Investment Market Update
Europe Logistics H1 2013
Largest increase in volume since 2010

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- Europe is getting out of its longest recession in 40 years, after a year and a half of economic turmoil. The Nordics outperformed the rest of Europe, thanks to less exposure to the Euro crisis. CEE countries were hit by the crisis but should pick up faster in 2014 through 2016. Economies are expected to grow between 1% and 3% between 2014 and 2016.

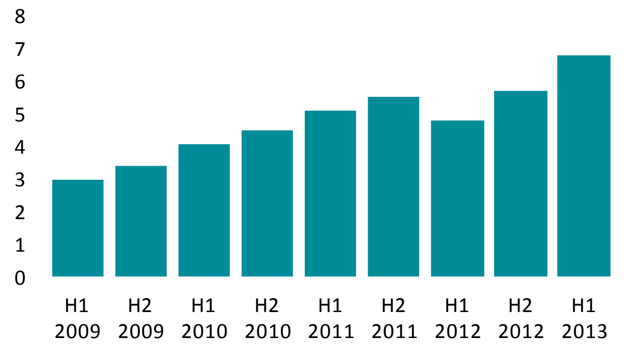
- The investment volume in logistics assets grew by 20% in H1 2013, the largest increase since mid-2010. This brings the investment volume to EUR6.8bn in H1 2013. Two megadeals (one between Prologis and Norges, and the one signed between SEGRO and PSP) boosted the market activity. As usual, the UK, Germany, France represent more than 60% of the invested volume in Europe. Volumes were also high in Nordics, lead by a buoyant market activity in Sweden.

- Private property vehicles continue to dominate as the largest share of investor type on buy side. The top 8 investors represent 20% of the total invested volume in H1 2013. This ranking welcomes new comers such as the sovereign wealth fund of Norway Norges and the Canadian institution, PSP.

- No significant change has been observed in prime logistics yields in H1 2013. They ranged across Europe from below 6% in London Heathrow to above 10% in Baltics and CEE markets. On a 5 years horizon, we don't except any significant changes in yields. Yields compression is expected to continue where they are still high, whilst in the core markets (UK and France mainly) they will move out in a modest proportion.

Figure 1

Total investment volume in logistics assets, EURbn



Source: DTZ Research

Economic Overview

Sluggish Europe to pick up soon

Europe is lagging behind Asia, the US and the World average in terms of growth in 2013 and will continue to do so for the coming years. However, Europe is getting out of recession, dragged by better-than-expected growth results in Q2 in Germany (+0.7%) and France (+0.5%). As a result, Europe's GDP rose by an annualised rate of 1.1% in Q2 2013, and should grow by 1.3% in 2014 (see figure 2). Some European countries already got out of recession such as the UK or Germany, fostering their peers to do so. Strong signals from the rest of the world, in the US and Asia, should also encourage European GDP to grow in the coming quarters.

In Europe, the UK should grow by 1% in 2013 after a slow growth of 0.2% in 2012 (see figure 3). However, newly appointed Bank of England Governor Mark Carney is keeping interests rates low as a precaution until unemployment falls below 7%; the figure currently stands at 7.8%.
In the Nordics, the most robust region in Europe against the crisis, GDP growth should stand around 0.6% by the end of 2013 and keep increasing until 2016.
France should exhibit low levels of growth, or even zero growth in 2013 but is expected to recover most significantly in 2014 (+0.8%).
Germany is expected to grow steadily at a 1.6% on average over the next 3 years, while Central and Eastern European Countries should be growing the fastest between 2014 and 2016, with rates around 3% per annum.

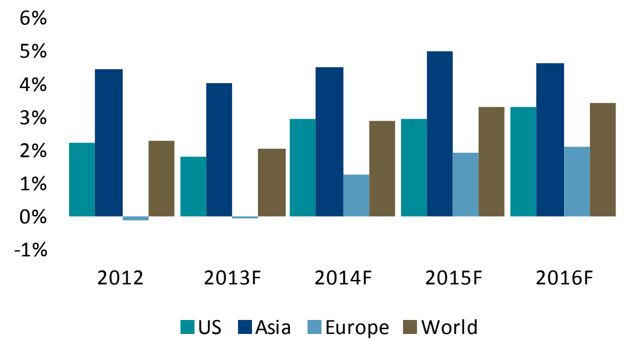
Trade is expected to recover

Year2012 saw imports and exports decline in various proportions, by 3.3% for imports and -1.7% for exports, with sharp decline recorded in Q4 (Figure 4). Imports continued to decrease in Q1 2013 (-3.3%) whilst exports recovered significantly and posted a 1.2% increase. Global should rise again in 2014 as consumer demand is expected to grow again in Europe and other region across the globe.

