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MarketView

EMEA Industrial & Logistics

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April 2010

Quick Stats

	Change from Q3 09	Change from Q4 08
Rent	↓	↓
Yield	↓	↑

Hot Topics

- Investment market starting to accelerate, with focus on prime assets and the UK
- Occupiers still concerned to reduce costs, but growing need for flexibility steering them towards the best buildings
- Nature of demand changing, as 3PLs increasingly favour campus-style developments
- Shortages of prime investment stock may force buyers to widen their search criteria

OVERVIEW

- **Two-tier occupational market as tenants favour better quality space**
  Aggregate demand has weakened in response to economic contraction across most of Europe, but remains focussed on the better buildings that offer the required level of flexibility. The reduced cost of acquiring such space on acceptable terms means that there is less need to consider inferior options. This is leaving a residue of poor quality space that is unsuitable for modern occupiers and on which rents are still falling. At the other end of the quality spectrum occupiers seeking large high-quality units face an increasingly limited choice, and attention is therefore focussing back on build-to-suit solutions.

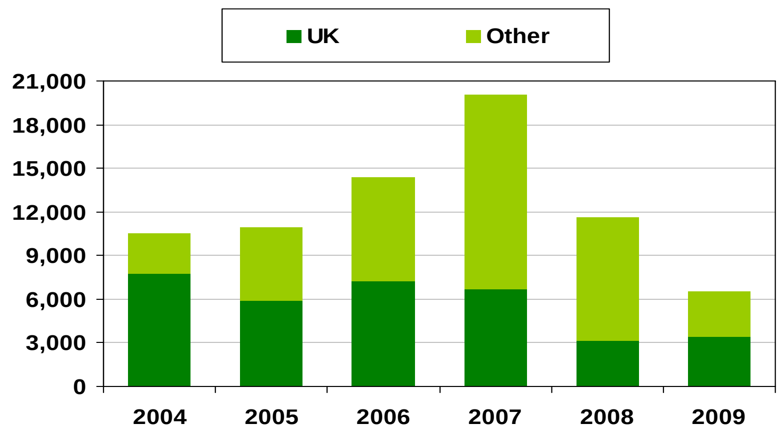
- **Food retailers a key source of demand**
  Retailers, and particularly food retailers are a key source of demand for space notably in the UK with other Western European markets likely to benefit from the same trend. Demand from manufacturers of finished and goods and components is less robust, reflecting weakness in new orders and exports.

- **Rents approaching a floor**
  In overall terms rents are still under downward pressure but the severity of decline is clearly easing. The CB Richard Ellis EU-15 industrial rent index fell by 0.4% in the final quarter of 2009 which compares with falls averaging nearly 2% per quarter in the first half of the year. Very few individual markets are still seeing any substantial falls in prime rents.

- **Investment appetite strongly focussed on UK market**
  Investment levels in the industrial and logistics market in H2 2009 rose by 52% from the first half, taking the full-year total to just over €6.5bn. This maintained the sector's share of 9-10% of the total investment market. The UK dominated investment in the sector, accounting for over half of last year's transactions, although appetite for investments in other core Western European markets now appears to be rising.

- **Yield falls concentrated on small number of markets and prime assets**
  Prime industrial yields have fallen by over 20 basis points since mid-2009, with the reduction mostly concentrated in the UK and a small number of other mature markets. In most of the other major centres prime yields have now stopped rising. Pricing of secondary assets continues to drift as both occupiers and investors mostly steer clear.

