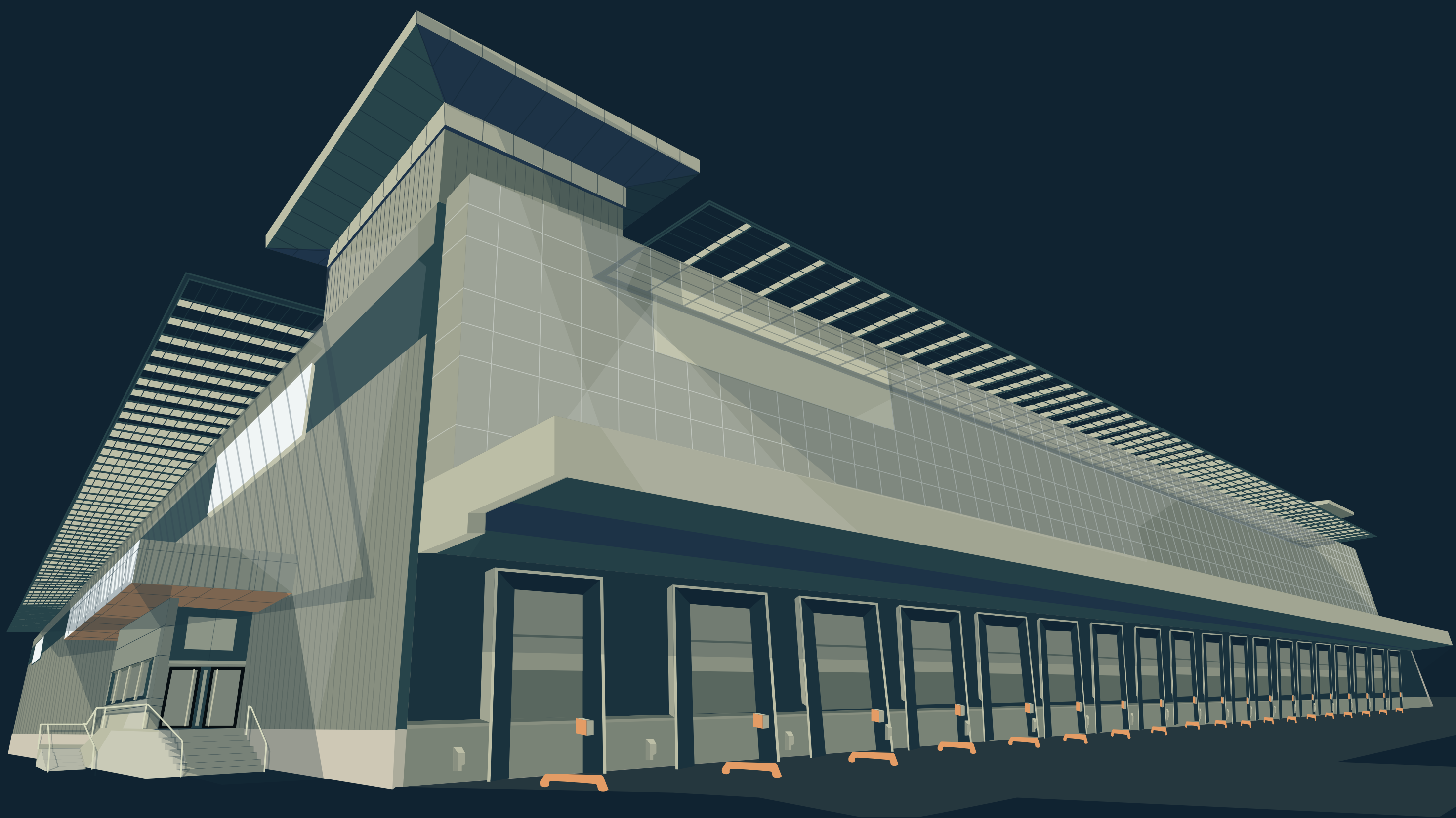
EMEA

INDUSTRIAL & LOGISTICS HUBS

QUARTER 2 | 2019



EXECUTIVE SUMMARY

- **ECONOMY:** The ongoing trade war between the US and China has impacted sentiment in Europe. In H1 2019, GDP growth slowed down to 0.2% q/q in Q2, from 0.4% q/q in Q1. The eurozone forecast for 2019 is now down to 1.2%, and if the weakness in the industrial sector persists, there is an increasing likelihood that domestic demand will also falter.
- **MANUFACTURING:** The industrial woes in Germany are dampening the outlook, and the IHS Markit manufacturing PMI reached 46.5 in July 2019 for the eurozone as a whole - the sharpest decline since December 2012. All of the Big Four economies reported PMIs below the contractionary mark of 50 in July, with France registering the strongest (albeit still contractionary) result (49.7) and Germany the weakest (43.2).
- **TAKE-UP:** Weak industrial sentiment is impacting take-up, but market fundamentals remain strong. The 12-month rolling take-up average for EMEA as a whole may have declined by 5% (y/y) by end of Q2 2019, but this was not widespread as take-up growth expanded across a number of markets. In many instances availability shortages are the single most critical factor constraining take-up growth. The highest levels of expansion (y/y) were in CEE and Russia, where growth expanded by over (or close to) 50% in a number of markets, including: Ostrava (+106%), Bratislava (+58%), Wroclaw (+44%), St Petersburg (+43%) and Brno (+41%). The worst performers (y/y) in terms of takeup declines were Riga (-51%) and Eindhoven (-46%), as well as several UK markets: North West UK (-39%), East Midlands and Yorkshire (both -33%)).
- **VACANCY:** The pace of vacancy declines is moderating across EMEA. Vacancy rates fell in 45% of markets surveyed in H1 2019 (vs 55% in H2 2018). The fastest H/H declines in vacancy rates were registered in Eastern European markets.
