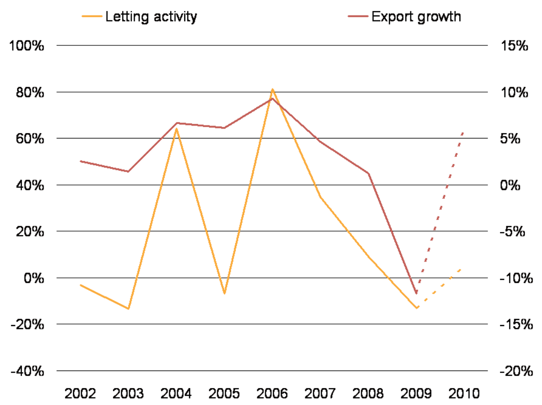
European warehousing markets

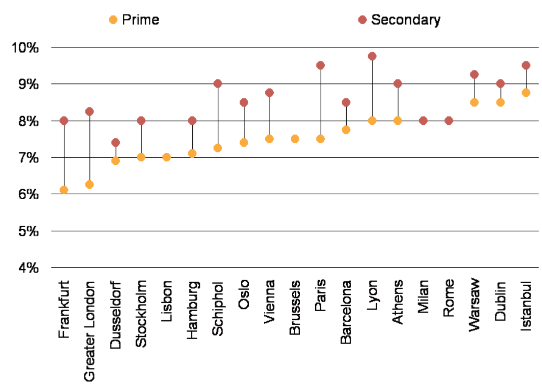
Summer 2010

Export and letting activity



Source: Savills Research

Prime / Secondary yields



Source: Savills Research

"Occupier demand is slowly improving but the level of take-up remains often insufficient to absorb the significant number of vacated warehouses. Rents will continue to be under downward pressure until the end of the year in most locations."

Lydia Brissy - European Research

- Since the last quarter of 2009, recovery is underway in the EU backed by a turnaround in the global economy, notably by the increasing trade flows. According to the European Commission GDP growth is forecasted to be +1.0% at the end of 2010 from -4.2% last year and net export growth should expand by 0.6%.

- Demand for logistic and industrial warehouses is slowly picking up since the beginning of 2010 in most of the countries covered in the report. On average we forecast take-up to grow by around 5% at year-end in the major Western European countries.

- Letting activity is predominantly concentrated in the largest European distribution hubs. Demand remains driven by operating cost reductions and often originates from the food sector.

- Development activity remains frozen or limited to built-to-suit schemes. Nevertheless in nearly all markets the available supply is still on the rise fuelled by vacated warehouses.

- On average, prime rents decreased by 7.9% across Europe. With the exception of West London where we recorded a positive rental growth of 4.5%, rents either remained stable or declined in all other locations. We believe rental values will remain under downward pressure until the end of the year.

- Generally, the industrial investment activity shrank more significantly than the overall investment downturn. After seven consecutive quarters of increase, the European average prime yield moved down by 6 basis points.

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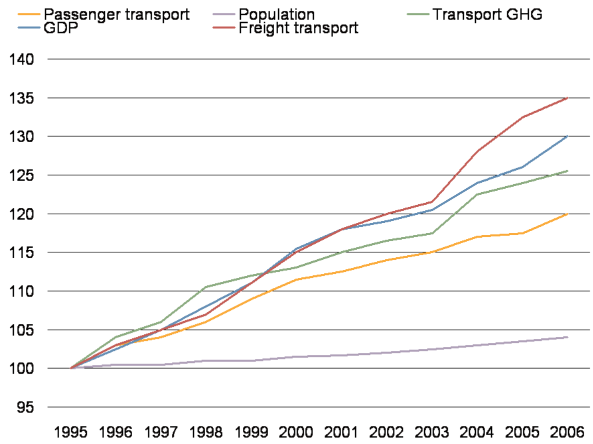
Market trends

Green prospects in a grey economic climate

The transport sector represents 30% of th total CO2 emissions in OECD countries. Global CO2 emissions from transport have grown by 45% between 1999 and 2007 and it is expected to grow further by 40% until 2030 according to the World Energy Outlook. Road sector emissions dominate and road freight accounts for 30% to 40% of road sector depending on countries. Over the past two decades transport is the only sector in which CO2 emissions have gone up. Unsurprisingly, decarbonisation of the transport and freight network has become in the sight of the EU commission. On the other hand, with the labelling bringing footprint to the fore private demand is gradually impacted by changing consumer behaviours and retailers need to adapt to new consumers' habits. A sustainable approach of supply chains becomes undoubtedly indivertible.

