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MarketView

EMEA Industrial & Logistics

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October 2010

Quick Stats

	Change from Q1 2010	Change from Q2 09
Rent	↓	↓
Yield	↓	↓

Hot Topics

- Occupiers reviewing their real estate strategies more actively, often as part of a wider reorganisation of supply chains and distribution networks
- Rents generally stable in core markets; still downward pressure in some peripheral areas
- Increased investment appetite pushing prime yields down in most markets. How far will investment appetite spread into value-add segment ?

OVERVIEW

- **Industrial output growing, but broader economic outlook still clouded**
  Industrial production has risen by 7% across the Euro area over the past year, and virtually all European economies are now seeing positive quarter-on-quarter GDP growth. There is still a high degree of uncertainty around the short-term economic outlook, particularly in much of southern Europe.

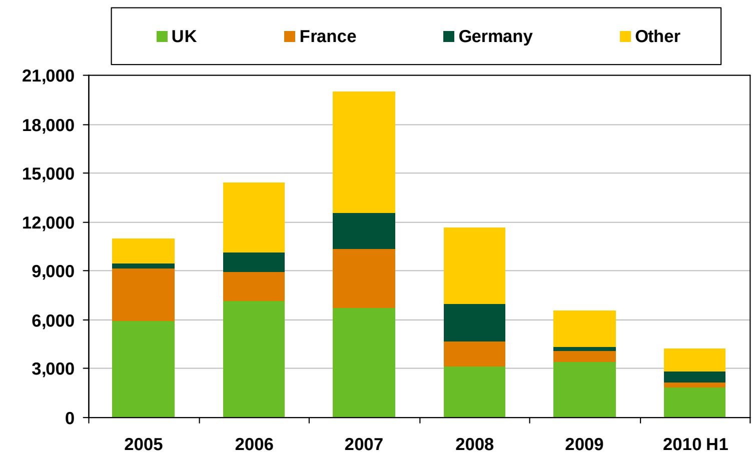
- **Leasing activity still slow; growing interest in build-to-suits**
  Leasing activity remains generally slow as a result of continuing cost restraint, but in many key markets take-up has climbed well above the levels seen in the trough of early 2009. With speculative development having fallen to very low levels, build-to-suit is often the only viable option to accommodate major emerging requirements.

- **Rental stability across most of the major markets**
  The degree of downward pressure on rents has eased substantially over the first half of the year, and prime rents in most major markets are now stable. Rents are approaching a cyclical floor, albeit that the beginning of recovery is being stalled by continuing uncertainty over the rate of economic expansion.

- **Rising investment activity in the first half of the year**
  Reflecting the general trend in the European market, investment in the industrial and logistics sector in the first half rose to €4.25bn, up by 7.5% compared with the second half of last year. Interest exists outside the main core markets and, selectively, extends to the value-add segment where there is scope for asset repositioning.

- **Prime yields falling more slowly, but across more markets**
  The overall rate of yield decline has slowed, with the EU-15 industrial yield index down by nine bps in the first half of this year compared with 23 bps in the second half of last year. Having initially been confined to the UK, yield reductions have become much more widespread, with yields in most key markets now lower than their mid-2009 peaks.

European industrial and logistics investment turnover (€m)



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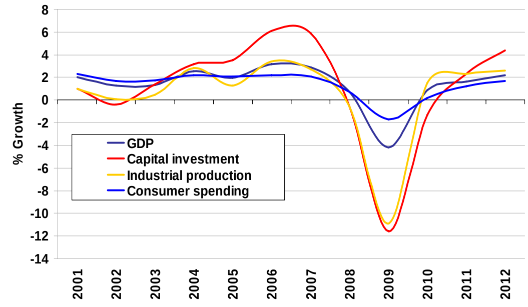
ECONOMIC BACKGROUND

Second quarter data show that, with the sole exception of Greece, all European economies are now seeing positive quarter-on-quarter growth. The EU-27 group as a whole saw growth of 1% in Q2. There are indications of a north-south divide within this aggregate picture. Germany, Sweden, Poland and the UK were among the economies that saw above-average growth. For Spain, France, Italy and Portugal, as well as Greece, the reverse was true.