- **OCCUPIER CONDITIONS:** In a clear sign that market fundamentals remain strong, 54% of cities surveyed reported landlord-favourable conditions. Only 12% of cities reported an environment favourable to tenants, the lowest share in years.
- **RENTAL PERFORMANCE:** The city-warehouse sector continued to have more traction than logistics space. City-warehouse prime rents grew in 37% of locations monitored during the first half of 2019, compared to only 24% of logistics and distribution markets. E-commerce demand growth in particular is driving increasing demand for city warehouse space in strategic locations near urban centres, putting upward pressure on rents.

KEY METRICS IN MAJOR EMEA CITIES: H1 2019

	PRIME RENT CITY WAREHOUSING RENT			PRIME RENT LOGISTICS & DISTRIBUTION			VACANCY			TAKE-UP	
CITY	€/SQ.M/ MONTH	6M CHANGE	12M OUTLOOK	€/SQ.M/ MONTH	6M CHANGE	12M OUTLOOK	[%]	6M CHANGE [BPS]	12M OUTLOOK	[SQ M]	Y-O-Y CHANGE
Barcelona	6.75	0.0%	—	5.50	0.0%	—	2.60	10	—	335	-18.0%
Birmingham	7.50	0.0%	▲	6.50	0.0%	—	3.70	25	—	370	-49.0%
Bucharest	4.15	0.0%	—	4.15	0.0%	—	6.00	200	▲	110	71.6%
Budapest	5.50	10.0%	▲	5.00	5.3%	▲	2.34	-4	—	191	16.6%
Frankfurt	8.00	0.0%	—	6.50	0.0%	▲	n/a	n/a		237	-28.2%
Hamburg	7.50	0.0%	▲	6.00	0.0%	▲	n/a	n/a		141	-43.1%
Istanbul	4.83	0.0%	—	4.83	0.0%	—	13.15	-75	—	43	-33.4%
London	13.76	0.0%	▲	12.51	0.0%	▲	2.39	-34	▼	185	-41.4%
Madrid	4.50	5.9%	▼	5.00	-9.1%	—	7.49	329	—	240	-46.3%
Moscow	4.31	5.6%	▲	4.65	14.0%	▲	4.50	-140	▼	510	-9.4%
Munich	10.50	5.0%	▲	7.15	2.1%	▲	1.37	56	—	109	28.0%
Paris	7.50	0.0%	▲	5.42	18.2%	—	n/a	n/a		n/a	n/a
Prague	4.75	0.0%	—	4.00	0.0%	—	3.67	-25	—	264	-33.4%
Rotterdam	6.25	0.0%	—	5.83	0.0%	—	n/a	n/a		70	-57.7%
Stockholm	10.65	8.0%	▲	8.68	2.3%	—	n/a	n/a		n/a	n/a
Venlo	4.58	0.0%	—	4.17	0.0%	—	n/a	n/a		150	3.4%
Warsaw	5.00	0.0%	—	4.00	0.0%	—	5.81	-89	▼	582	40.9%