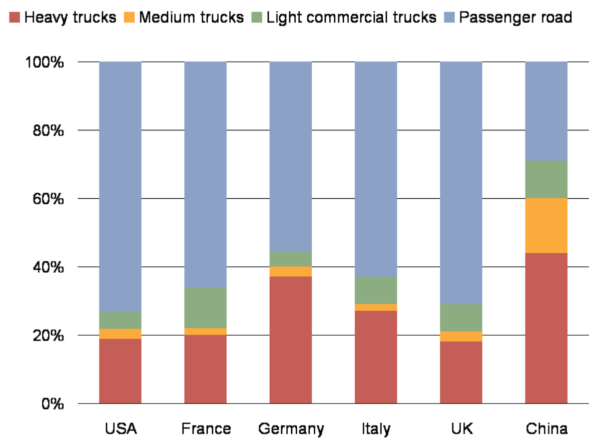
How will this impact on the logistic and industrial warehouses property market? On a European scope, the necessity to nearshoring from the manufacturing point, to bring distribution centres closer to consumer basins and to optimise networks (Green Corridors concept) will certainly strengthen the position of the existing main distribution hubs to the detriment of secondary locations. Government pressure to build energy efficient buildings will boost development activity. Green schemes should be more welcome by local authorities; providing employment without "polluting" the city. Investments required to adopt a sustainable supply chain will put operating costs under pressure. Occupiers will hardly be able absorb the green construction costs by paying higher rents. Although asking rents for green buildings are often above the market price, landlord and tenant will tend to compromise through higher level of incentives, notably longer leases. In terms of investments, newly built sustainable warehouses should provide the market with attractive opportunities.

Freight transport growth index in EU 27



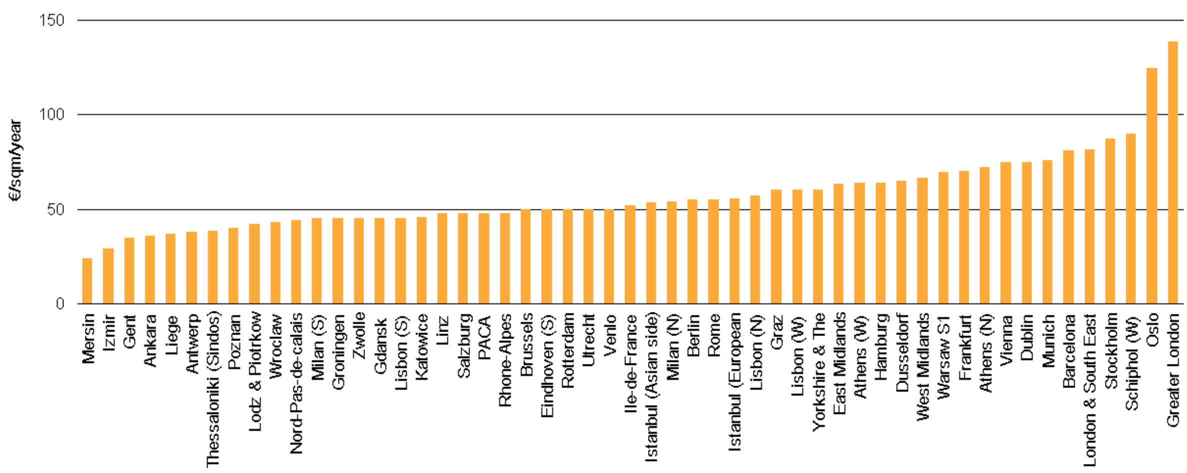
Source: EU energy and transport in figures / (1995=100)

Breakdown of road CO2 emissions



Source: IAE / ITF Momo data 2005

Prime warehousing rents



Source: Savills Research

Austria, Belgium, France

Austria

The warehouse market in Greater Vienna does not yet show signs of recovery despite the positive overall economic development in Austria. Still cost-containment and cost-reduction is the dominating motif for relocations and new rental contracts. Especially the concentration of warehouse and logistics space is a main driver for market activity. Average vacancy rates are below 5% due to very few completions since 2008. However, the market environment has become more difficult for landlords as rental periods became significantly shorter and in most cases last for only two to three years.

Prices have remained widely stable and are usually in the range of €4.00 to €6.00/sqm/month and are set to remain so throughout 2010. Only in the high-price sub-market around the Vienna Airport, where logistics rents were up to €10.00/sqm/month in early 2008, sizeable decreases were recorded.

