on point

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European Logistics Report
Trends & Prospects
March 2008

Introduction

This edition of our European Warehousing Report is being released during a period of increased uncertainty in the global financial and real estate markets. This has led to a tighter debt market, increasing risk aversion, slowing investment activity and an outward movement of yield levels in the majority of European real estate markets.

Notwithstanding the financial turmoil and increased investor caution, the logistics occupational market appears to remain on a solid growth track, backed by strong growth prospects in global trade volumes and robust occupier demand.

Real estate markets are becoming global. The market benefiting most from globalization is the logistics sector. World trade figures have recorded strong growth and forecasts predict growth to continue over the next years. According to latest figures from the World Bank, global trade in goods and services could increase more than three times to $27 trillion in 2030. Trade as a share of the global economy is said to rise from one-quarter today to more than one-third over the same period.

The European distribution warehousing market will benefit from increasing trade flows, driving demand for modern warehousing space over the next few years. Financial markets are currently less stable and certain and global GDP growth is forecast to slow over 2008. Nevertheless the logistics sector is expected to prepare for further growth over the longer term, implementing new geographies and changing the structure of warehousing functions. This will provide opportunities for developers and investors and we expect that 2008 will see activity in the sector continuing on a robust level. Also, increasing availability in some markets might slow down new developments.

In this report, we look at the drivers influencing the European real estate distribution warehousing market. In our analysis we include warehouses for storage, distribution centres, sorting and clearing centres and cold storage warehouses exceeding 5,000 m² of single storage floor-space.

Summary

- EU enlargement, the globalisation of the supply chain, growing trade flows from Asia and changing customer requirements are driving the European distribution warehousing market. As a consequence the geography and structure of the market is changing.
- During 2007, warehousing take-up increased to a record 14.5 mil m². Across Europe, occupier demand is driven by the growth in outsourcing activity and an expanding retail market.
- Whilst the highest growth rates of take-up were recorded in the Central and Eastern European markets, the "Big 3", Germany, the UK and France recorded nearly 44% of total take-up in 2007.
- Construction activity continued to be buoyant in 2007, up 23% over the previous year. Russia recorded the highest new supply in 2007, followed by the UK and Poland. Only few markets saw declining construction levels.
- A warehousing pipeline of nearly 16 mil m² is expected over the next two years. The highest supply will be built in the CEE, driven by Russia with a potential of nearly 3.3 mil m² of new floor-space.
- Despite robust occupier demand, high completion figures and the large pipeline are contributing to increasing warehousing supply. We expect speculative construction to become more limited during 2008, with the majority of developers building only on a pre-let or built-to-suit basis.
- A number of new markets are emerging on the radar screen of occupiers, developers and investors. These include Slovakia, Croatia, Greece and Turkey. Whilst activity in these markets continues to be limited, a modern distribution warehousing market is gradually emerging backed by economic growth and a growing retailer market. We expect interest in these markets to increase further in 2008.
- Direct warehousing investment totalled € 15 bn in 2007. This was 12% lower than in the previous year but still the second strongest year on record.
- The UK, Germany, France, Sweden and the Netherlands saw the highest investment transaction activity in 2007. However, volumes decreased by 35% in the UK (Europe's strongest warehousing investment market), to € 4.3 bn. Investment transaction activity increased more than two times in France, Poland and Finland whilst activity decreased between 50-90% in Russia, Spain and Norway.
- Whilst Jones Lang LaSalle's prime warehousing rental index edged up by 2.3% over the year, rental levels are decreasing in many secondary logistics hubs, and a general conversion of rents is seen in these markets.
- We anticipate limited rental growth in 2008 as occupiers are under pressure to cut logistics costs and are passing pressure on to landlords. Additionally, high construction levels in recent years and a buoyant warehousing pipeline are contributing to higher availability, ultimately putting rents under downward pressure.
- With yield levels at record lows in the majority of markets by the end of Q2 2007, investor caution started to emerge in H2 2007. The uncertainty created by the credit crunch saw yield levels starting to move out in a number of markets in H2. The weighted European warehousing yield moved out by 10bp to 6.1%.
- Further outward yield shifts can be expected in the first months of 2008 however, we anticipate repricing in the warehousing sector to remain less significant than in other asset classes.

Global and regional trends changing Europe's logistics network

The European logistics market is undergoing a sustained period of geographical and structural change, driven by a number of global market trends and customer requirements.

- EU-enlargement with the abolishment of borders
- Strongly expanding retail markets, based on rising consumer demand, especially in the CEE countries
- Globalisation of the supply chain, with manufacturers sourcing their raw material on a global basis
- Production shifting eastwards seeking lower-cost locations in the CEE countries or further away in Asia
- Growing trade flows to and from Asia, driven by the booming Chinese market
- Longer transport routes and increasing transport costs
- The outsourcing of logistics services to third party logistics providers (3PLs) and consolidation of 3PLs through a high number of mergers & acquisitions
- Increasing service requirements evoking shorter delivery times and less stock inventory
- Implementation of new technologies
- Increasing E-commerce
- Sustainability issues (CO_2 emissions, energy performance of buildings, Waste Electrical and Electronic Equipment (WEEE), etc.)

As a consequence of these factors, the European real estate distribution warehousing market is in a phase of sustained change. The old logistics network, based on a highly fragmented market characterised by high owner-occupation and in-house logistics activities, is now vastly outdated as it can not satisfy modern logistics needs.

Towards a regional logistics network …

The enlarged European market has led to a bigger distribution area to be covered. Along with requested shorter delivery times and reductions in inventory, this requires operating from locations closer to the customer, in order to reduce transport time and costs. Thus the strategy to operate out of a single mega-sized pan-European distribution centre is either substituted or complemented with a regional distribution network. Regional centres are increasingly being established in strategic locations across Europe to serve the various European regions.

… with occupiers increasingly moving into less expensive areas in the various regions

Due to severe pressures to cut logistics costs, occupier demand has also started to shift towards less expensive locations within the different European markets. This trend is recorded also in the lower-cost Eastern European countries. Thus a number of regional markets outside of the main logistics hubs started to emerge across Europe. Many of these areas are now regarded key logistics areas by themselves, whilst others continue to emerge.

Growing trade flows from Asia, on the other hand, continue to drive demand around European seaports, making them a premium location for distribution warehousing.

Structural changes to sustain faster delivery

Along with an expanding geography, the changing demand pattern requires structural changes in the function of distribution warehouses. A reduction in inventory and shorter lead-times favours cross docking activities, and thus requires warehouses supporting freight flows rather than storage, including increased manoeuvring space and better infrastructure leading to the distribution centre.

Increasing levels of outsourcing to 3PLs is leading to higher volatility in occupier demand. Demand from 3PLs depends on existing service contracts and asks for higher flexibility, both in terms of space occupied and location. Thus 3PLs require shorter lease terms and locations offering the option to enlarge or reduce occupied space. Additionally, sub-division of warehouses into single units in order to run more service contracts out of one bigger warehouse (multi-user or multi-client warehouses) are increasingly in demand.

New technologies such as RFID (Radio Frequency Identification) have been implemented to facilitate transport flows, reduce distribution times and increase security. However, to fully reap the potential of these technologies, higher automation along with special requirements for height, floor-load capacity and column layout of warehouses is requested. Sustainability issues will also increasingly impact on warehouse functions, although the full impact will only be seen in some years, when stricter regulations are in place.

