Industrial Property Grinds Across Europe

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There is no doubting that for industrial SIOR's across Europe, the last couple of years have been challenging - volumes down significantly in 2009, some recovery in 2010 and in 2011 the Euro debt issues causing renewed nervousness.

Controlling cost has been one of the main drivers to relocations and space take-up, especially those looking to greener and more efficient buildings. Manufacturing has seen less activity due to the cost of the relocation in setting up a new plant. As a result they tend to focus on areas of disadvantage where production could be cheaper.

The development of Europe's logistics and industrial property markets is strongly linked to trends in manufacturing and retail activities across the continent. As manufacturing grows it generates a high demand and requirements for warehouses. However, industrial and logistics occupiers tend to scrutinize all the elements of their base cost more closely, and have been looking to take advantage of the cumulatively fragile condition of the economy worldwide.

Location continues to be the driving factor for logistics occupiers, especially the low cost countries in Central and Eastern Europe. Demand is mainly concentrated on properties that provide access to transport links enabling easy distribution of goods across Europe and beyond.

Until 2000 the European logistics market was mainly focused on the area in and around the Benelux region, which was an important gateway to the rest of Europe, and includes major transport hubs such as Amsterdam's Schiphol airport and the seaports of Rotterdam and Antwerp. In the last decade however, occupiers have changed their focus towards the East, because of the lower labour and build costs available.

The recession of 2009 reflected a sharp decline in manufacturing output and world trade across Europe. Overall GDP fell 4.1 percent in Western Europe and 5.9 percent in Eastern Europe in 2009, year-on-year. A gradual recovery was established in 2010, assisted by monetary and fiscal stimulus. The low interest rate policy has boosted performance in Europe's big manufacturers - Germany in particular has benefited from this and experienced 3.5 percent GDP growth in 2010 with an export-led recovery.

Economic recovery has continued into 2011 with GDP growth in Europe strengthening compared with 2010. Industrial production rose by 6.6 percent across Europe in the year to January 2011, with Germany, CEE and Sweden showing up as particular areas of strength.

Economic forecasts for the mid-term are looking more positive. In 2011, world trade volumes are forecasted to grow by 7 percent, more than the 5 percent long-term average. By reducing domestic demand and applying the Tightened Fiscal Policy, export orientated countries like Germany and the Benelux are expected to benefit the most from this trend.

Evidence of increasing economic activity during 2010 was revealed by a considerable increment in port and airport traffic. European port traffic increased in all of the top 20 ports with the exception of Le Havre. The largest container volume increases were registered in Rotterdam at 14.4 percent and Antwerp 15.9 percent. Based on the latest figures published by Airport Council International, European aviation has also made a significant recovery. In 2010 cargo traffic increased 18.9 percent, the largest increase in three decades, compared to a decline of 11 percent in 2009. In addition, internet retailing and therefore the associated logistics, is increasingly important to the retail sector.

Aside from the optimistic macroeconomic picture, major logistics companies have an increasing requirement for flexible, modern and large-scale distribution centers that enable the efficient output of goods. There is insufficient supply of modern warehouses to meet the deman in many key countries. Much of the European industrial stock is in older companies, which presents as an increase in vacancy but is distorting the real picture.

Snapshots of Occupier market

The UK – London shining but the rest of the Country struggles
The UK benefited from the prospect of coming out of recession and uncertain times earlier than other European markets and is now leading in terms of new speculative industrial development. Within the M25, there are currently eight schemes in the construction or advanced planning stages and 'design and builds' are now being considered again by occupiers who have struggled to find existing product that they can work with or adapt.

London's international status has created a dynamic where cash funds are readily available for investment and a diverse tenant base exists for occupation.

The former Carey site in Park Royal, West London was acquired by SWIP/ Goya Developments recently and a detailed revised application submitted for a 160,000 sq. ft. multi unit development (www.london-centralpark.com), which is expected to start by January 2012. The scheme will consist of a range of units between 8,000 -35,000 sqft, which have already seen strong interest. Rents are expected to rise in this market before the end of the year with the prospect of 2012 being well into recovery.

The UK and London in particular benefits from a diverse and growing tenant demand due to a number of factors:

- An increase in the market for data centres due to its liberal telecoms system.
- The new coalition government supporting specialist profitable manufacturing (currently 12 percent of GDP) thereby increasing the quantity of interesting small and medium sized enterprises (SME's) in the market.
- Establishment of 11 new Enterprise Zones around the UK (in the areas most needed) to stimulate development and encourage more employment.
- The development market as a whole seems to be rebounding as the diverse international base of financing, in particular cash purchasers, return.
- The UK has much more limited land supply and more stringent planning regulations than some of its peers across Europe such as France and Germany which have much bigger land masses.