*UK industrial data relate to the region

Sources: Colliers International

FIGURE 1:
INDUSTRIAL PMI MANUFACTURING SURVEYS
CURRENT,
12-MONTH HIGHEST
12-MONTH LOWEST

FIGURE 2:
INDUSTRIAL PRODUCTION INDEX VS GDP GROWTH
Q/Q, 1Q 2005 TO 1Q 2019
IN THE EU28

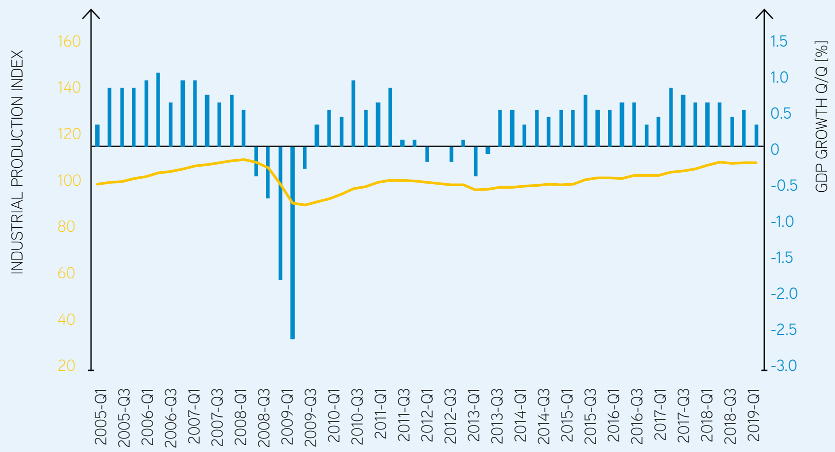
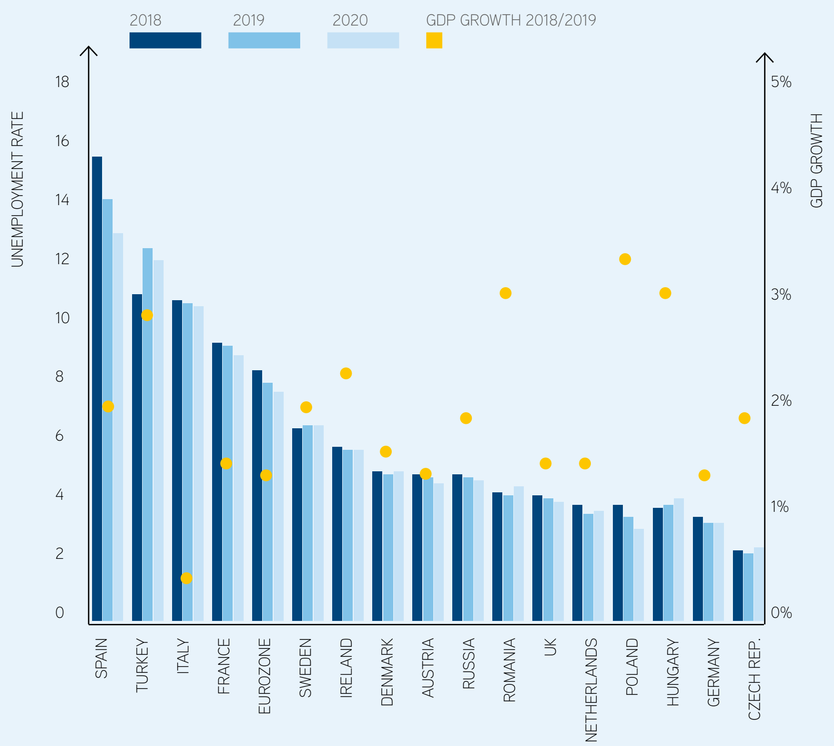


FIGURE 3:
UNEMPLOYMENT RATES BY COUNTRY
2018-2020
AND Y/Y GDP GROWTH,
2019/2018



Sources: Figure 1: Colliers International, Markit | Figure 2: Colliers International, OECD, IMF | Figure 3: Colliers International, Oxford Economics

MACROECONOMIC OVERVIEW

The last few months have witnessed an overall deterioration of the global economic environment due to the ongoing US-China trade war. This has impacted the eurozone, which saw tepid q/q growth of 0.2% in Q2 2019 (after growing by 0.4% in Q1).

As Figure 1 (Industrial PMI Manufacturing Surveys) indicates, the IHS Markit manufacturing PMI reached 46.5 in July 2019, the sharpest decline since December 2012. All of the Big Four economies in the eurozone reported PMIs below the contractionary mark of 50 in July. France registered the strongest result (49.7) and Germany the sharpest fall (43.2). Outside the Big Four, the Netherlands continued to stand out with a fairly robust PMI reading of 50.7.

Against this backdrop, the German economy contracted slightly by 0.1% q/q in Q2, mainly due to external factors such as the US-China trade war, but also because of internal weaknesses, including problems in the automobile sector. However, domestic demand remains strong and the unemployment rate stayed at 5% in June.

Although the CEE economies have weathered the eurozone slowdown relatively well, the manufacturing sector has definitely felt the impact of the global trade outlook and manufacturing woes in Germany. For instance, the Polish manufacturing PMI fell to 47.4 in July - from 48.4 in June, and was the largest decline since April 2013. Meanwhile, Germany's industrial slowdown has had a particularly devastating effect on the Czech Republic, whose PMI (43.1) was one of the weakest in the EU28.

Boris Johnson's adversarial start as prime minister has increased the risk of a no-deal Brexit in October, generating additional economic uncertainty and the chance of a 2019 general election. The UK unemployment rate, at 3.9% in April, remains the lowest it has been for decades.

In France, GDP growth slowed to 0.2% q/q in Q2 from 0.3% in Q1, with cautious consumers opting to save their income gains from the government's fiscal stimulus measures. While France has stood out fairly positively in H1, export orders have continued to fall in almost all industrial sectors, and Germany's slowdown is a key concern, since the country takes 14% of French exports.

