European Commercial – Winter 2021/22

SPOTLIGHT
Savills Research

European Real Estate Logistics Census

savills

TRITAX EUROBOX

● Landlords ● Developers ● Occupiers

Foreword

The logistics market has never been more in the spotlight as it is today. Since the onset of the Covid-19 pandemic, the demand for warehouse space has increased dramatically whilst availability has continued to decline. Indeed, at the midpoint of 2021, take-up across Europe had reached 18.7m sq m, 63% above the long term average and vacancy had fallen by 80 bps yoy to 4.6%, setting a new record in the process.

The strong performance of the occupational market has, in turn, amplified interest in the sector from within the capital markets with annual investment volumes rising to €35bn and prime yields falling to sub 3% in many prime markets.

Now, more than ever, it is important for all players in the market to have access to good data and information that anticipates the future trends in the market.

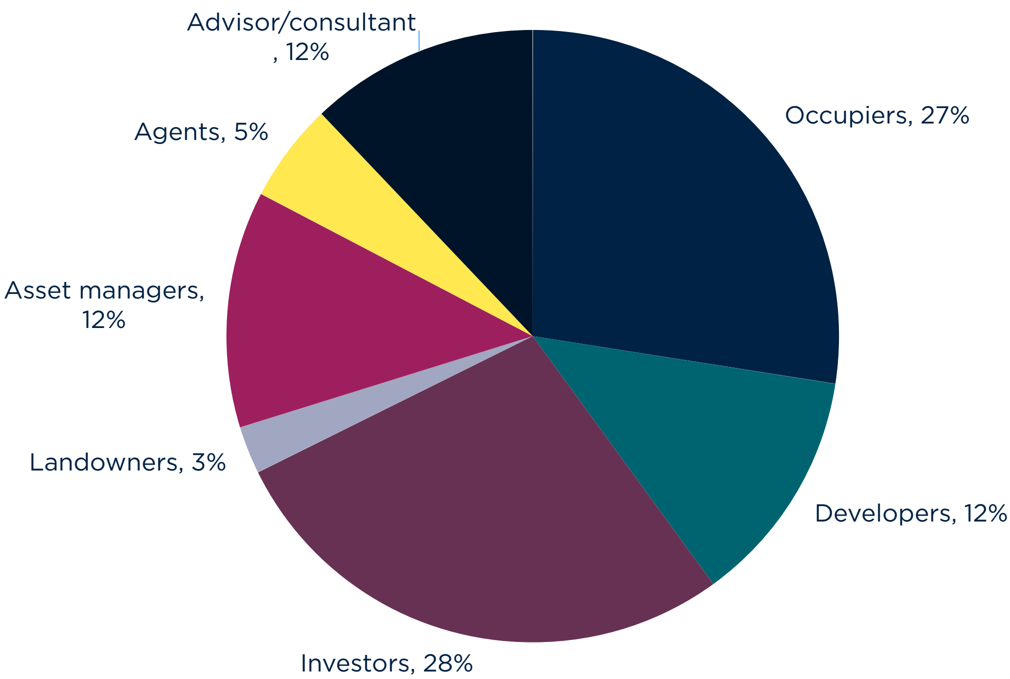
Savills are delighted to work with key European logistics real estate investor, Tritax EuroBox, on the inaugural European Real Estate Logistics Census, the aim of which is to gain detailed insight from across the occupier, developer, investor and advisory communities.

The insights gained from the Census highlight key challenges and opportunities in the sector, and will help the market deliver the right product for both occupiers and investors alike.

To aid our data collection we worked with global supply chain consultancy Analytiqa and our survey was undertaken over the summer of 2021.

The survey received over 400 survey responses, comprised of occupiers (27%), developers (12%), investors (28%), landowners (3%), asset managers (12%), agents (5%) and advisors/consultants (12%). Analysing occupiers more closely by sector, manufacturing accounted for 39%, retailers 35% and 3PL/ logistics operators made up 26% of the respondents.

Chart 1: Census respondents by type (%)



Source: Savills, Tritax EuroBox

How has the pandemic affected businesses?