Belgium

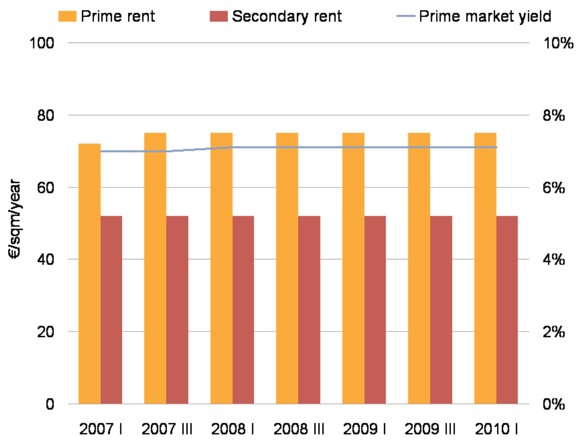
Take-up during Q4 2009 recorded its strongest performance over the whole year of 2009 after a slow first three quarters. The strong activity of the end of 2009 did not continue into 2010 with only one letting transaction above 10,000 sqm in Q1. This indicates that a majority of corporates are still operating cost reduction measures and occupiers are continuing to adopt cautious approaches regarding their needs for space. Prime locations as Antwerp and Limburg have been the most successful although the Hainaut region has recently seen increasingly more occupiers' interest. The investment market since Q4 2009 recorded one single minor investment transaction. The yield decompression occurring throughout 2009 has stabilised at around 7.50%, although the increasing demand for long term investment combined with the lack of product available may see competitive bidding below these quoted levels for leases over 9 years.

France

Take-up rose by 61.5% this quarter to 501,000 sqm (+18.0% y-o-y). The signs of recovery are clear in Paris IDF where demand has exceeded 292,000 sqm, a result 73.8% higher than the average quarterly volume for the last five years. Consequently the immediately available supply has decreased for the first time since 2007 to 1.12 million sqm. With the exception of Lille (+91.3% q-o-q), demand in other French regions has generally fallen and availability has invariably increased. Prime rental values have been resistant, spread from €44.00/sqm/year to €52.00/sqm/year but values have slightly weakened in secondary locations.

In the investment market, a slight growth has been observed. In the absence of opportunities, the downward spiral continues however. Only €95 million has been invested since January. The prime yield has declined in the main markets (7.50% - 8.00%).

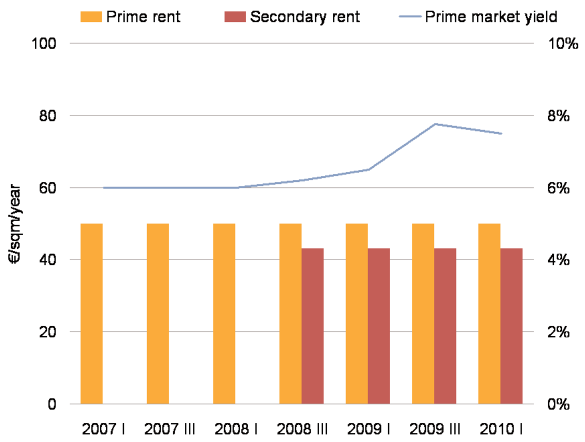
Vienna rents and yields



Source: EHL Immobilien Gmbh / Savills Research

Vienna	€75.00/sqm	**Graz**	€75.00/sqm
Salzburg	€75.00/sqm	**Linz**	€75.00/sqm

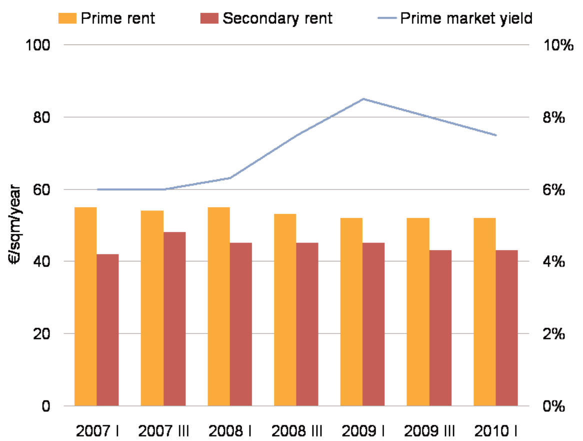
Brussels rents and yields



Source: Savills Research

Brussels	€50.00/sqm	**Liège**	€37.00/sqm
Antwerp	€38.00/sqm	**Gent**	€35.00/sqm

Paris rents and yields



Source: Savills Research

Paris	€52.00/sqm	**Lille**	€44.00/sqm
Lyon	€48.00/sqm	**Marseille**	€48.00/sqm

Germany, Greece, Ireland

Germany

Due to the stabilisation of the German economy, the take-up of warehousing space was above its 5-year average during the past six months. Particularly in Q1 2010 the amount of warehousing space let was significantly higher compared to Q1 2009. Consequently, prime rents remained stable. However, development activity is low and, hence, the supply of Grade A logistics properties remains scarce. Rents for secondary space are under pressure.