Figures for industrial output underline the uneven nature of the economic recovery in Europe. After strong growth earlier this year, output dipped slightly in June and remained flat in July. Viewed over a longer timeframe, industrial production has risen by 7% across the Euro area over the past 12 months. Larger increases are apparent in some of the core European economies, particularly Germany, but also Poland and the Czech Republic.

Key Economic Drivers, EU-27, 2001-12



Source: Experian Business Strategies

OCCUPIER ACTIVITY

Leasing activity remains generally slow, with occupiers still cautious as a result of cost restraint and the need to protect margins. In several markets, however - including Paris, Amsterdam and Rotterdam - take-up has climbed well above the very low levels seen in early 2009. The majority of demand in the first half came from multinational or global companies - as opposed to domestic ones - reinforcing the internationalisation of logistics networks and the market's occupier base.

Many occupiers are also looking to substitute existing facilities for newer buildings, often as part of a wider reorganisation of their supply chains and distribution networks. With speculative development having fallen to very low levels, build-to-suit is generally the only viable option, and some of this may be undertaken by end-users themselves.

Selected Occupier Transactions, H2 2009

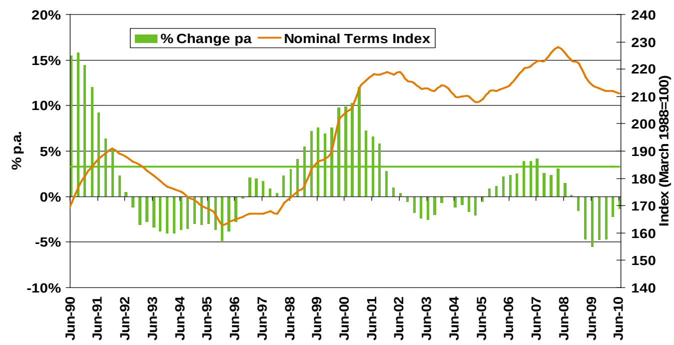
Market	Size (Sq m)	Tenant
Weert, Netherlands	52,000	Lidl
Paris, France	51,000	Point P
Madrid, Spain	35,000	El Corte Ingles
Hamburg, Germany	22,000	Kuehne & Nagel
Poznan, Poland	8,400	Logista

RENTS AND YIELDS

The degree of downward pressure on rents has eased substantially over the first half of the year, and prime rents in most of the significant markets are now stable. The EU-15 industrial rent index fell by 0.6% in the second quarter of the year, taking the decline over the year as a whole down to 1.3%. For comparison, a year ago rents were falling at a rate of over 5% per year. Rents are therefore approaching a cyclical floor, albeit that the beginning of recovery is being stalled by continuing uncertainty over the rate of economic expansion.

Rents in the main industrial hubs in Western Europe – including France, the Netherlands Germany, Italy and the UK – have now stabilised, following peak-to-trough falls that have mostly been less than 10%.