US President Barack Obama and EU Commission President Jose Manuel Barroso announced that talks would take place to negotiate a free trade agreement. The agreement may be finalized in 2015 and should boost the volume of trading between the United States and Europe.

Figure 2

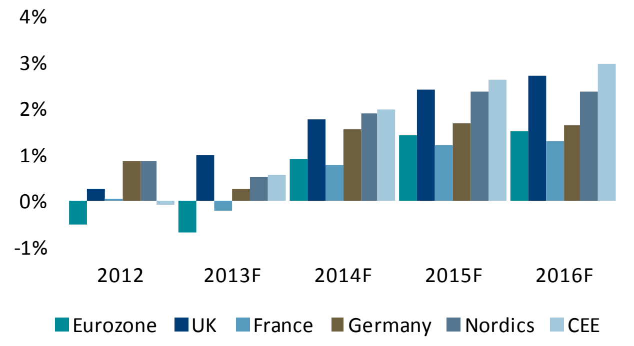
GDP growth 2012-2016F



Source: Oxford Economics

Figure 3

GDP growth in selected regions



Source: Oxford Economics

Figure 4

Export and imports in the Euro area

Source: CPB World Trade Monitor

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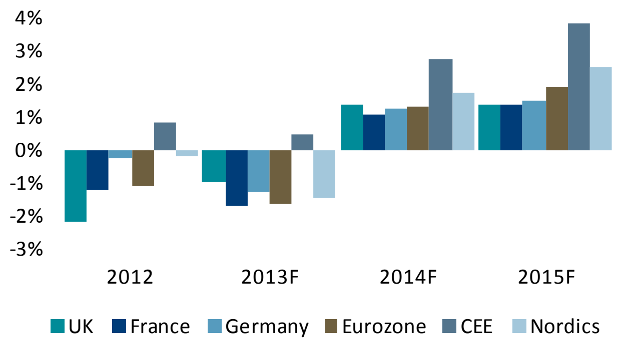
Mixed picture for the industry…

Industrial production growth rates in Europe were worse than expected in 2012 with for instance -2.2% in the UK and -1.1% in the Eurozone (see figure 5). 2013 will not end on a brighter note, with worse negative rates than in 2012 anticipating in Euro zone, France and Germany. However, industrial production in the core countries is expected to grow in 2014 and 2015 at rates between 1% and 3.9%. Central and Eastern European countries exhibit the most resistance in 2012 and 2013 and will grow at 2.8% and 3.9% in 2014 and 2015 respectively. The Nordics should also be back on track faster than the rest of Europe, after a decline recorded in 2013.

Figure 5

Industrial production in selected countries



Source: Oxford Economics

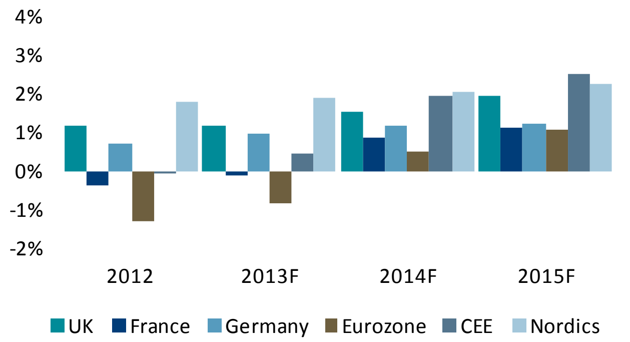
… and consumer **spending**

The picture remains mixed in 2013 for consumer spending across Europe: while some countries such as the UK, Germany and the Nordics still experience growth, the rest of Europe is recording a decline in activity (figure 6). In the coming 2 years, the previously mentioned countries should keep a steady growth rate around the 2% mark, while the rest of Europe will grow again, at a slower pace.