52% of Census respondents claimed that the pandemic has had a net positive impact on business and the positive impact was felt most visibly from developers (70%), investors (56%) and agents (56%). Developer sentiment has been particularly positive, and Savills is observing higher levels of speculative warehouse development across Europe as a result. Occupiers were most negatively affected, with less than 40% feeling business has increased during the pandemic, which can be largely related to the extensive lockdowns and the impact on consumer spending. Analysing occupier sentiment more closely, the 3PLs reported a net positive impact on their business, manufacturers were neutral, whereas retailers expressed the least positive impact, particularly those with a low online exposure.

68% of Census respondents anticipate that the most common change as a result of the pandemic, will be occupiers seeking to re-shore their supply chains in order to mitigate risk. This has been exacerbated in recent months by shipping delays, shortages of labour and rising fuel costs, and subsequently, 18% of occupiers expect to reduce sourcing their business supplies internationally.

Occupiers are also expected to increase their warehouse storage capacity to facilitate the increasing online demand from consumers, according to 67% of respondents, which is driven by the rising levels of remote working. Similarly, 54% of respondents expect companies to hold more inventory indicating higher demand for warehouse space.

Chart 2: Proportion of respondents who feel that business has increased during Covid-19 (%)

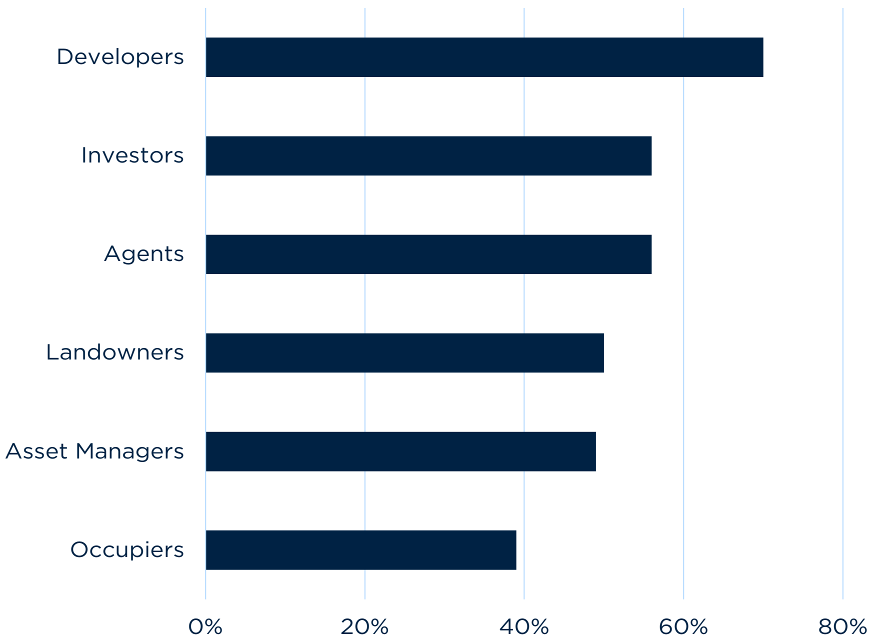
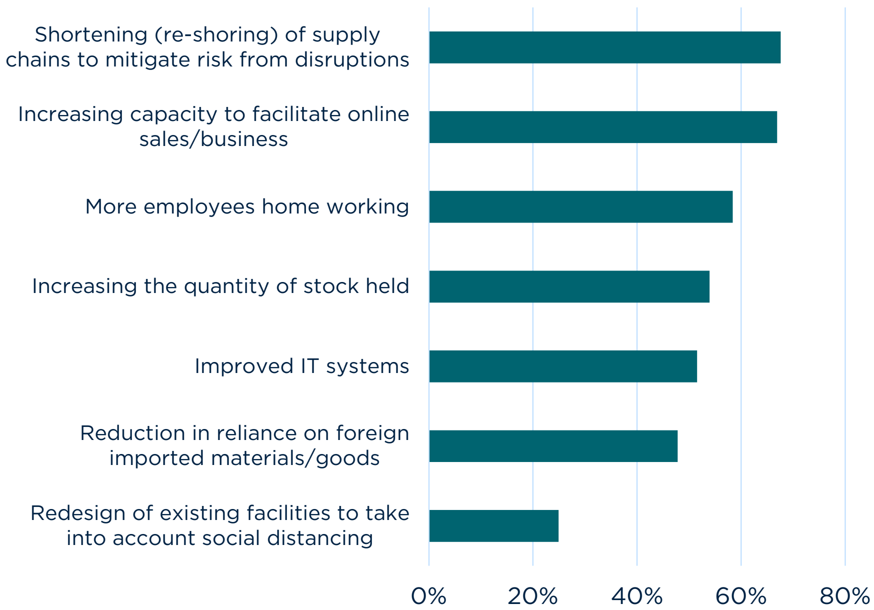


Chart 3: What are the likely changes you expect to impact supply chains?



