EUROPEAN LOGISTICS HAS BEEN RESILIENT DESPITE SOME SIGNS OF ECONOMIC SLOWDOWN AND UNCERTAINTIES

Take-up slowdown in Europe after a record year

In the 22 cities regularly followed by BNP Paribas Real Estate the market for warehouses over 5,000 sqm declined by 22% during the first half of 2016 compared to H1 2015. This trend comes after a strong market growth during 2015. The volume of transactions just returned to the average levels recorded in 2013 and 2014.

In France, the market for warehouses over 5,000 sqm slowed down in H1 2016 (-6%) compared to H1 2015. After a good start to the year, the volume of transactions dropped in Q2, particularly in Greater Paris. Demand for large units is faced with a lack of available product and occupiers have turned to build-to-suit solutions, especially in the French regions outside of the main traditional hubs.

After reaching a record level of take-up in 2015, the volume of transactions in Germany continued to increase by 6% in the first half of 2016 compared to H1 2015, despite the tight situation on the supply side. This can be attributed to the growing demand from owner-occupiers for build-to-suit solutions, representing half of total take-up, as speculative developments remained low. Rents have been stable in most markets, increasing only slightly in Berlin, Munich and Leipzig. Demand remains strong and the second half of the year is expected to remain lively.

In the UK, take-up decreased by 26% but this is compared to the record volumes achieved in H1 2015. The occupational market remains driven by changes brought about by the continuing development of online retailing and despite growth in speculative development, the majority of UK regions remains undersupplied in ‘Big Boxes’.

In Spain and the Netherlands, demand remained strong despite a significant drop in take-up. After an excellent year in 2015, both countries are returning to their average market activity although now with speculative developments.

Warehousing prime rents remained fairly stable in Europe

Rents remained fairly stable in most countries

Only marginal changes have been recorded in some markets but overall rents for warehouses have not evolved dramatically since the beginning of the year. One of the main reasons lies in the low margins achieved in the logistics industry which in turn constrain tenants who can’t afford higher rents.
Industrial and logistics investment: good resilience in times of uncertainty

Industrial and logistics investment reached €10.8bn in H1 2016 in Europe, a 3% increase compared to H1 2015. The market has been slowing down since the beginning of the year, in line with the economic backdrop, but remained resilient given the uncertainties surrounding the Brexit vote.

By accounting for more than one third of total industrial and logistics investment, the UK weighs on the overall trend in Europe. Whilst declining during H1 2016 to €3.85bn, it remained well above its average volume measured between 2011 and 2015.

In France, the return of speculative investment and the affluence of liquidity stimulated the market and enabled a prime yield at 5.70% in Greater Paris. The volume of industrial and logistics investment reached €773 million, regaining momentum in H1 2016 (+27% compared to H1 2015).

In Germany, industrial and logistics investment already reached €1.87bn at mid-year 2016, rising by 18% compared to H1 2015. This is the second best mid-year recorded in Germany thus confirming the interest for logistics properties, not only from pure players.

In the Netherlands, the industrial and logistics market further rose to €757 million, representing 18% of the total volume of commercial real estate. In Spain, the market continued to be thriving following the massive rebound in 2015. The volume of industrial and logistics investment grew even further by 19% to a mid-year record of €400 million.

The little availability of prime products in Europe maintained yields at low levels.