EU-15 Industrial Rent Index



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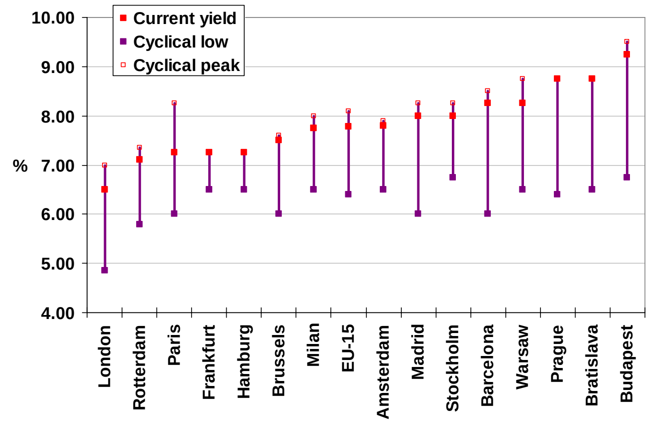
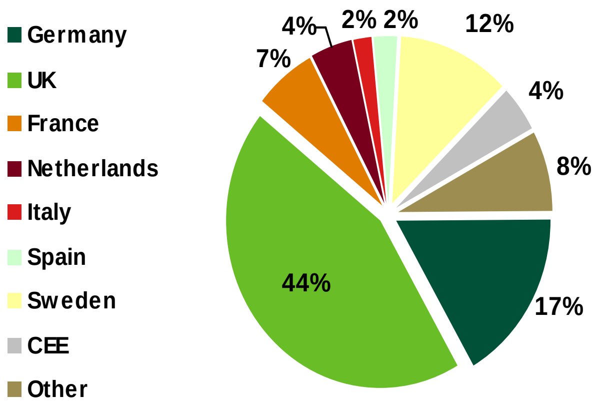
Prime Industrial Yields: from cyclical low point to Q2 2010



In some of the more peripheral markets, the declines from the most recent peak have generally been steeper, and the evidence of stabilisation less convincing. In Budapest, for instance, rents have fallen by 30% from their peak including a 10% drop over the past year.

Two key trends are evident in respect of prime yields. Firstly the overall rate of decline has slowed, with the EU-15 industrial yield index down by nine bps in the first half of this year compared with 23 bps in the second half of last year. Secondly, having initially been confined to the UK, reductions have become much more widespread, with prime yields in most key markets now lower than their mid-2009 peaks. The main exceptions are Germany, which saw comparatively little yield change in the downturn, and parts of CEE where greater risk aversion is delaying any downward yield shifts.

Industrial Investment by Market, H1 2010



INDUSTRIAL INVESTMENT

The first half of 2010 saw further recovery in the level of activity in the commercial real estate investment market. Across all sectors nearly €46bn was transacted in the first half of the year and the overall trajectory of the market is clearly upwards.

The investment market for industrial and logistics saw a corresponding improvement, totalling €4.25bn in the first half of 2010, up 7.5% compared with the second half of last year. As a result the industrial sector continues to account for around 9% of total European investment activity.

The UK remains the dominant market, accounting for 44% of the first half total, although significantly down compared with its 53% share of the market last year. The most notable shift is that of Germany, which accounted for 17% of first half activity compared with only 5% last year, largely because of the €330m acquisition of the HBI portfolio by Hansteen Holdings. Similarly, Sweden's share of the market rose from 3% in 2009 to 12% in the first half of this year. Again a single portfolio acquistion (a joint purchase by Hemfosa & Sagax) accounted for the majority of the change.

The net result of these changes is something of a shift away from the core group of markets (the UK, France, Germany and the Netherlands) from 80% in the second half of last year to just over 70% in the first half of 2010. It is also evident that, while overall investment appetite is heavily focussed on core prime assets, a measure of demand exists in the industrial and logistics sector for value-add opportunities in strategic markets where there is scope for asset management or repositioning.

Key Investment Transactions, H1 2010

Market/City	Buyer	Price €m
HBI portfolio, Germany	Hansteen Holdings	330.0
DK portfolio, Sweden	Hemfosa & Sagax	318.1
Warehouse portfolio,UK	Segro, Aviva	280.5
Radial portfolio, UK	London & Stamford	246.8