Source: Savills, Tritax EuroBox

Investor and developer focus

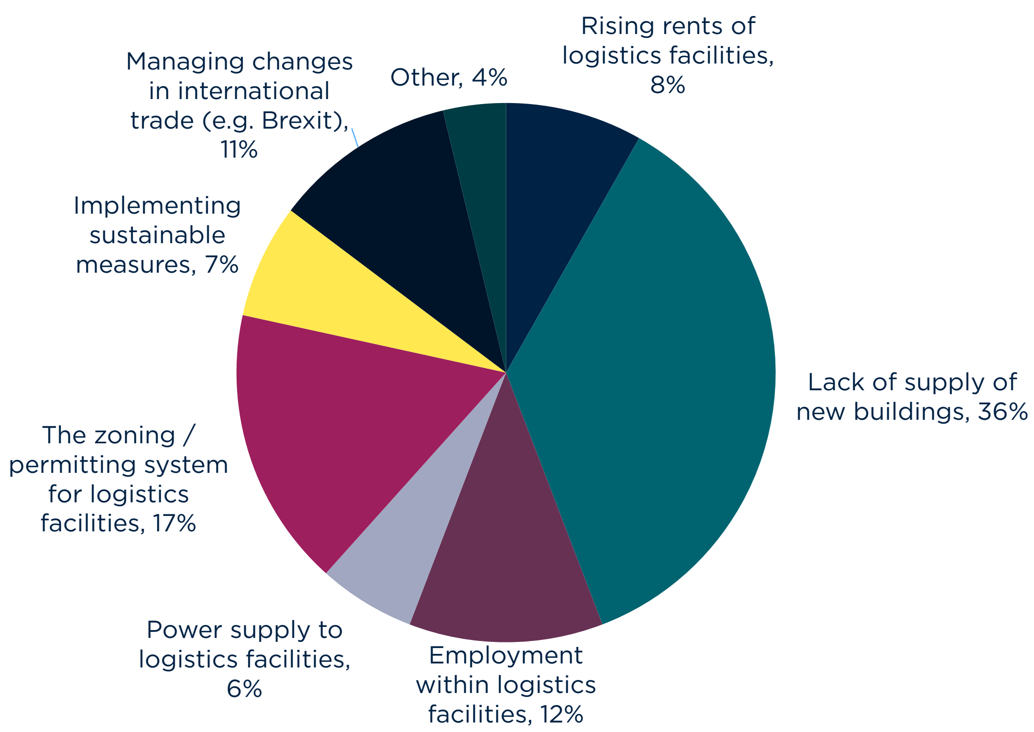
An undersupply of new buildings remains the largest problem facing the logistics sector, according to 36% of respondents and linked to this is the zoning system for new logistics facilities (17%), which together comprise over 50% of total responses related to the future supply.

12% considered the ability to hire employees within logistics facilities as the most challenging factor in the industry, particularly pertinent, given that the Eurozone job vacancy rate has reached a record high.

Brexit only accounted for 11% of total responses, although this can be linked to the inability to source labour, particularly within the UK. Rising rents (8%), implementing sustainability (7%) and access to power supply (6%) accounted for the remaining factors.

Investor focus
37% of investors are currently underweight to the logistics sector, whereas 20% of investors consider themselves currently overweight to the sector, suggesting we can expect investment markets to gather pace over the next 12-18 months. The main problems associated with those looking to deploy capital are high competition (48%) and market pricing (29%). Investors report that they would most like to invest in France, followed by Germany and the UK (which they are not already exposed to), supporting

Chart 4: What is the biggest challenge facing the logistics sector?



Source: Savills, Tritax EuroBox

the recent shift to more core locations we have observed across European capital markets.