In Spain, q/q GDP growth in Q2 fell to 0.5% from 0.7% in Q1. Although the economy continues to grow well above the eurozone average, GDP growth in the second quarter was the slowest in five years, due to a sharp slowdown in private consumption. Meanwhile in Italy, the economy has only managed to grow in one of the last five quarters, since GDP was flat in Q2 - after growth of 0.2% q/q in Q1 2019. However, the political situation has improved following the recent formation of a pro-European government.

FIGURE 4:
UNEMPLOYMENT RATE, MAIN EMEA CITIES,
2018-2020

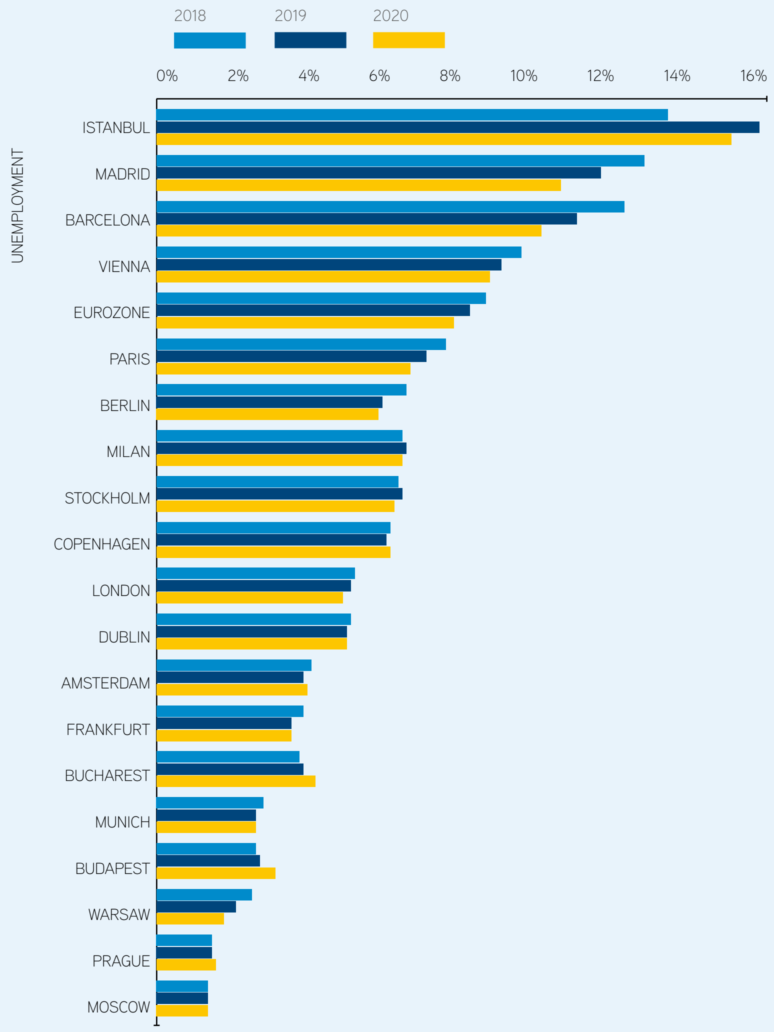
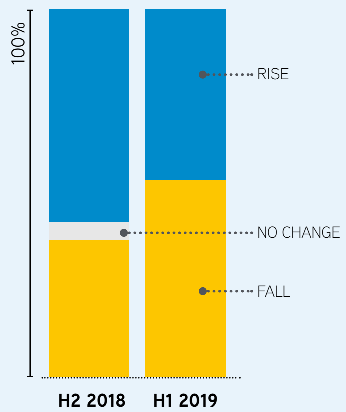


FIGURE 5:
TAKE-UP
CHANGE IN 12 MONTH ROLLING TAKE-UP



Sources: Figure 4: Colliers International | Figure 5: Colliers International

MARKET OVERVIEW: DEMAND

Labour supply remains tight across Europe

Workforce availability is top of mind for the industrial sector, which relies on a steady supply of both skilled and unskilled workers at every level of the supply chain, from lorry drivers to temporary staff at e-fulfilment centres. However, in some European markets, notably Germany and the CEE region, the pool of labour has been shrinking for years, and this is starting to impact take-up.

European cities (Figure 4) with sub-4% unemployment rates (according to the International Labour Organization) now include Amsterdam and Bucharest (3.7%), Frankfurt (3.4%), Budapest (2.6%), Munich (2.5%) Prague (1.4%) and Moscow (1.3%). The impact this situation is having on the industrial real estate market is wide-ranging.

In Poland, where the overall national unemployment rate reached a new low of 5% in July, some developers are building new projects in places where availability of employees is higher, such as old provincial cities, prioritising labour availability before location (particularly in the context of specialised employees for production lines in supply chains).

