November 2022

EMEA

European Logistics Market Update

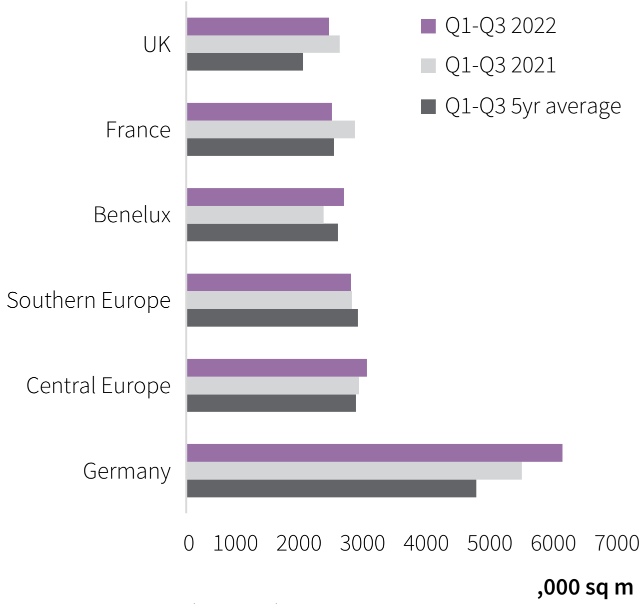
Persisting supply-demand imbalance despite increasing economic headwinds

In line with last year's record level, close to 22.9 million sqm were taken up during Q1-Q3 2022.
However, there are signs that occupier activity might be returning to a more sustainable level. Notably, at around 6.9 million sqm of logistics space taken-up in Q3, the European logistics real estate market is seen to return to pre-pandemic levels of demand.

A shortage of space is in part contributing to lower Q2 and Q3 take up levels. Higher construction and financing costs explain why an increasing number of developers started to hit the pause button during the last two quarters. Nevertheless, record take-up during Q1 is expected to maintain total annual take up near the 30 million sqm mark.

Robust demand comes from a diverse range of occupiers.
3PLs activity picked up this year, accounting for 47% of total take up. Meanwhile, supply chain realignment through reshoring and higher inventories increased space requirements for both manufacturers and 3PLs with global and regional contracts. Demand from both occupier segments increased during the first three quarters of 2022, up 42% and 32%, respectively.

Figure 1: Take-up by geography



Source: JLL Research, November 2022

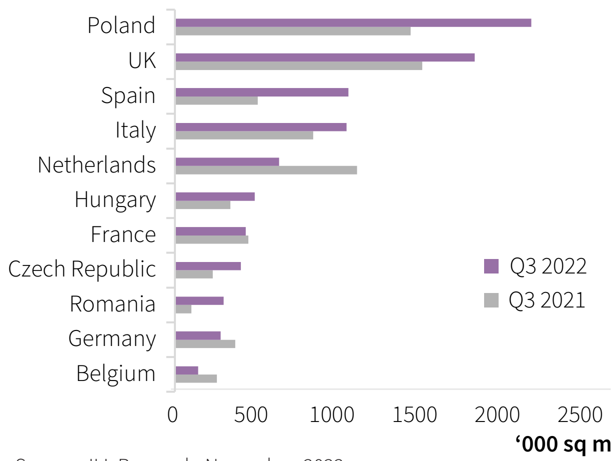
Note: JLL's European Logistics Market Update is based on Belgium, Czech Republic, France, Germany, Hungary, Italy, Netherlands, Poland, Romania, Spain and the UK.

Record low vacancy in most of Europe's major logistics markets fuels more rental growth

Continued strong development activity but economic headwinds start to impact construction starts.
With around 22.2 million sqm under construction at end Q3, development activity edged down QoQ but remained 11% above a year ago. Nevertheless, new construction starts across Europe in Q3 reached the lowest level recorded during the past two years.

