European Commercial – Autumn 2022

SPOTLIGHT
Savills Research

2022 European Real Estate Logistics Census

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TRITAX EUROBOX

● Landlords ● Developers ● Occupiers

Introduction

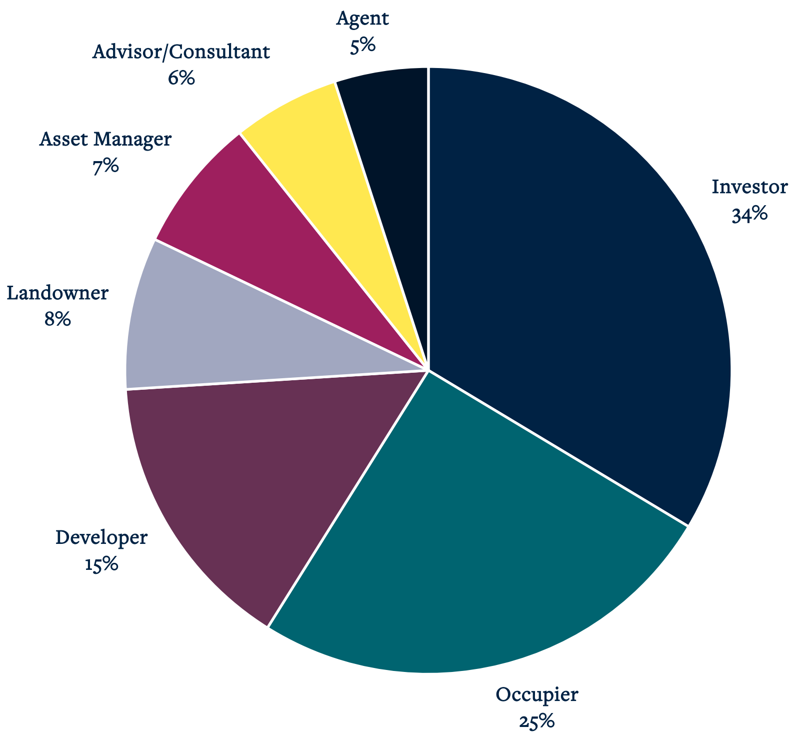
2022 has been characterised by an increasingly uncertain macroeconomic backdrop. However, this has not had an impact on logistics demand, with the strong momentum displayed in 2021 continuing in the first half of 2022, as take-up across Europe reached approximately 20 million sqm, up 12% compared to the same period last year.

The first half of 2022 also saw record logistics investment volumes, with transaction activity reaching nearly €30 billion, up approximately 9% year on year and 59% above the previous five-year H1 average. Investor appetite for logistics has seen the sector account for 20% of all real estate investment in Europe and nearly a third of investors stated in the Census that they remain under allocated.

Occupier markets continue to benefit from the well documented tailwinds that have underpinned the sector over the last decade and were amplified by the onset of Covid. These drivers remain in place today but, at the same time, the near-term macroeconomic outlook continues to deteriorate. While many economic data points have proven resilient to date, there remains a marked difference between current data points (such as generally resilient retail sales) and more forward-looking indicators (such as record low consumer confidence).

Given the market backdrop, it is an important time to understand occupier and investor intentions, whilst gaining insights around the key challenges and opportunities they face. Savills and Tritax EuroBox are therefore delighted to share the results of our second annual European Real Estate Logistics Census. Global supply chain consultancy Analytiqa undertook the Census and data collection over the summer of 2022. 450 key players in the sector took part, comprising investors (34%), occupiers (25%), developers (15%), landowners (8%), asset managers (7%), advisors and consultants (6%) and agents (5%). Occupiers were further split into manufacturers (39%), retailers (38%) and logistics (23%).

Chart 1: Census respondents by type (%)



Source: Savills, Tritax EuroBox

How are business conditions for the survey respondents?

50% of all Census respondents say current business conditions are more difficult than six months ago, clearly reflecting the impact of current economic challenges, such as energy costs, high inflation, rising cost of debt, difficulties in finding labour and labour costs, and the ongoing pressure on supply chains. Business conditions and the Covid pandemic impact are however very company specific. We received a range of answers across all categories of respondent, with some saying business conditions were 'much more favourable' compared to others rating them 'much more difficult'.