Conversely, city markets in Southern Europe and Turkey, with structurally high unemployment rates - Athens (22%), Istanbul (14.5%), Madrid (10.2%) and Barcelona (9.7%) – have the advantage of offering a steady supply of workers. And in the UK, the renaissance in the industrial sector in some areas of Northern England, such as Sheffield, Darlington and Doncaster for example, is in no small part due to the availability of labour in former industrial towns, where traditional employment opportunities have dried up.

Overall demand slows down due to supply shortages

47% of the EMEA markets surveyed witnessed a rise in take-up in H1 2019 (compared to 60% in H2 2018). When looking at the 12-month rolling average, EMEA take-up was down by 5%. The fastest-growing markets from a 12-month rolling average perspective clustered around CEE and Russia, and included Ostrava (+106% y/y), Bratislava (+58% y/y), Wroclaw (+44% y/y), St Petersburg (+43% y/y) and Brno (+41% y/y).

A lack of available supply is a key factor constraining take-up in many markets. In Germany, for example, lack of supply (especially in size bands >10,000 sqm) is impacting demand. In Frankfurt, where take-up was down to 236,900 sqm in H1 2019 (-14% y/y), new-build properties accounted for almost 80% of total demand because availability of second-hand stock is so low. Meanwhile, Hamburg saw take-up reach only 141,200 in H1 (-22% y/y) with a dramatic fall in the number of leases in size bands >10,000 sqm: only 9% of take-up in contrast with over half of total activity in the same period last year. By contrast, Berlin was the only city market to display double-digit growth (+23% y/y). There were six deals over 10,000 sqm in H1, accounting for the lion's share of take-up (37%), followed by floor surfaces in the size band <3,000 sqm (31%).

FIGURE 6:
VACANCY RATES CURRENT *| left*

VACANCY RATES OUTLOOK *| right*
BASIS:
HALF YEAR-ON-HALF YEAR

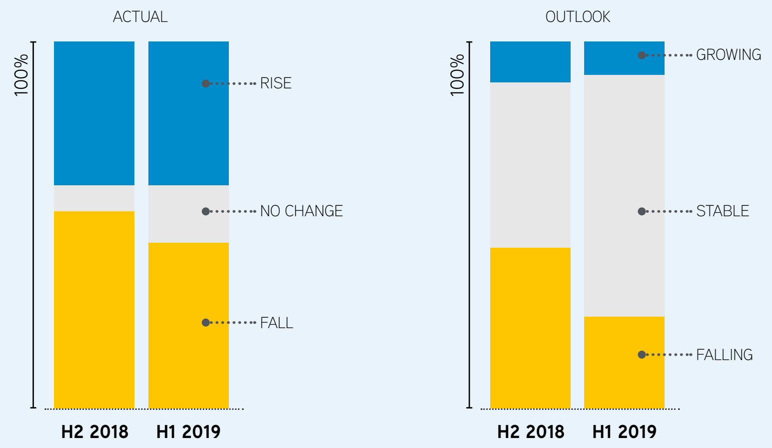


FIGURE 7:
AVERAGE SHIFT IN VACANCY RATES
(6 MONTH BASIS POINT CHANGE),
BY MARKET SIZE

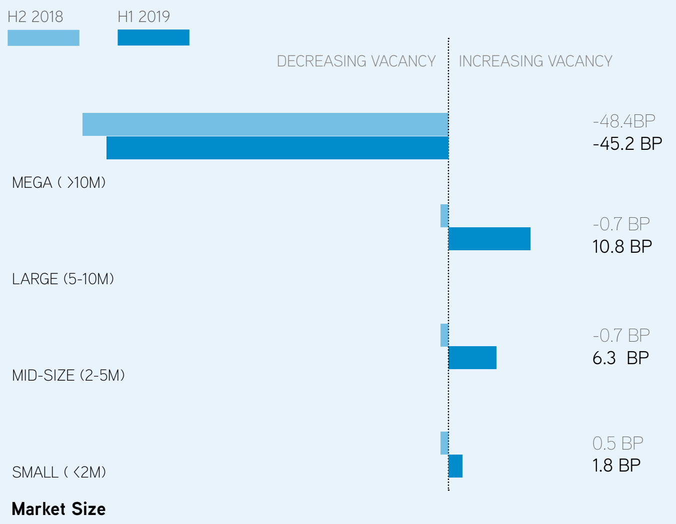
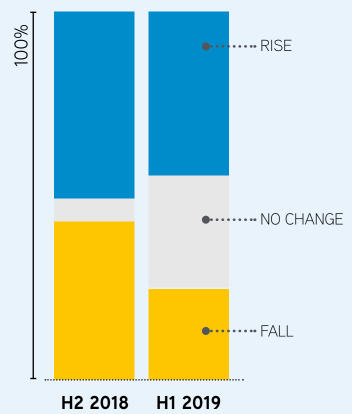