Impacts of Asia and the Middle East

Positive impact from the growing Asian markets …

Economic growth in Asian markets has been buoyant over recent years. The Chinese economy in particular grew by an annual rate of around 9% over the last 25 years and China is expected to be the world's largest economy by 2015.

The impact of Asia's growing influence on the European market is becoming more evident. Manufacturing is shifting from Europe to Asia and raw material is increasingly sourced within Asian markets. Hence Asia is recording increased trade flows from and to other regions. So far this trend has been positive for the European distribution warehousing market. The arrival of more goods at Europe's borders is translating into higher demand for warehousing space, particularly around the main entry points. The main European seaports at the northern borders, such as Rotterdam, Hamburg and Antwerp, have gained from this development. However, the smaller ports in the southern and eastern parts of Europe have recorded increasing activity over recent years as well.

Further growth in trade flows from Asia is expected to drive demand for distribution space in the European markets over the next few years. The locations close to Europe's entry ports or those offering easy access to these ports are expected to record sustained occupier demand over the next few years.

… but the Middle East could enter into competition to the European market over the medium term

The Middle East is strategically located halfway between Asia and Europe and offers excellent infrastructure with accessibility to all transport modes (land, air and sea). Large infrastructure and logistics projects have been realised or are currently under development, such as the free trade seaport Jebel Ali in Dubai. Over the medium term, the Middle East is expected to develop into an important global logistics hub, providing an intermodal gateway for freight flows from and to Asia.

The advantages the Middle East has over Europe are its favourable geographic location, proximity to a number of African and Middle Eastern countries, low labour costs and fast access to global markets including all different transport modes.

Thus over the next few years a growing number of major distribution centres could be concentrated in this area instead of Europe. This would have an important influence on the structure of demand in Europe, with logistics services further shifting towards a just-in-time distribution whilst storage and value added logistics services would gradually move towards the Middle Eastern global hubs.

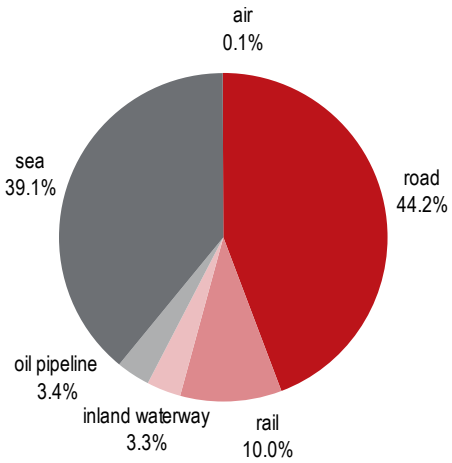
Freight transport and transport infrastructure

Currently, the most frequent transport mode in Europe is road, followed by sea. Both recorded marginal increases in modal shares over the last decade. Rail transport on the other hand recorded a decline in modal share and continues to hold a limited share of roughly 10% by end 2005, down from 12% in 1995.

Over the ten-year period 1995 to 2005, freight transport in the EU-25, measured by tonnes-kilometres, increased by over 31%. Increases were strongest in road transport (38%) and sea transport (35%). Rail transport on the other hand saw an increase in total freight of only 9%.

The growth in freight volume is more and more challenged by infrastructure shortage, traffic congestion and increasing transport costs, driven by energy prices, road tolls and drive time limits. Additionally, across Europe the state and density of infrastructure varies. Particularly in the Eastern European countries, transport infrastructure is often inadequate.

Modal share in European freight transportation



Source: Eurostat, DG Energy and Transport

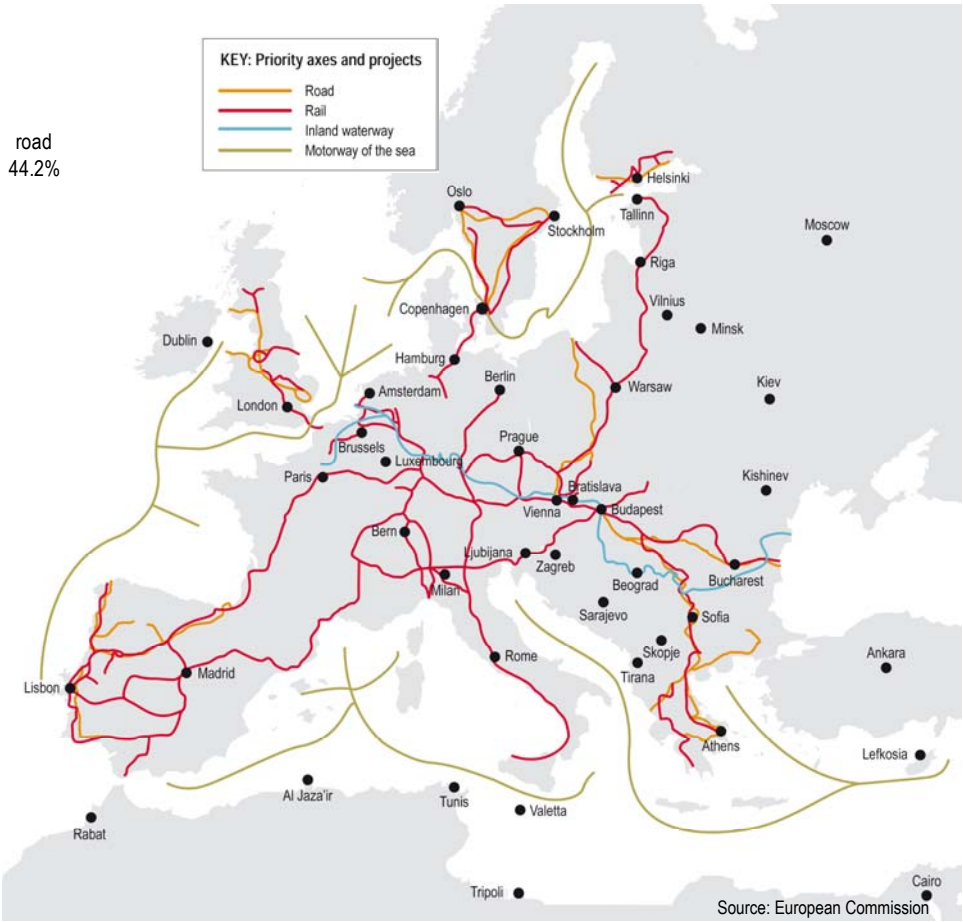
European Network Improvements – The TEN-T program

In order to improve freight transport and to meet sustainability issues and greenhouse gas emission targets, the European Commission has committed to a series of initiatives making freight transport more efficient and sustainable. Emphasis is set on high-quality and safe infrastructure through optimising the existing network. This includes new construction or extension/ upgrade of existing infrastructure, stretching over all transport modes (road, sea and rail). In order to reduce road congestion emphasis is put on rail, sea and inland waterway transport.

The TEN-T network is expected to carry about half of all freight movements in Europe and should have a huge impact in reducing transport time, mainly through a substantial reduction in road congestion and improved rail performance. Thirty priority axes have been defined and should be completed by 2020.