It is expected that the UK will continue to recover and there will be much bigger logistics units and potentially more mid-sized manufacturing units evolving.

See www.capitasymonds.co.uk/industrialvaluesmap for an overview of land prices, capita and rental values town by town.

Northern Europe— Spots of Activity

Germany has seen a comeback, with take-up being up to 40 percent higher than in 2009, but speculative industrial development will be limited with most of the projects being pre-lets or pre-sales. Many of the purchasers are owner-occupier led due to state bank finance. In the Hamburg region 17,000 of the 22,000 sq. m space in the Mainlog Gehespitz Development is available.

Germany saw some improvement in demand, particularly evident in Hamburg. The Rhein Main area saw demand of 270,400 sq. m of corporate space which translates to double the space let in H1 2010. Demand is mainly for space in excess of 10,000 sq. ft. (45 percent of all transactions).

Interesting deals recently completed in Germany include: TNT with 7,500 sq. m in Gross Gerau, 66000 sq. m in Gernsheim to Pfenning Corporate and 4000 sq. m to CAT LC in Russelsheim.

The Scandinavian countries have fared fairly well in the recession and the domestic demand has remained.

In Sweden GDP rose to 4.4 percent during 2010, 6.4 percent during Q1 and 5.3 percent during Q2 2011 with a 0.2 percent forecast for Q3 2011. The rents in the corporate sector are between SEK 700-1 000 per sq. m and there have been some large deals in this market primarily by domestic players. These include DK

Industrial Property Market Overview

- Leasing activity reached €8 billion in 2010, a 28 percent increase on 2009
- European take-.up was 23 percent in Q1 2011 (lower than in Q4 2010) but was up more than 7 percent on an annual basis.
- Forecast suggests that future demand for the market is likely to come from a broader constituency of occupiers, such as e-retailing and new energy sector.
- Approx 849,000 sq m of industrial stock was put on the market in Q1 2011, a decrease of 54 percent over the quarter and 25 percent over the year.
- The combination of subdued development activity and diminishing availability of logistics space are leading to an overall shortage of new and modern warehouses across Europe.
- Vacancy rates in Q1 2011 are lower than 12 months ago for the majority of European countries.
- An oversupply of secondary (and often low quality) products is the driver of vacancy rates in those markets where supply remain high.
- European occupier take-up for large distribution warehousing units in 2010 had a 30 percent increase on 2009, reaching €14.6 million sq m.

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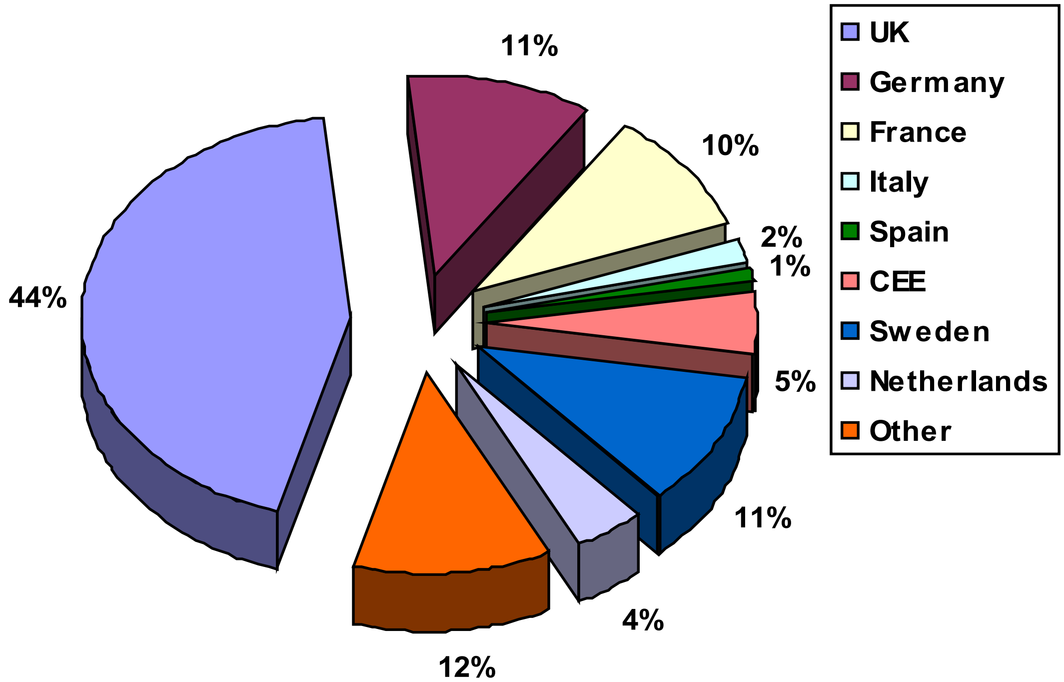