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KEY MARKET DATA, MID-2010		PRIME INDUSTRIAL RENT		% CHANGE		PRIME INDUSTRIAL YIELD
Country	City	Local	€ / sq m/ annum	Last 3 months	Last 12 months	%
Austria	Vienna	€ 5.10/sq m/month	61.20	0	-2.9	7.50
Belgium	Brussels	€ 44.00/sq m/annum	44.00	-4.35	-4.35	7.50
Bulgaria	Sofia	€ 4.50/sq m/month	54.00	0	-10.0	12.00
Croatia	Zagreb	€ 6.00/sq m/month	72.00	-1.6	3.5	9.50
Czech Republic	Prague	€ 4.75/sq m/month	57.00	0	-5.0	8.75
Denmark	Copenhagen	DKR 475.00/sq m/annum	63.77	0	-5.0	7.75
Finland	Helsinki	€ 114.00/sq m/annum	114.00	-0.9	-2.6	7.25
France	Paris	€ 80.00/sq m/annum	80.00	0	0	7.25
Germany	Berlin	€ 4.60/sq m/month	55.20	0.00	2.22	7.50
Germany	Dusseldorf	€ 5.20/sq m/month	62.40	0.00	0.00	7.25
Germany	Frankfurt	€ 5.90/sq m/month	70.80	-0.84	0.00	7.25
Germany	Hamburg	€ 5.60/sq m/month	67.20	0.00	-1.75	7.25
Germany	Munich	€ 6.40/sq m/month	76.80	0.00	0.00	7.25
Greece	Athens	€ 6.00/sq m/month	72.00	-4.00	0.00	8.50
Hungary	Budapest	€ 4.50/sq m/month	54.00	0	-10.0	9.25
Ireland	Dublin	€ 82.00/sq m/annum	82.00	-4.7	-19.6	9.00
Israel	Tel Aviv	$ 11.25/sq m/month	110.35	12.5	12.5	10.00
Italy	Milan	€ 57.00/sq m/annum	57.00	0	-1.7	7.75
Italy	Rome	€ 60.00/sq m/annum	60.00	0	-1.6	7.75
Netherlands	Amsterdam	€ 67.00/sq m/annum	67.00	0	-4.3	7.80
Netherlands	Rotterdam	€ 70.00/sq m/annum	70.00	0	0	7.10
Norway	Oslo	NKR 1,000/sq m/annum	125.64	0	0	7.00
Poland	Warsaw	€ 5.00/sq m/month	60.00	0	0	8.25
Portugal	Lisbon	€ 3.80/sq m/month	45.60	0	0	7.75
Romania	Bucharest	€ 4.15/sq m/month	49.80	0	-11.7	10.50
Russia	Moscow	US$ 100.00/sq m/annum	81.74	0	-4.76	14.00
Serbia	Belgrade	€ 4.50/sq m/month	54.00	0	-10.0	13.00
Slovak Republic	Bratislava	€ 4.50/sq m/month	54.00	12.5	12.5	8.75
Spain	Barcelona	€ 69.00/sq m/annum	69.00	-4.2	-17.9	8.50
Spain	Madrid	€ 78.00/sq m/annum	78.00	0	0	8.00
Sweden	Stockholm	SEK 650.00/sq m/annum	68.31	0	0	8.0
Switzerland	Geneva	SFR 230.00/sq m/annum	161.56	4.6	9.5	6.50
Switzerland	Zurich	SFR 140.00/sq m/annum	106.20	0	0	7.00
Turkey	Istanbul	US$ 5.50/sq m/month	53.95	0	0	11.00
Ukraine	Kiev	US$ 6.25/sq m/month	61.30	0	-3.9	16.00
UAE	Dubai	AED 25.00/sq ft/annum	59.89	-16.7	-16.7	12.00
UK	Birmingham	£ 5.50/sq ft/annum	72.34	0.00	-4.35	6.85
UK	Glasgow	£ 6.00/sq ft/annum	78.91	0.00	-4.00	7.25
UK	London – Heathrow	£ 12.50/sq ft/annum	164.40	0	-2.0	6.50
UK	Manchester	£ 5.50/sq ft/annum	72.34	0.00	-4.35	7.00