Looking at occupiers specifically, when asked what factors are currently impacting their businesses compared to last year, there is a sharp increase in concerns about rising costs (60% in 2022 vs 40% in 2021), availability of labour (34% vs 22%), economic uncertainty (28% vs 16%), and end consumer price issues (28% vs 20%). Conversely, concerns around the availability of warehouse space have eased somewhat (18% vs 30%) as has customer demand for delivery (24% vs 35%).

The results suggest occupiers in particular continue to operate in a very challenging environment where they are moving from one crisis to the next. With the supply chain challenges of the Covid pandemic period still ongoing and now being compounded by the energy crisis, how occupiers react will be of great interest to the logistics real estate market. The occupier section on page six provides more insight around the most likely path forward.

N.B. The charts presented in this report track respondents, not responses, so totals will not always sum to 100%

Chart 2: How do you view business conditions when compared with the last six months?

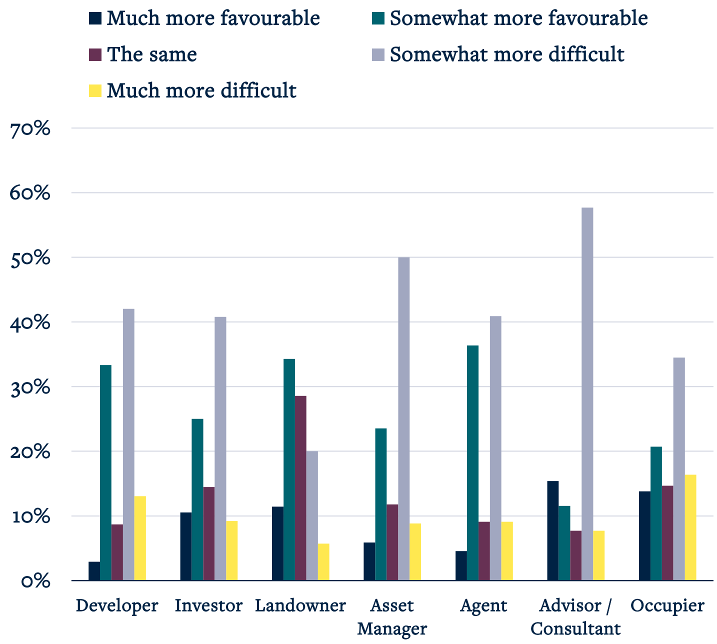
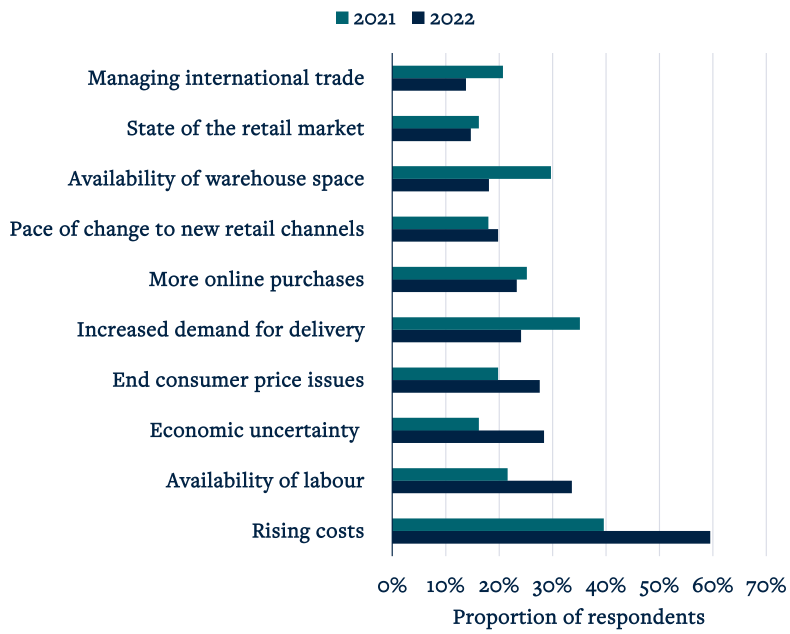


Chart 3: What concerns do occupiers have this year compared to last year?



Source: Savills, Tritax EuroBox

What are the key issues for investors?