Building location (89%) is the most important factor for investors when making investment decisions, followed by covenant strength (83%) and future building obsolescence (75%). 74% of investors consider the sustainability level of the building to be important as closer attention is being paid to the future lettability of the building and security of income.

71% of investors and asset managers have already incorporated ESG criteria into their investment process, whilst 28% of respondents are either considering incorporating ESG criteria, or will be adopting over the next three years. We anticipate this proportion to rise over the next 12 months given the growing importance of the sustainability agenda and obsolescence risk associated with warehouses with lower EPC ratings.

Developer focus

66% of developers believe warehouse automation will have a big impact on supply chains over the next 12 months, more than any other factor. Warehouse robotics (63%), and electric vehicles (51%) also featured among developers' most influential factors as we observe increasing levels of venture capital investment targeting supply chain technology to improve warehouse operations.

Rising land and input costs remain a challenge for the development community. 57% of developers anticipate that both land costs and construction costs will increase at rates in excess of 5% per annum over the next five years, increasing overall development costs.

Chart 5: Investors: Importance of factors impacting business investment selection criteria

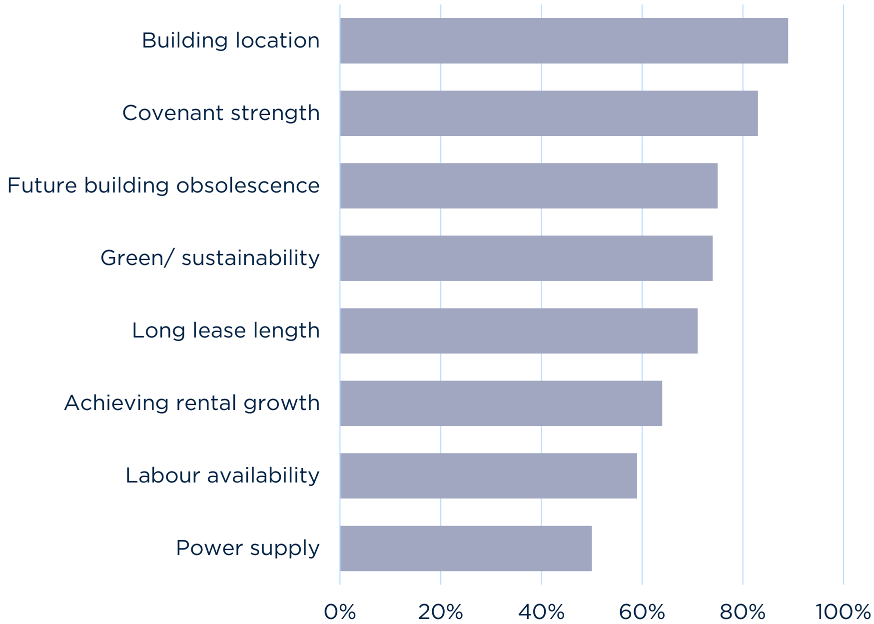
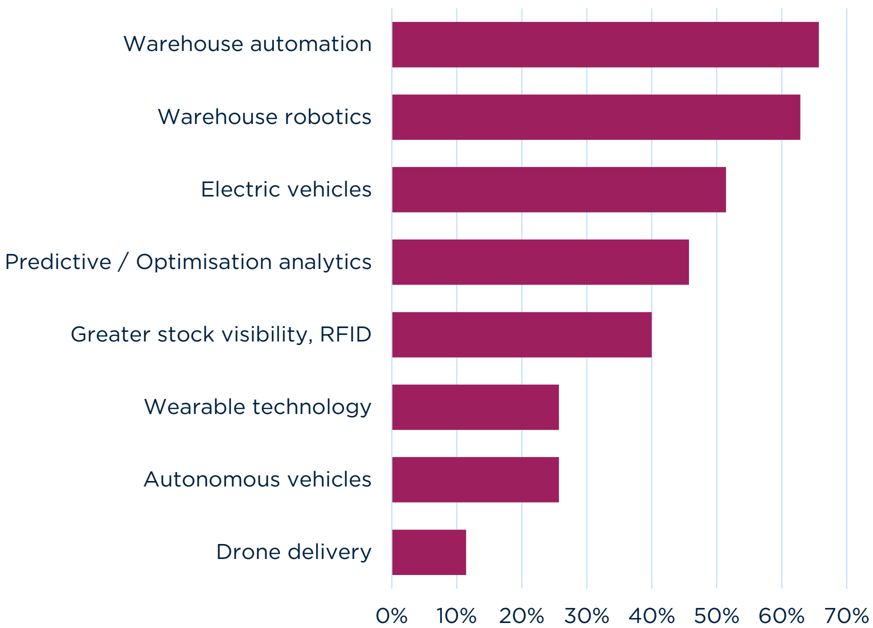


Chart 6: Developers: Which of the following technological advances will have a big impact on the supply chain in the next year?