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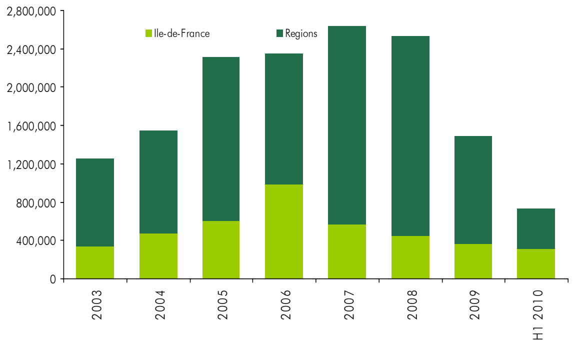
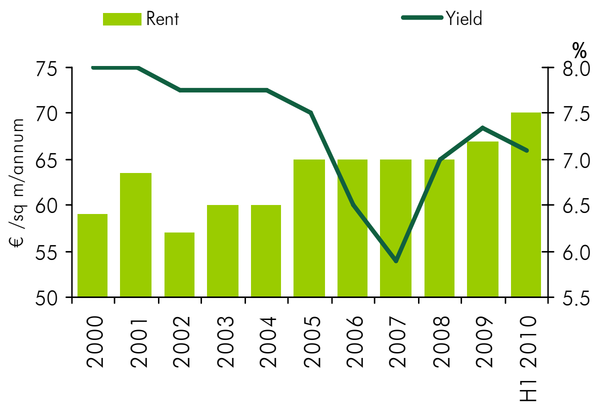
France Logistics Take-up (Sq m)

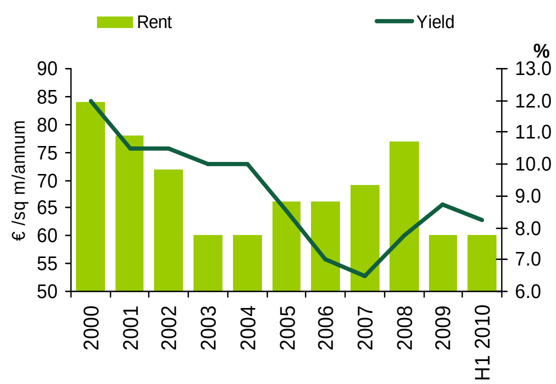


Madrid Prime Industrial Rent and Yield

Rotterdam Prime Industrial Rent and Yield



Warsaw Prime Industrial Rent and Yield



FRANCE

The logistics market across France slackened in the second quarter of the year particularly in the Ile de France area, where a letting to Geodis (19,000 sq m) was the only transaction letting over 10,000 sq m. By contrast the Rhone corridor saw a sharp increase from Q1. For France as a whole, first half take-up was 16% lower than in the same period last year, but on course to match the full-year total for 2009 particularly as interest in build-to-suit projects is growing. For transactions of over 10,000 sq m, third party logistics operators are the main source of demand, and account for nearly 90% of the market.

SPAIN

Prime rents in the Madrid market remain well below their peak levels, with demand levels restrained by the continuing weakness in the Spanish economy. Vacancy is still high, particularly in the secondary areas of the market which has been unaffected by a slight improvement in dealflow at the prime end. Prime rents have stabilised at around €78 /sq m /annum and, while we do not expect any further reduction from this level, any recovery from this level is likely to be slow.

NETHERLANDS

The port of Rotterdam is seeing an increase in cargo throughput as world trade improves. However, this is not yet leading to higher take-up mainly because occupiers are vacating older facilities, such as those at Distripark Eemhaven, for newer accommodation. The likelihood is that demand from distribution and transhipment operations will increase further, offset by falling demand for bulk storage space, leaving the market balance relatively stable. Prime rents have remained largely static over the past year and are not expected to see any growth from their current level of €70 /sq m /annum in the short-term.