29% of investors that participated in our Census remain underweight to logistics real estate and 40% of respondents expect to allocate more capital to the sector this year. A further 34% anticipate deploying similar levels to 2021. Although uncertain capital market conditions may impact near term deployment, medium term investor interest in the sector looks to be well supported, with the majority of investors looking to continue to deploy capital to new logistics investments going forward.

From an investment standpoint, the usual criteria such as location, covenant strength and lease length remain important, but other factors are also highlighted. Achieving rental growth is a priority for 64% of respondents; this is no surprise given how market pricing has evolved in recent years. Green/sustainability features are considered very important or important by 65% of investors. Sustainability is becoming ever more embedded in investor assessments with the remaining 35% of respondents saying they are slightly or moderately important.

Takeaways

29% of European investors remain under allocated in the logistics sector and, at the time of the survey, 40% planned to allocate more capital to logistics in the coming year.

Chart 4: Investors: what factors are important or very important when deploying new capital?

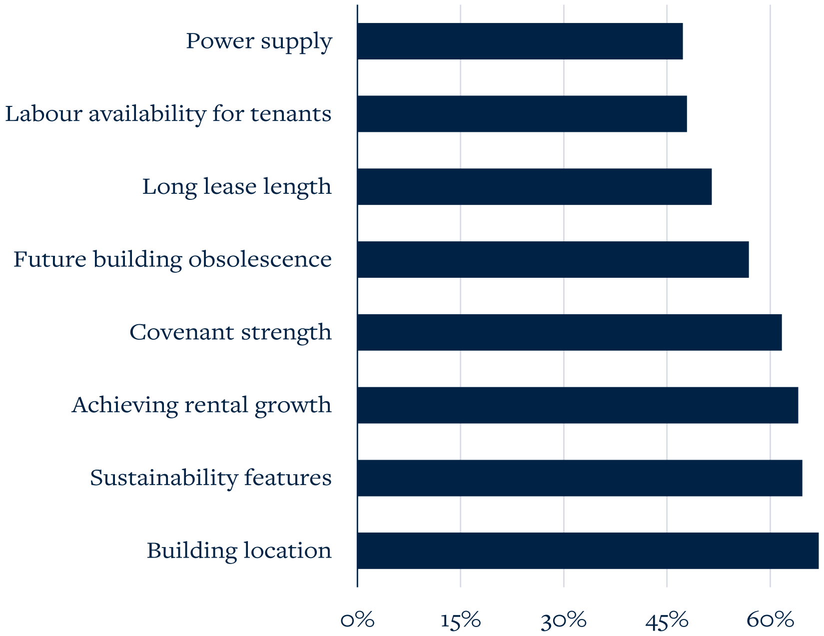
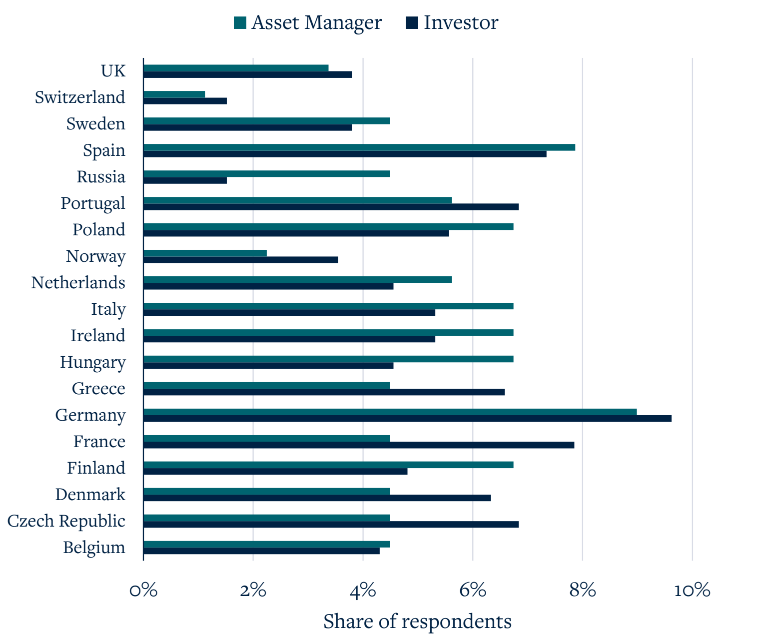


Chart 5: Investors: where do you expect to deploy capital over the next three years?