Source: Savills, Tritax EuroBox

Occupier focus

95% of occupiers expect to require either more, or the same level of warehouse space over the next three years, with 47% expecting to take more space. 3PLs are expected to be the most expansive occupiers, with 58% forecasting an increase in space, followed by retailers (46%) and manufacturers (41%).

Of the occupiers who expect to increase their warehouse space over the next three years, 36% will be considering megabox facilities (over 40,000 sq m), 44% will target mid box (10,000 sq m to 40,000 sq m) and 20% will be targeting urban logistics space. Looking specifically at occupier types, retailers had the strongest preference for megaboxes, whereas manufacturers and logistics operators opted for mid-box facilities.

The biggest operational challenges for occupiers are rising costs (40%), followed by rising consumer demand for delivery (35%) and availability of warehouse space (30%). By sector, manufacturers' main concern was rising costs, retailers' main concern was the rise in customer demand for delivery, whereas the 3PLs' biggest concern was the availability of warehouse space.

Building affordability, rent and service charge remain the most important warehouse features for European occupiers, followed by expansion capacity and flexibility of lease length. Interestingly, sustainability only featured as the sixth most important factor among occupiers, whereas it was the fourth most important factor for investors. Warehouse supply remains such an issue for occupiers that ESG appears further down the agenda, despite wider carbon-reduction pledges across the industry.

Chart 7: Occupiers: Warehouse intentions over the next three years (%)

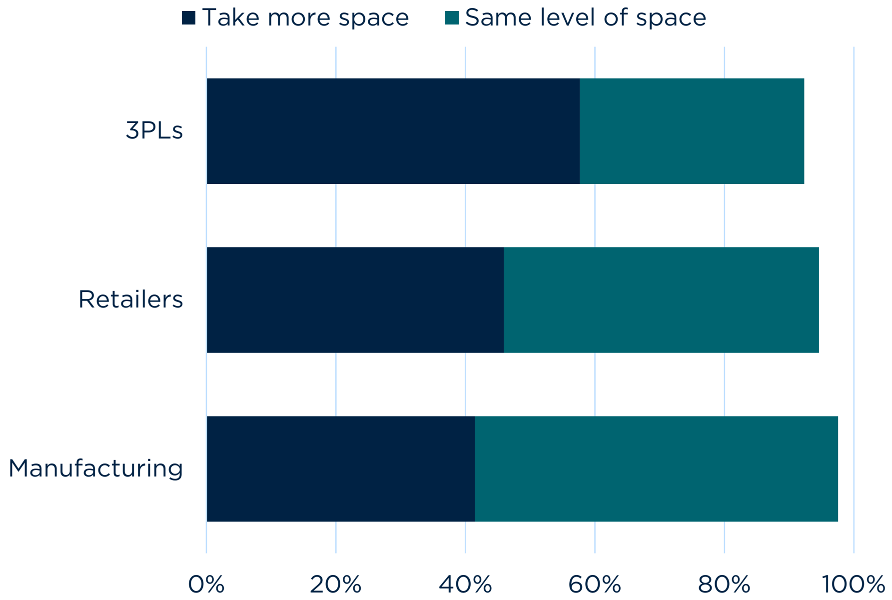


Chart 8: Occupiers: Importance of warehouse features (% important)

Source: Savills, Tritax EuroBox

France (44%), Germany (43%), Spain (39%), Italy (26%) and Portugal (24%) remain the most popular markets for occupiers to increase their warehouse footprint. Due to trade and labour market pressures, only 22% of respondents opted to expand in the UK, which appeared 6th. Interestingly, France, Germany, Spain and Portugal also topped among the desired investment locations, although Italy ranked relatively lower.