European industrial and logistics investment turnover (€m)



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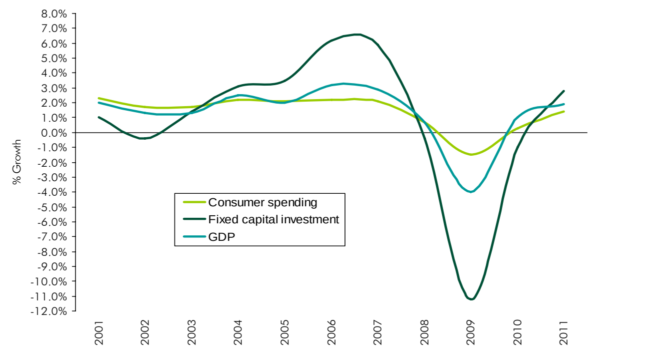
ECONOMIC BACKGROUND

Most of the major Western European economies contracted by 4-5% in 2009 (France fared rather better) but were seeing positive quarter-on-quarter growth by the third quarter. Economists' expectations of growth in 2010 have generally been strengthening in recent months but it is still likely that the tone of data will remain mixed for a while yet.

For example industrial new orders in the Euro area fell by 2% in January. Even excluding the more volatile elements, such as transport and aerospace equipment, the decline was 1.3%. Similarly the late-2009 rise in exports from Eurozone countries appeared to stall in January of this year, at least temporarily. The role of governments - particularly in respect of withdrawing stimulus programmes and managing monetary policy - will be critical if a more convincing recovery is to emerge.

Key Economic Drivers, EU-27, 2001-11



Source: Experian Business Strategies

OCCUPIER ACTIVITY

Tenant caution and a desire to control costs are still strong imperatives in the occupier market, and take-up has dipped as a result in key markets such as France and The Netherlands.

While there are significant volumes of vacant space in some key markets, much of it is of inferior quality and unsuitable for modern occupiers. Hence demand is focussed mostly on the best and most flexible buildings in key strategic locations (even though these are clearly more expensive), leaving a residue of poor quality space on which rents are still falling. With speculative development having virtually halted, occupiers seeking large high-quality units face a limited choice, and attention is focussing back on build-to-suit solutions.

Food retailers are a key source of demand for space in some major markets, notably the UK. The character of demand is also changing. As the major 3PL's grow, they are pursuing "campus" strategies which are large multi-customer buildings clustered together, sharing services and thereby reducing cost.

Selected Occupier Transactions, H2 2009

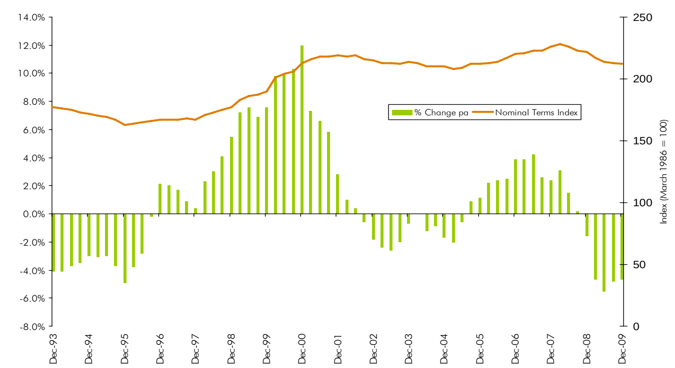
Market	Size (Sq m)	Tenant	Rent (€/ sq m/month)
Bornem, Belgium	35,000	DHL	3.50
Prague, Czech Republic	13,000	L'Oreal	na
Miramas, France	12,910	Michelin	3.10
Guntramsdorf, Austria	12,000	CEVA Logistics	5.20
Mannheim, Germany	10,000	K2	3.60
Madrid, Spain	5,475	Panalpina	8.00

RENTS AND YIELDS

The EU-15 industrial rent index fell by 0.4% in the final quarter of last year, taking the decline over the year as a whole to 4.7%. While in aggregate, therefore, rents are still under some downward pressure, the severity of this is easing. By way of comparison, in the first half of 2009 rents were falling at a rate of nearly 2% per quarter and the annual rate of decline was 5.5%.

While a number of markets have experienced rental declines of over 20% in this downturn - such as Madrid, Warsaw, Dublin and Budapest – others have seen only marginal decline, including Munich, Paris and Amsterdam.