Source: Savills, Tritax EuroBox

Site availability remains a challenge for developers

Rising rents and declining yields have provided an attractive market environment for logistics development in recent years. Prior to 2022, the two most significant challenges for developers were the lack of potential new sites and managing cost price inflation.

Sourcing new sites remains a challenge but to a lesser extent than last year. 76% of respondents highlight the lack of development sites as (very) important vs 91% of respondents in 2021. Cost price inflation on the other hand continues to build with 60% highlighting this as an issue over the last six months.

Unsurprisingly, the most significant shift this year is the rising cost of debt. 61% of respondents highlight this as important vs 38% last year. The market environment will clearly favour well capitalised developers going forward, with less well financed businesses having to be more selective around which projects they move forward.

Occupier requirements remain front of mind and developers are very attuned to how these requirements are evolving. 59% of developers and landowners highlight the pace of changing tenant requirements as an important issue this year, up from 42% in 2021. Developers also note a significant increase in demand for shorter leases, with 56% rating this as important vs 31% in 2021.

Property characteristics and more technical features remain in focus. Developers highlight yard depth, floor loading, eaves height and ESG requirements as all becoming more important when developing new industrial and logistics properties.

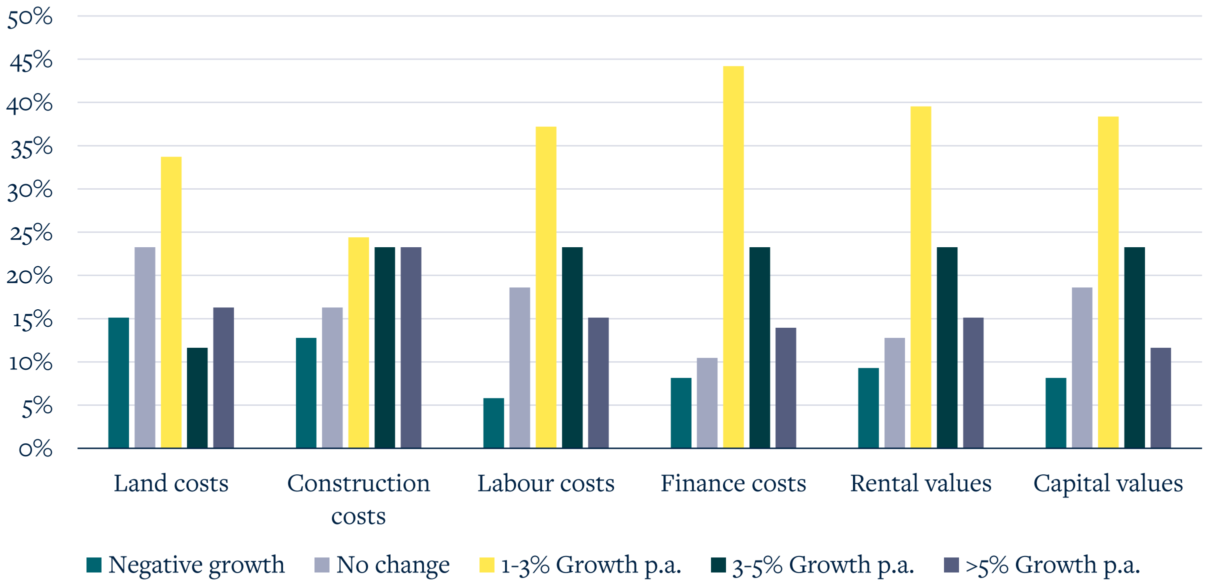
Takeaways

Site availability, cost pressure and the rising cost of debt are the main developer concerns.

Evolving occupier requirements in focus with 59% highlighting the pace of changing tenant requirements.

Yard depth, floor loading, eaves height and ESG requirements top of mind from a technical perspective.

Chart 6: What is your outlook of the following development related metrics over the next 3 years?



Source: Savills, Tritax EuroBox

Occupiers remain committed to supply chain investment

Occupiers are feeling the strain of the wider economic challenges with costs, labour availability and general uncertainty around the macro-outlook their three primary concerns. Whilst there are signs of an impending slow-down for consumers, which could impact short-term demand for warehouse space, in a world where supply chain challenges remain commonplace, companies are also increasingly aware of the urgent need to ensure their supply chains are fit for purpose, both now and for the longer-term.