FIGURE 8:
DEVELOPMENT PIPELINE
CHANGE IN SPACE
UNDER CONSTRUCTION



Sources: Figure 6: Colliers International | Figure 7: Colliers International | Figure 8: Colliers International

MARKET OVERVIEW: SUPPLY

Vacancy loosening up, but still under pressure in large cities

There is evidence that vacancy is loosening up across EMEA. Vacancy decreases were observed in only 37% of all EMEA markets surveyed in H1 2019 (Fig 6), in contrast with almost half (47%) in H2 2018. Moreover, the pace of vacancy declines is forecast to continue moderating in the near future, with only 26% of markets surveyed in H1 forecasting falls, vs 44% in H2 2018. Indeed, when looking at city markets by population size (Fig 7) it becomes apparent that vacancy is easing in all but the 10 Mn+ city category, where vacancy rates remain under huge pressure.

Around 50% of markets experienced declines in both H2 2018 and H1 2019. These figures highlight that finding suitable I&L space in large urban conglomerations remains very challenging, particularly when it comes to distribution and fulfilment centre options for last-mile delivery near the urban core.

Construction pipelines slowly improving

When looking at the overall EMEA figures, the development pipeline has increased slightly this year. The share of markets experiencing a rise in space Under Active Construction (UAC) by end of H1 2019 was 55%, compared to 52% by end of H2 2018 (Fig 8). Looking at the overall supply, the amount of space UAC went up 8% in H1 2019 vs H2 2018, having reached a total 8.8 M sqm UAC in the EMEA markets surveyed by end of June.

Looking at specific geographies, Poland stands out in terms of its development pipeline. Wroclaw was by far the fastest-growing city market in terms of supply in H1, with impressive growth of +588% in H1 2019 vs H2 2018 (347,900 sqm UAC by end of June).

It was followed by Krakow (+125% H/H) and Warsaw (+60% H/H) with 49,500 sqm and 398,600 sqm of space UAC respectively. In Germany, several markets are exhibiting stronger pipelines, particularly Frankfurt, with 301,000 sqm of space UAC by end of June (+120% H/H), and Dusseldorf with 90,900 sqm (+152% H/H). In Berlin, the construction pipeline grew by a relatively modest +51% H/H, with the amount of space UAC reaching 125,000 sqm. However, development activity plunged in Hamburg (-41% H/H) where there was a minimal amount of space UAC in H1 (16,000 sqm).

Pockets of growth in speculative development

Speculative development activity concentrated in specific locations. In Madrid, around 70% of new developments in H1 2019 were delivered on a speculative basis. Moscow followed closely, with a rate of 68% of total new projects.

The UK is one of the foremost speculative driven markets. Despite the current Brexit uncertainty, growing demand from occupiers is driving project developers to increase their share of speculative construction.

As a result, 5.4 M sq ft of space was delivered during the first half of the year, matching the average full-year figure witnessed during the period 2015-2018. As of July 2019, there is an additional 5.5 M sq ft of space UAC and scheduled to complete by year-end. This means that speculative development volumes in 2019 are expected to be double the average figure seen in the previous three years.

