25	◄►
Netherlands	Amsterdam (Schiphol)	EUR/sq m/year	88.0	0.0	0.0	◄►	7.00%	-10	-10	▼
Netherlands	Rotterdam	EUR/sq m/year	68.0	7.9	4.6	◄►	6.75%	-35	-35	▼
Netherlands	Venlo	EUR/sq m/year	53.0	0.0	0.0	◄►	7.00%	-10	-10	▼
Norway	Oslo	NOK/sq m/year	1,020.0	0.0	0.0	◄►	5.80%	-10	-70	▼
Poland	Katowice	EUR/sq m/month	3.0	0.0	0.0	◄►	7.25%	-100	-100	▼
Poland	Kraków	EUR/sq m/month	3.5	0.0	0.0	◄►	8.25%	0	0	◄►
Poland	Lodz	EUR/sq m/month	2.8	0.0	-6.7	◄►	7.25%	-100	-100	▼
Poland	Poznan	EUR/sq m/month	3.3	0.0	0.0	◄►	7.50%	0	0	◄►
Poland	TriCity	EUR/sq m/month	3.3	0.0	0.0	◄►	8.25%	0	0	◄►
Poland	Warsaw	EUR/sq m/month	4.0	0.0	0.0	◄►	7.50%	0	0	▼
Poland	Wroclaw	EUR/sq m/month	3.1	0.0	0.0	◄►	8.25%	0	0	◄►
Portugal	Lisbon	EUR /sq m/month	3.0	0.0	0.0	▼	9.15%	-5	-5	◄►
Romania	Bucharest	EUR /sq m/month	3.5	0.0	0.0	▲	9.75%	0	-25	▼
Russia	Moscow	USD/sq m/month	6.1	-2.2	-43.6	▼	12.50%	+100	+150	◄►
Russia	St Petersburg	USD/sq m/month	6.4	-8.3	-35.8	◄►	12.50%	0	50	◄►
Serbia	Belgrade	EUR/sq m/month	5.0	0.0	0.0	◄►	11.00%	0	0	◄►
Slovakia	Bratislava	EUR /sq m/month	3.4	-2.9	-2.9	◄►	8.25%	-25	-25	◄►
Spain	Madrid	EUR/sq m/month	5.0	4.2	4.2	▲	7.00%	-50	-100	◄►
Sweden	Gothenburg	SEK/sq m/year	600.0	4.3	9.1	▲	6.25%	-25	-25	◄►
Sweden	Malmoe	SEK/sq m/year	550.0	3.8	3.8	◄►	6.50%	0	-25	◄►
Sweden	Stockholm	SEK/sq m/year	600.0	0.0	9.1	▲	6.25%	-25	-25	◄►
Switzerland	Geneva	CHF/sq m/year	125.0	0.0	0.0	◄►	7.50%	0	0	◄►
Switzerland	Zurich	CHF/sq m/year	160.0	0.0	0.0	▼	7.30%	0	-20	◄►
Turkey	Istanbul	USD/sq m/month	6.3	0.0	0.0	◄►	10.00%	0	0	◄►
Ukraine	Kiev	USD/sq m/month	4.0	-14.9	n/a	◄►	14.00%	0	100	◄►
UK	Belfast	GBP/sq ft/year	4.5	0.0	12.5	◄►	5.50%	-75	-150	◄►
UK	Birmingham	GBP/sq ft/year	6.3	1.6	8.7	▲	5.00%	-100	-200	▼
UK	Bristol	GBP/sq ft/year	6.5	8.3	13.0	▲	5.25%	-100	-175	▼
UK	Edinburgh	GBP/sq ft/year	5.0	11.1	11.1	▲	7.00%	-75	-75	▼
UK	Glasgow	GBP/sq ft/year	5.5	10.0	10.0	▲	7.00%	-75	-75	▼
UK	Leeds	GBP/sq ft/year	5.3	5.0	5.0	▲	5.25%	-100	-175	▼
UK	London (Heathrow)	GBP/sq ft/year	15.0	0.0	0.0	▲	4.75%	-50	-100	▼
UK	Manchester	GBP/sq ft/year	5.5	10.0	15.8	▲	5.00%	-100	-175	▼

Logistics & Distribution space

10,000 square metres/100,000 square feet or more with up to 10 per cent office space, the balance being general industrial/logistics/ distribution space with 6 to 12 metre/18 to 36 feet ceiling heights. All loading is dock-height.

Prime Headline Rent

The top open-market tier of rent that could be expected for a unit of standard size, and of the highest quality and specification (Grade A), in the best location in the market at the survey date. The figure excludes service charges and taxes, and does not reflect tenant incentives.

Prime Yield

The yield an investor is prepared to pay to buy a Grade A building, fully-let to high quality tenants at an open market rental value in a prime location. The size of the building and lease terms should be commensurate with the market. The yield quoted will reflect local market practice, which can differ by country.

*Data as of 30th June 2015

502 offices in
67 countries on
6 continents

United States: **140**

Canada: **31**

Latin America: **24**

Asia Pacific: **199**

EMEA: **108**

€1.75

billion in
annual revenue

160

mln sq m
under management

16,300

professionals
and staff

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