Onsite renewable energy was by far the most appealing ESG related factor for occupiers in the Census, with 67% of respondents indicating that this was highly appealing. 47% of occupiers seek improved warehouse insulation, which may indicate a rising need for landlords to increase capital expenditure on their schemes. Rainwater harvesting also featured among the top three features, potentially reducing occupiers' energy costs.

Chart 9: Occupiers: Where would you most like to expand your warehouse operations?

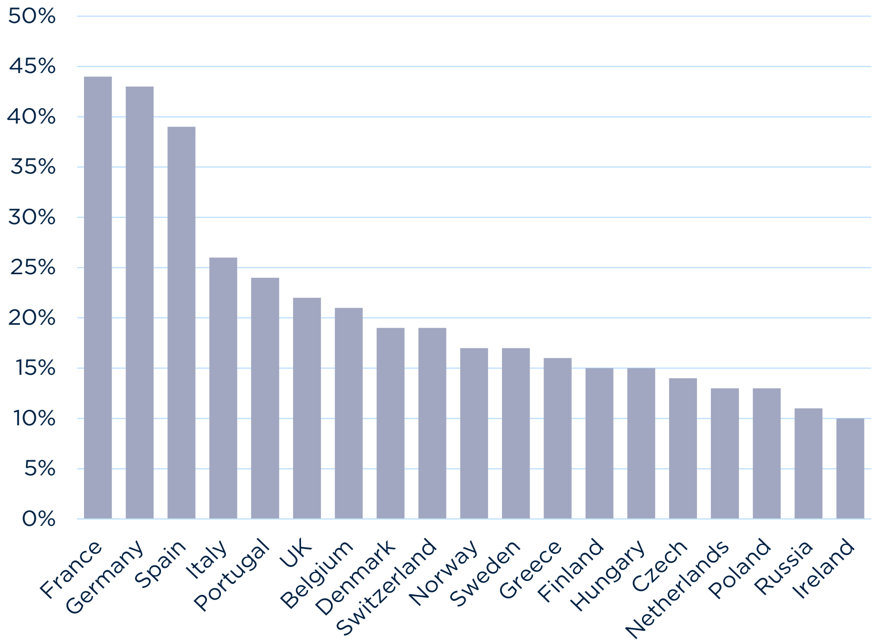
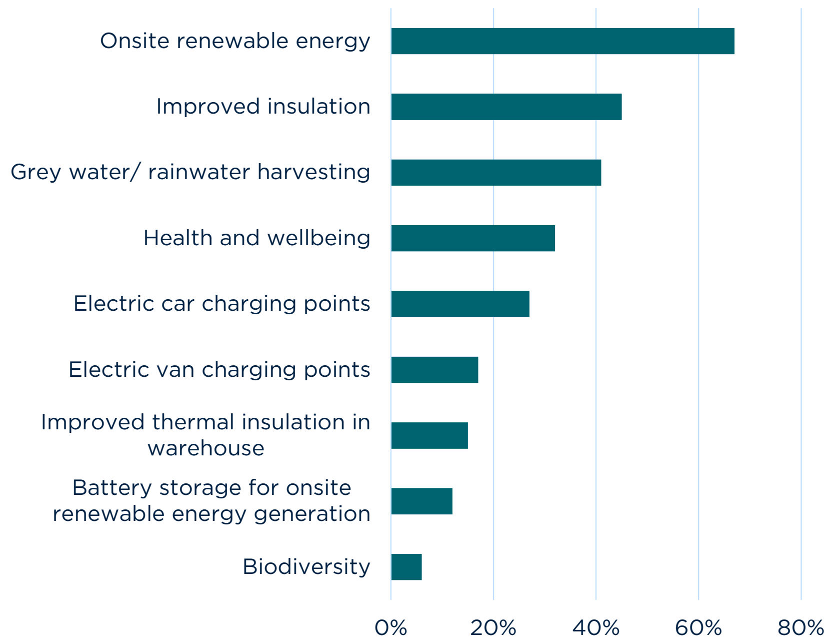


Chart 10: Occupiers: Which of the following sustainability measures would most appeal to your operations (% highly appealing)?



Source: Savills, Tritax EuroBox

Key takeaways

-57% of investors are dissatisfied with their sector allocation to logistics, indicating we expect an increase in investment transactions over the next 12 months.