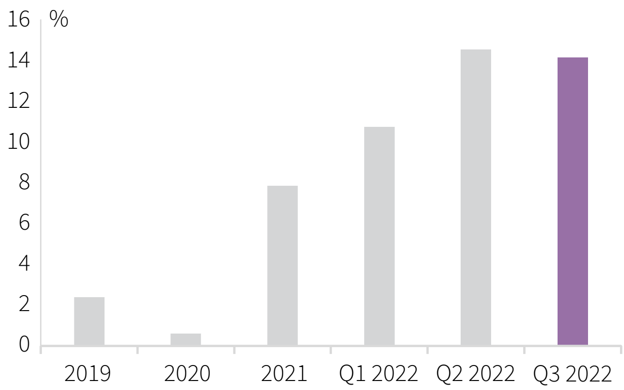
Speculative development concentrated in a few markets.
The highest level in ten years or 8.7 million sqm of speculative space was under construction at end Q3. Speculative construction activity is concentrated in Poland, the UK, Italy, and Spain where land availability made it possible for many developments to kick off earlier this year. Meanwhile, across the region, higher construction and financing costs held back development and limiting the number of speculative projects started during Q3.

Figure 2: Speculative development



Source: JLL Research, November, 2022

Figure 3: Weighted European average prime rental growth (YoY)



Source: JLL, November 2022

Continued widespread rental growth
JLL's European logistics rental index rose by 14.2% YoY during Q3 2022. A continued supply/demand imbalance in many markets along with rising inflation and high construction costs maintained upward pressure on rents.

Marginally lower YoY rental growth across Europe in Q3 QoQ was due to easing rental growth across UK markets despite most still recorded double-digit YoY growth in Q3.

Prime logistics rents in Antwerp, Berlin, Frankfurt, Hamburg, Lyon, Paris, Prague, and Rotterdam continued to record double-digit YoY growth during Q3 as well.

Supply constraints exacerbated by slowing construction and higher construction, materials costs, and inflation is expected to maintain upward pressure on prime rents. Nevertheless, rents are forecast to grow at a slower pace as leasing activity slows.

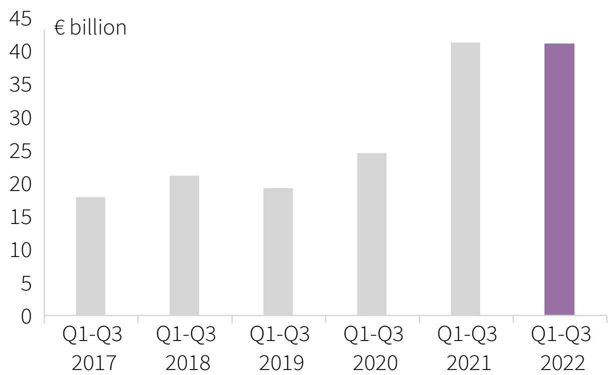
Investors advance cautiously as pricing uncertainty slows transaction activity

The European industrial investment market is on track for a second strong year but slowing activity in recent months means transaction volumes could fall 15-20% short of the record 2021 level.

During the first three quarters of 2022, investment volume was flat compared to a year ago reaching a total of just over € 41 billion. Robust year-to-date transaction volumes are mainly due thanks to a record first quarter followed by strong volumes recorded for Q2 while investor activity was notably slower in Q3, down 13% on Q2.

A rapid and substantial shift in financing conditions over recent months has led to increasing investor caution explaining why Q3 saw the lowest transaction activity in industrial/logistics since the first quarter of 2020.

Figure 4: European industrial and logistics transaction volumes



Source: JLL Research, September 2022

While the sector's resilience against economic downturns continues to attract active investment interest, some institutional investors are showing signs of caution as they pause or cancel deals amid tight financial conditions and current market repricing. As a result, full-year 2022 transaction volumes could remain some 15-20% short of last year's record result; albeit this would still be higher than any other year except 2021.

Investor concerns and high interest rates put upward pressure on yields

The European average prime logistics yield moved out by 40 bps QoQ during Q3. This was driven by substantial yield decompression in the UK and sharp outward movement in many European markets.

At the end of September, the European prime yield was 55 bps higher if compared to the start of the year, with market evidence already suggesting further decompression during Q4 across the region.

4.05% European prime logistic yield

↑ **40bps** QoQ

↑ **55bps** Since the start of the year

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