On the back of the macro-economic data, a mixed picture emerges: Europe will be growing again, but at different paces. The Nordics will outperform their western European peers and the CEE countries will grow their industrial output and GDP at a faster rate than other European countries. In Western Europe, the UK, Germany and France will one after the other rise and grow at higher rates in the coming quarters.

Figure 6

Consumer spending in selected European countries



Source: DTZ Research

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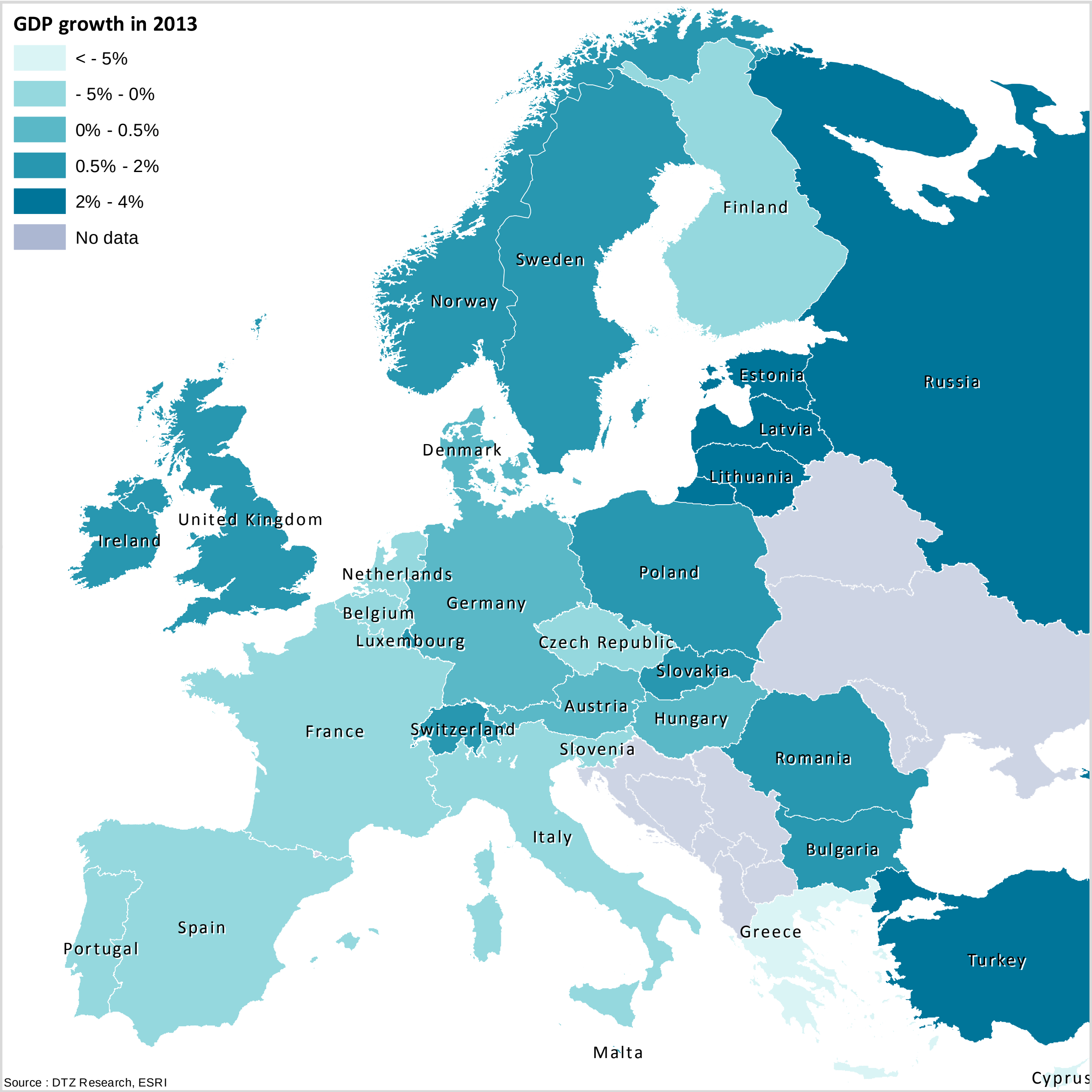
Map 1