Wholesale and retail companies were the main drivers of demand, whereas logistics and industrial companies were less active. This reflects the general economic situation which is characterised by a robust consumer climate and relatively low production levels. Since the German economy is expected to grow by annually 1.5% to 2.0% in 2010 and 2011 respectively, demand for warehousing space should further increase in the coming quarters.

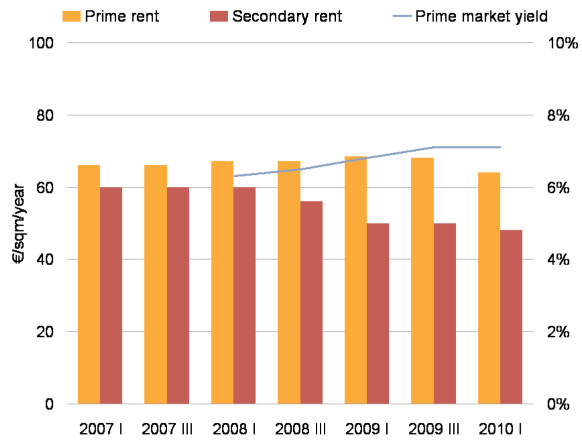
Greece

The Greek economy has entered a period of unprecedented crisis as a result of a combination of the international financial crisis and mounting national debt burden. The recession has caused stagnation in the property markets, with most companies freezing any expansion plans, while others are downsizing or looking for cheaper space in an effort to reduce costs. Falling retail sales and industrial production have caused a slump in demand for warehousing space and a number of newly constructed warehouses remain unoccupied, especially in the more expensive locations. Development activity has also frozen, while any type of investment decisions is on hold, until it becomes clearer what the impact of the bail-out plan and the structural reforms will be on the economy. In this environment there is downward pressure on rents, while capital values can fall due to the inactivity in the market and higher risk premia attached.

Ireland

Q1 2010 has shown that there has been a revival in the Dublin industrial market with 42 deals recorded in Q1 2010 compared to just nine deals for the same period in 2009. The amount of floor space taken up in Q1 2010 was over 70% of the total amount taken up in the whole of 2009. The market is dominated by lettings, as there are few, if any, cash buyers in the market. The overall vacancy level has increased slightly from the end of 2009 to just over 1,200,500 sqm, though the rate of increasing availability is slowing down compared to 2009. A new trend is emerging, where the length of contract that logistics providers is securing are being reduced to as short as 12-24 months. As a result logistics providers are now looking for more flexible terms on lease lengths.

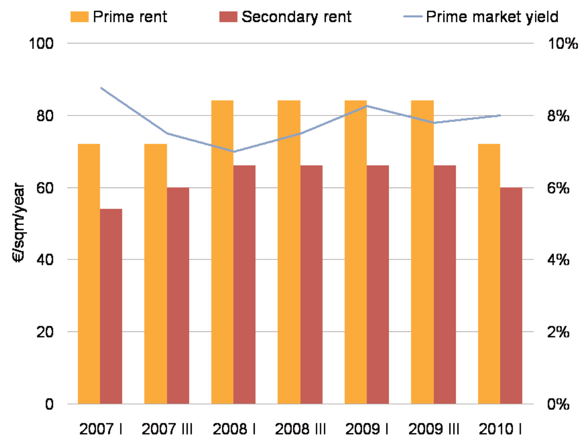
Hamburg rents and yields



Source: Savills Research

Berlin	€75.00/sqm	**Frankfurt**	€70.00/sqm
Hamburg	€64.00/sqm	**Munich**	€76.00/sqm