EU-15 Industrial Rent Index



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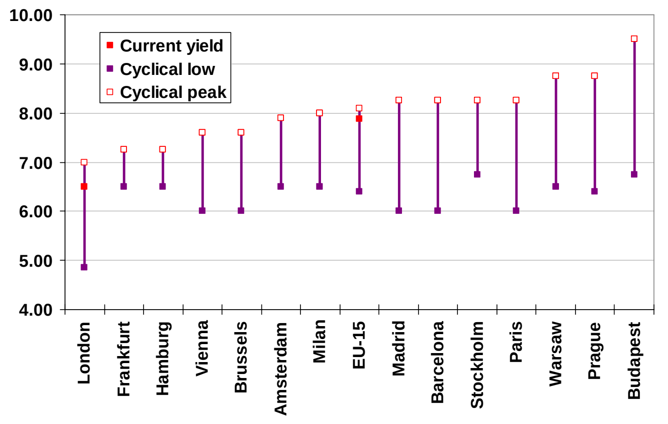
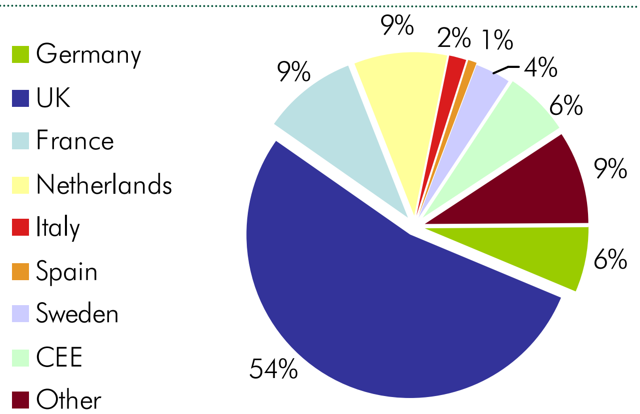
Prime industrial yields: from cyclical low point to Q4 2009



Industrial Investment by Market, H2 2009



Key Investment Transactions, H2 2009

Market/City	Buyer	Price €m
Industrious portfolio, UK	Max Property	263.2
Equiton portfolio, UK	USS	222.2
Southall, UK	USS	122.9
France, Various	BNP Paribas	85.2

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More generally, very few markets are still seeing any substantial falls in rents - the main exceptions including Bucharest, Dublin and Barcelona - which suggests that the emerging signs of stability are likely to persist, at least for the better quality buildings that are increasingly the focus of occupiers' interest.

The EU-15 industrial yield index fell by a total of around 22 basis points in the second half of 2009 to end the year at 7.9%. The contraction in yields has been mostly concentrated in the UK, although Paris, Oslo and Lisbon have also seen yield improvements. Across most markets yields were static in the fourth quarter, including the major CEE markets which were still seeing increases up to mid-2009. Initial indications are that downward pressure on prime yields has persisted in a number of core Western European markets in the first quarter of this year.

INDUSTRIAL INVESTMENT

Transaction levels in the European investment market improved sharply in the second half of last year, rising to over €46bn, compared with €26bn in the first half. The investment market for industrial and logistics property also picked up, with a 52% increase in turnover from the first half taking the full-year total to just over €6.5bn. While this is markedly lower than the 2008 figure, the reduction reflects broader investment market trends, and as a result the sector maintained its share of 9-10% of the overall market.

The second half revival in industrial and logistics investment was very heavily concentrated in the UK which accounted for 54% of transactions in H2, and over 50% for the year as a whole. In an environment where investors are particularly focussed on quality and length of income as well as market depth, the UK is clearly particularly attractive.

More broadly, investors' focus on large, mature, liquid markets is reflect in the fact that the UK, Germany, France and The Netherlands between them accounted for nearly 80% of second half turnover. By contrast Italy, Spain and CEE accounted for a combined 9% of the market. Indications for the first quarter of this year suggest reinforcement of these patterns with a range of investors, including German open-ended funds, active in core markets particularly France, Germany and The Netherlands.

