

Europe - Real Estate/Property

2024 European logistics outlook – expert call key takeaways

Industry Overview

Rental growth diverging

We invited expert from Savills, Andrew Blennerhassett, to give us an update on 2024 European logistics outlook. In 2023, vacancy overall picked up by 210bps to 5.4% across Europe from a record low of 3.2% although Savills saw a sharp slowdown in vacancy increase in 4Q vs 3Q. Rental growth is tightly related to vacancy rate: markets like Dublin and Denmark have a low vacancy rate at c.2% vs Madrid high at >8% and UK at 7%. In the UK, supply has risen to the highest level since 2012 to c.50m sqf in 2023. Prime and secondary rental growth is diverging with prime rent hitting £2.25psf vs secondary £1.5, a 50% gap. Secondary rent plateaued since 2022 while prime rent continued to grow by double digits in 2023. ECommerce is expected to grow due to demographic trend where younger generation tend to shop online more.

Investment market: where are the sellers?

FY23 investment volume halved but saw a 13% increase in 2H. Average net prime yields moved out by 50bps in 2023 in Europe: with UK expanding most from c.3.25% in 2021 to now 5.25%, and continental Europe at a smaller adjustment. With interest rate expected to come down, the spread between asset cap rate vs gov't bond yield should widen, which could encourage more buyers' appetite. Motivated sellers (due to debt maturity pressure) will support liquidity in 2024. According to Savills, logistics is top preferred sector (together with residential) for investors from both Europe and APCA.

Occupier market: active but at a slower pace

Occupier take-up in 2023 (29m sqm) is largely in-line with pre-pandemic levels with Germany and Netherlands taking the largest share. Encouragingly, there is a 27% increase in take up in 2H vs 1H. In the **UK**: eCommerce tenants which used to have a third of take-up back in pandemic times, now only has a market share of <10%. Instead manufacturing tenants are taking more space (to 20%) and third-party logistics (3PL) up to one third now, Savills sees this as a reflection of onshoring demand. There is also more grade A supply in the UK to almost 50% of total supply vs only 30% back in 2021. ESG requirement is less of a concern for occupiers – they worry more on costs (labour, energy, etc) while investors concern more about ESG.

Semiconductors the new demand driver?

Semiconductor revenue across the globe is rising again, and emerging technology (AI, sensor tech, machine learning, etc.) will increase demand for chips. Logistics occupiers are heavily invested in electric vehicles & warehouse robotics/automation. Now Europe accounts for a very small share (<10%) of global semi revenue, maybe more room to grow with the push from European Chips Act? Within Savills' coverage, London industrial is projected to deliver the highest annual return (capital value growth+income) in the next 5 years at c.9%, followed by retail warehouses (8.5%) and central London retail (8%). (Continue to page 2).

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Equity
Europe
Real Estate/Property

Allison Sun >>
Research Analyst
MLI (UK)
+44 20 7996 1052
allison.sun@bofa.com

Marc Mozzi >>
Research Analyst
BofASE (France)
+33 1 8770 0374
marc.mozzi@bofa.com

Markus Kulesa >>
Research Analyst
BofASE (France)
+33 1 8770 0382
markus.kulesa@bofa.com

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What else?

- Who are sellers? Owners will hold their logistics assets which have good rental growth, unless they are forced to sell, to meet with fund liquidity/redemption request, for example.
- Is there an oversupply issue? Depends on which type of stocks: Grade A stocks supply is up but can also be absorbed quickly, that will not be the same story for second hand stocks. Supply is relatively restricted for big box (>500k sqf) across the UK, but for smaller boxes (100-200k sqf) they are facing some oversupply in East Midlands, Yorkshire and **even in London**.
- How **cyclical** is logistics? Traditionally, logistics demand is driven by GDP, consumption, and business confidence, that said, now occupiers are more focused on strategic locations and will go ahead to take more space even though the near-term demand is not great (but expect to bounce back later), which partially offset some cyclicity of this sector.

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