The priority axes reflect the major transport routes of single member states and thus the TEN-T corridors are already running through Europe's major logistics locations. Whilst in progress, the network is further driving occupier demand with new locations emerging along its main corridors and intermodal nodes. Particularly in the Eastern European markets, locations providing easy access to the TEN-T network are expected to benefit.

European TEN-T Corridors



Source: European Commission

Rail transport

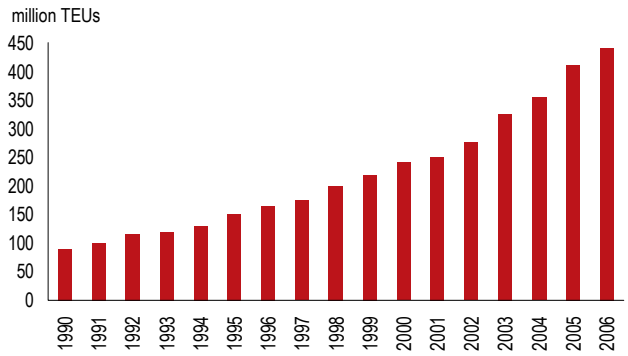
Whilst interest in rail as an alternative to road transport is increasing, it continues to show restrictions, making it less attractive. This includes: Limited interoperability between national railway networks weak coordination of infrastructure and interconnection of IT systems, difficulties in tracking goods, and sharing infrastructure with passenger traffic which has priority over freight transport.

Therefore rail transport is expected to grow only marginally over the next few years. Nevertheless, direct site access to the rail network might prove advantageous as many occupiers will consider it a crucial option over the longer term.

Sea freight transport

Worldwide container port throughput increased from 36 mil TEU (Twenty feet equivalent unit, equivalent to a container of 20*8*8 feet) in 1980 to over 400 mil TEU in 2006 and forecasts point to further strong growth up to nearly 600 mil TEU in 2010. European seaports are currently handling roughly 20% of world container throughput and all major European ports recorded record increases in TEUs handling over the last few years, mainly driven by inbound cargo from Asia. As a consequence of the strong growth, many ports are now approaching saturation in capacity handling and freight transport into the mainland.

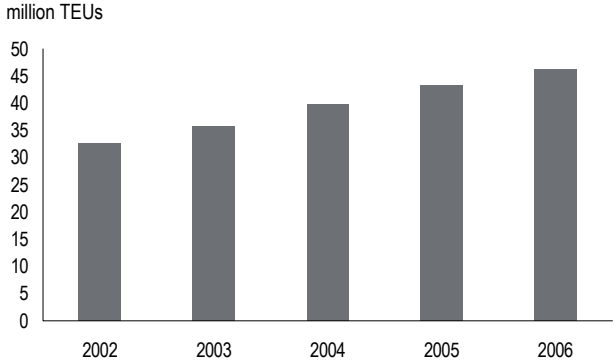
World container throughput and forecast



Source: Hamburg Harbour

Total container throughput in the Top 10 European seaports increased by roughly 7% in 2006 over the previous year and by 113% over 10 years previous. By end 2006 it stood at 46.3 million TEU. Rotterdam, Hamburg and Antwerp, Europe's Top three seaports handled more than 50% of total 2006 container throughput recorded in the Top 10 European seaports.

Container throughput Top 10 Europe 2005 vs 2006



Source: Hamburg Harbour

In order to cope with increased capacity handling, many of Europe's seaports are currently undergoing extension. However, not all have the capacity to expand as strongly as needed to cover expected increases in throughput, as they are facing land constraints or environmental restrictions. Those constrains often continue into distribution warehousing locations around the ports, which are now facing scarcity in developable land. This favours the development of new port locations but also higher competition between single locations to attract logistics demand.

Growing intermodality

Longer supply chains require different transport modes along the distribution process. This includes transferring goods from one mode to another. Locations able to perform this transfer effectively are expected to benefit.

Along Europe's most important crossroads, intermodal logistics centres are emerging, offering both distribution warehousing space and access to modern infrastructure including road, rail, and sea transport. As occupiers need to optimise their distribution activities in order to meet time and cost targets, intermodal centres, offering enlarged services to occupiers, are expected to become increasingly sought after over the next few years and thus attract a higher occupier demand.

The European Real Estate Warehousing Market

European logistics regions

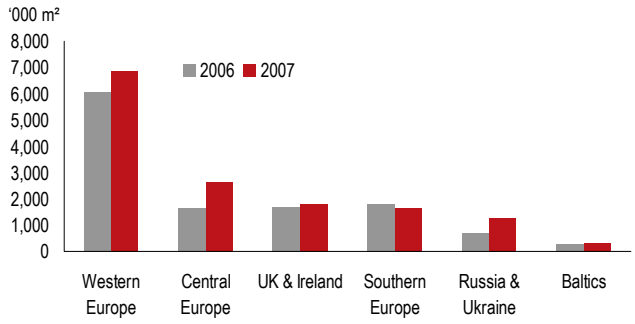
The existing modern distribution warehousing stock is still heavily concentrated in the core European logistics areas, in particular in the UK, France and Germany. However, the European distribution warehousing market is geographically expanding and important logistics regions are now established in the CEE as well. Particularly Poland, Czech Republic and Hungary have developed into recognized logistics markets, based on an expanding manufacturing sector and growing consumer markets.

The CEE is recording the highest growth dynamics in the modern distribution warehousing sector, outperforming the historic core markets in Western Europe. Nevertheless, in volume terms, the CEE markets will remain below volumes in the core regions due to lower population figures and thus smaller consumer markets. Only Russia is currently recording similar high demand and supply volumes as the core markets.