POLAND

The Warsaw market has seen considerable improvement in leasing levels in the first half of this year relative to the second half of 2009, but growth is being restrained by an overall vacancy rate that is still above 20%. It is likely that developers will look for a decline in this figure before initiating new projects, as there is significant medium-term pipeline of prospective new developments both in Warsaw city and the surrounding Sector II. Having remained stable at €60 /sq m /annum over the past year, prime rents are not expected to see any upward pressure in the short-term.

MARKET BRIEFING

The **Amsterdam** market was very subdued in the second quarter following a strong start to the year. Activity comprised mainly small-unit transactions and the availability of older distribution space has expanded. Prime rents remain flat at €67 /sq m /annum.

Demand in **Brussels** is arising mostly from companies reorganizing their distribution networks. For instance, Unilever is to consolidate its distribution operations into a newly-built 31,000 sq m facility to be operated by DHL in Bornem. Prime logistics rents have edged down to €44 /sq m /annum.

The vacancy rate in **Budapest** remains close to 20% as companies continue to contract, and prime rents are unchanged at €54 /sq m /annum. While there is significant leasing activity in the market, much of it comprises renewals and net take-up is low.

The **Copenhagen** market is seeing signs of demand improvement after a steep fall in production levels over the past two years. Vacancy levels are still high enough for most tenants to be able to secure rental discounts. Rents are expected to remain stable in the DKK 475-500 /sq m /annum range over the remainder of this year.

Dublin saw a very weak second quarter, despite which first half take-up was significantly higher than in the same period last year. Markets to the south west of the city remain most favoured. A clear gap has emerged between rent levels for new modern premises and those for older secondhand buildings, with downward pressure still evident in both.

With exports and production levels showing signs of improvement, **Geneva** rents edged up further to CHF230 /sq m /annum in the second quarter, nearly 10% ahead of the position a year ago.

Demand for good quality buildings has stabilised in **Helsinki** and vacancy levels are very low, at 4-5% the key Aviapolis and Helsinki / Espoo markets. Prime rents remain broadly stable at €114 /sq m /annum, although the gradient between the prime and other segments is still steep.

The **Lisbon** market was supported by a combination of replacement activity and a major sale and leaseback by Sonae Distribution. Speculative development has slowed, with further project postponements, and this should restrict any further increases in vacancy. Prime rents remain firm at €45.60 /sq m /annum.

Rents in **Milan** remain stable (€57 /sq m /annum), but with some reductions evident on larger units. Occupiers requirements are becoming noticeably more demanding as regards design, landscaping and ancillary services. As the market recovers, developers will be increasingly focussed on satisfying these needs in order to secure rental increases.

Demand for good quality warehouse space in **Moscow** has improved since the start of the year, mainly driven by local retail and distribution companies. As a result vacancy levels are edging downwards, although not yet far enough to boost rents, which remain unchanged at around $100 /sq m /annum.

Occupiers in **Oslo** are strongly focussed on centralisation and improved efficiency. The north-south corridor has remained the main concentration of demand, to the point that it is becoming difficult to find smaller storage premises inside Ring Road 3. Rents are flat at NOK 1000 /sq m/ annum for good buildings with more than six metres ceiling height.

With no speculative schemes completing in the **Prague** market, net absorption was positive in the second quarter and the vacancy rate fell. This pattern is expected to continue, which in time will push rents up from the level of €57 /sq m /annum which has prevailed over the past three quarters.

Prime **Stockholm** rents are unchanged at around SEK650 /sq m/ annum and may be considerably higher for short leases. Confidence indicators for different parts of the economy are showing some signs of improvement but market recovery is expected to be gradual.

The **Vienna** market is seeing growing interest from logistics operators, but this is yet to translate into an increased flow of transactions. However with little supply of modern buildings, there is potential for market growth. Currently prime rents remain broadly static at around €61.20 /sq m /annum.

Most occupiers in the **Zurich** market seem to have weathered the downturn well, and distribution companies are now reporting rising cargo volumes. Prime rents are stable at CHF140 /sq m /annum.

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