GDP growth forecasts in 2013



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Retailers and logistics

As economic pickup is setting in Europe, retail sales will see better days. However, the upward trends remains polarised with on one hand Central and Eastern European and Nordics countries posting CAGR (compound annual growth rates) between 2% and 4.2% from 2014 to 2016 and on the other hand, Southern countries such as Greece and Spain, posting negative and very low forecasts. Most of Europe will be progressing at a rate between 0.1% and 1.8%.

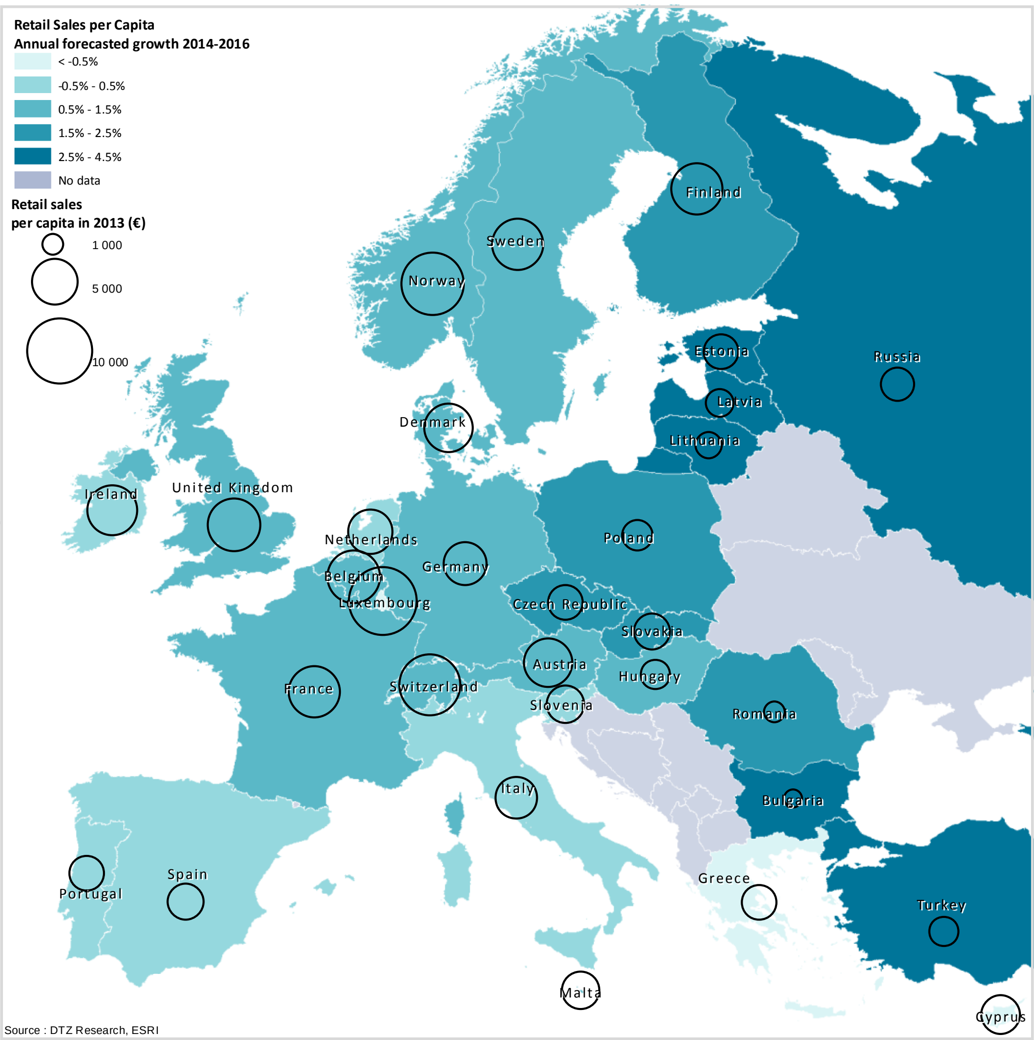
The Nordics will continue to outperform their peers as these countries were less hit by the Euro crisis and their economies were robust the last few quarters.