Occupier demand still on the rise

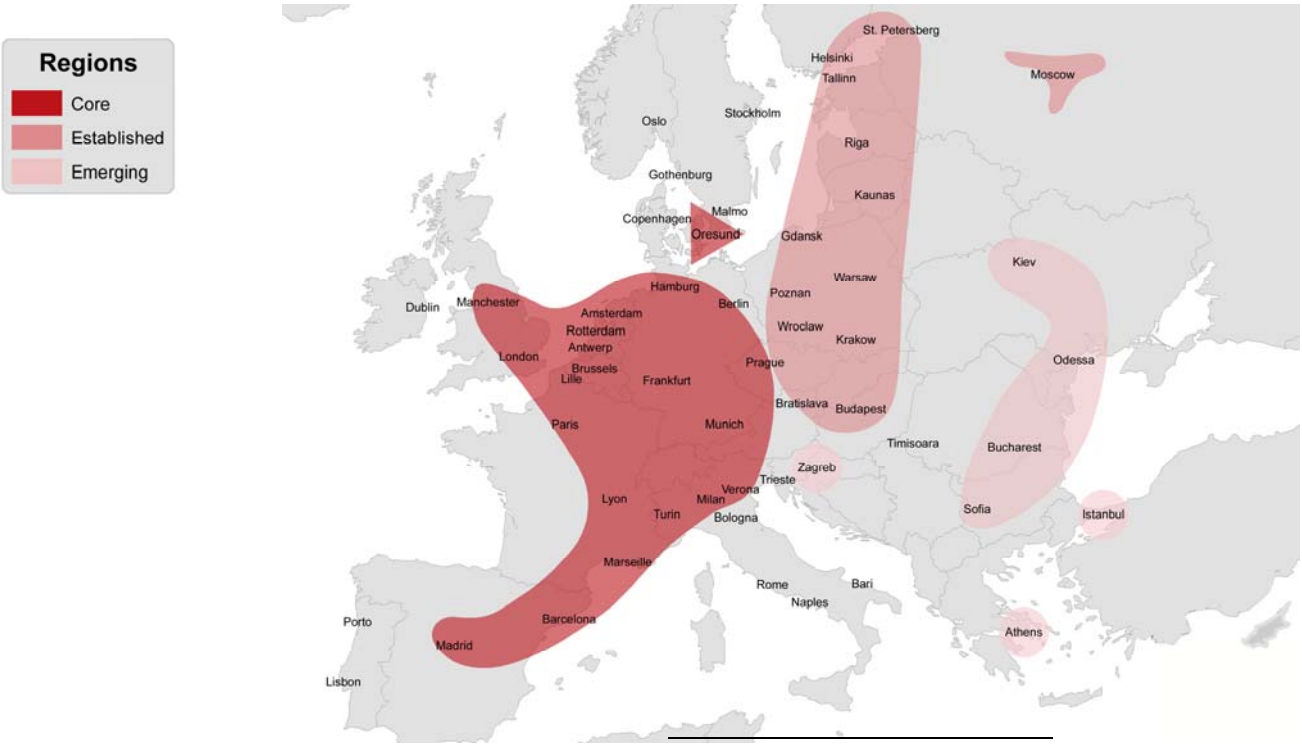
Occupier demand for logistics space continued to increase in 2007, up by about 19% on the previous year, amounting to over 14.5 mil m² take-up in the 18 countries[1] covered in the analysis. Whilst the highest growth rates in occupier demand were recorded in the emerging CEE markets, Germany, the UK and France continued to record the strongest take-up levels for logistics space in 2007, amounting to almost 44% of total take-up.

Warehousing take-up by region



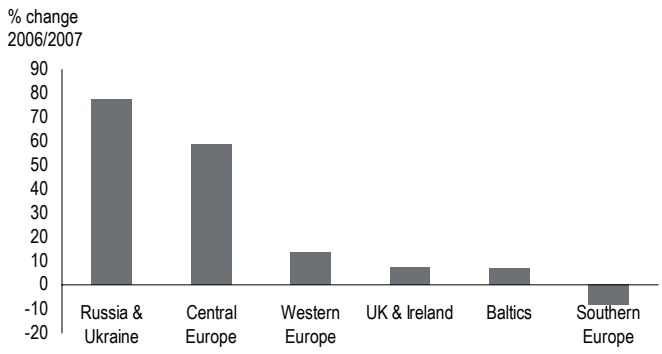
Source: Jones Lang LaSalle, EMEA Research

During 2007, occupier demand started to intensify also in a number of markets which have just emerged on the radar screen of the modern logistics sector, such as Croatia, Greece, Turkey and Serbia. Demand for distribution warehousing space in these markets is just starting to emerge and take-up remained fairly low in volume terms.



[1] Belgium, Czech Republic, Estonia, France, Germany, Hungary, Ireland, Italy, Latvia, Lithuania, Netherlands, Poland, Romania, Russia, Slovakia, Spain, UK, Ukraine

Warehousing Take-up Growth Dynamics

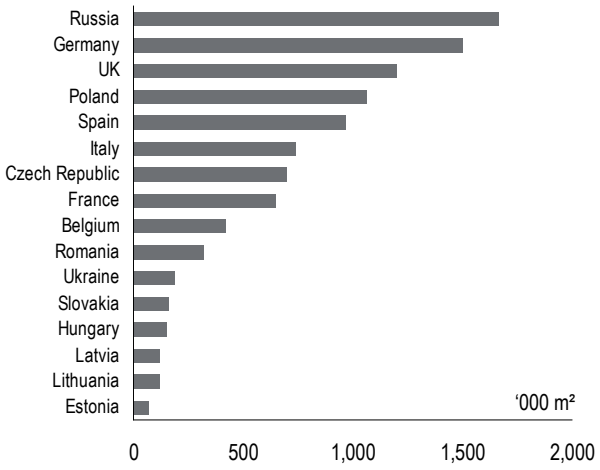


Source: Jones Lang LaSalle, EMEA Research

Development activity on record levels

Fuelled by strong occupier demand, the construction of modern logistics space remained buoyant in 2007, with newly built space increasing in the majority of markets. Overall in 2007, new supply increased by 18% on the previous year to 10.0 mil m² (excluding Ireland and the Netherlands, where no completion data is available).

Warehousing Construction 2007



Source: Jones Lang LaSalle, EMEA Research

Growth rates were driven by Ukraine, Romania and Latvia. However, overall stock figures in these markets are still limited. New construction more than doubled in the Russian market, contributing to an increase in total stock of approximately 60%.

Development has also intensified in the newly emerging markets. In Croatia, approximately 150,000 m² of modern distribution warehouses came onto the market in 2007. However, new supply in Croatia as well as in Greece and in Turkey remains limited and is built mainly on an owner-occupier or built-to-suit basis.

Only few markets recorded a falling construction in 2007. These include France (-34%) and Italy (-7%), where high completions in recent years have contributed to higher vacancy and developers are more cautious building speculatively. Construction volumes also declined in Estonia (-52%) due to increasing supply and a perceived higher risk in the Baltic markets. Thus developers continue to build only on a pre-let basis.

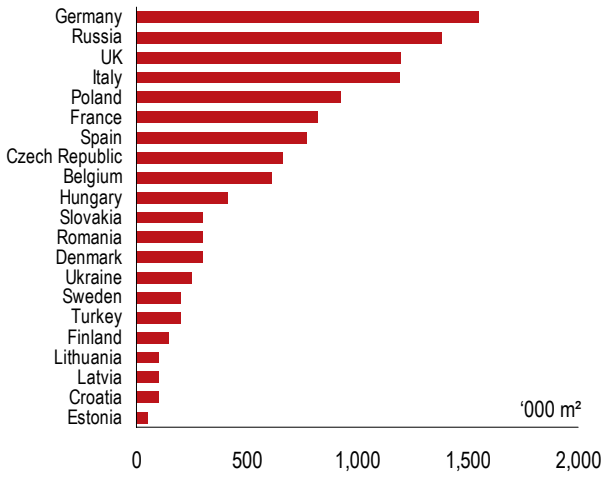
A high future development potential

Despite increasing supply, pipeline figures for new warehousing space in Europe remain at record levels. However, due to short construction times, allowing the delivery of new space within a few months, developers do not need to develop in anticipation of the market, limiting their letting risk by building mainly on a pre-let or built–to-suit basis.

Whilst this will keep vacancy rates low, the significant growth in pipeline figures is nevertheless boosting competition, giving occupiers the opportunity to choose from a wider offer and putting downward pressure on rents.

With developers ready to start construction within a short time after securing an occupier, completion figures in the warehousing sector are highly volatile and thus difficult to predict. However, based on data from major developers by end 2007, current pipeline figures for 2008 exceed 10.5 mil m² in the above markets analysed (excluding Ireland and the Netherlands) and another 1.0 mil m² in the Nordic Region, Turkey and Croatia.