With the period of steepest value decline having passed and prime values showing signs of rising, owners probably have less incentive to sell stabilised assets. Shortages of prime stock may inhibit turnover growth and perhaps shift some of the demand focus towards value-add opportunities with higher void risks and asset management challenges.

KEY MARKET DATA, END-2009		PRIME INDUSTRIAL RENT		% CHANGE		PRIME INDUSTRIAL YIELD
Country	City	Local	€ / sq m/ annum	Last 3 months	Last 12 months	%
Austria	Vienna	€ 5.20/sq m/month	62.40	-1.0	-3.7	7.60
Belgium	Brussels	€ 46.00/sq m/annum	46.00	0	-4.2	7.60
Bulgaria	Sofia	€ 4.85/sq m/month	58.20	-3.0	-3.0	12.00
Croatia	Zagreb	€ 6.10/sq m/month	73.20	5.2	3.4	9.75
Czech Republic	Prague	€ 4.75/sq m/month	57.00	0	-9.5	8.75
Denmark	Copenhagen	DKR 500.00/sq m/annum	67.20	0	-4.8	7.75
Finland	Helsinki	€ 113.00/sq m/annum	113.00	-0.9	-14.4	7.40
France	Paris	€ 80.00/sq m/annum	80.00	0	0	8.25
Germany	Berlin	€ 4.60/sq m/month	55.20	2.2	2.2	7.50
Germany	Dusseldorf	€ 5.30/sq m/month	63.60	1.9	1.9	7.25
Germany	Frankfurt	€ 5.95/sq m/month	71.40	0.8	0.8	7.25
Germany	Hamburg	€ 5.70/sq m/month	68.40	0	0	7.25
Germany	Munich	€ 6.40/sq m/month	76.80	0	0	7.25
Greece	Athens	€ 6.25/sq m/month	75.00	0	-3.8	8.00
Hungary	Budapest	€ 4.50/sq m/month	54.00	-10.0	-18.2	9.50
Ireland	Dublin	€ 92.00/sq m/annum	92.00	-4.9	-22.0	9.00
Israel	Tel Aviv	$ 10.00/sq m/month	82.00	0	0	10.00
Italy	Milan	€ 57.00/sq m/annum	57.00	0	-1.7	8.00
Italy	Rome	€ 60.00/sq m/annum	60.00	0	-3.2	8.00
Netherlands	Amsterdam	€ 67.00/sq m/annum	67.00	-4.3	-4.3	7.90
Netherlands	Rotterdam	€ 67.00/sq m/annum	67.00	-4.3	3.1	7.35
Norway	Oslo	NKR 1,000/sq m/annum	120.55	0	-9.1	7.50
Poland	Warsaw	€ 5.00/sq m/month	60.00	0	-9.1	8.75
Portugal	Lisbon	€ 3.80/sq m/month	45.60	0	-15.6	8.00
Romania	Bucharest	€ 4.25/sq m/month	51.00	-5.6	-9.6	10.50
Russia	Moscow	US$ 100.00/sq m/annum	69.85	0	-28.6	14.00
Serbia	Belgrade	€ 4.50/sq m/month	54.00	0	-10.0	13.00
Slovak Republic	Bratislava	€ 4.00/sq m/month	48.00	0	-11.1	8.75
Spain	Barcelona	€ 78.00/sq m/annum	78.00	-7.1	-13.3	8.25
Spain	Madrid	€ 78.00/sq m/annum	78.00	0	-17.0	8.25
Sweden	Stockholm	SEK 650.00/sq m/annum	63.48	0	0	8.25
Switzerland	Geneva	SFR 220.00/sq m/annum	148.38	4.8	4.8	6.75
Switzerland	Zurich	SFR 140.00/sq m/annum	94.42	0	0	7.00
Turkey	Istanbul	US$ 5.50/sq m/month	46.10	0	-15.4	10.00
Ukraine	Kiev	US$ 6.25/sq m/month	52.39	-3.8	-30.6	17.00
UAE	Dubai	AED 30.00/sq ft/annum	61.42	0	-33.3	13.00
UK	Birmingham	£ 5.75/sq ft/annum	69.86	0	-4.2	7.00
UK	Glasgow	£ 6.25/sq ft/annum	75.94	0	-3.8	7.50
UK	London – Heathrow	£ 12.50/sq ft/annum	151.88	0	-5.7	6.50
UK	Manchester	£ 5.50/sq ft/annum	66.83	-4.3	-4.3	7.00