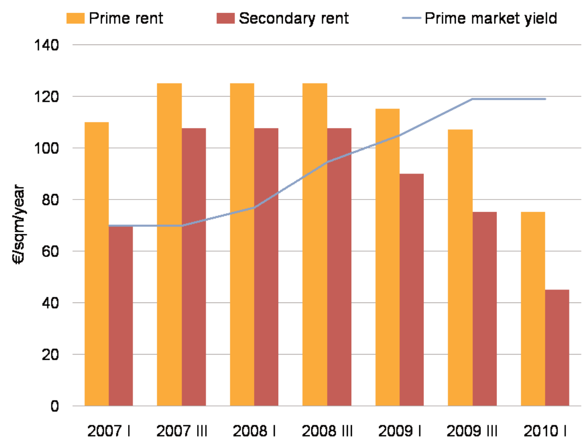
Athens (North) rents and yields



Source: Savills Research

Athens (N)	€72.00/sqm	**Thessaloniki**	€38.40/sqm
Athens (S)	€63.60/sqm	**Voiotia**	€51.60/sqm

Paris rents and yields



Source: Savills Research

Dublin €75.00/sqm

Italy, Netherlands, Norway

Italy

Both the industrial and logistics sub-sectors continue to suffer from the economic downturn, specifically in terms of take-up volumes and vacancy rates. In the industrial marketplace, occupiers operating in the energy sector represent the majority of interest. These tend to be, for the most part, multinational companies and therefore fuel letting take-up, preferring to opt against the owner-occupier option. Most other sectors are characterized by a reduction in space requirements resulting from a fall in activity. A very low level of activity also characterizes the logistics real estate market. Reduced space requirements across the board are combined with less movement of stock in and out of facilities, both contributing to falling aggregate income for logistics property owners. The food sector is still relatively active with the greatest focus now on the lower-end market, although high-end products also retain their market share; greatest demand downturn being for medium range products.

Netherlands

Within the industrial property market demand dropped by a significant 40% in 2009. In the first quarter of 2010 take-up reached 540,000 sqm, which is slightly higher than the first quarter of 2009. This indicates that the bottom of the economic cycle has been reached. Due to local oversupply prime rent levels decreased in a number of export hubs, but remained stable for instance in Schiphol at €90.00/sqm/year. Throughout the Netherlands the rental gap between prime and secondary property increased and at secondary sites the downward pressure on rents remains high.

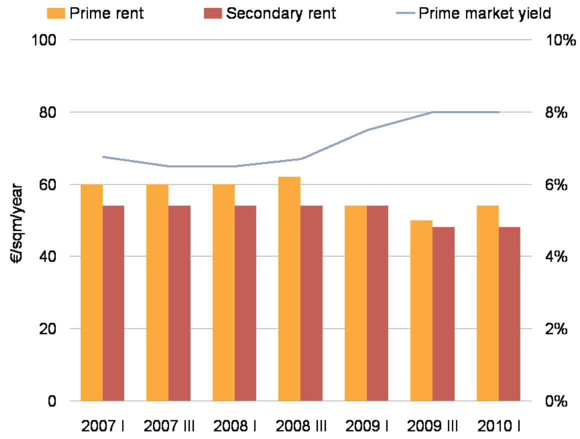
Investments in the industrial market in Q1 2010 doubled to €160 million compared to the same quarter of last year. Yields for prime long leased industrial real estate shrank by 25 bps at the end of 2009 and are currently stable at a level of 7.25% (gross).

Norway

Prime rents for logistic and industrial warehouse remained relatively stable and currently range between NOK950 and NOK1,100/sqm/year. We see a trend towards a centralisation around Oslo where large tenants require 20-40,000 sqm facilities with ceiling heights of 8-10 meters. Secondary rents for warehouses of 2,000-6,000 sqm are stable between NOK600 and NOK800/sqm/year.

Logistic properties with solid long term contracts are gaining an increasing interest among domestic buyers. These properties are typically located along the major road (E6) south and north of Oslo and outside of major cities like Stavanger, Bergen and Trondheim. The most recent transaction was concluded in April when Schibsteds new production facility in Oslo was sold for NOK760 million to an open ended fund at 7.00% yield. We expect logistic/industrial properties to account for a major part of the transaction volume this year.