Potential Warehousing Pipeline 2008

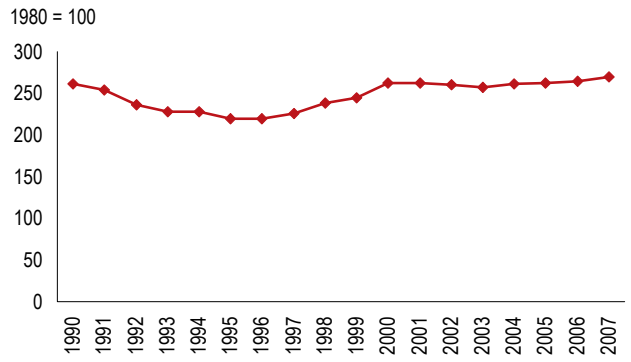


Source: Jones Lang LaSalle, EMEA Research

Rising distribution warehousing rents in primary locations …

Despite strong occupier activity, growth in prime rents remained limited in 2007. Jones Lang LaSalle's European Warehousing Rental Index[2] increased only marginally by 2.3% over the year.

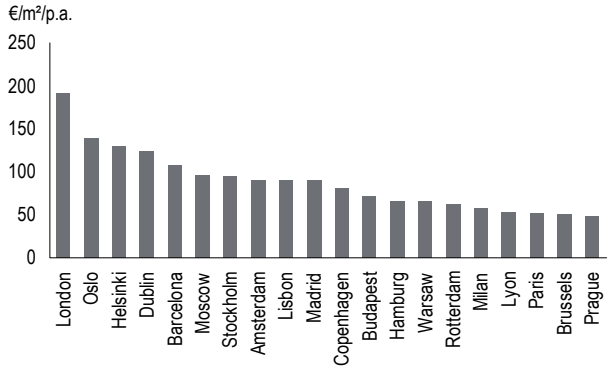
European Warehousing Rental Index



Source: Jones Lang LaSalle, EMEA Research

The strongest prime rental increase was recorded in Oslo, with a 22.2% change year-on-year, followed by Edinburgh (7.2%), Brussels and Antwerp (6.3%), Lyon (6.0%), Stockholm (5.9%) and Manchester (5.0%). Prime distribution warehousing rents continue to be highest in London at € 191/m²/p.a., driven by London-Heathrow.

European Warehousing Prime Rents



Source: Jones Lang LaSalle, EMEA Research

… but stabilising around a lower average in secondary locations

However, with the distribution warehousing market increasingly moving into lower-cost locations, a different rental trend for modern warehousing space has emerged, which is believed to be the more relevant in the logistics market today.
Rental levels in these secondary hubs are substantially lower, compared to the core European hubs and show a higher convergence across European markets.

- In Germany, secondary rents decreased by 20% to € 48/m² p.a. over the last three years.
- In the Czech Republic, rents have settled around € 48/m² p.a. in 2007, down by nearly 24% on 2005.
- Italy's secondary hubs recorded rent decreases over the last two years as well, with rents standing at € 44/m² p.a. by end 2007.
- In Belgium and Poland on the other hand, prime regional rents increased over 2007, up by 6.4% and 2.9% respectively. In Poland secondary rents are now € 43/m² p.a. and continue to be among the lowest in Europe. In Belgium, due to a more limited supply, regional rents are now at € 50/m² p.a.

The difference in rents achieved in prime and secondary locations marks a very important trend, highlighting how important infrastructure gateways can drive rental levels. However, the convergence of rental levels in secondary hubs across Europe indicates a very homogeneous distribution warehousing market driven by a cost conscious occupier base requiring consistent standards across all locations.

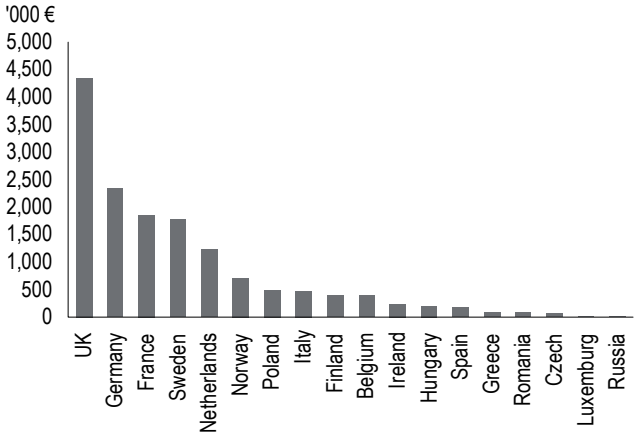
We expect rental levels to come under downward pressure during 2008, especially in the secondary locations, as supply is increasing and occupiers will continue to put pressure on landlords as they are requested to cut logistics costs further. On the other hand, developers' margins are already tight, preventing substantial decreases in rental levels and slightly increased build costs together with a slight outward movement of yields will prevent developers to cut rents further. Therefore, we should see a stabilisation of warehousing rents towards the end of 2008 in the majority of the secondary markets whilst a number of the primary hubs could record a slight upward movement of rents.

[2] based on the weighted performance of 25 markets: Antwerp, Amsterdam, Barcelona, Berlin, Birmingham, Brussels, Budapest, Dublin, Düsseldorf, Frankfurt, Glasgow, Hamburg, Leeds, London, Lyon, Madrid, Manchester, Milan, Moscow, Munich, Paris, Prague, Rotterdam, Stockholm, and Warsaw.

European Warehousing Investment Activity slowing

During 2007, total direct investment in warehousing property totalled € 15 bn, a 12% decrease on the record levels of 2006. The slowdown was driven by Europe's strongest warehousing investment market, the UK, which in 2007 contributed nearly 30% of total investment volumes and which was down by 35% on 2006.

European warehousing investment volumes



Source: Jones Lang LaSalle, EMEA Research

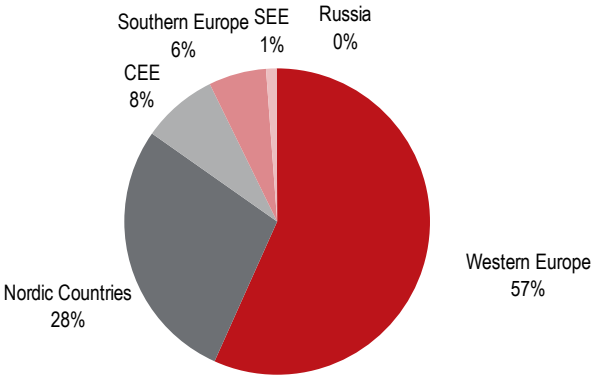
On a regional level, investment volumes increased in Central Europe, up by 50% on the previous year. Investor activity was driven by Poland, which nearly tripled 2006 volumes, whilst Hungary, Czech Republic and Romania all saw declining investment volumes.

In Continental Western Europe, transaction activity increased 31% year-on-year, driven by a strong French market, where volumes grew to € 1.86 bn, more than two times 2006 levels. The Netherlands for the first time recorded investment volumes in excess of € 1 billion in 2007, up by 30%. A 20% increase was recorded in Belgium, however, the volume was relatively limited at € 390 mil. Germany, with € 2.3 bn the strongest Continental Western European warehousing investment market, remained broadly in line with the previous year, up by a marginal 5%.