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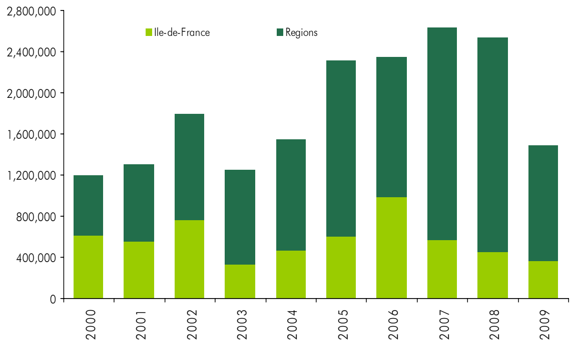
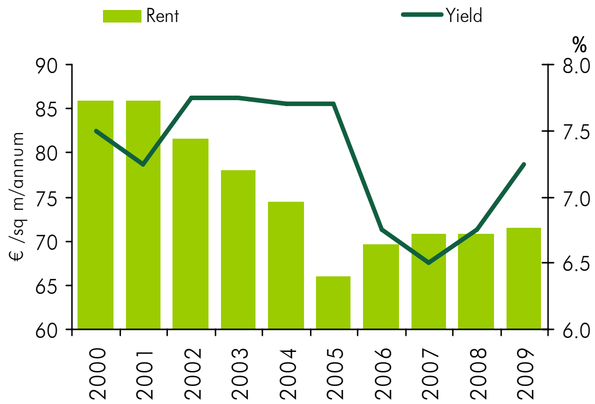
France Logistics Take-up (Sq m)



Milan Prime Industrial Rent and Yield

Frankfurt Prime Industrial Rent and Yield



Amsterdam Prime Industrial Rent and Yield

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FRANCE

Take-up of logistics space across France as a whole fell by around 40% in 2009, reflecting continued caution on the part of occupiers. The two main markets, Ile de France and the Rhone corridor, accounted for nearly half of last year's take-up. They also saw a sharp increase in availability in the first half, although this stabilised towards the end of the year as development activity ceased. In the broader industrial market, demand is mainly focussed on small and medium-sized units. Selective shortages of high quality space are apparent as low levels of development are inhibiting stock renewal. Headline rents are now stabilising but tenant incentives remain high.

ITALY

Although the economic outlook remains uncertain, top quality buildings are in short supply in some of the key industrial locations, which include Milan and surrounding areas as well as Bologna, Turin and Padua/Verona. Prime rents in the Milan market saw relatively little slippage in 2009 and none at all in the final quarter, settling at €57 /sq m /annum.

Occupiers' desire to reduce costs by restructuring leases or rationalizing space has generally favoured the best and most flexible buildings in the market at the expense of poorer quality properties.

GERMANY

The volume of new enquiries in Germany remains low, and predominantly focussed on smaller units of between 3,000 and 5,000 sq m. Rental prospects appear more favourable within this size bracket than they are for larger units. Decision-making periods are still quite prolonged, reflecting the halting nature of the recovery. Owners of long-vacant space are under pressure to offer more flexible terms and are increasingly willing to grant shorter leases or subdivide space into smaller units. Overall, rents are expected to remain broadly stable over the coming year but with possible reductions for large units offset by slight rises for smaller ones.

NETHERLANDS

Amsterdam rents saw limited downward pressure last year, falling by just over 4%, but remained stable in the final quarter at €67 /sq m /annum. Demand is mostly concentrated on older industrial areas closer to the inner city, as opposed to the seaport area where a new distribution campus has been completed.

