Research

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European Logistics Market Update

February 2023

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European logistics occupier markets still strong in 2022

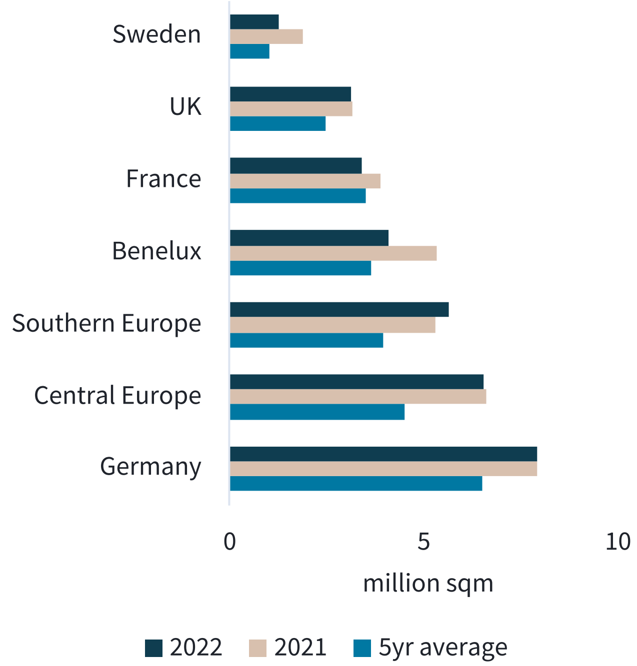
Nearly 32 million sqm were taken-up in 2022 across 13 major markets, only 6% short of the 2021 record. 2022 take-up was fuelled by a record first quarter, followed by softer but still strong take-up levels in the following three quarters.

YoY take-up expanded in Belgium, Hungary, Italy, Romania, Slovakia and Spain while remaining flat in Germany. Elsewhere, take-up remained behind the record volumes of 2021 but still significantly ahead on the 5-year average in nearly all markets.

Expectations of slowing consumption along with high inflation and increased operational costs played a role in softening take-up in the later part of 2022. However, increasing activity in markets with higher supply levels suggests continued strong demand as occupiers implement supply chain realignment. Softer YoY take-up levels in select markets therefore was in part driven by a growing shortage of modern space.

Different priorities lead occupiers to adopt diverging supply chain strategies. 3PLs took marginally more space in 2022 YoY, increasing their share to 44% of total European take-up as many are building more buffer inventory stock. Manufacturing companies implementing safeguarding measures in their global supply chains also took 13% more space YoY. Meanwhile, retailer- and e-commerce-led demand softened as anticipation of lower consumption levels drove a reduction in inventories.

Figure 1: Take-up by geography



Source: JLL Research, February 2023

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

Intensifying supply-demand imbalance drives rental growth to 30-year high

Dropping by 12% in Q4, development activity still remained well above the 5-year average. Growing land shortages and continued high construction costs signal an intensifying supply-demand imbalance.
Declining development activity at the end of Q4 2022 was due to a sharp slowdown in Poland and the UK, and to a lesser extend Sweden, Italy, Germany, and Belgium during the quarter. Most other markets also recorded softening development activity relative to their respective most recent peaks.

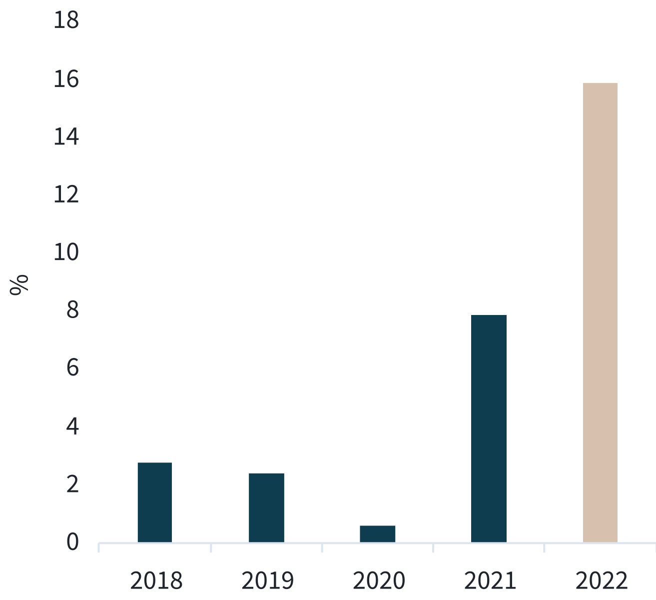
Speculative development exceeds 40% but is mostly concentrated in Poland, the UK, and Spain.