The picture is better looking than in previous years, especially for countries in the South of Europe such as Italy, Spain and Portugal. Even though the coming quarters will be more lively than previous ones, credit conditions in Europe remain tight and consumption will slowly start again.

The only major transaction by a retail investor in H1 2013 was a €109 million deal by ICA, a Swedish retail group. The Swedish retailer bought a 70,000 sq m lot and agreed to extend the lease on other properties from the same vendor, Tribona, a logistics real estate company.

Map 2

Retail sales per capital in 2013 and annual growth forecasts 2014-2016



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Investment Market

Germany soaring

The logistics investment market has been stable for the past 2 years around EUR10bn of transactions. Volume grew sharply (+20%) in H1 2013 to EUR6.8bn, up from €5.7bn recorded in H1 2012 (figure 7). This is the largest increase since mid-2010. The figure achieved in H1 2013 was largely due to the EUR1.2bn portfolio deal of Prologis/Norges and the joint-venture signed between SEGRO and PSP for its continental European portfolio. In relative terms the logistics market is on a long running trend of market share increase. Logistics transactions accounted for 12% of the total volume recorded in H1 2013, beating the peak level of 2009 (10%).

In H1 2013, the market shares of logistics investment volume by country are consistent with the trend observed during the past few years, although the market looks more balanced. The UK registered as usual the largest market share with 26% of the volume, or EUR1.8bn. Despite this result, volume declined by 28% over the same period last year. More (130 compared 106) but smaller lot size transactions occurred in the UK, with the largest transaction reaching only the EUR80m mark (see figures 8 and 9).

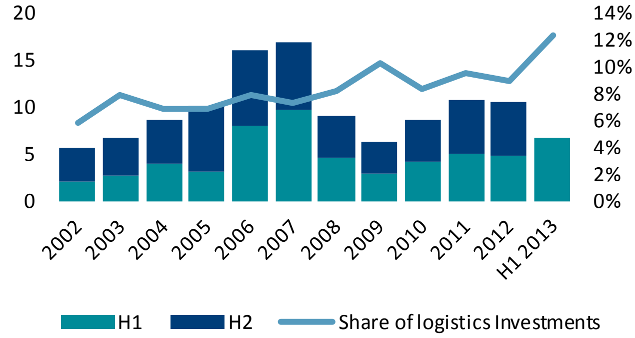
The German investment market soared and reached 20% of total European volume with EUR 1.4bn of transactions. This represents an increase of 63% over the same period in 2012. Only one transaction was above the EUR100m mark but the market was more dynamic over the half year on smaller lot size.

In France, 2 deals above the EUR100m mark (including the one done by the US opportunistic fund APOLLO who bought 11 properties portfolio) boosted the volume to EUR850m in H1 2013. The French market is one good track to perform the last five years average, standing at EUR1bn.
The Nordics are still maintaining their high transaction volumes, mainly lead by Sweden, which recorded a EUR521 million volume in H1 2013, from EUR921 in 2012 as a whole.

Two exceptional deals were recorded in Europe:
- a EUR1.2bn portfolio deal by 50/50 joint venture between ProLogis and Norges, the sovereign wealth fund of Norway. The venture represents 4.5 million sq m in 11 countries.
- SEGRO and PSP signed a 50/50 joint venture with Public Sector Pension Investment to create a leading Continental European logistics platform. PSP has bought a EUR974m portfolio comprises substantially all SEGRO's core logistics assets in Continental Europe.