In the Nordic Region, Finland recorded a substantial increase in investment volumes, more than double their level in 2006, whilst Norway decreased by 50% on 2006 record investments. Volumes in Sweden remained robust and on a par with 2006 levels.

Decreasing investment activity was recorded in Southern Europe (-37%) due to a near 70% decline in the Spanish market. The most significant drop in investment levels were, however, recorded in Russia, down by nearly 90% on 2006 levels, which in itself with some € 104 million showed a limited investment activity. Excluded from these figures are land and development sales which form a large proportion of the market in Russia and the rest of the CEE region.

Warehousing investment by region



Source: Jones Lang LaSalle, EMEA Research

Slowing investment activity in 2007 was not a consequence of the turmoil in financial markets but merely a consequence of limited opportunity. Despite growing stock figures, many new schemes which could appeal to institutional investors were built by international developers such as ProLogis or Gazeley, following the strategy of holding the space in their own property portfolios, limiting current investment opportunities.

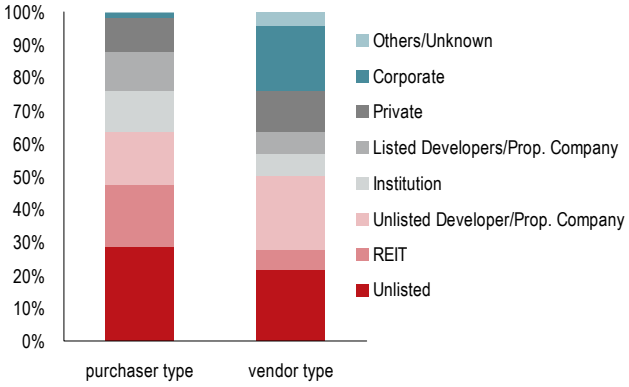
Additionally, in the majority of the recently emerging markets, such as Russia or the SEE countries, the share of owner-occupier developments remains high, leaving limited opportunity for investors. Whilst investor interest in those markets is increasing, the limited opportunity has driven yield levels down, minimising the risk premium within these markets and Investors remain cautious.

Unlisted funds and developers the most active investors

The strongest investor group in 2007 was the unlisted funds, with about 30% of the total volume, followed by unlisted and listed developers/ property companies (28%) and REITs, which accounted for nearly 19%.

Unlisted and listed developers/ property companies with 30% were the biggest vendors, selling assets worth nearly € 4.4 bn. Unlisted funds followed with 22%. Sales from corporates accounted for 20%, highlighting the continued trend towards sale and leaseback.

Warehousing investment by investor type



Source: Jones Lang LaSalle, EMEA Research

With nearly 40% of total volumes, UK investors were the strongest purchaser group. Investors sourcing their capital on a global level followed with13%.

Overall, with nearly 80% of total warehousing purchases European investors were the most active buyers. Global investors purchased 13% but otherwise investments from other regions remained fairly limited. On the vendor side, limited non-European activity is even more pronounced, with nearly 87% of total sales represented by European investors.

Beginning outward yield movement

The strongly performing real estate market, supported by the historically low interest rate environment and increased cross border activity, contributed to commercial real estate's evolution as a global asset class and the record transaction volumes in recent years. These drove yield compression and convergence in pricing across established and emerging markets.

Whilst the warehousing sectors has always recorded limited shares in the overall European real estate investment market, increasing investor interest and limited opportunities have contributed to strong yield compression over recent years in the warehousing sector.

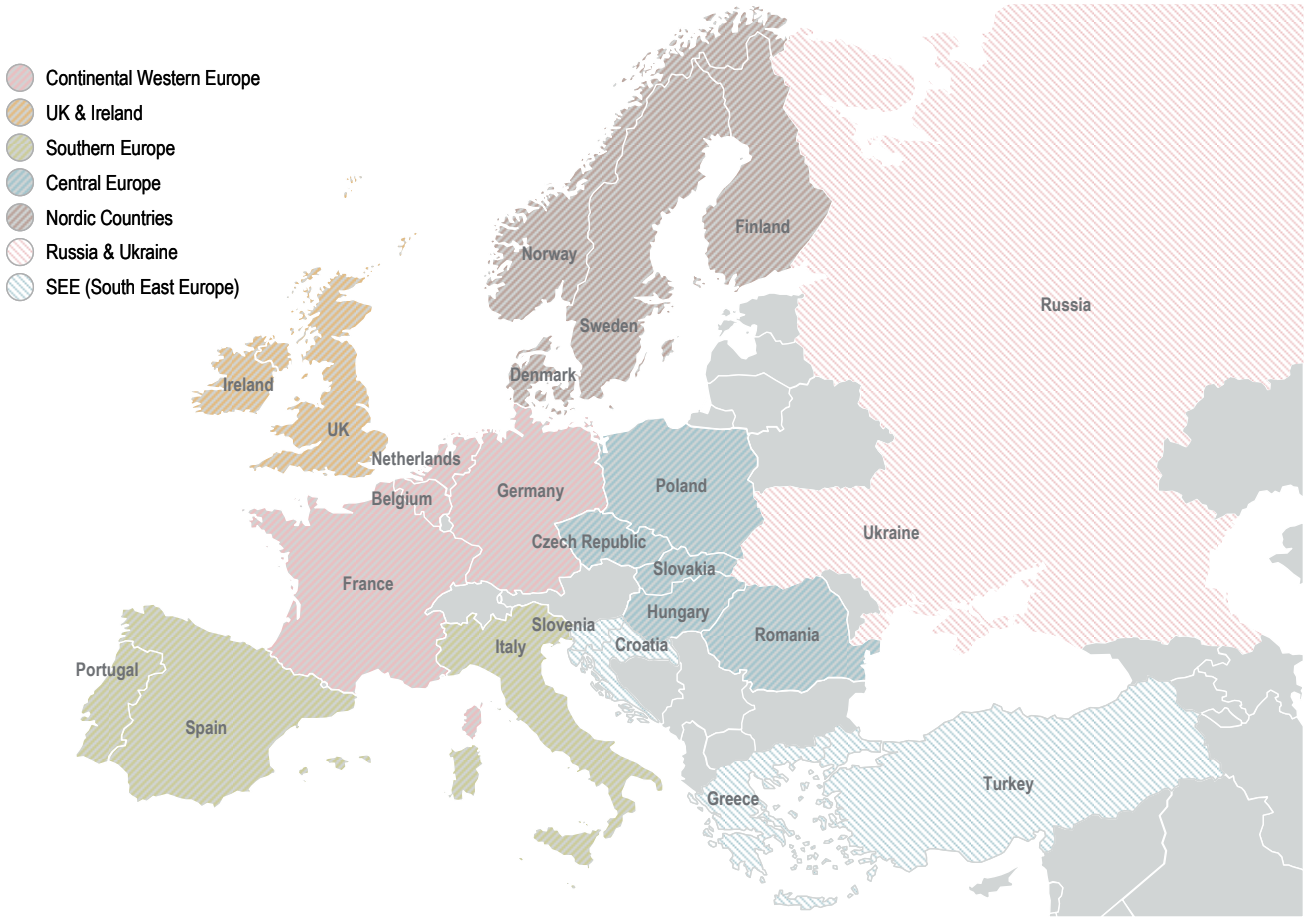
Increasing investor concerns about diminishing risk premia and the sustainability of yields at record lows were ultimately accelerated by the credit crunch of early August. As a result, outward yield movement and negative capital growth emerged in a handful of markets during H2 2007, most notably in the UK where yield levels moved out by as much as 50bp over the last quarter of 2007.