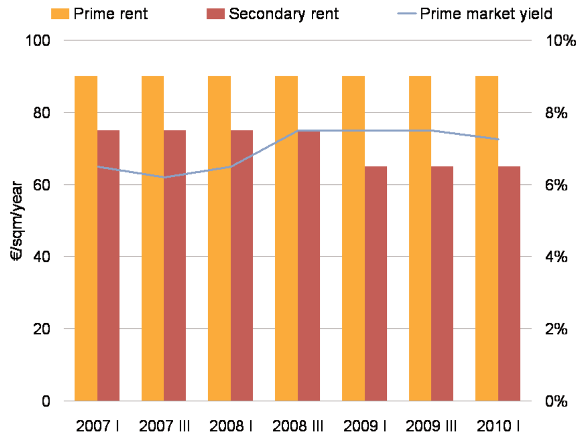
Milan (N) rents and yields



Source: Savills Research

Milan (N)	€54.00/sqm	**Milan (S)**	€45.00/sqm
Rome	€55.00/sqm		

Amsterdam (Schipol) rents and yields



Source: Savills Research

Schipol	€90.00/sqm	**Rotterdam**	€55.00/sqm
Utrecht	€50.00/sqm	**Venlo**	€50.00/sqm

Oslo rents and yields

Source: Heilo Eiendom / Savills Research

Oslo	€124.50/sqm

Poland, Portugal, Spain

Poland

A dramatic fall in take-up occurred in 2009 with only 570,000 sqm transacted (60% lower than in 2008). New supply exceeded annual take-up by over 470,000 sqm, resulting in higher average vacancy rates in all major regional markets. The first quarter of 2010 showed the first signs of recovery in demand. The total take-up in Poland amounted to almost 230,000 sqm. The development activity significantly decreased over the last 12 months and there is only 233,000 sqm of warehousing space under construction. Most developers refrain from speculative development and focus on built-to-suit projects. With significant land banks, developers are ready to provide new warehouses within 6 - 9 months from signing a lease almost nationwide. Prime rents decreased over 2009 by 5% - 20% depending on locations and currently are €3.90-5.80/sqm/month in Warsaw Sector I. We anticipate the market to balance in the first half of 2011, once much of the vacant floor space is leased.

Portugal

The Portuguese economy is in a light recession, although the combined problems of high household debt, poor international competitiveness, poor liquidity and a growing current account deficit will restrain the economy as other countries begin to grow again. The industrial market has seen low levels of take-up, and activity in 2010 has been mainly limited to the completion of pre-let schemes for the food industry. Rents continue weak and competition is fierce for existing demand. Most developers have put speculative construction on hold and are focussed on pre-lets.

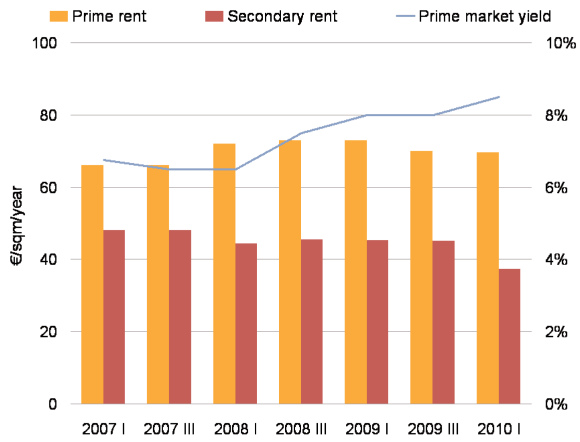
Investment market activity has been limited, but the recent sale of the new 50,000 sqm Sonae Distribution logistics hub to a UK investor at a yield of just over 7.00%, the lowest yield in recent years, is a clear indication that investors will pay well for quality income.

Spain

Reduced turnovers have affected demand for logistic space. Take-up is down in all the main logistic centres although users' interest was concentrated in the traditional logistic hubs. A few years ago low vacancy rate and high rental levels hampered take-up by new starts. Now, many operators have been forced to control costs and are vacating unutilised space and negotiating with the landlord in order to downsize and reduce rental costs accordingly. If the landlord is not open to negotiation, the tenant will attempt to sublet the space. The increase in supply and weakening demand has pushed rental level downwards. New devlopement has slowed sharply.

The investment volume in 2009 is almost 80% down compared to a record 2008. Partly influenced by a lack of liquidity and by shortage of product that matches the investors' search criteria. The prime yield is closed to 8.00% and seems to be stable.