FIGURE 9:
CITY WAREHOUSE RENT CURRENT *| left*

CITY WAREHOUSE RENT OUTLOOK *| right*
CHANGE IN EXPECTATIONS

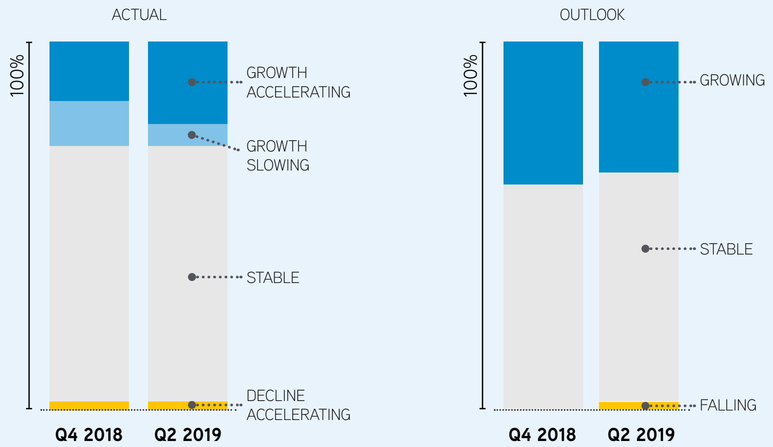


FIGURE 10:
LOGISTICS& DISTRIBUTION RENT CURRENT *| left*

LOGISTICS& DISTRIBUTION RENT OUTLOOK *| right*
CHANGE IN EXPECTATIONS

Click here for our I&L rent & occupier conditions map

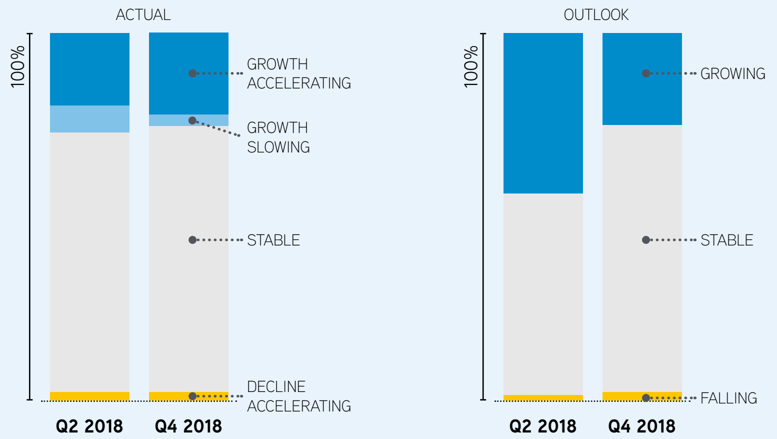
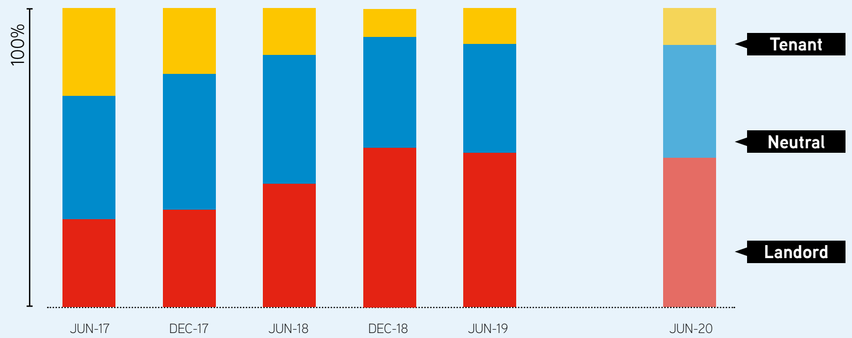


FIGURE 11:
EVOLUTION OF OCCUPIER CONDITIONS



Sources: Figure 9: Colliers International | Figure 10: Colliers International | Figure 11: Colliers International

MARKET OVERVIEW: RENTS AND OCCUPIER CONDITIONS

City Warehouse rental performance strong

Overall, rents remained largely stable in 70% of markets. Growth accelerated in 22% of markets in H1 2019 vs 15% the previous semester (Figure 9), indicating that despite the current macro-economic environment and weak industrial sentiment, real estate market fundamentals remain in favour of landlords.

However, the rental outlook does seem to have moderated with the percentage of city markets forecasting rental growth in 12 months time marginally down to 37% from 39% six months ago. The fastestgrowing markets for city warehouse rents included Athens and Copenhagen (both growing 11% in H1 2019/H2 2018), and Gdansk (Tricity) and Budapest (both 10%), closely followed by Stockholm and Amsterdam (both 8%).

Prime Logistics and Distribution rents largely stable

The market for logistics and distribution space displayed largely stable rental conditions, with 22% of markets registering growth vs 18% the previous semester (Figure 10). But the outlook has weakened markedly compared to the city warehouse sector, with only 24% of markets predicting rental growth for logistics and distribution facilities in 12 months time compared to over 40% 6 months ago.

The top H1 2019 rental growth markets for logistics and distribution space were Paris (18%) Moscow (14%), Gdansk (Tricity) (10%), Vienna and Ostrava Moravia (both 9%), and Copenhagen and Amsterdam (both 8%).

Occupier Conditions remain favourable to landlords

Occupier conditions remain exceptionally landlord-favourable at 54% of all markets in H1 2019 (Figure 11), demonstrating that supply shortages of suitable, modern Grade A facilities continue to underpin the rental market.

With development activity starting to pick up, construction pipelines improving slightly, and more speculative space coming to market there are early signs that the pressure on vacancy is loosening up across EMEA. While current landlord favourable conditions will continue well in to 2020, demand and supply-side weaknesses could start showing through, tilting markets away from being landlord favourable by end 2020.

AROUND THE MARKETS

LEEDS

Activity in the wider Yorkshire & Humber market continues to benefit from relatively cheaper rental levels and land values, and greater labour availability than other more established locations in the Midlands and the South East, and this is attracting more logistics occupiers. Amazon is just one of the latest occupiers to set up operations with a pre-let of a 700,000 sq ft, multi-storey warehouse at iPort Doncaster. Although of a smaller size, Kier Development let the speculatively-built, 140,000 sq ft distribution Warehouse (Tri-Link) to CMS Distribution.

NORTHAMPTON (EAST MIDLANDS)

The East Midlands continues to attract large national and international occupiers, such as parcel couriers, third-party logistics providers, and retailers to serve the entire national network. In H1, logistics company Eddie Stobart signed a lease to occupy 625,000 sq ft across three units at Panattoni Park Northampton. The largest transaction (across a single unit) was the pre-let signed by VF Corporation, to occupy a 578,620 sq ft warehouse at Mountpark Bardon.