Compared to office and retail (unit shop) property, the warehousing sector showed only a small outward movement in prime yields. The weighted European warehousing yield moved out by only 10bp, whilst office and retail yields moved out by 30bp in H2 2007.

On the other hand, a continued slight yield compression over the last 12 months was recorded in the strongly growing CEE locations, such as Czech Republic, Hungary, Romania, Russia and Slovakia. This was driven by previously higher yields in these markets, if compared to other Continental European markets. With this gap now closing, in 2008 we expect to see yields stabilise in these markets whilst we expect to see yield levels to edge up in the majority of the remaining markets.

Warehousing yields – changes year-on-year

	2006	2007
Amsterdam	6,25	6,25
Barcelona	5,80	6,25
Brussels	6,25	6,15
Budapest	6,75	6,25
Copenhagen	6,25	6,00
Dublin	4,75	4,85
Hamburg	6,25	6,20
Helsinki	7,30	6,00
Lisbon	7,50	7,25
London	5,00	5,50
Madrid	5,75	6,00
Milan	7,00	5,90
Moscow	10,00	9,75
Oslo	6,00	6,00
Paris	6,10	6,10
Prague	6,75	6,25
Rotterdam	6,50	6,50
Stockholm	6,00	6,30
Warsaw	7,00	6,50



Continental Western Europe

Germany, France, Belgium, Netherlands

Continental Western Europe, Europe's core logistics region, continues to be driven by its excellent and extensive infrastructure with major gateway locations around major seaports and cargo airports. In 2007, the region recorded an annual increase in demand of 14%.Whilst the CEE markets have posted the highest growth rates in demand levels over recent years, in terms of volume taken-up Western Europe continues to be the powerhouse of the logistics sector. With roughly 47% of the total European take-up in 2007 it remains far ahead of other markets.

Once again Germany proved to be the strongest market in 2007 with take-up increasing by 25% and new completions up by some 24% on the previous year. France, on the other hand, after strong growth in 2006, recorded a slowdown in occupier activity of some 7% during 2007 and due to increasing vacancy, completions decreased by roughly 30%. The Netherlands saw sustained take-up in 2007. With a strong 30% increase on the previous year and some 1.3 million m² take-up it remained only marginally behind France.

Continental Western Europe currently boosts a sustained development potential of nearly 3.0 mil m² of new supply over the next 12 months. The high development pipeline is driven by an expansion into less-expensive regional markets as well as locations in proximity to major logistics gateway locations.

Within a European context, current prime rents remain at the lower end of the range. The highest rents are paid in the Amsterdam market, driven by the strong Schiphol airport area, the only Continental Western European market currently within the top ten locations for distribution warehousing space.

Rental growth prospects in the region remain limited due to slightly rising vacancy levels and cost pressure from occupiers. Upward movement of warehousing rents are only expected in areas with extremely limited supply, for example around the main seaports and airport locations where land availability is now getting scarce.

Demand drivers

Occupier demand continues to be driven by 3PLs which for the most part are operating their pan-European distribution centres out of Western Europe.

Continental Western Europe's logistics market is evolving around its seaport locations. Due to the expected increase in freight throughput a number of seaports are currently undergoing expansion, including a range of smaller ports. This will continue to drive demand for logistics space over the next few years, with occupiers seeking space in proximity to the main gateway ports but also around alternative smaller ports.

Frankfurt Rhein-Main, Paris Charles de Gaule and Amsterdam Schiphol International Airports are handling the highest air freight cargo volume in Europe and are also strong drivers for logistics in their specific areas. Anticipated growth in freight movements and investment in increasing capacity handling in these hubs are also seen as a future driver of demand.

On the other hand, Continental Western Europe is facing higher labour costs as the CEE markets and the continued outsourcing of production could compel major logistics operators to transfer their main base into these countries. As a result, in Continental Western Europe their activities might be reduced to regional distribution centres.

UK & Ireland

UK, Ireland

The region, driven by the UK, accounts for one of the biggest warehousing markets in Europe. Owing to its geographical situation it remains predominately a local market, serving the needs of the resident manufacturing sector and the local consumer base.

Occupier demand for modern logistics facilities remained robust during 2007 driven by 3PLs and a thriving retail market, with large retailers seeking to optimise their distribution through a new efficient network. During 2007, warehousing construction continued on a strong level, especially in the UK, with the market driven by M&As and the need for upgrading into modern logistics facilities as operators seek to become more efficient in time and cost issues.

As in many other European markets, the logistics sector is driven by a number of structural issues. This includes the request for higher flexibility, i.e. multi-let / sub-dividable warehouses, more cross docking facilities and higher automation.

The Irish distribution warehousing market, on the other hand, continues to be more limited and focused mainly around Dublin. Occupier demand is driven again by a healthy retail market, consolidation, outsourcing and upgrading processes.

Demand drivers

Despite a slight slowdown in 2007, import and export figures in the region are forecast to increase over the next few years and the majority of these goods will be traded via UK seaports. Thus these locations are expected to record continued healthy demand levels. Ongoing consolidation will also sustain demand levels across the UK.

Southern Europe

Italy, Spain, Portugal

Southern Europe recorded healthy growth in its logistics market over the last few years, driven by a strong outsourcing activity and an expanding retail sector in Spain and Italy, boosting record completions for new shopping centres. Thus high volumes of new modern logistics floor-space have been completed over recent years.

Portugal, on the other hand, remains a relatively undeveloped market, with limited supply of modern logistics space. New development has just started to emerge and whilst over the next few years a number of modern schemes are expected to enter the market, modern stock will remain limited compared to the other two Southern European markets.

In Italy and Spain, pipeline figures for the next year remain high. However, due to increasing supply in the Italian market, we expect less speculative development. In Spain, where vacancy levels are extremely low, speculative construction activity will continue to be substantially higher.

Prime rents are extremely high in the Spanish market, in particular around Madrid and Barcelona, where there is limited land availability. Therefore, prime rents could continue to edge up during 2008 but pressure on occupiers to cut costs will not allow substantial future rent increases. Additionally a number of secondary hubs such as Valencia and Malaga are emerging, offering lower-cost supply.

In Italy, owing to higher supply rental levels are expected to come under downward pressure, in particular in secondary locations.

Portugal, with limited modern supply, has recorded several years of stable rents, which, compared to other European markets, are fairly high. Thus rents are expected to come under pressure once more supply enters the market.

Demand drivers

Outsourcing of logistics services is estimated to be currently below 20% in all three markets, representing one of the lowest levels in Europe. It is, however, expected to increase, driving continued demand from 3PLs. Additionally, a number of occupiers are releasing older stock in favour of modern facilities, which will also sustain demand in the region.

Furthermore, a number of infrastructure projects are progressing which should facilitate freight transport and reduce road congestion, especially in Italy. In particular, Southern Europe is expected to benefit from TEN-T corridor 5, connecting Lisbon via Lyon, Turin, Milan and Trieste to the Central and Eastern European market as far as Kiev, Ukraine.