-France, Germany and the UK remain the top locations on investors' wish lists.

-Nearshoring is likely to become the most common change in occupiers' supply chains.

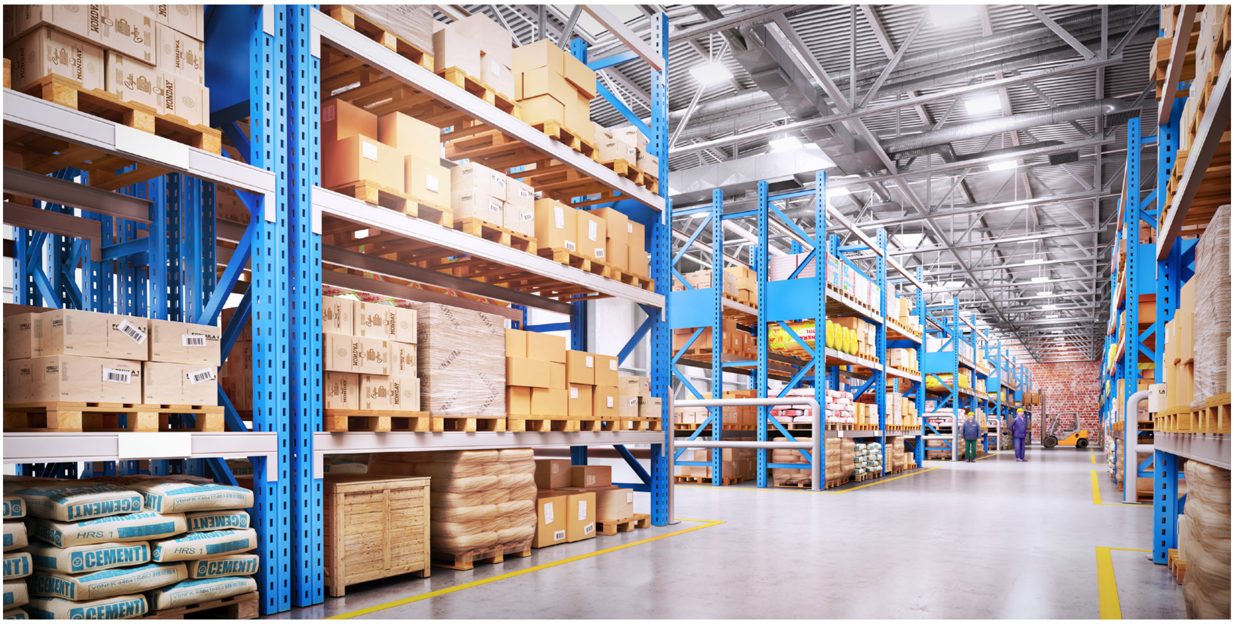
-Developers expect warehouse automation to have the biggest impact on supply chains over the next 12 months.

-47% of occupiers expect to increase their warehouse footprint over the next 12 months, most significantly within the 3PL sector, followed by retailers and manufacturers.

-Rising costs, rising consumer demand for delivery and a shortage of warehouse space are the biggest operational concerns for occupiers.

-Building affordability, rent and service charge remain the most important warehouse features for European occupiers, followed by expansion capacity and flexibility of lease length.

-France (44%), Germany (43%), Spain (39%), Italy (26%) and Portugal (24%) remain the most popular markets for occupiers to increase their warehouse footprint.



"Insights from the investor, developer and occupier communities enable us to provide best-in-class advisory services across our European network," Savills Research

Savills Commercial Research
We provide bespoke services for landowners, developers, occupiers and investors across the lifecycle of residential, commercial or mixed-use projects. We add value by providing our clients with research-backed advice and consultancy through our market-leading global research team.

Investment

Marcus De Minckwitz
Head of EMEA Industrial and Logistics
+44 (0) 207 409 8755
MdeMinckwitz@savills.com

Tritax EuroBox

Nick Preston
Fund Manager, Tritax EuroBox
+44 (0) 203 948 7591
nick.preston@tritax.co.uk

Research

Kevin Mofid
Head of European Logistics Research
+44 (0) 207 499 8644
kmofid@savills.com

Mike Barnes
European Commercial
+44 (0) 207 075 2864
mike.barnes@savills.com