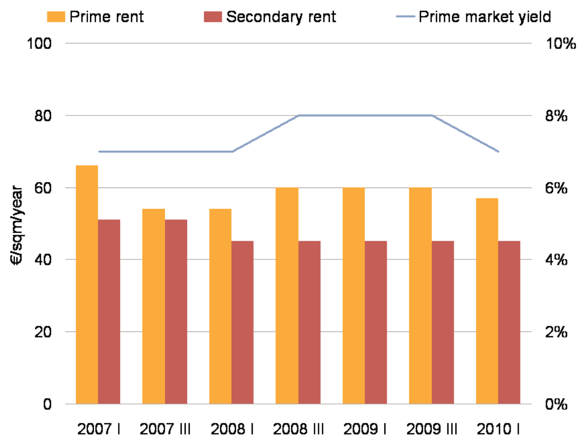
Warsaw (Sector 1) rents and yields



Source: EHL Immobilien Gmbh / Savills Research

Warsaw (S1)	€69.60/sqm	**Regional cities**	€40.00/sqm
Warsaw (S2)	€39.60/sqm		€48.00/sqm

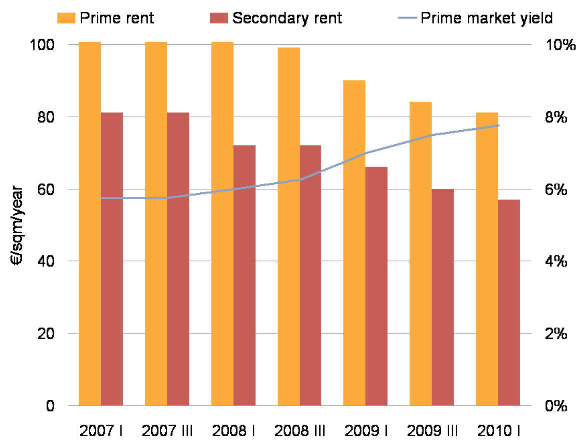
Lsbon rents and yields



Source: Abacus Property / Savills Research

Lisbon (N)	€57.00/sqm	**Lisbon (S)**	€45.00/sqm
Lisbon (W)	€60.00/sqm		

Barcelona rents and yields



Source: Savills Research

Barcelona €81.00/sqm

Sweden, Turkey, UK

Sweden

The financial downturn led to very weak letting figures during the first half of 2009. However, the market improved during the second half of 2009 and the first quarter of 2010. One fear was that the recession would cause vacancies due to bankruptcies but we have seen very little evidence to support this. The supply of modern logistics space is still very low, which has led to an increase in new developments announced during the last six months. We estimate that approx 140,000 sqm will be completed during 2010 and just over 240,000 sqm during 2011 – all of which are pre-let.

The investment volume dropped significantly during 2008 and 2009. The market has improved during the first quarter 2010 where the turnover amounted to 60% of the turnover for the whole of 2009. Yields are stable and the interest for investing in logistics is picking up, but there is very little product on the market.

Turkey

Letting activity in the logistics sector decreased due to the slowdown in industrial and transportation activities since Q3 2008. Letting demand is currently recovering for modern high quality warehouses between 5,000 and 10,000 sqm and mainly coming from 3PL service providers and the pharmaceutical sector. Vacancy rate in Istanbul is around 19%. Some 200,000 sqm high quality new stock will enter the market until Q2 2011. During the recession period rental levels declined by 10%-25%, depending on the location. While Istanbul was less affected, a sharp decrease occurred in Ankara, Izmir and Mersin. Prime rents in Istanbul stand at USD 75/sqm/year. We expect a gradual recovery of the market until the end of 2010.

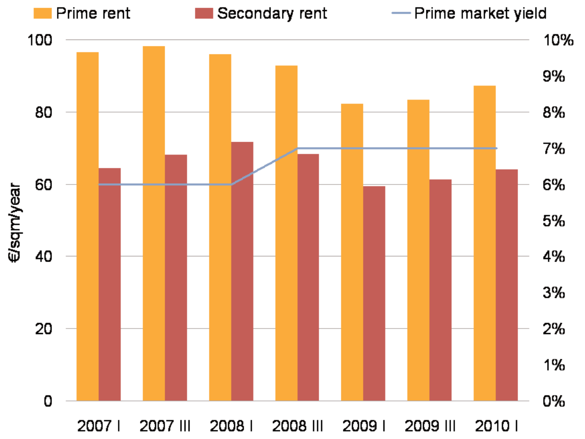
Both investment demand and availability of product are limited. Yields are currently at 8.75%, which is 25 basis points higher than a year ago and 100 basis points higher than in Q1 2008.

UK

2009 take-up at end-year reached 1.2 million sqm, down 38% on 2008, which was slightly below the expectation 12 months earlier of a 33% fall in take-up with average rents falling by 10%. The outturn for rents was more positive with only a 3% fall. This reflected the improving economy through 2009, with two-thirds of the total level of take-up being signed during the second half of 2009. So far in 2010, it is encouraging to see that take-up (to the end of April) has already reached 0.6 million sqm, which is half of the total recorded last year. The level of supply reached 8.7 million sqm by the end of 2009, which was a significant 36% annual rise. Positively, by the end of Q1 2010, supply has fallen by 10% due to buoyant demand.