The growing importance of Southern Europe's seaports, with many expected to undergo extension over the next few years and the EU's *Motorway of the Sea* project, is also expected to add to strong future demand. However, especially in Italy, growth in port areas will depend heavily upon the necessary investments in hinterland infrastructure in order not to lose the current growth opportunities.

Central Europe

Poland, Czech Republic, Hungary, Romania, Slovakia

Central Europe, offering a highly skilled labour market at a considerable lower cost compared to Western Europe, has developed into an important manufacturing market. The regions of Eastern Czech Republic, West Slovakia and Hungary have attracted major manufacturing companies. Slovakia hosts numerous car plants, including VW, Skoda, Toyota, Peugeot, Citroën and Kia. Other industries, such as the electronic sector, are now well established.

With production now expanding in regional markets and improving infrastructure connections, demand for distribution warehousing space has risen outside of the capital cities, and a strong regional market is evolving in particular in Poland and the Czech Republic.

In 2007, new completions in excess of 2.0 mil m² were recorded. The highest construction activity took place in Poland, with more than 1.0 million m² of new floor-space, up 63% on the previous year. The region also recorded the second highest take-up volume across Europe, increasing by 44% on 2006 levels. Again, the strongest growth was recorded in the Polish market (+58%), followed by Czech Republic (+41%), Hungary (+21%) and Romania (+212%).

So far, the Central European warehousing market was driven by its three core markets Poland, Czech Republic and Hungary. However, after its accession into the EU, Romania has recorded rising occupier demand, although the market remains fairly undeveloped and modern distribution warehousing facilities are limited and concentrated around Bucharest.

Romania and Slovakia have a combined pipeline of new supply of roughly 1.4 mil m², though speculative development is expected to remain fairly limited with most developers aiming to build on a built-to-suit basis.

Warehousing rents across Central Europe remain at the lower end of the range. Currently, the highest rental level is recorded around Budapest, where availability is fairly low. Romania and Slovakia, which are just emerging on the warehousing landscape record the lowest rents in Europe but due to increasing supply levels no important rent increases are expected. Czech Republic, with strongly increasing supply levels has recorded high rental compression over recent years and is now offering modern logistics space at the lowest rental level in Europe.

Demand drivers

With the production base continuously shifting towards the East, growing wealth and thus rising consumer demand, Central Europe is expected to see a further strong growth potential in the logistics market. Low labour costs and contained warehousing rental levels will sustain healthy demand.

However, increasing transport costs are in part offsetting cost reduction obtained in low-cost markets. Hence the decision to relocate into new markets is not always straightforward in terms of cost issues and the need to account for reduced delivery times adds to these considerations. In fact, occupiers historically located within the Western European markets are in most cases maintaining their historic locations, and rather than migrating the whole network eastwards, they are adding smaller regional centres to their existing locations.

Investments in transport infrastructure will thus play a key role in Central Europe, rendering the transport network as efficient as possible in order to help reduce transport time and cost between the European regions.

Nordic Countries

Sweden, Finland, Denmark, Norway

The modern distribution warehousing market in the Nordic Countries is concentrated mainly around the main cities and in the Oresund region. The opening of the Oresund Bridge between Denmark and Sweden in 2000 was an important economic driver in the region. It led to the realisation of a cross-national region of three million inhabitants and strengthens the regions' strategic role as a link between Scandinavia, Eastern Europe and the Baltic countries.

Occupier demand in the region is driven by high-tech and pharmaceutical companies and from a fairly strong maritime freight transport sector.

Development activity remained subdued in the Nordic region in recent years with only a limited number of new schemes added to the market. However, pipeline figures are rising. In 2008, approximately 650,000 m² could be added to current stock figures. Development activity is strongly driven by the Finish market, recording a pipeline for more than 1.0 mil m² of new supply. An important driver for the development of new warehouses is Helsinki's new harbour Vuosaari, which is expected to open in 2008.

Rental levels in the region are among the highest in Europe, driven by limited supply but also owing to high construction costs due to challenging ground conditions and high construction standards based on regulation and climate. The region is thus more threatened by the risk of losing occupiers to the less expensive CEE markets. A recent example of this is the relocation of Denmark's toy retailer Lego into the CEE.

Demand drivers

Along with Helsinki's new harbour Vuosaari, in Denmark, Copenhagen's seaport continues to develop as an important logistics hub, along with the port of Gothenburg in Sweden, where future development in 2008 and 2009 is expected to up-weight the area for logistics purposes. Additionally, smaller ports across the region are showing growth potential, including the ports of Larvik and Kristiansand in Norway.

Russia & Ukraine

Russia, Ukraine

The modern distribution warehousing market in Russia is still fairly undeveloped. However, on the back of a buoyant economy, the market recorded significant growth over 2007, with approximately 1.7 mil m² of modern warehousing space completed, more than double the volume recorded in 2006. Most of the space has already been let.

The logistics market is driven by a strongly expanding retail market as well as consolidation in the logistics sector and the need to move into quality assets. Additionally, a number of international 3PLs are currently looking to expand into the market.

Whilst demand and development activity continue to be driven by the Moscow region, other markets are recording increasing demand levels and a number of new schemes are now planned in St. Petersburg and the markets around the Russian Millionniki and in Kazakhstan.

New supply over the next two years shows record volumes however, due to a persistent complicated bureaucracy, new schemes are often delayed by up to one year due to issues such as re-zoning and planning permission. Increasing demand levels have been recorded also around Kiev, in Ukraine, favouring increasing development levels during 2007 and more schemes are planned for 2008.

Demand drivers

The Russian economy is forecast to see strong GDP growth over the coming years and Russia's retailer market continues to grow, with a record volume of new shopping centres planned.

As a modern logistics market is just emerging, occupier demand for efficient modern floor-space will continue to remain strong with growing outsourcing levels as well as consolidation into modern facilities from local operators.

The development of the region will largely depend on investment in infrastructure. A number of important projects linking Russia and Ukraine with Western and Central European counties are currently progressing. This includes the completion of the TEN-T project Corridor 5, connecting Kiev via Central Europe towards Milan and Turin in Italy, Lyon (France) and further through Spain to Lisbon (Portugal).

SEE (South East Europe)

Croatia, Slovenia, Greece, Turkey

The SEE region is so far the most undeveloped market for modern logistics in Europe. However, promising economic development and growing consumer markets are favouring the emergence of a modern logistics market. A number of schemes have been developed in recent years, mainly in Athens (Greece) and Istanbul (Turkey).

There was increasing interest in the Croatian market, in particular focused around its capital city Zagreb in 2007, resulting in a reported 150,000 m² of new floor-space completed.

In Greece, the market has started to develop around Athens, with the expanding Port of Piraeus an important demand driver. One of the biggest projects expected to be realised in 2008 is the Thriassio Logistics Centre in the wider Athens market.

Turkey is strategically located at the crossroads of three major geographical regions – Europe, Russia and the Middle East - and boosting a strong population base of nearly 74 mil inhabitants. The modern distribution warehousing market is currently concentrated around Istanbul, the biggest city in Turkey with over 11 million inhabitants.

An improving consumer market in the region is encouraging a number of international retailers to move into the market and important infrastructure developments are expected over the next few years, facilitating the development of a modern distribution warehousing market. However, speculative construction will remain limited with developers seeking to pre-let or construct on a built-to-suit basis.

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