The occupier element of the Census highlights the ongoing need to address these challenges as a priority. When asked how they expect to evolve their supply chain over the next three years, 38% of occupiers say they plan to increase the quantity of stock held, 31% expect to diversify their supplier base and 30% anticipate investing in more warehouse automation. These changes to occupier supply chains are likely to result in more advanced property requirements. Holding more stock may require more warehouse space but further supply chain evolution is likely to bring both warehouse location and technical features into greater focus.

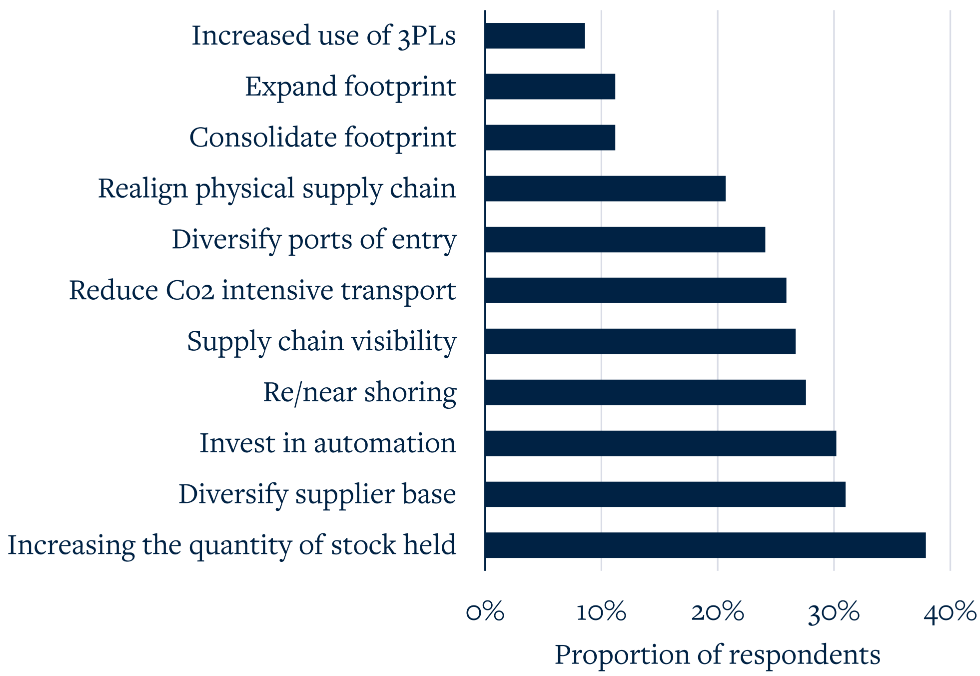
These actions tie closely to the lessons occupiers have learned from the pandemic; 42% of respondents expect to reduce their reliance on imports and 40% are looking to shorten and re/near-shore their supply chain to mitigate risk from future disruption. Reshoring has been mooted for some time as a key trend to emerge from the pandemic. With occupiers now adjusting to the post-pandemic environment, this trend remains a priority. The importance of the workplace also features prominently with 34% highlighting labour availability as a key factor impacting their business right now. 38% of respondents suggest that more home working will remain a major factor which could have an impact on warehouse design and the level of office content provided.

Where next?

With occupiers suggesting that investment in supply chains, inventories and undertaking near-shoring processes are all high on their agenda, it comes as no surprise that the results of the Census show 89% of respondents expect to occupy the same or more warehouse space in the next three years. Whilst this is a slight reduction from last year when 95% reached the same conclusion, this remains a positive indicator for the logistics sector.

The Census also reviewed what size units companies expect to require. The results suggest occupier interest remains broad, with 44% considering mid-size boxes (10,000-39,999 sqm), 29% mega-boxes (>40,000 sqm) and 26% looking for urban logistics solutions. There is a small uptick in the percentage of occupiers looking to grow their urban logistics space, from 20% in 2021. This reflects the ongoing build out of end-to-end supply

Chart 7: How do occupiers intend to evolve their supply chain model over the next three years?



Source: Savills, Tritax EuroBox

chains by more mature companies and e-commerce operators.