Although world trade and cargo volumes are seeing some improvement, the port of Amsterdam mainly serves as a bulk port, limiting the perspective for logistics take-up in 2010.

MARKET BRIEFING

Demand for logistics space in **Brussels** remains subdued, with most corporates focussed on controlling costs and maximizing the efficiency of existing space. Prime logistics rents are down by 4% over the past year to €46 /sq m /annum.

The vacancy rate dipped in **Budapest** as a result of a low level of completions and comfortably the strongest quarter's take-up of 2009. Nevertheless, vacancy remains above 20% and prime rents eased further to €54 /sq m /annum.

Market conditions in **Copenhagen** reflect the fact that industrial production in Denmark fell by 20% last year. Headline vacancy is still low but it appears that there is substantial hidden vacancy within the existing stock. Prime rents remain stable at DKK 500 /sq m /annum but further slippage remains possible.

Activity in the **Dublin** market picked up strongly in the final quarter of 2009 boosted by the year's largest letting, to Aer Lingus at Dublin Airport. Rents are still falling, but are expected to stabilise in 2010 as demand improves with high-tech sectors such as bioscience likely to be in the forefront.

Geneva rents improved to CHF220 /sq m /annum in the final quarter, with the Swiss economy having shrunk only moderately last year.

Vacancy is stabilising in the **Helsinki** market, and rents edged down only slightly in the final quarter to stand at €117 /sq m /annum. New construction is running at very low levels, which will further restrict supply growth and should support rents from mid-2010.

Take-up of logistics space in **Lisbon** improved to around 45,000 sq m in the final quarter and prime rents remained firm at €45.60 /sq m /annum. Improving sentiment suggests that further increase in leasing levels is likely and that rents have reached a floor.

The **Madrid** market has seen occupiers moving closer to the urban centre as falling rents have made this more cost-effective. Demand in the more peripheral areas has suffered accordingly. Rents fell by 17% last year and, while they appear to be stabilising, there is little sign yet of upward momentum.

Moscow rents have fallen by nearly 30% over the past year to stand at $100-105 /sq m /annum. The pipeline of new supply into 2010 is theoretically high, but the scale of value reduction has made the viability of much of this highly uncertain. A more constrained supply picture would begin to provide some support for rents.

Demand for high-quality premises in **Oslo** remain stable and rents are flat at NOK 1000 /sq m/ annum for good buildings with more than six metres ceiling height. Risks remain given the export-orientated nature of the Norwegian economy, but in general demand in the best locations is expected to firm.

Prime rents in **Prague** fell by nearly 10% in 2009 as a result of a near-halving in leasing levels compared with 2008. However, with very few new completions now coming to the market rents appear to have stabilised in the final quarter at €57 /sq m/ annum, with potential for growth from the second half of this year.

Prime **Stockholm** rents remain stable at around SEK650 /sq m/ annum and may be considerably higher for short contracts. Confidence indicators for manufacturing remain weak, suggesting some modest downward movement in rents in the short term.

The **UK regional** markets mostly saw stability in prime rents in the second half of last year. The manufacturing sector of the UK economy contracted sharply in early 2009, but started to show signs of gradual improvement in the final quarter. Resumption of rental growth, however, is expected to be a slow process.

While recovery in the Austrian economy remains tentative, prime rents in **Vienna** are being supported by logistics companies restructuring in favour of the best quality space. As a result the market is polarising, with older and poorly-located space increasingly unpopular. Prime rents remained broadly unchanged over the quarter at €62.40 /sq m /annum.

Warsaw rents fell by 9% over the course of 2009 but stronger leasing levels towards the end of the year stabilised rents at €60 /sq m /annum. Rental levels should remain firm this year although the scope for growth is limited by the overhang of vacant space.

The prime **Zurich** market remained steady at CHF140 /sq m /annum throughout 2009 although a possible weakening in private consumption this year could produce some weakening. Companies generally have little need for additional space capacity at present.

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