Industrial Investment by Market, 2010

Properties sale of 33 properties mainly located in Stockholm and Malmoe comprising 368,000 sq. m, purchased by Hemfosa and Sagax for MSEK 3,050.

Larger deals so far during 2011:

- Hemfosa purchased 44 industrial properties from Landic VI (liquidation) located in Västerås, Sundsvall and other cities. Total lettable area of approx. 300,000 sqm and a purchase price of MSEK 2,364.
- Kungsleden acquired 36 properties from NR Nordic & Russia Properties Ltd, 33 of which are located in Sweden, one in Germany and two in Poland, for a purchase price of approx. SEK 3.6 bn including transaction costs. Gross leasable area of 825,000 sq. m, 93 percent of which is in Sweden. Total rental value of SEK 563 m corresponds to a property yield of about 10 percent.
- ElGiganten signed a sale and lease back contract with Ness Risan & partner on one 96,000 sqm property in Jönköping for a purchase price of MSEK 600.
- Sagax purchased the property Jordbromalm 3:10 located in Jordbro, south of Stockholm from Northern Logistic Partner ASA. The purchase price was MSEK 600 and the total lettable area amounted to 94,000 sq. m.
- SAAB Automobiles property Propellern 8 in the city of Trollhättan comprising 483,000 sq. m industrial premises and approx. 1.65 million sqm land. The purchase constituted 50.1 percent of the real estate company and the purchase price amounted to MSEK 255 corresponding to an estimated market value of MSEK 600.

In Norway in 2010 there were 1,2 NOKbn of transactions. The Norway logistics market is linked to less volatile consumer products as opposed to heavy industry and therefore less susceptible to economic fluctuations.

The length of unexpired term on leases particularly important for yield levels and prices in industrial transactions. The prime yields remained at 6.6 percent - but lower where lease period is longer than 10 year.

Average rent 600-1000 but can be higher in particular regions. Alnabru.e.g.Aspelin Ramm building let to Norsk Medisinaldepot (43,000 m2) for 20 years, sold at 6.4 percent.

In the Benelux region demand remains down due to the economic conditions with no new speculative development planned.

Central and Eastern Europe

Poland has fared well with some 1.46 million sq m of space being let in 2010 up on the 982,000 sq m in 2009 thus leading to a fall in the vacancy rate to around 15.2 percent.

The Czech Republic has seen a growth in demand on 2009 driven by a lack of major speculative schemes undertaken in this timeframe.

The Hungarian market saw take up of 210,000 sq m of speculative space in the Budapest market.

The Romanian market has seen improvements before and then declining more recently as provision of infrastructure remains a problem.

Summary

There remains a mixed picture across Europe for the next 12 months, with differing levels of optimism. Much will depend upon the resolution of the Eurozone debt crisis and continued steady growth in markets to enable consumer confidence to grow. This will in turn lead to the improvement in demand for logistics and warehousing product.

Well located international markets which have access to foreign capital to promote development as well as provide the end user demand are likely to be well into recovery in 2012 with rents increasing. The more secondary markets, both in terms of macro constraints and limitations of capital, will take another 2-3 years to recover.

Key Market Data 2010

Country	City	Prime Industrial Rent (€/sqm/annum)	Prime Industrial yield
UK	London	156.96	6.50
	Birmingham	65.92	6.85
	Glasgow	75.34	7.25
	Manchester	72.20	7.00
France	Paris	90.00	7.15
Germany	Berlin	55.20	7.25
	Dusseldorf	62.40	7.00
	Frankfurt	70.80	7.00
	Hamburg	67.20	7.00
	Munich	76.80	7.00
Spain	Barcelona	66.00	8.00
	Madrid	66.00	8.00
Italy	Milan	57.00	7.75
	Rome	60.00	7.75
CEE	Stockholm	77.94	8.00
	Prague	57.00	8.50
	Budapest	54.00	9.25
	Warsaw	60.00	7.75
	Moscow	82.23	13.50