Prime yields had moved to 6.25% at the end of 2009, representing a 125 basis point fall during the year and have remained flat to the end of April.

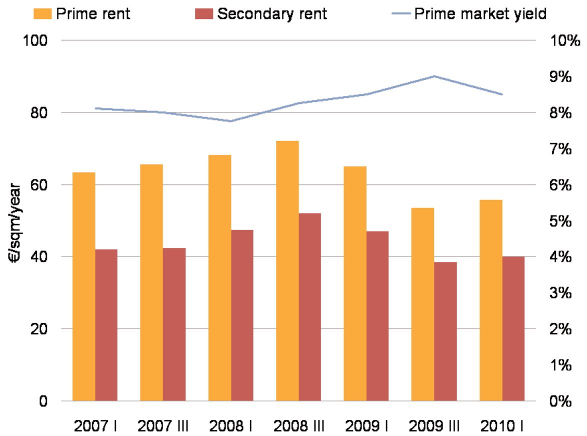
Stockholm rents and yields



Source: Savills Research

Stockholm €87.10/sqm

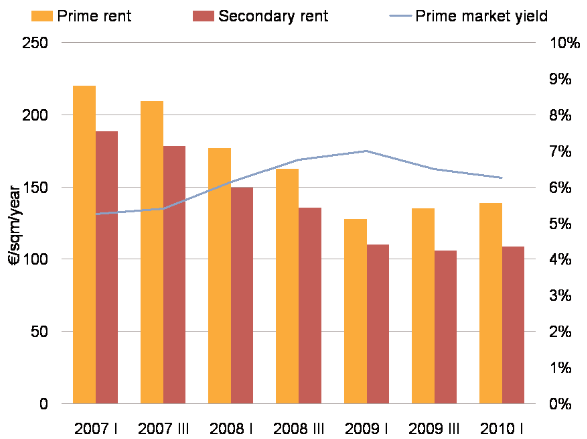
Istanbul rents and yields



Source: Kuzey Bati / Savills Research

Istanbul	€55.70/sqm	**Ankara**	€35.70/sqm
Izmir	€30.00/sqm	**Mersin**	€23.80/sqm

Greater London rents and yields



Source: Savills Research

London	€189.60/sqm	**E Midlands**	€63.30/sqm
Yorkshire	€60.30/sqm	**W Midlands**	€66.30/sqm

Contacts

For further information please contact

Definitions:

Prime rents: Achievable rents for prime warehouses > 10,000 sqm

Prime yields: Achievable yields for prime warehouses > 10,000 sqm

Eri Mitsostergiou
European Research
+30 210 6996311
emitso@savills.com

Lydia Brissy
European Research
+44 20 7016 3776
lbrissy@savills.com

Austria [1]	Alexandra Ehrenberger	a.ehrenberger@ehl.at	+43 (0)1 512 76 90 12
Belgium	Sheelam Chadha	Schadha@savills.be	+32 2 542 40 57
France	Magalie Mollet	mmollet@savills.fr	+33 (0) 1 4451 7788
Germany	Benjamin Poddig	bpoddig@savills.de	+49 (0) 30 726 165 145
Greece	Dimitri Manoussakis	dman@savills.gr	+30 210 699 6311
Ireland	Joan Henry	joan.henry@hok.ie	+353 (1) 618 1397
Italy	Susan Trevor-Briscoe	stbriscoe@savills.it	+39 (02) 36 56 9300
Netherlands	Jeroen Jansen	j.jansen@savills.nl	+31(0) 20 3012094
Norway 2	Leif-Erik Halleen	leh@heilo.no	+47 2300 3960
Poland	Michal Stepien	mstepien@savills.pl	+48 (0) 22 462 2644
Portugal [3]	Jerry Harris	jharris@abacusproperty.pt	+351 (21) 3170577
Spain (Madrid)	Gema de la Fuente	gfuente@savills.es	+34 91 310 10 16
Spain (Barcelona)	Muna Benthami	mbenthami@savills.es	+34 93 272 41 00
Sweden	Peter Wiman	pwiman@savills.se	+46 (8) 545 85 890
Turkey [4]	Nesil Aybar Akman	nesil.akman@kuzeybati.com.tr	+(90) 212 325 28 00
United Kingdom	Steven Lang	slang@savills.com	+44 (20) 7409 8738

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