Figure 7

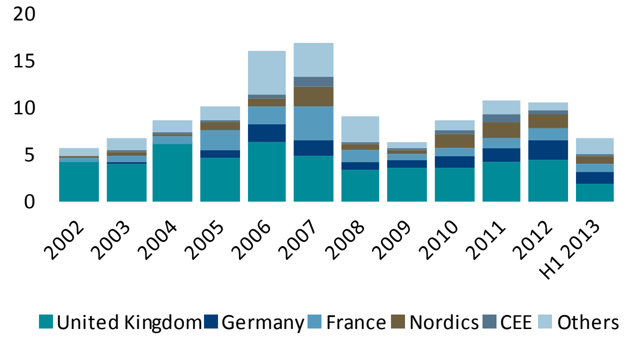
European investment activity in logistics – EURbn



Source: DTZ Research

Figure 8

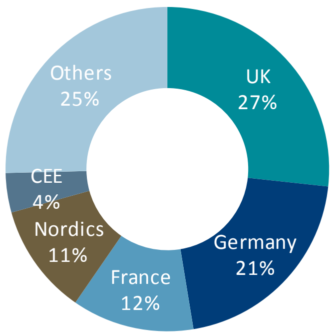
Logistics investment volume in Europe by country – EURbn



Source: DTZ Research

Figure 9

Logistics investment volume in H1 2013



Source: DTZ Research

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Purchaser type

Strong private property vehicles

Excluding the megadeal of EUR1.2bn, private property vehicles have dominated in H1 2013 the logistics investment market. Including the 2 megadeals mentioned earlier, private property vehicles, investment funds mainly, accounted for 30% market share, with 112 deals completed over the period. Institutions are likely to beat the levels reached in 2012 and 2011 by the end of the year, thanks to the PSP deal.

The top 5 investors represent a third of the total invested volume, and the list is rather peculiar this half year (see table 1). Norges Bank and ProLogis record accompanying transactions with the mega portfolio deal and PSP Investments completed a portfolio transaction with the UK REIT Segro.

Prime Yields

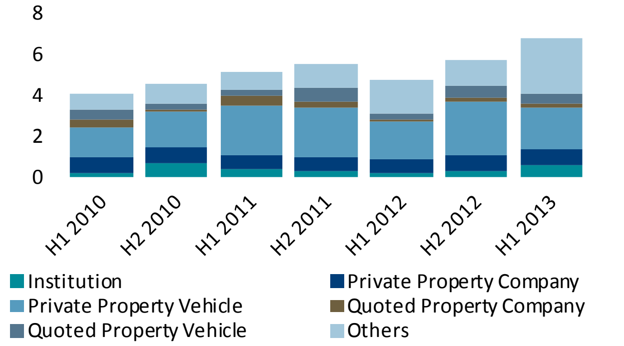
Prime yields stabilizing

Once more, no significant changes in prime logistics yields were reported in H1 2013. London (Heathrow) continues to offer 5.75% while Stockholm stabilised at 6.75%. Secondary markets such as Munich, Warsaw and Brussels experienced minor disruptions but seem to stabilise at their current rates, respectively 7%, 8% and 7.85%. Paris stabilised at 7.35%.

Going forward, our forecasts suggest a decline by 10 to 100 bps in 20 markets covered in our analysis. Yields will remain stable in Antwerp, Manchester and Hamburg. On the other end of the scale, prime yield will move out in a limited proportion (from 10 to 35 bps) in some core markets such as Paris and London Heathrow (map 1 on next page).

Figure 10

Investment volume by purchaser type – EUR billion



Source: DTZ Research

Table 1

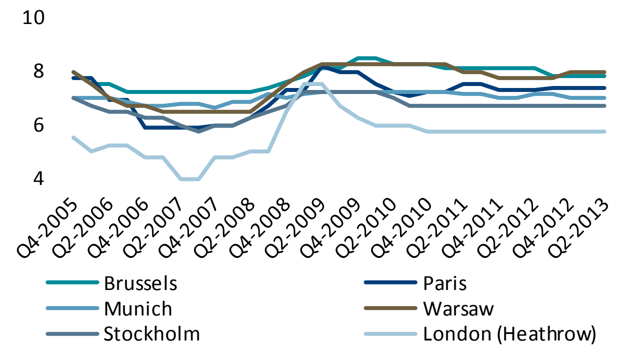
Top 5 Investors H1 2013

Investor	Invested volume (EUR million)	Nationality	Type
Norges Bank	1,360	Norway	Sovereign Wealth Fund
PSP Investment	465	Canada	Pension Fund
Prologis	178	US	Listed Fund
Apollo	145	US	Unlisted fund
Pareto	107	Norway	Unlisted Fund