Around 9.5 million sqm were under construction speculatively at the end of Q4 2022. While this was unchanged to Q3 in volume terms, the overall decline in development activity increased the share of speculative development to 43%. However, most of this space remains concentrated in a few select markets.

Figure 2: Speculative development

Source: JLL Research, February 2023

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



Source: JLL, February 2023

Continued widespread strong rental growth JLL's European logistics rental index rose by 15.9% YoY at the end of 2022, the highest growth rate since the early 1990s. Further accelerating rental growth in Q4 was driven by an more pronounced supply/demand imbalance in many markets. This along with the impact of high inflation on costs is putting upward pressure on rents.

YoY rental growth was led by Munich (+40%) followed by Rotterdam (+37.9%), Berlin (+36.4%), London (+31.6%), Warsaw (+31.6%), Prague (+30.4%), and Düsseldorf (+29.2%). Another nine markets recorded double digit YoY growth while others grew at a slightly slower rate.

Since mid-2022, the consequences of higher financing costs had been expected to led to a moderation in development activity. Lack of modern, energy efficient buildings is accelerating a trend to retrofit well located older buildings. While supply constraints support rental growth, occupiers are increasingly aligning rents with building quality and energy efficiency.

Investors advance cautiously as pricing uncertainty slows transaction activity

Nearly € 51 billion were invested in European industrial assets in 2022.

While below the record level recorded in 2021, investments last year were at the second highest level for the sector. Record activity during Q1 contributed to the high annual investment total. A substantial shift in financing conditions during Q4 resulted in the lowest transaction level since Q2 2020 when pandemic lockdowns paused investment activity.

Overall, 2022 transaction volumes were down 19% YoY but still 30% above the 5-year average. Few countries bucked that trend, with YoY volumes up in Austria, Belgium, Finland, Italy, the Netherlands, and Norway.

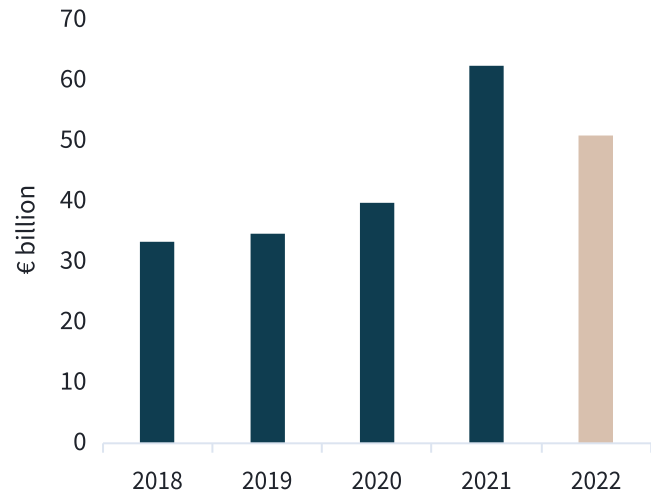
As yields continue to rise, institutional investors and sellers remain cautious. Since market fundamentals support long-term sector performance, a growing wall of capital targeting logistics assets needs to be placed. We expect investment activity to pick up when repricing becomes more clear by the second half of the year.

Upward pressure on yields expected to ease after substantial decompression in Q4

The European average prime logistics yield moved out by 50 bps QoQ during Q4. A number of markets experienced significant yields decompression. Yields moved out by 100 bps in the UK and by 50 bps in Germany, Italy ,Poland, Spain, and Sweden. Softer outward yield movement occurred in other markets.

At the end of December, the European prime yield had risen by 105 bps annually. Further milder decompression is expected during H1 and by H2, yields should start to stabilize.

Figure 4: European industrial and logistics transaction volumes



Source: JLL Research, February 2023

4.55%
European prime logistic yield

↑ **50bps**
QoQ

↑ **105bps**
YoY

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Contacts

Alexandra Tornow
Director, EMEA I&L ResearchFrankfurt
alexandra.tornow@jll.com
+49 (0)2007 1352

Lisa Graham
Director & Head of
EMEA I&L ResearchParis
lisa.graham@jll.com
+33 (0)14055 1572

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