MILTON KEYNES

The largest deal in H1 2019 was the letting by West Coast of the speculatively-built unit Centric341 at Andover Business Park. Regarding pre-leases, Ocado agreed a pre-let at Segro Purfleet for a 288,000 sq ft purpose-built warehouse. On the supply side, developers are capitalising on the relative lack of available Grade A units and those who have taken the plunge are being rewarded. An example of this includes the recently let Unit 3 Bedford Link (103,000 sq ft) let to L3 Technologies ahead of completion.

EINDHOVEN Parcel carrier DPD opened a new super hub in April 2019 for European parcel transportation at the Westfields industrial estate. The sorting and distribution center, called Hub Eindhoven, covers an area of 88,000 sqm and can be expanded by 36,000 sqm. The region's high-tech DNA is attracting many logistics service providers to the southeast of Noord-Brabant. Its location, a two-hour drive from the airport at Cologne, is also contributing to demand.

VENLO

Venlo will have the largest inland rail terminal of the Netherlands in 2020, increasing accessibility and the attractiveness of the city. Online retailer VidaXL is opening a new distribution centre of 80,000 sqm in Trade Port Noord in March 2020, and online retailer Apotheke Europe started in the construction of a new 50,000 sqm mega distribution centre in June 2019. The new building replaces the existing warehouse of the company and is expected to be delivered in Q3 2020. At 50,000 sqm, the new facility is more than twice as large as the current one of 18,000 sqm.

FRANKFURT

Manufacturing and trading companies took the lead of occupier demand in H1, followed by transport and logistics. The largest deals included the rental of around 20,300 sqm of space by Coca-Cola in Bodenheim and the rental of 20,000 sqm of space by Amazon in Gernsheim. Supply at the moment is not sufficient to meet ongoing high demand, and demand for large surfaces >10,000 sqm is primarily being met through new-build developments.

OSLO Vacancy rates for larger warehouses are particularly low in the Oslo area, as the attractiveness of this type of property rises in-line with proximity to the city centre. Although there is low development activity near Oslo, there is a rumour that Amazon is planning to enter the Norway market, and a player of this size is likely to have a significant impact on demand.

HAMBURG

Supply shortages are constraining the market, and availability in surfaces above 10,000 sqm is very scarce. The largest contracts in H1 included Nutwork (9,700 sqm), TCO (8,400 sqm) and MyCargo Logistic (7,500 sqm), all of which were registered in the submarket City South. The impact that supply shortages are having on the market is reflected in the type of contracts on offer: of 37 contracts registered, 32 rental agreements were concluded in existing properties.

VIENNA

Parcel delivery company DHL announced in March it is leaving the Austrian domestic B2C parcels market and will be partnering with the Austrian Post for cross-border parcel deliveries to Austria. The strategic partnership, expected to start later this year, marks the end of DHL's €100 million expansion into the Austrian parcels market over the past three years, and follows Amazon's move to start delivering its own parcels in the country.

BELGRADE

Suburban neighbourhoods located at the crossroads of the main Belgrade intersections such as Dobanovci, Ugrinovci and Zemun, remain the most desirable locations for new projects, the vast majority of which are being developed by owner occupiers. The automotive industry remains a cornerstone of economic growth in Serbia. Many corporations within this sector are announcing new openings in Belgrade, which bodes well for the industrial real estate market. One of them, German manufacturer Volkswagen is rumoured to be opening a car factory in Belgrade, with the first cars to come out by 2023."

OUTLOOK

The eurozone economy grew 0.2% q/q in Q2 2019, after a substantial decline in industrial output, suggesting that a pick-up in GDP growth in H2 2019 is not on the cards. However, the first estimate of eurozone Q3 GDP was slightly better than expected, with the economy to expand by 0.2% q/q, the same rate as in Q2.

Meanwhile, PMI messages point to German recession risks rising in H2 2019, although an improvement in business expectations may point to reaching the bottom of the industrial downturn this year. This does not, however, point to activity picking up over the next few quarters. Eurozone GDP growth is forecast at 1.1% for both 2019 and 2020.

The outlook for occupier conditions remains largely stable, with landlord favourable circumstances expected to dominate markets by mid-2020, holding a 54% market share. Beyond this point, conditions may start tipping in favour of tenants, especially in locations witnessing high levels of new speculative development.

Recent trends in demand seem to indicate that occupier requirements are increasingly polarised, split between large >10,000 sqm warehouses in peripheral logistics zones to smaller 'last mile' units close to the main consumption centres.

Demand may also grow outside of the main hubs where rents are more affordable and there is greater scope to develop modern, built to suit facilities, as occupiers increasingly resort to tailormade solutions.

Having said that, the outlook for city warehouse rents is definitely stronger than for logistics and distribution rents where prospects for rental growth are set to weaken in the next 12 months.

FOR MORE INFORMATION

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