Source: DTZ Research

Figure 11

Logistics prime yields in Europe, %



Source: DTZ Research

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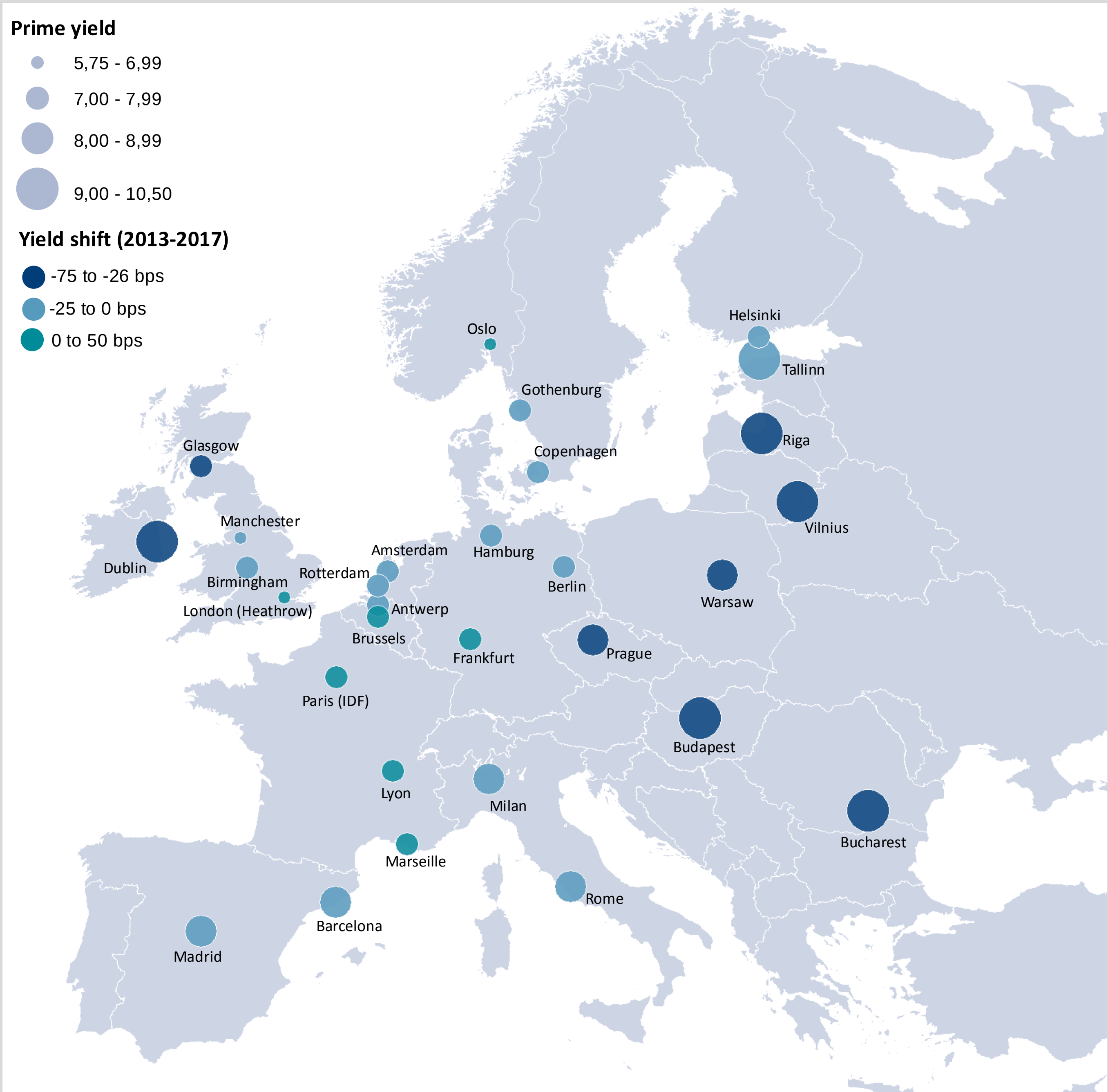
Map 3

Prime logistics yields in Europe (Q2-2013) and expected yields shifts 2013-2017



Source : DTZ Research, ESRI

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