As expected, examining where companies expect to grow, the mature markets of France and Germany continue to dominate with 52% of occupiers expecting to expand in these markets. Poland ranks third which correlates with the near-shoring theme and the relative value that can be found in Central and Eastern European property markets. The Netherlands also remains a core logistics location, with a sharp rise in occupiers looking to expand there from 13% in 2021 to 40% in 2022.

When asked to rank the importance of certain warehouse features, the leading responses (rated very important or important) are flexible lease length (47%), building affordability (40%) and the availability of local labour (32%). As with last year, the provision of sustainability features (including power) is ranked sixth in the hierarchy. While this reflects the maturity of sustainability as a priority for many occupiers, given the ongoing energy challenges the scope to make savings and improve resilience is expected to feature highly going forward.

Takeaways

89% of occupiers anticipate requiring the same or more space in the next three years.

Occupier priorities: holding more stock, diversifying supplier bases, and investing in more warehouse automation.

France, Germany followed by Poland are top destinations for expansion.

Chart 8: Over the next three years, do you envisage requiring more or less warehouse space?

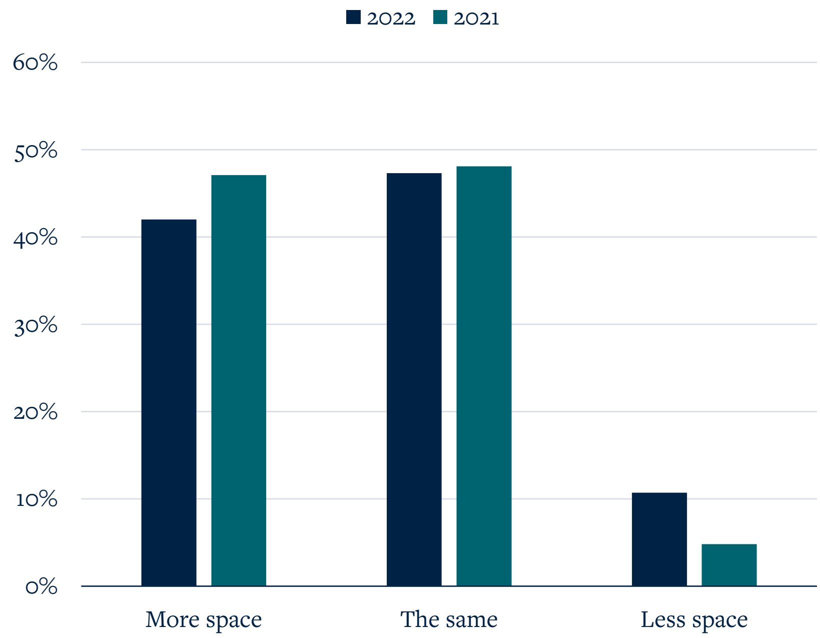
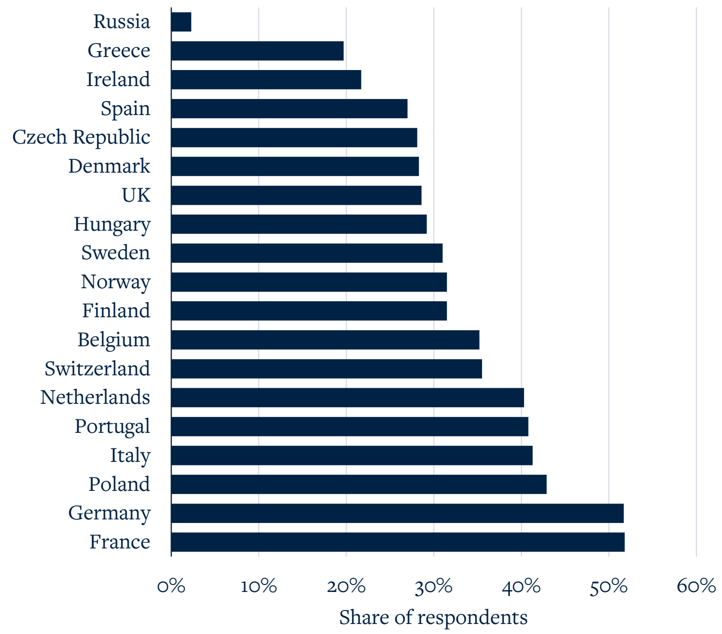


Chart 9:Which markets do you expect to expand in over the next three years?



Source: Savills, Tritax EuroBox

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.

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