Traditional Safehavens Dominate Industrial Investment In eu

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While investors may have forgiven the Eurozone countries which allowed their economies to free-fall into crisis in 2012; they have not forgotten. The four most damaged economies–Spain, Italy, Greece, and Portugal, have all been given a wide berth by investors.

This is despite Spain (six percent) and Italy (seven percent) being two of only four countries which saw positive growth in industrial take up year on year from 2011 to 2012. Investment in Italy's industrial sector dropped 61 percent while Spain's fell 51 percent over the same period. As if by association, other Eurozone economies fared little better with investment in the industrial markets of Holland, falling by 66 percent and Belgium by 45 percent.

Property investors are instead looking for traditional safe havens, such as, The United Kingdom (U.K), Germany, and France; longer term prospects, including, Poland; and high return nations, for example, Russia. These countries all saw positive growth in investment demand, despite France being the only one of the five which actually saw an increase in take up over 2012. The three traditional investment power houses, the U.K., Germany, and France, accounted for 74 percent of all industrial investment over the first half of 2012.

For investors, it is not a case of "any port in a storm" but a flight quality. The traditional markets of the UK, Germany, and France are benefitting from a growing consumer market which is creating strong demand from retailers and third party logistics for warehouses in and around major conurbations. These three countries have benefited particularly from the growth of internet retailing. Research from Prologis estimates that for every $1 billion

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spent online, these countries benefit from an extra 775,000 square feet of take up of distribution space.

The Eurozone countries have also benefited from the relative weakness of the euro against the dollar which has made their goods comparatively cheap to export to established international markets. It is estimated that exports to the United States from the European Union countries increased by around 15 percent in the first three quarters of 2012, with similar growth experienced in sales to Russia, South Korea, and Japan.

Availability of prime space, where demand is generally focused, is shrinking as there is very little speculative development coming through to replenish stock levels. There is still room for growth in this end of the market with just 14 percent of Europe's industrial space being 'Class A', around four times less than the ratio in the U.S. according to Prologis.

Conversely, availability of secondary space is growing, as downsizing occupiers are typically releasing stock back onto the market, often upgrading to more modern accommodation outside the euro zone, particularly in Eastern Europe.

The situation differs from country to country, but as a whole it is the traditional quality markets that continue to attract investment. The U.K., despite a 42 percent fall in take up, is still seen as the safest investment location in, or out of, the Eurozone, and is ever popular with overseas investors who account for more than 60 percent of all transactions. This show of faith which saw it take a whopping 44 percent of all industrial investment across Europe the first half 2012, is not just down to sentiment and recognition–which are significant– it's because of what is happening on the ground.

The internet continues to change the face of the U.K.'s logistics market, and in 2011 online sales grew to about 11 percent of the total retail market, meaning industrial buildings will in all likelihood increase in size and demand. The online retail company Amazon made two significant take ups and there are more in the pipeline. Although challenged on the U.K. high streets, retailers generally are active in the distribution sector. As with Europe generally, third party logistics companies are struggling to find the right stock which offers modern efficiencies.

Manufacturing continues to grow, and while the big brands tend to grab the headlines, the small and medium enterprises have been one of the strongest emerging sectors from the recession and have gone about reinventing themselves and adding value to the supply chain. Five years ago the manufacturing cost differential between the U.K. and China was 50 percent. This gap is thought to have closed to as little as 15 percent.

The lack of development in the U.K. in the last three-to-four years has impacted supply to the point where there is a demand challenge looming. In the U.K.'s manufacturing heartland, the West Midlands, following take up from the likes of Jaguar, Land Rover, and most recently Lear Corporation, with Frogmore's RIVET building in Coventry, there is currently no freestanding new buildings of more than 100,000 square feet available.

Developers and venture capitalists are actively land banking and there is speculative purchasing of large former industrial sites. In North West England, Capita Symonds managed the sale of the former 500,000 square foot, 120 acre, Sappi Mill, Blackburn, to overseas investor Aeternum Capital. The site was sold unconditionally. These type of sites are much in demand from buyers who are prepared to pay better than 'distress' pricing where there is genuine hope value for alternative uses–mainly driven by the prospect of housing development.

Aside from the U.K., Germany remains the firm favorite, attracting 24 percent of property investment into Europe and recording a 63 percent year-on-year growth. There was a 22 percent drop in take up in 2012, but this can be accounted for by a fairly bumper 2011–much of which came from a surge in German industrial activity driven largely by expansionary demand, new businesses and manufacturing growth. Capita Symonds (with SIOR partner Berendes & Partners) worked on the sale of a 330,000 square foot factory in Wipperfurth, Germany to the existing tenant from the previous owner, Belden, for €6.5 million. Germany remains a prime example of a healthy manufacturing sector by the ability to supply the demand for readily available accommodation.

The four Eurozone economies of Greece, Italy, Portugal, and Spain are expected to contract over the next couple of years. Any new stock delivered to the market will exacerbate the existing imbalance in supply and demand and, in turn, exert more downward pressure on rents.

Outside the Eurozone countries are generally faring a bit better. Property investment in Switzerland illustrates demand for fundamental stability from the country which also benefits from a limited land supply. Capita Symonds worked on a 200 acre, 3 million square foot former paper factory in Biberist, which was sold for €43 million within six months of coming to the market on an unconditional basis.

Further east with low vacancy rates and potential growth, the high returns possible in Russia look appealing at first glance—especially if the ruble continues to weaken against the dollar. However from a risk perspective it may be best to look elsewhere. Poland, which is one of the European Union countries that remains outside the Eurozone, it is expected to have a strong 2013, although the zloty has dropped against the euro.

The industrial market in Hungary has been driven by the automotive sector. Capita Symonds has just re-geared a lease for a 250,000 square foot production space in Gyor (one of the main global hubs of Audi), for 15 years on behalf of a US supplier of Audi. This clearly shows the long term confidence in German car manufacturers and its suppliers.